



## Portfolio Manager's View

12 November 2021

Fund Management Department

# Regional

1. There is competition for the next Chair of the US Federal Reserve. The race is down to two candidates, both have interviewed at the White House in the last week. The market is familiar with both; Jerome Powell the current Chair and Lael Brainard who is also a current voting member of the FOMC. Both are proven doves, with Lael Brainard the more dovish of the two. Forget about Central Bank independence. Both are also competing to be politically correct to win the Chair, i.e. to be as dovish as possible. Hear this from Jerome Powell, "The US economy will be healthy and strong when as many people as possible are able to work, otherwise the overall economy will not realise its full potential. The US Fed will purposely look at a wide range of indicators and pay attention to disparities in the labour market, rather than just the headline numbers. The Central Bank will do what it can to ensure everyone who wants to work is able to. However, there is a limit to what a Central Bank can do to smooth out the inequality in the US economy, beyond the power of monetary policy to address." Whether the next Chair is Jerome Powell or Lael Brainard, the next US Fed will deliberately run monetary policy behind the curve. Ahead of mid-term Elections in November 2022, it is a broad based recovery in the labour market that will be seen as the more important mandate.

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2. We have to be patient with China. The monetary easing that started in July this year has been slow in picking up momentum. The reason is Beijing Winter Olympics which will be held in February 2022, a showcase for China. China does not want to risk a postponement of this Olympics, similar to the ill-fated Tokyo Olympics. This is none more evident than the cautious approach on border opening China has taken with Hong Kong. Even if China is prepared to cede ground on its zero case strategy, Covid-19 cases must still be minimised. Thus, China will only allow a limit of 1,000 Hong Kong visitors across the border quarantine free with larger access after the Beijing Winter Olympics followed with global opening by the middle of 2022. As long as the Chinese economy does not tip off the cliff, the choice is obvious. Supportive measures will be sufficient to keep this ICU patient hanging on, with broader stimulus likely to kick in post February 2022.

# Malaysia

1. The KLCI closed at 1,536 @ 10.11.21, a decrease of 2.7% MoM. Last week, REITs (+1.4%) was the best performing sector. In contrast, Metals & Mining (-6.9%) and Healthcare (-3.8%) were the worst performing sectors. Year-to-date @ 3.11.2021, the KLCI has retreated by -5.9%.
2. The world's largest oil producer, Saudi Aramco cautioned that excess production capacity could diminish in 2022 as air travel demand returns. Currently, global jet fuel demand stands at 3 million barrels per day (mbpd) compared to 7.5 mbpd in 2019. Given that the industry generally takes 5-7 years to expand its capacity coupled with a lack of reinvestment into new capacity, we believe oil demand will eventually outstrip supply in 2022/2023. Hence, we expect a sustained uptrend in brent crude oil prices. We believe our funds are well positioned to benefit from this trend.
3. Meta Platforms (previously known as Facebook) announced that it will venture into creating a simulated reality world called the MetaVerse. The project is slated to be "the next technological boom" akin to the internet. Although we are aware of the execution risks of such an ambitious project, we believe its development

