# PART 01 CAPITAL MARKET REVIEW AND OUTLOOK

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## OVERVIEW

The world experienced an unparalleled public health emergency in 2020, triggering an economic shock across economies globally. Against this backdrop, the Malaysian capital market witnessed significant volatility but continued to remain orderly. More importantly, the domestic capital market continued to play its vital role in financing economic activity and intermediating savings despite the challenging environment. In terms of performance, both the domestic equity and bond markets registered encouraging returns for the year, with the former experiencing a notable shift in sentiments towards smaller to mid-cap companies, especially in the healthcare and technology sectors. Going forward, the Malaysian economy is expected to rebound in 2021, in tandem with a recovery in global demand. Although the domestic capital market will continue to be influenced by key global developments, it is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, ample domestic liquidity and supportive policy environment.

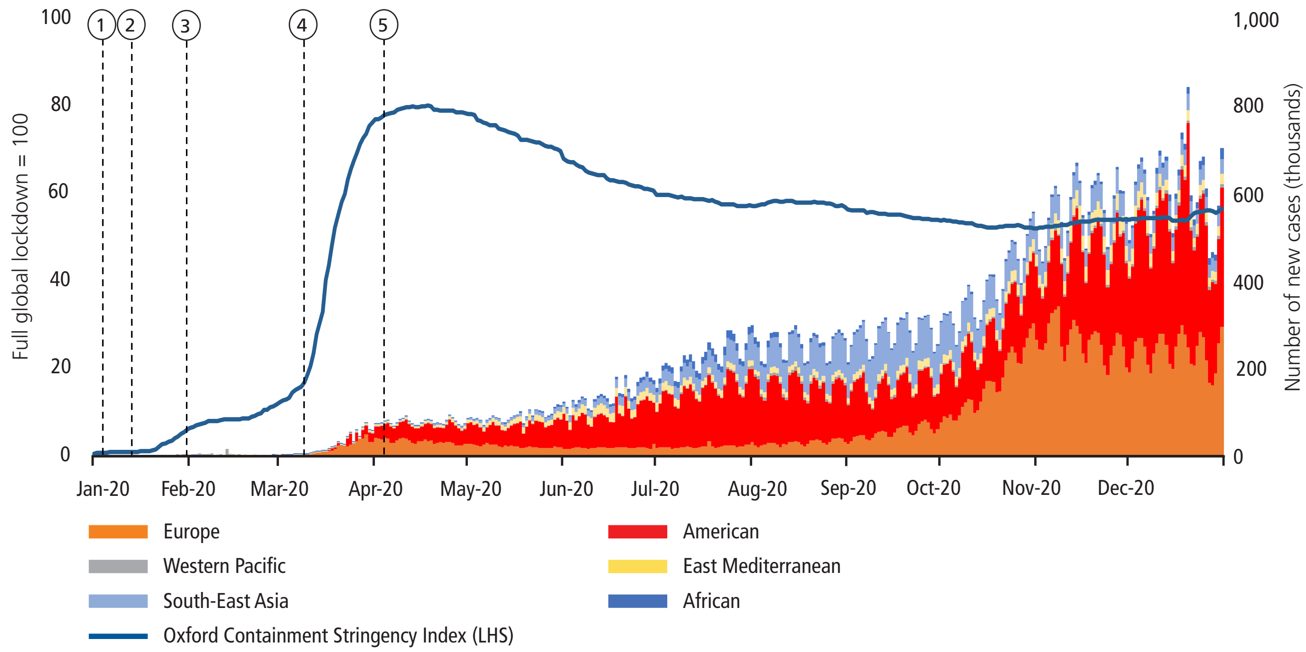
## GLOBAL DEVELOPMENTS IN 2020

The global economy experienced one of the largest shocks in modern history in 2020. The emergence and rapid spread of COVID-19 at the beginning of the year threatened to overwhelm public health systems, contending with rising infection rates and death tolls in many parts of the world. To avert a public health disaster, governments in both advanced and emerging economies implemented strong containment measures, triggering concurrent supply and demand shocks across the globe.

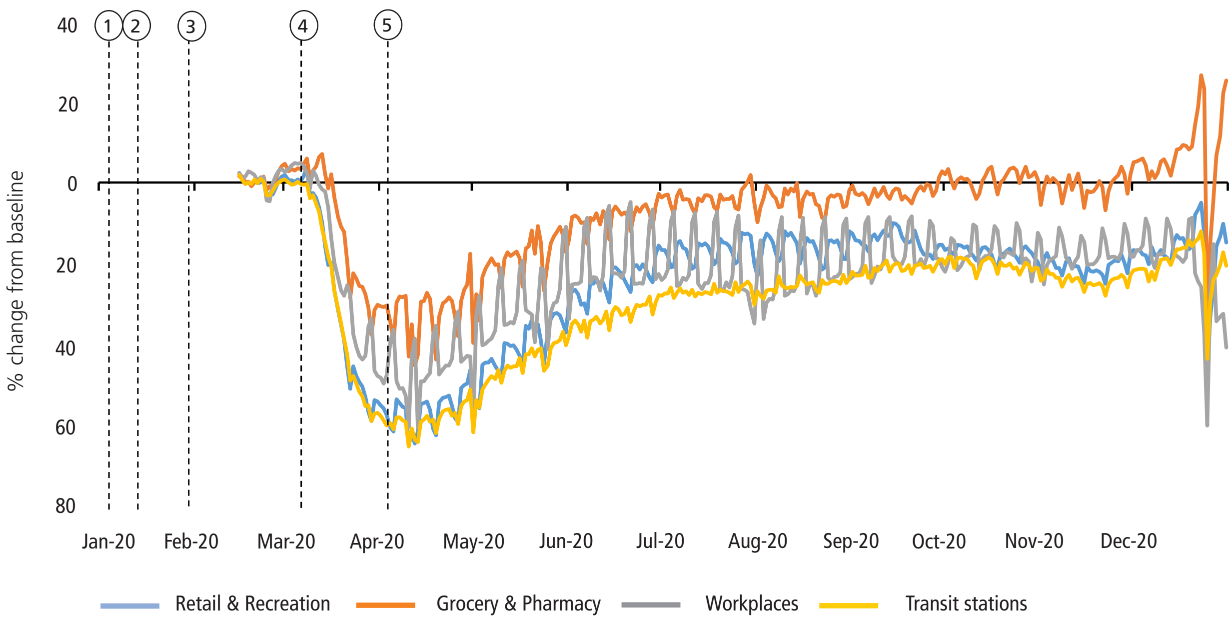
CHART 1

**Strict worldwide containment measures contributed to concurrent supply and demand shocks, which led to the sharp decline in economic activity**

**Daily new COVID-19 cases by region vs Oxford Containment Stringency Index[1]**




**Google COVID-19 Community Mobility Report - Global Aggregate[2]**




Note: Vertical dashed line indicates; 1) China informed WHO on the cluster of viral pneumonia of unknown cause in Wuhan; 2) First recorded case outside China in Thailand; 3) WHO declared coronavirus as Public Health Emergency of International Concern; 4) WHO declared COVID-19 as pandemic; 5) WHO reported more than 1 million cases worldwide, tenfold increase in less than a month.

[1] Simple average of Containment Stringency Index for all countries covered by Blavatnik School of Government, University of Oxford.
[2] Simple average across all countries covered by Google COVID-19 Community Mobility Reports; Index shows change in mobility relative to baseline corresponding to the median value of the same day during the five-week period between 3 January and 6 February 2020.

*Source: CEIC; Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Google COVID-19 Community Mobility Report; SC's calculations*

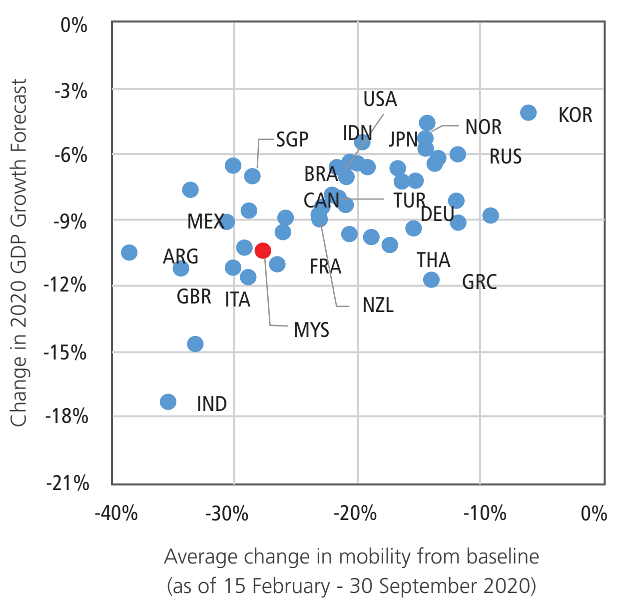
This simultaneous introduction of strict containment measures worldwide resulted in a sudden stop in economic activity through March and April 2020, which led to a substantial downgrade in growth expectations. The International Monetary Fund (IMF), in June 2020, forecasted a global gross domestic product (GDP) contraction of -4.9% for the year 2020, down by 8.2 percentage points from its January 2020 forecast and certainly worse than the -0.1% contraction in 2009. Unlike previous economic crises where the financial sector had typically been the catalyst, this downturn began from a health policy-induced crisis in the real economy.

Based on the assessment of the IMF then, more than 85% of global economies would record sub-zero growth in 2020, significantly more than during the Global Financial Crisis (GFC) in 2007-2009, leading to the worst peacetime contraction in global output since the Great Depression of the 1930s. Although some countries initially suffered larger economic contractions due to more stringent containment measures, those that were unable to manage the pandemic eventually suffered greater economic pain, recovering more slowly and recording more deaths over time.

