Allianz

Market Review and Outlook

April 2023

Market Review

For equities, the MSCI World Index gained by +1.6% mom to close at 2,835 points for the month of April. Similarly, the Dow Jones Index increased by +2.5% mom as investors realigned risk appetites in anticipation of what was expected to be the last interest rate hike by the Federal Reserve in May. On the US' economic front, retail sales in March eased by 1.0% mom, compared to a drop of 0.4% mom in February. Its March industrial production was up +0.4% mom, an increase from flat in its previous month. US S&P Composite PMI increased to 52.3 in March as compared to 50.1 in February. Over in Europe, the Stoxx 50 Index climbed by +1.0% mom during the same period following a higher expansionary Eurozone S&P Composite PMI reading of 53.7 in March as compared to 52.0 in February. Its industrial production gained +1.5% in February as compared to +1.0% mom in the previous month. However, its February retail sales fell 0.8% mom as compared to a gain of +0.3% mom in the previous month. China's Shanghai Composite Index gained +1.5% mom in April following a stronger Caixin China Composite PMI reading of 54.5 in March as compared to 54.2 in February. Market sentiment was hampered by 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 April 2023 meeting.

In April, Brent oil decreased by 0.3% mom to USD79.54/bbl after touching a high of USD87.33/bbl during the month as OPEC announced a surprise oil production cut of more than 1m barrel per day starting 1 May 2023. Similarly, Crude palm oil (CPO) price tapered by 3.0% mom to RM3,937/MT in April as CPO production in Malaysia showed its best 1Q production since 2019.

On the ASEAN front, equity markets closed the month under review with mix performances. Malaysia's FBMKLCI declined by 0.5% mom due to continued foreign fund outflows. April saw a monthly net foreign equity withdrawal of RM250m, bringing YTD outflows to approximately RM2.0b. From an economic standpoint, Malaysia's February industrial production growth rose +3.6% yoy compared to +1.8% yoy in the previous month. March manufacturing PMI was slightly better at 48.8 as compared to 48.4 a month ago. The Stock Exchange of Thailand fell by 5.0% mom following a drop in its March S&P Global manufacturing PMI to 53.1 as compared to 54.8 in February. The Bank of Thailand maintained its Benchmark Interest Rate at 1.75% in its April meeting. Indonesia's Jakarta Composite Index rose +1.6% mom following a higher S&P Global manufacturing PMI reading of 51.9 in March as compared to 51.2 in the previous month. The Indonesian central bank kept its 7 - day repo rate stable in April at 5.75%. The Singapore's Straits Times Index increased by +0.4% mom following a rebound in industrial production of +9.3% mom in March, as compared to a decline of 11.7% mom in February. Its March PMI reading was slightly lower at 49.9 as compared to 50.0 in February but its Non-oil Domestic Exports experienced a surged of +18.4% mom in March, after posting a decline of 8.0% mom in February.

US Treasuries (UST) yields were largely down by 5 – 9bps mom as the First Republic Bank failure close to month-end relit fears of a potential regional banking crisis. Most UST tenure yields reached their lowest levels of the month on April 6th but shifted higher following the release of the March employment data on April 7th. US job market remained resilient as the number of jobs created in March rose by 236k, slightly above market expectations of 230k while the unemployment rate improved to 3.5% (consensus: 3.6%, February 3.6%). As widely expected, Fed voted unanimously to raise the Fed fund rate by 0.25% to the 5.00% – 5.25% range, its highest level in more than 15 years. The exclusion of the notation "some additional policy firming may be appropriate" which was present in prior Federal Open Market Committee (FOMC) statements, hinted that the current tightening cycle may be coming to an end.

The Malaysian Government Securities (MGS) yield curve bull – flattened by 7 – 25bps mom, with the short tenures down by 7 – 10bps mom while mid-to-long tenures were down by 18 – 25bps mom. The MGS yields movement was in – line with the MYR interest rate swap (IRS) yields movement which declined by 5 – 27bps mom and the 3 – 6 months Kuala Lumpur Interbank Offered Rate (KLIBOR) which declined by 10 – 11bps mom. Meanwhile, Bank Negara Malaysia (BNM) surprised the market with a 25bps hike to bring OPR back to the pre-pandemic level on 3rd May, citing resilient domestic growth prospects.

Foreign funds raised Ringgit bond holdings by RM1.5b in April (March: +RM6.6b). Foreign shares of both MGS and MGS+MGII fell marginally to 35.9% (March: 36.0%) and 22.9% (March: 23.1%) respectively. Malaysia's foreign reserves declined by USD1.1b to USD114.4b as of end-April 2023 (March: USD115.5b).

Market Outlook

Globally, outlook continues to remain uncertain amid the US financial sector turmoil and persistent high inflation. As the FOMC is data dependent, subsequent data releases and communications by key members will be crucial. Locally, focus will be on the developments surrounding the US Fed rate decision and the upcoming domestic results season.

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 turmoil in the banking sector following the collapse of First Republic Bank, 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 three rate cuts to 4.31% by year-end. BNM in its latest assessment cited that with the OPR level at 3% now, the monetary policy stance is slightly accommodative and remains supportive of the economy. With the latest 25bps hike, BNM has completely withdrawn the monetary stimulus intended to address the Covid – 19 crisis in promoting economic recovery. Despite the improved risk – reward of MGS, 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.