

**PHILLIP MUTUAL BERHAD**Company No. 200201002746 (570409-K)  
Tel: (603) 2783 0300 | Fax: (603) 2166 6417

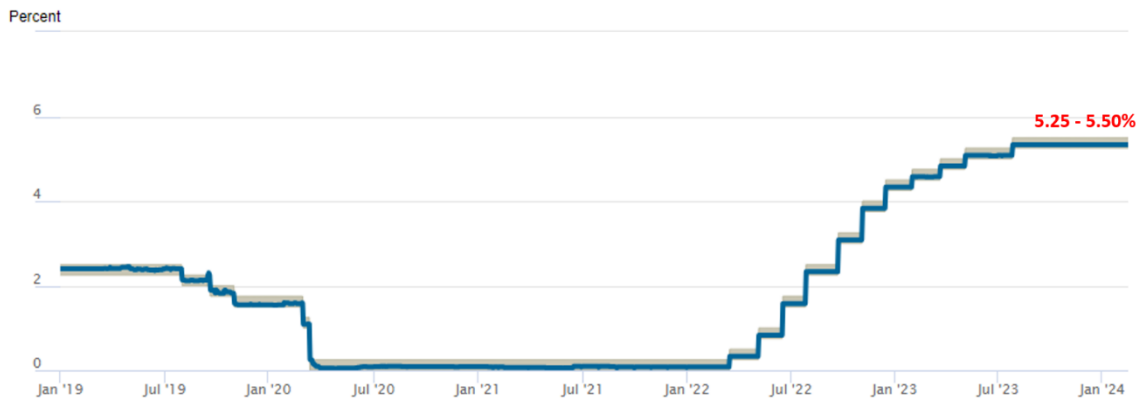
Webpage: www.phillipmutual.com | E-mail: phillipmutual@phillipcapital.com.my



## The Impact of the Fed's Rate Cut on the Malaysian Market

The Federal Open Market Committee (FOMC) meeting in January 2024 concluded with the decision to maintain the Fed funds interest rate within the range of 5.25% to 5.50%, as widely anticipated by the market consensus. Notably, the Fed funds rate has been held steadily for about eight months since the last rate hike of 25 basis point back in July 2023 (see Exhibit 1).

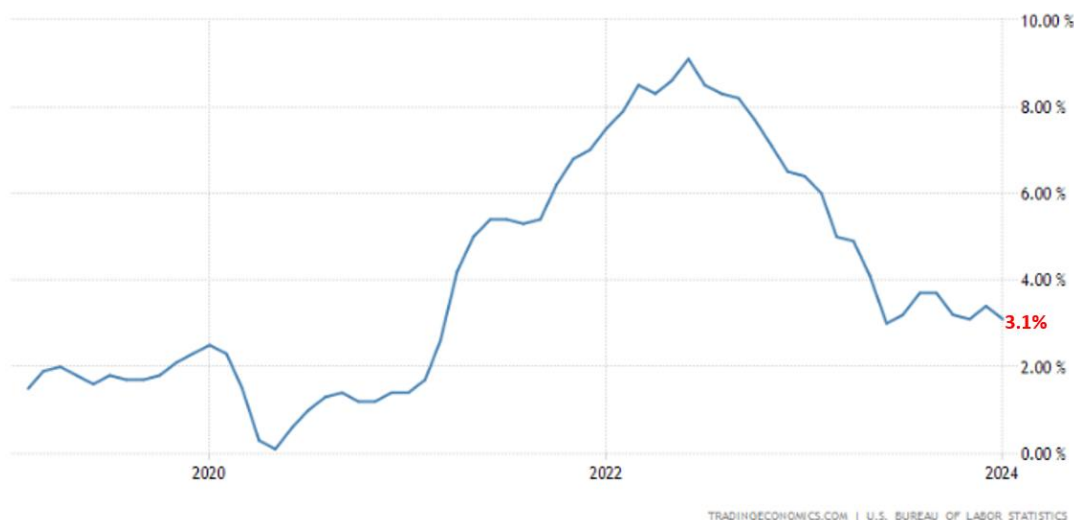
### Exhibit 1. Fed funds rate since 2019



Source. The Federal Reserve (Fed)

Since March 2022, the FOMC began a 25-basis point interest rate hike aiming to bring inflation back to its 2% target. Following several rate hikes in the past two years to combat inflation, a sustained decrease in inflation rates has prompted the Fed to ease its stance, temporarily pausing rate hikes (see Exhibit 2).

