Portfolio Managers' View

As at 28 July 2020

Fund Management Department

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Malaysia

1. The KLCI closed at 1,609 @ 28.7.2020. The stock market has risen by 6.3% since the end of the previous month. YTD-20, the KLCI has risen by a modest 1.1%.

2. For the week ended 24.7.2020, the best performing sectors were healthcare (+20%), small caps (+4.3%) and technology (+3.9%).

3. Year-to-date, the best performing sector was Healthcare at +193%. The healthcare sector has a weighting of approximately 13.3% in the KLCI. This implies that the healthcare sector contributed circa +25% percentage points to the KLCI's performance. As at market close on 28.7.2020, the two of the top 3 companies by market capitalisation on Bursa were glove companies (Top Glove and Hartalega).

4. Foreigners continued to be net sellers of Malaysia equities. Month-to-date as @ 24.7.2020, foreigners net sold RM 2.3 bil of equities. The net selling trend has continued for 23 consecutive weeks. The YTD net sell was RM 18.6 bil. This was significantly higher than the net sell of RM 11.1 bil for 2019.

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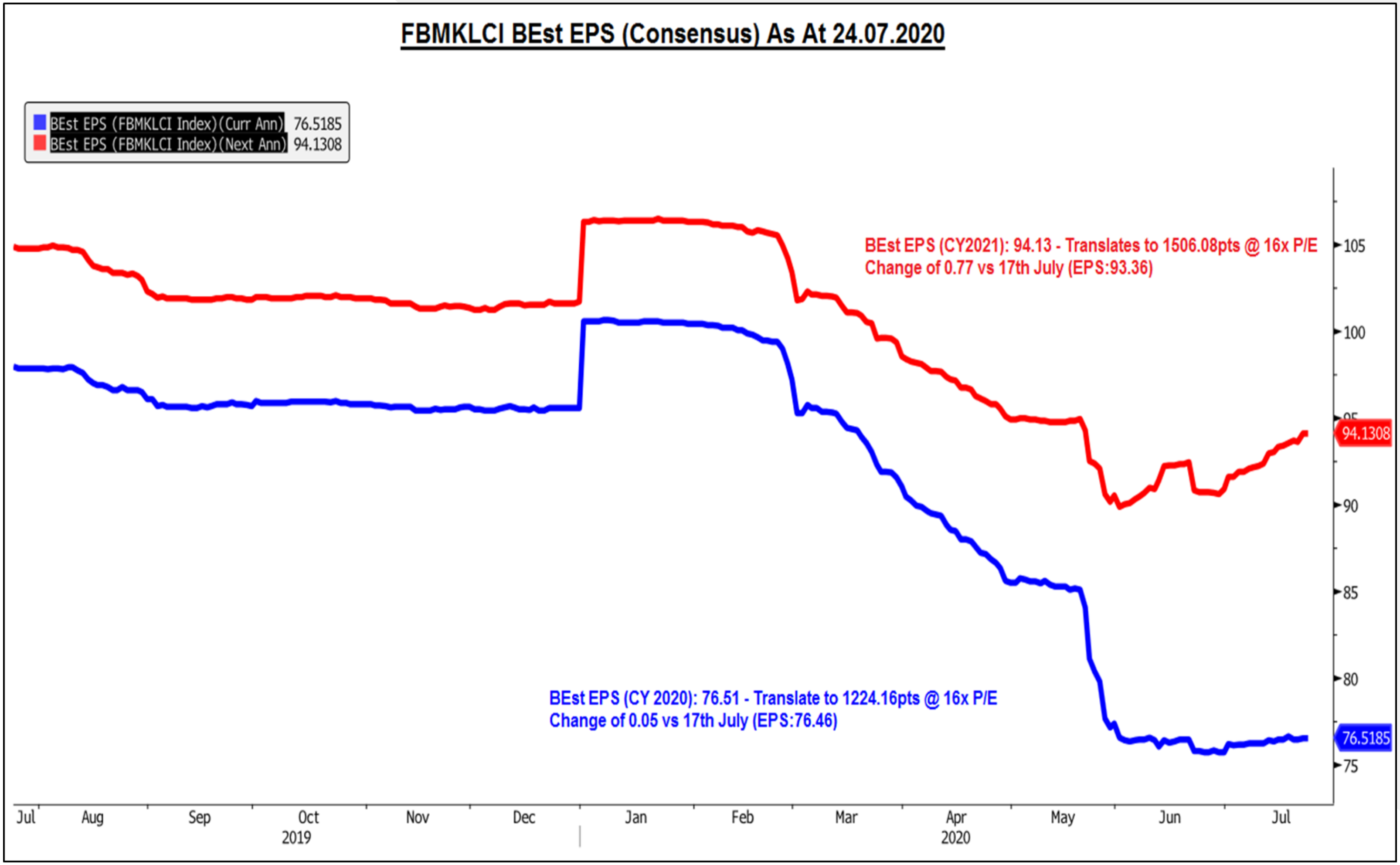
5. In a landmark trial, former PM Datuk Seri Najib Razak was found guilty of all 7 charges of criminal breach of trust, money laundering and abuse of power in relation to RM 42 million belonging to SRC International.

