Wealth Management Digest

June 2023

Exclusively for AmBank SIGNATURE Priority Banking Customers

AmBank
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PRIORITY BANKING

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Market Overview

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

	2021	2022	Jan-23	Feb-23	Mar-23	Apr-23	May-23
MSCI Global Equities	19.04%	-17.95%	7.20%	4.16%	7.46%	9.05%	8.94%
MSCI Developed Market Equities	22.38%	-17.71%	7.11%	4.58%	7.90%	9.84%	9.78%
MSCI Emerging Markets Equities	-2.36%	-19.81%	7.90%	0.91%	4.01%	2.85%	2.38%
MSCI Asia ex Jn Equities	-1.13%	-16.80%	7.86%	1.58%	4.93%	3.85%	4.24%
S&P 500 (US) Equities	28.68%	-18.13%	6.28%	3.68%	7.48%	9.16%	10.29%
STOXX 600 (EU) Equities	25.82%	-9.88%	6.76%	8.78%	8.58%	11.42%	10.01%
CSI 300 (China) Equities	-3.51%	-19.83%	7.38%	5.14%	4.67%	4.14%	-0.68%
HSI (HK) Equities	-11.84%	-12.56%	10.42%	0.03%	3.51%	0.99%	-5.09%
MSCI Malaysia (MY) Equities	-2.90%	-0.39%	-0.40%	-2.81%	-3.43%	-3.64%	-4.95%
Bloomberg Global IG Bond	-4.71%	-16.25%	3.28%	-0.15%	3.01%	3.46%	1.29%
Bloomberg Global HY Bond	0.99%	-12.71%	4.18%	2.21%	3.15%	3.80%	2.77%

Source: Bloomberg, as of 31 May 2023

GLOBAL EQUITIES

Global equities underperformed in May 2023 compared to the previous month, after investors turned risk-off as the US debt ceiling issues spiked. The potential technical default in the US put investors on the defensive and encouraged them to lock-in gains on assets that had rebounded strongly so far in 2023. Economic data has also been coming in mixed creating more tensions in the market and limiting buying momentum, further adding to market pressures.

ASIA PACIFIC EQUITIES

Asian equities dipped in tandem with the underperformance of China stocks, where the combination of weak economic data, poor earnings performance and guidance from major multinational corporations and a lack of monetary and fiscal policy support weighed on buying. Rest of Asia was bogged down by the stronger US dollar as well as the higher US Treasury yields which hampered demand for emerging market assets. Investor were also weighing Asia’s economic performance considering the slowdown in China and the potential recession landing in US and Europe.

MALAYSIAN EQUITIES

Malaysian equities remain under pressure as the lack of local catalyst weighed on buying momentum. Exports data also showed that growth momentum could slowdown as the US goes through a contraction and amid China’s slow recovery. Domestic growth drivers remain healthy, but concerns about future interest rate hikes weighing on consumer confidence has kept investors cautious.

Source: AmBank Retail Wealth Management Advisory & Research (as of 31 May 2023)

News Topics – Business & Economy

Europe Recession: German GDP Records 2 Quarters of Contraction

The world's 4th largest economy is facing down two quarters of consecutive growth declines, leading to worries that the global economy is also at risk of a recession.

Germany's first quarter 2023 GDP growth reading declined by 0.3%, following the 0.5% drop in the fourth quarter of 2022.

The data shows that economic momentum suffered on the back of rising inflationary pressures, which weighed on consumer spending and discouraged business investments due to razor thin margins.

The country is in a technical recession, where there is two consecutive quarters of contraction. Germany's economy minister indicated that the country's high dependence on Russia oil was the key driver of weaker growth, subjecting the country to higher energy costs that ate into spending budgets.

Data showed that household consumption fell 1.2% quarter-on-quarter, while government spending fell 4.9% in the same period.

Industrial players also reported a drop in demand as order books thinned out, further limiting managers appetite to increase capital expenditures.

The slow recovery in China, combined with the US potentially entering a recession also led to weaker capacity utilisation across the manufacturing industry, further dragging down growth momentum.

The European Central Bank has also been relentless in hiking interest rates, leading to higher financial obligations for consumers and businesses. Rate hikes are expected to continue, as inflation remains high and above the long-term 2% target. This would create more pressures on the economy, leading to a deeper than expected contraction.

Germany's recession suggest that risk is emerging across the European region and could be a warning that the US and other developed markets could also see contractions moving ahead.

