Portfolio Manager's View

11 May 2021

Fund Management Department

Regional

1. This global economic recovery is the most uneven recovery in history, the most disparate between the rich and the poor. And until the worst-off of this Covid-19 pandemic are lifted out of this mess, it is highly unlikely that the US Federal Reserve can be in a position to reverse the course of monetary accommodation. Nonetheless, there is certainly some froth in certain asset markets that have the US Federal Reserve concerned.

2. Moral suasion looks the way to address this froth. US Treasury Secretary Janet Yellen spoke of the need for interest rates to rise "somewhat" as government stimulus should help the US economy recover faster. US Federal Reserve board member Lael Brainard spoke of the importance in making sure the system has proper safeguards as asset prices are vulnerable to significant declines should risk appetite falls. We sure hope that this was the right time to say the wrong thing if moral suasion is the intention.

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3. The US and China plan on a meeting soon to discuss the progress of the US-China Trade Deal Phase One. If the Biden Administration intends to play hardball as did the Trump Administration, investors may not take kindly to a unfavourable outcome. As it is now, inventory shortages in the US is leading to a massive restocking that will only widen the US trade deficit with China. Lest the Trump Administration continues to claim credit for the successful battle against China, lets be reminded that the inventory shortages resulted from American corporates running lower inventories to avoid paying tariffs in hopes that the trade war would go away. The Covid-19 pandemic only made the inventory situation worse. The Biden Administration should know better than to compound the situation now.

4. Asia remains a sweet spot with monetary accommodation and manufacturing momentum. Normalisation out of Covid-19 will be another bright spot to look forward to. We are positive Asia.

Malaysia

1. The KLCI closed at 1,577 @ 11.05.21, decreased by -1.9% M-o-M. Last week, Industrial Metal & Mining (+0.3%) was the best performing sector. Meanwhile, Healthcare (-8.4%) and Technology (-5.2%) were the worst performing sectors. Year-to-date @ 06.05.2021, the KLCI has retreated by -3%.

2. Last Week, Bank Negara Malaysia (BNM) kept OPR at record-low at 1.75% for the fifth consecutive meeting. To recap, BNM had lowered its OPR by a total of 125 bps in 2020. In Mar 2021, inflation rose to +1.7% (vs -1.2% in 2020). This comes as inflationary pressure rise due to higher commodity prices such Brent crude prices (US$ 68 bbl/d in May 2021 vs US$ 56 bbl/l in 2020), BNM noted that inflationary pressures were largely driven by the low base and cost push factors. Consensus is not expecting further rate cuts from BNM this year and expects BNM to maintain OPR at 1.75% throughout the year.

3. The Malaysia Prime Minster announced that Malaysia will be placed under Movement Control Order (MCO) from 12 May to 7 June. This comes as a negative surprise as the government has shifted from a targeted MCO approach to a blanket MCO. An estimate from a local bank suggests that every month of MCO could shave 0.3% from GDP growth for 2021 and raise the estimated daily economic losses to RM 300mil per day vs RM 200mil per day for a targeted MCO.

