THE SKY IS NOT FALLING

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Market is seeing a healthy correction

KEY HIGHLIGHTS

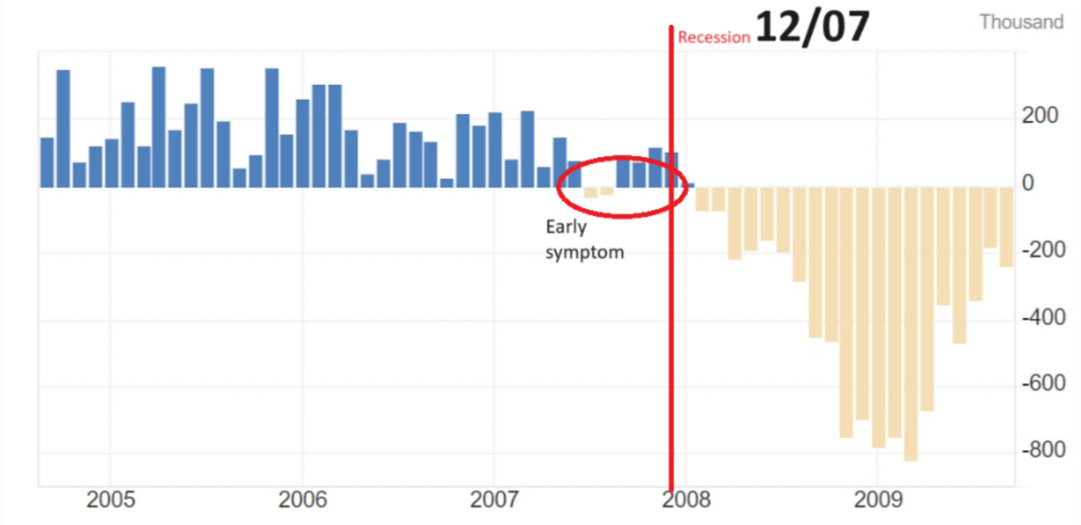
- **Fears of US recession suddenly resurfaced again as last week saw US Dow Jones, NASDAQ and S&P500 fall on weekly basis by -2.1%wow, -3.4%wow and -2.1%wow. The market shift was due to a softer than expected increase in US non-farm payroll (NFP) in Jul-24.**
- **While the NFP was below market expectations, we must note that it was still above +100K, which empirically denotes that the labour market is still somewhat in a healthy state.**
- **A look at previous recessions, most notably in 2001 and 2008, we saw early symptoms from the NFP. In both cases, several (5 to 9) months prior, the NFP began to show an early symptom, i.e. intermittently fell well below 100K and into negative territory.**
- **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 return inflow of foreign funds, a necessary fillip to the local equity market.**
- **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.**
- **We recommend stock selection strategy for 2HCY24 based low-mid volatility in light of our expectation of a possible increased volatility in the market.**

Fears of US recession suddenly resurfaced again. Last week saw US Dow Jones, NASDAQ and S&P500 fall on weekly basis by -2.1%wow, -3.4%wow and -2.1%wow. This was despite the US FOMC maintaining the benchmark interest rates at 5.25% to 5.50% for the eighth consecutive meeting and Fed Chair Jerome Powell hinted at the possibility of the central bank's first rate cut in four years last Wednesday. He stated that if inflation continues to decrease, a reduction in the policy rate could be on the table during the Fed's next meeting in Sep-24. The market shift was due to a softer than expected increase in US non-farm payroll (NFP) in Jul-24 where it rose +114K in Jul-24 (Jun-24: +179K), the lowest in 3 months and much softer than market expectations of +175K. Meanwhile, the jobless rate rose to 4.3%, marking the 4th consecutive month of increase and the highest since Oct-21, surpassing market expectations for it to remain at 4.1%. Investors now fear that the US Fed may be too late in cutting rates.

A closer look at the latest US NFP. A closer look at the NFP data, private service providers increased hiring by +72K (Jun-24: +125K), the lowest in its current 43-month expansionary sequence. Meanwhile, goods-producing payrolls soared +25K, the steepest rise in 3 months, as manufacturing sector hiring rebounded with a rise of +1K (Jun-24: -9K). Construction sector payrolls rose +25K (Jun-24: +20K), while mining & logging payrolls contracted by -1K after steadying in the previous month. Government payrolls rose +17K, moderating from a +43K rise in Jun-24.

