NOMURA
Connecting Markets East & West

Nomura Asset Management
Investment Outlook
Autumn 2024

NOMURA ASSET MANAGEMENT

Autumn 2024

Contents

Investment Outlook

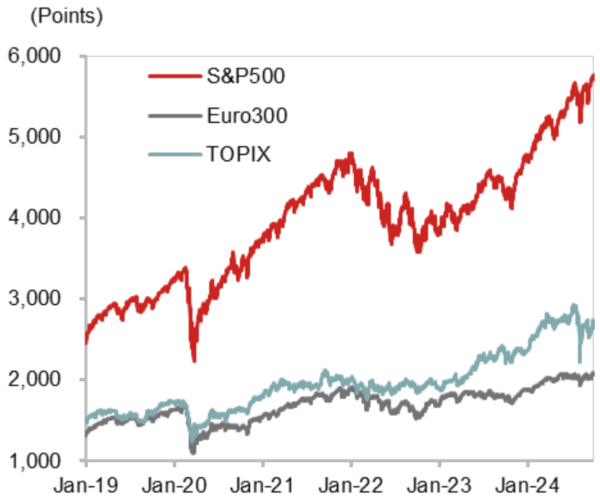
Note: In Nomura Asset Management (NAM) Investment Outlook Autumn 2024, NAM's senior investment professionals offer their views of the investment strategy and market prospects – commentaries are as of middle to late September 2024, and reflect each professional's personal views, and do not entirely match 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

The financial market during the July-September period of 2024 experienced significant volatility. In the first half of the period, a rise in US unemployment rates heightened concerns over a potential recession, leading to a substantial decrease in interest rates and a sharp drop in stock prices. Following this, expectations for interest rate cuts by the Federal Reserve (Fed) grew, and as the Fed actually decided to cut rates by 0.5 percentage points, interest rates continued to decline. Meanwhile, US stock prices turned upward, supported by easing expectations for the pace of future rate cuts, and reached a new all-time high. In the currency market, the decline in US interest rates led to a weakening of the dollar. The yen, on the other hand, appreciated significantly amid currency intervention by the government as well as the Bank of Japan's decision to implement additional rate hikes.

Major Equity Markets

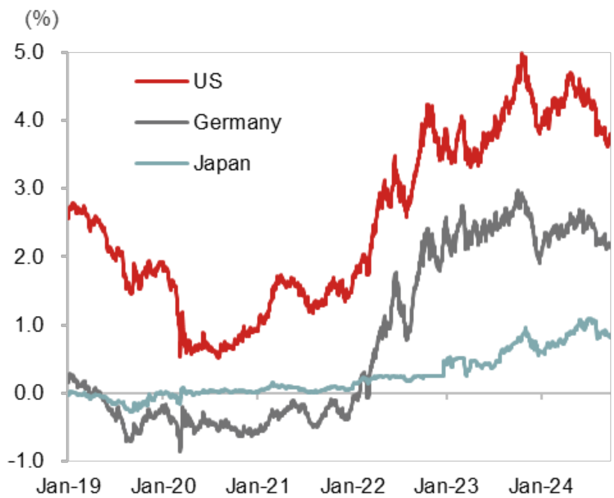
(January 2, 2019 - September 30, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

10 Year Bond Yields in Major Countries

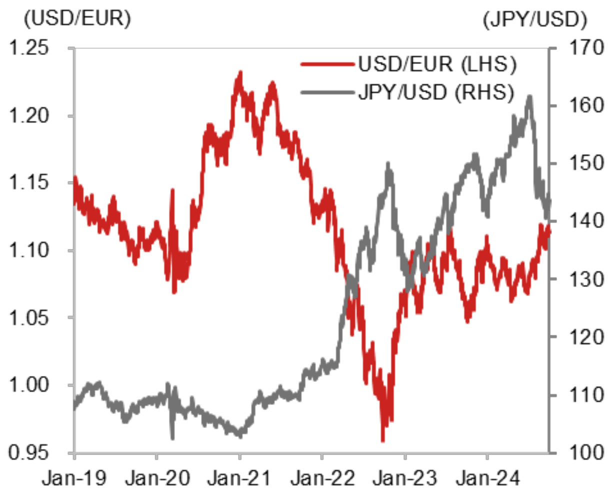
(January 2, 2019 - September 30, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Yen and Euro against the US dollar

