APAC Wealth Outlook Playbook

Q2 2024

INVESTMENT PRODUCTS: · NOT GOVERNMENT INSURED · NO BANK GUARANTEE · MAY LOSE VALUE

Table of contents

2024 CIO Views	Page 3
The Story So Far: 2024	Page 4
Global Investment Committee Tactical Asset Allocation	Page 5
Q2 APAC Investment Focus Themes	Pages 6-8
Implementing our Investment Focus Themes	Page 9

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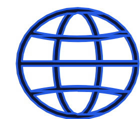
FOCUS ON CORE PORTFOLIOS



Build Core Portfolios

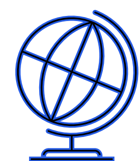
After euphoric pandemic stimulus in 2020-21 and dramatic tightening in 2022-23, economies and markets are likely to normalize in 2024-25.

This is likely to bring more moderate growth, inflation, and interest rates, which would support a broader set of assets and core balanced portfolios.

High Quality Global Fixed Income

Peak interest rate equals peak earnings. As inflation falls and real interest rates remain high, the Fed turns from hawk to dove, likely making it suitable to invest in bonds.

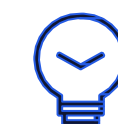
We favor intermediate US Treasury and Investment Grade Credit, US IG preferred securities, as well as structured credit.



Broader Equity Returns

Rising earnings and cooling inflation are likely to broaden global equity returns. We believe healthcare is undervalued and prefer profitable small and mid-cap growth companies.

Japanese equities have rallied on strong earnings, structural reforms, and investor inflows as China remains challenged.



Unstoppable Trends and Economic Security

Digitization: AI, semiconductor supply chain
Longevity: Medical innovation, devices & tools, biotech
G2 polarization: Beneficiaries of supply chain diversification
Greening the world: Energy security, green innovation

Source: 2024 Wealth Outlook. All forecasts are expressions of opinion, are subject to change without notice, and do not constitute a guarantee of future events.

The Story So Far: 2024

INDEX	FY2022	FY2023	YTD	JAN	FEB	MAR
Global Equities	-15.6%	23.7%	10.2%	1.8%	4.6%	3.4%
US	-18.1%	26.3%	10.6%	1.7%	5.3%	3.2%
Europe	-10.1%	16.5%	7.8%	1.5%	2.0%	4.2%
Asia ex Japan	-15.1%	6.8%	4.2%	-4.4%	5.9%	2.9%
Japan	-7.3%	31.0%	21.5%	8.4%	8.0%	3.8%
Emerging Markets	-15.2%	10.3%	4.3%	-3.5%	5.1%	2.8%
China A – SH & SZ	-19.8%	-9.1%	3.1%	-6.3%	9.4%	0.6%
MSCI China	-20.6%	-10.6%	-1.8%	-10.4%	8.6%	1.0%
Global IG Bonds	-17.1%	6.4%	-1.9%	-1.2%	-1.4%	0.7%
Global HY Bonds	-11.0%	13.5%	1.5%	0.1%	0.3%	1.1%
Global EM Sovereigns	-18.2%	12.0%	1.9%	-1.3%	0.8%	2.4%
Gold	-8.8%	4.0%	-1.0%	-9.7%	-7.2%	20.5%
Oil (Brent)	10.5%	-10.3%	13.6%	6.1%	2.3%	4.6%
Dollar Index	7.9%	-2.1%	3.2%	1.9%	0.9%	0.4%
EURUSD	-6.2%	3.5%	-2.2%	-1.7%	-0.4%	-0.2%
GBPUSD	-11.2%	6.0%	-0.9%	-0.1%	-0.7%	-0.1%
AUDUSD	-6.7%	0.6%	-4.4%	-3.1%	-1.5%	0.2%
NZDUSD	-7.6%	0.1%	-5.5%	-2.8%	-1.0%	-1.8%

Source: FactSet as of 29 March 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

GLOBAL MARKETS

Global equity markets, as reflected by the MSCI World Index, are up around 10% year-to-date. Citi believes the Fed will begin its easing cycle by mid-2024, as labor markets soften in the US. We believe the US and world economy are likely to avoid a bust/boom cycle as different industries contract and expand at different times, generating below-trend growth. Citi's Chief Investment Office recently raised its US GDP forecast from 1.6% to 2.0% for 2024, but slightly cut the forecast for 2025. US inflation too, should moderate to 2.5% in 2024 (2023: 3.7%) .The global growth forecast was revised up slightly to +2.3% .

