August Outlook – High Expectations On Jackson Hole Retreat

SUMMARY

- **Global economic growth eases, albeit remains solid in Jul-21.** The JPM Global Manufacturing PMI posted 55.4 in Jul-21, a tick below the 55.5 registered in Jun-21. The PMI has signaled expansion in the past 13 months. However, rates of increase in output and new orders eased again, as record supply chain constraints stymied growth and drove up input prices. Meanwhile, the JPM Global Composite Output Index slipped to a four-month low of 55.7 in Jul-21, down from 56.6 in Jun-21. Although still solid overall, rates of increase in services activity, new business and employment all slipped to four-month lows in Jul-21.
- **In Malaysia, Finance Minister has recently indicated that the fiscal deficit is expected to widen to 6.5%–7.0% of GDP and proposed to raise the debt ceiling to 65% from 60% currently.** Meanwhile, Jun-21's headline inflation eased to 3.4% (May-21: 4.4%) while core inflation declined slightly to 0.7% YoY (May-21: 0.8%).
- **Bond market review – Global yields fell** as pessimism on economic recovery returned amid the widespread of Covid infections. Locally, the government bond yields would have fallen further if not for the political noises and concerns on surging infection rates. The 3y MGS yield upped 3bps MoM to close at 2.30% while the 10y MGS slid 8bps MoM in Jul-21.
- **Macro – Talks more than actions during Jackson Hole retreat?** While the Fed is debating on its QE tapering path, the US consumer sentiment and expectation indices have peaked and been weakening since May-21. Also, the US consumers' buying condition for durable goods has eased significantly, making the US price pressure merely transitory. Hence, there is no rush for the Fed to taper off in the immediate term. Notably, whether this coming Jackson Hole meeting would cause rising yields and liquidity squeeze, both the Fed and IMF have laid out policy tools to stem financial market jitters, if any.
- **Equities – A month of 2 halves**. Although our equity market will be affected by political uncertainties throughout Aug-21, we see some light in the earlier part of the month as more sectors re-open from lockdown despite rising new Covid cases, by placing high hopes on mass vaccination. Hence, there will be 'buy on expectations, take profit on confirmation' on some of the high beta economic re-opening sectors like the construction, building material, transport and few others in early part of Aug-21. Then, as we approach month-end, we expect profit taking activities to kick in before our Parliament re-opens in early Sept for our Prime Minister to take his confidence vote. Separately, Aug-21 is also a result reporting month and we expect more earnings downgrade by consensus since FMCO was implemented on 1-Jun-21.
- **Fixed Income – The uncertainties on the political front, surging Covid infections and lingering concerns on sovereign rating vis-à-vis the fiscal pressures will likely see a sustained wide spread of around 200bps for MGS above the UST.** The Budget 2022 which will be presented in Oct-21 is expected to provide more clarity if these are still within S&P rating downgrade thresholds. Meanwhile, taper talks in the US, if any, in the coming months may cause the spread to narrow towards historical average.

This document has been prepared by Etiqa Life Insurance Berhad (ELIB) solely for informational purposes and shall not be construed as the basis for making investment, financial or other decisions. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. ELIB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by ELIB. ELIB and any of its related affiliates accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.