

# Market Review & Outlook

## November 2024

(as at 31 October 2024)

### Overview

The Institute of Supply Management (“ISM”) Services Purchasing Managers’ Index (“PMI”) in the United States (“US”) jumped to 54.9 in September 2024, up from 51.5 in August and above the forecast of 51.7. This reading indicated the strongest growth in the services sector since February 2023, driven by faster increases in business activity, new orders, and inventories. The Federal Reserve (“Fed”) Chair, Jerome Powell commented that if economic data remained consistent, two more rate cuts could come this year but in smaller, 25 basis points (“bps”) increments. Powell also said that the recent 50 bps cut from the Fed should not be understood as a sign that the central bank will keep cutting rates aggressively.

After prior two months of disappointment, the September US employment report by the US Bureau of Statistics turned in a positive surprise as nonfarm payrolls came in well above expectations at 254,000, the highest since March 2024 (310,000). This was significantly above the consensus of 150,000 and a significant rebound from the upwardly revised 159,000 in August. Adding to the positive hiring sentiment was the upward revision of 72,000 for the payrolls of July and August. Meanwhile, the unemployment rate unexpectedly eased to 4.10% in September (August: 4.20%) for a second straight month.

The headline Consumer Price Index (“CPI”) in the US eased for the sixth straight month, dropping to 2.40% in September 2024, the lowest level since February 2021, down from 2.50% in August. The print was higher than the expected 2.30%. Core CPI, which excludes food and energy, unexpectedly ticked up to 3.30%, compared to 3.20% in the prior two months.

In Eurozone, the inflation fell to 1.70% in September down from 2.20% in August. This figure came in below the European Central Bank’s (“ECB”) 2.00% target and marked the lowest level since April 2021. Meanwhile, core inflation was unchanged at 2.70%. The ECB at its meeting on 17 October delivered its third quarter-percentage-point reduction of the year, cutting its key interest rate to 3.25%. The ECB expects inflation to rise in the coming months, before declining to target in the course of next year. The ECB commented that domestic inflation remained high, as wages were still rising at an elevated pace. At the same time, labour cost pressures are expected to ease gradually, with profits partially buffering their impact on inflation.

In the United Kingdom (“UK”), the CPI for September came in at 1.70%, down from 2.20% in August and slipped below the Bank of England’s (“BOE”) 2.00% target for the first time since April 2021. The print was also lower than the 1.90% expected by economists and the 2.10% forecast by the BOE in August. Core CPI also eased to 3.20% in September from 3.60% in August. As inflation pressure ease, the market expects the BOE to cut rates by 25 bps in the November Monetary Policy Committee meeting.

## Malaysia

The Malaysian Government had announced Budget 2025 on 18 October 2024, themed “Ekonomi MADANI: Negara Makmur, Rakyat Sejahtera”. Budget 2025 brings forth higher outlays of RM421.0 billion (+3.30% Year-on-Year (“YoY”)), aimed at growing Malaysia’s economy further by 4.50%-5.50% in 2025 (2024: 4.90%), and a smaller deficit of RM80.0 billion (-5.10% YoY) or 3.80% of Gross Domestic Product (“GDP”). We note the 2025 official GDP growth forecast is skewed to the upside, versus current consensus expectation of 4.60%, and is expected to be supported primarily by a healthy labour market, realization of private sector investment pledges and the roll-out of public sector projects.

In addition, the 2024 GDP forecast was revised higher to 4.80%-5.30% (prior forecast: 4.00-5.00%), thanks to the better-than-expected first half 2024 (“1H2024”) growth of 5.10% YoY. The government also forecasted for 2025 headline CPI inflation in a wide range of 2.00-3.50% and higher than 2024’s revised estimate of 1.50-2.50% (prior forecast: 2.10-3.60%), likely taking into account the subsidy rationalization plans for 2025. Meanwhile, a lower oil price of US dollar (“USD”) 75-80/barrel (“bbl”) is forecasted for 2025 versus USD80-85/bbl for 2024.

Trade data released during the month, showed weakness in September 2024 with exports contracting -0.30% YoY (consensus expectation: 8.00% YoY, August 2024: 12.00% YoY revised), imports also disappointed at 10.90% YoY for September 2024 (consensus expectation: 22.00% YoY, August 2024: 26.20% YoY). Trade balance was higher at RM13.19 billion (consensus expectation: RM11.30 billion, August 2024: RM5.51 billion revised). Despite the September 2024 weakness, trade prospects remain positive as electrical and electronic products (“E&E”) exports continued to expand on a Month-on-Month (“MoM”) basis at 6.20% in September 2024 (even though there was a YoY contraction of -0.30%) and capital goods imports (September 2024: 56.30% YoY) continued to indicate positive outlook in domestic manufacturing.

