Market Review & Outlook

September 2024

(as at 31 August 2024)

Overview

In August, economic data releases from the United States ("US") painted a picture of a cooling economy. Unemployment figures for July showed an unexpected slump with the US Nonfarm Payrolls declining to 114,000 jobs from 206,000 in June, and the unemployment rate rose to 4.30% from 4.10%. In addition, US Inflation for July dropped below 3% for the first time since March 2021 to 2.9% (vs forecast of 3.0%) and US core inflation (excludes food and energy prices) rose at a slower pace at 3.2% compared to 3.3% in June. The Federal Reserve's ("Fed") preferred measure of inflation – Personal Consumption Expenditure ("PCE") inflation, held steady at 2.5% (vs forecast of 2.5%) in the year to July. Overall, these soft economic data bolstered the case for the US central bank to start cutting interest rates next month.

Despite the weaker employment and inflation data, the US economy grew at a commendable pace at 3.0% Quarter-on-Quarter ("QoQ") (vs forecast of 2.8%). There were also no signs of a downward shift in consumer expenditure as personal spending rose by 0.5% in July compared with a 0.3% increase in June and personal income rose 0.3% compared to 0.2% in the previous month. Notably, Jerome Powell's comments at the Jackson Hole symposium have cemented the view that the US central bank will lower its Fed rate at its next meeting in September. In response to this, the market anticipated at least four cuts this year and the US 10-Year Treasury bond yield finally fell below 4.0% for the first time since mid-January, ending at 3.9% as at end-August.

In Eurozone, the European Central Bank ("ECB") gave a signal that they are ready to cut rates in September in spite of the slowing pace of disinflation. In August, the Eurozone core inflation slowed to 2.8% Year-on-Year ("YoY"), from 2.9% YoY previously due to France's inflation slowing to the lowest in three years at 1.9% YoY. Similarly, Germany's inflation fell to 1.9%, hitting the European Central Bank's ("ECB") target for the first time after Covid.

Malaysia

Malaysia's final second quarter 2024 ("2Q24") Gross Domestic Product ("GDP") growth was revised up slightly to 5.9% from 5.8% advance estimate. This was the second quarter of surprises after 4.2% in first quarter 2024 ("1Q2024"), given a robust expansion in all major economic sectors. The official guidance on real GDP growth and headline Consumer Price Index ("CPI") remains unchanged at 4.0-5.0% and 2.0-3.5% respectively for 2024.

Malaysia's headline CPI was unchanged at 2.0% YoY in July. Most categories were flat or marginally higher, but the increases were offset by lower Food & Beverages inflation (about 30% weight) to 1.6% in July from 2.0% in June. There was also muted impact from diesel price adjustment in Peninsular Malaysia so far as the government embarked on targeted diesel subsidy rationalization; while Sabah, Sarawak and Labuan still enjoy subsidized diesel price of RM2.15 per litre. Furthermore, diesel's low weight in the CPI basket of goods and services of 0.2% (vs 5.5% for petrol) means the direct impact of targeted diesel subsidy rationalization on inflation is small. Moving forward, the implementation of RON95 subsidy rationalization will have a greater impact on inflation.

Growth in exports (July: +12.3% YoY, June: +1.7%) and imports (July: +25.4% YoY, Jun: +17.8%) jumped the most since fourth quarter 2022 ("4Q22") in July, partly due to low base effects. Year to date ("YTD"), export growth averaged 5.1% in the first seven months of 2024. In addition, there is still room for electrical and electronic products ("E&E") exports to recover further towards year-end while demand for commodity-based products (i.e., palm oil) is likely to remain robust. Favorable base effects are also expected to continue playing a vital role.

Malaysia's labour market recorded further improvement in 2Q24, with the unemployment rate holding steady at the pre-pandemic 2019's average level of 3.3% for the third straight quarter. Total employment also hit a record high of 16.59 million after rising by 1.2% QoQ, the most since third quarter 2020 ("3Q20"). Overall, the improvement in the labour market was driven by higher economic activities, the realization of approved investment projects, implementation of initiatives under the national master plans, and the government's ongoing job measures.

