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Malaysia

# [Webinar] Navigating 2021 Market Outlook Forum

13 January 2021 | 6.00pm – 7.30pm MYT



# HOUSEKEEPING

- Today's webinar is scheduled for 1 hour 30 minutes including the sharing session and Q&A.
- All participants are muted during the sharing session. We welcome comments and questions via the Q&A dashboard at [meet.ps/cfam2021marketoutlook](https://meet.ps/cfam2021marketoutlook)
- This webinar will be recorded and will be uploaded and made available on CFA Institute ARX platform after the presentation concludes today.

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# AGENDA

- Speakers' Introduction & Quick Reflection on 2020
- Presentation 1: Regional & Malaysian Economic Outlook 2021
- Presentation 2: Equity Markets in 2021
- Presentation 3: Fixed Income Markets in 2021
- Panel Discussion
- Q&A Session





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**MODERATOR**  
**Faridq Ridzuan, CFA**  
Vice President,  
CFA Society Malaysia



## SPEAKERS:



**Yeoh Keat Seng, CFA**  
Fund Manager,  
Kumpulan Sentiasa Cemerlang



**Woon Khai Jhek, CFA**  
Senior Economist,  
RAM Rating Services Berhad



**Teng Yue Xiang, CFA**  
Fixed Income Portfolio Manager,  
Principal Asset Management Berhad



### **Faridq Ridzuan, CFA**

Vice President,  
CFA Society Malaysia

- Portfolio Manager, International Equities in Permodalan Nasional Berhad
- 8 years of investment-related work experience encompassing fund management, equity research, and quantitative research
- Lecturer for the Chartered Financial Analyst (CFA ) Program and teaches extensively across all three levels
- Capital Market Services Representative's License ("CMSRL") holder
- Bachelor in Economics (Hons) from University College London



**Woon Khai Jhek, CFA**

Senior Economist,  
RAM Rating Services Berhad

- Undertakes macroeconomic analysis and projections on the Malaysian economy and contributes to the production of the bi-annual Economic Outlook publication, topical commentaries, and research papers.
- Responsible for the production of the Bond MarketMonthly, which reviews the performance and prospects of the Malaysian fixed-income market.
- BSc in Economics with an Academic Minor in Applied Statistics from the University of Michigan in Ann Arbor, Michigan





## **Yeoh Keat Seng, CFA**

Fund Manager,  
Kumpulan Sentiasa Cemerlang

- Serves as the Board of Directors of Xeraya Capital, a VC wholly-owned by Khazanah Nasional
- Former Head of Private Client Services division of CIMB
- Former CEO of the predecessor of Principal Asset Management
- Former CEO of MalaysiaStreet.com,
- First Vice President and Former Head of Research for Merrill Lynch (Malaysia)
- Former Head of Research for Crosby Securities (Malaysia)



### **Teng Yue Xiang, CFA**

Fixed Income Portfolio Manager,  
Principal Asset Management Berhad

- Some of his managed portfolios have been awarded by Lipper and Morningstar
- Capital Market Services Representative License ("CMSRL") holder
- Bachelor of Commerce from Monash University Malaysia major in Economics and Econometrics





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# **Presentation 1: Regional and Malaysian Economic Outlook 2021**

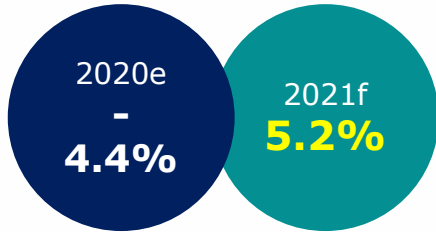
**Woon Khai Jhek, CFA**



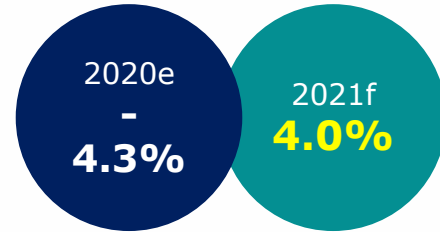
# Global economy on path to (bumpy) recovery in 2021



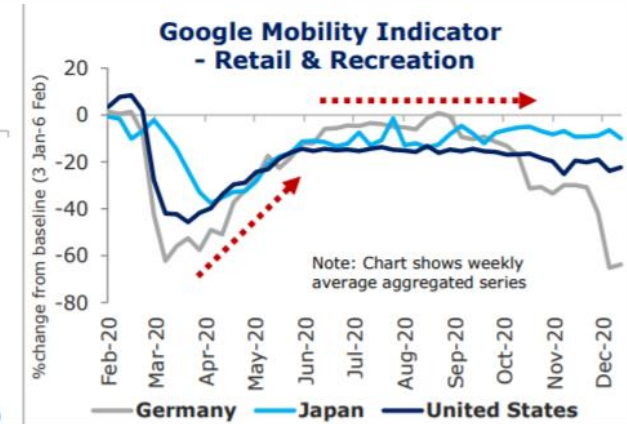
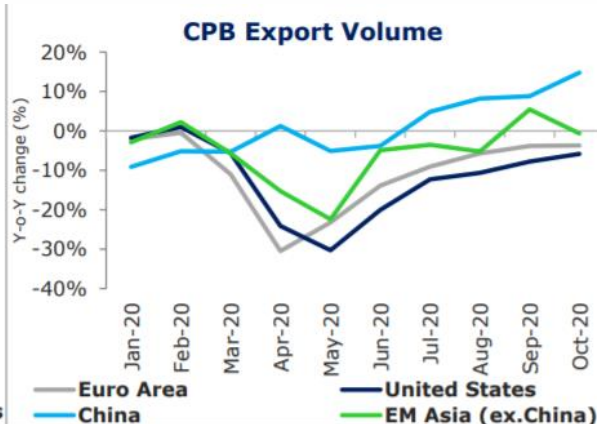
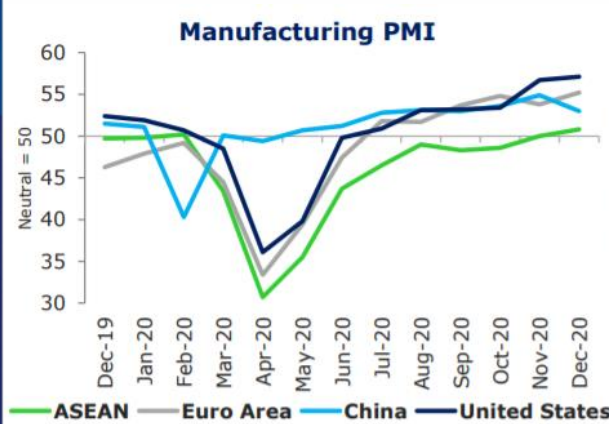
**World Economic Outlook Report  
(October 2020):  
A Long & Difficult Ascent**



**Global Economic Prospects Report  
(January 2021):  
Subdued Global  
Economic Recovery**



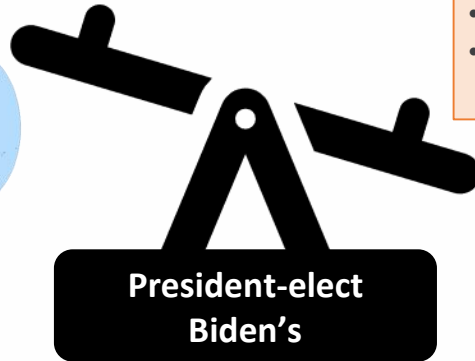
**World GDP Growth  
Projection**



# US election outcome may have little near term global impact

## Relatively vague on foreign policy issues—still has beef with China

- Looking to amend relations with US allies (e.g. NATO)
- Proposing an international coalition to hold China accountable for its unfair trading practices (instead of tariffs). Unsure if current tariffs will be lifted




## More emphasis on domestic policies


- Mentioned he would focus more on national issues first
- Raise minimum wage
- Expand healthcare coverage
- Undo Trump's immigration policies
- Increase access to education
- broad economic and social programmes to support minorities





# ASEAN has high potential to benefit from realignment in global E&E supply chain induced by US-China trade war and COVID-19

Revealed Comparative Advantage Index in Machinery and E&E █ 0.02 2.43



 Myanmar  
RCA: 0.05

% of Overall Exports to:		
	US	China
2016	1.3%	41.7%
2019	4.6% 	31.8%



 Vietnam  
RCA: 1.67

% of Overall Exports to:		
	US	China
2016	21.8%	12.4%
2019	23.2% 	15.7% 


 Thailand  
RCA: 1.40

% of Overall Exports to:		
	US	China
2016	11.4%	11.0%
2019	12.7% 	11.8% 


 Philippines  
RCA: 2.43

% of Overall Exports to:		
	US	China
2016	15.4%	11.1%
2019	16.3% 	13.8% 

 Malaysia  
RCA: 1.93

% of Overall Exports to:		
	US	China
2016	10.2%	12.5%
2019	9.7%	14.2% 

 Indonesia  
RCA: 0.40

% of Overall Exports to:		
	US	China
2016	11.0%	10.9%
2019	10.6%	16.6% 

# Recently signed RCEP creates a large common market

**RCEP** RCEP: Regional Comprehensive Economic Partnership

**30%**   
global population

**30%**   
global GDP

**28%**   
global trade

**15**   
countries

Yet to ratify: **Brunei**, Cambodia, Indonesia, Laos, **Malaysia**, Myanmar, Philippines, **Singapore**, Thailand, **Vietnam**, **Australia**, China, **Japan**, Korea, **New Zealand**