Source: Reuters (May 2023)

Fed Pivot At Risk As Inflation Rises Amid Stronger Consumer Spending

Dovish stance by US Federal Reserve (FED) chairman Jerome Powell during a May speech was overshadowed when the latest inflation data, as measured by the PCE (Personal Consumption Expenditure) Index, rose to 4.4% year-on-year in April 2023, as compared to March's 4.2% reading.

The inflation reading suggests that the US economy is still facing cost pressures, spurred on by the stronger jobs market. Household incomes have benefitted from higher employment and wage adjustments as the jobs market tightened.

Consumers have also been largely confident about economic conditions, spending on services related to food, entertainment, travel, and accommodation, with the service PMI (Purchasing Managers Index) rising 55.1 in May, compared to Aprils 53.6. Markets were expecting the figure to decline to 52.6. Readings above 50 suggest that the sector is expanding.

This has largely offset the weaker output from the manufacturing sector, where PMI readings came in below 50, signifying a contraction in the sector.

Manufacturing PMI was recorded at 48.5 in May, down from Aprils 50.2. Factories in the US have lowered production capacity as domestic and international demand slows, reducing inventory and warehousing costs while trying to protect profit margins.

The mixed outlook on the US economy still suggests that inflation is still a hurdle, with some investors worrying that the interest rate hike cycle is not over yet. Some market participants are expected the US central bank to hike interest rates one more time in June 2023, before calling it quits.

However, given recent banking issues which has resulted in tighter liquidity conditions, as well as the previous interest rate hike cycle, financial conditions have tightened, and policymakers have more room to assess the situation before committing to more rate hikes.

Source: CNCB (May 2023)

News Topics – Business & Economy

Japan Woos Global Powers With Its Semiconductor Know-How

Japan has become a major magnet for investments related to semiconductors, with companies like TSMC (Taiwan Semiconductor Manufacturing Co), Samsung Electronics, Intel Corp and Micron Technology among others, pledging to invest billions of dollars into the country to secure the global chip industry and reduce reliance on China's manufacturing.

The Japanese government has indicated that it would incentivize, subsidize, and support investments into the semiconductor sector by providing land to build factories, tax breaks and funding for R&D.

US$70 million has been allocated jointly by the US and the Japanese governments to train 20,000 semiconductor engineers at 11 universities in Us and Japan to nurture talents in the chip industry.

The US and its allies have been advocating restrictions on technology sharing and exports to China as a means to tame the country's explosive growth over the past decade.

Moves to re-shore supply chains away from China have picked-up speed since 2020, when the pandemic exposed how vulnerable the world was without China's manufacturing support.

The move aims to reduce dependence on China's manufacturing capabilities but falls short on asking semiconductor companies to abandoned operations in China, given the countries strategic importance to most companies and businesses.

Japan is part of the "Fab 4" semiconductor alliance, together with Taiwan, the US and South Korea, which are seen as key alternatives to China's powers in the semiconductor manufacturing space.

Corporations have also been looking to diversify supply chains, taking advantage of government stimulus programs and incentives to cut down cost. However, companies are required to comply with some rules, including those that bar them from building semiconductor factories in China for 10-years if they receive government funding.

Source: South China Morning Post (May 2023)

China Economic Data Paints A Mixed Picture On Recovery Prospects

Economic data in China has fallen behind expectations, dragging growth outlook for the year lower. Beijing has set a modest target of 5% GDP growth in 2023, but current data suggest that China may struggle to meet this target.

The most recent retail sales data was encouraging, growing by 18.4% in April 2023 compared to a year ago, but the figure was below market expectations for a 21% expansion, and suggest that consumption in China has yet to match pre-pandemic levels yet, despite consumers sitting on an estimated US$ 2.6 trillion in pandemic savings.

Industrial production has similarly fallen below expectations, coming in at 5.6% versus the 10.9% estimated by markets. Weaker production was largely due to recession fears in the US and Europe, which resulted in a drop in order book growth for the year, as well as the already high inventory of goods that customers were already holding due to over ordering amid worries about supply chain disruptions since the start of the pandemic.

China's central bank has maintained easy liquidity conditions in the market, by keeping interest rates low, with the 1-year loan prime rate at 3.65% and the 5-year loan prime rate at 4.30%, cutting interest rates back in August 2022 by 5 basis points. The central bank has also done multiple liquidity injections into the market to support recovery prospects.

