WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

22 – 26 April 2024

KEY HIGHLIGHTS

Global

- The S&P 500 index rose 2.70% as a key inflation reading came closely aligned with estimates.
- Core PCE price index showed a 2.80% increase from a year ago in March, slightly exceeding the consensus estimate of 2.70%.
- US GDP expanded 1.60% in the 1Q'2024 much lower than the projected estimate of 2.40%.
- Treasury yields eased slightly with the benchmark 10-Year yield settling at 4.67%. The Fed is expected to keep rates unchanged at its policy meeting this week.

Asia

- MSCI Asia ex-Japan index surged by 4.60%, with Hong Kong and China leading the charge as risk appetite returns to these markets.
- The follows strong China GDP data that outperformed estimates, expanding by 5.30% in the 1Q'2024
- It will be important to see a strong follow-through on robust stimulus measures from Beijing to sustain the rally.
- Asian IG bonds was steady last week with credit spreads unchanged at 82bps. However, the Asian HY space underperformed due to idiosyncratic risks.

Malaysia

- Benchmark KLCI climbed 1.80% w-o-w in line with positive momentum across regional markets.
- The FBM Small Cap index similarly soared 3.30%, signalling a broadening of the market rally.
- Introduction of Account 3 by EPF may lead to a short-term boost in consumption, as observed with previous EPF withdrawal facilities. However, the overall impact is expected to be limited given depletion in members' balances.
- Bond yields drifted higher on the backs of higher US Treasury. The 10-year MGS ended the week at 4% whilst the 30-year MGS ended at 4.30%.

Global & Regional Equities

US equities surged higher last week as markets digest earnings and economic data in a busy week. The S&P 500 index rose 2.70% as a key inflation reading closely watched by the US Federal Reserve (Fed) came closely aligned with estimates which helped ease interest rate jitters.

The core personal consumption expenditures (PCE) price index which excludes food and energy, showed a 2.80% increase from a year ago in March, slightly exceeding the consensus estimate of 2.70%. When including food and energy, the PCE price gauge rose by 2.70% also close in-line with the 2.60% estimate.

This follows softer US gross domestic product (GDP) data which expanded 1.60% in the 1Q’2024 much lower than the projected estimate of 2.40%.

While fixed investment and government spending at the state and local levels bolstered GDP, weaker exports and a decline in private inventory investment weighed on overall growth. Consumer spending was also weaker with a 2.50% increase in the period, down from the 3.30% gain in the 4Q’2023 and falling short of the 3% estimate.

After rising in the early part of the week, Treasury yields eased slightly with the benchmark 10-Year yield settling at 4.67% as investors focus on positive inflation data. All eyes are now turned towards the Fed's upcoming policy meeting this week on 1 May, where the central bank is widely expected to hold interest rates steady.

Earnings season is in full swing in the US, marked by robust performances from megacap tech giants like Alphabet, Meta, and Microsoft. While Tesla's earnings fell short of expectations, the company's plans to introduce more affordable car models sooner than anticipated was encouraging.

So far, 50% of the companies in the S&P 500 based on market capitalisation have reported results, where earnings are beating by 9.00% on aggregate. In terms of forward guidance, most megacap companies stated they were looking to substantially increase capex in artificial intelligence (AI) which was received positively by the tech sector.

In Asia, the MSCI Asia ex-Japan index surged by 4.60%, with Hong Kong and China leading the charge as risk appetite returns to these markets. Hong Kong's Hang Seng index soared by 8.80%, while the MSCI China index recorded an 8.00% gain. Sectors previously oversold, such as tech, property, and consumer goods, witnessed the most significant upswings.

The bullish sentiment follows China's GDP outperforming estimates, expanding by 5.30% in the 1Q’2024 compared to a year ago, surpassing the 5.20% growth seen in the 4Q’2023. Additionally, potential stimulus measures hinted at by the country's securities regulator bolstered confidence. Earnings season has also begun in Asia with companies reporting an aggregate beat of 3.50%.

While we're cautiously exploring opportunities to deploy into China equities for our Asian portfolios, we're mindful of the prevailing weakness in the country's macroeconomic fundamentals. It will be important to see a strong follow-through on robust stimulus measures from Beijing to sustain the rally. Cash holdings in our portfolios currently range between 4% - 5% as we await opportunities to deploy.

