

January 12, 2017

2017 Market Outlook | Bumpy But Better

Dear Valued Clients and Business Partners,

We would like to take this opportunity to wish you a Happy New Year.

As is custom for Maybank Asset Management over the past few years, we will provide a review of 2016 and then articulate our views for 2017.

It was another challenging year in 2016 and the investment environment was aptly summed up by our main theme for 2016: "Maneuvering Around the Potholes". Indeed, financial markets were volatile and there were many potholes both economic and political. The equity market started off poorly with stock markets around the world plunging by more than 10% in January on concerns of a disorderly RMB depreciation. At that time, there were fears that the weak RMB was signaling a sharp economic slowdown in China. There were other potholes namely the Brexit vote at the end of June when the United Kingdom voted to leave the European Union that saw risk assets sell off. While that was a surprise, Brexit was just a precursor to the biggest shock of 2016. At the beginning of November, we saw the underdog Donald Trump defeat Hillary Clinton to emerge as President-elect of the US.

Indeed 2016 is likely to go down in history as the year of the anti-establishment vote where people voted against the expectations of conventional media, the experts and the elite. However, with interest rates being kept low for most of the year, equity markets recovered after each obstacle as investors reached for yield despite the challenges and most stock markets managed to end the year in the green.

For fixed income markets, interest rates were in a downtrend for most of the year as political uncertainty and weak economic growth saw investors take refuge in sovereign bonds. Central banks were also supportive either by maintaining loose monetary policy or easing monetary policy further. Just like equity markets,

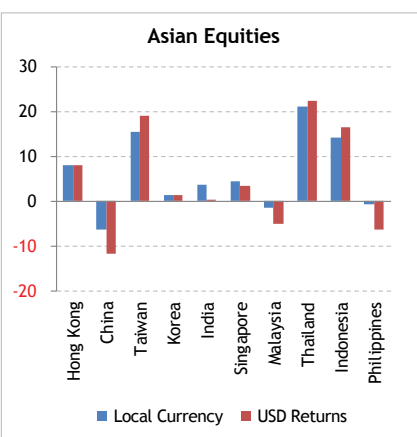
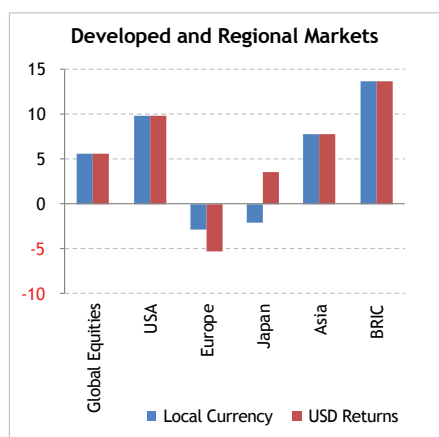
bond markets were volatile and there were many potholes to navigate. In hindsight, political events in 2016 proved to be key turning points for the bond market. Post-Brexit, we saw interest rates in many countries reach the lows as investors sought the safety of government bonds amidst the uncertainty. Rates stabilized from thereon but after the US Presidential elections, US interest rates started surging upwards pushing up interest rates around the world. With Trump as the US President-elect, the financial markets have projected more aggressive fiscal stimulus under his term leading to higher economic growth but bigger budget deficits in the US. As a result, the yield on the 10-year US Treasury Bond surged by more than 20%, jumping up 40 bps from 1.80% to 2.20% within a week after the elections. As US Treasuries are the benchmark for the rest of the world, interest rates globally went up by varying amounts and bond markets slumped by between 3-5%.

Before we look closer at the performance of various assets classes and markets, let us review the themes we presented for 2016. We got four out of five themes correct this year and 80% is a pretty good hit rate. We were correct to have predicted low global growth and benign inflation leading to easy monetary policy as policy makers tried to boost weak economies through low interest rates. We were also correct to anticipate volatile markets as the new normal as financial markets were boosted by policy but slumped when corporate and economic fundamentals disappointed. The one theme that we did not get right was the view that the developed world would see low returns. So far US equities and fixed income have kept pace and have generally outperformed Asian equities and fixed income. Nonetheless we expect this theme to be realised over the medium term i.e., in the next 3 to 5 years.

2016 THEMES: Maneuvering Around The Potholes

THEMES	KEY IMPACT/S	OUTCOME
MUTED GLOBAL GROWTH	<ul style="list-style-type: none"> - We are seeing the lack of drivers for the global economy. The previous drivers of global growth were Brazil, Russia, India and China (BRIC). Brazil and Russia are already in recession while China's growth is slowing. China is likely to target lower growth rates at 7% from 7.5% for its 5-year plans from 2016 to 2020. - However, the US is the bright spot in the economy with gross domestic product (GDP) growth expected to remain firm in 2016 with consensus at 2.7%. The EU economy has also seen signs of improvement. - Within Asia, India and Philippines may see an improving economic outlook given reforms arising from political change. There is a lack of earnings growth. Global trade has shrunk in 2015 for the first time since 2008. - Our base case in 2016 sees stabilisation in economic growth in Asia. Asian countries are rolling out various measures to boost growth. China has cut interest rates and the required rate of return (RRR) for banks. Indonesia, Malaysia and Thailand are rolling out various fiscal policies that have high economic multiplier effects. 	<p>Positive for fixed income.</p> <p>More negative for equities but positive for growth stocks.</p>
BENIGN INFLATION	<ul style="list-style-type: none"> - Our low inflation expectations in 2015 were met and we expect this to persist in 2016. Inflation is to remain low given excess supply in industrial capacity. With the slowdown in China's economic growth, there is now overcapacity in many industries including cement, steel, coal and shipbuilding. - Prices for energy and agriculture, which are key components in inflation measures of many countries have softened significantly in 2016 and are likely to stay in a range until global growth picks up. - For oil, though the low oil prices will drive out higher cost producers like shale oil in the US and tar sands oil in Canada, incremental supply is coming from OPEC countries. Iran is set to increase production given the lifting of US sanctions that were imposed in 2012. Iran is the 5th largest producer in the OPEC currently but was the 2nd largest before sanctions were imposed. 	<p>Monetary policy action may stay low for longer - positive for bonds and equities.</p> <p>Negative on energy and commodity companies.</p>
EASY MONETARY POLICIES	<ul style="list-style-type: none"> - Low interest rates are here to stay given low inflation and weak growth. - The US will hike rates in 2016 but the hikes will likely be measured. - Europe, Japan and China will continue to implement monetary easing policies to bolster growth. With the expected low inflation, central bankers have greater leeway to keep current accommodative policies for longer periods. 	<p>Easy monetary policies to remain give low inflation.</p> <p>Positive for bonds and equities.</p>
LOW ASSET RETURNS IN DEVELOPED WORLD	<ul style="list-style-type: none"> - Lower interest rates and high asset prices may see low asset returns in the medium term. Developed world equities and fixed income do not offer value. Developed world equities are trading at relatively high multiples in the high teens. Likewise, developed world sovereign bonds and even corporate credits are priced to yield very low returns. Relative value is found in emerging market equities and fixed income over the medium term. 	<p>Positive for Asian markets in medium term.</p>
VOLATILITY IS THE NEW NORMAL	<ul style="list-style-type: none"> - 2016 may be punctuated by sharp rallies and equally sharp corrections as the market reacts to policymakers' decisions. - Policy may boost markets in the short term. However, if the measures do not lead to improvements in the underlying economy, sell-offs will occur. - Macroeconomic numbers have been poor but with expectations and valuations low in Asia, a small improvement may lead to large gains in Asian fixed income and equity markets. - Geopolitical risks. 	<p>Fund managers need to be nimble. Active management may outperform.</p>

CHART 1: EQUITY MARKET



Fixed Income Markets		YTD Ret (%)	
Market	Index	Local Currency	USD Returns
Global Equities	MSCI World	5.6	5.6
USA	S&P500	9.8	9.8
Europe	Euro Stoxx 50	-2.9	-5.3
Japan	Nikkei 225	-2.1	3.5
Asia	MSCI Asia ex Japan	7.8	7.8
BRIC	MSCI BRIC	13.7	13.7
Hong Kong	HSI	8.0	7.9
China	Shanghai	-6.3	-11.8
Taiwan	TAIEX	15.3	18.9
Korea	KOSPI	1.2	1.3
India	SENSEX	3.6	0.1
Singapore	STI	4.4	3.2
Malaysia	KLCI	-1.5	-5.1
Thailand	SET	21.2	22.4
Indonesia	JCI	14.1	16.4
Philippines	PCOMP	-0.8	-6.4

Source: FTSE, MSCI, Bloomberg, data as of 30 November 2016

Looking at the stock markets in greater detail, we find that most equity markets are up for the year which is a welcome change from the poor 2015. The outperforming stock markets this year have been the markets that were badly hit in 2015. There was a strong mean reversion and from being the biggest losers in 2015, Brazil, Russia, Thailand and Indonesia were the outperformers in 2016. These countries were up by more than 15% for the year with Brazil and Russia up by a stunning 40% after dropping by 50% over the past 2 years. The underperformer so far has been the domestic Chinese stock markets. The Shanghai Composite Index is down 6% for the year in local currency terms.

Of course, the positive return for equity markets made up for the huge volatility that we witnessed in 2016. In hindsight, 2016 was the mirror image of 2015 for Asian markets. In 2015, markets started out well with Asian stock markets being pulled up by buoyant domestic China A share markets. However, the second half of 2015 was difficult as the authorities in China took measures to cool down the overheated stock markets leading to a sharp correction. Weak investor

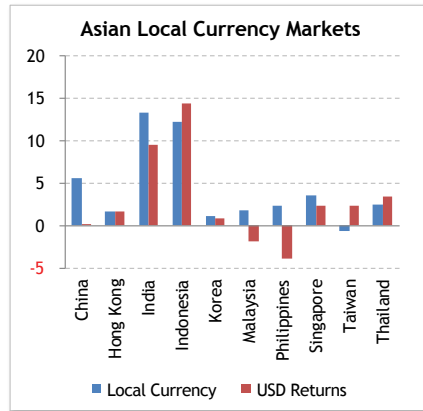
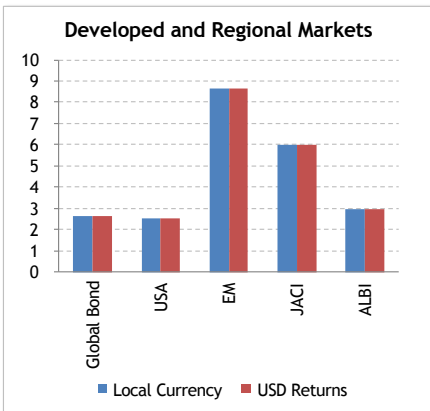
sentiment dragged down other Asian markets. Furthermore, disappointing economic growth and weak corporate earnings saw Asian stocks slump in the same period.

In contrast for 2016, stock markets started out poorly but picked up into the second half of the year. At the start of the year, stock markets slumped by more than 10% as the sharp depreciation of the Chinese Renminbi indicated that the fundamentals of the Chinese economy were weak. Central banks around the world reassured markets by maintaining easy monetary policy and even easing monetary policy further. The US Federal Reserve kept interest rates low after raising rates by 25 bps in November 2015 while the Bank of Japan actually cut interest rates to negative. With easy monetary policy, most stock markets started rallying from mid-February and actually turned positive by mid-year. Though stock markets were in an uptrend, there were potholes along the way with one of them being the Brexit vote at the end of June. In a shocking result, the referendum saw the United Kingdom vote to leave the European Union (EU). Financial markets were momentarily in a risk-off mode but

recovered quickly to reach the highs of the year in the third quarter. At that point, Asian equities were up by more than 10%.

Of course, the biggest political surprise came in November when Donald Trump won the US Presidential election. Given his pre-election pronouncements on trade, immigration and fiscal policy, financial markets projected that expansionary fiscal policy in the US would lead to higher budget deficits and also better economic growth in the future. This led to a sharp spike in interest rates and a rally in cyclical stocks, boosting commodity plays and banks, sending US stock markets higher. However, this was on the whole negative for Asia as higher interest rates in the US resulted in investment outflows from Asian markets to the US. In addition, the anti-trade and anti-immigration rhetoric would also be incrementally negative for Asian markets. Asian stock markets corrected with a bigger impact in countries that were susceptible to foreign inflows including India, Indonesia and Philippines. However, there was some stabilization towards the end of the year as investors sentiment warmed to the improvement in economic data in Asia.

