PORTFOLIO MANAGERS' VIEWS

1 August 2022

MALAYSIA & REGIONAL

THE WEEK IN REVIEW (25-29 July 2022) & OUR MANAGERS' VIEWS

1. Monkeypox: The World Health Organisation (WHO) declared a state of emergency on Monkeypox which has spread to over 70 different countries. However, the declaration was precautionary as the disease is likely not as transmissible or lethal as Covid-19. Hence, we view that another lockdown remains unlikely in Malaysia and the region. We remain positive on tourism-related industries such as hotels, gaming and aviation as their earnings progress to pre-COVID levels.

2. Bond Yield: Malaysia's 10Y government bond yield has fallen to 3.900%, tracking the US 10Y Treasury yield as the markets expect a rate hike slowdown. This translates to a widening yield spreads between bonds and dividend-paying stocks. We favour net cash companies with sustainable dividend payouts as they are spared from rising borrowing costs and offer higher yields.

3. Gas: Natural gas prices rose from $7.9/mmbtu to a peak of $9.6/mmbtu (+21%) during the week as Russia cuts gas supply into Europe. This was in response to the EU’s plan to cut reliance on Russia gas after it invaded Ukraine. This may prompt higher demand for Brent Oil as a substitute energy source and push prices higher. We are invested in the oil and gas sector and maintain our view on high energy prices.

4. Plantation: Soybean oil futures price surged as the market is concerned that the current hot weather condition could threaten soybean production. This in turn fueled palm oil future’s price increase of 17% WTD. We view Indonesia's recent palm oil export easing as a short-term negative but will resume its elevation over the medium term. Hence, we remain invested in the plantation sector.

MALAYSIA & REGIONAL (cont'd)

5. Tech: Last week, some Malaysian tech companies released their Q2 results. Earnings were within expectations and growth prospects remained intact. However, the guidance from companies were starting to turn negative due to potentially weaker demand from high inflation. Despite these mixed signals, the KL Technology Index rose 5.7% as investors were attracted by cheap valuations. We are currently underweight on tech but are turning slightly positive as the sector may have already priced in the negative news and the falling bond yields may signal that the sector is approaching an inflection point.

6. Flows: In the week of ended 29 July, foreign investors were net buyers with a total net inflow of RM153mil, while local institutions and retail remained net sellers. On a sectoral basis, the industrial products and services, technology and plantation sectors saw the highest net foreign outflows. The financial services, consumer products and services and utilities saw the highest net foreign inflows, suggesting foreigners are moving into defensive stocks to shield from economic slowdown. Our funds' postions in banks and utilities benefitted from the inflows.

7. US: The US Fed announced a 75bps rate hike and guided that they may slow down monetary tightening to observe its effectiveness. The market took this positively as it potentially signaled the peak of the Fed’s hawkish monetary stance. This is despite reporting a second consecutive quarter of negative economic growth. We view that the US is approaching a mid-cycle slowdown and the change in the Fed’s monetary stance is supportive for financial markets going forward.

MALAYSIA & REGIONAL (cont'd)

8. Valuation: Despite the recent improvement in KLCI, valuations are still relatively cheap. Based on KLCI level of 1,492.23 as at last Friday's close and using consensus market EPS integer of 104.1 for 2022, the market is trading at a 2022 price-earnings ratio (PER) of 14.3x. This is a minus-one standard deviation below its 5Y average of 16.1x. The market's price-to-book ratio (PBR) of 1.41x (below the 5Y average of 1.55x) and DY of 4.6% (above 5 years average of 3.6%) are also supportive of the stock market. Finally, Malaysia is trading at an 11% premium against Asia ex-Japan's PER. This is at the low end of its 5Y average of 0% to 40% premium (excluding the pandemic period in 2020 & 2021). As such we are positive on Malysian equities.

MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index

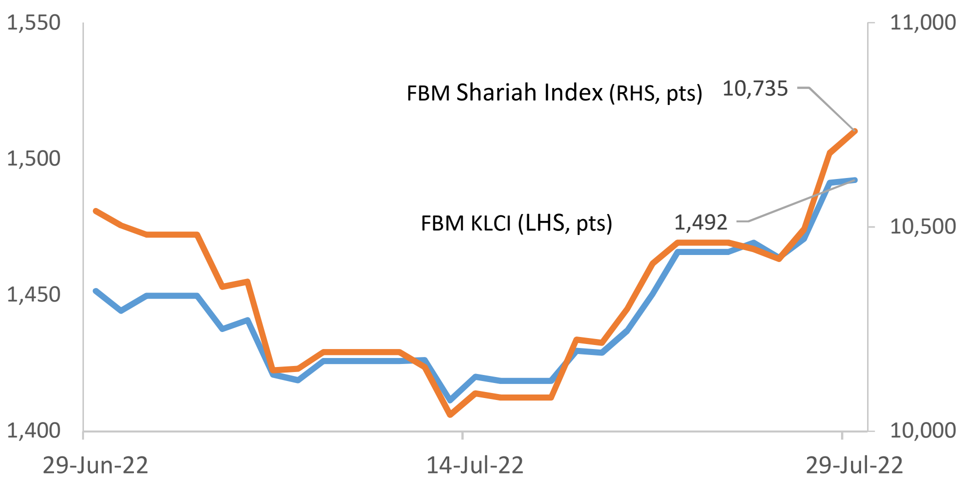


Exhibit 2: USDMYR FX

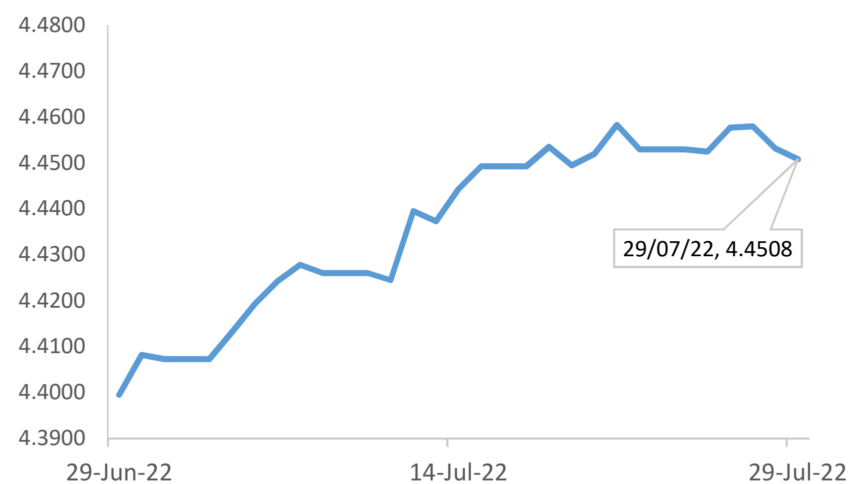
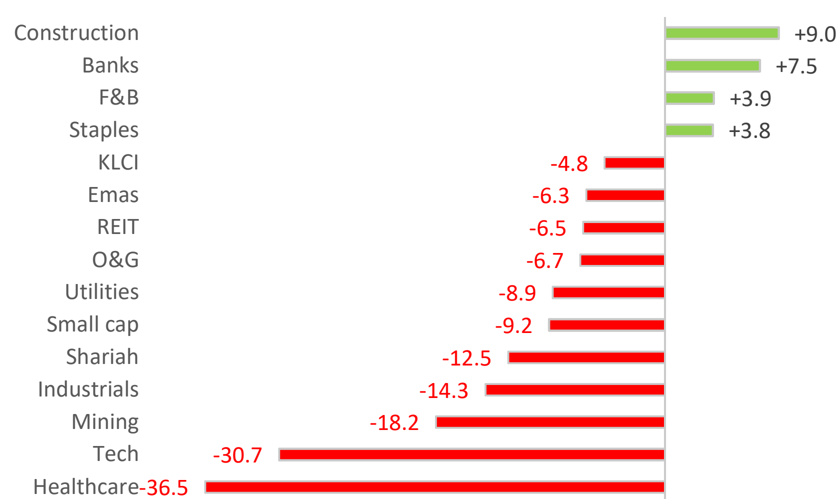


Exhibit 3: Sector Performance Indices (1 Week, %)

