

Friday, 15 Dec, 2023

US Stock Markets

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Economic Review and Market Outlook

Summary

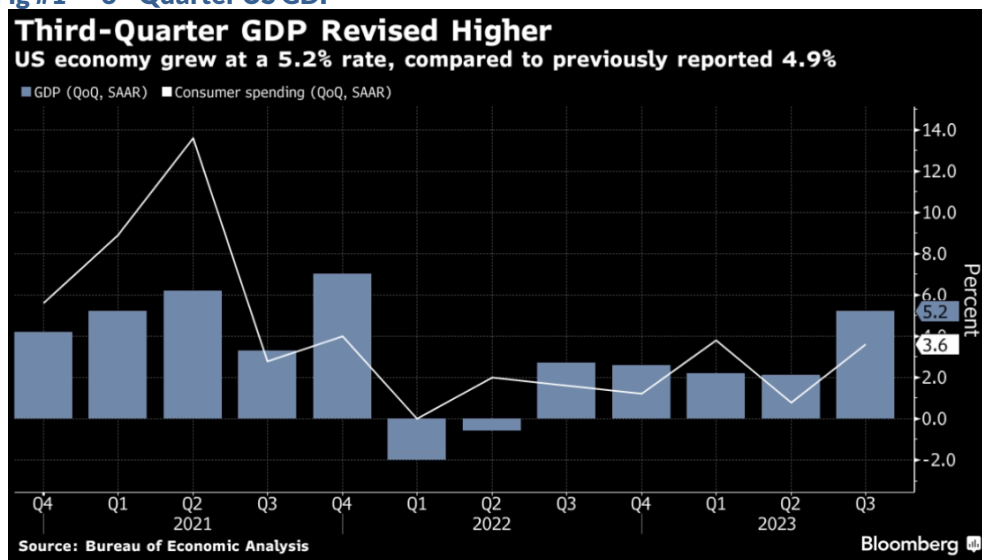
- The US economic activities have been seeing a decent recovery since the Covid-19 period despite the elevated interest rate environment as well as heightened inflationary pressure environment; the US GDP grew 5.2% QoQ in 3Q23.
- Based on the recent FOMC meeting, the Fed is likely to maintain the interest rate at least for the near term and expecting to have 3 cuts by 2024. This should provide upside potential towards the global stock market overall.
- Given this scenario, we expect there will be opportunities in the US by exploring the ETFs that are listed on the US exchange.

Economic Review

US GDP

- The 3Q23 US GDP increased at a faster pace of 5.2% QoQ, up from the initial estimate of 4.9%, while economists predicted a 5% number. The number was revised upwards on the business investment and government spending. However, the consumer spending came in at 3.6% as compared to the initial figure of 4.0%.

Fig #1 3rd Quarter US GDP



Source: Bureau of Economic Analysis, Bloomberg

- Despite the downward revision in consumer spending, it remained robust underpinned by a flurry of travel and events throughout summer holidays and the momentum could sustain towards year-end amid the festive season.
- Do note that the US shoppers spent a record USD12.4bn on Cyber Monday, up 9.6% from a year ago, but the Black Friday sales were slightly disappointing.

Inflation data

- The CPI data has peaked at 9.1% YoY in Jun-2022 and continued to decline 3.1% YoY in November. Meanwhile, the PPI data has declined from 11.7% YoY in Mar-



