

Buy Malaysia: Riding On The Tech Boom

Malaysian stocks have rallied sharply, and the exchange rate has also strengthened significantly versus the U.S. dollar in recent weeks, a remarkable development given the latest bout of volatility in the global financial market. In fact, **Malaysian stocks have broken out above a falling long-term trendline that has been in place for over 10 years, driven by explosive rallies in the construction and utilities sectors (Chart 1).**

We expect the rally to have much more upside, as the technical breakthrough in stock prices could signal a major turning point in Malaysia's economic outlook.

Capitalizing on the global tech/AI boom and the broader supply chain reshuffling, Malaysia stands out as one of the prime beneficiaries, thanks to its large and sophisticated manufacturing base, well-developed infrastructure, and some pro-growth reforms that the government is considering. Meanwhile, Malaysian stocks are still very cheap, and the currency is also deeply undervalued. This week, we are going long on Malaysian stocks and long on the Malaysian ringgit versus the Thai baht.

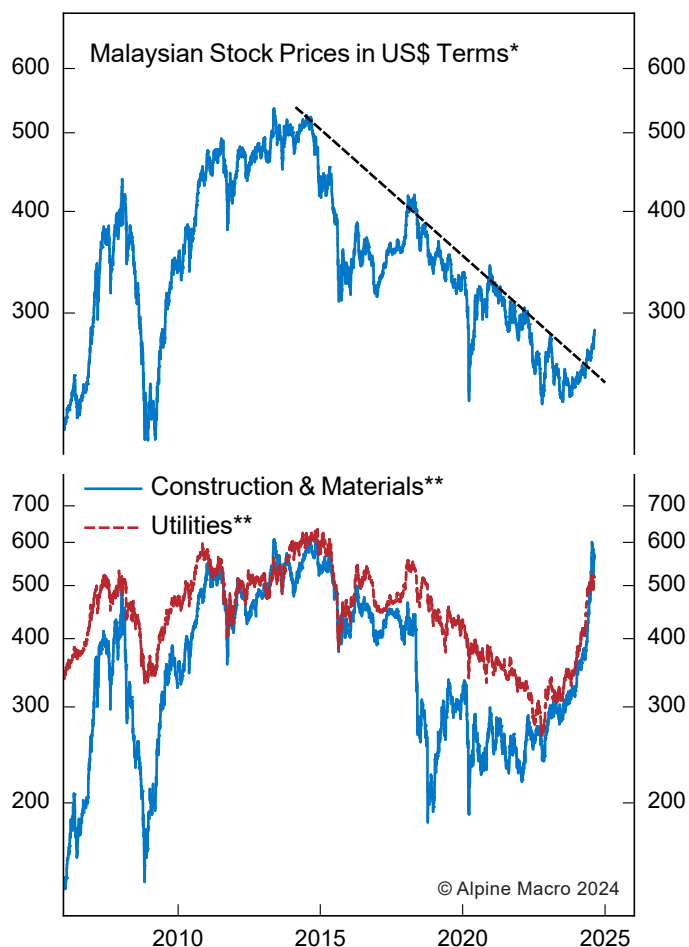
Harbinger For Change

The sharp rally in Malaysia's long-dormant construction and utilities stocks may be a harbinger of a seminal change in the economy. **After experiencing tremendous growth and prosperity over multiple decades, Malaysia's economy has stagnated since the late 1990s, first hit by the Asian Crisis and then overshadowed by China's rapid emergence as a manufacturing powerhouse.**

In This Report

Harbinger For Change.....	1
The Case For A Lasting Boom.....	5
Fundamentals, Risk And Implications	7

Chart 1 Malaysian Stocks: Breaking Out



*Source: MSCI

**Source: FTSE

Note: All series are shown in log scale

Tipping Point In Financial Markets: A Melt-up or Meltdown?

Global financial markets are facing increasing challenges: the risk of recession is rising as tight monetary policy has entered its 28th month, while the bull market in big tech has turned parabolic and is due for a shakeout. However, inflation has fallen sharply, and the Fed is poised to ease at a time when political and geopolitical risks have greatly escalated.

At this critical juncture, Alpine Macro's strategists are joined by a group of highly respected outside experts to discuss the pressing issues facing investors, including:

- Are we at the tail-end of the bull market in equities, or does the bull have further to run? Which sectors should investors allocate their capital to, and what will be the new leaders in the marketplace?
- How should investors hedge against the rising risk of wars and conflicts?
- Harris vs. Trump: How will the election result change U.S. economic policies and affect financial markets?
- What's next for commodities and energy? Are we heading for a new super-cycle bull market, and is ESG dead?

Come and join us for a day of debate, discussion, and brainstorming on the big macro themes and how to capitalize on them in this highly uncertain environment.

This is an in-person only event, and seats are already 70% sold out. If you are interested in this event, please register now.

[Click here](#) for a detailed conference agenda.

