Portfolio Manager's View

28 September 2021

Fund Management Department

Regional

1. We continue with our September FOMC commentary from last week. We had questioned the risk that the US Federal Reserve creates an avoidable mistake of withdrawing liquidity before the resolution of the US Government Debt ceiling crisis. US Fed's Chair Jerome Powell commented; “I think we can all agree that that the United States shouldn’t default on any of its obligations...and that no one should assume that the Fed or anyone else can protect the markets or the economy in the event of a failure”. Congress has the habit of jostling till the very last minute before coming to a resolution. However, even if the US Federal Reserve does not bear that ultimate responsibility for the failure of Congress, it is still an highly irresponsible act to not imagine the tinniest of possibility that Congress may just do wrong just that one time.

2. Investors have taken the US Fed's commentary at face value. Market is fixated on the incrementally more hawkish guidance on asset purchase taper and interest rate dot-plot. We see a disconnect from the dovish Jackson Hole Annual Policy Symposium to this September FOMC meeting. During this interim period, August jobs growth has hugely disappointed and the US Fed economic projections were largely revised negatively, from lower GDP growth to higher

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unemployment rate. How do more downbeat economic projections reconcile with the more hawkish rhetoric? Is this a veiled threat to the Congress to get its act together?

3. Goldman Sachs and Nomura downgraded China's 2021 GDP growth rate from +8.2% to +7.8% and +7.7% respectively. Economics woes from the tightening monetary policy of early 2021 has extended from the financial trouble of the China Evergrande Group in real estate to power shortages leading to the curtailment and rationing of power usage across all industries. Suffice to say, there is considerable downside risk to an already negative outlook. The silver lining is this may accelerate the Chinese Government's loosening of monetary conditions. Already, China's Central Bank PBOC in its latest statement has pledged to ensure a healthy property market (read - "cannot collapse") and committed to pushing real interest rates lower to support a solid and balanced economic recovery.

4. Huawei's CFO Meng Wanzhou was released from her 3-year house arrest in Vancouver in exchange for two Canadians detained in China for spying. This was after a deferred prosecution agreement was reached with US prosecutors to end the bank fraud case against her. The White House insisted that this was

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not a prisoner swap but confirmed that it was discussed in a call between President Joe Biden and Xi Jinping weeks before. Chinese officials have signalled in the past that the case against Meng Wanzhou needed to be dropped to help end a diplomatic stalemate. Everyone can draw their own conclusions from this inconsistent White House statement but our take is that the US-China trade tension that began in 2018 it likely to get better than to get worse, a positive for Asian equity markets.

Malaysia

1. The KLCI closed at 1,532 @ 24.09.21, a decrease of -1.4% MoM. Last week, Technology (+2.8%) was the best performing sector. In contrast, Healthcare (-6.9%), Oil & Gas (-2.7%) and Metals & Mining (-2.5%) were the worst performing sectors. Year-to-date @ 24.9.2021, the KLCI has retreated by -5.8%.

2. The 12th Malaysia Plan was approved by Parliament. Highlights:

   - Construction: RM400bn allocation (11MP: RM260bn) was beyond market expectations of RM280bn. Most of the projects mentioned under the 12 MP were existing projects known to the public. While the market was disappointed that there was no mention of the KL-Singapore High Speed Rail ("HSR") and MRT3, we do not rule out the possibility that these projects will be revived at an appropriate time.

   - Digitization: RM28bn allocated to expedite the country's 5G rollout and to increase e-commerce's share of GDP from 6.2% to 10.5%.

   - Renewable energy: Total RE capacity expansion from 25% to 31% via solar and biomass sources.

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3. In a bid to curb power consumption, China has mandated factory shutdowns across several regions to meet its consumption intensity (consumption per unit GDP) targets for the year. This is expected to affect ASE, NVIDIA, Apple, Intel, and Samsung as their supply chains are located in these regions. This could further exacerbate the bottlenecks in the semiconductor supply chain which has already been adversely affected by COVID-related supply chain disruptions.

