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

Portfolio Manager’s View

12 October 2021

Fund Management Department

Regional

1. The consensus view is that US employment has already met the US Federal Reserve's standard for "substantial further progress". US Fed Chair Jerome Powell said that "It wouldn't take a knockout, great, super strong employment report. It would take a reasonably good employment report for me to feel like that test is met". September's Non-Farm Payroll came in at +194,000 jobs, much lower than the market's expectation of +500,000. Unemployment rate declined to 4.8%, better the market's expectation of 5%. However, this masked a further drop-off in labour participation rate, particularly the plight of disgruntled marginal workers from minority ethnic groups that gave up looking for work. The US Fed is in a tricky bind; an upcoming inflation report before the next FOMC meeting in early November without the benefit of another jobs report. We are of the view that tightening monetary conditions now may prove to be a pre-mature move that may need to be reversed sooner rather than later.

2. In September, the Thai Baht was Asia's worst performing currency, -4.1% against the US Dollar. Investors fret over Thailand's decision to raise the fiscal debt ceiling from 60% of GDP to 70%. We in Asia still remember the devaluation of the Thai Baht in 1997 that sparked the Asian Financial Crisis.

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At the latest House of Financial Services Committee hearing, US Treasury Secretary Janet Yellen supported a proposed Bill to remove the US debt ceiling. Of course, the US debt ceiling debate has morphed into an unnecessary and much politicised battle between the Democrats and Republicans. However, it also served as a check and balance against an open cheque book. Without a debt ceiling, this means that we are possibly going down a path of abandoning fiscal prudency and consequential low/negative real yields. The long-term implications on the US Dollar (weaker) and emerging markets (stronger) held hostage to USD hegemony are huge.

Malaysia

1. The KLCI closed at 1,561 @ 7.10.21, a decrease of -1.4% MoM. Last week, Oil & Gas (+10.2%), Food & Beverage (+6.0%) and Consumer Goods (+5.9%) were the best performing sectors. In contrast, Healthcare (-2.5%) was the worst performing sector. Year-to-date @ 7.10.2021, the KLCI has retreated by -1.4%.

2. PM Ismail Sabri announced the reopening of interstate travel and international borders for Malaysians effective from 11 October 2021. This signals that Malaysia is moving out of a period of peak restrictions and into recovery mode as more sectors resume their normal business operations. The market's narrative has quickly shifted from COVID-19 cases to the reopening of the economy. Laggards, cyclicals, and resumption plays have come into focus.

3. China released its steel production suspension plan for Q4CY21 and Q1CY22. Instead of cutting production on all steel producers, the plan focuses on restricting production for plants with higher carbon emissions. In Q4CY21, these cuts are expected to continue to meet this year's annual carbon emission targets. In Q1CY22, steel manufacturers would only be allowed to produce not more than 70% of their Q1CY2021 output. As China accounts for 62% of the world's steel production, any supply and demand changes are likely to impact

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the global steel market. We are of the view that steel prices could remain high in the near term as exports from China has declined, leaving other countries to fill this demand. In Malaysia, local steel producers should benefit from higher prices in-line with better prices globally.

4. Brent crude rose to $83/barrel due to an upsurge in demand as countries reopen their borders and economies. This comes at a time when coal and liquefied natural gas prices (Asia) reach new highs of $247/t and $56 per MMBtu respectively. This is expected to trigger a substitution to Brent crude oil as a source of fuel. Malaysia is a net beneficiary of rising oil prices – the rise in oil prices is a timely boost for the government's coffers. Chronic under-investment by global oil majors in the upstream sector is likely to play out in terms of higher oil prices in the next 12M. This is another positive which is likely to draw foreign interest in Malaysia.

