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Recovery Theme to Be a Prominent Feature In 2021

Focus Malaysia (3 December 2020)

By Ismitz Matthew De Alwis

Seeing is believing as even amid the massive disruption posed by the COVID-19 pandemic to businesses, stock markets worldwide have just experienced one of the strongest bull runs ever in history.

Whether such momentum will sustain into 2021 is anybody's guess.

To really benefit from the uptrend, investors must first comprehend that the stock market is not representative of the broader economy, which continues to be challenged by prospects of high unemployment and business shutdowns or even uncertainties as to how the spiralling COVID-19 infection rate can be contained.

External influences

Recall that profit taking activities in October were well-absorbed, following Joe Biden's victory in the Nov 3 US presidency election.

Alongside the revelation of the Pfizer-BioNTech vaccine, the Dow Jones Industrial Average scaled its all-time high of 29,950.44 points on Nov 16. The Dow's previous record high in what is touted as longest bull market in history was at 29,551.42 reached on Feb 12.

Investors seemed to cheer the return of some certainty especially with the prospect of a divided congress which will make Biden's proposed roll back on most of former President Donald Trump's US$2 tril tax cut difficult (Biden plans to raise corporate tax to 28% from its current level of 21%).

On the hindsight, this will also bring about a stalemate in the approval of the fiscal stimulus that was envisaged by the previous administration.

Without a significant fiscal package (to the tune of US$2 tril), near-term outlook seems quite uncertain especially with regard to jumpstarting the economy in the post-pandemic period.

As it is, Wall Street's main indexes have started to retreat as fears grew over fading stimulus and the blow to the economy from escalating COVID-19 infection rate.

Such concerns were further fortified by US Treasury Secretary Steven Mnuchin who recently defended his decision to end several of the Federal Reserve's key pandemic lending programmes by Dec 31.

Nevertheless, investors in Asia should stand to benefit from a Biden presidency as shifts in policy and greater global conformity spell good news for markets in the region.

Unlike his predecessor, Biden is expected to turn away from a hostile trade policy towards China which culminated in a trade dispute (with ex-President Trump having slapped tariffs on two-thirds of Chinese imports) – in addition to bitter attacks against the world's second largest economy as the root cause of the COVID-19 pandemic.

Vaccine discovery

Even with the gradual roll-out of vaccines, the pace of recovery in regards to the eradication of the COVID-19 pandemic is filled with uncertainties given prolonged lockdowns loom in the winter months, thus posing concerns of market overhang and a fragile global economy.

Therefore, an effective and successful vaccine is probably the most powerful economic stimulus for now.

On the bright side, constant news flow on vaccine discovery has sparked fresh hopes for investors to pursue laggard and recovery play along the line of vaccine development. This is despite logistical challenges of supply and ultra-low temperature storage, efficacy level, distribution or even who should be prioritised in the vaccination exercise.

But being forward looking, the stock market is pricing in the prospect of recovery with conditions ripe for central banks to pan out demand for risk assets that extend beyond mega tech to struggling sectors in the likes of banking/financial, commodities/plantation, industrial and consumer discretionary (durable goods, high-end apparel, entertainment, leisure activities, and automobiles).

The Asia-Pacific region is widely expected to be the first to benefit with China – the first country to be struck by the COVID-19 and the first to bring the pandemic under control with aggressive measures – pulling ahead in the world's economic recovery.

In our assessment, the mobile barbell strategy is the most suited investment option under the current economic climate – although we reckon the technology sector will continue to perform well, investors should also consider shifting their weight to value/growth/cyclical stocks as a balancing act.

How will Malaysia fare?

As a small economy, we expect Malaysia to recover in tandem with its trading partners (notably, China, Singapore, the US, Hong Kong and Japan).

In our view, expectations for the country's gross domestic product to grow between 6.5% and 7.5% in 2021 – after a 4.5% contraction in 2020 owing to the COVID-19 pandemic – may appear optimistic.

We nevertheless foresee drivers of growth to come from all fronts – domestic consumption, external trade, government investment in infrastructure and public works as well as success in the eradication of the COVID-19 health crisis.

There is a dire need to assist the B40 group and business sectors hardest hit by the pandemic, primarily the aviation, hotel, travel/tourism, food & beverage, and small medium enterprises, among others.

Likewise, we expect the creation of multiplying effect from the construction and property sector with roll-out of major projects to have spill-over benefits on smaller industry players.

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Also crucial is the need for businesses to rapidly embrace the new normal by accelerating their digital initiatives – and thinking outside the box – in their bid to reach out to customers, improve staff communications and ultimately, hasten their pace of turnaround.

In all likelihood, we expect 2021 to feature rotational play among the laggards, growth-oriented as well as defensive/high dividend-yielding stocks (as the low interest rate environment should remain a prominent feature) in a recovery-themed setting.

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Source:

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Business & Beyond

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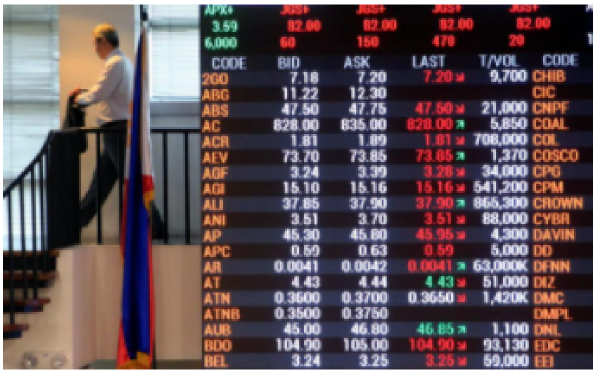
By Contributor | 4 hours ago | in Markets, Opinion, Top



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