Malaysia advance estimate of GDP for third quarter 2024 (“3Q2024”) at 5.30% YoY (beating consensus of 5.10% YoY, 2Q2024: 5.90% YoY, 1Q2024: 4.20% YoY), puts Malaysia on track to circa 5% growth in 2024.

Inflation data surprised on the downside for fourth month in-a-row with headline CPI at 1.80% YoY for September 2024 (consensus: 1.90% YoY, August 2024: 1.90% YoY) with broad-based gradual moderation in price levels for transportation, personal items, alcoholic beverages and tobacco products, information and communication equipment, and household equipment, while food prices remained stable. Core CPI excluding fresh food and administered prices was similar at 1.80% YoY (August 2024: 1.90% YoY).

## Fixed Income

### Asian Bond Indices Performance

Markit Asian USD Index	31-Oct-24	Month-on-Month ("MoM")	Year-to-Date ("YTD")
Asian Dollar Index	139.6	-1.45%	4.77%
Asian Dollar IG Index	141.1	-1.55%	4.09%
Asian Dollar HY Index	130.8	0.35%	14.95%
Asian Dollar Corp Index (ex-banks)	141.6	-1.14%	5.58%

Source: Bloomberg, 31 October 2024.

Asian dollar indices performances were generally weakened in the month of October (except High Yield ("HY") segment), driven by the expectation of less aggressive Fed rate cut going forward. The decline was led by the Investment Grade ("IG") segment, which saw the Asian IG Index dropped the most by 1.55% MoM, followed by the Asian Dollar Corp Index which recorded a loss of 1.14% MoM, and subsequently led to overall decline of -1.45% MoM in Asian Dollar Index.

The Asian dollar bonds performance by country had all ended the month in negative territory. The top three losers by sequence were Philippines (-2.57% MoM), Indonesia (-2.46% MoM), and Malaysia (-2.06% MoM). The decline in performance was also extended to the local currency bond markets which the top three losers were Indonesia (-1.33% MoM), Hong Kong (-1.11% MoM), and Singapore (0.78% MoM).

### The US Dollar Index

The US Dollar Index ("DXY") rose by 3.17% MoM in October, driven by the mixed economic data releases which resulted uncertainty in the pace of Fed rate cut from now on. The Fed Chair, Jerome Powell indicated that if the US economic data remains consistent, there are likely two more rate cuts coming this year but in smaller, quarter percentage point increments.

We opine the DXY would remain volatile in the coming months, driven by the uncertainty surrounding scale and timing of potential US interest rate cuts following the unexpected resilience in the US labour market.

## MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-Oct-24 (%)	Net Change MoM (bps)	Net Change
			YTD (bps)
3Y	3.58	+22	+5
5Y	3.70	+19	+5
7Y	3.92	+22	+19
10Y	3.93	+21	+19
15Y	4.02	+12	+3
20Y	4.16	+12	+4
30Y	4.26	+6	+0

Source: Bond Pricing Agency Malaysia, 30 October 2024.

Malaysian bond market was under pressure in October as investor turned bearish bias, influenced by the sell-off in US treasury (“UST”) driven by uncertainties surrounding US presidential election and prospect of slower rate cut by US Fed. Sentiment was generally weaker throughout the month despite Budget 2025 tabled by Prime Minister (“PM”) Anwar on 18 October projected a narrower deficit of -3.8% of GDP for 2025. Overall, Malaysian Government Securities (“MGS”) curve bear flattened, with yields rose 6-22 bps on MoM basis in October.

There were four sovereign bond auctions with total size of RM19 billion in October, namely the reopening of 3-year MGS, reopening of 10-year Government Investment Issue (“GII”), reopening of 20-year MGS and reopening of 7-year GII. These auctions saw mixed reception with both 20-year MGS and 7-year GII saw decent bid-to-cover (“BTC”) of around 2.0 times while 3-year MGS and 10-year GII drew tepid BTC of 1.61 times and 1.60 times, respectively.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increased 4.7% MoM to RM15.8 billion in October (September: RM15.1 billion). In terms of foreign flows, Ringgit fixed income securities saw relatively muted inflow of MYR1.0 billion in September after two strong months in July and August. MGS and GII saw net outflow of RM0.3 billion during the month as compared to RM7.0 billion net inflow in August. Consequently, total share in government bond (MGS+GII) declined slightly from 22.7% in August to 22.6% in September.