Needs ratification by at least 6 ASEAN members and 3 non-ASEAN members before the agreement can come into force

**CPTPP** CPTPP: Comprehensive and Progressive Agreement for Trans-Pacific Partnership

**7%**   
global population

**14%**   
global GDP

**15%**   
global trade

**11**   
countries

In force for: **Australia**, Canada, **Japan**, Mexico, **New Zealand**, **Singapore**, and **Vietnam**  
Yet to ratify: **Malaysia**, **Brunei**, Chile, Peru

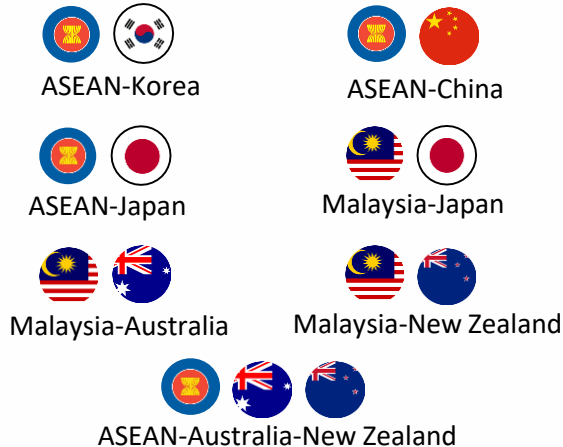
# All 15 countries signed RCEP, Malaysia to benefit from smoother trade facilitation

**30%**   
global population

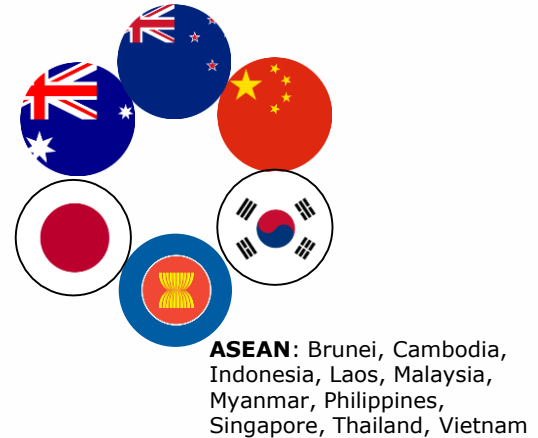
**30%**   
global GDP

**28%**   
global trade

## Current FTAs



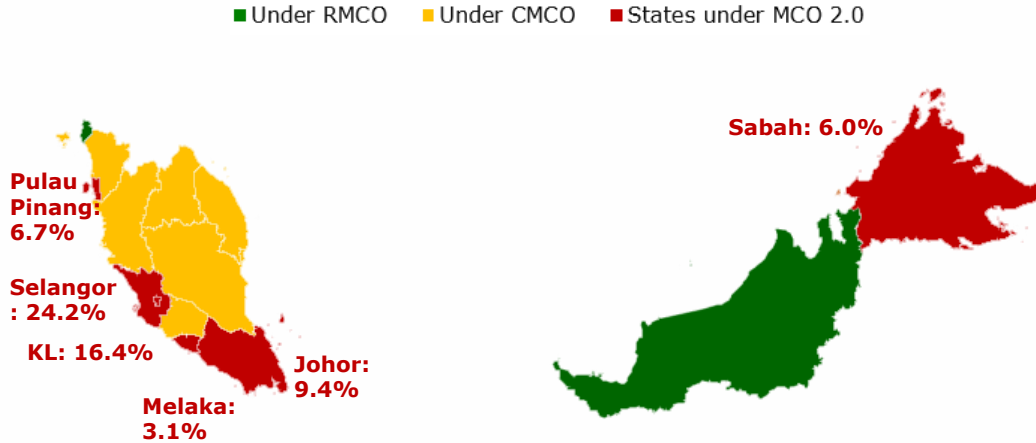
## RCEP





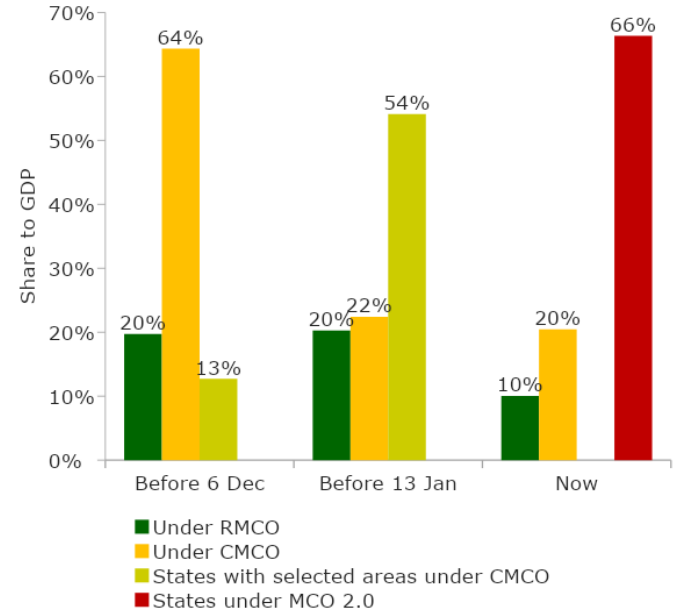
# Targeted tightening of MCOs to weigh on economic activity

## Key economic hubs are under the strictest MCO

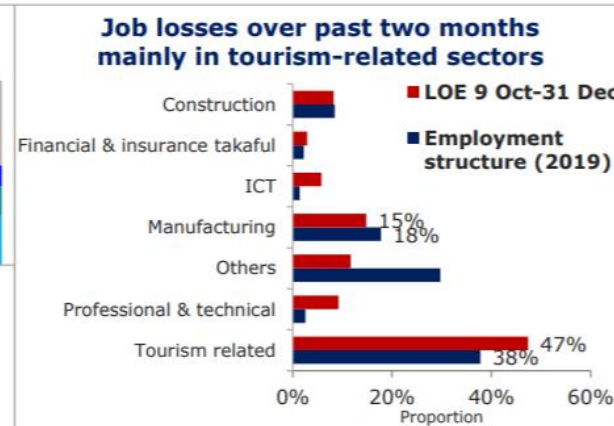
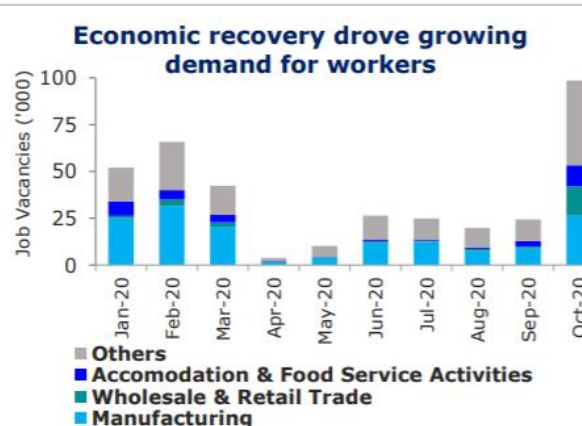
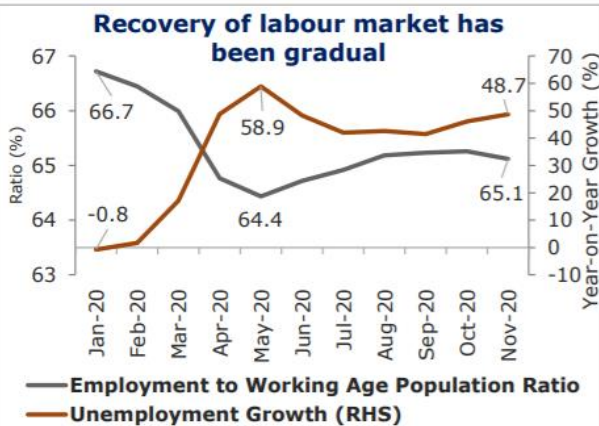
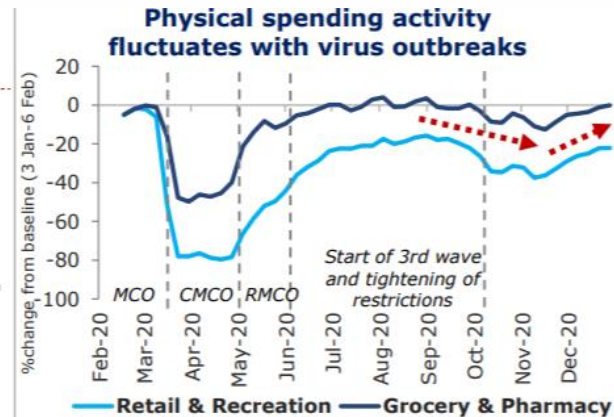
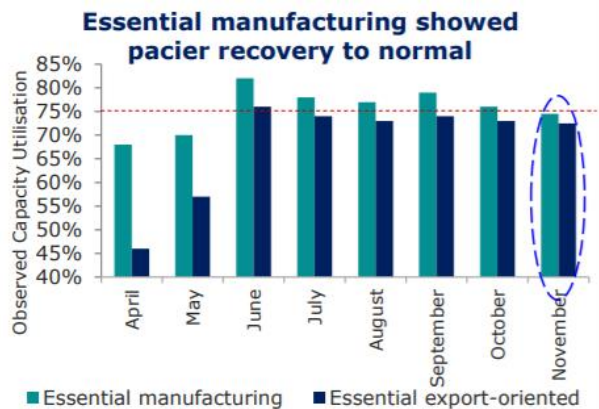


