



WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

15 - 19 April 2024

KEY HIGHLIGHTS



- The S&P 500 index plunged by 3.00% as the Fed signalled that it may be appropriate to keep interest rates higher-for-longer.
- Tensions escalated following reports that Israel conducted a limited strike against Iran in a retaliatory exchange. However, Iranian media outlets reported no damage from the intercepted drones.
- Treasuries rallied initially with the benchmark 10-Year yield reaching 4.50%. However, rate markets later shrugged off the incident and closed the week unchanged.
- Earnings season is in full swing with 15% of S&P 500 companies already reporting their results. So far, these companies have surpassed earnings expectations by 9%.



- MSCI Asia ex-Japan index closed 3.80% lower pressured by higher bond yields and the strengthening of the US dollar.
- Taiwan led losses with the country's benchmark index plunging 5.80%, while Korea's KOSPI index also lost 3.40%.
- Asian credit space remained resilient amidst rising geopolitical tension and volatility in Treasuries.
- Asian IG index credit spreads remained unchanged w-o-w at 82 bps, whereas Asian HY underperformed widening close to 20 bps to 606 bps.



- Benchmark KLCI was muted at -0.20% amidst subdued market sentiment.
- Profit-taking was observed in the property and tech sectors. Conversely, commodities fared well such as aluminium producer Press Metal Bhd.
- The 10-year MGS ended the week at 3.96% whilst the 30-year MGS stood at 4.24%.
- Advanced estimate for Malaysia's Q1'2024 GDP is 3.90% y-o-y in line with consensus estimates.

Global & Regional Equities

S equities tumbled as rate cut expectations are pushed back by the US Federal Reserve (Fed), coupled with tensions in the Middle East. The S&P 500 index plunged by 3.00% as Fed Chair Jerome Powell signalled that it may be appropriate to keep interest rates higher-for-longer, given the unexpected surge in recent inflation readings. At a forum in Washington, Powell further added that given the strength of the labour market and progress on inflation so far, it is appropriate to allow restrictive policy further time to work.

Treasuries rallied initially in response to heightened tensions between Israel and Iran, causing the US 10-Year Treasury yield to drop to 4.50% from 4.65% (prices move inversely to yields). However, rate markets later shrugged off the incident and closed the week unchanged.

Currently, Fed fund rates are pricing-in slightly more than 1 rate cut this year of approximately 30 bps. A rate cut at the upcoming June FOMC meeting seems improbable unless incoming data suggests a shift in economic conditions. The release of the core Personal Consumption Expenditures (PCE) price index this week could offer additional insights into the Fed's progress in managing inflation.

Earnings season has begun in earnest with 15% of S&P 500 companies already reporting their results. So far, these companies have surpassed earnings expectations by 9% indicating a strong start.

This week, attention turns to mega-cap names like Tesla, Meta, and Microsoft, which are scheduled to release their earnings reports. The street is forecasting the 'Magnificent 7' stocks to deliver a muscular earnings growth of 38% with Nvidia leading the pack.

Meanwhile, tensions escalated in the Middle East following reports that Israel conducted a limited strike against Iran in a retaliatory exchange. However, Iranian media outlets reported no damage from the intercepted drones in the central city of Isfahan.

While the situation remains fluid, a direct military confrontation appears unlikely due to geographical factors. Current domestic and economic challenges faced by Iran, Israel as well as its key ally US also put constraints on their capacity to engage in war. (Read more in our Fundamental Flash: Unpacking Israel-Iran Tensions)

In Asia, the MSCI Asia ex-Japan index closed 3.80% lower pressured by higher bond yields and the strengthening of the US dollar. Taiwan led losses with the country's benchmark index plunging 5.80%, while Korea's KOSPI index also lost 3.40%.

On portfolio positioning, we decided to trim our exposure to Indonesia due to foreign outflows, especially as Asian currencies like the Indonesian Rupiah weaken against the US dollar. On the other hand, we increased our positions in India as it gears up for upcoming elections in June. Cash levels range between 5% to 10% for our regional portfolios.

Updates on Malaysia

On the local front, the benchmark KLCI saw minimal movement, closing at -0.20%, as market sentiment was dampened by escalating tensions in the Middle East.

Profit-taking was observed in the property and tech sectors, resulting in declines of 4% to 7% for large-cap names within these industries. In contrast, commodities fared well such as aluminium producer Press Metal Bhd.

