

Portfolio Managers' Views


26 September 2022
FUND MANAGEMENT DEPARTMENT

MALAYSIA & REGIONAL

The Week in Review (19-23 Sep 2022) & Our Managers' Views

- 1 Tech Downtcycle:** We remain Underweight on the tech sector as the YoY semiconductor sales index has been on a downtrend since Jan-2022 on various headwinds. Anecdotally, Malaysia Pacific Industries' CEO shared on his LinkedIn that Japanese chip producers are suffering from high inventories as demand has weakened substantially. Regardless, we do intend to revisit the sector eventually given its long term secular drivers.
- 2 Petrochemicals:** We trimmed our holdings on petrochemical stocks but remain invested on its high dividend yields. Based on our estimates, quarter-to-date average petrochemical and fertiliser prices have fallen 18% and 16% respectively. Despite lower global supply, we believe that prices were weighed down by expectations of weaker global demand given multiple uncertainties.
- 3 Aluminum:** We are invested in a local aluminum producer and exporter. According to an international broker research, the aluminum market is expected to see a supply deficit in 2H22 as major producers, China and the EU experience a shortage of power supply. The regions contribute to 55% and 8% of total global aluminum production. Consequently, we expect demand to return moderately as countries progressively reopen, particularly China which accounts to 58% of global demand.
- 4 Fed Hike:** We expect the US Fed's rate hike cycle to continue weighing down on markets. After the 75 bps hike in Fed Fund rate on Wednesday, end-2022 US Federal Open Market Committee (FOMC) consensus projections was 4.4% whereas the end-2023 FOMC consensus projections was 4.6%. The US FOMC members' expectations of higher rates going forward spooked financial markets as big rate hikes are expected to slow down economic growth.
- 5 USDMYR:** We view that the Ringgit will continue to weaken against the US Dollar. While the US is aggressively increasing interest rates, Malaysia has lagged. Year-to-date, US interest rates rose by 300bps while Malaysia only rose by 75bps. Higher interest rates increases demand for the respective currency and vice versa. As the US continues to outpace Malaysia's rate hikes, we expect the demand for USD to continue rising over the MYR. Year-to-date, MYR fell 8.8% against the USD.
- 6 Valuation:** KLCI valuations are more attractive after falling from the recent US Fed rate hike announcement. We maintain our view that the KLCI continues to remain cheap at a 2022 price-earnings ratio ("PER") of 13.8x (-1.0 standard deviation, below its 5Y average of 16.1x). Its price-to-book ratio of 1.40x (below the 5Y average of 1.55x), dividend yield of 4.3% (above its 5Y average of 3.6%).

