Wealth Management Digest
July 2023

Exclusively for AmBank SIGNATURE Priority Banking Customers

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Market Overview

Total Returns (%) Year-To-Date (At Month End)

	2022	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
MSCI Global Equities	-17.95%	7.20%	4.16%	7.46%	9.05%	8.94%	14.26%
MSCI Developed Market Equities	-17.71%	7.11%	4.58%	7.90%	9.84%	9.78%	15.44%
MSCI Emerging Markets Equities	-19.81%	7.90%	0.91%	4.01%	2.85%	2.38%	5.02%
MSCI Asia ex Jn Equities	-16.80%	7.86%	1.58%	4.93%	3.85%	4.24%	6.39%
S&P 500 (US) Equities	-18.13%	6.28%	3.68%	7.48%	9.16%	10.29%	16.88%
STOXX 600 (EU) Equities	-9.88%	6.76%	8.78%	8.58%	11.42%	10.01%	11.50%
CSI 300 (China) Equities	-19.83%	7.38%	5.14%	4.67%	4.14%	-0.68%	0.45%
HSI (HK) Equities	-12.56%	10.42%	0.03%	3.51%	0.99%	-5.09%	-2.76%
MSCI Malaysia (MY) Equities	-0.39%	-0.40%	-2.81%	-3.43%	-3.64%	-4.95%	-6.40%
Bloomberg Global IG Bond	-16.25%	3.28%	-0.15%	3.01%	3.46%	1.29%	1.43%
Bloomberg Global HY Bond	-12.71%	4.18%	2.21%	3.15%	3.80%	2.77%	5.23%

Source: Bloomberg, as of 30 June 2023

GLOBAL EQUITIES

Global Equities Global equities recorded stronger returns in the month of June, with a total return of 14.3% as the resolution of the US debt ceiling issue, expectations for the Fed to reach the end of the rate hike cycle, resilient economic data and slowing inflationary pressures boost demand for risk assets. Investors are also confident that the Q2 2023 earnings announcements would be in-line or better compared to market expectations, leading to further buying in global securities.

ASIA PACIFIC EQUITIES

Asian equities rose higher, in tandem with global securities. Recovery in China mainland and Hong Kong securities helped close the performance gap. Asian assets also benefitting from the stronger US dollar and cheaper valuations in the region, which has resulted in better discounts on its assets leading to stronger buying interest from global investors. Asian countries set to benefit from the trade redirection away from China as well as the stronger FDI inflows have benefitted the most from stronger buying momentum.

MALAYSIAN EQUITIES

Malaysian equities declined further ahead of the state elections, as investors worry about potential political instability moving forward. The stronger US dollar has also sparked capital outflows from the local market, while economic data also suggests a moderation in growth compared to 2022's stellar performance. Lack of local market catalyst has been key inhibitor to large cap performance in Malaysia, especially as foreign buying slowed.

Source: AmBank Retail Wealth Management Advisory & Research (as at 30 June 2023)

News Topics – Business & Economy

US Banks In Good Shape After Passing Central Bank Stress Test

The recent US Federal Reserve stress test on local banks have restored market confidence on financial stability across the US economy. 23 of the largest US banks were subjected to the stress test, which simulated a scenario where unemployment rose to 10%, commercial real estate and residential property prices dropping by 40% and 38% respectively and short-term interest rates falling to almost zero.

This scenario is likened to a major recession and banks are estimated to lose US$541 billion with sufficient reserve capital to absorb the losses and continue operating. The results come after 3 banking failures in the US, as Silicon Valley Bank, Signature Bank and First Republic bank collapsed, sparking concerns of vulnerability across the global banking system as seen back in 2008.

With the latest data from the US Federal Reserve, there is better clarity over the resilience and strength of the US banking system. The results also help the central bank determine how much capital banks must hold in reserve over the next 12-months.

If the banking sector showed signs of weakness, US banks would need to shore up more reserve capital to ensure that they are able to withstand the worst-case scenario stimulated by the central bank. The data should also allow some of the major banks to adjust their capital reserves lower by as much as 1% for some of the bigger banks.

