Market Review & Outlook

January 2025

(as at 31 December 2024)

Overview

The United States ("US") Federal Reserve ("Fed") at its last policy meeting for the year on 19 December 2024, delivered a widely anticipated 25 basis points ("bps") rate cut bringing its policy rate from 4.50% to 4.25%. The dot plot released by the Fed signals a significantly more gradual rate-cut cycle going forward. The median dot sees a Fed funds rate of 3.90% by the end of 2025 (versus ("vs.") 3.40% in the September 2024 dot plot), 3.40% at end-2026 (vs. 2.9% prior), and 3.10% at end-2027 (vs. 2.90% prior).

US Gross Domestic Product ("GDP") growth for the third quarter of 2024 ("3Q2024") was revised significantly upwards to an annualized 3.10% in the final estimate from 2.80% in the initial and second estimate. The upward revision was driven by stronger consumer spending and faster than expected export growth, signaling that the US economy continues to outperform the pace of growth initially expected by policymakers.

The labour market and inflation data released during the month further support a picture of a stronger than expected US economy. US non-farm payrolls recovered strongly in November 2024, with 277,000 jobs added following severe weather and strikes that weighed on October 2024 payrolls which added only 36,000 jobs revised (September 2024: 255,000). At the same time, US Consumer Price Index ("CPI") inflation climbed for a second month in-a-row to 2.70% Year-on-Year ("YoY") in November 2024 from 2.60% YoY in October 2024 (September 2024: 2.4% YoY) in contrast to the consistent disinflation seen since April 2024.

The European Central Bank ("ECB") cut its three main policy rates twice during the fourth quarter of 2024 ("4Q2024"), by 25bps each at its 17 October 2024 and 12 December 2024 meetings, bringing the key ECB Deposit Facility Rate, ECB Main Refinancing Rate and ECB Marginal Lending Rate to 3.00%, 3.15% and 3.40% respectively. At its December 2024 meeting, the ECB signaled a dovish stance amid a weak economic outlook. Inflation currently at 2.20% YoY for November 2024 stands a strong chance of falling below the ECB's inflation target of 2.00% for 2025, as the expected broad-based economic recovery driven by rising real incomes has thus far failed to materialize.

Malaysia

The Malaysian Government announced Budget 2025 on 18 October 2024, themed "Ekonomi MADANI: Negara Makmur, Rakyat Sejahtera". Budget 2025 brings forth higher outlays of RM421.0 billion (+3.30% YoY), aimed at growing Malaysia's economy further by 4.50%-5.50% in 2025 (2024: 4.90%), and a smaller deficit of RM80.0 billion (-5.10% YoY) or 3.80% of Gross Domestic Product ("GDP"). The official estimate of annual GDP growth for 2025 is in the range of 4.50%-5.50% (that is skewed to the upside versus the current consensus expectation of 4.70%) supported by a healthy labour market, the realization of private sector investment pledges and the roll-out of public-sector projects. At the same time the 2024 GDP forecast was revised higher to 4.80%-5.30% (prior forecast: 4.00%-5.00%), mainly due to the better-than-expected growth in the first half of 2024 at 5.10% YoY. The government forecast for 2025 headline CPI inflation was in a wide range of 2.0-3.5% and higher than the revised 2024 estimate of 1.50%-2.50% (prior forecast: 2.10%-3.60%) likely to consider subsidy rationalization plans for 2025. Meanwhile, a lower oil price of US Dollar ("USD") 75-80/barrel ("bbl") is forecasted for 2025 versus USD80-85/bbl for 2024.

On 6 November 2024, Bank Negara Malaysia ("BNM") held the overnight policy rate ("OPR") unchanged at 3.00%, with a neutral policy statement as widely expected. BNM continued to maintain its monetary policy stance and believes that the current OPR level remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects.

For 3Q2024 ended September 2024, Malaysia's economy grew by 5.30% YoY driven by strong investment activity and continued improvement in exports, despite a moderation from 5.90% YoY the previous quarter. The strong investment was fueled by spending on structures and machinery, while exports benefited from global demand and the tech upcycle. Overall, this positions the Malaysian economy to be on track in achieving the revised higher Gross Domestic Product ("GDP") projection range of 4.80%-5.30% for 2024.

In the latest data, Malaysia's labour market continued to demonstrate resilience which is in line with the encouraging economic growth. In October 2024, the number of unemployed fell by 0.70% Month-on-Month ("MoM"), resulting in an unemployment rate of 3.20% (September 2024: 3.20%). The services, manufacturing, construction, mining and quarrying as well as the agriculture sector were the positive contributors to employment growth.

