

Recovery on the horizon for Malaysia

Smart Investor (Nov/Dec Issue)

By Caleb Khew

Despite uncertainties in the markets, Kenanga Investors had a stellar year, and with bearish sentiment pulling back, 2022 could mark a year of change.

As part of our special focus, we sat down with Ismitz Matthew De Alwis, the executive director and chief executive officer of Kenanga Investors Berhad to talk about the market outlook in Malaysia and for the coming year, as well as potential areas for investors to keep an eye on!

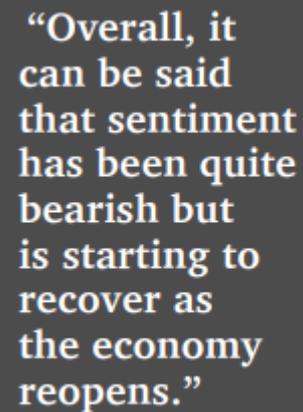
Smart Investor: What would you say were the standout investments locally in 2021?

Ismitz Matthew De Alwis: Throughout 2021, our investments in technology & manufacturing companies locally yielded good results. These companies which are mostly involved in the global semi-conductor supply chain benefited from rising global demand for electronics as more people worked from home in addition to the long-term structural drivers for this industry.

We believe that technological trends such as rising 5G penetration, increasing use of cloud computing/data centres, machine learning/AI, the proliferation of connected devices (or better known as IoT), and rising penetration of electric vehicles will continue to drive up the demand for semiconductors for years to come. Indeed, the importance of semiconductors is deemed to be so critical that it is termed the new 'oil' of the global economy.

Additionally, the persistence of lockdowns and mobility restrictions in 2021 also boosted the demand for work from home devices and online services. Meanwhile, Green Energy policies of governments across the world also drove increasing penetration of electric vehicles. Hence, our local manufacturers benefitted from these cyclical and structural trends and performed well for the portfolio.

SI: What is the general sentiment in the financial industry about the current market outlook in Malaysia?



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Ismitz Matthew De Alwis,
*Executive Director & Chief
Executive Officer*

IMDA: Malaysia has had to cope with multiple challenges this year, mainly due to the resurgence of COVID cases, renewed lockdowns and the initial slow progress of vaccinations. These various restrictions hampered economic growth particularly hard in May-August this year. GDP growth forecast for 2021 has been revised downwards by Bank Negara to between 3-4% from 6.5%-7.5% previously. Additionally, political instability also contributed to some cautiousness in the market. Hence, the equity market witnessed foreign selling to the tune of RM4.5bn up until the end of August 2021.

Overall it can be said that sentiment has been quite bearish but is starting to recover as the economy reopens. GDP growth forecast for 2022 is expected to rebound back to +5.7% (Bloomberg Consensus) as the economy is fully reopened again. Given that the external sector still remains strong (rising exports and commodity prices) and the domestic sector is rebounding, we are more optimistic of a stronger market ahead for Malaysia.

SI: Would you say that the Covid-19 pandemic still has a large effect on the markets or is the tide beginning to change?

IMDA The Covid-19 pandemic indeed has a major impact on markets globally, with mobility restrictions affecting the pace of economic growth in countries. Earlier this year, we saw growth in the developed markets rebound strongly as vaccination rates picked up and their economies re-opened. However, the lagging countries such as many emerging markets continued to see rising cases and restrictions which impacted economic growth.

However, the good news is that with rising vaccination rates globally, countries are beginning to adopt a more endemic approach to the disease with lower likelihood of future lockdowns. Additionally, positive developments of more effective treatments such as Merck's Covid-19 pill could also help countries to keep the disease under control without shutting down the economy. As such, the tide is beginning to change and Covid-19 impact on markets should wane in 2022.

That being said, many indirect effects of the pandemic will continue to affect markets. These include effects such as rising inflation due to the reopening rebound in demand and shocks to global supply chain as a result of Covid-19 lockdowns earlier.