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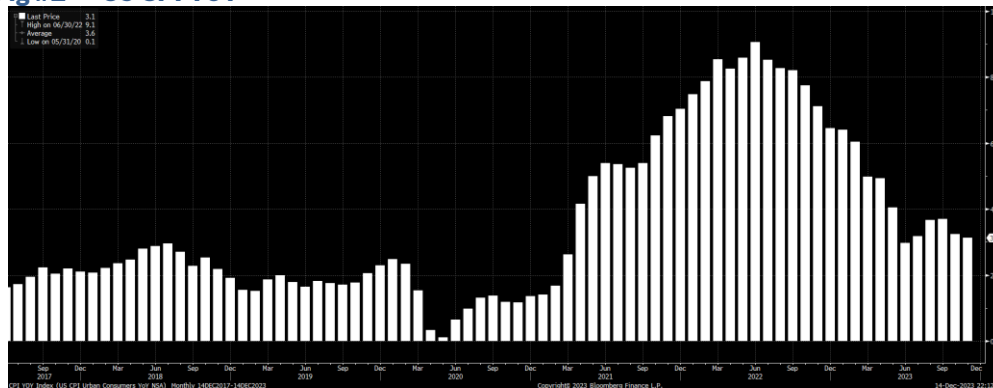
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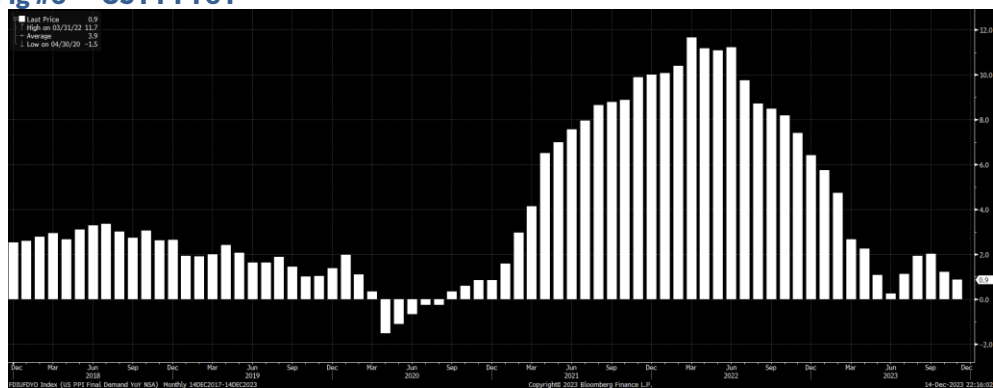
2022 to 0.9% YoY for the month of November. The Fed has been able to tackle the inflationary pressure with increasing the interest rates.

Fig #2 US CPI YoY



Source: Bloomberg

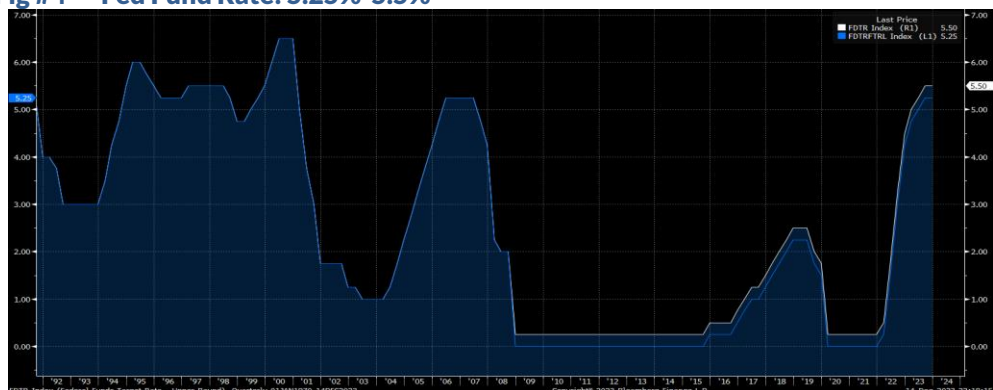
Fig #3 US PPI YoY



Source: Bloomberg

- Another metric that the Fed will be monitoring will be the personal consumption expenditures price index, which was revised down to a 2.8% annual rate in the 3Q. Excluding food and energy, the number was marked lower to 2.3%.
- The Federal Reserve has kept the benchmark interest rates unchanged in the recent December FOMC meeting at 5.25-5.5%. Meanwhile, the 10-year US Treasury yield surged above 5% briefly in late October for the first time in 16 years before easing in the past 6 weeks.

