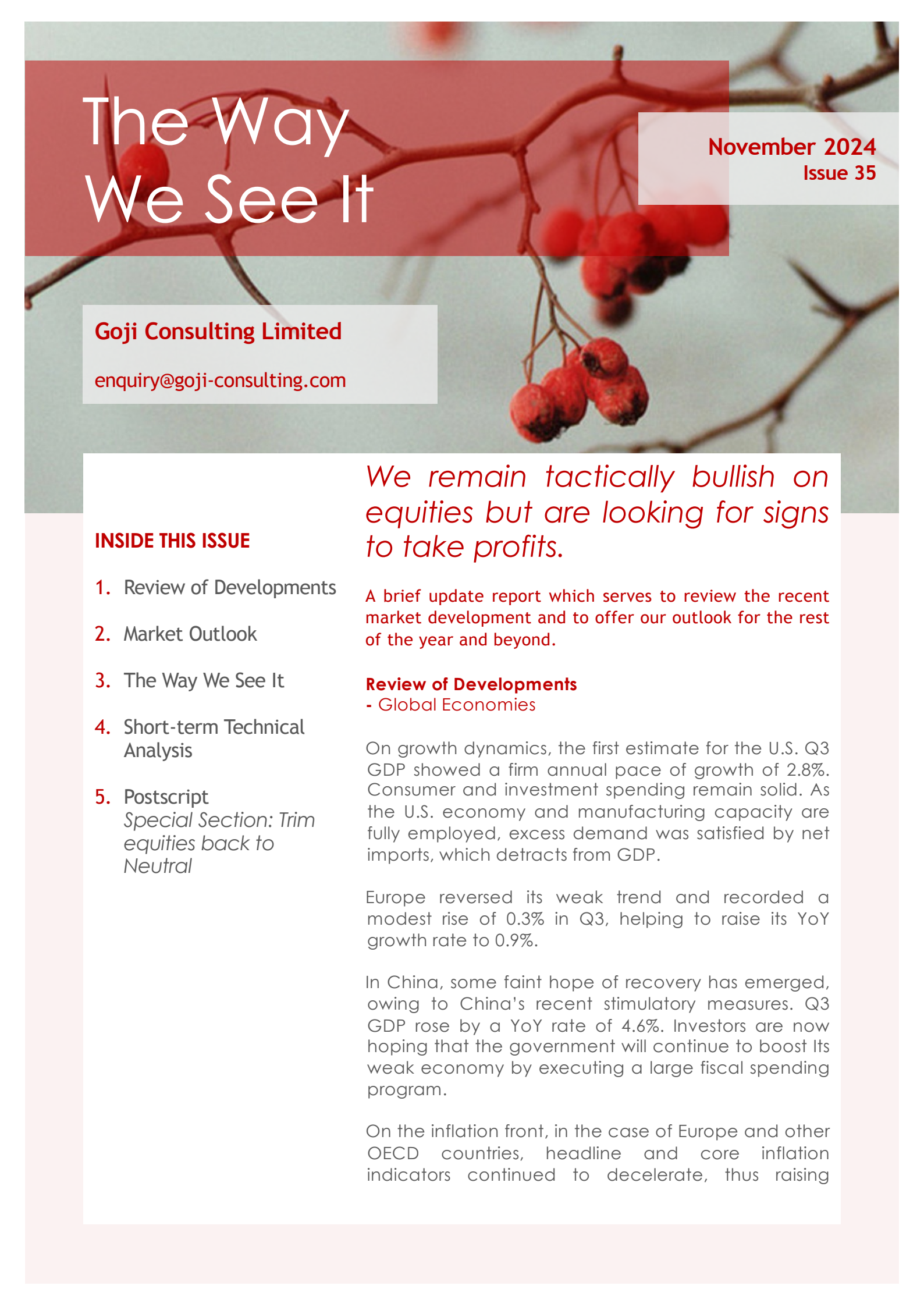




The Way We See It

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Special Section: Trim equities back to Neutral

We remain tactically bullish on equities but are looking for signs to take profits.

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments - Global Economies

On growth dynamics, the first estimate for the U.S. Q3 GDP showed a firm annual pace of growth of 2.8%. Consumer and investment spending remain solid. As the U.S. economy and manufacturing capacity are fully employed, excess demand was satisfied by net imports, which detracts from GDP.

