WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

11 November – 15 November 2024

KEY HIGHLIGHTS

Global

- The S&P 500 edged down 2.08%, as markets recalibrate expectations of a second Trump presidency as he begins to nominate his Cabinet members.
- US Consumer Price Index (CPI) aligned with expectations at 2.6%, while the Producer Price Index (PPI) slightly exceeded forecasts, adding potential pressure on core inflation.
- Treasury yields climbed, with the short-end rising 5 bps and the long-end surging 14 bps to 4.44%, as bond markets reprice growth and inflation outlook following Trump's win.
- Fed Chair, Jerome Powell reiterated a cautious stance ahead of the December FOMC meeting, emphasising that the Fed would remain data-dependent to ensure price stability.

Asia

- The MSCI Asia ex-Japan index fell sharply by 4.78%, its worst weekly performance since January 2022.
- North Asian markets, including Taiwan, Korea, and the Hang Seng Index, dropped 5-7% pressured by higher bond yields and a stronger US dollar.
- China's NPC meeting disappointed markets with a lack of significant fiscal stimulus to boost consumption, despite announcing a debt swap programme.
- Portfolio adjustments included increased exposure to Singaporean stocks like UOB, SEA (Shopee), and Grab due to strong results and market penetration.

Malaysia

- The KLCI index dropped 1.78%, as technology and manufacturing sectors surrendered gains, while utilities and healthcare sectors outperformed.
- 3Q'2024 corporate earnings were mixed, with plantation companies reporting strong results due to higher crude palm oil prices, while technology and glove companies underperformed amidst a weaker US dollar.
- Malaysia's GDP grew 5.3% y-o-y in 3Q'2024, in line with analyst expectations, though inflation risks tied to potential subsidy removals were highlighted.
- Bank Negara Malaysia eased foreign exchange rules, allowing international financial institutions to issue ringgit-denominated bonds and sukuk more easily.

Global & Regional Equities

The S&P 500 declined by 2.08% last week, as the post-election rally started to fizzle with markets recalibrating expectations of what a second Trump presidency could bring. With President-elect Donald Trump securing a clean sweep of Congress, investor focus has shifted to his cabinet nominations and the potential policy directions they signal.

Several of Trump's key nominations have drawn attention for their potential impact on US-China relations, defence policy, and public health. These include:-

- **Marco Rubio as Secretary of State**: Known for his hawkish stance on China, Rubio's nomination signals a likely continuation of tough policies toward Beijing.-
- **Robert F. Kennedy Jr. as Secretary of Health and Human Services:** A contentious pick due to his scepticism of vaccines as well as unconventional view on public health policies. His appointment could have significant implications on the healthcare sector including pharmaceuticals and vaccine producers.

Nominees will still have to undergo a vetting process before being confirmed by the Senate. We will continue to monitor developments here closely.

On economic data, the US Consumer Price Index (CPI) aligned with expectations at 2.6% for the headline figure and 3.3% for core CPI, providing some relief to investors. However, the Producer Price Index (PPI) came in slightly above expectations, potentially adding pressure to core inflation measures like the Personal Consumption Expenditures (PCE) index, which will be closely watched later this month. Retail sales was moderate, while industrial production remained soft.

Treasury yields climbed as markets priced in the potential impact of Trump's second-term policies. The short-end of the curve rose by 5 bps while the long-end surged 14 bps to 4.44%. The US Federal Reserve (Fed) Chair Jerome Powell maintained a cautious tone, emphasising the Fed's data-dependent approach ahead of the December FOMC meeting. At a US business forum, he further reiterated the Fed's commitment to balancing economic resilience with price stability, suggesting that the monetary stance will remain cautious given the inflationary environment.

Asian markets had a challenging week, with the MSCI Asia ex-Japan index down 4.78%, marking its worst weekly performance since January 2022. North Asian markets, including Taiwan, Korea, and the Hang Seng Index, dropped between 5% and 7%, pressured by higher bond yields and a strengthening US dollar.

In China, the National People's Congress (NPC) meeting failed to meet market expectations, with investors expressing disappointment over the lack of substantial fiscal stimulus to boost domestic consumption. While the government announced a debt swap programme, markets were looking for more aggressive measures to stimulate growth.

On portfolio positioning, we selectively added exposure to Singaporean stocks, including UOB, on the back of strong results and an improved dividend payout. We also increased positions in SEA (Shopee) and Grab, driven by their solid performance amidst lighter competition and improving market penetration. Cash levels range between 5% and 10% for our regional funds. Despite short-term fluctuations, we are adopting a balanced approach, focusing on medium-term opportunities in markets with strong fundamentals and growth potential.

Updates on Malaysia

Back home, the KLCI index declined by 1.78% w-o-w, mirroring the broader regional indices. On a sectoral basis, technology and manufacturing sectors surrendered some of the gains recorded in the prior week, while utilities and healthcare were the only sectors to post gains as investors rotated into more defensive plays.