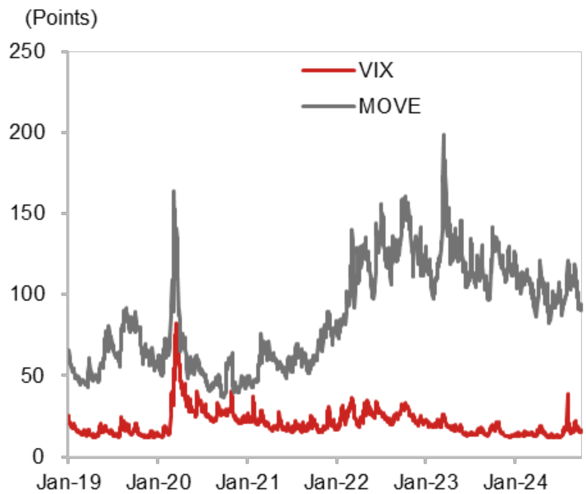
(January 2, 2019 - September 30, 2024, daily)



Source: Nomura Asset Management based on Bloomberg data

Trends in VIX and MOVE

(January 2, 2019 - September 30, 2024, daily)



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

Investment Environment Outlook

The US is expected to experience a mild decline in interest rates under a soft landing scenario.


Rumi Kurumizawa
Chief Economist

Yuichi Murao
Chief Investment Officer,
Senior Corporate
Management Director

Investment environment in the second half of fiscal 2024: Focus on the pace of US rate cuts and the presidential and congressional elections.

In the US, inflation rates are decelerating, and labor demand and supply are easing. As noted in our risk scenario in the previous quarter, there are concerns that the unemployment rate is approaching a critical point where it could rise significantly. Consequently, the Federal Reserve (Fed) can be said to have shifted from being an 'inflation fighter' to a ‘supporter of the labor market.'

Looking ahead, the pace and terminal rate of interest rate cuts by major central banks in the US and Europe, along with the Bank of Japan's rate hikes, will continue to be the focal point for financial market participants. Although the 'neutral interest rate‘, which neither accelerates nor decelerates the economy, will serve as a guideline for the terminal rate, estimating it accurately within a narrow range is challenging. Participants in the Federal Open Market Committee (FOMC) provide approximations of the neutral rate on a quarterly basis, and the median has been gradually rising. In practice, after adjusting interest rates, policymakers will assess the impact on the economy and prices. Therefore, as central banks have stated, it is fundamentally 'data-dependent,' and financial markets may lack strong conviction about the terminal rate in the latter half of the fiscal year (ending March 2025).

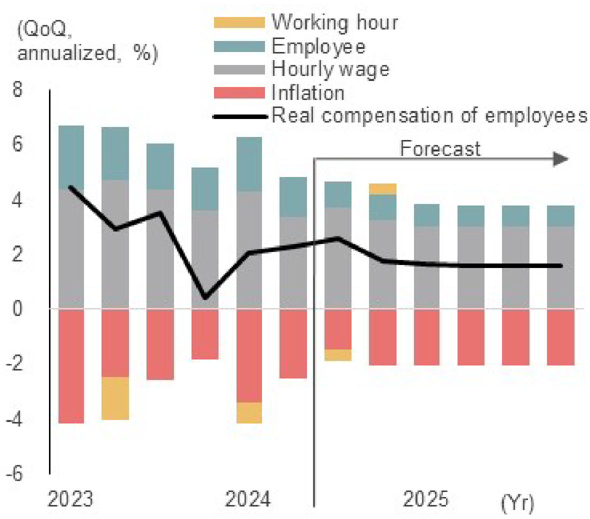
Moreover, depending on the results of the US presidential and congressional elections on November 5, 2024, fiscal policy, tax policy, trade policy, and immigration policy could change significantly from the current state. In the short term, the uncertainty surrounding the elections might lead to a decrease in the risk tolerance of financial market participants.

Macroeconomic Outlook: US economy is expected to return to its potential growth rate.