Updates on Malaysia

On the local front, the benchmark KLCI climbed 1.80% w-o-w in line with positive momentum across regional markets. Noteworthy sectors driving these gains included utilities, property, and healthcare. The FBM Small Cap index similarly soared 3.30%, catching up with the year-to-date performance of other large-cap indices. This signals a broadening of the market rally as investors’ risk appetite in the local market turns stronger.

In terms of fund flows, foreigners finally reversed their selling streak of 8 consecutive weeks to become net buyers. Local institutional investors maintained their net buying position.

In news flow, the Employees Provident Fund (EPF) has introduced Account 3 (Flexible Account) which would allow members to make withdrawals at any time and for any purpose, starting from 11 May, Initial estimates suggest withdrawals from Account 3 could range between RM20 to 30 billion in the first year, with subsequent annual withdrawals reaching RM4 to 5 billion. While this may lead to a short-term boost in consumption, as observed with previous EPF withdrawal facilities, the overall impact is expected to be limited, given the depletion in members' account balances as well as quantum in Account 3.

We maintained our underweight stance on the consumer sector, we continued to strategically increase exposure in the technology, property, and utilities sectors. Cash levels for conventional funds remain below 5%, while Shariah-compliant funds range between 5%-10%.

Fixed Income Updates & Positioning

In the Asian credit space, Asian investment grade (IG) was steady last week with credit spreads unchanged at 82bps. However, the Asian high yield (HY) underperformed due to idiosyncratic company headline news. Asian HY index widened by 13 bps to 620 bps. We saw some modest spread widenings in longer duration segments. For example, we saw Asian Sovereign and Quasi bonds move about 5 bps wider, and China tech, media and telecommunications (TMT) companies moved about 1 - 2 bps wider.

In the primary market, there was pick-up in activity with about USD 3.35 billion deals that came out last week vs. USD 1.65 billion in the week before. The most notable deal was from Hong Kong's CK Hutchison Holdings that managed 2 deals amounting to USD 1 billion each across 5-year and 10-year duration. The yields were 5.375% and 5.50% respectively. In the HY market, Indonesia's Indika Energy, a coal mining company that managed a deal worth USD 350 million with a tenure of 5-years at 8.75%. This deal was to raise cash to redeem their existing 2025 bond and focus on refinancing. We participated in the Indika Energy deal.

On portfolio action, we were net sellers and took some profit off the table on some credit positions, such as Minor International perp, AIA perp and Far East Horizon seniors.

Back home, the overall bond yield drifted higher on the backs of higher US treasury. The yields moved higher by 2 – 7 bps across the curve. The 10-year Malaysian Government Securities (MGS) ended the week at 4% whilst the 30-year MGS ended at 4.30%.

There was a 3-year MGII auction last week that drew a bid-to-cover ratio of 1.75x for a issuance size of RM5 billion. Average auctioned yield stood at 3.57%. However, the sentiment weakened post-auction and the sukuk closed the week at 3.61%. There was also a corporate primary issuance deal from Cagamas Berhad, issuing 7-year Islamic Medium Term Notes (IMTN) with an issuance size of RM670 million at 4.03%. We did not participate in this deal as the credit spreads of 13 bps is quite tight, in our view.

