Portfolio Manager's View

26 November 2021

Fund Management Department

Regional

1. At Bloomberg's New Economy in Forum last week, former US Secretary of State Henry Kissinger said that this virtual summit between US President Joe Biden and Chinese leader Xi Jinping marked a "good beginning" for the world's two largest economies to avoid a conflict. The meeting went on longer than expected and more details from this summit have now been revealed. Foremost from official press statements to the media is the US stance on the importance of its "One China" policy while at the same time the concerns over Chinese behaviour that threatens stability in the Taiwan Straits. Military talks between the US and China has now been elevated to its highest level and priority. Many will remember Henry Kissinger's trips to Beijing in 1971 that paved the way for the President Richard Nixon's historic trip to China in 1972. The talks would ultimately conclude with a rapprochement between the United States and China, and the formation of a new strategic anti-Soviet Sino-American alignment. Fast forward to 2021; in the aftermath of Covid-19 pandemic, and the rising risks of a repeat of Russia's annexation of Crimea in 2014 on Ukraine and the migrant crisis on the Belarus-Poland border, the US could ill afford to be dragged into military confrontations on multiple fronts having just completed the withdrawal from Afghanistan. Between the two evils, China is seen as the lesser evil, just like it was in 1972. The US-China conflict is as bad as it can be and should only get better.

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2. US Federal Reserve Chair Jerome Powell has kept his job. We are of the view that inflationary pressure is likely to remain elevated into the first quarter of 2022 due to the low base effect from last year. On the same night of Powell's reappointment, Treasury Secretary Janet Yellen reiterated her view that the US should get closer to its 2% inflation target by the second half of 2022. Implicit in that statement is a 'Treasury Department directive' to Powell to look beyond the near-term inflation numbers? The market will test the US Fed's independence especially if the data gets more uncomfortable. We share the same view that inflation is likely to ease by the second half of 2022. However, we are also of the view that the last 25 years of low inflation caused by imported deflation from China will be replaced by a period of sustainably higher inflation (but lower than current levels) as a result of imported inflation from China.

3. Economic data-points out of China appear to suggest that the situation is not as dire. Both retail sales and industrial production for October surprised positively against consensus while fixed asset investments only lagged marginally. In particular, the better industrial production number would indicate some normalisation to the power shortage situation. High frequency

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data can be noisy and one month does not make a trend. Data-points from subsequent months will tell if China has turned the corner. The latest PBOC Quarterly Monetary Policy Report saw phrases such as "controlling the valve on money supply" and "not flood the economy with stimulus" being removed. Premier Li Keqiang has repeatedly warned of the many challenges to keep the economy stable recently. Thus, while we continue to maintain our view that the near-term monetary easing momentum will be measured, we remain constructive as we expect broader stimulus measures to kick in next year. Any pickup in the Chinese economy will be good for the Asia region that is increasingly more aligned to China's fortunes.

Malaysia

1. The KLCI closed at 1,523 @ 18.11.21, a decline of 5.1% MoM. Last week, Metals & Mining (+3.4%) and Technology (+2.9%) were the best performing sectors. In contrast, Small Caps (-1.9%), Oil & Gas (-1.9%) and REITs (-1.8%) were the worst performing sectors. Year-to-date @ 18.11.2021, the KLCI has retreated by -6.4%.

2. Earlier this week, the United States (US), China and India agreed to release their strategic petroleum reserves to cap the sharp rise in oil price. This comes as OPEC+ refused to further increase its planned production capacity, having agreed to a 400,000 bpd increase earlier this year. News of this release of oil reserves caused a sell-off in oil earlier this week. However, we view this to be a short-term solution to a long-term problem as reinvestment rates into new projects remain low. Overall, the outlook remains supportive for a higher oil price environment in 2022 as oil demand progressively returns. We are invested in the oil & gas sector.

3. Semiconductor inventory levels in China increased in 3Q21, exceeding total sales for the quarter. This has sparked worries on a potential weakening of end demand. However, global peers saw an opposite trend as sales remained strong.

