PORTFOLIO MANAGERS' VIEWS

4 April 2022

MALAYSIA

1. THE WEEK IN REVIEW (25 March-1 April 2022): On 1 April 2022, Malaysia started its transition to the COVID-19 endemic phase by easing cross-border travel restrictions. This augured well for the leisure and hospitality sector and the Bursa Malaysia REIT Index (comprising retail and hospitality properties, among others) responded to the optimism with a 2.8% WoW gain. Coincidentally, last week saw the release of Bank Negara Malaysia's (BNM) Economic and Monetary Review (EMR) Report for 2021. In the report, BNM foresees GDP growth of 5.9% for 2022 (slightly lower than the 6.0% official forecast not long ago). This year's growth is supported by a surge in private consumption by 9% in 2022, compared to just 2% in 2021. This growth outlook is premised on the openings of economic activities and international travel, faster employment growth and government policy support.

However, the inversion in the US Treasury (UST) yields appeared to cast a shadow over Malaysia's economic prospects. The differential in the 2Y and 10Y UST yields fell from 20 bps on 25 March to -8 bps on 1 April. The negative differential (when long term yields fall below shorter-term yields) inferred an economic recession in the making. In contrast, when the US emerged from the COVID-19 pandemic, the UST 2-10Y spread widened to peak at 158 bps in March 2021 after the US Federal Reserve (the Fed) signalled its intent to reduce its bond buying program.

In the US, the higher policy rates has led to 30Y mortgage rising from 3.27% in December 2021 to 4.90% in March 2022. Consequently, US existing home sales fell by 7% in February 2022 whereas new one-family home sales fell 10% in the first quarter of 2022. Coupled with higher bond yields (negative on US banks' bond trading income), the MSCI USA Finance index lost 3% last week. However, the FTSE Bursa Malaysia Emas Bank Index gained 1.1% WoW. We outline the reasons for the outperformance in our Strategy & Outlook.

MALAYSIA ('cont)

2. STRATEGY & OUTLOOK: We believe the above concern on economic recession is premature. The UST yield curve inversion in itself is not necessarily an imminent signal to prepare for a downturn. Studies have shown that recessions in the US only started on average 16 months after the yield curve inverts, and never before. The other arguments against recession fears include (1) a positive 186 bps spread between the US 3-month bill and the UST 10Y yields (long-term average is 160 bps), and (2) real policy rates averaged 2% at the point of past yield curve inversions but US real rates is currently negative (source: JP Morgan).

Importantly, the US economy, having benefitted from COVID-19 inoculation ahead of Asia, already took off last year with a 5.7% GDP growth in 2021. Then, Malaysia posted just 3.1%, but with outlook improving, the economic trajectory for 2022 is higher at 5.9% whereas the US is normalising to 3.4%. As the US battles inflationary pressures with policy rate hikes, BNM's growth-centred policy stance is expected to see rates rise gradually. Currently, Bloomberg's Market Implied Policy Rate for Malaysia indicates 3 rate hikes in one year's time, with the first hike expected in 6 months' time. This is positive for banks' net interest incomes.

With economic reopening and policy rate hikes ahead, the outlook for Malaysia banks is promising. After contracting 12.9% in 2020, the banking system loan growth jumped 34.1% in 2021. Malaysia banks followed-through on the 2021 momentum by posting an aggregated growth of 21.7% YoY in January 2022.

All in, our Malaysia and regional funds are invested in local banking stocks. On valuations, Malaysia remains fair. As at last Friday's close, the KLCI's (1) CY22 PER of 15.5x is below its 5Y average PER of 16.3x (2) CY22 PBR of 1.50x is below its 5Y average level of 1.57x and (3) the market's DY of 3.8% is +1SD above its 5Y average of 3.5% (historically 3.0% to 4.5%).

