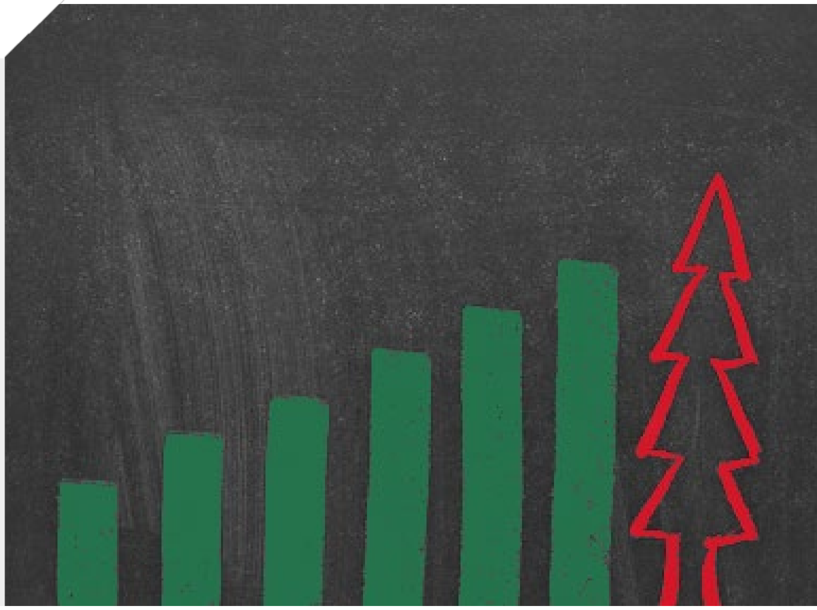
WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

9 December – 13 December 2024



KEY HIGHLIGHTS

Global

- The S&P 500 declined 0.64% as markets recalibrated for fewer rate cuts in 2025, with the 10-year US Treasury yield rising 20 basis points to 4.4%.
- November CPI met expectations, with headline inflation at 2.7% and core at 3.3%, reflecting persistent inflation in certain components.
- The stronger US dollar weighed on global currencies, with the Japanese yen leading underperformance after retracing prior gains.
- Syria appointed Mohammed al-Bashir as caretaker prime minister, introducing economic reforms while geopolitical tensions in the region persisted.

Asia

- The MSCI Asia ex-Japan index rose 0.13%, with South Korea rebounding 2.6% after last week's decline, despite political uncertainty following President Yoon Suk Yeol's impeachment.
- China gained 1% on optimism following the China Politburo and Central Economic Work Conference, where policymakers reaffirmed commitments to boost consumption and stabilise markets.
- Investor sentiment in China remained cautious due to a lack of detailed policy measures and concerns over potential tariff risks from the upcoming Trump-led US administration.

Malaysia

- The KLCI fell 0.28%, led by declines in healthcare stocks following the government's announcement to implement the Diagnosis-Related Groups (DRG) model to curb medical inflation.
- Technology and construction sectors outperformed, gaining 3% and 2%, respectively, while the Small Cap Index ended the week flat.
- Foreign investors continued net selling, with weekly outflows rising to RM900 million, marking the third consecutive week of foreign net selling.
- Year-to-date, the KLCI has risen 10.59%, supported by institutional buying and strength in key domestic sectors.

Global & Regional Equities

The S&P 500 declined by 0.64% last week, with no major developments driving the movement. Sector-wise, the AI narrative remained robust as Broadcom Inc. reported strong earnings, leading to a significant 24% surge in its share price.

A key data highlight for the week was the US Consumer Price Index (CPI), which tracks inflation across goods and services. Headline CPI came in at 2.7%, while core CPI—excluding food and energy—stood at 3.3%, both in line with expectations. Initially, US Treasury yields were stable post-release. However, by week's end, yields moved higher as markets began recalibrating for fewer rate cuts in 2025, driven by persistently sticky inflation components. The 10-year US Treasury yield rose 20 basis points to close at 4.4%, as markets now price in two rate cuts for 2025, down from the previously anticipated three cuts.

Higher US Treasury yields drove strength in the US dollar, which weighed on most global currencies. The Japanese yen was the main underperformer last week, largely due to a retracement after its sharp gains in the prior week.

Looking ahead, key events this week include the Federal Open Market Committee (FOMC), Bank of England (BOE), and Bank of Japan (BOJ) meetings. The FOMC is widely expected to cut rates by 25 basis points, while both the BOE and BOJ are expected to hold rates steady, reflecting cautious outlooks amid prevailing economic conditions.

Geopolitical Developments

Syria saw notable political shifts, with Mohammed al-Bashir appointed as caretaker prime minister. Backed by former rebels who ousted President Bashar al-Assad, he is tasked with leading the interim authority until March 1, 2025. Al-Bashir has promised to restore basic services and safeguard citizens, though challenges persist due to cash constraints and uncertainties regarding the Syrian Central Bank's reserves.

