WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

21 October – 25 October 2024

KEY HIGHLIGHTS

- US equities were muted, with the S&P 500 slipping 1.0%, as investors awaited clarity on the upcoming US presidential election.
- The US Composite PMI rose to 54.3 in October, while consumer sentiment reached a 6-month high at 70.5, suggesting resilient consumer confidence.
- US Treasury yields edge higher with the benchmark 10-year yield opening at 4.27% as markets look ahead to the US election results, Fed meeting, and Nonfarm Payroll report.
- The People's Bank of China (PBOC) and the Bank of Canada both cut interest rates by 50 bps last week, aligning with market expectations.

- The MSCI Asia ex-Japan index fell 1.80%, impacted by US election uncertainty and geopolitical tensions, including Israel's retaliatory action against Iran, which initially raised concerns about oil supplies.
- Japan's Liberal Democratic Party (LDP) lost its majority, weakening the yen due to policy uncertainty. However, Japanese equities gained support especially for export-oriented companies.
- Diplomatic talks resumed between India and China, marking progress toward bilateral relations post-2020 border incident.

- The KLCI index slipped 1.7%, with strong performance from construction stocks, led by Gamuda's recent contract wins, including a major RM4 billion MRT project and a RM3 billion hydropower contract in Sabah.
- Gamuda's order book now stands at RM31 billion, with management targeting RM35 billion by year-end and up to RM45 billion in 2025.
- Utilities lagged, with YTL Power seeing declines, reflecting a cautious sentiment as investors await direction from the US elections and after a market-neutral budget.

Global & Regional Equities

US equities were muted last week, with the S&P 500 index slipping 1.0% as investors largely stayed on the sidelines, awaiting clarity on the upcoming presidential election. Betting markets now reflect an increased likelihood of a Trump victory and a Republican sweep of the Congress and Senate, potentially paving the way for more reflationary policies and higher fiscal spending.

It was a relatively quiet week for macro data, but some indicators showed resilience. The US Composite PMI came in stronger than anticipated, rising to 54.3 in October from a final 54.0 in September. Additionally, consumer sentiment reached a 6-month high, where the University of Michigan's final October sentiment index rose to 70.5, up slightly from 70.1 in September, and beating the preliminary 68.9 reading.

These factors contributed to continued selling pressure in US Treasuries, with the 10-year yield opening at approximately 4.27% this week. Looking ahead, market attention remains focused on the upcoming US election results in early November, the upcoming Fed's meeting, as well as the latest Nonfarm Payroll (NFP) report due this week.

In the event of a Trump victory, we anticipate further selling pressure on Treasuries, though not to the same degree as seen during the US Presidential Election in 2016, when Trump beat Hillary Clinton. Back then, the US 10-Year Treasury yield rose by around 85 bps. In contrast, the current bond market has partially priced-in the potential for a Trump win, with yields already up by 67 bps from recent lows. On the contrary, in the event of Harris's victory, some retracement in selloff in yields are expected.

In other monetary policy developments, last week also saw rate cuts by the People's Bank of China (PBOC) and the Bank of Canada, each reducing rates by 50 bps, aligning with market expectations.

In Asia, the MSCI Asia ex-Japan index fell by 1.80% as investors awaits the U.S. election results, with the increasing probability of a Trump win further impacting sentiment.

Geopolitical tensions also factored into market movements, with Israel retaliating against Iran over the weekend. Although there were initial concerns of attacks on oil or nuclear facilities, oil prices dropped by 4% this morning after no such sites were targeted.

Additionally, diplomatic talks resumed between India and China, reflecting a positive step towards mending relations following the 2020 border incident.

Meanwhile. Japan's ruling Liberal Democratic Party (LDP) lost its majority, resulting in significant yen weakness due to heightened policy uncertainty. The Japanese equity market, however, saw positive momentum, as a weaker yen supports Japan's export-oriented companies.

On earnings, SK Hynix Inc., a South Korean memory chipmaker, reported record revenue and profit in Q3, driven by strong demand for high-bandwidth memory, a key component in AI-enabled servers.

On portfolio positioning, we are maintaining cash levels between 5% and 12%. We recently added Meituan, a Chinese platform for locally-sourced consumer products and retail services, to increase our exposure to China's large-cap sector.

Updates on Malaysia

In the domestic market, trading was relatively subdued, with the benchmark KLCI index slipping 1.7% amid lower volumes. Construction stood out as a strong performer, primarily driven by Gamuda, which announced significant contract wins, including a major MRT project valued at RM4 billion and additional works worth RM11 billion slated over the next 7 years. Additionally, a RM3 billion Sabah hydropower plant contract boosted the company's orderbook size which has now reached RM31 billion.

By year-end, the company is expected to hit the upper end of management's target of RM35 billion. For 2025, Gamuda aims to expand its orderbook to between RM40 billion and RM45 billion.

Conversely, utilities were the primary laggard, with YTL Power seeing a notable decline for the week, weighing down the sector. Overall market sentiment remains cautious as investors await more direction following a market-neutral budget and with the U.S. elections on the horizon.

In terms of portfolio actions, we traded positions in Gamuda in anticipation of the upcoming MSCI and KLCI index rebalancing next 2 months. Additionally, we began to nibble on selected tech names, as valuations appear to be bottoming-out as the sector heads for a recovery next year.

Fixed Income Updates & Positioning

The Asian credit market remained largely stable last week, holding up despite a selloff in US Treasuries. Asian credit spreads demonstrated resilience, with investment-grade (IG) and high-yield (HY) spreads tightening by 2 and 3 bps respectively.

