Market Review & Outlook

January 2025

(as at 31 December 2024)

Overview

The United States ("US") Federal Reserve ("Fed") at its last policy meeting for the year on 19 December 2024, delivered a widely anticipated 25 basis points ("bps") rate cut bringing its policy rate from 4.75% to 4.50%. The dot plot released by the Fed signals a significantly more gradual rate-cut cycle going forward. The median dot sees a fed funds rate of 3.90% by the end of 2025 (versus ("vs.") 3.40% in the September dot plot), 3.40% at end-2026 (vs. 2.9% prior), and 3.10% at end-2027 (vs. 2.90% prior).

US Gross Domestic Product ("GDP") growth for the third quarter 2024 ("3Q2024") was revised significantly upwards to an annualized 3.10% in the final estimate from 2.80% in the initial and second estimate. The upward revision was driven by stronger consumer spending and faster than expected export growth, signaling that the US economy continues to outperform the pace of growth initially expected by policymakers.

The labour market and inflation data released during the month further support a picture of a stronger than expected US economy. US non-farm payrolls recovered strongly in November, with 277,000 jobs added following severe weather and strikes that weighed on October payrolls which added only 36,000 jobs revised (September 2024: 255,000). At the same time, US Consumer Price Index ("CPI") inflation climbed for a second month in-a-row to 2.70% Year-on-Year ("YoY") in November 2024 from 2.60% YoY in October 2024 (September 2024: 2.4% YoY) in contrast to the consistent disinflation seen since April 2024.

The European Central Bank ("ECB") cut its three main policy rates by 25bps at its 12 December 2024 meeting, bringing the ECB Deposit Facility Rate to 3.00% and signaling a dovish stance amid a weak economic outlook. Inflation currently at 2.20% YoY for November 2024 stands a strong chance of falling below the ECB's inflation target of 2.00% for 2025, as the expected broad-based economic recovery driven by rising real incomes has thus far failed to materialize.

Malaysia

Malaysia's labour market continued to demonstrate resilience which is in line with the encouraging economic growth. In October 2024, the number of unemployed fell by 0.70% Month-on-Month ("MoM"), resulting in an unemployment rate of 3.20% (September 2024: 3.20%). The services, manufacturing, construction, mining and quarrying as well as the agriculture sector were the positive contributors for employment growth during the month.

In October, Malaysia's Industrial Production Index ("IPI") witnessed slower growth for the 3rd consecutive month, increasing marginally at 2.10% YoY (September 2024: 2.30% YoY). The weaker IPI growth was attributable to lower mining and electricity production. In contrast, the manufacturing sector expanded, with both export and domestic oriented sectors grew, led by food, beverages and tobacco, non-metallic minerals as well as electrical and electronic.

Moving towards the Consumer Price Index (“CPI”), Malaysia’s headline inflation rate eased slightly to 1.80% YoY from last month’s 1.90% YoY, defying consensus estimates of 2.1% YoY increase. The lower-than-expected headline inflation was due to moderation in health and transportation cost as well as a steeper drop in clothing and communication cost. In contrast, Malaysia’s core inflation held steady for the third month at 1.80% YoY.

Malaysia’s trade in November recorded an encouraging growth, with total trade increased by 2.90% YoY, to reach RM237.8 billion (“bil”). In the same period, total exports rose by 4.10% YoY to RM126.6 bil, while total imports unexpectedly eased by 1.60% YoY to RM111.3 bil. In terms of exports, the growth was underpinned by a pickup in shipments of manufacturing goods, led by strong demand for electrical and electronic products as well as machinery appliances and parts. On the other hand, the decline in total imports was due to drop in imports of capital goods. With export growth outpacing imports, the trade balance continued to show a surplus of RM15.3 bil – its highest since September 2023.

Fixed Income

Asian Bond Indices Performance

Markit Asian USD Index	31-Dec-24	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	138.9	-1.07%	4.23%
Asian Dollar IG Index	140.4	-1.12%	3.58%
Asian Dollar HY Index	129.9	-0.18%	14.17%
Asian Dollar Corp Index (ex-banks)	141.2	-0.88%	5.27%

Source: Bloomberg, 31 December 2024

Asian dollar indices performances were weaker in the month of December as the more hawkish tone from the US Fed in its policy guidance and higher-than-expected inflation expectations saw yields in the dollar space spike up. Investment Grade (“IG”) space dropped the most, which saw the Asian Dollar IG Index drop by 1.12% MoM, followed by the Asian Dollar Corp Index dropping 0.88% MoM.