Europe reversed its weak trend and recorded a modest rise of 0.3% in Q3, helping to raise its YoY growth rate to 0.9%.

In China, some faint hope of recovery has emerged, owing to China's recent stimulatory measures. Q3 GDP rose by a YoY rate of 4.6%. Investors are now hoping that the government will continue to boost its weak economy by executing a large fiscal spending program.

On the inflation front, in the case of Europe and other OECD countries, headline and core inflation indicators continued to decelerate, thus raising

expectations of further rate cuts by the ECB. In the U.S., the inflationary trend has also been favourable, but the core rate has not been able to fall below the annual 2.5% level as yet. In spite of this, the Fed just delivered an additional 25bps rate cut in the November FOMC meeting, based on their desire to reach neutrality, given the balance of downside and upside risks.

The U.S. election saw a return of Donald Trump and the Republican Party to power. Markets celebrated this result, as expectations of the delivery of a promise made by Trump, regarding further tax rate cuts, are high (this is going to be partially funded by tariff hikes on Chinese imports in particular).

Finally, global geopolitical risks have not gone away, and, if anything, they have intensified: Russia vs Ukraine, Israel vs Hamas and Iran. In addition, geopolitical and trade tensions between China and the U.S. remain high, particularly as the Republican Party continues to target China as an unfair trading partner.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

- Global Markets

Following a strong September quarter in Bonds and Equities in the U.S. and other Developed Markets, a correction sets in the month of October. Markets' volatility remained high. Positive factors are expected to continue to be partially negated against adverse

ones, resulting in a more volatile and thin trading environment.

- Positive factors include the continuing AI revolution in the U.S., global upgrades of economic and corporate earnings, hopes for the continuation of the implementation of an easy monetary policy in the U.S. and OECD bloc, and that the big-spending fiscal trend in the U.S. will continue.
- Negative factors firstly include the increasingly expensive valuation of U.S. and other DM equity markets, together with the return of complacency amongst investors. In addition, there is a risk of an upturn of the inflationary trend in the U.S. under Trump's second term, which could potentially cause a reversal of the Fed's monetary policy in the second half of next year.

Trump's second term could potentially cause a reversal of Fed policy.

Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	-0.74%	-1.96%	-5.08%
3 months	3.84%	2.54%	-0.77%
YTD	20.79%	16.94%	7.85%
FY 2023	27.10%	24.42%	18.60%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	-2.43%	-2.38%	-2.48%
3 months	0.86%	0.06%	0.25%
YTD	2.77%	1.36%	1.86%
FY 2023	8.52%	4.05%	5.53%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	Global Commodities CBR
1 month	-3.88%	-3.35%	-1.78%
3 months	0.42%	0.62%	0.63%
YTD	-1.41%	0.13%	6.08%
FY 2023	4.18%	5.71%	-5.01%

Asset Class Index	GEM Equities MSCI EM	Asia ex Japan Equities MSCI AC AxJ	China Offshore MSCI China
1 month	-4.32%	-4.46%	-5.91%
3 months	3.79%	5.68%	17.78%
YTD	12.17%	16.10%	21.94%
FY 2023	10.27%	6.34%	-11.04%

Source: GOJI, MSCI, Bloomberg; data as of 31/10/2024

Based on the recent stronger-than-expected U.S. economic growth data, a new scenario driven by expectations of a stronger and reflationary economic scenario in the U.S. has gradually become the base case, replacing the soft-landing one.

New base case emerging: a stronger and reflationary economic scenario.

In the month of October, ahead of the U.S. election, Discretionary/Fundamental investors appeared to have continued to hedge and/or reduce their equity and bond exposures. Reasons seem to have included uncertainty relating to a very close and acrimonious U.S. election fight, the frequency and magnitude of Fed Fund rate cuts following a string of mixed data, and the fear of rising inflation returning after the U.S. election.

The global equity universe, in USD terms, declined modestly in October by 1.96%. The U.S. saw a small correction (-0.74%), while the global equity universe (i.e. World ex U.S.) fell more heavily by -5.08%. Chinese equities also fell (offshore China: -5.91%, China A: -2.76%) as disappointment over the reluctance of the government to announce a "bazooka-style" fiscal package, grew.

