Allianz

Market Review and Outlook

November 2023

Market Review

November was a stellar asset market performance month, with both stocks and bonds rallying very strongly. The MSCI World Index surged +9.21% mom as investors piled into rate cut bets. All 3 major US stock indexes ended the month at least +8% mom higher. The Dow Jones Index rose +8.77% mom. The disinflation narrative, coupled with a softening labour market and peak Federal Reserve (Fed) hawkishness, were the main drivers of the rally. The Fed kept rates unchanged at 5.25% to 5.50% as expected. Amongst the robust data releases included the October 2023 Retail ex – auto sector growth of +0.1% mom which outpaced consensus' expectations of a 0.2% mom decline. Inflation in the form of the Consumer Price Index (CPI) grew at a slower pace of +3.2% yoy in October, as compared to +3.7% yoy in the previous month, whilst consensus was looking forward to a moderation of +3.3% yoy. The European Stoxx 50 gained +7.91% mom despite sluggish economic data as the Eurozone Composite Purchasing Managers Index (PMI) still registered a contractionary reading at 46.5 in October, as compared to 47.2 a month ago while September Producer Price Index (PPI) Eurozone Industry Ex Construction was down 12.5% yoy, as compared to a drop of 11.5% yoy a month ago. However, October Eurozone CPI Core improved to +4.2% yoy, which was lower than the +4.5% yoy in the previous month. In China, the Shanghai Composite Index rose slightly by +0.36% mom as its retail sales in October rose +7.6% yoy, as compared to +5.5% yoy in the previous month. Its Industrial Production in October also grew +4.6% yoy, up from +4.5% yoy a month ago, while its Caixin China PMI Composite fell to 50.0 in October, as compared to 50.9 in the previous month.

The month under review saw Brent oil price ease 5.2% mom to USD82.83/barrel despite 7 OPEC+ countries announcing plans for additional voluntary production cuts in 1Q24. The quantum of the cuts, which could lower crude supplies by 700,000 barrels per day in 1H24, was below market expectations. However, crude palm oil (CPO) price rose +5.3% mom on rising shipments from Malaysia and a recent rally in soybean oil price. Exports from Malaysia climbed +10.5% mom in November.

On the ASEAN front, the Stock Exchange of Thailand fell 0.12% mom as its 3Q23 GDP of +1.5% yoy was lower than 2Q23 GDP of +1.8% yoy and below consensus expectations of +2.2% yoy. Its October S&P Global Thailand PMI Manufacturing was lower at 47.5, as compared to 47.8 a month ago. Singapore's Straits Times Index increased +0.17% mom as its October 2023 Non – Oil Domestic Exports (NODX) showed an improvement, contracting 3.4% yoy, as compared to a drop of 13.2% yoy in the previous month. Its Industrial Production in October also grew +7.4% yoy, as compared to a decline of 1.1% yoy a month ago. In Indonesia, the Jakarta Composite Index surged +4.87% mom despite its 3Q23 GDP growing at +4.94% yoy, as compared to growth of +5.17% yoy in 2Q23. Its October S&P Global Indonesia PMI Manufacturing was also lower at 51.5, as compared to 52.3 a month ago. During the month under review, Bank Indonesia elected to keep its 7 Day Reverse Repo Rate at 6.00%. Lastly, Malaysia's FBMKLCI rose +0.74% mom, building on the +1.26% mom gain in October. Foreign investors returned to being net buyers in November, with net buy flows of RM1.6bn, as compared to net sell flows of RM2.2bn in October. This brings the Year-To-Date net foreign equity outflow down to RM2.6bn. During the month, the government announced plans to cut fuel subsidies by 2H24.

Following the Fed meeting in November, the upward movement in US Treasury (UST) yields has reversed. UST rallied across the curve for the first time since March as yields declined by 49 – 60bps mom. The weaker – than – expected October non – farm payroll data (Actual: 150k, Survey: 180k, September revised to 297k) and slowing October inflation (Actual: 3.2% yoy, Survey: 3.3% yoy, September: 3.7% yoy) strengthened the market's view that the Fed was done with its interest rate hiking cycle and will pivot towards an easing stance in 2024. Compared to last month, market expectations of another 25bps hike faded, the expected quantum of rate cuts next year increased to more than 100bps and is expected to start in May 2024.

Malaysian Government Securities (MGS) rallied across the curve as yields declined by 19 – 29bps mom. The 3yr Government Investment Issues (GII) government bond auction during the early part of the month saw a weak bid-to-cover ratio (BTC) of only 1.5x. On the other hand, the 7yr GII auction towards the end of November saw a whopping BTC of 3.3x which is almost the highest BTC YTD being the last Islamic auction for the year. On 5th December, Fitch Ratings maintained Malaysia sovereign rating at 'BBB+' with a stable outlook.

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Investors have seemed to ignore the geopolitical risks emanating from the Middle East which serve to further intensify ongoing concerns regarding the Ukraine – Russia conflict and focus instead on the increasing conviction that the 18-month rate hike cycle could be in the rearview mirror. However, upcoming economic data, such as the US Jobs report and US CPI, could influence the next FOMC rate decision in mid-December. Thus, it is conceivable that global markets would remain volatile in the near – medium term. Domestically, investors would be keeping watch on the implementation of our government's policy plans to drive growth and on the subsidy rationalizations that should take place over 2024.

For the equity asset class, our investment approach continues to be focused on fundamentally sound investments over long term horizons. In the near term, we believe that the implementation of government policies will have material impact in selected domestic sectors and we will be putting more emphasis on these 'thematic' sectors. Finally, we may also at times, engage in a modicum of trading activities to capitalise on any prevailing market volatility.

Bond market volatility in the fixed income market will persist. Expectations of a higher – for – longer interest rate environment in the US and increased concerns over the escalation of geopolitical tensions have contributed to the persistently strong US dollar. However, the Ringgit has displayed signs of improvement against the US dollar in November driven by prospects of a potential conclusion to the US rate tightening cycle. The MPC statement on 2nd November highlighted that the current monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects, suggesting that the Overnight Policy Rate (OPR) would remain unchanged. Going into 2024, the MPC mentioned that inflation is expected to remain modest but it is also the Government's intention to review price controls and subsidies in 2024, which will affect the outlook for inflation and demand conditions. We will continue accumulating bonds at favourable valuations while prioritising good quality names.