Cloudy Vision 20/20

Maybank Asset Management

2Q2020 Outlook & Strategy

Welcome to our 2Q 2020 Outlook & Strategy Report

Maybank Asset Management

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1Q2020 Asia Ex-Japan Market Review

A dismal and challenging quarter for the financial markets

The first quarter of 2020 proved to be a dismal and challenging quarter for the financial markets. After a challenging 2019, mainly due to the concerns surrounding the deterioration of global economic growth as the US-China trade war continued to escalate throughout the year, many were expecting some degree of recovery. **Unfortunately, things took a turn for the worse as 2020 prove to be unprecedentedly challenging.**

In January, Asian equity markets began the year on a positive note in anticipation of the signing of the 'phase 1' US-China trade deal. **However, the initial rally in equity markets proved to be short- lived as markets saw a sharp correction on concerns over the COVID-19 coronavirus viral outbreak and its detrimental effects on global economic growth.** Selling became disorderly across all asset classes in March as the sell-off snowballed when the pandemic spread beyond China to the rest of the world, triggering unprecedented measures such as travel curbs and lockdowns.

This volatile situation was intensified in March after the Saudi Arabia and Russia failed to reach an agreement on production cuts during the OPEC+ meeting. Instead, Saudi Arabia decided to pursue the maximum production strategy to exert pressure on higher cost producers and gain market share. Oil prices tumbled more than 20% in a single day.

For the Asian fixed income markets, mainly Asian USD bonds, the JP Morgan Asian Credit Index (JACI) was up more than 3% for the year until the first week of March. **Following the blowout in the Covid- 19 pandemic, Asian USD bonds also tumbled along with all other risk assets, erasing all gains and closing the quarter down, -3.79% as of 19th March 2020.**

> In January, Asian equity markets began the year on a positive note in anticipation of the signing of the **'phase 1' US-China trade deal.**

During this steep sell-off, we have seen investment grade bonds sold off by 5 to 10 points and non-investment grade bonds marked down by up to 30-40%. The mark down of prices was indiscriminate across all countries and sectors. Hence, we opine that that the drastic price drop on bonds were mainly due to lack of liquidity, as fund managers, investors and ETF funds all rushed for the exit door at the same time.

COVID-19 spread
outside of China

Oil price -20%
drop in a single day

> All asset classes
> **sold off in March**

Key Theme For 2020

The number 2020 is usually associated with perfect vision

Our overall theme for 2020 is "Cloudy Vision 20/20". The number 2020 is usually associated with perfect vision and for Malaysians, there will be some significance as 2020 is the year that Malaysia planned to reach developed nation status as part of the "Wawasan 2020" or Vision 2020 that was set forth by Tun Dr Mahathir in his stint as Prime Minister.

Given the unprecedented events that have shocked and impacted the financial markets this year, it seems that "Cloudy Vision 20/20" is a right theme to have this year.

The disruptive effects from the COVID19 coronavirus are likely to be pronounced and extended, and it will take considerable time for business and consumer confidence to recover.

Cloudy Vision 20/20

KEY THEME	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
Impact of COVID19	**Weak Global growth with likelihood of recession given COVID19.** • Policy makers look to counteract the economic impact of COVID19 via fiscal spending. • Assumes partial US-China trade deal (but no major concessions), motivated by upcoming US Presidential elections amidst slower US growth (as past fiscal stimulus fade and given its late cycle stage). • Growth uncertainty to persist with politics, trade policy and the COVID-19 viral outbreak being unpredictable swing factors. • Positive factors: i. Supportive monetary/fiscal policy ii. Easing trade tension • Negative factors: i. Prolonged COVID19 will could lead to a financial crisis ii. Corporate decision making/investment slows (on diminished business confidence given uncertainty)	**Implications:** • Negative returns for 2020 given the COVID19 coronavirus. **Strategy:** • Focus on structural themes that are less dependent on global macro- economic conditions e.g., 5G, technology change/ trends, policy beneficiaries.

