THE CUTS SEEMS TO BE COMING

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Assessing US Fed Chair's Jackson Hole Statement and the latest on geopolitics

KEY HIGHLIGHTS

- **The US Federal Reserve Chair Jerome Powell seems to be signaling possible interest rate cuts ahead during his keynote address at the Jackson Hole conference last Friday.**
- **The US Fed Chair did note the progress on inflation but concurrently, the US unemployment rate has gradually inched higher.**
- **"Our objective has been to restore price stability while maintaining a strong labour market, avoiding the sharp increases in unemployment that characterized earlier disinflationary episodes when inflation expectations were less well anchored."**
- **We should note that the US Fed Chair declined to provide exact indications on timing or extent of the rate cuts. The Federal Open Market Committee (FOMC) will meet again in 23 days to decide on the policy direction. Markets are expecting the first rate in the 18th of September FOMC meeting.**
- **We take this latest development as positive for the markets. We maintain our FBM KLCI baseline target for 2024 at 1,750 points or PER24 of 15.6x, FBM Hijrah baseline target for 2024 at 14,100 points or PER24 of 22.5x, and FBM70 baseline target for 2024 at 18,900 points or PER24 of 18.8x.**
- **While we are sanguine on the local market as a whole, we might see increased volatility due to geopolitics given yesterday strike by Hezbollah.**
- **We maintain our recommendation of a stock selection strategy based on the share price volatility of a given stock, in this case low to mid volatility.**

Signaling for possible interest rate cuts. The US Federal Reserve Chair Jerome Powell seems to be signaling possible interest rate cuts ahead during his keynote address at the Jackson Hole conference last Friday. He noted, "the time has come for policy to adjust," and "the direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

Progress on the inflation front. The US Fed Chair did note the progress on inflation where he stated, "inflation has declined significantly," and "supply constraints have normalized. And the balance of the risks to our two mandates has changed." This comes as US inflation rate have gradually trend back to the Fed's 2% target though it is still not there yet. Meanwhile, a Fed preferred inflation measure showed the rate at 2.5%, down from 3.2% a year ago recently, and significantly lower than its peak of above 7% in June 2022.

The job market seems to be weakening. Concurrently, the US unemployment rate has gradually inched higher, most recently at 4.3%. However, we should note that US Fed Chair Powell attributed the rise in unemployment to more individuals entering the workforce and a slower pace of hiring, rather than a rise in layoffs or a general deterioration in the labour market. Nevertheless, he has vowed that "we will do everything we can" to make sure the US labour market says strong and progress on inflation continues. "Our objective has been to restore price stability while maintaining a strong labour market, avoiding the sharp increases in unemployment that characterized earlier disinflationary episodes when inflation expectations were less well anchored."

The market is expecting rate cuts to start in September. We should note that the US Fed Chair declined to provide exact indications on timing or extent of the rate cuts. The Federal Open Market Committee (FOMC) will meet again in 23 days to decide on the policy direction. Based on the CME FedWatch Tool, there is a 100% probability of a rate cut in the 18th of Sept meeting, with 76% leaning towards a 25bps cut while the remaining 24% with a 50bps cut. In addition, minutes from the Fed's July meeting that was released earlier last week observed that the "vast majority" of participants at the meeting viewed that it would be appropriate for policy easing in the next meeting if data continue to come in as expected.

Market will be buoyed by the signal of impending rate cut. We take this latest development as positive for the markets. Going forward, we foresee a situation whereby the world's equity market would remain generally sanguine principally due to (i) expected monetary easing with the onset of US Fed interest rate cuts, and (ii) resilient macro/earnings growth. The prospect of a stronger Ringgit vis-à-vis US Dollar would attract a returning inflow of foreign funds, a necessary fillip to the local equity market.

Maintain our baseline 2024 targets. In view of the positive monetary (liquidity) and fundamental prospects, we maintain our FBM KLCI baseline target for 2024 at **1,750 points** or PER24 of 15.6x, FBM Hijrah baseline target for 2024 at **14,100 points** or PER24 of 22.5x, and FBM70 baseline target for 2024 at **18,900 points** or PER24 of 18.8x.

Nevertheless, markets will likely see increased volatility from geopolitics. While we are sanguine on the local market as a whole, we might see increased volatility due to geopolitics. Yesterday saw Hezbollah launched a retaliatory strike for the assassination of a senior commander in Beirut. In a statement, Hezbollah said it had launched drones and more than 320 Katyusha rockets towards Israel and hit 11 military targets. It said the barrage had completed "the first phase" and that the full response would take "some time".

