MARKET COMMENTARY

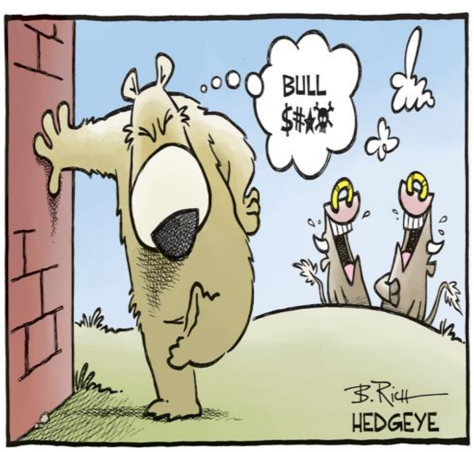
March, 2017 / Issue 20

CONTRIBUTOR:

GARY LIM

This year, we plan to alternate our monthly Newsletter publications with a regional piece to complement the Malaysian product.

We hope that readers will pick up new sources of investment information that will help to create an enhanced personal investment strategy.



CARTOON BY: HEDGEYE

OUR HOUSE VIEW

<u>After A US Fed Rate Hike – Watch The Market Direction</u>

- Blistering market returns have led to profit-taking ahead of the US Fed's March FOMC Meeting where a guidance towards a rate hike has been entrenched into market expectations. The steepening of the US yield curve earlier already pointed towards this eventuality. Noises will dominate short-term market movements. Hopefully, post market reaction will prove that the US Fed is becoming less relevant and consequential to markets.

- On the contrary, a stronger US economic recovery should be positive for the Asian equity markets, not lest supported by a rejuvenated Chinese economy too. There will come a time when the equity markets will come to worry about an overly strong US economy and the possibility of more interest rate hikes. Meanwhile, growth assets will benefit. More importantly, earnings are coming through, lending support for equity markets to grind higher.

- We upgraded our Malaysia market view to positive. Malaysia will benefit from significant foreign fund flow supported by improving economic indicators.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 28.02.17	1 MTH (% change)	YTD 2017 (% change)	PER 2017
D. JONES	20,812.2	4.8	5.3	19.3
NASDAQ	5,825.4	3.8	8.2	43.0
DAX	11,834.4	2.6	3.1	20.0
KLCI	1,693.8	1.3	3.2	17.2
USD / MYR	4.44	0.3	-1.0	-

SOURCE: BLOOMBERG (AS AT 28/02/2017)

WHY IS ASIA INTERESTING?

The first full issue on Asia Regional Markets will start off with a recap of a snippet posted in our December Market Commentary (Issue 17).

Back in December 2016, we postured for a recovery in Asian equity markets.

FIGURE 2: SNAPSHOT OF DECEMBER MARKET COMMENTARY (ISSUE 17)

REGIONAL – A PROFITEERING OPPORTUNITY FROM MARKET DISCONNECT?

On 20th January 2017, Donald Trump will become the 45th President of the United States of America.

We have expounded on the implications in our previous Newsletter Issue 16. Suffice to say, we see much market uncertainty, as do many others, due to the shortage of details, running up to Trump's official term. Nonetheless, we need to reiterate that Trump's stance post-election has been more reconciliatory than his election threats.

We also remain positive over improving Asian fundamentals and therefore still remain constructive in our positioning.

We present below an interesting chart to ponder over. Firstly, we need to remind that the crux of this upshift in the US Dollar and the US 10-Year Bond Yields have largely been on the expectations of a reflating US economy, that President Trump will embark on a massive fiscal push.

It is also the case that when growth is favoured and where we have experienced a shift from defensives such as consumer staples to cyclical sectors like materials, emerging markets such as Asia have also tended to outperform the US.

FIGURE 2: THE NATURE OF CYCLICAL ROTATIONS

SOURCE: MSCI, BLOOMBERG, MAYBANK KE

In the short-term, we see a huge disconnect. We suspect part of the reason for this near-term concern is the issue of trade protectionism. If Trump backs down from his protectionism threats, we believe that this disconnect will be closed through a recovery in Asian markets.

This means that the more cyclical equity markets of China, Korea, and Indonesia should be favoured into this recovery. From a currency perspective, Malaysia, Indonesia, and Korea should benefit.