In the US, there is a rule of thumb known as the 'Sahm Rule,' which suggests that when the three-month average unemployment rate exceeds the lowest rate of the past 12 months by 0.5 percentage points, a recession is indicated. Historically, once the unemployment rate begins to rise, it tends to overshoot. Recently, although the unemployment rate has reached the threshold of the Sahm Rule, there has not been a significant increase in layoffs. Even if the pace of job growth slows somewhat in the future, we estimate that the real income environment will remain resilient.

Additionally, as the Fed shifts towards rate cuts, the easing of financial conditions is expected to provide some support to the economy. Assuming that economic policies, such as fiscal and tax measures, do not change significantly, we anticipate that the US will continue to grow at an annual rate of about 2% during the forecast period.

Figure 1. US Real Employee Compensation
(from Jan-Mar 2023 to Oct-Dec 2025*, quarterly)



(Note) Forecast values from Jul-Sep 2024 onwards. The contributions to the year-over-year change of real employee compensation are shown for the PCE deflator, hourly wages, number of employees, and hours worked.
(Source) Complied by Nomura Asset Management based on data from the US Department of Commerce and the US Department of Labor.

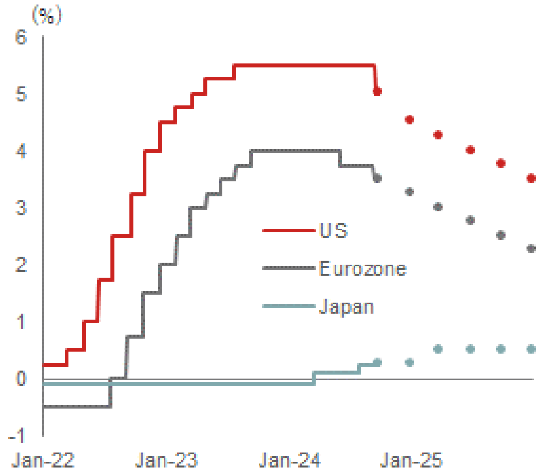
Monetary Policy Outlook: Major central banks aim for the neutral interest rate.

To adjust monetary tightening in the US and Europe and monetary easing in Japan, central banks will work towards adjusting interest rates towards the neutral interest rate.

The Fed is expected to decide on rate cuts at every meeting until concerns about the risk of the unemployment rate overshooting (worsening) ease. Given that measures to curb immigration will slow labor supply, making it more difficult for the unemployment rate to rise, we believe the pace of rate cuts will slow down as we enter 2025.

The Bank of Japan (BOJ) expressed concerns about downside risks to the US economy during its September policy meeting. There is also a possibility that financial markets may destabilize ahead of the US presidential election. In our base scenario, we anticipate the next rate hike to occur in January 2025.

Figure 2. Policy Interest Rates in Japan, the US, and Eurozone, and NAM Forecasts
(Actual values from Jan 3, 2022, to Sep 20, 2024, daily)



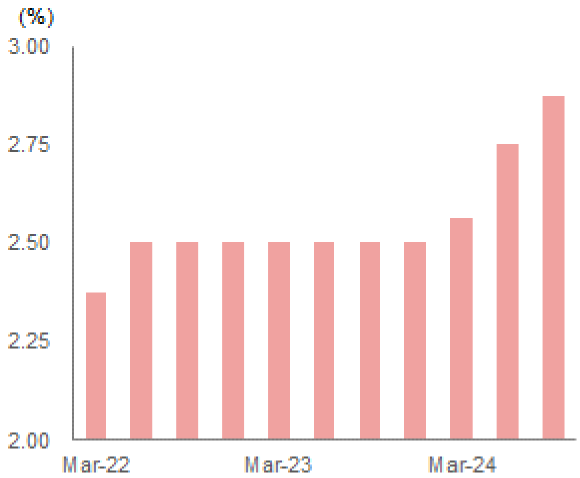
(Note) The dots after Sep. 2024 represent our forecasts as of the end of each quarter.
(Source) Compiled by Nomura Asset Management based on data from Bloomberg.

Interest Rate Outlook: Market anticipates it will be difficult to incorporate terminal rate forecasts.

Against a backdrop of subdued inflation and rate cuts, long-term interest rates in Europe and the US are expected to decline. However, with a persistent view that the neutral rate of interest is on the rise, market participants may find it challenging to determine with any certainty how far interest rates might be lowered in the current rate-cutting phase. Looking ahead, until the end of 2025, while we expect a downward trend in US 10-year Treasury yields, we also believe that a significant fall in interest rates is unlikely.

