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Investment Insights and Strategy Series by PhillipCapital Malaysia

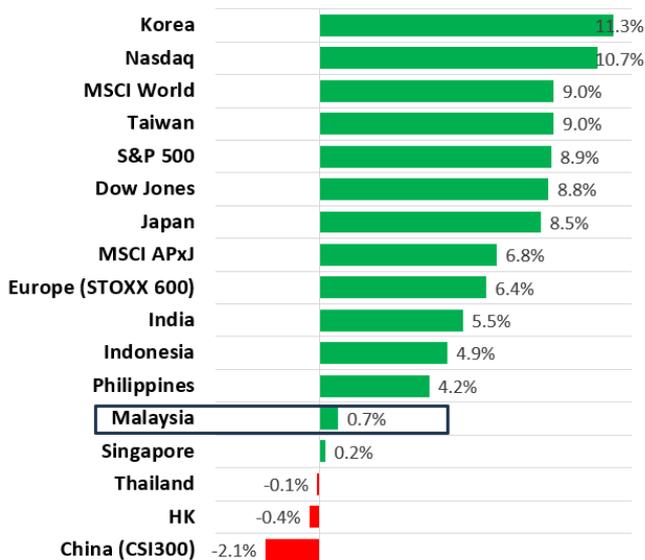
Global markets have rebounded strongly in November with the 10-year U.S. Treasury yield stabilising around the 4.40% range after hitting 5% a month ago, reflecting a shift in market expectations towards a potential end to the Fed's rate-hiking.

The MSCI Asia Pacific Ex-Japan Index (+6.8%) lagged the MSCI World Index (+9.0%) mainly due to underperformance in the China/HK market. China CSI300 (-2.1%) and HK (-0.4%) weakened as manufacturing activity contracted for the 2nd month, signalling momentum loss and scepticism on China stimulus & recovery plans. South Korea (+11.3%) greatly outperformed all major indices, rebounding from October's rout as exports accelerated amid a rebound in semiconductor demand. Taiwan (+9.0%) also fared well in November despite cutting its growth outlook and signs of economic contraction. India (+5.5%) on the other hand beats growth estimates thanks to gains in manufacturing and government spending (see *Exhibit 1*).

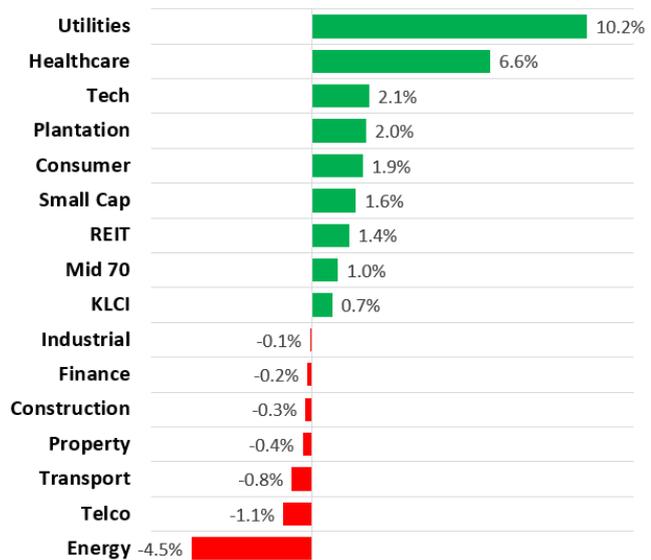
Exhibit 1: Nov 2023 & YTD 2023 Market Performance

Market review- November 2023

Nov 2023 Global Market Performance



Nov 2023 Malaysia Market Performance



Source: Bloomberg, compiled by PCM



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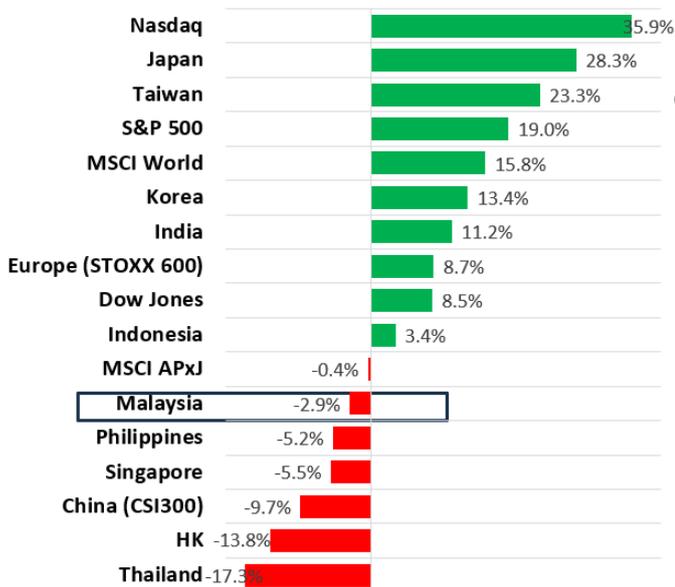
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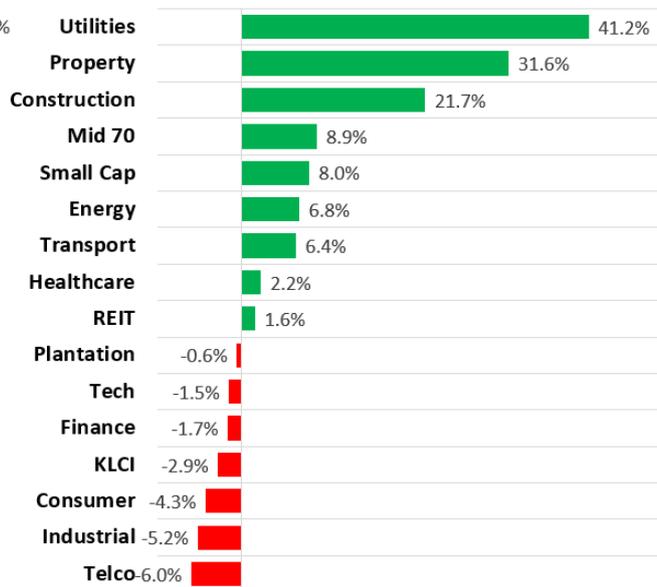


