Background

The Federal Open Market Committee (FOMC) held interest rates unchanged during their most recent meeting in November 2023, as well as the prior meeting in September 2023. The benchmark federal funds rate is still hovering at a 22 year high of between 5.25% and 5.50%. Housing affordability has become a widespread concern among American people who have been looking for a new home for rent or ownership over the year 2023. However, the Fed is yet to be convinced whether enough has been done to contain the inflationary pressures on the economy.

There is an ongoing concern that, supply shortages could exacerbate cost push inflation. In particular, the escalating conflict in the Middle East could have economic ramifications in the global economy including the US and further add to the lingering economic effects of the ongoing war in Ukraine. If the Middle East conflict turns into a full-blown regional war that could potentially lead to volatility in the oil price which could seep into US inflation and make the Fed's war on inflation even harder.

On a positive note, the Federal Reserve and Financial regulators have successfully dealt with the challenging credit conditions of the US regional banks which had all the hallmarks of disturbing financial stability back in the first quarter of 2023. As of now, most of the US financial institutions continue to maintain sufficient levels of liquidity and stable funding. However, a subset of smaller US banks continues to face funding pressures reflecting concerns with unsecured deposits and other factors.

In the meantime, the US economy has continued to be resilient growing at an annualized rate of 5.2% in the third quarter of 2023, while the unemployment rate in October 2023 has increased by ten basis points to 3.90% the highest level since January 2023 amid a drop in household employment. Nonfarm payrolls increased by 150,000 for the month, against the consensus forecast for a rise of 170,000. This was a sharp decline from the gain of 297,000 in September. Nevertheless, the labor market remains at full capacity, thereby leaving the Federal Reserve breathing room to keep borrowing costs at restrictive levels for an extended period.

Whilst the US GDP continues to be robust in the short term, the gross US public debt which is estimated to be in the order of $33 Trillion is deemed too high and is still growing. There is now growing concern that, without adequate fiscal measures such as the reduction in government spending or the proportionate increase in government tax revenues, the US debt problems could get quicky even worse. Recently Moody's investor service has lowered the US credit rating outlook from stable to negative. While there is zero default risk of US public debt, this downgrade would reduce the attractiveness of the US debt among foreign investors.

Nevertheless, the US capital market has performed remarkably well in recent months with the positive news of inflation falling throughout 2023.Furthermore, higher GDP growth and only a slight rise in the unemployment rate in the last two months October and November have been providing the required tailwinds to propel the market even higher. The market has also reacted positively to specific company news e.g., better than expected earnings and improved profitability from new technology innovations such as Artificial Intelligence (AI) and Cloud. Moving forward, whether the market could maintain ongoing upward momentum would depend on the swift containment of geo-political conflicts in Middle East and Ukraine as well as prompt resolution of the impasse in the congressional approval process of government spending and fiscal budget for 2024.

Notwithstanding, the US Federal Reserve will unlikely cut interest rates anytime soon, until there is a clear sign emerging of a possible economic slowdown and deteriorating credit conditions. This would mean highly leveraged businesses will pay more for servicing their debts and operate under stricter debt covenants, whilst banks will make higher provisions of loan losses or bad loans. Eventually, consumer and business spending will be affected from higher interest rates and unemployment will be expected to rise from the current level.

We also remain cautious about the inflation trajectory, because of rising public debt and the heighten geo-political risks, when the interest rates remain so high. There is a probability of higher cost push inflation from the supply shocks globally. If the high inflation gets entrenched and the Fed continues its contractionary monetary policy much longer than anticipated, this will lead to significant economic slowdown and job losses. The market is currently overvalued and ripe for a major pullback on the news of events such as debt crisis or any sign of further economic slowdown.

Macro Outlook

The US Federal Reserve has increased interest rates eleven times since March'22 and continues to shred its bond holding at an annual pace of roughly $1 trillion as part of quantitative tightening of the Fed's balance sheet roll-offs. The overall inflation has come down to 3.2%, but the Fed's preferred measure of price stability, which is the core inflation, is still at 4.00% as of October 2023.

Figure 1 shows how the annualized inflation trajectory has been falling rapidly from its peak of 6.3% to 4.00%.

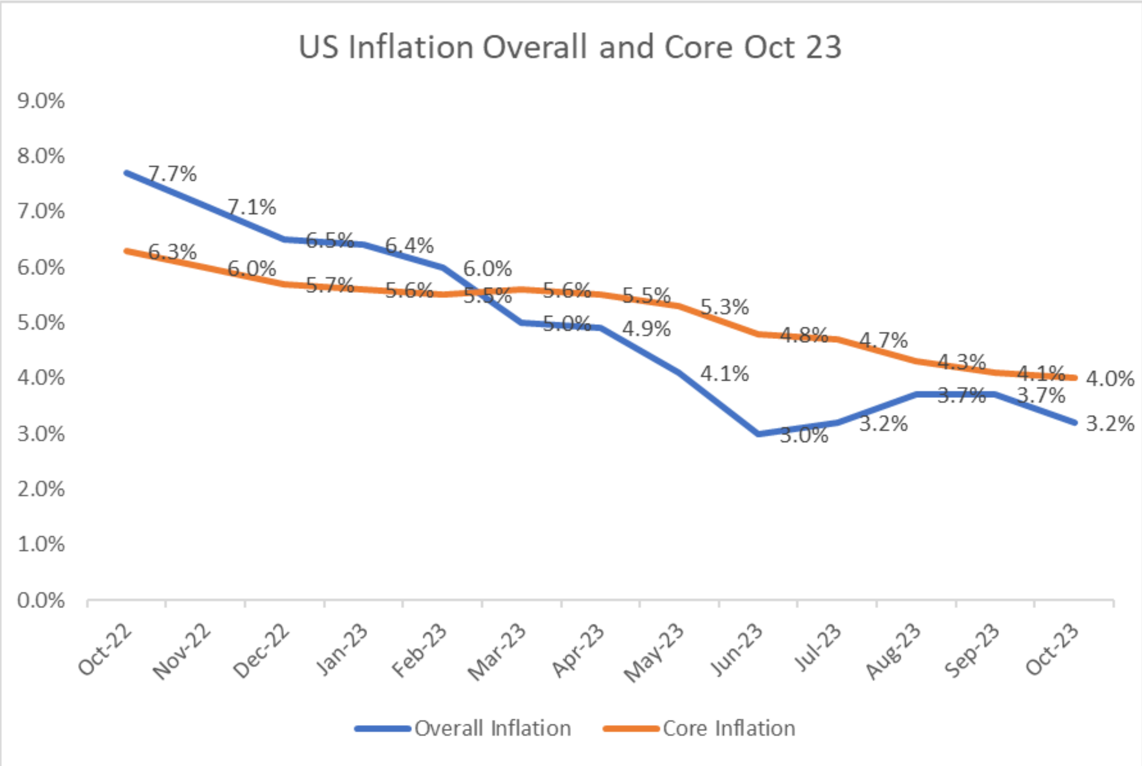

Figure 1: US Annualized Inflation Headline and Core October 2023

The 50 basis points drop in the annual headline inflation rate from the previous month is mainly attributed to the following:

- Energy costs dropped, with the national average for a gallon of gasoline declining by 5.3% from the previous month. The fall in utility (piped) gas service as well as a fall in fuel oil must be one of the key drivers of lower services inflation.
- Additionally, prices increased at a softer pace for food, shelter and new vehicles and there was continued reduction for used cars and trucks.

