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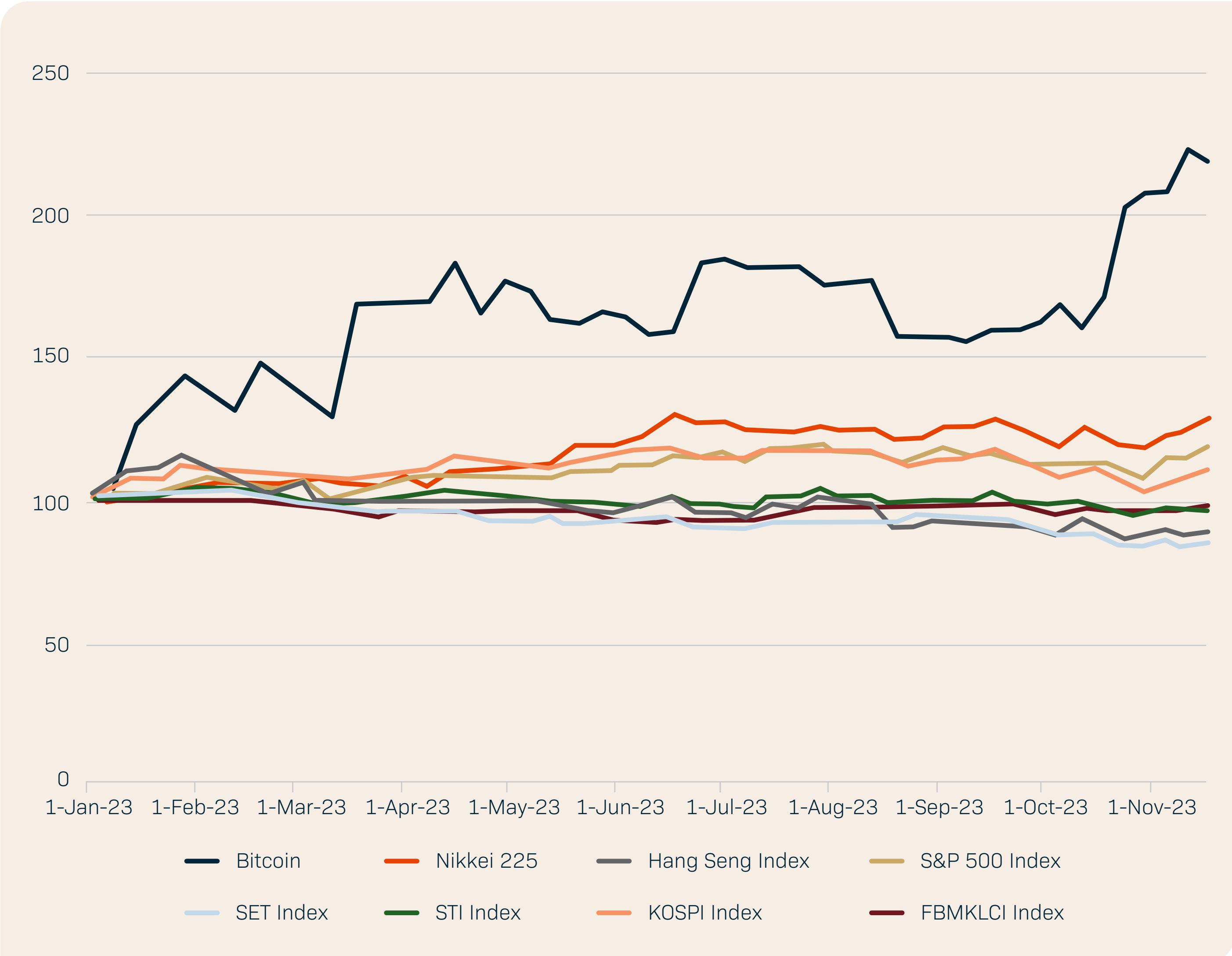
EQUITIESFIRST
Progressive Capital

2024 GLOBAL OUTLOOK REPORT

As we reflect on the financial landscape of 2023, a year marked by dynamic shifts and noteworthy trends, it becomes evident how diverse factors shaped the global market. This review delves into the contrasting performances of the US and China stock markets and the reasons behind them. Additionally, the surprising surge in Bitcoin's value, largely driven by speculative events, highlights the evolving nature of the cryptocurrency (crypto) market. From the aggressive monetary policy of the US to the unique monetary stance of Japan and the challenges faced in various Asian economies, this review offers a detailed examination of the key financial events and their implications in 2023.

2023 MARKET REVIEW

2023 ASSET PRICE PERFORMANCE (%) (REBASED)



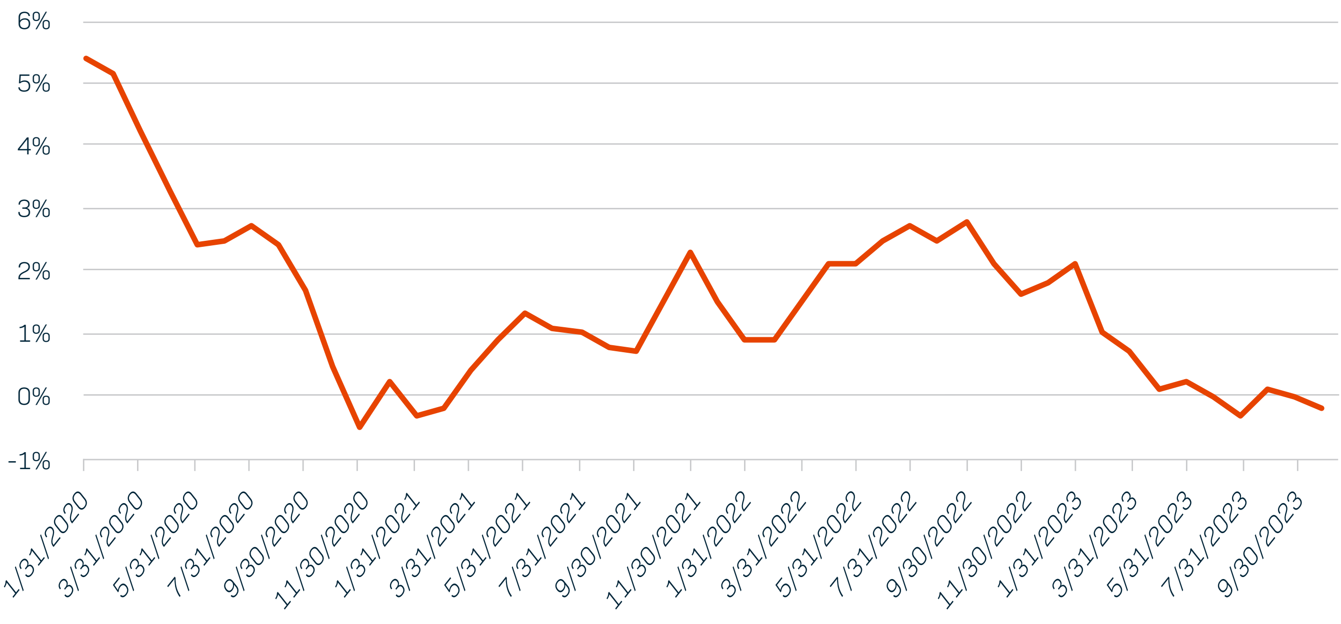
In 2023, the US stock market exhibited robust performance, buoyed by strong GDP growth and a low unemployment rate. This positive economic backdrop fostered investor confidence, contributing to the market's resilience. Conversely, China's stock market continued to face challenges with an ongoing property debt crisis, which dampened investor sentiment and market performance in China. Meanwhile, Bitcoin emerged as a standout performer, largely driven by speculative interest surrounding the potential approval of a Bitcoin ETF, a rebound from its low base in 2022 and anticipation of the upcoming Bitcoin 'halving' event in 2024.

