KEEP CALM AND CONTINUE INVESTING

Going through another period of FOMC decisions delays?

Authors:
Imran Yassin Yusof - Head of Research
imran.yassin@midf.com.my

Syed Kifni Kamaruddin - Head, Strategy
smkifni@midf.com.my

Abdul **Mui'zz** Morhalim - Economist
abdul.muizz@midf.com.my

Hazman Abdul Rahman - Economist
hazman@midf.com.my

KEY HIGHLIGHTS

- **Recent data releases have led to a great shift in the market expectations on the US Fed's future policy direction as the Fed is now expected to maintain its restrictive policy for a longer period. While may not have a direct impact to the Malaysian economy but any decisions by the Fed will have global repercussions.**
- **Our main premise for this year is that the financial markets will be influenced by Fed decisions. While there are some tweaks, we believe that the underlying premise for our outlook remains unchanged.**
- **The expectations for hard landing have diminished given the still robust growth in 1QCY24.**
- **At this point, we foresee there will be at least 1 rate cut this year in anticipation of slowing US growth as the aggregate demand will eventually be constrained by the high borrowing costs.**
- **Empirical evidence suggests the positive market trend could be sustained as long as the macroeconomic and corporate earnings performance as well as financial conditions remain positive.**
- **In the local equity market, the FBM KLCI ended last week at its highest since early May 2022 despite worries over slower than expected US economic growth and stickier inflation data. We maintain our FBM KLCI target for 2024 at 1,665 points or PER24 of 14.6x.**
- **Ringgit fared better against the currencies of Malaysia's major trade partners with our MIDF Trade-Weighted Ringgit Index (TWRI), only weakened by -0.2% to 85.17.**

BACKGROUND

Sticky inflation and surprise in the economy. Recent data releases have led to a great shift in the market expectations on the US Fed's future policy direction as the Fed is now expected to maintain its restrictive policy for a longer period. This has led to a recalibration of the market outlook on policy rates. While for the moment it has not been in the direction of the US interest rate but more on the timing of the cuts. Nevertheless, there have been segments that are now looking for US interest rates to remain at current levels for this year (i.e. no cuts).

Impact to Malaysian financial markets and Ringgit. While US interest rate decisions may not have a direct impact to the Malaysian economy but being the largest economy in the world, any decisions by the Fed will have global repercussions. We believe its impact to global economy will be through the effect it has on US consumer spendings and as extension the global trade. Meanwhile, interest rate differentials will be a factor in currencies' outlook vs. the USD, and as such possible interest rates decisions by other central banks. As for the equities market around the world, it will have an impact on investors' valuation analysis, sentiment and global economy outlook.

Any reevaluation of our outlook? When we released our 2024 outlook titled "Cruising Along", our main premise for this year was that the Fed will begin to cut the federal fund rate starting from early 2HCY24 with 3 cuts. Based on the latest developments, this has been revised to cuts beginning in 4QCY24 and with the possibility of 1 cut only. However, despite this we believe that the underlying premise for our outlook remains unchanged, albeit with some tweaks to our expectations for currencies and MGS market.

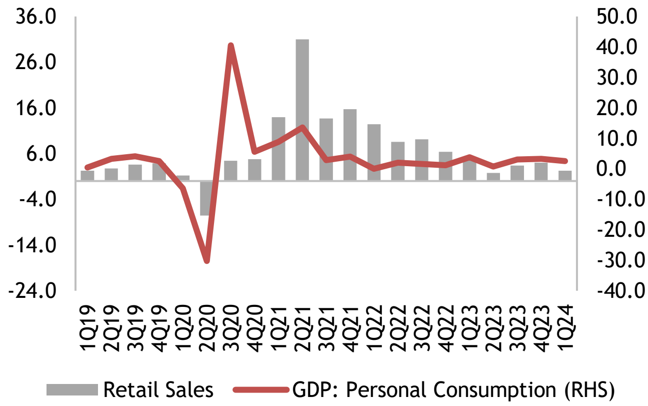
ECONOMICS

Central banks to cut policy this year. Major central banks are expected to begin reducing interest rates this year as inflation has been trending lower from the recent multi-year high peaks. This will be a reversal from the policy tightening carried out previously to contain high inflation during the early period of post-pandemic recovery. At the same time, the policy easing will also help to support economic growth particularly as growth outlook in the advanced economies is expected to slow this year because the high borrowing costs would constrain aggregate demand. However, recent data releases have led to a great shift in the market expectations on the US Fed's future policy direction.

Continued resilience in US consumer spending. American consumers continued to increase their spending in 3MCY24. The pace of growth also remained encouraging, defying market expectations for slower rise in consumption spending. Retail sales rose faster at +4%yoy in Mar-24 (Feb-24: +2.1%yoy), the fastest growth in 3 months. The monthly increase of +0.7%mom in Mar-24 retail sales was better than +0.3%mom predicted by the market consensus. Although the sales growth in 3MCY24 was not as fast as the previous 3 months (1QCY24: +2.3%yoy; 4QCY23: +4.1%yoy), private consumption expenditures largely remained as the key growth driver, contributing a large part to the US GDP growth in 1QCY24 mainly on the back of increased consumption of services.