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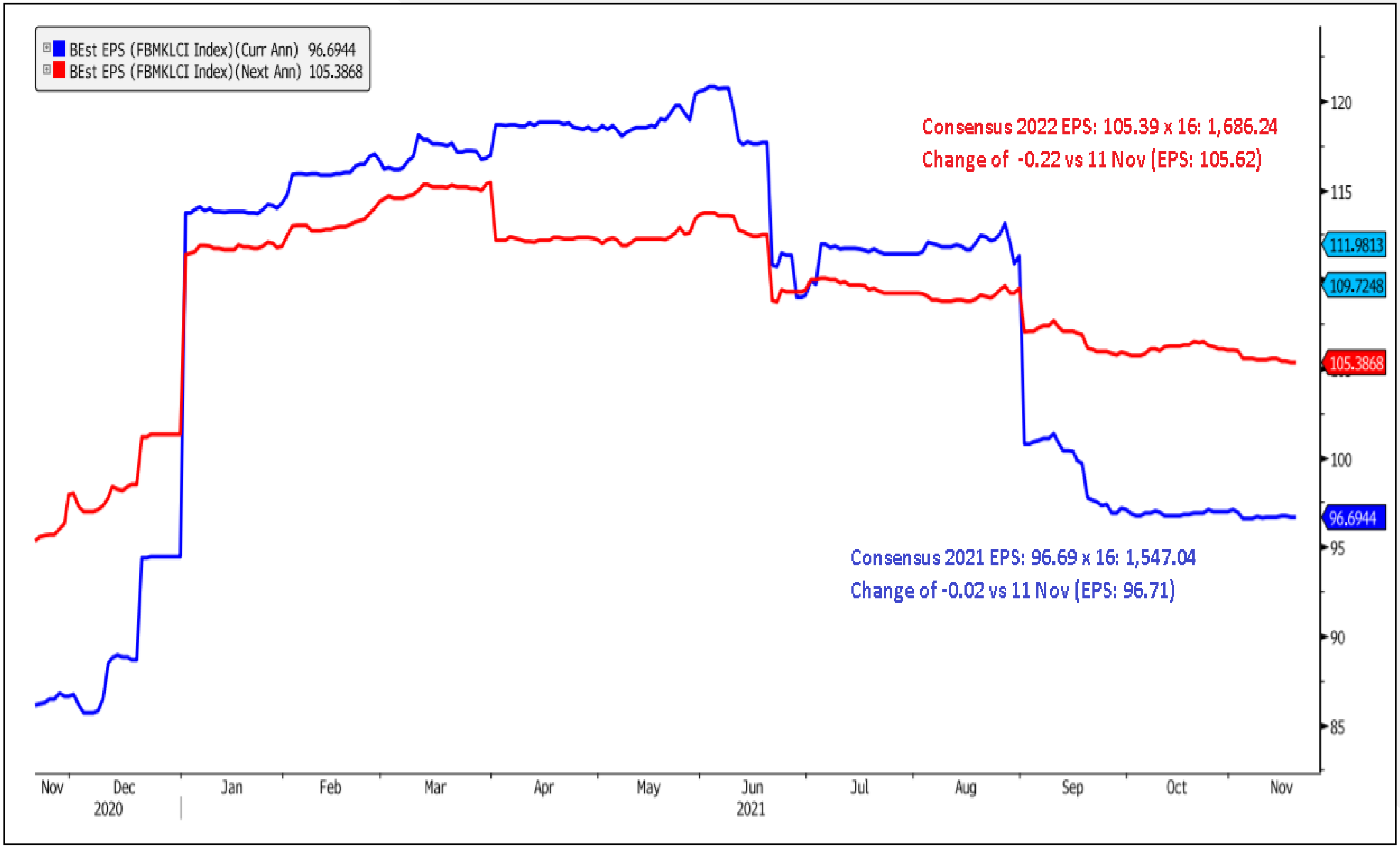
We attribute this to the nature of China's semiconductor industry which tends to be more commodity-like versus its global peers that are more specialized. Hence, we anticipate some pockets of weakness in semiconductor demand and are watching these developments closely.

