



**PART 1**  
**CAPITAL MARKET**  
**REVIEW AND**  
**OUTLOOK**

## OVERVIEW

The global economy experienced considerable challenges in 2022 shaped by the war in Ukraine, intensified global inflationary pressures, tightening global financial conditions, and an economic slowdown in China. Domestically, the Malaysian economy remained resilient and continued to recover following the reopening of the economy, underpinned by robust domestic demand. Against the backdrop of higher global financial market volatility, conditions in the domestic capital market remained orderly and it continued to play its critical role in financing economic activity and mobilising savings, with a notable improvement in fundraising activities in 2022. Going forward, the Malaysian economy is projected to continue to recover in 2023, although at a more moderate pace, given the increasingly challenging global economic environment. The domestic capital market will continue to be influenced by key global developments and is expected to stay resilient and orderly, given Malaysia's firm macroeconomic fundamentals and supportive policy environment.

## GLOBAL DEVELOPMENTS IN 2022

**The global economy** faced a series of destabilising shocks in 2022, derailing global economic recovery. The path towards recovery was upended primarily by the war in Ukraine, which led to prolonged supply-chain imbalances, commodity price shocks, an energy crisis in Europe, and multi-decades high inflation across most advanced economies.

The intensification of global inflationary pressure prompted aggressive monetary policy tightening by major central banks to restore price stability, leading to a sharp tightening of global financial conditions. This also led to concerns of rising recessionary risks in both advanced economies (AE) and emerging market and developing economies (EMDE). Moreover, China's economic slowdown amid continued COVID-19 related disruptions and the stress in the real estate market also weighed on the global economy. The International Monetary Fund (IMF) in its World Economic Outlook in October 2022 forecasts global growth to slow to 3.2%

in 2022 from 6.0% in 2021, while noting that countries accounting for at least one-third of the global economy are poised to contract in 2022 or 2023.

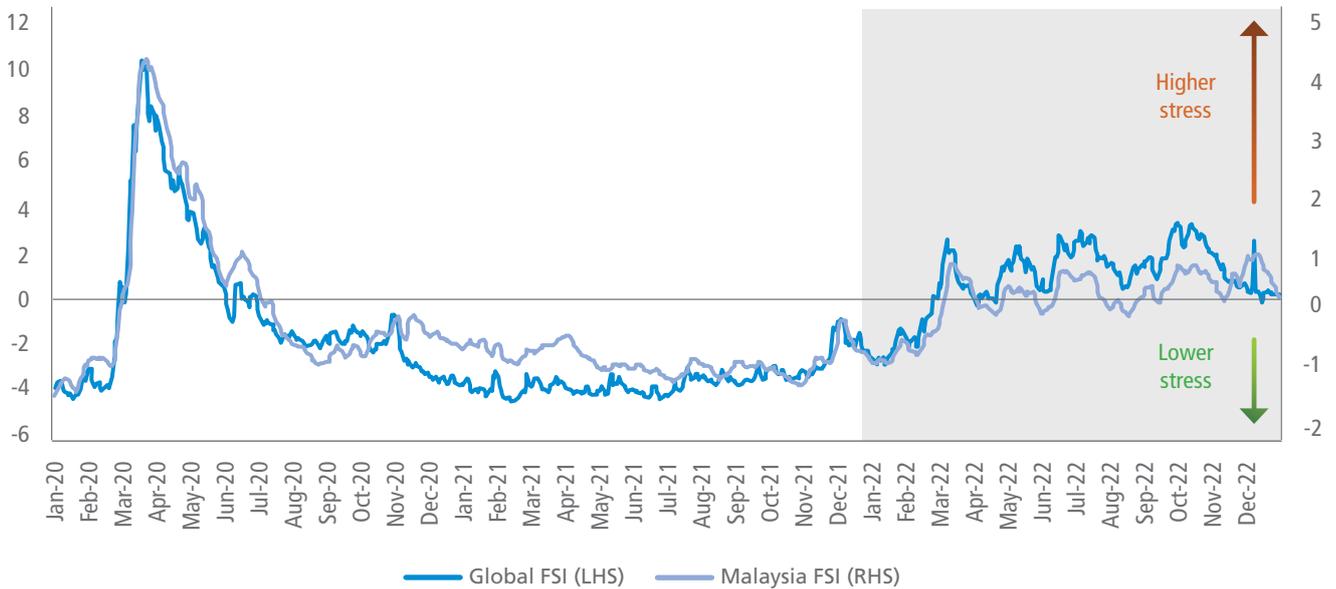
**Global financial markets performances** were weaker in 2022 as a confluence of factors from sharp tightening of global financial conditions, concerns over repercussions of the war, to rising recessionary risks resulted in volatility in global financial markets throughout the year. Consequently, the overall level of global financial stress had increased markedly since early in the year (Chart 1).

