



## Fitch downgraded Malaysia's rating to BBB+

Fitch Ratings has downgraded Malaysia to BBB+ from A-, with a stable outlook on 4 December 2020. The rating downgrade was attributed to weakening of several key credit metrics due to the depth and duration of the COVID-19 pandemic. Malaysia's credit metrics were already weaker than A-rated sovereigns even before COVID-19, but tolerated by Fitch given the country's fiscal consolidation before the crisis. The pandemic has necessitated substantial stimulus spending and Malaysia's fiscal deterioration is unlikely to improve meaningfully in the middle term. That said, Fitch deems Malaysia's projected debt and deficit ratios in 2020-2021 to be achievable. Political instability may further weigh on Malaysia's governance indicators, which have recently shown deterioration in World Bank's governance score (below A-rated sovereigns). Fitch will likely maintain Malaysia at BBB level for a foreseeable future since meaningful improvement in fiscal performance and governance is unlikely in the near term. There is also risk of further downgrade by S&P (currently rates Malaysia at A-/Negative) considering Malaysia's weakened fiscal prospects and growing political uncertainties.

We expect some knee-jerk reactions in the local capital market as the rating downgrade was not anticipated. There is risk of a sell-off on government securities especially coming from foreign investors as foreign share of government securities (MGS+GII) remained high at 24% as at end of October 2020. However, we believe any price correction would be modest and temporary as the market is likely to be supported by the attractive yield spread offered by the domestic market. With the global central banks reducing rate to near zero and record amount of global government bonds in negative real yield, Malaysian government securities are still offering relatively high positive real yields. In addition, the impact to our portfolios is further cushioned by our overweight position in corporate debts. Foreign ownership in this space is light with relatively lower risk of experiencing a sell-off. We do not have any exposure in MGS/GII for United Income Plus Fund and United Best & Equity Strategic Trust while United Conservative Bond Fund has about 1.3% as at 3 December 2020. Meanwhile on Ringgit, we don't expect Ringgit to weaken substantially against the Dollar due to the rating downgrade. If there is any correction on Ringgit, it will be temporary in our view. US dollar weakness trend is likely to continue given the risk on sentiments. We expect Ringgit to trade within 4.05-4.10 in the near term and could strengthen closer to 4.00 by 1H21.

## Important Notice & Disclaimers

This publication shall not be copied, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication must be viewed in conjunction with the oral presentation provided by UOB Asset Management (Malaysia) Bhd (“UOBAM(M)”). This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. The information contained in these publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of the document, all of which are subject to change at any time without notice. In preparing this publication, UOBAM(M) has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was otherwise reviewed by UOBAM(M). UOBAM(M) does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy, or omission. UOBAM(M) and its employees shall not be held liable for any decision or action taken based on the views expressed or information contained within this publication. Any opinion, projection and other forward looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax, or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment product. Should you choose not to seek such advice, you should consider carefully whether the investment or product is suitable for you or your organization.

UOB Asset Management (Malaysia) Bhd 199101009166 (219478-X)

To find out more,  
please visit [www.uobam.com.my](http://www.uobam.com.my)



**RIGHT BY YOU**