March 2023

WEEKLY MARKET REVIEW

A brief on global and local markets, and investment strategy

27 February – 3 March 2023

KEY HIGHLIGHTS

Global

- US equities rebounded on expectations that bond yields have peaked and the US dollar strength is topping out.
- The S&P 500 rose 1.90% finding respite from a set of stronger than expected economic data as well as favourable technicals.
- A report by the Institute for Supply Management (ISM) showed US manufacturing activity contracting at a slightly slower rate in the month of February.
- The US 10-Year Treasury yield reached a high of 4.08% before settling at 3.95%.

Asia

- The MSCI Asia ex-Japan closed 1.80% higher lifted by positive gains in China.
- China posted a marked recovery in factory which is the highest reading since April 2012.
- China kicked off its annual National People's Congress (NPC) over the weekend. All eyes will be on President Xi's close ally, Li Qiang who is poised to take over the role as Premier.
- Asian credits stayed resilient despite a data-heavy week. IG spreads tightened by 7 bps, while over in the HY space, spreads tightened by 62 bps.

Malaysia

- Benchmark KLCI was flat at -0.20% on the back of a mixed results season. Banks and technology emerged as winners, while the oil & gas sector missed expectations.
- On politics, UMNO will be holding its party polls in the coming weeks with over 8 candidates vying for the three Vice President posts.
- Back home, MGS yields retraced higher between 4 – 15 bps in line with hawkish sentiment globally.
- Central bank watchers will be closely monitoring BNM's next monetary policy meeting next week on the 9 March.

Global Equities Softer on Tightening Fears

US equities swung higher last week on expectations that bond yields have peaked and the US dollar strength is topping out. The S&P 500 rose 1.90% finding respite from a set of stronger than expected economic data as well as favourable technicals.

US Global Composite and Services Purchasing Managers Index (PMI) held above the 50 threshold while a report released by the Institute for Supply Management (ISM) showed US manufacturing activity contracting at a slightly slower rate in the month of February. The US services sector grew at a steady pace where the ISM's services index were 55.1 from a reading of 55.2 in January that exceeded consensus expectation of a decline to 54. The 50-point threshold separates expansion from contraction.

There were however also data surprises particularly on the US unit labour cost and manufacturing prices which bolstered expectations that the US Federal Reserve would continue to tighten. The US 10-Year Treasury yield reached a high of 4.08% before settling at 3.95% last week.

In Asia, the broader MSCI Asia ex-Japan closed 1.80% higher lifted by positive gains in China. The HSCEI rose 3.50%, while the Hang Seng index climbed 2.80% as China posted a marked recovery in factory activity.

Its official manufacturing purchasing managers' index (PMI) rose to 52.6 in February which is its highest reading since April 2012. Non-manufacturing PMI also grew further to 56.3 from January's print of 54.4 as recovery gathers momentum after Beijing lifted its strict COVID lockdowns.

China also kicked off its annual National People's Congress (NPC) over the weekend where economic growth targets and work reports would be presented by top party leaders. At the NPC, China set a GDP target of around 5% for 2023 which came in at the lower end of market consensus.

In his work report, outgoing Premier Li Keqiang emphasised the need for economic stability and warned that risks remain in the real estate sector. President Xi's close ally, Li Qiang who is poised to take over the role from the former is expected to make his inaugural address to the media this week. His messages would be highly scrutinised by market watchers for any signals of stimulus and pro-growth policies.

Meanwhile in India, the shares of Adani bounced back after US boutique investment firm GQG Partners Inc ploughed US$ 1.9 billion into the conglomerate which saw its share price plummet following a short-seller report. The move helped lift risk sentiment overall in the region and spurred a broad recovery in its indices.

On portfolio action, we added exposure in China including Sino Land, Alibaba and Li Ning. We also gradually nibbled back into India throughs banks and IT service companies. Cash levels range between 3%-5% for our regional portfolios.

Updates on Malaysia

On the domestic front, the local market stayed tepid with the benchmark KLCI flat at -0.20%. It was a mixed bag for the recently concluded results season with banks and technology beating expectations. On the flipside, the oil and gas sector posted results that came below consensus.

Notable news concerning companies in our portfolio holding include Sime Darby which announced that it plans to acquire Australia's Onsite Rental Group Limited (Onsite). Onsite provides business-to-business equipment rental solutions in sectors ranging from energy, industrial and commercial. We view this news positively as management takes a more proactive approach in streamlining the group's assets as well as recycling capital. The stock also provides an attractive dividend yield of 5%.

KPJ Healthcare also announced last week that it plans to dispose its Indonesian operations for a total consideration of RM150.2 million. A subsequent report by Bloomberg that private equity firm CVC Capital Partners was looking to acquire a stake in the hospital operator also contributed to the wave of positive news flow which lifted its share price.

On politics, UMNO will be holding its party polls in the coming weeks with over 8 candidates vying for the three Vice President posts. It was decided in prior meetings that the position of the president and deputy president will not be contested at the upcoming party election.

There were no major portfolio action for our domestic funds. Cash levels range between 5%-15% for our conventional funds, while Shariah funds had a higher cash buffer between 15%-20%.

Fixed Income Updates & Positioning

Despite a data-heavy week, the Asian credit space stayed resilient amidst volatility seen in rates. Asian investment grade (IG) spreads tightened by 7 bps translating to an equivalent yield of 5.67%. In the high-yield space, spreads tightened by 62 bps providing an equivalent yield of 13.10%.

In terms of fund flows, emerging market (EM) bond funds experienced an outflow for the third consecutive week to the sum of US$ 1.6 billion. However on a YTD basis, we are still seeing a net inflow of US$ 6.10 billion.

