



Portfolio Managers' View

As at 25 August 2020

Fund Management Department

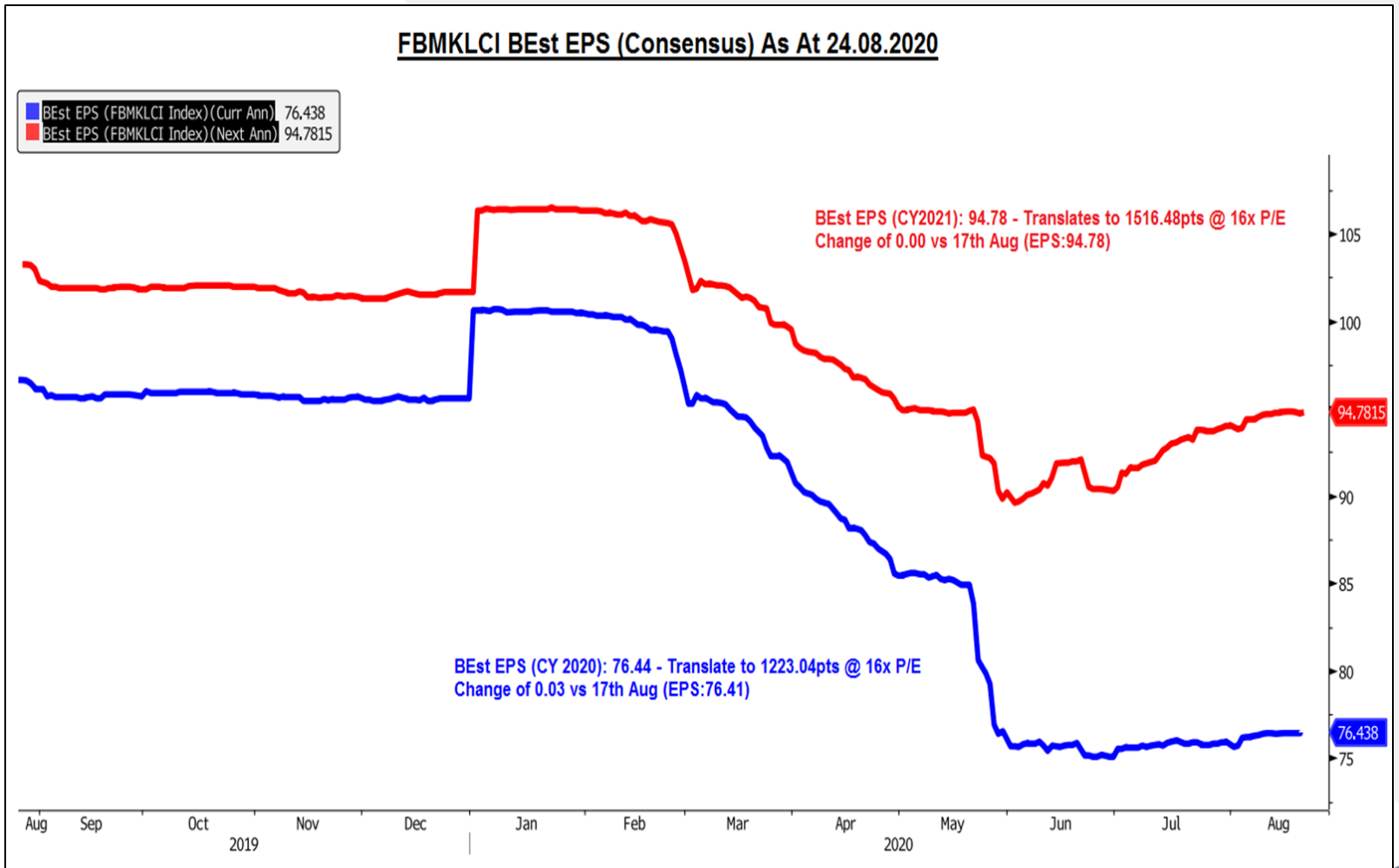
Malaysia

1. The KLCI closed at 1,555 @ 25.8.20. The stock market has declined by 0.6% since the end of July. YTD-2020, the KLCI has declined by 0.7%. Bursa's daily turnover by value increased further in August while retailers continued to be very active.
2. Parliament approved an increase in the Federal government debt ceiling from 55% to 60%. This is to accommodate the spending for the stimulus measures as a result of the Covid-19 pandemic. Malaysia last raised its debt ceiling in July 2009 during the Global Financial Crisis (GFC) when the debt limit was raised from 45% to 55% of GDP. Higher indebtedness and the possibility of a wider fiscal deficit is a risk for the Ringgit.
3. According to the Finance Minister Tengku Dato' Sri Zafrul the value of loans under moratorium since 1 April 2020 has risen to RM 70.5 bil as at 7 Aug 2020. Anecdotally, the loan moratorium has been a channel of liquidity for the stock market. The end of the moratorium period at the end of September may trigger an outflow of retail liquidity.

