Maybank Asset Management

A RETURN TO AB-NORMALITY »

FY2021 OUTLOOK & STRATEGY

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YEAR 2020
IN REVIEW

2020 has been a long and challenging year. To recap our theme for 2020, it was "Cloudy Vision 20/20".

In hindsight, this theme was completely appropriate as predictions on the economy and financial markets were certainly hazy with the COVID-19 pandemic spreading throughout the world. The virus was first detected in China in December 2019 and due to the globalised nature of our globe, it infected every corner of the globe (Exhibit 1). As a result, the financial markets saw tremendous volatility throughout the year.

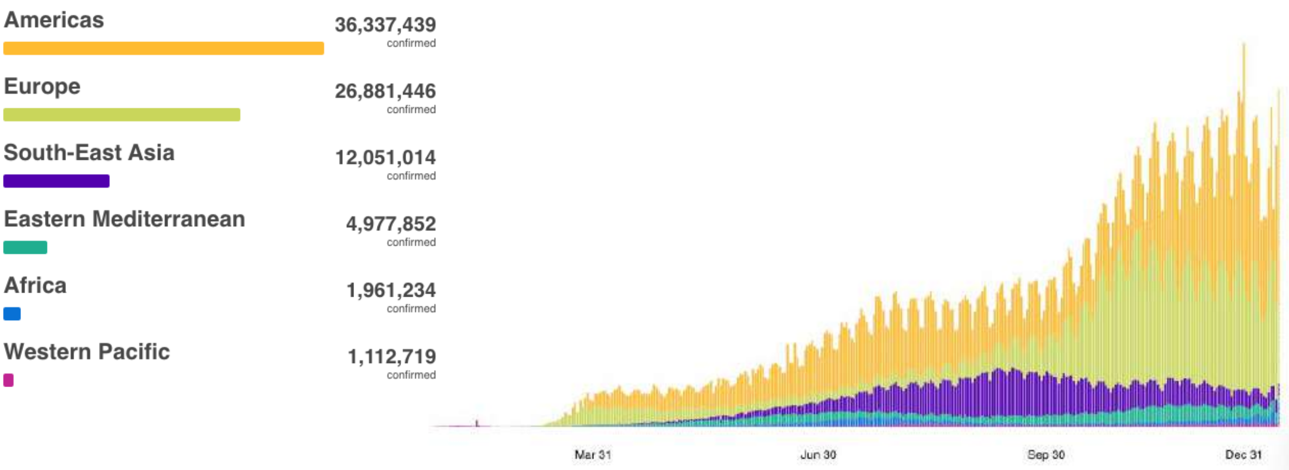


Exhibit 1: Global Covid-19 Cases

| Source: World Health Organisation | Dec 2020

Financial markets began the year on a positive note as a trade deal was finally negotiated between US and China. However, the initial rally proved to be short-lived as markets saw a sharp correction on concerns over the COVID-19 viral outbreak and its detrimental effect on global economic growth. We saw economies plunging as governments enforced lockdowns to slow the spread of the virus.

The fear of COVID-19 also dampened consumer and business sentiment resulting in a weak economy. We saw unprecedented weakness in the economic data with the sharpest US recession on record. As a result, **financial markets saw a steep sell-off, with stock markets down between 20-40% and the corporate bond market down between 15-25%.**

Governments around the world acted swiftly following the COVID-19 pandemic. Huge fiscal stimulus measures were rolled out (Exhibit 2) with the amount far surpassing what was delivered during the Global Financial Crisis (GFC). In addition, central banks injected large amounts of liquidity into the system and kept interest rates low. **The stimulus triggered a recovery, especially in the financial markets.** The real economy recovered too but the pace of recovery has been mixed. Countries that have controlled COVID-19 better have rebounded more.

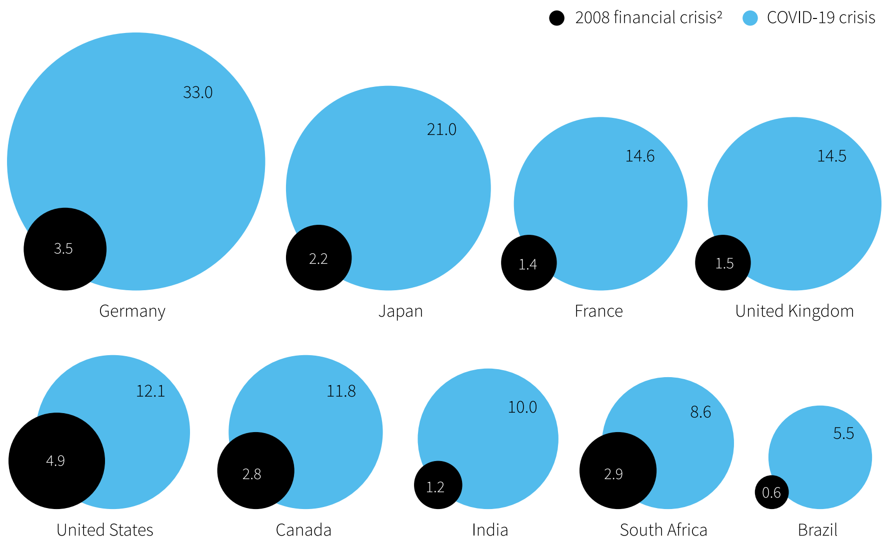


Exhibit 2: Economic Stimulus as a Percentage of GDP

| Source: McKinsey & Co., International Monetary Fund | June 2020

On the back of fiscal and monetary stimulus, financial markets continued their upward path and by the 3rd quarter of the year, many were reaching all-time highs. Shortly after, the US Presidential election that was to be held in November became the focus. Biden secured a clear win although the election was closer than expected. Post elections, Trump has tried through various legal avenues to rule against the election results but would turn out to be unfruitful.

Then financial markets were given a further boost in November driven by news of successful COVID-19 vaccine development as well as the US election's outcome of a Biden Presidency with a (likely) split Congress after a closely fought race. In general, there was a rotation out of outperformers (e.g., growth plays, defensives, COVID-19 beneficiaries) into cyclicals and value plays as investors anticipate a return to normalcy in 2021. Laggard ASEAN equities saw some of its best monthly gains in years. In summary, it has been a hugely challenging year and there has been huge volatility but despite COVID-19 financial markets have seen healthy gains owing to stimulus.

2021: RETURN TO **AB-NORMALITY**

Our overall theme for 2021 is "A Return to Ab-Normality". We expect things would return to normal as the vaccines are rolled out. Sometime in 2021, people will be back travelling, lockdowns will be a thing of the past and mask will not need to be worn. This is positive for the economy and therefore we are positive on both Asian equities and fixed income for 2021.

There are however certain things that will stay abnormal. The Federal Reserve (Fed) and other major Central Banks will continue to keep interest rates at generational lows. The Fed will continue unconventional monetary policy with Quantitative Easing (QE) and maintain the asset purchases growing the Fed balance sheet. The stimulus has created another abnormality where financial markets are at all-time highs though the real economy is still struggling.

With the COVID-19 lockdowns, 'Work from Home' (WFH) measures has been widely adopted. Some trends from WFH which are not normal will continue. Many people will continue to work from home, video conferencing will continue to be an option and e-commerce penetration will still increase as consumers are more comfortable purchasing items online. The long-term effects of these issues are still too early to tell but it may impact demand for office space, retail space and may also affect business travel.