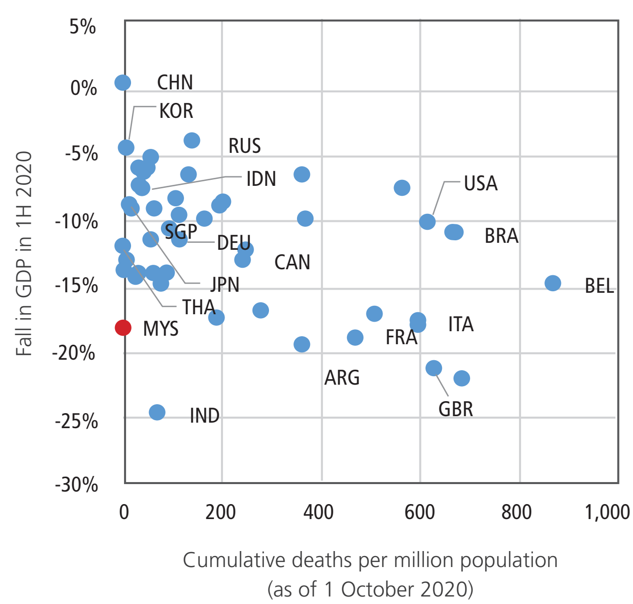
CHART 2

**Economic activity fell more where containment measures were stronger; countries that were unable to control their outbreaks suffered the most economic pain**

**Change in mobility and GDP growth forecast**




**Cumulative COVID-19 deaths and fall in GDP**




*Source: Google COVID-19 Community Mobility Report; IMF World Economic Outlook Database, October 2019 and October 2020; OECD database; WHO COVID-19 Dashboard; SC's calculations*

Global financial markets were affected by the sharp worsening of the growth outlook and heightened uncertainties surrounding the pandemic. This resulted in a significant increase in volatility and led to a subsequent sell-off across a wide range of assets amid worsening global financial conditions. Ongoing US-China tensions also added to the volatility in global financial markets especially in 2H 2020.

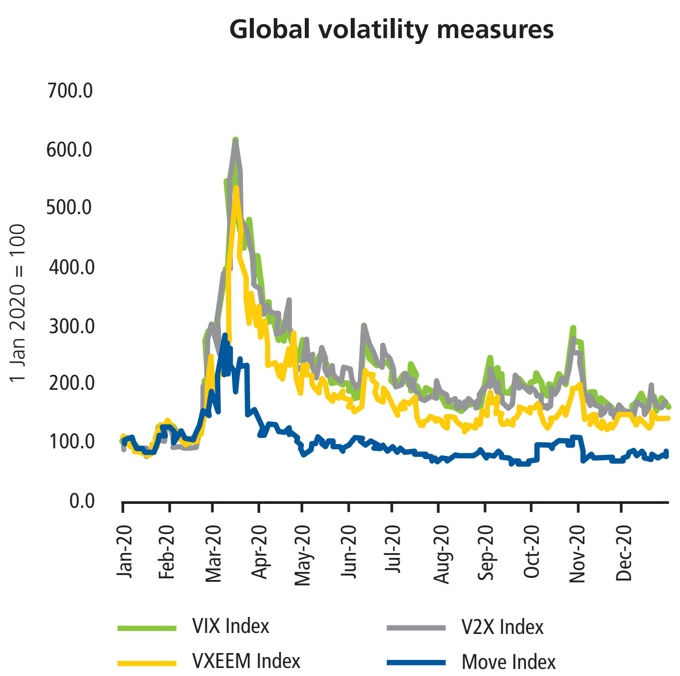
The initial flight to safe-haven assets eventually turned into a hunt for cash in mid-March 2020, culminating in a simultaneous fall in equity prices and a spike in bond yields. Gold prices surged on continued safe-haven flows, while other commodities declined on weakened demand prospects. To this effect, Brent crude oil touched an 18-year low in early March 2020, exacerbated by the temporary breakdown of the Organisation of the Petroleum Exporting Countries+ (OPEC+) coalition. The US benchmark West Texas Intermediate (WTI) near-term oil futures even witnessed a brief dip into negative territory in April 2020 due to the supply overhang.

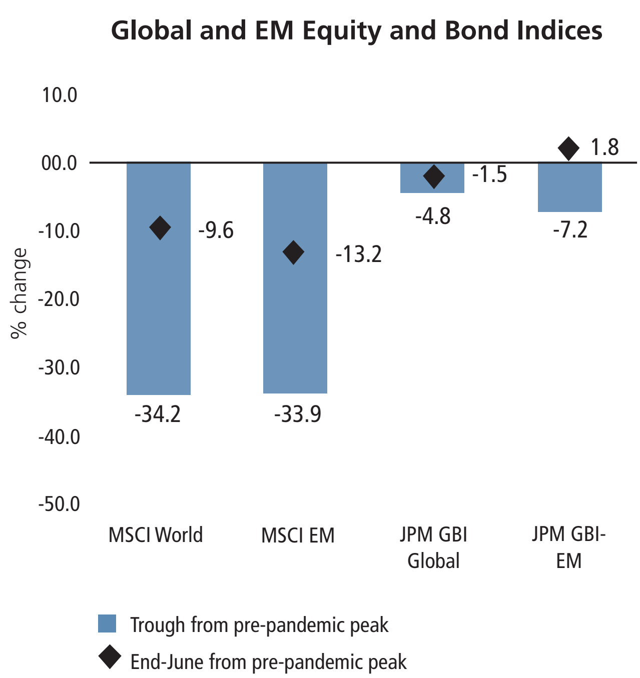
In addition to the toll on health and decline in domestic economic activity, emerging market economies (EMEs) had to contend with the loss of economic activity from weakened foreign demand, sharp falls in commodity prices and reduction in capital flows.

As such, outflow pressures intensified considerably even as financing needs increased. The Institute of International Finance (IIF) estimated that US$80 billion of capital was withdrawn from EMEs in March 2020 alone, the largest single month of capital outflows on record.

CHART 3

**Implied volatility in financial markets surged to a record, while equity and bond markets significantly fell during the height of the COVID-19 crisis**

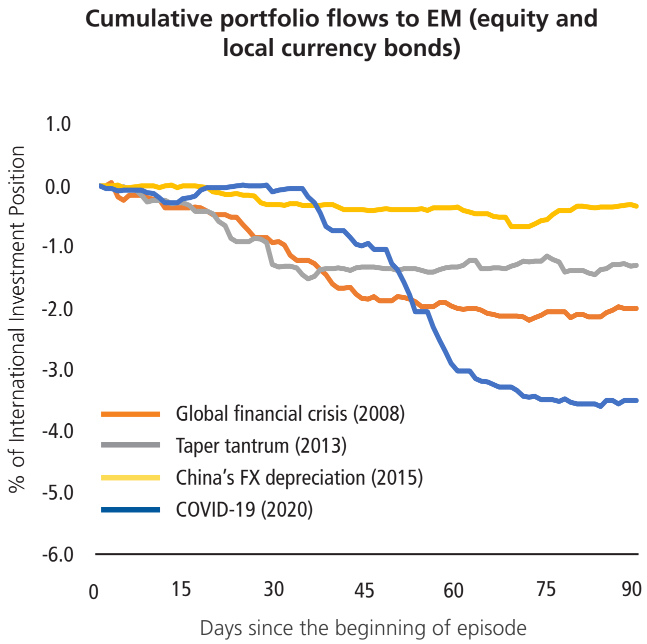


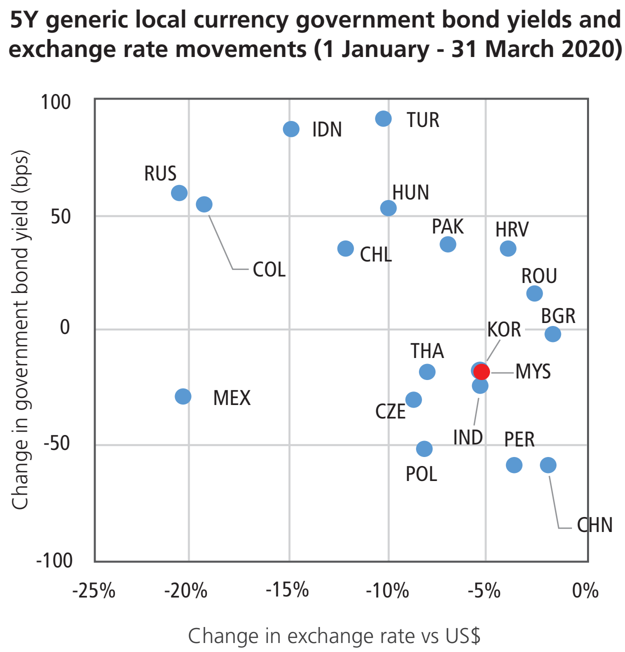




*Source: Thomson Reuters Datastream; SC's calculations*

CHART 4

**Emerging market economies experienced unprecedented portfolio outflows, leading to sharp depreciation of their respective currencies**