CHART 2: FIXED INCOME MARKET



Fixed Income Markets		YTD Ret (%)	
Market	Index	Local Currency	USD Returns
Global Bond	Bloomberg	2.6	2.6
USA	Barclays USA	2.5	2.5
EM	JPM EMBI	8.6	8.6
JACI	JPM Asia USD	6.0	6.0
ALBI	IBOXX Asia	3.0	3.0
China	IBOXX China	5.5	0.2
Hong Kong	IBOXX Hong Kong	1.7	1.6
India	IBOXX India	13.3	9.5
Indonesia	IBOXX Indonesia	12.2	14.4
Korea	IBOXX Korea	1.1	0.9
Malaysia	IBOXX Malaysia	1.9	-1.8
Philippines	IBOXX Philippines	2.3	-3.9
Singapore	IBOXX Singapore	3.5	2.4
Taiwan	IBOXX Taiwan	-0.6	2.4
Thailand	IBOXX Thailand	2.5	3.4

Source: JPM, IBOXX, Barclays, Bloomberg, data as of 30 November 2016

Overall fixed income markets generally had a good year in 2016, with the majority of markets posting positive returns. The Asian (JP Morgan Asia Credit index JACI) and Emerging market (JP Morgan Emerging Market Bond Index) USD bonds outperformed, returning 6.0% and 8.6% for year-to-date (YTD). Asian local currency bonds (IBOXX Asia Local Bond Index) recovered from the negative year in 2015, posting a return of 3%. Fixed income performance was an improvement from 2015 and the performance was driven by already low interest rates going lower and a compression in spreads. Weak economic growth in 2016 led to central bankers engaging in further easy monetary policy to boost growth and therefore interest rates were in a downtrend from the start of the year leading to the good performance for fixed income markets.

Last year we saw the advent of Negative Interest Rate Policy (NIRP) starting first with Europe and in 2016, Japan joined that club lowering rates to negative in January. However, we are seeing early signs that easy monetary policy may be reaching its limits as the lower rates did not have its intended impact. In fact, the lower interest rates in Japan did not lead to the usual weakening of the Japanese Yen



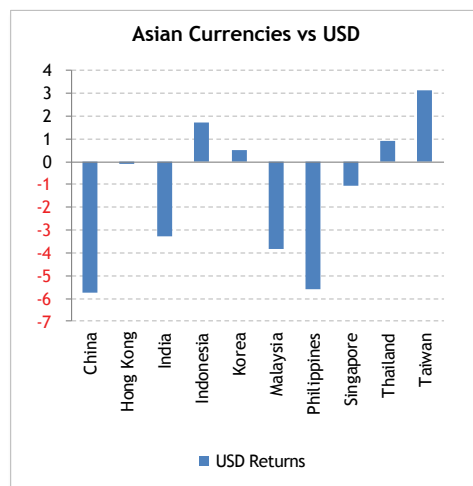
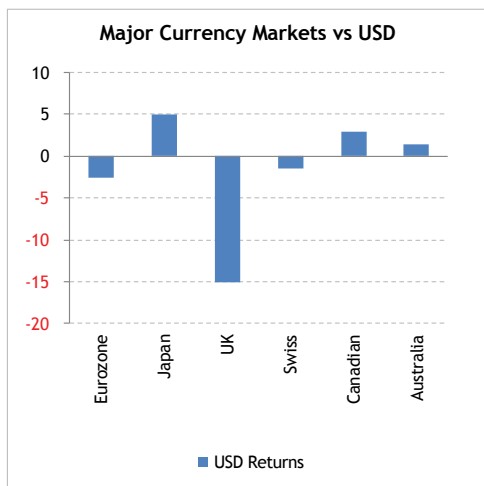
helping exporters to boost their earnings and leading to higher share prices. This time the Yen actually strengthened while the stock market dropped.

As mentioned earlier, political events proved to be the key turning points for interest rates resulting in volatile markets. Interest rates reached a low post-Brexit as investors sought the refuge of sovereign bonds amidst the uncertainty with 10-year US Treasuries yielding just 140 bps in the start of July. Rates then crept up steadily but then surged after Trump won the US Presidential election. Financial markets anticipated that higher fiscal spending from the Trump administration would lead to higher budget deficits resulting in yields on the 10-year US Treasuries surging from

180 bps pre-elections to 240 bps in just two weeks post-elections. This sharp increase in yields did cause a sell-off in bond markets but given the earlier rally, fixed income markets continued to stay in the green.

Amidst the economic uncertainty and higher defaults rates, a surprising development was the tightening of credit spreads from last year. The reach for yield in the low interest rate environment may have led to the compression of spreads. In addition, the improvement in macroeconomic data towards the second half of 2016 was supportive of tighter spreads. As a result, high yield (HY) credits outperformed investment grade (IG) credits.

CHART 3: CURRENCY MARKET



Commodity Markets		YTD Ret (%)
Market	Index	USD Returns
Eurozone	EUR	-2.5
Japan	JPY	5.0
UK	GBP	-15.1
Swiss	CHF	-1.5
Canadian	CAD	3.0
Australia	AUD	1.4
China	CNY	-5.7
Hong Kong	HKD	-0.1
India	INR	-3.3
Indonesia	IDR	1.7
Korea	KRW	0.5
Malaysia	MYR	-3.8
Philippines	PHP	-5.6
Singapore	SGD	-1.0
Thailand	THB	0.9
Taiwan	TWD	3.1

Source: Bloomberg, data as of 30 November 2016

This year, Asian currencies were more stable compared to the USD with most countries within a $\pm 3\%$ band. This is in contrast to 2015 when we saw a range of currencies depreciate by more than 10%. Of course if we look closely, currency markets were still volatile with Asian currencies appreciating for most of the year versus the USD but experiencing a sharp correction after the US Presidential elections as funds flowed to the US given higher interest rates. With the bottoming out of commodity prices, commodity-related currencies appreciated with the Australian Dollar (AUD), Canadian Dollar (CAD) and Indonesian Rupiah (IDR) up by about 2%. The Renminbi (RMB) was the

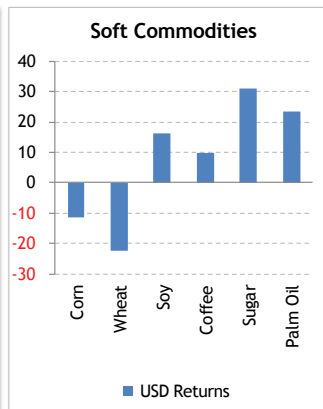
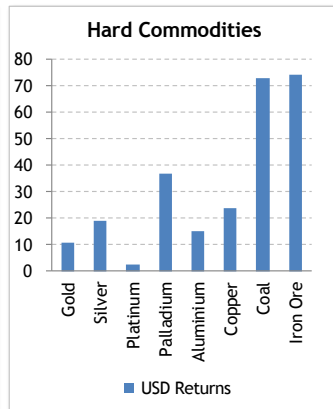
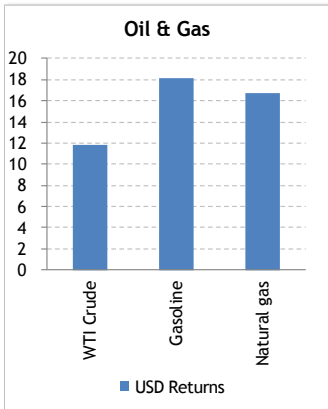


worst performing currency in Asia in 2016, down by 6%. Based on the Real Effective Exchange rate (REER), the RMB is overvalued and the government appears to be using a managed depreciation

strategy to keep the currency competitive.

Of course, the notable event in currencies was Brexit. The British Pound (GBP) plunged by more than 8% after British voters decided in a referendum to leave the European Union at the end of June. The Pound (GBP) continued to slide in the following months and ended lower by 15% versus the US Dollar (USD). The one outlier has been the Japanese Yen (JPY) that appreciated versus the US Dollar (USD) and most currencies. As we discussed earlier, this could be a sign that monetary policy is losing its effectiveness as the Yen (JPY) appreciated even with the NIRP.

CHART 4: COMMODITY MARKET



Commodity Markets		YTD Ret (%)
Market	Index	USD Returns
NYMEX WTI Crude	WTI Crude	11.8
NYMEX Gasoline	Gasoline	18.1
NYMEX Nat Gas	Natural gas	16.7
Spot Gold	Gold	10.6
Spot Silver	Silver	19.2
Spot Platinum	Platinum	2.3
Spot Palladium	Palladium	36.8
LME 3mth Aluminium	Aluminium	14.9
LME 3mth Copper	Copper	23.8
Newcastle Coal Futures	Coal	72.8
Iron Ore Futures	Iron Ore	74.4
CBOT Corn	Corn	-11.3
CBOT Wheat	Wheat	-22.4
CBOT Soybeans	Soy	16.2
ICE Coffee	Coffee	9.7
ICE Sugar	Sugar	31.2
Palm Oil	Palm Oil	23.5

Source: Bloomberg, data as of 30 November 2016

Moving on to commodities, commodities rebounded strongly after two difficult years. The entire commodity complex including oil, hard commodities and soft commodities all posted decent gains. The only exceptions were corn and wheat prices that were down due to the strong production in the US causing an oversupply. The biggest gainers have been seen in hard commodities with coal and iron ore up by more than 70%. One of the reasons for the strong gains in hard commodities is due to the reduction in supply. Miners have cut supply by reducing production at the higher cost mines as they were no longer profitable. Lower supply coupled with improving



demand towards the second half of 2016 saw prices for hard commodities surge. As for oil, the price has dropped by more than half over the past two years but rebounded strongly after a bottoming at

USD26 per barrel in February and steadily rising to about USD50 per barrel. Oil is up moderately about 12% year-to-date. We believe that the gains in oil prices have been more limited as oil producers have not cut supply. In fact, oil production is at an all-time high at more than 33 million barrels per day as a number of major oil producers including Iran, and Russia need the revenue in order to support their soft economies. After months of discussion, the Organization of Petroleum Exporting Countries (OPEC) finally managed to negotiate a cut in supply at the end of November that would be supportive of oil prices into 2017.

What Can We Expect In 2017?

2017 THEMES : Bumpy But Better

THEMES	MAYBANK ASSET MANAGEMENT ASSESSMENT	KEY IMPACT(S)
GLOBAL GROWTH STILL REMAINS LOW BUT STABILIZING	<ul style="list-style-type: none"> - Developed markets (DM) and Asian economic growth will be subdued but stable-to-modestly better, partly helped by lower comps from last year. - Asian exports are still declining, but at a less rapid pace. Sequential growth has picked up and year-on-year (yoy) growth rates are stabilizing from the negative mid-teens percentage range. - Potential inventory restocking may modestly boost GDP growth in the US after the drag on US GDP following the weak inventory cycle in first half 2016. - US economic growth is projected to accelerate following Trump's election as President as he intends to boost fiscal measures. - A trend of increased protectionism may see an increased domestic focus in many countries. 	<p>Domestic focus and defensive plays preferred.</p> <p>2017 for fixed income (FI) credits will be more of a rotation play.</p>
MONETARY POLICIES STILL EASY BUT REACHING LIMITS	<ul style="list-style-type: none"> - Monetary easing in developed markets has reached a limit, e.g., in the US, Europe and Japan. We expect one to two rate hikes by the US Fed in 2017. - Extreme monetary policies may in fact be harmful. Pensions in developed countries are underfunded due to low interest rates. Low yields have seen prices of assets no longer reflect fundamentals. Lower interest rates (negative interest rates in EU and Japan) have also led to flat yield curves undermining bank profitability. - Certain countries like India, Indonesia and Korea may have further headroom to cut interest rates due to domestic factors. 	<p>Selective on yield plays as low interest rates have reached its limits.</p> <p>Dividends stocks that have growth preferred. Buy selective local currency bonds.</p>
FISCAL POLICY TO BE MORE PROMINENT	<ul style="list-style-type: none"> - Policy makers in developed markets and many parts of Asia are increasing fiscal spending to complement monetary easing and support growth, given that monetary policy may be reaching its limits. - In our view, an organised effort to increase fiscal stimulus and infrastructure spending, if successfully executed, will likely pose upside risk to the earnings outlook and government bond supply. - Fewer emerging market (EM) central banks buying US Treasuries. - Expansionary fiscal policy means higher budget deficits. Therefore, we expect a steeper yield curve with 10-year US Treasury about 2% to 3% in 2017. 	<p>Positive for infrastructure plays.</p>
VOLATILITY TO PERSIST	<ul style="list-style-type: none"> - Binary outcomes lead to volatility. We have seen surprising political events in 2016. We may see more of these binary events in the next few months and in 2017. Upcoming events in 2017 include Malaysian general elections; UK to invoke Article 50 (1Q2017); French Presidential Election (April 2017); and German general election (September 2017). - Unconventional monetary policy increases the risk of government bond markets and currencies destabilising as a result of systemic risks. This is one of the reasons gold remains an essential insurance for investors. Periods of risk aversion will see resilient demand for safe haven currencies such as US Dollar (USD), Japanese Yen (JPY) and Swiss Franc (CHF). - Financial markets have placed great hope on Trump. Pro-cyclical stocks that are exposed to US economic growth have already rallied post the elections. If these expectations are not met, we would witness risk-off periods in 2017 once again leading to volatility. 	<p>Active managers may add value.</p> <p>Safe haven assets may rally during risk-off periods.</p>
COMMODITY PRICE BOTTOMING	<ul style="list-style-type: none"> - With producers cutting back on production and projected increase in fiscal spending by governments in 2017, commodity prices may have bottomed. - Oil price may recover to between USD50-60 per barrel as OPEC agrees to a cut in production. - Outlook for other commodities like steel, aluminium, coal and zinc is brighter as production has been cut aggressively. - Inflation may start to pick up. 	<p>Incrementally more positive for the commodity sector.</p>
LOW ASSET RETURNS IN THE DEVELOPED WORLD (CONTINUED FROM 2016)	<ul style="list-style-type: none"> - Lower interest rates and high asset prices may see low asset returns in the medium term. Developed world equities and fixed income do not offer value. Developed world equities are trading at relatively high multiples in the high teens. Likewise, developed world sovereign and even corporate credits are priced to yield very low returns. Relative value is found in emerging markets equities. 	<p>Positive in the medium term for Asian assets.</p>

