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

# Portfolio Manager's View

30 March 2021

Fund Management Department

# Regional

1. Equity markets globally oscillated between risk-on optimism and risk-off pessimism. On one side, economic normalisation should bring about a recovery but which threatens run-away inflation, forcing the hands of the US Federal Reserve to tighten monetary policy earlier than expected, bringing an end to this amazing equity rally. On the other hand, escalating new Covid-19 cases across Europe is forcing various Governments to go into renewed lockdowns (ditto possibly the rest of the world too), the risk that any monetary normalisation will be premature and derail the fragile recovery.

2. How far out should investors discount, particularly when fraught with so many variables to the uncertainty? It is fair to say normalisation is likely 9 months to a year ahead with vaccination having achieved a certain level of herd immunity. Central Banks globally are likely to refrain from reining in liquidity before they are confident of a sustained turnaround.

3. Which leaves the issue of Inflation the elephant in the room. The US Federal Reserve wants us to believe that this is transitory. Rightfully so, in our view too, particularly that we are comparing off a low base effect yoy at the height of the Covid-19 pandemic. Last week's +1.4% yoy US Core PCE (Personal Consumption

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Expenditures) should alleviate some concerns. Nonetheless, we do expect a pickup in inflation in the coming months to heighten market volatility. We will get past this transitory stage, which is an opportunity of weakness to invest.

4. News reports have the Joe Biden Administration's pending infrastructure stimulus as big as US$3 trillion. This massive spending will burden further the indebtedness of the US Government, a structurally weaker US Dollar is a likely consequence. This economic multiple effect, as well as the necessity of inventory rebuilding post Covid-19 normalisation, will create demand that will benefit the world's largest supply base, right here out in Asia.

5. There are two schools of thought on Inflation. A higher trajectory of economic growth leading to higher inflation is actually good inflation. This is not Stagflation, question is which camp you are in.....

# Malaysia

1. The KLCI closed at 1,609 @ 30.03.21, an increase of +2.1% M-o-M. Last week, Oil &Gas (-3.2%), and Technology (-2.7%) were the worst performing sectors. Year-to-date @ 25.03.21, the KLCI decreased by -1.8%.

2. Malaysia recorded its highest exports growth of 17.6% YoY in Feb-21 (vs 6.6% YoY in Jan-21) since Oct 2018. The trade surplus widened to RM 17.9bil in Feb-21 (vs RM 16.6bil in Jan-21). This is the 10th consecutive month of trade surplus since May 2020. Exports were driven by electrical and electronics (+26% YoY), petroleum products (+32% YoY) and rubber products (+189% YoY). The trade momentum did not slow down despite the seasonal effect of fewer working days due to the Lunar New Year holidays.

3. FTSE Russell announced at its bi-annual review that Malaysia has been removed from its Watch List for a potential downgrade. Malaysia remains in the World Government Bond Index. This brought welcome relief to the bond market as the potential outflow was estimated to be RM 24-33bil (source: Maybank).

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4. Month to date @ 26.03.21, foreigners net bought 185.8mil of equities. The YTD foreign net sell as at 26.3.2021 was RM 1.5bil. In 2020, Malaysia recorded its highest ever annual foreign outflow of RM 24.6bil. Foreigners have been net sellers of Malaysia equities in 6 out of the last 7 years.

5. Local INSTITUTIONS have been net sellers for 17 consecutive weeks (-RM 5.6 bil). Local RETAILERS have absorbed this selling and have been net buyers during period (+RM 6.5 bil). Local retailers have been net buyers for 28 consecutive weeks. The implication is if retail sentiment turns negative, the market may see some weakness.

6. Consensus 2021 market eps estimate has risen from RM 88.8 in Dec-20 to RM 117.3 currently. This was largely due to earnings upgrades for Genting, Press Metal, CIMB, Petronas Dagangan, and Genting Malaysia. In 2021, the forecast EPS integer is flattered by the strong earnings of the glove makers (due to high selling prices and exceptionally strong demand). The EPS integer for 2022 is forecast to decline by -2.3% YoY to RM 114.6.

