



Quarterly Investment Insights

Issue: 4th Quarter 2023

1 Minute Digest

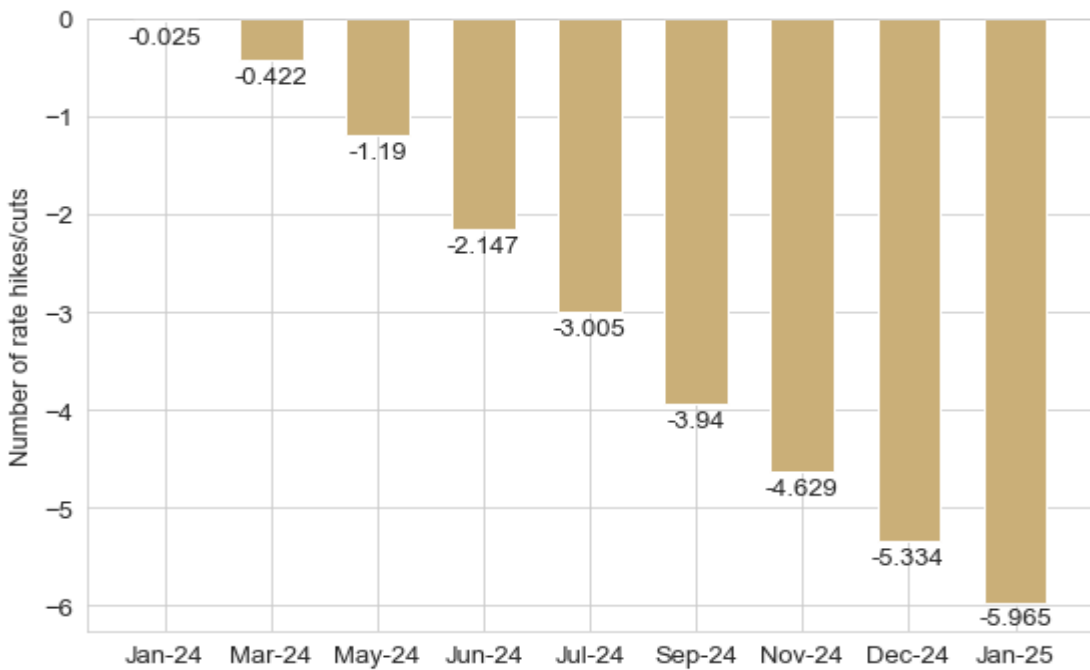
- Remarkable resilience in the last quarter of 2023 across both equities and fixed income, buoyed by the peaked in this current rate hiking cycle and series of potential cuts in 2024. Concerns surrounding the Chinese economy emerged as a primary driver for the underperformance in Emerging Markets, while heightened geopolitical tensions added a layer of complexity to the global financial landscape.
- Central banks continuously strive to achieve a delicate balance between meeting inflation targets and managing unemployment rates. In the fourth quarter, inflation gradually eased toward the policy target. Notably, more central banks shifted their stance from solely combating inflation to prioritizing economic growth, reflecting concerns about the prolonged impact of 'higher-for-longer' interest rates.
- Global equity and fixed income have been upgraded to overweight recently, while staying neutral on credits and lower cash holding to capture market opportunities. Within Equities, we remain neutral on Asia ex Japan equities due to challenging economic conditions in China.
- A further steepening of the yield curve is expected as short-term rates decrease relatively more than the long-term ones in reaction to the Fed's shift to a dovish stance. As such, we are maintaining our overweight stance in Treasury and duration. For credit market, we remain neutral on Investment Grade credits on account of the tight credit spreads.

Market Recap

The last quarter of 2023 demonstrated remarkable resilience in both the equity and bond markets, particularly following the tightening cycle conclusion and the potential rate cut in 2024 indicated during the December Federal Open Market Committee (FOMC) meeting. Correspondingly, the US currency weakened. Despite supply cuts by the OPEC, oil prices fell to a near-term low. Concerns surrounding the Chinese economy emerged as a primary driver for underperformance of emerging markets, while heightened geopolitical tensions added a layer of complexity to the global financial landscape.

Since September, the Federal Reserve held the benchmark rate steady for three consecutive meetings. This decision was primarily influenced by the deceleration of core Personal Consumption Expenditures Price Index (PCE), one of the key indicators for inflation, which eased from 3.4% in October to 3.2% in November and 2.9% in December on a year-on-year basis. In the latest meeting, the Fed hinted the potential harm to the economy if interest rates were kept higher-for-longer. As a result, with the hiking cycle nearing its end, major central banks will shift its policy focus from defeating inflation to safeguarding economic growth. While an immediate rate cut wasn't confirmed due to concerns over premature cuts leading to rebound in inflation, market consensus forecasts suggest that any cut could occur as early as March, with a total of 5 to 6 cuts anticipated in 2024.

