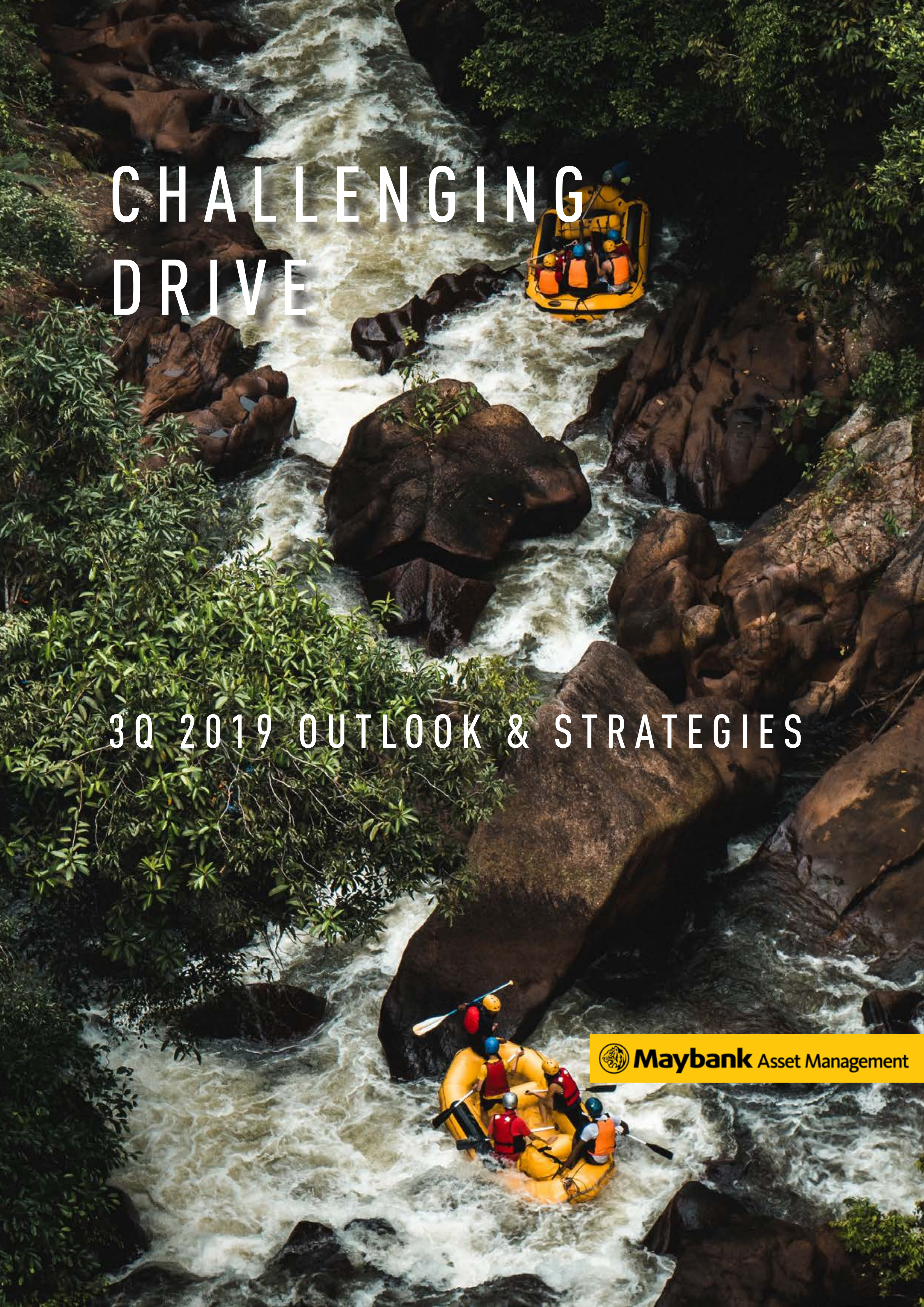
CHALLENGING DRIVE



3Q 2019 OUTLOOK & STRATEGIES

Maybank Asset Management

Contents

Our 2Q 2019 Review

TRADE WAR TURBULENCE

Asian equities started off the month of April with positive momentum but momentum later stalled and snowballed into a sharp correction in the month of May, thereby ending the rally that began early this year. The key driver of the correction in May was a re-escalation of the US-China trade war with tariffs raised by both sides and the US placing Chinese telecom giant Huawei on a trade blacklist.

