A better year ahead

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Malaysia was one of the worst-performing markets with a year-to-November return of -8% due to a slowdown in earnings growth that made the equity market less attractive to foreign investors. However, small-cap stocks have done well — particularly those in the technology, energy and construction sectors, showing a return of 18% for the same period.

The key event that affected performance was definitely the US-China trade war. The market had a good run-up in 1H2019, as investors anticipated a major trade deal in May. When the deal failed to materialise and tensions increased, the market corrected significantly. As we head toward the year end, the market is again anticipating some sort of trade deal, at least before the US election in 2020. Both the US and China have indicated desire to strike a "Phase 1" agreement. We expect the market to be supported by the hope of a trade deal and a low interest rate environment.

Since the trade war started in March 2018, until Nov 30, the Hang Seng has declined 16%. In comparison, the US was doing much better with Dow Jones up 10% during the period.

Protests began in Hong Kong on March 22, when an extradition bill was tabled in the legislature. These escalated following the second reading of the bill on June 12. The bill was later withdrawn but the protests have continued, though the intensity appears to have moderated following local council elections in late November. From June 12 to Nov 30, the Hang Seng has shed 5%. Property stocks in Hong Kong were hit particularly hard. Swire Pacific dropped 27% and Wharf Real Estate Investment, 19%. Offsetting these losses, however, were gains made by some big Chinese companies on the Hang Seng Index, such as Sunny Optical (74%) and CSPC Pharmaceutical Group (51%). Overall, while the Hong Kong protests have exacted a fairly heavy toll on the Hong Kong economy, they have not had a significant impact on the markets of other countries in the region.

The market is expected to be supported by expectations that a US-China trade deal of some sort will be reached before the US election. However, the trade war has caused protectionism to grow across the globe, from the US and China to Europe and India. Unilateralism and a reversal of globalisation will be a risk to economic growth.

As 5G becomes more widely adopted, the areas that concern Industry 4.0, which include technologies such as 5G, artificial intelligence (AI), Internet of Things (Iot), cloud computing and automation — which will push industries and businesses to greater efficiency, productivity and capability — will offer opportunities for stock picking.

We also think that with greater connectivity, the proliferation of data sharing and increased usage of technologies in our daily lives and, better yet, in an industrial and business context, there will also be increasing need for cybersecurity. Technology users — be they individuals, governmental entities or business enterprises, large or small — will require cyber-

security products, services or systems that will enable them to secure their data and systems and ensure their operational safety, reliability and continuity.

Another area we cannot ignore is renewable energy, be it solar, wind, hydro, geothermal or any other energy that reduces the dependency on cheap fossil fuels. What is critical is how the cost of generating and storing sustainable energy can be lowered so it becomes viable for economies and businesses to apply. And battery technology is also expected to grow with the increased adoption of batteries in electric vehicles. Adopting renewable energy is also a step towards Impact Investing.

On the other hand, we think Malaysia's plantation sector may experience earnings growth following the recovery of the crude palm oil price. CPO hit the lowest level of around RM1,800 per tonne in November 2018 and rose to RM2,800 in December 2019. We think that if the CPO price maintains at the current level, plantation companies will post better year-on-year growth in the first nine months of 2020, so, a rerating of the sector is likely.

Oil and gas service providers are expected to show further improvement moving into 2020, as a result of an increase in Petroliam Nasional Bhd's upstream spending. According to Petronas' outlook for 2020, jack-up rigs are expected to increase to 17 to 19 from 16 or 17 in 2019. However, a significant rally this year may cap further upside potential in 2020, unless earnings continue to surprise on the upside.

As the global economy continues to face downward pressure, central banks across the globe are expected to maintain or reduce interest rates to boost the economy. In the context of an economic slowdown, bank shares may continue to face downward pressure in anticipation of slower growth, despite the interest rate cut.

In terms of stocks to avoid, we would definitely avoid companies with high gearing, negative earnings growth and poor management.

Generally, I think 2020 may be better than 2019. If global interest rates remain low, asset prices, including stock markets, will likely stay high. As the US presidential election draws nearer, the possibility of more good news to boost the US economy, including a US-China trade deal, would be positive for the market. E