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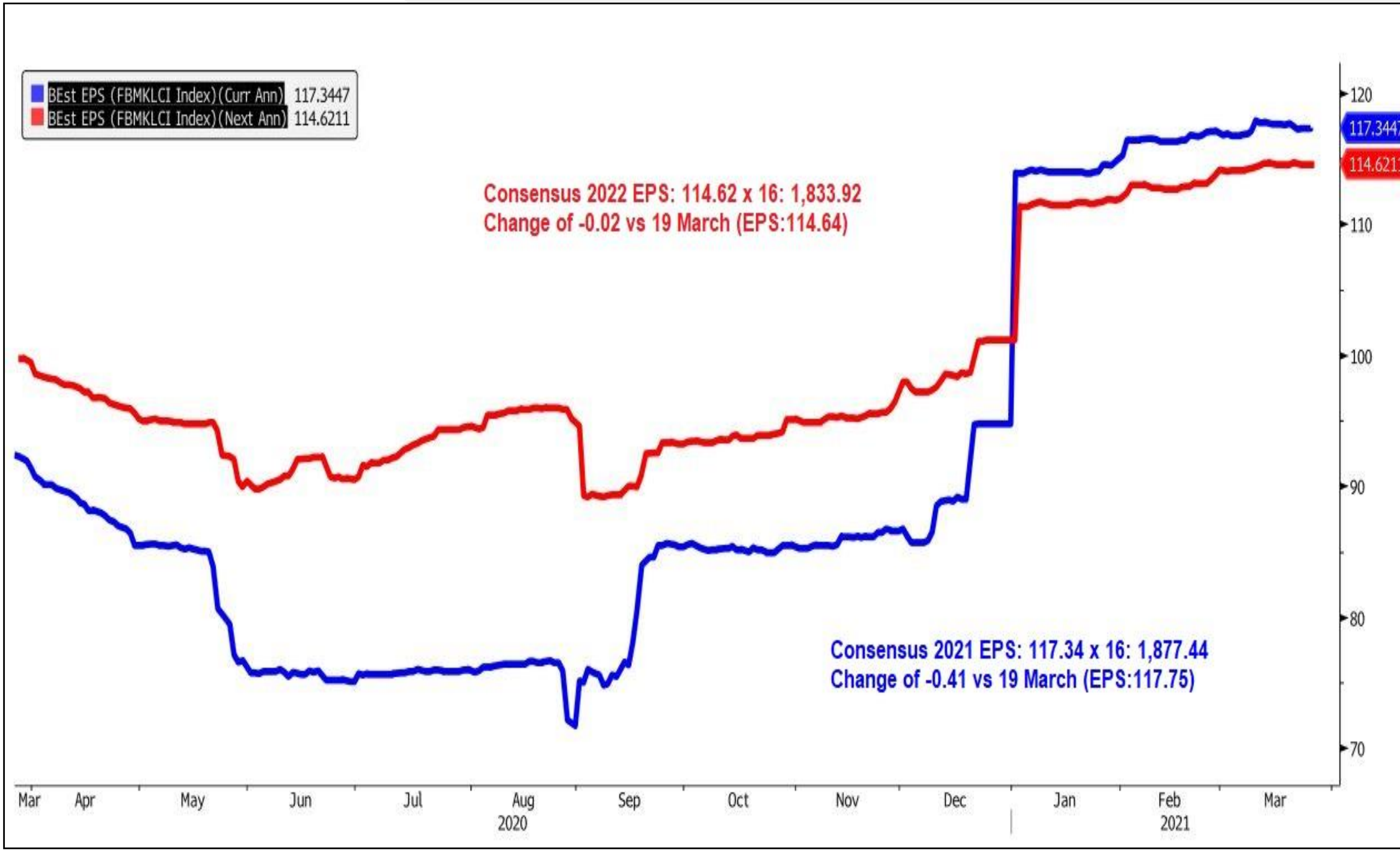
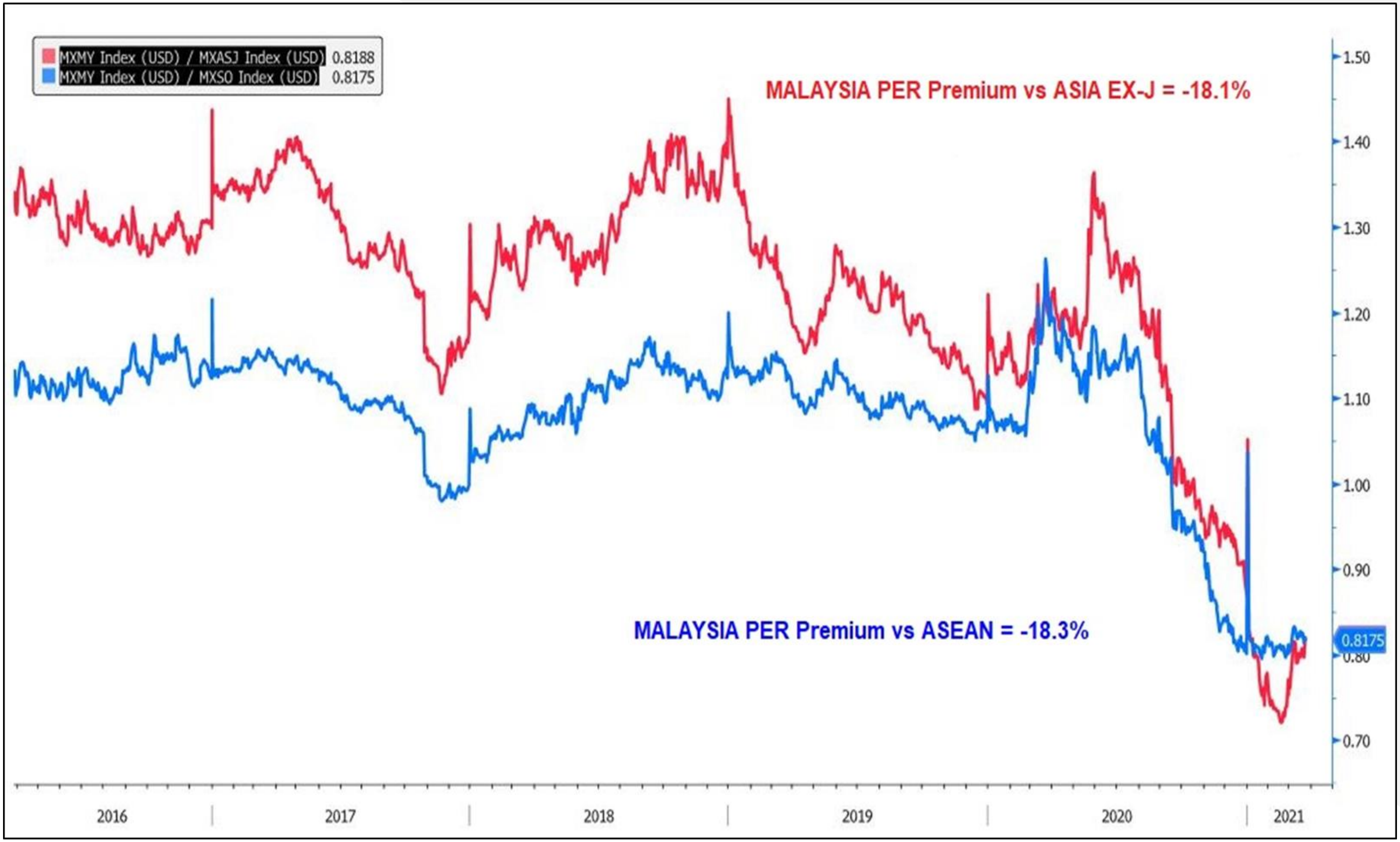
7. At 1,609 @ 30.03.2, the market is trading at a PER of 13.7x for CY21 respectively. The market's valuation for 2021 is at a 14% discount to its 12M mean PER of ~16x. Separately, Malaysia is trading at an 18.1% discount to Asia ex-Japan's 2021 PER of 16.8x (see Exhibit 2). This is the steepest discount in the last 5 years and reflects the consistent outflow of foreign funds from Malaysia in recent years. As most foreigners are significantly Underweight Malaysia, we do not foresee foreign selling to be a major negative going forward.

