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## MARKET UPDATE

### Equity Review Outlook

- Once again, the economic worries continue. Slowing global growth poses near term downside risk to the equity market. While inflation fears are starting to recede, recession fears are escalating. At the point of writing, odds of a recession in the US are still not alarming. We continue to see mixed signals on the economic front. Recent US payrolls numbers came in stronger than expected with higher average hourly earnings and lower unemployment rate despite softer US third quarter. This should not come as a surprise as the labor market generally lags the economic cycle. Investors however remained hopeful that economic conditions will be soft enough by early next year to encourage Fed to cut rates. In the midst of these uncertainties, the equity markets continued to notch up higher. The performance of local bourse however, lags the regional bourses. KLCI, rose 2.14% during the month to close at 988 points as compared to the MSCI AP ex Japan which rose by 4.42%. Meanwhile, the broader market FBM Emas rose by 2.69% to close at 6,439 while the KL Second Board rose 5.4% to close at 88 points during the month.
- October was a quiet month in terms of news flow. During the month, the on going political rift between former Prime Minister Tun Dr Mahathir and his successor, Prime Minister Abdullah Badawi erupted again. Amongst the issues raised were the methodology used by the Asean Strategy and Leadership to estimate Bumiputera equity ownership in public-listed companies which was misleading and could lead to public resentment. While this has not negatively affected the market sentiment so far, it may potentially increase the political premium of the country if prolonged.
- Market activities were centered on a few major corporate developments. IJM made an RM1.56 bn conditional voluntary offer to acquire 100% of Road Builder at an indicative price of RM3 per share using swap. Although the acquisition was made at a premium to the market price, we envisage that this will further strengthen IJM's position when bidding for new construction contracts and also secure the group's recurring cash flows from Road Builder's toll roads and ports concessions. Meanwhile, Puncak Niaga received its much awaited 15% tariff increase. The group also proposed a 1 to 1 bonus issue and a capital repayment up to RM0.65 per share. Plantation companies continued to outperform spearheaded by more positive news flow on Elino and higher CPO spot prices.
- August exports surged 14.8% yoy driven by stronger electrical and electronic, chemical, palm oil as well as crude petroleum exports. Meanwhile, inflation continued to stay benign and in line with consensus estimates at 3.3% yoy. In view of the slowing global economic growth and falling crude oil prices of late, the central bank has indicated that inflation should stay below 3% for the whole of next year.
- Going forward, we believe the market will remain buoyant for the remaining part of this year and possibly into early next year. At the point of writing, the KLCI has breached the psychological mark of 1,000 points. Key catalysts to a resumption of the equity market uptrend are that of an imminent peak in global inflation allowing central banks to pause or even cut rates earlier than expected; no bursting of the property bubble in the US and in China; and a reduction in geopolitical risks and thus oil prices translating to lower inflationary expectations and raising investors' risk appetite. In terms of investment strategy, we will continue to take profit and raise cash on market strength.

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## MARKET UPDATE

### Fixed Income Review Outlook

- The Fed has kept rates unchanged at 5.25% as expected during the FOMC meeting in October. US economy continued to show sign of softening as the September ISM number came in at 52.9, which was an unexpected sharp drop from 54.5 in August. This soft manufacturing numbers helped solidify the view that a weak housing market has hit the rest of the economy and may force Fed to cut rates next year. US 3Q GDP number came in softer at 1.6% comparing to 2.6% in August also supported this view. The easing growth and the expectation of monetary policy easing have kept bond prices well supported. US bond market continued its bull run as investors flight-to-quality when North Korea conducted their first nuclear weapon test. However, the bond prices have eased slightly during the month, as the minutes from recent FOMC meeting appeared to remain hawkish. Nonetheless, US bond market reverted to be bullish after the lower September CPI came in at -0.5%mom comparing to 0.2% in August. International crude oil price once hit a low of USD56.8 per barrel during the month due to the warmer than expected weather in the US but subsequently traded back to the region of USD60 per barrel as OPEC decides to reduce oil production. The US Treasuries yield curve showed further inversion during the month. The 2, 5 and 10-year UST ended at 4.69% (+1bps), 4.56% (-2bps) and 4.60% (-3bps) respectively.
- In October, the RM bond market was on a bullish trend on the back of the bond bull run in US. The Deepavali-Raya holiday during the month did not halt the positive sentiment in the local bond market as the bond prices continue to rise after the holidays. Market participants were also assured by the statements from BNM governor Dr. Zeti that inflation would trend low amid declining oil prices. September CPI came in as per market's expectations at 3.3%, which was unchanged from last month. These have fuelled the rally in the Ringgit bond market. The appreciating Ringgit has also attracted offshore interests in local treasury bills during the short trading week after Raya. Towards the end of month we observed that the interests, including both offshore and local, continued to flow into the bond markets, keeping bond yields in local market well supported. The Ringgit yield curve flattened where the 3, 5 and 10-year MGS ended at 3.72% (-19bps), 3.82% (-14bps) and 3.98% (-17bps) respectively.
- During the month, the only sovereign issuance was the new issuance of the 3.5-year MGS with an issue size of RM3billion. The issue drew strong interests with a bid-to-cover ratio of 3.29 times and was issued with an average yield of 3.869%. The corporate bond market were actively traded in tandem with the sovereign market, but mostly limited to liquid AAA-rated paper such as Plus, Rantau Abang and Khazanah. The new issuances during the month were the Collateralized Loan Obligation (CLO) named Idaman Capital and Jimah Power. During the month, MARC has downgraded another CLO Cap One subordinated tranche from BB to BB- and PSSB Ship Management from AA- to A+. On the positive note, MARC has upgraded AmMerchant Bank from A+ to AA-. Premium Commerce Class B notes were also upgraded from A2 to AAA by RAM.
- Going forward, we believe November would be a month where the bond market may remain range bound as there is no catalyst to provide any excitement in the local market. There is no FOMC meeting in the US during the month as well. Given the strong rally over the past few months, the question now is how long will be last? From a valuation perspective, we expect some profit taking in the short-term. On the PDS side, we believe there will be an active pipeline in November before the year-end festivities kicks in. Some of the issues in the pipeline include KNM Capital, Boon Koon Group, Pasdec and KMC. As we approach year-end, trading activities are likely to slow down. Our strategy would be to stay defensive while seek out opportunity to enhance yield once the market corrected.

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