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What they say on the stock market ...

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What are the prospects for the stock market in 2004?
Terror attacks will continue. Much depends on how disruptive an attack is on economic growth.

The general election, which must be held by November, has been cited as a main reason for the 'feel good' sentiment that has driven up stocks. In the United States, the four-year presidential election is to be held in November 2004, and so far, Wall Street is performing to expectations. The evidence is that most of the time, the stock market performs positively in the year leading to the presidential election.

Overall, we expect the KLSE to continue lagging its regional peers, due to a worsening exchange rate and still relatively high valuations. The dust in the political arena also hasn't settled despite the successful transfer of power from Tun Dr Mahathir Mohamad to Datuk Seri Abdullah Ahmad Badawi. As things stand, the new prime minister is also holding the post of Finance Minister. Investors will be holding their breath over impending changes to the top posts in Umno, the country's dominant party in the ruling coalition.

To sustain bullishness in 2004, active corporate activity and delivery of earnings will be critical. In 2003, excess liquidity, low valuations and absence of major bad news enabled the stock market to take off. In 2004, the ability of companies to deliver earnings growth this year and beyond is critical to sustaining this rally. In particular, America, the engine of world economic growth, will have to prove that its economic recovery is sustainable, not a one-off adrenaline shot fed by tax and other fiscal incentives doled out before the presidential election.

To keep interest alive, corporate activity must also be active. We can assume that this will continue to be so. Some of the restructuring exercises that were started last year have yet to be completed. One good example is the PNB-led consolidation of its plantation and property businesses. Others include Proton's group restructuring that would open its various divisions to merger, acquisition and divestment. Proton is not alone in this. The assets of the Johor State Government are also being rationalised, and Kulim may feature heavily in the restructuring exercises.

Further upgrades of Malaysia's ratings by rating agencies such as S&P would also help in boosting market sentiment.