In terms of fund flows, foreign investors continued their net selling trend which has persisted since the end of September. Meanwhile, local institutional investors stepped in as net buyers. Corporate earnings for the 3Q'2024 is in full swing, where results have been mixed so far. Notably, technology and glove companies reported weak results driven by a softer US dollar, while plantation companies delivered strong earnings, supported by stronger crude palm oil (CPO) prices.

Malaysia's economic performance remains robust, with the country's GDP expanding 5.3% y-o-y in the 3Q'2024, in line with analyst expectations and early estimates. Year-to-date growth stands at 5.2%, according to Bank Negara Malaysia. However, some analysts have expressed caution, highlighting inflation risks tied to potential subsidy removals.

In corporate news, Bumi Armada Berhad announced a potential share-based merger with MISC Berhad's offshore business. As reported by The Edge, this merger could create a global energy services powerhouse, with combined assets exceeding RM20 billion. While the details remain sparse, the deal appears to have long-term synergy potential. That said, further clarity on the share swap terms will be necessary to assess the overall impact, particularly on MISC Berhad.

On the portfolio front, funds trimmed exposure to plantation stocks and selectively added positions in the technology and airline sectors. Overall, funds remain highly invested, with cash levels maintained between 0% and 10%.

Fixed Income Updates & Positioning

The Asian credit market remained stable last week, although risk sentiment softened towards Friday. Nonetheless, the week saw a robust primary issuance with approximately USD 6 billion issued in the Asia-Pacific (APAC) region.

As such, our portfolio actions were heavily focused on these primary deals. Notably, China issued a USD 2 billion deal with a significant order book of USD 40 billion, covering 20 times the issuance size. The 3-year and 5-year notes were priced at Treasury +1 basis point (bps) and +3 bps, respectively, and are now trading at net negative spreads of 35 bps to US Treasuries in the secondary market, reflecting their high demand and elevated valuations.

In the Australian dollar (AUD) bond market, there were several noteworthy new issuances with attractive spreads. QBE Insurance printed a floating-rate Tier 2 bond with a 7-year maturity (12-month callable) at a 6.23% coupon, at an issuance size of AUD 250 million. The final book of the issuance came at AUD 2.15 billion, almost 9 times oversubscribed. Due to primary market selling restrictions in Malaysia, our funds entered via the secondary market, where the bond has appreciated by nearly 50 cents.

Similarly, The Commonwealth Bank of Australia (CBA) issued a 15-year non-call 10 Tier 2 fixed-rate note at a 6.17% coupon, size of AUD 1.5 billion. This issuance also saw strong demand where it was oversubscribed by 2 times. We participated through the primary market, where the bond price has risen by 70 cents.

Fixed Income Updates & Positioning *(cont')*

In the US dollar space, we participated in several high-profile primary deals:

- **SP Group Treasury**, a fully owned entity of Temasek Holdings responsible for Singapore's electricity and gas transmission, issued a 5-year USD note at 4.625%, with of USD 700 million. This AA+ rated bond was 5 times oversubscribed, reflecting robust demand.
- **ANZ** printed a 10-year non-call 5 Tier 2 Singapore dollar bond at 3.75%, size of SGD 600 million, which was more than 2 times covered.
- **TotalEnergies**, a euro perpetual non-call note, was issued at 4.5%, size of at EUR 1.5 billion. While most of these bonds have traded flat since issuance, TotalEnergies has outperformed, appreciating by almost 50 cents.

In Malaysia, the government bond market traded defensively last week, mirroring the weakness in US Treasuries. The short end of the curve experienced steepening pressure, with yields rising in anticipation of the upcoming 5-year Government Investment Issues (GII) auction. Overall, the yield curve closed 3 to 6 basis points (bps) higher, led by the 3-Year and 5-Year tenures. Meanwhile, the long end remained relatively supported, closing about 1 bps tighter. The 10-year MGS ended the week flat at 3.88%, while the 30-year MGS tightened by 1 bps to close at 4.20%.

On primary issuance, we saw the 15-year MGS reopening auction with a public issuance size of RM3 billion. The auction was well-received, achieving a Bid-to-Cover (BTC) ratio of 2.7 times at an average yield of 4.02%.