Lowering capital reserve requirements will allow banks to boost dividend pay-outs or initiate higher share buybacks. In the aftermath of the Fed's stress test result announcement, US banking stocks were up 1.5% in after hours trading.

Source: Reuters (June 2023)

Federal Reserve Chairman Powell Indicates More Rate Hikes Ahead

The US Federal Reserve Chairman Jerome Powell indicated that policymakers were ready to keep hiking interest rates as inflation remains above the 2% long-term target. Powell indicated that the central bank could hike interest rates 2 more times by the end of 2023.

This comes after the June 2023 meeting, where the Fed pause its rate hike plans, a first since beginning its string of rapid interest rate hikes since the start of 2022. Interest rates have risen to its highest level since the global financial crisis. Benchmark interest rates are sitting at 5.00-5.25% currently.

The May inflation print came in at 3.8% as measured by the Personal Consumption Expenditure (PCE) Index. The cautious tone by the central bank is a result of stickier components of the inflation basket, such as the higher costs of shelter.

Liquidity sitting in cash accounts or on the side-lines of the market have been waiting for the Fed's pause signal, which would result in money flowing back into markets and causing a rally in risk assets once again, powering up consumption power with the potential of keeping inflation higher for longer.

Due to this, the central bank prefers to take a slower approach on easing interest rates, taking a gradual approach instead of rushing to cut. The US economy has also been surprisingly resilient, with economic data suggesting that 2023 may not be a recession year. Unemployment has hit its lowest level, while consumer and business demand remain healthy powering GDP expansion. This reduces the urgency for interest rate cuts.

Source: Reuters (June 2023)

News Topics – Business & Economy

US-China: One Step Forward, Two Steps Backward

US Secretary of State Antony Blinken held talks with Chinese officials, including President Xi Jinping in June 2023 to restore ties between the two countries which had become strained since the US accused China of sending spy balloons across its airspace.

Blinken's trip marks the first visit by a top US official to China in almost 5-years. The talks appeared to be constructive, as China's Foreign Minister Qin Gang highlighted Beijing's commitment to build a stable, predictable, and constructive relationship with the US and had agreed to visit Washington to further talks.

However, securing a mutually acceptable deal between the two countries remains a challenge for officials, as China maintains a hard stance on Taiwan, which it has described as a core issue for the country. The US on the other hand had indicated on multiple occasions that it would defend Taiwan in the event China tries to invade the country, setting the stage for further conflicts between the two countries.

Additionally, the US is also unlikely to remove export restrictions on sensitive US technology from being shared to China. This follows the aggressive strategy initiated by former President Donald Trump to bottleneck China's ability to catch up to the US in technological advancements. China is not completely blocked off from US technology but are unable to get the latest available computing systems which could limit breakthroughs in the country.

Resumption of talks between US and China were clouded as Blinken's meeting was overshadowed by President Biden referring to President Xi as a dictator, which drew the ire of Chinese officials. This sets the stage for an awkward encounter between the two world leaders at the G20 summit in India.

Source: CNBC, BBC (June 2023)

Europe In A Technical Recession Following 2 Quarters Of Contraction

The Eurozone economy contracted by 0.1% in the first quarter of 2023, which follows the fourth quarter decline of 0.1%. The data suggests that the European economy is going through a technical recession.

However, the recession is much shallow than initially expected for Europe, which has raised optimism about the Eurozone's economic resilience. GDP contraction was largely due to energy shocks in the market because of the Russia-Ukraine war, and as interest rates continue to rise.

The Russia-Ukraine war caused energy costs to soar, adding to the inflation issues which were already on the rise in the aftermath of the pandemic supply chain disruptions. Energy bills in some parts of Europe had risen by double digits, choking household spending powers. This was worsened by the European Central Banks interest rates hikes, which are set to continue until the year end, raising borrowing costs on new and existing loans.