4. Micron Technology, a US-based market leader in manufacturing memory chips, has released its earnings forecast which suggests a weakening demand for PC manufacturing. This comes after a huge surge of demand for PCs from the Work from Home (WFH) trend which resulted in demand outstripping supply. However, there are signs that demand is returning to normal in the PC space. However, demand for memory chips from smartphones and data centers remain strong. We remain vigilant for any signs of weakening demand in the various segments of the semiconductor chain as the cycle progresses.

5. Valuation metrics have been the main support for the KLCI. Based on KLCI at 1,532 @ 24.9.2021 and assuming a market eps integer of 94/106 for 2021/2022, the market is trading at a PER of 16.3x/14.5x respectively. This is -1 standard

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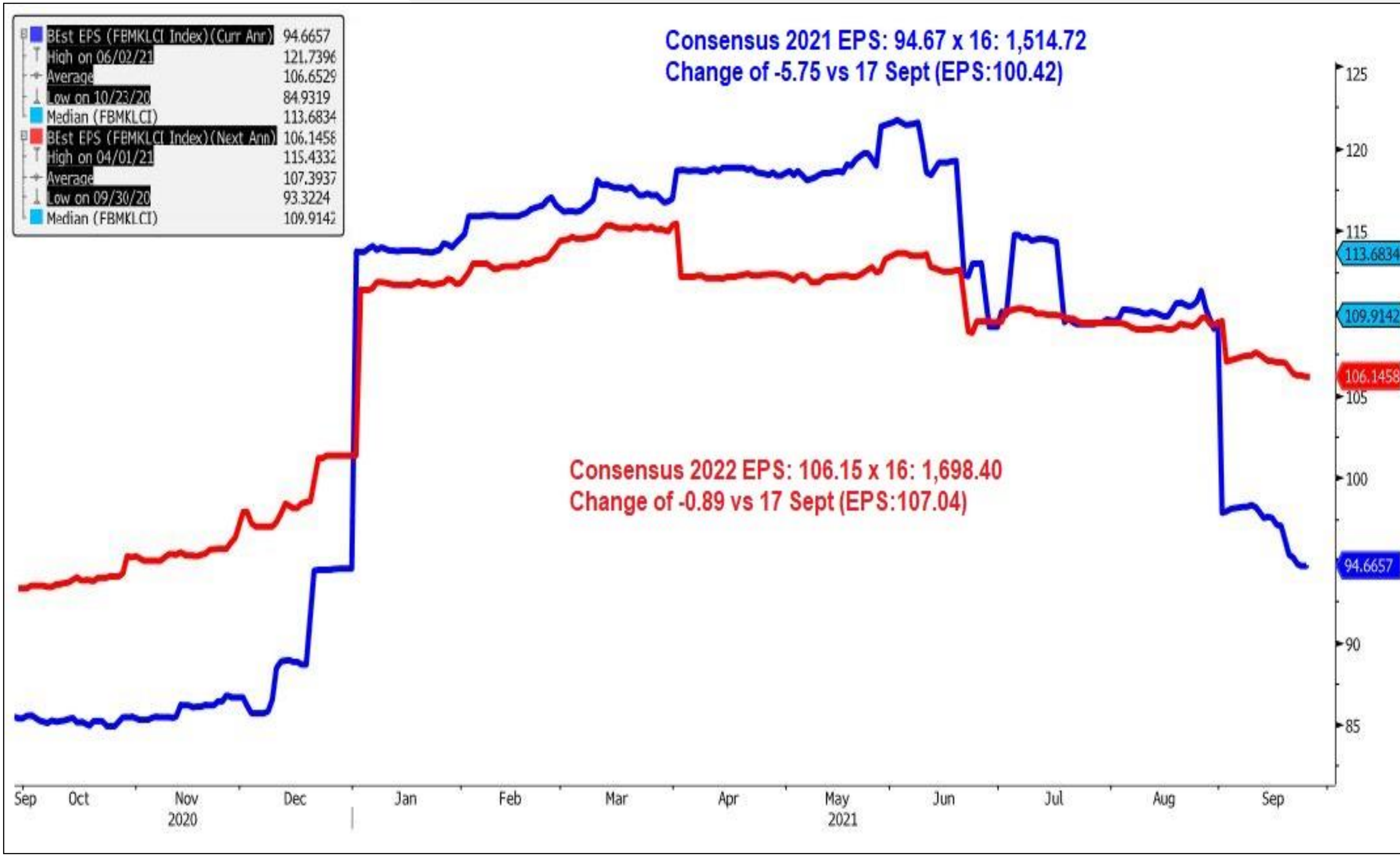
deviation below its long-term mean of 16x for FY22. The market PBR of 1.5x (at 7-year mean) and DY of 3.5% (at between 7-year mean and +1SD) are also reasonable. Finally, Malaysia is trading at par with Asia ex-Japan PER vs a 5-year range of par to +40% premium (ex-Pandemic in 2020).