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



MALAYSIA

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

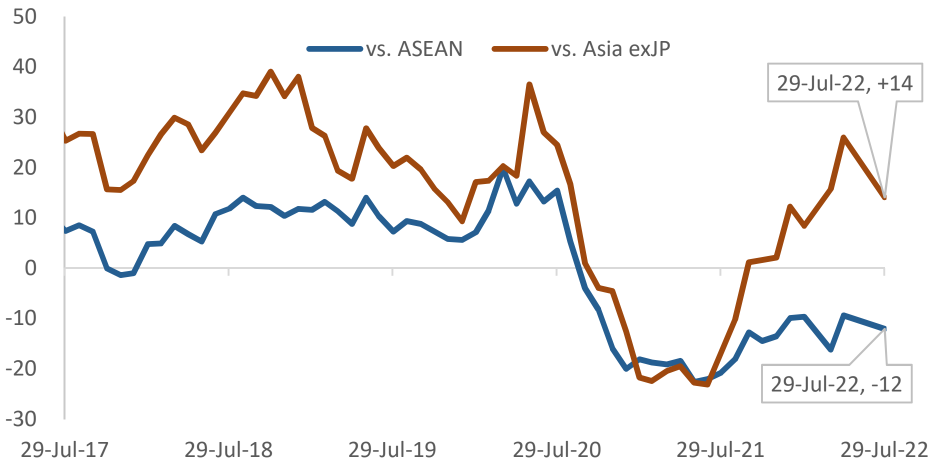


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

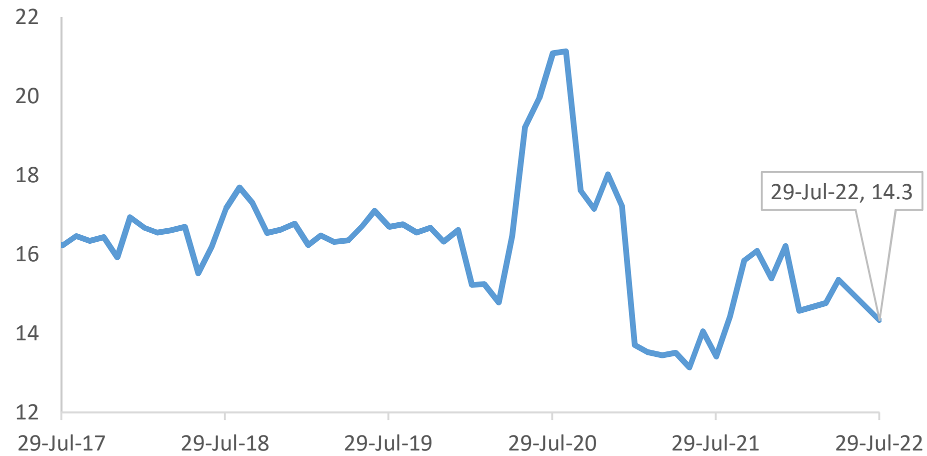
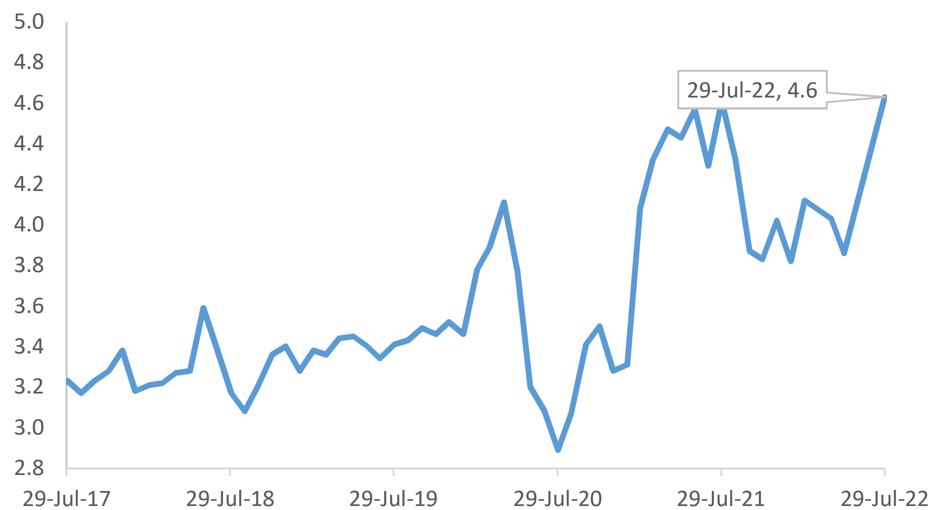


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

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



REGIONAL

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

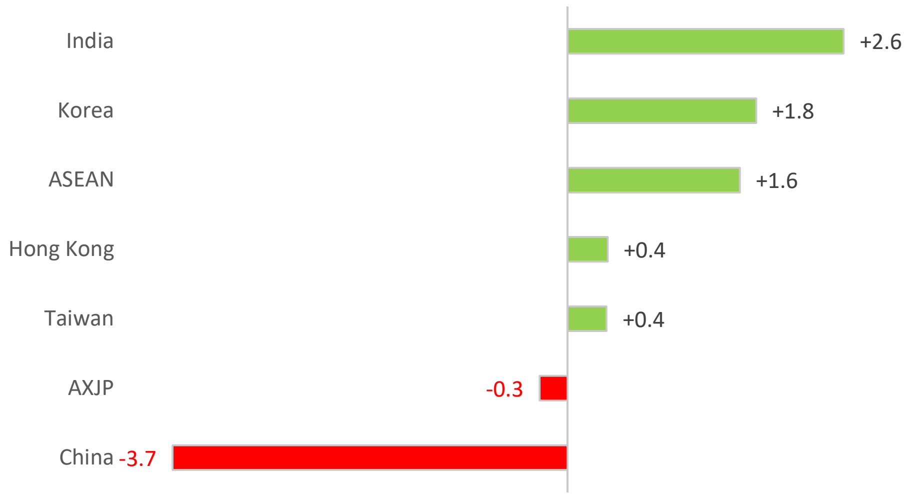


Exhibit 2: MSCI Country Performance Indices (Year-to-Date, %)

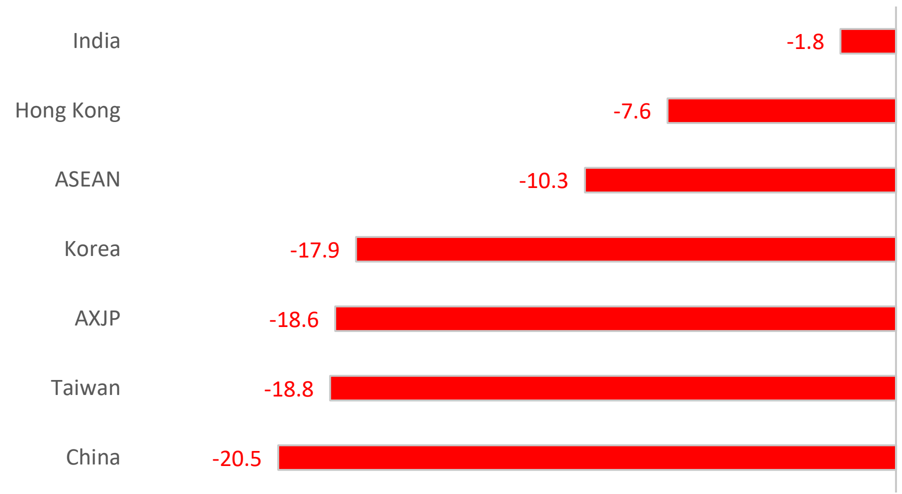
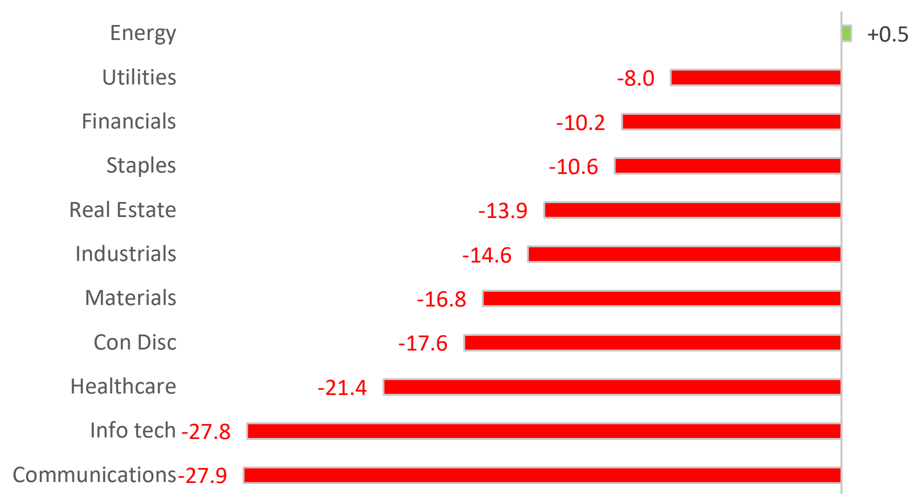


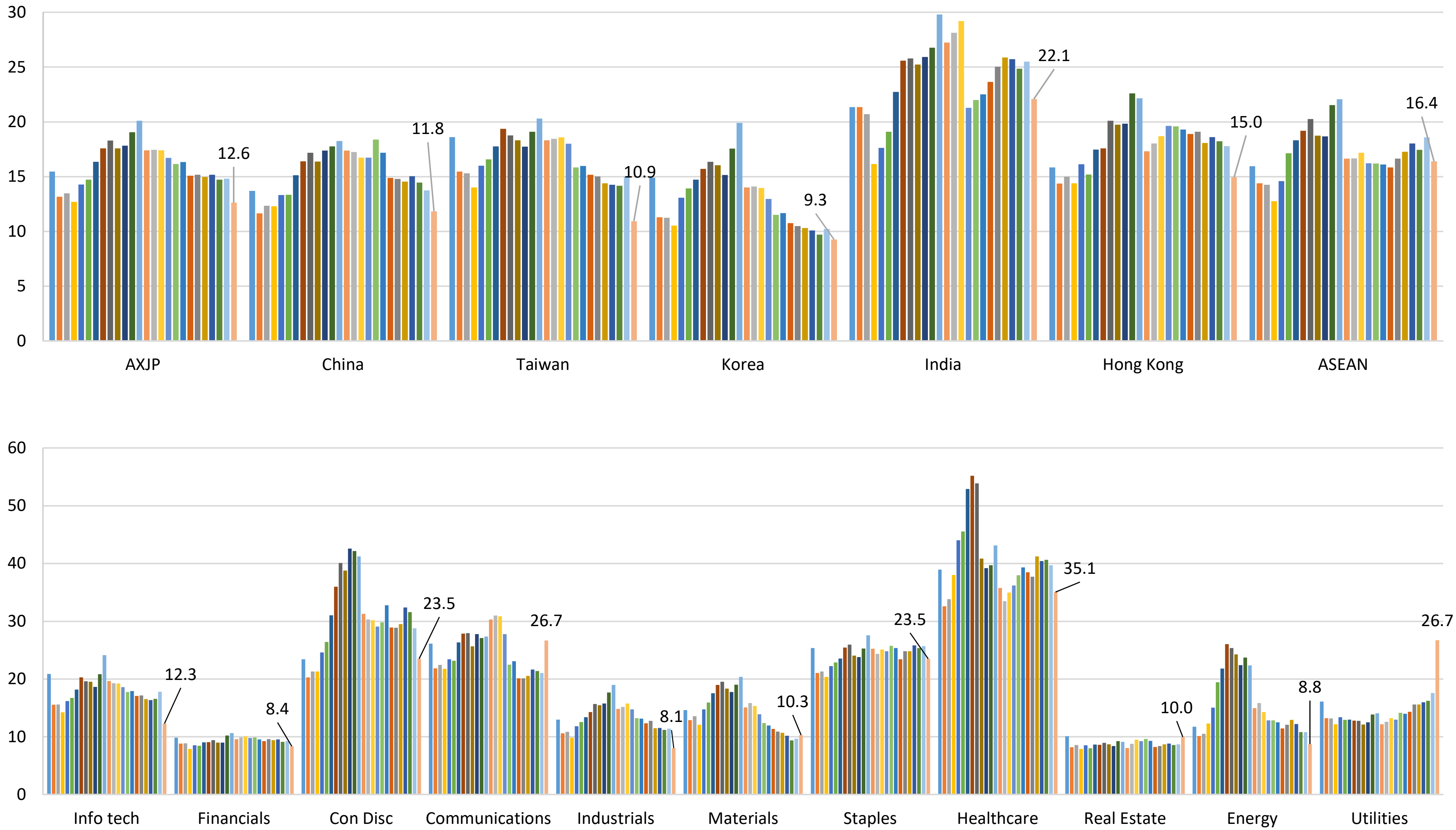
Exhibit 3: MSCI Sector Performance Indices (1 Week, %)

