

PORTFOLIO MANAGERS' VIEWS



9 May 2022

MALAYSIA & REGIONAL

1. THE WEEK IN REVIEW (2-6 May 2022): Albeit a holiday shortened week for Malaysia, the local and regional markets came under weak sentiment from global and regional factors. Firstly, China equities gave up the gains that were attributed to speculation that regulators may ease their hardline stance on the internet sector. This speculation arose because China's beleaguered economy has been weakening. After the Politburo pledged the "healthy development" of the platform economy at a meeting before the Labour Day weekend, optimism in the sector jumped but eventually reversed the gains by the end of the week.

Secondly, the US Federal Reserve and Bank of England (BOE) raised interest rates by 50 bps and 25 bps respectively on 5 May. The BOE accompanied its rate hike by warning that "inflation may top 10% this year, driving job losses and stagnation". As recession risk rise, the BOE estimates "two years of economic stagnation and almost 600,000 job losses" as the "price of taming inflation" (via policy rate hikes) (source: Bloomberg). Post US rate hike, expectations of a sharper 75 bps increase in the upcoming June meeting spooked US equity markets and spilled into Asia.

Thirdly, US regulators added 88 US-listed China companies into a provisional list of entities that could be removed from US stock exchanges. Some of the entities were China e-commerce and online gaming companies. The entities were included in the provisional list because of lack of access by US auditors.

In a week where most geographies and sectors fell and sentiment was fraught, the KLCI (-2.3% WoW) outperformed the regional market (MSCI Asia ex-Japan (MXASJ) fell -4.3%). China (-6.8%) was the worst performer, weighed by its e-commerce sector which forms a large weightage in the regional benchmark's consumer discretionary sub-sector (-8.3%).

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2. STRATEGY & OUTLOOK: Rising interest rates and bleak prognosis of economies are dynamics that modulate growth markets and growth sectors. Geographically, they are associated with the North Asian markets, and in sectoral terms, they are in technology and e-commerce. Conversely, markets and sectors that do well in volatile conditions are defensive markets with mature sectors. The latter are characterized by high dividend yields that anchor against sharp market drawdowns.

To illustrate, in April the MXASJ fell 7.4% MoM but Malaysia (KLCI returned +0.8%) was one of the best performing market in the region after Indonesia (+2.4%). Aside from are benefiting from the high commodity prices and easing economies into the endemic phase, the “old economy” markets and sectors (e.g. plantation, banks and consumers) are also high dividend yielders. After the Hang Seng (4.5%) and Straits Times (4.3%) indexes, the KLCI (4.0%) yields the third highest in the region on a one-year forward basis. Malaysia’s old economy sectors like real estate investment trust (REIT) (one-year prospective yield of 5.2% vs. the S&P Asia-Pacific REIT’s 4.4%), utility (5.0% vs. MXASJ Utility’s 4.2%) and plantations (3.7%) offer yields that exceed regional levels. In April, the Bursa Malaysia REIT, utility and plantations indexes gained 1.5%, 3.6% and 11.3% respectively, outperforming both the KLCI and regional market index. Our local and regional funds are invested and expect to remain invested in these sectors. In addition, our investment universe comprises stocks that yield above the market and sector averages.

Going forward, Malaysia equities remains investable for both local and regional portfolios. Malaysia's valuations remains fair. As at last Friday’s close, the KLCI’s 2022 PER of 15x is below its 5Y average of 16.3x, (2) price-to-book ratio of 1.5x is below its 5-year average of 1.6x, and (3) the dividend yield of 4.0% is +1 standard deviation above its 5-year average of 3.5% (historically 3-4%).

