



# CAPITAL MARKET REVIEW AND OUTLOOK

## OVERVIEW

The global economy entered into a recovery phase in 2021, but with widening unevenness across countries and the continued challenge of COVID-19. Domestically, the Malaysian economy remained resilient and continued to recover from the year before, although at a slower pace than initially anticipated.

Against this economic environment, alongside intermittent global financial market volatility, the Malaysian capital market was adversely affected, with domestic equity and bond markets registering subdued performances for the year. Nevertheless, the domestic capital market remained orderly, and importantly, continued to play its critical roles in financing economic activity and intermediating savings with notable improvement in fundraising activities across all market segments.

Going forward, the Malaysian economy is projected to remain on a recovery path in 2022, in tandem with the ongoing recovery in global demand. Although the domestic capital market will continue to be influenced by key global developments, it is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, ample domestic liquidity, and supportive policy environment.

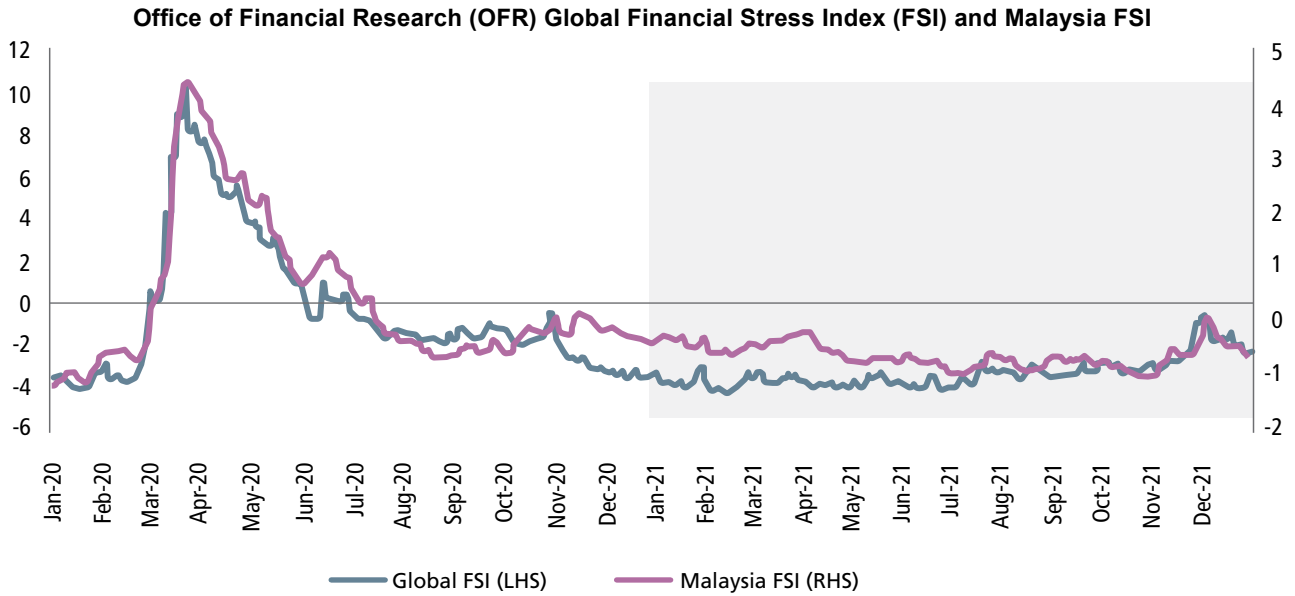
### GLOBAL DEVELOPMENTS IN 2021

**The global economy** entered into a recovery phase in 2021, supported by a rebound in global manufacturing and trade activities. However, the recovery was uneven across countries given the disparity in access to vaccines and policy support. Advanced economies (AE) recorded stronger growth momentum while recovery in emerging market

economies (EME) was relatively weaker. The emergence of the highly transmissible COVID-19 Delta variant also prolonged pandemic-related disruptions, as countries worldwide reimposed various containment measures. While restrictions were gradually relaxed towards the end of 2021, longer-than-expected supply disruptions as well as higher commodity prices and food inflation continued to affect global economic recovery throughout the year.