Overall, Asian dollar bonds performance by countries also followed suit, as all the countries in our coverage finished the month in negative territory. The top three losers by sequence were Thailand (-2.59% MoM), Malaysia (-2.31% MoM) and Indonesia (-1.79% MoM).

The US Dollar Index

Driven by expectations of the aforementioned hawkish guidance from the US Fed, US Dollar Index ("DXY") rose by 2.60% MoM in December, its second highest gain in a month in 2024 after the highest gain in end October on the back of Trump's anticipated election win in end October 2024. US Dollar gained 6.50% in 2024 despite a 100bps rate cut in the year.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	31-Dec-24 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.53	+2	0
5Y	3.65	+4	+1
7Y	3.78	+1	+4
10Y	3.84	+2	+11
15Y	3.98	+3	0
20Y	4.08	+1	-4
30Y	4.19	-1	-6

Source: Bond Pricing Agency Malaysia, 3 December 2024.

Malaysian bond market traded marginally weaker in December amidst profit taking activities on the back of bearish global bond backdrop and partly contributed by a lack of liquidity in second half of December as many were away for year-end holiday. This was despite positive news from Bank Negara Malaysia ("BNM") on the announcement of a much smaller than expected final government bond auction for the year. Overall, Malaysian Government Securities ("MGS") yields rose 1-4bps, except for the ultra-long end 30-Year MGS which declined 1bps on a MoM basis in December.

There was only one sovereign bond auction with total size of RM2 billion in December, namely the reopening of 10-year MGS. The auction received only a moderate 2.015x bid-to-cover ("BTC") ratio despite its relatively small auction size. The result reflected investors' cautious move ahead of release of US job data and US Federal Reserve meeting in December coupled with investors' preference to focus on 2025 auction calendar. The accepted bids ranged from a high of 3.781% to a low of 3.760% with average of 3.776%.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increase 2.00% MoM to RM13.3 bil in December (November: RM13.1 bil). In terms of foreign flows, Ringgit fixed income securities foreign outflows eased to MYR1.1 bil in November after witnessing largest drawdown since March 2020 of MYR11.4 bil in October. MGS and GII saw net outflow of RM1.8 bil during the month as compared to RM10.6 billion net outflow in October. Consequently, total share in government bond (MGS+GII) declined further from 21.70% in October to 21.40% in November.

Notable domestic corporate issuances in December included RM600 million ("mil") Suria KLCC Sdn Bhd (AAA) sukuk, RM500 mil Cagamas Berhad (AAA) bond and RM100 mil BGSM Management Sdn Bhd (AA3) sukuk. The 3-year, 5-year, 7-year, and 10-year generic AAA corporate yield ended the month at 3.83% (-1 bps MoM), 3.95% (+2 bps MoM), 3.99% (-2 bps MoM) and 4.04% (-2 bps MoM) respectively.

Strategy

Market Outlook – Ringgit Bonds

The Malaysian bond market is expected to remain rangebound in the absence of significant catalysts, with BNM maintaining the Overnight Policy Rate ("OPR") at 3.00% throughout 2025.

Strategy

We are maintaining a slight overweight in duration relative to benchmarks, strategically seeking value opportunities along the yield curve.

In terms of security selection, our focus will be on corporate bonds to achieve additional yield pickup while balancing risk and return.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	31-Dec-24	MoM	YTD
S&P 500 Index	5,881.63	-2.50%	23.31%
Nasdaq Index	19,310.79	0.48%	28.64%
MSCI Europe Index	169.88	-0.53%	5.75%

Source: Bloomberg, 2 January 2025.

The Standard & Poor's ("S&P") 500 Index fell by -2.50% MoM in December, but rose 23.31% in 2024, its second consecutive annual gain exceeding 20%, spurred by enthusiasm for rate cuts, economic strength and artificial intelligence. Developments in Washington, D.C. helped fuel the rally in the second half of the year. The Fed has cut its benchmark interest rate by a full percentage point since September, bolstering confidence that the US economy can sustain its recent growth. Stocks also rallied sharply following President-elect Donald Trump's win in November, as traders cheered the prospect of lower taxes and a looser regulatory approach under a Republican administration. Despite the strong year-to-date performance, the S&P500 struggled in December's final days, with investors taking profits in some of 2024's biggest winners and fears mounting over rising rates into year-end.

