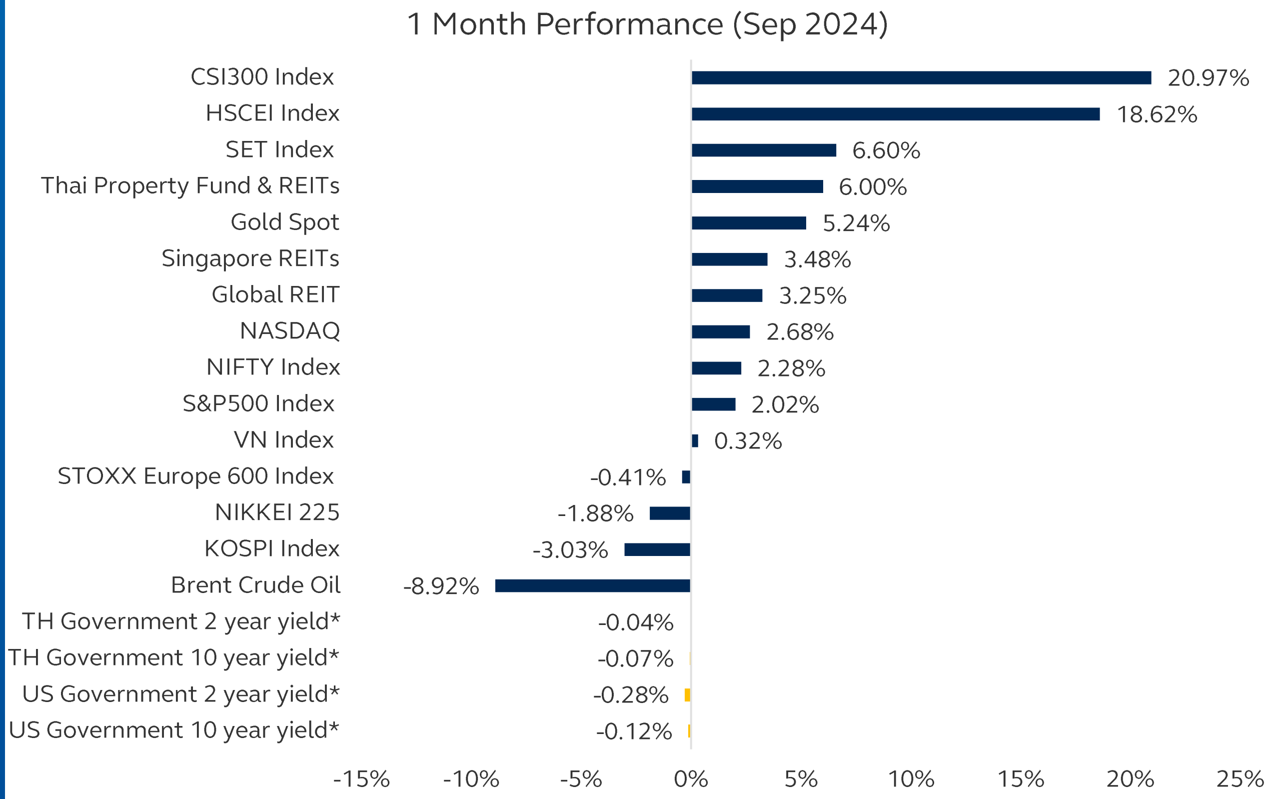
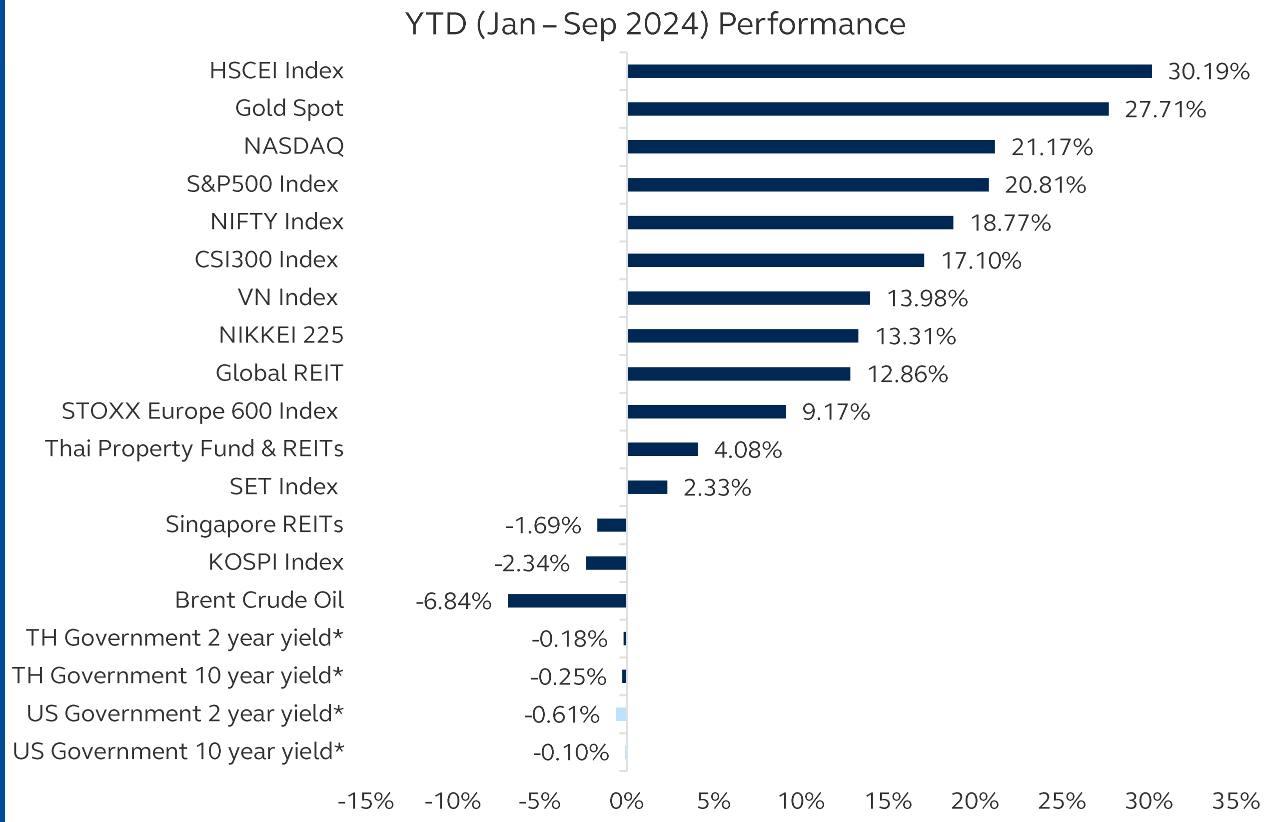
Market Outlook





