QUARTELY CLIENT
NEWSLETTER

INSIDE THIS ISSUE

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NAVIGATING MARKET CONCENTRATION AS SUSTAINABLE

Allianz Global Investors – October 2024

Giles Money – CIO, Global Sustainable Equity
Alex Bibani – Senior Portfolio Manager

One of the defining features of equity markets over recent years has been extremely high levels of index concentration, with the so-called "Magnificent Seven" making up around a third of the total market capitalization of the S&P 500. And while we have previously seen similar levels of concentration, never before have we seen such high correlation between the largest players – for instance, at present, eight of the top ten largest constituents of the S&P 500 represent a similar bet on the future of artificial intelligence (AI) and related technologies.

Of course, we remain very bullish on AI, yet the current situation, in terms of market concentration, means that portfolio managers would need to give away around 40% of their fund just to remain neutral on this theme. And, given our approach is very much a bottom-up one designed to generate returns across sectors, we do not want to relinquish our opportunities to generate alpha, wherever in our investable universe we believe this may come from.

<u>Figure 1. We are at unprecendented levels of index concentration</u>

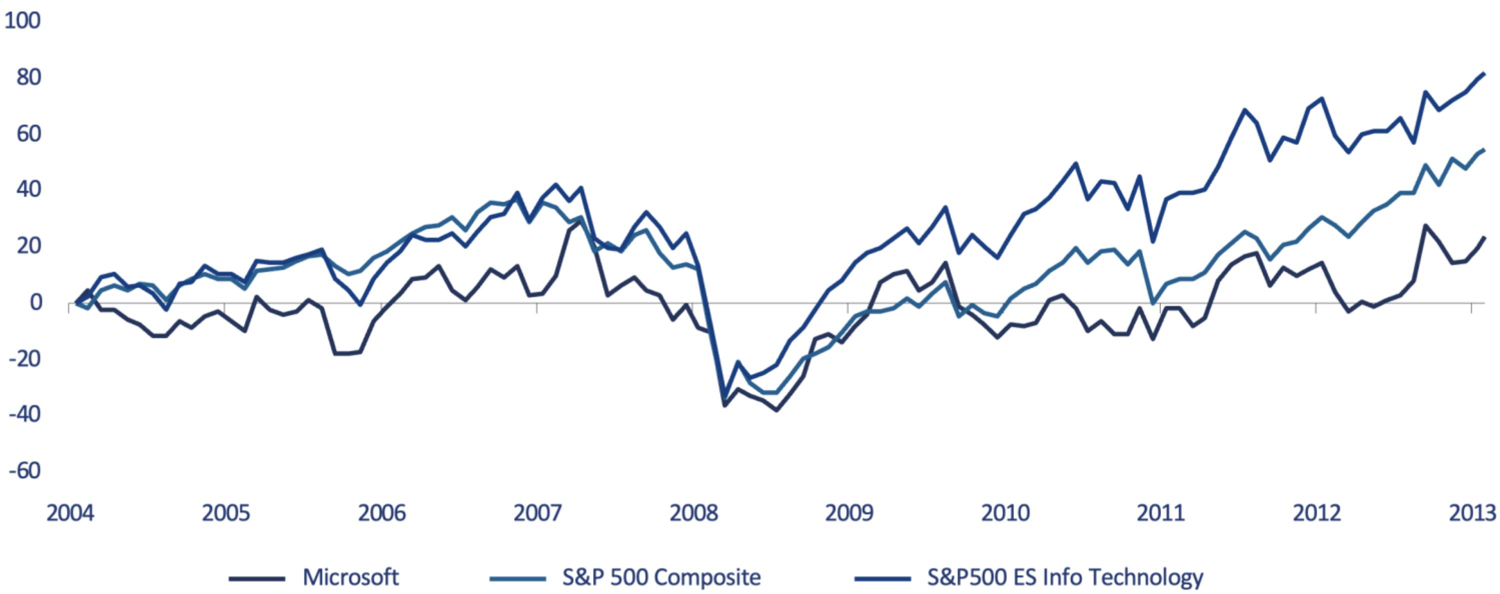
S&P 500 stock market concentration in the U.S, 2000 – 2004 40%

Source: Allianz Global Investors, DataStream, S&P500 as of 20 September, 2024. Displayed values are data for 20 September, 2024.

