

GLOBAL OVERVIEW

The global capital market performance continued to decline in Q3 2022, amid further tightening in global financial conditions and rising recessionary concerns given the persistently elevated global inflationary pressure. Sentiments were also clouded by protracted geopolitical instability and increased expectations of more aggressive global monetary policy tightening. In addition, major central bankers signalled a strong commitment to curb inflation even at the risk of recession. This negative sentiment was further reflected in a series of downgrades of global growth forecasts – including by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) in Q3 2022.

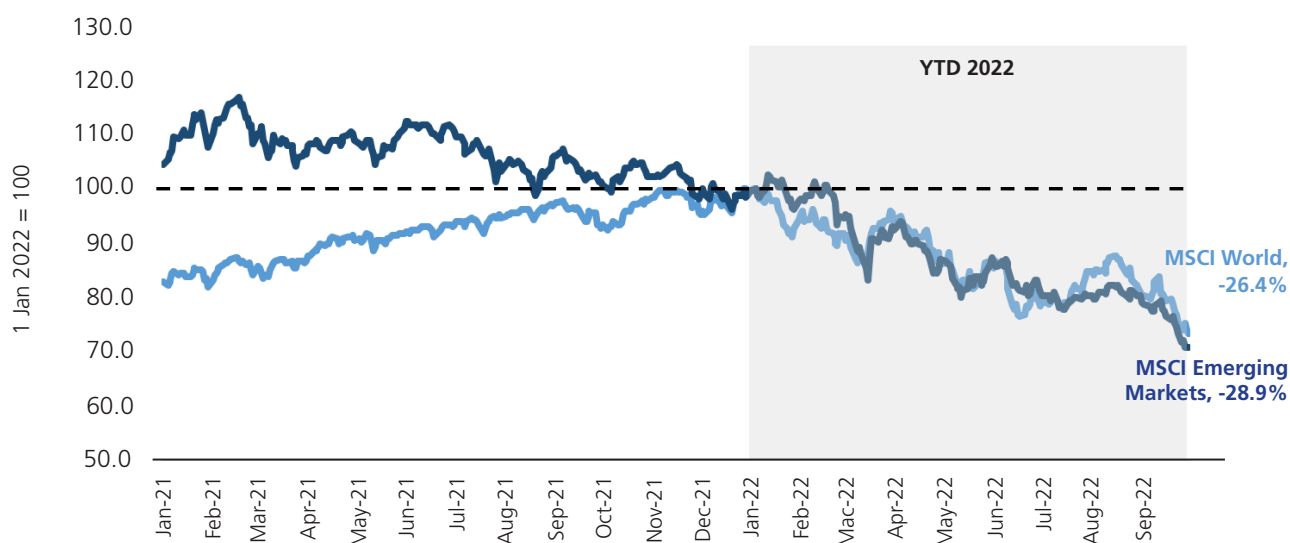
In global equities, both the MSCI World and MSCI Emerging Markets declined by -6.6% quarter on quarter (q-o-q) (Q2 2022: -16.6%) and -12.5% q-o-q (Q2 2022: -12.4%) respectively in Q3 2022. This was against the backdrop of the deteriorating global economic outlook, in an environment of high inflation, ongoing war in Ukraine and its ensuing impact on Europe's energy markets, as well as China's economic slowdown. In the US, the S&P 500 index fell by -5.3% q-o-q in Q3 2022 (Q2 2022: -16.4%), as investors continued to react to the US Federal Reserve's (Fed) increasingly hawkish stance. Similarly, the Euro Stoxx 50 declined by -4.0% q-o-q (Q2 2022: -11.5%), while the UK FTSE 100 ended lower by -3.8% q-o-q (Q2 2022: -4.6%). In Asia, the Nikkei 225 dropped -1.7% q-o-q in Q3 2022 (Q2 2022: -5.1%).

Meanwhile, global bond yields were broadly higher in Q3 2022 following a series of aggressive monetary policy tightening by major central banks. At its Federal Open Market Committee (FOMC) meeting in September 2022, the US Fed raised its benchmark interest rate by 75 basis points (bps) to 3.25%, the third consecutive three-quarter point increase that pushed borrowing costs to the highest since 2008. Other major central banks also tightened their policy stance further, including the Bank of England (BOE), which raised its benchmark interest rate by another 50 bps to 2.25%, and the European Central Bank (ECB) that hiked its rates by an unprecedented 75 bps in September 2022.

The UST 10-year yield rose to a high of 3.96% on 27 September 2022, the highest in 12 years, before ending the quarter 83.0 bps q-o-q higher at 3.80% (Q2 2022: 64.9 bps). Likewise, the German bund 10-year yield rose by 74.4 bps q-o-q to 2.11% (Q2 2022: 81.3 bps). Meanwhile, the UK Gilt 10-year yield rose significantly by 185.1 bps q-o-q to 4.09% in Q3 2022 (Q2 2022: 62.9 bps), due to a crisis of confidence in the UK's fiscal sustainability following the new government's mini-budget announcement. In Asia, Japan's 10-year government bond yield increased by 2.0 bps q-o-q to 0.25% (Q2 2022: 1.1 bps). Meanwhile, sovereign bond yields in emerging markets were similarly higher in Q3 2022 in tandem with the performance of the global bond market.

Chart 1

MSCI World vs. MSCI EM performances



Source: Refinitiv Datastream.

Table 1

Performance of global equities by selected major markets

Selected major equity markets (% change from preceding period)	2021	2022			
		Q1	Q2	Q3	YTD
MSCI World	20.1	-5.5	-16.6	-6.6	-26.4
MSCI Emerging Markets	-4.6	-7.3	-12.4	-12.5	-28.9
S&P 500	26.9	-4.9	-16.4	-5.3	-24.8
Euro Stoxx 50	21.0	-9.2	-11.5	-4.0	-22.8
UK FTSE	14.3	1.8	-4.6	-3.8	-6.6
Nikkei 225	4.9	-3.4	-5.1	-1.7	-9.9

Source: Refinitiv Datastream.

