

STRATEGY

FBM KLCI 2020 Target: 1,600 pts

The End of World's Longest Bull Market

KEY INVESTMENT HIGHLIGHTS

- **Political drama followed by resignation of PM7**
- **Equity market selloff precipitated by heightened political uncertainties**
- **The world's longest bull market ended as FBM KLCI dropped below the threshold 1,516 points**
- **The ensuing bear market may impact investors' psychology**
- **Expect rise in 'stale-bulls'**
- **Our PER valuation target may come under pressure hence lowered from 16.5x to 16.0x**
- **Revised FBM KLCI 2020 baseline target from 1,680 points to 1,600 points**

THE PM7 IS NO MORE, CONSTITUTIONALLY SPEAKING

On 24 February 2020, according to the chief secretary to the government, the Yang di-Pertuan Agong has accepted the resignation of the 7th Prime Minister (PM7) and the appointment of a new 8th Prime Minister (PM8) shall be made in accordance with Article 43(2)(a) of the Federal Constitution.

As of time of writing, we reckon the overwhelming frontrunner for the PM8 post is none other than the PM7 himself. However, we cannot rule out other member(s) of parliament jockeying for the same spot.

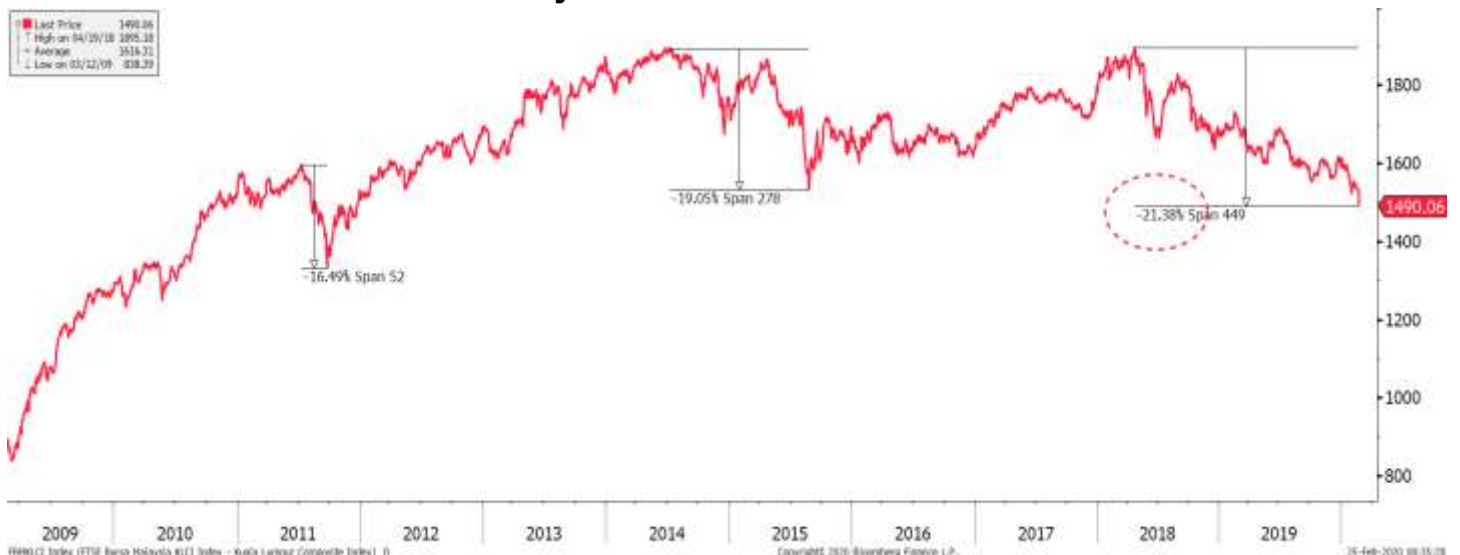
On above score, as they said, nothing is certain in life (even more so in politics) until it actually happened. But certainly, the whole nation is currently waiting with bated breath on the eventual outcome and until then, the political uncertainties shall remain heightened.

THE FBM KLCI BULL MARKET IS NO MORE, TECHNICALLY SPEAKING

On 24 February 2020, the FBM KLCI dropped -2.69% to close at 1,490.06 points. The equity market selloff was precipitated by heightened political uncertainties which were engendered by a number of political events and followed by the resignation of the PM7. In this regard, it should be highlighted that the FBM KLCI ended its world's longest bull run on the same date.

Technically speaking, a bull market ended when the price fell by more than -20% from its high. In the case of FBM KLCI, the threshold level was at 1,516 points.

FBM KLCI: The technical bull market has just ended



Source: Bloomberg, MIDFR

As we can see in the chart above, post-GFC (global financial crisis), the fledgling bull market survived the Euro crisis in 2011 with a -16.5% fall in the FBM KLCI. Further on, a string of negative events in 2014/5, namely commodity collapse, currency devaluation, worries over China hard-landing and 1MDB exposé also failed to break the bull's back as the local barometer retreated by -19.0% at its worst.

More recently, the FBM KLCI managed to defend, albeit barely, its bull streak despite (1) the back-to-back net outflows of foreign funds (2018: -RM11.7b; 2019: -RM10.0b) from the local equity market during the past two years, and (2) against the backdrop of prolonged US-China trade spat and region-wide economic slowdown. However, as earlier stated, the already weakened bull finally relented under the weight of prevailing political upheaval with the FBM KLCI ended -21.4% off its 19 April 2018 peak.