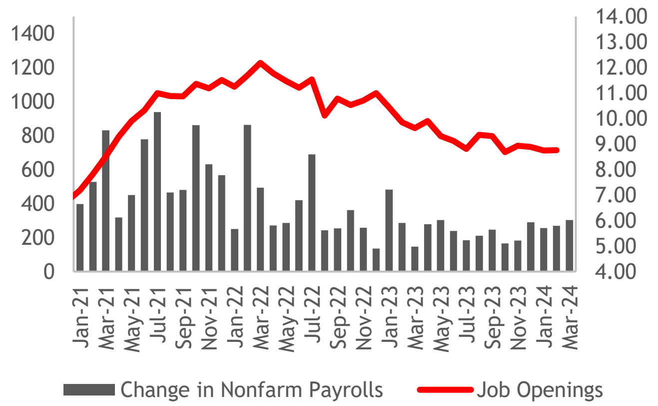
Still robust US job market. The US job market remained strong, although the recent condition was not as tight as seen previously during the first couple years of post-pandemic recovery. The rebalancing in the labour market has seen the labour demand to correct, with the number of job openings declining to 8.76m as of Feb-24. When the Fed started tightening its monetary policy back in Mar-24, total number of job openings was at its peak of 12.18m. The adjustment in the job market also saw the unemployment rising slightly to 3.9% in Feb-24 from 3.4% in early 2023. Recent data update, however, pointed to continued strength in the US job market as the jobless rate fell slightly to 3.8% in Mar-24 with a stronger-than-expected increase in the nonfarm payrolls by +303K, which was the highest monthly increase in 14 months. There was no sign of deterioration in the job market as new filings for unemployment benefits remained relatively low, averaging at 210K a week so far this year until mid-Apr-24 (2023 average: 222.8K per week).

Chart 1: US Retail Sales vs. Personal Consumption Expenditures (YoY%)



Source: Macrobond, MIDFR

Chart 2: Change in Nonfarm Payrolls (in thousands) vs. Job Openings (million)

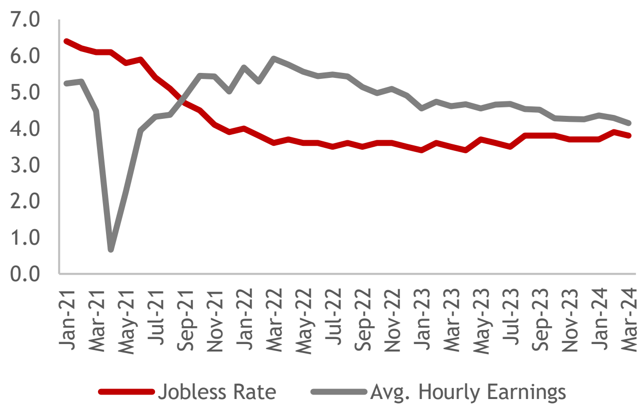


Source: Macrobond, MIDFR

Chart 3: Employment Growth (YoY%) vs. Jobless Rate (%)

Source: Macrobond, MIDFR

Chart 4: Average Hourly Earnings (YoY%) vs. Jobless Rate (%)

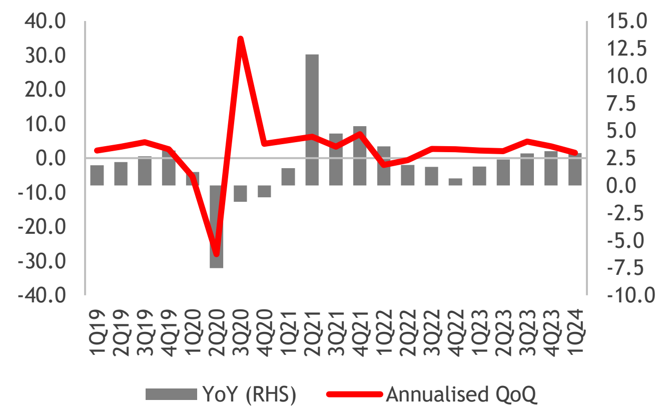


Source: Macrobond, MIDFR

Weaker-than-expected US GDP growth in 1QCY24… The US GDP growth moderated to an annualised +1.6%qoq in 1QCY24, marking the slowest expansion since 3QCY24. Despite the stronger-than-expected retail sales in Mar-24, private consumption expenditures (PCE) recorded slower growth of +2.5%qoq (4QCY23: +3.4%qoq). However, the sustained growth makes the PCE to be the main contributor to growth during the quarter, adding +1.64%-point to the overall growth. Stronger imports also caused net exports to be a downward drag, slashing -0.86%-point from growth. Another drag also came from a further reduction in inventory investment, taking away an additional -0.35%-point from the GDP growth. Apart from the sustained growth in PCE, stronger investment contributed +0.91%-point to the 1Q growth with stronger investment spending in the residential market. While the slower growth in spending may compel the Fed to consider cutting rates soon, but we view there is continued strength in consumer spending, albeit at more moderate pace, and this also led to the stronger imports in 1QCY24. Without a clear sign of deteriorating demand, we believe the Fed will maintain its cautious approach not to cut too soon as inflation remains above the Fed's 2% target.

