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

Portfolio Manager's View

15 September 2021

Fund Management Department

Regional

1. Time is supposed to prove that the central bank can best function in her capacity by remaining independent from government fiscal policy and therefore uninfluenced by the political concerns of any regime. Recent times may otherwise prove that central bank independence is an overrated concept. This week, US Treasury Secretary Janet Yellen has come out to publicly warn of a financial system risk if the US federal debt ceiling is not raised. The Congress is told the US Government's extraordinary cash conservation measures are almost exhausted and will effectively run out of money by end October unless action is taken immediately, i.e. bankrupt.

2. Therefore, US Federal Reserve members are barking up the wrong tree. Inflation and asset bubbles will matter little when the US Government goes into a debt default. In fact, Treasury yields will spike and market liquidity will seize up, not too dissimilar to the initial Covid-19 outbreak early last year and the Lehman ghost of 2008 past. The volatility spiral will once again hold the US Federal Reserve hostage to the money printing press. This is the reason for Janet Yellen's strong support for her tag-team partner Jerome Powell to return for a second term as the US Federal Reserve Chair.

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3. We wrote in an earlier commentary that the day will come soon when the Reserve Bank of Australia (RBA) may also need to reevaluate its monetary policy stance if the Covid-19 situation causes an economic deterioration. This decision has come barely a month after the RBA Governor decided to taper bond purchases from A$5bn to A$4bn beginning from September till mid-November. This is a dovish tilt as the RBA could have chosen to wait till closer to November to make the next decision but has chosen to act much earlier and commit to extend the A$4bn bond purchases till February 2022. We expect most Central Banks globally to remain on the dovish bias.

4. Last week, US President Joe Biden reached out to China's Xi Jinping. According to the White House readout, this was to address the frosty start to the relationship and impasse in earlier trade talks. It was read that President Biden wants to ensure peace, stability, and prosperity in the Indo-Pacific and elsewhere in the world. It also read that it is the responsibility of both nations to ensure that competition does not veer into conflict. The next G20 Summit is round the corner. The press reported of the US trying to put pressure on China and investigating into China subsidies and imposition of new tariffs. It is highly unlikely that President Biden made a call to send through this threatening message. We remain cautiously optimistic that US-China trade relations will be better than anytime during Trump's reign.

Malaysia

1. The KLCI closed at 1,578 @ 09.09.21, an increase of +5.48% MoM. Last week, Industrial Metals & Mining (+6.5%) was the best performing sector. In contrast, Healthcare (-5.10%) was the worst performing sector. Year-to-date @ 27.8.2021, the KLCI has retreated by -3.0%.

2. China, the world's largest steel consumer and producer (62% of global market share), has revised down 2H21 production from 2% to 0% YoY. The objective is to meet state-imposed carbon emission targets for 2021 as part of China's decarbonisation policy. As China's steel demand enters the seasonally stronger 2H, the decarbonisation measures should reduce the global supply of steel. This is expected to benefit ex-China steel players including the Malaysian producers as prices stay strong due to the reduced supply and good demand.

3. US Semiconductor Equipment & Materials International (SEMI) forecasts that front-end semiconductor equipment sales for 2022 will continue to strengthen with US$100bn in purchases (2021: US$90bn). This comes as major players such as Intel and TSMC look to expand their capacity to meet the soaring demand of semiconductors. Incidentally, this would result in a longer 3-year upcycle for the semiconductor industry as opposed to the usual cyclical trend of 2-years upcycle followed by 2-years downcycle. While we acknowledge that the current upcycle

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is exceptionally strong, we are mindful of the risk of peaking demand. Notwithstanding, this demonstrates the positive structural trend of increasing reliance and usage of semiconductors which benefits Malaysia as it offers competitive back-end services and equipment manufacturing solutions for the global semiconductor supply chain.

4. The landmark memorandum of agreement (MOU) between the government and opposition party, Pakatan Harapan was a surprise for the market. The MOU will focus on 6 areas – (i) Covid-19 recovery efforts (ii) administration of the government (iii) Parliamentary reforms (iv) judicial independence (v) the 1963 Malaysia Agreement and (vi) formation of a Steering Committee. The pact will help ensure that there is no challenge to the current government until 31 July 2022 (when the agreement ends). We reiterate that far-reaching and enduring reforms are a pre-condition for a sustainable re-rating of the stock market. Meanwhile, investors will be closely watching if progress is made on these areas.

