

Market Review and Outlook

December 2024

Market Review

The global equity markets were mixed in December 2024, with the MSCI World Index declining 2.68% mom. In the US, the Dow Jones plunged 5.27% mom during a volatile month, despite setting a new high of 45,014 points during the month. This was mainly attributed to the Federal Reserve (Fed) Chairman Jerome Powell's hawkish view that projects only two cuts of 25 basis points each in 2025 during the December meeting and describing how inflation may remain sticky through next year. On inflation, US CPI rose 2.70% in November 2024 versus a year ago (2.60% in October 2024), matching expectations.

Meanwhile, the European Stoxx 50 rose by 1.91% mom, rebounding from a 0.48% mom drop the previous month. The HCOB Eurozone Manufacturing Purchasing Managers' Index (PMI) fell to 45.1 in December, down from 45.2 in November, suggesting continued weakness in its manufacturing sector. As of the latest reading, EU's November unemployment rate was at 6.30%, similar to October 2024.

China's Shanghai Composite Index rose by 0.76% mom, as China's Caixin PMI Services came in higher at 52.2 in December, compared with 51.5 in November. However, retail sales of +3.0% yoy in November, was lower compared to +4.8% yoy in the previous month.

During the month under review, Brent oil price rose 4.39% mom to USD74.64/bbl after OPEC and its allies delayed their plan to start raising output until April 2025 against a backdrop of falling oil prices. Conversely, crude palm oil tumbled 9.28% mom to RM4448/MT as crude palm oil prices came under pressure due to competition for soybean oil, which was cheaper. Crude palm oil's price premium to soy oil traded as high as USD130/MT premium during the month of December, vs the long term average of USD140/MT discount.

Turning to the ASEAN region, Singapore's Strait Times gained 1.29% mom, as its November 2024 Non – Oil Domestic Exports (NODX) rose 3.40% yoy, as compared to a drop of 4.60% yoy in October. However, its retail sales fell 0.7% yoy in November, vs a gain of 2.2% yoy in the previous month. Meanwhile, The Stock Exchange of Thailand declined 1.91% mom, despite its S&P Global PMI Manufacturing rising to 51.4 in December, as compared to 50.2 in the previous month. Back at home, Malaysia's FBMKLCI surged 3.01% mom, despite net foreign selling of RM2.9bn worth of equities. This brought full year 2024 net foreign selling to RM4.2bn. This was despite a lower S&P Global PMI Manufacturing reading of 48.6 in December, as compared to 49.2 in the previous month. Its October Industrial Production was also lower at 2.1% yoy, as compared to 2.3% yoy in September. Lastly, Indonesia's Jakarta Composite Index was down slightly by 0.48% mom, despite recording a higher S&P Global PMI Manufacturing of 51.2 in December, as compared to 49.6 the previous month. Bank Indonesia (BI) maintained the benchmark policy rate at 6.00% in December.

The US Treasuries (UST) yields rose by 18 – 42bps mom across all tenors as expectations for more interest rate cuts in 2025 diminished, sending most yields to its highest levels since June 2024. The largest selloff happened on 18th December when the Fed cut rates by 25bps as widely expected but indicated that it would probably only lower rate twice in 2025 according to the median estimate compared to four rate cuts projection back in September. As of end – December 2024, the market – implied total rate cuts by December 2025 declined to 46bps from 64bps as of end – November 2024.

Malaysian Government Securities (MGS) yields increased marginally by 1 – 4bps mom except for the 20y tenor which declined by 1bp mom. Malaysia's inflation rose below expectation in November at 1.8% yoy (Survey: 2.1% yoy, October: 1.9% yoy) largely due to slower increase in the health and transport segment. The newly published Auction Calendar for 2025 indicates that there will be more long – tenor (15y, 20y and 30y) issuances in 2025 with a total of 18 auctions (2024: 15 auctions). The gross MGS/GII supply in 2025 is estimated to be lower at RM164bn (2024: RM175bn).

Foreign funds net outflows increased to RM1.4bn in December (November: outflow of RM1.1bn). However, Malaysia still recorded a full – year inflow of RM4.8bn for 2024 (2023: +RM23.6bn). Foreign share of both MGS and MGS+MGII reduced to 32.3% (November: 32.7%) and 21.2% (November: 21.4%) respectively. Malaysia's foreign reserves lowered by USD2.1bn to USD116.2bn as of end – December 2024 (November: USD118.3bn).

Market Outlook

Global inflation, particularly in the USA, is now being closely monitored, as expectations regarding rate cuts have shifted. The Fed is now expecting only two cuts (from four) for 2025. Other key considerations capturing investors' attention would include the implications of new policies from the incoming U.S. President, tensions in the Middle East, ongoing Ukraine war and the effectiveness of China's stimulus package. The incoming U.S. President could, in the near-medium term, herald an increase in market volatility, but we would at the same time be somewhat buoyed by domestic catalysts which include an investment upcycle and income/ consumption boosting measures, among others. In addition, the prevailing stable domestic politics under the auspices of the Unity government coupled with a sustained focus on reforms would help to reinforce investor sentiments. Other key developments to watch include the launch of JSSEZ in January.

Against that backdrop, we remain committed to investing in fundamentally good investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. That said, we have to remain alert that the pervasive geopolitical and other risks may necessitate the adoption of new strategies to adapt to the ever – volatile market conditions.

Going into 2025, bond market volatility is expected to persist with the aforementioned inauguration of Trump in January 2025 and the implementation of his new policies. In 2024, the Fed lowered interest rates by 100bps, reducing interest rates from a peak of 5.25% – 5.50% to 4.25% – 4.50%. However, the Fed appears to have tempered its future rate cut trajectory as its policy stance now seems considerably less restrictive and any additional rate cuts would depend on further progress on inflation as well as continued strength in the labor market. The cautious approach would also provide some maneuvering room for the Fed to respond to any changes in economic data and policies as needed in the coming year. On local monetary policy, Bank Negara Malaysia (BNM) is expected to maintain the Overnight Policy Rate (OPR) at 3.00% in 2025. In its latest Monetary Policy Statement, BNM stated that the latest indicators revealed sustained strength in economic activity contributed by resilient domestic expenditure and greater export activity. In terms of inflation outlook, BNM stipulated that it would be subjected to the details of the implementation of announced domestic policy measures. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.

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