Kenanga Investors

Market Review and Outlook

As of January 2024

Equity Market Review

In the final month of 2023, global equities experienced a modest retreat; nevertheless, they achieved their most significant annual surge since 2019. The recent surge in worldwide stock markets during the last two months of the year was driven by anticipations of central bank interest rate reductions in the upcoming year, particularly in 2024.

As widely anticipated, the Federal Reserve (Fed) kept the overnight federal funds rate within the range of 5.25% to 5.5% during its latest policy meeting in December 2023. This marks the third consecutive meeting where the central bank has opted for stability, refraining from making any changes to monetary policy. In his post-announcement press conference, Fed Chair Jerome Powell stated that although the Federal Reserve believes its policy rate is likely at or near its peak for the current tightening cycle, unexpected economic developments since the pandemic warrant caution. Powell emphasised that the Federal Open Market Committee did not want to rule out the possibility of further rate hikes, highlighting the term "any" in the official statement as an acknowledgment of the potential for additional policy adjustments to address inflation. The inclusion of "any" reflects the Committee's recognition that while participants did not project further hikes, they also did not want to entirely eliminate the option from consideration.

In November, US consumer inflation slightly decreased to 3.1%YoY and 0.1% MoM from October. The Fed's preferred metric, core CPI, excluding volatile food and energy prices, rose 0.3% MoM in November and 4% YoY. Although some consumer item prices are declining, overall price levels persist. Real wages outpace inflation, offering mitigation, but Fed Chair Powell recognises the ongoing impact of inflation on individuals, emphasising the continued effort to bring the target rate down to 2%.

European indexes also closed the month in positive territory as the Euro STOXX 50 reported a 3.2% rise in December and closed the year with a +19.2% YoY. The Governing Council of the ECB has chosen to maintain the current key interest rates, citing a recent drop in inflation that is expected to be temporary. In November 2023, the euro area's annual inflation rate decreased to 2.4% YoY from October's 2.9% YoY

Asian markets mirrored global trend in December, with the MSCI APAC-Ex Japan index rising 3.3%, mainly contributed by the rise in India (Sensex: 7.8%), Australia: (ASX 200: 7.1%), Singapore (STI: 5.4%), S.Korea (Kospi: 4.7%), Philippines (PCOM: 3.6%), Taiwan (TWSE: 2.9%); Indonesia (JCI: 2.7%), Thailand (SET: 2.6%) and Malaysia (KLCI: 0.1%). In contrast, China's SHCOMP and SHSZ300 fell 1.8% and 1.9% respectively in December 2023. Meanwhile in Hong Kong, the HSI was flat in December.

In China, although the Central Economic Work Conference (CEWC) did not spring any surprises in terms of macro policies, investors were disappointed by slower M1 money supply growth, retail sales falling below expectations, and a Consumer Price Index (CPI) that once again showed a negative year-on-year trend. China's CPI decreased by 0.5%

both annual and monthly basis in November. This suggests increasing deflationary pressure amid concerns about the economic recovery due to weak domestic demand.

Locally, Malaysian equity indices recorded positive results in December. The FBMKLCI, FBM100, FBM Shariah and FBM Small Cap experienced MoM gains of 0.1%, 0.9%, 0.5% and 1.5% respectively. Notable sectoral performance saw Healthcare, Utilities, Construction, Telecommunication, Transportation, Property, Finance, Industrial sectors and Technology sectors leading in gains. Meanwhile, Plantation, Consumer, REITs and Energy recorded losses. For full year 2023, FBM100, FBM Shariah and FBM Small Cap gained by 0.6%, 0.5%, and 9.6%, respectively while the FBMKLCI closed the year with a decrease of 2.7%.

