Allianz

Market Review and Outlook

June 2024

Market Review

For the month of June, the MSCI World Index continued its rally, having posted a +1.93% mom gain. The Dow Jones climbed +1.12% mom on improving investor confidence, while the Nasdaq advanced another +5.96% mom, indicating the preference for growth centric sectors such as technology remained. USA economic data showed signs of resiliency with the American economy adding 206k jobs in June and S&P Global US Manufacturing Purchasing Managers' Index (PMI) having recorded 51.6 in June, up from 51.3 in May. On the other hand, its June 2024 unemployment rate worsened to 4.1%, +0.1 ppt mom, which was slightly worse than consensus estimates and its highest level since November 2021. In addition, the Labor Department's Bureau of Labor Statistics sharply revised down its May 2024 new jobs data to 218k from 272k. Consequently, the unemployment rate uptick and job growth moderation led to rising market belief that the Federal Reserve (Fed) could soon be able to start normalising its interest rate.

Over in Europe, Stoxx50 pulled back -1.80% mom partly on France having announced snap elections. The Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers' Index (PMI) fell to 50.9 in June 2024 (vs May's 52.2), a 3-month low, suggesting some weakness. As for unemployment rate in the Eurozone, it came in at 6.4% in May 2024, stable mom compared to April 2024. As for the Chinese equity markets, the Shanghai Composite Index was down -3.87% mom. The Caixin China PMI Composite Output Index posted a lower reading of 52.8 in June, as compared to 54.1 in May. Meanwhile, its June 2024 Manufacturing PMI came in flat at 49.5.

During the month under review, Brent oil price recovered some ground having posted a +5.87% mom gain into June (-7.10% mom in May) as OPEC+ extends oil output cuts into 2025. In contrast, crude palm oil (CPO) price eased by -2.29% mom to RM3976/ MT, giving up some gains mom partly attributable to higher-than-expected output.

In the month of June, ASEAN equity markets took a breather in general. Back at home, the FBMKLCI slid -0.41% (1H24: +9.30%) mom partly due to profit-taking. Foreign investors were net sellers in June (RM61m) compared to its net buy position of RM1.5b in May. Elsewhere, average daily trading value in Bursa remained buoyant at RM4b (+1.70% mom). Among sub-sectors, the construction sector was the best performer while the consumer sector was the worst performing, possibly due to concerns of inflationary impact following a diesel price hike. Onto KLCI constituents, Sunway Berhad replaced AMMB Holdings Berhad following a mid-year review. Turning to Singapore, its Straits Times Index closed -0.11% mom, hampered by the industrial, capital goods, utilities and consumer discretionary sectors. May 2024 Non – Oil Domestic Exports (NODX)'s decline moderated, having posted -0.1% yoy (-9.3% in April) due to better-than-expected non-electronic exports. Singapore's headline CPI was up +3.1% in May, up 40bps from April, driven mainly by higher private transport costs.

On the other hand, Indonesia's Jakarta Composite Index rose +1.33% mom in the month of June (-3.64% mom in April). This was achieved despite net outflow of equities to the tune of USD291m during the month. In terms of sub-sectors' notable movements, cement, healthcare and telecommunication were gainers while metals, technology and construction were down. During the June meeting, Bank Indonesia held its benchmark rate at 6.25%. Elsewhere, Indonesia's CPI moderated to +2.84% in May (3.00% in April), driven by declining food and energy prices. Last but not least, the Stock Exchange of Thailand fell 3.32% mom to close at 1,300.96 pts in June 2024 largely on the back of political uncertainties. Thailand's headline inflation rose +1.5% yoy in May (+0.2% yoy in April), having returned to its 1% - 3% target range for the first time since May 2023. On policy rate, it was held at flat 2.50% in June 2024.

The US Treasuries (UST) yield curve declined across the tenors by 9 – 14 bps mom as US May inflation cools to +3.3% yoy (April: +3.4% yoy, Survey: +3.4% yoy), bringing most UST yields to its lowest level since April. The Federal Open Market Committee (FOMC) on 12 June updated its "dot plot," with policymakers now expecting just one rate cut this year compared to three rate cuts in March's "dot plot". They however forecast four rate cuts in 2025 compared to three back in March. Chairman Powell commented that while recent inflation readings have been more favorable than earlier in the year, the Fed would still be data driven when it pertained to the possibility of rate cuts. As of the end of June 2024, the market – implied total rate cuts rose to 44 bps from 36 bps as of the end of May 2024 by December 2024 and fully pricing in one rate cut in November.

Malaysian Government Securities (MGS) yields were largely down but at a lesser quantum of 1 – 5 bps across the tenors. May CPI increased by +2.0% yoy (Survey: +1.9% yoy, April: +1.8% yoy), mainly due to higher utility costs despite declining food inflation. April IPI meanwhile accelerated 6.1% yoy (Survey: 6.5% yoy, March: 2.4% yoy), which was the highest growth since September 2022 as all sectors saw expansion during the month, and the most significant contributor came from the manufacturing sector.

The recovery of foreign demand in March-April extended into May as foreign funds net bought RM5.5b, the largest increase since July 2023. The foreign shares of GII and MGS+GII increased to 9.1% (April: 8.8%) and 21.7% (April: 21.4%), respectively.

Market Outlook

With inflation easing, we note that some developed markets have started their rate cutting cycle to support growth. The pace of policy easing however remains to be seen. Externally, post - election outcomes and developments are to be monitored. Domestically, we believe that investors would continue to focus on 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 would persist. Although the Fed has signaled that it has potentially reached the end of its tightening cycle, the policy rate might stay high for longer as the target 2% inflation rate would remain a challenge. While there have been signs of moderation in the recent US data releases, a firm job market, stubborn inflation and a resilient US economy could push back the timing of its first rate cut. Meanwhile, the US election is back on the market radar with polls showing former president Trump leading in most swing states. Locally, with inflation under control and stronger than expected GDP growth, the market expectation is for BNM to stand pat on the OPR for 2024. The MPC statement highlights that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook would remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.