

Embedding the short and long-term strategy

...In just 18 months at least one third of the world's population was infected. Estimates on the exact number of fatalities vary wildly, from 20 million to 50 million to 100 million deaths. If the upper end of that estimate is accurate, the pandemic that killed more people than both World Wars put together...it's 1918 Spanish flu, not 2020 COVID-19 (SARS-Cov-2).

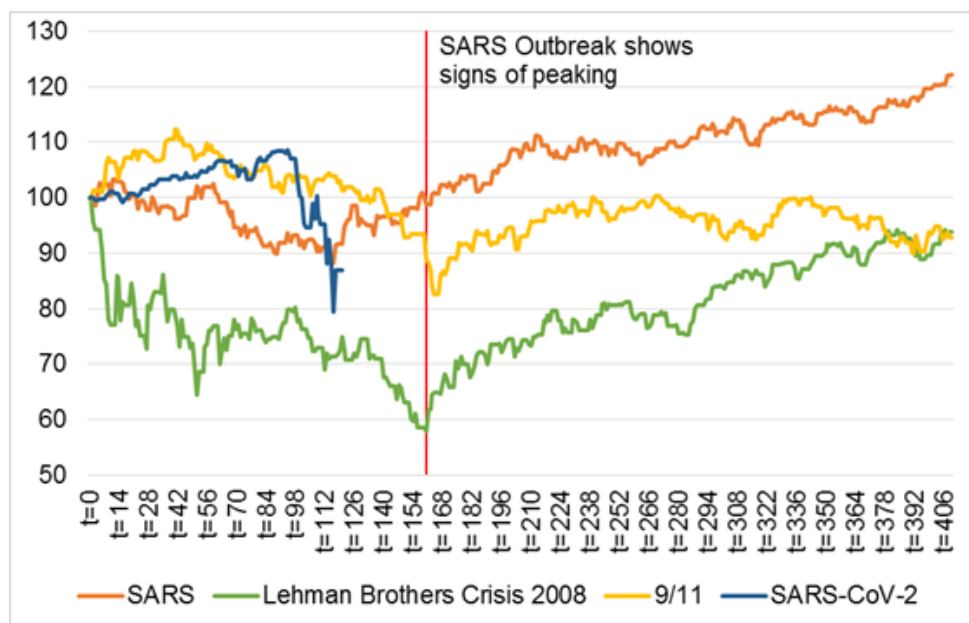
The Federal Reserve's Chair Jerome Powell and his fellow policy makers made a bold move on Sunday (15 March 2020) that has been widely accepted as an added sense of urgency about the potential economic fallout from the SARS-Cov-2 pandemic. The Fed cut its benchmark interest rate by 100bps to a range of 0% to 0.25% and promised to boost its bond holdings by at least USD 700bil, effectively restarting quantitative easing ("QE"). The Fed appears to be making its decisions based on the adage: "Hope for the best, expect the worst." It's about all anyone can do in the face of a global pandemic.

While it is true that investors are unfazed by the Fed decision, we believe that the markets should not underestimate the speed, size and innovation of central bank policy responses. Central banks are the first line of defense for financial markets and putting aside from traditional benchmark rate cut; central banks are revisiting unconventional monetary policies (UMPS) with several others launching UMPs for the first time.

While the manufacturing supply-chain and food chain disruptions associated with SARS-Cov-2 has brought the world into Knightian uncertainties while anticipated coordinated global central bank policy easing are like Schrodinger's cat where the impact may be positive or negative to the markets until it is observed. Read more on central banks concerted effort on our report titled ["Of Schrödinger's Cat, Knightian Uncertainty and BNM rate cut"](#).

We recommend that investors to look into where the markets/sectors will move once SARS-Cov-2 stabilizes. On that note, we try to plug in the hole by observing the SARS 2003 situation, Lehman Brothers Crisis 2008 and the 9/11 attacks that followed by global rate cuts on 17 September 2001 in Chart 1 and Chart 2.

