MARKET OVERVIEW

GLOBAL OVERVIEW

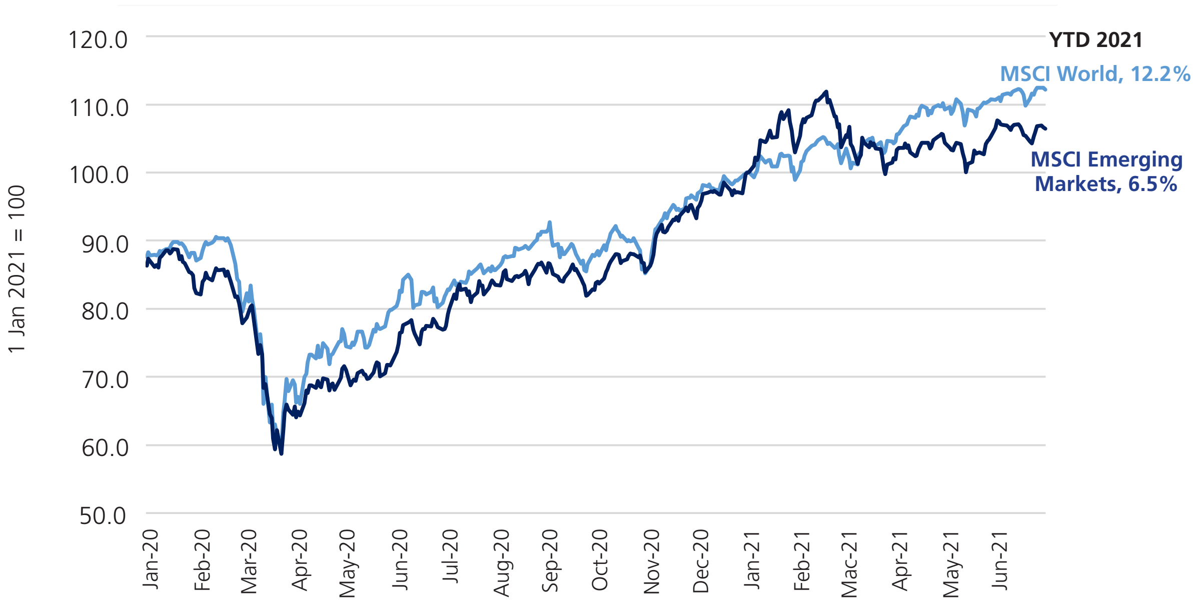
Global capital market performance was generally positive in Q2 2021, with global equities extending gains from the first quarter, amid stronger-than-expected economic recovery in advanced economies, overshadowing concerns of new COVID-19 variants and the escalating tensions between the US and its allies against China. Meanwhile, global bond yields broadly declined as investors digested the confluence of factors at play.

In global equities, the MSCI World rose as much as 7.6% from the start of the quarter, breaking multiple record highs, before moderating slightly to end the period 7.3% quarter-on-quarter (q-o-q) higher (Q1 2021: 4.5%) on continued better-than-expected economic indicators from advanced economies, supporting the prospects of a strengthening global economic rebound. Gains however were slightly tempered by virus resurgence, and the escalating tensions between the US and its allies against China, where at the North Atlantic Treaty Organization (NATO) summits in June 2021, China was declared as a strategic challenge. Similarly, the MSCI Emerging Markets rose as high as 5.7% at the start of June, before moderating to end Q2 2021 at 4.4% q-o-q higher (Q1 2021: 1.9%). Advances in the emerging markets were also limited as sentiments wavered amid the rapid spread of a more infectious COVID-19 Delta variant and continued uneven vaccine distribution. In the US, the S&P 500 index soared to a record high, ending the quarter up 8.2% q-o-q (Q1 2021: 5.8%), as the economy continued to recover strongly, charting five consecutive months of gains since February 2021. Similarly, the Euro Stoxx 50 and the UK FTSE rose 3.7% q-o-q and 4.8% q-o-q respectively (Q1 2021: 10.3% and 3.9% respectively) on reopening optimism and brightened economic outlook. In contrast, the Nikkei 225 reversed its position from Q1 2021 and declined -1.3% q-o-q in Q2 2021 (Q1 2021: 6.3%), marred by Japan's rising COVID-19 numbers.

