Apex INVESTMENT SERVICES BERHAD (420390-M)
20 years and beyond

Portfolio Managers' View

As at 8 July 2020

Fund Management Department

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Malaysia

1. The KLCI closed 1,584 @08.07.20. The stock market has increased by 4.3% since the end of the previous month. YTD-20, it has declined by 3.3%.

2. Bursa's average daily turnover value (ADTV) in June was RM 4.6bil vs RM 4.3bil in May (ADTV was RM 1.93 bil in 2019). Retail participation in June remained healthy at 33.5% vs 32.4% in May. Anecdotally, there are signs of greater participation by younger investors including first-time market participants. These players are aiming to generate higher returns due to the low interest rate environment. This is an encouraging trend but its sustainability is not certain.

3. Bank Negara announced a 25 bps reduction in the OPR rate to 1.75%. This is the 4th rate cut by Bank Negara this year with OPR lowered by a total of 125 bps. This was below the trough of 2.0% during the Global Financial Crisis (GFC) in 2009. The market has declined 3 months after an OPR cut in 5 out of the last 7 occasions when the OPR was lowered (source : CIMB Research). We expect consensus to react by downgrading bank earnings. However, REITs and high yielding stocks will benefit.

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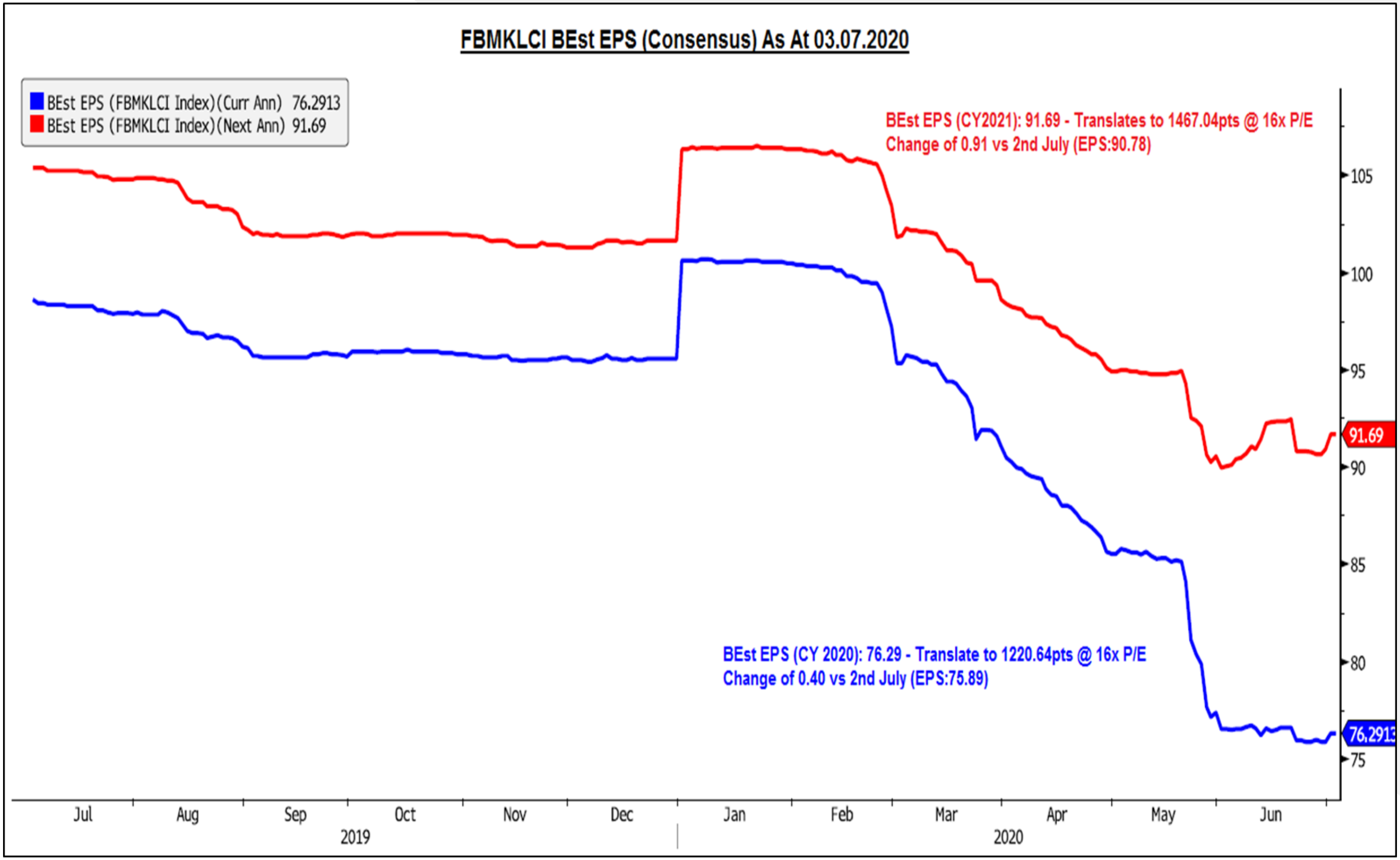
4. Malaysia Purchasing Managers' Index (PMI) rose to 51 in June (45.6 in May). This was the highest reading since September 2018. The Global PMI reading improved from 42.4 in May to 47.8 in June as countries eases lockdowns.

