MARKET OVERVIEW

GLOBAL OVERVIEW

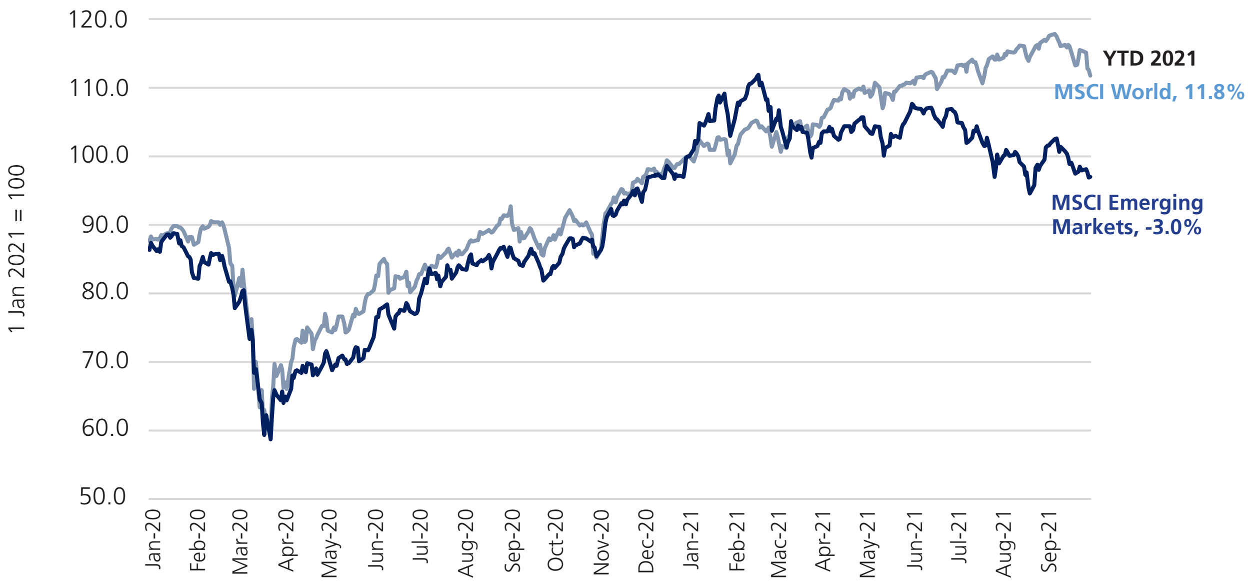
The global capital market performance ended generally lower in Q3 2021, amid increased concerns of the durability of global economic recovery given the resurgence of COVID-19 cases in various parts of the world, and signs of slowing global trade. Moreover, the risk of disorderly fallout from the likelihood of earlier normalisation of monetary policies in major economies also affected investors' confidence. Meanwhile, global bond yields broadly rose as investors digested the confluence of factors at play.

In global equities, the MSCI World rose as much as 5.1% from the start of Q3 2021 to the beginning of September 2021, before ending the period marginally lower by -0.4% quarter-on-quarter (q-o-q) (Q2 2021: 7.3%), given global growth concerns arising from the Delta strain, and contagion fears from China's Evergrande default risk. Additionally, recurrent tensions between the US and its allies against China, including increased military posturing affected investors' sentiments. The MSCI Emerging Markets (EM) declined more, ending the period lower by -8.8% q-o-q (Q2 2021: 4.4%), weighed by the continued spread of the Delta variant against emerging economies' continued sporadic access to vaccines and a generally weaker economic outlook. In the US, the S&P 500 index initially touched multiple record highs on continued positive economic prospects before moderating to end marginally higher by 0.2% q-o-q (Q2 2021: 8.2%). Similarly, the UK FTSE and Nikkei 225 rose 0.7% q-o-q and 2.3% q-o-q respectively (Q2 2021: 4.8% and -1.3% respectively). In contrast, the Euro STOXX 50 reversed its position from Q2 2021, declining -0.4% q-o-q in Q3 2021 (Q2 2021: 3.7%) with ongoing concerns over supply-chain bottlenecks and heightened inflationary fears.

