MARKET REVIEW & OUTLOOK

Post GE – 14 Market Outlook

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We all know what happened in Malaysia on the evening of 9th of May. Offshore however, Malaysian assets were sold off – an ETF tracking Malaysia shares slumped 6%.

Tun Mahathir, our 7th Prime Minister declared a 2-day public holiday. Before local markets were re-opened on Monday, the PM had moved fast to restore confidence and order to financial markets. Even though the Malaysia index at its worst, fell to around 1,800 from its last close on 8th May at 1,846.51, the situation quickly reversed. Local and foreigners rushed in to buy as optimism over the new administration emerged.

However, throughout Monday, the index swung a total of 75points before settling to end the day 3.91 points higher at 1,850.42

Will volatility persist?

To give some background, market players started paring down their stakes in Malaysia equities as we neared election day, in a way, this has helped cushioned the fall of the index from the shock result - alongside the positive effects from the PM's quick moves.

We think that much of the effects of the GE 14 result has been priced in but we may continue to see some ripple effects of the fallout because of the uncertainty. This could contribute to the volatility going forward. But once the dust settles and we have more clarity, fundamentals will come back into play.

On small-caps and stocks that have been sold off

On the back of a synchronised global growth and risk-on appetite, markets have performed strongly. The small cap index had a 16% gain compared to the index's 9.45% gain in 2017.

During times of uncertainty, the reverse will happen – hence year-to-date, the Malaysian index has gained even though the small caps fell. However, as we gain more clarity into the policies and strategies of the new government, markets will focus back to the fundamentals. And during this time, oversold small caps may make a comeback.

Within a period of several days, we have also seen the heavy selling of stocks which have been politically-linked or dependent on government projects. For example, the construction sector. Some of the stocks were actually trading at a premium going into GE14 - in anticipation of the approval or award of infrastructure projects. Now the mega or big ticket projects will be under review. Construction stocks are being punished for it. However, there are those that have been unjustifiably sold down to below their intrinsic value. Those are the ones that we are looking at.

What lies ahead for Malaysia

We are confident that the new government, together with the council of eminent persons can resolve most of the economic and financial issues plaguing us in the past. A higher productivity, better efficiency, less wastages and better governance will spark a return of foreign investments.

A repatriation of the moneys overseas from the 1MDB scandal combined with sustained commodity prices will re-instill confidence to help push the Ringgit higher.

For the equities market, we think that consumer stocks could benefit from a return of consumption spending arising from the 0% GST as well as the new government's attempt to put more money back into the hands of consumers. Technology stocks, tourism and export oriented sectors are themes that we like as well. Some dividend-paying stocks are also attractive, as the recent sell-down meant that certain stock have been oversold and are now displaying higher yields.

In the bond market, after a 25bps OPR hike in January, we have been wary of a more hawkish Bank Negara. Now, given lower expected inflationary pressures from the latest policies enacted by the new Pakatan Harapan government – return of petrol price subsidy and 0% GST, this gives lower propensity for Bank Negara to hike interest rates. This is good for the bond market. However, we are keeping an eye out for the interest rates policy and inflationary data from the US Federal Reserve. If the Feds embark on a more aggressive path of tightening than previously communicated, other central banks may be pressured to hike rates as well.

Malaysian Goldilocks

In our opinion, corporate earnings could display a better showing in 2018. A local version of the goldilocks effect, which is a condition characterised by low interest rates and inflation and steady growth, could be on the cards. A Malaysian Goldilocks bode well for risk assets like equity.

Nevertheless, the external and global environment harbours a big say on the direction on the local market such as trade war concerns or other geo-political risks.

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We help our clients, who range from individuals to corporates, family and private trusts, foundations and other institution to achieve consistent risk-adjusted returns over the long term.

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