In the global equity market, both the MSCI World Index and the MSCI Emerging Markets Index recorded double-digit declines of -19.5% and -22.4% respectively in 2022. Meanwhile, in the global bond market, bond yields were significantly higher in 2022, led by the US Treasury 10-year note, given multi-decades high inflation across advanced economies and continued expectations of steeper interest rate hikes by major central banks, leading to weak performance of the major bond indices (Chart 2).

**CHART 1**

Global financial stress levels increased in 2022, with intermittent episodes of volatility throughout the year amid a myriad of factors

**OFR Global Financial Stress Index (FSI) and Malaysia FSI**

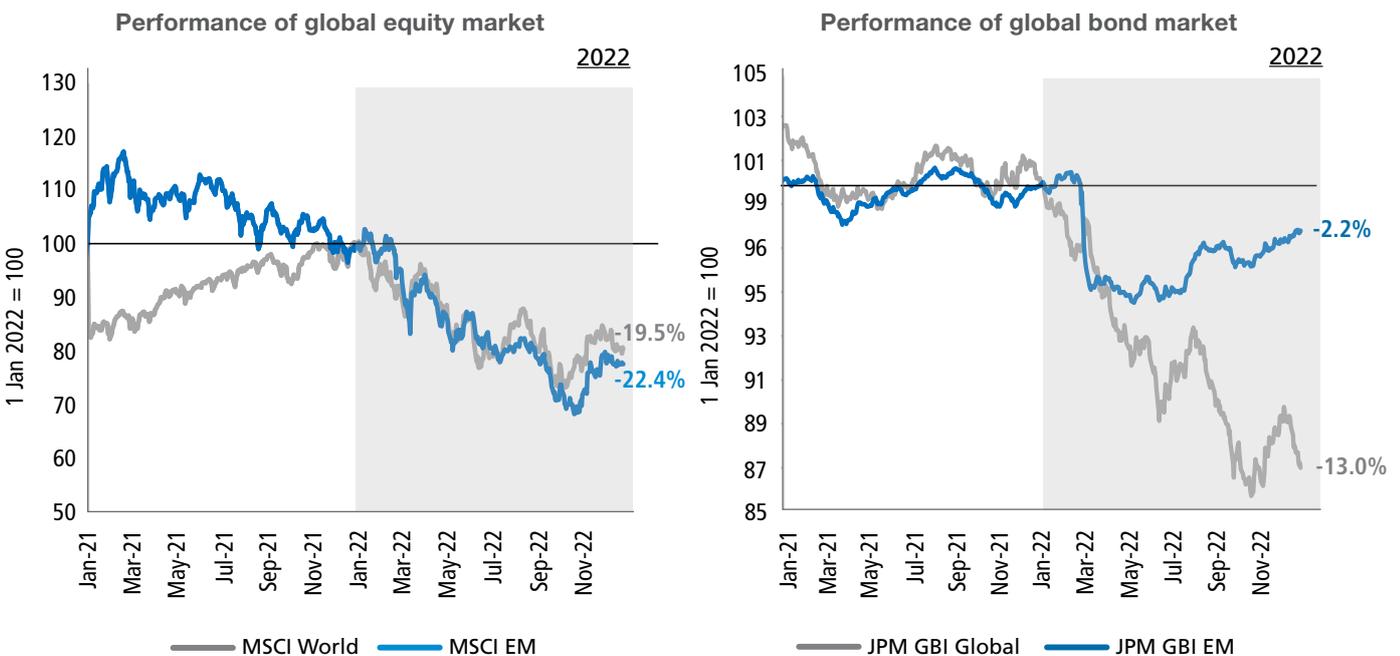


Note: The Global FSI is from the Office of Financial Research, US Department of Treasury, while the Malaysia Financial Stress Index (MFSI) is internally estimated following a similar methodology (see [Monin, 2017](#)). Value of FSI above zero indicates higher than historical average financial stress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

Source: US Office of Financial Research (OFR); the SC's internal estimates.