Notable domestic corporate issuances in October included RM2.0 billion Danainfra Nasional Berhad (Government Guaranteed) sukuk, RM600 million UEM Olive Capital Berhad (AA1) sukuk and RM500 million Bank Simpanan Nasional (AAA) sukuk. The 3-year, 5-year, 7-year, and 10-year generic AAA corporate yield ended the month at 3.80% (+7 bps MoM), 3.93% (+13 bps MoM), 4.04% (+16 bps MoM) and 4.09% (+13 bps MoM) respectively.

## Strategy

### Market Outlook – Ringgit Bonds

Investor focus would be centered on the upcoming US Presidential elections in early November and the implications following the results which may play a pivotal role in the future Fed monetary policy actions. After the rally seen in the bond market since January, conditions are ripe for investors to take

profit for the year. We opine that Bank Negara Malaysia (“BNM”) will maintain the Overnight Policy Rate (“OPR”) next year and may allow the inflation to trend higher in second half 2025 (“2H2025”) without the need to raise the key rates, barring any inflation shocks.

### **Strategy**

We have raised cash and reduced duration of our portfolios in anticipation of more market volatility in November. Moving forward, we look towards taking advantage of any selloff in the market and to re-invest at more favourable entry points. MGS yields have corrected from the peak since the middle of the year and any sell off would provide better trading opportunities. We expect corporate bond yields to be offered at more attractive levels in reaction to higher MGS yields.

## EQUITIES

### Global Equities

#### Global Equity Index Performance

Indices	31-Oct-24	MoM	YTD
S&P 500 Index	5,705.45	-0.99%	19.62%
Nasdaq Index	18,095.15	-0.52%	20.54%
MSCI Europe Index	169.29	-3.35%	5.38%

Source: Bloomberg, 1 November 2024.

The Standard & Poor's ("S&P") 500 Index fell 0.99% MoM in October, cementing its first monthly loss since April as technology stocks sold off sharply and bond yields remained elevated. On the economic data front, weekly jobless claims figures came in lower than expected, while the latest Personal Consumption Expenditures ("PCE") Price Index reading, the Fed's preferred measure of inflation, was in line with economists' estimates. Investors are watching all the data points closely as they look for signs that the economy remains on sound footing, as well as information that could influence the Fed's upcoming decisions on interest rates.

The Morgan Stanley Capital International ("MSCI") Europe Index fell 3.35% MoM, as investors weighed corporate results, inflation data and a landmark UK budget. Preliminary data showed that inflation in the euro zone rose to 2.00% in October, higher than the 1.90% expected. The figures will inform the ECB decision on the path of interest rate cuts, with economists saying there is now a lower chance of a jumbo 50 bps rate cut at the December meeting rather than the expected 25 bps cut.

#### Asia Pacific Equity Index Performance

Index	Index level	Oct-24 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	728.00	-4.51%	13.48%
FTSE ASEAN	886.53	-5.03%	6.80%
CSI 300 INDEX	3,891.04	-3.16%	13.40%
KOSPI INDEX	2,556.15	-1.43%	-3.73%
HANG SENG INDEX	20,317.33	-3.86%	19.18%
S&P BSE SENSEX INDEX	79,389.06	-5.83%	9.90%
TAIWAN TAIEX INDEX	22,820.43	2.68%	27.27%

Source: Bloomberg, 1 November 2024.

Chinese onshore equities fell 3.20% MoM as the market waits for more clarity on the US election outcome and China stimulus details. Third quarter ("3Q") GDP registered 4.60% YoY growth compared to 4.70% YoY growth in second quarter ("2Q"). Industrial production rose 5.40% YoY in September (August: +4.50% YoY). Hang Seng Index fell 3.90% MoM as stimulus specifics disappointed and the Trump trade set in. The Hong Kong ("HK") Housing Bureau stated supply of new private homes in the next 3-4 years may reach 112,000 units, up 15.00% over year 2024-2028 versus units completed over year 2019-2023. South Korea's Korean Composite Stock Price Indexes ("KOSPI") declined 1.40% MoM as the Korean technology stocks continued to decline. Manufacturing PMI stood flat at 48.3 in October after abruptly falling 3.6 points

("pt") in September. The PMI output index's current level is suggesting sluggish industrial production growth in the near term. Taiwan Stock Exchange Corporation ("TWSE") index was up 2.70% MoM reversal of decline from past month amid personal computer replacement cycle and still strong artificial intelligence ("AI") server market demand. Taiwan's manufacturing PMI readings in October eased to 50.2 falling 0.6pt from previous month. Taiwan's headline CPI inflation eased from 2.35% YoY in August to 1.82% YoY in September.

India equities fell by 5.80% MoM. August industrial production printed below expectations at -0.10% YoY slowing sharply from 4.70% YoY in July. Lackluster manufacturing activity reflects both external and domestic factors. On the external side, the global goods down cycle was hurting manufacturing exports and thereby production, while domestic consumption remained relatively sluggish. Meanwhile, inflation went higher than expectations at 5.50% YoY due to unexpectedly high food prices.

