March 2024

Monthly Market Outlook

Easing Financial Conditions Ahead of Rate Cuts

Summary

- **Global economic growth accelerates to eight-month high in Feb-24.** The JPM Global Composite PMI rose to 52.1 in Feb-24 (Jan-24: 51.8) to its highest level since Jun-23. Growth was registered in both the manufacturing and services sectors. There were also signs of the upturn broadening with all six sub-sectors (business services, consumer goods, consumer services, financial services, intermediate goods and investment goods) seeing output rise concurrently for the first time since May-23. Meanwhile, manufacturing output expanded for the second successive month, supported by the first increase in new order intakes since Jun-22. The outlook remained broadly positive overall, with optimism regarding the year ahead staying close to January's nine-month high.
- **APAC market review – Both MSCI Asia ex-Japan and MSCI World were up 4.4% and 4.1% MoM respectively.** The good performance of both indices were mainly contributed by the still strong uptrend market in the US coupled with rebound in the Chinese market after a prolong selldown. The Chinese market rebound was seen as a forceful one as the Chinese regulators had intervened by curbing short selling activities and ask state investors to support the market rather than relying on free market activities. Meanwhile, the US-China geopolitical tension remains as China had warned that the US efforts to block China from advancing in technology will eventually affect US tech companies too to certain extent.
- **Local Equity market review – Our FBMKLCI was upped 2.6% MoM in Feb-24 following the follow through buying from foreign investors since the start of this year.** We saw buying of big caps across the board, especially the banks given their relatively low foreign shareholdings past few years. But for other big sectors like the plantation, telco and utilities, we saw volatile trading activities in Feb-24 whereby most buying happened in 1H Feb with selling kicking in towards 2H Feb. Small cap stocks were less active as retailers went for their long festive break. Also, they had done very well since 4Q23, hence likely taking a breather in Feb-24.
- **Bond market review – Global bond markets roiled amid robust macro data prints from the US and hawkish statements from central bankers in Feb-24.** The UST2Y and 10Y yields skyrocketed by 37bps and 26bps MoM respectively as markets see an increased scenario of US soft landing. Local yields also reacted similarly though at a lower magnitude. The FOMC minutes highlighted concerns on cutting rates too early and the need for more proof on cooling inflation. ECB's Lagarde also warned against hasty rate cuts. This lifted USD strength and as a result MYR was hit hard. The USDMYR reached a high of 4.805 before closing at 4.77 for the month.
- **Macro – Easing financial conditions ahead of rate cuts.** The Fed Chair in his Mar-24 remarks to the Senate Banking Committee indicated that interest rate cuts may not be too far off if inflation signals cooperate, further signifying rate cuts are on table this year. The US financial condition index has eased considerably since Nov-23 despite rate cut is not materialising yet as G4 central banks' pace of balance sheet shrinking slowdown which help boosting money supply. Central banks are now walking on a thin line with no recession, higher liquidity and lower rates ahead are likely the ideal outcome.

Etiqa Life Insurance Bhd (201701025113) Dataran Maybank, No.1 Jalan Maarof, 59000 Kuala Lumpur, Malaysia
T +603 2297 3800 | F +603 2297 3800 | E info@etiqa.com

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- **Local Equity outlook – A consolidation month.** Given the strong market run up in Jan. and Feb. as well as completion of 4QCY23 corporate results announcement, we expect market to face consolidation before going higher. Among the big caps, we expect the banking sector to lead the way since it lags behind other big caps like the plantation, telco and utilities sectors. Also, banks remain as foreign favourite due to its fundamentals and liquidity. Aside from this, we noted that consensus KLCI target for 2024 is now at 1,630 based on the average PE of 14.4x and with an expectations of 12% earnings growth for 2024. This represents a potential upside of another 5% from the close in end Feb. at 1,551.
- **APAC Equity outlook – For Mar-24, all eyes will be on the uptrend sustainability of the Chinese stock market.** So far, despite activities slowdown in China, its oversea shipments still able to increase above 7.1% in Jan-Feb YoY. And with the Chinese government targeting a GDP growth of circa 5% for 2024, markets remain hopeful of more positive news flow to come. Also, all eyes will be on the Fed's tone of the policy rate cut timing as this will affect USD strength and eventually all Asian currencies.
- **Fixed Income outlook – For Mar-24, it remains to be seen if the theme for US' Exceptionalism will continue to pressure bond yields.** The Atlanta Fed GDP forecasts see a 2.1% YoY growth for 1Q24 (4Q23: 3.2%, 2023: 2.5%). The US equity markets continued to show exuberance (YTD growth of 8% on the S&P 500) while strong labour market continues to fuel private consumption. Separately, the BoJ Governor Ueda said that the economy was recovering moderately and showing promising signs on the wage outlook. The exit of NIRP is expected to lift bond yields globally.

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