Thematic

Around The World In 18 Charts

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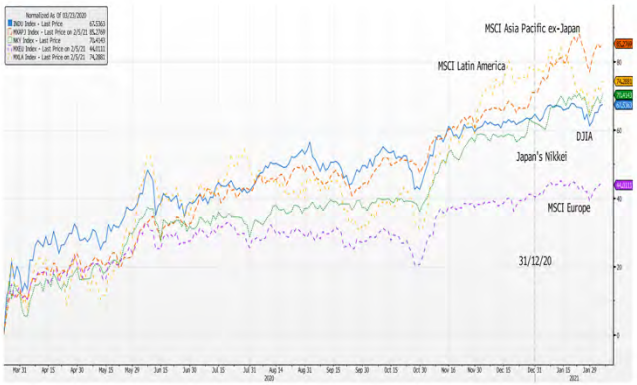
The world is in a constant state of flux. As investors, we need to keep abreast of the latest developments to make informed decisions. And in an increasingly connected world, we are bombarded with an overload of information that is flowing in at lightning speed. What are the key risk factors? Where to put our money? When do we go in or get out? These are among the frequently asked questions by investors.

To help us see the big picture, we moved around the world (virtually of course) to select key investment parameters that could influence share markets in the months ahead. We checked out different industries and geographical regions for insights. We also trawled through multiple websites to spot interesting trends and derive investment themes.

We then present all the pertinent information – ranging from the financial market dynamics to the real economy status to exciting sectors to watch out for – in a compact bite-sized infographic pack. The conclusion – there are still money-making opportunities out there. But investors ought to be keep a bird's eye view on the risks and stay nimble as always.

Chart 1: At a glance - Global equities have extended their rally into 2021

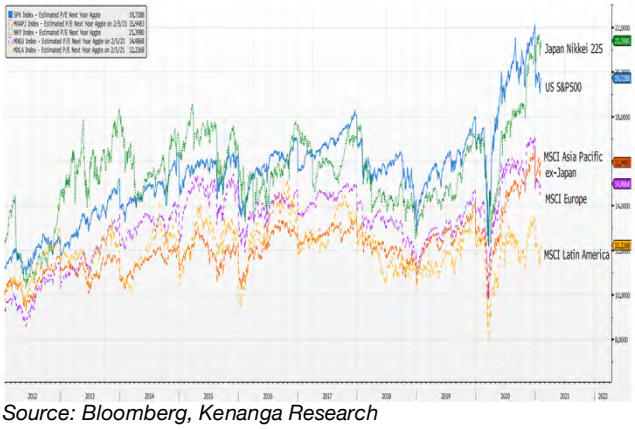


Source: Bloomberg, Kenanga Research

The party is still on. After bouncing off their troughs in March 2020, global equities subsequently went on a bull run to chalk up handsome gains last year.

As the good times roll on, the global equities rally has spilled over to 2021. From the start of the run-up in March last year until last week, investors would have made the most money in the Asia Pacific ex-Japan region (up 85%) while Europe logged the lowest return (+44%).

Chart 2: PER valuations are not overly excessive even after the market rally



Source: Bloomberg, Kenanga Research

Even after the sharp gains, PER valuations are not overly stretched across the board yet. According to Bloomberg estimates, in terms of forward PERs, Latin America appears to be the most attractive with the lowest multiple of 12x while the Japanese market is the most expensive (at 21x). Asia Pacific ex-Japan stands somewhere in the middle with a multiple of 16x.

This suggests for selected equities markets, the rally may still have more legs to run going forward. For example, Latin America and European equities (in terms of forward PERs) are currently trading at between mean and +1SD of their respective historical average.

Chart 3: Volatility is here to stay, which means money-making opportunities

Source: Bloomberg, Kenanga Research

VIX is an index designed to calculate the expected volatility of the S&P500 Index on Wall Street. This volatility gauge tends to move in the opposite direction vis-à-vis the S&P500 Index (see chart).

After sliding from a peak in mid-March last year, the VIX is presently treading at the lower-end of its historical range since June 2020. If the VIX continues to hover around the current low level, this may provide an opportunity for the S&P500 to extend its bull run, just like what happened between mid-November 2020 until late January 2021 (with possible spill over effects to the rest of the world). Conversely, watch out for an upswing in the VIX, which could then lead to a pullback in the S&P500 given their inverse correlation.

