Portfolio Managers' View

As at 14 July 2020

Fund Management Department

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Malaysia

1. The KLCI closed 1,599 @14.07.20. The stock market has increased by 1.7% since the end of the previous month. YTD-20, the KLCI has declined by -0.3%. The market's daily turnover has averaged RM 4.8 bil in July (vs RM 4.6 mil in June) as local retail participation remained very active.

2. Year-to-date, the worst performing sectors in the KLCI were construction (-19%), REITs (-16%) and Oil & Gas (-14%). The best performing sector was Healthcare (+150%). We estimate the healthcare sector contributed circa 20 percentage points to the KLCI's performance. In other words, if the healthcare sector was flat, the market would be down by approximately 20% this year.

3. The Parliament (14th) reconvened for the Third Term on 13 July 2020. The Parliament approved a motion to remove the Speaker Tan Sri Mohd Arriff Md Yusoff. A total of 111 MPs voted in favour of the motion while 109 MPs voted against. The voting showed that Perikatan Nasional's majority in Parliament is razor thin. The removal of a Speaker before the end of a Parliamentary term was an unprecedented event in Malaysia. We are underweight companies which rely on winning government contracts for their revenues.

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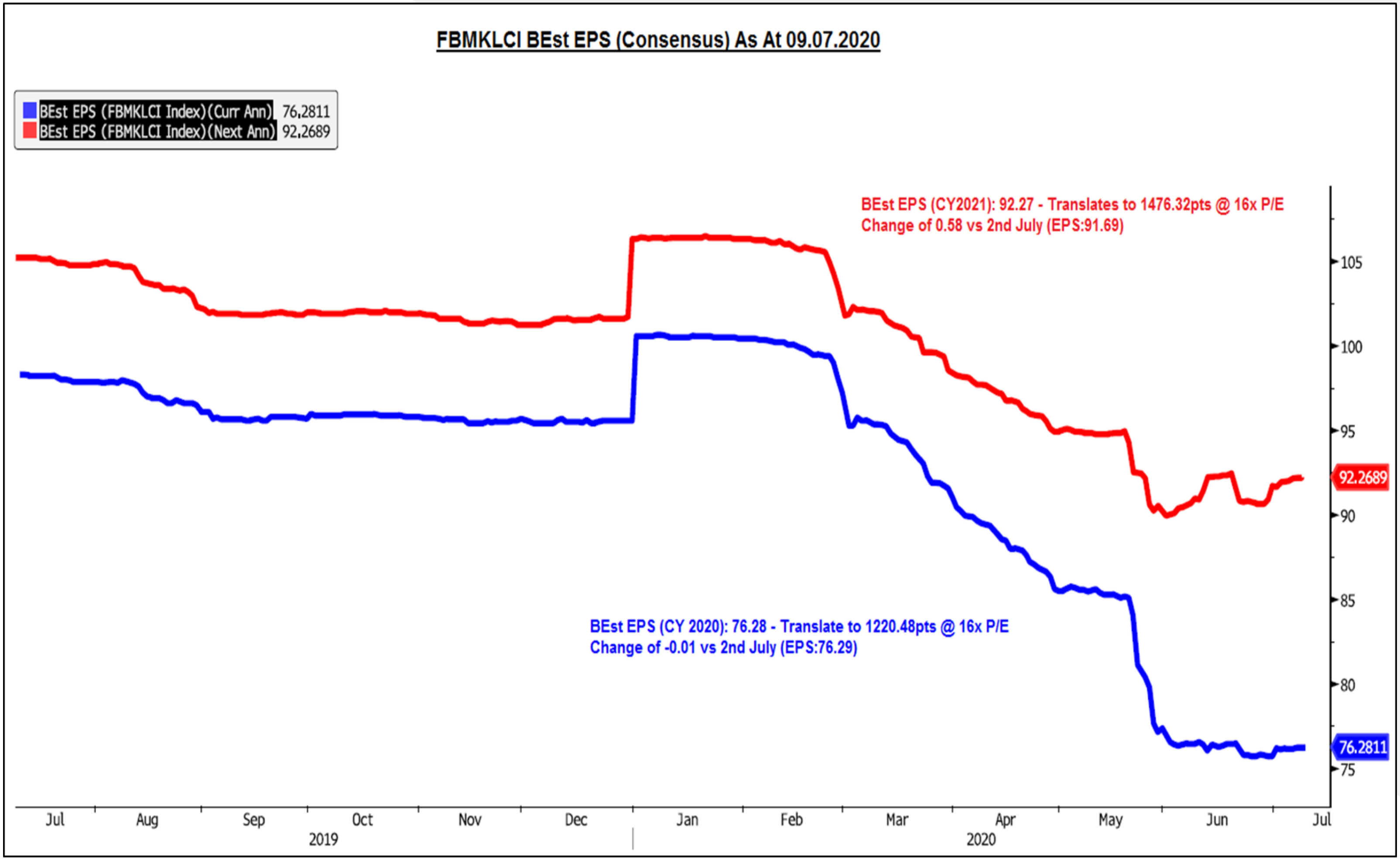
4. Our funds cash levels have declined due to new investments including a bigger Overweight position in the technology sector.

