Market Review and Outlook

June 2022

Market Review

For equities, the MSCI World Index slumped by 8.8% mom to close at 2,546 points for the month of June. Similarly, the Dow Jones Index declined by 6.7% mom amidst global recession fears, rising rates environment, and geopolitical tensions in Europe. On the US' economic front, retail sales in May decreased by 0.3% mom as compared to +0.9% mom in April. Its May industrial production increased at a slower pace of +0.2% mom as compared to +1.1% mom in the previous month. US S&P Composite Purchasing Managers' Index (PMI) growth weakened to 53.6 in May as compared to 56.0 in April. Over in Europe, the Stoxx 50 Index dipped by 8.8% mom during the same period following a lower Eurozone S&P Composite PMI reading of 54.8 in May as compared to 55.8 in April. Its April retail sales contracted further by 1.3% mom after a lesser contraction of 0.4% mom in the previous month. Nonetheless, its industrial production growth rebounded by +0.4% mom in April as compared to a dip of 1.8% mom in the previous month. Conversely, China's Shanghai Composite Index surged by +6.7% mom in June following an improvement in Caixin China Composite PMI reading of 42.2 in May as compared to 37.2 in April. Market sentiment was buoyed by gradual relaxation of Covid-19 restrictions in key cities. After cutting its 1-year Loan Prime Rates twice in December 2021 and January 2022 to bolster its economic growth, the People's Bank of China kept it stable at 3.7% in its June 2022 meeting. After a reduction of the 5-year Loan Prime Rate in May 2022, it was also kept stable in its June 2022 meeting.

In June, Brent oil reversed its 6-months uptrend by dropping 6.5% mom to USD114.81/bbl amid concerns on lower demand for gasoline amidst rising rates environment to combat inflation as well as global recession fears. Crude palm oil (CPO) price dipped by 23.0% mom to RM5,088/MT after Indonesia lifted its export ban on 23 May with the introduction of Domestic Market Obligation (DMO). It had recently changed the DMO ratio to 7x of domestic sales as compared to 5x previously, to accelerate exports.

On the ASEAN front, equity markets closed the month under review with negative performances. Malaysia's FBMKLCI retraced by 8.0% mom due to recession fears and concerns over global tightening to combat inflation, leading to slowing demand. June saw the first monthly net foreign equity withdrawal for 2022, amounting to RM1,282m, bringing year-to-date (YTD) inflows to approximately RM6.1b. From an economic standpoint, Malaysia's April industrial production growth weakened to +4.6% yoy from a growth of +5.1% yoy in the previous month. May manufacturing PMI also weakened to 50.1 as compared to 51.6 a month ago. Indonesia's Jakarta Composite Index fell by 3.3% mom following a lower S&P Global manufacturing PMI reading of 50.8 in May as compared to 51.9 in the previous month. The Indonesian central bank held its 7 - day repo rate stable at 3.5% in its June meeting, unchanged since February 2021. Similarly, the Stock Exchange of Thailand tapered by 5.7% mom following regional peers and a flattish S&P Global manufacturing PMI reading of 51.9 in May, similar to the previous month. The Bank of Thailand kept its Benchmark Interest Rate at 0.5%, unchanged since May 2020. Singapore's Straits Times Index eased by 4.0% mom despite a higher industrial production growth of +10.9% mom in May, as compared to +2.2% mom in April. Its May PMI reading was also slightly stronger at 50.4 as compared to 50.3 in April and its Non-oil Domestic Exports rebounded to a growth of +3.2% mom in May as compared to a contraction of 3.3% mom in April.

US Treasury (UST) yields reached a YTD high in June, rising by +13-28bps mom, due to the higher-than-expected May inflation data and the Fed's first +75bps rate hike since 1994. May 2022 inflation was up +8.6% yoy (April 2022 inflation: +8.3% yoy) which was the highest increase since December 1981. It was largely due to the rising food, gas and energy prices over the past year. Excluding the volatile food and energy prices, May 2022 core CPI still grew at +6.0% yoy as compared to +6.2% yoy in April 2022. The Fed then raised interest rates by +75bps on 15 June in an aggressive bid to rein in inflation. Market participants had initially anticipated a +50bps hike but began to price in a +75bps hike after the higher-than-expected inflation reading. Meanwhile, the Fed slashed its GDP growth projection for 2022 from +2.8% to +1.7% and had also revised its growth projections for 2023 and 2024 to be less than +2.0%.

Malaysian Government Securities (MGS) yields were up +10-22bps mom which were largely in line with UST movements. On 26 May, S&P revised Malaysia's sovereign credit ratings' outlook to stable from negative which reflected their expectations that Malaysia's steady growth momentum and strong external position would remain intact for the next two years. S&P also expects Malaysia's GDP to grow +6.1% this year and +5.0% in 2023, driven by the strong exports, high commodity prices and full reopening of the economy. On 6 July, the Monetary Policy Committee (MPC) proceeded to raise the Overnight Policy Rate (OPR) by 25bps to 2.25% as widely expected. The decision was made based on the strong growth prospects for the Malaysian economy and in line with Bank Negara Malaysia's (BNM) earlier guidance for a measured and gradual monetary policy adjustment.

Foreign funds net sold Ringgit bond holdings with net outflows of RM4.1b (May: +RM0.5b), bringing YTD outflows to -RM3.2b. Foreign share of both MGS and MGS+MGII reduced to 36.5% (May: 37.4%) and 23.9% (May: 24.7%) respectively. Malaysia's foreign reserves shrunk by USD3.8b mom to USD109.0b as of end-June 2022.

Market Outlook

Globally, key events continue to be centered around how higher interest rates and quantitative tapering will affect end demand, leading to concerns of economic recession. Nonetheless, China had reduced the quarantine period for international travelers to around 10 days as opposed to 14-21 days previously, in a bid to loosening Covid-19 restrictions. Locally, the government had decided to maintain electricity and water tariffs in Peninsular Malaysia to stem inflation but raised the ceiling price of standard chicken from RM8.90/kg to RM9.40/kg, in line with rising feedstock cost.

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. That said, during this period of nascent economic recovery, we would be partial towards robust growth sectors but should remain watchful for any changes in market environment which might necessitate a realignment of investment direction. We might also at times assume a degree of trading bias to take advantage of any market volatility.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. The markets have been jittery over the aggressive Fed rate hike path as upside risks to inflation persist, while there are simultaneous downside risks to growth as the ongoing Ukraine conflict is set to further worsen the global supply chain constraints. In its latest statement, BNM reassured that economic developments and inflationary conditions will be monitored continuously and any rate hike would be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support sustainable economic growth in an environment of price stability. Further OPR hike(s) could happen in 2H22, after BNM kickstarted its policy normalization cycle in May 2022.

We think the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation. We would remain cautious of the bond market volatility arising from both external and internal fronts, which would impact local yields. Moreover, we would maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.