

## Government reset

After receiving support from 114 out of 220 Members of Parliament, Datuk Seri Ismail Sabri Yaakob has been appointed the 9th Prime Minister (PM) of Malaysia on 21 August 2021. The appointment followed the resignation of the previous PM Tan Sri Muhyiddin Yassin from his post on 16 August 2021.

Muhyiddin's resignation came after Members of Parliament (MPs) from UMNO - one of the major parties of Muhyiddin's ruling coalition Perikatan Nasional – reportedly withdrew their support for the coalition, which would have led to Muhyiddin losing majority support to govern. At the time of writing, PM Ismail Sabri has yet to form his cabinet.

### Impact on Malaysia equities market

Foreign investors have been cautious on the Malaysia markets over the past couple of months ever since speculation of political changes surfaced. The political climate, coupled with surging COVID-19 cases, saw the FBM KLCI down 5.6% in June and July 2021<sup>1</sup>. Both average daily trading volume and value continued to fall, illustrating lacklustre interest from market participants.

By early August, the market had largely priced in the impact from these two factors, which explained the reason why the Malaysia equity market appeared relatively muted in the weeks leading up to the political change.

The new PM's immediate challenge will be to lead Malaysia's economy out of the pandemic-induced slowdown while protecting the lives and welfare of the general public. Though the task is gargantuan, improvement in vaccination strategy gave glimmers of hope that recovery is just around the corner. If policy continuity is ensured under the new PM, there could be more runway for vaccination rollout and fiscal stimulus measures to reach their potential. This, in turn, could be positive for the equity market.

We chose to sidestep the temporary noise from domestic economy and policy concerns arising from this latest episode of political development and had steadfastly anchored our equity investment strategy on long-term themes of digitalization, clean energy and deglobalization. At the same time, we steered

clear from politically-linked stocks, preferring to stay on neutral grounds.

With the encouraging vaccination rate in Malaysia, there will be buying opportunities for stocks benefiting from the reopening of the economy if we look beyond the current Covid situation. Ultimately, we believe stocks selection will be key to investment performance in the current investment climate.

### Impact on Malaysia fixed income market

The Malaysia bond market has not shown much reaction to the recent political development within the country. On the contrary, the Malaysian Government Securities (MGS) has been tracking the US Treasury (UST) yield movements and the Federal Reserve's monetary policies instead. In the first half of August 2021, the 10-year MGS yield climbed 7 bps<sup>1</sup>, in line with the rise in UST yields during this period.

We expect market reaction to be neutral, with investors focusing more on pace of vaccination and economic reopening. For fixed income investors, policy continuity will also be monitored to assess the impact on the country's fiscal condition, sovereign health and monetary policies.

On the fixed income space, we believe policy rates will be kept accommodative for longer than earlier expected for countries hit hard by the pandemic, including Malaysia. Against this backdrop, we are of the view that MGS yields will trade rangebound in the near term but trend higher over time as Malaysia gradually overcomes its Covid challenges. For the portfolio, we maintained a low portfolio duration in anticipation of higher yields over the longer term and will continue to leverage on income return as the main return driver.

<sup>1</sup> Source: Bloomberg

## Disclaimer

A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange trading suspensions and closures, and affect portfolio performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future, could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other preexisting political, social, and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

The information provided does not take into account the suitability, investment objectives, financial situation, or particular needs of any specific person. You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.

This material, intended for the exclusive use by the recipients who are allowable to receive this document under the applicable laws and regulations of the relevant jurisdictions, was produced by, and the opinions expressed are those of, Manulife Investment Management as of the date of this publication and are subject to change based on market and other conditions. The information and/or analysis contained in this material has been compiled or arrived at from sources believed to be reliable, but Manulife Investment Management does not make any representation as to their accuracy, correctness, usefulness, or completeness and does not accept liability for any loss arising from the use of the information and/or analysis contained. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations, and is only as current as of the date indicated. The information in this document, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife Investment Management disclaims any responsibility to update such information.

Neither Manulife Investment Management or its affiliates, nor any of their directors, officers, or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment, or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife, Manulife Investment Management, nor any of their affiliates or representatives is providing tax, investment, or legal advice. This material was prepared solely for informational purposes, does not constitute a recommendation, professional advice, an offer, or an invitation by or on behalf of Manulife Investment Management to any person to buy or sell any security or adopt any investment strategy, and is no indication of trading intent in any fund or account managed by Manulife Investment Management. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Diversification or asset allocation does not guarantee a profit or protect against a loss in any market. Unless otherwise specified, all data is sourced from Manulife Investment Management. Past performance does not guarantee future results.

## Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams, along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

These materials have not been reviewed by and are not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions. Additional information about Manulife Investment Management may be found at [manulifeim.com/institutional](http://manulifeim.com/institutional).

**Australia:** Hancock Natural Resource Group Australasia Pty Limited, Manulife Investment Management (Hong Kong) Limited. **Brazil:** Hancock Asset Management Brasil Ltda. **Canada:** Manulife Investment Management Limited, Manulife Investment Management Distributors Inc., Manulife Investment Management (North America) Limited, Manulife Investment Management Private Markets (Canada) Corp. **China:** Manulife Overseas Investment Fund Management (Shanghai) Limited Company. **European Economic Area and United Kingdom:** Manulife Investment Management (Europe) Ltd., which is authorized and regulated by the Financial Conduct Authority; Manulife Investment Management (Ireland) Ltd., which is authorized and regulated by the Central Bank of Ireland. **Hong Kong:** Manulife Investment Management (Hong Kong) Limited. **Indonesia:** PT Manulife Aset Manajemen Indonesia. **Japan:** Manulife Investment Management (Japan) Limited. **Malaysia:** Manulife Investment Management (M) Berhad 200801033087 (834424-U). **Philippines:** Manulife Asset Management and Trust Corporation. **Singapore:** Manulife Investment Management (Singapore) Pte. Ltd. (Company Registration No. 200709952G). **South Korea:** Manulife Investment Management (Hong Kong) Limited. **Switzerland:** Manulife IM (Switzerland) LLC. **Taiwan:** Manulife Investment Management (Taiwan) Co. Ltd. **United States:** John Hancock Investment Management LLC, Manulife Investment Management (US) LLC, Manulife Investment Management Private Markets (US) LLC, and Hancock Natural Resource Group, Inc. **Vietnam:** Manulife Investment Fund Management (Vietnam) Company Limited.

Manulife Investment Management, the Stylized M Design, and Manulife Investment Management & Stylized M Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates, under license.

541821