

Equity Market Review & Outlook

REVIEW

- ▶ Volatility from January carried into the first two weeks of February as global markets reacted to the day to day changes of statements from big OPEC and non-OPEC producers on whether they will cut or freeze production, and the level of oil inventory there is in the US. This was further complicated by weakness in the US Dollar as expectations for the US Federal Reserve to continue their hawkish stance diminished significantly early February due to the tighter financial conditions. Japan surprised the market with news that the Bank of Japan was adopting negative interest rates taking cue from Denmark, Sweden and Eurozone. However this monetary easing effort was countered by the strong Yen which strengthened on the back of sharp market volatility and flight safe haven assets. China contributed to its share of volatility as well as foreign reserve data released before the Chinese New Year holiday indicated that there was a net outflow of USD100bn, the second largest drop on record, and investors fretted over the potential for future devaluation of the Chinese Renminbi and the implications for the Chinese economy.
- ▶ Domestically, the Malaysian equity market corrected as the results reporting season commenced with weak showing from two of the telecommunications companies, so soon after the negative news flow over spectrum allocation announced as part of the recalibration of Budget 2016 end January. The short trading month of February due to the closure of Bursa for Chinese New Year, also meant that investors preferred to be cautious before the CNY break. Nevertheless, the second half of the month saw interest in Malaysian equities pick up with February recording net foreign inflows of RM0.5bn, after three consecutive months of net foreign outflows. The Malaysian ringgit also continued to firm up despite the continued low crude oil prices. The 4Q2015 results reporting season ended with consensus adjusting down 2015 earnings to a contraction of 2-3%, and 2016 EPS is now expected to grow by 5-6% yoy, down from 7-8% at the beginning of 2016, despite earnings contracting for two consecutive years. The KLCI closed the month at 1,654.75 points, lower by 13.05 points or 0.78% mom. The broader market outperformed the KLCI with the FBM Emas Index declining 0.57% mom. The KLCI underperformed the FBM Small Cap Index which gained 0.51%. Average value traded on Bursa in February was lower by 7.7% mom at RM1.87bn per day.
- ▶ The sector indices on the local bourse closed lower for February with the best performing sectors being Technology (1.25%), and Financials (0.98%), and the sectors that performed the worst were Industrial production (-3.63%), and Plantation (-1.58%).