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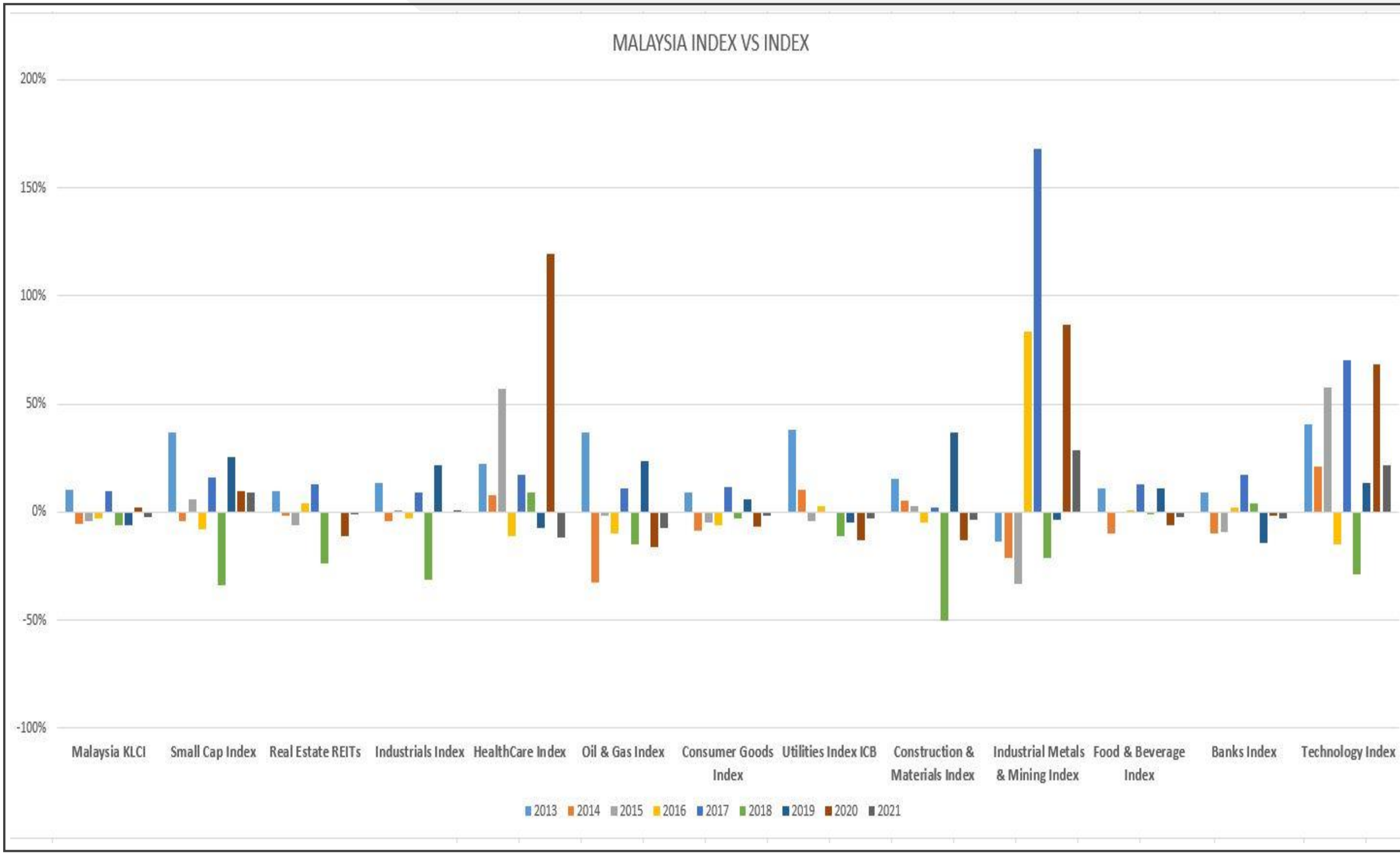
4. The Malaysia's Technology sector declined by -9.3% MoM. This comes as investors rotate out of growth names and into value, commodities & cyclical exposures amid rising fears of inflation and higher interest rates. We continue to maintain our positive view on the sector in the longer term. Exhibit 1 highlights the sectoral performance of Bursa Malaysia between 2013 and 2020. Since 2013, the technology sector had only 2 years of negative returns (2016 & 2018). In addition, our research shows that the average annual return for the technology sector between 2013 and 2020 was 28% p.a. vs -0.3% p.a. for the KLCI. Clearly, the technology sector was one of the best sectors to have been invested in on Bursa Malaysia in the last 8 years.

