Fixed Income Market Outlook 2024

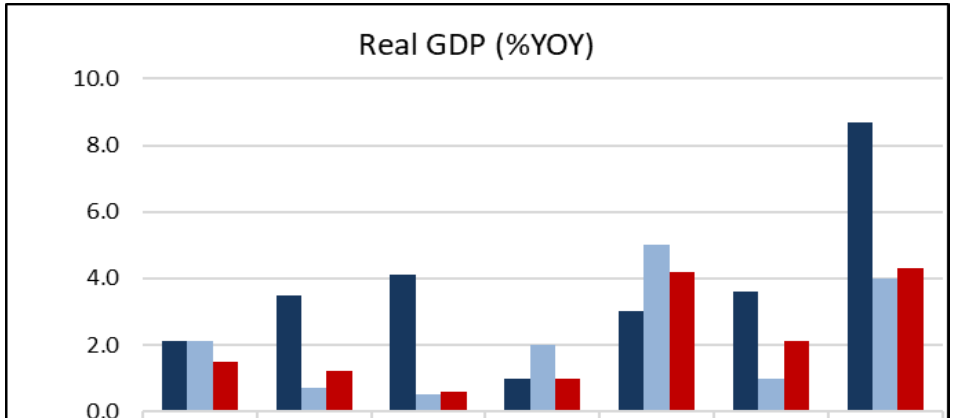
Global Markets

January 2024

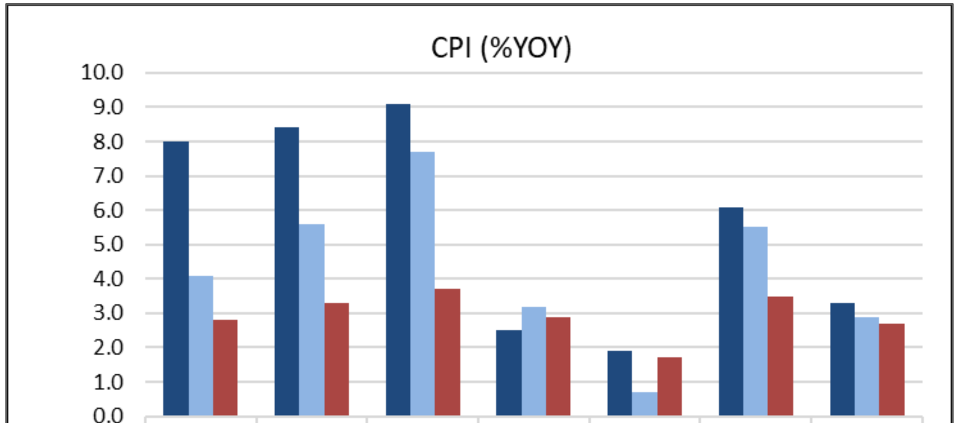
Key Themes and Outlook for 2024

- Timing and pace of monetary policy easing to correlate with both inflation and growth outlook
- Ongoing and potentially new emerging geopolitical risks are the biggest wild cards
- US election risks has yet to be priced in and could swiftly swing markets
- China’s stressed property market to be a drag on yuan and dollar-denominated bonds
- Expectations for lower interest rates to benefit global bond portfolios in 2024
- Lower UST yields due to easing inflationary conditions and soft landing
- Lower MGS/GII yields - expectations for OPR to stay pat; support from well-diversified local investment institutions
- Lower SGS yields to mirror UST movements; AAA-rated sovereign status a strong positive

Global Growth and Inflation Outlook



	US	EU	UK	Japan	China	Spore	Msia
2022	2.1	3.5	4.1	1.0	3.0	3.6	8.7
2023e	2.1	0.7	0.5	2.0	5.0	1.0	4.0
2024f	1.5	1.2	0.6	1.0	4.2	2.1	4.3



