

Market Review & Outlook

December 2024

(as at 30 November 2024)

Overview

The month of November 2024 opened with a slew of economic data releases that pointed to a stronger-than-expected United States (“US”) economy compared to consensus economic forecasts. Among others, US average hourly earnings were up 0.4% Month-on-Month (“MoM”) compared to 0.3% that was forecasted, ISM Manufacturing Prices was recorded at a reading of 54.8 (vs 49.9 forecasted), and ISM services was recorded at 56.0 versus (“vs”) 53.8 forecasted.

The narrative of the global financial markets in November 2024, however, was dominated by the impact from the 2024 US Presidential Election that took place on the 5th of November 2024. Donald Trump emerged victorious in his second attempt at the US Presidential Election having helmed the position for the first time in 2016. Donald Trump beat his Democrat counterpart, Kamala Harris with an 86 majority of electoral votes (312 vs 226). On top of winning the Presidential election, the Republican party took control of both the Senate and House of Representatives.

With a full sweep, the risk of more punitive tariffs on imports from the rest of the world especially China, and expectation of looser fiscal policies is anticipated to put pressure back on inflation in the US. This consequently dialled back rate cut expectations from the US Federal Reserve (“Fed”) as they exercise their mandate to keep inflation in check. This sent bond yields soaring as the US Treasury 10 Year yield closed 15 basis points (“bps”) higher on the election results day at 4.43%.

Towards the end of the month, news of nomination of Scott Bessent for US Treasury Secretary – a choice that is largely seen as a moderating influence on US President elect, Donald Trump’s nationalistic policies – sent yields down by 10bps-12bps across the US Government bond curve with the US 10 Year yield closing at 4.27% on the 25th of November 2024.

Malaysia

On 6 November 2024, Bank Negara Malaysia (“BNM”) held overnight policy rate (“OPR”) unchanged at 3.00%, with a neutral policy statement as widely expected. BNM continued to maintain its monetary policy stance and believes that the current OPR level remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects.

For the third quarter 2024 (“3Q2024”) ended September, Malaysia's economy grew by 5.3% Year-on-Year (“YoY”) driven by strong investment activity and continued improvement in exports, despite a moderation from 5.9% YoY the previous quarter. The strong investment was fueled by spending on structures and machinery, while exports benefited from global demand and the tech upcycle. Overall, Malaysia economy expanded by 5.2% YoY in the first three quarters of 2024 (“1Q2024”), positioned the domestic economy

on track in achieving the revised higher Gross Domestic Product (“GDP”) projection range of 4.8%-5.3% for this year.

Moving towards the Consumer Price Index (“CPI”), both headline and core inflation remained steady at 1.9% level (second quarter 2024 2Q2024: 1.9%) during the 3Q2024. In term of Year-to-Date (“YTD”), both headline inflation and core inflation averaged 1.8%. The stagnant CPI reading illustrated that the impact of diesel price adjustments on broader prices has been contained due to effective mitigation measures. Future inflation will depend on domestic policies on subsidies and price controls, as well as global commodity prices and financial market trends.

Malaysia’s labour market has remained healthy and recorded further improvement in 3Q2024, as the Malaysian government prioritized Micro, Small, and Medium Enterprises (“MSME”) to strengthen the economy and enhance the labour force by allocating a budget for programmes that promote business and entrepreneurship. This initiative led to increased participation in MSME, which in turn strengthened the labour market. During the same period, labour demand continued to be on a positive trend, while rate of unemployment declined to 3.2% since being stagnant at 3.3% in the last three preceding quarters.

Malaysia’s trade in October 2024 showed steady growth, where the total trade increased by 2.1% YoY, reaching RM244.3 billion, with exports rose by 1.6% YoY to RM128.1 billion, while imports increased by 2.6% YoY to RM116.1 billion. Additionally, the trade balance continued to show a surplus of RM12.0 billion despite a 7.6% YoY decreased from RM13.0 billion in October 2023.

Fixed Income

Asian Bond Indices Performance

Markit Asian USD Index	29-Nov-24	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	140.4	0.56%	5.36%
Asian Dollar IG Index	142.0	0.64%	4.75%
Asian Dollar HY Index	130.2	-0.50%	14.38%
Asian Dollar Corp Index (ex-banks)	142.5	0.59%	6.20%

Source: Bloomberg, 29 November 2024

Asian dollar indices performances were generally stronger in the month of November (except High Yield (“HY”) segment) as US Treasuries regained some ground after a sharp sell-off post US Presidential election. Investment Grade (“IG”) space rebounded the most, which saw the Asian Dollar IG Index rose the most by 0.64% MoM, followed by the Asian Dollar Corp Index which gained 0.59% MoM, and subsequently led to overall increase of 0.56% MoM in Asian Dollar Index. HY segment was mainly dragged by China HY property bonds, partly attributed to disappointment over the National People’s Congress announcement which did not include specific measures for the China property sector.

