



Portfolio Managers' View

As at 11 August 2020

Fund Management Department

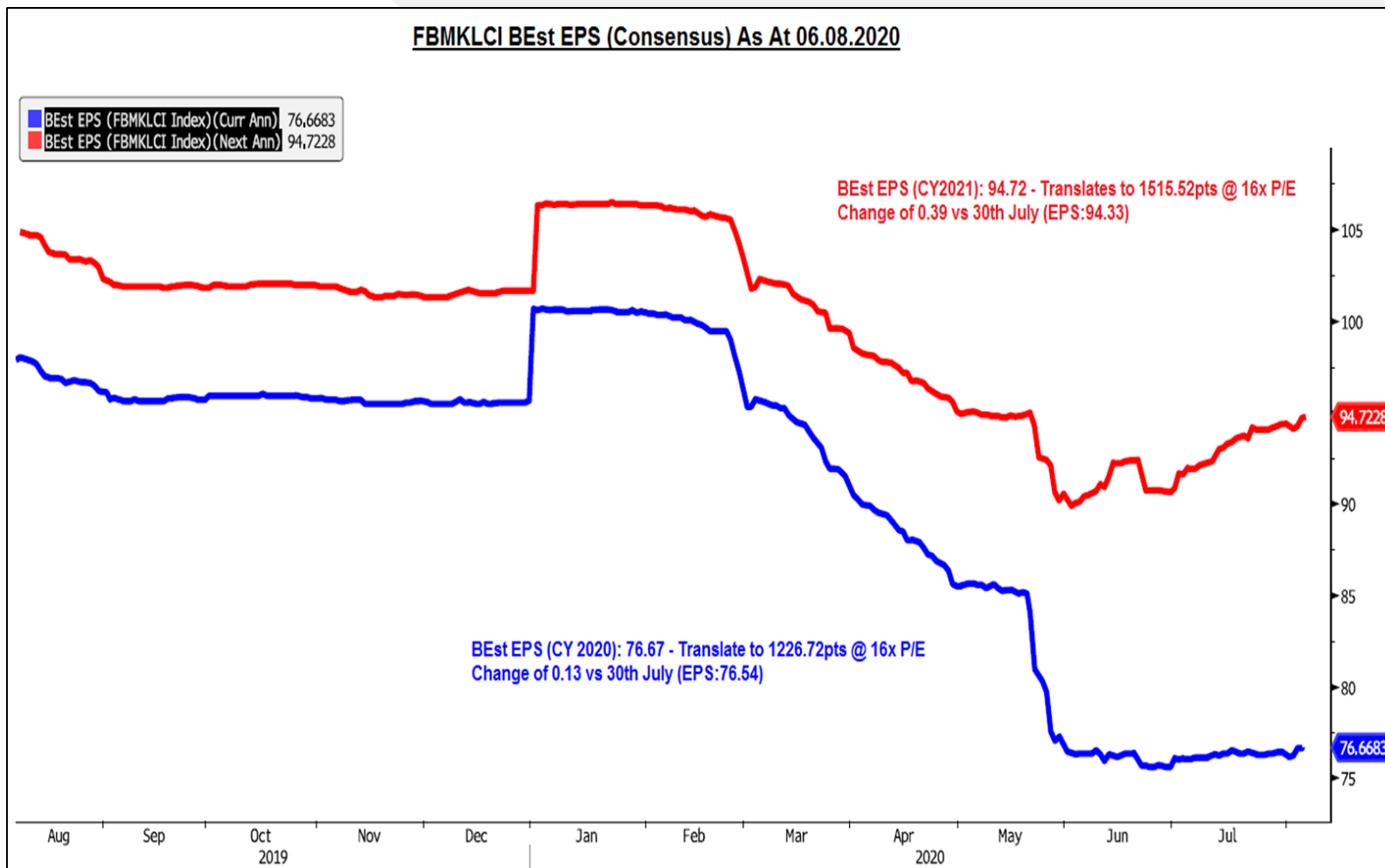
Malaysia

1. The KLCI closed at 1,565 @ 11.8.20. The stock market has risen by 1.4% since the end of the previous month. Last week, the technology (+10.9% WoW) and healthcare (+7.8% WoW) sectors outperformed. YTD-2020, the KLCI was unchanged.
2. Last week, former Prime Minister Tun Dr Mahathir announced that he will be forming a new political party. The organisation will not align with either Pakatan Harapan or Perikatan Nasional. The political situation in Malaysia remains fluid. We are underweight companies which rely on winning government contracts for their revenues.
3. Malaysia is expected to release its 2Q gross domestic product (GDP) number on 14.8.20 Friday. 16 economists polled by Bloomberg forecast a mean estimate of 9.5% YoY *contraction* in 2Q GDP. The 2Q GDP will reflect the full impact from the Movement Control Order (MCO).
4. The government sought to raise the country's debt limit from 55% to 60% of GDP. The Finance Minister stated in Parliament on 6 August 2020 that the country's debt and liabilities stood at RM 1.264 trillion as at end-June 2020. Of this, the Federal government debt was RM 823.8 bil (53.2% of GDP) while government guarantees was RM 166.9 bil. This implies other debt and liabilities of RM 273.3 bil (we believe the latter includes debt under 1MDB of RM 32.2 bil).

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5. Bursa's average daily turnover (ADTV) has remained robust. As at 7 August 2020, the month-to-date ADTV was RM 8.88 bil vs July's RM 5.47 bil (2Q: RM 3.76 bil). A reversal of retail interest may trigger a correction for Bursa.
6. The Finance Minister said that the moratorium on loan repayments which came into effect on 1 April 2020 is estimated to be worth RM 66.6 bil as of 31 July 2020. This is clearly a source of liquidity for Bursa's retailers.
7. Consensus 2021 market eps has been cut by 11.6% from 106.5 sen @ end-Jan to 95 sen @ 06.8.2020. At 1,565 @ 11.8.20, the market is trading at a PER of 21x/17x for CY20/CY21. This is **not cheap vis-a-vis** the KLCI's 12M mean PER of ~16x. We believe the upcoming 2Q (June) reporting season will result in further downward pressure on earnings expectations.

