# CAPITAL

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# Market valuations under closer scrutiny after strong bull run, says Pheim

BY **LEE WENG KHUEN**

Thus far, 2024 has been a good year for investors, as most regional indices have chalked up positive returns, including Malaysia's FBM KLCI, which had risen more than 7% as at April 8. Within the region, Japan's Nikkei 225, which is up 20% year to date, has been the best-performing index.

In the US, the three key indices remained on an upward trajectory. Both the Standard & Poor's 500 and Nasdaq have risen about 10% since early this year, while the Dow Jones Industrial Average is up 3%.

Be that as it may, some experts warn that a pullback could be near after the strong bull run.

A big believer in value investing, Pheim Asset Management Sdn Bhd founder and chief strategist Dr Tan Chong Koay advises that one should take profit once the share price of a stock has risen too high.

"When the shares go up and they are overvalued, you must sell. Then, when any sector or stock goes too high, you get out. That's the key," he tells *The Edge* in an interview.

He notes that the price-earnings ratio (PER) of global markets has risen to such a high level that it is causing some concern in the investing fraternity.

"When the market is high, people tend to be optimistic or overly optimistic. Every time, the crash comes differently, but most of the time it is due to [the market] being overvalued.

"Market PE is very important; the current PE is too high and you get a bit worried. But, sometimes, the market may get higher and higher. The PE in the US is more than 22 times. It used to be below 10 times. And it is 30% higher than the highest point in 2020," he cautions.

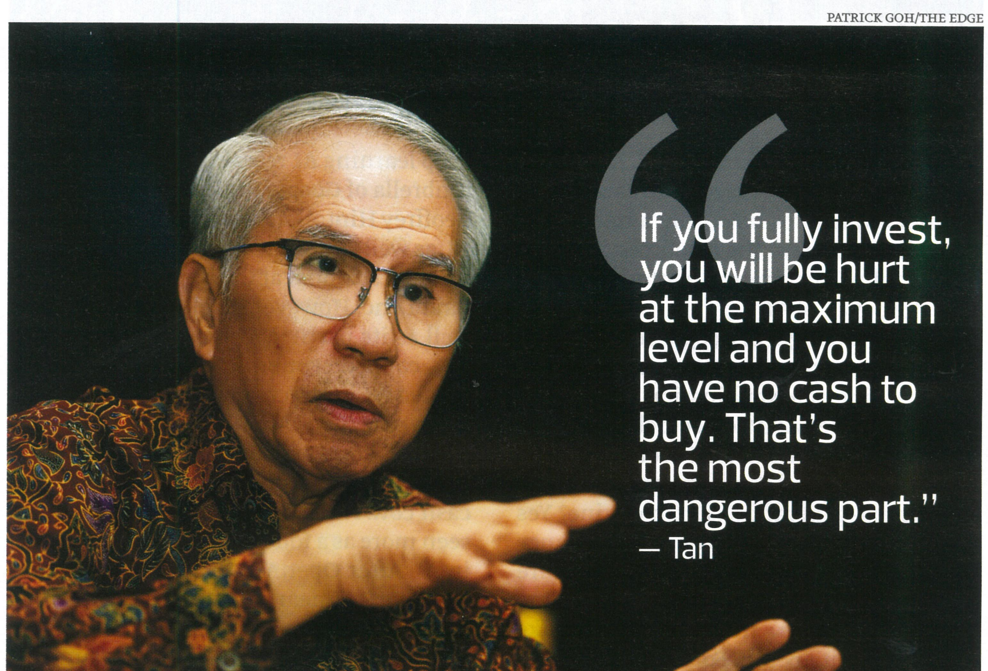
The S&P 500, for example, is trading at a PER of 23.4 times, which is higher than the 18.25 times and 23 times seen at the end of 2022 and 2023 respectively, according to Bloomberg data.

Similarly, Taiwan's benchmark index has seen its PER rise to 23.8 times, from 21.9 times at end-2023 and 10.4 times at end-2022.

In contrast, the FBM KLCI is trading at a lower PER of 14.6 times, compared with 15.1 times and 15.9 times at end-2023 and end-2022 respectively.

In view of the concern over valuations, Tan stresses that investors should never go all in when the market is so high.

PATRICK GOH/THE EDGE




"If you fully invest, you will be hurt at the maximum level and you have no cash to buy. That's the most dangerous part."

He says Pheim, a boutique fund management firm with RM1 billion in assets under management, has 15% to 20% in cash holdings. "I still think the valuations are too high in the US, and we should raise the cash level further."

He recalls that before the global market crash in 2020, Pheim managed to lock in some profits. "Many shares dropped more than 50% during the 2020 crash. Who would have thought that would happen?" he says.