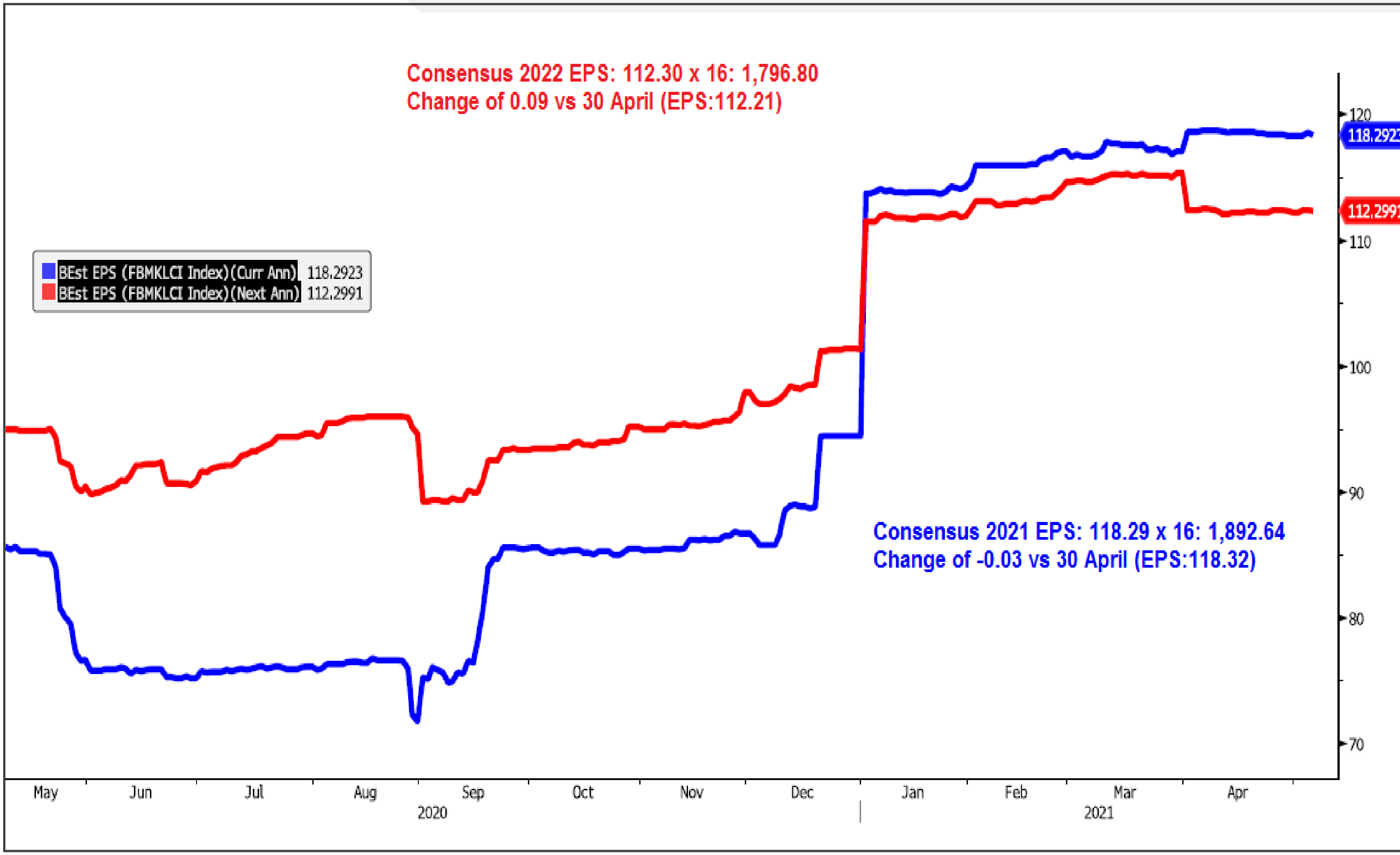
5. At 1,577 @ 11.05.21, Malaysia market is trading at a PER of 13.3x for CY21. The market's valuation for 2021 is at a 16.9% discount to its 12M mean PER of ~16x. The market's valuation is flattered by the low PERs of the glove companies. Excluding the latter, the KLCI is trading nearer to 18.0x (source: AISB). Separately, Malaysia is trading at a 20% discount to Asia ex-Japan's 2021 PER of 16.2x (see Exhibit 3). This is the steepest discount in the last 5 years. The latter 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: Malaysia's Sectors Performance since 2013-2021 YTD