5. The year-to-date decline in the KLCI has reinforced Malaysia's valuation argument. Based on KLCI at 1,561 @ 7.10.2021 and assuming a market eps integer of 97/106 for 2021/2022, the market is trading at a PER of 16.1x/14.7x respectively. This is -1 standard deviation below its long-term mean of 16x for

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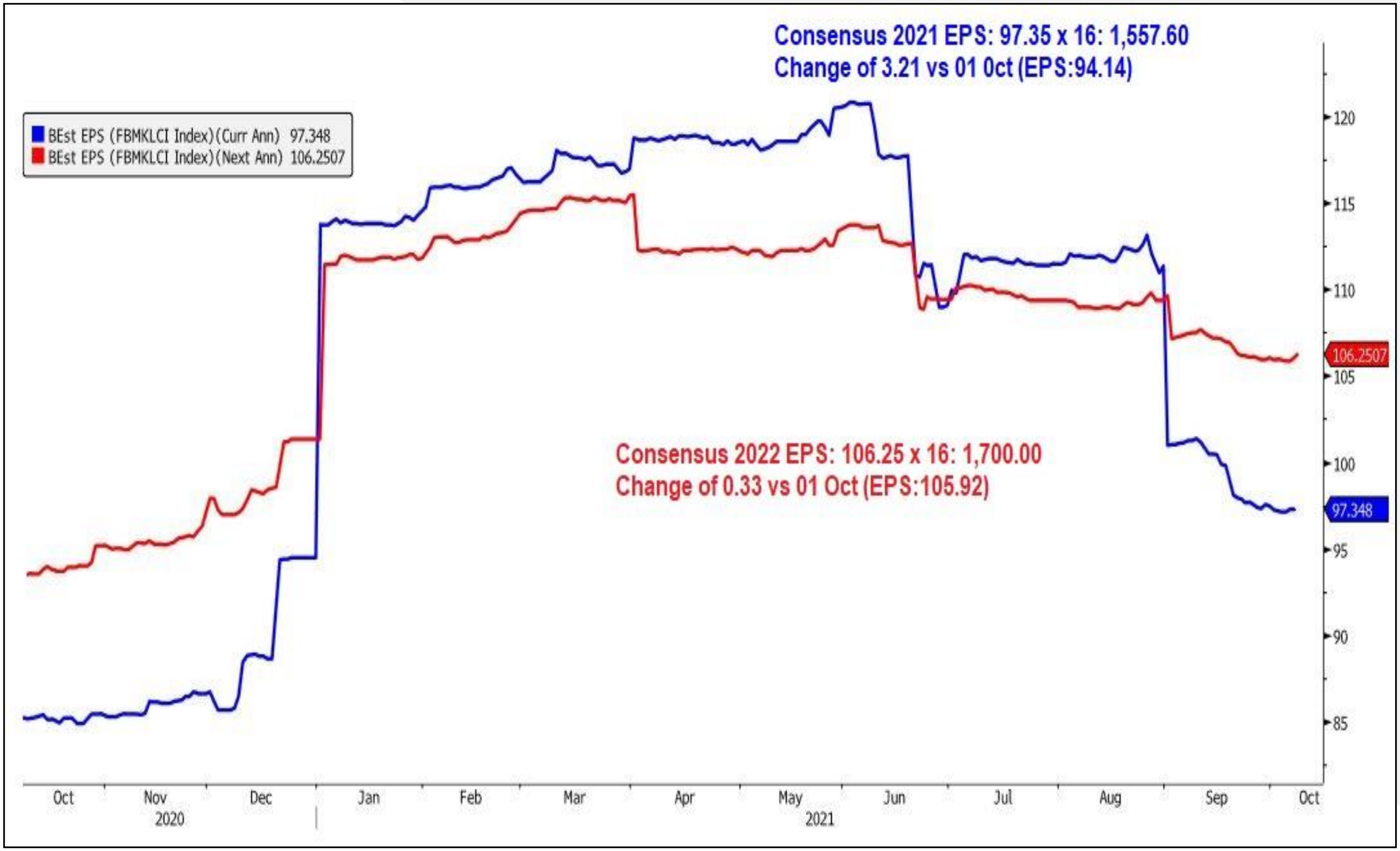
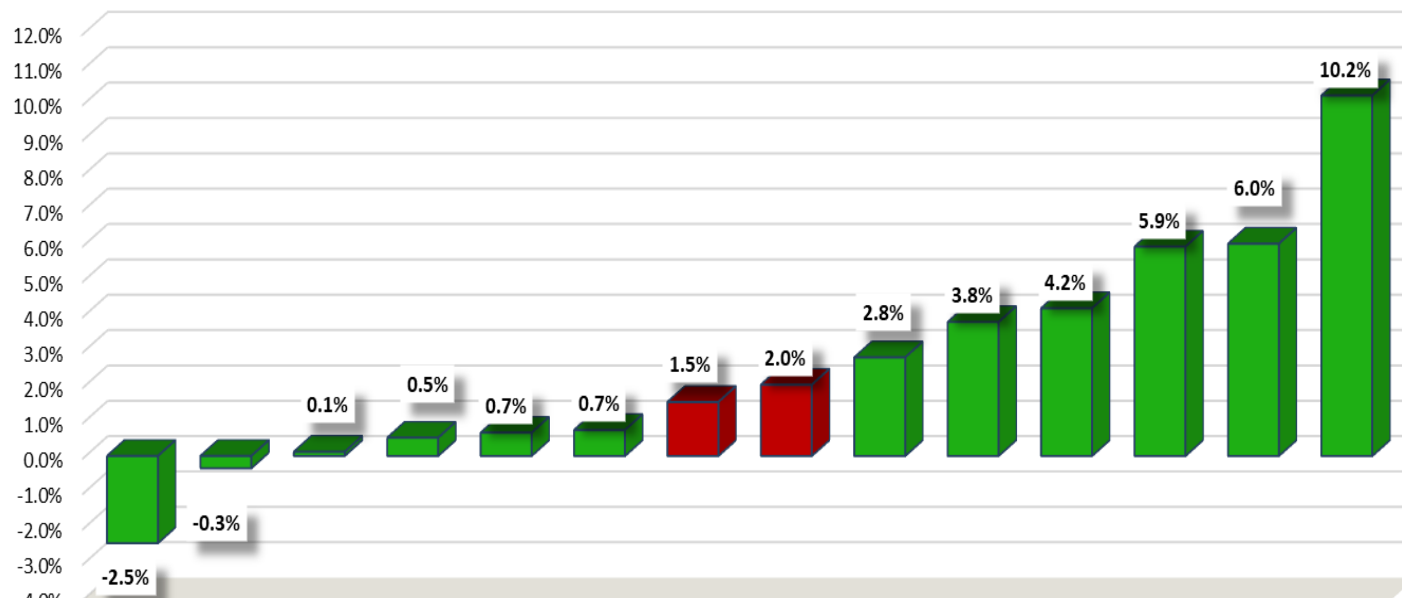
FY22. The market PBR of 1.5x (at 7-year mean) and DY of 3.5% (at between 7-year mean and +1SD) are also supportive of the stock market. Finally, Malaysia is trading at par with Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium (ex-Pandemic in 2020).