5. PM Ismail Sabri announced in Parliament that lockdowns are no longer feasible and expects more economic sectors to reopen. This comes as Malaysia's adult population is 74.7% fully vaccinated and 91.6% partially vaccinated. The daily Covid-19 cases have fallen for four consecutive days. It is likely that we have past the worst phase of this wave. We expect the market's focus to shift from high Covid-19 cases to the re-starting of the economy in the coming weeks.

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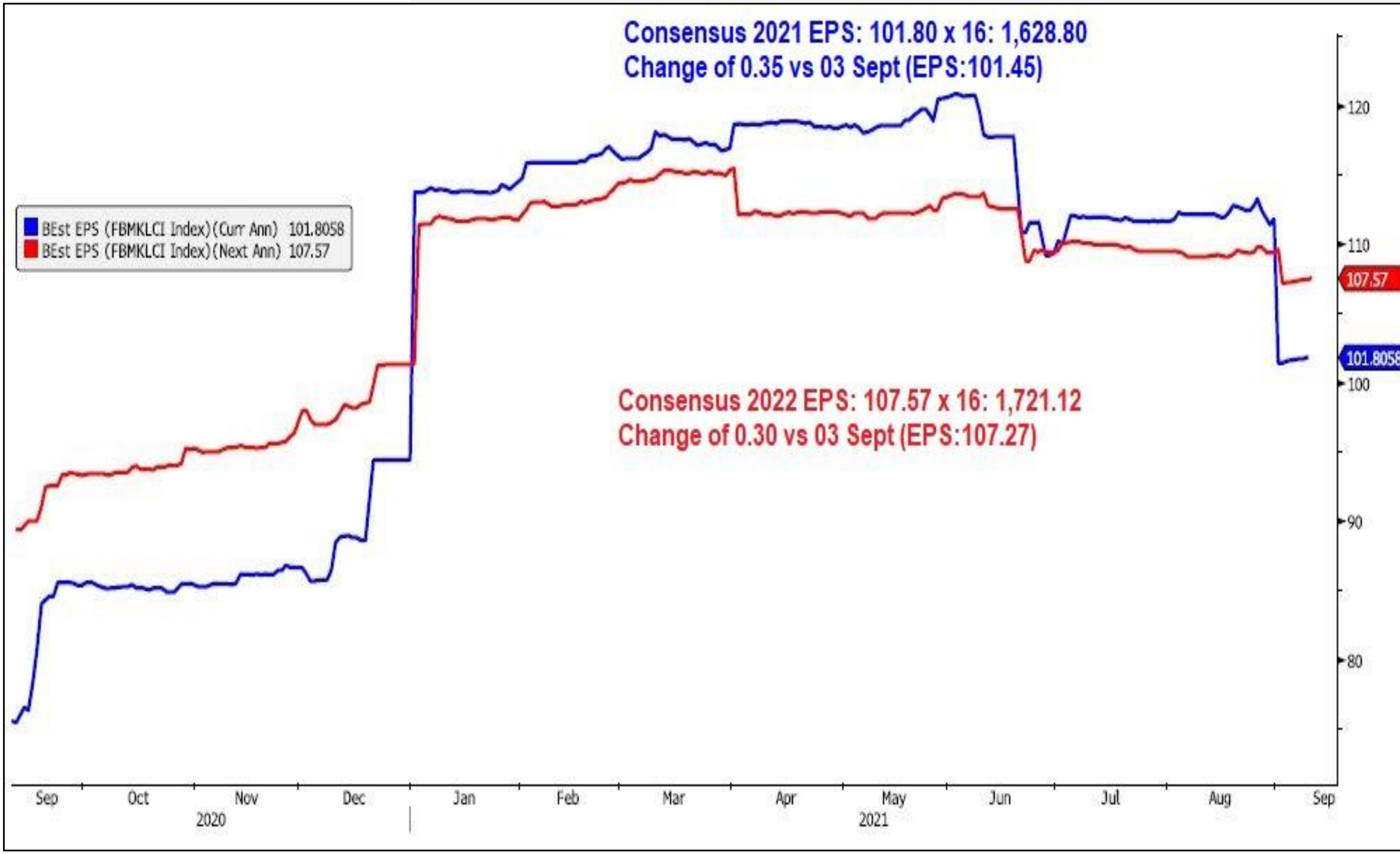
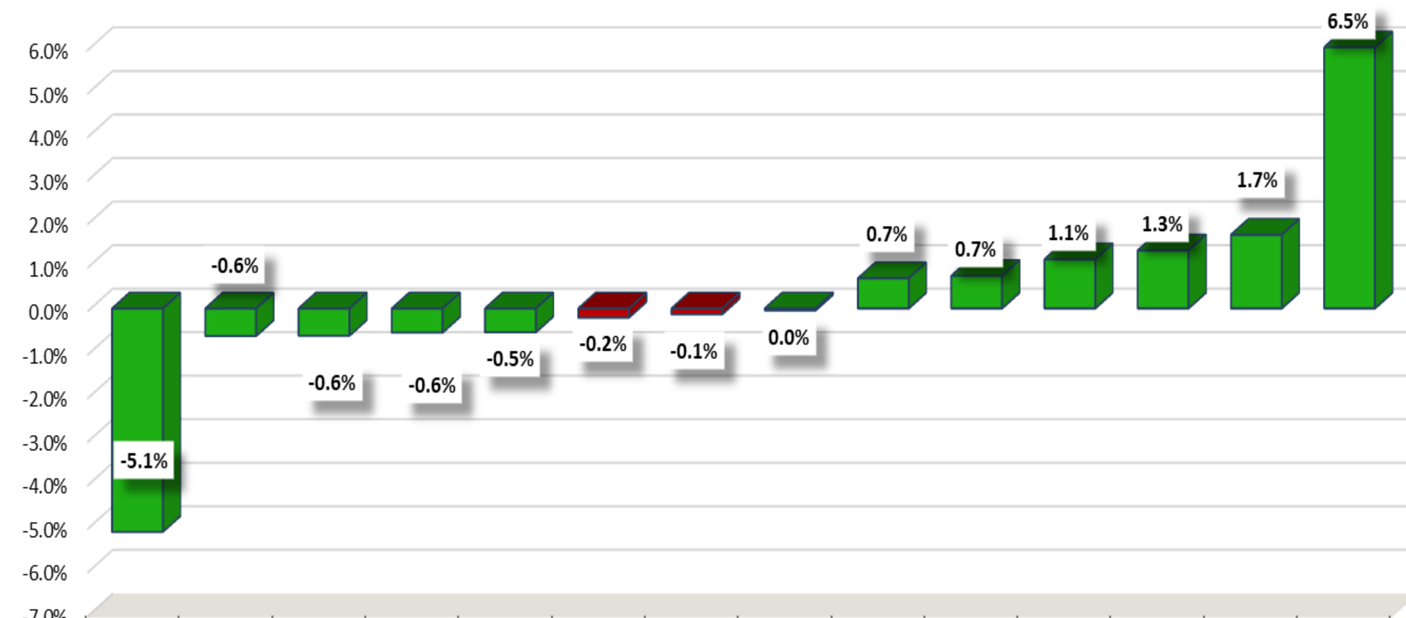
6. Valuation remains the market's biggest positive. Based on KLCI at 1,578 @ 09.09.2021 and assuming a market eps integer of 101/107, the market is trading at a PER of 15.6x/14.74x for CY21/CY22 respectively. This is nearly -2 standard deviation below its 7-year mean PER of 16x for CY22. Stripping out the glove makers, the KLCI (ex-gloves) is trading at a PER of 18.1/15.9x in CY21/CY22 respectively (vs the 5 year average ex-gloves PER of 19.4x). With foreign shareholding and valuation metrics 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) @ 09.09.21



(Source: Bloomberg)

