

QUARTERLY MARKET INSIGHTS

Quarter 4, 2023

RHB

Source: Bloomberg, RHBAM, October 2023

Note: The opinions expressed are as of date and are subject to change at any time due to changes in market or economic conditions. Any performance information shown refers to the past and should not be seen as an indication of future returns. This is not intended to be relied upon as a forecast, research or investment advice and is not a recommendation, offer or solicitation to buy or sell any investments or to adopt any investment strategy.

Global Equity Market Review and Outlook

Global equities performance, as measured by the MSCI All Country World Index, decreased by -4.3% during the month of September 2023. United States ("US") equities reported a loss of -4.8%, Europe was -4.1%, and Japan was -2.8% (in US dollar ("USD") terms) during the same period. Asia Pacific ex-Japan ("APAC") recorded a loss of -3.0% (in USD terms), with Korea (-5.3%), Taiwan (-4.0%), Hong Kong (-5.9%), and China (-2.9%) in USD terms in September 2023. Within the Association of Southeast Asian Nations ("ASEAN") countries, Philippines +2.8% was the best performer, followed by Singapore -0.4%, Malaysia -3.2%, Indonesia -3.3% and Thailand -9.3% during the same period (in USD terms).

Although the market has long anticipated the high for longer rate regime since the Jackson Hole meeting, the recent the pace and magnitude of the readjustment took the market by surprise. The higher for longer narrative resulted in the US 10-Year Treasury to break the 4.5% level to a high of 4.68% on 28 September 2023, and trending even higher at the time of writing. The higher rates could be attributed to several reasons including the increase in term premium, US fiscal spending, selling of treasury by other central banks to support local foreign exchange, as well as fears surrounding the US government shutdown despite coming to a deal just before the resolution deadline.

On monetary policy, the Federal Reserve ("Fed") left its federal funds rate unchanged at 5.25% - 5.5% at its September 2023 meeting. While this was yet another pause, the Fed is not signalling an end to its hike cycle yet. The dot plot signals another +25 basis points ("bps") hike before end 2023 and "high for longer" rate in 2024. During the conference, Powell was appropriately vague on future rate hikes, and reiterated the data dependent nature of the outlook. However, Powell suggested that the Committee are relatively more tilted towards the "higher-for-longer" camp rather than "higher-and-higher" ideology.

The median dot plot showed the Fed funds rate to be at 5.625% by end 2023, which was unchanged from June 2023's projections. However, the median dot now shows a cumulative 175bps worth of cuts in 2024 – 2025, 50bps less than in the June 2023 projections, and 100bps of cuts in 2026. At 2.875%, the median dot for 2026 sits modestly above the median longer run dot, which remains at 2.5%. The Fed revised projections for Gross Domestic Product ("GDP") growth (+1.1 percentage points ("pp") to +2.1%), lowered unemployment rate (-0.3pp to 3.8%) and core inflation (-0.2pp to +3.7%) for 2023.

Likewise, in Japan, the Bank of Japan ("BOJ") voted unanimously to maintain the status quo in terms of its policy stance, including yield curve control ("YCC") and forward guidance, as was widely expected for its September 2023 meeting. The BOJ also made no changes to its assessment of the economy and prices. BOJ Governor Ueda sounded dovish when asked about his recent comments on the Yomiuri alluding to the possibility of confirming a virtuous inflation trend



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by year-end, a condition for policy normalization. Ueda clarified that the “distance to ending negative rates” hasn’t really changed. Ueda also reiterated that when the goal of sustained 2% inflation is in sight, the BOJ will consider ending its YCC policy as well as raising interest rates. He reiterated that inflation should slow more clearly in coming months, although the recent deceleration was less than previously expected.

In Europe, the European Central Bank (“ECB”) hiked key policy rates by 25bps in its September 2023 meeting. The decision stated that rates “had reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to target.” At the same time, the formal guidance continues to pledge that rates will be “set at” sufficiently restrictive levels and that the ECB remains data-dependent. ECB President Christine Lagarde insisted that interest rate cuts aren’t something that was considered by policymakers any longer, yet investors are already betting on them. The market is pricing in a 15.3% probability of another hike by the end of 2023 and a rate cut by July 2024 meeting. The European Commission cut its outlook for Eurozone growth. Growth is now forecast at 0.8% for 2022 vs 1.1% previously, and forecasts at 1.3% in 2024 vs 1.6% previously. Germany remains the weak link, where it is expected to contract -0.4% this year. Eurozone inflation is now forecasted to be at 5.6% in 2023, compared to 5.8% previously and previous forecasts of 2.9% in 2024 vs 2.8% previously.

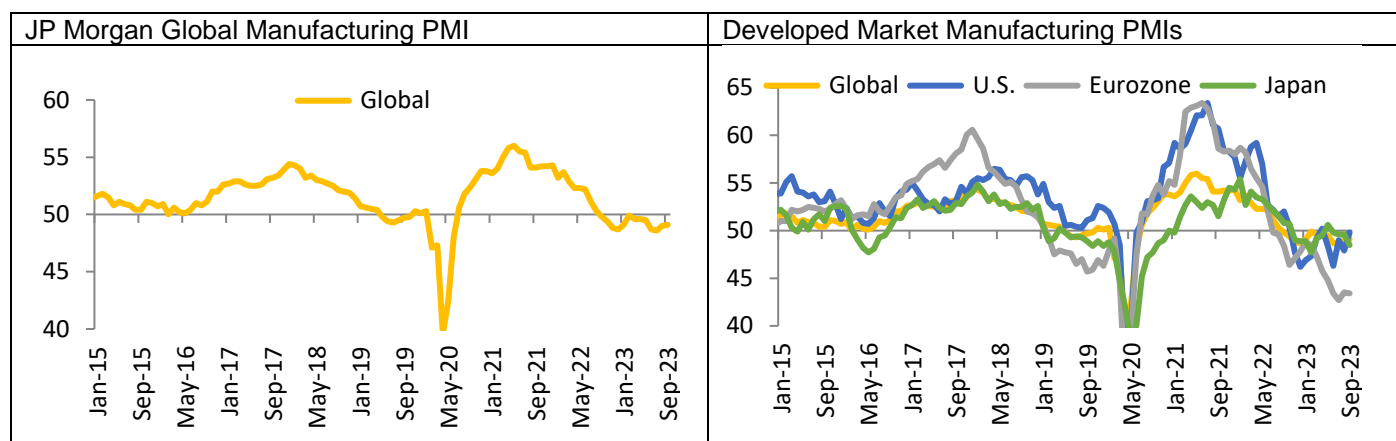
In China, the People's Bank of China (“PBOC”) held its third quarter 2023 Monetary Policy Committee (“MPC”) meeting on 25 September 2023 and the statement was released on 27 September 2023. Consistent with the recent easing bias, the PBOC acknowledged the insufficient demand in the economy and vowed to continuously support economic growth. In particular, the PBOC stated to “intensify the implementation of the monetary policy tools that have been introduced to ensure a reasonably ample level of liquidity while encouraging a rebound in price levels”. The PBOC also highlighted it would step up support to public facility construction, urban village redevelopment and social housing construction. On the exchange rate, the PBOC maintained its relatively aggressive tone and said it would “prevent excessive moves, correct deviations, and also lean against one-way bet and herding behaviors” in the exchange rate market.

Market volatility remains elevated as the most aggressive monetary tightening cycle is gradually drawing closer to an end. The tightening has already started to have an impact on the global economy, especially through lower demand from consumers and higher input costs for corporates. We are cautiously optimistic, though markets may prove to be bumpy and volatile amid tighter monetary policies and financial conditions. With more nations moving towards protectionism (energy, food and technology security) and nationalism, markets should prepare for an extended period of heightened volatility. Inflation risk has risen recently amid the surge in oil prices and the El Nino could put additional stress to global prices.

We prefer companies with pricing power, as inflation remains relatively higher than pre-pandemic levels, driven by relatively tight monetary stance as rates remain higher for longer, even as global economic growth eases for next year. We continue to reiterate our strategy towards quality names amid rising market volatility and interest rates, as well as selective reopening plays. Our portfolio continues to be positive on structural shifts, such as carbon-neutral industries, technology innovation and security (food, technology and defense).

