May 2024

Monthly Market Outlook

QT Tapering Is A Dovish Signal

Summary

- **Global growth and inflation far exceeded expectations in 1Q24 and shook both market and central bank confidence that a significant interest rate decline is in the offing.** The rate of global economic expansion improved to a 10th month high in Apr-24, as a faster increase in service sector output offset a mild growth slowdown in manufacturing production. The economic upturn was underpinned by rising levels of new business including a slight strengthening of international trade volumes.
- **APAC market review – The MSCI Asia ex-Japan was up 0.7% MoM but the MSCI World was down -3.8% MoM.** MSCI World was mainly dragged by aggressive profit taking activities in the US markets, especially after some of the Magnificent 7's results were not up to expectations although they reported good sets of results. MSCI Asia ex-Japan, on the other hand, was helped by the strong rebound in the Chinese markets after many months of sluggish performance. Investors are now re-looking into the Chinese markets starting with the Hong Kong market on expectations that the worst is over and possibility of future fund inflows after seeing strong pullback in the US markets recently.
- **Local Equity market review – The FBMKLCI was up 2.6% MoM following the strong support from local institutions despite foreigners and retailers had been unwinding their position.** We saw strong buying in the utilities and plantation sectors in line with the revised higher target prices on Tenaga and YTL Power by few brokers while plantation stocks also moved up inline with CPO prices. Banks, on the other hand, saw strong support from local institutions when foreigners took profit. On the small cap, we saw profit taking activities in few core small cap sectors like construction, property and oil & gas. However, consumer sector helped supporting the small cap sector on expected spending spree by consumers on the new EPF Account 3 withdrawal.
- **Bond market review – Apr-24 witnessed a major bond-sell off globally** as macro data releases from the US showed exuberance while hawkish Fedspeak added fuel to "higher for longer" narrative on the Fed's rate path. Consequently, markets pushed US rate cut expectations further towards December from July. Meanwhile, local yields also shifted higher, albeit at a lower quantum, with the MGS 3y and 10y closing at 13bps and 12 bps higher to 3.61% and 3.99%, respectively.
- **Macro – Liquidity to support US growth and markets.** During Apr-24 FOMC, the Fed announced QT tapering as largely guided, which will reduce the monthly cap on US Treasuries to mature without being reinvested to USD25bn (from USD60bn) while keeping the cap on MBS unchanged at USD35bn. Now that the US M2 money supply is expected to rise again on QT tapering which will have positive core CPI impact from 2Q25 onwards while boosting near term market liquidity. This leaves policy rate cuts as secondary monetary policy tool to sustain growth if necessary. In addition, the US Treasury can drain the Treasury General Account, which is almost reaching USD1trn as at end Apr-24, by throwing liquidity and stimulus into markets and the real economy up until the presidential election in early Nov-24.

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- **Local Equity outlook – For May-24, all would historically expect on the theme of 'Sell in May and go away'. But, this year could be different.** This potential game changer comes from the introduction of EPF Acount 3 where members will have access to more money for spending as well as investment in stock markets. Besides that, we are seeing strong participation from local institutions with buying conviction compared to few years back where they always turned net sellers. As a result, we think the overall market sentiment this May would be different and we expect sectors like the bank, utility and consumer sectors to outperform this month.
- **APAC Equity outlook – We expect continuous rebound in the Chinese markets on supportive policy stance by the Chinese government as well as positive consumption data aided sentiment.** Investors are likely to continue buying the market post Politburo meeting recently where the Chinese leaders vowed to explore new measure to tackle their housing crisis. Some also expect rate cuts ahead and this could be positive to market as it reduces the mortgage repayment stress on borrowers. Lastly, all eyes would be on the Chinese Yuan whereas the USD gradually showing signs of weakness. A stronger Chinese Yuan would reduce foreign outflow from China and potentially garners back foreign investors' confidence.
- **Fixed Income outlook – We foresee bond yields to ease** with the MGS10Y expected to range around 3.85% as data releases from the US could see some softening. Locally, we foresee a net govvy supply of merely RM2bn in May-25 due to large maturities of RM12.5bn – lending support to local yields. It is also expected that macro data releases from EU to dampen further which will drive the ECB to begin cutting in Jun-24 – easing some pressures on global bond yields. Surprisingly, the Middle East tension seemed to have a lesser impact on markets than in the past. Nevertheless, this remains a tail risk.

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