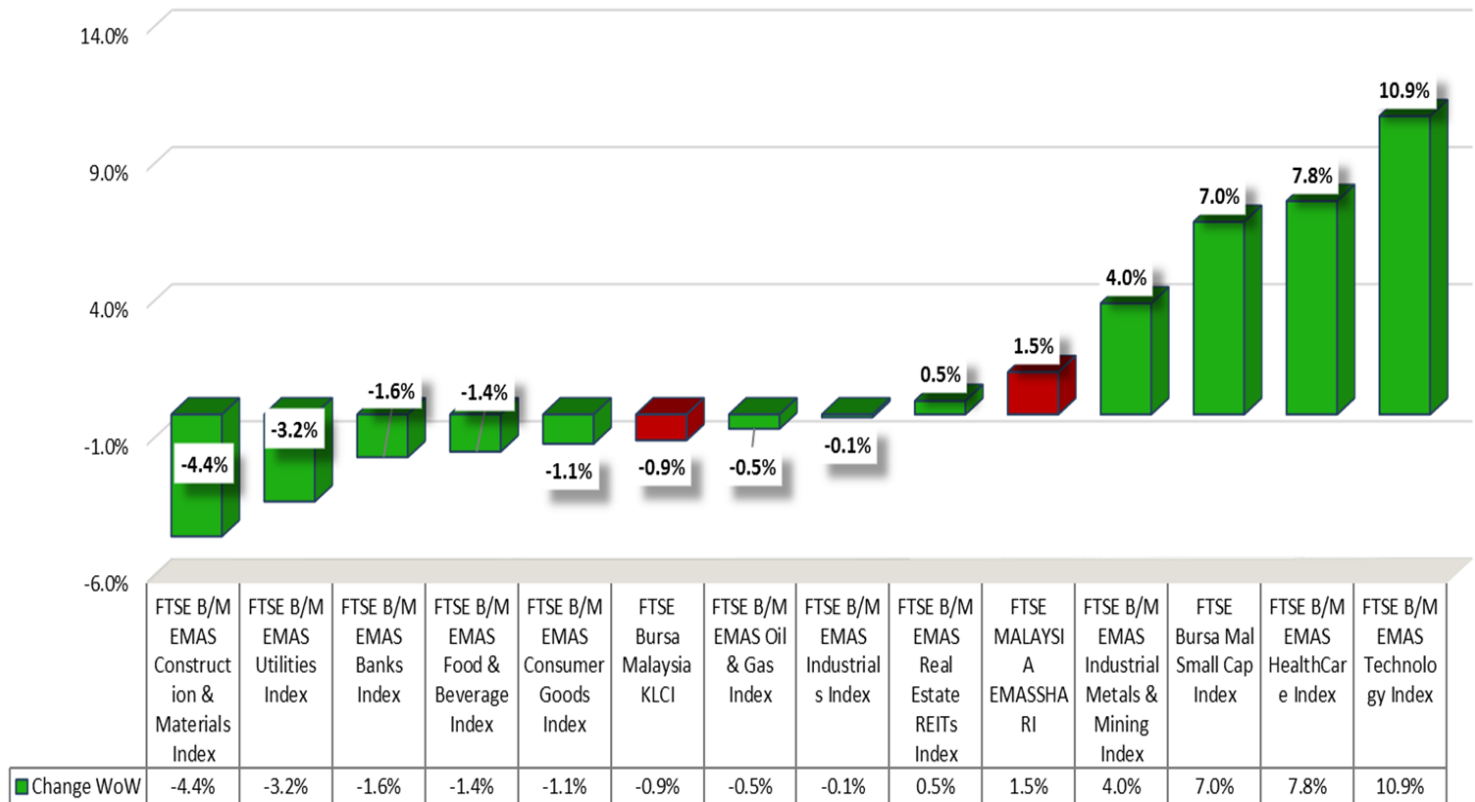
Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