Chart 1: US market (S&P 500) market behavior



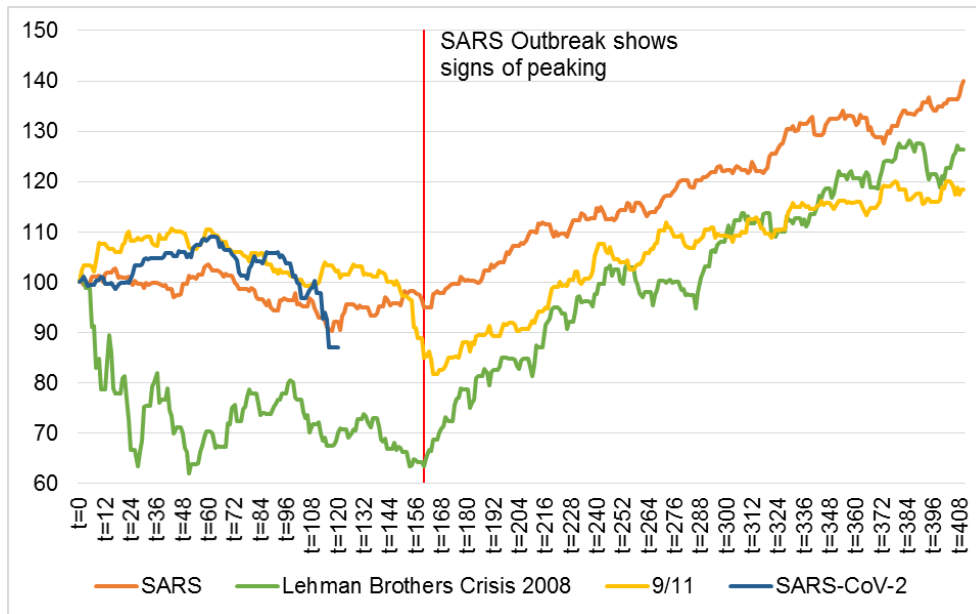
Sources: Bloomberg, various sources compiled by PRSB



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Chart 2: MSCI Asia Pacific ex-Japan market behavior



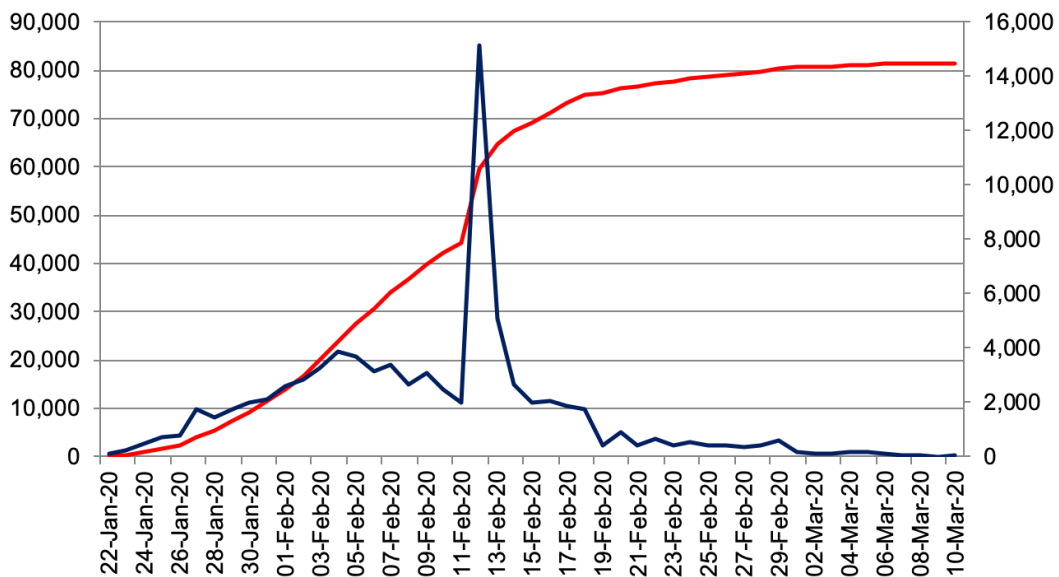
Sources: Bloomberg, compiled by PRSB

The current pace and severity of the markets make it difficult for investors to believe there could be opportunity. Currently we are not witnessing any normal markets behavior but we cannot rule out additional surprise easing measure from central banks to reduce credit pressure. We therefore reposition our allocations to weather the storm and adopt tactical asset allocation (TAA) where we increase our bond allocation (bond funds tend to perform better in anticipation of BNM rate cut), while reduce our equity allocation by exiting Europe, Japan, Australia, India and Asean market. In replacement, we introduced thematic funds, namely healthcare and dividend funds, on top of maintaining existing technology and gold that we have currently. Please refer to the [Model portfolio](#) for the funds and allocation.