REGIONAL

1. THE WEEK IN REVIEW (25 March-1 April 2022): In Asia ex-Japan, China outperformed the regional barometer. Here, markets remained enthused by Vice Premier Liu's pronouncements in mid-March to support the beleaguered internet and e-commerce sectors by lifting this sector's indicator by 3.5% WoW after falling 5.6% in the previous week. Although this sector drove the MSCI China and MSCI Asia ex-Japan Consumer Discretionary indexes higher for the week, it rose despite new regulatory oversights. China now expects livestreaming platforms to crack down on tax evasion and content violations and help collect income taxes and deliver reports on streamers' personal information. However, we expect some near-term reprieve in the internet/e-commerce space after China announced plans over the weekend to revise confidentiality rules for Chinese companies listing overseas. The China Securities Regulatory Commission removed a requirement that only China's regulators can conduct on-site audit of China companies listed overseas. This is expected to improve China-US cooperation on audit supervisions.

2. STRATEGY & OUTLOOK: We maintain our preference for consumer discretionary in the travel-reopening ASEAN region as opposed to the social media/internet/advertising-driven large-caps of China. Recently, China's Caixin/Market manufacturing purchasing managers' index (PMI) reading for March came in at 48.1, compared to 50.4 in February. The lower readings came on the fallout from lockdowns from its zero-COVID policy, the Russia-Ukraine war and rising inflation. Property-related wealth destruction remains an overhang as evidenced by last Friday's decision by the Hong Kong Stock Stock Exchange to suspend 32 China developers for not filing financial statements in time. Our regional portfolios continue to favour ASEAN-based companies where valuations are cheaper than China-related peers that may still face regulatory headwinds and valuation de-rating pressures from poorer macro and sectoral backdrops. Conversely, we expect upward re-ratings in ASEAN. Fund flows remain positive as evidenced by the US$ 800 mil that entered ASEAN-5 last week.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

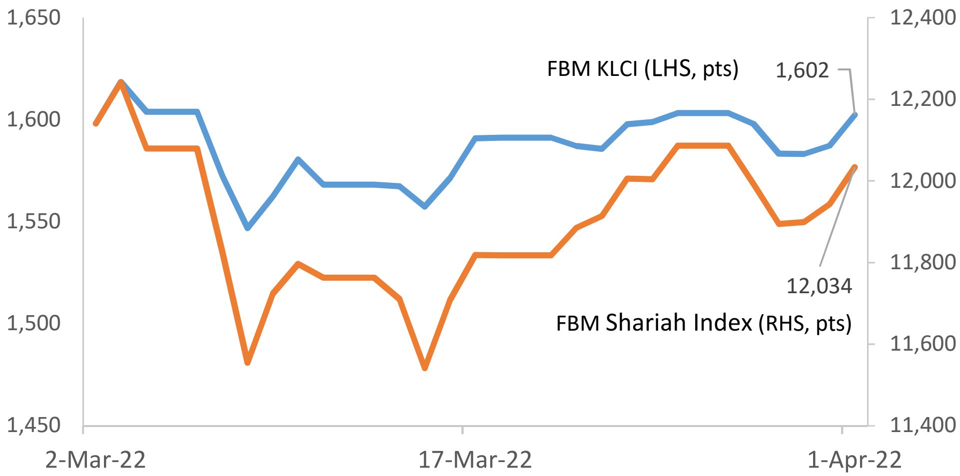


Exhibit 2: USDMYR FX

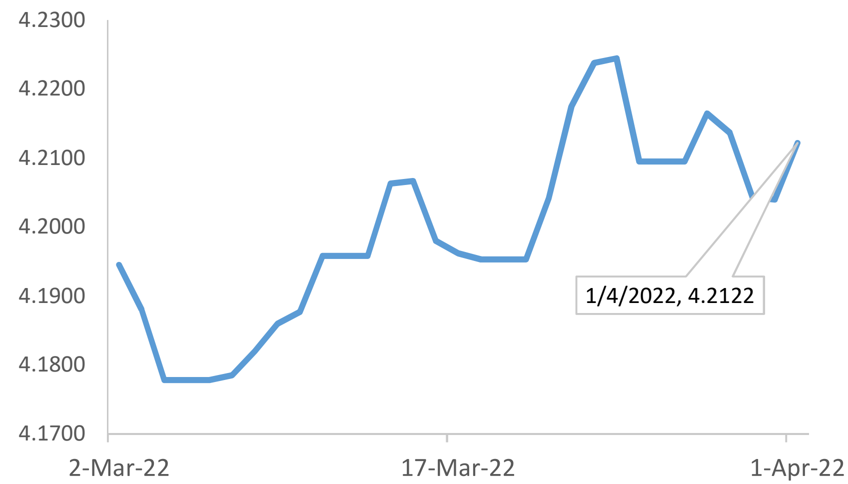


Exhibit 3: Sector Performance Indices (1 Week, %)