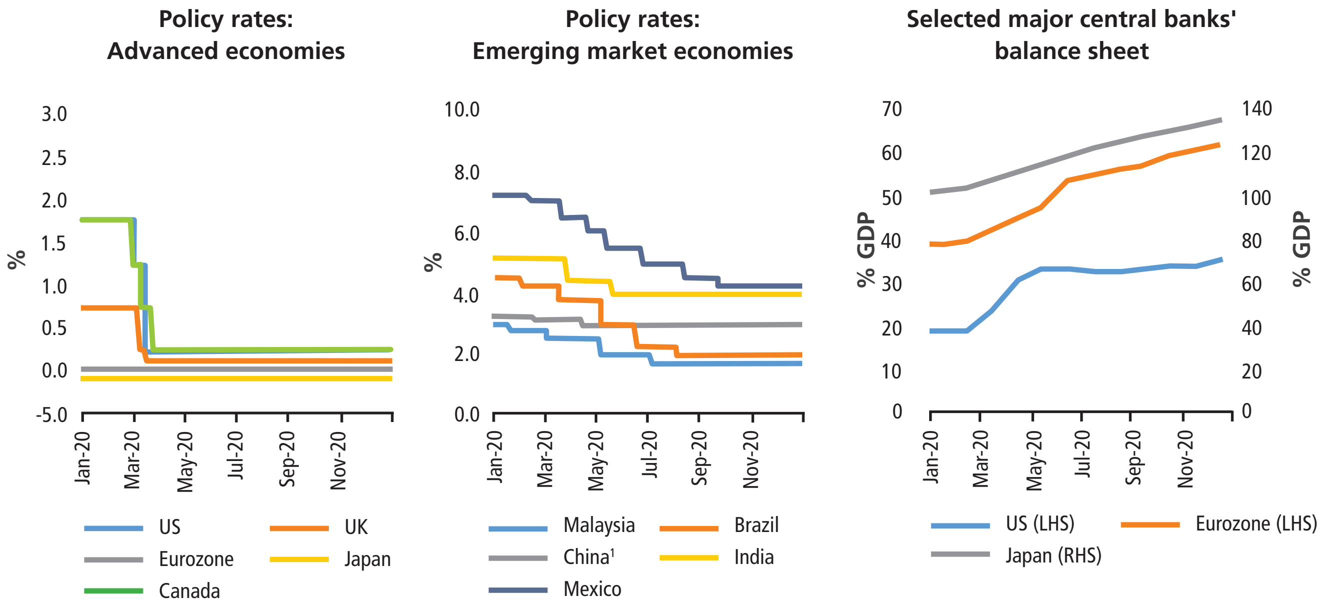




*Source: The Institute of International Finance (IIF); IMF; Bloomberg; SC's calculations*

Given the shock's unprecedented scale, the policy responses were swift and aggressive across both advanced economies (AEs) and EMEs, well beyond those adopted during the GFC. Central banks reacted promptly both in terms of speed and scale, cutting benchmark interest rates to record lows and implementing unconventional monetary policy measures. Some central banks also chose to provide direct financial lifelines to vulnerable groups, either via direct debt purchases or by providing backstops to banks via funding-for-lending initiatives, especially for small and medium enterprises (SMEs). Despite having lesser room to manoeuvre, central banks in EMEs also reacted in a similar fashion, cutting policy rates aggressively, and in some countries, embarking on asset purchase programmes for the first time.

CHART 5

**Central banks reacted swiftly alongside the utilisation of unconventional monetary policy measures**




Note:
[1] Medium-term lending facility rate, one-year.

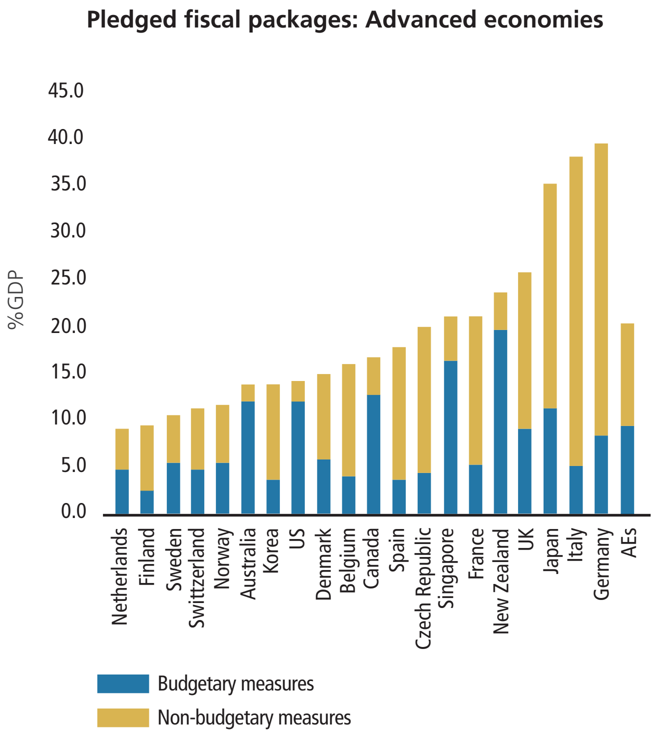
*Source: Bloomberg; SC's calculations*

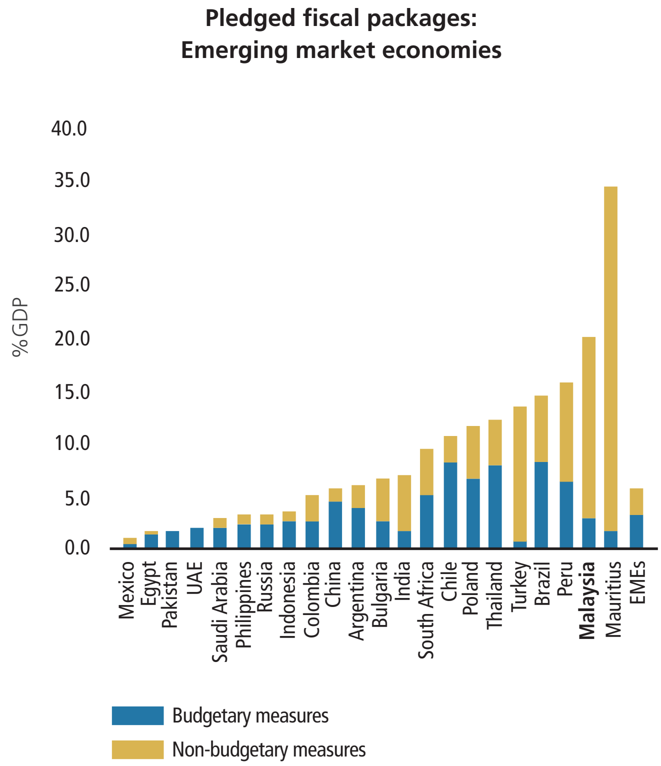
Likewise, fiscal authorities worldwide unveiled unprecedented amounts of stimulus packages, estimated at US$12 trillion as of September 2020 or close to 12% of GDP, according to the IMF.

The size and composition of fiscal support, however, varied vastly across countries. A continued decline in long-term interest rates aided by central banks' actions, especially in the AEs and large EMEs facilitated the massive fiscal response.

CHART 6

**Fiscal authorities responded with large stimulus packages**



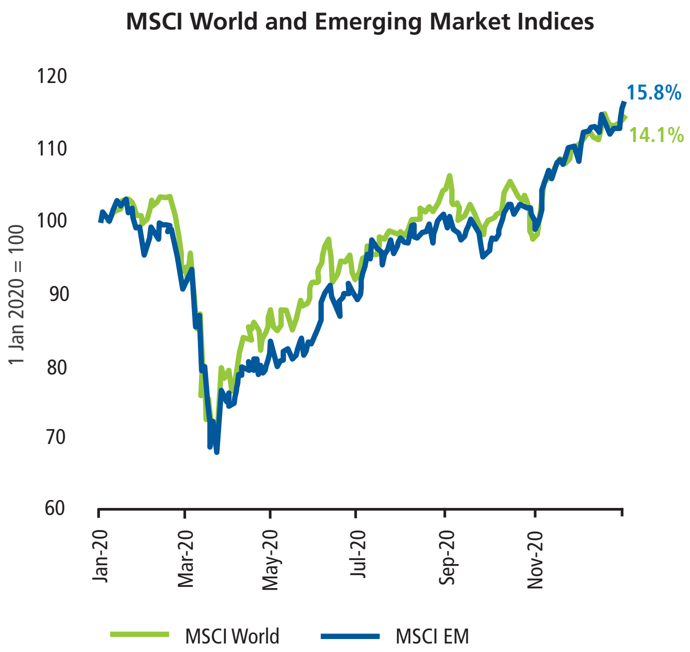

*Source: IMF Global Fiscal Monitor, October 2020*

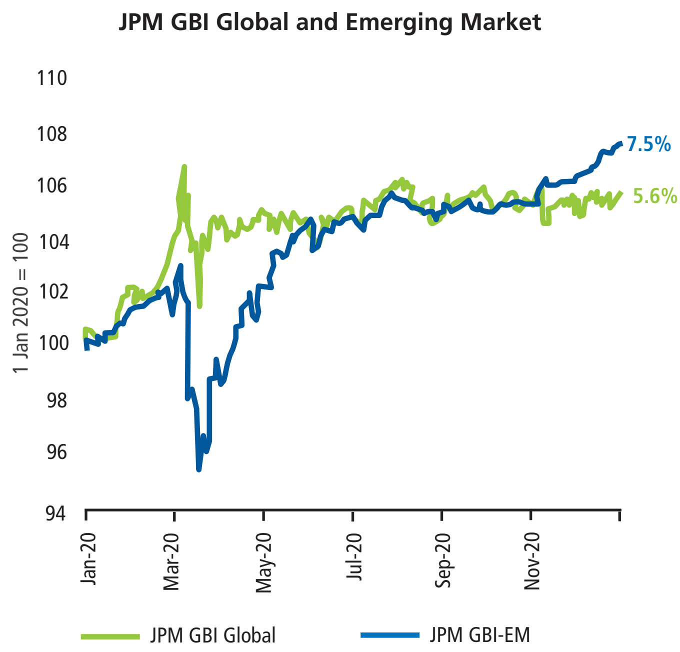
These supportive global policy actions alongside the resumption of economic activities with the easing of lockdowns in April-May 2020, although remaining uneven, contributed to broadly easier global financial conditions and improved investor confidence. Despite occasional escalations in US-China tensions, financial market volatility subsequently declined, accompanied by a surge in asset prices. Equity prices ended the year at historical highs, especially in AEs despite differentiated performance across countries and sectors. MSCI World increased by 67.9% from a low of 1,602.11 points on 23 March 2020 to end the year 14.1% higher at 2,690.04 points (2019: 25.2%). Meanwhile, MSCI EM rose by 70.3% to 1,291.26 points on 31 December 2020 from its low on 23 March 2020, an increase by 15.8% from a year earlier (2019: 15.4%).