Sticking with the US market, but looking more broadly, we are coming out of a period of unprecedented stimulus, coupled with high immigration, which has driven economic and stock market growth. Of course, growth is now softening and there are other signs – for instance, rising personal credit delinquencies – that the tide is turning in the US economy. These changes are likely to lead to more market breadth, with both the performance of the top names softening, as well as opportunities for alpha emerging elsewhere in the market.

This feeds into a further trend that we may see developing in the coming months. Large and rapid expansions of market capitalization – such as we have recently seen, for instance, with Nvidia – have happened before, yet often result in several years of horizontal movement afterwards. For instance, the performance of Microsoft for several years post-2004 serves as a cautionary tale.

Figure 2. This much market cap grab has happened before



Source: Allianz Global Investors, Datastream. September 2024.

Of course, while there is no certainty that history will repeat itself in the same way, we believe there are strong indications that we may now be facing a sea change in terms of the trajectories of some of the biggest tech players that currently dominate US equity markets.

Outlook

While the economic and market outlook remains complex and uncertain, some solid conclusions and inferences can still be drawn from recent events and the current global economic and political situation. With rates and inflation coming down, we are now certainly seeing some weakness in the US economy, but this is a weakness that was needed in light of the danger of overheating. Yet, even given this weakness, it seems the US economy is likely facing a soft landing of some kind with the threat of recession being averted, for now at least.

We had expected a very close US election and the financial markets and betting markets had moved aggressively towards a Republican win in October, with a meaningful impact on the bond markets along the curve. Both the short end and long end expectations were higher on both the expectation of more volatility in policy, and also higher inflation expectation as tariffs and tax cuts take centre stage. We concur with the probability of both being higher now. There are offsetting factors, however, with lower fuel prices as well as the efficiency efforts led by the newly formed Department of Government Efficiency. Immigration has been a significant component of recent economic momentum in the US and this will clearly look different under Trump 2.0, which would also lead to a raised inflationary expectation.

Nevertheless, it should be noted that the political agenda doesn't always translate easily to a view on how sustainable assets and investment flows perform. In fact, the sustainable asset management industry thrived under Trump 1.0 as many of the investments required to mitigate and adapt to climatic challenges are beneficiaries of more positive economic impulses. Investors will have to be very alert to any new policies (of which we expect many). Still, we see a good slate of strong investment cases in the US that we feel could deliver in any economic scenario. We also continue to favour AI, as we see the roll-out of tools that create the efficiency advantages. We expect there to be plenty of beneficiaries of this monumental capital deployment and platform change that IT is going through.

Overall, we expect recent economic developments to work in our favour as markets broaden opportunities emerge across sectors that may have been neglected by many investors over recent years. Alongside this, key megatrends – such as the energy transition and, indeed, AI – remain intact, providing significant tailwinds for sustainable assets across all sectors.

October 2024

Allianz Global Investors

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Allianz Global Investors is a leading active asset manager with over 600 investment professionals in over 20 offices worldwide and EUR 560 billion in assets under management. We invest for the long term and seek to generate value for clients every step of the way. We do this by being active – in how we partner with clients and anticipate their changing needs, and build solutions based on capabilities across public and private markets.

For more information, please visit sg.allianzgi.com

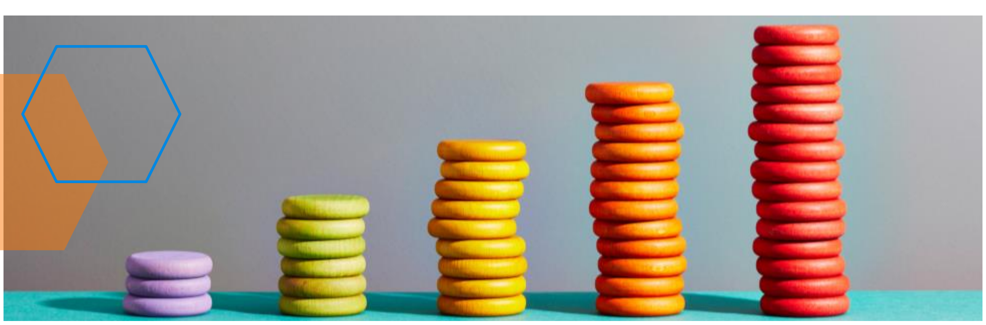
THE PSYCHOLOGICAL POWER OF GOAL-ORIENTED SAVINGS

