FUND MANAGER'S INSIGHTS

EQUITY - MARCH

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The unleashing of animal spirits and stronger risk appetite continued to drive global stocks higher. In Emerging Asia ex China, net foreign buying for the first 3 months of the year is estimated at US$13bil. This is just slightly short of half the total inflows recorded, for the whole of 2016.

Improving economic conditions and sentiment in the US (uptrend in PMI readings, consumer sentiment, business confidence etc) as well as a strong labour market point to a positive outlook on the world's largest economy. On the 15th of March, US Federal Reserve hiked rates by 25bps to 0.75%-1.00%. The greenback weakened, consistent with our view that the current rate hike cycle may already be priced in by the market.

Year-to-date, the Malaysian market has gained 6.56%, spurred by strong foreign inflows and a better 4Q16 corporate earnings. As at 20th March, foreigners have bought US$843mil worth of local stocks. This comes on the back of 3 consecutive years of outflow totalling an estimated US$7.5bil. Can the local market's rally be sustained?

Figure 15. KLCI – 12 Mth Forward PER

Source: Datastream, Citi Research

Although valuations are relatively high after the recent run-up, we think it is sustainable if Corporate Malaysia can deliver on EPS growth. Corporate earnings have shown signs of bottoming after 3 years in the doldrums. As it stands, the leaner cost structure, low base effect and improving fundamentals are painting a brighter picture of the earnings front.

Judging from the recent foreign inflow, it may be an indication that foreign interest is turning positive on Malaysia equities. Furthermore, a strong US economy should bode well for EM markets.

We are optimistic on Malaysian equities. Our strategy is to invest in selected themes; favouring consumer names with strong growth potential, the GLC transformation, and the construction and tourism sector, to name a few.