

FUNDAMENTAL FLASH

Packed Week for Malaysia Markets

30 JULY 2020



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It's been a packed week for Malaysia politics and courtroom news for investors to digest. Here are our key thoughts about the latest developments in the country's political landscape and impact to markets.

Packed Week

There were three key political developments that happened this week:-

- The sentencing of former Prime Minister Najib Razak;
- The dissolution of the Sabah state government and;
- A statement by UMNO announcing its decision to leave the Perikatan Nasional (PN) coalition.

Market Implications

The sentencing of ex-PM Najib Razak basically weakens his political standing within UMNO and would effectively prevent him from standing in the next general election. Politically, it also shifts the power balance in favour of Prime Minister Tan Sri Muhyiddin Yassin, as it reduces the strength of UMNO.

This triggered UMNO's decision not to join PN formally as a coalition, but still crucially pledging its support to the federal government. One of the many ways of interpreting these chain of events is that it is a way by UMNO and PAS to reassert its strength as a bloc against its minority coalition partner, who has just prosecuted one of their own.

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Pakatan Harapan's (PH) own weakness as an opposition coalition has also allowed room for the governing coalition to settle their own power struggle. Which is what is happening now. This may cause weakness in certain segments of the market, as it does lead to uncertainty if the brinkmanship goes too far.

Our base-case is that the current coalition will stand, with such moves seen more as market noise as opposed to major changes in government or personnel. A sudden change in government would of course dictate economic/monetary policy direction that would affect stock markets and businesses.

Lastly, political wrangling in Sabah has resulted in the dissolution of the state government, with a state election to be decided within 2 months. This is a move by the existing state government to reaffirm the people's mandate, as existing representatives are seen crossing over the other side in an attempt to form a new state government.

Portfolio positioning

On portfolio positioning, we continue to stay cautious on outlook with politics remaining an overhang on markets. Cash levels range between 10.0-20.0% for our domestic funds. Given the fluidity of the political situation, it is imperative that we maintain a flexible view to quickly shift and adjust our position accordingly.



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