Portfolio Manager's View

01 September 2021

Fund Management Department

Regional

1. What was the biggest take-away from last week's US Federal Reserve Jackson Hole Annual Economic Policy Symposium? In last week's commentary, we said the risk, opposed to doing nothing, was to do the wrong thing. Therefore, it was important US Fed Chair Jerome Powell has taken the opportunity to provide more clarity and to assure investors on policy stance. Market watchers have used the 2013 taper tantrum playbook as their guide; that when asset purchase tapering is completed, the US Fed will embark on hiking interest rate.

2. Jerome Powell has cleverly detached the two decisions from one another, asset purchase taper and interest rate hike are two independent events. Firstly, the US Fed may consider starting asset purchase taper by the end of 2021. Meanwhile, the members are still continuing to discuss when it would be appropriate, i.e. a decision has yet to be made. More importantly, this asset purchase taper will proceed very gradually. Considering the various expectations of the size and duration of this asset purchase taper out in the market, we see Jerome Powell's 'very gradual' comment to mean that it will be slower than the market consensus. Very bullish for risk assets.

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3. Secondly, commencing the asset purchase taper is not intended to carry a direct signal regarding the timing of interest rate lift-off. The US Fed has clearly articulated that interest rate lift-off is subjected to a different and substantially more stringent test. And that is that while jobs are recovering, there is further room for improvement. Previously, US Fed Vice Chair Richard Clarida has floated a number to the market; the current unemployment rate is 5.4%, 3.8% will be the catalyst. Also very bullish for risk assets.

Malaysia

1. The KLCI closed at 1,590 @ 27.08.21, an increase of +4.90% MoM. Last week, Industrial Metals & Mining (+9.10%) and Oil & Gas (+6.20%) were the best performing sectors. In contrast, Technology (+1.70%) and REITs (+1.20%) were the worst performing sectors. Year-to-date @ 27.8.2021, the KLCI has retreated by -2.30%.

2. Last week, the government announced a reshuffling of Cabinet Ministers with an expanded number of ministers coming from UMNO. Coincidentally, we also saw a return of foreign investors to the Malaysian equity market. An UMNO-dominant government is seen to signify political stability given their 61-year track record ruling the country since our Independence. We are optimistic foreign investor capital is likely to return to the Malaysian equity market following persistent outflows experienced recently due to political instability and Covid-related factors.

3. Industrial Metals & Mining was the top performing sector last week (+ 9.10%). Steel and aluminum companies reported very strong earnings and guided for a very positive outlook. Current elevated prices will persist into 2022 due to restricted supply from China who is a key producer and consumer in these commodities. We are of the view that China's production cuts are structural as

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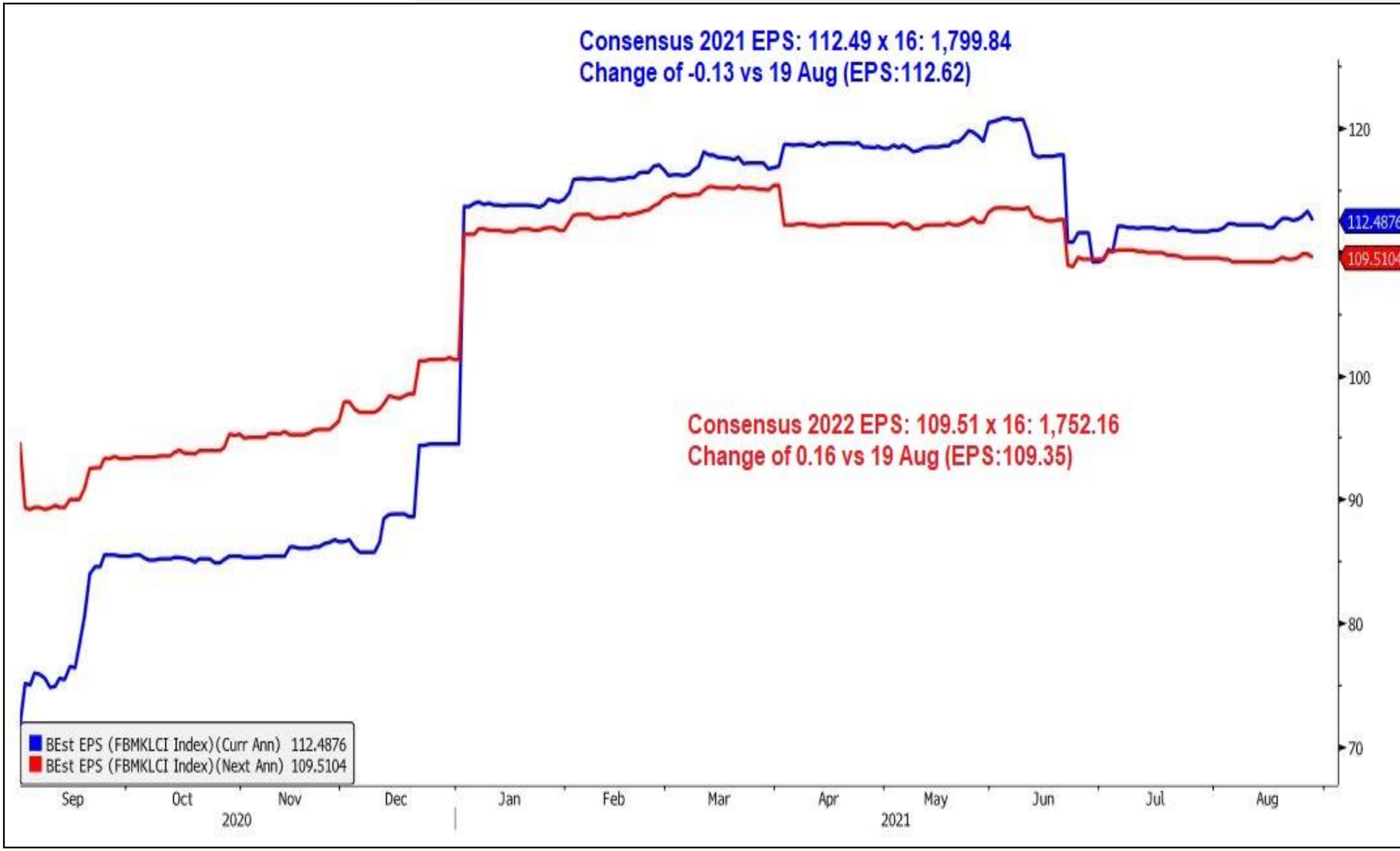
China is committed to emission cut-back as part of her contribution to the global decarbonisation initiative.