Updates on Malaysia (cont')

Despite relatively light news flow, there was further progress seen on upcoming subsidy rationalisation measures by the government which garnered attention from investors.

In terms of portfolio adjustments, we opted to trim our tech position including Inari Bhd. We also top-sliced our exposure in Sunway Bhd, reallocating funds towards laggard property names like SP Setia. Furthermore, we increased exposure in Press Metal Bhd as aluminium prices are expected to remain supported amidst strong demand.

Fixed Income Updates & Positioning

Despite rising geopolitical tensions and US treasury rates volatility, the Asian credit space remained resilient. The activity in the primary market was also quite healthy. There were some sell off earlier of the week with investment grade (IG) spreads widening as much as 3 – 4 bps but recovered towards the end of the week. Asian IG index credit spreads remained unchanged W-O-W at 82 bps whereas Asian high yield (HY) underperformed, widening close to 20 bps to 606 bps.

Across the key markets, apart from selective Japanese and HY names, most of the IG names held on quite well. However, in the emerging market (EM) space, we saw a USD -360 million outflow bringing YTD outflows to USD 9.8 billion. The EM outflows cuts across both hard currency like the US dollar and other local currencies signaling an overall risk-off sentiment.

In the primary market, there were a few Korean IG names such as KEB Hana, Hyundai Cards, LG Electronics in the market. There was a notable deal from Yinson Production 5NC3 at 9.625% with overall bid-to-cover ratio of 2x. In the Aussie space, we participated in Sydney Airport 10-year senior secured bond and added position in HSBC Tier-2 and Australian Government Bond (ACGB).

Back home, we saw mild sell-off in the local bond market last week. This was largely due to a knee jerk reaction from higher US treasuries and rising geopolitical tensions. However, towards the end of the week, US treasuries lowered and we saw better bids in the market. Overall, local yields were 3 – 6 bps higher at the end of the week. The 10-year Malaysian Government Securities (MGS) ended the week at 3.96% whilst the 30-year MGS stood at 4.24%. This impacted our local funds by 20 – 30 bps.

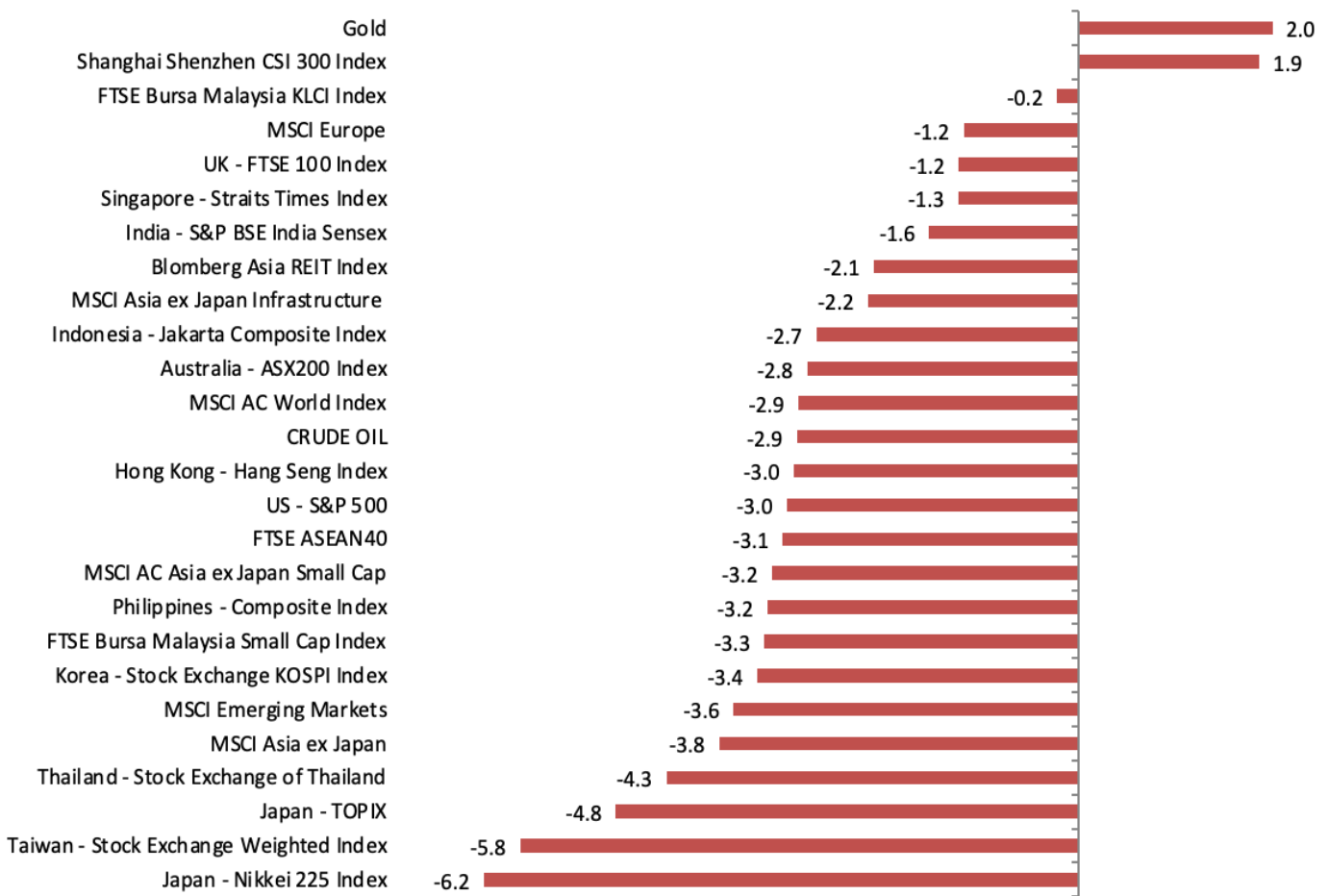
There were new issuances in the market including a 15-year MGS auction with bid-to-cover ratio of 2.0x at 4.05%. On the corporate side, we saw names like APM Auto and Sunway Healthcare issued new primary bonds. Both received strong demand at more than 5 – 6x. We are seeing more demand for corporate bonds compared to government bonds. However, despite demand from the secondary market, offers are sticky as most investors won't sell at a higher price. Hence, demand during primary issuance remains strong. We also participated in both corporate issuances.