The annual core consumer price inflation rate in the United States, which excludes volatile items such as food and energy, edged down over a two-year low of 4% in October 2023, from 4.1% in the prior month. The shelter index, accounting for over

70% of the total increase in all items less food and energy, slowed down compared with the prior month. The indexes for recreation, personal care, and household furnishings and operations experienced smaller price increases.

Figure 2 shows the key components of the Services less energy inflation, which rose by 5.50% in October 2023 on an annual basis.

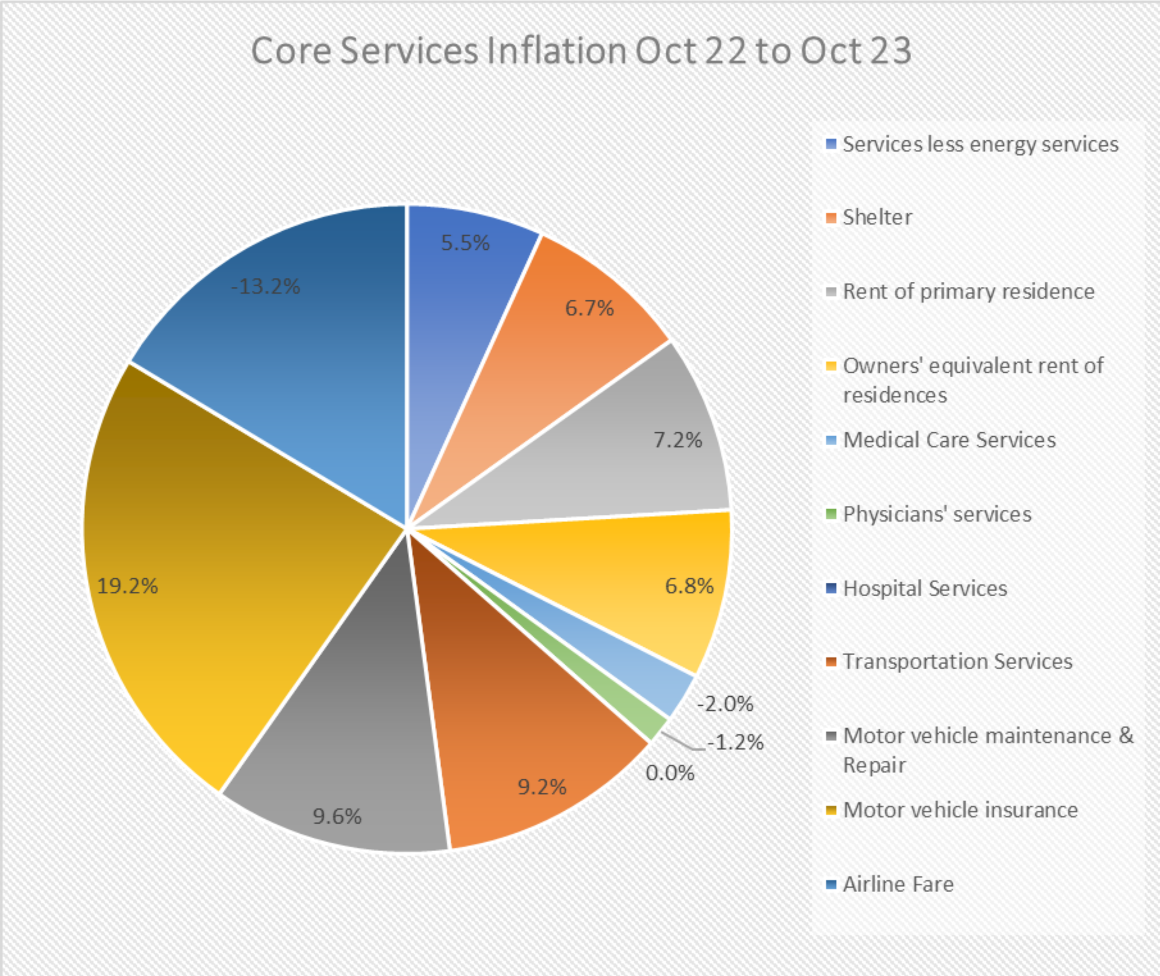

Figure 2: Core Services Less Energy Annual Inflation October 2023

One of the key items, the shelter index rose by 6.7 percent on an annual basis, accounting for over 70 percent of the total increase in all items less food and energy index. Housing affordability of Average Americans is still a source of significant concern. The "owners' equivalent rent" rose to 6.8% and is up 17% since the start of 2021. The price of a home and the mortgage rate could be significant impediments for new home ownership, which is confirmed recently by the University of Michigan survey. The net share of consumers telling the survey it is a good time to buy a home is the lowest since 1982. Since January 2021, home prices, despite a late 2022 dip, have risen 29%, according to the S&P/Case-Shiller national home price index, and mortgage rates have nearly tripled. This is a key reason the Average American people are lukewarm about the health of the economy moving forward.

Other indexes with notable increases on an annual basis include Motor Vehicle Insurance (+19.2%) and Motor Vehicle maintenance & Repair (9.6%).

Figure 3 shows the leading index of Consumer Inflation Expectations over a one year and five years period. According to the University of Michigan-survey's reading as of November 2023:

One-year expectations rose to: 4.5%

Five-year-expectations rose to: 3.2%

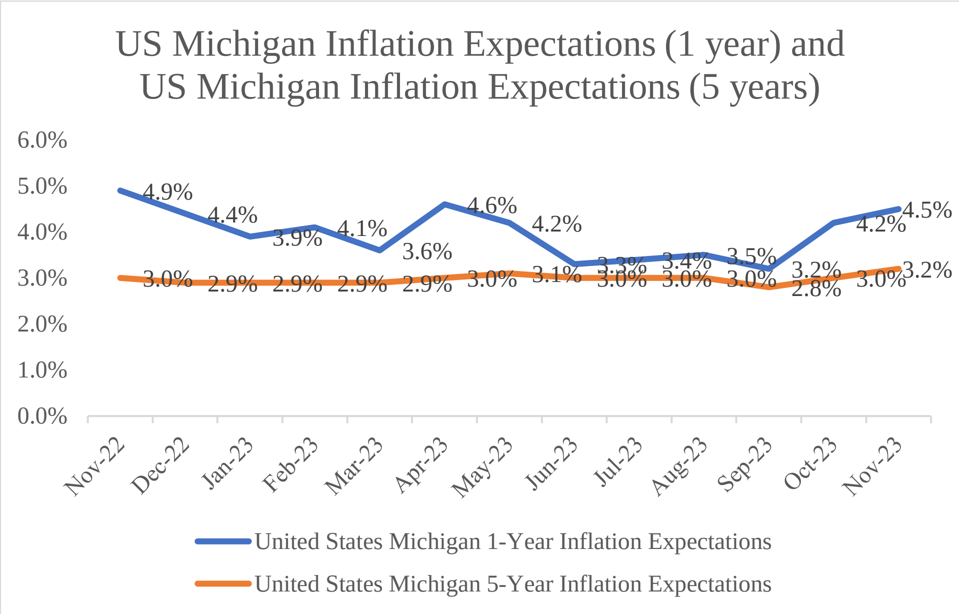

Figure 3: Consumer Inflation Expectations 1-Year and 5-Year

US Short term inflation expectations climbed to an eight-month high in November and one-year expectations remains at elevated levels not seen since 2011. American consumers are worried that, the softening of inflation in recent months could reverse in the months and years ahead.