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

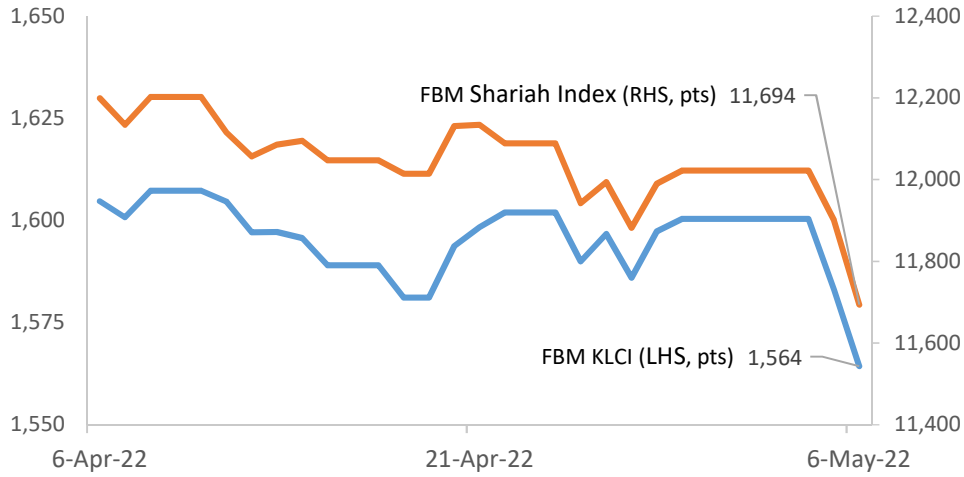


Exhibit 2: USDMYR FX

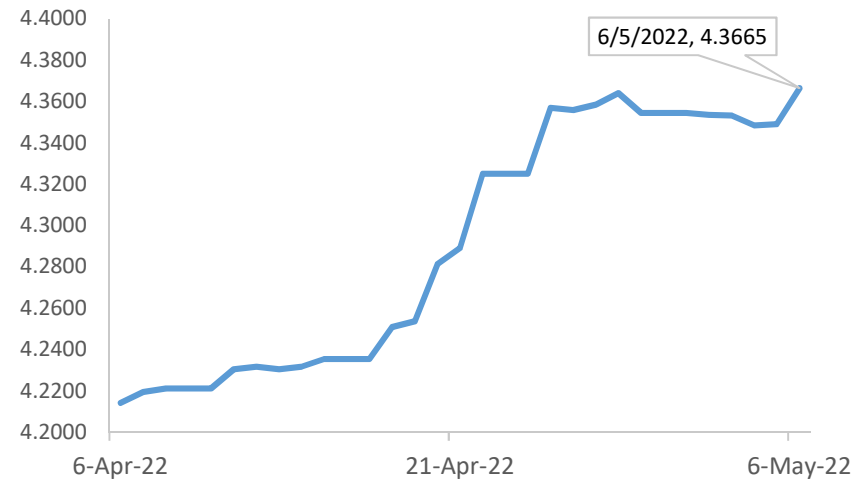


Exhibit 3: Sector Performance Indices (1 Week, %)

