NOMURA ASSET MANAGEMENT

Spring 2024

Contents

I. Investment Strategy

02 | Quarterly Market Recap

03 | Investment Environment Outlook

Rumi Kurumizawa, Chief Economist
Yuichi Murao, CIO, Senior Corporate Managing Director

Amid the onset of rate cuts in the U.S. and Europe, interest rates are expected to trend downwards, while stock prices are anticipated to show an upward trend with fluctuations.

05 | Japan Equity Market Outlook

Yasuyuki Fukuda, Chief Portfolio Manager, Active Japanese Equity

Expect a transition to a period of consolidation with some adjustments.

08 | Natural Capital Trends and Outlook

Dai Yamawaki, ESG Investment Manager

Assessment of theories and practices regarding natural capital.

11 | Generative AI/Semiconductor Trends and Outlook

Akira Kato, Senior Portfolio Manager, Active Global Equity
Takuya Oguchi, Senior Portfolio Manager, Active Gobal Equity

With the emergence of AI, the semiconductor market is also entering a period of expansion.

14 | U.S. High Yield Bond Market Outlook

Brett Collins, CFA, Executive Director, Chief Portfolio Manager, NCRAM

NCRAM maintains a constructive outlook for the high yield asset class based on expectations of Fed policy easing, resilient issuer fundamentals, and supportive market technicals.

II. Macroeconomic Environment Outlook

Global

17 | Global Economic Outlook 1 - Base Case Scenario

18 | Global Economic Outlook 2 - Risk Scenario

19 | Global Economic Outlook 3 - Economic Cycle

Regional/Country Based

20 | U.S.

21 | Eurozone

22 | Japan

23 | China

24 | Emerging Market

25 | Economic and Market Forecast

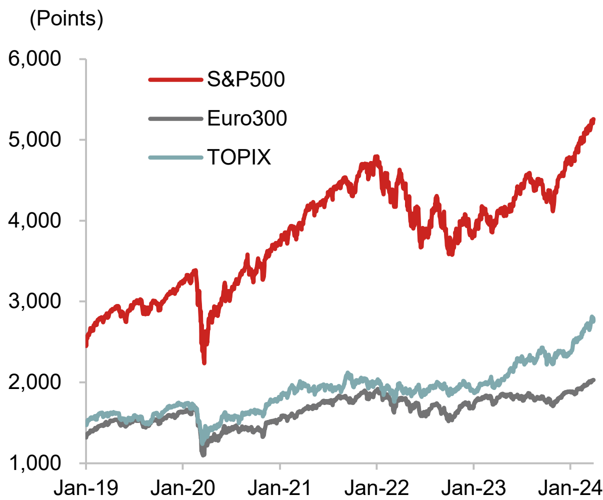
Note: In Nomura Asset Management (NAM) Investment Strategy Spring 2024, NAM's senior investment professionals offer their views of the investment strategy and market prospects – commentaries are as of middle to late March 2024, and reflect each professional's personal views, and do not entirely match NAM's house view. except for Investment Environment Outlook and Global Financial Market Forecast that are based on NAM's house view.

Quarterly Financial Market Recap

Financial markets in the January-March period of 2024 reflected the resilience of the U.S. economy, while concerns about persistent inflation led to a retreat in expectations of policy interest rate cuts by the Federal Reserve (FED), causing U.S. market interest rates to rise. Despite the increase in bond yields, strong corporate earnings and growth expectations for AI-related companies led to record-high stock prices in the equity markets of Japan, the U.S., and Europe. In the foreign exchange market, there were moments when the yen appreciated temporarily due to speculation about a policy change by the Bank of Japan, but with U.S. interest rates rising, the yen depreciated again.

Major Equity Markets

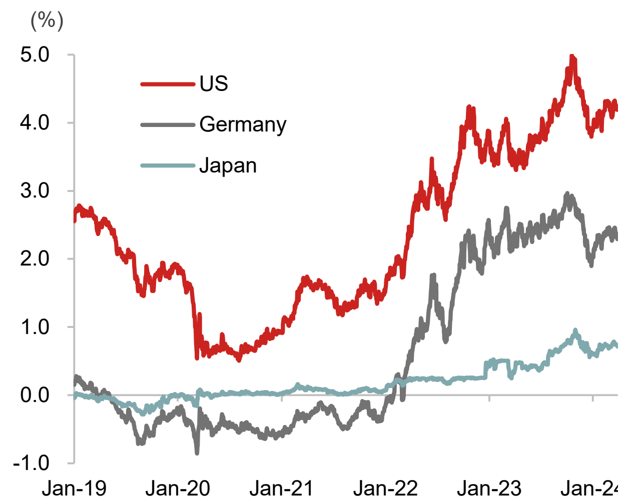
(January 2, 2019 - March 29, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

10 Year Bond Yields in Major Countries

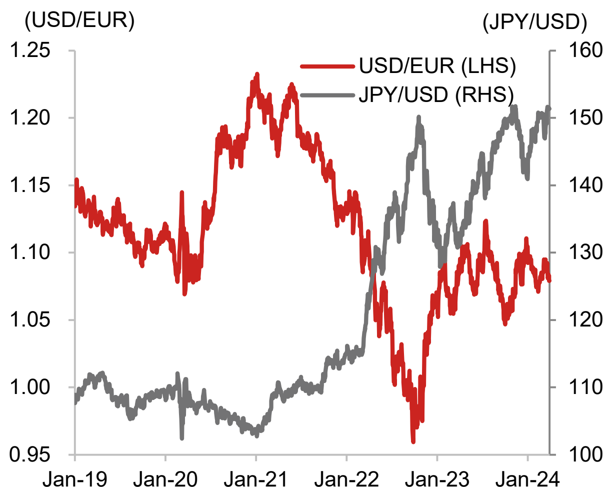
(January 2, 2019 - March 29, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Yen and Euro against the U.S. dollar

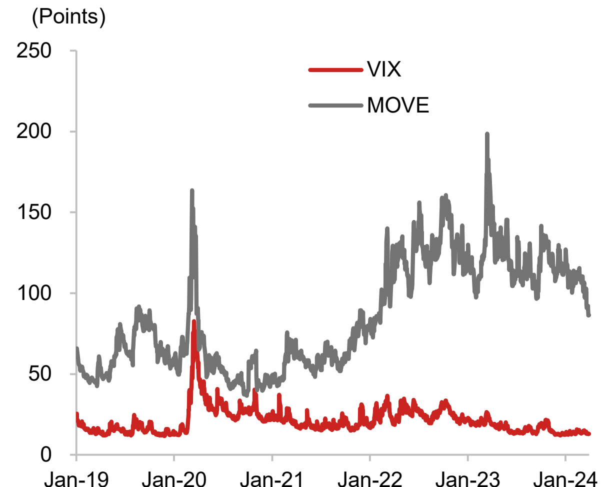
(January 2, 2019 - March 29, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Trends in VIX and MOVE

(January 2, 2019 - March 29, 2024, daily)



Note: The VIX and the MOVE are indexes that show the risk of future volatilities of U.S. stocks and US bonds, respectively.
Source: Nomura Asset Management based on Bloomberg data

Investment Environment Outlook

Amid the onset of rate cuts in the U.S. and Europe, market interest rates are expected to trend downwards, while stock prices are forecast to show an upward trend with fluctuations.

Rumi Kurumizawa
Chief Economist

Yuichi Murao
Chief Investment Officer,
Senior Corporate
Management Director

Sustainability of robust U.S. economic growth is crucial for the financial markets

We had previously anticipated a slowdown in the U.S. economy towards the summer as the cumulative pressure of past monetary tightening took effect. However, many of the economic indicators announced in 2024 have suggested continued robust growth, indicating a strong possibility that the economy could maintain its "virtuous cycle" of strong employment, income, and consumption for a while longer. As the effects of excess savings from fiscal transfers during the Covid-19 pandemic diminish and inflation softens due to supply factors, leading to an improvement in the real income environment, there is some possibility of a smooth transition in the factors underpinning support for consumer spending.

On the other hand, factors such as an increasing trend in credit card delinquency rates, suggesting that consumption is to some extent reliant on borrowing, and the high cost of debt refinancing that corporate borrowers will face in a high-interest rate environment, lead us to anticipate a slight weakening in the economy's "virtuous cycle." In other words, while there is a reasonable possibility of maintaining a growth rate of around 2%, we do not see a high probability of an autonomous acceleration in the growth rate.

Moreover, judging from the balance between the economy and prices, it seems that the potential growth rate is higher than expected. If so, even under a 2% growth trajectory, inflation rates are likely to soften gradually, allowing the Federal Reserve to make rate cuts for the purpose of adjusting or fine-tuning the degree of monetary tightening.

Bond yields are on a downward trend

In the commentary released in January, we stated that the market's pricing in of rate cuts was excessive and there could be a rebound in interest rates. Indeed, as market participants' expectations regarding monetary policy shifted through March, the yield on the U.S. 10-year Treasury note rose from below 3.8% in late December 2023 to around 4.3% recently.

Looking ahead, towards the middle of 2024 when we see a greater likelihood of rate cuts, we can expect long-term interest rates to decline. Even if interest rate cuts proceed at a very gradual pace while the economy stabilizes, long-term interest rates are likely to move within a sideways range.

We anticipate that the yields on German and Japanese government bonds will be somewhat correlated with U.S. bond yields. In March, the Bank of Japan reverted from its policy of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control to a more conventional monetary policy framework where short-term interest rates serve as the primary policy tool.

Regarding yen bond yields, these have been relatively stable, as the Bank of Japan's policy changes were within market expectations and the pace of long-term government bonds purchases is expected to be maintained for the time being. In addition, there is some possibility that limit orders and other operations could be triggered in the event of sharp interest rate increases. While we anticipate an additional increase of around 0.25% later in the year along with central bank balance sheet reduction, we believe that the potential for a significant rise only in yen bond yields is limited, as interest rates in Europe and the United States are expected to remain stable.

While expecting a weakening trend in the U.S. dollar, it is anticipated that the movement against the Japanese yen will remain relatively stable with only minor fluctuations.

Amidst the changing expectations for U.S. monetary policy, U.S. Treasury bond yields have been on an upward trend recently. In mid-February, the U.S. dollar strengthened against the Japanese yen and the Euro. Subsequently, there were moments where the U.S. dollar weakened due to statements from European Central Bank (ECB) officials pushing back against speculation of an early rate cut and expectations surrounding the Bank of Japan's policy changes. However, as the policy shift remains within market expectations, the yen temporarily weakened against the U.S. dollar, slipping to the JPY151 /USD range.

Looking ahead, relative movements of the U.S. dollar and the Euro will be influenced by financial market risk appetite. We believe that the U.S. dollar will depreciate against the euro if we are correct in our expectation that U.S. Treasury yields will decline and then trade within a range, and if the market manages to avoid a sharp and sustained deterioration in risk sentiment, such as a financial crisis.

Regarding the Japanese yen, structurally significant yen appreciation seems unlikely in terms of fund flows. However, with the potential for the U.S. to move towards moderate interest rate cuts and Japan facing the possibility of additional rate hikes, these diverging monetary policy trends could lead to yen appreciation.