# Exhibit 1: FBMKLCI Consensus Earnings Per Share (EPS) @ 25.03.21



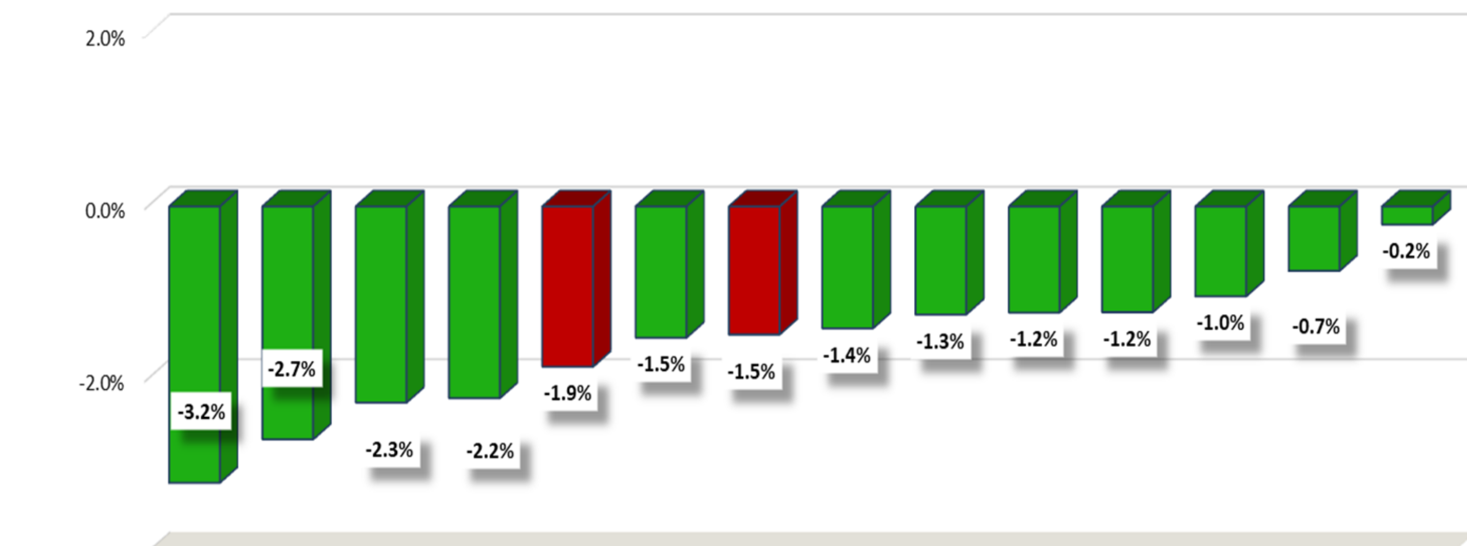

*(Source: Bloomberg)*

# Exhibit 2: MALAYSIA P/E is at a discount to the region @ 25.03.21




*(Source: Bloomberg)*

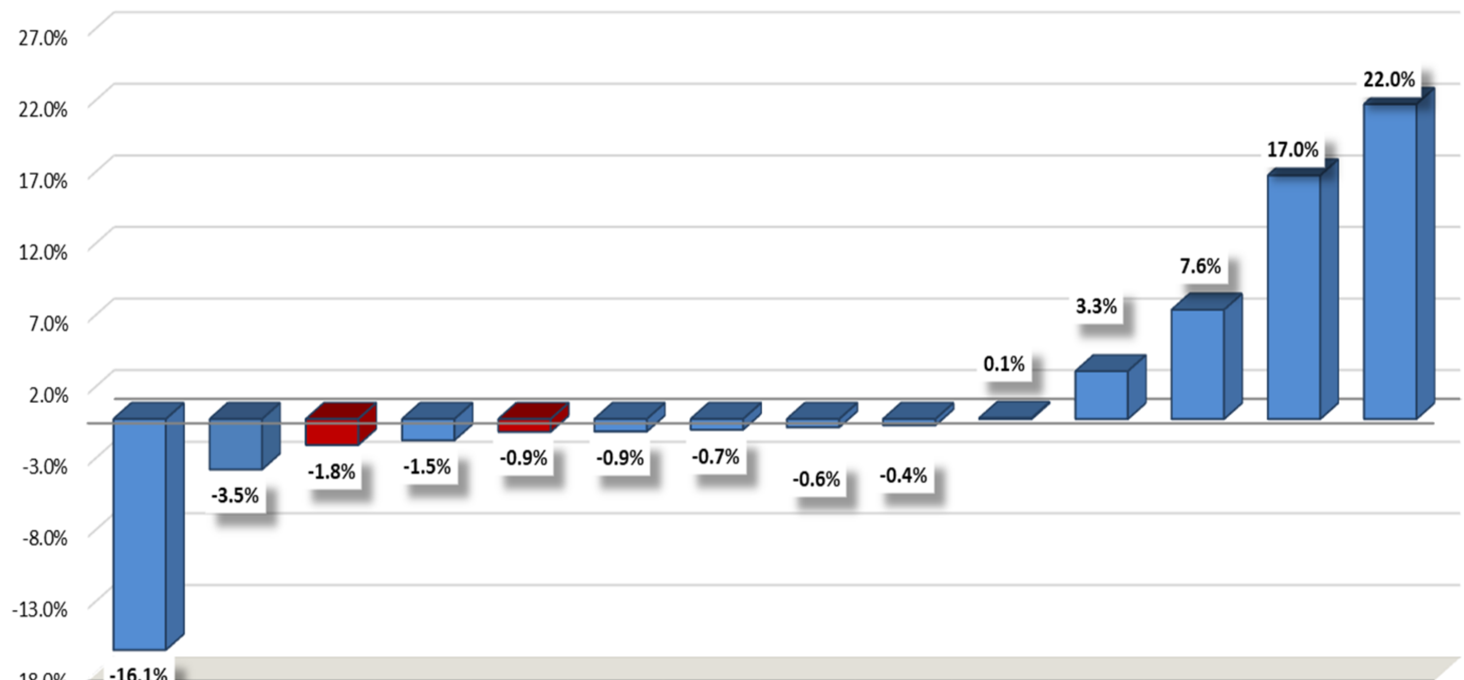
# Exhibit 3: Sector Performance (Week-on-Week) @ 25.03.21




| | FTSE B/M EMAS Oil & Gas Index | FTSE B/M EMAS Technology Index | FTSE B/M EMAS Industrial Metals & Mining Index | FTSE B/M EMAS Banks Index | FTSE Bursa Malaysia KLCI | FTSE B/M EMAS Food & Beverage Index | FTSE MALAYSIA EMASSHARI | FTSE B/M EMAS Consumer Goods Index | FTSE B/M EMAS Utilities Index | FTSE B/M EMAS Real Estate REITs Index | FTSE B/M EMAS HealthCare Index | FTSE Bursa Mal Small Cap Index | FTSE B/M EMAS Construction & Materials Index | FTSE B/M EMAS Industrials Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Change WoW | -3.2% | -2.7% | -2.3% | -2.2% | -1.9% | -1.5% | -1.5% | -1.4% | -1.3% | -1.2% | -1.2% | -1.0% | -0.7% | -0.2% |

