



Portfolio Managers' View

As at 24 November 2020

Fund Management Department

Malaysia

1. The KLCI closed at 1,578 @ 24.11.20. The stock market has increased by 6.8% since the end of the previous month. Healthcare (-5.2%), Oil and Gas (-1.0%) and Technology (-1.0%) was the worst performing sector in the last one week. YTD-2020, the KLCI has increased marginally by 0.3%.
2. Companies in the EMS (Electronics Manufacturing Services) sector such as ATA IMS and SKP Resources announced a strong rebound in 3Q earnings. Both companies surprised the market by announcing record quarterly earnings. ATA IMS 3Q Net Profit RM 52.3mil (QoQ +193%, YoY +68%) SKP Resources recorded 3Q Net Profit of RM 44.1 (QoQ +340%, YoY +77%). The strong results were due to: (i) shift in supply chain to Malaysia caused by the trade tensions between US-China (ii) demand for household appliances have increased due to work from home and learn from home trends. ATA IMS and SKP Resources are involved in the production of household appliances such as vacuum cleaners, air filters and hair dryers which saw a strong pick-up in demand and (iii) the two companies experienced upward revision in orders from a key customer during the 3Q. Our positive view on the EMS sector has played out well and we continue to be positive on this industry on the back of supply chain relocation trends and stronger order flow from a key customer in 2021.