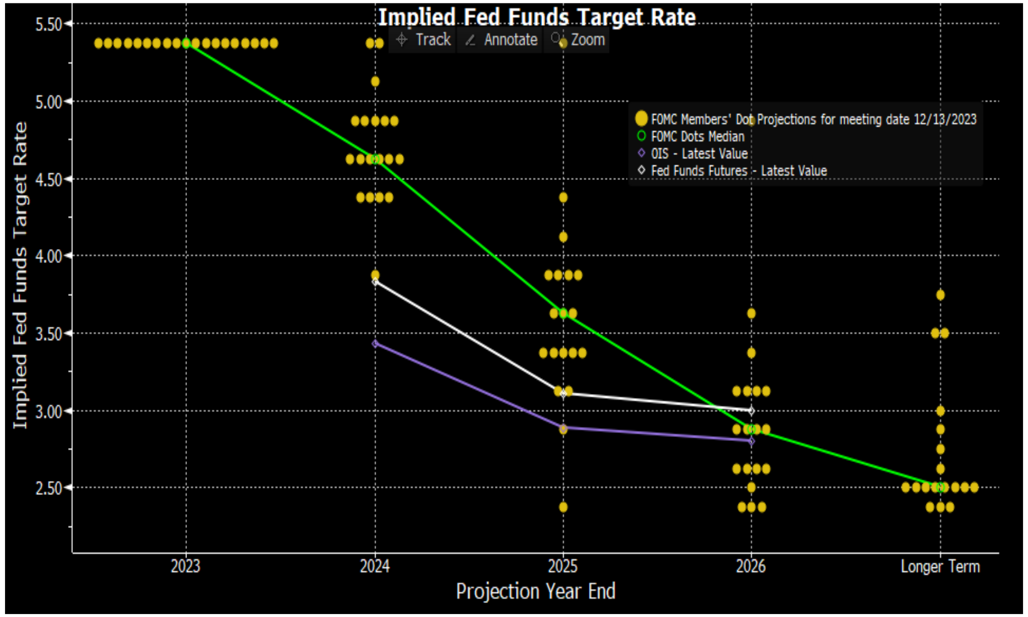
	US	EU	UK	Japan	China	Spore	Msia
2022	8.0	8.4	9.1	2.5	1.9	6.1	3.3
2023e	4.1	5.6	7.7	3.2	0.7	5.5	2.9
2024f	2.8	3.3	3.7	2.9	1.7	3.5	2.7

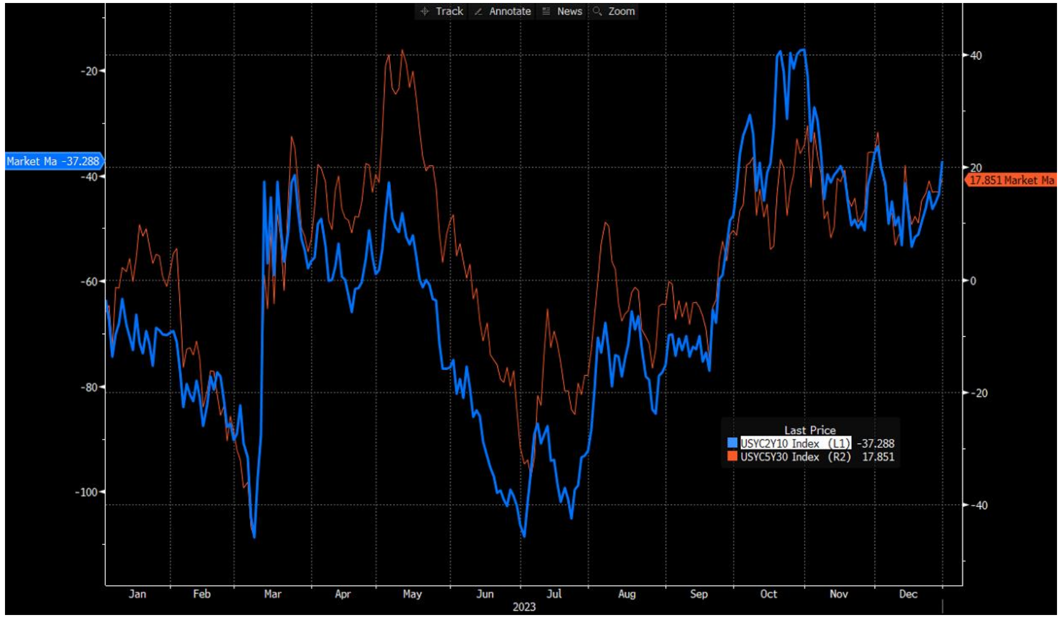
Source: IMF, HLBB Global Markets Research

- Overall softer growth outlook in 2024 – soft landing
- Slower growth among advanced economies vis-à-vis faster growth among emerging economies

- Inflation outlook continues moderating in 2024…but remains elevated and above pre-pandemic levels
- Upside risks to inflation from geopolitical tensions in the Middle-east and Red Sea shipping rerouting

US Fixed Income - Easing inflationary expectations and dovish rate outlook to drive bond yields lower

