Portfolio Managers' View

As at 22 December 2020

Fund Management Department

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Malaysia

1. The KLCI closed at 1,629 @ 22.12.20, up +2.2% M-o-M. Last week, Construction (+4.6%) were the best performing sectors while Healthcare (-6.5%) were the worst performing sectors. YTD @22.12.2020, the KLCI has increased by +2.7%. If the KLCI manages to hold on to its gains till the end of the year, it will be the second time only in the last 7 years that the KLCI has delivered positive returns.

2. Month to date @ 18.12.20, foreigners net sold RM 828.1mil of equities. The net selling trend has continued for 52 consecutive weeks. The YTD foreign net sell as at 18.12.2020 was RM 24.8bil. This was significantly higher than the net sell of RM 11.1bil for the whole of 2019. The 12M outflow has surpassed the highest ever annual foreign outflow of RM 19.7bil in 2015.

3. Global market sentiment was weak after UK Prime Minister Boris Johnson declared a lockdown in various parts of the country in an effort to contain a new strain of the coronavirus. This has prompted nations around the world to close their boarders to the UK due to fears of the new strain of coronavirus. This shows that global markets remain sensitive to the ebb and flow of this pandemic. Currently, more than 2.1mil people across the globe are estimated to have been vaccinated.

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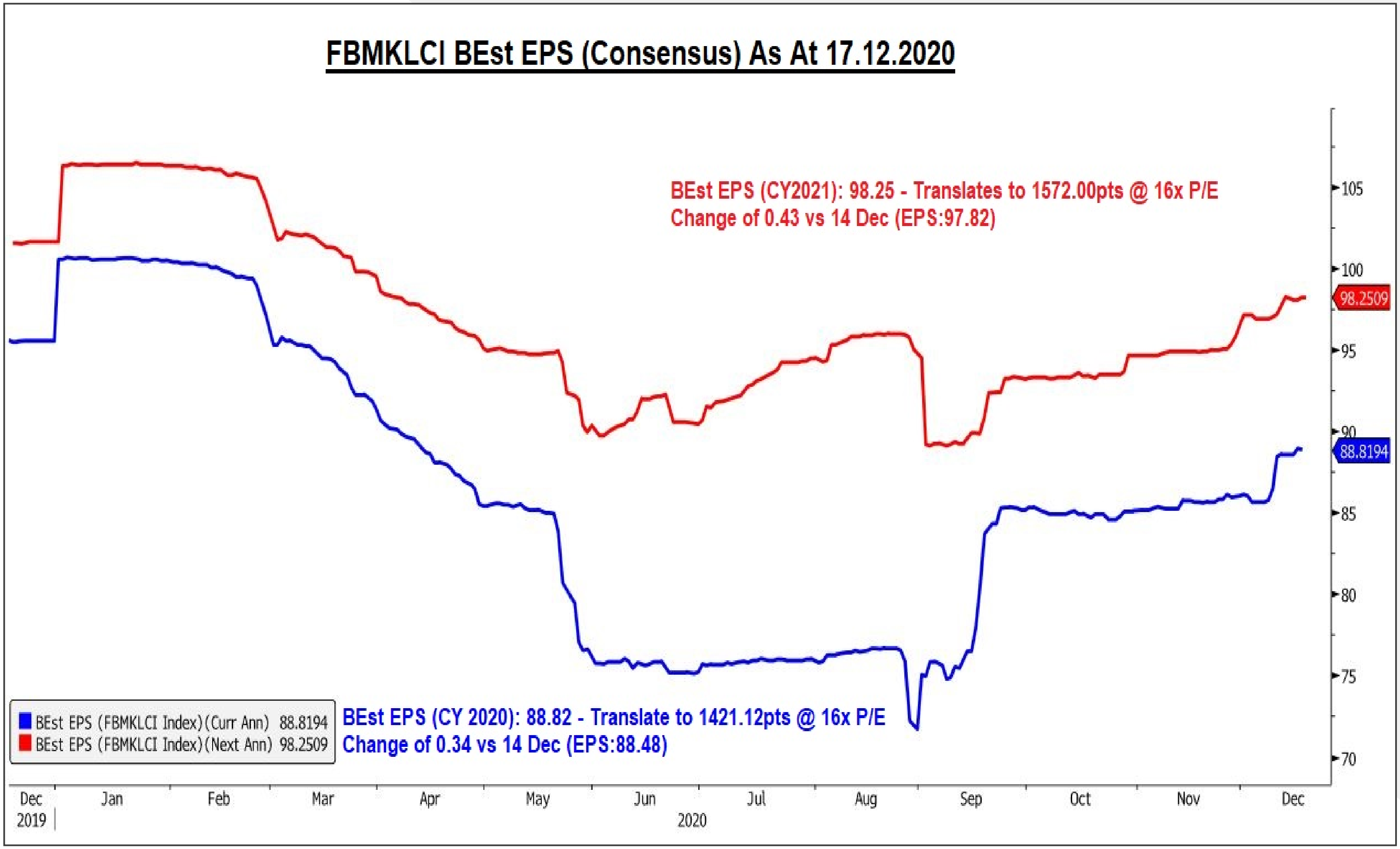
4. We continue to be Overweight technology across our funds as we believe the structural drivers for the sector remain intact. In some portfolios, we have added selective laggard and/or value plays whose earnings will fare better when the economy recovers from the pandemic. As always, our discipline is to invest in companies which in our view have identifiable catalysts which will drive a rerating of their share prices.

