Market Review and Outlook

July 2024

Market Review

During the month under review, the MSCI World Index and Dow Jones Index rose by +1.70% and +4.41% mom, respectively. In the US, the positive market sentiment was driven by expectations that the Federal Reserve is nearing its first interest rate cut since 2020. This optimism was further fueled by Federal Reserve (Fed) Chair Jerome Powell's comments at the end of the month, which reinforced expectations of potential rate cuts. Additionally, the market began pricing in the possibility of further U.S. corporate tax cuts under a potential Trump 2.0 presidency, adding to the positive sentiment. July's S&P Global US Composite Purchasing Managers' Index (PMI) reading of 54.3 indicated that it was still expansionary, albeit -0.7 points lower compared to the prior month.

On the other hand, Euro Stoxx 50 Index was down -0.43% mom. The June HCOB Eurozone Composite PMI Index which still had an expansionary reading of 50.9, was down as compared to 52.2 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.5% in June (May: 6.4%). The Shanghai Composite Index in China slid by 0.97% mom as the July Caixin China PMI Composite Index declined to 51.2 from 52.8 in the previous month. The July Manufacturing PMI also showed a slight contraction at 49.4, down from 49.5 in June. Additionally, Industrial Production in June grew at a slower pace of 5.3% yoy, compared to the previous month's 5.6% yoy growth rate. Furthermore, China kept its 1-year and 5-year Loan Prime Rates unchanged in July 2024.

Throughout the month, Brent crude oil declined 6.6% mom to USD80.72/bbl on the back of weakening demand from China, which is expected to reduce imports amid slowing economic growth. On the other hand, crude palm oil price rose +1.3% mom to RM4028/MT largely due to a +39% mom surge in imports in India in anticipation of a duty hike in India's budget.

On the ASEAN front, equity markets were generally positive in July 2024. For us at home, the FBMKLCI rose +2.23% mom on the back of positive sentiment from key economic growth prospects such as the anticipated recovery in the global semiconductor sector and trade diversification opportunities from the 'China Plus One' strategy. Additionally, the rally was also helped by July's net foreign equity inflow of RM1.3bn which resulted in the cumulative YTD net foreign equity inflow turning positive at RM497.8m. It is also likely that the resurgence in foreign investor interest was partly due to the government's commitment to enhancing the nation's fiscal position and implementation of vital reforms such as the diesel fuel subsidy rationalization. In addition, Malaysia's 2Q24 advance GDP growth came in at +5.8% yoy, which was ahead of consensus' and the previous quarter's growth rate of +4.7% yoy and 4.2% yoy respectively. The Singapore's Strait Times Index also enjoyed a rise of +3.69% mom on strong earnings expectations by major banks and expectations for US interest rate cuts. However, its June Non – Oil Domestic Exports (NODX) still contracted by 8.7% yoy, behind consensus' estimate of a contraction of 1.3%. The Stock Exchange of Thailand inched up 1.53% mom. Aside from the positive spillover euphoria from the expectation of US rate cuts, the anticipated implementation of the Uptick Rule, aimed at curbing short selling, helped to further contribute to the positive sentiment. Last but not least, the Jakarta Composite Index went up 2.72% mom, in-line with regional peers on interest rate cut expectations. Bank Indonesia kept its policy rate unchanged at 6.25% in July.

The US Treasuries (UST) yield curve declined across the tenors by 26 – 49 bps mom as unemployment rate rose to 4.1% mom (Survey: +4.0% mom, May: +4.0% mom) and job growth in the prior 2 months i.e. May and April, were revised downwards to +218k mom (from +272k mom) and +108k mom (from +165k mom) respectively. In June, the nonfarm payroll increased by +206k mom (Survey: +190k mom). In addition, US CPI was below expectations at +3.0% yoy (Survey: +3.1% yoy, May: +3.3% yoy). In the Federal Open Market Committee (FOMC)'s July meeting, the Fed left the rate unchanged at 5.25% – 5.50% and indicated a potential rate cut in September should inflation continue to decline towards its 2% target whilst the labour market remained stable. As of the end – July 2024, the market – implied total rate cuts by December 2024 increased to 73 bps from 44 bps as of end – June 2024 and market had priced in more than two rate cuts by end-2024.

Similarly, Malaysian Government Securities (MGS) yields also declined across the tenors by 8 – 18 bps mom amidst weaker – than – expected industrial production, exports and CPI. At the Monetary Policy Committee (MPC) meeting in July, Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR) at 3.00% as per consensus expectations. May industrial production expanded by +2.4% yoy (Survey: +3.6% yoy, April: +6.1% yoy) largely due to the sustained growth in manufacturing and electricity sectors which was partially offset by a contraction in the mining sectors. Exports in June recorded a smaller growth at +1.7% yoy (Survey: +3.3% yoy, May revised: +7.1% yoy), which was mainly dragged by lower exports of manufactured and agriculture products. June CPI remained at +2.0% yoy but was below consensus expectation of +2.2% yoy despite diesel subsidies rationalization in early June (May: +2.0% yoy).

Foreign funds turned net buyers in July with net inflows of RM7.8bn (June: -RM0.6bn). Foreign share of both MGS and MGS+MGII rose to 34.2% (June: 33.3%) and 22.2% (June: 21.7%) respectively. Malaysia's foreign reserves climbed by USD0.9bn to USD114.7bn as of end – July 2024 (June: USD113.8bn).

Market Outlook

With inflation easing, we note that some developed markets have started their rate cutting cycle to support growth, but the pace of policy easing remains to be seen. Externally, we would be monitoring the developments surrounding the US Presidential elections and several ongoing geopolitical conflicts. Domestically, we believe that investors would continue to focus on the government's gradual implementation of policies. Aside our resilient consumption growth story, on supply-chain diversification efforts, Malaysia appears well positioned to attract investments.

Notwithstanding the different rates of disinflation across the various global economic powers, the advent of a monetary easing cycle should be supportive of those assets with a skew towards growth – centric investments. 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 could persist although recent yield movements proved positive for bond yields. The Fed has signaled a possible downward rate move as soon as September, subject to the totality of economic data. The FOMC statement also acknowledges that inflation risks and employment must be balanced. With inflation under control in Malaysia and the latest indicators pointing towards sustained strength in economic activity in the second quarter of 2024, the market expectation is for BNM to stand pat on the OPR for 2024. However, inflation is expected to trend higher in the second half of the year due to the recent rationalisation of diesel subsidies, the potential spillover effects from other domestic policy measures, global commodity prices and financial market developments. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.