However, this has not been sufficient to boost economic recovery, raising hopes the Beijing would take steps to boost economic output by introducing fiscal stimulus policies. This could include targeted infrastructure programs, cash aid to selected consumers and as well as support for key sectors that have been hard hit during the pandemic, especially the property market.

Recovering consumer and business sentiments will have a positive effect on growth, boosting China's recovery prospects.

Source: WSJ, CGTN, China Daily (May 2023)

News Topics – Business & Economy

Tentative Deal On US Debt Ceiling Issues Helps To Calm Markets

President Joe Biden and US Republican House of Representatives Speaker Kevin McCarthy have come to a tentative agreement on the US debt ceiling, indicating that the bill to lift the debt ceiling so that the country avoids a technical default will be passed in both the House and Senate.

The new bill is made up of compromises from both Democrats and Republicans. Republicans have managed to negotiate away planned tax hikes on US corporations and wealthy individuals in Biden's latest budget, which further improves corporate earnings outlook for the year.

Additionally, Republicans have also secured spending cuts to ensure that US debt does not balloon to unmanageable levels.

Democrats also scored some wins, by expanding social welfare policies that aims to provide food security for unemployed persons and boost jobs programs to reduce unemployment. Beyond that, review process of environmental projects has also been sped up, ensuring that Biden's key agenda is supported moving into 2023.

The tentative deal still faces hurdles, needing to pass the House of Representatives and the US Senate before the second week of June.

There has been some pushback on the bill from some Republican lawmakers, which has raised concerns of a potential block to the deal, but markets are more certain that the debt ceiling issue will be resolved.

This is observed through the falling 3-month US Treasury yields, which had risen from 3.35% at the end of April 2023 to a May high of 5.77%. As news broke that a tentative deal was secured, yields on the 3-month notes fell to 5.27%.

The renewed buying in Treasury bonds suggest that markets are comforted in the government's ability to meet its financial obligations and expect the debt ceiling to be lifted.

Source: Financial Times (May 2023)

US Corporate Share Buybacks Continue At Rapid Pace

US corporations have announced US$ 600 billion in share buybacks so far in 2023, in line to beat 2022's full year record of US$ 1.27 trillion.

Major companies such as Apple Inc, Microsoft Corp, Alphabet Inc and Meta Platforms have been responsible for a large part of the buyback programs this year.

The buybacks act as a way for corporations to return capital back to investors. By buying back stock, the increased demand in the market can boosts its share price.

Additionally, by retiring the shares they have bought back, corporates lower the count of shares outstanding and raise their per share earnings, which is generally a preferred profitability indicator in the market.

Corporates have not been discouraged by the new tax on share buybacks, which has been implemented since 1st Jan 2023, and is expected to be raised from the current 1% to 4% under the Biden administration.

Data over the past 25-years also shows that the share performance of companies that buy back shares or pay-out dividends tend to outperform companies that favour capital expenditures or mergers and acquisitions.

Corporate managers prefer to return funds to investors through share buybacks as it provides flexibility to end the programs if economic conditions turn unfavourable. On the flipside, cutting dividends could earn corporations the ire of investors – hurting share performance.

However, buyback momentum is expected to soften in the future as corporations no longer have cheap and easy access to credit, as base interest rates have risen.

And in the post pandemic environment, corporations are deploying cash to restart operations resulting in a lower cash balance. Estimates by Goldman Sachs show that the cash balance for companies in the S&P 500 have dropped 13% over the past 12-months.

Source: Wall Street Journal (May 2023)

Economic Events – Commentary & Charts

Malaysia:

Malaysia Fixed Income – Post CPI Release, Real Yields Positive

Ringgit Backed Away From YTD Lows

Last Friday (26th May 2023), the Ringgit rebounded from year-to-date (YTD) lows as the US Dollar backed down from YTD highs amid optimism that the impasse in talks to lift the US government's debt ceiling will soon pass. Later over the weekend, leaders of the White House and Congress were making statements that a deal was indeed close.

Case For OPR Status Quo Post Inflation Release

Meanwhile, Malaysian Government Securities (MGS) closed mixed last Friday. A slightly better performance from earlier in the week when MGS yields mainly rose with US Treasury (UST) yields. MGS was supported as the Ringgit rebounded and as Malaysia's inflation continued its downward trend; headline CPI easing to 3.3% y/y in April 2023 (March 2023: 3.4% y/y).

