



## WEEKLY MARKET REVIEW

# A brief on global and local markets, and investment strategy

15 – 19 July 2024

### KEY HIGHLIGHTS



- The S&P 500 index declined by 2% , while the Nasdaq gauge plunged 4% jolted by a rotation out of Big Tech.
- US retail sales remained resilient in June, defying expectations of a pullback.
- Treasury yields climbed higher with the benchmark 10-Year yield up 4 bps from 4.18% to 4.22%.
- President Joe Biden withdrew from the 2024 presidential election, throwing his support behind Vice President Kamala Harris.



- The MSCI Asia ex-Japan index decreased by 3% dragged down by tech-heavy markets like Korea and Taiwan.
- China equities fell 5% due to a soft GDP print and the absence of any major policy announcements from China's Third Plenum.
- While the Third Plenum provided signals of market-friendly policies, the lack of significant stimulus measures for the property sector disappointed investors.
- In a surprise move this week, the People's Bank of China (PBOC) cut its interest rate for the 7-day reverse repo to 1.7% from 1.8%.



- Benchmark KLCI closed 17 points or 1.1% higher last week led by notable gains in the construction sector.
- The tech sector also took a hit, tracking the decline in the US market. Despite this, we continue to see a positive trend in foreign inflows of RM750 million.
- Malaysia's advance 2Q'24 GDP figure came in at 5.80%, exceeding consensus estimates of 4.70% and the 1Q'24 GDP figure of 4.20%.
- The 10-Year and 30-Year MGS closed at 3.82% and 4.18% respectively.

## Global & Regional Equities

US equities saw volatility last week, driven by a sharp rotation out of megacap tech names in favour of small-cap stocks as well as previously lagging sectors such as financials, energy, and real estate.

The S&P 500 index declined by 2%, while the tech-heavy Nasdaq gauge plunged by 4%, as the narrow stock market rally that was dominated by a handful of megacap tech names over the past year began to broaden out to other parts of the market.

Sentiment in the tech sector was further dampened by a US proposal aimed at restricting foreign companies from shipping advanced chip equipment to China. Additionally, comments from former President Trump about Taiwan and a global IT outage triggered by the Microsoft/CrowdStrike incident last Friday added to the negative sentiment.

On the macroeconomic front, US retail sales remained resilient in June, defying expectations of a pullback. Retail sales excluding automobiles, gasoline, building materials, and food services surged by 0.9% last month, following an unrevised 0.4% increase in May. These figures underscore consumer strength and helped assuage fears of a deeper recession.

Similarly, US industrial production posted a solid advance for the second consecutive month in June. The 0.6% increase in production at factories, mines, and utilities followed a revised 0.9% gain a month earlier, marking the biggest two-month advance since late 2021. The resilient economic data led to a rise in Treasury yields with the benchmark 10-Year yield climbing 4 bps from 4.18% to 4.22%.

In the political arena, President Joe Biden withdrew from the 2024 presidential election, throwing his support behind Vice President Kamala Harris and endorsing her as the Democratic Party's new presidential nominee. The situation remains fluid, as the announcement could shift voting sentiment and dynamics of the US presidential elections in November. While the market's base case is that Trump could still win as President, the odds of the Republicans winning both houses of Congress may be lowered.

In Asia, the MSCI Asia ex-Japan index decreased by 3%. Notably, tech-heavy markets like Taiwan and South Korea experienced significant declines, with Taiwan falling by 6% and South Korea down by 3%. This downturn occurred despite last week's positive earnings results by Taiwan Semiconductor Manufacturing Co (TSMC).

China equities fell by approximately 5% due to a soft GDP print and the absence of any major policy announcements from China's Third Plenum. China's National Bureau of Statistics said the country's 2Q'2024 GDP rose by 4.7%, slower than the 5.3% y-o-y GDP increase in the first quarter.

In terms of portfolio action, we trimmed our exposure to the semiconductor sector in Korea and Taiwan. Instead, we increased our positions in regional banks, particularly in Indonesia and Singapore, which offer strong dividend yields of 5%-6%. Cash levels across our funds currently range between 6% and 14%.

