Allianz

Market Review and Outlook

November 2022

Market Review

Arising from expectations of easing global inflation momentum, both equity and fixed income asset classes enjoyed good runs in November 2022. Equities as an asset class continued to ride on its uptrend with the MSCI World Index surging +6.8% mom in November 2022. The Dow Jones Index rose by +5.7% mom despite the Federal Reserve raising the Fed Fund Rate by 0.75 ppt to 4.0%. This positive market sentiment was brought about by the easing of October 2022 US inflation which was +7.7% yoy and below consensus expectation. In fact, it was inflation that had been propelling the rapid response in tightening monetary policies. Thus, the easing of its momentum could suggest that global inflation might have peaked and that the global rate hike impetus might therefore soon peter out. However, it should be noted that a November 2022 preliminary reading of the S&P Global US Composite Purchasing Managers Index (PMI) was still contractionary at 48.0. In Europe, the Stoxx 50 Index rocketed +9.6% mom even though the Euro Area Monetary Union Index of Consumer Prices (MUICP) was still high at +10.0% yoy during the month under review. However, as it showed a slight 0.6 ppt mom reduction, it could suggest that inflationary pressures might be easing. Apart from that, the S&P Global Eurozone Composite PMI had an October reading of 47.3 which, while still contractionary, was ahead of consensus expectations. Similarly, China's Shanghai Composite Index also ballooned +8.9% mom as policymakers eased some of their zero – Covid policy control measures towards the end of the month which included shortening the required quarantine periods. Such move had sparked hopes of future easing of Covid control measures which would herald a more complete reopening of its economy. That said, China's economy did not fare so well in November as evinced by its Composite PMI which fell to 47.1 from 49.0 a month ago. To maintain economic growth, the People's Bank of China (PBOC) kept its 1 – year and 5 – year Loan Prime Rates at 3.65% and 4.30% respectively. In addition, the PBOC had also decided to cut the Required Reserve Ratio (RRR) by 0.25 ppt from 5 December 2022 onwards to grant greater support to the real economy. Furthermore, the PBOC and the China Banking and Insurance Regulatory Commission (CBIRC) issued a 16 – step guideline which encouraged commercial banks to provide more financing support to shore up the country's real estate sector.

During the month under review, Brent crude oil price fell 9.9% mom to USD85.43/ bbl due to demand concerns as China imposed a new series of Covid lockdowns amidst fears of continuing conflict in Ukraine and slowing global economy. On the other hand, crude palm oil (CPO) price edged up +3.4% mom on the back of higher soybean prices which were buoyed by anticipation of higher blending quotas under US Environmental Protection Agency (EPA) guidelines.

The ASEAN equity market largely mirrored its developed peers and enjoyed similar trajectories. Singapore's Straits Times Index raced up by +6.4% mom predicated on expectations that inflation was near peaking and that rate hikes would moderate in the future. This helped to mask some negative economic data such as its October 2022 Non – Oil Domestic Exports (NODX) crashing by 5.60% yoy, which underperformed consensus expectations and also measured poorly against its previous month's growth of +3.10% yoy. That said, its October 2022 headline inflation did ease to +6.70% yoy which was not as bad as its September's +7.50% yoy reading and was also better than consensus expectations. The Malaysian FBMKLCI leapt by +1.9% mom with the resolution of the 15th General Election (GE15) and improving global market sentiments. From an economic standpoint, Malaysia enjoyed a series of positive economic data with 3Q22 GDP growth at +14.20% yoy and September 2022 Industrial Production growing at +10.80% yoy, which were both ahead of consensus expectations. In addition, October 2022 Consumer Price Index (CPI) grew by +4.00% yoy which was an improvement over the +4.50% yoy reading for September 2022. The continued positive growth prospects for the Malaysian economy, coupled with the balance of risk to the inflation outlook in 2023 being tilted to the upside, Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) increased the Overnight Policy Rate (OPR) for the fourth time in 2022 by 0.25 ppt to 2.75%. Combined with the removal of political uncertainty after the conclusion of GE15, the Ringgit strengthened to RM4.4460: USD1.00 in November 2022 from RM4.7280: USD1.00 in October 2022. Nevertheless, foreign net equity outflow of RM281.2m continued during the month, bringing the YTD total to a net inflow of RM5.5b. In Thailand, the Stock Exchange of Thailand inched up +1.7% mom due to several positive developments such as lessened concerns over interest rate hikes, a recovery in 3Q22 corporate earnings, improving tourist arrivals and lower Covid – 19 infection cases. It reported 3Q22 GDP growth of +4.50% yoy which was +2.00 ppt qoq and in – line with consensus expectations. On the other hand, the Jakarta Composite Index fell by 0.2% mom as Bank Indonesia (BI) raised its key interest rate for the third consecutive time by 0.50 ppt to 5.25%, as it sought to curtail inflation while supporting its Rupiah. Indonesia's October 2022 CPI was +5.71% yoy and BI, in its Annual Budget Plan, had unveiled its target to lower CPI to +3.61% yoy in 2023. Other than that, Indonesia's 3Q22 GDP chalked a growth of +5.72% yoy which was slightly ahead of consensus expectation and may encourage BI to continue its monetary policy tightening course.