Income Insurance Limited (Income Insurance)

Saving money is often seen as a practical necessity, but its impact goes far beyond the numbers in your bank account. Putting aside money for a rainy day is a habit that can be cultivated to foster a sense of financial empowerment and enable individuals to pursue lifelong goals. This practice is known as goal-oriented or goal-based savings, and it allows you to transform good financial habits into a powerful tool for personal growth.

Goal-oriented savings is about aligning financial planning with your personal values and recognising that every dollar you save is an investment in your future self. These goals could be short-term, such as saving for a vacation or a new gadget, or long-term, like buying a home, funding a child's education, or ensuring a comfortable retirement. On the pragmatic end, goal-based savings also serve as a compass for your financial journey, helping you both quantify and qualify your financial habits.

In this article, we'll explore how goal-oriented savings can reduce financial stress, boost your emotional stability, and even strengthen your relationships. Join us as we uncover the surprising ways in which your financial choices can shape your overall happiness and sense of purpose.



What is Goal-Oriented Savings?

A holistic, goal-based savings habit isn't just about stashing cash away. It's the recognition that your financial choices – from daily spending to long-term investments – are linked to your values, priorities, mental health, relationships with friends and family, and personal growth. Adopting such an all-round approach involves viewing your financial decisions not in isolation but as connected to all these other aspects of your life.

By embracing this integrated perspective, you shift from a transactional relationship with money to a mindful and intentional one. You may be able to cultivate a deeper awareness of your financial planning tendencies and their impact on your well-being.

Building a Holistic Savings Mindset

Creating Meaningful Financial Goals

Financial goals become truly meaningful when they resonate with your aspirations and values. Are you planning on saving for your dream home, a child's education, a fulfilling retirement, or a philanthropic cause you care about?

Each goal you set should reflect something you value. This intrinsic connection not only fuels your motivation to save but also transforms your financial journey into a deeply meaningful endeavour. The very process of setting targets in a goal-based savings plan becomes a voyage of self-discovery, helping you discover what matters to you and providing a tangible path toward those aspirations.

The Psychological and Emotional Benefits of Savings

The psychological and emotional benefits of savings are profound and multifaceted. Having a steady control of your finances brings peace of mind, reducing the stress and anxiety associated with unexpected expenses or financial instability.

A well-maintained savings account also provides a sense of control and empowerment. For young adults, they may value saving for life goals like travel, experiences, or further education. Married couples and families might start looking at financial instruments like term life insurance to safeguard their loved ones' financial well-being in the face of unforeseen circumstances.

Knowing that you're prepared for life's ups and downs encourages a positive outlook by improving confidence in the future ahead.

Goal-Based Savings and Social Well-Being

Financial stress can strain relationships and create friction in social circles. A healthy savings habit can alleviate these pressures, leading to improved communication and stronger bonds. Goal-based savings also allows individuals to travel with friends, engage in mutual hobbies, or enjoy time out together, leading to a more fulfilling social life. Whether it's the freedom to participate in activities without financial worry or the ability to support loved ones, your saving and spending choices are connected to your social interactions and overall quality of life.

The Ripple Effects of a Savings Lifestyle

Beyond its immediate benefits, a consistent savings habit cultivates discipline and self-control that can extend to other areas of your life. As you learn to prioritise your long-term goals over impulsive spending, you develop a stronger sense of purpose and determination. The emotional resilience and stability, cultivated through disciplined goal-based saving habits, also improves mental health and contribute to a more balanced and fulfilling life.

Practical Strategies for Holistic Savings

Tools and Habits for Effective Financial Planning
Financial planning tools, such as budgeting apps, investment calculators, and even a savings calculator, can all play a role in helping you create a roadmap to your goals. Before looking for ways to save, you should first know how much you need to save to attain your targets. A savings calculator allows you to visualise your savings milestones with just a few intuitive inputs, whether you prefer to save as a lump sum or on a regular basis[1].