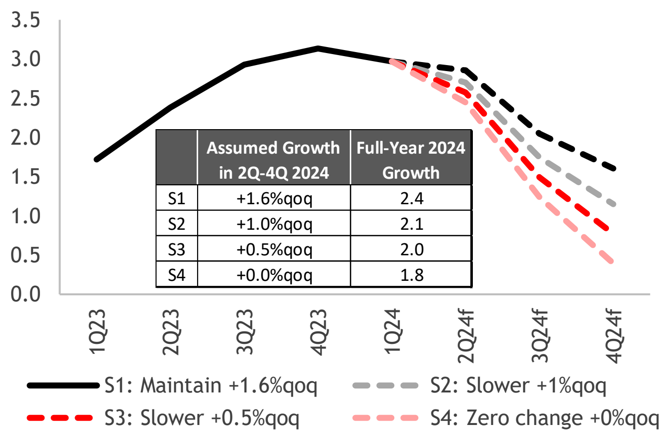
…no hard landing in 2024 with growth forecasts upgraded. The expectations for hard landing have diminished given the still robust growth in 1QCY24. Although the quarterly growth was not as fast as expected, from the year-on-year perspective the US economic growth only moderated to +3%yoy (4QCY23: +3.1%yoy). Even if we assume US GDP growth were to grow at a more moderate pace of annualised +1.0%qoq in the next 3 quarters, the full-year 2024 growth could still be at around +2.1%. Alternatively, if the level of activity were to remain at the same level as in 1QCY23 (i.e. zero growth in the coming quarters), the GDP for the whole 2024 would be at +1.8%, still not too far from the normal growth range. Given this resilience, there was an upgrade to the US GDP growth forecast for 2024. The IMF, for example, now predict the US to grow at +2.7% this year, an upward revision from +2.1% predicted in the Jan-24 World Economic Outlook. Even the Fed policymakers upgraded the US GDP forecast to +2.1% at the FOMC meeting in Mar-24 (previous forecast in Dec-23: +1.4%). If the US economy managed to grow at around +2.0% this year, the growth will be at more normal levels albeit moderating from +2.5% last year.

Chart 5: US Real GDP Growth: Annualised Quarter-on-Quarter vs. Year-on-Year (%)



Source: Macrobond, MIDFR

Chart 6: Projected US GDP Growth in 2024 (YoY%)

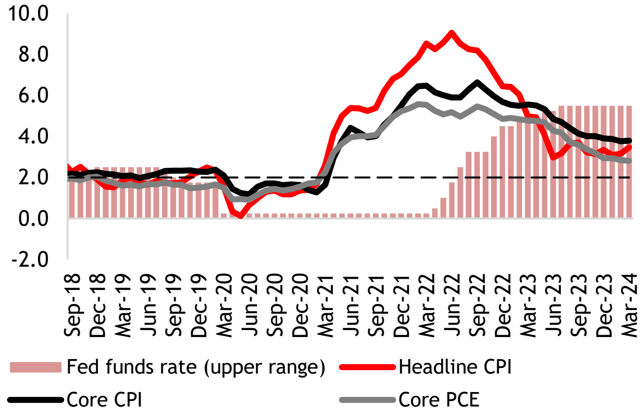


Source: Macrobond, MIDFR

US inflation remained above-target and sticky. Apart from the resilience in the broader economy, price developments continued to show the rate of inflation remained above the Fed's longer-term target. Even the reading looks stickier, leading to assumptions the disinflation towards +2% will take some time. The core CPI inflation, for example, was unchanged at +3.8%yoy in Mar-24, against market expectations for further moderation towards +3.7%yoy. Thus far, the core CPI inflation has been moderating from the recent peak of +6.6%yoy in Sep-22, which was the highest reading in 4 decades. The core PCE inflation, the Fed's preferred inflation measure, also shows the same trend, remaining unchanged at +2.8%yoy in Mar-24 from the peak of +5.6%yoy in Feb-22, a multi-year high last seen in early 1983.

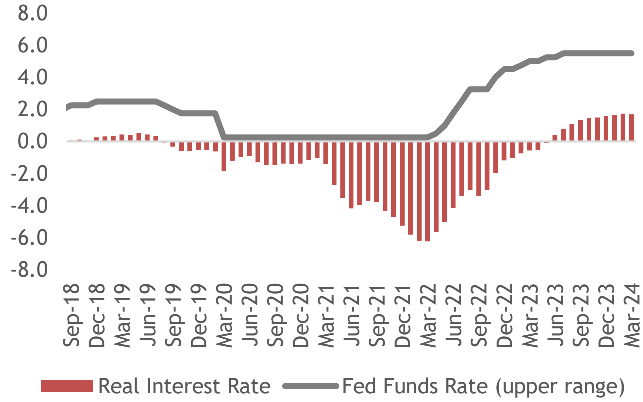
Pushing rate cuts expectations to latter part of 2HCY24. Inflation outlook will continue to be the main consideration to keep the high interest rates. From the recent updates, the inflation outlook for 2024 will remain elevated mainly due to increases in service charges such as housing costs and automobile insurance. If the price trend for the rest of the year were to be similar as recorded in the past few months, the core PCE inflation could remain around +2.8%yoy in Dec-23. While the average core PCE inflation is projected to ease to +2.6% this year (2023: +4.1%) based on the FOMC projection, this signals the US inflation will take time to moderate further to the Fed's +2% target. Based on the recent price developments and overall economic resilience, we predict the rate cuts will likely be in the latter part of 2HCY24 no longer as early as mid-year as we projected previously.