Table 2

Performance of global bonds by selected major markets

Selected major bond markets (bps change from preceding period)	2021	2022			
		Q1	Q2	Q3	YTD
US Treasury 10-year	58.6	82.7	64.9	83.0	230.6
German Bund 10-year	39.6	73.3	81.3	74.4	229.0
UK Gilt 10-year	77.6	64.0	62.9	185.1	312.0
Japanese Government Bond 10-year	4.9	14.4	1.1	2.0	17.5

Source: Refinitiv Datastream.

DOMESTIC REVIEW

The performance of the domestic capital market was lower in Q3 2022, given the increasingly pessimistic global economic outlook and tighter global financial conditions. In addition, performance was also affected by underlying uncertainties related to protracted geopolitical conflict and China's economic slowdown. Nevertheless, further losses were capped by ongoing domestic economic recovery, given the full reopening of the economy and continued policy support.

The FBMKLCI declined by -3.4% q-o-q to 1,394.63 points in Q3 2022 (Q2 2022: -9.0%), the lowest since the height of the pandemic in May 2020. Similarly, the broader FBMEMAS index declined by -3.2% q-o-q to 9,976.86 points in Q3 2022 (Q2 2022: -9.5%). Total market capitalisation contracted by -2.8% q-o-q to RM1.60 trillion in Q3 2022 (Q2 2022: -8.2% to RM1.65 trillion), while that for FBMKLCI shrank by -3.5% q-o-q to RM0.93 trillion (Q2 2022: -8.0% to RM0.97 trillion). Meanwhile, domestic bond yields ended mostly higher, except for longer-dated notes, tracking the performance of the global bond market. As at end of Q3 2022, the Malaysian Government Securities (MGS) 3Y to 10Y yield curve rose between 10.1 to 25.4 bps, while yields for 15Y and 20Y notes declined by -1.8 bps and -6.3 bps respectively.

In terms of capital flows, non-resident and local retail investors were net buyers of Malaysian equities in Q3 2022, amounting to RM551.62 million (Q2 2022: -RM379.34 million) and RM577.8 million (Q2 2022: RM1.21 billion) respectively. Meanwhile, the local retail participation rate averaged at 25.56% in terms of value traded in Q3 2022 (Q2 2022: 24.61%). Correspondingly, net sell by local institutional investors amounted to -RM1.13 billion during Q3 2022 (Q2 2022: -RM832.06 million). Meanwhile, the bond market witnessed foreign inflows amounting to RM1.62 billion in Q3 2022 (Q2 2022: -RM5.80 billion). On the currency front, the ringgit exchange rate depreciated against the US dollar by -4.95% to RM4.64, in line with the performance of most major and regional currencies.

Table 3

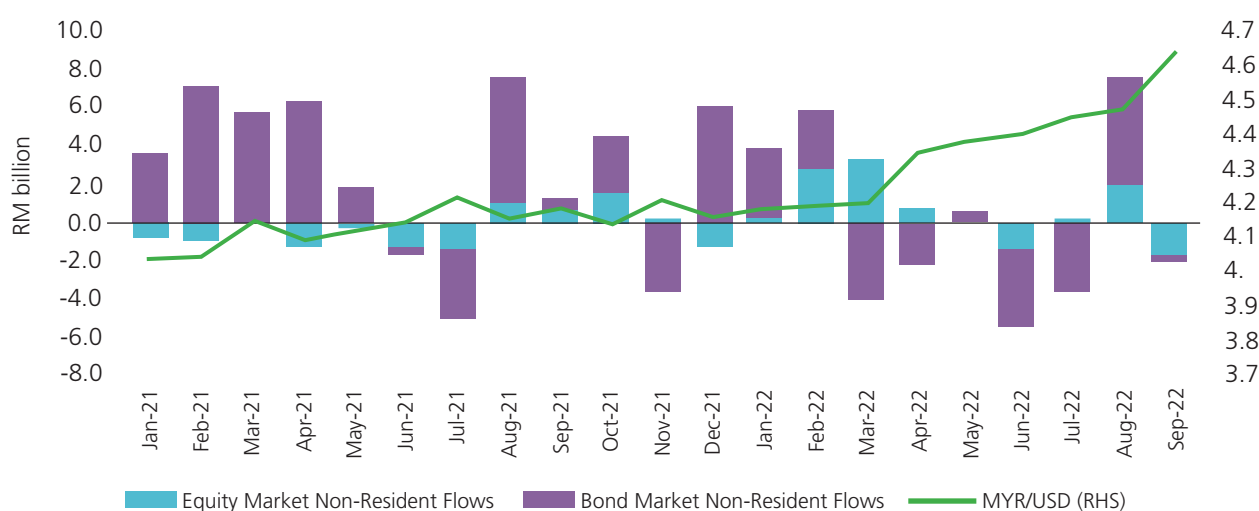
Domestic and regional market performance

Regional indices (% change from preceding period)	2021	2022			
		Q1	Q2	Q3	YTD
Malaysia FBMKLCI	-3.7	1.3	-9.0	-3.4	-11.0
Singapore STI	9.8	9.1	-9.0	0.9	0.2
Thailand SET	14.4	2.3	-7.5	1.4	-4.1
Philippines PCOMP	-0.2	1.1	-14.5	-6.7	-19.4
Indonesia JCI	10.1	7.4	-2.3	1.9	7.0

Source: Refinitiv Datastream.

Chart 2

Non-residents' portfolio flows



Source: Bank Negara Malaysia, Bursa Malaysia.