Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for INSPIRE and HSBC Life Wealth Invest (CPF) for the financial year ending 31 December 2024.

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HSBC Life Asian Balanced Fund

Schroder Asian Growth Fund

Investment and Market Review

Asian equity ended 2024 on a generally soft note, with most markets falling in the fourth quarter in response to shifting expectations for US monetary policy and disappointing follow-through on the policy front in China. Although Donald Trump's election victory has triggered a rally in US equity markets, it has also pushed the dollar and Treasury yields materially higher, and in turn, reduced expectations for interest-rate cuts through 2025. The new US administration is expected to enact fiscal and regulatory policies that will stimulate growth in the near term, and potentially put upward pressure on inflation. This has led to a tightening in US monetary conditions as we start the year. This shift in expectations has also put pressure on Asian currencies and reduces the room for manoeuvre of regional central banks. Trump is also talking very forcefully about his intentions to hike import duties on goods from China and other markets, which could potentially be very disruptive to Asian exports over the medium term.

The key issue for longer-term returns in China is whether any upcoming fiscal stimulus or other policy announcements are sufficient to really accelerate underlying economic growth, and thereby improve the earnings outlook. Regulatory clampdowns in some industries, the lingering impacts from the Covid lockdowns and uncertainty about the geopolitical backdrop are also weighing on business confidence and investment. An improvement in domestic confidence – for both households and the corporate sector – is key to the growth outlook, while domestic policy support remains critical given the tough external backdrop. Market performance is therefore likely to be very policy dependent as we move into 2025.

Korean and Taiwanese markets remain hostage to the performance of technology stocks, which dominate their indices. While AI-related revenue momentum looks very strong for many Asian technology stocks, the longer-term growth picture is less clear. Despite these near-term uncertainties, we remain comfortable with our positions in industry leaders in the technology sector. Supply discipline remains in place in most key sub-sectors and the longer-term revenue outlook appears favourable, given accelerating AI-related innovation. This will likely redefine more and more consumer products over time and drive a faster replacement cycle in many areas. Valuations for our preferred stocks look very reasonable against this backdrop. There is also very limited scope to substitute US domestic production for Asian semiconductor exports. As a result, the impact of any tariffs is more likely to be borne by US consumers and corporates through higher end prices, than any loss of share from Asian tech companies.

Across the rest of the region, ASEAN markets and currencies have been pressured by the stronger US dollar and reduced expectations for rate cuts. Local central banks have started to cut rates in the last 6 months, in line with the US moves, and the sharp change in US Federal Reserve fund forecasts has therefore introduced much greater uncertainty into the policy outlook. With domestic consumption looking fairly sluggish in most countries, much hope has been pinned on the upcoming rate-cutting cycle and therefore local-market performance remains closely tied to US data in the short term. The Indian market also corrected during the month and is now 10% off its recent all-time highs. After a near 50% rally in the preceding 12 months, driven by strong domestic fund inflows, valuations in India have been looking stretched for some time, particularly for the mid-sized and smaller companies favoured by domestic investors. Recent earnings and macroeconomic data have shown signs of slower growth, not helped by disruptions from weather and recent elections, and this has provided an excuse for profit-taking.

Market Outlook and Investment Strategy

From a bottom-up perspective, we continue to see attractive value across most Asian markets. The key export stocks that we own in portfolios are well positioned to cope with any tariff hikes given their flexible supply chains and strong competitive positions. In the meantime, we remain very selective in our exposure, given the continued uncertainty on the macroeconomic front, and disciplined about valuations.

Schroder Singapore Fixed Income Fund

Investment and Market Review

2024 was another strong year for risk asset returns, as economic growth surprised on the upside and central banks finally began to cut rates. Yet despite the generally upbeat performance, there were plenty of bumps along the way. Rate cuts took longer than anticipated, leaving sovereign bonds struggling to gain traction. The re-election of Donald Trump triggered renewed outperformance of US last quarter, whereas other markets corrected on the stronger US dollar and reduced Fed easing expectations. The narrative of US exceptionalism soon helped push the US Dollar to its strongest annual close since 2001.

The US economy appears to have achieved an elusive soft landing, with US growth exceptionalism showing continued strength. Economic data points to relatively subdued inflation, sustained resilience in consumer spending, and a more balanced labor market. December inflation print defused market worries that the Fed may not be able to deliver additional cuts to the funds rate. Meanwhile, data on economic activity and spending remain surprisingly resilient, with retail sales, industrial production, and housing starts posting strong gains to close the year. Nonfarm payrolls increased 256k in December, and the unemployment rate declined further. Finally in December, the Fed pivoted in a more hawkish direction. While they cut rates again - bringing their total cuts in 2024 to 100bps - they signaled only 50bps of cuts for 2025, which was more hawkish than expected.

The Chinese economy continued to face persistent growth headwinds entering 2H 2024. A wave of shocks eventually compelled Beijing to pivot in late September by taking much bolder steps to stimulate China’s economy and reflate asset markets. Thereafter, the NPC meeting in November unveiled a well-anticipated fiscal program to swap off-balance-sheet ""hidden"" local government debts with on-balance-sheet debts. In December, China's top policy makers pledged to increase the fiscal deficit and cut interest rate at the annual Central Economic Work Conference. With regards to the property sector, authorities remain determined to support the downside through more policies. China's economic growth, after underperforming in Q2 and Q3 2024, has recently regained momentum. Growth beat expectations, with Q4 GDP growing 5.4% y/y, driven by industrial production (improved consumption and exports front-loading), and service production. December data reflected an uptick in economic activity, including industrial production, exports, and retail sales, while fixed asset investment slightly disappointed. Real estate data from the NBS indicated mild recovery across sales, construction, and home prices. While China's growth momentum appears to bottom out owing to the government's decisive policy measures to boost domestic demand, uncertainties remain, including the potential trade tensions under Trump 2.0.

Over in Asia, the year has featured a broad and strong export performance from China, a surge in tech/semiconductor exports via Korea, Taiwan, and Malaysia, and healthy domestic demand growth in several Asia economies. Recent high-frequency data have looked a little stronger as China starts to roll out policy support and the Fed easing cycle is underway; lower oil prices have also been a plus for most economies. Inflation has come down to or below targets in most of the region and is falling in the rest. However, Asia central banks have been cautious - balancing growth/inflation backdrop with FX weaknesses. The region appears headed for rougher seas, driven by the fallout from Trump 2.0, China's overcapacity, and a slowing semiconductor cycle.

In Singapore, growth has continued to stay resilient, with real GDP rising 4.4% y/y, driven by net-export growth, as well as government consumption and fixed investment. Electronics export growth remained in double-digit territory, supporting non-oil domestic exports growth. Inflation has long since peaked. The December CPI print affirmed core disinflation, underpinned by softer global energy prices and a rebalanced labour market.

Singapore bonds delivered 4.03% over 2H 2024. The government bonds sector, measured by Markit iBoxx ALBI Singapore Government Total Return Index, returned 4.06%, outperforming the spreads segment, reflected by the Markit iBoxx ALBI Singapore Non-Government Total Return Index, which posted 3.98%.

The Schroder Singapore Fixed Income Fund trailed its benchmark, the Markit iBoxx ALBI Singapore over the second half of 2024. The Fund posted 6-month returns (net of fees) of 3.65% (I SGD Acc share class) and 3.45% (A SGD Acc share class), while its benchmark returned 4.02%.

Rates volatility remained as a hallmark in 2H 2024 as investors were kept on their toes in anticipation of the Fed's next move. Rates strategies weighed on active returns for the period. Gains from the Fund's overweight in the belly (7-10Y) of the SGS curve and underweight Singapore duration stance (positive contribution from carry) were more than offset by losses from the Fund's tactical long US duration positioning via US Treasury futures and an underweight in the front-end of the SGS curve.

Risk assets ended the year in the green and the SGD credits space similarly staged strong outperformance relative to its government bond counterparts. The Fund's overweight to SGD credits in the Financials and TMT sectors meaningfully aided returns. Allocation to the Asian USD credits space via the Schroder Asian Investment Grade Credit Fund marginally detracted.

Market Outlook and Investment Strategy

US economic growth will likely remain stable, supported by resilient US consumer spending, backed by strong wage growth and asset market returns. Amid a still-resilient labour market and disinflation that seems to have stalled, the Fed would likely enter a new phase in their cutting cycle – one characterized by longer pauses and occasional rate cuts. The Treasury's clear indication that it plans to keep coupon supply stable this year should help alleviate long-end yield volatility. That said, a strong USD regime is here to stay with bouts of volatility, as tariffs and still-wide interest rate differentials in this high-for-longer rates environment should be a source of USD support.

Elsewhere in China, the economy continues to face headwinds, including weak nominal GDP growth and ongoing uncertainty in US-China trade relations. While the earlier timing of the Lunar New Year lifted food and services prices, underlying deflationary pressure and continued consumption downgrading remain concerns. Hence, we expect Chinese policymakers to maintain an accommodative stance and remain reactive as they assess potential negative shocks from Trump 2.0.

Singapore's near-term outlook stays resilient, supported by the ongoing upturn in global tech cycle and pre-tariff front-loading activity. However, as an externally dependent economy, it faces growth risks as global trade flows slow. MAS's recent pre-emptive move points to a wait-and-see approach, with a further easing bias should global growth decelerate. The SGD remains vulnerable as it is one of the most exposed currencies to trade tariffs with its high export exposure and beta to RMB.

On the rates front, SGSs are expected to outperform USTs. Unlike the US, which has increased debt issuance to cover budget deficits, Singapore maintains a balanced budget policy and does not rely on government bond issuance to finance its spending. This divergence could put upward pressure on the long end of the UST curve.

In the SGD credit space, spreads should remain tight relative to historical levels, supported by technicals and solid fundamentals. Carry will likely remain the name of the game as rates are expected to stay high for longer. Singapore also offers an oasis of safety in times of heightened geopolitical stress. We continue to favour Financials, the mainstay of credit market, given their solid positioning to navigate the uncertain interest rate trajectory and healthy net interest income. For the Real Estate sector, we stay selective within REITs given interest cost savings (lower rates) from refinancing may take time to materialize.

Source: Schroder Investment Management Limited

HSBC Life Asian Growth Fund

Investment and Market Review

MSCI AC Asia Pacific ex Japan gained 1.20% over second half 2024 (SGD term). In terms of geography, Singapore was the best performing country while China also outperformed while Korea was the worst performing country. In terms of sectors, Financials was the top performing one while Energy underperformed.

China's outperformance was driven mainly by the strong performance in September due to hopes for more stimulus. On the other hand, Korea was the worst performing market on the back of political volatility.

The fund underperformed against the benchmark on a 6-month basis. Positive stock selection effect in India and Materials positively contributed to performance, partially offset by the unfavourable stock selection effect in Indonesia as well and Information Technology.

In terms of positioning, we are most overweight to Korea and Information Technology. On the other hand, we are most underweight to India and Industrials as of end December 2024.

Market Outlook and Investment Strategy

While the US election event uncertainty has peaked, the macro and policy implications of the elections are still yet to unfold and policy uncertainty has risen which could likely result in volatility in the equity markets. However, Asian regional valuations are generally attractive, earnings are stabilizing and positioning is light. which enables us to maintain a constructive view on Asian equities. It is also worth noting that valuation dispersion among stocks has increased in various global markets – suggesting higher alpha than beta markets currently, and benefits active equity managers like ourselves.

Source: HSBC Global Asset Management

HSBC Life Asian Income Fund

Investment and Market Review

Despite pronounced volatility at differing periods over the course of the year, Asia Pacific ex-Japan markets gained in 2024, bolstered by solid corporate earnings, US Federal Reserve interest rate cuts (September – December), and the most robust Chinese stimulus package seen in years, which was announced in September. Taiwan was the best-performing market, buoyed by AI optimism, while India saw strong domestic economic growth and investment inflows, and Mainland Chinese equities benefitted from the government measures. Conversely, South Korean equities declined due to a tepid economy, poor performance from the technology sector (principally heavyweight Samsung Electronics) and political instability, after the country's then-President Yoon Suk Yeol declared martial law in early December. Overall, the MSCI AC Asia Pacific ex-Japan Index returned +13.9% in SGD terms over the year.

In terms of fixed income, the US 10-year Treasury yield increased from 3.88% at end-December 2023, to 4.57% at end-December 2024, although it traversed a wide range of 3.6-4.7% over this period. Despite this volatility, Asian bonds demonstrated remarkable resilience, with the JPM Asia Credit (SGD Hedged) Index rising +3.7% in SGD terms in 2024. Asian high yields outperformed their investment grade counterparts, with a stable regional economy, solid US growth, and high all-in yields attracting investors.

Schroder Asian Income rose a strong +9.8%, net of fees, in 2024 in SGD terms. The Fund outperformed the 50% MSCI AC Asia Pacific ex-Japan + 50% JACI SGD-Hedged reference benchmark which returned 8.8%. Both equities and fixed income contributed positively, as did our tactical positioning in equity futures, led by our long positions in Taiwan index futures, supported by large-cap technology names.

Within equities, the Technology sector led the gains, primarily due to our exposure to Taiwanese semiconductors, driven by AI enthusiasm. China positions also saw a strong contribution, particularly in September, after the country's central bank unveiled the biggest monetary and liquidity stimulus package since the pandemic. In addition, security selection within India delivered positive returns, with the utilities sector benefitting from the country's expansionary budget to support energy and power plants. Our holdings in Singapore banks also added value.

Fixed income returned positively with Hong Kong bonds delivering strong gains, led by insurance, financials, and TMT. Chinese bonds also did well, supported by consumer names in the e-commerce retail space, as did Australian banking and real estate names, and South Korean financials.