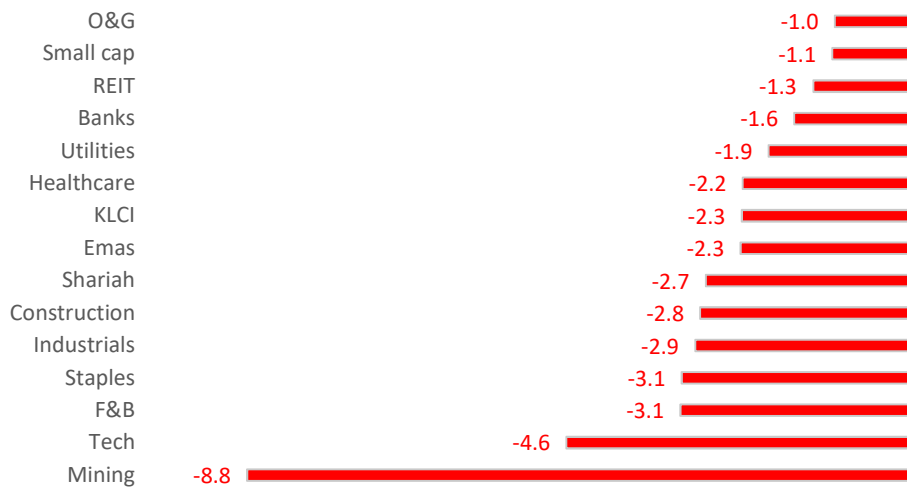
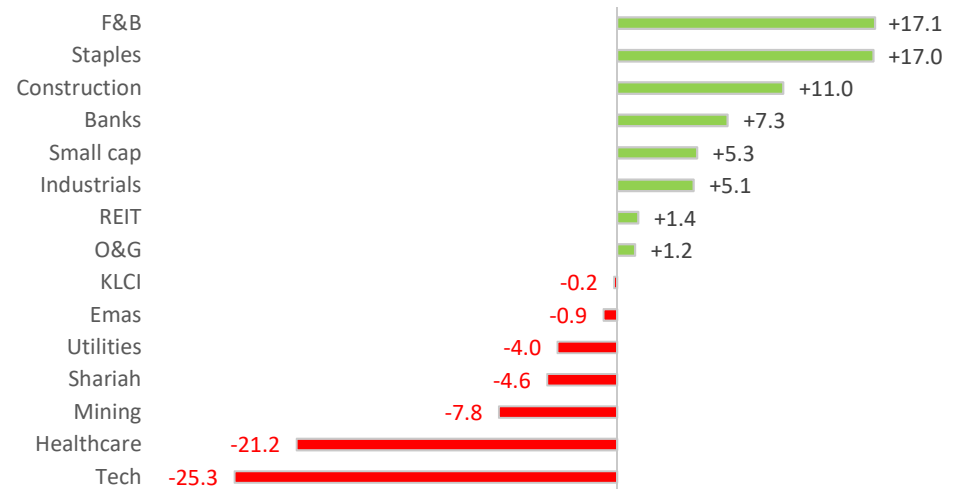


