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

The **MSCI Asia Pacific Ex-Japan Index (-4.8%)** tumbled in January, underperforming the **MSCI World Index (+1.1%)** as weak performances in HK, China and South Korea dragged the former. **Japan (+8.4%)** had an incredible showing in January as renewed risk-on sentiment helped lift Japanese blue chips to record highs. **Malaysia (+4.0%)** had its best month in quite a while as strong foreign flows into blue chips breathed fresh excitement into markets pushing the index into levels unseen since Aug'22. **Philippines (+3.0%)** also had a strong showing as it overtakes Malaysia and Vietnam as the fastest growing economy in ASEAN. **HK (-9.2%)** and **China (-6.3%)** markets were devastated as waning investor confidence persist despite reports that China is planning a CNY 2tn rescue plan for the stock market. **South Korea (-6.0%)** also struggled in January despite a positive uptick in PMI levels and slowing inflation (see *Exhibit 1*).

Recent market volatility prompted significant efforts from China's central bank, securities regulator, and state asset regulator. The securities regulator emphasises investor-centric capital markets, while the central bank implements a 50-basis points reserve ratio cut and other measures to support financial markets. The state asset regulator focuses on enhancing returns for investors, incorporating market value into the SOE appraisal system, encouraging share buybacks and increasing dividends. These measures aim to stabilise markets amid challenges such as Evergrande's crisis and weak investor sentiment.

After an elongated period of rapid policy tightening, we view the Fed interest rate policy will begin normalising 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.

The domestic market kicked off the year on a positive note, posting a +4.0% gain MoM and closing at 1,512.98. During the month, the Small Cap Index trailed behind but still posted a positive return of +2.3%, while the Mid 70 Index gained +3.9%. Looking at the trading participants for the month, foreign investors remained net buyers, buying RM678.4m worth of shares. Local insti remained net sellers, selling RM662.9m worth of shares while retailers sold RM15.5m worth of shares. Foreign investors, in net, bought Utilities, Construction, and Financials sectors in January 2024, whereas Consumer, Industrial, and REITs sectors witnessed some outflows. Sector-wise, the top performers were Utilities, Energy, and Construction, with gains of +17.3%, +9.5%, and +9.4% MoM, respectively. Laggard was Technology, declining by -2.2% MoM (see *Exhibit 1*).

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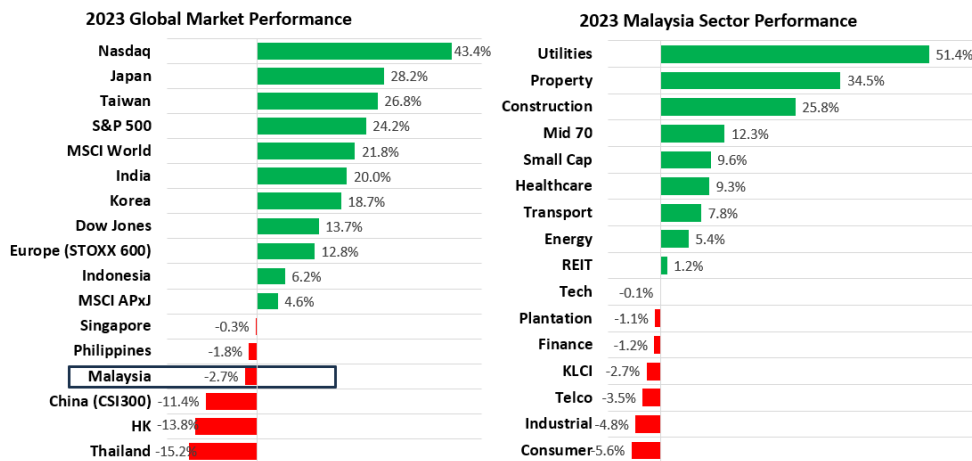
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Looking ahead, we believe the local market is supported by continuous execution of the macro blueprints launched in 2023, robust domestic demand (amid normalising tourism and cash aids for B40 & M40) and a potential reversal in the strong US dollar 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 (13.5x forward P/E vs 10Y average 16.6x) accompanied by an all-time low foreign shareholding of 19.6% (as at Jan 2024). 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: 2023 & 2024 Jan Market Performance