China will make recovery first

We are currently overweight on China market as we believe China will make recovery first. The situation within China peaked on 13 February and they managed to contain the daily number of new confirmed cases. (Chart 3).

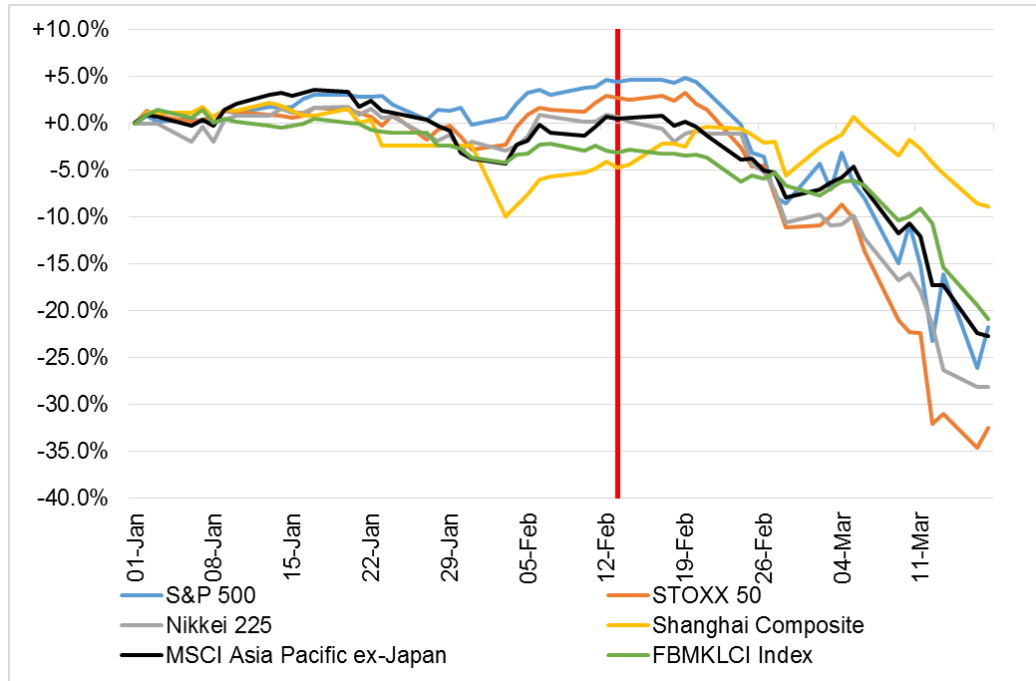
Chart 3: Daily and Cumulative number of confirmed SARS-Cov-2 case in China



Source: WHO

In Chart 4, China market rebounded after the cases of SARS-Cov-2 in China peaked which then followed by the global trend of general market sell-down where the cases outside of China raise at an alarming rate and declared as pandemic by WHO.

Chart 4: China market rebounded



Source: Bloomberg, data as at 17 March 2020

Short Term: Dividends, gold and bond fund helped to reduce volatility

We added dividend funds to minimize the downside volatility, as the NAV depreciation of the fund will be supported by the dividend paid out by the company invested by the fund. For gold allocation, it is an additional diversification as an alternative investment for the portfolio. As for bond funds, markets anticipate for BNM to cut again by 25bp cut in Q2 2020. Hence, we believe that bond funds tend to outperform equities over the next 6 months.

Long Term: Technology and healthcare as long term winner

When the pandemic is over, the world shall realize that mankind has to address the modern society risk. Teleconferencing, teleworking and other technology driven workstyles will become a norm. At the same time, the manufacturers need to relocate and onshore some of their facilities strategically through automation. Meanwhile, most of the governments in the world will have to reassess their healthcare system to prepare for the next epidemic/pandemic in the future.