Activities slowed slightly in the primary market compared to the prior week. We took part in the issuance of a 5-Year bond by Kasikornbank at 5.45%. During the week, HSBC also issued US$ 7 billion of senior bonds across 3 tranches, where it recorded a total bid-to-cover ratio of over 3 times overall. We took part in the 21 years non-callable 20 years tranche at 6.332%.

On China property, it was a firmer week for the sector where price action for bonds were either flat or marginally higher by 0.5 points. We saw a recovery in contracted sales for some of the top 10 developers in the country which increased 35% m-o-m. However, there has been a divergence between the performance between cities, where higher-tiers have been notably outperforming lower-tier ones.

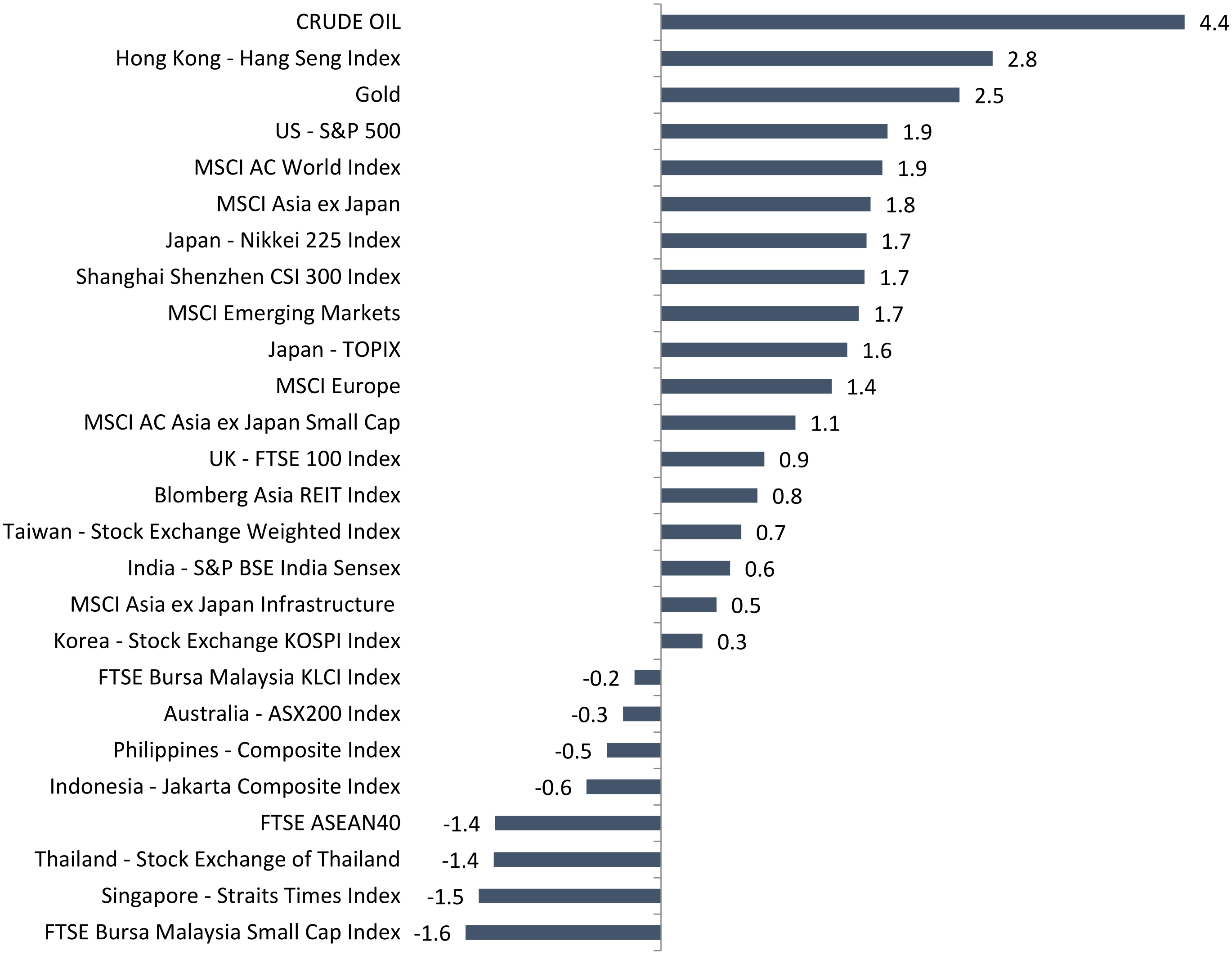
Back home, MGS yields retraced higher between 4 – 15 bps in line with the hawkish sentiment globally. Bond traders were mostly at the side-lines and taking a cautious stance in anticipation of Bank Negara Malaysia (BNM) upcoming monetary policy meeting next week on the 9 March.

In terms of government tenders, we saw the reopening of a 15-Year sustainability GII with an order book size of RM3.5 billion available for public subscription with the remaining RM2.0 billion is via private placement. The issuance saw a lower-than-expected bid-to-cover ratio of 1.99 times.

There were no major corporate bond issuances last week. Though, some notable ones that are expected to tap the bond market soon are TNB and YTL Power.

On portfolio action, we were mainly net sellers for the week offloadin govvies and taking profit in corporate private debt securities. We maintained a neutral duration length between 5 to 6 years with cash levels ranging between 6%-10%.

Index Performance | 27 February – 3 March 2023



Index Chart: Bloomberg as at 3 March 2023. Quoted in local currency terms.