

# Markets Rotating Into Value

Prepared by: Affin Hwang Asset Management



With much of the focus tilted towards technology and growth stocks this year amidst a pandemic, investors are now seen rotating into value as a clearer pathway to recovery emerges with positive vaccine developments.

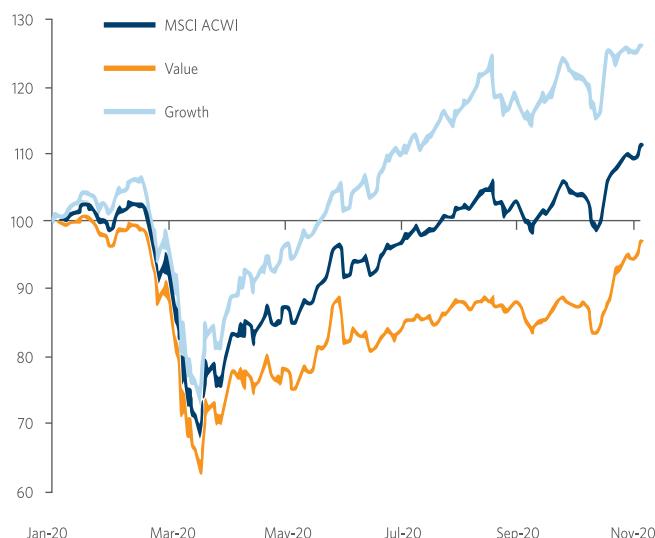
“From April up to early November, the market was only concentrated on technology, internet and e-commerce stocks. The performance in these sectors has been phenomenal driven by lots of liquidity,” Teng Chee Wai, Managing Director of Affin Hwang Asset Management said at the company’s recent online webinar titled ‘The Trend | 2020 Market Review & Outlook’ on the 28 November, Saturday.

However, there is now a shift towards value stocks represented by banking, consumer and reopening-plays which were hit hard due to COVID-19. “Stocks that were trading at low multiples are now coming back in flavour and we see a reversal taking place. This also coincides with the reopening of the economy in certain parts of the world. There is a lot of institutional demand for value investing. That’s probably why we are seeing insurance and banking stocks rallying strongly at the moment,” stated Teng.

Despite the rotation, Teng notes that this does not signal the end of the upside for technology names. Though, the sector might see some consolidation due to frothy valuations.

“It’s not that technology names will no longer be in the spotlight. While valuations are expensive, it is also one of the sectors that has the ability grow profits consistently and exhibit secular growth. Not many sectors can claim as such,” Teng opined.

Graph 1: Market Performance of Value Vs. Growth



Source: State Street, as of 26 November 2020.

Out think. Out perform.

## Pandemic & Politics

Recent progress in developing a vaccine have driven markets higher with a stronger medical arsenal to fight against COVID-19. AstraZeneca announced last month that its vaccine candidate for the coronavirus could be around 90% effective without any serious side effects, giving the world another important tool to halt the pandemic. The vaccine can also be distributed more easily because it can be kept at refrigerator temperature, unlike the drugs from Pfizer and Moderna which have to be stored frozen.

“There’s been lots of encouraging developments on the vaccine-front and we will likely continue to see more positive news coming through. Based on production guidance by these pharmaceutical companies, we can expect over 2.5 billion of vaccine shots available by late-2021.

“That is probably when deployment will be a lot more significant and we could see things normalise across different sectors and countries by 2022,” Teng adds.

On US politics, Teng believes that the biggest risk to markets is if Donald Trump refuses to a smooth presidential transition to Joe Biden. However, he notes that such a risk is now ebbing away with more clarity on the handover process.

In late November, the General Services Administration (GSA) which is a US federal agency that must sign off on the presidential transition told President-elect Joe Biden that he can formally begin the handover process. Federal resources is now being made available to Biden’s administration.

