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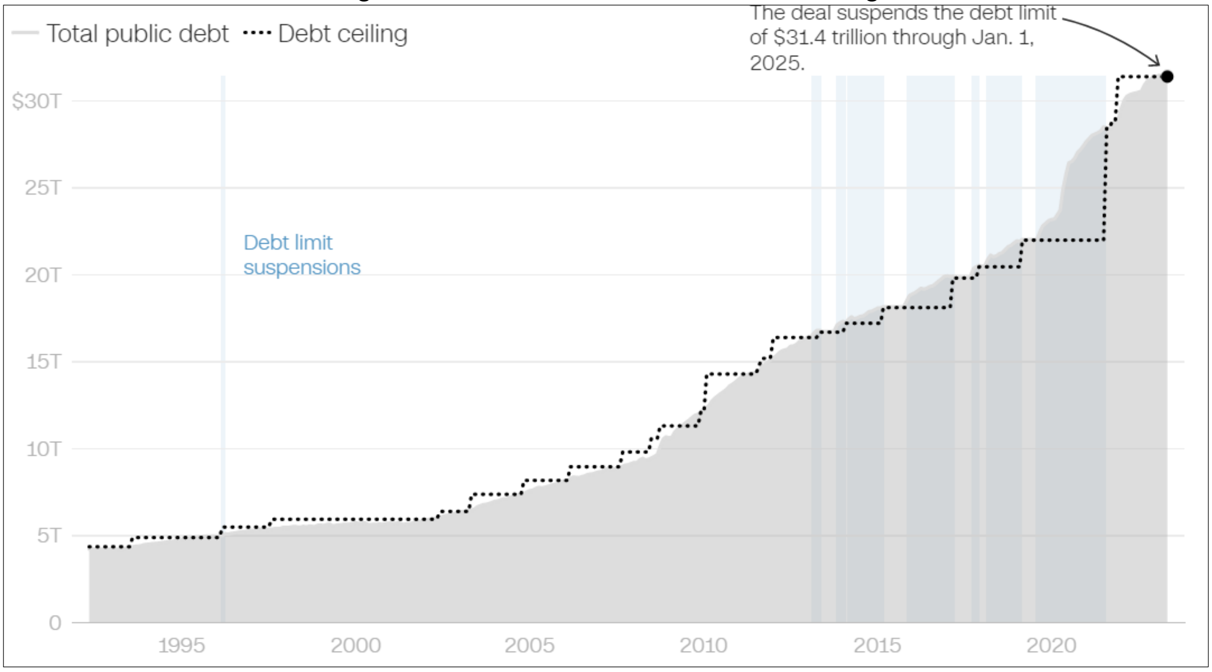
Navigating Global Markets: Debt Ceiling Concerns, China's Recovery, and Investment Opportunities

Global markets traded mixed in May as investors watched for signs of progress in the US debt ceiling negotiations ahead of the June 1 deadline. To recall, the debt ceiling has been raised nearly 80 times since 1960, indicating that it is not something new and it is just a recurring practice to adjust the limit on the amount of debt the US government can incur (see Figure 1). Throughout history, the US has never defaulted on its debt. However, an exception occurred in 2011 when the US experienced its first-ever credit rating downgrade by S&P. This situation was eventually resolved when President Obama consented to over $900 billion in spending cuts, and the debt limit was lifted by a similar amount.

Figure 1: US Public Debt and Debt Ceiling



Source: US Department of Treasury, US Office of Management and Budget

And finally, after some negotiations, the US House of Representatives had on 31 May, passed a bill to suspend the US$31.4 trillion debt ceiling to avert a national default. We expect this to alleviate some market overhang and boost investor sentiment going forward. In addition to that, given the USD's unique status as the global reserve currency, there is unlikely a sustained effect on the USD due to the debt ceiling issue. In the near to middle term, investors will closely monitor policy actions taken by different central banks and keep a close eye on developments related to geopolitical tensions.