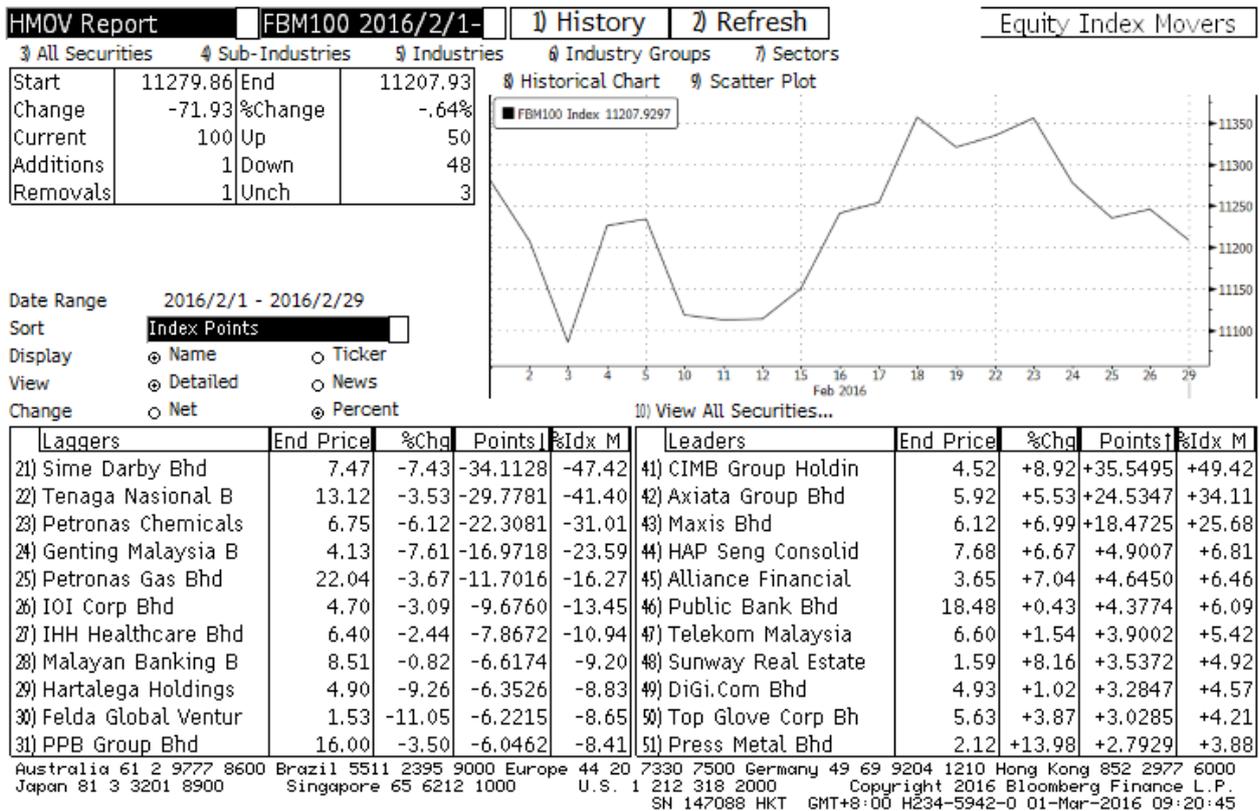
OUTLOOK

- ▶ We are expecting global monetary policy to remain in focus in 2016, and markets are likely to remain volatile with investors second guessing the timing of policy events as they did for most of 2015. Expectations for the US rate hike in 2016 have been tampered down to either 1-2 hikes in 2H 2016 from initially 4 hikes, with some possibility that rates will remain unchanged for the year (according to Bloomberg). Trump's popularity has surprised us and investors will need to consider what a Trump Presidency could mean, especially for Asia, and even for the much touted TPPA, in light of his very vocal protectionist stance. By mid-March, China will release its final plans for its 5-year plan after the conclusion of the 13th National People's Congress (NPC), which will provide some insight of how the government intends to address the slowing economy. Commodity price volatility will remain a factor for consideration in 2016, with increasing expectations of rebalancing now pushed back to 2017.
- ▶ On a macro level for Malaysia, we remain relatively cautious as we continue to expect a challenging environment for the Malaysian economy in 2016. With uncertainty brewing over the US economic outlook, the Malaysian ringgit may continue to strengthen which may be negative for exporters but help ease the imported inflation. Weak consumer demand and the repercussions of ongoing cost cutting measures which include retrenchment of staff will continue to affect consumer sentiment. As indicated earlier, the BNM Governor's successor will be closely monitored to provide an insight to potential changes to monetary policy stance in the near term.

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- Despite the lack of macro catalysts, any correction in the market would serve as an opportunity to accumulate fundamentally strong stocks on weakness.

INDEX PERFORMANCE & MOVERS



Source: Bloomberg

Indices	Last Price		M o M Changes	
	31-Jan-16	29-Feb-16	+/-	%
FBM KLCI	1,667.80	1,654.75	-13.05	-0.78%
FBM MES	5,916.96	5,702.03	-214.93	-3.63%
FBM 100	11,279.86	11,207.93	-71.93	-0.64%
FBM 70	12,833.10	12,810.57	-22.53	-0.18%
FBM SCAP	15,042.56	15,118.90	76.34	0.51%
FBM EMAS	11,567.65	11,501.97	-65.68	-0.57%
FBM SHA	12,420.82	12,249.24	-171.58	-1.38%
FBM HIJRAH	13,904.43	13,686.57	-217.86	-1.57%
M S C I A P x J	379.01	374.72	-4.29	-1.13%

Source: Bloomberg