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

Portfolio Manager's View

22 September 2021

Fund Management Department

Regional

1. This September FOMC Meeting has significant implications. US Treasury Secretary Janet Yellen remains hostage to a Congress impasse that may see the US Government default on its debt obligations as early as in October and risk a financial crisis. Therefore, any hawkish tilt at September's FOMC, whether an asset purchase taper and/or an updated earlier dot plot lift off, even if tempered by a more dovish rhetoric in Chair's Jerome Powell's press conference may not sit well with nervy investors right now. Any debt ceiling resolution is likely to run down to the last minute. In Janet Yellen's words to Congress; "We are just now emerging from crisis. We must not plunge ourselves back into an entirely avoidable one." If the US Government needs to issue more debt, who is going to be that buyer of last resort if the US Federal Reserve slows her purchases? The US Federal Reserve risks creating another avoidable mistake of her own too.

2. This week, Asian equity markets have suffered from the fall-out of the China Evergrande Group, with concerns that Evergrande's collapse may become a systemic risk for the Chinese banking system. We believe that the Chinese Government will step-in to prevent a contagion. This is a case of the Chinese

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Central Bank PBOC having tightened too quickly and aggressively to rein-in the overleveraged corporate sector. The reserve ratio requirement cut for banks in July is just the start of China's monetary easing cycle. More monetary easing measures will kick in; however, there is a lag in filter through impact. Newsflow may continue to be negative until it gets better. The US Federal Reserve will need to be mindful that as she looks to rein-in financial excesses that this does not bring down the still fragile real economy.

Malaysia

1. The KLCI closed at 1,548 @ 17.09.21, an increase of +1.6% MoM. Last week, Technology (+0.4%) was the best performing sector. In contrast, Healthcare (-5.0%), Construction (-3.7%) and Metals & Mining (-3.6%) were the worst performing sectors. Year-to-date @ 17.8.2021, the KLCI has retreated by -4.4%.

2. Budget 2022 in October is likely to be expansionary, in our view. The key beneficiaries may be : (a) Construction and Materials sectors. More funds are likely to be allocated towards construction & infrastructure projects on top of an unutilized allocation of approximately RM16 billion from Budget 2021 (b) Consumer sector. The Budget may propose the extension of incentives such as Home Ownership Campaign (HOC) on Property and tax exemptions on Automotive. In tandem with the economic recovery and reopening, private consumption is forecast to grow at a stronger rate of +7.5% in 2022 compared to the growth rate of +3.9% in 2021.

3. China continues to crackdown on carbon-emitting sectors as part of its decarbonization policy. We are seeing a tighter supply for certain materials such as coal, steel and polymers which has caused local prices to rise significantly. This is likely to continue into Q2 2022 as outlined by a report from China's Ministry of

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Environment. In the short term, the price increases will moderate as demand is likely to be impacted by the potential ramifications of Evergrande's bankruptcy on the economy and business sentiment. In the longer-term, the outlook is still positive for regional materials players as China may have to import materials from overseas to satisfy its local demand moving forward.

4. Glove stocks weighed down on the market this week. The renewed pressure was sparked by Top Glove's FY21 (Aug) results on 17.9.2021 was 9% below consensus forecast. Importantly, TOPG MK's management warned that glove prices are expected to weaken 8-10% month on-month until Jan-2020. Currently, the Big 4 glove players are trading at 12-month lows and have given up RM 4.2 bil of market capitalization this week.

5. Foreigners have been net buyers of Malaysia equities for 6 consecutive weeks. Between Aug 9 and Sep 17, RM2.33 bil flowed into the market. This helped to offset the selling pressure from local funds. The latter has been persistent net sellers year-to-date @ 17.9.2021. Local funds have net sold RM 9.1 bil worth of equities this year.

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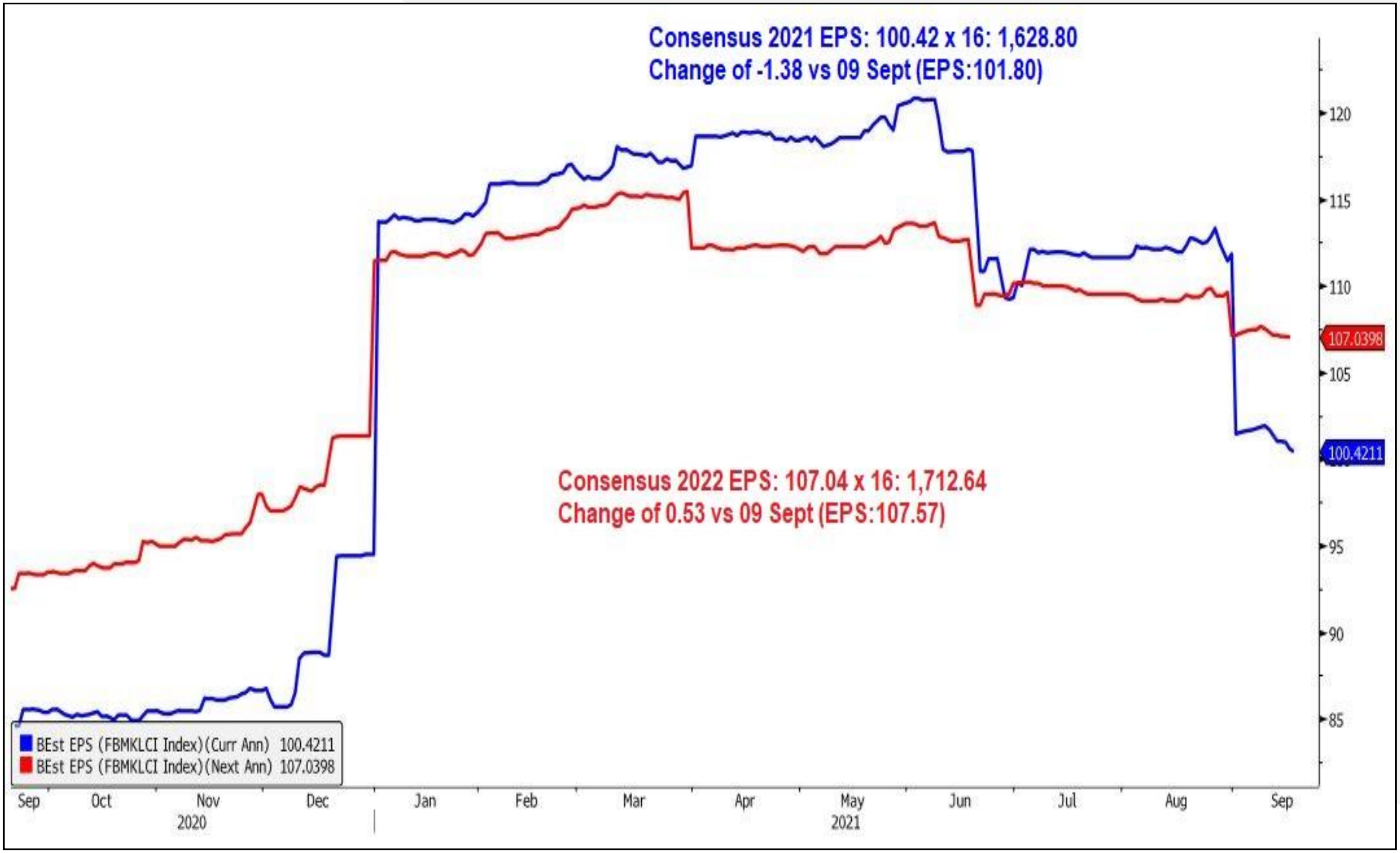
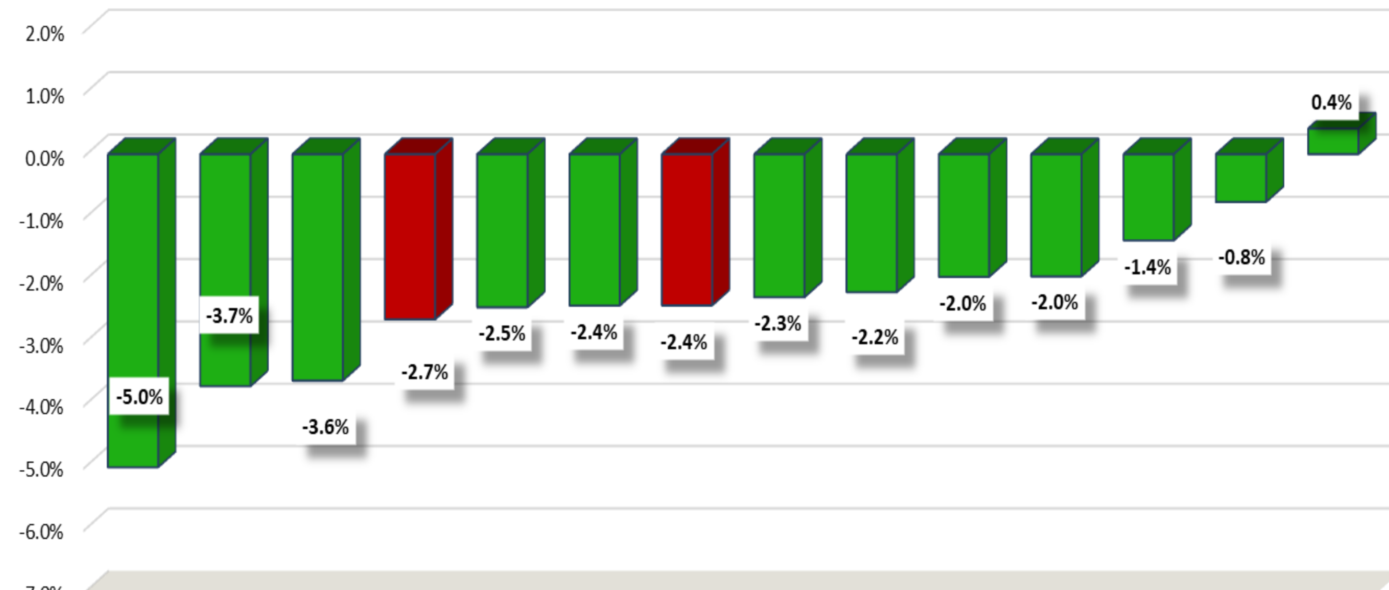
6. Valuation remains the market's biggest positive. Based on KLCI at 1,548 @ 17.9.2021 and assuming a market eps integer of 100/107 for 2021/2022, the market is trading at a PER of 15.5x/14.5x respectively. This is approximately -1 standard deviation below its long-term mean of 16x. The fallout in China due to Evergrande's indebtedness and government crackdown on the internet economy are likely to be incrementally positive for ASEAN (including Malaysia) given the likely diversion of investor flows. In Malaysia, this comes at a time when Covid-19 cases have peaked. As at 22.9.2021, 57.5% of the country's population have been fully vaccinated (2 doses). An estimated 80% of the adult population (18.8 individuals) are fully inoculated (2 doses). As expected, the market's attention is quickly shifting from Covid-19 cases to economic resumption.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 17.09.21



(Source: Bloomberg)

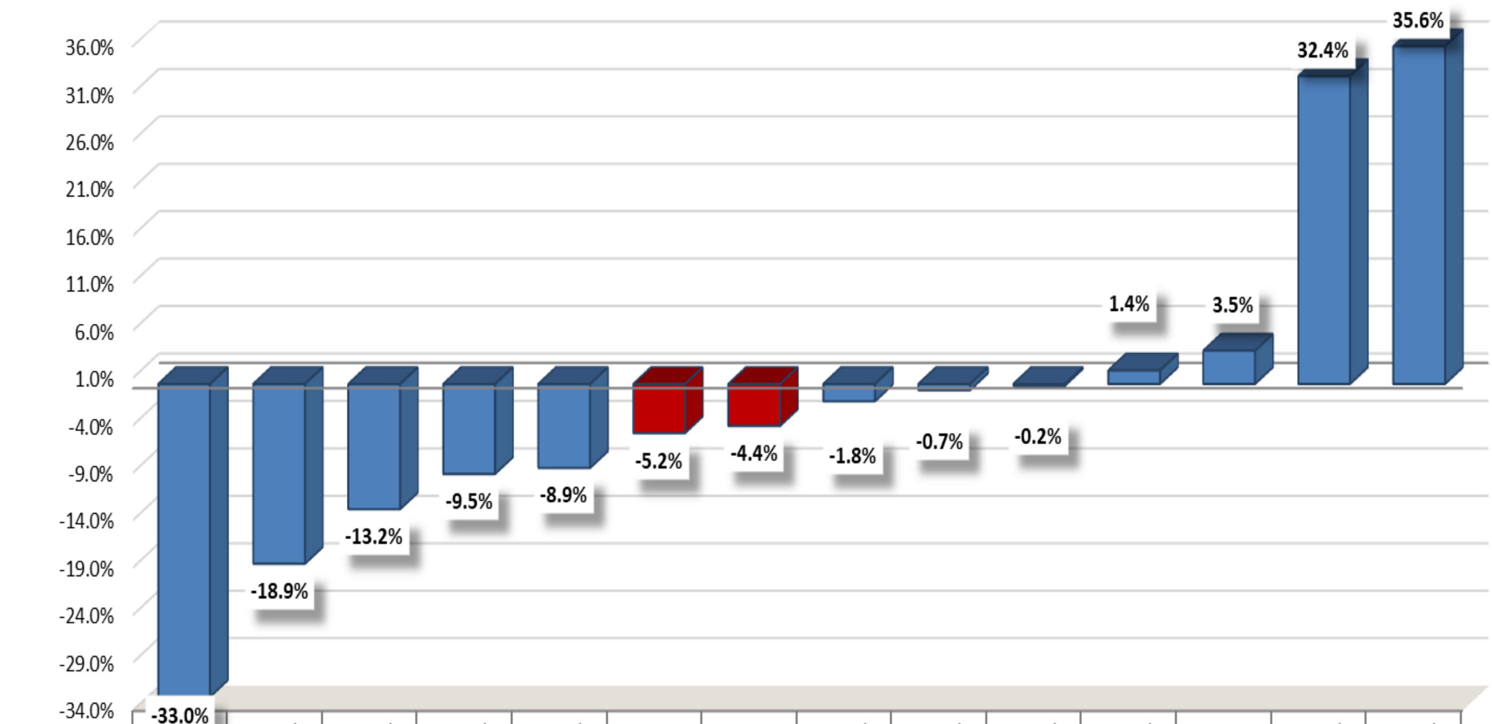
Exhibit 2 : Sector Performances (Week-on-Week) @ 17.09.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Oil & Gas Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Real Estate REITs Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Technology Index
Change WoW	-5.0%	-3.7%	-3.6%	-2.7%	-2.5%	-2.4%	-2.4%	-2.3%	-2.2%	-2.0%	-2.0%	-1.4%	-0.8%	0.4%

(Source: Bloomberg)

