

MARKET COMMENTARY
July 2024

Global Outlook

In June 2024, global capital markets were mixed. The gainers were Taiwan, India & Korea at 8.8%, 6.9% and 6.1% respectively. Note that the S&P 500 & Nikkei 225 rose 3.5% and 2.8%, respectively. The losers were Shanghai, Thailand and Europe at -3.9%, -3.3% and -1.3% respectively. Bonds rose 0.1% to 1.3%.¹

The Fed maintained the Fed Fund rate at 5.50% during the April-May Federal Open Market Committee (FOMC) meeting. The minutes of the FOMC have indicated that they are still considering interest rate cuts in 2H2024. The European Central Bank (ECB) cut interest rates by 0.25% to 4.25% based on weak economic fundamentals and better-behaved inflation.

We have a positive view on Asian equities given attractive investment themes, and corporates have the potential to post better earnings growth in 2024 than developed markets. We remain neutral on global developed market fixed income.³

Global Outlook of the two capital markets: Fixed Income & Equity

Region: Developed economies

Fixed income

- Our view: Neutral
- The US in 1Q2024 grew 3.6% YoY compared with 3.4% in 4Q2023 and below consensus of 2.5%. The moderate expansion reflected slower consumer spending, export and government spending.⁴
- Switch out of shorter tenure UST into longer tenure & higher-yielding bonds. Prefer new credit issuances offering wider spreads. We have a risk-on, carry-positive bias on the markets.⁵

Equity

- Our view: Positive
- The US in 1Q2024 grew 3.6% YoY compared with 3.4% in 4Q2023 and below consensus of 2.5%. The moderate expansion reflected slower consumer spending, export & government spending.⁴
- Maintained US' Overweight and Underweight on EU. Japan's Overweight is maintained. The move on EU is on cheap valuation, stabilizing PMIs and investors looking to diversify outside the US and technology.⁵

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.⁶
- We expect investment-grade Asian bonds to provide a gross yield of 4.50% to 5.50% in 2024.⁶

Equity

- Our view: Positive.
- We remained positive on Asian equities underpinned by cheap valuation & China's continued execution of more friendly policies.⁷
- We are positioned for a) tech hardware cycle driven by AI, b) broad-based growth across India, and c) selected global names with resilient demand in industrials and technology.³

Region: China

Fixed income

- Our view: Neutral.
- Net supply of bonds in May 2024 rose 36% MoM to RM329bn owing to higher net financial issuances. Non-financial issuances dropped 77% MoM to RM43bn over the same period.⁸
- The default rate for May 2024 edged lower to 0.14% from 0.16%. The property sector default rate dropped to 3.9% from 4.5% over the same period.⁸

Equity

- Our view: Positive.
- China's pro-growth policy actions saw sustained economic activities, with 1Q2024 GDP growth of 5.3% vs 5.2% in 4Q2023.⁷
- Manufacturing PMI for June 2024 were unchanged at 49.5. The Services PMI dropped to 50.5 from 51.1 over the same period.⁹

Region: Domestic (Malaysia)

Fixed income

- Our view: Positive.
- BNM maintained the OPR at 3.00% during the May 2024 MPC meeting. The move was well anticipated.¹⁰
- Looking to add government bonds post the selloff in April tactically. Continue to take profit on overvalued credits but will remain overweight (OW) on credits.³

Equity

- Our view: Positive.
- The National Energy Transition Roadmap (NETR) and the Industrial MasterPlan 2030 would revitalize domestic investment and buoy consumption.³
- We continue to lock in gains but maintain our positive view and deploy cash to quality laggard names. Favour Construction, Property and Utilities as beneficiaries from the NETR. Also, we like selected Oil&Gas, Technology and Financial names.³

Our Strategy

We maintain a slight overweight position in the US and an underweight position in Europe. Despite incremental positive economic surprises in Europe, both economic and earnings growth expectations fall short of those in the US. Interest rate differentials support a stronger dollar until we see clearer signs that inflation consistently moderates towards the Fed's 2% target.

We continue to maintain an overweight position in Japan. Despite the rally since 2023, Japan's equity valuation remains reasonable. The BOJ's removal of the reference amount for JGB purchases in the latest monetary policy meeting opens the possibility of future reductions in JGB purchases. However, any policy normalization will likely be gradual to avoid sudden increases in JGB yields.

We have a positive view on Asian equities given attractive investment themes, and corporates have the potential to post better earnings growth than developed markets in 2024, and the China market and economy are showing signs of bottoming out. We will continue to diversify the portfolio and position the portfolio in areas where they are likely to print strong earnings growth, such as the semiconductor industry, beneficiaries of AI spend, rising consumer discretionary spending or rising capex. We will also be selective in our investments in China, especially for companies with signs of turnaround.

We believe the **Lifetime Bond Fund** and **Lifetime Sukuk Fund** would **benefit significantly from the Malaysian government's commitment to lowering the budget deficit to 3.2% by 2025**. The projected improvement in fiscal position over the medium term would enhance the attractiveness of the domestic bond market.

The improvement in sentiment and the launch of data centre projects, along with implementing the New Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030, have further reinforced Malaysia's economic growth and corporate earnings outlook. In light of this, **we recommend considering equity exposure in Principal's small-cap funds and Principal's Malaysia growth and income-focused funds**. These funds have the potential to capitalize on the opportunities presented by the current economic landscape and provide favourable returns for investors.

For diversification and long-term growth, **we recommend investors consider the Asia Pacific Renewable Fund and Global Sustainable Growth Fund, which focus on ESG-related investments for long-term exposure**.

In our investment strategy for the second half of 2024, investors are advised to:

- ✓ Income: To protect against market volatility and to sustain performance in a range-bound market.
- ✓ Growth: Selective areas of the market still present a lot of value, such as Asia, ASEAN, China, and Malaysia.

Glossary

FOMC: *Federal Open Market Committee*

ECB: *European Central Bank*

MoM: *Month-over-Month*

YoY: *Year-over-Year*

UST: *United States Treasury*

PMI: *Purchasing Managers Index*

BNM: *Bank Negara Malaysia*

UW: *Underweight*

OW: *Overweight*

Disclaimer

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Sources:

- 1 Bloomberg, 30 June 2024
- 2 Federal Reserve Board, 30 June 2024
- 3 Principal, 30 June 2024
- 4 European Central Bank, 30 June 2024
- 5 Federal Open Market Committee (FOMC), 30 June 2024
- 6 JP Morgan Research, 30 June 2024
- 7 Bloomberg, 30 June 2024
- 8 BofA Securities, 30 June 2024
- 9 National Bureau of Statistics of China, 30 June 2024
- 10 Bank Negara Malaysia, 30 June 2024