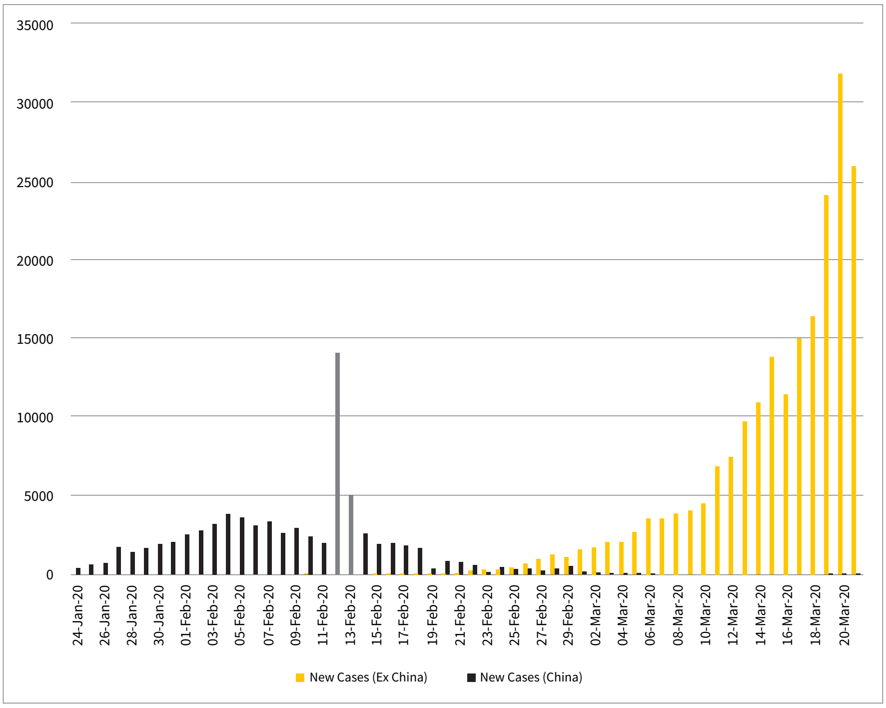
Our 2Q2020 Asia Ex-Japan Equity Outlook & Strategy

Revised our equity strategy in February and became more cautious

Entering 2020, we had been positive on Asian equities in 1Q20 given the prospect of a partial US- China trade deal and still-ample liquidity. While we were expecting markets to be volatile in 2020, we had expected equity returns to be front-loaded with uncertainty regarding upcoming US Presidential elections kicking in from 2Q20 onwards.

However, **with the emergence and rapid spread of the COVID-19 virus outbreak, we reversed our strategy in February and became more cautious.** New cases outside China were growing rapidly and we decided to take a more defensive view, increasing our cash positions for our funds.

Following the massive sell-off in 1Q20, we could potentially see a near term rebound in Asian equities but such a rebound may be short-lived unless we see a peaking of COVID-19 cases worldwide. We caution that bear markets (such as the one we are now in) may also see strong rallies occasionally.



New cases in China are trending lower, but new cases are growing outside of China
(Source: World Health Organization, 17 Mar 2020)

For a sustained rally, we would need to see more aggressive fiscal policy responses from the government, accommodative monetary policies from central banks, as well as the stabilisation of the COVID-19 pandemic globally. We are cautiously optimistic for a better 2H20 after a dismal 1Q20. This is based on the premise of stability and in markets which may not have been troughed yet with value emerging.

The indiscriminate selling during the pandemic has created bargains and hence, better value buying opportunities. We will hold a high amount of cash to position our portfolios for the eventual recovery and will be redeploying the cash opportunistically.

We continue to favour stocks with consistent/visible income streams, high/stable dividend yields, policy stimulus beneficiaries, 'stay-at-home' beneficiaries (e.g., e-commerce, online services) as well as companies with strong balance sheets/good cash flows.

