

# Market Review and Outlook

February 2024

## Market Review

Global equity markets continued its rally with the MSCI World Index rising +4.11% mom on the back of expectations of an economic 'soft landing'. US' Dow Jones Index climbed further (+2.22% mom) as economic data remained resilient, with the American economy adding 353k nonfarm jobs in January and S&P Global US Manufacturing Purchasing Managers' Index (PMI) having recorded 52.2 in February, up from 50.7 in January. Over in Europe, the Stoxx50 Index advanced +4.93% mom. The Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers' Index (PMI) jumped to 49.2 in February from January's 47.9, suggesting further signs of recovery. Meanwhile, Eurozone unemployment rate came in at 6.4%, down from 6.5% in December 2023. Onto the Chinese equity markets, post a weak start into 2024, the Shanghai Composite Index regained some ground (+8.13% mom). This was also on the back of measures such as cut in five-year loan prime rate (LPR; benchmark for mortgages), state-led buying into onshore shares and more curbs on short-selling.

Commodities experienced some positive price momentum for the month under review. Brent oil remained buoyant having posted +2.40% mom gains into February, driven partly by Red Sea shipping crisis. Meanwhile, crude palm oil (CPO) price was up by +5.50% mom to RM4025/ MT, spurred by the expectations of poor output owing to a production drop caused by seasonal factors and erratic weather.

On the home front, FBMKLCI was a gainer at +2.54% mom (+6.70% year-to-date 2M24). Foreign investors maintained their position as net buyers of Malaysian equities with inflows of MYR1.30billion in the month. Consequently, we note the uptick in foreign shareholding to 19.9% (+0.30% mom) in February 2024. The positive market sentiment was partly attributable to new King's emphasis on political stability of the country. Elsewhere, YTL Corp and YTL Power International was included in MSCI Malaysia Index (effective 29 Feb close) while Dialog was removed. On the other hand, Singapore's Straits Times Index pulled back slightly at -0.35% mom. In terms of subsectors returns, telecommunications, financials and consumer staples outperformed while IT, consumer discretionary and real estate lagged. On 16 February, the Singapore government unveiled its 2024 budget with key focus in the near-term being mitigation of impact on households' cost of livings by cash transfers and grants while medium and long term investments revolve around innovation, productivity growth and upskilling. Turning to Indonesia, the Jakarta Composite Index rebounded +1.50% mom, partly reacting positively to the 14th February election. The Indonesia economy continued to chug along with its February 2024 S&P Global Indonesia Manufacturing PMI having posted an expansionary reading of 52.7 (-0.2 mom).

Meanwhile, The Stock of Exchange of Thailand ended the month higher, +0.45% mom. By sector, consumer staples, industrials and energy were among the outperformers. On the other hand, IT, telecommunications and utilities lagged. Thailand 4Q23 GDP came in behind market's expectations at 1.70% yoy, largely on public spending slump. This brings full year growth to +1.90% yoy (+2.60% yoy in 2022). Its latest S&P Global Thailand Manufacturing PMI print as well remains weak, having registered a contractionary reading of 45.3 in February, versus 46.7 the month prior.

The US Treasuries (UST) yield curve flattened as the 1 – 10yrs yields were up by 21 – 30bps while the 20 – 30yrs yields were up by 13 – 15bps. Yields rose in February to reach a year-to-date high when the higher-than-expected nonfarm payroll additions and inflation data caused a selloff and dented the outlook for the Fed's interest rate cuts. US January CPI rose 0.30% mom and 3.10% yoy (survey: 0.20% mom and 2.90% yoy), which stalled recent disinflation progress. Expectations for Fed rate cuts tumbled as the market – implied total rate cuts for 2024 as of the end of February 2024 fell to 85bps from 133bps as of the end of January 2024. Meanwhile, market's expectations of Fed's first-rate cut has been pushed out to July as of end February 2024, compared to May as of end January 2024.

Compared to the UST, the Malaysian Government Securities (MGS) were rather resilient as the 3yrs yield was up 15bps, the 5 – 20yrs yields were up 3 – 8bps, while the 30yrs yield was down 2bps. The 10yrs MGS closed the month 7bps higher mom at 3.86%. Malaysia's 2023 4Q GDP slowed to 3.00% yoy (2023 3Q GDP: 3.30% yoy), bringing full – year 2023 GDP growth to 3.70% (2022: 8.70%) as exports remained subdued during the quarter on prolonged weakness in external demand. January 2024 CPI remained at 1.50% yoy (Dec: 1.50% yoy, survey: 1.60% yoy), driven by slower increases in various sectors, including food and beverages.

## Market Outlook

As global interest rate tightening cycle nears its end, we anticipate that Malaysia's investors would shift their focus towards the nation's resilient domestic demand and gradual implementation of policies. That notion is underpinned by the rollout of the government's Budget 2024 plans which includes a modicum of pump priming, the successful enactment of domestic subsidy reforms, and the execution of strategic initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

For equities, we maintain our unwavering predilection for fundamentally sound investments over a suitably long-term investment horizon. That said, we may opportunistically engage in trading activities to further capitalize on any prevailing market volatility. Nonetheless, given the pervasive geopolitical risks as well as potentially easing global growth, we are cognizant of the need to adapt to new strategies as and when required to attune to new market conditions.

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 signalling 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 Overnight Policy Rate. The January MPC statement highlighted that 2024 inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. 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 favourable valuations while prioritising good quality names.

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