"We are positive on Asian equities and fixed income for 2021"

2021 INVESTMENT THEMES – RETURN TO AB-NORMALITY

THEMES	OUR ASSESSMENT	IMPLICATIONS / STRATEGY
Biden Presidency with Split Congress	• US is divided with extreme polarization of views. • Fiscal stimulus will be delayed and its quantum pared down. • More quantitative easing, keeping rates lower for longer, as the US Fed picks up the slack (given the impasse on fiscal stimulus). • Less hostile US-China relationship but tensions would remain. • Weaker USD on improving global growth and negative real rates.	• A divided US is positive for Asia in the long term. Reversal of US outperformance on inflows into Asia. • Positive for Asian credits and currencies. • Mixed for local government bonds. Positive for China and Korea (which could also benefit from inclusion into the FTSE bond index). Positive for equities. Risk being equity market dependency on stimulus. • Rotation to Value from Growth equities. • Weak USD to benefit commodities, Asian equities and currencies.
Global Growth Recovery	• Recovery in global growth off low base. • Return to normalcy given COVID-19 vaccine development/ achieving herd immunity (in certain locations). • Greater room to rebound in worst hit economies. • Positive news flow on vaccines will be a positive catalyst for markets. • Earnings growth to be key driver of returns. • Recovery in demand and prices for commodities such as oil, copper.	• Positive for risk assets i.e., equities and fixed income. • Better ASEAN performance which has lagged North Asia in recovering from the pandemic. Rotation to cyclicals (e.g., industrials) from defensives, COVID-19 beneficiaries (e.g., healthcare, home entertainment). • Favor commodity plays e.g., selected mining companies, oil and gas plays.
Lower Rates for Longer but Steeper Yield Curve	• Accommodative monetary policy globally amidst still-fragile economy. • US Fed keeps rates lower for longer to compensate for reduced fiscal stimulus. • Long end of the yield curve (for US Treasuries and local government bonds) to steepen given higher fiscal deficits.	• Positive for ASEAN currencies. • Low real and nominal rates supportive of elevated equity valuations. • Positive for gold given low opportunity cost of holding gold and its fiat currency status (amidst an expanding monetary base). • Prefer high yield over high grade bonds.
Volatile Market	• Markets to remain volatile given uncertainty (e.g., vaccine development/distribution, US fiscal stimulus) and risks to growth. • Sources of geopolitical risks include Brexit, political uncertainty in some emerging markets, US-China tensions etc.	• More tactical trading. • High cash allocation from time-to-time.
Technology Disruption	• Structural trend of disruptive technology, digital economy, work-from-home to continue.	• Technology names may suffer from rotation into cyclicals/value in the short term but this may prove to be a buying opportunity.
Sustainability	• Structural trend of sustainability, ESG to continue. Governments to commit more to sustainability e.g., to be carbon neutral by 2050. • Biden Presidency may curtail development of shale resources and benefit 'green-energy' plays.	• Positive for 'green-energy' plays e.g., electric vehicle plays, renewables. • Mixed for oil plays given demand risks but also supply curtailment. • Structural de-rating of less ESG-friendly equities e.g., tobacco, gambling.

Downside Risks

- Resurgence in COVID 19 cases prompting further lockdowns.
- COVID 19 vaccines efficacy and availability issues, logistics/operational challenges.
- Re escalation of US China tensions.
- 'Hard' Brexit geopolitical & economic disruption.
- Regulatory risks e.g., in the tech sector.
- Political risks e.g., in Malaysia (that could see snap elections).
- Unanticipated withdrawal or faster-than-expected tapering of stimulus.
- Bond yields rise more than expected or faster than expected.

Upside Risks

- Faster-than-expected return to normalcy on better-than-expected vaccine development and distribution.
- Stronger-than-expected policy support.

GROWTH SCENARIOS IN 2021

SCENARIOS	ASSUMPTIONS/RISK	IMPLICATIONS/STRATEGY
Base Case	• Global growth recovery off low base with policy support and virus impact gradually fading. Vaccine development in 1Q2021 with distribution from 2H2021 onwards. • Less hostile but still tense US-China relationship.	• Focus on Asia. • Positive for Asia equities (including REITs). • Positive for Asia fixed income. Favor high yield over investment grade. • Positive for Asian currencies.
Good Case	• Robust economic recovery on strong policy support and faster-than-expected return to pre-COVID-19 normalcy. Vaccine development in 1Q2021 with distribution from 2Q2021 onwards. • More amicable-than-expected US-China relationship.	• Focus on Asia. • More positive for Asia equities. • Neutral for Asia fixed income. Favor high yield over investment grade. • Overweight equities vs. fixed income. • Positive for Asian currencies. • Underweight gold.
Bad Case	• Rebound in global growth falters. • COVID-19 pandemic rages on with sporadic lockdowns. Vaccine development/distribution delayed. • Re-escalation of US-China tension.	• Negative for a Asia equities. • Positive for Asia fixed income. Favor investment grade over high yield. • Underweight Asian currencies. • Overweight gold.

A BETTER **TOMORROW**

FY2021 Asia Ex-Japan Equities Outlook & Strategy

2021 heralds a long-awaited global growth recovery off a depressed base in 2020, largely fuelled by some return to normalcy given the development and distribution of COVID-19 vaccines [see Exhibit 3]. The backdrop for Asian equities in 2021 looks promising with a global growth recovery, an improved commodities outlook, a weak USD, (likely) less-hostile US-China relations and still-accommodative monetary and fiscal policy. It will be "A Better Tomorrow".

With the anticipated economic growth recovery [see Exhibit 4] and consequently strong earnings rebound, equity markets have rallied with Asian equities now trading at 16X forward P/E (versus historical average of 12X) [see Exhibit 5]. This elevated valuation suggests that markets have already partly priced in the positives. We see limited room for further P/E multiple expansion hence 2021 performance will largely depend on whether earnings expectations are met/exceeded.