*(Source: Bloomberg)*

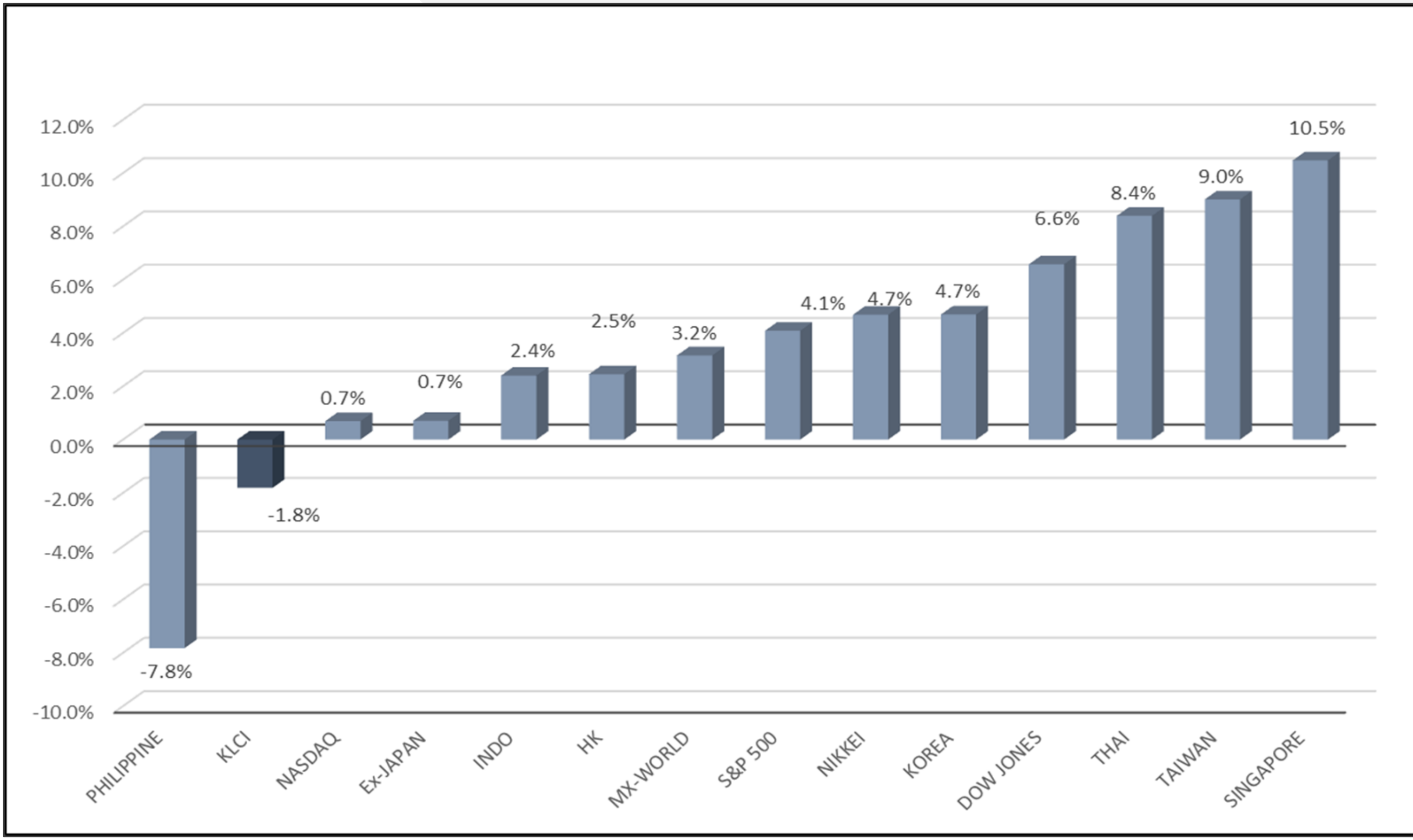
## Exhibit 4 : Sector Performance (Year-to-Date) @ 25.03.21




| | FTSE B/M EMAS HealthCare Index | FTSE B/M EMAS Oil & Gas Index | FTSE Bursa Malaysia KLCI | FTSE B/M EMAS Food & Beverage Index | FTSE MALAYSIA EMASSHA RI | FTSE B/M EMAS Consumer Goods Index | FTSE B/M EMAS Real Estate REITs Index | FTSE B/M EMAS Banks Index | FTSE B/M EMAS Construction & Materials Index | FTSE B/M EMAS Utilities Index | FTSE B/M EMAS Industrials Index | FTSE Bursa Mal Small Cap Index | FTSE B/M EMAS Industrial Metals & Mining Index | FTSE B/M EMAS Technology Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Change YTD | -16.1% | -3.5% | -1.8% | -1.5% | -0.9% | -0.9% | -0.7% | -0.6% | -0.4% | 0.1% | 3.3% | 7.6% | 17.0% | 22.0% |

*(Source: Bloomberg)*

# Exhibit 5 : Performance of Indices (Year-to-Date) @ 25.03.21




*(Source: Bloomberg)*

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