On Malaysia's economic data, the advanced estimate for Malaysia's Q1'2024 GDP is 3.90% Y-O-Y, in line with consensus. There was strong expansion across all sectors with the strongest being the construction sector at 9% and the lowest being agriculture at 1.5%. Trade data also showed improvement as contraction in exports was milder than expected at -0.80% compared to consensus' -1.1%. Imports grew strongly at 12% showing demand for capital goods items. As for electronics and engineering (E&E), we are seeing a narrower decline to -1.5% compared to February's -9.7%, indicating recovery in the E&E sector. As the GDP numbers are in line with expectations, economists are expecting Malaysia's full year GDP growth to be 4% – 5%. We believe Bank Negara Malaysia (BNM) will maintain OPR unchanged at 3%.

Fixed Income Updates & Positioning (cont')

On portfolio action, prior to the sell off, we have reduced our positions, primarily in government bonds and took profit on some corporate holdings. Local fund durations are at 5.5 – 6.3 years and cash levels are at 4% – 10%.

Index Performance | 15 – 19 April 2024



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

Disclaimer: This article has been prepared by AHAM Asset Management Berhad (formerly known as Affin Hwang Asset Management Berhad) (hereinafter referred to as "AHAM Capital") specific for its use, a specific target audience, and for discussion purposes only. All information contained within this presentation belongs to AHAM Capital and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of AHAM Capital. The information contained in this presentation may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as "Opinions"). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this presentation has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the presentation was prepared, AHAM Capital makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. As with any forms of financial products, the financial product mentioned herein (if any) carries with it various risks. Although attempts have been made to disclose all possible risks involved, the financial product may still be subject to inherent risk that may arise beyond our reasonable contemplation. The financial product may be wholly unsuited for you, if you are averse to the risk arising out of and/or in connection with the financial product. AHAM Capital is not acting as an advisor or agent to any person to whom this presentation is directed. Such persons must make their own independent assessments of the contents of this presentation, should not treat such content as advice relating to legal, accounting, taxation or investment matters and should consult their own advisers. AHAM Capital and its affiliates may act as a principal and agent in any transaction contemplated by this presentation, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this presentation is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither AHAM Capital nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.