On the other hand, for long-term interest rates in Japan, additional rate hikes and reduced government bonds holdings by the BOJ could lead to rising long term interest rates. However, global interest rate trends are expected to limit the upward pressure or could even exert downward pressure on rates in Japan, resulting in 10-year government bond yields fluctuating around 1%.

Figure 3. Long-run Fed Funds Rate Outlook by FOMC Participants (Median)
(Mar. 2022 to Sep. 2024, quarterly)



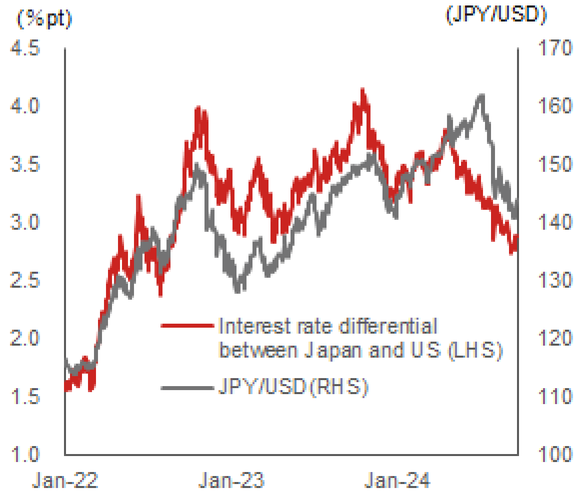
(Source) Compiled by Nomura Asset Management based on data from the Fed.

Currency Outlook: A gradual weakening of the US dollar.

Against the backdrop of a slowing US economy and the onset of rate cuts, we expect the US dollar to depreciate. While the relationship between interest rate differentials and exchange rates is not always consistent, we believe that a narrowing of interest rate differentials with the US will lead to an appreciation of the euro and yen against the US dollar.

Regarding the yen, while there will likely be continued downward pressure due to capital flows, there is also a possibility of a slight improvement in the trade balance as a result of falling crude oil prices. The level of interest rate differentials between Japan and the US, along with exchange rate volatility, may reduce the appeal of yen carry trades, where funds are raised in yen and invested in foreign currencies. In our base case scenario, we anticipate that by the second half of 2025, the exchange rate will fall below 140 yen to the dollar.

Figure 4. Japan-US Interest Rate Differential and Yen Exchange Rate against the US Dollar
(From Jan 3, 2022, to Sep 20, 2024, daily)



(Note) The US-Japan interest rate differential is calculated by subtracting the Japanese 10-year government bond yield from the US 10-year Treasury yield.
(Source) Created by Nomura Asset Management based on data from Bloomberg.

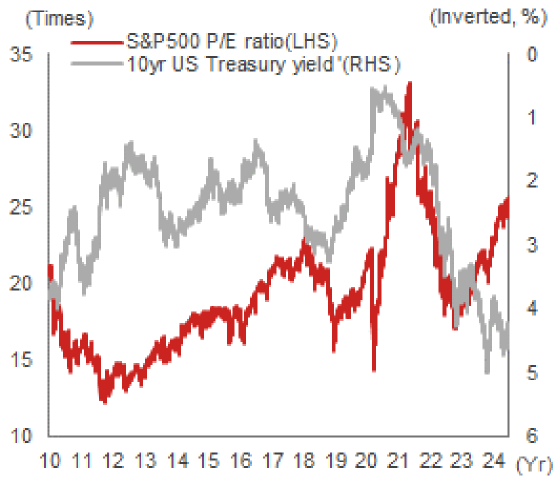
Equity Market Outlook: An upward trend with some fluctuations.

In the basic scenario where the US economy experiences a soft landing and rate cuts continue for the time being, we expect stock prices to maintain an upward trend.

However, in the short term, uncertainty surrounding the US presidential and congressional elections may lead market participants to hesitate in taking risks. Looking at past trends in stock prices before and after elections, there has been a tendency for instability leading up to the elections, followed by what is commonly referred to as a 'relief rally' afterward. From a somewhat longer-term perspective, attention should be paid to the high valuations.

While a stronger yen may pose some pressure on corporate earnings, we believe Japanese stocks will also continue to trend upward.

