Life Insurance

January 2025

Monthly Market Outlook

A Year of Two Halves

Summary

- **Global growth improved at the end of 2024, solid service sector offsets manufacturing weakness.** Global economic expansion accelerated to a four-month high and new order intakes strengthened in Dec-24, as recorded by a reading of 52.6 in the JPM Global Composite PMI, up from 52.4 in Nov-24. However, the upturn was beset by regional and sectoral disparities, as a solid service sector offset a renewed downturn in manufacturing, while pockets of solid expansion in nations including India and the US contrasted with contraction in the euro area. The JPM Global Manufacturing PMI posted 49.6 in Dec-24 (Nov-24: 50.0), with output and new orders declining following slight increases in the previous two months. The outlook for global manufacturing also remained subdued in Dec-24, with business sentiment dipping to a three-month low.
- **APAC market review – The MSCI Asia ex-Japan was down by -1.2% MoM while MSCI World was down even more. These underperformances were due to profit taking activities,** especially in the US markets after a strong run up throughout 2024. As for China, stock indices had pullback earlier and now consolidating before finding a new direction. Moreover, investors in China probably continue to stay sideline due to Trump tariff uncertainties. Also, with the expected GDP growth of 5% this year, this concerns investors that any stimulus by the Chinese government would not be that strong going forward.
- **Local Equity market review – In Dec-24, the FBMKLCI closed higher by 3% MoM following some window dressing activities as we closed the year on a positive note YoY.** Foreigners remained the biggest sellers, selling circa RM3bn worth of equities, causing full year foreign net outflows of over RM4bn. We think this is probably hot money going out of Asia as a whole after they came in for a trade mid of last year. They had been consecutively selling banks due to its liquidity relative to other local big cap sectors. Nevertheless, foreign selling was somewhat absorbed by local institutions generally.
- **Bond market review – The US Treasury yield curve bear steepened last month** with the 2y and 10y shifted higher MoM while the Fed delivered a 3rd rate cut in Dec-24 by 25bps to 4.25-4.50%, as widely expected. However, the dot plot and projections for 2025 has shifted substantially with only 2 rate cuts (total: 50bps) expected this year compared to 100bps previously. On the other hand, local yield movements were relatively more muted with the 10y MGS inching up slightly to end the year at 3.84%.
- **Macro – Rate pause or the end of easing cycle.** Interestingly, since the late 80s, there were only 3 such events: two at the end of the cycle (1998 and 2003), and one after what turned out to be just a pause (1989), which accompanied with the large rates selloffs. Compared it to big rates selloffs in Dec-24, it is quite rare that it happens ahead of a FOMC pause. Skips have initially higher follow through on yields, whereas cuts at the end of the cycle have less initial reaction but have yields more meaningfully higher later. Sell-offs on the day saw either follow-through (1989, 2003), or at best some range trading in 1998. Inconclusive but generally higher yields at rate pause or skip, therefore, we are bearish on bonds in 1H25. On the other hand, equity markets tend to rally following a rates selloff at a pause or the end of the easing cycles. However, the subsequent macro data release will be crucial determinants for the sustainability of equity market rally.

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- **Local Equity outlook – For Jan-25, expect it to be a good trading month.** This is on the basis that market is expecting positive spill over to the property sector on Johor Singapore Special Economic Zone announcement. Also, with minimal window dressing activities on the last day of 2024, this will lead to lesser pullback on the FBMKLCI which has influence to the overall market sentiment. Finally, if all goes well, we may even see a Chinese New Year rally which does happen in some years historically.
- **APAC Equity outlook – For Jan-25, we expect a lackluster trading market in China.** This is because all eyes will be on Trump tariff after Trump takes office on 20 Jan. Market players are observing if the trade tariff will be as high as earlier guided or potentially lower due to Elon Musk's influence. As a result, we expect foreign fund flows to also take a breather until something materializes on the trade tariff.
- **Fixed Income outlook –The US Treasury market is expected to remain volatile in 2025 largely due to policy risks** under Trump, economic data, fiscal sustainability and monetary policies by the Fed. In the near term, we expect local yields to trend higher alongside bearish bond market sentiment in the US coupled with heavy net government bonds supply locally.