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



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

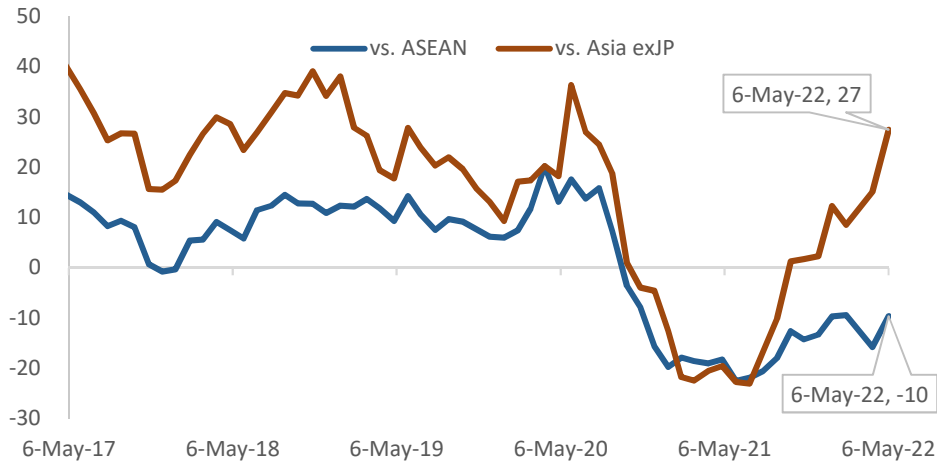


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

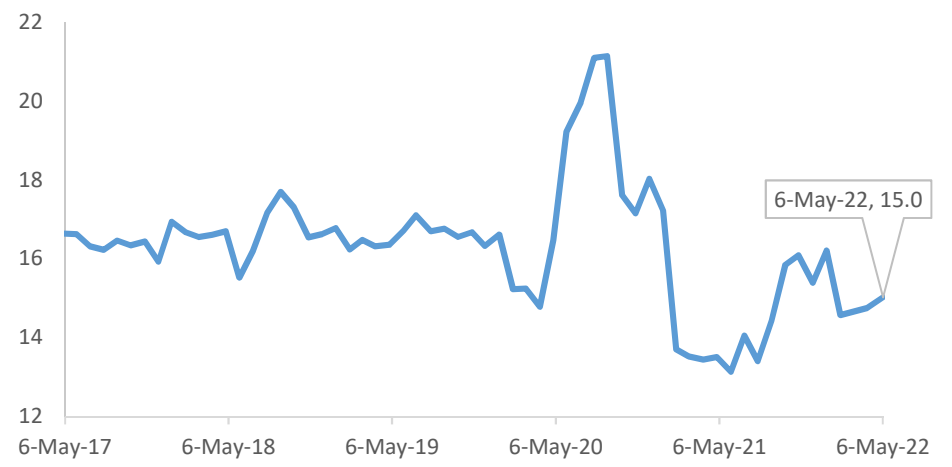


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

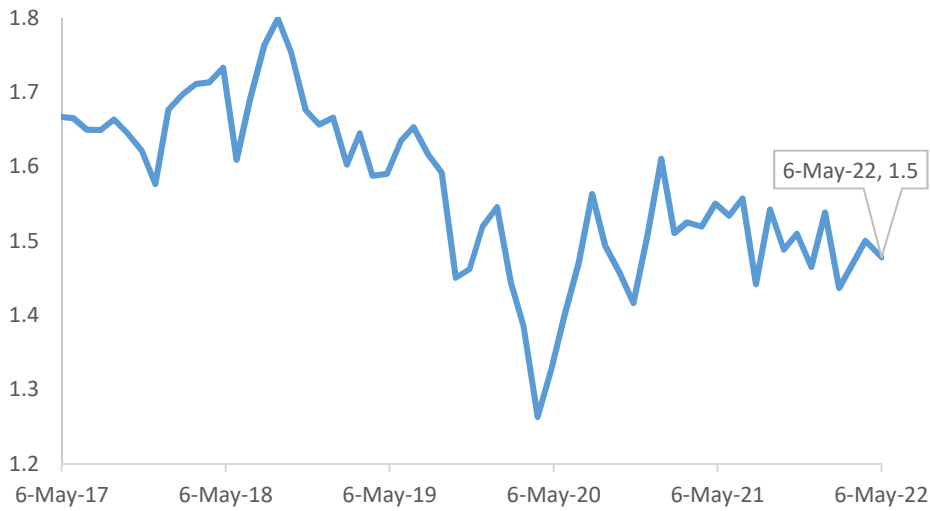
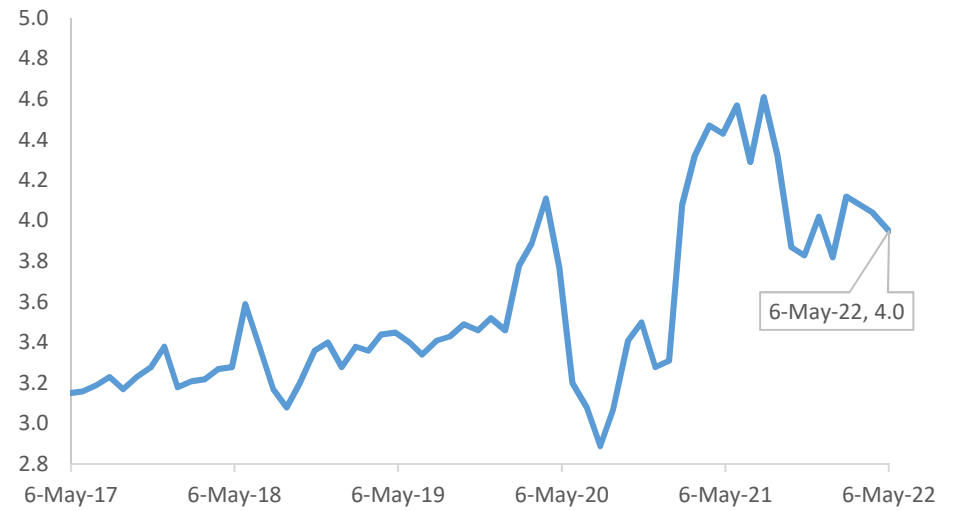