This brings the year-to-date inflation to 3.5%, which is on the upper-bound of our full-year forecast of between 3.0 – 3.5%. Core inflation (excluding volatile items and controlled prices) also eased to 3.6% y/y in April 2023 (March 2023: 3.8% y/y).

On a month-on-month basis, core inflation did not increase nor decrease (March 2023: 0.2%). Since the 3Q2022, core inflation has been increasing by 0.3% m/m on average, or higher than the pre-pandemic average of 0.1% m/m.

We estimate that if core inflation increases by around 0.1% to 0.2% for the remainder of the year, then core inflation should be between 2.8% - 3.1%.

Given that our full-year expectation of the OPR at 3.00% has been realised, there is a case now that the monetary policy normalisation in Malaysia may have ended given the pessimism in the global growth outlook.

The risk to our OPR view depends mostly on core inflation but for now we still expect core inflation to continue declining at a very gradual pace.

Real Yields Positive

However, the large rise UST yields in the past month (10Y up 35 bps) and a more controlled rise in MGS (10Y MGS >5bps) due to concerns of more Fed tightening has resulted in MGS over UST turning negative (at -2 bps Friday).

Despite the now more attractive USD yields vis-a-vis MGS (albeit small spread), we think the CPI sets up better buying interest for MGS in the short term.

We bring attention to the real yields of the MGS which remain relatively attractive. Headline CPI of 3.3% means 3Y MGS real yield around 15bps and 10Y MGS at near 50 bps. The 10Y real yield was 30bps at the end of April.

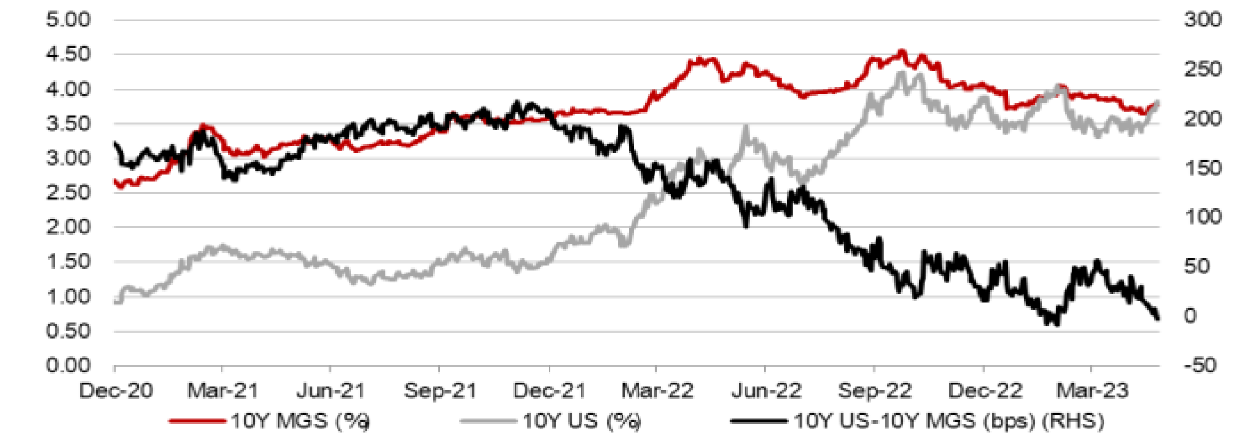
Meanwhile, we think there will be incoming support for MYR in view of impending US fiscal deal and thereby expected reversal in Dollar haven demand.

This should further aid demand for MGS, especially on the short to middle segment of the curve. Our view is there is support for USD/MYR at 4.5900- 4.6000, and resistance at 4.6200 and 4.6500, and possible MGS interest of 1 – 5 bps.