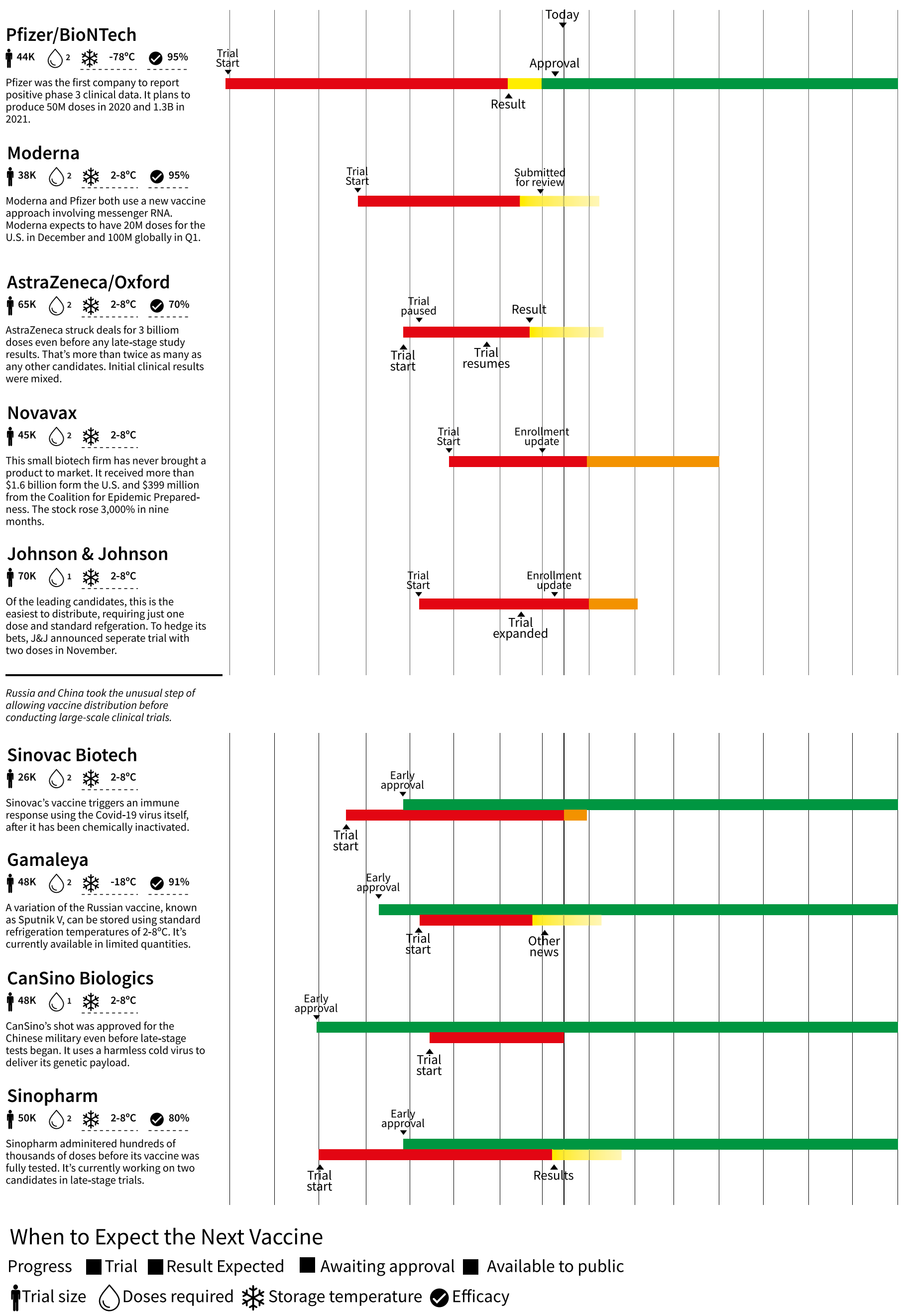


Exhibit 3: The Vaccine Timeline

| Source: Bloomberg | 12 December 2020

REGION/COUNTRY	2019	2020F	2021F	2022F
US	2.2%	-4.0%	3.8%	2.9%
Europe	1.3%	-7.8%	5.4%	3.1%
Asia Ex Japan	5.2%	0.4%	7.3%	4.9%
China	6.1%	2.0%	8.0%	5.8%
India	4.2%	-9.7%	10.9%	8.0%
South Korea	2.0%	-1.1%	3.2%	3.1%
Hong Kong	-1.2%	-7.0%	4.3%	3.4%
Taiwan	2.7%	1.0%	3.2%	2.1%
ASEAN-6	4.5%	-3.3%	5.3%	5.0%
Singapore	0.7%	-5.7%	4.5%	3.0%
Malaysia	4.3%	-5.4%	5.1%	5.0%
Thailand	2.4%	-6.2%	5.0%	4.5%
Indonesia	5.2%	-1.8%	5.3%	5.0%
Philippines	6.0%	-7.8%	5.8%	6.2%
Vietnam	7.0%	2.9%	6.8%	6.7%

Exhibit 4: Global Growth Rebounds in 2021

| Source: Bloomberg, Maybank Kim Eng Research, International Monetary Fund | December 2020

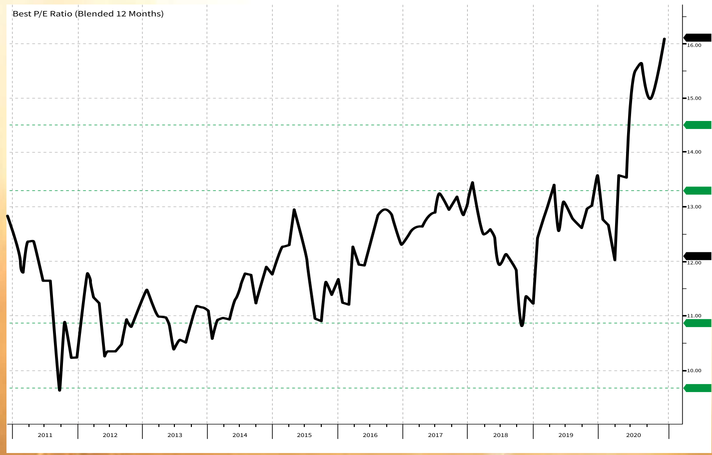


Exhibit 5: Asia ex-Japan Equity Valuations Are Elevated

| Source: Bloomberg | 11 December 2020

Our base case MSCI Asia ex-Japan index target (as at end-2021) of 870 implies a modest total return of c.8.5% being 6.5% price appreciation plus 2% dividend yield. We believe that improving economic fundamentals will support equity markets together with the still-ample liquidity and positive sentiment (with optimistic vaccine news flow continuing to buoy markets) compensating for the high valuations.

We favour ASEAN which lagged North Asia in recovering from the pandemic and should see greater room for a rebound. Within ASEAN, we would overweight Indonesia and the Philippines on strong earnings growth expectations. Both countries have been amongst the hardest hit during the pandemic and thus stand to benefit the most from a normalization of activities. Being more sensitive to currency pressures, both should also benefit from a weaker USD and a benign inflation/interest rate environment. In addition, the recent passing of the Omnibus Law in Indonesia is positive for structural reforms that would benefit the economy and encourage foreign direct investment.

We see less upside in countries which have managed the pandemic well in 2020, such as Singapore and Thailand. Moreover, we expect international travel to pick up only from late 2021 post widespread vaccine roll-out. We are neutral on Singapore but underweight Thailand given the political unrest. We are neutral on Malaysia as a low-beta market but note that it would benefit from slightly higher oil prices but are watchful of political developments given the possibility of snap elections once the COVID-19 situation eases.

In North Asia, we are neutral on China and Taiwan as both have almost achieved pre-pandemic normalcy already thanks to their excellent handling of the crisis in 2020. While we are still structurally positive on tech, which makes up a significant portion of China and Taiwan markets, we believe overall market valuations are stretched. We prefer to overweight the tech-heavy Korean market instead where market valuations are more reasonable. Amidst a cyclical recovery, Korea should also outperform given its high composition of cyclical names (e.g., autos, materials, industrials).

Despite an expected strong rebound in growth, we are neutral on India given unattractive valuations. We underweight Hong Kong given the underlying socio-political tension and dearth of positive catalysts.

Sector-wise, we favour cyclicals (e.g. industrials, materials, energy, consumer discretionary) over defensives (e.g. healthcare, utilities, consumer staples, communication services). We are selective on the financial sector given the still-low interest rate environment. We remain positive on tech. Although tech names may fall out-of-favour in the short term amidst the rotation into cyclicals, we believe that underlying growth drivers are primarily structural in nature.

We continue to expect a challenging investing environment in 2021 with occasional volatile periods. One concern is the high expectations of a smooth rollout of COVID-19 vaccines. While an effective COVID-19 vaccine offers the hope of a return to normalcy, there are availability issues as well as logistics/ operational challenges which optimistic markets run the risk of downplaying. The other risk factors are high valuations and the reliance on unprecedented fiscal and monetary stimulus. The threat of eventual stimulus withdrawal could result in another 'taper tantrum'.

2021 Growth Scenarios for **Asia Ex-Japan Equities**

SCENARIOS	ASSUMPTIONS/RISK	IMPLICATIONS/STRATEGY
Base Case	• Global growth recovery off low base with policy support and virus impact gradually fading. Vaccine development in 1Q2021 with widespread distribution from 2H2021 onwards. • Less hostile but still tense US-China relationship.	• Overweight: Indonesia, Philippines, Korea. Underweight: Thailand, Hong Kong. Neutral for the rest. • MSCI Asia ex-Japan target 870, based on 13.5X 2022E EPS of 65 (+8.5%).
Good Case	• Robust economic recovery on strong policy support and faster-than-expected return to pre-COVID-19 normalcy. Vaccine development in 1Q2021 with widespread distribution from 2Q2021 onwards. • More amicable-than-expected US-China relationship.	• MSCI Asia ex-Japan target 975, based on 15X 2022E EPS of 65 (+19%).
Bad Case	• Rebound in global growth falters. • COVID-19 pandemic rages on with sporadic lockdowns. Vaccine development/distribution delayed. • Re-escalation of US-China tension.	• MSCI Asia ex-Japan target 670, based on 12X 2022E EPS of 56 (-18%)

Based on MSCI Asia ex-Japan Index closing price of 818.66 on 11 December 2020.

THE STARS ARE **ALIGNED**

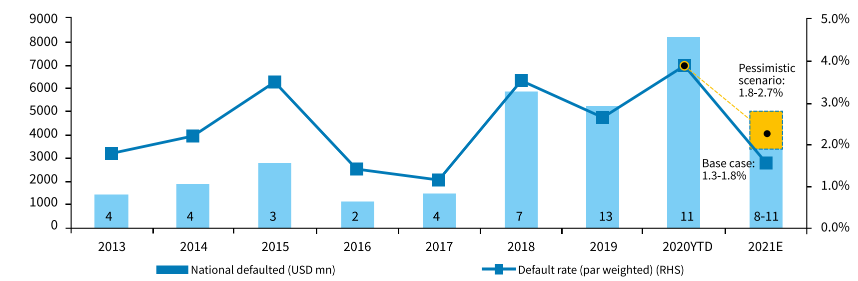
FY2021 Asia Ex-Japan Fixed Income Outlook & Strategy

After the drastic selloff in March 2020 where the JP Morgan Asia Credit Bond Index (JACI) fell almost 6% during the month, Asian USD bonds staged a strong recovery and reversed all their losses and even gained to end the year 2020 up 6% overall. The stars remain aligned in FY2021 for another year of positive returns for Asian fixed income and we outline for you the key reasons below.

