

June 2024

# Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 31 May 2024

**Over the  
month**

## Equities

### Global

- The United States (US) economy remains solid, although data released in May indicates signs of moderation, with capital spending and home sales trending sideways. The flash Purchasing Managers' Index (PMI) data provided a bright spot, with the manufacturing component rising to 50.9 and services to 54.8.
- US equities rebounded with a 5.0% monthly return in May, supported by better-than-expected first quarter earnings results across multiple sectors. In the eurozone, the European Central Bank (ECB) is more optimistic about the economy's disinflationary trajectory, as wage growth moderates despite recovering activity.
- Headline and core inflation in May accelerated to 2.6% and 2.9% year-on-year (YoY), respectively. The Dow Jones Industrial Average (DJIA) Index rebounded 2.3% and the broader S&P 500 Index surged 5.0%. The Euro Stoxx Index increased 3.3% while the FTSE 100 Index rose 3.4%.

### Asia Pacific

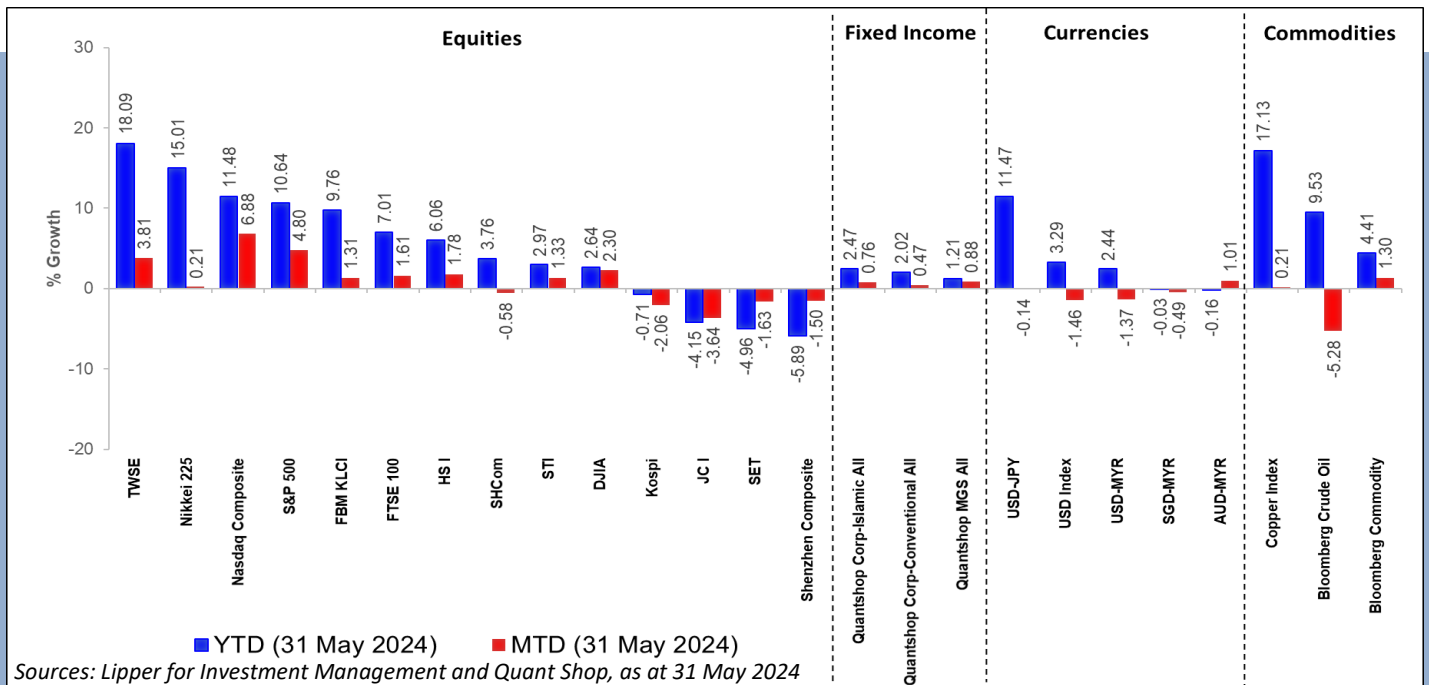
- Across Asian economies, there are encouraging signs of improvement, though with some caveats. Chinese data generally surprises to the upside, coinciding with a rebound in the equity market.
- However, the recovery details are less convincing as continued weakness in domestic demand necessitates strong export growth. Challenges in the real estate sector remain unresolved, casting doubts on the sustainability of the Chinese rally.
- Extremely low levels of the Japanese Yen are starting to weigh on consumer sentiment, resulting in Japanese stocks being one of the weakest regional performers in May, with a Tokyo Price Index (TOPIX) return of 1.2%.

