Market Review & Outlook

October 2024

(as at 30 September 2024)

Overview

At the Federal Open Market Committee ("FOMC") meeting held on 18 September 2024, the United States ("US") Federal Reserve ("Fed") delivered a 50 basis points ("bps") cut and brought the Fed Target Rate (upper bound) to 5.00%. The rate cut signalled confidence of easing inflation pressures in the US economy and some concern of being "behind the curve". The decision was uncontroversial with the first dissenting voice (against the size of the cut) in the FOMC since 2005 with 11:1 vote for the rate cut.

The dot plot pencils-in a further 50bps cut in 2024 and another 100bps cut in 2025, with most economists calling for 25bps cuts at each of the upcoming Fed meetings on 7 November 2024 and 18 December 2024.

Based on the latest data, the US economy continued to show resilience. Initial jobless claims for the week ending 21 September 2024 declined to 218,000 (previous: 222,000, consensus: 223,000) and the third estimate of the Gross Domestic Product ("GDP") for the second quarter of the year ("2Q2024") held steady at 3.00% Quarter-on-Quarter ("QoQ") annualised (2Q2024: 1.60% QoQ annualised, consensus: 2.90% QoQ annualised).

The European Central Bank ("ECB") also delivered a 'hawkish cut' at its 12 September 2024 meeting, cutting the deposit facility rate by 25bps to 3.50%, main refinancing rate by 35bps to 3.65% and the marginal lending facility by 60bps to 3.90%. There were no changes to forward guidance with the ECB Governing Council aiming to "keep policy rates sufficiently restrictive for as long as necessary to achieve" a timely return to its 2% inflation target, while following a "data-dependent and meeting-by-meeting approach" and "not pre-committing to a particular rate path."

ECB's September estimates for GDP growth were revised slightly lower at 0.80% for 2024 (2023: 0.60%) and 1.30% for 2025 versus June estimates of 0.90% for 2024 and 1.40% for 2025. Headline inflation estimates were unchanged at 2.50% for 2024, 2.20% for 2025 and 1.90% for 2026.

Malaysia

On 5 September 2024, Bank Negara Malaysia ("BNM") held its overnight policy rate ("OPR") unchanged at 3.00%, with a neutral policy statement as widely expected. This was supported by benign inflation and robust growth outlook. In August, Malaysia's headline Consumer Price Index ("CPI") unexpectedly eased to 1.90% Year-on-Year ("YoY") after staying at 2.00% for the past three months. Slower price inflation was seen in most components including housing, utilities and other fuels which made up 23.20% of the CPI basket. This helped offset higher prices in alcoholic beverages and tobacco, and transport which rose 1.10% YoY and 1.30% YoY respectively (July: +0.90% YoY; +1.20% YoY). The modest uptick in transport inflation since the floating of diesel pump prices in June, should alleviate earlier concerns of second round effects in the system. Meanwhile, core inflation, which excludes volatile fresh food prices and priceadministered goods, held steady at 1.90% for the fourth consecutive month. Moving forward, upside to inflation could come from RON95 subsidy rationalisation, if implemented.

External trade continued to outperform in August with export and import growing by +12.10% and +26.20% respectively, which were higher than Bloomberg consensus of +11.80% and +21.20%. The strong export growth was primarily driven by increased shipments of electrical and electronics products (August: +16.50%; July: +2.40%) amid the tech upcycle. This helped to offset the weakness in exports of mining goods which contracted for the first time in three months by 16.10% (July: +10.20%), dragged by lower exports volume although average value increased. For imports, all three sub-segments, namely intermediate, capital and consumption goods saw double-digit growth, suggesting robust domestic demand. As imports growth outpaced exports, trade surplus further narrowed to RM5.7 billion in August.

Malaysia’s labour market recorded further improvement in July, with the unemployment rate holding steady at 3.30% for the ninth consecutive month. Total employment grew 0.20% Month-on-Month (“MoM”) to 16.6 million in July while labour force increased 0.10% MoM to 17.2 million. Meanwhile, the number of unemployed continued to decline by 0.30% MoM for a second straight month to 563,700. Overall, the improvement in the labour market was driven by higher economic activities, the realisation 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-Sep-24	Month-on-Month ("MoM")	Year-to-Date ("YTD")
Asian Dollar Index	141.7	1.42%	6.31%
Asian Dollar IG Index	143.3	1.38%	5.72%
Asian Dollar HY Index	130.4	1.61%	14.55%
Asian Dollar Corp Index (ex-banks)	143.3	1.38%	6.80%

Source: Bloomberg, 30 September 2024.

Asian dollar bonds saw positive performance in September, driven by the Fed rate cut of 50bps to 4.75-5.00% in the FOMC meeting. The rally was led by the High Yield (“HY”), which saw the Asian High Yield Index jumped the most by 1.61% MoM gain, followed by the Asian Dollar Corp Index and Asian Investment Grade (“IG”) Index, which each recorded 1.38% MoM gain.

The Asian dollar bonds performance by country had all ended the month in positive territory. The top three gainers by sequence were Philippines (1.97% MoM), Malaysia (1.80% MoM), and China (1.48% MoM). The gain was also extended to the local currency bond markets which the top three gainers were Philippines (2.08% MoM), India (1.38% MoM), and Indonesia (1.38% MoM).

The US Dollar Index

The US Dollar Index ("DXY") fell by 1.30% MoM in September, driven by the Fed rate cut. The Fed Chair, Jerome Powell indicated that there are likely two more rate cuts coming this year but in smaller, quarter percentage point increments.

We anticipate heightened volatility in the US Dollar Index in the coming months, driven by uncertainty surrounding the scale and timing of potential US interest rate cuts.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-Sept-24 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.36	-1	-17
5Y	3.51	-1	-14
7Y	3.70	-2	-4
10Y	3.72	-6	-2
15Y	3.90	-2	-9
20Y	4.04	-2	-8
30Y	4.20	-2	-5

Source: Bond Pricing Agency Malaysia, 30 September 2024.

In September, Malaysian Government Securities ("MGS") yields fell across the curve, in tandem with lowering yields in the United States Treasuries ("UST"). In terms of curve movement, MGS curve bull-flattened with rates fallen from 2-6 bps MoM on the long to ultra long-end of the curve, whilst the UST curve bull-steepened with yields lowered by 23-49 bps MoM on the short-end of the curve.

The UST yields movement reflected the larger-than-expected US Fed Fund Rate ("FFR") cut. To recapitulate, the Fed announced a 50bps cut (first reduction since March 2020) to its benchmark interest rate in mid-September as the Committee had gained greater confidence that inflation is moving sustainably toward 2.00%. In the same month, BNM maintained the OPR at 3.00% as widely expected, considering the current OPR level "remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects".

Despite the sustained bullish momentum in Malaysia Ringgit, foreign demand for Ringgit bonds slowed in September following two strong months in July and August. The trading volume of government fixed income securities saw a decline from RM109 billion to RM95.5 billion MoM. During the similar period, trading of corporate bonds (including quasi-sovereign) also saw a plummet in trading volume, from RM18 billion to RM15 billion.

The tender of government securities in September saw modest demand as all the government tenders gathered bid-to-cover ("BTC") of less than 2.00 times. The reopening of ultra-long 20-year Malaysian Government Investment Issues ("MGII") and 30-year MGII recorded BTC of 1.92 times and 1.86 times, respectively; while the medium term 7-year MGS garnered BTC of 1.73 times.

A slew of corporate issuers tapped the fixed income market in September with notable names such as Johor Plantation Group Berhad, CIMB Bank Berhad, CIMB Islamic Bank Berhad and Hong Leong Bank Berhad, all raising funds from the domestic ringgit market. The 3-year, 5-year, 7-year and 10-year generic AAA corporate yields ended the month at 3.73% (-1bps MoM), 3.80% (-2bps MoM), 3.88% (unchanged MoM) and 3.96% (unchanged MoM) respectively.

Strategy

Market Outlook – Ringgit Bonds

With the US Fed initiating a rate-cutting cycle, we anticipate an increase in foreign inflows into the domestic bond market, driven by expectations of currency appreciation. Bond yields are likely to remain well-supported, with any corrections expected to be short-lived due to strong demand and liquidity.

Despite the domestic bond market rallying since the start of the year, we maintain a positive outlook as we enter the fourth quarter of 2024. Strong market liquidity and sustained demand for bonds, coupled with an extended pause in the OPR by BNM, support this bullish sentiment.

Strategy

We maintain an overweight position on portfolio duration relative to the benchmark. In terms of security selection, we will overweight corporate bonds over government bonds for additional yield.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	30-Sep-24	Month-of-Month ("MoM")	Year-to-Date ("YTD")
S&P 500 Index	5,762.48	2.02%	20.81%
Nasdaq Index	18,189.17	2.68%	21.17%
MSCI Europe Index	175.15	-0.50%	9.03%

Source: Bloomberg, 30 September 2024.

The S&P 500 Index rose 2.02% MoM in September, notching its best YTD performance as investors reacted to Fed Chair, Jerome Powell vowing to do what it takes to keep the economy humming, while signalling that he would not rush on future rate cuts. Investors are now bracing for the September jobs report, which is seen as posing an important test for the recent rally. The pressing question is just how quickly the labour market is slowing down as the market weighs whether the Fed has acted aggressively to protect a healthy economy or to help a flailing one.

The Morgan Stanley Capital International ("MSCI") Europe Index fell 0.50% MoM, as auto stocks declined sharply while oil sector gains provided some support. Volatility has also set in amid continued conflict between Israel and Lebanon. Investors are bracing for a data-heavy week, with several key economic indicators set to be released such as Germany's preliminary CPI figures for September and Italy's inflation data. These reports will provide crucial insights into the region's economic health and could influence future monetary policy decisions.

Asia Pacific Equity Index Performance

Index	Index level	Sep-24 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	762.36	8.19%	18.83%
FTSE ASEAN	933.49	5.68%	12.46%
CSI 300 INDEX	4,447.59	20.97%	17.10%
KOSPI INDEX	2,593.27	-3.03%	-2.34%
HANG SENG INDEX	21,133.68	17.48%	23.97%
S&P BSE SENSEX INDEX	84,299.78	2.35%	16.69%
TAIWAN TAIEX INDEX	22,224.54	-0.20%	23.95%

Source: Bloomberg, 30 September 2024.

Chinese onshore equities surged 21.00% MoM in September, outperformed the broader Asia region amid the People's Bank of China, China Securities Regulatory Commission and China Banking, and Insurance Regulatory Commission's stimulus combo on 24 September and the surprise Politburo meeting call for stronger stimulus on 26 September. The Hang Seng Index rose 17.50% MoM in September following China's government stimulus combo fuelled by a short squeeze, margin financing and retail excitement.

South Korea's Korean Composite Stock Price Indexes ("KOSPI") underperformed the broader Asia region as the Korean technology stocks slumped due to escalated concerns on US recession and Bank of Japan ("BOJ") governor's hawkish comments spurred further forex volatility and memory names came under renewed pressure on cycle-peak concerns. Similarly, Taiwan Stock Exchange ("TWSE") index declined 0.20% MoM in September with foreign institutional investors continued to net sell Taiwan equities in September. Taiwan's Manufacturing PMI readings fell 1.4points ("pts") in August but stayed solidly in the expansionary zone at 51.5.

India equities rose by a healthy 2.40% MoM as July industrial production came slightly above the expectation at 4.80% YoY (consensus: 4.60%). In sequential terms, industrial production contracted 0.40% in July on the back of a 0.90% decline in June. The fall, led by mining and electricity was expected as the earlier heat wave had induced a jump in coal production and electricity consumption which are reversing now.

ASEAN Equity Index Performance

Index	Index level	Sep-24 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,585.29	4.13%	10.65%
JAKARTA COMPOSITE INDEX	7,527.93	-1.86%	3.51%
STOCK EXCH OF THAI INDEX	1,448.83	6.60%	2.33%
PSEi - PHILIPPINE SE INDEX	7,272.65	5.44%	12.75%
HO CHI MINH STOCK INDEX	1,287.94	0.32%	13.98%
FTSE Bursa Malaysia KLCI	1,648.91	-1.78%	13.35%

Source: Bloomberg, 30 September 2024.

The Straits Times Index was up 4.10% in September. The Non-Oil Domestic Export ("NODX') came in weaker than expectation in August, expanded by 13.60% YoY (July: 15.70%). The headline inflation in August rose at 2.70% YoY (July: up 2.40% YoY). The Stock Exchange of Thailand ("SET") Index rose 6.60% YoY in September as investors rushed to buy ahead of the Vayupak Fund worth THB150 billion (USD4.5 billion), which will start investing in the Thailand market from the beginning of October 2024. The Philippines Composite Index rallied 5.40% MoM in September as the Peso appreciated against the USD and saw foreign inflows of USD346 million in September. The Vietnam stock market rose slightly by 0.30% MoM as the Vietnamese Dong ("VND") appreciated against the USD and the government had approved regulation changes to remove pre-funding requirements for foreign investors.

Meanwhile, Jakarta Composite Index declined 1.90% MoM in September as investors took profit after a strong rally. Bank Indonesia unexpectedly delivered its first rate cut of 25bps in September, from 6.25% to 6.00%.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") lost 1.80% MoM in September, and YTD +13.40%. The Dow and Nasdaq were up by 1.80% and 2.30% MoM respectively, to an all-time high. Malaysia's mid and small cap index lost 0.30% and 0.60% MoM respectively. Healthcare and construction were the best performing sectors, gaining 6.90% and 5.20% MoM respectively. On the other hand, energy and technology were the worst performing sectors, losing 8.70% and 7.30% respectively. The top three best performers in FBM

KLCI components stocks were IHH Healthcare (14.20%), QL Resource (8.00%) and SD Guthrie (4.60%), while the worst performing stocks were Petronas Dagangan (-15.30%), YTL Corp (-13.50%) and MISC (-7.00%).

Foreign institutional investors were net buyers of RM0.6 billion worth of equities in September 2024. Local institutional investors were net sellers of RM0.4 billion equities. Average daily value traded was at RM3.46 billion, down 6.50% MoM.

Strategy

With the start of the Fed rate-cutting cycle, emerging markets will be beneficiaries of US Dollar softness and the return of foreign fund flows into emerging markets. Encouraging economic data in the US which raised prospects of a soft landing for its economy, coupled with China's stimulus combo and call for stronger stimulus for markets should provide positive support to equities.

However, the path could be volatile. In the near term, US Presidential Election in November 2024 will be the limelight, given the uncertainties with regards to policies proposals and differences amid the tight race. Additionally, geopolitical uncertainties and energy price volatilities amid the escalating conflict in Middle East could impact appetite for risky assets. As such we shall remain wary on the valuations of sectors and themes that have ran ahead of fundamentals.

In Malaysia, foreign inflows continued from August but slowed to RM0.6 billion in September 2024 as the Ringgit strengthened 4.8% against USD. As such, total YTD foreign inflow stood at RM3.55 billion.

The month of October is expected to be exciting as Budget 2025 will be announced while information on incentives for the Johor-Singapore Special Financial Zone and updates on petrol subsidy rationalisation are expected in the coming months. Given the Ringgit strength, further cuts in US interest rates and possible hike in oil prices due to signs of increased tensions in the Middle East, 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.

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