Chart 7: US Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 8: Fed Funds Rate vs. Real Interest Rates (%)



Source: Macrobond, MIDFR

No cuts if inflation appears persistently sticky or accelerates. As the Fed keeps to its mission to bring down inflation, any risk of inflation accelerating back to higher levels will not only reduce the likelihood of rate cuts, but such a scenario will cause the Fed to shift back to a more hawkish mode. If the core PCE inflation were to increase in the coming months, this would also indicate strong demand pressures on prices. Reading from the Fed Chairman's message after the recent FOMC meetings, we conclude that the Fed would not hesitate to maintain its restrictive policy stance for an extended period. Several times Chair Powell mentioned that the Fed may be forced to tighten its policy even further if inflation reverts to higher levels. At this point, we foresee there will be at least 1 rate cut this year in anticipation of slowing US growth as the aggregate demand will eventually be constrained by the high borrowing costs. However, an upside risk to the US inflation outlook could push the timing for rate cuts even further and possibly eliminate the chances of any rate cuts this year.

STRATEGY/MARKET

The bullish market post-hikes… The US equity market has been on an upward trajectory since November last year. The bullish sentiment was arguably triggered by market conviction that the Fed is done with its aggressive series of rate hikes. The broader S&P 500 index regained its all-time high level in January this year and stride higher thenceforth.

…is sustainable… The prevailing positive market trend was not unexpected in view of the past market behaviour post-cessation of aggressive rate hikes. Recall the equity bull-run of 2006/7 in the aftermath of massive rate hikes in 2004/6. In fact, we first highlighted this in our 2023 Market Outlook report (page 17-18) dated 7 December 2022. It is also important to note that, when we look at empirical evidence, the positive market trend could be sustained for as long as the macroeconomic and corporate earnings performance as well as financial conditions remain positive.

…despite fears of slower economic growth and sticky inflation… A few days ago, the US financial market was quite perturbed by data showing slower-than-expected 1QCY24 economic growth and persistent inflation. This situation is not unusual. Looking back to 1QCY07, the economic growth began to moderate, and inflation deemed elevated. In its statement dated 21 March 2007, the US Fed commented on growth: *"Recent indicators have been mixed and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters."*, and inflation: *"Recent readings on core inflation have been somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures. In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected."*

...which could result in market pullback... The US equity market is currently in a pullback phase arguably reacting to (the situation in the Middle East as well as) the recent economic data on growth and inflation. As of last week's close, the S&P 500 is -3.1% below its all-time high level registered in late March this year.

S&P 500: 2023/4

...but does not derail its bullish trajectory. As earlier stated, empirical evidence suggests the positive market trend could be sustained for as long as the macroeconomic and corporate earnings performance as well as financial conditions remain positive. Again, looking back to 2007, the equity market peaked only soon before the economy officially entered a recession in December that year. Hence, we expect the current US market pullback to be transient as our economist, at this juncture, continues to believe the US economy to skirt recession and register positive output growth this year.

S&P 500: 2006/7

FBM KLCI 2024 target remains at 1,665 points. In the local equity market, the FBM KLCI ended last week at its highest since early May 2022 despite worries over slower than expected US economic growth and stickier inflation data. We maintain our FBM KLCI target for 2024 at 1,665 points or PER24 of 14.6x.

Still waiting for the first cut. We believe that it is still a waiting game for the US Fed to deliver its first rate cut as expected by the market. Nevertheless, we are sanguine on the Malaysia's economic prospects, and we maintain our expectation of the earnings growth potential of corporate Malaysia. A recap of the investment themes for this year:

1. **Recovery of trade will continue to be a theme for this year.** Given that we expect external trade will see a recovery this year, we opine trade-related stocks such as logistics and ports will benefit from this. Furthermore, we expect freight rates to stabilise after hitting bottom in mid-CY23, coupled with an anticipated recovery in shipment volume due to the current affordability of freight rates.
2. **Still the prospect of an upside in the construction sector.** We maintain our view that the 12MP Mid-Term Review (12MP-MTR) has given more prominence to the construction sector. This is based on the planned DEVEX and the expectation that the government will spend circa RM90b per year for the remainder of the 12MP period. Meanwhile, we can expect further upside should there be an announcement on the rollout of large rail projects such as the MRT3, Penang LRT, and the proposed revival of the KL-Singapore High-Speed Rail (HSR).
3. **The property continues improving.** We are positive about the improving outlook for the property sector amid the downtrend in inventory level of property companies. Besides, unchanged OPR is positive for property companies as that supports recovery in demand for property. Overall, we expect a further recovery in the property sector in 2024 as buying sentiment on property is expected to remain healthy going forward. New sales of property companies are improving which should translate into better earnings visibility going forward.

No change to our top ten picks. We maintained much of our overall top picks as per our 2QCY24 outlook as we believe that the theme still remains valid:

MIDF Research Overall Top Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 26/4/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.82	1.30	58.5%	3.7%	62.2%	3	Yes
Sunview	BUY	0.68	0.88	30.4%	0.0%	30.4%	na	na
Mah Sing	BUY	1.14	1.42	24.6%	3.4%	28.0%	4	Yes
KPJ	BUY	1.90	2.30	21.1%	2.1%	23.2%	3	Yes
Gamuda	BUY	5.20	5.98	15.0%	2.2%	17.2%	2	Yes
Westports	BUY	3.84	4.30	12.0%	4.7%	16.7%	4	Yes
Samaiden	BUY	1.39	1.62	16.5%	0.0%	16.5%	na	na
Petronas Gas	BUY	17.56	19.37	10.3%	4.7%	15.0%	4	Yes
IJM Corp	BUY	2.35	2.57	9.4%	3.4%	12.8%	na	na
Matrix Concepts	BUY	1.79	1.91	6.7%	6.0%	12.7%	3	Yes

