CHALLENGING DRIVE

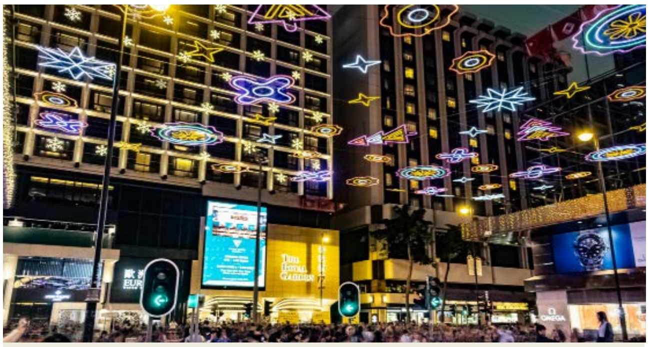
2Q 2019 OUTLOOK & STRATEGIES

Maybank Asset Management

Contents

Our 1Q 2019 Review

A GOOD START FOLLOWING A ROUGH YEAR



> We saw a rally spurred by the prospect of the Fed ceasing its rate hike cycle in 2019, an easing of US-China trade tensions and the rollout of growth-supportive measures by various governments.

After a dismal 2018, 2019 began on a good note with Asian equity markets rebounding off their oversold levels and depressed valuations at year-end. To recap, in 4Q2018, we mentioned that after an extended period of correction, we believed that markets were bottoming and that Asian equities were looking attractive from a valuation perspective. Off this low base, we saw a rally spurred by the prospect of the Fed ceasing its rate hike cycle in 2019, an easing of US-China trade tensions and the rollout of growth-supportive measures by various governments.

Fears of an escalating US-China trade war (that dampened investor sentiment in 2018) gave way to more cautious optimism that a trade deal would eventually be reached in 2019. The March 1 tariff truce deadline came and went without any increase in tariffs as President Trump extended the deadline indefinitely (citing progress in negotiations) and China made some concessions (e.g., more US soybean purchases). That being said, fluctuating news flow on this issue continued to affect markets throughout the quarter.

Other notable events in the quarter such as Brexit did not dampen Asian markets much as markets had not priced in much optimism on this front, to begin with. As such, the UK seeking an extension of the 29 March 2019 deadline did not come as a surprise. Moreover, the overarching concern of slowing global growth was not driven by Brexit outcomes per se but a confluence of other factors (e.g., slowing US growth, US-China trade tension, China policy etc.).

We began the year favouring the more domestic-oriented ASEAN markets and India over the more trade-oriented North Asia amidst an environment of slowing global growth and US-China trade tension. While ASEAN markets did do well in 1Q2019 (with the MSCI South East Asia index up 5.2% YTD 21 March 2019), other North Asian markets, namely China and Hong Kong, outperformed off a low base resulting in the MSCI Asia ex-Japan index rising 11.5% (YTD 21 March 2019).

Meanwhile, the US Federal Reserve has turned more dovish since the start of the year on the back of the weaker macroeconomic backdrop and muted inflation expectations. This is a shift from the more hawkish tone in 2018 when the Fed hiked interest rates 4 times by a total of 100bps. Most recently, at the FOMC meeting on 19-20th March 2019, the Fed surprised markets with a more dovish than expected outlook, including a marked reduction in the 'dot plots' which projected no hikes this year. Peaking US interest rates have been a tailwind for Asian markets as fund flows returned to emerging markets and currencies stabilised. Indeed, the benchmark US Treasury 10-year yield at 2.51% at the time of

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writing is down by about 47bps since the start of the year and 72bps from the peak in November 2018. This trend of lower yields is mirrored across most Asian local currency bonds markets. Asian USD credits have also performed well, with the JP Morgan Asian Credit Index (JACI) returning +3.9% YTD amidst the rally in US Treasuries and credit spreads that have tightened 33bps since the start of the year. Currency-wise, most Asian currencies strengthened against the USD with the CNY, THB, MYR, IDR and INR amongst the best performing currencies.