MALAYSIA MARKET REVIEW

Markets weighed down by aggressive Fed rate hike trajectory

Exhibit 1: KLCI vs Shariah Index

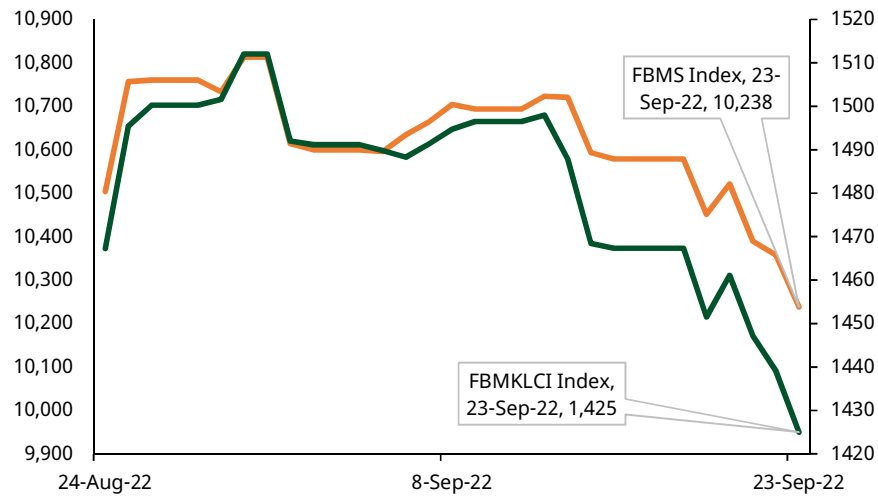


Exhibit 2: USDMYR

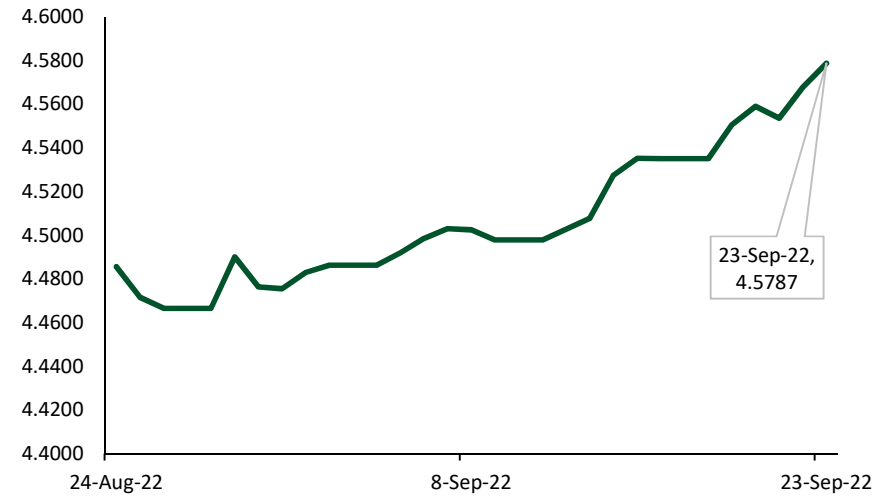


Exhibit 3: Sector Performances Week-to-Date (%)

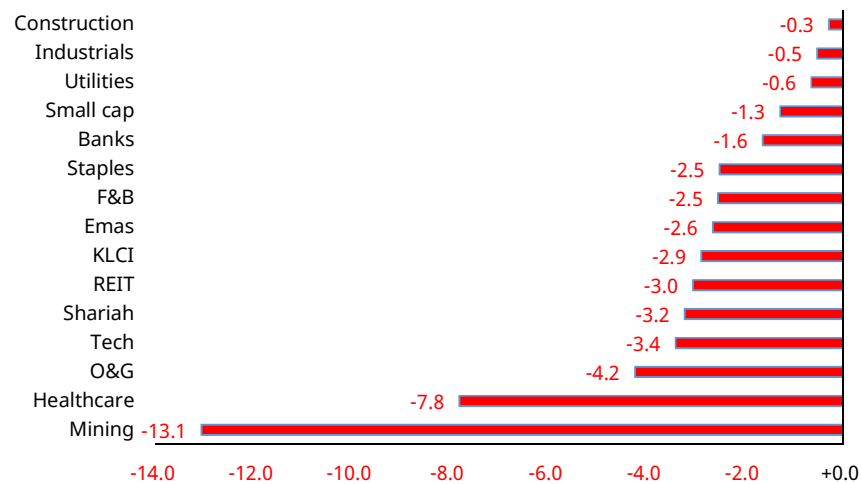
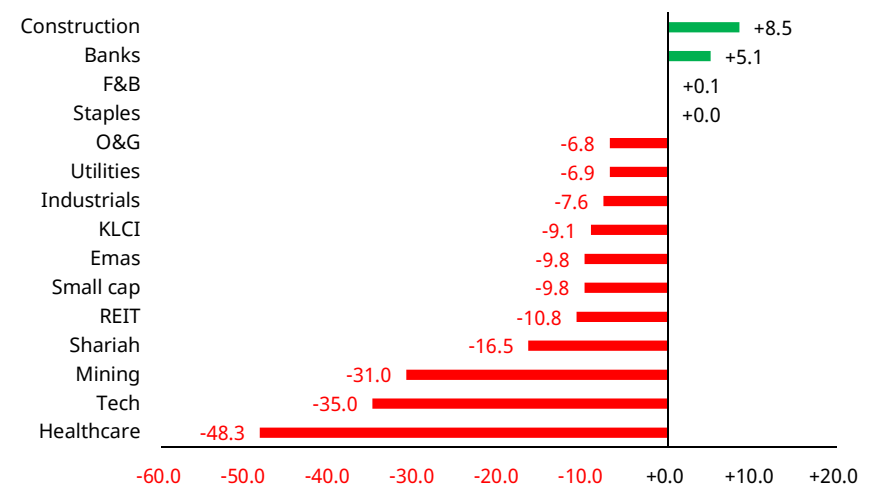


