



Monthly MARKET OUTLOOK

July 2024

Market Review | Equities | Fixed Income as at 30 June 2024

Over the
month

Equities

Global

- The upside surprise on United States (US) inflation and jobs market prints in 2024 anchored the trend of higher US treasury (UST) yields, with the 10-Year UST climbing to this year's high at 4.7% in late-April before settling at about 4.4%.
- Market expectations for a Federal Reserve's (Fed) pivot to materialize this year remain unchanged, though the timeline is being pushed back to the fourth quarter of 2024. European Central Bank (ECB) confirmed a widely anticipated 25 basis points (bps) reduction in interest rates. It takes the central bank's key rate to 3.75%, down from a record 4% where it has been since September 2023.
- The Dow Jones Industrial Average (DJIA) Index rose +1.1% and the broader S&P 500 Index surged +3.5%. The Euro Stoxx Index down -1.3% while the FTSE 100 Index declined -1.3%.

Asia Pacific

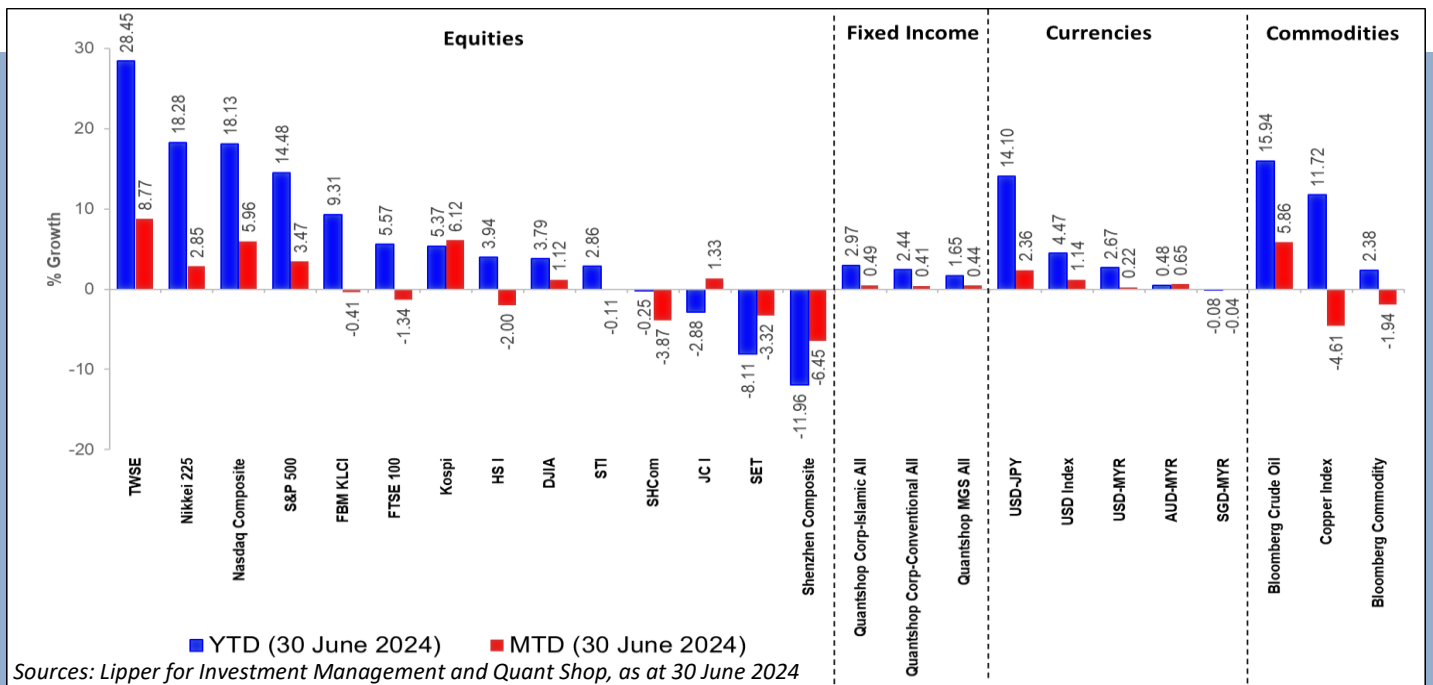
- The easing measures on the property sector announced in May have modestly revived sentiment.
- Major measures include the lowering of down payment and financial aid from the People's Bank of China (PBOC) to support local governments in purchasing unsold but completed projects of up to RMB500 billion.
- However, Hang Seng Index and CSI 300 Index were down 1.6% and 3.4% respectively in the month of June after the strong rally in April and May.