Chart  
1

Global financial stress levels remained low in 2021, a continuation from the end-2020 environment. Nevertheless, intermittent episodes of volatility were experienced throughout the year amid a confluence of factors



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

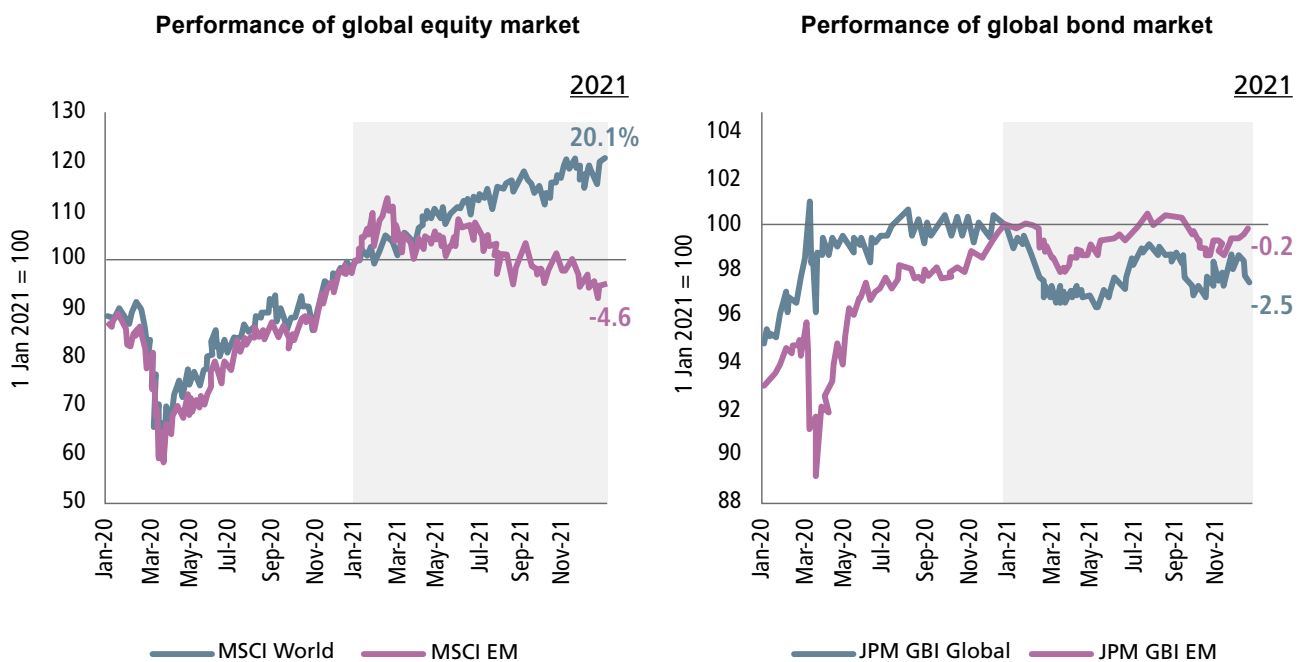
Source: US Office of Financial Research, the SC's internal estimates.

**Global financial markets performances** were mixed in 2021 amid a confluence of factors, from concerns over the durability of global economic recovery and the pace of monetary policy normalisation in AEs to contending geopolitical dynamics and the emergence of the new Omicron COVID-19 variant towards the end of the year. This resulted in intermittent global financial market volatility, with diverging performances across asset classes and regions. However, the overall level of global financial stress remained low compared to the year 2020. In the global equity market, the

MSCI World Index recorded multiple rallies, rising by 20.1% on AEs' growth outlook and favourable corporate earnings. Meanwhile, the MSCI Emerging Markets Index declined by -4.6%, weighed down by subdued EMEs' growth prospects, including China's softening economic momentum and uncertain policy directions. In the global bond market, yields rose from beginning 2021, led by the US Treasury 10-year note on expectations of higher inflation and tighter global monetary policy stance.

Chart  
2

### Global equities and bonds registered mixed performances in 2021



Source: Thomson Reuters Datastream, the SC's calculations.

