

# PORTFOLIO MANAGERS' VIEWS

## 28 FEBRUARY 2022



## MALAYSIA & REGIONAL

**1. THE WEEK IN REVIEW (21-25 February 2022):** Markets globally were roiled by the Russian invasion of Ukraine on 24 February 2022. Events have unfolded rapidly as Kyiv lay under siege by Russian forces. Investor are concerned that the crisis may escalate further. Over the weekend, Western allies opted for the “nuclear option” of removing selected Russian banks from the world’s international payments network, SWIFT (Society for Worldwide Interbank Financial Communication). This is a crippling blow for Russian companies and will cut-off their access to international markets. In a major turning point, Germany departed from its military averse foreign policy by agreeing to send weapons to Ukraine. It also announced an increase in its military spending and projects to reduce its reliance on Russian natural gas. Geopolitical tensions are likely to remain heightened in the coming days. This will keep investors in a risk-off mode.

**2. STRATEGY & COMMENTS:** We intend to take advantage of any weakness in the market to increase our weighting in Malaysia and regional equities. Our reasons are as follows:

**i) Foreign flows have improved in 2022.** In 2021, foreign investors net sold approximately RM 3.1 billion of Malaysia equities. However, YTD @ 18 Feb 2022, foreigners have net bought RM 2.0 bil worth of Malaysia equities (foreigners were net buyers in 5 out of 7 weeks this year). Last year, Asean economies were disrupted by the movement restrictions due to the Covid-19 pandemic. This is no longer the case as Asean economies reopen and their vaccination rates catch up with the rest of the world. Foreign funds have net bought an estimated US\$3.9 bil in ASEAN equities this year – the highest year-to-date net inflow since 2013 (source: Bloomberg, J.P. Morgan). In spite of the renewed buying, foreign holding in Malaysia is at 20.2% - a 15-year low.

## MALAYSIA & REGIONAL ('cont)

**ii) Local buying of equities will improve.** According to the FM Tg Zafrul , 7 mil EPF members have withdrawn a total of RM 101 billion from EPF through the 3 withdrawal schemes (i-Lestai, i-Sinar and i-Citra). No new withdrawal schemes are expected to be announced. We believe the pressure from withdrawals is behind us. EPF is usually a beneficiary of net inflows as new contributions normally exceed withdrawals. For example, EPF had RM 75.9 bil of contributions and RM 44.8 bil of withdrawals (ie. net inflow of RM31 billion) in 2019. In 2022, EPF should revert to a net inflow position as withdrawals subside. It is therefore reasonable to expect EPF to channel more funds to the equity local market in 2022.

**iii) Value is “In”, growth is “Out”.** Last year, “tech heavy” markets such as Taiwan and Korea outperformed due to the appreciation of technology stocks. However, with up to 7 rate hikes expected by the US FED in 2022, growth stocks have been under pressure. The correction in growth plays has weighed down on tech heavy markets like Korea and Taiwan. Meanwhile, investors are cautious on China due to government policy risks. As investors continue to shift from growth to value and cyclical, Asean has become more attractive as its markets are dominated by “old economy” value plays.

**(iv) Energy prices are tilted to the upside as the conflict in Ukraine continues.** Russia accounts for 12% and 16% of the global production of oil and natural gas respectively. Russia’s exclusion from SWIFT may risk disrupting its commodity exports including oil and gas. Approximately 83% of Russia’s exports are paid in USD & Euro. Malaysia is one of the few countries in Asia which is a net beneficiary of higher oil and gas prices (O&G accounts for ~5% of Malaysia’s exports by value). This comes as CPO prices hovers at an all time high level of ~RM6,000 per tonne. Meanwhile, Malaysia’s electronic and electrical exports (37% of exports) continues to be robust - growing by 18% YoY in 2021.

## **MALAYSIA & REGIONAL ('cont)**

Due to the balance of these factors, we would be buyers on weakness of Malaysia and regional equities. Before we end, it is worth mentioning that previous US Federal Reserve hiking cycles since 1980 were usually positive for global equities. Finally, with the global economy recovering from the pandemic, there are no signs of a recession in sight.

