Portfolio Managers' View

As at 22 September 2020

Fund Management Department

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Malaysia

1. The KLCI closed at 1,506 @ 22.09.20. The stock market has declined by 4.4% since the end of the previous month. Utilities (-2.6% WoW) and banks (-1.2% WoW) were the worst performing sectors in the last one week. YTD-2020, the KLCI has declined by 5.2 %.
2. The US Federal Open Market Committee (FOMC) announced its new interest rate forward guidance on 16 September 2020. The FOMC now expects to keep rates on hold until *"inflation has risen to 2% and is on track to moderately exceed 2% for some time."* The FOMC is expected to maintain its monthly net purchases of $80 billion of Treasuries and $40 billion of agency mortgage backed securities.
3. The August Consumer Price Index (CPI) will be announced on 23 Sep 2020. Malaysia's CPI contracted by 1.3% YoY in Jul-20 which was the fifth consecutive month of negative inflation.

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4. Bank Negara Malaysia (BNM) met on 10 September 2020 and left its overnight policy rates (OPR) unchanged at 1.75%. To recap, BNM had lowered its OPR by a total of 125 bps via 4 separate cuts this year. While OPR is at an all-time low of 1.75%, real interest rates are still relatively high (see Exhibit 1). This would indicate that BNM has room to lower interest rates.

5. All eyes will be on Sabah state election's on 26 September 2020. The election result will serve as an important litmus test of the support received by the Perikatan Nasional Government.

6. This week, FTSE Russell is expected to announce its decision on whether Malaysia remains in the World Government Bond Index (WGBI). In the event of an exclusion from WGBI, the potential outflow from the bond market is approximately US$ 5bil- US$ 6bil (source: Maybank).

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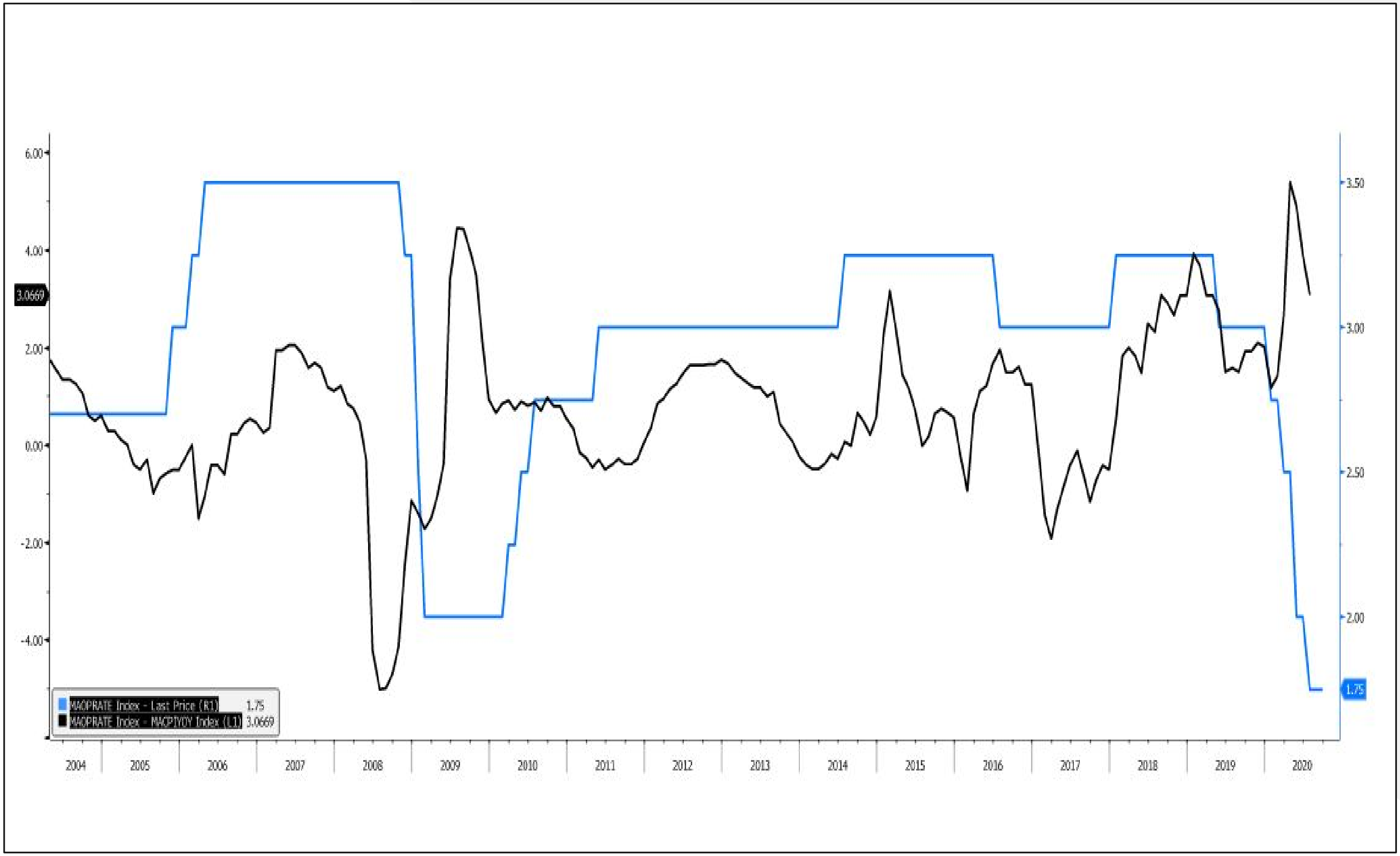
7. Month-to-date @ 11.9.2020, foreigners net sold RM 518.2mil of equities (source: MIDF). The net selling trend has continued for 34 consecutive weeks. The YTD-2020 foreign net sell @ 11.09.20 was RM 20.9 bil. This was significantly higher than the net sell of RM11.1bil for 2019. The 9M outflow has surpassed the highest ever annual foreign outflow of RM 19.7bil in 2015.