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

Top ten picks amongst Shariah stocks. We also have top picks for investors looking at Shariah stocks. Below are our top ten picks among Shariah-listed stocks:

MIDF Research Top Shariah Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 26/4/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.82	1.30	58.5%	3.7%	62.2%	3	Yes
Mah Sing	BUY	1.14	1.42	24.6%	3.4%	28.0%	4	Yes
KPJ	BUY	1.90	2.30	21.1%	2.1%	23.2%	3	Yes

	Rec.	Price (RM) @ 26/4/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
MISC	BUY	7.59	8.48	11.7%	5.8%	17.5%	4	Yes
Gamuda	BUY	5.20	5.98	15.0%	2.2%	17.2%	2	Yes
Westports	BUY	3.84	4.30	12.0%	4.7%	16.7%	4	Yes
Petronas Gas	BUY	17.56	19.37	10.3%	4.7%	15.0%	4	Yes
IJM Corp	BUY	2.35	2.57	9.4%	3.4%	12.8%	na	na
Matrix Concepts	BUY	1.79	1.91	6.7%	6.0%	12.7%	3	Yes
Deleum	BUY	1.37	1.46	6.6%	4.5%	11.1%	4	Yes

Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

Top ten picks amongst FBM 70 and small-cap stocks. Finally, in our opinion, it is still worthwhile for investors to look at FBM 70 and Small Caps more closely given the outperformance of the FBM 70 thus far this year. Below are our top ten picks among FBM70 and small-caps stocks:

MIDF Research Top FBM 70 Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 26/4/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.82	1.30	58.5%	3.7%	62.2%	3	Yes
Mah Sing	BUY	1.14	1.42	24.6%	3.4%	28.0%	4	Yes
KPJ	BUY	1.90	2.30	21.1%	2.1%	23.2%	3	Yes
Gamuda	BUY	5.20	5.98	15.0%	2.2%	17.2%	2	Yes
Westports	BUY	3.84	4.30	12.0%	4.7%	16.7%	4	Yes
Samaiden	BUY	1.39	1.62	16.5%	0.0%	16.5%	na	na
Fraser & Neave	BUY	29.50	33.50	13.6%	2.5%	16.1%	4	Yes
Bursa Malaysia	BUY	7.37	8.00	8.5%	4.2%	12.8%	4	Yes
Matrix Concepts	BUY	1.79	1.91	6.7%	6.0%	12.7%	3	Yes
Deleum	BUY	1.37	1.46	6.6%	4.5%	11.1%	4	Yes

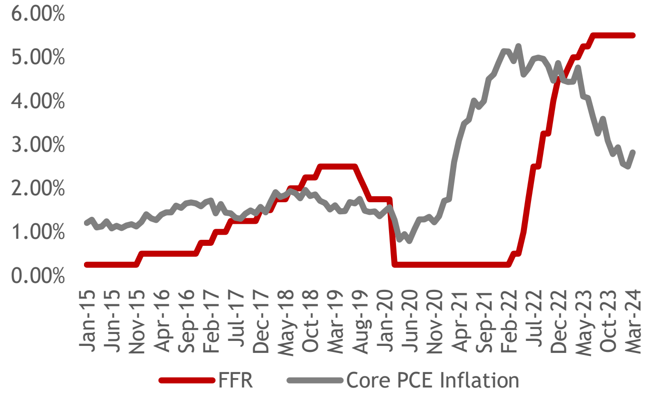
Source: Companies, Bursa Malaysia, FTSE, Bloomberg, MIDFR

CURRENCY

"Higher for longer" sentiment continues providing support towards the USD. As of 26th April 2024, the DXY Dollar Index has risen +3.1% since the end of 2023, peaking at 106.26 on 16 April 2024 after the US retail sales data overshot market expectations. Inflation remained sticky, supported by the resilience of the US labour market. The sticky core inflation especially has been a major factor underpinning the USD's strength. This is evident by how the market quickly brushed off the weaker GDP data after the release of core PCE inflation last week. Following the weaker-than-expected GDP data on 25 April 2024, the DXY Index declined by -0.2% to 105.60 compared to the previous day but quickly rebounded stronger the next day, increasing +0.3% to 105.94 after core PCE inflation remained unchanged, also exceeded market expectations. Looking into geopolitical developments, the Middle East conflicts between Israel and Iran, have also spiked oil prices, contributing further to inflation concerns and triggering safe-haven demand. These factors supported the "higher for longer" interest rate setting, and the USD appeals as a safe-haven asset, reinforcing the dollar's strength amid global uncertainties.