In terms of habits, regularly reviewing and adjusting budgets is crucial for staying on track and accommodating changing circumstances. Establishing habits such as automatic savings transfers, consistent debt repayment, and periodic financial health check-ups can also foster a proactive approach to managing finances and effective goal-based savings.
Not everyone may have the requisite skills or knowledge to tackle the complexities of the financial landscape. This is where an experienced and qualified financial advisor can help to fill in the gaps. A financial advisor can provide personalised guidance to help you determine how much you should save, recommend life insurance options in Singapore based on your needs, and advise you on how you can tweak your spending habits to achieve your goals.

Navigating Challenges on the Path to Holistic Savings

The journey to financial wellness isn't always smooth. Unexpected expenses or lifestyle changes, such as starting a family or changing careers, can significantly impact your financial planning. Economic fluctuations, like recessions or inflation, also contribute to uncertainty and financial stress.

However, these challenges shouldn't discourage you from pursuing your savings goals. Instead, they should serve as opportunities to strengthen your resolve and adapt your strategies. Be open to adjusting your budget, revising your savings targets, or exploring alternative income sources.

Remember, you don't have to navigate these challenges alone. Seeking support from loved ones, financial planning advisors, or online communities can provide valuable guidance and encouragement. Sharing your struggles can help you gain new perspectives, find creative solutions, and stay motivated on your journey.

Embracing a Comprehensive Savings Approach

Ultimately, goal-oriented savings is a journey of empowerment. It’s about aligning your financial aspirations with your broader life goals rather than viewing them as separate from your overall well-being. It's a recognition that saving money and planning your finances is more than just an obligation to fulfil and is in fact, deeply personal and interconnected.

If you're looking to adopt a comprehensive, goal-based financial planning approach that aligns with your holistic well-being, consider investment-linked plans that offer the dual benefits of investment growth and life protection. For those seeking lifelong coverage and peace of mind for their loved ones, whole life insurance plans present another avenue worth exploring.

Important Notes:

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Income Insurance is not responsible to any party for this article. You should seek financial advice from a qualified advisor if in doubt. Buying insurance that are not suitable for you may impact your ability to finance your future insurance needs.

[1] This savings calculator is for educational and illustrative purposes only. We strongly encourage you to speak to a qualified advisor if you require any professional advice.

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PIAS INVESTMENT OUTLOOK (Q1 2025)

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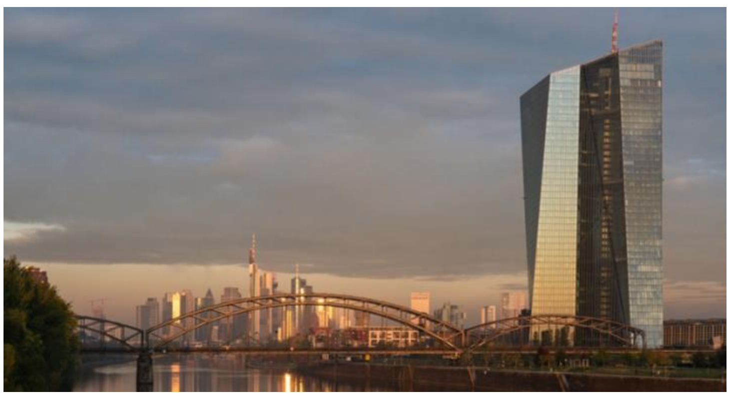
- **The performances of the global financial markets had been driven by elections and central bank narratives in the final quarter of 2024.** The blockbuster victory of Trump in the U.S. presidential race and the Republicans gaining the Congress majority propelled the U.S. equity markets to record highs, fuelled by optimism over potential pro-growth fiscal policies and tax cuts. Positive macroeconomic data suggesting a soft-landing of the U.S. economy, subdued inflation and a resilient labour market had paved the way for the Fed's continued policy easing path – further supporting the momentum of the equity markets. However, Trump's tariffs rhetoric may reignite inflationary pressures, potentially disrupting the policy easing cycle. That said, the size of these additional import tariffs remains a question although they are likely to be lower than what Trump's had initially campaigned for. **Despite concerns about the elevated valuation multiples, there are reasons to reinforce our optimistic outlook on U.S. equities, given the Federal Reserve's commitment to navigate an economic soft landing, robust corporate earnings and Trump's pro-growth fiscal policies.**