Economic Highlights

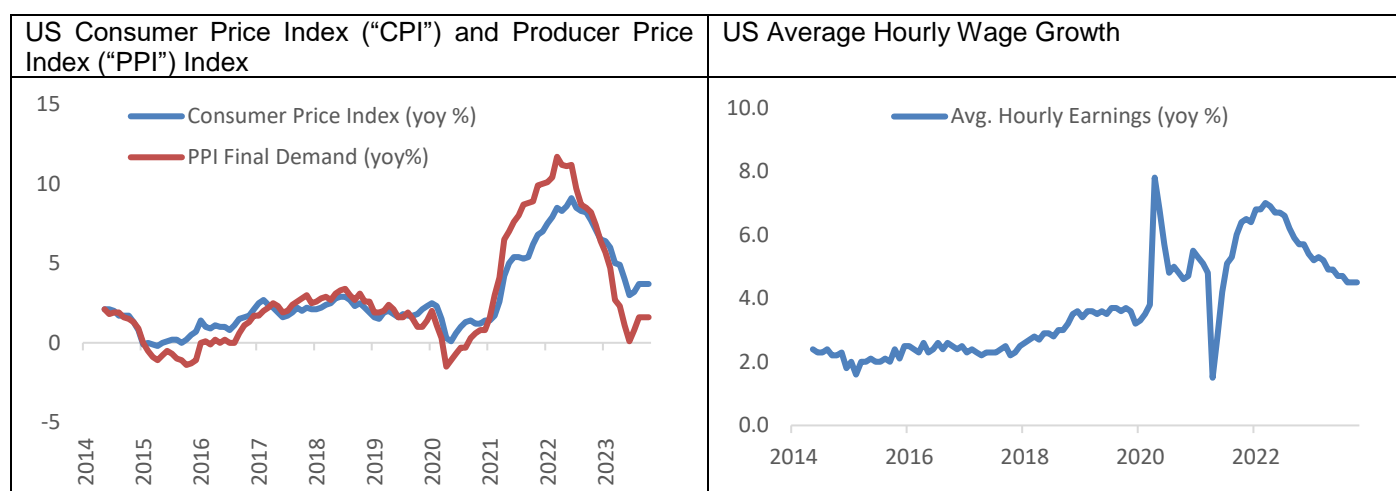
Global Purchasing Managers Index ("PMI")



Source: Bloomberg, RHBAM, 4 October 2023.

- JP Morgan Global Manufacturing PMI improved to 49.1 in September 2023 from 48.8 in June 2023.
- The US S&P manufacturing PMI remained in contractionary territory at 49.8 in September 2023 vs 43.4 in June 2023, alongside Japan at 48.5 in September 2023 vs 49.8 in June 2023. Similarly, the Eurozone manufacturing PMI remained in contractionary territory at 43.4 in September 2023 vs 43.4 in June 2023.

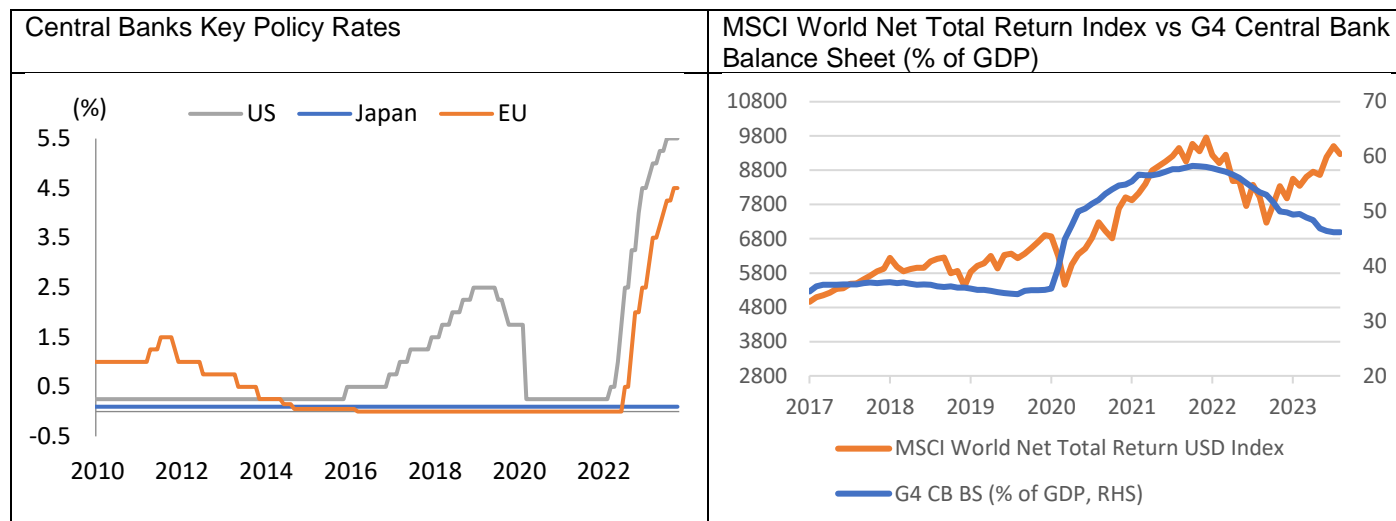
US



Source: Bloomberg, RHBAM, 4 October 2023.

- US inflation remain elevated at 3.7% in August 2023 amid easing from a peak of 9.1% in June 2022.
- Unemployment rate remained solid at 3.8% in August 2023 vs 3.7% in May 2023 and US hourly wage growth still robust at 4.5% in August 2023.

Global

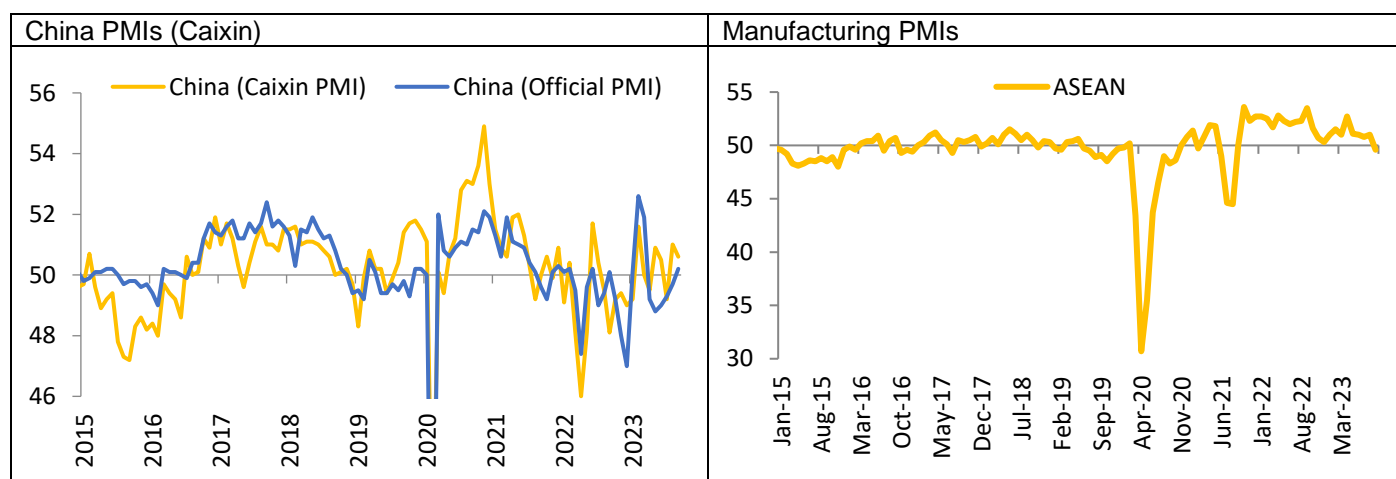


Source: Bloomberg, RHBAM, 4 October 2023.

- Fed had its first hike by 25bps in March 2022 and going into 2023, Fed has hiked a cumulative 525bps in July 2023 to 5.25% - 5.50%.
- In July 2022, the ECB Governing Council hiked key policy rates by 50bps, its first rate hike in 11 years. Going into 2023, we saw a total of 450bps increase in the key policy rates to 4.50% in September 2023.

China

ASEAN



Source: Bloomberg, RHBAM, 4 October 2023.

- The Caixin Manufacturing PMI remained in expansionary territory at 50.6 in September 2023 vs 50.5 in June 2023 and Official PMI at 50.2 in September 2023 vs 49.0 in June 2023.
- ASEAN's manufacturing PMI declined into contractionary territory at 49.6 in September 2023 vs 51.0 in June 2023.

China/Hong Kong

MSCI China fell 2.9% in Hong Kong dollar (“HKD”) terms in September 2023 on Fed’s hawkish hold, adding another 3% upside to the US Dollar Index (“DXY”) for a total of 6% rise from mid-July 2023 to end September 2023. Offshore investors appear more concerned about the domestic economic outlook amidst continued property weakness, than onshore investors. Encouragingly, new policy efforts vowed to enhance monetary support, foreign exchange stability and capital market liquidity.

