

PORTFOLIO MANAGERS' VIEWS



13 June 2022

MALAYSIA & REGIONAL

1. THE WEEK IN REVIEW (6-10 June 2022): Markets worldwide were jittery heading to the end of the week as investors were sidelined ahead of the US's announcement on its May 2022 inflation. The market uncertainty was a throwback to May when high inflation fears (which raises fears of higher policy rates) raised equity volatility. In the US, the CBOE Volatility Index jumped 16% WoW but the spike in volatility was more pronounced from mid-week onwards as markets started to price in expectations of a sharply-higher inflation rate. Fears were realised when the US Labour department announced (after Asian markets closed) that the US consumer prices for May rose by 9% YoY, a 40-year high. The US CPI Energy component rose by 35% YoY and its Energy Commodities sub-component spiked 50% YoY, led by a 107% increase in fuel oil.

Over the same period (from May 2021 to May 2022), Brent crude oil was 73% higher YoY. Just when financial markets were starting to believe that inflation was peaking/about to peak and future policy rate hikes would be tolerant of 50 bps increases in upcoming US Federal Open Market Committee (FOMC) meetings, the unexpected CPI print of 9% YoY underscores the risk that future rate hikes may be 75 bps instead of 50 bps at each of the forthcoming meetings in order to battle the inflation. In turn, this heightened the risk of economic slowdown, or at worse, recession. This is because high inflation and high interest rates are expected to crimp household and corporate spending, eventually leading to lower demand for goods and services.

2. STRATEGY & OUTLOOK: The base-case for equity investments is a 'no-recession' scenario. Despite market volatility caused by the inflationary and high interest rates outlook, we believe global economies are heading into a mid-cycle slowdown rather than a recession. Firstly, the unexpected May CPI print in the US did not cause further downgrades in the US GDP growth outlook for 2022. The 2.6% growth estimate for 2022 has remained unchanged in June, and the outlook for 2023 is a 2.0% growth (unchanged since May 2022).

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Secondly, Asian countries that rolled out COVID vaccination in 2021 are only seeing the benefits of economic reopening and easing of travel restrictions this year, starting in the second quarter of 2022. With activities returning to normalcy and domestic consumption on the rise, selected Asian countries have seen their GDP outlook intact despite downgrades elsewhere in the world. For instance, private economists' forecast of Malaysia's GDP growth for 2022 at 6.1% has remained at the top end of the official 5.3-6.3% range.

Thirdly, Bloomberg's Probability of US Recession index over the next 12 months (which back in late 2019 predicted the US recession in 2020) currently shows a zero-percent chance of a recession. Lastly, there are key opportunities in the inflation theme, namely in the upstream commodity sector and in financial services that benefit from higher interest rates. Malaysian and regional funds are currently invested in beneficiaries of the inflation and interest rates theme, and will look to accumulate during market volatility.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