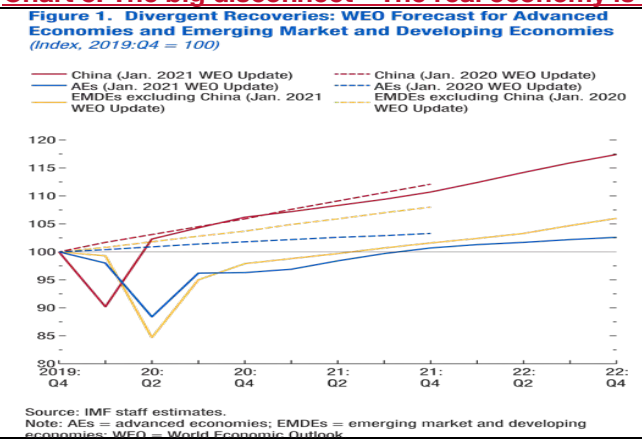
Chart 4: USD at a crossroads now, with implications on fund flows for emerging markets

Source: Bloomberg, Kenanga Research

In view of the aggressive quantitative easing monetary policy and massive fiscal stimulus measures in the US, consensus is anticipating the USD to fall in value. This has been the case following a depreciation of 13% against a basket of 10 leading global currencies since March last year.

On the chart, the USD is now hovering near where it was back in December 2014 and 1QCY18. Will the greenback break below this threshold anytime soon? From a fund flows perspective, a further weakening of the USD may benefit emerging markets like Malaysia as international investors seek incremental returns from currency exposure (and vice versa).

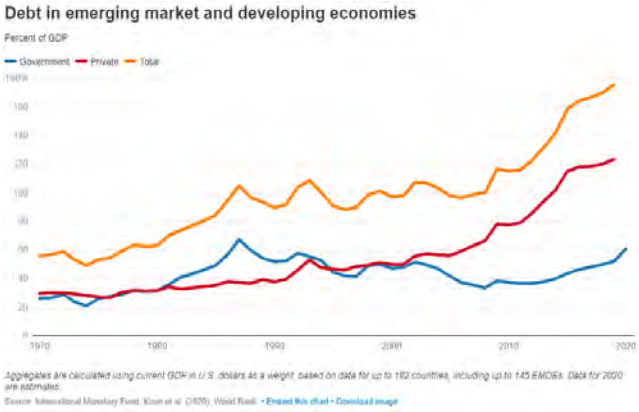
Chart 5: The big disconnect - The real economy is lagging



Have global equities run ahead of fundamentals? The (almost) uninterrupted run-up in global equities since March last year suggests that financial markets are pricing in better days ahead for the world's economy.

Yet, the International Monetary Fund (IMF) is predicting that the global economic rebound would likely be bumpy and uneven, with a faster pace of recovery in China and emerging markets and developing economies compared with the advanced economies. Should the economic data fall short of expectations going forward, stock markets could reverse.

Chart 6: Be mindful of elevated debt risks

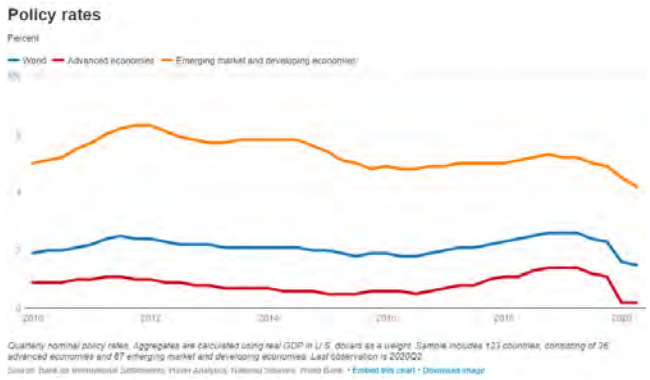


Source: IMF, World Bank

The unprecedented scale of fiscal stimulus and monetary easing policy taken by governments around the world to fight the Covid-19 pandemic fallouts has inevitably caused worldwide debt levels to soar.

While the elevated debt risks may be less of an immediate concern, any major debt defaults in the future may trigger an unwanted domino effect on the global financial markets.

Chart 7: Interest rates outlook - Lower for longer. But what comes down will eventually go up

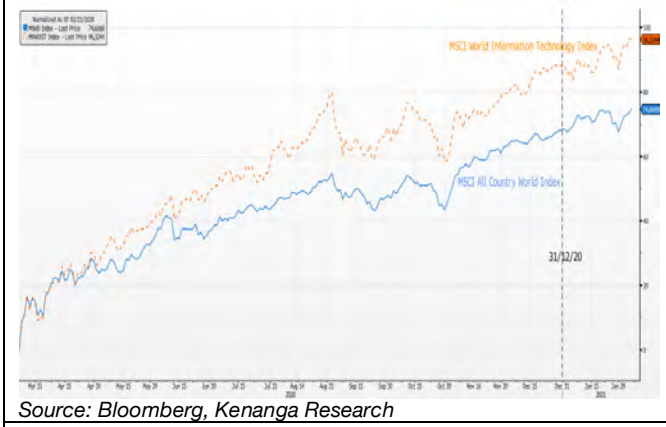


Source: BIS, World Bank

In a swift and direct response following the Covid-19 outbreak, central bankers around the world slashed interest rates to stabilise the global economy (and financial markets).

