

Commentary on the Current Political Turmoil in Malaysia

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Recap of the latest political developments

The departure of Bersatu and a splinter group from PKR led by its deputy president from the Pakatan Harapan (PH) coalition has left the ruling coalition with fewer than the 112 MPs required to form a simple majority in the 222-seat parliament. Prime Minister Tun Mahathir Mohamad also tendered his resignation as the head of the government and stepped down as chairman of Bersatu on 24th February.

Malaysia's constitutional monarch the Yang di-Pertuan Agong has accepted Tun Mahathir's resignation and reappointed him as the interim Prime Minister pending the formation of a new government and cabinet. In addition, all 26 ministerial positions have been revoked following Tun Mahathir's resignation. Malaysia is currently under a caretaker government. At this juncture, the PH coalition now consists of three component parties of PKR, DAP and Amanah with a collective seat count of 92 MPs. Shortly after the premier's resignation, it is understood that a majority of MPs from all parties have expressed their support for Tun Mahathir. However, on 25th February, UMNO and PAS withdrew their support for Tun Mahathir, calling for snap elections, rather than a possible unity government, as they will not work with the DAP.

What is next?

Since Tun Mahathir has garnered support from both sides of the political divide, he will form a new government/ cabinet. There are many permutations to the formation of the new government as the on-going political maneuvering means situation remains highly uncertain. In any case, the Parliament is due to sit on 10th March and those who might have claimed to have the majority by then could prevail. If no majority can be found, the King could request that fresh elections be held.

Outlook and portfolio strategy

We have long highlighted that political risk as one of the key risks for domestic market given the perceived weakness in the four-party coalition and the overhanging premiership succession issue. The latest political upheaval has shaken Malaysia's long standing reputation as a "defensive"

market, prompting a selloff on Monday (market fell 2.7% on 24th February). Near term, market is expected to remain volatile until the political uncertainties clear. These may persist for a while, from weeks to months (whether a snap election is called). We think the emergence of a new government with bigger majority is likely a positive as there could be more policy certainties while economic stimuli could be rolled out faster. On a flip side, prolonged situation of politicking hinders the country's ability to implement reforms. As it stands, the economic stimulus package designed to counter the negative impact of the Coronavirus has reportedly been delayed due to the latest political development.

As we have always focused on bottom-up stock picking, our funds are mostly invested in apolitical stocks/sectors. We still hold some construction stocks but the sector weighting is lower than 2018. The construction sector should recover when a new government takes over and starts to roll out infrastructure projects. Most of our funds have also increased cash level since the coronavirus breakout, now ranging between 10-20%. We are therefore comfortable with our current portfolio position and will look for bottom fishing opportunities on meaningful correction. We maintain a barbell strategy by focusing on selected themes (such as Technology, Oil and Gas) and stock-picking for outperformance. We continue to favor high dividend yielding stocks which provide some defensiveness and should continue to do well in a low yield world.

How have our funds fared since 24th February, Monday?

As of 25th February, most funds have corrected less than their respective benchmarks (see Fig 1). YTD, some of our funds still registered positive returns despite the falling market thanks to our superior stock selection.

Fig 1: Performances of selective Kenanga Investors unit trust funds

	31-Dec	21-Feb	24-Feb	25-Feb	WTD %	YTD %
FBMKLCI Index	1,589	1,531	1,490	1,501	-2.0%	-5.5%
FBMS Index	11,948	11,657	11,325	11,427	-2.0%	-4.4%
FBM100 Index	11,115	10,747	10,438	10,526	-2.1%	-5.3%
FBMSC Index	14,164	14,108	13,590	13,714	-2.8%	-3.2%
UNIT TRUST FUNDS (NAV per unit)						
Kenanga Growth Fund	1.164	1.185	1.149	1.163	-1.8%	-0.1%
Kenanga Syariah Growth Fund	1.142	1.149	1.117	1.130	-1.6%	-1.0%
Kenanga Malaysian Inc Fund	0.832	0.858	0.834	0.848	-1.2%	1.8%
Kenanga Growth Opportunities Fund	1.109	1.190	1.162	1.181	-0.8%	6.5%
Kenanga Growth Fund - Series 2	1.160	1.201	1.173	1.190	-0.9%	2.5%

Source: Bloomberg & Kenanga Investors Berhad

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