

Strategy

The Bear Market Waves

FBM KLCI 2020 Target: 1,480 pts

KEY INVESTMENT HIGHLIGHTS

- **Bear market generally follows a 3-wave pattern**
- **The pattern appeared during both the AFC 1997/98 and GFC 2008**
- **Expect similar price pattern in prevailing downturn**
- **The rest of the world to replicate China's success in containing covid-19 which may precipitate equity market rebound**
- **Also, monthly sequential recovery due to pent-up demand as movement restrictions relaxed**
- **However, second downward thrust may later appear as pent-up demand satisfied and year-on-year performance remains relatively weak as policy measures take time to fully cascade**
- **Our baseline scenario is that an outright recession would be avoided, technical-type notwithstanding**
- **Hence relatively shallow and quick second downward thrust in the third quarter**
- **Reiterate our 2020 year-end target at 1,480 points**

LOOKING BACK AT PREVIOUS DOWNTURNS

Based on previous market downturns, the downward thrust would normally be interrupted by an intermittent rebound and subsequently followed by another downward thrust. Technically speaking, these price movements conform to the Elliott Wave Theory bearish A-B-C (down-up-down) waves.

Asian Currency Crisis (AFC) 1997/98:

From peak to trough (19 months), the FBM KLCI slumped by -79.6%.
At the midway, the FBM KLCI rebounded by +59.2%

- FBM KLCI high level (peak): 1278.94 (Feb 1997)
- FBM KLCI low level (midway): 470.43 (Jan 1998)
- FBM KLCI high level (midway): 748.96 (Mar 1998)
- FBM KLCI low level (trough): 261.33 (Sep 1998)

Subsequent to the Asian Currency Crisis (until the onset of Dot Com bust in 2000), the FBM KLCI rebounded by +280.8%

- FBM KLCI high level: 1021.20 (Feb 2000)

Global Financial Crisis (GFC) 2008:

From peak to trough (9 months), the FBM KLCI slumped by -47.4%.
At the midway, the FBM KLCI rebounded by +12.6%

- FBM KLCI high level (peak: 1524.69 (Jan 2008)
- FBM KLCI low level (midway): 1157.47 (Mar 2008)
- FBM KLCI high level (midway): 1302.83 (May 2008)
- FBM KLCI low level (trough): 801.27 (Oct 2008)

Subsequent to the Global Financial Crisis (until the onset of Euro crisis in 2011), the FBM KLCI rallied by +99.3%

- FBM KLCI high level: 1597.08 (Jul 2011)

EXPECT SIMILAR PATTERN IN PREVAILING DOWNTURN

We expect a similar down-up-down price pattern to emerge during the current downturn.

Global Covid-19 Crisis (2020):

The FBM KLCI is either nearing or may have even reached its midway bottom (midway support range: 1250-1150).

Moving forward, basing on China's recent experience, most of the rest of the countries of the world would see sequential improvements beginning April in the number of new covid-19 cases. And with that, month-on-month recovery in the economy due to pent-up demand as more and more movement restrictions are relaxed or even uplifted.

Consequently, the world's equity markets may react positively to this development hence engendering the midway rebound. In this regard, as highlighted in our recent strategy reports, the China equity indices have already outperformed its peers during month-to-date in March attributable to the improvement in the number of covid-19 cases in the country.


Nonetheless, some (stale-bull) investors may take the opportunity to sell into any market strength. Moreover, despite the liquidity injections (both fiscal and monetary) worth trillions of dollars by various governments and monetary authorities, we reckon it would take a bit of time for the real economy to fully recover from the great covid-induced pause.

Thus, in the ensuing months, the economic data may continue to deteriorate (based on year-on-year basis while monthly sequential jump may peter out as pent-up demand in the aftermath of the economic great pause was duly satisfied). During this period, we may see the next wave of selling in the equity market.

Nonetheless, our baseline scenario is that the domestic (as well as the world) economy would skirt an outright recession, the technical-type notwithstanding. Hence the possibility for a relatively shallow and quick second downward thrust.

Basing on our baseline scenario, the support and resistance levels (remainder 2020) for the FBM KLCI are pegged at 1100 and 1500 points respectively. Meanwhile, the duration of the market downturn may last until the third quarter of this year.

We reiterate our FBM KLCI year-end 2020 target of 1,480 points.

However, if the world's economy were to enter into an outright recessionary period (which implies lack of policy traction in regard to both the monetary and fiscal measures taken by the authorities), we may see a deeper and more protracted second downward thrust. 

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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.