"**We would expect a better**

2H20 after a dismal 1Q20"

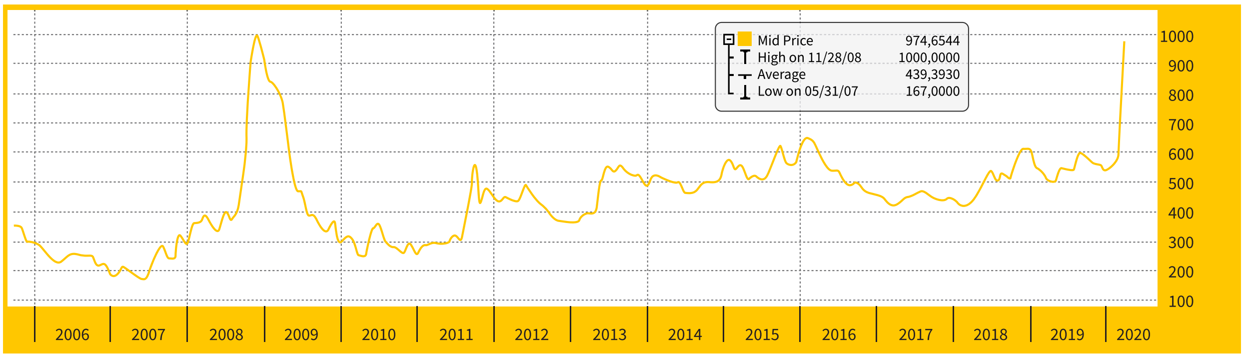
Our 2Q2020 Asia Ex-Japan Fixed Income Outlook & Strategy

Sharp mark down of bond prices is not a true reflection of underlying value

For the Asian USD fixed income space, the recent sell-off in USD bonds have caused high yield spreads to widen, to close at levels last seen during the Lehman crisis. We believe that the sharp mark down of bond prices is not a true reflection of the underlying value of the bonds. It is mainly due to the extreme liquidity stress as sellers overwhelmed the market.

In response to the liquidity stress in the markets, the US Federal Reserve (FED) established temporary dollar liquidity-swap lines with various central banks globally, expanding the rapid roll-out of financial-crisis-era programmes to combat the financial meltdown from the Covid-19 pandemic. In addition, the European Central Bank (ECB) created the Pandemic Emergency Purchase Program and the US Federal Reserve announced the Corporate Credit Facility Programme. These programmes are specifically designed to purchase corporate bonds to support the corporate bond markets.

With the above support, we believe that bond prices will recover to more reasonable levels in the future.



JP Morgan High Yield Index Credit Spread

(Source: Bloomberg)

While current bond yield levels look very attractive after the recent sell-off, we are waiting for markets to stabilise before adding more risk back into our bond portfolios. We are also more cautious as the situation on Covid-19 still looks precarious despite the global lockdown. On average, we have 20% cash in bond portfolios.

20%
Cash in bond portfolios

Malaysia

1Q2020 Malaysia Market Review

Huge foreign outflows for equity and bond markets in 1Q2020

Malaysia's equity and fixed-income markets were mildly positive entering the first quarter of 2020 with the anticipation on the signing of 'Phase 1' US-China trade deal in January. However, sentiments changed quite rapidly after the Chinese New Year celebrations as the Covid-19 outbreak in China started spreading to neighbouring countries as well as the surrounding region. The virus continued to spread rapidly, reaching numerous countries as travel bans outside China were yet to be implemented during that period, causing the number of cases outside China to climb. This has sent stocks on a downward spiral, with equity markets seeing a sharp sell-off in the second half of the quarter on concerns over the spread of the virus and its detrimental effects on global economic growth. The risk-off shockwaves reverberated across markets globally with the S&P500 registering one of its sharpest corrections (-11.5% in the last week of February) seen in years and the 10-year US Treasury yields benchmark plummeting to fresh lows of 0.57% in early March.