Economically, the interim government announced plans to adopt a free-market model to integrate Syria into the global economy. While welcomed by business leaders, concerns remain about whether the nation will transform into an open economy or lean toward Islamist governance due to the ideological roots of its leadership. Additionally, the abolition of the current customs system was announced to address longstanding issues faced by traders and industrialists.

From a regional perspective, Turkey has strengthened its influence, while Israel expanded its security buffer zone. Conversely, Iran faces the loss of a strategic ally, and Russia risks reduced access to its military bases in Syria.

Asia

Asian markets were largely muted, with the MSCI Asia ex-Japan index gaining a modest 0.13%.

Korea: Political Turmoil and Market Recovery

South Korea rebounded by 2.6%, recovering losses from the prior week's 3.7% decline. The recovery came amid heightened political tensions following the impeachment of President Yoon Suk Yeol by the National Assembly. The impeachment was triggered by his brief attempt to impose martial law, which sparked domestic unrest. The Constitutional Court now has 180 days to determine Yoon's fate.

Global & Regional Equities *(cont')*

In the interim, Prime Minister Han Duck-soo serves as acting president.

China: Policy Easing and Market Optimism

The Chinese market rose 1%, supported by optimism following the China Politburo and Central Economic Work Conference (CWC) meetings. Policymakers reaffirmed their commitment to boosting consumption, stabilizing the property and stock markets, and adopting looser monetary policies such as rate cuts and Reserve Requirement Ratio (RRR) reductions.

However, the lack of specific measures tempered investor enthusiasm. Markets are now looking ahead to the National People's Congress (NPC) in March for further policy clarity. Until then, Chinese equities remain in wait-and-see mode, with sentiment cautious due to potential tariff risks arising from a Donald Trump administration.

Updates on Malaysia

The KLCI index declined by 0.28% last week, while the Small Cap Index ended flat. On a sector basis, technology and construction emerged as the best-performing sectors, gaining 3% and 2%, respectively. Year-to-date, the KLCI has risen by 10.59%, while the EMAS Shariah Index is up 12.59%.

The key news last week was the government's announcement to expedite the implementation of the Diagnosis-Related Groups (DRG) model to address medical inflation. Under this system, instead of itemising individual treatment charges, patients with similar diagnoses will be categorised, and treatment costs will be capped. The initiative aims to improve the management of hospital expenses, contain rising private healthcare costs, and ease the pressure on insurance premiums.

Following the announcement, healthcare stocks such as Sunway Healthcare, KPJ Healthcare, and IHH Healthcare saw a sharp 5-10% decline in share prices within a day. Since then, prices have remained flat as investors adopt a wait-and-see approach pending further clarity on the policy's implications.

In terms of fund flows, foreign investors remained net sellers, with outflows amounting to approximately RM900 million last week, a slight increase compared to RM800 million the previous week.

Portfolio cash levels stand at 2–3%. Last week, we selectively trimmed healthcare positions in response to the policy announcement.

Fixed Income Updates & Positioning

The Asian credit space ended the week slightly tighter, largely driven by the rates sell-off. Investment Grade (IG) spreads tightened by 2 basis points, while High Yield (HY) spreads saw a more significant tightening of 26 basis points. Market activities are slowing down as we approach year end.

Following the recent China Politburo and Central Economic Work Conference (CEWC) meetings, the China IG space saw credit spreads tightening by approximately 2 to 3 basis points. The activity was concentrated in long-duration tech credits such as BABA and Meituan. For context, BABA's 10-year (2030.1) is now trading at approximately 5.2%, while Meituan's 5-year (2029) is also yielding around 5.2%. Beyond China, the broader Asia credit space tightened by around 1 to 2 basis points, though overall activity remained muted.

Fixed Income Updates & Positioning *(cont')*

In Australia, the Australian Prudential Regulation Authority (APRA) officially confirmed the phase-out of Additional Tier 1 (AT1) instruments starting 2027, a move that was previously announced. Under the finalised policy, all AT1 papers will be reclassified as Tier 2 from 2027 onward. As a result, Australian banks will need to replace their AT1 instruments with Tier 2 issuances, and this trend has already begun with several banks increasing Tier 2 issuances. We anticipate this momentum will continue into next year.

Apart from that, in the primary market, activity in the USD space remained quiet last week.

Back home, Malaysian Government Securities (MGS) benchmark yields rose marginally, in tandem with the increase in UST 10-year yields. On a weekly basis, yields moved higher across the curve: the 5-year MGS rose by 6 basis points to 3.62%, the 10-year MGS increased by 3 basis points to 3.82%, and the 30-year MGS edged up by 2 basis points, closing at 4.19% from 4.17%.