## Updates on Malaysia

On the domestic front, it was a positive week for the benchmark KLCI, which closed 17 points or 1.1% higher last week led by notable gains in the construction sector, particularly from Gamuda Berhad and Sunway Construction Group Berhad (SunCon). Other key contributors which helped lift the index were crude palm oil (CPO) names like Sime Darby and Kuala Lumpur Kepong Berhad (KLK), which were driven by potential land transactions ahead of the Johor-Singapore Special Economic Zone (JS-SEZ) that is expected to be finalised in September. On the other hand, the FBM Small Cap Index closed 0.3% higher week-on-week.

The tech sector was the main drag last week, tracking the decline in the US market. Despite this, we continue to see a positive trend in foreign inflows. Last week, there were inflows of close to RM750 million, while local institutional and retail investors were net sellers. Year-to-date net inflows are slightly below RM700 million, demonstrating continued foreign investor interest.

## Updates on Malaysia (cont')

On portfolio positioning, there was minimal trading activity with some light profit-taking in sectors that have performed well such as construction and utilities. Our cash levels are maintained at around 0-5%.

## Fixed Income Updates & Positioning

Asia credits were stable last week, with spreads remaining broadly unchanged. The much-anticipated Third Plenum in China, attended by top party leaders last week proved to be a muted affair. While the Third Plenum provided signals of market-friendly policies including support for the private sector, the lack of significant stimulus measures for the beleaguered property sector disappointed investors. Consequently, there was no concrete movement in credit spreads of China property bonds.

In a surprise move this week, the People's Bank of China (PBOC) cut its interest rate for the 7-day reverse repo to 1.7% from 1.8%. Similarly, the one-year loan prime rate (LPR) was lowered by 10 basis points to 3.35% from 3.45%, and the five-year LPR was reduced to 3.85% from 3.95%. This is the first cut to its main short-term policy rate since August 2023 as the PBOC seeks to shore up economic growth by easing monetary policy.

In terms of primary supply, Asia ex-Japan markets saw total issuance of USD 3.7 billion, primarily driven by financial and sovereign issuances. Japan issued an additional USD 0.5 billion, mainly from the financial sector, bringing total APAC supply to approximately USD 4.2 billion last week.

We participated in a primary issuance by ANZ Bank, which issued an AUD 1.9 billion of 15-year noncallable 10-year Tier-2 bond providing a yield of 6.124%. Additionally, we took part in the issuance by the Government of Hong Kong, which issued bonds across multiple currencies. Specifically, we participated in the CNH and Euro tranches, which saw strong demand with a bid-to-cover (BTC) ratio of more than 5 times on average.

On portfolio action, we mainly took profit on longer-tenure bonds that have performed well this year.

In the local bond market, government bond yields ended the week 1-2 basis points tighter last week supported by reinvestment demand from MYR 11bio MGS maturity. The 5-Year MGS yield settled at 3.60%, while the 10-Year and 30-Year MGS closed at 3.82% and 4.18% respectively.

