PART 1

CAPITAL MARKET REVIEW AND OUTLOOK

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OVERVIEW

The global economic landscape continued to experience considerable challenges in 2023, marked by persistent divergence in global growth and monetary policy expectations, coupled with escalating geopolitical tensions that contributed to overall volatility in global financial markets. Domestically, growth of the Malaysian economy moderated but remained resilient, underpinned by sturdy domestic demand. Against the backdrop of heightened global challenges, the Malaysian capital market stayed orderly and continued to function effectively in financing economic activity and intermediating savings. Going forward, the Malaysian economy is expected to remain on a steady growth path in 2024, driven by continued private sector spending. Meanwhile, the domestic capital market is expected to remain stable, fair, and orderly, backed by sound economic fundamentals, ample domestic liquidity, and a supportive policy environment.

GLOBAL DEVELOPMENTS IN 2023

The global economy continued to experience considerable challenges and macroeconomic divergences. While remaining resilient, global economic growth momentum has moderated and is uneven across countries and regions amid the ongoing impact of tighter global monetary conditions, persistent underlying inflationary pressures, as well as heightened geopolitical uncertainty and geoeconomic fragmentation. Despite easing inflationary trends, core price pressures remain elevated, prompting major central banks to reaffirm their commitment to containing inflation until it falls durably within the target range.

Although moderating in momentum, global growth surpassed initial expectations as optimism arose from developments such as a stronger-than-expected United States (US) economy, an easing energy crisis in Europe, and China's economic reopening post-pandemic. Despite an ongoing contraction in manufacturing activity – reflecting weaker global demand conditions – services activity remained resilient, alongside historically tight labour markets. Swift policy action by the US and European authorities also served to restore market confidence after banking turmoil earlier in the year, given the impact of tighter financing conditions.

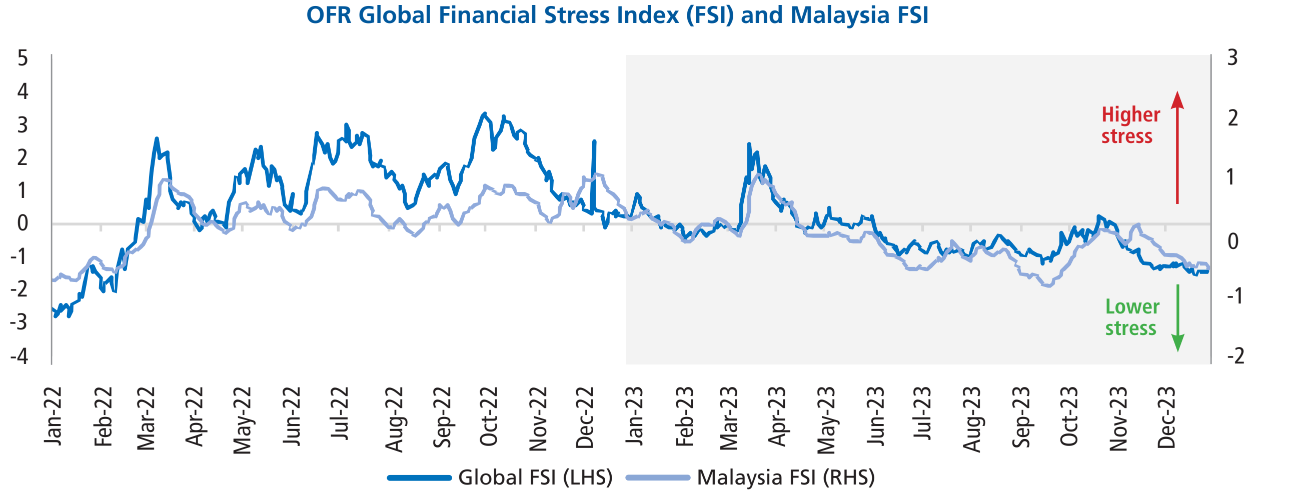
Meanwhile, China's economic growth showed signs of early recovery following its exit from zero-COVID policies, but momentum dwindled, hampered by ongoing stress in the real estate market, growing corporate debt risks and weakening confidence, which continues to weigh on global economic activity. The International Monetary Fund (IMF) in its *World Economic Outlook* report in October 2023 forecasted global growth to slow to 3% in 2023 from 3.5% in 2022, with growing regional divergences. However, Asia Pacific is expected to remain as a global growth driver, with the IMF forecasting growth in the region to accelerate to 4.6% in 2023, from 3.9% in 2022.