Similarly, bond yields were significantly lower from their peaks in March 2020, while credit spreads continued to tighten. JP Morgan Government Bond Index (GBI) rose 5.6% from the beginning of year 2020 (2019: 6.1%), while GBI EM gained 12.5% from its low on 19 March 2020, an increase by 7.5% from a year earlier (2019: 12.9%).

CHART 7

**Global equities and bonds rebounded swiftly despite continued volatility throughout the year**



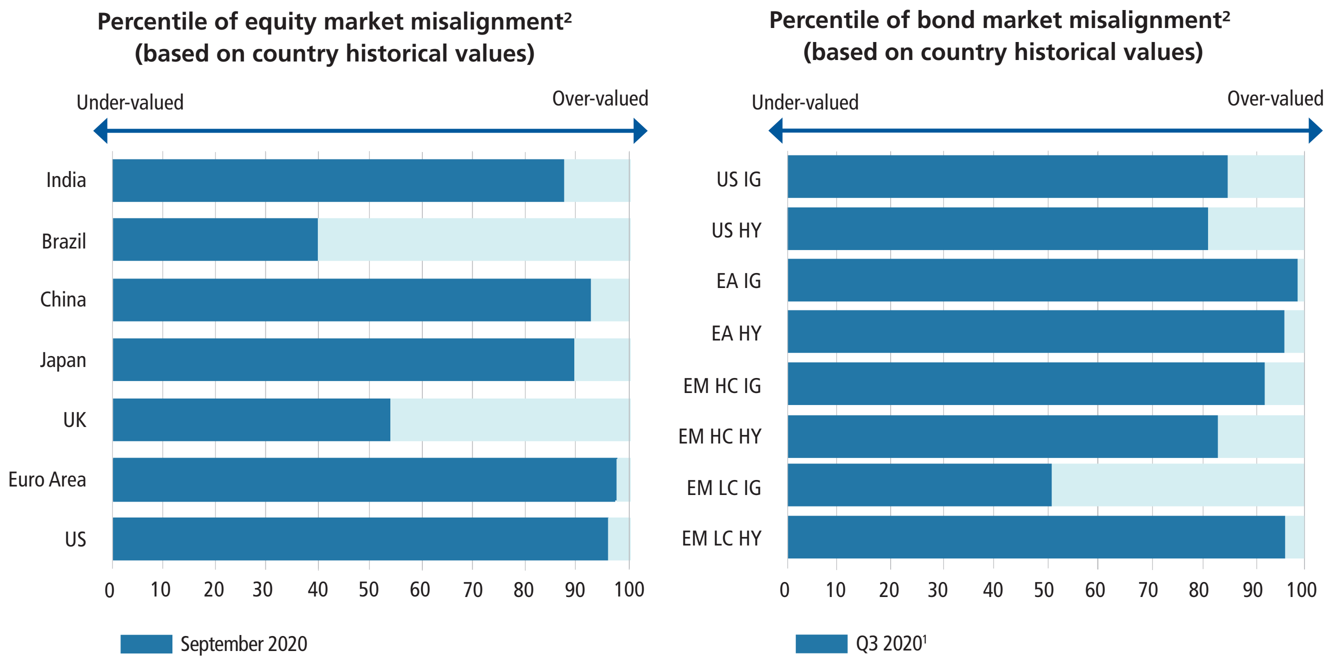




*Source: Thomson Reuters Datastream; SC's calculations*

A stream of moderately positive economic indicators, news on vaccine development progress and the outcome of the US presidential election further buoyed performance in global financial markets towards the end of 2020. The IMF in its World Economic Outlook (WEO) published in January 2021 expected a shallower recession of -3.5% in 2020 (October WEO: -4.4%), amid stronger-than-expected growth in 2H 2020, robust policy support and a stronger recovery in China offsetting weakness in EMEs. Nevertheless, the IMF notes that this remains the world's worst peacetime contraction since the Great Depression in the 1930s. While asset prices continued to improve, the recovery in economic activity continues to be highly uneven and incomplete across most economies. In particular, evidence points to some disconnect between financial markets and the real economy, with risk asset valuations in some economies, especially in AEs, being highly stretched despite subdued economic prospects. Such conditions suggest higher financial vulnerability against the sudden repricing of risk, which could undermine the economic recovery process.

CHART 8

**Global financial assets continued to rise despite subdued economic recovery**




Notes:

[1] Data up till 29 September 2020.

[2] Misalignment is the difference between market- and IMF model-based values scaled by the standard deviation of weekly equity returns and monthly changes in bond spreads. High/low percentiles of market misalignment indicate the extent of overvaluation/undervaluation as compared to the country's historical values.

US - United States; EA - Euro Area; EM - Emerging Markets; HC - Hard Currency; LC - Local Currency; IG - Investment Grade; HY - High Yield.

*Source: IMF Global Financial Stability Report, October 2020*

## MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2020

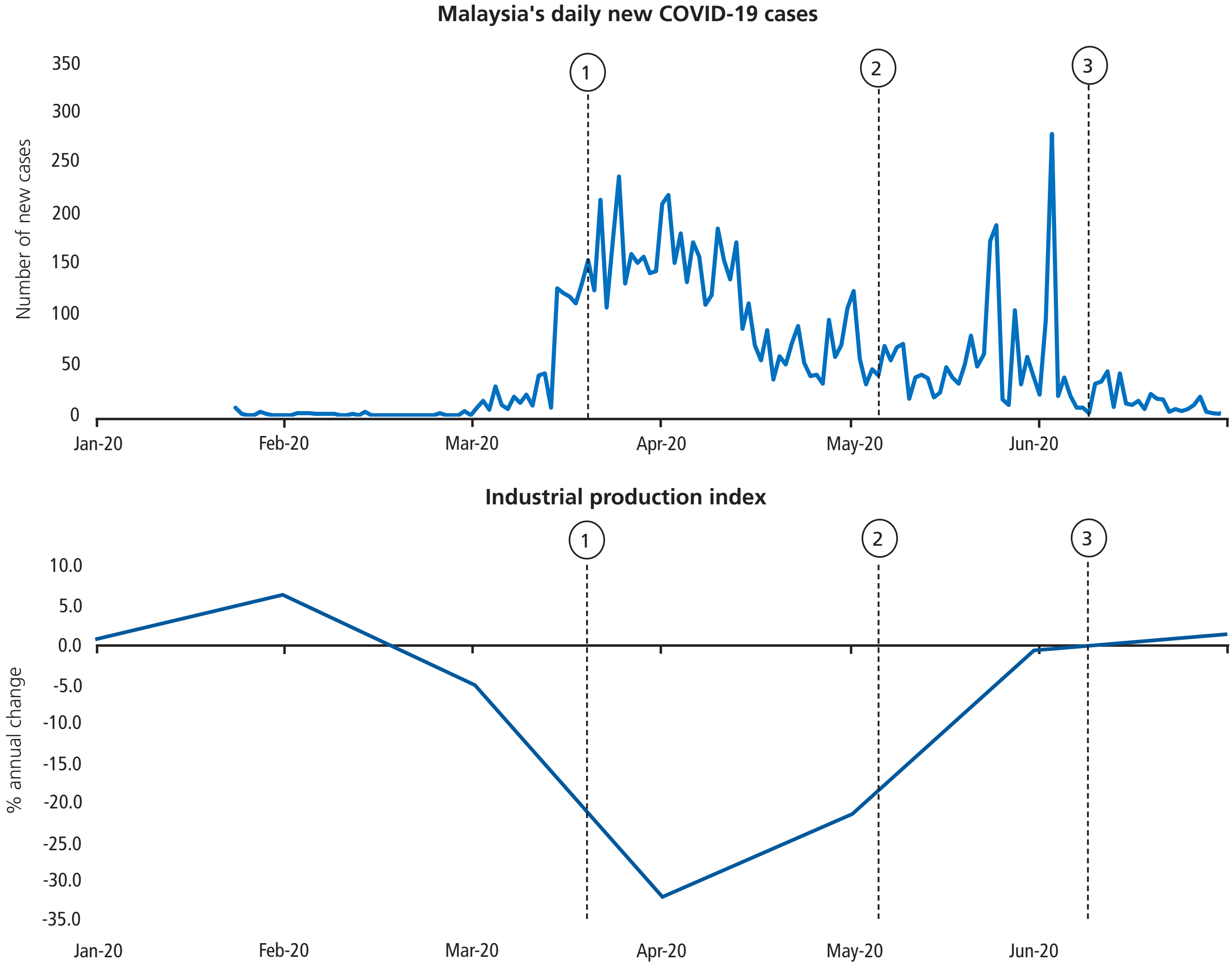
The Malaysian economy was not exempt from the adversity stemming from the COVID-19 pandemic in 2020. The rapidly rising number of infections domestically, alongside mounting cases abroad required the government to implement a full Movement Control Order (MCO) on 18 March 2020, closing national and state borders to contain the spread of the virus outbreak. These containment measures affected both the supply and demand side of the economy, causing a sharp decline in economic activity. Real GDP contracted by 17.1% y-o-y in Q2 2020, with growth seen to have troughed in April, during which most economic activities came to a standstill due to the MCO.

This has resulted in full year decline of -5.6% in 2020, a larger decline than the -1.5% contraction witnessed in 2009 during the GFC.

Against the backdrop of challenging economic conditions, domestic policy responses have been swift. Bank Negara Malaysia (BNM) promptly cut the Overnight Policy Rate (OPR) by a cumulative 125 basis points (bps) between January and July 2020, while reducing the Statutory Reserve Requirement (SRR) by 100 bps and relaxing its compliance in March 2020. Likewise, the government unveiled a sum of RM305 billion in stimulus via *Prihatin Rakyat* Economic Stimulus Packages (*Prihatin*, *Prihatin PKS Tambahan*, *Kita Prihatin*) and the National Economic Recovery Plan (*PENJANA*), of which RM45 billion was directly injected by the government under the COVID-19 Relief Fund.

