One Summer's Day

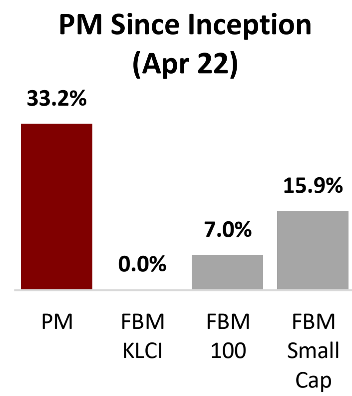
Commentaries: June 2024

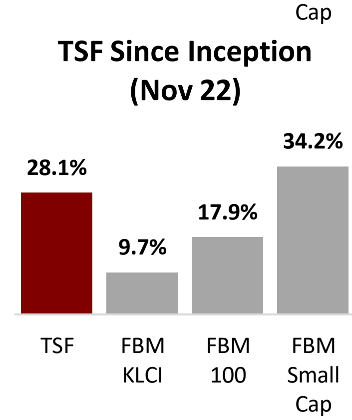
Return (%)	June 2024	Year-To-Date	Since Inception (TSF: Nov 22)	Since Inception (PM: Apr 22)
Tradeview Sustainability Fund (TSF)	1.0%	18.5%	28.1%	N/A
Discretionary Private Mandate (PM)	1.3%	15.6%	N/A	33.2%
FBM KLCI Index	-0.4%	9.3%	9.7%	0.0%
FBM 100 Index	0.2%	12.5%	17.9%	7.0%
FBM Small Cap Index	3.6%	18.0%	34.2%	15.9%

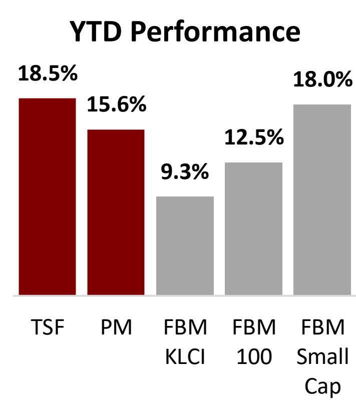
Performance vs Benchmark

The FBMKLCI (-0.4% MoM) faltered a bit in June to 1,591 points as foreign investors turned net sellers with outflows of RM 61m for the month, and retail investors exacerbated the decline with an outflow of RM248.3m – this being the twelfth consecutive month whereby they have remained net sellers. Local institutional investors provided minor support with net buy flows of RM 0.2bn for the month. Despite the minor pullback, Malaysia is still notching a half-year return of +9.3%, far outpacing our neighbours in Singapore, Indonesia and Thailand. Outperformers for our local bourse were driven by Construction (+8.4%) riding on the Data Centre theme, Technology (+5.1%) boosted by the infinite possibilities of AI and the sector rotational to laggards and Healthcare (+2.3%) supported by the glove recovery. Underperformers were Consumer (-2.4%) due to ongoing subsidy rationalization, Plantation (-1.3%) which was affected by the CPO's price decline on the incoming supply and muted exports, and Energy (-1.2%) stemming from investors locking in gains and taking profits. The FBM100 Index (+0.2%) and FBM Small Cap Index (+3.6%) were resilient and notched healthy gains.

Despite the pullback from foreign flows, we posted decent gains of +1.0% for the TSF and +1.3% for the Private Mandate in the month of June. As we pass half year mark, we are delighted to share that we are far exceeding our hurdle rates, with YTD gains of +18.5% for the TSF and +15.6% for the PM. We remain optimistic on our market's wellbeing in the second half of the year as it should be supported by good earnings growth and policy tailwinds.







Portfolio Deep Dive

We continued to trim or exit selected positions that performed well, such as ATAIMS, INFOTEC, and OPENSYS, during early June. However, given the market pullbacks in the latter part of the month, we took advantage of the price weaknesses to re-enter the market in selective names such as CPETECH, DELEUM, and KENERGY. Sector-wise, we remain overweight on Industrials and Consumer Staples, while also adding selective names with exposure to the Technology sector.