Equity markets can be expected to continue their upward trend

While expectations for an early cut in U.S. interest rates have diminished, the stock market has enjoyed a steady upward trend since the end of December last year, supported by strong economic growth in the U.S. underlying this backdrop. A rate cut, aimed at adjusting the degree of monetary tightening in the context of the Fed’s expectations for robust economic growth with low inflation, would have a positive effect on earnings per share (EPS) and the price-to-earnings ratio (P/E) for stocks.

Considering that the Fed's growth rate outlook as of March is now slightly weaker than our U.S. economic outlook presented in March, and considering the rapid rise in stock, there is some risk of a temporary adjustment in stock prices. However, looking towards the year-end, it would be reasonable to assume that the stock market could maintain an upward trend with some interim fluctuations.

Looking specifically at the Japanese stock market, strengthening of the yen could be expected to weigh on corporate earnings. On the other hand, although the Bank of Japan has removed its negative interest rate policy, given its ongoing commitment to monetary easing together with the effect of a moderate strengthening of the yen acting as a cost-containment factor, we could expect the stock market to continue rising.

Japan Equity Market Outlook

Yasuyuki Fukuda,
Chief Portfolio Manager,
Active Japanese Equity

Expect a transition to a period of consolidation with some adjustments.

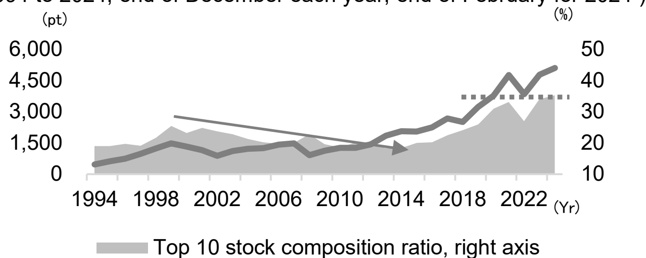
Japan's equity market broke its 34-year record high and the Nikkei 225 index passed the 40,000 yen mark for the first time

Japanese stocks have enjoyed a strong uptrend since the beginning of this year. Amid a global stock market rally, gains in Japanese stock prices have been particularly notable. As of March 15, the year-to-date performance has shown the Dow Jones Industrial Average was up by 2.7%, the S&P 500 was up 7.3%, and the NASDAQ Composite had gained 6.4%. In contrast, the Nikkei Stock Average had surged by 15.7% (the broader TOPIX, or Tokyo Stock Price Index, gained 12.9%), indicating an even stronger rally. Large-cap stocks, which have an especially significant impact on stock price indices, have been gaining momentum during the first quarter. Looking at the returns (excluding dividends) during the same period in descending order of market capitalization of stocks that make up the TOPIX: the top 100 stocks (large-cap index) have shown a return of +15.3%, the next 400 (mid-cap index) +8.6%, and those below that (small-cap index) +8.2%.

Large cap driven rally, but with distinct underlying market dynamics behind Japan and the U.S.

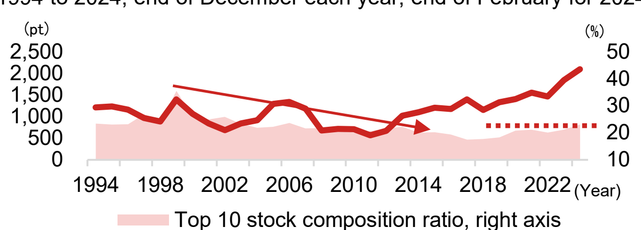
During the same first quarter period, the S&P 500 has outperformed the Russell 2000 index (comprising from the 1,001st to 3,000th largest stocks by market capitalization), by about 6.7%. This shows that large-cap stocks are dominating the market rally even in the U.S. Specifically, some technology stocks such as the so-called "Magnificent Seven" (including Apple, Microsoft, Alphabet, Amazon, Meta, NVIDIA, and Tesla) have been driving the market higher. Currently, these seven stocks alone account for approximately 30% of the market capitalization of the S&P 500. When we look back at the history of the U.S. stock market, with episodes such as the Nifty Fifty boom in the 1970s and the IT bubble around 2000, there are concerns about the sustainability of extraordinary equity market gains characterized by such a lack of breadth (i.e. driven by a limited number of stocks). In contrast, Japan's market rally since the beginning of 2023 has been characterized by investment rotation in various industries, indicating a healthy and sustainable increase in stock prices that has outpaced the gains in the U.S. market. The figure below shows the composition ratio of the top 10 stocks by market capitalization in the S&P 500 and TOPIX 500. In recent years, the increase in the composition ratio and market concentration in the S&P 500 stands out.

Fig. 1. S&P500 and Top 10 by Market Capitalization
(1994 to 2024, end of December each year, end of February for 2024)



Note: The composition ratio does not take into account the number of outstanding floating shares. The composition ratio of the top 10 stocks by market capitalization before 2004 is calculated by excluding some constituent stocks for which market capitalization data is not available.
Source: Nomura Asset Management based on Bloomberg data

Fig. 2. TOPIX500 and Top 10 by Market Capitalization
(1994 to 2024, end of December each year, end of February for 2024)



Note: The composition ratio does not take into account the number of outstanding floating shares. The composition ratio of the top 10 stocks by market capitalization before 1999 is calculated by excluding some constituent stocks for which market capitalization data is not available.
Source: Nomura Asset Management based on Bloomberg data

*References to individual stocks do not imply recommendations for buying or selling specific stocks, nor does imply any view on their price movements.

NVIDIA Corp: Stock price is considered reasonable based on a solid EPS outlook. Even if momentum weakens, the lack of overvaluation in terms of its P/E ratio suggests a major collapse is unlikely.

There are concerns that the recent surge in stock prices of NVIDIA Corp and other AI-related stocks in the "Magnificent Seven" might indicate a potential bubble. While there are worries about a bubble in these stock prices, such concerns are not definitive for NVIDIA and other AI-related stocks. If there are elements of a bubble, it is possible that they originate from the earnings side.

The stock price (P) is expressed as E (earnings per share) x P/E (price-to-earnings ratio). If the current price is to be considered a bubble at around $900, it would require that the company's estimated E of $29.44 for the fiscal year 2026 (from February 2025 to January 2026) or its current P/E ratio of approximately 30 times, or both, to be considered a bubble.

Regarding E, it is crucial to assess how long NVIDIA can maintain its dominant market share and high unit prices in the GPU (Graphics Processing Unit) market for server deployment for AI purposes. At the moment, I believe NVIDIA can maintain its excess profits brought by high market share and high unit prices for a considerable period.

In terms of the current scenario, I think NVIDIA could maintain its leading position for a substantial period given that production capacity for producing GPUs on the most advanced process nodes is limited to companies like TSMC. Such supply limitations reduce the likelihood of NVIDIA losing market share or getting caught up in price competition. Therefore, the current high stock price, supported by high earnings, appears sustainable for an extended period. Hence, the earnings base (E) for stock price formation is not indicative of a bubble.

Furthermore, with the stock currently trading at a P/E ratio of 30 times, there doesn't seem to be a significant overvaluation for a growth stock like NVIDIA. However, if the stock price increase continues, and we see many stocks forming what was often mocked during the IT bubble period as "hockey stick charts," we should recognize this as a possible danger signal.

Taking this into consideration, the current stock price of NVIDIA at around $900 and the P/E ratio of approximately 30 times are based on reasonable expectations. Although market momentum could slow down due to the law of large numbers, I believe a crash akin to the bursting of the IT bubble is unlikely.

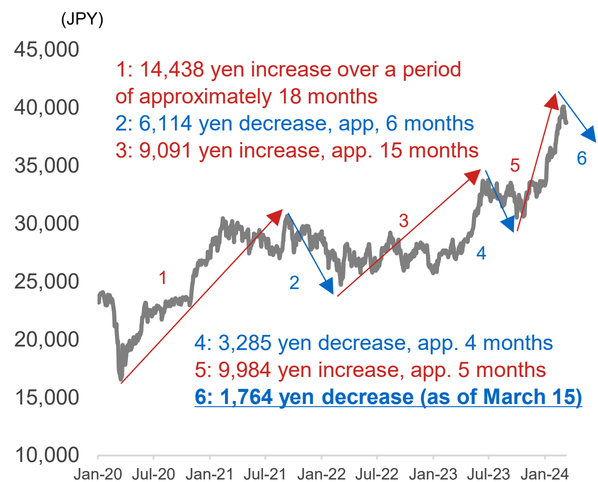
Outlook for Japanese stocks: Consolidation can be expected, with periodic adjustments until the U.S. presidential election passes.

The Nikkei 225 index has seen a significant rebound of more than 14,400 yen since the lows following the Covid-19 shock in March 2020. The market gain from the March 2022 lows to the high in June 2023 was more than 9,000 yen, but from the October 2023 lows to the high on March 7, 2024, the increase has already surpassed 9,980 yen. The stock market's current level suggests that there could be a potential pause in the upward trend.

Given the dominance of the "Magnificent Seven" stocks in the S&P500, which now account for around 30% of market capitalization, the lack of clear leadership in the rest of the U.S. stock market, the reluctance to adopt a risk-on sentiment until the U.S. presidential election, potential overshooting of economic and inflation expectations, and expectations of three rate cuts priced into the bond market, suggest a challenging environment ahead for U.S. stocks with a bias towards downward pressure. This is also expected to have an impact on Japanese stocks.

Considering the significant gains from the low of 30,487 yen on October 4 to the high of 40,472 yen on March 7, with an increase of 9,984 yen in just five months, it might be necessary for the Nikkei 225 index to consolidate in the mid to high 30,000 yen range before again approaching the 40,000 yen level. The re-establishment on a sustainable basis of the 40,000 yen milestone, a true surpassing of Japan's Heisei Bubble high, is expected to occur around 2025 rather than being a one-time event.

Fig. 3. Trends in the Nikkei 225 Index
(January 5, 2020 to March 15, 2024, daily)



Note: 1: Mar. 19, 2020-, 2: Sep. 14, 2021-, 3: Mar. 9, 2022-, 4: Jun. 19, 2023-, 5: Oct. 4, 2023, 6: Mar. 7, 2024-
Source: Nomura Asset Management based on Bloomberg data

*This commentary reflects the personal views of the author and does not necessarily represent NAM's house view.

Natural Capital Trends and Outlook

Assessment of theories and practices regarding natural capital.

Dai Yamawaki,
ESG Investment Manager

Growing market attention towards natural capital

Natural capital (including water, forests, soil, and biological resources) has long been considered as a given input to production functions in the world of economic and financial modelling.

In recent years, this neo-classical perception of natural capital primarily as an exploitable economic resource has been challenged and is now changing, but critical risks to natural capital remain. The World Economic Forum (WEF, 2024) has attempted to itemize and rank the most serious risks that will worsen over the next 10 years into five categories (environmental, social, technological, economic, and geopolitical). The environmental category includes natural capital and accounts for five out of 10 most severe risks. In this context, global frameworks regarding natural capital, such as the Kunming-Montreal Framework for Biodiversity, agreed upon at the 15th Conference of the Parties to the Convention on Biological Diversity in December 2022, and initiatives like the Task Force on Nature-related Financial Disclosures (TNFD), are progressing rapidly.