Exhibit 4: Sector Performances Year-to-Date (%)



MALAYSIA VALUATIONS

Remains attractive historically and versus the region

Exhibit 5: MY's Premium/Discount (%) to ASEAN & Asia (on Current PER, %)

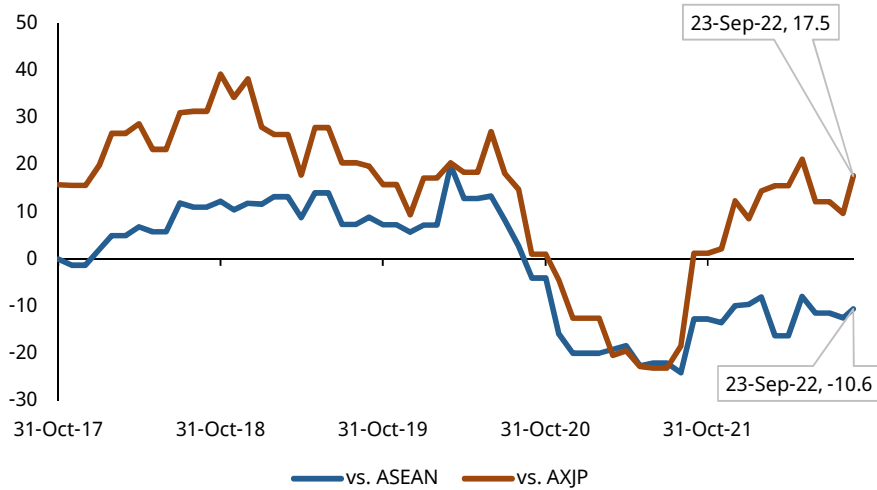


Exhibit 6: KLCI's 2022 Price-Earnings Ratio (PER, x)

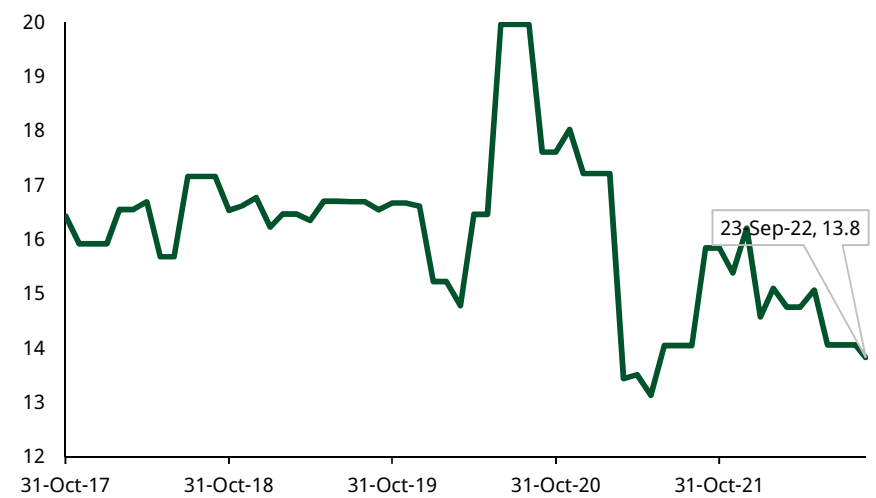


Exhibit 7: KLCI's Price-to-Book Ratio (PBR, x)