Having gone through the ups and downs of the market in past decades, Tan stresses the importance of the ability to adapt to market changes.

"You cannot be static. People were so bearish about property, but look at how property shares have performed in the last six months. Sometimes, when it's so cheap, you just have to put a little bit there. You never know — when people buy in, the share price will go up," he explains.

In the past six months, Bursa Malaysia's property index has risen 17.2%, well above the FBM KLCI's 8.6% gain in the same period.

On the whole, the local bourse's disadvantage is that the market is too small and relatively less liquid compared to others, Tan says. "But we are super lucky because retail and institutional investors are very

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# A most reluctant rally?

COMMENTARY BY DANIEL LAM

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Rising stock prices accompanied by increasing volume may indicate the beginning of the return of buying interest in Chinese equities, but investors question whether the rally is for real

My most recent TV interview, which was posted online with the title, "China market not looking so bad", generated a surprising number of responses. There were a number of "sceptical comments", which really show how poor the sentiment is for Chinese assets.

In equity markets, however, price and volume are hard statistics. In fact, the Hang Seng Index has been making "higher highs" and "higher lows" since the middle of January, which is a bullish technical pattern. The bellwether Hang Seng technology sector index, which comprises high-growth stocks, rose more than 20% from the last bottom before paring back some of the gains.

Rising stock prices have been accompanied by increasing volume in March. This is an indication of the beginning of the return of buying interest in Chinese equities. Yet, we are all aware of the challenges surrounding the Chinese economy. Yes, the latest inflation number was better than expected, but that was merely one data point. We also know that no significant stimulus was announced at the National People's Congress.

Thus, the question on the minds of investors is: Is this rally for real?

Well, as a chess player, I know that I do not need to play extremely well every time to win a game. Sometimes, it is fine not to play so well, if I still play better than my opponent!

In the case of assessing the outlook for China equities, we need to be aware that there are increasing uncertainties in other key markets. For example, in the US, certain inflation components, such as shelter, remain stickier compared to expectations, leading to doubts about the timing and size of US Federal Reserve rate cuts. In Japan, the Bank of Japan could tighten policy again this year, giving investors the excuse to "stay put and observe". These are relatively "fresh issues", compared to the issues in China, which have been quite well known for a while and have been baked into the deep discount of Chinese equities compared to other equity markets.

Thus, I believe all the elements are in the making for a "most reluctant rally" in Chinese equities, owing partly to increasing uncertainties in other regions. Investors should consider having some exposure to Chinese equities. We have been highlighting China's state-owned enterprises (SOEs) as potential outperformers. The government has asked the SOE management to boost market capitalisation. Besides the SOEs, some leaders in the consumer discretionary, communication services and technology sectors have also formed double-bottom technical patterns, auguring well for the outlook for these sectors. E

*Daniel Lam is head of equity strategy at Standard Chartered Wealth Management's Chief Investment Office*

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much involved in the local market. So, we have liquidity, which is good."

He says the key investment themes for this year include the mushrooming of data centres in Johor, which could benefit utility/power infrastructure and related downstream industries; the Johor-Singapore Special Economic Zone, which could benefit the property and construction sectors; the New Energy Transition Roadmap, which could benefit solar engineering, procurement, construction and commissioning contractors and utility players; the tech sector recovery in the second half of 2024; the Sarawak thematic play on infrastructure players; and the water tariff hike and pipe replacement exercise to reduce non-revenue water.

As a strong believer in value investing, Tan says Chinese stocks are not expensive for now.

"Selectively, I would say 'yes' to Chinese stocks, unless you are so negative on China. The favourite theme in China is still artificial intelligence, but it is very high in PE ratio. You need to be careful about growth stocks after [they have been] running too high."

In the tech sector, he says, the expectation is that tech stocks could rebound in the second half of the year. The tech index on Bursa Malaysia has been up 3.4% over the past six months.

"Tech stocks have recovered a bit, and whether they can continue will depend on US policy. Many chip suppliers cannot survive if they don't sell to China, and now they have agreed to sell chips to China."

Nonetheless, he cautions that the valuations of the "Magnificent Seven" — referring to megacap tech stocks such as Apple Inc, Nvidia Corp and Amazon.com Inc — are not cheap, and their share price movements are dependent on earnings performance.

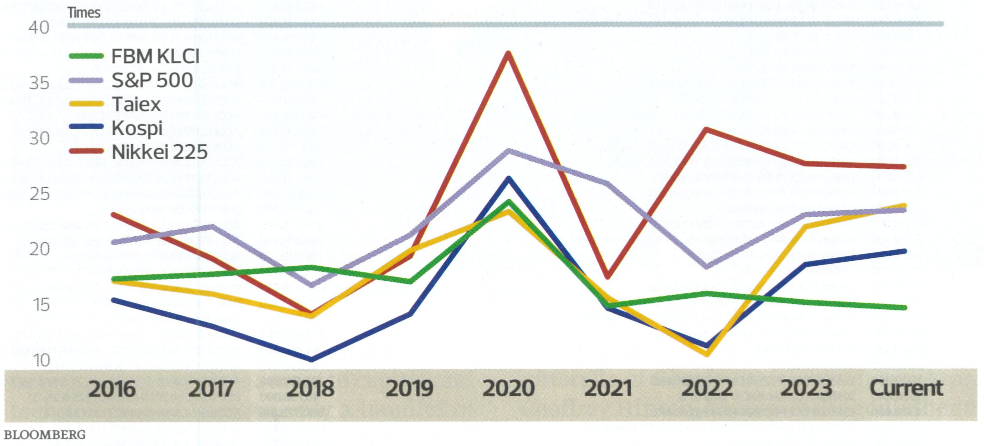
On the other hand, Tan is less positive on glove stocks, as the pandemic has changed the market dynamic.

"China says it will be No 1 in the world, and that's going to affect our glove players, because its cost is much lower than ours. Even if the pandemic comes back, nobody will be so scared of it anymore," he says.

Commenting on environmental, social and governance (ESG) and Islamic investing, Tan says it does not perform well all the time.

"When the global financial crisis comes, Islamic investing performs very well because it doesn't have the banking sector in the holdings. But, subsequently, it depends on whether you pick the right stocks."

## Price-earnings ratio movement in selected markets

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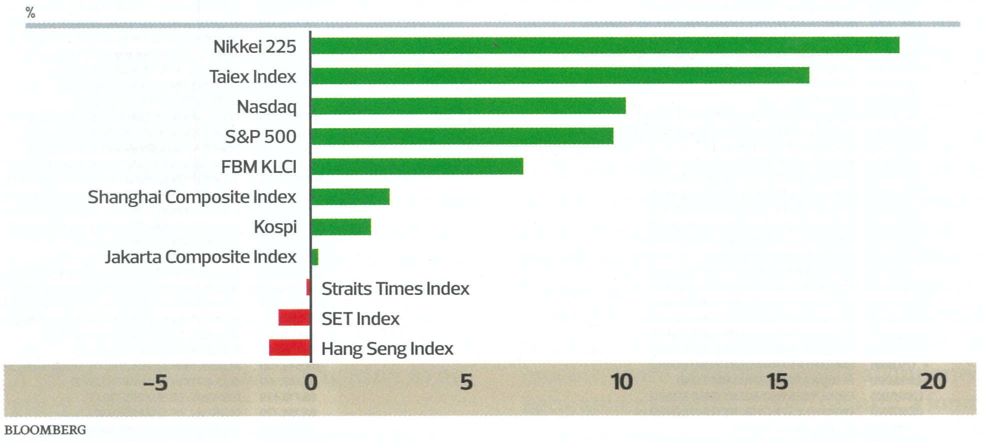
## YTD performance of major indices (As at April 8)

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Asked about the commodity market, he says oil prices will be able to stay above the US$80 (RM380) a barrel level, given that there is still vast demand for oil from the industrial players. As at 2pm last Tuesday (April 9), Brent oil price was trading at US$90 a barrel.

On the plantation sector, he says there has been a lack of replanting, although demand for palm oil is up 2% a year. Overall, he notes that the oil palm industry is profitable. Ta Ann Holdings Bhd and Sarawak Oil Palms Bhd are among his favourite picks because of their experienced management teams.

As gold prices continue to hit record highs, he believes the price will maintain its upward trajectory if the US dollar weakens. Gold prices hit fresh highs last week, surpassing US$2,350 an ounce on optimism of rate cuts by the US Federal Reserve.

On the cryptocurrency market, he points out that Bitcoin has a good track record.

"Bitcoin has no assets, but people will still buy. This formula is very innovative. I think Bitcoin will survive. Every time it crashes, you may want to buy it."

Having surged 67% year to date — driven by record-breaking inflows into US exchange-traded funds tied to the cryptocurrency, Bitcoin was trading above US$71,000 last Tuesday.

Pheim, which celebrated its 30th anniversary early this year, continued its winning streak with the Pheim Asia Ex-Japan Fund taking the Best Equity Asia Pacific Ex-Japan (Malaysia) award in the five-year category for the fourth consecutive year at the LSEG Lipper Fund Awards 2024.

"We started at the highest point in January 1994. A lot of people thought we would fail. But we have survived for the past 30 years. It is all about the stock selection and asset allocation," Tan says. E