Meanwhile, global bond yields were mostly higher during Q3 2021, driven by expectations of the normalisation of monetary policy by the US Federal Reserve (Fed), despite continued concern over the resilience of global economic recovery. In the latest Federal Open Market Committee (FOMC) meeting on 21-22 September 2021, the Fed signalled that it may withdraw the asset purchases programme as early as November 2021, with increasing inclination to raise interest rates in 2022. Meanwhile, other major central banks such as the European Central Bank (ECB), Bank of England (BOE) and Bank of Japan (BOJ) have retained their ultra-low interest rate policies during Q3 2021. The US Treasury 10-year yields rose to a three-month high of 1.54%, before ending the period up by 8.3 basis points (bps) q-o-q to 1.53% (Q2 2021: -30.2 bps). Likewise, the UK Gilt 10-year yields and the German bund 10-year yields rose by 30.7 bps q-o-q to 1.02%, and 0.8 bps q-o-q to -0.20% respectively (Q2 2021: -12.8 bps and 9.4 bps respectively), driven by higher inflation expectations. In Asia, Japanese 10-year government bond yields also rose, adding 1.1 bps q-o-q to 0.07% (Q2 2021: -4.1 bps), on expectations for BOJ to trim its bond purchase plans for October until December 2021. Likewise, EM sovereign bond yields ended mostly higher during Q3 2021.

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)	2020	2021		
		Q2	Q3	YTD
MSCI World	14.1	7.3	-0.4	11.8
MSCI Emerging Markets	15.8	4.4	-8.8	-3.0
S&P 500	16.3	8.2	0.2	14.7
Euro Stoxx 50	-5.1	3.7	-0.4	13.9
UK FTSE	-14.3	4.8	0.7	9.7
Nikkei 225	16.0	-1.3	2.3	7.3

Source: Thomson Reuters Datastream

Table 2

Performance of global bonds by selected major markets

Selected major bond markets (bps change from preceding period)	2020	2021		
		Q2	Q3	YTD
US Treasury 10-year	-99.8	-30.2	8.3	61.5
German Bund 10-year	-38.8	9.4	0.8	38.0
UK Gilt 10-year	-62.9	-12.8	30.7	82.8
Japanese Government Bond 10-year	4.3	-4.1	1.1	4.4

Source: Thomson Reuters Datastream

DOMESTIC OVERVIEW

The performance of the domestic capital market improved as vaccination progressed positively, which improved the domestic COVID-19 situation, and the subsequent easing of movement restrictions nationwide, particularly in key economic regions, buoyed optimism about prospects of domestic economic recovery. In addition, investor confidence received some support from reduced domestic political uncertainty. Nevertheless, gains for the local bourse was capped by the emerging global growth headwinds and continued spillover from the Fed's tapering talk and volatility in global markets.

The FBMKLCI rose by 0.3% q-o-q to 1,537.8 points in Q3 2021 (Q2 2021: -2.6%), recovering from its decline in the previous quarter and briefly breaching 1,601.38 points on 30 August 2021, the highest since April 2021. Meanwhile, the broader FBMEMAS index rose 1.4% q-o-q to 11,311.08 points in Q3 2021 (Q2 2021: -4.0%). As at end-Q3 2021, however, both the benchmark index and the FBMEMAS remained in the negative territory at -5.5% and -3.8% respectively. Market capitalisation for FBMKLCI grew by 1.8% q-o-q to RM1.03 trillion (Q2 2021: -1.1% to RM1.01 trillion), while the overall equity market capitalisation grew by 3.4% q-o-q to RM1.80 trillion in Q3 2021 (Q2 2021: -3.7% to RM1.74 trillion). Meanwhile, domestic bond yields ended broadly higher, with the exception of the 20-year note. The Malaysian Government Securities (MGS) curve broadly shifted upward, with shorter-tenured yields rising quicker on renewed optimism surrounding domestic economic recovery. Meanwhile, the rise in longer-end notes was largely driven by further normalisation signals in the latest US FOMC meeting in September 2021 and continued prospects of a higher domestic fiscal deficit. As of Q3 2021, the MGS 3, 5, 7, and 10-year yields rose by 51.7 bps, 37.3 bps, 30.5, and 8.9 respectively (Q2 2021: -19.2 bps, -10.7 bps, -9.5 bps, and 1.3 bps respectively), while the MGS 20-year yield fell by -11.2 bps (Q2 2021: -2.9 bps).