Note: % represents respective state's share of Malaysia's GDP

## States under MCO constitute about 66% of overall GDP



# Unevenness in prospects will hinder Malaysia's recovery



# Impact of MCO 2.0 not expected to be as severe as MCO 1.0 back in March-April 2020



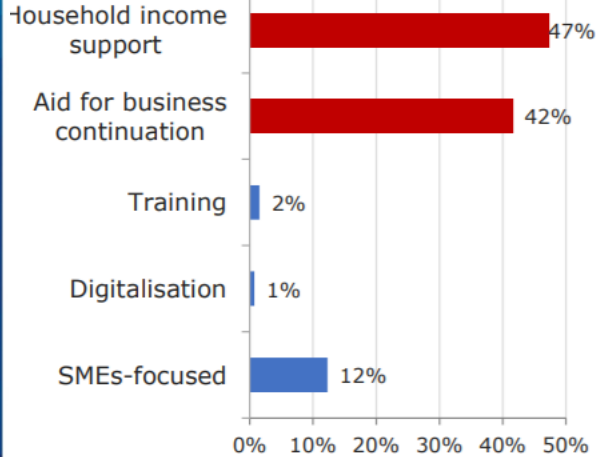
- “Essential” sectors allowed to operate covers a wider scope of sectors as well as those along the supply chain
- Additional sectors include ceramics, iron and steel, hotels, professional services (accountants, lawyers), *kedai runcit*
- No explicit hard-cap on industrial operating capacity vs. reduction by at least 50% under MCO 1.0
- MCO 2.0 is not nationwide



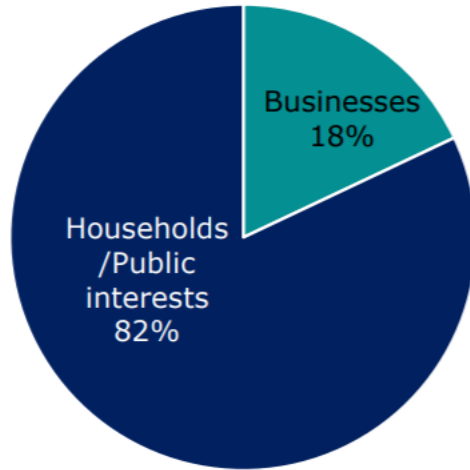
- Interstate travelling restrictions still an impediment to business activities
- Disruption to domestic supply chain unavoidable
- Productivity and efficiency loss
- Sharp fall in consumption spending especially on services that requires face-to-face interactions

# Supportive policy direction to aid in economic recovery

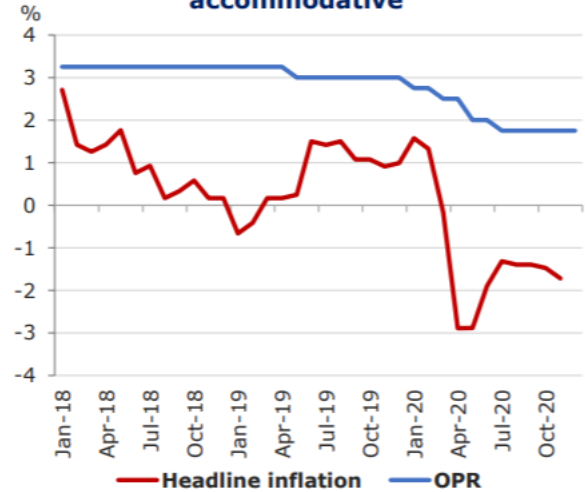
## Stimulus packages in 2020 prioritises on extending "lifelines"



## Budget 2021 is rakyat-centric



## Monetary conditions to stay accommodative



## Stimulus packages under PRE 2020, Prihatin, Prihatin+ and Penjana

- Estimated at RM305 bil
- Loan moratorium and cash handouts pulling the most weight

## Notable initiatives:

- Bantuan Prihatin Rakyat (RM6.5 bil)
- Wage subsidy extension (RM1.5 bil)
- i-Sinar (RM70.0 bil)
- Reduced employee EPF contribution rate of 9% from 11% (RM9.3 bil)

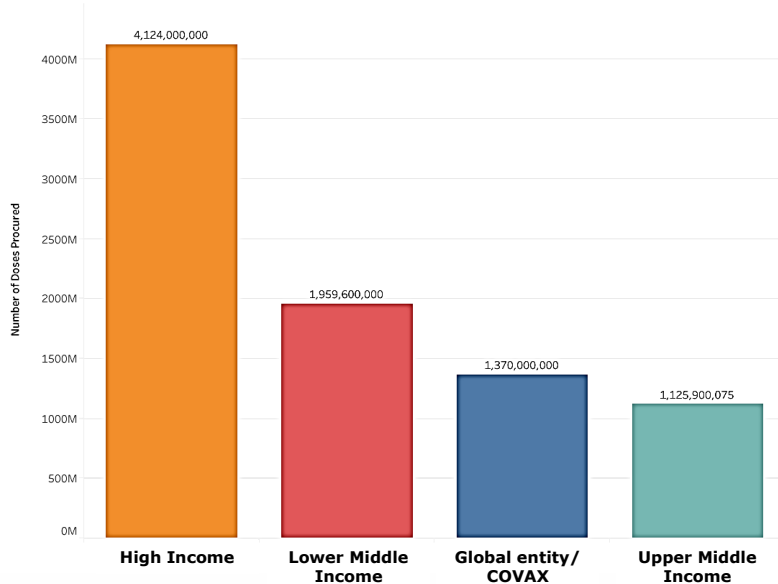
## Low global interest rates

- OPR was reduced by 125 bps in 2020
- US Fed dot plot indicates no rate hikes at least until end-2023
- Favourable yield differential to drive foreign fund inflow and support the USD/RM exchange rate

# Vaccines potential silver bullet but full benefits to Malaysia unlikely in 2021

Procurement leans heavily towards high income nations; some able to vaccinate its population more than 2 times

Country Income Level Classification by Confirmed Number of Doses Purchased

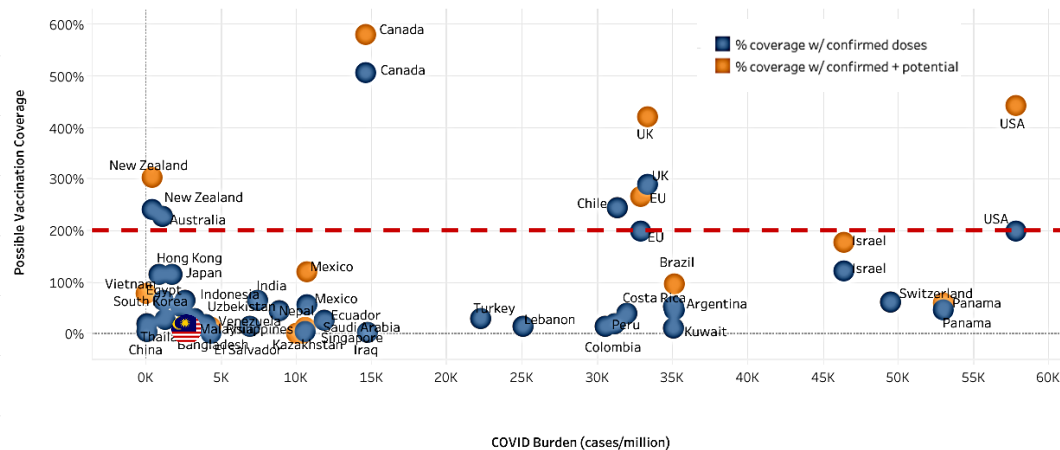


**12.1 billion doses already reserved**

Top 6 buyers:

- |          |           |
|----------|-----------|
| 1. US    | 4. India  |
| 2. COVAX | 5. UK     |
| 3. EU    | 6. Canada |