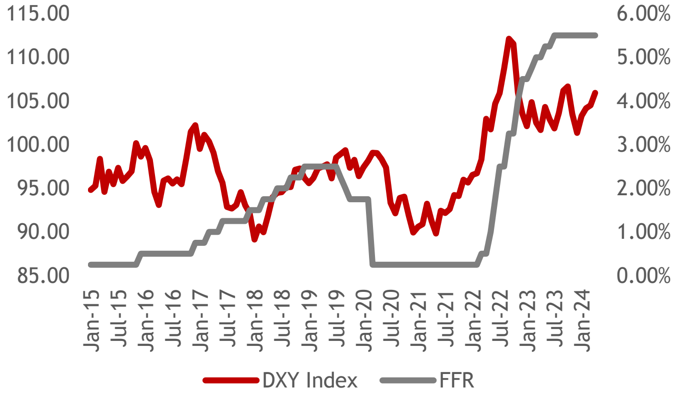
USD strength to subside on Fed's rate cuts. Currently, the market is expecting a single rate cut of -25bps in the latter half of 2024, which will bring the Fed Funds Rate (FFR) to 5.00%-5.25% range, significantly lower than initial expectations of a total -150bps rate cuts at the start of the year. This recalibration to a smaller reduction was due to the sticky inflation and has been the main factor underscoring the dollar's strength. Nevertheless, despite the so-called "last mile" inflation challenge, US inflation has broadly been on a moderating trend. For example, despite steadying at +2.8%yoy in Mar-24, the core PCE inflation is still significantly lower than the post-pandemic peak of +5.3%yoy registered in Apr-22. The recent indicators, including 1QCY24 GDP and Services PMI, signal a softening domestic demand. Hence, we foresee the Fed easing its policy interest rate would still take place in 2HCY24, albeit much later into the year; this will eventually lead to reduced support for USD strength.

Chart 9: Core PCE Inflation (%YoY) vs Fed Funds Rate (%)



Source: Bloomberg, MIDFR

Chart 10: DXY Index vs Fed Funds Rate (%)

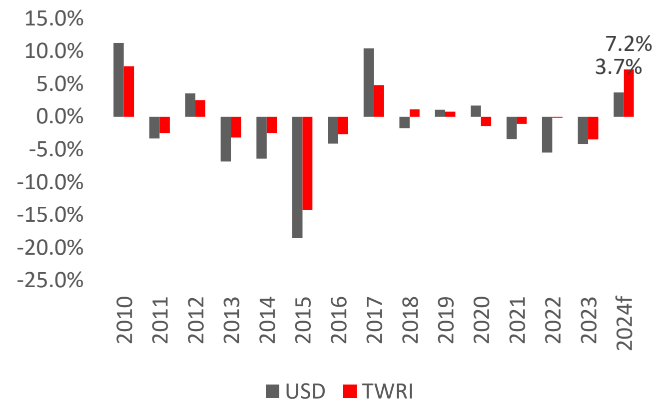


Source: Bloomberg, MIDFR

Ringgit to appreciate on narrowing interest differentials. Year to date, MYR has depreciated by -3.6% to RM4.768 as of 26 April 2024, despite hovering close to the 26-year low of RM4.805, which was registered in Feb-24. Relatively, the ringgit fared better against the currencies of Malaysia's major trade partners with our MIDF Trade-Weighted Ringgit Index (TWRI), only weakened by -0.2% to 85.17 with a recent trend suggesting further upside potentials. Despite expectations of a much slower FFR cuts than initially anticipated, we expect the appetite for riskier assets will improve as the Fed moves closer to rate cuts. We continue to foresee ringgit and other regional currencies benefiting from the return of foreign fund flows into EM markets especially when the Fed slashes its policy interest rate. Nevertheless, adjusting to the significantly smaller degree of FFR cuts than initially expected and taking into account the effect of prolonged dollar strength recently, we foresee a smaller appreciation of the ringgit than our initial forecast. We now expect the ringgit would average relatively stronger at RM4.53 in 2024 (2023: RM4.56) and move towards RM4.43 by year-end (end-2023: RM4.59). However, considering the much better performance against currencies of major trading partners, especially JPY (+6.4%ytd), THB (+3.4%ytd), KRW (+2.6%ytd) and TWD (+2.1%YTD), we kept our projection for TWRI to end the year higher at 91.50 (end-2023: 85.34).

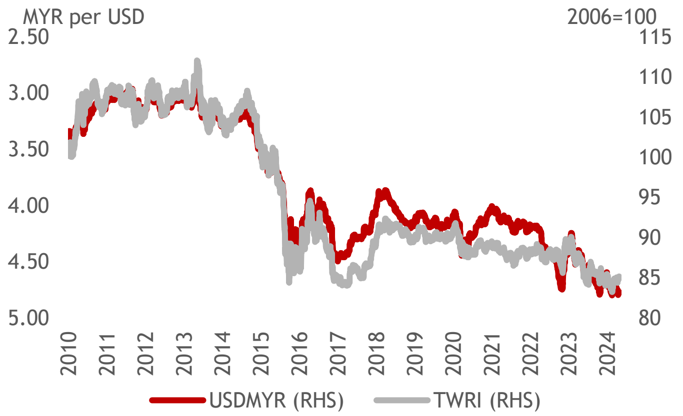
No rate cut by the Fed will spell another gloomy year for ringgit. If the Fed decides to keep the FFR status quo until year-end, the much-anticipated reversal of fund flow into the emerging markets will be further delayed. Additionally, if other advanced economies (i.e. Euro area & UK) start to ease their policy rates EM currencies will undoubtedly experience added pressure from the prolonged dollar strength. However, with the OPR widely expected to remain steady for the rest of the year we did not expect a significant deviation in the ringgit's performance from the current level at year-end although it will mark the 4th consecutive year of depreciation. In the worst-case scenario, factoring in no rate cuts by the Fed and the probability of prolonged tensions in the Middle East, we project the ringgit to average weaker at RM4.77 with the year-end exchange rate to be around RM4.74.