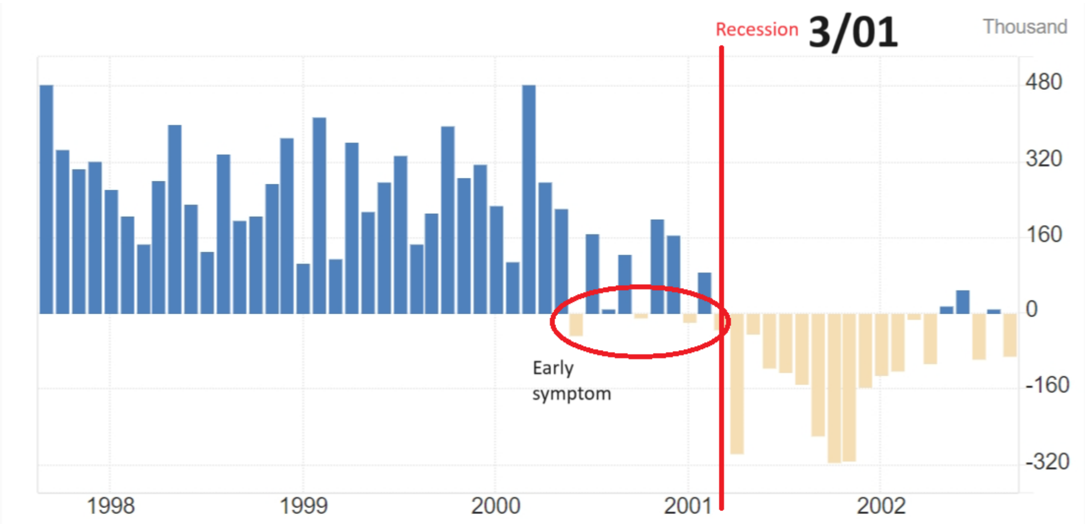
Is the sky falling? While the NFP was below market expectations, we must note that it was still above +100K, which empirically denotes that the labour market is still somewhat in a healthy state. A look at previous recessions, most notably in 2001 and 2008, we saw early symptoms from the NFP. In both cases, several (5 to 9) months prior, the NFP began to show an early symptom, i.e. intermittently fell well below 100K and into negative territory. In addition, US consumer confidence increased in Jul-24, as improved expectations for the economy and labour market outweighed more pessimistic views of current conditions where the Conference Board's index rose to 100.3 (Jun-24: 97.8). The measure of expectations for the next six months climbed to 78.2 in Jul-24, the highest level since Jan-24. With that in mind, we opine that the US may yet fall in recession as long as NFP is still above 100K.