Within Global ex-Asia, our exposure to catastrophe bonds and US Semiconductor ETF (now sold) generated alpha. US equity futures also delivered strong gains, as did our US Energy Infrastructure (now sold) which provided attractive alternative yields for the income strategy.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts towards 'Trumponomics', geopolitical tensions, as well as central banks' rate cutting actions. In the US, we continue to expect fewer rate cuts from the Fed than the market. Over the next few months, we still expect inflation to be quiescent, but there is a risk of inflation accelerating as the year progresses given the likelihood of tighter immigration controls leading to less slack in the labour market.

Outside of the US, while there is uncertainty around Trump's widespread tariffs, we would expect more monetary stimulus from Asian trading partners, such as China, to offset this. The region is likely to experience varying degrees of impact, but countries with a stronger domestic focus and robust growth, such as India and Indonesia, are expected to remain resilient. We continue to favour undervalued companies with a competitive edge within the global market landscape, and sectors that perform well post rate-cutting cycles.

Within fixed income, we prefer to keep duration neutral while staying nimble amid the persistent rate volatility. Asia credit benefits from a shorter duration profile relative to most regions, providing resilience against rate fluctuations especially considering unpredictable Trump policies and resultant reflation concerns. Overall, we remain positive on Asia in 2025 given the strength of domestic economies, but recognize that volatility remains a factor until clearer policies emerge from the newly-elected US government.

Source: Schroder Investment Management Limited

HSBC Life Greater China Fund

Investment and Market Review

Chinese and Hong Kong equities ended the quarter lower. In early October, stocks retreated after the sharp rise that was driven by stimulus measures announced late in September. Later in the period, a series of policy follow-ups aimed at reviving growth aided stock markets, including a five-year debt programme totalling 10 trillion yuan intended to ease local government financing issues. However, concerns over the effectiveness of China's policy support and the potential impact of policy shifts under a Trump administration in the US weighed on market sentiment. Trump's proposed tariff hikes on imports from selected countries, including China, escalated trade tensions between the US and China, and added to the economic challenges. The People's Bank of China (PBoC) reduced the one-year loan prime rate (LPR) to 3.10% from 3.35%, and the five-year LPR to 3.60% from 3.85%. The Politburo meeting in December surprised markets with its remarks on shifting to a "moderately loose" stance on monetary policy for the first time since 2011. Authorities were reportedly planning to issue record special treasury bonds in 2025, highlighting China's push for stronger fiscal stimulus to support its economy. Against this backdrop, state-owned high-yield stocks continued to attract investor interest, driven by Chinese government bond yields hovering near record lows and China's latest push for a value-up programme for publicly listed state-owned enterprises. On a positive note, Taiwanese equities gained over the period, benefitting from a rally in technology stocks amid a positive outlook for artificial intelligence (AI)-related demand.

Market Outlook and Investment Strategy

The managers focus on areas that can deliver sustainable quality growth over the next three to five years. As a result of the bottom-up stock selection process, the fund has an overweight stance in China and an underweight allocation to Hong Kong and Taiwan. Selected consumer stocks are among the key holdings in the portfolio.

Retain conviction in high-quality stocks China Merchants Bank is a leading retail-oriented bank in China which is facing customer stickiness from its retail clients. The bank has a benign asset quality with a strong retail franchise and solid management team. Alibaba Group Holding is a noteworthy e-consumption-led holding that plays an important role in the Chinese consumption ecosystem. Alibaba's ecosystem has superior breadth and depth, and this acts as the foundation for its highly loyal merchants and consumers, which ultimately supports its pricing power. Moreover, its corporate culture supports innovation, customer focus, and the pursuit of excellence, which has aided the company to go beyond its comfort zone, making it an attractive investment. New Oriental Education & Technology Group is preferred for its competitive advantages in the education services space as well as improving market conditions, including robust demand for education services, favourable supply-demand dynamics, and a stable regulatory environment.

Source: FIL

HSBC Life Total Return Multi-Asset Advantage Fund

Investment and Market Review

The year 2024 has emerged as another robust period for financial markets, characterised by positive returns across most asset classes. This favorable outcome can be attributed to several key drivers, including the initiation of rate cuts by central banks and stronger-than-expected economic growth, bolstered by substantial policy support, particularly from the U.S. government.

The Fund has an absolute return objective but nonetheless capitalised on the favourable environment and returned 23.6% gross in SGD. As a blended reference, the total return of 80% MSCI AC World Index (translated to SGD) and 20% in FTSE World Government Bond Index (SGD) with monthly rebalancing was 17.2%.

In terms of performance with data in dollars, the MSCI AC World Index recorded a remarkable increase of 17.5% over the year. The MSCI Asia ex-Japan Index also performed well, rising by 12.0%, while the MSCI Europe Index faced challenges, ending the year down -0.9%. Notably, in euro terms, the European index advanced by 8.6%, but this gain was largely negated by the euro's depreciation against a strengthening dollar.

U.S. equities were at the forefront of this positive momentum, with the S&P 500 Index delivering an impressive 25.7% return, closely mirroring the performance of the MSCI US Index. This surge was significantly driven by technology theme stocks, particularly those within the "Magnificent 7" group, which collectively saw a staggering 67.3% increase as measured by the Bloomberg Magnificent 7 Index.

In contrast, Asia's economic landscape presented a mixed picture. China struggled with weak economic activity due to falling property prices and low consumer confidence. Initial investor reactions to Chinese policy responses were tepid; however, a series of cohesive announcements, especially the ones made in September, began to shift market sentiment positively. As a result, Chinese equities rallied in the latter half of the year, with the Shanghai Shenzhen 300 Index achieving a 15.0% return in dollar terms. Meanwhile, Japan's TOPIX Index benefited from renewed optimism regarding deflation and ongoing corporate reforms, returning 7.9% in dollars (and an impressive 20.4% in yen).

The momentum energy sector experienced in the first few months of 2024 failed to follow through. Dated Brent spot price ended the year down -1.6%, primarily due to demand not keeping pace with abundant supply from producers. Conversely, precious metals thrived amid global fiscal deficits and easing monetary policies from central banks. Gold had its strongest rally since 2010, climbing by 27.2%, while silver also saw significant gains of 21.4%, marking its best performance since 2020.

Despite these generally positive trends, financial markets encountered several bumps along the way. The yield on 10-year U.S. Treasuries finished at 4.57%, up from 3.88% at the end of 2023 - a very rare occurrence where bond yields rose despite a cut in Federal Reserve policy rates. This anomaly reflects market expectations that a recession is unlikely and that rate cuts are merely indicative of anticipated declines in inflation towards the Fed's target of 2%. Not surprisingly, JACI Investment Grade Index returned just 4.2% over the year, not materially different from that of cash. The longer duration Bloomberg Global Aggregate Index returned 3.4% and -1.7% in USD hedged and unhedged respectively.

Geopolitical tensions also played a pivotal role in shaping market dynamics throughout 2024. The ongoing conflict between Russia and Ukraine continued to influence global geopolitics, reshaping alliances and economic relationships while diverting European focus from necessary internal reforms. Additionally, conflicts in the Middle East highlighted regional instability and its far-reaching implications for global security and economic stability.

Market Outlook and Investment Strategy

As we look ahead to 2025, we anticipate that China's robust policy response will gradually take shape, attracting renewed investor interest in equity markets. As these initiatives unfold, we expect investors to increase their allocations to Chinese equities beyond their current representation of just over 2% in the MSCI AC World Index.

We do not claim to have extensive insight into the policies and limitations of Trump Administration. Nonetheless, our investment strategy will focus on several key areas:

1. Judiciously Increase Allocation to Asian Equities: The Fund plans to tactically enhance its exposure to Asian markets as they are likely to benefit from China's renewed focus on economic stimulation.
2. Monetary Policy Easing: The dovish pivot from central banks is expected to continue as they respond to softer economic data, creating a favourable environment for risk assets over the next year or longer.
3. Geopolitical Risk Management: We will closely monitor potential trade tensions arising from U.S.-China relations under a new administration and adjust our strategies accordingly to mitigate downside risks.

4. Investment Opportunities in Artificial Intelligence and Technology: We believe that sectors driven by artificial intelligence will continue to exhibit significant growth potential, with leading companies likely to outperform traditional market players.
5. Bond Market Dynamics: Given persistent fiscal deficits, bond vigilantes may demand higher term premia for longer-duration assets, leading to increased volatility as yield curves steepen over time.

In conclusion, we believe that central banks' easing of monetary policies will favour global risk assets more than fixed-income investments in 2025. Our strategy will emphasise capitalising on sectors poised for growth due to rejuvenation policies while maintaining diversification across geographies and sectors to mitigate risks associated with geopolitical developments that could impact inflation or financial stability.

The Fund will maintain an overweight position in U.S. equities due to their clearer corporate earnings growth while recognising long-term opportunities in Asian markets influenced by supportive government policies, particularly in China. Following recent surges in yields, we will judiciously increase bond portfolio duration to offset equity risk while continuing to find credit attractive given stable economic growth prospects.

This balanced approach aims to capture growth opportunities while establishing defensive positions necessary for navigating an increasingly complex global economic landscape characterised by both opportunities and challenges ahead.

Source: Fullerton

HSBC Life Fortress Fund A & B

Investment and Market Review

Fund returns 28.55% in 2024

For the financial period ending 31 December 2024, the Nikko AM Shenton Thrift Fund (the “Fund”) posted a return of 28.55% (SGD terms, on a NAV-NAV basis), outperforming the Straits Times Index (STI) which returned 23.52% on a total return basis over the same period.

The Fund’s overweight positions in Sea Limited and Yangzijiang Shipbuilding added the most to relative performance over the period. Conversely, the overweight position in UMS Integration and underweight in Seatrium were the biggest detractors from relative performance.

The Straits Times Index (STI) climbs 23.52% in 2024

Singapore stocks wrapped up a stellar year, in line with global equities, with the STI gaining 23.52% in 2024 on a total return basis in SGD terms. Monetary policy remained at the forefront of the macro landscape, which culminated in the US Federal Reserve cutting interest rates for the first time in four years in September. Donald Trump’s victory in the US presidential election marked a pivotal moment for markets in November, although there were concerns over potential tariffs that could come with the new US administration. Elsewhere, Asia’s biggest focal point remains on the health of the Chinese economy, which eventually saw China unleash its boldest stimulus in years and adopting a “moderately loose” stance on monetary policy over the final months of 2024. Separately, continued enthusiasm about artificial intelligence has been a large boost to global markets, even as geopolitical tensions remained high over the period. In Singapore, the Monetary Authority of Singapore (MAS) kept its exchange rate-based monetary policy unchanged; inflation continued to ease; and the economy expanded by 4% for the full year according to preliminary government data. Lawrence Wong was inaugurated as Singapore’s fourth prime minister, succeeding Lee Hsien Loong, as he emphasised continuity and stability as pillars for the incoming administration.

Market Outlook and Investment Strategy

Remain focused on "New Singapore" stocks, which represent the future economy of Singapore

Relative to 2024, we are more cautious on 2025 and expect economic growth to moderate, due to slower trade activity driven by escalating geopolitical tensions and trade conflicts, along with uncertainties over China’s economic stimulus measures and the pace of global monetary easing. As such, we anticipate that the MAS may consider easing monetary policy by reducing the slope of the SGDNEER. This would represent a shift towards a more accommodative stance, which could help ease liquidity conditions and cushion the impact of slower economic growth in 2025 arising from slower trade.

We expect a further moderate expansion in corporate earnings in 2025, following the strong performance of 2023 and 2024. Bank earnings are likely to face pressure from lower lending margins as interest rates decline. However, we believe the impact will be manageable, as rates are expected to remain structurally higher than pre-2022 levels. Beyond the banking sector, we anticipate earnings growth to broaden across other industries such as industrials, consumer goods, and communications services.

We are positive on the initiative by the MAS to strengthen the Singapore stock market, and we believe that potential measures could support liquidity and valuations, particularly among mid-cap stocks. We expect the upcoming proposals from the MAS review to include both supply-side and demand-side solutions. These measures should help facilitate capital intermediation, enhance market depth, and broaden the diversity of the domestic market.

Our portfolios remain positioned in "New Singapore" stocks, which represent the future economy of Singapore, in areas such as renewable energy, tech, data, healthcare, and logistics. In recent months, we have been more positive on selected stocks in the industrials sector, predicated mainly on positive bottom-up outlooks in industries such as aircraft maintenance and repair, defence, air cargo, and transportation. Energy transition remains a central theme—our portfolios include power generators transitioning from brown to green energy and benefitting from tight electricity markets. We are also gradually adding to selected Singapore REITs, as the rate cut cycle should lift future dividends and valuations in the sector.

Source: Nikko AM

HSBC Life Total Return Multi-Asset Advantage Fund

Investment and Market Review

The year 2024 has emerged as another robust period for financial markets, characterised by positive returns across most asset classes. This favorable outcome can be attributed to several key drivers, including the initiation of rate cuts by central banks and stronger-than-expected economic growth, bolstered by substantial policy support, particularly from the U.S. government.

The Fund has an absolute return objective but nonetheless capitalised on the favourable environment and returned 23.6% gross in SGD. As a blended reference, the total return of 80% MSCI AC World Index (translated to SGD) and 20% in FTSE World Government Bond Index (SGD) with monthly rebalancing was 17.2%.

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U.S. equities were at the forefront of this positive momentum, with the S&P 500 Index delivering an impressive 25.7% return, closely mirroring the performance of the MSCI US Index. This surge was significantly driven by technology theme stocks, particularly those within the "Magnificent 7" group, which collectively saw a staggering 67.3% increase as measured by the Bloomberg Magnificent 7 Index.