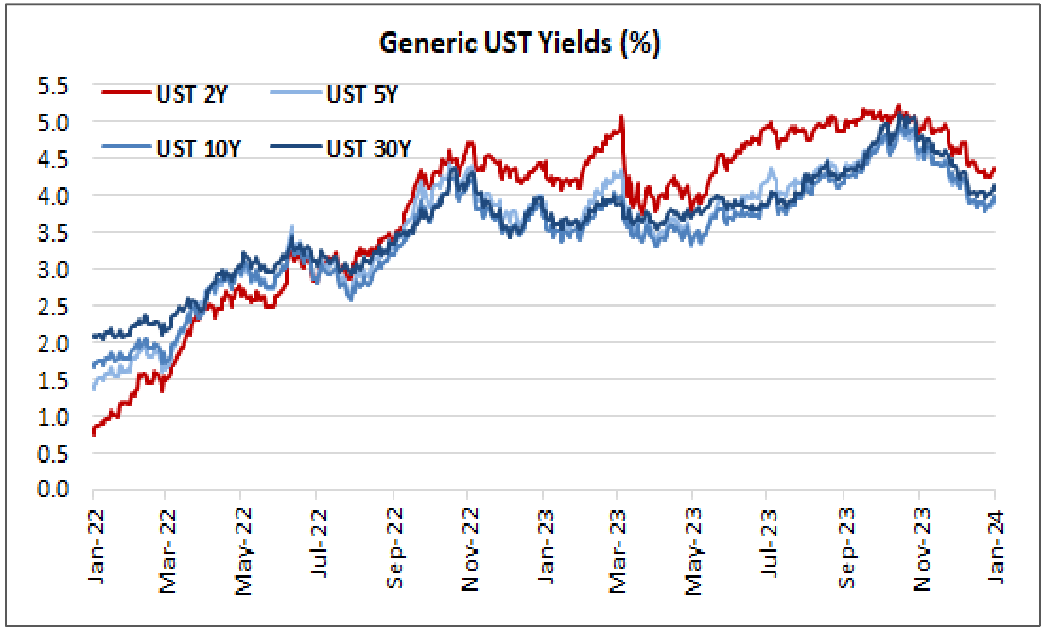




Source: Fed, Bloomberg, HLBB Global Markets Research

- Moderating inflation outlook and added signs of a soft landing in the US economy taking the brunt of earlier aggressive rate hikes and dissipating post-pandemic aids prompted a dovish pivot from the Fed.
- A still firm job market and resilient US economy however suggests the Fed could push back timing of its first rate cut to May or even later, and at a measured pace.
- The Fed's dot plot reflects cumulative projected rate cuts of 75bps for 2024, bringing the Fed Funds Rate to 4.50-4.75% by end 2024, and further down to 3.50-3.75% by end 2025. This followed rapid hikes totaling 525bps from 0.00-0.25% in March 2022 to 5.25-5.50% in July 2023.
- The yield curve is a precursor and often, reliable predictor of recession and remains inverted; despite reduced inversion in 2s10s from 55bps to 37bps at the end of 2023

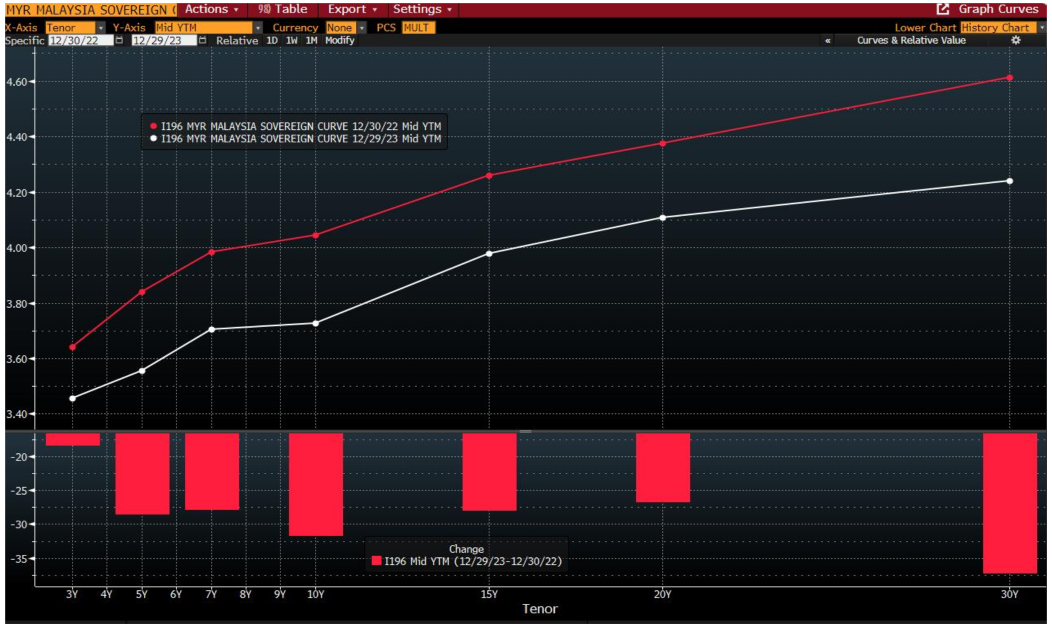
US Fixed Income – Lower bond yields; bright prospects for Investment Grade