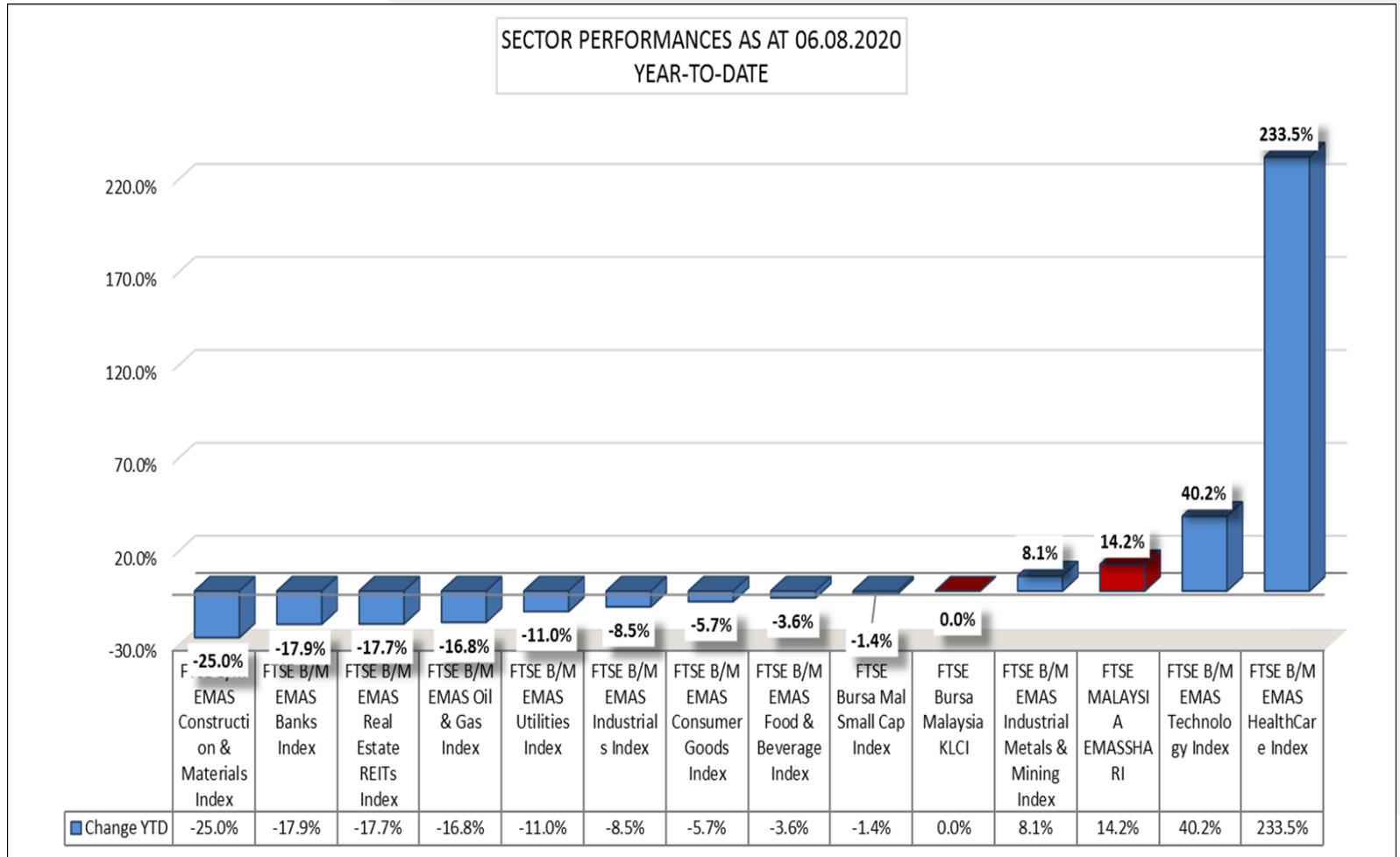
Exhibit 2: Sector Performances (Week-on-Week)