5. Consensus 2021 market eps has been cut by 14% from 106.5 sen @ end-Jan to 91.7 @ 03.7.2020. At 1,584 @ 30.6.2020, the market is trading at a PER of 20.7x/17.7x for CY20/CY21. This is **not cheap vis-a-vis** the KLCI's 12M mean PER of ~16x. We believe the earnings revision trend has not yet bottomed.

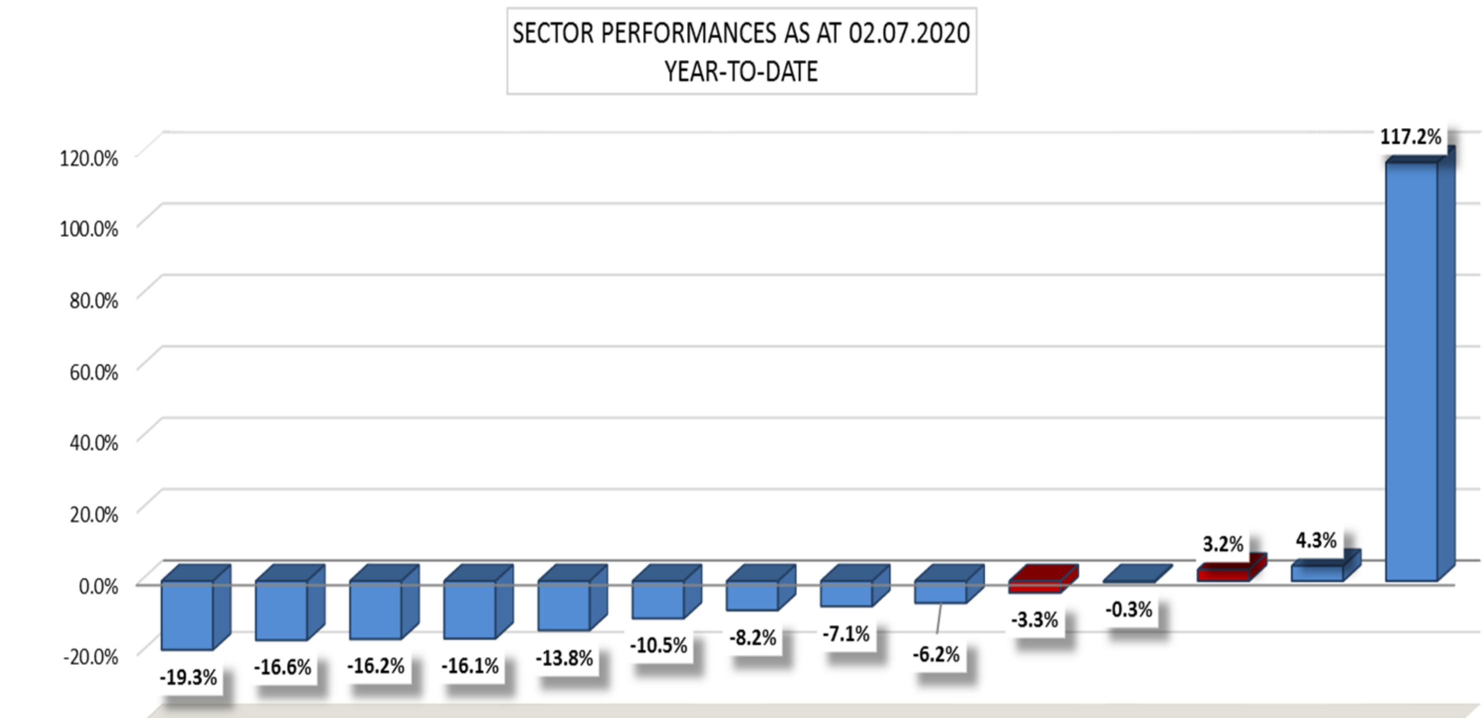
6. On a positive note, periods of quantitative easing have historically been supportive for markets including the Asian stock markets. The G4 Central Banks have injected unprecedented liquidity into their economies. Additionally, governments over the world have pursued record fiscal deficits to help their economies recover from the effects of the pandemic. These conditions are positive for asset reflation. Finally, our funds are sitting on healthy cash levels and we would be buyers at the right price levels.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

