WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

8 – 12 January 2024

KEY HIGHLIGHTS

Global

- The S&P 500 index rose 1.80% as investors shrugged off hotter than expected CPI data which topped estimates.
- Instead, investors reacted more positively to the PPI data that surprised on the downside, indicating an overall improvement in inflation trends.
- US CPI increased 0.30% in December, while PPI which is a gauge of wholesale prices, fell 0.10% for the month.
- The benchmark 10-Year yield ticked lower to settle at 3.94% as the case for a soft-landing gains traction with inflation receding and the economy holding up well.

Asia

- MSCI Asia ex-Japan index closed 0.80% lower.
- China's consumer prices declined for a third month in December underscoring muted demand in the world's second largest economy.
- Vice President Lai Ching-te of the Democratic Progressive Party (DPP) won the presidential race in Taiwan's elections. However, the DPP lost control of its parliamentary majority.
- With results largely at a status quo, the election outcome is unlikely to lead to an escalation between US-China or change in Taiwan's political status.

Malaysia

- Benchmark KLCI ended the week flat. The energy sector led gains, while the property sector saw profit-taking.
- Malaysia and Singapore signed a MOU formalising cooperation on the set-up of a Johor-Singapore Special Economic Zone (JS-SEZ).
- Among the proposed initiatives include a passport-free clearance system between both countries as well as plans to boost investments in renewable energy.
- Malaysian sovereign bond yield curve shifted lower over the week led by the 5 to 10-Year MGS.

Global & Regional Equities

US equities powered higher fuelled by optimism that the US Federal Reserve (Fed) would begin to cut interest rates as price pressures ease. The S&P 500 index rose 1.80% as investors shrugged off hotter than expected consumer price index (CPI) data which topped estimates. Instead, investors reacted more positively to the producer price index (PPI) data that surprised on the downside, indicating an overall improvement in inflation trends.

US CPI increased 0.30% in December and 3.40% from a year ago, compared with respective estimates of 0.20% and 3.20%. PPI which is a gauge of wholesale prices, fell 0.10% for the month and ended 2023 up 1.00% from a year ago, the Labour Department reported last week.

US Treasury yields dipped as the underlying inflation trend continues to show improvements on an annualised basis. The benchmark 10-Year yield ticked lower to settle at 3.94% as the case for a soft-landing gains traction with inflation receding and the economy holding up well.

In Asia, the MSCI Asia ex-Japan index closed 0.80% lower as poor economic data from China dampened sentiment. China's consumer prices declined for a third month in December underscoring deflationary pressures and muted demand in the world’s second largest economy.

The consumer price index (CPI) shed 0.30% in December from a year earlier and was up 0.10% month-on-month. Similarly, the producer price index (PPI) tumbled more than estimates by 2.70%. Some bright spots were seen in export figures which beat expectations as shipments rose. However, total trade still declined overall in 2023 as global growth softened.

Meanwhile, Taiwan held elections over the weekend with Vice President Lai Ching-te emerging victorious in the presidential race. With his win, Lai from the ruling Democratic Progressive Party (DPP) has secured a third consecutive term for the party.

However, the DPP lost control of its parliamentary majority with opposition parties, notably the Kuomintang (KMT) and Taiwan People's Party (TPP) making inroads. With results largely at a status quo, the election outcome is unlikely to bring any significant change to Taiwan’s political status or lead to an escalation between US-China.

2024 will be an election year with several countries especially in Asia heading to the polls. Indonesia is scheduled to hold their elections on the 14 February. Similarly, Korea is also gearing up for its election on 10 April.

On portfolio positioning, we are positive on Indonesia and India which are riding on positive demographic trends and structural tailwinds. Additionally, we are also overweight on the technology sector largely underpinned by a cyclical upturn in tech hubs like Korea and Taiwan.