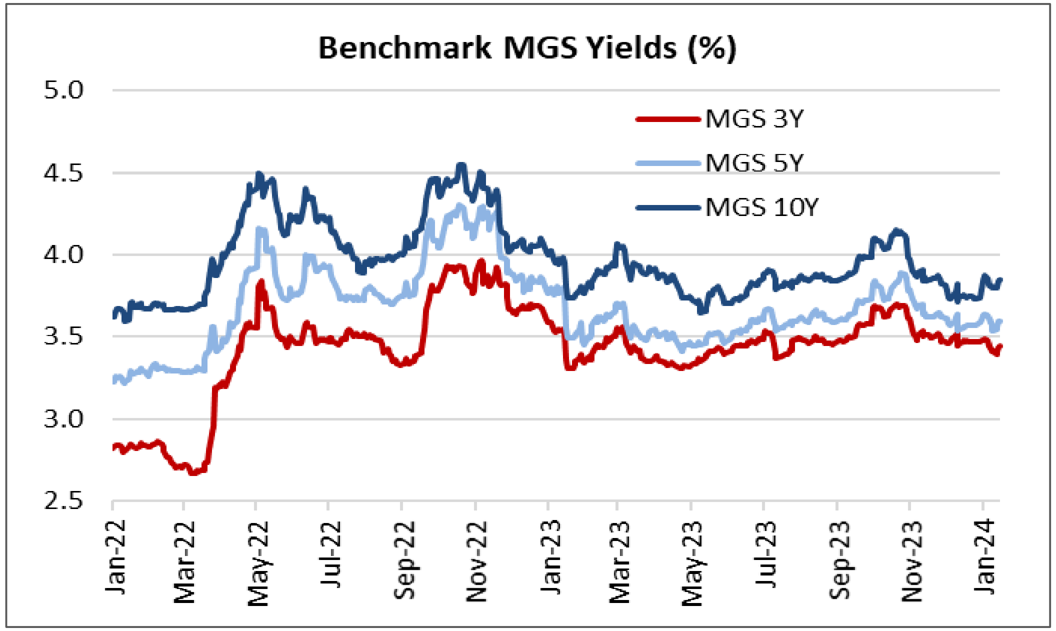


Source: Bloomberg, HLBB Global Markets Research

- Global bonds and equities rose 6% and 20% in 2023 (using Bloomberg aggregate bond and global indices), a recovery compared to the sell-off seen prior year. The curve steepened as UST yields settled between -18bps to +7bps.
- We expect sustenance in yield curve steepness' indicating falling expectations for future inflation and subsequently rate cuts; whilst also seeing higher demand for duration.
- IG credit may hold-up during slowing growth conditions with companies maintaining balance sheet strength by refinancing debt at lower yields. Nevertheless concerns may arise if economy slows~ thus impacting revenue, sales margin and collection.
- On the flip side, if good credit conditions persist, we are positive on IG in sectors such as banking, REITS, energy and communication with OAS eventually easing below 115-175bps levels; with a duration preference of between 7-10 years.

Malaysia Fixed Income – Lower yields on optimism over fiscal deficit reduction, OPR pause expectations and stable MYR





	2022	2023E	2024F
GDP (%)	8.2	3.8	4.7
Inflation (%)	3.3	2.5	3.2
OPR (%)	2.75	3.00	3.00
USD/MYR	4.4040	4.5940	4.39

- In 2023, both MGS/GII fell between 19-35bps as at end-Dec 2023 amid rising interest rate cycle due to persistent inflation.
- We expect OPR to stay pat at 3.00% in 2024.
- Strategy-wise we like the 10Y GG (~15bps spread), 5-7Y AAA (35-45bps spreads) and 15-20Y AA2-rated bonds (~50-70bps spreads in sectors comprising toll and port operators and utilities (i.e. telco, electricity, water, sewerage).