[Click here](#) to register

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Mike
Dooley



Francois
Trahan



Jim
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Gina Martin
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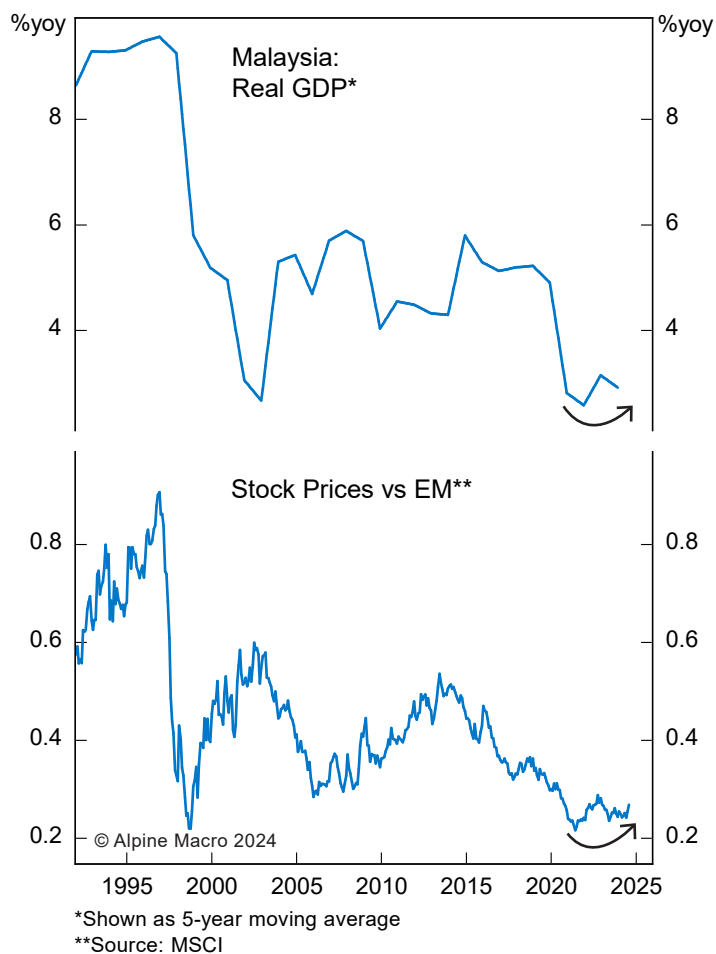
Tavi
Costa



Lenka
Martinek



Adam
Rozencwajg

Chart 2 Long-Term Economic Growth And Stock Market Performance

The structural deterioration may have reached an important inflection point (Chart 2). Thanks to the country's legacy advantage in its bellwether Electrical & Electronics (E&E) industry and the geopolitical imperative of diversifying supply chains from China, Malaysia has rapidly emerged as a major hub for the global semiconductor industry. Signs of an unfolding boom abound:

- Foreign direct investments (FDI) in Malaysia have skyrocketed in recent years, with a heavy focus on technology, especially in the semiconductor industry (Chart 3). Last year, greenfield FDI in

