MANAGER'S
REVIEW
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Asset Management

A Brief On Global & Local Markets, Investment Strategy

Week in Review | **30 March – 3 April 2020**

Markets unsettled as global cases of Covid-19 breaches the million mark

Global equity gauges endured a rather choppy week as the number of Covid-19 cases continue to rise globally as markets weigh the economic toll of the pandemic. The S&P 500 declined by 2.1% over the week; whereas in the region, the Hong Kong Hang Seng and broader MSCI Asia ex-Japan index slipped by 1.1% and 1.4% respectively.

Globally, the number coronavirus cases surpassed the grim 1 million mark and has claimed the lives of over 50,000 people according to data compiled by Johns Hopkins University. Infection continues to rise rapidly in the US reporting at least 337,000 cases overtaking that of Italy and China. The recent US job data further dampened sentiment as unemployment surged in the country with US President Donald Trump foreshadowing another "painful" 2 weeks.

Singapore issued its own version of a movement control order ("MCO") in the island state last week. Singapore's Prime Minister Lee Hsien Loong announced stricter social distancing measures shutting down schools and workplaces except those deemed as essential services. Referred to as a circuit breaker, the movement restriction measure is expected to take place for 1 month.

Singapore had reported a spike of 120 new cases with total infections reaching 1,300. Two foreign worker dormitories which have seen large numbers of Covid-19 cases have been gazetted as isolation areas to stem infection within the community. The Singapore government is expected to announce another round of stimulus to support the population and help businesses cope with the pandemic. The Singapore's Straits Times Index closed 5.5% lower last week.

Meanwhile, central banks such as the Bank of England ("BOE") have stopped banks from declaring dividends in a bid to ensure stability of the financial system and maintain capital buffers amidst a waning economy. The New Zealand's central bank has also followed suit.

On portfolio positioning, we remain cautious on the outlook and would continue to stay prudent and stick with quality. We nibbled into the market through secular growth stocks like Microsoft which continues to enjoy strong growth especially in its cloud computing segment. We have trimmed our positions in selected REITS that could be vulnerable to strict containment measures that would lead to a decline in footfall.

Oil & Malaysia

On commodities, crude oil prices spiked by over 25.0-30.0% last week following comments by Trump who said that Saudi Arabia and Russia are on the verge of cutting oil production by 10 to 15 million barrels. Other news flow from China which planned to increase its strategic oil reserves also helped fuel the rebound in oil prices. A meeting between OPEC countries and its allies, collectively known as OPEC+, has been delayed to Thursday. Thus, it remains to be seen if these production cuts would materialise.

The coronavirus pandemic has dented demand by 20-30 million barrels. The planned production cut is unlikely to be sufficient to help prop oil prices back to its previous highs. At most, it would be enough to provide a floor or support level for oil prices to range between US$30-40 per barrel this year. It will be important to see a peak of infection levels and economic activities normalise in order for demand to return.

On the domestic front, the local market mirrored regional movements with the benchmark KLCI closing 0.9% lower as Covid-19 infections continue to rise in the country. Since the MCO was enforced, the total number of cases has risen to over 3,600 cases.

Meanwhile, Bank Negara Malaysia ("BNM") released its 2019 annual report with growth projections for the year. BNM had forecasted Malaysia's GDP to range between -2.0% and 0.5% in 2020 against a highly challenging global economic outlook mainly due to the Covid-19 pandemic. Malaysia's private investment grew at 1.5% in 2019 which was the slowest pace since 2009, compared with the 4.3% growth in 2018. Private consumption on the other hand continued to grow but at a slower pace at 7.6% in 2019 compared to 8.0% in the year before.

Amid the ongoing virus outbreak, Malaysia's unemployment rate is expected to shoot up to 4.0% this year from 3.3% in 2019. As comparison, the unemployment rate during the 2009 Global Financial Crisis and 1998 Asian Financial Crisis was 3.7% and 3.2% respectively.

On the stimulus front, Prime Minister Tan Sri Muhyiddin Yassin had also announced an additional RM10 billion package to help SMEs cope during the pandemic. These include lowering the foreign worker levy and expanded wage subsidies for employees earning less than RM4,000.

Fixed income updates & positioning

Somewhat cooling off from a solid outing in the previous week, the Asian credit space trended sideways for the most part of last week as markets continued to digest increasing cases of Covid-19. Although trading activities were fairly mixed, it is important to note that the general sentiment has markedly improved from the liquidity crunch seen in the couple of weeks before.

