WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

24 – 28 June 2024

KEY HIGHLIGHTS

- The S&P 500 index slipped 0.10% as easing inflation reaffirmed rate cut bets by the Fed.
- The core PCE price index increased by a seasonally adjusted 0.1% for the month and was up 2.6% from a year ago.
- Despite the encouraging PCE data, US Treasury yields finished the week higher, with the benchmark 10-Year yield moving from 4.25% to close at 4.39%.
- Growing bets of a potential Trump win in the upcoming US elections further fuelled yields on expectations that higher fiscal spending and import tariffs could contribute to inflation.

- MSCI Asia ex-Japan index dipped by 0.30%, dragged down by Chinese equities.
- China released its official PMI figures over the weekend, with the manufacturing PMI coming in at 49.5. This is its second consecutive month in contraction territory.
- State media announced that China's top leaders will gather from July 15 to 18 for the highly anticipated Third Plenum meeting. However, investors were underwhelmed by the agenda due to the lack of robust stimulus measures.
- The Asia Investment Grade (IG) corporate spread widened by 3 bps, while the Asian High Yield (HY) spread remained largely unchanged.

- The broader FBM 100 index saw a modest gain of 0.20%, driven by strength in construction, utilities, and banking sectors.
- Several directors of Prolintas Infra Business Trust were reported to have been arrested by the Malaysian Anti-Corruption Commission
- Management have assured investors that cash flow for future dividend payments remains secure, emphasising the existence of a cash flow ringfence for the business trust.
- Fitch affirmed Malaysia's sovereign rating at BBB+ with a stable outlook

Global & Regional Equities

US equities held steady last week as a key inflation gauge closely followed by the US Federal Reserve (Fed) matched expectations. The S&P 500 index slipped 0.10% as easing inflation reaffirmed rate cut bets by the Fed.

The core personal consumption expenditures (PCE) price index increased by a seasonally adjusted 0.1% for the month and was up 2.6% from a year ago. Similarly, headline inflation which includes food and energy was flat on the month and also up 2.6% on an annual basis, aligning with forecasts.

Despite the encouraging PCE data, US Treasury yields finished the week higher, with the benchmark 10-Year yield moving from 4.25% to close at 4.39%. This rise in yields was likely driven by month-end repositioning and profit-taking by investors. Additionally, higher-than-expected inflation in countries such as Australia and Canada contributed to the upward pressure on yields. Furthermore, growing bets on a potential Trump win in the upcoming US elections fuelled a surge in yields.

Recent polls have highlighted concerns over President Joe Biden's health and age, particularly following his lackluster performance in the presidential debate against Donald Trump. Investors anticipate a Trump presidency could lead to higher fiscal spending and import tariffs that could contribute to inflation.

Looking ahead, investors will be closely monitoring major elections taking place in France and the UK. The month of July will also kick off with several important data releases including PMI and nonfarm payrolls.

In Australia, the consumer price index (CPI) rose higher than expected, leading bond markets to price-in a potential rate hike by the Reserve Bank of Australia (RBA) in the next quarter. The RBA's hawkish stance stands in contrast to other global central banks which have either paused or cut rates. Australia continues to experience strong wage growth due to a strong labour market which has kept inflation elevated.

Shifting to Asia, the MSCI Asia ex-Japan index dipped by 0.30%, dragged down by Chinese equities. The Hang Seng index and the Shanghai Shenzhen CSI 300 index fell by 1.70% and 1.00% respectively, following a series of weak economic data.

China released its official PMI figures over the weekend, with the manufacturing PMI coming in at 49.5, unchanged from May. This is its second consecutive month in contraction territory signalling a patchy recovery in the mainland economy.

State media also announced that China's top leaders will gather from July 15 to 18 for the highly anticipated Third Plenum meeting. However, investors were underwhelmed by the agenda which fell short of expectations in terms of more robust stimulus measures.

On the other hand, India and Indonesia performed well, with both country indices gaining 2.40% and 2.70% respectively, driven by the resumption of foreign inflows.

In terms of portfolio actions, we are selectively adding tech names in Taiwan and Hong Kong to capitalise on potential growth opportunities.

