

MARKET COMMENTARY

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This month, we take a break from domestic issues, as we did in the aftermath of Brexit, to articulate our regional views, post Donald Trump's stunning US Presidential victory.

We remain cautious but yet optimistic that any weakness in the equity market may present us with opportunities to build on our equity position.

OUR HOUSE VIEW

Uncertainty Ahead

- Our generally positive market view on Asia has been undermined very much by Donald Trump's victory at the US Presidential Election. As there has been significant rhetoric threats running up to the Elections and very little details, Asian equity markets are on tender hooks. In particular, the focus is very much on Trump's trade protectionism stance and implications for the Asia's manufacturing base.
- Nonetheless, global economic activities, as evidenced by PMIs, are on an improving trend. Trump's fiscal push will provide a sustained push if executed well. Eventually, this has to bode well for risk assets, even if in the shorter-term, risk assets such as the Asian equity markets have been sold off on a strong US Dollar and rising bond yields.
- We believe that 2 fundamental factors will result in limited selling in Malaysian equities ahead. Firstly, foreign flows into Malaysian equities have been negligible this year and therefore further selling may be limited to only several stocks. Secondly, a significant number of Malaysia's top 25 large capitalisation stocks are held by government-linked companies or funds namely Petronas, PNB, Khazanah and EPF. In the near-term and with the current uncertainties and volatility, we expect these funds to purchase rather than to sell their holdings.

PERFORMANCE OF KEY INDICES

FIGURE 1

| | AS AT 31.10.16 | 1 MTH (% change) | YTD 2016 (% change) | PER 2016 |
|-----------|-------------------|---------------------|------------------------|----------|
| D. JONES | 18,142.4 | -0.9 | 3.1 | 18.0 |
| NASDAQ | 5,189.1 | -2.3 | 2.4 | 30.7 |
| DAX | 10,665.01 | 1.5 | -0.7 | 16.6 |
| KLCI | 1,672.5 | 1.2 | -1.2 | 17.1 |
| USD / MYR | 4.19 | 1.35 | -2.3 | - |

SOURCE: BLOOMBERG (AS AT 31/10/2016)



CARTOON BY: HEDGEYE

TRUMP – ARE WE GETTING A MORE INCLUSIVE OR DIVISIVE WORLD?

The crux of Brexit and now Donald Trump is a reflection of populist revolt. It is a vote for the failure of the prevailing model that rules the world, and not just a US-only phenomenon, so beware upcoming referendums and elections across Europe. While globalization in theory is supposed to lift the living standards of all and to be a win-win situation; in practicality, the benefits have been hugely disproportionate, having accrued mostly to a few selected elites with many left languishing in the dust.

Clearly, there are a lot to be concerned about, the populist and protectionism mandate that has carried Donald Trump to victory in the US Presidential Election.

Yet, unlike the Philippines' President Duterte who has carried his campaign form in language and demeanour into his Presidency, Donald Trump's hard-line rhetoric has given way to a very reconciliatory tone. Let's hope it does stay this way.

Here are some important excerpts from Donald Trump's post Presidency victory speech;

“Now it's time for America to bind the wounds of division; we have to get together. To all Republicans and Democrats and independents across this nation, I say it is time for us to come together as one united people.”

More importantly, for those still concerned on protectionism and anti-trade;

“I want to tell the world community that while we will always put America's interests first, we will deal fairly with everyone, with everyone – all people and all other nations. We will seek common ground, not hostility; partnership, not conflict.”

Our Uncertain New World

In the run-up to Donald Trump officially taking office, there will be uncertainty and volatility. Donald Trump's campaign rhetoric has carried lots of hype but little details. The markets will react accordingly to these details as they unfold. Until then, we are all in a risk-off mode.

Rather than just focusing on the populist and protectionism threats, we want to touch upon some more immediate and pertinent implications for Asian economies and equity markets.

If there is a commonality in Trump's ascension, it will be the shift in monetary to fiscal priority. It will be a shift from deflation to REFLATION.

To put this in perspective, Asian economies and equity markets, are in the developing and emerging stage. We are growth markets and historically have tended to do better in growth phases, to which this Donald Trump era will accentuate.

The Fed and Interest Rates

Market volatility aside, the US Fed should just go ahead with the Fed Fund rate hike In December.

Donald Trump will be on an expansionary fiscal path. The sharp rise in bond yields is the markets pre-empting this scenario. In any case, recent global PMIs, including that of the US, Europe, Japan, and China points to an uptick in economic activities. Inflation will return. It is inevitable that the shorter-term Fed Fund rate also has to reflect this reality.

We need to differentiate between early cycle higher yields reflecting a turnaround and stronger economic growth against late cycle interest rate hikes with the objective to rein in hyper growth. We are in the former camp. Both bonds and equities are being sold off but in the former case, we expect equities should recover and outperform.

Meanwhile, it may be the case that easier monetary policy across Asia take a temporary pause while Asian Central Bankers await for some stability to return to the markets. It may also be the case that this inability to ease monetary policy further may tamper our economic momentum.

Strong US Dollar = Weak Emerging Currencies?