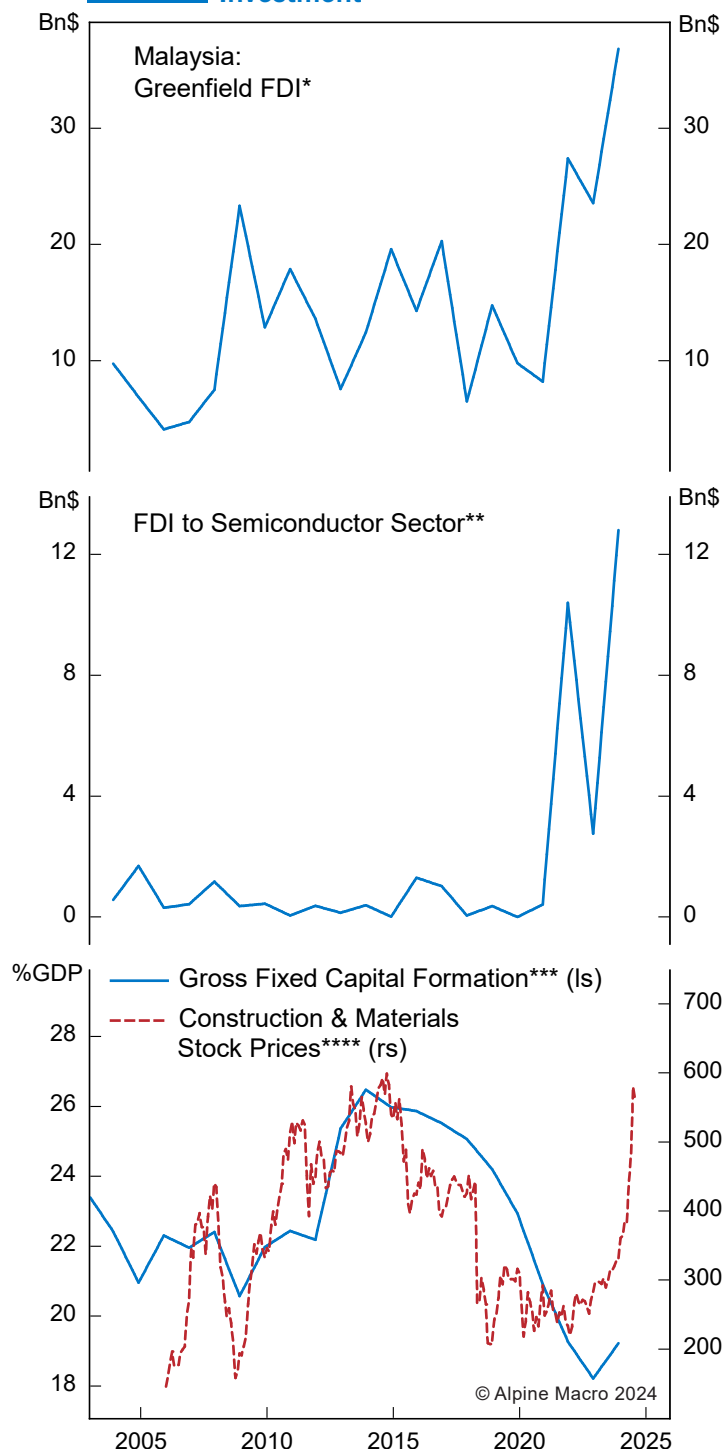
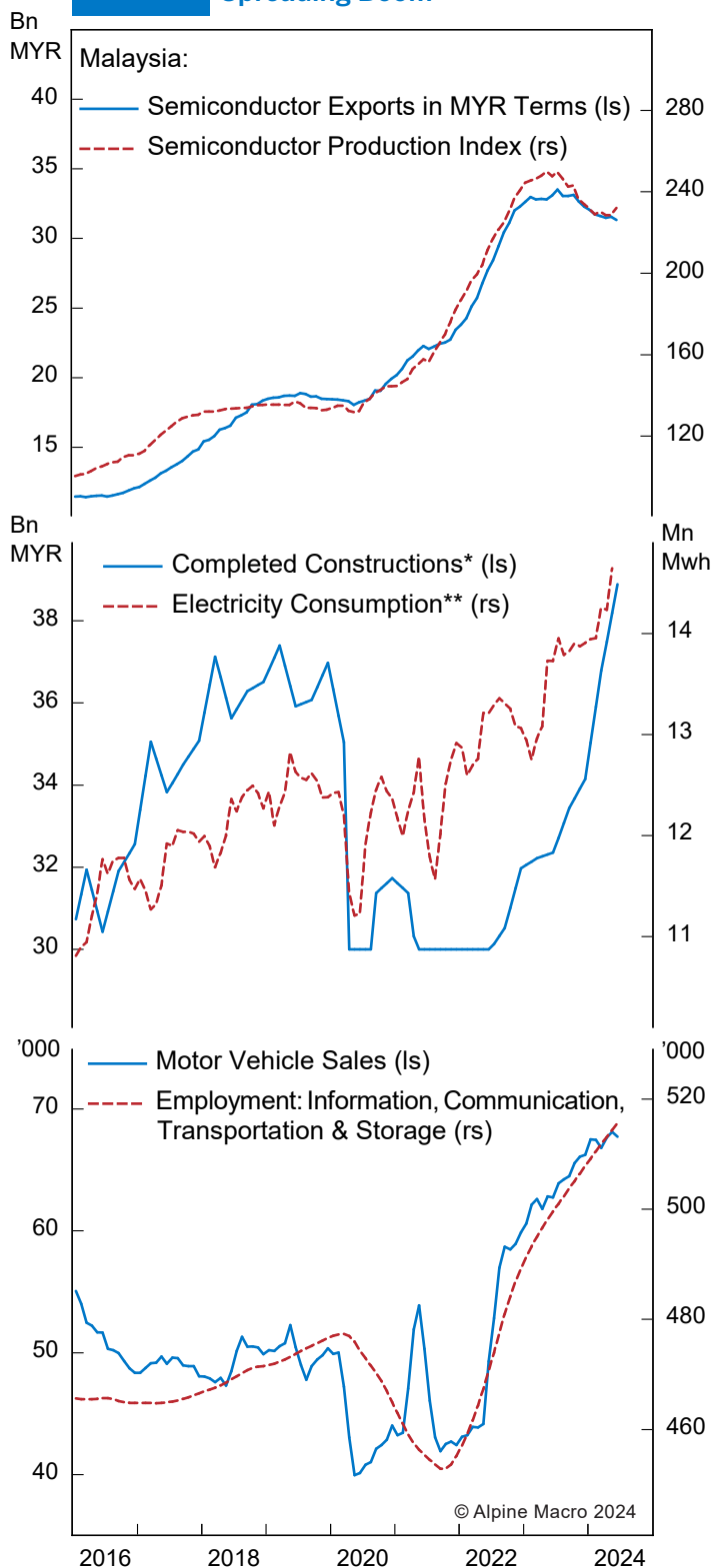
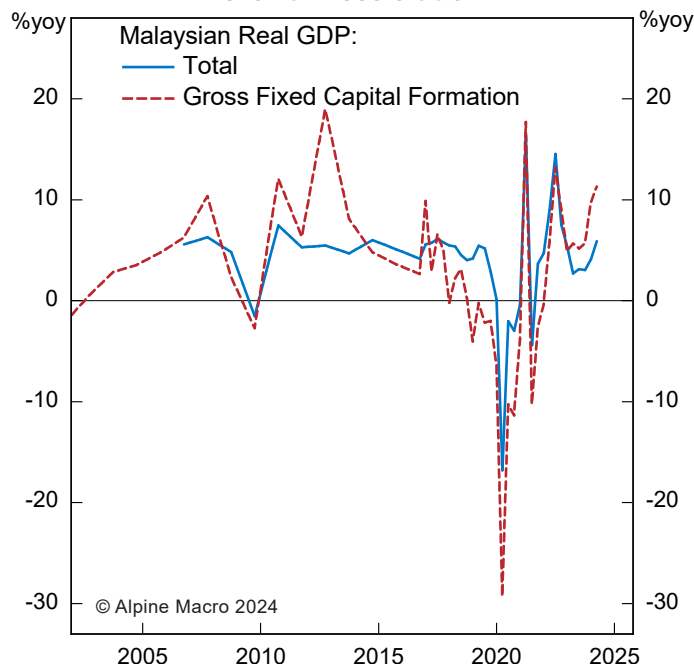
Chart 3 Surging FDI And Tech Investment