Primary issuances saw a slowdown as markets braced for the US elections. However, the secondary market showed more activity. We took part in an AUD-denominated bond issuance from ENBW, a German utility company, with a 6% yield, and also participated in Melbourne Airport's AUD issuance at 5.6%. Both issuances received decent demand, with a bid-to-cover (BTC) ratio of 2 to 3 times.

In terms of portfolio actions, we continued profit-taking on select primary issuances that have performed well over the past month. We also trimmed bonds trading at tight spreads, including Standard Chartered's SGD-denominated AT1 bond at 4.4%, which is relatively expensive for a BB-rated issuance. By comparison, we're seeing similar IG financial names trading closer to 4.7%.

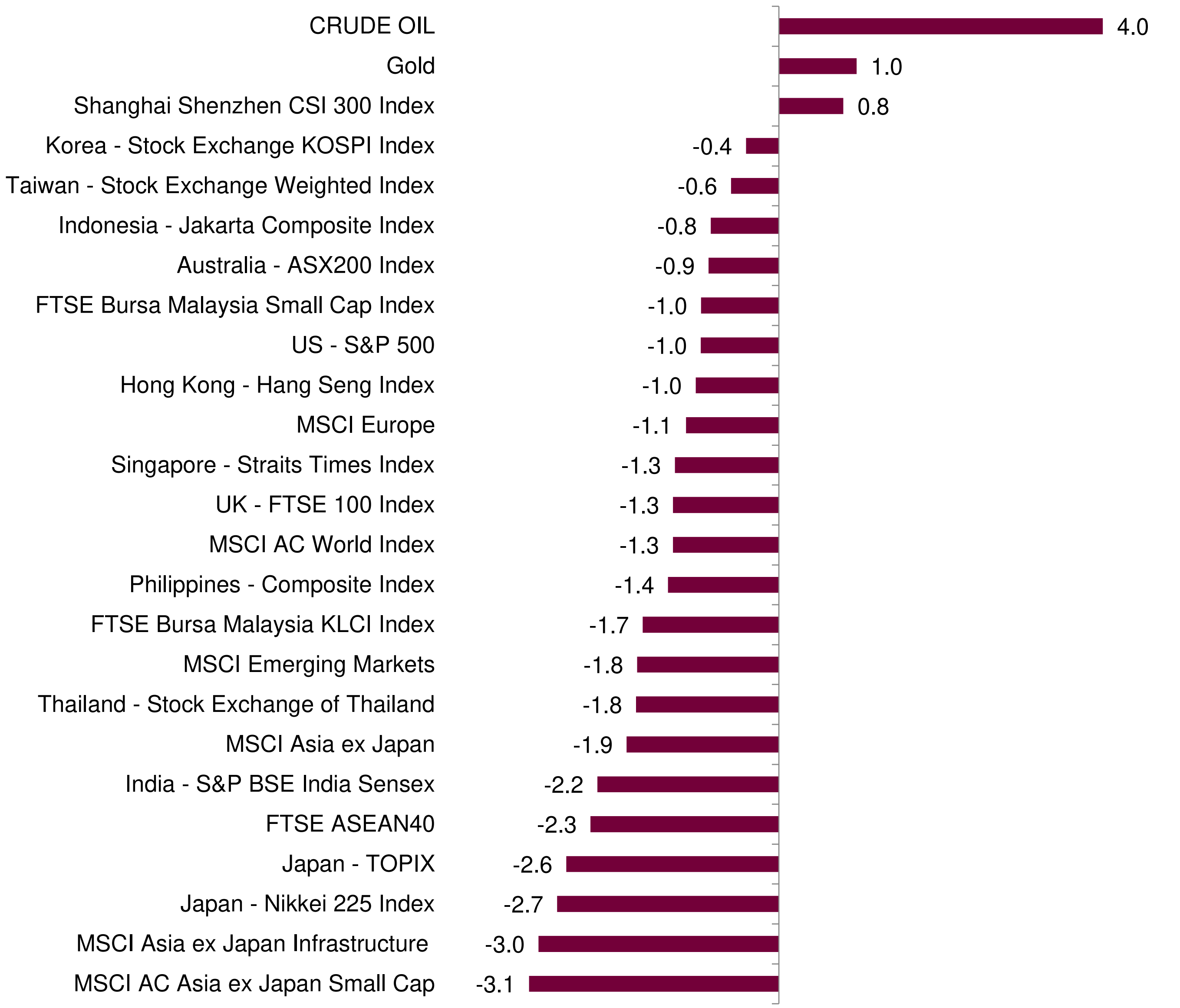
Back home, Malaysia's fixed income market responded to higher US Treasury yield environment last week, with foreign principal dealers selling across the curve, which was met by defensive bids from onshore demand.

The short end of the curve saw the most significant impact, with the 3-year Malaysia Government Securities (MGS) yield rising by 9 bps to 3.55%, while the 10-year MGS yield increased by 8 bps to 3.87%. Although the long-end remained anchored by strong domestic demand, the 30-year MGS yield still shifted higher by 3 bps, closing at 4.25%.

In terms of bond auction, last Monday's 20-year Government Investment Issues (GII) saw decent demand, with a solid Bid-to-Cover (BTC) ratio of 2 times at an average yield of 4.136%.

On portfolio positioning, we trimmed some positions at the long-end of the curve. Moving forward, we intend to maintain a defensive stance as we approach the upcoming US presidential election, amid market uncertainties

Index Performance | 21 October – 25 October 2024



Index Chart: Bloomberg as at 25 October 2024. Quoted in local currency terms.