ARECA CAPITAL

# FLASH

EXCLUSIVE E-MAGAZINE

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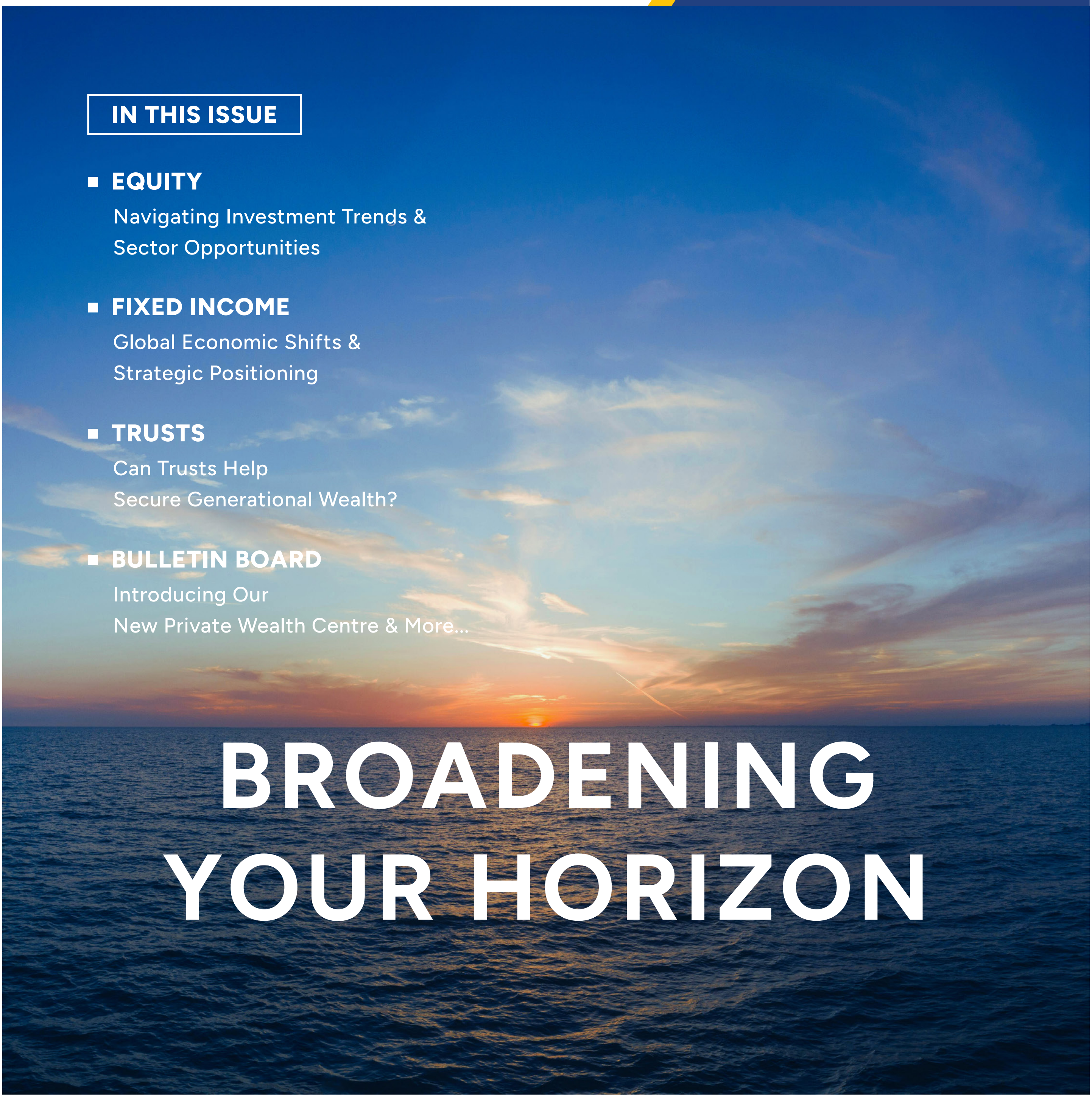
For distribution to Areca Capital's Valued Investors





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# CEO's NOTE

*Dear Valued Investors,*

As we move into the second half of 2024, Areca Capital remains optimistic about the opportunities ahead. Our strategy focuses on leveraging favourable market conditions and maintaining a balanced investment approach.

