



## Portfolio Manager's View

24 August 2021

Fund Management Department

# Regional

1. The US top infectious disease expert Dr Anthony Fauci has warned that this Covid-19 pandemic may not be under control until the Spring of next year. This Covid-19 virus may continue to mutate and circulate, forcing us back into another situation similar to or worse than the current Delta variant. US President Joe Biden's declaration of a victory against Covid-19 on July Fourth looked premature.
2. Central Banks are likely to continue to be held hostage to Covid-19. After a single Covid-19 case forced New Zealand into a national lockdown, the New Zealand Central Bank delayed what had been a widely anticipated interest rate hike. While New Zealand policymakers flagged that tightening was still on the cards before year-end and the market forecast is for at least two hikes this year, we may not have any hikes at all. Reserve Bank of Australia Governor also said that he considered delaying tapering its bond purchases from September but decided against it. RBA may also need to reevaluate its monetary policy stance if the Covid-19 situation causes an economic deterioration.

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3. Dallas Federal Reserve President Robert Kaplan is one of US Federal Reserve's most forceful supporter for tapering asset purchases. Yet, last Friday, Robert Kaplan has come out to say that he may need to adjust that view if the Delta variant slows economic growth materially, as would many of the hawkish Fed members. This week's US Fed Jackson Hole Economic Policy Symposium may become a non-event as the taper thinking continues and the decision is to wait for one more meeting. The risk now, opposed to doing nothing, is to do the wrong thing.
4. Critics have been quick to label China an un-investable market after President Xi Jin Ping's new vision of "common prosperity" and wealth redistribution push. They should also pay attention to the topic of this year's US Fed Jackson Hole Economic Policy Symposium. "Macroeconomic Policy in an Uneven Economy" tells us that the concern remains a very patchy economic recovery fraught with great uncertainty and risks. "Uneven" also can refer to an increasingly more socialistic push to address rising inequality between the rich and the poor in America. Directionally, the West and the East are aligned in their social objectives.

# Malaysia

1. The KLCI closed at 1,553 @ 24.08.21, an increase of +1.96% MoM. Last week, Consumer Goods and F&B (+2.8%) were the best performing sectors. In contrast, Industrial & Metals (-1.5%) and Technology (-1.0%) were the worst performing sectors. Year-to-date @ 19.8.2021, the KLCI has retreated by -6.5%.
2. Last Friday, the Agong officially appointed UMNO-veteran DS Ismail Sabri Yaakob as the ninth Prime Minister (PM) of Malaysia following TS Muhyiddin Yassin's resignation. However, the appointment of Ismail Sabri is on the back of a thin majority of 114 MPs (minimum requirement is 111 MPs). Hence, he will still be tested by a vote of confidence once parliament reconvenes to solidify his position as the ninth PM. The political situation is likely to remain fluid despite the appointment and we expect the markets to react accordingly in the coming weeks. We prefer to seek shelter in the technology sector (which we are overweight in) for the coming weeks as they are less influenced by these near-term political issues.
3. The National Security Council (NSC) announced several SOP relaxations for fully vaccinated individuals. The opening for dine-in and some retail formats will be allowed for the fully vaccinated. Additionally, the NSC also announced that

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companies with at least 80% vaccinated employees will be allowed to operate at full capacity. We view these developments to be very positive for market sentiment as an improving economic outlook should translate to better corporate earnings.