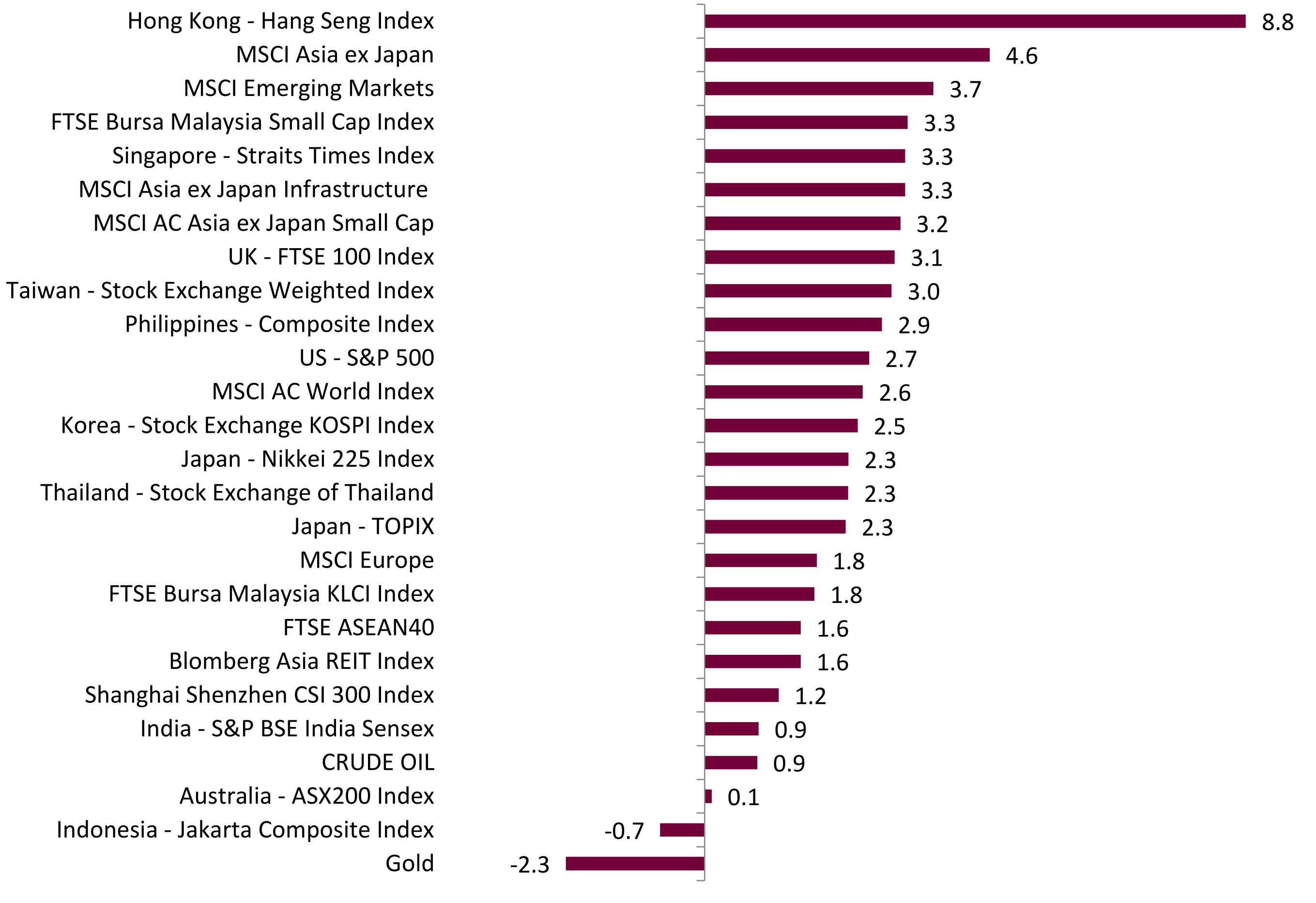
On economic data, Malaysia's inflation was unchanged as of March 2024 at 1.80%. The local core inflation, however, increased slower at 1.70% compared 1.80% in February 2024.Meanwhile, the Economic Ministry will announce the details of the subsidies reform over the coming weeks.

Regarding EPF's new account 3, EPF estimates there might be RM25 billion worth of outflows in the first year, with subsequent outflows of RM4 – 5 billion every year. In our opinion, EPF is in a healthy position, with good access to liquidity after the government's decision to limit overseas investments. At the same time, there is upside to EPF contributions arising from the shift of new civil servants into a defined contribution retirement plan, as well as incentives to encourage voluntary contributions by informal workers. However, we do not discount a knee-jerk reactions from the market, especially on the longer tenured papers.

Fixed Income Updates & Positioning *(cont')*

Coupled together with overall weak sentiment on global bonds, we believe investors will be more cautious in the coming weeks. Currently, the spread of 10-year x 30-year MGS curve is quite flat at 30 bps compared to the average of 60 – 80 bps in the past. On portfolio action, we continue to trim some MGS positions and corporate bond holdings and switch into new primary pipeline. Our local fund durations are around 5.5 – 6.3 years whilst cash levels are around 3% - 8%.

Index Performance | 1 – 5 April 2024



Index Chart: Bloomberg as at 26 April 2024. Quoted in local currency terms.