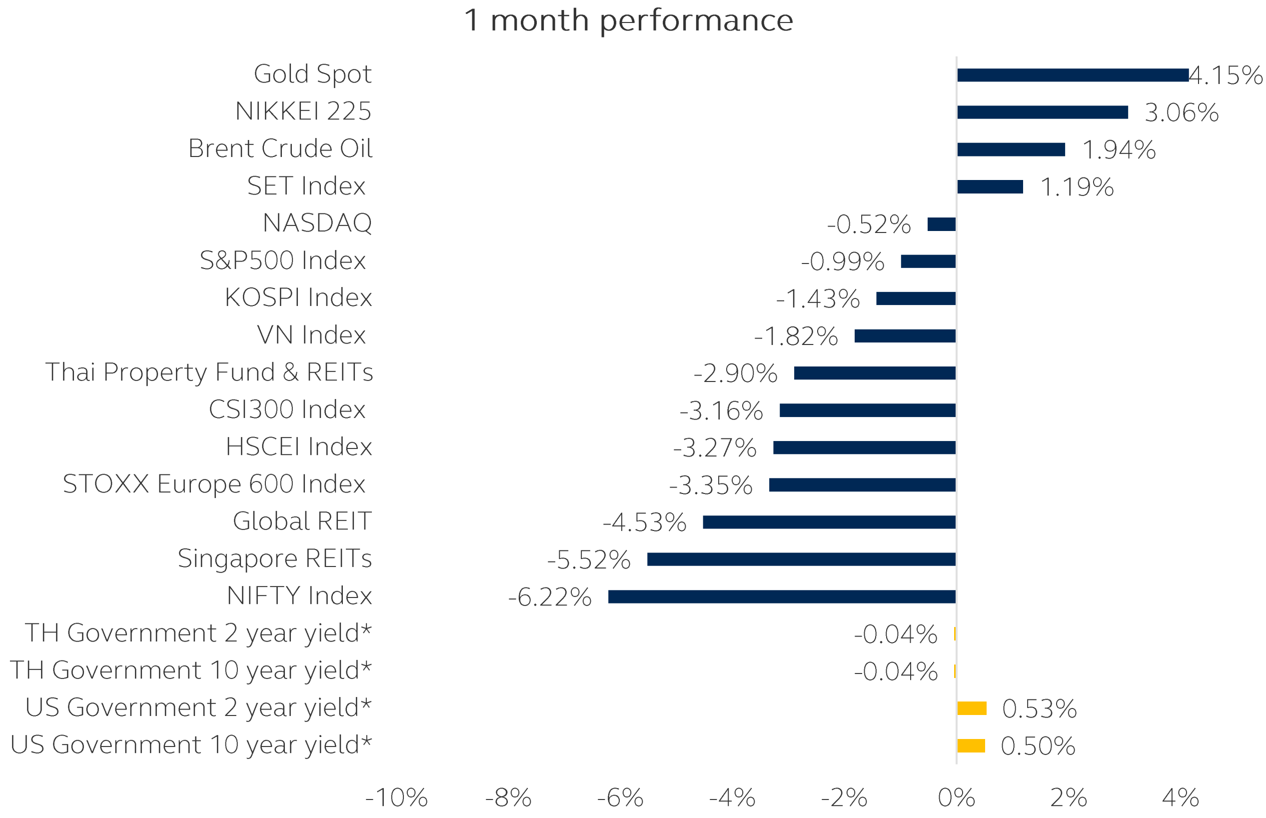
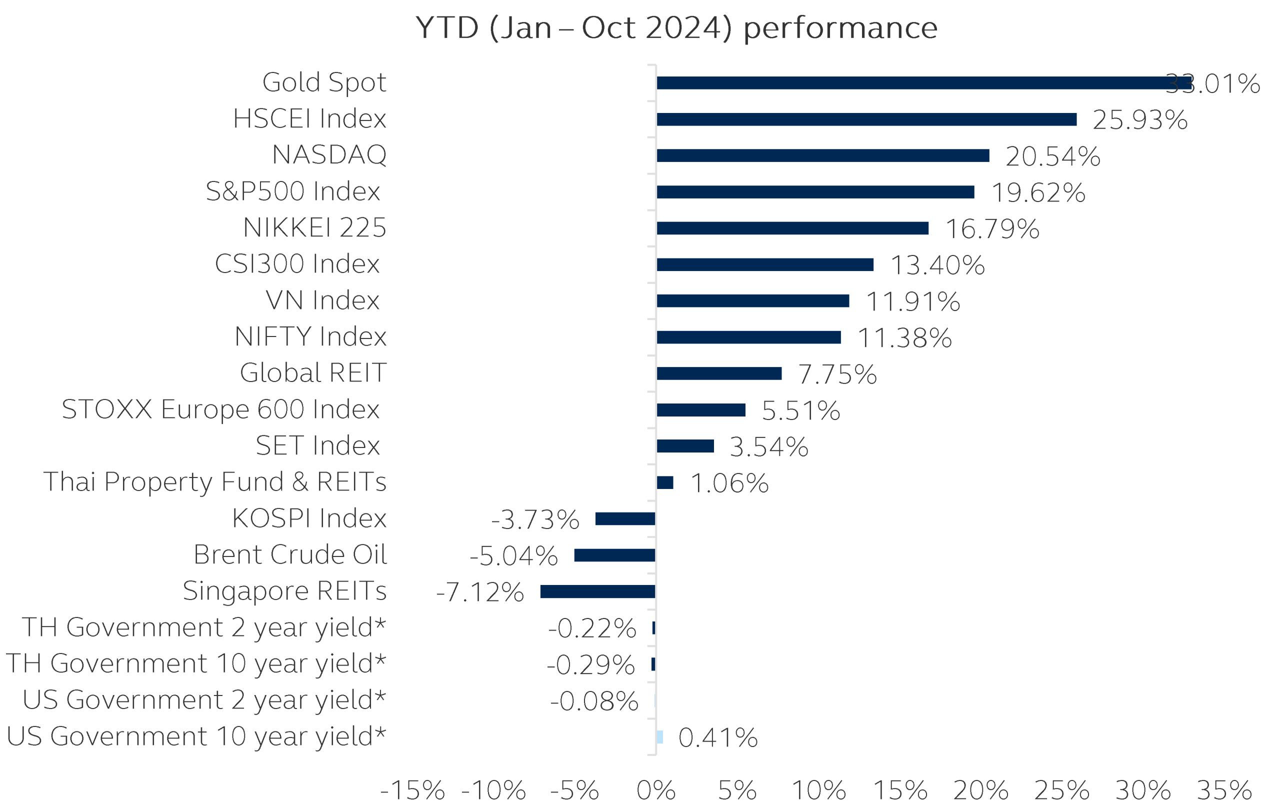
Market Outlook