Our portfolios, largely concentrated on smaller cap names, have been shielded from market weakness. The performance of discretionary private mandate accounts was further supported by a sizable allocation to fixed income investments. Year-to-date, our portfolios' returns were driven primarily by our strategic bottom-up stock picks. Key contributors include positions in PBA, PTT, GESHEN, YLI, and HARTA.

Thanks to the recent consolidation, we believe the local market is poised to extend its rally for a few more months. We will continue to look for opportunities in laggards where we believe the downside risks are minimal, while keeping in mind the risk on investor sentiment posed by the ongoing U.S. presidential election.

Global Markets Commentary

The Fed's preferred gauge of core Personal Consumption Expenditures Price Index which excludes volatile food and energy prices met forecasts in May, coming in at 2.6 per cent, a slight slowdown from April's reading of 2.8 per cent. According to CME data, markets have been factoring in a small rate cut in September with a potential second small cut at the end of the year. The Fed officials have maintained the stance that there may only be one cut this year and that it is wholly dependent on the inflation data. Although the inflation gauge is still above the 2% goal, it should further decrease as the lagged effect of earlier housing-cost increases further reduces. The health of the labour market remains an important data point on how quickly the Fed cuts rates, although there are signs of slowing consumer spending. If the labour markets start to show signs of weakening, this would strengthen the case for sooner rate cuts.

On the upcoming election race, a lot of polls are putting Trump ahead after Biden's questionable showing in their recent debate. Victory for the Democrats would mean business as usual although there is less fiscal room to manoeuvre as the budget deficit and ever-growing public debt have reached alarming levels. The consequences of a second Trump term are less straightforward as he would likely resume his stance of tax cuts for businesses and the wealthy whilst being less critical of deficits and debts – expansionary fiscal policy would be the theme of his term. Trump being a self-avowed low interest rate individual, would probably nominate a more compliant Fed chair as rumours are swirling of Trumps advisors planning for a weaker dollar. This was mainly based on their experience on how a strong greenback offsets the impact on the trade balance of the Trump imposed tariffs in his first term. The outcome of the world's largest economy's election would be defining for our nation as any policy changes such as inclination towards rate cuts would be a potential catalyst for larger fund flows returning and benefitting higher yielding regions which would ultimately be a boon for Malaysia and regional emerging markets.

The China recovery continues to trudge along with the manufacturing sector remaining in contraction for a second consecutive month in June with the manufacturing PMI unchanged at 49.5 (based on data released by the Chinese National Bureau of Statistics). This has further emphasised the difficulty in rejuvenating the world's second largest economy amidst its protracted real-estate sector downturn. The real estate recession which is nearly 3 years old has persisted despite the government's wide range of support measures which include lowering down payments for home buyers, mortgage rates reduction and pushing local governments to purchase unsold homes. On a more positive note, the Caixin PMI which tracks smaller and private companies more closely was 51.8 in June from 51.7 in May, marking the highest it's been since June 2021. The economic outlook looks to worsen as Beijing is facing renewed pressure from Western governments accusing China of flooding the world with cheap goods and imposed very punitive trade tariffs on products such as EVs – which would be a huge dampener for this new fast-growing market for China. As we have reiterated in previous newsletters, China is a very important market for both us and the wellbeing of our country – and we will continue to monitor them closely.

Closing Remarks

The first six months of 2024 has largely been trending in the right direction for us and we are glad to be able to deliver stellar returns to our clients who have put their trust in us. We are looking forward to the further implementation of domestic policies and economic-friendly measures in the remaining half of the year with an eye on the budget in the later part of the year. We will also continue to anticipate further re-rating of valuations and earnings recovery for local companies, supported by factors like healthy domestic consumption, improving exports, and the return of foreign tourists and fund inflows. We are only at our halfway mark and the summer ahead looks bright as the best is yet to come.

Sincerely,

Tradeview Capital