We have six themes for 2017 under the overall theme of “BUMPY BUT BETTER”. The aim of these themes is to provide some direction for 2017 in order to generate better returns for our customers. We got most of the themes right in 2016 and while we hope to achieve the same degree of success in 2017, it is inevitable that we could be wrong. Nonetheless, the key to successful investing is the ability to be guided by our past mistakes and make the necessary adjustments. When we put our thoughts down on paper, we refine our assumptions and for the occasions that we are incorrect, we should be able to adapt better.

Our investment team discussed and developed the 2017 themes in October before the US Presidential elections. At that time, we thought that global growth was low but stabilising (Theme 1) and while monetary policy would still be easy given muted global growth, it was reaching its limits (Theme 2). With monetary policy being less effective, we thought that governments will have to turn to fiscal policy (Theme 3). As a result of fiscal stimulus, we would expect to see bigger deficits leading to incrementally higher interest rates and stronger demand for commodities leading to a bottoming in commodity prices (Theme 5).

In retrospect, given the market reaction, almost all our themes have been fulfilled within a week of Trump being elected. Global growth appears to be picking up from a low base with stronger data in November and December. There have been more criticism of central banks’ low interest policies leading to pressure on central bankers to curtail unconventional monetary policy like Quantitative Easing and negative interest rates. Furthermore, in anticipation of expansionary fiscal policy, US interest rates have surged, pulling rates up globally. Commodity prices, from more measured gains earlier in the year, have also accelerated in recent weeks. For equity markets, cyclical sectors like the banks and

infrastructure plays have rallied strongly as well.

It is fair to say that we were taken by surprise by the sharp turnaround in expectations from a low growth world to one with strong growth and normalised interest rates and inflation. Nonetheless, we still believe that our themes are relevant for 2017. The financial markets have placed great hopes on the Trump for 2017 and perhaps it is a function of too-much too-soon. The positive sentiment for risk-on assets may see momentum carrying on into the first half of 2017, however we believe that there will be a constant tension between economic growth and higher rates. With the world awash in greater amounts of debt and global debt-to-GDP increasing from 160% to 200% from 2007 to 2013, the higher interest rates could be a drag on economic growth. We expect that there will be occasions where global growth disappoints current high expectations leading to risk-off periods. At various times we will probably see Trump announce new policies to boost growth resulting in risk-on periods and higher rates. In our view, the tension between growth and rates will continue throughout 2017. So just like last year, markets will continue to be volatile (Theme 4). Furthermore, we have a number of political events next year that may trigger volatility spikes including the UK triggering Article 50 to officially leave the EU and the French Presidential election.

For the longer term, we continue to believe that asset returns will be low in the developed world (Theme 6). We have been wrong so far as post-Trump, developed world equities especially US equities have outperformed even in 2016. However, valuations are the primary driver of long term equity returns. With the US, Japan and EU markets trading at Price Earnings Ratios (PER) of between 17-18x, value is to be found in Asia. Asia is trading at about 12-13x (PER) close to the 10-year average PER. At 18x PER, US stocks are trading at more than 1.5x standard deviation higher than the 10-year

average PER for the market of 14.

With regards to fixed income markets, we are generally more neutral on this asset class given the relatively low yields but as interest rates continue to go up in 2017, there will be periods of opportunity for bonds. In addition, we are more positive on investment grade credits as high yield spreads have compressed and may not provide enough return for the additional risk. In terms of currencies, we continue to favour IDR and INR as we expect strong economic growth and controlled budget deficits to support the currencies. To a certain extent, we are also positive on MYR in the second half of 2017 as US treasury yield and capital outflows stabilises as the currency is undervalued based on the Real Effective Exchange Rates (REER).

So, in summary, it will be BUMPY BUT BETTER as we expect the global economy to be better with more fiscal measures being rolled out and economies bottoming given the lower base. 2017 may still be bumpy given the tension between growth and interest rates and various political events that could lead to volatility.

We hope our key themes and insights would prove useful to you as we approach 2017. Lastly, we would like to extend our appreciation again to you for your unwavering support. At Maybank Asset Management, we will continue to strive towards generating good performance and providing investment solutions to meet your investment needs.

Robin Yeoh

*Acting Regional Chief Investment Officer
@ Regional Head of Equities*

Judy Leong

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Robin Yeoh, CFA – *Acting Regional Chief Investment Officer @ Regional Head of Equities*
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2016 REVIEW

2016 has been a challenging year with investors “maneuvering around potholes” as per the title of our 2016 outlook piece. The seemingly decent year-to-date (YTD) (as at end November 2016) return of 5.3% (7.8% including dividends) for the MSCI Asia ex-Japan Index belies the volatile nature of the path the year has taken given surprises with Chinese Renminbi (RMB) depreciation scare in January, the Brexit vote in May, Trump’s election win in November and commodity price reflation in general.

2017 OUTLOOK

We expect 2017 to be bumpy but better for Asia ex-Japan equity markets. Volatility in the markets will continue into 2017 and we may see headwinds for Asian markets at the start of the year as Trump officially takes his place as the US President in January 2017. Higher US interest rates due to expectations of a larger budget deficit from Trump’s promise of higher fiscal spending have already dampened the appeal of Asian assets. Further interest rate hikes in 2017 may drag Asian equities down further.

eroded by expected US Dollars (USD) appreciation against Asian currencies.

Our sector picks are two-pronged - domestic-focused and cyclicals. We generally favor a more domestic focus such as domestic demand stocks and infrastructure plays as we expect governments in the region to drive favorable policies in order to boost growth and development. We would be selective in picking USD-earners including exporters and commodity plays as the positives of USD strength and commodity price reflation may be offset by more protectionist policies. We also like interest-rate sensitives such as banks and insurance companies as beneficiaries of steeper yield curves.

The themes for Asian equities in 2017 have a large overlap with the themes that we have listed in the main outlook. We believe that the themes in the main outlook are relevant as they also resonate strongly in Asia.

However looking at the real economy, we believe that Asia is on the recovery path albeit off a low base.

Asia also includes countries such as Indonesia and Philippines that have strong underlying growth drivers including good demographics and low consumer debt. We find that growth in the region should be better than 2016 as evidenced by expected earnings per share (EPS) growth of 7%. We have little expectation for price-earnings (P/E) multiple expansion and highlight that gains in local currency terms risk being



2017 THEMES

Better global growth: In general, global growth should be better in 2017 on the back of a soft 2016, with growth in the US partly spurred by fiscal stimulus. Asia too should see stable-to-modestly-better growth, despite the headwinds of USD strength, rising US rates and the possible threat of trade barriers, as Asia has domestic demand drivers that insulate it somewhat from global factors. A trend of increased protectionism may see an increased focus on the domestic economy in many countries.

Monetary policy still easy, more prominent fiscal policy: We expect most Asian central banks to maintain an accommodative monetary policy stance. This policy divergence versus a relatively more hawkish Fed should result in further USD appreciation against Asian currencies. Given that easy monetary policy may be reaching its limits, policymakers are likely to increase fiscal spending, for example government infrastructure spending, to complement monetary policy and support growth.

Strengthening commodity cycle: A marginal improvement in the demand environment coupled with policy-driven supply restrictions suggest that there may be further upside to commodity prices in 2017. We expect a modest pick-up in inflation and correspondingly, nominal gross domestic product (GDP).

Volatility to persist: Many events in 2017 namely the United Kingdom (UK) invoking Article 50; elections in France, Germany, Korea and Malaysia, could result in heightened volatility. In addition, unconventional monetary policy can also be a potentially destabilising factor. Periodic bouts of risk aversion suggests that there will still be demand for gold and safe haven currencies in 2017.

Risks: (1) Uncertainty over the Trump administration and possible protectionist policies; (2) Weaker-than-expected growth particularly in the US and China; (3) Geopolitical risks; (4) A faster-than-expected pace of Fed rate hikes; (5) Loss of central bank credibility; (6) Inflation surprises; and (7) Disappointment in terms of policy execution and efficacy.

RANGE OF TARGETED RETURN: We expect the MSCI Asia ex-Japan Index to return 7% in USD terms in 2017, largely in line with expected EPS growth. Our 2017 year-end MSCI Asia ex-Japan Index target is 560 based on 12 times Price Earnings Ratio (PER) for 2018 Estimate (12X 2018E) P/E. We do not expect much P/E multiple expansion given only modest earnings growth. Total return would be circa 10%, that is potential price appreciation of circa 7% coupled with dividend yield of circa 3%.

We see a potential bear MSCI Asia ex-Japan Index target of 420 (-18%) and a bull target of 600 (+14%).

2017 STRATEGY

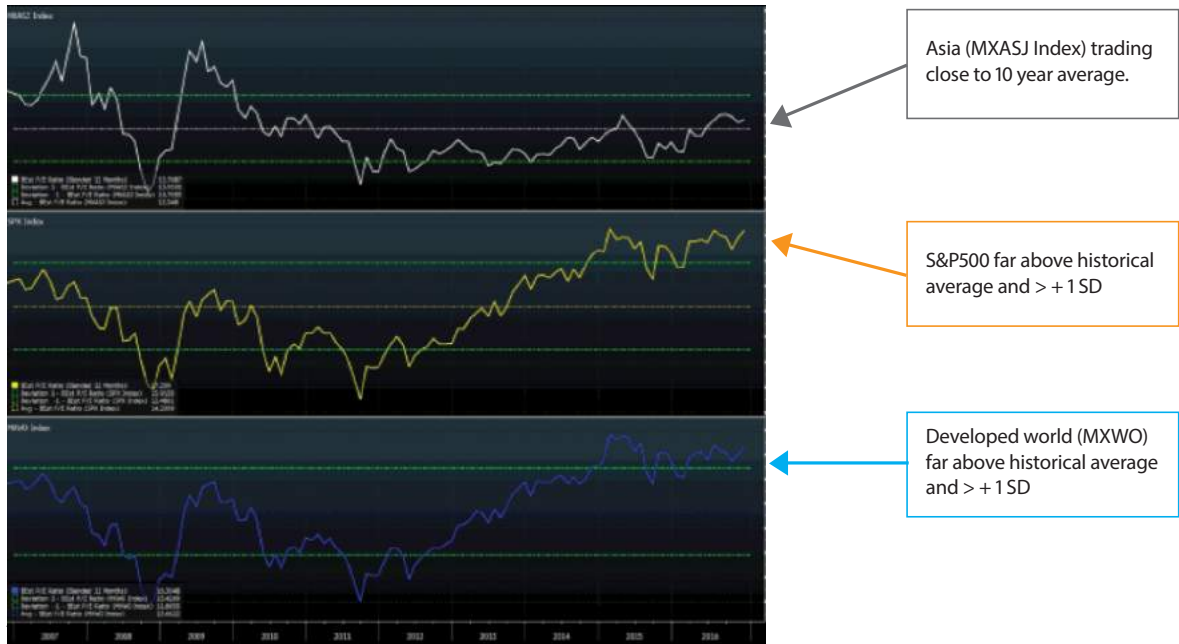
We expect 2017 to be bumpy but better for Asia ex-Japan equity markets. From a medium-to-long term perspective, we see value given relatively cheaper valuations compared to developed markets and favorable demographics leading to better long term growth prospects. Developed markets, in particular the US, are trading at elevated valuations, that is more than 1 standard deviation (SD) above 10-year average historical PER whilst in contrast, Asia is trading close to its 10-year average historical PER (See Charts 1 and 2 below).