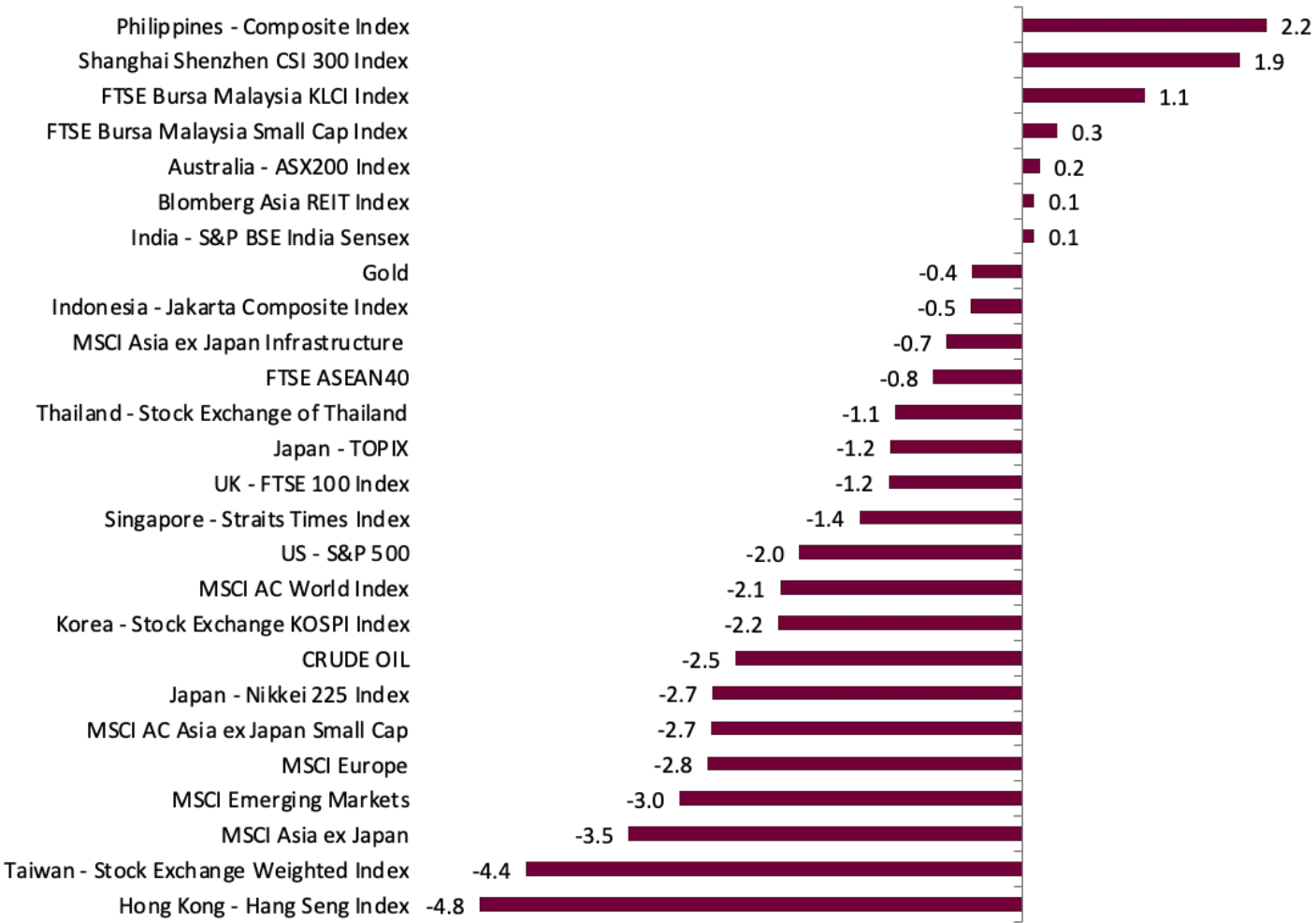
Last week saw the issuance of a new 15-Year MGS benchmark auction, with a total issuance size of RM3 billion. Of this, RM2 billion was allocated through private placement with an average yield of 3.97%. The auction saw strong demand, recording a bid-to-cover ratio of 3.1 times. In the corporate bond space, Benih Restu Bhd, a wholly owned unit of Genting Plantations Bhd, issued a 10-year bond totalling RM1.2 billion at a yield of 4.08%. This issuance also saw robust demand, with a bid-to-cover ratio of over 2 times.

On the data front, Malaysia's advance 2Q'24 GDP figure came in at 5.80%, exceeding consensus estimates of 4.70% and the 1Q'24 GDP figure of 4.20%. This brings the 1H'24 GDP figure to 5.00%, compared to 4.10% last year. The latest economic print aligns comfortably with the top-end of Bank Negara Malaysia's (BNM) GDP official forecast range of 4%-5% for the year, potentially leading to upward revisions in growth projections. The recovery was broad-based with improvements across sectors including construction, manufacturing and agriculture. A more detailed breakdown will be provided in the final 2Q GDP release on 16th August.

This week, we expect the release of the June CPI data, which is anticipated to trend higher at 2.20% compared to 2.0% in May. The diesel subsidy rationalisation measure which was implemented during the month is expected to stoke price pressure. Nevertheless, current economic growth and inflation indicators remain within BNM's forecasted range, allowing the central bank to maintain the overnight policy rate (OPR) for the remainder of the year.

Upcoming bond issuances include CIMB Islamic Bank, Avaland, Alliance Bank, Aeon Co, and a sustainable responsible investment (SRI) sukuk by Pengurusan Air Selangor. In terms of portfolio action, we participated in the 15-Year MGS auction and the Benih Restu issuance. Our cash holdings currently range between 4-6%.

Index Performance | 15 – 19 July 2024



**Index Chart:** Bloomberg as at 19 July 2024. Quoted in local currency terms.

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