The Morgan Stanley Capital International ("MSCI") Europe Index fell by -0.53% MoM, as uncertainty around the monetary policy path and political shifts halted a rally that had pushed several markets to record highs earlier this year. High valuations and climbing Treasury yields have also contributed to the risk-off sentiment. German stocks outperformed broader European markets this year with a near 19% jump, while political instability and concerns about a widening fiscal deficit weighed on the French market, pushing it down 3.10% YTD.

Asia Pacific Equity Index Performance

Index	Index level	Dec-24 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	704.09	0.08%	9.75%
FTSE ASEAN	859.58	-0.33%	3.55%
CSI 300 INDEX	3,934.91	0.47%	14.68%
KOSPI INDEX	2,399.49	-2.30%	-9.63%
HANG SENG INDEX	20,059.95	3.28%	17.67%
S&P BSE SENSEX INDEX	78,139.01	-2.08%	8.17%
TAIWAN TAIEX INDEX	23,035.10	3.47%	28.47%

Source: Bloomberg, 31 December 2024.

Chinese onshore equities rose 0.50% MoM on market expectations of state-owned funds' efforts to stabilise the A-share market. Nominal retail sales rose 3.00% YoY in November, while industrial production rose 5.40% YoY. Hang Seng Index rose 3.30% MoM as southbound continued to add Hong Kong ("HK") equities with inflows of RMB90 bil (Nov: RMB116 bil). Inbound travellers were 3.60 mil in November (October: 4.10 mil), recovering to 60% of the November 2018 level (October: 70% of the October 2018 level). South Korea's Composite Stock Price Index ("KOSPI") declined 2.30% MoM due to a failed martial law attempt by President Yoon which later resulted in several attempts to impeach President Yoon, all events which disrupted market confidence. Manufacturing Purchasing Managers' Index ("PMI") deteriorated from 50.60 in November to 49.00 in December signalling a slowing down of South Korea's manufacturing sector in line with the bleak economic outlook. The Taiwan Stock Exchange ("TWSE") index rose 3.5% MoM amid increase in personal computer ("PC") and server demand expectations. November industrial production grew 10.30 YoY beating expectations after rising 8.90% YoY in October reflecting a solid growth trend in technology sector production.

India equities fell by 2.10% MoM driven by weak global cues, a hawkish fed cut, a depreciating rupee and domestic growth concerns. November Consumer Price Index ("CPI") inflation was at 5.50% YoY down from 6.20% in October as unfavourable base effects eased largely due to a softening of food price momentum, which increased by just 0.10% MoM (+1% last month). India saw foreign inflows of US$1.3 bil in December (foreign outflows of US$2.6 bil in November).

ASEAN Equity Index Performance

Index	Index level	Dec-24 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,787.60	1.29%	16.89%
JAKARTA COMPOSITE INDEX	7,079.91	-0.48%	-2.65%
STOCK EXCH OF THAI INDEX	1,400.21	-1.91%	-1.10%
PSEi - PHILIPPINE SE IDX	6,528.79	-1.29%	1.22%
HO CHI MINH STOCK INDEX	1,266.78	1.31%	12.11%
FTSE Bursa Malaysia KLCI	1,642.33	3.01%	12.90%

Source: Bloomberg, 31 December 2024.

Singapore's Straits Times index rose 1.30% in December and was one of the outperformers in the ASEAN region as the November non-oil domestic export (NODX) grew 3.40% YoY, reversing October's contraction and beating consensus' estimate of -1% YoY contraction. Growth in the electronics sector more than offset a minor decline in non-electronics. Sector-wise, Utilities, Industrials and Financials outperformed, while Transportation, Real Estate and Communications lagged.

The Jakarta Composite Index eased by -0.50% in December as concern lingers on the higher-for-longer US interest rate stance that may affect the Rupiah and the market. December's headline CPI rose by 1.6% YoY, slightly above November's figures. Sector-wise, Energy outperformed in December while Transportation lagged, mainly dragged by Bird on the back of the aggressive roll-out of new taxi service by Vinfast in Indonesia.

