Market Review and Outlook

March 2023

Market Review

For equities, the MSCI World Index gained by +2.8% mom to close at 2,791 points for the month of March. Similarly, the Dow Jones Index increased by +1.9% mom due to containment of fear of a global banking crisis as Swiss investment bank UBS Group agreed to buy Credit Suisse. On the US' economic front, retail sales in February eased by 0.4% mom as compared to a gain of +3.0% mom in January while its February industrial production was flat mom. US S&P Composite Purchasing Managers Index (PMI) rebounded to 50.1 in February as compared to 46.8 in January. Over in Europe, the Stoxx 50 Index climbed by +1.8% mom during the same period following a higher expansionary Eurozone S&P Composite PMI reading of 52.0 in February as compared to 50.3 in January. Its industrial production gained by +0.7% mom in January as compared to a contraction of 1.1% mom in the previous month. Moreover, its January retail sales increased by +0.3% mom as compared to a decline of 2.7% mom in the previous month. Nonetheless, China's Shanghai Composite Index fell by 0.2% mom in March despite a strong Caixin China Composite PMI reading of 54.2 in February as compared to 51.1 in January. Market sentiment was hampered by the absence of large stimulus package in the recent National Party Congress. 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 March 2023 meeting.

In March, Brent oil decreased by 4.9% mom to USD79.77/bbl following fears of a global banking crisis and recession risk. Similarly, crude palm oil (CPO) price tapered by 1.3% mom to RM4,058/MT in March after a rebound from February and amidst higher CPO production in Malaysia of c.2.8% mom.

On the ASEAN front, equity markets closed the month under review with subdued performances. Malaysia's FBMKLCI declined by 2.2% mom due to foreign fund outflows from fear of a global banking crisis. March saw a monthly net foreign equity withdrawal of RM1.3b, bringing year – to – date (YTD) outflows to approximately RM1.9b. From an economic standpoint, Malaysia's January industrial production growth slowed to +1.8% yoy from a growth of +3.0% yoy in the previous month. February manufacturing PMI was slightly better, albeit contractionary, at 48.4 as compared to 46.5 a month ago. The Stock Exchange of Thailand dipped by 0.8% mom led by foreign equity outflow due to the aforementioned banking crisis fear. Its February S&P Global manufacturing PMI strengthened to 54.8 as compared to 54.5 in January. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.75% in its March meeting. Indonesia's Jakarta Composite Index eased by 0.6% mom following a lower S&P Global manufacturing PMI reading of 51.2 in February as compared to 51.3 in the previous month. The Indonesian central bank kept its 7 – day repo rate stable in March at 5.75%. Similarly, the Singapore's Straits Times Index reduced by 0.1% mom following a larger industrial production decline of 11.7% mom in February as compared to a decline of 1.1% mom in January. Its February PMI reading was slightly stronger at 50.0 as compared to 49.8 in January but its Non – oil Domestic Exports experienced a decline of 8.0% mom in February as compared to a growth of 0.9% mom in January.

US Treasuries (UST) yields declined by 27 – 74bps mom in a steepening manner as the first US bank failures started from the melt down of Silicon Valley Bank, triggered a re – evaluation of whether the Fed would continue to raise rates in the near term and the possibility of a rate cut later by year – end. The 2yrs to 10yrs UST yields were at their lowest level YTD. 2yrs UST reached a low of 3.553% on 24th March before closing the month at 4.025% whereas the 10yrs UST reached a low of 3.280% on 24th March as well before closing the month at 3.468%. It was a stark contrast given that the 2yrs UST yield reached a high of 5.08% on 8th March which was the highest level since 2007 after the Fed Chairman stated that they were prepared to increase rate hikes if the economy continued to stay strong. Although the Fed did hike the rate by 25bps on 22nd March, they expressed caution on the recent banking crisis and indicated that the rate hike cycle was nearing an end. As of end – March, the market – implied expected peak stood at 4.96% in May and was pricing in at least two rate cuts by year – end.

Unlike UST, Malaysian Government Securities (MGS) yields movement were mixed as the short tenures' yields declined by 6 – 16bps mom while the long tenures' yields increased by 2 – 7bps mom. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 2.75% for the second consecutive meeting on 9th March to further assess the impact of previous OPR hikes. February's inflation was marginally higher against consensus at 3.7% yoy (January: 3.7% yoy, consensus estimate: 3.6% yoy). BNM released the 2H22 Financial Stability Review Report on 30th March in which they stated that the domestic banking system remains sound and prudent while the business and household risks remain manageable.

Foreign funds raised Ringgit bond holdings by RM6.6b in March (February: +RM4.3b). Foreign shares of both MGS and MGS+Government Investment Issues (GII) rose to 36.0% (February: 34.5%) and 23.1% (February: 22.4%) respectively. Malaysia's foreign reserves expanded by USD1.2b to USD115.5b as of end-March 2023 (February: USD114.3b).

Market Outlook

Globally, contagion from global banking troubles and recession risk remains to be the focus. In the latest summary of Economic Projection, the Federal Open Market Committee (FOMC) assumes only one more rate hike and the statement said "some additional policy firming may be appropriate". The next FOMC meeting will be held in early May 2023. As the FOMC is data dependent, subsequent data releases and communications by key members will be crucial. Locally, focus will be on the implementation of the revised Budget 2023, the upcoming earnings result season, and the six state elections in July 2023.

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.

In 2023, bond yield volatility in the fixed income market is expected to persist due to the recent turmoil in the banking sector following the collapse of Silicon Valley Bank and Signature Bank in the US, Credit Suisse in Europe and the sticky inflationary data. Fed's 'dot plot' is diverging from market expectations as it remains at 5.1% for this year – end while the market-implied rate is pricing in at least two rate cuts by year – end. BNM in its latest assessment cited that it was necessary to assess the impact of the previous OPR hikes totaling 100bps last year on the Malaysian economy before taking any further action. Despite the improved risk – reward of MGS due to BNM policy normalisation, external and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue to accumulate bonds at favorable valuations while prioritising good quality names.