8. MSCI Malaysia's price earnings ratio (PER) is at par with MSCI Asia ex-Japan and at a 4% discount to MSCI ASEAN. Malaysia's PER relative is at one of its lowest levels in the last 5 years range. Malaysia's PER has become cheaper due to the recent market pullback and huge earnings upgrade for the Malaysian glove sectors (Exhibit 6).

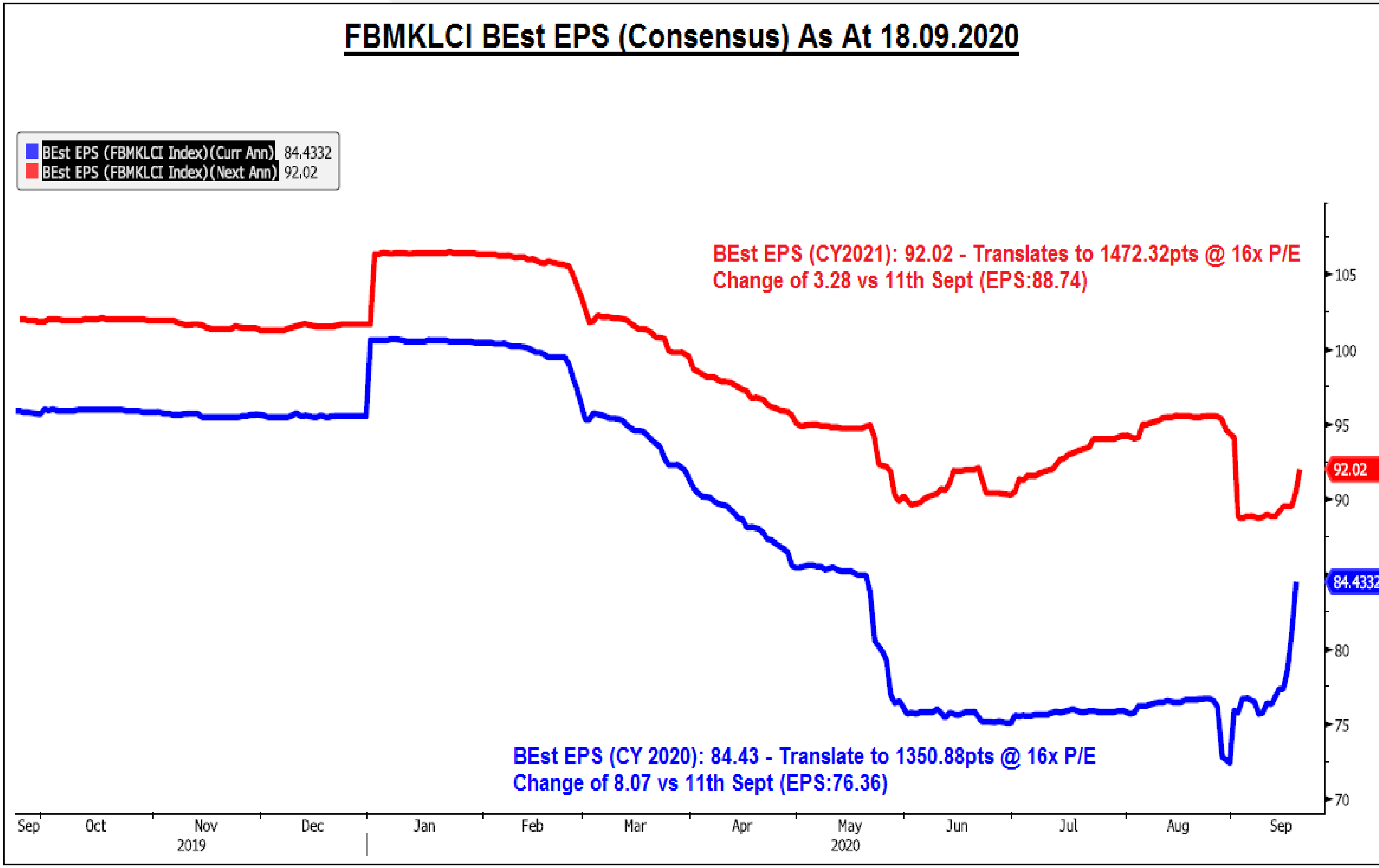
9. Consensus 2021 market eps has been cut by 13.6% from 106.5 sen @ end-Jan to 92 sen @ 18.09.2020. At 1,506 @ 22.09.20, the market is trading at a PER of 17.7x/16.4x for CY20/CY21. The market's valuation for 2021 is in-line with its 12M mean PER of ~16x.