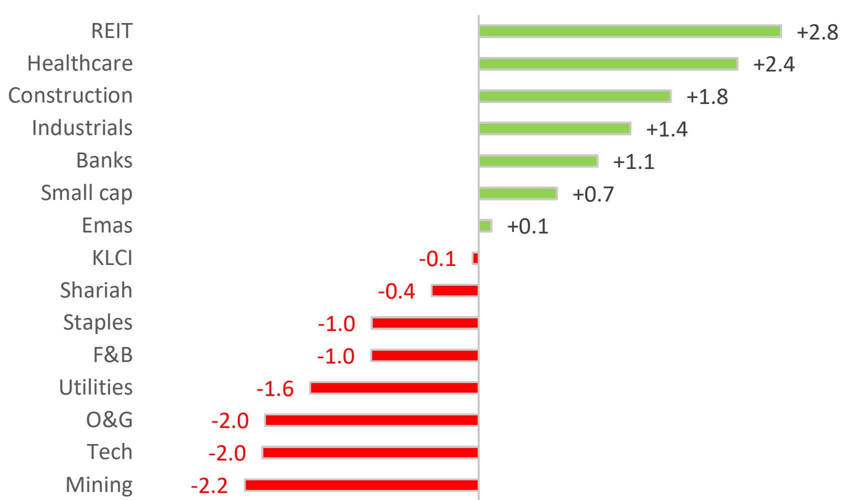
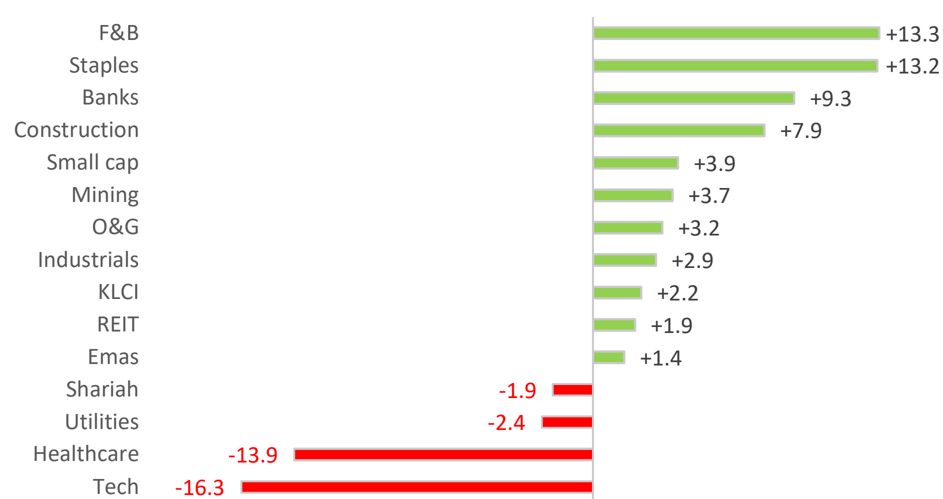


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

Exhibit 5: Malaysia's Premium/Discount to Asia ex-Japan based on Current PER (%)

