Kenanga Investors

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CIO Commentary

By Lee Sook Yee

Markets across the globe tumbled as concerns over the Covid-19 pandemic and oil price crash intensified, with Wall Street ending its decade-long bull run. The domestic equity market was hit not only by those aforesaid reasons but also local political uncertainties.

Table 1 – Performance of major market indices

Indices Performance as at 17 March 2020 (Local Currency)

Index	17-Mar-20	% Change YTD		% Change MTD	
		(local curr)	(USD)	(local curr)	(USD)
SHCOMP	2,779.6	-8.87	-9.53	-3.49	-3.80
Hang Seng	23,263.7	-17.47	-17.23	-10.97	-10.65
HSCEI (H-Shares)	9,216.2	-17.48	-17.23	-10.54	-10.22
MSCI ASIA X JAPAN	550.2	-20.07	-20.07	-13.82	-13.82
ASX 200 - Australia	5,293.4	-20.81	-31.76	-17.82	-23.37
TWSE - Taiwan	9,439.6	-21.32	-22.15	-16.41	-16.25
Singapore Straits Times	2,459.9	-23.67	-28.01	-18.30	-20.09
KOSPI - Korea	1,672.4	-23.90	-29.08	-15.83	-18.28
SENSEX - India	31,373.0	-23.95	-26.97	-18.08	-19.84
Nikkei 225	17,011.5	-28.09	-26.61	-19.54	-18.43
JCI - Jakarta	4,456.7	-29.25	-35.48	-18.27	-23.05
Dow Jones Industrial Avg	20,188.5	-29.26	-29.26	-20.55	-20.55
MSCI ASEAN	551.7	-30.97	-30.97	-19.77	-19.77
PCOMP - Philippine	5,335.4	-31.73	-32.58	-21.40	-21.94
SET - Thailand	1,039.8	-34.18	-38.92	-22.43	-24.37
Euro STOXX 50	2,439.3	-34.87	-35.39	-26.74	-25.84
FBM KLCI	1,256.6	-20.91	-25.62	-15.25	-17.86
FBM SHARIAH	9,361.1	-21.65	-26.32	-15.83	-18.42
FBM 100	8,550.6	-23.07	-27.65	-16.99	-19.55
FBM SMALL CAP	8,784.2	-37.98	-41.68	-31.03	-33.16
CPO	2,273.0	-25.52	-30.12	-1.98	-5.26
Crude Oil	30.1	-54.38	-54.39	-40.40	-40.42

Source: *Bloomberg*

We think markets will continue to be highly volatile with a downward bias in the short term. Hence we increase defensive positioning but also remain selective buyers of quality stocks where we see value emerging. Should there be no further agreement on oil production cuts, we see the possibility of continued weakness in oil price well into the end of 2020, with the most severe impact in 2Q 2020 when demand suffers and supply ramps up.

We have already adjusted positioning by reducing some exposure to high beta oil and gas names. However, some positions are still maintained given the already sharp fall in share prices and possibility of agreement between OPEC and Russia. Additionally, some of the stocks we own in this sector are more defensively positioned such as oil & gas transport, logistics and storage and will be less impacted by a fall in oil prices.

Other oil stocks that are less impacted from under a low oil price environment include asset owners that have long term fixed payment contracts which are not entirely tied to volatility in spot prices. Hence, we would only focus on reducing the high beta oil names at more favourable levels.

As we have always focused on bottom-up stock picking, our funds are invested in companies with stronger growth outlook. The recent correction has negatively affected our holdings of such growth stocks. While we think the market appears to be oversold, near term market is likely to stay volatile until the Covid-19 virus cases starts to slow. Domestically, investors will continue to watch oil price movements and the next Parliament sitting by 18 May. Tactically, we have tweaked our investment strategy to reduce commodity exposure and increase exposure to exporters and dividend yielders as below:

- Reduce exposure to plantation - CPO demand is expected to slow due to coronavirus breakout. The recovery of CPO production going forward may also pressure CPO price outlook. Therefore we will look to trim exposure to plantation sector.

- Trim oil & gas holdings - Brent oil price has corrected to about US$30/barrel. While Russia and Saudi could yet strike up a deal, we think upside will be capped by slower global growth. Therefore we will look to trim exposure to oil & gas sector.

- Accumulate exporters on weakness - Ringgit has weakened on the back of Coronavirus outbreak and political uncertainties. We will look to increase exposure into exporter companies which will benefit from Ringgit weakness especially the technology and gloves sector.

- Increasing exposure to dividend yielders - Economists are expecting BNM to cut OPR rate again to mitigate downside risk from coronavirus breakout and political uncertainties. We will look to increase our exposure into high dividend yield stocks.

We expect regional markets to calm when new cases of Covid-19 peak. Central banks and governments are likely to continue pushing for monetary easing and fiscal stimulus to mitigate the downside risks. The fiscal break-even oil price for most OPEC countries and Russian is above US$40/barrel. Therefore OPEC and alliance could return to negotiation table should the low oil price environment prolong. Domestically, we think the market will settle when political uncertainties clear and the virus case count recedes. Domestic growth is likely to stay subdued in the near term and pick up gradually as the effects of monetary and fiscal stimulus take place. We also expect the new government to roll out more pro-growth policies and infrastructure projects in 2H2020. We therefore expect a firmer market in 2H2020.

content of the unit trust loan financing risk disclosure statement before deciding to borrow to purchase units. The fund may not be suitable for all and if in doubt investors should seek independent advice.

The specific risks relating to the funds mentioned herein include market risk, particular stock risk, reclassification of Shariah status risk, equity risk, warrant risk, currency risk, country risk, liquidity risk and settlement risk.

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