Market Review and Outlook

April 2024

Market Review

April was a tough month for both equity and fixed income markets. A combination of hot US inflation data and a first quarter US GDP print that while weak on first – glance, showed resilient private demand, fuelled market fears that central banks would not ease monetary policy as quickly as previously hoped. Global equity markets gave back some of its recent gains, with the MSCI World Index falling by 3.85% mom, while the Dow Jones Index in the US declined 5.00% mom. The S&P Global US Manufacturing PMI fell from 51.9 in March to 50.0 in April. However, US advanced retail sales continued its upward momentum, with a +0.7% increase mom in March, as compared to a +0.6% increase in the previous month.

Over in Europe, the Stoxx50 Index declined 3.19% mom. In April, the Hamburg Commercial Bank Eurozone Composite PMI rose to 51.7 from March's 51.4. Its March retail sales also improved to +0.7% yoy, as compared to a decline of 0.5% yoy in the previous month. Meanwhile, China's Shanghai Composite Index rose +2.07% mom. Its Manufacturing PMI slowed to 50.4 in April as compared to 50.8 in in the preceding month, while Caixin's China Manufacturing PMI increased to 51.4 in March as compared to 51.1 in the previous month, signaling a positive trend.

Brent crude oil maintained its strength, rising by +0.43% mom to USD87.86/bbl in April, against a backdrop of easing tensions between Israel and Iran and anticipated delays in US rate cuts. Additionally, the price of crude palm oil fell by 10.71% mom to RM3862/MT, tapering off in tandem with market expectations of rising supply with the peak harvesting season just around the corner.

Back at home, FBMKLCI rose +2.60% mom to 1575.97 points. Foreign investors remained net sellers, with net sell flows of RM1.4bn in April, increasing cumulative net sell flows to RM2.2bn for the first 4 months of 2024. The S&P Global Malaysia Manufacturing PMI for April improved to 49.0 from March's 48.4, but Industrial Production fell to +3.1% yoy in February, as compared to +4.3% yoy in the previous month. On the other hand, Singapore's Straits Times Index increased +2.13% mom, despite the S&P Global Singapore PMI falling to 52.6 in April as compared to 55.7 in the previous month. Retail sales also slowed to +2.7% yoy in March, a substantial drop compared to +8.4% yoy in February. Its Non – oil Domestic Exports, seasonally adjusted mom, also showed a bigger decline of -8.4% in March, as compared to a drop of -4.8% in February. Turning to Indonesia, the Jakarta Composite Index fell -0.75% mom. In April, Indonesia's CPI showed a slight decrease in yoy inflation, dropping to +3.00% as compared to +3.05% in March. Additionally, the S&P Global Indonesia Manufacturing PMI weakened in April, falling to 52.9 from 54.2 in March. Meanwhile, The Stock of Exchange of Thailand ended the month lower at 1367.95, -0.72% mom. In April, S&P Global Thailand Manufacturing PMI fell to 48.6, as compared to 49.1 a month ago. Similarly, its business sentiment index deteriorated to 47.3 in April, as compared to 49.6 in March. Conversely, its yoy Consumer Price Index experienced an increased, +0.19% in April, compared to -0.47% in March.

US Treasuries (UST) saw a selloff in April as yields increased by 42 – 50bps mom across the curve, bringing yields to YTD highs during the month. Economic data released during the month put upward pressure on yields and dampened the case for rate cuts this year. US March non – farm payrolls (NFP) rose 303k (Survey: 214k, February revised: 270k), led by stronger hiring in the healthcare, government, leisure/hospitality and construction sectors. US March CPI went up 0.4% mom (Survey: 0.3% mom, February: 0.4% mom). US March ISM manufacturing index expanded for the first time since 2022 to 50.3 (Survey: 48.3, February: 47.8) after 16 straight months of contraction, reflecting stronger production and orders while input costs accelerated. The market – implied total rate cuts for 2024 as of end – April 2024 then fell to 28bps from 67bps as of end – March 2024. In the April/May Federal Open Market Committee (FOMC) meeting, Fed kept rates unchanged for the sixth time. Chairman Powell said it would take longer than expected to become confident about returning inflation to the Fed's 2% goal, ruling out a rate cut in the near term.

Similar to the UST, the Malaysian Government Securities (MGS) yields increased 12 – 20bps mom across the curve. Foreign funds raised Ringgit bond holdings by RM0.6bn in April (March: +RM1.7bn). Foreign share of both MGS and MGS+MGII declined to 32.8% (March: 33.2%) and 21.4% (March: 21.7%) respectively. Malaysia's foreign reserves contracted by USD1.0bn to USD112.8bn as of end – April 2024 (March: USD113.8bn).

Market Outlook

Although the Federal Reserve held rates steady, the path toward rate cuts remains uncertain. Locally, Malaysia's investors would shift their focus towards the nation's resilient domestic demand and gradual implementation of policies as well as the upcoming economic data and results season.

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 for 2024. Although there are expectations of positive support for bonds over the Fed signaling that it has potentially reached the end of its tightening cycle, the policy rate may stay high for longer. The still firm job market, sticky inflation data, a resilient US economy, suggest that the Fed could push back the timing of its first rate cut. Locally, with the benign inflation, the market expectation is for BNM to stand pat on the OPR. The 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.