Market Review and Outlook

January 2023

Market Review

For equities, the MSCI World Index began the year positively, surging +7.0%% mom to close at 2,785 points for the month of January. Similarly, the Dow Jones Index gained +2.8% mom due to improved investor sentiment, based on moderating inflation data, that the Fed could pull off a soft-landing scenario as opposed to a much-feared deep recession. On the US' economic front, retail sales in December eased by 1.1% mom compared to a decline of 0.6% mom in November. Its December industrial production fell by 0.7% mom as compared to a drop of 0.2% mom in the previous month. US S&P Composite Purchasing Managers Index's (PMI) worsened to 45.0 in December as compared to 46.4 in November. Over in Europe, the Stoxx 50 Index rose +9.7% mom during the same period, helped by an improved Eurozone S&P Composite PMI reading of 49.3 in December as compared to 47.8 in November. Its industrial production also was up +1.0% mom in November as compared to a contraction of 2.0% mom in the previous month. Its November retail sales also gained 0.8% mom as compared to a decline of 1.8% mom in the previous month. Similarly, China's Shanghai Composite Index increased by +5.4% mom in January following an improvement in Caixin China Composite PMI reading of 48.3 in December as compared to 47.0 in November. Market sentiment was boosted by the reopening of the Chinese economy as the government eased its zero-Covid policy. 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 January 2023 meeting.

In January, Brent oil fell slightly by 1.7% mom to USD84.49/bbl as concerns of a recession outweighed the reopening of the China economy. Crude palm oil (CPO) price plunged by 10.8% mom to RM3,720/MT amid concerns on higher CPO production and a possible slowdown in imports by India in the coming months due to high vegetable oil stocks in that country.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI fell by 0.7% mom as investors await some policy direction from the new unity government and due to persistent foreign selling. January saw the 5th consecutive month of net foreign selling of RM201m. From an economic standpoint, Malaysia's November industrial production growth rose +4.8% mom as compared to a growth of +4.6% yoy in the previous month. However, its December manufacturing PMI weakened slightly to 47.8 as compared to 47.9 a month ago. The Stock Exchange of Thailand advanced by +0.2% mom as China's loosening of its zero-Covid policy will benefit the tourism sector in Thailand. Its December S&P Global manufacturing PMI improved to 52.5 as compared to 51.1 in November. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.50% in its January meeting. Indonesia's Jakarta Composite Index fell by 0.2% mom despite a higher S&P Global manufacturing PMI reading of 50.9 in December as compared to 50.3 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 25bps in its January meeting to 5.75%. Similarly, the Singapore's Straits Times Index gained +3.5% mom following an industrial production rise of +3.2% in December as compared to a decline of 1.2% mom in November. Its December PMI reading was slightly weaker at 49.7 as compared to 49.8 in November but its Non-oil Domestic Exports experienced a smaller decline of 3.3% in December as compared to a decline of 9.2% mom in November.

For fixed income, US Treasuries (UST) rallied in January across the curve by 32 - 38bps mom following some weak US economic data. December 2022 hourly wage growth slowed to +4.6% YoY (November: +5.1%, survey: +5.0%). Institute of Supply Management (ISM) Services dropped to 49.6 (November: 56.5, survey: 55.0) which was the first time since May 2020 that it fell below the 50 threshold. Retail sales continued to fall in December by 1.1% mom (November: -0.9%, survey: -0.6%) which was the largest monthly decline since December 2021. As widely expected, the Fed raised the rate by 25bps to bring the target rate to 4.5% - 4.75%. While the Fed gave little indication that it was nearing the end of the hiking cycle, the surprising January strong jobs report (January 2023 NFP: +517k, December: +223k, survey: +189k) raised the possibility that Fed may need to raise rates to a higher peak than previously expected.

Malaysian Government Securities (MGS) yields continued to rally in January by 15 - 34bps mom across the curve following the stronger UST and easing December inflation numbers. Malaysia's inflation eased to 3.8% YoY in December (November: 4.0%, survey: 3.9%) largely due to the slower increase in the food and non-alcoholic segment. Bank Negara Malaysia (BNM) unexpectedly maintained the Overnight Policy Rate (OPR) at 2.75% during the month as they cited the need to assess the impact of the cumulative past OPR adjustments, given the lag effects of the monetary policy on the economy. BNM's assessment of Malaysia's growth and inflation outlook remained largely unchanged as they expect growth in 2023 to moderate amid a slower global economy while headline and core inflation will remain elevated amid the lingering demand and cost pressures.

Market Outlook

Globally, key focus will remain on economic data, such as inflation, unemployment data and the pace of interest rate hikes going forward. Fortunately, inflation has been trending steadily lower over recent months, allowing the Fed to take its foot off the gas and opt for smaller rate hikes. However, inflation rates are still way above its 2% long term target. Locally, focus will be on the new policy direction of the new government and the revised Budget 2023 scheduled to be tabled on 24 February 2023.

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, economic data and the upcoming February quarterly reporting season. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

For fixed income, bond yield volatility will likely persist in 2023 as the combined effects of the pace and magnitude of interest rate hikes stemming from inflationary pressures remain. While we expect more rate hikes in the US, the quantum of increase would likely be lesser. BNM in its latest assessment in January maintained that the current monetary policy stance is accommodative and supportive of economic growth.

The risk-reward of MGS has improved with the Ringgit rates market priced for BNM policy normalisation. Still, we are mindful of the bond market volatility arising from external and internal fronts, which could impact local yields. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.