Sentiment deteriorated amidst the threat of further intensification (e.g., possible tariffs on an additional US$325bn of Chinese imports, possible blacklist of 'unreliable' foreign entities in China, possible restrictions on rare earth mineral exports to the US, etc). Most equity markets posted negative absolute returns in May, with key indices such as the MSCI World index (-6.1% in USD terms), the S&P500 index (-6.6% in USD terms) and the MSCI Asia ex-Japan index (-8.9% in USD terms) posting their worst monthly performance so far this year.

While we had turned a little more cautious and expected markets to take a breather at the end of 1Q19, we could not have anticipated US President Trump's actions nor the severity of the rout that followed. Our premise for turning more cautious then was that Asian equity valuations were fair (12X forward P/E inline with historical average) post the rally year-to-date March 2019.

Following the sharp sell-off in the month of May, Asian equity markets have seen some recovery in the month of June on expectations that the US Fed could cut rates in the future and on hopes of some progress towards resolving the US-China trade war at the G20 meeting.

The key driver of the correction in May was a re-escalation of the US-China trade war.

Most equity markets posted negative absolute returns in May, with key indices such as the MSCI World, S&P500 and MSCI Asia ex-Japan index posting their worst monthly performance so far this year.

Meanwhile, market expectations of a US Federal Reserve rate cut have rapidly intensified since the re-emergence of US-China trade tensions in early-May, amidst a backdrop of already cooling global growth and muted inflationary pressure. The US Federal Reserve has also largely toed the line, becoming increasingly dovish as the year progressed.

Most recently, at the FOMC meeting on 18-19th June 2019, the Fed delivered rather dovish guidance, including a marked reduction in the 'dot plots' with seven out of the 17 policymakers projecting a 50bp reduction this year. Indeed, in 2Q19 alone yields on the benchmark 10-year US Treasuries have fallen ~40bps to around 2.00% at time of writing (end-2018: 2.68%). This trend of lower yields is mirrored across most Asian local currency bonds markets.

Asian USD credits have also performed well, with the JP Morgan Asian Credit Index (JACI) returning +7.4% YTD, including +2.5% in 2Q19 amidst the rally in US Treasuries while credit spreads tightened 25bps since the start of the year, albeit widening by 7-8 bps in 2Q19. Lower US interest rates are positive at the margin for Asian fixed income as fund flows return to emerging markets and currencies stabilise, while at the same time providing central banks in the region a window of opportunity to ease monetary policy to support economic growth and liquidity conditions.

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 3Q 2019 Asia Ex-Japan Outlook

EQUITIES

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.

While we had been cautious on Asian equities at the end of 1Q19, we have turned more negative given the escalation in the US-China trade war. 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.

Despite the correction seen in May, 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.

As such, we prefer to be defensive and have reduced our equity exposure accordingly. That said, a potential positive catalyst for markets could be the de-escalation or resolution of the US-China trade war but the situation is fluid and difficult to predict. Should a successful resolution take place, then we would have to be nimble and alter our defensive strategy as the resolution should revive global economic growth.

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. In addition, lower oil prices (as US shale supply comes onstream) would benefit most ASEAN countries, with the exception of Malaysia. Twin-deficit ASEAN countries, such as Indonesia and the Philippines, should also see less currency pressure and less need for rate hikes given a dovish US Fed.

Key Highlights:

1. Risk that the continuation of the US-China trade war could tip already-slowing global economies into a recession.
2. Asian equities are still not cheap trading at 13X forward P/E.
3. We continue to favour the more domestic-oriented ASEAN markets
4. In the event of a trade war resolution, we should see global economic growth revived, and no longer be defensive.

Our 3Q 2019 Asia Ex-Japan Outlook

FIXED INCOME

We still like the LCY debt markets in Indonesia and India from both carry and currency appreciation perspective over the medium term.

As expectations rapidly changed from interest rate hikes last year to no hikes in 1Q and now interest rate cuts in 2Q, we maintain our constructive view on Asian fixed income, both in LCY debt and USD credits.