Fixed Income

Asian Bond Indices Performance

Markit Asian USD Index	30-Aug-24	Month-on-Month ("MoM")	Year-to-Date ("YTD")
Asian Dollar Index	139.7	1.36%	4.82%
Asian Dollar IG Index	141.3	1.40%	4.28%
Asian Dollar HY Index	128.3	0.83%	12.74%
Asian Dollar Corp Index (ex-banks)	141.3	1.16%	5.34%

Asian Dollar Bonds saw positive performance in August, driven by the bull steepening of the US Treasury curve as economic data releases pointed towards a cooler economy with two major data points, US Nonfarm Payrolls and inflation missed consensus expectation. The rally was led by the investment grade ("IG"), which saw the Asian Investment Grade Index reporting a Month-on-Month ("MoM") gain of 1.40%, followed by the Asian Dollar Corp Index with 1.16% MoM gain and Asian High Yield ("HY") Index with 0.83% MoM gain.

The Asian dollar bonds performance by country all ended the month in positive territory. The top three gainers by sequence were Indonesia (2.60% MoM), Philippines (1.94% MoM), and Malaysia (1.72% MoM). The gain was also extended to the local currency bond markets which top three gainers were Indonesia (2.20% MoM), Singapore (1.47% MoM), and Hong Kong (1.22% MoM).

The US Dollar Index

The US Dollar Index ("DXY") fell by 2.3% MoM in August, in line with lower US Treasury yields. This was followed by economic data releases from the US indicating a cooling labour market and a continued disinflation trend. Additionally, Fed Chair Powell's comments at the Jackson Hole symposium also cemented the view that the Fed will begin cutting rates in September. We expect the US Dollar ("USD") to undergo a structural weakening in the months ahead.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-Aug-24 (%)	Net Change MoM (bps)	Net Change Year-To-Date (bps)
3Y	3.37	-1	-15
5Y	3.52	0	-13
7Y	3.72	4	-2
10Y	3.77	3	-2
15Y	3.91	3	-11
20Y	4.06	2	-6
30Y	4.21	4	-5

Source: Bond Pricing Agency Malaysia, 30 Aug 2024

In August, Malaysian Government Securities ("MGS") saw yields rise marginally across the curve, despite the lowering of yields in the US Treasuries ("UST") curve. MGS saw rates rise from 2-4 bps MoM on the mid part to long end of the curve while the UST moved lower by 10-21 bps on the similar part of the curve. Much of the movement in the US reflects the expectation of a rate cut heightens in the US while the marginal shift in local MGS curve reflects the absence of local catalyst following a rally in July. The rally in July was mainly driven by foreign investors as foreign holdings rose to RM7.8 billion driven by the inflow of RM6.5 billion in local government securities, the highest since July 2023.

Despite the lack of local catalyst, the trading volume of government fixed income securities saw an increase from RM107 billion to RM109 billion MoM. The trading of corporate bonds (including quasi-sovereign) also saw an increase in trading volume, from RM13 billion to RM18 billion during the similar period.

The tender of government securities in August saw healthy demand as all the government tenders saw close to or more than two times bid-to-cover ("BTC"). The reopening of the 7-year Malaysian Government Investment Issues ("MGII") and 5-year MGII saw a BTC of more than two times at 2.33 times and 3.68 times respectively while the 30-year and 10-year MGS reopening attracted a BTC of 1.95 times and 1.99 times respectively (lower than two times).

In other news, a slew of corporate issuers tapped the fixed income market in August with notable names such as Aeon Co, PKNS, Toyota Capital all raising funds from the ringgit market. The 3-year, 5-year, 7-year and 10-year generic AAA corporate yields ended the month at 3.74% (-1 bps MoM), 3.82% (+0 bps MoM), 3.88% (-2 bps MoM) and 3.96% (-1 bps MoM) respectively.

Strategy

Market Outlook - Asian Dollar Bonds

With the start of the rate-cutting cycle possibly being at the next FOMC meeting in September, we view there could be two cuts this year, starting in September and thereafter in December. While there remains the risk of the Fed delaying cuts further if the inflation descent stalls again, that risk is now better balanced by the evident cooling of the labor market.

Overall, we expect that the start of the Fed rate-cutting cycle will help stabilize and strengthen Asia currencies against the USD. USTyields have softened with 10-year ("10Y") UST yield falling below 4.00%. For the coming months, we expect the USTyields will likely be volatile, with the focus centring around the timing of the first move and the number of cuts this year.