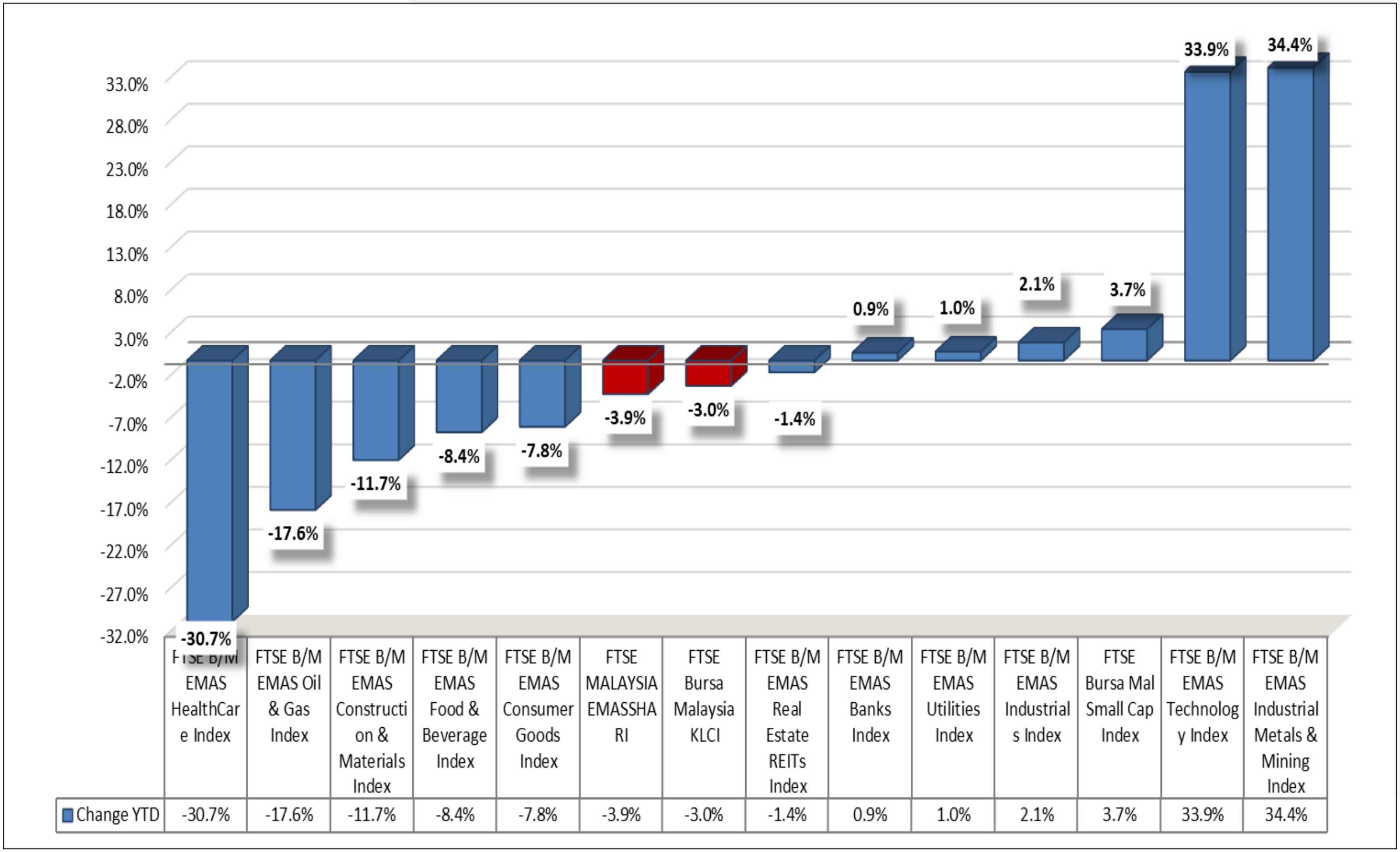
Exhibit 2 : Sector Performances (Week-on-Week) @ 09.09.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-5.1%	-0.6%	-0.6%	-0.6%	-0.5%	-0.2%	-0.1%	0.0%	0.7%	0.7%	1.1%	1.3%	1.7%	6.5%