The first anchor that would support positive Asia bond returns in FY2021 is that monetary policies will remain looser for longer. We expect central banks globally will continue to keep interest rates low as they focus on creating jobs and repairing the economy. The temporary spike in inflation during 2Q20 from supply chain disruptions was due to the global lockdown. This has since dissipated as economies re-opened or alternative sources founded via e-platforms. In fact, inflation risks are on the downside due to waning demand with countries re-entering partial lockdowns as the virus continues to spread and death tolls keep on rising. Both the US Federal Reserve (Fed) and the European Central Bank (ECB) have committed to maintain their asset purchase programs well into next year until the Fed sees "substantial progress" towards maximum employment and 2% inflation. Despite recent positive developments on the COVID-19 vaccine, the latest US Dot Plot on 16th December still shows USFed funds rate is expected to stay at zero until end FY2023.

Secondly, improving fundamentals and positive sentiments attracting fund inflows would also drive decent bond returns in Asia. With the US President, Joe Biden, firmly in the driving seat, we anticipate relationships with major countries including China to be more constructive and less antagonising, paving the highway for a less volatile year for financial markets. In addition, we are now looking at possible COVID 19 vaccine rollouts globally starting 1Q2021, earlier than we originally expected. With debt forbearance this year and improving global economies next year due to mass vaccine availability, we see improving corporate fundamentals reducing liquidity pressures. Hence, we expect corporate default rates to peak in FY2020 and reduce from next year onwards. Barclays Research expects the 4% default rate this year in FY2020 to reduce to 2% base case in FY2021. After the massive outflow in March 2020, both Emerging Market (EM) hard currency and Asia ex-Japan (AxJ) hard currency funds saw net inflows resuming in the subsequent 7 to 8 months, according to EPFR data. Within the EM universe, AxJ has been the sweet spot receiving stronger inflows as compared to LATAM and EMEA over its the more stable political backdrop, subdued default trend and overall greater sovereign support. We expect this positive trend to continue in FY2021.

FIGURE 3. **Asia credit* default rate forecast**



Asia credit default rate is calculated based on Asia HY corporate bond universe in EM Asia USD credit. Sovereign and financials bond are excluded.
Source Barclays Research

Exhibit 6: Asian Credit Default Rate Forecast

| Source: Barclays Research | 26th Nov 2020

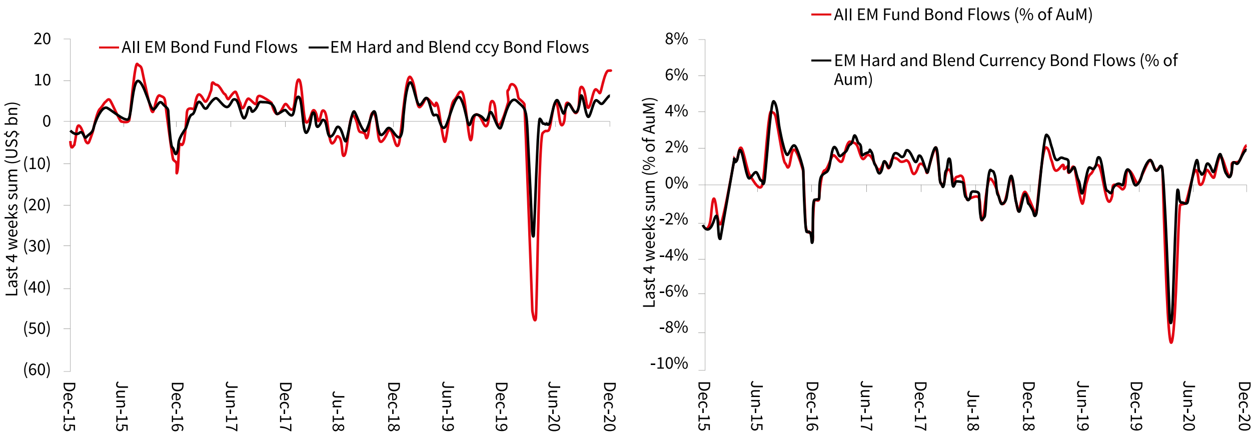


Exhibit 7: EM Bond Flows

| Source: EPFR Weekly | 11th Dec 2020

The third point anchoring positive returns for Asia bonds is **attractive valuations**. While bond yields are low historically, bond credit spreads are wider versus last 5 year's average. **Within Asian bonds, we see better value in Asian High Yield (HY) bonds versus Asian Investment Grade (IG).** Asian HY bond spreads are still 100bps wider versus 5-year average. As economies recover in FY2021, we are comfortable to overweight HY bonds. Overall, we expect spread tightening in FY2021 to contribute to returns during the year. Finally, we are currently operating in a perplexed world of ultra-low interest rates where USD 18 trillion of bonds representing 27% of investment grade debt have negative bond yields (bond yields below zero). Banks, pension funds, fund managers and insurance companies must stretch further into risk to get positive returns. Within this context, the JP Morgan Asia Credit Index (JACI), with IG yield of 2.4% and HY providing over 7% looks attractive versus US and Europe's credit bonds and should be well demanded by investors globally.

JP MORGAN ASIA CREDIT INDEX

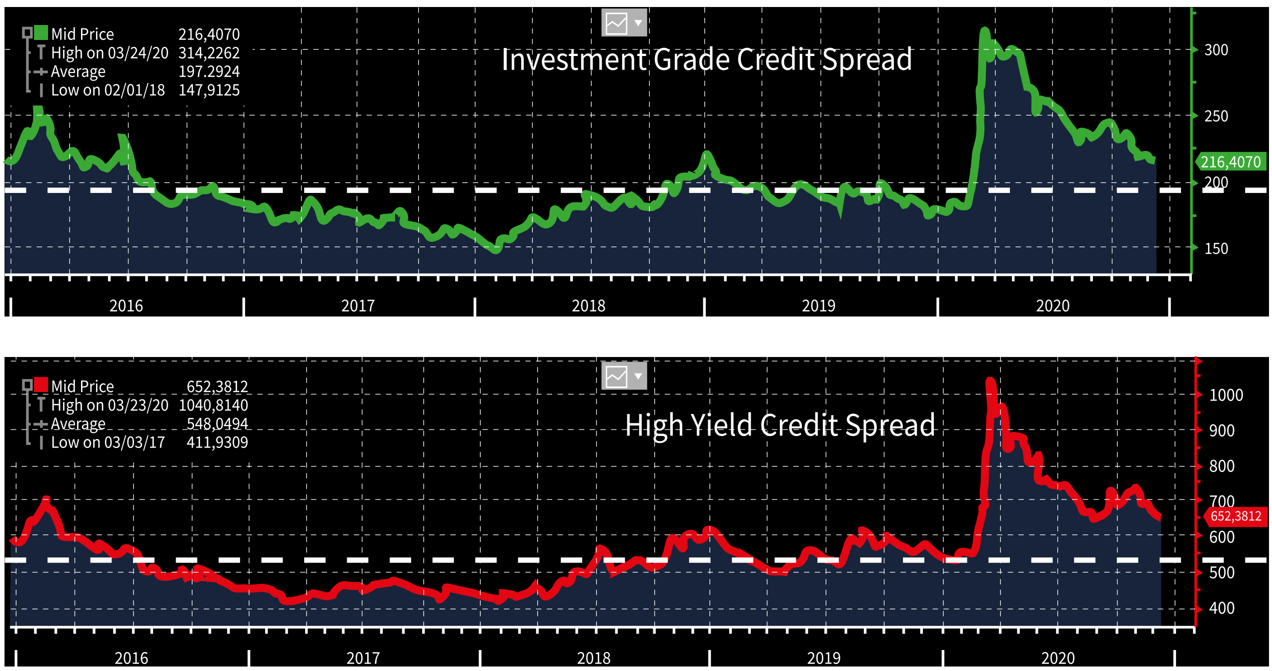


Exhibit 8: IG & HY Credit Spreads

| Source: Bloomberg, JP Morgan | 18th Dec 2020

Exhibit 9: Investment Grade (IG) & High Yield (HY) Bond Yields

| Source: Bloomberg, JP Morgan | 18th Dec 2020

"Within Asian bonds, we see better value in Asian High Yield (HY) bonds versus Asian Investment Grade (IG)"

In conclusion, for FY2021, we see the stars aligned for a more stable and less volatile investment environment for bond investors. Interest rates will remain low, credit fundamentals will improve with the vaccine rollout and credit spreads will tighten in closer to historical average. We expect total returns of 4% - 5% for JACI with bond yields generating around 4% returns and price appreciation of around 1%. Our strategy is to overweight HY versus IG bonds with moderate duration of around 5 years.