5. Consensus 2021 market eps has been cut by 13.4% from 106.5 sen @ end-Jan to 92.3 @ 09.7.2020. At 1,599 @ 14.07.2020, the market is trading at a PER of 21.1x/17.4x 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.

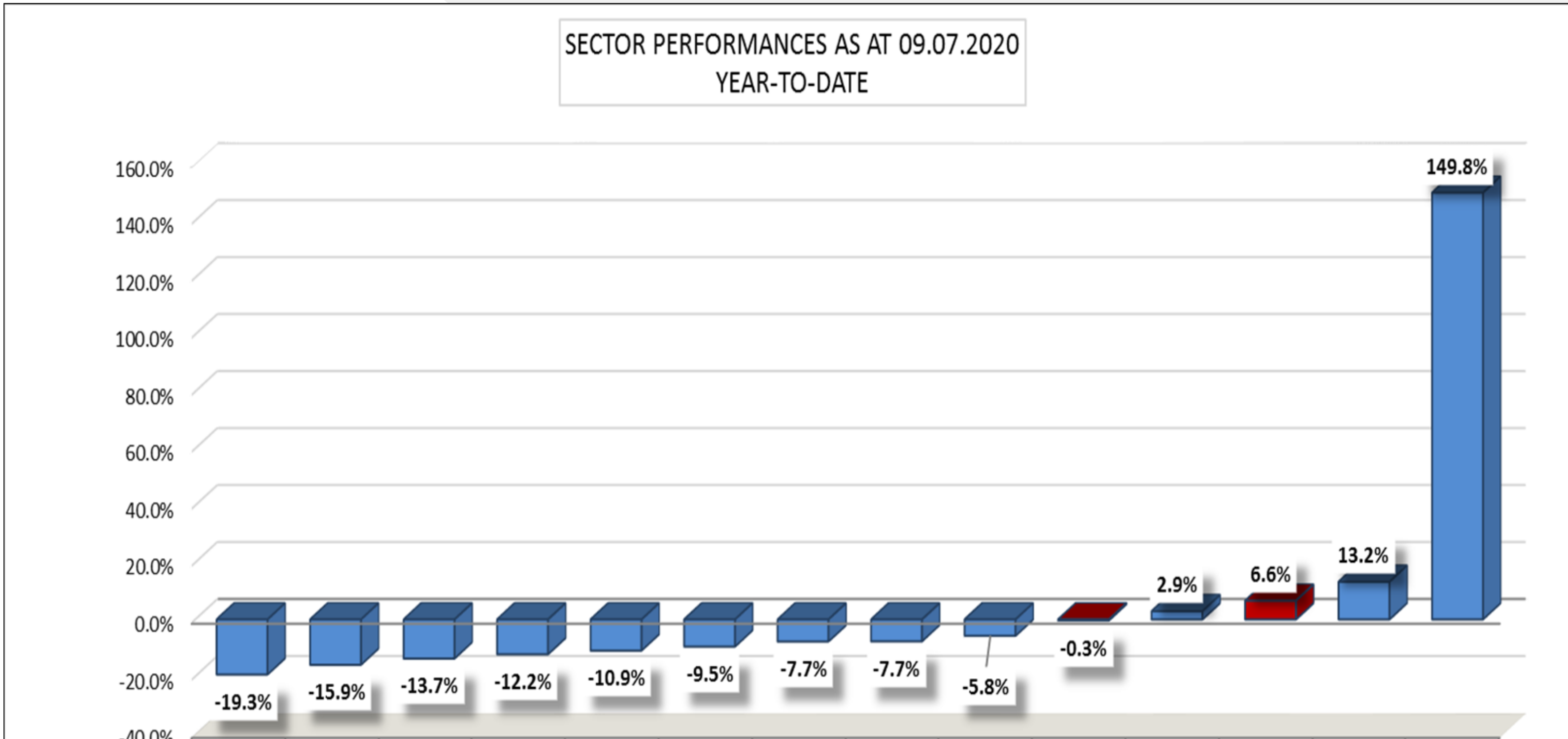
6. On a positive note, periods of quantitative easing have historically been supportive for markets including the Asian stock markets. The G4 Central Banks have injected unprecedented liquidity into their economies. Additionally, governments over the world have pursued record fiscal deficits to help their economies recover from the effects of the pandemic. These conditions are positive for asset reflation. We expect the record US fiscal deficit to put pressure on the USD. Weakness in USD is usually positive for Emerging Markets including Malaysia.

