FUND MANAGER'S INSIGHTS

FIXED INCOME – JUNE 2021

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US : The Federal Reserve reiterates their believe that the US economy is not near full employment yet and remain committed to being patient with inflation above 2%. But did Powell wish too hard for inflation with reading of 4.2% in April? How long is "transitory" spikes in CPI expected to last? With reopening of economy, there is no doubt of rising prices with pent up demand and higher wages with tight labour situation. This is beginning to spook Wall Street. Treasury yields are beginning to reflect some nervousness. For now, spoken words lead us to expect **Fed Fund Rate to stay at current low levels throughout the year.**

Malaysia: As feared, rising Covid cases have led to selective movement control orders to be reimposed in May. The somewhat compromised restrictions show that the govt is trying to keep the economy going while keeping the rakyat safe. Nonetheless, this rise in incidence and fear of latest more infectious variant may defer our own economic recovery. It has not reached the level of slowdown that may require monetary policy easing as yet but we remain vigilant to that possibility. Otherwise the expectation of recovery in the second half of the year as rate of vaccination ramps up, suggest that log term trend is for rates to rise. For now, **Overnight Policy Rates (OPR) is likely to stay at current levels until data shows threat of inflation or the economy can be independent of monetary stimulus. : If not for the reimposition of movement control orders, there were indications of our economy recovering with growths in exports and PMI. This recent lockdown will shave some points off our expected GDP this year, leading some to believe that an OPR cut may be probable. On the other hand, further government handouts and fiscal stimulus packages also mean supply side pressure will mount and may prevent yields from falling. Besides, there is doubt as to whether further cuts can even effectively stimulate business activities at all. We still believe Overnight Policy Rates (OPR) will likely stay at current levels for the year.**