DATE	:	31 December 2012
PUBLICATION	:	The Edge Financial Daily
SECTION	:	Home Business
HEADLINE	:	Funds adopt guarded approach

Funds adopt guarded approach

Defensive stocks likely to remain investor favourite until election is over

by **Lee Wen Ai**
FD@bizedge.com

KUALA LUMPUR: With global markets expected to trade cautiously in the first quarter amid worries over the US fiscal cliff, 2013 promises to be a tricky year on the home front as the Malaysian market will likely witness the key driver in the first half (1H) — the long-awaited general election.

An unexpected election outcome is among investors' top worries in 2013.

"As evident in 2008 during the last election, investors stayed on the sidelines, preferring to wait for the dust to settle on the political outcome," said Hong Leong Asset Management Bhd CEO Geoffrey Ng.

"A surprise outcome of the general election can create uncertainty for government policy as well as government-related projects and companies," he said.

Maybank Asset Management Sdn Bhd CEO and managing director Nor' Azamin Salleh also cautioned about the election and other risks foreseen in 2013. "Uncertainty arising from the election can be a potential risk for global and local investors. We see obvious trends of

CONTINUES ON PAGE 4 >>

Best in 2012 were consumers, telecomunications and REITs

FROM PAGE 1 >>

investors relocating their funds to neighbouring countries," he said in response to questions from *The Edge Financial Daily*.

"There could be selling pressure on the political risk if the incumbent wins by a small margin," Azamin said.

In the new year, he said the threat of a credit rating downgrade could heighten concerns of foreign fund flows from the domestic market to safe havens.

"The high public debt-to-GDP currently at 53% and the increasing issuance of government guaranteed papers may result in negative assessment by foreign rating agencies on Malaysia. Currently, foreign holdings of Malaysian Government Securities stood at a record high of RM127 billion or 29.4% of total outstanding as at October 2012," Azamin said.

Generally, Malaysian equities were a cause for concern in 2012 despite the 30-stock benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) hitting an all-time high of 1,686.7 last Friday.

Investors flocked to defensive stocks as the outlook remained clouded by fears of a slowing global economy on top of the uncertainty of when the GE13 would be called.

The best performers in 2012 were consumers, telecommunications and real estate investment trusts (REITs).

Year-to-date, shares in Carlsberg Brewery Malaysia Bhd, Nestle Malaysia Bhd and Dutch Lady Industries Bhd have risen 49%, 10.9% and 126% respectively.

Pavilion REIT closed 32.1% higher and Sunway REIT was up 30.6%. Meanwhile, DiGi.Com Bhd gained some 41.9% in 2012.

Defensive stocks are likely to remain an investor favourite at least until the GE13 is over.

"For 1H13, we are positive on yield play and defensive counters that generate strong free cash flow such as REITs, oil and gas, telcos and consumer sectors due to their resilient nature in view of the upcoming GE13. We will reposition our portfolios into cyclical stocks post-election period in 2H13," said Azamin.

Areca Capital Sdn Bhd CEO Danny Wong has a similar view, too.

"I prefer large-cap defensive high-yield stocks until the GE13 is over. I would pick up index-linked stocks if their prices slump during this period. When the certainty of the GE is clearer, I would switch to high-growth stocks, in particular, higher beta names. My top three sectors are banking, plantations, telcos and mid-small caps like Can-One Bhd, Kumpulan Fima Bhd and Hartalega Holdings Bhd," Wong told The Edge Financial Daily.

The Malaysian equity market has trailed behind liquidity-driven key regional bourses in 2012. Many primary Asian indices have posted double-digit growth this year such as the Thai Stock Exchange Index and the Philippine Stock Exchange Index.

The FBM KLCI only gained 5% for the past 11 months in contrast to the MSCI Asia ex-Japan index which posted a 16% gain for the same period, according to Wong.

Nonetheless, he believes Bursa Malaysia's underperformance is temporary.

"The Malaysian market will eventually start trending up when there is more clarity on the outcome of the GE13.

"If the global economic outlook continues to improve and the regional markets sustain their bullish trend, Malaysian equities will be become the 'star', provided there are no major surprises from the GE13," Wong said.

In 2013, liquidity is expected to remain a major factor for equity markets given the commitment by various central banks to maintain accommodative monetary policies.

BCA Research said in a report that for emerging markets in 2013, growth will be a more important driver than liquidity.

"The rationale is that many non-cyclical equity sectors in G7 [Group of Seven] and EM [Emerging markets] have already benefited significantly from liquidity and are richly valued. If cyclical sectors/commodities/EM disappoint, it will be difficult for EM non-cyclical equity sectors and defensive bourses such as Mexico, Malaysia and the Philippines that are already expensive to push equity benchmarks much higher," it said.

In terms of country equity allocation, the research house is overweight on Malaysia, Taiwan, Singapore, South Korean tech and bank stocks, Poland, the Czech Republic and Columbia. It is underweight on Indonesia, South Africa, Thailand, Peru, Hungary and Turkey.

BCA Research has a "neutral" recommendation on Chinese stocks.

"Neutral or a slight overweight on Chinese stocks is warranted because this market has already underperformed a lot and it does not carry currency risk," it added.