November Outlook – Concerns Amid "Steady" Economic Activity

SUMMARY

- **Global economic activity improves as service sector strengthens.** The JPM Global Manufacturing PMI edged higher to 54.3 in Oct-21, up from 54.1 in Sep-21. The rise in the headline index reflected a record lengthening of vendor lead times, increased stock holdings and faster jobs growth. This offset the effect on the PMI level of slower increases in both output and new orders. Meanwhile, the JPM Global Composite Output Index also rose to 54.5 in Oct-21, from 53.0 in Sep-21. The rate of global economic expansion accelerated to a three-month high in Oct-21 as improving service sector offsets weaker expansion of manufacturing production.
- **APAC market review – MSCI APAC remained unchanged MoM while MSCI World was up 5.6% MoM.** MSCI World was mainly driven by the rebound in US markets following the better-than-expected corporates' earnings while we saw some profit taking activities in Asia Pacific markets which had affected the performance of MSCI APAC. As for China, trading limelight was still centered on Evergrande on whether it could pay its interest due.
- **Local Equity market review – Our KLCI upped 1.6% MoM in Oct-21 to close at 1,562 on positive sentiment from the reopening of our economy.** We saw high beta stocks in sectors like construction, O&G and property started to rally on feel good economic reopening factors. Having said that, we had also seen profit taking activities towards the 2H Oct-21 following the spillover of negative sentiment from the retracement in commodity prices.
- **Bond market review – In Oct-21, global bond yields rose amid fears of inflation on the back surging oil prices and supply-chain disruptions. However, towards month-end, the UST 20y and 30y yield curve inverted** as market concerns the Fed tapering in Nov-21 will lead to slower economic growth. Major central banks have also indicated policy tightening measures and rate hike in the near term. Meanwhile, local yields were also tracking higher global yield and ingesting a heavy govvy supply in Oct-21, totalling RM17bn.
- **Macro – Oct-21's global PMIs still paint cautiousness** as the pace of growth remains held back by supply bottlenecks, labour shortages and inflationary pressures are abundant. However, they also give reasons for hope where demand is strong and firms are looking to hire, supporting labour markets. As a result, how quickly and effectively these shortages and disruptions fade is likely to be the key driver of the speed and shape of the recovery into 2022. Once US tapering starts end of this month, market players will start questioning about growth and be mindful of policy mistakes ahead.
- **Local Equities outlook – Market will start the month with negative sentiment since there is additional "Cukai Makmur"** of 9% announced in Budget 2022 for corporates' taxable profit above RM100m on locally-derived income. Also, it was announced that there is higher stamp duty percentage on shares trading and the maximum limit of RM200 will be removed starting next year. As a result, we expect Nov-21 to be a profit taking month as corporate results also likely to disappoint since we have 1.5 months of EMCO from Jun-21 to mid Aug-21.
- **APAC Equities outlook – Nov-21 will likely see if there is any escalation of trade war between the US and China, taking a cue from the development in China Telecom.** Also, the market will be focusing on when the US will start its tapering, thus affecting bond yields and inflation in APAC countries. Finally, the recent retracement in commodity prices especially raw material for energy will be monitored closely as this will affect the cost of production and hence margin of most companies.
- **Fixed Income outlook – In the Budget 2022, the MoF expects GDP growth to hover around 5.5-6.5% with the fiscal deficits improving marginally to 6.0% from this year's 6.5% estimate.** As such, the gross govvy issuance

amount will be similar to this year's range of RM160-170bn. Besides, we expect more quasi-government/corporate bond issuances in view of better GDP growth and the need to fund higher public investments and construction activities next year. However, the key indicators for 2021 and 2022 continue to fall short of S&P's rating triggers on the fiscal deficit and burgeoning government debt.