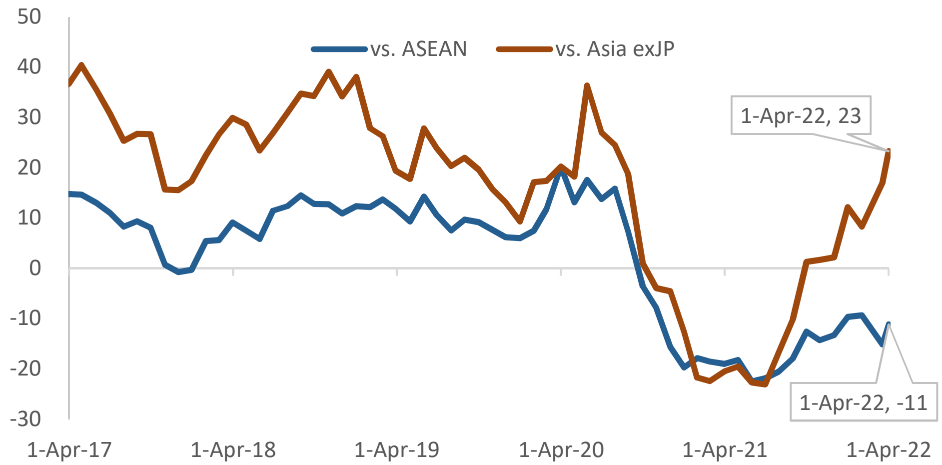


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

Exhibit 8: KLCI's Dividend Yield (DY, %)

REGIONAL

Exhibit 1: Country Performance Indices (1 Week, %)

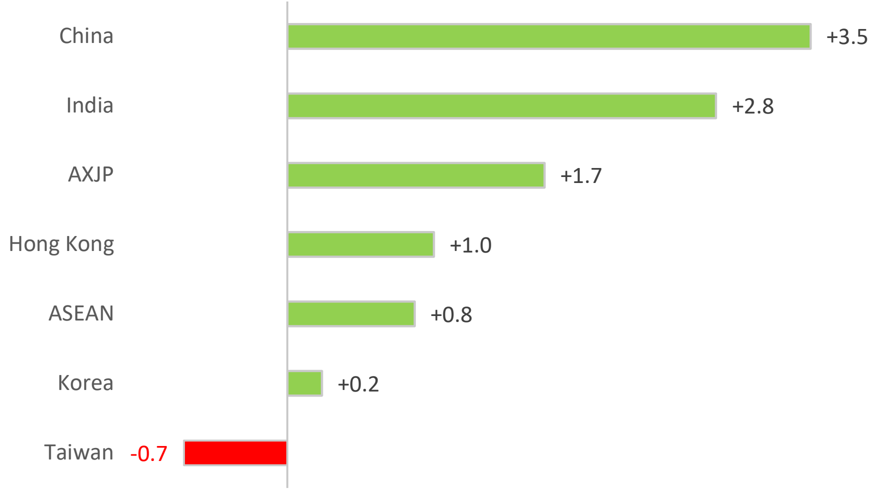


Exhibit 2: Country Performance Indices (Year-to-Date, %)

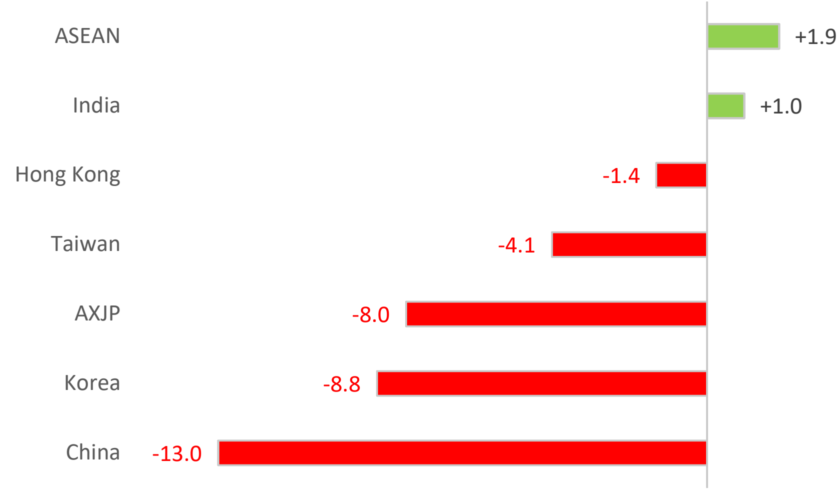


Exhibit 3: Sector Performance Indices (1 Week, %)