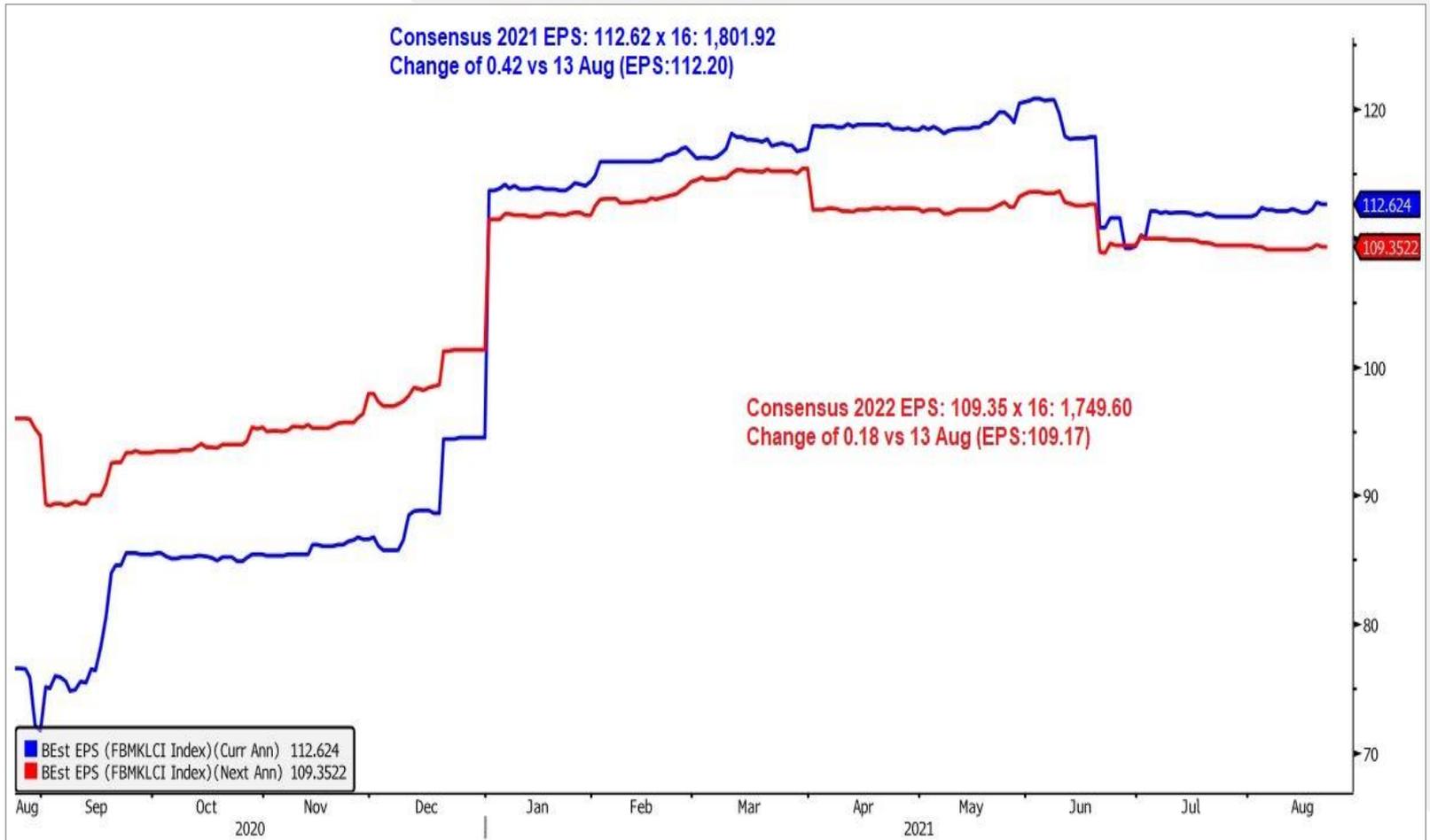
4. Brent Crude Oil fell from \$76/barrel to \$69/barrel as sentiment was affected negatively by rising fear that the Delta variant will crimp oil demand. However, despite these near-term concerns, the bigger picture is that Brent has been substantially recovering YTD and we expect demand and price to remain elevated (Exhibit 5) moving into FY2022 as countries become more adept at managing the resurgence of COVID cases. Based on the Minister of Finance's (MoF) initial oil price assumption for Budget 2021 of \$42, current Brent prices would effectively translate to an extra RM8.1 billion revenue for further expenditure.
5. DigiTimes reported that semiconductor equipment manufacturers posted record billings worldwide for the seventh consecutive month. As of July 2021, billings are at \$3.86 billion (+4.5% YoY and +49.8% QoQ). This is due to strong capacity expansion plans across the semiconductor manufacturing supply chain as

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countries drive their digital transformation goals. Hence, we view this to be very positive for Malaysia's equipment players that are also exposed to this growing structural trend.