Figure 1. The most severe risks that will escalate over the next 10 years

Ranking	Risk
1st	Extreme w eather events
2nd	Critical change to earth systems
3rd	Biodiversity loss nad ecosystem collapse
4th	Shortage of natural resources
5th	Misinformation and disinformation
6th	Adverse outcomes of AI technologies
7th	Involuntary migration
8th	Cyber insecurity
9th	Societal polarization
10th	Pollution

Legend: Ranking | Env. | Soc. | Tech. | Econ. | Geopol.

Source: Nomura Asset Management based WEF (2024) data

Theoretical approaches to natural capital

Natural capital has been traditionally treated as a public good that meets the criteria of non-excludability (individuals cannot be excluded from its benefits) and non-rivalry (one individual's consumption does not impede another's consumption). However, in reality, the latter condition only partially holds, making natural capital more of a quasi-public good. Various theoretical approaches have been attempted to address the complex question of how to evaluate such natural capital in this context.

For example, the market valuation approach attempts to evaluate a resource rent value per unit by deducting production costs from the market trading price of a certain input of natural capital, when a market trading price is available. As for non-market valuation methods, various approaches have been used to assign a monetary value to natural capital. These methods include 1. The Replacement Cost Method (RCM), which attempts to evaluate natural capital by the cost of replacing it with private goods (i.e. goods that do not meet the conditions of non-exclusivity and non-rivalry); 2. The Hedonic Pricing Method (HPM), which evaluates based on the impact of natural capital on land rent and wage structure; 3. the Travel Cost Method (TCM), which calculates value based on travel expenses to destinations such as landscapes and recreational areas, and 4. The Contingent Valuation Method (CVM); which evaluates through an assessment of the willingness to pay or compensate for changes in natural capital.

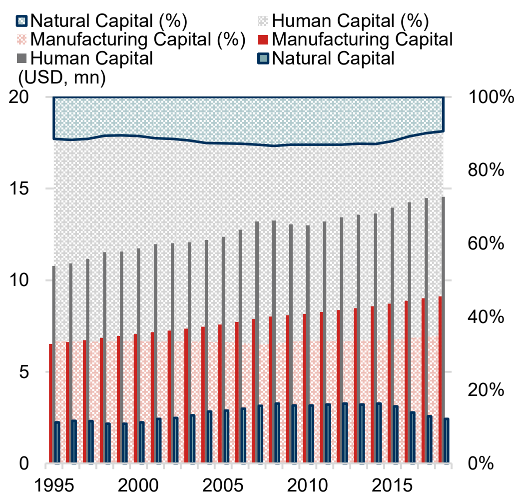
As mentioned above, in order to break free from the crisis surrounding natural capital, the importance of appropriate "valuation" and "disclosure" of natural capital by social and economic actors has been emphasized as increasingly important in recent years.

Valuation of natural capital

The World Bank defines wealth as a broad concept that includes not only manufactured capital (market goods) but also human capital and natural capital, and is working towards valuing wealth based on this expanded definition. To this end, the World Bank has constructed panel data on various types of capital (manufactured, human, and natural) in each of the 146 countries worldwide, and upon reviewing their trends (Figure 2), it was found that over the past 20 years, manufactured and human capital have grown by over 35%, while natural capital has shown modest growth (9%) and its share of total capital has decreased by 2 percentage points.

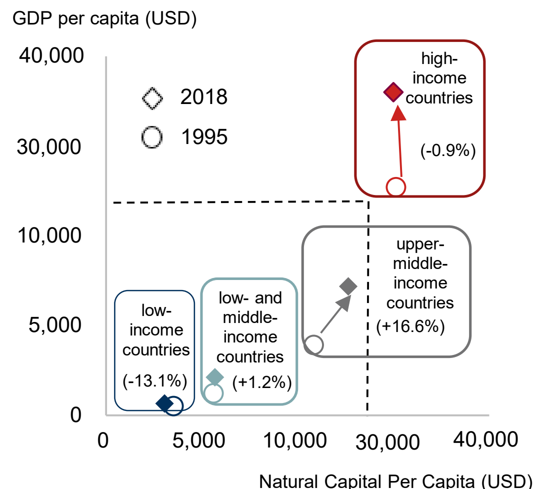
In addition, upon examining the trends of per capita GDP and natural capital in each country based on income levels (Figure 3), it became evident that the growth rate of natural capital is experiencing a slight decline in high-income countries, but a sharp decline in low-income countries.

Figure 2. Changes in the Economic Value and Percentage of Capital (1995 – 2018, Annual)



Note: The economic value of each type of capital is based on real terms in U.S. dollars, using 2018 as the benchmark year.
Source: Data from the World Bank compiled by Nomura Asset Management.

Figure 3. Relationship between GDP per Capita and Natural Capital (by Income Group, 1995 vs. 2018)



Note: Both axes are based on real terms. Changes in natural capital are shown in parentheses.
Source: Nomura Asset Management based on FactSet data

Natural capital disclosure

In September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) announced its recommendations, which seek to provide a framework for appropriately evaluating and disclosing risks and opportunities related to natural capital. The TNFD recommendations are structured around four pillars: Governance, Strategy, Risk & Impact Management, and Metrics & Targets. In addition to these four pillars, many of the recommended 14 disclosure items are also commonly found in the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

In Japan, TCFD disclosures have become essentially mandatory over the five years since the final recommendations were released in June 2017. Considering the similarities between these two frameworks and the close relationship in the area of focus between TCFD and TNFD, it seems possible that the adoption and mandatory requirements for TNFD disclosures could occur more swiftly than that for the TCFD disclosures in Japan. This institutional development could also be accelerated by action such as the integration of TCFD and TNFD disclosures.

Measuring the natural capital risk of a domestic portfolio

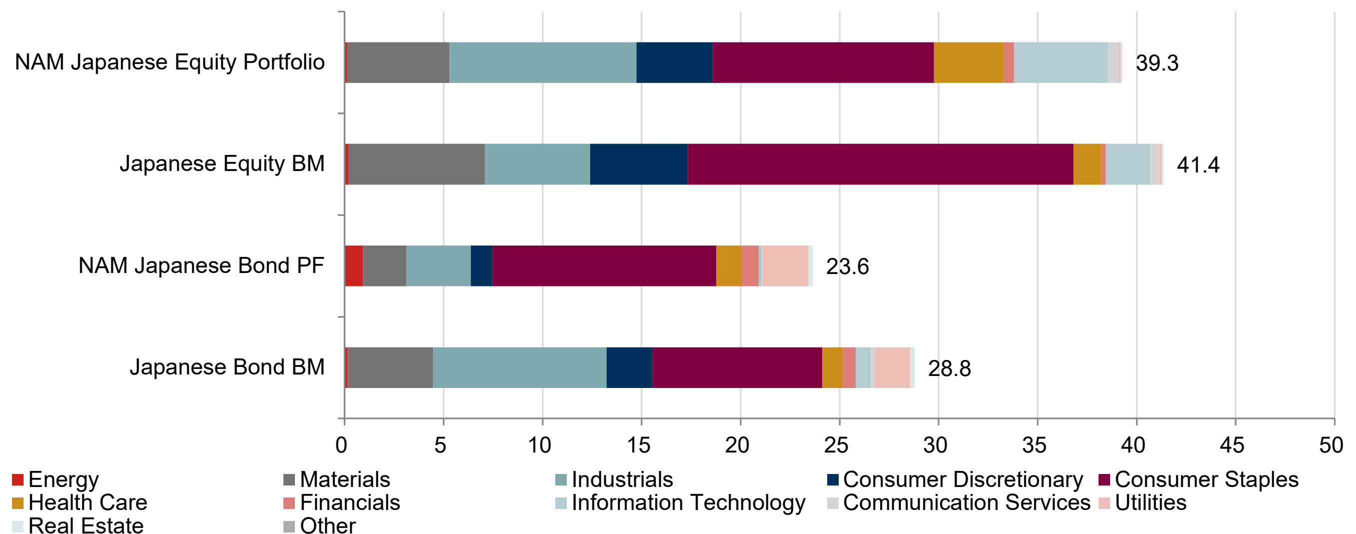
Nomura Asset Management has launched an initiative to evaluate the natural capital-related risks of its own portfolio using benchmark comparisons. In particular, we are focusing on an indicator that quantitatively expresses the potential loss of unique species in a geographical area due to environmental stress, known as the "Potential Disappearance Fraction (PDF)." PDF is mentioned in life cycle assessment (LCA) models as a method to reach a quantitative evaluation of environmental impact throughout the life cycle of products and services. It is widely used as a coefficient to estimate the -potential extent of damage to natural capital. A higher PDF equates to a potentially greater impact on biodiversity.

We use data and analysis methods from ISS to conduct a comparative analysis between a portfolio and its benchmarks. As benchmarks, we use the TOPIX for domestic stocks, while only the corporate bond component of the NOMURA-BPI (composite) is used for domestic bonds.

By calculating and comparing the weighted average PDF intensity, which is the PDF per unit of revenue for each company in the portfolio weighted by each company's benchmark weighting, it was confirmed that the PDF intensities of Nomura Asset Management's domestic model equity and bond portfolios was below the benchmark (as of the end of December 2023).

Figure 4. Formula of Weighted Average PDF Intensity

$$\textit{Weighted Average of PDF Intensity} = \sum_{n}^{i}\left(\frac{\text{Market value of investment } i}{\text{Portfolio market value}} \times \frac{\text{Absolute value of PDF for investment company } i}{\text{Sales of investment company } i}\right)$$



Source: Nomura Asset Management based on ISS Using Biodiversity Impact Assessment Tool data.

*This commentary reflects the personal views of the author and does not necessarily represent NAM's house view.

Generative AI and Semiconductor Trends and Outlook

Akira Kato
Senior Portfolio Manager,
Active Global Equity

Takuya Oguchi
Senior Portfolio Manager,
Active Global Equity

With the emergence of AI, the semiconductor market is also entering a period of expansion.

The AI market is transitioning from the emergent phase to the growth phase

It has been said that around 2015, when the practical application of AI advanced due to the evolution of a machine learning method called "deep learning," it was equivalent to the year 1995 when "Windows 95" was released and commercialization of the internet began to take off. Just as 1995 is known as the "Year of the Internet," 2015 can be considered the "Year of AI." As of 2024, with the increased awareness of AI services, we are now at the end of the "AI adoption period" and at the beginning of the "AI growth period."

Looking ahead, population decline in advanced countries is an inevitable trend. In a society with a declining population, AI can play an important role in labor substitution by taking on some of the tasks that humans now perform. By leaving simple tasks to AI and focusing on creative work, such as originating and developing new ideas, we can continue to develop the new industries of the future. The utilization of AI presents significant opportunities in areas where vast amounts of data are collected, such as autonomous driving, medical research, and finance. For example, in the healthcare field, the development of new drugs is being accelerated by the use of AI.

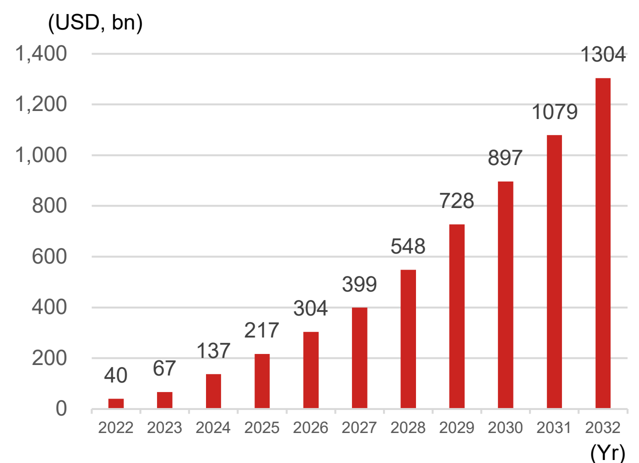
On the negative side, there is active discussion about whether the advance of AI will have a detrimental impact on people's lives. However, just as the widespread use of personal computers did not necessarily lead to a loss of people's jobs but rather brought about many benefits, it is possible to anticipate a future where AI and human labor can coexist productively.

