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Investment Insights and Strategy Series by Phillip Capital Malaysia – January 2024

Global markets sustained robust momentum in December, buoyed by the moderation of US inflation data. This development fuelled market expectations for a pause in the rate hike cycle in 2024 and potentially a fresh rate cut as early as March 2024.

The MSCI Asia Pacific Ex-Japan Index (+4.5%) had a strong showing and only slightly underperformed the MSCI World Index (+4.8%) as year-end rallies in India, Singapore and South Korea helped lift the former. India (+7.9%) was the biggest star in December owing to bullish sentiment from economists and analysts as it overtakes HK as the 7th largest stock market in the world. Singapore (+5.4%) also fared very well as its economy grew faster than expected, boosted by rallies in manufacturing and construction. South Korea (+4.7%) on the other hand grew exports by 14.5%, attributed to rising demand from US for its semiconductor products. China (-1.9%) was the weakest link in Asia, albeit not too sharp of a decline as Beijing moved to protect the Yuan by orchestrating buying by state banks. Japan (-0.1%) and HK (0.0%) were fairly unchanged as markets weigh in on the latest macroeconomic data (*see Exhibit 1*).

On a YTD basis, the MSCI World index demonstrated significantly stronger performance compared to the MSCI Asia Pacific Ex-Japan, with returns of 21.8% and 4.6% respectively. The US Nasdaq remained the top performer with a substantial gain of +43.4% helped significantly by the emergence of the AI theme, leading ahead of Japan (+28.2%), Taiwan (+26.8%), and India (+20.0%). On the flip side, Thailand (-15.2%), Hong Kong (-13.8%), and China (-11.4%) experienced the most significant losses in 2023 (*see Exhibit 1*).

After an elongated period of rapid policy tightening, we view the Fed interest rate policy will begin normalizing in 2024, signifying an inflection point by shifting from a 'higher for longer' view to a moderate pace before settling for a rate cutting cycle. The fall of interest rates expected in 2024 bode well for growth-oriented sectors and those that rely heavily on imports for production inputs. Separately, a weaker dollar eases the burden on deficit-laden governments and could potentially attract foreign inflows returning to emerging markets. On China, we expect more policy interventions and stimulus measures from the government and regulators to avert default in the property sector, including larger deficit spending by the government and potentially further interest rate cuts in 2024. The new growth areas such as Artificial Intelligence (AI), Electric Vehicles (EV), Renewables, Data Mining, Machine Learning, Cloud Computing and etc have the potential to expand further in China, transforming the economic structure over the longer term.

Back home, the domestic market closed marginally higher, posting a +0.1% gain and closing at 1,454.66. This helped reduce the YTD losses for 2023 to -2.7%. During the month, the Small Cap Index fared better with a positive return of 1.5%, while the Mid 70 Index gained 3.1%, resulting in YTD gains of +12.3% and +9.6% respectively (*see Exhibit 1*).

Sector-wise, the top performers were Utilities, Healthcare, and Construction, with gains of +7.3%, +6.9%, and +3.3% MoM, respectively. Laggards were Energy, Consumer, and Plantation, declining by -1.4%, -1.3%, and -0.5% MoM, respectively. For the full year of 2023, Utilities, Property, and Construction were the top performing sectors, with gains of +51.4%, +34.5%, and +25.8%, respectively. Laggards were Consumer, Industrial, and Telco, declining by -5.6%, -4.8%, and -3.5% respectively (*see Exhibit 1*).