Chart 4 Spreading Boom

*Truncated at MYR 30 billion

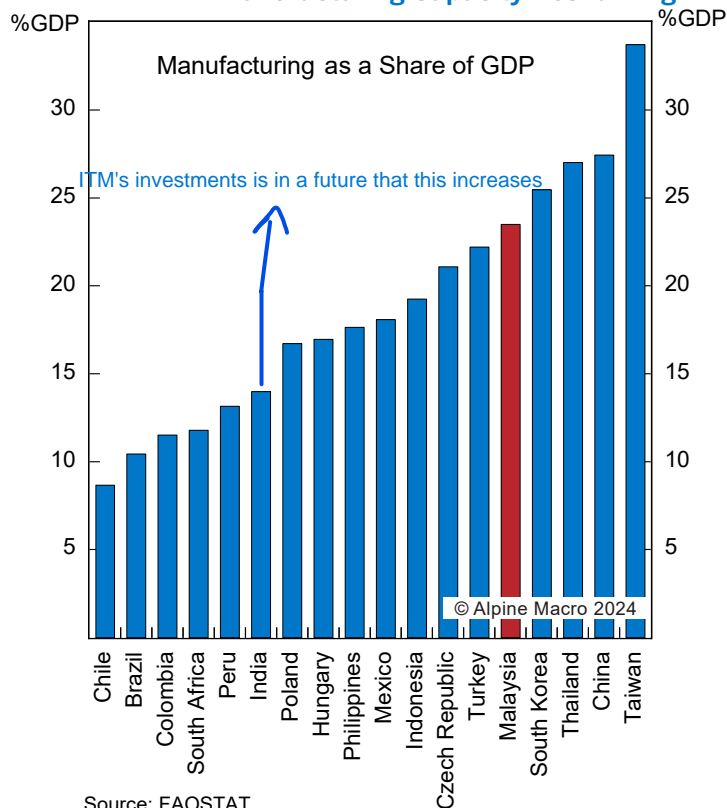
**Shown as 3-month moving average

Note: Series in top and bottom panels are shown as 1-year moving average

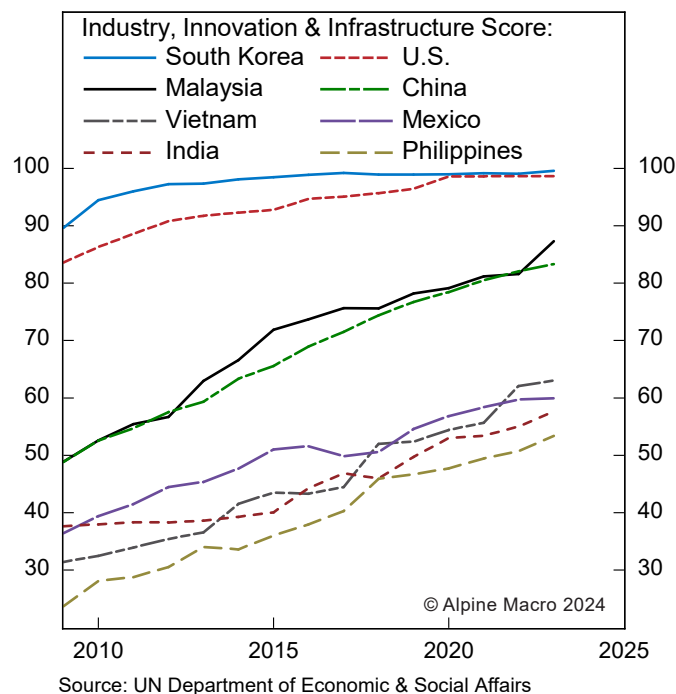
Chart 5 An Investment-Driven Growth Acceleration

Malaysia reached an all-time high. FDI in Penang State, Malaysia's semiconductor hub, surpassed the total amount from the previous seven years combined.

- Production and exports of semiconductor products have accelerated strongly of late, and the boom has also spread to related sectors such as logistics, utilities, and construction (Chart 4). The overall unemployment rate has dropped to 3.3%, retail sales are expanding briskly, and car sales have been reaching consecutive all-time highs.
- Last week's data release confirmed that the Malaysian GDP expanded by 5.9% from a year ago, driven by an 11.5% expansion in gross capital formation, both of which are the highest in recent years beyond the Covid-induced volatility (Chart 5).

Chart 6 Malaysia Is Well Positioned In Global Manufacturing Capacity Reshuffling

Malaysian authorities have long sought to revive economic growth with numerous industrial policies and initiatives, and the recent confluence of economic and geopolitical factors presents the country with a historic opportunity. In May, Prime Minister Anwar Ibrahim unveiled the National Semiconductor Strategy, aiming to attract over MYR 500 billion (USD 110 billion) in semiconductor investment in the coming years, nearly 30% of its GDP. Earlier this month, the government formally opened its first semiconductor integrated circuit (IC) design hub, demonstrating the ambition to climb up the semiconductor value chain. In addition, the country has been investing aggressively in data centers to capitalize on the cloud computing and AI boom. Overall, Malaysia appears determined to seize this “once in a generation” moment to

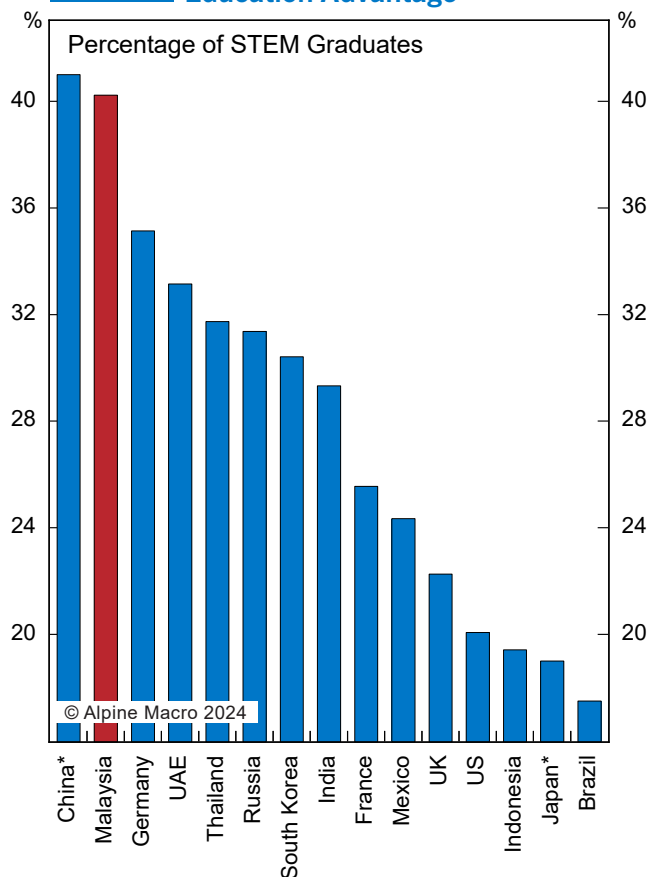
Chart 7 Malaysia Boasts Stronger Infrastructure Compared To Most EM Countries

become a global tech sector powerhouse and revitalize its manufacturing sector.

