June 2023

Monthly Market Outlook

"Skip" Is Not A Pause

Summary

- **Global economic activity accelerates to an 18-month high as service sector upturn remains solid.** The JPM Global Manufacturing PMI posted 49.6 in May-23, unchanged from Apr-23 and Mar-23. Global factories raised production for the fourth successive month in May-23, as improving supply chains boosted output. There were more worrying signs on the demand front, however, as total new orders and international trade flows deteriorated further. Meanwhile, services activity accelerated to its best since Nov-21, outperforming manufacturing again. This led to the JPM Global Composite PMI rising to 54.4 in May-23, up from 54.2 in Apr-23, signaling global economic expansion for the fourth month in a row.
- **APAC market review – MSCI Asia ex-Japan was down -2.9% MoM while MSCI World was down lesser by -1.2%** following the good performance from the US markets and sluggish performance from the Chinese markets. The Chinese market saw strong profit taking activities given its recent earnings disappointment where the 1QCY23 results did not meet the strong economic re-opening expectations. As a result, we also saw sell down in hard commodities such as copper which is closely linked to the health of the Chinese economy.
- **Local Equity market review – The FBMKLCI dropped by -2.0% MoM as expected following the 'Sell In May' theme.** The selling was further amplified by the sluggish 1QCY23 corporate earnings reported in May. Also, investors concerned of political uncertainties arising from the upcoming 6 state elections and hence some took the strategy to lighten down their equity exposure further.
- **Bond market review – Global bond markets were in a mayhem last month** as uncertainties on debt ceiling were peppered by sluggish negotiations and Fitch's Rating Watch Negative on US sovereign rating. Moreover, the US macro data was also robust with April non-farm payroll print beating expectations while core CPI remains sticky. Locally, yields were also higher MoM amid the global bond sell off and BNM's surprise OPR hike despite Mar-23 headline inflation slowing to 3.4%. On the other hand, foreign investors surprisingly added more local debt in May-23 despite the weak Ringgit with inflows totalling RM3bn.
- **Macro – Manufacturing recession cushioned by services demand.** Post pandemic, we have seen demand decline in manufactured goods in contrast to strong demand for services. The shift in consumer demand has led to manufacturing contraction so far which now not necessarily causing a broad based recession globally. However, the moderated growth ahead is almost certain in the current high rates environment which drains huge liquidity from financial markets. Hence, a more pronounced zero growth if not a recession is pushed forward to 2024.
- **Local Equity outlook – A month of political uncertainties.** Market expects 6 states, which include Kedah, Penang, Selangor, Negeri Sembilan, Kelantan and Terengganu, to dissolve state legislatures by Jun-23. Nevertheless, these political uncertainties could drag into 3QCY23 given 60 days to call for state elections after the state legislatures have been dissolved. We expect an extension of 'Sell in May' to happen this month. Foreign favourite sector like the banks should be under selling pressure and the same goes to the high beta sectors like oil & gas, construction and technology sectors. Separately, in view of disappointing 1QCY23 corporate earnings, we do not expect investors to rush into building new position. At best, it would be a lackluster market in Jun-23.

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- **APAC Equity outlook – For Jun-23, all eyes will be on the coming FOMC meeting** to see if the Fed maintains or hike policy rate by another 25bps. Also, all will watch closely on the new Fed Dot Plot for guidance on whether there will be rate cut by Dec-23. Besides, the geopolitical tension between the US and China over Taiwan continues garnering headlines. As a result, investors will remain watchful on this as any heightening risk would result in risk off in global financial markets.
- **Fixed Income outlook – On central bank actions, Bank of Canada and Reserve Bank of Australia had surprised policy rate hikes in early Jun-23 citing inflationary pressures.** This has renewed expectations that the Fed might follow suit as April's core PCE rose above consensus expectations and also above Fed's target. This, along with the weaker ringgit and BNM's hawkish tilt will likely push the 10y MGS yield higher, more so if macro data releases from China shows sluggish recovery – adding further pressure on the ringgit weakness.

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