Vaccination Coverage by Population and COVID-19 Burden



## What about Malaysia?

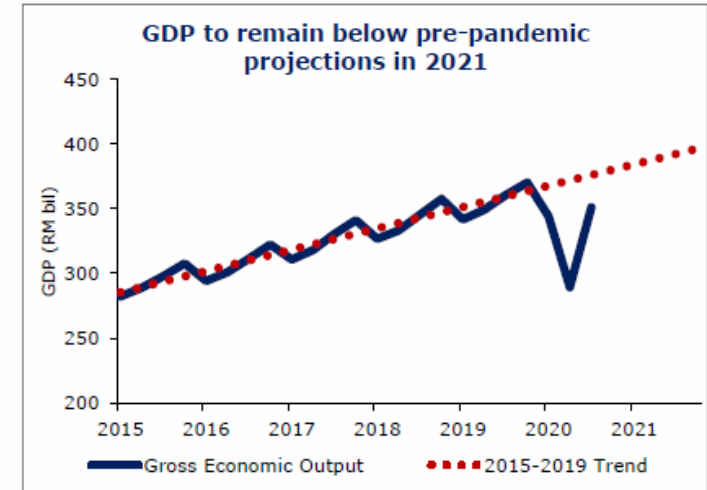


- Has confirmed dosage to cover 49% of population
- Pfizer vaccine covers 39% of population but bulk of delivery expected to be in 2H 2021
- Deal with COVAX will cover 10% of population – 1<sup>st</sup> batch in 2Q
- In talks to secure enough shots to cover 80% of population

# Malaysia's GDP is expected to stage a recovery in 2021

## GDP growth is expected to stage a recovery in 2021 (2020e: -5.3%)

- However, 2021 **will not** mark a return to normal
- Growth trend characterized by a **dual –speed economic prospects**
- Day-to-day life will continue to be characterized by some **restrictions on mobility & constraints to operating capacity** of certain economic activities
- Businesses must be ready to weather the **“uneven” and “stop-start”** operating conditions



- + **A vaccine completion & its widespread global distribution** would provide some upside potential to the forecast
- **An ‘out of control’ virus spread requiring lockdown measures** – domestically and globally – would be a key downside risk factor



# THANK YOU

*For more information on the above presentation, please contact*

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# **Presentation 2: Equity Market in 2021**

**Yeoh Keat Seng, CFA**





# **Kumpulan Sentiasa Cemerlang** *Investment Managers*

## **Malaysia Market Outlook & Medium to Long Term Challenges**

January 2021

# *Agenda*

- **Malaysia Market Outlook for 2021**
- **Medium to Long Term Outlook & Challenges**
- **Food for thought**

# *2021 Market Will Be A Good Year... (1)*

Spillover from 2020's rally:

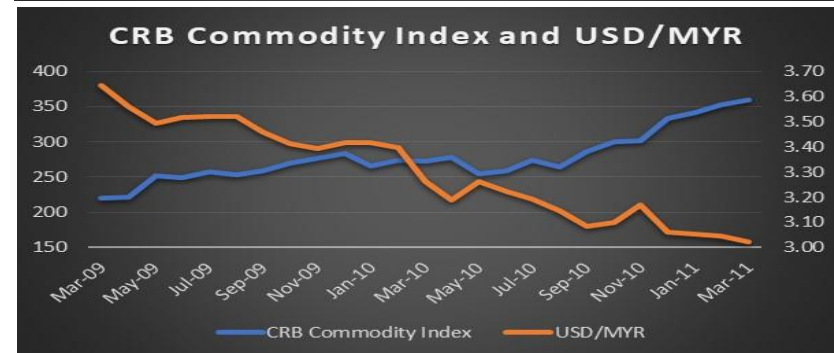
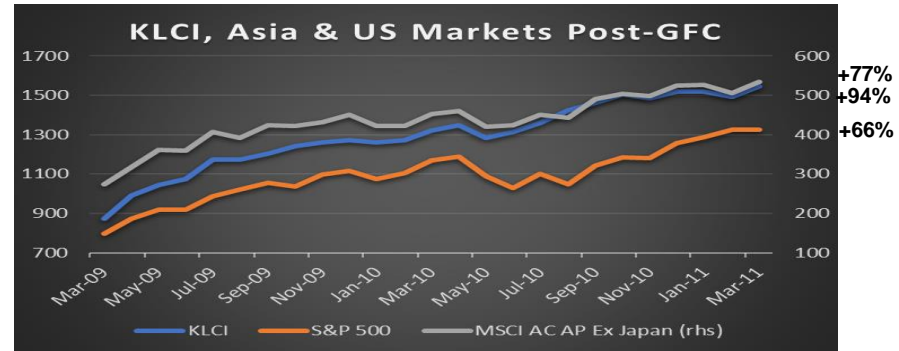
- V-shaped economic recovery (JPM forecasts World GDP +5.0% vs. -4.0%).
- Continuation of loose monetary and fiscal policies – normalization unlikely in near future based on GFC experience.
- Asian markets have more legs to go if Post-GFC era were to be repeated.
- Good earnings visibility - return of consumer and business confidence and pent-up demand.
- Easing of trade tensions.

Predicated on successful rollout of vaccines and assumption of no extended lockdowns before herd immunity is reached.

# 2021 Market Will Be A Good Year... (2)

Lessons from post-GFC period:

- Multi-year accommodative policies – Taper Tantrum (unwinding of QE) only started in '13, Fed rate hikes only commenced after 7 years in '15.
- China led the global recovery, swept along Asian markets (+94%), currencies (MYR +20%) and CRD Commodities Index (+63%).



# ... And Possibly A Vintage Year With a Bit of Luck

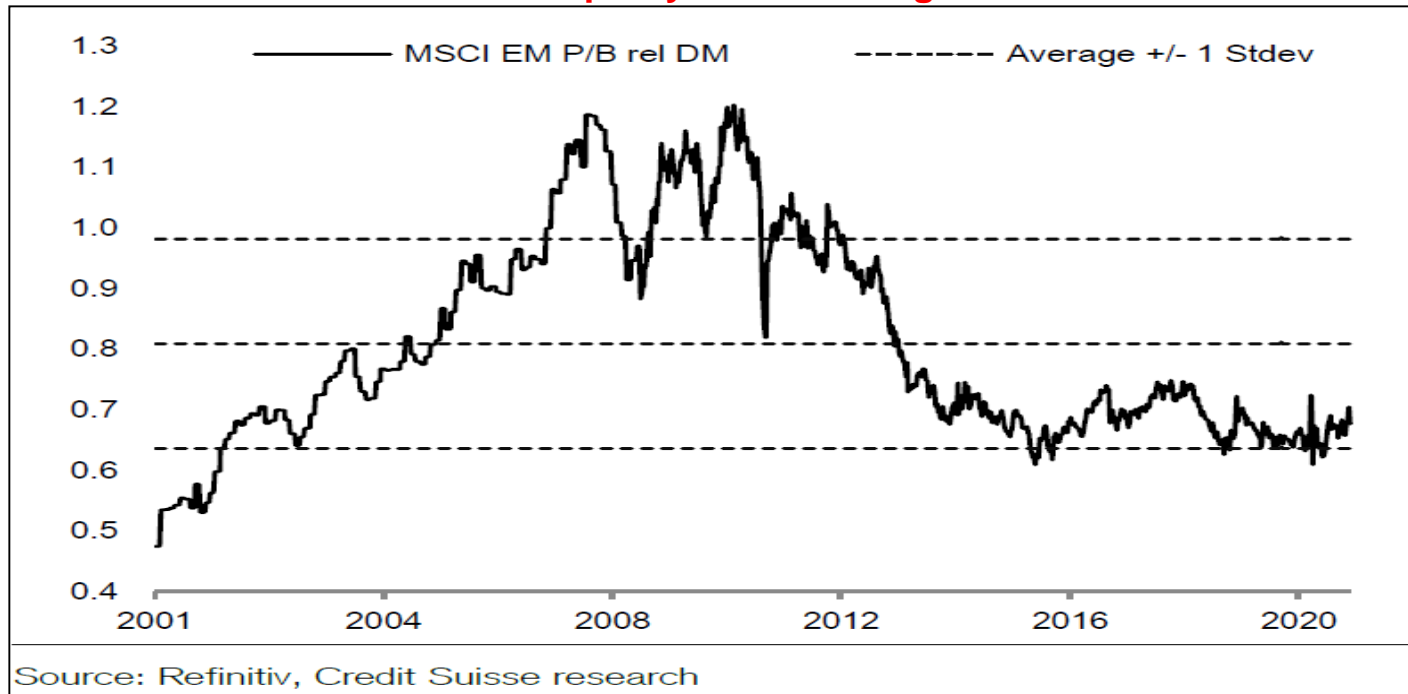
## Conditions for Surge in Funds Flow into Emerging Markets/Asia in place

Events	Implications	Effect
Global Economic Recovery	Return of risk appetite, EM offers higher leverage to recovery	Funds flow into EM/Asia, equities, cyclicals and small caps, from safe haven assets
Early days of Quantitative Easing	Low DM interest rates/negative real rates	Search for yields and higher returns in EM/Asia.
Sharp recovery in world trade	Disproportionately benefits EM/Asian economies which have larger exposure to trade	Higher GDP growth, stronger corporate earnings and currencies.
Weakening of USD	Outperformance of EM/Asia equities, bonds, currencies and commodities	Portfolio and hot money flow into these asset classes