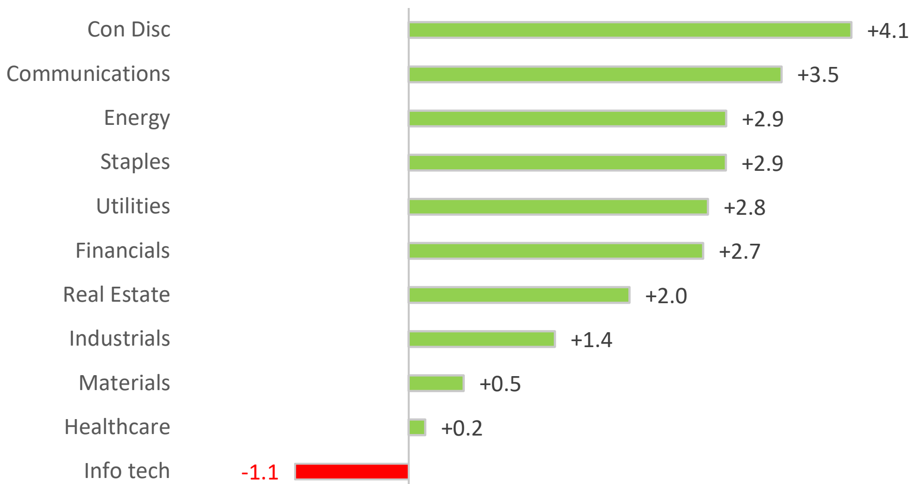
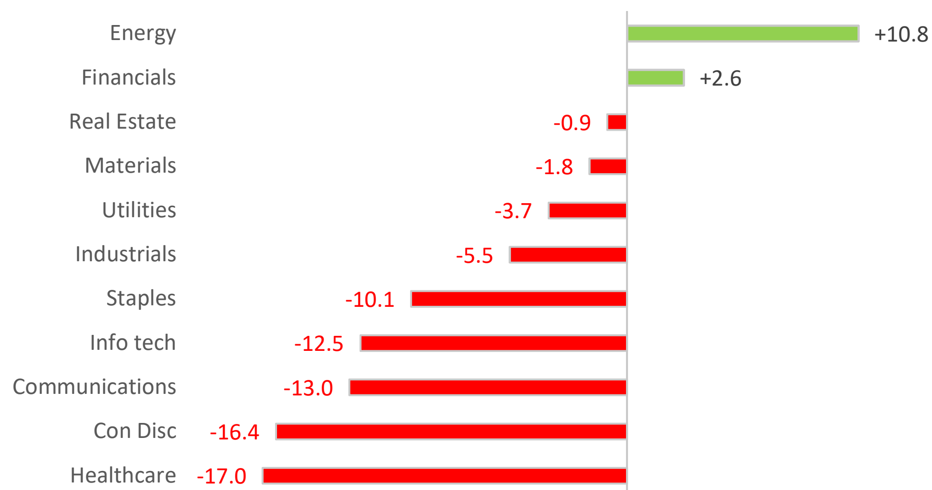