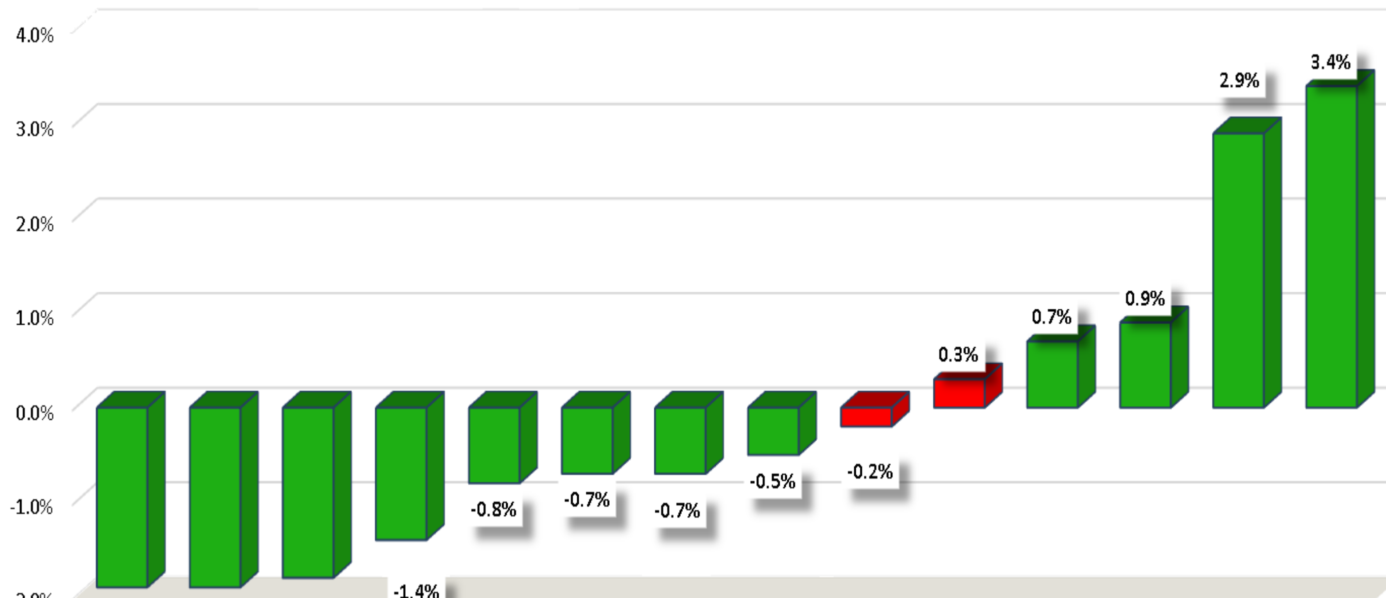
4. The Malaysia market has corrected 2.5% since the announcement of Cukai Makmur in the 2022 Budget on 29.10.2022. The tax is expected to raise between RM3 - 4bil (source: MoF statements, CIMB report). In our view, the KLCI's valuations remain undemanding. Based on KLCI level of 1,523 @ 18.11.2021 and using consensus market eps integer of 105 for 2022, the market is trading at a PER of 14.5x (see Exhibit 5). This is -1 standard deviation below its long-term mean of approximately 15.7x. The market PBR of 1.5x (below 5-year average) and DY of 3.9% (above 5-year average) are also supportive of the stockmarket (see Exhibit 6 & 7). Finally, Malaysia is trading at a 1% discount with Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium if the pandemic period in 2020 was excluded (see Exhibit 8).

Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 18.11.21



(Source: Bloomberg)

