The changing political landscape in Malaysia and what it means to investors

26th February 2020

We're in a unique situation in Malaysia. Our markets have been impacted in recent weeks by the Coronavirus outbreak and the US-China trade war. And, now the changes in our political landscape are causing a spike in short-term market volatility in Malaysia. **However, for the right investor, we believe there is an opportunity to invest in Malaysian equities and fixed income products because of the value**.

What's next?

Over the next several weeks, markets will likely be unpredictable as we navigate our new reality of an having an interim Prime Minister and his appointment of a new Cabinet. This volatility will likely continue until the next parliamentary session re-convenes on 9 Mar or there is a call for a snap general election.

Prior to our uncertainties in market, Malaysia was on a path towards announcing a stimulus package to help cushion the domestic economy affected by the US-China trade war and the Coronavirus (Covid-19) outbreak. Both have disrupted the global supply chain ecosystem, of which Malaysia is an important participant.

We think there will be a delay in announcing the stimulus package. Assuming this delay occurs, it could set the stage for further rate cuts by BNM. We do not discount the possibility of a sequential reduction in OPR, should the economy conditions deteriorate further as BNM has signalled that they have "ample room to ease".

Our investing strategy

Equity

- Malaysian equity valuation is already cheap. We are taking a defensive stance and focusing on stocks which are resilient to the expected slowdown in the domestic economy and/or not exposed to domestic political and regulatory uncertainty.
- We prefer sectors that benefit from interest rate cuts and are USD earners. This would include stocks in the consumer staples, healthcare, energy, plantation and the REITS sectors.

Fixed Income

- The impact of the Coronavirus outbreak and the recent political uncertainties may result in growth in 1Q2020 softening to below 4.0%. The development is likely to push BNM to further ease monetary policy as early as March 2020 or latest in May 2020.
- As a conservative move, our fixed income funds are taking a neutral view on benchmark duration. If government bond yields start to rise, we may take advantage of it to extend duration at an opportunistic level.

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