Allianz

Market Review and Outlook

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Market Review

The equity market kicked off strongly in 2023 but hit a speed bump in February 2023 as the MSCI World Index reversed 2.53% mom. Initially fueled by hopes of an easing of the global monetary tightening measures on the back of declining inflation, market sentiment was subsequently negatively affected by robust economic data during the month under review. As a result, investors had to reappraise their expectations of the interest rate peak and the pace at which it would get there. In US, the Dow Jones Index fell by 4.19% mom as the resilient economic data such as the January 2023 Consumer Price Index (CPI) of +6.4% yoy (+0.5% mom) and retail sales growth of +3.0% mom came in ahead of expectations. Moreover, US nonfarm payroll employment rose by 517k in January 2023, above consensus expectations, propelled by job growth in the leisure and hospitality, professional and business services, government and health care sectors. Without doubt, this would serve to sustain a hawkish Federal Reserve (Fed) outlook. Hence, while the Fed Fund Rate was raised by only 25 bps to 4.75% in February 2023, Chairman Powell cautioned that if it would continue to encounter strong economic data, further rates hikes would likely be on the cards. Over in Europe, the Stoxx 50 Index instead rose by +1.80% mom despite the European Central Bank (ECB) raising interest rates by 50 bps to 2.5% in the month as it attempted to rein in inflation to the 2% target level. Like its American counterpart, the ECB president had also chimed in to share her concerns noting that the ECB could likewise raise interest rates by another 50 bps in March 2023. That said, the S&P Global Eurozone Composite Index had a positive January 2023 reading of 50.3 after a series of contractionary readings over 2H22. China's Shanghai Composite Index also enjoyed a +0.74% mom as the country continued to leverage on its economic re – opening momentum post its Covid Zero lockdown. This was evident with the January Caixin China PMI Composite reading of 51.1 which was an expansionary reading after 4 months of contraction. During the month under review, the People's Bank of China (PBOC) kept the 1 – year and 5 – year Loan Prime Rates unchanged at 3.65% and 4.30% respectively.

In February, Brent oil continued its decline, falling 1.8% mom to USD83.89/ bbl despite global economic recovery. This was due to it being suppressed by concerns of the Fed needing to raise interest rates to keep inflation in check. On the other hand, crude palm oil (CPO) price surged +10.6% mom to RM4113/ MT as Indonesia imposed temporary restrictions on palm oil exports to ensure a sufficient local supply of cooking oil while the country adopted B35 biodiesel (contains 35% palm oil – based biofuel) from B33 starting 1 February 2023.

The ASEAN equity markets experienced somewhat lacklustre performances in February. Singapore's Straits Times Index dropped 3.06% mom due to a slowdown in economic data such as its January 2023 Non – Oil Domestic Exports (NODX) being down -25.0% yoy and below expectations and its Purchasing Manager Index being 49.8, its 5th contractionary reading since September 2022. The Singaporean government launched its Budget 2023 which primarily focused on helping its citizenry deal with the inflationary pressures, a redistribution of wealth, with higher duties for home buyers, more luxury car and tobacco taxes. The Stock Exchange of Thailand declined by 2.94% mom as its 4Q22 GDP growth came in below expectations at +1.4% yoy but -1.5% qoq. In addition, the Thai Baht had weakened by 6.8% mom versus the USD due to rising concerns of the Fed's further rate hikes which would cause foreigners to cut back on equity positions for fear of sustaining foreign exchange losses. Thailand's prime minister had also stated that he was planning to dissolve the House in March 2023, thus paving way for an election in May 2023, which might precipitate some uncertainty. Closer to home, the FBMKLCI also eased 2.11% mom despite posting a 4Q22 GDP growth of +7.0% yoy which was ahead of consensus estimates, due to apprehensions surrounding the shadow of potentially rising US rates. Foreigners were net sellers in 6th consecutive months with net equity outflow totaling RM169m during the month under review. As such, the Ringgit slipped to RM4.4873: USD1.00 from RM4.2677: USD1.00 in the previous month. Apart from that, investors were lukewarm over the Malaysian Unity government's new Revised Budget 2023 which targeted a 2023 GDP growth of +4.5 % yoy with a reduced deficit of 5.0%. Lastly, Indonesia's Jakarta Composite Index ended the month somewhat flattish, inching up +0.06% mom. During the month under review, Bank Indonesia (BI) kept its benchmark interest rate (7 – day Reverse Repo Rate) at 5.75% which was in – line with expectations. However, it is noteworthy that BI stressed that the current interest rate level was already sufficient to steer inflation to its 2 – 4% target by 2H23.