As disposable income faltered, economic activity also slowed. Given the anaemic recovery globally, demand for manufacturing exports also weakened, further contributing to the decline while a lack of tourism, as China remained under lockdown until the start of 2023, weighed on the tourism industry.

Despite the weakness in the economy, policymakers are unlikely to prepare fresh stimulus support for the region, given that the central bank is set to continue hiking interest rates to control inflationary pressures across the region. Fiscal intervention by European governments would only clash with monetary policy adjustments, like what happened in the UK last year during former Prime Minister Liz Truss's short-term.

Source: Politico, Reuters (June 2023)

News Topics – Business & Economy

People's Bank of China Creates More Liquidity, But No Fiscal Intervention

The People's Bank of China (PBOC) has cut interest rates across key lending facilities in the month of June. Policy adjustments as per below.

- **10 basis point cut to the 7-day reverse repo facility**. This facility refers to the short-term interest levied on loans from the central bank to commercial lenders. Lowering the rate is expected to increase domestic money supply and stimulate lending activity.

- **10 basis point cut to the 1-year medium term lending facility (MLF).** This lowers down the lending rate to larger financial institutions in China and allows the PBOC to inject more liquidity into the banking system and influence interest rates on certain loans.

- **10 basis point cut to the 1-year loan prime rate.** Represents the base rate that commercial banks can charge their clients and serves as a benchmark lending rate for households and corporates. The 1-year loan prime rate affects new and outstanding short-term loans.

- **10 basis point cut to the 5-year loan prime rate.** Has a similar function to the 1-year loan prime rate, but influences longer-term loans, such as mortgages.

Adjustment on monetary policy by the PBOC suggest that the government is aware of the slowdown in the China economy and is taking steps to remedy the situation by boosting liquidity and reducing borrowing rates to encourage consumers and businesses to borrow and spend once again. However, monetary policy may not have the desired effect without support from fiscal policy, which is so far absent. Markets are expecting announcements from Beijing after the July Politburo meeting.

Source: Reuters, CNN, ChinaDaily (June 2023)

Healthy Outlook In Malaysia Despite Global Growth Pressures

Economic data in Malaysia is holding up steadily despite worries that growth could face hurdles. Retail sales in the first quarter of 2023 surprised economist, growing strongly and suggest that consumers are in a much better position than initially expected. Similarly, stronger export momentum also added a positive glow to the economic outlook, swatting away fears that the economy could suffer as global growth hits Malaysia's export engine.

Diving into the data

- **Retail sales for Q1 2023 grew by 13.8% year-on-year,** beating market forecasts for a 9.2% expansion. The data showed that consumers were increasingly spending on non-discretionary items, and that spending at super and hyper markets, as well as traffic as shopping malls were back to 2019 levels. Consumers benefitted from the subsidies introduced by the government, which kept disposable income protected from rising global energy prices, supply chain issues and higher interest rates.

- **Exports fell by 0.7% in May but was holding up much better compared to market expectations for a 12% drop.** Export momentum is softening after strong performance in 2021 and 2022, when total exports grew by 26% and 25% respectively. The 2023 figures were supported by a rebound in electrical and electronics exports, as well as oil products. BNM estimates exports to grow by 1.5% in 2023.

The data suggest that Malaysia's economic performance will moderate after 2022's strong run, but still be growing at a steady and consistent pace.

Source: TheEdge, The Star (June 2023)

Economic Events – Commentary & Charts

Malaysia:

USD/MYR: Ringgit Selling Pressure Not About Fundamentals

The journey of the USD/MYR since restoration of the managed-float regime

The decline in the ringgit of late has been quite extreme with the USD/MYR almost touching 4.70 levels and on a year-to-date basis, the ringgit is the second lowest performing currency in the region after the Japanese Yen.

The modern journey of USD/MYR began in July 2005 i.e., the month where the ringgit was unpegged against the USD. From the year 2015 onwards however, the ringgit slipped against the USD and the USD/MYR mostly hovered above the 4.00 levels on a combination of local and external factors.