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



REGIONAL

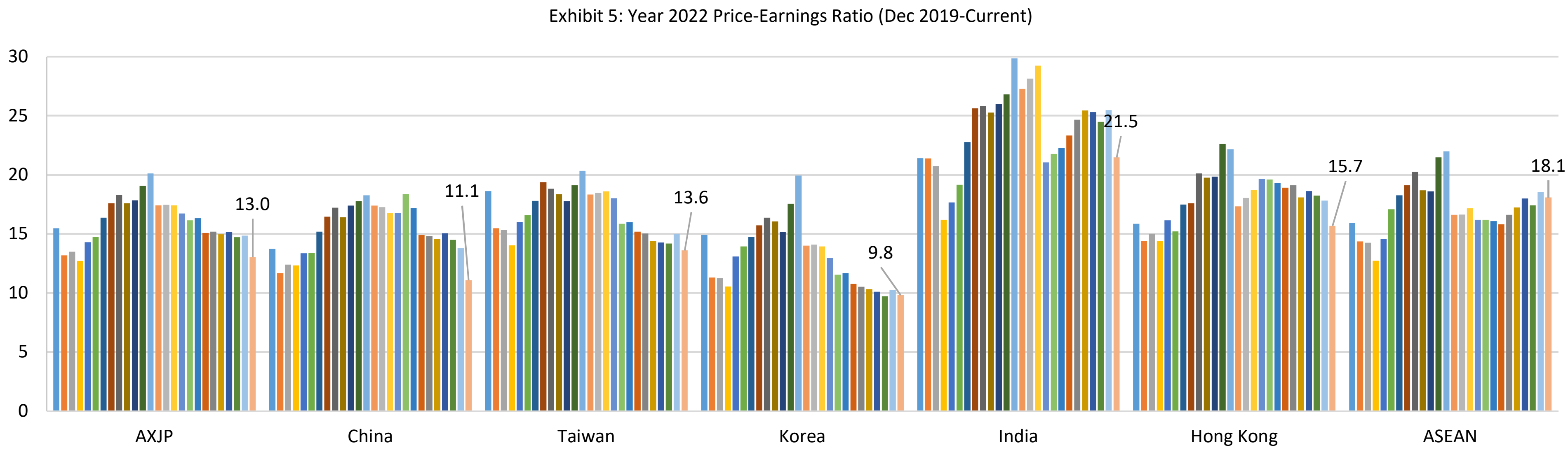
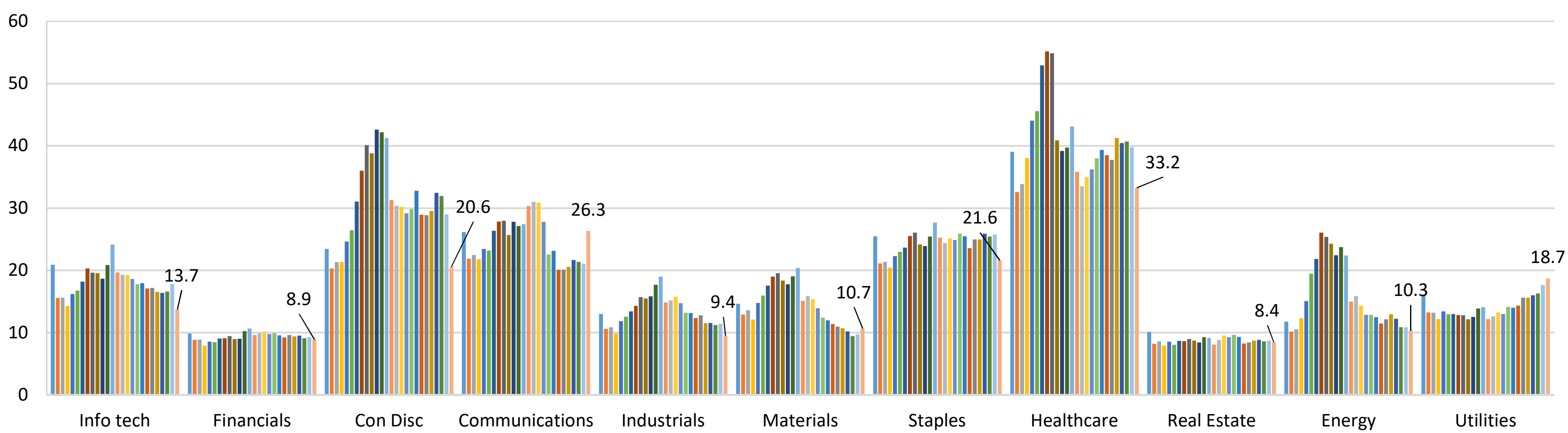


Exhibit 5: Year 2022 Price-Earnings Ratio (Dec 2019-Current)
30
25
20
15
10
5
0
13.0
11.1
13.6
9.8
21.5
15.7
18.1
AXJP
China
Taiwan
Korea
India
Hong Kong
ASEAN



60
50
40
30
20
10
0
13.7
8.9
20.6
26.3
9.4
10.7
21.6
33.2
8.4
10.3
18.7
Info tech
Financials
Con Disc
Communications
Industrials
Materials
Staples
Healthcare
Real Estate
Energy
Utilities

FOREIGN NET FLOWS

Exhibit 6: Selected ASEAN Equity Markets (Net USD mil)