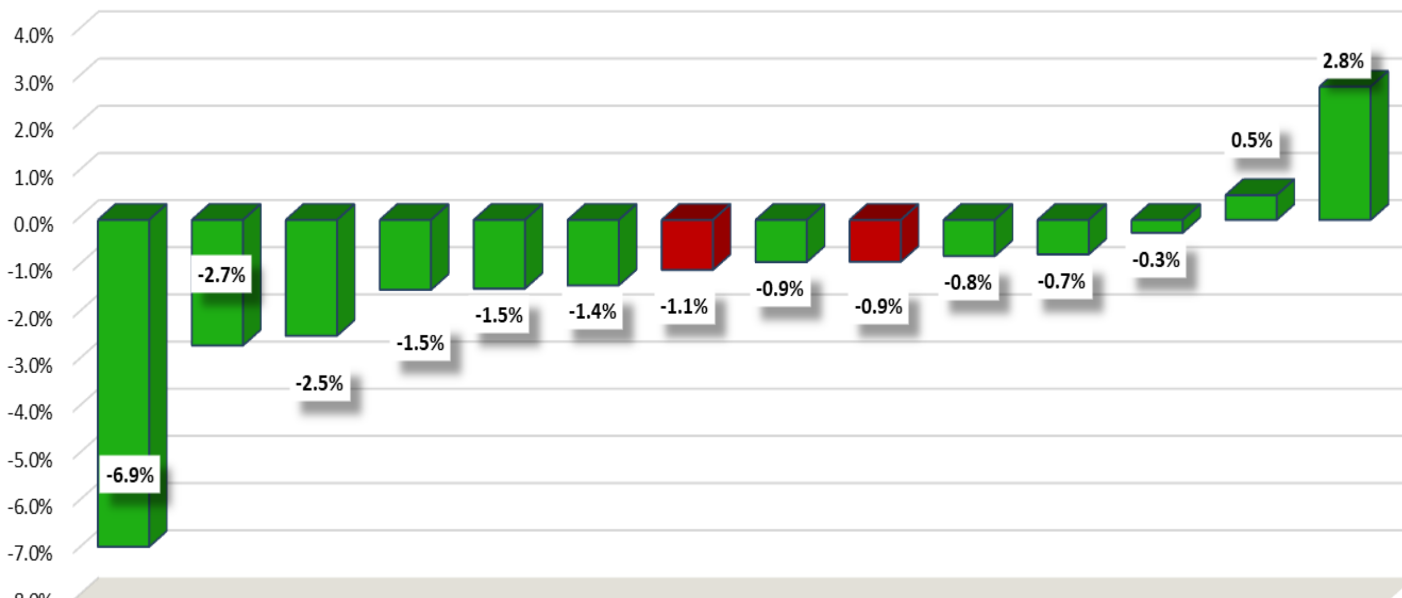
6. The recent fallout in China due to Evergrande's indebtedness and government crackdown on the internet economy and various sectors are likely to be incrementally positive for ASEAN (including Malaysia) given the likely diversion of investor flows. As at 24.9.2021, foreigners have been net buyers of Malaysia equities for 7 consecutive weeks. In Malaysia, this comes at a time when Covid-19 cases are receding. As at 22.9.2021, 61.1 % of the country's population have been fully vaccinated (2 doses). An estimated 85.1% of the adult population (19.9m individuals) are fully inoculated (2 doses). As we have reiterated, the market's attention is quickly shifting from Covid-19 cases to economic resumption.