The Citi View:

- Moderate but broader earnings growth
- Opportunities to rebuild core portfolios
- Broaden equities exposure for those already in invested in the core/large cap tech

APAC

The MSCI Asia ex-Japan index is up around 4% YTD while Japan itself is up around 20% YTD. Measures in China has been announced, and while we suspect that a rally is due, its longevity would depend on whether it can improve corporate governance and demand.

The Citi View:

- Citi maintains a mild Overweight on EM Asia ex China, with our preferred play via thematics
- We remain in a wait-and-see mode on China while we maintain mild overweights on India and Japan

EQUITIES

Citi sees a broadening out of the equities play to include US SMIDs and other thematic plays. These include cybersecurity, semiconductor manufacturers, healthcare, Japan equities, among others. Our S&P 500 EPS forecast for 2024 is +8%, indicative of the resilience of US markets and earnings growth.

The Citi View:

- We are overweight US equities, and have thematic overweights in Healthcare, US SMIDs, energy and economic security opportunities.

FIXED INCOME

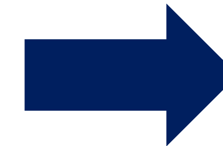
US 10-year Treasury yields should decline to between 3.8-4% by end 2024, according to our CIO. Over the next 12 months, the Fed Funds rate is expected to fall to about 4.0%. This is still double the Fed's projection for its "long-term normal" rate of 2.0%.

The Citi View:

- Consider Investment Grade Fixed Income over cash
- Prefer a duration in the belly of the curve for income and to contain volatility

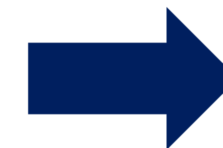
Global Investment Committee Tactical Asset Allocation

DECEMBER 2023 LARGEST OVERWEIGHTS	
Equal-weighted S&P 500	+2.5%
S&P 400 and 600 Growth Indices	+2.5%
Cybersecurity (US Large Cap)	+1.0%
India, South Korea, Taiwan	+0.5%
Total Equities	**+2.0%**
All Short-, Intermediate-term US IG bonds (US Treasuries)	+6.7% (+4.5%)
Investment Grade Preferred Stock	+2.0%
Total Fixed Income	**-1.0%**



FEBRUARY 2024 LARGEST OVERWEIGHTS	
Equal-weighted S&P 500	+2.5%
S&P 400 and 600 Growth Indices	+2.5%
Healthcare Equipment and Supplies	+2.0%
India, South Korea, Taiwan	+0.5%
Total Equities	**+2.0%**
All Short-, Intermediate-term US IG bonds (US Treasuries)	+5.7% (+3.7%)
Investment Grade Preferred Stock	+2.0%
Securitized (Govt Agency/MBS/ABS/CMBS)	+0.5%
Total Fixed Income	**-1.0%**

DECEMBER 2023 LARGEST UNDERWEIGHTS	
Non-US DM SMID	-2.6%
European, Japanese IG Bonds	-10.4%
Cash	-1.0%
Total Fixed Income and Cash	**-2.0%**



FEBRUARY 2024 LARGEST UNDERWEIGHTS	
Non-US DM SMID	-2.6%
UK Large Cap	-0.5%
Asia Ex Japan Large Cap	-0.5%
European, Japan Bonds	-10.0%
Cash	-1.0%
Total Fixed Income and Cash	-2.0%

Source: Global Investment Committee as of Feb 28, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

