Allianz

Market Review and Outlook

December 2023

Market Review

In December, both stocks and bonds ended the year higher compared to the previous month. The MSCI World Index was up +4.81% mom as the market expect Fed rate cuts to happen in 2024. The Dow Jones Index rose +4.84% mom, while the S&P500 and Nasdaq Composite Index rose 4.42% and 5.52% respectively. The FOMC left the Fed Fund Target rate unchanged at 5.25% – 5.50% in December, a unanimous decision that was widely expected after eleven earlier hikes totaling 525bps between March 2022 and July 2023. The US Consumer Price Index (CPI) grew at a slightly slower pace of +3.1% yoy in November, as compared to +3.2% yoy in the previous month. Unemployment rate came in at 3.7%, which was better than consensus' expectations of 3.9%. It was also lower than the previous months' rate of 3.9%. The European Stoxx 50 gained +3.17% mom as Eurozone Core CPI improved to +3.6% yoy, which was lower than consensus' estimate of 3.9% and lower than the +4.2% yoy in the previous month. The Eurozone Composite Purchasing Managers Index (PMI) still registered a contractionary reading at 47.6 in November, albeit an improvement as compared to 46.5 a month ago. October Producer Price Index (PPI) Eurozone also showed an improvement, declining 9.4% yoy, as compared to a drop of 12.4% yoy a month ago. On the contrary, the Shanghai Composite Index fell by 1.81% mom as its November China Composite PMI came in at 50.4, as compared to 50.7 in the previous month. However, its Industrial Production in November grew +6.6% yoy, up from +4.6% yoy a month ago, while its Caixin China PMI Composite improved to 51.6 in November, as compared to 50.0 in the previous month.

The month under review saw Brent oil price ease by 7.0% mom to USD77.04/barrel despite OPEC+ countries agreeing to voluntary production cuts of 2.2m barrels per day in 1Q24. The concern stems from potential oversupply from record production outside of OPEC. Crude palm oil (CPO) price also fell 2.5% mom on lower exports and a decline in soybean oil price. The falling crude oil prices has also raised concerns that the demand for palm oil might decrease.

On the ASEAN front, the Stock Exchange of Thailand inched up +2.58% mom. Its November CPI came in at -0.44% yoy, lower than the -0.30% expected and -0.31% the prior month. Its November S&P Global Thailand PMI Manufacturing was also a tad higher at 47.6, as compared to 47.5 a month ago. Singapore's Straits Times Index increased +4.60% mom as its November 2023 Non – Oil Domestic Exports (NODX) showed an improvement, coming in at +1.0% yoy as opposed to a contraction of -3.4% yoy in the previous month. However, its Industrial Production in November grew at a slower pace of +1.0% yoy, as compared to a +7.4% growth yoy a month ago. In Indonesia, the Jakarta Composite Index went up +2.71% mom as its November S&P Global Indonesia PMI Manufacturing was higher at 51.7, as compared to 51.5 a month ago. During the month under review, Bank Indonesia kept its 7 Day Reverse Repo Rate at 6.00%. Lastly, Malaysia's FBMKLCI was flattish at +0.13% mom. Foreign investors continued to be net buyers in December, with net buy flows of RM256m, after an inflow of RM1.6bn in November. This brings the 2023 net foreign equity outflow down to RM2.3bn.

The US Treasuries (UST) rally continued to spill into December as the yield curve declined 42 – 46bps mom. The Fed officials projected a 75bps cut in 2024, with the dot plot target rate at 4.63% for 2024. The statement acknowledges that economic growth has slowed from 3Q23 and job gains and inflation have moderated but remain elevated.

Malaysian Government Securities (MGS) curve flattened as yields declined by 3 – 12bps mom from the belly to the tail – end of the curve, while the 3yr rose 3bps mom. Although liquidity was thin as the year ended, the remaining two auctions in December (5yr MGS and 10yr MGS) saw a healthy participation of 2.74x and 2.21x respectively. We also saw the release of the Auction Calendar 2024 with 37 auctions (comprising 18 MGS and 19 Government Investment Issues (GII) issuances) in 2024; similar to 2023. The gross MGS/GII supply in 2024 is estimated at RM178.0bn (2023: RM185.0bn).

Foreign funds net sold Ringgit bond holdings with net outflows of RM2.1b (November: +RM5.6b, 2023: +RM23.6b). Foreign share of both MGS and MGS + GII lowered to 34.4% (November: 35.0%) and 22.7% (November: 23.1%). Malaysia's foreign reserves increased by USD1.2b to USD113.5b as of end-December 2023 (November: USD112.3b).

Market Outlook

The tail end of the global monetary policy tightening is viewed as a favourable development. Domestically, Malaysia is poised for a better year ahead, supported by macro frameworks and strategic initiatives. Key market events and developments to look out for include: (1) delivery of domestic fiscal reforms, (2) expectations of a firmer MYR contributing to potential equity inflows, (3) expected inflows of foreign direct investment (FDI), and (4) dedicated efforts by the government to attain the objectives outlined in NETR and NIMP2030.

For equities, our primary focus remains on fundamentally sound investments with a long-term perspective. Our portfolio will be strategically aligned to capitalize on identified themes and opportunities. Nevertheless, we may occasionally engage in trading activities to capitalize on prevailing market volatility.

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 peak terminal rates as inflationary pressures ease and softer job market conditions emerge out of the US. Meanwhile, the Ringgit has displayed signs of improvement against the US dollar in December but could reverse if geopolitical tensions escalate or the Fed tone changes. Locally, going into 2024, the MPC mentioned that inflation is expected to remain modest but as the Government intends to review price controls and subsidies in 2024, it will affect the outlook for inflation and demand conditions. We will continue accumulating bonds at favourable valuations while prioritising good quality names.

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