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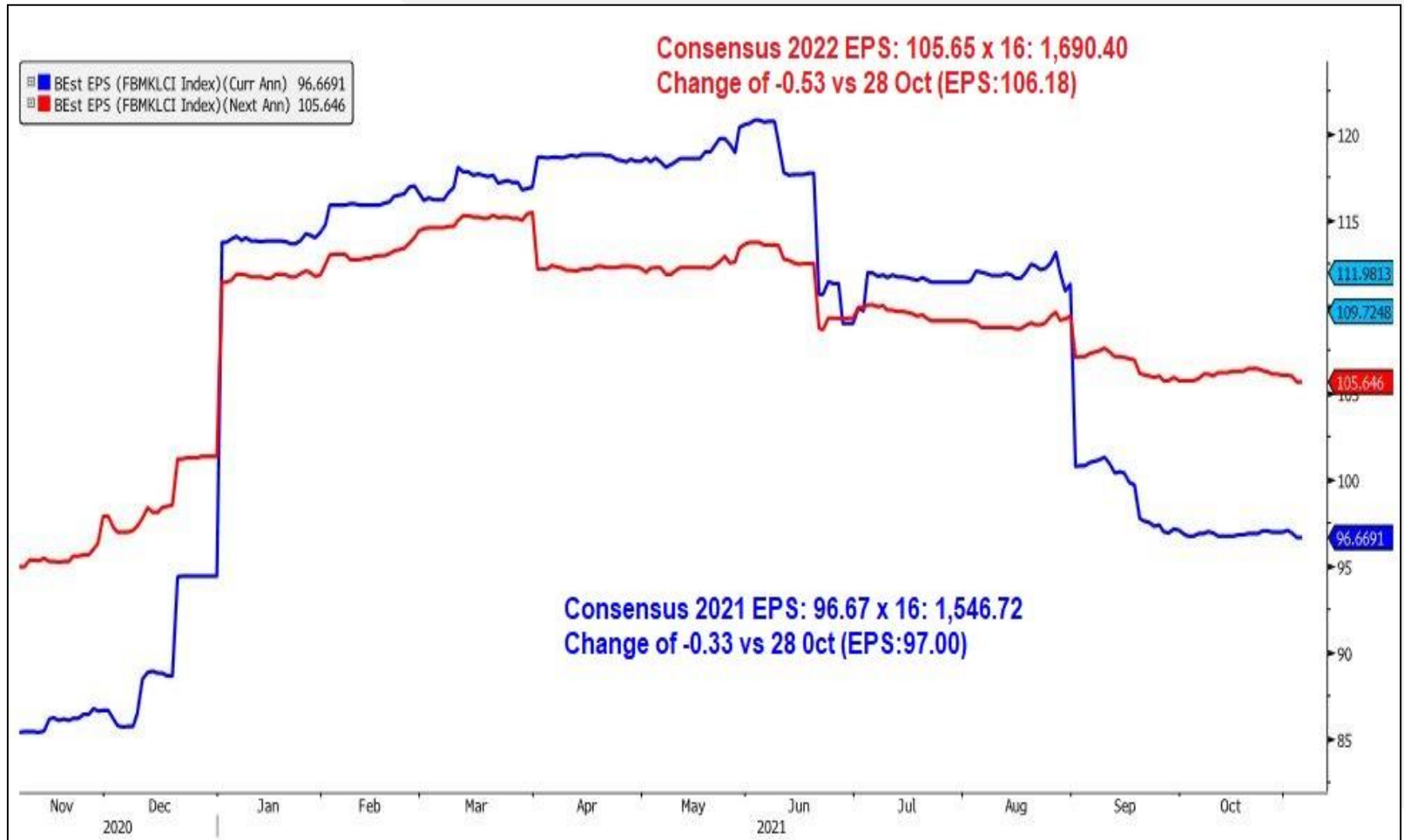
could increase the demand for chips, particularly those used in graphics processing. Analysts expect the project to contribute an additional \$10bil in the graphics card industry which will extend into the rest of the semiconductor supply chain. We believe this additional demand for graphics-related chips is a positive development for the semiconductor industry.

4. World Semiconductor Trade Statistics (WSTS) reported its August 2021 sales increased by 27.5% YoY (vs 30.2% YoY for Aug-21) and 2.3% MoM (vs 3.8% MoM). Exhibit 5 shows that growth in semiconductor sales is still trending upwards despite a minor pullback in YoY growth for September. There has been 7 cycles since 1997. The average duration of an upcycle is 31 months while the average duration from start to peak of the upcycle is 12 months. We are in the 19th month of the current upcycle (Exhibit 6). We expect the current upcycle to continue until 2H 2022 or 2023. The fundamentals for the industry are supported by higher average selling prices, long-term supply contracts entered between suppliers and customers and disciplined capex by the industry players.