Stock prices of AI-related companies are entering a stage of growth accompanied by solid fundamentals

AI became a prominent investment theme during the latter half of the 2010s, but this was still a period that could be described as the "AI adoption period." This was a time when services using AI began to be utilized in the real world, and even though companies were not yet making profits from AI services, the evaluation of their growth potential led to an increase in the stock prices of AI-related companies.

On the other hand, we think the current rise in stock prices of AI-related companies is the result of the recognition of the progress made in generative AI technologies, such as Chat GPT and other products that have tangible outcomes. Looking ahead, we believe that over the next 5 to 10 years, AI-related businesses can expect medium-to long-term growth with corresponding financial performance, making it an exciting time to be involved in this field.

Figure 1. Market Size of Generative AI
(2022 to 2032, annual)



Note: Bloomberg forecast from 2023 and beyond.
Source: Nomura Asset Management based on Bloomberg data

Semiconductor market to reach U.S. $1 trillion

The semiconductor market has continued to expand over the past half-century by riding waves of electrification and digitalization. Few markets have sustained such high growth over such a long period of time, and now, with the explosive proliferation of AI-related markets, including Generative AI, and IoT devices, the semiconductor market has entered a new growth cycle known as the "Fourth Wave."

Looking at the technological stages of the past 40 years, the 1980s marked the "Mainframe Era," with the first wave characterized by large-scale computers consuming massive amounts of semiconductors. The second wave came in the 1990s with further advances in integrated circuits driving the widespread adoption of personal computers, leading to a surge in semiconductor usage. By the 2000s, mobile networks were established, and the rapid spread of smartphones and cloud services ushered in the third wave. Now, driven by the proliferation of AI and IoT devices, the semiconductor market is thriving in the fourth wave.

The semiconductor market is projected to continue growing at a rate of approximately 10% annually, reaching a market value of $1 trillion by 2030. It took around 50 years for the market to grow to $500 billion from the 1970s, but a significant leap is expected in a much shorter period, adding another $500 billion within the foreseeable future.

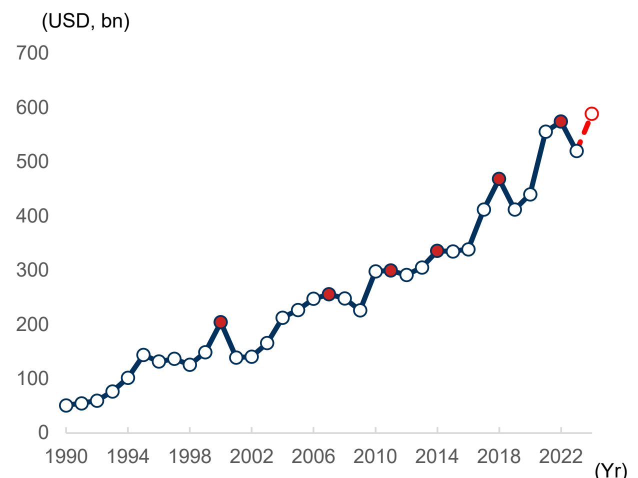
Furthermore, improvements in the competitive environment are supporting the performance growth of semiconductor-related companies. While the semiconductor market has historically seen intense competition and price wars, recent trends such as a the reduction in the number of companies through consolidation and M&A have shifted the landscape to a more stable structure, enabling companies to secure profits without resorting to drastic price cuts.

The semiconductor cycle bottomed out in mid- 2023 and has entered into expansion phase

The semiconductor market exhibits cyclical patterns, but it has also shown a high historical long-term growth trend beyond those cycles. It is considered a market with the potential for long-term growth, even as it navigates through these cycles. In the past, the semiconductor market was heavily influenced by fluctuations in demand for specific products such as PCs and smartphones, leading to significant revenue and stock price volatility. It was known for being an industry that was susceptible to short-term economic conditions.

Semiconductor market cycles typically repeat every 3 to 4 years, with around 2 to 3 years of expansion followed by approximately a year of adjustment. Currently, it is observed that the market bottomed out around mid-2023 and then transitioned into an expansion phase. Assuming a 2 to 3-year growth period, this expansion phase can be expected to continue until around mid-2025 to mid-2026.

Figure 2. Semiconductor Market



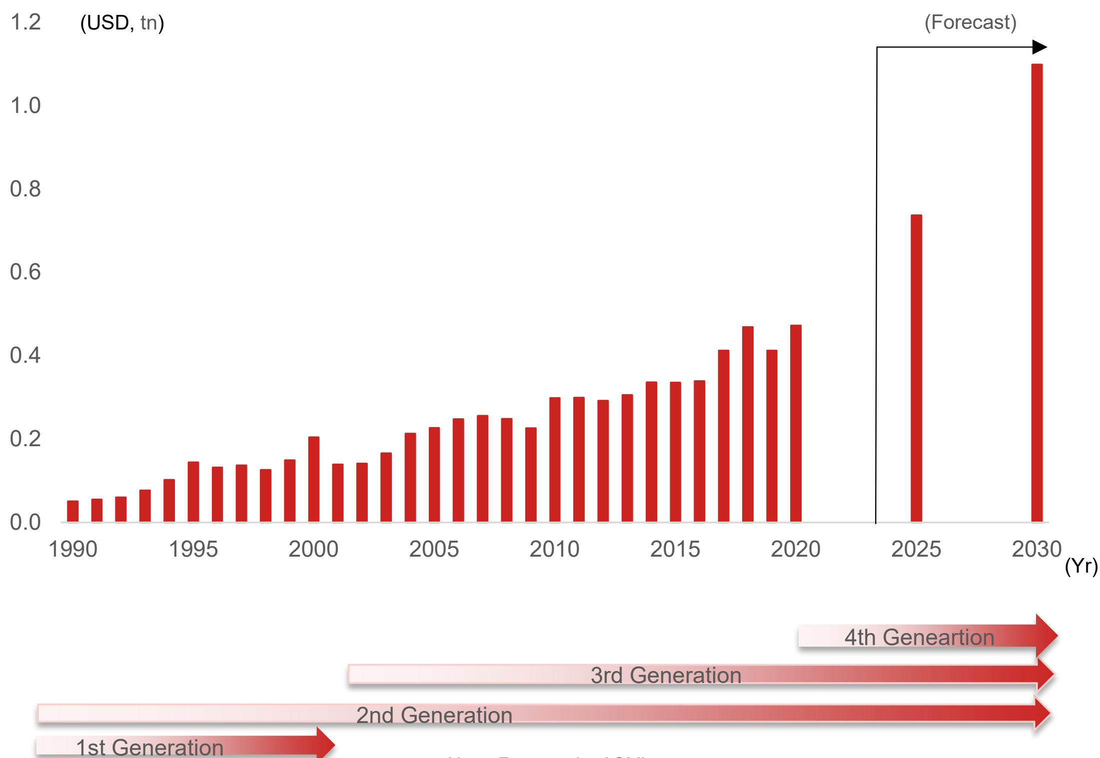
Note: Red circles indicate years where new peaks were reached, surpassing the previous peaks. The data for 2024 is based on projections by the SIA and WSTS
Source: Nomura Asset Management based on SIA and WSTS data

Semiconductor cycle expected to last longer fueled by strong demand for AI semiconductors

There is a strong likelihood that the current semiconductor cycle, which bottomed out in 2023, will continue for an extended period. In past examples, industry cycles have tended to extend to around four-years. These cycles include the surge in PC demand following the release of "Windows 95" in August 1995, the cycle driven by the widespread adoption of 3G communication services in Europe and the U.S. in 2005 leading to the emergence of smartphones from Blackberry to iPhone, and the cycle of cloud services like AWS reaching a period of widespread adoption in 2015. Expansion phases can generally extend to about 3 years (within a 4-year cycle) in every third cycle. Considering the current expansion phase driven by AI and IoT, supported by robust demand for AI-specific semiconductors, it is plausible to expect the expansion phase to lengthen.

Moreover, in the current environment, the field known as analog semiconductors, which feature heavily in electric vehicles, robotics, and factory automation are diversifying in terms of their applications and are expanding. As semiconductor applications diversify in the future, we can expect revenue and stock price volatility to stabilize over time. Particularly, the increasing utilization of AI-equipped autonomous robots in sorting and transporting tasks within logistics warehouses, the ability to delegate even tasks that once required human judgment to robots, and the surge in demand for data center processing to handle the massive data needs from information sources such as video, all suggest that semiconductor demand will continue to grow.

Figure 3. Semiconductor market size
(1990 to 2030, annually)



Note: Forecast by ASML
Source: Nomura Asset Management, based on SIA, WSTS and ASML data.

*This commentary reflects the personal views of the author and does not necessarily represent NAM’s house view.

U.S. High Yield Bond Market Outlook

Brett Collins, CFA
Executive Director &
Client Portfolio Manager.
NCRAM

NCRAM maintains a constructive outlook for the high yield asset class based on expectations of Fed policy easing, resilient issuer fundamentals, and supportive market technicals.

Cautious optimism for U.S. high yield

High yield bonds enjoyed a surprisingly strong year in 2023. As the U.S. economy staved off an expected recession, high yield issuers continued to deliver buoyant operating earnings, while new issuance remained light amid an elevated interest rate environment that offered little incentive for borrowers to tap the capital markets unnecessarily. The ICE BofA U.S. High Yield Constrained Index (HUC0) ended 13.5% higher year-on-year. Heading into 2024, NCRAM expects US real GDP growth close to 2% for the full year (Bloomberg consensus forecast), and a soft landing is increasingly likely, though we remain wary of potential downside risks to growth. An ongoing flow of fiscal stimulus funding and a strong US stock market create a positive backdrop, with some market drag caused by higher rates and slower growth overseas. Overall, we can expect business, consumer, and government spending to support an environment of gradual economic growth. High yield spreads have narrowed, but all-in yields remain attractive. NCRAM believes the likelihood of looser Federal Reserve policy, resilient issuer fundamentals and low rates of net new bond issuance support our expectations for a solid year of performance from this asset class.

Fed expected to ease monetary policy

Tighter financial conditions over the last two years have so far delivered few signs of a meaningful slowdown in the U.S. economy, as exemplified by the blowout 4.9% GDP growth rate in 3Q23 (final), and the 4Q23 growth of 3.4% (third estimate). The job market could be less vigorous in 2024, but the unemployment rate remains comfortably below 4% and there are 1.4 job openings for every unemployed worker according to US Bureau of Labor Statistics data. After the dovish December Fed meeting raised investor hopes for aggressive monetary easing in 2024, hotter than expected January and February CPI and PPI inflation data caused investors to reassess the outlook for interest rate cuts. However, softer economic data released in February suggest the easier monetary policy thesis still holds, even if the cuts occur later in the year, and at smaller increments.

