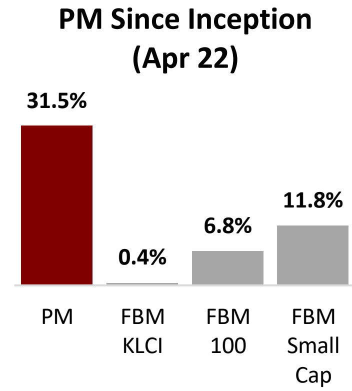
Stay in May and Buy Away?

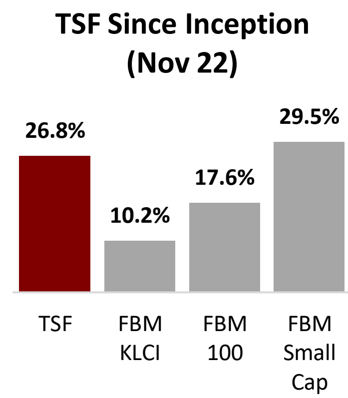
Commentaries: May 2024

Return (%)	May 2024	Year-To-Date	Since Inception (TSF: Nov 22)	Since Inception (PM: Apr 22)
Tradeview Sustainability Fund (TSF)	5.4%	17.3%	26.8%	N/A
Discretionary Private Mandate (PM)	6.3%	14.1%	N/A	31.5%
FBM KLCI Index	1.3%	9.8%	10.2%	0.4%
FBM 100 Index	2.3%	12.2%	17.6%	6.8%
FBM Small Cap Index	4.1%	13.8%	29.5%	11.8%

Performance vs Benchmark

The FBMKLCI (+1.3% MoM) sustained its strong run into May driven by support from both foreign and local institutional investors, with foreign investors now being YTD buyers of Malaysian equities. Technology, Property, Construction and Utilities sectors lead the gains, whilst Plantation, Energy and Telco were underperformers for the month. The FBM100 Index (+2.3%) and the FBM Small Cap Index (+4.1%) also rallied in tandem with the general market, outperforming all major ASEAN peers. With these positive tailwinds and our proprietary investment methodology, we outperformed the benchmarks by achieving a +5.4% and +6.3% return for the TSF and PM respectively.





Portfolio Deep Dive

With the conclusion of the May earnings season, we have started to take profits in selected positions that have performed well, such as AMBANK, YLI, TAKAFUL, and SIMEPROP. Our strategic participation in certain IPO deals has also paid off during the month.

Overall, our portfolios continue to be tilted towards small and mid-cap names, which have contributed to our outperformance. Industrials and Consumer Staples remain the two largest sectoral exposures, while we have selectively added some laggards in the Technology sector to our holdings. Although we believe that the share prices of certain data center plays might have outpaced their fundamentals, we still see opportunities in less popular names that remain largely undiscovered by the market.

Looking ahead, we believe the focus for the next few months will be on the U.S. election rhetoric and macroeconomic developments. Despite firm economic data in the U.S., we see risks that market sentiment might be affected by the noises by the U.S. presidential candidates, particularly concerning global trade and security. Therefore, we will aim to lock in more profits for our clients and be extremely selective in adding equity positions.

Global Markets Commentary

In the US, the Fed's favourite gauge on inflation; the personal consumption expenditure index ("PCE") remained at 2.7 per cent. This was within expectations of most economists who projected inflation remaining the same as in March. The core PCE which excludes fuel and food prices was also in line with consensus at 2.8 per cent. Market participants say the current set of data is setting the stage for a rate cut ahead of the upcoming US presidential elections in November which would be a potential tailwind for President Biden. All eyes will be on the Fed's next vote on the June 12th, although it is widely expected that they will state that they need more inflation data before reducing rates from the current two decade high of 5.25 to 5.5 per cent. With high interest rates, increasing prices and a cooling labour market, consumer behaviour is becoming more conservative as evidenced by the decline in US shoppers spending with real consumption expenditures falling 0.1 percent. As mentioned previously, a rate cut 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.

China recently exhibited signs of continuing recovery with the Caixin services purchasing managers index reaching its highest level since July 2023, increasing to 54.0 in May from 52.5 in April. The index is now on a 17-month streak of staying in expansion territory with a reading above 50 indicating expansion. Export orders also stayed in expansion territory for a ninth straight month whilst the services sector employment returned to growth after contracting for three months. This is a positive sign for the China recovery story, which has been beleaguered by lacklustre domestic consumption and the prolonged property downturn. We will also be looking out for the repercussions of the recent increase in tariffs announced by President Biden on the 14th May on a wide range of Chinese imports including semiconductors, batteries, solar cells, gloves and critical minerals. To reiterate, China is a very important market for both us and the wellbeing of our country. As such, we will continue to monitor them very closely and be opportunistic in sectors poised for growth particularly in high-tech manufacturing sectors such as renewable energy and electric vehicles.

Locally, the KLCI and FBM 100 have delivered remarkable returns YTD, which stood at 9.8 per cent and 12.2 per cent respectively, outperforming all ASEAN peers – the second highest YTD performer was the STI at 3.0 per cent YTD. We recently wrapped up the 1Q24 earnings season with most sectors generating decent growth except the petrochemical producers and integrated plantation players which continued to be hampered by weak global demand due to dampened prices of petrochemicals and oleochemicals. This month's strong performance was fuelled by a variety of positive news flow: 1) the finalization of tax incentives to attract foreign investment for the Johor-Singapore Special Economic Zone by end-May 2) US tariffs on Chinese chips and gloves which will benefit Malaysian players, 3) Better-than-expected 1Q24 GDP growth of 4.2% and 4) A strengthening Ringgit. As we enter the half-year mark, we remain optimistic on our market's wellbeing as it should be supported by good earnings growth and policy tailwinds.

Closing Remarks

The beginning of Q2 has largely been trending in the right direction for us and we are looking forward to the further implementation of domestic policies and economic-friendly measures. We will also continue to anticipate a rerating 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. Our strategy remains focused on identifying opportunities that stand to gain from the thematic tailwinds of the various frameworks, master plans, and budget measures that will be executed. As always, our portfolio remains resilient and diversified as it is crafted through a meticulous bottom-up approach with an emphasis on undervalued names and opportunistic stock-picking. Clearly, it is proven once again that sell in May and go away is a myth.

Sincerely,

Tradeview Capital