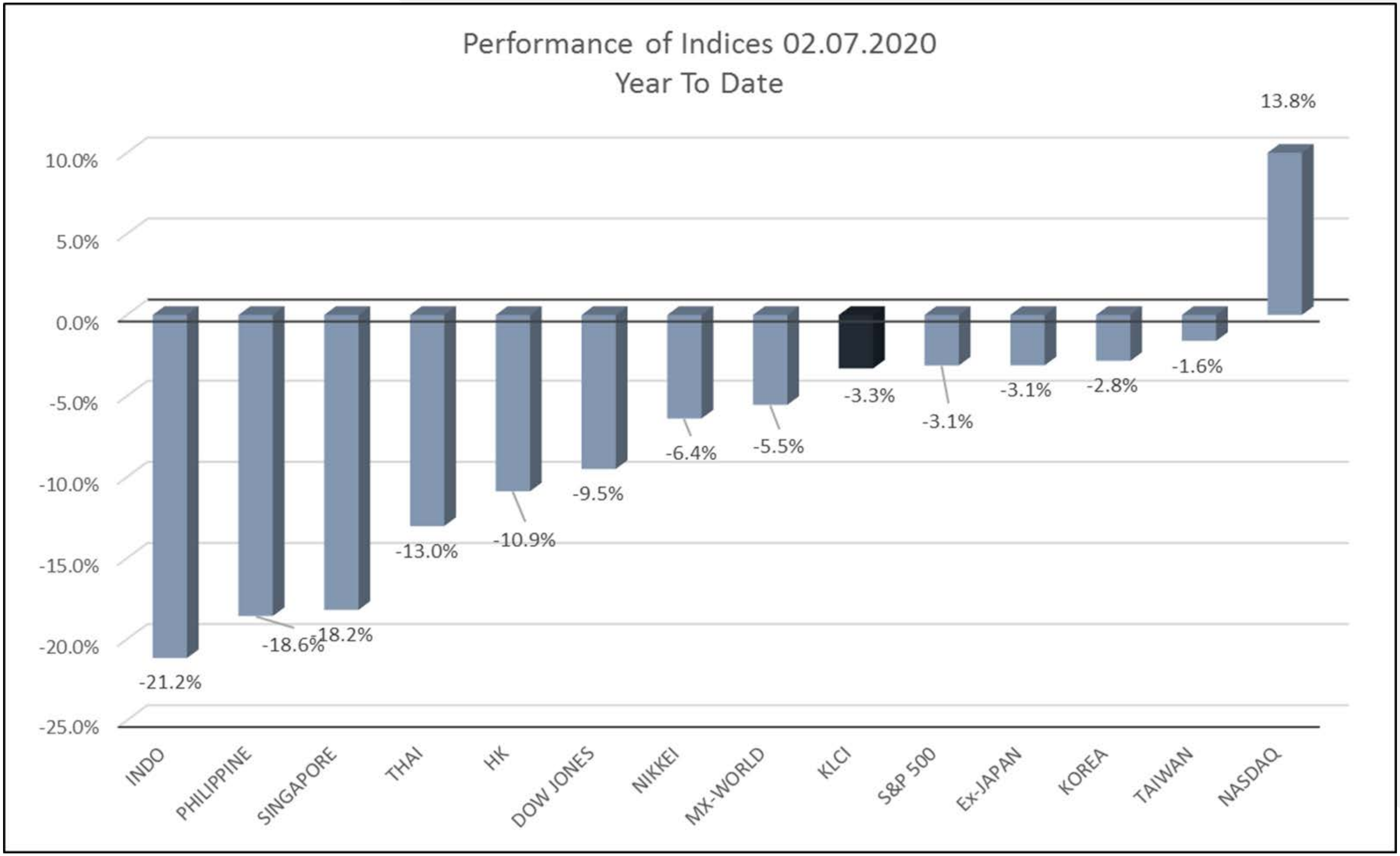
Exhibit 2: Sector Performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Food & Beverage Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index
Change YTD	-19.3%	-16.6%	-16.2%	-16.1%	-13.8%	-10.5%	-8.2%	-7.1%	-6.2%	-3.3%	-0.3%	3.2%	4.3%	117.2%

(Source: Bloomberg)

Exhibit 3: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. The Covid-19 situation continues to grip the markets. The continuation of the dire situation in the US, as evidenced by the rising newly confirmed cases, has dampened investor sentiment somewhat. Closer to home, after what seem to have been a successful containment for Australia, Melbourne's second lockdown has struck the chord too. The naysayers will panic at the rising cases of the asymptomatic and the dangers posed. Soothsayers can equally argue that this proved that the virus load is falling and the virus is no longer potent enough to fatally infect anymore even if it is still contagious. Time will show......

2. Nonetheless, as we shifts towards a phase of easing, whether its the lockdowns, Central Bank monetary policies, and Government fiscal supports, the likely trajectory is directionally upwards. The timing is of greater debate, whether its a V, U, W, or L. The markets will also very much focus on the upcoming second quarter earnings season; not as much for what we already know to be horrendous numbers, but more importantly, what managements can hopefully guide into the near future. Unfortunately, there will be many who will not be able to provide the clarity the market is looking for. Market may look for this excuse to profit-take.

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3. In this aspect, many Asian countries stand tall, having navigated this Covid-19 pandemic more successfully and coming out of the lockdowns earlier. However, the sustainability of economic recoveries will by no means be certain, with the developed world, particularly the US the largest economy and also the greatest source of uncertainty. We reiterate that if the global economy is to turn down once again, more easy monetary conditions and massive fiscal supports will kick-in. We live in an environment where we can no longer tolerate extreme crisis and much will be done to ensure any economic recovery will never be undermined.

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