US Treasuries (UST) yield curve flattened with yields rising 29 – 63 bps mom following the hawkish shift after the release of January inflation data. The Fed's released Federal Open Market Committee (FOMC) minutes hinted that officials would stay on its hawkish course until data more assuredly shows that inflation is on a sustained downward path to 2%. Meanwhile, the CPI rose 0.5% mom in January (+0.1% mom in December 2022) mainly from the rising shelter, gas and fuel prices. These numbers suggested that inflation which had accelerated starting the new year would put the Fed in a position where it likely would continue hiking interest rates over a longer period. Selling pressure continued when the personal consumption expenditures (PCE) price index, the Fed's preferred inflation measure, rose 0.6% mom in January which is three times higher than the December pace (+0.2% mom).

After the January yield rally, Malaysian Government Securities (MGS) yields shifted higher by 1 – 13 bps mom in February in tandem with the UST movement. The 10 – year MGS was up 11 bps to close the month at 3.91%. Market players also remained cautious pending the re-tabling of the National Budget 2023 on 24 February. From the budget, the fiscal deficit was expected to consolidate further to 5.0% of GDP (revised from 5.5% of GDP) to -RM93.94b from -RM99.48b in 2022. With the revised fiscal deficit target, the market would expect the projected gross MGS/GII issuances to be lower at RM175.0b, with the net issuance declining by RM5.5b. This could be positive for the bond market as a lower fiscal deficit would be positive for Malaysia's sovereign ratings and help to address rating agencies' concerns about the country's fiscal consolidation path post – pandemic. Meanwhile, Malaysia's inflation rate in January 2023 eased to 3.7% yoy as compared to 3.8% yoy in December 2022.

Foreign funds net bought Ringgit bond holdings in February with net inflows of RM4.3b (January: +RM0.5b). Foreign share of MGS remained unchanged at 34.5% (January: 34.5%) while foreign share of MGS+MGII declined marginally to 22.2% (January: 22.3%). Malaysia's foreign reserves reduced by USD0.9b to USD114.3b as of end-January 2023 (January: USD115.2b).

Market Outlook

There can be many risks to the 2023 global economic recovery which will be monitored with great interests by investors. They include a multitude of exo – and endogenous factors, some of which are the still elevated inflation and the risk that excessively strong responses by central banks might tip the world into a recession, the escalation of geopolitical risks like the Russia – Ukraine conflict and the ever – present threat of another new Covid variant outbreak which might result in more supply disruptions. In Malaysia, it will be prudent to carefully observe signs of possible political instability amongst the coalition partners that may compromise the Unity government. That said, there are also some tailwinds that can aid this recovery such as the re – opening of China post Zero Covid Policy which may spur regional tourism and trade.

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 channel monies into fundamentally good investments. Nonetheless, we may at times adjust our stance to adapt to any market environment flux which may necessitate an investment direction shift. Otherwise, there may also be times where we could engage in a modicum of trading activity to take advantage of any prevailing market volatility.

For bonds, volatility in the fixed income market is expected to persist due to the uncertainty surrounding the pace and magnitude of interest rate hikes resulting from inflationary pressures. With the stronger US nonfarm payrolls report and higher inflation data paving the way for further hikes, the market anticipates that the Fed Funds rate will reach 5.25% to 5.50% in 2023, with no possibility of a rate cut. Bank Negara Malaysia's (BNM) latest assessment in January 2023 maintained that the current monetary policy stance would be supportive of economic growth. Despite the improved risk – reward of MGS due to BNM policy normalisation, external and internal factors could still contribute to bond market volatility that might affect local yields. However, we would continue to accumulate bonds at favorable valuations while prioritising good quality names.