# MALAYSIA

Exhibit 1: FBM KLCI and FBM Shariah Index over the Past 30 days

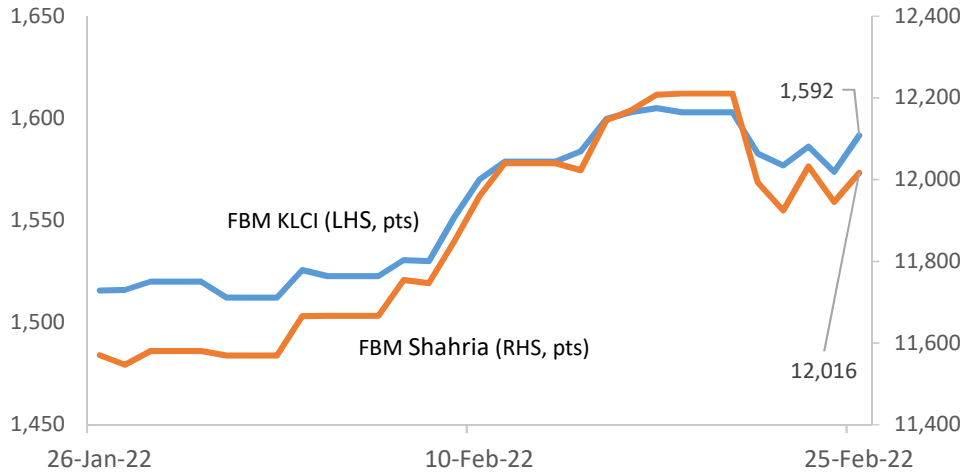


Exhibit 2: USDMYR FX over the Past 30 days

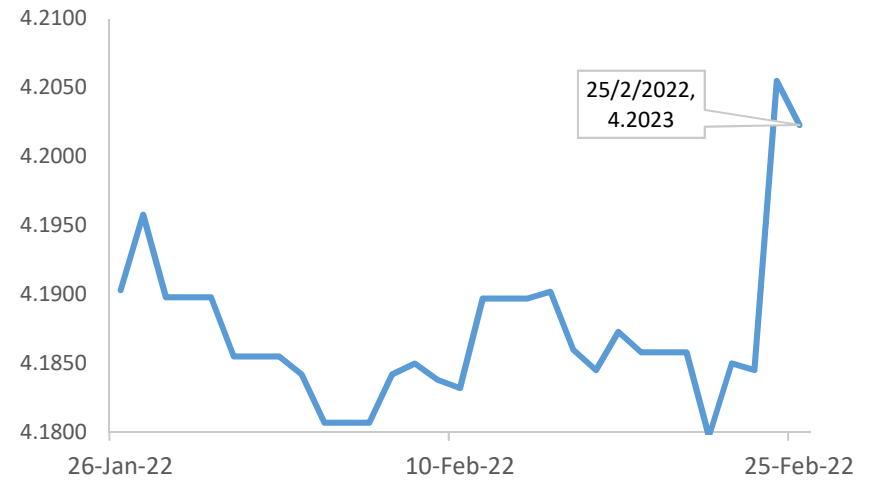


Exhibit 3: Sector Performance Indices (2 Weeks, %)