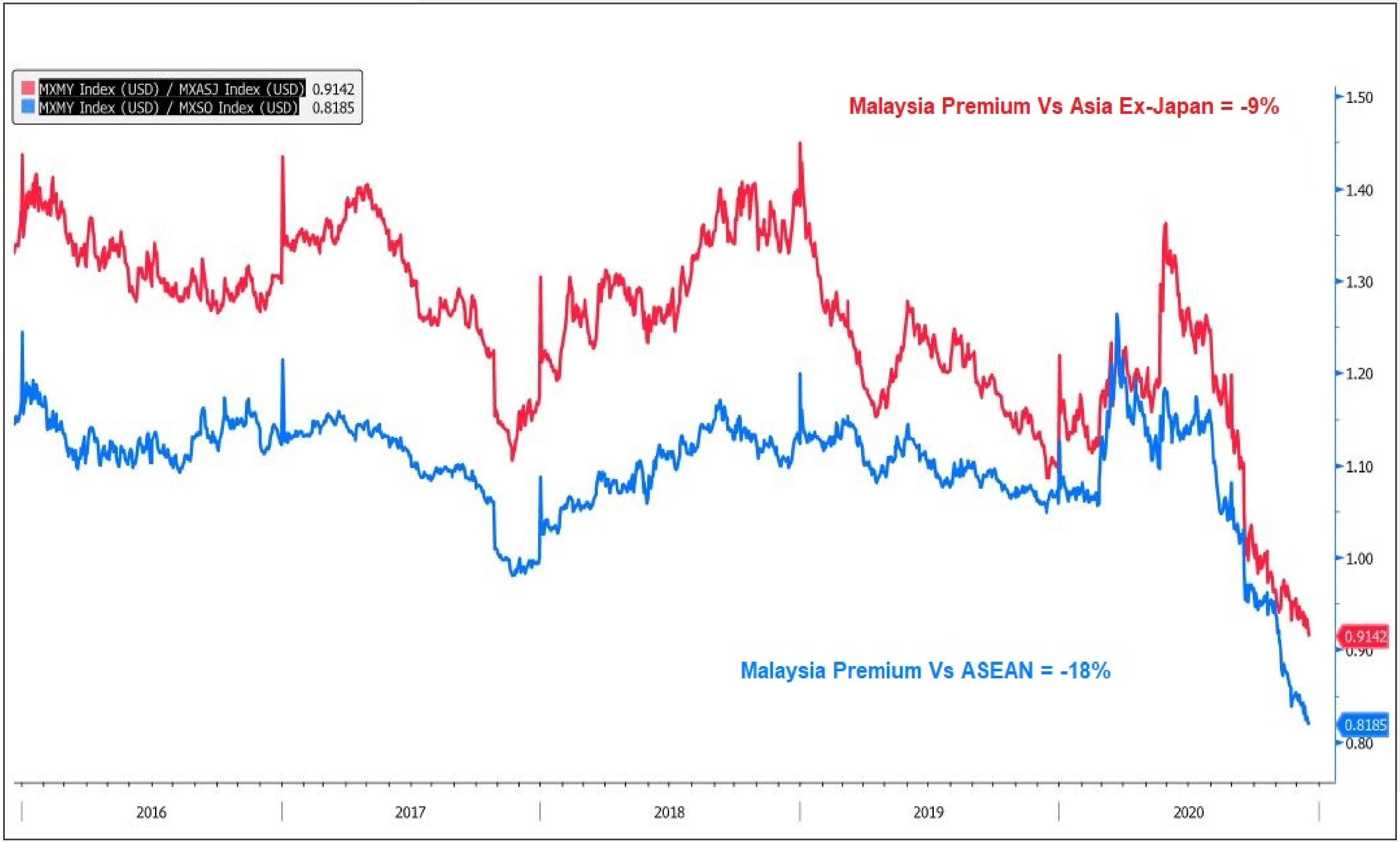
5. Interestingly, consensus 2021 market eps estimate has moved up from RM 88 in early Sep-20 to RM 98 currently. At 1,629 @ 22.12.20, the market is trading at a PER of 17.3x/16.2x for CY20/CY21 respectively. The market's valuation for 2021 is in line with its 12M mean PER of ~16x. The 3Q reporting season has indicated that consensus may be erring on the conservative side in their estimates for 2021. Separately, Malaysia is currently trading at a 9% discount to Asia ex-Japan's 2020 PE multiple. This discount is at its widest level in the last 5 years (see Exhibit 2).