With expected US rate cuts, strong performance in Malaysian equities, and promising sector growth, we are well-positioned for potential gains. We encourage you to stay invested and committed to your long-term goals. By viewing market fluctuations as opportunities rather than setbacks, we can navigate the evolving landscape effectively.

Here's to a successful and strategic second half of the year!

Best Regards,

Danny Wong,
Chief Executive Director
Areca Capital Sdn Bhd

# EQUITY

## MARKET OUTLOOK & REVIEW

# EQUITY

Market Outlook & Review

by Danny Wong,
Chief Executive Director

## Navigating Investment Trends & Sector Opportunities

### Q What is Areca's global outlook for 2H2024 and why?

We are already in the second half of 2024; let's see what the markets may have in store for us before the year ends. In the US, the 'higher for longer' theme for interest rates seems to be here to stay, but we anticipate rate cuts by the end of the year. A Goldilocks situation may be back and that is good news for equity. If the rate cuts do occur, it will also benefit Emerging Markets on the back of returning portfolio flows out of Developed Markets such as the US.

Meanwhile, in China, though sentiments are still seemingly low, the government is aware of the issues and has continued to implement monetary and fiscal policies to stimulate economic improvement. Various policies ranging from relaxed restrictions on the property ownership, funding support to property developers and lowering of their key interest rates have been carried out.

### Q What about the Malaysian equity market?

In Malaysia, thankfully correct in our views as we turned highly invested last year. Thus far, the index has rallied 9-10%, making it one of the stronger performers among our Asian peers. Despite this, valuations still remain undemanding. We are currently trading at price-earnings ratio of circa 15x, representing a -1-standard deviation from our long-term mean.

The stable political environment has also created long-term clarity in terms of government policies and direction, encouraging foreign direct investments. Policies like the New Industrial Master Plan 2030 [NIMP 2030], the National Energy Transition Roadmap (NETR 2050), and the National Semiconductor Strategy are good steps towards attracting in-flow of foreign direct investments that will ultimately drive the market.

These policies also promote specific localization; for instance, Penang can be considered the national semiconductor hub, while Johor is envisioned as the technological and economic zone complementary to Singapore with the newly proposed Johor – Singapore Special Economic Zone, and Sarawak is emerging as a hub for green/renewable energy.

We have seen a return of institutional investors amidst an overall positive risk-on sentiment. All in all, we retain a bullish view for Malaysia, with thematic plays and sector rotation coming to the forefront.

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## What are some sectors and themes in Malaysia to look out for?

Among the sectors we like are those growth-oriented stocks which are aligned towards the current policies, such as NIMP 2030 and NETR 2050; these benefit the industrials and EV-related companies. Infrastructure is also a theme we like because of the ongoing mega projects. We have seen huge excitement over the data centre theme driven by the rise of AI and cloud computing usage. In Malaysia, we benefit from a spillover effect due to lower costs for power, the availability of land compared to neighbouring countries with the absence of major natural disaster risks.

On the other hand, we do see value in some sectors, such as the consumer or tourism-related sector, which is benefiting from the re-opening and increased travel.

## What should an investor do?

We continue to be positive on the local market. Any healthy pullbacks can be an opportunity to reposition for long-term investors who have missed out on the rally.

Although markets seem to be flourishing globally, one must not forget that risks still exist. It is good to keep watch on the geopolitical tensions between the US and China. While people debate these issues, remember that there are two sides to every coin. On a positive side, Malaysia has benefited from the supply chain and trade diversification resulting from these tensions.

The US elections may bring broader implications affecting other nations, making it one of the key elections we are closely monitoring. Current polls (albeit notoriously unpredictable) suggest that former President Trump is the frontrunner. We can expect more trade tariffs, political pressure to cut rates and more business-friendly policies being enacted if Trump 2.0 takes place.