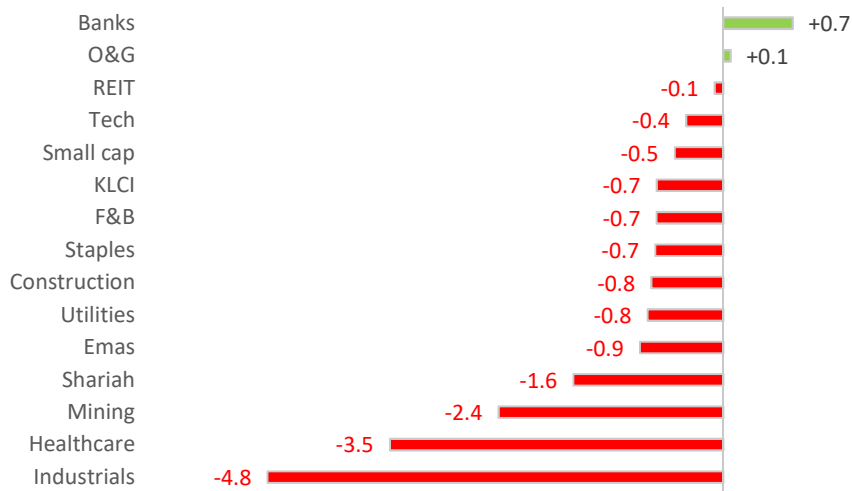
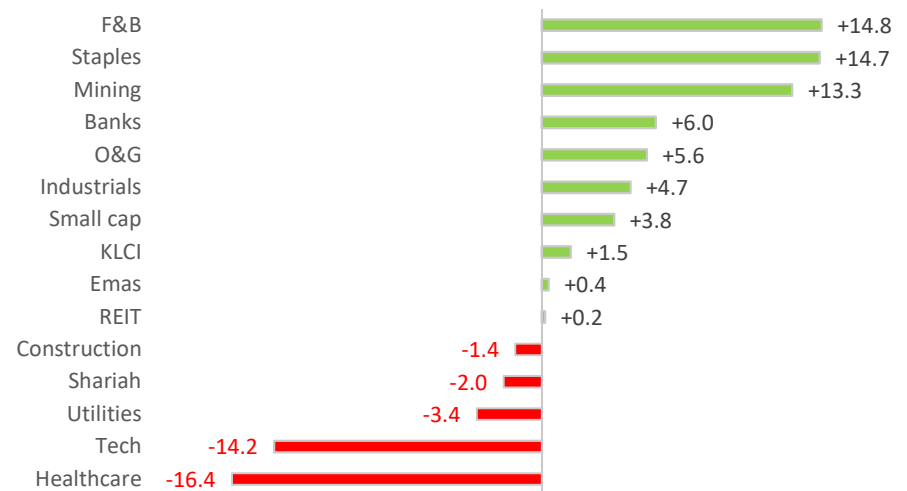


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



# MALAYSIA

Exhibit 5: Premium/Discount to the Region based on Forward PER (%)

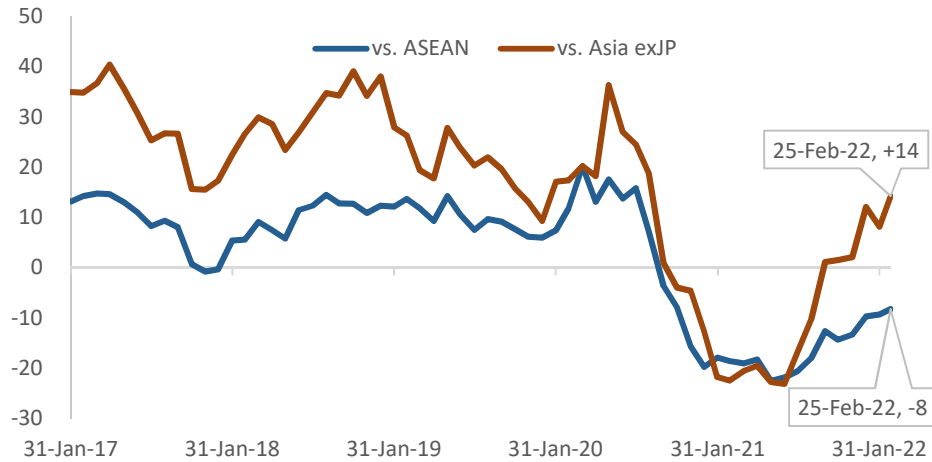


Exhibit 6: KLCI Forward Price-Earnings Ratio (PER, x)