Source: Bloomberg

HANG SENG INDEX

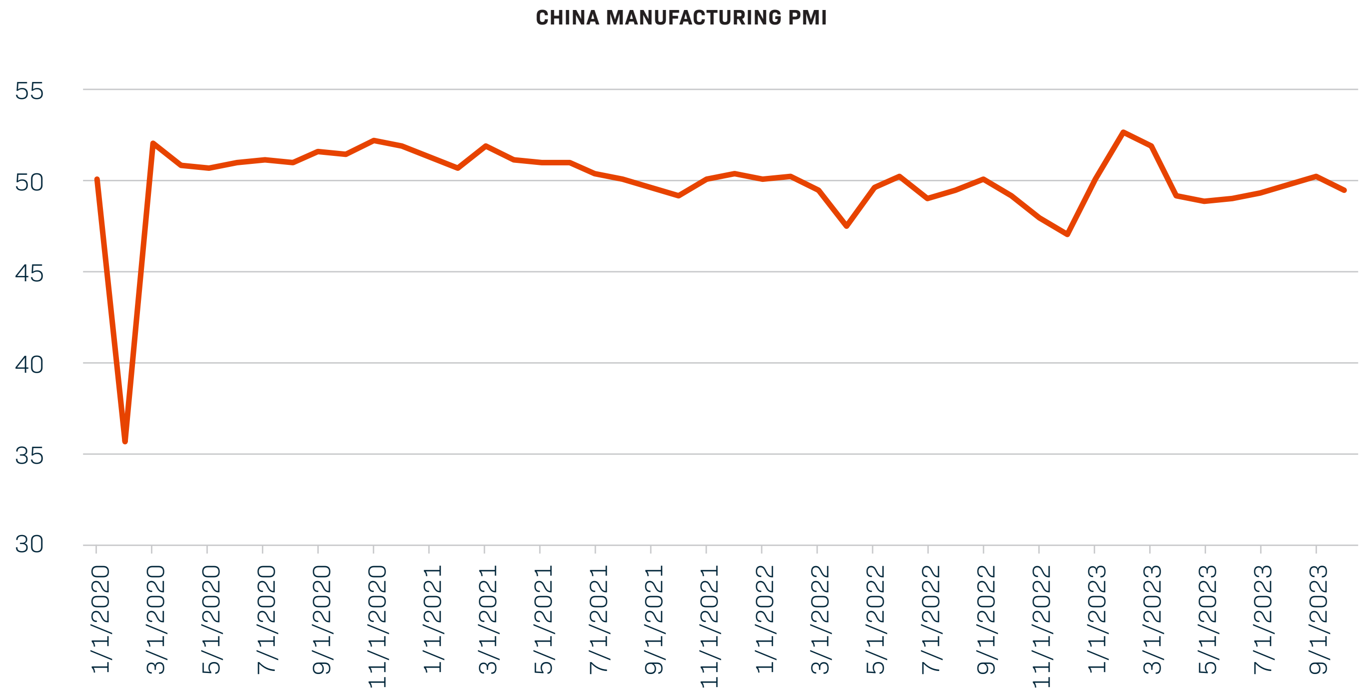
2023 proved to be a challenging year for China, marked by a weaker-than-expected rebound in consumer spending post-reopening, geopolitical tensions with the US, escalating debt default issues among privately-owned property developers and a sluggish real estate market. The economy's tepid recovery, coupled with the languishing property sector, led to a further decline in the Hang Seng Index by 10% year-to-date as of 22 November 2023, following decreases of 15% in 2022 and 14% in 2021. Additionally, the Renminbi also depreciated by around 4% year-to-date.

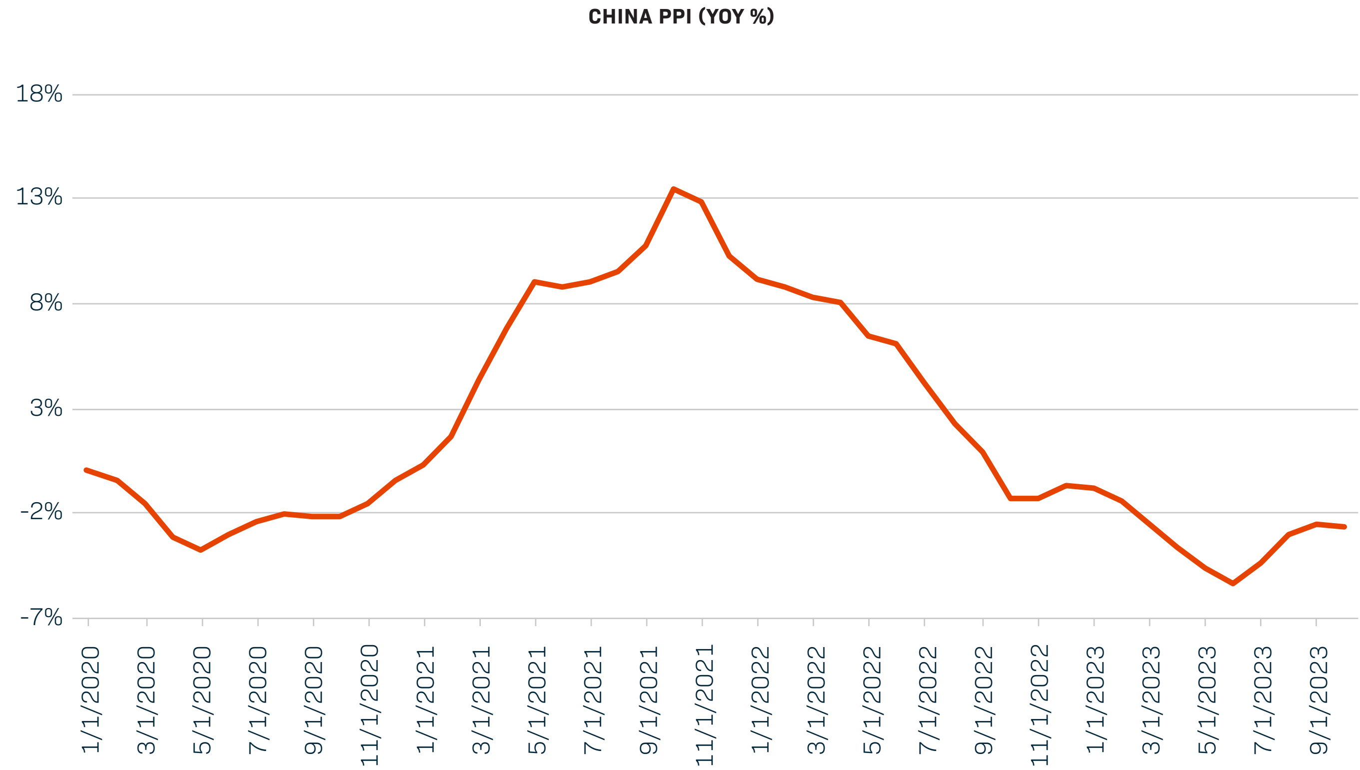
CHINA CPI (YOY%)



Notably, even Country Garden, one of China's largest property developers, defaulted on its bonds, delivering a significant shock to the market. In stark contrast to the US, China's October CPI and PPI recorded drops of -0.2% and -2.6% respectively. China's Manufacturing PMI began to fall below the critical threshold of 50 starting from April 2023, indicating contraction and heightening concerns about the risk of deflation.

