April 2023

Monthly Market Outlook

Mixed Monetary Policy Actions Globally

Summary

- **Upturn in services sector supports economic activity.** The JPM Global Composite PMI rose to 53.4 in Mar-23, from 52.1 in Feb-23, which remained heavily reliant on the services sector. Services business activity rose at the quickest pace since Dec-21, with growth strengthening across the business, consumer and financial services categories. In contrast, the JPM Global Manufacturing PMI fell to 49.6 in Mar-23, down from 49.9 in Feb-23. Although production volumes were scaled up for the second month in a row, the rate of increase was mild and fractionally weaker than in Feb-23. Growth slowed in both the consumer and investment goods sub-sectors, while the downturn at intermediate goods producers continued.
- **APAC market review – MSCI Asia ex-Japan was upped 2.3% MoM while MSCI World performed even better, upped 2.8% MoM following some profit taking activities in Asia like China.** Although there was some sell down in the global banking stocks following the collapse of Silicon Valley Banks and a few other banks, money managed to quickly find its home into other sectors and this had helped to push up global indices.
- **Local Equity market review – The FBMKLCI dropped by -2.2% MoM due to spill over effect from the collapse of US regional banks.** Although local banks remain resilient, the sell down was more from sentiment angle which affected banking stocks globally. With the banking sector making up about 40% of index weightage, the sell down in the sector had pulled down the KLCI. On the other hand, we saw buying interest in both the construction and property sectors on hope that our government will revive the high speed rail project soon and these 2 sectors should benefit from it.
- **Bond market review – The bond markets had a volatile 1Q23.** After a tumultuous February as robust jobs data and sticky inflation in the US caused markets to turn hawkish, March saw a 180-degree turn thanks to the collapse of Silicon Valley Bank, Signature Bank and Credit Suisse. Contagion fears of the banking crisis caused the UST yield curve to bull steepen as markets expects the Fed to start cutting rates as recession talks re-emerged. Meanwhile, local yields were resilient as BNM is not expected to hike further. This was supported by the weak industrial production index print in Jan-23 - the softest in 17 months. However, some “noises” emerged as one of the officials suggested that there is “room for hike” should there be inflationary pressures.
- **Macro – Mixed central banks’ policy actions.** Central bank decisions have generally been dovish of late with the likes of India, Indonesia, Australia, South Korea and Canada halting rates while the UK, the Philippines and Thailand hiked 25bps. The ECB and Swiss National Bank were the few hawks with 50bps hike seen in March and signalled more to come. The Fed will likely do a final hike in May and pause thereafter. As at 10th April 2023, markets see a 69% chance of rate cut in Sep-23 and the Fed Fund Rate to ease back at 4.35% by end-2023.
- **Local Equity outlook – April is a good trading month.** Historically, April has been one of the best trading month for both the big and small cap stocks before a ‘Sell in May and go away’. We expect investors to bottom fish some banking stocks especially after their share prices had corrected recently. We also notice GLCs have turned net buyer since the start of this year after being net sellers the last 2 years. Trading interest to continue in small cap sectors like the O&G sector which is inline with rising oil prices after Opec+ members decided to cut oil production as well as the construction and property sectors. Meanwhile, we do expect some profit taking activities toward end April before the “Sell in May” theme and FOMC meeting on 2-3 May in the US.

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- **APAC Equity outlook – For Apr-23, we expect Asia Pacific to have a good trading month with fund inflows following the expected weakening USD.** Then, we should also expect some profit taking activities toward month end before the FOMC meeting on 2-3 May. All eyes will also be on the political tension between the US and China on Taiwan as well as missile testing activities by North Korea.
- **Fixed Income outlook – We expect USD-funded carry trades in emerging markets (EM) to continue to lend support to local yields** as investors shirk DM on bleaker growth outlook and rates nearing their terminal rates. Returns from Bloomberg's EM-8 Index showed a YTD return of 4.5% compared to negative returns from DM.

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