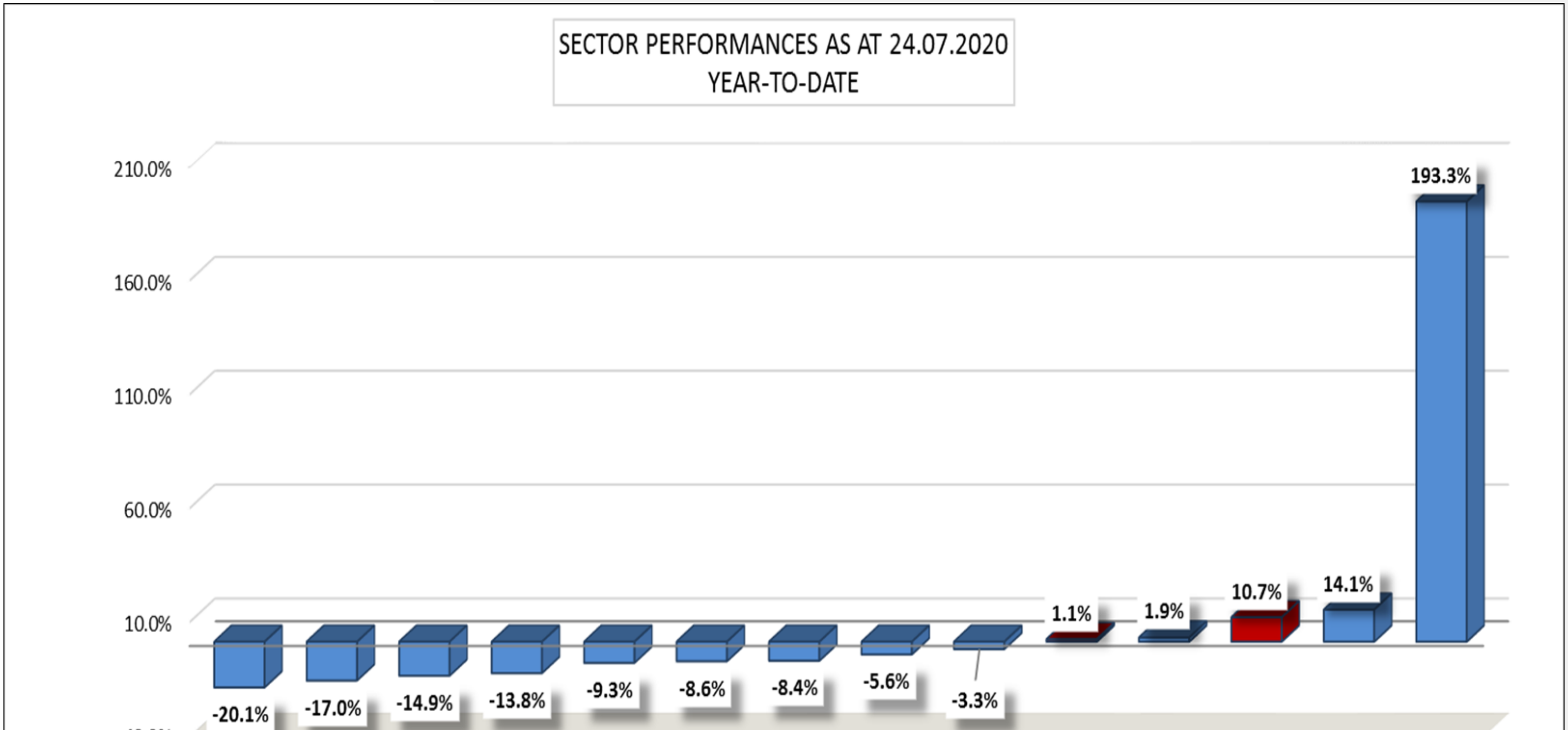
6. Consensus 2021 market eps has been cut by 11.6% from 106.5 sen @ end-Jan to 94 sen @ 24.7.2020. However, we have seen a pick-up in 2021 earnings estimate recently due to upgrades for the glove makers and Genting Malaysia (see Figure 1). At 1,609 @ 28.07.2020, the market is trading at a PER of 21x/17x for CY20/CY21. This is **not cheap vis-a-vis** the KLCI's 12M mean PER of ~16x. We believe the earnings revision trend has not yet bottomed.

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



(Source: Bloomberg)

