CHALLENGING DRIVE

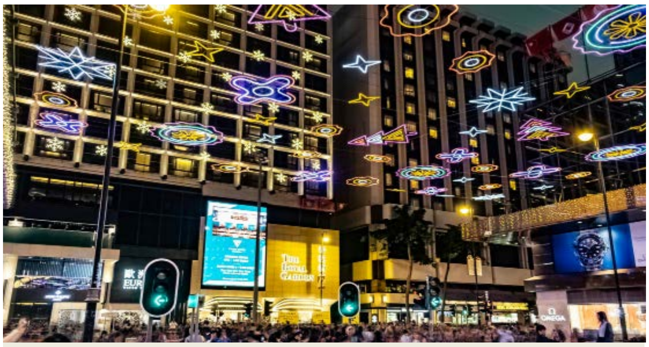
2Q 2019 OUTLOOK & STRATEGIES

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 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.

Most recently, at the FOMC meeting on 19-20th March 2019, the Fed surprised markets with a more dovish than expected outlook.

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 markets 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%.

2019

2Q OUTLOOK

SINGAPORE

2Q 2019 Singapore Outlook

EQUITIES - OUR OUTLOOK

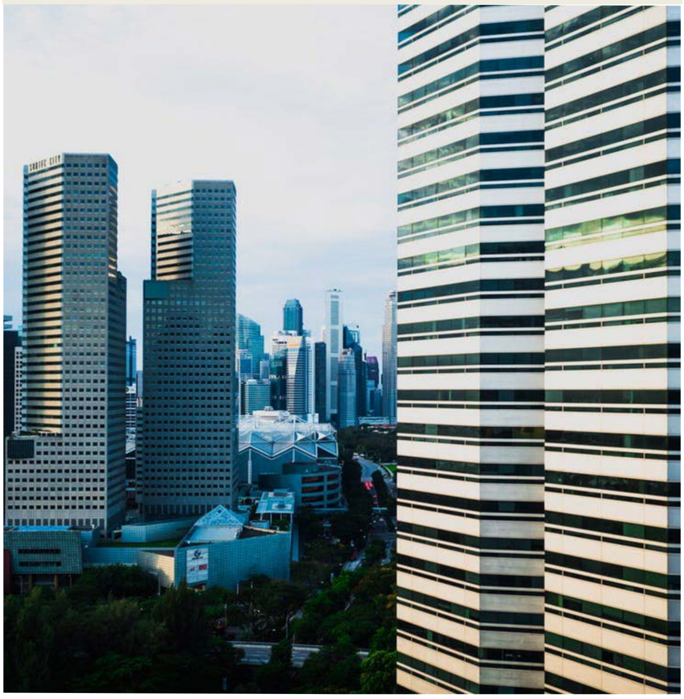
We are positive on the outlook for Singapore equities in 2019. The market correction in 2018 had made valuations attractive. The forecast 2019 Price to Earnings ratio for the Singapore market is about 12.5x, which is not expensive relative to other stock markets. Trading at 1 standard deviation below its historical mean, it is also cheap relative to history. In other words, the market has priced in a fair bit of bad news. If 2019 turns out to be better than expected, the equity market could perform very well.

There are two notable points about our 2019 outlook. First, the range of possible outcomes is wider than usual as the key risk is geopolitical. While our base case is for the US and China to reach a negotiated deal on trade, it is also possible that negotiations could break down, relationships could deteriorate and tit-for-tat measures could spiral out of control. We are aware of a small tail risk of a negative outcome for the global economy. Second, we do not expect 2019 to be as good as in 2018.

The market correction in 2018 had made valuations attractive with the forecast of 2019 Price to Earnings ratio for the market at about 12.5x.

Even if a deal on trade is reached, there has been some damage done on supply chains. Tariffs are economically equivalent to a tax on international trade which leads to economic inefficiency and output loss. Therefore, it is likely that global trade next year would be negatively affected by the ongoing trade war between the US and China. As a small open economy, Singapore's exports would not be immune from the global trade downturn.

Although underlying demand is strong, the property sector is being restrained by the government's cooling measures, thereby limiting both price and volume growth.