The Case For A Lasting Boom

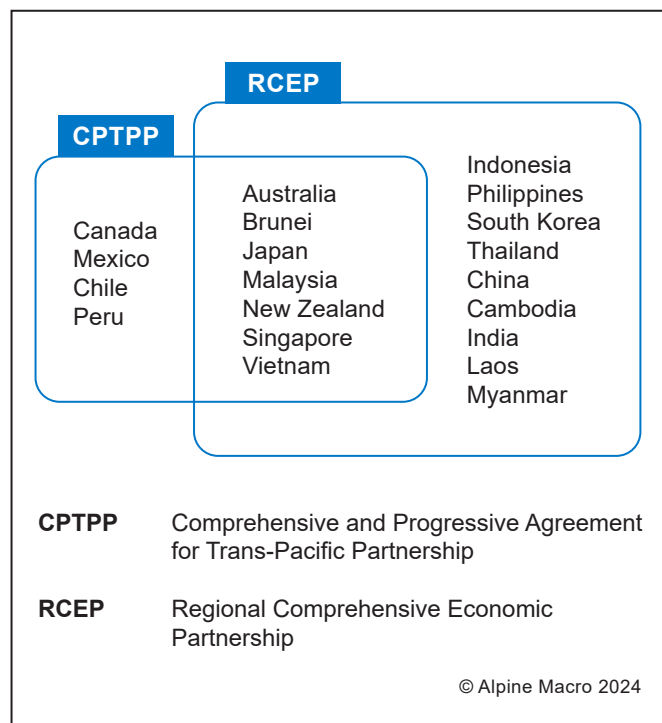
Malaysia is facing strong competition from other countries in the global tech and semiconductor race, but it has some important advantages.

First, Malaysia's physical infrastructure and human capital are better prepared to develop knowledge-intensive manufacturing industries. Malaysia's manufacturing sector accounts for 23% of GDP, one of the highest among major EM economies (Chart 6). Meanwhile, Malaysia is an upper middle-income country with a per capita GDP of over USD 13000, the second highest among major economies in Southeast Asia. Its relatively high level of development, especially in the manufacturing sector, has allowed it to develop superior

Chart 8 Malaysia's STEM Education Advantage

infrastructure and a more productive workforce than most of its lower-cost competitors (Chart 7). STEM (science, technology, engineering, and mathematics) students make up over 40% of Malaysia's tertiary graduates, among the highest in the world (Chart 8). The English proficiency of Malaysia's workforce is also among the highest in Asia.

Second, Malaysia is in a sweet spot both geographically and geopolitically. It is close to key markets and leading tech nations, benefiting from the shifting economic gravity from East Asia, led by China, towards South and Southeast Asia, led by

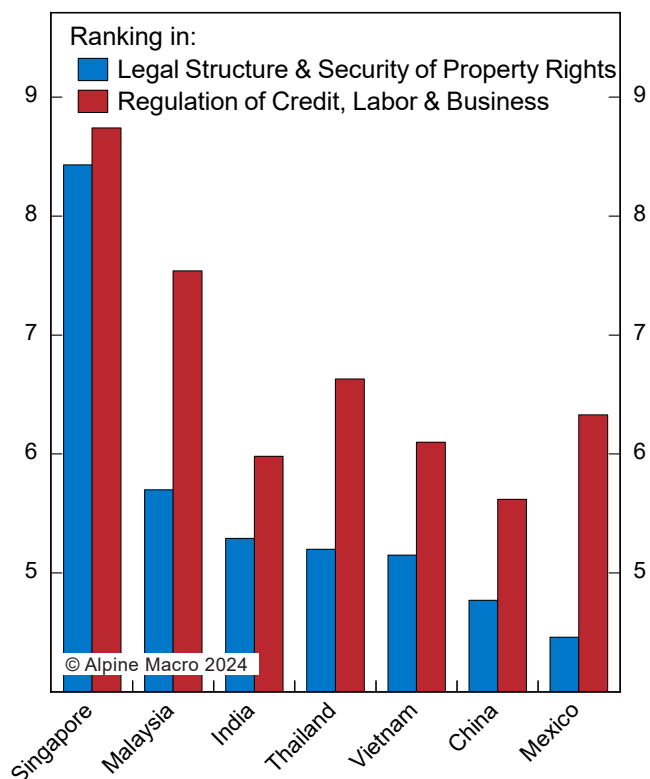
Chart 9 Malaysia In Asia-Pacific Regional Trade Groups

India, Indonesia, and Singapore. Meanwhile, Prime Minister Anwar Ibrahim has pitched Malaysia as “the most neutral and non-aligned location for semiconductor production,” seeking a balance between the U.S. and China. In fact, both American and Chinese companies are among the top investors in Malaysia's ongoing tech investment boom.

Third, Malaysia is deeply embedded in global trade through numerous free-trade and economic integration agreements. It is a member of ASEAN (Association of Southeast Asian Nations) and is one of the few signatories of both the RCEP (Regional Comprehensive Economic Partnership) and the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), two of the largest free trade agreements in the world (Chart 9).



Chart 10 Malaysia's Regulatory Environment Is Superior To Other FDI Inflow Hotspots



Source: Fraser Institute Economic Freedom Report

In fact, Malaysia maintains free trade agreements with almost all of its top trading partners, either bilaterally or multilaterally at the ASEAN level. These arrangements not only improve Malaysia's market access and tariff reductions in world trade, but they also ensure that Malaysia's regulatory environment complies with global norms – both crucial for attracting foreign investments.

Meanwhile, Malaysia's overall business environment also ranks favorably in EM. The country consistently scores high in terms of trade openness and economic freedom. Its regulatory framework, institutional quality, rule of law, and property rights protection are also superior, especially when compared to other “near-shoring” and “friend-shoring” hotspots (Chart 10).

Finally, the Malaysian government has unveiled ambitious targets for economic and social development through the New Industrial Master Plan 2030 and the National Energy Transition Roadmap, collectively referred to as the Madani Economy framework. In essence, the Malaysian government is adopting China's “whole-of-nation” approach by providing incentives to attract investment and using state funds to nurture key growth sectors. It also pledges to implement governance and institutional reforms, improve the business environment, foster innovation, and strengthen fiscal sustainability. The government has begun phasing out fuel consumption subsidies, creating space for spending in more productive areas.