## MALYSIAN CAPITAL MARKET DEVELOPMENTS IN 2021

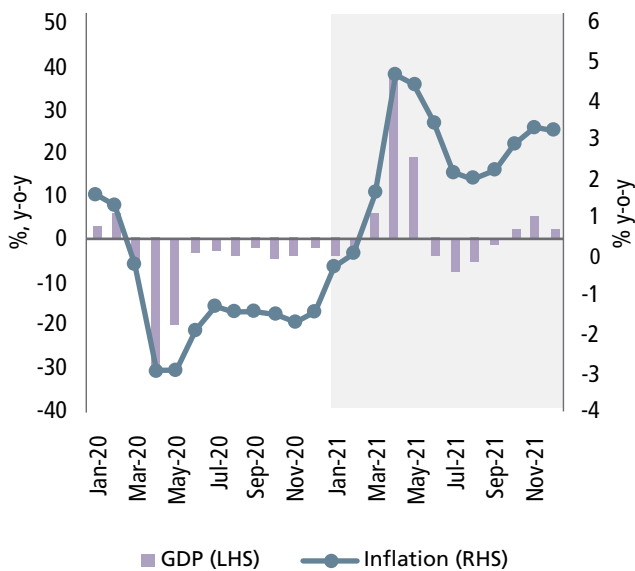
The Malaysian economy remained on a recovery path in 2021. However, a deterioration in the domestic COVID-19 situation in mid-2021 delayed a broad-based recovery in economic activities, with real GDP contracting to its trough in Q3 2021 amid the

reimplementation of strict virus containment measures. In tandem with rapid vaccination progress, a decline in virus cases, and the gradual easing of movement restrictions, growth however rebounded towards the end of 2021. For the full year of 2021, real GDP expanded 3.1%, supported by robust external demand and continued public sector spending.

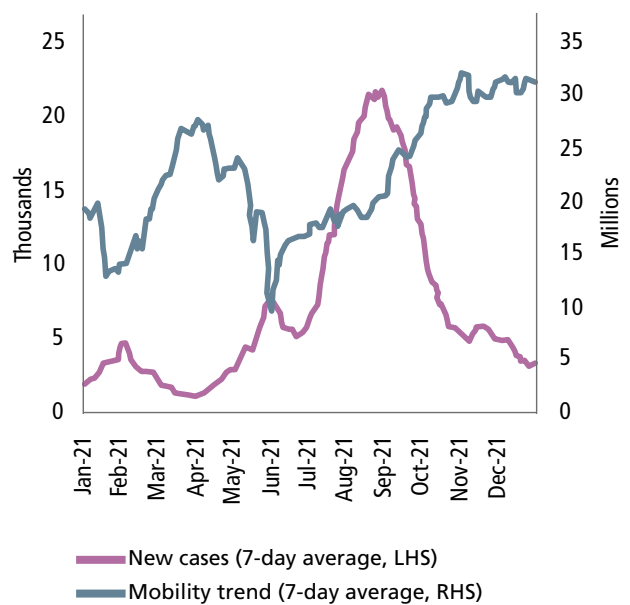
Chart 3

The Malaysian economy continued to recover in 2021, but a broad-based recovery was delayed by the worsening domestic COVID-19 situation mid-year

Real GDP and inflation since 2020



New COVID-19 cases and mobility trend\*



Note:

\* Mobility trend is represented by the total number of check-ins for all locations nationwide registered on MySejahtera.

