February 2024

Monthly Market Outlook

A Promising Start of 2024?

Summary

- **Global manufacturing output rises for first time in eight months in Jan-24.** The global manufacturing sector showed signs of stabilization at the start of 2024 with the JPM Global Manufacturing PMI recorded at 50 in Jan-24 (Dec-23: 49.0). This halts a 16-month sequence below the neutral 50.0 mark. After contracting for seven successive months, production volumes edged higher for the first time since May-23. The year-ahead outlook also brightened, with business confidence rising to its highest level since Apr-23. Meanwhile, services business activity rose at the quickest pace since Jul-23. With both global service and manufacturing sectors improving, the JPM Global Composite PMI posted 51.8 in Jan-24 (Dec-23: 51.0), the highest reading since June-23.
- **APAC market review – MSCI Asia ex-Japan was down -4.6% MoM while MSCI World was marginally up by 0.4% MoM.** MSCI Asia ex-Japan was dragged down by both the Chinese and Hong Kong markets while MSCI World's performance was attributed to the US markets. Meanwhile, Asian markets were also partly affected by negative fund flows due to strengthening of the USD in Jan-24. Separately, we saw headline news that some long established hedge funds were closing down their Chinese funds due to continuous losses in the Chinese stocks. This further created jittery in the Chinese equity market.
- **Local Equity market review – The FBMKLCI was upped strongly by 4.0% MoM in Jan-24 due to absent of window dressing activities last December which resulted in no gapping down at the start of the year.** Also, we saw positive fund flows from both foreigners and local institutions while retailers remain the net sellers. Most of the big cap sectors delivered positive return. The exceptional sector which did not perform well was the technology sector especially after TMSC guided weaker chips demand from both the smartphone and automotive sectors.
- **Bond market review – Robust macro data coming out from the US and hawkish Fedspeak roiled bond markets** at the start of the year. However, bond yields retreated lower for the month with the UST10y yields declining to just a tad below 4% on fears of another regional banking crisis as New York Community Bancorp (NYCB), Tokyo-based Aozora Bank and Deutsche Bank made large provisions for losses on their US commercial real estate loans. Locally, BNM left the OPR unchanged as expected while the MPC statement remained neutral for now which anchored front-end of the local yield curve.
- **Macro – Early revision of global growth.** Surprisingly, the IMF revised its global growth forecast to 3.1% this year from 2.9% on better-than-expected expansion in the US and fiscal stimulus in China. The fund expects a soft landing but warned of risks from war and inflation. Some bright spots at the start of 2024 include upticks in Asian new export orders which mirror re-stocking activities from G3 economies. The forward-looking indicators of new orders minus inventory shows that the US, Eurozone and the UK turned positive for the first time since May-22. So far, we have seen limited Red Sea disruptions in Asia where the lengthening of delivery times and the rise in input price indices appear marginal.
- **Local Equity outlook – CNY rally.** We expect the positive momentum from Jan-24 to continue in Feb-24. In Jan-24, we noticed banks were the laggards among all the big cap sectors and we expect banks to play a catch-up rally in Feb-24. And with banks making up over 35% of FBMKLCI weightage, this would bring the index higher. Besides, the potential spill over of positive sentiment from the FBMKLCI, we expect small cap sectors like the construction,

property and O&G sectors to continue shining after some profit taking activities before going for CNY festive break. All in, we still expect Feb-24 to be a good trading month.

- **APAC Equity outlook – For Feb-24, we expect the US markets to continue performing** with the strengthening USD in the near term especially after the Fed highlighted that a rate cut in Mar-24 FOMC meeting may be too soon since inflation is still above 2%. As for oil prices, it all depends on the geopolitical unrest developments. Although oil prices had retraced recently, the renew airstrikes by the US on Iranian forces may deepen this geopolitical unrest situation, causing oil price to go higher. Back in Asia, we expect the Chinese markets to continue underperforming, partly due to the expected weaker Yuan and foreign sell down in the Chinese market.
- **Fixed Income outlook – For Feb-24, we expect global bond yields to face further upside pressure as soft landing narrative reemerges** as US macro data continued to surprise on the upside. This is aligned to our expectations that the Fed will only begin its rate cutting path likely in middle of the year. Meanwhile, there is also increasing possibility that the Bank of Japan's exit from its Negative Interest Rate Policy may happen as soon as in Mar-24.

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