Source: Bloomberg

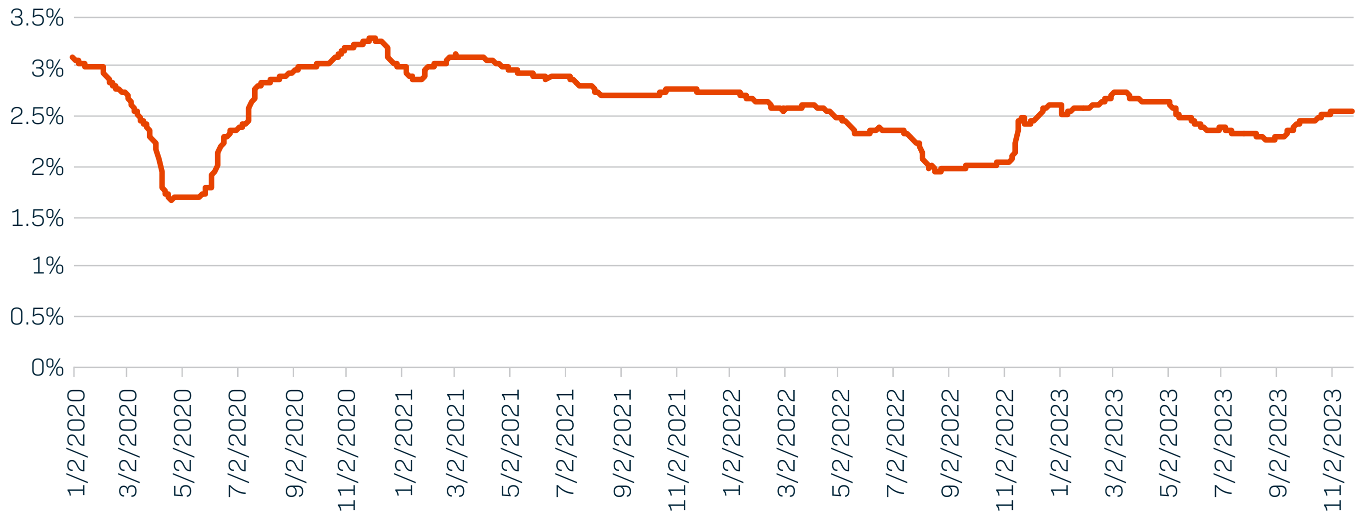




In response, the Chinese government initiated stimulus measures in the fourth quarter of 2023, issuing an additional RMB one trillion (USD 137 billion) in treasury bonds. These funds are allocated to support post-disaster reconstruction and enhance the nation's resilience against natural disasters. The additional budget will be distributed to local governments via transfer payments, which should improve local debt structures and alleviate fiscal pressures. Half of this quota was designated for use in 2023, with the remainder scheduled for 2024, bolstering economic recovery prospects for both years. Moreover, China's historical interest rates in 2023 remained low at 2-3%, in contrast to those in developed Western countries.

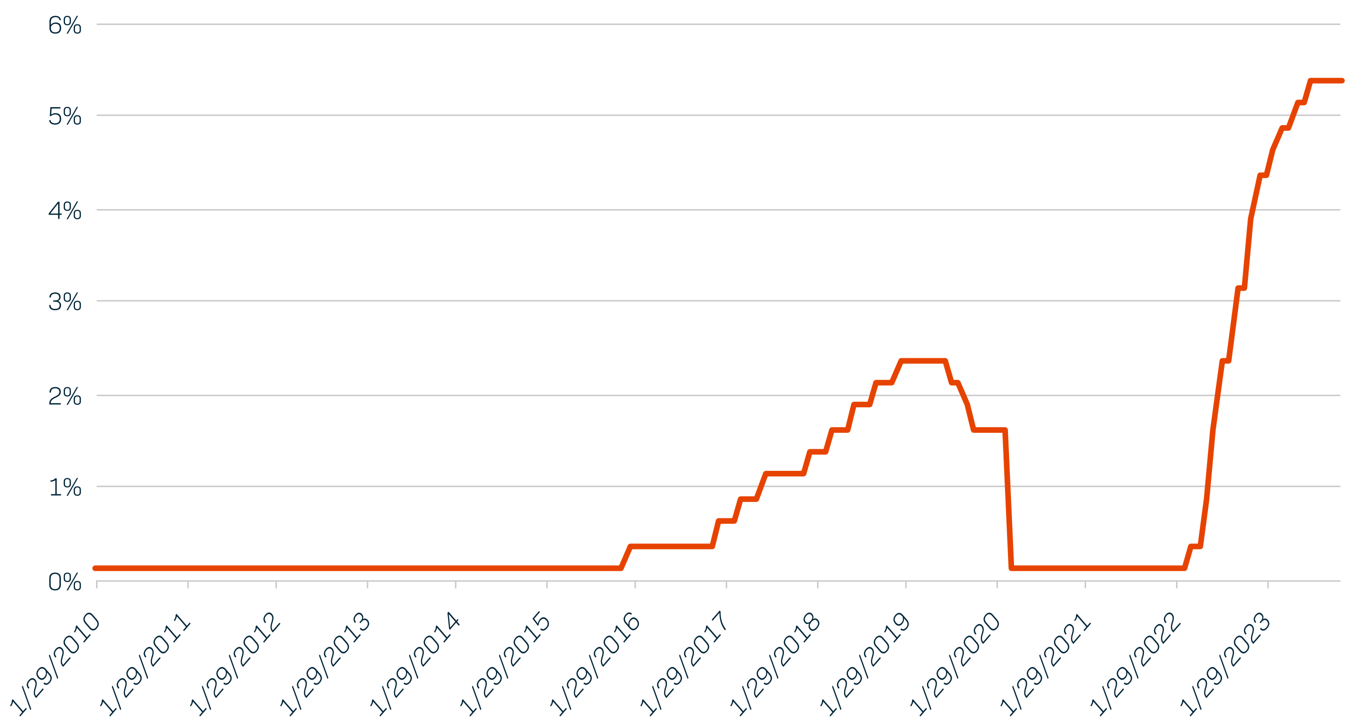
Source: Bloomberg

CHINA 1-YEAR SHIBOR (%)



In 2023, the US Federal Reserve persisted in its aggressive monetary policy, raising interest rates by a substantial 100 basis points, which surpassed the initial market predictions set at the end of 2022. This significant increase in interest rates was primarily driven by the persistent and high inflationary pressures observed throughout the year. Concurrently, the US experienced surprisingly robust GDP growth coupled with a low unemployment rate, providing the Federal Reserve with both the buffer and confidence to implement frequent rate hikes without triggering an economic downturn. This monetary tightening led to a notable shift in the global bond markets, with US Treasury yields soaring above 5% in October for the first time in 16 years. During this period, market sentiment was largely pessimistic, with forecasts such as from JPMorgan, suggesting that rates might even escalate to 7%.

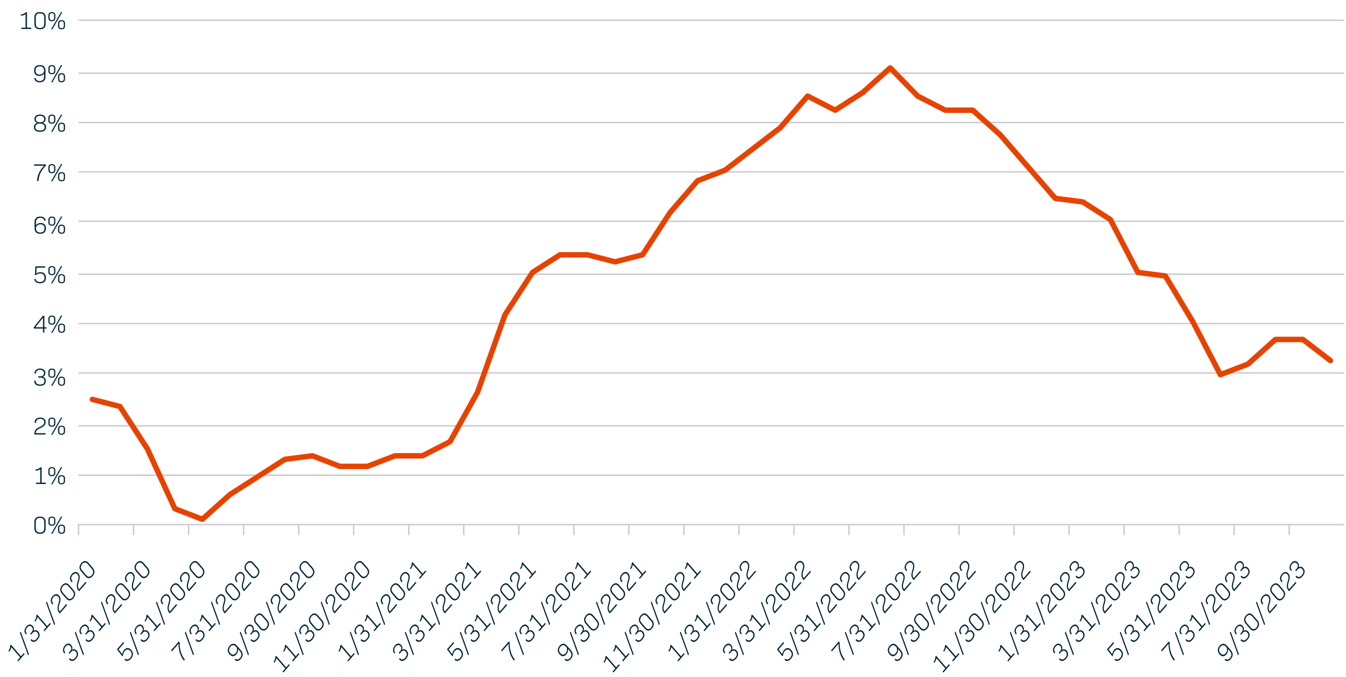
US FED TARGET RATE MID POINT OF RANGE (%)