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

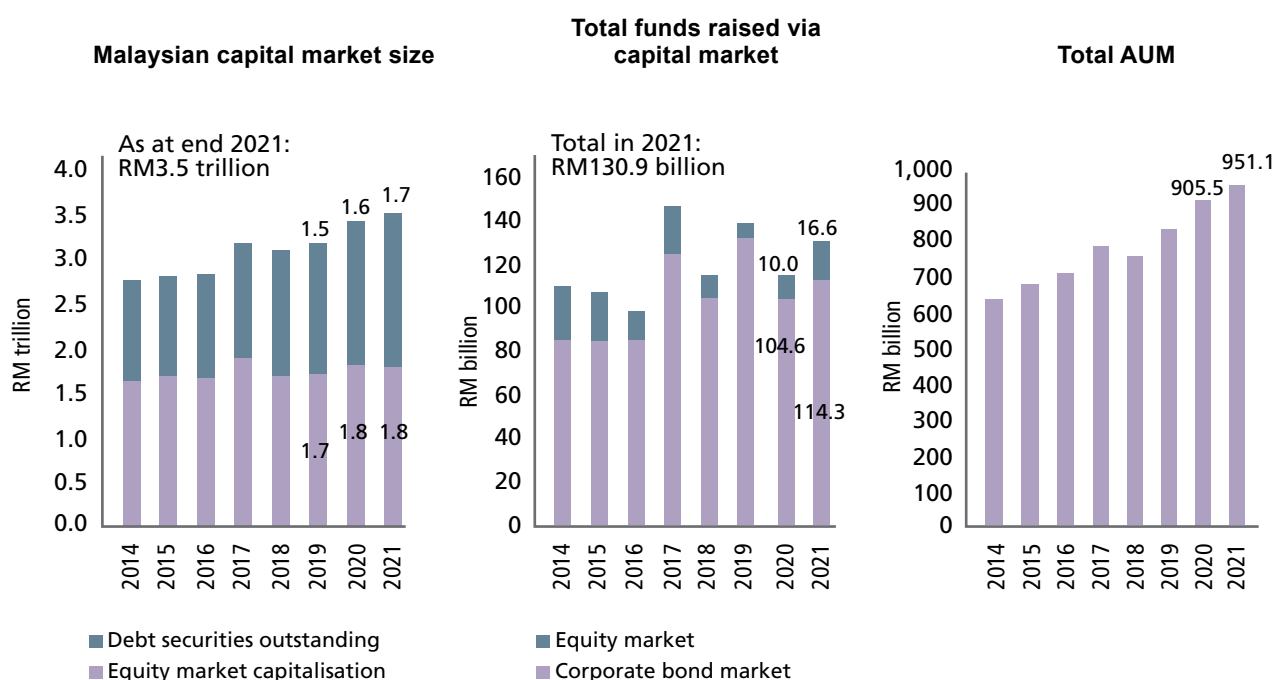
## The Domestic Capital Market Continued To Support The Real Economy

**The Malaysian capital market** remained resilient and orderly throughout 2021 amid the relatively challenging global and domestic environment. Importantly, it continued to serve its fundamental roles in financing the domestic economy and intermediating savings. Total funds raised in the capital market remained robust, rising to RM130.9 billion in 2021 (2020: RM905.5 billion), above the five-year pre-pandemic average of RM121.4 billion, of which RM16.6 billion was raised via the equity market<sup>1</sup>, while RM114.3 billion was raised through the corporate bond market.

Meanwhile, alternative financing avenues<sup>2</sup> via equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) continued to gain traction, especially in supporting the funding needs of MSMEs. Likewise, the fund management industry grew further during the year, with AUM totalling RM951.1 billion (2020: RM905.5 billion). This mainly reflects increased diversification of financial assets in domestic and foreign markets, with the unit trust segment<sup>3</sup> remaining the largest source of funds for AUM. Overall, the size of the capital market rose to RM3.5 trillion in 2021 (2020: RM3.4 trillion).

Chart  
4

Despite a challenging environment, the capital market continued to support the economy, with steady growth in funds raised and AUM in the fund management industry



Source: Bursa Malaysia, the SC's calculations.

<sup>1</sup> In the equity market, RM2.3 billion was raised via 29 initial public offerings (IPOs) and RM14.3 billion through secondary fundraising. Four of the IPOs were implemented by way of introduction and did not entail any fundraising exercise.

<sup>2</sup> Funds raised via ECF and P2P financing rose to RM1.4 billion in 2021 (2020: RM640.4 million).

<sup>3</sup> Total net asset value (NAV) of RM526.9 billion in 2021 (2020: RM519.5 billion).