We would overweight the more domestic-driven economies of India, Indonesia and the Philippines on the back of favorable demographics and given government initiatives to encourage reform and boost infrastructure spending. These markets have corrected significantly of late and we expect a recovery in 2017, albeit India's recovery may be back-end loaded given the short term negative effects from demonetization. Indonesia should also enjoy the benefits of commodity price reflation as well as the after-effects of its successful tax amnesty scheme.

We would underweight Korea and Taiwan given the risks of potential trade disruptions and a muted tech cycle. In addition, the political instability that saw President Park's departure from office and geopolitical tension with China are reasons for the underweight in Korea. We would also underweight Thailand in the aftermath of King Bhumibol Adulyadej's death given an expected slowdown in domestic activity during the year-long mourning period.

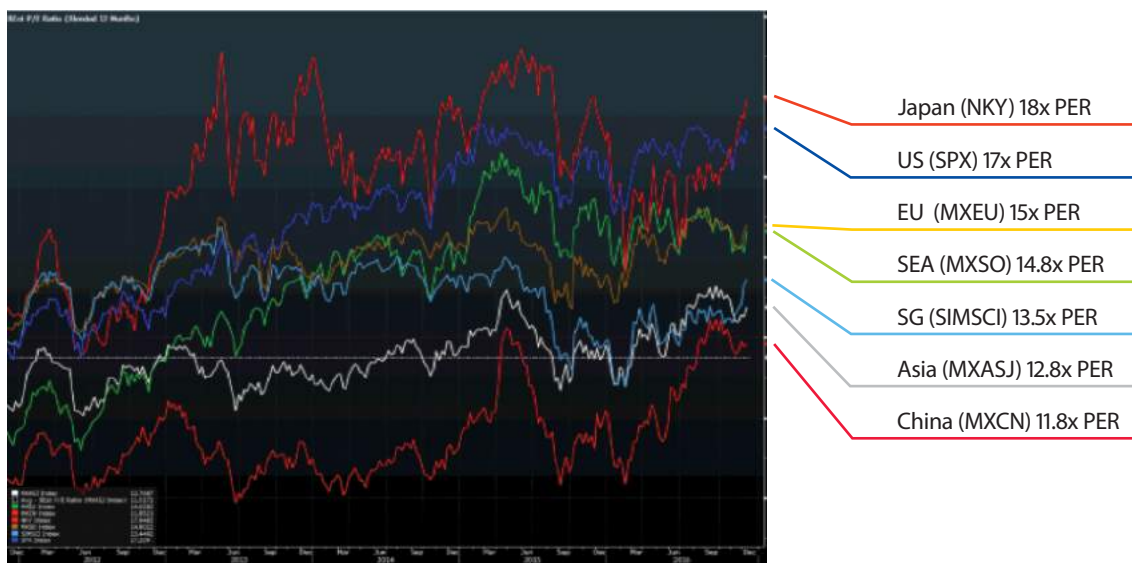
We would be neutral on other Asia ex-Japan markets namely, China, Hong Kong, Singapore and Malaysia despite these being economies that are open to global trade. Although China would be at risk from a potential rise in US trade barriers, the negative impact on its economy would be partly offset by supportive pro-growth government policies. For Hong Kong, rising US yields and a stronger USD are a headwind but Hong Kong would benefit from improving China growth. Our neutral stance on Singapore is largely predicated on the fact that the banking sector is the prime beneficiary of rising rates and rising oil prices have alleviated asset quality concerns. In the case of Malaysia, the market should remain well supported by local institutional investors and we see limited downside from current levels.

CHART 1: HISTORICAL PER VALUATIONS VERSUS AVERAGE FOR ASIA, S&P500 AND WORLD






Source: Bloomberg, Period January 2007 - December 2016

CHART 2: PER VALUATIONS OF ASIA AND SELECTED DEVELOPED COUNTRIES



Source: Bloomberg, Period December 2011 - December 2016

CASE	ASSUMPTION / RISK	MARKET IMPLICATIONS AND STRATEGY
 <p>BASE CASE</p>	<ul style="list-style-type: none"> • A stronger US/global economy. Economic growth in Asia subdued but stable-to-modestly better. • Increased protectionism/more domestic focus. No significant trade disruption but increased noise. • Increased fiscal spending to complement monetary policy and support growth. • USD strength. • Monetary policy divergence with the US raising rates and Asia still maintaining relatively easy monetary policy. • Inflation pick up. Firmer commodity prices. • Volatility to persist. 	<ul style="list-style-type: none"> • Overweight: India, Indonesia, Philippines. Underweight: Korea, Taiwan, Thailand. Neutral for the rest. • Prefer infrastructure plays: domestic demand stocks; selective USD earners including exporters and commodity plays; and interest-rate sensitives such as banks and insurance companies. • MSCI Asia ex-Japan target 560, based on 12X 2018E EPS of 46.50 (+7%)
 <p>GOOD CASE</p>	<ul style="list-style-type: none"> • Better-than-expected economic growth globally, anti-free trade trend more muted than feared. • Better-than-expected execution of governments' infrastructure program. 	<ul style="list-style-type: none"> • MSCI Asia ex-Japan target 600, based on 12.5X 2018E EPS of 47.90 (+14%)
 <p>BAD CASE</p>	<ul style="list-style-type: none"> • Growth slows more than expected. Trade wars. • Faster-than-expected pace of Fed rate hikes. • Slow execution of governments' infrastructure program. • Negative inflation surprises. • A flare up in political tension/geopolitical risks. 	<ul style="list-style-type: none"> • MSCI Asia ex-Japan target 420, based on 11X 2018E EPS of 38.18 (-18%)

Based on MSCI Asia ex-Japan Index closing price of 524.63 on 6 December 2016.



Asia ex-Japan (AxJ) Local Currency Fixed Income & Currency

Rachana Mehta, CFA – Regional Co-Head of Fixed Income

We are constructive on Asia for 2017 given improving prospects for global growth and better valuation, but expect both assets and economies to face a difficult start especially for the more growth-sensitive assets. A volatile end to 2016 and a challenging 2017 outlook characterise the Asian complex. Typically, an improving G3 (US, Japan and EU) outlook is likely to compel us to revise our Asian economic forecasts positively, but this time we are guarded, owing to the uncertainty in US policy outlook for Asia in terms of trade.

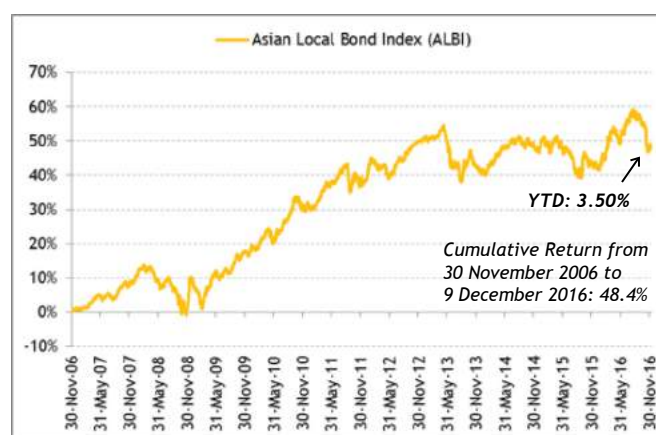
We expect 2017 to be a year of two halves with more volatility compared to 2016.

The first half driven by Fed liftoff, higher fiscal spending, higher inflation and stronger US growth led by stronger dollar, oil and commodity prices whereas in the second half, we expect growth to slow due to higher interest rates and global trade protectionism. We expect the region's real GDP growth to grow at around 6% in 2017. Certain Asian countries like India, Indonesia and Japan will benefit from US fiscal and trade policy, however North Asian countries may underperform in the first half due to trade protectionism and higher rates. We expect this situation to reverse in second half, where North Asia may outperform from realisation that higher rates and trade protectionism may create drag on US growth and flight to safety may bring rates down in second half of 2017. 2016 was the year of high yielders. The hunt for yield from

both local and foreign investors resulted in compressed term premium across high yielders and considerable inflows into Asia. Despite the re-pricing of risks that followed the US-election, we expect a positive performance for Asian fixed income in 2017. However there will be more differentiation in policy responses across Asian economies. We are bullish on markets where we expect further policy easing, supportive external position and reasonable valuations. We expect Asia bonds and rates to sell off in the first half of 2017 by a gradual rise in US Dollars (USD) rates, capital outflows and weaker currencies. We also expect India and Indonesia bonds to outperform the rest of the region, owing to further easing from central banks. However Singapore, Malaysia, Korea and Thailand may underperform due to weakness in external demand and higher inflation. In the second half of 2017, we expect US rates and capital outflows to stabilize and hence Korea, Singapore, Malaysia and China rates to outperform.

Fundamentals are turning against many Asian currencies as inflation rises in an environment of high debt, and worsening demographics and productivity. Also given US fiscal and trade policy in 2017, we expect weaker growth and higher inflation in Asian countries. We expect most of the Asian currencies to weaken in first half of 2017. Given the combined pressure of high inflation and higher US rates, we expect Singapore Dollars (SGD), Taiwan Dollars (TWD) and Korean Won (KRW) to underperform USD. Indian Rupee (INR) and Indonesian Rupiah (IDR) remain as our favorite longs in first half of 2017 as they are mostly insulated from US policy and we expect Reserve Bank of India (RBI) and Indonesia to cut rates in 2017.

The main source for local currency bond return in 2017 will be mostly from differentiation in country allocation rather than carry. As of 12 December 2016, IBOXX Asian local bond index had a year-to-date performance of 3.5%. The continuance of broad USD strength and rising interest rates in 2017 will create volatility for local bonds and currencies. However, we expect slightly positive return in the coming year driven by India, Indonesia and China. There will be diverse performance with India, Indonesia outperforming in local bonds and currency markets compared to the rest of Asia in first half of 2017. However in the second half of 2017, we expect local bonds and currencies in North Asia to outperform as US treasury rates and Asian bond outflows to stabilize.



Source: Bloomberg (Period 30 November 2006 - 9 December 2016)

Key Highlights For 2017

Strong US Growth and Inflation

High volatility in global markets in first quarter of 2017

Duration:

- Neutral duration in Thailand and Philippines
- Short duration in Singapore, Korea, China and Malaysia
- Long duration in India and Indonesia

Stronger fiscal policy in US

Interest rates: 10-year US Treasuries to sell off by 50 bps

Higher commodity and oil prices in first half of 2017

Yield curve: Steeper curves in US and Asian region

Currencies: First Quarter 2017




- Bullish on INR, IDR
- Bearish on THB, SGD, TWD, CNH, KRW
- Neutral on PHP

Capital outflows from the region

Asian Market Outlook

INTEREST RATES

CURRENCY

 <p>China</p> <p>We expect China to keep its stable policy and we would like to maintain neutral to long duration for Chinese bonds. We are bearish on duration for the first quarter as capital outflow will continue and drive the yield higher despite attractive valuation. However in the second half as US rates stabilise, we expect Chinese government bond yields to rally as capital outflows stabilises.</p>	<p>We prefer long USD against Chinese Reminbi outside China (CNH) for the first quarter. However, as US rates stabilize after first half, we expect CNH to outperform in the second half given higher carry.</p>
 <p>India</p> <p>We are bullish on duration in India and expect RBI to cut policy rate by 25 basis points (bps) in first half of 2017. We await better levels to go long for 10-year Indian bonds at around 7%.</p>	<p>The correction in external imbalances is helpful. Also, INR carry is attractive and hence we are bullish on INR in 2017.</p>
 <p>Indonesia</p> <p>Cautious sentiment is likely to prevail as market digests volatility from Fed's lifting of rates. We are still bullish on duration from a long term perspective as structural reforms continue in Indonesia.</p>	<p>Fundamentals for the IDR have improved, thanks to the correction in external imbalances. However, continued reliance on fixed income inflows dampens IDR potential. We are bullish on IDR from a carry perspective.</p>
 <p>Korea</p> <p>We expect steepening of the yield curve in the first quarter which will present an opportunity to establish long duration exposure for the second half.</p>	<p>We stay neutral on KRW due to weaker growth and inflation outlook. Also KRW will be pressured due to competitive devaluation pressure from Japan Yen (JPY) and Euro (EUR).</p>
 <p>Singapore</p> <p>The front end of the SGD yield curve remains anchored by steady Monetary Authority of Singapore (MAS) policy of keeping the SGD nominal effective exchange rate (NEER) band and slope unchanged. We expect short end rates to go higher and curve to be initially steeper, followed by flattening in second half of 2017. The correlation at the back end of the curve with US rates will likely persist, but we expect long end Singapore rates to outperform US treasuries in 2017.</p>	<p>We expect MAS to keep its monetary policy unchanged due to stable core inflation. However Singapore faces challenges in terms of trade and lower structural growth. As a result, we expect SGD to underperform.</p>
 <p>Malaysia</p> <p>Yields have surged higher on concerns of capital outflows and higher US rates. We remain cautious about duration as any potential rally is likely to be shallow. Also, foreign holdings of Malaysian bonds are very high and pose risk to outflows. We are negative on duration in Malaysia.</p>	<p>The current account balance is deteriorating, and capital outflows continue to trim the external balance hence we are negative on Malaysian Ringgit (MYR) in the first half of 2017. However we expect MYR to stabilise in second half of 2017 due to stable oil prices.</p>
 <p>Thailand</p> <p>We expect Bank of Thailand to remain neutral in first half of 2017. However we expect the curve to steepen due to lifting of rates by the Fed.</p>	<p>We are negative on Thailand Baht (THB) due to current account deficit and higher oil prices.</p>
 <p>Philippines</p> <p>We expect the central bank Bangko Sentral ng Pilipinas (BSP) to raise rates in 2017 due to higher inflation and we expect the curve to steepen due to lifting of rates by the Fed.</p>	<p>We are negative on Philippine Peso (PHP) in the first quarter of 2017. We expect BSP to maintain weaker PHP to support exports amid competitive devaluation.</p>



Asia ex Japan (AxJ) USD Corporates

Judy Leong, CFA – Regional Co-Head Fixed Income

2016 REVIEW

Year 2016 would be remembered as the year of the unexpected, or maybe more appropriately, the Year the Disgruntled (Voters) Prevailed.