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 07.10.21



(Source: Bloomberg)

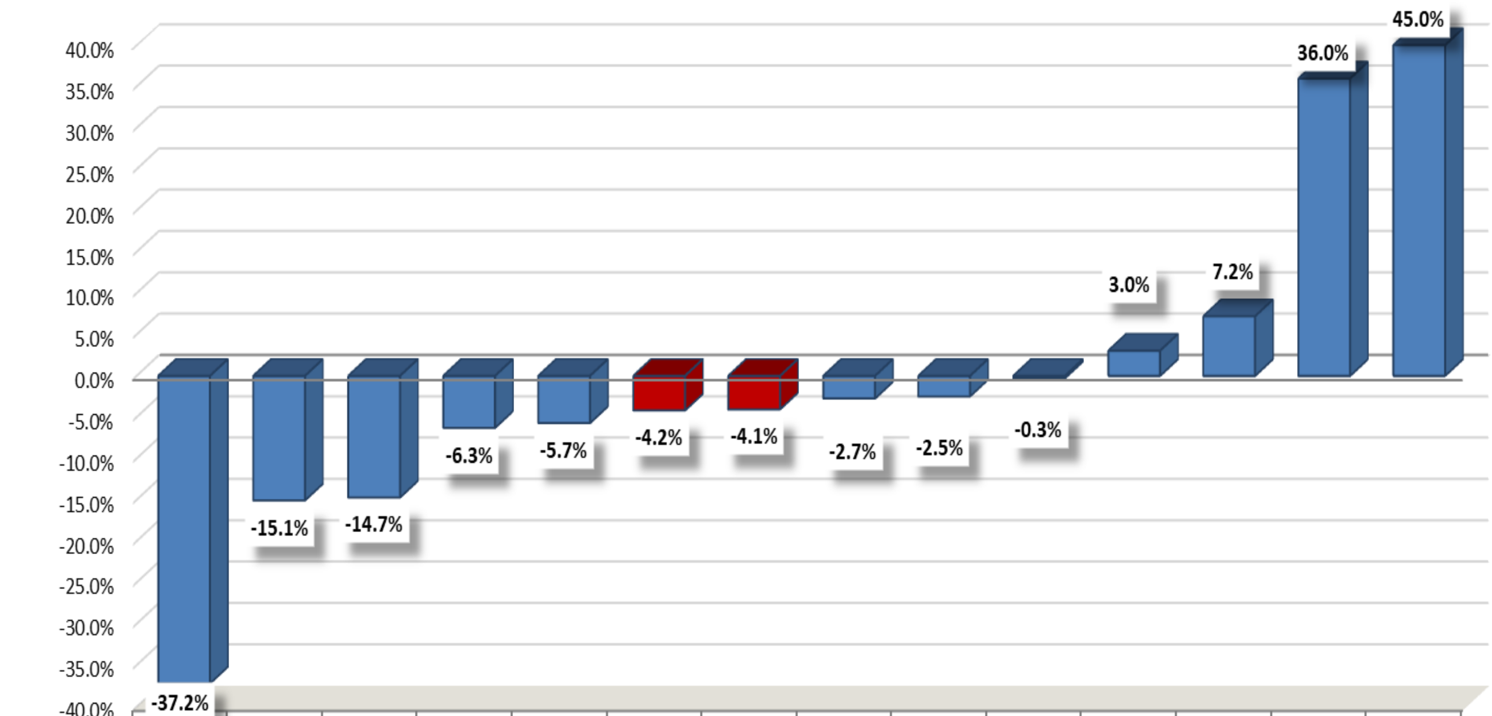
Exhibit 2 : Sector Performances (Week-on-Week) @ 07.10.21



	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Construction & Materials Index	FTSE B/M EMAS Banks Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrials Index	FTSE Bursa Malaysia KLCI	FTSE MALAYSIA EMASSHARI	FTSE B/M EMAS Industrial Metals & Mining Index	FTSE Bursa Mal Small Cap Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Oil & Gas Index
Change WoW	-2.5%	-0.3%	0.1%	0.5%	0.7%	0.7%	1.5%	2.0%	2.8%	3.8%	4.2%	5.9%	6.0%	10.2%

(Source: Bloomberg)

