



Investment Outlook: 2024 Q4 and Beyond

October 2024

The Fed finally made its move to cut rates, and may drive global central banks into a synchronized easing cycle through 2025. Below are four critical questions to ask during the turning point in monetary policy. 1) Will Fed rate cuts take effect? 2). US presidential election and its impact? 3). Can the business cycle driven by technology sustain its growth? 4). Will industries suppressed by high interest rates recover?

By Cathay SITE

The Fed’s decision to lower interest rates in September meeting marks a significant turning point in the global fight against inflation. Central banks, except BoJ, will step up the pace of rate cuts in 2025.

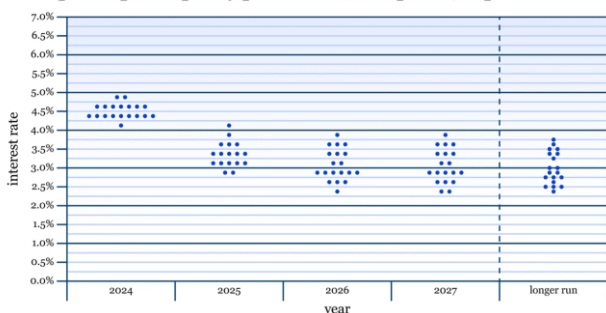
Against this backdrop, below are four questions that matter to investors.

- 1). Will Fed rate cuts take effect?
- 2). US presidential election and its impact?
- 3). Can the business cycle driven by technology sustain its growth?
- 4). Will industries suppressed by high interest rates recover?

Rate cuts to support a soft landing

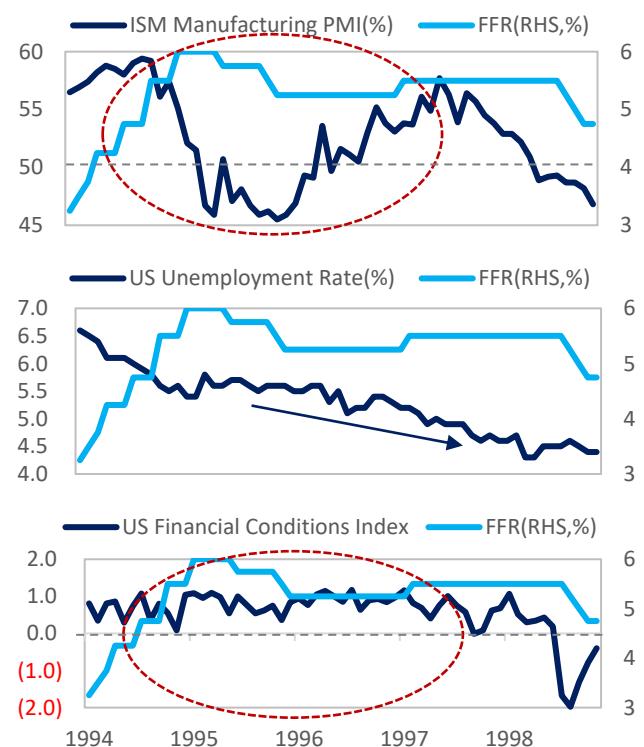
According to the new “dot plot”, there will be a steady stream of rate cuts in the coming quarters, with the policy rate to fall another half percentage point by the end of the year, and a further full percentage point next year.

FOMC participants’ policy path chart (“dot plot”), September 2024



Source: federalreserve.gov

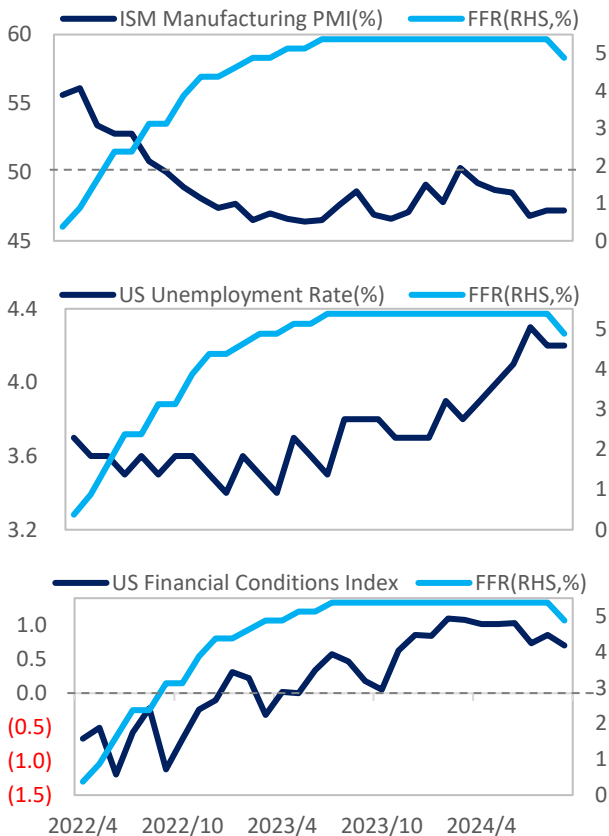
Economic projections of the Fed envision a soft landing. The FOMC participants projected higher unemployment rate in 2024-2026 and reduced its expectations for inflation in 2024 and 2025. The classic example of a soft landing is the monetary tightening conducted in the mid-1990s. The Fed’s preemptive interest rate cuts initiated in July 1995 when the financial conditions were easy and the unemployment rate was falling rapidly led to economic stability.



