Market Review and Outlook

October 2022

Market Review

For equities, the MSCI World Index rose by +7.1% mom to close at 2,548 points for the month of October. Similarly, the Dow Jones Index surged +14.0% mom as investors digested the better than expected quarterly corporate earnings and the cautious optimism that the Federal Reserve might be ready to begin easing up on the aggressive pace of interest rate increases as it tries to tame inflation. On the US' economic front, retail sales in September was flat mom as compared to a gain of +0.3% mom August. Its September industrial production was up +0.4% mom compared to a drop of 0.2% mom in the previous month. US S&P Composite Purchasing Managers' Index (PMI) improved to 49.5 in September as compared to 44.6 in August. Over in Europe, the Stoxx 50 Index gained +9.0% mom during the same period despite a lower Eurozone S&P Composite PMI reading of 48.1 in September as compared to 48.9 in August. Its industrial production growth gained +1.5% mom as compared to a drop of 2.3% mom in the previous month. Nonetheless, its August retail sales fell 0.3% mom as compared to a rise of +0.3% mom in the previous month. However, China's Shanghai Composite Index fell by 4.3% mom in October following a deterioration in Caixin China Composite PMI reading of 48.5 in September as compared to 53.0 in August. Market sentiment was hampered by soft economic data and the new Covid measures which caused concerns over its economic recovery. After further cuts in August 2022 for its 1-year and 5-year Loan Prime Rates, the People's Bank of China kept it stable at 3.65% and 4.30%, respectively, in its October 2022 meeting.

In October, Brent oil rose +7.8% mom to USD94.83/bbl as OPEC+ cuts output by 2 million barrels per day from November. Crude palm oil (CPO) price increased +16.0% mom to RM3,858/MT due weather concerns that could impact output and higher exports to India as they stock up ahead of the Diwali festival.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI jumped +4.7% mom driven by the pre-election rally following the dissolution of parliament and a return of interest in glove players. October saw the third monthly net foreign equity outflow for 2022, amounting to RM594m, bringing YTD inflows to approximately RM6.0b. From an economic standpoint, Malaysia's August industrial production growth rose +13.6% yoy from a growth of +12.5% yoy in the previous month. However, September manufacturing PMI weakened to 49.1 as compared to 50.3 a month ago. Indonesia's Jakarta Composite Index rose +0.8% mom due to a higher S&P Global manufacturing PMI reading of 53.7 in September as compared to 51.7 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by another 50bps in its October meeting to 4.75%. Similarly, the Stock Exchange of Thailand gained +1.2% mom. Its September S&P Global manufacturing PMI increased to 55.7 as compared to 53.7 in August. Singapore's Straits Times Index eased by 1.2% mom due to a flat industrial production growth in September, as compared to an increase of +2.0% mom in August. Its September PMI reading was slightly weaker at 49.9 as compared to 50.0 in August and its Non-oil Domestic Exports fell 4.0% mom in September, almost similar to the decline of 3.9% mom in August.

US Treasury (UST) yields continued their upward trend for a third straight month in October as the yield curve rose 14-38bps mom in a steepening manner. This came after the September inflation data came in higher than expected at 8.2% yoy (August: 8.3% yoy, survey: 8.1% yoy), signalling that the fight against inflation in the US was indeed far from over, which then led to expectations that Fed would continue to hike rates by 75bps in the November and December FOMC meetings. While Fed did approve a 75bps hike in the November meeting for the 4th straight time to 3.75% to 4.00% range, Chairman Powell hinted at a change in policy ahead as Fed could potentially instead have smaller rate hikes towards a higher peak. He also said the goal was to bring rates to a level that is ''sufficiently restrictive" to bring inflation back down to the Fed's 2% goal over time.

Malaysian Government Securities (MGS) yields movement were however mixed as the 3 to 7yrs MGS yields rose 2-13bps mom while the 10 to 30yrs MGS yields declined 3-4bps mom. Yields trended higher mainly by tracking the US yield movement which led to heightened market volatility. As expected, Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25bps to 2.75% which was the fourth consecutive 25bps hike this year and a year-to-date increase of 100bps

Foreign funds net sold Ringgit bond holdings with net outflows of RM6.3b (September: -RM0.4b), bringing YTD outflows to RM7.9b. Foreign share of both MGS and MGS+Malaysian Government Investment Issue (MGII) declined to 34.8% (September: 35.9%) and 22.3% (September: 23.1%) respectively. Malaysia's foreign reserves contracted by USD0.9b to USD105.2b as of end-October 2022 (September: USD106.1b).

Market Outlook

Globally, all eyes will be on the Fed's monetary policy and inflation data and its impact on commodity prices, global inflation, bond yields and global interest rates. In the US, focus will be on the upcoming mid-term elections. Locally, investors will look out for the MPC meeting, the release of Malaysia's 3Q22 GDP numbers, the 3Q22 earnings report season, updates on 5G and foreign labour situation. On top of that, investors will be monitoring the voters' sentiment during the election campaign period to determine the likely outcome of 15th General Election on 19 November.

For equities, we would continue to adopt a prudent yet sensible posture towards our equity market's longer term growth trajectory and, where opportunities arise, would direct monies into fundamentally good investments. In the near term, the perceived election risk could keep investors on the sidelines and keep the market range bound. In the event of any market volatility, we will assume a degree of trading bias to take advantage of the situation.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. Fed forecasts that rates would reach a target range of 4.5% to 4.75% in 2023. Citing high inflation and the tight labour market, Fed Chairman Powell however said the peak interest rate might need to go higher than previously thought, which suggests that Fed may need to raise rates above 5% to tame inflation. On the other hand, BNM maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They added that the Monetary Policy Committee (MPC) is not on any pre-set course and any rate hike would be done at a measured and gradual pace.

We are of the view that the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalization. Still, we are also mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. The risk remains if domestic inflation surprises on the upside and foreign portfolio outflow accelerates. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.