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 24.09.21



(Source: Bloomberg)

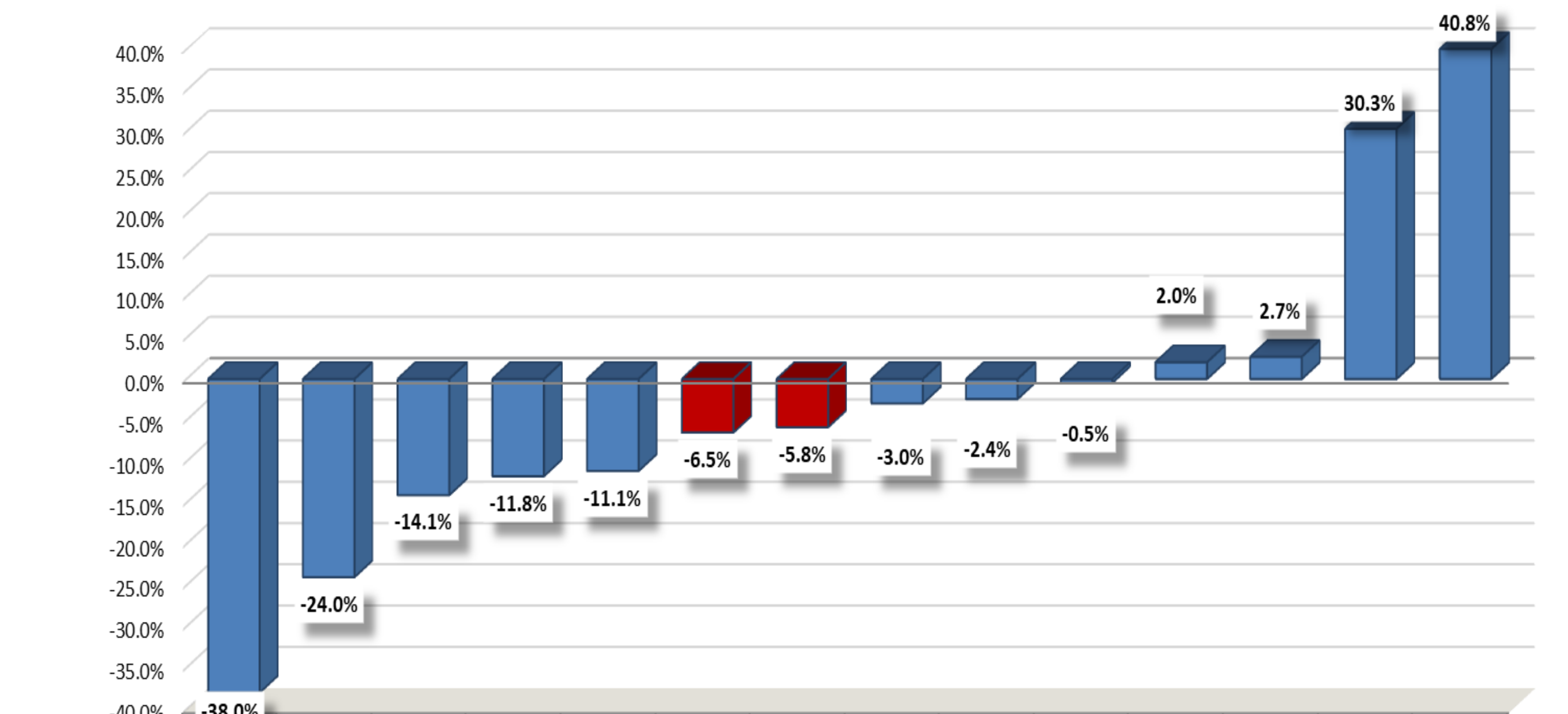
Exhibit 2 : Sector Performances (Week-on-Week) @ 24.09.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Utilities Index	FTSE Bursa Malaysia KLCI	FTSE Bursa Mal Small Cap Index	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Technology Index
Change WoW	-6.9%	-2.7%	-2.5%	-1.5%	-1.5%	-1.4%	-1.1%	-0.9%	-0.9%	-0.8%	-0.7%	-0.3%	0.5%	2.8%

(Source: Bloomberg)

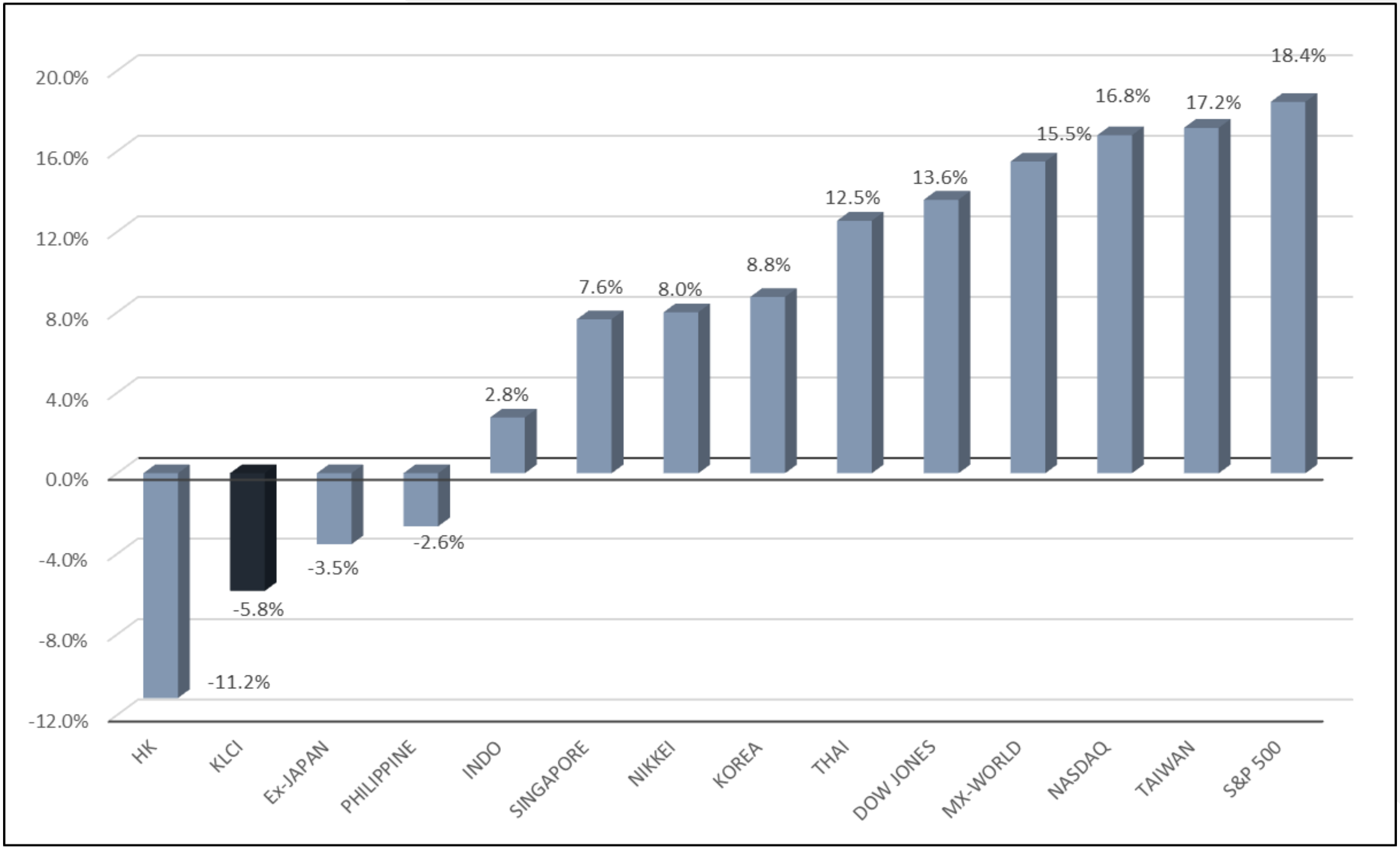
Exhibit 3 : Sector Performances (Year-to-Date) @ 24.09.21



	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 Bursa Mal Small Cap Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE B/M EMAS Technology Index
Change YTD	-38.0%	-24.0%	-14.1%	-11.8%	-11.1%	-6.5%	-5.8%	-3.0%	-2.4%	-0.5%	2.0%	2.7%	30.3%	40.8%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 24.09.21



(Source: Bloomberg)

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