Market Review and Outlook

August 2024

Market Review

For the month of August, the MSCI World Index and Dow Jones Index rose by +2.51% and +1.76% mom, respectively. In the US, August continued July's volatility and uncertainty, but at the annual Jackson Hole Economic Symposium, Federal Reserve Chairman Powell said that "the time has come" for rate cuts, leaving investors to speculate when they would be, and by how much. Consensus says that there will be a rate cut at the next meeting on 18 September 2024, but whether that cut would be 0.25% or 0.50% remained to be seen. August's S&P Global US Composite Purchasing Managers' Index (PMI) reading of 54.6 indicated that it was still expansionary, and +0.5 points higher compared to the prior month.

In Europe, the Euro Stoxx 50 Index was also up +1.75% mom, despite the August HCOB Eurozone Composite PMI Index reading of 51.0, which was down from 51.2 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.4% in July (June: 6.5%). However, the Shanghai Composite Index in China tumbled by 3.28% mom on some weak economic data releases such as the August Manufacturing PMI which fell to 49.1, down from 49.4 in July. The Industrial Production in July also grew at a slower pace of 5.1% yoy, compared to the previous month's 5.3% yoy growth rate. Its August Caixin China PMI Composite Index was flat at 51.2, similar from the previous month. Furthermore, China kept its 1-year and 5-year Loan Prime Rates unchanged in August 2024.

In August, Brent crude oil declined 2.4% mom to USD78.80/bbl on the back of a weakened demand outlook for China and an expected production increase by the OPEC which suggested high supply going into the winter months. On the other hand, crude palm oil price rose +1.2% mom to RM4075/MT largely due to drawdown in Malaysian palm oil inventories (1.73m MT in July vs 1.83m MT in June) and potential lagged impacts of the 2023-2024 El Niño event on Indonesian production which could impact production in 4Q24.

On the ASEAN front, equity markets were generally positive in August 2024. For us at home, the FBMKLCI rose +3.3% mom to 1,678 points, driven by strong buying interest from foreign investors, particularly in banks. This increased the Year-To-Date gain for the KLCI to 15.4% as at end August. This was despite August starting the month with the FBMKLCI falling sharply by 4.6% to 1,536 points on 5th August alongside several regional indices. The violent collapse that day was precipitated by the Bank of Japan raising interest rates that sparked a reversal of the yen carry trade which also coincided with some negative US employment datapoints, thus stoking fears of a hard landing recession. However, it quickly recouped all the losses within the next few days and rallied towards the end of the month. Foreign investors were net buyers for the second straight month in August, with a net buy of RM2.6b, raising their Year-To-Date net buy to RM3.1b. Over in Singapore, the STI Index fell slightly by 0.38% mom despite its July Non – Oil Domestic Exports (NODX) surging by 15.7% yoy, compared to a 8.7% yoy contraction in the previous month. Its July Industrial Production also grew by +1.8% yoy, compared to a 3.9% yoy decline in June. The Stock Exchange of Thailand rose +2.89% mom as investors believed political uncertainty has eased following the election of Ms Paetongtarn Shinawatra as the new Prime Minister on 16 August, which was only two days after Mr Srettha Thavisin was dismissed for appointing an unqualified person to his cabinet by the Constitutional Court. Finally, the Jakarta Composite Index surged +5.72% mom, as expectations of potential Fed easing drove foreign investors into buying Indonesian equity as reflected by its net foreign equity inflow of IDT13.6tr, +338.7% mom, during the month under review. However, from an economic standpoint, its August S&P Global PMI Manufacturing sunk to 48.9, as compared to 49.3 in the previous month. Apart from that, Bank Indonesia kept its policy rate unchanged at 6.25% in August to stabilize the rupiah exchange rate and to ensure that inflation remains controlled within the target range of +1.5 – 3.5% for 2024 and 2025.

In August, the US Treasuries (UST) yield curve declined across the tenors in a steepening manner by 10 – 28 bps mom, with the shorter end rallying the most. On 2nd August, yields rallied after the weaker – than – expected July employment data. July Non Farm payroll increased by 114k, less than the 175k forecast, while the unemployment rate unexpectedly climbed to 4.3%, higher than the 4.1% forecast. As of end – August 2024, the market – implied total rate cuts by December 2024 increased to 100 bps from 73bps as of end-July 2024.

Malaysian Government Securities (MGS) yields rallied in tandem with UST during the beginning of the month supported by inflows on the short to belly of the curve. Subsequently, the earlier gains were reversed upon profit taking, with MGS yields up by 2 – 5bps MoM on the 7y to 30y. 2Q24 GDP of 5.9% YoY (Survey: 5.8% YoY, 1Q24: 4.2% YoY), supported by stronger household spending, business investments and exports, brought 1H24 GDP growth to 5.1% YoY. July CPI remained unchanged from June at 2.0% YoY, slightly below the consensus estimate of 2.1% YoY, despite some economists' view that the blanket diesel subsidy removal in June could impact the July CPI. June IPI grew by 5.0% YoY (Survey: 4.2% YoY, May: 2.4% YoY), sustaining its positive momentum for six straight months, largely due to the consistent growth in the manufacturing sector.

Foreign funds net bought Ringgit bond holdings in August with net inflows of RM9.0bn (July: +RM7.8bn). Foreign share of both MGS and MGS+MGII rose to 34.6% (July: 34.2%) and 22.7% (July: 22.2%) respectively. Malaysia's foreign reserves expanded by USD2.1bn to USD116.8bn as of end – August 2024 (July: USD114.7bn).

Market Outlook

Globally, investors will be keeping an eye on Federal Reserve meeting on 18 September to see if the rate easing cycle would start and would continue monitoring the developments surrounding the US Presidential elections. Domestically, we believe that investors would continue to focus on the government's gradual implementation of policies, the upcoming budget 2025 in October after the conclusion of the recent 2Q24 results season.

As always, we have been steadfast in being partial towards fundamentally sound investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. Even so, omnipresent geopolitical risks as well as potentially easing global growth would dictate that we should be mindful of the necessity to adapt to new strategies as and when required to acclimatize to new and volatile market conditions.

Bond market volatility in the fixed income market would likely persist. The Fed's comment at the Jackson Hole Symposium came at a time when other central bankers were also mulling over lower interest rates. While the direction of monetary policy seems to be becoming clearer and rates likely to move lower, there remains a level of uncertainty around the pace and extent of any future rate changes as they would be subjected to incoming data. The Federal Open Market Committee (FOMC) acknowledges that inflation risks and employment must be balanced. US election uncertainty can also come into greater focus in the following months. In Malaysia, with inflation under control and with the latest indicators pointing towards sustained strength in economic activity in the second half of 2024, the market expectation is for Bank Negara Malaysia (BNM) to stand pat on the overnight policy rate (OPR) for 2024. However, inflation is expected to trend higher depending the spillover effects of further domestic policy measures on subsidies and price controls, as well as global commodity prices. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.