Figure 4 shows the incremental change of the US Gross Domestic Product (GDP) each quarter from Q3 2021 to Q3 2023.

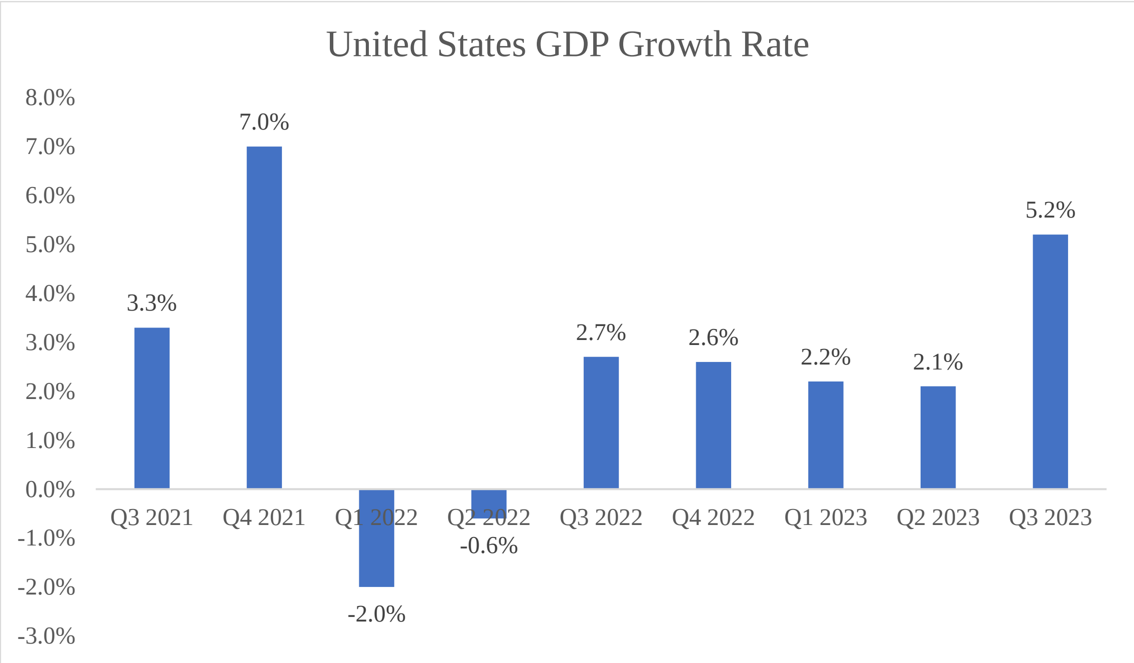

Figure 4: Real GDP % Change from Previous Quarter

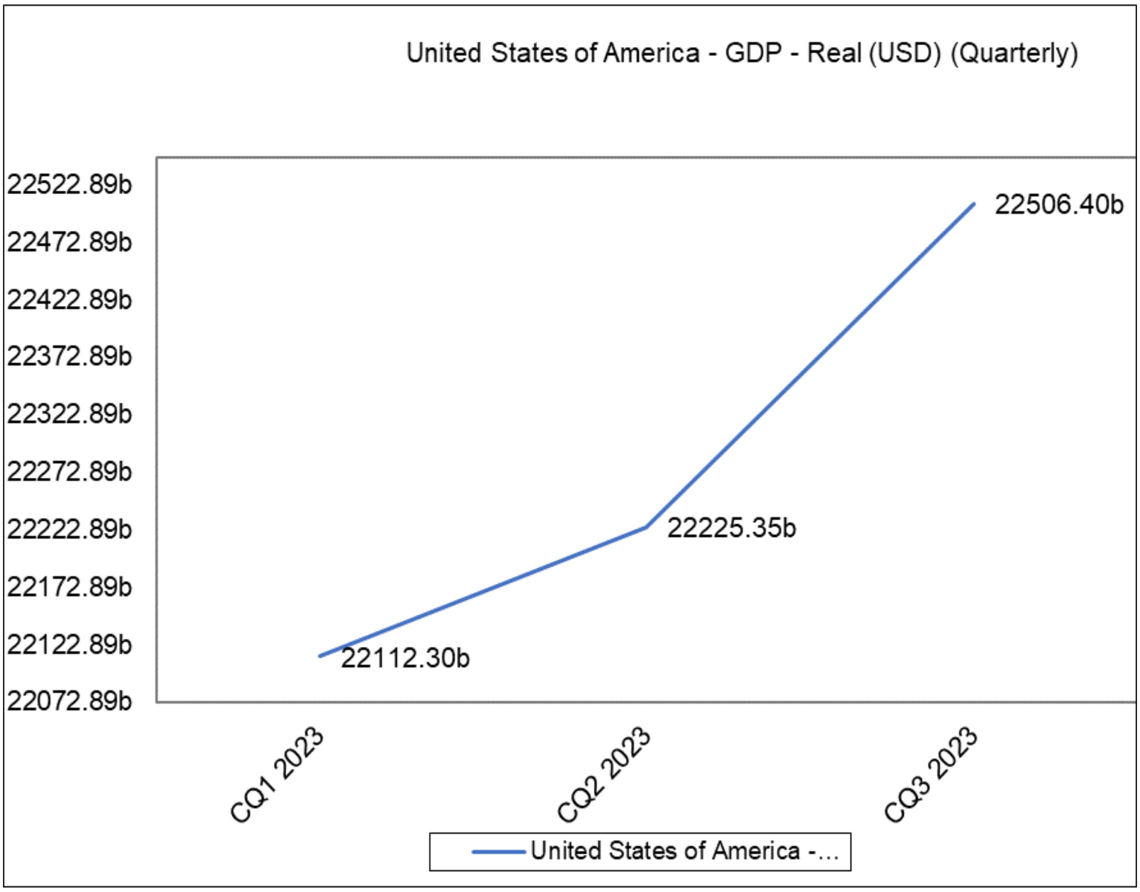

Figure 4A: Change in Real GDP Quarterly

The US Economy has been remarkably resilient amid the Federal Reserve hiking up interest rates to counteract inflation throughout 2022.