Market Outlook – Ringgit Bonds

All eyes will be on the upcoming US Fed meeting where consensus is that the Fed will finally cut interest rates. We expect emerging bond markets to rally on the back of strengthening local currencies attracting foreign inflows and that globally, central banks would also embark on rates easing.

Although the domestic bond market has rallied since the beginning of the year, we expect sentiments to remain bullish owing to ample market liquidity with strong demand on bonds on an extended pause on the Overnight Policy Rate ("OPR") by Bank Negara Malaysia ("BNM").

Strategy

We remain overweight on portfolio duration versus the benchmark. For security selection, we will be overweight corporate bonds over government bonds for yield pickup.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	30-Aug-24	MoM	YTD
S&P 500 Index	5,648.40	2.28%	18.42%
Nasdaq Index	17,713.63	0.65%	18.00%
MSCI Europe Index	176.03	1.39%	9.58%

Source: Bloomberg, 30 August 2024

The S&P 500 Index rose 2.28% MoM in August, ending a volatile month on a high note as the latest reading of the Fed's preferred inflation gauge bolstered rate-cut hopes and kept the central bank on track for a policy pivot in September. Stocks took a mostly upbeat tone, with recession fears and the early-August rout in the rear-view mirror and a long-awaited start to Fed easing just ahead.

The Morgan Stanley Capital International ("MSCI") Europe Index rose 1.39% MoM, a record high after a volatile start to the month, as investors considered inflation data from around the world. European equity markets have been buoyed by increased optimism of a soft landing for the U.S. economy and expectations for the start of interest rate cuts from the Fed in September, with follow-up cuts from the European Central Bank.

Asia Pacific Equity Index Performance

Index	Index level	Aug-24 (Local ccy)	YTD (Local ccy)
MSCI AC ASIA x JAPAN	704.62	1.75%	9.83%
FTSE ASEAN	883.35	6.19%	6.42%
CSI 300 INDEX	3,651.35	-1.96%	-3.25%
KOSPI INDEX	2,674.31	-3.48%	0.72%
HANG SENG INDEX	17,989.07	3.72%	5.52%
S&P BSE SENSEX INDEX	82,365.77	0.76%	14.02%
TAIWAN TAIEX INDEX	22,268.09	0.31%	24.19%

Source: Bloomberg, 30 Aug 2024.

Chinese onshore equities corrected 2.0% MoM in August, underperforming the broader Asia region. The macro data for July indicated that weak momentum in China's economic growth persisted. Preliminary data for August shows that economic momentum remained soft, with the official manufacturing Purchasing Managers' Index ("PMI") sliding further to 49.1 from 49.4 in July. Property sales in 30 key cities fell in August by 25.6% YoY, a faster drop vs. 16.9% YoY in July. The Hang Seng Index rose 3.7% MoM in August. However, based on the rebound from the trough on 5 August, the performance of the Hong Kong market has been weaker than regional peers, due to macro weakness and lack of incremental policy measures.

South Korea's Korean Composite Stock Price Indexes ("KOSPI") underperformed the broader Asia region as the Korean technology stocks slumped due to both foreign and local investors selling on concerns about AI peak-out with total net outflow amount culminating into W4.6 trillion. What further aggravated the sentiment was Nvidia's delay of Blackwell production due to flaws in chips design. Meanwhile, Taiwan Stock Exchange ("TWSE") index recovered from the correction early in August and closed the month flattish. July export orders rebounded notably, offsetting the slowing in June. Tech orders rebounded notably in July, rising 8.0% MoM, while non-tech orders rose 1.7% MoM in July.

India equities rose by a more muted magnitude of 0.8% MoM compared to the rest of the region as industrial production came in at 4.2% YoY growth, lower than expectations of 5.4%. In sequential terms, industrial production contracted 1.2% in June. The weakness in June was led by manufacturing on the production side, and consumer durables and non-durables on the demand side.