Malaysia

- During the month, the FTSE Bursa Malaysia (FBM) KLCI declined by -0.62% at 1,590 points. Again, the broader market outperformed as the FBM EMAS rose 0.45% to close at 12,216 points.
- Small caps outperform as the FBM Small Cap Index rose 3.6% to close at 19,189 points.
- There is a correction in the larger cap names in the month of June, largely as investors take profit ahead of expected global pullback and quarter/half-end.

Fixed Income

- In June, UST curve experienced mild bear flattening since the last quarterly outlook on resilient US data. May payroll was unexpectedly strong, but other survey-based indicators point to weaknesses. Consumer Price Index (CPI) inflation resumed downtrend in May, however the Fed needs more data points to gain greater confidence to begin easing, and markets are not pricing in a full 25 bps cut until November.
- Locally in Malaysia, headline inflation accelerated at a slightly faster-than-expected pace at 2% in May, mainly driven by higher utility bills, although food inflation decelerated. The Producer Price Index (PPI) marginally increased to 1.9% in April, continuing its upward trend from the previous month.
- The domestic bond markets saw the 5-Year and 10-Year benchmark yields ended the month slightly lower at 3.64% and 3.86% respectively, in tandem with a decline in UST yields. In the corporate debt primary issuances space, Digi Telecommunications Sendirian Berhad issued a RM1 billion sukuk with tenures of 5 years and 7 years, at RM500 million respectively. Despite the tight corporate market, the 7-Year sukuk achieved a final yield of 3.93%, approximately 13 bps above the 7-Year Malaysian Government Securities (MGS) yield.



Equities : Outlook & Strategy

Global

- The CPI report showed an increase of 0% from April, May's downshift in consumer prices was particularly helped by marked cooling in the services component of the index.
- May's CPI report was certainly a welcome one ahead of the Fed's May meeting.
- We expect the disinflation trend to continue, thereby allowing the Fed to deliver a rate cut by the end of this year.

Asia Pacific

- The export recovery in Asia has continued, with markets more closely aligned with the global technology supply chain, such as South Korea and Taiwan, benefiting the most.
- Rapid adoption of generative Artificial Intelligence (AI) by global Multinational Corporations (MNCs) have also raised the demand of hyperscalers, hence the servers supply chain is seeing higher market opportunities (US Dollar 5-7 billion per annum, Compound Annual Growth Rate (CAGR) of 20-30%).

Malaysia

- We continue to like banks for their yields (and an indirect way to position the long-term theme of rising inward investments) and themes of supply chain shifts, including setting up more AI infrastructure/data centres in the region such as the utility and construction sectors.

Fixed Income : Outlook & Strategy

Malaysia

- The recent Federal Open Market Committee (FOMC) minutes suggest some subtle calls for Fed Funds Rate (FFR) hikes, given the lack of confidence for inflation to move towards the Fed's 2.0% objective.
 - The Fed kept the Fed Funds Target Rate (FFTR) steady at 5.25%-5.50% and maintain this terminal FFTR level in the latest June meeting.
 - We expect the Fed to have one 25 bps of rate cut towards the end of 2024.
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- We expect recovery in exports, sustained domestic demand and upside inflation risk arising from fuel subsidy cuts to curb Bank Negara Malaysia (BNM) from implementing any Overnight Policy Rate (OPR) cuts this year.
 - As such, we maintain our expectations of no change to the OPR at 3.00% in 2024, but will watch for upside risk should Gross Domestic Product (GDP) growth accelerate together with faster banking sector loan growth and lower unemployment.
 - We continue to overweight corporate bonds for additional yield pickup and seek opportunities to rebalance our portfolios.

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