SI: While the World Bank has cut its economic growth projection for Malaysia to 3.3% in 2021, it has also raised its 2022 projection to 5.8% from 4.2% previously. The Organisation for Economic Cooperation and Development (OECD) also forecasts growth of 6.1% in 2022. What are the reasons for such numbers and is this figure realistically achievable?

IMDA: The change in growth projections mainly reflect the timing of the Covid-19 crisis. Given the lockdowns and slower pace of economic activity, growth in 2021 had to be downgraded. Hence, some of the growth has been pushed forward to 2022 and the rebound is from a low base.

Domestic sectors should rebound as the economy reopens but a swing factor would also be the external sector as Malaysia still remains an export driven economy. Should global demand continue to remain strong, Malaysia could achieve the 2022 forecast as projected by those agencies

SI: For 2022, what investment opportunities would you recommend as a good entry point for retail investors that have never invested previously?

IMDA: The concept of investing is often misunderstood as having a high entry barrier, such as the requirement to have substantial amount of income to start investing. Nothing could be further from the truth, as everyone can begin their investment journey with as little as RM100.00.



“For 2022, we are positive on Malaysia and emerging markets.”

Unit trust funds are an excellent entry point since they rely less on past financial principles and knowledge. They give investors the option of entrusting the selection of individual stocks, bonds, and other investment products to certified professional fund managers. The benefit of having an active fund manager includes portfolio review, market analysis, sector allocation, and many other things that might help you make an investing decision. This is a great opportunity for investors who have full-time jobs and less time to spend on other interests such as investing.

Furthermore, unit funds can be simplified as an investing tool that pools together capital by like-minded investors to invest in securities such as money market funds, stocks, and bonds. Investors, like other investment products, can choose their mutual fund based on their risk tolerance and investment objectives. Mutual funds, when properly prepared, can provide significant diversification to investors, since acquiring shares of a mutual fund leads to more exposure with less financial investment. You can think of them as a basket filled with different types of securities, and owning even one share of the fund allows you to invest in all of the individual securities.

Similarly, private retirement schemes (PRS) are a popular choice since they provide all the benefits mentioned above. Kenanga, offers OnePRS as an option

in addition to the mandatory retirement scheme. With the rising living standards and life expectancy, investors are finding that their basic retirement schemes are insufficient to provide them with the funds they need to sustain their retirement lifestyle. Thus, PRS is an additional option since an individual can customise and manage their retirement savings through the various PRS funds, which vary in risk and return profiles.

Due to their lower commitment rate, these investment products are appropriate for beginner retail investors. The investor's role can be boiled down to the identification of their risk tolerance and choice of fund, with the remainder handled by the fund manager. The first investment is arguably the hardest and most important one as it can influence their future investment decisions. Rather than being disheartened due to a commitment to a risk investment, an investor will continue to explore alternative investment products that meet their growing investing goals in the future.

SI: Similarly, for more experienced investors that have a higher risk tolerance, what investment opportunities can they look out for in 2022?

"Investor will continue to explore alternative investment products that meet their growing investing goals in the future."

IMDA: Conversations on high-risk investments frequently include the mention of equity products. It's often considered to be one of the most volatile classes of assets as they offer no guaranteed returns and is determined by the performance of private businesses in one of the most competitive markets. Equities are one of the oldest asset classes but also the most rewarding one. For experienced investors with a high-risk tolerance, equities are a great choice to test out their investment proficiency as risk and return often go hand-in-hand. The better someone is at identifying opportunities and risks, the greater the benefits.

As discussed previously on a past Smart Investor issue, alternative investments offer high-risk high return possibilities that traditional investing do not. Cryptocurrencies, which currently is all the buzz in investment news, are one of the most popular offers. Risk and uncertainty clouds cryptocurrency which ironically proves to be its greatest strengths as well. It is in essence still unregulated with huge potential for growth and transformation.

In conclusion, there are many high-risk investment options offered for investors. It eventually comes down to personal preference and comfortability in the product. An investor with higher knowledge in financial technology and a forward-looking perspective will prefer cryptocurrency compared to traditional investments. The opposite is also true where an investor with a firm grip on traditional investment philosophies will lean towards high-risk securities.

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