ASEAN Equity Index Performance

Index	Index level	Aug-24 (Local ccy)	YTD (Local ccy)
STRAITS TIMES INDEX STI	3,442.93	-0.38%	6.25%
JAKARTA COMPOSITE INDEX	7,670.73	5.72%	5.47%
STOCK EXCH OF THAI INDEX	1,359.07	2.89%	-4.01%
PSEi - PHILIPPINE SE INDEX	6,897.54	4.21%	6.94%
HO CHI MINH STOCK INDEX	1,283.87	2.59%	13.62%
FTSE Bursa Malaysia KLCI	1,678.80	3.27%	15.41%

Source: Bloomberg, 30 Aug 2024.

The Straits Times index was down slightly -0.4% in August. The Non-Oil Domestic Export ("NODX') came in above expectation in July, expanding by 15.7% YoY (June: -8.8%). The headline inflation in July stayed stable at 2.4% YoY, while core inflation eased to 2.5% YoY from 2.9% in June. The government lowered the loan-to-value for HDB housing loans to 75% (from 80%) effective 20 August. The Stock Exchange of Tailand ("SET") Index rose 2.9% YoY in August as the political overhang was removed following the election of Ms Paetongtarn Shinawatra as the new prime minister on 16 August, which is only two days after former PM Srettha Thavisin was dismissed for appointing an unqualified person to his cabinet by the Constitutional Court.

Jakarta Composite Index rallied 5.8% MoM in August driven by the banks and Indonesian Rupiah ("IDR") appreciation. The country's fiscal deficit is now projected at 2.5% of GDP in 2025, a decline from 2.7% in 2024, which is taken positively by the market as it shows that the government is committed to maintain fiscal discipline. The Philippines Composite Index rallied 4.2% MoM in August as the peso appreciated against the USD and saw foreign inflows of USD143 million in August.

The Vietnam stock market rose 2.6% MoM as the Vietnamese dong ("VND") appreciated against the USD and 2Q24 corporate earnings grew 14.8% YoY, thanks to earnings surprises at banks, retail, energy and real estate. This, together with upbeat macro data in GDP, PMI, discretionary sales, consumer confidence and credit growth, indicate a stronger economic recovery. Although easing foreign exchange pressure is giving the central bank more space to adjust monetary policy, rising inflation and credit demand will likely put upward pressure on local interest rates for the rest of this year.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") gained 3.3% MoM in August, and YTD +15.4%. The Dow and Nasdaq were up by 1.8% and 0.6% MoM, respectively. Malaysia's mid and small cap index lost 5.6% and 10.1% MoM, respectively. Finance and Plantation were the best performing sectors, gaining 8.5% and 1.5% MoM, respectively. On the other hand, Construction and Property were the worst performing sectors, losing 10.6% and 9.1% respectively. The top three best performers in FBMKLCI components stocks were Petronas Dagangan (18.8%), Public Bank (14.5%) and CIMB (10.4%), while the worst performing stocks were YTL Power (-16.7%), YTL Corp (-15.0%) and Genting (-8.7%).

Foreign institutional investors were net buyers of RM2.5 billion worth of equities in August 2024. Local institutional investors were net sellers of RM1.0 billion equities. Average daily value traded was RM3.7 billion, up 6% MoM.

Strategy

Global markets will likely remain volatile in second half 2024 ("2H24") due to heightened concern of a US recession and the uncertain US presidential election outcome. As such we will remain wary on the valuations of sectors and themes that have ran ahead of fundamentals. Barring a hard landing in the US economy, we believe the Asian equity markets should be able to weather through the current softness as the Fed starts cutting interest rates soon and will be a beneficiary of USD weakening and foreign fund flows returning to the Emerging Markets. Given the persistent weakness in China, we believe the central government is likely to continue rolling out more counter-cyclical measures in the near future.

Foreign inflows continued from July and surged to RM2.55 billion in August 2024, marking the highest YTD foreign inflow. The net buy momentum gained strength from the middle of August alongside the Ringgit strengthening on expectations of Fed easing.

The recent reporting season for 2Q24 earnings was encouraging and helped reinforce expectations that earnings are on the rise. More sectors beat expectations while technology, property and basic materials sectors missed expectations. Meanwhile, broad guidance post results briefing has been relatively prudent. In the near term, as the US interest rate cuts loom closer, market may be volatile on Ringgit swings. We would take this opportunity to lock in some gains, rebalance and may look to add onto sectors that are beneficiaries of the government initiatives on price weakness.