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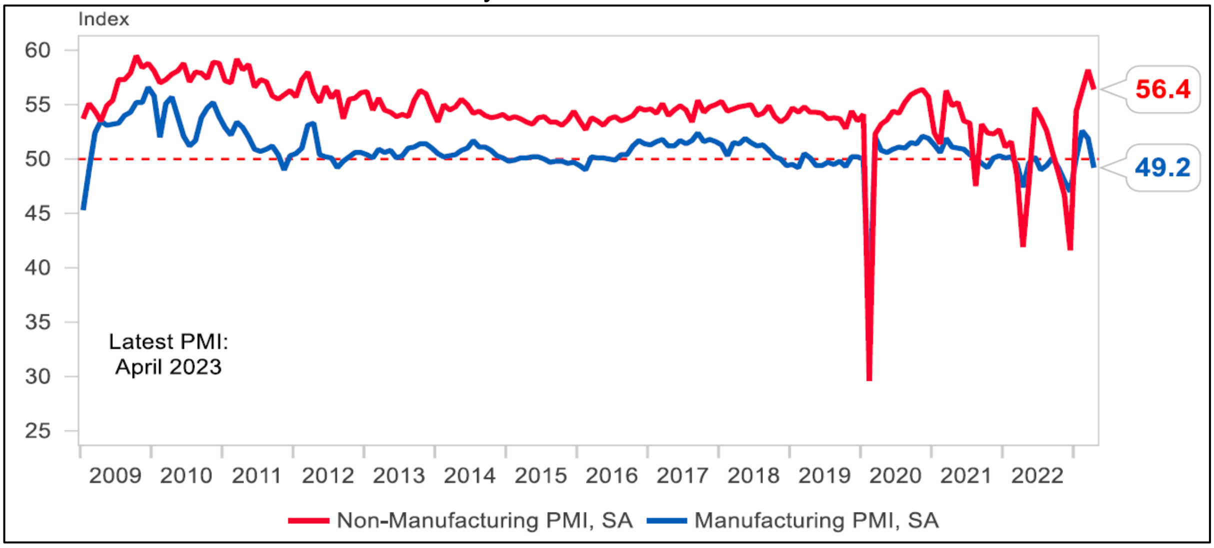
China's recovery has been bumpy after three years of self-imposed isolation, and there have been concerns on soft domestic demand and weak manufacturing data (see Figure 2), as well as muted sentiment within the property sector, but we think a modest 5% target by the Chinese government should be attainable. China's recovery thus far has predominantly focused on the services sector, with robust activity observed in this area. Furthermore, there have been supportive polies supporting the sentiments, and the leaders have pledged support to boost the economy. Moreover, the PBOC has been guiding that it will maintain ample liquidity, stabilise growth and jobs and focus on expanding demand. China's immediate priority is to restore confidence among private and foreign investors via policy support, and there is still a lot to be done, in our view.

Figure 2: Manufacturing PMI unexpectedly contracted in April; while growth is mainly driven by the services sector



