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Kenanga remains positive on Asia

Focus Malaysia (23 - 29 July 2016)

Over the past few weeks, investors around the world have been reeling from the shock of seeing Britain vote to leave the European Union, a move that will continue to have far-reaching implications globally. Following the decision, global stock markets lost about US$2 trillion in value the next day, and at the same time, the crisis has sent reverberations through Asian markets and spooked investors.

Kenanga Investors Berhad's Chief Investment Officer,
Lee Sook Yee

"In the short-run, this unexpected outcome could keep volatility in financial markets elevated. Investors will also watch for potential channels of contagion, for instance from a widening in peripheral European bond spreads to the banking system," Kenanga Investors Chief Investment Officer Lee Sook Yee says.

"Short-term economic impact is largely centered on recession in the UK which will in turn dampen global growth." Lee adds. While the Brexit turmoil will likely continue to plague Europe and some Asian countries that have investments in the United Kingdom, Kenanga Investors remains positive on the outlook for Asia. "While shorter term macro conditions like US rate normalisation and slowdown in China can present intermittent challenges, Asia remains a key investment destination given its size and depth of the capital markets.

"With the backdrop of low interest rates and accommodative monetary policies still largely the case in Asia, we feel equities as an asset class remains attractive," Lee tells *FocusM.*

For Asia, she expects export dependent countries like Hong Kong, Singapore and Malaysia to take bigger hits, potentially shedding 0.4 percentage points to 1 percentage point of growth in 2016, while GDP growth in China and Indonesia are expected to decline by 0.2 percentage points.

Despite Asian and global economic challenges, Lee emphasizes that Kenanga Investors continues to solidify its presence and delivering consistent top performance for its Kenanga Growth Fund and Kenanga Syariah Growth Fund, both of which won the Fundsupermart.com's annual "Recommended Unit Trusts Awards" for the period 2016/2017.

She attributes the achievements and accolades received for both funds to its research capabilities, investment strategies, enhanced foresight, and talented pool of people. Lee says the recognition for Kenanga Growth Fund and Kenanga Syariah Growth Fund is underlined by the fund house's commitment in assessing unit trust holders' risk appetite, risk tolerance and investment time horizons.

To ensure growth sustainability for both funds, Lee says, proven strategies are in place, in terms of management. The strategy is proven by the consistent returns in the past years. Stocks are selected based on the business model and value proposition, management quality and balance sheet strength, among others she says, adding that the strategy has led the fund house to some under-researched investment opportunities especially those in the small and mid-cap space.

Coming back to Brexit and its impact on equity, Lee says short term volatility warrants a defensive strategy. "We have turned defensive both in terms of cash holdings and stock selections ahead of this unexpected event. In the longer term, we expect markets to stabilise as central banks such as the Bank of Japan, Bank of England and the European Central Bank are likely to embark on more easing, while tightening by the US Federal Reserve looks likely to be off the table not just for July and September but probably for the rest of the year.

'This implies that markets would make a comeback once the dust has settled. We advocate buying on dips as our earlier cash raising has enabled us to bottom fish on our weakness. Stock pickings remain the key with focus on sectors with earnings visibility and dividend support," Lee says.

On fixed income, she says that fundamentally, uncertainties over global growth as a result of Brexit may delay a US rate hike and may even trigger easing by Bank Negara Malaysia which will send bond yields lower. In a risk-off environment arising from Brexit, emerging market (EM) currencies like the Ringgit may weaken, and this may trigger foreign selling pressures on Malaysian Government Securities (MGS). Past episodes of crises like the Lehman Brothers bankruptcy and Grexit have shown that over the medium term (six months to a year), MGS yields tend to fall back to levels before the crises, Lee says.

"As a result, we see the current sell-off as an opportunity to extend duration (when favourable yield levels have been reached) from our currently neutral position. That said, if EM risk-off sentiment is prolonged, the risk of reversal of foreign flows may resurface and such an uncertainty might hold back the MGS from strengthening much further until rate cut expectations become more entrenched," she concludes.

Kenanga

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