Global financial markets performance ended 2023 on a high note, despite the constant shifts in investor sentiments amid heightened global economic uncertainty. Disinflation progress in major economies also continued to influence expectations surrounding the path of global monetary policy, which resulted in volatility in global financial markets throughout the year. The overall level of global financial stress increased in March 2023 amid banking system stress in the US and Europe, but subsequently eased towards the end of the year following a shift in expectations that global interest rates are nearing their peak (Chart 1).

In the global equity markets, the MSCI World Index rose by 21.8% in 2023, while the MSCI Emerging Markets Index trailed the global benchmark by rising 7.0%, partly reflecting concerns from China's subdued economic recovery. Meanwhile, global bond indices improved, particularly in the latter part of 2023, driven by a dovish shift in monetary policy expectations amid the gradual easing in global inflationary pressures (Chart 2).

CHART 1

Both global and Malaysian financial stress levels moderated in 2023, reflecting a shift in expectations that major central banks are approaching the peak of their tightening cycle, especially towards the end of the year

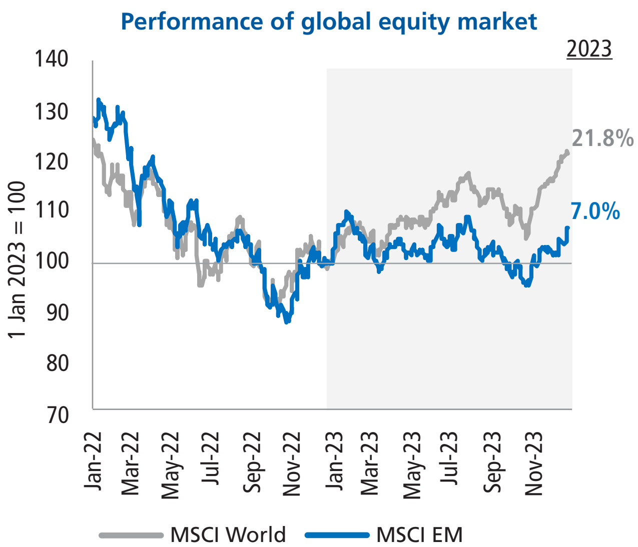


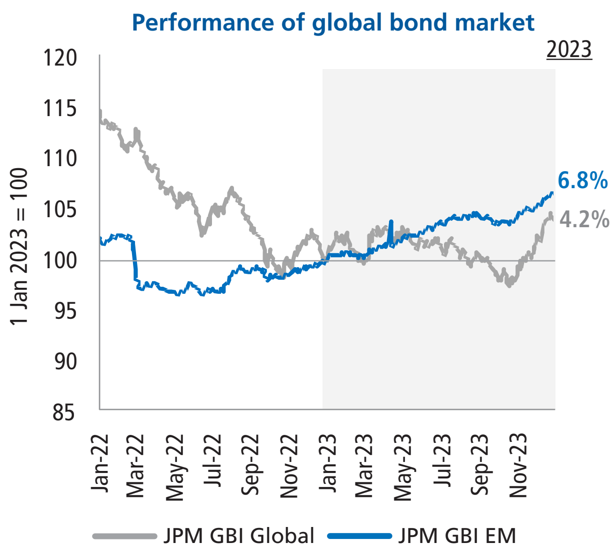
Note: The Global FSI is from the Office of Financial Research, US Department of Treasury, while the Malaysia Financial Stress Index (MFSI) is internally estimated following similar methodology (see Monin, 2017). Value of FSI above zero indicates higher than historical average financial stress in the economy.

Source: US Office of Financial Research, the SC's internal estimates.

CHART 2

Global equities and bonds performances improved in 2023





Source: Refinitiv Eikon Datastream; the SC's calculations.

MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2023

The Malaysian economy continued to grow in 2023, albeit at a moderate pace, underpinned by resilient domestic private sector activities against the backdrop of challenging global trade. The labour market strengthened further, with the unemployment rate improving to a three-year low and supporting wage growth. By economic activity, the services sector continued to lead growth amid higher tourism activities and robust consumer spending. While headline inflation has moderated, core inflation remains high, reflecting continued underlying price pressures. For the full year of 2023, real gross domestic product (GDP) expanded 3.7%, on the back of sturdy domestic demand growth (Chart 3).

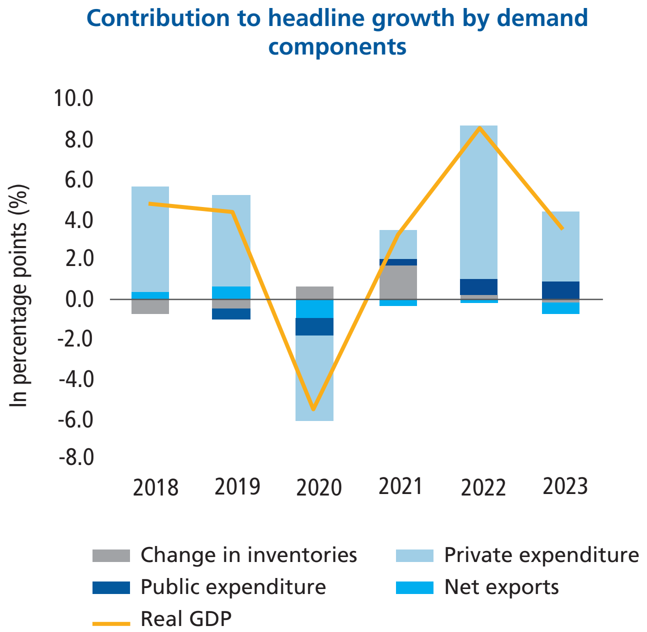
The Domestic Capital Market Continued to Support the Real Economy

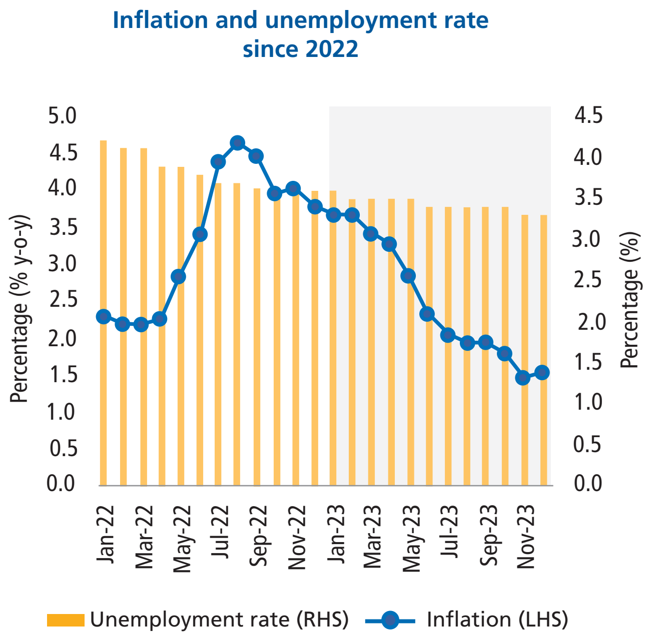
The Malaysian capital market remained orderly, while continuing to serve its fundamental role in financing domestic economic activity and mobilising savings effectively. Malaysia's financial stress broadly eased in 2023 and remained largely below its historical average despite concerns over stress in the US and European banking systems in March and rising conflicts in the Middle East in October. The performance of the capital market, however, was mixed, against a backdrop of continued economic uncertainty stemming from escalating geopolitical tensions, a weaker-than-expected economic recovery in China and the movement of the Malaysian ringgit against major currencies in the foreign exchange market.

The size of the capital market increased to RM3.8 trillion in 2023 (2022: RM3.6 trillion), driven by broad-based growth in both total Bursa Malaysia market capitalisation and bonds and sukuk outstanding. Similarly, the fund management industry expanded in 2023, with total assets under management (AUM) rising to a record high of RM975.5 billion (2022: RM906.5 billion), amid improvement in market value and greater asset allocation in developed markets (Chart 4). The unit trust segment[1] remained the largest source of funds, comprising 51.3% of total AUM (2022: 53.9% of total).

