

MARKET REVIEW AND OVERVIEW

GLOBAL OVERVIEW

The performance of the global capital market was weaker in Q3 2023, amid the ongoing effects of tighter global monetary policy, persistent underlying inflationary pressure, ongoing geopolitical tensions, and sustained weakness in the Chinese economy. Global bond yields ended mostly higher, as major central banks signalled strong commitments to continue raising interest rates or keep them at elevated levels for a prolonged period, to restore price stability.

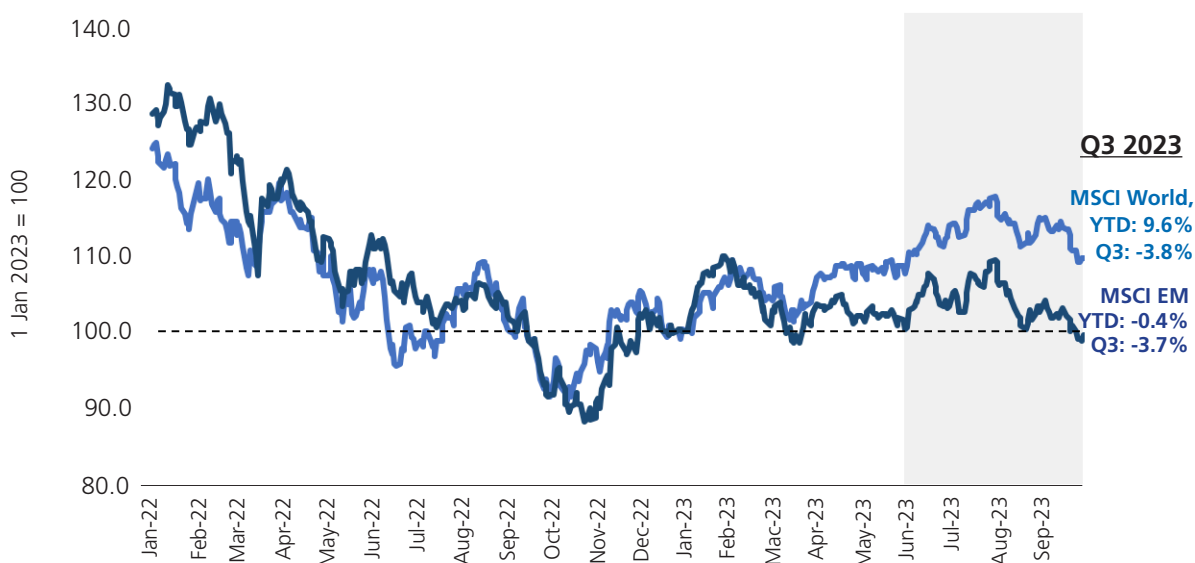
In global equities, the MSCI World index ended lower by -3.83% quarter-on-quarter (q-o-q) in Q3 2023 (Q2 2023: 6.28%), marking the first quarterly decline since Q3 2022. The S&P 500 and Euro Stoxx 50 fell by -3.65% q-o-q and -5.10% q-o-q respectively (Q2 2023: 8.30% and 1.95%), as investor sentiment was weighed down by the shift in expectations towards a prolonged period of higher global interest rates and increasingly challenging global economic conditions. The VIX Index, a gauge of US equity market volatility, jumped to 26.9 on 26 September, the highest level since June 2023, signalling heightened risk in the equity market. The MSCI Emerging Markets index ended Q3 2023 lower by -3.71% q-o-q (Q2 2023: -0.08%) amid concern over China's economic weakness, especially in the real estate sector. Concurrently, Chinese local corporate bond defaults reached their highest levels since the beginning of the year, prompting calls for government measures to stabilise the economy. The Nikkei 225 meanwhile reversed some of its earlier gains and declined by -4.01% but remained significantly higher by 22.09% in the year-to-date (Q2 2023: 18.36%).