1Q2020: Malaysian markets faced a triple-whammy

01

Another ruling coalition change where a new government was formed after a seated Prime Minister resigned from its post.

02

A crash in crude oil prices due to a price war between major oil producers.

03

The Covid-19 pandemic and the Movement Control Order (MCO).

With regards to GDP, Malaysia's 4Q2019 growth was at 3.6% year-on-year. This was much lower than the 4.4% achieved in 3Q2019 and also lower than the consensus estimate of 4.1%, mainly due to the slower progress of mega construction projects coupled with lower plantation output. With these vulnerabilities overshadowing local markets, both equities and fixed income were badly impacted especially after a liquidity crisis hit markets globally in the middle of March, resulting in the FBMKLCI and BPAM All Bond Index to drop around 10.7% and 4.9% respectively Month-to-Date (24th March 2020). Foreign outflows in 1Q2020 Year-to-Date for the equity and bond markets are estimated to be around RM7.4b and RM14b respectively.

Our 2Q2020 Malaysia Equity Outlook & Strategy

Slightly better expectation for recovery in the next quarter

After a very weak performance in 1Q2020, where the FBMKLCI dropped by 16.6% Year-to-Date (24th March 2020), **we are now moving into the next quarter with a slightly better expectation for recovery as valuations for some stocks are certainly appealing.** Some of the stocks were bashed down indiscriminately during the liquidity crisis that hit global markets directly as well as local markets indirectly. Almost all central banks globally came in full force together with respective government efforts to ensure that the liquidity crisis did not increase in severity which could exacerbate market disruptions, especially in the event that liquidity runs dry.

Considering the increased vulnerability of our economy due to these three major events that hit Malaysia; a new government being formed, low oil prices and the Covid-19 pandemic, the Malaysian government is arranging an aggressive stimulus package to ensure that the economy is able to keep afloat and recoup swiftly after the Covid-19 cases subside.

We believe that recovery may take place in 2H2020. Based on what was observed in China, coupled with other countries implementing similar Movement Control Orders (MCO), we expect to see improvements in the number of cases reported for Covid-19 from May onwards.

> **“Malaysia has also provided significant stimuli collectively amounting to 8-9% worth of GDP to ensure strong recovery beyond Covid-19. These were provided through various mechanisms including automatic loan repayment moratoriums for individuals.”**

We should also see some economic recovery due to pent-up demand once the MCO is lifted or loosened. Malaysia has also provided significant stimuli collectively amounting to 8-9% worth of GDP to ensure strong recovery beyond Covid-19. These were provided through various mechanisms including automatic loan repayment moratoriums for individuals, which is expected to release about RM84B of funds (5.6% of GDP), a reduction in Employees Provident Fund (EPF) contributions, a RM500 monthly withdrawal allowance from EPF accounts, which is expected to release about RM25B (1.7% of GDP), and other comprehensive stimuli which release approximately RM20-30B or 1.3-2% of GDP.

Foreign selling of the equity market is also expected to taper off soon as their shareholdings are now at 22.3%, near the historical bottom of 21.7%. The sustainability of the current government and better clarity on policies moving forward will also ease foreigners' political uncertainty concerns.

We have reduced our weight for **Oil and Gas (O&G)** for 2Q2020 due to the weak oil demand and the oil price war. However, some of the stocks are trading at depressed valuations and many O&G companies have recapitalised their balance sheet and impaired their assets since the last downturn in 2015. Hence, **we believe these O&G companies are well positioned to capitalise on any upturns of oil prices and activities in the future.** In terms of oil prices, we expect further stabilisation and strengthening should the Covid-19 pandemic subsides given the cooperation of major oil producers (US, Russia and Saudi Arabia) in reaching an agreement in their next scheduled meeting in June.