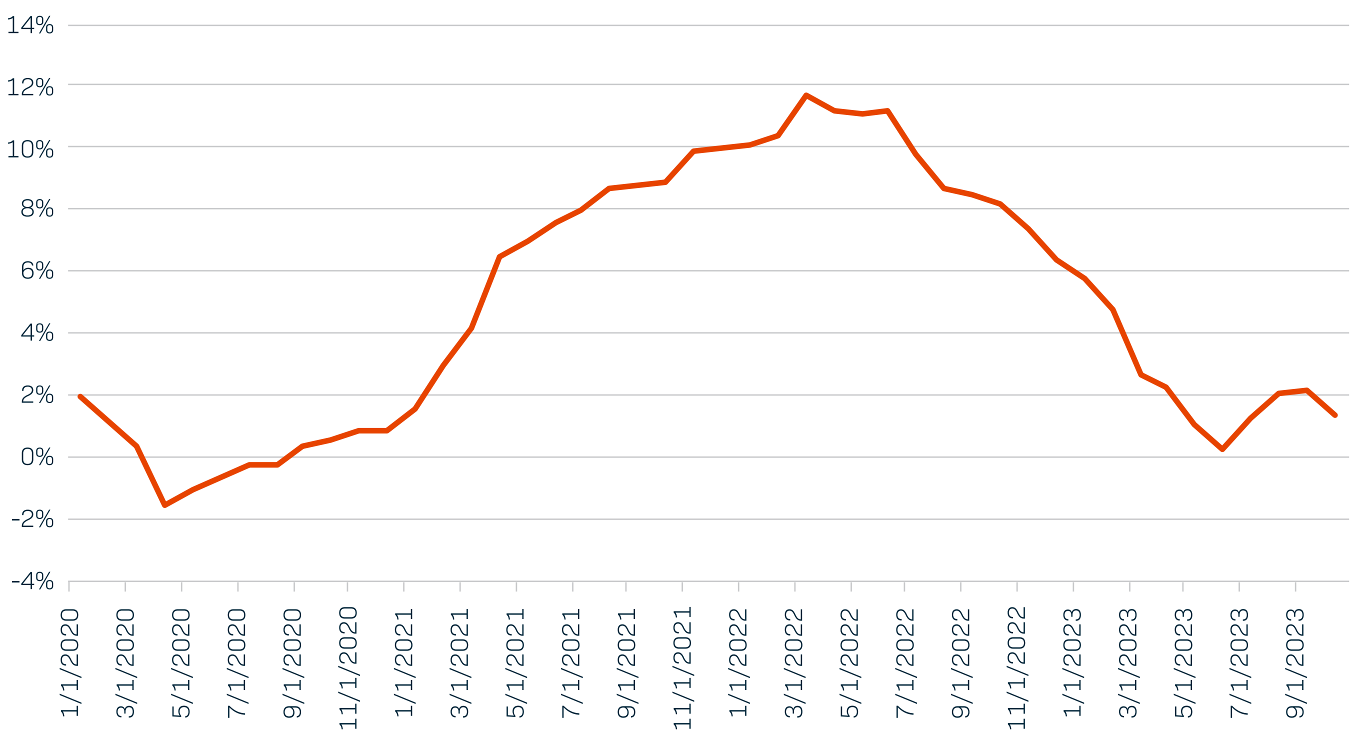
Source: Bloomberg

However, more recent developments have indicated a reduction in inflationary pressures in the US. For instance, the CPI for October fell to 3.2%, marking a decrease from September's 3.7%. Additionally, the PPI in October only rose by 1.3%, down from 2.2% in September. These figures not only exceeded market expectations but also signaled a clear trend of decelerating inflation. This trend is expected to persist into the fourth quarter of 2023 and continue through 2024. The combination of strong GDP growth and the avoidance of an economic recession in 2023 has been reflected in the financial markets, with the S&P 500 index showing a year-to-date rise of 19% as of 22 November 2023.

US CPI (YOY %)



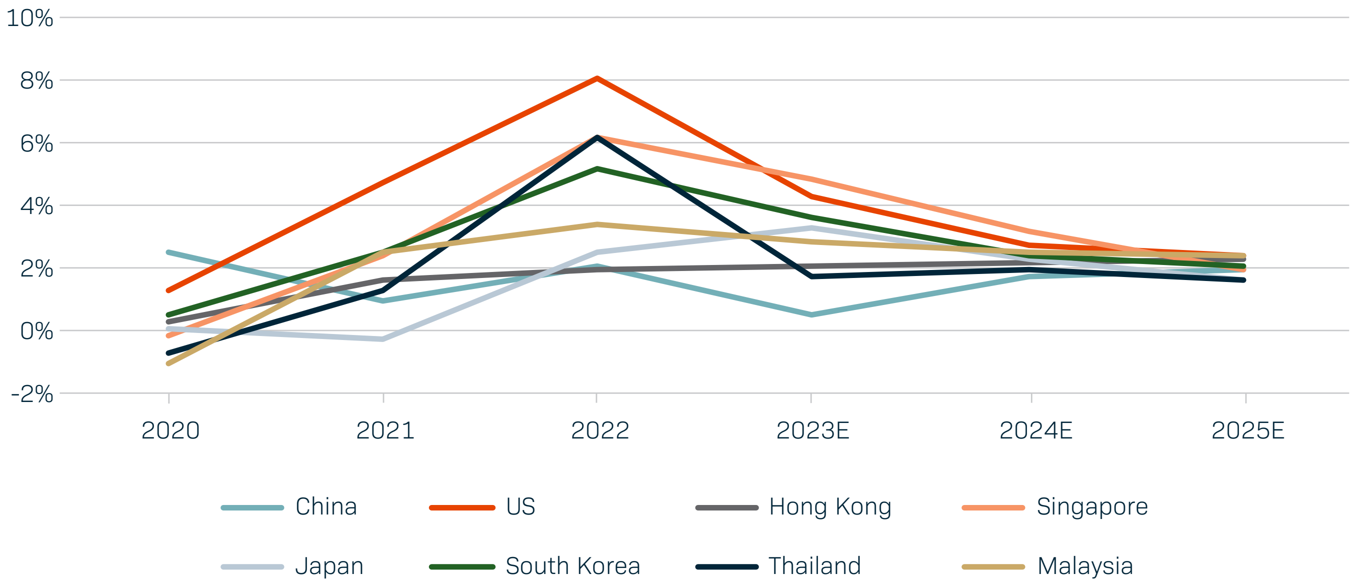
US PPI (YOY%)



Source: Bloomberg

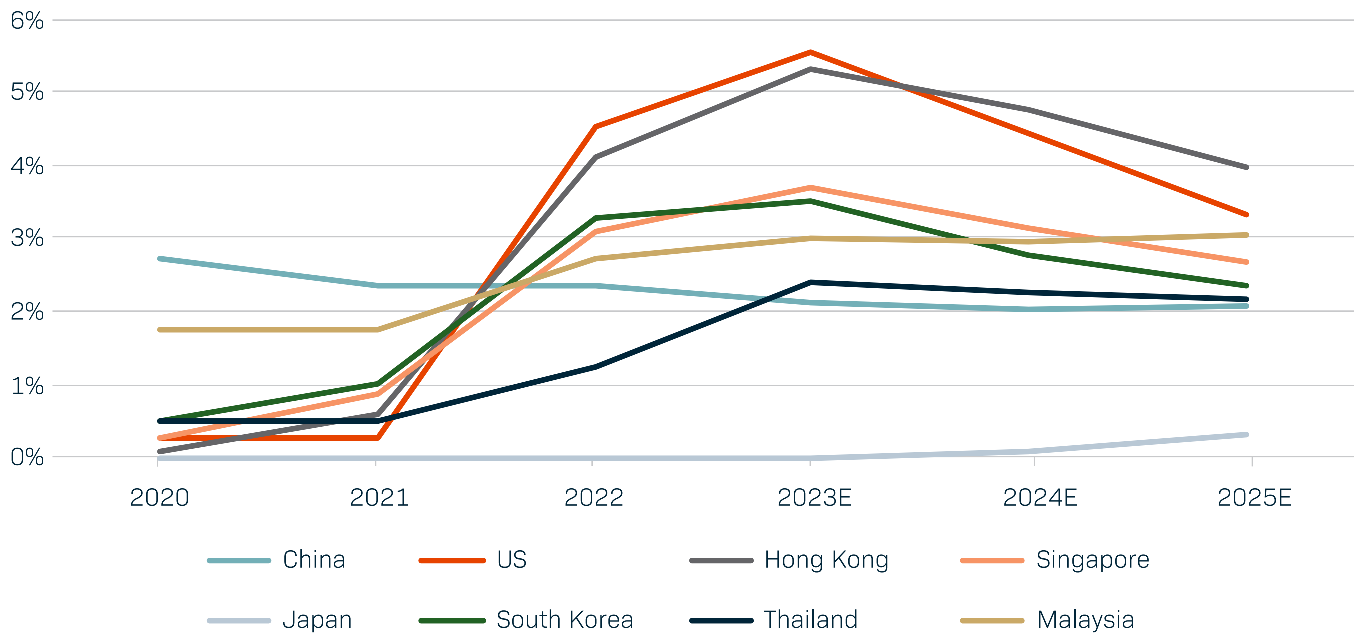
MARKET OUTLOOK

CPI (YOY%)