Exhibit 1: Real Interest Rates VS Malaysia OPR



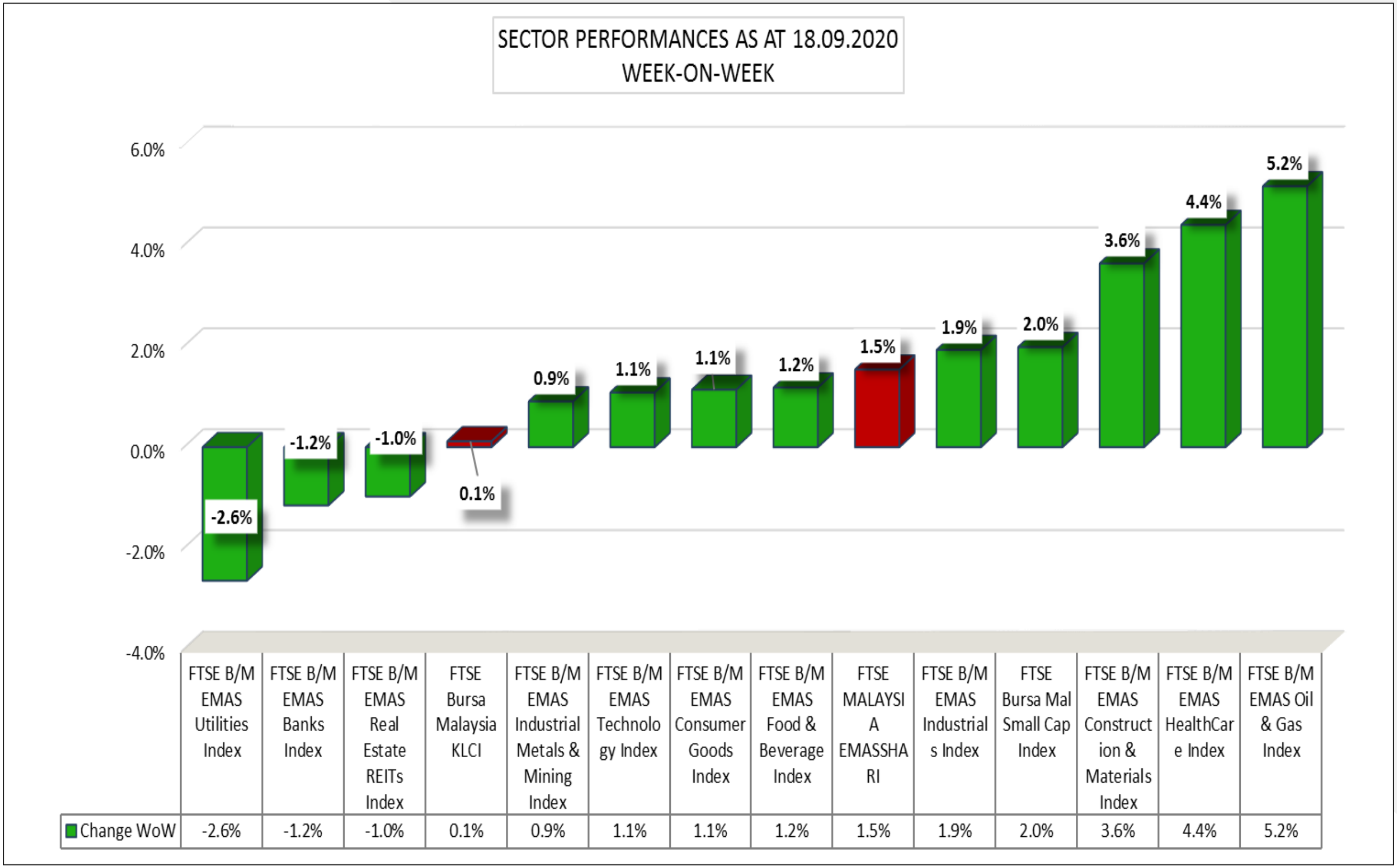
(Source: Bloomberg)

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS).