The broad beats in August 2023 macro data prompted the street to raise 2023 GDP growth forecast. Policy wise, in addition to PBOC’s 25bps Required Reserve Ratio (“RRR”) cut, central authority announced the first nationwide demand-side easing since 2015. Guangzhou became the first Tier 1 city to relax home purchase restrictions. In order to boost A-share liquidity, China Securities Regulatory Commission (“CSRC”) tightened rules on majority shareholder equity placements. Hong Kong may introduce measures during the Policy Address in October 2023 with stamp duty cut in scope. The US and China dialogue was viewed as positive for potential Biden-Xi meeting in November 2023 at the Asia-Pacific Economic Cooperation (“APEC”). Further, the province of Inner Mongolia announced to swap Renminbi (“RMB”) 66 billion in debts owed to Private Owned Enterprises (“POEs”) with bonds, marking an incremental step toward Local Government Financing Vehicle (“LGFV”) resolution after the reported RMB1.5 trillion central government backed special bond refinancing program.

Both Caixin manufacturing PMI and National Bureau of Statistics (“NBS”) manufacturing PMI reported stronger output in September 2023, suggesting rising production due to better weather conditions and improving market demand. The headline Caixin manufacturing PMI fell to 50.6 in September 2023 from 51.0 in August 2023, suggesting improving activity in Manufacturing sector but at a slower pace. The slowdown was mainly due to the employment sub-index which fell by 3.1 points in September 2023.

China delivered pro-growth policies on the 24 July 2023 Politburo meeting which included relaxation for sectors such as Property, Capital Markets, Education and Consumer. Furthermore, we will be moving towards focusing on State-owned enterprises (“SOE”) reforms as another theme for the rest of the year. We are maintaining our infrastructure theme. Under the infrastructure theme, we continue to be aligned to the Politburo’s policies in the Renewable Energy, Information Technology, Platforms and Industrial sectors. Supportive policies for technological innovation with an emphasis to strengthen technological innovation and industrial supply chain resilience. For SOE reform, there will be an aligning of SOE’s operational and development with China’s strategic goals notably self-sufficiency in technology, energy and food supply with additional focus on return on equity and operating cash flows as key performance indicators (“KPIs”).

ASEAN

MSCI ASEAN index pulled back in September 2023 on the hawkish stance from the Fed. Indonesia and Thailand led the decline whereas Philippines, Singapore gave positive returns in September 2023. Malaysia was relatively flat. Most ASEAN currencies depreciated against the USD.

In Singapore higher travel fares (+7% from December 2023), water prices (+18% over 2-phases by April 2025) and postage (+65% from October 2023) have been announced. Correspondingly, Deputy Prime Minister and Finance Minister Lawrence Wong announced cost-of-living support measures to provide more relief for Singaporean households. About 2.5 million adult Singaporeans will receive an additional cash payout of up to Singapore dollar ("SGD") 200 in December 2023, and every Singaporean household will receive an extra SGD200 in Community Development Council vouchers in 2024 to help with the rising cost of living.

Philippines' inflation quickened to 5.3% in August 2023, re-accelerating from 4.7% in July 2023 and hugely missing consensus estimate of 4.7% for the month due mostly to surging rice and fuel prices. August 2023 headline inflation brought year-to-date ("YTD") average inflation to 6.6%. Bangko Sentral ng Pilipinas ("BSP") kept its policy rate on hold at 6.25%, as expected. Despite the extended monetary pause, BSP's message to the market was that it has not relaxed its hawkish stance and stands 'ready to resume its tightening actions'. BSP is managing market perceptions in order to support the exchange rate.

The Thai MPC voted unanimously to raise the policy rate by 25bps to 2.50%. Three main reasons were mentioned. First, the MPC viewed that the economy is recovering to its potential, underpinned by strong private consumption especially in 2024. Second, there remain upside risks to the inflation outlook from demand-pull pressures resulting from the government's stimulus and potentially higher food prices due to El Nino. Third, the policy rate increase will help build up policy space to cushion against future uncertainty. The MPC revised its GDP growth projection down to 2.8% from 3.3% for 2023 and up to 4.4% from 3.8% for 2024. The increased growth forecast for 2024 should be primarily driven by robust domestic demand, supported by a steady recovery in tourism, a turnaround in merchandise exports, and importantly, government stimulus through handouts and subsidies. Meanwhile, it noted that growth this year has been below expectations from a delayed recovery in exports and tourism due to the slowdown in China and the global electronics cycle.

Bank Indonesia ("BI") maintained its policy rate at 5.75% for the 8th consecutive month, in line with our and consensus expectations. Overnight deposit facility and lending facility rates were maintained at 5% and 6.5% respectively. BI mentioned that the rate pause is consistent with the need to "control inflation within the 2% - 4% target this year and 1.5% - 3.5% in 2024". BI was sanguine on inflation based on its assessment of food prices in various parts of the country, seeing headline CPI remaining low and manageable at around +3% this year as the government works to ensure ample supply and social assistance for households.

Malaysia headline inflation remained at 2% year-on-year ("YoY") in August 2023 (July 2023: 2%, June 2023: 2.4%), meeting consensus expectations. Malaysia's August 2023 exports fell a larger than expected 21.2% YoY and were down 1.1% month-on-month ("MoM"), seasonal adjusted ("sa"). Although headline exports softened sequentially, technology-related exports rose a strong 8.5% MoM, sa even as non-technology contracted 9.1% MoM, sa. The strength in technology exports lends some hope that Malaysia could be seeing the incipient signs of a technology lift given its dominance in semiconductor testing and packaging.

We remain optimistic that Asia and especially ASEAN will emerge as the region with relatively stronger growth than the rest of the world. ASEAN with the structural advantage in demographics will emerge as the complimentary piece both to the US and China. Adding on to the commitments by the governments in Asia or ASEAN towards infrastructure development, the region will feature prominently as the place for equity investments

Malaysia Equity Market Review and Outlook

Market sentiment remained negative due to “higher for longer” statement by US Fed as inflation remains high. Weak Chinese economy and the continuing headwinds from the China Property sector have also affected the sentiments of the market. The high interest rate and the recent rise in the oil price have also raised concerns on the global economy growth trajectory. However, Malaysia registered positive return in third quarter 2023 but other equity markets fell more than 2% to 6%.

Malaysia economy is slowing down after registering strong growth in 2022 which is in line with the global slowdown in the economy. The S&P Global Malaysia Manufacturing PMI fell to 46.8 in September 2023 from 47.8 a month earlier. Malaysia's manufacturing activities continue to fall further in September 2023 which was the lowest since January 2023. This was the 13th straight month of drop in the Manufacturing sector as global economy falters. Nevertheless, the recent recovery in the US and China manufacturing activities might indicate that the manufacturing activities could have found the bottom.

Exports from Malaysia plunged 18.6% YoY to RM115.16 billion in August 2023, coming in worse than market forecasts of 16.3% fall. This marked the sixth straight month of decline in exports and the steepest pace since May 2020 due to weakening global demand and moderating commodity prices. Among key trading partners, exports dropped from Singapore (-19.3%), China (-20.3%), the US (-9.7%) and the European Union (-4.6%).

However, labour market conditions, particularly employment and wages, remains favorable which is an important factor that supports households' ability to spend. Retail trade in Malaysia rose 5.5% YoY in July 2023, easing slightly from a 5.8% growth in the previous month. However, on a monthly basis, retail trade increased 0.5%, following a 1% gain in June 2023. The economy is expected to be supported by domestic-oriented activities due to multiple headwinds on the global fronts, ranging from high policy rates, elevated inflation and moderating global trade.

The FBM Small Cap index remains positive in September 2023 despite weak global market and the small cap index outperformed the FBMKLCI Index and the FBM Emas Index YTD as well. Quarter-on-quarter also saw FBM Small Cap outperformed the FBMKLCI Index and FBM Emas Index. Only four sectors registered positive returns in September 2023 which are Energy (due to rising oil price), Construction (policy driven), Property (policy driven) and Healthcare (value).

We noted that the index has not been able to trade higher than mean valuation since September 2020 and the index average price-to-earnings ratio is 14 times for the past 3 years. We believe that the Index is cheap and there is more upside than downside. Corporate earnings downgrade might have bottomed unfortunately there is no upgrades either. Hence, in order to have meaningful rebound for the Index, the market needs to see improvement in the corporate earnings growth.

