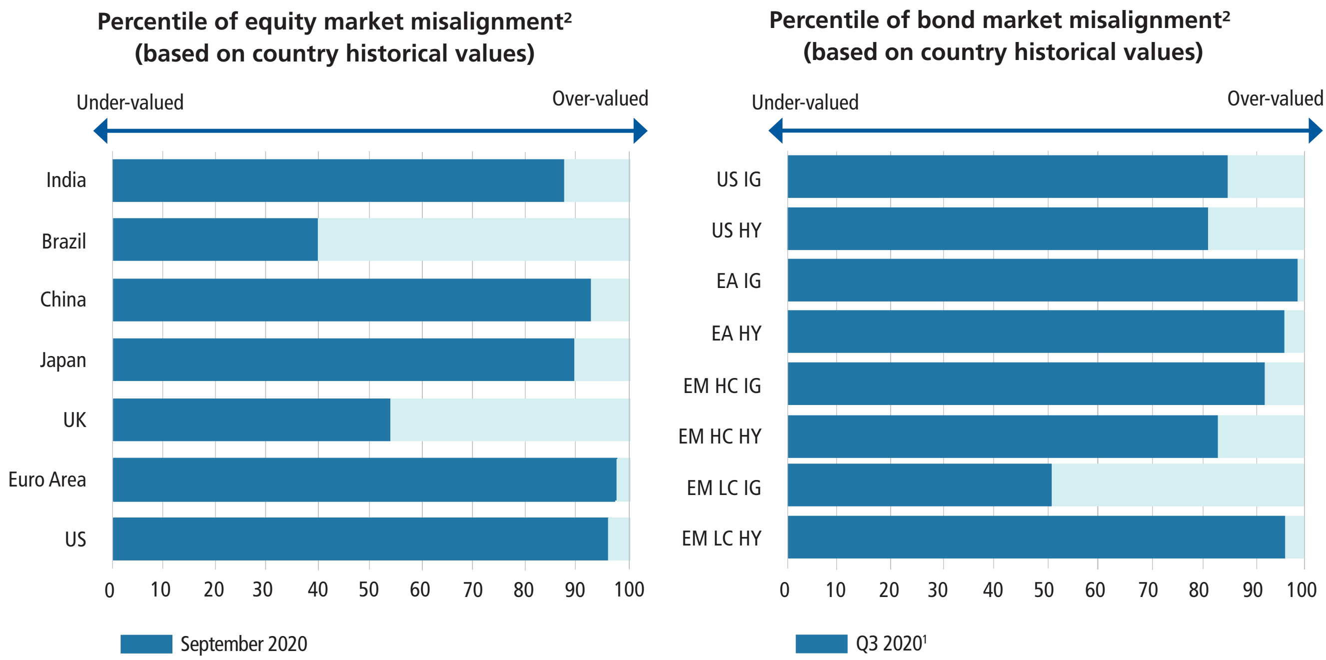
CHART 8

Global financial assets continued to rise despite subdued economic recovery



Notes:

[1] Data up till 29 September 2020.

[2] Misalignment is the difference between market- and IMF model-based values scaled by the standard deviation of weekly equity returns and monthly changes in bond spreads. High/low percentiles of market misalignment indicate the extent of overvaluation/undervaluation as compared to the country's historical values.

US - United States; EA - Euro Area; EM - Emerging Markets; HC - Hard Currency; LC - Local Currency; IG - Investment Grade; HY - High Yield.

Source: IMF Global Financial Stability Report, October 2020

MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2020

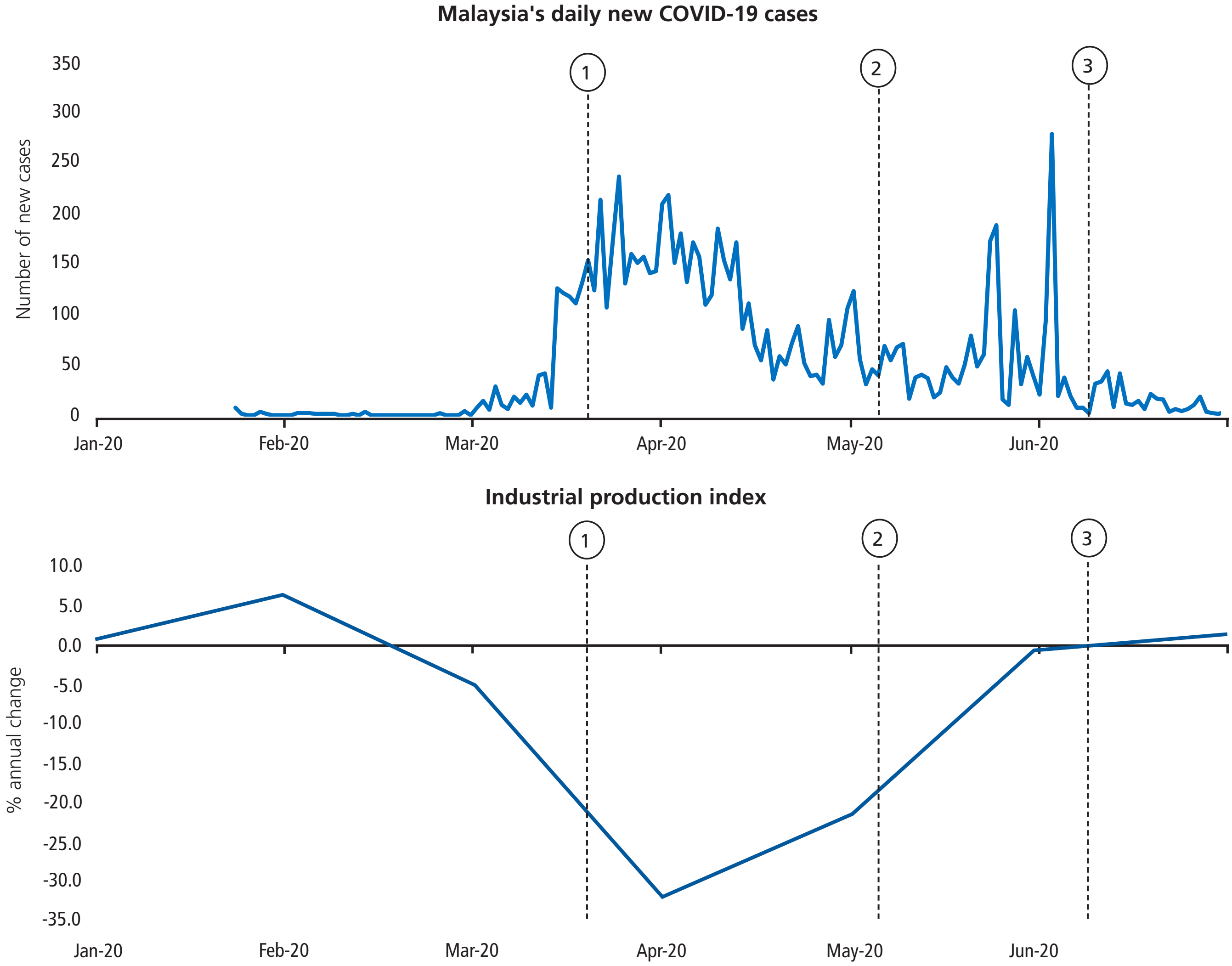
The Malaysian economy was not exempt from the adversity stemming from the COVID-19 pandemic in 2020. The rapidly rising number of infections domestically, alongside mounting cases abroad required the government to implement a full Movement Control Order (MCO) on 18 March 2020, closing national and state borders to contain the spread of the virus outbreak. These containment measures affected both the supply and demand side of the economy, causing a sharp decline in economic activity. Real GDP contracted by 17.1% y-o-y in Q2 2020, with growth seen to have troughed in April, during which most economic activities came to a standstill due to the MCO.