4. On Monday, Malayan Cement Berhad (MCB) received shareholder approval to proceed with the acquisition of the entire cement and concrete operations of YTL Cement Bhd (MCB's parent company as of 2019) in Malaysia for a total consideration of RM 5.2bil. Effectively, this makes MCB (post-acquisition) the single largest cement company in Malaysia with over 60% of Malaysia's market share. Overall, we are optimistic on the outlook of MCB as the consolidation of the cement industry is beneficial to all players and the industry which suffered from detrimental and damaging price wars between cement players from 2016 to 2019 to retain market share.

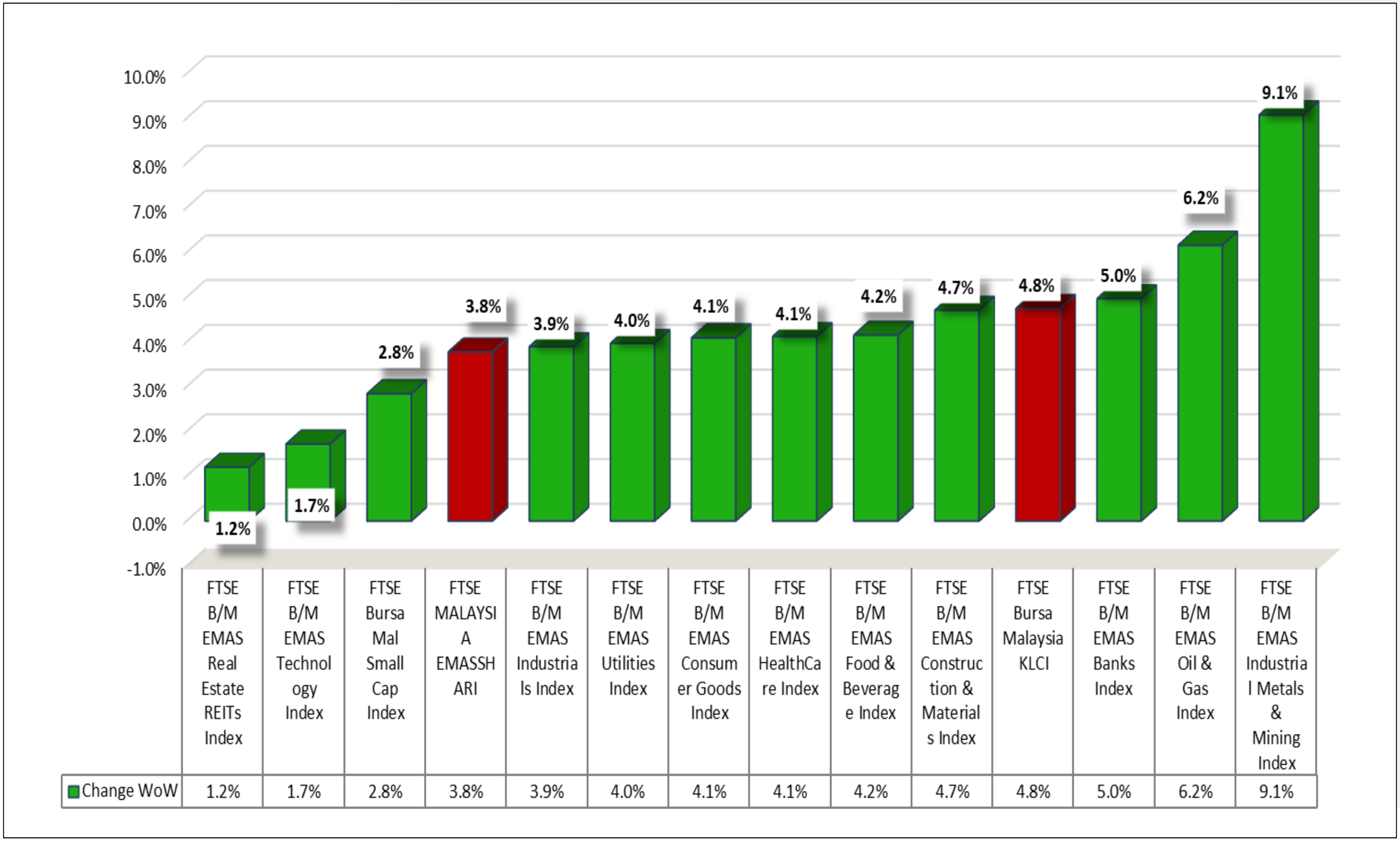
5. Valuation remains the market's silver lining. Based on KLCI at 1,590 @ 27.08.2021 and assuming a market eps integer of 112/109, the market is trading at a PER of 14.19x/14.59x for CY21/CY22 respectively. This is nearly -2 standard deviation below its 7-year mean PER of 16x. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.3/16.0x in CY21/CY22 respectively (vs the 5 year average ex-gloves PER of 19.4x). 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) @ 27.08.21