After experiencing volatile CPI movements in 2022 and 2023, except in Japan and China as per data from Bloomberg as of 22 November 2023, market predictions now suggest a gradual decline in CPI for most countries in 2024. With an anticipated stabilization in price levels, current market projections indicate a reduction in interest rates across various countries, excluding Japan. Specifically, the US and Hong Kong are expected to reach their peak interest rates in the fourth quarter of 2023 and the first quarter of 2024. Following this peak, a gradual decrease in these rates is anticipated in the second half of 2024, mainly due to easing inflationary pressures in the US.

INTEREST RATES (%)



Furthermore, the market anticipates that China will maintain consistently low interest rates, estimated to be between 2-3% throughout 2024. This low-interest rate environment is expected to provide a favorable backdrop, aiding the economic recovery for the year.

Source: Bloomberg

Regarding the global macroeconomic landscape, stable GDP growth is forecasted for 2024, partly hinging on the potential for a reduction in US interest rates to fuel economic growth globally.

China's GDP growth rate is projected to remain stable at around 4.5% in 2024, bolstered by the recent issuance of a RMB 1 trillion bond aimed at stimulating the economy. This latest development, coupled with a relatively accommodating monetary policy environment supported by low inflation pressure and the potential for further cuts in interest rates, underpins this outlook. According to Bloomberg, the Hang Seng Index is currently trading at 9x 2023 P/E and 8.2x 2024 P/E, which is below the historical average of 11x. The market forecasts an earnings growth of approximately 10% in 2023, building on a lower base established in 2022 and a 9% earnings growth in 2024.

GDP (YOY%)

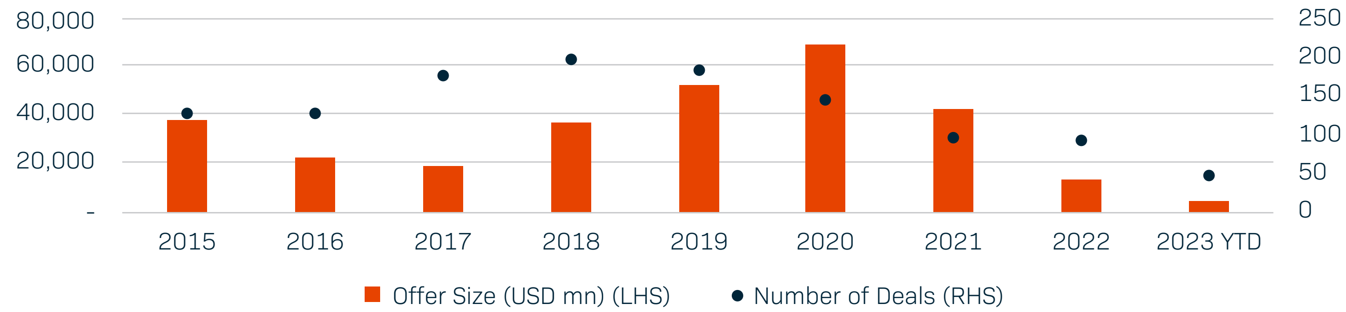
In 2024, Hong Kong's economy is projected to experience a standard growth rate of 2.8%, following a notable growth of 3.6% in 2023. This positive shift comes after a challenging year in 2022, where the city saw a GDP decline of 3.5%. The expected lower interest rates in 2024 are anticipated to provide a supportive environment for Hong Kong's economic recovery and growth.

An intriguing aspect in the regional financial landscape is Japan's monetary policy. The market forecasts that Japan will continue to implement a loose monetary policy through 2024 and 2025, with interest rates predicted to remain between 0-1%. These conditions position Japan uniquely among developed nations, as it manages to maintain low interest rates amidst low inflationary pressures. This ability of Japan to sustain such low rates is a testament to its robust economic framework and reflects the country's distinct approach to managing its monetary policy in a global context where other developed countries are experiencing higher inflation and consequently, higher interest rates.