This has resulted in full year decline of -5.6% in 2020, a larger decline than the -1.5% contraction witnessed in 2009 during the GFC.

Against the backdrop of challenging economic conditions, domestic policy responses have been swift. Bank Negara Malaysia (BNM) promptly cut the Overnight Policy Rate (OPR) by a cumulative 125 basis points (bps) between January and July 2020, while reducing the Statutory Reserve Requirement (SRR) by 100 bps and relaxing its compliance in March 2020. Likewise, the government unveiled a sum of RM305 billion in stimulus via *Prihatin Rakyat* Economic Stimulus Packages (*Prihatin*, *Prihatin PKS Tambahan*, *Kita Prihatin*) and the National Economic Recovery Plan (*PENJANA*), of which RM45 billion was directly injected by the government under the COVID-19 Relief Fund.

CHART 9

The rising number of new cases in Q1 2020 warranted strict containment measures, which brought the economy to a standstill



Note: Vertical dashed line indicates; 1) 18 March 2020 – MCO; 2) 4 May 2020 – Conditional Movement Control Order (CMCO); 3) 10 June 2020 – Recovery Movement Control Order (RMCO).

Source: World Health Organisation (WHO), CEIC, Department of Statistics Malaysia (DOSM)

On the capital market front, the Securities Commission Malaysia (SC) announced a series of regulatory measures and flexibilities to support businesses affected by the pandemic, simultaneously ensuring the capital market remains orderly. This includes, among others, additional regulatory relief for public-listed companies (PLCs) to allow companies more time to regularise their financial positions and introduction of measures to ensure greater access to fundraising for viable SMEs. Further discussions on these measures by the SC are detailed in the subsequent chapters of this *Annual Report*.

Collectively, these domestic policy measures have helped to avert a sharper contraction in economic growth, stabilising market sentiment and paving the way for gradual recovery. The Ministry of Finance estimates that overall, the policy measures have contributed 4 to 4.2 percentage points to the nation's economic growth in 2020.

