September Outlook – Recovery Stalled By Virus Resurgence & Extreme Weather

SUMMARY

- **Global economic expansion lost further momentum in Aug-21.** The JPM Global Manufacturing PMI fell to a six-month low of 54.1 in Aug-21 (Jul-21: 55.4). Whilst growth continued across the consumer, intermediate and investment goods industries, rates of increase in output, new orders and employment eased in all three sectors. Similarly, the JPM Global Composite Output Index moderated to 52.6 in Aug-21, from 55.8 in Jul-21, and at a seven-month low, as growth also eased across the service industries. The slowdown was centred in Asia, where Japan and China fell into contraction, while weaker expansions were seen in the US and Europe.
- **APAC market review –** MSCI APAC gained +2.3% which was inline with MSCI World that was also up +2.4% after the China market stabilized. Asean markets on the other hand were mostly up, buoyed by moderate inflation and robust consumer demand. Within APAC, the best performers include India up +10.8%, followed by Philippines up +10.5, Thailand up +8.8%, Malaysia up +7.2% and Indonesia up +6.4%.
- **Local Equity market review –** The KLCI was up +7.2% MoM mainly due to foreign buying towards the last week of Aug for 5 consecutive days. This has lifted most of the index stocks in sectors like the financial, plantation and utility sectors. The local institutions as well as retailers mostly stayed sidelines despite the strong rally.
- **Bond market review –** The local yield curve bear flattened amid the political debacle and concerns on surging infection rates. Meanwhile, the UST yields fell amidst investors' pessimism on growth outlook arising from Delta variant concerns and Powell's dovish address at the Jackson Hole symposium in late August.
- **Macro – Recovery Stalled By Virus Resurgence & Extreme Weather.** The existing supply disruption phenomenon globally due to new virus variants and extreme weather, if prolonged, will lead to downstream cost-push pressures and eventually feed into CPI. On the other hand, there's strong headwinds in China 2H21 evident from the Emerging Industry PMI. However, Beijing is expected to maintain its unique policy mix of "targeted tightening + universal easing" for the remainder of this year.
- **Local Equities outlook – Time to fire up small engines.** With the strong rally in big cap on the last week of Aug thanks to foreign buying, we expect rotational shift of investment to smaller cap stocks, especially the high beta ones which include the construction, oil & gas as well as property stocks. Market is now risk on post political uncertainties. Investors will continue to look forward to reopening of businesses following mass vaccination, 12th Malaysia Plan, Budget 2022 as well as quarter and year end window dressing play.
- **APAC Equities outlook – APAC markets likely continue to do well in Sept.** This is because Powell will likely be going for a second term and he is reassuring the market that Feds will do gradual tapering rather than an aggressive one. Also, with the recent disappointing job reports which only added 235k positions versus consensus expectation of 720k positions, this will provide further cheer to the global market including APAC markets.
- **Fixed Income outlook –** We expect some pressure on yields in the following months due to heavy govvy supply of RM50bn (Sep-Dec) when there are minimal maturities. Additionally, the Budget 2022 is expected to be expansionary with higher debt and still-feeble revenue base – stoking further risk of downgrade from S&P due to missed thresholds. This will however be moderated by the pessimism in UST yields as the country faces its 4th wave of infection, halting recovery efforts.

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.