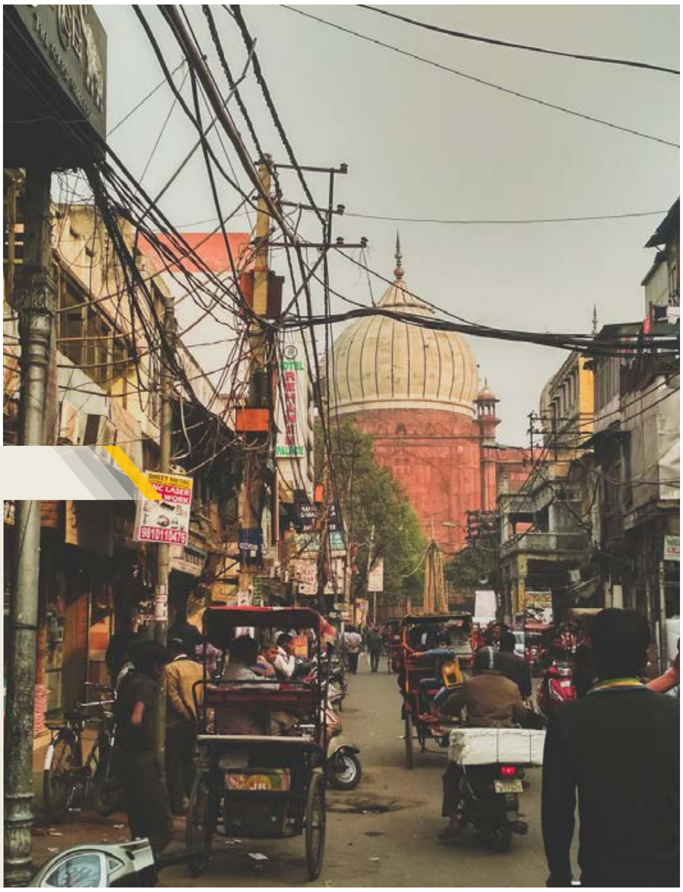
In particular, we still like the LCY debt markets in Indonesia and India from both carry and currency appreciation perspective over the medium term. Furthermore, elections in both countries have delivered the expected results and hence continuity in terms of policies and implementing pro-growth measures.

Despite the strong performance YTD, we also continue to see value in Asian USD credits from a carry perspective with investment grade bonds at 4.0% and high yield bonds at 7.4%, as spreads remain decent and US Treasuries yields expected to stay low for longer.

Key events to watch in the near term include the G20 Summit in Osaka on 28-29 June and the US FOMC meeting on 30-31 July, where the Fed is widely expected to reduce the fed funds rate by 25bps to 2.00-2.25%.

Key Highlights:

1. We continue to have a constructive view on Asian fixed income, both in LCY debt and USD credits.
2. Elections in both countries have delivered expected results ensuring continuity in policies and pro-growth measures.



2019 3Q OUTLOOK

SINGAPORE

3Q 2019 Singapore Outlook

EQUITIES

We will focus our picks on quality companies or yield plays, advocating Overweight positions on REITs and Land Transport in the event of prolonged geopolitical tensions.

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. As a small open economy, Singapore would not be immune from global trends.

In 2019, we will focus our stock picks on quality companies or yield plays. Market valuations are not high and this represents an opportunity to invest in the Singapore equity market. Volatility can be high and investors would do well to remain nimble.

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.

- First, the successful opening of $1.5bn Jewel Changi Airport is expected to rejuvenate Singapore as a tourist destination.
- Second, the two Integrated Resorts announced a $9bn expansion plan to add world-class attractions that can expand the tourism and hospitality industry.
- Third, 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) and for developing the Greater Southern Waterfront.
- Fourth, the extension of tax incentives for SREITs during Budget 2019 will help them become ideal investments for personal savings and retirement planning.
- Fifth, Capitaland's merger with Ascendas-Singbridge is expected to expand the scale of its Singapore real-estate fund management platform.
- Lastly, 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.

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.

3Q 2019 Singapore Outlook

FIXED INCOME

Recall in our 2Q outlook, we predicted that Singapore Government Securities "SGS" are likely to underperform US Treasuries "UST" as narrowed forward points have reduced the attractiveness of carry. That view has largely panned out as yields on SGS 10Y went down only 10 bps from 2.07% to 1.97% over 2Q. In contrast, UST 10Y yields reduced by 37bps from 2.40% to 2.03% as the US Fed turned more dovish in their outlook for the quarter.

For Singapore Fixed Income Q3 outlook, we expect SGS underperformance to reverse and outperform UST for the quarter. From current levels of 2%, we see limited room for US rates to rally further as UST yield has decreased considerably (45-75bps on 2-year onwards part of the curve) year-to-date and market is already pricing in 3 Fed rate cuts for 2H2019. On the other hand, SGS has underperformed UST with only 10-20bps yield decrease in the curve belly and 30-year yield actually went up by 10bps year-to-date due to continued long-end supply in SGS and quasi-sovereign bonds during 1H2019. We expect SGS to outperform UST in 3Q 2019, after new 20-year SGS auction is over end June 2019.

We continue to favour SGD corporates over SGS for carry while taking opportunistic positions in long end SGS for the rally as SGS outperforms UST. Duration wise we remain overweight as bonds remain supported due to slowing growth and easing central bank policies.

We expect SGS underperformance to reverse and outperform UST for the next quarter.

We continue to favour SGD corporates over SGS for carry while taking opportunistic positions in long end SGS for the rally.

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