# EM Higher Return Potential (1)

## -33% Discount to DM

Valuation disparity too wide to ignore



# *EM Higher Return Potential (2)*

## *DM Outperformed EM by +70% last 11*

**“Inevitability of cycles in investing ... for the economy, corporate earnings or financial markets, and the tendency for cycles to reverse” - Howard Marks.**



# Summary

End of pandemic crisis + Economic reopening + Fiscal & Monetary stimulus = Return of risk appetite + Hunt for Returns

Preference for:

- Stocks > Bonds
- Commodities & cyclicals > Defensives
- EM Equities, Bonds, Currencies > DM counterparts
- Small Caps > Large Caps



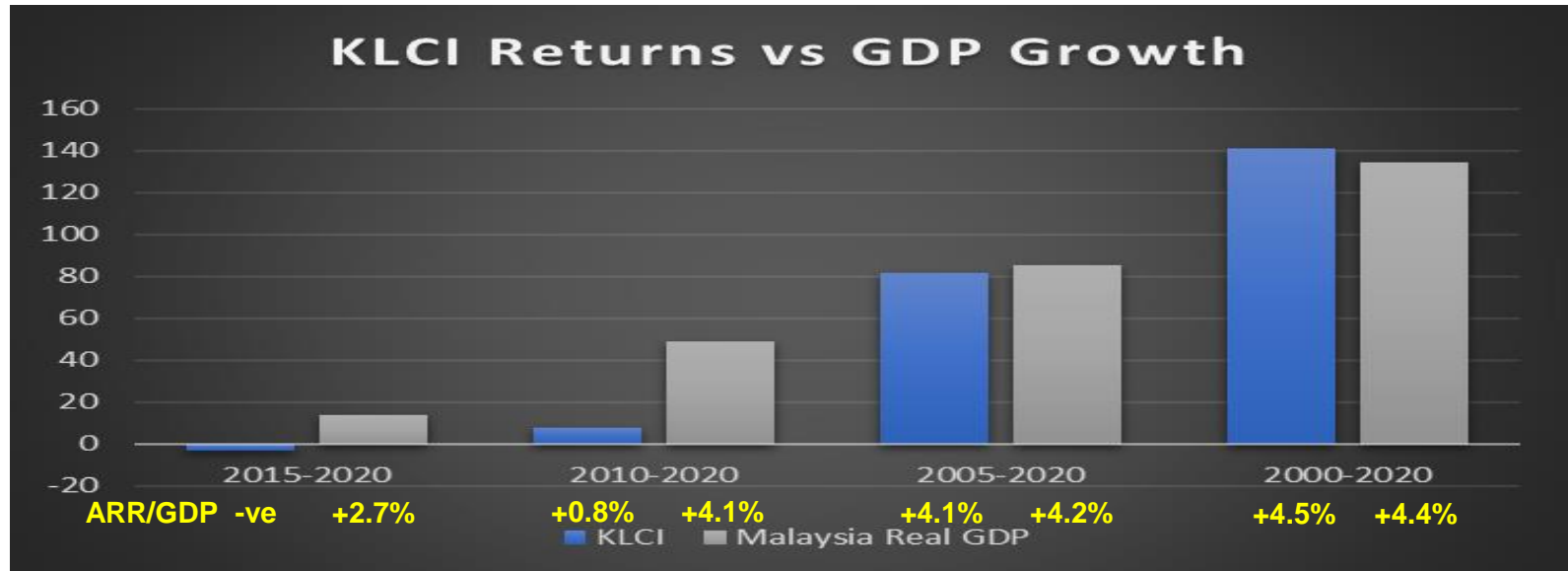
# Risks

- Vaccine related – delays in rollout, side effects, efficacy not as high as projected from clinical trials, leading to inability to tame pandemic in '21.
- More countries re-imposing widespread and extended lockdowns before herd immunity is reached.
- Implications for next GE for Malaysia in terms of lack of continuity in policy direction, changes of heads of GLICs and GLCs, project cancellation, etc.
- Another downgrade of Malaysia's sovereign rating.
- Re-escalation of US-China trade war.
- A repeat of dotcom bust.

# Medium to Long Term Outlook & Challenges

# Challenges - Index

KLCI has failed to match real GDP growth last 15 years!

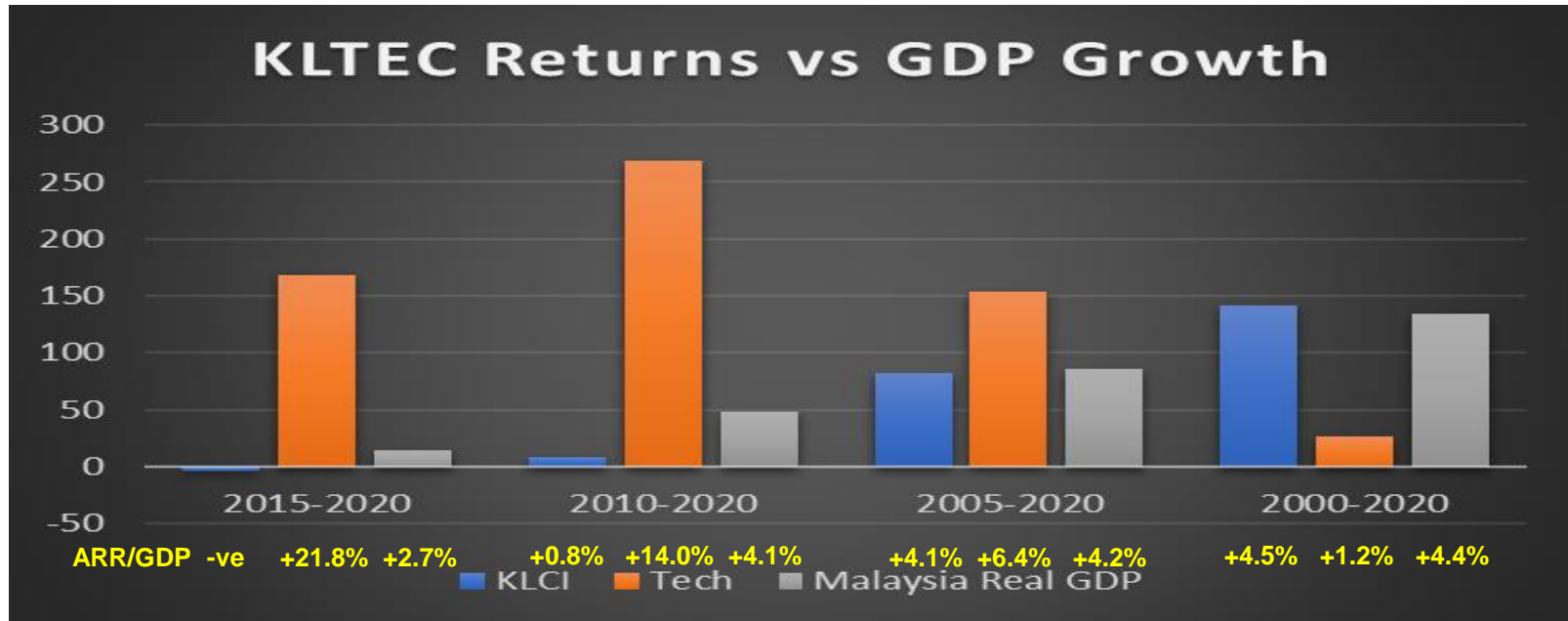


ARR/GDP – Annual rate of return or GDP Growth

Source: Reuters

Note: KLCI returns does not impute dividends, but this is compensated by comparison with real rather than nominal GDP

# Challenges Index - Tech Missing from KLCI

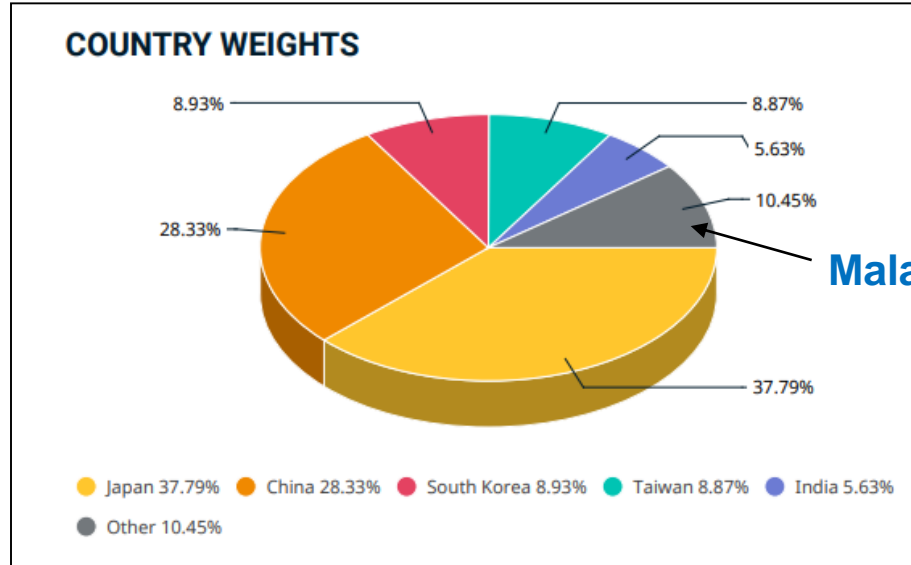


\* - distortion of Tech Index during 2000 – 2005 period due to dotcom bust and major changes in index components and weighting

Source: Reuters

# Challenges Market – International Irrelevance (1)

Asia/EM Portfolio funds can afford to have 0 position in Malaysia at no risk



Source: CGS-CIMB, MSCI

## *Challenges – Market (2)*

Malaysia's equity market has been punching above its weight since '90s:

- Rapid growth in GLIC and private sector investment funds which are largely captive with relatively low international mobility due to currency controls.
- Unique pooled savings/investment schemes that channel funds into capital market instead of being intermediated through banking system as is the norm in most countries.

