



Portfolio Managers' View

As at 18 August 2020

Fund Management Department

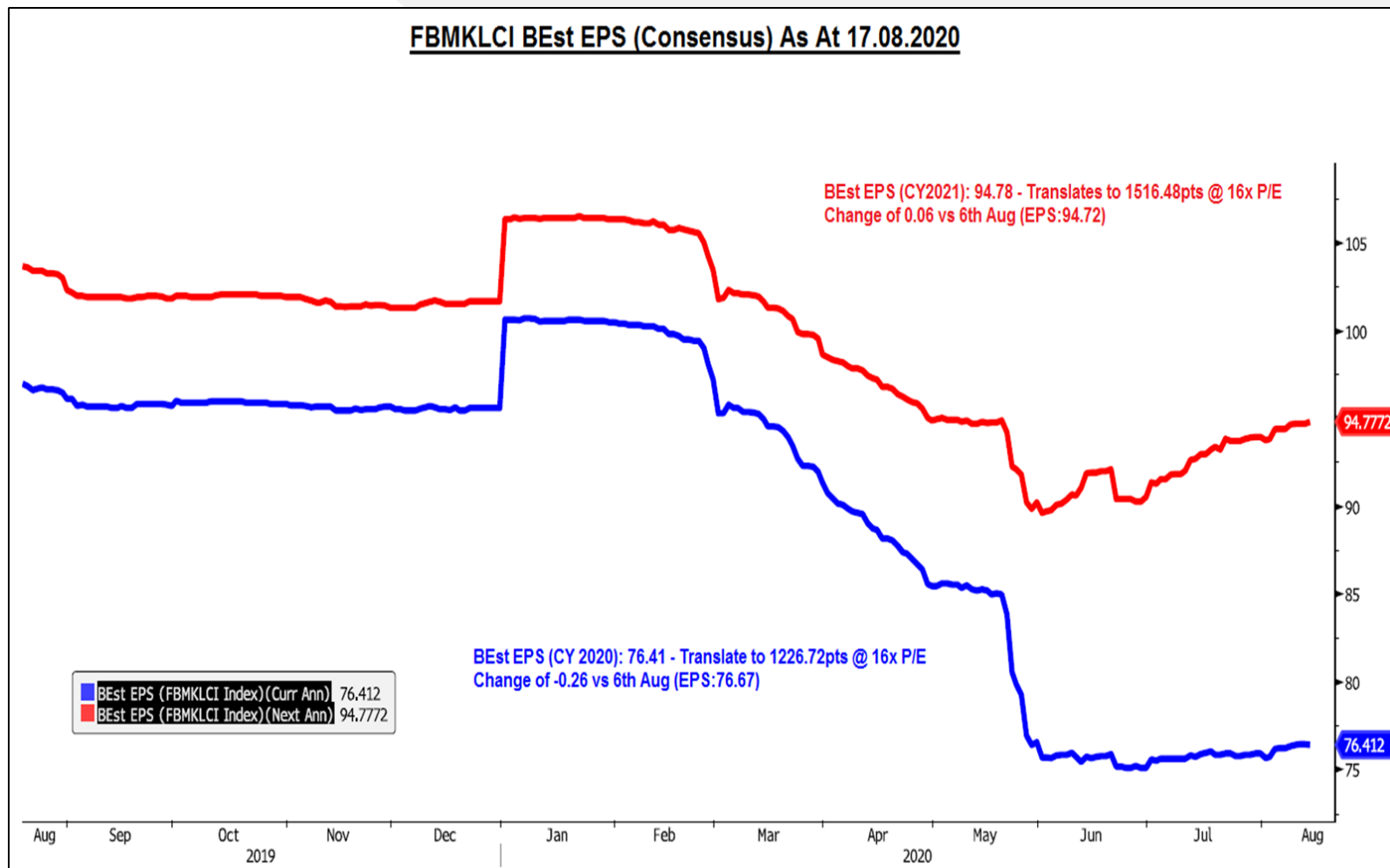
Malaysia

1. The KLCI closed at 1,568 @ 18.8.20. The stock market has risen by 1.4% since the end of the previous month. Last week, the technology (-5.3% WoW) and healthcare (-15.5% WoW) were the worst performing sectors. YTD-2020, the KLCI has declined by 1.5%.
2. Malaysia's 2Q Gross Domestic Product (GDP) contracted by -17.1% YoY. This was the steepest fall since the Asia Financial Crisis in 1998 (GDP -11% YoY). Malaysia GDP contraction was the worst among its regional peers eg. Singapore (-13.2% YoY), Philippines (-16.5% YoY), Indonesia (-5.3% YoY) and Thailand (-12.2% YoY). This was because Malaysia was one of the earliest countries to impose a strict lock-down of the economy. The output loss during the Mandatory Control Order period was estimated at RM 900 mil to RM 1.4 bil a day.