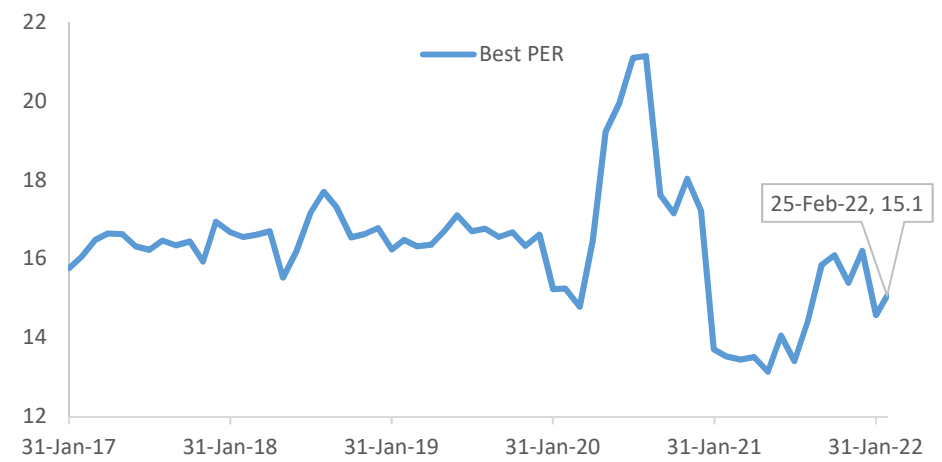


Exhibit 7: KLCI Forward Price-to-Book Ratio (PBR, x)

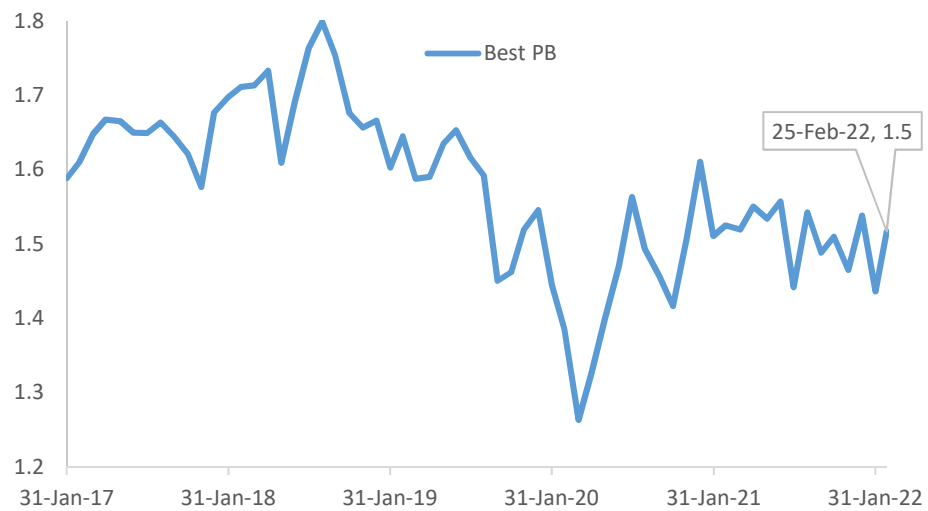
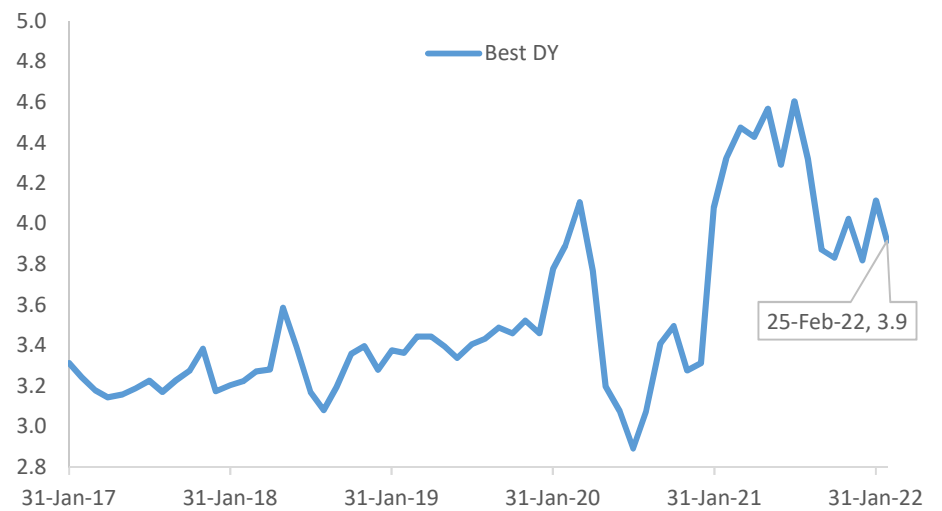