Regarding geopolitical risks, we believe a Biden administration would be less hostile to China and hopefully should represent less headline risks. Still, we would not expect the incoming administration to unwind the sanctions against Chinese entities implemented by the previous administration soon but would be used as grounds for renewed engagement and negotiations. Antagonism towards China has grown considerably in the US, given the challenge to US supremacy and technological lead from an increasingly assertive China.

	Real GDP		Inflation		Current Account		Fiscal Balance	
	2020	2021	2020	2021	2020	2021	2020	2021
Australia	-2.8	3.8	0.7	1.2	2.2	0.2	-4.3	-10.0
China	2.1	9.0	2.6	1.0	1.7	1.4	-8.4	-5.6
Hong Kong	-6.1	4.3	0.4	2.0	4.2	4.1	11.5	-2.5
India	-7.1	9.9	6.8	4.8	1.5	0.2	-8.6	-7.2
Indonesia	-2.3	4.9	2.1	2.6	-0.5	-1.5	-6.9	-6.3
Malaysia	-6.3	6.6	-1.1	1.9	3.8	3.6	-6.0	-5.4
Philippines	-9.8	6.8	2.5	2.7	3.3	-0.2	-8.0	-7.4
Singapore	-5.2	7.5	-0.2	0.9	16.5	16.6	15.4	-8.5
South Korea	-0.8	3.6	0.5	1.2	3.6	3.5	-4.4	-3.7
Taiwan	2.3	3.8	-0.2	1.2	12.5	14.0	-0.9	-1.0
Thailand	-6.9	3.2	-0.8	0.7	3.7	2.7	-6.5	-7.1
Asia Ex-Japan, Aus	-1.1	8.1	3.0	2.0	2.3	1.7	-7.9	-5.8

Exhibit 11: Economic Data of Asian Countries

| Source: CEIC, Nomura, MAMG

On local currency government bonds, we are small positive to neutral. We will buy short dated government bonds like IDR, INR and MYR for carry purposes. Moreover, as compared to developed bond markets, real yields across many Asian local bond markets remain positive and are likely to remain at least for 1H21.

We will start 2021 with generally small positive to a neutral position in the Asian local currency bonds, preferring to take duration risks on an opportunistic basis in 1H21 but will likely turn cautious in 2H21 as we see potential for long end yields to climb further globally.

On Asian currencies, we are overall bullish. We believe Asian currencies will continue to appreciate against the USD in 2021 given the secular trend of weaker USD and the episode of 2012-2014's USD weakness could likely serve as an indication. In terms of preference, we prefer South and South East Asian currencies over North Asia. In South and South East Asia, we prefer INR, IDR and MYR while in North Asia, we like CNH and KRW. While the current account surpluses are expected to shrink in 2021 for economies like India and Indonesia, they should remain above their longer run average. Inflation will remain muted even as these economies rebound, due to sizeable negative output gaps.

FY2021 LOCAL CURRENCY BONDS & FX OUTLOOK

In 2021, the key risk factors we see for Asia Local Currency (LCY) and FX markets are the pace of vaccine distributions, revival of economic activities and extension or escalation in US-China tensions.

Economic gap of most Asian ecnomies remains wide despite rebound - GDP: Q3 2020 v Q4 2019
(Source: CEIC, DB, MAMG)

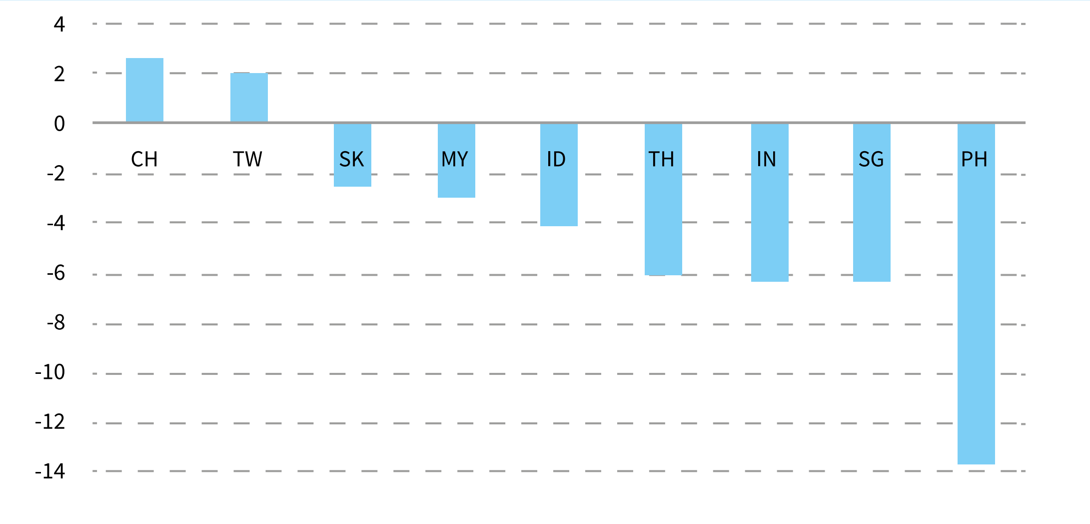


Exhibit 10: Asia GDP 3Q2020 vs 4Q2019

For oil prices, 2021 remains a slow year and we think Brent should be in the range of USD 45-65/bbl, given the gradual reduction of inventories and the potential for Iran to come back to the world oil market as sanctions may be removed under the new Biden administration.

90% of GDP

We expect India to retain its BBB- investment grade rating in 2021 as rating agencies assess the rebound which should limit the trajectory of Debt-to-GDP to 90% of GDP.

We believe Asian currencies will continue to appreciate against the USD in 2021 given the secular trend of weaker USD

For North Asia, we believe CNH, KRW and TWD will continue to see appreciation vs the USD in 2021 as trade continue to revive. For China, in addition to demand revival as economies revive, the export of COVID-19 vaccines will also provide a boost to trade. KRW will hence benefit along from the spill over impact from China's trade pickup. Meanwhile for Taiwan, we think that trade volumes might decline as demand for electronic products take a back seat in 2021, not to say that TWD is now trading at historic expensive levels. Still, we believe TWD will remain strong given consistently high savings and weak USD environment.

For India, despite the Non-Performing Asset (NPA) issue to persists in the banking sector, we like the growth rebound story. While India's current account surplus is expected to shrink from 1.5% in 2020 to 0.2% of GDP in 2021, it has been a beneficiary of capital inflows this year (which the Reserve Bank of India (RBI) had recycled by selling INR). With prospect of further inflows to persist (especially should India be included in EM bond indices) and given weaker growth from the pandemic, RBI will have to keep rates low and the only way is to allow appreciation of INR. We expect India to retain its BBB- investment grade rating in 2021 as rating agencies assess the rebound which should limit the trajectory of Debt-to-GDP to 90% of GDP.

For Indonesia, investors have been cautious in 2020 given both COVID's hit to growth and Bank Indonesia's (BI) surprise decision in July to implement "burden sharing" agreement with the government by acquiring IDR 575trn (USD 28bn) of bonds while relinquishing interest payments. BI may continue to buy bonds in the primary market in 2021 to support the funding of fiscal deficit, expected to remain large at -6.3%, (-6.9% in 2020). However, **INDOGB real yields remain positive and are among the highest in Asia, which should bring some foreign interests back in around 1H21** (foreign ownership of bonds have dropped to 28% of total bonds outstanding) and thus supporting of IDR in this hunt for yield environment. Last but not least, improving commodity prices will improve Indonesia's trade of balance.