However, total funds raised in the capital market moderated to RM127.7 billion in 2023, compared to a high of RM179.4 billion in 2022. In the equity market,

CHART 3
The Malaysian economy continued to grow in 2023 on the back of sustained resilience in domestic demand, amid challenging global trade conditions

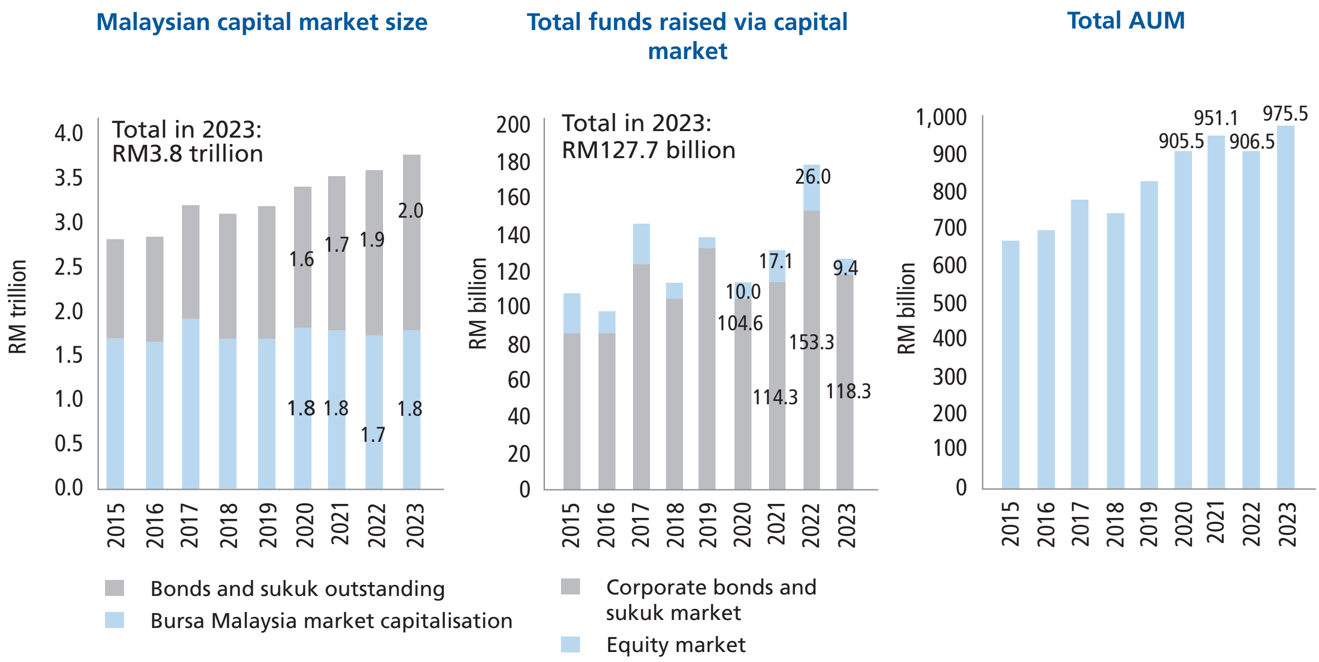




Source: Department of Statistics Malaysia, the SC's calculations.

[1] Unit trust total net asset value (NAV) of RM500.5 billion in 2023 (2022: RM488.5 billion).

CHART 4
The size of the Malaysian capital market grew in 2023, despite lower fundraising activities, while AUM of the fund management industry registered a new high



Source: Bursa Malaysia; the SC's calculations.

