Market Review and Outlook

May 2024

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

May 2024 turned out to be a pleasant reversal from the previous month with both equity and fixed income markets posting positive returns. For equities, the MSCI World Index rose +4.23% mom on the back of improving investor confidence, while the Dow Jones and Stoxx50 grew by +2.30% mom and +1.27% mom respectively. In US, the expectations of an eventual reduction in interest rates had spurred investors to favour growth – centric sectors such as technology. This was reflected in the Nasdaq which surged +6.28% mom over the month under review. Its economy was also in decent shape with its April 2024 unemployment rate of 3.9%, +0.1 ppt mom and its expansionary May 2024 S&P Global US Composite Purchasing Managers' Index (PMI) reading of 54.5, its highest since April 2022. The much – dreaded inflation was somewhat held in check with its April 2024 Consumer Price Index (CPI) reading of +3.4% yoy and +0.3% mom, which were both 0.1 ppt lower than their previous readings. In its May 2024 meeting, the Federal Open Market Committee (FOMC) voted unanimously to keep its policy rate unchanged for the 6th time and its Chair alluded that while it would take longer than expected to lower the inflation rate to its accepted level of +2.0%, it was unlikely that its next policy move would be a hike. That said, the Federal Reserve minutes revealed in May 2024 did suggest that some officials were, to a certain extent, concerned with regards to the seemingly stalled pace of disinflation whilst others voiced a 'willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate'.

The aforementioned uptick in Europe's Stoxx50 Index was in part due to the continent's improving economic fortunes. This was reflected in the May 2024 HCOB Eurozone Composite Index which had an expansionary reading of 52.2, spearheaded by the services sector, as compared to 52.3 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.4% in April 2024. The Eurozone 1Q24 GDP growth figures of +0.4% yoy and +0.3% qoq, came in within consensus expectations.

On the other hand, China's Shanghai Composite Index slid by 0.58% mom despite some nascent signs of economic recovery. The May 2024 Caixin China PMI Composite Index increased to 54.1 versus 52.8 in the prior month and industrial production grew by +6.7% yoy ahead of consensus expectations and beating the previous month's +4.5% yoy growth rate. However, its May 2024 Manufacturing PMI chalked a minor contraction at 49.5 which was below consensus and the previous two months' expansionary readings. Apart from that, China kept its 1 – year and 5 – year Loan Prime Rates unchanged in May 2024 to help support its credit and property markets.`

During the month under review, Brent crude oil declined 7.1% mom to USD81.62/ bbl on the back of uncertainty surrounding an OPEC+ decision to boost oil supply amidst the emergence of signs of demand weakness. Conversely, crude palm oil price rose +5.4% mom to RM4069/ MT due to subdued output from Indonesia caused by El Nino and reduced stockpile levels in Malaysia.

On the ASEAN front, equity markets were mixed in May 2024. For us at home, the FBMKLCI continued its uptrend by rising +1.31% mom but, unlike last month, with foreign investors turning net buyers. This helped to lower the cumulative YTD net foreign equity sell flow to RM761.8m (RM2.2b as at end April 2024). Malaysia's economy appeared to be on firm footing with its 1Q24 GDP growth coming in at +4.2% yoy, which was ahead of consensus' and the previous quarter's growth rate of +3.9% yoy. From an administrative standpoint, the government demonstrated its resolve in implementing its plans to improve the nation's fiscal position as reflected by the rollout of the difficult but laudable diesel subsidy rationalization. The Singapore's Strait Times Index also enjoyed a rise of +1.33% mom. It recorded a 1Q24 GDP growth rate of +2.7% yoy and +0.1% qoq, which were better than consensus' expectations. However, its April 2024 Non – Oil Domestic Exports (NODX) still contracted by 9.3% yoy, albeit at a lesser pace than the 20.7% yoy contraction in March 2024. On the contrary, the Stock Exchange of Thailand fell by 1.63% mom despite posting an expectation - beating 1Q24 GDP growth of +1.5% yoy and +1.1% qoq. This was partly due to the concerns of political uncertainty which arose when the Attorney General indicted former prime minister Thaksin Shinawatra on grounds of lese – majeste or royal defamation. Last but not least, the Jakarta Composite Index dropped 3.64% mom as the market reacted to the unexpected Bank Indonesia late April 2024 rate hike of 25 bps to 6.25%, a rate not seen since 2016.

The US Treasuries (UST) yield curve declined across the tenors by 13 – 21 bps mom as April's jobs report weakened and CPI was lower than anticipated (April: 0.3% mom, Survey: 0.4% mom, March: 0.4% mom). US April non – farm payrolls (NFP) contracted to 175k (Survey: 240k, March revised: 315k), contributed by slowing job growth within the leisure and hospitality, the construction and the government segments. In addition, the advance estimates of retail sales in April were flat mom (April: 0.0% mom, Survey: 0.4% mom, March revised: 0.6% mom) as consumers reduced discretionary purchases. As of end May 2024, the market – implied total rate cuts rose to 36 bps from 28 bps as of end April 2024 by December 2024.

Similarly, Malaysian Government Securities (MGS) yields were down by 4 – 11 bps across the tenors. In the May monetary policy committee (MPC) meeting, Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) unchanged at 3% as widely expected. In its MPC statement, BNM maintained that the monetary policy would be supportive of the economy and in – line with its assessment of the inflation and growth prospects. On the other hand, the April CPI was stable at 1.8% yoy (Survey: 1.9% yoy, March: 1.8% yoy) for the third straight month.

Market Outlook

The long – awaited path towards interest rate normalization has begun with Canada while the Eurozone has recently followed by embarking on their rate cut trajectory. In early June 2024, the Eurozone's European Central Bank (ECB) cut its interest rate by 25 bps for the first time in five years to 3.75%, noting that the outlook for inflation did improve 'markedly' while the Bank of Canada had also cut its key interest rate by 25 bps to 4.75%. These significant moves could potentially herald the start of the long – anticipated monetary easing cycle . Domestically, investors would likely digest the data derived from the recent 1QCY24 results season and closely monitor the efficacy of our government's reform policy implementation.

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 resilient US economy could result in the push back of the timing of its first rate cut. Locally, with the benign inflation and stronger than expected GDP growth, the market expectation is for BNM to stand pat on the OPR. 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.