FUND MANAGER'S INSIGHTS

FIXED INCOME – JULY 2021

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US : The Federal Reserve left rates unchanged in June meeting but brought forward likelihood of rate hike by a year with dot plot pointing to 2023 as 'lift off'. Economists concur with a projection of at least two rate hikes then. At the same time, the Fed raised inflation expectation for the year from 2.4% to 3.4% but downplayed it with repeating their 'transitory' phase of elevated inflation narrative. There is definitely a correlation in their two statements in that; the sharper or longer inflation remains elevated; the quicker the likelihood of rate hike will occur. For now, **Fed Fund Rate will persist to stay at current low levels throughout the year.** Retracting or reducing bond buying program will be first indication. Taper tantrum to follow.

Malaysia: Malaysia remains wedged in a tough spot between already low interest rates and economic recovery being curtailed by the current necessary movement restrictions. We are in a precarious balance between health and wealth as we look jealously across the causeway as gradual easing of limitations there compared to our covid cases that just would not drop. Hence the increasing number of traders calling for rate cuts keeping our bond markets buoyed. However, we are still of the opinion that a rate cut is unlikely because 1) the expected slowdown is not an 'off the cliff' sharp drop like what happened last year. There should still be positive growth for the year 2) the MCO is deemed to be temporary, and looking at what other countries who have attained higher %ge of vaccinated populace, some normalcy can return 3) with more fiscal spendings of govt financial aid, there is supply of govt bonds pressure and 4) even if we need to cut rates, I am not sure if there is enough intended impact to justify that. Hence, **interest rates are likely to remain at current levels until more conclusive data indicate which direction our economy is likely to go.**