2Q24 APAC Investment Themes

Yield and Earnings

Broadening our view on equities and fixed income

Healthcare

From 2023's laggard to 2024's leader

FX: The Carry Trade

AUD, SGD, NZD

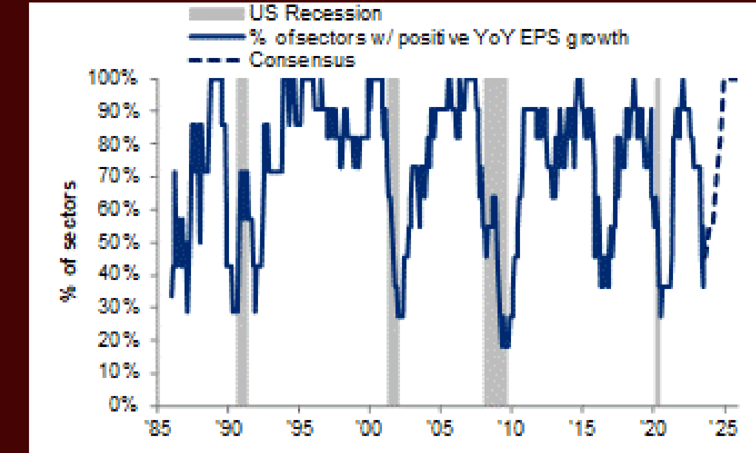
2Q24 | Yield and Earnings

Three Keys as to Where Equities and Fixed Income Might be Heading This Year

1 Earnings Recovery and Broadening

In 2Q 2023 profits fell 6% year-on-year. We expect a recovery in 2024, but one with tempered growth and a broadening out. It is likely that the U.S. and the world economy will avoid a boom and bust cycle as different industries expand and contract at different times. It will not be a +25% year, but one with width. These will include segments of the economy like manufacturing, trade, and health care who saw their businesses in contraction for much of the past year.

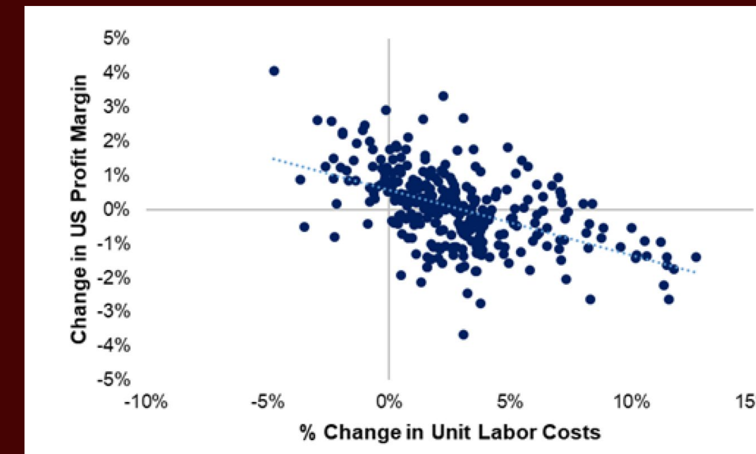
Most Sectors Should Deliver Positive EPS Growth Next Year[1]



2 Lower Inflation to Support Profit Margins

As we look to 2024, while we don't expect a return to the post-GFC deflationary environment, we see a weaker labor market as likely to put downward pressure on wage growth. Indeed, there's a clear negative relationship between unit labor costs and profit margins. Recent deceleration in unit labor costs, if persistent, are indeed consistent with modest margin expansion. As noted in previous publications, markets are benefitting from a higher growth/lower inflation combination.