On the fixed income front, as mentioned above, the Fed approved a 75bps hike in the November meeting for the 4th straight time to 3.75% – 4.00% range. Federal Reserve officials postured that the central bank should soon moderate the pace of interest – rate increases, suggesting they were leaning toward a reduced 50bps hike in December. The November post – meeting statement from the Federal Open Market Committee (FOMC) read, "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." The minutes noted that the ultimate terminal rate is probably higher than officials had previously thought. On 30 November, Powell cemented expectations that the Federal Reserve would step down from its aggressive pace of tightening in December and presented a case for achieving lower inflation without tipping the economy into a deep recession. The USD pulled back after a fresh batch of economic data showed business activity in the US continued to contract and unemployment applications rose more than expected. The weaker than expected CPI, both headline and core, pushed back Fed rate hike expectations and prompted a rally in US Treasury (UST) yields. The UST yield curve shifted lower by 39 – 49bps mom as the 2yrs UST fell 39bps to 4.05% and the 10yrs UST fell 44bps to 3.61%.

Malaysian Government Securities (MGS) yields initially came under pressure in thin trading volume in the wake of GE15 – related impasse as investors awaited greater clarity on the political front. However, as the dust settled with the announcement of the 10th Prime Minister on 23 November, positive risk sentiments picked – up from onshore and offshore investors with a rally seen in both equity and bonds space. Yield movements were mostly lower by 19 – 42bps mom in a flattening bias except for the 3yrs MGS which rose 2bps to 3.81%. The 10yrs MGS declined 27bps to 4.10%. Meanwhile, as shown above, the MYR strengthened against the USD as the USD came under pressure due to softer than expected October US CPI followed by weaker PPI, while the MYR also strengthened following the successful appointment of the new Prime Minister. To recap, BNM raised the OPR by 25bps to 2.75% in November MPC which is the fourth consecutive 25bps hike this year and a year – to – date increase of 100bps to control inflationary pressure.

Foreign funds net sold Ringgit bond holdings with net outflows of RM1.0b (October: -RM6.3b), bringing YTD outflows to RM8.9b. Foreign share of MGS declined marginally to 34.4% (October: 34.8%) while foreign share of MGS+MGII remained unchanged at 22.3% (October: 22.3%). Malaysia's foreign reserves expanded by USD4.5b to USD109.7b as of end-November 2022 (October: USD105.2b), which is the first monthly increase since July 2022.

Market Outlook

On the global scene, investors would be keenly monitoring the Fed's upcoming FOMC meeting on 15 December 2022 for any perceived signs that its pace of monetary policy tightening could be reined in. They would also be keeping watch on global inflation levels, commodity prices, potential Covid – 19 related disruptions and geopolitical tension in Ukraine. Locally, investors would be keeping vigil over the stability of the newly formed Unity government especially on the upcoming vote of confidence to be tabled in the upcoming Parliamentary sitting on 19 December 2022. The potential signing of a coalition agreement amongst the parties of the Unity government may somewhat mitigate that risk.

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, we would await the policy direction and Budget 2023 from our new Unity government. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

Bond yields will remain volatile in tandem with the UST yield movements, but we expect the local risk sentiments to improve post-GE15. In US, rates will likely reach a "somewhat higher" level than officials estimated in September 2022, when the median projection was for 4.6% next year. Although the moderation of the pace of rate increases may come as soon as the December FOMC meeting, Fed Chairman Powell stated that the timing of that moderation was far less significant than the questions of how much further the Fed would need to raise rates to control inflation, and the length of time it would be necessary to hold policy at a restrictive level. On the other hand, BNM has maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They have added that the 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 local yields market 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. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.