**CHART 2**

Global equities and bonds registered weaker performances in 2022



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

## MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2022

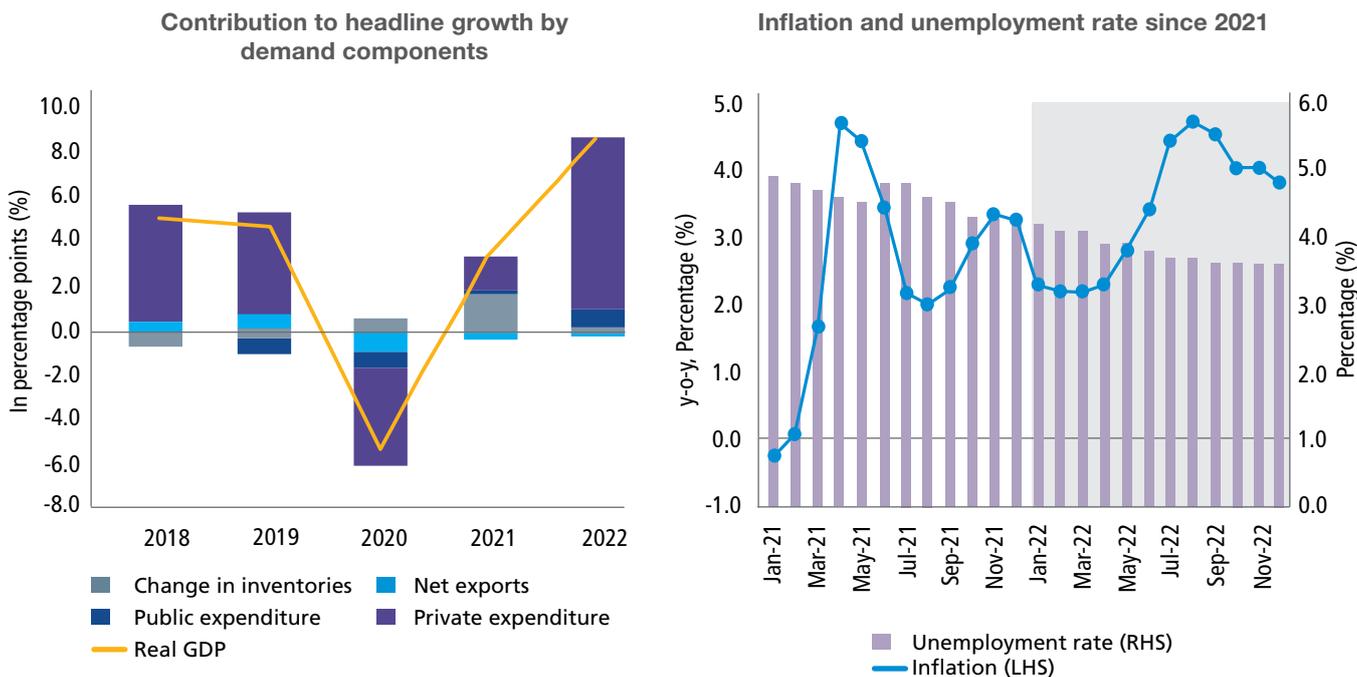
The Malaysian economy recovered strongly in 2022, despite an increasingly challenging external environment. Growth was underpinned by favourable domestic demand momentum, steady expansion in the external sector, and continued improvement in labour market conditions. The full resumption of economic activities and the recovery of inbound tourism following further relaxation of COVID-19 restrictions helped to underpin economic performance. Headline inflation had also increased, reflecting stronger demand conditions and elevated cost pressures. For the full year of 2022, real GDP expanded 8.7% supported by robust domestic demand as the country transitions into endemicity (Chart 3).

