May 2023

Monthly Market Outlook

Markets At Crossroad

Summary

- **Global economic growth gathers momentum on services sector.** The JPM Global Composite PMI rose to a 16-month high of 54.2 in Apr-23, from 53.4 in Mar-23. The upturn was again heavily skewed towards the services sector, as conditions remained sluggish in manufacturing. The JPM Global Manufacturing PMI was unchanged at 49.6 in Apr-23, staying below the neutral 50.0 mark for eight successive months. Notably, new orders continued to fall on deterioration in demands for goods linked to the rising cost of living, a post-pandemic switch towards spending on services and a preference for lower inventory holdings at clients.
- **APAC market review – In Apr-23, MSCI Asia ex-Japan was down -1.7% MoM while MSCI World upped +1.4% following the recovery in the US markets and sell down in some of the key Asian markets like China.** China's sell down was driven by investors concern that corporates earnings recovery may not be as strong as what the economy re-opening was earlier expected. This resulted in profit taking activities on the Chinese stocks. Despite the anticipated weakness in USD as money has been finding new home in Asia, we also see some weakness in the Chinese Yuan in Apr-23 and we believe this was likely due to profit taking by foreign investors.
- **Local Equity market review – The FBMKLCI dropped merely by -0.5% MoM despite historically April has been a good trading month.** This was due to profit taking activities in the finance sector following the spillover of negative sentiment of bank run on the smaller US banks. Aside from the finance sector, investors generally turned risk-off towards last week of April in view of 'Sell in May and go away' theme which happens year after year. Furthermore, there was no catalyst to induce new buying activities as all eyes still on the performance of our state elections which are expected to be called and completed by end Jun-23.
- **Bond market review – Global bond yields bull flattened in April** as dovish sentiments were weighed by weaker-than-expected GDP growth in the US, debt ceiling concerns and jitters on the regional banking sector. Additionally, the Fed has signalled for a pause on rate hikes in its May FOMC address and acknowledged signs of a slowdown and with risks of a tough credit crackdown by banks.
- **Macro – Approaching the end of rate hike cycle with mixed economic data.** On one hand, the Fed has reached its dot plot guidance on policy rate move and a pause is likely to follow in the next policy meeting. However, the recently released US core CPI remains sticky yet at high level given the resilient job market. Notably, the US manufacturing PMI has turned out better than China in Apr-23 despite China's re-opening continues in play yet the Chinese corporate earnings growth was somewhat disappointing in 1Q23. These cracks in global economies have led to the belief where gloomy economic condition has been gradually taken shape towards 2H23.
- **Local Equity outlook – Sell in May and go away.** As suggested, May should be a risk off month for the equity market in general. Historically, we see more damaging sell down in FBM Small Cap vs FBMKLCI. FBM Small Cap index historically dropped by an average -5% MoM. We expect investors to be wary of their investments in small cap sectors like construction, O&G and technology. Construction may see profit taking activities due to lack of big contract announcements while O&G sector may see interest depleting following the drop in oil prices on both the US and Europe recessions' fear while technology sector may continue to suffer from EV price war as well as the slower demand for mobile devices. In conclusion, we advise investors to cut their losses fast when going through this uncertain and risk off month.

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- **APAC Equity outlook – For May-23, investors will be monitoring the performance of global markets, especially the US markets after the Fed continued with its rate hike early May.** We do not expect money flowing back to the US from Asia especially with the ongoing banking turmoil in the US and policy rates were to remain high for some time. Only risk to Asia is if demand from the US and Europe deteriorates significantly, this will further lower manufacturing activities in Asia. Hence, Asian currencies could be under pressure too despite the general view that the USD should be weakening from now on.
- **Fixed Income outlook – As market sentiments are expected to remain dovish weighed down by noises of rate cuts, we foresee bond yields to remain low globally and locally.** On central bank actions, the Reserve Bank of Australia and BNM surprised markets with a 25bps policy rate hike in early May while the Fed hiked expectedly by 25bps to 5.00%-5.25%. We believe that BNM and the Fed are done with rate hikes for the year, especially so when recent macro data showed softening and tighter financial conditions following the aggressive rate hikes since last year.

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