Fig #4 Fed Fund Rate: 5.25%-5.5%



Source: Bloomberg



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- To determine the monetary policies going forward, the Fed will rely on the US GDP and inflation data, coupled with jobs data. Should the CPI continue to stay elevated, which indicates the inflationary pressure, it may warrant tighter monetary policy going forward.
- At this current moment, we opine that the Fed will maintain the interest rate at this elevated levels given the GDP numbers were resilient. Meanwhile, the inflation has declined it could hit the Fed's inflation target at 2% by end-2024.

US jobs data & unemployment rate

- In November, the US job grew steadily with addition of 199k jobs vs. estimates of 180k, while the unemployment rate declined to 3.7%. Despite the elevated interest rate environment, the jobs data continue to be resilient, which the market could be looking at avoiding the recession concerns and may anticipate a soft landing approach to the economy.

Fig #5 Non-Farm Payroll and Unemployment Rate



Source: Bloomberg

US Outlook

- We expect the world largest economy to grow, premised on the following few factors:-
- Technological Innovations: The ongoing innovations and advancement in the AI space will provide more opportunities and poised to revolutionise in various industries. We expect this may boost productivity and creating new markets and should drive economic growth going forward.
- Global Trade: Despite ongoing trade war since Jan-2018 between the US and China, the US still rely on products imported from China, albeit at a softer pace in 2023 as compared to 2021-2022. We believe the world is interconnected and the globalisation effect should create opportunities for businesses.
- However, the downside risk towards the economy will include (i) a potential government shutdown, (ii) the debt ceiling discussion by 2025 and (iii) the threat of



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a wider war in the Middle East may dampen the recovery momentum. Also, the Bank Term Funding Programme will end 1st quarter next year, and it may put some pressure towards the banking sector in our view.

ETF Selections

- Based on the current environment, we think investors are advised to capture the overall economy through passive investment in Exchange Traded Funds (ETF).
- Given that we still believe that the companies in the US will continue to grow over time and we advocate investors to invest on a long term basis in these corporations within the Dow Jones, S&P500, Nasdaq and Russell Top 200 growth stocks. Do note that the members within the indices will be replaced by better companies periodically to reflect the overall market and this measure will provide investors the most up to date outperforming corporations at any point of time.

ETF selections for clients with aggressive and balance risk profiles

- We have screened through the ETF list from the Bloomberg terminal and summarized a list of ETF based on the (i) annualised 1-year, 3-year, 5-year, and 10-year returns, (ii) expense ratio, and (iii) dividend yield.
- Some of the important criteria to note will be the overall 3-year, 5-year, 10-year annualised returns must be above 7%. Given it is under the asset class of Equity, the max drawdown could range around 32-37% the past 5 years.

