

Portfolio Managers' Views



October 2023
FUND MANAGEMENT DEPARTMENT

1.0 MALAYSIA & REGIONAL

The Month of October 2023 in Review & Our Managers' Views

1

Interest rate expectations continued to dominate the narrative on equity markets. In September, the US Fed's chair spooked markets as he cautioned that rates may remain higher for longer to curb inflation in light of a resilient job market and service inflation. In the three months heading to the end of October, the 10-year US Treasury yields rose by over 100 bps, breaching the 5% level. The US Dollar ("USD") gained, and Asian currencies fell, along with Asian equities.

2

Malaysia outperformed. Despite the macro headwinds, Malaysia's KLCI rose by 1.3%, after falling 1.9% in September. KLCI's rebound was notable for its positive gain as well as its outperformance against emerging market and Asian indexes. Malaysian equities gained despite foreign fund outflows in the region (see Chart 1) as investors positioned for stronger USD ahead of the US Federal Open Market Committee ("FOMC") meeting in early November.

3

Local institutions offset the foreign selling, buying up RM2.3bn and helped lift domestic-oriented sectors, with the top-two performing being the finance (+2%) and construction (+1%) sectors. Malaysian banks are seeing a pick-up in industry loan growth, credit writebacks and rising fee income. Construction is seeing contract wins as pump-priming measures gain traction. In short, domestic bottom-up drivers are negating global headwinds in financial markets.

4

Going forward, we expect the narrative on high US interest rates to wane. The current US interest rate futures curve suggest we are near the end of the rate-hike cycle. Peaking interest rates and lower bond yields point to weaker USD and strong Asian currencies, including the MYR. Stronger Asian currencies have high correlations with Asian equities, as evidenced in Chart 3. As such, we see lift-offs in Asian equities as foreign fund flows return.

5

We are seeing "green-shoots" in Asian market recoveries. In our September monthly bulletin, we highlighted the global semiconductor sales data for Aug-23 sales rose to \$44bil, a sequential increase of 1.9% MoM. Foreign inflows into Taiwan and South Korea - both tech-driven markets that saw inflows in October (see Chart 1) reinforces our view of the sector's bottoming-out and peaking interest rates. Falling US Treasury yields is positive for the tech stock cycle.

Aside from "green shoots" in tech stocks, we expect other bond yield-sensitive sectors like real estate investment trust (REIT) and dividend stocks to outperform as bond yields fall. Weaker USD will also benefit companies with exposures to gold, and we also favour domestic sectors like energy, utilities, consumer discretionary, construction and building materials as governments pump-prime economies amidst a challenging global economic environment.

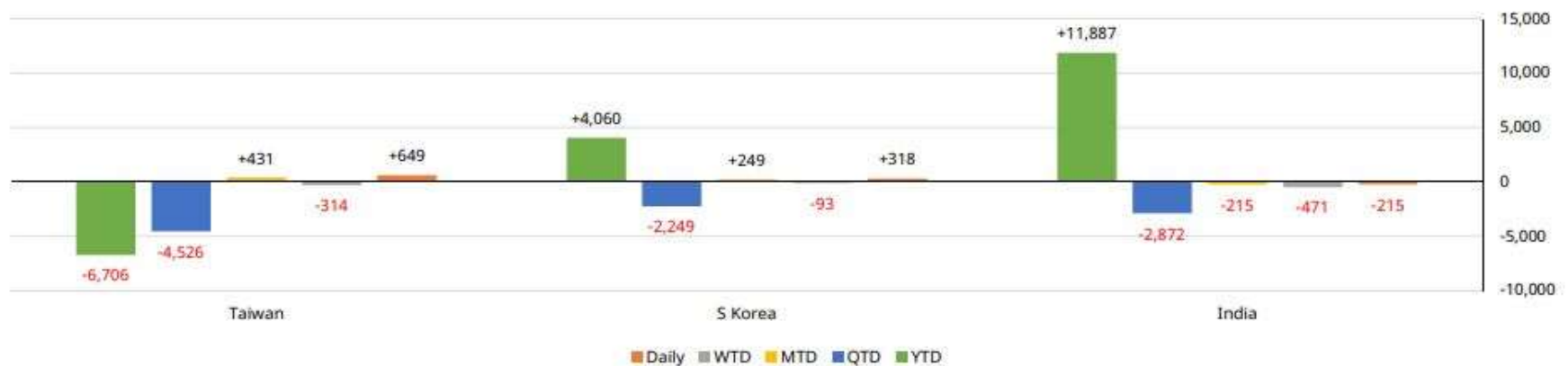
1.1 Negative Foreign Fund Flows for ASEAN in October

A region-wide outflow that led markets lower, but Malaysia was more resilient.

Chart 1: Selected ASEAN Equity Markets (Net USD mil)



Chart 2: Selected North Asian & India Markets (Net USD mil)



1.2 Expect Weaker USD as Rates Peak & Bond Yields Fall

Lower bond yields are indicative of interest rate cuts

Chart 2: US 10Y Treasury Yield (RHS, %) vs US Dollar Index (LHS)



1.3 Stronger Asian Currencies are Positive for Asian

Asian FX are reversing, aiding the recoveries in Asian stocks

Chart 3: Asian Equity Index (LHS) vs. Asian Dollar Index (green line, RHS)