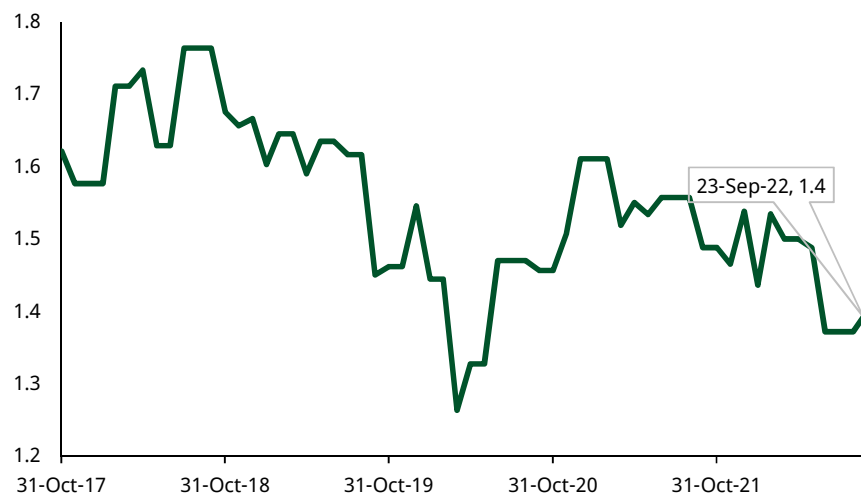
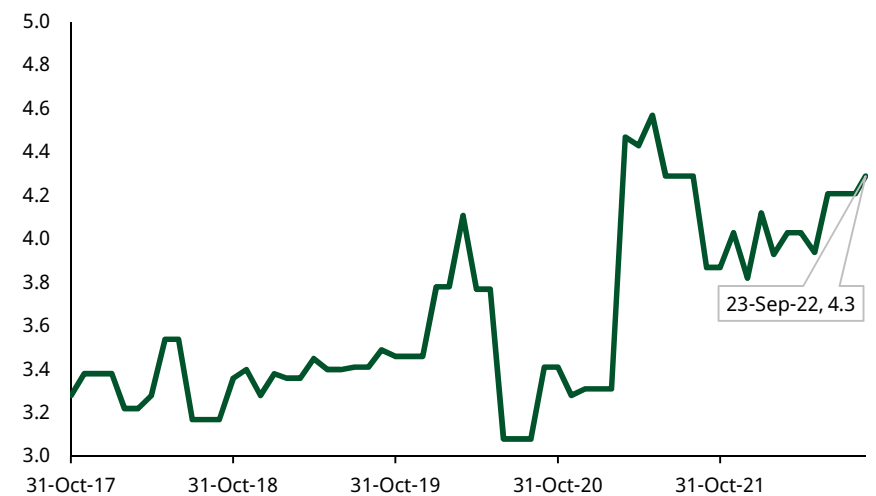


Exhibit 8: KLCI's Dividend Yield (DY, %)



Source: Bloomberg, based on consensus estimates

REGIONAL MARKETS REVIEW

Markets weighed down by aggressive Fed rate hike trajectory

Exhibit 1: Country Performances Week-to-Date (%)

