Cloudy Vision 20/20

Maybank Asset Management

2Q2020 Outlook & Strategy

Welcome to our 2Q 2020 Outlook & Strategy Report

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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.

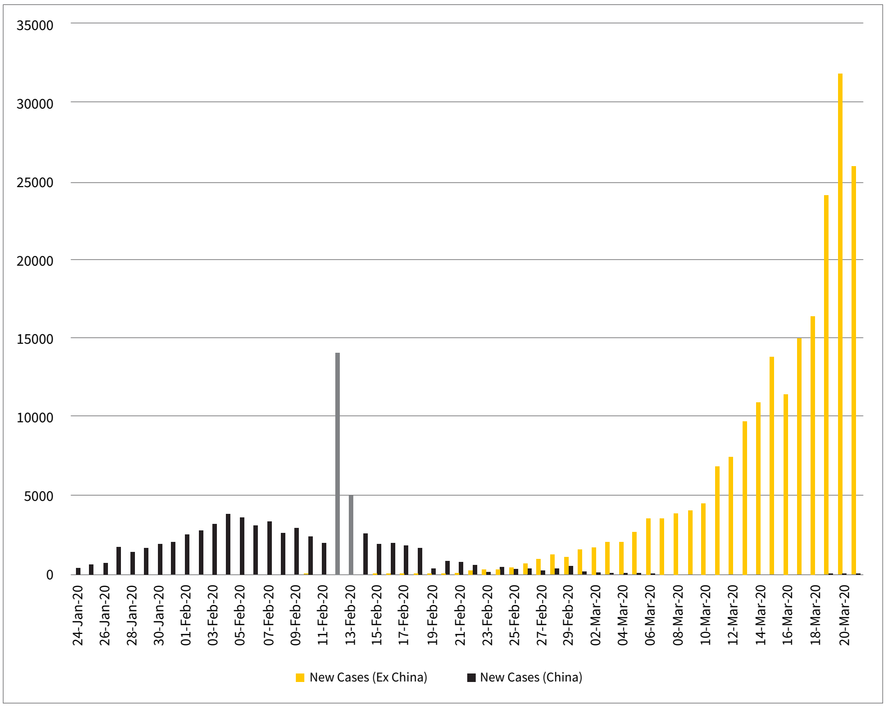
Our 2Q2020 Asia Ex-Japan Equity Outlook & Strategy

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"

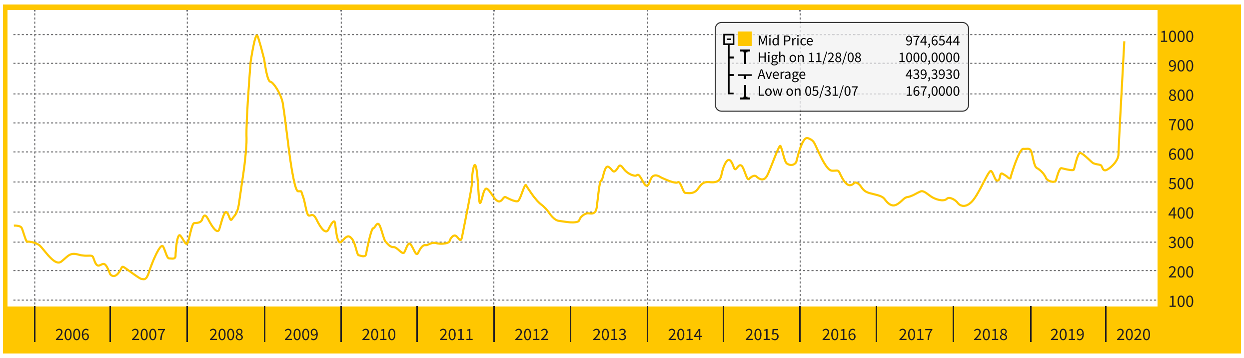
Our 2Q2020 Asia Ex-Japan Fixed Income Outlook & Strategy

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

Singapore

Our 2Q2020 Singapore Equity Outlook & Strategy

The Singapore economy is likely to sink into a recession in 2020

At the beginning of the year, we had been positive on Singapore's equity market for the year 2020 as economic conditions were improving after being able to avoid a technical recession, threatened by the US-China trade war in 2019. This view turned out to be wrong as a black swan event materialised in the form of the Covid-19 virus outbreak.