*Information illustrated percentage of bond yield change not return.
Source : Bloomberg, data as of 30 Sep 2024

The Federal Reserve (Fed) and the European Central Bank (ECB) have begun easing monetary policies following uncertain global economic indicators. On September 12, 2024, the ECB announced its second interest rate cut of the year after mixed economic data emerged. Approximately a week later, the Fed announced the start of its first interest rate reduction cycle in four years, cutting the policy rate by 0.5% in response to signs of a slight economic slowdown and inflation rates consistently aligning with targets. The interest rate cuts by these major central banks have alleviated pressure on risk assets, leading to new highs in the U.S. stock market over the past month. This reduction has also weakened the U.S. dollar, prompting capital flows into countries with higher return potential, such as emerging markets. Consequently, stock markets in India, Thailand, Vietnam, and Latin America have risen, and investments in real estate, infrastructure, and REITs have become more attractive. Additionally, the Hong Kong stock market has improved following government policy initiatives, including interest rate cuts and reductions in the minimum down payment for second homes, aimed at revitalizing the real estate sector.

Fixed Income: The U.S. bond yield curve returned to a normal shape in September. The yield on U.S. 2-year bonds sharply declined by approximately -0.28%, while the 10-year bond yield decreased by only -0.12%. This adjustment followed a cooling U.S. economy and the Federal Reserve's announcement of a 0.5% interest rate cut during its meeting on September 17-18. This move aligned with the ECB's earlier reduction of 0.2%. The easing of monetary policies has made investments in global bond funds, both Investment Grade and High Yield, increasingly attractive. In Thailand, the 10-year bond yield slightly declined by -0.09% over the past month, in line with global bond markets, despite the Bank of Thailand showing no immediate signs of lowering interest rates.

Global Equity: The U.S. stock markets saw an increase in September, with the S&P 500 and NASDAQ indices rising by 2.02% and 2.68%, respectively. This upward trend was driven by the Fed's decision to cut interest rates by 0.5% to a range of 4.75%-5.0%, marking the first rate adjustment since the COVID-19 pandemic. Additionally, the economic indicators projected by the Fed did not signal an impending recession for the U.S. economy. In September, European stock markets experienced a slight increase following the ECB's decision to cut interest rates by 0.25%, in line with market expectations. This was the second rate cut of the year. Europe's inflation rate in August was at a three-year low of 2.20%. However, concerns over the European economy persist, as evidenced by the contraction of the Manufacturing Purchasing Managers' Index (PMI). China's mainland A-Shares and Hong Kong's H-Shares markets rose significantly following the announcement of various economic stimulus measures. These measures included injecting liquidity into the stock market amounting to at least 500 billion yuan (equivalent to $71 billion). Measures to stimulate the real estate sector included reducing the minimum down payment ratio for second homes from 25% to 15% and cutting mortgage rates by 0.5%. Additionally, the Chinese government is preparing to announce further fiscal support measures.