Foreign institutions turned net buy in the third quarter 2023 with RM2.2 billion inflows. There is an expectation that there is now an increased likelihood of a soft-landing in US, where inflation stabilizes without economic growth taking a significant downturn for the US, which means that a recession would likely be avoided. Should US able to achieve a soft landing, commodity-based country like Malaysia should benefit and would also help Malaysia ringgit (“MYR”) to recover and driving inbound in-flows of funds.

The global interest rates hike cycle may be nearing an end. However, the Fed is expected to hold the interest rate at current high level due to strong US labour market and possibility of inflation would remain high due to higher oil price. The Fed is expected cut the interest rate when the job market starts to decline and US economy goes into recession which would be positive for Malaysia and Asia equities. Probability is around 55% that US economy would go into recession in 2024.

In the longer run, the expectations that USD is likely to weaken would push investors to lean towards assets in Asia given its cheaper valuation and undervalued market from fundamental valuations and economic perspective.

Bank Negara Malaysia (“BNM”) is likely to maintain interest rate at current level due to benign inflation and would focus on growth. In addition, the government is also expecting to announce more supports to help the B40 and M40 categories

which would likely benefit the Consumer sectors. Domestic consumption would be supported by improving labour market but the gradual pace of subsidy rationalization will have an impact on discretionary consumption.

Structural reforms play a crucial role in achieving sustain economic growth and the government has recently implemented these reforms by launching the Madani Economic Framework, the New Industrial Masterplan 2030, and the National Energy Transition Roadmap ("NETR").

However, low foreign holdings couple with bottoming earnings downward revision would provide the support to the Index. We would take the opportunity to position the portfolio on market weakness for decent returns in longer run due to expectations of better corporate earnings in 2024 and cheap market valuation.

Global Fixed Income Market Review and Outlook

US Treasuries and G10 Bonds

The quarter in review saw a large bear steepening move on the back of the higher for longer theme taking hold in markets especially post the Fed's revised dot plots released in September 2023, still elevated inflation and resilient economic data out of US.

On US economics, US CPI was slightly higher than expectations at 3.70 % YoY (+0.4% MoM) for August 2023 from 3.20% YoY (+0.2% MoM) in July 2023. Core CPI rose at a subdued rate to 4.3% YoY (+0.3% MoM) in August 2023 (vs 4.7% YoY, 0.2% MoM prior). Gasoline was the single biggest contributor to the monthly gain in CPI, however shelter costs continued to stay elevated, contributing to the higher Core CPI number. The Personal Consumption Expenditures ("PCE") deflator, the Fed's preferred measure for inflation was also higher than last month at 3.5% YoY (+0.4% MoM) for August 2023, but Core PCE rose by the slowest monthly pace since 2020 at 3.9% YoY (0.1% MoM) in August 2023, underscoring more improvement in inflation metrics. The Institute of Supply Management ("ISM") PMI for September 2023 rose 2.4 points to 49.0, much higher than expectations of 47.9 and higher than last month of 47.6. Although this reading registers the eleventh consecutive month in contractionary territory the trend is coming back toward expansion and could signify the worst is over for producers. The higher ISM was contributed by new orders which rose to a more than one year high and the prices paid index dropped 4.6 points to 43.8 due to declining commodity prices. Production growth may be sustained as companies make progress trimming inventories. A measure of customer stockpiles shrank at the fastest pace in three months, according to the ISM report. Factory inventories also contracted. Going forward the ongoing United Auto Workers ("UAW") strike against the 3 largest US Automakers, Ford Motor Company, General Motors Company and Stellantis NV may risk slowing progress in the sector in the next reading.

The 20 September 2023 Federal Open Market Committee ("FOMC"), saw the Fed holding the Fed Fund Target rates unchanged at 5.25% - 5.50%, however the updated dot plots continue to show a 25bps hike projected for 2023 while the 2024 and 2025 median projection were revised 50bps higher from 4.625% to 5.125% and from 3.375% to 3.875% respectively, with 2026 rates at 2.875%. Fed officials and markets are increasingly incorporating in their projections the reality that a more prolonged period of higher rates may be needed to cool the economy. Over the weekend of 30 September 2023, at the eleventh hour, a compromise was reached with the republican's continuing resolution passed by Congress, managing to avert a government shutdown which had the risks of causing data delays and complicating the decision of a data-dependent Fed, although the measure would only fund the government until 17 November 2023.

The US Treasury ("UST") curve continued to bear steepen in September 2023 following the hawkish dot plots, receding recession risk and investors settling into the higher for longer theme as inflation remains persistent. At the end of September 2023 close, the benchmark 2-year, 5-year, 10-year, 20-year and 30-year UST were last traded at 5.04% (August 2023: 4.86%; +18bps), 4.61% (4.25%; +36bps), 4.57% (4.11%; +46bps), 4.90% (4.40%; +50bps) and 4.70% (4.21%; +49bps) respectively.

Outlook and Strategy

The July 2023 International Monetary Fund ("IMF") World Economic Outlook Update has updated their 2023 global growth forecast by 0.2% to 3.0% in 2023 and maintain the outlook to 3.0% in 2024. Although revised higher, it is still considered weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. IMF's projection on global headline inflation is for it to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward. Overall global growth outlook remains uncertain again amid slow China recovery, extreme weather related events and ongoing effects of Russia's invasion of Ukraine. What remains to be seen is a sustained recovery, achieving an acceptable level of inflation while ensuring financial stability.

Global risk sentiment in the markets has been generally bearish as flows started to focus on safe haven bids for shelter. The broader strategy will be to remain nimble on continued volatility, and to position more defensively in higher quality credits due to a greater focus on income preservation while repositioning at the current higher yield levels with a bias to stay short duration, especially since the Fed is likely to continue their current tightening cycle at the moment, with the latest September 2023 Dot-plots projecting another 25bps more hike for 2023 to 5.50% - 5.75% which may likely come in the November 2023 FOMC, meanwhile projections for 2024 was also shifted up 50bps to 5.125% and 2025 revised higher by 50bps to 3.875% from the June 2023 projections. The longer term target rate remained at 2.50%. Current market pricing is showing just above 32% chance of another 25bps hike in the November 2023 FOMC meeting or around 50% chance of a 25bps hike by December 2023.

Malaysia Fixed Income Market Review and Outlook

Ringgit Sovereign Bond

On local rates, the Malaysia Government Securities (“MGS”) market yield ended higher for the month of September 2023 and a tad bear flatter after the bullish sentiment in August 2023. The MGS curve overall was +14bps to +18bps over the course of the month. The MGS spread movements were slightly more pronounced at the front end, 3-year, 5-year and 7-year. For the Government Investment Issue (“GII”) or the Islamic Sovereign Curve also saw yields climb higher over September 2023. The GII 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year saw MoM yield higher by +11bps, +18bps, +09bps, +15bps, +12bps, +10bps and +13bps respectively. In tandem, the GII spread movements were more pronounced at the front end of the yield curve as well, especially the 5-year yield curve of GII.

Benchmark	MGS			GII		
	29 September 2023	30 August 2023	Change (bps)	29 September 2023	30 August 2023	Change (bps)
3-Year	3.61%	3.43%	+18bps	3.58%	3.47%	+11bps
5-Year	3.77%	3.60%	+17bps	3.81%	3.63%	+18bps
7-Year	3.92%	3.73%	+18bps	3.88%	3.79%	+09bps
10-Year	3.98%	3.84%	+14bps	4.02%	3.87%	+15bps
15-Year	4.18%	4.04%	+14bps	4.14%	4.02%	+12bps
20-Year	4.31%	4.14%	+17bps	4.33%	4.23%	+10bps
30-Year	4.43%	4.28%	+15bps	4.49%	4.36%	+13bps

Source: Bloomberg and Bond Pricing Agency Malaysia, 30 September 2023.

BNM, in its penultimate meeting for the year held on 7 September 2023 maintained the benchmark Overnight Policy Rate (“OPR”) at 3.00%, citing continued expansion in the global economy supported by strong labour market conditions. However, the global growth was weighed down by elevated core inflation and higher interest rates in advanced economies in addition to the slower than expected growth in China. The OPR will remain accommodative as the Malaysian economy was affected by slower external demand and a decline in commodity production coupled with softened inflationary pressure at home. That said, BNM stated that risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, global commodity prices and financial market developments, as well as the degree of persistence in core inflation.

Malaysia’s CPI inflation rate remained stable at 2.00 % in August 2023 (July 2023: 2.00%) on base effects. The country’s headline inflation rate was driven by a lower increase in Restaurants & Hotels and Food & Non-alcoholic beverages. Core inflation, which excludes volatile items and those with government-administered prices, fell to 2.5% in August 2023 from 2.8% in July 2023.