Fed rate hikes/cuts market expectations as of 23 Jan 2024



Source: Bloomberg, AIA

The US equity market experienced a robust rally in the last quarter of 2023, particularly in December, benefitting from the Fed's dovish pivot on rate decisions and market anticipation of rate cuts. The S&P 500 rose by 11.7%, in line with the so-called Magnificent 7 over the past three months. Unlike the previous three quarters, where large-cap technology names led a narrow rally, cyclicals and more

interest rate-sensitive stocks took charge, including Information Technology, Real Estate, and Consumer Discretionary. Small-cap stocks also increased by 14%, with a significant jump in December driven by the perception of an upcoming rate cut. Robust fundamentals was another contributing factor to the stock rally, as 82% of the S&P 500 companies beat analyst expectations in Q3 earnings release, marking the end of the earnings recession and painting a positive picture for the stock market.

Expectations of an impending rate cut also lifted the outlook for the global bond market. Q4 performance, according to the Bloomberg Global Aggregate Indices, marked the highest in the last two decades. The long-term benchmark US 10-year treasury yield dropped significantly from 5% in mid-October to 3.8% by the end of December. Positive economic data, business activity reports for Q3, resilient job market readings, and strong consumer spending contributed to the bond market rally, alongside declining inflation.

In the oil market, the downward trend in oil prices continued despite output cuts from OPEC+. Slower growth translated into reduced energy demand, exerting downward pressure on oil prices. Additionally, the ongoing energy transition towards sustainability and increased adoption of renewable energy sources played a progressively significant role. Market speculation and investor sentiment also influenced price movements, especially in the context of geopolitical tensions.

The US Dollar followed a weakening path as the Fed held rates steady for three consecutive meetings with the Dollar Index (DXY) falling from 106.22 at the beginning of the quarter to 101.33 at the end of Q4. The inclination by the Fed towards protecting economic growth in the face of tamed inflation may provide a positive tailwind for both developed international markets and emerging markets.

Despite challenges such as a dampened real estate market, declining household consumption, historic outflows of foreign capital, and weak market confidence impacting China's economic activities, its fourth-quarter GDP grew at an impressive 5.2%, surpassing Q3's 4.9% and achieving the authorities' target. While long-term issues like negative population growth and a weaker job market create a challenging backdrop, there is still optimism for more powerful policy stimulus packages to reignite the economic engine.

Spotlight: Central Bank & Its Policy Actions

Central banks continuously strive to achieve a delicate balance between achieving inflation targets and managing unemployment rates. In the fourth quarter, inflation gradually eased toward the policy target. Notably, more central banks shifted their stance from solely combating inflation to prioritizing economic growth, reflecting concerns about the prolonged impact of 'higher-for-longer' interest rates.

Encouragingly, the US unemployment rate proved healthier than anticipated, registering a reading below 4%, allowing the Fed more time before implementing any rate cut.

In the latest Fed decision, Chairman Jerome Powell conveyed the realization that maintaining interest rates at restrictive levels for an extended period poses risks to the economy. Consequently, the Summary of Economic Projections from the FOMC's latest policy meeting revealed a decisive 75 basis points rate cut, bringing the range from 5.25%-5.5% to 4.5%-4.75% by the end of 2024.

In the Eurozone, growth momentum and the job market faced challenges under the rate hike cycle, prompting market expectations of the European Central Bank (ECB) leading with a rate cut amid signs of economic weakening. Eurostat data showed a modest 0.1% quarter-on-quarter GDP contraction in Q3, while the HCOB Eurozone Manufacturing Purchasing Managers' Index (PMI) dipped below 50 in December, signalling a further deteriorating factories' operating conditions within the Eurozone.

The Bank of England (BoE) maintained the official bank rate at 5.25% in December. Given the sharp decline in CPI and stagnant GDP in the second half of the year, the BoE will vigilantly monitor labour market and real economic activities. Despite these challenges, the focus on achieving the 2% inflation target to sustain growth remains steadfast.

