

## Global Outlook

**In December 2024, global equity markets were mixed.** H-shares, Japan & Taiwan rose by 4.9%, 4.4% and 3.5%, respectively. Losers S&P500, Korea & Thailand at 2.5%, 2.3% and 1.9%, respectively. Bonds dropped by 1.0% to 2.1%.<sup>1</sup>

During the December FOMC meeting, **the Fed cut the Fed Fund rate to 4.75% from 5.00% and guided that there could only be two cuts in 2025.** The ECB cut its interest rate by 0.25% to 4.00% based on weak economic fundamentals and better-behaved inflation.<sup>2</sup>

Given their attractive investment themes, we are buyers of Asian equities. Corporations have the potential to post better earnings growth in 2025 than developed markets.<sup>3</sup>

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## Global Outlook of the two capital markets: Fixed Income & Equities

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Region: Developed economies

### Fixed income

- Our view: **Neutral.**
- The Fed cut the Fed Fund rate to 4.75% from 5.00% during the December FOMC meeting. The Fed also guided that there could only be two cuts in 2025.<sup>4</sup>
- Looking for the window to buy UST after the recent sell-off. Will take profit on secondary and switch into new credit issuances that offer wider spreads. We have a risk-on, carry-positive bias on the markets.<sup>5</sup>

### Equities

- Our view: **Positive.**
- The Fed cut the Fed Fund rate to 4.75% from 5.00% during the December FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.<sup>4</sup>
- Maintained the US & Japan at Overweight call. Maintained Underweight on the EU. The move on the EU is on the continued lack of economic growth & sluggish corporate earnings.

## Region: Regional (Asia-Pacific ex-Japan)

### Fixed income

- Our view: **Neutral**.
- Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.<sup>6</sup>
- We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.<sup>6</sup>

### Equities

- Our view: **Positive**.
- We remained positive on Asian equities underpinned by cheap valuation & China's continued execution of more friendly policies.<sup>7</sup>
- We are positioned in a) India in healthcare. b) selected technology names c) ASEAN, energy transmission and data centers.<sup>3</sup>

## Region: China

### Fixed income

- Our view: **Neutral**.
- Credit bonds saw redemption of RM179bn in September 2024, compared to a net supply of RM262bn previously. SoEs posted redemption of RM94bn, compared to a net supply of RM62bn previously. Property bonds recorded net redemption of RM4.9bn issuance vs. a RMB9bn net supply previously.<sup>8</sup>
- The default rate for Sept 2024 rose to 0.32% from 0.29% previously. The property sector default rate edged up to 2.47% from 2.42% over the same period.<sup>8</sup>

### Equities

- Our view: **Neutral**.
- China continued to announce more supply policies to support the economy post the September major policy pivot. Additional measures are aimed at spurring domestic demand.<sup>1</sup>
- Manufacturing PMI for Dec 2024 dropped marginally to 50.1 from 50.2 previously. The Services PMI increased to 52.2 from 50 over the same period.<sup>9</sup>

## Region: Domestic (Malaysia)

### Fixed income

- Our view: **Positive**.
- BNM maintained the OPR at 3.00% during the Dec 2024 MPC meeting. The move was well anticipated.<sup>10</sup>
- Recent corrections made sovereigns attractive again but remain cautious about short-term volatilities. Continue to take profit on overvalued credits but will remain OW on credits. <sup>3</sup>

### Equities

- Our view: **Positive**.
- The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.<sup>3</sup>
- Prefer big caps with strong fundamentals and solid cash flow. Favour Financials and Utilities as well as beneficiaries of NETR and SEZ.

## Investment Implication:<sup>3</sup>

**Global:** Slight Overweight US & Japan, Underweight Europe. The US economic dominance remains intact, supported by strong consumer spending and robust corporate balance sheets, in contrast to weakness in Europe and China. However, uncertainty around Trump administration policies on tariffs, immigration, tax cuts and deregulation may affect the US inflation and the fiscal deficit. Combined with labour market resilience, this could challenge the disinflation trajectory of inflation falling to the Fed's 2% target and delay interest rate cuts. Ongoing inflation pressures and a growing fiscal deficit will likely keep treasury yields elevated, posing risks to the US equities at expensive valuations. Within the US, attractive opportunities may arise in economically sensitive sectors, such as financials and small-mid-cap stocks. Europe faces economic challenges, and it's vulnerable to risks from increased trade tariffs and political/geopolitical tensions. The fundamental themes of reflation and ongoing corporate governance reforms remain intact in Japan. We maintain the view that policy normalization in Japan will be gradual, with monetary policy remaining accommodative as real interest rates stay negative to support economic growth.

**Asian Equities:** We have a constructive view of Asian equities. We are looking for idiosyncratic ideas where the return drivers are not major macro factors, e.g., companies where self-help is a large influence. We are positioning the portfolio where there is strong earnings growth, such as beneficiaries of AI spend, rising capex or consumption. Our ideas include technology (beneficiaries of AI), industrial names with exposure to grid capex, strong banking franchises in Southeast Asia, and selective Indian companies that are reasonably valued with growth. We are selective in China, especially in domestic-oriented companies which have shown signs of turnaround, improving topline and margins, and are able to deploy capital efficiently, manage costs and/or declare high dividend yields.

**Malaysian Equities:** We took this opportunity to take profits in some of our holdings that had positive returns, especially in the Healthcare space. We added Telco names as valuations dividend yields have become more attractive. At the same time, we have been adding laggards in Utilities and Consumer Discretionary. Our biggest underweight remains in the financial sector but we look to increase our weight here at the right opportunity. We are still very selective on technology on the back of high valuations and differing cycles among the tech companies. Key risks are unexpected downside to Malaysia's economic momentum and increased volatility due to geopolitical events.

**Malaysian Fixed Income:** Active portfolio management will be deployed in uncertain market conditions in anticipation of market volatility by targeting various maturities along the yield curve that could add value. Maintain preference on credit with disciplined profit-taking activities once valuation turns expensive and replaced with new primary issuances or tactical positions in government bonds. We maintain our overweight duration bias relative to the benchmark as the current market conditions remains favourable.

As we navigate 2025, the interplay between the shifting policy landscapes and evolving market conditions calls for active and diversified portfolio construction. Our strategy emphasizes quality growth and income attributes.

- ✓ **Quality Income:** Quality income and bonds can help to protect against market volatility and to sustain performance in a range-bound market.
- ✓ **Quality Growth:** An investment style which has historically outperformed as a whole, with the highest relative returns during volatile markets.

### Sources:

#### Footnotes:

- 1 Bloomberg, 31 December 2024
- 2 Federal Reserve Board, 31 December 2024
- 3 Principal, 31 December 2024
- 4 US Federal Board, European Central Bank, 31 December 2024
- 5 Federal Open Market Committee (FOMC), 31 December 2024
- 6 JP Morgan Research, 31 December 2024
- 7 Bloomberg, 31 December 2024
- 8 BofA Securities, 31 December 2024
- 9 National Bureau of Statistics of China, 31 December 2024
- 10 Bank Negara Malaysia, 31 December 2024

**Past performance does not guarantee future results.** Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.

## Glossary of Terms

UW: *Underweight*

OW: *Overweight*

MoM: *Month-over-Month*

YoY: *Year-over-Year*

FOMC: *Federal Open Market Committee*

ECB: *European Central Bank*

UST: *United States Treasury*

PMI: *Purchasing Managers Index*

SoE: *State-Owned Enterprise*

SEZ: *Special Economic Zone*

BNM: *Bank Negara Malaysia*

MPC: *Monetary Policy Committee*

## Disclaimer

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