However, the impact will likely be contained. At current juncture, we opine that the ongoing Israel-Hamas war may potentially spread to southern Lebanon (as happened in 2006). Nonetheless, we expect other larger countries in the Middle East to refrain from being directly involved in armed conflict. Both conflicts have so far engendered limited impact on Malaysia's economic and corporate earnings performance, thus exerted limited bearing on the equity market. However, while not foreseen, any major escalation that significantly broadens the theatre of war would substantially magnify the potential economic fallout onto the wider world. Meanwhile, in regard to the ongoing Russia-Ukraine war, we do not foresee it spread to other countries in the region.

Low volatility for our stock selection strategy. As highlighted in our 2HCY24 outlook "Navigating the Changing Currents", we changed our stock selection strategy from a thematic sectoral based to one based on a given stock's volatility. This is in light of our expectation of a possible increased volatility in the market following the timing of rate cuts, geopolitical conflicts and intermittent fears of a US recession. Hence, we maintain our recommendation of a stock selection strategy based on the share price volatility of a given stock, in this case low to mid volatility. Of course, this stock selection will also be supported by the fundamental view of the stock.

Why low volatility? As we know, a security or asset with high volatility experiences rapid price fluctuations and hence, is inherently riskier. While a security with low volatility tends to not have wild swings in price, suggests stability and reduced risk. Furthermore, high volatility stocks have outperformed on a YTD basis (and even last year). With this in mind, in our opinion, we may see rotational into hitherto low volatility laggards such as finance stocks. Our overall top picks at current juncture are as follows:

Overall Top Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 23/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
KPJ	BUY	1.89	2.54	34.4%	2.1%	36.5%	21.3	3	Y
IJM Corp	BUY	3.11	3.89	25.1%	2.6%	27.7%	32.1	3	Y
Fraser & Neave	BUY	29.82	37.00	24.1%	2.6%	26.7%	11.0	4	Y
MISC	BUY	8.59	9.75	13.5%	5.2%	18.7%	12.7	4	Y
IHH Healthcare	BUY	6.33	7.35	16.1%	2.2%	18.3%	10.6	2	N
Matrix Concepts	BUY	1.87	2.05	9.6%	6.0%	15.6%	13.4	3	Y
UOA Development	BUY	1.89	2.06	9.0%	5.3%	14.3%	17.9	-	-
QL Resources	BUY	6.63	7.25	9.4%	1.4%	10.7%	12.8	2	N
Public Bank	BUY	4.53	4.78	5.5%	4.3%	9.8%	10.9	3	Y
Hong Leong Bank	BUY	20.18	21.38	5.9%	3.6%	9.6%	8.8	4	Y

Top Shariah Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 23/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.80	1.20	50.0%	3.8%	53.8%	27.3	3	Y
KPJ	BUY	1.89	2.54	34.4%	2.1%	36.5%	21.3	3	Y
IJM Corp	BUY	3.11	3.89	25.1%	2.6%	27.7%	32.1	3	Y
Fraser & Neave	BUY	29.82	37.00	24.1%	2.2%	26.3%	11.0	4	Y
IOI Corp	BUY	3.79	4.50	18.7%	1.7%	20.4%	15.3	3	Y
IHH Healthcare	BUY	6.33	7.35	16.1%	3.1%	19.2%	10.6	2	N
MISC	BUY	8.59	9.75	13.5%	5.2%	18.7%	12.7	4	Y
Matrix Concepts	BUY	1.87	2.05	9.6%	6.0%	15.6%	13.4	3	Y
UOA Development	BUY	1.89	2.06	9.0%	5.3%	14.3%	17.9	-	-
QL Resources	BUY	6.63	7.25	9.4%	1.4%	10.7%	12.8	2	N

Top FBM 70 Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 23/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.80	1.20	50.0%	3.8%	53.8%	27.3	3	Y
Sunview	BUY	0.58	0.88	53.0%	0.0%	53.0%	28.0	-	-
Samaiden	BUY	1.12	1.57	40.2%	0.0%	40.2%	25.6	-	-
KPJ	BUY	1.89	2.54	34.4%	2.1%	36.5%	21.3	3	Y
Allianz	BUY	20.22	25.76	27.4%	2.2%	29.6%	21.9	-	-
IJM Corp	BUY	3.11	3.89	25.1%	2.6%	27.7%	32.1	3	Y
Fraser & Neave	BUY	29.82	37.00	24.1%	2.6%	26.7%	11.0	4	Y
Matrix Concepts	BUY	1.87	2.05	9.6%	6.0%	15.6%	13.4	3	Y
UOA Development	BUY	1.89	2.06	9.0%	5.3%	14.3%	17.9	-	-
Axis REIT	BUY	1.81	2.02	11.6%	2.2%	13.8%	11.4	3	Y

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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