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Positive Outlook for Equities.

Focus Malaysia (Weekly Issue – 15 July 2017)

THERE'S good news for investors.

After three years of decline, the equities market seems to have turned the corner, and there is room for optimism going forward. Exports have recovered and spending on infrastructure development has risen. With the general election expected to be called soon, more pump-priming by the government is on the cards.

"These are all positive signs for the equity market, and hopefully we'll see a rebound in corporate earnings," says Ismitz Matthew De Alwis, executive director and chief executive officer at Kenanga Investors Bhd.



**Ismitz Matthew
De Alwis**
Executive director
and CEO, Kenanga
Investors Bhd

Nonetheless, there still are hurdles to clear this year and investors are advised to look towards the longer term in order to ride out short-term volatility, he adds. On the global front, Kenanga remains positive on Asia as a pick-up in global demand has boosted corporate earnings.

De Alwis points out that a strong improvement in corporate earnings driven by an uptick in the global semiconductor cycle; stabilising commodity prices and an improving outlook in China have helped to moderate any negative impact of the US pullout from the Trans Pacific Partnership Agreement and the results of the recent UK elections.

However, he cautions that there is still a chance of a "minor pull-back on negative news flows" given the current volatile geopolitical landscape and elevated valuations. Kenanga will continue to focus on in-depth research, with portfolio management backed by its risk management measures, says the CEO of the asset manager. He points out that Kenanga's call to be positive on Asia "has played out well", with sectors such as the internet and technology outperforming the market.

He says that as short-term growth normalises, Kenanga will progressively turn towards "good quality stocks that offer stock specific catalysts". On the outlook for Asia, De Alwis is upbeat on South Korea, given its environment of improving

shareholder returns. "We see evidence of restructuring at large Korean corporates, with management focusing on returning cash to shareholders and improving corporate governance," he says.

He expects ASEAN economies, particularly Malaysia, to benefit from China's One Belt One Road initiative.



The outlook in Indonesia has also turned positive, as its economic fundamentals improved and inflation has stabilised at around 3% to 4%, down from high single-digit levels. He notes that the rupiah remains stable, a recent upgrade by S&P has helped to drive inflows and “there is already some evidence of reform in terms of revenue collection and budget execution”.

On its investment strategy, De Alwis says Kenanga will continue with its “bottom-up stock selection” approach. “We believe that fundamental research combined with a ‘relative value approach’ investment style can create consistent superior risk-adjusted returns,” he explains.

He points out that consistent outperformance over an economic cycle of three to five years can be consistently replicated by applying its bottom-up stock-picking strategies.

“These stocks are generally undervalued relative to their intrinsic value, or are clearly undervalued relative to their peers and the overall market valuation,” he says. “Therefore portfolio allocation is the by-product of our bottom-up stock selection.”

This strategy has helped Kenanga record quite impressive returns on its funds. As at the end of May 2017, the Kenanga Growth Fund has returned 16.4% on its investments while the Kenanga Syariah Growth Fund saw returns of 6.18%. De Alwis sees this as a “significant” improvement over the previous year’s performance. That year, the returns from these two funds were either flat or slightly negative. In the longer term, both funds have outperformed the market with “good absolute returns over the past five years”.

De Alwis reminds investors that all unit trust and private retirement scheme funds do show positive and negative performances over the short term periods. Hence, investors will have to be aware that unit trust and retirement funds are both middle-to-long-term investments and savings vehicles.

As such, investors have an equally important role to play in determining their own fortunes. De Alwis advises investors to select only those investment opportunities that are compatible with their own objectives and risk tolerance.

“Given that investing in unit trusts is also a long-term commitment, investors should not be swayed by a sudden movement or change in the market,” he says. “By riding out the wave, they will be able to see the fruits of their labour at the end of their investment horizon.”

On its part, Kenanga will continue to prioritise the meeting of their clients’ investment objectives.

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Positive outlook for equities

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