

HIGHLIGHTS

January Market Review

- ❖ Most of the action in January was in equity markets, except Asia High Yield bonds which stood out for their 2.5% gain despite volatility in other markets.
- ❖ US S&P 500 was up 1.68% in January, driven by the 6 of the Magnificent 7 which exceeded sales expectations in Q4.
- ❖ Exceeding expectations is certainly a way for stock prices to rise, but the bar to beat is raised each time. Investors need to pay attention to whether they are overly exposed to such risks in their portfolios.
- ❖ Fixed-income investors were expecting mid-high single-digit returns for 2024, but were met with largely flat returns in January. This is why fixed *income* is not called fixed *return*. The return will eventually come but not in a straight line.

The Road to Soft Landing is Not a Straight Highway

- ❖ Soft landing on track on various measures
 - ✓ Stable unemployment
 - ✓ Strong consumer
 - ✓ Expansion in manufacturing activity (first time in 9 months!)
- ❖ *Recovery* positions i.e. US small-caps, Europe equities took a breather in January, after strong returns over the prior two months.
- ❖ When markets get overly excited in the short-term, they need to come back down to gain momentum for the next new high.
- ❖ Ingredients for recovery positions to perform remain in place. 1. central banks have signaled the peak and even cut in interest rates, and 2. soft landing sweet spot of moderate growth and no imminent risk of recession.

Bonds Are Back (Really)

- ❖ Government bonds are providing a dual role of modest income and buffer against risk assets.
- ❖ Investors seeking higher income can get higher yield from traditional and alternative markets.
- ❖ Instead of grappling with when rates will be cut, it is more helpful to think about where rates will end up.
- ❖ Investors in Asian High Yield are seeing the fruits of their patience. AHY markets have rallied 10% in the past three months. Evergrande's liquidation is a positive step in the property sector's restructuring, and the gains in AHY show that markets are ready to move on from the property sector.

Emerging Opportunities

- ❖ China: While there are signs that the worst is already behind us, the unpredictable regulatory environment and slow pace of recovery has been disappointing – we reduced exposures earlier this year for more timely opportunities and managed to offset some volatility in the past month.
- ❖ For long-term investors: China retain immense recovery potential. But with a highly uncertain timeline! Recent bout of selling looks to be more 'technical' in nature, rather than based on fundamentals.
- ❖ Vietnam is up 2.5% in January, one of the few markets firmly in the green. This was on the back of attractive valuations and expectations of improving economic growth going forward.

Read the full commentary [here](#)