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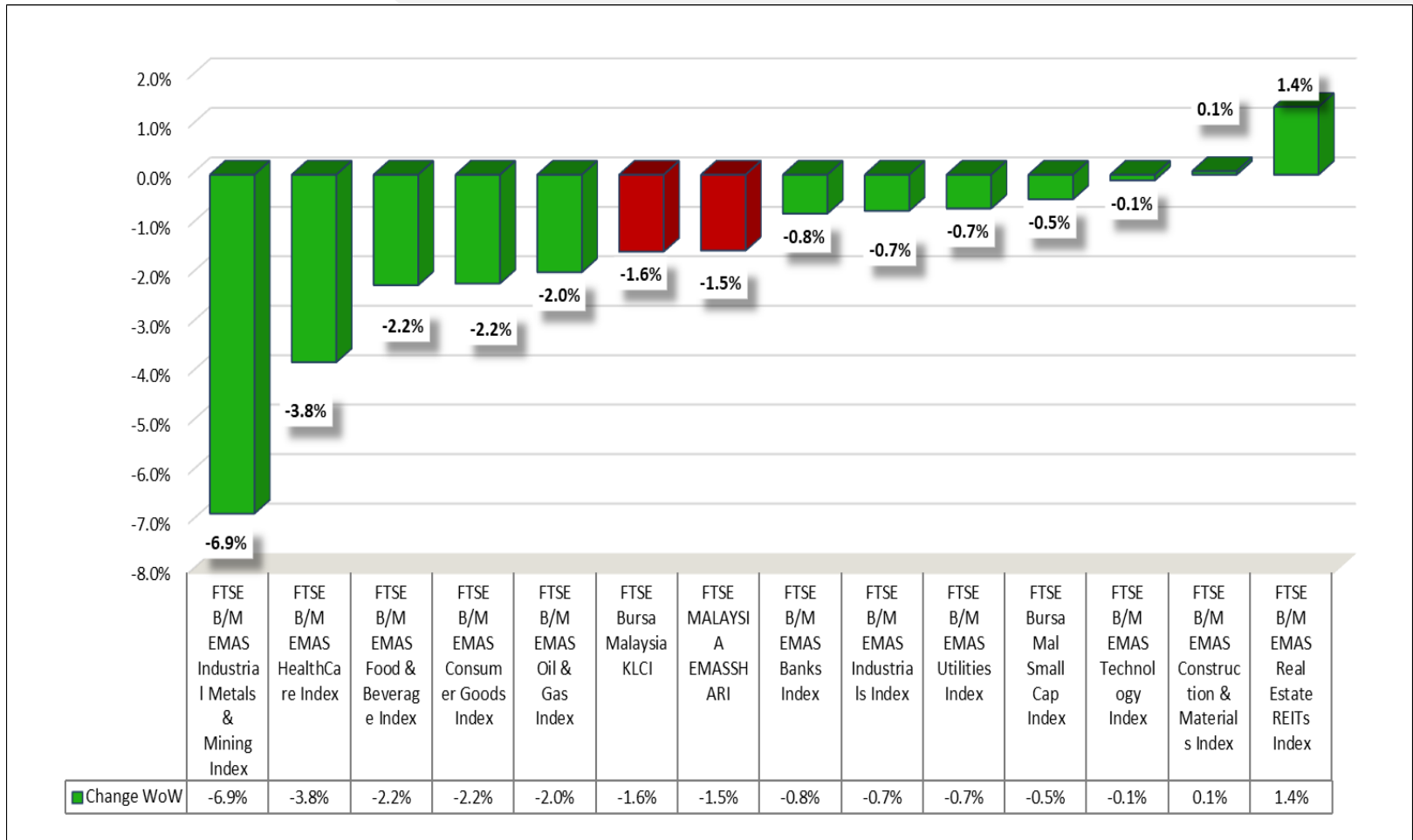
5. The global automotive industry which previously suffered from a chip shortage could face a magnesium shortage. Magnesium is a key component in manufacturing automotive parts. The supply shortage comes as China (which accounts for 85% of global magnesium production) is currently operating at circa 50% of its normal output levels due to soaring energy prices from supply shortages and increased demand during the winter season. Currently, the automotive sector is not seeing any impacts on its supply chain, however, if the low production levels persist, we may see another hit to the global automotive sector.
6. The Malaysia market has corrected 2.7% since the announcement of Cukai Makmur in the 2022 Budget on 29.10.2022. The tax is expected to raise between RM3- 4bil (source : MoF statements, CIMB report). In our view, the KLCI's valuations remain undemanding. Based on KLCI level of 1,536 @ 10.11.2021 and using consensus market eps integer of 105 for 2022, the market is trading at a PER of 14.3x (see Exhibit 7). This is -1 standard deviation below its long-term mean of approximately 15.7x. The market PBR of 1.4x (below 5-year average) and DY of 4.0% (above 5-year average) are also supportive of the stockmarket (see Exhibit 8 & 9). Finally, Malaysia is trading at par with Asia ex-Japan's PER – at the low end of its 5-year range of 0% to +40% premium if the pandemic period in 2020 was excluded (see Exhibit 10).

# Exhibit 1 : FBMKLCI Consensus Earnings Per Share (EPS) @ 04.11.21



(Source: Bloomberg)