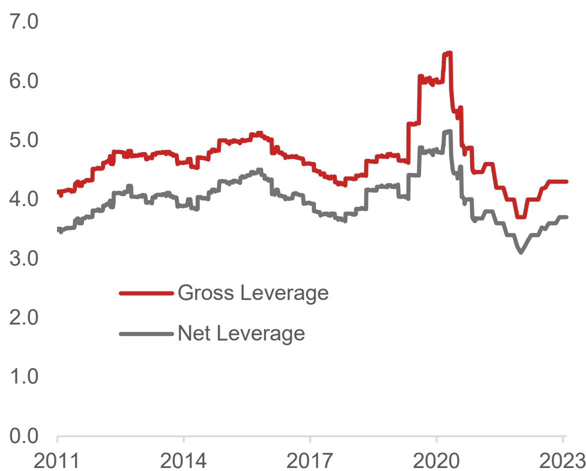
Resilient issuer fundamentals

High yield issuers continue to generate sturdy operating earnings, and profitable companies are using those resources to prepare for a slower economy. Fundamentals are not quite as robust as observed earlier in 2023, but third quarter earnings did grow modestly, both sequentially and year-over-year. Fourth quarter earnings also generally outperformed expectations. Balance sheet leverage is increasing from the cyclical nadir; yet the market's 3.7x net leverage remains healthy relative to the market's history since the global financial crisis (GFC).

Similarly, interest coverage has fallen from its historical peak as earnings growth has decelerated and shorter tenor debt has been rolled over at higher rates, but coverage remains solid a 4.5x. Furthermore, the high yield market's credit risk profile is skewed toward higher quality issues. Close to 50% of the HUC0 index is rated BB, while only 11% is rated CCC or below, near this century's low point (as of the end of February 2024). Resilient fundamentals and a higher quality market should result in a manageable default rate, even if U.S. economic growth disappoints in 2024.

We expect to see a modest rise in the default rate during 2024 from the 2.1% rate seen in 2023, but it should remain below the market's 3.0% long term average.

Figure 1. U.S. High Yield Leverage Ratio



Note: Weekly from the end of December 2011 to the end of December 2021 and monthly thereafter
Source: NCRAM based on BofA Global Research data. As of January, 2024

Figure 2. U.S. High Yield Interest Coverage

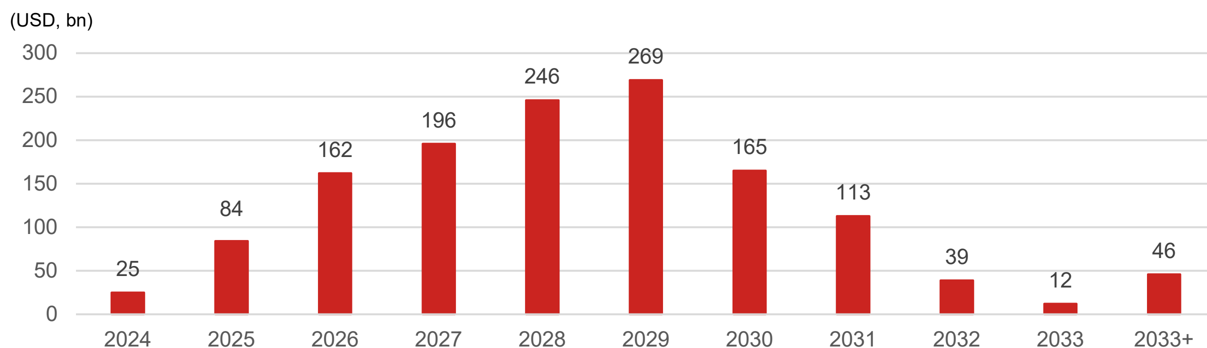
Note: Weekly from the end of December 2011 to the end of December 2021 and monthly thereafter
Source: NCRAM based on BofA Global Research data. As of January, 2024

Technical tail wind

The U.S. high yield market contracted by more than $90bn in 2023, shrinking the par amount of outstanding bonds by more than 5%. Calls, tenders, and maturities were greater than $155bn, while rising star upgrades into investment grade were nearly $125bn. Fallen angel downgrades were less than $15bn, and total new issuance was about $175bn. This environment has created a favorable supply-demand dynamic that is supportive for bond prices.

As we progress into 2024, we do not expect the positive gap to persist between rising stars and fallen angels. Large issuers on the cusp of an upgrade were lifted out of the high yield market in 2023, notably Ford ($40bn of debt) and Occidental Petroleum ($20bn). However, we do expect net new issuance to remain light, as interest rates remain high, discouraging debt financed capital investments or acquisitions. As of January 31, only $25bn of high yield debt comes due in 2024 and $84bn in 2025. More than 90% of issuers have no debt maturing before 2025. Looking out three years, more than 60% have no maturities prior to 2027. Thus, there is little urgency for most issuers to tap the high yield market until rates decline to more borrower-friendly levels.

Figure 3. U.S. High Yield Bond Maturities



Source: NCRAM based on BofA Global Research data. As of January, 2024.

Attractive entry point

Despite the strong rally over the last two months of 2023, the asset class' yield-to-worst (i.e. the lowest possible yield on an issue with bond retirement provisions) remains in the cheapest quintile based on the last ten years of yield data. Although spreads of less than 350 bps are tight relative to the post-GFC average, investors are focused on high yield's resilient fundamentals, supportive technicals, relatively low average dollar price, and the ample all-in yield, pushing down the option-adjusted spread. NCRAM believes yields are attractive at current levels, as the income offered by the asset class, the pull to par effect of capital growth in a market where average bond prices are in the low 90s, and the potential for declining U.S. Treasury yields create an environment conducive to favorable high yield performance in 2024. Based on this analysis, we can expect the high yield market to generate returns for the full year close to their 7.7% starting yield .

* This material contains personal views and does not necessarily reflect Nomura Asset Management house view.

Global Economic Outlook 1 – Base Case Scenario

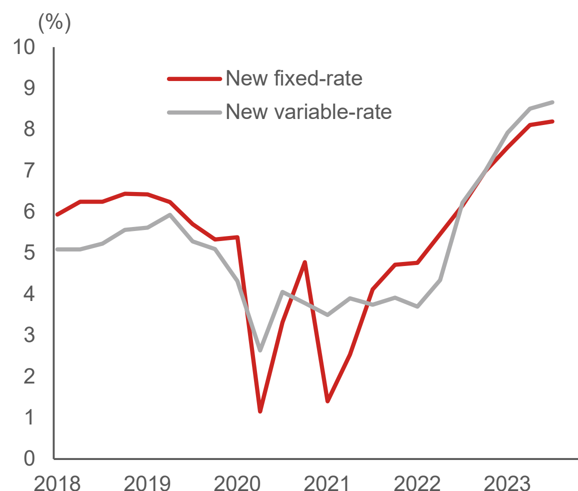
The U.S. and Europe to enter a moderate rate cut phase.

U.S. economy expected to avoid recession, but to slow gradually

While the Eurozone economy has stagnated for over one year and the Chinese economy is also lackluster, the U.S. economy continues to achieve solid growth. Covid-19-related fiscal stimulus package and liquidity supply have mitigated any economic drag effect of rate hikes. Although improvements in the real income environment with lower inflation are expected to support the economy going forward, businesses will face higher interest expense in refinancing debt as significant rate cuts are unlikely at early stage due to the resilient economy.

We believe that effects of past monetary tightening have not been fully effective yet and forecast that although the US economy will avoid recession, the pace of growth will slow down moderately through summer 2024.

Figure 1. U.S. Lending Rates of New Loans to Small and Medium-sized Businesses
(Jan - Mar 2018 – Jul - Sep 2023, quarterly)



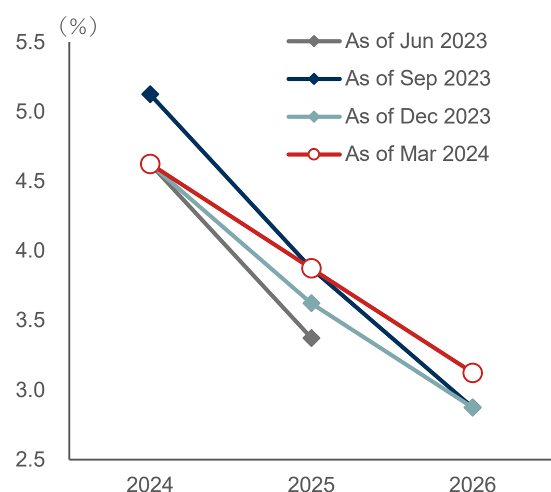
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Kansas City.

U.S. and European central banks are expected to start rate cuts mid-year

The Federal Open Market Committee (FOMC) kept the federal funds rate unchanged at its meeting held in March 2024 for the five consecutive meetings. The federal funds rate projections (median) by participants indicate a rate cut by 0.75 percentage points in 2024 as in the previous projections. Although key economic indicators for January-February have been stronger than expected, Federal Reserve Chair Jerome Powell stated that “they did not change the overall picture” toward achieving the target inflation rate of 2%.

We maintain our view that under our slowing inflation scenario, the U.S. and European central banks will decide to cut interest rates in a phased manner from mid-2024 in order to adjust the degree of monetary tightening.

Figure 2. Federal Funds Rate Outlook by FOMC Participants (Median)



Source: Nomura Asset Management based on the Fed’s data

Global Economic Outlook 2 – Risk Scenario

Risk balance is currently tilted toward upside from the somewhat conservative case scenario

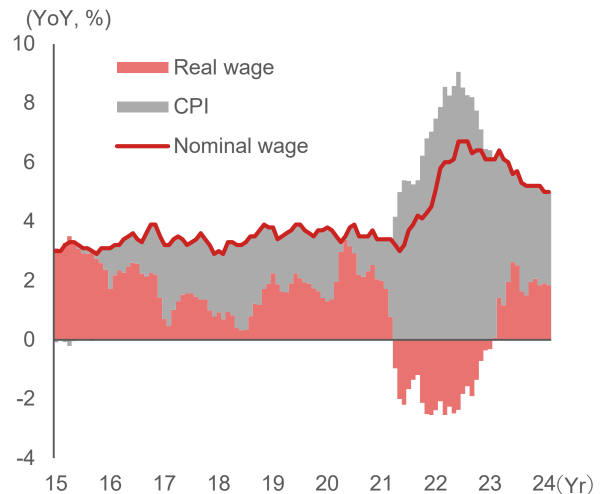
Upside risk: Global economy will recover with no significant U.S. economy slowdown

According to the GDP Now published by the Federal Reserve Bank of Atlanta, U.S. real GDP growth for January-March 2024 is up approximately 2.1% year on year (as of March 19, 2024), indicating the sustained healthy growth.

While our base scenario forecasts a moderate slowdown in growth, we consider an upside scenario that as the US economy maintains a growth rate of around 2%, the economies of Europe and some other regions which are currently stagnant, will start to recover, and the global economy will avoid further slowdown.

Consumption is underpinned by a steady real income environment and ongoing penetration of deferred payment for consumers without interest expense burden (BNPL). It is resulting in solid domestic demand, and, in turn, the employment and income environment is sustained. This virtuous cycle may last longer than our forecasts.

