

**PHILLIP MUTUAL BERHAD**Company No. 200201002746 (570409-K)  
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## Investing in Fixed Income Assets

In November's FOMC meeting, the Fed maintained the FFR at 5.25-5.50%. US Treasuries faced heavy losses in October, with the 10Y UST hitting 5.00% but have now retreated to 4.39% as at 22 November. The anticipation of a prolonged tight monetary policy into the next year was the main factor behind the increased yields. Robust 3Q2023 US GDP performance reinforced investors' expectations of the sustained tight monetary policy throughout the coming year. But the good news is the ongoing disinflationary trend is expected to create a more predictable trajectory for monetary policy, mitigating rate volatility. Numerous factors could impact future yield trends, and although the outlook is uncertain, historical patterns suggest favourable returns in high-quality fixed income during the year following the culmination of the Fed's hiking cycle.

In Malaysia, MGS mirrored the movement of UST in October. In the November MPC meeting, BNM maintained the OPR at 3.0%, affirming a supportive monetary policy stance aligned with the current evaluations of inflation and growth prospects. In 3Q23, headline and core inflation averaged 2.0% and 2.5%, respectively, with expectations of ongoing moderate inflation into 2024. We think OPR will likely stay at current level as the primary focus of BNM's monetary policy is to maintain a sustainable growth momentum in Malaysia's economy. With the OPR already at a supportive level conducive to sustained economic growth, adjustments may not be necessary.

Given this context, we reaffirm the significance of incorporating fixed income in the portfolio, particularly for diversification purposes. [Our perspective on fixed income remains largely consistent with what it was six months ago.](#) Ultimately, investing in fixed income will give exposure to the corporate bonds return and potentially giving higher return than the cash investment (see *Table 1*).

Table 1: Corporate Bond Ratings as at 31 Oct 2023

RATINGS	YEAR				
	3	5	7	10	15
AAA	4.071	4.234	4.404	4.489	4.625
AA1 / AA+	4.153	4.320	4.488	4.575	4.721
AA2 / AA	4.252	4.407	4.581	4.685	4.868
AA3 / AA-	4.381	4.540	4.713	4.850	5.088
A1 / A+	4.806	4.996	5.209	5.379	5.681
A2 / A	5.367	5.706	5.934	6.173	6.628
A3 / A-	5.916	6.231	6.521	6.913	7.714
BBB	6.640	7.003	7.511	8.088	8.965
BB & BELOW	8.337	9.188	10.075	10.744	11.981

Source: Bank Negara Malaysia

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## Four compelling advantages of Fixed Income Investing

### a. Fight against Inflation

- ✓ Bonds can serve as a valuable tool for retail investors to combat the erosive effects of inflation, which reduces the purchasing power of money over time.
- ✓ By investing in bonds, you can potentially earn a fixed interest rate, which outpaces inflation, helping to protect and grow your wealth in real terms.

### b. Asset Diversification

- ✓ Diversification, a fundamental investment strategy, involves incorporating bonds into your portfolio to spread risk and mitigate the impact of market volatility.
- ✓ Bonds tend to have a lower correlation with stocks, making them a valuable asset class for risk management, ensuring a more balanced and stable investment portfolio.

### c. Saving Mechanism

- ✓ Bonds can function as a structured saving mechanism for retail investors. When you buy bonds, you are essentially lending money to the issuer in exchange for periodic interest payments and the return of your principal at maturity.
- ✓ This can be a disciplined way to save money over time while earning a predictable income stream.

### d. Cash Flow Planning

- ✓ Retail investors can tailor their bond investments to suit their cash flow needs.
- ✓ Short-term bonds can provide liquidity for immediate expenses, while longer-term bonds can help secure future financial goals.
- ✓ This strategic approach allows for efficient cash flow management and financial planning.

## Our Offerings

Phillip Mutual Berhad offers a comprehensive list of local and global unit trust funds that may suit your investment preferences and financial goals. Our recommendation for unit trust funds with fixed income exposure is as follows:

### 1. Phillip Dana Murni \*

- ✓ Category: Malaysia Fixed Income Fund
- ✓ As of 31 Oct 2023: +3.9% YTD, outperforming benchmark of Maybank 12-Mth Islamic FD Rate by 140bps
- ✓ Asset Allocation: 82% (Sukuk); 18% (Islamic Money Market)
- ✓ Fund Size: RM14.6mil

### 2. Phillip SELECT Balance

- ✓ Category: Malaysia Balanced Fund
- ✓ As of 31 Oct 2023: +2.0% YTD, outperforming benchmark of 60% FBM100 & 40% 3-Mth KLIBOR by 140bps
- ✓ Asset Allocation: 49% (Equities); 51% (Fixed Income + Cash)
- ✓ Fund Size: RM24.8mil

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### 3. Phillip Asiapac Income

- ✓ Category: Asia Balanced Fund
- ✓ As of 31 Oct 2023: +1.0% YTD, a shy away from benchmark of 40% MSCI Asia Pac Ex-Japan & 60% 3-Mth KLIBOR by 120bps
- ✓ Asset Allocation: 41% (Equities); 59% (Fixed Income + Cash)
- ✓ Fund Size: RM7.7mil

Note: \* indicates Syariah

### Our Portfolio Strategy

Looking ahead, our domestic bond yields have generally risen to pre-pandemic levels, suggesting opportunities for yield pick-up. We will continue to monitor the bond yield movement closely to capture opportunities in selected bonds to lock in attractive yields.

Here are some strategies for managing our fixed income funds:

- ✓ Diversify portfolio allocation i.e. sectoral and credit risk.
- ✓ Participate in new issuance with a good credit rating and higher spread than peers.
- ✓ The increase in rates might pull down the bond prices, but the opportunities to enhance the yield might compensate for the price compression, especially in active management portfolios.
- ✓ Tactically will increase the duration of the Sukuk Portfolio as the Fed may keep existing interest rates for longer before reducing it in 2H2024.

Our investment portfolio focuses on quality companies that possess strong fundamentals, including stable earnings and a promising future outlook, and are led by capable management teams. Please click on the [link](#) to learn more or email us at [phillipmutual@phillipcapital.com.my](mailto:phillipmutual@phillipcapital.com.my) if you require any further information.