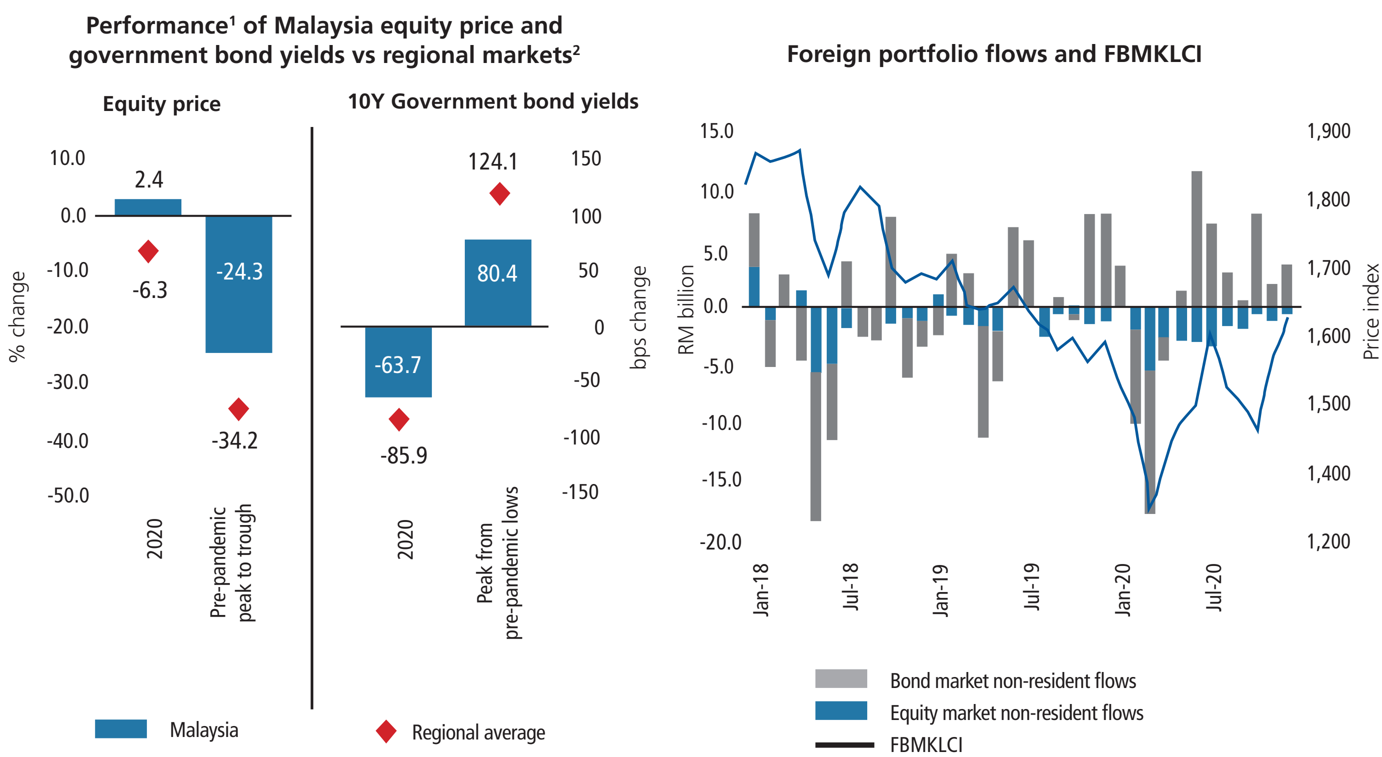
Domestic Capital Market Remained Orderly Despite the Unprecedented Shock

The domestic capital market experienced significant volatility in 2020, in line with global and regional markets. The impact on the domestic market was significant, especially in March 2020, reflecting the sharp worsening of the growth outlook and global risk aversion. Both local equity and bond markets experienced steep declines. On 19 March 2020, the FBMKLCI dropped as much as -24.3% from January 2020's pre-pandemic high to 1,219.72 points, the lowest level since September 2009. Meanwhile, local bond yields surged sharply, with the Malaysian Government Securities (MGS) 10-year yields rising by 80.4 bps to a high of 3.57% on 24 March 2020 from the low on 4 March 2020 (Chart 10). Portfolio fund flows were also adversely affected, with outflows in both equities and bonds totalling -RM34.1 billion in February to May 2020 amid intensified selling.

Nevertheless, the Malaysian capital market exhibited resiliency, underpinned by supportive policies. A broad recovery in domestic asset prices was witnessed from May 2020 onwards, mirroring global markets, as sentiments continued to improve. Portfolio inflows recovered in tandem, driven mostly by the bond market, with total non-resident inflows amounting to RM24.4 billion from June to December 2020 (Chart 10).

CHART 10

Domestic capital market remained resilient, with a recovery in bond portfolio flows beginning May 2020



Note:
[1] Between January and March 2020.
[2] Includes Indonesia, Thailand, Singapore and the Philippines.

Source: SC's calculations; BNM; Bloomberg

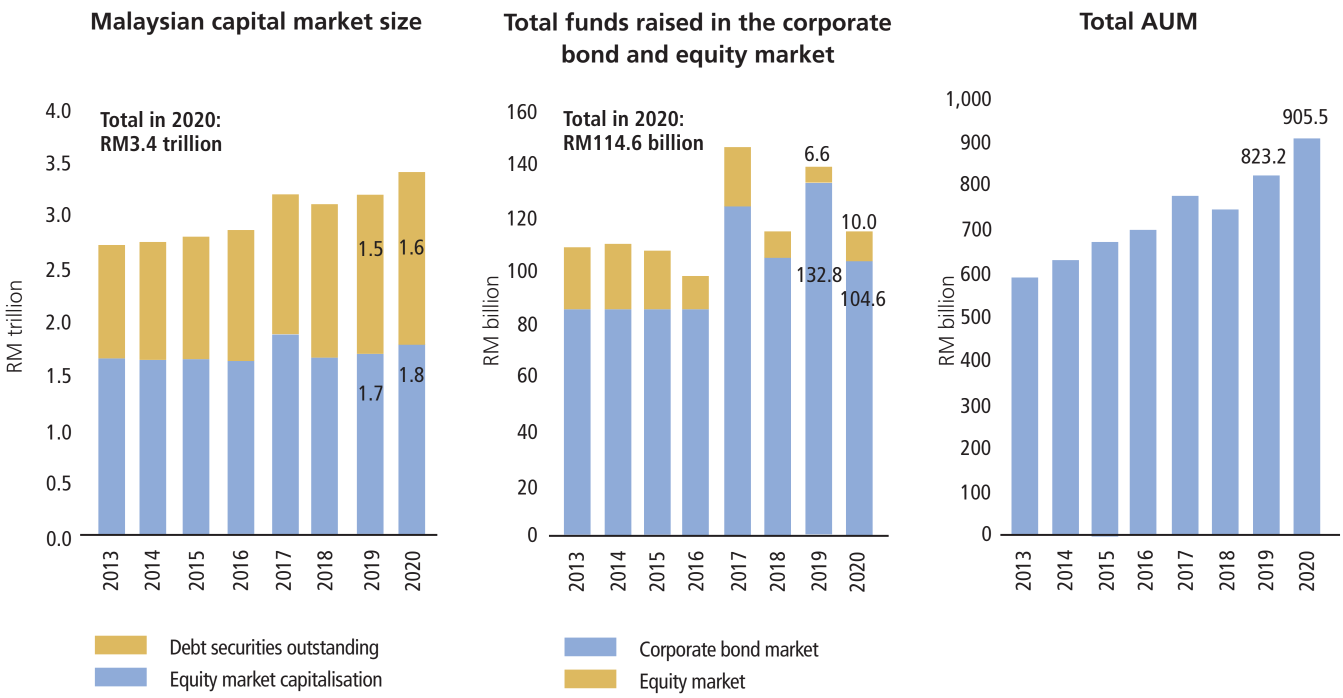
Although fundraising activities temporarily slowed in the March-May 2020 period, it recovered upon resumption in economic activity given continued funding needs. However, for the whole year, the capital market witnessed a lower level of fundraising in the corporate bond and equity market, totalling RM114.6 billion (2019: RM139.4 billion). In the corporate bond market segment, total new issuances stood at RM104.6 billion (2019: RM132.8 billion), while total funds raised in the equity market rose to RM10.0 billion (2019: RM6.6 billion), of which RM2.0 billion was raised via 19 initial public offerings (IPOs)[1] and RM8.0 billion through secondary fundraising (Chart 11). In 2020, there were two companies listed on the Main Market, 10 companies on the ACE Market, and the remaining on the LEAP Market. Meanwhile, alternative fundraising avenues continued to gain traction, especially in ECF and P2P financing, with total funds raised increasing to RM631.0 million in 2020 (2019: RM441.6 million)[2].