Overall, Asian dollar bonds performance by countries have all ended the month in positive territory (except for Philippines). The top three winners by sequence were Malaysia (+0.96% MoM), Singapore (+0.93% MoM) and Thailand (+0.88% MoM). Meanwhile, the top three winners in the local currency bond markets were Korea (+3.24% MoM), Thailand (+1.39% MoM) and Malaysia (+0.87% MoM).

The US Dollar Index

US Dollar Index (“DXY”) rose by 1.7% MoM in November, driven by expectation on Donald Trump’s policies, which could keep the Fed to maintain the key rate at higher for longer. US Dollar surged as much as 5.0% to its highest level in 2023 since Trump’s win, although profit taking activities moderated the gains towards end of month.

We opine that the DXY would likely trend lower over the medium term, due to US Fed’s easing monetary policy amidst softening labour market.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	29-Nov-24 (%)	Net Change MoM (bps)	Net Change
			YTD (bps)
3Y	3.51	-8	-2
5Y	3.62	-8	-3
7Y	3.77	-15	+3
10Y	3.82	-11	+9
15Y	3.96	-6	-3
20Y	4.07	-9	-5
30Y	4.21	-5	-5

Source: Bond Pricing Agency Malaysia, 3 December 2024.

Malaysian bond market rallied in November as investor were influenced by similar bullish sentiment in US Treasury (“UST”) in the later part of the month, coupled with BNM announcement of the cancellation of the 3-year Government Investment Issue (“GII”). The lower government bond supply in the market resulted in a buoyant sentiment with Malaysian Government Securities (“MGS”) yields fell between 5 and 15bps on MoM basis in November.

There were two sovereign bond auctions with a total size of RM9.5 billion in November, namely the reopening of 15-year MGS and reopening of 5-year GII. These auctions received decent demand with 15-year MGS and 5-year GII saw decent bid-to-cover (“BTC”) of 2.67 times and 2.00 times, respectively.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) fell by 17.5% MoM to RM13.1 billion in November (October: RM15.8 billion). In terms of foreign flows, Ringgit fixed income securities saw an outflow of MYR11.4 billion in October amid higher UST yields and broadly weaker Asia FX. MGS and GII saw outflow of RM10.6 billion during the month as compared to RM0.3 billion net outflow in September. Consequently, total share in government bonds (MGS+GII) declined slightly from 22.6% in September to 21.7% in October.

Notable domestic corporate issuances in November included RM2.1 billion Cagamas (AAA), RM1.6 billion MAHB (AAA) sukuk, RM1.3 billion Berapit Mobility Sdn Bhd (AA) sukuk, RM1.0 billion Bank Simpanan

Nasional Sukuk (AAA), and RM450 million Aeon Credit (AA3) sukuk. The 3-year, 5-year, 7-year, and 10-year generic AAA corporate yield ended the month at 3.84% (+4 bps MoM), 3.93% (no change), 4.01% (-3 bps MoM) and 4.06% (-3 bps MoM) respectively.

Strategy

Market Outlook – Ringgit Bonds

With BNM expected to maintain the OPR at 3.0% throughout next year and inflation pressures remaining benign, we anticipate the bond market to stay resilient. Ample liquidity and strong demand will support this outlook. However, low yields and narrow credit spreads are likely to limit upside potential. The key risk into early 2025 is the uncertainty over the impending extend of policy changes from the incoming Trump 2.0 administration.

Strategy

Despite the external uncertainties, we expected local ample liquidity to support the bond market, hence we aim to maintain a slightly overweight portfolio duration relative to the benchmark. Additionally, we will focus on investments in primary corporate bond issuances to optimize returns.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	29-Nov-24	MoM	YTD
S&P 500 Index	6,032.38	5.73%	26.47%
Nasdaq Index	19,218.17	6.21%	28.02%
MSCI Europe Index	170.79	0.89%	6.32%

Source: Bloomberg, 2 December 2024.