Exhibit 8: KLCI's Dividend Yield (DY, %)



REGIONAL

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

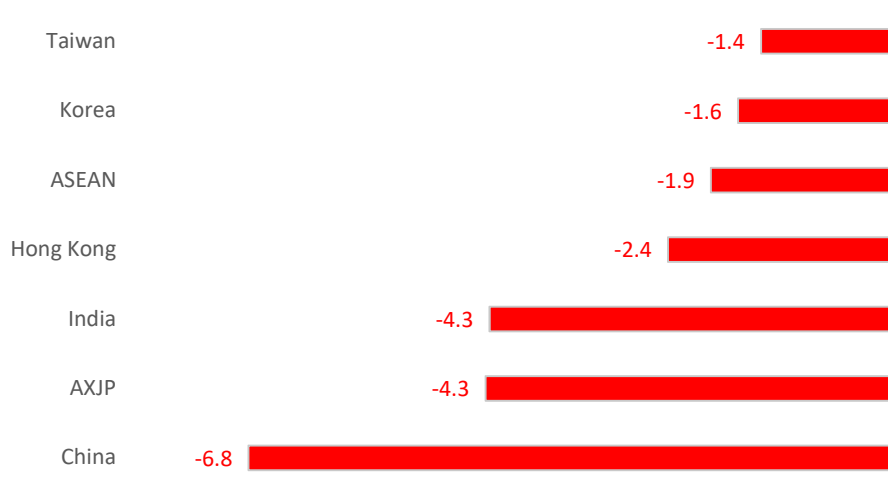


Exhibit 2: Country Performance Indices (Year-to-Date, %)

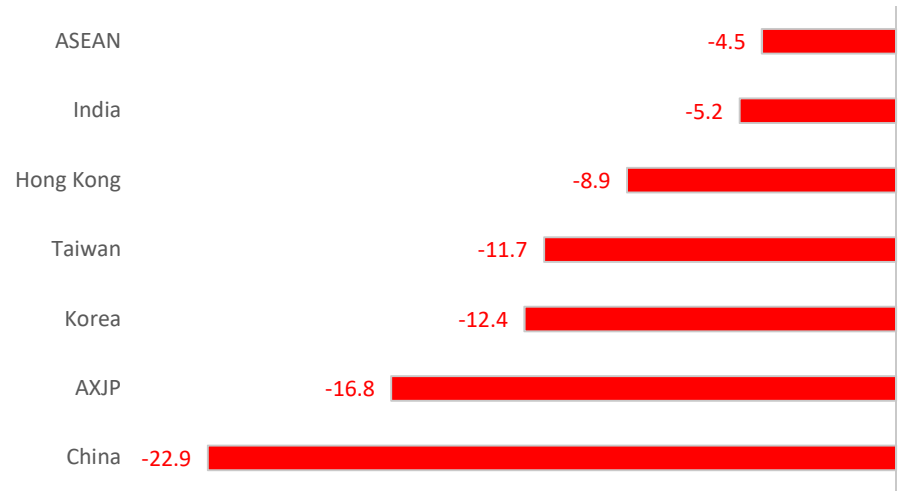


Exhibit 3: Sector Performance Indices (1 Week, %)