CHART 9

**The rising number of new cases in Q1 2020 warranted strict containment measures, which brought the economy to a standstill**




Note: Vertical dashed line indicates; 1) 18 March 2020 – MCO; 2) 4 May 2020 – Conditional Movement Control Order (CMCO); 3) 10 June 2020 – Recovery Movement Control Order (RMCO).

*Source: World Health Organisation (WHO), CEIC, Department of Statistics Malaysia (DOSM)*

On the capital market front, the Securities Commission Malaysia (SC) announced a series of regulatory measures and flexibilities to support businesses affected by the pandemic, simultaneously ensuring the capital market remains orderly. This includes, among others, additional regulatory relief for public-listed companies (PLCs) to allow companies more time to regularise their financial positions and introduction of measures to ensure greater access to fundraising for viable SMEs. Further discussions on these measures by the SC are detailed in the subsequent chapters of this *Annual Report*.

Collectively, these domestic policy measures have helped to avert a sharper contraction in economic growth, stabilising market sentiment and paving the way for gradual recovery. The Ministry of Finance estimates that overall, the policy measures have contributed 4 to 4.2 percentage points to the nation's economic growth in 2020.

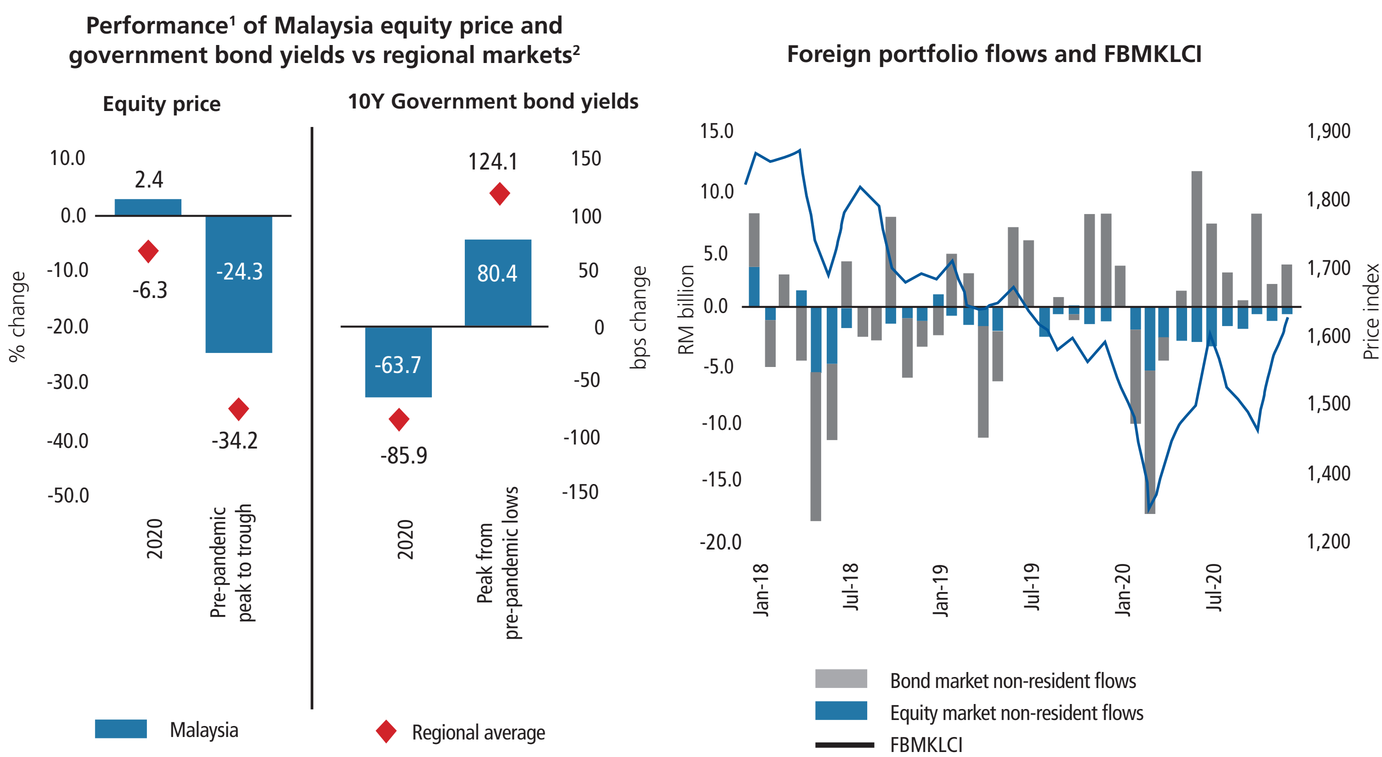
## Domestic Capital Market Remained Orderly Despite the Unprecedented Shock

The domestic capital market experienced significant volatility in 2020, in line with global and regional markets. The impact on the domestic market was significant, especially in March 2020, reflecting the sharp worsening of the growth outlook and global risk aversion. Both local equity and bond markets experienced steep declines. On 19 March 2020, the FBMKLCI dropped as much as -24.3% from January 2020's pre-pandemic high to 1,219.72 points, the lowest level since September 2009. Meanwhile, local bond yields surged sharply, with the Malaysian Government Securities (MGS) 10-year yields rising by 80.4 bps to a high of 3.57% on 24 March 2020 from the low on 4 March 2020 (Chart 10). Portfolio fund flows were also adversely affected, with outflows in both equities and bonds totalling -RM34.1 billion in February to May 2020 amid intensified selling.

Nevertheless, the Malaysian capital market exhibited resiliency, underpinned by supportive policies. A broad recovery in domestic asset prices was witnessed from May 2020 onwards, mirroring global markets, as sentiments continued to improve. Portfolio inflows recovered in tandem, driven mostly by the bond market, with total non-resident inflows amounting to RM24.4 billion from June to December 2020 (Chart 10).

CHART 10

**Domestic capital market remained resilient, with a recovery in bond portfolio flows beginning May 2020**




Note:

[1] Between January and March 2020.

[2] Includes Indonesia, Thailand, Singapore and the Philippines.

*Source: SC's calculations; BNM; Bloomberg*

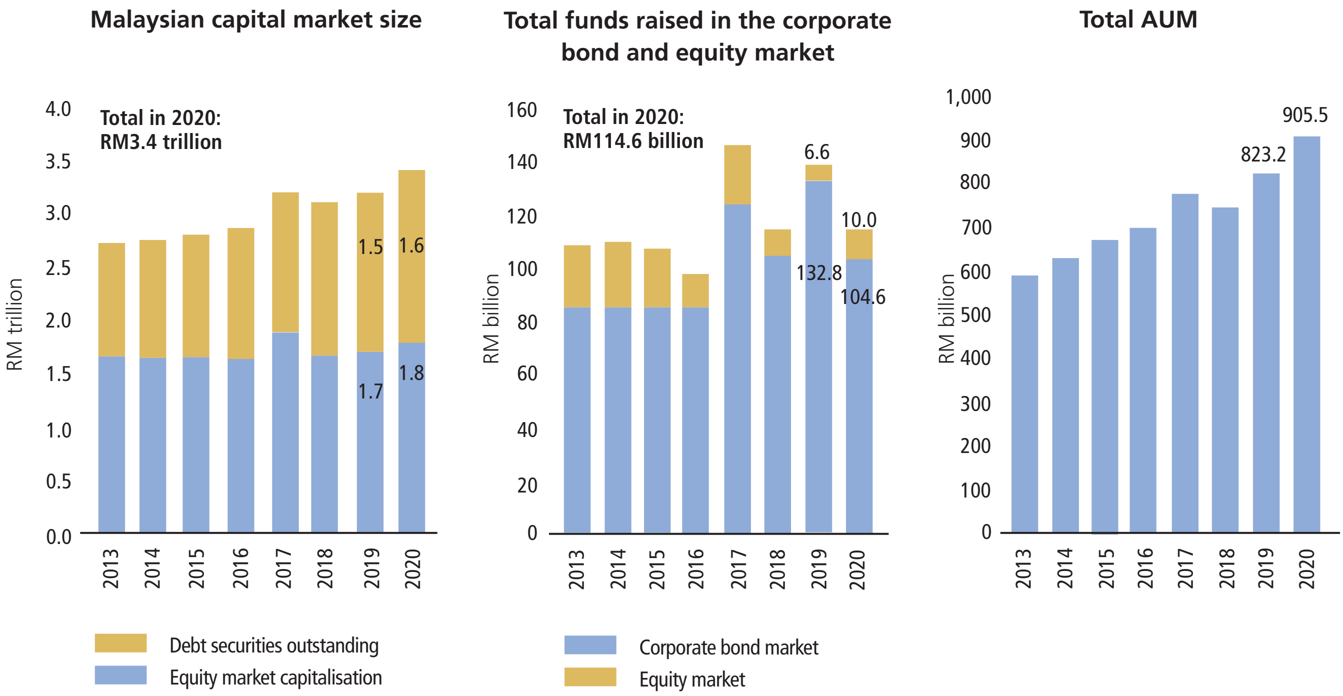
Although fundraising activities temporarily slowed in the March-May 2020 period, it recovered upon resumption in economic activity given continued funding needs. However, for the whole year, the capital market witnessed a lower level of fundraising in the corporate bond and equity market, totalling RM114.6 billion (2019: RM139.4 billion). In the corporate bond market segment, total new issuances stood at RM104.6 billion (2019: RM132.8 billion), while total funds raised in the equity market rose to RM10.0 billion (2019: RM6.6 billion), of which RM2.0 billion was raised via 19 initial public offerings (IPOs)[1] and RM8.0 billion through secondary fundraising (Chart 11). In 2020, there were two companies listed on the Main Market, 10 companies on the ACE Market, and the remaining on the LEAP Market. Meanwhile, alternative fundraising avenues continued to gain traction, especially in ECF and P2P financing, with total funds raised increasing to RM631.0 million in 2020 (2019: RM441.6 million)[2].