The “great-tightening” period which started in 2Q2023 saw extreme movements in the foreign exchange market with the US Federal Reserve already delivered 500 bps hikes to bring the Fed Funds rate to 5.00% - 5.25%.

Short term viewpoint: FOMC-driven volatility for local currency to remain in the near future as money managers look at the rate differentials

Our view is that wide negative carry will continue to dictate USD/MYR until there’s clarity offered by the US Fed that it is done with monetary tightening which we now expect it to transpire in 3Q2023 at the very earliest, hence explaining our USD/MYR call of 4.40 by end of 2023.

On that note, we reiterate our upside risk of the USD/MYR at 4.75. The Malaysian economy posted average GDP growth of 8.1% during the 1Q2022 – 1Q2023 period and real risk-free rate is not the worst, yet the USD/MYR averaged higher at 4.42, meaning the present ringgit sell-off is hardly reflective of economic fundamentals.

Medium-to-long term viewpoint: Fiscal & Economic reforms that can translate into growth excitement & reinvigorating domestic capital market are crucial.

While the country has been consistently recording a current account surplus post 1997/98 AFC, the favourable impact from such a position on the local currency is being faded by net portfolio investment outflow.

Lack of big-ticket items funding via capital market means investible domestic funds need to diversify elsewhere in search for returns and we also noticed that Asset Under Management (AUM) in the fund management industry with foreign currency mandate continues to grow.

Source: AmBank Research (June 2023)

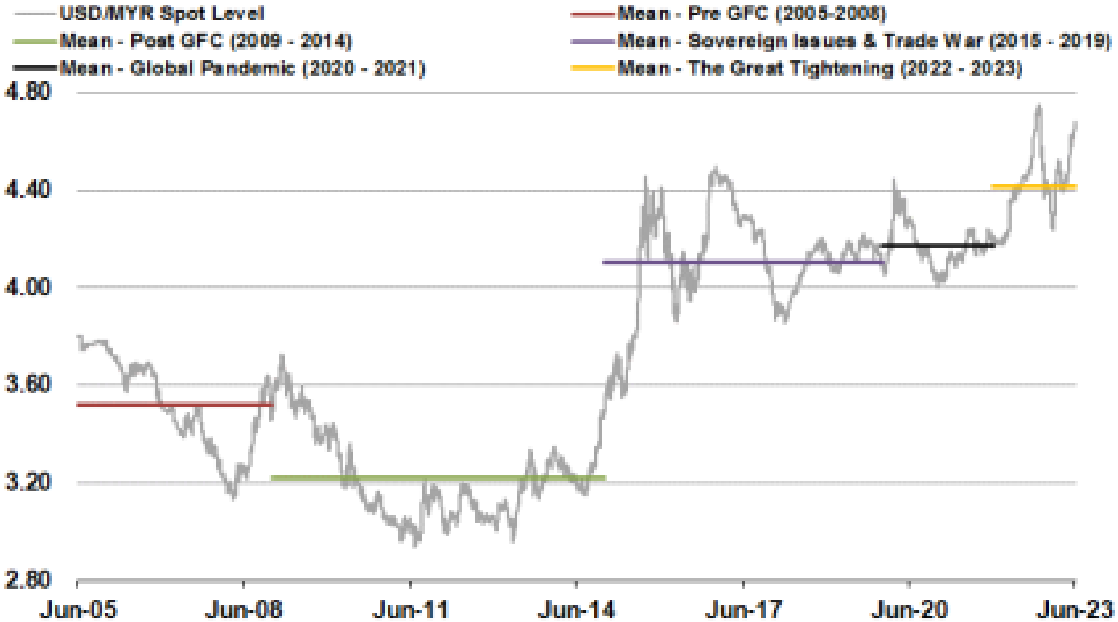
Economic Events – Commentary & Charts

Malaysia FX & Rates End Period Forecast

	2Q 23	3Q 23	4Q 23	1Q24	2Q24
USD/MYR Baseline	4.65	4.50	4.40	4.35	4.25
USD/MYR Upper Bound*	n.a.	4.65	4.55	4.50	4.45
OPR (%)	3.00	3.00	3.00	3.00	3.00
10-year MGS Yield (%)	3.80	3.80	3.75	3.65	3.60