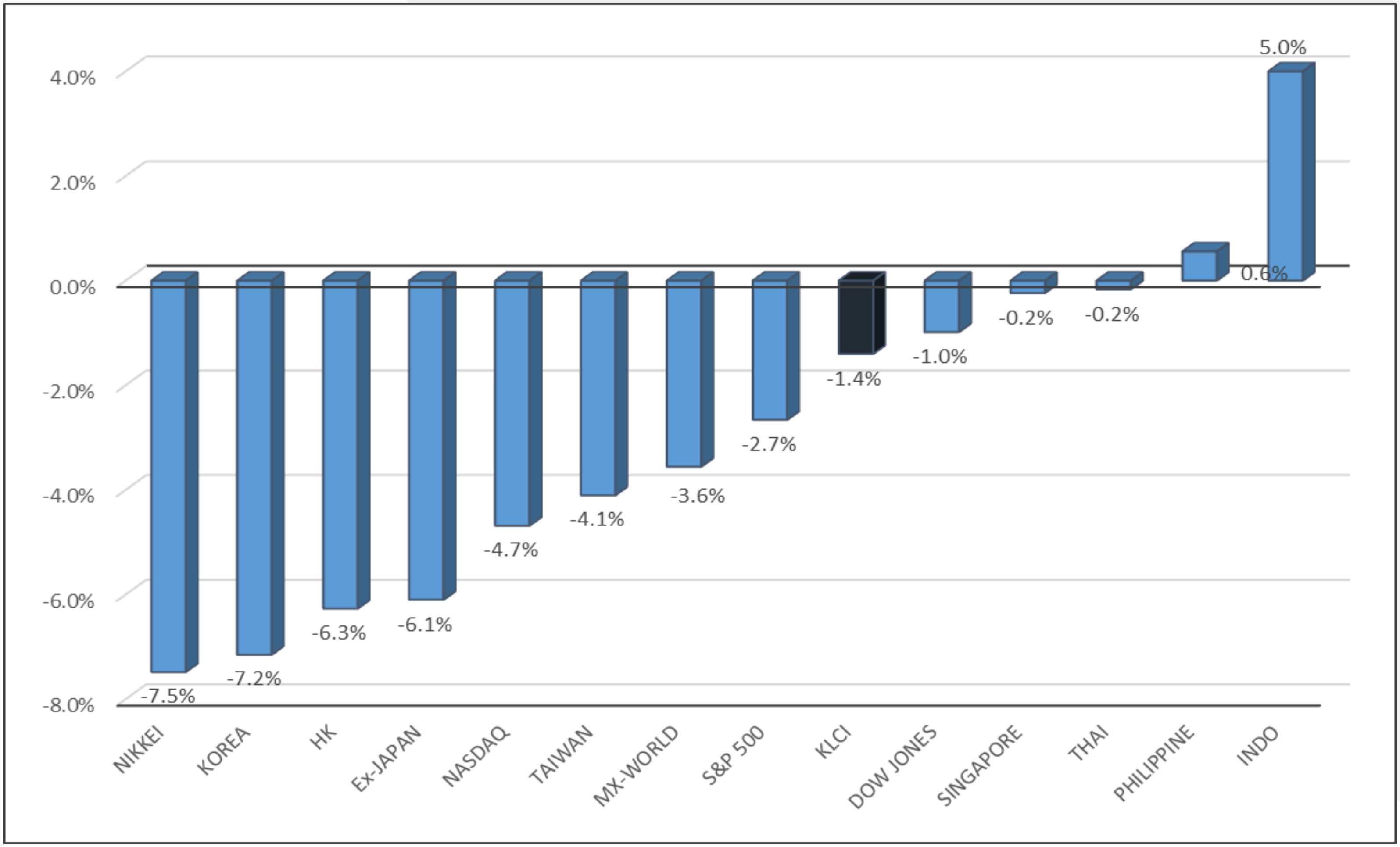
Exhibit 3 : Sector Performances (Year-to-Date) @ 07.10.21



	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 Utilities Index	FTSE B/M EMAS Real Estate REITs 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	-37.2%	-15.1%	-14.7%	-6.3%	-5.7%	-4.2%	-4.1%	-2.7%	-2.5%	-0.3%	3.0%	7.2%	36.0%	45.0%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 07.10.21



(Source: Bloomberg)

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