US NFP emitted "early symptom" prior to past recessions in 2008



Source: Trading Economics, MIDFR

US NFP emitted "early symptom" prior to past recessions in 2001

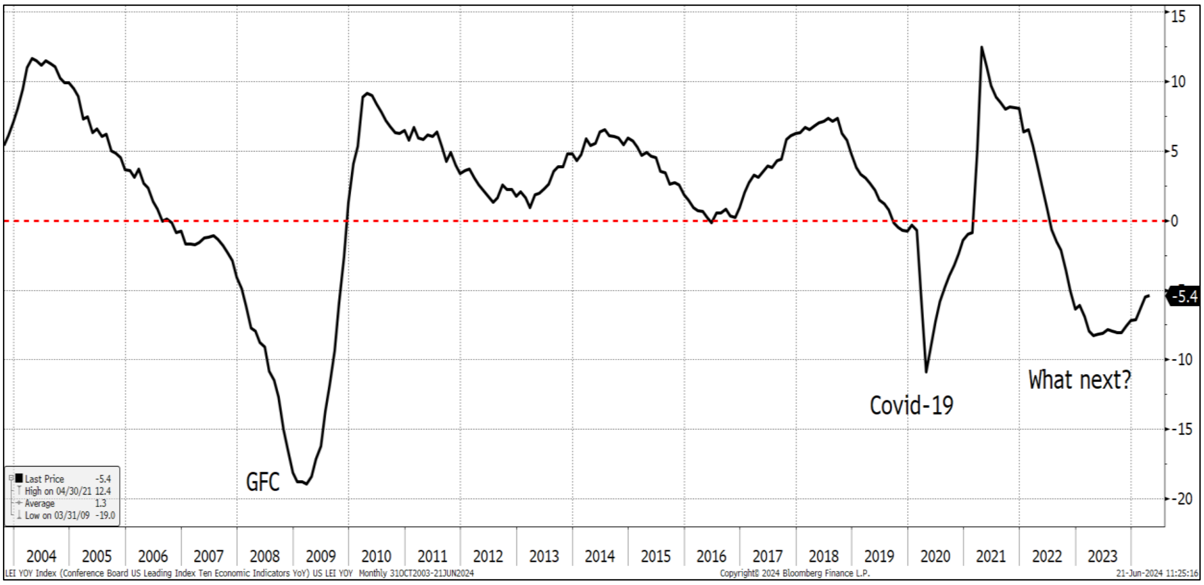


Source: Trading Economics, MIDFR

Having said that, there is cause to be caution… While we are still sanguine on the market, we would advise to be mindful of potential externally driven downside risk to the outlook based on time-tested signals, namely (i) the US Leading Economic Index (US LEI), and (ii) the US Treasury (UST) yield curve.

…as US LEI in negative territory… The baseline consensus expectations point toward continued expansion in US economic activities this year and next. However, the downside risk to the anticipated economic growth is both credible and material. Notably, the US LEI has turned negative since the second half of 2022 and remains well below zero level thenceforth. It must be highlighted that the leading index has correctly forewarned past US economic recessions such as the global financial crisis (GFC) in 2008.

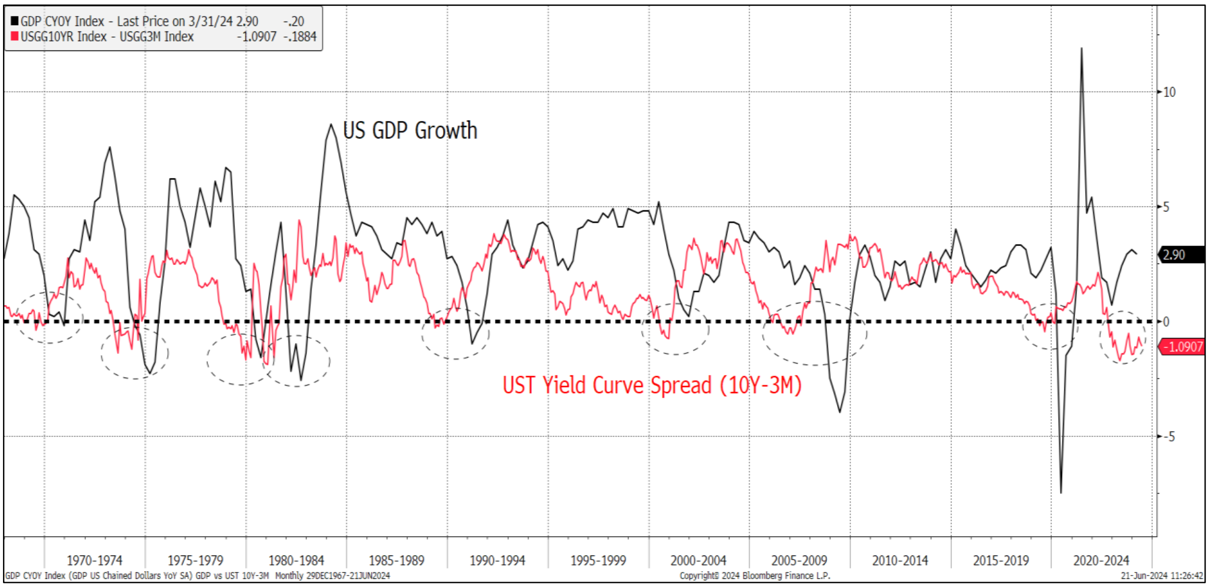
US LEI: A potent Leading signal



Source: MIDFR, Bloomberg (G728)

...and inversion of UST yield curve... The aggressiveness of the US Fed in raising the short-term policy rate has invariably resulted in a complete inversion of bond yield curve. Looking at various long versus short maturity spreads of the UST, the last to invert was the 10-year against 3-month (10Y-3M) in late October 2022. The inversion of 10Y-3M spread serves as a potent signal of an impending economic recession, empirically within the ensuing 1 to 2 years. It correctly predicted all US recessions since at least the early 1970s. Presently, the bond market is tacitly predicting the US economy to fall into recession in the not-too-distant future.

