December 2024

Market
MARKET OUTLOOK

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

Over the month

Equities

Global

- Donald Trump won the Presidential elections while his Republican Party controls both the Senate and the House, making it a trifecta/red sweep.
- As widely expected, United States (US) stocks, US Dollar (USD) and US bond yields have rallied in anticipation of corporate tax cuts and deregulation and the market's expectations of larger fiscal deficits ahead.

Asia Pacific

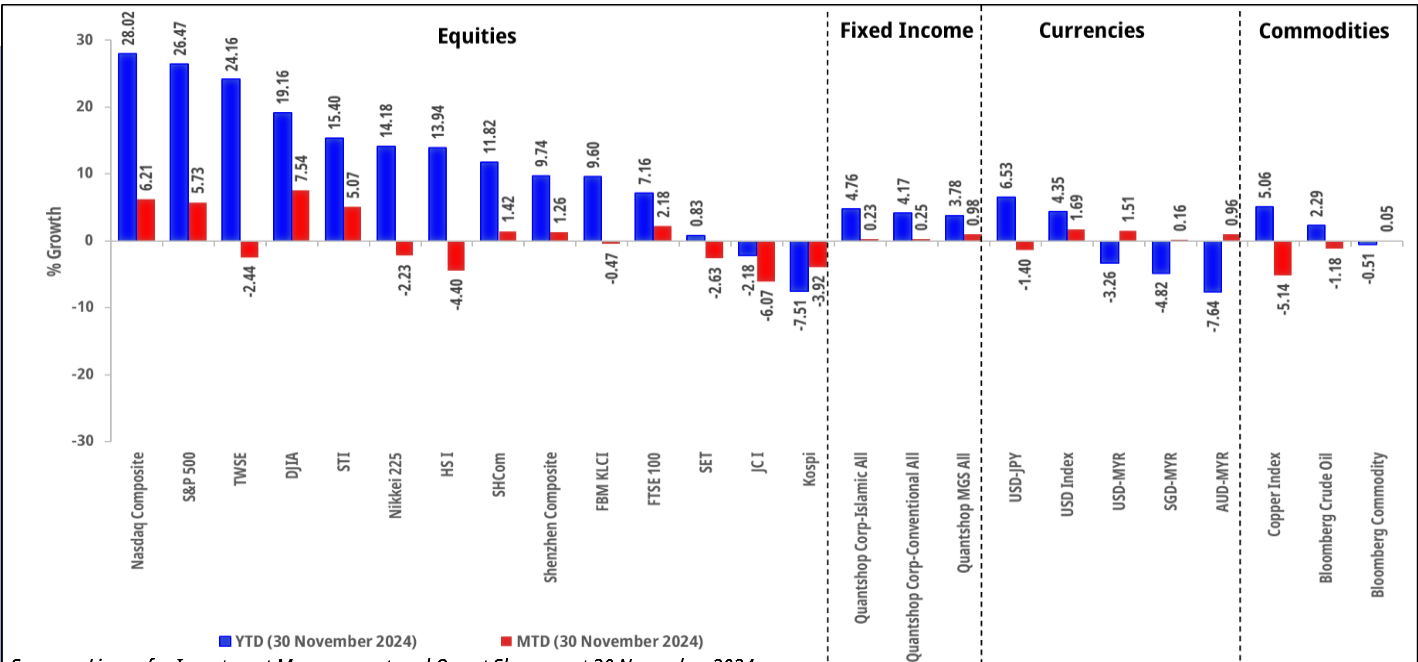
- Asia ex-Japan Index down ~9% from recent highs and is now trading below its 5-Year average Price-to-Earnings (P/E).
- Some markets nearing technical oversold levels: such as Korea, India, Indonesia and Philippines.

Malaysia

- Trump's re-election solidifies a trajectory of heightened tariffs and protectionist policies, including a proposed 10% tariff on all imports and a specific 60% tariff on Chinese goods.
- This environment is expected to accelerate the China Plus One strategy, benefitting Malaysia through higher investments and enhanced export potential.

Fixed Income

- In November, the Federal Reserve (Fed) cut interest rates by 25 basis points (bps) to the 4.50%-4.75% range as the labour market eased and inflation continued to move towards the 2.0% target. US consumer spending increased slightly more-than-expected in October, indicating that the US economy may likely continue to ride on its solid growth momentum into the fourth quarter of 2024 whilst inflation remained sticky.
- US Treasury (UST) 2-Year and 10-Year yields spiked to a high of 4.37% and 4.45% respectively in November post-US election, pricing in President-elect Donald Trump's policies of lower taxes and trade tariffs that are viewed as inflationary. In the last week of November, UST yields fell as investors bought safe-haven US government bonds following geopolitical tensions in the Ukraine-Russia conflict. UST 2-Year and 10-Year yields ended at 4.15% (October: 4.17%) and 4.17% (October: 4.28%) respectively.
- On the domestic front, Malaysia's Gross Domestic Product (GDP) grew at a slower pace by 5.3% year-on-year (YoY) in the third quarter of 2024 (second quarter of 2024: 5.9%), supported by construction (+19.9% YoY), manufacturing (+5.6%) and services (+5.2%) sectors but dragged down by mining and quarrying sectors. Year-to-date (YTD) as of October, inflation averaged 1.8% (October: 1.9%, September: 1.8%). Meanwhile, Malaysian Government Securities (MGS) yields eased in November as we saw 3-Year yield dipped to 3.46% (-7 bps), 5-Year yield decreased to 3.58% (-9 bps) and 10-Year yield declined to 3.81% (-11 bps).



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

Equities : Outlook & Strategy

Global

- We gradually deploy cash back into companies which are resilient against any economic downturns and have lesser impact from the trade tariffs, i.e. payment processors.

Asia Pacific

- We are taking the opportunity to build a position in countries South Korea and Indonesia which are affected by negative sentiments post-Trump victory, both Forward P/E below 5-Year average.

Malaysia

- We maintain a constructive outlook on Malaysia's equity market, driven by a strong economy, robust Foreign Direct Investment (FDI), corporate earnings growth, ample liquidity and tourism recovery. We are focusing on companies that benefit from the investment cycle (Artificial Intelligence (AI)/Data Centre (DC) related), US-China trade dynamics (Electronic Manufacturing Services (EMS)), and strong dividend yields (financial and selective consumers).

Fixed Income : Outlook & Strategy

Malaysia

- We are cautiously optimistic that the Malaysian economy will keep its pace of growth in the fourth quarter of 2024 despite external headwinds, in view of year-end consumer spending, cash handouts and the civil servant pay rise.
- Other factors supporting economic growth include the expansionary fiscal policy, favourable employment data, implementation of national masterplans and high impact projects.
- The Ministry of Finance (MOF) has estimated full year GDP growth at 4.8%-5.3% for 2024 and 4.5%-5.5% for 2025 while inflation is expected to fall within 2.0%-3.5% in 2025.
- We expect the Overnight Policy Rate (OPR) to stay at 3.00% through 2025 in order to balance economic growth and inflation.
- We continue to select corporate bonds with strong credit metrics over government bonds and government guaranteed papers for additional yield pickup and seek opportunities to rebalance our portfolios.