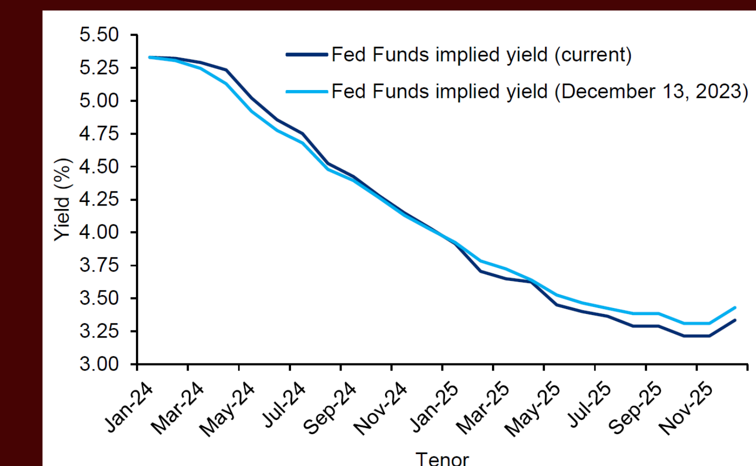
Profit Margins tend to Expand when Wage Costs Moderate[2]



3 Expectations on Rates Falling Helps Both Assets

While not a necessary precondition for our market broadening view, modest Fed easing could be icing on the cake for the 2024 equities catch-up trade. Over in the fixed income space, lower interest rates help bonds with a higher rate than the interest rate to appreciate in price. Current bond yields might be at their peak given the expectation that the US Treasury yield could end at around 3.8-4% by end-2024. This may be a time to consider Investment Grade corporates and Treasuries.

Fed Funds Futures Implied Rate Levels[3]



Sources: [1&2]Bloomberg and Haver as of November 16, 2023. [3]Bloomberg as January 31, 2024. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary. All forecasts are expressions of opinion, are subject to change without notice, and are not intended to be a guarantee of future events.

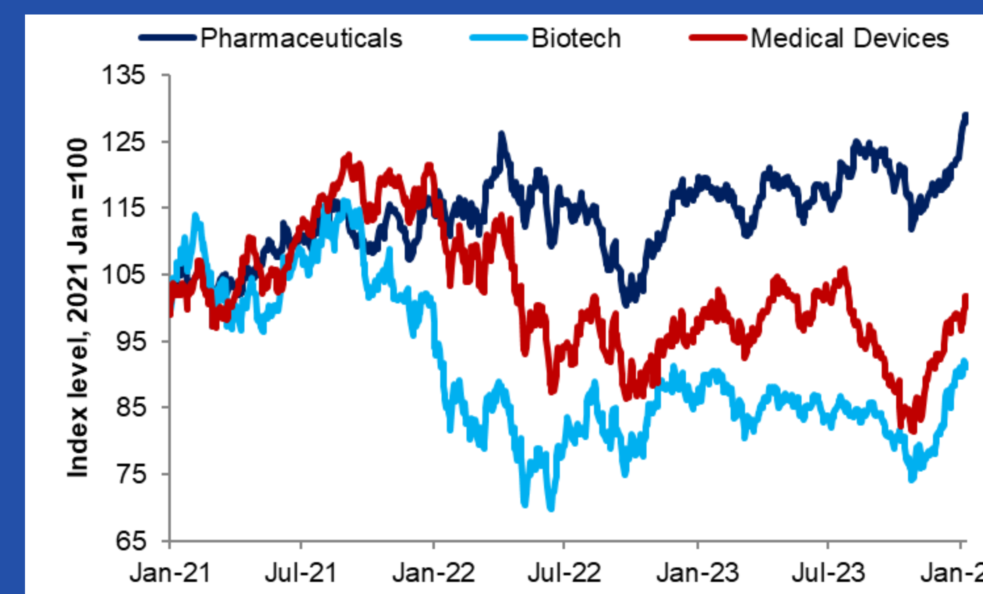
Healthcare quickly turned from 2023's laggard to 2024's leader. From life sciences tools to biotech, the industry remains largely undervalued.

1

Healthcare Remains Undervalued

With last year's gains in equities led by a very small number of large cap technology-related shares and a narrow breadth of performance in sectors such as healthcare, we see strong valuation opportunities remaining with healthcare being one of them. Within the healthcare space itself, medical devices and biotech, lagged pharmaceuticals and look poised for a run in 2024. In our view, cash-rich, cheaply-valued companies that facilitate drug research and development, save costs and improve patient outcomes look like a potentially safer way to play the Healthcare sector's convalescence.