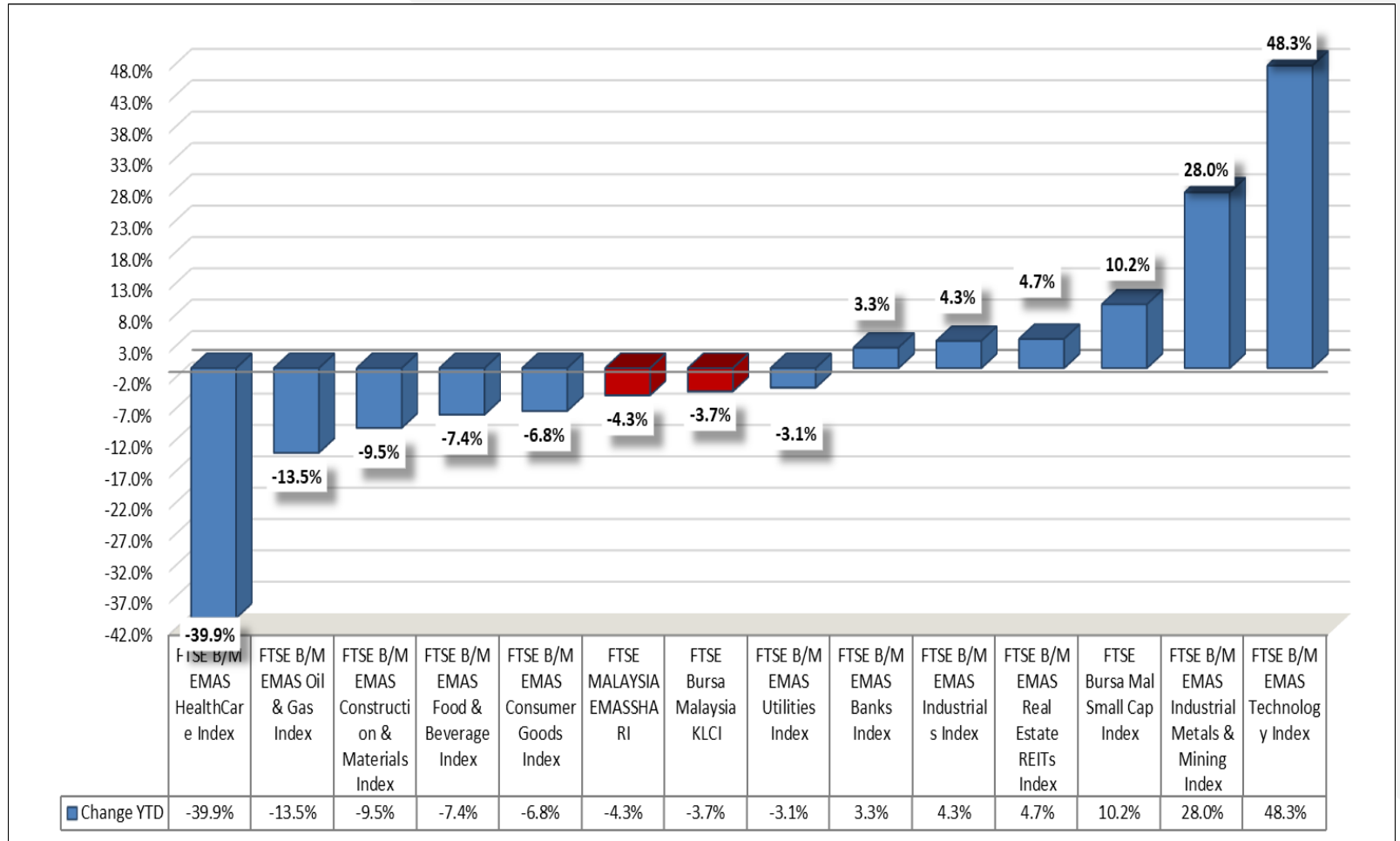
## Exhibit 2 : Sector Performances (Week-on-Week) @ 04.11.21



(Source: Bloomberg)