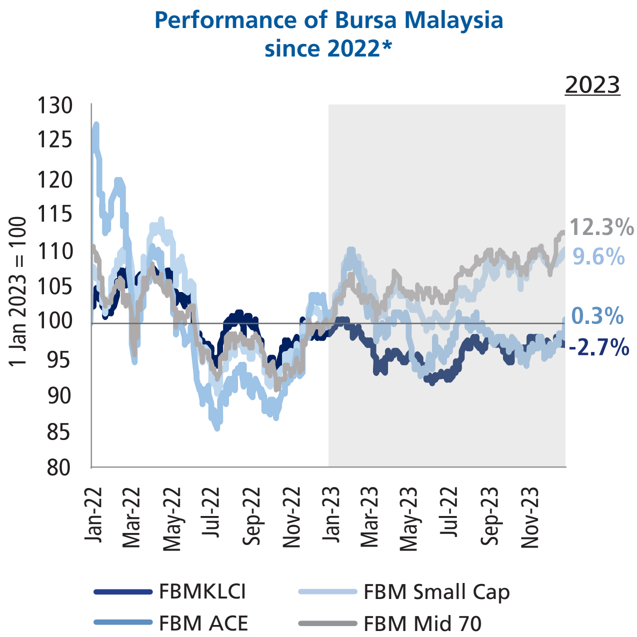
primary issuances improved to RM3.6 billion (2022: RM3.5 billion) via 32 initial public offerings (IPOs), while secondary fundraising activities declined to RM5.8 billion (2022: RM22.6 billion) amid lower corporate activities in 2023. Similarly, in the corporate bonds and sukuk market, total issuances normalised to RM118.3 billion in 2023 (2022: RM153.3 billion), following higher refinancing demand in the previous year. There was an exceptional surge in refinancing demand in 2022 amid the introduction of various relief programmes aimed at assisting issuers and intermediaries in their post-pandemic recovery. Total issuances remained healthy and in line with the 10-year average of RM111.2 billion per annum.

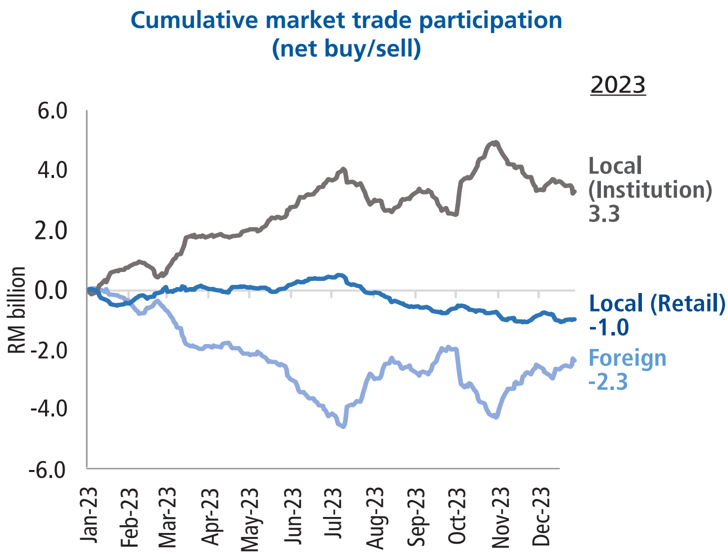
Importantly, the Malaysian bonds and sukuk market continued to witness issuances in sustainability-related instruments[2], affirming the capital market's pivotal role in supporting financing needs towards achieving the nation's sustainability agenda. Meanwhile, the availability of alternative financing platforms continued to promote financial inclusivity, especially in supporting the funding needs of micro, small and medium-sized enterprises (MSMEs), with total alternative fundraising avenues[3] via equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) rising further in 2023.

The domestic equity market was influenced by developments in the domestic economy and global headwinds, with volatility driven by the direction and pace of global monetary policy, ongoing geopolitical conflicts and slower global growth. The overall market capitalisation of the local bourse ended higher at RM1.80 trillion in 2023 (2022: RM1.74 trillion), while that of the FBMKLCI moderated to RM1.01 trillion (2022: RM1.03 trillion). This reflects a positive shift in sentiments favouring medium and small-size companies, as reflected by the favourable performances of FBM Mid 70 and FBM Small Cap. The benchmark FBMKLCI index declined by -2.73% to end the year at 1,454.66 points (2022: -4.60%), while the FBM Mid 70 and FBM Small Cap rose by 12.28% and 9.57% (2022: -8.41% and -5.30%) to 14,612.98 points and 16,353.38 points respectively.

[2] Sustainability-related corporate bonds and sukuk issuances was RM8.7 billion in 2023 (2022: RM10.1 billion).
[3] Funds raised via ECF and P2P financing was RM2.2 billion in 2023 (2022: RM1.7 billion).