In terms of government bond auctions in September 2023, there were three auctions conducted, as below:

- 12 September 2023: 3-year GII auction drew a solid 2.167 times bid-to-cover (“BTC”) on an expected MYR4.5 billion auction size without private placement. Incoming bids totalled MYR9.75 billion, below the YTD average of MYR10.5 billion for 3-year to 5-year MGS/GII auctions, but higher than MYR8.6 billion - MYR8.8 billion received in the last few auctions in 3-year to 5-year sector. As market remained bearish on global bonds, 3-year GII 9/26 experienced 3bps - 4bps cheapening into the auction which appeared sufficient to bring out strong bids, in part helped by a clearer sign of extended pause in OPR at 3.00%. Successful bids cut off at 3.546%, giving a small tail of 1.1bps compared to the last traded when-issued (“WI”).
- 21 September 2023: 30-year MGS auction garnered a healthy 1.897 times BTC on a MYR3.5 billion auction size. An additional MYR1.5 billion was privately placed, bringing the total size to a larger than expected MYR5 billion. Incoming bids totalled MYR6.6 billion, above the average of around MYR6 billion for 30-year MGS/GII auctions YTD. As the UST selloff continued, the 30-year MGS cheapened more than 10bps into the auction which helped draw good interest. Successful yields averaged 4.454% and stopped out at 4.475% with a longer than usual tail due to the large auction size.
- 27 September 2023: 5-year GII auction drew a healthy 1.954 times BTC despite a larger than expected MYR5 billion auction size without private placement. Incoming bids totalled MYR9.77 billion, below the YTD average of MYR10.4 billion for 3-year to 5-year MGS/GII auctions, but similar to MYR9.75 billion received in the last 3-year GII auction earlier this month. 5-year GII cheapened by about 5bps into the auction as investors demand for yield concession in new supply amid still bearish global bond sentiment. Successful bids averaged 3.808% which came within the WI range prior to auction close and the cut-off tailed only slightly at 3.82%.

Overall, the BTC ratio in September 2023 was disappointing relative to the BTC in the months of July 2023 and August 2023. On average, BTC for September 2023 was 2.00 times with an auction size of 14.50 billion compared to August 2023 which was 2.06 times and total auction size of RM14 billion, as compared to July 2023 (2.31 times with RM15 billion), June 2023 (1.81 times with RM13 billion), May (2.07 times with RM11 billion) and April (2.35 times with RM12 billion). The BTC for local bond market as at YTD is now at 2.135 times, showing still resilient overall demand for the local bond market. The summary for the September 2023 government bond auctions results are as below:

Issue	Auction Date	Auction Size (RM' billion)	Average Yield (%)	BTC Ratio (Times)	High (%)	Low (%)
3-year Re-opening of MGII (Maturity on 09/26)	12 September 2023	4.50	3.539	2.167	3.546	3.528
30-year Re-opening of MGS (Maturity on 03/53)	21 September 2023	5.00	4.454	1.897	4.475	4.415
5-year Re-opening of MGII 07/28	27 September 2023	5.00	3.808	1.954	3.820	3.795

Source: Bloomberg and Bond Pricing Agency Malaysia, 30 September 2023.

Ringgit Corporate Bond

In terms of issuance for the month of September 2023, we saw Lembaga Pembiayaan Perumahan Sektor Awam ("LPPSA") (MYR4 billion), Cagamas Berhad (MYR3.9 billion), Sarawak Energy Berhad (MYR3.5 billion), Seaport Terminal (Johore) Sdn Bhd (MYR3.1 billion), Perbadanan Tabung Pendidikan Tinggi Nasional ("PTPTN") (MYR1.5 billion), Johor Corp (MYR1.5 billion), YTL Power International Bhd (MYR1.4 billion) and RP Hydro (Kelantan) Sdn Bhd (MYR1 billion). OSK Rated Bond Sdn Bhd (AA/stable) saw very strong demand with orderbook exceeding MYR1.9 billion, or more than 3 times cover over the MYR500 million issuance size, and final pricing tightened 13bps on average from the Initial Price Guidance.

In terms of credit updates, UEM Group Bhd ("UEM") was raised to AA1/stable from AA2/stable by RAM on expectation of higher level of extraordinary support from its parent Khazanah Nasional Berhad ("Khazanah"), which has identified UEM as its green investment vehicle. Khazanah's sustainable energy arm, Cenergi SEA Bhd, was recently consolidated under UEM and the latter signed a memorandum of understanding ("MOU") for the 1GW solar plant and renewable energy industrial park under the NETR. Additionally, Khazanah continued to maintain full ownership of UEM and has board representation.

Second update is Cenergi SEA Bhd ("Cenergi"). Its senior/perpetual ratings were upgraded to AA3/A2 from A1/A3 by RAM, citing the close relationship with UEM and importance of Cenergi's experience and capability in the local renewable energy space. UEM's rating was earlier upgraded by one-notch to AA1/stable in a prior week, and Khazanah is the common ultimate shareholder of both entities. Moderating Cenergi's ratings are its small business scale and nascent financial footing. The rating agency is watchful of Cenergi's expansion appetite that could necessitate more borrowings, though UEM has plans to make equity injections.

Thirdly is the credit update on Celcom Networks Sdn Bhd ("CNSB") which was upgraded to AAA/stable from AA+/stable by MARC on the back of CelcomDigi Bhd's stronger credit profile and CNSB's continuing importance to the merged entity.

Next, MBSB Bank Structured Covered Sukuk (Tranche 3) was upgraded by RAM from AA1/Stable to AAA to reflect its strong cash position, where the accumulated cash balances in the Tranche 2 and 3 designated accounts were more than sufficient to meet the respective outstanding principal and remaining scheduled profit payments.

In terms of ratings Outlook changes, RAM reverted Konsortium Prohawk Sdn Bhd's outlook back to stable from negative premised on the execution of the supplementary concession agreement between the Government of Malaysia and the company which entitles the concessionaire to additional revenues for wider scope of works and will improve its debt servicing ability.



Outlook and Strategy

Locally, BNM maintained the OPR at 3.00% in its September 2023 MPC meeting after last increasing it by 25bps in May 2023. At the current OPR level, the monetary policy stance is slightly accommodative and remains supportive of the economy. The MPC continues to see limited risks of future financial imbalances. The MPC remains vigilant to ongoing developments, and will continue to monitor incoming data to inform the assessment on the outlook of domestic inflation and growth. The pressure to increase further from here is probably lower because other regional central banks are likely to stay pat, if not cut, should global growth slowdown exacerbates. The current 3% OPR would also mean more room to ease with additional ammunition should the economy in Malaysia slow significantly. Looking forward to October 2023, all eyes will be on the upcoming Malaysian budget which to be presented by the Prime Minister-cum-Finance Minister Anwar Ibrahim to the parliament on 13 October 2023, slightly earlier than the usual last Friday in the month of October 2023. Details of the subsidy rationalisation as well as incentives to bring in more investment to spur economic growth are the main focus.

We remain constructive of the bond market as we still see opportunities within the government and corporate credit securities market. We advocate on positioning the bond portfolio to increase investments whenever exacerbated selling occurs, as yield levels are expected to come off on lower 2023 growth expectations and when market stabilizes. The momentum for bonds to do well in 2023 has increased because the scale of the interest rate hikes in 2023 would be a lot less hawkish when compared to unprecedented interest rate increases in 2022 globally. At this juncture, local yields still give a comfortable buffer against fixed deposits ("FD") and we believe the increases in FD rates should taper off this year once the upside to OPR dissipates. The stance to monetary policy locally by BNM will continue to be determined by new data and its implications on the overall inflation and domestic growth outlook. We will continue to monitor closely market developments both globally and locally.

Commodity Market Review and Outlook

Oil (Brent)



Source: Bloomberg, RHBAM, 29 September 2023.

Crude Oil (Brent) price has raised by 27% during third quarter 2023 and ended the quarter at USD 95 per barrel. Oil price has raised above the trading band (USD 80 per barrel). With the support from Saudi Arabia, signs of China making efforts to boost its economy and higher activities level during third quarter 2023, such as driving season, oil price increased steadily throughout second quarter 2023.