In contrast, Asia's economic landscape presented a mixed picture. China struggled with weak economic activity due to falling property prices and low consumer confidence. Initial investor reactions to Chinese policy responses were tepid; however, a series of cohesive announcements, especially the ones made in September, began to shift market sentiment positively. As a result, Chinese equities rallied in the latter half of the year, with the Shanghai Shenzhen 300 Index achieving a 15.0% return in dollar terms. Meanwhile, Japan's TOPIX Index benefited from renewed optimism regarding deflation and ongoing corporate reforms, returning 7.9% in dollars (and an impressive 20.4% in yen).

The momentum energy sector experienced in the first few months of 2024 failed to follow through. Dated Brent spot price ended the year down -1.6%, primarily due to demand not keeping pace with abundant supply from producers. Conversely, precious metals thrived amid global fiscal deficits and easing monetary policies from central banks. Gold had its strongest rally since 2010, climbing by 27.2%, while silver also saw significant gains of 21.4%, marking its best performance since 2020.

Despite these generally positive trends, financial markets encountered several bumps along the way. The yield on 10-year U.S. Treasuries finished at 4.57%, up from 3.88% at the end of 2023 - a very rare occurrence where bond yields rose despite a cut in Federal Reserve policy rates. This anomaly reflects market expectations that a recession is unlikely and that rate cuts are merely indicative of anticipated declines in inflation towards the Fed's target of 2%. Not surprisingly, JACI Investment Grade Index returned just 4.2% over the year, not materially different from that of cash. The longer duration Bloomberg Global Aggregate Index returned 3.4% and -1.7% in USD hedged and unhedged respectively.

Geopolitical tensions also played a pivotal role in shaping market dynamics throughout 2024. The ongoing conflict between Russia and Ukraine continued to influence global geopolitics, reshaping alliances and economic relationships while diverting European focus from necessary internal reforms.

Additionally, conflicts in the Middle East highlighted regional instability and its far-reaching implications for global security and economic stability.

Market Outlook and Investment Strategy

As we look ahead to 2025, we anticipate that China's robust policy response will gradually take shape, attracting renewed investor interest in equity markets. As these initiatives unfold, we expect investors to increase their allocations to Chinese equities beyond their current representation of just over 2% in the MSCI AC World Index.

We do not claim to have extensive insight into the policies and limitations of Trump Administration. Nonetheless, our investment strategy will focus on several key areas:

6. Judiciously Increase Allocation to Asian Equities: The Fund plans to tactically enhance its exposure to Asian markets as they are likely to benefit from China's renewed focus on economic stimulation.
7. Monetary Policy Easing: The dovish pivot from central banks is expected to continue as they respond to softer economic data, creating a favourable environment for risk assets over the next year or longer.
8. Geopolitical Risk Management: We will closely monitor potential trade tensions arising from U.S.-China relations under a new administration and adjust our strategies accordingly to mitigate downside risks.
9. Investment Opportunities in Artificial Intelligence and Technology: We believe that sectors driven by artificial intelligence will continue to exhibit significant growth potential, with leading companies likely to outperform traditional market players.
10. Bond Market Dynamics: Given persistent fiscal deficits, bond vigilantes may demand higher term premia for longer-duration assets, leading to increased volatility as yield curves steepen over time.

In conclusion, we believe that central banks' easing of monetary policies will favour global risk assets more than fixed-income investments in 2025. Our strategy will emphasise capitalising on sectors poised for growth due to rejuvenation policies while maintaining diversification across geographies and sectors to mitigate risks associated with geopolitical developments that could impact inflation or financial stability.

The Fund will maintain an overweight position in U.S. equities due to their clearer corporate earnings growth while recognising long-term opportunities in Asian markets influenced by supportive government policies, particularly in China. Following recent surges in yields, we will judiciously increase bond portfolio duration to offset equity risk while continuing to find credit attractive given stable economic growth prospects.

This balanced approach aims to capture growth opportunities while establishing defensive positions necessary for navigating an increasingly complex global economic landscape characterised by both opportunities and challenges ahead.

Source: Fullerton

HSBC Life Global Balanced Fund

Investment and Market Review

Global equity markets notched up strong gains in 2024. This was despite some instances of marked volatility, notably in late July/early August and also in mid-December. US equities led the gains, supported by expectations of a soft economic landing and further interest rate cuts. Resilient corporate earnings in several sectors also supported shares, as did enthusiasm around new technologies and Artificial Intelligence (AI). Eurozone delivered gains although economic momentum weakened significantly over the year. Japanese shares experienced a sharp correction in late July after a surprise BOJ interest rate hike but posted gains for the period overall. Asia Pacific ex-Japan also returned positively over the year. Optimism over the prospects for technology-related stocks helped Taiwanese equities to perform strongly. China was a key laggard for much of the period under review amid worries over its real estate sector. However, hopes of additional stimulus boosted shares towards the end of the period and it ended with gains. Overall, the MSCI AC World Index gained 21.8% in SGD terms over 2024.

In terms of fixed income, yields rose across the major government bond markets in 2024. The first half of the year saw market participants scale back expectations for early interest rate cuts and although subsequently softer inflation data boosted bond markets, particularly in the US, the November elections were the catalyst for a sell-off. Over the 12-month period, the 10-year US Treasury yield rose from 3.88% to 4.57%. Weaker US labour market data prompted the Fed to sanction interest rate cuts in September, November and December although officials subsequently issued more cautious guidance for 2025. Credit spreads tightened significantly, as lower interest rates boosted demand for both investment grade and high yield corporate bonds.

Commodities returned higher, led by precious metals. Gold advanced a strong +31.8% over the period, benefitting from geopolitical tensions in the Middle East, ongoing economic uncertainties and strong demand from central banks around the world. Within currencies, the US Dollar strengthened +7.1% (as measured by the DXY Index) while the SGD weakened -3.4% against the greenback.

SMART 50 delivered positive returns and outperformed their reference benchmarks comfortably for the year 2024.

Equities were the largest return contributors to absolute returns, driven by our allocations to Global and US equities. US equities was the best performer, led by Communication Services and the Tech sectors amid strong earnings and high demand for AI-related technologies; our opportunistic allocations to US small caps and sectors such as US Financials and Nasdaq were also additive to returns. Likewise, Fixed Income exposures contributed positively, due mainly to Global and Asian credit strategies as spreads narrowed, as did our exposure to Gold, which hit a record high over the year.

The Funds outperformed their respective benchmarks, with both asset allocation and security selection contributing to relative performance. Asset allocation was positive with the decision to overweight equities, and a preference for US, contributing strongly to relative performance, while tactical allocations to thematic sectors also helped. Within fixed income, an underweight in duration and a preference for credit over government bonds was beneficial as they outperformed. Our tactical position in Gold and overweight in USD, notably in the first half of 2024, also contributed to relative gains.

Market Outlook and Investment Strategy

As we enter 2025, the focus shifts from 'landings' to divergence across economies, central bank actions, and market performance. While we continue to expect inflation to be quiescent, there is a risk of inflation reaccelerating in the US as the year progresses. Together with the sustainability of government debt, this means that sovereign bonds don't offer the same diversification benefits. We continue to prefer credit considering higher all-in yields and strong corporate fundamentals.

We continue to hold a positive view on equities in the medium term, supported by healthy US earnings growth and low recession risks. Regionally, the US remains our preferred market post-election, as renewed confidence is evident. There is also potential for market strength to broaden out further to other regions. Volatility is expected to remain high but this could present buying opportunities.

With the potential for global tariffs in the months ahead, the US Dollar is useful as a diversification hedge. We remain positive on Gold as it should protect against concerns of excessive fiscal spending, although the allocation needs to be tactical rather than structural.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. Looking ahead, key questions going forward include whether yields will continue to rise and affect stability of equity markets, the Federal Reserve's interest rate trajectory, and whether China will implement further stimulus from here.

Source: Schroder Investment Management Limited

HSBC Life Global Defensive Fund

Investment and Market Review

Global government bond yields traded in a wide range during March but ended the month lower. The rhetoric from key central banks remained consistent with a patient and gradual approach to reducing policy rates. By month-end, market pricing was more aligned with this than had been the case at the start of the year, when a much greater scale and pace of monetary policy easing was discounted. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) kept interest rates on hold as expected. While inflation has cooled markedly over the past year to the end of March, market concerns have grown over whether this progress had stalled, most notably in the US.Market.

Fixed-income markets fluctuated throughout June, influenced by the trajectory of central bank monetary policy rates based on incoming data and political-related volatility that affected several key global economies. US Treasury

(UST) yields traded in a wide range but ended the month lower. Weaker US inflation and economic activity data helped to consolidate expectations that the Federal Reserve (Fed) will soon begin to ease the restrictiveness of monetary policy.

Following weeks of intense speculation, the US Federal Reserve (Fed) delivered its first interest rate reduction since March 2020 with a 50-basis-point (bp) cut that brings the fed funds target rate to a range between 4.75% and 5.0%. Following the decision, Fed Chair Jerome Powell cited greater confidence that inflation is moving sustainably toward the Fed's 2% target while the labour market was in better balance, allowing for the recalibration given the balance of risks to both sides of its dual mandate. US Treasuries (USTs) were also supported by a decline in oil prices, which reflected ongoing concern over global demand as well as reports that Saudi Arabia would soften its position on curtailing supply to support prices.

Global government bond yields rose in December as US economic data continued to demonstrate resilience and concern grew that the disinflation trend across major developed market (DM) economies may have stalled, as evidenced by actions from the Federal Reserve (Fed). Despite cutting the fed funds rate by another 25 basis points (bps), the Fed indicated via its updated Summary of Economic Projections that it expected only 50 bps of cuts in 2025—fewer than the market had anticipated.

Outlook and Investment Strategy

The Fund made several portfolio changes throughout the year. Overall portfolio duration slightly decreased during the year, but importantly where we held duration evolved. US Treasury duration starting the year was primarily invested on the 30-year part of the curve, however, as US economic data came in stronger than expected throughout the year, we rolled down the curve and added 5- and 10-year US Treasury exposure.

After the strong fourth quarter rally, we took some profits on our US Treasury position, and to end the year we remain invested to the 10-year part of the US Treasury curve. In the US, we continue to favour the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios. The fund also initiated exposure to UK Gilts, German bunds and Spanish government bonds in the fourth quarter. The growth slowdown remains more evident in the UK and Euro area, while at the same time these central banks have also indicated an end to their rate hiking cycles. We increased positions to EM local currency sovereign bonds early in the year, and began selectively trimming some of that exposure later on as it performed well. We also trimmed some of our US RMBS exposure for profit taking. Finally, we initiated and then sold a Japan sovereign duration short.

Our base case coming into 2023 was that inflation would decline and it has. With inflation lower and major developed market central banks about to embark on rate-cutting cycles, the macro environment is generally favourable for bonds. With that said, there are still uncertainties in the economy that should dominate headlines in 2024. We are entering the year with major global economies in varying growth trajectories, with the Eurozone in below trend growth, China still weak, and the US economy holding on for now but with various aspects at play that could impact a hard or soft landing.

We therefore feel it’s important to employ an active and nimble approach in the coming year, as investors navigate the macro backdrop. We currently hold an overweight to high quality developed market duration, primarily via US Treasury duration, followed by UK Gilts and some European duration (German bunds and Spanish government bonds). In the US, we continue to favor the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios.

It is also important to remember that a number of fixed income sectors continue to have strong yields, and are out yielding the S&P 500 Index, making the case for bonds compelling. We therefore also currently hold select US corporate credits with meaningful yield cushion. We believe US credits are a good place to be right now given that the Fed has reached peak rates and the starting yields remain compelling. With that said we are being selective in our credits and doing the bottom-up work, meaning we like companies with strong balance sheets and management teams. We see opportunities across fixed income sectors and through active, relative yield curve and cross-country positioning. Hard or soft landing, we believe the bonds we are invested should do well given a lower inflation backdrop, a central bank pivot, and higher starting yields. Finally, we believe that our portfolio represents a compelling opportunity, with a 7.3% YTM and an investment grade credit quality rating.

Source: Franklin Templeton

HSBC Life Emerging Market Opportunities Fund

Investment and Market Review

Emerging market (EM) equities rose in US dollar terms over the period, although some way behind developed market equities. Concerns about US interest rates staying “higher for longer” were a headwind for EM early in the year. However, money policy easing measures announced by both US and Chinese authorities in September and again before year-end were supportive towards the end of the period. More recently, policy uncertainty following Donald Trump’s presidential election victory in November has weighed on EM returns in general, not least because of investor concerns about the potential impact of Trump’s proposed tariffs, particularly on China. Elections were held in a number of EM during 2024, some of which were well received by markets while others caused some volatility.

Taiwan was the strongest index market, benefiting from global optimism about artificial intelligence-related technology. January’s presidential election saw the ruling Democratic Progressive Party (DPP) remain in power, although it lost its majority in parliament, and the previous vice president Lai Ching-te voted in as president. China was well ahead of the index, boosted by optimism about the authorities’ support for the economy which included monetary policy measures and guidance that fiscal policy measures are forthcoming. India outperformed, helped by political developments. Prime Minister Modi’s Bharatiya Janata Party-led (BJP) National Democratic Alliance retained its parliamentary majority in the country’s generation election, which was held in the first half of the year, although the BJP lost its single party majority.

South Africa ended the year behind the index. While investors welcomed the formation of a coalition “Government of National Unity” between the ruling African National Congress Party, the key opposition Democratic Alliance and a number of smaller parties in June, US-election-related uncertainty weighed on the index market later in the period. Thailand and Saudi Arabia both gained in US dollar terms but underperformed the index.

