November 2022

Monthly Market Outlook

Last Push From The Fed?

Summary

- **Global economic activity contracted for a third successive month.** The JPM Global Manufacturing PMI fell to a 28-month low of 49.4 in Oct-22 (Sep-22: 49.8), a third successive contraction in global manufacturing. The latest decline in output was driven by weaker intakes of new business, deteriorating international trade flows and lower business confidence. As a whole, the JPM Global Composite PMI fell to 49.0 in Oct-22 (Sep-22: 49.6). Three sub-industries, out of six covered in the survey - business services, financial services and intermediate goods saw output decreases.
- **APAC market review – MSCI Asia ex-Japan continued to trade lower, down by -6.3% MoM while MSCI World was up by 7.1% MoM in Oct-22.** MSCI Asia was partly affected by the sluggish performance of China markets as President Xi went for his re-election in Oct-22. And, with his re-election, investors in the Chinese market remain fearful on even stronger geopolitical tension between China and the US. Finally, MSCI World recovered well due to good performance of the US markets which was driven by high cash position. Hence, they did bottom fish on the market's new low in mid-Oct despite the Fed's hawkish view.
- **Local Equity market review – Our KLCI rebounded strongly, tracking closely with the rebound in US markets starting mid-Oct after a huge sell down in Sep-22 to close the month higher by 4.7% MoM at 1,460.** However, there is no strong fundamental reason for this rebound. Hence, we can only link it to strong cash in hand by most institutions following the earlier risk off strategy on equity markets as a whole. Aside from this, the strong rebound also partly contributed by window dressing activities by some of the GLCs' funds.
- **Bond market review – Global bond yields were volatile** as market talks on the Fed pausing on its rate hike path were dashed amid macro data that continued to beat expectations. Meanwhile, short-term local yields saw some upticks on expectations that BNM will hike the OPR on Nov 3rd. Net govvy supply for the month was heavy with RM11bn auctions. As such, demand was relatively subdued as all auctions generated coverage of below 2x.
- **Macro – Marching towards no growth.** The Sep-22 US Leading Economic Indicator shows a deepening YoY contraction since Jul-22, strongly hinting the growth path ahead is bumpy despite rate hikes were to continue for now. The ISM and S&P Global surveys agree on a manufacturing slowdown, but the services surveys give differing signals about the pace of activity. Meanwhile, we are now seeing used car price index on a sharp downtrend, hence, another reason to believe peak inflation is likely behind especially when high rates have somewhat hinder demand. On the other hand, the interest rate differential between the US and Malaysia (US Fed fund rate is higher than BNM's OPR) has negative bearing on both the Malaysian equity and bond markets and likely to persist in the near term.
- **Local Equity outlook – All eyes on the US markets' direction and GE15 outcome.** Taking the cue from mid-Oct indices performance, it was clearly shown that our KLCI has high correlation with the US markets whereby both dropped and rebounded at the same timing. Hence, market participants will continue to observe this positive correlation until they show divergence. Aside from this, market participants will likely side-line ahead of GE15. A simple majority will be positive to our market and vice versa as markets want certainty in new government policies. Besides, there will be KLCI component rebalancing in Dec-22 with decision being made in Nov-22. Both Hartalega and Top Glove would likely be dropped off and replaced by Ambank and QL Resources.

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- **APAC Equity outlook – In general, we expect APAC stock markets' performance to start tracking closely with the recovery in the US markets.** Of course, Asia has their own currency problem of which all weaken against the strong USD. As a result, this will cause foreign selling whenever a rebound is strong. But short-term wise, markets are supported by the relatively stronger Asia PMI figures than Europe and the US peers.
- **Fixed Income outlook – Local yields are expected to see heightened pressures leading up to the General Elections coupled with narrowing yield differentials and continued strength in the USD.** Moving forward, BNM will likely resume its hiking path in Jan-23 as the pressure on falling FX reserves mount. Nonetheless, global yields may start easing as macro data should see further weakening.

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