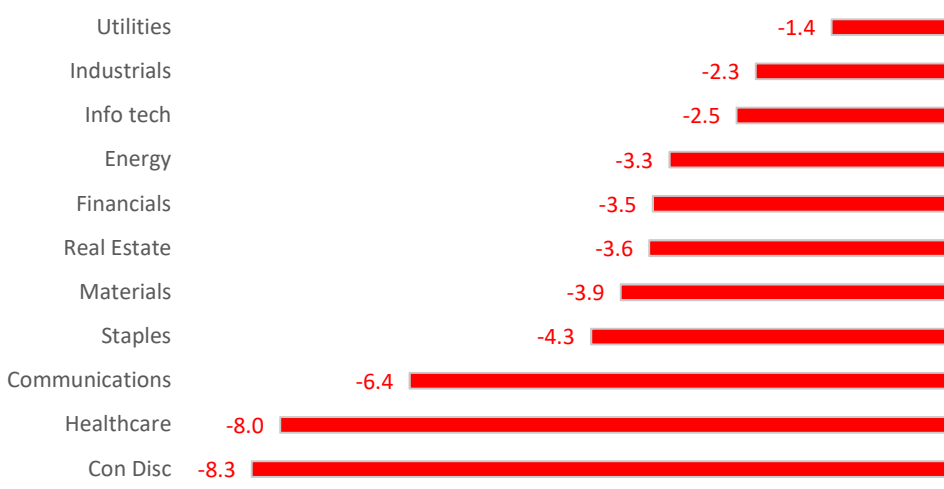
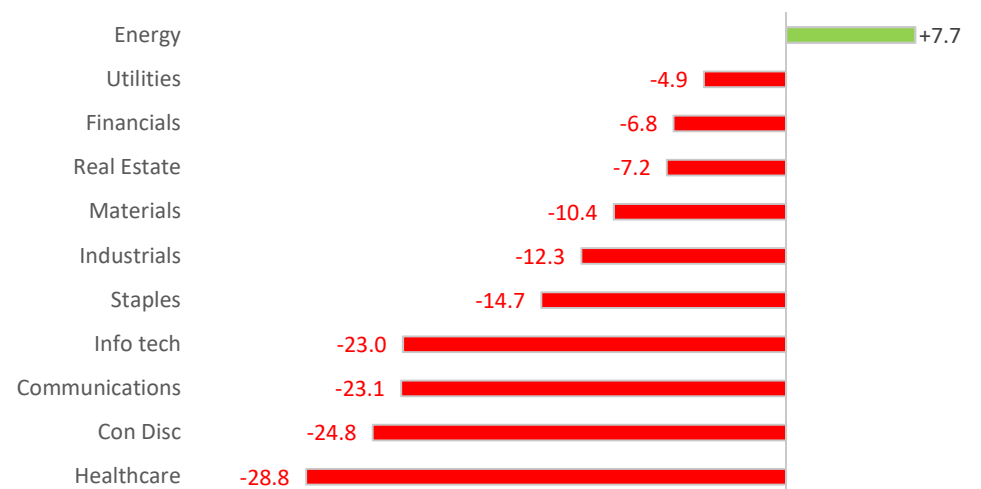