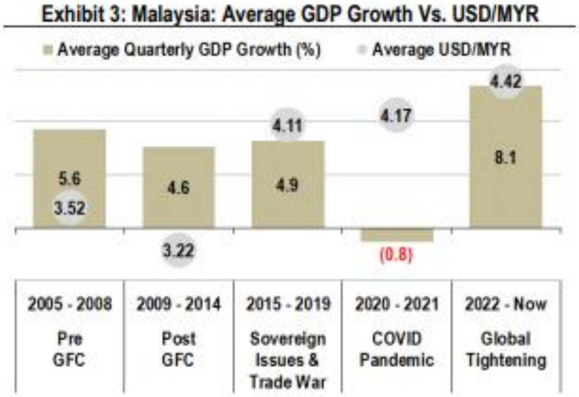
Source: AmBank Economic Research **Parallel application of 0.15 S.E. of Regression*

Exhibit 1: USD/MYR Spot Level and Key Events behind different Periods



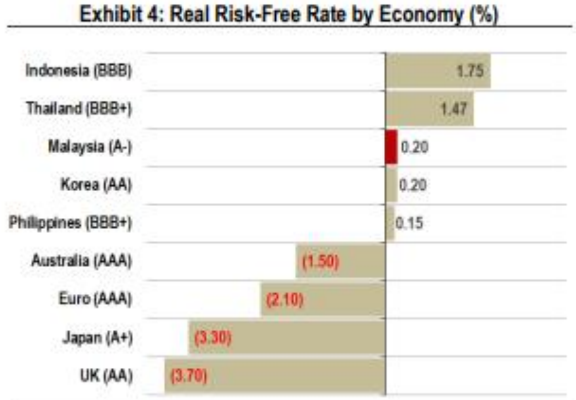
Source: Bloomberg, AmBank Economic Research