**The domestic equity market** was affected by continued headwinds both globally and domestically. The overall market capitalisation of Bursa Malaysia and the FBMKLCI moderated to RM1.79 trillion and RM1.04 trillion respectively in 2021 (2020: RM1.82 trillion and RM1.06 trillion respectively). Likewise, the FBMKLCI index declined by -3.7% to end the year at 1,567.5 points. Nevertheless, sentiments in the domestic equity market remained in favour of FBM Small Cap companies, given their continued outperformance during the year. In terms of trade participation, local institutions turned net sellers to a total of -RM9.1 billion in 2021, while net selling by non-residents eased to -RM3.1 billion (2020: -RM24.6 billion). Correspondingly, net buying by local retail investors rose to RM12.2 billion. The participation rate for retail investors thus was higher in 2021, rising to an average of 34.6% in terms of value traded.

**In the Malaysian bond market**, total bonds outstanding grew to RM1.7 trillion in 2021 from RM1.6 trillion in 2020, reflecting higher levels of debt fundraising. The overall Malaysian Government Securities (MGS) yield curve broadly shifted upwards, led by mid-to long-term tenures, in tandem with the general increase in global bond yields amid higher global inflation expectations and the prospect of faster global monetary policy normalisation. Meanwhile, the spread between corporate bonds and MGS broadly narrowed across tenures, suggesting improved optimism on the domestic growth outlook especially towards the end of 2021. The domestic bond market also witnessed increased foreign interest, with net inflows amounting to RM33.6 billion in 2021 (2020: RM18.3 billion), the highest since 2012.

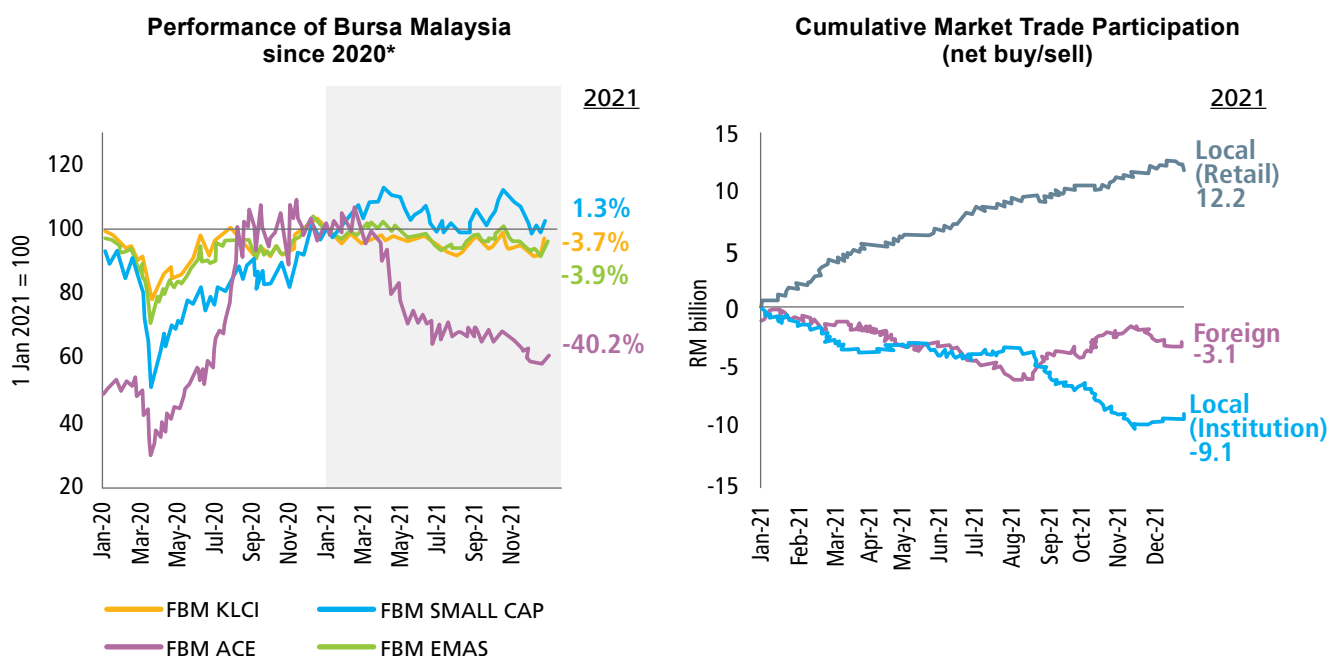
For further information on quarterly performance, please refer to SC Quarterly Report: Market Overview.