Source: BNM, Bloomberg, HLBB Global Markets Research

Malaysia – Continuous fiscal consolidation towards deficit target of 4.3% of GDP; lesser issuance in gross MGS/GII supply projected @ circa RM178b

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2022	2023E	2024F
Revenue	294.4	303.2	307.6
Operating Expenditure	292.7	300.1	303.8
Current balance Surplus/(Deficit)	1.7	3.1	3.8
Gross Development Expenditure	71.6	97.0	90.0
less: loan recoverables	1.4	0.7	0.8
Net Development Expenditure	70.2	96.3	89.2
Misc: COVID-19 Fund	31.0	-	-
Overall surplus/(deficit)	(99.5)	(93.2)	(85.4)
Fiscal Deficit as a % of GDP	5.6	5.0	4.3

Source: MOF, HLBB Global Markets Research

Medium-Term Fiscal Framework (MTFF), 2024 – 2026

	2024 – 2026	
	RM BILLION	% OF GDP
Revenue	986.9	15.6
Non-petroleum	816.2	12.9
Petroleum-related	170.7	2.7
Operating expenditure	927.2	14.7
Current balance	**59.7**	**0.9**
Gross development expenditure	279.0	4.4
Less: Loan recovery	1.8	0.0
Net development expenditure	277.2	4.4
Overall balance	**-217.5**	**-3.5**
Primary balance	**-58.0**	**-0.9**

- Brightening but still cautious economic outlook in 2024 may pose some challenges to the Federal Government's fiscal consolidation in meeting the targeted fiscal deficit target of 4.3% of GDP for 2024 and the 3.5% target under the 3-year MTFF.
- Development expenditure (DE) is expected to decline to RM90.0b on reduced 1MDB expenses; conversely, operating expenditure (OPEX) expected to increase to RM303.8b .
- In view of projected lower fiscal deficit of RM85.4b in 2024 (2023e: RM93.2b), gross supply is expected at RM178b (2023: RM185b).
- Implementation of announced subsidy reductions are paramount to achieving fiscal target