U.S. Treasuries and other domestic and global fixed income markets also recorded negative returns, as bond investors fret over a potential return of inflationary and strong growth conditions under Trump's second term.

The Commodities complex also fell, pressured by a strong USD and declines in energy prices.

Market Outlook

The latest data on the equity positioning of Discretionary/Fundamental and Systematic investors during the month showed that while Discretionary have been reducing their exposure modestly, quant- and algo-driven Systematics have been more quiet.

The latter remained wary of the high volatility in the U.S. stock market. This appeared to have been principally caused by increased hedging by investors ahead of the U.S. election, and rising long-dated bond yields.

In the month, traders and investors' sentiment fell modestly, oscillating between Greed and Neutral.

Fundamental investors have been reducing equity exposure modestly in October, to hedge against uncertainty associated with the US election.

Fear & Greed Index

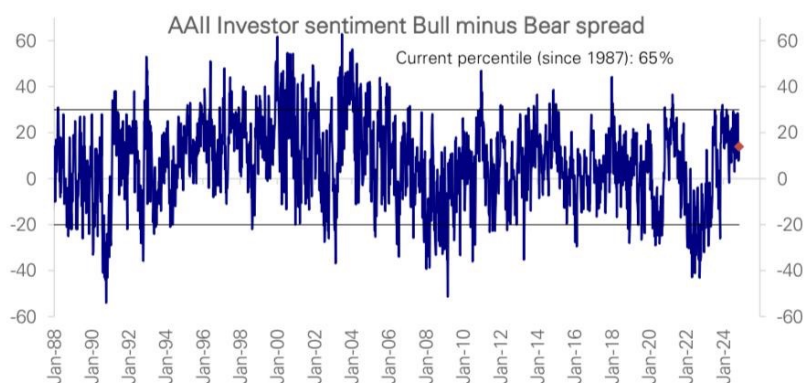
- What emotion is driving the market now?



Source: CNN Business
Last update October 31 at 8:00:00 PM ET

Investor Sentiment

- Investor bull minus bear spread



Data as of 8 November 2024
Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

Short-term Technical Analysis

Since the start of the year, U.S. and global equity indices, led by AI and Semiconductor stocks, have performed strongly. Recently, there has been some rotation away from the Tech towards non-Tech, supporting a broader equity bull market. This is a healthy sign.

Recently, as NVIDIA has been leading Semiconductor and other Technology stocks up, this has helped the overall market to record historical highs.

Sector rotation and broadening is a healthy sign.

S&P 500 Stock Price Index



Source: MarketWatch.com

Consolidated Equity Positioning



Source: Deutsche Bank Asset Allocation

Since the second half of August, our tactical asset allocation strategy continues to overweight global equities and underweight cash and fixed income.

In the Special Section below, we argue that equities have had a great run since the recent lows in August. While there may be some more upside in the short-term, driven by continuing positive newsflows in the U.S. and China, euphoric investors' sentiment, strong equity price momentum which attracts FOMO buying, we caution against joining the ecstatic crowd and chase equities at any price.

GOJI: we are cautious not to add further to our o/w position.

In fact, we advocate to use the strength of the equities market to reduce the overweight exposure back to neutral. The rationale of this change is outlined in the Special Section below.

The Way We See It

- Global Markets and Investment Thematics

At GOJI, we advocate a two-pronged strategy to invest in risk assets.

As outlined in the Special Section in our August report, following the massive liquidation by leveraged funds (who borrowed cheap Yen to fund their equity exposure), we advocated, from a Tactical viewpoint, to move from a Neutral to Moderately Overweight exposure to equities and other risky assets. Nonetheless, from a long-term strategic viewpoint, we retain our Risk-Neutral recommendation..

Long-term Risk-Neutral Strategy Rationale:

As outlined in our Global Investment Outlook for 2024 and our recent monthly reports, it is our belief that both fundamental and quant-driven investors have priced in, positioned for and have been prepared to pay up for a best-case scenario of slowing but not recessionary growth, falling inflation and lower interest rates.