The Standard & Poor's ("S&P") 500 Index rose 5.73% MoM in November, its best month of the year, due to a post-presidential election rally following Donald Trump's victory and his potential plans for tax cuts and deregulation, which could be a positive for stocks, but tariffs could be negative. Investors also digested comments from Fed Governor Christopher Waller, that he was inclined to cut the benchmark interest rate at the December 17-18 meeting as monetary policy remained restrictive. Investors have been expecting a 25bps cut in December, but recent inflation data has raised worries that progress may have stalled.

The Morgan Stanley Capital International ("MSCI") Europe Index rose 0.89% MoM, as investors assessed the latest euro zone inflation data. Euro zone inflation rose from 2.0% in October to 2.3% in November, above the European Central Bank's ("ECB") 2% target, although economists had expected the 2.3% reading. It bolsters the case for a more cautious interest rate cut at the ECB's next meeting on December 12. Political instability in France and concerns over potential US tariffs have also persistently weighed on investor confidence.

Asia Pacific Equity Index Performance

Index	Index level	Nov-24 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	703.55	-3.36%	9.67%
FTSE ASEAN	862.40	-2.72%	3.89%
CSI 300 INDEX	3,916.58	0.66%	14.15%
KOSPI INDEX	2,455.91	-3.92%	-7.51%
HANG SENG INDEX	19,423.61	-4.40%	13.94%
S&P BSE SENSEX INDEX	79,802.79	0.52%	10.47%
TAIWAN TAIEX INDEX	22,262.50	-2.44%	24.16%

Source: Bloomberg, 2 December 2024.

Chinese onshore equities rose 0.7% MoM on high expectation of the National People's Congress (NPC) Standing Committee meeting on 8 November, followed by retreat on limited news on domestic stimulus, concerns over US-China tension and a strong USD. On demand side, nominal retail sales rose 4.8% YoY in October (consensus: 3.8% YoY) led by jewellery sales, home appliances, sports and entertainment and office supply. Industrial production rose 5.3% YoY in October (September: +5.4% YoY). Hang Seng Index fell 4.4% MoM as NPC specifics underwhelmed and Trump's red sweep triggered rising concerns over tariff hikes on China's exports to the US. South Korea's KOSPI declined 3.9% MoM amid unexpected rate

cut by 25bps, suggesting bleak economic outlook stoked market fears of economic slowdown. However, manufacturing Purchasing Managers' Index ("PMI") improved from 48.3 in October to 50.6 in November signalling a renewed improvement in the health of South Korea's manufacturing sector. The Taiwan Stock Exchange ("TWSE") index declined 2.4% MoM amid concerns over tariff hikes on exports to the US. Taiwan's third quarter ("3Q") GDP grew 4.17% YoY vis-à-vis second quarter ("2Q") GDP growth at 4.89% YoY, which suggests further decline should US tariff hike takes place, hitting regional supply chain activity and the uncertain global trade environment will weigh on domestic capex and consumer sentiment.

India equities rose by 0.5% MoM with the significant dispersion in sectoral performance where IT sector delivered +5% while utilities declined 7%. Overall decline was due to concerns over global economic factors and local policy changes and subdued earnings weighed on investment sentiment. India's 3Q GDP slowed to their lowest levels in seven quarters, at 5.4% YoY and 5.3% YoY, respectively. 3Q industrial production growth averaged 2.6% YoY vs 5.5% YoY in 2Q. However, part of this weakness was weather related, with mining and electricity production surging in the 2Q due to a heat wave only to fall sharply in the 3Q due to excessive rains. India saw foreign outflows of US\$2.6bn in November (foreign inflow of US\$10.4bn in October).

ASEAN Equity Index Performance

Index	Index level	Nov-24 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,739.29	5.07%	15.40%
JAKARTA COMPOSITE INDEX	7,114.27	-6.07%	-2.18%
STOCK EXCH OF THAI INDEX	1,427.54	-2.63%	0.83%
PSEi - PHILIPPINE SE INDEX	6,613.85	-7.41%	2.54%
HO CHI MINH STOCK INDEX	1,250.46	-1.11%	10.67%
FTSE Bursa Malaysia KLCI	1,594.29	-0.47%	9.60%

Source: Bloomberg, 2 December 2024.

