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February pullback

Market & sectoral impacts

FBM KLCI: 1,834.93 points

2018 Year-end Target: 1,900 points

The so-called January effect... Continuing on the upward momentum from last year, the world's equity market began the current year on a right footing with the MSCI World Index registering a +5.2% return in January 2018. Domestically, waking up from its lethargy during most part of the second half of 2017, the FBM KLCI was also quite energetic as it chalked up a +4.0% gain during January this year.

...was followed by a February pullback... The so-called January effect ended abruptly as we enter the month of February. Nonetheless, we view the recent world's equity price correction, which emanated from Wall Street, as a healthy development. We reckon the moderated equity price trend trajectory would put the market on a sustainable forward footing that is more in consonant with the underlying fundamentals.

...which serves to correct prior price exuberance... At its recent peak in late January this year, the Dow Jones Industrial Average (DJIA) was up by nearly 35% from the level in early January last year. In comparison, earnings are estimated to grow by less than half the pace at 14.4% in 2017.

DJIA: Price Earnings Ratio



Source: Bloomberg, MIDFR

...and bring down equity valuation to less aggressive levels... Therefore, market valuation expanded to a multi-year high level. Pursuant to that, and despite the bullish consensus (Bloomberg) figure projecting an even more robust earnings growth of 19.3% for this year, investors decided to exit the market earlier this month which consequently helped to bring valuation down to less aggressive levels.

...amid the backdrop of reasonably healthy macro growth and manageable inflation. Recent economic data coming out of the US drew market attention to a pickup in wage growth which, according to a top US Fed official, is a sign of a healthy economy. On this score, there are not enough indications at this juncture to force the central bank to raise rates much more this year than the three times it has been signaling.

Southeast Asian markets were least affected... Since the onset of recent February selloff, the ASEAN equity markets (particularly emerging ones, namely Jakarta, Kuala Lumpur and Bangkok) have demonstrated their relative resilience vis-à-vis other regional and international markets.

Key Equity Market Indices: Relative Performance

	2-Feb-2018	14-Feb-2018	Change (%)
Jakarta JCI	6,628.82	6,594.40	(0.52)
Kuala Lumpur FBM KLCI	1,870.48	1,834.93	(1.90)
Bangkok SET	1,827.35	1,792.09	(1.93)
Singapore FSSTI	3,529.82	3,402.86	(3.60)
Seoul KOSPI	2,525.39	2,421.83	(4.10)
London FTSE 100*	7,490.39	7,168.01	(4.30)
New York DJIA*	26,186.71	24,640.45	(5.90)
Frankfurt DAX*	13,003.90	12,196.50	(6.21)
Paris CAC 40*	5,454.55	5,109.24	(6.33)
Taipei TAIEX	11,126.23	10,421.09	(6.34)
Hong Kong HSI	32,601.78	30,515.60	(6.40)
Shanghai CSI 300	4,271.23	3,966.96	(7.12)
Tokyo Nikkei 225	23,274.53	21,154.17	(9.11)

Source: Bloomberg, MIDFR; *Price performance from 1-Feb to 13-Feb 2018

...while major North Asian markets bore the heaviest brunt. At the other end of the spectrum, the major North Asian markets (namely Hong Kong, Shanghai and Tokyo) saw the biggest percentage losses. Meanwhile, the main North American and European markets fared somewhere in between.


Locally, defensive sectors and the big caps registered shallow retreat... Looking at the domestic equity performance from sectoral and capitalization perspectives, it is not too surprising especially during period of elevated risk-off sentiment to see the defensive sectors (namely Plantation and Consumer) outperformed and the big caps (namely FBM Hijrah and KLCI) fared relatively better than their more diminutive peers.

Bursa Malaysia Indices: Relative Performance

	2-Feb-2018	14-Feb-2018	Change (%)
BM Plantation	8,056.40	7,994.09	(0.77)
BM Consumer	667.73	659.04	(1.30)
FBM Hijrah Shariah	15,058.68	14,829.57	(1.52)
FBM KLCI	1,870.48	1,834.93	(1.90)
BM Industrial Product	181.71	178.03	(2.03)
BM Finance	17,979.58	17,608.04	(2.07)
FBM Top 100	13,071.72	12,790.08	(2.15)
BM Property	1,209.94	1,180.06	(2.47)
BM Trading/Service	241.64	234.98	(2.76)
FBM Mid 70	16,468.18	16,001.22	(2.84)
BM Technology	38.32	37.18	(2.97)
BM REIT	964.93	931.85	(3.43)
FBM Small Cap	17,022.35	16,351.79	(3.94)
BM Construction	318.09	304.21	(4.36)
FBM ACE	6,496.13	6,182.29	(4.83)
BM Industrial	3,387.41	3,197.94	(5.59)

Source: Bloomberg, MIDFR

...while the small caps and cyclical sectors recorded deeper pullback. On the other hand, the small caps (namely FBM Small Cap and ACE) and cyclical sectors (namely Technology, Real Estate, Construction and Industrial) fared relatively worse pursuant to the recent market selloff.

Reaffirm year-end target at 1,900 points. Underpinned by continued corporate earnings growth this year, we reaffirm our FBM KLCI 2018 year-end target at 1,900 points. 

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >+10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >+10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >-10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.