The US economy rose by 5.2% at an annualized pace in the third quarter of 2023.The US GDP growth for the third quarter was revised higher from 4.9% to 5.2%, above the consensus expectation of 5.0% and more than twice Q2's 2.1%. There was an upward revision in strong business investment and state/local government spending. The usually sound growth engine of consumer spending was revised down from 4.0% to 3.6%

However, according to Real GDP Forecast from S&P Global Intelligence, the US economy will shrink over the next five years due to factors such as decreasing global trade, high inflationary outlook, and consolidation of monetary and fiscal positions to reduce burgeoning US Government debt.

Figure 5 shows the Real GDP Forecast from S&P Global Intelligence using Forecast Source: U.S Bureau of Economic Analysis.

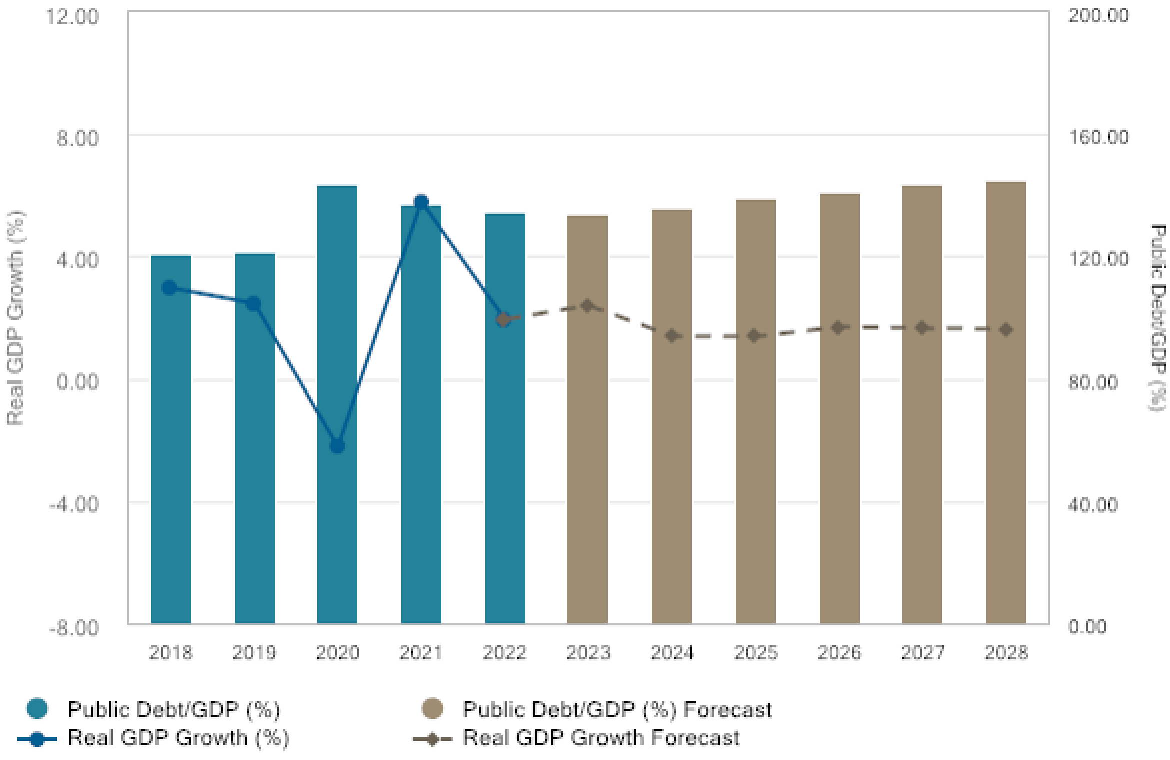

Figure 4: US Real GDP Forecast Source S&P Global 2023

US Real GDP Growth forecast is modest over the next five years (2023-2028) according to S&P Global. During the same period though, the Public Debt/GDP ratio will increase, which creates difficulties for the Fed in shrinking its balance sheet.

2023: Real GDP Growth Forecast: 2.40, Public Debt/GDP (%) Forecast: 134.13
2028: Real GDP Growth Forecast: 1.62, Public Debt/GDP (%) Forecast: 145.26

Figure 6 shows US Purchase Managers' index (Composite, Manufacturing and Services) trend over a two-years period from November 2021 to November 2023.

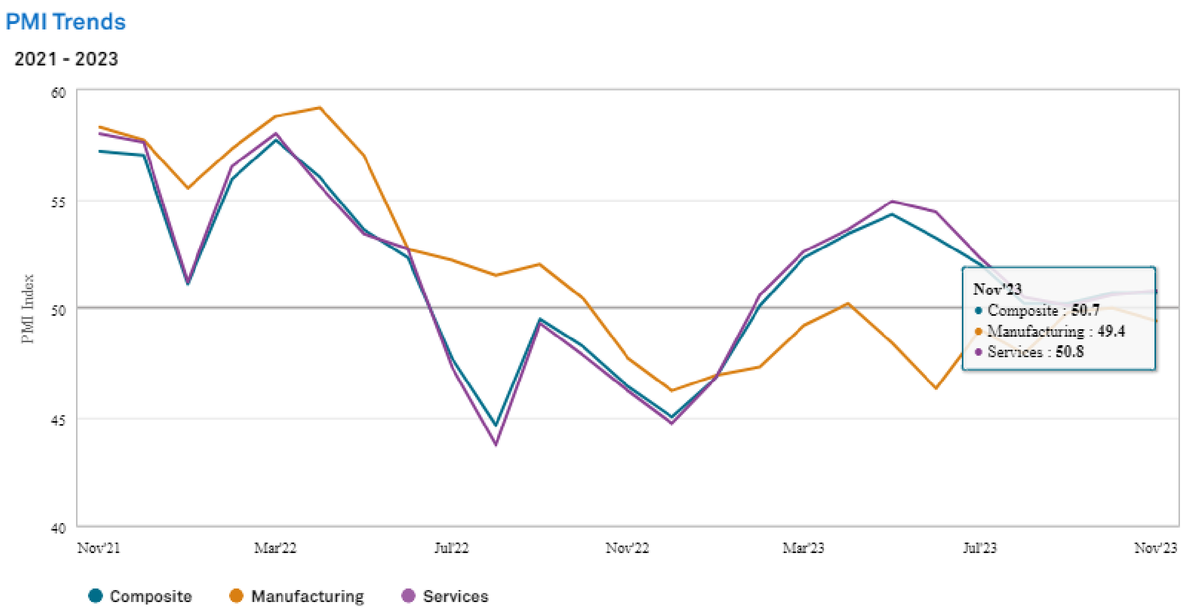

Figure 5: US Purchase Mangers' Index from October 2021 to November 2023

Purchasing Managers' Index								
COUNTRY	SCORE	OUTLOOK	Release Date	Period	Prior Score	Prior Release Date	Prior Period	
USA	50.7	Decrease	11/24/2023	Nov	50.7	11/3/2023	Oct	
INDEX BREAKDOWN	INDEX/TREND FROM PRIOR SCORE	RELEASE DATE	PRIOR INDEX	PRIOR RELEASE DATE	6-MONTH TREND			
Manufacturing	49.4 - Decrease	11/24/2023	50.0	11/1/2023				
Services	50.8 - Increase	11/24/2023	50.6	11/3/2023				
Index Ranges:	> 54.1	52.1-54	50.1-52	= 50	48.1-49.9	46.1-48	< 46.1	NA

Figure 6A: US PMI Release Date 24th November 2023

The S&P Global US Manufacturing PMI dropped to 49.4 in November 2023 from 50.00 in October. The November number is below the forecast of 49.8, which pointed to the rapid decline in operating conditions at manufacturing firms in three months and restarted the period of contraction seen for much of the past year. Businesses continued to run down their stocks of purchases and finished items amid improvements in supply chains, relatively subdued demand conditions and efforts to cut costs. Weak demand for inputs was reflected in a further contraction in purchasing activity and manufacturers continued to report an improvement in vendor performance.

