MARKET REVIEW AND OUTLOOK

GLOBAL OVERVIEW

Global capital market performance was significantly weaker in Q2 2022, dominated by negative investor sentiment amid concerns over repercussions of the Ukraine war, protracted period of rising global inflation, and the tightening of global financial conditions given expectations of more aggressive monetary policy normalisation in major economies. This negative sentiment was reflected in a slew of downgrades of global growth forecasts including by the International Monetary Fund (IMF) and the World Bank.

In global equities, both the MSCI World and MSCI Emerging Markets recorded double-digit declines of -16.6% quarter-to-quarter (q-o-q) (Q1 2022: -5.5%) and -12.4% q-o-q (Q1 2022: -7.3%) respectively during Q2 2022, influenced by the ongoing war in Ukraine, and rising recessionary risks in an environment of high global inflation.

In the US, the S&P 500 index fell by -16.4% q-o-q in Q2 2022 (Q1 2022: -4.9%), dampened by concerns over surging inflation and the US Federal Reserve's (Fed) more aggressive monetary policy tightening. Similarly, the Euro Stoxx 50 declined by -11.5% q-o-q (Q1 2022: -9.2%), an unfavourable quarterly performance since the COVID-19 outbreak, while the UK FTSE 100 ended lower by -4.6% q-o-q (Q1 2022: 1.8%). In Asia, the Nikkei 225 dropped -5.1% q-o-q in Q2 2022 (Q1 2022: -3.4%).

Meanwhile, global bond yields were broadly higher during Q2 2022 driven mainly by rising expectations of more aggressive global monetary policy tightening to cool decades-high inflation, despite underlying macroeconomic uncertainties. The US Fed raised its benchmark interest rate by 75 basis points (bps) to 1.75% at its June Federal Open Market Committee (FOMC) meeting, the largest rate hike since 1994. Other major central banks also further tightened their policy stance, including the Bank of England (BOE) which raised its benchmark interest rate for the fifth time to 1.25% in June 2022, and the European Central Bank (ECB), reaffirming its commitment to hike rates beginning July 2022.

The US Treasury (UST) 10-year yields rose as high as 3.48% on 14 June 2022, the highest in 11 years, before ending Q2 2022 up to 64.9 bps q-o-q at 2.97% (Q1 2022: 82.7 bps). Likewise, the German Bund 10-year yields rose by 81.3 bps q-o-q to 1.37% (Q1 2022: 73.3 bps), while the UK Gilt 10-year yields added 62.9 bps q-o-q to 2.24% in Q2 2022 (Q1 2022: 64.0 bps). In Asia, Japanese 10-year government bond yields increased by 1.1 bps q-o-q to 0.22% (Q1 2022: 14.4 bps). Meanwhile, sovereign bond yields in emerging markets were similarly higher during Q2 2022, in tandem with the performance of the global bond market.

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	2022		
		Q1 2022	Q2 2022	YTD
MSCI World	20.1	7.5	-5.5	-5.5
MSCI Emerging Markets	-4.6	-1.7	-7.3	-7.3
S&P 500	26.9	10.6	-4.9	-4.9
Euro Stoxx 50	21.0	6.2	-9.2	-9.2
UK FTSE	14.3	4.2	1.8	1.8
Nikkei 225	4.9	-3.4	-5.1	-8.3

Source: Thomson Reuters Datastream.

Table 2

Performance of global bonds by selected major markets

Selected major bond markets (bps change from preceding period)	2021	2022		
		Q1 2022	Q2 2022	YTD
US Treasury 10-year	58.6	82.7	64.9	147.6
German Bund 10-year	39.6	73.3	81.3	154.6
UK Gilt 10-year	77.6	64.0	62.9	126.9
Japanese Government Bond 10-year	4.9	14.4	1.1	15.5

Source: Thomson Reuters Datastream.

DOMESTIC OVERVIEW

The performance of the domestic capital market was also lower in Q2 2022, in line with weak regional performances, weighed down by dampened investor sentiment due to tightening global financial conditions and a challenging global economic outlook. Performance was also affected by heightened uncertainties in relation to protracted geopolitical conflict, China's economic slowdown, and an elevated global inflationary environment. However, further losses were cushioned by the ongoing recovery in the domestic economy, continued policy support, and high commodity prices.

