

## Investors: An unexpected softening in Malaysia’s economic growth still means opportunities

At the end of 2019, Malaysia unexpectedly reported a softer GDP growth of 3.6% compared with previous quarters (4.4% 3Q2019 and 4.9% 2Q2019). This softening in growth is attributed to:

- A sharp decline (-9.8%) in net exports; reflecting the fallout from the US-China trade war; and
- Drop in production in the agriculture (-5.7%) and mining (-2.5%) sectors.

### What to expect: Policy measures to revive growth and provide relief

Economic growth will continue to face challenges early this year because of factors, such as the Covid-19 outbreak, various trade negotiations, geopolitical risks, and some domestic efforts. However, the government has stressed that Malaysia’s economy will continue to be supported by household spending, the realisation of approved private investment projects, higher public sector capital spending and a stimulus package to mitigate the effect of the virus outbreak. Plus, they have highlighted the possibility to cut interest rates.

At Principal, we believe Malaysian policymakers will introduce the economic stimulus package early this year that would include items, such as:

- **Targeted special relief due to Covid-19 outbreaks** to help impacted sectors (e.g. hotels, tour operators, etc).
- **Reduction in mandatory contributions to EPF**, putting money directly into consumers’ hands.
- **Front loading of existing spending**, such as Bantuan Sara Hidup and other infrastructure projects.

### So, how do I invest during this time?

As always, we advise investors to consider their long-term financial goals and risk tolerance when it comes to investing. Our investment team has recommended the following based on our asset allocation mix (as of Feb 2020):

← Fixed Income (lower risk appetite) →		← Equities (higher risk appetite) →		
Conservative	Mildly Conservative	Moderate	Mildly Aggressive	Aggressive
Principal Islamic Money Market Fund	<ul style="list-style-type: none"> <li>• Principal Bond Fund</li> <li>• Principal Islamic Lifetime Enhanced Sukuk Fund</li> <li>• Principal Islamic Lifetime Sukuk Fund</li> <li>• Principal Islamic Global Sukuk Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Principal Islamic Lifetime Balanced Growth Fund</li> <li>• Principal Islamic Balanced Income Fund</li> </ul>	CIMB-Principal Equity Fund	Principal Islamic Malaysia Opportunities Fund (CIMB Islamic Al-Azzam Equity Fund)

## Why these picks? Our investment team shares their views:

### Fixed Income

- Following the lower than expected growth and moderate inflation, the investment team holds the view that the government still has ample room to ease the monetary policy.
- That said, our team expects that there could be another 25bps cut in the OPR in the first half of 2020.

### Equities

- Malaysian equity valuation is undervalued, making it attractive. It's a great time to take advantage of the opportunity to buy low.
- We will continue to buy Malaysia on weakness and keep our barbell approach on high yield stocks. We'll take the opportunity to accumulate selective stocks within the plantation, construction and oil and gas sectors.
- When it comes to the Covid-19 outbreak, we will look at sectors impacted by this event. We'll tactically underweight the aviation sector, while taking opportunities to trade the glove and healthcare sectors.

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