UST 10Y-3M Spread: Harbinger of Recession



Source: MIDFR, Bloomberg (G705)

...while geopolitical conflicts present limited upside but big downside risk. The ongoing Russia-Ukraine war is not foreseen to spread to other countries in the region. Meanwhile, 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.

Hence, we are sanguine albeit wary. 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 return inflow of foreign funds, a necessary fillip to the local equity market. On the flip side, we advise investors to tread cautiously and be wary of the lingering risk of US recession as signalled by several empirically potent indicators, as well as the unsettling situation in Ukraine and Palestine which could escalate rather unexpectedly.

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.

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 now intermittent fears of a US recession. For the coming 2HCY24, we are recommending a strategy of selecting 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). In our opinion, we may see rotational into hitherto low volatility laggards such as finance stocks. Our overall top picks for 2HCY24 onwards are as follows:

Overall Top Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 2/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
KPJ	BUY	1.83	2.54	38.8%	2.2%	41.0%	21.3	3	Y
Fraser & Neave	BUY	29.80	37.00	24.2%	2.6%	26.7%	11.0	4	Y
IJM Corp	BUY	3.23	3.89	20.4%	2.5%	22.9%	32.1	3	Y
IHH Healthcare	BUY	6.25	7.35	17.6%	2.2%	19.8%	10.6	2	N
MISC	BUY	8.65	9.75	12.7%	5.2%	17.9%	12.7	4	Y
Matrix Concepts	BUY	1.85	2.05	10.8%	6.1%	16.9%	13.4	3	Y
Public Bank	BUY	4.28	4.78	11.7%	4.6%	16.2%	10.9	3	Y
UOA Development	BUY	1.87	2.06	10.2%	5.3%	15.5%	17.9	-	-
Hong Leong Bank	BUY	19.40	21.38	10.2%	3.8%	14.0%	8.8	4	Y
QL Resources	BUY	6.65	7.25	9.0%	1.4%	10.4%	12.8	2	N

Top Shariah Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 2/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.85	1.20	41.2%	3.5%	44.7%	27.3	3	Y
KPJ	BUY	1.83	2.54	38.8%	2.2%	41.0%	21.3	3	Y
Fraser & Neave	BUY	29.80	37.00	24.2%	2.2%	26.4%	11.0	4	Y
IJM Corp	BUY	3.23	3.89	20.4%	2.5%	22.9%	32.1	3	Y
IHH Healthcare	BUY	6.25	7.35	17.6%	3.2%	20.8%	10.6	2	N
IOI Corp	BUY	3.79	4.50	18.7%	1.7%	20.4%	15.3	3	Y
MISC	BUY	8.65	9.75	12.7%	5.2%	17.9%	12.7	4	Y
Matrix Concepts	BUY	1.85	2.05	10.8%	6.1%	16.9%	13.4	3	Y
UOA Development	BUY	1.87	2.06	10.2%	5.3%	15.5%	17.9	-	-
QL Resources	BUY	6.65	7.25	9.0%	1.4%	10.4%	12.8	2	N

Top FBM 70 Stock Picks (Rank by total return)

	Rec.	Price (RM) @ 2/8/24	Target Price (RM)	Price Return	Dividend Yield	Total Returns	90 day Volatility (%)	FBM ESG Rating	FTSE4Good?
Tasco	BUY	0.85	1.20	41.2%	3.5%	44.7%	27.3	3	Y
KPJ	BUY	1.83	2.54	38.8%	2.2%	41.0%	21.3	3	Y
Sunview	BUY	0.65	0.88	35.4%	0.0%	35.4%	28.0	-	-
Samaiden	BUY	1.16	1.57	35.3%	0.0%	35.3%	25.6	-	-
Fraser & Neave	BUY	29.80	37.00	24.2%	2.6%	26.7%	11.0	4	Y
IJM Corp	BUY	3.23	3.89	20.4%	2.5%	22.9%	32.1	3	Y
Allianz	BUY	21.78	25.76	18.3%	2.2%	20.5%	21.9	-	-
Matrix Concepts	BUY	1.85	2.05	10.8%	6.1%	16.9%	13.4	3	Y
UOA Development	BUY	1.87	2.06	10.2%	5.3%	15.5%	17.9	-	-
Axis REIT	BUY	1.79	2.02	13.0%	2.2%	15.2%	11.4	3	Y

DISCLOSURES AND DISCLAIMER

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