October 2023

Monthly Market Outlook

Rising Term Premium & Real Yields

Summary

- **Manufacturing downturn continues, service sector growth slows in Sep-23.** The JPM Global Manufacturing PMI posted 49.1 in Sep-23, up a pip from 49.0 in Aug-23, remaining below the neutral 50.0 mark for the thirteenth successive month. All five of the sub-indices (output, new orders, employment, stocks of purchases and suppliers' delivery times) were at levels indicative of a deterioration in overall performance. The Eurozone, UK and Canada posted steep overall downturns, with global growth lead by China and Indonesia. Sep-23 also saw signs of slowdown in the global services sector. The JPM Global Composite PMI in Sep-23 fell to 50.5, from 50.6 in Aug-23, the lowest reading during the current eight-month sequence of expansion.
- **APAC market review – MSCI Asia ex-Japan was down -3.0% MoM while MSCI World was also down -4.5% MoM following profit taking activities.** Also, Asian equity markets were affected by the strong USD, resulting in more foreign outflows. Meanwhile, the Chinese Yuan as the leader in Asian currencies, is still under pressure due to its own economic weakness, especially its property market.
- **Local Equity market review – The FBMKLCI dropped marginally by -1.9% MoM following profit taking activities as global markets turned sour.** Furthermore, the September month has historically been the worst month for FBMKLCI the last 5 years. On contrary, small-cap stocks continued to outperform the big cap stocks. Market still saw accumulation in sectors like property and construction. And, as expected, we saw rotational play into the O&G sectors following the strong surged in Brent oil prices to above USD90/barrel.
- **Bond market review – Global bond markets was in a state of frenzy as "higher for longer" and soft landing narratives re-emerged after the FOMC meeting in September.** The Fed released its revised projections coupled with strong labour data, causing yield curve to bear steepen with the 2y and 10y UST skyrocketing 62bps and 71bps MoM, respectively in Sep-23.
- **Macro – Should history a good guide to future economic direction.** As we are approaching the end of US rate hike cycle and gradually seen peak yields, we look back on the Fed's policy statements/guidance in 2006/07 against the policy statements in the past few meetings and find similarities where the Fed tends to remain hawkish until the economic growth finally turns south. This also leads investors finally believing in the phrase "higher for longer" yields before the storm hits. Therefore, we are increasingly seeing more value in governments bonds while remaining cautious in global equities as financial markets are adjusting towards current high yield environment.
- **Local Equity outlook – Expect Oct-23 to be a volatile trading month.** On the macro front, investors would be concerned on the rising UST10y yields, translating into negative trading sentiment from the US markets and thereby spill over to local markets. However, on the local front, investors are expecting goodies from Budget 2024 such as more constructions jobs to be announced as well as some enhancement to both the property and auto sector. Then again, some investors may still continue to profit take especially on sectors which have performed very well last 2 months such as the property, construction, O&G and utilities sectors. As a result, we see Oct-23 a volatile trading month and advise investors to risk off.
- **APAC Equity outlook – For Oct-23, we expect Asian equity markets to continue underperforming especially the USD remains strong in the near term.** All eyes would be on the US economic data as well as oil price direction which will influence the Fed's decision on its next policy meeting in early Nov-23. Further US rate hike, if any, would

be bad for Asia due to further weakness expected in Asian currencies. Aside from this, investors will monitor closely China's macro data ahead after a slew of policy measures being announced and implemented.

- **Fixed Income outlook – The Fed made bullish revisions to GDP growth, unemployment, inflation rates and dot plot at the Sep-23 FOMC sparked expectations the Fed to keep hiking in Nov-23.** Moving forward, we expect global yields to ease off as macro data is expected to show weakness as high interest rates crimp on economic activities. It remains to be seen if the sudden geopolitical tension in the Middle East will be prolonged, thus keeping oil prices lofty and adding to inflationary pressures and possibly changing the Fed's stance on a further hike in Nov-23. Locally, we expect Budget 2024 to show greater push for fiscal consolidation with lower deficit target of 4.3% (2023e: 5%) which should augur well for Malaysia's sovereign rating.

Disclaimer:
This document has been prepared by Etiqa Life Insurance Berhad (ELIB) solely for informational purposes and shall not be construed as the basis for making investment, financial or other decisions. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. ELIB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by ELIB. ELIB and any of its related affiliates accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any content.