Meanwhile, global sovereign bond yields broadly increased in Q3 2023 as persistent underlying inflationary pressure prompted major central banks to strengthen their commitments to keep interest rates at elevated levels, despite slowing down their pace of monetary policy tightening. The US Federal Reserve (Fed) raised the federal funds rate by 25 basis points (bps) to 5.50% at its Federal Open Market Committee (FOMC) meeting in July 2023, but kept it unchanged at the subsequent FOMC meeting in September 2023. Similarly, the Bank of England (BOE) increased its policy rate by 25-bps to 5.25% in August 2023 and held it unchanged in September 2023. Meanwhile, the European Central Bank (ECB) raised its benchmark refinancing rate by a cumulative 50-bps to 4.5% during Q3.

The UST 10-year yields rose by 76.40-bps q-o-q to 4.57% (Q2 2023: 3.81%), while the German Bund and UK Gilt 10-year yields increased by 44.40-bps q-o-q and 5.50-bps q-o-q to 2.84% and 4.44% respectively in Q3 2023 (Q2 2023: 2.39% and 4.39%). In Asia Pacific, the Japanese 10-year government bond yields rose by 36.70-bps q-o-q to 0.76% (Q2 2023: 0.40%). Meanwhile, EM sovereign bond yields ended similarly higher during Q3 2023, mirroring 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)	2022	Q1 2023	Q2 2023	Q3 2023	YTD
MSCI World	-19.46	7.25	6.28	-3.83	9.63
MSCI Emerging Markets	-22.37	3.55	-0.08	-3.71	-0.38
S&P 500	-19.44	7.03	8.30	-3.65	11.68
Euro Stoxx 50	-11.74	13.74	1.95	-5.10	10.04
UK FTSE	0.91	2.42	-1.31	1.02	2.10
Nikkei 225	-9.37	7.46	18.36	-4.01	22.09

Source: Refinitiv Datastream.

Table 2

Performance of global bonds by selected major markets

Selected major bond markets (bps change from preceding period)	2022	Q1 2023	Q2 2023	Q3 2023	YTD
US Treasury 10-year	233.30	-35.00	32.80	76.40	74.20
German Bund 10-year	274.10	-25.20	8.40	44.40	27.60
UK Gilt 10-year	269.70	-18.00	89.80	5.50	77.30
Japanese Government Bond 10-year	34.80	-6.40	4.30	36.70	34.60

Source: Refinitiv Datastream.

DOMESTIC REVIEW

The performance of the domestic capital market was mixed in Q3 2023, with the local bourse being supported by improved investor sentiment amid recent policy announcements by the government that signalled a commitment towards improving medium-term growth prospects. However, further gains in the local bourse were capped, especially towards the end of the review period, by indications of challenging macroeconomic conditions, including the announcement of weaker-than-expected Malaysian real gross domestic product (GDP) growth of 2.9% year-on-year (y-o-y) in Q2 2023 and concerns of spillover effects from China's economic weakness. Meanwhile, the local bond market was influenced by a reassessment of the global interest rate environment given still-elevated underlying global price pressures.

The FBMKLCI rebounded by 3.45% q-o-q to 1,424.17 points in Q3 2023 (Q2 2023: -3.23%; YTD: -4.77%), while the broader FBMEMAS index rose by 4.35% q-o-q to 10,582.27 points (Q2 2023: -2.67%; YTD: -1.11%). In terms of market capitalisation, the size of the local bourse expanded by 5.47% q-o-q to RM1.76 trillion in Q3 2023 (Q2 2023: RM1.67 trillion). Meanwhile, domestic bond yields ended higher, even as Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR) at 3.00% at its Monetary Policy Committee (MPC) meetings in July and September 2023. The overall Malaysian Government Securities (MGS) yield curve shifted upwards during Q3 2023, with yields increasing between 6.5 and 17.4 bps across the 1-year to 20-year notes.