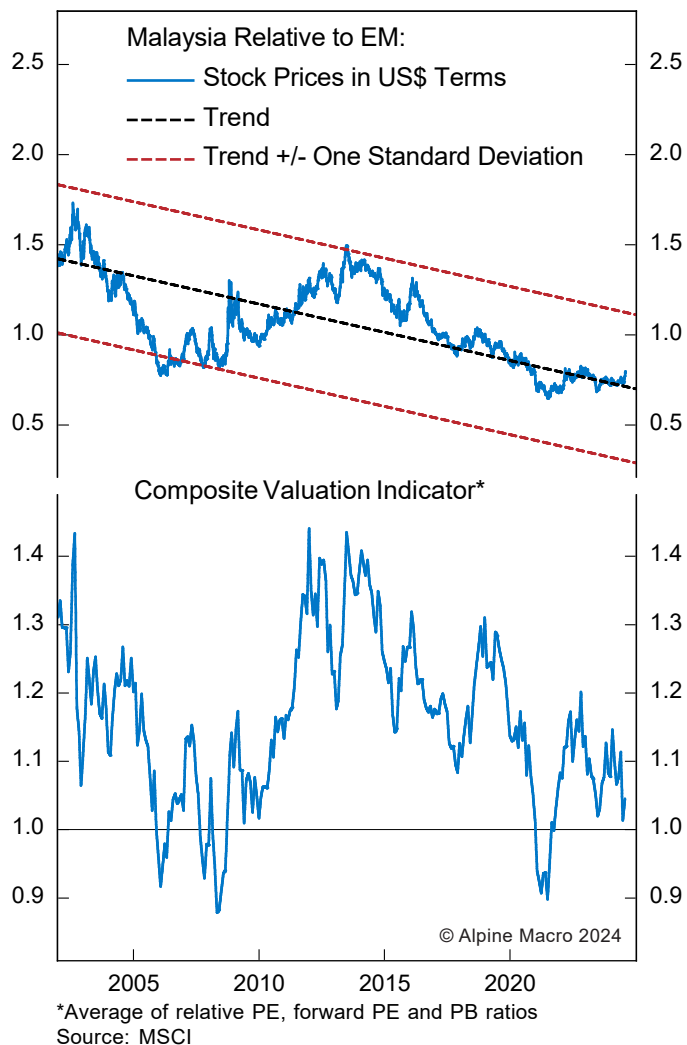
With these grand plans, Malaysia aims to achieve a 6.5% annual growth rate by 2030 and guide industries toward technological advancement and deeper integration into the global value chain. While it remains to be seen how the government will perform against these targets, the ongoing tech investment boom provides early evidence of success, and geopolitical factors are becoming strong tailwinds for the country's structural outlook.

Fundamentals, Risk And Implications

Turning to economic and market fundamentals, a few observations can be made.

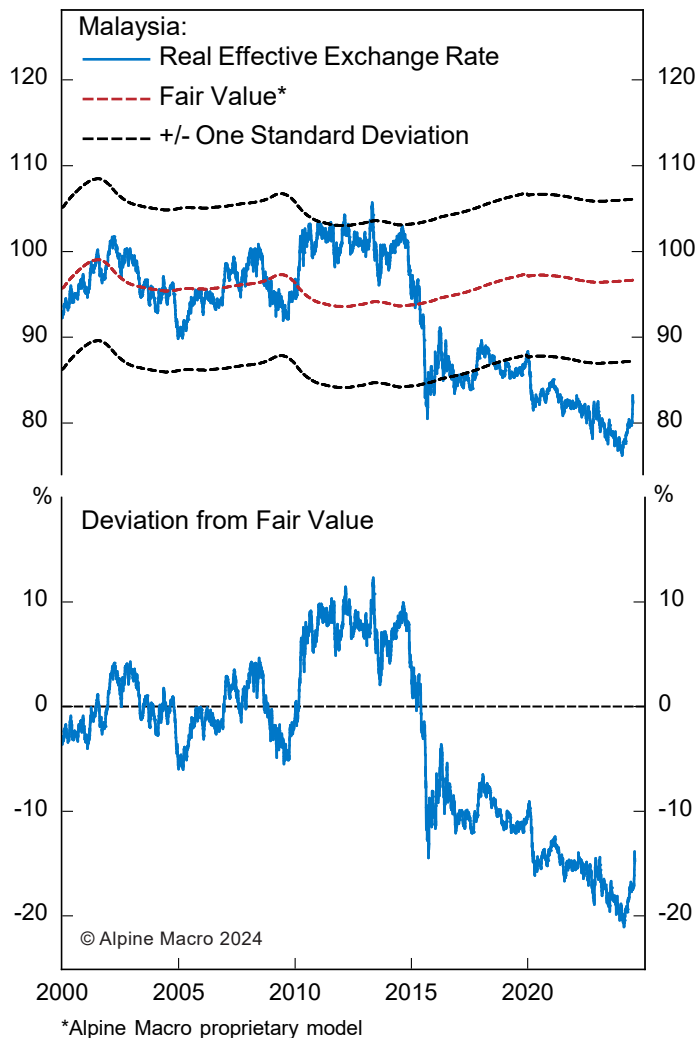
First, Malaysia's basic macro profile is stable. It is a net creditor country with consistent current account surpluses, making it more insulated from adverse global capital flows compared to net debtor EM countries. Malaysia's inflation situation has historically been mostly stable and less prone to major inflation outbreaks than many of its EM peers.



Chart 11 Malaysia Stocks: Long-Term Relative Performance And Valuation

Its public sector debt is high by EM standards but is mostly denominated in local currency, and both the fiscal deficit and interest burdens are moderate. All of this makes Malaysia much less vulnerable to major negative shocks.