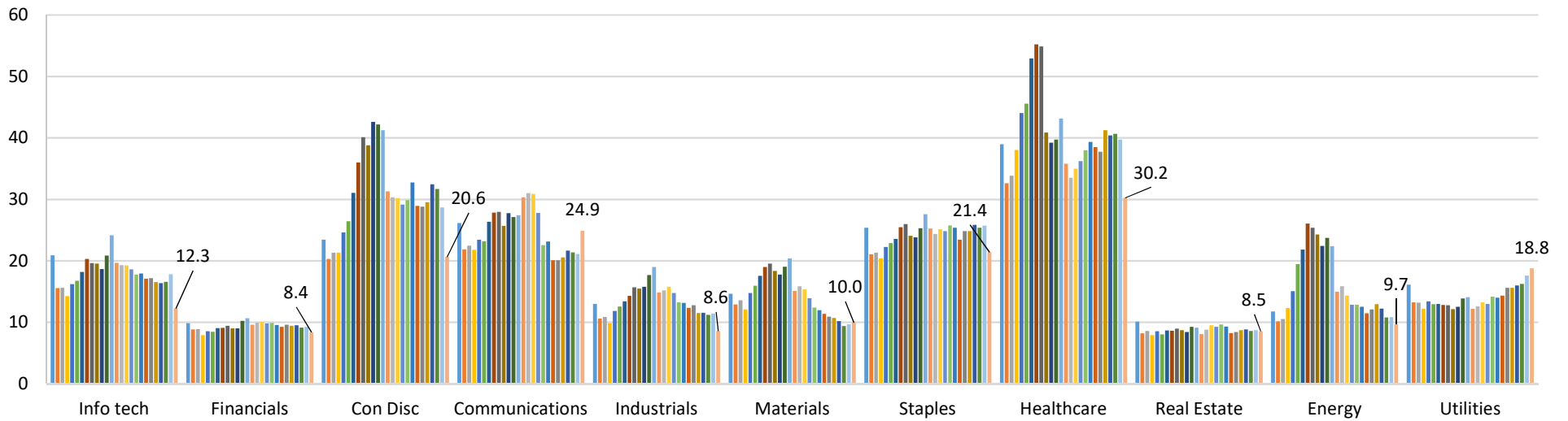
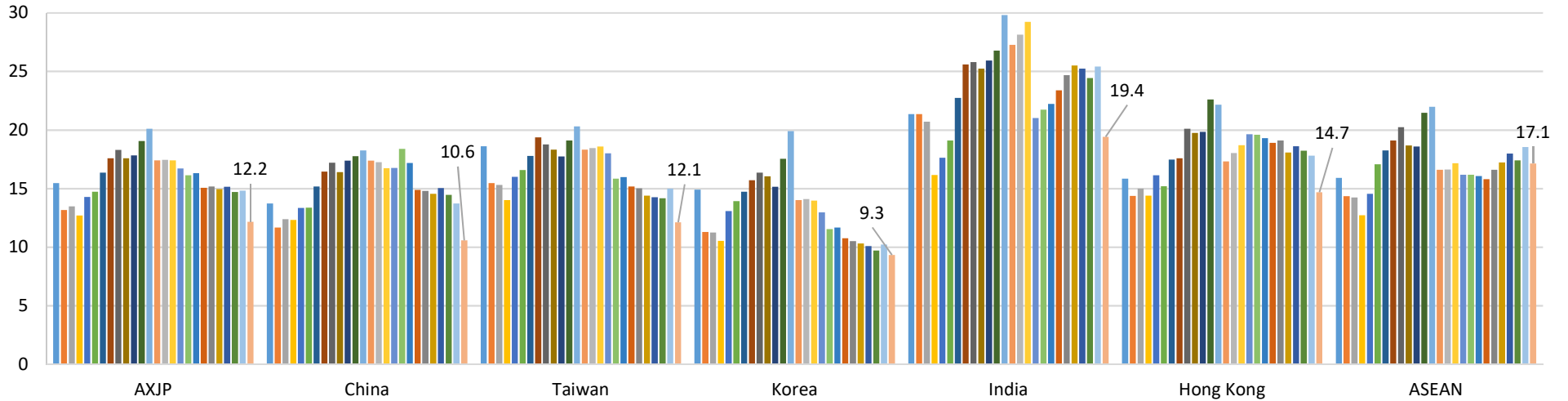