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4. Malaysia's Consumer Price Index contracted by 1.3% YoY in July vs -1.9% YoY June. This was the fifth consecutive month of negative inflation. With *real* interest rates at approximately 3%, we believe Bank Negara will cut rates further during its Monetary Policy Committee meeting in September.
5. Foreigners continued to be net sellers of Malaysia equities. For the week ended 21 Aug 2020, foreigners net sold RM 344 mil of equities. The net selling trend has continued for 23rd consecutive weeks. The YTD net sell @ 14.8.2020 was RM 19.5 bil. This was significantly higher than the net sell of RM11.1 bil for 2019.
6. Consensus 2021 market eps has been cut by 10.9% from 106.5 sen @ end-Jan to 94.8 sen @ 24.8.2020. At 1,555 @ 25.8.20, 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.

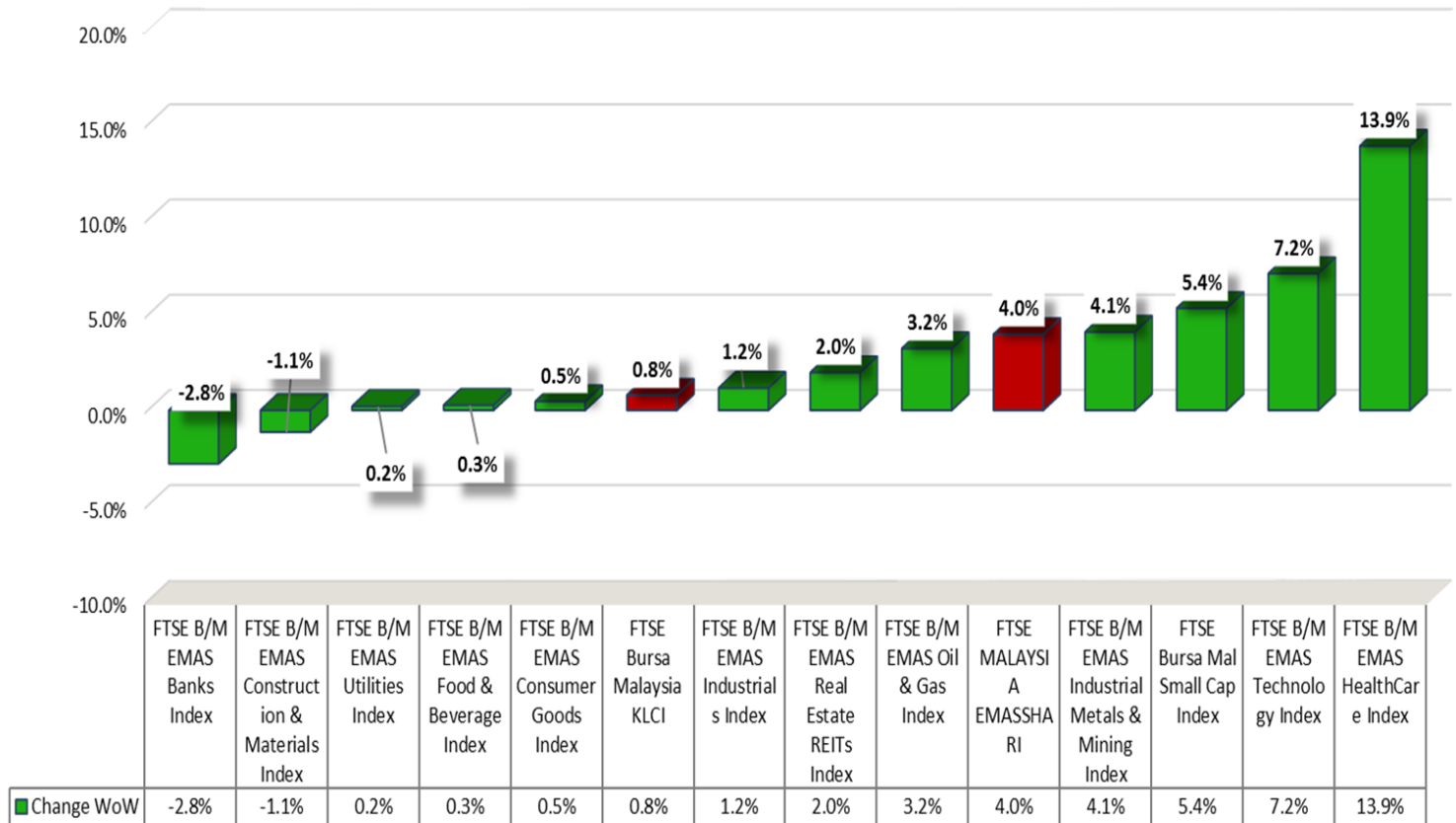
Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS).