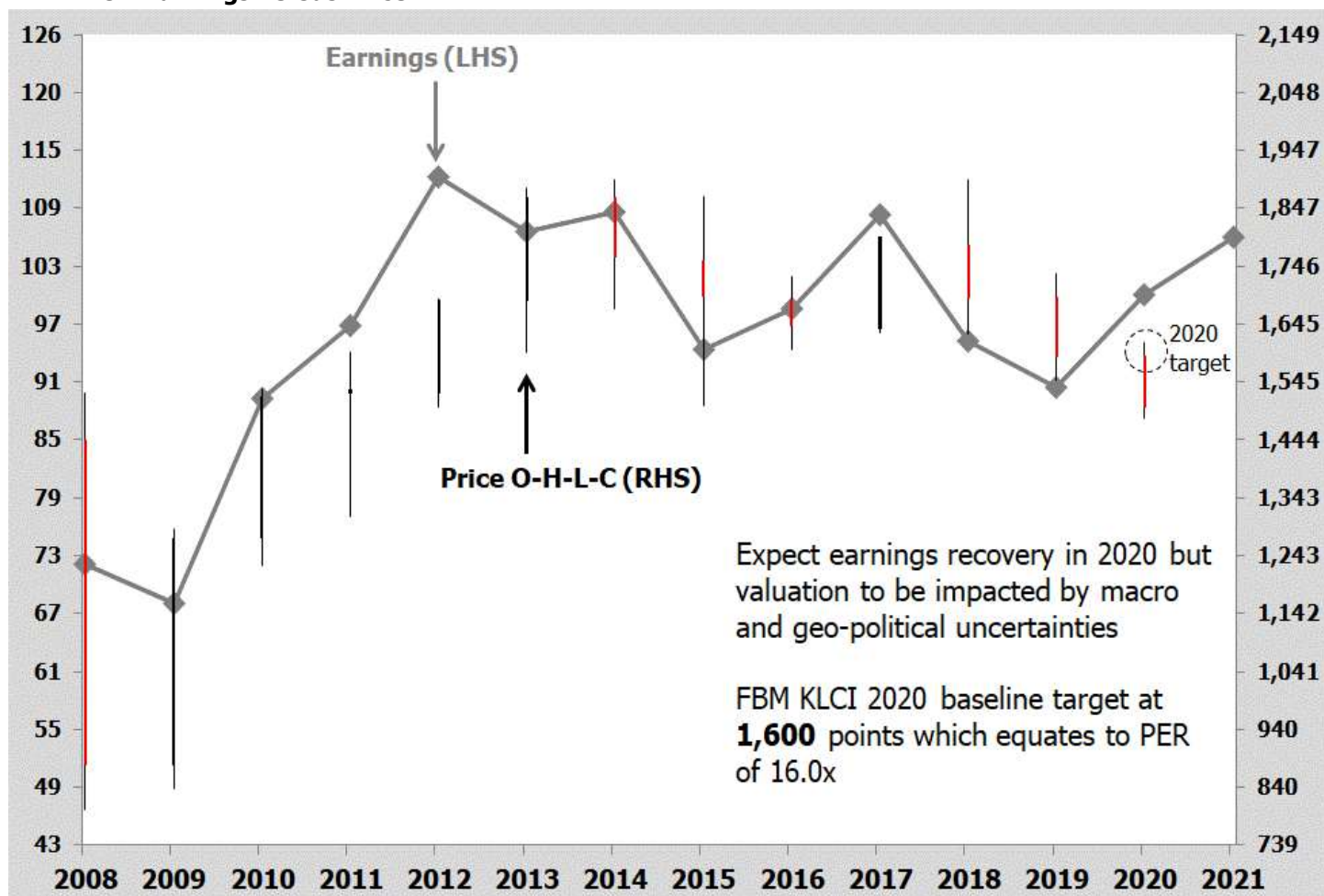
THE BEAR MARKET AND STALE-BULLS

The FBM KLCI is now in bear market territory. The stigma of a bear market may be injurious to investors' psychology. In turn, it could propagate the rise in 'stale-bulls' which would negatively impact the short- to medium-term price momentum of the equity market.

[Note: According to *Investor-words*, stale-bulls are "those who bought shares hoping that they would rise, and now finds that they have not risen and wants to sell them."]

Hence the main consequence of entering into the bear territory is principally on the short- to medium-term market valuation as burgeoning stale-bulls may generate upper resistance in subsequent cyclic upturns.

FBM KLCI: Earnings versus Price



Source: Bloomberg, MIDFR

Having said the above, we reiterate our fundamental premise that past observations of both price and earnings trends are conclusive with regard to their long-term direct relationship. Whereas, the short- to medium-term price movements may be more susceptible to valuation-related factors as well as myriads of situational 'noise'. These hypotheses can be directly glanced from the chart in above.


REVISED VALUATION AND PRICE TARGETS

Under above circumstances, the FBM KLCI may see its valuation tapering further towards the lower end of its historical range. Hence our year-end 2020 baseline PER valuation target for the FBM KLCI is lowered from 16.5x to 16.0x, which now equates to -1.5SD (standard deviation) of its 5-year (2014-18) historical average.

FBM KLCI: Historical PER



Source: Bloomberg, MIDFR

As the prevailing consensus EPS estimate for 2020 is approximately 100, we revised our year-end 2020 baseline target for the FBM KLCI from 1,680 points to 1,600 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.