Kenanga Investors

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Catching the 'Raging Bull' in the Metal Ox Year

Focus Malaysia (12 February 2021)

By Ismitz Matthew De Alwis

After a challenging year coping with life amid a new normal in a pandemic-stricken economy, the investment fraternity would surely be on the look-out for some solace – or simply, to expect an 'ox-spicious' year ahead.

Insofar as feng shui masters are concerned, views in two extremes have been expressed about how 2021 would fare – from being a favorable year for economic recovery to one where pessimism, cynicism, and despair will set in, thus contributing to economic decline or a bearish stock market..

Like how the ancient art of feng shui unravels the co-existence of five elements – wood, fire, earth, metal, and water – as the foundation of everything in the universe, below are five core elements (alongside their respective sub-elements) that we believe would resonate with the current investment climate in Malaysia for the most of 2021:

Social element

Lockdown effect: Nobody can foretell the actual duration of the movement control order (MCO 2.0) which has been re-imposed almost nationwide given the spike in COVID-19 cases across the country has yet to abate. With reported new variants found in Britain and South Africa, a premature lifting or re-opening of borders as the ultimate solution to tide over the ailing economy can be a costly mistake.

Doling out of economic stimulus packages: Despite the current tight fiscal condition, the Government has rolled out its fifth fiscal stimulus measures vis-à-vis the RM15 bil Malaysian Economic and Rakyat Protection (PERMAI) assistance package on Jan 18. The swift announcement of fiscal support provides some short-term reparations to affected households and businesses although it does not completely offset the downside risk to the economic outlook. Thus far, RM305 bil has already been allocated to the funding of stimulus packages and economic recovery plans in 2020 (namely, PRIHATIN, PRIHATIN SME+, PENJANA, and KITA PRIHATIN) in addition to the various COVID-19 measures under Budget 2021.

Effects of vaccination: While Malaysia expects its vaccination programme to cover 80% of its population by the 1Q 2022, a system is needed to track, control, and facilitate travel post-vaccination. This is given the very success of a global economic recovery turnaround would hinge on the timeline for widespread vaccinations. A key risk factor is the evolution of the COVID-19 virus, particularly if mutations of the virus are resistant to the vaccines that have been developed.

Rising unemployment: Even as the Government will allow five essential sectors (manufacturing, construction, services, trading & distribution as well as plantation & commodities) to operate under the MCO 2.0, a slowdown in business is inevitable, thus inviting cost-cutting measures that entail wage cuts and layoffs. While factories may continue to operate during the MCO 2.0 period, they are very unlikely to do so at full capacity to abide by social distancing measures. As it is, Malaysia already has to deal with 764,400 currently unemployed and possibly around one million new entrants to the job market (taking into account the 2020 cohort coming out of the education system.

Political element

Emergency without curfew: On Jan 13 – a day after having re-imposed movement control order (MCO 2.0) across six key states – the Government declared a state of emergency (till Aug 1) for the first time in more than half a century. While it is unclear how the emergency order can flatten the COVID-19 curve, what will not happen in the first eight months of 2021 is Parliamentary sittings, by-elections, or even a General Election.

Fragile political development: While the Government wants to stay focused on curbing the COVID-19 pandemic without being distracted by political-related diversions, it has to be borne in mind that the very act of declaring a state of emergency can hinder a potential return of foreign funds to Malaysia's equity market on ground of political uncertainty. Moreover, the ruling Perikatan Nasional government has in recent times been weakened by the withdrawal of support by two UMNO MPs which leaves the Government with a backing of only 109 MPs out of 220 MPs currently. A protracted period of emergency and concerns over escalating political tensions in Malaysia may fan headwinds by deflating consumer and business sentiment as well as deterring foreign direct investments (FDIs) over the medium- to long-term.

Market element

Fundamentals detached from reality: Stock prices are forward-looking, thus reflecting expectations about profits and discount rates even as far as decades ahead. The Dow Jones Industrial Average (DJIA) breached the 30,000 points level for the first time in its 124-year history in late November before closing 2020 at a record high of 30,606.48 points. This contradicted the real economy, leading to the adage "Wall Street vs Main Street" where many Americans are currently living a tough life amid a ravaged economy, soaring unemployment, and a spike in COVID-19 infection, among others.