Equity Risk 2020

By March 2020, we saw equities plunged as selling became disorderly across all asset classes due to:

- the global spread of COVID-19
- distressed crude oil prices
- increasing risks of a protracted recession.

The Singapore economy is likely to sink into a recession in 2020 as economic activities are forcefully restricted to contain the spread of Covid-19. The services sector, particularly the tourism, aviation, retail and trade related industries will bear the brunt, and key manufacturing sectors will also be hurt. **We have lowered our 2020 GDP forecast down to -0.5%, to reflect the risk of a recession.**

2020 GDP forecast down -0.5%

We also expect more fiscal and monetary stimuli from the Singapore government. A second stimulus package of about SGD14-16B (approx. 2.9% of GDP) could be announced to cushion the economy from an impending recession. The Monetary Authority of Singapore (MAS) may also announce a more aggressive monetary response to the crisis in the form of a weaker exchange rate band.

For our investment strategy, **we are looking to position our portfolios for the eventual recovery.** While markets may not have troughed yet, the indiscriminate selling has now thrown up potential buying opportunities as valuations have become attractive. While our funds have been holding higher amounts of cash for protection, we would be looking to deploy our available cash opportunistically. **We favour stocks with consistent income streams, stable dividend yields, policy stimulus beneficiaries, as well as companies with strong balance sheets or good cash flows.**

In terms of sector allocation, **we would advocate to overweight positions on Real Estate Investment Trusts (REITs) as valuations and dividend yields are attractive in such low interest rate environment.**

We are more cautious on banks due to the potential higher credit costs from the weak economy, although we do acknowledge that Singaporean banks have strong capital positions. The communication services sector is likely to be valued for its stability as competitive pressures eases in the weak economic environment.

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Our 2Q2020 Singapore Fixed Income Outlook & Strategy

The Singapore economy is likely to sink into a recession in 2020

For the Singapore fixed income space, we remain positive on SIGBs given the carry, given both nominal difference vs US Treasuries and the pickup implied from FX looks attractive. However, we prefer to stay at the shorter end of the curve.

Heading into 2Q2020, we see chances of the SIGB curve bear steepening, not on supply pressures but more of following the lead from developed markets' bond markets as more sovereign would be issued to fund various fiscal measures to combat Covid-19's impact on the global economy and potentially on Covid-19 containment.

However, given the unlimited quantitative easing by the Federal Reserve (Fed), we expect the yield on the 10 year SIGB to range between 1.2 - 1.6% despite mild steepening.

Although SGD FX forward points had flattened over the early to mid-March as USD liquidity disappears on risk-off capital flight, the situation has now reversed somewhat, given the various measures the US Fed has implemented (unlimited QE, backstops to money markets, establishment of swap lines with other central banks) to ensure USD stays available.

As such, we have seen USDSGD retracing from near 1.47 on 23rd March 2020 to 1.43. Nevertheless , the situation remains volatile as the Covid-19 situation in Europe and America have yet to be contained. Having said that, USDSGD should weaken over time from the current 1.42 level to 1.47 as we expect MAS to ease policy going forward due to the slowdown in the economy.

On SGD credits, in the near term we prefer to stay closer to home and like perpetual bonds issued by local Temasek-linked corporates for yield pickup. We also like long dated senior investment grade corporate bonds for carry.

1.2-1.6%

The yield on the 10 year SIGB to range between **1.2 - 1.6% despite mild steepening.**

1.42 level to 1.47

USDSGD should weaken over time from current 1.42 level to 1.47 as we expect MAS to ease policy going forward due to slowdown in the economy.

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