Updates on Malaysia

Back home, the benchmark KLCI ended the week on a flat note—a reversal from the robust gains observed in the preceding week. Noteworthy gainers emerged from the energy sector, driven by escalating conflicts in the Middle East which widened concerns about oil supply. Conversely, the property sector faced profit-taking becoming laggards last week.

In notable news, we saw the signing of a Memorandum of Understanding (MOU) between Malaysia and Singapore, formalising cooperation on the set-up of a Johor-Singapore Special Economic Zone (JS-SEZ). However, there were no detailed specifics yet on what it would entail. A more comprehensive agreement is expected to be finalised during the 11th Malaysia-Singapore Leaders' retreat sometime in October.

Among the proposed initiatives include a passport-free clearance system between both countries as well as plans to boost investments in renewable energy.

Meanwhile, it was reported that that Japanese firms have opted out of participating in the high-speed rail (HSR) project connecting Kuala Lumpur and Singapore. Transport Minister Anthony Loke revealed that the Request for Information (RFI) stage would conclude on the 15 January, before progressing to the Request for Proposal (RFP) stage.

On portfolio positioning, we seized opportunities to increase weights in laggard, particularly within the technology, export as well as property space. Cash levels currently range between 5% and 15%.

Fixed Income Updates & Positioning

The regional bond market was marked by a flurry of activities in the primary market last week. Noteworthy issuances included a colossal $12 billion bond from Saudi Arabia, alongside corporate issuances from Sumitomo Life and ANZ Group.

We participated in Saudi Arabia's bond issuance, securing positions in the 10-Year and 30-Year tranche, offering yields of 4.90% and 5.90% respectively. Additionally, we participated in ANZ Group’s Tier-2 AUD bond providing a yield of 5.90% as well as OCBC Bank’s AT1 SGD bond offering a yield of 4.05%.

Turning to credit news, Fitch Ratings downgraded the credit rating of China's four state-backed distressed asset managers. Cinda Asset Management and China Orient Asset Management were lowered to A- from A. Concurrently, ratings for China Huarong Asset Management and China Great Wall Asset Management were downgraded to BBB from BBB+. While Cinda's rating outlook remained stable, the outlook for the other three companies was placed on a negative rating watch.

Shifting focus to China's property sector, we saw a more positive and firmer tone supported by encouraging headlines indicating an easing of credit concerns. China Vanke Co briefed creditors on its plans for repaying three offshore bonds due this year worth about USD 1.4 billion in combined principal. Likewise, distressed developer Logan Group saw positive developments in its debt restructuring efforts by proposing a cash option of 15 cents to the dollar or a combination of new priority/ordinary notes and convertible bonds to fulfil its debt obligations.