The fund management industry recorded its highest monthly net withdrawal in 2020 during the height of the health crisis in March. However, the industry demonstrated resilience throughout this episode of market stress due to the soundness of the liquidity risk management frameworks of capital market intermediaries. Furthermore, investment management professionals navigated market volatility through effective management strategies, which led to the restoration of investor confidence. By July 2020, the fund management industry rebounded and recorded asset under management (AUM) of RM844.1 billion, surpassing the historical high of RM823.2 billion as at end December 2019.

Overall, the size of the total capital market rose by 7.0% to RM3.4 trillion in 2020 (2019: RM3.2 trillion) (Chart 11). Meanwhile, the AUM of the fund management industry expanded by RM82.3 billion to RM905.5 billion in December 2020 (December 2019:

CHART 11

**Size of the Malaysian capital market rose in 2020, while the AUM expanded further, despite the challenging environment**



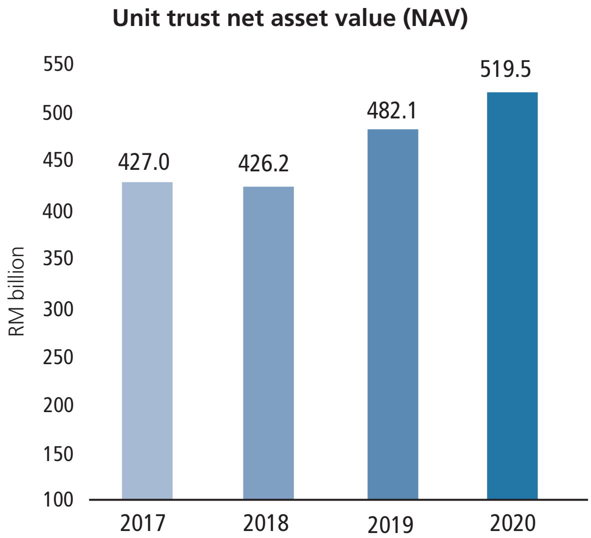

*Source: Bursa Malaysia; SC's calculations*

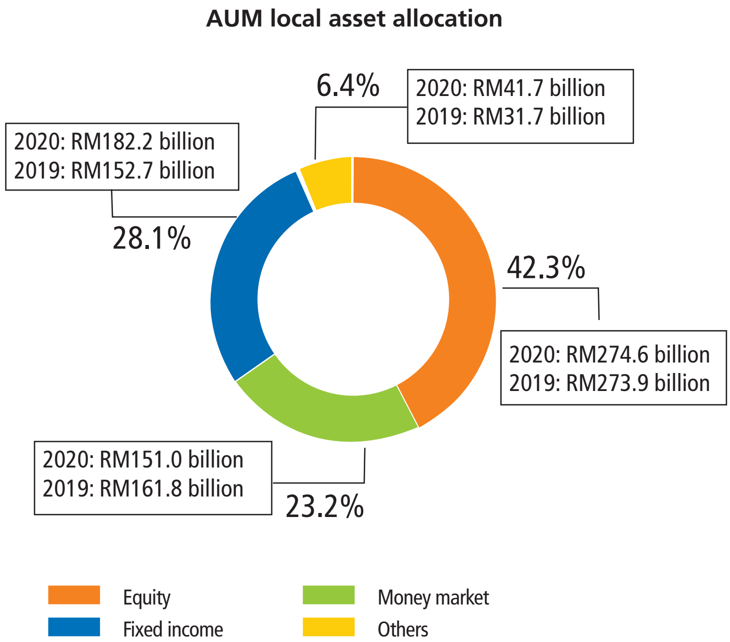
[1] Including ICT Zone Asia's listing by way of introduction on the LEAP Market on Bursa Malaysia, which does not entail any fundraising exercise as at 2020.

[2] Further information on ECF and P2P financing are provided in *Part 4: Enabling Immediate Opportunities and Facilitating Recovery*, of this Annual Report.

CHART 12

**Unit trust segment remained the largest source for AUM in 2020**




*Source: Bursa Malaysia; SC's calculations*

RM823.2 billion) (Chart 11). Unit trust segment remained the largest source of funds for AUM, with a higher total NAV amounting to RM519.5 billion in December 2020 (December 2019: RM482.1 billion) (Chart 12).

The Malaysian capital market has continued to play its role in financing the domestic economy and mobilising savings despite unprecedented conditions in 2020. High levels of domestic liquidity, alongside proactive measures taken by the authorities have helped maintain orderly market conditions and ensure limited disruption to overall capital market activities.

## Performance of the Domestic Equity Market

The domestic equity market was also affected by continued uncertainties arising from escalating US-China tensions, the 2020 US Presidential election, and developments in the domestic political landscape. Nevertheless, continued supportive policy action both globally and domestically, coupled with signs of economic recovery, offered some respite to the benchmark index.

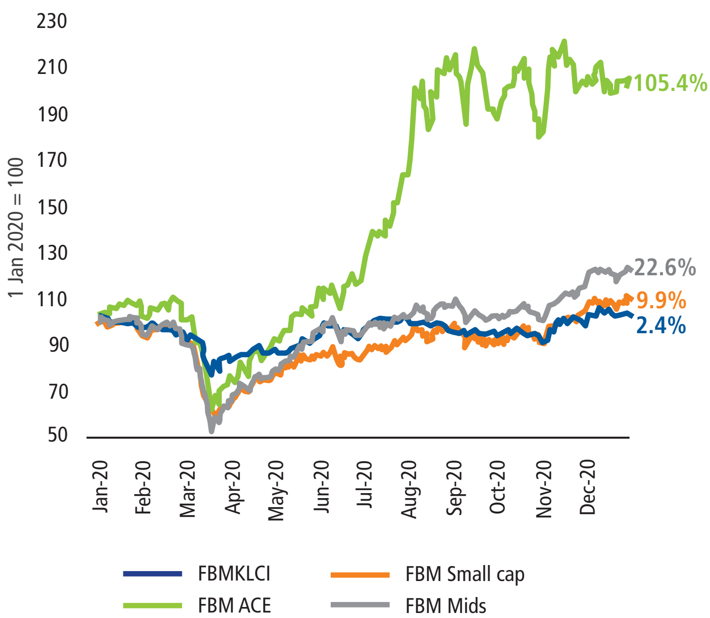
The overall market capitalisation of Bursa Malaysia in 2020 rose by 6.2% y-o-y to RM1.82 trillion (2019: RM1.71 trillion). Total market capitalisation rebounded by as much as 48.7% to RM1.85 trillion on 16 December 2020 from a low of RM1.25 trillion on 19 March 2020, amid improving sentiments on news of positive progress on vaccines. Similarly, for FBMKLCI, market capitalisation rose, albeit only marginally by 3.3% y-o-y to RM1.06 trillion in 2020 (2019: RM1.02 trillion), rebounding by 33.1% from its trough on 19 March 2020.

The FBMKLCI index ended 2020 slightly higher by 2.4% y-o-y to 1,627.2 points (2019: -6.0% y-o-y to 1,588.8 points). The benchmark index recorded a sturdy recovery by as much as 38.1% from 19 March 2020 to its peak at the closing on 11 December 2020. This was supported by robust demand for glove-related counters, which offset continued weakness in financial services and service-intensive counters. The non-FBMKLCI components in the Malaysian equity market fared better in 2020 as the market continued to experience a positive shift in sentiment, favouring the smaller and mid-cap sized companies. The FBM ACE and FBM MidS indices increased by 105.4% y-o-y, and 22.6% y-o-y, respectively in 2020 (2019: 21.1% and 32.0%, respectively) (Chart 13). Recovery was most notable in the FBM ACE, which registered a significant 261.6% gain on 16 December 2020 from its 19 March 2020 low. The FBM Small Cap meanwhile rose modestly by 9.9% y-o-y (2019: 21.1%) but was 102.4% higher from its trough.

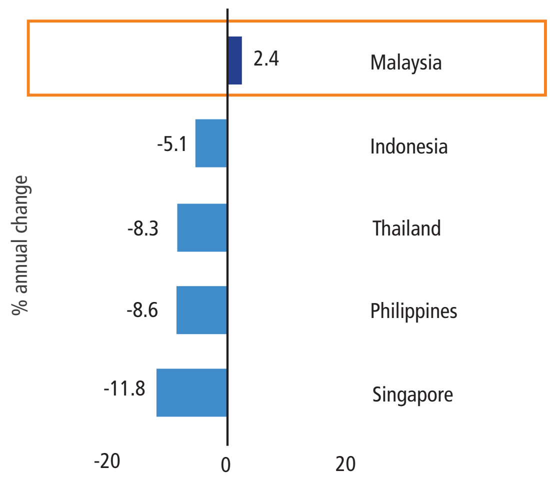
CHART 13

**FBM ACE recorded significant increase, while the benchmark FBMKLCI outperformed its regional peers in 2020**

**Performance of FBMKLCI, FBM Small Cap, FBM ACE and FBM MidS in 2020[1]**




**Performance of Malaysia and selected regional markets in 2020[2]**




Notes:

1 FBMKLCI consists of the largest 30 companies ranked by full market capitalisation in the FTSE Bursa Malaysia EMAS Index; FBM Small Cap consists of all constituents of the FTSE Bursa Malaysia EMAS Index that are not constituents of the FTSE Bursa Malaysia Top 100 Index; FBM MidS comprises constituents from the FTSE Bursa Malaysia EMAS Index with a full market capitalisation range of RM200 million to RM2 billion; FBM ACE comprises all companies listed on the ACE Market.