SECTOR PERFORMANCES AS AT 06.08.2020
WEEK-ON-WEEK



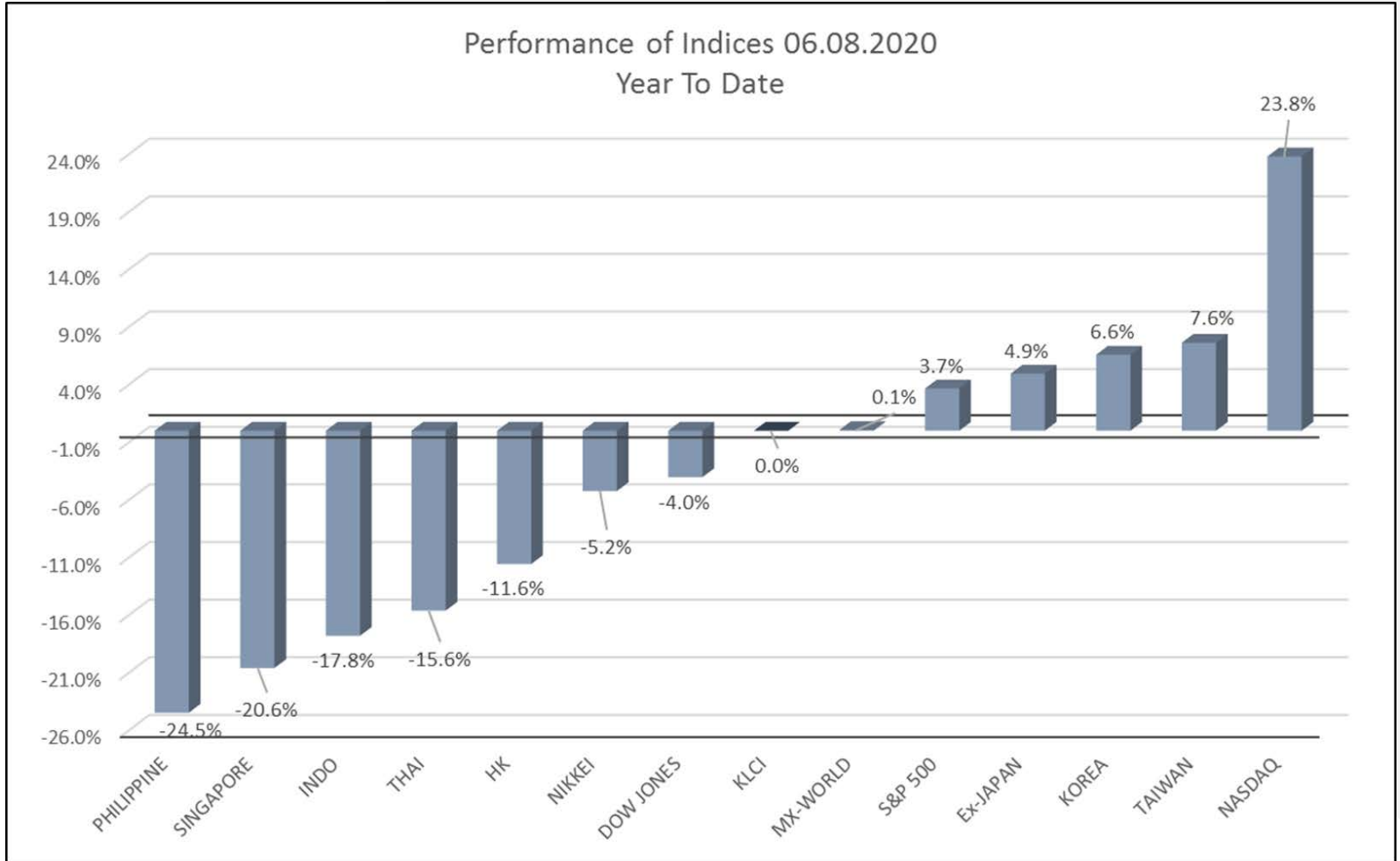
(Source: Bloomberg)

Exhibit 3: Sector Performances (Year-to-Date)



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Two important developments took place last week.
2. In the midst of the largest and most rapid expansion of the US Federal Reserve's Balance Sheet in history, US Federal Reserve Chairman Jerome Powell pointed to the passive normalisation of the size of the balance sheet from 2014-2017 as a guide for this most recent experiment. It means that the normalisation of the balance sheet will come from the growth of the real economy rather than a shrinkage of the balance sheet. It means that either the balance sheet will plateau at the current US\$7trn or even northwards of US\$7trn.
3. With another huge fiscal support package looming, it is inevitable that the US Treasury will be due to scale even higher highs in debt issuance. The US Treasury will also skew its issuance to longer-term maturities. The backstop is the US Federal Reserve. I ask how can the US Federal Reserve Balance Sheet remain static? And by the maturity profile of the debt issuance, the US Treasury has also imposed yield curve control over the US Federal Reserve. Interest rates will remain low for a very long time. TINA (There is no alternative) is where we stand looking into the future.

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4. Covid-19 will at some time pass us, perhaps not in its demise but definitely in terms of its severity and impact. However, liquidity will be here to stay. But how much will bank deposits earn? Even US Treasuries yield are threatening the zero bound. The Asian equity environment offers a light when one is prepared to see beyond the short-term.

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