Government bond issuances and choice of sector along the curve for 2024

MGS/GII issuance pipeline in 2024

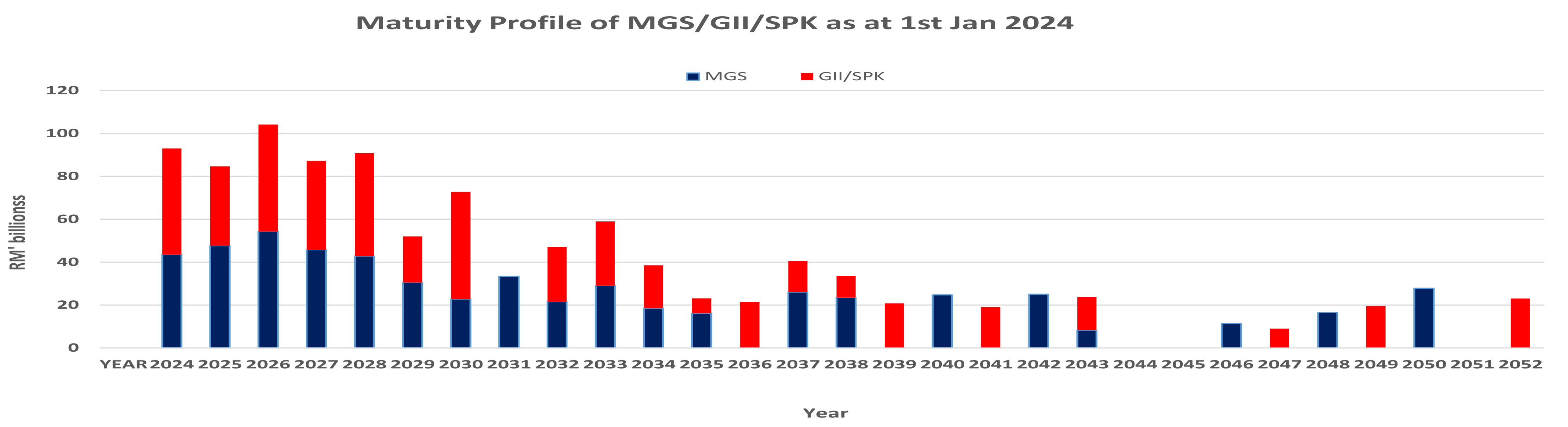
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement
1	10-yr Reopening of MGII 8/33	10	Jan	Q1	5,000	
2	30-yr Reopening of MGS 3/53	30	Jan	Q1	5,000	*
3	5-yr Reopening of MGII 7/28	5	Jan	Q1	4,500	
4	7-yr Reopening of MGS 4/31	7	Feb	Q1	4,500	
5	20-yr Reopening of MGII 8/43	20	Feb	Q1	5,000	*
6	3-yr Reopening of MGS 5/27	3	Feb	Q1	4,500	
7	15-yr Reopening of MGII 9/39	15	Mar	Q1	5,000	*
8	10-yr Reopening of MGS 11/33	10	Mar	Q1	4,500	
9	30-yr New Issue of MGII (Mat on 3/54)	30	Mar	Q1	5,000	*
10	5-yr Reopening of MGS 8/29	5	Apr	Q1	5,000	
11	7.5-yr New Issue of MGII (Mat on 10/31)	7	Apr	Q2	5,000	
12	15-yr New Issue of MGS (Mat on 4/39)	15	Apr	Q2	5,000	*
13	3-yr Reopening of MGII 9/26	3	Apr	Q2	5,000	
14	20-yr New Issue of MGS (Mat on 05/44)	20	May	Q2	5,500	*
15	15-yr Reopening of MGII 9/39	15	May	Q2	5,000	*
16	7-yr Reopening of MGS (4/31	7	May	Q2	5,000	
17	20-yr Reopening of MGII 8/43	20	Jun	Q2	5,000	*
18	3-yr Reopening of MGS 5/27	3	Jun	Q2	4,500	
19	30-yr Reopening of MGII 3/54	30	Jun	Q2	5,000	*
20	5-yr Reopening of MGS 8/29	5	Jul	Q2	4,500	
21	10-yr Reopening of MGII 11/34	10	Jul	Q3	4,500	
22	15-yr Reopening of MGS 4/39)	15	Jul	Q3	5,000	*
23	7-yr Reopening of MGII 10/31	7	Aug	Q3	5,000	
24	30-yr Reopening of MGS 3/53	30	Aug	Q3	5,000	*
25	5-yr Reopening of MGII 7/29	5	Aug	Q3	4,500	
26	10-yr Reopening of MGS 7/34	10	Aug	Q3	5,000	
27	20-yr Reopening of MGII 8/43	20	Sep	Q3	4,500	*
28	7-yr Reopening of MGS 4/31	7	Sep	Q3	4,500	
29	30-yr Reopening of MGII 3/54	30	Sep	Q3	5,000	*
30	3-yr Reopening of MGS 5/27	3	Oct	Q4	4,500	
31	10-yr Reopening of MGII 11/34	10	Oct	Q4	4,500	
32	20-yr Reopening of MGS 5/44	20	Oct	Q4	5,000	*
33	7-yr Reopening of MGII 10/31	7	Oct	Q4	5,000	
34	15-yr Reopening of MGS 4/39)	15	Nov	Q4	5,000	*
35	5-yr Reopening of MGII 7/29	5	Nov	Q4	4,500	
36	10-yr Reopening of MGS 7/34	10	Nov	Q4	5,000	
37	3-yr Reopening of GII 9/27	3	Dec	Q4	4,500	
	Gross MGS/GII supply in 2024				178,500	TBA

Source: BNM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	**2023**	**2024**	**Change**
3Y	5	5	0
5Y	6	5	-1
7Y	6	6	0
10Y	6	6	0
15Y	4	5	1
20Y	5	5	0
30Y	5	5	0
Total	**37**	**37**	**0**

- The Gross issuance supply for 2024 is seen to embrace longer duration i.e. 15Y tenure with corresponding reduction seen in the 5Y sector.
- We project quarterly issuances to be skewed towards the middle of the year with heavy issuances in both 2Q2024 and 3Q2024 (akin to a bell-curve maturity), whilst tapering off in the final quarter.
- Investors should look out for sizeable maturity windows in 2Q and 3Q of 2024 before tapering-off in 4Q2024.