Source: AmBank Research

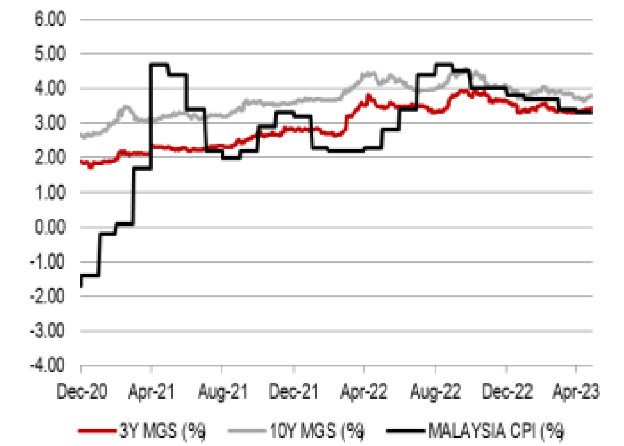
Economic Events – Commentary & Charts

Exhibit 1: 10Y MGS over US Treasuries in small negative territory



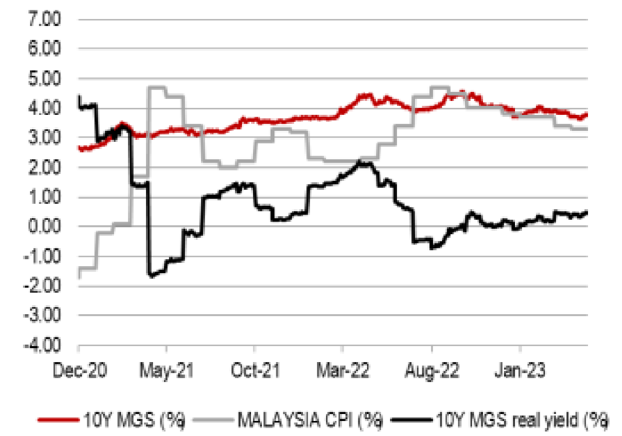
Source: Bloomberg, AmBank Economic Research