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



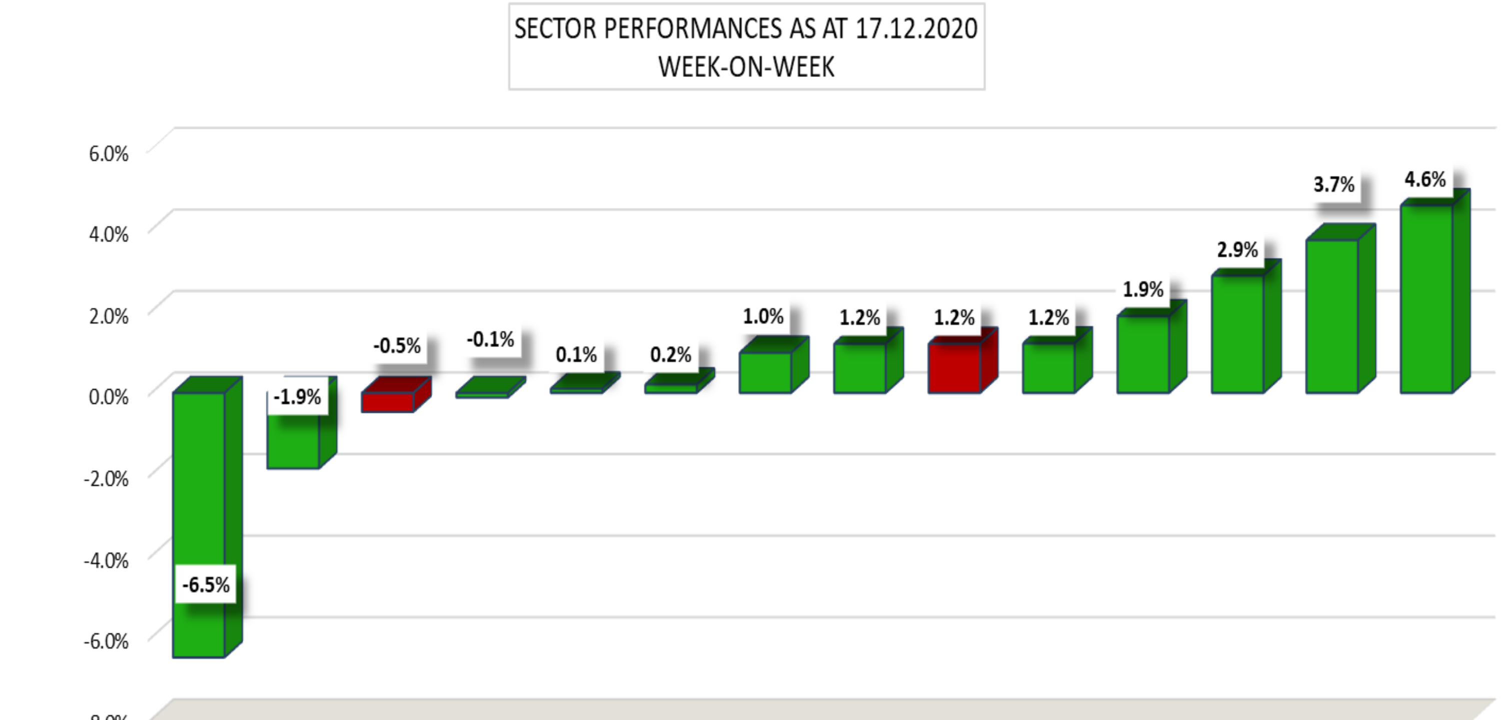
(Source: Bloomberg)