In terms of capital flows, foreign investors turned net buyers of Malaysian equities in Q3 2023 amounting to RM2.23 billion (Q2 2023: -RM2.33 billion). Correspondingly, local institutions and retail investors were net sellers to the tune of -RM1.15 billion (Q2 2023: RM1.95 billion) and -RM1.08 billion (Q2 2023: RM372.23 million), respectively. Meanwhile, the local retail participation rate averaged 27.27% in terms of value traded in Q3 2023 (Q2 2023: 27.85%). The local bond market, meanwhile, witnessed lower foreign net inflows, amounting to RM1.82 billion in Q3 2023 (Q2 2023: RM9.77 billion). On the currency front, the ringgit depreciated against the US dollar by -0.59% q-o-q to RM4.70 during Q3 2023 (Q2 2023: RM4.67).

Table 3

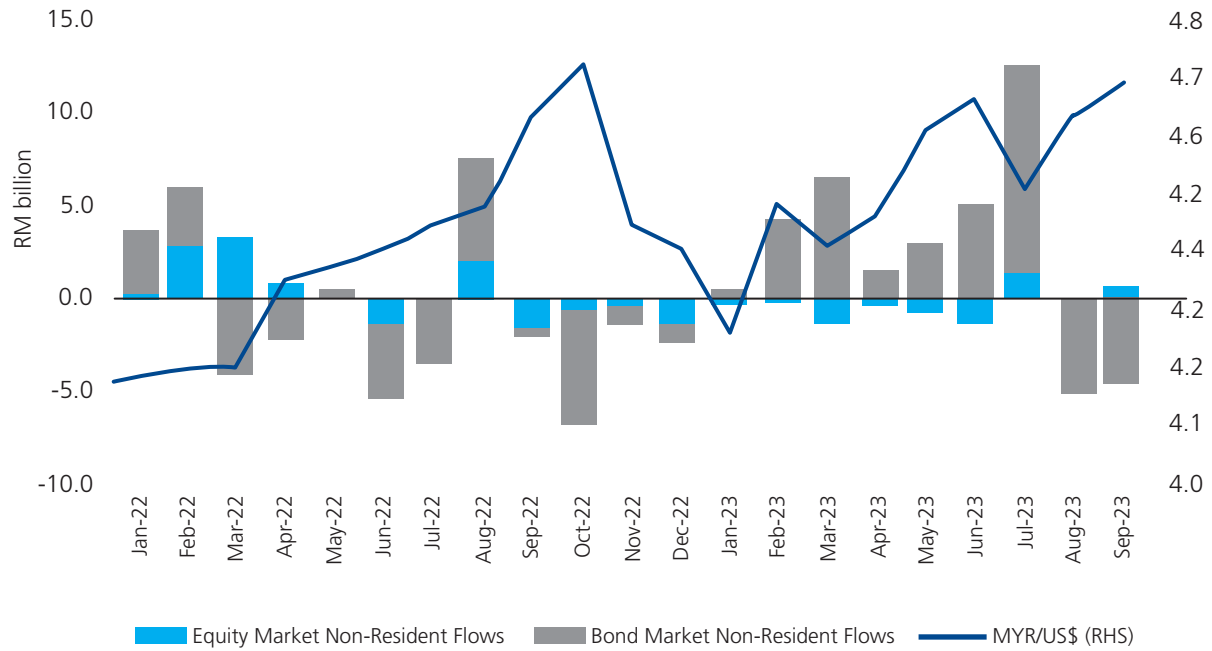
Domestic and regional market performance

Regional indices (% change from preceding period)	2022	Q1 2023	Q2 2023	Q3 2023	YTD
Malaysia FBMKLCI	-4.60	-4.87	-3.23	3.45	-4.77
Singapore STI	4.09	0.23	-1.63	0.36	-1.04
Thailand SET	0.67	-3.57	-6.59	-2.11	-11.82
Philippines PCOMP	-7.81	-1.02	-0.49	-2.27	-3.73
Indonesia JCI	4.09	-0.66	-2.11	4.17	1.30

Source: Refinitiv Datastream.

Chart 2

Non-residents' portfolio flows and ringgit exchange rate



Source: BNM, Bursa Malaysia Bhd.