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Market Review and Outlook

September 2024

Market Review

The global equity uptrend continued in September 2024 with the MSCI World Index rising +1.69% mom. Equity markets remained buoyant amidst the long-awaited US Federal Reserve (Fed) pivot which signaled the start of interest rate normalization after the risk of high inflation had been reined in. It coincided with a more restrained disposition from Bank of Japan officials and a stimulus salvo from China. In the US, the Dow Jones Index climbed +1.85% mom as the Federal Open Market Committee (FOMC) finally cut its Fed Fund Rate by 50 bps to a range of 4.75% to 5.00%, marking its first rate cut in four years. The Fed Chair was however cautious in downplaying concerns that its outsized cut was due to concerns for economic growth but instead emphasizing that it was more due to the upside risks to inflation being significantly reduced. In addition, the Fed's dot plot projection suggested another 50 bps cut by the end of 2024. The US economy also delivered some positive datapoints such as the S&P Global US Composite Purchasing Managers' Index (PMI) data which showed an expansionary reading of 54.0, maintaining its expansionary streak since February 2023.

The European Stoxx 50 Index also edged up +0.86% mom as the European Central Bank (ECB) had also decided to cut its deposit facility rate by 25 bps to 3.50%. This was its second rate reduction in 2024. It was in response to lackluster economic growth and inflation cooling to its 2.0% target in August 2024. In fact, the ECB lowered its 2024 growth forecast by 0.1 ppt to +0.8% yoy, due to "weaker contribution from domestic demand over the next few quarters". The ECB went on to elaborate that it was not pre – committing to a particular rate path and that future maneuvers would be data – dependent.

Looking East, China's Shanghai Composite Index surged +17.39% mom as the government launched its most aggressive stimulus since the Covid pandemic in a bid to revitalize its economy. To that end, the People's Bank of China cut the 7 – day reverse repo rate by 20 bps to 1.5%, the 1 – year Medium Lending Facility by 30 bps and the Reserve Requirement Ratio (RRR) by 50 bps. The government also attempted to bolster the country's flagging property market by lowering mortgage rates for existing loans and a reduction of second homes' downpayment ratio to 15%. Apart from the monetary easing measures and real estate market support, the government had also outlined its plan to aid liquidity in financial markets through loan prime and deposit rates as well as a CNY500b swap programme to allow brokers and funds access to central bank liquidity, thereby helping to shore up its equity market. China's Caixin PMI Manufacturing showed a contractionary September reading of 49.3 which was worse compared to its prior month's expansionary reading of 50.4 and was below consensus expectations.

In Japan, the Bank of Japan (BoJ) opted to keep interest rates steady in September 2024 and its governor signaled that it was in no rush to raise borrow costs further. This was after the heightened uncertainties stemming from the unwinding of the yen carry trade sparked by the BoJ's surprise rate hike at the end of July 2024.

During the month under review, Brent oil price fell 8.9% mom to USD 71.77/ bbl due to increasing oil supply from the US, potential easing of Libyan oil supply disruptions and weakening oil demand from China. In addition, it was reported that Saudi Arabia was preparing to abandon its unofficial USD100/ bbl oil price target, as it postured towards gradually unwinding some oil production cuts in December 2024, in alignment with the broader OPEC+. Oppositely, palm oil price edged up +1.2% mom to RM4124/ MT due to a modest rise in soybean and corn prices, coupled with some dry weather in Brazil.

