

# MARKET COMMENTARY

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## CONTRIBUTOR:

DZULKARNINE BIN DATO' KAZIM



Our Funds are defensively positioned due to the repercussions of the Fed rate hike and concerns over the domestic political situation.

We thought that the Chinese RMB had to weaken. Nonetheless, we have also been equally surprised by the magnitude of the market correction.

If the US Fed resists hiking rates in September, we are likely to experience a longer period of uncertainty.

## OUR HOUSE VIEW

### The US Fed Rate Hike a Short-Term Uncertainty but the RMB Depreciation Likely to have Lasting Effect

- Contemplation of when is the next US interest rate hike has and will continue to undermine investor confidence until the first hike is over and done with. Our central view remains that of a benign interest rate upcycle.
- Closer to home, Asian economies are grappling with a lower growth environment. As a result, economic growth targets and earnings expectations are being reset lower. Downside to economic growth is now compounded by the devaluation of the Chinese RMB. The magnitude and duration of depreciation will pose difficulties for competing Asian neighbours.
- Most Asian governments have healthy balance sheets. At this juncture, we should expect them to spend more to support their economies.
- Consolidation will allow Asian markets to build a stable base for a more sustainable recovery.
- In the immediate to short term, the Malaysia market is expected to remain volatile as sentiment will continue to be weighed down by predictable & unpredictable developments especially in relation to the current political developments in the country.



CARTOON BY: B. RICH, HEDGEYE

## PERFORMANCE OF KEY INDICES

FIGURE 1

	1 MONTH (% CHANGE)	2015 (% CHANGE)	PER 2015
DOW JONES	-6.6	-7.3	14.3
NASDAQ	-6.9	0.9	27.3
DAX	-9.3	4.6	15.5
KLCI	-6.4	-8.4	16.8
USD / MYR	9.4	19.9	-

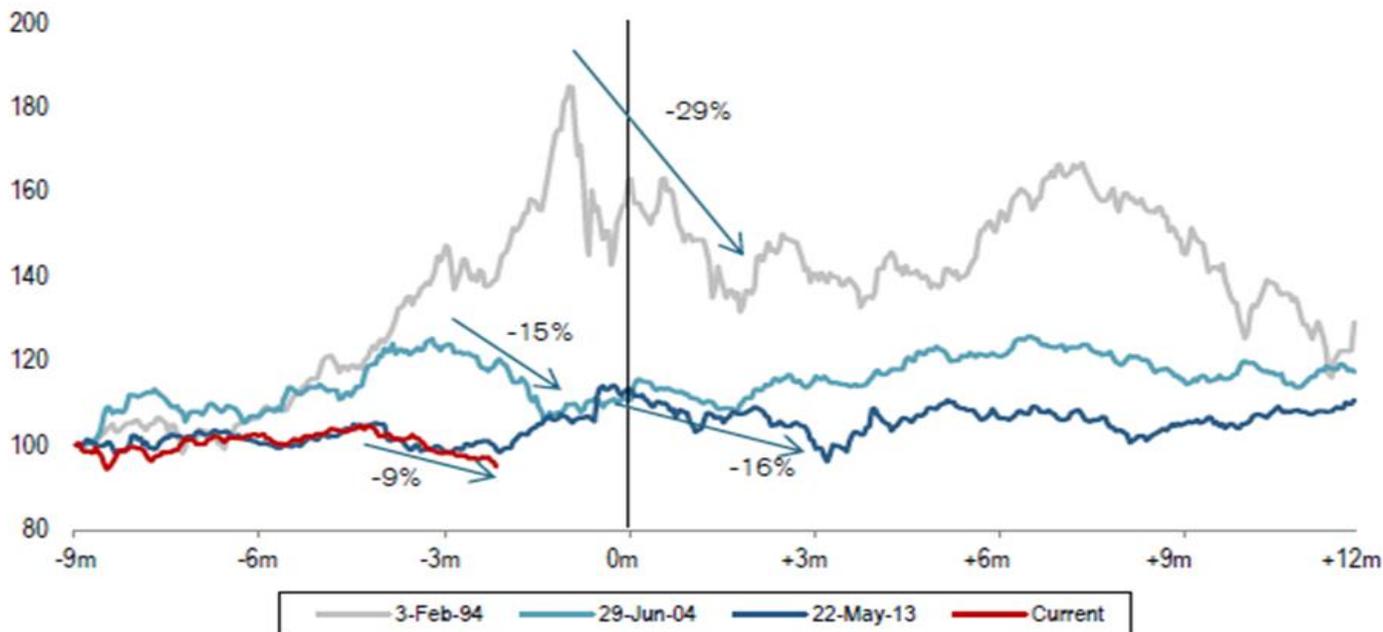
SOURCE: BLOOMBERG (AS AT 21/09/2015)

## MARKET WEAKNESS DUE TO IMMINENT FED TIGHTENING & CHINESE RMB DEPRECIATION

It is convenient to blame the weakness of the Malaysian stock market and currency to the country's own internal problems. However, the entire Asian region has not been spared the carnage even if Malaysia has looked one of the worst performing.

However, the Fed tightening stance has been widely discussed & anticipated by the market. It is useful to note the reaction of the stock market in past Fed rate hike cycles. The stock market reacted more adversely post the rate hike in 1994 and to the QE tapering news in 2013 because these were unexpected. In the case of 2004 and this current rate hike cycle, we believe the market has pre-empted this event and has factored this into local share prices.

