FUNDAMENTAL FLASH

Newsflash | Muhyiddin Resigns as Prime Minister

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PM Signs Off

Swirling rumours surrounding the resignation of Prime Minister Tan Sri Muhyiddin Yassin was confirmed this week after he lost the majority support of MPs in the Perikatan Nasaional (PN) coalition. In a press conference, Muhyiddin announced his resignation as the country's 8th Prime Minister less than 18 months into his tenure.

However, he will stay on as caretaker Prime Minister until a successor is appointed. In a Palace statement, the Yang di-Pertuan Agong in consultation with the Election Commission concluded that a general election would not be advisable due to the pandemic situation.

What Happens Now?

The PM's resignation both lengthens and increases uncertainty as the eventual coalition formed can create policy delay, changes as well as the coalition being unstable itself.

This might or not might not be clarified soon, therefore we need to keep reassessing new developments to adjust our views and strategy accordingly.

Flashpoints

- Tan Sri Muhyiddin Yassin announced his resignation as the country's 8th Prime Minister following a tumultuous 18 months tenure
- However, he will remain as caretaker PM until a new successor is appointed.
- A continuation of the current administration offers the least path of resistance for markets in terms of policy continuity.
- Irrespective of who wrest control of Parliament, the new government will certainly ride the wave of reopening optimism.
- Technology, retail, healthcare, and manufacturing sectors offer the least political risk, although not from a valuation perspective.

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We think the least negative impact to the market in increasing order is:-

- Continuation of the current administration either under Deputy Prime Minister Datuk Seri Ismail Sabri or even Tan Sri Muhyiddin Yassin as the party could have the largest minority coalition
- Barisan National
- Pakatan Harapan - If history repeats itself, the coalition represents the most policy and personnel changes during its tenure
- A unity or bipartisan government – As it is unprecedented, its impact on market can be harder to evaluate at this point.

Whatever coalition that wrest control of Parliament will benefit from the vaccination work done and reap the benefits of economic reopening, as well as less selling pressure by government-linked investment companies (GLICs) from the expiry of the various withdrawal schemes.

How Are We Positioning?

For conventional funds, coming from a heavily invested level, we believe reducing some weights for cash optionality is prudent in this environment. Shariah funds have higher cash levels going into this crisis due to less reopening play options and significantly weaker market vs conventional.

Technology, retail, healthcare, and manufacturing sectors offer the least political risk although not from a valuation perspective.

Banks, government linked companies and politically linked stocks are at risk now due to potential for more national duty given the limitation of our fiscal and monetary policies to stimulate the economy. This is a risk and not an eventuality, as a new coalition might not go down this route or it might not be necessary if the economy opens with pent up private sector consumption.

If politics can stabilise combined with economic reopening, there is potential for a 5%-10% bounce towards the year end. We favour:

a. Reopening plays like banks, retail, property, healthcare
b. Global growth plays like technology, manufacturing
c. Digitalization theme like telco, payment companies

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