Fig #6 ETF Selections for Aggressive and Balance Risk Profiles

Ticker	DIA	SPLG	QQQ	IWY
Issuer Name	State Street ETF/USA	State Street ETF/USA	Invesco ETFs/USA	iShares ETFs/USA
ETF Name	SPDR Dow Jones Industrial Average ETF Trust	SPDR Portfolio S&P 500 ETF	Invesco QQQ Trust Series 1	iShares Russell Top 200 Growth ETF
ETF Description	SPDR Dow Jones Industrial Average ETF Trust is an exchange-traded fund incorporated in the USA. The ETF tracks the Dow Jones Industrial Average Index. The ETF holds the 30 large-cap US stocks that represent the Index. This ETF is registered as a Unit Investment trust and pays a monthly dividend representing dividends paid by the underlying stocks. The ETF's holdings are price weighted.	SPDR Portfolio S&P 500 ETF is an exchange-traded fund incorporated in the USA. The Fund's objective is to replicate as closely as possible the performance of the S&P 500 Index.	Invesco QQQ Trust Series 1 is an exchange-traded fund incorporated in the USA. The ETF tracks the Nasdaq 100 Index includes 100 of the largest non-financial companies by market cap listed on Nasdaq. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology.	iShares Russell Top 200 Growth ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond generally to the price and yield performance of the Russell Top 200 Growth Index.
Fund Inception Date	20/1/1998	15/11/2005	10/3/1999	28/9/2009
Fund Strategy	Blend	Blend	Growth	Growth
Asset Class Focus	Equity	Equity	Equity	Equity
Fund Type	Core Large Cap	Equity Large Cap	Growth Large Cap	Growth Large Cap
Expense Ratio (%)	0.16	0.02	0.20	0.20
AUM (USD 'bn)	31.35	23.42	218.33	8.47
Closing Price (USD)	363.05	53.99	389.94	169.06
5-Year Max Drawdown (%)	-36.7	-33.9	-35.1	-32.7
Dividend Yield (%)	1.85	1.46	0.56	0.65
Annualised Return 1-Year (%)	7.4	14.7	34.2	30.0
Annualised Return 3-Year (%)	8.8	9.5	9.4	10.1
Annualised Return 5-Year (%)	9.5	12.7	19.0	17.6
Annualised Return 10-Year (%)	10.7	11.7	17.3	15.7
Average Daily Value (USD 'm)	1109.3	294.5	17094.1	66.6

Source: Bloomberg (as of 13 Dec 2023)

ETF selections for clients with conservative risk profile

- For the clients with conservative risk profile, we suggest to browse through the list of ETF with minimal max drawdown in order to provide protection to its capital and comfort to its investment journey.
- Some of the important requirements that we used to filter these ETFs from Bloomberg include (i) max drawdown of below 4%, and dividend yield of more than 4%, while the annualised return may range around 1-5% over the past 10 years.



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Fig #7 ETF Selections for Conservative Risk Profile

Ticker	BIL	SHV	JPST
Issuer Name	State Street ETF/USA	iShares ETFs/USA	JP Morgan ETFs/USA
ETF Name	SPDR Bloomberg 1-3 Month T-Bill ETF	iShares Short Treasury Bond ETF	JPMorgan Ultra-Short Income ETF
ETF Description	SPDR Bloomberg 1-3 Month T-Bill ETF is an exchange-traded fund incorporated in the USA. The Fund's objective is to provide investment results that correspond generally to the price and yield performance of the Bloomberg 1-3 Month U.S. Treasury Bill Index.	iShares Short Treasury Bond ETF is an exchange-traded fund incorporated in the USA. The ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities one year or less.	JPMorgan Ultra-Short Income ETF is an exchange-traded fund incorporated in the USA. The fund seeks to provide current income while seeking to maintain a low volatility of principal and maintaining a duration of one year or less.
Fund Inception Date	30/5/2007	11/1/2007	19/5/2017
Fund Strategy	Government	Government	Aggregate
Asset Class Focus	Fixed Income	Fixed Income	Fixed Income
Fund Type	Ultra Short Bond	Ultra Short Bond	Ultra Short Bond
Expense Ratio (%)	0.14	0.15	0.18
AUM (USD 'bn)	34.32	19.23	22.62
Closing Price (USD)	91.56	110.31	50.29
5-Year Max Drawdown (%)	-0.2	-0.5	-3.3
Dividend Yield (%)	4.75	4.55	4.78
Annualised Return 1-Year (%)	4.9	5.00	5.10
Annualised Return 3-Year (%)	2.00	1.80	2.00
Annualised Return 5-Year (%)	1.70	1.8	2.3
Annualised Return 10-Year (%)	1.00	1.1	-
Average Daily Value (USD 'm)	837.1	280.5	193.4

Source: Bloomberg (as of 13 Dec 2023)

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As of Friday, 15 Dec, 2023, the analyst(s), Loui Low Yee whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned



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