The **banking sector**, which has performed poorly in 1Q2020 due to Net Interest Margin (NIM) compression and concerns over asset quality, could see some recovery as pressures on NIMs are expected to taper off and credit costs are stabilising. On top of that, Bank Negara Malaysia (BNM) has provided further support in term of reducing the Statutory Reserve Requirement (SRR) ratio to 2% from 3% last year. **The sector is trading at low valuations with attractive dividend yields which presents an opportunity. Crude Palm Oil (CPO)** prices have been also been dampened by the lower crude oil environment and diminishing demand-supply dynamics (e.g. the delay in biodiesel implementation, weak consumer sentiment and lower production in 2020). Value is also emerging for the sector as Crude Oil prices have likely bottomed. We may pick up some undervalued big caps with low production costs and strong growth outlooks.

The new government (Perikatan Nasional) is also expected to swiftly roll out projects with a high multiplier effect such as MRT3 and HSR to revitalise the economy given and the low crude oil prices and Covid-19 outbreak. Billions of Ringgits worth of infrastructure development projects in Sarawak are also likely to roll out ahead of the upcoming state election.

With low valuations observed in most of the big cap stocks and potential higher spending by Malaysians coming from the governments massive liquidity injection from stimulus packages, we expect 2Q2020 to see a solid rebound for equity markets, positioning the economy for an eventual recovery in 2H2020. After the recent consensus earnings revisions, we estimate a flat earnings growth in 2020 and 8% growth in 2021. Hence, our **base case scenario for the FBMKLCI is to trade at its 7- year, -1 standard deviation price-earning-ratio of 14.72X giving a target of 1,423 for year-end 2020.**

Year-end 2020

KLCI target: 1,423

Our 2Q2020 Malaysia Fixed Income Outlook & Strategy

Expect a quick market recovery from the sell-off

After a solid performance in 2019, the Malaysian bond market is now facing a reversal in this challenging environment especially after MGS 10-year yields dropped to a low of 2.78% against more attractive yields of sustainable big cap stocks in Malaysia such as Maybank, which trades above 7% yield with limited capital downside. Nevertheless, lower GDP growth for Malaysia, especially after the government revised its expectation to 3.2% from 4.2% for 2020 GDP growth, has helped the bond market to continue to perform well in 1Q2020 up until March.

Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate (OPR) twice in 1Q2020 by 50bps in total, down to 2.50% to create a more accommodative environment for growth, considering the potential slowdown in GDP. The reduction in SRR by 100bps to 2% and the Principal Dealer's (PD) ability to recognize MGS and GII for up to RM1B as part of the SRR (combined measures will release RM30B worth of liquidity into the system) will provide good liquidity support for the bond market, especially to counter indiscriminate foreign selling of MGS due to the global liquidity crisis. Central banks cut their rates as low as possible as the US Federal Reserve (Fed) zerorised the Fed fund rate as well as buying bonds from the markets to address the aforementioned liquidity crisis.

We expect a quick recovery for the bond market from the recent sell down (mid-March) due to the global liquidity crisis as BNM and the Malaysian government are poised to support the market. Further, we expect the OPR to be lowered to 2% by May's Monetary Policy Committee (MPC) meeting given that yields spiked higher from 2.78% to 3.57% during the March correction. With the expectation of BNM to cut rates further, we would expect yields to be traded below 3.90% levels.

In March, we expect foreign outflows to persist amounting to an estimated RM8B-RM10B. This will reduce the foreign holdings percentage of MGS further to 21%. Given that the current outflows are coming from foreign Asset Managers, and if FTSE decides to drop Malaysia from the World Government Bond Index (WGBI) in April, **the effect could be minimal as current foreign holdings are already at an all-time low.**

We are selective on credits, preferring liquid AAAs for trading and AA primaries for yield pickup. We also expect more aggressive issuances of Private Debt Securities (PDS) in 2Q2020 as investors are more willing to participate at higher rates as compared to the very thin spreads offered in 1Q2020. We are also overweight PDS over govvies (government papers) as volatility in govvies may persist whilst the global liquidity crisis is being tackled by global central bankers.