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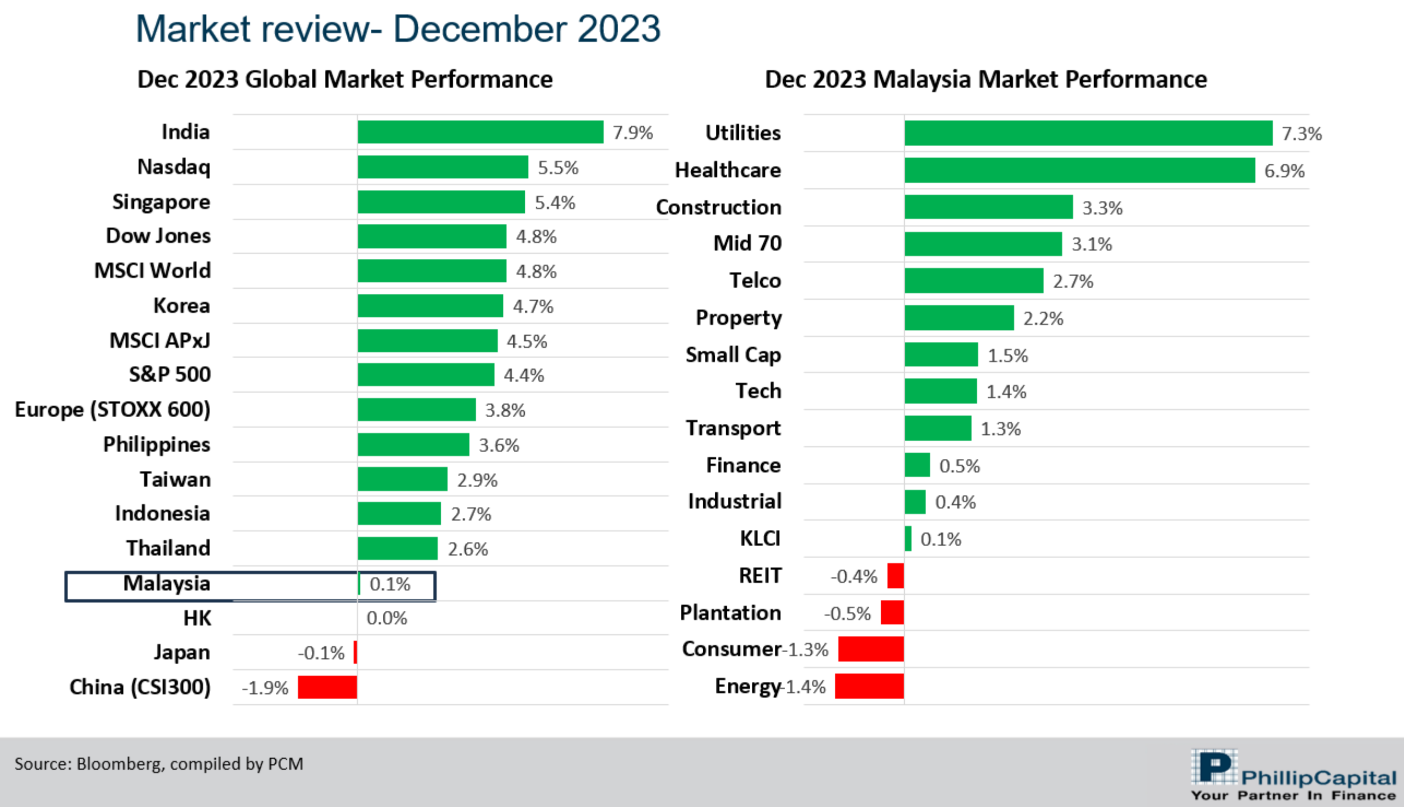
In terms of fund flow, foreign investors remained as the net buyer in December with buying value of RM256m. On a YTD basis, foreigners were net equity sellers of RM2.3bn. Foreign investors favoured Utilities, Property, and Construction sectors in 2023, whereas Financial, Consumer, and Industrial sectors witnessed some outflows.

Looking ahead, we believe the local market is supported by continuous execution of the macro blueprints launched in 2023, robust domestic demand (amid normalising tourism and cash aids for B40 & M40) and a potential reversal in the strong US dollar trend. A US soft landing (or ideally a no-landing scenario) and gradual recovery in China could also offer some support to the local market. Furthermore, KLCI is supported by an undemanding valuation (13.0x forward P/E vs 10Y average 16.6x) accompanied by an all-time low foreign shareholding of 19.5% (as at Dec 2023). Other positive catalysts include a boost in Malaysian tourism due to China reopening, rising FDI momentum, and signs of the tech cycle bottoming out.