In my opinion, 2016 was the year where global election results highlighted the rising powers of insurgent populist political movements throughout the year and how seemingly rational worldviews were being challenged by the growing working class frustrated with the rhetoric views of the ruling elite class, desperate to turn to anyone that is willingly to challenge the incumbent status. The more radical the view was, the stronger the appeal to the voters. Change is the name of the game.

Starting from the elections in Philippines in May 2016 where the then mayor of Davao City, Rodrigo Duterte was voted in with a large victory. It seems like the people preferred his hard-hitting, uncompromising style as they focused on his strong track record in eradicating crime and corruption in Davao when he was Mayor transforming Davao into a prosperous modern city. The Filipinos wanted a radical change with the election of Duterte as President of the Philippines.

The next unexpected voting outcome was of course Brexit in June 2016. Despite cautious warnings from various European Union (EU) politicians, important trading partners such as India and China, the Bank of England, International Monetary Fund (IMF) and mainstream economists that the economic costs of leaving the EU would substantially outweigh any potential benefits, Britain still voted to leave and subsequently, Prime Minister Cameron resigned. The post-election results revealed a country deeply divided. Main cities such as London and Scotland voted strongly to remain while the smaller industrial towns, suburbs and countryside rallied to leave. There was also a sharp generational divide, with the young and graduates largely opting to stay while the elderly were more inclined to exit. Ultimately, the repeated warnings to vote remain for economic reasons was less impactful to the middle and lower class and the elderly. They were unhappy with the thousands of EU immigrants that were “flooding” their country thus straining public services and lowering wage levels. In addition, the government austerity measures since the global banking crisis in 2008 negatively impacted the middle/lower income group more while the financial sector which was responsible for the crisis continued to

enjoy relatively high salaries. This added to the overall disillusion that the working class felt with the incumbent government.

Finally, the major political shock in 2016 has to be the US election with Donald Trump being voted as the next President of the United States. His victory was a decisive demonstration of power by a largely ignored coalition of blue-collar working class voters who felt left behind after years of globalisation and multiculturalism.

On financial investments, the bond market had a good rally up to third quarter of 2016, driven mainly by interest rate rally. The US 10-year Government Bond yield fell from 2.27% as at end December 2015 to as low as 1.36% in July. Using JP Morgan Asia Credit Index (JACI) as reference, the bond index total return peaked at 9.1% ending September 2016. However the results of the US Presidential election clawed back part of the stellar bond performance for the year. With Trump in the driver seat, markets changed overnight from expecting steady US growth, low inflation and continued global trade initiatives to bias in the direction of deflation, possibly better US growth with tax cuts and infrastructure spending and a sell-off in emerging markets (EM) with Trump’s policies on trade protectionism and restrictive immigration. US 10-year bond sold off 60 basis points from 1.80% before election results to 2.40% end November. United States (US) equity markets rallied due to higher growth expectations and the USD currency appreciated against major currencies and emerging markets. For fourth quarter of 2016, JACI lost 3% in total returns due mainly from Treasury interest rate sell-off. For 2016, this resulted in total returns of 5.8%, with high yield outperforming investment grade as the latter is more sensitive to Treasury interest rates movement. This was higher than our initial forecast of 1% to 4% for 2016 which we predicted in the beginning of 2016. The outperformance versus our initial forecast was due to a combination of less Treasury sell-off with actual 13 basis points versus expected 30 to 50 basis points, and spread tightening by over 40 basis points. So despite a year-end sell-off, the total return for bonds in 2016 was still relatively decent at just under 6%.

2017 OUTLOOK

For 2017, we remain cautious. While we feel that the recent bond sell-off has been overdone in view of a relatively uncertain outlook given that the new US administration has not fully stepped in and the unknown track record of Trump as President, there are risks that the recent increase in rates could just be the beginning of a prolonged rise in global interest rates. Global inflation may be starting to pick up with commodity prices stabilising and this may cause interest rates to normalise. This is the year where we also expect central banks to focus more on fiscal policies to boost growth by increasing infrastructure spending and again lending support to reflation risks.

Overall, we feel that 2017 could be a very challenging year for bonds given the uncertainty surrounding the trajectory of United States Treasury yields, Trump policies and potential outflows from the emerging markets. Yield curves could steepen before rising in a parallel fashion as US raises interest rates more aggressively. In total, we expect US Fed to raise

interest rates by two to three times in 2017. Besides rising interest rates, we expect credit spreads to also come under pressure as credit defaults and downgrades rises with rising interest costs. The previous years of largely accommodative monetary policies have resulted in heavily stretched balance sheets thus smaller companies and highly leveraged entities which could come under pressure.

With the above risks, we are forecasting interest rates to rise between 20 to 40 basis points and credit spreads to widen between 30 to 50 basis points. Overall we expect JACI to deliver total returns of between 0% to 2% for 2017. Key downside risks to our expected returns are that inflation picks up faster than expected and US tightens more aggressively, which may result in negative bond returns for 2017. Upside risk would be that growth optimism falters, inflation risks dissipates and the markets reverts to pricing in lower interest rates again during the second half of 2017.

KEY THEMES 2017

THEMES	IMPACT	POSITIONS
Global growth still remains low but better.	A better growth would lend support to a higher interest rate environment. However, the growth may still not be enough to improve profitability substantially to support higher credit costs.	Favour defensive and high growth sectors such as telecommunications, internet, utilities and transportation. Prefer Investment Grade issuers and China.
US Fed to raise interest rates by two to three times in 2017.	Yield curve to steepen and 10-year Treasury may peak at 3%.	Underweight Asia sovereigns, quasi-sovereigns. Underweight low/no step-up perpetual bonds and perpetual bonds with no resets. Selectively trade them once they have been oversold and the yield is attractive.
Commodity prices to recover and stabilize as demand improves due to stronger growth and increased government spending on infrastructure.	Positive for commodity suppliers. Negative for unhedged commodity buyers.	Generally positive on oil and gas, mining and steel.
High corporate leverage from years of accommodative policies.	Higher interest costs will hurt overleveraged companies leading to more downgrades and defaults.	Prefer Investment Grade bonds versus high yield bonds especially after the yield sell-off in Treasury. Throughout the sell-off, high yield bonds remained fairly resilient, narrowing the yield gap between investment grade bonds and non-investment grade bonds. The risk-return reward for holding non-investment grade bonds are no longer fair.

Source: Bloomberg, MAMG as of 14 December 2016

Total Return	JACI Total	JACI Investment Grade	JACI High Yield
2010	10.61%	7.91%	15.48%
2011	4.12%	4.92%	2.85%
2012	14.27%	11.31%	20.42%
2013	-1.37%	-2.56%	1.97%
2014	8.32%	9.00%	6.10%
2015	2.80%	2.16%	5.20%
2016	5.81%	4.49%	11.24%

Source: Bloomberg, JP Morgan as of 31st December 2016

Source: JP Morgan as of 13th December 2016

JACI Yield 4.36

JACI weighted duration 4.89

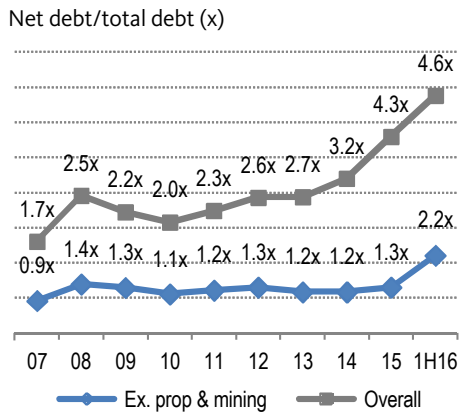
Expected Total Return for JACI FY2017

		Credit spread rises by							
		-10	0	10	20	30	40	50	60
US Treasury rises by	-20	5.68	5.24	4.80	4.36	3.92	3.48	3.04	2.60
	-10	5.24	4.80	4.36	3.92	3.48	3.04	2.60	2.17
	0	4.80	4.36	3.92	3.48	3.04	2.60	2.17	1.73
	10	4.36	3.92	3.48	3.04	2.60	2.17	1.73	1.29
	20	3.92	3.48	3.04	2.60	2.17	1.73	1.29	0.85
	30	3.48	3.04	2.60	2.17	1.73	1.29	0.85	0.41
	40	3.04	2.60	2.17	1.73	1.29	0.85	0.41	-0.03
	50	2.60	2.17	1.73	1.29	0.85	0.41	-0.03	-0.47
	60	2.17	1.73	1.29	0.85	0.41	-0.03	-0.47	-0.91
	70	1.73	1.29	0.85	0.41	-0.03	-0.47	-0.91	-1.35
	80	1.29	0.85	0.41	-0.03	-0.47	-0.91	-1.35	-1.79
90	0.85	0.41	-0.03	-0.47	-0.91	-1.35	-1.79	-2.23	
100	0.41	-0.03	-0.47	-0.91	-1.35	-1.79	-2.23	-2.66	

Source: Bloomberg, JP Morgan, MAMG as of 31 December 2016

Increased Credit Risks in High Yield Issuers

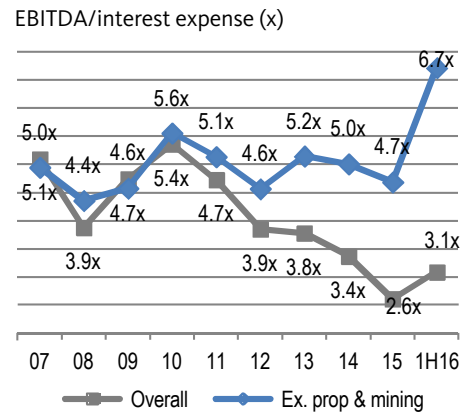
Figure 35 : Asia HY corporates - Net leverage has deteriorated



Source: JP Morgan estimates

Source: JP Morgan as of December 2016

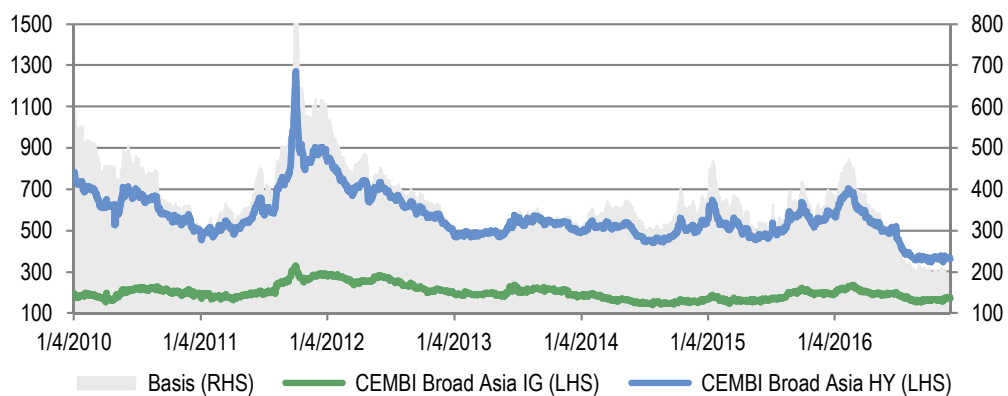
Figure 36 : Asia HY corporates - Debt service ratio has also deteriorated



Source: JP Morgan estimates

High Yield bonds look expensive compared to Investment Grade bonds

Figure 26: The basis between Asia HY and IG has compressed close to the historical low Z-spread to worst in bp



Source: JP Morgan

Source: JP Morgan as of December 2016



Malaysia Equities

Abdul Razak Ahmad – *Chief Investment Officer, Maybank Asset Management Malaysia*
 Syhiful Zamri – *Chief Investment Officer, Maybank Islamic Asset Management*

2016 REVIEW

2016 was expected to be a good recovery year after two (2) consecutive years of negative returns for the equity market in 2014 and 2015, and given the view that it would be unprecedented to have three (3) years of negative returns for the FTSE Bursa Malaysia KLCI Index - Kuala Lumpur Composite Index (FBM KLCI).