### Malaysia

- Malaysia outperformed regional and global markets during the month as the rising data center investment in Malaysia by Multinational Corporations (MNCs) lifted the overall market sentiment.
- FTSE Bursa Malaysia (FBM) KLCI rose 1.3% to close at 1,596 points. The broader market outperformed as the FBM EMAS Index rose 2.4% to close at 12,161 points. Small caps outperform as the FBM Small Cap Index rose 4.1% to close at 18,613 points.

### Fixed Income

- US Federal Reserve's (Fed) minutes in the FOMC meeting highlighted the Fed's concern over lack of progress on inflation. They were joined in view to hold rates higher for longer until they gained greater confidence that US inflation was moving sustainably towards 2%. Inflation eased in April providing relief to investors after 3 months of surprises on the upside. The Consumer Price Index (CPI) increased 0.3% month-on-month (MoM) below market estimate of 0.4%. On a 12-Month basis, the CPI rose 3.4%, aligning with expectations. Excluding food and energy, the core inflation reading came in at 0.3% monthly and 3.6% annually, both as forecasted.
- The Malaysian's first quarter of 2024 Gross Domestic Product (GDP) data stood at 4.20% YoY, surpassing the consensus estimate of 3.90% YoY. This also marks a pick up from the 2.90% recorded in the fourth quarter of 2023. On the corporate bond issuances, the primary issuances for the month include PONS Capital Berhad (rated AA2(s)) with an issuance size of RM500 million in two different tenures. Meanwhile, Pengurusan Air SPV Berhad issued 15-Year government guaranteed bonds amounting to RM1.08 billion as well as a AAA-tranche totalling RM520 million. On government bond auctions, we saw a 20-Year Malaysian Government Securities (MGS) auction in the last week of May with a bid-to-cover ratio of 3 times.



## Equities : Outlook & Strategy

### Global

- Disinflationary trends in the US are stalling, particularly with persistent price pressures in the services sector.
- The latest inflation release showed only a modest slowing in both headline and core categories, reducing YoY rates to 3.4% and 3.6%, respectively.
- The minutes from the May Federal Open Market Committee (FOMC) meeting underscored concerns about the lack of progress on disinflation, diminishing hopes for an imminent rate cut.

### Asia Pacific

- Temporary relief measures by China authorities to boost the real estate sector do not address the main issue of weak demand.
- But its exports recovery and domestic travel related spending have been encouraging.
- After a strong rebound since April, we expect the market to consolidate unless a stronger-than-expected new home sales is reported in China.

### Malaysia

- Despite the rally and being the best outperformer in the region, Malaysia's market remained attractive in terms of valuation and currency level, coupled with the encouraging news of data centers investment by global MNCs have lifted the overall market sentiment.

## Fixed Income : Outlook & Strategy

### Malaysia

- Amidst the “bumpy” ride in inflation and the latest string of stronger-than-expected US macro figures like the March ISM, investors have started to question whether the Fed is indeed able to start rate cuts in June and whether it will be able to deliver the three cuts this year as signalled by the latest Dot Plot.
  - Market is now skewed to expecting the first 25 basis points (bps) cut in November, from previous expectations of 3 rate cuts in 2024 (one each in mid-2024, third quarter of 2024 and fourth quarter of 2024).
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- Overall, domestic demand is mainly driven by private consumption, improvement in fixed investment activities and a turnaround in exports.
  - Looking ahead, with a moderate outlook on economic expansion coupled with moderate inflationary outlook, we believe that Bank Negara Malaysia (BNM) will maintain our Overnight Policy Rate (OPR) at 3.00%.
  - We continue to overweight corporate bonds for additional yield pickup and seek opportunities to rebalance our portfolios.

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