'V-shaped' economy is a far-fetched dream: Given the degree of financial hardship that the pandemic has inflicted on the Malaysian economy, feel blessed if a 'K', 'L' or 'U-shaped' recovery can materialise. Recent economic indicators suggest that the recovery trend is ebbing with their growth rates tapering, particularly the industrial and manufacturing sectors that are still enduring low domestic demand. For Malaysia to rebound with a gross domestic product (GDP) growth of 6.5-7.5% may sound too optimistic but anything in the 5% zone may be realistic following a record 4% global contraction in 2020.

Pursue a barbell investment strategy: As the country is navigating through unchartered waters with a third wave spike in both COVID-19 infection rate and the number of clusters, pursuing a barbell strategy that encompasses both cyclical/recovery and growth theme seems to be the best bet. Therefore, holding a portfolio comprising banking, consumer, automotive, oil & gas, gaming, construction and property stocks – which coincidentally are worst hit during lockdowns – alongside stocks in the healthcare (glove makers, vaccine distributors, personal protection equipment manufacturers, pharmaceutical) and technology/semiconductor sectors (in addition to blue-chip/defensive counters) sounds the safest route to benefit from post-lockdown economy re-opening.

Weak corporate earnings growth: A downward revision looms if the economy fails to recover come 2H 2021 or if the MCO 2.0 is prolonged to curb spiralling COVID-19 cases. This will amplify losses/accumulated deficit or reduced earnings which ultimately impact the stock price or dividend pay-out to shareholders. On a similar note, there could also be an indirect negative impact on the banking sector which is viewed as a bellwether for economic resilience given (i) potential OPR reduction by the Malaysian central bank to cushion adverse effect from the MCO 2.0 could affect banks' net interest margins; (ii) increase in non-performing loans; (iii) likelihood of loan moratorium extension or re-introduction should MCO 2.0 gets prolonged; and (iv) negative loan growth as MCO 2.0 could reduce business activities.

Sovereign rating risk: Malaysia inevitably risks further pressure on its sovereign ratings with the re-imposition of MCO 2.0 coupled with the declaration of a state of emergency. Recall that the Government has rolled out stimulus packages worth RM305.0 bil in 2020 as a response to the COVID-19 crisis in addition to a record federal budget (dubbed "mother of all budgets") valued at RM322.5 bil for this year. Even as Moody's has affirmed Malaysia's local and foreign currency long-term issuer and local currency senior unsecured debt ratings at A3, and maintained its stable outlook, the Government will still have to manage its fiscal deficit prudently to avoid future rating downgrade (Malaysia's ratings remain a few levels within the investment-grade territory as per Fitch Ratings' downgrade last December).

Dwindling foreign stock ownership: Foreign ownership in terms of percentage of Bursa Malaysia's market capitalisation stood at 20.7% in end-December 2020 compared to 22.4% in January 2020. This is very much in tandem with the foreign net outflow of RM24.6 bil recorded in 2020. Bursa Malaysia has experienced foreign net outflows for three consecutive years. In contrast, 2020 saw the local bourse being sustained by retailers to the tune of RM13.84 bil and local institutions at RM10.41 bil. In 2020, the simple average daily retail participation rate rose to 35.8% from only 24.5% in 2019.

External elements

US-China rivalry: The ongoing US-Sino strategic animosity will not vanish overnight despite a new US administration that is less confrontational than before. In all fairness, both sides had taken measures to de-escalate the trade dispute during pre-pandemic days. Moving forward, China and the US must find ways to defuse tensions that have escalated from a trade war to a broader dispute over technology and security (ie harassing Chinese students, restricting Chinese media outlets, shutting down Confucius Institutes, and suppressing Chinese companies). All-in-all, the international policies of President Joe Biden's administration, particularly towards China, will be a key factor determining the pace of the recovery in international trade and investment in the next few years.

Futuristic elements

Pockets of opportunities abound: Although the adage "cash is king" is a wise reminder to lay investors to be mindful of having a healthy balance between their savings and investment channels, they must be aware that not all is gloom out there. What is essential for the investing fraternity is to stay disciplined and focus on things they can control such as their asset allocation and diversification.

There are blue-chip stocks that are worth accumulating because they are now worth a third of what they used to be or even to acquire a dream home by taking advantage of the soft property market. Or even unit trusts that can outperform the benchmark index despite the current state of financial uncertainties/adversities given their sturdy focus on specific economic sectors.