The remaining EM delivered negative returns. Korea was down double-digits. Not only has poor performance from index heavyweight Samsung Electronics proved a headwind, political instability following the impeachment of first the president and then the acting president in December, has also been detrimental to the index market. Political developments also weighed on the Mexican market following Claudia Sheinbaum’s election as president in June and her Morena party’s supermajority. Investor worries centre on the party’s intention to achieve meaningful reforms and the prospect of institutions being weakened given proposed judicial reforms. Brazil declined. Three interest rate hikes between September and December, in response to stubbornly high inflation and concerns about the fiscal outlook weighed on the index market.

The fund gained and outperformed its benchmark.

Among the core markets, China (overweight Trip.Com, CATL) and Mexico (off-benchmark BBB Foods) were among the top contributors to returns. While country allocation and stock selection were positive in both markets, selection in China was notably strong. Taiwan (overweight TSMC, off-benchmark Lotes) was also a significant contributor as very strong stock selection more than offset weaker country allocation.

Greece (overweight Eurobank Ergasias, Piraeus Financial) added to returns, driven by stock selection with country allocation broadly neutral. Chile and South Africa, which were removed from the fund's core list in May and March 2024 respectively, both detracted from returns over the course of the year.

Poland (zero-weight PKO, off-benchmark Kruk) and Brazil (zero-weight Petrobras) weighed on performance as country allocation and stock selection in both markets had a negative impact.

Among the non-core markets, the fund benefited the most from off-benchmark allocations to Slovenia (NLB) and Kazakhstan (Halyk Savings Bank) while an underweight country allocation and stock selection in India (underweight HDFC Bank, off-benchmark CreditAccess Grameen) detracted.

Market Outlook and Investment Strategy

President-elect Trump's fiscal policies may be supportive of US growth in the short-term and this should have some positive spillover effects to the rest of the world, including EM. Although well advanced, the technology cycle continues to be supportive of EM, with AI-related demand expected to sustain at least through H1 2025. There is also some scope for legacy technology demand to improve as the year progresses.

However, Trump's policies are likely to put upward pressure on US inflation and, therefore, Fed policy, the US yield curve and the dollar, which is broadly unhelpful for EM equity returns. That said, the dollar has already strengthened significantly, pressuring EM currencies, many of which screen as cheap. Meanwhile, US bond yields and Fed rate expectations have recently adjusted markedly, and EM real interest rates are elevated. Much appears already priced in to markets.

Aggregate EM inflation has been trending downwards in recent months but increased uncertainty about the external environment given the Trump victory may drive caution from EM central banks. Those EM with resilient growth face a risk that inflation picks up again, curtailing the degree of potential rate cuts. Indeed, Brazil has raised rates three times since September in the face of rising domestic inflation expectations.

The potential for broad-based application of tariffs on exports to the US, with a particularly significant rise in tariffs on China, is the most notable risk for EM. Tariffs would likely lead to currency weakness for exposed countries, especially given the potential for depreciation of the renminbi, and could further slow the global trade cycle, which is already expected to soften moving into 2025. Our base case is for a more nuanced US approach to tariff application than that suggested by campaign rhetoric, although the balance of risk is to a more aggressive rollout.

Recent moves by US authorities, including the categorisation of several large Chinese tech companies as security risks given their alleged ties to the Chinese military, represent some of the non-tariff ways in which the geopolitical tension between the two countries is currently playing out. We expect the process of US-China decoupling to continue, which may create further volatility. That said, risk premia are already elevated.

The application of high tariffs and/or non-tariff measures may prompt a more significant Chinese policy response to defend against the impact on growth. Indeed, there is already a stronger policy backstop given September's stimulus announcements and December's commitments to more expansionary fiscal and monetary policy. Further moves, particularly to tackle the real estate sector, would be a welcome development. That said, policy action is likely to continue to be incremental – anything more would be a positive surprise - and execution will be key.

Headline EM valuations versus their own history are reasonable overall, being close to historical median levels. Emerging European and Latin markets are generally cheap while Asia is a more mixed picture, and India and Taiwan remain expensive. Meanwhile, EM's discount to developed markets on a 12-month forward price-earnings basis is still near its widest in 20 years, even after adjusting for sector weights.

Near term, the key risks for EM continue to be the policy uncertainty associated with the new US administration, policy developments in China and a deterioration in AI sentiment. Geopolitics is a further area to monitor, both in terms of US-China trade relations, as well as the conflicts in Ukraine and the Middle East.

Source: Schroder Investment Management Limited

HSBC Life Global Perspective Fund

Investment and Market Review

- Global stocks rallied, generating double-digit gains for the second year in a row. Driven by enthusiasm for rapid advancements in artificial intelligence (AI), U.S. stocks soared — lifting the MSCI World Index to a gain of more than 18%. Other major developed markets, including Europe and Japan, generated mostly moderate increases while Chinese stocks bounced back strongly from a rough 2023.
- Markets advanced despite intensifying geopolitical risks, including ongoing conflicts in Ukraine and the Middle East. The November victory of U.S. President-elect Donald Trump further boosted U.S. stocks but hurt some trading partners amid concerns about higher tariffs. Information technology and communication services stocks led markets higher. Materials was the only sector to post negative results for the year.

Relative detractors

- A below-index stance in **NVIDIA** proved costly. Shares soared 171% as it unveiled new graphics processors to support AI and continued to benefit from soaring demand for advanced chipsets, with hopes of further strong growth to come. NVIDIA also announced a 10-1 stock split and a significant increase in its quarterly dividend.

- An above-index position in **Novo Nordisk** was a drag as shares fell 10%. Shares gave up earlier strong gains, after data from a late-stage clinical trial for its next-generation weight loss treatment, CagriSema, suggested it lagged the amount of weight loss achieved by rival Eli Lilly's drug Zepbound. Separately, Novo Nordisk's revenue guidance for 2025 fell short of analysts' high estimates. The pharmaceutical firm nevertheless reported strong revenue growth for the first nine months of 2024 driven by surging sales of its diabetes and obesity care drugs.
- A below-index holding in **Apple** also hurt on a relative basis as shares gained 31% against strong financial results and positive sentiment on its AI strategy. Quarterly earnings and revenue beat analysts' estimates, with Apple announcing a new share buy-back plan and hiking its dividend. In June, the technology giant unveiled its AI offering, Apple Intelligence: the new system is designed to bring AI benefits to users of its iPhone, iPad and Mac devices. Apple also benefited from positive sentiment around the September launch of the iPhone 16.

Relative contributors

- **Broadcom** was a bright spot as shares surged 110% to trade at record highs on well-received results and better-than-anticipated guidance given soaring demand for generative AI infrastructure. Broadcom saw a rapid acceleration in revenue from AI products and infrastructure software, with the latter buoyed by the increasing number of firms adopting Broadcom's VMware to build private clouds. It forecast the strong momentum in AI to continue as more hyperscale customers deploy its Jericho3-AI chip. Broadcom announced a ten-for-one forward stock split.
- An above-index holding in **Taiwan Semiconductor Manufacturing Company** (TSMC) also added relative value. Shares rallied 84% to trade at record highs on better-than-anticipated results, a return to revenue growth and further signs the chipmaker was benefiting from higher demand for the advanced chips used in AI. Sentiment on the outlook was buoyed by TSMC's strategic global expansion alongside investor enthusiasm over its AI exposure and product pipeline to satisfy growing requirements for more advanced chips. The US Department of Commerce separately finalised a US$6.6 billion government subsidy in support of TSMC's expanding chip production in Arizona.
- Holding **Meta Platforms** was another plus. Shares climbed 66% on improving sentiment around the outlook for the online advertising industry, investor enthusiasm on Meta's exposure to AI technology and strong financial results. The social media group announced further share repurchases and initiated a quarterly dividend.

<u>Market Outlook and Investment Strategy</u>

- The world's major economies are headed down divergent paths in 2025, and the US' role as the chief driver of global growth figures could expand even further.
- With US labour markets healthy, profit growth solid and business investment picking up, the International Monetary Fund (IMF) raised its 2025 forecast for US economic growth to 2.2%. That projection offsets downward revisions for other advanced economies, including the largest economies in Europe.
- Strength in the US economy could potentially lift the rest of the world. The IMF is predicting robust economic growth of 6.5% in India as that country benefits from efforts by US companies and others to diversify supply chains. And surging demand for semiconductors and other technology driven by the artificial intelligence boom is bolstering growth in other Asian economies.

- As a result, equity market concentration could be about to broaden in the next cycle alongside other factors such as:
  - A new economic regime with higher, more volatile inflation and interest rates, plus geopolitical tensions.
  - Major structural changes like digital disruption, healthcare innovation, and an industrial boom could drive earnings across a broader range of companies.
- The portfolio remains well-balanced by geography, sector, style, theme and characteristic of underlying companies. It is deliberately not positioned for a single outcome or 'type' of short-term market environment. As a result, if and when the market does broaden out, the portfolio is well-positioned to potentially benefit from the shift in equity market leadership.

Source: Capital Group

HSBC Life Global Growth Fund

Investment and Market Review

Global equity markets notched up strong gains in 2024. This was despite some instances of marked volatility, notably in late July/early August and also in mid-December. US equities led the gains, supported by expectations of a soft economic landing and further interest rate cuts. Resilient corporate earnings in several sectors also supported shares, as did enthusiasm around new technologies and Artificial Intelligence (AI). Eurozone delivered gains although economic momentum weakened significantly over the year. Japanese shares experienced a sharp correction in late July after a surprise BOJ interest rate hike but posted gains for the period overall. Asia Pacific ex-Japan also returned positively over the year. Optimism over the prospects for technology-related stocks helped Taiwanese equities to perform strongly. China was a key laggard for much of the period under review amid worries over its real estate sector. However, hopes of additional stimulus boosted shares towards the end of the period and it ended with gains. Overall, the MSCI AC World Index gained 21.8% in SGD terms over 2024.

In terms of fixed income, yields rose across the major government bond markets in 2024. The first half of the year saw market participants scale back expectations for early interest rate cuts and although subsequently softer inflation data boosted bond markets, particularly in the US, the November elections were the catalyst for a sell-off. Over the 12-month period, the 10-year US Treasury yield rose from 3.88% to 4.57%. Weaker US labour market data prompted the Fed to sanction interest rate cuts in September, November and December although officials subsequently issued more cautious guidance for 2025. Credit spreads tightened significantly, as lower interest rates boosted demand for both investment grade and high yield corporate bonds.

Commodities returned higher, led by precious metals. Gold advanced a strong +31.8% over the period, benefitting from geopolitical tensions in the Middle East, ongoing economic uncertainties and strong demand from central banks around the world. Within currencies, the US Dollar strengthened +7.1% (as measured by the DXY Index) while the SGD weakened -3.4% against the greenback.

SMART 70 delivered positive returns and outperformed their reference benchmarks comfortably for the year 2024.

Equities were the largest return contributors to absolute returns, driven by our allocations to Global and US equities. US equities was the best performer, led by Communication Services and the Tech sectors amid strong earnings and high demand for AI-related technologies; our opportunistic allocations to US small caps and sectors such as US Financials and Nasdaq were also additive to returns. Likewise, Fixed Income exposures contributed positively, due mainly to Global and Asian credit strategies as spreads narrowed, as did our exposure to Gold, which hit a record high over the year.

The Funds outperformed their respective benchmarks, with both asset allocation and security selection contributing to relative performance. Asset allocation was positive with the decision to overweight equities, and a preference for US, contributing strongly to relative performance, while tactical allocations to thematic sectors also helped. Within fixed income, an underweight in duration and a preference for credit over government bonds was beneficial as they outperformed. Our tactical position in Gold and overweight in USD, notably in the first half of 2024, also contributed to relative gains.

<u>Market Outlook and Investment Strategy</u>

As we enter 2025, the focus shifts from ‘landings’ to divergence across economies, central bank actions, and market performance. While we continue to expect inflation to be quiescent, there is a risk of inflation reaccelerating in the US as the year progresses. Together with the sustainability of government debt, this means that sovereign bonds don't offer the same diversification benefits. We continue to prefer credit considering higher all-in yields and strong corporate fundamentals.

We continue to hold a positive view on equities in the medium term, supported by healthy US earnings growth and low recession risks. Regionally, the US remains our preferred market post-election, as renewed confidence is evident. There is also potential for market strength to broaden out further to other regions. Volatility is expected to remain high but this could present buying opportunities.

With the potential for global tariffs in the months ahead, the US Dollar is useful as a diversification hedge. We remain positive on Gold as it should protect against concerns of excessive fiscal spending, although the allocation needs to be tactical rather than structural.

Overall, we think conditions are favourable for good returns to be made in 2025, but there will be challenges to navigate. Looking ahead, key questions going forward include whether yields will continue to rise and affect stability of equity markets, the Federal Reserve's interest rate trajectory, and whether China will implement further stimulus from here.

Source: Schroder Investment Management Limited

HSBC Life Global High Growth Fund

<u>Investment and Market Review</u>

Global stock markets achieved strong gains in CY2024, despite periods of volatility driven by shifting economic expectations as well as geopolitical tensions and policy changes. The US was the top performing equity market supported by robust economic growth and healthy corporate earnings.

The rally was driven largely by the “Magnificent Seven” tech companies, who accounted for approximately half of the S&P500’s returns during the year. Indeed, narrow breadth was a theme across many regional equity markets as larger companies outperformed their smaller counterparts. Information technology was the leading sector, spearheaded by hardware and semiconductor companies. Some of the other cyclically oriented sectors – consumer discretionary, financials, industrials – also performed well as investors in the latter parts of the period anticipated policy shifts would spur economic growth.

Most major currencies fell against the US dollar but in local currency terms performance outside the US was robust. Japan's Nikkei index was a standout buoyed by ongoing corporate governance reforms and an improving economic backdrop. In contrast, China's markets experienced a turbulent year, marked by weak consumer confidence and deflationary pressures that were met with government stimulus, which drove a rally in Chinese equities in the second half of the year. Europe saw mixed results with some markets like Spain performing well, while others like France struggled where underperformance was characterised by political uncertainty.