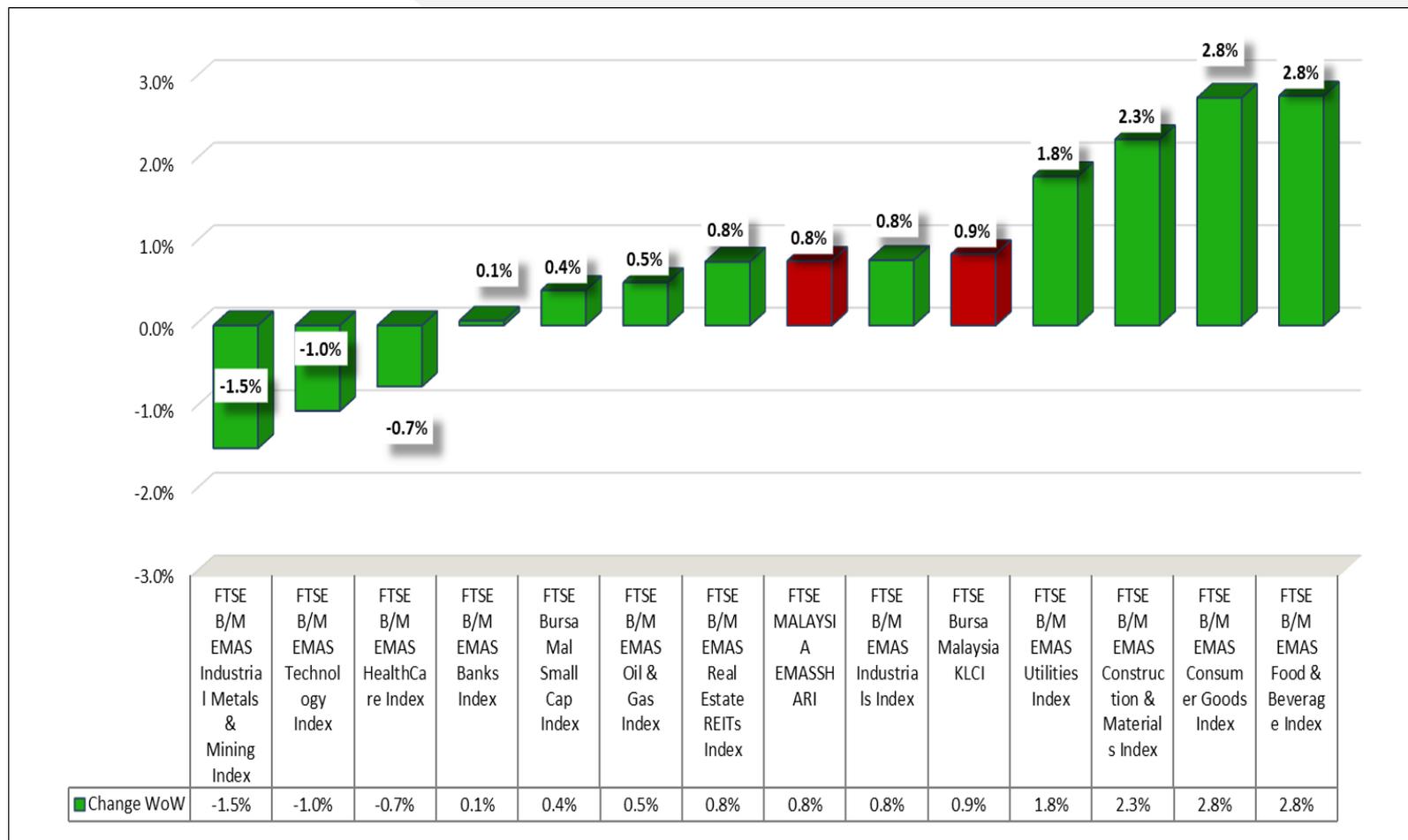
6. Valuation remains the market's silver lining. Based on KLCI at 1,553 @ 24.08.2021 and assuming a market eps integer of 112/109, the market is trading at a PER of 13.9x/14.2x for CY21/CY22 respectively. This is nearly -2 standard deviation below its 7-year mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 17.6/15.4x in CY21/CY22 respectively (vs the 5 year average ex-gloves PER of 19.4x). A meaningful re-rating will require enduring and far-reaching reforms. The market appears to have missed an opportunity to reset following the change in leadership. Nevertheless, with foreign shareholding and valuation at multi-year lows, we believe the risk-to-reward ratio for the KLCI is reasonable in the longer-term.

# Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 19.08.21



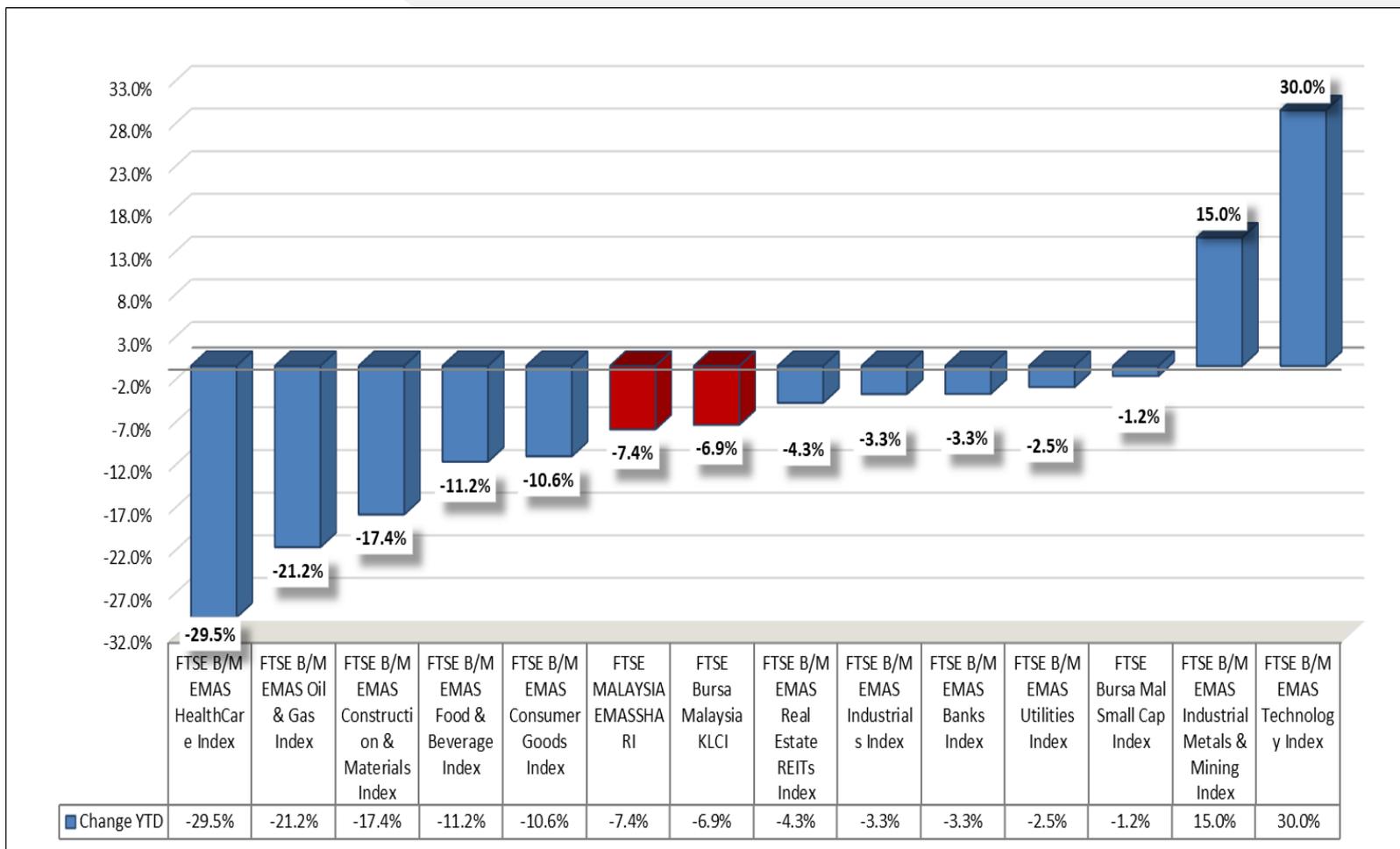
(Source: Bloomberg)