Speaking from experience, Kenanga Investors Bhd's main stable of funds have fared well for their one-year performance as at Jan 31, 2021 despite extreme financial turbulence.

Fund	1 Year	Benchmark	
	(%)	(%)	Index
Offshore			
Kenanga Global Multi Asset Fund (MYR)	65.73%	14.57%	Lipper Synthetic Risk-Free Rate 15% MYR
Kenanga Global Multi Asset Fund (USD)	67.19%	14.57%	Lipper Synthetic Risk-Free Rate 15% MYR
Kenanga Consumer & Leisure Asia Fund	43.40%	35.39%	MSCI AC Asia/Consumer Discretionary CR
Kenanga Malaysian Inc Fund	39.42%	3.75%	FTSE Bursa Malaysia Top 100
Kenanga Asia Pacific Total Return Fund	36.11%	10.00%	10.00% p.a.
Kenanga Growth Fund Series 2 (MYR)	35.45%	8.35%	8.00% p.a.
Kenanga Resource Equity Fund	26.52%	13.53%	MSCI AC World
Kenanga ASEAN Tactical Total Return Fund	11.78%	8.00%	8.00% p.a.
Local			
Kenanga Growth Opportunities	54.33%	4.35%	FTSE Bursa Malaysia EMAS
Kenanga Shariah Growth Opportunities Fund	52.23%	11.41%	FTSE Bursa Malaysia Emas Shariah
Kenanga Growth	17.06%	2.31%	FTSE Bursa Malaysia KLCI
Kenanga Syariah Growth Fund	15.31%	11.41%	FTSE Bursa Malaysia Emas Shariah

Source: Lipper Analytics as at 29 January 2021

Products galore: Far from the days of plain vanilla investments, there are now dozens of new products from which investors can choose from. For instance, other than bank deposits, stocks, unit trusts, and insurance products, they can now put their money in contemporary products such as equity crowdfunding (ECF) and peer-to-peer (P2P) lending platforms that could potentially generate higher returns, albeit the higher risks that come with them. The challenge for consumers, therefore, is knowing how to manage their finances and make wise investment choices. And that requires some financial knowledge and skills.

Unrthodox investing: Retail investors must gradually diversify to tap new fortunes by shifting their attention from brick-and-mortar type of investments to those in the high-tech sphere. In so doing, they must familiarise themselves with technology jargons in the likes of artificial intelligence (AI), Internet of Things (IoT), Big Data, virtual reality, or even cloud and AI-related products and services such as Infrastructure as a Service (IaaS), Platform as a Service (PaaS), Software as a Service (SaaS), and Anything as a Service (XaaS). Premised on the above development, even the more conventional of technology stocks are seeing an uptick as growth for the sector remains strong, driven by the urgency for businesses to revamp the way business is done, through the digitalisation of processes, automation, and e-commerce.

ESG is the future of investing: Lay investors must eventually accept the virtues of environmental, social, and governance (ESG) as a trend that is here to stay. After all, the Employees Provident Fund (EPF) – Malaysia's largest pension fund – has committed to making all its investments based on ESG practices by 2030, betting on a strategy based on holding sustainable assets that can make it more resilient against future market upheavals. Two years ago, conversations surrounding ESG only came up once every tenth interaction we had with clients, but now, it's all we're talking about. Perhaps when you're staring down the barrel of an entirely new economic system, the things you've been putting off get pulled into sharp focus.

In Malaysia, despite a slow start at first, there has been an accelerated demand for ESG investing, especially since ESG-focused investments have become more resilient in uncertain market conditions caused by the pandemic. ESG investments has helped support many countries by boosting their potential growth. For example, stocks and bonds of companies across the region with high ESG ratings performed better during the market sell-off in March last year compared to those with lower ratings. There is renewed attention on the tackling social issues, such as public health, human capital management and societal inequalities. We expect companies to increase the promotion of environmental protection and employee welfare for long-term sustainability; for example, corporate value will increase thereby spurring economic growth in a virtuous cycle.

Ismitz Matthew De Alwis is the CEO of Kenanga Investors Bhd, one of Malaysia's top asset management firms, as well as the current President of the Financial Planning Association of Malaysia (FPAM).

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FOCUS MALAYSIA

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By Contributor · 5 days ago · in Opinion, Top

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