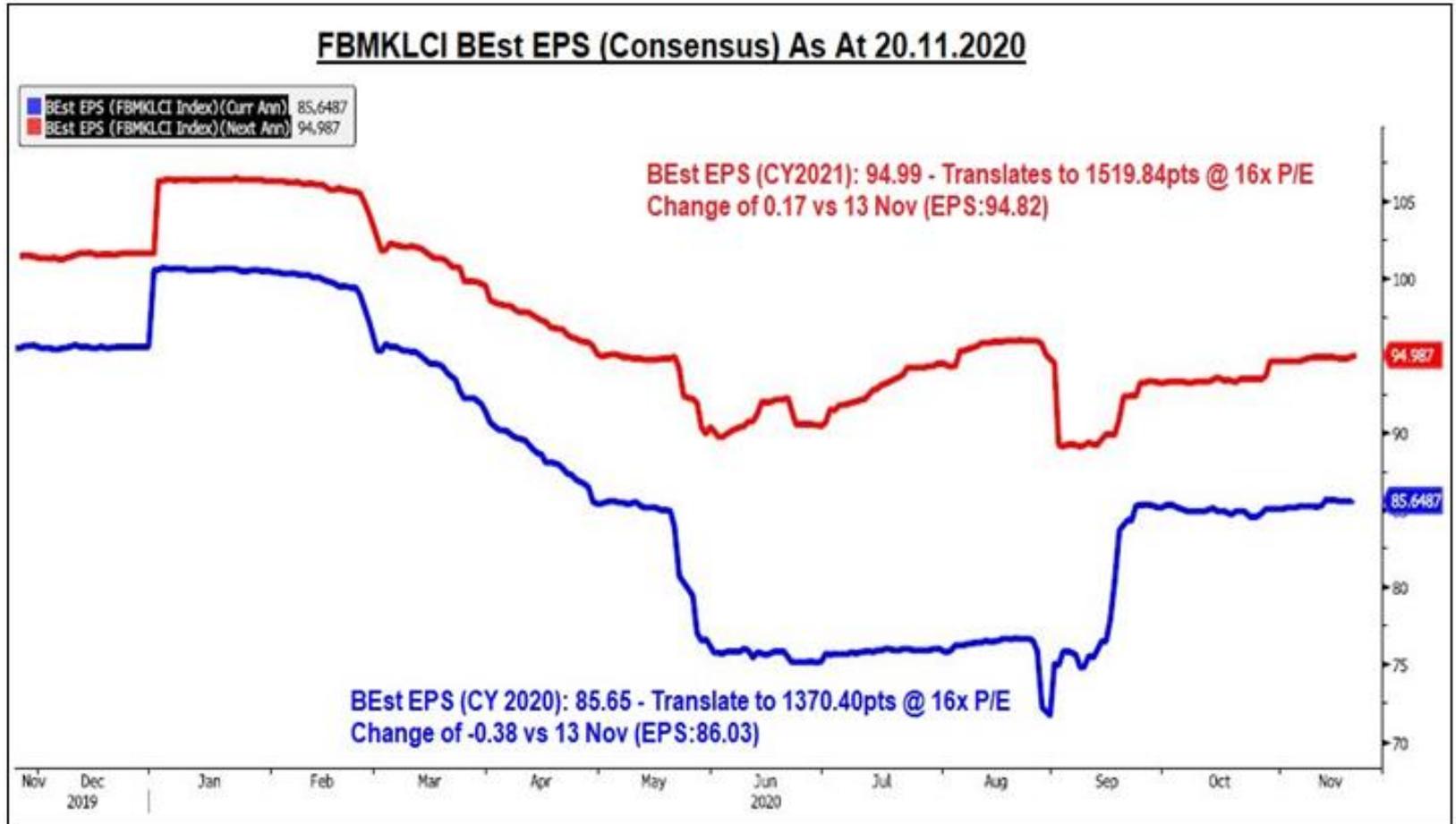
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3. On 26 Nov 2020, Parliament will vote to approve the Budget 2021. This will be a litmus test for Prime Minister Tan Sri Muhyiddin leadership. Assuming a scenario in which the Prime Minister fails to win majority support of the MPs, this may be construed as a no-confidence vote on the PM. The on-going political uncertainty remains a potential negative for the market.
4. Market received a further boost this week when another drug maker AstraZeneca announced a coronavirus vaccine which was 70% effective in preventing Covid-19 in their research. Together with the vaccine discovery announced by Moderna, Pfizer, and BioNTech, investor buying interest globally has rotated from momentum stocks into “cyclical and value plays”. On the back of these vaccine news the Dow Jones Industrial Average rallied above 30,000 points for the first time on 24.11.2020. This was spurred by investors increasing their exposure to economic recovery plays as the odds of a vaccine becoming available increase. News that the Trump administration has approved the presidential transition eased political concerns and buoyed sentiment. We expect the buying of cyclicals to continue into 2021 as investors focus on the recovery of the global economy.