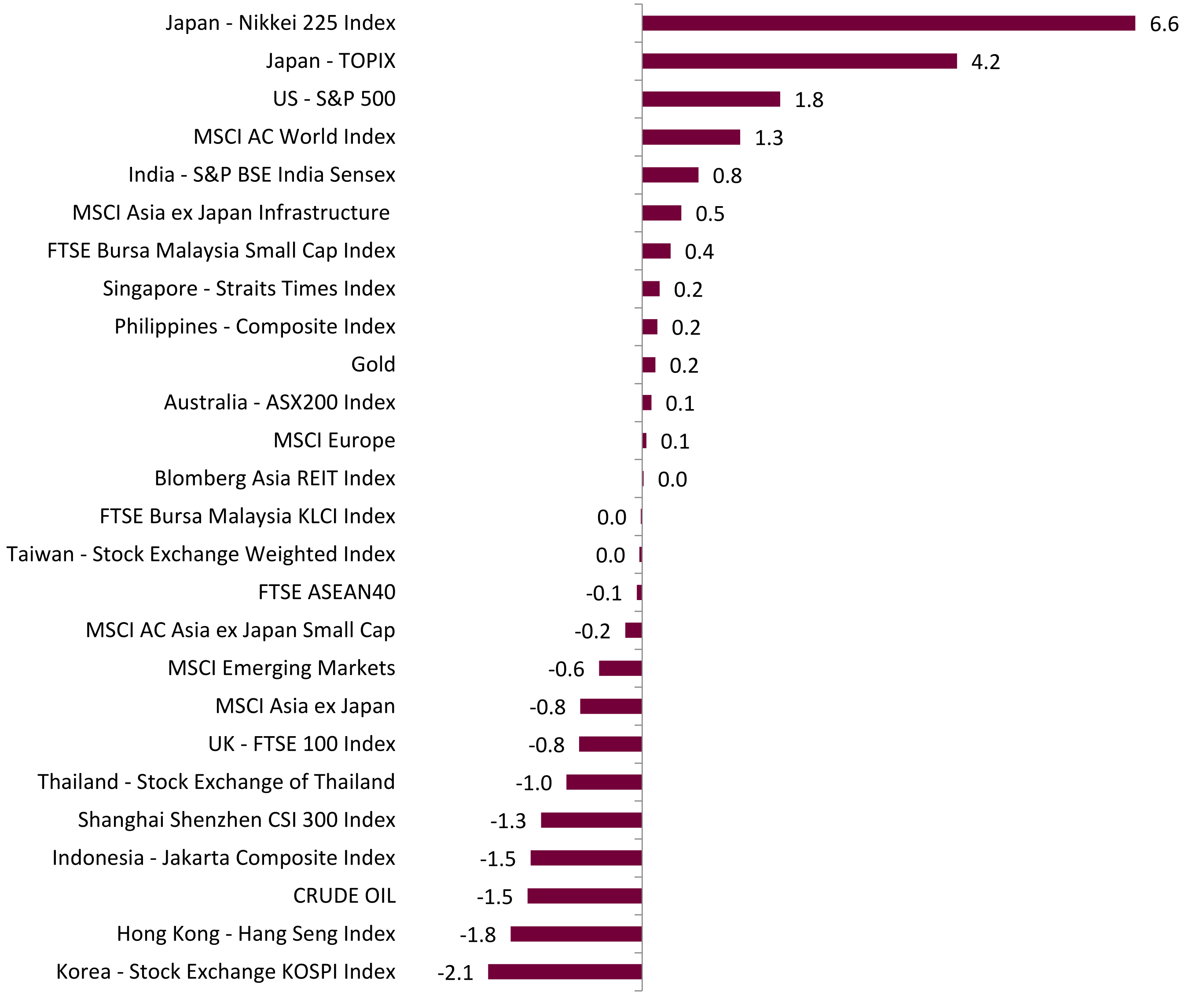
In terms of portfolio action, we added new position in Standard Chartered bonds offering yield of 4.10% in the secondary market.

On the domestic front, Malaysian sovereign bond yield curve shifted lower over the week led by the 5 to 10-Year Malaysian Government Securities (MGS), with noticeable demand from both global and domestic investors. At the longer end, the 30-Year MGS continued to see demand anchored by local investors. This was evidenced by a strong 30-Year MGS auction last week of RM3 billion, which recorded a bid-to-cover (btc) ratio of 3 times at an average yield of 4.24%. The 3-year, 10-year, and 30-year MGS ended the month at 3.47% (-5bps), 3.82% (-7bps), and 4.26% (-3bps) respectively.

Over the week, we also saw bond swap spreads in the local bond market turning positive. This can be attributed to the NDIRS (Non-Deliverable Interest Rate Swap) where the fall in yield is sharper compared to the fall in government bond yields. This shift signals a potential easing of short positions on the local bond market.

On portfolio positioning, we took profit on longer-tenure corporate bonds, while simultaneously switching into the ‘belly’ or middle part of the curve for duration positioning. Cash level for the funds currently range between 5% and 10%, with an average duration at 6 years.

Index Performance | 8 – 12 January 2024



Index Chart: Bloomberg as at 12 January 2024. Quoted in local currency terms.