Figure 5. PER and Long Term Interest Rates in the US
(Jan 1, 2010 to Sep 20, 2024, daily)



(Source) Compiled by Nomura Asset Management based on data from Bloomberg.

Scenario analysis of US election results: Impact on the economy.

Our basic scenario assumes that there will be no significant shifts in US fiscal, tax, or trade policies after 2025. This can be interpreted as a 'Harris-Divided Government' scenario.

Using 'Harris-Divided Government' as the baseline, we conducted simulations to examine how the three alternative election outcome scenarios could impact the economy, prices, and monetary policy.

The results indicate that under a 'Red Sweep' scenario, the positive effects of fiscal expansion are offset by the negative impacts of increased tariffs, leading to a negative outcome for the economy, while prices may rise due to tariff factors. If the Fed makes policy decisions based on economic fundamentals, we expect it to halt rate cuts earlier than in the baseline scenario.

Figure 6. US Election Results Scenario

Scenario	Harris-Divided Government	Blue Sweep	Trump-Divided Goverrnment	Red Sweep
Fiscal policy	Baseline	Annual average fiscal expansion of about 0.2% of GDP	—	Annual average fiscal expansion of about 1.0% of GDP
Trade policy		—	Raise tariffs in late 2025	Raise tariffs in late 2025
Immigration policy		—	Further restrictions on the flow of illegal immigrants	Further restrictions on the flow of illegal immigrants
Effect on econocy	—	Somewhat positive	Negative	Somewhat negative
Effect on inflation	—	Limited	Upward pressure	Upward pressure

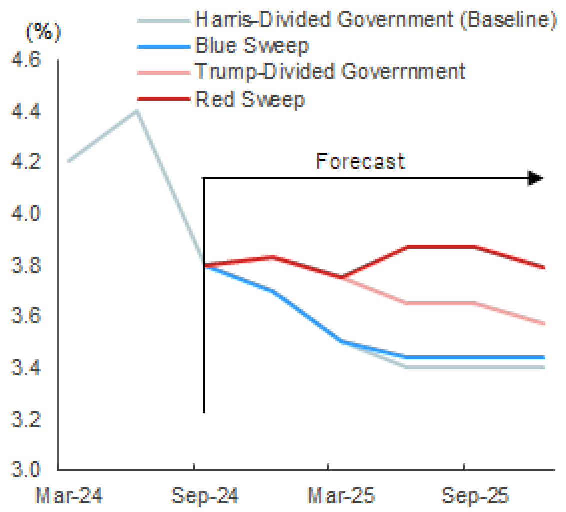
(Note) Harris-Divided Government (Trump-Divided Government): A scenario in which the President is Harris (Trump) and at least one of the two houses of Congress has a majority controlled by the Republican (Democratic) Party.
(Source) Prepared by Nomura Asset Management based on various media reports.

Scenario analysis of US election results: Impact on financial markets.

The forecast values for the US 10-year Treasury yields under different scenarios were estimated taking into account the above economic and inflation outlook, monetary policy projections, and fiscal risk premiums. In the scenarios where the inflation rate overshoots, such as the 'Trump-Divided Government' and 'Red Sweep' scenarios, the Fed's interest rate cuts are expected to be slower compared to the baseline, resulting in higher long-term interest rates. Additionally, in these two scenarios, we anticipate that the dollar will appreciate compared to the baseline due to interest rate differential factors.

It should be noted that this simulation does not take into consideration the impact of risk sentiment in the financial markets. In reality, we believe there is a high risk of significant market fluctuations beyond the estimated values.

Figure 7. US 10Yr Treasury Yield Curve
(Mar. 2024 to Dec. 2025*, quarterly)



(Source) * Forecast values from September 2024 onwards.
Compiled by Nomura Asset Management based on data from Bloomberg.