Figure 1. U.S. Real Income Environment
(January 2015 - February 2024, monthly)



Note: The wage index published by the Federal Reserve Bank of Atlanta is used for nominal wage. Real wage is calculated by deducting year-on-year percentage changes in CPI from year-on-year percentage changes in nominal wage.
Source: Nomura Asset Management based on data published by the Federal Reserve Bank of Atlanta and CEIC data

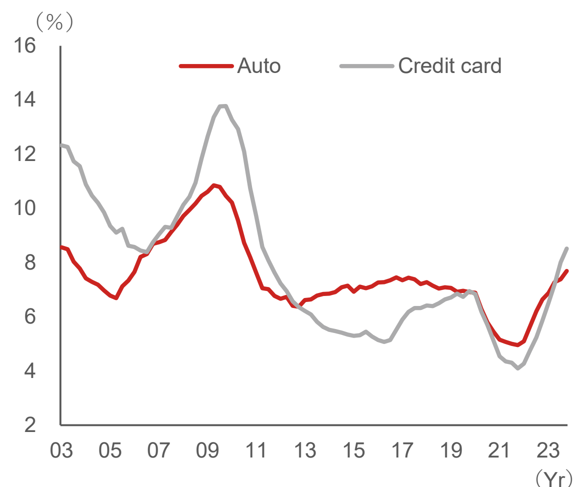
Downside risk: Greater slowdown than the base scenario or occurrence of shocks

Our base scenario forecasts that the U.S. and European economies will slow down moderately or stagnate through summer 2024.

However, the credit card and other loan delinquency rates in the US are rising. There is a downside risk that consumption will slow down significantly as economically vulnerable households in particular will face liquidity constraints, which will lead to lower short-term growth expectations and prompt business to reduce employment and investment.

There is also a possibility that the central bank will not implement rate cuts due to the strong U.S. economy. The continuation of the high interest rate may have a clear negative impact on the real economy or cause certain shocks to the financial system.

U.S. Loan Delinquency Rates
(Jan-Mar 2003 - Oct-Dec 2023, quarterly)



Note: The percentage of loans that have newly become overdue for 30 days or more
Source: NAM based on data published by the Federal Reserve Bank of New York

Global Economic Outlook 3 – Economic Cycle

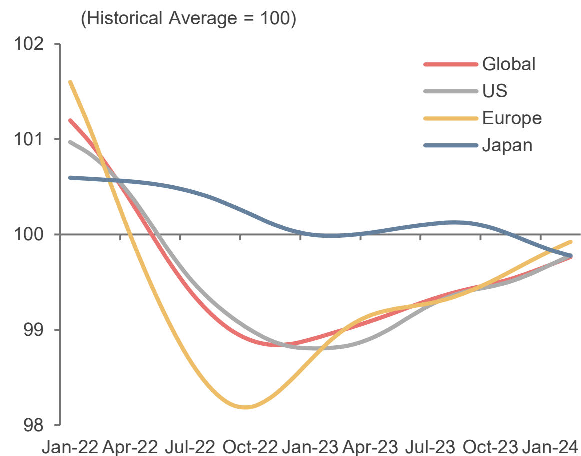
Global economic recovery is a rare case in a high interest rate environment

The global economic leading indicators are steadily recovering in a high interest rate environment

The Composite Leading Indicator (CLI) of the Organization for Economic Co-operation and Development (OECD) continues to recover steadily. CLI is approaching its long-term average of 100, and once it exceeds this level, it will suggest further strengthening of the economy from the recovery phase to the expansion phase.

In the current cycle, the CLI started to rise after hitting bottom in late 2022. The difference from past recovery patterns is that it started to recover when the interest rate remains high. Possible underlying factors include that the post-Covid-19 excess savings have continued to support consumption particularly in the U.S. and that the wealth effect of the stock market has contributed to economic activities. On the other hand, a strong stock market has not driven the domestic economy in Japan, and the Japanese CLI has remained weaker than in other regions.

Figure 1. Changes in OECD Composite Leading Indicators
(January 2022 - February 2024, monthly)



Note: "Global" is based on G7 data. "Europe" is based on data for four major European countries.
Source: Nomura Asset Management based on OECD data

Key points to watch are different in the economic recovery phase and the expansion phase

As the CLI is correlated to the stock market to some extent, it is important to watch changes in key areas of the stock market as the economy is expected to enter the expansion phase.

In the last 15 years, Europe and emerging countries, materials, and financials sectors have tended to be relatively strong in the recovery phase. In addition, reversal factors have been relatively advantageous, and this is likely because assets that have been in a more disadvantageous position in the slowdown phase tend to recover more significantly. On the other hand, energy and real estate have tended to be more advantageous in the expansion phase because these sectors are strongly linked to real assets.

However, we should note that the themes that have been advantageous in the past, may not work well given that the current economic recovery phase is different from past recovery periods in terms of the interest rate environment.

Figure 2. Key Areas of Stock Market in the Recovery and Expansion Phases
(Trends in the Last 15 Years)

Stage	Recovery	Expansion
Region	Europe Emerging	United States Japan
Sector	Materials Financials Industrials	Energy Health Care Real Estates
Factor	Reversal Mid-Small Cap Cyclicals	Momentum Large Cap Defensives

Note: The table above indicates those themes that have been most likely to become advantageous in the recovery phase and in the expansion phase. Value and growth strategies are not included in this table as no clear tendency has been observed for them.
Source: Nomura Asset Management based on LSEG Datastream data

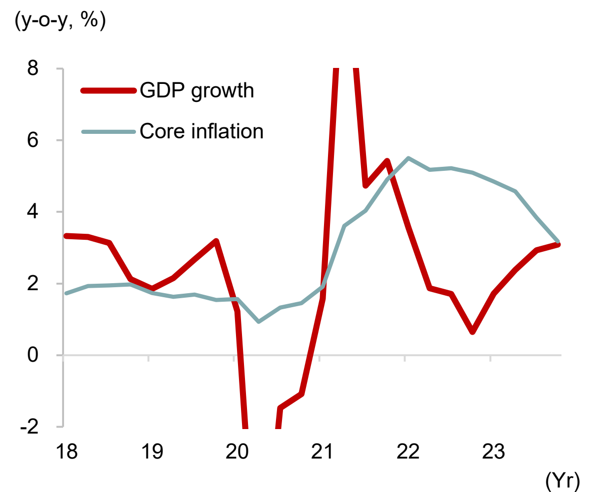
U.S.

With higher expectations for soft landing, mid-year rate cuts are contemplated

The likelihood of soft landing has increased

The U.S. economy is solid. The real GDP growth rate reached about +3% yoy in the second half of 2023, and employment has increased significantly and business confidence has been improving since the beginning of 2024. Nevertheless, the disinflation trend has been maintained, and the core inflation rate excluding energy and food has dropped to nearly 3%. High economic growth and slowing inflation co-exist probably as the potential growth rate rises with increase in the supply capacity of the economy due to more immigration and other factors. The supply-demand balance has not tightened as much as the high GDP growth suggests, and, as a result, the inflationary pressure has not been very strong. While we forecast that the effect of rate hikes will apply downward pressure on the economy through mid-2024, we expect that a significant economic slowdown or deterioration of employment will be avoided. We expect that the supply-demand balance will be softened in the meantime, and the inflation rate will gradually drift down to the Federal Reserve Board (FED)'s target inflation rate of 2%.

Figure 1. U.S. GDP growth and core inflation
(From Jan-Mar of 2018 to Oct-Dec of 2023, quarterly)



Note: Core inflation rate represents inflation rate excluding food and energy (personal consumption expenditure deflator basis).Some of the data for 2020 and 2021 are not displayed for the latest trends to be easier to see.
Source: Nomura Asset Management based on CEIC data.

Price indicators are more important than economic indicators in foreseeing the timing of rate cuts

The projections of Federal Open Market Committee (FOMC) participants revised in March indicate a rate cut by 0.75 percentage points in total in 2024. In the same projections, whereas GDP growth rates through 2026 have been revised upward, inflation rates have been revised slightly upward or unchanged. It appears that FOMC participants also believe that the strength of the economy has been driven by the increase in supply capacity and will not lead to inflationary pressures. Mid-year rate cuts have become realistic, and we expect interest rate cuts to start around the same time. Although the actual timing of rate cuts will depend on economic data, given the statement of Federal Reserve Chair Jerome Powell, any more-than-expected improvements in economic indicators are likely to have a limited impact on FOMC's decision. On the other hand, FOMC participants are very wary of the risk of unexpected rise in inflation. If price indicators rise more than expected, the timing of rate cuts will more likely be delayed.

Figure 2. FOMC Participants' Projections

(Unit: %)

		2024	2025	2026
GDP growth	March 2024	2.1	2.0	2.0
	December 2023	1.4	1.8	1.9
Core inflation	March 2024	2.6	2.2	2.0
	December 2023	2.4	2.2	2.0
Policy rate	March 2024	4.6	3.9	3.1
	December 2023	4.6	3.6	2.9

Note: Median projections of FOMC participants. Core inflation rate represents inflation rate excluding food and energy. GDP growth rates and inflation rates are year-on-year percentage changes for October-December each year. Policy rates are as at the end of each year.
Source: Nomura Asset Management based on data published by the Fed 's data

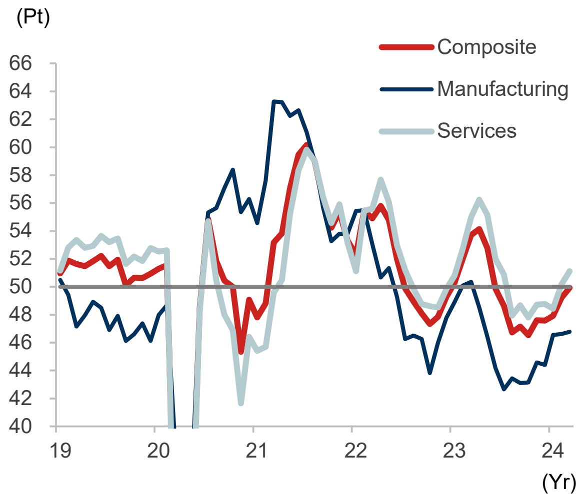
Eurozone

Economic recovery and disinflation are likely to be more muted than ECB projects, but policy rate will be cut at mid-year.

Although the economy is showing signs of bottoming out, rapid recovery is unlikely

The Eurozone economy continues to stagnate. Following the contraction in the second half of 2023, the Eurozone Purchasing Managers' Index (PMI) has remained near the turning point of 50 for January-March 2024. Given that the level of the PMI has been marginally rising, the economy appears to be bottoming out as the effect of rate hikes by the European Central Bank (ECB) has likely passed peak. Nevertheless, it is difficult to expect a rapid economic recovery given the real income of households that has remained at low levels, and we expect that the economy will remain sluggish going forward. On the other hand, inflationary pressures continue to be strong particularly on service prices. This is because businesses are passing increased labor costs of excessive personnel to consumers. There are some observations that inflationary pressures will subside while employment will remain strong and businesses will refrain from such price pass-throughs, but we should cautiously evaluate the possibility of such observations.