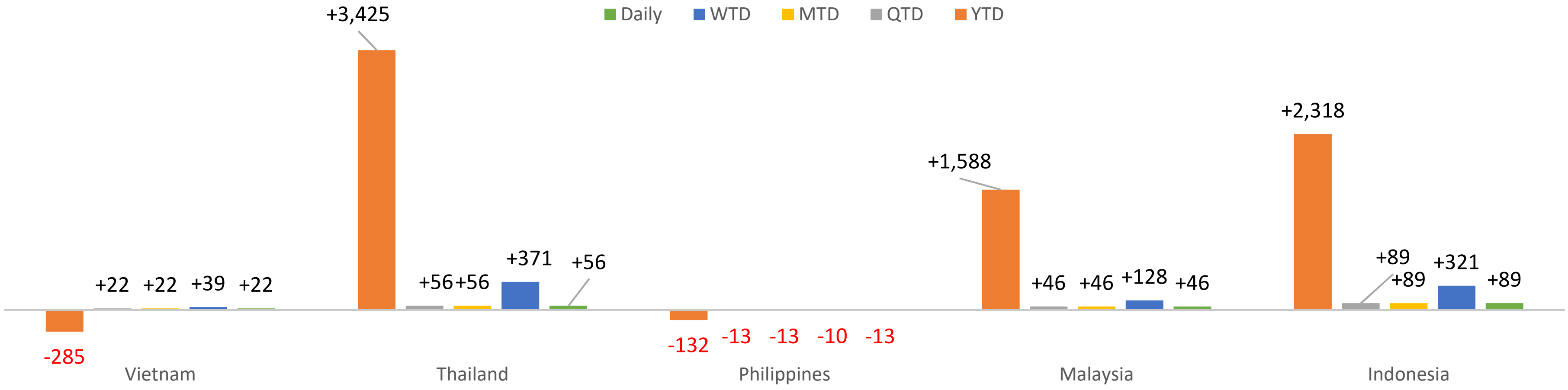
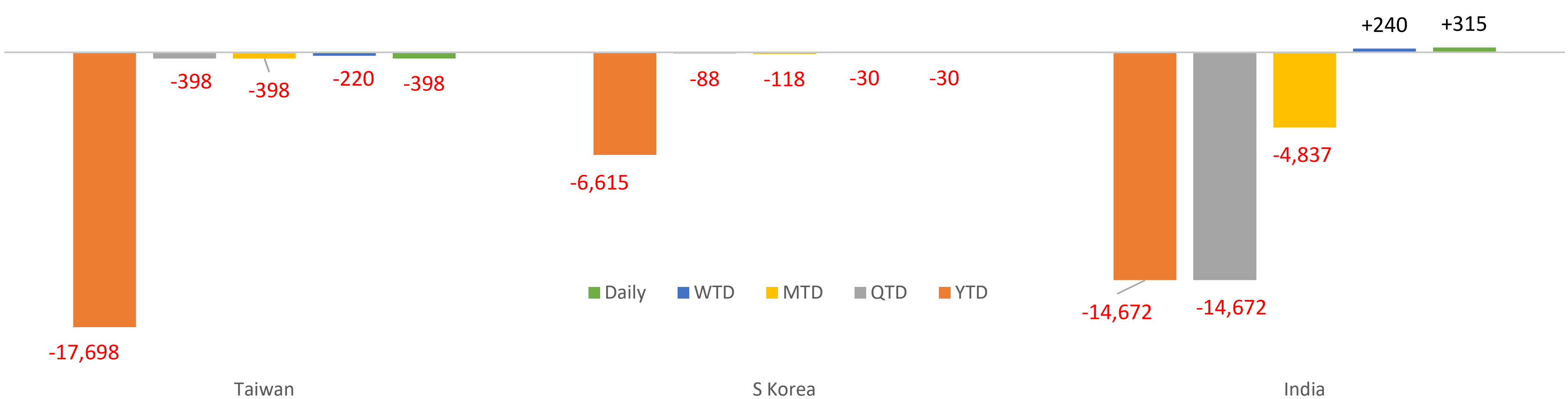


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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