MARKET COMMENTARY

November 2024

Global Outlook

In October 2024, global equity markets retreated across the board. India, H-shares and Europe declined by 5.8% and 3.3% and 3.3% respectively. Gainers were Taiwan, Thailand and Jakarta at 2.7%, 1.2% and 0.6% respectively. Bonds dropped by 1.1% to 3.4%. [1]

The Fed cut the Fed Fund rate to 5.00% from 5.50% during the September FOMC meeting. The minutes of the FOMC indicated that more cuts would take place going into 2025. The ECB cut interest rate by 0.25% to 4.00% based on weak economic fundamentals and better-behaved inflation.

We are buyers of Asian equities, given the start of US rate cut cycle, attractive investment themes and corporates have the potential to post better earnings growth in 2024 than developed markets. We remained 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 – positive.
- The US in 3Q2024 grew 2.8% y-o-y compared with 3.0% in 2Q2024. The healthy expansion reflected steady consumer spending, export & government spending.[4]
- Looking to Switch into UST after the recent sell off. Will take profit on secondary and switch into 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 3Q2024 grew 2.8% y-o-y compared with 3.0% in 2Q2024. The healthy expansion reflected steady consumer spending, export & government spending.[4]
- Maintained US & Japan at Overweight call. Maintained Underweight on EU. The move on EU is on the continued lack of economic growth & sluggish corporate earnings.

Region: Regional (Asia-Pacific ex-Japan)

Fixed income	Equity
• 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]	• 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, c) selected global names with resilient demand in industrials and technology.[3]

Region: China

Fixed income	Equity
• Our view – neutral. • Credit bond in Sept 2024 saw redemption of RM179bn versus net supply of RM262bn previously. SoEs posted redemption of RM94bn compared to net supply of RM62bn. Property bonds recorded net redemption of RM4.9bn issuance vs RMB9bn net supply previously.[8] • 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.[8]	• Our view – positive. • China in September made a major policy pivot – with the PBoC announcing major monetary easing. The Politburo after a surprise meeting announced measures to support housing & fiscal spending. • Manufacturing PMI for Oct 2024 rose to 50.1 from 49.8 previously. The Services PMI increased to 50.2 from 50 over the same period.[9]

Region: Domestic (Malaysia)

Fixed income	Equity
• Our view – positive. • BNM maintained the OPR at 3.00% during the Nov 2024 MPC meeting. The move was well anticipated.[10] • Recent correction made sovereigns attractive again but remain cautious on short term volatilities. Continue to take profit on overvalued credits but will remain OW on credits.[3]	• Our view – positive. • The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.[3] • Prefer big caps with strong fundamentals and solid cash flow. Favour Financials and Utilities as well as beneficiaries of NETR and SEZ.

Our Strategy:[3]

Global: Overweight US & Japan, Underweight Europe. US growth is softening but resilient middle/high-income households and robust large business confidence are helping to offset weakness from lower-income households and small business. Overall strong household and corporate balance sheets should help prevent the economic slowdown from turning into a hard landing. The resilience of the US economy is expected to support the broadening out of risk appetite and earnings expansion across companies and sectors with more reasonable valuations. Combined with rate cuts later this year, this creates a constructive backdrop for risk assets.

Asian Equities: We have a constructive view on Asian equities, with the start of the US rate cutting cycle. We are positioning the portfolio where there is strong earnings growth such as beneficiaries of AI spend, rising capex or consumption. We are selective in China, especially in domestic oriented companies which have shown signs of turnaround, improving topline and margins, and able to deploy capital efficiently, manage costs and/or can declare high dividend yields.

Malaysian Equity: October was a weak month across the region and Malaysia was not sparred. This was the second consecutive month of decline for the KLCI due to global uncertainties in anticipation of the upcoming US presidential election in November. In this volatile environment, stock picking is key and any dips from macro concerns are buying opportunities. We reiterate our strategy with preference on big cap companies with strong fundamentals and solid cash flow and dividends in sectors such as Banks and Utilities. We believe the market weakness would be temporary, underpinned by Malaysia's strong fundamentals, favourable economic prospects, and domestic structural reforms. Key investment themes remain in domestic driven sectors (property, construction, consumer) and potential direct beneficiaries of the NETR. Key risks are the derailment of Malaysia's macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risk.

Malaysia Fixed Income: The recent correction in MGS/MGII makes govvies valuation looks attractive again but remain cautious on potential short-term volatilities related to the US elections. Re-pricing of new issuances of corporate bonds looks attractive, offering better yields over the last few weeks. We have a preference in new corporate bond issuances given their better valuations. On duration, we maintain an overweight bias across the yield curve.

Markets are reacting to Trump's victory, signalling expectations of stronger economic growth, higher inflation, slower interest rate cuts, and trade tariffs. As specific policy plans emerge, investors should brace for market fluctuations and consider using significant changes to enhance their long-term portfolios. We slightly prefer equities over fixed income. Key themes for 2025 include: i) the impact of policy shifts on China's recovery; ii) the U.S. economic outlook regarding a soft landing; and iii) the influence of geopolitical risks on asset prices.

- ✓ **Position for lower yield:** Focusing on income can help position for declining yields, protect against market volatility, and sustain performance in a range-bound market.

- ✓ **Seek quality growth:** With seasonal patterns taking effect, we believe quality growth is an appealing equity strategy. This includes companies with strong balance sheets and consistent earnings growth in key markets such as Asia, ASEAN, 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*

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Sources:

Footnotes:

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