November 2024

Monthly Market Outlook

Better Or Worse For Trump 2.0?

Summary

- **Global growth accelerates in Oct-24 as reviving service sector offsets lacklustre manufacturing.** Global economic expansion accelerated in Oct-24 from Sep-24's eight-month low, as both business confidence and growth of new order intakes strengthened. The expansion of activity was mainly driven by the services sector, and financial services in particular, as manufacturing remained largely stagnant. This was measured by the JPM Global Composite PMI which rose to 52.3 in Oct-24, from 51.9 in Sep-24, to signal growth for the twelfth successive month. Meanwhile, global manufacturing remains subdued, with the JPM Global Manufacturing PMI posting 49.4 in Oct-24, signalling continued contraction although at a slower rate from Sep-24's 48.7. The moderation reflected an improvement in operating conditions in China, while downturns in the US and the euro area both eased.
- **APAC market review – The MSCI Asia ex-Japan retraced strongly by 4.8% MoM while MSCI World was also down but lesser by 2.2% MoM.** The MSCI Asia ex-Japan retracement was partly due to the pullback in China and Hong Kong markets following the strong surge in stock prices across the board in Sep-24. MSCI World, on the other, was partly supported by the strong US markets, resulting in a lesser fall. The Chinese markets were boosted by loosening restrictions on borrowing coupled with the official guidance on potential approvals for new spending during the Standing Committee of the National People's Congress meeting ending on 8 Nov.
- **Local Equity market review – The FBMKLCI was down 2.9% MoM on profit taking activities by foreigners, especially on the banks.** These profit taking activities were also in line with the weakness in MYR, causing the hot foreign money to square off some profitable trades from both share price and currency angles. The small cap stocks on the other hand also saw lackluster performances due to lack of catalysts in the market. Moreover, local investors were merely supporting the market as foreign sell since they had already done so well YTD and at the same time feared of the US election uncertainties.
- **Bond market review – It was a bloodbath in Oct-24 for bond markets as participants grew increasingly anxious leading towards the US elections on 5-Nov while macro data showed a mixed bag of directions.** The biggest surprise was the Oct-24 non-farm payrolls that saw an increase of 12k – lowest since Dec-20. Coming to early Nov-24, markets were, again, surprised by a Republican sweep at the US Presidential Elections. Meanwhile, as widely expected, the Bank of England and the Fed cut key policy rates by 25bps, respectively.
- **Macro – No winner should all Trump's election promises materialise.** The initial market reaction to President elect Trump's historic victory has been as expected, with US Treasury yields, the USD and US equity prices jumping sharply. More importantly, investors will now need to assess how much of the election policy pledges will be implemented, and the timing of new policies are likely to be rolled out. The worry of stagflation returns as the combination of higher tariffs, large and growing deficits and the deportation of large numbers of undocumented migrants is likely to slow growth and push up inflation. This complicates the Fed's monetary policy ahead despite the easing path remains gradual and steady in the near term. Notably, Trump 1.0 tariffs were a factor in the trade and industrial production downturn in 2018/19 that saw equity prices fall and the Fed ease policy.

November 2024

- **Local Equity outlook – For Nov-24, all eyes on Trump's beneficiaries as well as non-beneficiaries since the US election is over.** Generally, Trump presidency beneficiaries include most Malaysian exporters, the plantation, technology and glove sectors since markets now expect the USD to strengthen, while the non-beneficiaries are mainly the O&G and potentially auto sectors too. Other than this, Nov-24 is back to quarterly results reporting month again but most corporates are expected to announce 'business as usual' results, except those impacted by forex gain or loss due to the MYR strengthened too fast towards end of Sep-24.
- **APAC Equity outlook – There are few key macro uncertainties in Nov-24.** As such, all eyes would be on how much is China fiscal package to rescue its economy being unveiled and the subsequent reactions from equity investors. Also, as the US President Trump takes office, investors will be wary on its trade tariff announcement on China. Aside from this, investors would be monitoring closely the Asian currencies since the Fed had turned dovish in its monetary policy but the USD is expected to strengthen under Trump's administration on better growth trajectory going forward.
- **Fixed Income outlook – The return of Trump as the President of US is perceived as reflationary.** However, execution of his policies remain uncertain. Going back to the Fed's direction, it is worth noting that the 3Q24 employment cost index was the slowest pace of quarterly growth since 2Q21. As a result, the annual pace of growth in total compensation was the slowest pace in three years. All told, we see these data as supporting a continued steady pace of Fed easing, with a further 25bps cut likely at Dec-24 FOMC meeting.

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