Nevertheless, we always advocate maintaining your strategic asset allocation, for instance, 60% in Equity and 40% in Fixed Income. Making sudden or drastic changes to your portfolio can be risky, especially when the market swings.

**This article was written in July 2024.**

# FIXED INCOME

## MARKET OUTLOOK & REVIEW

# FIXED INCOME

Market Outlook & Review

by Edward Iskandar Toh,
Chief Investment Officer (Fixed Income)

## Global Economic Shifts & Strategic Positioning

### Q What is Areca's global outlook for 2H2024 and why?

The US economy continues to confound expectations with a resilient showing. Market expectations since end-2023 have turned from a small possibility of hard landing to a soft landing, and now perhaps to a no landing scenario. Interestingly, the 2/10 spread remains in negative territory for 2 years running now (difference in yield between 2 years and 10 years US treasuries where a negative number suggests an imminent recession within the next 18 months by historical averages).

Despite the shifting narrative on the world's largest economy, the Federal Reserve's objective remains steadfast around their 2 major mandates of full employment and stable inflation. As things stand, the US economy is growing amidst a tight labour environment, while inflation is on a downward trend from its 'post-covid-induced elevated' levels of circa 9% in 2022 to the 3% levels more recently. Propensity thus remains for an interest rate cut towards the second half of the year. Though Fed Chair Powell maintains the higher for longer stance, the sands could be shifting under his feet. Other major central banks have taken the plunge; the European Central Bank has delivered its first cut in rates. Will the US follow suit soon? We think that one could come by the 3rd quarter of the year.

Over in China, they've continued to underperform in economic numbers. We foresee the government stepping up efforts to stimulate the engines of growth. Continued easing in monetary policies will not be a surprise.

### Q What about the Malaysian fixed income market?

Locally, the economy resumes its recovery. The perception and investment profile of MYR-denominated assets, whether in equity or fixed income, has improved a great deal in 2024. Notably, foreign ownership of Malaysian Sovereign issues is close to an all-time high at RM258 bil (highest was in July 2023 at RM266 bil). However, it is near its 2-decade low in terms of percentage to total issued and outstanding at 21.5%. Now with the narrative of a stable government and the possibility of narrowing interest rate differential between the Developed Markets (led by the US) and Emerging Markets; the attractiveness of Emerging Markets such as Malaysia would surely come to the fore.

To temper any overexuberance at this juncture, there may still be some headwinds in the form of upside risk on inflation numbers. The first phase of the subsidy rationalisation has recently taken place; in the form of the increase in diesel prices. The upward adjustment in transport prices may have a tendency to put pressure on cost-push inflation. On the flip side, this potentially increases government receipts from the reduction in subsidy payments to the tune of an estimated RM4bil. We will watch closely the impact of this, alongside the planned

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subsidy removal of RON95. Our initial estimate of full withdrawal of subsidy may suggest pump prices to rise to RM3.30-3.50 per litre for RON95 (depending on several variables from MOGAS95 futures prices to exchange rates to any adjustments to margins for dealers).

Nevertheless, we would expect domestic interest rates to remain unchanged, in an overall accommodative environment, if there are no extraordinary inflationary pressures.

## Q What is Areca Capital's strategy for 2H2024?

We will remain invested for our fixed income portfolios – continuing to hold moderate to long-duration bonds to enable us to gain from any potential interest rate cuts. Our preference would tilt towards names with strong credits.

**This article was written in July 2024.**

# TRUSTS

## ADVERTORIAL

# TRUSTS

Advertorial

by Areca Capital

## Can Trusts Help Secure Generational Wealth?

As the famous saying goes, the rich will always get richer.

Throughout history, The Rockefellers, The Hiltons and the Tata Group are some of the world-renowned family business conglomerates that have witnessed the passing of generational wealth for periods exceeding a century.