Exhibit 2: 3Y and 10Y MGS gapped wider vs CPI



Source: Bloomberg, AmBank Economic Research

Exhibit 3: MGS real yields positive



Source: Bloomberg, AmBank Economic Research

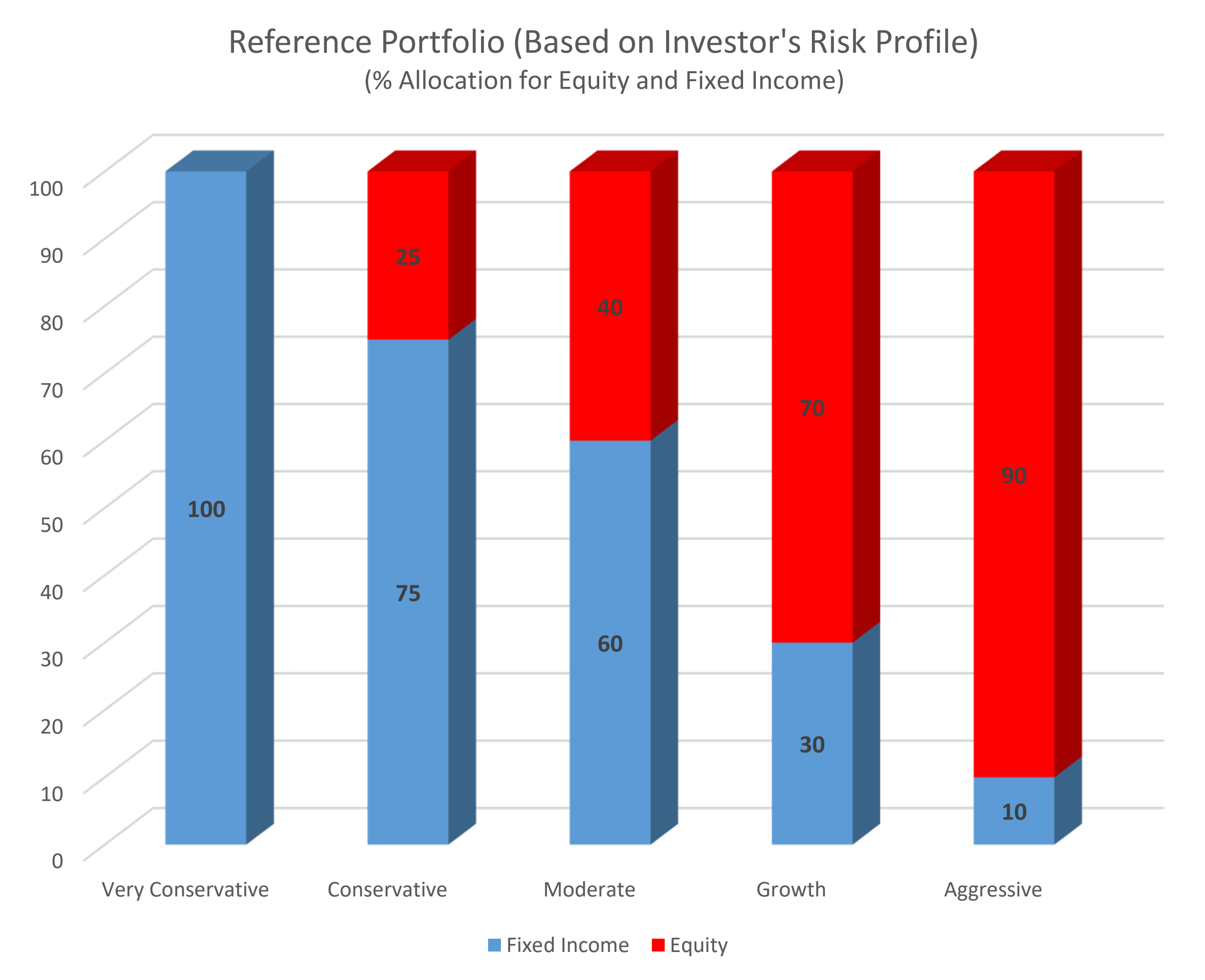
Exhibit 4: USD Index vs USD/MYR

Source: Bloomberg, AmBank Economic Research

Exhibit 5: Malaysia 5Y CDS vs USD/MYR

Source: Bloomberg, AmBank Economic Research

Fund Focus – 2nd Quarter 2023



Source: AmBank

Fund Focus – 2nd Quarter 2023

	Fund Name	Focus	Asset Class	Category	Islamic
Core	abrdn Islamic World Equity	Global	Equity	Retail	Islamic
	AmDividend Income	Malaysia	Equity	Retail	Conventional
	AmDynamic Bond	Malaysia	Bond	Retail	Conventional
	Global Dividend	Global	Equity	Wholesale	Conventional
	Maybank Global Mixed Assets-I MYR	Global	Mixed Assets	Retail	Islamic
	Maybank Bluewaterz Total Return MYR	Asia Pac ex Japan	Bond	Wholesale	Conventional
	Principal Asia Pacific Dynamic Income	Asia Pac ex Japan	Equity	Retail	Conventional
	Principal Lifetime Bond	Malaysia	Bond	Retail	Conventional
	TA Global Select Equity	Global	Equity	Retail	Conventional
	United-i Global Balanced MYR	Global	Mixed Assets	Retail	Islamic
Satellite	AmChina A-Shares	China	Equity	Wholesale	Conventional
	Global Agribusiness	Global	Equity	Retail	Conventional
	Global Property Equities	Global	Equity	Retail	Conventional
	Hong Kong Tech Index	China	Equity	Wholesale	Conventional
	Principal China-India-Indonesia Opportunities	Asia Pac ex Japan	Equity	Retail	Conventional
	Principal Greater China Equity	China	Equity	Retail	Conventional
	RHB European Select	Europe	Equity	Wholesale	Conventional
	RHB Global Artificial Intelligence	Global	Equity	Wholesale	Islamic
	TA Islamic	Malaysia	Equity	Retail	Conventional
	United ASEAN Discovery	Asia Pac ex Japan	Equity	Retail	Conventional

Source: AmBank as of April 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	22.03	-18.14	-
Principal Global Technology MYR H	Equity-Global	Wholesale	23.09	1.47	4.39
TA Global Technology MYR	Equity-Global	Retail	28.88	13.55	10.01
Principal Islamic Global Technology MYR	Equity-Global	Wholesale	38.20	-	-
Principal Islamic Global Technology MYR H	Equity-Global	Wholesale	29.98	-	-

Top 5 Worst Performing Funds YTD 2023

Fund Name	Fund Type	Status	YTD	1Y	3Y Ann
AmChina A-Shares MYR H	Equity-China	Wholesale	-11.59	-21.56	-2.47
MAMG All-China Focus Equity MYR H	Equity-China	Wholesale	-13.04	-17.81	-
Principal China Multi Asset Income MYR H	Mixed Assets-China	Wholesale	-11.88	-20.12	-12.28
New China Sectors Index MYR	Equity-China	Wholesale	-24.77	-	-
New China Sectors Index MYR H	Equity-China	Wholesale	-29.06	-	-

Source: Lipper fund performance as of 25 May 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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