August 2024

Monthly Market Outlook

Confluence of Factors Lead to Market Jitters

Summary

- **Global manufacturing PMI slips below 50 in Jul-24 as new orders decline.** The JPM Global Manufacturing PMI fell to 49.7 in Jul-24, from 50.8 in Jun-24, signalling a contraction in manufacturing for the first time in 2024. Two components, new orders, which fell for the first time since Jan-24, and output which expanded at the weakest rate in seven months, led to the deterioration in manufacturing conditions. The output growth slowdown was reflected in the US and China, while Japan experienced a contraction. Meanwhile, service providers saw new work intakes rise for the ninth successive month, reflecting diverging trends in new business between the manufacturing and services sectors.
- **APAC market review – The MSCI Asia ex-Japan was marginally unchanged MoM while MSCI World was up 1.5% MoM in Jul-24.** The good performance of MSCI World was partly contributed by the rally in Dow Jones as US investors started to shift back to 'old school' economy after the Magnificent 7 stocks had rallied a lot. MSCI Asia ex-Japan, on the other hand, saw muted performance from the Chinese market which also partly help to cushion the slight fall in Hong Kong market after its sharp run-up in early May-24.
- **Local Equity market review – The FBMKLCI was up 2.2% MoM in Jul-24 following the recovery from 'Sell in 2H May'.** The rally was mainly led by banks after most brokers upgraded the Finance sector to Overweight recently since banks had been a laggard to overall market rally since start of the year. Besides banks, the plantation sector also helped to push the index higher. Besides, the small cap also did well following spillover of positive sentiment from the banks which help to pulled up the index. The rally in small cap sector was led by construction and property sectors due to positive news flow from AI data centres and land sales.
- **Bond market review – Global bond rallied further in Jul-24 as recessionary fears re-emerged in the US where labour market weakens and inflation data cooled.** On 31 July, the Fed held rates as widely expected. However, Powell's address of a possible rate cut in Sep-24 drove buyers to the bond markets including MGS/GII - especially at the front-end. In contrary, the BoJ hiked rate to 0.25% from 0-0.1%. Meeting minutes revealed that the members opined that the weaker Japanese Yen contributed to higher inflation, thus the need for quantitative tightening.
- **Macro – Volatile markets amidst diverse policy path between the Fed and BoJ.** Rising challenges and volatility faced by global financial markets going into 2H24 where the risk of recession is rising on extended tight monetary policy period, while the bull market in big tech is due for a shakeout. However, inflation has eased off sharply, and the Fed is poised to ease at a time when geopolitical and political risks have greatly intensified. On the other hand, as the BoJ exits its easy monetary policy coupled with weaker macro data from the US recently have triggered an aggressive unwinding of the popular JPY carry trade and change policy makers' narrative on global economy ahead.

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- **Local Equity outlook – For Aug-24, the market is likely to be in a consolidation mode**. This is inline with historical performance whereby 3Q has always been a consolidation or pullback month and thereafter followed by rally in 4Q towards year end. Also, with Aug-24 being a result reporting month, some investors may prefer to wait for 2QCY24 results before putting in more money into stocks. And furthermore, with US markets looking toppish especially the Magnificent 7 stocks, their lackluster performance will likely have impact to global market performance including Malaysia.
- **APAC Equity outlook – For Aug-24, all eyes would be on the Fed emergency meeting, if any.** If the Fed cut policy rates faster than expected, this will further drive USD weakness and hence strengthening Asian currencies, which will potentially be leading to fund flows from West to East. Besides currencies, investors would also be wary of Asian stock market performances especially after a massive sell down recently in the Japan, Korean and Taiwan markets. China and Hong Kong on the other hand are more resilient since they both had gone through their own profit taking activities lately.
- **Fixed Income outlook – In early Aug-24, markets and economists from major global banks have revised up their expectations on Fed rate cuts** to generally about 100bps for 2024 from 50bps just a month ago. Traders are pricing in 79% chance that the Fed will cut by a larger 50bps at the upcoming Fed meeting in Sep-24. Therefore, it is expected that bond markets could rally further as more clarity to ensue at Jackson Hole meeting on 22-24 August.