May 2024

Monthly Market Outlook

Decelerating Asia Debt Leverage

Summary

- **Global economy accelerates to fastest in a year in May-24.** The JPM Global Composite PMI rose for the seventh successive month to post 53.7 in May-24 (Apr: 52.4) and its highest level since May-23. Growth of service sector business activity accelerated to a 12-month high, while trend in manufacturing production also strengthened. The JPM Global Manufacturing PMI rose to a 22-month high of 50.9 in May-24 (Apr-24: 50.3). Signs of recovery in manufacturing were broad-based by nation, with output growth accelerating in the US, China and the UK, while rates of contraction eased in Japan and the euro area. Price pressures continued to rise in May, with rates of inflation accelerating for both input costs (15-month high) and output charges (14-month high).
- **APAC market review – The MSCI Asia ex-Japan was up 1.5% MoM while MSCI World was up even more at 4.2% MoM.** The strong performance of MSCI World was mainly contributed by the strong performance in the US markets on the back of AI hype. The MSCI Asia ex-Japan on the other hand was affected by the pullback in both China and HK markets due to profit taking activities. Also, the market partly concerned on the escalating trade war between the US and China after US President Biden recently imposed more trade tariff on the Chinese products.
- **Local Equity market review – The FBMKLCI was up 1.3% MoM. It would have gone up even higher if not for profit taking activities towards 2H of May.** It seems that the local market experienced a delayed 'Sell in May' which historically happens at the start of the month. We saw local institutions and retailers taking profit after a very good run since early Apr-24 which was offset by foreign buying. FBM Small Cap on the other hand performed better than the bigger cap and we partly attributed to the strong firepower from EPF A/c 3 withdrawals.
- **Bond market review – Bond yields took a breather in May-24 as macro data from the US was generally showing some weakness despite the hot-and-cold data.** Fedspeak was generally neutral with both dovish and hawkish statements from Fed officials. Locally, yields were supported by benign inflation print of 1.8% YoY in April (Mar: 1.8%). Markets were unaffected by the announcement of diesel subsidy rationalization in Peninsular that will begin in Jun-24.
- **Macro – Steady as it goes.** Asia's aggregate bank lending to GDP has started to normalize since it hit the peak during pandemic. The pull back in the past 2 years was mainly driven by the recovery in nominal GDP coupled with a sharp slowdown in credit growth since 2022. This is a good sign that Asian corporate deleveraging does not cause an overall contraction in the region. In summary, the Asian growth ahead is hinging on external demand as the region goes through deleveraging phase. In view of higher corporate as well as sovereign debt burden in recent years, it is easier for Asian central banks to turn more accommodative so long as the Fed begins rate cut.

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- **Local Equity outlook – For Jun-24, all eyes will be on the subsidy rationalization ahead.** To recap, Prime Minister announced in May-24 that the cabinet had agreed to implement targeted fuel subsidies in Peninsular Malaysia. With the implementation of diesel subsidy rationalisation effective 10 June, we think local market participants may stay sidelined to see how this will affect market sentiment ahead. Investors might also turn risk-off in sectors which could be affected by the diesel subsidy rationalisation such as the consumer and transport logistic sectors.
- **APAC Equity outlook – The Asian markets would be largely driven by monetary policy direction from the developed markets while concerns remain on the recent escalated US-China trade tariff frictions.** Meanwhile, commodity price direction is also something investors will be monitoring closely, especially after recent OPEC meeting in agreeing to extend production cuts to end 2025.
- **Fixed Income outlook – We foresee bond yields to remain volatile as macro data from the US continues to be erratic but point to a gradual softening.** Meanwhile, we expect the FOMC in Jun-24 to pencil in only 2 rate cuts for 2024 from earlier 3 with the first cut expected in Sep-24 than June/Jul-24. This is expected to put some pressures on global bond yields. Nonetheless, we expect local yields to be supported by the favourable supply dynamics.

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