[SC 1<sup>st</sup> Quarter 2021 Report](#); [SC 2<sup>nd</sup> Quarter 2021 Report](#)  
[SC 3<sup>rd</sup> Quarter 2021 Report](#)

Chart 5

The domestic equity market was affected by continued headwinds both globally and domestically in 2021



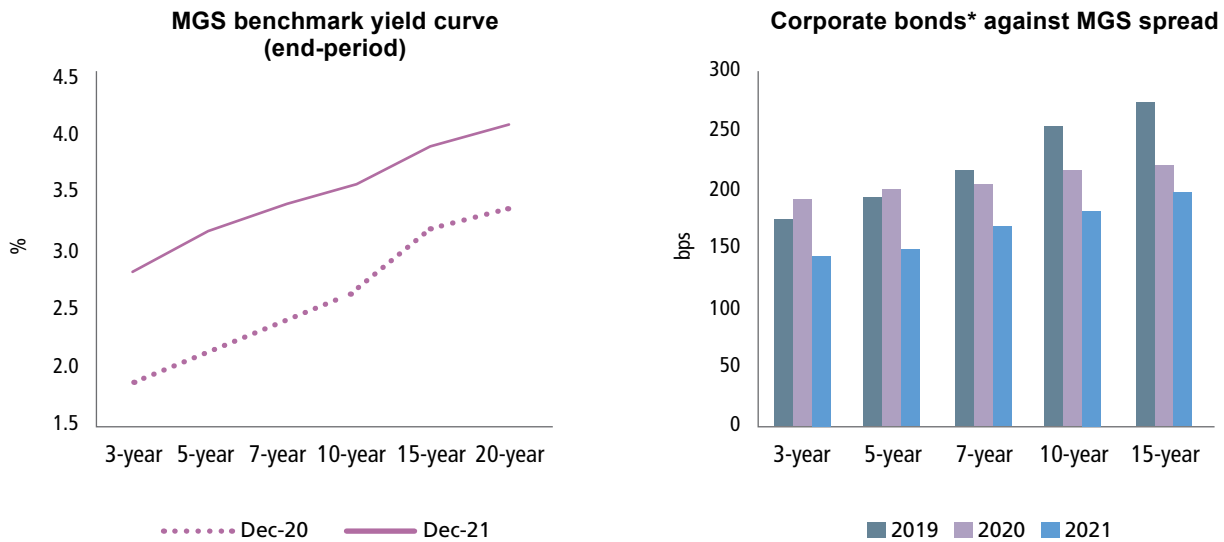
Note:

\* 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; and 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, tracking global bond markets



\* Corporate bonds rated between AAA and BBB.

Source: Bloomberg, Bank Negara Malaysia (BNM), the SC's calculations.

## OUTLOOK FOR 2022

**The global economy** is projected to continue its recovery in 2022. This outlook, however, is subject to significant uncertainties and remains uneven across economies. Beyond the continued evolution of the pandemic, geopolitical uncertainties, the interplay between supply chain disruptions, inflationary pressure, and policy normalisation in major economies will have a key influence on the durability of the global recovery. Meanwhile, developments in the global capital market are expected to be in tandem with this economic outlook.

**The Malaysian economy** is projected to remain on a recovery path in 2022, amid a recovery in external demand, reopening of the domestic economy, and ongoing domestic policy support. However, downside

risks to growth remain especially given external uncertainties, while the pace of economic recovery is expected to remain uneven across sectors, with stronger momentum expected in export-oriented sectors.

The performance of the Malaysian capital market is expected to improve further, in tandem with the recovery in the domestic economy. However, it will continue to be influenced by key global developments, with volatility likely to be driven by evolving geopolitical tensions as well as the timing and pace of global monetary policy normalisation. Nevertheless, the domestic capital market will remain resilient, orderly, and supportive of the economy, underpinned by strong macroeconomic fundamentals, ample domestic liquidity, and resilient capital market infrastructure.