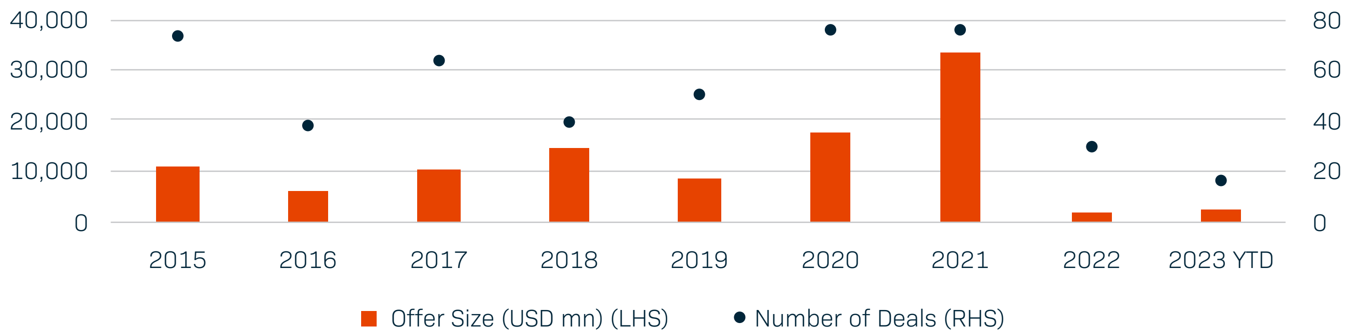
Source: Bloomberg

CAPITAL MARKET ACTIVITIES

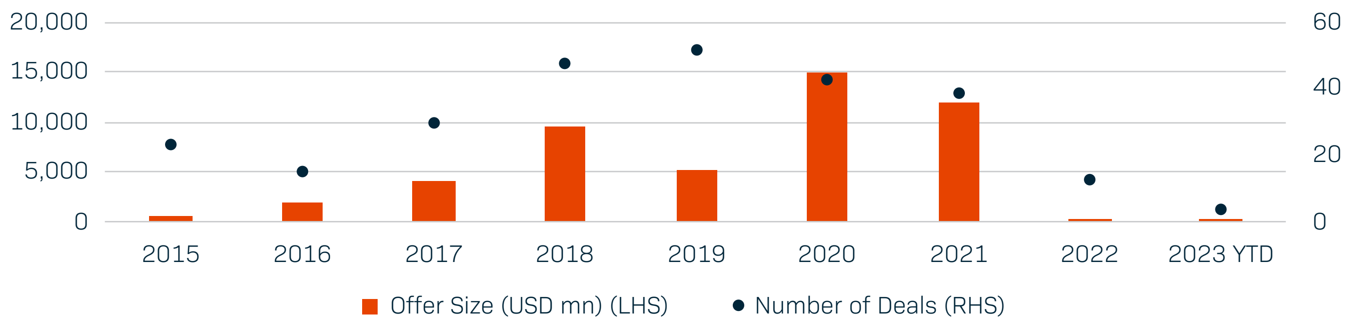
HONG KONG IPO



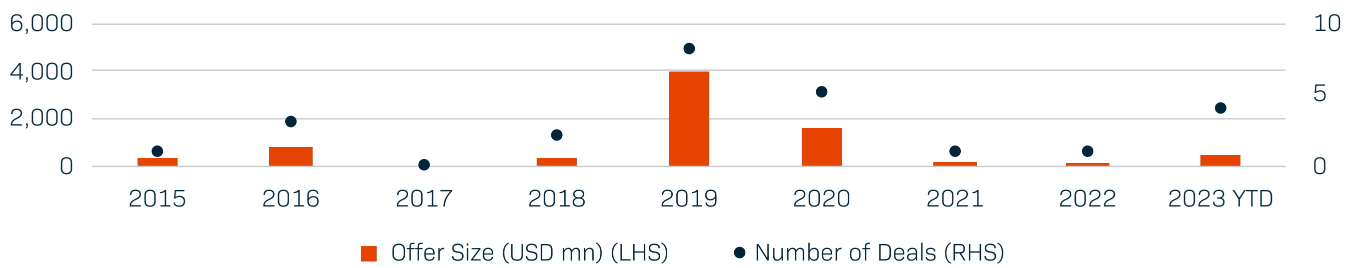
HONG KONG SECONDARY SHARE OFFERING



CHINA ADRs IPO



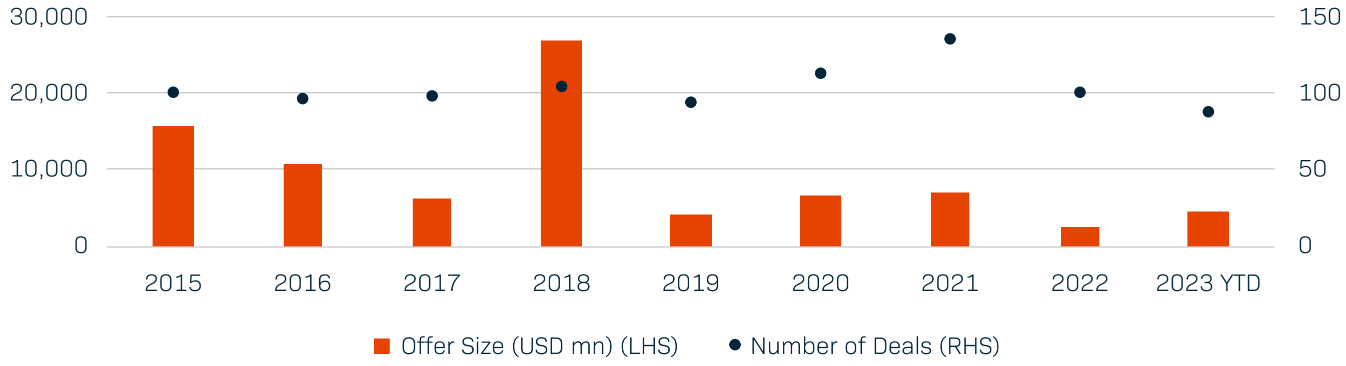
CHINA ADRs SECONDARY SHARE OFFERING



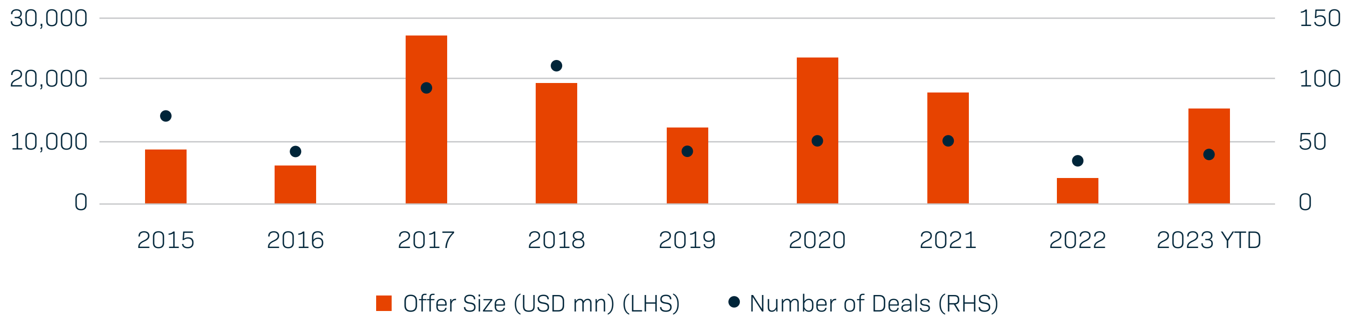
Source: Bloomberg

With the rise in interest rates in the US leading to increased capital and borrowing costs globally, a downturn in fundraising activities across various countries and regions has been observed. The heightened interest rate environment in both 2022 and 2023, combined with the slower-than-anticipated economic recovery post-reopening in Hong Kong and China, the ongoing debt crisis among Chinese property developers and fluctuating US-China relations, all contributed to a notably reduced deal size in Hong Kong in 2023, even more so than in 2022. The year 2023 continued to be challenging for capital raising activities as Hong Kong notably experienced three consecutive years of decline in IPO proceeds from 2021 to 2023. Furthermore, IPO proceeds from China ADRs listed in the US also remained subdued in 2023, influenced by strained US-China relations.

