

Market Review and Outlook

September 2022

Market Review

For equities, the MSCI World Index slumped by 9.5% mom to close at 2,379 points for the month of September. Similarly, the Dow Jones Index declined by 8.8% mom amidst a rising rate environment to combat inflation and a strong labor market in the US, which led to global recession fears. On the US' economic front, retail sales in August increased by 0.3% mom as compared to a flat reading mom in July. Its August industrial production eased 0.2% mom as compared to +0.6% mom in the previous month. US S&P Composite PMI's contraction widened further to 44.6 in August as compared to 45.0 in July. Over in Europe, the Stoxx 50 Index dipped by 5.7% mom during the same period following a lower Eurozone S&P Composite PMI reading of 48.9 in August as compared to 49.9 in July. Its industrial production growth reduced by 2.3% mom in July as compared to a gain of +0.7% mom in the previous month. Nonetheless, its July retail sales rebounded by +0.3% mom as compared to a decline of 1.2% mom in the previous month. Similarly, China's Shanghai Composite Index fell by 5.6% mom in September following a deterioration in Caixin China Composite PMI reading of 53.0 in August as compared to 54.0 in July. Market sentiment was hampered by the weak property market, a weak CNY, and slowing growth. 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 September 2022 meeting.

In September, Brent oil tapered further by 8.8% mom to USD87.96/bbl amid demand concerns stemmed by the ongoing interest rate hike, a strong US Dollar, and global recession fears. Crude palm oil (CPO) price dipped by 16.9% mom to RM3,327/MT as palm oil inventory continued to build up amid higher output and imports by refiners from Indonesia due to favorable pricing against Malaysia's CPO.

On the ASEAN front, equity markets closed the month under review with negative performances. Malaysia's FBMKLCI retraced by 7.8% mom due to global recession fears and political concerns on the upcoming general election. September saw the second monthly net foreign equity outflow for 2022, amounting to RM1,627m, bringing YTD inflows to approximately RM6.6b. From an economic standpoint, Malaysia's July industrial production growth strengthened to +12.5% yoy from a growth of +12.1% yoy in the previous month. However, August manufacturing PMI weakened to 50.3 as compared to 50.6 a month ago. Indonesia's Jakarta Composite Index fell by 1.9% mom despite a higher S&P Global manufacturing PMI reading of 51.7 in August as compared to 51.3 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 50bps in its September meeting to 4.25%. Similarly, the Stock Exchange of Thailand tapered by 3.0% mom following regional peers. Its August S&P Global manufacturing PMI increased to 53.7 in August as compared to 52.4 in July. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.00% in its September meeting. Singapore's Straits Times Index eased by 2.8% mom despite an industrial production growth of +2.0% mom in August, as compared to contraction of 2.3% mom in July. Its August PMI reading was slightly weaker at 50.0 as compared to 50.1 in July and its Non-oil Domestic Exports turned to a decline of 3.9% mom in August as compared to a growth of +1.4% mom in July.

US Treasury (UST) yields continued their upward trend again in September as the yield curve was up 49-77bps mom. Sell-off was particularly strong for shorter tenures in mid-September as the hot inflation data for August of 8.3% yoy (consensus: 8.1% yoy, July 8.5% yoy) led market participants to consider the possibility of an unprecedented 100bps hike in September's FOMC meeting. While Fed unanimously settled for a 75bps hike for the third consecutive time to 3.25%, Fed now projects the terminal rate to be 4.6% in 2023 and signalled that recession may be the price to pay to tame inflation. With the markets being concerned that the Fed will remain more hawkish for longer than anticipated, this then led to another round of sell-off closer to month-end.

Malaysian Government Securities (MGS) yields were not spared as well in September as the yield curve was up 30-44bps mom. The bulk of the movements was towards the month-end following the 75bps hike in the US and Fed's signal that more hikes will come which intensified the global risk-off sentiment. Shortly after the US rate hike, MGS saw its weakest auction year-to-date as the 7yrs MGS recorded only a bid-to-cover (BTC) ratio of only 1.662x. Meanwhile, demand for the first government MYR Sustainability Sukuk (15yrs MGII 3/38) was strong as it registered a BTC ratio of 2.383x despite weak global sentiment for bonds.

Foreign funds turned net seller in September with mild net outflows of RM0.4b of Ringgit bond holdings (August: +RM5.6b). This increased YTD outflows to RM1.6b. Foreign share of both MGS and MGS+MGII declined to 35.9% (August: 36.1%) and 23.1% (August: 23.5%) respectively. Malaysia's foreign reserves contracted by USD2.1b to USD106.1b as of end-September 2022 (August: USD108.2b).

Market Outlook

Globally, key events continue to be centered around inflation data and the quantum of future interest rates hikes. Fed chair Powell had in numerous occasions reiterated that he will 'keep at it until the job is done'. US unemployment is now seen rising to 4.4% in 2023, up from the current 3.7%. Given that a rise of more than 50bps in the unemployment rate has always been associated with a recession, the Fed is suggesting that a recession may be its base case for 2023. Locally, the government had unveiled its Budget 2023, which is a people friendly budget. However, uncertainty remains as the PM has called for a dissolution of parliament, which will pave the way for GE15.

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. US Fed had forecasted that rates would reach 4.4% by the end of this year and 4.6% in 2023, which marked a somewhat hawkish shift from their current dot plot projection. With only 2 more FOMC meetings scheduled for 2022, this implies a further 125 bps of tightening over the course of the November and December FOMC meetings. The Fed Chairman explained that higher interest rates, slower growth and a softening labour market will be painful for the public but it will not be as painful as failing to restore price stability. On the other hand, local monetary policy is expected to remain accommodative to support sustainable economic growth in an environment of price stability as BNM reassured that economic developments and inflationary conditions would be monitored continuously and any rate hike would be done in a measured and gradual manner.

We are of the view that the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation but we are also mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. The risk remains if domestic inflation surprises on the upside and foreign portfolio outflow accelerate. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.

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