Hong Leong Asset Management

April 2024

Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 31 March 2024

Over the month

Equities

Global

- Global equities staged another month of broad-based rally. More economists are removing any probabilities of recession for this year, much less a hard landing.
- With the United States (US) Federal Reserve (Fed) maintaining a dovish tone, investors risk appetite remains elevated.
- The Dow Jones Industrial Average Index (DJIA) rose 2.1% and the broader S&P 500 Index rose 3.1%. The Euro Stoxx Index rose 4.2% while the FTSE 100 Index rose 4.2%.

Asia Pacific

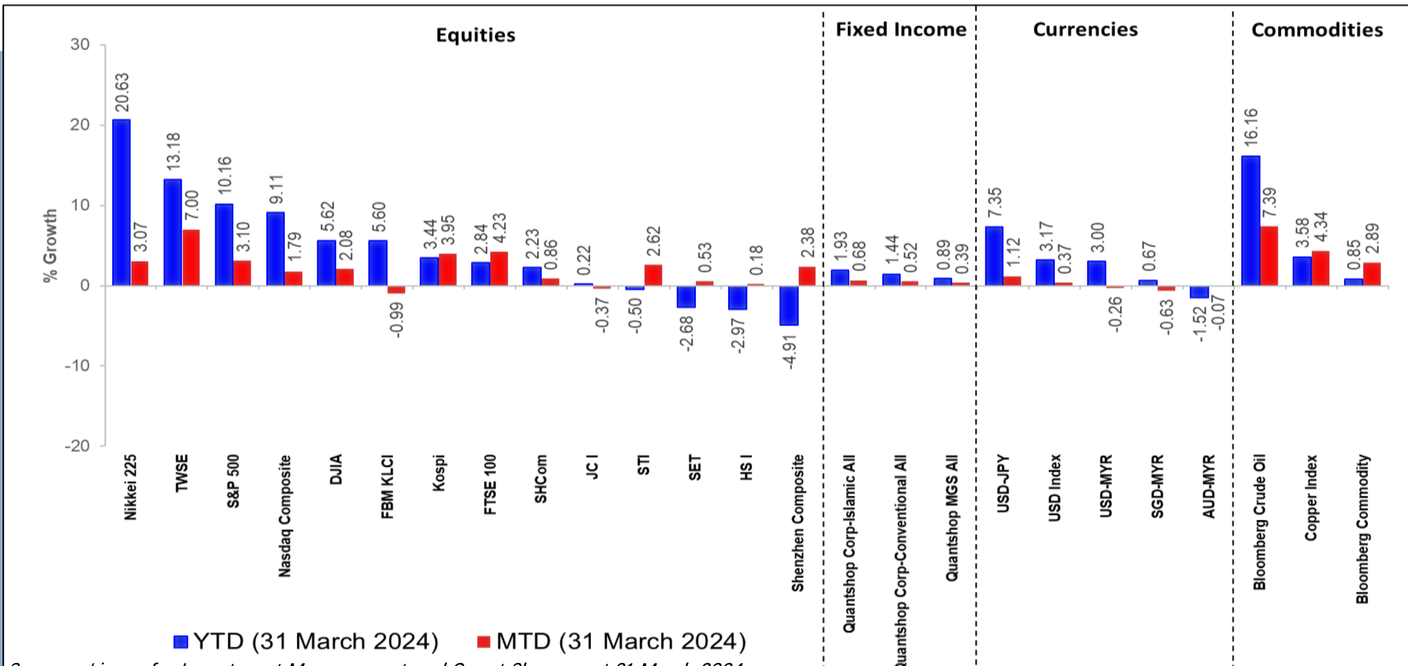
- Artificial Intelligence (AI)-related technology names rallied hard during the month as Nvidia reported stellar results while indicating a very positive outlook for the company.
- The Japan market continued to rise higher during the month, despite the Bank of Japan ending its negative interest rate policy after years of unconventional monetary easing.
- In the region, Taiwan and Korea were the leaders while Malaysia and Philippines were the laggards.

Malaysia

- After rallying strongly for the past 2 months, some profit taking were seen in the index stocks while trading activity in the small cap space remains robust.
- The FTSE Bursa Malaysia (FBM) KLCI declined 1.0% to close at 1,536 points. The broader market outperformed as the FBM EMAS Index rose 0.7% to close at 11,572 points.
- Small caps outperformed as the FBM Small Cap Index rose 3.1% to close at 17,297 points.

Fixed Income

- The Fed kept rates unchanged at 5.25%-5.50% in a unanimous vote and almost identical languages on the Federal Open Market Committee (FOMC) statement in March. The front-end curve led the decline in yields post-FOMC as market was probably encouraged by no change in the FOMC.
- Malaysia's headline Consumer Price Index (CPI) gained speed for the first time since August 2022, to +1.8% year-on-year (YoY) in February, bouncing off a near three-year low of +1.5% YoY seen in January. The adjustment in water tariffs for the domestic category in Peninsular Malaysia and Labuan, coupled with the 5th straight month of increase in transport prices, contributed to the sharp rise in non-food inflation (from +1.1% to +1.7% YoY), and hence, overall CPI.
- In the month, there were several new issuances including CIMB Islamic AAA bonds worth RM3.5 billion, MNRB Holdings Berhad subordinated A1 bonds at RM420 million and Hong Leong Bank A1 Perpetual bonds at RM400 million. On the government side, we saw the 10-Year Malaysian Government Securities (MGS) auction that also had a bid-to-cover ratio of more than 2x. Overall, local investors continue to deploy cash into the market despite higher volatility.



Sources: Lipper for Investment Management and Quant Shop, as at 31 March 2024

Equities : Outlook & Strategy

Global

- The latest US economic data shows that inflation remains sticky.
- On the back of a resilient economy, the prospects of aggressive rate cuts have also faded as market expects at most three rate cuts this year, reduced from as high as seven.
- In Europe, consumer confidence rose slightly due to optimism about the improving labour market and decline in inflation.

Asia Pacific

- Taiwan central bank surprisingly raised key policy rates during the month at a quarterly monetary policy meeting, most likely due to inflation fears.
- Taiwan export trends in AI-related products continue to show strong growth, predominantly to the US.
- Although China macro data continue to show encouraging trends, investors remain unconvinced about the sustainability of the positive trend.

Malaysia

- The potential proliferation of data centres in Malaysia drove renewed interest in the construction sector and the small cap space.
- We remain positive on high dividend yield stocks against the expectations of a declining global interest rate environment.

Fixed Income : Outlook & Strategy

Malaysia

- With sticky inflation numbers and strong jobs data, the Fed is worried about cutting interest rates too soon as inflation has yet to reach its targeted 2%.

- Market now expects 3 cuts (or 75 basis points) in the second half of this year. The International Monetary Fund (IMF) expects the US economy to expand by 2.1% in 2024, supported by a still favorable labor market (2022: +2.5%).

- Locally, Bank Negara Malaysia (BNM) projects Malaysia's economic growth to accelerate to 4.0%-5.0% in 2024 from 2023's +3.7% YoY.

- BNM expects domestic demand to drive the economy, further supported by improvement in the external sector.

- Inflation expectations seem to have remained fairly well anchored and the economic growth momentum is likely to gain further traction, giving BNM room to extend its interest rate pause.

- We maintain our view that the Overnight Policy Rate (OPR) will be left unchanged at 3.00% for the entire year of 2024.

- We continue to overweight corporate bonds for additional yield pickup and seek opportunities to rebalance our portfolios.