## Exhibit 2 : Sector Performances (Week-on-Week) @ 19.08.21



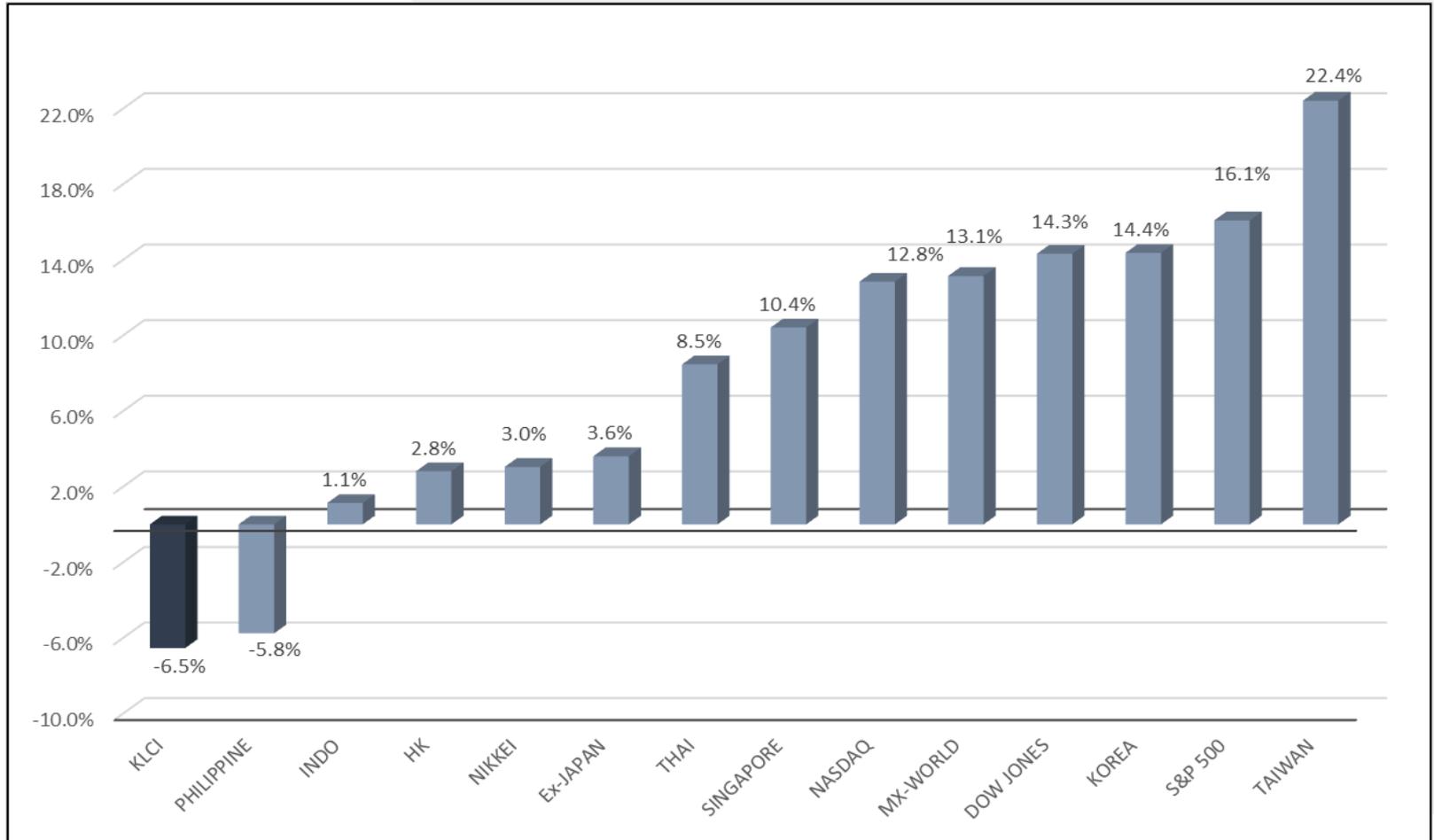
(Source: Bloomberg)