Exhibit 8: KLCI Forward Dividend Yield (DY, %)



# REGIONAL

Exhibit 1: Country Performance Indices (WTD, %)

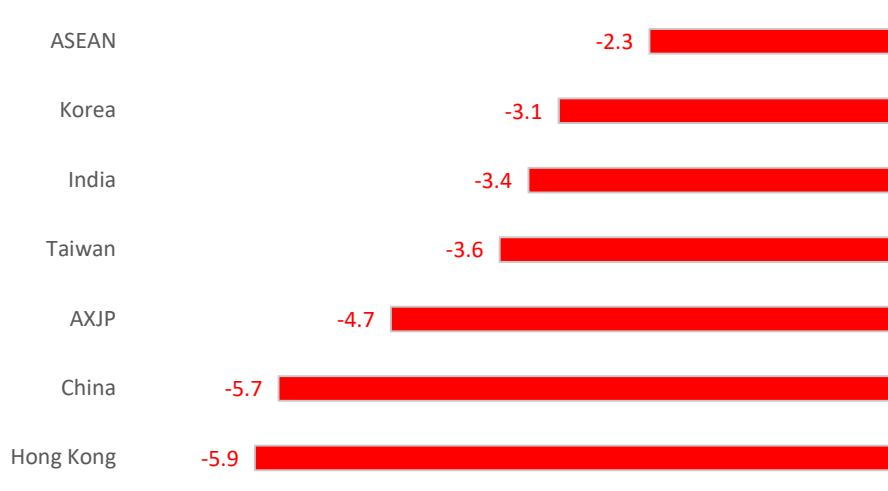


Exhibit 2: Country Performance Indices (Year-to-Date, %)

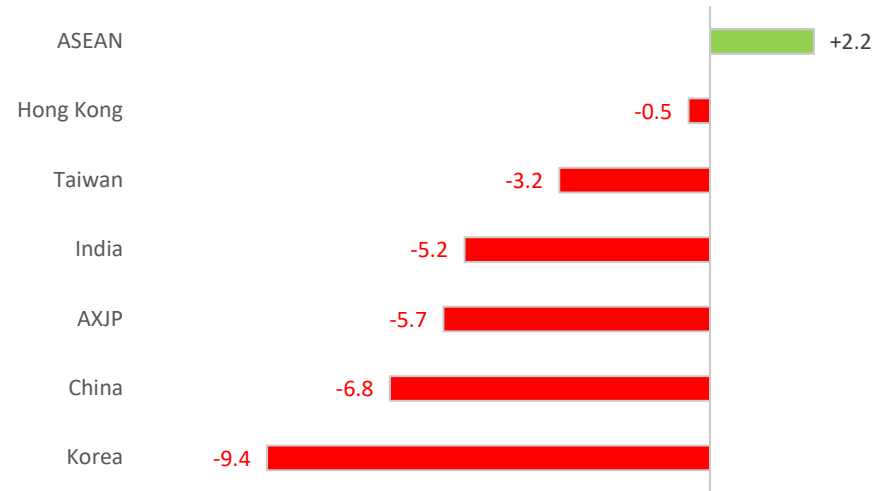


Exhibit 3: Sector Performance Indices (WTD, %)