Maturity profile of MGS/GII/SPK for 2024 and beyond

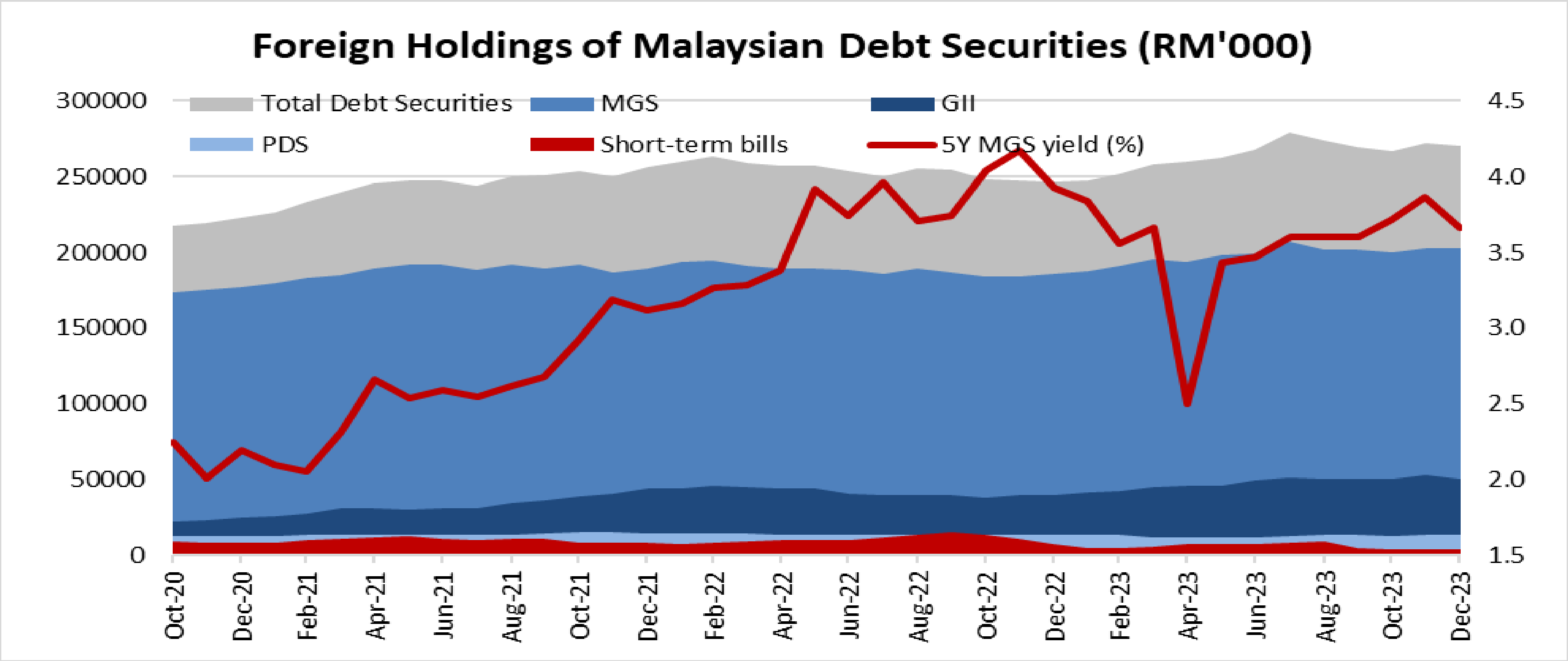


Quarter	2024	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB	SPK 2/24	5,500	
	MAR			5,500
	APR			
2	MAY	GII 5/24	12,500	
	JUN	MGS 6/24	21,500	34,000
	JUL	MGS 7/24	11,020	
3	AUG	GII 8/24	12,000	
	SEP	MGS 9/24	11,000	34,020
	OCT	GII 10/24	19,500	
4	NOV			
	DEC			19,500
	Total		93,020	93,020

Source: Bloomberg, BPAM, HLBB Global Markets Research

- Attempts to smoothen out the maturity profile extending out from 2029 as the current maturity profile weighs heavy on the shorter-end of the curve i.e.; 2024-2028 with one 15Y issuance to replace a 5Y one.
- Re-investments from scheduled bond maturities to be rolled back in line with new GOM's ongoing initiatives in addressing the nation's fiscal and monetary policies.
- 2023's record-breaking gross Corporate Bonds/Sukuk issuances totaling RM117b likely to be exceeded to between RM120-130b in 2024.

