

# 26 February 2020

## Fundamentals Flash

Asset Management

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### Peak Political Uncertainty Raises Risk in Malaysia

An increasingly muddled political landscape and party manoeuvring within various factions of the Pakatan Harapan (PH) government and the opposition has raised the political risk premium in Malaysia.

The political drama followed an alleged failed coup by a splinter faction of PKR led by Datuk Seri Mohamed Azmin Ali as well as leaders from Barisan Nasional, Bersatu and PAS whom had gathered together for a “special meeting” last weekend. Swift events followed thereafter culminating in the sacking of Datuk Seri Azmin Ali and 10 other PKR leaders from the party whom will form an independent bloc.

At the time of writing, Tun Dr. Mahathir was appointed by the Yang Di-Pertuan Agong as interim Prime Minister today after he submitted his resignation to the king on Monday.

In the midst of Dr Mahathir's resignation, Parti Pribumi Bersatu Malaysia (Bersatu) president Tan Sri Muhyiddin announced that the party has quit PH, and all 26 MPs have signed statutory declarations supporting Dr Mahathir as prime minister.

The exit of Azmin's bloc and Bersatu means PH no longer holds a simple majority in the Dewan Rakyat, which is needed to remain as the ruling coalition.

Uncertainty is bad and volatile for markets. Higher unknowns require higher returns. Market is volatile because of the need to price-in for a much larger range of outcomes. This is on back of re-emerging covid-19 spread outside of China.

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Will there be a much needed stimulus package at the end of the week? What will happen to the policies crafted by DAP led ministries like Energy, Finance and Transportation. Listings and approvals will also be on hold.

Uncertainty will cause selling pressure across equity space especially on the currency, small caps, recent out-performers, those awaiting government approvals and those with high foreign shareholding. Winners on relative but not necessarily absolute term, would be UMNO-linked counters, externally driven sectors like technology and possibly construction companies.

Capital preservation at reasonable cost is the short-term strategy. Our cash levels are at 15-20%. We are trimming names that have done well recently and those reliant on government policy. As there is a lot of permutation to this drama, we will await for further clarity before deploying our cash.

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