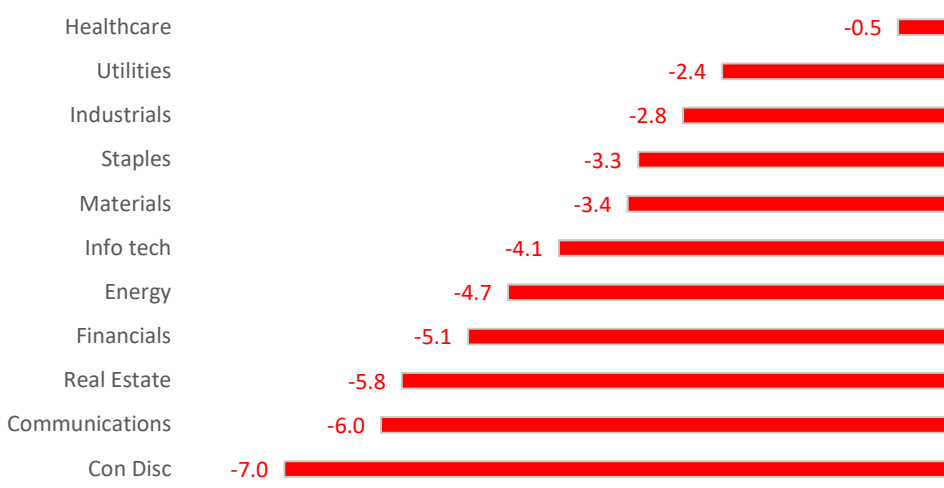
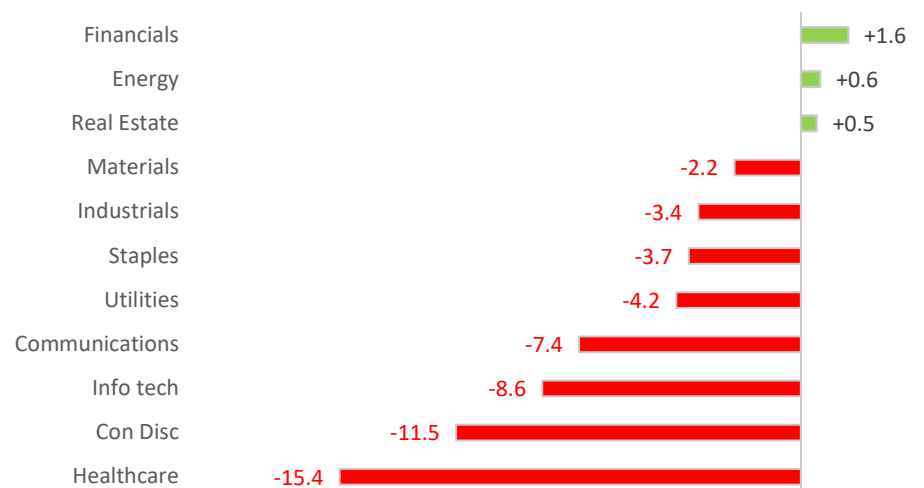


Exhibit 4: Sector Performance Indices (Year-to-Date, %)



# REGIONAL

Exhibit 5: Country Valuations: Forward Price-Earnings Ratio (PER, x) from Dec 2019-Current

