

Equity Market Review & Outlook

REVIEW

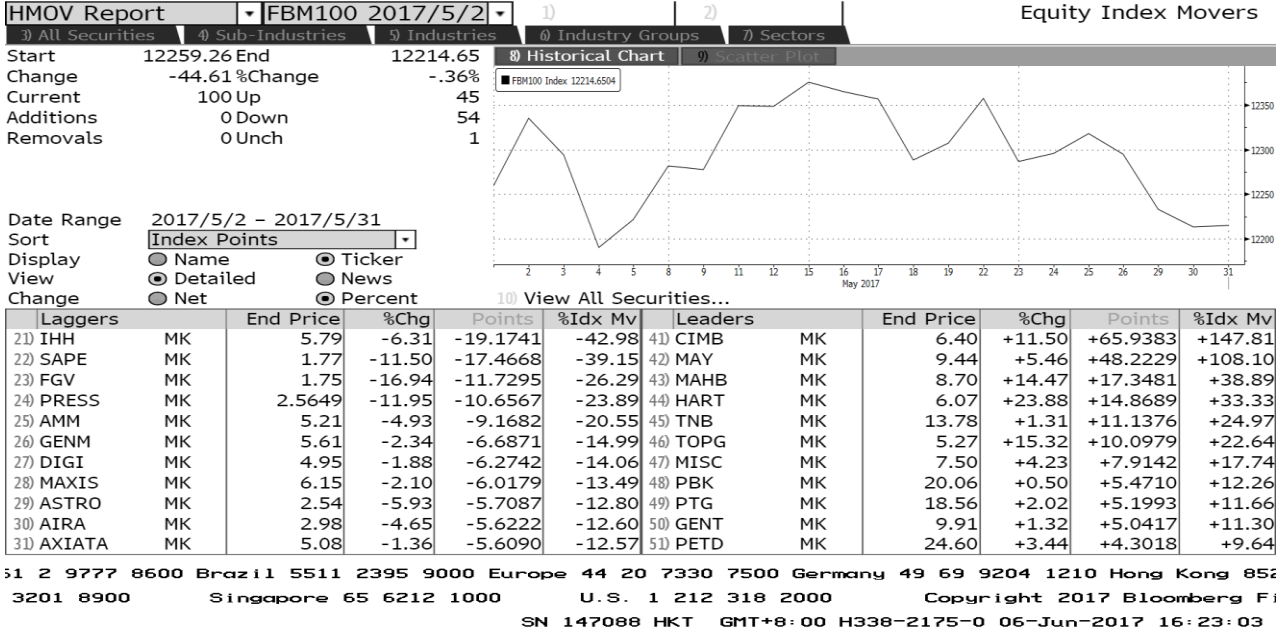
- ▶ Emerging markets in Asia continued to perform positively, spurred by France electing mainstream candidate Macron, and South Korea elected Mon Jae-In after the impeachment of President Park. Even the downgrade by Moody's of China's sovereign rating by one notch failed to dampen overall emerging market flows and uptrend. During the month, China held their One-Belt-One-Road (OBOR) summit where participating countries such as Malaysia returned with various agreements signed as part of China's commitment to invest in Malaysia. US equity markets ended the month relatively unchanged but suffered a sharp correction mid-month as investors were concerned over President Trump's FBI controversy that cast doubt over his pro-growth agenda together with other potential policy misstep. However concerns blew over as the US reported positive economic data boosting optimism and technology stocks rebounded.
- ▶ Malaysian equity markets had a fairly tumultuous month starting with the unexpected news that TRX City terminated the 60% stake sale of Bandar Malaysia to IWH-CREC (a joint venture between Iskandar Waterfront Holdings and China Railway Engineering Corporation) which saw small-mid cap stocks under selling pressure. With China's OBOR summit to be held mid may, investors were uncertain if this turn of events would potentially jeopardise Malaysia's relationship with China. However, the Prime Minister returned from the summit securing 9 various memorandum of understanding (MoU) and agreements for investment and co-development. The KLCI ended the month slightly lower at -0.12% mom to close at 1,765.87 points. The broader market declined by 0.49%, underperforming the KLCI. The best performing sectors were Finance (+1.34%) and Industrial Production (+1.19%), whilst the worst performing sectors were Plantation (-1.59%). The FBM Small Cap Index declined 2.35%. Average value traded on Bursa in May was up 22% to RM3.29bn as we continue to see foreign equity inflows.

OUTLOOK

- ▶ After an eventful 5 months of 2017, and whilst it has been a relatively smoother ride than expected, there remain major political risks for the remainder of the year. The Trump administration's policy misstep risks continue to be high with even the possibility of an impeachment. Despite the recent terrorist attacks in the UK, the elections scheduled to be held on 8 June 2017 will go ahead, where UK's Prime Minister Theresa May seeks to strengthen her mandate and continue the Brexit negotiations. Geo-political tensions increase with Saudi Arabia, the UAE, Egypt, Bahrain, Yemen and the Maldives severing diplomatic relations with Qatar over their relationship with Iran and its support of the Muslim Brotherhood.
- ▶ After the 1Q 2017 results reporting season for Malaysian corporates, consensus have reduced their earnings forecast slightly for 2017 and 2018 to 7.5% and 4.5% respectively. RHB and AMMB announced that they have received approvals from Bank Negara Malaysia to exclusively discuss the possibility of a merger. This adds to the theme evident this year of increased M&A activities where various government linked companies look to enhance value, consolidate and improve on profitability and efficiency. Improved IPO pipeline in 2017 and increased capital market deals will help sustain interest in Malaysia.
- ▶ Equity markets have had a good rally year to date, and whilst fundamentals of the economy remain relatively positive, we are more cautious now, but as always look to accumulate fundamentally strong stocks on weakness.

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Source: Bloomberg

Indices	Last Price		M o M Changes	
	30-Apr-17	31-May-17	+/-	%
FBM KLCI	1,768.06	1,765.87	-2.19	-0.12%
FBM MES	6,242.16	6,132.41	-109.75	-1.76%
FBM 100	12,259.26	12,214.65	-44.61	-0.36%
FBM 70	15,080.97	14,915.66	-165.31	-1.10%
FBM SCAP	17,661.72	17,246.94	-414.78	-2.35%
FBM EMAS	12,631.52	12,569.90	-61.62	-0.49%
FBM SHA	12,972.49	12,804.02	-168.47	-1.30%
FBM HIJRAH	14,200.27	14,075.15	-125.12	-0.88%
M S C I A P x J	486.56	497.82	11.25	2.31%

Source: Bloomberg