3. Post 2Q GDP release, Bank Negara cut its forecast GDP growth to -3.5% to -5.5% for 2020 (vs 0.5% to -2.0% in April). Separately, the inflation rate (CPI) in July declined 1.3% YoY. In our view, there is a high probability of another interest rate cut when Bank Negara's Policy Committee meets in September.

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4. Bank Negara Governor Datuk Nor Shamsiah mentioned that the worst is behind us. She highlighted several key indicators that point towards a V-shaped recovery after the trough in Apr-20. (i) Industrial Production Index in June was 114.8 points vs 76.5 points in April, (ii) Retail Trade Index improved to 121.7 points in June vs 74.6 points in April, and (iii) credit card spending rebounded to RM 10.7bil in June vs RM 6.5bil in April.
5. Consensus 2021 market eps has been cut by 10.8% from 106.5 sen @ end-Jan to 95 sen @ 17.8.2020. At 1,568 @ 18.8.20, 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.

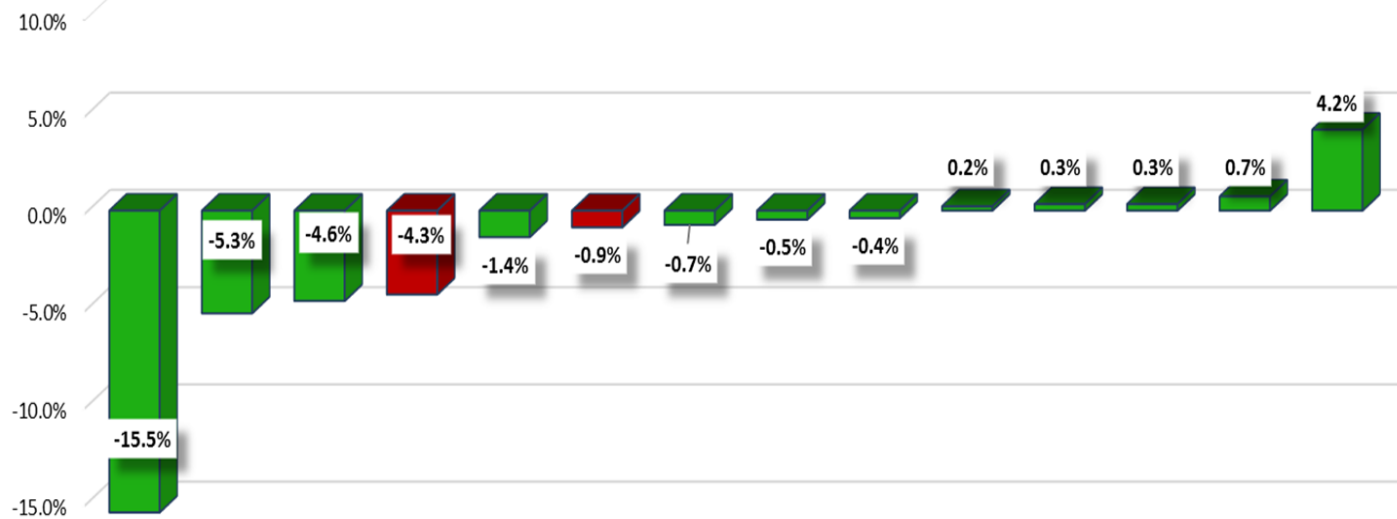
Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