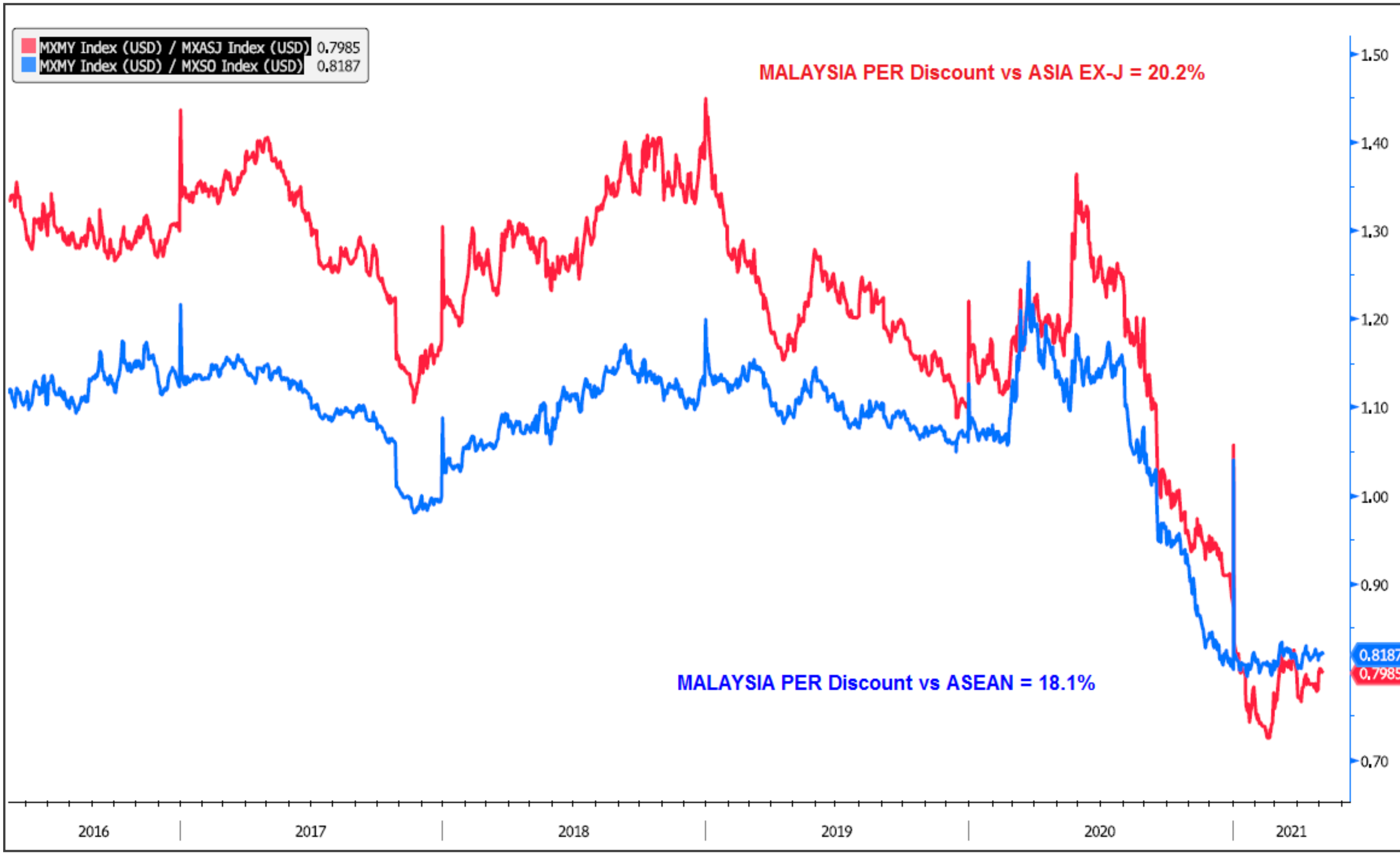
(Source: Bloomberg)