### Exhibit 2. US Headline CPI



Source. US. Bureau of Labor Statistics

**DISCLAIMER:** This compilation is prepared by Phillip Mutual Berhad ("PMB") in its capacity as an IUTA approved by the Federation of Investment Managers Malaysia ("FIMM") for specific Funds distributed by PMB. The information contained herein is general information only and not intended for public distribution. It is furnished to the recipient on a confidential basis. It does not take into account your individual objectives, financial situations or needs. You should seek your own professional advisers before investing. No part of this document may be circulated or reproduced without prior permission of PMB and does not constitute an offer, invitation or solicitation to invest in the specific Funds. Any investment product or service offered by PMB is not obligations of, deposits in or guaranteed by PMB. You are advised to read and understand the relevant prospectuses for the Funds, which have been registered with the Securities Commission Malaysia who takes no responsibility for the contents. The respective prospectuses to the Funds are obtainable at any of our offices, website and authorised agents. Any issue of units to which the prospectuses relate will only be made on receipt of the duly completed application form referred to in and accompanying the prospectuses. Investment in unit trust funds is not the same as placing money in a deposit with a financial institution. There are risks involved, and investors should rely on their own evaluation to assess the merits and risks when investing in these funds. There are also fees and charges involved and investors are advised to consider them before investing in the Funds. Investment in shares and bonds may go up as well as down. The prices of units and distribution payable, if any, may also go up as well as down. Past performance of the unit trust funds is not an indication of its future performance. If investors are in any doubt about any feature or nature of the investment, they should consult PMB to obtain further information before investing or seek other professional advice for the suitability of the Funds and to their specific investment needs or financial situations. Information contained herein are based on the law and practise currently in force in Malaysia and are subject to changes in such law without any notice.

# PHILLIP MUTUAL BERHAD

Company No. 200201002746 (570409-K)  
Tel: (603) 2783 0300 | Fax: (603) 2166 6417  
Webpage: www.phillipmutual.com | E-mail: phillipmutual@phillipcapital.com.my



The market had previously expected the first rate cut to occur during the March 2024 FOMC meeting. However, due to the recent hawkish tone in the Fed's statement (coupled with still-sticky January inflation figures), expectations are now shifting, with the market expecting the first rate cut to begin as early as the June FOMC meeting (see Exhibit 3), with a 53.1% probability as of 21 February 2024.

## Exhibit 3. Market consensus of Fed funds rate

CME FEDWATCH TOOL - MEETING PROBABILITIES									
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	8.5%	91.5%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	34.0%	63.3%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	23.1%	53.1%	22.1%
7/31/2024	0.0%	0.0%	0.0%	0.0%	1.1%	15.8%	42.9%	32.6%	7.5%
9/18/2024	0.0%	0.0%	0.0%	0.9%	12.6%	37.0%	34.9%	13.0%	1.6%
11/7/2024	0.0%	0.0%	0.5%	7.1%	25.6%	35.9%	23.3%	7.0%	0.8%
12/18/2024	0.0%	0.3%	5.0%	19.7%	32.6%	27.3%	12.1%	2.7%	0.2%
1/29/2025	0.2%	3.0%	13.5%	27.1%	29.5%	18.6%	6.7%	1.3%	0.1%
3/12/2025	1.2%	6.9%	18.5%	28.0%	25.4%	14.2%	4.7%	0.9%	0.1%

Source. CME FedWatch tool, as of 21 Feb 2024

## What are the potential implications for the Malaysian market following a U.S. rate cut?

### 1) Potential appreciation of MYR against USD

A rate cut by the Fed usually results in the depreciation of the US dollar as lower interest rates reduce the yield on investments in US dollars, making them less attractive to foreign investors. The movement of capital towards higher-yielding assets in alternative currencies would favour emerging market currencies, including the Malaysian Ringgit. Appreciation of the Malaysian Ringgit in relative to the US dollar can result in cheaper imports, which is advantageous for sectors heavily reliant on imported goods, i.e. **Construction sector** that rely heavily on import of construction materials (Iron and Steel), **Utilities sector** (i.e. Tenaga) whereby a significant portion of its operational expenses comes from importing coal, which is priced in USD. Separately, the **Automotive** and **Consumer** sectors could also see benefits since their raw materials are sourced through imports.

### 2) Increase of Foreign Direct Investment (FDI) flow into Malaysia

Investors often seek the best returns for their capital. With lower interest rates in the US, capital tends to flow towards economies that provide better yield in investment, for example, Malaysia, with its dynamic economy and strategic position in the Southeast Asia, can become a more attractive destination for FDI yield.