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

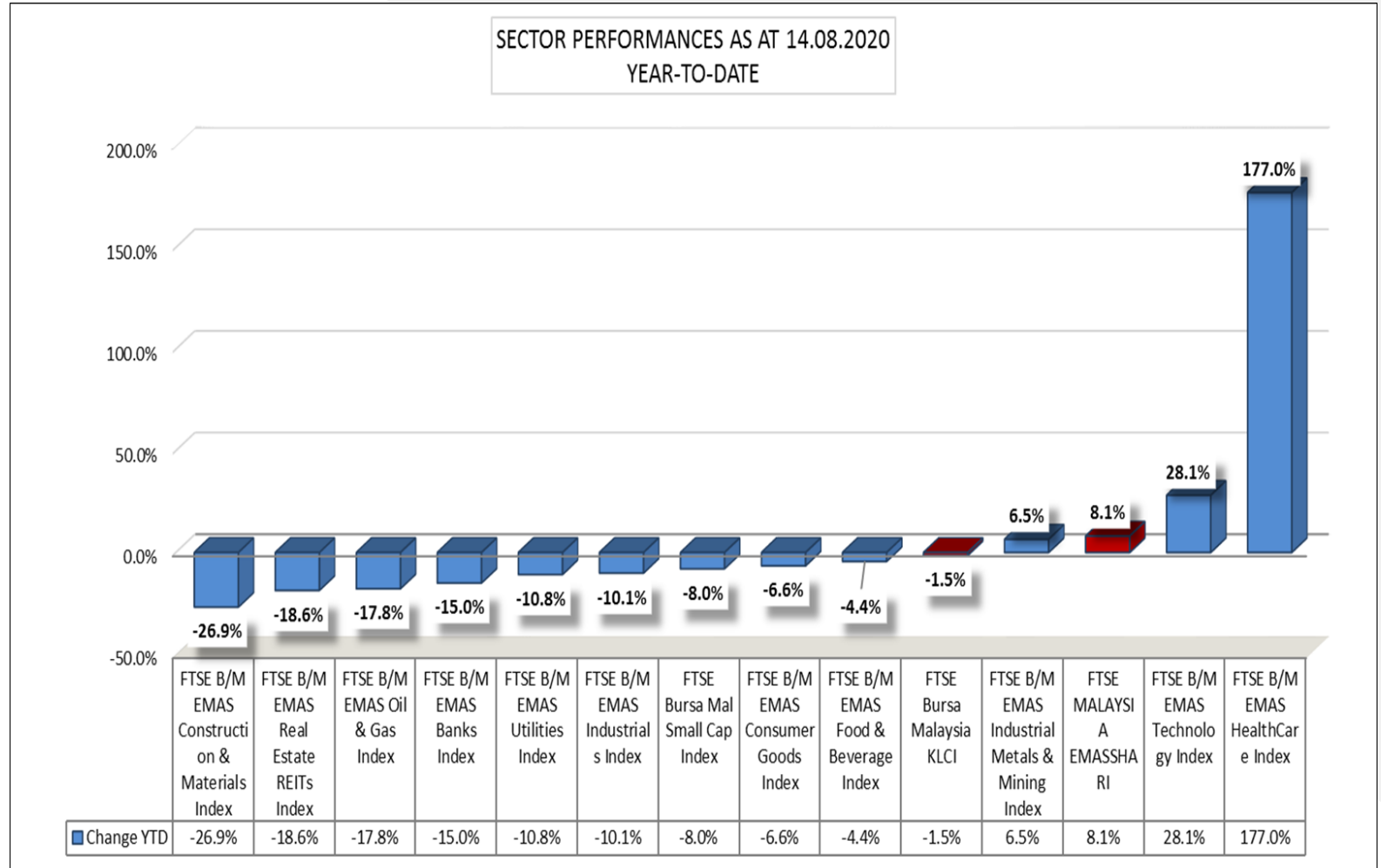
SECTOR PERFORMANCES AS AT 14.08.2020
WEEK-ON-WEEK



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Technology Index	FTSE Bursa Mal Small Cap Index	FTSE MALAYSI A EMAS SHA RI	FTSE B/M EMAS Construction & Materials Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Banks Index
Change WoW	-15.5%	-5.3%	-4.6%	-4.3%	-1.4%	-0.9%	-0.7%	-0.5%	-0.4%	0.2%	0.3%	0.3%	0.7%	4.2%