As highlighted last week, there has been no further guidance regarding bond auctions. Market participants are now shifting their attention to the 2025 auction calendar, which is expected to provide further clarity on issuance plans.

In the corporate PDS market, there was a single issuance last week. Suria KLCC, a AAA-rated sukuk, entered the market with a total size of RM600 million. The yield was relatively tight at 4%, reflecting a spread of approximately 20 basis points. We opted not to participate in this issuance.

On portfolio positioning, cash levels remain between 1% and 3%, with duration maintained at approximately 5 to 6 years. Last week, we conducted rebalancing across portfolios. We trimmed some positions in corporate PDS to take profits and adjusted positions in government bonds, selling shorter tenors and switching into longer-tenor securities to optimise yield pickup.

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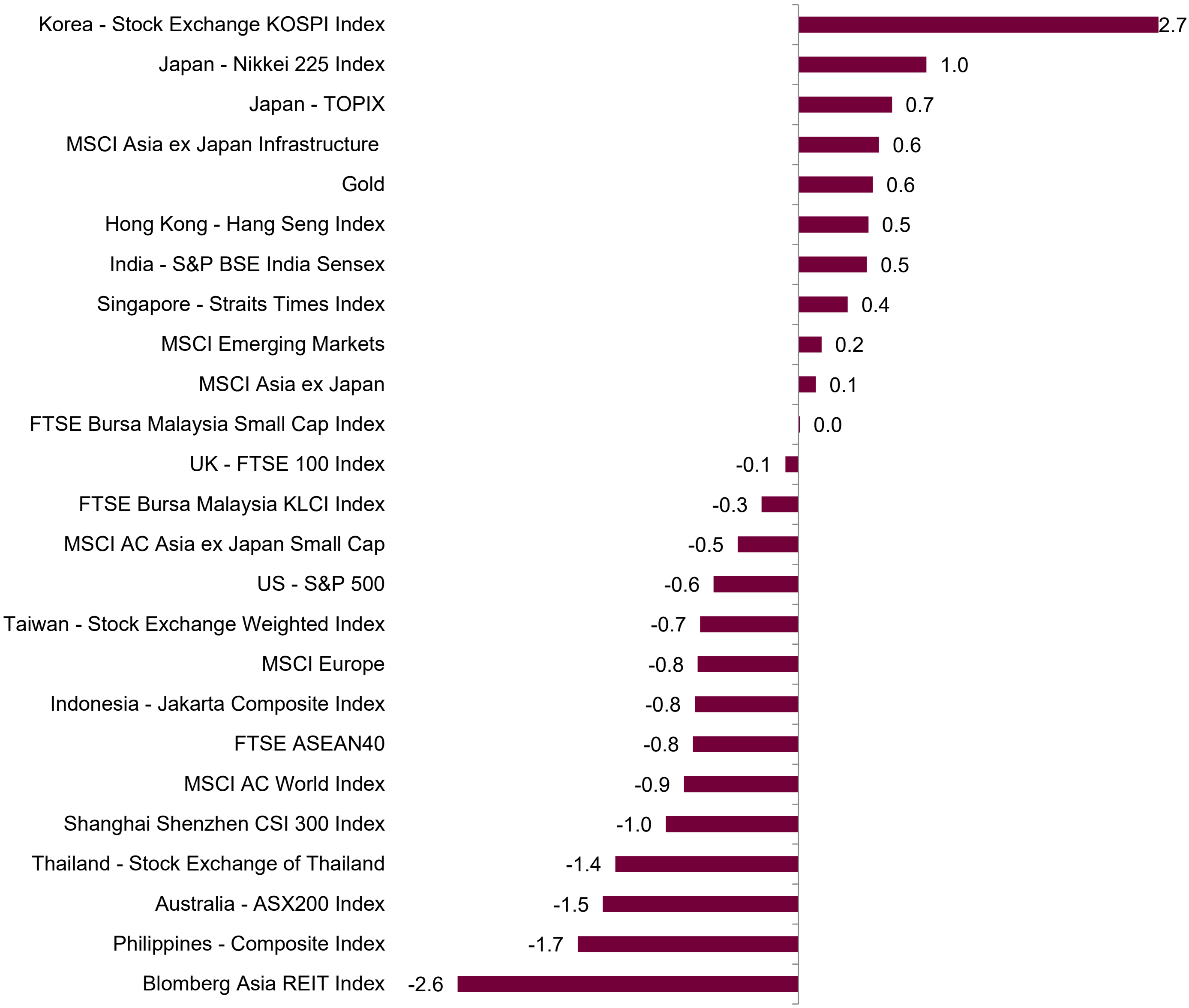
Index Performance | 9 December – 13 December 2024



Index Chart: Bloomberg as at 13 December 2024. Quoted in local currency terms.