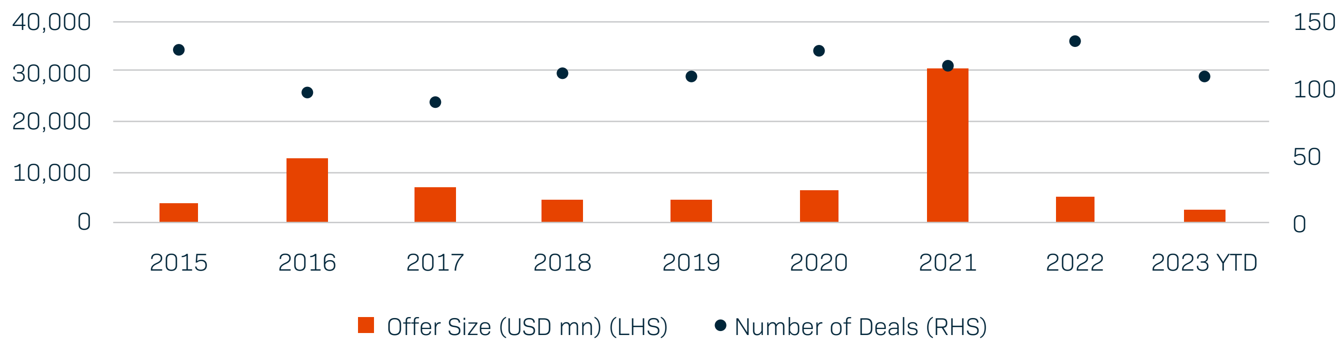
JAPAN IPO



JAPAN SECONDARY SHARE OFFERING

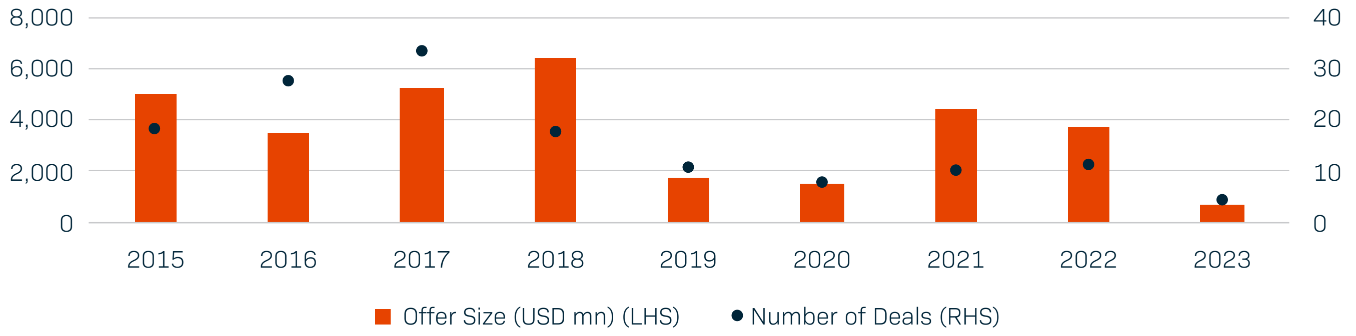


SOUTH KOREA IPO



Source: Bloomberg

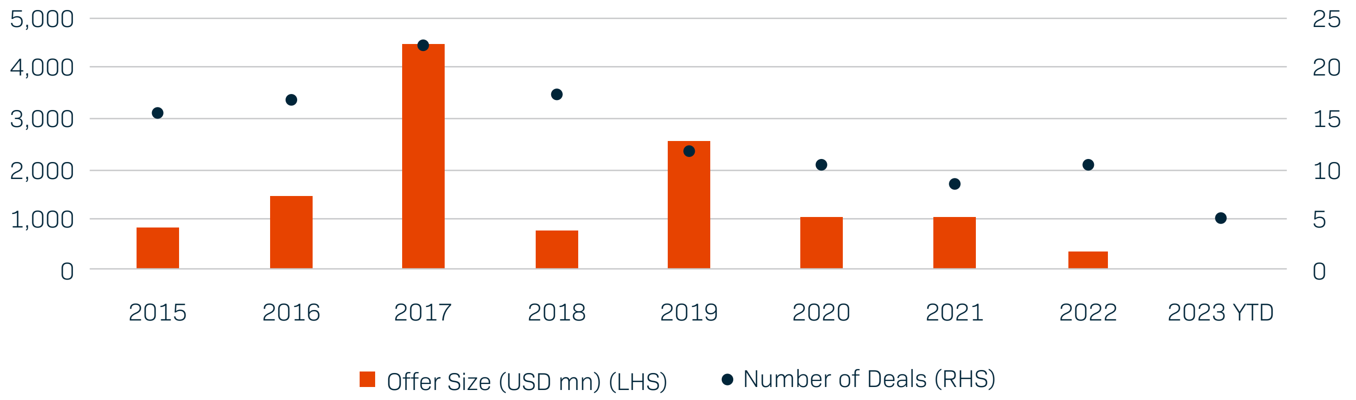
SOUTH KOREA SECONDARY SHARE OFFERING



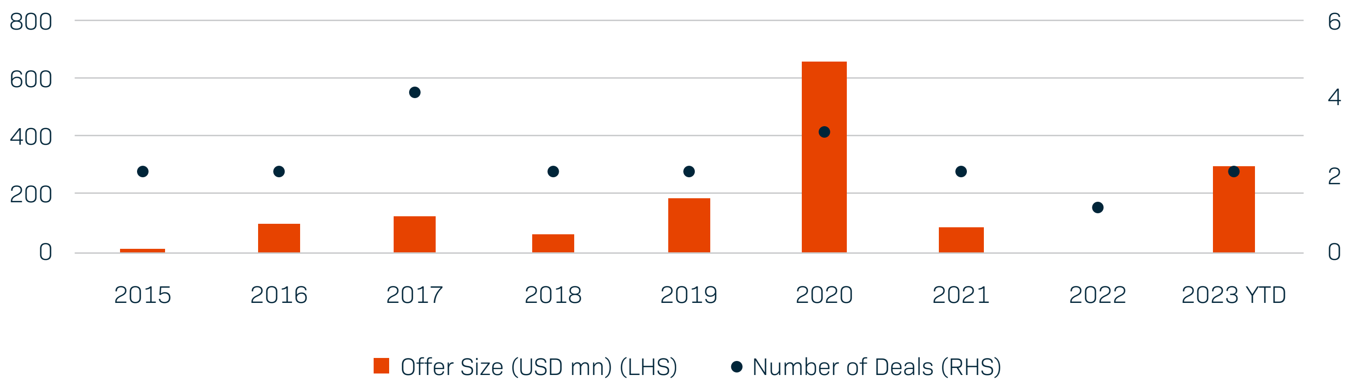
In stark contrast to other regions, the capital market in Japan experienced notable growth in 2023. As of November 13, 2023, the total offer size of IPOs in Japan saw an impressive increase, exceeding 80% in growth compared to 2022. This surge is indicative of a robust investment climate and investor confidence in the Japanese market, spurred potentially by strong corporate governance practices, as well as favorable monetary and government policies.

On the other hand, South Korea's capital market painted a different picture, continuing to experience a downturn in IPO sizes.

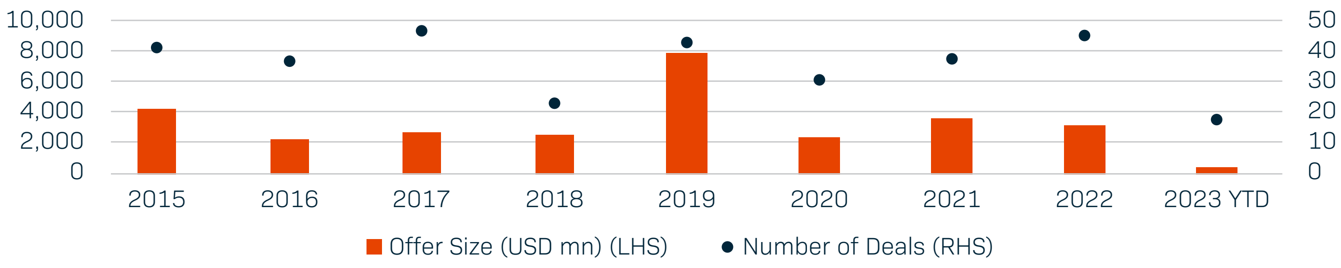
SINGAPORE IPO



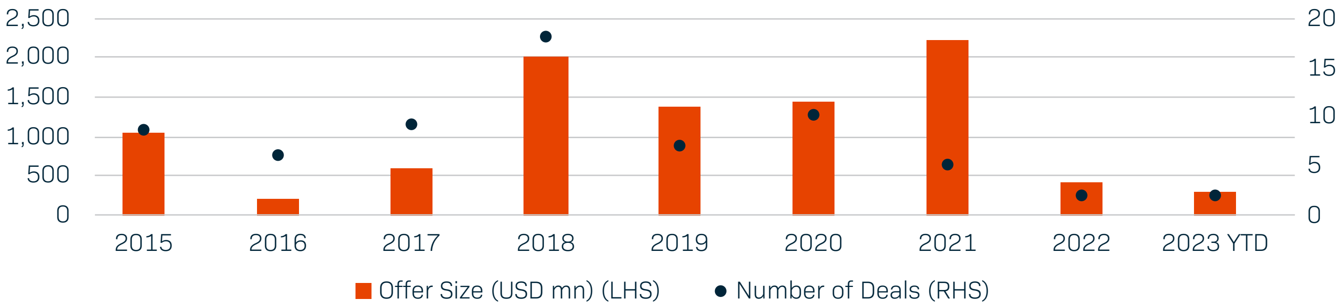
SINGAPORE SECONDARY SHARE OFFERING



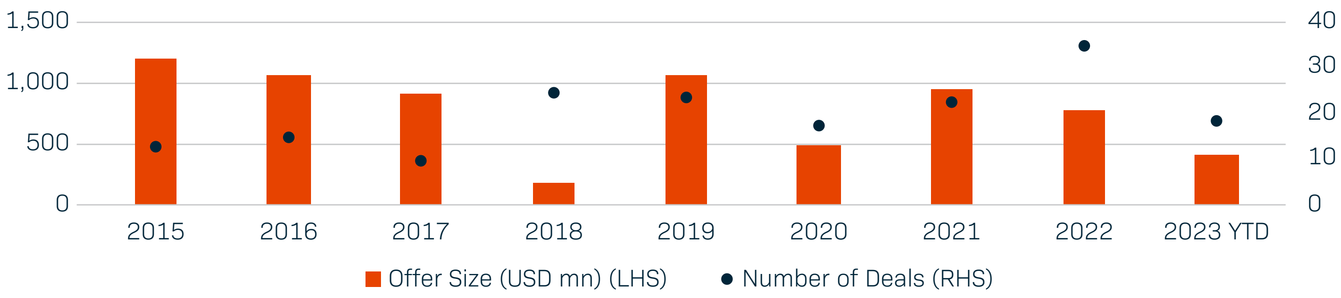
THAILAND IPO



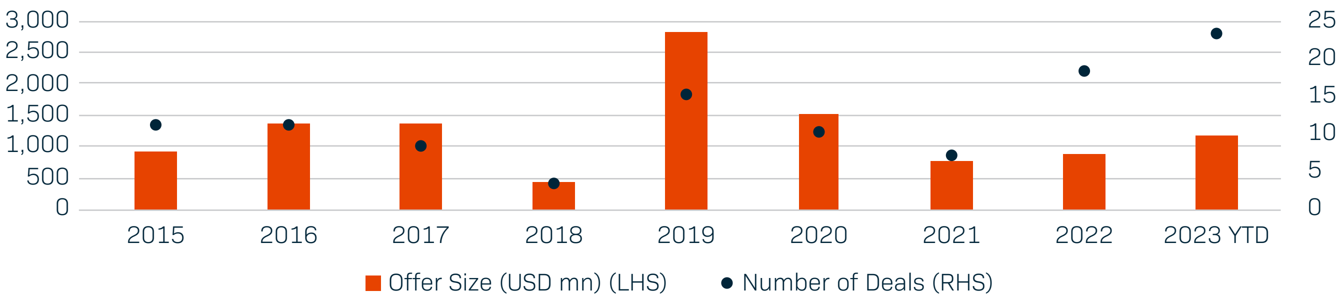
THAILAND SECONDARY SHARE OFFERING



MALAYSIA IPO



MALAYSIA SECONDARY SHARE OFFERING



Meanwhile, other South Asian countries such as Singapore, Thailand, and Malaysia all recorded a decline in IPO offering sizes during this period marked by uncertain macroeconomic conditions. This trend could be reflective of several factors including cautious investor sentiment, regional economic challenges, a rising interest rate environment and global market volatility.