Our 2019 Investment Strategy

CHALLENGING DRIVE

KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
GROWTH SLOWS	We expect to see slower global growth in 2019. The reasons for slower global growth are manifold. Financial conditions are tighter and the US-China trade war has dampened confidence and increased uncertainty thereby stalling corporate decision making and investment. In addition, export growth is likely to be muted on subdued demand and as a result of prior front-loading of exports (ahead of tariff implementation) in 2018. While China may struggle, as a managed economy, we believe it will succeed in maintaining GDP growth at c.6%. Similarly in Asia, we expect trend or slightly below-trend growth in most economies. US growth momentum will slow as the effects of past fiscal stimulus fade. We do not expect a recession in 2019, albeit that remains a possibility in 2020 (as implied by the inversion of the US yield curve). We expect policy makers, in general, to be more pro-active in boosting the domestic economy. More populist policies may be introduced in countries with upcoming elections in 2019 (e.g., Thailand, Indonesia, India). The Chinese government may respond to the threat of slower growth by relaxing its stance on various issues (e.g., RMB depreciation, property cooling, deleveraging/financing) and increasing fiscal spending. Note that much of the growth slowdown in China can be attributed to the government's various regulatory clampdowns in recent years which has unfortunately now coincided with the trade war.	Neutral for equities and mixed for fixed income (positive government bonds, less so for credits). Favour ASEAN over North Asia for equities and local currency fixed income. Prefer Asian credits with high carry. Favour domestic-oriented names / defensives over cyclicals.
INFLATION MUTED; LOWER OIL PRICES	We expect inflation to remain muted in 2019. While there may be a bounce in oil prices in the short term (off the current low base), overall we would expect lower oil prices in 2019 as US shale supply comes on stream. In addition, food inflation should remain benign barring weather shocks. Slower global and capex growth will also weaken commodity demand and prices. The US-China trade war may also prove to be deflationary outside the US. China-made goods will be cheaper with a weaker RMB and China could divert (i.e., dump) its goods to other countries. In contrast, the trade war may increase inflation pressures in the US given more costly imports of consumer goods. Given excess capacity in most of the region, we see little price pressure stemming from capacity constraints.	Negative on most oil plays. Lower oil prices positive for India, Indonesia, the Philippines and Thailand.

CHALLENGING DRIVE

KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
MONETARY POLICY CONTINUES TO TIGHTEN BUT CLOSER TO THE END; A WEAKER USD	While we expect the Fed to continue to hike in 2019, we believe the rate hike cycle is largely coming to an end in 2019. Normalization will continue as US core inflation remains close to 2% but mounting growth concerns will eventually lead to a pause in hikes. With the flattening US yield curve and given growth risks, we expect the USD to be weaker and correspondingly most Asian currencies to be stronger in 2019. With the exception of China which will ease in order to support its slowing economy, we expect monetary policy to be neutral in most of Asia. We see less pressure on Asian central banks to hike rapidly given a benign inflation environment and less currency pressure from a weaker USD.	Prefer US government bonds and Asian local currency government bonds. Favor REITs and high dividend yielding stocks. Favor Asian currencies over the USD. Favor beneficiaries of weaker USD
MORE VOLATILITY; GEOPOLITICS MATTER	We expect markets to remain volatile in 2019 given the uncertainty and risks to growth. For fixed income, we expect continued refinancing pressure. Binary outcome of US-China trade war will require nimble trading to capture opportunities or preserve capital. The US-China trade war is not just about the economics of trade but increasingly seems to be about containing the rise of China which makes any meaningful resolution difficult. While general elections in India, Indonesia and Thailand are likely to see the incumbents returned to power (albeit with an uncertain majority), there is always the risk that the unexpected could occur. Other sources of geopolitical risks include Brexit; elections in Europe (namely, in Germany and Italy); ECB tapering and Middle East tensions.	More tactical trading. High cash allocation from time-to-time. Once election uncertainty is out of the way, India and Indonesia might rally.
GLOBAL TRADE / SUPPLY CHAIN REFORM	With the US-China Trade War, companies will diversify their production bases. Some MNCs and local Chinese companies have already begun relocating their production from China which could benefit some ASEAN countries. These activities to diversify production bases will accelerate. However, this process may take some time depending on the availability of associated supply chains and infrastructure. Restructuring of the global trading architecture. The Multilateral system of trade has underpinned the global trading system and was represented by the WTO. The multilateral system worked by getting consensus from all countries. It was generally fair imposing the same tariffs across all countries with certain concessions given. This has broken down given the lack of support from the US and as world has become more complex world it is now hard to get agreement amongst all countries. Countries now prefer to pursue bilateral FTAs.	Favor selected exporters that benefit from production shifts away from China.