Exhibit 2: FBMKLCI Consensus Earnings Per Share (EPS) @06.05.21



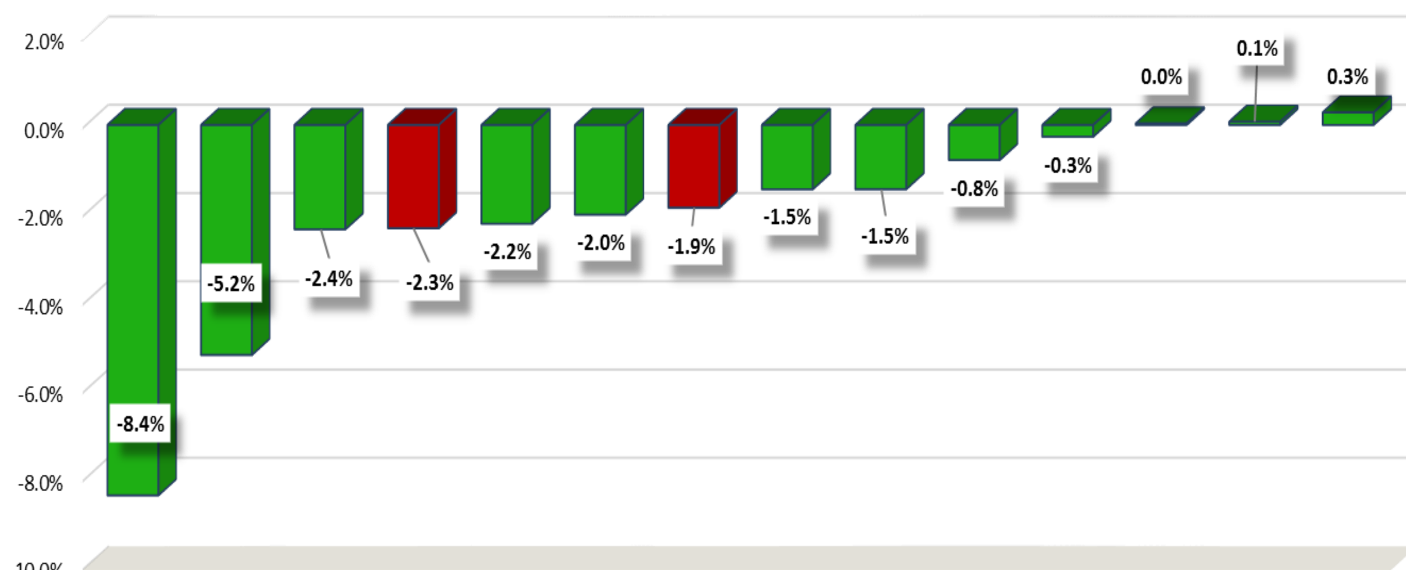
(Source: Bloomberg)

Exhibit 3: MALAYSIA P/E is at a discount to the region @06.05.21.