However, the equity market experienced a sharp contraction in January when regional stock markets plummeted as the Renminbi (RMB) devalued at a faster pace than anticipated and crude oil price reached a new low of USD27.7/barrel.

The negative sentiment was also partly due to a renewed expectation of much higher rate hikes by the US Federal Reserve in 2016 after its first hike in December 2015, the first tightening after the Global Financial Crisis. The FBM KLCI then recovered from the bottom of 1,600 after Bank Negara Malaysia (BNM) cut the statutory reserve requirement (SRR) for the banks from 4% to 3.5% and there was initial concerted efforts by Saudi, Russia and Venezuela to freeze oil output. The recovery lasted for about 3 months, where the FBM KLCI hit the year high at 1,727 points in early April.

Another factor that weighed on investor sentiment was the lower weightage for Malaysia stocks in the MSCI Asia Ex Japan Index that dropped from 3.43% to 3.09% at the end of May. Globally sentiment took a negative turn during the months of May and June 2016 in the run up to and aftermath of the Brexit vote. In addition, weaker than expected economic and earnings growth dragged regional indices down, where Malaysia also reported 1Q2016 gross domestic product (GDP) growth at a slower pace of 4.2% year-on-year (YoY). With all these negative

factors, the FBM KLCI dropped again to the second lowest point of 1,615 in June.

In the end, towards the later part of June, the British voted for Brexit in a decision that shocked the global equity markets, but the scare was short lived and the FBM KLCI rallied as the exit process will only take place over two (2) years and in an orderly manner. FBM KLCI then got another boost from BNM when it cut overnight policy rate (OPR) by 25 basis points (bps) in July to 3% from 3.25%, the first time since 2012. Furthermore, in a move to support the lower income and at the same time providing a boost to the economy, the government also increased the minimum wage for its staff to RM1,200 per month effective July 2016, reflecting an increase of around 40% from the previous minimum wage.

The surprises in the global political arena did not end with Brexit. In November, 2016 saw another unexpected outcome when Trump was elected as the next US President. This has further dampened the outlook for equity market especially in Asia and Malaysia. Trump's pre-election intentions to rebuild US infrastructure has resulted in higher interest rates as financial markets project higher budget deficits from the increased fiscal spending. Trump has also demonstrated his protectionist tendencies during his election campaign with promises to increase import tariffs that would impact exporting countries. The higher interest rates and protectionist rhetoric has resulted in capital outflows from emerging markets back to the US.

While in 2015, the small caps and the exporters held up well during the market volatility and weakening of Ringgit, this was not the case in 2016. Blue Chip stocks and dividend yielders were more resilient as they are recovering from the oversold situation in 2015 by the foreigners who fled the market with more than MYR19 billion outflows. The small caps and the exporters were badly hit in 2016 as profit taking activities intensified for realized return strategies due to lack of profit in other stocks after two years of negative returns for the market. The small caps and the exporters were badly hit in 2016 as profit taking activities intensified for realized return strategies due to lack of profit in other stocks after two (2) years of negative returns for the market.

While in 2015, the small caps and the exporters held up well during the market volatility and weakening of Ringgit, this was not the case in 2016. Blue Chip stocks and dividend yielders were more resilient as they are recovering from the oversold situation in 2015 by the foreigners who fled the market with more than MYR19 billion outflows. The small caps and the exporters were badly hit in 2016 as profit taking activities intensified for realized return strategies due to lack of profit in other stocks after two years of negative returns for the market. The small caps and the exporters were badly hit in 2016 as profit taking activities intensified for realized return strategies due to lack of profit in other stocks after two (2) years of negative returns for the market.

2017 OUTLOOK

2017 will be greeted with a slightly more hopeful tone following an unprecedented three (3) consecutive years of negative market returns. Earnings growth should be more visible and we expect better growth prospects as the market recovers from a low base in 2016. Malaysia should benefit with commodities prices bottoming in 2016 and continuing to improve in 2017. The higher oil and palm oil prices should lend support to economic growth and lead to a turnaround in corporate profitability.

However, we remain cautious as Trump will likely implement certain policies that will impact global trade and exports. As a result, market volatility is likely to continue. On the currency front, we believe that the Malaysian Ringgit (MYR) depreciation may have overshoot the fundamentals as the Real Effective Exchange Rate (REER) shows MYR is undervalued by more than 10%. Furthermore, despite the weak stock market performance in 2016, GDP growth has stayed relatively resilient at around 4%, reflecting the diversity of the Malaysian economy and not overly reliant on commodities. The strength may have not been recognised by investors at this point but we expect sentiment to gradually improve as corporates report positive earnings growth in 2017.

2017 STRATEGY

We believe investors should consider investing in resilient sectors in 2017 as earnings recovery is very likely in line with GDP growth forecast of between 4% and 4.5%. Corporate earnings growth is more likely to happen in 2017 as the Budget 2017 incentivises companies to report higher earnings growth to enjoy lower tax rates of up to four (4) percentage points for companies reporting more than 20% growth in chargeable income. Hence, overweighting bashed down blue chips and strong mid-caps while monitoring the expected recovery pattern of oil prices and sustainable strong crude palm oil (CPO) prices would be the main theme at least for the first half of 2017. Beyond that, we believe that 2017 should provide more positive returns to investors as we expect more catalytic projects to be awarded and the feel-good sentiment will be maintained in the run up to the General Election (GE) that is expected to happen in the third quarter of 2017.

Our base case expectation for FBM KLCI is at 1,765 by 2017 year-end with an implied 8.5% upside from 1 December 2016 close of 1,626. This is based on 5-year average forward price earnings ratio (PER) of 15.6x, which is quite reasonable considering equity investors' low expectations and cautious sentiment.

Three (3) main factors that will underpin cautious sentiment in 2017 are slower global trade due to Trump policies, higher rates in the US pressuring OPR or local rates, and continued volatility in financial market with investors unwinding their risk positions in favour of safe haven assets.

We believe that crude oil prices will stabilise from this level and improve going forward after the agreement by Organization of the Petroleum Exporting Countries (OPEC) members in November 2015 to cut output by 1.2 million barrels a day and the commitment by Russia to also cut production. Strong crude oil prices are also critical for Saudi Arabia to list its national oil corporation, Aramco latest by 2018. Hence, we should expect oil price to strengthen further to around USD50-60 per barrel in 2017.

The year 2017 may see some large size initial public offerings (IPO) e.g. MMC port division, since market's valuation may improve significantly from the current low levels. Despite a challenging year due to global headwinds, we believe that Malaysia is well positioned to face volatility as market liquidity

is ample, represented by the large pension funds, life insurance providers and other institutional investors, which require constant investment. The 2017 Budget has also allocated MYR3 billion to be outsourced to fund managers to invest in small and mid-cap companies.

KEY THEMES 2017

THEMES	IMPACT	POSITIONS
Potential early GE in 2017.	Government spending will be accelerated.	Continue to overweight election beneficiaries, domestic consumption plays and the construction sector.
Low interest rate environment	Conducive for corporate earnings' growth and accommodative environment for mergers and acquisitions (M&A) activities.	Overweight stocks with M&A potential.
Muted global growth	Uncertainty on global growth prospects due to newly elected President Trump.	Continue to overweight dividend yielding stocks in 2017.
Improvement in commodity prices.	Earnings to bottom out for plantation and oil & gas players.	Overweight plantation stocks and selective participation in oil & gas service providers.
Volatility in financial markets to remain.	Investors unwind their risk positions in favour of safe haven assets (e.g. gold, Japanese Yen (JPY), government bonds) or capital flight back to US markets.	Continue to overweight dividend yielding and defensive stocks in 2017 to weather volatility.
Recovery in corporate earnings.	Improvement in valuation for Growth stocks and Value stocks continue to be attractive.	Overweight sectors with strong visibility, such as consumer staples and construction sector. Participate in more growth stocks.



Malaysia Fixed Income

Ben Eeh – Head of Fixed Income, Maybank Asset Management Malaysia

Asnul Badrisyah – Fixed Income Portfolio Manager, Maybank Islamic Asset Management Malaysia

2016 REVIEW

Overall the Malaysian Government Securities (MGS) yield curve was generally flat on expectation of slower growth, benign inflation outlook and accommodative monetary policy environment. The benchmark 10-year MGS which started the year at 4.18% rose by 28 basis points (bps) to a high of 4.46% in end-November before recovering to 4.18% at the beginning of December 2016. The sharp increase in the MGS yield was a result of the unexpected US election outcome that saw Trump winning the US presidential election. As US President, Trump has promised to boost fiscal spending in the US. This has led to expectations of bigger budget deficits and higher inflation resulting in an upward move in interest rates. As a consequence, the higher US rates have weakened the appeal of emerging markets to international investors.

For the Malaysian Ringgit (MYR) credit market, based on the Bond Pricing Agency Malaysia (BPAM) All Bond Index, the little changed Malaysian government bond yields in 2016 also gave investors lower year-on-year (yoy) return of 2.94% up to November 2016 compared to 4.36% in 2015. The flat corporate bond prices were driven by the weaker MGS prices during the fourth quarter of 2016. The lackluster bond performance was also due to the depreciation of MYR to the levels not seen since the Asian Financial Crisis. As government bonds were weaker across the board, investors had to re-price corporate bond yields to compensate the additional credit and liquidity premium over risk-free curve. Nonetheless, average trading liquidity in the secondary market was higher in 2016 due to more active trading in both AAA and AA segments. Supply in the corporate bond market was dominated by high grade borrowers, mainly those with Government guarantees, AAA and AA rating categories.

2017 OUTLOOK

For 2017, the outlook of the Malaysian bond market is expected to be largely driven by the US fiscal policy, Federal Open Market Committee's (FOMC) interest rate decision, European Central Bank (ECB) tapering, Malaysia's fiscal health and MYR performance, as well as the foreign fund flows given the high foreign ownership of Malaysia government bonds.

We expect Bank Negara Malaysia (BNM) to keep the overnight policy rate (OPR) steady at 3.00% in 2017 with an easing bias on relatively stable inflation and moderate economic growth data. Inflation, as measured through the Consumer Price Index (CPI), is expected to trend higher than 2016 given the

normalisation of goods and services tax (GST) base effect from previous year and expected higher commodity prices in 2017. A resilient domestic demand and continued capital spending by both the private and public sectors in investment activities will likely anchor the gross domestic product (GDP) forecast of 4.0% to 4.5% in 2017.

Rising United States Treasury (UST) yields and stronger US Dollars (USD) will likely be the key obstacles for global rates markets to perform in 2017. This will be particularly evident for emerging markets as weaker local currencies will reduce its appeal to global investors. Strong foreign inflows in the past will likely be a double-edged sword to these markets. More investors will increasingly differentiate between the credit fundamental of these countries and this will drive a more significant performance gap among them.

However, we expect oil prices to show some recovery in 2017 to trade higher at USD50 to USD60 per barrel for 2017.

Higher oil prices will lead to increased oil related revenues and help improve the government's fiscal position. We expect US Fed's federal funds rate to increase at a gradual and cautious manner in 2017, just as it did in 2016, as economic growth outside US is expected to remain subdued. We anticipate another 25 - 50 bps hike after the highly anticipated rate hike in December 2016. On contrary, Bank Negara Malaysia (BNM) is expected to maintain its Overnight Policy Rate (OPR) at 3.00% for 2017.



Given these scenarios, we believe that the local bond yields will remain high in the first half of 2017 before easing in second half of 2017 as there will be more certainties after President Trump taking over the office.