The S&P Global Services PMI for the US came out as 50.8 in November 2023, which is the highest reading in four months and above market expectations of 50.4. The services PMI improvement is driven by companies reporting growth in customer bases following successful marketing campaigns. New Businesses have expanded for the first time in four years. Service Providers also reported noticeable increase in successful completion in pending business transactions from reduced pressure in operating costs and increase in operating sales price. However, expectations regarding services sector businesses over the coming 12 months dipped to their lowest since July as the businesses remain pessimistic by and large about tightening customer spending and lingering economic uncertainty.

The S&P Global US Composite PMI held steady at 50.7 in November 2023, unchanged from the previous month's three-month high, indicating a marginal further expansion in private sector activity. Although manufacturing firms reported a slower pace of expansion, service providers witnessed a fractional uptick in the rate of output growth, the fastest since July.

The S&P Global US Manufacturing PMI and the US S&P Global Services PMI highlighted divergent readings when it comes to the state of the US Economy. The US Manufacturing PMI indicates a reduction in the pace of expansion for manufacturing firms while the US Services PMI demonstrates buoyancy for services sector businesses. Nevertheless, headwinds remain for manufacturing firms and services sector businesses such as higher inflation which can result in interest rates being higher for longer and this can seep into the performance of manufacturing firms and services sector businesses. It must be noted that future data in the short to medium term of the US Manufacturing PMI and US services PMI is critical in diagnosing if there is a clear downward trend regarding the health of the US Economy.

Figure 7 shows the incremental monthly change in nonfarm payrolls by industry sector from the previous month.

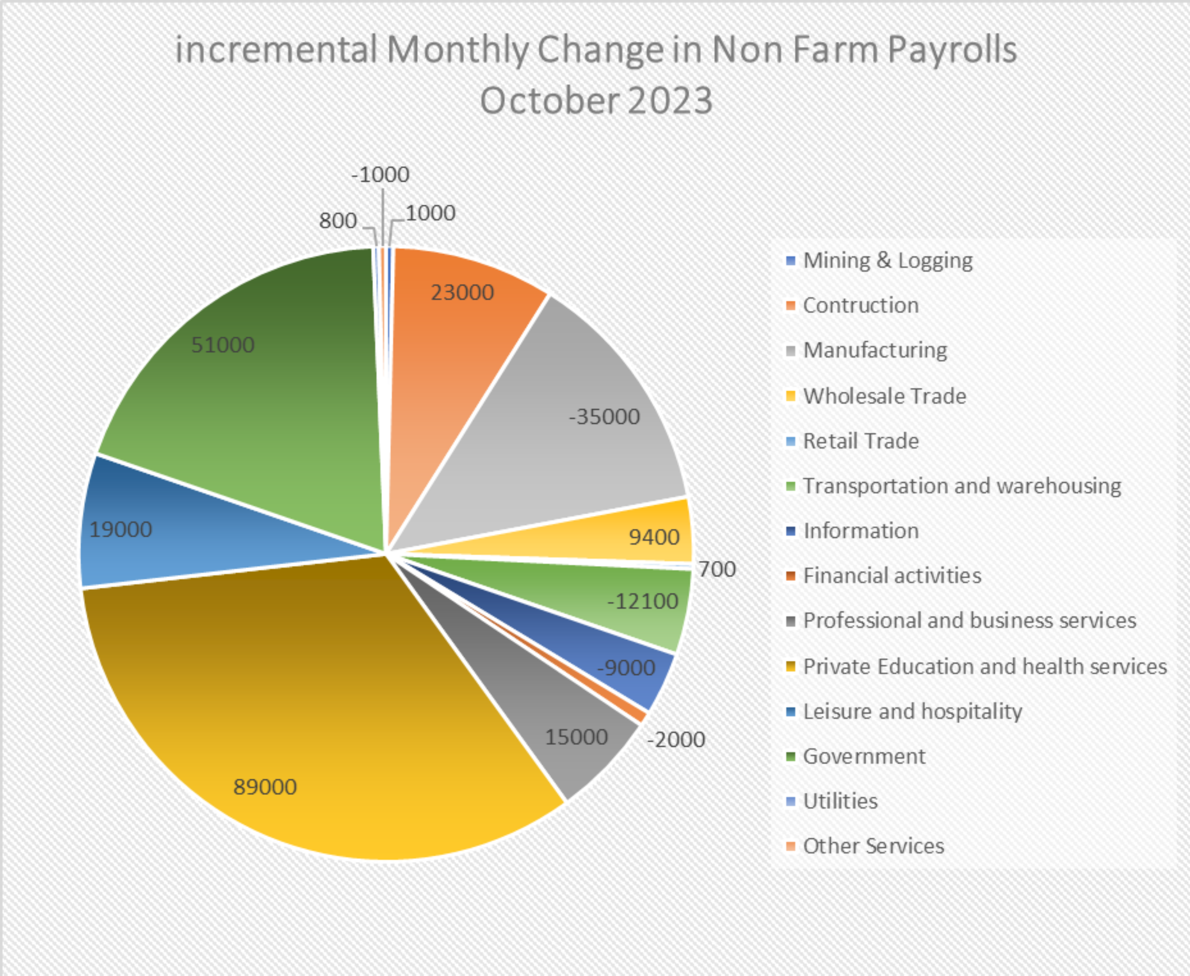

Figure 7: Incremental Monthly Change in Nonfarm payroll by industry sector from Sept'23 to Oct'23

The US economy created 150000 jobs in October 2023, which was approximately half of a downwardly revised 297000 jobs in September. Notable job gains occurred in mining and logging, construction, wholesale trade, private education and health services, leisure and hospitality and government.

Also, Payrolls in October were lower than the average monthly gain of 258000 jobs over the previous 12 months but are higher than the 700000-100000 jobs range required each month to maintain the growth in the working-age population.

Figure 8 shows the US Monthly Unemployment Rate between October'22 to Oct'23. The monthly jobless rate increased by 0.1% to 3.9% in October compared with the previous month.