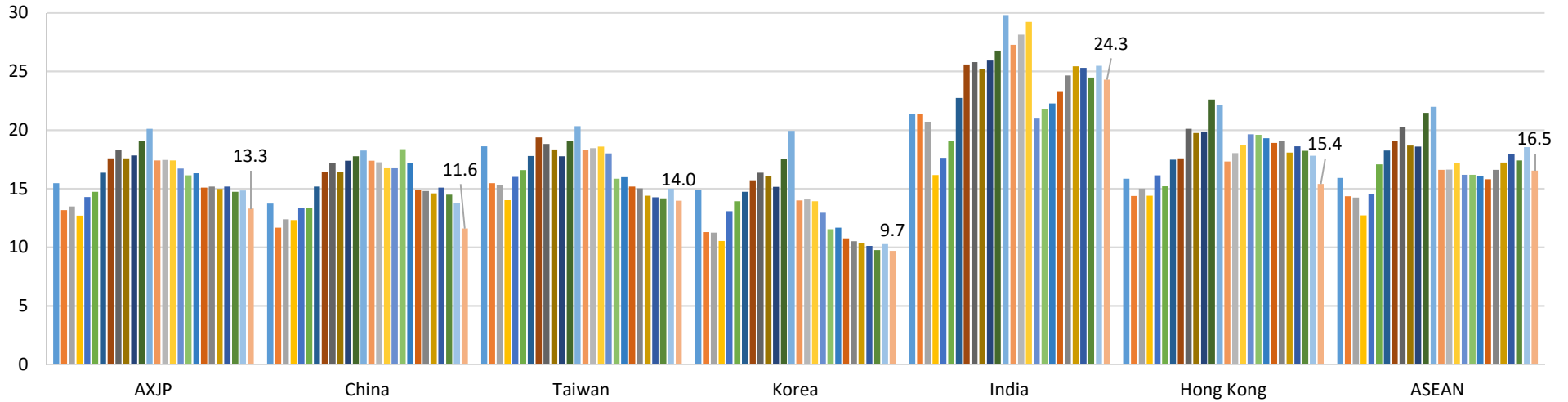
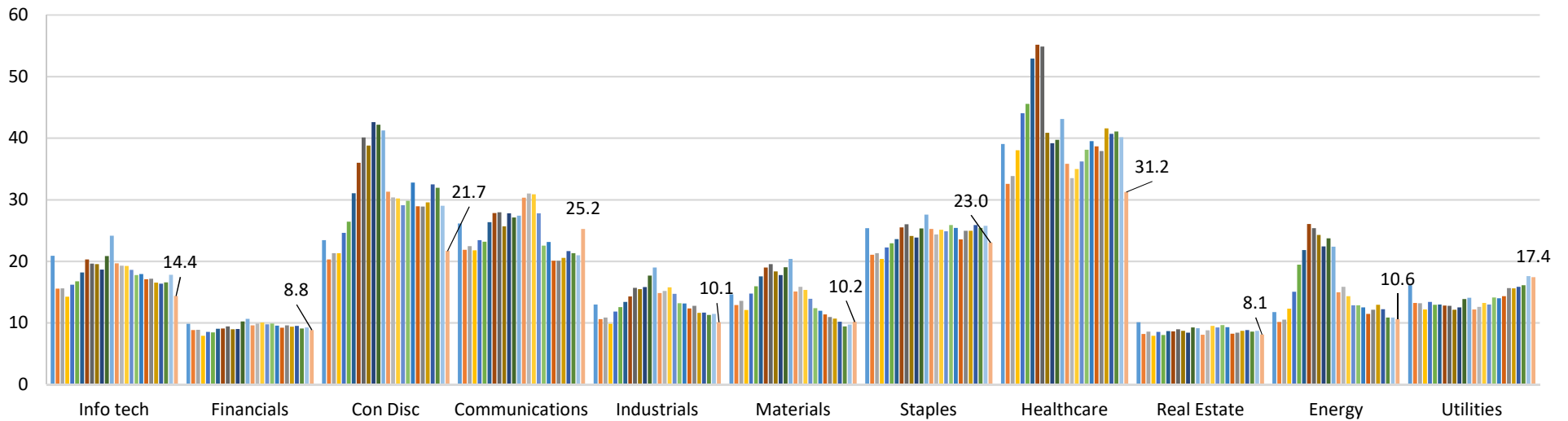


Exhibit 6: Sector Valuations: Forward Price-Earnings Ratio (PER, x) from Dec 2019-Current





# FOREIGN EQUITY INVESTMENTS

Exhibit 7: Selected ASEAN Equity Markets (Net USD mil)

