MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

(Following the announcement made by Prime Minister, YAB Tan Sri Muhyiddin Mohd Yassin on 25 March 2020, in relation to the extension of Movement Control Order to 14 April 2020 in order to contain the COVID-19 outbreak, public listed companies have postponed their general meetings to a later date. Hence, there will be no Weekly Watch featured on newsletter).

At this trying time, let us all continue to stay home, stay safe and stay healthy! Be patient, as better days are on their way!

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Perhaps not the time for bottom fishing yet

On Tuesday's (24 March) overnight trading, the Dow Jones Industrial Average (DJIA) soared 11.4% to its best day percentage gain since March 1933 as the US Congress and the White House neared a deal to inject nearly US$2 trillion of aid into an economy ravaged by the COVID-19 pandemic. At the time of writing, a US$2 trillion stimulus package has been approved by the Senate to support the US economy.

Rather than rejoicing by treating this as a clear buy signal, investors should first ask themselves whether the technical rebound is sustainable or merely a temporary reprieve in a bear market.

While it is a norm to use the DJIA as a cue to accumulate stocks during good times, such idea may not be sensible at the moment given the benchmark index skyrocketed on hope of a substantial financial aid intended only to boost the US economy and help the American populace seek refuge from the COVID-19 pandemic.

The bigger picture remains gloomy with the unprecedented global lockdown (on movement, people, goods, services) to contain the COVID-19 is poised to paralyse economic activities (i.e. closure of businesses that lead to significant job loss and declines in corporate earnings).

According to the Malaysian Institute of Economic Research (MIER), the country's real gross domestic product growth is expected to shrink to -2.9% for 2020 relative to 2019 as a result of the economic impact of COVID-19 and the movement control order (MCO).

Nobody can predict if today's economic woes will prove to be milder or more severe than the 2008 global financial meltdown which had its roots in the US subprime mortgage crisis (FBM KLCI plummeted circa 45% from its high) or the 1997-98 Asian Financial Crisis which was triggered by currency manipulation (FBM KLCI nosedived 80%).

While it is easier to remedy a financial crisis, the same cannot be said about dealing with a health crisis of mega proportion.

A recent report by KPMG entitled COVID-19 Economic Impacts has revealed that the risk of a global recession in 2020 is extremely high as nations shutdown economic activities to limit the spread of COVID-19.

"COVID-19 is unique in that it is a supply shock, a demand shock, and also a market shock," opined the report. "A hopeful 'V' or 'U'-shaped recovery depends on the timing and magnitude of government assistance as well as the level of corporate debt, and how companies and markets cope with lower demand."

The escalating number of cases and fatalities outside China – which has yet to show sign of peaking – will continue to spark extreme market volatility.

While volatility is a good thing for investors/traders to make money in choppy markets via short-term profits from market swings, merely reacting to every hope for cure (vaccine breakthrough), fiscal policy, stimulus package or taking on large positions in a portfolio are costly mistakes that should be avoided.

Looming recession

As the market is pricing a global recession, the only certainty is progress in containing the COVID-19 pandemic which has resulted in a global economic lockdown (thus far, only China's COVID-19 outbreak appears to be levelling off while that in other countries are rising at an alarming rate).

Urging investors to stay defensive, Goldman Sachs' latest global forecasts foresee a recession that is likely to end up being worse than not just the more modest global recessions of the early 1990s and 2000s, but also deeper than the early 1980s and the 2008 Global Financial Crisis.

Neither massive share buyback by companies across the board nor stock acquisition by company directors is able to prevent many stocks from diving to their all-time lows.

The massive sell-off has also triggered forced-selling transactions across Bursa Malaysia, before the stock exchange stepped in and tweaked margin financing requirements for the next six months.

The announcement came in time to ease the pressure of forced-selling as brokerages and investment banks are grappling to sell shares in clients' account to rectify margin position caused by falling share prices.

For those who consider major sell-offs as buying opportunities not to be missed, be mindful that the current situation is too fluid for technical analysis charts or fundamental analysis recommendations to work their magic as an entry or selling guide.

After all, aside from having to contend with the oil price crash and US stock market bubble, the local bourse has been confronted with numerous challenges such as domestic political uncertainties and subdued stock market outlook which has led to foreign funds exiting Bursa Malaysia.

As we all navigate these uncharted waters, always be mindful that no two stock market crashes are alike. It's always better to be safe than sorry.

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