India: Indian stock markets continued to rise by 2.28% from August, with the August inflation rate remaining unchanged from the previous month. The Purchasing Managers' Index (PMI) for manufacturing and services in September remained above 50, indicating continuous expansion, albeit at a slower pace than the previous month due to decreased output and new orders. Furthermore, raw material and electricity costs increased while selling prices remained relatively stable. The Indian Rupee appreciated slightly over the past month following the Fed's interest rate cut announcement. However, the Reserve Bank of India remains cautious about reducing interest rates, aiming to sustain inflation below 4% and to prevent the Rupee from strengthening excessively, which could adversely affect exports.

Vietnam: In September, the Vietnam stock market continued its upward trend, reaching 1,287.94 points. Several economic indicators showed a decline following Typhoon Yagi, particularly in the northern regions. In August, retail figures hit a nine-month low, growing only 7.9% year-on-year (YoY). Industrial production continued to grow for the sixth consecutive month, rising 9.5% YoY, albeit at a slower pace. Inflation and core inflation rates decreased to 3.45% YoY and 2.53% YoY, respectively, after the government allowed increased food imports to address domestic shortages. However, foreign direct investment (FDI) in the first eight months grew 8% YoY, amounting to over $14 billion, which is approximately 5% of the Gross Domestic Product (GDP). This contributed to a rapid expansion in exports, as evidenced by the trade surplus of over $4.5 billion in August.

Thai equity: The SET Index rose significantly by 6.60% following the improved domestic political situation and the formation of a new government led by Prime Minister Paetongtarn Shinawatra. Ten urgent policies aimed at debt restructuring, economic stimulation, and tourism promotion will be crucial for economic growth. Additionally, policies supporting the capital market, such as the Vayupak Fund and the ThaiESG Fund, along with the inflow of foreign investments into both the money and capital markets, are also significant factors. Given the rapid rise in the index and the beginning of market saturation, there may be short-term profit-taking pressures.

Alternative Investment: Property funds and REITs in Thailand and globally surged in response to the interest rate cuts by the Federal Reserve and the European Central Bank. Investments in Thailand have garnered increased attention following the depreciation of the US dollar, leading to greater capital inflows into assets in developing countries. Specifically, Thai property funds and REITs saw a significant rise of x% due to their exceptionally low prices compared to their assessed values. The price of gold increased while crude oil prices declined, influenced by the weakening US dollar and growing concerns about an economic slowdown in the United States.

Asset Allocation Outlook

	UW	Slightly UW	Neutral	Slightly OW	OW
Fixed Income	○	○	○	●	○
• Global	○	○	○	●	○
• Thai	○	○	○	●	○
Equity	○	○	●	○	○
• Global	○	○	●	○	○
• Thai	○	○	●	○	○
• India	○	○	○	●	○
• Vietnam	○	○	●	○	○
Property Funds/REITs	○	○	○	●	○
Gold	○	○	●	○	○

Viewpoints reflect a 12-month horizon

○ → ● indicates a change in preference from the previous month (light blue ○) to the current month (dark blue ●)

Description of Asset Allocation Outlook table

- OW or Overweight : Allocate asset more than its benchmark
- Slightly OW or Slightly Overweight : Allocate asset slightly more than its benchmark
- Neutral : Allocate asset equal to its benchmark
- Slightly UW or Slightly Underweight : Allocate asset slightly less than its benchmark
- UW or Underweight : Allocate asset less than its benchmark

Our fixed income positioning continues to be slightly overweight after the latest Fed's chairman announcement, signaling first rate easing in September. Meanwhile, our equities positioning is neutral as soft landing likely to happens during the rest of the year. Nevertheless, long-term investors should stay invested in global quality stocks. We have a neutral view on Thai stock market due to political uncertainties. Our REITs positioning is slightly overweight from positive view on Fed's rate cut decision.

Caution: Principal Asset Allocation Plan is a service providing advice on allocating investment portfolios by diversifying investment into various financial assets according to investor's investment risk tolerance. Advisement is considered on market conditions to create or adjust balance portfolio, which will be monthly evaluated and adjusted investment mix or portfolio to ensure that the portfolio is well-diversified and consistent with investment outlooks. Due to market price changing from market conditions, the proportion of each asset may deviate from appropriate allocation. This may cause the portfolio to be at higher or lower risk than it should be. Principal Asset Allocation Plan is only advice from Principal Asset Management and investors may not receive return as expected. Investors should make sure that understand about basic investment allocation, recommended by SEC. / Investors should understand product characteristics (mutual funds), conditions of return and risk before making an investment decision.

Reported by

- Suppachark Erbprasartsook – Head of Investment Strategy
- Thaned Lertpetchpun – Investment Strategist
- Mintra Juntavitchaprapa – Investment Strategist
- Monsichar Utitchalanont– Investment Strategist