Following headline and core CPI inflation on 1.90% in 3Q2024, inflation remains subdued and contained as the headline inflation rate eased slightly to 1.80% YoY in November 2024 from 1.90% YoY in October 2024 and defying consensus estimates of 2.10% YoY increase. The lower-than-expected headline inflation was due to a moderation in health and transportation cost as well as a steeper drop in clothing and communication cost. In contrast, Malaysia's core inflation held steady for the third month at 1.80% YoY.

Bond Market Review

The Malaysian bond market was under pressure in October as investor turned bearish bias, driven by a sell-off in US Treasury ("UST") amid uncertainties surrounding the US presidential election and the prospect of a slower rate cut by the US Fed. Despite the tabling of Budget 2025 which projected a narrower fiscal deficit of 3.80% of GDP, sentiment remained weak with bond yields rose across the curve by 6-22 bps MoM. The subsequent narrative of the global financial markets was dominated by the impact from the 2024 US Presidential Election in November 2024. On top of winning the Presidential election, the Republican party took control of both the Senate and House of Representatives, which heightens inflation fears and reduced expectations of the US Fed rate cut. This sent bond yields soaring as the UST 10 Year yield closed 15 bps higher on the election results day at 4.43%. UST regained some ground towards the end of the month after a sharp sell-off post US Presidential election. December 2024 saw softer trading amidst profit taking activities in the Malaysia bond market on the back of a bearish global bond backdrop, driven by the US Fed's more hawkish policy guidance and higher-than-expected inflation expectations and partly contributed by lack of liquidity in second half of December 2024.

Equities Market Review

The FTSE Bursa Malaysia Kuala Lumpur Composite Index ("FBMKLCI") declined -0.40% in the 4Q2024, whilst the broader FBM100 gained 2.00%, resulting in Year-to-Date ("YTD") gains of 12.90% and 17.00% respectively. This performance was the KLCI's highest return in 14 years. Both the FBMKLCI and FBM100 outperformed the Morgan Stanley Capital International ("MSCI") Asia ex. Japan and MSCI Emerging Markets gauges for the 4Q2024 and calendar year of 2024. Gains in the FBMKLCI were largely contributed by Sunway Berhad, YTL Power International Bhd, and Tenaga Nasional Berhad, offsetting YTD losses in Petronas Chemicals Group Berhad, Nestle Malaysia Bhd, and PPB Group Berhad as the Industrial Production and Consumer sectors underperformed for the year. Malaysia's consumer sentiment remains below the median, whilst industrial and material names were hampered by another year of lower production demand in China.

Healthcare was the best performing sector in Malaysia in the fourth quarter in 2024 ("4Q24") as glovemakers surged ahead of a US tariff on Chinese medical gloves. The market had started to price in higher glove ASPs and a quicker turnaround of profitability following a series of broker upgrades. Technology was the next best performer as the street started to position into underperformers by year-end, while Construction rounded off the top 3 sectors of 4Q24, helped on by Gamuda's inclusion in the FBMKLCI. For 2024, full-year gains were led by the year's prime thematic – Construction (+60.7% YTD), Utilities (+38.3% YTD) and Property (+31.5%) as Malaysia remains the region's top destination for data centres.

Strategy

The US current labour market seems to be at full-employment and with Trump's inflationary policies; the Fed will be more cautious about cutting interest rates. The Malaysian bond market is expected to remain rangebound in the absence of significant catalysts, with BNM maintaining the OPR at 3.00% throughout 2025.

We are maintaining a slight overweight in duration relative to benchmarks, strategically seeking value opportunities along the yield curve. In terms of security selection, our focus will be on corporate bonds to achieve additional yield pickup while balancing risk and return.

Asian equities markets would need to brace for volatility in early 2025, amid elevated geopolitical and trade tensions. Expectations are for a repeat of policy actions from Trump's earlier presidency but in an amplified manner.

We are defensively positioned on Asian markets in early 2025 given the policy uncertainties from the US. Our investment focus is on sectors and stocks that benefit from domestic consumption, domestic policies and China+1 policies (i.e. sectors and companies that benefit from (i) a shift in demand from high-tariff Chinese exports to other exporters that are levied a lower trade tariff; and/or (ii) relocation of manufacturing facilities out of China to different markets to avoid high trade tariffs against made-in-China products). We also like the technology, financials, and consumer sectors that benefit from secular trends and robust domestic demand. Meanwhile for defensiveness during periods of uncertainty, we pick companies that generate stable income stream and grow their dividends consistently.

We remain optimistic on the Malaysian market on the back of continued GDP strength, supported by a continuation of a rising investment upcycle driven by the data center construction boom, ongoing supply chain diversification out of China, the implementation of public infrastructure projects and local institutional liquidity to offset foreign outflows. In addition, Malaysia's dividend yield puts it in a better position amongst ASEAN peers to withstand elevated external uncertainties. Our preference would be on domestic-driven sectors like banks, consumer, construction, and property which would provide defensive qualities to the portfolio along with dividend yielding stocks.

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