Chart 11: Ringgit Performance Against USD vs TWRI (%YoY)



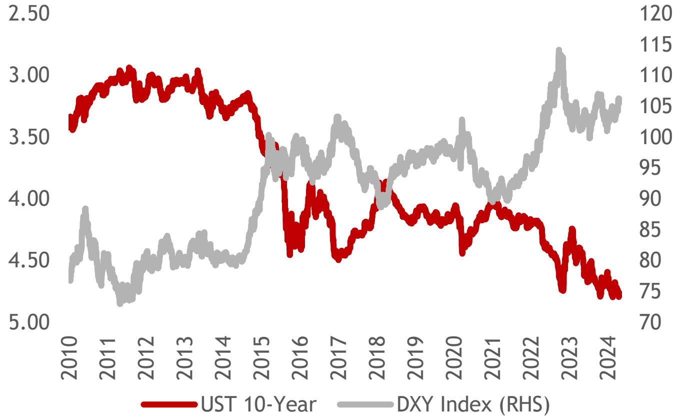
Source: Bloomberg, MIDFR

Chart 12: USDMYR vs TWRI



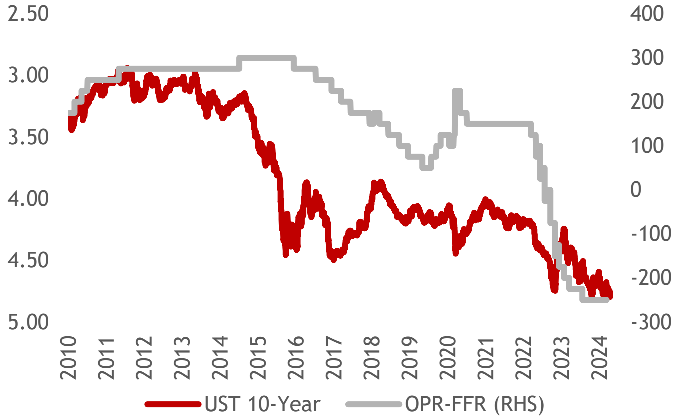
Source: Bloomberg, MIDFR

Chart 13: USDMYR vs DXY Index



Source: Bloomberg, MIDFR

Chart 14: OPR-FFR (bps) vs USDMYR

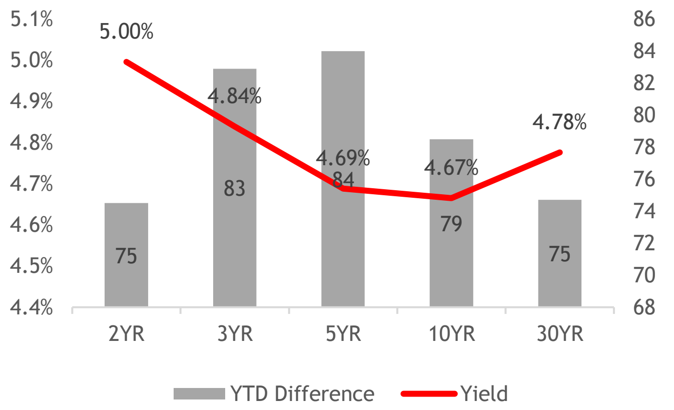


Source: Bloomberg, MIDFR

FIXED INCOME

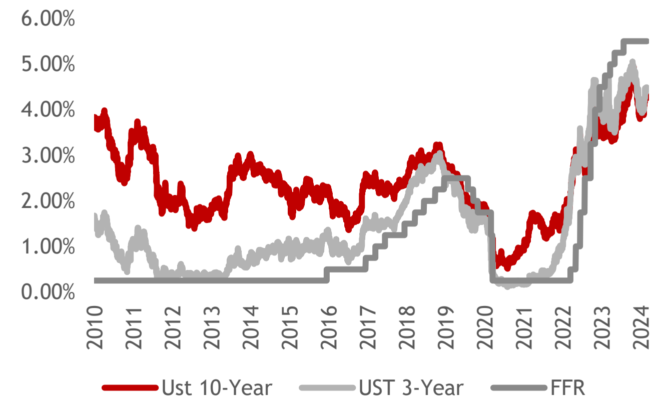
Treasury yields soar as Fed is expected to keep interest rates elevated for longer. As a consequence of the "higher for longer" sentiment, treasury yields moved higher. As of the 26th of April 2024, the 10-year UST yield has risen year-to-date by +79bps to 4.67%, while the 3-year UST yield was up year-to-date by +83bps to 4.84%. Consequently, the negative spread between the 10-year and 3-year UST yields widened to -17.4bps from -13bps at the end of 2023. Notably, the UST yields jumped to the highest level since early Nov-23 to 4.705% after the release of US GDP data, which fell well under market expectations. The more moderate economic growth which was accompanied by sticky inflation in 1QCY24 pushed UST yields higher as investors turned more apprehensive on the overall growth outlook. The delay in the Fed's rate cuts and moderating economic expansion will likely push the UST yields higher for an extended period.