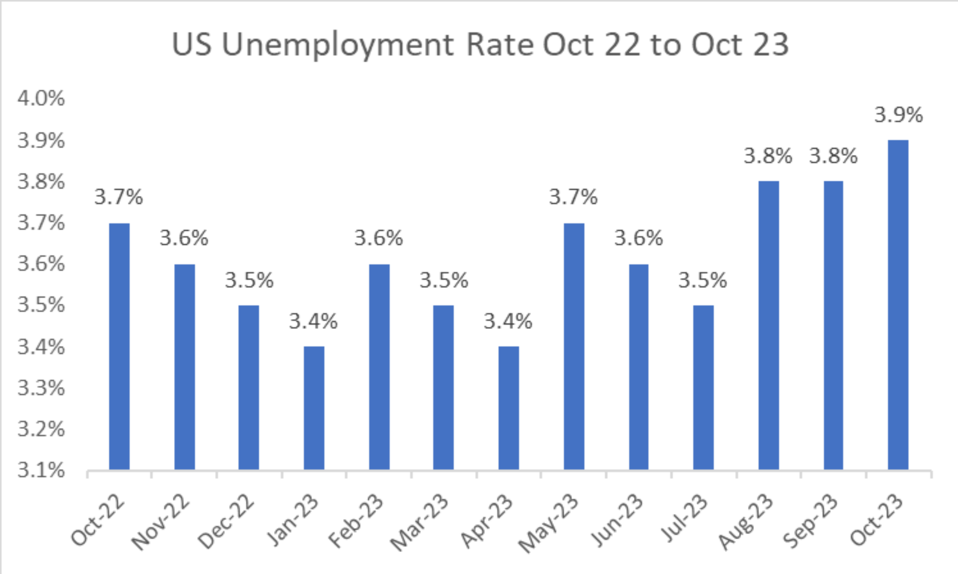

Figure 8: US Unemployment Rate Monthly Oct'22-Oct'23

The US unemployment monthly rate nudged up slightly to 3.9% in October 2023, which was marginally above the previous month's figure of 3.8%. This current figure is the highest jobless rate since January 2022, with the number of unemployed individuals increasing by 146000 to 6.51 million, while the number of employed individuals fell by 348000 to 161.2 million.

The slight tick up in the US unemployment for October 2023 can be attributed partially to the strikes by the United Auto Workers (UAW) union against Ford Motor Company, General Motors and Stellantis Inc. Other conditions, which might be the indication of an easing in labour market conditions include but are not limited:

- Depressed manufacturing payrolls
- the increase in annual wages was the smallest in nearly 2-1/2 years.

However, the US Labor Market remains resilient. So far, there are no alarm bells ringing when it comes to the Fed's decision to raise interest rates in quick succession until first half of 2023, as the low level of unemployment has been maintained in the US Economy. Thus, there is a possibility for a soft landing in which US Economic growth remains above trend, while US inflation drops down to 2-3% target range without a substantial spike in the unemployment rate. This would be the best scenario for the Federal Reserve.

Figure 9 shows the US monthly labor force participation rate between Jul'22 to Oct'23.

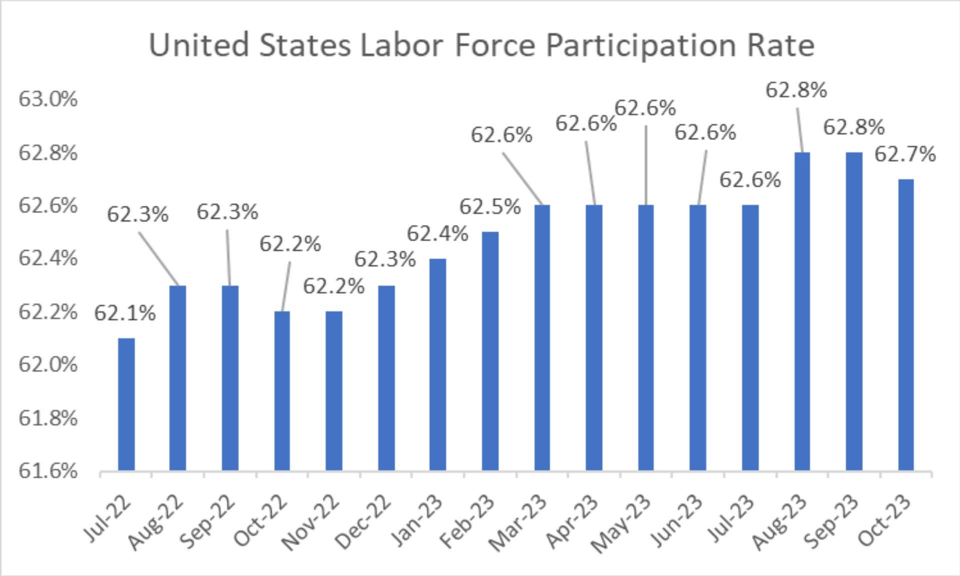

Figure 9: US Labor Force Participation Rate (Jul'22-Oct'23)

The labor force participation rate in the United States declined to 62.7 percent in October 2023 from 62.8 percent in September 2023.The relatively high participation rate in the United States demonstrates the fact that the Labor Market remains tight and the demand for labor outweighs supply. The higher participation rate is taking some pressure off wages growth, which is good news if the trend continues in the coming months.

Figure 10 shows the US Treasury constant maturity Interest rate profile or yield curve trajectory for three different periods:

1) as of now 26th November 2023,

2) at the end of June Quarter 30th June 2023

3) Exactly one year ago 26th November 2022.

With the rates of short-term maturities being much higher than those of longer-term maturities, the US government debt yield curve remains inverted for most of the past six months, but the most recent US Treasury constant maturity Interest rate profile or yield curve continues to show steepening at the long end of the curve, which might indicate the high rates to prevail for longer period than anticipated and possibly a soft-landing scenario.

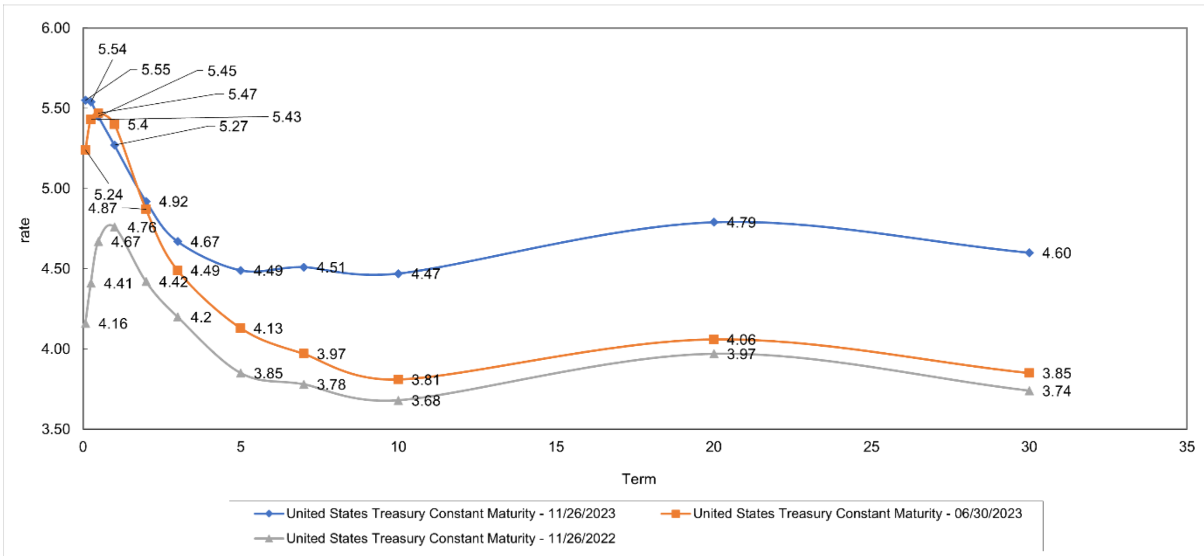

Figure 10: US Government Debt Yield Curve as of 27th November 2023, Six Months Ago and One Year Ago.

