September 2023

Monthly Market Outlook

Approaching Peak Yields

Summary

- **Global manufacturing contraction eased, service sector growth slows in Aug-23.** The JPM Global Manufacturing PMI rose to 49.0 in Aug-23 from 48.6 in Jul-23, as manufacturing stayed in a contractionary mode for the twelfth successive month. However, Aug-23 showed easing contraction as rates of decline for production, total new orders and new export business all slowed and employment edged higher. Meanwhile, global service sector business activity continued to rise, although the pace of expansion was the weakest since Jan-23 which contributed to a weaker reading of 50.6 for the JPM Global Composite PMI in Aug-23, down from 51.6 in Jul-23. Europe remains principal weak spot being a drag on the trend in global output. The manufacturing and services sectors in both the euro area and the UK saw contractions.
- **APAC market review – MSCI Asia ex-Japan was down -6.3% MoM while MSCI World was also down -3.0% MoM in Aug-23 following profit taking activities after a good run up in Jul-23.** MSCI Asia ex Japan was more badly hit in Aug-23 due to the sharp sell down in China markets as investors appeared losing faith in the Chinese government's ability to sustain the Chinese equity markets. Also, we saw blowout from one of China biggest property developer, Country Garden where it failed to repay its debt on schedule.
- **Local Equity market review – FBMKLCI closed largely unchanged from 1459 to 1452 after a good run up in the previous month on foreign buying.** We saw rotational play where accumulation was seen in the banking and utilities sectors while profit taking activities hit both the plantation and telco sectors. Small cap stocks on the other hand performed greatly in Aug-23 with strong interest in sectors like properties, construction and industrial sectors. In conclusion, Aug-23 was a good trading month.
- **Bond market review – US Treasury yields were volatile in August due to generally hawkish Fedspeak.** However, the Jackson Hole meeting offered no surprises with Fed Chairman reiterating the rate hike path will be data dependant. For Malaysia, yields were generally resilient as Jul-23 headline CPI slowed further to 2.0% YoY (Prev: 2.4%). This, together with weak 2Q23 GDP lead that was dragged by sluggish exports cemented market views of no further hikes by BNM for 2023.
- **Macro – Peak yields and weak USD ahead.** Rising term premium on US Treasury, due to abundant Treasury supply and the US sovereign rating downgrade, will lead to elevated UST yield level but it also signifies peak Treasury yields are around the corner. As term premium goes higher, the US economy will turn more vulnerable ahead. So far in 2023, over 400 corporations have gone under. Corporate bankruptcies are rising at the fastest pace since 2010 (barring the pandemic), and are double the level seen this time last year. However, there's still room for the US consumers to spend as the current personal saving to disposable income remains pleasant, albeit not as strong spending during 2021-22. Given the fundamental macro concerns coupled with rate hiking path is nearing the end, weaker USD is expected going forward.
- **Local Equity outlook – Expect profit taking activities in Sep-23.** Historically, FBMKLCI has been in red MoM for Sept over the last 5 years and we do not expect this year to perform differently. As for small cap, we expect O&G stocks to play catch up since it was mainly the property and construction sectors which performed very well in Aug-23. The technology sector on the other hand may be affected by spillover of negative sentiment from Nasdaq performance due to the rising 10y UST yields. As a result, we advise investors to take some profit on stocks which

had had a good rally past 2 months and switch to the laggards for the next trade. Investors should also monitor closely on the Ringgit performance as this will have some impact to the foreign flows.

- **APAC Equity outlook – For Sep-23, all eyes will be on the US Fed meeting** which ultimately has impact to the USD strength and hence Asian currencies too. Also, investors will be monitoring whether China equity markets can make a comeback after the Chinese government has lowered trading costs, slowing the pace of initial public offerings, encouraging margin financing and protecting small investors. And of course, markets will be closely monitoring US's reaction on China Huawei new phone chip breakthrough as to whether there will be further sanctions to slow China's technology advancement.
- **Fixed Income outlook – In early Sep-23, strong labour market and PMI data caused UST yields to skyrocket as markets were increasingly looking at a soft landing scenario in the US.** Meanwhile, the recently released Beige Book by the Fed also indicated that economic activity is expected to slow moving forward. Back to Asia, currency-hedged bond returns in Asia are looking similarly attractive due to the renewed regional currency depreciation pressure. Malaysia's currency-hedged 10Y bond return is the highest in the region and will continue to attract and retain foreign flows in Malaysia.

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