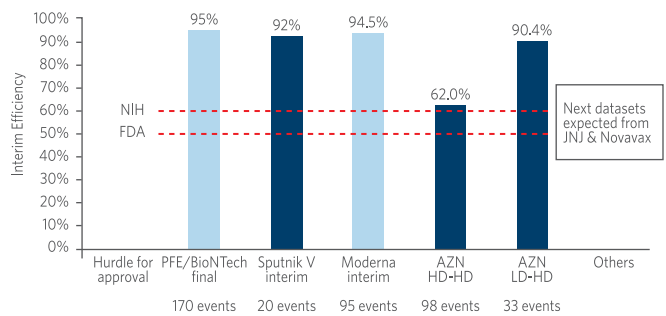
“Stock markets are staging a post-election rally as investors warm up to a Biden presidency, but a potentially divided Congress. Expectations are that the Republicans will maintain control of the Senate, thus maintaining checks and balances in terms of policy. This is an outcome favoured by markets,” said Teng.

However, he notes that tensions between US and China are likely to remain. Though, such geopolitical risk will ease slightly with Biden at the helm.

“The relationship between US and China will be better. It’s not that Biden will be taking a softer stance. In fact, he has promised to also come down hard on China during campaigning. But at least there will be consistency in terms of policy implementation.

“In markets, it is all about pricing risk. But when there’s inconsistency, the market is unable to do so and it will be extremely volatile. Biden’s administration will likely offer better clarity in terms of policy and its trade relation with China,” adds Teng.

Graph 2: Efficacy Data so far from Phase 3 Trials



Source: Credit Suisse, as of 23 November 2020.

## Political Obstacles for Malaysia

Closer to home, Teng expects the local market to stay volatile as political uncertainty cast a pall over Bursa. “Malaysia has not been a huge beneficiary of global fund inflows as seen in the rest of Asia. Foreign investors are largely avoiding Malaysia and even ASEAN as a whole due to perceived risk,” says Teng.

Market reaction to Budget 2021 has also been largely neutral. Whilst the federal budget channels large amounts of spending to vulnerable communities affected by the pandemic which is essential, the budget may not act as a catalyst for the local market, remarked Teng.

Though, he adds that it came as a relief for markets that Budget 2021 was passed at the policy stage. “If the budget was not approved, it would have sent a wrong signal to investors. In fact, we saw the Ringgit appreciate after it was approved,” says Teng. At the time of writing, Budget 2021 is currently being debated at the committee stage in Parliament. Teng believes that there will be plenty of scrutiny to pore over the details of allocation in each ministry. “There is also some uncertainty in the budget revenue projection figures which looks to be very aggressive. The government might have to find other ways to collect enough revenue to sustain the Budget,” observes Teng.

When asked about the rubber glove sector and whether its strong performance can continue, Teng admits that most of the glove stocks have already gone ahead of their earnings cycle. Though, there could still be room for more upside if glove prices can be sustained and demand remains strong.

“The question is whether glove prices can hold up all the way to 2022? Or will glove prices start to come down? Glove players seem to think so as they see strong demand seen across their supply chain. “The sector will likely report exceptionally good profits in the 1H2021. If glove players can continue to exhibit strong earnings beyond that period, we could see more legs to the glove sector rally. In the meantime, it will trade range-bound. So the party may continue, but perhaps no longer as vibrant,” Teng quipped.

**Disclaimer:** This content has been prepared by Affin Hwang Asset Management Berhad (hereinafter referred to as “Affin Hwang AM”) specific for its use, a specific target audience, and for discussion purposes only. All information contained within this content belongs to Affin Hwang AM and may not be copied, distributed or otherwise disseminated in whole or in part without written consent of Affin Hwang AM. The information contained in this content may include, but is not limited to opinions, analysis, forecasts, projections and expectations (collectively referred to as “Opinions”). Such information has been obtained from various sources including those in the public domain, are merely expressions of belief. Although this content has been prepared on the basis of information and/or Opinions that are believed to be correct at the time the contents was prepared, Affin Hwang AM makes no expressed or implied warranty as to the accuracy and completeness of any such information and/or Opinions. Affin Hwang AM and its affiliates may act as a principal and agent in any transaction contemplated by this content, or any other transaction connected with any such transaction, and may as a result earn brokerage, commission or other income. Nothing in this contents is intended to be, or should be construed as an offer to buy or sell, or invitation to subscribe for, any securities. Neither Affin Hwang AM nor any of its directors, employees or representatives are to have any liability (including liability to any person by reason of negligence or negligent misstatement) from any statement, opinion, information or matter (expressed or implied) arising out of, contained in or derived from or any omission from this presentation, except liability under statute that cannot be excluded.

Outthink. Outperform.