However, it's never easy for wealth to be passed down through the next generations. In fact, it's beyond impossible for everything to go smooth sailing, and disputes between heirs and other family members are definitely inevitable. This further exemplifies the importance of having a comprehensive estate plan.

### Personalised and Efficient Solution With a Trust

The biggest concern that arises when enormous wealth is passed down to the rightful heirs is that they will wither the fortune away within a short period of time.

Or what if they fall victim to fraud or scams that are increasingly common nowadays. Worse still, the inherited wealth may also dissipate due to a divorce or even insolvency issues arising from mismanagement of the family business.

One way of circumventing the above concerns is by using a Trust as a tool for estate planning. Setting up a Trust ensures any inherited wealth will be managed across generations and distributed according to the Settlor's (person who sets up the Trust) intentions.

A Trust enables the protection of assets and is also used for the distribution of a lifetime of income to any desired beneficiaries, especially those with extravagant spending habits.

Most Malaysians commonly use wills for their estate planning. However, upon a person's demise, all his or her assets will be frozen, which can only be unlocked via the application of Grant of Probate at the courts.

Areca Capital estimates that the time taken for wills to go through probate — a review process — is between three and six months. If the will is contested, it can take even longer, with some cases dragging on for years and even decades.

Over a period, it is also possible for a will to be misplaced or accidentally destroyed. This could lead to an unfortunate situation where it will be perceived as if there is no will.

Having a Trust can alleviate waiting time as it can distribute wealth without restrictions. Trusts do not have to go through probate after the Settlor's demise and are difficult to be contested.

As a comparison, a will goes into effect only after the testator's demise while a Trust becomes effective as soon as it is created. This means wealth can be immediately distributed prior to the Settlor's demise, especially in situations where the Settlor is mentally or physically incapacitated or immobilised.

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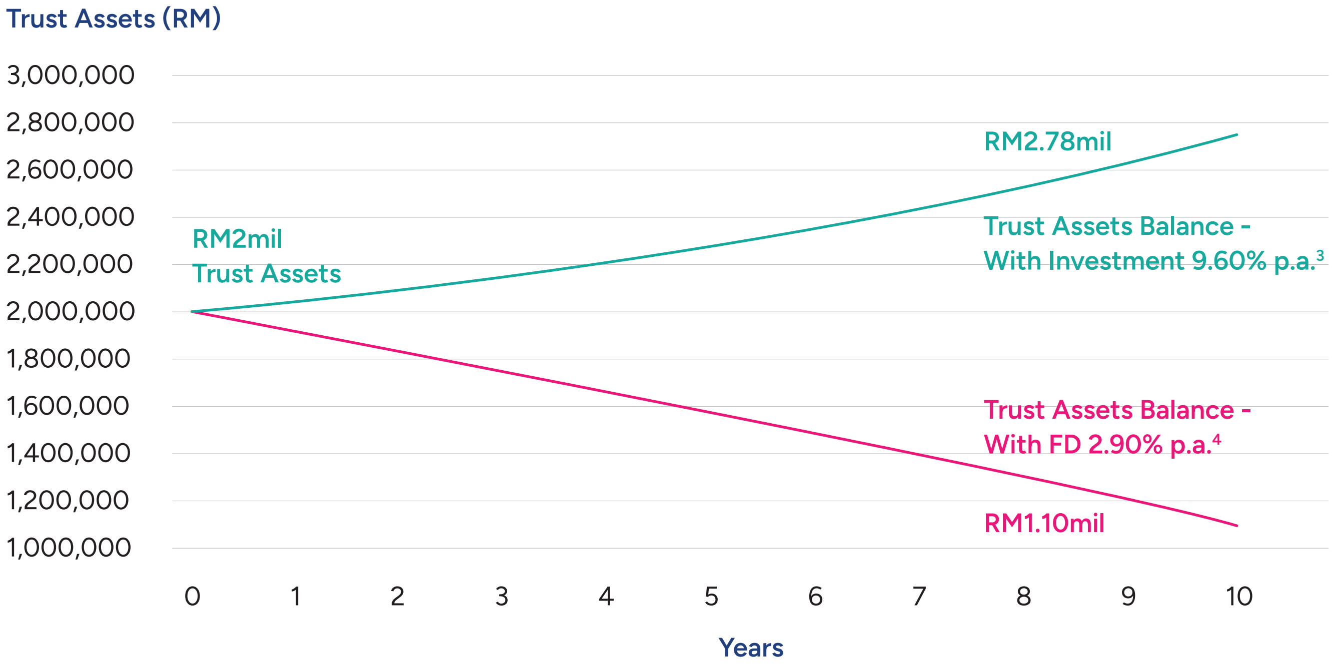
## Why Sustainability is Important?