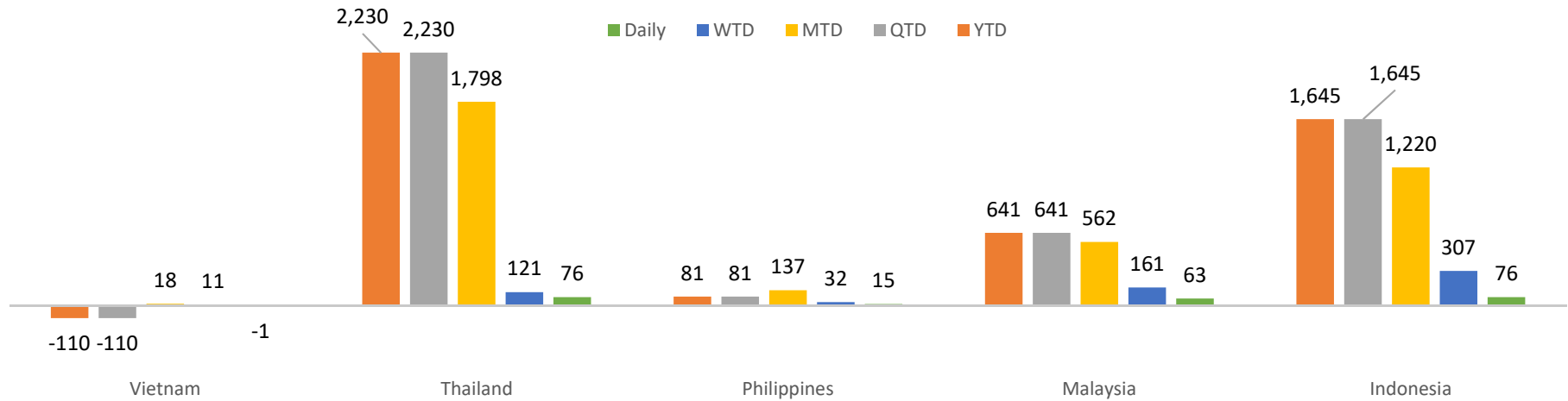
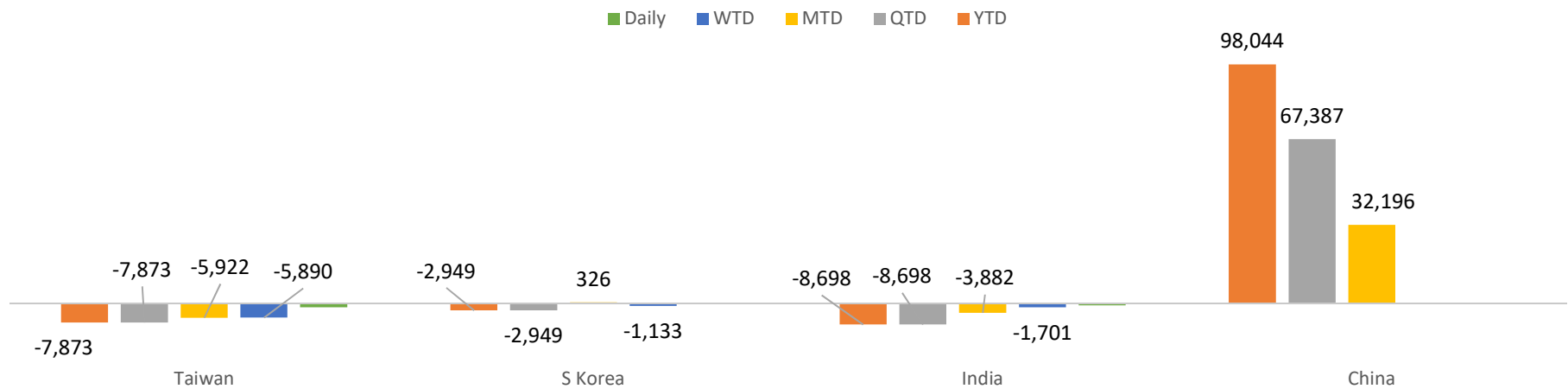


Exhibit 8: Selected North Asian Equity Markets (Net USD mil)



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