CHALLENGING DRIVE

4Q 2019 OUTLOOK & STRATEGIES

Maybank Asset Management

Contents

Our 3Q 2019 Review

ENGAGED IN A TIT-FOR-TAT

The sell-off further deepened in August amidst an escalation in the US-China trade war with both parties engaged a tit-for-tat raising of tariffs.

3Q19 proved to be another choppy quarter for Asia ex-Japan equity markets. Markets were largely range-bound for the most of July but dipped towards month end as an optimistic Fed rate cut hopes were dampened by strong June US non-farm payrolls and seemingly hawkish commentary from Fed Chair Powell that suggested that the 25bps rate cut in July was merely a 'mid-cycle adjustment' (rather than the start of a rate-cut cycle).

The sell-off further deepened in August amidst an escalation in the US-China trade war with both parties engaged in a tit-for-tat raising of tariffs. US President Trump imposed a 10% tariff on an additional US$300 bn of Chinese imports (from 1 September but later partly delayed to 15 December), leading China to halt purchases of US agricultural products. China imposed additional tariffs of 5%-10% on various US imports as well as re-imposed tariffs on US autos and autoparts while the US further raised tariffs by 5% for most Chinese imports. Besides the escalation in the US-China trade war, the choppy trading action in the month of August was also driven by recession fears given the US yield curve inversion, a seemingly increased likelihood of a 'no deal' Brexit as well as escalating anti-government protests in Hong Kong.

September saw markets rebound as US and China agreed to resume trade talks and the UK Parliament moved to block a 'no deal' Brexit. While there was some initial optimism in Hong Kong following the withdrawal of the extradition bill, this soon faded as protests continued unabated. A drone-led attack on Saudi Arabia oil assets disrupted roughly half of Saudi Arabia's production (c.5% of global demand) which led to a spike in oil (i.e., Brent) prices to US$69/bbl before moderating to c.US$64/bbl. In India, markets rallied with the government announcing a reduction in the corporate tax rate (before surcharges and cess) to 22% from 30% currently. In general, markets saw a rotation from momentum to value stocks in the month of September.

On Asia Fixed Income we continued to see fairly steady returns during 3Q2019 with the JP Morgan Asia Credit Index "JACI" clocking in total returns of 2% for the quarter. The risk-off sentiment trigged by the re-escalation of US-China trade war resulted in credit spreads widening especially in high yield bonds where spreads widened 40bps and bond prices dropped 1% to 2%. However this is offset by investment grade bonds which benefitted from the Treasury rallying 30bps as investors sought safe haven assets. Overall bonds remained resilient during 3Q2019.

The risk-off sentiment trigged by the re-escalation of US-China trade war resulted in credit spreads widening especially in high yield bonds.