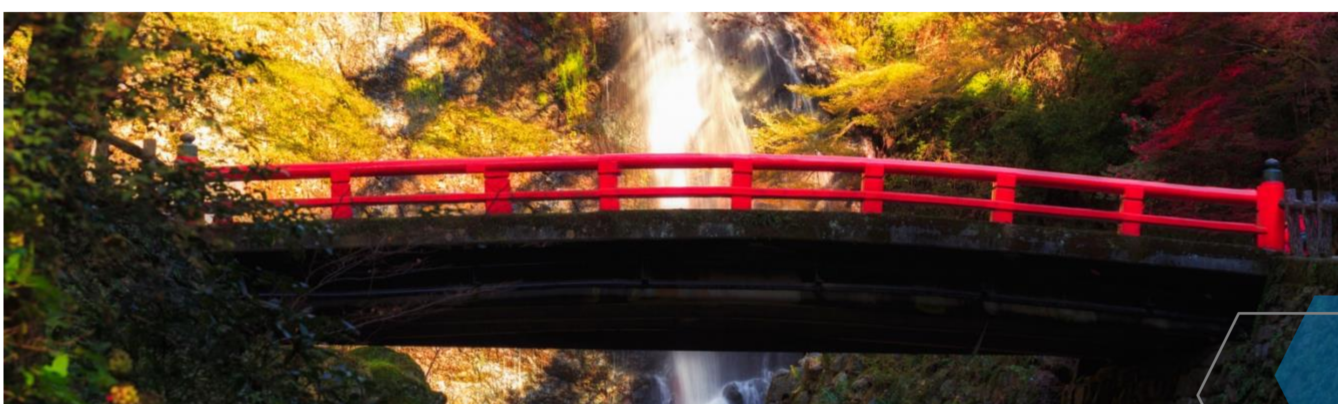
- All eyes will be on how Trump's administration handles trade relations, with China expected to be the most impacted. Trump had threatened a 60% tariff on Chinese goods during his campaign, but it is expected to be lower to avoid severely impairing trade between the world's two largest economies. On the domestic front, China delivered rounds of stimulus to tackle deflation, and Chinese equities bounced up after an aggressive package of stimulus was announced in September. **While China is poised for recovery, we believe its pace may be prolonged and uneven given the lacklustre consumer demand and weak property sector. Significant catalysts will be required to boost investor confidence amid trade policy uncertainties, the size of upcoming stimulus, and consumers' and markets' responses to them.**

- The Indian equities market experienced stellar performances for the first 3 quarters of 2024, on strong economic growth expectations. However, recent PMI data had shown signs of moderating growth, prompting investors to seek alternatives and foreign capital outflows. **Despite this, we remain cautiously optimistic about India's outlook. The economy is still expansionary, albeit slowing, with PMI numbers well above the 50-mark and long-term growth megatrends in digitalization and domestic consumption remaining strong.** Additionally, India is largely seen as a potential beneficiary among emerging markets with Trump's forthcoming foreign trade policies, especially his tougher stance on China. Elsewhere in Asia, Taiwan's economy remains robust but increasing uncertainty around global trade under Trump's leadership could **potentially pose challenges for Taiwan's export-driven economy. Nevertheless, the outlook in Taiwan should remain supported due to its vital role in the global semiconductor supply chain and the ongoing AI boom.**



