May Outlook – A Waiting Game

SUMMARY

- **Growth of global economic activity and new orders accelerated to 11-year highs in Apr-21.** The JPM Global Composite Index rose to 56.3 in Apr-21 (Mar-21: 54.8). The upturn in output was led by solid expansions in the US and the UK, while growth was weak in Japan. The rate of increase in services activity outpaced that of manufacturing production for the first time since the current revival in global activity began last July. Meanwhile, the JPM Global Manufacturing PMI rose to 55.8 in Apr-21 (Mar-21: 55.0), best reading since Apr-10. Production rose at the quickest pace in over a decade, however, pressure on capacity remained elevated.
- **As expected, BNM maintained the OPR in the May MPC.** The implementation of nationwide MCO 3.0 is not expected to moderate growth significantly as all economic sectors are still able to operate. Meanwhile, **headline inflation is anticipated to temporarily spike in 2Q21** due to the low-base effect. Core inflation is expected to remain subdued amid continued spare capacity in the economy.
- **Bond market review - The global bond market rallied in April despite favourable macro data** as investors dial back on expectations of the Fed tightening measures by end-2022. The FOMC kept rates intact at the meeting on 28 April and that the Fed will continue to maintain the current pace and composition of bond purchases. Likewise, local yields showed a similar trend with the 10y MGS saw better buying interest after the favourable WGBI announcement. Notably, the Government of Malaysia issued USD1.3bn Sustainable Sukuk which was oversubscribed by 6.4x. For the 1Q21, central bank/government related funds contributed +RM8.5bn/65% of the total inflows into MGS and GIIs, followed by pension funds +RM3bn and asset managers +RM3bn while offshore banks and insurance companies were net sellers of –RM0.8bn and –RM0.7bn, respectively.
- **Macro – Fading optimism in EM but no change in supportive policies.** According to the recent Emerging markets survey done by HSBC, investors has turned cautious towards EM in the next 3 months due to various reasons. The deterioration in sentiment was also reflected in the level of risk investors are currently willing to take and indicated to hold more cash given the lack of strong conviction about market direction. However, we have not seen any change in policy stance by the PBoC and the Fed to continue support growth recovery ahead. Therefore, the potential weakness in financial markets could portray a selective buying opportunity, if any.
- **Equities – History always repeat itself… 'Sell in May'.** As a result, we expect to see market directionless due to the recently announced nationwide MCO 3.0. Despite the recent profit taking activities starting Feb 21 onwards, we can see investors not in a hurry to aggressively buy back into the market because most of the easy money no longer there after MCO 1.0 share price recovery. Nevertheless, not all is lost. Still, we recommend investors to collect stocks in recovery sectors. While collecting, it is also worth noting the performance of FBM Small Cap which has been on the uptrend since MCO 1.0 recovery. Hence, it is prone to aggressive profit taking activities in the coming days/months, especially if there is MCO 3.0 extension as well as we are heading towards 3Q which traditionally underperform before we see recovery in 4Q alongside the year-end window dressing activity.
- **Fixed Income –** We see continued economic recovery in Developed Markets in the coming months as Covid infections appear under control while vaccination progress is well underway. However, upside pressure on UST yields is expected to be kept in check by the Fed's continued downplay on inflationary pressures. Locally, we expect the OPR to stay pat at 1.75%, thus, the 10y MGS yield is expected to range bound at 3.10-3.30% for now.

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