The fund management industry recorded its highest monthly net withdrawal in 2020 during the height of the health crisis in March. However, the industry demonstrated resilience throughout this episode of market stress due to the soundness of the liquidity risk management frameworks of capital market intermediaries. Furthermore, investment management professionals navigated market volatility through effective management strategies, which led to the restoration of investor confidence. By July 2020, the fund management industry rebounded and recorded asset under management (AUM) of RM844.1 billion, surpassing the historical high of RM823.2 billion as at end December 2019.

Overall, the size of the total capital market rose by 7.0% to RM3.4 trillion in 2020 (2019: RM3.2 trillion) (Chart 11). Meanwhile, the AUM of the fund management industry expanded by RM82.3 billion to RM905.5 billion in December 2020 (December 2019:

CHART 11

Size of the Malaysian capital market rose in 2020, while the AUM expanded further, despite the challenging environment



Source: Bursa Malaysia; SC's calculations

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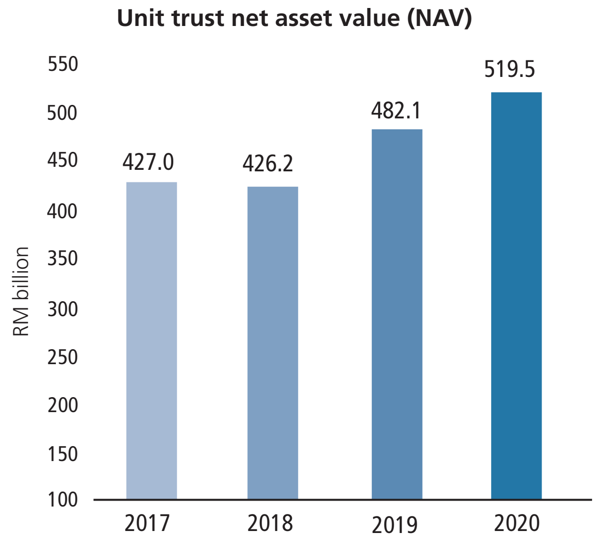
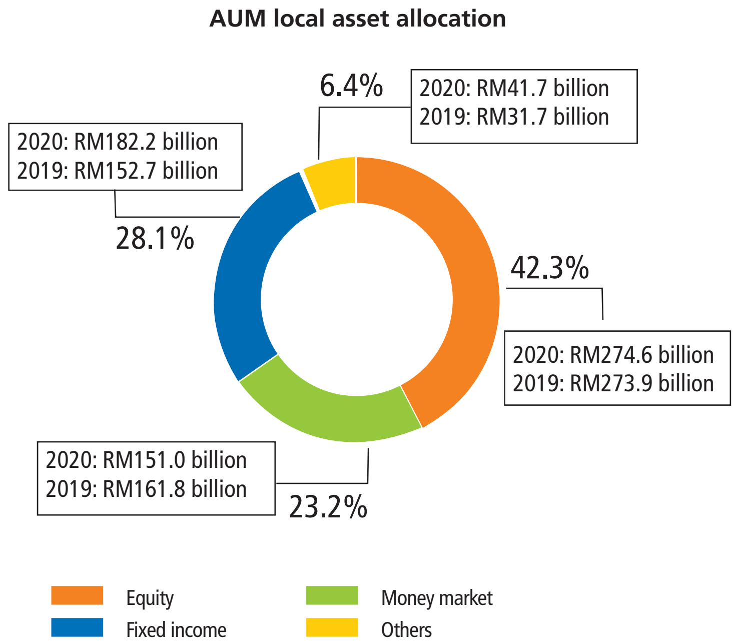
[1] Including ICT Zone Asia's listing by way of introduction on the LEAP Market on Bursa Malaysia, which does not entail any fundraising exercise as at 2020.

[2] Further information on ECF and P2P financing are provided in *Part 4: Enabling Immediate Opportunities and Facilitating Recovery*, of this Annual Report.

