

11 October 2018 | Strategy

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## October selloff

*Likely a short-term cyclic variety*

**FBM KLCI: 1,735.18 points**

**2018 Year-end Target: 1,800 points**

In our [4Q18 Outlook dated 1 October 2018](#) (page 20), we remarked the following:

*We reckon FBM KLCI outperformance in the third quarter vis-à-vis key Asia Pacific and European markets may be partly attributable to the diminution in the risk premium attached to Malaysia's assets post-GE14 as the main policy stance and direction of the new government are becoming clearer.*

However, yesterday, the FBM KLCI underperformed the rest of the region as it slumped -2.20% to close at 1,735.18 points. On this score, it is noteworthy that among the Bursa Malaysia sub-indices, the KL Construction Index was the hardest hit as it tumbled -6.88% to close at 162.91 points.

Overnight, the DJIA slumped -3.15% to close at 25,598.74 points. It is likely that the Wall Street is only at the beginning of a cyclic pullback hence we may see further downside in prices. The impending pullback was not unexpected.

In our 4Q18 Outlook dated 1 October 2018 (page 21), we also remarked the following:

*We believe there is a heightened likelihood of an impending short-term cyclic pullback in the US equity (during the coming months, as early as in October) which empirically would drag down other world's bourses alongside. Technically, based on Relative Strength Index (RSI) indicator, the DJIA has recently breached into the overbought territory. It is noteworthy that the previous breach was in early January this year and it was followed by an equity selloff in February.*

### **DJIA: RSI now in overbought territory**



Source: Bloomberg, MIDFR

Nevertheless, as alluded in our 4Q18 Outlook dated 1 October 2018 (pages 20-21), we believe the following factors would lent support to the market further forward in the final quarter of this year:

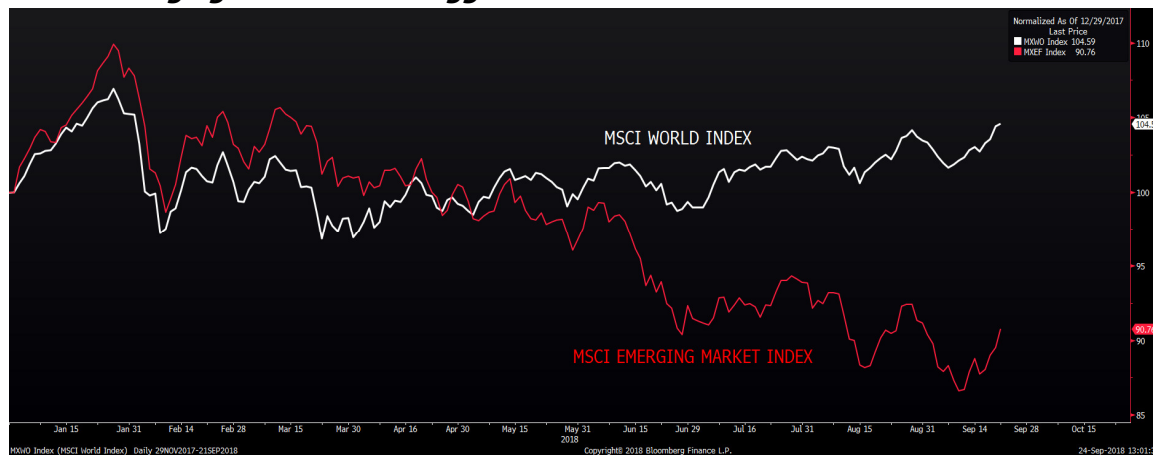
*As we enter the last quarter of 2018, we continue to expect corporate earnings for this year to register positive on-year growth underpinned by sustained output expansion (albeit at a slight*

*moderated pace pursuant to recent downward revisions at both corporate and macro levels) driven by healthy domestic consumption and external trade performance.*


*We are hopeful that the 11<sup>th</sup> Malaysia Plan Mid-term Review (11MP-MTR) and Budget 2019, to be presented on 18 October and 2 November respectively, shall offer fresh orientation and contain interesting new or altered measures that could help to buoy up market sentiment and thus equity valuation.*

*Furthermore, another possible upside impetus for the local bourse in the final quarter may emanate from the prospect of a technical rebound in the recently battered emerging market equities.*

### **MSCI: Emerging Market Index lagged World Index since June 2018**



Source: Bloomberg, MIDFR

All above factors considered, we reiterate our FBM KLCI year-end 2018 target at 1,800 points which equates to PER18 of 16.6x. Likewise, we reiterate our FBM KLCI year-end 2019 target at 1,900 points which equates to PER19 of 16.7x, i.e. a slight discount to its multi-year (2010-17) mean of 16.8x. 

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### 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.