## The domestic capital market continued to support the real economy

The Malaysian capital market remained resilient and orderly in 2022, against the backdrop of increasingly pessimistic global economic outlook and tighter global financial conditions. Importantly, it continued to serve its roles in financing economic activity and intermediating savings. Total funds raised in the capital market increased to RM179.4 billion in 2022 (2021: RM131.3 billion), of which RM26.0 billion was raised via the equity market<sup>1</sup>, while RM153.3 billion was issued through the corporate bond market. Likewise, alternative fundraising avenues<sup>2</sup> via ECF and P2P financing rose in 2022, and continued to support the funding needs of MSMEs. Meanwhile, the fund management industry experienced weaker

### CHART 3

The Malaysian economy continued to recover in 2022, driven by strong domestic demand as the country transitions into endemicity

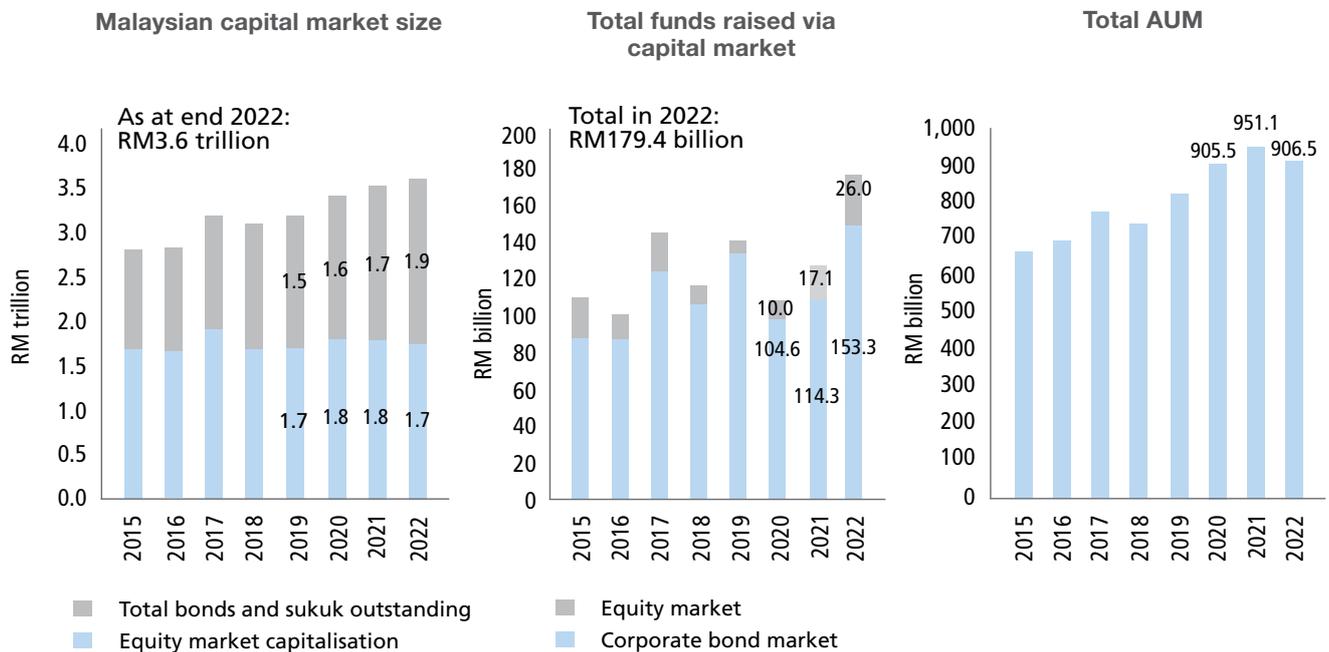


Source: Department of Statistics Malaysia; the SC's calculations.

<sup>1</sup> In the equity market, RM3.5 billion was raised via 35 initial public offerings (IPOs) and RM22.6 billion through secondary fundraising.  
<sup>2</sup> Funds raised via ECF and P2P financing was RM1.7 billion in 2022 (2021: RM1.4 billion).

**CHART 4**

Despite the challenging environment, domestic capital market remained orderly and continued to facilitate fundraising and savings intermediation effectively



Source: Bursa Malaysia; the SC's calculations.

market valuation and net redemptions in 2022, with AUM totalling RM906.5 billion (2021: RM951.1 billion). The unit trust segment<sup>3</sup> remained the largest source of funds for AUM. Overall, the size of the capital market rose to RM3.6 trillion in 2022 (2021: RM3.5 trillion), as the drop in equity market capitalisation was offset by higher bonds and sukuk outstanding (Chart 4).