Exhibit 2: MSCI Malaysia P/E vs MSCI EX-Japan vs MSCI ASEAN P/E.



(Source: Bloomberg)

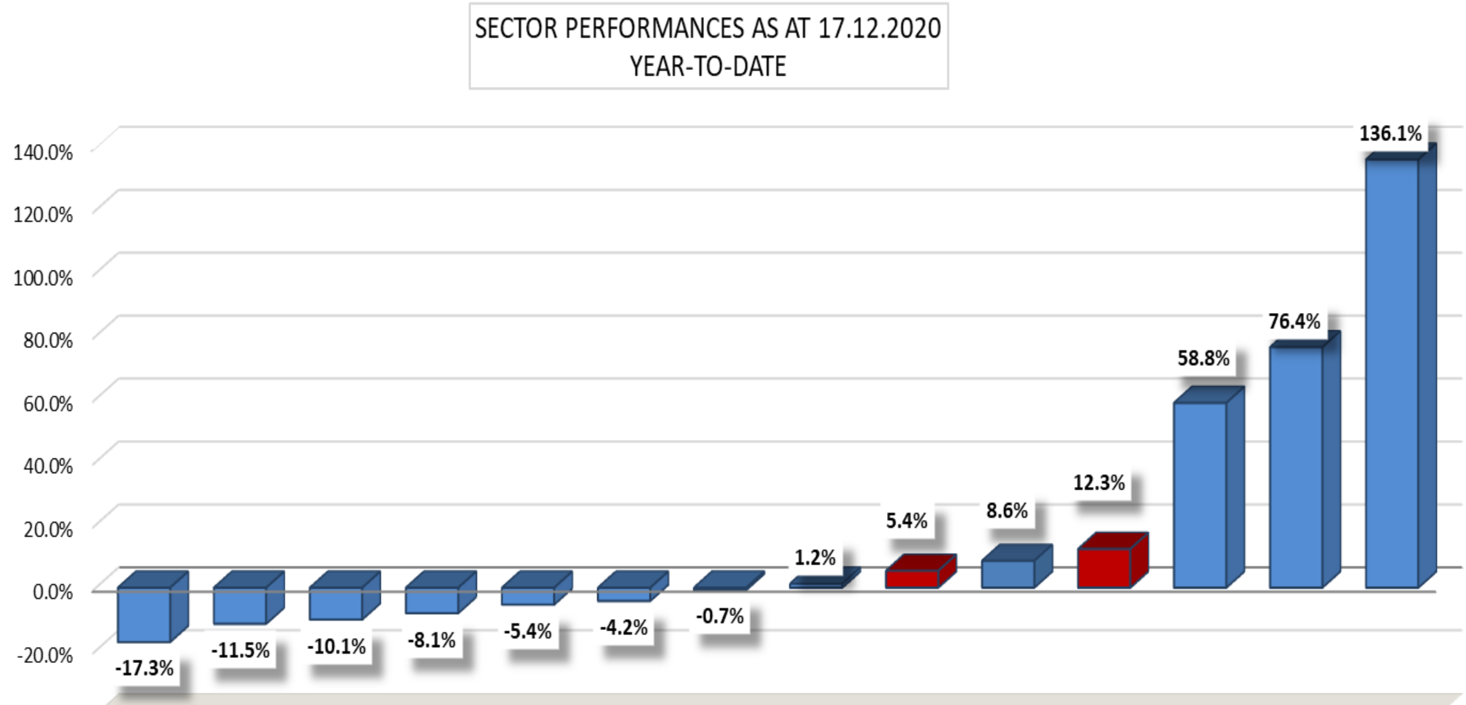
Exhibit 3: Sector performances (Week-on-Week)



