Kenanga Investors

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Charting the Path to a Synchronised Global Recovery

Smart Investor (January/February 2021 issue)

By Bernie Yeo

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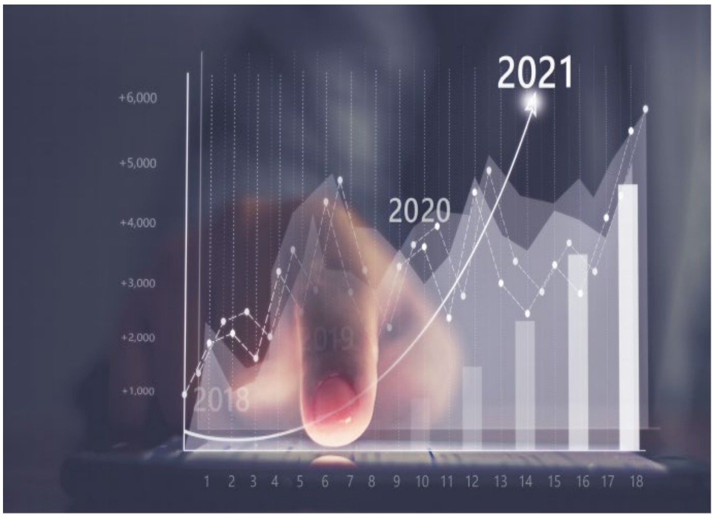

If all goes according to plan, the new year is expected to usher in the distribution of a Covid-19 vaccine, along with the great promise of a return to normalcy and a global economy that is on the mend. Cautious optimism seems to be the way forward, and things are finally looking up for investors.

This follows a grim year rife with tragedy and heartbreak over the Covid-19 pandemic, which spread with alarming speed, infecting millions and bringing economic activities around the world to a near stand-still.

“There is a synchronised global recovery in the horizon, with all regions bouncing back from the pandemic-induced recession in 2020 and heading onto a path of recovery. What’s more, global GDP is expected to rebound from -3.9% in 2020 to +5.2% in 2021 based on a survey of forecasters on Bloomberg,” says Kenanga Investors Berhad Chief Investment Officer Lee Sook Yee.

The deployment of a vaccine is expected to help economic activity to recover, while extensive support from both fiscal and monetary policy provides a further boost. “Interest rates remain at decade lows worldwide, while the Federal Reserve (FED) and European Central Bank (ECB) continue to expand their balance sheet with various asset purchase programmes. Hence, we should see a positive environment for risk assets in the first half of 2021 at least,” she tells Smart Investor.

Opportunities ahead

On investment bright spots going forward, Lee says that 2021 is expected to be the year where risk assets will outperform defensive assets, with “equities likely to outperform fixed income and gold”. She adds that, “Within equities, higher beta sectors and countries such as commodities and emerging markets are expected to outperform defensive and developed markets.”

Lee highlights that global monetary and fiscal policies are expected to remain supportive in 2021 as economic recovery remains slow and uneven, and is highly dependent on the successful roll-out of the Covid-19 vaccine.

As such, interest rates are expected to remain low and accommodative, although a bottom is likely to have been reached, reckons Lee, adding that “against this backdrop, risky assets can largely be expected to outperform.”

On the sectors that will do well, Lee remains overweight in sectors that offer secular growth such as technology. “The tech sector will see various drivers such as the rising adoption of 5G technology, electric vehicles and artificial intelligence in 2021. This will boost the demand for semiconductors and related components and services across the value chain.”

“On the other hand, we are also overweight on the cyclical/value sectors that might have suffered in the past, but will benefit from the global recovery. This includes sectors such as commodities, industrials, financials and consumer discretionary,” adds Lee.

Indeed, we will come out of 2020 stronger and the market is looking forward to a better year with earnings anticipated to bull-doze ahead.

“In line with the synchronised rebound in global economies, corporate earnings are expected to recover strongly in 2021. Sectors that are hit the hardest by Covid-19 such as consumer discretionary, industrials, retailing, gaming and construction are expected to enjoy the base effect of above- average rebounds in earnings.

“Consensus expects 2020 KLCI earnings to contract 18.8% on the back of the Covid-19 virus outbreak in 2020, before rebounding 32% in 2021,” Lee informs.

Where to put your money

On the strategy that investors can adopt to stay on top of their investment performance, Lee offers this advice: “In our assessment, the ‘mobile barbell strategy’ is the most suited investment option under the current economic climate.

“The barbell strategy is an investment concept that suggests that the best way to strike a balance between reward and risk is to invest in the two extremes of high risk and no risk assets while avoiding middle-of-the-road choices.

“Although the growth sector is expected to continue performing well, investors should also consider shifting their weight to value and cyclical stocks as a balancing act.

“Above all, stay diversified and focused on your personal financial goals. It would also be beneficial to have a side of supplementary savings such as Private Retirement Schemes (PRS) which can help cushion inflation or unexpected emergencies such as today’s situation,” Lee advises.

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Source:

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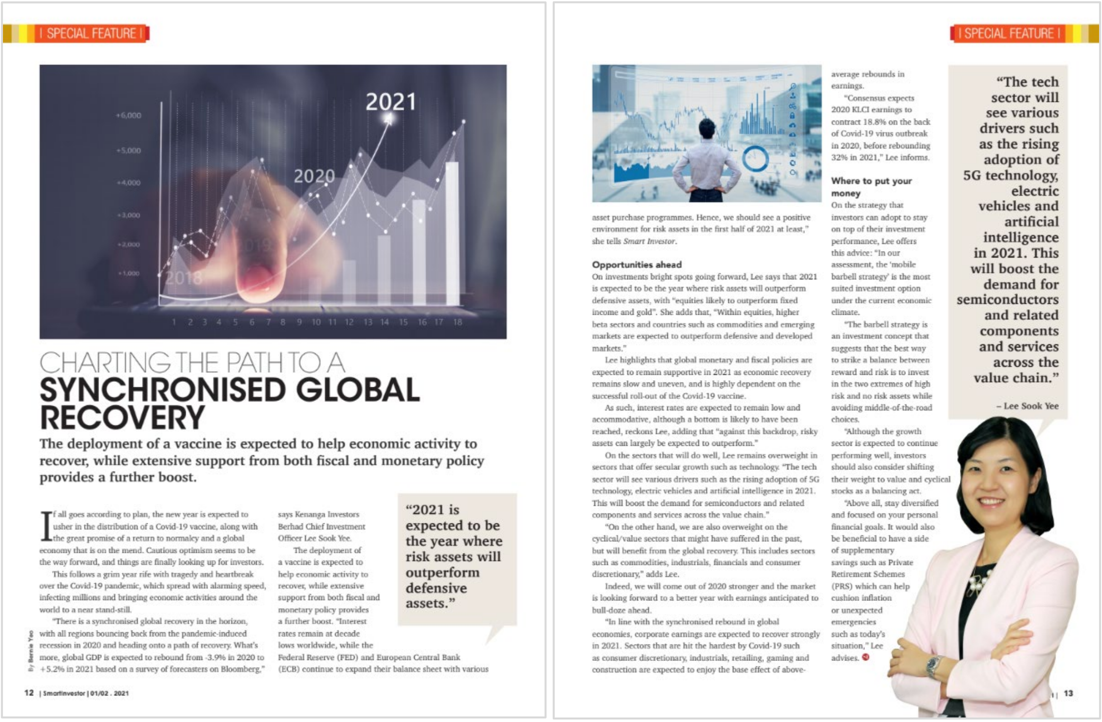

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