FIGURE 2: KLCI PRE & POST PREVIOUS US RATE HIKE



SOURCE: BLOOMBERG, CREDIT SUISSE

Underperforming sectors in past Fed tightening events were property, construction, consumer, and mining sectors that are interest rate sensitive.

The outperforming sectors were plantations, trading/services, and industrials, sectors whose demand is geared towards a stronger economic environment.

China poses the more significant concern going forward. We expect a significant depreciation in its currency as we do not believe that a mere 2-3% depreciation in its currency will have a meaningful impact to bolstering its deteriorating economy. In a lower growth environment, China will bring significant competitive pressure to its Asian neighbours.

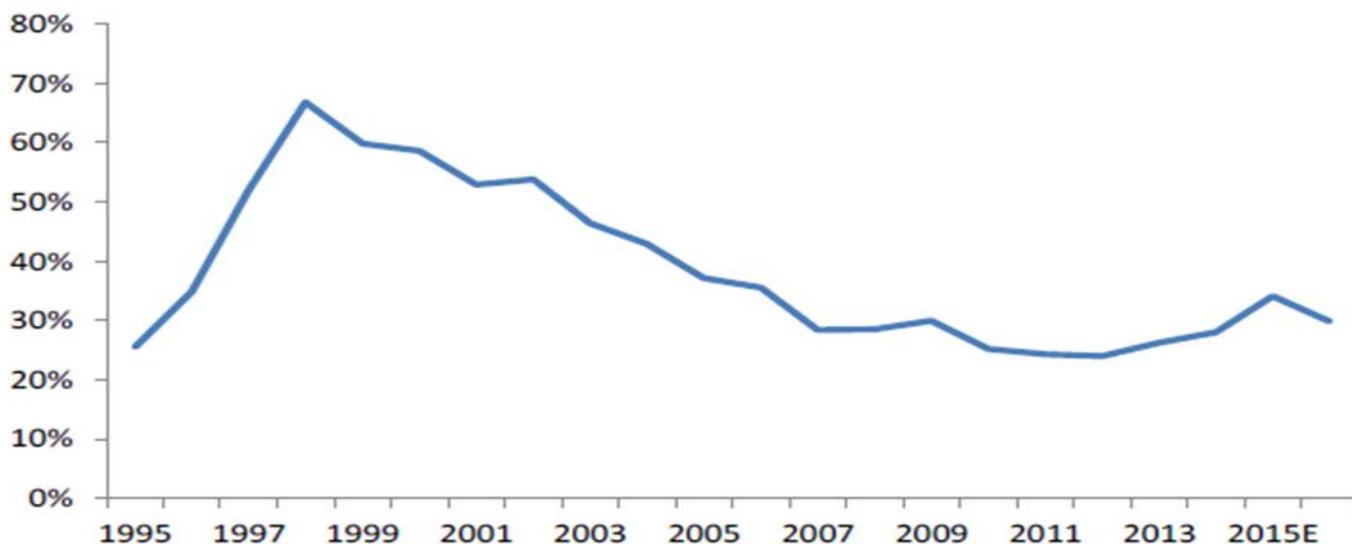
## BUT MALAYSIA IS ALSO AFFECTED BY POLITICAL UNCERTAINTIES

The political circumstance surrounding Malaysia is unprecedented and seen as more dire to the political rumbles elsewhere e.g Indonesia & Thailand. An undesirable twist to the political development cannot be ruled out. In past political upheavals, the stockmarket has reacted negatively.

## NO SYSTEMIC RISK UNLIKE 1997 BUT RECOVERY TO COME WITH SOME SACRIFICES

The lesson from the 1998 Asian Financial Crisis was a hard lesson well learnt. Corporate Malaysia has deleveraged. Corporate Malaysia is less vulnerable now even if there is a hike in interest rates. 1MDB may be well documented but also largely well contained within a still reasonably geared public sector.

FIGURE 3: NET GEARING HAS BEEN ON A GENERAL DOWNWARD TREND SINCE THE 1998 AFC



SOURCE: CREDIT SUISSE

Foreign reserves have declined as Bank Negara has defended the currency. Higher interest rates or a weaker currency may not be palatable. However, the latter may be a necessary adjustment for the economy until confidence returns.

## SOME SELECTED HOLDINGS

FIGURE 4

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2015	EPS (\$) 2015	GROWTH (%) 2015	P/BVPS 2015	DY (%) 2015
KOSSAN	KRI MK EQUITY	7.15	22.3	0.3	42.2	4.9	1.1
HARTALEGA	HART MK EQUITY	4.34	25.5	0.2	26.6	5.1	1.5
MISC	MISC MK EQUITY	8.63	16.0	0.5	9.7	1.3	1.6

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 21/09/15)

## CONTACT US

Apex Investment Services Bhd.

3rd Floor, Menara MBSB, 46 Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur.

+60 (3) 2095 9999

[enquiry@apexis.com.my](mailto:enquiry@apexis.com.my) (for questions & feedback)

[www.apexequity.com.my](http://www.apexequity.com.my)

[www.apexetrade.com](http://www.apexetrade.com) (for daily NAV prices)

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