(Source: Bloomberg)

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

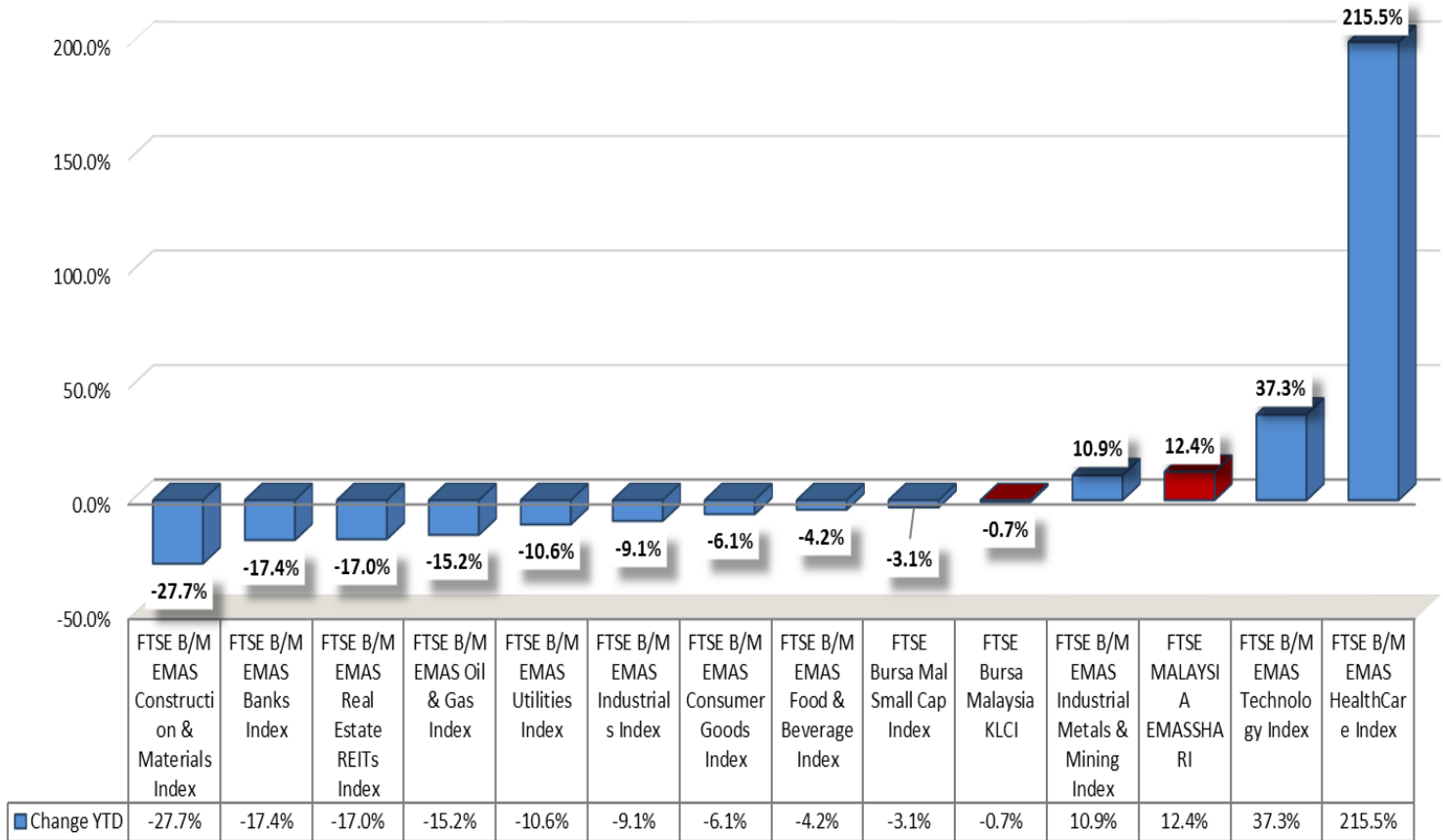
SECTOR PERFORMANCES AS AT 21.08.2020
WEEK-ON-WEEK



(Source: Bloomberg)