Exhibit 3: Malaysia: Average GDP Growth Vs. USD/MYR



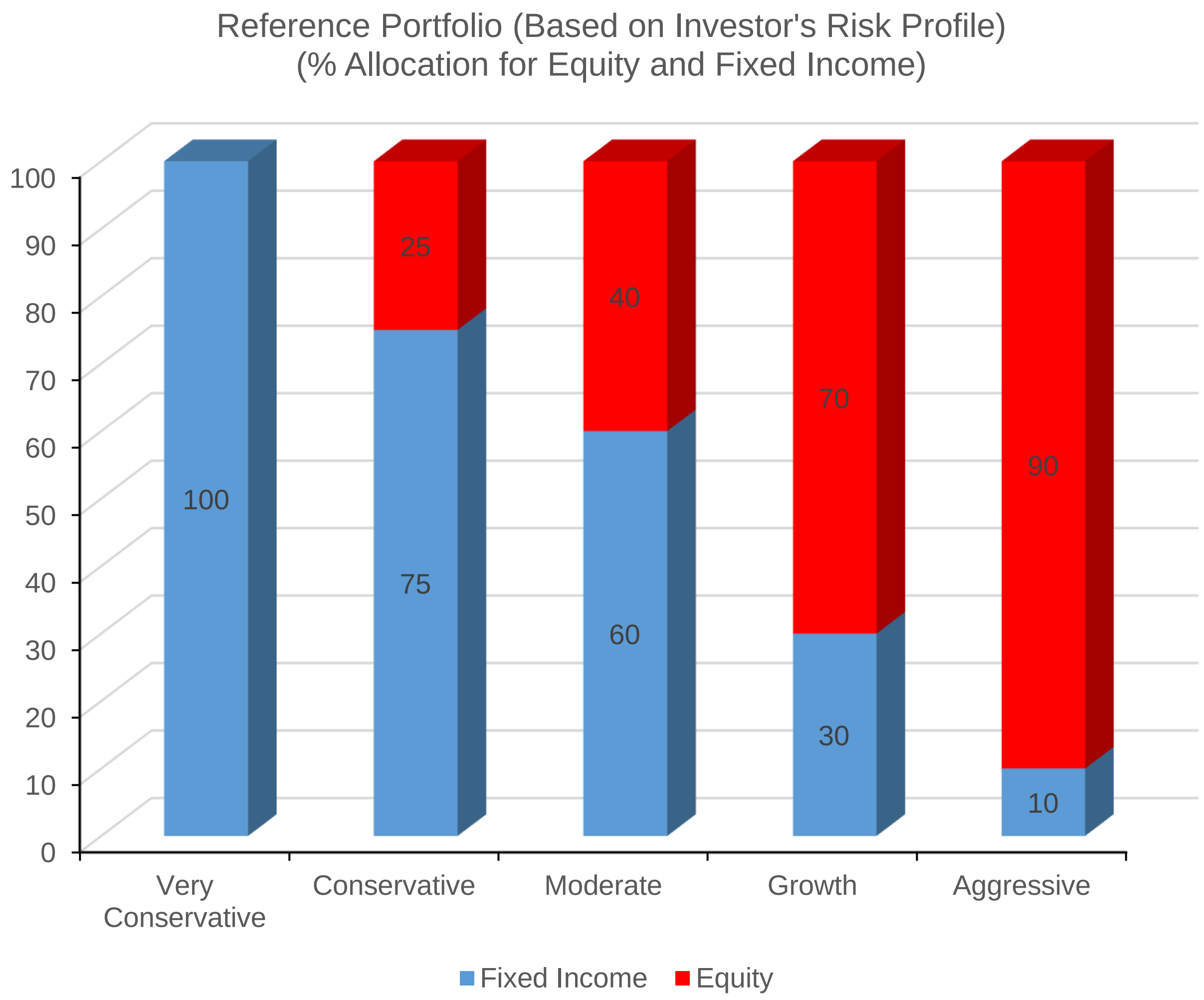
Source: CEIC, Bloomberg, AmBank Economic Research

Exhibit 4: Real Risk-Free Rate by Economy (%)



Source: CEIC, Bloomberg, AmBank Economic Research

Asset Allocation Strategy



Source: AmBank

Fund Focus – 3rd Quarter 2023

	Retail	Wholesale
Fixed Income	AmBon Islam ⓘ AmDynamic Bond Principal Lifetime Bond United-i High Quality Sukuk ⓘ	Affin Hwang World Series - Global Income MYR Maybank Bluewaterz Total Return MYR RHB China Bond MYR
US / DM Equity	Abrdn Islamic World Equity A RHB US Focus Equity TA European Equity TA Global Technology MYR United Global Durable Equity	Global Dividend MYR Principal Global Technology MYR H
Asia ex Jn Equity	Maybank Asiapac Ex-Japan Equity-I ⓘ Principal Asia Pacific Dynamic Income MYR Principal Islamic Asia Pacific Dynamic Equity MYR ⓘ United ASEAN Discovery	Hong Kong Tech Index
China Equity	Eastspring Investments Islamic China A ⓘ Principal Greater China Equity MYR	Affin Hwang World Series - China A Opp MYR AmChina A-Shares MYR
Malaysia Equity	AHAM Aiiman Growth ⓘ AmTotal Return TA Islamic ⓘ	
Mixed Assets	AHAM Select SGD Income MYR AHAM Select Balanced Principal Islamic Lifetime Balanced ⓘ Eastspring Investments Asia Select Income	US-Canada Income and Growth
Alternatives/ Tactical	AHAM Select Asia (ex Japan) Quantum MYR Eastspring Investments Small-cap Maybank Global Mixed Assets-I MYR Principal China-India-Indonesia Opportunities Principal Global Millennial Equity MYR TA Global Select Equity	Principal Islamic Global Technology ⓘ RHB European Select RHB Global Artificial Intelligence MYR H Sustainable Series - Global Lower Carbon