**The domestic equity market** was affected by persistent headwinds both globally and domestically. The overall market capitalisation of Bursa Malaysia and the FBMKLCI moderated to RM1.74 trillion and RM1.03 trillion respectively in 2022 (2021: RM1.79 trillion and RM1.04 trillion respectively). Likewise, the FBMKLCI index declined by -4.6% to end the year at 1,495.49 points. In terms of trade participation, local institutions remained net sellers to a total of -RM6.53 billion in 2022. Correspondingly, non-residents turned net buyers after four consecutive years of net-sell, with total net buy amounting to RM4.40 billion (2021: -RM3.15 billion), while net buying by local retail investors totalled RM2.13 billion (Chart 5). In terms of value traded, the participation rate for retail

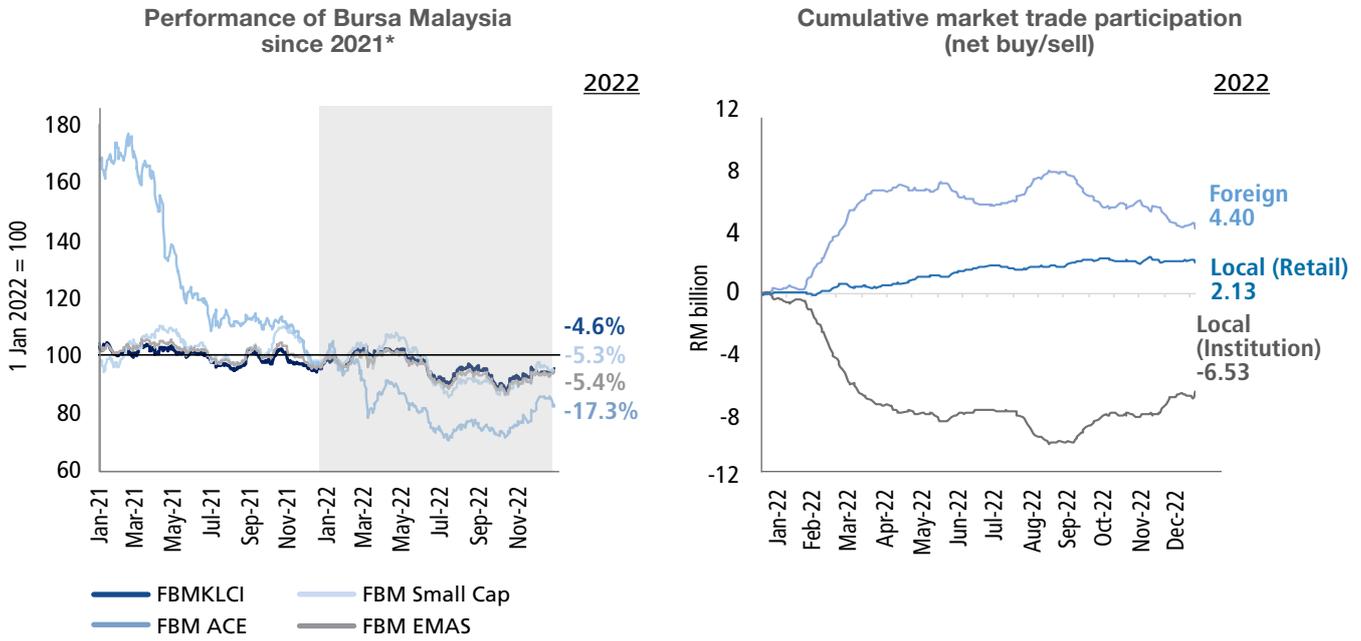
investors declined to an average of 25.7% in 2022 (2021: 34.6%), but remained above the five-year pre-pandemic average of 18.8%. Meanwhile, the average daily trading volume also moderated in 2022 to 3.00 billion (2021: 5.85 billion), valued at an average of RM2.18 billion per day (2021: RM3.66 billion).

**In the Malaysian bond market**, total bonds and sukuk outstanding grew to RM1.9 trillion in 2022 from RM1.7 trillion in 2021, reflecting higher levels of bond and sukuk fundraising in the market. The overall Malaysian Government Securities (MGS) yield curve shifted upward, tracking the movements of the global bond market. This was driven by expectations of continued monetary policy normalisation globally and domestically, given elevated inflationary pressures. The spread between corporate bonds and MGS widened across major tenures, except for 3-year notes (Chart 6). Meanwhile, the domestic bond market witnessed lower foreign interest, with net outflows amounting to -RM9.8 billion in 2022 (2021: net inflow of RM33.6 billion).

