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US Stock Markets

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Peak of Interest Rate Upcycle and Seeking High Yield Assets

Summary

- We expect the US economy continue to grow post-Covid-19 environment under the elevated interest rate environment and may avert a hard landing on the US economy.
- Since that the market is pricing at least 3 rate cuts in 2024, this may boost the appetite for high dividend and stable income focus approach asset classes given the bond yield might decline throughout time in 2024.
- Hence, based on this scenario, we reckon investors to look into ETFs with high yield ranging from 3.0-4.5% for 2024. Nevertheless, do note that there will be a 30% withholding tax for dividends paid out by US companies to Non-US citizens.

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- **High yield and stable income approach.** Follow up on our previous report on the US economy review and outlook, investors may want to look at high yield investments as well as stable income opportunities. We believe we are able to look for some ETFs under this segment to bridge the gap.
- **US GDP still growing.** To recap, the US GDP has been continuing the momentum in 3Q23 at 5.2% QoQ, with the help from business investment and government spending. Meanwhile, we expect the consumer spending will stay robust from the recovery activities post-Covid era and due to year-end festive season.
- **Inflation data may have stabilised.** Since mid-2022, the CPI and PPI, have been declining from its peak and stabilised on the recent note, with the Fed's interest rates decisions.
- **The Fed kept the interest rates unchanged.** In Dec-2023, the Fed kept the interest rates at 5.25-5.5% and suggested that there might be at least 3 rate cuts in 2024 based on the dot plots from the Fed's officials. We view that the Fed will stay dovish given the stable US GDP and inflation data. Do note that the Fed's inflation target is at 2% by end-2024.
- **Jobs data and unemployment rate.** In November, the US jobs grew steadily with an addition of 199k jobs, while the unemployment rate declined to 3.7%, suggesting that it might be brushing off the recession concerns and is likely to expect a soft landing to the economy.
- **US Outlook.** Since we continue to expect the world largest economy to grow, underpinned by the ongoing technological innovations and the advancement in the AI segment, which is definitely going to provide more opportunities and boost productivity, creating new markets and driving economic growth going forward.
- **Risks.** However, some downside risk towards the economy might include (i) resumption of the debt ceiling discussion by 2025, (ii) the ongoing geopolitical tension in the Middle East, Ukraine-Russia as well as the concerns in the Red Sea region. Meanwhile, the banking sector may have some volatility after the lapse of the Bank Term Funding Programme by end-Mar-2024.



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ETF Selections

- Based on this setup, the investors that wish to seize the opportunity within the largest economy with some consistent dividends and passive income could look at the Exchange Traded Funds (ETF) that provide decent dividends or income focus ETFs.
- We believe companies the US will continue to grow over time and investors should look at it on a long term basis. Hence, it may provide inventors an opportunity to seek for global assets via global ETFs.

ETF selections for clients with balance and conservative 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, (iii) dividend yield and (iv) max drawdown
- For balance and conservative risk profiles investors, we believe that the dividend yield must be at least above 3.0-4.5%, while the max drawdown could range around 6-30% for the past 3-5 years.

Fig #1 ETF Selections for Balance and Conservative Risk Profiles

Ticker	DIVO	INCM
Issuer Name	Amplify Investments LLC/ETF	Franklin LibertyShares ETFs/US
ETF Name	Amplify CWP Enhanced Dividend	Franklin Income Focus ETF
ETF Description	Amplify CWP Enhanced Dividend Income ETF is an exchange traded fund incorporated in the USA. The fund is actively managed and invests in exchange traded equity securities and opportunistically utilizing an options strategy consisting of writing US exchange traded covered call options. The investment universes Starts with the S&P 500 and diversifies among sectors.	The Franklin Income Focus ETF is an ETF incorporated in the USA. The Fund invests in a diversified portfolio of debt and equity securities, and seeks high current income while maintaining prospects for capital appreciation.
Fund Inception Date	14/12/2016	8/6/2023
Fund Strategy	Value	Dynamic Allocation
Asset Class Focus	Equity	Mixed Allocation
Fund Type	Income Large Cap	Dynamic Allocation
Expense Ratio (%)	0.55	0.38
AUM (USD 'bn)	2.99	0.14
Closing Price (USD)	36.49	25.63
3-Year Max Drawdown (%)	-13.7	-6.7
5-Year Max Drawdown (%)	-30.0	-6.7
Dividend Yield (%)	4.7	3.0
Annualised Return 1-Year (%)	6.3	-
Annualised Return 3-Year (%)	8.1	-
Annualised Return 5-Year (%)	12.4	-
Annualised Return 10-Year (%)	-	-
Average Daily Value (USD 'm)	11.5	3.1

Source: Bloomberg (as of 10 Jan 2024)



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As of **Thursday, 11 Jan, 2024**, the analyst(s), Loui Low Ley 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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