CHART 5
Malaysia's equity market experienced a positive shift in sentiment toward the mid and small cap segment, while local institutional investors turned net buyers of local equities





Note:
* FBMKLCI consists of the largest 30 companies ranked by full market capitalisation in the FTSE Bursa Malaysia EMAS Index, while FBM Mid 70 encompasses the next 70 largest companies. 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 ACE includes companies listed on the ACE Market.

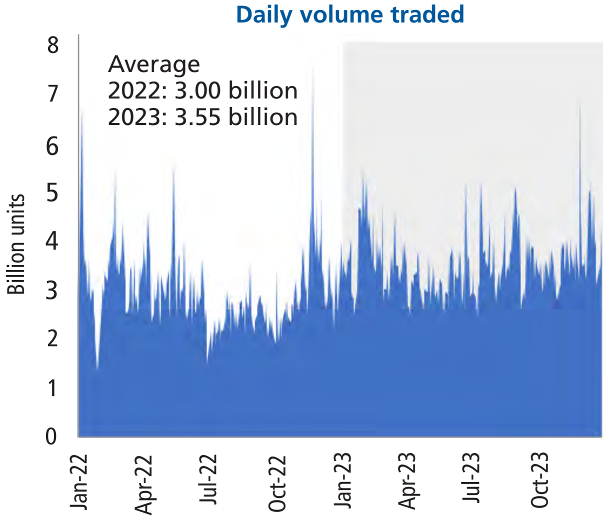
Source: Bloomberg, Bursa Malaysia, the SC's calculations.

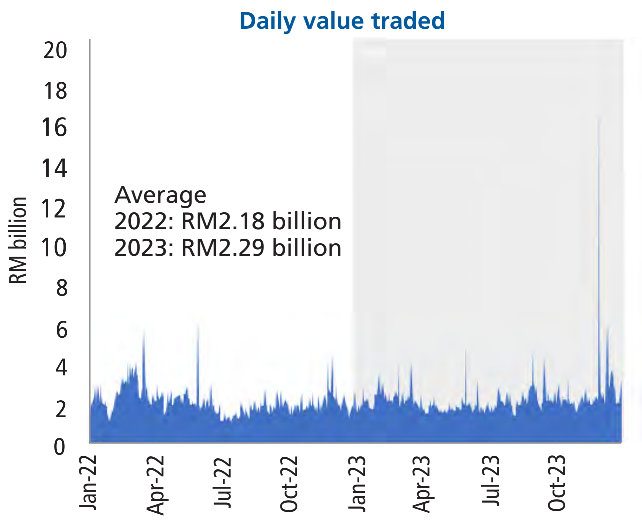
Non-residents turned net sellers of Malaysian equities, amounting a total of -RM2.34 billion in 2023 (2022: +RM4.40 billion). Correspondingly, local institutional investors accumulated a sum of RM3.30 billion in 2023 (2022: -RM6.53 billion), while local retail investors turned net sellers totalling at -RM0.96 billion (2022: +RM2.13 billion) (Chart 5). Despite a net sell position, the participation rate for retail investors improved to an average of 27.45% in 2023 (2022: 25.65%), suggesting that the domestic equity market continued to provide opportunities for a wide range of investors. Meanwhile, the average daily trading volume improved to 3.55 billion units in 2023 (2022: 3.00 billion units), and at a higher average value of RM2.29 billion per day (2022: RM2.18 billion), reflecting favourable investor sentiments, especially towards the end of the year (Chart 6).

In the Malaysian bond market, total bonds and sukuk outstanding grew to RM2.00 trillion (2022: RM1.87 trillion), on the back of continued bond and sukuk fundraising, particularly from the public sector. The overall Malaysian Government Securities (MGS) yield curve shifted downward, tracking the performance of the global bond market. This largely mirrored monetary policy expectations globally, alongside expectations of a broadly stable domestic interest rate environment throughout the year. The spread between corporate bonds and MGS also tightened across most major tenures, reflecting continued demand by domestic institutional investors (Chart 7). Meanwhile, the domestic bond market witnessed the return of foreign investors, with net inflows amounting to RM25.78 billion in 2023 (2022: net outflows of -RM9.78 billion).