2.0 MALAYSIA MARKET REVIEW

Malaysia Tracked Global Market's Decline | Energy Rallied on Higher Oil Prices

Exhibit 1: KLCI vs Shariah Index

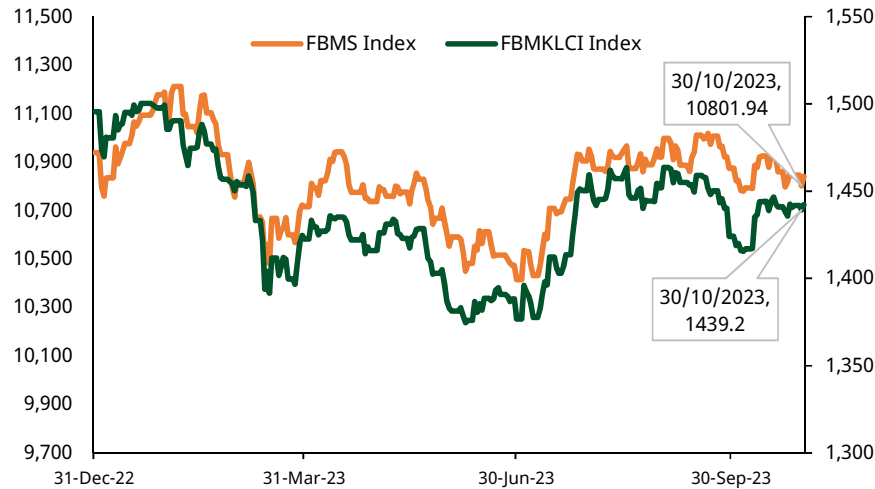


Exhibit 2: USDMYR

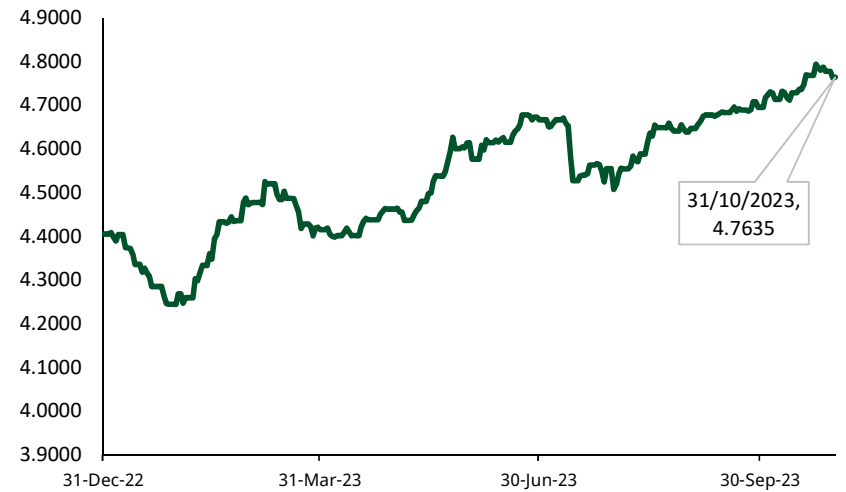


Exhibit 3: Sector Performances Month-to-Date (%)

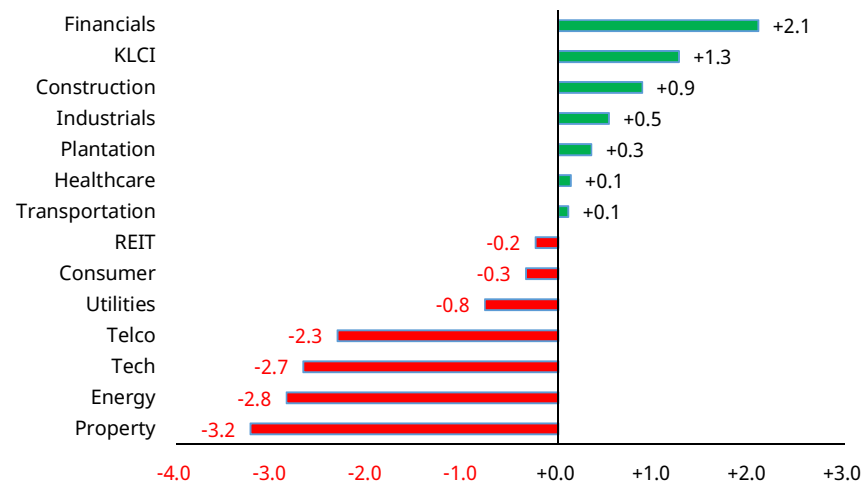
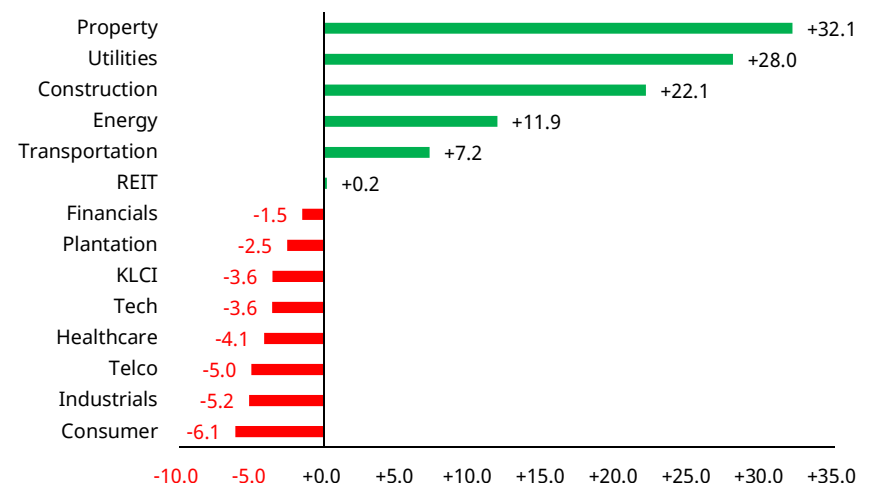


Exhibit 4: Sector Performances Year-to-Date (%)



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