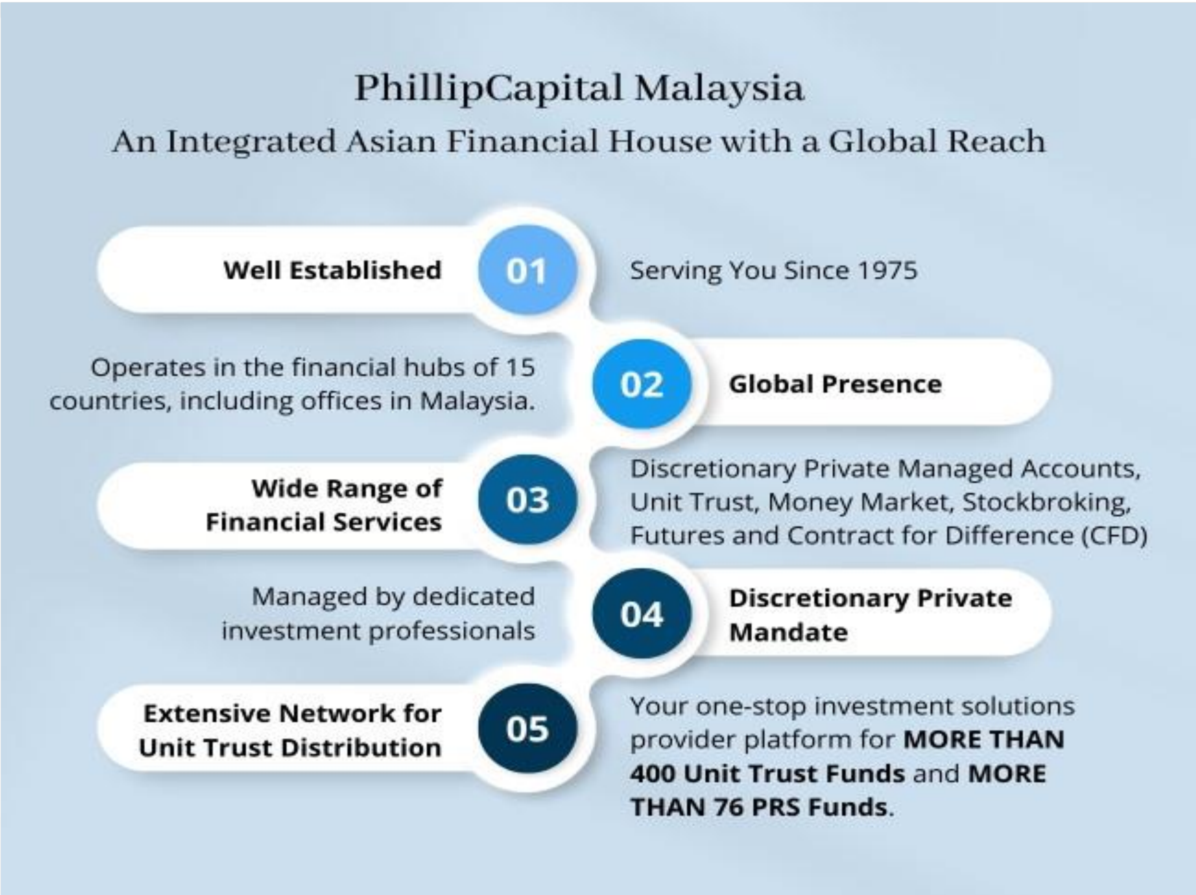
Source: UOB Kay Hian

On the domestic front, the latest quarter revealed a potential downside risk to earnings as companies reported results that either met or fell short of expectations (especially in the tech, industrial, and plantation sectors), with only a few beating consensus estimates. Several companies were negatively affected by escalating costs, such as rising electricity and labour costs. We continue to believe the Malaysia's market is likely to stay challenging in 1H23 due to some earnings risks from rising costs. Nonetheless, we expect a sustained market recovery in 2H23, driven by improving earnings outlook (in the absence of prosperity tax and other taxes like gaming tax), low foreign holding and relative political stability. Malaysia's fundamentals remain strong on firm domestic demand and resilient external trade activities. On the positive side, given our strong diplomatic relations with China, China's economic recovery is raising our prospects for improving bilateral trade and returning Chinese tourists.

Our Offerings

The market currently presents several opportunities for investors. However, it is crucial to exercise caution and carefully select investment options to ensure the best risk-adjusted returns. By taking a vigilant and discerning approach, investors can potentially reap the benefits of the current market opportunities while minimising risks.

Phillip Capital Malaysia offers a comprehensive suite of financial services including managed accounts and unit trusts, that may suit your investment preferences and financial goals. We also offer both conventional and Shariah-compliant options to cater to the needs of all investors.



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