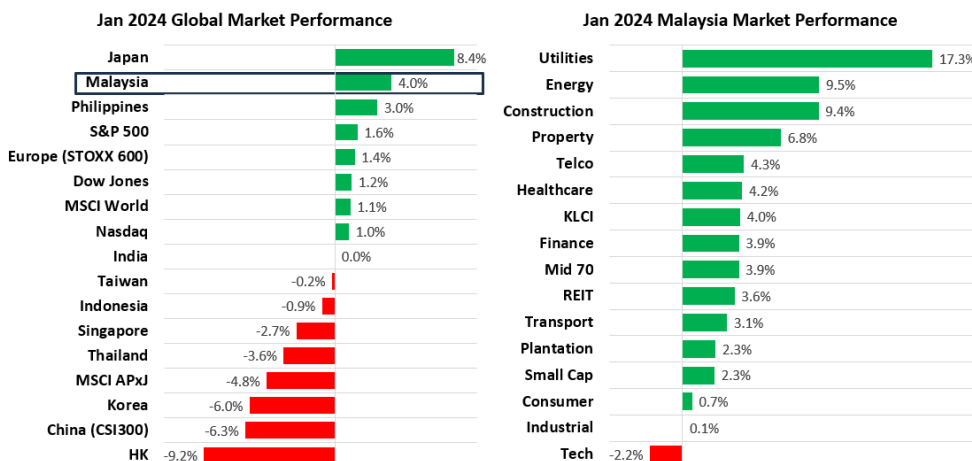
Market review- 2023 (Full Year)



Source: Bloomberg, compiled by PCM, YTD denotes return up to end-Dec 2023



Market review- January 2024



Source: Bloomberg, compiled by PCM



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Strategy for the Month

Several indications suggest the Fed may postpone an interest rate cut following recent hawkish remarks and sticky Jan's inflation figures, compounded by the complexities of the Red Sea Shipping Crisis which could reignite inflation. While the labour market remains robust (low unemployment rate), consensus suggests potential weaknesses by year-end, reinforcing the argument for a rate cut. Nevertheless, our outlook on global equities remains **cautiously optimistic**, with a preference for the **Hong Kong/China** market due to appealing valuations and policy stimulus. Additionally, the **US** market is favoured for its strong earnings quality, presenting opportunities for investment during any potential pullback.

In **Malaysia**, we hold a **positive** view on **large-cap** stocks and selected **small-cap** stocks. Sector-wise, similar to the previous month, we favour the **Construction** sector, a beneficiary of Budget 2024, infrastructure project rollouts, and the National Energy Transition Roadmap. We have turned more positive on **Technology** as we see signs of down-cycle bottoming out. Conversely, we continue to hold our underweight stance in **Telco** and **Plantation** sectors. We have become less bullish on the **Property** sector due to its recent surge, while earnings may take some time to catch up.

Exhibit 2: Selected Market Indices Valuations

As of 31 Jan 2024,
Summary (5 years)

	Fwd P/E	S.D.	Fwd P/B	S.D.
MSCI WORLD	17.8x	0.2	3.1x	1.2
MAPXJ	12.4x	-1.0	1.5x	-0.6
MSCI EM	11.3x	-0.8	1.5x	-0.4
MSCI ASEAN	12.8x	-1.6	1.5x	0.2
US (S&P 500)	19.9x	0.4	4.5x	1.4
EUROPE (STOXX 600)	13.0x	-0.7	1.9x	0.8
CHINA (CSI300)	9.9x	-1.9	1.3x	-1.6
HONG KONG (HSI)	7.3x	-2.3	0.9x	-2.0
KOREA (KOSPI)	10.0x	-0.9	0.9x	-0.5
TAIWAN (TAIEX)	15.9x	0.8	2.4x	1.0
INDIA (NIFTY 50)	20.1x	0.6	2.9x	0.0
JAPAN (NIKKEI 225)	20.8x	1.0	2.1x	1.7
SPORE (STI)	10.2x	-1.6	1.0x	0.0
INDO (JCI)	13.7x	-0.9	1.9x	-0.2
THAI (SET)	14.0x	-1.5	1.4x	-1.6
PHIL (PCOMP)	11.4x	-1.5	1.5x	-0.6
VIET (VN30)	8.3x	-1.1	1.4x	-1.4
MALAYSIA (FBMKLCI)	13.5x	-0.8	1.3x	-1.0
MALAYSIA (FBM100)	13.9x	-0.8	1.3x	-0.3
MALAYSIA (FBMSC)	13.1x	-1.0	0.8x	0.0
MALAYSIA (FBM70)	15.4x	-0.5	1.4x	2.2

Source: Bloomberg, PCM, 31 Jan 2024

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.

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