In July 2023, PM Datuk Seri Anwar Ibrahim unveiled the Madani Economy framework, aiming to encourage both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI) and eventually develop Malaysia into a leading economy in Asia.

**DISCLAIMER:** This compilation is prepared by Phillip Mutual Berhad ("PMB") in its capacity as an IUTA approved by the Federation of Investment Managers Malaysia ("FIMM") for specific Funds distributed by PMB. The information contained herein is general information only and not intended for public distribution. It is furnished to the recipient on a confidential basis. It does not take into account your individual objectives, financial situations or needs. You should seek your own professional advisers before investing. No part of this document may be circulated or reproduced without prior permission of PMB and does not constitute an offer, invitation or solicitation to invest in the specific Funds. Any investment product or service offered by PMB is not obligations of, deposits in or guaranteed by PMB. You are advised to read and understand the relevant prospectuses for the Funds, which have been registered with the Securities Commission Malaysia who takes no responsibility for the contents. The respective prospectuses to the Funds are obtainable at any of our offices, website and authorised agents. Any issue of units to which the prospectuses relate will only be made on receipt of the duly completed application form referred to in and accompanying the prospectuses. Investment in unit trust funds is not the same as placing money in a deposit with a financial institution. There are risks involved, and investors should rely on their own evaluation to assess the merits and risks when investing in these funds. There are also fees and charges involved and investors are advised to consider them before investing in the Funds. Investment in shares and bonds may go up as well as down. The prices of units and distribution payable, if any, may also go up as well as down. Past performance of the unit trust funds is not an indication of its future performance. If investors are in any doubt about any feature or nature of the investment, they should consult PMB to obtain further information before investing or seek other professional advice for the suitability of the Funds and to their specific investment needs or financial situations. Information contained herein are based on the law and practise currently in force in Malaysia and are subject to changes in such law without any notice.

# PHILLIP MUTUAL BERHAD

Company No. 200201002746 (570409-K)  
Tel: (603) 2783 0300 | Fax: (603) 2166 6417  
Webpage: www.phillipmutual.com | E-mail: phillipmutual@phillipcapital.com.my



According to the statistic released by Malaysian Investment Development Authority (MIDA), as of the first three quarters of 2023, the total approved investments reached RM225 billion, with DDI contributing 44% and FDI contributing 56%. This figure not only surpasses the full-year target of RM220 billion set for 2023 but also marks a 6.6% rise compared to the RM211 billion recorded in the same period of 2022 (see Exhibit 4). In addition to the approved investment figures, several investments have been announced for the period from 2021 to 2024, which are anticipated to materialise in the upcoming period (see Exhibit 5).

We are positive that the increased FDI would benefit sectors like **Technology** (specifically Semiconductor and Data Centre), as Malaysia's abundant natural resources and high skilled workforce would stand out as its competitive advantage to attract FDI.

## Exhibit 4. Malaysia Investment Performance Jan-Sep 2023



Source: MIDA

## Exhibit 5. FDI announced for the period 2021 - 2024

	Value (>100 mn)	Up to	Announced Date
<a href="#">Intel</a>	RM 30 bn	2022-2031	12/16/2021
<a href="#">Melexis</a>	EUR 70 mn	2024-2028	1/16/2023
<a href="#">Amazon Cloud</a>	RM25.5 bn	By 2037	3/2/2023
<a href="#">Korea</a>	RM 24 bn	N/A	3/21/2023
<a href="#">China</a>	RM 170 bn	N/A	4/3/2023

**DISCLAIMER:** This compilation is prepared by Phillip Mutual Berhad ("PMB") in its capacity as an IUTA approved by the Federation of Investment Managers Malaysia ("FIMM") for specific Funds distributed by PMB. The information contained herein is general information only and not intended for public distribution. It is furnished to the recipient on a confidential basis. It does not take into account your individual objectives, financial situations or needs. You should seek your own professional advisers before investing. No part of this document may be circulated or reproduced without prior permission of PMB and does not constitute an offer, invitation or solicitation to invest in the specific Funds. Any investment product or service offered by PMB is not obligations of, deposits in or guaranteed by PMB. You are advised to read and understand the relevant prospectuses for the Funds, which have been registered with the Securities Commission Malaysia who takes no responsibility for the contents. The respective prospectuses to the Funds are obtainable at any of our offices, website and authorised agents. Any issue of units to which the prospectuses relate will only be made on receipt of the duly completed application form referred to in and accompanying the prospectuses. Investment in unit trust funds is not the same as placing money in a deposit with a financial institution. There are risks involved, and investors should rely on their own evaluation to assess the merits and risks when investing in these funds. There are also fees and charges involved and investors are advised to consider them before investing in the Funds. Investment in shares and bonds may go up as well as down. The prices of units and distribution payable, if any, may also go up as well as down. Past performance of the unit trust funds is not an indication of its future performance. If investors are in any doubt about any feature or nature of the investment, they should consult PMB to obtain further information before investing or seek other professional advice for the suitability of the Funds and to their specific investment needs or financial situations. Information contained herein are based on the law and practise currently in force in Malaysia and are subject to changes in such law without any notice.