Global Financial Market Forecast

			2024				2025		2022	2023	2024	2025
			Q1	Q2	Q3	Q4	Q1	Q2				
					F	F	F	F			F	F
Real GDP	World	*1,*4	2.9	2.7	2.5	2.5	2.4	2.4	2.9	2.9	2.6	2.5
(qoq, ann, %)	Developed	*2	1.1	2.2	1.5	1.5	1.7	1.7	2.6	1.7	1.7	1.7
	Emerging	*1,*3	4.8	4.2	3.9	3.8	3.6	3.8	3.4	4.6	4.2	3.7
	United States		1.4	3.0	2.5	1.9	1.9	1.9	1.9	2.5	2.7	2.1
	Eurozone		1.3	0.8	0.8	0.8	1.2	1.3	3.4	0.5	0.7	1.1
	Japan		-2.4	2.9	2.2	1.0	0.9	0.9	1.2	1.7	-0.1	1.3
	China	*1	5.3	4.7	4.5	4.3	3.9	3.9	3.0	5.2	4.7	4.0
CPI	World	*4	3.4	3.4	3.2	3.2	2.9	2.8	7.0	4.4	3.3	2.7
(yoy, %)	Developed	*2	3.0	2.9	2.7	2.7	2.5	2.2	7.5	4.7	2.8	2.3
	Emerging	*3	4.0	4.3	4.1	3.9	3.6	3.7	6.2	3.9	4.1	3.4
	United States		3.2	3.2	2.9	2.7	2.5	2.2	8.0	4.1	3.0	2.3
	Eurozone		2.6	2.5	2.4	2.6	2.5	2.2	8.4	5.4	2.5	2.1
	Japan	*5	2.5	2.4	2.4	2.1	2.5	2.3	2.3	3.1	2.4	2.1
	China		0.0	0.3	0.6	1.1	0.8	1.3	2.0	0.2	0.5	1.0
Policy Interest Rate	United States	*6	5.50	5.50	5.00	4.50	4.25	4.00	4.50	5.50	4.50	3.50
(%)	Eurozone	*6	4.00	3.75	3.50	3.25	3.00	2.75	2.00	4.00	3.25	2.25
	Japan	*6	-0.10	0.10	0.25	0.25	0.50	0.50	-0.10	-0.10	0.25	0.50
	China	*6	3.45	3.45	3.35	3.05	3.05	3.05	3.65	3.45	3.05	3.05
10-Year GB Yield	United States		4.20	4.40	3.78	3.70	3.50	3.40	3.87	3.88	3.70	3.40
(End of Period, %)	Germany		2.30	2.50	2.12	2.10	1.90	1.80	2.57	2.02	2.10	1.80
	Japan		0.73	1.06	0.86	1.00	1.10	1.10	0.42	0.61	1.00	1.10
Equity Index	S&P500		5,254	5,460	5,762	5,790	5,920	6,040	3,840	4,770	5,790	6,360
(End of Period, Point)	EURO300		2,031	2,032	2,069	2,090	2,120	2,150	1,678	1,889	2,090	2,230
	TOPIX		2,769	2,810	2,646	2,730	2,780	2,840	1,892	2,366	2,730	2,970
	MSCI EM ($)		1,043	1,086	1,171	1,110	1,130	1,140	956	1,024	1,110	1,190
Currency	USD/EUR		1.08	1.07	1.12	1.12	1.13	1.14	1.07	1.10	1.12	1.15
(End of Period)	JPY/USD		151.3	160.9	143.0	143.0	141.0	140.0	131.9	141.0	143.0	139.0
	JPY/EUR		163.5	172.4	159.6	160.0	159.0	160.0	140.8	155.7	160.0	160.0
	RMB/USD		7.23	7.27	7.02	7.10	7.10	7.10	6.95	7.09	7.10	7.00

		2022	2023	2024	2025
				F	F
Currency	INR	82.7	83.2	84.0	82.0
(Per USD,	IDR	15,568	15,397	15,400	15,000
End of Period)	BRL	5.3	4.9	5.3	5.1
	MXP	19.5	16.9	19.0	18.5
	ZAR	17.0	18.3	18.0	17.0
	TUR	18.7	29.5	37.0	44.0
Policy Interest Rate	India	6.25	6.50	6.25	6.00
(%)	Indonesia	5.50	6.00	6.00	5.00
	Brazil	13.75	11.75	11.00	12.00
	Mexico	10.50	11.25	10.25	8.25
	S. Africa	7.00	8.25	7.75	7.00
	Turkey *6	9.04	42.50	50.00	30.00

Note: Forecast as of September 20, 2024. 1) YoY, 2) GDP weighted average of US, 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 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

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