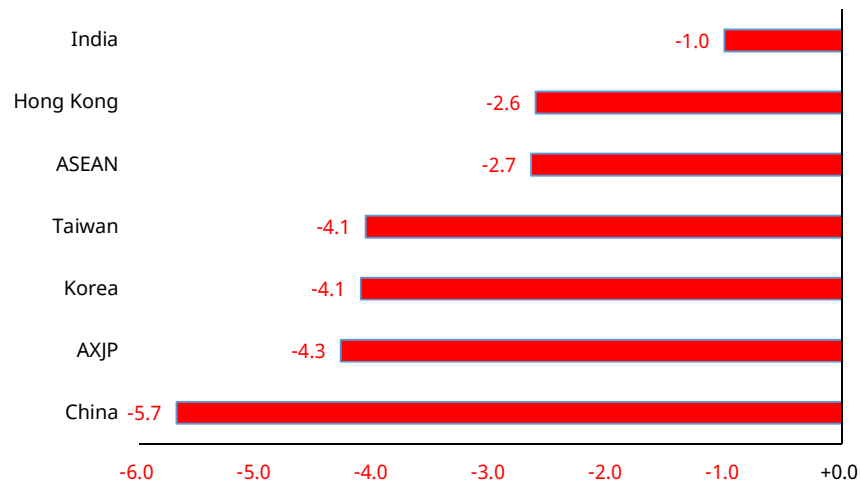


Exhibit 2: Country Performances Year-to-Date (%)

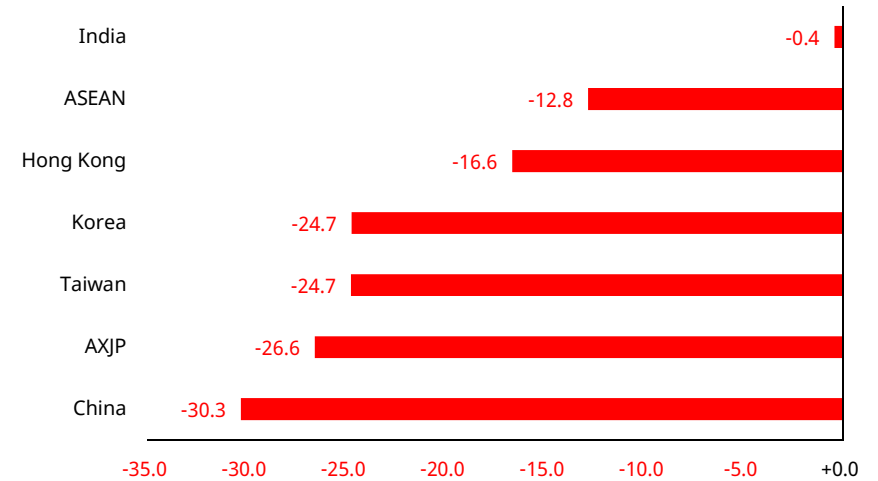


Exhibit 3: Sector Performances Week-to-Date (%)

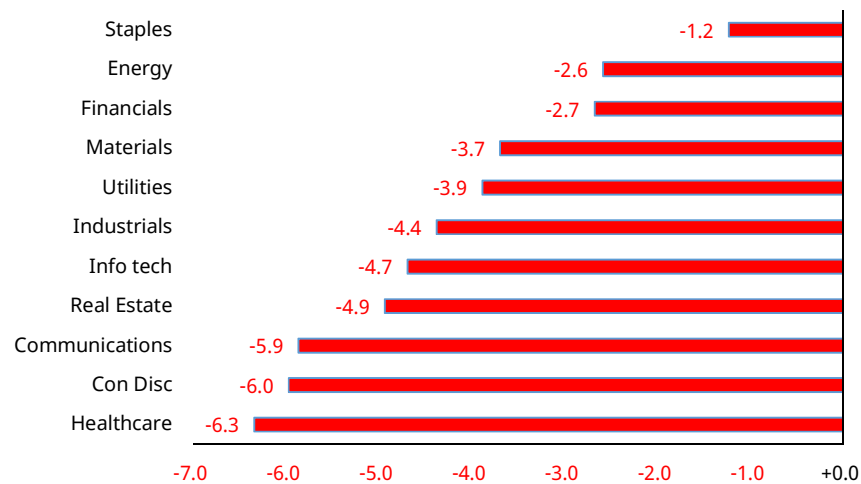
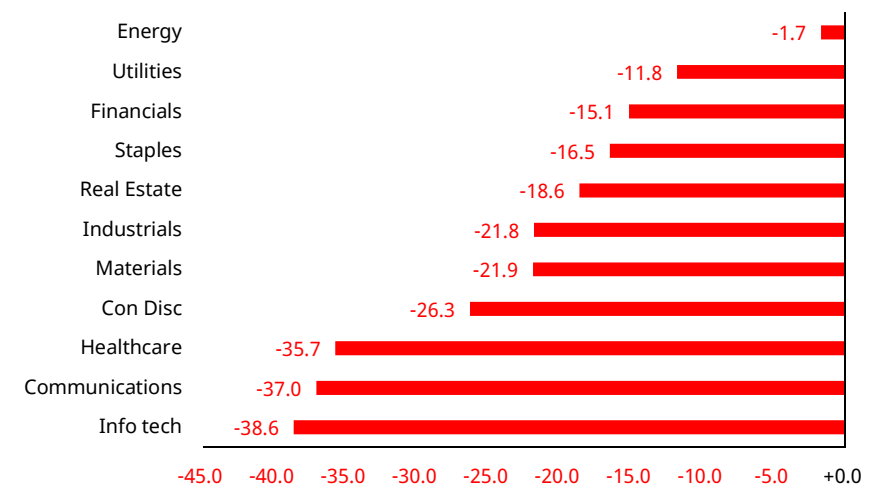