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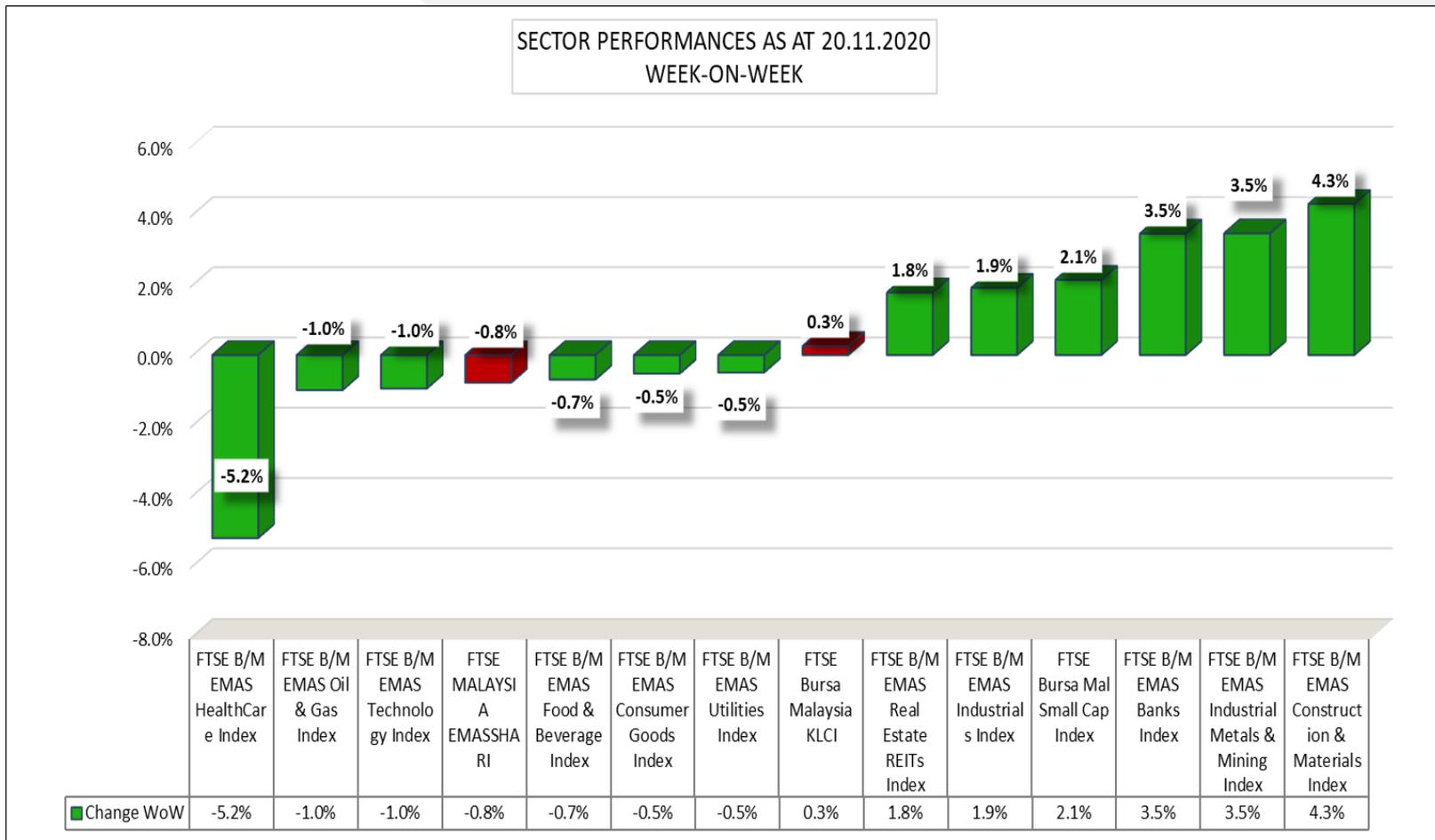
5. Consensus 2021 market eps has been cut by 11.2% from 106.5 sen @ end-Jan to 94.9 sen @ 20.11.20 (see Exhibit 1). At 1,578 @ 24.11.20, the market is trading at a PER of 18.4x/16.6x for CY20/CY21. The market's valuation for 2021 is above its 12M mean PER of ~16x. With the continued pressure on earnings (except for the glove and technology companies), political uncertainty and the negative drag on growth globally from the resurgence of Covid-19 infections, we maintain a bottom-up strategy of selecting companies which in our view have re-rating catalysts.

Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS)



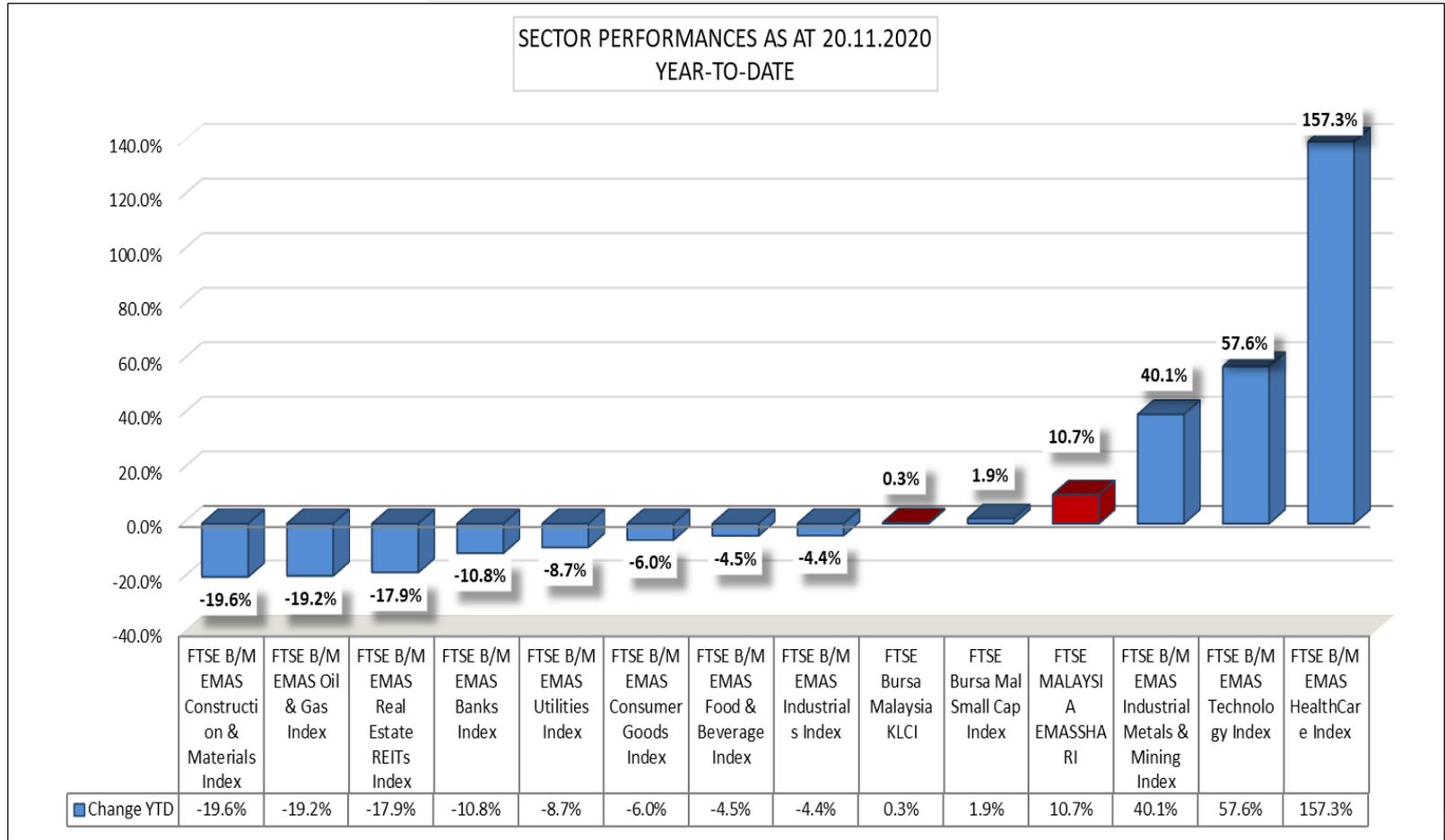
(Source: Bloomberg)

Exhibit 2 : Sector performances (Week-on-Week)