With a clear emphasis on the top priority of achieving a sustainable and stable 2 percent inflation target, the Bank of Japan (BoJ) conveyed a commitment to monetary easing under yield curve control until the target is confirmed. Despite a GDP contraction in Q3, the Tankan survey released in December indicated ongoing improvement in business sentiment. The likelihood of the BoJ taking earlier policy action in 2024 is on the rise.

The fourth quarter presented disappointment for the Chinese economy, even though Q4 GDP growth met target. The headwinds of property crisis, faltering growth engines, local government debt problems, and deflation persisted. Additionally, hints from western countries about an imminent rate cut posed a challenge for the People's Bank of China (PBoC) in balancing domestic and international economic conditions. In response, the PBoC announced an early and incremental 50 basis points cut on the reserve requirement ratio (RRR) in January 2024 to stimulate growth. This easing policy is set to take effect from Feb. 5, releasing 1 trillion yuan (about \$140 billion) in the long run.

Thinking Ahead

Anticipating a soft landing rather than a recession, our outlook suggests that the current market's aggressive pricing for the first cut in 1Q24 may be too aggressive. We foresee the Fed initiating rate cuts around the middle of 2024. Despite mixed signals from economic indicators—Leading Economic Indicators declining about 12.3% for 21 months and a downward-trending job-to-application ratio signalling potential wage deceleration in H1 2024—the fiscal stance remains

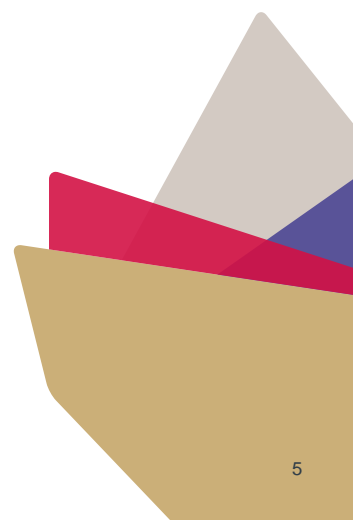
expansionary. Market's expectation of 5 to 6 rate cuts in 2024 also seems inconsistent with market optimistic GDP growth expectations.

In response to the anticipated Fed rate cut and a positive earnings report season, developed market equities are poised to become particularly attractive. Consequently, we are upgrading our house view to overweight from neutral. The commencement of a Fed cutting cycle traditionally has a bullish impact on equities, especially in the absence of a recession. Even in a soft-landing scenario, equities markets should find support, and any short-term pullback is expected to be modest. Additionally, the forthcoming US Q4 earnings report could serve as an additional catalyst, with market consensus appearing excessively pessimistic.

Maintaining a neutral stance on Asia ex Japan (AxJ), we observe potential positive tailwinds from a weakening US dollar that may allow AxJ to outperform. Smaller markets, excluding China, could benefit from a more favourable foreign exchange and rates environment later in 2024. While acknowledging challenges in the Chinese market, we remain cautiously optimistic with its broader opportunities in the region.

We favour government bonds as the shift in the Fed's policies towards a dovish stance has heightened market expectations of a further steepening of the yield curve because of the decrease in short-term rates beyond the long end. In the credit market, our view on Investment Grade credits remains neutral on account of the tight credit spreads. Despite ongoing macro uncertainties, credit fundamentals exhibit strength, potentially explaining the lower credit spreads compared to historical ranges. Additionally, the lack of an imminent need to refinance further reduces the likelihood of triggering corporate defaults.

Our investment philosophy emphasizes stewardship, long-term vision, and global expertise as pivotal in navigating dynamic markets. We strive not only to maximize financial returns but also to have a positive and sustainable impact on society and the environment. In this dynamic landscape, we see opportunities for growth, resilience, and positive market dynamics.



Portfolio Performance

Our investment approach focuses on long-term opportunities and application of bi-directional risk management. For Elite Funds, we combine AIA stewardship with best-in-class managers to seek long term opportunities. We increased allocation to equities for the Elite Funds, which helped the Elite Funds to benefit from the significant market rally in Q4 2023. For the year 2023, Elite Funds delivered positive returns with positive contributions from both equities and fixed income. For example, Elite Adventurous SGD and USD funds delivered double digit returns over the year 2023 and positive returns of around 7-8% pa since inception. This is a clear testament to the benefits of staying the course and having a disciplined approach to investing.

A summary of absolute portfolio performances is set out below.