*Information illustrated percentage of bond yield change not return.
Source : Bloomberg, data as of 31 Oct 2024

The uncertainty surrounding the upcoming U.S. election on November 5 has created volatility in global stock markets. This is especially true as markets perceive an increased likelihood of Donald Trump from the Republican Party being re-elected for a second term, which may result in higher taxes. As a consequence, stock markets in various developing countries have declined. Additionally, U.S. government bond yields have risen again, despite the Federal Reserve starting a cycle of interest rate cuts in September, following stronger-than-expected U.S. economic data, which has alleviated investor concerns about an imminent slowdown in the U.S. economy.

Furthermore, economic data and corporate earnings in some regions, such as Europe and India, have disappointed investors, adding internal pressure for market corrections. The Chinese stock market has declined in recent months due to the lack of fiscal policy implementation from the latest economic stimulus measures, and the continued contraction in the real estate sector. Conversely, the Japanese stock market has risen, likely due to the weakening yen over the past month. The Thai stock market has seen a slight increase, partly due to the Bank of Thailand's policy rate cut. Gold prices have surged as the market anticipates a depreciation of the U.S. dollar, driven by potential inflation should Trump win the election.

Fixed Income: Bond yields for all maturities in the U.S. have risen, especially the 10-year yield, which increased by 0.5% in one month. This comes after the market reduced expectations for further rate cuts by the Federal Reserve, following the release of stronger-than-expected economic data. As a result, the market now anticipates that the Federal Reserve will only cut interest rates by 0.25% in November, contrary to previous higher estimates. Additionally, recent U.S. presidential election polls show Donald Trump gaining more popularity over Kamala Harris, impacting bond yields. Analysts believe that if Trump wins, the economy and stock market are likely to see more growth, making fixed-income funds less attractive in the recent period. Regarding Thailand's policy interest rate, the Monetary Policy Committee (MPC) voted 5 to 2 in favor of cutting the rate by 0.25%, from 2.5% to 2.25%. This is the first rate cut in four years and was done sooner than the market had anticipated. The aim of this rate cut is to reduce debt burdens following a downward trend in household debt ratios, which is due to the slowdown in loan growth.