Figure 1. Business Sentiments in the Eurozone
(From 2019 January to 2024 March, monthly)



Note: Some of data in 2020 are not displayed for visibility of recent data.
Source: Nomura Asset Management based on S&P Global data

Policy rate will start to be cut at mid-2024 in ECB's basic direction

The ECB staff projections revised in March maintain its past forecasts that GDP growth will gradually accelerate while revising downward the core inflation (excluding energy and food) estimate. This is consistent with the previous announcement of ECB Governing Council members that economic recovery and disinflation will coexist. ECB President Christine Lagarde, while saying that "we are not sufficiently confident" in achieving the target inflation rate of 2%, pointed out that "we will know a little more in April, we will know a lot more in June," suggesting the possibility of a rate cut in June. We expect that both economic recovery and disinflation are likely to be more muted than ECB projections, and there is a possibility that the ECB will decide to carry out preventive rate cuts if economic stagnation continues until June.

Figure 2. ECB Staff Macroeconomic Projections

(Unit: %)

		2024	2025	2026
GDP growth	March 2024	0.6	1.5	1.6
	December 2023	0.8	1.5	1.5
HICP core inflation	March 2024	2.6	2.1	2.0
	December 2023	2.7	2.3	2.1

Source: Nomura Asset Management based on ECB materials

Japan

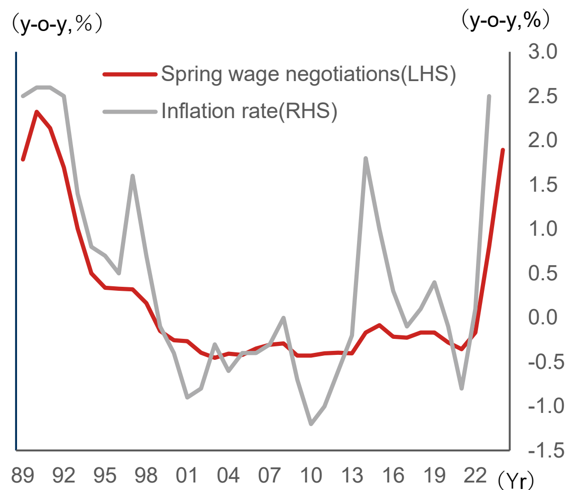
Growth momentum is expected to increase through summer 2024

Real income is recovering, reflecting high wage increase rates in annual spring wage negotiations

We expect that the Japanese economy will continue to grow at a rate above the potential growth rate for the time being, supported by improvements in the real income environment.

In the 2024 spring labor negotiations, the first round of responses compiled by Rengo showed a wage increase rate of +5.28%, significantly surpassing the expectations of most observers as of February. As the results are currently centered around large corporations, we should watch how much the high wage increase rate will spread in the economy and whether the wage increase will be passed through to selling prices. We expect that the inflation rate will gradually drift downward and reach the level slightly below 2% in the second half of 2025. The real income environment is headed for recovery, which will support personal consumption. We also expect that the consumption boosting effect of fixed-amount tax cuts will be materialized around June, and growth momentum will somewhat be strengthened through summer.

Figure 1. Wage Increase Rates in Annual Spring Wage Negotiations and Inflation Rates
(1989 - 2024, annual)



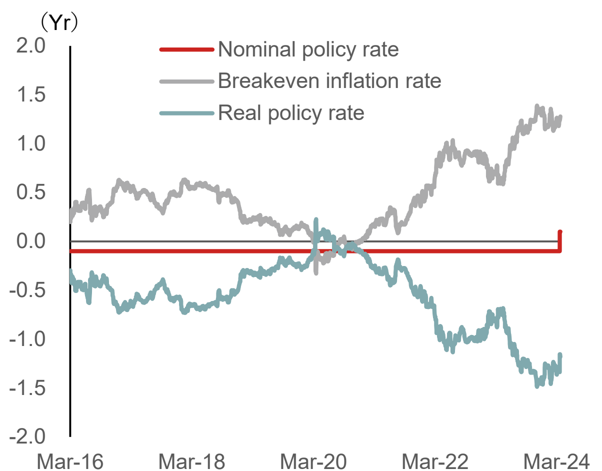
Note: The inflation rates shown above represent consumer price index (headline inflation rate excluding food and energy) and are shown through 2023. Source: NAM based on data provided by the Japanese Trade Union Confederation and the Statistics Bureau of the MIC

Short-term interest rates is the main policy tool for BOJ

At the monetary policy meeting held in March 2024, the BOJ has announced departure from quantitative and qualitative easing with yield curve control and the negative interest rate policy, designating short-term interest rate control as its main policy tool. The BOJ has explained that it has confirmed the strengthening of the “virtuous cycle of wages and prices” and can now foresee that the “price stability target” will be realized in a sustainable and stable manner through the end of the projection period.

The next focal point of the central bank’s monetary policy should be (1) the path of policy rate (whether there will be additional rate hikes and the timing of them, if any) and (2) whether there will be a change in the purchase amount of long-term Japanese government bonds, which may lead to balance sheet downsizing. Based on the recognition that a rate hike of around 0.25% continues to be in the domain of monetary easing, the Bank of Japan may make such decisions in the second half of 2024 while monitoring the progress of wage increases and how much they are passed through to selling prices.

Figure 2. Real Policy Rates
(March 1, 2016 - March 21, 2024, daily)



Note: The policy rates shown above represent interest rate on policy-rate balance through March 18, 2024 and the upper limit of the unsecured call rate target range thereafter. Source: NAM based on Bloomberg data

China

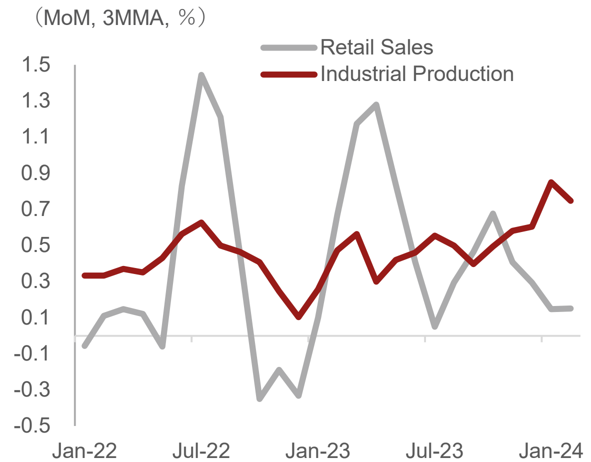
While the target growth rate is unlikely to be met, the economy will be stabilized

The target growth rate is unlikely to be achieved while growth target has been maintained

At the National People's Congress held in March, it was announced that the target economic growth rate for 2024 will remain unchanged at around 5.0%. Although the growth rate for 2023 was 5.2%, it was inflated due to the low activity levels in 2022. As such a boosting effect is small in 2024, it is not easy for the Chinese economy to achieve the target growth rate.

As the fiscal budget size announced at the National People's Congress was nearly unchanged from the previous year, we expect that the target growth rate for 2024 will be unmet. However, while a strong recovery is unlikely, the economy should be headed for stabilization. On the back of ongoing inventory adjustment and resilient external demand, production activities are improving. Infrastructure investments are also likely to maintain high growth due to policy effects.

Figure 1. Industrial Productions and Retail Sales
(January 2022 – February 2024, monthly)



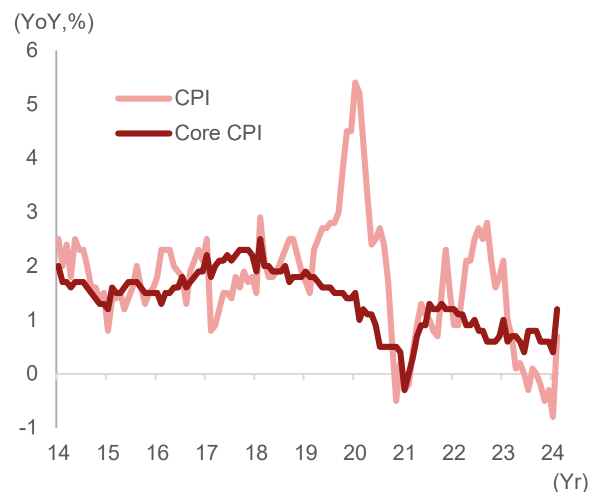
Source: Nomura Asset Management based on CEIC data

Chinese economy comes under deflationary pressure due to weak domestic demand

Domestic demand, such as consumption and real estate investments is expected to remain weak. Due to the collapse of the house myth that house prices will continue to rise, households will likely continue to postpone house purchases. In this environment, houses accounting for the largest portion of household wealth, are likely to be subject to deflationary pressure, and decline in house prices is expected to negatively impact on consumption. While consumption remains weak, we expect that the inflation rate is less likely to rise while it is affected by supply factors. Unless the household sentiment picks up, the weak domestic demand and deflationary pressure will continue in a long-term period.

Even so, we expect that the People's Bank of China (central bank) will keep a distance from major monetary easing due to concerns about the deterioration of profitability (lower profit margin) in the banking sector and currency depreciation.

Figure 2. Inflation Rates
(January 2014 – February 2024, monthly)



Source: Nomura Asset Management based on CEIC data

Emerging

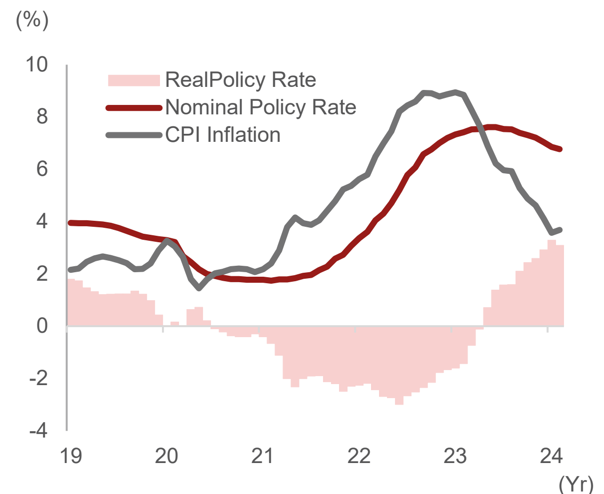
Currencies are expected to remain resilient amid cautious rate cuts

Growth will start to recover after slowing moderately

We forecast that emerging economies in 2024 will start accelerating after slowing moderately through mid-year. In first half of the year, the economies are expected to decelerate moderately by reflecting the cumulative effect of past rate hikes and the slowdown in external demand. However, as several central banks have already turned to rate cuts, their economic boosting effect will start to be materialized, and the economies are expected to accelerate in the second half of the year.

Inflation rates have been falling steadily. Although service prices remain high in some countries on the back of tightening in the labor market, it is unlikely to prevent rate cuts given the high levels of policy rates. On regional basis, while high interest-rate countries in Latin America are expected to continue rate cuts throughout the year, low interest-rate countries in Asia are not expected to start rate cuts until the US central bank's policy turns to easing in mid-year.