Our 2019 Investment Strategy

CHALLENGING DRIVE

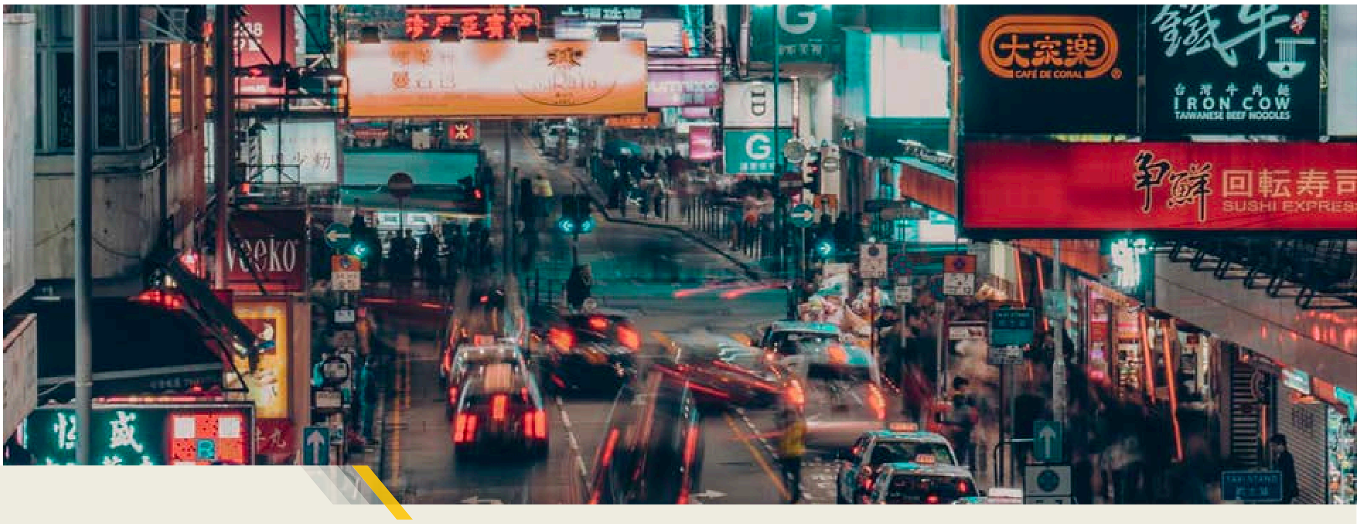
KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
GROWTH SLOWS	We expect to see slower global growth in 2019. The reasons for slower global growth are manifold. Financial conditions are tighter and the US-China trade war has dampened confidence and increased uncertainty thereby stalling corporate 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. While we were correct in our initial assessment at the start of the year that the Fed rate hike cycle would come to an end, rather than just pausing, the Fed could now cut rates given mounting growth concerns amidst the escalation of the US-China trade war. Likewise, some Asian central banks might also consider a loosening of monetary policy.	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 4Q 2019 Asia Ex-Japan Outlook

EQUITIES



Asian equities are still not cheap despite recent earnings downgrades. Asian equities are trading at 13X forward P/E (versus historical average of 12X).

We had been cautious on Asian equities at the end of 1Q19 on valuation grounds but turned more negative in May with the escalation in the US-China trade war. Our views remain unchanged. We continue to be defensive, holding high quality dividends stocks in addition to having high cash holdings.

Global macroeconomic data has been increasingly subdued and there is a risk that the continuation of the US-China trade war could tip already-slowing global economies into a recession.

Asian equities are still not cheap as earnings have been downgraded as well. Asian equities are trading at 13X forward P/E (versus historical average of 12X) and there could be further earnings downgrades given the macroeconomic uncertainties.

Within Asia ex-Japan, we continue to favour the more domestic-oriented ASEAN markets over the more trade-oriented North Asia amidst an environment of slowing global growth and US-China trade tension.

The risk to our cautious view would be the de-escalation or resolution of the US-China trade war given ongoing trade talks. However, the situation is fluid and difficult to predict. Should a successful resolution take place, markets could rally as growth expectations revive and sentiment improves.

Key Highlights:

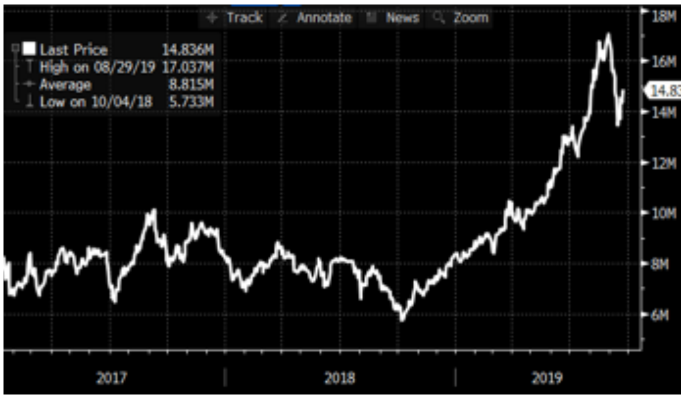
1. We continue to be defensive, holding high quality dividends stocks in addition to having high cash holdings.
2. There is a risk that the continuation of the US-China trade war could tip already-slowing global economies into a recession.
3. We continue to favour the more domestic-oriented ASEAN markets over the more trade-oriented North Asia

Our 4Q 2019 Asia Ex-Japan Outlook

FIXED INCOME

We have entered a new era of negative-yielding bonds, with the amount doubling in FY2019 alone.

