Market Review & Outlook

October 2024

(as at 30 September 2024)

Overview

In the third quarter of 2024, the United States ("US") Federal Reserve ("Fed") delivered a 50 basis points ("bps") cut at the Federal Open Market Committee ("FOMC") meeting held on 18 September 2024 and brought the Fed Target Rate (upper bound) to 5.00%. The rate cut signalled confidence of easing inflation pressures in the US economy and some concern of being "behind the curve". The decision saw the first dissenting voice (against the size of the cut) in the FOMC since 2005 with 11:1 vote for the rate cut.

The dot plot pencils-in a further 50bps cut in 2024 and another 100bps cut in 2025, with most economists calling for 25bps cuts at each of the upcoming Fed meetings on 7 November 2024 and 18 December 2024.

Based on the latest data, the US economy continued to show resilience. The US employment report turned in a much stronger increase in non-farm payrolls at 254,000 jobs in September 2024, which had significantly beat the consensus expectation of 150,000 jobs and an upwardly revised gain of 159,000 jobs in August 2024. Additionally, the US unemployment declined to 4.10% in September (August: 4.20%), and the third estimate of the Gross Domestic Product ("GDP") for the second quarter of the year ("2Q2024") held steady at 3.00% Quarter-on-Quarter ("QoQ") annualised (2Q2024: 1.60% QoQ annualised, consensus: 2.90% QoQ annualised).

The European Central Bank ("ECB") delivered a 'hawkish cut' at its 12 September 2024 meeting, cutting the deposit facility rate by 25bps to 3.50%, main refinancing rate by 35bps to 3.65% and the marginal lending facility by 60bps to 3.90%. There were no changes to forward guidance with the ECB Governing Council aiming to "keep policy rates sufficiently restrictive for as long as necessary to achieve" a timely return to its 2.00% inflation target, while following a "data-dependent and meeting-by-meeting approach" and "not pre-committing to a particular rate path."

The ECB's September estimates for GDP growth were revised slightly lower at 0.80% for 2024 (2023: 0.60%) and 1.30% for 2025 versus June estimates of 0.90% for 2024 and 1.40% for 2025. Headline inflation estimates were unchanged at 2.50% for 2024, 2.20% for 2025 and 1.90% for 2026.

Malaysia's GDP growth has accelerated strongly over 2 successive quarters which recorded at 5.90% Year-on-Year ("YoY") in 2Q2024 and also 4.20% YoY in 1Q2024 (from 4Q2023: 2.90% YoY) with recovery driven by domestic demand (2Q2024: 6.00% YoY, 1Q2024: 4.70% YoY, 4Q2023: 4.20% YoY) and export recovery (2Q2024: 8.40% YoY, 1Q2024: 5.20% YoY, 4Q2023: -7.90% YoY).

The GDP growth at 5.10% YoY in the first half of year 2024 ("1H2024") will require an average growth of 4.90% YoY for the full year's GDP to hit the upper limit of the official estimate of 4.00% - 5.00%. Going into 2025, consensus expects the GDP growth to stabilise slightly above trend at 4.6%.

On 5 September 2024, Bank Negara Malaysia ("BNM") held its overnight policy rate ("OPR") unchanged at 3.00%, with a neutral policy statement as widely expected. This was supported by benign inflation and a robust growth outlook. In August, Malaysia's headline consumer price index ("CPI") unexpectedly eased to 1.90% YoY after staying at 2.00% for the past three months. Slower price inflation was seen in most components including housing, utilities and other fuels, which comprised 23.20% of the CPI basket. This helped offset higher prices in alcoholic beverages and tobacco, and transport which rose 1.10% YoY and 1.30% YoY respectively (July: +0.90% YoY; +1.20% YoY).

Meanwhile, external trade continued to outperform in August with export and import growing by +12.10% and +26.20% respectively, higher than the consensus expectation of +11.80% and +21.20%. The strong export growth was primarily driven by increased shipments of electrical and electronics products (August: +16.50%; July: +2.40%) amid the tech upcycle. For imports, all three sub-segments, namely intermediate, capital and consumption goods saw double-digit growth, suggesting robust domestic demand. As import growth outpaced exports, the trade surplus further narrowed to RM5.7 billion in August.

Malaysia's labour market recorded further improvement in July, with the unemployment rate holding steady at 3.30% for the 9th consecutive month. Total employment grew 0.20% Month-on-Month ("MoM") to 16.6 million in July while the labour force increased 0.10% MoM to 17.2 million. Meanwhile, the number of unemployed continued to decline by 0.30% MoM for a second straight month to 563,700.

Strategy

We expect the US Treasury rates to remain volatile in the coming months. The stronger-than-expected US job data in September has resulted in a rising treasuries yield as traders pare down Fed Cut bets.

With the US Fed initiating a rate-cutting cycle, we anticipate an increase in foreign inflows into the domestic bond market, driven by expectations of currency appreciation. Bond yields are likely to remain well-supported, with any corrections expected to be short-lived due to strong demand and liquidity. Despite the domestic bond market rallying since the start of the year, we maintain a positive outlook as we enter the fourth quarter of 2024. Strong market liquidity and sustained demand for bonds, coupled with an extended pause in the OPR by BNM, support this bullish sentiment.

We maintain an overweight position on portfolio duration relative to the benchmark. In terms of security selection, we will overweight corporate bonds over government bonds for additional yield.

Encouraging economic data in the US which raised prospects of a soft landing for its economy, coupled with China's stimulus combo and calls for stronger stimulus for markets should provide positive support to equities. However, the path could be volatile. In the near term, US Presidential Election in November 2024 will be the limelight, given the uncertainties with regards to policies proposals and differences amid the tight race. Additionally, geopolitical uncertainties and energy price volatilities amid the escalating conflict in the Middle East could impact appetite for risky assets. As such we shall remain wary of the valuations of sectors and themes that have ran ahead of fundamentals.

For Malaysia, the month of October is expected to be exciting as Budget 2025 will be announced while information on incentives for the Johor-Singapore Special Financial Zone and updates on petrol subsidy rationalisation are expected in the coming months. Our positive bias on the market remains unchanged as the initiatives undertaken by the Government started to bear fruit, translating to positive momentum for the local market.

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