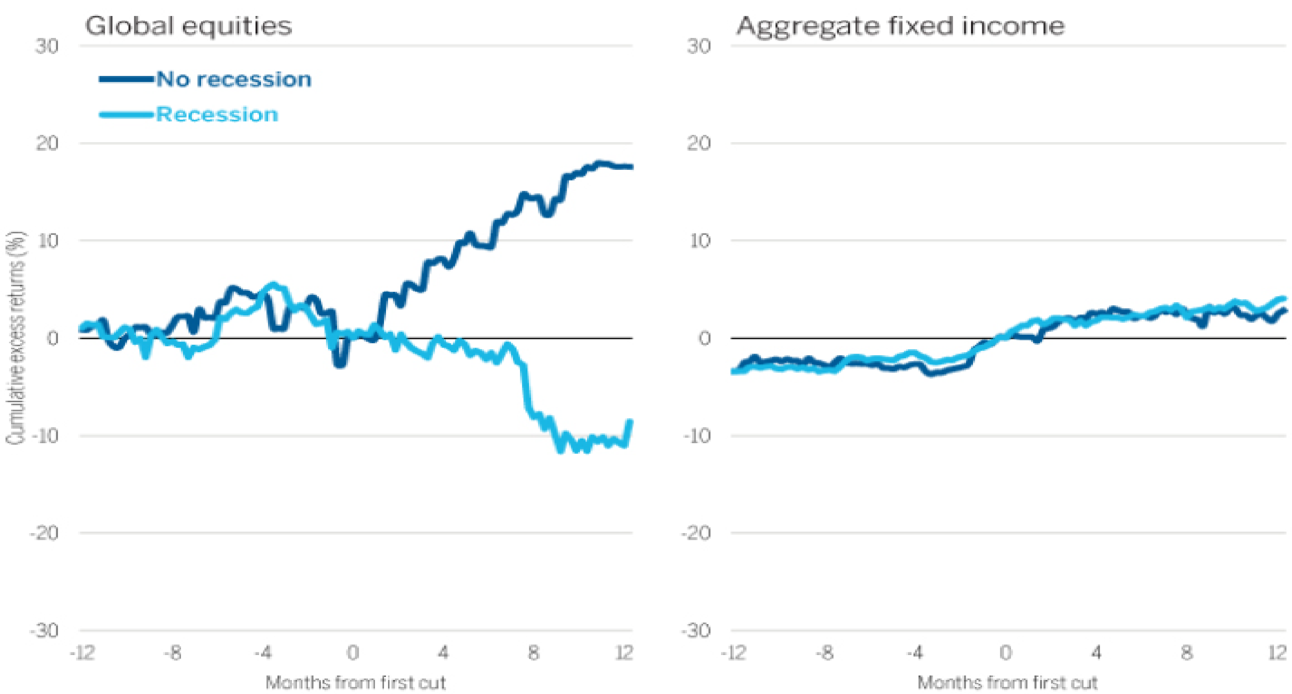
- The European Central Bank (ECB) had signalled the need for larger rate cuts to stimulate the weak growth of the region despite having slashed rates 4 times in 2024. The PMI of the trading bloc continues to be in the contractionary region while France and Germany are troubled by political crisis back at home. **Despite ECB's pro-growth easing policies, we maintain our Neutral view in Europe equities given the rising recessionary risks, political instability, Trump's upcoming tariffs impact on European goods and geopolitical tensions that may spike up energy costs, further dragging on growth.**

- Unlike the ECB, the Bank of Japan (BoJ) should continue its rate hike cycle on Japan's reflationary trend. However, with a stronger yen, export sectors could be negatively impacted, while import inflation would cool down, reversing from the reflationary course. **We believe Japan equities will be supported by the ongoing corporate reforms aimed at enhancing shareholder returns, but investors will be watchful of the impact of more BoJ rate hikes and the potential headwinds of unwinding of yen carry trades which may trigger volatilities on Japanese assets, as witnessed in August.**



- **The accommodative stance of central banks is also expected to bolster fixed-income markets**. Policy easing – even if rate cuts are shallower than previously expected – would underpin credit spreads of both investment-grade and high-yield debts, while being further supported by low default rates and economic resilience as suggested by macroeconomic data. With supportive central bank actions and the prospects of pro-growth policies, we foresee both opportunities as well as challenges in the financial markets in the upcoming year. **However, Trump's tariff rhetoric could derail disinflation and discourage Fed rate cuts. Rising trade tensions and geopolitical conflicts could also be potential headwinds on global economic growth. According to Wellington, global equities and fixed income tend to perform well months after the first rate cut, if the economy averts recession (Chart A). Policymakers, therefore, will continue to play a critical role in the delicate balancing act of managing (dis)inflation while navigating an economic soft-landing.**

Average Returns of Global Equities and Fixed Income after first rate cut, with or without recession in the following 18 months (Chart A)



Source: Wellington Management Ltd, December 2024, based on data from August 1983 to November 2024

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Accountability

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Synergy

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