In terms of capital flows, foreign investors' buying activity picked up in late August 2021, turning net buyers of Malaysian equities to the tune of RM0.45 billion in Q3 2021 (Q2 2021: -RM2.47 billion), alongside local retailers' net buy of RM2.21 billion (Q2 2021: RM2.82 billion). The local retail participation rate averaged at 34.9% in terms of value traded in Q3 2021 (Q2 2021: 36.5%). Meanwhile, local institutional investors remained net sellers at -RM2.66 billion (Q2 2021: -RM0.36 billion). As at end Q3 2021, the cumulative net buying by local retailers from the start of 2021 stood at RM10.43 billion (Q2 2021: RM8.22 billion), while non-residents and local institutional investors sold a sum of -RM3.75 billion and -RM6.68 billion respectively (as at end-Q2 2021: -RM4.20 billion and -RM4.02 billion respectively). The bond market continued to witness foreign inflows amounting to RM3.62 billion in Q3 2021 (Q2 2021: RM7.73 billion). However, the ringgit exchange rate depreciated against the US dollar by -0.8% during Q3 2021 to an average of RM4.20 (Q2 2021: RM4.13).

Table 3

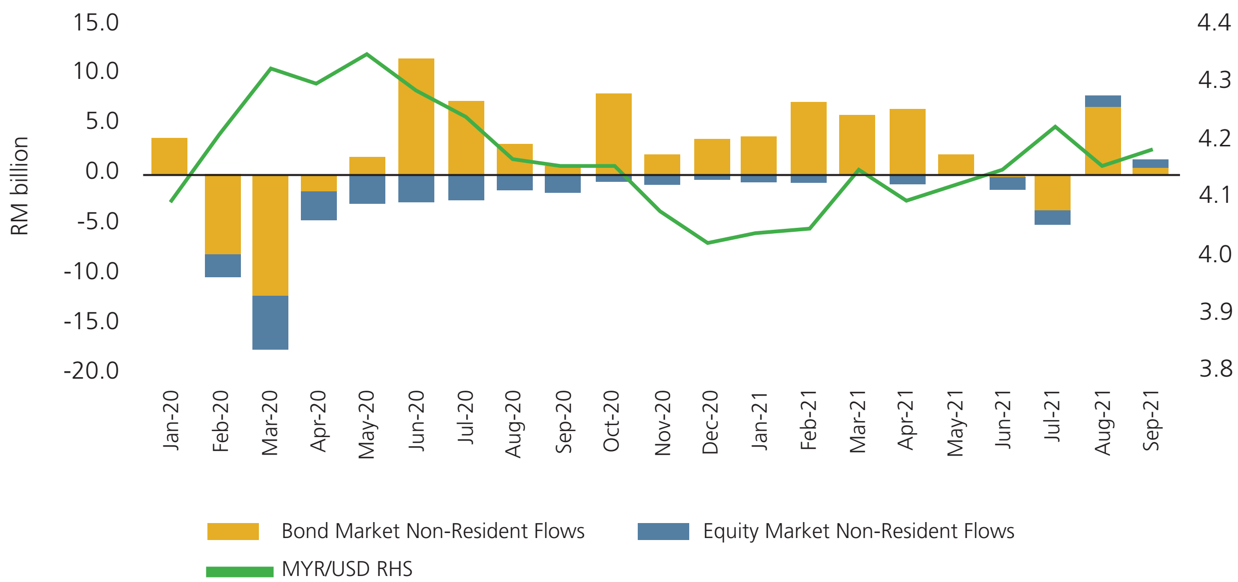
Domestic and regional market performance

Regional Indices (% change from preceding period)	2020	2021		
		Q2	Q3	YTD
Malaysia FBMKLCI	2.4	-2.6	0.3	-5.5
Singapore STI	-11.8	-1.1	-1.4	8.5
Thailand SET	-8.3	0.0	1.1	10.8
Philippines PCOMP	-8.6	7.1	0.7	-2.6
Indonesia JCI	-5.1	0.0	5.0	5.1

Source: Thomson Reuters Datastream

Chart 2

Non-residents' portfolio flows



Source: Thomson Reuters Datastream