Meanwhile, global bond yields mostly declined during the quarter, as investors digested a multitude of factors from higher inflation expectations, durability of economic recovery, to the US Federal Reserve's (Fed) hawkish shift in its economic projection. In the latest Federal Open Market Committee (FOMC) meeting on 15-16 June 2021, Fed members now expect two rate hikes by the end of 2023 from none in March 2021, but was later downplayed by Chairman Powell's reassurance that its stance will remain accommodative. Meanwhile, other major central banks such as the European Central Bank (ECB), Bank of England (BOE) and Bank of Japan (BOJ) retained their ultra-low interest rate policies during the Q2 2021. The US Treasury 10-year yields declined by -30.2 bps q-o-q, to a three-month low of 1.44% (Q1 2021: 83.4 bps). Likewise, the UK Gilt 10-year yields dropped by -12.8 bps q-o-q to 0.72% in Q2 2021 (Q1 2021: 64.9 bps). However, the German bund 10-year yields rose by 9.4 bps q-o-q to -0.20% (Q1 2021: 27.8 bps) amid stronger inflation expectations in the region. Meanwhile in Asia, Japan's 10-year government bond yields declined, shedding -4.1 bps q-o-q to 0.05% (Q1 2021: 7.4 bps) as the BOJ extended its pandemic-relief programme beyond the current September deadline. Likewise, EM sovereign bond yields ended mostly lower during Q2 2021.

Chart 1

MSCI World vs. MSCI EM performances



Source: Thomson Reuters Datastream

Table 1

Performance of global equities by selected major markets

Selected Major Equity Markets (% change from preceding period)	2020	2021		
		Q1	Q2	YTD
MSCI World	14.1	4.5	7.3	12.2
MSCI Emerging Markets	15.8	1.9	4.4	6.5
S&P 500	16.3	5.8	8.2	14.4
Euro Stoxx 50	-5.1	10.3	3.7	14.4
UK FTSE	-14.3	3.9	4.8	8.9
Nikkei 225	16.0	6.3	-1.3	4.9

Source: Thomson Reuters Datastream

Table 2

Performance of global bonds by selected major markets

Selected Major Bond Markets (bps change from preceding period)	2020	2021		
		Q1	Q2	YTD
US Treasury 10-year	-99.8	83.4	-30.2	53.2
German Bund 10-year	-38.8	27.8	9.4	37.2
UK Gilt 10-year	-62.9	64.9	-12.8	52.1
Japanese Government Bond 10-year	4.3	7.4	-4.1	3.3

Source: Thomson Reuters Datastream

DOMESTIC OVERVIEW

The performance of the domestic capital market weakened further as the reinstatement and subsequent tightening of a nationwide MCO amid rising domestic COVID-19 cases weighed on economic activity in Q2 2021. In addition, continued domestic political uncertainty and spill-over from tapering talk in global markets dampened investor sentiment. This was despite domestic vaccination progress, and the introduction of the latest stimulus package, named *Pakej Perlindungan Rakyat dan Pemulihan Ekonomi* (PEMULIH) on 28 June 2021.

The FBMKLCI fell by -2.6% q-o-q to 1,532.63 points in Q2 2021 (Q1 2021: -3.3%), its lowest level since November 2020. Year-to-date (YTD), the benchmark index fell -5.8%, erasing its gains during the year and underperforming regional markets. Similarly, the broader FBMEMAS index fell -4.0% q-o-q to 11,146.22 points in Q2 2021 (Q1 2021: -1.3%). Overall equity market capitalisation contracted by -3.7% q-o-q to RM1.74 trillion in Q2 2021 (Q1 2021: -0.4% to RM1.81 trillion), while FBMKLCI market capitalisation declined by -1.1% q-o-q to RM1.01 trillion (Q1 2021: -3.3% to RM1.02 trillion).