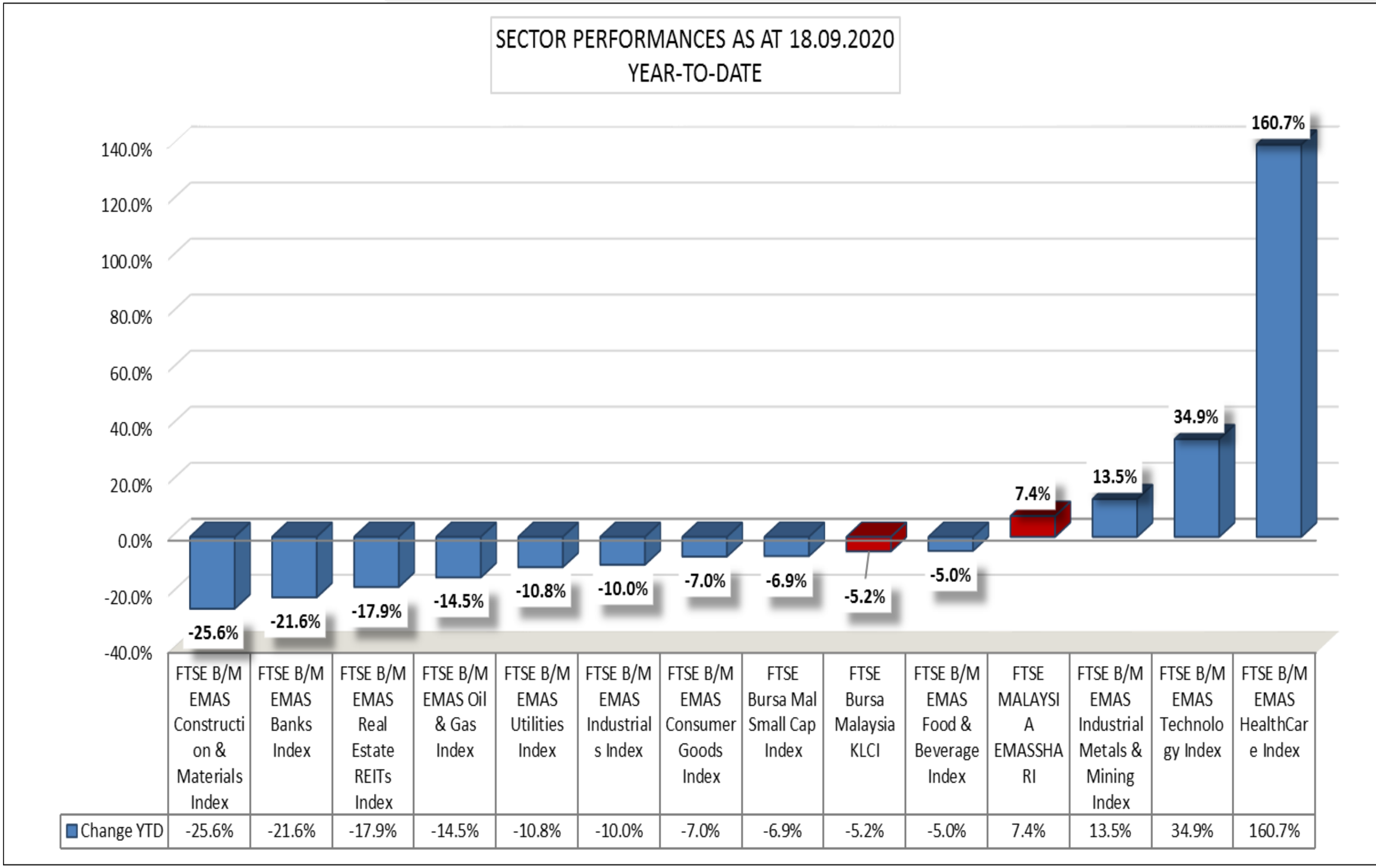
(Source: Bloomberg)

Exhibit 3: Sector Performances (Week-on-Week)



(Source: Bloomberg)

