Apex INVESTMENT SERVICES BERHAD (420390-M)
20 years and beyond

Portfolio Managers' View

As at 21 July 2020

Fund Management Department

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Malaysia

1. The KLCI closed 1,589 @21.07.20. The stock market has risen by 4.8% since the end of the previous month. YTD-20, the KLCI has risen by a meagre 0.1%.

2. The inflation data for June will be announced on July 22. Economists expect the deflationary conditions to continue. This will leave ample room for Bank Negara Malaysia (BNM) to cut rates further which is negative for the Ringgit (MYR).

3. Bursa’s trading volume recorded a new high of 12.5 bil shares on 20 July 2020. The value traded was a whopping RM 6.6 bil of which 55% (or RM 3.7 bil) was contributed by the glove counters (CEO Morning Brief, The Edge). Retailers accounted for 41% of Bursa’s turnover by value yesterday vs 33.5% in June and 32.4% in May.

4. Year-to-date, the best performing sector was Healthcare at +150%. The healthcare sector has a weighting of approx. 13.3% in the KLCI. This implies that the healthcare sector contributed circa +20% percentage points to the KLCI's performance. *Only 3 KLCI constituents i.e. Top Glove, Hartalega and Dialog have made discernible gains in their share prices this year*. The share prices of the remaining KLCI constituents have been flattish to down.

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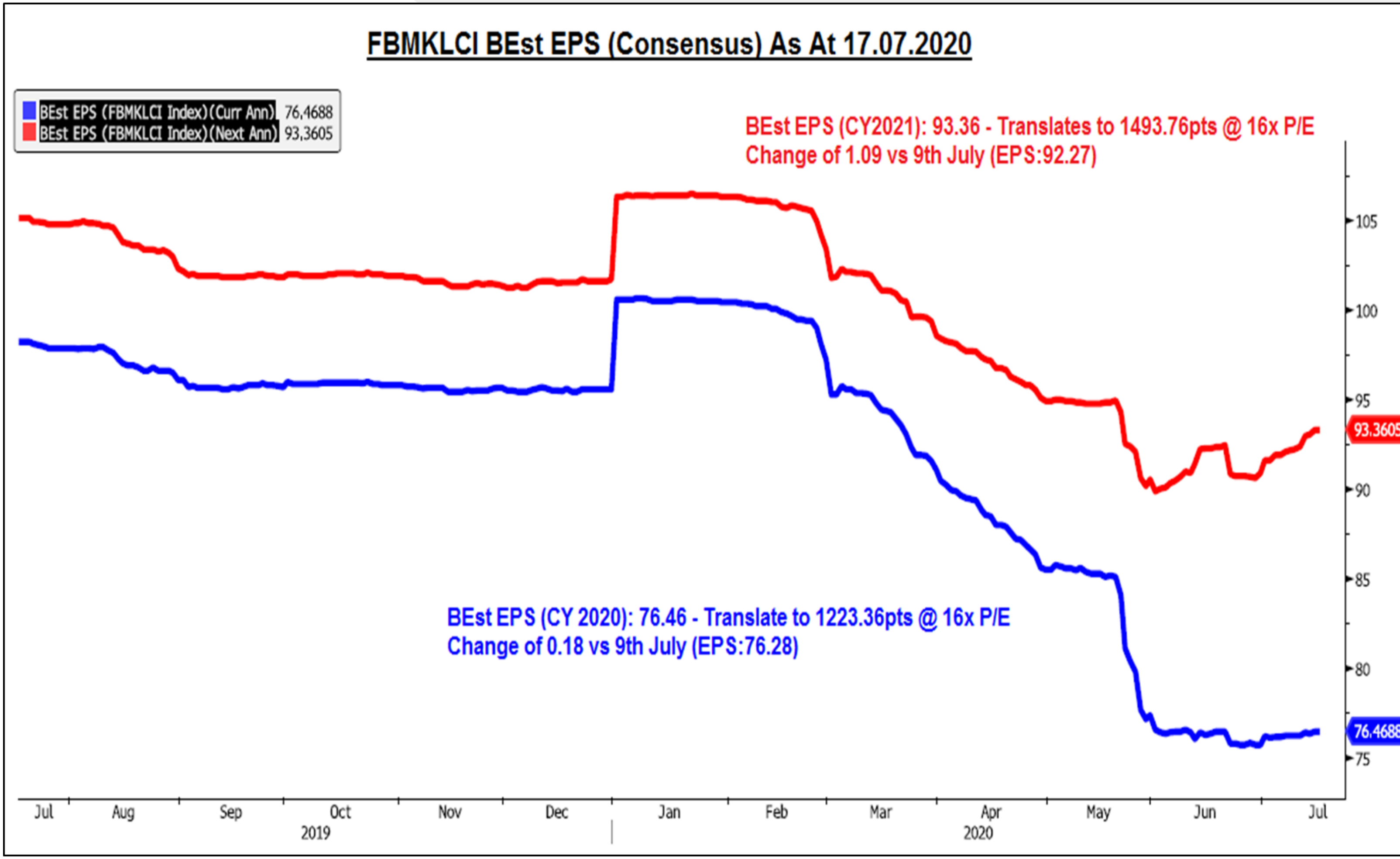
5. Consensus 2021 market eps has been cut by 12.3% from 106.5 sen @ end-Jan to 93.4 @ 16.7.2020. However, we have seen a pick-up in 2021 earnings estimate recently due to upgrades for the glove makers and Genting Malaysia (see Figure 1). At 1,589 @ 21.07.2020, the market is trading at a PER of 21x/17x 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.

