October 2024

Monthly MARKET OUTLOOK

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

Over the month

Equities

Global

- The Federal Reserve (Fed) made a significant move in September by implementing a 50-basis-point reduction in the Federal Funds Rate (FFR), bringing it to 4.75%. This marked the first rate cut in over four years.
- The larger-than-expected cut aims to proactively address potential economic and employment market softness. The Fed has also signalled that further rate reductions are likely as it transitions its monetary policy stance from restrictive to neutral.
- The S&P 500 Index and the Dow Jones Industrial Average (DJIA) Index rose by 2.0% and 1.9%, respectively.

Asia Pacific

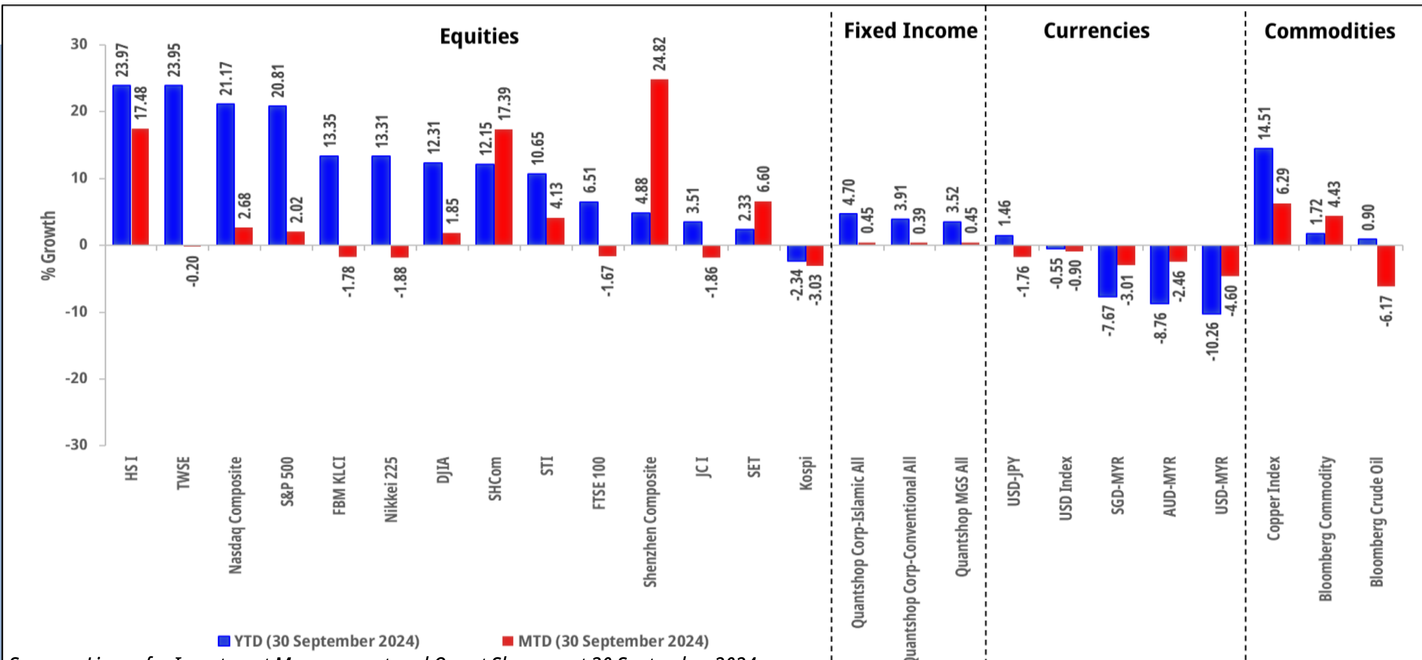
- Asian stocks experienced a strong rally towards the end of September, fueled by China's announcement of a series of new stimulus measures.
- While many of these measures were not entirely new, such as interest rate cuts and reduced down payment requirements for home purchases, the coordinated nature of September's announcement clearly signaled Beijing's commitment to supporting the Chinese economy and markets.