<sup>3</sup> Unit trust total net asset value (NAV) of RM487.9 billion in 2022 (2021: RM526.9 billion).

**CHART 5**

Malaysian equity market performance was weaker in 2022, but non-residents returned as net buyers in the equity market, the first since 2017



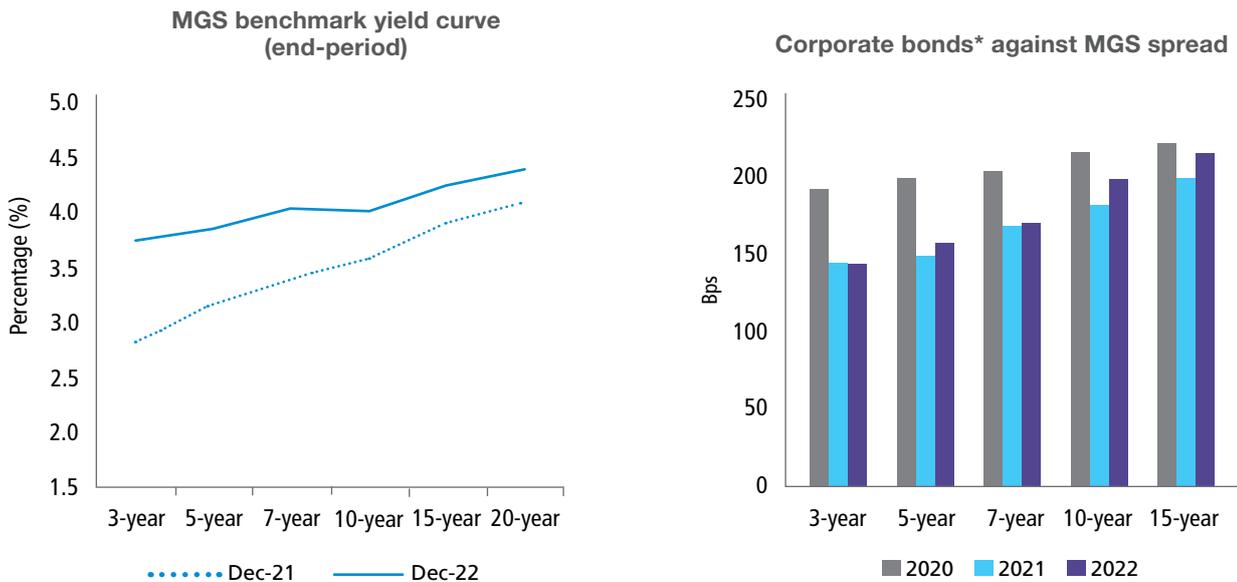
Note:

\* 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 ACE comprises all companies listed on the ACE Market.

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

**CHART 6**

MGS bond yields experienced upward pressure across tenures, while corporate spreads widened, trailing global bond markets



Note:

\* Corporate bonds rated between AAA and BBB.

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

## OUTLOOK FOR 2023

**Global economic growth** is expected to slow further in 2023, subject to considerable uncertainties. Aside from ongoing concerns related to the pandemic, especially in China, the interplay between geopolitical fragmentation, elevated inflationary pressure, and the pace of monetary policy normalisation in major economies will be key determinants of the pace of global economic activities. Meanwhile, developments in the global capital market are expected to be in tandem with this economic outlook.

**Malaysian economic growth** is projected to continue in 2023, albeit at a more modest pace, reflecting an increasingly challenging global environment and the

normalisation in domestic demand. The downside risks to growth remain given external uncertainties, while the pace of economic recovery will likely continue to be uneven across sectors.

The performance of the Malaysian capital market is projected to remain resilient, in line with the domestic economy. However, it will continue to be influenced by key global developments, with volatility expected to be driven by the rate of global monetary policy tightening and geopolitical developments. Nevertheless, conditions in the domestic capital market is expected to remain orderly, and continue to support the economy, underpinned by strong macroeconomic fundamentals and supportive capital market infrastructure.