Our Funds

Performance data as at 20 March 2020

Legend | W (Wholesale) | R (Retail) | G (Growth) | I (Income)

Fund (Strategy)	Type	Objective	Inception	Performance (%)			Geo. Exposure
				1 yr	3yr	Since Inception	
Equities							
Maybank Malaysia Dividend Fund (fka Maybank Dividend Trust)	R	I+G-Med/Lng	6-Jun-06	-14.71	-9.93	213.83	Malaysia
Maybank Malaysia Ethical Dividend (fka Maybank Ethical Trust)	R	I+G-Med/Lng	7-Jan-03	-23.71	-24.91	316.13	Malaysia
Maybank Malaysia SmallCap (fka Maybank SmallCap Trust)	R	G-Med/Lng	3-Mar-04	-23.82	-27.28	6.87	Malaysia
Maybank Malaysia Growth Fund (fka Maybank Unit Trust)	R	G-Lng	26-Mar-92	-23.77	-23.85	164.05	Malaysia
Maybank Malaysia Value A MYR (fka Maybank Value Trust)	R	G-Med/Lng	7-Jan-03	-23.84	-26.53	290.31	Malaysia
Maybank Malaysia Value B USD (fka Maybank Value Trust)	R	G-Med/Lng	7-Jan-03	-29.37	-33.11	-46.01	Malaysia
Maybank Malaysia Value C MYR	R	G-Med/Lng	7-Jan-03	-23.74	-26.14	-19.81	Malaysia
Maybank Malaysia Value C USD Institutional (fka Maybank Value Trust)	R	G-Med/Lng	7-Jan-03	-29.21	-25.47	-40.22	Malaysia
Equity Shariah							
Maybank Asiapac Ex-Japan Equity-I	R	G-Lng	8-Jan-14	-16.23	-8.58	46.30	Asia ex-Japan
Maybank Malaysia Growth-I Fund (fka Maybank Dana Yakin)	R	G-Med/Lng	24-Nov-00	-17.63	-24.57	167.54	Malaysia
Maybank Greater China ASEAN Equity-I A MYR	R	G-Lng	27-Apr-15	-16.18	-8.77	18.95	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I B USD	R	G-Lng	27-Apr-15	-22.13	-7.55	3.99	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I C USD (Institutional)	R	G-Lng	27-Apr-15	-21.57	-5.32	8.79	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I D USD (Institutional)	R	G-Lng	27-Apr-15	-20.98	-	2.12	ASEAN & Greater China
Fixed Income							
MAMG Global Constant Income	R	I-Lng	15-May-17	2.98	-	10.50	Global
MAMG Global Income Trust	R	I-Lng	17-Jul-17	2.78	-	6.27	Global
Maybank Bluewaterz Total Return MYR	W	G-Lng	14-Aug-15	-1.26	6.00	15.19	Asia
Maybank Bluewaterz Total Return USD	W	G-Lng	20-Jul-18	-0.12	-	3.51	Asia
Maybank Constant Income 6	R	I-Lng	19-Sep-16	1.10	9.09	9.09	Asia
Maybank Constant Income 7	R	I-Lng	17-Mar-17	-3.78	-	-2.01	Asia