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



REGIONAL

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



FOREIGN NET FLOWS

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

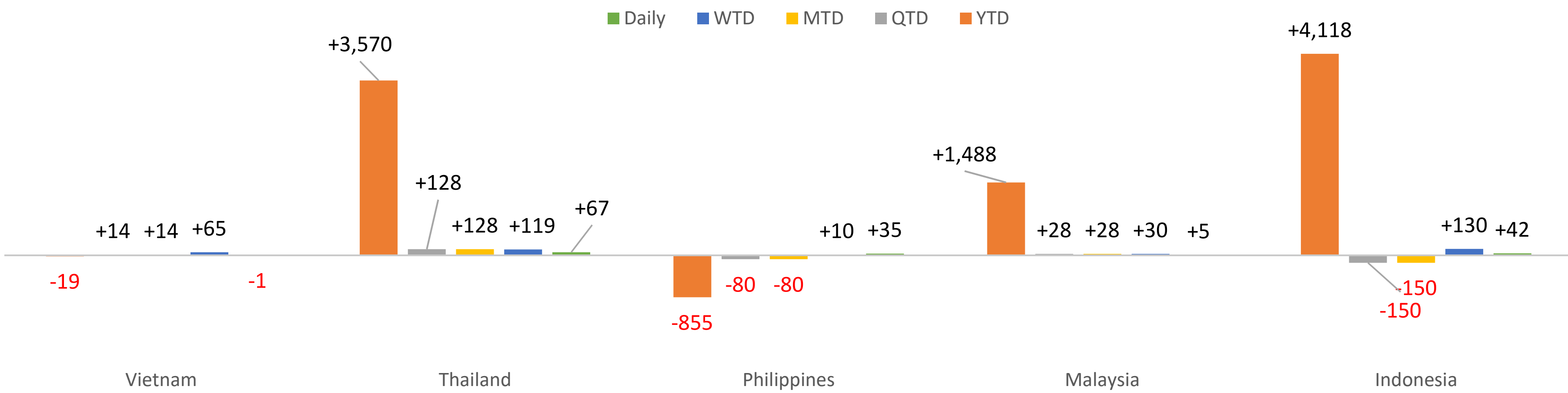
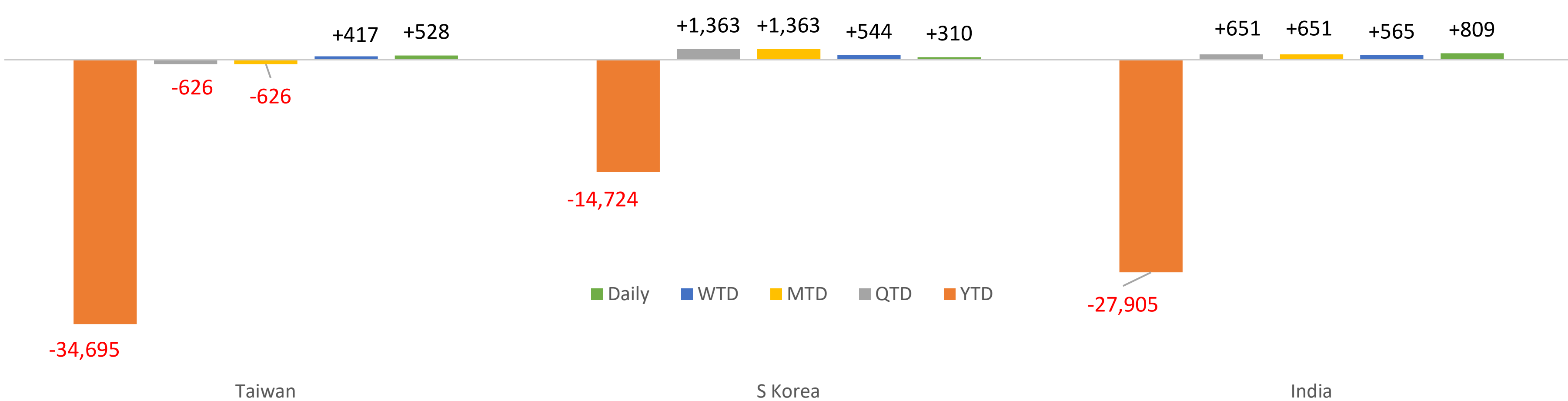


Exhibit 7: Selected North Asian Equity Markets (Net USD mil)



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