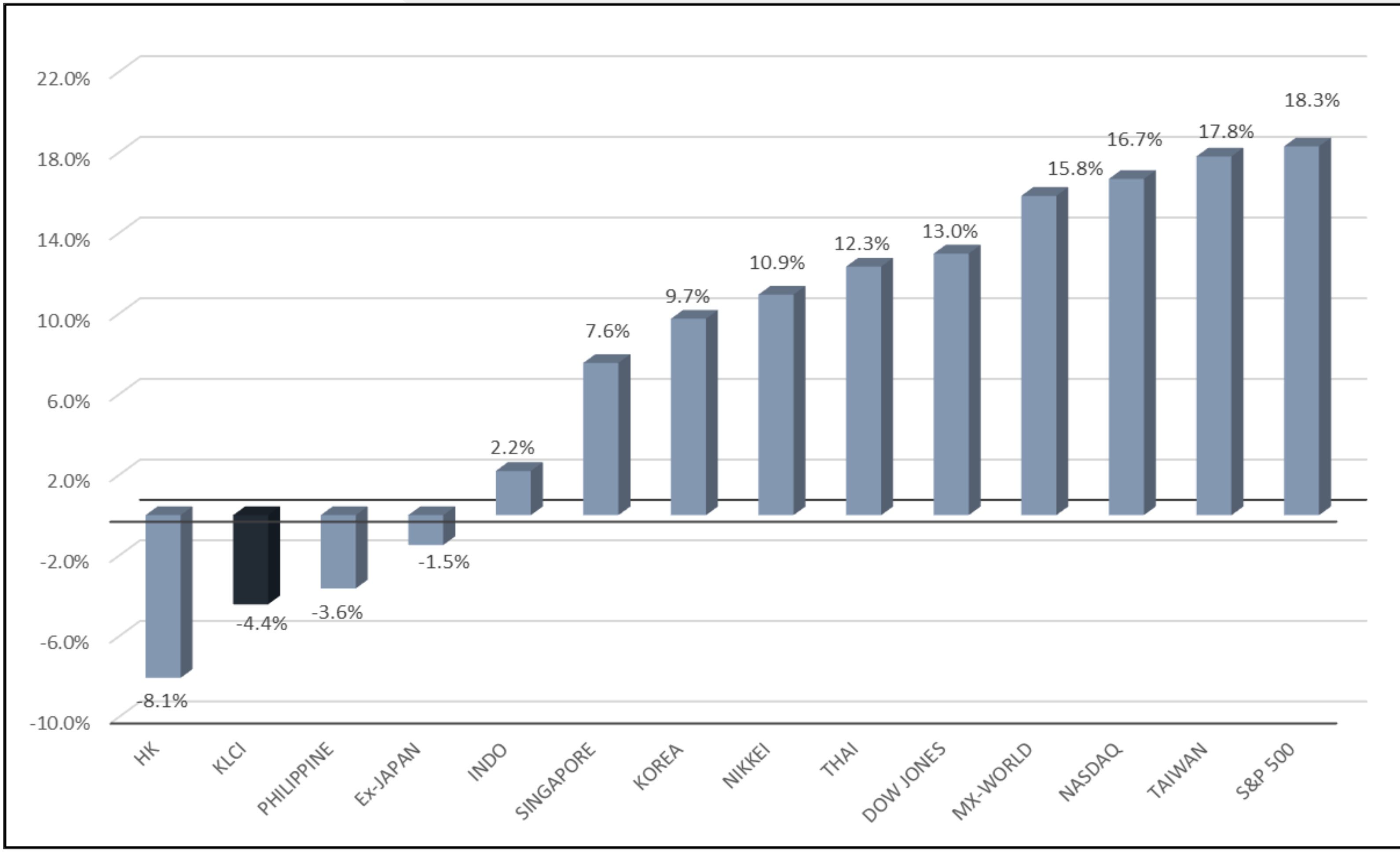
Exhibit 3 : Sector Performances (Year-to-Date) @ 17.09.21



	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 Bursa Malaysia KLCI	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Banks 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	-33.0%	-18.9%	-13.2%	-9.5%	-8.9%	-5.2%	-4.4%	-1.8%	-0.7%	-0.2%	1.4%	3.5%	32.4%	35.6%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 17.09.21



(Source: Bloomberg)

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