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Singapore equity outlook 2024

Technology, services and energy transition seen as bright spots

By the Asian Equity Team
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Overview

The Singapore equity market in 2023 turned out to be more subdued than we had expected at the beginning of the year. However, we believe a stronger confluence of positive drivers could come together for Singapore equities in 2024. We see positives on both the technology (tech) and services sectors of the Singapore economy, and external demand is likely to be stronger in aggregate. We also believe that Singapore's corporate earnings will continue to expand in 2024 following two stellar years of growth.

In our view, 2024 can offer abundant opportunities, and we believe that our "New Singapore" narrative focusing on sectors and companies that represent the future of the city-state remain relevant from a portfolio construction perspective. Energy transition has risen to prominence within the New Singapore narrative in addition to data, tech, healthcare, logistics, tourism and food solutions. We also remain watchful over a selection of preferred real estate investment trusts (REITs), which could benefit if a peak in interest rates becomes more apparent in 2024.

Turning a page on a subdued year

At the start of 2023, we expected Singapore stocks to perform moderately well. We anticipated slower economic growth in Singapore following a robust expansion in 2021 and 2022. We also expected the US economy to slow with higher interest rates taking a toll, while we saw the Chinese economy strengthening as the country began to reopen after the COVID-19 pandemic. We expected the Singapore manufacturing sector to decelerate after three years of stellar performance. If the manufacturing sector decelerated, we saw the services sector picking up some of the slack, supported by a continued recovery in tourism. However, Singapore market's performance in 2023 was more subdued than we expected.

The total return on Singapore stocks was broadly flat for 2023 at the time of this writing and roughly in line with the performance of broader Asian equities. We predict that Singapore economic growth is likely to be about 1% for 2023, although we forecast an expansion of around 2% at the start of the year*. US economic growth in 2023 was more resilient than expected, keeping inflation and interest rates in the country higher than anticipated. Conversely, economic growth in China proved weaker than our forecast, and fewer-than-expected tourists from China arrived in Singapore.

*Forecast is not necessarily indicative of future performance.

A firmer China and a US slowdown likely in 2024

Going into 2024, we expect economic growth in Singapore to accelerate modestly to about 2%*. We expect the US economy to eventually slow down and potentially even experience a brief recession in the second half of 2024 (2H24). However, we do not expect a severe or protracted downturn in the world's biggest economy. In China, we see the government placing an emphasis on supporting economic growth in 2024. As such, we believe that the Chinese economy will experience firmer growth in 2024.

* Forecast is not necessarily indicative of future performance.

Nascent tech sector revival to gain strength; more room to grow for services

In 2H23, we began to see signs that the sharp manufacturing recession in Singapore, which started in 2H22, was starting to bottom. We believe that manufacturing activity will continue firming into 2024, which would also be beneficial for related sectors like logistics and trade finance.

Supporting the recovery in manufacturing is the global normalisation in consumption, with consumers moving away from revenge spending on travel and services which took place after the COVID-19 pandemic. Lower inventories throughout the tech supply chain are also seen supporting the recovery in manufacturing. An overdue replacement cycle in key tech categories like handsets and personal computers is also likely to provide a boost, in our opinion. Moreover, as corporates continue to invest in artificial intelligence (AI)-powered capabilities and products, the ongoing AI-related, high-end hardware gold rush could continue.

Although likely to be much slower than the pace seen in 2022–2023, we believe that there is still room for the Singapore services sector to grow in 2024, as the recovery in tourism is expected to continue. As at end-September 2023, visitor arrivals in Singapore were 77% of what was recorded in 2019, while arrivals from China stood at a mere 55% of what was seen in 2019[1]. Increasing flight capacity and lower ticket prices, as well as a firmer Chinese economy could support a continued recovery in tourist arrivals to Singapore.

Earnings to grow at a milder pace; valuations remain attractive

Earnings for listed corporates in Singapore grew at a robust pace over 2022–2023[2], driven by the positive effect of higher interest rates on bank lending margins and the global post-pandemic reopening. (The Singapore equity market is dominated by banks, which are the index heavyweights.) We believe that listed companies' earnings will continue to expand in 2024, albeit at a milder pace. Bank lending margins are likely to stay elevated in a higher for longer interest rate scenario, while credit costs are likely to remain contained. Companies related to tech and manufacturing, as well as those in the tourism sector, are expected to see a revival in earnings.

Against the generally positive backdrop for the Singapore economy and corporate earnings, valuations look attractive, with the price earnings ratio (PER) of the Singapore equity market (as measured by the Straits Times Index) at around 10 times as of this writing, against an average of about 14 times in recent years[3]. Valuations may be held down by concerns over the sustainability of corporate earnings or economic growth. Should our constructive expectations play out, we believe that valuations may re-rate higher in 2024.

The New Singapore narrative remains relevant

With bank earnings likely to be more subdued in 2024, we believe that the heavyweight banking sector is less likely to outperform. However, we expect other sectors to provide a range of opportunities in 2024. We continue to be positive on stocks which fit into our New Singapore narrative, which comprises of sectors and companies that we believe represent the future Singapore.

[1] Source: Singapore Tourism Board, 2023
[2] Source: Bloomberg, 2023
[3] Source: Bloomberg, 2023

We first coined the term "New Singapore" in 2015 as Singapore celebrated its 50th anniversary of independence. We believed back then that these stocks and sectors would deliver superior returns as the market gave recognition to their future potential. We remain convinced that our New Singapore concept will remain just as relevant in 2024 as it did in 2015. Today, we consider the New Singapore narrative to encompass names in energy transition, data, tech, healthcare, logistics, tourism and food solutions.

Energy transition is a key pillar of New Singapore

Over the last two years, the energy transition theme has come to occupy a prominent spot in our New Singapore narrative. In October 2022, Singapore pledged to achieve net zero—a state where the emissions of all greenhouse gases due to human activities and removals of these gases are in balance over a given period—by 2050. Since then, the city-state has revealed a host of energy transition plans, which include ramping up renewable energy capacity and importing green energy from neighbouring countries. In our view, Singapore corporates are in a good position to leverage and benefit from these developments. We continue to favour power generating companies that are moving from brown to green energy, as well as providers of engineering solutions for wind power.

Keeping watch on REITs

Singapore REITs started well in 2023, on expectations that global interest rates had peaked. However, their performance tumbled over 2H23 as global inflation and interest rate concerns returned to the fore. We think that interest rate pressures on the sector may already be at or past their peak.

Other risks may continue to linger in 2024, including further declines in asset values, lower debt service ratios and potential equity issuances. However, we are keeping watch over a selection of REITs which feature strong balance sheets and benefit from sound underlying demand or play into our New Singapore narrative. Over the course of 2024, these preferred REITs could also see an improvement in performance should a peak in interest rates become more apparent.

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