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# Overweight on equity outlook

AmlInvest says there is increasing evidence of-synchronised global recovery

**KUALA LUMPUR:** Investors should be overweight on equities as there is increasing evidence of a synchronised global recovery presently, according to AmlInvest.

Its chief investment officer for equities Andrew Wong said as the world's economic recovery continued to unfold, the odds of a major crisis were low despite a slowing but still growing Chinese economy of above 7%.

"We should look to be overweight on equities as we see more evidences of a synchronised global recovery. Europe passing the bottom, Japan seeing improving gross domestic product numbers from 'Abenomics' and the United States holding up even with sequester cuts," Wong noted in his *Markets Outlook* presentation yesterday.

"But as markets have recently rallied, valuations are neutral. Thus, any market upside would have to come from earnings rather than price-earnings multiples expansion," he added.

He also noted that while this was the case, the possible steepening yield curve also suggested an easier monetary policy relative to growth, leading to stronger economic growth and corporate profitability that was then followed by higher multiples.

In Asia, Wong said the key for its markets to continue holding up was for a gradual exit of asset purchasing by the US Federal Reserve with equity multiples having a positive correlation to the yield curve.

"Coincidentally, every 10 years, you will have a rise in the yield curve. In 2004, the Fed raised its rates gradually over more than 24 months with recovering stock prices. But it did something similar in 1994 when it raised rates in about one year which was too drastic and quick resulting in stocks dropping tremendously in Asia-Pacific," he said.

On the domestic market, Wong said that he had a FBM KLCI Index 2014 target of 1,960 points assuming that there was no multiples

expansion and a decent 8% earnings delivery.

He said that the one-year PE forward valuation for Malaysia was neutral at the moment as there had been downgrades in earnings progressively since June 2013.

"We are overweight on oil and gas, construction, tourism, consumerism and subsidy reduction play such as Tenaga Nasional Bhd," he said.

On the macro front, he said the outlook for the ringgit was very positive should savings by the Government from subsidies and procurement be channelled productively.

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- Andrew Wong