April 2024

Monthly Market Outlook

Asia Monetary Policy Divergence

Summary

- **Strengthening of global economic activity in Mar-24**. Mar-24 saw rates of expansion quicken in both the manufacturing and service sectors. The JPM Global Manufacturing PMI posted 50.6 (Feb-24: 50.3). Production increased to the greatest extent for 21 months, with growth evenly distributed across the consumer, intermediate and investment goods industries. Meanwhile, service providers saw business activity rise at the fastest pace since Jul-23, which saw the JPM Global Composite PMI rose to a nine-month high of 52.3 (Feb-24: 52.1). Services growth was more varied by sub-sector, with financial service providers seeing a much steeper upturn in activity than both the business and consumer services categories. Combined manufacturing and service sector output growth strengthened, on average, in both developed and emerging markets during Mar-24. Rates of expansion hit nine and tenth month highs respectively.
- **APAC market review – Both MSCI Asia ex Japan and MSCI World were up 1.9% and 3.0% MoM respectively**. The good performances of both indices were mainly contributed by the still strong uptrend market in the US coupled with rebound in the Chinese market after a prolong sell down. The data shown that the US economy continues to be strong, boosted by strong consumer spending and business investment in non-residential structures like factories and healthcare facilities. Meanwhile, back in China, its PMI had returned back to positive expansion territory, hitting the highest mark since Mar 2023.
- **Local Equity market review – Our FBMKLCI was marginally down -1% MoM from 1551 to 1536 following strong profit taking activities by the foreigners but was also well supported by the local institutions**. We saw aggressive selling in the banks by the foreigners especially Public Bank, Cimb and Rhb Bank due to their strong liquidity versus other stocks. This foreign selling in Malaysia is inline with overall foreign selling in Asean as they channel some of the funds to Korea and India. Small cap stocks on the other had performed quite well. We saw buying in property stocks, followed by construction counters too. O&G stocks also joined the run up inline with the spill over of positive sentiment from stronger oil prices.
- **Bond market review – Global bond markets were volatile last month**. Markets were increasingly repricing higher yields as both inflation print in the US for February and March Manufacturing PMI came out stronger-than-expected. However, yields took a breather as the Fed maintained rates and expectations of 3 rate cuts for the year. Fed Chair Powell also commented that a strong jobs market would not deter the central bank from cutting rates. He added that strong inflation prints in Jan and Feb shows that it is moderating gradually on a sometimes-bumpy road toward 2%. This has caused the US Treasury (UST) yields to skyrocket with the 2Y and 10Y hitting its highest year-to-date at 4.73% and 4.39%, respectively, on 5th April 2024. Locally, there were 3 Auctions last month totalling RM15bn (including private placement of RM4bn) (Prev: RM15bn). On a net basis, supply was higher MoM at RM15bn MoM (Prev: RM9.5bn) as there were no maturities.

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- **Macro – Inventory restocking to extend into 2Q24.** Asian central banks hiked rates by much less than their Developed market counterparts, but with inflation easing, policy rates will move into restrictive territory, if left unchanged. Therefore, it is forecast that the Philippines and Thailand's central banks were among the earliest to cut policy rates in this region while BNM is largely expected to stay put. Separately, Nomura's leading index of Asia ex-Japan's aggregate exports extended its rising streak in Apr-24, suggesting the overall Asian export growth could rise into positive double-digit territory in early 2Q24 mainly driven by the global tech upswing.
- **APAC Equity outlook – For Apr, all eyes will be on the performance of the CSI 300**, whether the recent strong rebound after continuous efforts put in by the Chinese government to help its stock market is sustainable or not. On the economic side, market remain hopeful that it can sustain its PMI figure at expansionary stage after recent rebound. Also, market will be monitoring closely on China's Yuan weakness, especially when Dollar start to retrace. Hopefully, this will reduce foreign outflow from China.
- **Local Equity outlook – Small Cap to lead the way.** For Apr, we expect our market to rebound higher across the board and to be led by small cap stocks. Historically in the last 5 years, Apr had been one of the best trading month for our FBM Small Cap. And given the improvement in earnings revision ratio for 4QCY23 to almost 1x from below 0.5x back in early last year, we expect fundamental investors to also join the band wagon of stocks purchase in Apr. We expect O&G, Construction and Property sectors to lead the market, supported by the rally in commodities prices, project news flow as well as Johor and artificial intelligence stories. We recommend investors to turn risk on before taking profit in 'Sell in May'
- **Fixed Income outlook – For Apr-24, markets are now pricing in a nearly 100% chance of a 25bp cut by July** but only 64bp of cuts in 2024. Additionally, Fed officials have been rather hawkish of late. Officials mostly emphasized the importance of gathering more data to ensure inflation continues to decelerate towards the Fed's target of 2%, though rate expectations among FOMC members vary. The UST 5Y Breakeven have widened 3-8bps since end-March alongside the rise in energy prices and robust jobs print. Locally, we see uptick pressure on local yields coupled with hefty net govvy supply of RM20bn in April. MGS10Y could hover around 3.90%-4.00%.

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