

Further corrections but upward trend intact

Written by Joy Lee

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KUALA LUMPUR: The FBM KLCI would likely experience further corrections in the months ahead but will continue its upward trend, amid a V-shaped global economic recovery, said Capital Dynamics Group managing director Tan Teng Boo.

"Generally I am bullish (on the market) although most people are still pessimistic," said Tan at a press briefing yesterday.

He said the KLCI could see a rise of another 5% to 10% to the 1,200-1,250 level by year-end provided no other major news affected the markets. "It would be very realistic (target)," he said. The KLCI closed 5.65 points higher at 1,186.19 yesterday.

"We are looking at a very strong type of rally, so the upside of KLCI could surprise most people. But there will be a lot of corrections along the way, some major, some minor, but generally the trend will be a positive trend," Tan said.

He said the KLCI fell the least in 2008 compared to other regional markets because foreign funds were not strong in the local market.

However, how fast the index would appreciate going forward would depend on the global economic recovery.

"I am pretty confident that the global economic recovery is V-shaped. The OECD (Organisation for Economic Cooperation and Development) leading indicators plunged in 2008, bottomed out and is staging its most dramatic V-shape recovery and this V-shape recovery is already unfolding," he said.

Despite views that the Asian markets were too small to pull the industrial nations out of recession, Tan said the rate of growth of Asian markets could offset the decline in US consumption.

"No doubt the US economy is bigger than China's, but China is growing at a faster rate. And if you multiply the consumption of both countries by their rate of growth, they are generating more or less the same growth.

"When China grows, the China-led economies would benefit and grow as well and create a combined demand equal to that of US and would therefore offset the decline in US," he said.

Although generally optimistic, he said there were risks to the recovery. Among them were protectionist-type measures as well as an early withdrawal of stimulus by governments.

There was already talk of an exit strategy, he said, which may forestall the recovery process as the recovery was not just about boosting consumption but also about building investor confidence.

Should governments withdraw their stimulus too early, it could undermine recovery of investor confidence, he added.

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“Over the next one or two years, assuming no major political calamities happen in the country, with the world economy recovering more robustly than expected and with the reforms by the government, chances are good that the KLCI will test the previous high of 1,500 and even possibly exceed it.

“I believe the KLCI can do surprisingly well. It reflects an economy that has a lot of potential,” Tan said.

He added its icapital.biz Bhd fund's cash level was at its lowest since inception as there were plenty of bargains in the stock market.

“There are so many undervalued stocks and bargains. Sometimes the problem is not about whether to buy or not, it is about which one to buy because there are so many of them,” he said.

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