With interest rates now at unprecedented lows (with some countries even slipping into negative territory), the only way to go eventually is up. It remains to be seen how financial markets will react then. Hopefully, it will not be a repeat of the "2013 taper tantrum", which triggered panic selling in global financial markets back then after the US Federal Reserve signalled its intention to stop its quantitative easing programme.

Chart 8: The future is now for the technology sector



Source: Bloomberg, Kenanga Research

The Covid-19 pandemic has permanently changed the world structurally. From performing online transactions to digitalising business processes to the trend of working from home, this has turned out to be a game-changer for the technology sector, benefitting various players in this space.

Capturing the immense potential, the MSCI World Information Technology Index (+96%) has significantly outperformed the MSCI All Country World Index (+75%) since the global meltdown in March last year.

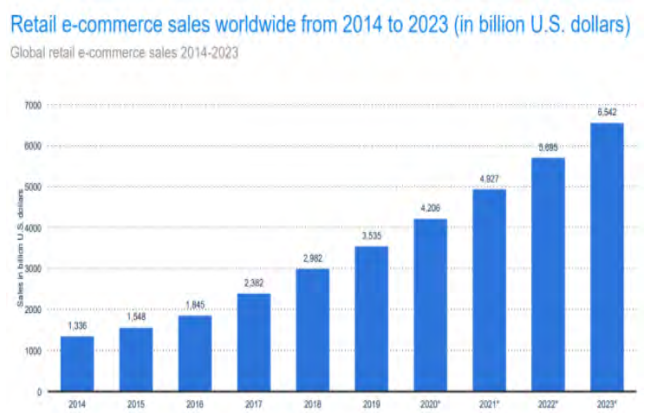
Chart 9: US' FAANG versus China's BAT

Source: Bloomberg, Kenanga Research

Within the technology space, the biggest beneficiaries include industry leaders which are now ranked among the most valuable companies in the world. The list of giant technology companies comprises Facebook, Amazon, Apple, Netflix and Alphabet (formerly known as Google) (which make the acronym FAANG from the US) and Baidu, Alibaba and Tencent (BAT from China).

From their troughs in March 2020, the best three performers are Baidu (up 196%), Apple (+144%) and Tencent (+106%).

Chart 10: The rise and rise of e-commerce platforms

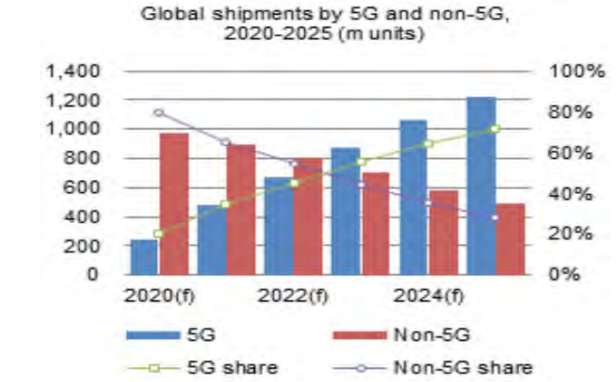


Source: BigCommerce

With more and more people buying and selling things online, there is no stopping the growth trajectory of e-commerce sales worldwide. According to BigCommerce, global retail e-commerce sales is projected to jump from USD3.5t in 2019 to USD6.5t in 2023.

From the perspective of the Malaysian stock market, the potential indirect beneficiaries include logistic players like **Pos Malaysia (MARKET PERFORM; TP: RM1.00), GDEX** and **Nationwide (both non-rated)**.

Chart 11: Enter the 5G era



Source: DIGITIMES

Whether we like to admit it or not, we all cannot live without a smartphone today. And with a new generation of smartphones that promises faster speed and better functions, the 5G era is expected to create a captive demand. Based on forecasts by DIGITMES, global shipments of 5G smartphones will surge nearly six-fold from approximately 200m units in 2020 to 1.2b unit in 2025.

Among the listed companies in Malaysia, **Inari Amertron (OUTPERFORM; TP: RM4.00), JHM Consolidation (MARKET PERFORM; TP: RM2.35)** and **Foundpac (non-rated)** stand to benefit from this mega trend going forward.

