MARKET COMMENTARY

October 2024

Global Outlook

In September 2024, global equity markets are generally mixed with an uptrend bias especially in Asia. H-shares and Shanghai rose sharply by 18.6% and 17.4% respectively, followed by Thailand 6.6%. Losers were Korea, Japan and Jakarta at -3.9%,-1.9% and -1.9% respectively. Bonds rose 1.4% to 1.7%.[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 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 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 2Q2024 grew 2.8% y-o-y compared with 1.4% in 1Q2024. The healthy expansion reflected steady consumer spending, export & government spending.[4]
- Turning positive on developed markets. Looking to Switch into UST whenever a sell off occurred. 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 2Q2024 grew 2.8% y-o-y compared with 1.4% in 1Q2024. The healthy expansion reflected steady consumer spending, export & government spending.[4]
- Moved US to marginally Overweight from Neutral. Maintained Underweight on EU and Overweight Japan. The move on 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.[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, c) selected global names with resilient demand in industrials and technology.[3]

Region: China

Fixed income

- Our view – neutral.
- Net supply of bond in Aug 2024 dropped 41% mom to RM262bn owing to lower non-financial issuances. Property bonds recorded RM10.3bn issuance vs RMB12bn net redemption previously.[8]
- Default rate for Aug 2024 edged lower to 0.10% from 0.11% previously. The property sector default rate eased to 2.4% from 3.0% over the same period.[8]

Equity

- 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 Sept 2024 rose to 49.8 from 49.1 previously. The Services PMI eased to 50 from 50.3 over the same period.[9]

Region: Domestic (Malaysia)

Fixed income

- Our view – positive.
- BNM maintained the OPR at 3.00% during the Aug 2024 MPC meeting. The move was well anticipated.10
- Looking to tactically reduce sovereigns and look for the window to re-enter the market. Continue to take profit on overvalued credits but will remain 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. Favor Construction, Financials, Property and Utilities as beneficiaries from the NETR.

Our Strategy:[3]

Global: Overweight US & Japan, Underweight Europe. While US growth is softening, resilient middle and high-income households and robust business confidence help offset weaknesses from lower-income households and small businesses. Strong household and corporate balance sheets should prevent a hard economic landing, supporting risk appetite and earnings expansion across sectors with reasonable valuations. Combined with anticipated rate cuts later this year, this creates a positive backdrop for risk assets. Conversely, Europe's recovery faces limited upside due to weak credit demand and fading momentum, making it vulnerable to trade tariffs and geopolitical tensions amid the upcoming US election. In Japan, reflation themes and corporate governance reforms remain intact, with gradual policy normalization and accommodative monetary policy expected as long as US conditions don't worsen.

Asian Equities: With the start of the US rate-cutting cycle and positive earnings revisions, we are positioning our portfolio towards strong earnings growth, focusing on beneficiaries of AI spending, rising capex, or consumption. We are selective in China, particularly with domestic-oriented companies showing signs of turnaround, improved margins, and efficient capital deployment. As the US election approaches, Asian markets may experience volatility due to contentious US-China trade proposals, but long-term fundamentals and earnings growth should drive stock returns.

Malaysian Equity: After a strong market run-up over the past two months, the Malaysian market experienced profit-taking in September and entered a consolidation phase. We continue to lock in gains and shift towards quality and value stocks. While volatility may persist due to external factors, we remain positive on the Malaysian market. Investors await the upcoming budget on October 18 for insights into future fiscal and monetary policies. Our strategy favors large-cap companies with strong fundamentals and solid cash flow, particularly in sectors like banks and utilities. Key themes include domestic-driven sectors (property, construction, consumer) and beneficiaries of the NETR, along with opportunities in undervalued oil and gas sectors.

Malaysia Fixed Income: We expect local government bonds to trade within a range, influenced by developments in the UST space. We plan to raise cash while awaiting the Budget 2025 announcement on October 18. We prefer corporate bonds and will pursue a bottom-up approach to identify value and participate in new issuances. The market environment favors an overweight duration position, supported by a stable domestic policy rate, firmer economic growth, and a stable ringgit. The return of foreign funds, driven by anticipated Fed rate reductions and narrowing interest differentials, will help anchor the bond market.

The markets are approaching the final quarter, with the Fed recently initiating a rate-cutting cycle while reassuring investors that the US economy appears headed for a soft landing. Meanwhile, upcoming US elections and ongoing geopolitical conflict may introduce seasonal volatility. As markets continue to react to incoming data and headlines, we maintain the view that investors should remain invested and use any near-term selloff to build a diversified portfolio focusing on quality.

- ✓ **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*

Disclaimer

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. We recommend that investors read and understand the contents of the funds' prospectus and product highlights sheet available on the Principal website, which have been duly registered with the Securities Commission Malaysia (SC). Registration of these documents does not amount to nor indicate that the SC has recommended or endorsed the product or service. There are risks, fees and charges involved in investing in the funds. You should understand the risks involved, compare, and consider the fees, charges and costs involved, make your own risk assessment and seek professional advice, where necessary. 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. This article has not been reviewed by the SC.

Sources:

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