EQUITY

Global Equities

Financial markets have moved sharply in the last four weeks as investors position for a potential pivot by the Federal Reserve away from interest rate hikes this year to early cuts next year. Market movements in November (in MYR terms): US (+6.6%), Eurozone (+7.3%), Hong Kong (-2.3%), Shanghai (-1.8%), Japan (+8.6%), Taiwan (+10.5%), Singapore (+0.4%), Thailand (+0.1%) and Malaysia (+0.7%).

US & Europe

After weeks of volatility and retouching the 5% level, 10Y UST yields declined after the Federal Open Market Committee's (FOMC) decision to maintain rates. Chairman Jerome Powell reiterated that monetary policy needs to remain tight to return inflation to 2% target, but importantly acknowledged that the increase in UST yields recently have led to tightening financial conditions which then reduces the need for policy change by the Fed. The November FOMC minutes released later also did not hold any surprises, re-affirming Chairman Jerome Powell's balanced message at the previous month's press conference. The Fed's target measure of inflation - changes in US core personal consumption expenditure prices (PCE) – even dipped from 3.7% to 3.5% in October.

The UK experienced no growth in the third quarter of 2023 while the Eurozone contracted -0.1% quarter-on-quarter (QoQ). Both economies are clearly at risk of suffering two quarters of falling Gross Domestic Product (GDP) - the technical definition of recession - if interest rates remain at elevated levels. However, improving European purchasing managers index (PMI) could signal eurozone economic slowdown is bottoming out. The European Central Bank (ECB) target measure of inflation - changes in the Eurozone's consumer price index (CPI) – saw much-needed moderation as it fell sharply from 2.9% to 2.4% in November. Euro area's disinflation and a growth outlook has slightly improved to stagnation from recessionary. For the Bank of Japan, they kept deposit rates and the "around 0%" target for the 10Y bond yields unchanged, but indicated that the upper limit of 1% would now be a "reference" and not a strict limit.

China

In China, concerns on weaker growth momentum continue to weigh on the market and news of additional funding support for Chinese developers failed to see a sustained market rally. Economic activity once again appears to be sluggish as the November National Bureau of Statistics (NBS) PMI report came in below expectations. Non-manufacturing PMI fell 0.4 points to 50.2, which represents the lowest reading since the start of the year. Service activity softened due to weakness in real estate services and business services, while the travel-related boost from the Golden Week holiday appears to have faded. Authorities launching an additional CNY1trn package to support public housing and urban village renovation should provide support to China's economic growth and, at the margin, help offset the drags on the CNY alongside the central bank's intervention.

Asia

The KLCI continued its monthly gain and recorded a 0.7% rise over the month of November. This brought year-to-date movement to a 2.9% decline, outperforming most ASEAN peers. However, the performance of the KLCI in 2H23 so far has outperformed the broader emerging market and Asia ex-Japan indices. In the recently-concluded earnings season, the ratio of earnings beats to misses improved sequentially, contributed by the automobile, plantations, gaming and property sectors. Earnings upgrades were seen in the automobile, gaming, gloves, property, construction, utilities and telecommunications sectors. On economic data, GDP data released during the month saw 3Q23 GDP growing 3.3% over a year ago, with headline inflation slowing to a 1.8% yearly gain in October.

General View

The outlook for equities appears largely favourable in 2024 under our two most likely scenarios of mild recession and soft landing, although in our mild-recession base case the reflationary effects of lower rates will be partially offset by some degree of earnings growth headwinds, and thus a judicious sector and stock selection process will be important. We continue to be positive on local equities as the recent earnings season gives us confidence that earnings delivery should continue to improve, catalysing the depressed equity market supported by the expected reversal in the strong dollar trade alongside promising macro policies.

FIXED INCOME

US Treasuries

Bonds rallied in November, reflecting a heightened focus among investors on softer US growth data, which supports the narrative of peak interest rates being reached. US Treasury yields fell across the curve after softer-than-expected inflation data. Core prices rose at their slowest rate in more than two years. A meeting between President Biden and President Xi, along with the U.S. Congress averting a government shutdown, were positive developments during the month. The bond rally has been underpinned by rising hopes that the Fed will cut rates next year, with the latest market pricing suggesting almost five 25-basis-point reductions by December 2024, with a 50% chance that the first cut comes as early as March. Towards month-end, Powell's comments helped push the yield on the benchmark 10-year Treasury note down to nearly a three-month low where he acknowledged that interest rates were now "well into restrictive territory". Over the month, the 10-year yield declined 40bps to 4.32% while the 2-year yield declined 26bps to 4.68%.

Malaysian Bond Market

Malaysia government bonds posted gains alongside renewed optimism in US Treasuries with yields declining 16-24bps in November. Gains were led by the steady OPR trend as BNM left the rate unchanged at the final monetary policy committee (MPC) meeting for the year while slowing inflation has boosted the appeal of real returns, prompting bargain hunters to accumulate positions heading into year-end. The positive bond momentum was largely unaffected by the GDP growth that came in a notch higher than expected at 3.30% y/y in the third quarter of 2023, compared with growth of 2.9% y/y in the second quarter of 2023. Meanwhile, the stronger Ringgit which strengthened 2.25% against the Dollar also lent some support to sentiment. Demand at government auctions strengthened as the month progressed with bit to cover (BTC) improving to above 3x for the 7-year GII reopening after a dismal 3-year auction which saw BTC plunged to 1.5x. Yields along the 5-20-year tenure saw a near parallel 20-22bps downward shift while the 3-year declined by a lesser quantum of 16bps to 3.48%. Based on the current growth and inflation outlook, we do not see any compelling reasons for the overnight policy rate (OPR) to be adjusted either way going into 2024, establishing no further widening of the OPR and the Fed Funds Rate.

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