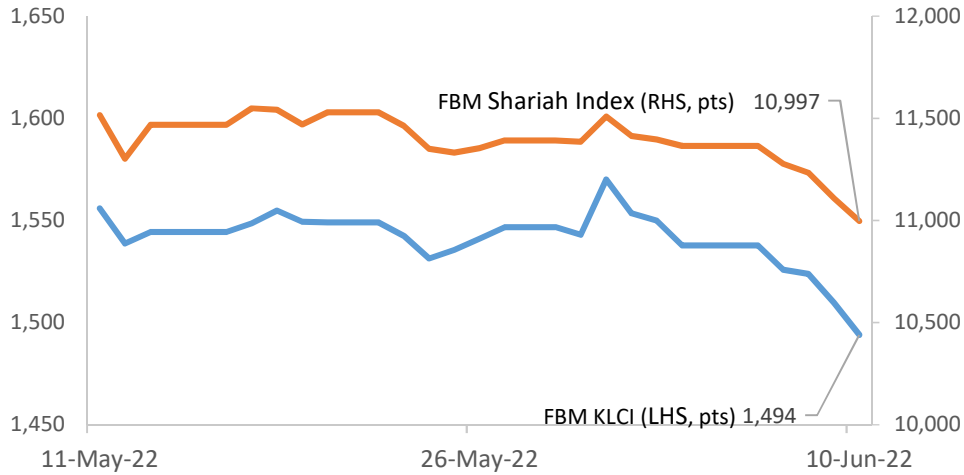


Exhibit 2: USDMYR FX

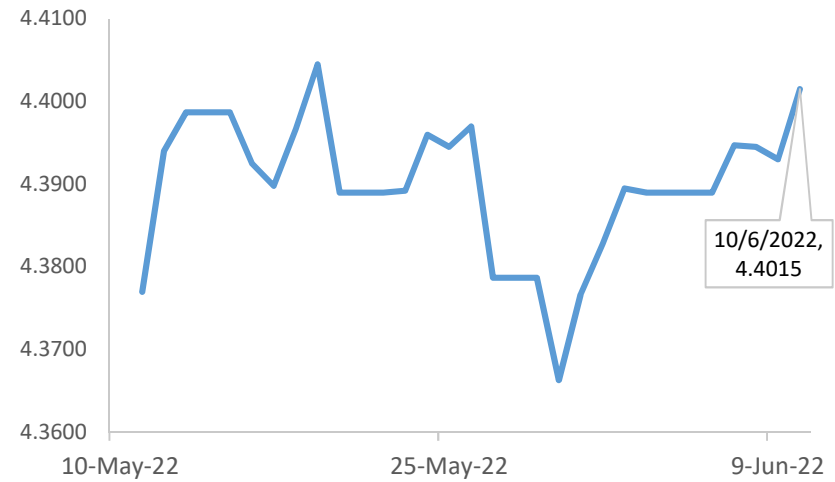


Exhibit 3: Sector Performance Indices (1 Week, %)

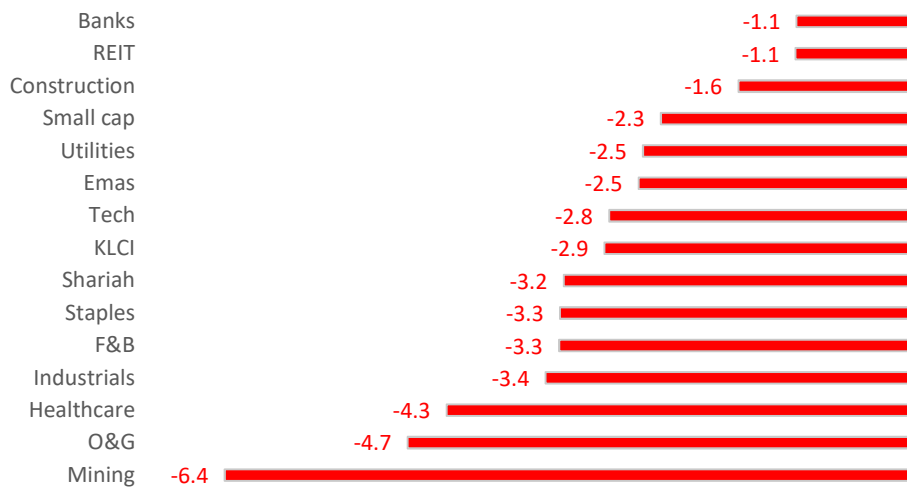
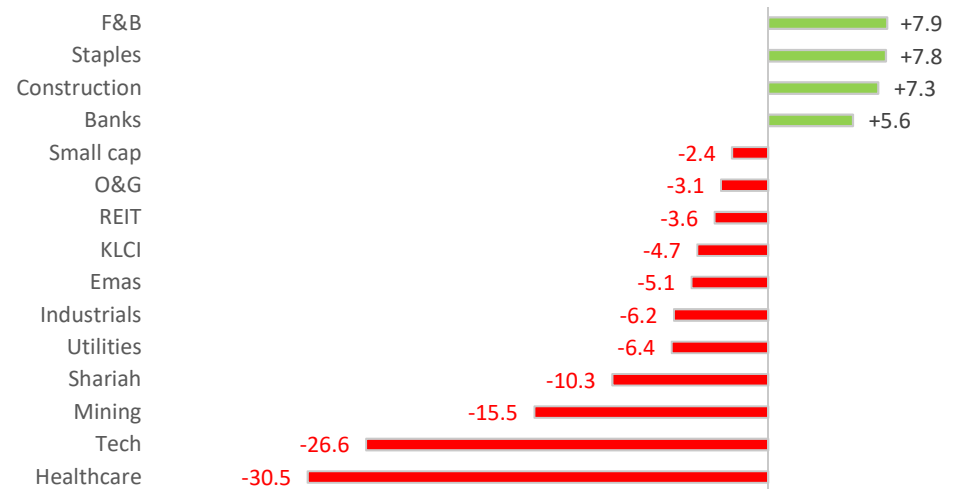


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



MALAYSIA

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

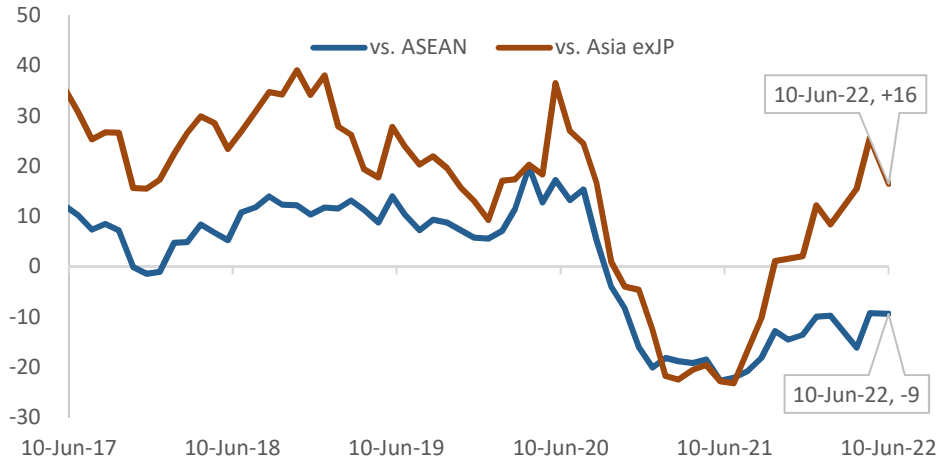


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

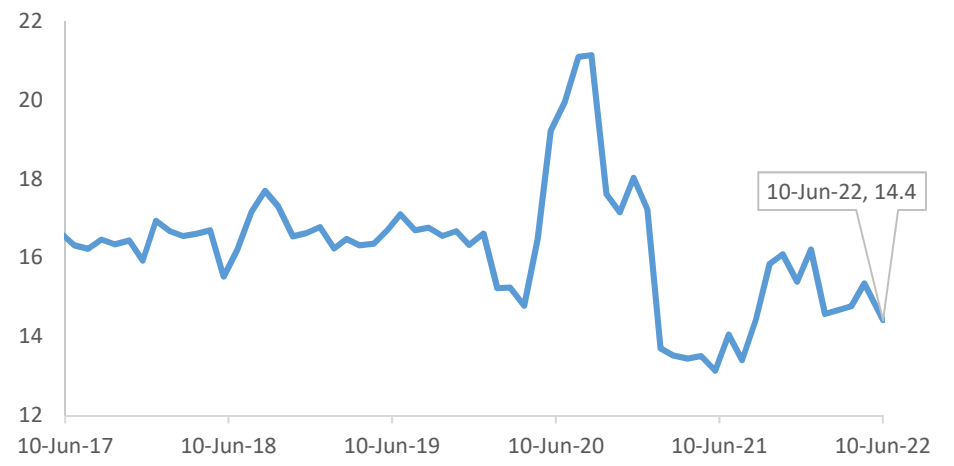


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

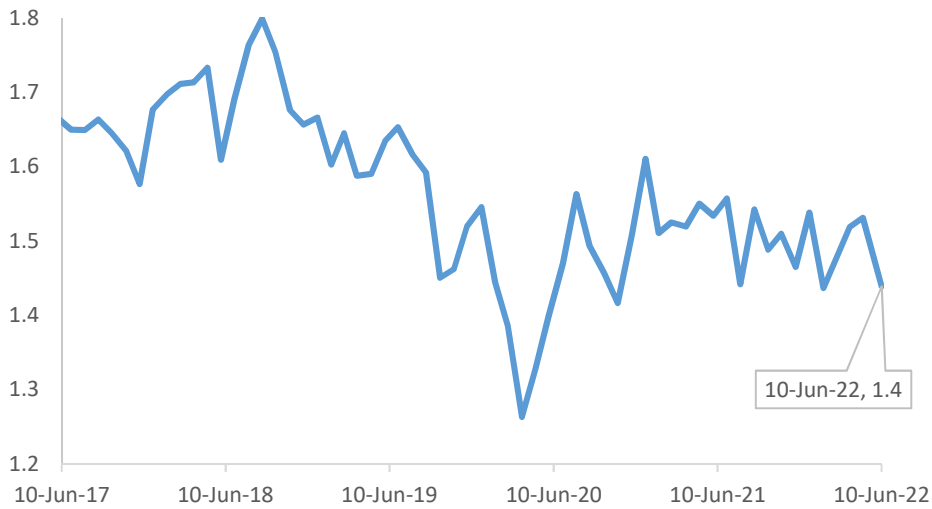
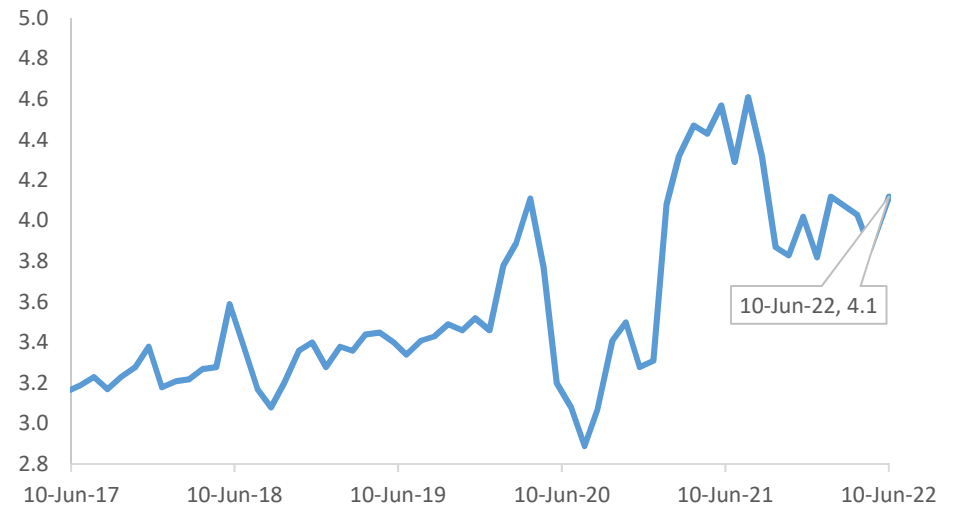


Exhibit 8: KLCI's Dividend Yield (DY, %)



