December 2023

Monthly Market Outlook

Rain In Sunny 2024

Summary

- **Global economy expanded marginally in Nov-23 as services activity rises, manufacturing contracted less.** The JPM Global Composite PMI rose to 50.4 in Nov-23, up from 50.0 in Oct-23 signaling expansion for the ninth time in the past ten months. That said, employment growth came close to stalling. The US, China and Japan were among the nations to register expansions in services activity. Meanwhile, the JPM Global Manufacturing PMI rose to a six-month high of 49.3 in Nov-23, up from 48.8 in Oct-23. Nov-23 data indicated that the downturn in world manufacturing production was mainly centred on the intermediate goods sector, where output contracted for the sixth month in a row. In contrast, consumer and investment goods producers both saw increases.
- **APAC market review – MSCI Asia ex-Japan was up 7.4% MoM while MSCI World upped more at 9.2% MoM, led by the strong US markets performance as the Fed had turned less hawkish**. The fall in USD in Nov-23 also help to lift trading sentiment in Asian markets as some foreign investors shifted their focus to Asian markets given the attractive weak Asian currencies YTD. The Chinese market saw good performance for a short period only in Nov-23 on hopes that all their government stimulus measures would bear some fruits to boost markets, but equity selling continued towards the end of Nov-23.
- **Local Equity market review – FBMKLCI was marginally up by 0.7% MoM following the lackluster trading month in Nov-23.** Market was still digesting gains made in the prior month. Also, we noted some profit taking activities on funds' book closing. The trading in small cap stocks were more volatile where they did well in 1H Nov and thereafter saw strong profit taking activities in the 2H Nov. Foreigners returned as net buyers in Nov-23 while surprisingly local institutions were the net sellers despite market earlier expected some window dressing activities from some of these local GLCs.
- **Bond market review – The global bond market rallied in Nov-23** as softer macro data emerged in the US and the Eurozone. There were also dovish statements from the Fed officials indicating that rates are at restrictive levels, or near peak with one official mentioning that easing could come alongside moderating inflation. For the ECB, markets now expect a 150bps cut as soon as Mar-24.
- **Macro – A matter of "when" slowdown could happen.** A steep rise in US Treasury yields tends to result in significant financial market dislocations. It is especially difficult to have a high degree of confidence in the longer-term outlook, given all the unusual events of the past 15 years. The San Francisco Fed estimates that the US excess savings will be exhausted at some point next year based on its recent trajectory. That supports the view that the US economy is on a path to slowdown/recession so long as monetary policy remains tight. Separately, we have seen some upticks in headline CPIs in Asia, but core CPI keep moderating. This provides more room for Asian central bankers to trim policy rates, if needed ahead.
- **Local Equity outlook – Dec is a window dressing month.** Year after year, history does repeat itself in our local market as we always see window dressing activities in Dec. The only difference one year over another is how strong the window dressing activities are. Also, some may do mid-Dec which others wait for the last trading day of the year. Aside from window dressing activities, we expect investors to lock in gains on sectors which had performed very well this year which include the banks, utilities, construction and property sectors.

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- **APAC Equity outlook – For Dec-23, all eyes would be on the Fed FOMC meeting on 12-13 Dec for their interest rate guidance in 2024.** If they give up being hawkish, then we should see more fund flows flowing into Asia, taking advantage of the still weak Asian currencies. But, the issue with Asia is still China where the recent step up stimulus by the Chinese government had backfired as Moody's just cut the Chinese sovereign outlook to negative on rising debt concern. As a result, although there is some spill over of funds from West to the East, we think it would not be aggressive and investors likely prefer to wait and see for the situation to settle down first.
- **Fixed Income outlook – While rate cut bets are expected to push global bond yields down in 2024, some headwinds include the lifting of Bank of Japan's Yield Curve Control that could occur in 1Q24** as headline inflation in the country has persistently stayed above 3%. In the meantime, while 2024 net supply of US Treasuries is expected to be lower YoY the amount is expected to remain elevated of between USD1.8-1.9 trillion. Coming back to local shores, headwinds for the local bond market include potential economic underperformance and inflationary pressures from fuel subsidy rationalization.

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