Asian USD Fixed Income have performed very well for the year, with returns around 10% to 12% due more to US Treasuries tightening 100 bps and less from credit spread tightening by 25bps. As a matter of fact, one can be surmised that the easy money from bonds have already been made for the year as bonds were very cheap at the start of FY2019 with bonds yield at 5.19% using the JP Morgan Asia Credit Index "JACI".



Source: Bloomberg; as of 24 September 2019

As of now, the JACI yield has rallied 138bps to 3.81%, 50bps away from JACI all time low since inception FY2005. At the same time, we have entered a new era of bonds with negative yields. While negative yield is not new, the amount of negative yielding bonds have doubled in FY2019 alone, and this year we have witnessed corporate bonds and bank subordinated bonds joining the negative yield band wagon for the very first time.

For 4Q2019, we remain positive on bond investments. If US-China trade war drags on.

Our 4Q 2019 Asia Ex-Japan Outlook

FIXED INCOME

USGG10YR – US Treasury 10 year; GTDEM10YR – EUR Government 10yr; GTJPY10Y – Japan Government 10yr
Source: Bloomberg; as of 24 September 2019

With more and more bonds at negative yields, we should be cognisant that a bond bubble may be forming. While we are getting more concerned on bonds valuation, we also recognize that the current environment continues to favour bonds even in these low yields: (i) Global economy is slowing and recession risks increasing (ii) Central banks are back to coordinated easing (iii) The investment world is fraught with risks ranging from trade war, currency war, political uncertainties and terrorists attacks.

Therefore for 4Q2019, we remain positive on bond investments. If US-China trade war drags on, further dragging economic growth into the gutters, bond yields can continue to stay low and even rally from here at least till 1H2020. Even if the US-China trade war finds some positive footing during 4Q2019, the trade and intellectual property issues between US and China is so deep-rooted and wide-ranging, complicated and intertwined with personal political agendas, that as Larry Kudlow has pointed out "will take years to resolve".

On the other hand, as we draw closer to the Presidential elections in the US, President Trump maybe incentivised to have some near term results, which may cause risk markets to rally in relief and sovereign bonds to sell-off from current low yields.

Stay tuned.

Key Highlights:

1. Asian USD Fixed Income have performed very well for the year, with returns around 10% to 12%.
2. As of now, the JACI yield has rallied 138bps to 3.81%, 50bps away from JACI all time low since inception FY2005.
3. Global economy is slowing and recession risks increasing, while central banks are back to coordinated easing.

2019

4Q OUTLOOK

SINGAPORE

4Q 2019 Singapore Outlook

EQUITIES

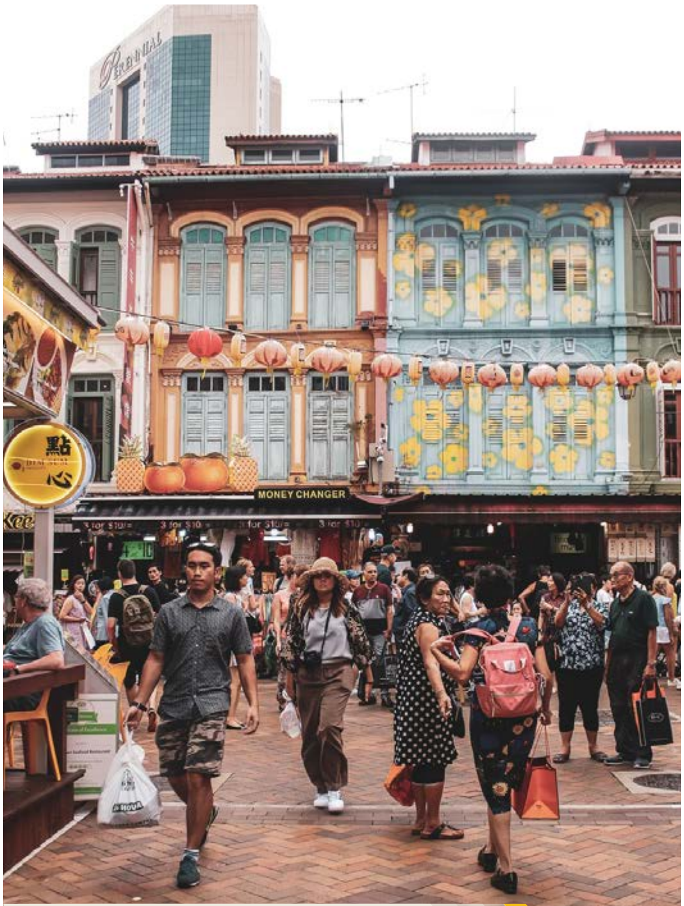
We are cautious on the outlook for Singapore equities in 2019. The key risk for 2019 is likely to be geopolitical risk, which presents investors with an unusually large range of possible outcomes. While our base case is for the US and China to reach a negotiated deal on trade, it is also possible that negotiations could break down or be delayed. As a small open economy, Singapore would not be immune from global trends.