Exhibit 4: Sector Performance Year-to-Date (%)



REGIONAL VALUATIONS

Markets weighed down by aggressive Fed rate hike trajectory

Exhibit 5: Regional Price-Earnings Ratio (x)

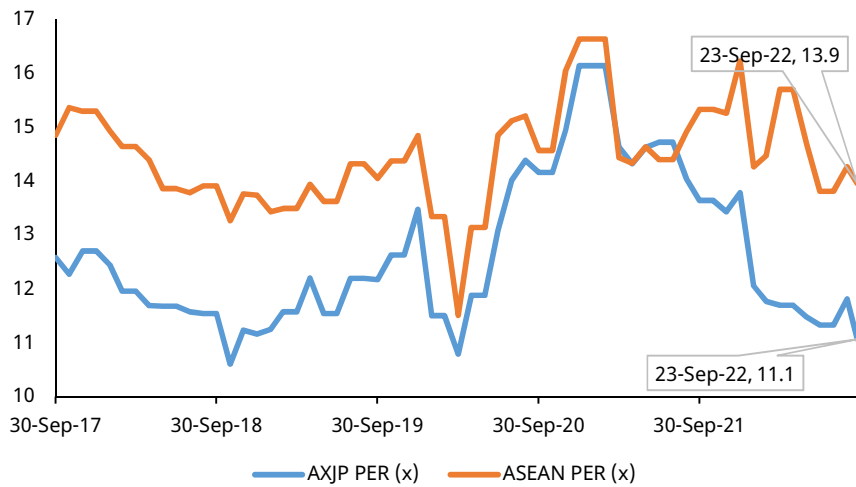


Exhibit 6: Regional Price-to-Book Ratio (x)

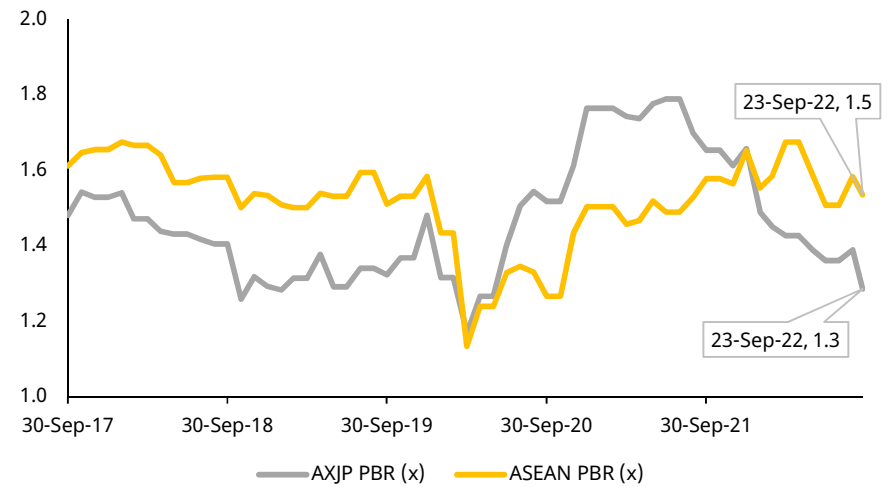


Exhibit 7: Regional Dividend Yield (%)