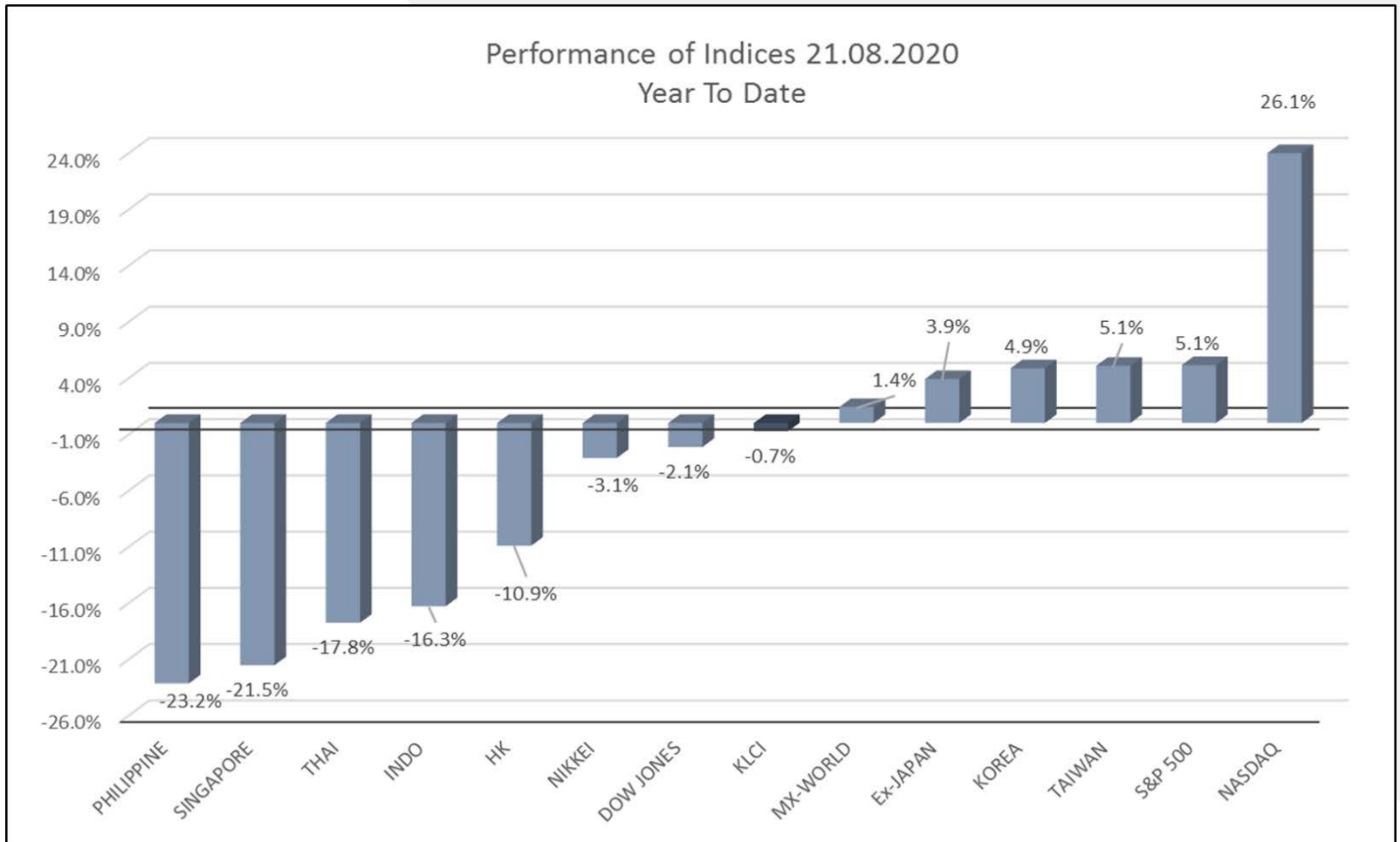
Exhibit 3: Sector Performances (Year-to-Date)

SECTOR PERFORMANCES AS AT 21.08.2020
YEAR-TO-DATE



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. This week, much attention will be focused on US Federal Reserve Chairman Jerome Powell's speech at Jackson Hole. Market was disappointed when the minutes of the latest US Federal Reserve FOMC Meeting in July did not yield the results expected. How will market react if Jackson Hole does not reveal what's been planned for the September FOMC meeting? Expect some volatility.
2. This week, we also have two pieces of reassuring news. Firstly, the Trump Administration has reached out to reassure US companies that they can do business with Tencent's WeChat messaging app in China, realising the possible negative repercussions also for US corporates in the situation of a total ban. Secondly, it appears that the US China Phase One trade deal is still on track with both sides reaffirming their commitment. In short, despite the rivalry, the two largest economies of the world are too intertwined, for an all-out war that will hurt not just the two sides but the entire world.

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3. This week, it has also been encouraging to see new confirmed cases of both Korea and Hong Kong receding. In the case of Korea, tightening measures are still in place to ensure a smooth transition out of its second outbreak. Whereas, Hong Kong has started to ease some restrictions. A better understanding and quick response are helping to ensure that the second outbreaks we have seen are manageable and do not pose the same threats as before.
4. We remain constructive on Asian equity markets.

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