Notes:
1. Assume 1% of trust assets will be paid out as fees.
2. Fees and annual distributions of RM120,000 will be paid out at the end of each investment period (annually).
3. Source: Lipper. Based on the average rolling three-year annualised return period from 2012 to 2024 for top 10 funds under the Equity Malaysia – Non Islamic category (as at April 2024).
4. Source: Bank Negara Malaysia. Average of 12-month deposit rates from 2010 to April 2024.
5. Past performance is not an indicative of future performance.

## The Importance of Sustainability in Wealth Succession Planning

In order to achieve the financial objective of preservation and distribution of family wealth over several generations, the wealth definitely cannot be invested and managed with a short-term lens.

Preferably, the investing strategy should move like a well-oiled machine and be managed with a big-picture view.

A good Trust should always be complemented with the services of a professional fund manager.

With vast experience in managing and growing wealth for its esteemed clients over the past 17 years, Areca Capital currently offers Trust services via ArecaCapital Trustees. This Private Wealth Solution combines our investment expertise to grow client's wealth with a comprehensive Wealth Distribution for their loved ones and generations to come.

The differentiation factor between Areca Capital and other service providers is our unique proposition in achieving the seamless combination between both Investment Management and Trust Planning.

By incorporating both elements, family wealth can be extended beyond the current generation by leveraging on Areca Capital's award-winning investment capability.

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## Democratised Trust Solution for Wider Reach

The biggest misconception among most people is that Trust planning is only reserved for the ultra high net worth individuals but, in fact, we have been assisting our clients to set up family trust with assets amounting from RM1 million onwards.

Our qualified private wealth managers are also equipped to provide ongoing review services in ensuring the estates of our clients are managed in a proper and professional manner, in accordance with the wishes of the clients.

The concept of Trust planning may be a luxury to many in the past but as time goes by, it will truly become a tool of necessity for most Malaysians to share their legacy with their loved ones. So, what are you waiting for?

We are currently offering trust services via ArecaCapital Trustees Berhad, a registered trustee under the Trust Companies Act 1949 which provides a Private Wealth Solution, by combining our investment expertise to grow client's wealth with a comprehensive Wealth Distribution for their loved ones and generations to come.



**This article was written in July 2024.**

by Areca Capital

# BULLETIN BOARD

## Introducing Our New Private Wealth Centre

Our Private Wealth Centre located at the Corporate Tower of Pavilion Damansara Heights, Kuala Lumpur is strategically positioned as part of our offering to cater innovative and top-tier wealth management solutions to our high-net-worth, corporate and institutional clients.

This expansion marks yet another significant milestone for Areca Capital as we continue to broaden our reach and enhance our service offerings.

We are excited about this new chapter and look forward to continuing to provide exceptional service to our clients.

Areca Capital's Private Wealth Centre

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## Read About Our 2023 Sustainability Journey

We are excited to announce the release of our Sustainability Report 2023! This comprehensive report details our ongoing commitment to integrating Economic, Environmental, Social, and Governance (EESG) factors throughout our company in a phased and strategic approach.

“Besides investing for profits, as a responsible fund manager, we should invest with the aim of making a positive impact on the planet and the environment” – Danny Wong, CEO, Areca Capital

Click on the image below to read the full report and discover how Areca Capital is dedicated to making a meaningful difference.


Areca Capital’s Sustainability Report 2023

# FIND US HERE


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