Absolute Performance		Q4 - 23	1 Year	2 Year	3 Year	Since Inception*
SGD Funds	AIA Elite Adventurous Fund ^[1]	7.14%	14.89%	-5.79%	0.74%	7.28%
	AIA Elite Balanced Fund ^[2]	6.19%	11.47%	-6.44%	-1.23%	3.52%
	AIA Elite Conservative Fund ^[3]	5.29%	8.04%	-7.21%	-3.45%	0.78%
USD Funds	AIA Elite Adventurous Fund ^[4]	10.71%	16.98%	-4.05%	1.17%	8.30%
	AIA Elite Balanced Fund ^[5]	9.75%	13.61%	-4.61%	-0.64%	6.00%
	AIA Elite Conservative Fund ^[6]	8.77%	10.21%	-5.57%	-3.02%	1.90%

Source: AIA Investment Management

Performance figures for a period greater than a year are annualised

Performance of the funds are on a bid to bid basis with net dividends reinvested, without taking into consideration the fees and charges payable through deduction of premium or cancellation of units

*Fund inception date: [1] 24/7/2019; [2] 25/7/2019; [3] 1/8/2019; [4] 20/7/2019; [5] 31/7/2019; [6] 20/12/2019

Past performance is not necessarily indicative of future performance

Investment Strategy

The focus for the Elite Funds is to construct a well-diversified portfolio. The macro backdrop for 2024 is more positive than 2023, as headwinds from monetary tightening could ease. Fundamentals continue to be resilient, with earnings resuming its uptrend. The technical picture is also constructive with equity volatility muted and credit spreads contained. As such, on the asset allocation level, the Elite Funds are overweight on equities. On the intra asset level, Elite's equity strategy is anchored by AIA Global Select Equity Fund and AIA New Multinationals Fund which offer a blend of investment styles. We actively monitor the markets and will risk manage the Elite funds accordingly.

Fund Allocation as of 31 December 2023

SGD Funds		AIA Elite Adventurous Fund	AIA Elite Balanced Fund	AIA Elite Conservative Fund
Equity	AIA Global Multi-Factor Equity Fund	10.28%	6.61%	3.34%
	AIA Global Quality Growth Fund	12.87%	7.85%	3.93%
	AIA Global Select Equity Fund	29.34%	19.47%	9.55%
	AIA New Multinationals Fund	28.95%	19.30%	9.50%
	AMUNDI FUNDS INX MSCI-IU-C	0.08%	-	0.18%
	ISHARES CORE MSCI WORLD UCIT SWDA	2.41%	2.25%	2.08%
	VANGUARD GLOBAL STK-A INS \$ GBL STOCK	6.41%	5.46%	2.89%
Fixed Income	AIA Diversified Fixed Income Fund	8.45%	37.29%	67.45%
Cash	AIA SGD MONEY MARKET FUND (AAMM)	0.27%	0.80%	0.25%
	JPM SG DOLLAR LIQUIDITY-INS	0.61%	0.38%	0.39%
	Cash	0.33%	0.59%	0.44%
TOTAL		100%		

USD Funds		AIA Elite Adventurous Fund	AIA Elite Balanced Fund	AIA Elite Conservative Fund
Equity	AIA Global Multi-Factor Equity Fund	10.90%	6.76%	3.65%
	AIA Global Quality Growth Fund	12.38%	7.80%	3.88%
	AIA Global Select Equity Fund	29.65%	19.90%	9.87%
	AIA New Multinationals Fund	28.74%	19.20%	9.78%
	AMUNDI FUNDS INX MSCI-IU-C	-	-	0.20%
	ISHARES CORE MSCI WORLD UCIT SWDA	2.10%	3.84%	1.31%
	VANGUARD GLOBAL STK-A INS \$ GBL STOCK	6.77%	3.70%	2.74%
Fixed Income	AIA Diversified Fixed Income Fund	8.42%	37.56%	67.63%
Cash	JPM LIQ-USD LIQUIDITY-INSD JPM LIQ-USD L	0.41%	0.25%	0.45%
	Morgan Stanley Liquidity Fund-USD LIQ-INST	0.36%	0.56%	0.25%
	Cash	0.27%	0.43%	0.24%
TOTAL		100%		

Note:

1. Fund Allocation Total would not add up due to rounding
2. * Cash includes derivatives

INSIGHTS:
60 SECONDS WITH

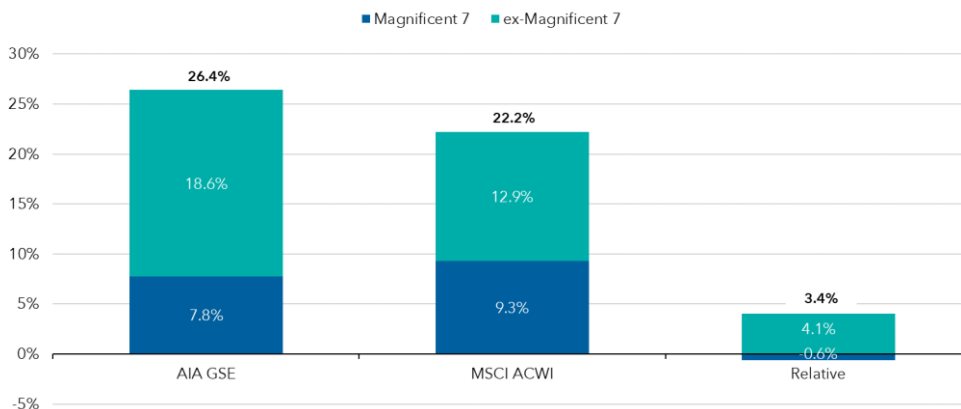


AIAIM: *Could you elaborate on the factors that have contributed to the Fund's outperformance (against benchmark) in the year 2023?*

CG: 2023 was a year that was characterised by a strong market driven heavily by a small number of tech-related companies. GSE pleasingly was able to outperform this narrowly-focused market, and that can be attributed to our bottom-up stock selection that resulted in a broad-based, balanced portfolio.

GSE has beaten the global equity market with diversified sources of excess returns, and achieved this despite being underexposed to the Magnificent 7 in aggregate. Whilst the IT sector detracted from relative returns, stock selection in other parts of the portfolio more than made up for it. Eight out of 11 sectors contributed positively, with company selection being especially strong in communications services (recovery in scale leaders like Meta, Netflix), health care across pharma (Novo Nordisk, Eli Lilly) and biotech (Seagen, Vertex) where ongoing drug innovation is showing exciting results in large markets like diabetes obesity and oncology, as well as industrial (travel-related companies and companies exposed to global electrification and energy transition) sectors.

Our deep, proprietary fundamental research is at the heart of our long-term results and 2023 was testament to that, with GSE's key positions as well as the numerous companies we actively decided not to own adding significantly to positive excess returns. Our long-standing underexposure to banks, utilities and real estate have also helped in 2023 as these areas generally lagged the market due to rising yields and the rotation into more growth-oriented companies.



Note: Data from 31 December 2022 to 31 December 2023. Return relative to MSCI ACWI (with net dividends reinvested) in US dollar terms, before fees and expenses. The relative return is calculated geometrically.

Sources: Capital Group, MSCI

AIAIM: As we transit into a new era of higher rates and lower growth, what will be the new set of drivers that will fuel growth?

CG: For a very long time, growth was synonymous with US tech stocks. Higher interest rates have changed that; now growth is more scarce and we think companies with growth potential are likely to come from a broader range of regions and industries. While tech continues to drive digital disruption with AI proving a substantial new leg of growth, we have been more selective by focusing on high quality, durable franchises with profits and cashflows today supporting future growth.

Health care is an area where we are witnessing an acceleration of innovation which can drive long-term earnings growth. We believe we are in a golden era of health care innovation with companies developing new drugs and platform technologies to combat large and underserved markets such as obesity and cancer. This is particularly true in the pharmaceuticals/biotechnology space where we are focused on companies that have used technology to advance their drug research & development process. GSE is invested in a broad range of companies across the market capitalisation range and across sub-sectors within health care, with a preference for companies with proven business models and strong pipelines.

The decarbonisation of the global economy is also presenting new opportunities for growth across various industries. In particular, smart industrials providing the ‘picks and shovels’ that will enable the energy transition as well as companies forming part of the solution to decarbonize the global economy could do well. Governments are making a big fiscal commitment to support infrastructure; in fact, the US government has committed almost US\$1.5 trillion¹ by the end of this decade. Beneficiaries include heating and air conditioning companies focused on energy efficiency (buildings account for around 40%² of greenhouse gas emissions, and almost half of that is heating/aircon) as well as companies making more efficient plant machinery as demand for the electrical grid goes up.

AIAIM: As a committed long-term investor, what are the key risks ahead and how can the Capital System help navigate these risks?

CG: Over the past couple of months, with the pace and extent of 10-year bond yields falling, it has become apparent that the market has become rather enthusiastic about the potential for Fed rate cuts in 2024. This opens up the possibility for downside as the market adjusts for excess optimism and is a potential risk that we are monitoring.