The Stock Exchange of Thailand (“SET”) Index dropped by -1.9% in December due to uncertainty on the US policies under the incoming Trump administration and the lack of stimulus measures from the government. The Financials and Media sectors were the outperformers in December, while Consumer underperformed, mainly dragged by CPAXT and CP All after the former announced its investment into a related-party, the Happitat project.

The Philippines Composite Index declined by -1.30% in December despite the central bank easing the policy rate by 25bps, from 6.00% to 5.75% on the back of within-range inflation outlook. However, the trade deficit widened from USD5.1 bil in September to US$5.8 bil in October, weaker than the consensus estimate -US$5.0 bil.

The Vietnam stock market rose 1.30% in December and was one of the outperformers in the region, led by a rebound in the banking stocks. Inflation came in at 2.77% YoY in November, easing from 2.89% in October. The manufacturing PMI however dipped below the 50.00 point level for the first time in three months in December, posting 49.80 compared to 50.80 in November.

Malaysian Equities

The FTSE Bursa Malaysia KLCI (“FBM KLCI”) gained 3.0% MoM in December, and for the full year, the FBM KLCI gained 12.90%. Malaysia’s FTSE Bursa Malaysia Mid 70 Index (“FBM70”) and FTSE Bursa Malaysia Small Cap Index (“FBMSCAP”) gained 5.50% and 3.90% MoM respectively. Technology and Healthcare were the best performing sectors, gaining 11.10% and 10.50% MoM respectively. On the other hand, Finance and Telecom were the worst performing sectors, with a loss of 0.10% and gain of 0.90% respectively. The top three best performers in FBM KLCI component stocks were YTL Power (30.0%), YTL Corp (28.40%) and Petronas Chemicals (10.90%), while the worst performing stocks were PPB Group (-5.50%), RHB Bank (-4.10%) and QL Resources (-2.30%).

Foreign institutional investors were net sellers of RM2.9 bil worth of equities in December 2024. Net sell value in 2024 was RM4.2 bil. In contrast, local institutional investors were net buyers of RM4 bil equities. Average daily value (“ADV”) traded was at RM2.5 bil, down 5.40% MoM.

Strategy

Asian equities markets would need to brace for volatility in early 2025, amid elevated geopolitical and trade tensions. Expectations are for a repeat of policy actions from Trump's earlier presidency but in an amplified manner.

We are defensively positioned on Asian markets in early 2025 given the policy uncertainties from the US. Our investment focus is on sectors and stocks that benefit from domestic consumption, domestic policies and China+1 policies (i.e. sectors and companies that benefit from (i) shift in demand from high-tariff Chinese exports to other exporters that are levied a lower trade tariff; and/or (ii) relocation of manufacturing facilities out of China to different markets to avoid high trade tariffs against made-in-China products). We also like the technology, financials, and consumer sectors that benefit from secular trends and robust domestic demand. Meanwhile for defensiveness during periods of uncertainty, we pick companies that generate stable income stream and grow their dividends consistently.

We remain optimistic on the Malaysian market on the back of continued GDP strength, supported by a continuation of rising investment upcycle driven by the data centre construction boom, ongoing supply chain diversification out of China, the implementation of public infrastructure projects and local institutional liquidity to offset foreign outflows. In addition, Malaysia's dividend yield puts it in a better position amongst ASEAN peers to withstand elevated external uncertainties.

Navigating Trump 2.0 is key with volatility heightened. As such, domestic-driven sectors like banks, consumer, construction and property would provide defensive qualities to the portfolio along with dividend yielding stocks.

In particular, consumer related stocks may benefit from the hike in minimum wage from RM1,500 to RM1,700 and increased civil servants' salaries. We are also positive on tourism-related sectors that could benefit from an attractive ringgit, visa-free requirements for China and Indian tourists and potential incentives in preparation for Visit Malaysia Year 2026. These sectors include hospitality and even retail Real estate investment trusts ("REITs"). In addition, state-driven initiatives from Johor, Sarawak and Penang state are expected to drive investment action. The 2024 theme of data centres, foreign direct investment with spillover effect into property and construction are likely to continue into 2025, along with the rebound in exporters, namely gloves and technology on Trump's policy targeting China.

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