Malaysia

- The FTSE Bursa Malaysia (FBM) KLCI corrected by 1.8% in September as investors appeared to be taking profits on bank stocks.
- However, the Ringgit continued to outperform the United States Dollar (USD), appreciating by 4.8% during the month.
- Malaysia witnessed sustained net foreign inflows throughout September 2024, exceeding local institution net inflows year-to-date (YTD), indicating strong foreign interest in the market.

Fixed Income

- The Fed has signalled a more aggressive rate cut path compared to its previous quarterly guidance after its 50 basis points (bps) interest rate cut in September reducing the Fed funds target range to 4.75%-5.00%. The US Treasuries (UST) rallied into the first rate cut, but lost its momentum after. While the Federal Open Market Committee (FOMC) described the risks to achieving its dual mandate are roughly in balance, we think the 50-basis-point rate cut suggests jobs matter more than inflation for the time being.
- Locally, the Malaysian Government Securities (MGS) curve bull-steepened in the third quarter of 2024 as global bond rally accelerated into the start of Fed easing cycle. Yields fell 4 bps - 19 bps across the curve in the quarter, led by the front-end as strong foreign bids pulled the 3-Year MGS yields to below 3.30% in the month, the lowest since May 2022 when Bank Negara Malaysia (BNM) delivered its first hike in this cycle.



Sources: Lipper for Investment Management and Quant Shop, as at 30 September 2024

Equities : Outlook & Strategy

Global

- The Fed's substantial rate cut demonstrates a clear intention to support the US economy and achieve a “soft landing”.
- Any weakening of the labour market or economy could lead the Fed to implement even larger and faster rate cuts.
- Sectors sensitive to lower interest rates are expected to benefit from this rate cut cycle.

Asia Pacific

- Investors have been underweight Hong Kong and Chinese stocks, and this is likely to drive them to chase these stocks to neutralize their positions.
- We will closely monitor several indicators to assess the sustainability of this rally, including trading volume, short-sell ratio and property prices.

Malaysia

- With Budget 2025 scheduled to be presented in Parliament on 18 October, the Prime Minister, who also serves as the finance minister, has outlined key initiatives that the budget aims to address.
- These initiatives include targeting inflation and the cost-of-living situation. We anticipate further cash aid measures, which would positively impact the consumer sector, while there should be a continued focus on infrastructure projects.

Fixed Income : Outlook & Strategy

Malaysia

- The Fed's decision appears to have been driven by growing concerns over emerging weaknesses in the US labour market.
- Recent data have signalled signs of softening in the job market, which likely influenced policymakers to act more aggressively to mitigate risks of an economic slowdown.
- The outsized rate cut also reflects the Fed's view that inflation has now become less of a concern, as they are adamant in engineering a soft landing for the US economy.
- The US central bank is seen wanting to avoid the risks of falling behind the curve by taking pre-emptive measures towards policy easing, rather than waiting for further deterioration.
- We expect Malaysia to meet the deficit goal of 4.3% of Gross Domestic Product (GDP) for 2024, but is unclear whether will stick to the medium-term fiscal path of lowering the deficit ratio to below 3.5% in 2025 due to uncertainty on RON95 subsidy rationalisation, higher operating expenditure on civil servant salary increase and whether there are any offsetting revenue measures.
- We expect no change in the Overnight Policy Rate (OPR) at 3.00% and on the Monetary Policy Committee (MPC) statement on policy stance.
- We continue to monitor key indicators such as labour market conditions, inflation trends, housing activity, and developments in both the business and consumer sectors to assess the health of the US economy.
- These data will be crucial for us in spotting risks and opportunities for our fund positioning. With overall bond yields remaining attractive compared to historical levels, we see opportunities for investors to lock-in higher yields.