Within the Capital System, our investment groups including PMs hold varying opinions on rates outlook and recession risk in the US and are encouraged to construct their portfolio ‘sleeves’ based on their views. This could mean some PMs would be more exposed to longer duration growth stocks while others place more weight on companies with resilient earnings. Cognitive diversity is encouraged and it begins from the way we build our PM teams, deliberately blending PMs with diverse experience, backgrounds, skill sets, different investment styles and

Notes:

1. Data as at 30 June 2023. Sources: White House.gov, McKinsey, US Department of Transportation, Capital Group
2. Source: World Business Council for Sustainable Development, 31 Jan 2023.

risk tolerances. By assembling a team of very different PMs that are each constructing very different individual portfolios, we ensure balance and diversification at the total fund level (but concentration and conviction at the individual level) and is one of the most important ways we approach risk management.

AIAIM: Healthcare innovation is one of Capital Group's high conviction secular trend. Can you elaborate how the Healthcare industry has evolved over the years, and why it remains promising?

CG: Despite the sector's lacklustre results in 2023, we believe that the prospects for select health care companies are very compelling over the medium to long term. Innovation across drug development, genetic sequencing, data collection and health care service delivery is accelerating and that will drive growth for nimble companies generating opportunity for long-term investors.

Take the biopharma industry for example, there are several major diseases that we are now starting to tackle on the back of many years of R&D and tech advancements. Our analyst describes this happening over three major innovation waves. In the first wave, old-line chemical companies recognized they could use chemistry to treat diseases. This gave rise to successful pharmaceutical companies who produced small molecule drugs such as penicillin. The second wave was the emergence of protein-based therapeutics that were more targeted, harnessing the immune system to treat disease. We are now finding ourselves in the beginning of the third wave – the genetic era – where insights from genetic sequencing combined with improved processing speeds and new therapeutic technologies can now more specifically intervene in the disease process. This allows the application of highly specific and precise interventions like gene therapy, where we transplant normal genes in place of missing or defective ones to treat infectious and rare diseases. The mRNA Covid vaccines are an example of a genetic vaccine which introduces new genes to the body to produce key antigens that help the body fight infections. The explosion of new therapeutic opportunities coming over the next decade, potentially combatting large but mostly untapped markets like obesity and cancer, makes it a truly promising time for the industry.

AIAIM: Could you offer insights into how your strategy prioritises sustainable ESG investing and how that influences your stock selection process?

CG: The incorporation of material ESG risks and opportunities is deeply woven into The Capital System. ESG is not an "add on" step. Investment decisions are informed by Capital Group's fundamental, bottom-up research, which includes, where material, analysis of how a company interacts with its community, customers, suppliers and employees. We focus on the ESG issues that directly impact company results and valuations. Our long-term approach, a core part of The Capital System, fits naturally with the time horizons associated with material ESG risks and opportunities, such as climate change and human capital.

Our research process involves evaluation of material ESG risks and opportunities through three mutually reinforcing components.

- **Research and investment frameworks:** We developed proprietary research and investment frameworks in more than 30 sectors to identify financially material ESG risks and opportunities that could affect our company investment thesis.

Importantly, in these frameworks, we are seeking to evaluate the risks and opportunities not fully captured by traditional financial metrics. These issues include long-term secular trends, such as energy transition and social inequality. We also consider how companies operate and how they are performing compared to sector peers. For example, can they build a competitive advantage by attracting, retaining and promoting the right people? Are they able to increase consumer trust by providing safer products? Are they able to adapt and transition away from carbon-intensive commodities?

- **Monitoring process:** We adopt a monitoring process which involves reviewing holdings against third-party data from a range of providers to surface external views of ESG risks and companies in violation of international norms. Low-rated issuers are flagged for review by the Investment Group.

Our research efforts, as articulated in our sector-specific investment frameworks, will lead us, at times, to disagree with ESG rating agencies. One major ESG rating agency, for example, rates a company we view as a pioneer in value-based care below its peers. The company is penalized for publishing limited information on customer satisfaction rates and not establishing policies on emerging health risks, such as obesity and environmental pollutions. We take a different view — that by changing the incentive structure for doctors, this company encourages preventive care and contributes to overall better health outcomes, which, in our view, is more material to the company's long-term success as an organization and as an investment.

- **Engagement and Proxy Voting:** Our engagement with companies, which is vital when it comes to achieving long-term results, on topics that are informed by our research, sector-level ESG investment frameworks, voting and monitoring process.

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The information in this publication is presented as at 06 February 2024.