(Source: Bloomberg)

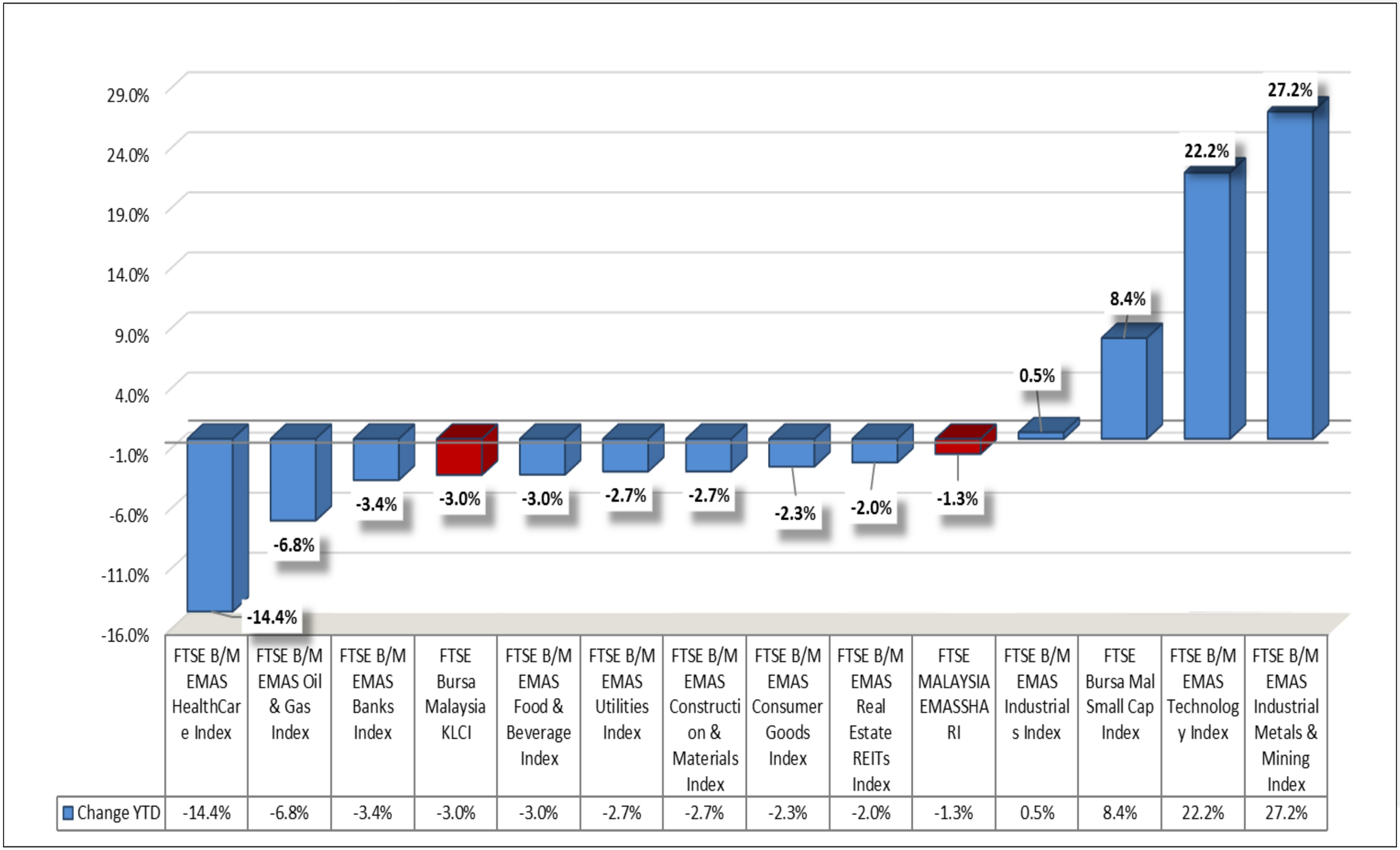
Exhibit 4: Sector performances (Week-on-Week) @06.05.21.