### Exhibit 3 : Sector Performances (Year-to-Date) @ 19.08.21



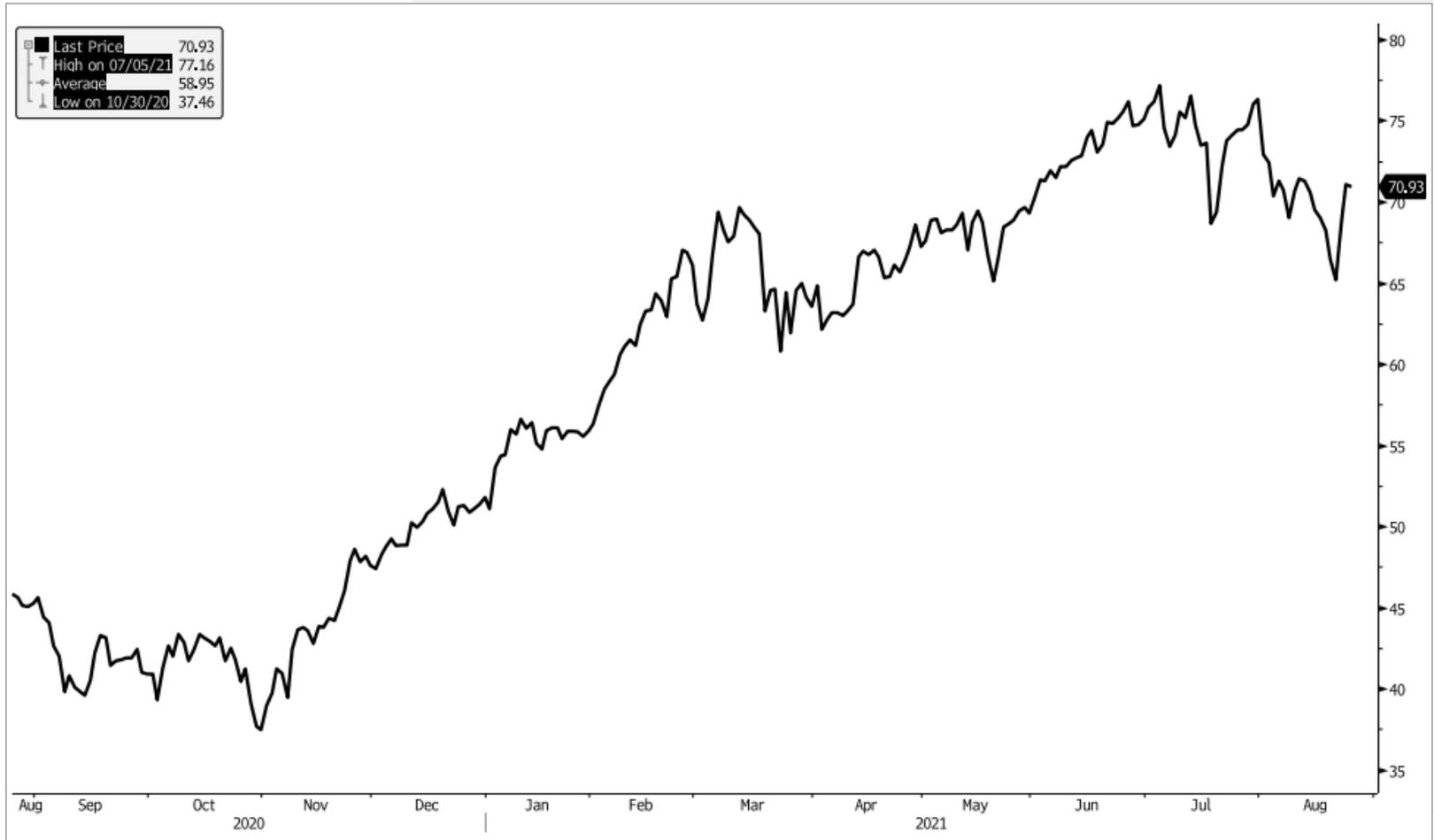
(Source: Bloomberg)

## Exhibit 4 : Performance of Indices (Year-to-Date) @ 19.08.21



(Source: Bloomberg)

## Exhibit 5 : Brent Crude Oil Price



(Source: Bloomberg)

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