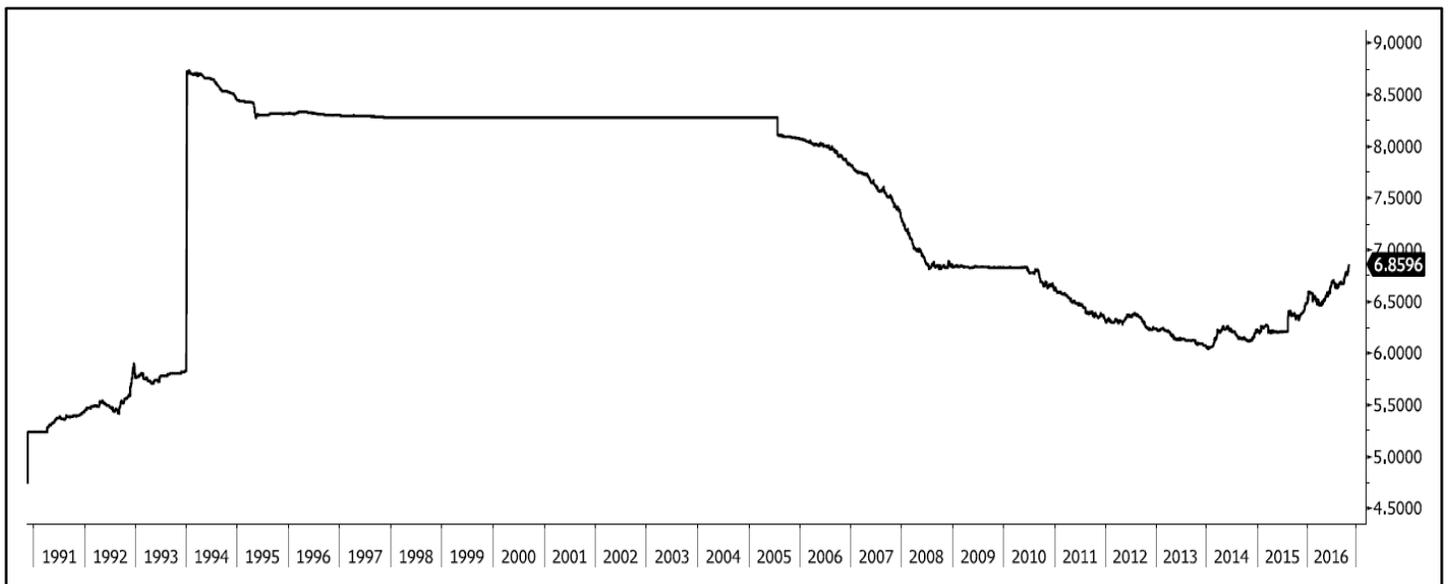
We were already anticipating a stronger US Dollar ahead of the US Fed Fund rate hike this coming December. While the initial reaction to a Donald Trump victory was a fall-off in the US Dollar, this gave way to a sharp reversal coinciding with his criticism of the US Fed Chair Janet Yellen of keeping hyper low interest rates beyond what has been necessary.

In the short-term, our Asian currencies, in particular Malaysia, Indonesia, and Korea are seeing plummeting currencies due to their broader bond markets with higher foreign ownership, where we are experiencing an exodus of capital which is causing a spike in bond yields.

Our longer-term fundamental view on currencies remains, that, as our own Asian economies start to grow stronger, our currencies should start to reflect our own better fundamentals. Of course, the US Dollar looks structurally stronger from its fiscal push but we are unlikely to revisit the sell-offs of 2015.

The Chinese RMB remains the key concern. Strong US Dollar and weak regional currencies are giving China the excuse for weaker RMB. However, from a long-term perspective, it is difficult for Trump to argue against China as a currency manipulator. One needs to go back as far as 1994 for China's last devaluation. And the Chinese RMB has been on an appreciating trend since 2005 even as its economy faces a decelerating economy since 2010.

FIGURE 2: USD/RMB X-RATE (1991 – PRESENT)



SOURCE: BLOOMBERG (AS AT 15/11/2016)

A Pro-Business Trump = Less Trade Protectionism

The US President is not an imperialist Presidency. Presidents are actually quite limited in their range of powers. There are checks and balances, which will likely avoid the most radical proposals. And despite the dominance of the Republicans, the

majority of Trump's proposals have to be approved by Congress. And Reince Priebus, the Chairman of the Republican National Committee, has just been appointed as Trump's Chief of Staff, an establishment of the Republican Party.

Donald Trump is (was) a businessman. All businessmen are pragmatic people. Unlike true politicians, businessmen have no ideological bent but will find palatable solutions to the impossible. Capitalist China may well prefer to deal with Donald Trump over Hillary Clinton.

Perhaps, the "anti-globalisation" establishment can look forward to a new, more sustainable globalization model in the longer-term if the imbalances of previous distribution of globalization benefits are rethought and adjusted?

SELECTED HOLDINGS

FIGURE 3

| STOCKS | BLOOMBERG TICKER | PRICE (RM) | PER 2016 | EPS (\$) 2016 | GROWTH (%) 2016 | P/BVPS 2016 | DY (%) 2016 |
|--------------------------|------------------|------------|----------|---------------|-----------------|-------------|-------------|
| KOSSAN RUBBER INDUSTRIES | KRI MK EQUITY | 6.80 | 18.09 | 0.38 | 13.25 | 3.52 | 1.76 |
| UNISEM (M) | UNI MK EQUITY | 2.39 | 11.44 | 0.21 | 3.47 | 1.18 | 4.71 |
| WCT | WCTHG MK EQUITY | 1.93 | 15.82 | 0.12 | 20.79 | 0.92 | 1.04 |

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 16/11/2016).

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