CHART 12

Unit trust segment remained the largest source for AUM in 2020





Source: Bursa Malaysia; SC's calculations

RM823.2 billion) (Chart 11). Unit trust segment remained the largest source of funds for AUM, with a higher total NAV amounting to RM519.5 billion in December 2020 (December 2019: RM482.1 billion) (Chart 12).

The Malaysian capital market has continued to play its role in financing the domestic economy and mobilising savings despite unprecedented conditions in 2020. High levels of domestic liquidity, alongside proactive measures taken by the authorities have helped maintain orderly market conditions and ensure limited disruption to overall capital market activities.

Performance of the Domestic Equity Market

The domestic equity market was also affected by continued uncertainties arising from escalating US-China tensions, the 2020 US Presidential election, and developments in the domestic political landscape. Nevertheless, continued supportive policy action both globally and domestically, coupled with signs of economic recovery, offered some respite to the benchmark index.

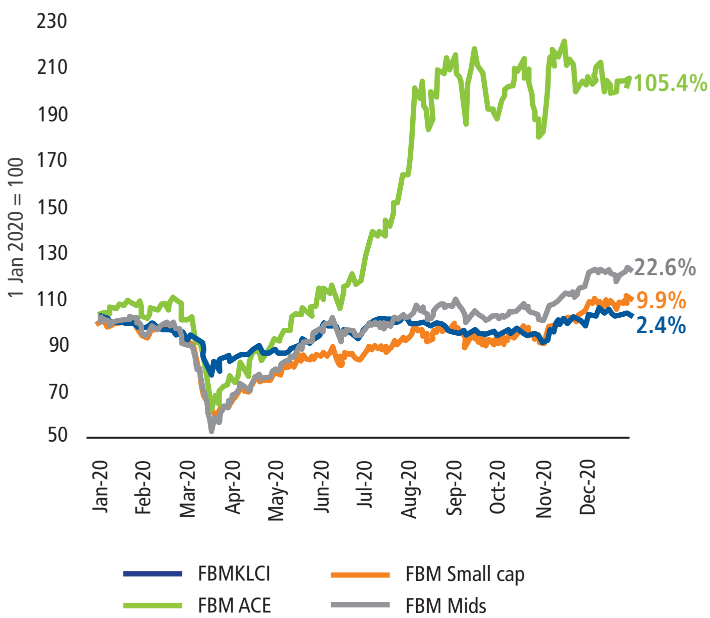
The overall market capitalisation of Bursa Malaysia in 2020 rose by 6.2% y-o-y to RM1.82 trillion (2019: RM1.71 trillion). Total market capitalisation rebounded by as much as 48.7% to RM1.85 trillion on 16 December 2020 from a low of RM1.25 trillion on 19 March 2020, amid improving sentiments on news of positive progress on vaccines. Similarly, for FBMKLCI, market capitalisation rose, albeit only marginally by 3.3% y-o-y to RM1.06 trillion in 2020 (2019: RM1.02 trillion), rebounding by 33.1% from its trough on 19 March 2020.

The FBMKLCI index ended 2020 slightly higher by 2.4% y-o-y to 1,627.2 points (2019: -6.0% y-o-y to 1,588.8 points). The benchmark index recorded a sturdy recovery by as much as 38.1% from 19 March 2020 to its peak at the closing on 11 December 2020. This was supported by robust demand for glove-related counters, which offset continued weakness in financial services and service-intensive counters. The non-FBMKLCI components in the Malaysian equity market fared better in 2020 as the market continued to experience a positive shift in sentiment, favouring the smaller and mid-cap sized companies. The FBM ACE and FBM MidS indices increased by 105.4% y-o-y, and 22.6% y-o-y, respectively in 2020 (2019: 21.1% and 32.0%, respectively) (Chart 13). Recovery was most notable in the FBM ACE, which registered a significant 261.6% gain on 16 December 2020 from its 19 March 2020 low. The FBM Small Cap meanwhile rose modestly by 9.9% y-o-y (2019: 21.1%) but was 102.4% higher from its trough.

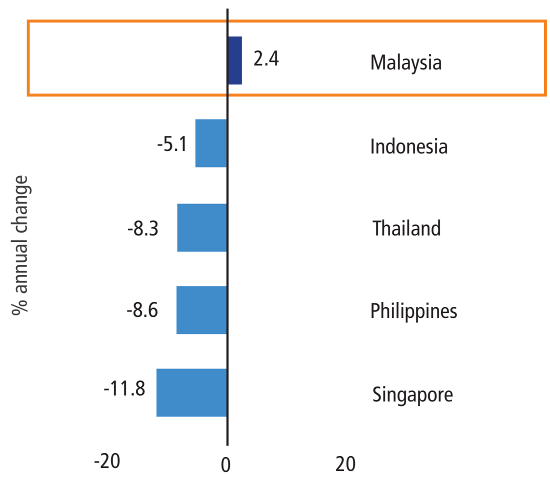
CHART 13

FBM ACE recorded significant increase, while the benchmark FBMKLCI outperformed its regional peers in 2020

Performance of FBMKLCI, FBM Small Cap, FBM ACE and FBM MidS in 2020[1]



Performance of Malaysia and selected regional markets in 2020[2]



Notes:

[1] 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 MidS comprises constituents from the FTSE Bursa Malaysia EMAS Index with a full market capitalisation range of RM200 million to RM2 billion; FBM ACE comprises all companies listed on the ACE Market.

[2] Referenced composite indices: Malaysia – FBMKLCI, Indonesia – JCI, Thailand – SET, Philippines – PCOMP, Singapore – STI.