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Oil & Gas Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Construction & Materials Index
Change WoW	-6.5%	-1.9%	-0.5%	-0.1%	0.1%	0.2%	1.0%	1.2%	1.2%	1.2%	1.9%	2.9%	3.7%	4.6%

(Source: Bloomberg)

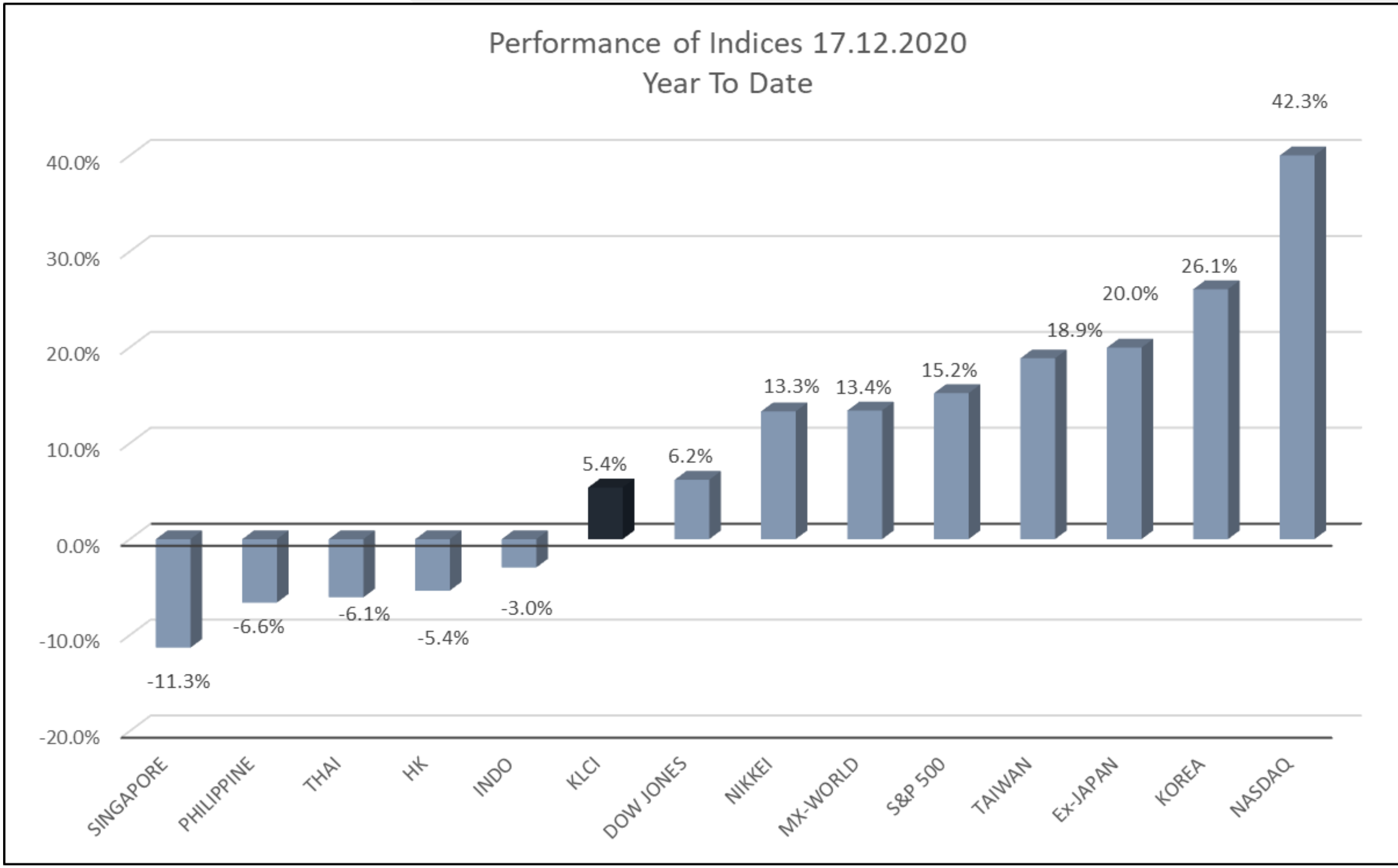
Exhibit 4: Sector performances (Year-to-Date)



