Allianz

# Market Review and Outlook

**July 2023**

## Market Review

For the month under review, global equity markets continued its strong upward momentum with the MSCI World Index jumping +3.29% mom. Similarly, the US' Dow Jones Index rose by +3.35% mom despite the resumption of rate hikes by the Fed as a better – than – expected mid – year earnings season had buoyed markets as well as the expectations that the Fed has effectively suppressed inflation without causing a recession. US June 2023 Consumer Price Index (CPI) fell to 3.0%, -1.0 ppt mom, showing commendable improvement from its high of 9.1% in June 2022. That said, the easing of inflation came against a backdrop of rising unemployment which grew +0.1 ppt mom to 3.6% in June 2023, in line with market expectations. Apart from that, its S&P Global US Composite Purchasing Managers' Index (PMI) dropped slightly in June 2023 with a reading of 53.2, -1.1 mom. The Federal Open Market Committee (FOMC) raised interest rates by 25bps in the July meeting after a pause in June. Over in Europe, the Stoxx 50 Index also gained +1.64% mom, with the European Central Bank (ECB) matching its US counterpart's by also raising its main rate by 25bps. The preliminary June 2023 Core CPI for the Eurozone was +5.4% yoy, +0.1 ppt mom which was slightly better than consensus' expectations. However, the Eurozone Manufacturing PMI recorded a contractionary June 2023 reading of 43.4, which was worse than the previous month's 44.8. Its June 2023 Services PMI reading was also lower at 52.0, compared to 55.1 in the previous month. From a labour market perspective, the Eurozone's May 2023 unemployment rate remained stable at 6.5%, flat mom, having steadily improving from the Covid – 19 era peak of 8.6% in August 2020. On the other hand, China's Shanghai Composite Index rose by 2.78% mom, spurred by the Chinese Politburo which signalled more support for its real estate sector in conjunction with additional pledges to boost consumption and resolve local government debt. Apart from that, its June 2023 industrial production grew by +4.4% yoy versus +3.5% yoy in the previous month. The People's Bank of China (PBOC) maintained its benchmark lending rates after cutting them in June. The 1 and 5 – year Prime Loan Rates were at 3.55% and 4.20% respectively.

In July 2023, Brent oil surged +13.5% mom to USD85.56/bbl due to expectations of tightening global supply and increasing demand for the rest of the year. Saudi Arabia is expected to extend a voluntary oil output cut of 1 million barrels per day for another month to include September, while the US may have to start replenishing their Strategic Petroleum Reserve. Crude palm oil (CPO) also rose +1.1% mom to RM3792/MT, driven by supply disruption on the back of the Black Sea grain corridor deal breakdown, strong demand and rising premiums of soybean and sunflower oils.

On the ASEAN front, Malaysia's FBMKLCI surged +6.01% mom, helped by a net foreign inflow of RM1414.5m in July, reversing an outflow of RM1348.3m in June. Its May industrial production rebounded by +4.7% yoy, after contracting 3.3% yoy in the previous month. June CPI also improved to +2.4% yoy, -0.4 ppt mom, in line with consensus estimates. To boost the Malaysian economy, PM Dato Seri Anwar Ibrahim unveiled a RM5b plan for an economic reset in a Madani Economy Framework while the Minister of Economy, YB Rafizi Ramli launched the National Energy Transition Roadmap (NETR) on 27th July 2023. The Stock Exchange of Thailand rose +3.52% mom despite the ongoing political uncertainty post its general election in May 2023. Its June S&P Global manufacturing PMI fell to 53.2 as compared to 58.2 in May. Singapore's Straits Times Index closed the month +5.24% mom higher mirroring gains in the US which had benefitted from the release of encouraging economic data. From an economics standpoint, its June 2023 industrial production fell 4.9% yoy but rose 5.0% mom. Its June 2023 Non – Oil Domestic Exports (NODX) contracted 15.5% mom, as compared to a drop of 14.7% in the previous month. Lastly, the Jakarta Composite Index also rose by +4.05% mom as Bank Indonesia kept its policy rate unchanged at 5.75% for the 7th consecutive meeting during its July meeting. Bank Indonesia deemed the current monetary policy stance consistent with keeping inflation within its 2.0 – 4.0% target range for the remainder of 2023. Headline inflation fell to 3.5% in June from 4.0% in May. Its S&P Global manufacturing PMI reading of 52.5 in June was higher than the 50.3 in the previous month.

US Treasuries (UST) weakened further in July as most UST yields reached year – to – date highs in the first week of July after the strong private – sector employment data. Private sector jobs surged by 497k in June, well ahead of the 267k in May and the 220k estimate. Yields declined slightly after that as US inflation in June cooled further to its lowest point since early 2021 with CPI decelerating to 3.0% yoy (May: 4.0% yoy, consensus: 3.1% yoy) while core CPI eased to 4.8% yoy (May: 5.3% yoy, consensus: 5.0% yoy). As widely expected, FOMC on 26th July 2023 raised its policy rate by a quarter point to 5.25% – 5.50% to bring it to the highest level in more than 22 years. Chairman Powell left open the possibility of further hikes which he said would depend on incoming data. With the next FOMC meeting on 19 – 20th September 2023, Powell's remarks at the Jackson Hole in late August could shed more light on the Fed's future interest rate path. Fitch Ratings on 1st August downgraded the US debt rating from AAA to AA+, citing fiscal deterioration over the next 3 years and repeated last minute debt ceiling negotiations that threaten the government's ability to pay its bills.

The Malaysian Government Securities (MGS) yields were largely stable in July despite the broad increase in global bond yields following Fed's rate hike. MGS were traded ranged bound, given the lack of domestic catalysts. Malaysia's inflation eased further in June 2023 to 2.4% yoy (May: 2.8% yoy, consensus: 2.4% yoy), which is the lowest level in 2023.

Foreign inflows accelerated to RM11.3b in July (June: +RM5.2b, YTD: +RM32.4b) despite the relatively weak MYR which resulted in the foreign share of MGS increased to 36.6% (June: 35.9%) while foreign share of MGS + Government Investment Issues (GII) rose to 24.0% (June: 23.4%). Malaysia's foreign reserves expanded by USD1.5b to USD112.9b as of end-July 2023 (June: USD111.4b).

## Market Outlook

With no FOMC meeting in August and thus no imminent rate adjustments within the month, investors will probably keep a close eye on other economic data, such as payroll figures to ascertain if the Fed could be resuming its rate hike trajectory in September. Furthermore, we believe that investors' scrutiny would also extend to the economic indicators and the stances of other central banks around the world. In a relatively low-inflation environment which is in stark contrast to its western peers, the People's Bank of China will continue to be pressured to support the Chinese economy while keeping a close eye on policy impact on currency and capital flows. In Malaysia, all eyes will be on the upcoming election in the 6 states as well as the August result reporting 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. There may be time where caution demands that we adjust our stance to adapt to perturbations in the market environment which may necessitate an investment direction shift. In addition, 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 will likely persist due to the concerns over a potentially lengthy albeit easing inflationary environment and geopolitical risks. The latest market – implied rate as of early August indicates a 40% chance of a quarter – point hike by year end and rate cuts totalling more than a percentage point next year. Locally, we heartened by BNM's Monetary Policy Committee's (MPC) posture which remains slightly accommodative and supportive of the economy amidst ensuring growth sustainability as well as price stability. Nevertheless, we are cognizant they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Despite MGS's improved risk – reward, external and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue accumulating bonds at favourable valuations while prioritising good quality names.