For Philippines and Thailand rate cuts are still an option for 2021. Philippines has one of the largest negative output gaps at -12% of GDP and thus Bangko Sentral ng Pilipinas (BSP) has the room to ease further by bringing policy rate down to an all-time low of 1.5%. Similarly, Thailand is also expected to cut its policy rate possibly to 0% to help shore up its economy as the tourism sector will remain weak next year. Still, fundamentals of these economies are strong, benefiting from consistent repatriation inflows, low external debt and/or positive savings.

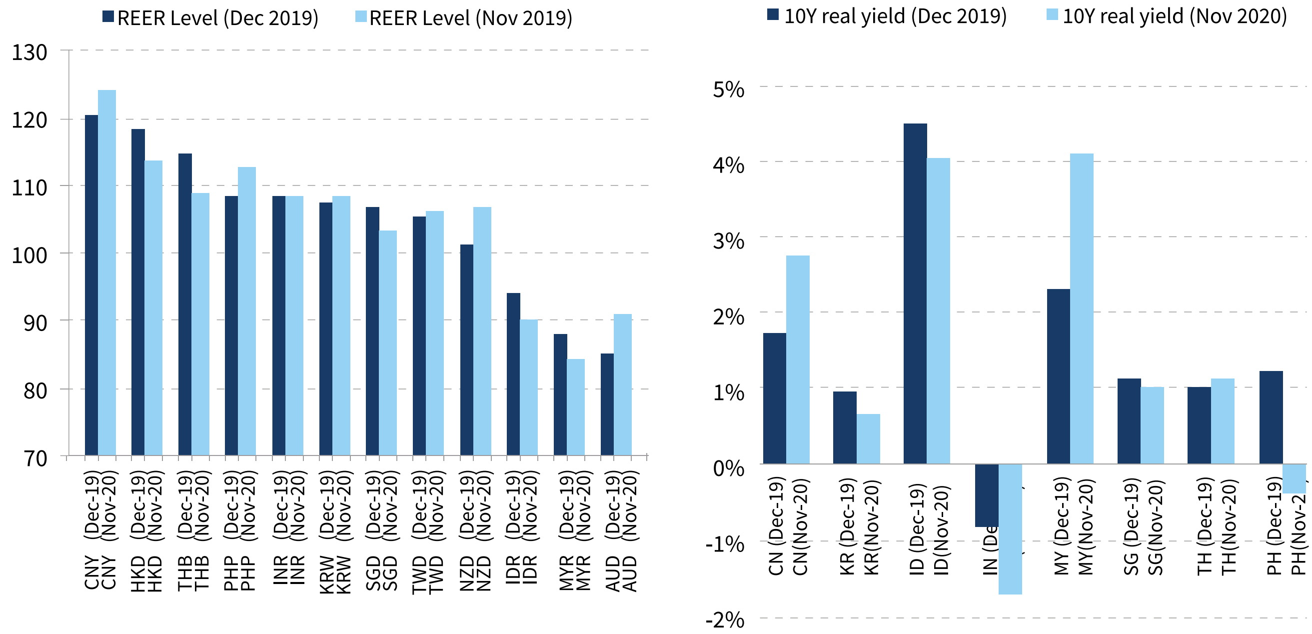


Exhibit 12: Asian LCY Real Yields and Real Effective Exchange Rate Change

	INTEREST RATES	CURRENCY
China	We like the Chinese long end bonds as real rates remain positive. Also being part of the bond Index, we expect more inflows in the local markets given China's inclusion into FTSE Russell bond indices.	Overweight CNH for first quarter 2021 given continued rebound in global trade.
India	Neutral on INR bonds given persistently negative real yields. We like INR bonds for carry and potential index inclusion.	Overweight given strong inflows to persist; forcing RBI to ultimately allow INR appreciation.
Indonesia	Continue to like INDOGB curve on positive real yield vs region; BI is likely to participate in primary bond auction in 2021, supporting long end yields.	Overweight in 1H 2020 as investors continue to look for yield but further debt monetization and rate cuts likely to keep cap on more appreciation.
Korea	Prefer to stay in the short end given low real yields relative to Singapore and China; Prospect of further yield curve steepening in 2H 2021 with higher fiscal spending and more bond issuances.	KRW is expected to continue appreciating thanks to spill over positive impact from revival in Chinese trade.
Singapore	Small overweight in Singapore given positive real yields but be mindful of the long end. The curve could steepen further along with DM bond curves and rising bond supply; 10 year SIGB yields remain cheap vs USTs on a swapped basis	Overweight on SGD as global trades rebound together with weak USD environment.
Malaysia	Overweight on MGS given real positive yields. Prefer 10 and 20 years for first half of 2021.	Neutral to slight overweight on MYR given improved trade and higher oil prices; Risk of snap elections is high, likely in 2H 2021
Thailand	Neutral on Thailand local bond market given low yields and limited supply; BOT might pursue yield curve control in 2021	Neutral on THB; BOT likely to pursue policy rate cuts to spur economic recovery; BOT is concerned about THB strength amidst weaker recovery in 2021; Political risks remain uncertain.
Philippines	Neutral on Philippines local bond market given low yields and limited supply	Neutral on PHP; BSP is also likely to pursue cuts to policy rate to help support the economy

Exhibit 13: Asia Interest Rates and Currency Outlook

ASIA FIXED INCOME & CURRENCY KEY HIGHLIGHTS FOR 2021

1. Slower growth in 1H given knock-on COVID impacts from US and Europe;
2. USD weakness
3. Steeper curve
4. Oil prices to remain in the range USD 45-65/bbl
5. Interest rates: 10-year UST to trade between 0.75-1.25%
6. Yield curve: UST, German bunds and JGB's curve to steepen
7. ECB, FED and BOJ to remain status quo
8. Economies like Thailand, and Philippines may ease in 1H

Risks for 2021

1. Massive sell off in long end government bonds in developed markets going from 0 to positive
2. Inflation pressure starts to run high amidst recovery
3. Faster climb up in commodities prices

Currency :

1. Bullish on INR, AUD IDR, KRW, CNH and MYR

Trades for 2021

Duration :

1. Neutral duration in Philippines, China, Thailand, Malaysia, India, Indonesia
2. Bearish duration in Singapore and Korea

THE SUN IS **SHINING BRIGHT AGAIN**

FY2021 Global Sukuk Outlook & Strategy

Global Sukuk as an asset class have outperformed conventional bonds year-to-date (YTD) as at November 2020. The IG Dow Jones Global Sukuk index and Bloomberg Barclays GCC Sukuk index have returned 6.53% and 7.27% YTD respectively. **This impressive performance is contrasted by the similarly lower-beta USD Asian credits as JP Morgan JACI returned 5.74% over the same period. Elsewhere, JPM EMBIG's MENA returned 6.17%.**

This speaks of Sukuks' resiliency given strong liquidity conditions and pent-up demand but limited supply growth. In this environment of ample liquidity, sukuks continue to get printed at lower coupons but still find strong support. Besides limited supply, Sukuks (and the wider GCC credit space) have benefitted from "flight to quality" within the global EM space due to issues in Latin-America, Turkey etc.

Although the Sukuk market has recovered considerably as at November 2020, credit spreads remain wide versus historical. 2021 seen as a year of expected credit recovery could still see spreads compress further in the "hunt for yield" environment.

In 2021, we would favour HY over IG, despite IG Sukuk forming a bigger part of the universe. We would increase exposure of HY sukuks to 20-30% of the portfolio. Some GCC real estate names like Damac and Meraas have actively conserved liquidity (net cash situation for Damac) and/or sovereign linked (Meraas) despite tough operating outlook. While prices of these GCC HY benchmark names have recovered to pre-COVID-19 levels, they can stay supported into 2021 as a carry play.

In contrast, Sukuks such as Malaysia's Oil and Gas service contractor, Serba Dinamik (B+/BB-) and Saudi Arabia's shopping mall operator Arabian Centres (Ba2/BB+) have lagged the rebound somewhat on lower investors' familiarity away from the usual Dubai Real Estate, bank AT1 perps and Sovereigns/Quasis. Still, they have actively conserved liquidity via equity raise and debt tendering etc. Faster realisation of trade receivables could thus be a positive re-rating catalyst.

We still like the Sukuk AT1 perp space given us having the confidence that the issuer will call them on their first call dates, following FAB's decision to call their conventional AT1 perp in May. Also, DP World's June subordinated perp issuance has given investors diversification away from banks.

2021 largely remains a relatively low yield environment for USD assets. Our expectation is for the USD to enter a weaker cycle. As such, local currencies sukuks can provide additional returns. We like MYR MGII over IDR INDOIS heading into 1H21 as investors put cash to work but would turn more cautious into the 2H21.

For IDR INDOIS, while real yields are attractive and relatively high among Asian sovereigns, IDR's appreciation could be capped by Bank Indonesia's (BI) continued involvement in the local debt markets to help support high fiscal expenditure (Indonesia's budget deficit to expected to move from -6.9% of GDP in 2020 to -6.3% in 2021) and deterioration in current account (from -0.5% of GDP in 2020 to -1.5 in 2021). Lastly, BI might also pursue opportunistic rate cuts amidst expected broad USD weakness

For Malaysia, real yields remain positive amidst negative inflation and improved foreigner participation in the domestic bond market makes us more positive in this climate. We expect Malaysia to be retained in March 2021 by FTSE Russell in its World Government Bond Indices as efforts have been made to improve foreign access.

For crude oil, we expect prices to continue to range in the USD 45-60/bbl throughout 2021 as softer demand outlook is countered by expectation of declining USD and higher inflation expectations. While this remains well below USD60-70/bbl medium term assumptions, funding environment remains conducive for GCC sovereigns given the current low yield environment and index inclusion.

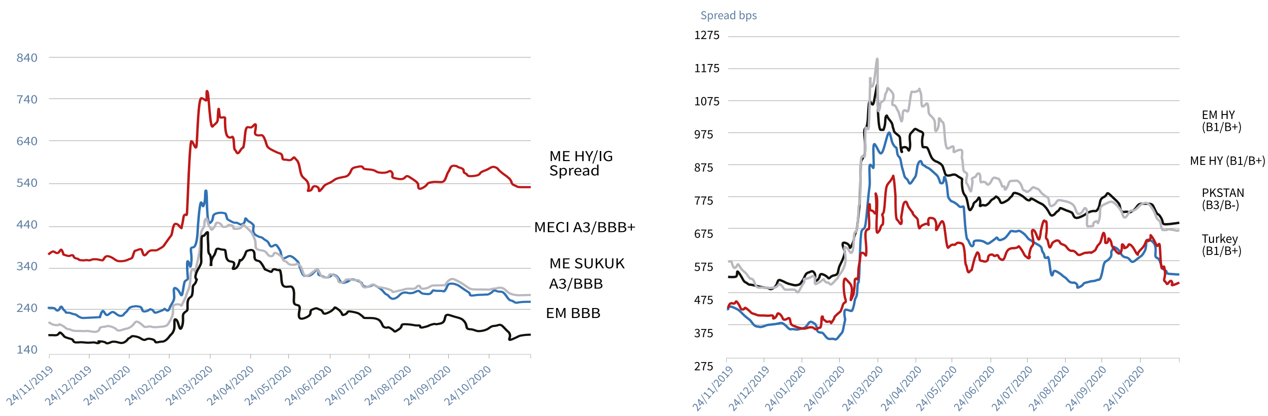


Exhibit 14: Credit Spreads of IGs and HYs – remain wide vs historical

| Source: Azimut Asset Management, Maybank Asset Management Singapore

Global Sukuks: Views for 2021

Malaysia	• Current Account improved in 2020 to 3.8% GDP despite hits to trade as demand declined; expect Current Account to remain supported in 2021. • MYR outperformed in Q420 on USD weakening and cheap valuations. We expect this to continue in 2021. Target USDMYR to trade 3.85 to 4.00. • Prefer short-end MGII for carry and currency appreciation potential given flat curve; avoid duration given potential for increased supply. • Market weight on USD denominated Malaysia sovereign, SOE Sukuks – Malaysia may face downgrade pressure in 2021 following Fitch's downgrade to BBB+ but impact will be minimal • Continue to like local currency Sukuk with periodic MYR weakness. These would provide opportunity to add. • Expect FTSE Russell to keep Malaysia in its World Government Bond Index come March 2021's review.
Indonesia	• USDIDR expected to trade between 13,500 to 14,200 in 2021. • Prefer short dated IDR INDOIS as yield curve has flattened considerably; supply remains heavy into 2021. • Neutral on USD INDOIS sukuks but underweight on USD INDOIS 2050 from curve steepening pressure.
Saudi Arabia	• Market weight on USD KSA Sovereign Sukuks as supply remains limited. • Supply of sovereign conventional bonds and Sukuks can be absorbed given JPM Index Inclusion. • Prefer IG over HY Saudi names as increase in VAT rate to 15% from 5% effective July 2020 is likely a drag on consumers and corporates.
UAE	• Residential real estate market might have bottomed but any recovery is likely to be slow. • In the UAE HY space, continue to overweight bank AT1s for carry given strong support to redeem on their call dates; Neutral to slightly overweight on GCC HY real estate names (Damac, Meraas) as default risks remain low due to strong liquidity. • Overweight financials given strong government ownership/support and sovereigns as UAE best positioned to weather this current oil price downturn.
Qatar	• Market weight on Sukuks issued by Qatari financials. • Overall Sukuk supply from Qatar should remain limited in 2021.
Oman	• Market weight OMAN USD Sukuks given tight valuations. • Downgrade risks remain high given increased strain to budget on lower oil prices.
Bahrain	• Bahrain's sovereign and quasi-sovereign conventional bonds and Sukuks to remain supported despite tight levels for its B+ rating. It has strong support from Saudi and UAE. • Government's fiscal position set to improve given existing reforms in place and USD 10 billion support package form UAE and Saudi. • Remain overweight on BHRAIN and MUMTAK USD sukuks for carry. Add on weakness.
Turkey	• Market weight USD TURKSK despite rebound as headline risks remain high and propensity for support from GCC countries minimal.
Kuwait	• Continue to like Kuwaiti Banks AT1 perps for carry given limited supply vs UAE banks. • Kuwait's credit rating downgrade to A1 Stable by Moody's is credit neutral as Kuwait has strong reserves and external funding position.

INDONESIA

INDONESIA
MARKET REVIEW

-39%

from the peak as COVID-19 spread globally and World Health Organisation (WHO) declared a global pandemic in March, before hitting a bottom of 3,938 points on 24th March.

Indonesia 10-Year government bond yield reached a high of

8.4%

and USDIDR touched 16,575 levels, the weakest since the 1998/1999 Asian financial crisis

The year 2020 started well as Jakarta Stock Exchange Composite Index (JCI) hitting peak at 6,325 points as at 14th January. However, markets tumbled going into Feb as COVID-19 cases in China rose which followed by a lockdown. JCI dropped further by -39% from the peak as COVID-19 spread globally and World Health Organisation (WHO) declared a global pandemic in March, before hitting a bottom of 3,938 points on 24th March. Indonesia 10-Year government bond yield reached a high of 8.4% and USDIDR touched 16,575 levels, the weakest since the 1998/1999 Asian financial crisis as USD onshore became scarce with people trying to secure their dollar obligations immediately. In response, the Federal Reserve (Fed) pledged to provide unlimited quantitative easing (QE) coupled with unprecedented amount of swap facilities for all central banks in need, including Bank Indonesia (BI), to cure USD scarcity. In addition, US Senate passed a USD2bn fiscal stimulus in March, combined with global QE have calmed the markets.

Following lockdowns in most countries around the world, major cities in Indonesia went into lockdown (PSBB) in April, causing GDP to decline around -5.3% year-on-year in 2Q20, before recovering slightly to -3.5% year-on-year in 3Q20, putting the country into a technical recession for the first time since the 1998 Asian financial crisis. In June, most major cities relaxed their PSBB, though Jakarta underwent a tighter PSBB from mid-Sep to mid-Oct which resulted JCI to decline by -7% in September, after recorded a +15% from April to August. However, the metropolis has returned to a less tight lockdown ever since. The global contraction in 2020 was indeed unprecedented, so were the monetary and fiscal stimulus responses to the COVID-19 pandemic. Respectively, global fiscal stimulus for pandemic relief set the biggest ever spent, post Great Depression totalling c.5-6% of the world's GDP, while BI followed the steps of the Fed and European Central Bank (ECB), implementing the first kind of their own QE to ensure financial stability and liquidity. Additionally, to combat the pandemic-driven crisis, Indonesian government issued a Government Regulation in Lieu of Law (Perppu) in April which later ratified into law in May.

