China CITIC Bank International
Economic and investment outlook Q3 2024

US rate-cut cycle expected to start in 2H

Stocks-bonds investment mix advisable for increased stability

(Hong Kong: 16 July 2024) China CITIC Bank International Limited ("CNCBI") today released its Q3 2024 economic and investment market outlook, which pointed out that the US Federal Reserve (the "US Fed") is likely to kick off its rate cut cycle in the second half of the year albeit in a prudent approach. As the high interest rate environment prevails, it is advisable for investors to diversify their investment portfolio across fixed income and equity markets, as well as different regions and sectors.

Macroeconomy: US Fed rate cuts inevitable

Mr Tristan Zhuo, Chief Economist, China CITIC Bank International, noted that, "Except for the US, Australia and New Zealand, major central banks in other countries have kicked off a rate cut cycle in the first half of the year. Taking into account such factors disinflation, weakening economic growth momentum, mixed labour market performance and further deterioration of public finance, it is believed that the US Fed will carry out its rate reduction in the lower half of the year. Assuming that the first rate cut appears in September, a total of two rate cuts coming to a 50 basis-point tally is expected for the year."

US	• Disinflation and marked contraction in the balance-sheet reduction scale lay the foundation for monetary accommodation • Job growth in the labour market was driven by a surge of part-time employment over the year as full-time job numbers fell noticeably with continuing jobless claims rising • The Bloomberg Economic Surprise Index turned negative to the lowest level since early 2016, reflecting that overall economic data underperformed consensus estimates significantly
Mainland China	• Performance of major macro indicators diverged; growth of added values of industrial enterprises above designated size and fixed-asset investments gained speed; added values of the service sector remained stable whereas growth of total retail sales of consumer goods decelerated; situations of uneven recovery are to be improved • Monetary policy is expected to tilt towards accommodation so as to buoy pressured housing market performance and economic growth. In view of the pressure of China-US yield differentials on RMB exchange rates and the current low level of policy interest rates, room for further rate cuts is slim • A 5% growth target is expected for 2024
Hong Kong	• Retail sales volumes in April and May logged a double-digit year-on-year contraction with a 7.7% drop for the first five months of the year and are expected to remain under pressure in the lower half of the year • The labour market remains robust with unemployment rates hovering around a 3% low • Exports continue to rebound strongly on a favorable base for comparison • GDP growth expected to reach 3%

Investment Insights: Stocks-bonds investment mix advisable for increased stability

Mr Ivan Cheung, Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, said, "Although the investment market's expectations for the number of Fed rate cuts this year have declined, the US stock market continues to thrive, with the S&P 500 index and Nasdaq Composite index repeatedly setting new highs this year. The European Central Bank (the "ECB") has begun cutting rates as expected, but political instability in the UK and France has caused European stocks to decline. However, earnings forecasts for European stocks are expected to improve in the second half of the year. Overall, market performance has reflected the expectations of rate cuts by the US and European central banks to a certain extent, but the high-rate environment is expected to persist for some time. Therefore, an investment strategy of balancing equity and fixed income market is advisable. The bond market can provide relatively stable yields and help reduce volatility during market fluctuations."

European and US markets	• US bond yields have fallen from highs, largely reflecting expectations of rate cuts. The bond market is unlikely to see a major breakthrough in the short term, but yields are still at historically high levels, making them relatively attractive. With US stocks repeatedly hitting new highs, there is a possibility of profit-taking, and the bond market can add stability to investment portfolios. • Purchasing Managers' Index ("PMI") readings in France, Italy, and Germany have softened, which may provide a rationale for the ECB to cut rates further, which would have a positive effect on the equity market. • The July elections in the UK and France may increase market volatility. It is advisable to include bonds in the portfolio to balance risks.
Asian stocks	• Semiconductor-related stocks have been driven by global enthusiasm for artificial intelligence. Taiwanese and South Korean companies have a dominant market share in the mid- and downstream semiconductor industry. • The market is anticipating further announcements on economic policies and reform plans from the third plenary session of the 20th Central Committee of the Chinese Communist Party. • After accumulating some gains earlier, the Hong Kong stock market has made adjustments and is unlikely to break out significantly before more news from mainland China. The strategy is to maintain a preference for stocks with relatively higher dividends and diversify into the broader Asian stock and bond markets.
FX	• New Zealand's interest rates are still close to the US rates. As such, there is relatively less pressure on the New Zealand dollar. Additionally, the EU-New Zealand free trade agreement that came into effect in May has removed most tariffs between the two parties. The improving terms of trade will help support the New Zealand dollar. • Australia's consumer price index ("CPI") rose year-on-yearly from 3.4% in February to 4% in May, higher than market expectations. The Reserve Bank of Australia also indicated in its June meeting that it does not rule out the possibility of rate hikes, providing support for the Australian dollar. Furthermore, mainland China and Australia have announced that they will provide each other with multiple-entry visas, which will help promote bilateral trade relations. • Overall, the US dollar faces upside risks, and the Australian dollar and New Zealand dollar are expected to perform relatively better than other non-US currencies.

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 and point out that the rate cut cycle may begin in the second half of the year and that stocks-bonds investment mix is advisable for increased stability

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