

## MONTHLY COMMENTARY

# AHAM Capital Private Retirement Scheme (PRS) May 2024

### KEY HIGHLIGHTS



- The S&P 500 index posted its strongest May performance since 2020, climbing 5%.
- This surge comes as disinflationary forces seem to be easing, with inflation showing modest declines.
- Minutes of the Fed's May FOMC meeting similarly highlighted the lack of progress over inflation.
- However, Fed Chair Jerome Powell pushed back against the possibility of further rate hikes which lead to Treasuries rallying.



- MSCI Asia ex-Japan index rose 1.30% driven by gains in Chinese equities.
- The Hang Seng index and MSCI China index closed 1.80% and 2.10% respectively lifted by optimism surrounding stimulus measures.
- Regulators announced that the minimum down payment ratios for individuals' commercial housing mortgages will be lowered to 15% for first-home purchases.
- PBOC announced it would provide 300 billion yuan to financial institutions to lend to local state-owned enterprises (SOEs) so they can buy unsold apartments that have already been built.



- Benchmark KLCI closed 1.30% higher in May, breaking above the 1600-point mark.
- The government embarked on its first subsidy rationalisation measure, removing the blanket subsidy for diesel.
- As expected, Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) unchanged at its policy meeting in May.
- Though, the central bank cited upside risks in growth and inflation due to withdrawals from EPF Account 3, civil servant wage hike and further subsidy rationalization.

## Monthly Market Review

Global equities defied the old adage of 'Sell in May and Go Away,' achieving notable gains over the month. The S&P 500 index posted its strongest May performance since 2020, climbing 5%. This surge comes as disinflationary forces seem to be easing, with inflation showing modest declines in April. The headline consumer price index (CPI) rose 3.4%, aligning with expectations, while core inflation, excluding food and energy, came in at 3.6% as forecasted. However, persistent price pressures in rent and services components continued to contribute to overall inflation.

The minutes of the US Federal Reserve's May FOMC meeting similarly highlighted the lack of progress over inflation. Most Fed members expressed a lack of confidence in moving forward with interest rate reductions and emphasised patience regarding the timing of rate cuts. Despite recent positive inflation readings, Fed members noted that achieving the 2% target might take time.

Fed Chair Jerome Powell, however, reassured investors by pushing back against the possibility of further rate hikes. At the same May FOMC meeting, the Fed opted to keep benchmark interest rates unchanged within the target range of 5.25% - 5.50%.

US Treasury yields retreated in May, with the benchmark 10-Year yield dropping by 18 basis points to settle at 4.50%. Bond markets are anticipating two rate cuts by the end of the year, likely occurring between September and December.

In Asia, the broader MSCI Asia ex-Japan index rose 1.30% driven by gains in Chinese equities. The Hang Seng index and MSCI China index closed 1.80% and 2.10% respectively lifted by optimism surrounding stimulus measures. Regulators announced that the minimum down payment ratios for individuals' commercial housing mortgages will be lowered to 15% for first-home purchases. This is the lowest down payment policy in the country's history, representing a significant easing move in the housing sector.

Furthermore, the People's Bank of China (PBOC) announced it would provide 300 billion yuan to financial institutions to lend to local state-owned enterprises (SOEs) so they can buy unsold apartments that have already been built.

The swathe of policy announcements provides a strong signal that Beijing is taking a closer look at the property market and taking measures to reduce property inventories. It will be important to see a follow-through on stimulus measures to ensure the recovery can be sustained. This is especially as recent economic data such as retail sales, manufacturing PMI and investment data disappoint.

Back home, the benchmark KLCI closed 1.30% higher in May, breaking above the 1600-point mark. The broader FBM 100 index also saw a rise of 2.30%, propelled by foreign inflows. The government embarked on its first subsidy rationalisation measure, removing the blanket subsidy for diesel. This move is anticipated to save the government up to RM4 billion annually, which aligns well with its fiscal reform agenda.

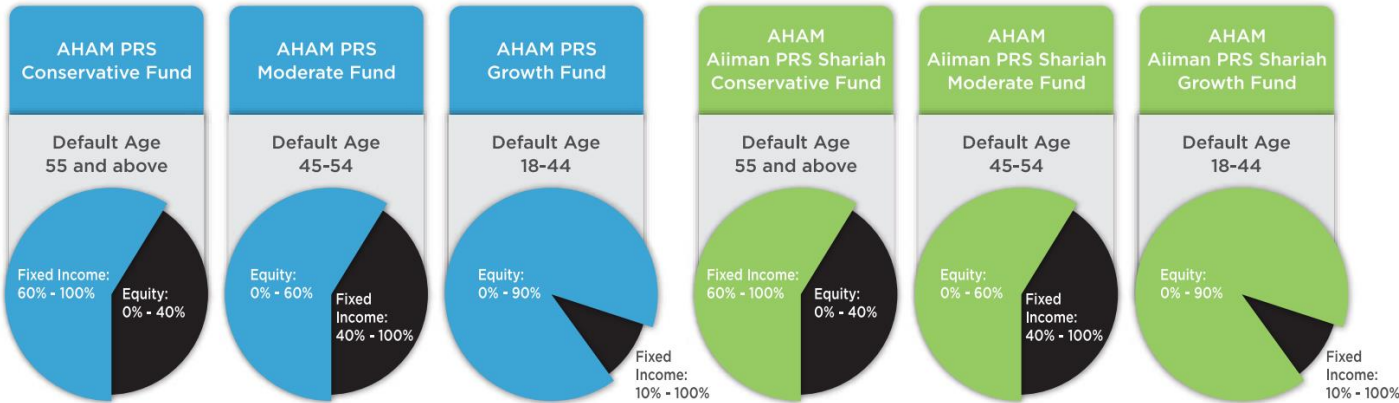
The conclusion of the first quarter 2024 results season came in strongly recording an average earnings growth of 24% on a full-year basis. 57% of the Malaysian universe performed in line with forecasts, while 17% exceeded expectations,

In the local bond market, the 10-year Malaysian Government Securities (MGS) yield slipped 9 basis points to settle at 3.89%. As anticipated, Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) unchanged at its Monetary Policy Committee (MPC) meeting in May. However, the central bank cited upside risks in growth and inflation due to withdrawals from Employee Provident Fund (EPF) Account 3. Additionally, the civil servant wage hike and further subsidy rationalisation measures could further stoke price pressures.

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