Foreign holdings in MYR Bonds

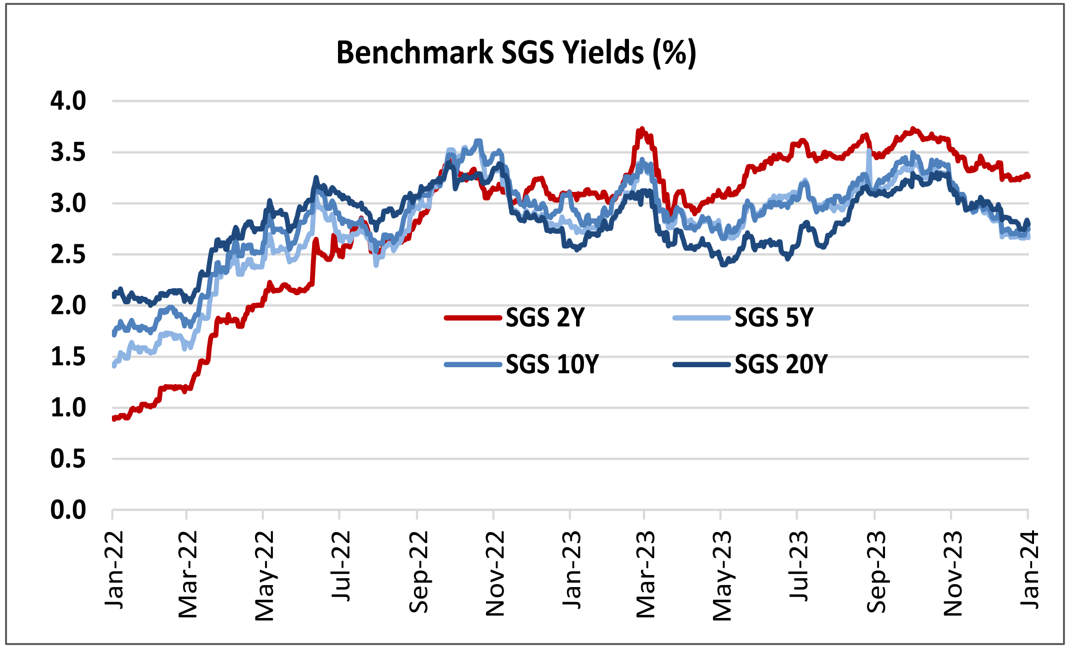


Source: Bloomberg, HLBB Global Markets Research

- Vast improvement seen in foreign holdings of MYR bonds as at end-December 2023 which spiked ~10%% or RM23.7b y/y to RM270.4b whilst foreign holdings in MGS jumped by 9% or RM16.9b y/y to RM202.9b and GII 26% or RM10.5b to RM50.7b.

- This represents 34.4% of overall outstanding issuances of RM202.9b for MGS and 9.6% of overall outstanding issuances of GII of RM50.7b as at December 2023.

Singapore Fixed Income – Neutral to Bullish Bias tracking USTs



Source: Bloomberg, HLBB Global Markets Research

- Neutral-to-bullish bias for SGS in 2024 mirroring USTs
- Prefer to long duration with appetite for bank senior (e.g.: BNP, DB, HSBC) and Tier 2 bonds (e.g.: Barclays, Commerzbank) and state-owned bonds such as those issued by Temasek (e.g.: Singtel, DBS, Mapletree, Keppel, SembCorp Industries).
- Foresee further issuances by financial institutions looking to tap the debt market due to funding requirements and relative lack of bank capital instruments and ongoing revaluation losses on MTM seen in financial assets.
- Emphasis on green bonds premised on the ESG & SRI theme especially by the government-linked sectors and entities
- We are positive in most sectors; thus removing our previous risk-averse adoption towards construction and hospitality sector

2024 projections

	CURRENT	1Q2024	2Q2024	3Q2024	4Q2024
UST 10Y	3.93%	3.70-3.90%	3.60-3.80%	3.50-3.60%	3.70-3.90%
MGS 10Y	3.75%	3.65-3.85%	3.60-3.80%	3.55-3.75%	3.65-3.85%
SGS 10Y	2.80%	2.70-2.90%	2.60-2.80%	2.55-2.75%	2.70-2.80%

Sovereigns – Dovish US rate environment may see bonds well-bid in 1Q2024 ahead of any major rate cut decision. Safe-appeal status and attractive yields may ignite further demand as bond portfolios look to recover

UST	Yields to fall as the Fed is believed to have reached the end of its tightening cycle whilst the Fed dated OIS reveals one full rate cut in May on the back of easing labour and inflation data. Risk-off appetite may flourish if no geopolitical conflicts and US banking crisis were to re-appear. Risks – resumption in inflationary conditions, weak USD if "dedolarization" issue materializes
MGS	Benign inflation in 1Q2024 will allow BNM to stay pat on OPR. Some correlation to USTs. Any volatilities may be muted due to strong institutional demand and participation Risks - weakening MYR against the greenback, fragile unity government being tested
SGS	Positive correlation with UST movements to benefit in terms of lower yield movements; SGD expected to maintain or even outperform its regional peers as MAS is expected to stay pat in its policy settings in late January. Decent yields when compared to other similar AAA-rated sovereigns will provide support and appetite Risks – Open economy subject to vagaries of regional market volatilities; food and rental costs may ignite inflation

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