

July 2023

## Monthly Market Outlook

# Smell of Trade War Amidst Weakening Macro Data

### Summary

- **Global economic expansion softens in Jun-23 as service sector growth slows and manufacturing contracts.** The JPM Global Composite PMI posted 52.7 in Jun-23 to a four-month low (May-23: 54.4). The service sector continued to expand albeit at slower rates across the business, consumer and financial services categories. Meanwhile, the JPM Global Manufacturing PMI fell to a six-month low of 48.8 in Jun-23 (May-23: 49.6). Jun-23 saw factory output fall back into contraction territory for the first time since Jan-23, following a further decrease in new order intakes. This led to a more cautious approach from manufacturers, with purchasing cut back sharply, inventory destocking, employment broadly flat and business optimism dipping to a seven-month low.
- **APAC market review – MSCI Asia ex-Japan was up +2.8% MoM while MSCI World was up even higher by +5.9% MoM attributed to the strong performance in the US markets.** Despite recessionary concerns, the US equity markets continued to rally, partly supported by the strong USD against Asian currencies. The Chinese market on the other hand saw profit taking activities in Jun-23 following the earnings' miss in 1QCY23 as well as the economic re-opening disappointment where it did not come in as strong as market had expected. Also, the Chinese PMI numbers seem to go back to contraction mode with its youth unemployment at recent high level, thus, creating some concerns among investors in China.
- **Local Equity market review – Our KLCI slipped marginally by -0.8% MoM in Jun-23 on the lackluster trading month.** All eyes were on when state governments for Kedah, Penang, Selangor, Negeri Sembilan, Kelantan and Terengganu would be dissolved and the respective state elections would be called. As a result, the local market was going nowhere as investors were reluctant to take new positions due to the uncertainties ahead. Furthermore, there was no notable construction contract awarded by the government to create excitement in the market.
- **Bond market review – Global bond markets roiled as a slew of macroeconomic data coming from the US continued to show resilience,** coupled with hawkish Fed speak. The US 1Q23 GDP growth was revised higher to 2.0% from 1.3% (4Q22: 2.6%) while May Core PCE remained sticky at 4.6% (Cons & Prev: 4.7%). As a result, the yield curve bear flattened. Locally, the 3Y and 10Y MGS yields also rose, tracking global yield movements.
- **Macro – Act of decoupling between the US and China despite high-level officials meet up.** The US and China's monetary policies and macro data have gone into 2 separate directions where the US Fed likely to continue its hiking path which is approaching the end while the Chinese central bank has been easing its monetary policies to shore up the weakening domestic manufacturing activity and now services industry also moderating in recent months. In view of 2 distinct policy directions ahead, the global fund flows are closely monitored for a potential pivot especially these funds have made respectable gains from developed markets in 1H23.
- **Local Equity outlook – Expect another lackluster trading month.** With the 6 state governments being dissolved, all eyes would be on the coming state elections in Aug-23. With this uncertainty looming our local markets, we expect it to go nowhere. However, we might see local investors nibbling stocks occasionally which are attractively sell down amidst this uncertainty. We advise investors to stay risk-off for this month. If needed to invest, one should gradually ramp up their portfolio by investing in big cap stocks, especially the banks which are attractive from valuation angle and also provide ample of liquidity in comparison to other big cap sectors.

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- **APAC Equity outlook – For Jul-23, all eyes will be on the coming FOMC meeting towards end of the month where market participants mostly expect another 25bps Fed rate hike.** However, what market wants to know is probably the Fed's tone post the July meeting, if any, since the Fed Dot Plot had been raised to 5.60%. As long as interest rate hiking is still present in the US, Asian currencies will likely continue to be under pressure and unlikely to bottom out yet. Other than this, markets will continue monitoring the trade war between the US and China especially after China recent move to control export of gallium and germanium to the US, Europe and Japan where these 2 metals are needed to make chips, electric cars and telecommunication equipment and China controls over 90% of them.
- **Fixed Income outlook – Moving forward to 2024, markets are still expecting the Fed Fund Rate to peak at 5.50% this year before cutting aggressively by 100bps by end-2024.** Separately, BNM issued a statement on its plan to intervene to stabilize the MYR however prodded some noises on a potential July hike. In the end, BNM maintained the OPR at 3% during the Jul-23 MPC meeting and in line with consensus. We expect BNM to stay put on OPR for the rest of the year as growth will likely see downside risks from softer global growth balanced by upside risks from firm domestic demand, rebound of domestic tourism activity and faster implementation of infrastructure projects.

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