SOURCE: APEX INVESTMENT SERVICES BHD

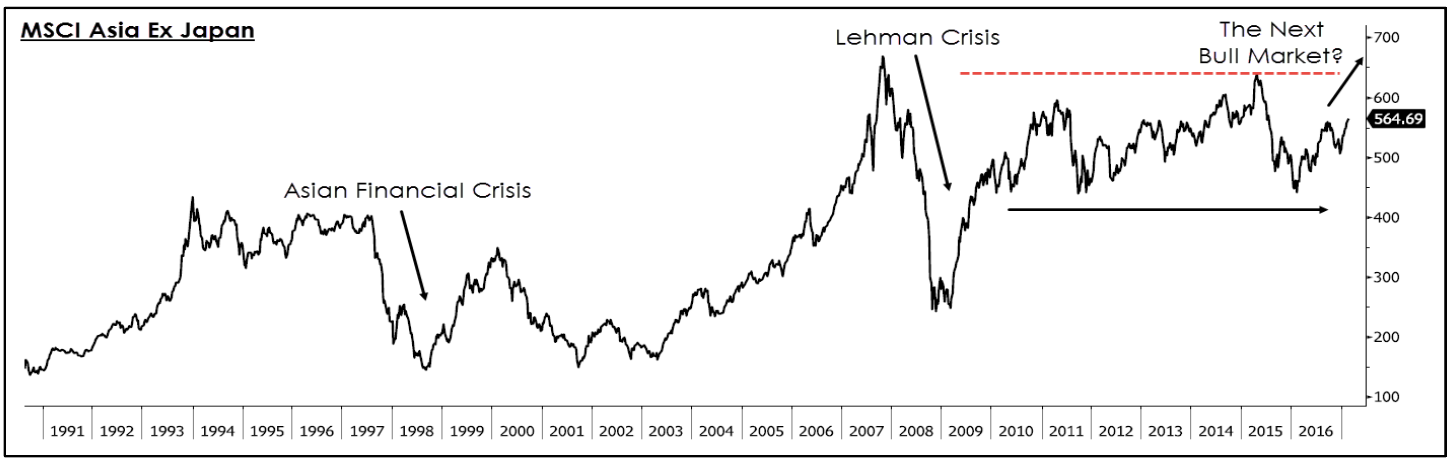
Measured in Malaysian Ringgit terms, the MSCI Asia ex-Japan benchmark has appreciated 9.1% till the date of writing 8th March 2017. However, since the beginning of late February, there has been a bout of pressure selling on the Asian equity markets. The reason being the slew of positive economic data-points all round, in particular the US, pushing the US Fed Chair Yellen into guiding the market for a Fed Fund Rate hike that may begin as soon as in March.

As we strategized in our House View, noises and uncertainty will plague the equity markets running up to the US Fed rate hike decision in mid-March. We are of the view that given the US Fed has been behind the curve in hiking rates last year, given the global upheavals eg Brexit. Yet the steepening of the yield curve, as evidenced by the 10-Yr Treasury bonds, has largely been pricing in the economic recovery. A sustained economic recovery in the world's largest economy, has to be positive for growth assets, such as Asia's emerging economies.

More importantly, closer to home, we are in the 'China Recovery' camp. We are not only seeing a bottoming-out of the Chinese economy. The supply side reforms, if committed to, will result in sustained quality growth, with positive implication for China's Asian neighbours.

After a long 7-year period of sideways consolidation, in large part the consequence of a deteriorating Chinese economy, we are potentially at the cusp of a breakout, with the Chinese equity market leading the way.

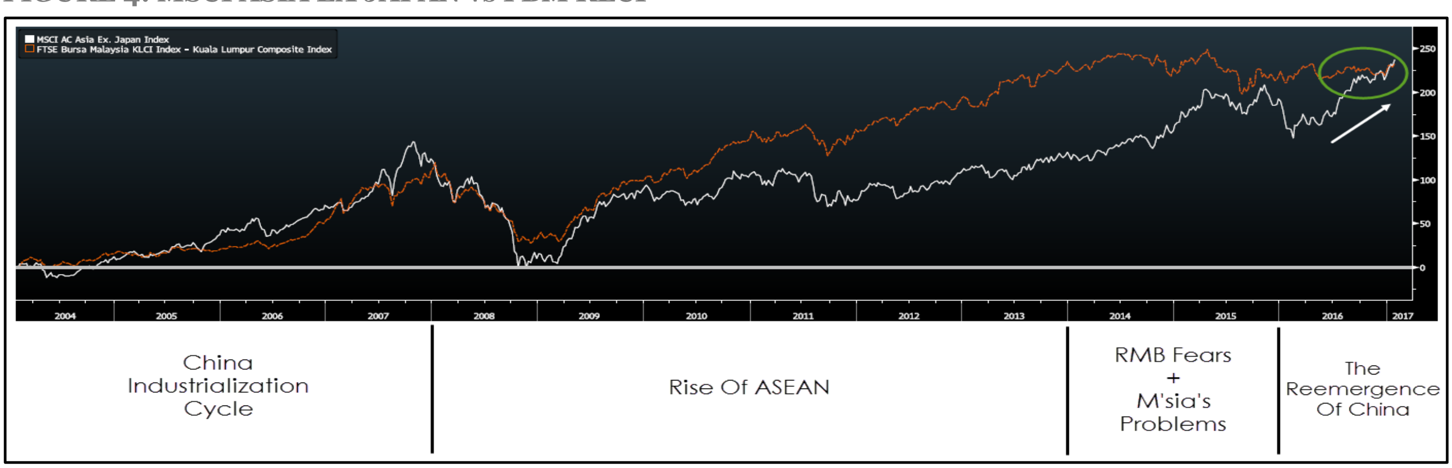
FIGURE 3: MSCI ASIA EX JAPAN



SOURCE: BLOOMBERG

For domestic investors, it is prudent to consider the Asian equity markets as (1) protection of wealth through the diversification of investments, (2) exposure into higher growth countries, and therefor (3) likely to deliver better returns than the Malaysian bourse.

FIGURE 4: MSCI ASIA EX JAPAN vs FBM KLCI



SOURCE: BLOOMBERG

In subsequent regional pieces, published on alternate months to the Malaysian pieces, we will delve deeper into the Asian economies and markets, to bring more flavor and articulate the stories behind the holdings in our Asian portfolio.

CONTACT US

Apex Investment Services Bhd. (420390-M)

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

+60 (3) 2095 9999

enquiry@apexis.com.my (for questions & feedback)

www.apexequity.com.my

www.apexetrade.com (for daily NAV prices)

DISCLAIMER