In terms of latest available macro data, Malaysia experienced a moderate decline in exports which contracted by 5.9% YoY, reaching RM122.10b, while imports saw a modest increase of 1.7% to RM109.69b. Despite the overall decrease, Malaysia maintained a trade surplus valued at RM12.41 billion, marking the 43rd consecutive month of trade surplus since May 2020. Shifting to consumer prices, Malaysia observed a 1.5% YoY increase in November. This inflationary trend was attributed to lower increments in the categories of restaurants and hotels, food, and non-alcoholic beverages, as well as health.

In November 2023, a substantial inflow of RM1.55bn into Malaysian equities marked the highest monthly foreign net purchase for the year. Following this, foreign investors added a more modest RM260mil in December, contributing to a reduced net sell figure for the entire year, which amounted to RM2.34bn. Throughout December, net buying occurred on 9 out of 20 trading days, while there were net selling activities in 7 out of the 12 months in 2023.

In December, oil prices experienced further declines, with Brent crude dropping by 7.0% to USD77.0/bbl. This was influenced by softening demand conditions, unexpectedly robust U.S. shale supply, a contained Israel-Hamas conflict, and less forceful OPEC+ supply discipline.

In December, the Dollar index extended its decline, dropping by an additional 2.1%. Among the Asian currencies, the primary beneficiaries were MYR: 1.4% MoM; CNY: 0.5% MoM; PHP: 0.2%; IDR 0.7% MoM and THB: 3.0% MoM.

Equity Market Outlook & Fund Strategy

We are positive on the Malaysian equity market for 2024, given factors such as: 1) Resilient GDP growth (4-5%), 2) Improving momentum of policy execution on construction and infrastructure projects, 3) Rising FDI, 4) Low valuations and foreign shareholding, and also, 5) Improving global macro conditions.

Given the positive outlook, we are positive on sectors such as financials, construction, property, new energy and utilities. Additionally, we continue to like the technology sector as the key beneficiary of long-term growth trends such as AI, EVs and supply chain relocation.

About Kenanga Investors Berhad

We provide investment solutions ranging from collective investment schemes, portfolio management services, and alternative investments for retail, corporate, institutional, and high net worth clients via a multi-distribution network.

The Hong Kong-based **Asia Asset Management's 2024 Best of the Best Awards** awarded KIB under the following categories, Malaysia Best Equity Manager, Malaysia Best Impact Investing Manager, ASEAN Best Impact Investing Manager, Malaysia CEO of the Year, Malaysia CIO of the Year, Malaysia Best House for Alternatives, Malaysia Most Improved Fund House, and Malaysia Best Investor Education.

At the **Refinitiv Lipper Fund Awards Malaysia 2023**, KIB won overall best Mixed Assets - Malaysia Pension Funds Group award for the fourth time. Accompanying this were individual fund wins awarded to:

- Kenanga Malaysian Inc Fund ("KMIF") for best Equity Malaysia Diversified – Malaysia Provident Funds over 10 Years
- Kenanga Managed Growth Fund ("KMGF") for best Mixed Asset MYR Flexible - Malaysia Provident Funds over 3 Years
- Kenanga Managed Growth Fund ("KMGF") for best Mixed Asset MYR Flexible - Malaysia Provident Funds over 5 Years
- Kenanga Managed Growth Fund ("KMGF") for best Mixed Asset MYR Flexible - Malaysia Provident Funds over 10 Years

The **FSMOne Recommended Unit Trusts Awards 2023/2024** named Kenanga Growth Fund Series 2 as "Sector Equity – Malaysia Focused", Kenanga Shariah Growth Opportunities Fund as "Sector Equity - Malaysia Small to Medium Companies (Islamic)" and Kenanga Shariah OnePRS Growth Fund as "Private Retirement Scheme – Growth (Islamic)".

For the seventh consecutive year, KIB was affirmed an investment manager rating of IMR-2 by Malaysian Rating Corporation Berhad, since first rated in 2017. The rating considers KIB's well-established investment processes and sound risk management practices. As at end-June 2023, most of KIB's funds had performed better than benchmarks and were comparable to peers.

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