Unpacking Malaysia's Stellar Stock Market Performance

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Malaysia's stock market has been one of the top performers in Asia fuelled by the return of retail investors and the rally in glove makers which has vaulted to new highs this year. But the benchmark KLCI has mostly languished throughout the year and remains barely unchanged on a YTD basis.

How should investors read into these divergent performances? Gan Eng Peng, Director of Equity Strategies & Advisory of Affin Hwang AM offers his insights.

Gan Eng Peng
Director of Equity Strategies & Advisory of Affin Hwang AM

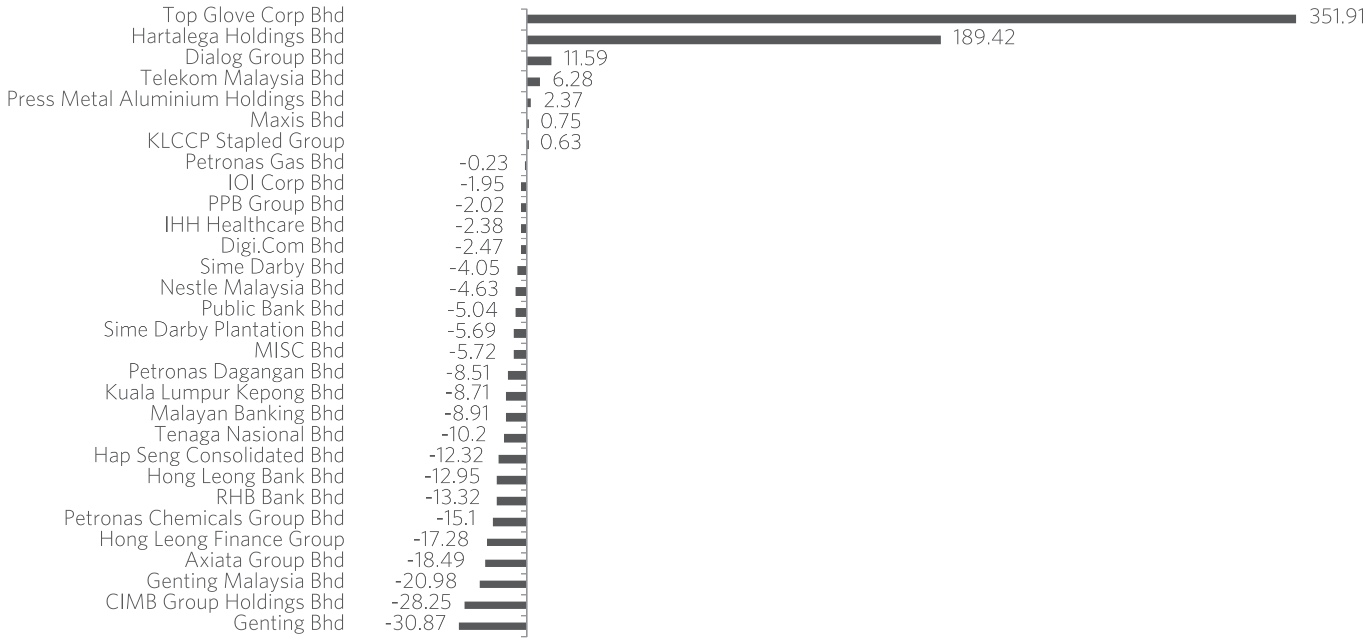
QUESTION 01

Bursa Malaysia has been one of the top performing stock markets in Asia with many domestic equity funds posting strong returns and outperforming the region. But the benchmark KLCI index remains almost unchanged. How are you reading into this set of data?

If you strip out the performance of glove stocks in the KLCI, the index is actually down about 10% as of mid-July 2020. For the broader market, the other sector that drove performance is the technology sector, which is up about 25%.

So yes, a lot of the fund performance this year has been driven by these two sectors and tactical positioning into the March weakness. Local equity funds that invested into those 2 sectors as well as into the small cap space would have benefited the most.

Chart 1: Share Price Performance % of KLCI Component Stocks



Source: Bloomberg as at 15 July 2020

QUESTION 02

What's your outlook for the Malaysian stock market over the next 6-12 months? Do you see more legs to the rally?

The Malaysian market like the rest of the world, is showing a disconnect between fundamentals and market performance. We have neutral underlying fundamentals and weak earnings growth, even without COVID-19 and political overhang in the picture. But because of global and domestic liquidity conditions, markets have done well.

Hence for our market outlook, we are focusing on the incremental changes to liquidity conditions to determine its direction. We would look for a continuation of easy and abundant monetary conditions globally to sustain this liquidity driven market. Domestically, the expiry of the loan moratorium in September could have a significant impact, given that about RM100 billion of liquidity was added into the system between March to September; with approximately RM60 billion benefiting individuals. This partly explains the recent spike in retail investor activity.

On a more micro level, the two winning sectors (i.e. gloves and technology) need to be closely monitored as they are the primary drivers of market performance. For gloves, we are monitoring retail participation, glove demand and pricing, vaccine development as well as investor expectations. For technology, we are monitoring feedback from global supply chain and the NASDAQ performance in general.

QUESTION 03

How are you positioning the portfolios then against the current environment?

We will continue to stay the course given still stable or improving liquidity conditions and buoyant sector fundamentals; and we would change our view when these conditions change. We realise this is rather circular in nature, but that's the nature of liquidity-driven markets. If economic conditions continue to normalise, we would add banks, plantations, construction and other value plays for potential switch of momentum stocks into value.