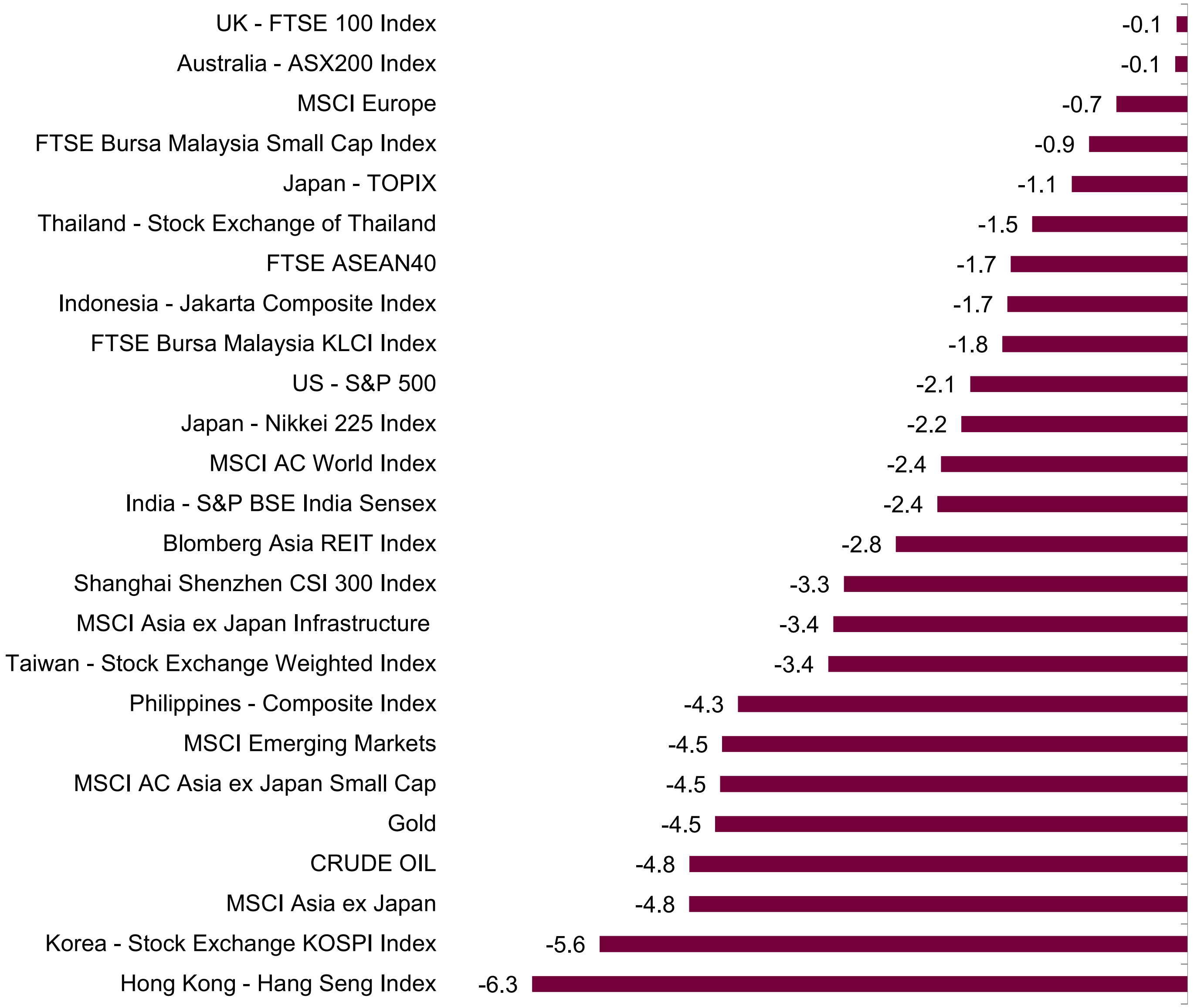
In the corporate bond space, Malaysia Airports Holdings Berhad (MAHB), rated AAA, issued RM1.6 billion, which saw strong demand with an average BTC ratio of 3.1 times. The spread averaged 22-35 bps, wider on the short- end. Our local bond funds participated in this issuance for its attractive yield and strong credit profile. Looking ahead, the market anticipates the 5-year GII auction this week with a public issuance size of RM4.5 billion.

On the data front, latest statistics show foreign holding of Ringgit bonds posting net outflow of RM11.4 billion in October, which likely contributed to a weaker Ringgit. This outflow likely reflects profit-taking and defensive positioning ahead of the US election. Despite this, year-to-date (YTD) foreign net inflows remain positive at RM7.3 billion, though the foreign share of MGS has declined to 33.2%.

In policy news, Bank Negara Malaysia (BNM) has moved to ease foreign exchange rules, making it easier for international financial institutions to issue ringgit-denominated bonds and sukuk in the country. BNM Governor Datuk Seri Abdul Rasheed Ghaffour said the move will help widen financing opportunities by reducing currency mismatch risk while spurring more issuance according to The Edge.

In terms of portfolio positioning, we were net sellers last week, raising cash to participate in primary issuances. Cash positions across our funds currently range between 3% and 5%.

Index Performance | 11 November – 15 November 2024



Index Chart: Bloomberg as at 15 November 2024. Quoted in local currency terms.