Second, the prolonged bear market in Malaysian stocks, both in absolute terms and relative to the EM benchmark, has significantly improved their valuation picture. Currently, Malaysian stocks are trading at 17.8 and 14.7 times trailing and forward earnings, respectively, both at the lower end of

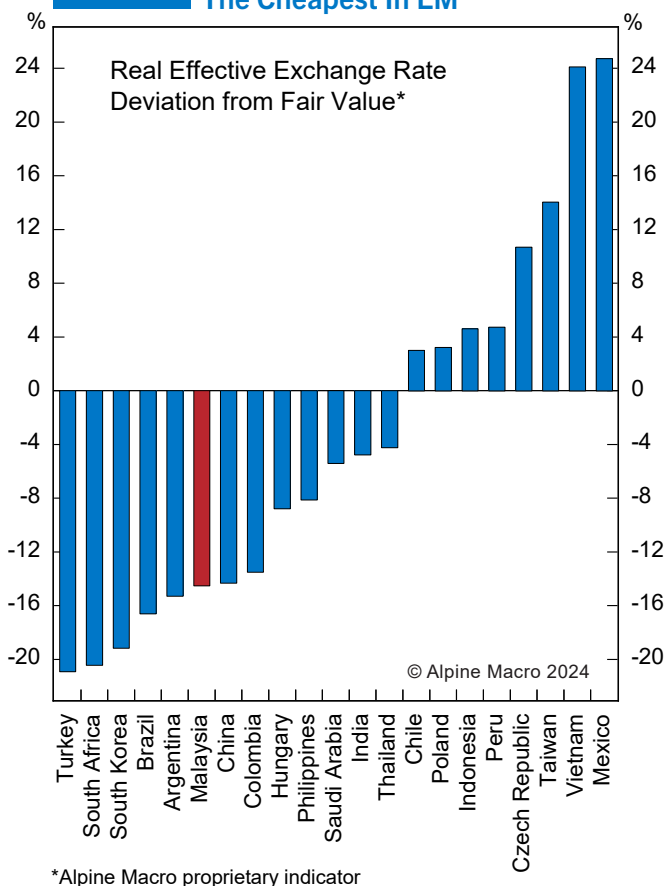
Chart 12 The MYR Is Deeply Undervalued

historical averages. Meanwhile, Malaysian stocks are trading roughly on par with the EM benchmark according to our composite valuation indicator, while historically they traded at a significant premium ([Chart 11](#)).

The Malaysian ringgit (MYR) has also become deeply undervalued ([Chart 12](#)) and remains one of the most undervalued EM currencies, even after the recent rebound, according to our fair value assessment ([Chart 13](#)). The valuation gap is especially large compared with countries experiencing



Chart 13 The MYR Is Among The Cheapest In EM

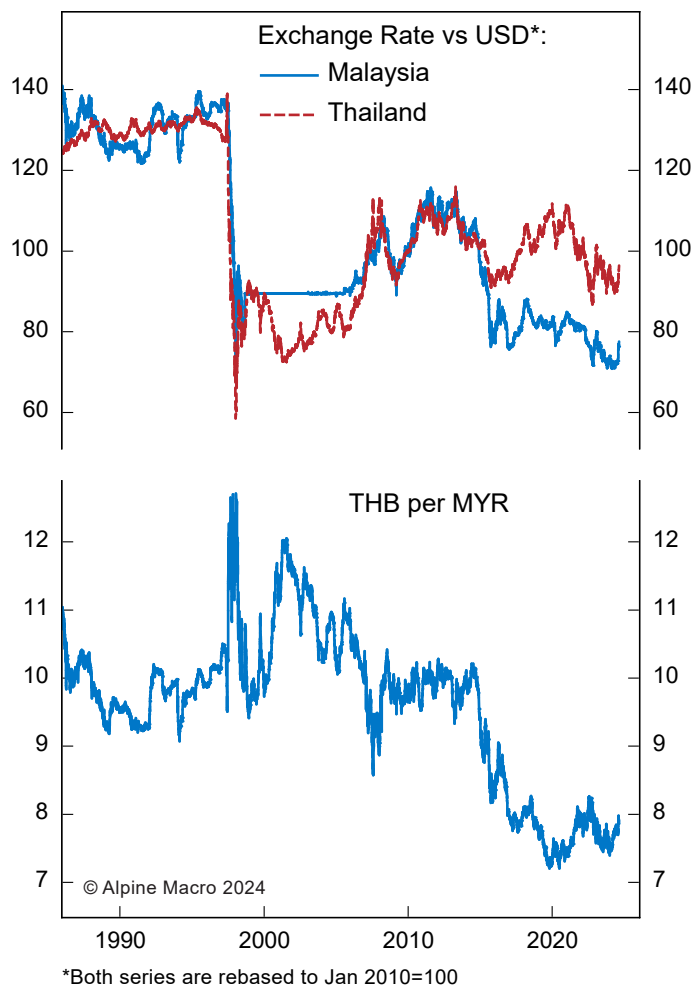


massive foreign capital inflows, such as Mexico and Vietnam. A cheap currency also makes Malaysian stocks more attractive for global investors.

Additionally, investors should consider going long the MYR versus the Thai baht (THB). Historically, the two currencies have moved in lockstep, and the divergence in recent years is likely unsustainable (Chart 14). The MYR is much cheaper than the THB in real effective terms, as shown in Chart 13.

Domestic growth conditions further support this currency pair trade, as Malaysia's economic growth has significantly outpaced Thailand's in recent years (Chart 15). Importantly, Thailand has lagged far behind Malaysia in attracting foreign capital. Greenfield FDI flows to Thailand in recent years

Chart 14 Long MYR/THB



have been a fraction of Malaysia's level, despite Thailand's much larger economy. This indicates that Malaysia will benefit more from the China-derisking trend than Thailand.

The political situation also favors the MYR versus the THB. Thailand has been mired in political turmoil since last year's election, and the uncertainty intensified earlier this month with the ousting of Prime Minister Srettha Thavisin. Although the parliament elected Paetongtarn Shinawatra as the new head of government last Friday, uncertainty remains high, making it difficult for the government to prioritize economic growth.

In contrast, Malaysia's domestic political risk is contained, at least until the next parliamentary elections in 2027, as the government enjoys a strong majority in both the lower and upper chambers. Beyond the near term, the biggest domestic risk is the rise of Islamist parties. Even though a "green wave" has not materialized in recent elections, the Malaysia Islamic Party (PAS), with its focus on Islamic fundamentalism, remains a contender in the opposition.

