August 2023

Monthly Market Outlook

Balancing Global Economy

Summary

- **Global economic growth eases as services lose momentum and manufacturing weakness persists.** The JPM Global Composite PMI fell to 51.7 in Jul-23, down from 52.7 in Jun-23, reaching the lowest reading since Jan-23, as the ongoing downturn at manufacturers was accompanied by a further slowdown at service providers. The euro area was the main source of the underlying weakness although slower growth momentum was seen in the US and China as well. The JPM Global Manufacturing PMI held steady at 48.7 in Jul-23, staying below the critical 50-mark for the eleventh month in a row. This was driven by several factors, including weak new order intakes, deteriorating international trade flows and a correction in stock levels in response to the weak demand environment.
- **APAC market review – MSCI Asia ex-Japan was up +5.3% MoM while MSCI World was also up +3.3% MoM contributed by the feel good factor that the Fed interest rate hike could be coming to an end soon.** Besides, Asian equity markets have been a laggard versus the US markets coupled with the weakness in USD against Asian currencies which have prompted many investors to bottom fish Asian equity markets instead.
- **Local Equity market review – The FBMKLCI surged +6.0% MoM after being a laggard for some months.** We saw foreigners returning to our market for the first time after many months of consistent net selling. They mainly bottom fish key index stocks such as the banks, plantation, telco and utilities stocks. At the same time, we saw local fund managers being more active in the market with them deploying fresh money into the market. All these factors had contributed to the strong recovery in our local market despite 6 states elections are round the corner.
- **Bond market review – US Treasuries yield curve bear steepened** as the narrative of US entering a "Goldilocks" economy roared stronger on the back of better economic growth and easing inflation. Besides, the BoJ's policy shift towards month-end also added to the steepening. The BoJ allowed the 10y Japanese Govt Bond (JGB) yield to trade around the +/- 0.5% hard stop limit while the fixed-rate operations on the 10y JGBs were moved from 0.5% to 1%. Meanwhile, the local bond yield movement was rather muted MoM relative to the UST and JGB.
- **Macro – Temporary forget about the "R" word.** There has been increasing calls that the US will not fall into recession this year and we concur with this view for now as the US's M2 money/Nominal GDP ratio stays above trend line, implying that liquidity remains in the financial system. Therefore, the US economy seems to be sustainable in the near term where the monetary tightening effect has yet to fully impede economic activity. On the other hand, the existing macro slowdown in ASEAN economies would gradually be cushioned by near-term sustainable US growth especially those ASEAN countries with heavy reliance on external demand.
- **Local Equity outlook – Expect some profit taking activities after a good run-up. Our local KLCI rallied strongly in July, upped 6% MoM after being a laggard for so many months post Covid pandemic.** But, because the rally was too fast and too strong, it would be normal to expect some profit taking activities. Aside from this, all eyes would be on the 2QCY23 results since Aug is a result reporting month and the 6 states election results. Besides these local events, local investors also need to monitor the US inflation and employment numbers as they will affect the Feds' decision on interest rates hike and this also affect the strength of our Ringgit versus the USD. As a result, we advise investors to take some profit on good run up stocks.
- **APAC Equity outlook – For Aug-23, all eyes will be on the US inflation and employment numbers as this will affect the Feds' decision on their interest rate hike this coming Sept.** If the Fed indeed decides to pause

interest rate hike, this will cause weakness in the USD and result in further inflows into Asian markets. The only issue is the weak Chinese economic data. Also, the Chinese domestic consumption has not been as strong as what market expected. Hence, investors will continue to monitor closely when these economic figures will bottom out and maybe by then the Chinese market would be more vibrant to invest in, supported by their improving corporates' results.

- **Fixed Income outlook – Downgrade of the US sovereign by Fitch from AAA to AA+ had a muted impact on bond markets.** The 10Y UST yields however rose to 4.08% on 2 Aug due to the higher-than-expected supply of USTs post-Fed's quarterly refunding announcement for Jul-Sep 2023 of USD1 trillion. Forward looking, we see the increased supply of US Treasuries, coupled with continued robustness of the labour markets as well as sticky inflation continue to add pressure to global bond yields. This would keep the UST10Y above 4% in the interim. Locally, bond yields are steady despite upward yield pressure on the UST and JGB, mainly anchored by expectations that BNM will hold the OPR unchanged at 3% for the rest of this year.

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