Medical Tech & Devices, Biotech Remain "On Sale as reflected by the S&P 500



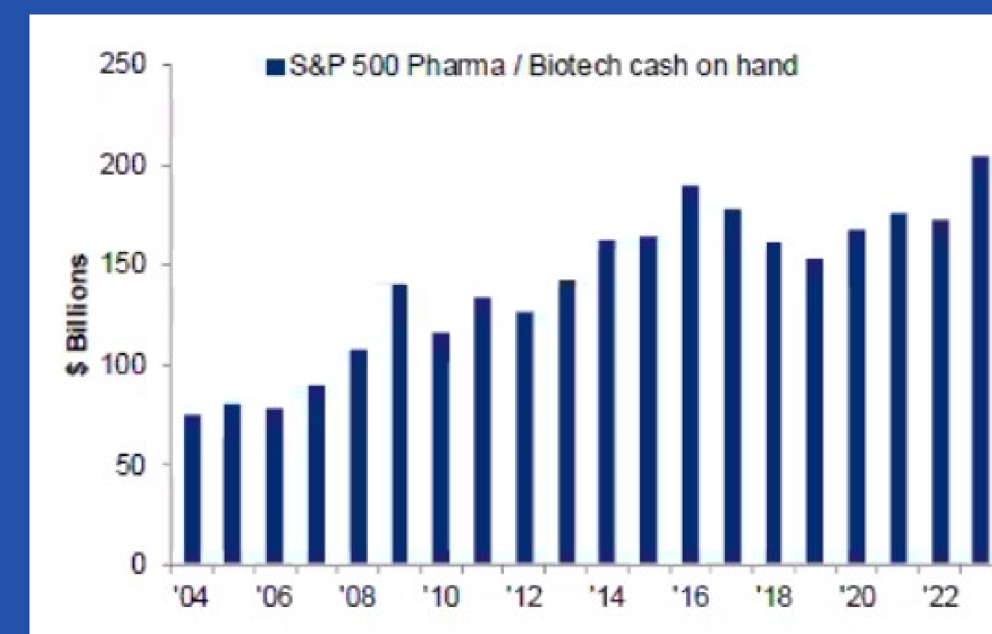
Source: Bloomberg, January 11, 2024.

2

Earnings, M&As Could Drive Healthcare

After an exceedingly rare healthcare recession, healthcare acquisitions may help drive a performance recovery. The industry moves with new drug discoveries, and when big pharmaceuticals take over and begin mass production and marketing post M&A. In January 2024 alone, nearly US$10 billion worth of deals were recorded. The sector recorded positive earnings growth during all three recent global earnings recessions. With demographic shifts and the benefits of AI, healthcare appears ready to return to leadership due to its consistent and secular earnings growth. We expect the healthcare earnings recovery in 2024 to be one of the main drivers of potential outperformance in the sector.

Big Pharma has the Capacity for M&A Deals



Source: FactSet, February 5, 2024.

Sources: Wealth Outlook 2024; CIO Strategy Bulletin, March 10 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

2Q24 | Implementing our Investment Themes

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Yields & Earnings

Broadening Out

We expect broadening of performance within US equities and we favor quality growth across size spectrum. Geographically, we believe that global companies which are benefiting from the same secular growth trends are likely to be rewarded like their US peers. These include those on our high-conviction lists like healthcare, Japan tech, semiconductor manufacturers, copper, energy security, electric vehicle components and manufacturers, among others.

Earnings & Valuations

We see earnings per share broadening beyond big-cap tech. Investors should consider the valuation discount in profitable SMID growth. For investors already overweight in tech, to consider splitting incremental exposure for balance and for investors underweight in equities, to consider adding quality growth.

Fed Easing

Since the Fed indicated it would stop raising rates in November, US small and mid-cap growth shares and the equal-weighted S&P have risen 18% and 16% respectively. We are looking at a rebound in the S&P 500 beyond the big-cap tech 7.