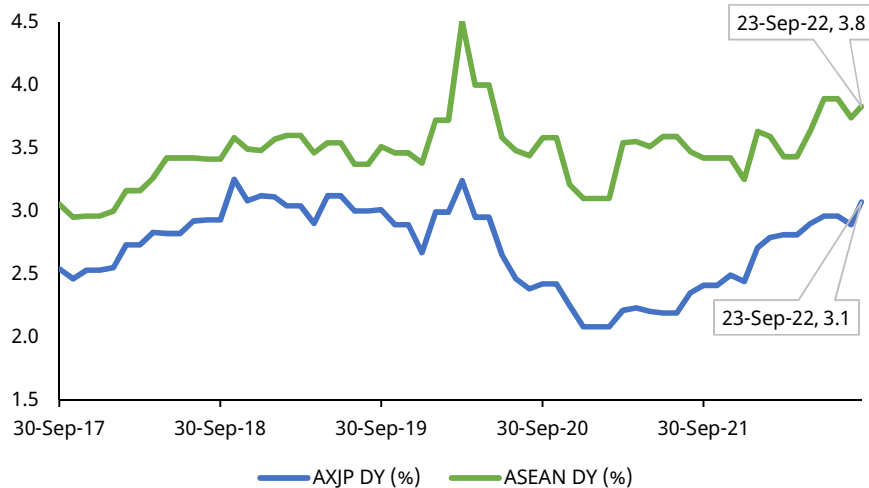
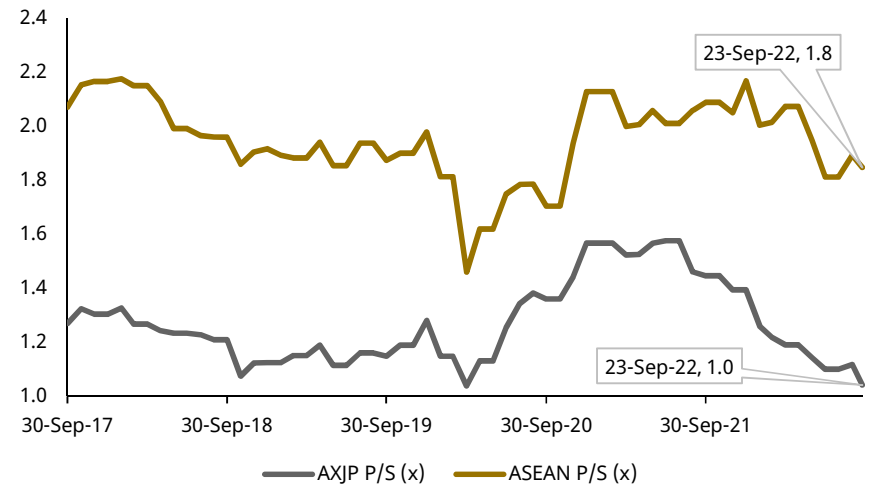


Exhibit 8: Regional Price-to-Sales (x)



FOREIGN FUND FLOWS

Year-to-date, Malaysia is the third-highest recipient of net flows into ASEAN

Exhibit 9: Selected ASEAN Equity Markets (Net USD mil)

