# WEATHER THROUGH A BEAR MARKET

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The recent selldown in the markets both domestically and globally have incite fear among investors. While bear markets are unavoidable, it is often relatively short when compared with the duration of bull markets. In this report, we would like to follow up on our earlier report entitled *Battle of the Bull and Bear* (25 February 2022). In the *Battle of the Bull and Bear* report, we have concluded that bulls generally last longer and are more sustained than bears with an average of 728 bull days versus 204 bear days based on 40 years of historical data.

We analysed the historical data and results have shown that market usually gain higher returns with an average of 83% as compared to an average loss of 30.6% during major bear market events.

In this follow-up report, we would like to discuss the sectorial performance during a market downturn but firstly, what is a bear market?

A bear market is defined by a prolonged drop in stock prices, when prices fall by 20% or more from the most recent high. While 20% is the threshold, bear markets often plummet much deeper over a sustained period and not all at once. In a bear market, almost all stocks within it begin to decline, despite good news and earnings growth in individual companies. It is often characterised by investors' pessimism and low confidence.

By this definition, the FTSE Bursa Malaysia KLCI (FBM KLCI) is not considered to have entered a bear market. The index has declined by 14.6% from its peak. Some of the key headwinds which have contributed to the drop in the market so far are:

1. Bank Negara Malaysia (BNM) raised interest rates by 25 basis points (bps);
2. Global credit tightening;
3. Sell side sentiment;
4. The prolonged Ukraine and Russia war;
5. Global supply disruption as a result of Covid-19 lockdowns and geopolitical uncertainties; and
6. Global inflation.

However, FBM KLCI is blessed with diverse industries that mitigated the impact of the headwinds above. Malaysia and the ASEAN region are sheltered from the Ukraine-Russia war disruption as ASEAN is not Russia's major trading partner. Furthermore, Malaysia is a net exporter of key commodities and one of the key beneficiaries of the commodity rally. Malaysian-listed plantation companies make up 11% of the KLCI weightage while the Energy sectors contribute 3% to the KLCI weightage.

## WHAT TO DO WHEN THE MARKET IS DOWN?

We analysed the sectorial performances during bear markets. We find that the Consumer sector tends to remain resilient and outperformed the other sectors in four out of five bear markets in the analysis.

This is followed by Real Estate Investment Trusts (REITs) and Technology sectors, with the probability of two out of five bear markets. The REITs sector is known for its generous yields which could serve as a cushion when capital depreciates during bear markets.

On the flip side, we find that the Construction sector generally performed poorly during market downturns as shown in the analysis below where it performed poorly in four out of five bears. This is followed by the Property sector, which recorded two dark reds cells in two out of five bear markets. These two sectors generally have higher sensitivity to the index.

| Sectorial Indices | 2008 Global Financial Crisis | 2011 Japanese Tsunami | 2014 Oil Glut | 2018 US-China Trade War | Covid-19 Pandemic |
|---|---|---|---|---|---|
| Financial | -34% | -13% | -22% | -10% | -30% |
| Plantation | -53% | -10% | -25% | -6% | -28% |
| Consumer | -17% | -7% | -7% | 6% | -29% |
| Industrial | -34% | -16% | -13% | -6% | -40% |
| Property | -44% | -21% | -27% | -6% | -40% |

| Sectorial Indices | 2008 Global Financial Crisis | 2011 Japanese Tsunami | 2014 Oil Glut | 2018 US-China Trade War | Covid-19 Pandemic |
|---|---|---|---|---|---|
| Construction | -49% | -21% | -23% | -31% | -42% |
| Technology | -28% | -19% | -3% | 2% | -37% |
| REITs* | NA | NA | NA | 4% | -19% |
| Healthcare* | NA | NA | NA | NA | -9% |
| Transportation* | NA | NA | NA | NA | -37% |
| Energy* | NA | NA | NA | NA | -59% |
| Utilities* | NA | NA | NA | NA | -24% |
| Telecommunication* | NA | NA | NA | NA | -28% |

**Sectorial indices introduced after Year 2014*

*Dark green represents the best performing sectors and followed by the light green sectors, whereas dark red represents the worst performing sectors and light red represents the second worst performing sectors.*

*Source: Bloomberg*