Our 2019 Asia Ex-Japan Outlook

EQUITIES

On a risk-reward basis, we continue to favour the more domestic-oriented ASEAN markets amidst the still-challenging economic environment and US-China trade war uncertainty.

Given the strong rally year-to-date, Asian equities are now trading at 12X forward P/E (in line with historical average). As such, we have turned a little more cautious and expect markets to take a breather. In the initial stages of a recovery, markets will rebound from extremes in valuation and sentiment and lead the improvement in economic data. For a sustained recovery, we would need to see tangible improvements in the economy. At this stage, it is too early to be sure and we will have to wait and continue to assess the situation.

A potential positive catalyst could be the resolution of the US-China trade war given that both parties seem to be working towards a deal. That said, the outcome of trade talks is still uncertain and an escalation of the US-China trade war remains a key risk. On a risk-reward basis, we continue to favour the more domestic-oriented ASEAN markets amidst the still-challenging economic environment and US-China trade war uncertainty.

A continuation of the rally will depend on whether economic fundamentals and hence corporate earnings improve from hereon. We acknowledge that should fundamentals improve further then more cyclically-oriented markets like China, Korea and Taiwan will outperform.

Equity Strategy Summary:

1. Asian equties are now trading at 12X forward P/E.
2. US-China trade war remains a key risk, but stands to be a potential catalyst if a deal is met.
3. We continue to favour more domestic-oriented ASEAN makets.
4. If fundamentals improve, more cyclically-oriented mar-kets will outperform.

We still like the LCY debt markets in Indonesia and India from both carry and currency appreciation perspective.

With the Fed sending dovish signals and effectively ruling out any interest rate hikes this year on the back of a weaker global macroeconomic backdrop (but no recession) and muted inflation expectations, we continue to have a constructive view on Asian fixed income, both in LCY debt and USD credits.

As previously highlighted, peaking US interest rates eases the pressure on Asian central banks to tighten monetary policy to prevent foreign fund outflows, hence this is overall positive for Asian risk assets.

In particular, we still like the LCY debt markets in Indonesia and India from both carry and currency appreciation perspective over the medium term. In the near term, both countries will be having elections which could create some uncertainty but subsequently, under our base case that the incumbent will emerge victoriously, we expect markets there to pick up.

Despite the good performance YTD, we also continue to see value in Asian USD credits with investment-grade bonds at 4.5% and high yield bonds at 7.6%, as spreads remain attractive after widening substantially last year and US Treasuries yields grinding lower.

Fixed Income Strategy Summary:

1. We continue to have a constructive view on Asian fixed income, both in LCY debt and USD credits.
2. Peaking US interest rates eases the pressure on Asian central banks to tighten monetary policy.
3. We still like the LCY debt markets in Indonesia and India from both carry and currency appreciation perspective .
4. We also continue to see value in Asian USD credits with investment-grade bonds at 4.5% and high yield bonds at 7.6%.