	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Banks Index	FTSE Bursa Malaysia KLCI	FTSE Bursa Mal Small Cap Index	FTSE MALAYSIA EMASSHA RI	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS HealthCare Index
Change YTD	-17.3%	-11.5%	-10.1%	-8.1%	-5.4%	-4.2%	-0.7%	1.2%	5.4%	8.6%	12.3%	58.8%	76.4%	136.1%

(Source: Bloomberg)

Exhibit 5: Performance of Indices Year to Date



(Source: Bloomberg)

Regional

1. We wondered why UK was so quick in granting approval for the Pfizer Covid-19 vaccine. The British Government went as far as granting Pfizer civil legal indemnity. Well, we now know that this mutated Covid-19 variant that is currently plaguing the UK may be 70% more infectious. More importantly, it is said to have been first detected in September before the blow-out in December.

2. The sharp equity market rally, post the US Presidential Election and coinciding with Pfizer and Moderna's announcements of successful vaccine trials, had investors looking beyond to a global economic normalisation by mid to late 2021. Optimism may be justified but certainty also fraught with short-term bumps. The situation is vindicated by the sell-offs in emerging equity and oil markets this week as spikes in new Covid-19 confirmed cases across Hong Kong, Korea, and Thailand, three Asian countries that have proven earlier their success in navigating the Covid-19 outbreaks. And closer to home, Malaysia's Covid-19 daily new cases remain exceeding high too. However, unlike the initial outbreak, where uncertainty was at its extreme, we now have healthcare systems that are more prepared, sufficiency in test-kits, rubber gloves, PPE, possibly more vaccine success going into 2021. A pull-back in equity markets is justified but hopefully will not derail the trajectory.

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3. There are those who were disappointed that the US Fed did not appear dovish enough as she steered clear of extending asset purchases towards the longer-end of Treasuries tenure. Nonetheless, asset purchases, which were supposed to continue for the coming months, have now been "extended until substantial further progress has been made toward the Committee's maximum employment and price stability goals." As and when that scale-back comes, it has surely been extended further by this recent bout of Covid-19 spike. That can only mean a longer runway for partaking in risky investing behaviour. For as long as it last, make hay while the sun shines.....

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