Fixed Income							
Maybank Constant Income 8	R	I-Lng	21-Oct-19	-	-	-15.60	Asia
Maybank Financial Institutions Income	W	I-Lng	17-Dec-09	5.29	14.65	52.28	Malaysia
Maybank Financial Institutions Income Asia	R	I-Lng	26-Aug-14	-2.56	4.40	26.17	Asia
Maybank Malaysia Income Fund (fka Maybank Income Trust)	R	I-Med	19-Jul-96	4.64	13.38	221.72	Malaysia
Fixed Income Shariah							
MAMG Global Shariah Income	R	I-Lng	13-Mar-18	10.31	-	18.00	Global
Maybank Malaysia Income-I Fund A MYR (fka Maybank Dana Arif)	R	I-Lng	27-Apr-04	5.54	15.60	100.28	Malaysia
Maybank Malaysia Income-I Fund C MYR Institutional (fka Maybank Dana Arif)	W	I-Lng	21-Aug-13	5.93	16.61	37.99	Malaysia
Maybank Malaysia Income-I Fund C USD Institutional (fka Maybank Dana Arif)	W	I-Lng	17-Sep-14	-3.30	14.94	-6.90	Malaysia
Maybank Malaysia Sukuk	R	I-Lng	8-Jan-14	6.28	17.42	31.15	Malaysia
Maybank Income Management-I Fund	R	I-Med	8-Jan-20	-	-	-2.36	Malaysia
Money Market							
Maybank Money Market-I A MYR (fka Maybank Dana Nabeel)	W	I-Shrt	6-Jul-11	3.24	10.01	30.35	Malaysia
Maybank Money Market-I B MYR (fka Maybank Dana Nabeel)	W	I-Shrt	18-Oct-19	-	-	1.33	Malaysia
Maybank Enhanced Cash XIII	R	I-Shrt	24-Sep-08	2.65	9.05	40.85	Malaysia
Maybank Money Market A MYR	W	I	1-Mar-19	1.22	-	1.22	Malaysia
Maybank Money Market B MYR	W	I	1-Mar-19	0.63	-	0.63	Malaysia
Maybank Money Market C MYR	W	I	1-Mar-19	0.63	-	0.63	Malaysia
Maybank Shariah Enhanced Cash	R	I-Shrt	24-Nov-08	2.04	8.43	37.68	Malaysia
Balanced							
Maybank Malaysia Balanced Fund (fka Maybank Balanced Trust)	R	I+G-Lng	19-Sep-94	-11.32	-10.44	111.91	Malaysia
Maybank Malaysia Balanced-I Fund (fka Maybank Dana Ikhlas)	R	I+G	17-Sep-02	-7.30	-9.84	102.59	Malaysia
Multi-Asset							
Maybank Global Mixed Assets-I MYR	R	G	17-Jun-19	-	-	-4.87	Global
Maybank Global Mixed Assets-I MYR Hedged	R	G	17-Jun-19	-	-	-11.43	Global
Maybank Global Mixed Assets-I USD	R	G	17-Jun-19	-	-	-10.43	Global
MAMG Dynamic High Income MYR	W	I	22-Jan-19	-10.55	-	-9.41	Global
MAMG Dynamic High Income AUD Hedged	W	I	22-Jan-19	-18.73	-	-16.52	Global
MAMG Dynamic High Income EUR Hedged	W	I	22-Jan-19	-22.45	-	-20.02	Global
MAMG Dynamic High Income MYR Hedged	W	I	22-Jan-19	-17.44	-	-16.57	Global
MAMG Dynamic High Income SGD Hedged	W	I	22-Jan-19	-16.79	-	-14.93	Global

Multi-Asset							
MAMG Dynamic High Income USD	W	I	22-Jan-19	-16.98	-	-15.77	Global
Maybank Flexi Income MYR	R	I-Lng	28-Nov-19	-	-	-7.34	Global
Maybank Flexi Income AUD Hedged	R	I-Lng	28-Nov-19	-	-	-14.40	Global
Maybank Flexi Income MYR Hedged	R	I-Lng	28-Nov-19	-	-	-13.62	Global
Maybank Flexi Income SGD Hedged	R	I-Lng	28-Nov-19	-	-	-13.22	Global
Maybank Flexi Income USD	R	I-Lng	28-Nov-19	-	-	-12.98	Global

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