Allianz

Market Review and Outlook

September 2023

Market Review

In September 2023, global equity markets continued its decline, with the MSCI World falling by 4.45% mom as hawkish central banks signalled their 'higher for longer' stance and equities fell in the face of higher bond yields. In US, the Dow Jones Index fell by 3.50% mom as the Fed left its target rate range unchanged at 5.25-5.50%, though the latest projections showed one further rate hike this year, alongside a slower – than – expected pace of policy easing throughout next year. A US government shutdown was avoided following a last-minute deal, but it only ensured funding until mid-November. Its July retail sales was up +0.6% mom as compared to +0.7% mom the previous month. However, US inflation worsened in August to 3.7%, +0.5 ppt mom, mainly due to energy price escalation. In Europe, the Stoxx 50 Index dropped 2.85% mom as the August Eurozone Composite PMI reading of 46.7 was a deterioration from the 48.6 reading in July. Its inflation continues to fall to 4.5% yoy in September, dropping -0.8 ppt mom. In China, the Chinese Shanghai Composite Index fell slightly by 0.30% mom as their real estate distress remained in focus, with Evergrande being a recurring concern. On its economic front, its September manufacturing Purchasing Manager's Index (PMI) improved to 50.2 as compared to 49.7 in the previous month. Its retail sales momentum continued to gain momentum, growing +4.6% yoy in August versus +2.5% yoy in July. Its inflation reading of 0.1% yoy was slightly higher than the contraction of 0.3% yoy in July 2023. The People's Bank of China (PBOC) kept its 1 – year Medium – Term Lending Facility Rate at 2.50% and its 1 – year Prime Loan Rate at 3.45%. However, PBOC lowered the reserve requirement ratio for most banks by 25 basis points, which brings down the weighted average RRR for banks to 7.4% after the reduction.

During the month under review, Brent oil price rose +9.7% mom to USD95.31/bbl as oil supply is expected to remain tight as Russia and Saudi Arabia have extended production cuts to the end of the year. Crude palm oil (CPO) fell by 4.4% mom to RM3689/MT as palm oil stock levels at major importing countries are now above historical levels, and thereby providing less incentive for future restocking activities.

Over in the ASEAN region, the Stock Exchange of Thailand fell 6.04% mom due to continued heavy foreign selling. Its August S&P Global manufacturing PMI fell to 48.9 as compared to 50.7 in July. The Bank of Thailand unexpectedly raised its key interest rate for an 8th straight meeting, by 25 bps to 2.50%. Indonesia's Jakarta Composite Index declined by 0.19% mom despite its higher S&P Global manufacturing PMI reading of 53.9 in August as compared to 53.3 in the previous month. Headline inflation rose to 3.3% in August from 3.1% in July. Bank Indonesia kept its policy rate unchanged at 5.75%, where it has been since January 2023, during its September meeting. Malaysia's FBMKLCI also fell 1.91% mom after also easing 0.51% the previous month. July industrial production improved to +0.7% yoy, after registering a decline of 2.2% yoy in the previous month. Other than that, the government also reaffirmed the 12th Malaysia Plan in September, which remains supportive of the construction sector's prospects and energy transition. Foreign net equity inflow continued for the 3rd consecutive month, amounting to RM673.9m, which brought down the YTD sum to a net outflow of RM1963.1m. Lastly, Singapore's Straits Times Index fell slightly by 0.49% mom as its August 2023 industrial production plunged 12.1% yoy, sharper than the 0.9% yoy drop the previous month. Its August 2023 Non – Oil Domestic Exports (NODX) contracted 3.8% mom, as compared to a drop of 3.4% mom in the previous month.

US Treasuries (UST) yield curve steepened mom as yields continued to rise for the fifth straight month as the Fed signals that rates would stay higher for longer while the rising oil prices also led UST yields to multiyear highs. As widely expected, the Fed left the policy rate unchanged at 5.25% – 5.50% at the 20th Sept FOMC meeting. 12 of 19 Fed officials expect another 25bps hike this year but the bigger takeaway is that policymakers now expect fewer rate cuts than previously anticipated in 2024 partly due to the strong labor market. The Fed expects inflation to fall below 3% next year before returning to their 2% target by 2026 and the benchmark rate to be 5.1% by end – 2024 from 4.6% in the last projection in June. Following the Fed's decision, UST yields rose to their highest level in more than a decade. The 30yr UST weakened the most, up 49bps mom to close at 4.70%.

Malaysian Government Securities (MGS) yields were up by 11 – 17bps mom across the curve. As widely expected, Bank Negara Malaysia (BNM) left the policy rate unchanged as well at 3.0% at the 7th Sept Monetary Policy Committee (MPC) meeting. The biggest takeaway is that BNM dropped the "slightly accommodative" phrase, suggesting that the current overnight policy rate (OPR) is consistent with the current inflation and growth outlook, thus supportive of the economy. Most economists expect the OPR to stay pat at 3.0% for the remainder of the year. Meanwhile, August Consumer Price Index (CPI) came in within expectation at +2.0% yoy (July and consensus: +2.0% yoy).

Market Outlook

Global markets should remain volatile in the near term due to the continued ongoing concerns on interest rate hikes and economic data. In the US, investors will keep an eye on the economic outlook and the potential for a US government shutdown. Even though the Fed opted to maintain interest rates at the current target range of between 5.25% and 5.50%, the Fed noted that they needed to see "more progress" on inflation before they can conclude additional interest rate hikes will not be necessary. The Fed's updated long-term economic projections are calling for one more rate hike before the Fed could potentially reach its terminal rate for the current cycle. In Malaysia, investors will be turning their attention towards our government's plans to spur the nation's growth and what would be in store for Budget 2024 on 13th October.

For equities, we opt to maintain our investment ethos by focusing on fundamentally sound opportunities over longer term horizons. That said, we are also cognizant that volatility may still permeate the market and we would, if necessary, shift our investment stances to adapt to any new market developments. As always, we may also, at times, engage in a modicum of trading activities to capitalise on any prevailing market volatility.

Bond yield volatility in the fixed income market will likely persist due to the higher for longer rates environment amid the strong labour market in the US. The latest market – implied rate as of early October shows that the Fed is unlikely to cut rates until 3Q24. Locally, BNM's MPC statement in September suggests that the OPR is consistent with the current inflation and growth outlook and thus remains supportive of the economy. Nevertheless, we are cognisant that they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Furthermore, external and internal factors could also still contribute to bond market volatility that may affect local yields. The declining CPI also supports the case for BNM to keep OPR steady at 3.0% for the remainder of the year. However, we will continue accumulating bonds at favourable valuations while prioritising good quality names.

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