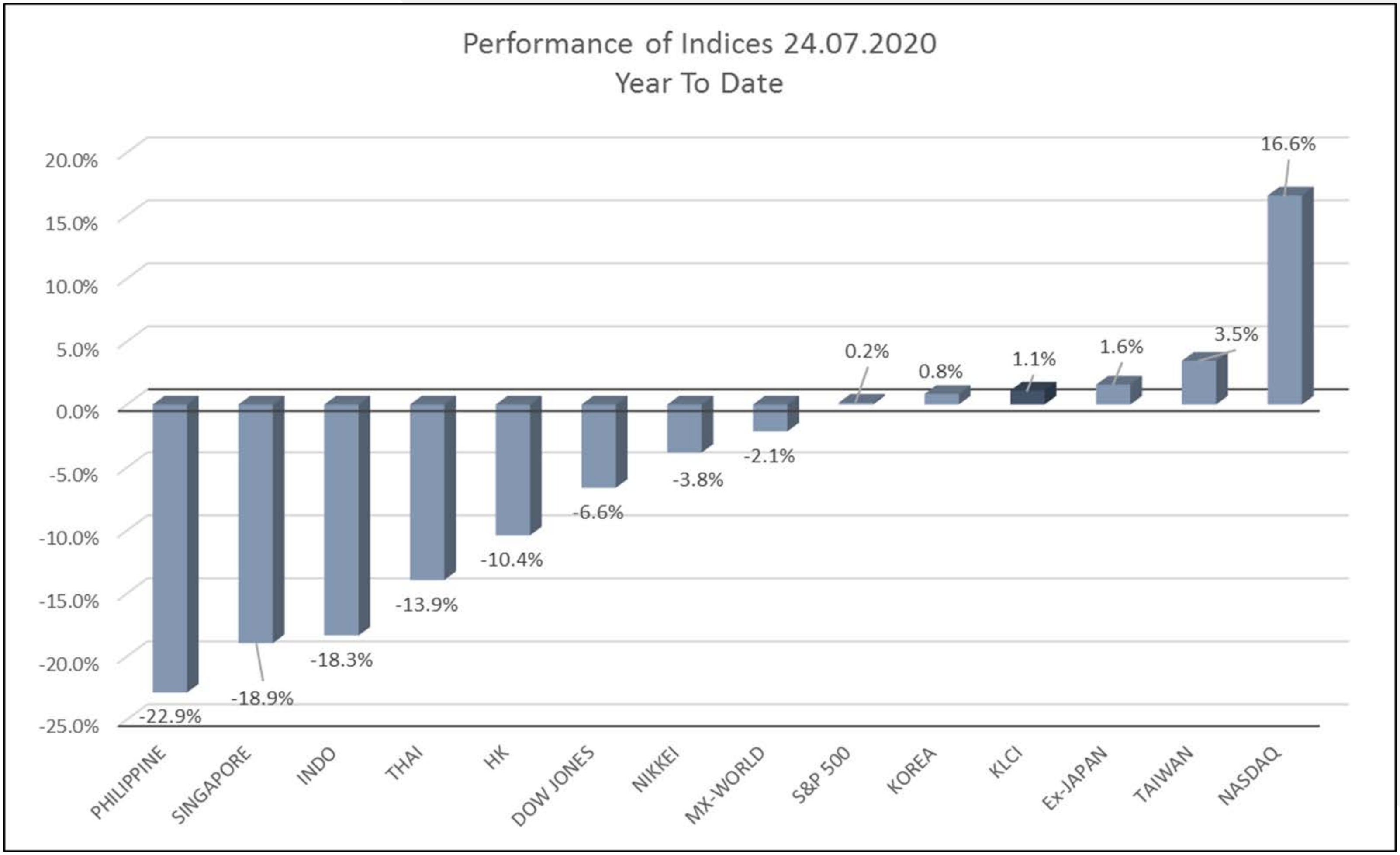
Exhibit 2: Sector Performances (Year-to-Date)



	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 B/M EMAS Utilities Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods 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	-20.1%	-17.0%	-14.9%	-13.8%	-9.3%	-8.6%	-8.4%	-5.6%	-3.3%	1.1%	1.9%	10.7%	14.1%	193.3%

(Source: Bloomberg)

Exhibit 3: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. The return appearance of a second wave of Covid-19 nearer in Asia will surely put a lid on a rally that has taken the Asian equities markets back to pre-Covid 19 levels. This is only in broad descriptive terms, as the rally has been pretty narrow, with out-sized positive returns in selected sectors seen as beneficiaries, driving the performance. When carving out the performance, many sectors have yet to recover to pre-Covid 19 levels, reflecting much uncertainty over this current economic recovery. Much more still needs to be done to sustain this turnaround.

2. This week is US Federal Reserve FOMC week. Given the still dire situation in the US, and the second wave of Covid-19 across the world, it is unlikely that the US Federal Reserve will spring a hawkish surprise on the markets. More importantly, the key question is if monetary policy will be tied explicitly to achieving or rather over-shooting the 2% inflation target, as mentioned earlier by the US Federal Reserve Chair Jerome Powell and various other US Federal Reserve Governors. Our view is that negative yields and that it will remain post 2022 is a possibility.

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3. Last week, we discussed the implication of Eurozone cohesion on the US Dollar. This has played out with the Euro gaining momentum although that has not been the case with other currencies. We are not contesting the view of a demise in the US Dollar as the world's reserve currency but merely highlighting that even a benign to slightly weaker US Dollar is positive for emerging economies, currencies, and equity markets. A firmer Chinese RMB will also go some way towards affirming this view.

4. Lastly, we reserve a special comment on the Malaysian Ringgit. Today, Malaysia recorded its largest trade surplus on record due to robust export of electronics and presumably rubber gloves. It may well signal the case of a sustained period of trade surpluses which should be a driver for a stronger Malaysian Ringgit.

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