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrials Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Malaysia KLCI	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-8.4%	-5.2%	-2.4%	-2.3%	-2.2%	-2.0%	-1.9%	-1.5%	-1.5%	-0.8%	-0.3%	0.0%	0.1%	0.3%

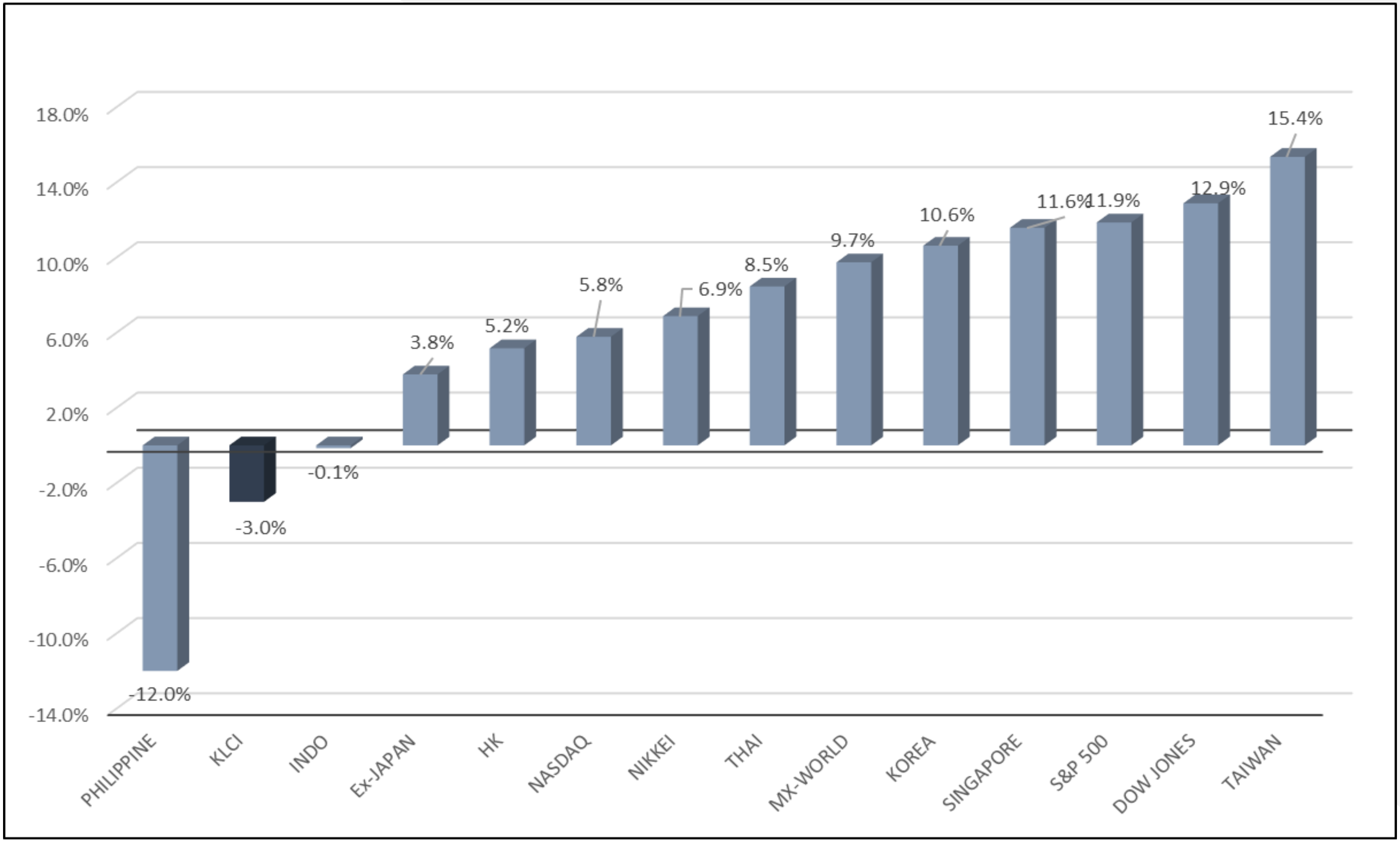
(Source: Bloomberg)

Exhibit 5: Sector performances (Year-to-Date) @06.05.21.



(Source: Bloomberg)

Exhibit 6: Performance of Indices Year to Date @06.05.21.



(Source: Bloomberg)

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