REGIONAL

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

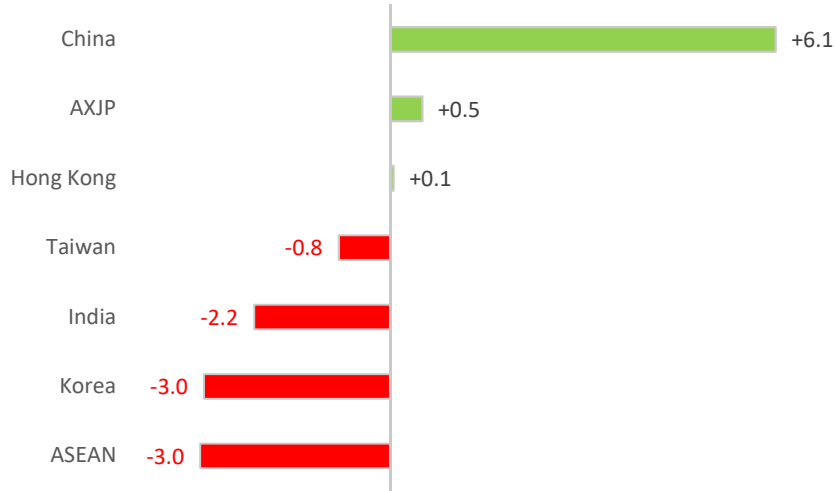


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

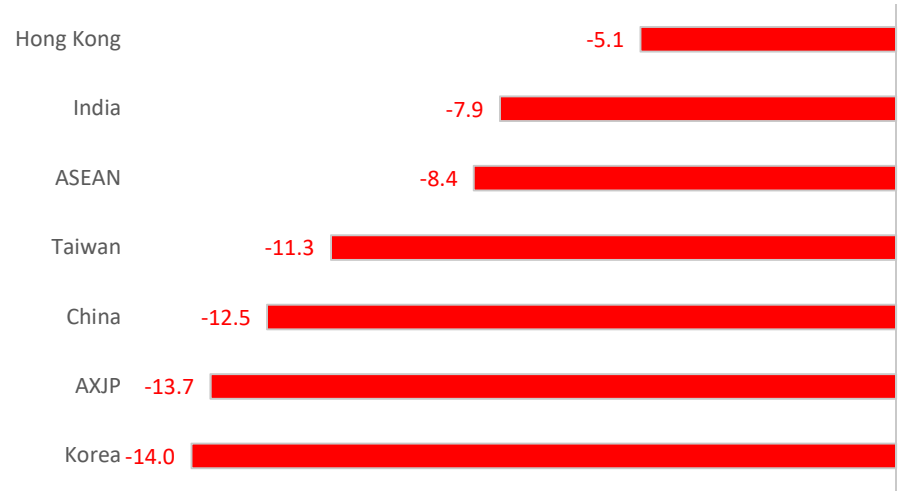


Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

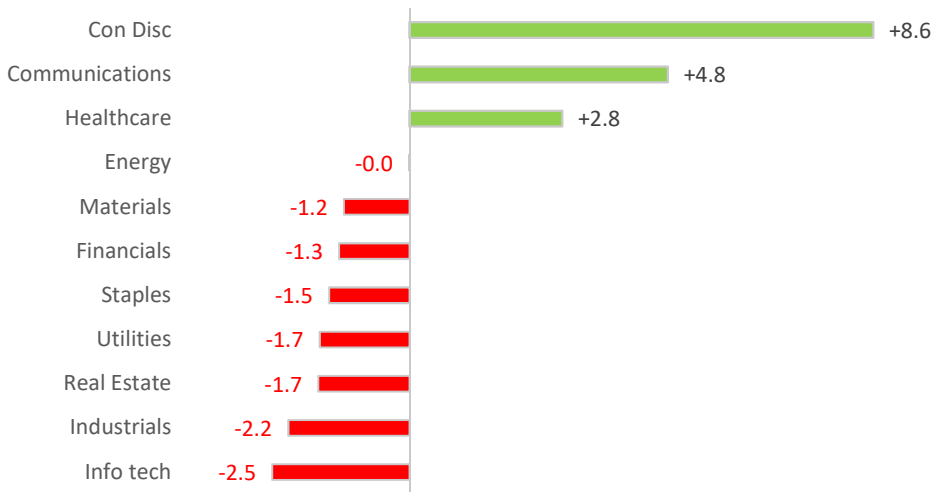
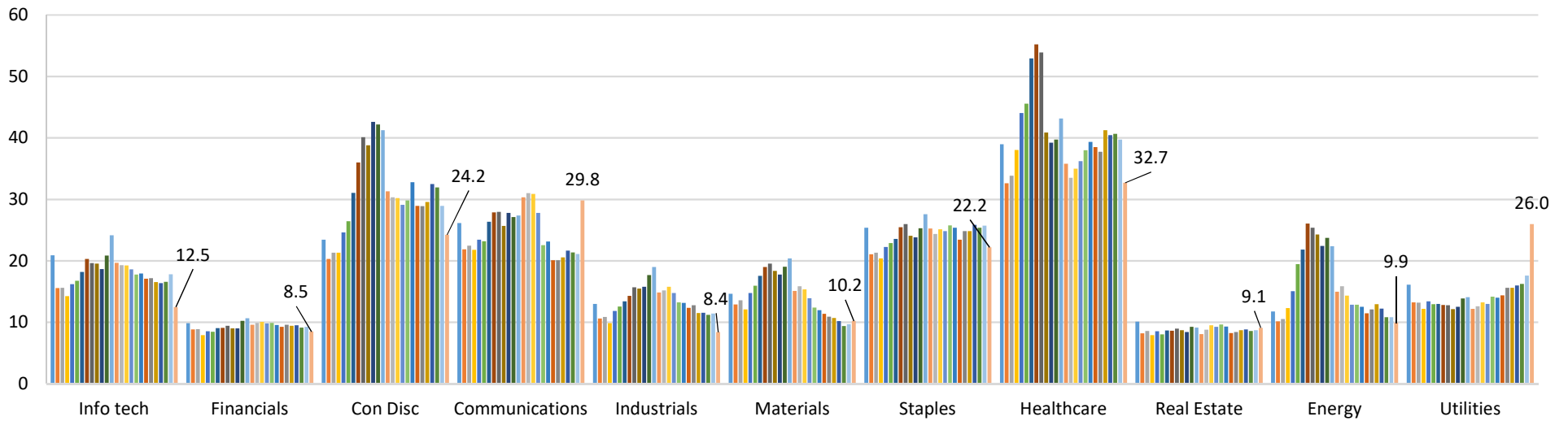
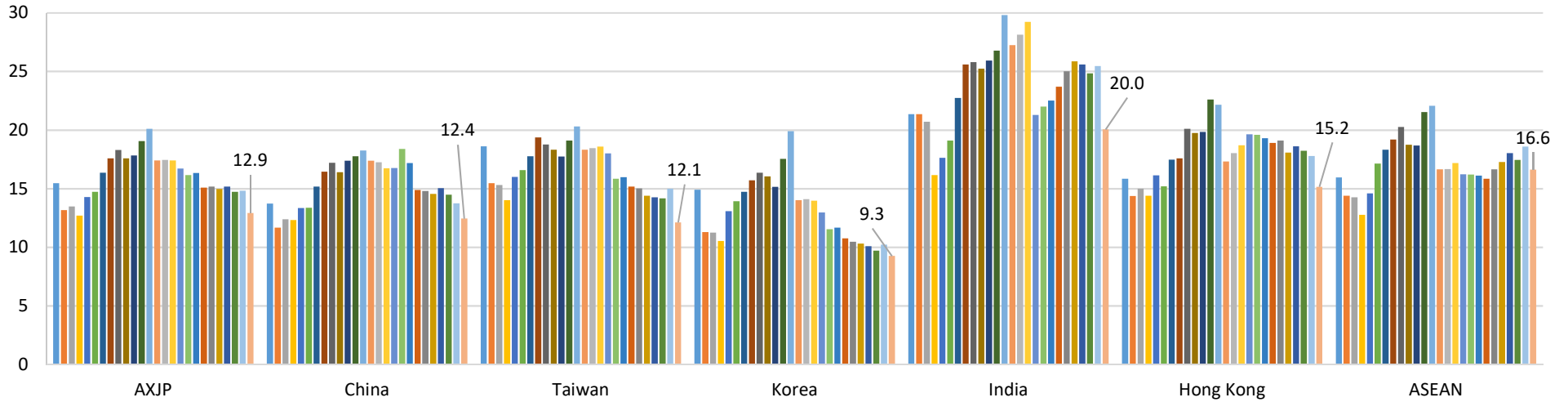