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



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Exhibit 5: Year 2022 Price-Earnings Ratio (Dec 2019-Current)



FOREIGN NET FLOWS

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

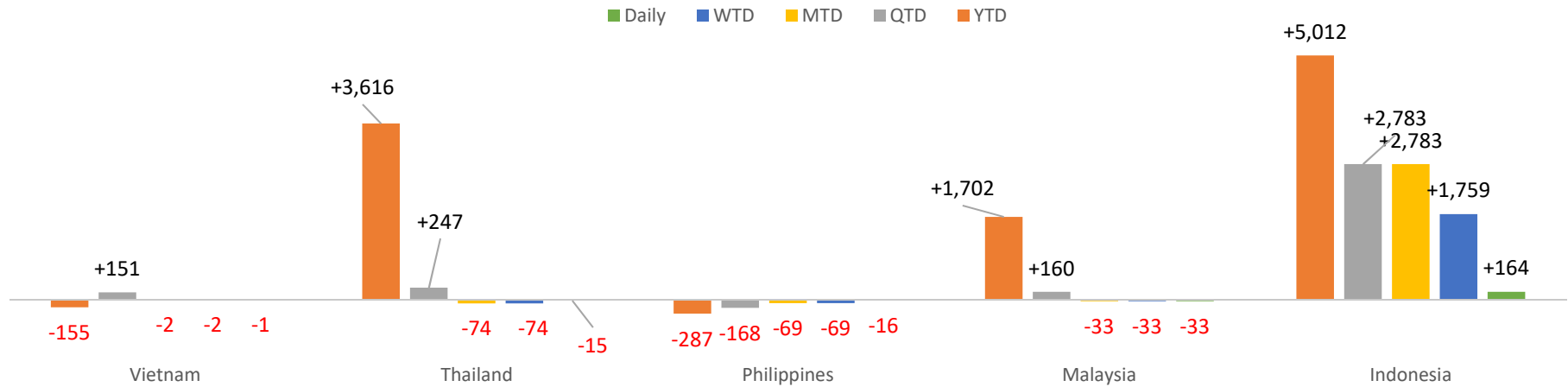
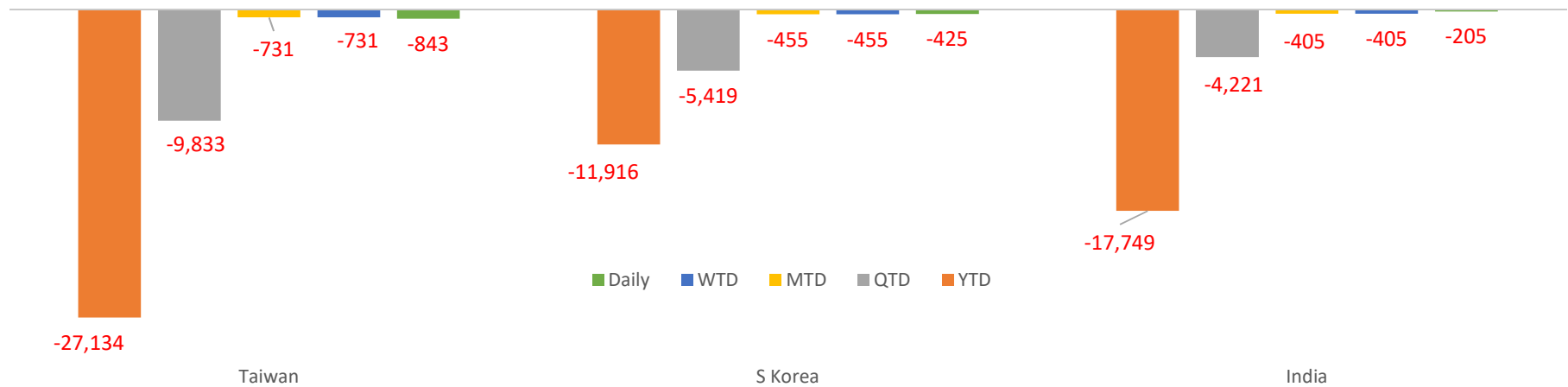


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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