Updates on Malaysia

On the domestic front, the benchmark KLCI closed relatively unchanged, ending the week at 1,590 points. The broader FBM 100 index saw a modest gain of 0.20%, driven by strength in construction, utilities, and banking sectors.

In corporate news, several directors of Prolintas Infra Business Trust were reported to have been arrested by the Malaysian Anti-Corruption Commission (MACC). The company's management has reassured stakeholders that operations remain unaffected with traffic numbers remaining robust.

Prolintas operates several key highways in populated areas including the Kajang Dispersal Link Expressway (SILK), Damansara-Shah Alam Elevated Expressway (DASH), and Sungai Besi-Ulu Kelang Elevated Expressway (SUKE). – the 4 highways in the listed business trust is AKLEH, GCE, LKSA and SILK. DASH & SUKE have not been injected into the business trust yeah although they are managed by Prolintas.

Management also emphasised the existence of a cash flow ringfence for the business trust, ensuring that cash flow for future dividend payments remains secure. Although there was an initial knee-jerk reaction, Prolintas' share price has since stabilised. Its dividend yield remains attractive at 7%,

In terms of portfolio action, we are rotating into laggards and taking profit on some of our positions that have performed well.

Fixed Income Updates & Positioning

The Asian bond market saw credit spreads consolidating last week, largely influenced by a significant spike in new primary supply. The Asia Investment Grade (IG) corporate spread widened by 3 bps, while the Asian High Yield (HY) spread remained largely unchanged.

It was the busiest week in the primary market this year, with approximately USD 22 billion in fresh supply across both corporate and sovereign bonds. Asia ex-Japan accounted for about USD 7 billion of this total, marking the most substantial activity since 2023. July is also expected to see a substantial amount of scheduled bond redemptions of around USD 12 billion leading to robust active primary issuances throughout the month.

In terms of new issuances, we saw varied performances across different names in the primary space last week in terms of spread movement. Notable names included Bangkok Bank, Cathay Life and Korea Gas where bonds tightened by approximately 0 to 8 bps.

On credit news, there were positive developments surrounding New World Development, where its parent company, Chow Tai Fook, demonstrated its ability to support New World Development. The company sold 30% of their office building in Shenzhen Qianhai to Chow Tai Fook for about RMB 1.44 billion.

Additionally, Bloomberg announced that these companies are expected to redeem their perpetual callable bonds by next year in March because the coupon would be much higher than the company's average funding cost of about 5%. Consequently, bonds across the New World Development curve rose by 3 points over the week.

On portfolio action, we participated in LG Energy Solutions, a 10-year bond currently yielding about 5.8%. Prior to the inflation surprise in Australia, our funds managed to take profit on some AUD papers.

Following the sell-off of more than 10 bps in Australian government bonds, our funds subsequently picked up some credits and long-end positions on the ACGB curve. Additionally, some funds acquired short-duration financial paper, such as a USD term paper yielding 6.5% and SGD term paper yielding between 4.7% and 5.7%.

Last week, the local bond market remained relatively rangebound, with focus largely centered around rebalancing activities for the quarter and half-year end. The 10-year MGS yield remained flat at 3.86%, while the 30-year MGS tightened slightly by 1 bps to 4.21%.

There were no primary issuances during the week. However, this week we anticipate the reopening auction of the 5-year MGS with an issuance size of RM 5 billion. We estimate a bid-to-cover ratio (BTC) of about 1.75 to 2 times, supported by reinvestment demand from the upcoming maturity of approximately RM 11 billion MGS on July 15. Looking ahead to July, we expect increased corporate issuance activity. Some anticipated names include Danainfra GG, Sunreit, Benih Restu, Avaland Bank Islam & Public Bank.

On the news front, Fitch affirmed Malaysia's sovereign rating at BBB+ with a stable outlook last week. This follows S&P's similar decision to maintain Malaysia's sovereign rating at A- with a stable outlook. In January, Moody's also upheld Malaysia's sovereign rating at A3 with a stable outlook. Thus, Malaysia's sovereign ratings from all 3 major rating agencies remain at investment-grade (IG) status.