INDONESIA

2Q 2019 Indonesia Outlook

EQUITIES

We are currently in the last month of the pre-election period, which history would suggest a sideways market with more downside volatility.

The rally from Oct-18 low to Mar-19 has re-rated JCI valuation tactically. Whereas, macroeconomic development has not been as encouraging as current account and growth remain under pressure from weakening exports. Growth drivers should come from consumption as a result of populist policies in the election year.

We are currently in the last month of the pre-election period, which history would suggest a sideways market with more downside volatility. These, coupled with mix corporate earnings results, MSCI rebalancing and overbought technical created jitteriness for investors to take profit around the 6,500-6,600 level as domestic funds experienced consecutive redemptions.

Positive news came from the Fed's dovishness, which should be supportive for market/bond proxy stocks (Banks, infrastructure and property). However, global slowdown provides limited upside for cyclical assets as USD support could remain for longer. Additionally, high oil prices with other commodities lagging would leave IDR vulnerable. This led us to trade the market tactically and cautiously focusing on liquid names to ensure flexibility. Style-wise, we are opting to pair market/bond proxy stocks and quality trend following stocks as a diversifier in the late-cycle.

Regarding the presidential election, flexibility is prioritized. Despite similar programs from both candidates, rate-sensitive stocks look to be favoured if the incumbent wins. Whereas, in the event the challenger wins, infrastructure and SOE banks could be at risk and consumers space might benefit as more populist measures will be introduced. Regardless of the outcome, the longer term story should stay as both candidates will continue the existing programs with several adjustments. Hence, any knee-jerk reaction should provide opportunity. Additionally, 2019 can be an inflexion point for JCI's profitability as more industries start to consolidate (e.g. cement, banks, telco and infrastructure) while both candidates promote corporate tax cuts. Thus, should provide a tailwind for ROE's recovery.

Our YE2019 JCI base target range remains at 6,450 - 6,675 which offers limited upside and is reflected on our tactical positioning. However, bigger caps index may provide higher upside due to underperformance in the past quarter and lower yield. In the event of improving macroeconomic numbers and positive political outcome, JCI may trade higher to 6,900-7,100 as our best case.

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2Q 2019 Indonesia Outlook

FIXED INCOME

The Fed's new guidance opens up a window possibility for Indonesia Central Bank to lower its benchmark rate, which we expect to happen in the second half.

The market reacted positively by The Fed's new guidance while the decision to complete the balance sheet reduction by this September is a positive driver for the emerging market. The guidance also opens up a window possibility for Indonesia Central Bank to lower its benchmark rate, which we expect to happen in the second half.

Meanwhile, all eyes are on Indonesia presidential election which will occur on April 17th 2019, essentially a rematch of the 2014 election. Even if the market seems to favour the incumbent, as many government infrastructure projects seem to impress locals and foreigners, the opposition should not be underestimated, given that they pointed out many negatives in the presidential debate, also mentioning what could have been done better.

Indonesia Central Bank maintained the benchmark 7-day reverse repo rate unchanged at 6.0%. Policymakers said the decision was consistent with efforts to reduce the current account gap to 2.5% of GDP in 2019 and to maintain the attractiveness of domestic financial markets for foreign investors.

In this first quarter, local currency fluctuated within the range of IDR 13,800 – 14,300 per USD, in line with most Asian currencies. The currency stability shows the central bank's commitment, which attempts to convince local and foreign investors to have more confidence to invest in Indonesian instruments. This resulted in high demand for both Indonesian local currency and USD-based bonds. The demand for government bonds have been high and recorded the highest incoming bid of IDR 94tn in Feb19. The government was also successful in issuing USD 2bn bonds. As demand increases, foreign holdings in government bonds increased to 38%, lowering the yield curve by 30- 40bps across all tenors.

Looking ahead, we are still positive on IDR Bonds and maintain our overweight stance. We expect 10yr bonds to push lower to 7.0 – 7.25% by YE2019.

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