Local bond yields, particularly government bonds, is expected to experience some volatility in the first half of 2017 as market digesting changes in US policies and Feb's rhetoric following the transition. Volatility in the local bond market is expected to stem from capital flows in reaction to interest rate hikes in US and stronger USD. The local bond curve is likely to flatten once the market gets more certainty over the US policies as well as the stabilisation of growth in regional economies, especially China. Any devaluation of regional currencies would also adversely impact bond prices in 2017.

Total government bond supply for 2017 is expected to hit MYR107 billion with a Malaysian Government Securities:

Government Investment Issues mix ratio of 55% to 45% to fund the national budget deficit of 3.0% GDP and rather high government bond maturities next year. Gross Private Debt Securities (PDS) supply is expected to be around MYR75 billion with government related projects taking the lead again in 2017. We still prefer PDS space over government bonds for yield pickup. We will focus on good credits with decent issue size for trading opportunities in the secondary market. On the tenure, we prefer the medium to long term papers as we believe the flattening of the curve in second half of 2017 will be key to our performance. Nonetheless, we will be very selective in building our portfolio during the first half of 2017 in order to take advantage of the flattening of the yield curve.

KEY THEMES 2017

THEMES	IMPACT	POSITIONS
US Fed to raise interest rates and stronger USD.	Govvies yield curve to be most affected by US rate hike.	Underweight government bonds and raise cash to take position on bargains.
Monetary policy to remain accommodative with OPR at 3.0%.	Shorter tenor bonds are likely to outperform. Long term yields may rise on the back of higher US interest rate anticipation in 2017.	Underweight duration before lengthening once the curve has steepened.
Recovery in commodity prices.	Negative for inflation. Meanwhile, inflation seems to have bottomed out in end 2016.	Underweight net importers. Avoid overcapacity sectors such as mining and steel. Avoid oil and gas sectors as it will take a while before the oil market can absorb the overcapacity issue.
Reversal in foreign fund flows.	Bond yields will rise in general across the tenures as foreigners exit before stabilising.	Underweight duration before lengthening once the curve has steepened.



Singapore Equities

Mark Chua, CFA - Portfolio Manager, Maybank Asset Management Singapore

2016 REVIEW

2016 turned out to be another slow year for the Singapore economy. The government's forecast for 2016 gross domestic product (GDP) growth was revised downwards to 1.0 - 1.5%, from their initial 1.0 - 3.0% forecast. Fortunately, government policy has been supportive in the low growth environment. The Monetary Authority of Singapore (MAS) flattened the slope of the Singapore Dollar (SGD) appreciation trajectory and the Ministry of Trade & Industry announced two (2) loan assistance schemes for small & medium companies in the beleaguered oil & gas industry.

Equity markets fared slightly better, with the MSCI Singapore index up by 4.7% from January to end November, in line with our forecast for a 'mid-to-high' single digit growth target for 2016. Peering deeper into index performance however will reveal high volatility among constituent stocks. There were significant changes in outlook for several industries. A surprise outperformer was the Plantations sector as crude palm oil (CPO) prices reflected supply disruption wrought by bad weather. Real Estate Investment Trust (REITs) performed well having benefitted from lower interest rates for most of the year although there was a reversal towards year-end. Banks did not do well in the first half but rallied strongly as global interest rates rose after the election of Donald Trump as US President. The oil & gas sector continued to underperform for the year even though it enjoyed a year-end rally after Organization of the Petroleum Exporting Countries (OPEC) announced production cuts, as the rally could not fully offset their initial decline. The telco sector, which was well-liked for its stability, underperformed following the entry of a fourth mobile operator which is expected to alter industry dynamics.

2017 OUTLOOK

After a disappointing 2016, we are optimistic that 2017 would be better. Singapore's prolonged tussle with deflation seems to be ending and we should be seeing, for the first time in two (2)

years, headline inflation, rather than deflation. Commodity prices are rising and contributing to inflation. We take the view that a mild inflationary environment will be better for the economy. We expect interest rates to rise gently, which will improve the banking sector's profitability. That being said, we are not expecting a high-growth environment either. Volatility may remain high as the economy transits out of a low interest rate environment. Potential risks are if interest rates rise too quickly relative to underlying growth, or if corporates are unable to raise prices sufficiently to offset their higher cost base.

A small open economy like Singapore will have to continue restructuring to find new growth drivers but at least there is some stabilisation in economic growth in Asia.




The US is a relative bright spot for the global economy and Donald Trump's emphasis on more fiscal stimulus is definitely an important event that can catalyse growth. A stronger US Dollar (USD) will be beneficial to Asian exporters and may stimulate global trade flows.

For Singapore equities, we have a mid-to-high single digit growth target in 2017. Valuations for the Singapore market are around its historical average, and this provides a reasonable opportunity for long-term investors to position for a gradual economic recovery. At 13 times Price Earning (P/E) multiple, Singapore appears attractive relative to equity markets in the US or Europe.

2017 STRATEGY

In 2017, we will focus our stock picks on companies which exhibit a good earnings growth profile. We are looking for dividend growth in addition to dividend yield. For instance, we think bank earnings may surprise on the upside in a reflationary environment. We are also looking at beaten down stocks that offer a good margin of safety in the purchase price. When corroborated by good company fundamentals, we would not mind investing in these companies if it is a matter of time before the macroeconomic environment turns in their favour.

In terms of asset allocation, we may need to stay nimble as we foresee volatility will be elevated. 2017 may be marked by higher macroeconomic risks. The structure of global trade underpinned by post-War American hegemony appears to be shifting. Technology trends are in flux and new entrants are disrupting traditional industries. We think it is important that Singapore businesses continue to reinvent themselves to stay relevant in a changing world, so as to provide a firm underpinning for the country's equities market.

SCENARIO	ASSUMPTION / RISK	MARKET IMPLICATIONS AND STRATEGY
 <p>BASE CASE</p>	<ul style="list-style-type: none"> GDP to grow 2.0% in 2017 with recovery in financial services and offshore oil & gas sector. Non-oil domestic exports to show mid-single digit growth in 2017. Low inflation of 1.5% expected in 2017 due to higher commodity prices, offset by domestic cost pressures. The MAS to maintain its policy of zero appreciation of the SGD. 	<ul style="list-style-type: none"> FSSTI target 3,107 based on 13.0x 2017 earnings per share (EPS) of 239 (+7.0%)
 <p>GOOD CASE</p>	<ul style="list-style-type: none"> Better than expected recovery in external demand, driven by the US, Europe and China, which will be positive for exports. Robust economic data outweighing interest rate hike concerns. Relaxation of property measures relieving stress on sector. Supportive fiscal policies from the US following its Presidential elections. 	<ul style="list-style-type: none"> FSSTI target 3,307 based on 13.5x 2017 EPS of 245 (+13.9%)
 <p>BAD CASE</p>	<ul style="list-style-type: none"> Heightened external headwinds on slowing US growth, Europe debt crisis re-emerges and/or China "hard landing". Policy misstep by the Fed or other developed markets (DM) central banks, leading to disorderly outflow from emerging markets (EM). Inflation climbs faster than expected. Greater than expected fall in property prices/demand putting pressure on financial position and corporate earnings. 	<ul style="list-style-type: none"> FSSTI target 2,604 based on 12.0x 2017 EPS of 217 (-10.4%)

Note: Return calculations based on FSTE Straits Times Index ("FSSTI") 30 November 2016 closing of 2,905.17. Source: Bloomberg as of 5 December 2016

Notes:

REITs refers to Real Estate Investment Trusts
 MSCI refers to Morgan Stanley Capital International
 DM refers to Developed Markets
 EM refers to Emerging Markets

Feds refers to the United States of America Federal Reserves
 GDP refers to Gross Domestic Product
 SGD refers to Singapore Dollars
 YTD refers to year-to-date



Singapore Fixed Income

Judy Leong, CFA – *Regional Co-Head of Fixed Income*
 Rachana Mehta, CFA – *Regional Co-Head of Fixed Income*
 John Lim – *Credit Analyst / Portfolio Manager*



SINGAPORE FIXED INCOME OUTLOOK

MACRO: If 2015 was considered a weak year in terms of growth, 2016 was perceived to be even weaker with gross domestic product (GDP) projected at +1.0 - 1.5% year-on-year, compared to +2.0% in 2015. The Ministry of Trade & Industry remains cautious in 2017, estimating growth at 1.0% - 3.0%, the same range estimated for 2016. This sense of caution is warranted notwithstanding a slightly improved global outlook. Global growth is estimated by consensus at +2.8% for 2017 compared to +2.5% in 2016 as certain large Emerging Markets (EM) economies like Brazil and Russia gradually emerge from recession. China's growth is expected to remain stable amid potential United States (US) deflation.

This outlook of low growth is justified as Singapore's trade prospect will continue to be affected by a strong currency relative to its South East Asian peers (refer to Chart 1). China's reduced demand for "Value Added" imports from the region as it moves up the productivity ladder and Singapore's larger exposure to underperforming sectors like Petroleum, Semi-conductors and Transport Services will affect Singapore's growth. If the US economy shows momentum in deflation, that will help Singapore's economy as United States of America (USA) final demand accounts for 8.4% of Singapore GDP, the highest in ASEAN-6.

In terms of Fiscal policy, 2016 did turn out to be a modest year as the Government was expected to record a surplus near 1% of GDP. 2017's fiscal policy is likely to continue 2016's prudent stance as the government is constrained by balanced budget rule over its term and also the slight improvement in growth outlook. For the housing market, macro prudential policies to curb

speculation is likely to stay intact as housing sales activity in 2016 was fairly buoyant, led by secondary sales.

RATES & FX: In 2016, the Singapore Government Securities (SGS) and Singapore Dollar (SGD) swap curves experienced a wild ride, from disinflation/slow growth driven gains in first half of 2016 before following the lead of United States Treasury (UST) to sell off towards year end with significant steepening of the curve. This is due to the combination of potential expansion in fiscal spending from USA, rising inflation expectations and the perceived scaling back of bond buying from central banks. Essentially, the SGS curve has moved back to levels consistent with the period as at end 2015 but the SGD swap curve has steepened further through 2016 as front end yields went lower. This development likely reflects efforts to keep short term floating rates including mortgage rates anchored, providing relief for households to reduce leverage.

Heading into 2017, the front end of SGD swap curve could remain at low levels, barring a wider episode of capital outflow from Asia/ Emerging Markets. The intermediate to long end of the SGD swap and SGS curve should follow developments in US rates and thus have room to sell off/steepen in first quarter of 2017 as the market digests headlines of heightened aggressive stance in US fiscal policy and/or potential faster pace of rate hikes. Without material negative threats to growth in the near term, the Monetary Authority of Singapore (MAS) is expected to maintain the Singapore Dollar Nominal Effective Exchange Rate (SNEER) band at zero rate of appreciation in April's policy meeting.

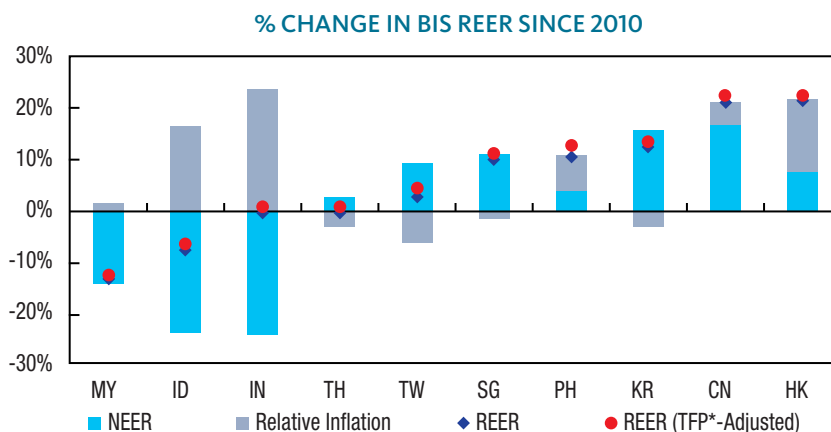
CREDIT: In 2017, we remain cautious of credits in general as the general theme of high leverage and slow earnings is not different compared to 2016 (refer to Chart 2). As of third quarter of 2016, non-performing loans (NPL) in the banking system has continued to increase albeit still at manageable levels (1.2% - 1.5% of total loans), with the majority coming from the Oil & Gas services sector (Total Oil & Gas related loans exposure are, however, low at 4% - 6% of banks' total loan books). Heading into 2017, SME borrowers are likely to face stress and can contribute to new sources of NPL formation. Despite the continued headwinds, we expect banks' NPL ratios to likely inch higher from current figures. Capitalisation ratios improved in 2016 due to retained earnings and slower balance sheet growth.

After 2015's default of PT Trikomsel Oke's of its SGD bonds, 2016 has seen defaults coming from Swiber Holdings and Pacific Andes with a couple of issuers in the shipping and offshore Marine sectors seeking to loosen/waive bond covenants.