Source: Bloomberg



Currently, with the unemployment rate at 4.2%, relatively low by historical standards, and improving financial conditions, manufacturing growth that has been stalled by high interest rates is expected to recover next year. The Fed's rate cut policy under a healthy economy paves the way for a soft landing like its 1995.



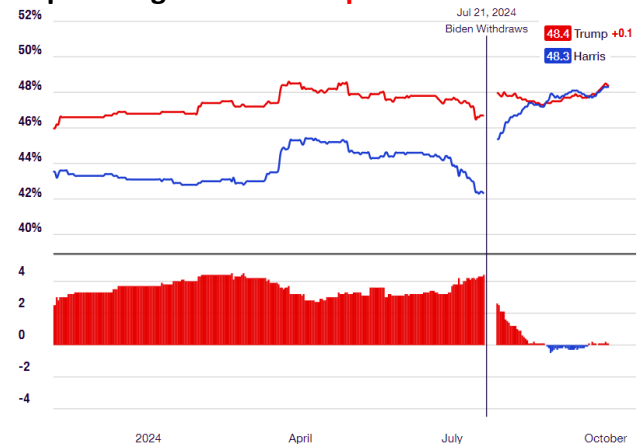
Source: Bloomberg

It's economy that matters, not politics

Politics are inevitably top of mind in 2024. But investors are advised to focus on the fundamentals rather than short-term volatility around the election cycle.

Poll data shows that Kamala Harris now leads Donald Trump in the US presidential election campaign. But Harris and Trump virtually tied in key battleground states that could determine the course of the race.

Top Battlegrounds: Trump vs. Harris



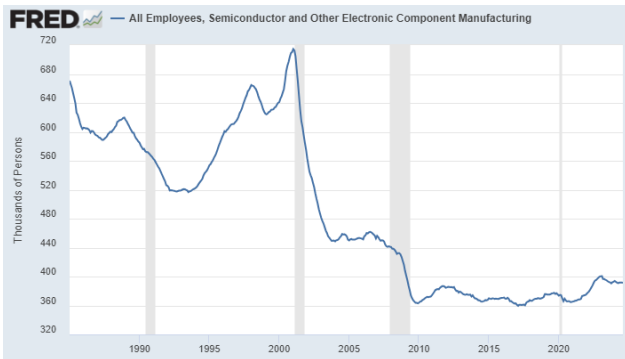
Source: RealClear Polling, as of 3 Oct 2024

After examining elections over recent decades, the U.S. presidential election result seemed to have a negligible impact on the direction of the U.S. stock market over time. No matter which party comes to power, the US capital market will mostly be governed by fundamentals. Even though the policies of the two candidates vary widely in immigration, abortion, trade and taxes, any policy changes would be small and have a neutral economic impact with a divided Congress.

Technology: a new global arm race

Technology that drives this current business cycle is not merely a battle of corporate giants but also an arm race among governments. Governments realize that access to chips has become a geopolitical weapon and address it as national security concern. Besides US, Europe and Japan also joined the race to reduce the reliance on production in East Asia and to revitalize its semiconductor sector. Technology arm race now is a race that no country can afford to lose.

As the US expands its semiconductor industry, the problem of considerable talent gaps comes to the fore. The US domestic semiconductor manufacturing workforce has declined precipitously from its peak in 2000. Current workforce development efforts appear unlikely to meet the demand.



Source: U.S. Bureau of Labor Statistics

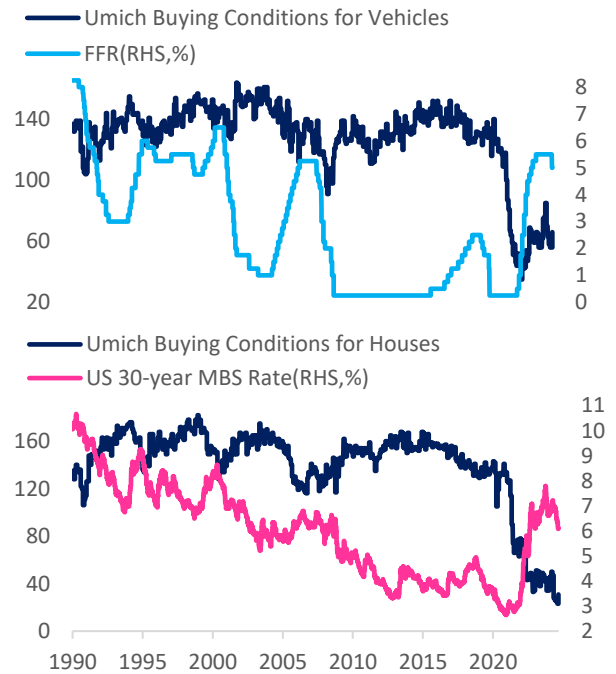
According to the U.S. Department of Treasury, Real manufacturing construction spending has doubled since the end of 2021 after the introduction of the Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA), and CHIPS Act. The effects of supportive policies on technology industry will be enormous. This current business cycle could last longer, driven by artificial intelligence, as well as massive manufacturing investment spurred by the reshoring of supply chains.

It's time for the S&P 493 to shine

As interest rates get less restrictive, houses and vehicles will be the first to benefit. We expect buying conditions for houses and vehicles to improve at the end of the year or in the first quarter of next year, and other sectors will follow suit.

The U.S. equity market is showing signs of broadening outside the Magnificent 7, evidenced by the positive EPS growth in the second quarter of 2024 for the other 493.

Technology will still dominate the stock market in 2025 while earnings should grow for companies in various industries for the rest of this year and into 2025.



Source: Bloomberg

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