An external risk to Malaysia's aspirations to become a global tech hub is the U.S. response. Malaysia runs constant current account surpluses with the U.S. and has been on the U.S. Treasury's "monitoring list" for currency manipulation. There is a non-trivial chance that a more protectionist U.S. administration – such as a potential Trump 2.0 – could impose punitive tariffs on Malaysian exports, threatening its economy and tech ambitions.¹ Both domestic and external risks should be carefully monitored.

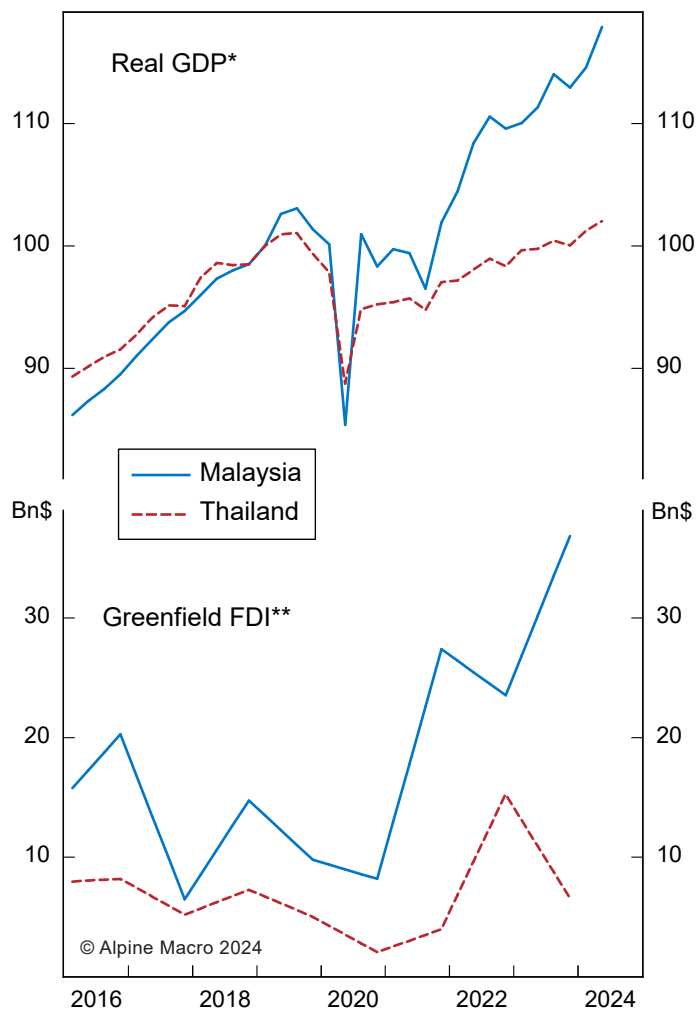
Bottom line: Buy Malaysian stocks, currency unhedged, and upgrade the Malaysian bourse to overweight within an EM equity portfolio, at the expense of Thailand. Go long MYR versus THB.

Yan Wang, CFA

Chief Emerging Markets & China Strategist

¹ Alpine Macro *EM & China Strategy* "Trump 2.0: Impact On China And EM" (July 30, 2024).

Chart 15 Thailand Has Lagged In The Growth And FDI Race



*Both series are rebased to Q1 2019=100

**Source: United Nations Trade & Development

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Investment Recommendations

Strategic Positions (6 - 12 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Long Colombian 10-year Government Bond, Currency Unhedged	11/21/2023		12.8%	Long Colombian 10-year Government Bond, Currency Unhedged; stop point at -10%.
Long MSCI Greece Equity Index	11/21/2023		14.0%	Long MSCI Greece Equity Index in US\$ terms; stop point at -10%.
Long Indian 10-year Government Bond, Currency Unhedged	06/04/2024		2.2%	Long Indian 10-year Government Bond, Currency Unhedged; stop point at -10%.
Long Malaysian Equities, Currency Unhedged	08/20/2024		-	Long MSCI Malaysia Equity Index in Local Currency terms; stop point at -10%.

Tactical Investment Positions (3 - 6 months)

Recommendations	Open Date	Closing Date	Total P&L	Notes
Short CZK/HUF	06/05/2023	-	4.2%	Short Czech Koruna versus Hungarian Forint; rolling stop point at -5%, or -3.5% from current level.
Short TWD/ A Basket of BRL, COP and CLP	11/28/2023	-	1.1%	Short TWD vs A Basket of Latam Currencies (Equal-Weighted of BRL, COP and CLP); stop point at -10%.
Long CSI 300 Index	02/20/2024	-	-0.6%	Long China A-shares Index in US\$ terms; stop point at -10%.
Long MSCI China Equity Index	02/20/2024	-	8.9%	Long MSCI China Equity Index in US\$ terms; rolling stop point at -10%, or -7.3% from current level.
Short COP/CLP	03/05/2024	-	5.1%	Short Colombian Peso versus Chilean Peso; rolling stop point at -5%, or -3.8% from current level.
Short THB/IDR	03/05/2024	-	0.3%	Short Thai Baht versus Indonesian Rupiah; stop point at -10%.
Long MYR/THB	08/20/2024	-	-	Long Malaysian Ringgit versus Thai Baht; stop point at -10%.



EM Equity Country Allocation

Strong Overweight	Overweight	Neutral	Underweight	Strong Underweight
	Brazil	Indonesia	South Korea	
	Chile	Philippines	Czech Republic	
	China	India	Hungary	
	Colombia		Mexico	
	Greece		Peru	
	Malaysia		Poland	
	South Africa		Taiwan	
			Thailand	
			Turkey	

EM Equity Sector Allocation

Strong Overweight	Overweight
	Energy
	Materials
	Health Care
	Consumer Discretionary
Neutral	
Communication Services	
Information Technology	
Financials	
Strong Underweight	Underweight
	Industrials
	Consumer Staples
	Utilities

EM Local-Currency Government Bond Allocation

Overweight	Neutral	Underweight
Indonesia	Poland	Czech Republic
Peru	Hungary	Thailand
Brazil	South Korea	China
Colombia	Malaysia	Taiwan
Chile	Philippines	Turkey
India	South Africa	
	Mexico	



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