Market review- YTD

YTD Nov 2023 Global Market Performance



YTD 2023 Malaysia Market Performance



Source: Bloomberg, compiled by PCM, YTD denotes return up to end-Nov 2023



In the US, the likelihood of a "no landing" scenario has increased, driven by unexpectedly robust growth attributed to post-pandemic factors (such as excess savings). Our base case sees continued moderation of inflation and growth in the US but also acknowledges the underlying resilience of the economy. Separately, we expect a moderate growth recovery for China towards end-2023 supported by policy stimulus. China will reassess its focus on economic growth by re-engaging economic relationships with various countries, stabilising the property sector, and maintaining fiscal credit expansion and expansionary monetary policies. Separately, China regulators have come up with three "not lower than" rules and a whitelist to step up credit support for property developers.

Back home, foreign investors returned as the net buyer with buying value of RM1.5bn after some RM2.2bn outflow last month. Foreign investors favoured Utilities, Healthcare, and Financial Services sectors in November, whereas Consumer and Energy sectors witnessed the largest outflows. Consequently, there were moderate gains observed in FBM KLCI, FBM Mid 70, and FBM Small Cap indices during November.

The recent Q3 results presented a mixed picture: construction and glove sectors beat, banks were in line, while property, tech, and industrial sectors fell below expectations. Nevertheless, there has been growing optimism in Malaysia's market due to political stability (post-state election) and potential benefits from the New Energy Transition Roadmap, the New Industrial Master Plan 2030 and projected improvement to the budget deficit detailed in the Budget 2024. KLCI is supported by an undemanding valuation (13.1x forward P/E vs 10Y average 16.6x) accompanied by an all-time low of foreign shareholding of 19.6% (as at Nov 2023).

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Strategy for the Month

On the global front, we remained **Overweight** in **HK/China** supported by attractive valuation (CSI300 – 10.5x forward P/E, -1.2 standard deviation below its 5-year mean; HSI – 7.9x forward P/E, -2.0 standard deviation below its 5-year mean) and supportive policy stimulus. In **Malaysia**, we remain **positive** on **large-cap stocks** considering the potential for a favourable performance in December (92% hit rate since GFC, according to HLIB). Our stance on **small-cap stocks** has **slightly improved** from last month but we remain selective, focusing on companies with robust earnings growth potential and led by quality management. Sector-wise, similar to the previous month, we continue to favour the **Construction** sector due to Budget 2024, rollout of infrastructure projects, and the National Energy Transition Roadmap. We hold a selective optimistic view on specific companies within the **Industrial** sector that will benefit from trade diversion and the ongoing recovery narrative. Conversely, the **Telco** sector faces challenges due to intense competition, and the **Consumer** sector's outlook dims due to an increase in the Sales and Services Tax (SST) to 8% and the introduction of a 5–10% luxury goods tax in Budget 2024. However, certain consumer stocks may offer some potential as beneficiaries of a weakening dollar, leading to improved margins, alongside various financial aid and subsidies.

Exhibit 2: Selected Market Indices Valuations

Valuations as of 30 Nov 2023	Fwd P/E	S.D.	Fwd P/B	S.D.
MSCI WORLD	16.8x	-0.3	2.9x	0.9
MAPXJ	12.5x	-0.8	1.5x	-0.5
US (S&P 500)	18.8x	0.0	4.2x	1.0
EUROPE (STOXX 600)	12.1x	-0.9	1.8x	0.7
CHINA (CSI300)	10.5x	-1.2	1.4x	-1.5
HONG KONG (HSI)	7.9x	-2.0	0.9x	-1.6
KOREA (KOSPI)	10.3x	-0.5	0.9x	-0.5
TAIWAN (TAIEX)	15.7x	0.7	2.3x	0.9
INDIA (NIFTY 50)	19.0x	0.0	3.1x	0.4
JAPAN (NIKKEI 225)	19.3x	0.4	1.8x	0.6
MALAYSIA (FBMKLCI)	13.1x	-1.0	1.3x	-1.5
MALAYSIA (FBM100)	13.5x	-1.0	1.3x	-1.1
MALAYSIA (FBMSC)	12.8x	-1.1	0.8x	0.0
MALAYSIA (FBM70)	14.9x	-0.7	1.4x	1.3

Our investment portfolio focuses on quality companies that possess strong fundamentals, including stable earnings and a promising future outlook, and are led by capable management teams. Please click on the [link](#) to learn more or email us at phillipmutual@phillipcapital.com.my if you require any further information.

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