Market Review and Outlook

January 2024

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

Global equity markets started 2024 on an encouraging note with the MSCI World Index continuing its uptrend by rising +1.14% mom on the back of expectations of an economic 'soft landing'. It suggested that the actions of central banks have been somewhat effective in avoiding an overheating of the global economy and burgeoning inflation, without the heightened risk of a severe recession. US' Dow Jones Index climbed +1.22% mom fueled by resilient economic data as the American economy saw an increase of 333k jobs added in December 2023 which was ahead of expectations whilst unemployment remained steady at 3.7%. In addition, its annualized 4Q23 GDP growth of +3.3% yoy was also better than consensus' estimates. However, some of the markets' optimism was tempered towards the month's end when the US Federal Reserve (Fed) held its benchmark lending rate at 5.25 – 5.50% and noted that while its policy rate was already at its peak for the current tightening cycle, the Federal Open Market Committee (FOMC) was unlikely to cut rates "until it has gained greater confidence that inflation is moving sustainably" toward 2%. To that end, the Fed Chair had also explicitly stated that a March 2024 rate cut was unlikely. Over in Europe, the Stoxx50 Index also rose by +2.81% mom as the European Central Bank (ECB) had also elected to keep its rate steady whilst reaffirming its data – dependent stance. From an economic standpoint, the Eurozone economy showed nascent signs of bottoming with the Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers' Index (PMI) holding steady at 47.6, unchanged from the prior month and its November 2023 unemployment rate improved to 6.4%, -0.1 ppt mom. On the other hand, the Shanghai Composite Index fell by 6.27% despite the December 2023 Caixin China PMI Composite Index improving to 52.6 from 51.6 in the previous month and its 4Q23 GDP growing by +5.2% yoy which was just slightly below consensus estimates. Its domestic economy was still labouring as shown by its December 2023 retail sales which grew below expectations on a yoy basis and its residential property sales YTD which contracted 6.0% yoy. Consequently, the People's Bank of China (PBOC) launched a stimulus package which involved the reduction of Reserve Requirement Ratio (RRR) for banks which would inject some 1 trillion yuan or approx. USD140b cash into its banking system to shore up its flagging economy.

Commodities enjoyed a degree of buoyancy during the month under review with the Brent oil price rebounding by +6.1% mom to USD81.71/ bbl, driven by stronger than expected economic growth in US and ongoing geopolitical tensions in the Red Sea and Ukraine – Russia. Meanwhile, crude palm oil (CPO) price was also driven up by +4.2% mom to RM3814/ MT, spurred by the expectations of poor output owing to a production drop caused by floods and seasonal factors.

Turning to the ASEAN region, the FBMKLCI was one of region's gainers during the month under review with a +4.01% mom upward surge. The Malaysian equity market was alive with activity which included the submission of the Request for Information (RFI) for the High – Speed Rail (HSR) project and the Memorandum of Understanding (MoU) on the long – awaited Johor – Singapore Special Economic Zone (SEZ). There were also initial steps undertaken to carry out long – awaited structural/ subsidy reforms such as the implementation of the PADU database to allow for future subsidy rationalization, the raising of water tariffs and KLIA Express & Transit having a new floating mechanism which would see the government cease paying

Passenger Service Charges (PSC) to Express Rail Link (ERL). In terms of economic data, Malaysia's 4Q23 Advanced GDP chalked a growth of +3.4% yoy, +0.1 ppt qoq, which came in slightly below consensus estimates. In addition, Bank Negara Malaysia (BNM) maintained its Overnight Policy Rate (OPR) whilst reiterating that its monetary policy stance which was supportive of the economy and conducive to sustainable economic growth amid price stability. January 2024 also saw net foreign equity inflows for Malaysia to the tune of RM678m which was better than its CY23 outflow of RM2339m. On the other hand, the Jakarta Composite Index weakened by 0.89% mom amidst market uncertainties caused by the impending general elections in mid – February 2024. Indonesia's economy showed some signs of improvement with its December 2023 S&P Global Indonesia PMI Manufacturing registering an expansionary reading of 52.2 which was better than the 51.7 reading in the previous month. Singapore's Straits Times Index fell by 2.69% mom spurred by concerns that an interest rate easing cycle in US could hamper its financial sector. Singapore's economic data during January 2024 was mixed with 4Q23 GDP growth coming in at +2.8% yoy, +1.7 ppt qoq which was also ahead of expectations but was at the same time dragged by a 1.5% yoy decline in December 2023 Non – Oil Domestic Exports (NODX). The Stock of Exchange of Thailand tumbled 3.63% mom as a Thai government spokesperson, on 23 January 2024, revealed information that the Thai GDP only grew by +1.8% yoy in 2023, which was lower than the +2.5 – 3.0% yoy previously estimated by the Bank of Thailand. Thai economic data was also lacklustre as evinced by its December 2023 S&P Global Thailand PMI Manufacturing which registered a contractionary reading of 45.1 which was worse than 47.6 in the previous month.

The US Treasuries (UST) yield curve movement steepened as the 2 – 7yrs tenors were down by 1 – 4bps, whereas the 10 – 30yrs tenors were up by 3 – 14bps. US CPI rose to 3.4% yoy in December 2023, mainly driven by higher shelter costs. The higher – than – expected December 2023 non – farm payroll data and wage growth reinforced the view that Fed would only cut rates when there is greater confidence that inflation is moving sustainably towards the 2% target. The market – implied total rate cuts for 2024 as of end – January 2024 fell to 146bps from 158bps as of end – December 2023.

Malaysian Government Securities (MGS) yields were mostly down by 1 – 13bps. Only the 7yr and 10yr tenors were up by 1bp and 5bps respectively with the 10yr MGS closing the month at 3.79%. Based on advance data, Malaysia's economy grew at a slower – than – expected pace of +3.4% yoy. The slowdown was largely caused by weaker manufacturing activity as external demand declined. Malaysia CPI in December 2023 remained stable at +1.5% yoy.

Market Outlook

As markets navigate the tail end of this global interest rate tightening cycle, we believe that Malaysia's investors would recalibrate their focus towards the nation's resilient domestic demand and gradual policy implementation. 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 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 in US but the timing of the first rate cut will also depend on easing inflation rate and softening job market conditions emerging out of the US, amongst other factors. Locally, the January Monetary Policy Committee (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.