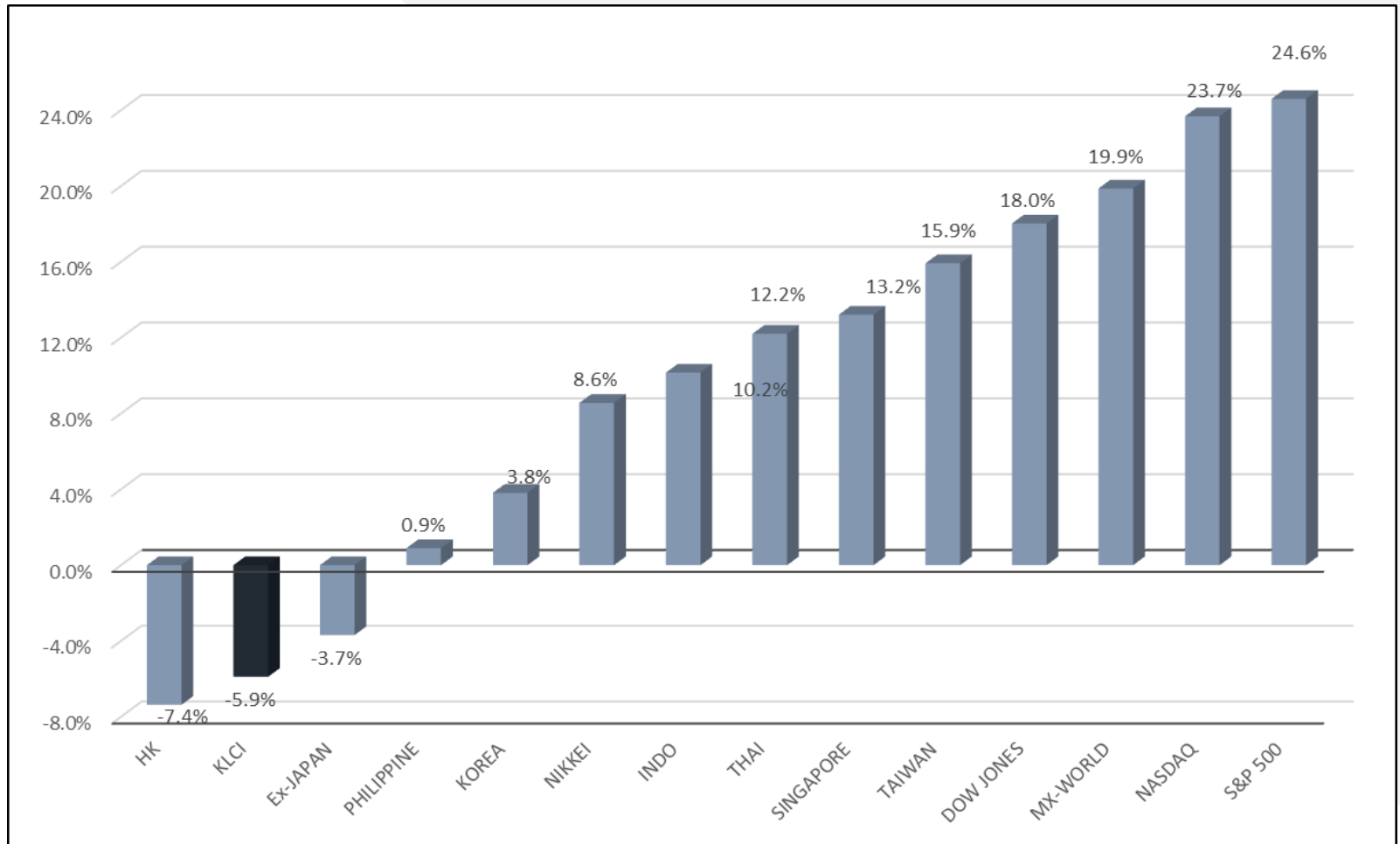


### Exhibit 3 : Sector Performances (Year-to-Date) @ 04.11.21



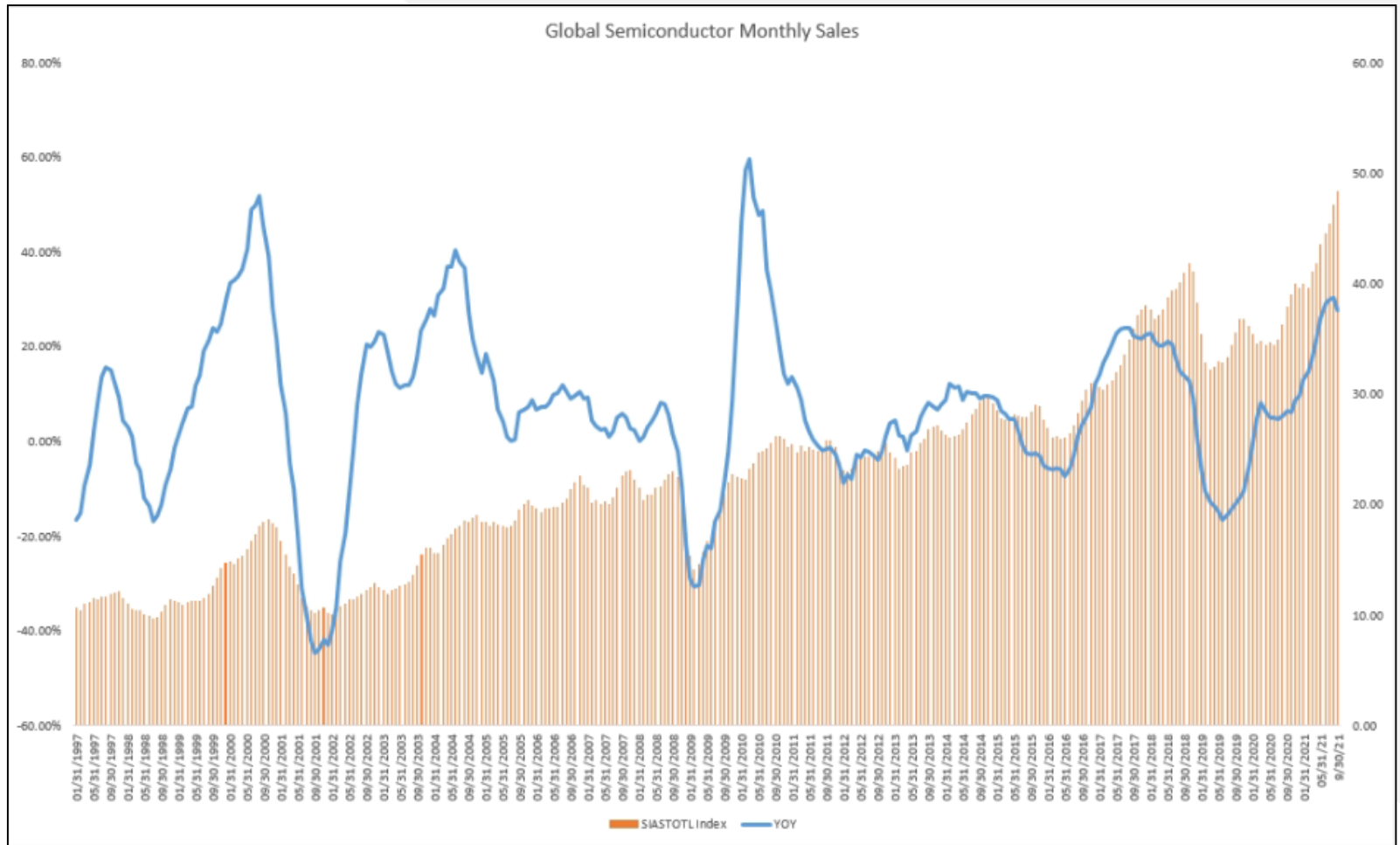
(Source: Bloomberg)

## Exhibit 4 : Performance of Indices (Year-to-Date) @ 04.11.21



(Source: Bloomberg)

# Exhibit 5 : Global Semiconductor Sales Chart



(Source: AISB & Bloomberg)

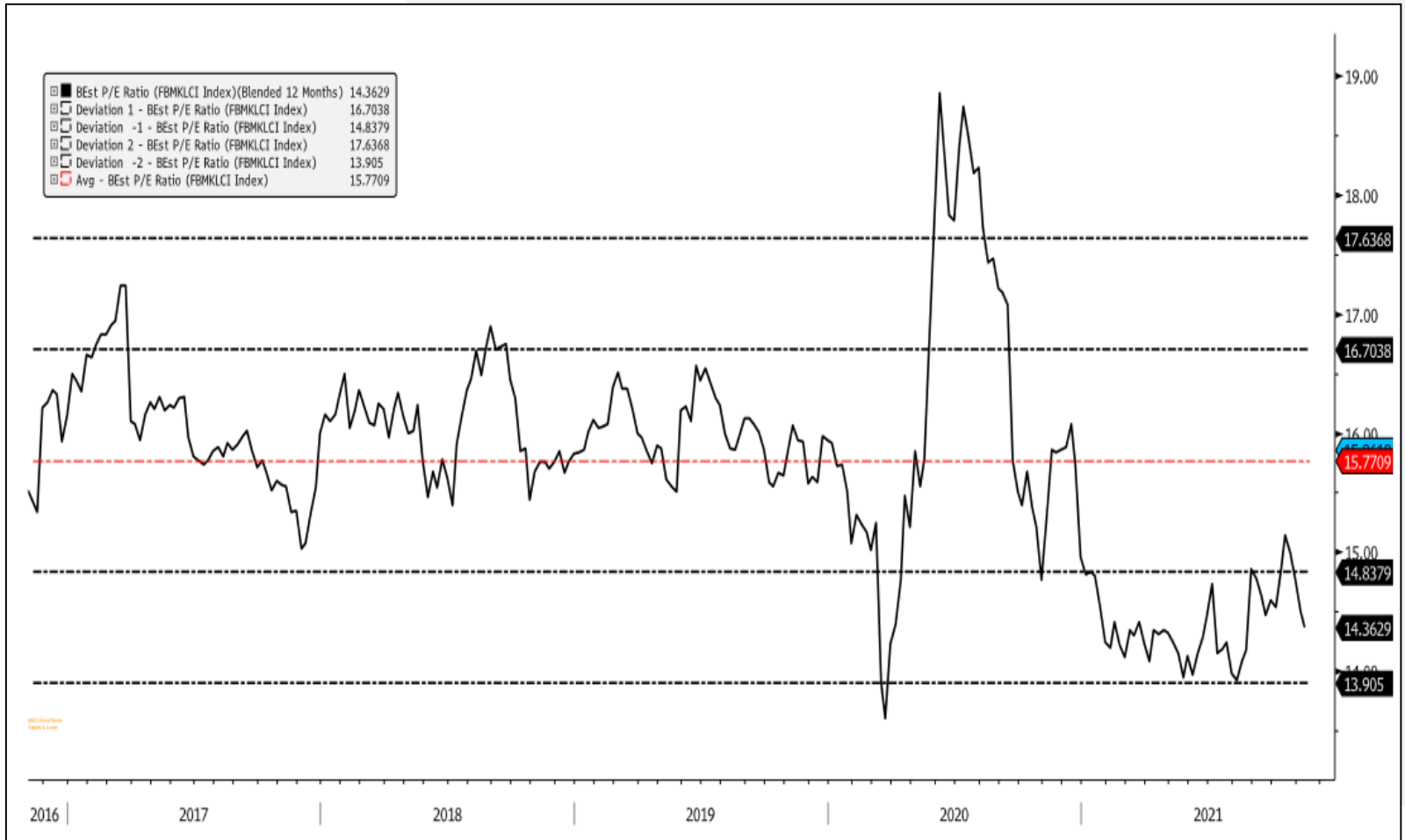
## Exhibit 6 : Global Semiconductor Sales Cycles