Despite the mixed performance of the capital market in 2023, total IPO fundraising continued to trend upwards, while that of the corporate bond and sukuk market was influenced by lower refinancing demand relative to the previous year. Importantly, the performance of the equity market was uneven across all segments, with the FBM Mid 70 and FBM Small Cap outperforming the benchmark FBMKLCI during the year. Meanwhile, stable domestic credit conditions continued to support secondary activities in the corporate bond and sukuk market. In the asset management space, gains from greater allocation in developed markets and the positive valuation effect from overall domestic exposure led the rise in AUM.

CHART 6
Equity daily trading volume and value increased towards the end of the year amid improved investor sentiments

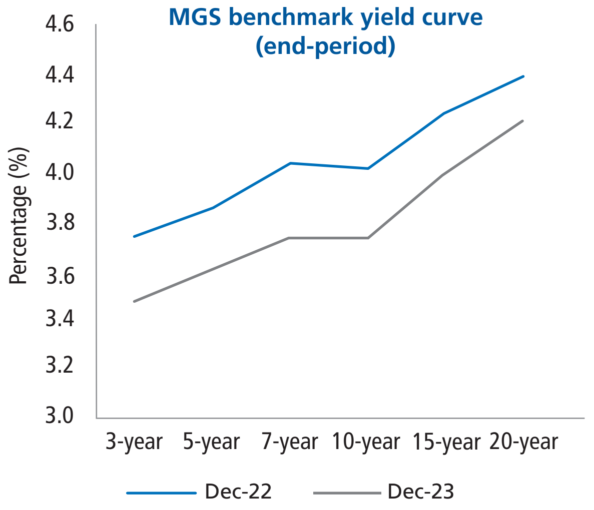




Note:
Daily trading values and volumes are inclusive of off-market transactions. The abnormality on 29 November 2023 was due to RM16 billion in off-market transactions between CelcomDigi related entities.

Source: Bursa Malaysia, the SC's calculations.

CHART 7
The MGS yield curve shifted downward amid expectations of a stable domestic interest rate environment, while corporate spreads narrowed on resilient investor demand



Note:
* Corporate bonds and sukuk rated between AAA and BBB.

Source: Bloomberg; Refinitiv Eikon Datastream; the SC's calculations.

OUTLOOK FOR 2024

Global economic growth is expected to remain tepid in 2024 amid heightened economic uncertainties. The IMF in its October WEO forecasted global growth to ease to 2.9% in 2024 from an estimated 3.0% expansion in 2023. Nonetheless, economic growth in the ASEAN-5[4] region is projected to accelerate to 4.5% in 2024 from 4.2% in 2023, which may elevate business sentiment and investment interest in the region. On the monetary front, the gradual moderation in global inflationary pressure led to a reassessment of monetary policy expectations from a prolonged period of high global interest rates to anticipation about the timing of the easing cycle. This, coupled with ongoing geopolitical fragmentation, will be key determinants of the pace of global economic recovery. Meanwhile, developments in the global capital market are expected to be in tandem with the economic outlook.

The Malaysian economy is projected to remain on a steady growth trajectory in 2024, backed by firm domestic demand, primarily through continued expansion in private sector spending. The Ministry of Finance expects growth of the Malaysian economy to accelerate to 4-5% in 2024 from 3.7% in 2023. However, risks to growth remain tilted to the downside given ongoing external challenges.

In the domestic capital market, activity will continue to be influenced by momentum in the domestic economy and corporate developments, with volatility likely to be driven primarily by uncertainties surrounding the global economy, particularly the direction of global monetary policy and evolving geopolitical tensions. Nevertheless, favourable momentum in the latter part of 2023 is expected to continue into 2024, underpinned by ongoing supportive policy actions under the *Ekonomi MADANI* framework, which includes the *New Industrial Master Plan* (NIMP) 2030 and the *National Energy Transition Roadmap* (NETR). These national policies are expected to provide a tailwind in the short- to medium-term, amid greater policy clarity and a continued commitment by the government towards improving medium-term economic growth prospects. Market expectations remained broadly positive, projecting the benchmark FBMKLCI to end 2024 at around 1,600 points. Meanwhile, the domestic capital market is expected to remain orderly and will continue to play an integral role in supporting the economy, underpinned by firm macroeconomic fundamentals, ample domestic liquidity and a facilitative capital market framework.

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[4] ASEAN-5 refers to Malaysia, Indonesia, Singapore, Thailand, and the Philippines.