March Outlook – Taper Tantrum Or Tantrum Without Taper

SUMMARY

- **Global economic growth accelerated in Feb-21.** Feb-21 saw a slight growth acceleration in global manufacturing production, with the JPM Global PMI at 53.9, up from 53.6 in Jan-21. However, the industry remained beset by supply-chain disruptions and rising cost inflationary pressures, with average input prices increasing for the ninth month in a row. Likewise, the JPM Global Composite Index rose to a four month high of 53.2 in Feb-21, from 52.3 in Jan-21 as services business activity also increased at the quickest pace since last October. Growth was led by the US, where output rose to the greatest extent for six-and-a-half years.
- **BNM kept the OPR at 1.75% in Mar-21 as widely expected,** citing better growth starting 2Q21 driven by the recovery in global demand, increased public and private sector expenditure amid continued support from policy measures and more targeted containment measures.
- **Bond market review - The global bond market rout in Feb-21** was premised on fervent optimism of a strong economic recovery in the US, spurred by favourable vaccine news, reopening of economies as infections slide and Biden's USD1.9trn stimulus plan. Likewise, local yields were also battered with the 3Y MGS yield up 17bps MoM while the 10y MGS saw a whopping 40bps uptick MoM to 3.10%. However, foreigners continued to buy local debts for 10 consecutive months with total inflows of RM7.2bn.
- **Macro** – **Currently, we are seeing a reminiscent of 2013 taper tantrum.** The only difference now is the Fed has not even indicated to slow down in asset purchases. Notably, the drop in real yields driven by radical QE policies last year drove a significant rerating of the global stock market despite weak fundamentals. Now, as the negative US real yields are gradually moving back to zero level, it would be consistent with the MSCI AC World de-rating from its present 20x 12m fwd PE down to around 17x. On the other hand, value stocks saw less of a rerating during the same period and less prone to correction if real rates rise further.
- **Equities – Can Malaysia remain resilient despite choppy global market? Probably can.** This is supported by the resiliency of 4 key sectorial indices, namely the Finance, Plantation, Telco and Utility indices whereby the banks should benefit from rising yield environment while both the plantation and utility sectors remain stable and the telco sector should benefit from 5G roll out. Furthermore, with KL, Selangor, Penang and Johor exited MCO, this will reduce corporate earnings risk which will be welcome by the equity market. Foreign shareholding also at its all-time low level of 20.7% and it should be a matter of time they turn net buyers. Hence, we continue to recommend to collect on weakness for the economy reopening thematic play. Nevertheless, the risk to our view includes continuous spike in the 10y UST due to inflationary concerns.
- **Fixed Income – It is expected that the reflation theme to continue stoking bond yields** where it is likely that Mar-21 would see foreign outflows as the rate cut cycle ends alongside global bond sell-down. As such, we revise our year-end 10y MGS target higher. Nevertheless, in the near-term, the 10y MGS yields could trend higher than 3.30% on further foreign selling, if any, which could provide a buying opportunity.

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