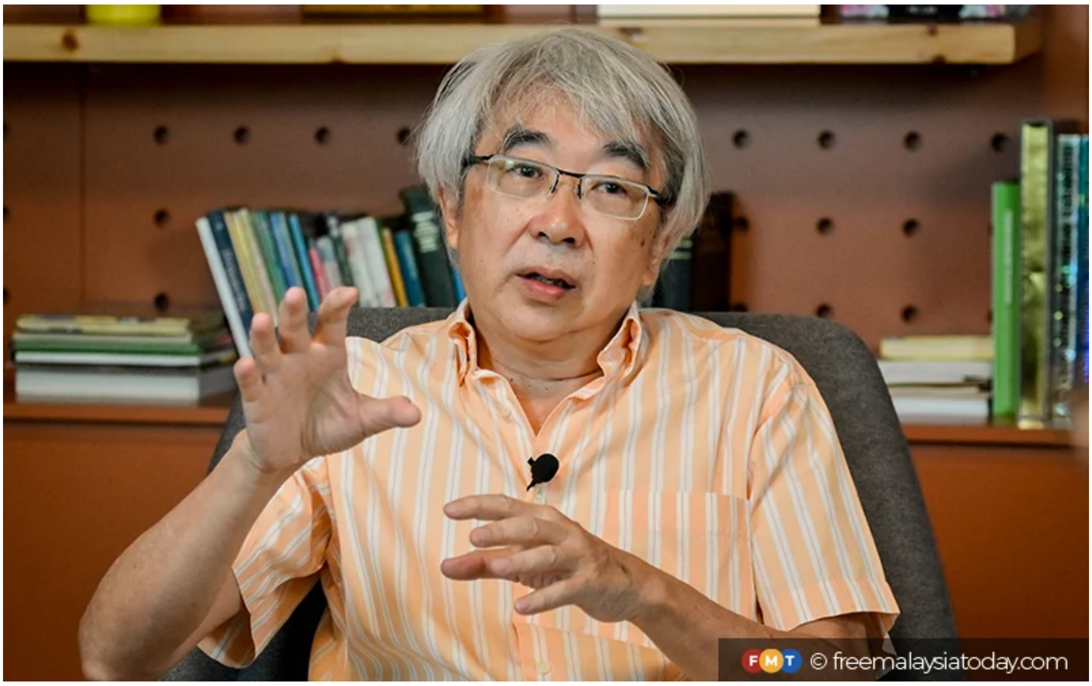
More downside ahead for stock market, cautions fund manager

By **Robin Augustin** - October 17, 2022 7:30 AM



Tan Teng Boo says retail investors should focus on the business models of companies.

PETALING JAYA: Investors on Bursa Malaysia should expect to see more downside than upside ahead, a global fund manager has cautioned.

Tan Teng Boo, the managing director of Capital Dynamics group, said rising inflation and interest rates in the US are bound to have a negative impact on market sentiments.

He said that despite the likelihood of sustained demand for crude oil and crude palm oil, the outlook for Malaysia is less optimistic.

Stock markets and currencies in the Asia-Pacific have been taking the brunt of an onslaught of poor sentiment arising from rising inflation in the US.

Data released last Thursday showed that the consumer price index in the US had risen to 8.2%, just a tick above the forecast of 8.1%.

In response to rising inflation, the US Federal Reserve has raised interest rates. It stands at 3.25% today, but analysts expect further increases of 75bps in November and another 75bps in December, bringing the rate to 4.5% to 4.75% next year.

As a result, investors have fled Bursa Malaysia and abandoned the ringgit for safe-haven assets such as the greenback.

The benchmark FTSE Bursa Malaysia KLCI has declined from a high of more than 1,600 points in early March to 1,373.36 at the close of trading on Thursday before bargain hunting gave a push to close at 1,382.47 on Friday.

Foreign investments on Bursa Malaysia dropped below 10% in September.

The ringgit fell to a new low at the start of the trading session on Friday, opening at 4.69 before closing at 4.70 to the dollar.

Tan expects worse to come. "Earnings are not expected to grow and interest rates and inflation are not coming down," he said.

He also likened the current political situation in the country to a quicksand.

Nonetheless, he chose to stay positive. "I hope that we can get a good, concrete foundation from our own national politics," he told FMT Business in an interview.

Tan advised retail investors to be patient. "Invest for the long term, and put your money in well-managed companies," he said.

"Don't look at stock prices or indexes for the next two years. Don't look at sectors because every sector will go through ups and downs.

"Focus more on the business model of the companies you're looking at."

Citing the case of the glove-manufacturing industry, he said many had lost money buying these stocks at a high price during the Covid-19 pandemic. "These shares are overvalued.

"The glove industry is a commodity business, just like palm oil and crude oil. You can only make profits when there's a shortage," he said.

He explained that in the case of crude oil and palm oil, data on the demand and supply is transparent. However, he said, it is not so in the case of gloves.

"Before you know it, there is already an excess supply in the market," he said.