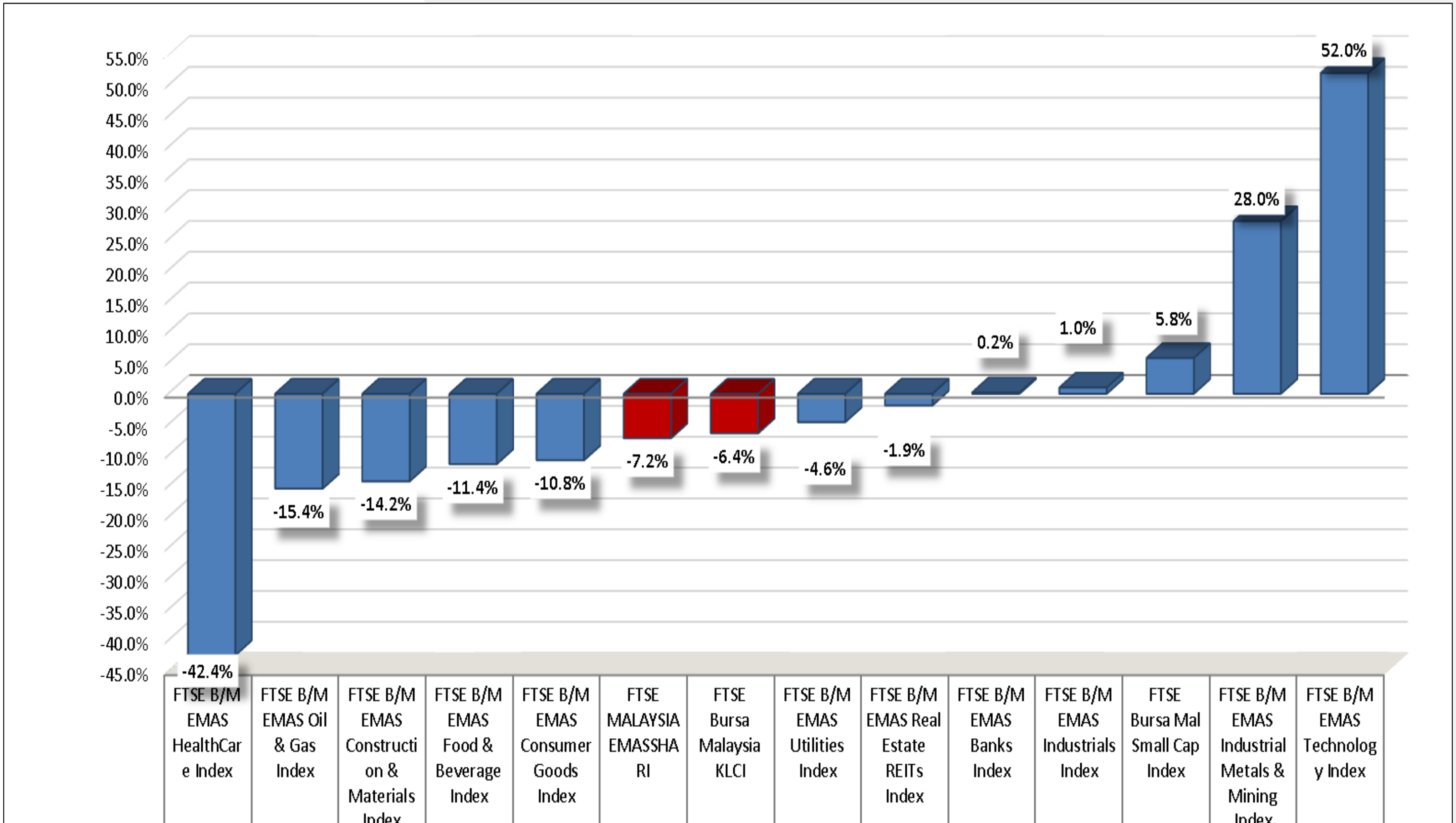
Exhibit 2 : Sector Performances (Week-on-Week) @ 18.11.21



	Bursa Mal Small Cap Index	FTSE B/M EMAS Oil & Gas Index	FTSE B/M EMAS Real Estate REITs Index	FTSE B/M EMAS Industrials Index	FTSE B/M EMAS Consumer Goods Index	FTSE B/M EMAS Utilities Index	FTSE B/M EMAS Food & Beverage Index	FTSE B/M EMAS Construction & Materials Index	FTSE MALAYSIA EMASSHARI	FTSE Bursa Malaysia KLCI	FTSE B/M EMAS Banks Index	FTSE B/M EMAS HealthCare Index	FTSE B/M EMAS Technology Index	FTSE B/M EMAS Industrial Metals & Mining Index
Change WoW	-1.9%	-1.9%	-1.8%	-1.4%	-0.8%	-0.7%	-0.7%	-0.5%	-0.2%	0.3%	0.7%	0.9%	2.9%	3.4%

(Source: Bloomberg)