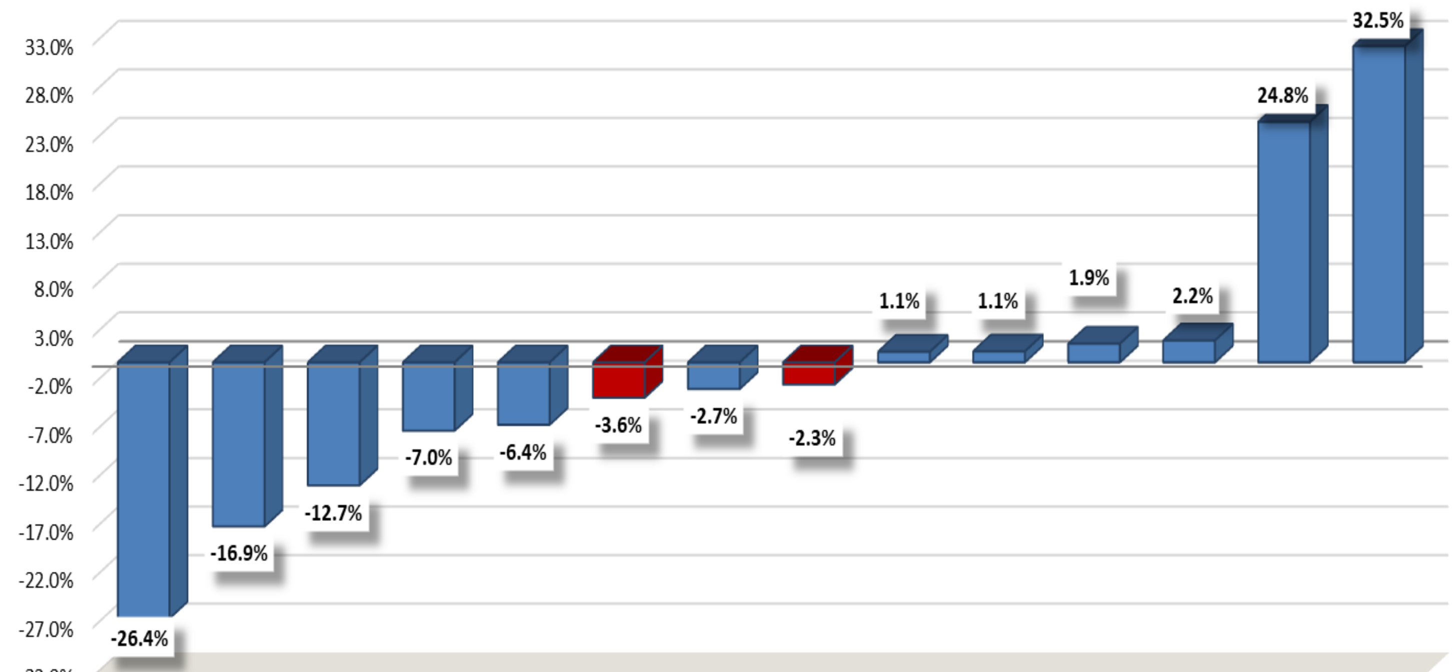
(Source: Bloomberg)