Meanwhile, domestic bond yields ended broadly lower, with the exception of the 10-year tenure. The MGS curve saw steepening bias as shorter-tenured yields were anchored by a downward shift in domestic economic expectations, while the longer-end notes were influenced by tapering signals in the latest US FOMC meeting in June 2021 and the prospect of a higher fiscal deficit. As at Q2 2021, the MGS 3, 5 and 7-year yields declined by -19.2 bps, -10.7 bps, and -9.5 bps respectively (Q1 2021: 25.9 bps, 54.0 bps, and 70.6 bps respectively), while the 10-year note rose marginally by 1.3 bps to 3.29% (Q1 2021: 59.9 bps).

In terms of capital flows, foreign and local institutional investors remained net sellers of Malaysian equities, with total outflows amounting to -RM2.47 billion and -RM0.36 billion in Q2 2021 respectively (Q1 2021: -RM1.73 billion and -RM3.66 billion respectively). YTD, cumulative net buying by local retailers stood at RM2.82 billion. Correspondingly, the local retail participation rate averaged at 36.45% in terms of value traded in Q2 2021 (Q1 2021: 36.47%). The bond market, however, continued to witness foreign inflows amounting to RM7.73 billion in Q2 2021 (Q1 2021: RM16.73 billion). Meanwhile, the ringgit exchange rate depreciated against the US dollar by 1.5% during the Q2 2021 to an average of RM4.13 (Q1 2021: RM4.07).

Table 3

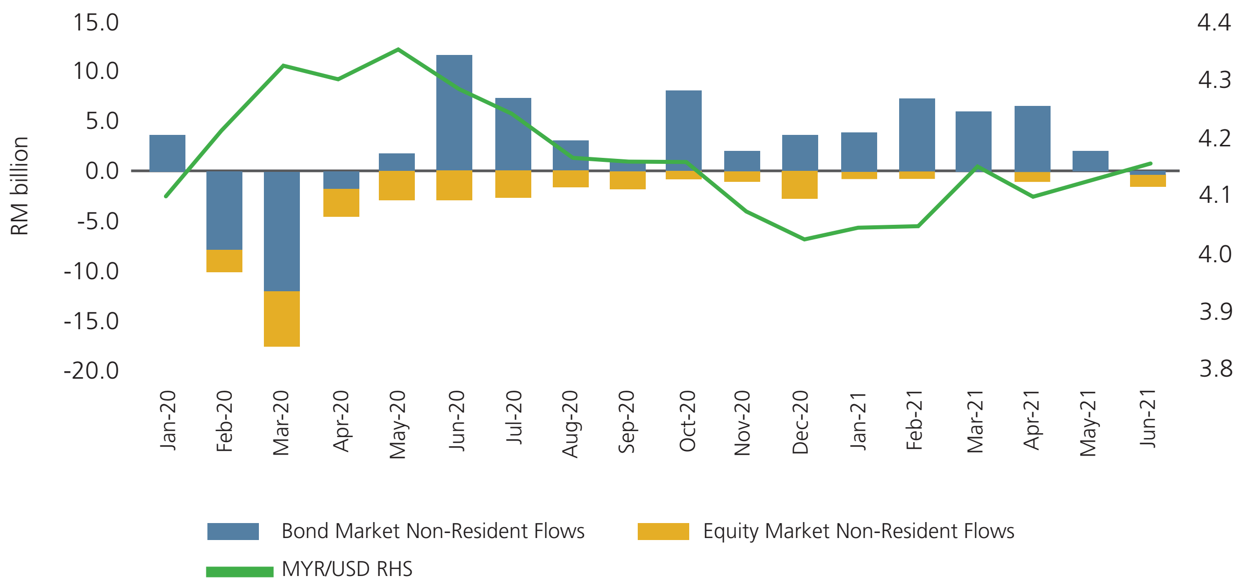
Domestic and regional market performance

Regional Indices (% change from preceding period)	2020	2021		
		Q1	Q2	YTD
Malaysia FBMKLCI	2.4	-3.3	-2.6	-5.8
Singapore STI	-11.8	11.3	-1.1	10.1
Thailand SET	-8.3	9.5	0.0	9.6
Philippines PCOMP	-8.6	-9.8	7.1	-3.3
Indonesia JCI	-5.1	0.1	0.0	0.1

Source: Thomson Reuters Datastream

Chart 2

Non-residents' portfolio flows



Source: Bank Negara Malaysia (BNM), Bursa Malaysia