The Straits Times index rose 5.1% in November and was the top performer in the ASEAN region due to upbeat reporting season. October 2024 non-oil domestic export (NODX) fell 4.6% YoY, reversing 3 months of expansion, and coming in below consensus' estimate of 4%, due to weakness in the non-electronics sector. The Stock Exchange of Thailand ("SET") Index however dropped -2.6% in November due to the weak 3Q24 results season. Among the major sectors, electronics sector was the best performing sector followed by tourism, while healthcare sector was the worst performing one. The Jakarta Composite Index declined -6.1% in November dragged by the banks' heavyweights. October 2024 headline CPI rose 1.7% YoY, in line with expectations, while core inflation rose 2.2% YoY, slightly above expectations. In its latest meeting, Bank Indonesia ("BI") maintained the policy rate at 6.0% and reiterated its commitment to maintain the stability of the Rupiah exchange rate against the backdrop of increasing geopolitical and global economic uncertainties.

The Philippines Composite Index declined -7.4% in November as peso weakened against the United States Dollar ("USD") and foreign investors net sold USD349 million during the month. October 2024 headline inflation rose to 2.3% YoY in from 1.9% in September. The headline inflation accelerated due to higher prices in food, non-alcoholic beverages and transport. The Vietnam stock market eased -1.1% in November as foreign investors net sold USD468 million of equities during the month. Manufacturing PMI remained above the 50.0 mark in November and signalled a second consecutive monthly improvement in

business conditions following the contraction caused by Typhoon Yagi in September. However at 50.8, the reading was down from 51.2 in October and pointed to only a modest strengthening of the sector.

Malaysian Equities

The FTSE Bursa Malaysia KLCI (“FBM KLCI”) declined 0.47% MoM in November but was still up 9.60% YTD. Malaysia’s FTSE Bursa Malaysia Mid 70 Index (“FBM70”) and FTSE Bursa Malaysia Small Cap Index (“FBMSCAP”) gained 1.46% and 2.01% MoM respectively. Healthcare and Plantation were the best performing sectors, gaining 5.29% and 3.83% MoM respectively. On the other hand, Telecommunications and Energy sectors were the worst performing sectors, declining 3.14% and 2.75% respectively. The top three best performers in FBM KLCI components stocks were Sunway Berhad (10.98%), YTL Power (9.32%) and Petronas Dagangan (9.01%), while the worst performing stocks were Mr D.I.Y (-17.35%), Petronas Chemical (-14.02%) and PPB (-6.02%).

Foreign institutional investors were net sellers of RM3.1 billion worth of equities in November 2024. In contrast, local institutional investors were net buyers of RM3.4 billion equities. Average daily value (“ADV”) traded was at RM2.7 billion, up 6.50% MoM.

Strategy

We are more cautious on Asian equities especially on countries that are more exposed to global growth i.e. Korea and Taiwan, following Donald Trump’s presidential win where his stricter trade policies will be a headwind to global trades. Nonetheless, despite likely bearing most of the brunt of Trump’s trade tariffs, we expect China to continue rolling out additional stimulus measures to counter the US trade effect and support its economy recovery.

ASEAN should fare relatively better as the central banks have more room for policy easing given the Fed is expected to maintain its rate-cutting cycle. Coupled with supportive govt policies such as minimum wage hike, domestic consumer sentiment should improve going into 2025. The region should also continue to benefit from the spill-over effect from the US-China trade conflicts, and we will keep on the lookout for beneficiaries of the global supply chain relocation.

That said, Asian equities markets will likely be volatile next year as the incoming US president starts revealing his policies that will affect global growth.

Domestically, post US election and in line with ASEAN markets, foreign net sell on equities was a sizeable RM3.1 billion outflow in November and the largest since Mar 2020, at the start of COVID-19 pandemic lockdowns. As such, YTD foreign flow has turned negative at RM1.32 billion.

The recently concluded 3Q24 earnings season showed a mixed bag. Banks were largely in line while export and technology related companies were weaker due partly to adverse forex movements i.e. ringgit appreciation. Nevertheless, the 3Q24 results should still instill confidence in investors who are focused on local thematic.

Going into 2025, we expect higher volatility especially during first half year 2025 (“1H25”) as a result of Donald Trump’s induced policy uncertainties. However, we expect supportive domestic policies and undemanding valuations to provide some buffer against downside risk.

In addition, Malaysia is helped by a stable domestic political environment allowing the current administration to make steady progress on reforms, implementing various initiatives to drive growth. Liquidity conditions remain robust to support risk assets like equities. The domestic portfolio will continue to position into sectors that are mainly domestic centric, beneficiaries of announced tariffs (including China+1 beneficiaries) and government initiatives as well as defensive, dividend yielding companies.

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