On the demand side, International Energy Agency (“IEA”) now see 2023 global oil demand growth of around 2.2 million barrels per day, a slight decrease from the previous estimate of 2.4 million barrels a day. Organization of Petroleum Exporting Countries (“OPEC”) holds its 2023 global oil demand growth of around 2.4 million barrels per day. Non-Organisation for Economic Co-operation and Development (“OECD”) economies would account for over 90% of 2023 global oil demand growth as OECD economies are already facing a manufacturing slowdown. China still account for over half of the global demand growth in both 2023 and 2024 at 1.5 million barrels per day and 0.5 million barrels per day respectively. On the supply side, in addition to the OPEC+ surprised cut of 1.65 million barrels per day on 2 April 2023, Saudi Arabia announced additional cut of 1 million barrels per day in July 2023 for one month (to 9 million barrels per day). In September 2023, both Saudi Arabia and Russia further commit to extend this additional cut of 1.3 million barrels per day till end of 2023.

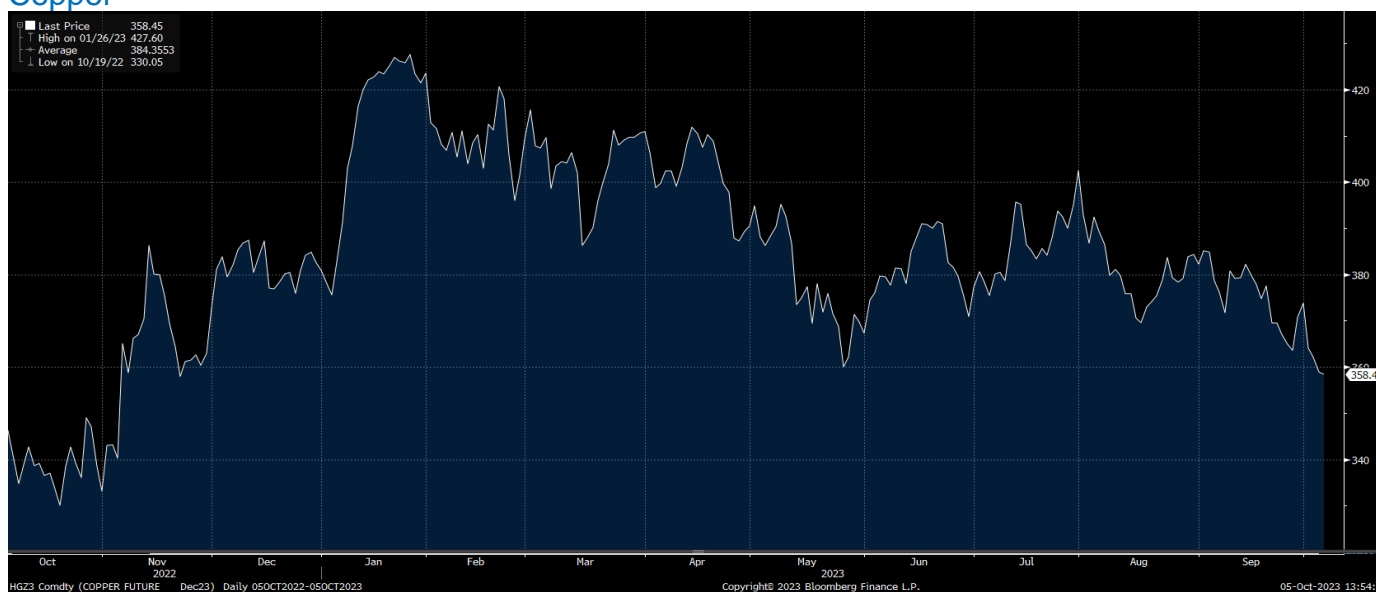
Moving forward, global oil demand growth in 2023 is projected to be around 2.2 million - 2.4million barrels per day coming from both IEA and OPEC. However, with high oil price, it could deter the oil product consumption in near term. On the supply front, with OPEC+ cutting 1.65 million barrels per day from May 2023 until end of 2023 coupled with Saudi Arabia and Russia additional cut of 1.3 million barrels per day till end of 2023, it has successfully kept the oil price elevated in the third quarter 2023.

Gold



Gold prices glided downwards quickly as “higher for longer” US Fed rates and string USD arose since early September 2023. CME gold positioning fallen and gold exchange-traded funds (“ETFs”) witnessed outflows, however physical gold demand stood resilient with central banks and consumer buying. Gold prices had not corrected in tandem with US yields, given investors’ expectations of imminent rate cuts in 2024. Risks of mild US recession, inflation volatility and geopolitical tensions could provide upward support for Gold prices.

Copper



Copper prices felt downwards pressure on the back of global macroeconomic concerns and strengthening USD. Near term demand appears sluggish while improved mined production could push Copper into a mild surplus position. China copper demand from renewable infrastructure investments had been robust, which managed to offset weaker European demand. Expectations of further Chinese stimulus is mixed with concerns of weaker US and Europe electric vehicle production, thus near-term visibility for Copper prices looked cloudy. Second half 2023 copper supply should gradually recover from the disruptions in first half 2023. Longer term outlook for Copper remains intact, but Copper price could trend downwards to \$340 levels before recovering in early 2024.



Key Takeaways

Source: Bloomberg, RHBAM, October 2023.

Note: The opinions expressed are as of date and are subject to change at any time due to changes in market or economic conditions. Any performance information shown refers to the past and should not be seen as an indication of future returns. This is not intended to be relied upon as a forecast, research or investment advice and is not a recommendation, offer or solicitation to buy or sell any investments or to adopt any investment strategy.

Broad Asset Class

Asset Class	Outlook	Rationale
Global Equity	Slight Underweight	The unprecedented rise in interest rates, which are slowly eroding economies and setting the stage for a market de-risking, and geopolitical deterioration has increased tail risks for economies and global markets. Industrial activity growth remains weak this year amid the drag from tighter financial conditions and the goods-to-services rebalancing runs its course. PMIs across key countries show clear divergence between Manufacturing and Service sector performance. The recovery in the manufacturing PMI is still sluggish while the deceleration in the services PMI is sizable. Labour market remain resilient while household spending holding well. Banking system stress looks contained for now thus we do not see systemic risks. The Beige Book and Senior Loan Officer Survey confirmed tightening lending standards amid tight financial conditions. We would turn more positive if interest rates start being reduced globally in the near future, and if we see de-escalation of the war with Russia, and easing of tensions and economic rapprochement with China. Soft landing as our base case with inflation expectation anchored. Volatility remain elevated amid 1) geopolitics uncertainty, 2) policy mistakes, 3) financial stability; 4) inflation (oil & food).
Fixed Income	Slight Overweight	Core inflation is moving lower across the globe but Developed Market central bankers do not anticipate a quick return to their targets. An end to the most aggressive monetary tightening cycle is gradually drawing closer, though not there yet for the Developed Market. In the face of persistent inflation, the message expected from central banks' meetings is that a pause is imminent, but pressure for more restraint remains in place. We expect the Fed and ECB to follow the Reserve Bank of Australia ("RBA") and Bank of China ("BOC") in delivering hawkish pauses. The Bank of England ("BOE") and Riksbank are anticipated to hike 25bps, but both central banks should pause before year-end.
Cash	Slight Overweight	With attractive short term US yields, risk-reward heavily favors cash. Continue to be nimble on cash to take advantage on any tactical opportunity trades amid elevated market volatility in the short to medium term. Tactically reduce risk exposure amid increasing uncertainty amid geopolitical risk complicate outlook.

Equity

Countries	Outlook	Rationale
United States	Slight Underweight	Improvement in economic data, including better than expected ISM manufacturing and services in August 2023. Labour market remain strong through prior months data saw downward reversion and UAW strike could be a temporary hit. Banking system remain sound but tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain though some economists saw lower odds of a US recession in the next 12 months.