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



(Source: Bloomberg)

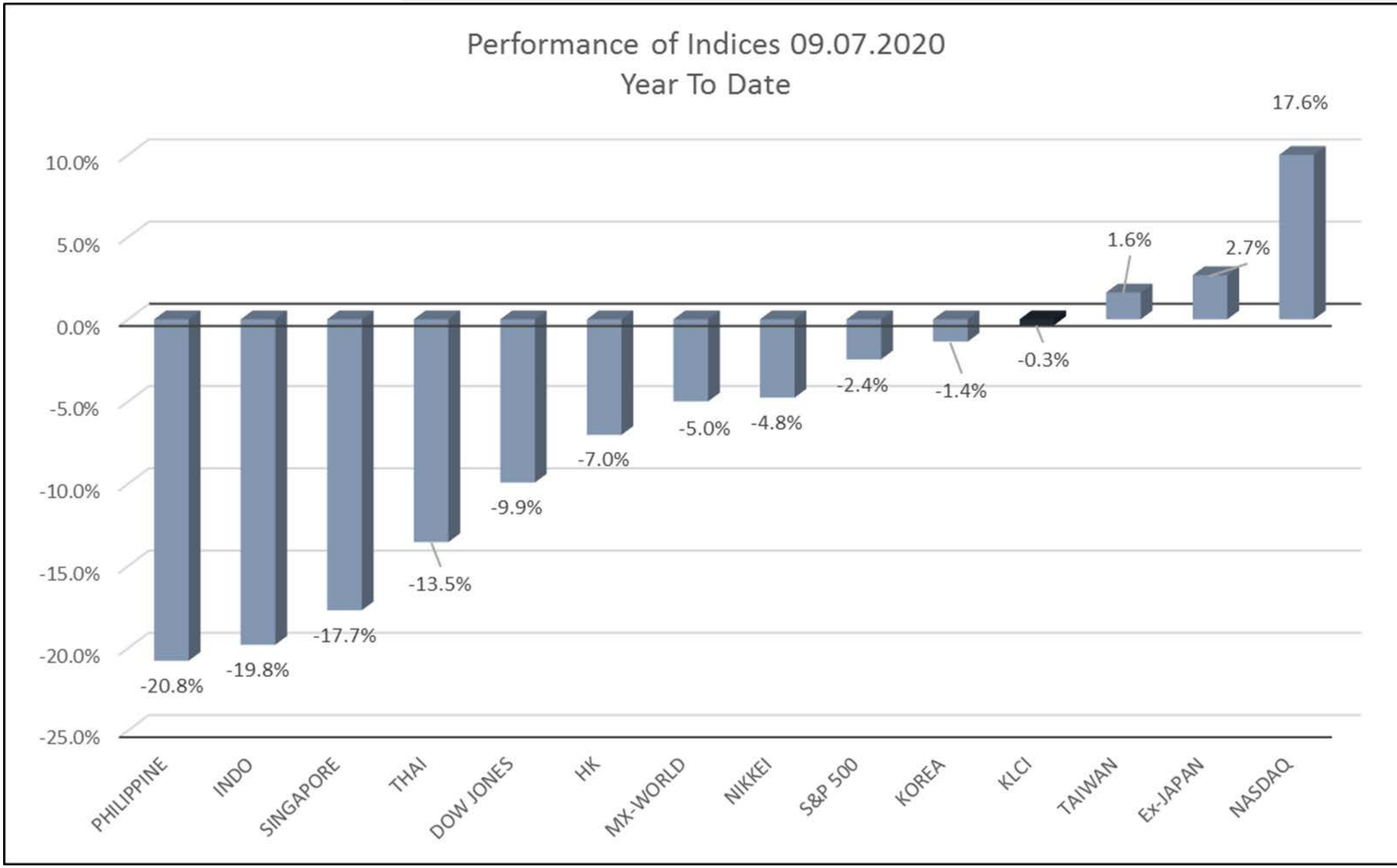
Exhibit 2: Sector Performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Banks 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%	-15.9%	-13.7%	-12.2%	-10.9%	-9.5%	-7.7%	-7.7%	-5.8%	-0.3%	2.9%	6.6%	13.2%	149.8%

(Source: Bloomberg)

Exhibit 3: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Equity markets are ripe for a dose of profit-taking. They are back to their pre Covid-19 levels. Participants chose to focus on what would justify their actions. The US, as well as others such as Australia and Hong Kong, are back into some form of movement restrictions. Dallas Federal Reserve President Robert Kaplan stoked the fear further that economic recovery will slow again with the resurgence of new Covid-19 cases. Robert Kaplan also said that at some point when markets heal, that it will be good for the Central Bank to pull back..... Investors don't need further excuse.

2. But take a step back. These two Kaplan comments are contradictory in nature. Explicit in his view of a deteriorating economic outlook is also one where he expects US unemployment to only fall from the current 11.1% to between 9% and 10% by the end of this year and to between 7% and 8% by the end of 2021. While the US Federal Reserve remains adverse to negative interest rates, then it is simply baffling to think that staying at zero bound interest rates will get the US economy back on track. In fact, our view is that there is a possibility that the US Federal Reserve may have to cut the Fed Fund Rate below zero to create employment.

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3. Under such circumstances, Kaplan's belief in an unaided market, free from Central Bank interference and manipulation, is not going to happen anytime soon. It is a Pandora Box, proven in past crisis episodes such as the Taper Tantrum, the Rmb devaluation, Brexit, and the more recent Quantitative Tightening, that cannot be closed. At least not when unemployment remains at 7% in 2021. How to withdraw liquidity......?

4. Our view remains unchanged. The worse the economic data-points, the more robust will the policy responses. The Covid-19 pandemic will eventually run its course, the question may be how long, but Central Bankers appear hell bent making sure they win the longer mandate. To be precise, the short-term effect of this excess liquidity staying beyond economic recovery will be a turbo-charger. We will need to sieve through the noises.

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