We are more positive on 2020. While economic growth is weak, interest rates are kept low by Central Banks, buying time for the economy to recover. The only question is whether things get worse before they get better. Keeping a keen watch for 'green shoots' will be key going forward. Another potential catalyst to consider is an expected improvement in political and economic conditions as the US gears up for its Presidential elections in November 2020.

In 2019, we will focus our stock picks on quality companies or yield plays. Volatility remains high and investors would do well to focus on companies with defensive business models. In terms of sector allocation, we would advocate Overweight positions on REITs and Land Transport in the event of prolonged geopolitical tensions. Should tensions ease, we would advocate Overweight positions on Banks, Manufacturing and Property Developers.

Our current favoured sector is the Singapore Real Estate Investment Trusts (SREITs). The medium-term outlook for SREITs has improved recently. Several initiatives are underway that can benefit the Real Estate sector:

1. The successful opening of $1.5bn Jewel Changi Airport is expected to rejuvenate Singapore as a tourist destination.
2. The two Integrated Resorts announced a $9bn expansion plan to add world-class attractions that can expand the tourism and hospitality industry.
3. The Draft Masterplan 2019 lays out an exciting plan in the next 5 to 10 years for higher plot ratios in the Central Business District (CBD) that can benefit Office REITs.
4. The extension of tax incentives for SREITs during Budget 2019 will help them become ideal investments for personal savings and retirement planning.
5. Capitaland's merger with Ascendas-Singbridge is expected to expand the scale of its Singapore real-estate fund management platform.
6. SREITs continue to be supported by a positive interest rate outlook, where the combination of low interest rates and low economic growth is usually positive for yield assets such as SREITs.



We would advocate Overweight positions on REITs and Land Transport in the event of prolonged geopolitical tensions.

Meanwhile, value has emerged in the Singapore Banks, Manufacturers and Property Developers. These sectors have declined in value in the first half of 2019 as investors fret about the impact of slowing economic growth. Conversely, these sectors would benefit from an improvement in geopolitical tensions as economic conditions become more conducive for these businesses to resume growth trajectories and create shareholder value.

4Q 2019 Singapore Outlook

FIXED INCOME

We are turning more neutral from positive on rates given the YTD rally in UST. However, we are still positive on SGS (Singapore government bonds) for mainly 2 reasons:

1. Overall supportive macro environment - uncertainties of US-China trade talks, along with other factors like Japan-Korea trade dispute and Brexit, continue to weight on global growth outlook and keep central banks at the easing side.
2. Attractive valuation vs UST given its YTD underperformance – SGS long end bonds have been underperforming vs UST throughout 1H 2019, mainly due to a strong pipeline of supply from quasi-sovereign issuers such as LTA and auctions of SGS bonds.

SGS caught up around 20-30bps in September, as it stayed more resilient during UST selloff, but are still behind UST YTD movement by more than 50bps. Therefore, we are overall constructive on SGS for duration exposure.

In the corporate side, we continue to see some new issues coming into the market, mostly from financial and real estate sector for the rated ones. However, this supply pipeline is still very low compared to USD bond universe, hence should be overall supportive. At the same time, we are also monitoring SGD corporate bonds' relative valuation vs USD, as hedging cost from USD to SGD has come down from 1% as if end 2018 to around 0.3-0.4% currently.

We remain cautious on SGD, as we expect MAS to be accommodative in the upcoming October meeting on the back of soft domestic economy.

We are overall constructive on SGS for duration exposure due to an overall supportive macro environment and attractive valuations vs UST.

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