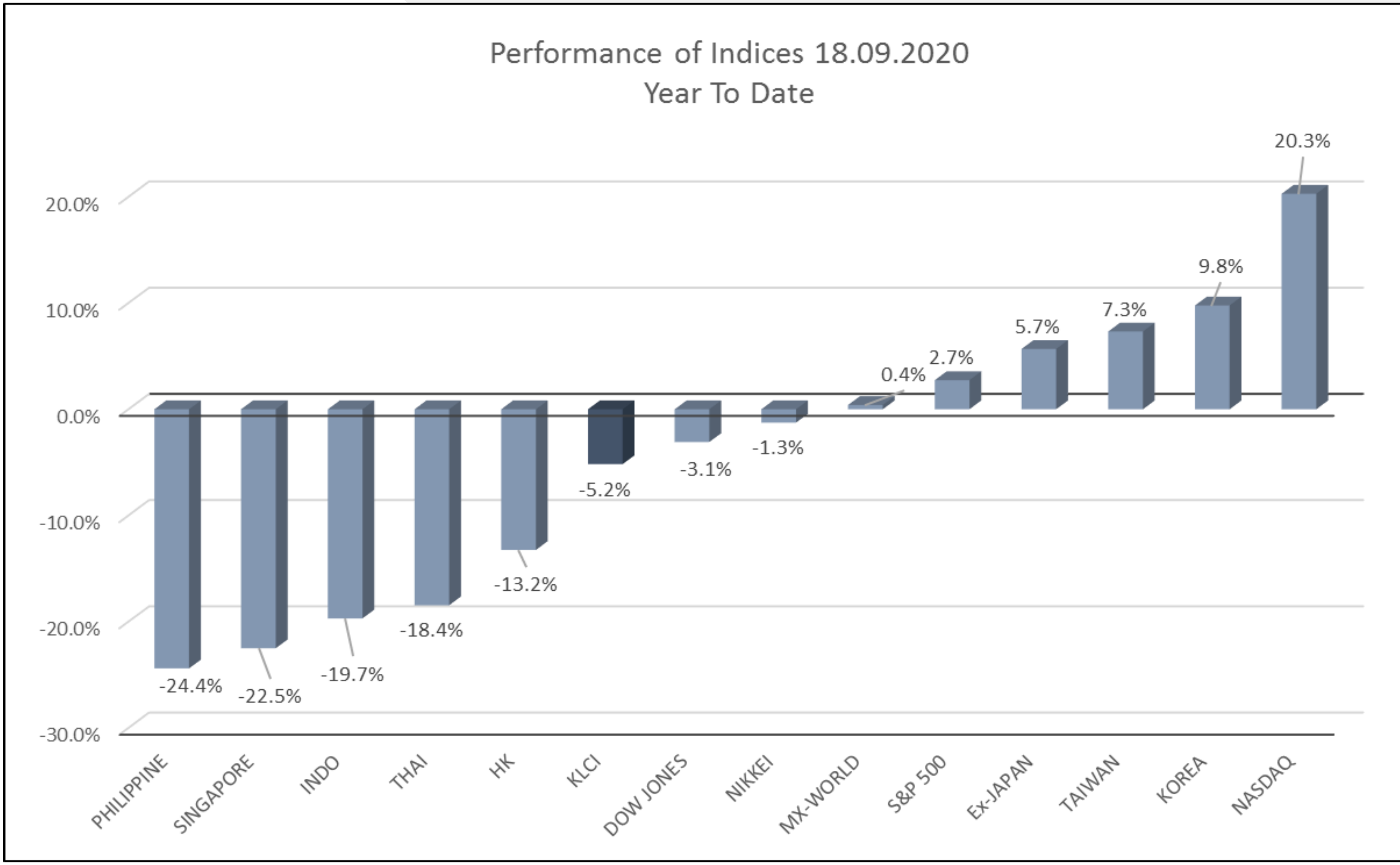
Exhibit 4: Sector Performances (Year-to-Date)



	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods Index	FTSE Bursa Mal Small Cap Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Food & Beverage Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS HealthCare Index
Change YTD	-25.6%	-21.6%	-17.9%	-14.5%	-10.8%	-10.0%	-7.0%	-6.9%	-5.2%	-5.0%	7.4%	13.5%	34.9%	160.7%