Exhibit 4: MSCI Sector Performance Indices (Year-to-Date, %)



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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)

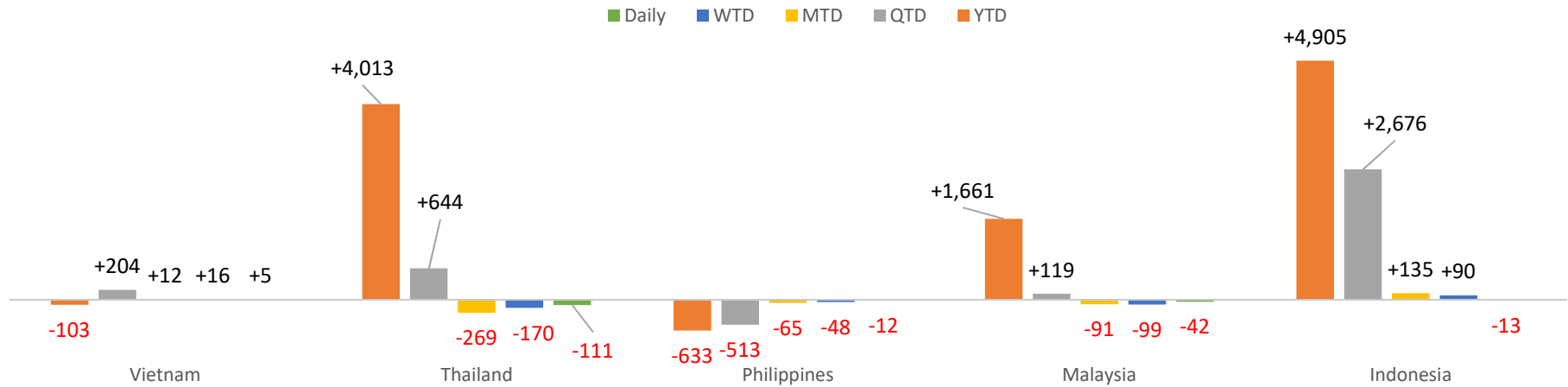
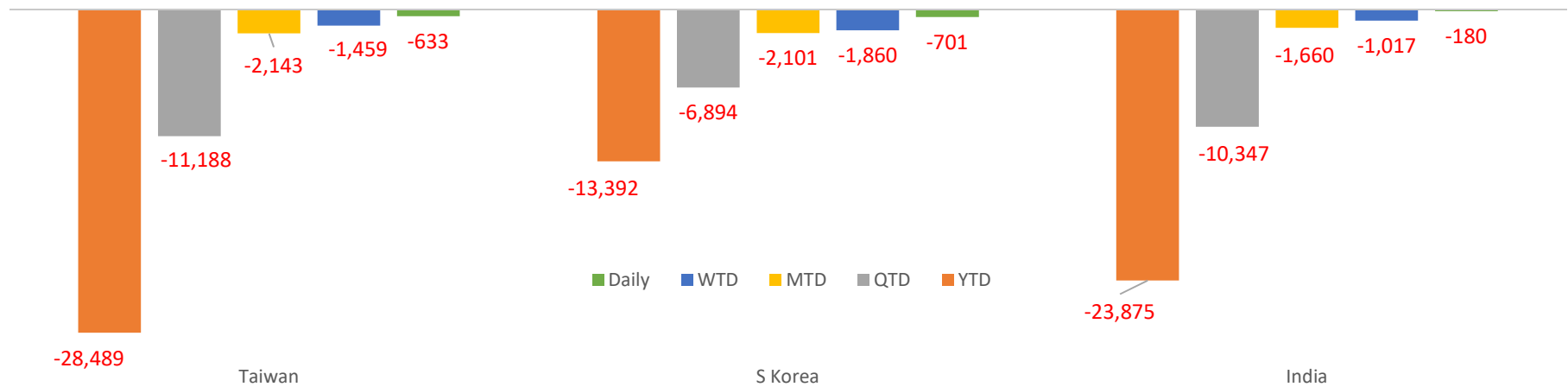


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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