Tactical Asset Allocation

Conservative Portfolio		Shariah Conservative Portfolio	
RHB-GS US Equity	3.00%	RHB Islamic Global Developed Markets MYR	4.00%
Eastspring Investments Dinasti Equity	4.00%	Aberdeen Standard Islamic World Equity A MYR	3.00%
Affin Hwang Aiiman Asia (ex Japan) Growth MYR	3.00%	Eastspring Investments Dinasti Equity	5.00%
AmAsia Pacific REITs B MYR	1.00%	Affin Hwang Aiiman Asia (ex Japan) Growth MYR	3.00%
United Golden Opportunity MYR H	1.00%	Pheim Asia Ex -Japan Islamic	3.00%
TA Global Technology Fund	2.00%	Manulife Shariah Global REITs MYR	1.00%
United Global Healthcare Fund A MYR Acc	3.00%	BIMB-Arabesque I Global Dividend 1 MYR	1.00%
Maybank Malaysia Dividend	3.00%	Amanahraya Syariah Trust	25.00%
Amanahraya Syariah Trust	25.00%	AmDynamic Sukuk A	25.00%
Amdynamic Bond	25.00%	Maybank Malaysia Sukuk	15.00%
Manulife Bond Plus	15.00%	Kenanga AsnitaBOND	10.00%
Affin Hwang Select Bond MYR	10.00%	Phillip Master Islamic Cash	5.00%
Phillip Money Market Fund	5.00%		
Total	100.00%	Total	100.00%
Moderate Conservative Portfolio		Shariah Moderate Conservative Portfolio	
RHB-GS US Equity	6.00%	RHB Islamic Global Developed Markets MYR	7.00%
Eastspring Investments Dinasti Equity	8.00%	Aberdeen Standard Islamic World Equity A MYR	7.00%
Affin Hwang Aiiman Asia (ex Japan) Growth MYR	5.00%	Eastspring Investments Dinasti Equity	10.00%
Affin Hwang Select Dividend	1.00%	Affin Hwang Aiiman Asia (ex Japan) Growth MYR	5.00%
AmAsia Pacific REITs B MYR	2.00%	Pheim Asia Ex -Japan Islamic	4.00%
United Golden Opportunity MYR H	2.00%	Kenanga OA Inv-Kenanga Shariah Growth Opps	3.00%
TA Global Technology Fund	6.00%	Manulife Shariah Global REITs MYR	2.00%
United Global Healthcare Fund A MYR Acc	5.00%	BIMB-Arabesque I Global Dividend 1 MYR	2.00%
Maybank Malaysia Dividend	5.00%	Amanahraya Syariah Trust	25.00%
Amanahraya Syariah Trust	25.00%	AmDynamic Sukuk A	25.00%
Amdynamic Bond	25.00%	Maybank Malaysia Sukuk	5.00%
Manulife Bond Plus	5.00%	Phillip Master Islamic Cash	5.00%
Phillip Money Market Fund	5.00%		
Total	100.00%	Total	100.00%
Moderate Portfolio		Shariah Moderate Portfolio	
RHB-GS US Equity	9.00%	RHB Islamic Global Developed Markets MYR	10.00%
Eastspring Investments Dinasti Equity	12.00%	Aberdeen Standard Islamic World Equity A MYR	10.00%
Affin Hwang Aiiman Asia (ex Japan) Growth MYR	7.00%	Eastspring Investments Dinasti Equity	15.00%
Affin Hwang Select Dividend	2.00%	Affin Hwang Aiiman Asia (ex Japan) Growth MYR	7.00%
AmAsia Pacific REITs B MYR	4.00%	Pheim Asia Ex -Japan Islamic	6.00%
United Golden Opportunity MYR H	4.00%	Kenanga OA Inv-Kenanga Shariah Growth Opps	4.00%
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Amanahraya Syariah Trust	20.00%	AmDynamic Sukuk A	15.00%
Amdynamic Bond	15.00%	Phillip Master Islamic Cash	5.00%
Phillip Money Market Fund	5.00%		
Total	100.00%	Total	100.00%
Aggressive Portfolio		Shariah Aggressive Portfolio	
RHB-GS US Equity	12.00%	RHB Islamic Global Developed Markets MYR	14.00%
Eastspring Investments Dinasti Equity	16.00%	Aberdeen Standard Islamic World Equity A MYR	13.00%
Affin Hwang Aiiman Asia (ex Japan) Growth MYR	10.00%	Eastspring Investments Dinasti Equity	20.00%
Affin Hwang Select Dividend	2.00%	Affin Hwang Aiiman Asia (ex Japan) Growth MYR	9.00%
AmAsia Pacific REITs B MYR	5.00%	Pheim Asia Ex -Japan Islamic	9.00%
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Maybank Malaysia Dividend	10.00%	Amanahraya Syariah Trust	10.00%
Amanahraya Syariah Trust	10.00%	AmDynamic Sukuk A	5.00%
Amdynamic Bond	5.00%	Phillip Master Islamic Cash	5.00%
Phillip Money Market Fund	5.00%		
Total	100.00%	Total	100.00%

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