January 2024

Monthly Market Outlook

Risks & Opportunities

Summary

- **Global economic growth edges higher but sector divergence persists.** Growth of global economic activity strengthened slightly at the end of 2023, supported by improved inflows of new work and a mild uplift in business confidence. Sector variations widened, however, as service sector business activity rose for the eleventh successive month, whilst manufacturing downturn extended into its seventh consecutive month in Dec-23. The JPM Global Composite PMI which rose to 51.0 in Dec-23 (Nov-23: 50.5) reached the highest reading since last July. However, the headline index remained below its long-run average and at a level consistent with only modest growth. Meanwhile, the JPM Global Manufacturing PMI posted 49.0 in Dec-23, down from 49.3 in Nov-23.
- **APAC market review – MSCI Asia ex-Japan was up 4.3% MoM while MSCI World was even stronger at +4.8% MoM,** mainly led by the US markets where saw all 3 US indices rallied to new recent highs as the Fed turned dovish, indicating the interest rate hike cycle is over while the US economy could prevent a hard landing. The USD however showed some weakness due to above reason and as a result, the equity markets saw some money moving from the West to the East, thus boosting the Asian markets in general. The Chinese market also saw a rollercoaster ride in Dec-23 whereby 1H of the month was a sharp fall followed by a sharp rebound towards 2H Dec-23. But, most investors were still not confident on the rebound in the Chinese markets and sold on strength instead.
- **Local Equity market review – FBMKLCI was mostly unchanged MoM in Dec-23 due to no window dressing activities at the last trading month of the year.** Market remained quiet throughout the whole month as investors sidelined ahead of holidays and festive break. Nevertheless, we still saw some retailers trading the market as small cap sectors such as the property and construction sectors stayed reasonably vibrant as they build positions for 2024. FBM Small Cap clearly was the winner versus most of the index stocks, again due to the absent of anticipated window dressing activities.
- **Bond market review – The bond market had a tumultuous year in 2023 but ended the year on a positive note,** thanks to the Fed's surprise dovish tilt at the last FOMC meeting of the year. The Fed's Dec-23 projections indicated 3 rate cuts (75bps) for 2024 and 100bps for 2025. The Dec-23 bond rally was also aided by softer prints on the US labour market and moderating inflation. As a result, the US Treasury yields fell significantly MoM while local government bond yields also moved down in tandem.
- **Macro – A year full of elections, geopolitical risks and growth concerns.** 2024 is being called the biggest election year in history, with half of the world participating in regional, legislative and presidential elections. Geopolitical tensions were already some of the biggest investing risks going into the new year and many of the coming results will determine how those pressures will be exacerbated or resolved. Elevated geopolitical clashes, if any, would raise downside risk to global growth besides the current tightening financial conditions. Therefore, a timely and concerted policy rate cuts amongst central bankers will be crucial ahead.
- **Local Equity outlook – Jan-24 likely a good trading month due to no window dressing activities in Dec-23.** The good news of absent of the year-end window dressing activities is this Jan-24 will be a good trading month for most investors. Unlike past years where window dressing presence, the post effect would cause our market to start the year very red as our FBMKLCI usually gapped down, leading to negative trading sentiments. This year we expect the FBMKLCI to rally in Jan-24, led by the banks since they are the most liquid big cap stocks. We also

expect positive momentum built late last year on sectors like the utility, property and construction sectors to continue their upward momentum this month. Jan-24 will likely be a good trading month for all classes of investors ranging from institutional to retailers. And, with the US Dollar expected to weaken in coming months, we expect to see foreign inflows gradually creeping into our market.

- **APAC Equity outlook – For Jan-24, we expect profit taking activities in the US markets following the very good performance till the end of 2023.** In contrast, we expect some catch up play in the Asian markets with the exception to China as its markets still need to restore confidence among investors to be able to get out of the current downtrend. Latest concerns now in China spell on the shadow banking and whether this would cause a contagion effect in the financial system. Separately, all eyes will be on the geopolitical tension in the Middle East as this may have impact to oil prices which ultimately affect business costs.
- **Fixed Income outlook – For 2024, expectations are for a pivot in policy rates** especially by the Developed Markets that will drive global bond yields. We expect the Fed and the ECB to begin cutting earliest in 2Q24. As such, we foresee some upward pressure on yields in 1Q24 as markets dialed back on a Mar-24 rate cut as well as some risk of the Bank of Japan's exit from its Negative Interest Rate Policy. We also see the Fed to continue cutting in 3Q24 and 4Q24 to the tune of 100bps. Wildcards remain on potential recession in Developed Markets, the US Presidential Elections in Nov-24 as well as geopolitics. Locally, we expect Malaysia's GDP growth to improve in 2024 while headline CPI could trend higher amidst the rationalization of fuel subsidy in 2H24. As such, the movement in local yields could decouple from the US Treasury yields and trend higher especially in 2H24 as noises on the OPR hike could emerge.

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