		<p>The Fed Committee remains highly attentive to inflation risks. Even as core CPI beat expectations, its trend is still cooling. Powell's comments out of Jackson Hole saw that Fed is prepared to raise rates further if appropriate and added that persistent above-trend growth could warrant this. Powell stressed that the economy needs to grow below trend in order to get inflation back to the 2% target, and that if labor market does not ease, the Fed will respond. He said the Fed will "proceed carefully" on whether to hike again and stressed that it's data-dependent.</p>
Europe	Slight Underweight	<p>The ECB cut its outlook for eurozone growth to 0.7% (vs 0.9% previously) for 2023 and 1.0% (vs 1.5% previously) for 2024. Germany remains the weak link. Weaker momentum and a larger than expected drag from tighter financial and lending conditions have prompted market to reduce their growth forecasts to only 0.1% in second half 2023. Separately, the European Commission also noted that monetary tightening may weigh on economic activity more heavily than expected, but could also lead to a faster decline in inflation that would accelerate the restoration of real incomes.</p> <p>However, the ECB still see Eurozone inflation at 5.6% in 2023, up from 5.4% previously and forecast at 3.2% in 2024, up from 3.0% previously. The ECB hiked key policy rates by 25bps in its September 2023 meeting. The rates "had reached levels that, maintained for a sufficiently long duration, would make a substantial contribution to the timely return of inflation to target." "That rates will be "set at" sufficiently restrictive levels and ECB remains data-dependent. President Christine Lagarde insists that interest-rate cuts aren't something being considered by policymakers, yet investors are already betting on them. The market is pricing in a 37.5 probability of another hike by the end of this year and a rate cut by July 2024 meeting.</p>
Japan	Slight Overweight	<p>BOJ Governor Ueda said the bank might have enough data by year-end to know whether wages will continue to rise, which has become a major condition for removing stimulus. He wasn't exactly hawkish and that remark was a general statement rather than a policy signal but that's not how the market saw it. BOJ officials also acknowledge that inflation remains strong, requiring them to closely look at upside risks for now.</p> <p>In December 2022, BOJ (under Governor Kuroda) surprised by raising the cap for 10-year JGB yields from 0.25% to 0.5% (no change in the short-term policy rate at -0.1%). This resulted in market expecting further increases of the cap that forced BOJ to buy more Japanese Government Bond ("JGB"). Thus, when Governor Ueda took over, he quickly changed YCC again in the July 2023 meeting, introducing a reference range of 0.5% - 0.6% and a ceiling of 1%. The Bank also decided to conduct a broad perspective review of monetary policy, with a planned time frame of around 1.0 years -1.5 years. The review will have its final workshop in May 2024 and market is expecting that BOJ will may drop YCC entirely.</p>
Asia ex Japan	Slight Overweight	<p>Challenges continued after a shorter-than-expected reopening impulse for China along with its medium-term challenges such as demographics, property downturn, LGFV debt, and geopolitical tensions. Policy stimulus has clearly stepped up its gear, particularly with broader support and easing in the Property sector, focusing on demand instead of only rate cuts.</p> <p>Despite firming inflation in August 2023 on energy and food price gains, Emerging Market Asian central banks are likely to stay patient. There has been growing comfort for the Asian central banks from Fed's ending pace of hikes. Asia's tightening cycle is coming to an end for most. If inflation slows, central banks would have room to lower policy rates after foreign exchange stabilize amid dollar strength.</p>

ASEAN	Neutral	ASEAN peak inflation seems to have passed, a beneficiary of the US-China trade tensions with foreign direct investments ("FDIs") coming through, and stable domestic economy or politics.
China	Slight Overweight	August 2023 data showed pick in retail sales, industrial production and the recent export and import growth was also better than consensus. The improvement in fixed-asset investment ("FAI") growth was broad-based across sectors except for the Property sector. Credit report in August 2023 offered some upside surprises to support the yuan, and September 2023 credit may still be support by increase in special bond issuance by end-September 2023. Policy stimulus has clearly stepped up its gear, particularly with broader easing in the Property sector, focusing on demand or sales instead of only rate cuts. So far, consensus cut this year's growth in line with official growth target was set conservatively at "around 5%". PBOC lowered the RRR by 25bp RRR in September 2023 to facilitate government bond issuance.
Hong Kong	Neutral	Government revises growth forecast to range of 4% to 5% compared with a previous prediction of 3.5% to 5.5%. Authorities attributed the revision for the full year to a difficult global economic environment that will continue to weigh on exports of goods. The government also said inbound tourism and private consumption will "remain the major drivers" of growth. The recovery of the Tourism sector has somewhat disappointing. Given the currency board system, Hong Kong may end tightening in tandem with the US.
Taiwan	Neutral	Consumption expansion is unlikely and exports will remain subdued. Central Bank of the Republic of China (Taiwan) ("CBC") raised policy rate kept rates unchanged in its June 2023 meeting after raised by 12.5bps to 1.875% at its March 2023 meeting and the decision was unanimous. Taiwan revises 2023 GDP forecast to 1.72% from 2.21%; revises 2023 CPI forecast to 2.24% from 2.09%. CBC revises down growth estimate amid weak exports and investment. CBC has reached the end of its hiking cycle.
South Korea	Slight Overweight	The Bank of Korea ("BOK") kept its policy rate on hold at 3.5% as expected. This decision was unanimous, unchanged from the previous meeting. The BOK kept its growth forecast for 2023 unchanged at 1.4% while nudging down its 2024 forecast by 10bps to 2.2% on downside risks in China. BOK's forecast full year inflation at 3.5% in 2023 and 2.4% in 2024. We expect the BOK to stay on hold.
India	Overweight	MSCI India Index kept its outperformance vs peers in third quarter 2023, having gained 2.50% in dollar terms during the quarter. Medium term outlook remains bright given superior earnings growth and solid structural themes amidst weak China sentiment, hence the market is well-supported despite lofty valuations and reversal of foreign buying in September 2023. The Reserve Bank of India maintained its GDP forecast at 6.50% for the period ending March 2024, and kept policy rates unchanged at 6.5% and is expected to retain its accommodative stance as CPI numbers continue to moderate. Uptick in public spending in the near term ahead of elections is a catalyst, while private spending is expected to pick up once election risk is removed in second half 2024. Rural demand recovery remains elusive given the uncertain weather trends impacting rural wealth and posing El-Nino concerns. Key risk in the near term to the market is valuation derating if corporate earnings fail to sustain its momentum, as well as sustained high oil price impacting the economy.
Australia	Underweight	The Reserve Bank of Australia ("RBA") has kept the cash rate stable at 4.10% in third quarter 2023. The RBA has hiked rates at 12 out of their 13 meetings since 22 May 2023, by a cumulative 400bps, to the highest level of interest rates since 2012. With the new Governor, Michele Bullock, market expects no

		change to cash rate. The RBA continues to pay close attention to developments in the global economy trends in household spending and the outlook for inflation and the labor market. Going forward, the market expects the RBA to keep rate stable till end of 2023. Valuations are balance with the market price-to-earnings ratio sitting below its 5 years average at 15.4 times.
Singapore	Slight Overweight	The Monetary Authority of Singapore (“MAS”) kept its policy parameters unchanged in its 14 April 2023 semi-annual meeting. This is against consensus expecting further tightening. This is the first pause after five straight tightening moves since October 2021. The decision came at the same time as the economy contracted more than expected in first quarter 2023. “With intensifying risks to global growth, the domestic economic slowdown could be deeper than anticipated”. “While inflation is still elevated, MAS’s five successive monetary policy tightening moves have tempered the momentum of price increases. The effects of MAS’s monetary policy tightening are still working through the economy and should dampen inflation further.”
Thailand	Neutral	The Bank of Thailand (“BOT”) unanimously hike the policy rate by 25bps to 2.25% at its August 2023 meeting and BOT noted that the hike was to “preserve the policy space in light of the highly uncertain outlook”. Going forward, given the shift in policymakers rhetoric, softer inflation and more balanced risks to growth, we expect BOT to keep the policy rate unchanged at 2.25% Upside risks to core inflation remains in demand-side inflation due to the tourism recovery and higher business cost pass-through following the new government.
Indonesia	Neutral	Bank Indonesia (“BI”) kept the 7-day reverse repo rate in its August 2023 meeting. BI expect GDP growth this year to be within its 4.5% - 5.3% forecast range, expecting growth in third quarter 2023 to be similar to second quarter 2023 driven mostly by robust domestic activity amid weaker external demand. BI continues to expect headline inflation to remain within its inflation target band of 2% to 4% this year. In 2024, the central bank will lower its inflation target to 1.5% - 3.5%. We expect BI to keep policy rates on hold with BI emphasizing foreign exchange spot and Domestic Non-Deliverable Forward (“DNDF”) interventions as the primarily means to stabilize Indonesia rupiah (“IDR”) and its new tool, Bank Indonesia Rupiah Securities (“SRBI”) to attract foreign inflows. President election on 14 February 2024.
Philippines	Slight Underweight	Governor Eli Remolona run his first monetary policy meeting as the BSP head and kept the overnight lending rate, overnight reverse repurchase agreement (“RRP”) rate and overnight deposit rate are kept at 6.75%, 6.25% and 5.75%. However, BSP raises 2023 inflation forecast to 5.6% YoY (from 5.4% in the previous meeting) and 2024 forecast raised to 3.3% YoY (from 2.9% in the previous meeting). Risk to inflation continues to be tilted towards the upside mainly due to potential impact of El Nino to food prices amid India’s rice export ban, adjustments to transport fares, and higher wages. Moving forward, we still expect the BSP to keep policy rates steady at 6.25% and maintain a hawkish bias until the Fed signals the beginning of its easing cycle. This is to mitigate any further depreciation of the Philippines peso (“PHP”), which, in turn, may stoke imported inflation.
Malaysia	Slight Overweight	BNM left the OPR unchanged at 3.0% at its September 2023 meeting. BNM noted that “persistent core inflation and higher interest rates” and “slower than expected growth in China” continue to weigh on the global economy. In terms of forward guidance, the statement removed the line the stance is “slightly accommodative” and reiterated that the current level of monetary policy “remains supportive of the economy”. Going forward, with growth slowing and inflation easing, we expect BNM to keep the OPR rate unchanged at 3.0%.