Questions on sustainability of equity market growth based on this model:

- How much longer can these funds remain captive?
- How much more can savings grow and be willing to invest in these funds, without having to rely on investors using them as instrument for carry trades?
- Is there an implied guaranteed rate of return for GLIC funds that could prove costly if the government has to make good on them during crisis periods?
- What is the cost of the distortion to the banking system and capital market?

# *Challenges - Economy*

Economy has not transformed much since GFC:

- Over-reliance on oil, commodities, public sector investments, low value add investments.
- Low R&D, lack of upgrade in workforce skillsets and insufficient production of STEM graduates, exacerbated by brain drain.
- Not reflecting growing economic constraints in terms of rising wage costs, worker shortages, low productivity and government's shrinking fiscal latitude to support public sector investment driven model.

# Food For Thought (1)

1. KLCI does not represent the economy – a) constituents vastly different; b) earnings growth has very little correlation to GDP growth, though valuation cycles may have some predictive value on economic directions.

What does KLCI represent?

Representation	Comments
Overall market	59% of Malaysia's capitalization
GLCs	55% of KLCI market capitalization
Old Economy/Ex-Growth/High disruption risk	54% comprising banks, plantations, power, O&G
Tech/High growth	0
Regional exposure	More than half of the 30 component stocks have 10% or more exposure to international operations or exports *

\* - we see this as a positive as Malaysia's market is too small to sustain a secular long term growth trend. Most of the multi-baggers over the last 10 years are either exporters or have regional/international operations.

Source: KSC



## *Food For Thought (2)*

2. Dominance of GLICs (~RM1.5tr AUM, 75% of total Malaysia AUM) and incestuous relationship with the market.
  - GLICs manage funds that invest in GLCs controlled by themselves or other GLICs. Sustainable or ideal?
  
3. The KLCI is not structured for growth and hence has not rewarded risk:
  - Small funds have consistently outperformed by pursuing active management with luxury of disregarding tracking error against the KLCI.
  - Can ultra-large funds (investing in KLCI by default) consistently outperform? Are KLCI tracker funds/ETFs viable? Or are smart Beta ETFs better?
  - Is greater diversification outside Malaysia the only solution for investors?
  - Should multi-asset class managers review the commonly high allocation to equities given its low risk-adjusted returns relative to other asset classes?

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# Presentation 3: Fixed Income Market in 2021

Teng Yue Xiang, CFA



# 2020 Fixed Income Markets Performance – Down to the last leg

FTSE World Government Bond Index - December 2020

Sector	Market			Local Currency Terms - Total Return				USD Unhedged Terms - Total Return			
	Weight	MDur	Rating	MTD	3-Mth	YTD	1-Year	MTD	3-Mth	YTD	1-Year
WGBI	100.00	8.89	AA	0.08	0.15	5.52	5.52	1.36	2.77	10.11	10.11
United States	35.32	7.06	AA+	(0.24)	(0.82)	7.98	7.98	(0.24)	(0.82)	7.98	7.98
Canada	1.64	7.38	AAA	0.03	(0.44)	7.34	7.34	1.75	4.38	9.26	9.26
Mexico	0.67	5.66	BBB+	2.15	3.88	14.39	14.39	3.33	15.10	8.41	8.41
Australia	2.27	7.28	AAA	(0.35)	(0.56)	4.43	4.43	4.35	7.06	14.63	14.63
Japan	17.41	11.87	A+	0.05	(0.02)	(1.09)	(1.09)	1.04	2.19	4.11	4.11
Malaysia	0.40	7.25	A	1.66	0.88	7.51	7.51	2.96	4.22	9.33	9.33
Singapore	0.36	7.99	AAA	0.06	0.31	7.86	7.86	1.43	3.61	9.74	9.74
EGBI (Euro Zone)	34.46	8.83	AA-	0.14	1.20	5.03	5.03	2.43	5.60	14.48	14.48
Austria	1.28	12.60	AA+	(0.09)	0.74	5.96	5.96	2.19	5.11	15.50	15.50
Belgium	2.11	10.27	AA	0.00	0.64	5.53	5.53	2.28	5.01	15.03	15.03
Finland	0.53	7.97	AA+	0.07	0.49	3.46	3.46	2.36	4.85	12.78	12.78
France	8.86	9.33	AA	0.02	0.60	4.52	4.52	2.31	4.97	13.93	13.93
Germany	6.40	8.38	AAA	(0.04)	0.32	2.99	2.99	2.24	4.67	12.26	12.26
Ireland	0.71	8.84	AA-	0.29	1.16	4.98	4.98	2.58	5.55	14.43	14.43
Italy	7.87	7.85	BBB	0.53	2.78	8.15	8.15	2.83	7.24	17.89	17.89
Netherlands	1.65	8.95	AAA	0.00	0.66	3.75	3.75	2.28	5.03	13.09	13.09
Spain	5.05	8.52	A	0.15	1.55	4.33	4.33	2.44	5.96	13.73	13.73
Denmark	0.43	9.97	AAA	(0.08)	0.53	2.29	2.29	2.20	4.90	11.93	11.93
Norway	0.19	5.07	AAA	(0.51)	(1.45)	3.92	3.92	2.91	7.69	6.66	6.66
Poland	0.52	4.34	A	0.03	0.75	6.68	6.68	0.62	4.55	8.44	8.44
Sweden	0.28	5.93	AAA	(0.08)	(0.20)	0.99	0.99	4.03	8.76	15.11	15.11
United Kingdom	5.66	13.97	AA	1.73	0.62	9.71	9.71	4.16	6.39	13.21	13.21
Israel	0.38	6.86	AA-	0.33	(0.21)	1.44	1.44	3.28	6.31	9.12	9.12

FTSE Asian Government Bond Index Extended - December 2020

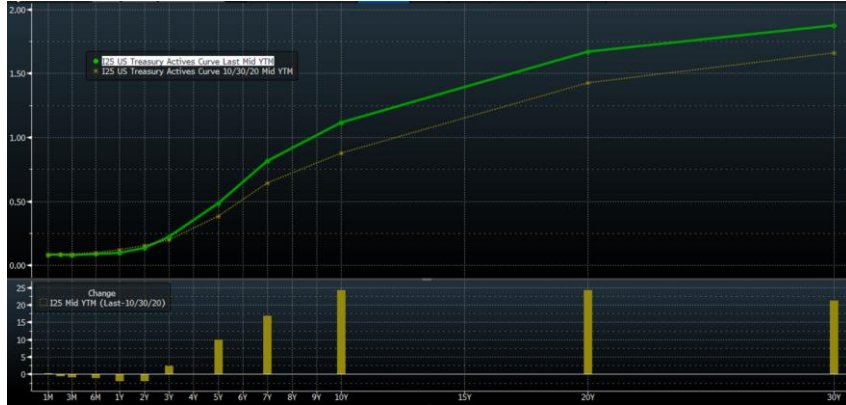
Sector	Market			Local Currency Terms - Total Return				USD Unhedged Terms - Total Return			
	Weight	MDur	Rating	MTD	3-Mth	YTD	1-Year	MTD	3-Mth	YTD	1-Year
AGBI-Extended	100.00	6.86	A	0.50	1.22	5.65	5.65	1.56	5.17	9.40	9.40
China	42.36	5.66	A+	0.78	1.11	2.60	2.60	1.43	5.30	9.28	9.28
Hong Kong	0.25	4.09	AA+	(0.16)	(0.62)	5.70	5.70	(0.18)	(0.67)	6.22	6.22
India	22.79	6.92	BBB-	0.36	2.79	12.47	12.47	1.72	3.79	9.87	9.87
Indonesia	4.91	6.20	BBB	1.67	6.62	14.94	14.94	2.18	12.92	13.57	13.57
Korea	15.96	9.81	AA	(0.54)	(2.15)	0.97	0.97	1.31	5.34	7.49	7.49
Malaysia	2.52	7.25	A	1.66	0.88	7.51	7.51	2.96	4.22	9.33	9.33
Philippines	1.81	6.07	BBB+	0.88	1.55	13.72	13.72	1.00	2.51	19.93	19.93
Singapore	2.27	7.99	AAA	0.06	0.31	7.86	7.86	1.43	3.61	9.74	9.74
Sri Lanka	0.36	3.69	CCC	0.74	1.29	20.44	20.44	1.04	1.15	17.92	17.92
Taiwan	3.37	7.77	AA-	(0.33)	0.90	3.61	3.61	1.11	4.00	10.54	10.54
Thailand	3.40	7.50	A-	1.22	1.49	3.73	3.73	2.20	7.35	3.71	3.71

FTSE Emerging Markets Government Bond Index - December 2020

Sector	Market			Local Currency Terms - Total Return				USD Unhedged Terms - Total Return			
	Weight	MDur	Rating	MTD	3-Mth	YTD	1-Year	MTD	3-Mth	YTD	1-Year
EMGBI	100.00	5.73	A-	1.07	2.10	5.54	5.54	2.39	7.48	6.97	6.97
Brazil	2.66	3.46	BB-	4.15	4.14	8.50	8.50	8.00	13.01	(15.97)	(15.97)
Chile	1.25	7.90	AA-	0.48	0.73	6.62	6.62	8.47	11.69	12.84	12.84
Colombia	2.34	5.53	BBB	0.77	2.23	12.07	12.07	5.65	15.20	7.52	7.52
Mexico	5.43	5.66	BBB+	2.15	3.88	14.39	14.39	3.33	15.10	8.41	8.41
Peru	1.28	8.02	A-	2.76	6.00	12.00	12.00	2.48	5.41	2.52	2.52
Hungary	1.73	5.20	BBB	0.69	2.48	1.19	1.19	1.97	7.08	0.58	0.58
Poland	4.21	4.34	A	0.03	0.75	6.68	6.68	0.62	4.55	8.44	8.44
Romania	1.50	3.92	BBB-	0.76	2.87	9.10	9.10	3.16	7.48	16.94	16.94
Russia	3.28	5.09	BBB	0.02	2.32	8.54	8.54	3.44	7.35	(8.85)	(8.85)
South Africa	4.31	6.52	BB	2.49	6.84	8.63	8.63	7.98	21.33	3.42	3.42
Turkey	1.08	2.59	BB-	(1.05)	2.74	8.87	8.87	4.14	6.50	(12.83)	(12.83)
China	54.62	5.66	A+	0.78	1.11	2.60	2.60	1.43	5.30	9.28	9.28
Indonesia	6.33	6.20	BBB	1.67	6.62	14.94	14.94	2.18	12.92	13.57	13.57
Malaysia	3.25	7.25	A	1.66	0.88	7.51	7.51	2.96	4.22	9.33	9.33
Philippines	2.33	6.07	BBB+	0.88	1.55	13.72	13.72	1.00	2.51	19.93	19.93
Thailand	4.38	7.50	A-	1.22	1.49	3.73	3.73	2.20	7.35	3.71	3.71

# Global Fixed Income Outlook – Rising UST tide raises all DM yields

UST steepened since Presidential Election...



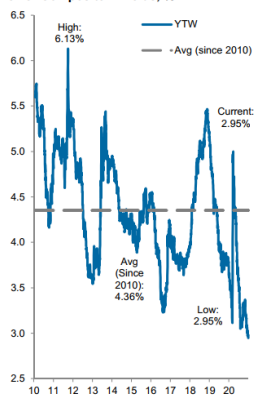
Which also lifted the Developed Market yields.



- **A fine blue line** – With as sweep of Georgia runoffs, Democrats secured unified control of both houses of Congress and the White House. This changes the stimulus landscape as we expect around USD900bn to USD1tn spending package passed in the next few months.
- **More stimulus = Bigger deficit = Higher Treasuries supply** – The immediate implication of the expected stimulus package will translate to a high treasuries supply, which will continue to steepen the curve. YTD 2021, 10-year UST risen by 20bps reaching 1.12%, reaching pre-Covid level. Post vaccine rollout and with new US administration coming on board, growth is expected to resume, which further support the steepening trend.
- **Similar rhetoric in Euro Area and Japan, higher growth = steeper curve**
  - However, Euro core yield such as 10y Bund yield will still stay in negative territory (-0.52% at the point of writing, with prospect to increase to -0.45 ~ -0.30% by end 2021). Search-for-yield activities will likely push peripheral spreads (i.e. Italy, Spain) tighter.
  - Japanese Government Bond yields will remain flattish in the 1H of 2021 mainly due to yield curve control framework. However, like other regions, stronger growth in 2H 2021 will likely see steepening bias on the long-end.

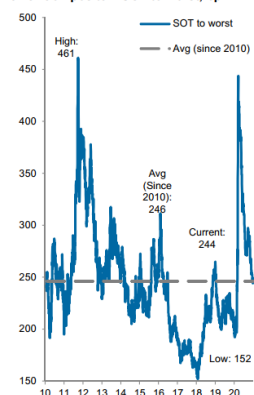
# Asia Fixed Income Outlook – Improved fundamental + Inflows = Strong Contender

JACI Composite – Yields, %

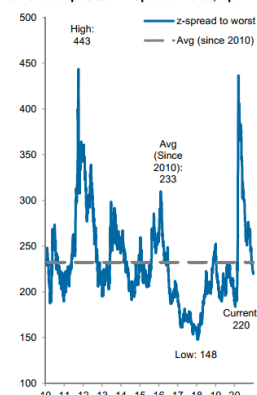


Source: J.P. Morgan. Data as of December 31, 2020.

JACI Composite – SOT to worst, bp



JACI Composite – Z-sprd to worst, bp



Asia & EM ex-Asia - Historical Corporate Default Rates

	Asia	EM Europe	Latin America	Middle East & Africa	% EM HY bonds (incl. 100% quasiss)
2011	0.0%	0.7%	1.1%	0.0%	0.6%
2012	2.7%	5.2%	3.6%	0.2%	3.5%
2013	1.2%	2.3%	10.6%	0.0%	4.3%
2014	1.5%	4.0%	6.5%	4.6%	3.8%
2015	3.1%	2.5%	5.7%	4.0%	3.8%
2016	1.0%	3.6%	9.2%	5.7%	5.1%
2017	0.9%	3.6%	2.0%	3.2%	2.2%
2018	2.5%	0.0%	2.1%	0.0%	1.6%
2019	1.8%	0.0%	2.3%	1.6%	1.6%
2020	3.5%	3.4%	4.4%	2.2%	3.5%
2021E	2.4%	0.7%	3.8%	2.5%	2.5%

Source: J.P. Morgan. Based on par value of defaulted bonds and excluding 100% quasi-sovereigns.

- Stronger JACI fundamental footing of Asia corporates should support spreads to tighten** – Earnings and cashflows of Asia corporates started to turn corner in 3Q20 and we expect the improvement in credit metrics to continue over the next 12 months with macro recovery remaining in place.
- Heading into 2021, strong fundamental and macro backdrop are supportive for a continued expansions of fund inflows** – EM fixed income asset class has shown global investors of its higher risk adjusted returns and low default rates (both in GFC and Covid). In addition, with stock of negative yielding securities and low FX hedging costs for USD products and continued ECB balance sheet expansion, it is ever so likely that non-traditional Asia fixed income investors to start looking at it.
- Valuation** – Spread compression for Investment Grade is expected to be constrained by yields that are already near historical lows at around 2.40%. Hence, there are more opportunity in the Asia High Yield space to tighten with default rate expected to inch lower (3.5% in 2020, 2.4% in 2021E) and growth expected to lift in 2H2021.

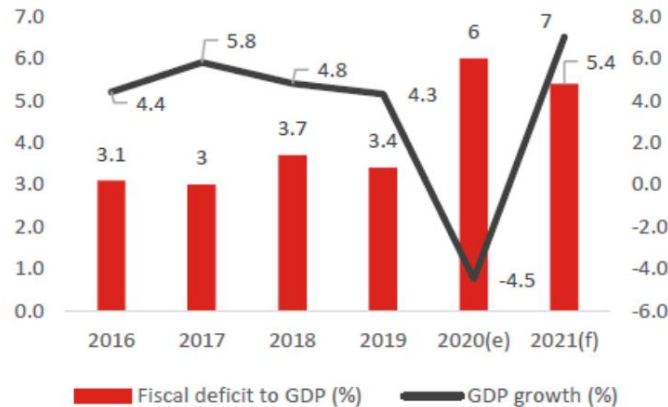
# Outlook for Ringgit Bond Market – Addressing the Elephant in the Room

## Government of Malaysia foreign currency (FCY) sovereign ratings

S&P	'A-' with Negative outlook. S&P revised the outlook to Negative from Stable in Jun 2020
Moody's	'A3' with Stable outlook. Moody's review of Malaysia was last done in Jul 2020.
Fitch	'BBB+' with Stable outlook. Fitch downgraded Malaysia to 'BBB+' from 'A-' on 4 Dec 2020, after revising the rating outlook to Negative from Stable in Apr 2020.

Source: Rating agencies, CIMB Treasury & Markets Research

## Historical trend in GDP growth and fiscal deficits



Note: 2020 and 2021 GDP numbers are midpoint of official ranges

Source: Department of Statistics, Bank Negara Malaysia, Ministry of Finance, CIMB Treasury & Markets Research

- **Fitch Ratings downgraded Malaysia's Long-Term Foreign-Currency Issuer Default Rating to BBB+/stable from A-/negative on 4 December 2020.**
- **The downgrade is reflective of :**
  1. depth and duration of the COVID-19 had weakened Malaysia key credit metrics.
  2. Key metrics including the fiscal deficit and debt-to-GDP have deteriorated beyond Fitch's initial expectations.
  3. Fitch expects the fiscal deficit to remain higher than pre-pandemic levels, given a continuation of support measures and political pressure for higher spending (e.g. 2021 budget targets a deficit of 5.4% of GDP & Government debt burden is higher than the medians of 59.2% and 52.7% for the 'A' and 'BBB' rating categories, respectively).
- **Post downgrade, there was a knee jerk reaction to the domestic MGS/MGII market as foreign investors react to the Fitch downgrade. However, the sell-off was limited as:**
  - a) the median sovereign rating of Malaysia is still A- (when include S&P's A-/negative and Moody's A3/stable) for now, and
  - b) Malaysia has large institutional support and will keep yields intact should foreign investors exit the domestic market.

# Outlook for Ringgit Bond Market – 2 Elephants?

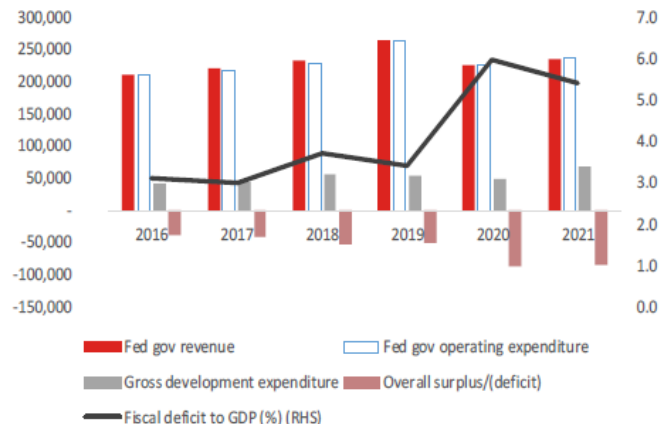
Malaysia's fiscal and bond supply related data, 2016-2021

Year	Fiscal deficit/GDP (%)	Gross govies supply (MYR bil)	Net govies Supply (MYR bil)	Debt-to-GDP (%)
2016	-3.1	86.0	21.3	52.7
2017	-3.0	107.5	33.5	50.7
2018	-3.7	112.8	39.5	51.8
2019	-3.4	115.7	44.3	52.5
2020(F)	-6.0	149.5	78.8	c.60
2021(F)	-5.4	153.0	84.8	c.60

Remarks: The government remains on track towards fiscal consolidation.

Source: BNM, MoF, Bloomberg, CEIC & CIMB Treasury & Markets Research

Federal government finance indicators (MYR m)



Source: BNM, MoF, Dept of Statistics & CIMB Treasury & Markets Research

- With more spending by the government, comes more debt.
- The Ministry of Finance recently announced its Budget 2021 which entails further fiscal expansion that would further increase the federal government's debt-to-GDP ratio.
- Nevertheless, we see this risk is largely contained as the government of Malaysia has signaled that:-
  1. the debt-to-GDP ratio is targeted to be reduced to the 55% level
  1. the government is committed to fiscal consolidation and sustainability under the medium-term fiscal framework.
- Our thoughts is that the federal government's policy approach for 2021 is common during an economic downturn and recovery. Any absence of support by the government may result in the economy slowing down further.
- We also believe that government agencies and GLCs will step in to provide a backstop should Malaysia's bond market experience any volatility in 2021.



# Outlook for Ringgit Bond Market – Where is the Value Proposition?

Year	Cummulative OPR action	MGS Index Return	Corporate Bond Index Return	Corporate Bond Performance	MGS Index Yield	Corporate Bond Index Yield	Credit Spread
2008	-0.25%	8.81%	3.19%	Underperformed	3.07%	5.49%	2.42%
2009	-1.25%	0.15%	7.95%	Outperformed	3.50%	4.85%	1.35%
2010	+0.75%	5.06%	5.32%	Outperformed	3.41%	4.54%	1.13%
2011	+0.25%	4.91%	5.43%	Outperformed	3.30%	4.31%	1.01%
2012	-	4.22%	4.81%	Outperformed	3.31%	4.16%	0.85%
2013	-	0.78%	1.84%	Outperformed	3.73%	4.49%	0.76%
2014	+0.25%	3.81%	4.75%	Outperformed	3.91%	4.61%	0.70%
2015	-	4.86%	4.77%	Underperformed	3.64%	4.77%	1.13%
2016	-	3.37%	5.65%	Outperformed	3.91%	4.75%	0.84%
2017	-	5.60%	5.28%	Underperformed	3.75%	4.67%	0.92%
2018	+0.25%	3.60%	5.51%	Outperformed	3.99%	4.64%	0.65%
2019	-0.25%	9.16%	8.77%	Underperformed	3.32%	3.87%	0.55%
2020	-1.25%	6.96%	6.68%	Underperformed	2.56%	3.24%	0.68%
Simple Average		4.71%	5.38%	Outperformed	3.49%	4.49%	1.00%

Source: Bond Pricing Agency Malaysia

- For the last 13 years (including YTD 2020), corporate credit return outperformed government securities by 9 vs 4.
- OPR at its lowest at 1.75% (albeit with potential to drift lower - depending on the speed of recovery) in recent history, we are of the view that government segment is unlikely to outperform credit again in 2021.
- While Malaysia economy is expected to have an uneven recovery, we opine that credit selection from bottom-up approach will remain key in delivering long-term outperformance

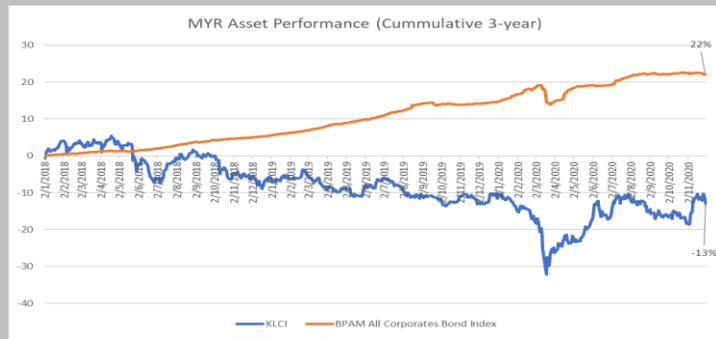
# Why remain invested in MYR Fixed Income?

- **Hedge against uneven economic recovery –**

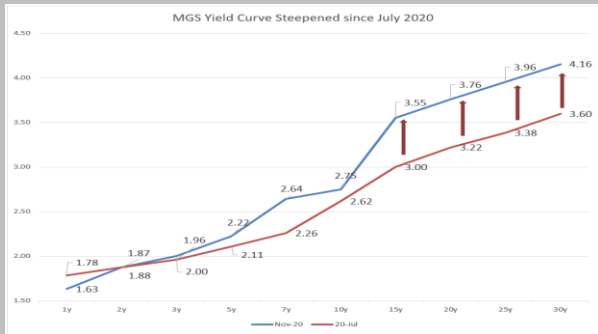
“The ascent out of this calamity is likely to be long, **uneven**, and highly uncertain. It is essential that fiscal and monetary policy support are not prematurely withdrawn, as best possible” – **Gita Gopinath, Economic Counsellor at IMF, 13 Oct 2020**

“ However, recent resurgences in COVID-19 cases....suggests that the global economic recovery will likely remain **uneven** in the near-term. Financial conditions have improved, although risk aversion remains elevated”. – **BNM, 3 Nov 2020**

- **Lower volatility against risky assets –**



- **Most negative technical risks already priced-in**



Steeper curve is a function of **political uncertainty risk, higher fiscal deficit risk, sovereign rating risk, index exclusion risk, etc...**

- **Meaningful yield pick-up against term deposits as low-rate environment will stay for long –**

		1-year Term Deposit Rate				
						
Conventional	2.00%	1.75%	2.10%	1.50%	2.10%	
Islamic	2.00%	1.65%	1.85%	1.95%	2.10%	
Average		1.90%				

# PANEL DISCUSSIONS



# Q & A

**Drop your questions or Vote for the top questions here :**

**[meet.ps/cfam2021marketoutlook](https://meet.ps/cfam2021marketoutlook)**



**THANK YOU**





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