September 2024

Monthly Market Outlook

Mixed Macro Data

Summary

- **Solid service sector offsets manufacturing weakness in Aug-24.** The JPM Global Composite PMI posted 52.8 in Aug-24, up from 52.5 in Jul-24, as global service sector output increased for the nineteenth consecutive month, supported by steep gains in new business. In contrast, signs of weakness continued to build in the global manufacturing sector. Production, new orders and employment posted mild contractions, and global trade flows deteriorated for the third month in a row. The JPM Global Manufacturing PMI dipped to an eight-month low of 49.5 in Aug-24 (Jul-24: 49.7), to remain below the neutral 50.0 mark for the second successive month. This included downturns in the US, the euro area and Japan.
- **APAC market review – The MSCI Asia ex-Japan was up 2% MoM while MSCI World was up 2.5% MoM.** The better performance in MSCI World was contributed by the strong performance in the US markets, partly offsetting sluggish performance from the Chinese markets. The Chinese markets continue to see foreign outflows due to the overall market underperformance as well as continuous concerns over the trade war with the US and EU.
- **Local Equity market review – In Aug-24, The FBMKLCI was up 3.3% MoM following the strong run up in banks,** which was driven by foreigners due to the banking stocks' liquidity as well as with expectations of further strengthening of the MYR. The FBM Small Cap, on the other hand, did not perform well with profit taking across most of the small cap sectors which consists of construction, property, oil and gas, technology and consumer sectors. This had resulted in negative market breath in most of the trading days in Aug-24.
- **Bond market review – The US Treasury yield curve bull steepened** with the 2y and 10y declining by 38bps and 18bps, respectively, closing at parity at 3.91%. Recessionary fears made a comeback as macro data showed further weakness. The US Jul-24 unemployment rate slipped further to 4.3% compared to consensus and Jun-24 print of 4.1%. Meanwhile, Powell's address at the Jackson Hole meeting cemented that the Sep-24 rate cut will happen. However, the pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks.
- **Macro – Manufacturing weakness in developed markets should not be ignored.** After having risen for 3 consecutive months, Nomura's leading index of Asia ex-Japan exports index dipped to a still-high 103.5 in Sep-24, driven by weakness in the US manufacturing ISM and China's imports from Asia. The deepening weakness in developed markets, and its implications for Asia, is hard to ignore. Back in Malaysia, despite the global cutting cycle, BNM will leave its policy rate unchanged for some time to prevent a buildup of financial imbalance risks. BNM is unlikely to be alarmed and react at this stage, given the financial imbalance risk index (FIRI) components did not show a broad-based pickup. On the other hand, if FIRI were to rise further, this could raise the risk of BNM resuming policy rate hikes in 2025, especially if it is combined with upside surprises to growth and if RON95 fuel price hikes are implemented.

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- **Local Equity outlook – For Sep-24, we expect rotational trading from big cap back to small cap stocks.** After strong buying of banks by foreigners in Aug-24, we expect banking stocks to take a breather and consolidate before going higher. Hence, we shall see buying coming back to smaller cap stocks in construction, industrial, property, O&G, technology and consumer sectors. For technology sector specifically, this sector had fallen about 25% from its high back in Jun-24 and hence we are expecting the sector to rebound, in line with the feel good factor from the launch of new IPhone in Sep-24. However, the risk to this view is of course the new IPhone launching disappoint customers' expectations as well as a fall in the Nasdaq market where our technology sector correlates to.
- **APAC Equity outlook – All eyes would be on the Fed rate cut.** A larger rate cut will weaken the USD more and hence strengthen Asian currencies in return. Although China may still experience foreign outflow due to its country specific reasons, we may see foreign inflow into other Asian countries to gain from stronger Asian currencies. As for commodities direction, the trend seems to be on the way down, inline with the concern of potential recession in the US as its economic numbers start showing weakness.
- **Fixed Income outlook – The yield curve dis-inversion historically signals that a recession is now truly imminent.** However, judging by the Beige Book Activity Index, this has yet to slip to recessionary territory, we do not see this to warrant a larger cut by the Fed in Sep-24. This will nevertheless disappoint market expectations for a larger 50bps cut. Hence, we do expect local yields to track movements in the global bond markets and this would likely have pressure on local yields in the near term.

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