The portfolio outperformed its comparator index against this backdrop. In aggregate, stock picks in communications services performed particularly well as streaming platform companies Spotify and Netflix were among the leading contributors. Both companies are enjoying market-leading competitive positions which is driving strong pricing power while diversification of revenue streams (audiobooks and advertising respectively) is also delivering growth for both companies. Several opportunistic holdings newly purchased in 2H24 also contributed to relative returns, driven primarily by strong end market demand. US energy services and equipment maker GE Vernova saw a surge in gas turbine orders to meet local power demand increases while US mobile computing company Zebra Technologies is seeing initial momentum across some product categories as an upcycle seems to be taking shape following a period of excess supply.

Market Outlook and Investment Strategy

The AI investment theme performed well for the second consecutive year. Semiconductor companies TSMC and Nvidia as well as networking systems provider Arista Networks all saw significant revenue and earnings growth during the period as they benefitted from the continued AI infrastructure build out. AI-related tailwinds, alongside strong operating and financial performance of their core businesses, also helped Magnificent-7 stocks Alphabet and Meta Platforms to outperform. There were however some pockets of weaker performance within technology during the period.

Opportunistic holding and semiconductor company Samsung Electronics disappointed. While the company benefitted to an extent from an upturn in the memory cycle, this was overshadowed by operational weaknesses in both foundry and memory. We sold this position in the final quarter of year. Intel, a similar semiconductor company, also detracted. Part of our original thesis was around an improvement and recovery in the PC market to drive an inflection in earnings. This did not materialize. Furthermore, the company has so far failed to close the gap with TSMC in the foundry business. As a result, capital expenditure is rising and return on invested capital is falling, pushing expectations for an earnings inflection further out. We sold our position in May. In software, multimedia company Adobe underperformed driven largely by investor concern around competitive pressures stemming from Generative AI companies and emerging peers. We believe these concerns have been overestimated given the company’s high barriers to entry but acknowledge these risks and continue to monitor the position closely.

Source: Schroder Investment Management Limited

HSBC Life Global Secure Fund

Investment and Market Review

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Source: Schroder Investment Management Limited

HSBC Life World Healthscience Fund

Investment and Market Review

The BGF World Healthscience Fund returned -5.6% during the month of December (A2 share class, net of fees in USD), outperforming the MSCI World Health Care Index, which returned -6.1%.

• Global equities experienced negative performance in December with the MSCI World Index returning -2.6% as investors interpreted monetary policy guidance for 2025 and the implications of the incoming Trump Administration.

• In the US, the S&P 500 Index returned -2.4% in one of only three negative months of the calendar year. The Fed announced a 25 basis points (bps) reduction to the benchmark overnight borrowing rate in the third cut of 2024 and indicated that two rate cuts could be expected next year given ongoing inflationary pressures. November CPI revealed YoY inflation of +2.7%, higher than the readouts from September and October.

• In Europe, equities were challenged by political instability. France appointed its fourth prime minister of 2024, leading to volatility in the French CAC 40. In the UK, inflation rose to the highest level since March 2024. The FTSE 100 index fell, driven by disappointing retail sales and concerns of economic stagnation.

• Asian equities were similarly under pressure from global economic uncertainty with evolving US monetary policy and geopolitical tensions affecting regional trade dynamics. The People's Bank of China committed to supportive monetary policy in the year ahead to enhance liquidity of financial markets and to stabilise economic growth.

• Global sectors had mostly negative performance over the month, with only Communication Services, Consumer Discretionary, and Information Technology experiencing positive returns. Materials and Real Estate were the most challenged sectors.

• From a regional perspective, Europe and North America were challenged over the period.

• In December, the MSCI World Health Care Index returned -6.1%, underperforming broad equity markets. All sub-sectors had negative returns with the health care providers & services (-13.5%) and pharmaceuticals (-5.1%) sub-sectors declining the most. US pharmacy benefit managers (PBMs) faced pressure over the month following the introduction of increased industry regulation in a bipartisan Congressional spending bill. PBMs act as intermediaries between drug manufacturers and insurers, employers, and governments, negotiating rebates from pharmaceutical companies and determining which medications are included in insurance plans. Although the proposed reforms were not ultimately enacted, the incoming Trump Administration indicated the possibility of future government intervention in the sector.

• GLP-1 leader Novo Nordisk announced disappointing clinical trial results for its next-generation weight loss treatment, CagriSema, leading to a decline in its stock. The results followed Eli Lilly's announcement that its weight loss drug, Zepbound, demonstrated greater effectiveness than Novo Nordisk's current leading treatment, Wegovy. Previous research indicated Zepbound's superior efficacy but relied on retrospective data rather than a direct comparison.

• Merck entered the GLP-1 market by acquiring licenses for a preclinical GLP-1 pill from Chinese biotechnology company Hansoh Pharma. The US biopharmaceutical giant joins other drugmakers in advancing oral versions of the medication, which offer improved patient accessibility and lower manufacturing costs.

• Medical device manufacturer Dexcom unveiled an artificial intelligence feature for its Stelo continuous glucose monitor (CGM). Designed for users who do not rely on insulin, Stelo monitors blood sugar levels, with the AI enhancement providing personalized insights into how factors like meals, sleep, and physical activity affect glucose levels.

• Not holding a position in CVS was the top contributor to relative performance as the diversified healthcare company continues to experience fundamental challenges due to elevated costs and policy overhang.

• An overweight position in Boston Scientific was another top contributor to relative returns. The medical device company continued to benefit from continued growth in both its cardiovascular and medical surgery segments.

• An underweight position in Teva Pharmaceutical was the top detractor from relative performance as the company reported positive clinical trial results for its inflammatory bowel disease treatment.

• An underweight position in Novo Nordisk was another top detractor from relative returns. The Fund concluded the month underweight the GLP-1 leader, following a reduction in our overweight position after the company reported weaker-than- anticipated clinical trial results for its next-generation weight-loss drug, CagriSema.

• During the month, the Fund increased exposure to select pharmaceutical and biotechnology companies in anticipation of a new product launches. Elsewhere, we decreased our exposure to the health care providers & services sub-sector as the sub-sector continues to experience negative sentiment and regulatory overhang.

Market Outlook and Investment Strategy

• We continue to seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

• While the sector may see an uptick in volatility with the transition of the US president and congressional leadership, change is unlikely to be immediate or unilateral. Leaders will need to navigate complex procedural processes involving multiple government levels, with opportunities for public and judicial challenges to reforms at various stages. Heightened dispersion driven by sector-specific impacts of policy changes and ongoing policy uncertainty underscores the importance of active management. Leveraging scientific and industry expertise is essential in identifying undervalued opportunities.

• We expect continued market volatility and seek attractive opportunities in stable, strong cash flow generating companies across all health care industries. Over the long-term, secular drivers for the sector remain in place; firstly, aging demographics in both developed and developing countries and secondly, innovation in medical technology. The combination of these secular trends, with favourable valuation creates an attractive long-term investment opportunity.

Source: BlackRock (Luxembourg) S.A.

HSBC Life India Opportunities Fund

Investment and Market Review

The Indian market put up a relatively strong performance for a second consecutive year, finishing the last 12-month period ahead of emerging markets but trailing developed markets. The MSCI India index rose 16.26% in Singapore dollar terms, with all sectors, except for consumer staples, registering gains.

In the first half of the year, the main event that dominated the market was the parliamentary election where Prime Minister Narendara Modi won a third term in office, without securing an outright majority for his Bharatiya Janata Party. This pushed him, unexpectedly, into a ruling coalition for the first time. Subsequently, the new government released its budget where fiscal consolidation was on track and capital infrastructure development remained robust, albeit with some moderation. There were also efforts outlined to plug gaps around consumption, rural demand, and employment.

Several factors weighed in the second half when the market lost some of its shine. In September, China's aggressive stimulus announcements prompted some rotation out of India. Domestic growth concerns, moderating earnings growth expectations in the near term, and a depreciating rupee drove a sharp correction. For its part, the Reserve Bank of India (RBI) revised down gross domestic product growth projections for the current fiscal year from 7.2% to 6.6%. RBI left the repo rate unchanged all year at 6.5%, but at its December meeting reduced the cash reserve ratio for banks by 50 basis points to 4%, addressing tight liquidity conditions in the economy and to support growth.

Performance

From a performance perspective, the Fund returned 25.33% in Singapore dollar terms, outperforming the MSCI India by 780 basis points. Strong stock selection in the financials, industrials and communication services sectors as well as positioning in energy were the largest drivers of performance.

Our off-benchmark position in financial services firm, KFin Technologies, did exceptionally well, adding 249bps to relative returns. We introduced the stock to the portfolio at the start of the year, and it performed strongly throughout 2024, supported by buoyant domestic equity market returns and steady flows into domestic mutual funds. Earnings growth remains resilient, driven by expansion in the domestic asset management industry, as well as a foray into international markets.

The Fund's private sector banks were relatively more resilient versus peers in a tight liquidity environment. ICICI Bank outperformed after reporting good results with standout deposit growth and asset quality. While HDFC Bank underperformed in the first quarter as investors feared loan growth could be restricted and margins squeezed, we saw a turnaround in the share price in the second quarter. Resizing our position in the lender early in the year due to near-term headwinds weighed on relative returns, which was offset by not holding other lower quality names in the banking sub-sector. Among the insurers in the portfolio, SBI Life came under pressure in the second half on rumours of potential regulatory overhang in the bancassurance channel as well as some short-term headwinds around deposits. This was offset by a strong performance from PB Fintech, supported by healthy growth in domestic insurance premiums.

Having built up our position in infrastructure capex-related names in recent years, mostly in the industrials sector, added to returns from a stock perspective. Our holdings in ABB India, Siemens Ltd, KEI Industries and Apar Industries all did well on strong execution over the year. This sector is a beneficiary of government spending on infrastructure, as well as a pickup in private spending, and we are monitoring closely the capital allocation priorities of the government for the next fiscal year.

Not holding Reliance Industries added to relative returns, as the index bellwether was weak due to soft gross refining margins and slowing retail business growth. We continue to avoid the name and its subsidiaries on corporate governance grounds and capital allocation concerns. Instead, we hold alternatives such as Bharti Airtel and Bharti Hexacom in the telecommunications segment. Both names outperformed over the period, supported by strong fundamentals, including an improving balance sheet and gaining momentum in non-cellular businesses. We also initiated and scaled up the off-benchmark position in Aegis Logistics in the energy sector. The stock has had a strong run over the year as Aegis reported strong performance with good underlying growth across the business.

Indian Hotels, another new addition to the portfolio, also did well in the consumer discretionary segment. It is well-positioned to benefit from the multi-year growth potential in the domestic travel industry, with consumers seeking more premium experiences and services. Our auto holdings in Mahindra & Mahindra and Uno Minda were comparatively more resilient versus peers that we do not hold, such as Tata Motors. On the flip side, the key detractors were Titan and among the non-holdings, online food delivery and quick commerce player Zomato and fashion retailer, Trent. We have been selectively adding to the consumer discretionary sector over the period, given stretched valuations, hence we treaded with caution. However, we continue to work on idea generation in the sector.

Our holdings in consumer staples, Nestle India and Tata Consumer Products, also underperformed amid relatively muted demand.

In terms of portfolio activity, we made a number of additions over the year.

Within the energy sector, we initiated Aegis Logistics, a strong and conservative player in India's gas and liquids logistics sector.

We added to our autos exposure by introducing Bajaj Auto, a market-leading motorcycle business that is well-positioned in the premium segment of the market, tied to rising wealth levels and the emerging middle class. In addition, we bought components supplier Uno Minda. Elsewhere, within consumer discretionary, we introduced Indian Hotels, which has evolved from a single brand luxury hotel to a host of brands across the hospitality ecosystem.

Further, we built up our real estate positions by adding Brigade Enterprises, with business in residential, office, retail, and hospitality segments, leading South Indian property developer Prestige Estates, and a leading retail-led developer and operator, Phoenix Mills.

We also added consumer and specialty chemicals player Pidilite Industries, leading plastic processing manufacturer Supreme Industries, and Havells India, a proxy for the electrical and consumer durables sector.

In the health care space, we introduced Medanta, a high-quality hospital pure play with a unique business model, and Poly Medicure, a manufacturer of consumable medical devices.

Finally, we introduced niche IT services company Coforge and participated in Bharti Hexacom's initial public offering. In our view, the latter is the cleanest way to play the improving fundamentals in the Indian telecom sector.

Against these, we exited Affle India, Asian Paints, Container Corporation of India, Fortis Healthcare, Kotak Mahindra Bank, Maruti Suzuki and Renew Energy Global.

Market Outlook and Investment Strategy

India remains supported by a resilient macro backdrop, with growth momentum mainly driven by supportive central government policies. In July 2024, the coalition government's first budget indicated that fiscal consolidation was on track, with robust capex allocation for infrastructure development, while efforts were made to address consumption, rural demand and employment. The upcoming fiscal year's budget will be unveiled in early February.

That said, we have seen some pullback in the equity market in recent months due to various factors, including the outcome of the US presidential election. We are watching closely the slowdown in Indian corporate earnings growth based on the latest reporting season. We expect the softness to remain for the next couple of quarters.

Meanwhile, we are still finding pockets of good growth and quality across various sectors. The Fund's downside is well-protected given our quality focus, and our defensive holdings are in a good position in case of profit-taking. In our view, any correction in the market would be an opportunity to add to the holdings.

The consistency of earnings growth of the overall portfolio remains healthy and company fundamentals, such as pricing power, balance sheet strength, and the ability to sustain margins, remain solid. Where they may have faltered, we took resized or exited the positions to insulate the portfolio.

