



# Market Review & Outlook Asia and Malaysia - Recovery Underway

Prepared by: Affin Hwang Asset Management

2020 has been an unprecedented year for investors. But, there is emerging consensus that 2021 will be a recovery year on the back of positive vaccine developments, monetary policy easing and fiscal stimulus. What opportunities will emerge post-pandemic?

In this joint interview, we speak with David Ng, Deputy Managing Director & Chief Investment Officer, Affin Hwang AM and Gan Eng Peng, Director of Equity Strategies & Advisory of Affin Hwang AM to get their thoughts.



**David Ng**  
Deputy MD & CIO

## **Q1** What's your take of markets for 2020 and how would you describe the year?

2020 has been a highly volatile year. We started the year with optimism as the global trade war between US and China was thawing. Global markets were hitting new highs in February. Then came the COVID-19 pandemic which caused markets to sell-off by 34% (as measured by the MSCI World Index) within a short span of 6 weeks.

However as quickly as the market sold down, the recovery was also swift and rapid. In early April, we saw benchmark gauges retracing back their losses induced by the COVID-19 pandemic as stimulus optimism buoyed market gains. Policymakers were seen doing whatever it takes to shelter the economy through a swathe of stimulus measures ranging from relief packages, loan facilities and asset purchases.

All the losses were finally recovered at the beginning of November which coincided with the initial release of Phase III clinical trial data for the vaccines. So, there is light at the end of the tunnel in every cycle.

## **Q2** There is emerging bullish consensus that 2021 will be a recovery year. Do you think this is the case? What will support risk assets?

Yes, 2021 will be a recovery year. Current estimates suggest that global GDP is expected to fall by around 5% in 2020. However, this is expected to rebound by 5.4% in 2021 as growth returns and more economies open up.

So far, economic growth has surprised on the upside and there are positive revisions to corporate earnings. These will be supportive of risk assets. Effective vaccines will be key in providing a boost for markets. However, because it will take time to produce, the recovery will be prolonged into 2022 and 2023. Hence, this would be a multi-year recovery theme.

## **Q3** What are some of the key investment themes and sector opportunities you see for Asian markets in 2021?

With 2021 being a recovery year, the key investment themes would be normalisation/recovery plays including banks, insurers, materials, consumer discretionary and tourism/hospitality. Stocks that were trading at low multiples are now coming back in flavour as we see a rotation to value. Despite the shift to value, this does not signal the end of the upside for technology and growth stocks. While valuations are expensive, it is also one of the sectors that has the ability grow profits consistently and exhibit secular growth. Not many sectors can claim as such.

We are adopting a barbell approach for our portfolio positioning. On one end, we are tilted towards a basket of secular growth names with multi-year prospects that would continue to grow beyond the development of the vaccine. On the other end, we are also weighted towards cyclical and value-plays that would benefit from a re-opening of the economy.

Out think. Out perform.

## Q4 On the flipside, what are the key risks that you are monitoring which could derail this recovery theme?

There are a few key risks. Firstly, we would be closely monitoring president-elect Joe Biden's approach to dealing with China. Asian markets and Asian foreign exchanges have reacted positively to the recent election results. An antagonistic approach would certainly bring downside risks.

Secondly, whether corporate earnings can recover as strongly as expected given the rising COVID-19 cases globally. Market valuations are high and will require good earnings to anchor them.

Thirdly, as it will take time to produce enough vaccines for the entire world population, the economic conditions in the near-term could stay muted. Growth may stay tepid until various countries/sectors can fully reboot.



**Gan Eng Peng**  
Director of Equity Strategies  
& Advisory

## Q1 Similarly, what's your take of 2020 and how markets performed?

2020 is going to be a great year to remember. There were many market pivotal events – political coup, fastest correction, negative oil price, fastest recovery, biggest wealth creation through gloves stocks, bull market in a recession, record money pumped etc. Projecting and positioning were constantly challenged as events whipsawed beyond outlier expectations. 2020 is like a ten-year market cycle cramped into one.

## Q2 How would you describe the outlook for 2021? What is your investment theme?

We think 2021 will be a year of economic recovery, which ironically will be the biggest risk to markets. Risk assets like equities has globally been driven by cheap and abundant money – low rates and quantitative easing.

If economic recovery firms up, monetary policy leading to lower liquidity in the system should start to be factored in by markets

towards 2Q or 3Q. This will put a dent to risk assets and risk taking. Given how well markets have performed in 2020 and how much it has factored in the recovery, this change in liquidity condition is a major risk in 2021. At this point of writing, KLCI is already higher than pre-COVID-19 levels and higher than before talks of Pakatan Harapan (PH) government breakdown started in 4Q2019. There is no doubt 2020 is a liquidity driven rally, hence we think the change in liquidity condition will determine how it will evolve in 2021.

In Malaysia, we have additional issue of the unresolved political impasse. This might lead to an election when conditions improve with the vaccine roll-out.

## Q3 Where do you see opportunities in the local equity market, and why?

Our investment themes for 2021 is almost carried over from 2020 as COVID-19 disrupted them. They are carried over because they are structural.

We think global manufacturers will continue to diversify their manufacturing out of China. The recent US China trade tension will not go away. Manufacturers will continue to search for alternative sources of supply outside of China as well as physically setting plants out of China. This will continue to benefit tech and EMS players although we recognize shares have priced this theme well already.

For a government that is trying to digitalize but is short of cash, e-government is an opportunity for the private sector to come in. E-government businesses help expand government services at minimal cost to government and at the same time bring forward government's digitalization plans. The private companies of course get a share of the pie either directly or via add-on services.

COVID-19 recovery plays has done tremendously well in late 2020, so the easy money has been taken. There is broad spectrum of correlated recovery plays, in increasing risk & return profile being – banks, airport, commodities, hospitality & tourism, airlines.

## Q4 How do you approach stock selection during this volatile period?

Liquid and adaptive management is the way to counter volatility. We think 2021 should come with its fair share of macroeconomic, government and policy changes. Hopefully not as much as 2020. Despite major economic crisis and big changes in policies and patronage, some companies have thrived in such an environment. Companies with business models and more importantly with management that can manage their way out of a crisis is important.

To navigate such conditions, ideally the position should be liquid in relation to one's portfolio. Liquid (another word is better) position means you can change and reposition easily as conditions change. Illiquid positions tend to take longer to exit as conditions change, compounding exit cost.

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