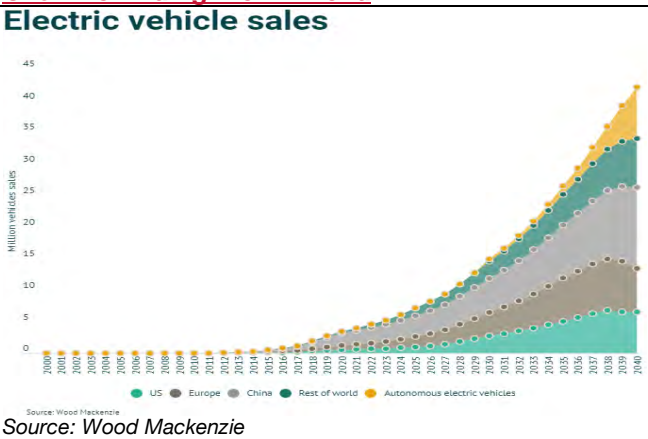
Chart 12: Money grows in the clouds

Source: Fortune Business Insights

With the proliferation of technology related applications, the demand for cloud-based solutions is projected to grow exponentially in tandem. For instance, the global cloud computing market size is forecasted by Fortune Business Insights to leap from USD194b in 2019 to USD685b in 2027.

Back home, within this space, players like **Malaysian Pacific Industries (OUTPERFORM; TP: RM29.00), Unisem (OUTPERFORM; TP: RM5.15), Dufu Technology (non-rated)** and **Green Packet (non-rated)** are in a position to ride on this theme.

Chart 13: Riding the EV trend



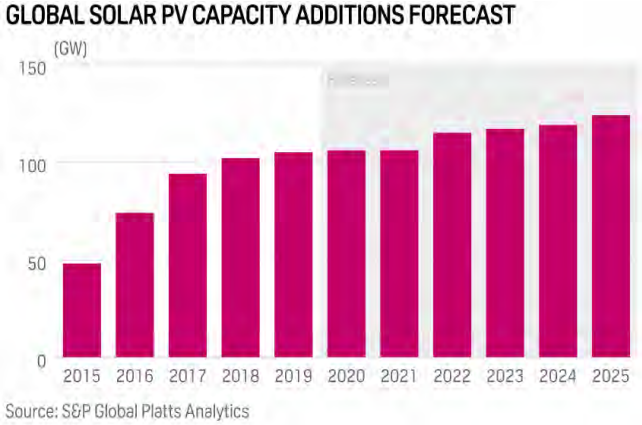
Source: Wood Mackenzie

As the urge to combat climate change gathers momentum, an increasing number of electric vehicles (EVs) is expected to hit the road over time. Wood Mackenzie has estimated that global EV sales would likely climb exponentially from less than 5m units currently to 42m units in 2040.

There are a few Malaysian listed companies – such as **Malaysian Pacific Industries (OUTPERFORM; TP: RM29.00), D&O Green Technologies (OUTPERFORM; TP: RM3.40), JHM Consolidation (MARKET PERFORM; TP: RM2.35)** and **KESM Industries (MARKET PERFORM; TP: RM10.60)** – which are positioned to ride on this trend.

Conversely, when there are more switchovers from internal combustion engine (ICE) vehicles to EVs in the longer run, the substitution effects may eventually dampen oil demand.

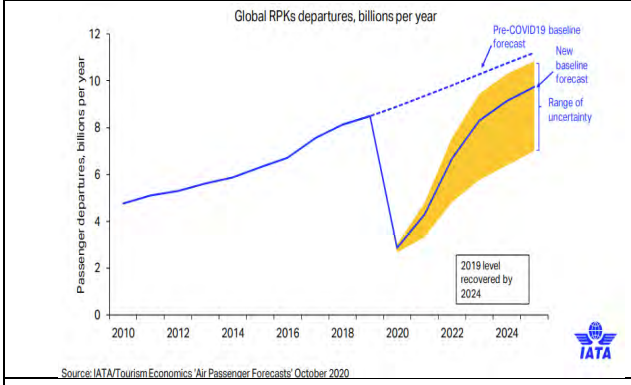
Chart 14: Renewable energy prospects to charge ahead



Still on the subject of climate change, we expect to see a rising trend in solar renewable energy usage. Globally, S&P Global Platts Analytics has estimated that 687GW of new solar capacity would be added between 2020 and 2025.

In Malaysia, a country that is blessed with year-round sunshine, the focus will be on utilising solar energy to generate electricity. Under the government's policy, the target is to achieve 20% renewable energy generation capacity mix by 2025. On the local stock exchange, an increasing number of listed companies have emerged as proxies to the renewable energy sector. Stocks with exposure in this space include **Taliworks, Cypark, Solarvest and Samaiden (all non-rated)**.