	Dates			Duration (Months)		Monthly Orders
	Start	Peak	End	Start to end	Start to peak	% Increase to Peak
1	06/30/1997	08/31/1997	02/28/1998	9	3	2%
2	02/28/1999	08/31/2000	02/28/2001	25	19	66%
3	08/31/2002	06/30/2004	09/30/2008	74	23	49%
4	12/31/2009	03/31/2010	06/30/2011	19	4	4%
5	12/31/2012	02/28/2014	06/30/2015	31	15	5%
6	09/30/2016	06/30/2017	12/31/2018	28	10	11%
7	03/31/2020	08/31/2021	09/30/2021	19	18*	30%
Average -excluding current cycle				31	12	23%

\* Current cycle

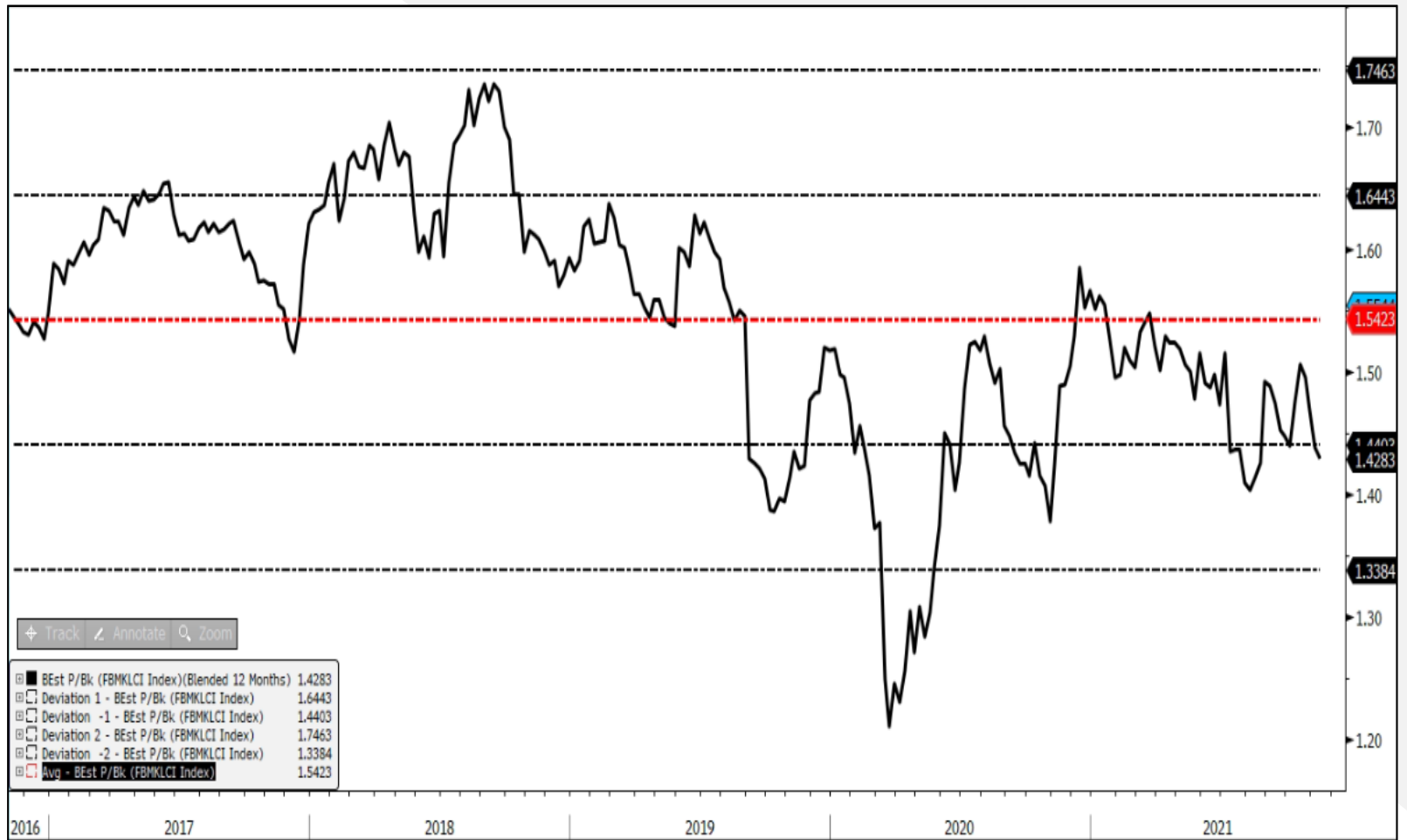
(Source: AISB & Bloomberg)