Investment Grade Fixed Income

Yields are higher across the spectrum and bonds are a likely beneficiary of slowing growth and falling inflation in the US. US Treasuries are yielding around 4.1% while US IG corporates are currently yielding around 5%. Citi prefers bonds in the belly of the curve, which may also help with volatility.

Healthcare

Sectoral Valuations

We are particularly drawn to discounted valuations in the medical technology and tools segments, while biotech seems like a high-risk, high-reward bet as financial conditions ease. Some medical device makers are necessary "picks and shovels" for drug development. They work in conjunction with biopharma partners in the early stages of cell line production and later in the purification, formulation and packaging of an approved drug.

Others are the producers of the new generation of devices either worn on or implanted in the body to address chronic conditions like heart disease and diabetes. Another potential investment opportunity is with the makers of the equipment used in robotics-assisted surgery. Both large and small company valuations have suffered equally these past two years.

Earnings and Deals

After being battered for the past two years, 2024 is already looking up for healthcare. For example, medical devices, one of our high-conviction opportunities, is up over 5% YTD (as of end Feb 2024). Healthcare's earnings are consistent and was positive in the past three global recessions. The earnings recover is likely to be a driver of outperformance this year and we will be looking at the leaders in this space.

Deals-wise, the competition for innovative services, partnerships and breakthroughs is expected to be fierce in 2024

Citi prefers higher quality MedTech along with a selective or actively managed approach to biotech investments. For clients with a defensive tilt, global large-cap pharmaceuticals should be considered.

FX: The Carry

Reduced volatility makes the carry attractive

With the exception of Yen, most other major currency pairs have been trading in tight ranges over the past six months as markets await central bank signals on lowering rates. But with global inflation still sticky and labor markets resilient, central bankers are opting to delay the timing of rate cuts. The result is an extended waiting period in which FX volatility has fallen to multi-year lows with currencies moving in narrow ranges, making the hunt for yield more desirable than opting for capital gains. There are two criteria for finding currencies with relatively attractive carry – (1) **currencies delivering comparatively higher yields**; (2) **currencies that see their central banks as the last to lower rates.**

Attractive carry – AUD, NZD and SGD

AUD, NZD and SGD remain the more attractive higher yielding currencies. The RBA and RBNZ are expected to have two rate cuts down the road to year-end while Singapore's MAS wants to keep policy tight in real terms all through 2024 to curb inflation risks.

Less attractive carry – CHF

CHF remains the least attractive with the second lowest yield among major currencies and the SNB has already commenced its rate cut cycle at its March meeting, the first major central bank to cut rates from an already low base of 1.75% and more is likely to follow this year. Markets expect ECB, Fed and BoE to follow in June. This makes switching out of CHF, and to a lesser extent from EUR, USD, and GBP into AUD, NZD and SGD a relatively attractive proposition during Q2'2024 in the hunt for yield until volatility in FX markets picks up significantly.

Sources: Wealth Outlook 2024; CIO Strategy Bulletin, March 10 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

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Higher Credit Risk – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.

Higher Liquidity and Secondary Market Risk – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.

Downgrade Risk – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.

Higher Vulnerability to economic cycles - During economic downturns, unrated or non investment grade Debt Securities are typically more susceptible to price volatility and fall more in value than investment grade Debt Securities as i) investors may reevaluate holdings in lower-quality bonds in favor of investment-grade corporate Debt Securities; ii) investors become more risk averse; and iii) default risk rises. This is often referred to a "flight to quality".

Event Risk – This includes any of a variety of events that can adversely affect the issuer of unrated or non investment grade Debt Securities, and therefore the issuer's ability to meet debt service obligations to repay principal and interest to Debt Securities holders. Event risk may pertain to the issuer specifically, the industry or business sector of the issuer, or generally upon the overall economy. It could have a direct or indirect impact on the issuer and their outstanding debts.

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Risk relating to RMB – If you choose RMB as the base currency or the alternate currency, you should also note the following:

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CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.

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