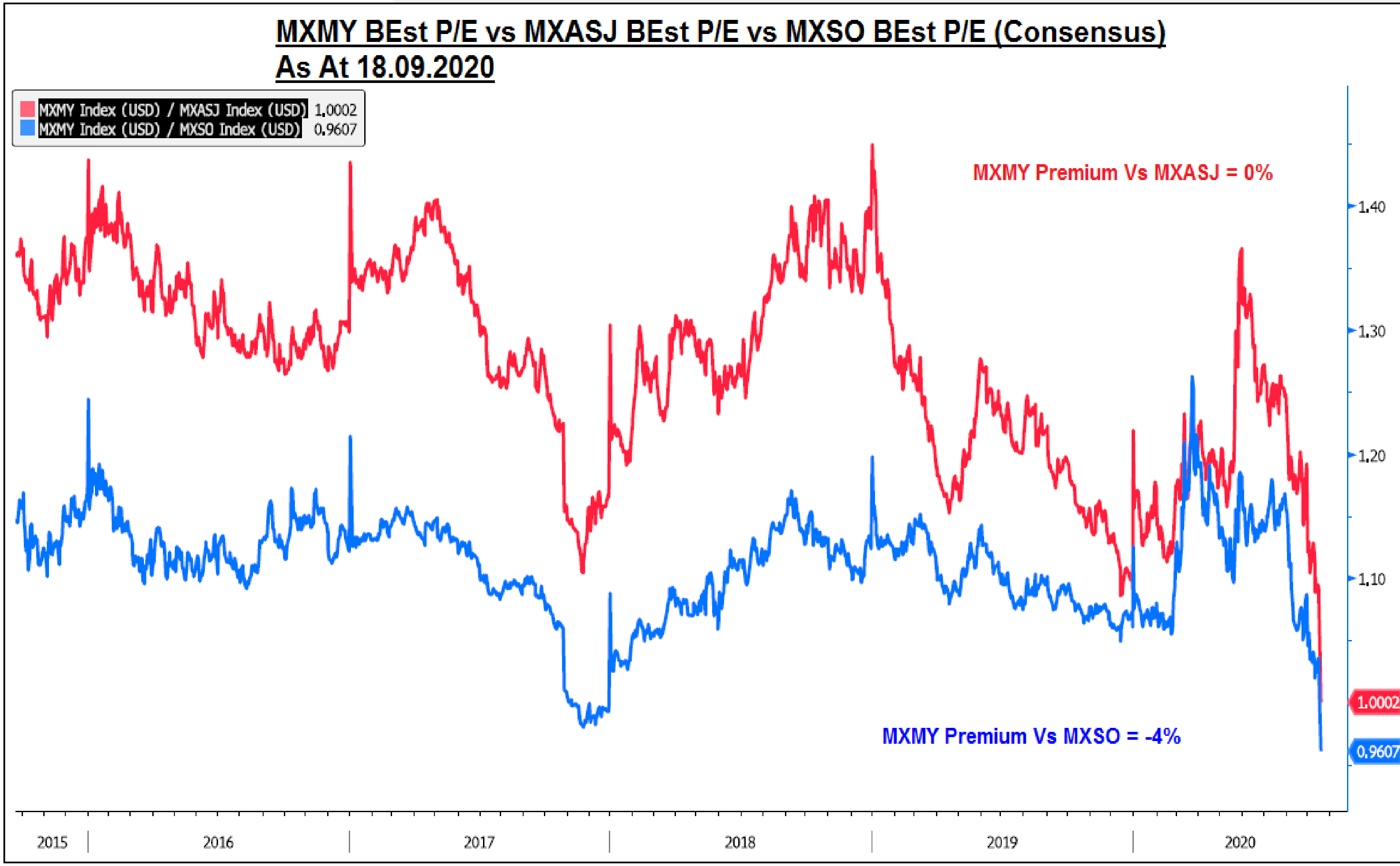
(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date



(Source: Bloomberg)

Exhibit 6: Real Interest Rates VS Malaysia OPR



(Source: Bloomberg)

Regional

1. The US Federal Reserve cannot get more dovish than this. The Fed sees a better than expected economic improvement, raised US GDP forecast for 2020 from -6.5% to -3.7% and trimmed unemployment rate from 9.3% to 7.6%, Yet, the Fed also committed further that near-zero rates will extend from 2021 to 2023. Chair Jerome Powell highlighted that the US economy is still not out of the woods, and while the Fed is not out of ammo, he called out for additional fiscal stimulus to support the economic recovery.

2. Any further fiscal support will have to be funded through debt, more issuance of US Treasuries. Mark Machin, the CEO and President of the Canadian Pension Fund Investment Board warned of the need to rethink its allocation to bonds, whether that's the right thing to do at the zero-bound. Rational investors will demand a higher yield, commensurate with the rising supply of US Treasuries. The steepening of the US Treasury yield curve will short-fuse any economic recovery. The Fed has no choice but be the buyer of last resort; continuing monetisation will push the US Fed balance sheet considerably higher. The US Dollar has to be collateral damage.

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3. Meanwhile, global equity markets have recovered, and with the US equity markets clearing pre Covid-19 level, there is downside risk. Many market watchers see a dislocation between economic reality and equity market performance. And there is also the risk of the upcoming US Presidential Elections and the ongoing US-China tensions. Our view remains unchanged. The US Federal Reserve remains the backstop to any economic and market dislocations. It is likely that more rather than less needs to be done. We remain constructive on Asian equity markets.

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