Gross SGD bond issuance (ex-SGS & MAS bonds/bills) year-to-date November 2016 reached SGD 18.4 billion and should finish the year below 2015's gross amount of SGD 23.1 billion. Government related borrowers took a larger share of issuance as private sector issuers turned less active. Financial issuers had been especially active in 2016 as Foreign Banks and Insurers tapped into the SGD bond market across the capital structure. Tenors of issued papers had seen marked increase in anticipation of increased rates and also reduced supply from cyclical/High Yield issuers.

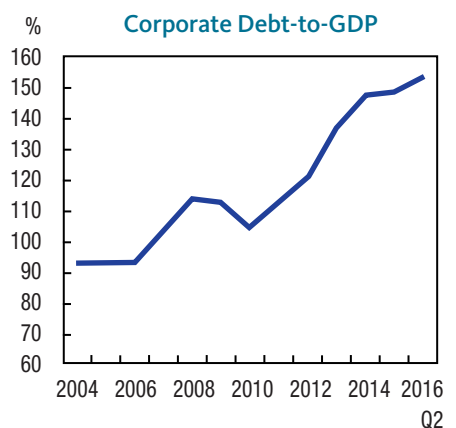
The High Yield sector could yield slight positive surprises in 2017 although credit differentiation is paramount. Overall supply in this space is likely to reduce as issuers with still decent balance sheets seek funding alternatives. In 2016, the market has already seen issuers tendering for debt ahead of scheduled calls and maturities. For Investment-Grade space, supply could be lower than 2016 as issuers have pre-funded issuance in anticipation of lower rates.




CHART 1: SGD REMAINS STRONG RELATIVE TO PEERS



Source: CEIC, The Conference Board, MAS FSR 2016 & Citi Research

CHART 2: CORPORATE LEVERAGE REMAINS HIGH IN 2016



SCENARIO	ASSUMPTION / RISK	MARKET IMPLICATIONS AND STRATEGY
 <p>BASE CASE</p>	<ul style="list-style-type: none"> Federal Open Market Committee (FOMC) to hike in December 2016's meeting, with 2 - 3 hikes in 2017 as it monitors impact from the new Trump administration's policies and economic data. Asia to benefit slightly as several large EM economies recover from recession; China to maintain growth at low to mid 6% and to control capital outflows. Oil prices to range from US\$50 - US\$60 per barrel as market digests the excess supply even as production cuts happen. 	<ul style="list-style-type: none"> Front end of SGD swaps and SGS curve to remain low on efforts to anchor short end rates but intermediate and long end likely to steepen further in first quarter of 2017 tracking USTs. Continue to prefer credit over government bonds, especially at the shorter end. USDSGD to reach 1.45 - 1.50 by second quarter of 2017.
 <p>GOOD CASE</p>	<ul style="list-style-type: none"> Lowered anticipation of the US fiscal policy (i.e. resumption of the Goldilocks scenario of higher growth and manageable inflation). 	<ul style="list-style-type: none"> Benchmark yield curve to flatten at the intermediate to long end. Prefer investment grade (IG) credit over government bonds, High Yield (HY) issuance likely to pick up amidst stronger sentiment/search for yield. USDSGD to appreciate from capital inflows back to Asia/EM.
 <p>BAD CASE</p>	<ul style="list-style-type: none"> Potential trade war between US and China; China hard landing concerns might resurface given slowdown in Real Estate market and surge in capital outflows. Faster than expected pace of rate hikes to trigger capital outflow from Asia/EM back to Developed Markets (DM); revival of taper tantrum in second half of 2013. 	<ul style="list-style-type: none"> Government bonds rally on flight to quality on domestic buying. SGD to depreciate against USD beyond 1.48 area.

STRATEGY

- Rates:** The short end of the curve to remain anchored but intermediate to long end of the curve likely to steepen further tracking UST developments in first quarter of 2017.
- Credit:** Broadly stable but corporate credit profile to stay weak into 2017; credit differentiation in High Yield credits could yield some positive surprises as overall supply set to shrink further.
- Currency:** MAS monetary policy to stay unchanged through first quarter of 2017 and expect weaker SGD in the first quarter of 2017.

Notes:

SGS refers to Singapore Government Securities

REITs refers to Real Estate Investment Trusts

MSCI refers to Morgan Stanley Capital International

DM refers to Developed Markets

EM refers to Emerging Markets

Feds refers to the United States of America Federal Reserves

GDP refers to Gross Domestic Product

SGD refers to Singapore Dollars

YTD refers to year-to-date

NPL refers to non-performing loan

UST refers to United States Treasury



Indonesia Equities

Ivan Chamdani – Head of Indonesia Research

2016 REVIEW

Tax amnesty has been the main topic of the year, coming from a lacklustre 2015, with the hope to boost domestic discretionary spending, banking liquidity and tax collection. Tax Amnesty was announced in order to encourage the wealthy to declare their offshore assets with lower taxes being imposed on the assets declared.

While it has been too early to see improvements in spending and banking liquidity, at least we're seeing significant compliance from major business owners such as the Djarum group, which is in-line with President Jokowi's expectation that it should widen tax base going forward. So far in terms of tax collections, the scheme has been a success and is on track to meet the Government's target of IDR165 trillion by end 2016.

We have also seen the surge in coal prices which caught almost everyone off-guard although we were able to join the rally mid-way which helped our funds tremendously to improve in rankings. Overall, we have not seen significant improvement in all tenets of the economy such as banking metrics (non-performing loans, loan growth, etc.), cement consumption, property prices, and several others. However, the optimism is still here as seen in the Indonesian equity as well as bond market's ability to absorb macro headwinds such as Brexit and Trump.

We believe that the demand for equity and bonds has grown tremendously in Indonesia, driven especially by private and public insurance.

2017 OUTLOOK

On the positive side, we expect

- 1) Higher realised government spending post state-owned enterprise (SOE) rights issue,
- 2) Continuous support to the grass-root economy,
- 3) Better trade balance outlook,
- 4) Possible upside surprise from tax amnesty to liquidity and demand,
- 5) Higher nominal growth combined with bottoming asset quality on banks,
- 6) Potential S&P rating upgrade.

Whereas on the negative side,

- 1) US-driven bond yield volatility,
- 2) Higher political risk vis-à-vis higher risk premium,
- 3) Emerging Markets (EM) de-rating from fund outflows,
- 4) High expectation of Earnings Per Share (EPS) recovery beyond 15% year-on-year,
- 5) Indonesian Rupiah (IDR) volatility together with other EM currencies, especially the Chinese Yuan Renminbi.
- 6) Gross Domestic Product (GDP) growth should be between 5.2%-5.3% but more importantly in nominal terms.

2017 THEMES

First half of 2017:




- Higher US yield concern should persist thus we expect Bank Indonesia (BI) to refrain from cutting rates further. IDR could remain under pressure if outflows from EM persist.
- However, optimism should be stronger compared to 2016 which may continue to support the market.
- Key underperformer in first quarter especially, could be banks due to higher cost of funds trajectory amid low liquidity, crowding out effect, and continuous political pressure on loan yield.
- We prefer to focus on public-driven sectors such as construction & commodities. Defensively, we may focus on consumer staples and telcos.

Second half of 2017:

- Trickier period as consensus expectations for 2017 will be tested. For the index to reach higher levels versus 2016, it needs to beat market expectations.
- We think that Trump policies will be much more visible here, and any preconceptions such as high fiscal spending and how to finance it will be confirmed or debunked.
- Overall the economy and banking asset quality may get better but market valuation may be depressed if Trump is indeed able to begin his effort to bring back growth and reflation in the US.
- Value opportunities could emerge hence we would avoid richly-valued benchmark stocks.

2017 STRATEGY

In general, we expect market optimism to provide opportunities to be more aggressive in the first half of 2017. We expect volatility and some reality checks in second half of 2017. Since extraction of funds from Emerging Markets (EM) could happen, we would remain conservative on premiums on individual stocks and look for deeply valued stocks during market downturn. We remain cautious on IDR and bond yields but they may be well supported by the local demand from insurance and pension funds, as shown in fourth quarter of 2016.

SCENARIO	ASSUMPTION / RISK	MARKET IMPLICATIONS
 BASE CASE	<ul style="list-style-type: none"> • GDP to grow 5.2%-5.3% in 2017 driven by higher government spending, stable consumption, recovering investment, and better trade balance. • Nominal GDP growth driven by higher Producer Price Index (PPI) should improve loan demand. • Banking liquidity and asset quality should improve. • Lower risk premium for EM and Indonesia. 	<ul style="list-style-type: none"> • 2017 EPS growth ~12.5% year-on-year. • Year-end Index target of 5,600 (8% upside) which implies 15.8x PE. EM de-rating is priced in as it's below 3-year average price earnings (PE).
 GOOD CASE	<ul style="list-style-type: none"> • GDP growth beyond 5.3% on the back of stronger consumption. • S&P upgrade that lowers Indonesia's risk premium. • Very strong commodity prices. 	<ul style="list-style-type: none"> • 2017 EPS growth ~15% year-on-year. • Jakarta Stock Exchange Composite Index (JCI Index) target 6,000 (15% upside) which implies 16.5x PE. Mild EM de-rating is priced in.
 BAD CASE	<ul style="list-style-type: none"> • Consumption drops below 4.9%. • Severe domestic political disturbances. • Weak IDR driven by severe portfolio outflow and lack of foreign direct investment (negative funding gap). • Government spending hiccups. 	<ul style="list-style-type: none"> • 2017 EPS growth ~5%-7% year-on-year. • JCI Index 5,000 (-4% downside) which implies 14.8x PE. EM de-rating is priced in.



Indonesia Fixed Income

Richard Nadapdap – Head of Fixed Income Indonesia

2016 REVIEW

In 2016, Indonesian Rupiah (IDR) local currency bonds were one of the best performers within the region as domestic interest rates dropped for most of the year.

The IDR 10-year bond yield dropped significantly from 9.0% at the beginning of the year to a low of 6.70% in September as the central bank cut the rate 6 times or 1.50% to a reference Bank Indonesia (BI) rate of 6.0%. The Central Bank has been lowering rates to boost the economy and it has been able to do so as inflation has been tame while Government finances are on a better footing. The budget deficit has been controlled at about 2% as the government has steadily cut fuel subsidies. With the strong improvement of Indonesia macro economy, Gross Domestic Product (GDP) is likely to grow above 5.0% year-on-year in 2016 and inflation is currently below the BI lower band target. With improving fundamentals, IDR also strengthened in 2016 and was mostly stable throughout the year. Moreover, the economy was boosted by government's Tax Amnesty program which led to significant amount inflow of IDR144 trillion and is on track to reach the IDR165 trillion target. Foreign holding in government bonds peaked at 39% though by December it decreased to 37.5%. There was some shift towards the end of the year as the Trump victory in the US Presidential election saw interest rates rise in the US. As a result, there were some investment flows away from the Emerging markets including Indonesia putting downward pressure on IDR while raising bond yields. Nonetheless, even with the volatility, IDR local currency bonds were up a respectable 12% for the year.

2017 OUTLOOK

We expect 2017 to remain a positive year for IDR bonds though volatility may be higher as the Fed is likely to hike interest rates which will lead to a stronger US Dollars (USD) against all currencies. Furthermore with Trump promising to expand fiscal stimulus under his tenure as US President, there may be risks that the Fed will have to raise rates more often than previously expected. Higher expectation for US growth and a stronger USD are usually negative for emerging markets overall. There are also risks from political events in 2017 that may lead to volatility given elections in Germany and France.



Domestically, we expect inflation to be slightly higher than 2016 due to higher electricity price and low base inflation, and with real interest rate at just 1.1%, BI may keep its rate unchanged throughout 2017. GDP may grow by 5.2% – 5.3%. Domestic demand for government bonds will remain high as government mandates that pension and insurance funds have an allocation of about 30% in govvnies. In addition, another positive for IDR bonds may come from a rating upgrade by Standard & Poor that is expected in mid-2017.

2017 THEMES

- **Positives:** The demand of IDR bonds will remain high, balanced with the supply of Government bonds (budget deficit will hover around -2.3% to -2.5% of GDP). Government still mandates insurance and pension company to allocate 30% of portfolios to government bonds.
- **Negatives:** Higher Fed fund rate as the Fed is expected to make its first increase in November 2016. However, 2-4 more hikes are expected in 2017 as Trump promises to expand fiscal stimulus.

2017 STRATEGY

We plan to be neutral on duration. The volatility of IDR will be a big factor influencing the bond market. With the volatility, there will be opportunities to trade in 2017.

Disclaimer

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