Market Review and Outlook

October 2024

Market Review

The global equity markets reversed its uptrend in October 2024 with the MSCI World Index falling -2.04% mom as rising US Treasury yields drove up borrowing costs and made equities less attractive. Geopolitical tensions in the Middle East further unsettled investors, contributing to higher oil prices and market instability. In the US, the Dow Jones Index fell 1.34% mom as pre-election uncertainty in the US heightened investor caution and added to overall market volatility. Technology sector earnings, especially from major players like Microsoft and Meta, fell short of expectations, sparking concerns over future growth and increased spending pressures.

The European Stoxx 50 Index also declined by 3.46% mom as weaker-than-expected corporate earnings, especially in the technology and luxury sectors, combined with rising U.S. Treasury yields, prompted a shift away from equities. The European Central Bank also noted signs of slowing economic momentum in Europe, particularly in the manufacturing sector, and responded with the third 25 bps rate cut of the year, lowering the deposit facility rate to 3.25%. This economic uncertainty, coupled with geopolitical tensions in the Middle East, added to investor caution and drove broad declines across European markets.

China's Shanghai Composite Index fell 1.70% mom amid profit-taking and investor disappointment over China's economic stimulus measures, despite intensified efforts from the People's Bank of China. The central bank lowered key lending rates, including a 25 bps cut to the one-year loan prime rate to 3.1% and the five-year rate to 3.6%, aimed at easing financial strains in critical sectors like property and consumer spending. On the flip side, China's Caixin Purchasing Managers' Index (PMI) showed an improvement in October's reading which came in at 50.3 compared to its prior month's contractionary reading of 49.3.

During the month under review, Brent oil price inched up 1.7% mom to USD 73.16/bbl due to escalating geopolitical tensions in the Middle East, which raised fears of potential disruptions to oil supplies. Additionally, OPEC+ maintained reduced output levels by delaying planned production increases. On the other hand, crude palm oil price rallied hard by +16.4% mom to RM4800/MT, due to increased demand from major importers like India and China, who sought to secure supplies ahead of anticipated price hikes. Additionally, adverse weather conditions limited production, and policy changes in Malaysia and Indonesia raised export duties, prompting buyers to expedite purchases, thus further driving up prices.

Back in the region, the ASEAN markets had mixed performances. The Stock Exchange of Thailand posted a +1.19% mom increase as the Bank of Thailand's Monetary Policy Committee reduced the key policy rate by 25 bps, lowering it to 2.25%. This move was aimed to stimulate economic growth. On the other hand, Singapore's Straits Times Index slipped 0.74% mom, in-line with global equity weakness and rising U.S treasury yields which led to negative investor sentiment. Its September 2024 Non – Oil Domestic Exports (NODX) reported a +1.1% growth mom which was below consensus' expectations of +4.9%, whereas its industrial production came in flat mom, as compared to a +6.7% mom increased the previous month. Malaysia's FBMKLCI declined by 2.85% mom as foreigners were net equity sellers to the tune of RM1.77bn in the month of October. The index's performance was also impacted by a widespread global equity sell-off, as investor sentiment dampened amid uncertainties in international markets. Lastly, Indonesia's Jakarta Composite Index eased -0.61% mom, in-line with most regional peers.

The US Treasuries (UST) yields were up across all tenors for the first time since April 2024 by 36 – 60 bps mom as robust US economic data raised uncertainty on further interest rate cuts by the Fed. In addition to that, expectations of wider deficits and the prospects of larger government bond supply next year exerted upward pressure on longer tenure yields. US job growth for September exceeded expectations as it surged to 254k (Survey: 150k, August revised: 159k) while unemployment rate unexpectedly dropped to 4.1% (Survey: 4.2%, August: 4.2%). Majority of economists then scrapped forecasts for a second 50bps rate cut on November 7 and forecasted a 25 bps cut instead. With that, as of end – October 2024, the market – implied total rate cuts by December 2024 declined to 44 bps from 70 bps as of end – September 2024.

Similarly, Malaysian Government Securities (MGS) yields increased as well but at a smaller quantum of 5 – 21 bps mom. On 6th November, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% as widely anticipated in Monetary Policy Committee's (MPC) final meeting for the year as growth and inflation remain within official forecasts for the year. There was no change in BNM stance and they continue to state that the current OPR level is supportive of the economy and consistent with its inflation assessment and growth prospects. Meanwhile, Malaysia's advanced estimates of 3Q24 GDP growth was stronger than expected at 5.3% yoy (Survey: 5.1% yoy, 2Q: 5.9% yoy) on gains in the services, manufacturing and construction sectors. On the other hand, September's CPI turned out lower than expected at 1.8% yoy (Survey: 1.9% yoy, August: 1.8% yoy) as key food items and utilities price remained steady while transport cost eased.

Foreign funds turned net seller in October with net outflows of RM11.4bn (September: +RM1.0bn), likely due to profit-takings and defensive positioning ahead of the November US election. Foreign share of both MGS and MGS+MGII lowered to 33.2% (September: 34.8%) and 21.7% (September: 22.6%) respectively. Malaysia's foreign reserves shrunk by USD2.1bn to USD117.6bn as of end – October 2024 (September: USD119.7bn).

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 impact from potential new policies from the new US President, further interest rate cuts 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 potential rollout of the Johor – Singapore Special Economic Zone (JSSEZ) and the implementation details of policies such as the fuel subsidy rationalisation.

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. From now till Trump's inauguration in Jan 25, there could be more volatility and uncertainty to come from the actual policies to be instituted. Although the FOMC decision for a 25 bps cut is widely expected in November, the future of Fed rate cuts however could be less certain with the market implied terminal rate looking slightly higher. Locally on the economy, BNM said the latest indicators point towards sustained strength in economic activity, driven by resilient domestic expenditure and better export performance. Its inflation outlook remains subject to the details of the implementation of announced domestic policy measures. Market expectation is for BNM to stand pat on the OPR for 2025. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.