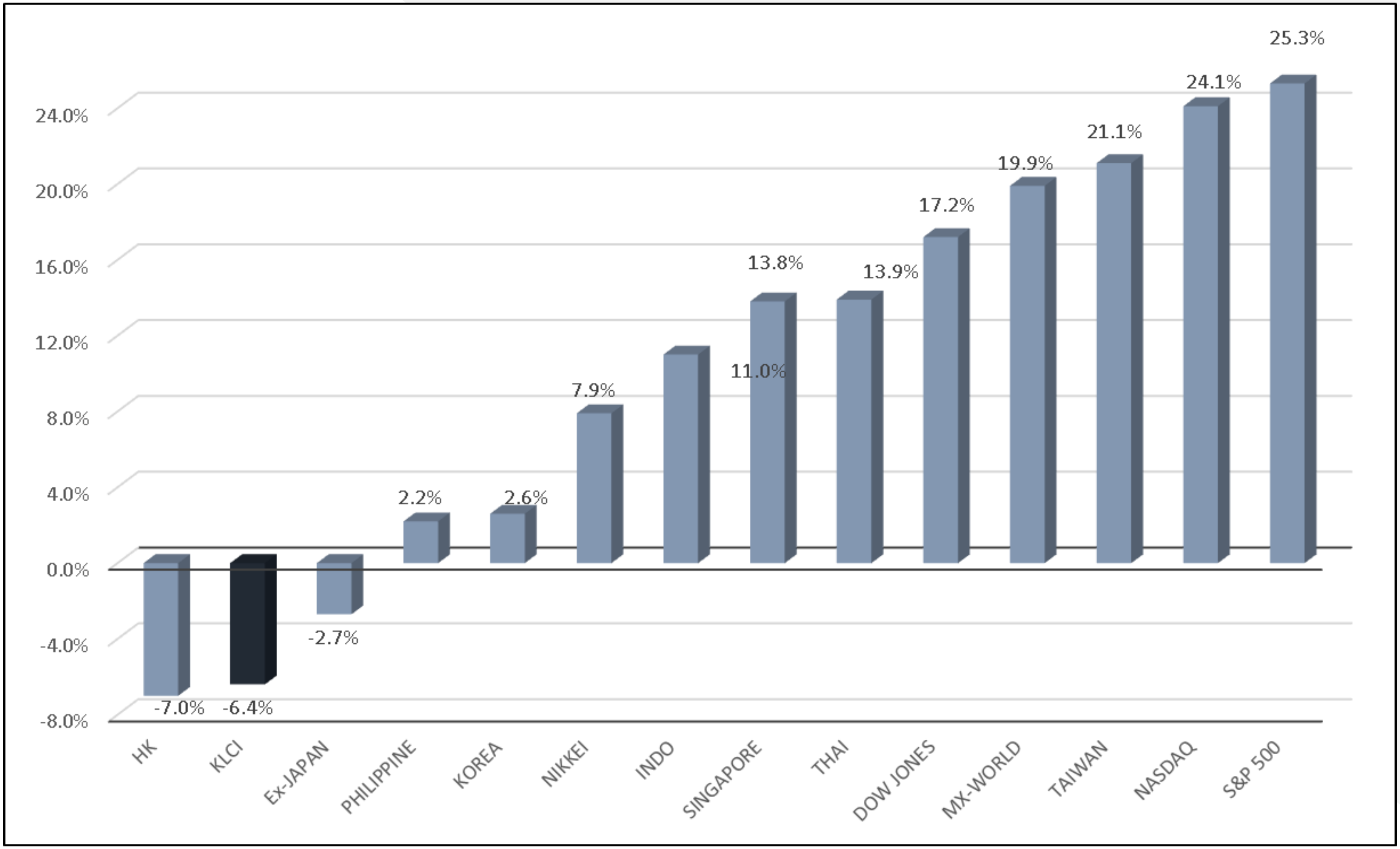
Exhibit 3 : Sector Performances (Year-to-Date) @ 18.11.21



	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	-42.4%	-15.4%	-14.2%	-11.4%	-10.8%	-7.2%	-6.4%	-4.6%	-1.9%	0.2%	1.0%	5.8%	28.0%	52.0%

(Source: Bloomberg)

Exhibit 4 : Performance of Indices (Year-to-Date) @ 18.11.21



(Source: Bloomberg)

Exhibit 5 : KLCI 12M Forward PE Ratio @ 18.11.21

(Source: Bloomberg)