Malaysia Small Cap	Neutral	Earnings downgrade bottoming out.
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Fixed Income

Asset Class	Outlook	Rationale
Global Bonds (Rates)	Overweight	<p>After the cumulative 425bps raise in Fed Funds Target rate to 4.25% - 4.50% amidst persistent inflation, most investors expected a peak in first quarter 2023 before a pivot. However, in 2023, inflation continues to stay sticky alongside a slew of resilient macro data indicating the US economy is still running red-hot, which led the Fed to raise rates by another 100bps cumulatively to 5.25% - 5.50% with the latest September 2023 FOMC meeting seeing dot plots released indicating another 25bps of hike for the rest of 2023 but more pertinent was the 50bps increase in 2024 and 2025 projections causing the higher for longer theme to reverberate across markets.</p> <p>We continue to maintain our outlook as overweight on rates for fourth quarter 2023, consistent with the outlook for this year despite the Fed tightening being prolonged, spates of macro data are indicating a cool down in inflation as we are seeing attractive rates especially with oversold markets and are at the position that we are on the tail end of the tightening cycle.</p>
Asian High Yield Credit	Neutral	With global rates at elevated levels, there is little incentive to add further in the High Yield credit space, especially with the onset of likely recession throughout most economies in 2023. We advocate holding on to current positions in the portfolio however especially in China as we look to firmer policy support to shore up the economy.
Asian Investment Grade Credit	Overweight	Investment Grade bonds are benchmarked against UST yields. The scope for credit spreads to tighten has been somewhat diminishing, and we are generally positioned in the front end of the curve in light of what has been priced in favouring risk-reward. However, the focus is on credit quality, relative value against peers, and coupon income. In the investment grade space, we still prefer Asian Investment grade bonds given the attractive valuation against other Developed Market and Emerging Market peers but are positioned more defensively in the higher quality, short duration credits and are looking to progressively add duration for positioning given the view that we are at approaching the end of the tightening cycle.
China Fixed Income	Neutral	China's post re-opening recovery has been underwhelming and volatile as the initial growth momentum witnessed in first quarter 2023 faded in the second quarter 2023. The main theme to watch here are further stabilisation measures and policy support from the government to boost demand and restore confidence in the market. We remain cautious in this space pending the outcome of markets but prefer to remain nimble on potential opportunities.
Malaysia Fixed Income	Slight Overweight	BNM unexpectedly raise OPR by 25bps to 3.00% in its meeting in May 2023 after pausing at 2.75% for first quarter 2023. We think the hurdle to raise OPR further in 2023 would be relatively high, and as such remain constructive on the bond market.

Commodities

Asset Class	Outlook	Rationale
Gold	Neutral	Gold prices glided downwards quickly as “higher for longer” US Fed rates and string USD arose since early September 2023. CME gold positioning fallen and gold ETFs witnessed outflows, however physical gold demand stood resilient with central banks and consumer buying. Gold prices had not corrected in tandem with US yields, given investors expectations of imminent rate cuts in 2024. Risks of mild US recession, inflation volatility and geopolitical tensions could provide upward support for Gold prices
Crude Oil	Neutral	<p>Crude Oil (Brent) price has raised by 27% during third quarter 2023 and ended the quarter at USD 95 per barrel. Oil price has raised above the trading band (USD 80 per barrel). With the support from Saudi Arabia, signs of China making efforts to boost its economy and higher activities level during third quarter 2023, such as driving season, oil price increased steadily throughout second quarter 2023.</p> <p>On the demand side, International Energy Agency (“IEA”) now see 2023 global oil demand growth of around 2.2 million barrels per day, a slight decrease from the previous estimate of 2.4 million barrels a day. Organization of Petroleum Exporting Countries (“OPEC”) holds its 2023 global oil demand growth of around 2.4 million barrels per day. Non-Organisation for Economic Co-operation and Development (“OECD”) economies would account for over 90% of 2023 global oil demand growth as OECD economies are already facing a manufacturing slowdown. China still account for over half of the global demand growth in both 2023 and 2024 at 1.5 million barrels per day and 0.5 million barrels per day respectively. On the supply side, in addition to the OPEC+ surprised cut of 1.65 million barrels per day on 2 April 2023, Saudi Arabia announced additional cut of 1 million barrels per day in July 2023 for one month (to 9 million barrels per day). In September 2023, both Saudi Arabia and Russia further commit to extend this additional cut of 1.3 million barrels per day till end of 2023.</p> <p>Moving forward, global oil demand growth in 2023 is projected to be around 2.2 million - 2.4 million barrels per day coming from both IEA and OPEC. However, with high oil price, it could deter the oil product consumption in near term. On the supply front, with OPEC+ cutting 1.65 million barrels per day from May 2023 until end of 2023 coupled with Saudi Arabia and Russia additional cut of 1.3 million barrels per day till end of 2023, it has successfully kept the oil price elevated in the third quarter 2023.</p>

Foreign Exchange

Currencies	Outlook	Rationale
USD	Neutral	We are in the view of the USD will remain bullish for the last quarter of 2023 before the situation turn around by second quarter 2024. Resilient US data gives the Fed space to keep US rates higher for longer, while supporting the USD. Overall, we expect the DXY to hold its strength against the major currencies while trading in between 105 to 107 for the next quarter.
EUR	Positive	In near term, the EUR/USD has little upside catalyst as the ECB has reached its terminal rate of 4.5% rate hike cycle. However, we expect the rate cut cycle will start by third quarter 2024, slightly later than the Fed second quarter 2024, further narrowing the rate spread. With that, we are slightly bullish on the EUR, and it is likely to trade between 1.06 to 1.08 in the next quarter.

GBP	Positive	Even as market expected peak BOE rate has fallen from over 6.3% in early July 2023 to 5.4% in September 2023, the rate trajectory is still the most hawkish within G10 central banks. The increasing appeal of GBP as a carry-trade currency and GBP's relative valuation vs its trading peers are likely to lend support for the currency. We remain positive outlook for GBP/USD with our forecast to trade in between 1.21 to 1.23 level for the next quarter.
JPY	Positive	As the Governor of BOJ said that they cannot rule out the possibility of having sufficient data by year end to determine whether they can end negative rates, the policy speculation is likely to intensify, underpinning the JPY. We forecast the BOJ would eventually lift off its negative policy rate in, and bring the JPY to trade between 146 to 149 for the next quarter.
CNH	Negative	The ongoing Property sector concerns continue to burden the Renminbi. Although the PBOC has been persistently guiding the CNY via stronger than expected daily fixings and cutting the foreign exchange reserve requirement ratio, we are still in the bearish view on the China market, and expecting more property development company default rate in the next quarter. Overall, we remained a bearish view on the Renminbi and expecting it to trade in between 7.30-7.33 for the upcoming quarter.
AUD	Negative	As the AUD is one of the worst performer among its peer of G10 currency, we continue our bullish view on the currency for the next quarter. The worsening property bubble out from China might continue burden the currency, and we do not think it is able to rectify itself anytime soon. With that, our forecast for the AUD/USD to trade between 0.63 to 0.60 for the next quarter.
SGD	Positive	Being one of the safe haven currency for the region, we expect SGD to keep the Singapore Dollar Nominal Effective Exchange Rate ("S\$NEER") at the strong side of the policy band, at about 1% above the midpoint. Our USD/SGD forecasts are likely to trade in between 1.37 to 1.35 level for the next quarter.
MYR	Negative	We expect the weakness of MYR are likely to extend to fourth quarter 2023. Headwinds including increased correlation to CNY weakness and depressed oil prices are likely to continue weigh on the MYR. The USD/MYR pair is likely to trade in between 4.70 to 4.73 for the next quarter.

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This update has not been reviewed by the SC.