Source: Bloomberg

BANKING

The 2023 banking crisis in the US and Europe was marked by significant bank failures and regulatory interventions. In the US, the collapse of Silicon Valley Bank, Silvergate Bank, and Signature Bank, driven by factors such as bond portfolio losses and exposure to the volatile crypto market, led to a sharp decline in global bank stock prices. This necessitated swift and extraordinary measures by US federal bank regulators, including the establishment of a Bank Term Funding Program to support liquidity. In Europe, the crisis centered around Credit Suisse, whose faltering led to a state-backed takeover by UBS. This move, particularly the decision to wipe out Credit Suisse's AT1 bonds, caused widespread turbulence in the banking sector, affecting other major banks and leading to a broader decline in banking stocks and bonds.

These events have underscored the fragility and interconnectedness of global financial systems. The crises in the US and Europe not only affected domestic markets but also had ripple effects across international boundaries, highlighting systemic risks. The regulatory responses and the subsequent market reactions suggest a trend towards consolidation in the banking industry, as smaller and more vulnerable institutions either fail or are absorbed by larger entities. This consolidation could potentially lead to a more stable but less diverse banking landscape, with larger institutions holding increased market power and influence.

CRYPTO REVIEW

In 2023, crypto emerged as the top-performing asset class. By November 22, 2023, Bitcoin and Ethereum had achieved impressive year-to-date gains of 127% and 74%, respectively. This remarkable rally can be attributed to several factors, including the anticipated approval of a US Bitcoin ETF, the peak of interest rates, and a recovery from the significant declines both crypto experienced in 2022, where Bitcoin and Ethereum plummeted by 64% and 67%, respectively.

BITCOIN MARKET SHARE

The Bitcoin Dominance Chart tracks Bitcoin's proportion of the total crypto market value. According to CoinMarketCap, Bitcoin's market share rose from 40% at the start of 2023 to 51% by November 19, 2023. This increase reflects a trend where investors favor more established crypto such as Bitcoin, known for its limited supply and store of value, which supports the Bitcoin rally year-to-date.

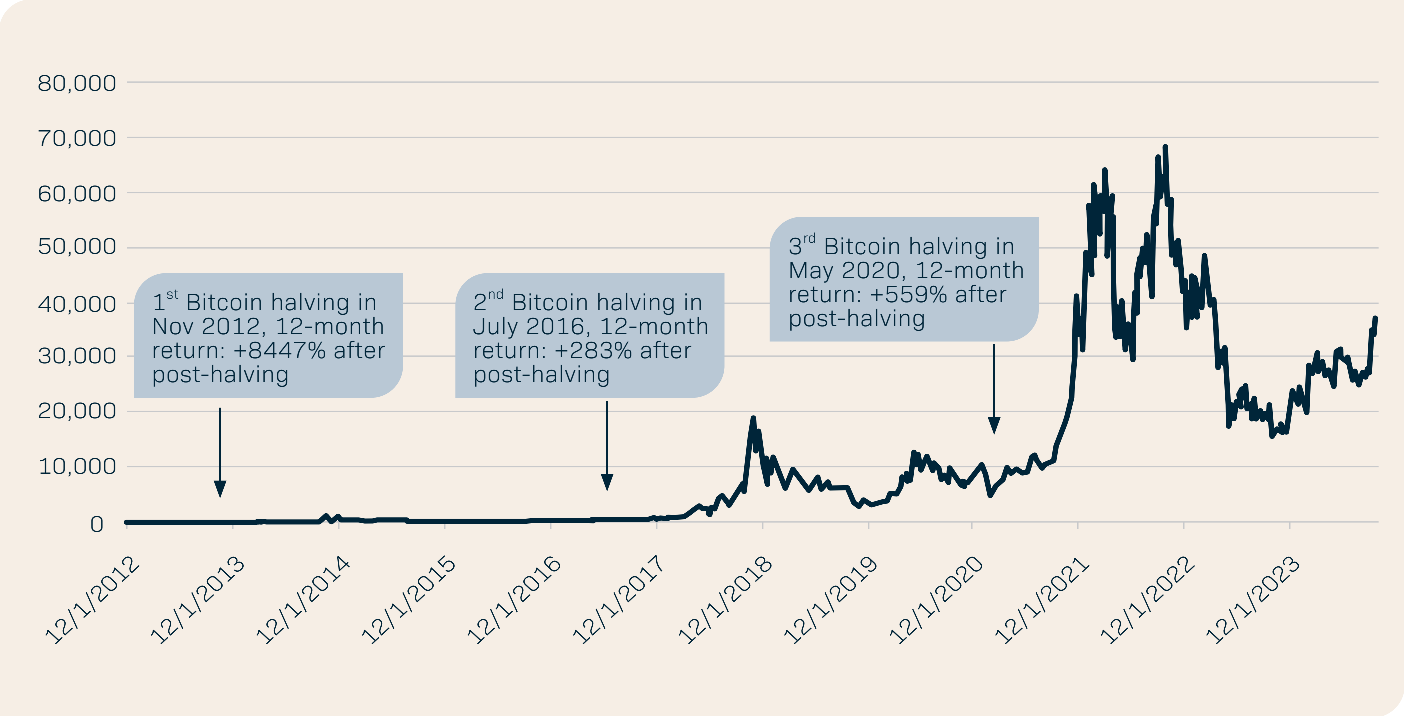
The potential approval of a US Bitcoin ETF has been a central point of interest in the crypto world, seen by many as a watershed moment. As of November 22, 2023, there was speculation around major asset management firms including BlackRock or Fidelity possibly securing Bitcoin ETF approvals soon. BlackRock, with its stellar track record of 575 approvals out of 576 ETF applications, translating to a success rate of over 99, is particularly noteworthy. Moreover, BlackRock's recent filing to list an Ethereum ETF on the Nasdaq marks a significant expansion in their crypto endeavors, highlighting the growing institutional interest in this domain.

Presently, US institutional investors predominantly engage with Bitcoin through derivatives and crypto exchange. The greenlighting of Bitcoin ETFs could further pique the interest of these investors, as ETFs typically align more closely with their compliance frameworks compared to derivatives. It is important to recognize that Bitcoin ETFs are not a novel concept globally; they have been available in several developed markets, with Canada having approved them for years and Europe introducing its first Bitcoin ETF in August.

Source: CoinMarketCap

CRYPTO 2024 OUTLOOK

BITCOIN HISTORICAL PRICE (USD)



The market is upbeat for the outlook of the crypto market, with significant anticipation building around the next Bitcoin "halving" event projected for April 2024. Historical trends have consistently shown substantial surges in Bitcoin's value following each halving. Notably, the previous two halvings in July 2016 and May 2020 illustrate this pattern vividly; investors who purchased Bitcoin at these halving points and held onto it for the following 12 months saw returns of approximately 283% and 559%, respectively. This past performance has been a strong motivator for investors, leading many to accumulate Bitcoin in anticipation of the upcoming 2024 halving. The combined effect of this halving event and the potential approval of Bitcoin ETFs is expected to further bolster Bitcoin's price rally.

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As we wrap up our review of the 2023 market, it is evident that the year presented a complex array of economic stories. The strong performance of the US stock market, the economic challenges in China and the dramatic rise of crypto each paint a unique picture of the financial world. As we look towards 2024, the lessons learned from these diverse financial experiences will undoubtedly shape future strategies and decisions. The anticipation around the Bitcoin halving event and evolving equity markets worldwide suggest an intriguing year ahead.

Source: CoinMarketCap, Bloomberg

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