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Navigating Global Economic Landscape and Uncovering Opportunities in 2H2023 and Beyond

As widely expected, the Fed paused its hiking campaign in June, However, according to the Fed's Dot Plot projections, the interest rates may potentially reach as high as 5.6% before the conclusion of 2023. The Fed members have revised their outlook for economic growth, with the Summary of Economic Projections now indicating a projected GDP gain of 1%, an increase from the previous estimate of 0.4% in March. Furthermore, officials have become more optimistic regarding unemployment, anticipating a year-end unemployment rate of 4.1% as opposed to the 4.5% forecasted in March. As a result, market is now expecting 1 rate hike in the upcoming July's meeting.

Similarly, the European Central Bank (ECB) raised interest rates by 25 bps in June, bringing the benchmark rate to 3.5%, and signalled another hike to come in July. On top of that, Bank of England (BOE) surprised the market with 50 bps rate hike to 5% to tackle persistent inflation. Nevertheless, we believe that we are nearing the conclusion of the interest rate hike cycle, and a pause is imminent. Though, we do not foresee interest rate to go lower significantly, there is only 1 direction, which is going south.

Across the pond, the rate-hike cycle in Asia was more subdued. Asian central banks did not have to raise rates because inflation in Asia has not been as intense as in the developed markets. In fact, the Chinese central bank's (PBOC) move is a stark contrast from Western countries and the US. The PBOC recently slashed its market-based key lending rates by 10 bps, the first time in 10 months, in an effort to address sluggish post-Covid growth.

After a period of self-imposed isolation lasting three years, China's recovery has been uneven, with concerns surrounding both demand and the manufacturing sector. In terms of data, there are contradictions between different indicators, leading to differences in market assessments of the true state of the Chinese economy. However, we believe that the Chinese government's modest target of 5% is achievable, given the low base from last year. There have been supportive polies supporting the sentiments, and the leaders have pledged support to boost the economy. Furthermore, the PBOC has been guiding that it will maintain ample liquidity, stabilise growth and jobs and focus on expanding demand. All these will bode well for the recovery in China.

Locally, we anticipate the market to remain sluggish as investors digest the first-quarter 2023 earnings. Thus far, numerous companies have experienced a decline in earnings due to rising operating expenses such as higher labour and electricity costs, sluggish demand, and a challenging business environment. That said, 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. Investors are closely monitoring the development of the state election. We believe it is unlikely to see any changes occurring in the state government.

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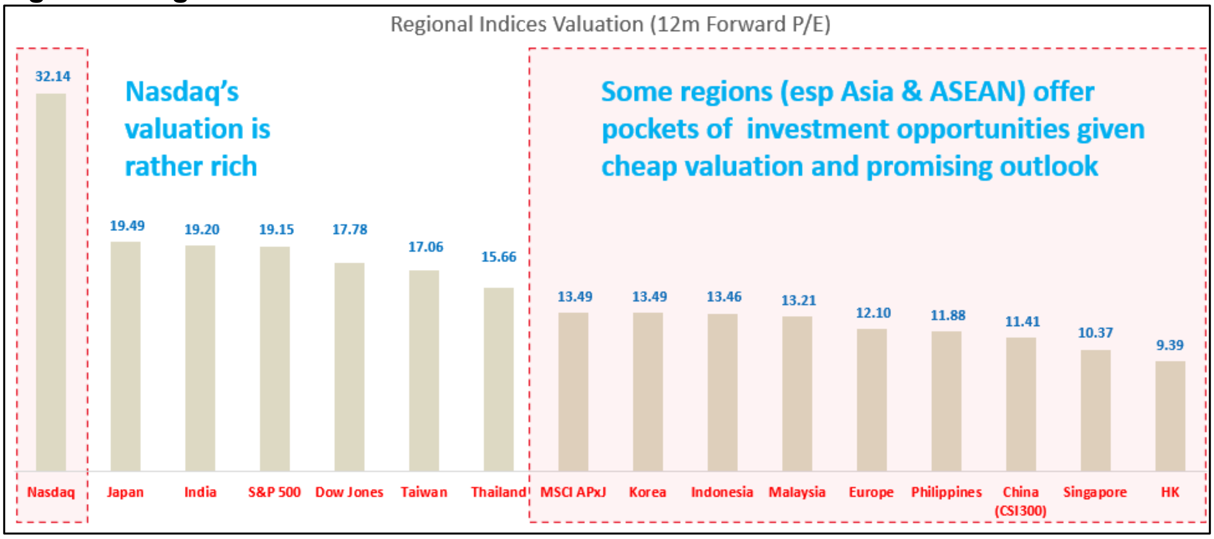
Where do opportunities lie in 2H2023 and beyond?

We like China/Asia given their inexpensive valuations, under-positioning and better earnings prospects (see Figure 1). Furthermore, China's anticipated recovery will eventually benefit Malaysia market and the local currency.

Figure 1: Regional Indices Valuation



Source: Bloomberg, compiled by Phillip Capital Malaysia, 31 May 2023.

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.

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