Chart 15: UST Yields (%) and YTD Difference (bps) (As of 26th April 2024)



Source: Bloomberg, MIDFR

Chart 16: UST 10-Year & 3-Year Yields vs Fed Funds Rate (%)



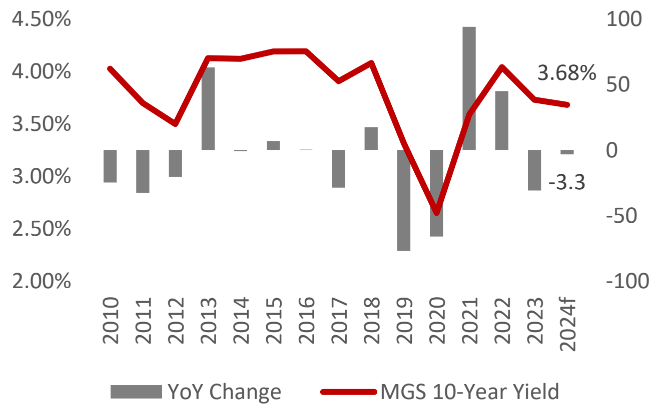
Source: Bloomberg, MIDFR

The smaller Fed rate cut in 2024 will impact MGS 10-year. The 10-year MGS yield has been moving in tandem with 10-year UST yields, rising by +27bps year-to-date to 4.00% as of 26th April 2024. Similar to 10-year UST, the MGS yield was at its highest since early-Nov-23. The rising yield in a way also signalled further outflow from the domestic bond market which has seen total outflows of RM4.6b as of Mar-24. The elevated UST yields and ongoing geopolitical tensions in the Middle East have sapped investors' interest in the riskier EM assets. This is especially true considering the significant holdings of Malaysia's bonds by foreign investors. Nevertheless, we continue to see the potential for MGS to rally once the Fed start easing its policy rate. Additionally, we expect government fiscal consolidation, especially through subsidy rationalization to provide additional support for govvies.

Revise 10-year MGS yield year-end forecast higher to 3.68%. Taking into account a smaller rate cut by the Fed this year, we revise our year-end forecast for 10-year MGS yield higher to 3.68% (end-2023: 3.73%) and averaging at 3.84% (2023 average: 3.86%). In the short term, we foresee the 10-year MGS yield to stay elevated until a clear indication that US inflation is subsiding, where MGS yields will likely follow UST yields' lead and move lower.

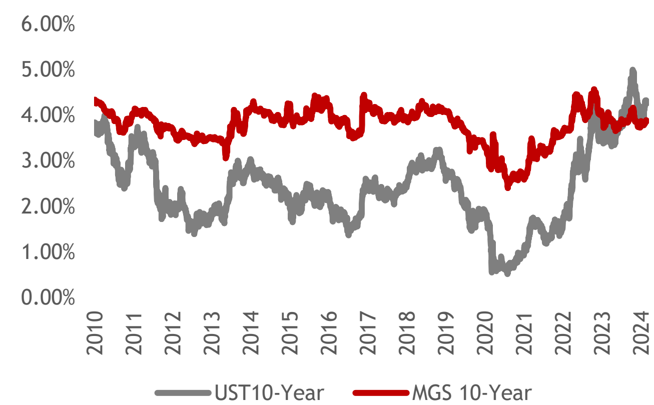
On the possibility of no FFR cut, MGS's 10-year will likely end the year around 3.90% level. If the Fed decides to keep the current level of interest rate status quo throughout the year, MGS yields would stay elevated until year-end. Although further outflow from the domestic bond market might be limited unless there is a severe domestic or global economic downturn, the absence of Fed rate cut will further delay the return of fund flow into the domestic bond market. On that note, if the Fed decides to keep FFR steady until year-end, we foresee the 10-year MGS yield to end 2024 around 3.90% and averaging at 3.92%.

Chart 17: 10-Year MGS Yield at Year End and YoY Change (bps)



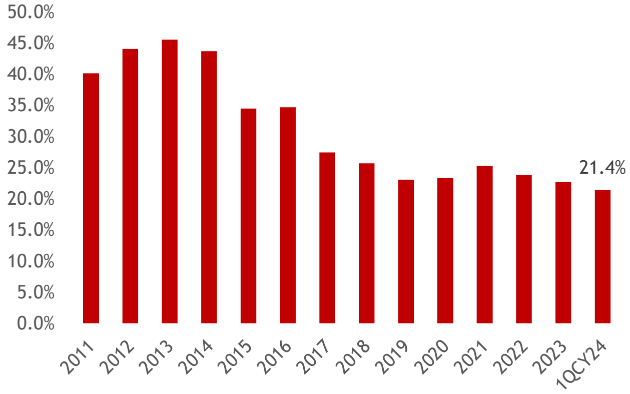
Source: Bloomberg, MIDFR

Chart 18: 10-Year MGS vs 10-Year UST Yields (%)



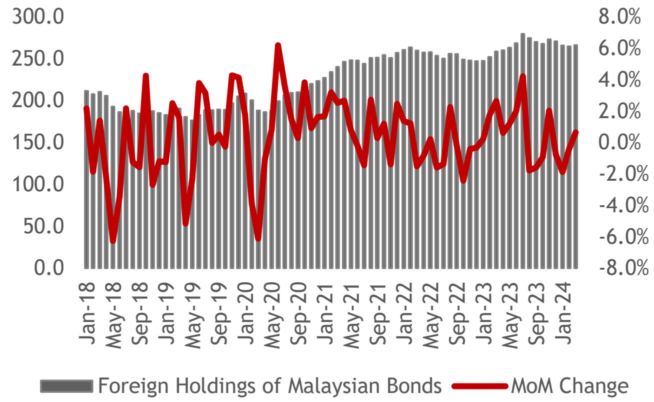
Source: Bloomberg, MIDFR

Chart 17: Monthly Average of Foreign Holdings (% of total outstanding)



Source: Bloomberg, MIDFR

Chart 18: Foreign Holdings of Malaysian Bonds and MoM Change (%MoM)



Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology