



Investment Note



MALAYSIA: MARKET IMPLICATIONS POST GE14

For the first time since its independence, Malaysia sees a change of government after the incumbent ruling coalition, Barisan Nasional (BN), lost power in the 14th General Elections (GE14) on 9 May 2018. A new federal government will be formed by Pakatan Harapan (PH), which will also be the ruling government in several states. In the short-term, there is likely to be market uncertainty and, therefore, volatility. However, as investor sentiment eventually stabilizes, opportunities remain for politically-neutral and select oversold stocks, as well as those generating earnings from regional or global growth momentum.

Market Implications Post Election

The unprecedented GE14 outcome may trigger a broad-based knee-jerk reaction when the market resumes trading on Monday, 14 May 2018. This does not come as a surprise, as investors typically do not welcome uncertainties. Sectors likely to be impacted are construction and those positioned against the PH's election pledges. Stocks that are perceived to be linked to BN will most likely be hit as well. Investors' confidence could be affected by a likely review and reprioritization of projects, as well as timing delays before the new government hits the ground running.

Taking cue from those major regime changes around the world such as Trump winning the US presidency, Brexit, we believe that any sell down will be temporary. We are consoled by our low foreign equity shareholding and ample domestic liquidity support. PH's election pledges could affect Malaysia's fiscal position negatively, but higher oil price should provide some cushion until any offsetting measures are announced.

Investor Sentiment and Portfolio Positioning

Investors shall eventually return with a renewed and stronger buying appetite as the dust gradually settles and the market gets greater clarity on PH's policies and implementation. Longer-term, the market will largely be driven by corporate earnings, which in turn is a function of consumer confidence, export growth, and the strength of commodity prices. Funds are generally allocated based on the attractiveness of a market's growth and valuations relative to its regional peers. Political and economic stability are factors that investors build into the risk premium, but as long as valuations adjusted for risk premiums are attractive, funds will be allocated to that market.

Portfolio-wise, we will continue to position our portfolios the way we did in the run-up to GE-14. Our exposures have been mainly in politically-neutral stocks, oversold stocks with relatively limited downside to intrinsic values, and those with earnings diversified to regional or global growth. We shall continue to see opportunities to position in such themes in the prevailing market volatility.

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