### ASEAN Equity Index Performance

Index	Index level	Oct-24 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,558.88	-0.74%	9.83%
JAKARTA COMPOSITE INDEX	7,574.02	0.61%	4.14%
STOCK EXCH OF THAI INDEX	1,466.04	1.19%	3.54%
PSEi - PHILIPPINE SE INDEX	7,142.96	-1.78%	10.74%
HO CHI MINH STOCK INDEX	1,264.48	-1.82%	11.91%
FTSE Bursa Malaysia KLCI	1,601.88	-2.85%	10.12%

Source: Bloomberg, 1 November 2024.

The Straits Times index declined by -0.70% MoM in October. The September Non-Oil Domestic Export ("NODX") grew by 2.70% YoY (below consensus expectation of 9.10% YoY, August 24: 10.70% YoY), with growth coming from both electronics and non-electronic segments. The Stock Exchange of Thailand ("SET") Index rose 1.20% MoM in October as the stock market was supported by Vayupak Fund, which had invested about 30.00% of its Thai Baht ("THB") 150 billion assets under management ("AUM") in October. The Jakarta Composite Index rose 0.60% MoM in October with key performing sectors being Construction and Plantation, while Telecommunication and Energy underperformed. Bank Indonesia maintained the policy rate at 6.00% in its October meeting. September headline and core inflation rose 1.80% and 2.10% YoY respectively.

Meanwhile, the Philippines and Vietnamese equities markets were the underperformers in the region. The Philippines Composite Index dropped -1.80% MoM in October. Sectors that outperformed were Utilities, Financials and Consumer Discretionary, while those that underperformed were Communication, Industrials and Consumer Staples. Headline inflation rose 1.90% YoY in September, the smallest increase since May 2020. Meanwhile, core inflation also slowed to 2.40% YoY in September from 2.60% YoY in August. The Vietnam stock market dropped by -1.80% MoM in October as foreign investors net sold USD94 million of equities during the month. Manufacturing activities were affected by the Typhoon Yagi, causing temporary business closures and production delays due to heavy rain and flooding. As a result, the manufacturing PMI declined to 47.3 in September from 52.4 in August.

## Malaysian Equities

The FTSE Bursa Malaysia KLCI (“FBM KLCI”) lost 2.90% MoM in October, and YTD +10.10%. The Dow and Nasdaq were down by 1.30% and 0.50% MoM respectively. Malaysia’s mid and small cap index gained 1.20% and lost 2.30% MoM respectively. Construction and real estate investment trusts (“REITs”) were the best performing sectors, gaining 2.20% and 1.80% MoM respectively. On the other hand, Utilities and Telecommunications were the worst performing sectors, losing 7.20% and 3.10% respectively. The top three best performers in FBM KLCI components stocks were IHH Healthcare (14.20%), QL Resource (8.00%) and SD Guthrie (4.60%), while the worst performing stocks were Petronas Dagangan (-15.30%), YTL Corp (-13.50%) and MISC (-7.00%).

Foreign institutional investors were net sellers of RM1.8 billion worth of equities in October 2024. Local institutional investors were net buyers of RM1.8 billion equities. Average daily value (“ADV”) traded was at RM2.53 billion, down 26.90% MoM.

## Strategy

With the start of the Fed rate-cutting cycle, emerging markets will be beneficiaries of USD softness and the return of foreign fund flows into emerging markets. Encouraging economic data in the US which raised prospects of a soft landing for its economy, coupled with China’s stimulus combo and call for stronger stimulus for markets should provide positive support to equities.

However, the path could be volatile. In the near term, US Presidential Election in November 2024 will be the limelight, given the uncertainties with regards to policies proposals and differences amid the tight race. Additionally, geopolitical uncertainties and energy price volatilities amid the escalating conflict in Middle East could impact appetite for risky assets. As such we shall remain wary on the valuations of sectors and themes that have ran ahead of fundamentals.

In Malaysia, foreign investors turned sellers in October after three consecutive months of net inflows, reducing YTD inflows to RM1.78 billion. Meanwhile trading activities softened to below RM3 billion ADV. The foreign outflow was generally seen across ASEAN countries.

The month of November is expected to be volatile leading up to the US Presidential election and the announcement of the winning candidate. Once the candidate is announced, there could be some rebalancing of portfolios depending on which candidate emerges as victorious and the policies that are expected to follow. In the meantime, we continue to take this opportunity to lock in some gains and look to add on to sectors that are beneficiaries of the government initiatives on price weakness.

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