2 Referenced composite indices: Malaysia – FBMKLCI, Indonesia – JCI, Thailand – SET, Philippines – PCOMP, Singapore – STI.

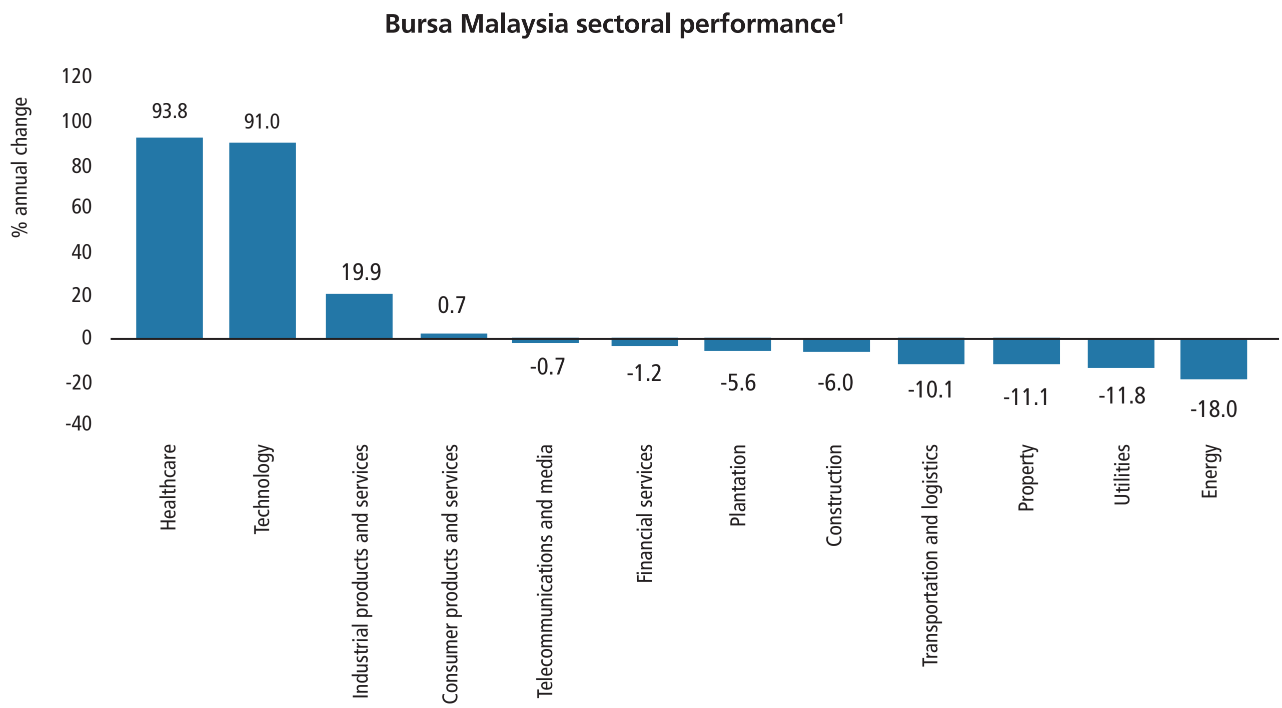
*Source: Bloomberg; SC's calculations*

From a sectoral perspective, healthcare and technology sectors outperformed the most in 2020, gaining by 93.8% y-o-y and 91.0% y-o-y respectively. This was driven by higher demand for medical gloves and increasing usage of technology. In contrast, underperformers were led by the energy and utilities sectors, declining by -18.0% y-o-y and -11.8% y-o-y respectively.

The energy sector was pressured by volatile and significantly lower crude oil prices in 2020, which averaged at US$43.3 per barrel (2019: an average of US$64.2 per barrel), while the utilities sector was affected by lower commercial and industrial usage, especially during the MCO period.

CHART 14

**On sectoral performance, healthcare and technology witnessed the highest surge driven by heightened demand induced by the pandemic**



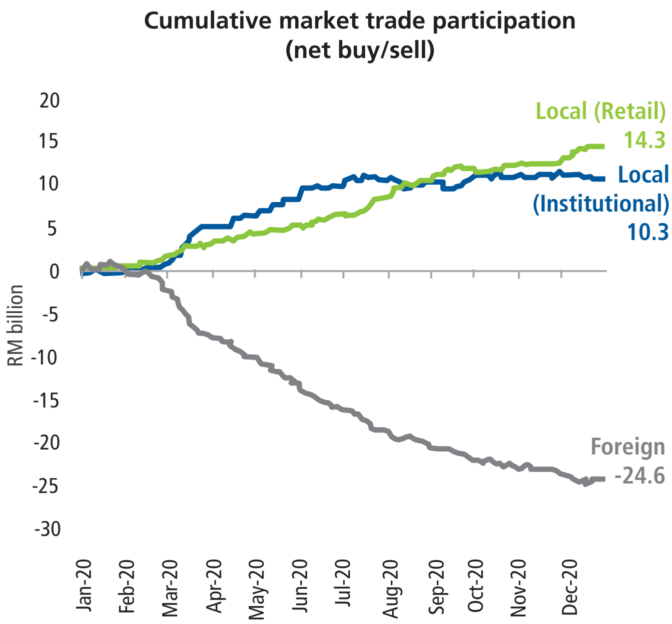

Notes:
[1] Annual percentage change in market capitalisation based on sectoral classification by Bursa Malaysia for 2020.

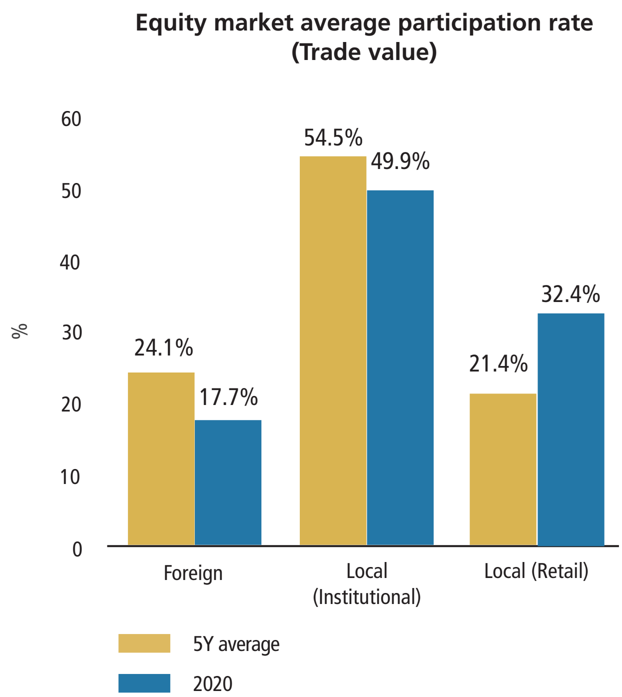
*Source: Bursa Malaysia; Bloomberg; SC's calculations*

In terms of participation rate, non-residents remained net-sellers of local equities to a larger degree, with total outflows amounting to -RM24.6 billion (2019: -RM11.1 billion). Correspondingly net buy by local institutional and retail investors increased, amounting to RM10.3 billion and RM14.3 billion respectively. Cumulatively, net buy from retail investors surpassed institutional investors in 2020 as retailers sought short-term gains in assets offering higher returns, specifically in glove- and technology-related counters, which rode on the pandemic wave. The participation rate for retail investors thus took an upward turn in 2020, rising to an average of 32.4% in terms of value traded. It was significantly larger than the prior year of 20.8%, and the 5-year average of 21.4%.

CHART 15

**Local retail investors emerged as net-cumulative buyer in 2020, surpassing local institutional, with higher participation rate on average**




*Source: Bursa Malaysia; SC's calculations*

# INCREASED RETAIL PARTICIPATION – A DETAILED SNAPSHOT

Similar to experiences in many other countries, the domestic equity market witnessed exceptional levels of trading activity by retail investors in 2020. The SC conducted an in-depth assessment into this trend, focusing on the characteristics of the retail investors in August 2020, where numerous all-time highs in total market-wide volume were recorded.

Overall, the assessment was done on an identified sample population of more than 19,000 Central Depository System (CDS) accounts. The sampling was based on the most active CDS accounts that, in aggregate, contributed to two-thirds of the total volume traded in each of the most active stocks in August 2020.

## **RETAIL PARTICIPATION** IS BACK, SO **WHO ARE THEY?**

In August 2020,

**19,329**

most active CDS accounts were sampled for review. Of which

**14,118**

were **Retailers**

**83%** of retail volume was attributed to stocks **<RM0.50**

**75%** of retail trading interest was in **ACE** and **Fledgling** stocks

**56%** of retail trades were in stocks from the **Industrial Products & Services** and **Technology** sectors

# KEY OBSERVATIONS OF INVESTOR PROFILES

**87%**
of active retail accounts were opened **prior to 2020**

**75%**
of these accounts belong to investors aged **>40 years**

**50%**
of the retail trade volume was contributed by investors aged between 40-60 years

## RETAIL INVESTORS' AGE

| | <30 years | 30-39 years | 40-49 years | 50-59 years | ≥60 years |
|---|---|---|---|---|---|
| Trade volume | 6% | 20% | 28% | 25% | 21% |
| Trades placed electronically | 94% | 93% | 88% | 82% | 82% |
| Cash upfront and collateralised accounts | 67% | 67% | 52% | 55% | 50% |

When combined with other supervisory and surveillance data, the outcome from this exercise forms a more complete picture of the profiles of the domestic retail investors. Overall, the increased participation of retail investors observed was assessed to not pose a significant systemic concern as it was driven by seasoned investors, with trades mainly from cash reserves without depending on borrowings. Nevertheless, the SC continues to closely monitor and address any potential build-up of risk on this front.