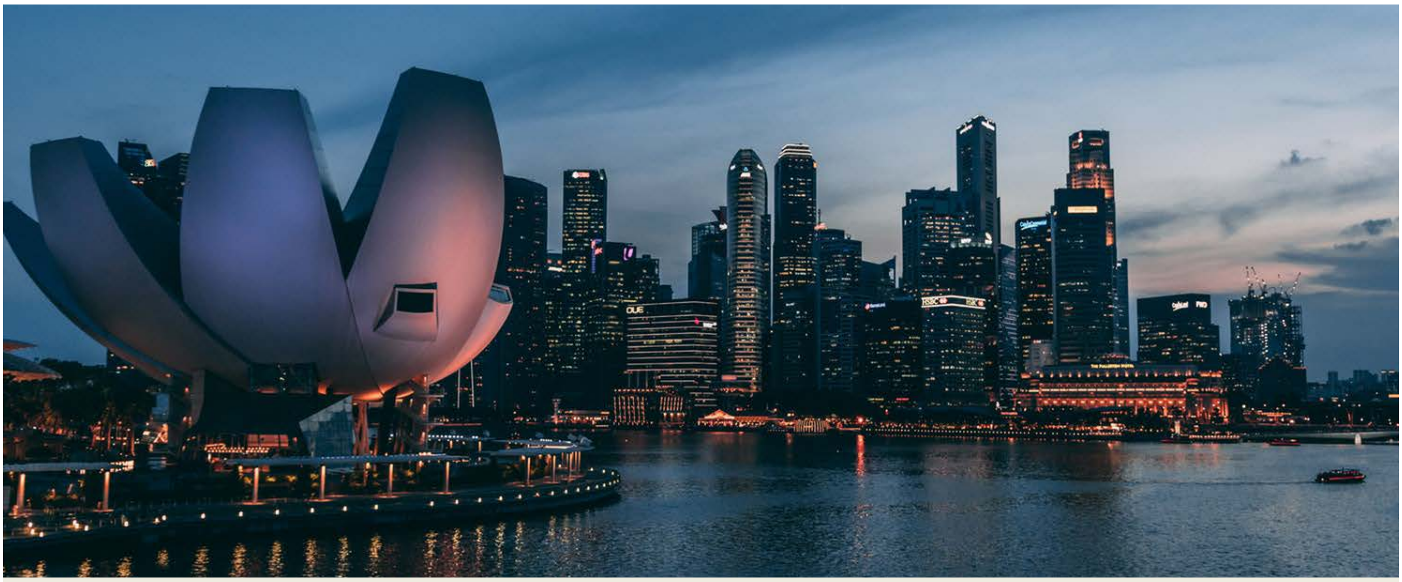


Major economies such as the US and Europe are seeing slightly slowing growth. China's economy may slow more than expected given its deleveraging campaign domestically and the trade war internationally. In response to the slowdown, we expect an end to the quantitative tightening in 2019. We expect the US Fed to pause its rate hikes in 2019 to ease financial conditions and avoid a hard landing as growth slows. Growth may slow more if US trade policy continues to prioritize dividing the economic pie rather than growing it. We also expect China to announce more policy-easing to support the domestic economy, especially the small and medium-sized enterprises.

Singapore's domestic economy is likely to perform modestly in 2019. Although underlying demand is strong, the property sector is being restrained by the government's cooling measures, which is likely to be effective in stopping the en-bloc collective sale cycle, thereby limiting both price and volume growth. The banking sector remains healthy and we expect mid-single digit loans growth in 2019.

2Q 2019 Singapore Outlook

EQUITIES - OUR STRATEGY



Although valuations have fallen, we expect volatility to remain high, and would suggest investors remain nimble in the view of potential changes to the macroeconomic and geopolitical landscape.

In 2019, we will focus our stock picks on quality companies with attractive valuations. Market valuations have fallen and this represents a good opportunity to invest in the Singapore equity market. We expect volatility to remain high, and would suggest investors remain nimble in the view of potential changes to the macroeconomic and geopolitical landscape.

In terms of sector allocation, we would advocate Overweight positions on Land Transport and Property Developers; Neutral positions on REITs, Gaming, Technology/Manufacturing; and Underweight positions on Financials, Telecommunications and Offshore & Marine.

Our most favoured sector is Land Transport, as we think there is some stabilization in the competition between taxis and private hire cars. ComfortDelGro has also been able to grow other parts of the business such as bus services and international transport services. We also like the Property Developers as valuations have fallen to attractive levels, creating an opportunity to accumulate.

We are neutral on the REITs, mainly due to high valuations. Nevertheless, REITs enjoy a positive outlook as they benefit from a stable interest rate regime. We think that the US Fed will end its rate hike cycle in 2019. We also like the fact that Office spot rents continue to rise, Chinese tourist arrivals continue to grow, and occupancy in the Retail sector continues to be high. Furthermore, the business model of REITs is relatively resilient to the trade war. We are neutral on the Gaming sector as business is stable and valuations are fair.

We are underweight on Financials, as their share prices may have priced in an expected benefit from rising interest rates that may not materialize in a slow growth environment. For the Telecommunication sector, we note that share prices have fallen to attractive levels, but competitive intensity still appears to be high.

Our most favoured sector is Land Transport, as we think there is some stabilization in the competition between taxis and private hire cars.

2Q 2019 Singapore Outlook

FIXED INCOME

Economic data released in Singapore over Q1 2019 have generally been disappointing. 2018's growth came at +1.9% YoY (vs +2.1% consensus); Export growth over December 2018 and January 2019 have been lacklustre too, given the slowdown in external activity across China and Eurozone and ongoing US-China trade uncertainties etc.

Recent data would have called for some re-calibration. Downward revisions to 2019's headline inflation numbers had been made, from 1-2% to 0.5-1.5%; Furthermore, the latest MAS GDP growth forecasts are probably around 2.1-2.2%, about 50 bps lower compared to October 2018's +2.7% forecast.

In October 2018's meeting, Monetary Authority of Singapore (MAS) had increased slightly the pace of appreciation of the SNEER basket (while keeping the band and midpoint unchanged vs April 2018) given output was above long-run potential and then expectations of a small positive output gap to persist in 2019. There remains the possibility of MAS pursuing a small degree of tightening of the SNEER basket from an estimated +1% appreciation in October 2018 to +1.5% appreciation. October 2018's tightening was the first tightening in 6 years. Even with the slower output gap expected in 2019 and the downgrade of headline inflation, core inflation remains relative sticky at 1.5-2.5% area. As such, USDSGD would likely hover in the range of 1.33-1.35 near term.

Relative to other developed bond markets, the SIGB Yield curve has widened by +4 to +8 bps along the curve, with a slight steepening in the long end. The narrowing of SGD forward points over the quarter had reduced the attractiveness of carry as USDSGD strengthened -0.9% YTD to 1.3505. With USDSGD unlikely to see any weakening in Q2 2019, yields on SIGBs should remain at current levels and are unlikely to tighten from current levels.

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As such, USDSGD would likely hover in the range of 1.33-1.35 near term.

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