**PHILLIP MUTUAL BERHAD**

Company No. 200201002746 (570409-K)

Tel: (603) 2783 0300 | Fax: (603) 2166 6417

Webpage: [www.phillipmutual.com](http://www.phillipmutual.com) | E-mail: [phillipmutual@phillipcapital.com.my](mailto:phillipmutual@phillipcapital.com.my)

<a href="#">EVE Energy</a>	USD 422.3 mn	N/A	5/12/2023
<a href="#">Texas Instrument</a>	RM 14.6 bn	2023-2025	6/13/2023
<a href="#">Infineon</a>	EUR 5 bn	2024-2028	8/3/2023
<a href="#">Alton</a>	RM 2 bn	2024-2030	9/20/2023
<a href="#">Masdar</a>	USD8 bn	By 2035	10/9/2023
<a href="#">Geely</a>	RM32bn		10/10/2023
<a href="#">NTT Ltd</a>	RM234 mn		10/10/2023
<a href="#">Enovix</a>	RM5.8 bn	2023-2037	16/11/2023
<a href="#">USA</a>	RM63.02 mn	2033-2038	8/11/2023
<a href="#">Spectrum Materials</a>	USD7 mn		23/1/2024
<a href="#">European Wellness</a>	RM378.8 mn		29/1/2024

Source: Various, compiled by PCM

**3) Potential surge of bond price in Malaysia**

A Federal Reserve rate cut can significantly influence Malaysia's bond market by making Malaysian bonds more attractive to international investors seeking higher yields than those available in the United States, due to lower yields on US Treasury securities. This increased demand can drive up the prices of Malaysian bonds.

Additionally, a Fed rate cut often leads to a depreciation of the US dollar, enhancing the appeal of Ringgit-denominated bonds for foreign investors as the Malaysian Ringgit strengthens. The prospect of lower future yields, in response to potential rate cuts by Bank Negara Malaysia mirroring the Fed's policy shift, could further elevate bond prices. Moreover, global economic uncertainties that prompt Fed rate cuts can shift investor preference towards safer assets like government bonds, including those from Malaysia, affecting both government and corporate sectors by potentially lowering borrowing costs and stimulating economic activity.

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.

**DISCLAIMER:** This compilation is prepared by Phillip Mutual Berhad ("PMB") in its capacity as an IUTA approved by the Federation of Investment Managers Malaysia ("FIMM") for specific Funds distributed by PMB. The information contained herein is general information only and not intended for public distribution. It is furnished to the recipient on a confidential basis. It does not take into account your individual objectives, financial situations or needs. You should seek your own professional advisers before investing. No part of this document may be circulated or reproduced without prior permission of PMB and does not constitute an offer, invitation or solicitation to invest in the specific Funds. Any investment product or service offered by PMB is not obligations of, deposits in or guaranteed by PMB. You are advised to read and understand the relevant prospectuses for the Funds, which have been registered with the Securities Commission Malaysia who takes no responsibility for the contents. The respective prospectuses to the Funds are obtainable at any of our offices, website and authorised agents. Any issue of units to which the prospectuses relate will only be made on receipt of the duly completed application form referred to in and accompanying the prospectuses. Investment in unit trust funds is not the same as placing money in a deposit with a financial institution. There are risks involved, and investors should rely on their own evaluation to assess the merits and risks when investing in these funds. There are also fees and charges involved and investors are advised to consider them before investing in the Funds. Investment in shares and bonds may go up as well as down. The prices of units and distribution payable, if any, may also go up as well as down. Past performance of the unit trust funds is not an indication of its future performance. If investors are in any doubt about any feature or nature of the investment, they should consult PMB to obtain further information before investing or seek other professional advice for the suitability of the Funds and to their specific investment needs or financial situations. Information contained herein are based on the law and practise currently in force in Malaysia and are subject to changes in such law without any notice.