6. The MYR still faces headwinds. OPEC+ cutback in oil production is set to *taper* from 9.6 mil bpd to 7.7 mil bpd by Aug 2020. Also, the bonus cuts made by countries such as Saudi Arabia, Kuwait and UAE (estimated at 1.2 mil bpd) will re-enter the market. A second wave of the Covid-19 pandemic globally would translate to slower than expected recovery in oil demand. Weaker demand for oil and higher supply may be negative for crude prices. This may be a dampener for the Ringgit in 2H. However, weakness in the MYR is positive for exporters including the technology sector.

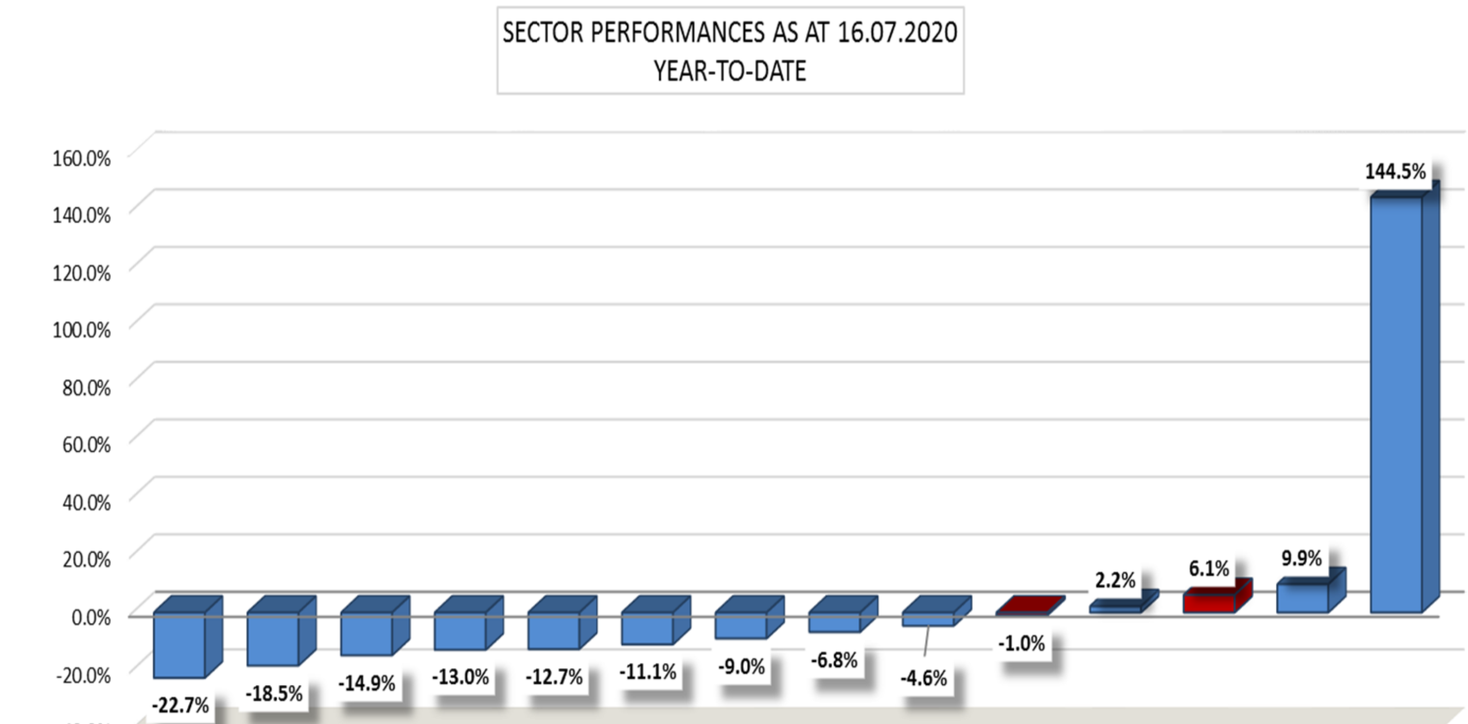
7. Foreigners continued to be net sellers of Malaysia equities. For the week ended 17 July 2020, foreigners net sold RM 906 mil of equities (source: MIDF). The net selling trend has continued for 22nd consecutive weeks. The YTD net sell @ 17.7.2020 was RM 17.8bil. This was significantly higher than the net sell of RM11.1bil for 2019.

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



(Source: Bloomberg)