India also faces some near-term external risks, such as potentially higher global energy prices and a slowdown in world economic growth. The key to leveraging this market's potential is bottom-up stock picking backed by fundamental research, aligning well with our investment approach.

Source: abrdn

HSBC Life Pacific Equity Fund

<u>Investment and Market Review</u>

Asian equities posted decent gains despite a volatile 2024, on the back of a challenging macro backdrop of a weak China economy, lowered expectations of US monetary policy easing amid a strong US economy and increasing geopolitical noise and uncertainty ahead of the US presidential election in November. Following a period of multi-decade-high inflation, the tighter monetary policy environment by central banks around the world proved effective as inflationary pressures began to ease.

Early in the period, sentiment was weighed down by concerns about China's stalled recovery amid continued property woes and the Chinese authorities implemented various measures through the review period to support sentiment, financial markets and the broader economy. Its aggressive stimulus package in September then lifted a mainland market as it signalled a shift towards a pro-growth stance. While there are still concerns about the possibility of further US tariffs and sanctions, investor sentiment towards the mainland China market improved towards the end of the period.

The US Federal Reserve's shift towards a more dovish stance supported markets but also introduced volatility as investors adjusted their expectations. Global economic growth held up better than expected, though US recession fears heightened in the latter half of the period before subsiding somewhat. In addition, the global artificial intelligence (AI)-driven strength in technology stocks also boosted stocks across Asia, particularly in Taiwan. All this offset concerns over the potential impact of new US president-elect Donald Trump's tariff policies on the region.

As noted above, the technology-heavy market of Taiwan was the top performer in the region as investors judged that the semiconductor cycle was nearing its trough and responded to rapid developments in artificial intelligence (AI). Indian equities also made strong gains thanks to the buoyant economy, growth in the corporate sector and substantial foreign capital inflows, as investors shrugged off initial concerns about the uncertain outcome of the general election.

By contrast, South Korea was the weakest market, as political turmoil towards the end of the year, due to the short-lived imposition of martial law followed by the impeachment of the then-president Yoon Suk Yeol, resulted in extreme market volatility.

In terms of Fund performance, 2024 marked a year of two halves for the Fund, which returned 12.11% in Singapore dollar terms, underperforming the benchmark index by 201 basis points. This underperformance mainly came from the first half of 2024, where the continued market rotation to value created a stylistic headwind for our quality-focused portfolio. Encouragingly, the Fund's performance stabilised in the second half of 2024. This reflects the positive impact of investment process enhancements that have flowed through in better performance. The Fund outperformed its benchmark six months to December with the underperformance in China and Hong Kong narrowing significantly following some significant repositioning of the Fund's exposure to those markets.

Delving deeper in the key performance drivers, China, including Hong Kong, was the key detractor from relative performance. Our exposure to consumer-related stocks like Kweichow Moutai and Yum China hurt performance, as concerns over a slower-than-expected consumer recovery and a struggling property sector weighed on sentiment. In Hong Kong, our heavier-than-benchmark exposure detracted due to weak macro sentiment and foreign outflows, with key detractors being AIA Group and Budweiser APAC.

Entering the second half of 2024, we rigorously assessed our China exposure and repositioned the Fund towards names with the highest earnings visibility over the short term, as the mainland macro backdrop remained challenging. Specifically, we consolidated our consumer exposure and exited Budweiser APAC, Kweichow Moutai and Aier Eye Hospital. These companies are good-quality companies, and we will revisit them as the domestic growth backdrop improves on the back of further policy stimulus.

While AIA was among the biggest detractors from performance, with its share price impacted by fund flows, we maintain our high conviction in the insurer. AIA continues to deliver strong fundamental results, and we believe that its quality is mispriced. Its management has also been receptive to our engagement efforts with announcements of additional share buybacks and an enhanced capital management plan.

As part of the Fund's repositioning, we also expressed more conviction in names where we see highest earnings visibility, such as Tencent, CATL and Trip.com, which were also among the top contributors to relative performance.

As a result, the Fund's China exposure proved positive in the second half of 2024, with a performance turnaround (+40bps) from a relative underperformance in the first six months. Despite being underweight to China, the Fund also benefited in September, when both onshore and offshore Chinese equities rallied following China's policy pivot with a spree of stimulus measures, albeit more supply side and monetary focused, towards the end of the month.

Elsewhere, our stock holdings in Taiwan, Thailand, Singapore and South Korea added to the Fund's performance over the year, mitigating the China impact. Hence, despite a tough macro backdrop, we continued to see opportunities to add to performance through our stock picking in Asia.

In Taiwan, we saw our holdings in the tech supply chain perform solidly. Taiwan Semiconductor Manufacturing Co (TSMC) was the top performer. TSMC posted better-than-expected results and was more positive on the AI supply chain. Delta Electronics also stood out. We had added to the position earlier in the year because we thought that the market was undervaluing the company's structural growth from the upgrading of data centres driven by rapid AI development and the need for cloud computing. This was given Delta's market leadership in the power supply business, where power supply would need to be upgraded with each subsequent iteration of more powerful chips and servers. Accton Technology, the other AI beneficiary given its exposure to datacentre switches and AI accelerators, also benefited from similar demand strength.

Elsewhere, Thailand's Advanced Info Service rose on steady earnings, supported by capable management and an ability to control costs effectively.

In Singapore, DBS Bank contributed positively, as its results continued to exceed market expectations. The bank announced a S$3 billion share buyback over the next one to two years and raised its dividend guidance, reflecting confidence in sustained profits despite an upcoming interest rate cut cycle.

Meanwhile, the technology sector detracted due to weak stock selection, with mixed returns from holdings. Samsung Electronics was weighed down by concerns over weak demand for smartphones and legacy memories, and the risk of entering the high-bandwidth memory (HBM) market late. We believe Samsung's investment in HBM capacity reflects its view of HBM visibility, and we are monitoring developments closely. The lack of exposure to SK Hynix for much of the period also weighed on returns; we initiated a position in the stock towards the end of the review year. SK Hynix is benefiting from growing demand for HBM for AI processing and is developing energy-efficient chips and investing in greenhouse gas reduction technologies. Losses were mitigated by positive contributions from TSMC, as mentioned above.

Our semiconductor equipment exposure through the Netherlands, meanwhile, detracted due to industry challenges and restructuring of business and capex by large customers. While our holdings here remain quality companies, we have cut the portfolio's risk exposure to the semiconductor and technology hardware sectors and concentrated on names where we see the strongest visibility in view of the tariff uncertainty and volatility as we head into 2025.

In terms of portfolio activity, we have continued to use earnings visibility and cash flow generation as our key focus points, With this in mind, we have exited where we expect any fundamental weakness to persist for the next few quarters, and held on, or even added to holdings where fundamentals have remained resilient. As such, adjustments have been stock specific, not related to broad themes or sectors. We have resisted making wholesale changes and in some cases, we believe that sticking with our favoured long-term positioning has proved to be the right call.

Among the key trends, China has remained the major challenge for performance and our positioning. We have continued to monitor our holdings closely and exited positions in Aier Eye Hospital, Alibaba, China Tourism Group Duty Free, Glodon, Sungrow Power Supply and Wuxi Biologics on concerns over their earnings visibility. In their place, we introduced consumer-related stocks that have quality and a strong competitive edge in their markets. An example would be Trip.com. This leading online travel agency (OTA) in Asia displays a level of dominance in both China and India, the two most populous nations. We see a long runway for growth, with the international and domestic accommodation segment boosted by rising penetration in the core markets, and additional growth coming from outbound travel and trip.com.

We also introduced Meituan and Midea in China. Meitian operates a super app that caters to a wide range of consumer lifestyle needs, especially in food delivery. Over the longer term, we see its services, especially core food delivery, as having a long growth pathway with profitability set to rise from growing scale and improving efficiency. Midea is a leading home appliance group in China. It is well managed, has a broad product portfolio, good brand equity and a track record of strong execution. We expect the company to benefit from stable growth in China's home appliance market, along with growing taste for premium products. Another example was China Merchants Bank (CMB), the highest-quality lender on the mainland as evidenced by various financial ratios, including return on equity. China’s banking market remains a structural growth story and CMB has capitalised on this through impressive execution over the years which is testament to the management’s track record. In recent years, CMB has not only maintained its retail focus but has also been investing heavily in digital capabilities and growing its high-margin wealth management business.

Meanwhile, we retain our favourable view of India, which is a high-conviction market for us, and continued to increase our exposure to the country, where we have found quality companies that are well placed to capitalise on a favourable economic and policy backdrop. Among new holdings initiated here were Bajaj Auto, one of the largest two-wheel manufacturers in the world that we see can benefit from structural growth in demand in India as more people in India move out of very low-income groups and their purchasing power increases; Bharti Airtel, a leading telecommunications service provider with a pan-India reach and sophisticated customer base with higher-than-average mobile spending; Indian hospital operator Fortis Healthcare was added given compelling valuations relative to the rest of the sector, and as its hospital business continues to do well, while its diagnostics segment is expected to recover gradually; Indian Hotels (IHCL), India’s largest hospitality company, which is well placed to tap on the hotel industry’s multi-year upcycle with demand growth likely to surpass supply growth for the next few years; Info Edge (India), one of the strongest domestic internet companies; NTPC, an Indian state-owned energy enterprise that has a clear pipeline of both thermal and renewable energy; Pidilite Industries, a high-quality consumer and specialty chemicals business; Phoenix Mills, a leading retail-led developer and operator across India that has quality malls in top-tier and state capital cities as well as a good pipeline of new assets to be launched over the next few years; and lastly, Tata Consultancy Services, which continues to see new deal wins, showcasing its best in class capabilities in IT services. Against these we exited Hindustan Unilever and Infosys.

We continue to be positive on the longer-term structural growth outlook of Asia’s technology sector. In particular, Taiwan and South Korea are at the cutting edge of the global technology boom, especially in semiconductors and AI. Within this context, we invested in pure-play memory semiconductor company SK Hynix as mentioned above. We also added a position in Taiwan's Hon Hai Precision Industry which is emerging as a key beneficiary of rising AI server demand, as it transitions from being an iPhone assembler to a vertically integrated AI server manufacturer.

We also initiated two holding in Vietnam over the period – FPT Corp, a diversified technology group with a fast-growing software outsourcing business, a name that we have known for many years. FPT also owns a telecoms unit, an electronics retailing company, and has interests in other sectors, such as education. More broadly, Vietnam is rising up fast as an alternative supply chain option amid geopolitical uncertainty, and with foreign direct investments (FDI) pouring into higher technology sectors, especially automotive and electronics. Joint Stock Commercial Bank For Foreign Trade Of Vietnam (Vietcombank) is among the highest-quality banks in Vietnam. It benefits from scale, a strong deposit franchise and a good long-term track record. The bank has been able to manage through multiple cycles and deliver growth over time. As for fundamentals, it leads its peers in profitability and efficiency, with a higher return on equity, lower cost-to-income ratio and lower cost of funding versus its domestic rivals.

Market Outlook and Investment Strategy

Sentiment appears volatile around Asia over the short term given the looming inauguration of Donald Trump as US President on Jan 20 and what that might mean in terms of tariff risks especially for China. The implications of Trump 2.0 for the broader region are complex. Trump is likely to drive uncertainty and volatility, which could create opportunities for long-term investors. Higher tariffs and trade barriers are expected, hurting China and prompting aggressive domestic growth efforts. Export markets may face pressure from higher tariffs and limited US rate cuts. Geopolitical tensions remain challenging, with potential shifts in Asia if Trump follows his first-term playbook. This period of change and volatility will affect multiple fronts. However, Asia's diversity means the entire region should not be painted with a broad brush. Economies like India, driven largely by domestic factors, may benefit from supply diversification away from China, which is also benefiting ASEAN. Intra-regional trade remains strong, and Asia lacks the macro imbalances seen in the West, ensuring resilience and growth. Quality companies should remain well-positioned.

From a portfolio perspective, we believe we are well prepared for a Trump presidency due to our quality-focused stock picking approach. We have tightened quality characteristics, adding names with greater near-term earnings visibility and steady cash flow generation, while reducing and exiting names with less visible earnings. We have managed down our exposure to tariff-related risks. For our China exposure, we have focused on each holding’s ability to defend and grow market share, expand overseas with limited tariff risks, and deliver shareholder returns through dividends and buybacks. We have also reduced our technology exposure. We maintain our conviction in our holdings and their ability to navigate market crosswinds, given their quality and fundamentals.

Finally, Asian earnings have shown resilience, even amid global economic uncertainties. Current valuations are relatively cheap, presenting attractive opportunities for investors. Historically, quality stocks in Asia have outperformed during market recoveries. Under a Trump presidency, this trend could continue, as his policies often focus on economic growth and deregulation, benefiting high-quality companies with strong balance sheets and consistent earnings growth. The inherent strengths of the Asian market, such as robust domestic consumption, technological innovation, and a growing middle class, further support the case for quality stocks. These factors drive economic growth, ensuring sustained demand for products and services from quality companies. In summary, the combination of resilient earnings, attractive valuations, and a supportive policy environment under Trump suggests that quality stocks in Asia could be poised for a significant comeback, offering stability and growth for investors.

Source: abrdn Asia Limited.

HSBC Life Shariah Global Equity Fund

Investment and Market Review

Global equities collectively posted strong gains for the first quarter of 2024 as they extended a five-month rally. Better-than-expected fourth- quarter 2023 earnings reports, growth opportunities tied to artificial intelligence (AI) and optimism about an economic soft landing in certain regions bolstered investor sentiment. Meanwhile, expectations for interest-rate cuts in the United States and Europe diminished amid cautious central bank comments, along with some higher-than-anticipated US inflation data. As measured by MSCI indexes in US-dollar terms, developed market equities collectively reached a new record high and modestly outperformed a global index, while emerging market and frontier market equities significantly underperformed it. Global growth stocks outpaced global value stocks.