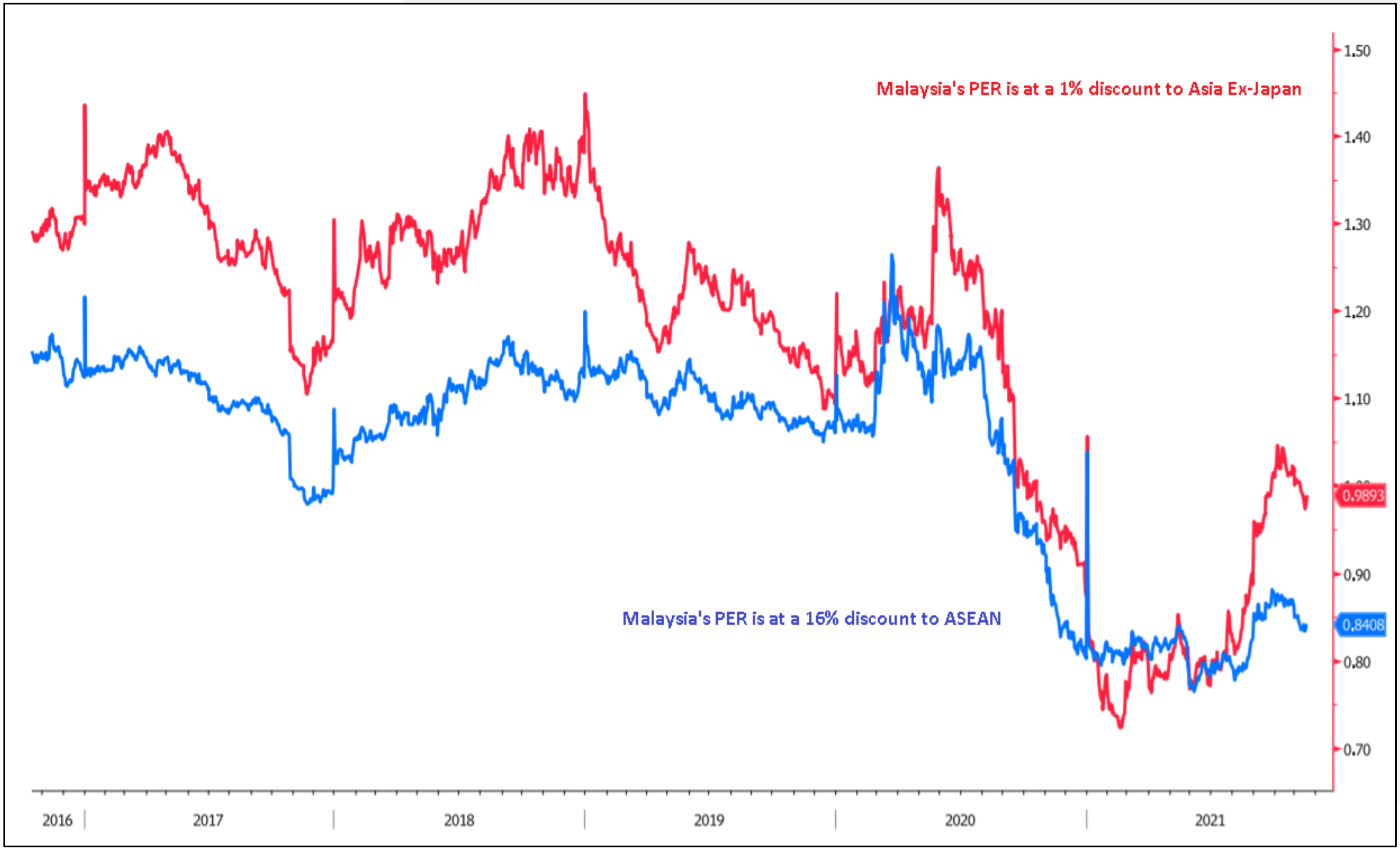
Exhibit 6 : KLCI 12M Forward PB Ratio @ 18.11.21

(Source: Bloomberg)

Exhibit 7 : KLCI 12M Forward Dividend Yield @ 18.11.21

(Source: Bloomberg)

Exhibit 8 : Malaysia’s Relative PE to the Region



(Source: Bloomberg)

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