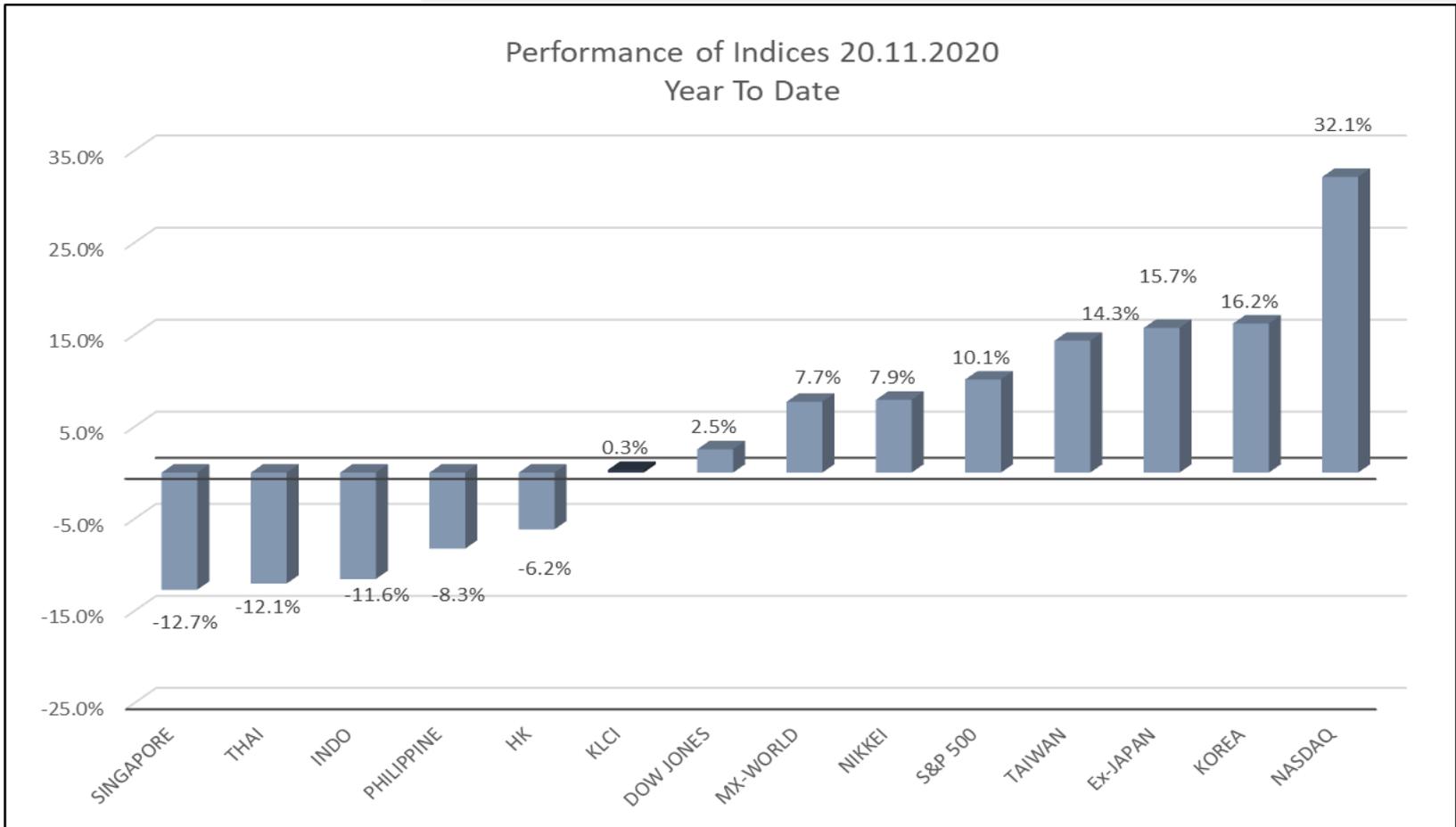
(Source: Bloomberg)

Exhibit 3: Sector performances (Year-to-Date)



(Source: Bloomberg)

Exhibit 4: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. If Covid-19 virus did not kill you, irresponsible politicians and civil servants will! Late last week, out-going Treasury Secretary Steve Mnuchin sent a letter to US Fed Chair Jerome Powell that said he would let certain emergency lending facilities created by the Coronavirus Aid, Relief, and Economic Security Act expire on 31st December 2020, citing what he saw as "Congressional Intent". He also requested that the US Fed return almost US\$200 billions of unused funds to the Treasury. The US Fed responded tersely on the "preference that the full suite of emergency facilities established during the coronavirus pandemic continue to serve their important role as a backstop for our still-strained and vulnerable economy".
2. A public spat between the US Treasury and the US Fed cannot be a good thing for sentiment. The equity markets may be looking forward to possibly ex US Fed Chair Janet Yellen succeeding as next Treasury Secretary. A Treasury 'put' in tandem with a Fed 'put' would be a dream tag-team but one hopes nothing dire falls into this short-term vacuum of transition. With equity markets having done so well, it does not take a lot to dislocate still fragile sentiment and trigger a domino effect.

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3. It may be the case now that the US Fed in its upcoming FOMC meeting in mid-December may have to deliver a stronger statement on its dovish stance. Monetary action certainly has its limitations but the US Fed is more likely to have to do more and early than less and later. We highlighted in last week's Soundbytes that the US Fed has no choice but to act as an even larger back-stop. We will know the answer in the next three weeks.

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