In turn, the government announced a fiscal stimulus for pandemic-relief, called PEN, amounting to IDR695tr (3.9% of GDP) and passed the law to allow budget deficit cap to breach 3% of Indonesia's GDP until 2022. The first main problem was the financing part as Indonesia had been running a twin deficit problem. The second issue was the execution of PEN's disbursement due to legal uncertainty which caused a slow start initially, though it has picked up over the past three months. For the financing part, BI conducted its QE program to purchase government bonds from primary market and technically, together with the Ministry of Finance (MOF), started implementing Indonesia's debt monetisation with deficit target of 14-16% over the years of 2020-2022. Indonesia's debt monetisation also includes the MOF and BI to set up a burden-sharing scheme which hit foreign investor sentiment in bond market initially but the foreign selling was offset by domestic banks' purchase. The burden sharing scheme already reached IDR397.6tn (100% of target) which is ahead of the 70% disbursement rate of the PEN program. Additionally, BI cut its 7-Day Reverse Repo Rate (7DRRR) by 125bps year-to-date to ease the cost of funding and inject liquidity through RRR cuts and open monetary operations with total liquidity provided to the market reaching IDR695tn as at mid-December.

The market's response to the stimulus and economic reopening has been positive as JCI recovered from the bottom in March. JCI also gained a further boost from retail participations which offset foreign sellers as the economy reopened post-lockdown in June. The initial rebound was first helped by defensive sectors, such as telco and consumers while economic recovery trades outperformed when lockdowns ended in July with vaccine optimism drove further rotations into cyclicals in 4Q20. The pandemic did not halt the passing of the Omnibus Law on 5th October, which sparked a mass protests, albeit short-lived. The law is the most comprehensive reform for Indonesia, which the government will follow up with supporting regulations in the subsequent months. Although, Omnibus Law has not been fully appreciated by the market, JCI has since rebounded further into the year end, driven by US election results, vaccine visibility and rotational trade. With the Indonesian market acts as proxy for both liquidity and value play, foreign investors started to be a net buyer in Indonesian equities as well as catching up the inflow into the bond market which has started since mid-2020. Domestic retail participation remains strong, owning the second largest share of Indonesian stocks, surpassing local institutions.

FY2021 EQUITY **OUTLOOK & STRATEGY**

Going into the last month of 2020, the market was again bolstered by hopes of the Fed's QE and China's recovery to continue. Retail investors and local institutions have been positioning for 2021 coupled with the growing temptation to chase laggard stocks. JCI's movement reflected more from the positive sentiment of the vaccine's arrival rather than the rising national daily infection rate. Stocks related to global commodities also rallied, reflecting optimism on global vaccine distribution. This coupled with a strong liquidity of the financial sector and sound domestic fundamentals have been the sources of optimism helped by falling government bond yields as well as USDIDR hedging cost.

As we head into 2021, deflationary effect should start to dissipate as imports are set to pick up after vaccines start to roll out, though inflation would remain low. BI's support remains focused onto liquidity and stability by maintaining adequate real-rates differential, while central government's policy execution, such as fiscal disbursement, implementation of the Omnibus Law regulation, and vaccine distributions are key.

The current US election results implies a better stance for Indonesia as the market expects the Fed to pick up more slack and a more predictable US-China trade debacle means lower risk premium and more flows into Indonesian assets. Industrial commodity prices will also be on a spotlight as they are proxies of market's hope on fresh global stimulus and the pace of economic recovery, which is important for Indonesia's trade balance. Indonesia's 2021 infrastructure push and vaccine rollout plans mean current account deficit pressure and risk are likely to resurface given more capital goods and vaccine-related imports are on the cards. Lastly, we expect JCI will be driven further by upward earnings surprises to justify rally continuation, which we think is likely, as the current EPS revision already hit bottom. The consensus has been conservative on the pace of vaccine rollouts in Indonesia given huge logistical challenges, which put major earnings upward revision to be back-loaded.

With this in mind, the catalysts for 2021 would be vaccine distribution and acceptance, more accommodative stance from the Fed, fresh global fiscal stimulus, strong industrial commodity prices, EPS earnings upward revision, FDI inflows from the creation of SWF as the main channel of Omnibus Law, and from the current new cycle of commodity boom in metals of global green initiatives. Indonesian equities are for both liquidity and value play given the global monetary stimulus' accommodative stance and global vaccine rollout which are paving the way for stable exchange rates and gradual economic recovery.

Therefore, we are generally positive on Indonesian equities in the mid-long term but tactical in the short term as recent rallies in 4Q20 caused valuation to reach profit-taking level. Vaccine rollout's logistical challenges mean the country will remain under the threat of implementing another mobility restriction measures. This also means 2021's upside for the JCI is less likely to be as much as in 4Q20. Nonetheless, we expect full nationwide lockdown would not be preferred and earnings revision is set to have positive surprises, albeit gradually, creating opportunities to buy when the market dips as equities remain as the beneficiary asset class under a global economic recovery upcycle. Hence, we are tactical and bullish on equities with preference on higher beta names, also on cyclicals such as banks, industrials, infrastructures and commodities. Whereas, several telco names are attractive given the industry's consolidation story. Risks on our long-term positive stance are the mobility restrictions in the near-term given the uprising of COVID-19 cases, Indonesia's debt monetisation normalisation process, and the Fed's tapering in the next few years.

FY2021 FIXED INCOME
OUTLOOK & STRATEGY

The Indonesian government expects 2021 to be the year of transformation, with vaccine distributions will be the key catalyst of recovery. Supply side data indicated that Indonesian businesses have adapted to operate well during the COVID-19 pandemic. The growth will depend on the demand side recovery going forward. Indonesia's domestic consumption and global trade will also be the key factors to watch closely going into 2021. As domestic and global economy recover, we expect the GDP growth to be in the range of 4.70% to 5.5% in 2021.

BI has been carrying out monetary expansion through the provision of monetary stimulus since 1Q20 in order to improve liquidity. As of mid-Oct 2020, the central bank has injected around IDR667.6tn of additional liquidity through QE, primarily in the form of lower reserve requirements totalling IDR155tn and monetary expansion totalling IDR496.8tn. Supported by liquidity injection from BI, low aggregate demand coupled with weaker economic activities have caused excess liquidity in the financial system. This undoubtedly benefits the financial market as a lot of idle money entered the capital market to seek gains.

4.70% to 5.5%
GDP Growth

As domestic and global economy recover, we expect the GDP growth to be in the range of 4.70% to 5.5% in 2021.

Ample of liquidity remains as the driver of low interest rate and we expect BI to further cut interest rate by 25-50bps in 2021, sending 10-year Indonesian government bond yield to reach 5.50% at base case, while with continued liquidity abundance, could push it towards the 5.00% levels. Indonesia's current real account surplus situation and prospective continuation of foreign fund inflow into Indonesian markets as well as USDIDR appreciation towards the 13,000 levels.

Indonesia will continue its economic recovery program into 2021, amounting to IDR356.4tn vs IDR695.2tn in 2020 where spending priority expected to be more into sectoral and regional spending. However, many questions were raised regarding the lower health budget in 2021, especially with the prospect of vaccination spending. Hence, we are foreseeing a possibility of higher than expected health spending in 2021. On a more positive note, ongoing improvements of external balance should open rooms for financing in 2021.

We believe that the implementation of the new Omnibus Law will play a great role in determining the economic growth in 2021. Learning from China and Germany, which have also implemented similar employment law revolution, we expect some structural changes to take place. The implementation of it will rely heavily on the global economic recovery. Should the implementation goes according to plan, we expect a goldilocks economy to appear sometime around 2H21 while we expect inflation to remain low. Such law is not limited to only reform Indonesia's labour market, but also it would boost foreign investments, especially FDI, which will further support 2021's accommodative economic environment in Indonesia.

In 2021, as global recovery kicks in and the likelihood of foreign ownership in government bonds to return toward the range of 30% - 33% (from sub 28%), these may send the 10-year yield to around 5.50%, with flattening yield curve going ahead.

The risks that still haunts the economic recovery are the uncertainties of vaccine efficacy while Indonesia's sovereign rating may be downgraded should Indonesia fail to show any improvement in its tax revenue.

Maybank Asset Management

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