

PHILLIP MUTUAL BERHAD

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Global Central Bank Actions and Asian Market Resilience: July 2023 Recap

The Fed raised the Fed funds rate (FFR) by 25bps to 5.25%-5.50% in July's FOMC meeting. However, Fed Chair Powell did not give a clear indication that the additional rate hike projected in the June median dot plot would be delivered. He stressed that any future rate decisions would depend on the data received before the September meeting. This data includes two CPI reports, two labour market reports, the Q2 Employment Cost Index (ECI), and core PCE inflation. While investors are divided on the outlook ahead, we anticipate that we are approaching the end of the rate hike cycle and that a pause is likely imminent. Separately, the ECB increased interest rates by 25bps to 3.75% due to persistent euro area inflation. However, it remains open to future rate decisions and hinted at a potential pause in monetary tightening.

The Bank of Japan (BoJ) maintained its key short-term interest rate at -0.1% and the 10-year JGB yields around 0% at its July's meeting but surprised investors by adopting a more flexible yield curve control (YCC) policy and weakening its commitment to defending a cap on long-term interest rates. This shift in stance comes in response to increasing indications of creeping inflation and the potential side-effects of prolonged easing. Another noteworthy development in the Asian market in July involves the commitment of the Chinese Politburo to implement stimulus measures aimed at boosting domestic consumption following a sluggish recovery post-reopening. Specifically, the government will boost demand for autos, electronics, household products, and promote tourism as well as the property sector. Chinese equities rallied following the indication of a pro-growth stance. We view this as positive and timely as it will boost sentiment and restore confidence among investors.

Back home, after experiencing several months of foreign net outflows in the Malaysian equity market, there has been a notable change in July, with foreigners making a return and buying over RM1.4b worth of Malaysia equities. This influx of foreign investment has had a positive impact on the ringgit's value against the dollar (the ringgit gained 3.54% against the dollar) and market performance (FBMKLCl advanced 6.01% in July), indicating some excitement and confidence among investors irrespective of the uncertainties ahead of the state elections in August. Of course, investors will continue to closely monitor the development of the state election, but we believe it is unlikely to see any changes occurring in the state government.

Where do opportunities lie?

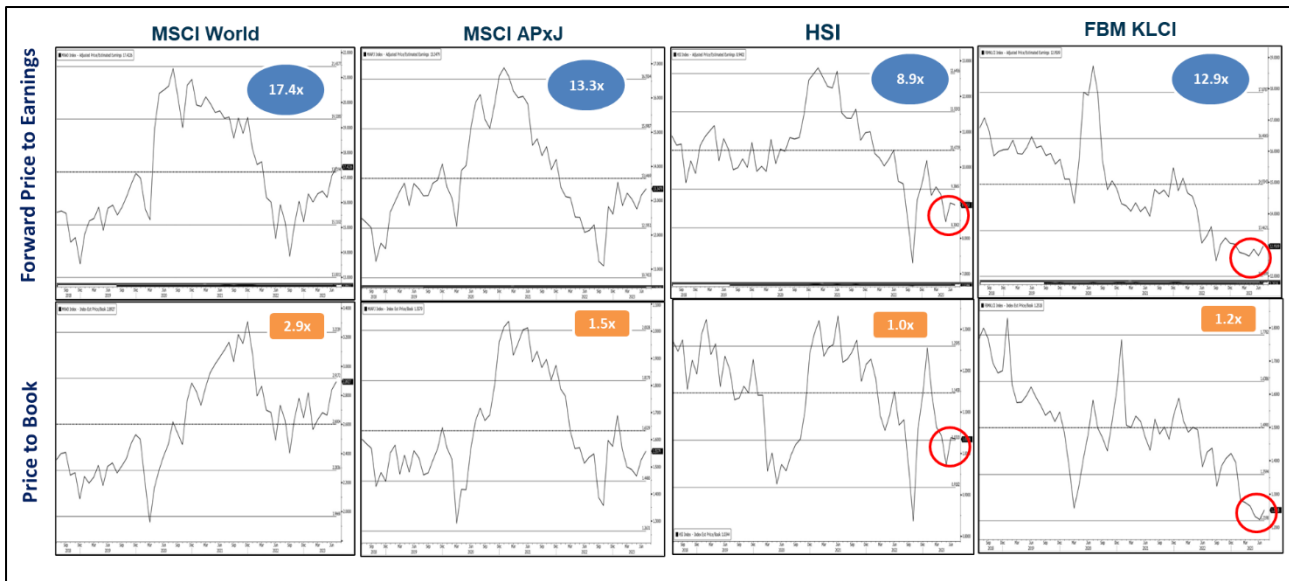
Our recommendation to increase position in China/Asia and Malaysia **last month was timely** as these markets concluded July on a positive note. We continue to like China/Asia and Malaysia given their inexpensive valuations, under-positioning and better earnings prospects. Furthermore, China's anticipated recovery (positive signals from Chinese Politburo) will eventually benefit Malaysia market and the local currency.

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Figure 1: Market Valuation – HK and Malaysia seem to be very cheap



Source: Bloomberg, compiled by PCM, 21 July 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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**Note: Shariah options are available*

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