The barrage of stimulus packages and easier monetary policies across the globe have done well to alleviate much pressure off the bond market thus far. In the region, support have been particularly encouraging for the Chinese HY property segment amid an uptick in demand. Banking AT1s have also enjoyed a marginal recovery in terms of price over the week; although levels are still considerably lower from those seen prior to Covid-19. The Indonesian HY property segment, on the other hand, continues to lag as liquidity within the sector remains thin.

On notable news flow, *Baidu Inc.* rolled out a new 5-year and 10-year issuance last week to mark one of the first companies in Asia to tap the USD bond market since the Covid-19 outbreak. The multinational tech company issued a combined size of US$1 billion and managed to garner an overwhelming interest of US$12 billion in orders. Some of our portfolios have subscribed to the 10-year paper, which have performed well in the secondary market.

In view of improving liquidity conditions and still relatively attractive valuations, we have begun nibbling into names that we are comfortable with for our global and regional mandates. At least for the near- to medium-term, most of our portfolio activities will be focused on the primary segment amid better liquidity and pricing. Nevertheless, we intend tread the roads ahead with caution and not chase markets too aggressively at this juncture.

As for domestic market updates, local govvies – and to some extent the corporate bond segment – enjoyed an uptick in buying activities last week. Demand however was largely tilted towards the short end of the curve. While some of the longer-dated government guaranteed bonds were also picked up, the buying volume pales in comparison to shorter-dated bonds. Yields for the 3-year and 5-year MGS edged lower by over 20 bps last week to close at 2.59% and 2.88% respectively; while the 10-year benchmark yield edged 4 bps lower to 3.35%.

Bloomberg Index

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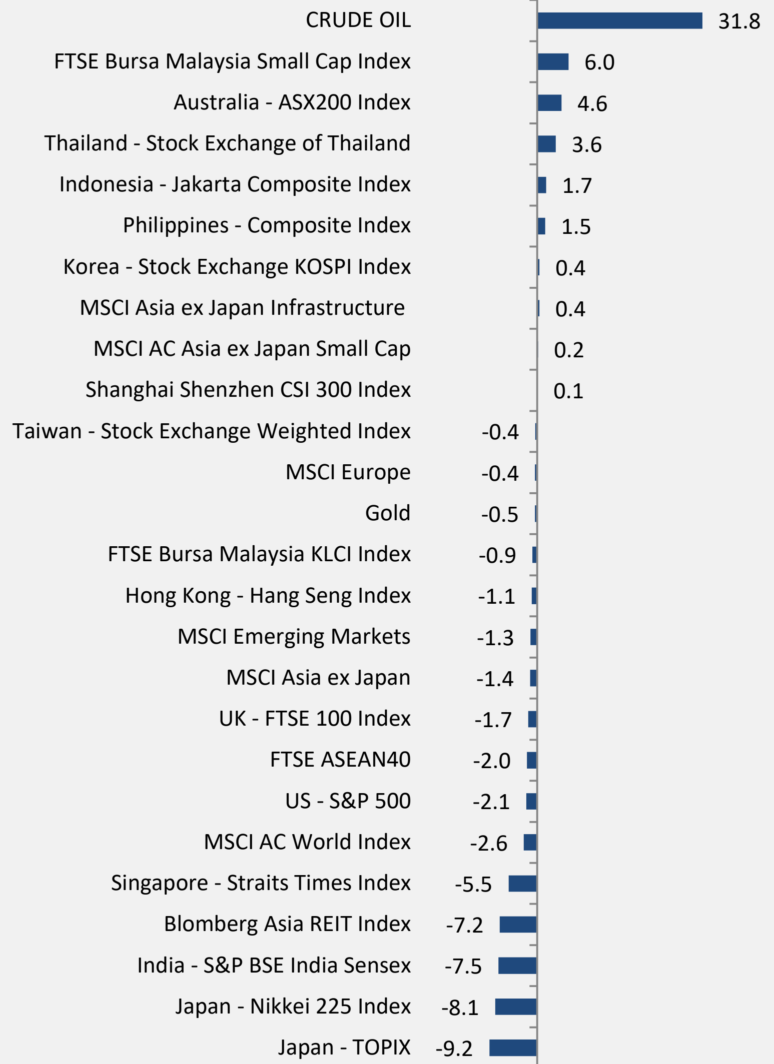

Source: Bloomberg, 3 April 2020

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