During this period, the yield curve has moved from inversion to steepening at the long end of the curve. As expected, there has been growing demand for predictable short-term bonds or treasury notes primarily from the yield hungry US domestic investors. But for the long end e.g. 10 year and 20-year bonds, bond term premiums are on the rise. This may not be just due to investors' anticipation of further tightening of the monetary policy settings. Instead, investors have been increasingly asking for added compensation for the unknown association with holding long term bonds. Geo-political conflicts, more than $3.6 trillion public debt and recent Moody's downgrade will all add up to further tailwinds to the bond premium. A New York Fed Model shows the term premium for the benchmark 10-year treasury note which has climbed by more than a percentage point since the start of the third quarter. Hence, the increase in bond term premium might negate the need for the Fed to over-tighten the monetary policy and thereby avoid causing recession. So, bond premium rise for the long-term rates might just complement the Fed's own rate hikes to date.

Market Outlook

The US Stock Market continues to outperform in the second half of 2023, as the Fed's contractionary monetary policies are having a desired effect on cooling off both headline and core inflation. With the possibility of averting recession, the investor sentiments have improved considerably and as a result, the S&P 500 index has risen above 4500 points and is most likely to post a new 52 week high as we approach the festive season in December. In the meantime, the concern about financial stability has receded because of prompt intervention from the Fed and Financial regulators and there is no sign of the bank crisis looming on the horizon.

From a sector perspective, the disruptive technology innovation in Artificial Intelligence software and hardware, Cyber Security, Cloud Computing and Clean Energy have driven a phenomenal outperformance in the Magnificent Seven technology stocks.

Figure 11 shows the US Mega Cap Technology Stock 12-months performance as of 28th July 2023.

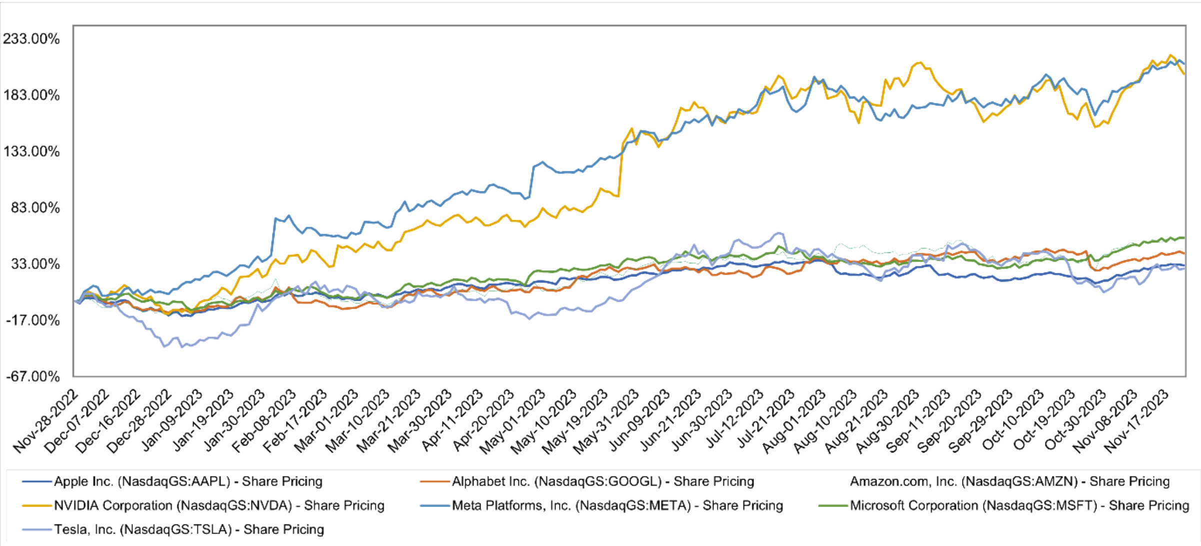

Figure 11: US Mega Cap Technology Stock 12 Months Performance as of 24th November 2023

Table 1 shows in percentage terms the 12-month share price performance of Magnificent seven technology stocks.

Table 1: US Mega Technology Stock Price Performance (12 months) as of 29th November 2023

US Mega Cap Technology Stock	12 month Share Price (%)	PE NTM (Forward PE)	PE LTM (P/Diluted EPS before Extra)
Apple Inc.	27.93%	28.88x	30.89x
Alphabet Inc.	33.67%	20.97x	25.91x
Amazon.com, Inc.	51.56%	44.40x	76.22x
NVIDIA Corporation	184.46%	63.42x	24.73x
Meta Platforms, Inc.	181.29%	19.58x	29.38x
Microsoft Corporation	48.49%	36.71x	33.75x
Tesla, Inc.	25.39%	68.06x	78.76x

The “Magnificent Seven” Tech Stocks make up 29% percent of S&P 500 Market Capitalization. Till the month of October 2023, the S&P 500 outperformance is largely driven by the spectacular share price appreciation of these stocks. Retail investors continue to pay price premium for some of these stocks because these companies have posted earnings better than expected. For instance, NVIDIA Corporation, Meta Inc and Microsoft Corporation will fall into this category. In like vein, for some of the other stocks, buyers are paying more for the same or lower earnings – known as multiple expansion for instance Apple Inc, Tesla Inc and Alphabet Inc. Basically, everything is going up irrespective of the earnings - recent or forward looking and that makes this rally unsustainable. Eventually, PE multiples will trigger a major technical correction of some these stocks, when glaring earning misses are evident in the upcoming quarters.

It is indeed now more imperative to focus on the intrinsic valuation of some of the “Magnificent seven” stock to lock in capital gain, before any market correction at a technical level.

Figure 12 shows the S&P 500 Index outperformance over the twelve months as of 24th November 2023.