Source: AmBank as of June 2023

Top 5 Best Performing Funds YTD 2023

Fund Name	Fund Type	Status	YTD	1Y	3Y Ann
Affin Hwang WS-Glo Disruptive Innovation MYR H	Equity-Global	Wholesale	39.43	3.78	0.00
Principal Global Technology MYR H	Equity-Global	Wholesale	33.21	22.23	4.02
TA Global Technology MYR	Equity-Global	Retail	38.35	30.88	10.45
Principal Islamic Global Technology MYR	Equity-Global	Wholesale	49.39	0.00	0.00
Principal Islamic Global Technology MYR H	Equity-Global	Wholesale	39.16	0.00	0.00

Top 5 Worst Performing Funds YTD 2023

Fund Name	Fund Type	Status	YTD	1Y	3Y Ann
AmChina A-Shares MYR H	Equity-China	Wholesale	-13.47	-30.93	-7.72
MAMG All-China Focus Equity MYR H	Equity-China	Wholesale	-13.74	-25.58	0.00
Principal China Multi Asset Income MYR H	Mixed Assets-China	Wholesale	-12.07	-20.21	-14.47
New China Sectors Index MYR	Equity-China	Wholesale	-24.53	-81.73	0.00
New China Sectors Index MYR H	Equity-China	Wholesale	-29.71	-88.06	0.00

Source: Lipper fund performance as at 30 June 2023, applicable to funds distributed by AmBank
Past performance does not indicate future returns

Definitions

AAA/BBB	Currency Pair of AAA and BBB. Number of units of AAA (Base currency) that one unit of BBB (Quote currency) will buy.
AUD	Australian Dollar
Bosvepa	Brazil Stock Index
CAD	Canadian Dollar
CHF	Swiss Franc
CNY	Chinese Renminbi
CPI	Consumer Price Index
DAX	German Stock Index
DJIA	Dow Jones Industrial Average
EPFR Global	Emerging Portfolio Fund Research, Inc.
ETF	Exchange Traded Funds
EUR	Euro
FocusEconomics	FocusEconomics is a leading provider of economic analysis and forecasts for 127 countries in Africa, Asia, Europe and the Americas, as well as price forecasts for 33 key commodities.
GBP	UK Pound Sterling
GDP	Gross Domestic Product
German IFO	German **I**nformation and **Fo**rschung (research).
HSI	Hong Kong's Hang Seng Index
IIF	Institute of International Finance
IHS	Information Handling Services is a company based in London, United Kingdom. IHS provides information and analysis to support the decision-making process of businesses and governments.
IHS Markit	A merger between IHS and Markit Ltd.
Indonesia's JSX	Indonesia's Jakarta Stock Exchange
I/B/E/S	'Institutional Brokers' Estimate System
INR	Indian Rupee
JPY	Japanese Yen
KOSPI	South Korea's Stock Index
Malaysia's KLCI	FTSE Bursa Malaysia Index
Markit Ltd	A global financial information and services company founded in 2003 as an independent source of credit derivative pricing.
MICEX	Russian Stock Index
MYR	Malaysian Ringgit
Philippines PSE	Philippines' Stock Index
PSEi	The Philippine Stock Exchange, Inc
PMI	Purchasing Managers' Index
PRC	People's Republic of China
Q1,Q2,Q3,Q4	Quarter 1, Quarter 2, Quarter 3, Quarter 4
SCI	China's Shanghai Composite Index
SGD	Singapore Dollar
Singapore STI	Singapore's Strait Times Index
TAIEX	Taiwan's Stock Index
Thailand's SET	Thailand's Stock Index
U.K.	United Kingdom
U.S.	United States of America
U.S. Fed	United States Federal Reserve
USD	U.S. Dollar
YOY	Year-on-year
YTD / y-t-d	Year to date

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