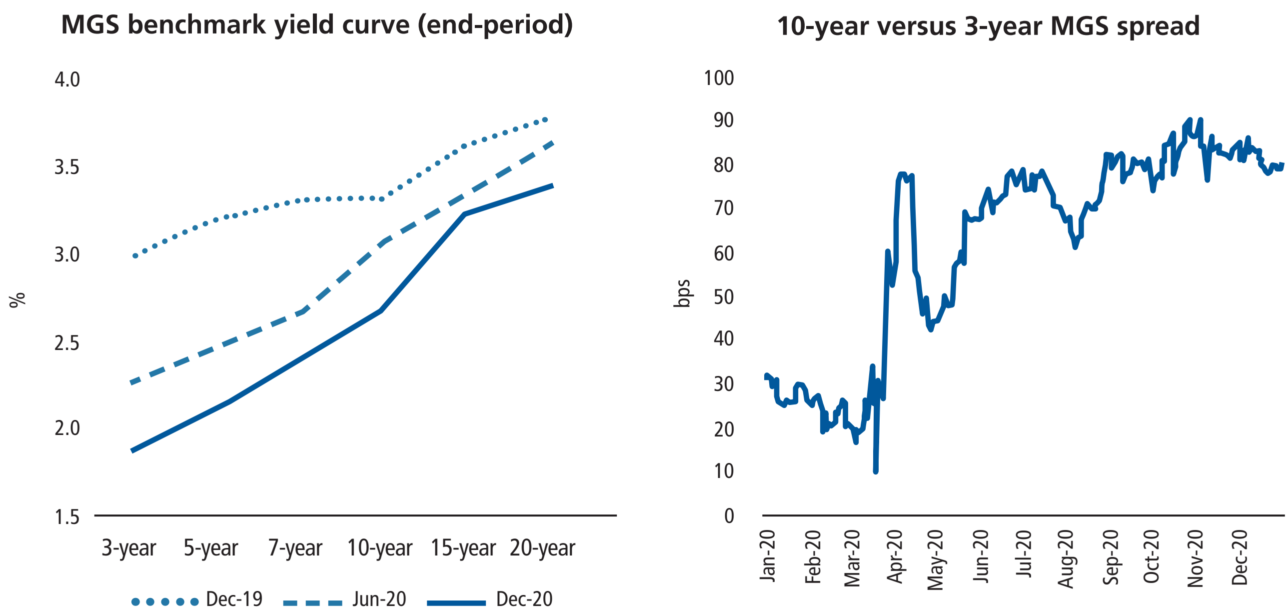
## Performance of the Domestic Bond Market

In the Malaysian bond market, total bonds outstanding grew by 8.0% to RM1.61 trillion in 2020 from RM1.49 trillion in 2019. This reflected higher levels of debt fundraising from the public sector, amid stronger funding needs and lower financing costs. This was also underpinned by favourable macroeconomic fundamentals and confidence in the domestic bond market, given ongoing policy efforts to improve market efficiency, accessibility and liquidity. In addition, supportive counter-cyclical policies and continued demand from domestic investors helped ease the upside pressure on yields, offsetting higher bond supply risks following the lifting of Malaysia's statutory debt limit from 55% to 60% of GDP.

MGS yields experienced downward pressure across tenures on the back of a broadly easier monetary policy stance, given the challenging economic backdrop. The overall yield curve shifted downwards, led by those in shorter maturity, with 3-year and 5-year yields declining by -111.6 bps and -106.9 bps respectively, while the 10-year and 3-year spread expanded to 79.4 bps from a low of 9.5 bps in March 2020 (Chart 16). MGS 10-year yields declined by -63.7 bps to end the year at 2.68% (2019: -77.9 bps to 3.3%), 17.8 bps higher than the record low of 2.50% on 6 August 2020.

CHART 16

**MGS bond yields experienced downward pressure across tenures supported by looser monetary policy stance**




*Source: Bursa Malaysia; SC's calculations*

Meanwhile, the spread between corporate bonds and MGS were mixed across tenures, with a widening bias at the 3-year and 5-year tenures, but narrowing at a longer maturity. This differentiated performance reflected the underperformance of long-term government debt papers compared to those with shorter maturities, as well as ample market liquidity anchored by broadly stable private credit conditions.

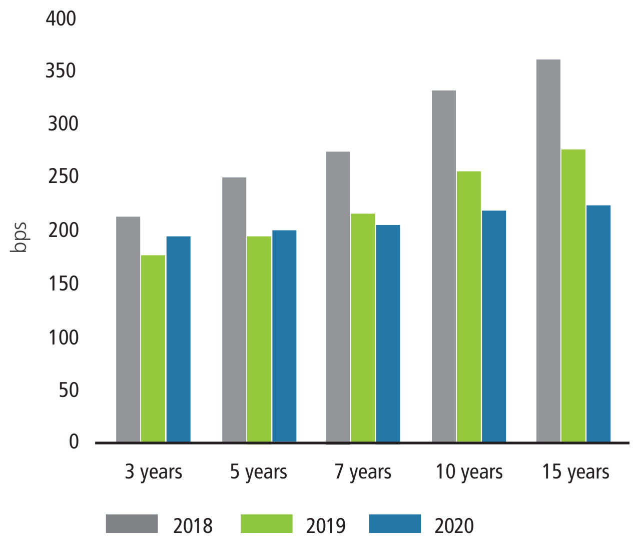
The domestic bond market also benefitted from yield-seeking investors, as evidenced by the return of portfolio inflows from May 2020 onwards, in line with the improvement in investor sentiment globally.

For the whole year, net foreign inflows into the bond market amounted to RM18.3 billion, with inflows during May-December 2020, outsizing the outflows during the height of the health crisis (RM37.1 billion vs -RM22.4 billion in February to April 2020) (Chart 17). This was despite the downgrade in Malaysia's sovereign rating by Fitch Ratings on 4 December 2020 to BBB+ from A-, with a stable outlook. About 79.5% of total foreign holdings were in the MGS as of end December 2020 (end-2019: 80.1%), which was equivalent to 40.6% of total MGS outstanding (end 2019: 41.6%).

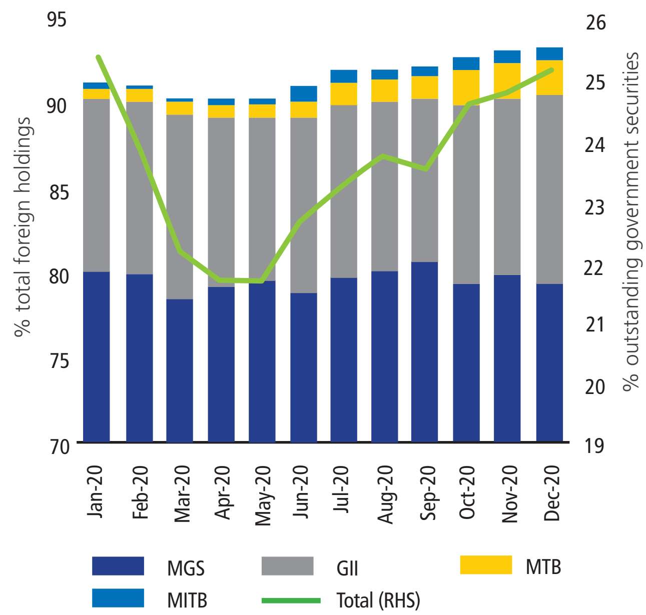
CHART 17

**Spread between private debt securities (PDS) and MGS were mixed, while foreign holdings of ringgit denominated debt were largely in local government securities**

**PDS[1] against MGS spread**




**Foreign holdings of government securities**




Note:
[1] PDS rated between AAA and BBB.

*Source: BNM; Bloomberg; Thomson Reuters*

## OUTLOOK FOR 2021

**The global economy** is projected to be on a recovery path in 2021. The recovery, however, will remain incomplete across AEs and EMEs, and is subject to success in containing the pandemic, particularly with further progress on vaccine deployment and effective treatment, improvement in global trade and continued policy support. The continued resurgence of COVID-19 cases globally poses a downside risk to the outlook. However, faster deployment of vaccines globally will significantly improve the growth outlook. In the region, China and other key economies in East Asia are expected to lead economic recovery amid faster normalisation in activity following their relatively successful containment of COVID-19. Overall, the global policy environment is expected to remain supportive given the prospect of continued accommodative global monetary policies.

The performance of global capital markets is expected to remain generally positive on the back of continued economic recovery and commitment by global policymakers to support growth. However, a prolonged low-interest rate environment will likely further contribute to already stretched valuations in some risk asset markets. In EMEs, overall performance will be differentiated, favouring those with stronger macroeconomic fundamentals.

**On the domestic front**, the Malaysian economy is expected to rebound in 2021, in tandem with the recovery in global demand and continued support from domestic policy measures. However, the pace of economic recovery is expected to be uneven across sectors, with those more affected by the pandemic remaining vulnerable. Domestic demand is also expected to recover gradually, in line with turnaround in public and private sector expenditure amid continued support from policy measures. Downside risks to growth remain, arising from the risk of virus resurgence globally and domestically, key developments in global trade and the overall durability of global economic recovery.

In the domestic capital market, the outlook will continue to be influenced by key global developments, with volatility driven primarily by the uncertainty surrounding the pandemic, and the pace as well as sustainability of the domestic economic recovery. Nevertheless, the Malaysian capital market will continue to play a significant role in supporting economic growth through the financing of business and infrastructure, and to act as an effective medium for savings mobilisation. Overall, the domestic capital market is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, ample domestic liquidity and resilient capital market infrastructure, which will continue to support the growth of the Malaysian economy in 2021.

# CAPITAL MARKET REVIEW AND OUTLOOK

The domestic capital market continued to play its vital role in financing economic activity and intermediating savings. It is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals.