Kenanga Investors

Date: 16 December 2023

High hopes, but tread with caution

The Star – Starbiz7 (16 December 2023)

By Lee Sook Yee

MALAYSIA has much to look forward to economically next year albeit cautiously in light of geopolitical events.

Globally, US Federal Reserve interest-rate hikes are expected to pause, with possible cuts in the second quarter of 2024. Growth rates and inflation trends will determine the timing and magnitude of cuts. The base case is for rate cuts of between 75bps and 100bps.

A similar pattern is expected in the Eurozone, with three or four rate cuts expected over the course of 2014.

Easier monetary conditions will encourage global growth, alleviating fears of a hard landing and improving equities and bonds' outlooks.

The US may ease pressure on emerging-market rates if it adopts more accommodating monetary policies, allowing Malaysia to adjust rates according to domestic economic conditions.

A peak in US interest rates also means a return of fund flows to Asia, including Malaysia. The horizon for Bursa Malaysia thus appears bright, underpinned by the positive factors.

The stability of the federal government post-state election promises policy continuity – a linchpin for growth and investments, from both local and foreign entities.

Government commitment to major infrastructure projects like MRT3 and Penang LRT, coupled with a push for renewable-energy (RE) initiatives, is a critical growth catalyst. Along with fiscal consolidation to strengthen the government's balance sheet, these factors are boosting investor confidence.

In 2024, sectors such as construction, property, RE and technology will be the focal points.

The development of infrastructure projects and transit-oriented developments will benefit the construction and property sectors – the rapid transit system link between Johor and Singapore should continue to attract property investment.

After a period of subdued earnings, semiconductor companies are expected to replenish orders in the technology sector.

Capital markets will benefit from government initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030. NETR will provide a strong lift to the RE sector as well as its supporting contractors.

The NIMP 2030, a broad-based industrial policy, will benefit the technology and E&E (electrical and electronic products) industries, providing vast opportunities of moving up the supply chains and producing higher value-added products.

The outlook for Malaysian bonds remains favourable supported by a strong job market, ongoing infrastructure projects and implementation of recently announced catalytic initiatives.

Inflation will depend on how domestic subsidies and price controls are adjusted, although the revisions are likely to be gradual to avoid price shocks.

Barring any major surge in inflation, Bank Negara Malaysia is likely to keep interest rates unchanged in 2024.

Malaysian bonds are attractive investments because of their stability, backed up by ample market liquidity and sustained demand from long-term investors.

Despite higher US Treasury yields and a weaker ringgit, Malaysia's foreign exposure indicates continued confidence in its economic fundamentals.

Amidst all the optimism, geopolitical concerns cast a shadow of uncertainty. The Russia-Ukraine conflict, Middle East tensions and US-China trade disputes are potential triggers for increased market volatility.

Commodity prices, especially oil and agriculture, are susceptible, and during times of turmoil, safe-haven assets like gold and government bonds may see increased demand.

The US-China tensions and upcoming elections in critical nations such as Taiwan, Indonesia and the United States are key geopolitical events to monitor next year.

While the corporate lens provides a seemingly optimistic outlook, the dynamic interplay of global and domestic factors requires caution.

As we embark on this journey into 2024, adaptability, resilience and strategic foresight will be the compass guiding investors and businesses through the undulating waves of the market.

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Source:

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LEE SOOK YEE
Kenanga Investors Berhad chief investment officer

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This advertisement has not been reviewed by the Securities Commission.

Kenanga Investors Berhad
Company No: 199501024358 (353563-P)
Level 14, Kenanga Tower, 237, Jalan Tun Razak,
50400 Kuala Lumpur, Malaysia
Toll Free: 1-800-88-3737