Maybank Asset Management

PERFORMANCE & MARKET OUTLOOK

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Fund Manager Commentary: Trade Tensions Still Continuing

Global markets have been volatile with the trade tensions between China and the US but markets were more stable in July after the large correction in June. The trade tensions are still continuing with the US imposing tariffs on the first batch of Chinese exports. If the trade tensions are prolonged, it will lead to a slower economic growth which may impact corporate earnings.

Economic data from the US remains firm but over in China, the signals are more mixed. Strong exports were offset by weak industrial production. Meanwhile, the Chinese government has announced measures to support the economy to pre-empt the slowdown from the trade wars. These measures include debt-equity swaps, increasing credit in the financial system and continuing to boost infrastructure. The Chinese authorities are also controlling the Renminbi with a managed depreciation in order to cushion the tariffs.

Further concerns are coming from Turkey where there is a developing crisis. The US has threatened to impose further sanctions on the country and this has resulted in the Turkish Lira depreciating more than 20% in August. While the direct impact to Asia is small, there are concerns that this may spillover to other emerging markets.

ASEAN markets are down the most on a year-to-date basis even though some countries like Indonesia and Philippines are relatively less exposed to the US-China trade tensions. With the sharper correction in ASEAN stocks, valuations in ASEAN are now more attractive relative to other regions. Similarly in Indonesia, we are also seeing early signs of an acceleration in economic growth.

The message is similar for fixed income markets. We have been defensive for some time as interest rates were on the rise but are now more optimistic on bonds. While sentiment remains weak and liquidity is poor, bond yields are now sufficiently attractive. Investment Grade bonds are yielding between 4.5%-5% while High Yield bonds are offering yields of between 7-8. These yields are the highest since 2013.

Macro Update

Malaysia Markets

Equity market will be range bound given the various uncertainties with the new Pakatan Harapan (PH) government. Post GE14, the new government is re-evaluating various projects to assess the viability of the projects. So far the construction sector has been hit the hardest as a number of projects have been cancelled or delayed. We are in the initial stages of the current government and we expect to see some teething issues. Some clarity on the direction for the new government should be seen in the upcoming budget in November. The stock market has recovered most of the correction that was seen immediately after the elections and at these levels, there is less value in the market hence we turn more cautious.

As for currencies, the Ringgit continues to weaken inline with other Asian currencies. With the various uncertainties, investors are moving out of Asia and into the developed markets. This outflow coupled with higher interest rates has seen a modest correction in Malaysia bonds. However, we still favour corporate bonds as credit risk remains under control and the higher yields from corporate bonds will cushion the impact of higher interest rates.

Indonesia Markets

We are now more positive on the equity markets as the correction in stocks has resulted in valuations now at more attractive levels. The market is now trading at a PER of 14x and is at a discount to the average PER over the past 3 years of pf 14.7x. In addition, we are seeing early signs of a recovery in economic growth with the country posting GDP growth of 5.27% in 2Q 2018 which is slightly above consensus estimates of 5.16%. The recent corporate earnings were also encouraging with bank earnings holding up while coal and consumer companies performed better than expected. As for fixed income, Bank Indonesia, the country's central bank, has already hiked interest rates 3 times in 2018. Therefore, we are more cautious as interest rates are expected to go up further in tandem with rising interest rates in the US.

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