Although June political developments in Europe pressured results in that region, enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of 2024, particularly in the United States. Renewed optimism about an economic soft landing in many regions, an interest-rate cut in the eurozone, and investor expectations for potential rate cuts in the United Kingdom and the United States during the second half of this year also aided investor sentiment. Global manufacturing activity expanded in June for the fifth consecutive month, and flash reports for June indicated services activity expanded in many regions. As measured by MSCI indices in US-dollar terms, emerging market equities outperformed a global index, while developed and frontier market equities underperformed it. Global growth stocks significantly outperformed global value stocks.

Global equities ended the third quarter of 2024 collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve (Fed), the European Central Bank (ECB), the People’s Bank of China (PBoC) and other central banks further bolstered equities worldwide. As measured by MSCI indices in US-dollar terms, emerging market equities outperformed developed market equities; global value stocks significantly outpaced global growth stocks

During the fourth quarter of 2024, global stocks were pressured by investor concerns about economic growth, persistent inflation in some regions and the likelihood of further interest-rate cuts in 2025. While Donald Trump’s presidential victory and the potential for additional tax cuts and expansionary fiscal policy supported US equities, investors outside the United States were concerned about the president-elect’s tariff plans and their implications on global trade. On the economic front, global manufacturing activity contracted in December after stabilising in November, while global services activity expanded in November for the 22nd consecutive month and flash reports for December showed continued strength in many regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed emerging market equities, while global growth stocks significantly outperformed global value stocks.

Market Outlook and Investment Strategy

The year 2025 brings a mixture of opportunities and headwinds, presenting an uneven landscape that will continue to test our price discipline and stock selection expertise. First and foremost, this is the year of Trump 2.0. The re-election of US President-elect Trump—who will take office on 20 January—and the Republican Party's control of the US Congress have excited many investors with promises of business-friendly and pro-growth policies, potentially including corporate tax cuts and deregulation. These policies, if implemented, may support earnings growth and profit-margin expansion, as well as revenue-accretive corporate actions such as mergers and acquisitions. However, the risks of US tariff hikes are tangible, potentially hurting not only American companies relying on overseas supply chains, but also global trade and growth. We recall the sizeable earnings downgrades that hit all regions in the 2018–2019 trade war during President-elect Trump's first term, with Asia bearing the brunt. A similar scenario cannot be ruled out as the second Trump presidency begins.

Meanwhile, expectations of monetary policy easing will remain a key market driver. Further rate cuts by major central banks, including the US Federal Reserve (Fed) and the European Central Bank, are likely in the cards, but uncertainties abound. Sticky inflation is a tail risk that bears watching, especially in the United States, where higher tariffs and near-full employment may keep consumer prices high. Already, the Fed has reduced its projected rate cuts in 2025 from four to two. A slowdown of the easing trajectory has largely been priced in, but further setbacks may be a major downside surprise to both equity returns and earnings growth prospects.

Against this backdrop, we will continue to focus on identifying companies that, in our analysis, are favourably or fairly priced relative to their robust fundamentals. These are businesses that can generate free cash flow, protect profit margins, sustain earnings growth and deliver shareholder returns throughout the business cycle. With a bottom-up perspective, we see these opportunities across multiple sectors and geographies. Health care, for instance, is a sector that may have been oversold despite its defensive growth qualities. The sector's share-price underperformance in 2024 may yield mispricing opportunities that can help enhance the portfolio's defensive bulwark. Energy is another sector where we see value potentially emerging from the selloffs in 2024, with select stocks offering ample free cash flow yield and generous shareholder policies at compelling prices.

Overall, as we stay invested, we will aim for diversified exposures across defensives and cyclicals, maintaining what we believe is a balanced portfolio structure that can sufficiently capture near-term upside and long-term value without eroding our risk/reward profile. Being diversified also means paying attention to the valuation gap between the US market and the rest of the world. After two years of exceptional returns, US equity valuations may have become stretched relative to European and Asian stocks, which are trading at a roughly 40% discount based on one-year forward price-to-earnings ratios. The US market remains critical and we are ready to narrow our underweight gap relative to the benchmark, but this will be done selectively. Recent new additions—including a technology conglomerate and a consumer health giant—followed careful assessment of prices relative to peers and their own intrinsic worth, as well as their future growth trajectories. In balance, we initiated fresh exposure to China, while adding two Danish positions to the portfolio, among other moves. As the year progresses, we will continue to seek idiosyncratic ideas in Europe and Asia for portfolio enhancement.

Source: Franklin Templeton

HSBC Life Short Duration Bond Fund

Investment and Market Review

Government bonds: A “red wave” in the US election and Fed speak advocating a patient approach to further rate cuts contributed to a volatile November (2024) in rates markets. Interest rates initially gained on inflationary fears associated with Trump’s Presidential win but corrected swiftly after the appointment of Scott Bessent for Treasury Secretary who is perceived to be more market-oriented. Personal Consumption Expenditures (PCE) price data for October 2024 came broadly in line with expectations coupled with slightly soft consumption data that tilted the market towards a December rate cut. The 2-year and 10-year US Treasury (UST) yields closed at 4.15 per cent (-2 basis points, bps) and 4.17 per cent (-12bps) in November 2024.A series of China’s easing measures were implemented since September 2024 and the debt swap program was announced in November 2024. To maintain a growth target of “around 5 per cent” for 2025, the government is expected to set a significantly higher fiscal deficit aimed at bolstering domestic consumption. The debt swap program will convert Renminbi (RMB) 5.6 trillion of hidden local debt over the next 13 months should enhance local fiscal conditions and provide local governments with more resources to tackle their domestic economic challenges.

Corporate bonds: JP Morgan Asia Credit Index (JACI) Investment Grade credit spread was flat at 106bps, at a historically tight level since 2007. New issuance in Asia ex-Japan G3 currency (bonds issued in US Dollars, Japanese Yen, or Euros) primary bond market was slowed to US$15.6 billion in November 2024 (October 2024: US$16.7 billion, November 2023: US$11.7 billion) as the market took a breather on US politics uncertainties. Total issuance year-to-date was US$170.4 billion, up 35 per cent from $126.0 billion over the same period in 2023.We turned cautious going forward given the following uncertainties: 1) potential increase in trade tensions imposed by the new US administration and 2) the Asia credit market may be more susceptible to any negative developments given the historically tight Asia credit spread. That said, fixed-income investments remain attractive riding on the tailwind of the Federal rate cut cycle.

Market Outlook and Investment Strategy

We look to add credits with relatively attractive spreads and longer maturity (2026/2027). To enhance the portfolio’s all-in yield given tight credit spreads in Asia, we diversified into Australian and Japanese issuers. We continue to maintain our preference for defensive sectors with resilient balance sheets, credits with leading market shares and of systemic importance.

The Fund will continue to:

1) Assess the relative value of bonds in the portfolio;

2) Focus on companies that have good access to capital markets and have defensive business models;

3)Invest in bonds maturing/callable/puttable on rolling three years;

4) Maintain 1-3 per cent cash for liquidity; and 5). Hedge foreign currency risk to Singapore Dollar.

Source: UOB AM

HSBC Life Singapore Balanced Fund

Schroder Singapore Trust

Investment and Market Review

Singapore ended 2024 with a respectable total return of +23.52% (SGD terms) for the Straits Times Index, outpacing the gains seen in both ASEAN as well as Asia ex-Japan as a whole. While the bulk of returns can be attributed to the strong run in banks given expectations for a higher interest rate environment, we did see gains also coming from growth and turn-around names such as Singtel and Yangzijiang Shipbuilding.

However, what the strong returns does not show was the multiple twist and turns the market took throughout the year in achieving this result. We started the year with expectations for rapid interest rate cuts which evolved to a higher-for-longer scenario more recently, as well as a hike in expectations for a China stimulus package which eventually fizzled out when it became clear that none was forthcoming to the extent that markets were expecting. This year was definitely one which kept investors on their toes.

Market Outlook and Investment Strategy

Looking ahead, all eyes are now on what President Trump will do when he takes over the Oval Office as well as the ensuing impact on global growth outlook. There are growing concerns that his proposed policies will result in increased inflation within US, and this is being reflected in the Fed rate expectations, which was pricing in five cuts for 2025 at the start of October last year, to only two cuts or less in January 2025. The wild card would be whether the newly set up Department of Government Efficiency (DOGE) is truly able to pull off the USD2trn of savings from the current federal government spending of c. USD6.5trn annually. If the savings is achieved, that would reduce funding pressure considerably for the US government and would likely result in lower interest rates as funding pressure eases for the government.

Back in Singapore, we are awaiting the General Elections, which must be called by 23 November 2025. The is likely to be a watershed moment for the ruling People's Action Party as we witness the changing of guard with the new Prime Minister, Mr. Lawrence Wong, leading the party for the first time in the General Election. Beyond the political implications of what the election results would entail, the conclusion of the elections would also pave the way for yet another milestone moment, the conclusion of the Equities Market Review Group review.

Convened in August 2024 by the central bank, the review group has set a 12-month timeline to provide their findings and recommendations to the government as to the best way to revitalise the Singapore equities market. There has been much discussion on the best way to further enhance the attractiveness of Singapore as a listing hub, and we do hope that this is given serious thought and consideration by the government when the recommendation report finally comes out. The precedence set by Japan and Korea in revitalising their equities markets have seen decent success, so there is hope that if Singapore was to take this seriously, we could see similar levels of success for the local bourse. If this does happen, it should provide a positive catalyst for the Singapore equities market.

Between the potential left-field events that could come once President Trump settles into the Oval Office, and the potential measures the Singapore authorities could adopt in revitalising the domestic equities market, 2025 is shaping up to be one with potentially wide-ranging outcomes for equities markets. This could unlock more opportunities to pick up interesting companies at fair valuations. We continue to believe that well-managed companies with prudent debt levels will outperform in the longer term and will look to pick up stocks that provide a good balance of asset quality and valuations when opportunities present themselves.

Schroder Singapore Fixed Income Fund

Investment and Market Review

2024 was another strong year for risk asset returns, as economic growth surprised on the upside and central banks finally began to cut rates. Yet despite the generally upbeat performance, there were plenty of bumps along the way. Rate cuts took longer than anticipated, leaving sovereign bonds struggling to gain traction. The re-election of Donald Trump triggered renewed outperformance of US last quarter, whereas other markets corrected on the stronger US dollar and reduced Fed easing expectations. The narrative of US exceptionalism soon helped push the US Dollar to its strongest annual close since 2001.

The US economy appears to have achieved an elusive soft landing, with US growth exceptionalism showing continued strength. Economic data points to relatively subdued inflation, sustained resilience in consumer spending, and a more balanced labor market. December inflation print defused market worries that the Fed may not be able to deliver additional cuts to the funds rate. Meanwhile, data on economic activity and spending remain surprisingly resilient, with retail sales, industrial production, and housing starts posting strong gains to close the year. Nonfarm payrolls increased 256k in December, and the unemployment rate declined further. Finally in December, the Fed pivoted in a more hawkish direction. While they cut rates again - bringing their total cuts in 2024 to 100bps - they signaled only 50bps of cuts for 2025, which was more hawkish than expected.

The Chinese economy continued to face persistent growth headwinds entering 2H 2024. A wave of shocks eventually compelled Beijing to pivot in late September by taking much bolder steps to stimulate China’s economy and reflate asset markets. Thereafter, the NPC meeting in November unveiled a well-anticipated fiscal program to swap off-balance-sheet ""hidden"" local government debts with on-balance-sheet debts. In December, China's top policy makers pledged to increase the fiscal deficit and cut interest rate at the annual Central Economic Work Conference. With regards to the property sector, authorities remain determined to support the downside through more policies. China's economic growth, after underperforming in Q2 and Q3 2024, has recently regained momentum. Growth beat expectations, with Q4 GDP growing 5.4% y/y, driven by industrial production (improved consumption and exports front-loading), and service production. December data reflected an uptick in economic activity, including industrial production, exports, and retail sales, while fixed asset investment slightly disappointed. Real estate data from the NBS indicated mild recovery across sales, construction, and home prices. While China's growth momentum appears to bottom out owing to the government's decisive policy measures to boost domestic demand, uncertainties remain, including the potential trade tensions under Trump 2.0.

Over in Asia, the year has featured a broad and strong export performance from China, a surge in tech/semiconductor exports via Korea, Taiwan, and Malaysia, and healthy domestic demand growth in several Asia economies. Recent high-frequency data have looked a little stronger as China starts to roll out policy support and the Fed easing cycle is underway; lower oil prices have also been a plus for most economies. Inflation has come down to or below targets in most of the region and is falling in the rest. However, Asia central banks have been cautious - balancing growth/inflation backdrop with FX weaknesses. The region appears headed for rougher seas, driven by the fallout from Trump 2.0, China's overcapacity, and a slowing semiconductor cycle.

In Singapore, growth has continued to stay resilient, with real GDP rising 4.4% y/y, driven by net-export growth, as well as government consumption and fixed investment. Electronics export growth remained in double-digit territory, supporting non-oil domestic exports growth. Inflation has long since peaked. The December CPI print affirmed core disinflation, underpinned by softer global energy prices and a rebalanced labour market.

Singapore bonds delivered 4.03% over 2H 2024. The government bonds sector, measured by Markit iBoxx ALBI Singapore Government Total Return Index, returned 4.06%, outperforming the spreads segment, reflected by the Markit iBoxx ALBI Singapore Non-Government Total Return Index, which posted 3.98%.

The Schroder Singapore Fixed Income Fund trailed its benchmark, the Markit iBoxx ALBI Singapore over the second half of 2024. The Fund posted 6-month returns (net of fees) of 3.65% (I SGD Acc share class) and 3.45% (A SGD Acc share class), while its benchmark returned 4.02%.