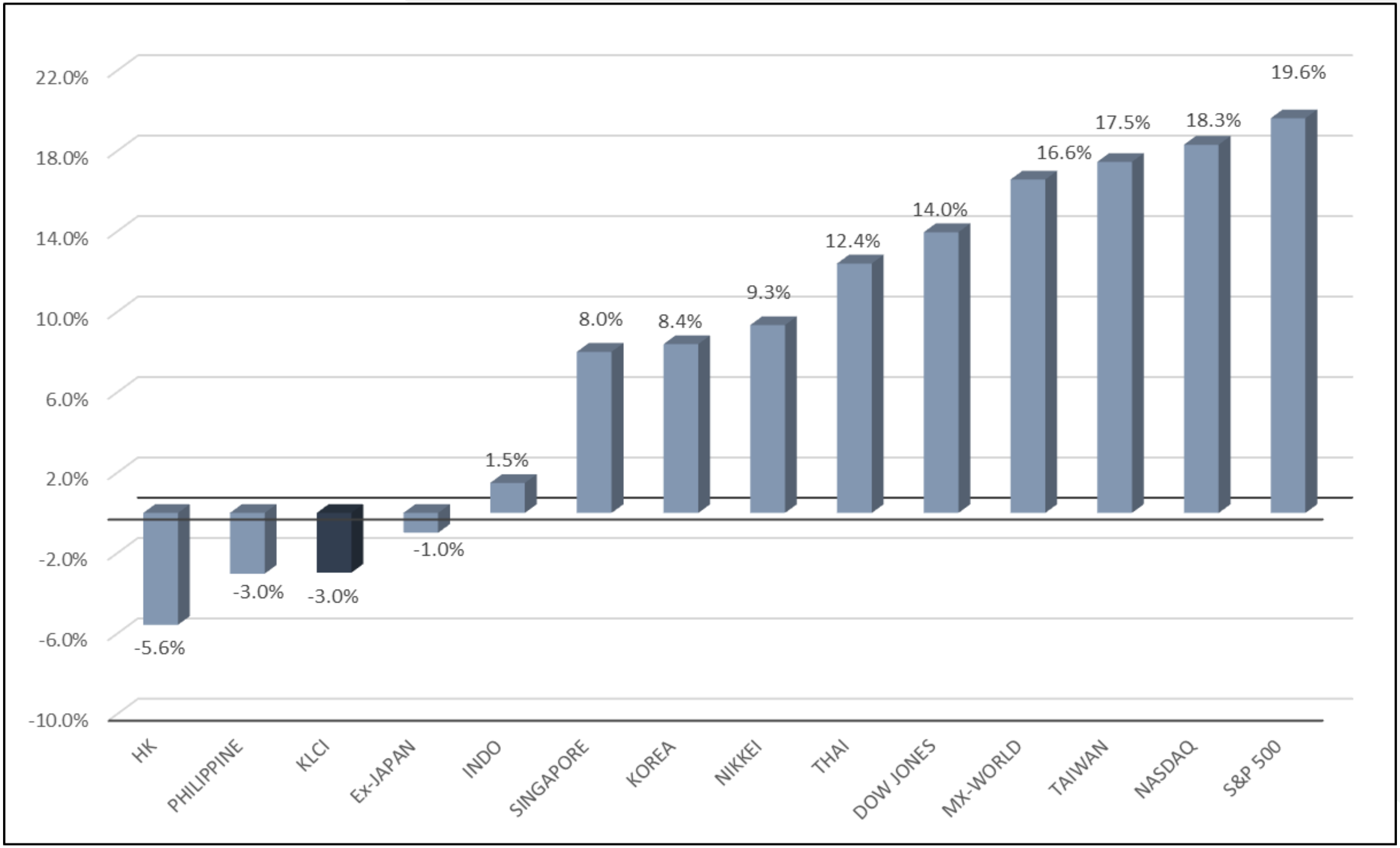
(Source: Bloomberg)

Exhibit 3 : Sector Performances (Year-to-Date) @ 09.09.21



(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 09.09.21



(Source: Bloomberg)

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