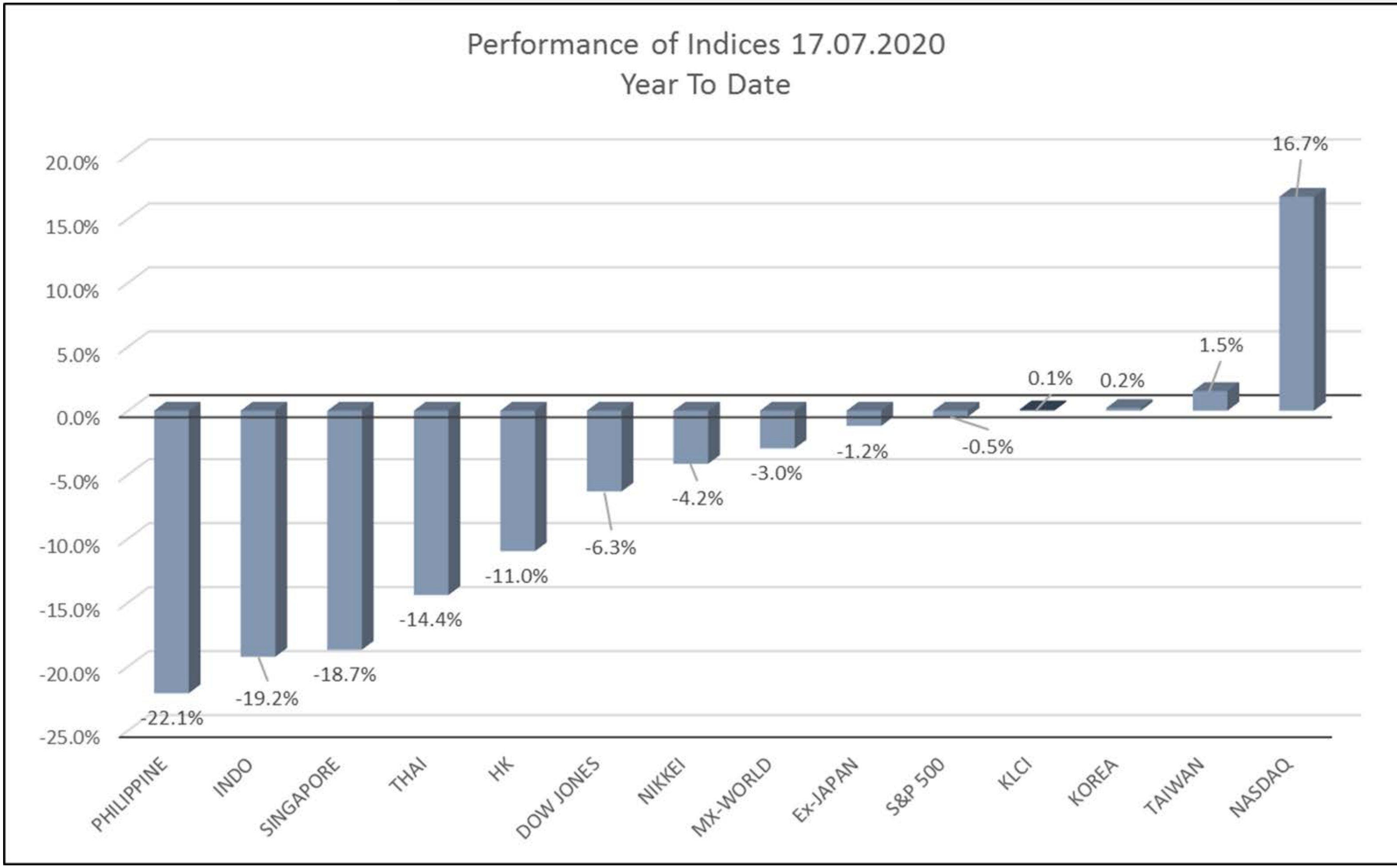
Exhibit 2: Sector Performances (Year-to-Date)



	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 Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Utilities 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	-22.7%	-18.5%	-14.9%	-13.0%	-12.7%	-11.1%	-9.0%	-6.8%	-4.6%	-1.0%	2.2%	6.1%	9.9%	144.5%

(Source: Bloomberg)

Exhibit 3: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. In recent crisis episodes, fiscal supports have often been found wanting, with Central Bankers having to carry the heavy-lifting. This Covid-19 pandemic has changed the fiscal approach. Fiscal support has been at the fore-front of this Covid-19 pandemic battle, alongside aggressive co-ordinated monetary easing.

2. Following on Dallas Federal Reserve President Robert Kaplan's confusing commentary (see previous week's write-up) on monetary policy, other Federal Reserve Governors have stepped up with more clarity. Fellow Federal Reserve Governor Lael Brainard painted a dire picture of the US economic outlook amid a resurgence of new Covid-19 cases, with the view that the US Federal Reserve should pivot its forward guidance and asset purchases towards providing longer-run accommodation. It is our view that the US Fed Fund Rate may go below zero and stay beyond 2022 to support a full recovery in employment and a sustained return of inflation to its 2% target.

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3. More importantly, on the fiscal front, for an Eurozone project that naysayers have condemned to failure, the European Union has in a significant display of solidarity and integration, agreed on a EUR750 billion recovery plan. It may well be the first and nor will it be likely the last. With Germany also now on the same bandwagon, this is truly remarkable.

4. This Eurozone cohesion is most important for its implication on global currencies. Euro's ascendancy spells incremental trouble for the stability of the US Dollar, compounding on the US internal combustible toxins of her poor handling of Covid-19 and the corresponding rise in US public debt.

5. Historically, a benign to weak US Dollar is positive for emerging economies, currencies, and equity markets.

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