Rates volatility remained as a hallmark in 2H 2024 as investors were kept on their toes in anticipation of the Fed's next move. Rates strategies weighed on active returns for the period. Gains from the Fund's overweight in the belly (7-10Y) of the SGS curve and underweight Singapore duration stance (positive contribution from carry) were more than offset by losses from the Fund's tactical long US duration positioning via US Treasury futures and an underweight in the front-end of the SGS curve.

Risk assets ended the year in the green and the SGD credits space similarly staged strong outperformance relative to its government bond counterparts. The Fund's overweight to SGD credits in the Financials and TMT sectors meaningfully aided returns. Allocation to the Asian USD credits space via the Schroder Asian Investment Grade Credit Fund marginally detracted.

Market Outlook and Investment Strategy

US economic growth will likely remain stable, supported by resilient US consumer spending, backed by strong wage growth and asset market returns. Amid a still-resilient labour market and disinflation that seems to have stalled, the Fed would likely enter a new phase in their cutting cycle – one characterized by longer pauses and occasional rate cuts. The Treasury's clear indication that it plans to keep coupon supply stable this year should help alleviate long-end yield volatility. That said, a strong USD regime is here to stay with bouts of volatility, as tariffs and still-wide interest rate differentials in this high-for-longer rates environment should be a source of USD support.

Elsewhere in China, the economy continues to face headwinds, including weak nominal GDP growth and ongoing uncertainty in US-China trade relations. While the earlier timing of the Lunar New Year lifted food and services prices, underlying deflationary pressure and continued consumption downgrading remain concerns. Hence, we expect Chinese policymakers to maintain an accommodative stance and remain reactive as they assess potential negative shocks from Trump 2.0.

Singapore's near-term outlook stays resilient, supported by the ongoing upturn in global tech cycle and pre-tariff front-loading activity. However, as an externally dependent economy, it faces growth risks as global trade flows slow. MAS's recent pre-emptive move points to a wait-and-see approach, with a further easing bias should global growth decelerate. The SGD remains vulnerable as it is one of the most exposed currencies to trade tariffs with its high export exposure and beta to RMB.

On the rates front, SGSs are expected to outperform USTs. Unlike the US, which has increased debt issuance to cover budget deficits, Singapore maintains a balanced budget policy and does not rely on government bond issuance to finance its spending. This divergence could put upward pressure on the long end of the UST curve.

In the SGD credit space, spreads should remain tight relative to historical levels, supported by technicals and solid fundamentals. Carry will likely remain the name of the game as rates are expected to stay high for longer. Singapore also offers an oasis of safety in times of heightened geopolitical stress. We continue to favour Financials, the mainstay of credit market, given their solid positioning to navigate the uncertain interest rate trajectory and healthy net interest income. For the Real Estate sector, we stay selective within REITs given interest cost savings (lower rates) from refinancing may take time to materialize.

Source: Schroder Investment Management Limited

HSBC Life Singapore Bond Fund

Investment and Market Review

Growth momentum continued to remain strong in November 2024. The Gross Domestic Product (GDP) growth for the third quarter of 2024 was revised upwards significantly to +3.2 per cent quarter-on-quarter (q/q) (previously +2.1 per cent q/q), enabling GDP growth for 2024 to track closer to +3.5 per cent. This was driven by an upturn in the electronics and manufacturing sector and the continued resilience of consumer spending. Other growth indicators were mixed as industrial production growth slowed to +1.2 per cent year-on-year (y/y) in October 2024 (September 2024:+9.0 per cent y/y) while the non-oil-domestic exports (NODX) fell to -4.6 per cent y/y (September 2024: +0.9 per cent y/y), driven by the volatile pharmaceutical sub-segment. Change in inflation slowed in October 2024, reversing the previous month's increase. The headline consumer price Index (CPI) in October 2024 cooled to +1.4 per cent y/y (September 2024: +2.0 per cent y/y) on lower private transport, accommodation, and lower core inflation. Core inflation fell sharply to +2.1 per cent y/y (September 2024: +2.8 per cent), given a large sequential decline in recreation, culture and hotel costs. The share of items with annual inflation above 2 per cent also fell to 43.4 per cent in October 2024 (September 2024: 50.0 per cent).

The new issuance of the SGD credit was lower in November 2024, with SGD 2.84 billion (October 2024: SGD 4.24 billion) issued. Notable issues from the foreign banks included Australia and New Zealand Banking Group Limited (ANZ) issuing SGD 600 million in Basel 3 compliant Tier 2 10NC5 (10-year non-call five-year) at 3.75 per cent coupon, while Barclays PLC issued SGD 600 million Perpetuals NC5.25 (non-call 5.25-year) at 5.4 per cent coupon. Else, real estate issuers GuocoLand Limited issued a 3-year senior unsecured bond at tight pricing of 3.307 per cent coupon.

Fundamentally, our base case for growth is continued expansion, though we believe we are closer to a late expansion phase rather than the early stage of an expansion cycle. We believe that US core inflation will moderate but at a very slow pace and hover around the 2.5 per cent inflation range through 2025. That said, we note that there are upside risks to inflation arising from US policies. Given the above, we have increased our expected 10-year US Treasury bond yield to trade at a range of 4.25 per cent to 4.75 per cent (previously 3.9 per cent to 4.4 per cent).

Singapore’s parliament has passed a resolution to raise the debt ceiling under the Government Securities Act to SGD 1.5 trillion (previous SGD 1.065 trillion), lasting until 2029. The Monetary Authority of Singapore (MAS) has also announced 2025’s issuance calendar, with no syndication of SGS planned in 2025. While the implication of the rise in SGS means that the supply of SGS may double from current levels, we doubt that will be the case. In any case, MAS will continue to calibrate demand according to interest. We think issuance at the long end of the curve may increase to meet more real money investors’ interest and to promote secondary-market trading liquidity.

Market Outlook and Investment Strategy

The Fund continues to overweight corporate credits for the purpose of overall yield enhancement and keeps a neutral duration position relative to the benchmark. We will continue to look for relative-value trades and bonds from good-quality issuers. Singapore Government Securities (SGS) comprises 45 per cent of the Fund, which we may look to lower when we identify suitable investments in corporate bonds. The increase in the weightage of SGS was partly due to the maturities of corporate bonds during October and November 2024. Given the strategy to be neutral on duration relative to the benchmark, we will keep SGS’s weightage at a minimum of 40 per cent, especially at the intermediate to long end of the yield curve.

Source: UOB AM

HSBC Life Singapore Equity Fund

Investment and Market Review

Singapore equities rose strongly for the 12 months under review, ahead of the broader Asia Pacific region and emerging markets as well as developed markets. Investors remained focused on the global interest rate trajectory, and equity markets in general were boosted when the US Federal Reserve (Fed) began cutting rates in September. This was soon followed by China’s announcement of fresh stimulus to boost its economy, which was welcome news for Singapore stocks as well as for its regional peers.

The final quarter of 2024 was a particularly strong one for Singapore equities, which was notable as most equity markets across the world weakened over the period on the back of tariff concerns following Donald Trump’s election as US president, a more hawkish tone for 2025 by the Fed, and lack of details and impact around China's policy stimulus measures. Singapore's performance was driven mainly by positive earnings results from domestic banks that are index heavyweights, as well as solid domestic macroeconomic data.

The Singapore economy grew by 4% in 2024, outpacing last year’s 1.1% growth. The trade ministry had upgraded its 2024 economic growth forecast from 2-3% to around 3.5%. The better-than-expected GDP figure was driven by a turnaround in exports and resilient domestic demand. The pick-up in the construction sector, helped by the return of foreign labour in the post-pandemic period, was also supportive. Meanwhile, inflation trended downwards through the year, peaking at 3.4% in February and moderating to 1.6% in November, as the Monetary Authority of Singapore (MAS) maintained its tight monetary policy stance. Core inflation stood at 1.9%, marking the lowest level in three years.

In politics, Lawrence Wong took oath as Singapore's new Prime Minister on May 15, taking over from Lee Hsien Loong who had led the country for the past 20 years. We view this as ensuring policy continuity and political stability, as well as setting the wheels in motion for the country's next general election which must be held by 23 November 2025.

Performance

In terms of performance, the Fund rose by 26.13% in Singapore dollar terms over the period and outperformed the FTSE Straits Time Index's 23.53% gain. This was driven largely by strong stock selection in industrials, offsetting the weak stock selection in technology.

Within industrials, Yangzijiang Shipbuilding (YZJ) was the top contributor. The company bagged multiple new contracts, taking its order wins to US$14.3 billion for the year to date. The strength of Yangzijiang's order book suggests that its deliveries in 2027-28 could be largely of containerships with higher margins compared to 2025-26, which have a greater proportion of lower-margin oil tankers. YZJ is well-positioned to gain from industry trends and its record-high order backlog supports steady revenue and profit growth over the coming years.

The Fund also benefitted from our new holding in Seatrium, which marked a turnaround and delivered a net profit of S$36m in the first half of 2024. The group designs and builds rigs, offshore platforms and specialised vessels, as well as repairs, upgrades and converts different ship types. In the final quarter of 2024, the stock also rallied on expectations of an earnings per share turnaround, coupled with strong order win prospects in 2025. This includes potential repeat wins from Petrobras, British Petroleum and Shell. Seatrium also announced a new contract with BP Exploration and Production for engineering, procurement, construction (EPC) and onshore commissioning work for the Kaskida Floating Production Unit (FPU) project in the US Gulf of Mexico. We thus remain optimistic about the shipbuilding sector, although the near-term focus is on the completion of loss-making legacy projects and the impact on group margins. We believe this is factored into consensus forecasts and reiterate that Seatrium's higher revenue and savings initiatives suggest an upside to its financial guidance.

In the healthcare sector, cleanroom glove manufacturer Riverstone Holdings was among the top contributors to returns. Its share price did well on the back of positive investor sentiment, a dividend announcement and solid earnings results.

Among technology names, conglomerate Sea performed well. Its share price gained, driven mainly by positive earnings revisions within e-commerce. In our view, an increase in competition is now likely to cap positive earnings revisions and share price in the near term. The downside to e-commerce earnings and valuations could be limited by regulations on cross border transactions and should competition prove to be transient. We therefore divested Sea after its strong run this year as we believe the upside is mostly priced in, while the risk of intensifying competition from competitors such as TikTok is not.

On the flip side, semiconductor solutions provider AEM Holdings lagged. The semiconductor solutions provider missed revenue and profit expectations for the first half of the year. Particularly, contribution from its main customer, Intel, was a lot weaker than expected. Additionally, AEM's CEO resigned unexpectedly in June 2024. Nonetheless, we think that the company's growth prospects remain intact over the longer run, supported by the addition of a fifth new customer and a recovery in semiconductor demand. The new CEO is highly experienced and management guided for positive developments towards more contract wins, which could lead to revenue in the triple-digit millions in financial year 2025.

The information technology company UMS Integration Holdings also fell. Its revenue and net profit were below consensus, mainly due to soft global chip demand, and it lost some of its market share as well. Demand recovery was pushed back to 2025 when contribution from a new customer should kick in more meaningfully. We therefore remain positive on UMS' prospects.

Some of our other largest stock detractors were real estate companies even though the sector's overall contribution to Fund performance was positive. The Singapore REIT sector was under pressure, given concerns of the impact of a higher for longer rate environment on the cost of debt and hence returns. Not holding Mapltree Logistics was therefore helpful but our exposures to CapitaLand India Trust, CapitaLand Investment Limited, and Capitaland Ascendas REIT lagged performance.

In key portfolio activity, besides Seatrium already mentioned, we introduced Singapore Post (SingPost), which presents an attractive restructuring story. After a couple of tariff increases and with e-commerce volume now able to offset mail and letters, its monopolistic Singapore postal business turned profitable. Outside Singapore, SingPost has built large logistics businesses serving the growing market in Australia and an international cross-border logistics division. With e-commerce driving volumes up, we see better growth ahead. A noteworthy event that occurred at the end of the period was that the company fired three senior management staff, including its chief executive officer (CEO) and chief financial officer (CFO), over their handling of a whistleblower's report. We engaged with the company and understood that there are no significant repercussions. While these developments caught us, like other investors, unawares, we derived comfort from our investment thesis remaining intact. This was reflected in the rebound of the share price after a knee-jerk sell-off on the day of the news.

Conversely, we sold our holdings in CapitaLand Retail China Trust, Credit Bureau Asia, Jardine Matheson, Keppel Infrastructure Trust and Keppel REIT for better opportunities elsewhere.

<u>Market Outlook and Investment Strategy</u>

Sentiment appears volatile around Asia over the short term on the back of the looming inauguration of Trump on 20 January 2025 and what that might mean in terms of tariff risks, especially for China. Under a Trump presidency, we expect resilience to come to the fore, as his second term looks set to cause economic change. A combination of resilient earnings and attractive valuations suggests that quality stocks in Asia could be on the verge of a significant comeback, offering stability and growth for investors looking for a relatively safer way to access key opportunities in Asia.

Turning to Singapore, improving economic growth suggests some domestic resilience against a still-weak external macro environment. Domestically, we expect the recovery in the manufacturing and financial sectors to be supported by the turnaround in the electronics cycle. Fiscal policy could turn moderately expansionary, but it is unlikely to be inflationary because of increased subsidies.

Amid macro uncertainties, however, we expect Singapore equities and the Singapore dollar to remain relatively defensive. We see Southeast Asia, where Singapore plays an important role as the regional hub, continuing to benefit from supply chain shifts that remain underway. Consequently, we see opportunities for businesses to expand structurally and continue to seek less-covered small-cap gems with exciting growth.

Source: abrdn