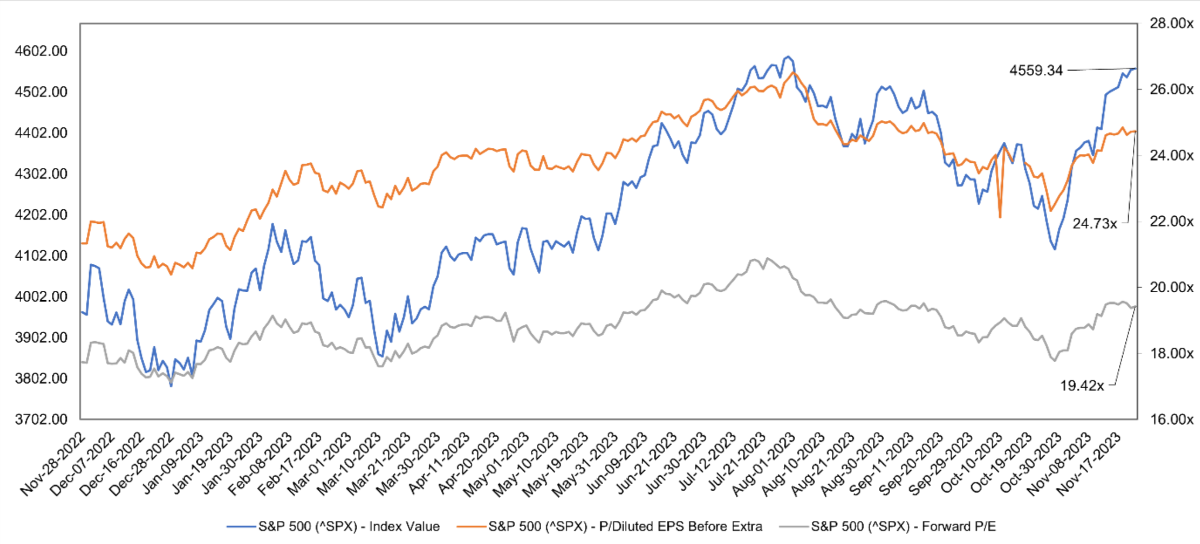

Figure 12: S&P 500 Index 12-months Performance as of 24th November 2023

As was shown in Figure 12, the S&P 500 index closed at 4559 points on 24th November 2023 with all sectors closing the week in the green. The index is trading at 24.71 times over the Last Twelve Months (LTM) and 19.42 times over the Next Twelve Months (NTM) period respectively. The index at this level will be expected to reach a high level of resistance until such a time, the outlook for the future earnings improves considerably. Eventually, the buyers will be reluctant to pay more and more for the same earnings and moving forward, the market is getting ripe for a correction or sharp pullback.

Nevertheless, as of 24th November 2023, the close of the market meant that 228 stocks are in a technical bear market or 45% of the stocks and this is a huge improvement compared to 382 stocks or 76% in a bear market four weeks ago.

Figure 13 shows the 30-days share price performance of the S&P 500 Index for large market capitalization stocks and the Russell 2000 index for the 2000 stocks by the smallest market capitalization. Throughout the month of November, the market rally has been broadening, as more and more buyers flock into the market from the sideline. As of 30th November 2023, the Russell 2000 index posted a 9.50% gain over the 30-days period, which is a remarkable turnaround when the broader index is down by 5.22% over the 90- days period. The recent market rally implies that the narratives of soft landing have been gaining strong traction in the capital market. Notwithstanding the fact that the market is overvalued, there is still room for the stocks to go up further in the near term by riding on positive investor sentiments before an eventual correction in the new year.

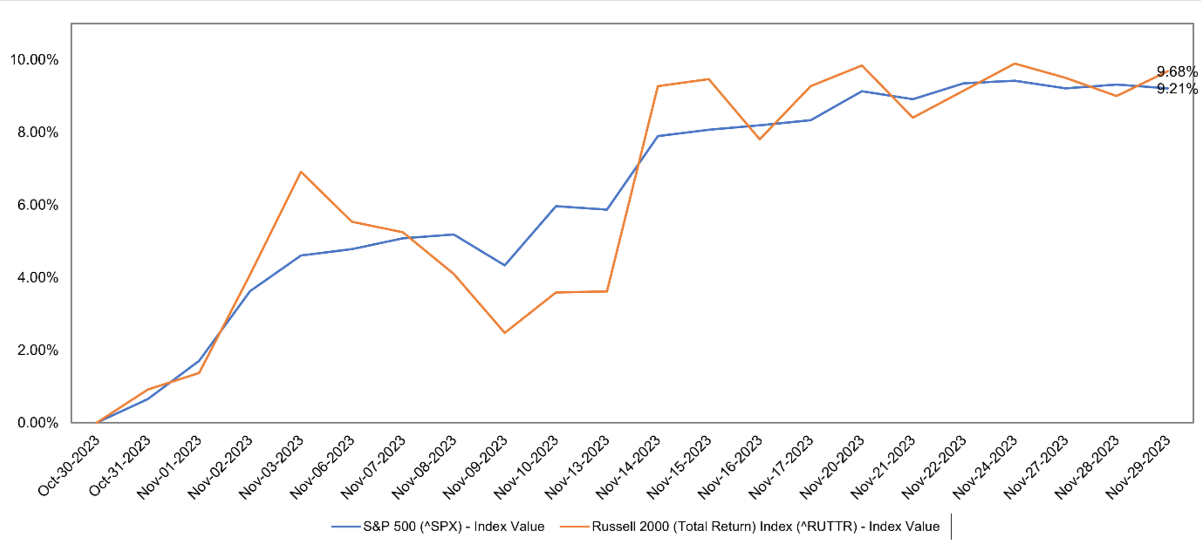

Figure 13: S&P 500 and Russell 2000 Index Performance over 30-days period as of 30th November 2023

Summary

While there is some evidence of a troubling undercurrent in the US Economy such as rising fuel prices and a clogged housing market which could present problems ahead, nevertheless the US Economy has proven to be resilient even with the Federal Reserve applying the brakes via a tighter monetary policy to reduce inflation. The US economy rose by 5.2% at an annualized pace in the third quarter of 2023, whilst both headline and core inflation are heading towards the right direction - Fed's price stability target. However, one year consumer inflation expectations on the US economy are still above 2-3% target according to The University of Michigan Survey, which could mean that, US consumers still expect goods and services pricing to remain at an elevated level in the foreseeable future. This subdued confidence on the economy might have some potential bearings on consumer spending and therefore GDP in 2024 and beyond.

Another point of contention is thirty-four trillion-dollar US government debt and rising bond yields both in short and long ends, which have resulted in a recent credit downgrade by Moody's rating agency. Although, there is zero chance of US credit default, this kind of credit downgrade would add further tailwind to the US bond yields thereby servicing debts become more expensive. Eventually, the government of the day will have to embark on a gradual process of deleveraging the public debt that could trigger a major capital market correction in due course.

Furthermore, the geo-political risks are rising in Middle East and in parts of Asia, which could also disrupt the global supply chain causing cost push inflation to spiral out of control.

In essence, the market remains way overvalued from the recent broad-based sector rally, when high cap and small cap stocks rose with the anticipation of a soft landing of the US economy. Investors are indeed of the opinion that, the Fed has completed all necessary rate hikes and given that the inflation is on the way down, the Fed will cut rates to stimulate the economy sometime in the second half of 2024. However, contrary to investor optimism there are still risks that the core inflation might remain sticky and credit conditions deteriorate further with the Fed continuing to maintain higher rates for much longer than needed.

Moving forward, we consider the market outlook to remain uncertain, until such a time, there is enduring evidence of the Fed moving well within its inflation target and the outlook for the company earnings has significantly improved in the upcoming quarters. Nevertheless, any major market correction on a technical basis will open opportunities to buy companies with strong operating cash flows at a reasonable price. Long term investors will benefit from investing in the market at a right valuation level.

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