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Market Review and Outlook

March 2024

Market Review

The global equity markets extended their upward momentum, with the MSCI World Index increasing by +3.01% mom, driven by anticipations of interest rate reductions. The Dow Jones Index in the US also advanced, gaining +2.08% mom, supported by robust economic indicators. Despite a slight decline from 52.5 in February to 51.9 in March, the S&P Global US Manufacturing PMI remained in expansionary territory. In February, US advanced retail sales rebounded with a +0.6% increase mom, marking a turnaround from January's decline of -0.8%. Over in Europe, the Stoxx50 Index advanced +4.22% mom. In March, the Hamburg Commercial Bank Eurozone Composite PMI rose to 50.3 from February's 49.9, marking a shift into expansionary territory. Meanwhile, China's Shanghai Composite Index remained relatively stable with a slight decrease of -0.15% mom. National Bureau of Statistics of China Manufacturing PMI stood at 50.8 in March compared to 49.1 in the preceding month, indicating growth, while Caixin's China Manufacturing PMI registered 51.1 in March compared to 50.9 in the previous month, signaling a positive trend.

During the month under review, commodities demonstrated favorable performances. Brent crude oil maintained its strength, climbing by +4.62% mom to reach USD87.48/bbl in March, largely attributed to ongoing supply cuts by OPEC+ and the resilient global economy. Additionally, the price of crude palm oil surged by +7.45% mom to RM4325/MT, driven by a deficit in supply growth.

Back at home, FBMKLCI slipped -0.99% mom. Foreign investors turned net sellers of Malaysian equities with outflows of RM2.88bn in the month, bringing year – to – date equity outflows to RM875m. The S&P Global Malaysia Manufacturing PMI for March dipped to 48.4 from February's 49.5, indicating a slight contraction in manufacturing activity for the month. On the other hand, Singapore's Straits Times Index inched up +2.62% mom. Singapore's February economic indicators exhibited robust economic performance, as indicated by the S&P Global Singapore PMI rising to 56.8 from January's 54.7. Moreover, Singapore's retail sales surged yoy by +8.4% in February, a substantial improvement compared to January's +1.3%. However, the Non – oil Domestic Exports, seasonally adjusted mom, experienced a downturn of -4.8% in February, contrasting with January's growth of +2.3%.

Turning to Indonesia, the Jakarta Composite Index came in flat at -0.37% mom. In March, Indonesia's CPI showed a slight increase in yoy inflation, reaching +3.05% compared to February's +2.75%. Additionally, the S&P Global Indonesia Manufacturing PMI strengthened further in March, rising to 54.2 from February's 52.7, signaling continued expansion in the manufacturing sector. Meanwhile, The Stock of Exchange of Thailand ended the month on a slight positive note, +0.53% mom. In March, Thailand's manufacturing sector showed signs of stabilization, albeit still contracting, with the S&P Global Thailand Manufacturing PMI rising to 49.1 from February's 45.3. Similarly, the business sentiment index improved slightly to 49.6 in March compared to 48.8 in February. Additionally, the yoy Consumer Price Index experienced a smaller decline, reaching -0.47% in March, compared to -0.77% in February.

The US Treasuries (UST) yield curve declined across the 5 – 30yr tenors by 1 – 6bps while the 3yr tenor remained unchanged at 4.41% as the Federal Reserve (Fed) maintained its projection of three 25bps rate cuts for 2024 despite the sticky inflation data. US February non – farm payrolls (NFP) rose to 275k (Survey: 200k, January revised: 229k), which was primarily contributed by health care, government as well as leisure and hospitality sectors. However, wage growth moderated to +0.1% mom (Survey: +0.2% mom, January revised: +0.5% mom). US February CPI was up +0.4% mom (Survey: +0.4% mom, January: +0.3% mom) and +3.2% yoy (Survey: +3.1% yoy, January: +3.1% mom). In the March Federal Open Market Committee (FOMC) meeting, the Fed maintained interest rates at 5.25% – 5.50% as widely expected. The Fed acknowledged that the process of disinflation would be rocky and reiterated that more evidence of the inflation descending to its 2% target would be required before cutting rates. The market – implied total rate cuts for 2024 as of end – March 2024 then fell to 67bps from 85bps as of end – February 2024.

The Malaysian Government Securities (MGS) yield curve movements were mixed with yield movements between -2bps to +1bp mom. In the March monetary policy committee (MPC) meeting, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.0%. BNM stated that the current OPR level was still supportive of the economy and in – line with its inflation assessment and growth prospects in its latest monetary policy statement. The February CPI rose to +1.8% yoy (Survey: +1.5% yoy, January: +1.5% yoy), mainly contributed by upward adjustments of water supply, transport and recreational services prices.

Foreign funds turned net buyers in March with net inflows of RM1.7bn (February: -RM1.2bn). Foreign share of both MGS and MGS+MGII declined marginally to 33.2% (February: 33.3%) and 21.7% (February: 21.8%) respectively. Malaysia's foreign reserves contracted by USD0.5bn to USD113.8bn as of end – March 2024 (February: USD114.3bn).

Market Outlook

As the global interest rate tightening cycle appears to exhibit bourgeoning signs of peaking, we anticipate a shift in Malaysia's investment focus towards domestic demand and the steady implementation of government policies. This expectation is bolstered by the government's execution of Budget 2024, incorporating measured fiscal stimuli, domestic subsidy reforms, and strategic initiatives like the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

When it comes to equities, our approach and focus continue to favor fundamentally robust investments, aligning with a suitable long-term investment horizon. However, we remain open to opportunistic trading activities to leverage potential market volatility. Nevertheless, given the prevailing geopolitical uncertainties and the possibility of global growth moderation, we acknowledge the necessity of adapting to new strategies as dictated by evolving market dynamics.

Bond market volatility in the fixed income market will persist but to a lesser extent for 2024. There are expectations of positive support for bonds over the Fed signaling that it has potentially reached the end of its tightening cycle. However, a still firm job market, sticky inflation data and a resilient US economy suggest that the Fed could push back the timing of its first rate cut. Locally, with the benign inflation in 1Q2024, the market expectation is for BNM to stand pat on the OPR. The March MPC statement highlighted that 2024 inflation is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, risks to the inflation outlook will remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We will continue accumulating bonds at favorable valuations while prioritizing good quality names.