MARKET REVIEW

GLOBAL OVERVIEW

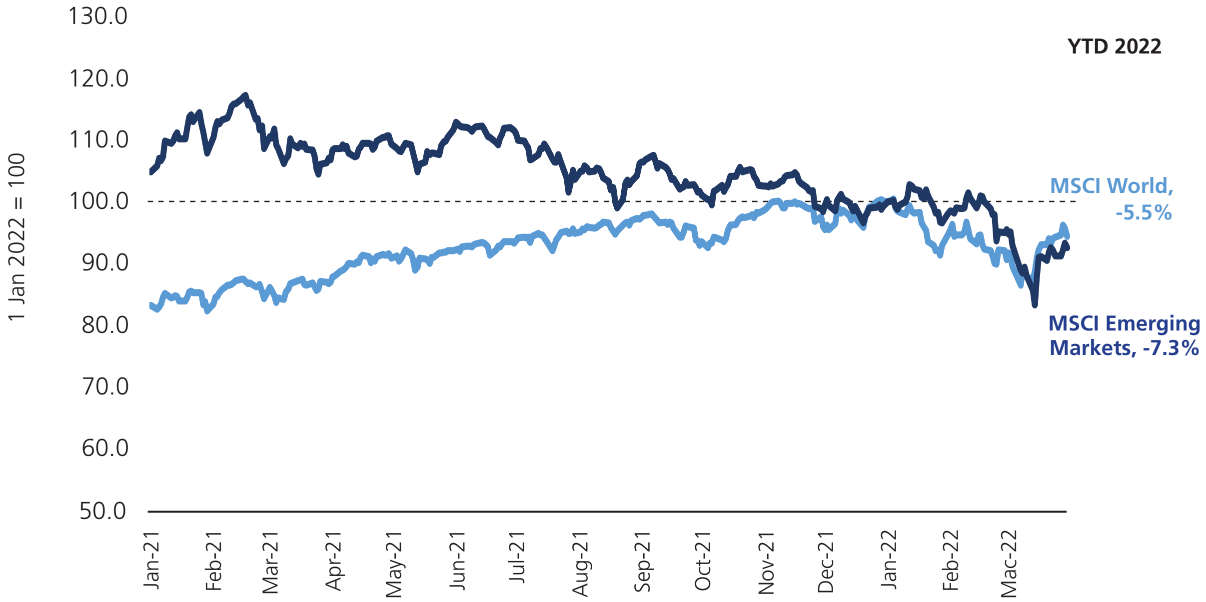
The global capital market performance ended generally weaker in Q1 2022, on the back of negative investor sentiment amid heightened Russia-Ukraine tensions and rising global inflationary pressure. In addition, concerns over China's economic slowdown due to renewed COVID-19 outbreaks also dampened investors' confidence, especially in emerging markets (EM). Meanwhile, global bond yields rose sharply on stronger expectations of faster global monetary policy normalisation.

In global equities, the MSCI World declined by -5.5% q-o-q in Q1 2022 (Q4 2021: 7.5%), weighed by intensified Ukraine-Russia conflicts, soaring inflation, and the US Federal Reserve's (Fed) increasingly hawkish pivot. Likewise, the MSCI Emerging Markets ended the quarter lower by -7.3% q-o-q (quarter-on-quarter) (Q4 2021: -1.7%), on worries of a slowdown in China's economy, and potential spillovers from the conflict in Ukraine. In the US, the S&P 500 index fell by -4.9% q-o-q in Q1 2022 (Q4 2021: 10.6%), with initial gains tempered by the onset of the war. Similarly, the Euro Stoxx 50 declined by -9.2% q-o-q (Q4 2021: 6.2%) amid fears of an energy shortage in Europe due to the Russia-Ukraine conflict. Nevertheless, the UK FTSE 100 was resilient, rising by 1.8% q-o-q (Q4 2021: 4.2%). In Asia, the Nikkei 225 declined by -3.4% q-o-q in Q1 2022 (Q4 2021: -2.2%).

Meanwhile, global bond yields were significantly higher during the quarter as higher-than-expected inflation continued to fuel expectations of faster global monetary policy normalisation. Yields of major government bonds, led by the US Treasury (UST), rose after the Fed raised its benchmark interest rate by 25 bps to 0.50% in its Federal Open Market Committee (FOMC) meeting in March 2022, the first hike since 2018, and signalled a more aggressive cycle of rate hikes over the next 2 years. Other major central banks such as the Bank of England (BOE) and European Central Bank (ECB) also signalled faster normalisation at their latest monetary policy meetings, with the BOE hiking rates for the third time in March 2022. The UST 10-year yields increased by 82.7 bps q-o-q to 2.33%, the highest since May 2019 (Q4 2021: -2.9 bps). Likewise, the German bund 10-year yields rose by 73.3 bps q-o-q to 0.55% (Q4 2021: 1.6 bps), while the UK Gilt 10-year yields added 64.0 bps q-o-q to 1.61% in Q1 2022 (Q4 2021: -5.2 bps). In Asia, Japan's 10-year government bond yields increased by 14.4 bps q-o-q to 0.21% (Q4 2021: 0.5 bps). Meanwhile, the EM sovereign bond yields ended broadly higher during Q1 2022.

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)	2021	Q4 2021	Q1 2022
MSCI World	20.1	7.5	-5.5
MSCI Emerging Markets	-4.6	-1.7	-7.3
S&P 500	26.9	10.6	-4.9
Euro Stoxx 50	21.0	6.2	-9.2
UK FTSE	14.3	4.2	1.8
Nikkei 225	4.9	-2.2	-3.4

Source: Thomson Reuters Datastream.