Source: Bloomberg; SC's calculations

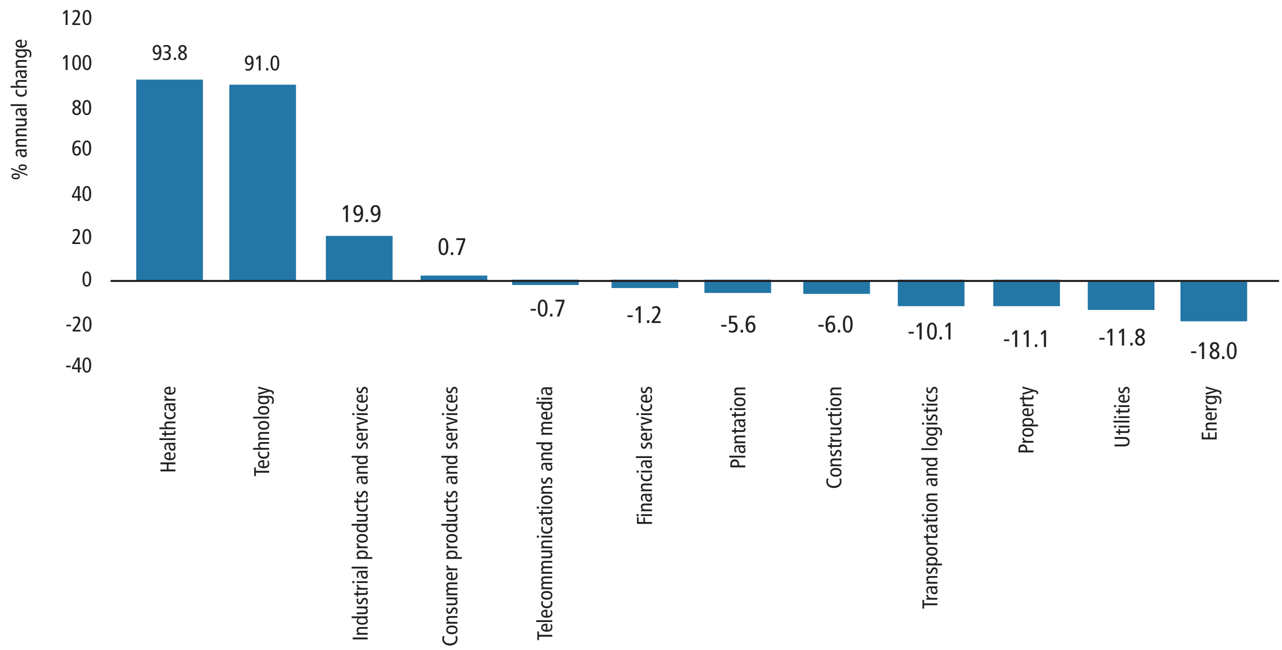
From a sectoral perspective, healthcare and technology sectors outperformed the most in 2020, gaining by 93.8% y-o-y and 91.0% y-o-y respectively. This was driven by higher demand for medical gloves and increasing usage of technology. In contrast, underperformers were led by the energy and utilities sectors, declining by -18.0% y-o-y and -11.8% y-o-y respectively.

The energy sector was pressured by volatile and significantly lower crude oil prices in 2020, which averaged at US$43.3 per barrel (2019: an average of US$64.2 per barrel), while the utilities sector was affected by lower commercial and industrial usage, especially during the MCO period.

CHART 14

On sectoral performance, healthcare and technology witnessed the highest surge driven by heightened demand induced by the pandemic

Bursa Malaysia sectoral performance[1]



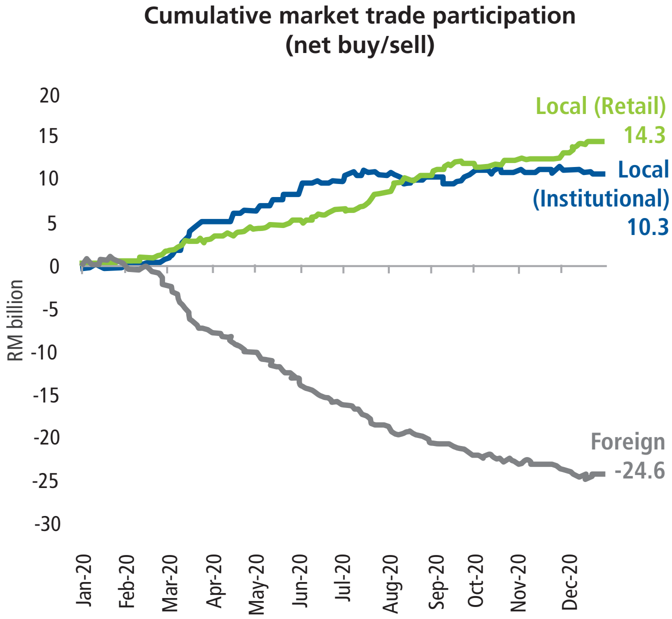
Notes:
[1] Annual percentage change in market capitalisation based on sectoral classification by Bursa Malaysia for 2020.

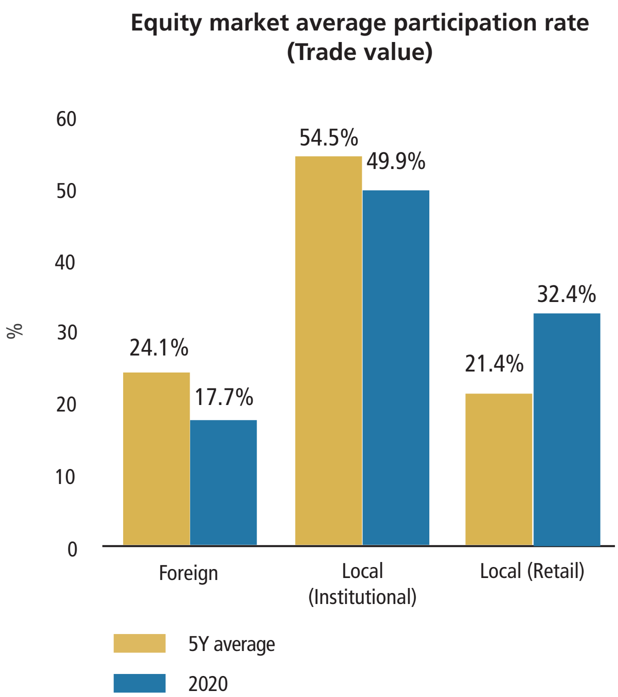
Source: Bursa Malaysia; Bloomberg; SC's calculations

In terms of participation rate, non-residents remained net-sellers of local equities to a larger degree, with total outflows amounting to -RM24.6 billion (2019: -RM11.1 billion). Correspondingly net buy by local institutional and retail investors increased, amounting to RM10.3 billion and RM14.3 billion respectively. Cumulatively, net buy from retail investors surpassed institutional investors in 2020 as retailers sought short-term gains in assets offering higher returns, specifically in glove- and technology-related counters, which rode on the pandemic wave. The participation rate for retail investors thus took an upward turn in 2020, rising to an average of 32.4% in terms of value traded. It was significantly larger than the prior year of 20.8%, and the 5-year average of 21.4%.

CHART 15

Local retail investors emerged as net-cumulative buyer in 2020, surpassing local institutional, with higher participation rate on average





Source: Bursa Malaysia; SC's calculations

INCREASED RETAIL PARTICIPATION – A DETAILED SNAPSHOT

Similar to experiences in many other countries, the domestic equity market witnessed exceptional levels of trading activity by retail investors in 2020. The SC conducted an in-depth assessment into this trend, focusing on the characteristics of the retail investors in August 2020, where numerous all-time highs in total market-wide volume were recorded.

Overall, the assessment was done on an identified sample population of more than 19,000 Central Depository System (CDS) accounts. The sampling was based on the most active CDS accounts that, in aggregate, contributed to two-thirds of the total volume traded in each of the most active stocks in August 2020.

RETAIL PARTICIPATION IS BACK, SO **WHO ARE THEY?**

In August 2020, **19,329** most active CDS accounts were sampled for review. Of which **14,118** were **Retailers**

83% of retail volume was attributed to stocks **<RM0.50**

75% of retail trading interest was in **ACE** and **Fledgling** stocks

56% of retail trades were in stocks from the **Industrial Products & Services** and **Technology** sectors

KEY OBSERVATIONS OF INVESTOR PROFILES

87%
of active retail accounts were opened **prior to 2020**

75%
of these accounts belong to investors aged **>40 years**

50%
of the retail trade volume was contributed by investors aged between 40-60 years

RETAIL INVESTORS' AGE

	<30 years	30-39 years	40-49 years	50-59 years	≥60 years
Trade volume	6%	20%	28%	25%	21%
Trades placed electronically	94%	93%	88%	82%	82%
Cash upfront and collateralised accounts	67%	67%	52%	55%	50%

When combined with other supervisory and surveillance data, the outcome from this exercise forms a more complete picture of the profiles of the domestic retail investors. Overall, the increased participation of retail investors observed was assessed to not pose a significant systemic concern as it was driven by seasoned investors, with trades mainly from cash reserves without depending on borrowings. Nevertheless, the SC continues to closely monitor and address any potential build-up of risk on this front.

