EQUITY

Global Equities

The US Fed's consistent hawkish stance on inflation, softer China economic data, and escalation of conflict in the Middle East adding to geopolitical risk, all weighed on global markets. Market movements in September (in MYR terms): US (-0.7%), Eurozone (-2.3%), Hong Kong (-2.4%), Shanghai (-2.2%), Japan (-3.1%), Taiwan (-1.5%), Singapore (-3.5%), Thailand (-3.5%) and Malaysia (+1.3%).

US & Europe

10Y UST yields have increased rapidly from around 3.25% in April to over 5.00% this month due to a hawkish Federal Reserve (Fed), sharp increase in borrowing by the government, resilience of the US economy, strong oil prices and increasingly-hawkish stance by other major central banks. On the monetary front, Fed officials believe the recent tightening in financial conditions lessens the need for more hikes. On the fiscal front, with a divided Congress, a sharply rising deficit and Presidential elections coming into view, it is unlikely the highly unusual fiscal expenditure can be sustained in 2024. US growth is already showing signs of softening with the ISM manufacturing purchasing managers' index (PMI) staying in contractionary territory for more than nine consecutive months – which has historically led to recessions. 3Q23 earnings results have been mixed so far, with companies that reported earnings beats seeing smaller boost to share prices while those that missed expectations experienced larger negative price moves, indicating cautious sentiments.

The European Central Bank (ECB) expectedly kept its deposit rate unchanged at a record high of 4.00% after ten consecutive hikes as officials believe monetary policy is sufficiently tight now to return inflation to the central bank's 2% target. At the same time, the ECB warned the Eurozone is weak due to tighter financial conditions, subdued foreign demand, energy costs and signs the labour market is softening. October's composite PMI decreased further to 46.5, the fifth month in a row that contraction has been recorded. In its latest decision, the Bank of Japan signalled it would let yields rise modestly higher as they forecast core inflation to finally settle near its 2% target after Japan's lost decades of deflation.

China

Weaker growth concerns continue to drag the Chinese markets and stimulus measures thus far have been lacklustre. However, China's 3Q23 gross domestic product (GDP) report showed growth has begun to improve after a weak 2Q23. The 3Q23 data beat expectations with GDP rising 1.3% quarter-on-quarter (QoQ) after only expanding 0.5%QoQ in 2Q23. Separate monthly data for September showed activity was boosted by firmer consumption with retail sales growing 5.5% year-over-year (YoY), fixed asset investment in manufacturing and infrastructure both expanded 6.2%YoY, exports fell less than feared by 6.2%YoY and broad credit growth is bottoming around 9.3%YoY. Surprisingly, Chinese policymakers also announced that it will issue CNY1t of special central government bonds in the current quarter, signalling that Beijing is fully committed to supporting China's recovery and its growth target.

Asia

The KLCI rose 1.3% over the month, outperforming the broader Emerging Markets index and major ASEAN peers. However, support for local equities mainly came from local institutional investors as foreign investors have turned net sellers after three consecutive months of net buys. The month also saw the tabling of Budget 2024 by the Prime Minister, with focus now seen on raising tax revenue and reducing subsidy commitments, albeit continuing measures such as cash handouts and increases in public servant's incentives. A few new tax measures that were expected by the market were announced, although the service tax rate was unexpectedly raised in place of the widely-anticipated Goods & Services Tax. Reaction from the market was mildly positive to neutral as the government's commitment for fiscal consolidation was seen as necessary for the nation's growth sustainability.

General View

Risk assets are facing a delicate balance between economic growth, interest rates and asset valuations, with risk of near-term volatility due to the Middle East conflict not expected to be long-lasting. We continue to be positive on local equities as greater policy clarity and certainty, alongside fiscal consolidation commitment, provide the much-needed breather for investors to shift their attention back to corporate earnings which are expected to improve.

FIXED INCOME

US Treasuries

Bond volatility took centre stage as investors weighed the Federal Reserve's interest rate trajectory against concerns about the Israel-Hamas war. US stocks hit five-month lows and the 10-year Treasury yields tested the 5% level. The upward trajectory of global bond yields portrayed the market's apparent acknowledgement that inflation and economic growth have not retreated to levels to persuade the US Federal Reserve to pivot from its historically hawkish monetary policy. Minutes from the September 19-20 meeting showed that a majority of the Fed members judged that one more rate increase at a future meeting would likely be appropriate. Towards month-end, yields stabilized somewhat with the 10-year peaking at 5.02% before moderating over the last week of October ahead of the November Federal Open Market Committee (FOMC) meeting where officials are expected to keep policy rates steady. The yield curve approached its least inverted level in more than a year, at -17bps as long-term rates adjusted higher in quantum in comparison to short-term rates. The 10-year rose 36bps over the month to close at 4.57% while the 2-year increased 4bps to 5.05%.

Malaysian Bond Market

Alongside the weak Ringgit, Malaysian government bonds posted losses with yields increasing by 8-18bps across the curve led by the 5 and 7-year segment. Nevertheless, like the Ringgit, bonds pared their losses towards month-end as both the US dollar and the US Treasuries retreated from their highs for the month. The recent Budget 2024 tabled by the unity government continues to focus on restoring the country's fiscal health in the medium term with plans to reduce its budget deficit in 2024 through a combination of spending cuts, new taxes, and reduced debt payments. Inflation is expected to cool to between 2.1%-3.6% in 2024 from an estimated 2.5%-3.0% this year. Bank Negara Malaysia (BNM) monetary policy stance remains calibrated for the balance of risks to growth and inflation with expectations of overnight policy rate (OPR) to remain unchanged for 2023 and into 1H2024. Government auctions saw modest demand for the 20-year and 10-year auction, but demand plummeted towards month-end with the 7-year auction gaining bit to cover (BTC) of 1.40x, the lowest for a 7y/10y auction this year as surging UST yields added to market caution. Meanwhile, according to the advanced estimates, GDP in the third quarter grew by 3.30% with services sector continued to steer the overall performance this quarter. With the challenging global environment, the Malaysian economy is projected to expand close to the lower end of the 4.0% to 5.0% range in 2023. During the month, the 3y/10y curve saw a near-parallel move with yields higher by 8bps and 9bps to 3.58% and 3.99% respectively.

Disclaimer

This publication has not been reviewed by the Securities Commission of Malaysia (SC). This publication is for information only and its circulation is to be restricted. It is not an offer or solicitation for the purchase or sale of any securities/investments and does not have regard to your specific investment objectives, financial situation or particular needs. Past performance, as well as any prediction, projection, or forecast on the economy, securities market, or the economic trends of the markets are not necessarily indicative of the future. Any opinion or view presented is subject to change without notice. Accordingly, no warranty is given and no liability is accepted for any loss arising directly or indirectly as a result of you acting on any information, opinion, forecast, or estimate contained herein.

Every effort has been made to ensure the accuracy of the information provided herein and BOS Wealth Management Malaysia Berhad does not take responsibility for the contents of this publication. No returns given herein are represented as projected or promised returns to investors.

Note

Assets received or held outside Malaysia are subject to regulations of the foreign jurisdiction and may not be subject to the same protection as that conferred on client assets received or held in Malaysia.