Table 2

Performance of global bonds by selected major markets

Selected major bond markets (bps change from preceding period)	2021	Q4 2021	Q1 2022
US Treasury 10-year	58.6	-2.9	82.7
German Bund 10-year	39.6	1.6	73.3
UK Gilt 10-year	77.6	-5.2	64.0
Japanese Government Bond 10-year	4.9	0.5	14.4

Source: Thomson Reuters Datastream.

DOMESTIC OVERVIEW

The performance of the domestic capital market was resilient in Q1 2022, underpinned by ongoing domestic economic recovery in anticipation of further relaxation on the virus restrictions in April 2022. Nevertheless, further gains were capped by the volatility in global markets, mainly due to escalating geopolitical tensions and the general increase in uncertainty in the external environment.

The FBMKLCI increased by 1.3% q-o-q to 1,587.36 points in Q1 2022 (Q4 2021: 1.9%) but was down from its peak of 1,618.54 points on 3 March 2022, which was the highest since April 2021. Similarly, the broader FBMEMAS index rose by 0.7% q-o-q to 11,387.32 points in Q1 2022 (Q4 2021: -0.02%). The market capitalisation of Bursa Malaysia expanded by 0.3% q-o-q to RM1.80 trillion in Q1 2022 (Q4 2021: -0.7% to RM1.79 trillion), while the FBMKLCI grew by 0.7% q-o-q to RM1.05 trillion (Q4 2021: 1.5% to RM1.04 trillion). Meanwhile, domestic bond yields ended mostly higher led by 7-year yields, as investors continued to react to the Fed's increasingly hawkish stance, alongside expectations of further domestic economic recovery. As of Q1 2022, the MGS yield curve broadly shifted upward, with yields rising between 16 to 52 bps across all major tenures.

In terms of capital flows, foreign investors and local retailers were buyers of Malaysian equities in Q1 2022, amounting to RM6.5 billion (Q4 2021: RM599.3 million) and RM506.2 million, respectively (Q4 2021: RM1.8 billion). Correspondingly, net selling by local institutional rose to -RM7.0 billion (Q4 2021: -RM2.4 billion). Meanwhile, the local retail participation rate averaged at 26.57% in terms of value traded in Q1 2022 (Q4 2021: 30.89%). The bond market meanwhile continued to witness foreign inflows amounting to RM2.6 billion in Q1 2022 (Q4 2021: RM5.5 billion). On the currency front, the ringgit exchange rate depreciated against the US dollar by -0.92% to RM4.20 during Q1 2022 (Q4 2021: RM4.17), in line with weaker regional currencies.

Table 3

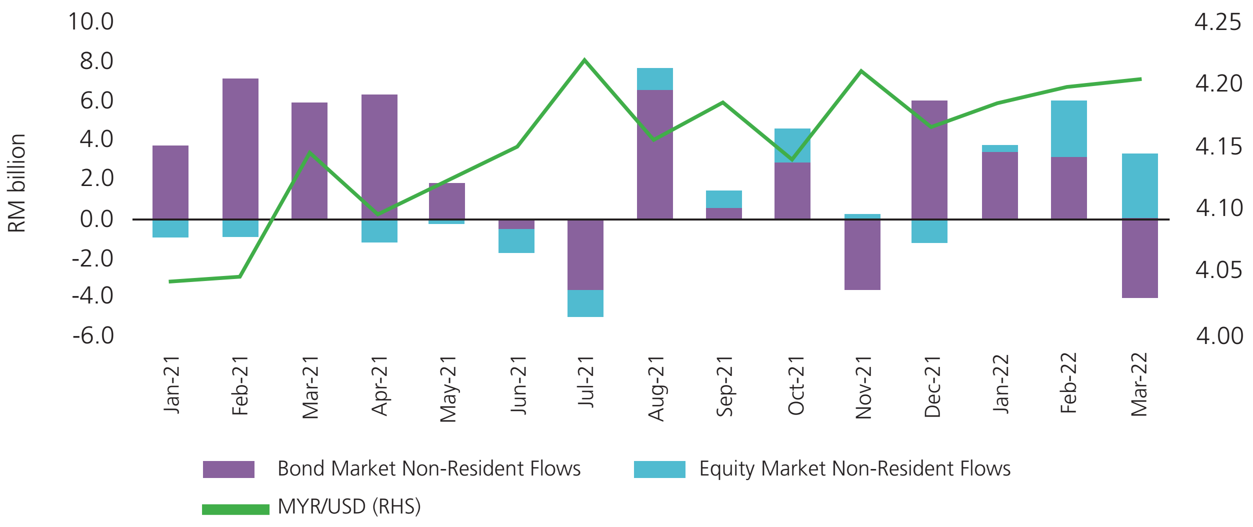
Domestic and regional market performance

Regional indices (% change from preceding period)	2021	Q4 2021	Q1 2022
Malaysia FBMKLCI	-3.7	1.9	1.3
Singapore STI	9.8	1.2	9.1
Thailand SET	14.4	3.2	2.3
Philippines PCOMP	-0.2	2.4	1.1
Indonesia JCI	10.1	4.7	7.4

Source: Thomson Reuters Datastream.

Chart 2

Non-residents' portfolio flows



Source: Bank Negara Malaysia, Bursa Malaysia.