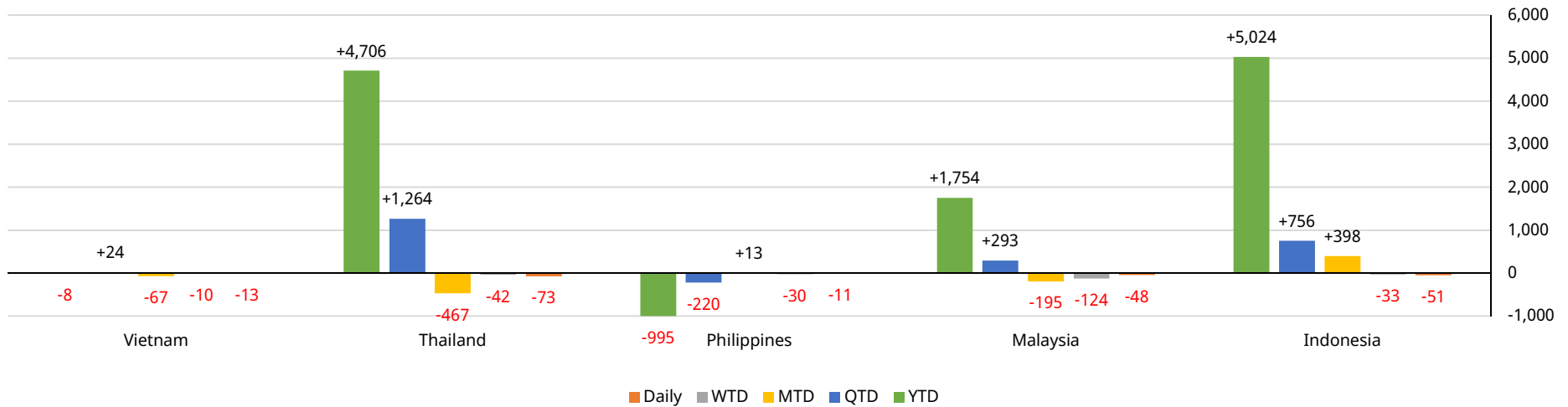
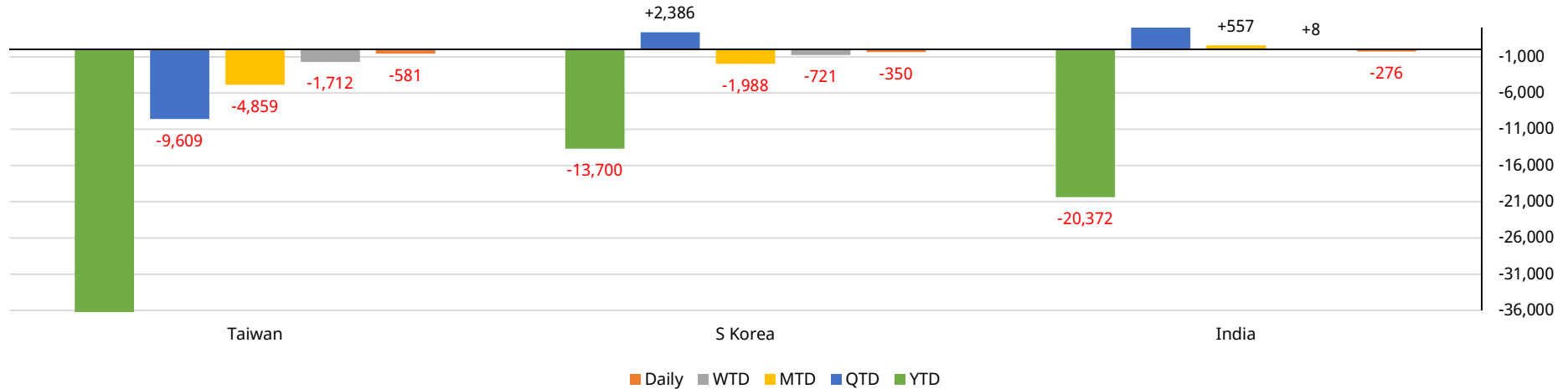


Exhibit 10: Selected North and West Asian Markets (Net USD mil)



Source: Bloomberg

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