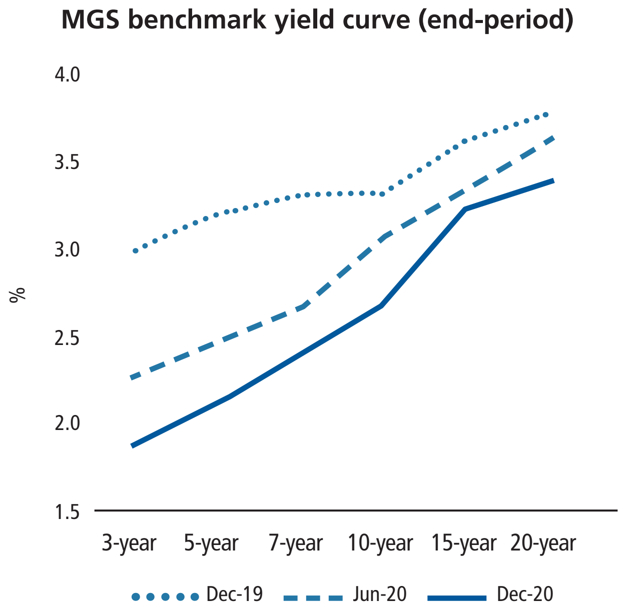
Performance of the Domestic Bond Market

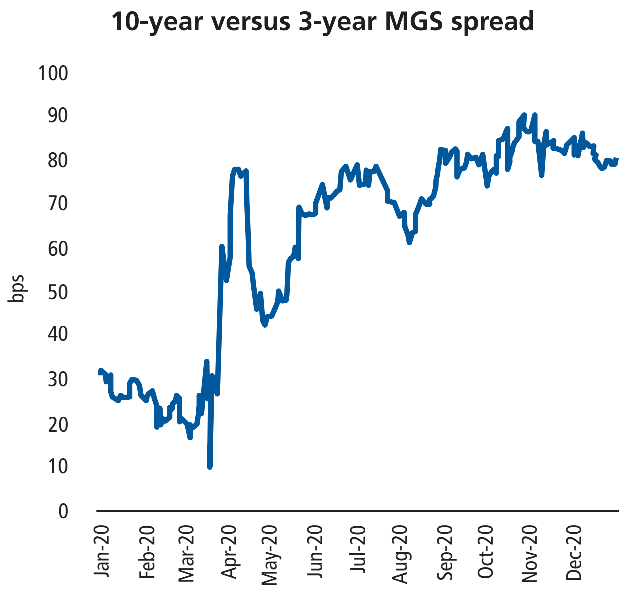
In the Malaysian bond market, total bonds outstanding grew by 8.0% to RM1.61 trillion in 2020 from RM1.49 trillion in 2019. This reflected higher levels of debt fundraising from the public sector, amid stronger funding needs and lower financing costs. This was also underpinned by favourable macroeconomic fundamentals and confidence in the domestic bond market, given ongoing policy efforts to improve market efficiency, accessibility and liquidity. In addition, supportive counter-cyclical policies and continued demand from domestic investors helped ease the upside pressure on yields, offsetting higher bond supply risks following the lifting of Malaysia's statutory debt limit from 55% to 60% of GDP.

MGS yields experienced downward pressure across tenures on the back of a broadly easier monetary policy stance, given the challenging economic backdrop. The overall yield curve shifted downwards, led by those in shorter maturity, with 3-year and 5-year yields declining by -111.6 bps and -106.9 bps respectively, while the 10-year and 3-year spread expanded to 79.4 bps from a low of 9.5 bps in March 2020 (Chart 16). MGS 10-year yields declined by -63.7 bps to end the year at 2.68% (2019: -77.9 bps to 3.3%), 17.8 bps higher than the record low of 2.50% on 6 August 2020.

CHART 16

MGS bond yields experienced downward pressure across tenures supported by looser monetary policy stance





Source: Bursa Malaysia; SC's calculations

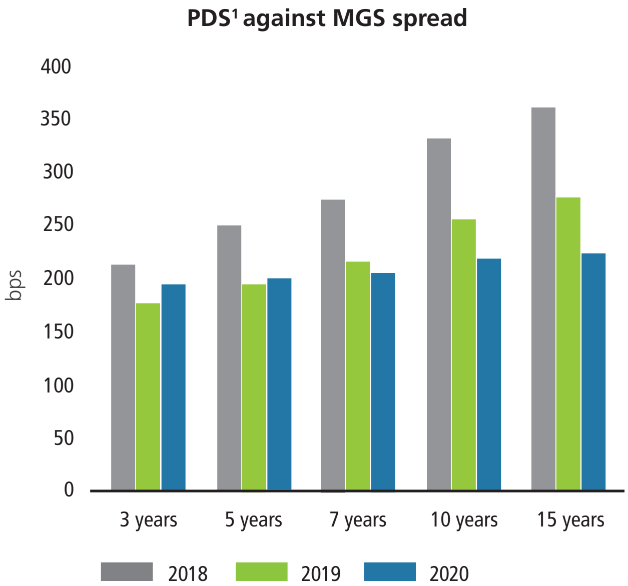
Meanwhile, the spread between corporate bonds and MGS were mixed across tenures, with a widening bias at the 3-year and 5-year tenures, but narrowing at a longer maturity. This differentiated performance reflected the underperformance of long-term government debt papers compared to those with shorter maturities, as well as ample market liquidity anchored by broadly stable private credit conditions.

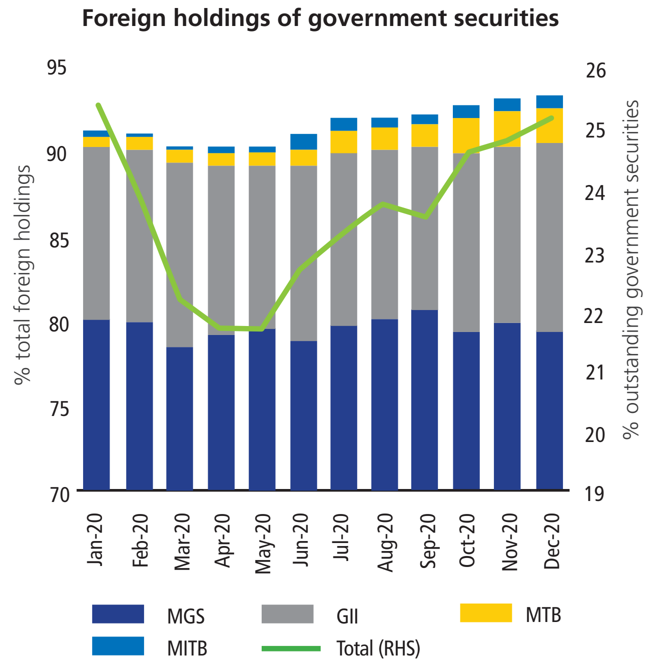
The domestic bond market also benefitted from yield-seeking investors, as evidenced by the return of portfolio inflows from May 2020 onwards, in line with the improvement in investor sentiment globally.

For the whole year, net foreign inflows into the bond market amounted to RM18.3 billion, with inflows during May-December 2020, outsizing the outflows during the height of the health crisis (RM37.1 billion vs -RM22.4 billion in February to April 2020) (Chart 17). This was despite the downgrade in Malaysia's sovereign rating by Fitch Ratings on 4 December 2020 to BBB+ from A-, with a stable outlook. About 79.5% of total foreign holdings were in the MGS as of end December 2020 (end-2019: 80.1%), which was equivalent to 40.6% of total MGS outstanding (end 2019: 41.6%).

CHART 17

Spread between private debt securities (PDS) and MGS were mixed, while foreign holdings of ringgit denominated debt were largely in local government securities





Note:
[1] PDS rated between AAA and BBB.

Source: BNM; Bloomberg; Thomson Reuters