

Investment Strategy

Uneasy Calm

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Political manoeuvrings by various opposition parties and pro-Tun M factions within PH to form a new coalition government has raised the political risk in Malaysia. After a weekend of high level meetings that ended with an audience with the King which left tongues wagging of a new coalition government being formed, no official announcements were made. And Tun M who did not give a press conference after concluding a Bersatu leaders meeting was neither at the Palace nor where the 'solidarity' dinner that was later held. It looks to be status quo for now, but the heightened uncertainties of Malaysia's political landscape makes the situation an uneasy calm for the stock market. Expect horse trading that will follow and potential changes in the Cabinet to unsettle the market.

Destabilising political manoeuvrings in the works: An otherwise quiet weekend was marred by news of political manoeuvrings by various opposition parties and pro-Tun M factions within the ruling coalition to form a new coalition government. What started out on Sunday morning as two high level meetings held separately - one among leaders of Bersatu and the other, among factions within PKR loyal to Azmin, ended dramatically with an audience with the King for leaders of Bersatu, the Azmin faction, PAS and UMNO, with GPS and Warisan leaders also seen at the Palace. This was followed a 'solidarity' dinner attended by 131 MPs. At the end however, no official announcements were made. And Tun M who did not give a press conference after a reportedly 6-hour long meeting at Bersatu HQ in the morning, was neither at the Palace nor the 'solidarity' dinner. It looks to us then, that although the status quo will remain for now, the heightened uncertainties of Malaysia's political landscape makes the situation an uneasy calm for the stock market.

Deepening discord within PH: The fissures caused within Pakatan Harapan by the weekend manoeuvres have deepened to the extent that the damage may have become unsalvageable. Anwar described what Bersatu and Azmin did as a betrayal. The whole messy affair has led to increased uncertainty about Malaysia's political future. Before this, investors already had reservations about uncertainties around leadership succession. This got worse over the weekend.

Potential outcomes look bleak for the market: At best, PH remains intact with the almost certain dismissal of Azmin and his supporters which would cost PH losing 12 seats. This would reduce PH Parliamentary seats to 117 – a tenuous majority in a 222 seat house, and cause a disruption to the Cabinet line-up. And it takes a stretched imagination to see Anwar's PKR and Tun M's Bersatu coexisting in a functioning coalition after what has happened. The alternatives are no comfort either. In guessing how this will play out, a popular scenario offered is one where Bersatu (with 26 Parliamentary seats) leaves, along with the Azmin faction (12) and with BN (42), PAS (18), Sarawak's GPS (18) and Sabah's Warisan and Upko (10) resulting in a majority of 126 seats formed between parties with disparate agendas. How long can such a coalition of convenience last and can it be an effective government?

Horse trading to follow – Gabungan Parti Sarawak the trump card?: Other permutations in between are outcomes where there are no parliamentary majorities – essentially a hung parliament or a dis-functional government. Expect market volatility to rise sharply on expectations that horse trading will follow. In this respect, Sarawak state's ruling coalition Gabungan Parti Sarawak which has 18 seats and independent of PH and BN may be the trump card. It all the more makes the coming Sarawak state election which must be held by September 2021, more interesting given so much at stake. Expect more fiscal spending ahead of the Sarawak state elections.

Market expected to head deep south at today's open: Our technical chartist is of the view that with renewed and heightened political anxiety, there is a possibility that the FBMKLCI will break below the key support level of 1,500 (being the first support level). The second key support level is 1,470 and possibly falling towards the 1,400 – 1,450 region. The overhead resistance of 1,570 and 1,600 looks distant for now.

Composition of the Dewan Rakyat as of 21 January 2020

Coalition/Party	Individual Parties	Parliamentary seats held	Total seats
Pakatan Harapan	PKR	50	129
	DAP	42	
	Bersatu	26	
	Amanah	11	
Barisan Nasional	UMNO	39	42
	MCA	2	
	MIC	1	
Warisan		9	9
UPKO		1	1
PAS		18	18
Gabungan Parti Sarawak	PBB	13	18
	PRS	2	
	PDP	2	
	SUPP	1	
Gabungan Bersatu Sabah	STAR	1	3
	PBS	1	
	PBRS	1	
PSB		1	1
Independent		1	1
		Total	222

Source: Wikipedia

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24 February 2020

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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