Exhibit 1: Dec 2023 & YTD 2023 Market Performance



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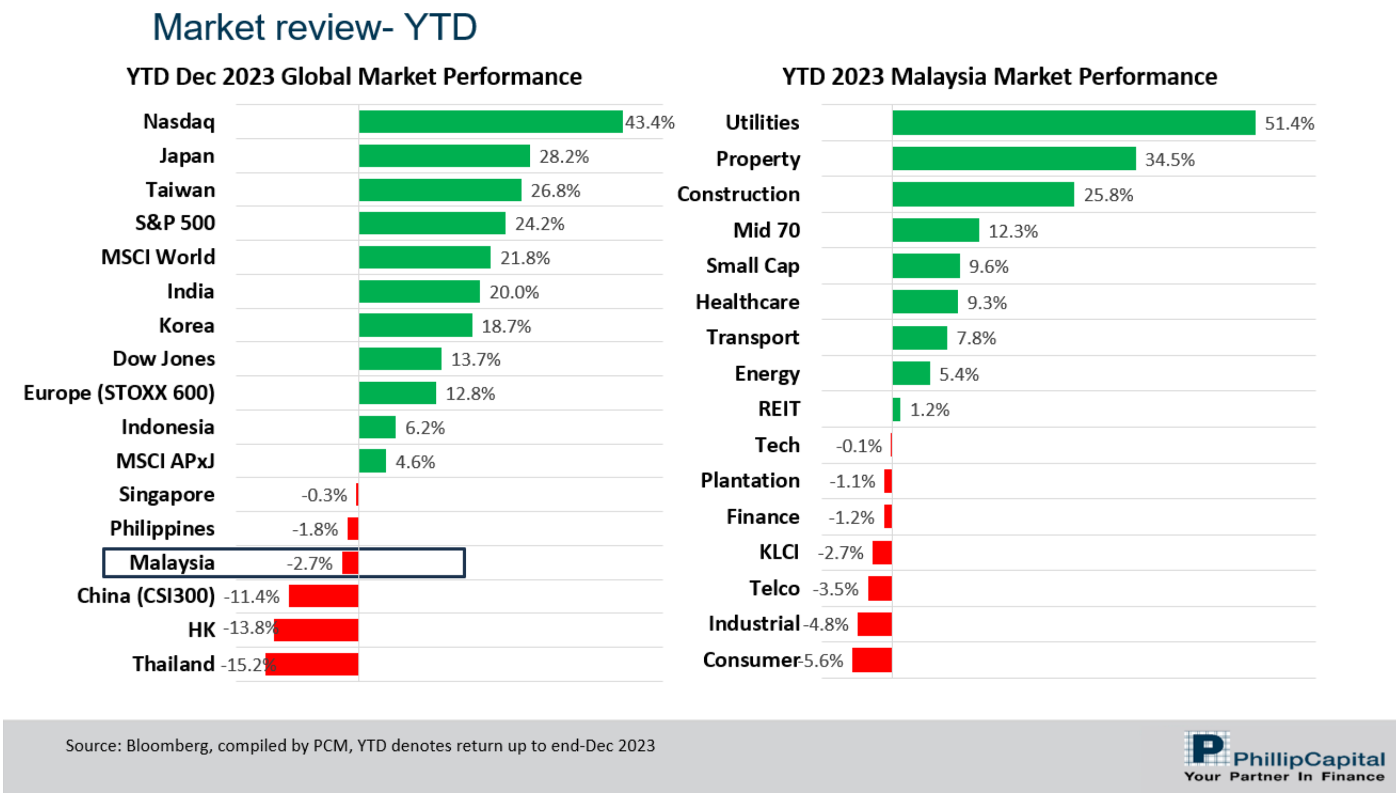

Strategy for the Month

The geopolitical landscape is growing more complex, marked by ongoing US-China trade tensions, heightened North/South Korea tensions, Israel-Hamas conflicts, and Middle East unrest. Our outlook on global equities remains **cautiously optimistic**, with a preference for the **Hong Kong/China market** due to appealing valuations and policy stimulus (CSI300 – 10.4x forward P/E, -1.3 standard deviation below its 5-year mean; HSI – 8.0x forward P/E, -1.9 standard deviation below its 5-year mean) and supportive policy stimulus (*see Exhibit 2*).

In **Malaysia**, we hold a **positive** view on **large-cap stocks** and have become more optimistic about **selective small-cap stocks**. Our preference lies with companies demonstrating robust earnings growth under quality management. Sector-wise, similar to the previous month, we favor the **Construction** sector, a beneficiary of Budget 2024, infrastructure project rollouts, and the National Energy Transition Roadmap. Additionally, we have become more positive on the **Energy** sector, particularly the upstream segments expected to benefit from Petronas contract awards. Conversely, challenges are anticipated in the **Telco** sector due to intense competition, while the **Plantation** sector may experience sluggish earnings in 2024.

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Exhibit 2: Selected Market Indices Valuations

As of 31 Dec 2023,

Summary (5 years)	Fwd P/E	S.D.	Fwd P/B	S.D.
MSCI WORLD	17.5x	0.0	3.1x	1.3
MAPXJ	13.0x	-0.5	1.6x	-0.1
US (S&P 500)	19.6x	0.3	4.4x	1.3
EUROPE (STOXX 600)	13.0x	-0.7	1.9x	0.6
CHINA (CSI300)	10.4x	-1.3	1.4x	-1.5
HONG KONG (HSI)	8.0x	-1.9	1.0x	-1.3
KOREA (KOSPI)	10.7x	-0.3	0.9x	-0.1
TAIWAN (TAIEX)	16.1x	0.9	2.4x	1.0
INDIA (NIFTY 50)	20.2x	0.8	3.3x	1.0
JAPAN (NIKKEI 225)	19.2x	0.3	1.9x	0.6
MALAYSIA (FBMKLCI)	13.0x	-1.1	1.3x	-1.4
MALAYSIA (FBM100)	13.5x	-1.0	1.3x	-1.0
MALAYSIA (FBMSC)	12.9x	-1.1	0.8x	0.0
MALAYSIA (FBM70)	15.0x	-0.6	1.4x	1.9

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 if you require any further information.