In terms of portfolio actions, we have been actively switching into new primary issuances and trading government bonds. Cash levels range between 4%-8% for our local bond funds.

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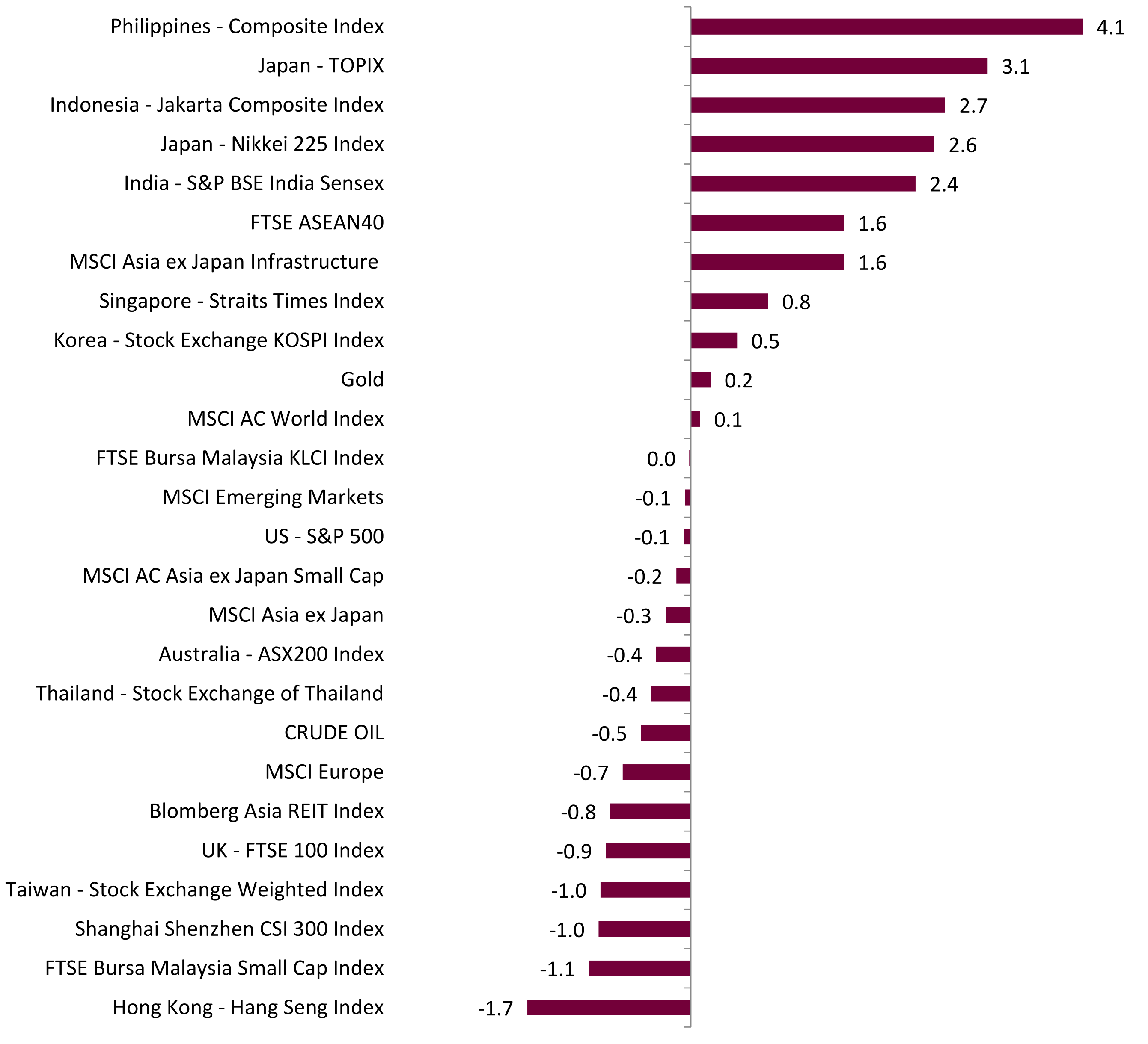
Index Performance | 24 – 28 June 2024



Index Chart: Bloomberg as at 28 June 2024. Quoted in local currency terms.