China CITIC Bank International
Economic and investment outlook Q2 2024

Rate-cut expectation influential over global monetary policies

Balanced investment combining stocks and bonds across sectors advisable

(Hong Kong: 16 April 2024) China CITIC Bank International Limited ("CNCBI") today released its Q2 2024 economic and investment market outlook, pointing out that prospects of rate-cut cycles remain influential in steering monetary policies across the globe and that uncertainty lingers over rate-cut timetables and frequency. As such, it is advisable to adopt a defensive strategy and diversify investments across global stock markets, bond markets, and different sectors.

Macroeconomy: Mid-year rate cut cycles expected

Mr Tristan Zhuo, Chief Economist, China CITIC Bank International, noted that, "While the US continue to push back interest rate cuts, the rate-cut timetables of the eurozone and the UK will become clearer in the second quarter. Expectation of monetary easing alone may not be sufficient to boost the anaemic economy in Europe but could provide support for asset markets.

US	• Gross federal debt rose to US$34.6 trillion in March 2024 or 123% of GDP (gross domestic product) • The annualised rate of interest spending breached US$1 trillion, twice the Q3 2020 level • The Fed's (Federal Reserve) interest-rate cuts may offer debt relief while future rate adjustments and scale of balance-sheet cuts are expected to be downward
Mainland China	• The real estate sector remains under pressure but most macro indicators have improved during first quarter; GDP rose 5.3% YoY; Industrial production accelerated with industrial enterprises above designated size growing 6.1% YoY; Index of service production rose 5% YoY; Total retail sales of consumer goods grew 4.7% YoY; Value added in the service sector increased by 5.0% YoY • Room for further policy interest rate adjustments is limited with monetary policy expected to remain accommodative and preferences expected for reserve requirement ratios reduction as a policy tool • The 2024 GDP growth forecast is close to 5% official target
Hong Kong	• Ongoing tourism rebound continues to fuel retail sales growth while exports is expected to bounce back on a favourable base for comparison • Removal of restrictive measures is to revitalise property transactions but full price rebound remains interest-rate environment reliant • GDP growth is expected to reach 3% in 2024

Investment Insight: Maintain a balanced approach with flexible asset allocation

Mr Ivan Cheung, Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, said, "The number of rate cuts by the Fed is still an unknown. It is advisable to adopt a balanced investment strategy that diversifies allocations between the stock market and the bond market. Additionally, considering the improving prospects of the global healthcare sector and Asian stock markets, they can be considered as options for diversification."

Global stocks	• The dot plot from the March FOMC meeting projected three rate cuts for the year but the Fed revised up the US GDP growth forecast substantially and the core PCE inflation annual growth forecast from 2.4% to 2.6%, suggesting that the Fed still sees stickiness in US inflation. The number of the Fed's rate cuts within the year remains uncertain • In view of the monetary policy uncertainty and a lack of healthy correction in the US stock market since its rebound from the October 2023 low, a stock-bond balance strategy can help mitigate significant price volatility in the stock market • AI investment has made its way into various sectors globally including healthcare. Market expects the healthcare sector will achieve substantial earnings growth in the coming year. Healthcare is generally considered as a defensive sector, but with the application and development of AI technology, the sector presents new opportunities and growth potential
Asian stocks	• As the application of AI continues to expand, there is increasing market demand for high-performance chips and advanced manufacturing processes. Taiwan and South Korea stock markets are home to globally leading chip manufacturers • Stock market valuations of South Korea and Japan are relatively lower than their global counterparts. Should the Bank of Japan raise its interest rates, it would still be close to zero. Loose monetary policy and structural changes in the Japanese stock market improved shareholder returns and are favourable to capital inflows • The market breadth of the Hong Kong Hang Seng Index (the ratio of constituent stocks above the 200-day moving average) has expanded from about 13% at end-January to about 35% at end-March, indicating that the upward movement has spread to different stocks, and there are signs of bottoming out, suggesting further improvement in the future
FX	• The Bank of England (BoE) maintained its March interest rates and the Governor stated that the BoE is not yet at time to cut rates and will carefully assess the timing of maintaining the rates. Wage growth in the UK remains relatively high, and a premature rate cut could reignite inflation. The above are expected to buoy the GBP. • The Reserve Bank of Australia (RBA) has implemented relatively low rate hikes in the past. Unless inflation fully returns to the RBA's target level, there are no urgent needs for the RBA to cut rates. Improvements in copper prices and the macroeconomic situation in mainland China, Australia's major trading partner, will provide support for the AUD

For more insights from CNCBI on the macroeconomy and investment markets, please visit https://www.cncbinternational.com/personal/investments/market-information/en/index.html.

Photo

Mr Tristan Zhuo (left), Chief Economist, and Mr Ivan Cheung (right), Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, provide insights into the economy and investment markets against the backdrop of the reversal of monetary policy

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