# Exhibit 7 : KLCI 12M Frwd PE



(Source: Bloomberg)

# Exhibit 8 : KLCI 12M Frwd PB



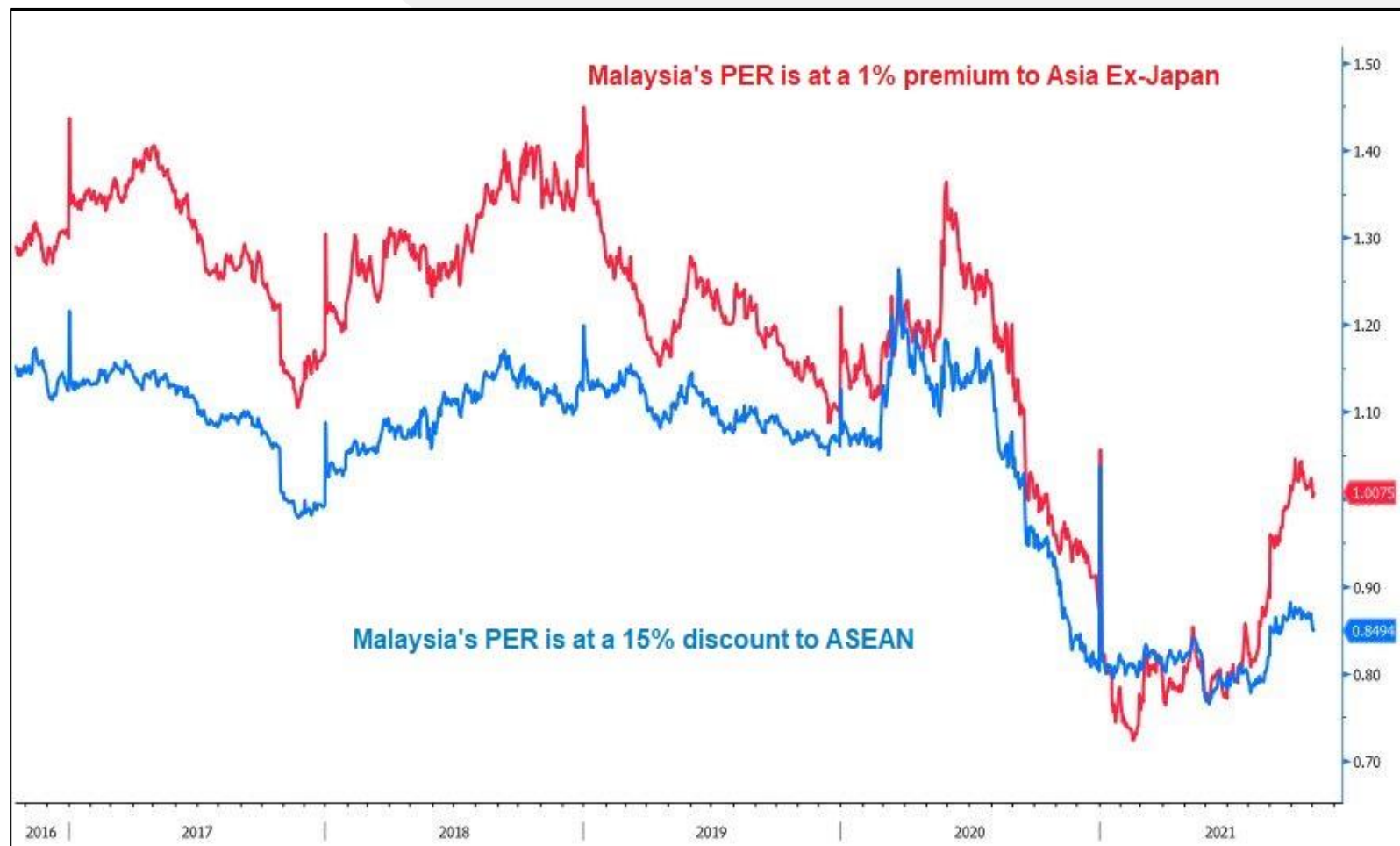
(Source: Bloomberg)

## Exhibit 9 : KLCI 12M Frwd Dividend Yield



(Source: Bloomberg)

## Exhibit 10 : Malaysia's Relative PE to the Region



(Source: Bloomberg)



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