A Goldilocks scenario, but with rather expensive valuations. Hence our hesitation to be overweight equities from a long-term strategic viewpoint.

Thus, our long-term strategy recommendation continues to advocate to hold a neutral exposure to risk assets, with a modest underweight exposure to expensive risky growth assets, and overweight cash and less volatile quality assets.

Tactical Moderately Overweight Strategy Rationale:

In early August, we took advantage of the massive fall of risky assets (caused by factors which are well known to all by now - please refer to GOJI's August Monthly issue), to recommend to our clients to buy

GOJI: LT risk-neutral strategy remains.

GOJI: our ST o/w view has changed; ready to trim back to neutral.

them, and build a moderate overweight exposure in U.S. and global equities.

Our view has now changed. Please see our Special Section below.

Postscript

Special Section: Trim equities back to Neutral

As the U.S. equity market is becoming more euphoric after the return of Trump, we are closely monitoring key signals to reverse our tactical strategy from Bullish to Neutral.

As we stated in last month's GOJI report, American corporations tended to be innovative and cost-competitive, thus assuring a continuation of high labour and capital productivity and sustainable profits. That is why, over the long run, the U.S. stock market has been performing more strongly with less volatility than their global peers, regardless of the governing political party.

In the short-term, the market consensus is increasingly confident that Trump's modus operandi in his second term remains pro-growth, low tax, favouring re-shoring behind an increasingly high wall of tariffs.

However, based on the announcement of much higher tariffs to partially pay for tax cuts under Trump, bond yields have already risen to reflect investors' concern over a significant reduction in rate cuts in 2025, with the risk of a possible a return to a tighter monetary policy.

Whether bond yields will continue to rise above 4.50% pa depends on investors' perception of the magnitude and speed of the imposition of higher tariffs on Chinese imports, and to what extent these will be passed on to end consumers and corporates. In addition, there's also the growth-boosting impact of tax cuts on the already robust U.S. economy.

With the U.S. equity market trading at a forward P/E of 23.8X and an 1.3% annual dividend yield, versus a 10-year bond yield of 4.40% pa, equities are very

Risk of a possible return to a tighter monetary policy.

expensive against fixed income. What this means is that corporate earnings growth should rise substantially and much beyond what analysts are currently forecasting (ie. much higher than 10% pa).

In addition, investors' exposure to the U.S. equity market has increased substantially after the election and the Fed's 25bps rate cut. This is particularly the case of Discretionary/Fundamental investors. In the case of the quant- and algos-driven Systematics, they only just started their buying program, as equity volatility only just fell.

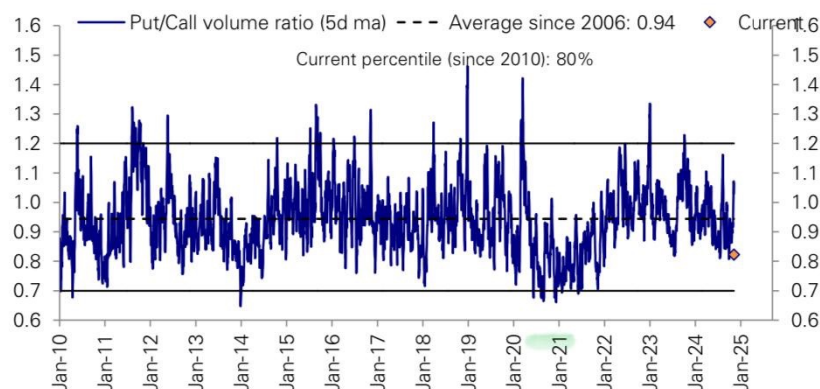
Discretionary vs Systematic Equity Positioning



Source: Deutsche Bank Asset Allocation, as of 31/10/2024

Furthermore, investors' sentiment has started to look more euphoric, evidenced by, amongst many risk indicators, a very low put/call ratio (chart below).

Equity Put/Call Volume Ratio



Data as of 7 November 2024

Source: CBOE, Haver Analytics, Deutsche Bank Asset Allocation

GOJI: Sensible move to gradually take some profits as market heads for a final boost before Christmas.

Based on the above, it appears that we're heading for a final blow-out in equity markets by Christmas. Taking some profits gradually seems a sensible strategy.

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