While developed markets enjoyed equity rallies, the ASEAN markets had mixed performances. The Stock Exchange of Thailand posted an impressive +6.60% mom jump as investors hurried to invest in equities ahead of the launch of the THB150b (approx. RM19b) Vayupak Fund which would begin investing in October 2024, thereby providing support for the Thai equity market. Foreign investors were also net buyers of Thai equities with a net inflow of approx. USD0.9b in September 2024. Singapore's Straits Times Index also shot up +4.13% mom on the back of the aforementioned Fed rate cut and supportive actions of the Chinese government. It reported mixed economic signals such as its August 2024 Non – Oil Domestic Exports (NODX), +10.7% yoy but -4.7% mom, which was below consensus expectations whereas its industrial production grew by +21.0% yoy and +6.7% mom, which was ahead of consensus expectations. However, Malaysia's FBMKLCI declined 1.78% mom despite foreigners still being net equity buyers to the tune of RM0.5b, albeit -80.0% mom. However, with Bank Negara Malaysia (BNM) keeping its Overnight Policy Rate (OPR) pat at 3.00% against the Fed rate cut, the Ringgit strengthened to RM4.1235: USD1.00 from RM4.3205: USD1.00 in August 2024. From an economic standpoint, Malaysia enjoyed July 2024 manufacturing sales value and industrial production growths of +9.1% yoy and +5.3% yoy respectively, which were better than the previous month's readings. Lastly, Indonesia's Jakarta Composite Index eased 1.86% mom despite strong foreign net buying to the tune of IDR2.3tr. Its central bank, Bank Indonesia (BI), unexpectedly cut its interest rates by 25 bps to 6.00% just before the start of the FOMC's easing cycle, to encourage economic growth. The move was, however, consistent with BI's expectation that inflation would remain low in 2024 and 2025.

The US Treasuries (UST) yields lowered across the tenors by 8 – 23 bps mom as job growth continued to fall short of expectations, prompting the Fed to deliver the abovementioned 50 bps cut to avoid further softening of the labour market. The August nonfarm payroll rose by +142k mom, which was lower than expectations of +165k mom. In addition, payroll of the previous 2 months i.e. July and June, were revised downwards to +89k mom (from +114k mom) and +118k mom (from +179k mom) respectively. With the 50 bps cut, the federal funds rate now ranges from 4.75% to 5.00% (previously 5.25% to 5.50%). As of end – September 2024, the market – implied total rate cuts by December 2024 stood at 70 bps (end – August 2024: 100 bps).

Similarly, Malaysian Government Securities (MGS) yields also reduced across the tenors by 1 – 5 bps, with the MGS 10yr yield decreased the most by 5 bps to 3.71% amidst unchanged OPR and lower – than – expected Consumer Price Index (CPI). On 5th September, BNM maintained the OPR at 3.00% as widely anticipated and stated that the current OPR level is supportive of the economy and consistent with its inflation assessment and growth prospects. Meanwhile, August CPI was marginally weaker than estimated at +1.9% yoy (Survey: +2.0% yoy, July: +2.0% yoy) as the moderation of prices in most services components (including health, furnishings, household equipment and maintenance, recreation, education and restaurants and accommodation) offset the price increase in alcoholic beverages and tobacco as well as transportation.

Market Outlook

Now that global inflation appears to have been brought under control and the much – anticipated interest rate normalization in the US has begun, we believe that investors would shift attention to several other key exogenous uncertainties such as the US Presidential election in November 2024, interest rate uncertainties before the year's end, the escalating tensions in the Middle East and the efficacy of the Chinese stimulus package. From a domestic perspective, investors would likely be keen on the Budget 2025 in October 2025, the potential rollout of the Johor – Singapore Special Economic Zone (JSSEZ) and the implementation of policies such as fuel subsidy rationalization.

Against that backdrop, we remain unswervingly committed to investing in fundamentally good investments over long – term investment horizons. Moreover, we might also participate in some trading activities to capitalize on any prevalent 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.

Bond market volatility in the fixed income market will persist. While the FOMC's policy direction points towards rates trending lower, there remains a level of uncertainty around the extent of future rate changes as it would be subjected to incoming data and whether the US economy deteriorates more than expected. Aside, US election uncertainty will come into greater focus in the following months. Despite slower growth experienced by major economies, Malaysia's latest indicators points towards sustained strength in economic activity. The outlook to inflation would depend on the implementation of further domestic policy measures on subsidies and price controls, as well as global commodity prices. Market expectation is for BNM to stand pat on the OPR for 2024. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.