The FBMKLCI declined by -9.0% q-o-q to 1,444.22 points in Q2 2022 (Q1 2022: 1.3%), slightly higher than the low of 1,431.05 points on 23 June, which was the weakest since May 2020. Similarly, the broader FBMEMAS index declined by -9.5% q-o-q to 10,307.26 points in Q2 2022 (Q1 2022: 0.7%). The overall market capitalisation contracted by -8.2% q-o-q to RM1.65 trillion in Q2 2022 (Q1 2022: 0.3% to RM1.80 trillion), while that for FBMKLCI shrank by -8.0% q-o-q to RM0.97 trillion (Q1 2022: 0.7% to RM1.05 trillion). Meanwhile, domestic bond yields ended higher across all tenures, led by 5-year (5Y) yields . As at end Q2 2022, the MGS yield curve shifted upward, with yields rising between 28 bps to 55 bps across all major tenures.

In terms of capital flows, non-resident and local institutional investors were net sellers of Malaysian equities in Q2 2022, amounting to -RM379.34 million (Q1 2022: RM6.46 billion) and -RM832.06 million (Q1 2022: -RM6.97 billion), respectively. Correspondingly, net buying by local retailers rose to RM1.21 billion (Q1 2022: RM506.19 million). Meanwhile, the local retail participation rate averaged 24.61% in terms of value traded in Q2 2022 (Q1 2022: 26.57%). Meanwhile, the bond market witnessed foreign outflows amounting to -RM5.80 billion in Q2 2022 (Q1 2022: RM2.57 billion). On the currency front, the ringgit exchange rate depreciated against the US dollar by -4.6% to RM4.41 during Q2 2022, in line with weaker regional currencies.

Table 3

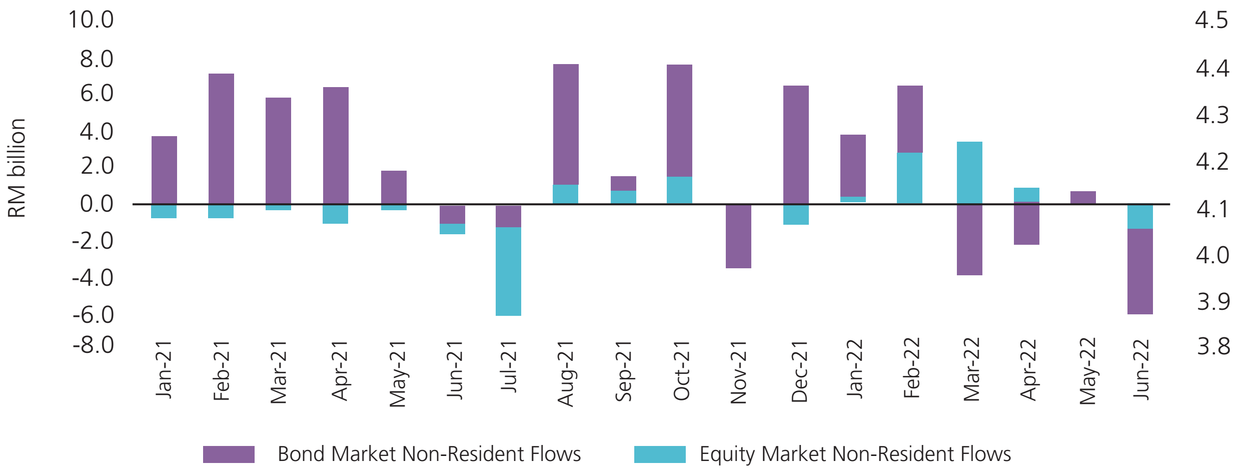
Domestic and regional market performance

Regional equity indices (% change from preceding period)	2021	2022		
		Q1 2022	Q2 2022	YTD
Malaysia FBMKLCI	-3.7	1.3	-9.0	-7.9
Singapore STI	9.8	9.1	-9.0	-0.7
Thailand SET	14.4	2.3	-7.5	-5.4
Philippines PCOMP	-0.2	1.1	-14.5	-13.6
Indonesia JCI	10.1	7.4	-2.3	5.0

Source: Thomson Reuters Datastream.

Chart 2

Non-residents' portfolio flows



Source: Bank Negara Malaysia, Bursa Malaysia.