Figure 1. Emerging Market Policy Rates and Inflation Rates
(January 2019 – February 2024, monthly)

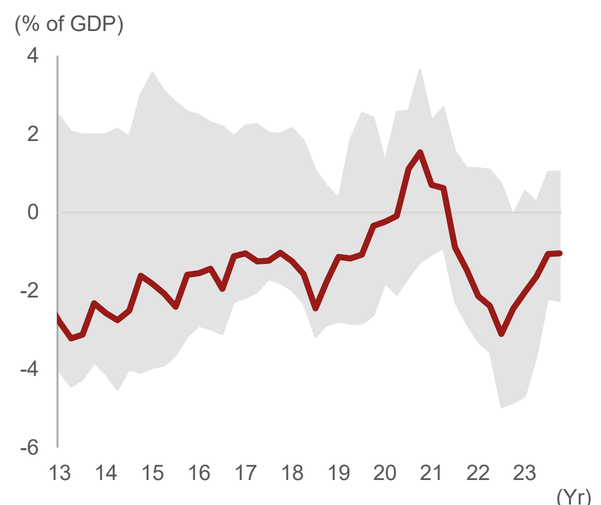


Note: The real policy rates shown above are calculated by subtracting inflation rates from nominal policy rates. The data shown above represent a simple average of major emerging countries/regions excluding Turkey and Russia. For countries where inflation rate data for February 2024 are unavailable, the most recent available data are used.
Source: Nomura Asset Management based on Bloomberg data

Emerging currencies are expected to remain resilient while interest rates are lowered

Generally speaking, rate cuts cause currency depreciation through the tightening of differences in interest rates between countries. However, we expect that emerging currencies will remain strong for the following reasons: First, central banks of emerging countries are cutting rates at a cautious pace. Rate cuts, which are implemented simultaneously with falling inflation rates, will mitigate the headwinds against currencies because policy rates on real terms remain high. We also expect those central banks to adjust the pace of rate cuts depending on the direction of the U.S. monetary policy. Second, the external balance of emerging countries is expected to be stabilized. Their current account deficits are decreasing by reflecting falling energy prices and control of overheated domestic demand. Moreover, capital which has flown to China will be diverted to other emerging countries due to geopolitical risks. Such a capital flight is likely to support emerging currencies.

Figure 2. Current Account Balance of Emerging Countries (Median)
(Jan-Mar 2013 - Oct-Dec 2023, quarterly)



Note: The red line represents the median of emerging countries, and the shaded area shows the range between the first quartile and the third quartile. For countries where data for October-December 2023 are unavailable, the most recent available data are used.
Source: Nomura Asset Management based on Bloomberg data

Globl Financial Market Forecast

			2024				2025		2022	2023	2024	2025
			Q1	Q2	Q3	Q4	Q1	Q2				
			F	F	F	F	F	F			F	F
Real GDP	World	*1,*4	2.6	2.4	2.2	2.1	2.2	2.3	2.9	2.9	2.3	2.4
(qoq, ann, %)	Developed	*2	1.2	0.9	1.2	1.4	1.6	1.8	2.6	1.7	1.4	1.5
	Emerging	*1,*3	4.1	4.0	3.7	3.6	3.6	3.6	3.3	4.6	3.8	3.6
	United States		2.3	1.5	1.5	1.8	1.8	1.9	1.9	2.5	2.5	1.8
	Eurozone		-0.1	0.2	0.6	0.7	1.0	1.2	3.5	0.5	0.1	0.9
	Japan		0.2	1.2	1.7	0.8	1.0	1.3	1.0	1.9	0.4	1.1
	China	*1	4.4	4.7	4.4	4.3	4.0	4.1	3.0	5.2	4.5	4.1
CPI	World	*4	3.4	3.5	3.3	3.3	2.9	2.7	7.0	4.4	3.4	2.6
(yoy, %)	Developed	*2	2.9	2.9	2.8	2.7	2.5	2.3	7.5	4.7	2.8	2.3
	Emerging	*3	4.0	4.5	4.2	4.1	3.4	3.3	6.2	3.9	4.2	3.1
	United States		3.2	3.2	3.3	3.2	2.8	2.6	8.0	4.1	3.2	2.6
	Eurozone		2.6	2.6	2.3	2.4	2.2	2.0	8.4	5.4	2.5	2.0
	Japan	*5	2.5	2.5	2.5	2.1	2.2	2.0	2.3	3.1	2.4	2.0
	China		0.0	0.7	1.2	1.8	1.5	1.6	2.0	0.2	0.9	1.3
Policy Interest Rate	United States	*6	5.50	5.25	5.00	4.75	4.50	4.25	4.50	5.50	4.75	3.75
(%)	Eurozone	*6	4.00	3.75	3.50	3.00	2.50	2.00	2.00	4.00	3.00	2.00
	Japan	*6	0.10	0.10	0.25	0.25	0.25	0.25	-0.10	-0.10	0.25	0.25
	China	*6	3.45	3.45	3.45	3.45	3.45	3.45	3.65	3.45	3.45	3.45
10-Year GB Yield	United States		4.20	4.10	3.90	3.80	3.60	3.50	3.87	3.88	3.80	3.40
(End of Period, %)	Germany		2.30	2.10	2.00	2.00	1.90	1.90	2.57	2.02	2.00	1.90
	Japan		0.73	0.80	0.90	0.90	0.90	0.90	0.42	0.61	0.90	1.00
Equity Index	S&P500		5,254	5,340	5,470	5,580	5,720	5,850	3,840	4,770	5,580	6,130
(End of Period, Point)	EURO300		2,031	2,050	2,090	2,120	2,160	2,200	1,678	1,889	2,120	2,290
	TOPIX		2,769	2,830	2,800	2,880	2,960	3,030	1,892	2,366	2,880	3,330
	MSCI EM ($)		1,043	1,070	1,090	1,110	1,130	1,150	956	1,024	1,110	1,190
Currency	USD/EUR		1.08	1.09	1.11	1.12	1.14	1.15	1.07	1.10	1.12	1.18
(End of Period)	JPY/USD		151.3	147.0	143.0	142.0	140.0	139.0	131.9	141.0	142.0	140.0
	JPY/EUR		163.5	160.0	158.0	159.0	160.0	160.0	140.8	155.7	159.0	165.0
	RMB/USD		7.23	7.20	7.10	7.10	7.00	6.90	6.95	7.09	7.10	6.90

		2022	2023	2024	2025
				F	F
Currency	INR	82.7	83.2	82.0	82.0
(Per USD,	IDR	15,568	15,397	14,800	14,600
End of Period)	BRL	5.3	4.9	4.8	4.6
	MXP	19.5	16.9	17.0	16.6
	ZAR	17.0	18.3	18.0	17.5
	TUR	18.7	29.5	40.0	54.0
Policy Interest Rate	India	6.25	6.50	6.00	5.75
(%)	Indonesia	5.50	6.00	4.75	4.75
	Brazil	13.75	11.75	8.25	7.75
	Mexico	10.50	11.25	9.00	6.50
	S. Africa	7.00	8.25	7.00	7.00
	Turkey *6	9.04	42.50	50.00	50.00

Note: Forecast as of March 25, 2024. 1) YoY, 2) GDP weighted average of U.S., Eurozone, Japan, UK, Canada, Australia, 3) GDP weighted average of China, India, Brazil, Korea, Taiwan, Indonesia, Thailand, Malaysia, the Philippines, Hungary, Poland, Russia, Turkey, Mexico, and South Africa, 4) GDP weighted average of 2) and 3), 5) core consumer price, 6) for Japan the policy interest rate imposed on the current account deposits held by financial institutions at the Bank of Japan, for the US the upper limit of the FF target range, for the Eurozone the central bank deposit interest rate, for China the 1-year loan prime rate, for Turkey, weighted average funding ratio of the central bank, *As for forecast columns, actuals are prioritized if available.
Source: Oxford Economics, Bloomberg, and Nomura Asset Management

Index Hedge Clause

The index used as references in material is as follows: (Includes indicators partially used and/or not shown.)

Index values, marks, and trademarks related to the Tokyo Stock Price Index (TOPIX) are the intellectual property of JPX Market Innovation & Research, Inc. and its affiliates (hereinafter referred to as "JPX"). JPX retains all rights related to the calculation of the index, releases of its values, and its usage, in addition to rights related to all relevant know-how, marks, and trademarks. JPX does not guarantee nor assume any responsibility for errors, delays, or interruptions in the calculation or release of TOPIX index values. This product is not offered, guaranteed, or sold by JPX. JPX shall not be liable for any damages arising from the establishment, sale, or promotion activities of this products.

The "FTSE EuroFirst 300 Index" and "FTSE100 Index" (hereafter "Indices") are calculated by FTSE International Limited (hereinafter, "FTSE") and all rights to the index are reserved. Neither FTSE, The London Stock Exchange PLC (hereinafter "Exchange"), nor The Financial Times Limited (hereinafter "FT"), neither explicitly nor implicitly guarantee or pronounce results gained by using the Indices and/or the values of the Indexes announced at a specific time, date, or by another method. The Index is edited and calculated by FTSE. However, neither FTSE nor the FT assume any responsibility (pertaining to negligence nor any other) towards any individual with regards to any errors in the Index, nor do they assume the obligation to notify any individual of such errors.

MSCI indexes are the exclusive property of MSCI Inc.. MSCI and MSCI indices are service marks of MSCI or its affiliates. Nomura Asset Management Co., Ltd. has been licensed to use these service marks for certain purposes. Neither MSCI, MSCI affiliates, nor any other party involved in or related to the production or editing of MSCI indexes have made decisions concerning the legality or compatibility of the funds and/or accounts noted herein, nor do they issue, support, recommend, market, manage, or advertise the funds and/or accounts noted herein, nor do they guarantee or assume any responsibility for the funds and/or accounts noted herein.

The Russell/Nomura Japan Stock Index and its sub-indices are produced by Russell Investments and Nomura Securities Co., Ltd. All intellectual property rights and all other rights belong to Russell Investments and Nomura Securities Co., Ltd. Russell Investments and Nomura Securities Co., Ltd. do not guarantee the accuracy, completeness, credibility, or usability of the indexes, and assume no responsibility for investment performance, etc. of funds and/or accounts.

All intellectual property rights and all other rights to the "S&P500“ indices belong to Standard & Poor's Financial Services LLC.

"ICE BofA U.S. High Yield Constrained Index SM/®" is a registered trademark of ICE Data Indices, LLC or its affiliates.

Bloomberg is a trademark and service mark of Bloomberg Finance L.P. Barclays is a trademark and service mark of Barclays Bank plc used under license. Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") or Bloomberg's licensors are not responsible for the accuracy, completeness or reliability of the information contained herein. Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg") or Bloomberg's licensors have all exclusive rights to the Bloomberg Barclays Indices.

Important Information

This report was prepared by Nomura Asset Management Co., Ltd. ("Nomura Asset Management" or "NAM") for information purposes only. Although this report is based upon sources we believe to be reliable, we do not guarantee its accuracy or completeness. Unless otherwise stated, all statements, figures, graphs and other information included in this report are as of the date of this report and are subject to change without notice. The contents of this report are not intended in any way to indicate or guarantee future investment results. Further, this report is not intended as a solicitation or recommendation with respect to the purchase or sale of any particular investment. This report may not be copied, re-distributed or reproduced in whole or in part without the prior written approval of Nomura Asset Management Co., Ltd.

Registration Number: Director-General of the Kanto Local Financial Bureau No.373
Membership: The Investment Trusts Association, Japan
Japan Investment Advisers Association
Type II Financial Instruments Firms Association

Nomura Asset Management Co., Ltd.
2-2-1, Toyosu, Koto-ku,
Tel: 81 (0)3-6387-5000 (Main switchboard)
https://global.nomura-am.co.jp/

NOMURA
NOMURA ASSET MANAGEMENT