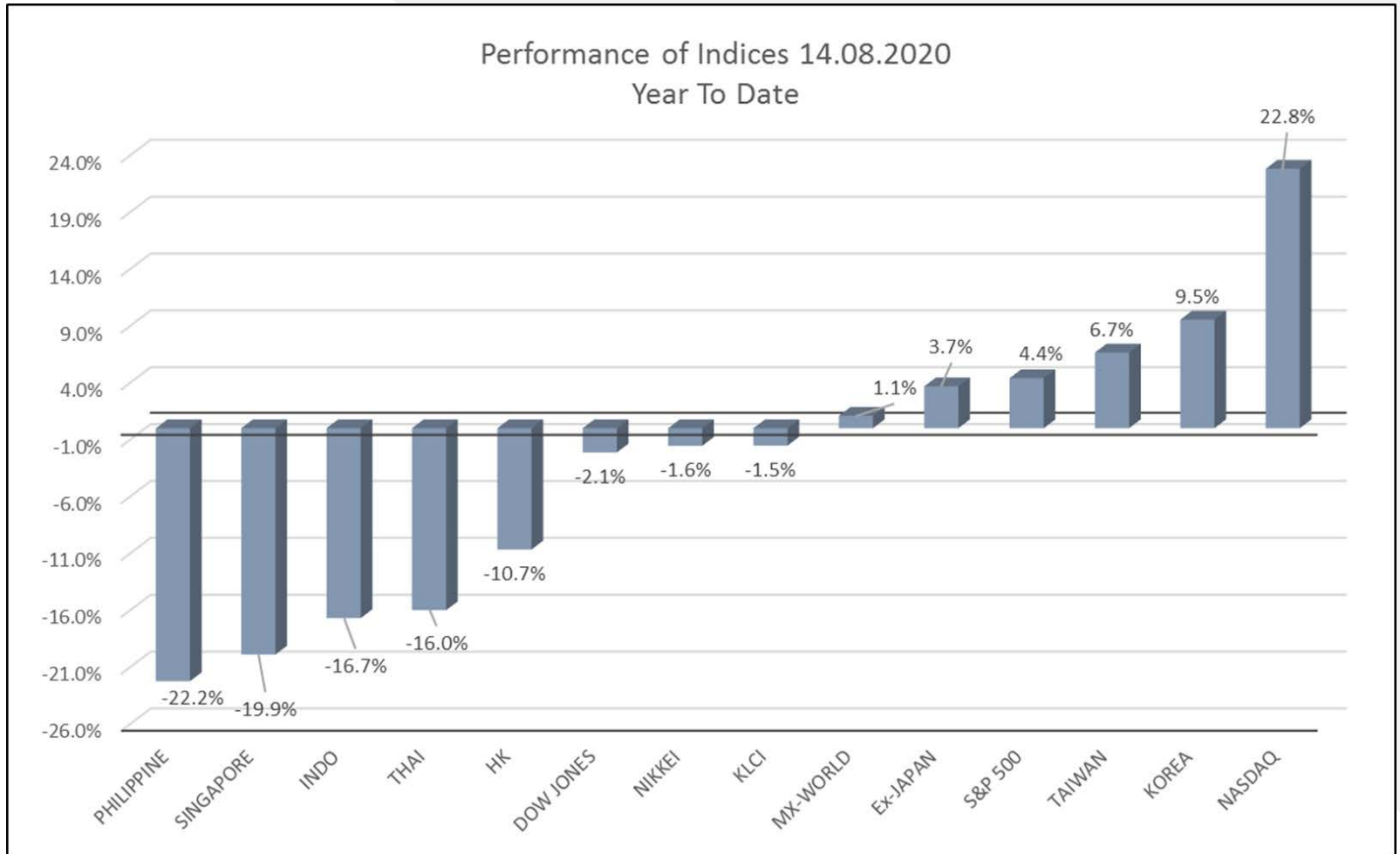
(Source: Bloomberg)

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



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. Asian equity markets woke up to another American nuclear bomb unleashed on them. Nothing new though, like a broken recorder. The US will expand the limitation Huawei's access to any technology of American technology without a special license. It may well be that special exemptions will be granted later, fingers crossed. The warfare is now largely conducted on the technology supremacy front. China is likely to retaliate, even if this is seen to be an asymmetrical war. Equity markets may not take this well.
2. Our view is that despite the non-fulfillment of the US-China Phase One trade deal, particularly on China's part to purchase a certain quantity of American products, trade has not been on President Trump's radar. In fact, President Trump claimed that it is 'progressing well', a measure of which only he truly understand. Recent history of US equity market fall-outs as a result of escalating trade tension has probably told President Trump this will be an ill-advised move running up to the November Presidential Elections. At the least, we can breathe easy that President Trump's tantrums will still hit certain sectors but not the broad economy.

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3. Today, the Korean equity market got spooked at a new breakout of a church cluster in Seoul. We still believe that Covid-19 will at some time pass us, perhaps not in its demise but definitely in terms of its severity and impact.

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