Exhibit 2 : Sector Performances (Week-on-Week) @ 27.08.21



(Source: Bloomberg)

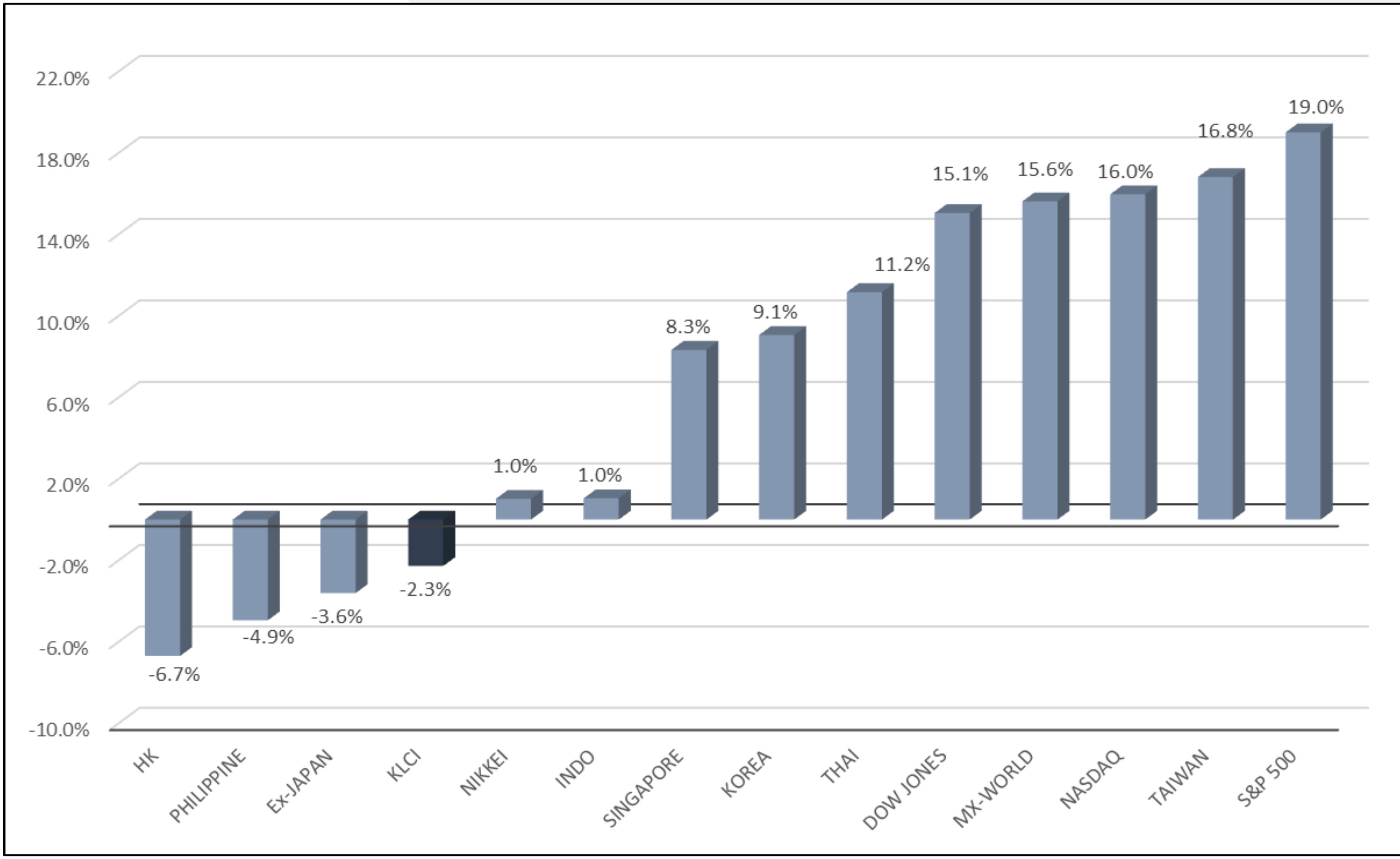
Exhibit 3 : Sector Performances (Year-to-Date) @ 27.08.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Banks Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-26.4%	-16.9%	-12.7%	-7.0%	-6.4%	-3.6%	-2.7%	-2.3%	1.1%	1.1%	1.9%	2.2%	24.8%	32.5%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 27.08.21



(Source: Bloomberg)

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