Chart 15: Turbulence in the skies for the aviation industry



Now everyone can't wait to fly again? Their wishes will not come true anytime soon apparently. Despite expectations that the Covid-19 pandemic would be brought under control by next year following the progressive rollout of vaccination programmes, IATA is anticipating that worldwide air travel would show a gradual recovery, returning to the pre-Covid-19 level only sometime in 2024.

With not as many travellers as before taking to the sky in the meantime, investors may need to be patient when investing in airline company **AirAsia Group (UNDERPERFORM; TP: RM0.38)**, as well as airport operator **Malaysia Airports (OUTPERFORM; TP: RM6.86)**.

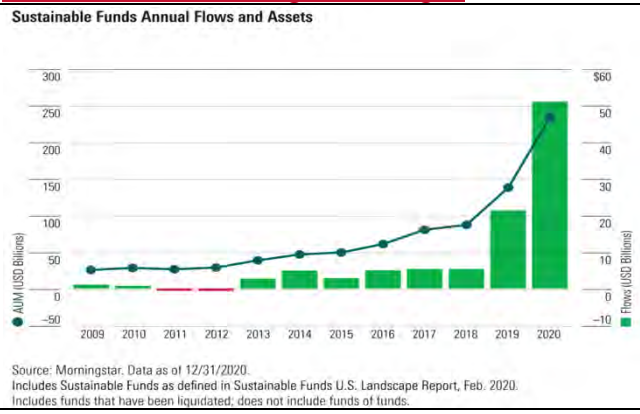
Chart 16: Up, up and away for Bitcoin?

Source: Bloomberg, Kenanga Research

Cryptocurrency Bitcoin has shot through the roof, rewarding many brave-hearted investors along the way. Notwithstanding its volatility, Bitcoin price has leaped by 307% last year and 30% so far this year to USD37,859 currently.

With virtual currencies gaining more and more traction now, there has been a push to consider the likes of Bitcoin as an alternative asset for investment. If this thinking catches on, even a trickle of investment allocations into digital currencies from the trillions of dollars currently sitting in existing funds could propel Bitcoin to greater heights in the future.

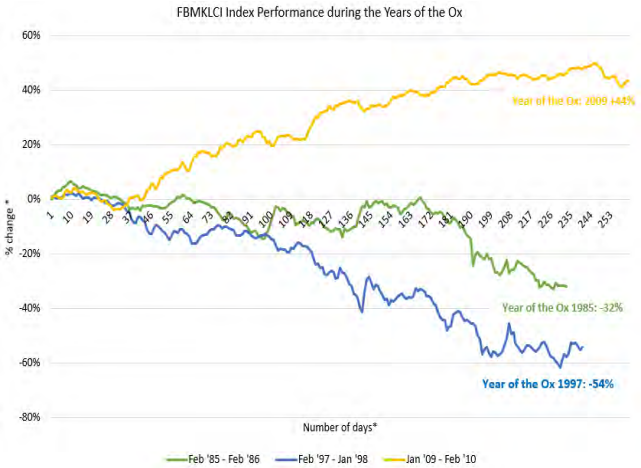
Chart 17: ESG investing in the vogue



Expect to hear more and more of ESG (Environmental, Social & Governance) investing. And expect to see more and more investors putting their money in funds that adopt ESG investing going forward. According to Morningstar, sustainable funds in the US attracted inflows of USD51b in 2020 (versus USD21b in 2019 and USD5.4b in 2018).

Back in Malaysia, sustainable investing is gaining momentum too led by various government-linked funds. This will surely force listed companies to take ESG investing more seriously or they may be at risk of falling out from the investor radar sooner or later.

Chart 18: Back to the future – Which way will the cow moo-ve this year?



Source: Bloomberg, Kenanga Research

As the rat squeaks its way out for the cow to moo-ve in, what can investors expect from Malaysia equities in the coming Year of the Ox (which starts from 12 February 2021 through 31 January 2022)?

Well, we will not pretend to be feng shui experts. Instead, just relying on past anecdotal records, we saw the benchmark KLCI ending in the red in two (out of the three) Ox years: -32% in 1985 and -54% in 1997. Nonetheless, the KLCI was up 44% in the most recent Year of the Ox in 2009 following the 2008 Global Financial Crisis. Just like where we are now as we strive to recover from the Covid-19 pandemic, let's hope history will repeat itself this year.

One final note, if there is a positive trait that we can learn from the cow in order to be successful investors, we all must be willing to work hard – just like the cow - in doing our own stock market research.

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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