Global Equity: The S&P 500 Index slightly decreased by -0.99% in October. The index showed a sideways-up trend throughout the month despite U.S. inflation figures for September being slightly higher than expected. Additionally, U.S. economic data remained robust, such as September's retail sales, which showed a positive growth of 0.4% month-over-month (MoM), surpassing market expectations of 0.3% MoM. The latest U.S. initial jobless claims stood at 241,000, below market expectations, indicating that the U.S. economy is unlikely to enter a recession next year. The STOXX Europe 600 Index declined by 3.35%, even though the European Central Bank (ECB) decided to cut interest rates by 0.25% to 3.25%, marking the third rate cut this year to stimulate the economy and address inflation rates falling below target. However, overall European economic data has yet to recover significantly. The NIKKEI 225 Index increased by 3.06%, with the Bank of Japan (BOJ) maintaining its monetary policy as expected during its meeting. However, political uncertainty in Japan has risen after election results indicated that the LDP party missed securing a majority in the House for the first time in 15 years amidst high living cost issues. The Chinese stock markets, including A-Shares and H-Shares, fell by approximately 3% in October compared to September after investors were disappointed with the latest economic stimulus measures announced on October 8, notably due to the lack of fiscal policy to support economic growth.

India: The Indian stock market index NIFTY50 saw a significant decline of -6.22% from the previous month after a continuous rise and reaching a new high of 26,178.95 points in September. The main negative factor was the disappointing Q2/2024 earnings results, which led most investors, especially foreign investors, to sell off a large number of Indian stocks in October. The net profit margin growth rate of 197 listed companies fell to 6.1%, significantly lower than the same period last year, which saw a growth of 27.4%. This substantial drop in profit margin was due to rising production costs, as reflected in the September inflation rate, which surged to 5.49% YoY, the highest in a year. This increase in inflation was driven by food prices, which account for nearly half of the index, rising by 9.24% YoY. This is consistent with the September Producer Price Index (PPI), which rose by 1.85% YoY. Principal Asset Management views the Indian stock market neutrally.

Vietnam: The Vietnam stock market index, VN Index, decreased by approximately 2% from September, showing range-bound movement in October. The index tested the 1,300-point level several times but failed to break out of this range. The primary reason was investors' expectation that export figures for Q4 2024 would decline compared to the previous quarter, following significant restocking by most companies in Q3, which occurred earlier than usual. Additionally, the Vietnamese dong weakened by about 3% against the US dollar within a month, surpassing 25,000 dong per US dollar. Moreover, the US election, with market expectations of Donald Trump winning the presidency, contributed to short-term market volatility due to Trump's potentially more aggressive foreign tariff tax policies compared to Kamala Harris. However, overall economic indicators remained positive, such as the retail sales figures for September, which increased by 7.6% YoY, surpassing market expectations of 7.1% YoY, and the Manufacturing PMI for October, which expanded to 51.2 points.

Thai equity: The SET Index increased by 1.19% in October, resulting in a 10-month return of 3.54%. The stock market is likely to experience volatility in the near term as the US Dollar Index begins to strengthen again and US bond yields rise, potentially causing capital to flow back to the United States. Recent economic data announced has not been significantly impactful. The Manufacturing PMI in October decreased to 50 points after five consecutive months of growth. Industrial production in September contracted by 3.51% YoY, a sharper decline than the market expectation of -0.3% YoY. This reduction in production was mainly due to declines in automotive and construction manufacturing. However, consumption has increased due to economic stimulus measures, as evidenced by retail sales figures in August, which grew by 31.36% YoY. The Thai stock market and overall economy continue to face structural challenges and may experience volatility due to issues surrounding the US election.

Alternative Investment: Property funds and REITs, both in Thailand and globally, have dropped, with global REITs falling over 4.5% within a month due to rising U.S. bond yields making this sector less appealing. Meanwhile, the price of gold surged by 4.15% at the end of October from September. This increase is driven by expectations of Donald Trump's re-election, which could lead to higher inflation and a weaker U.S. dollar. As a result, investors have bolstered their gold holdings to hedge against potential inflation risks.

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

The investment strategy team has adjusted our outlook to Neutral on fixed income assets, given the increasing likelihood of Donald Trump winning the election. His policies, such as increased international tariff taxes, could lead to higher inflation, negatively impacting fixed income investments. The team also maintain a Neutral view on the equity market but have a Slightly Overweight (OW) perspective on global equities, anticipating a post-election rally supported by strong U.S. economic numbers. Additionally, Principal Asset Management holds a Neutral outlook on the Indian stock market, after observing signs of foreign investor sell-off and weakening economic indicators. Lastly, the investment strategy team has a Neutral view on property funds/REITs, as a Trump victory would make it more challenging for U.S. interest rates to decrease, complicating the reversal of U.S. government bond yields.

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.

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