Maybank Asset Management

PERFORMANCE & MARKET OUTLOOK

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Potholes: Volatility continues

Financial markets, except for the beginning of the year, have been volatile in 2018. The VIX Index (See Chart 1), which is a measure of market volatility, illustrates 2017 as a serene year with the VIX staying at a low level. Since Jan 2018, volatility has spiked, affected by a variety of reasons including higher interest rates, trade tensions between the US and China, disappointing iPhone orders and profit-taking in the tech sector.

This volatility has continued into April as the risks of a trade war between US and China remain with both sides staying firm on their demands without giving any concessions. The Trump administration also increased the risks of an armed conflict when it decided to strike Syria, an ally of Russia, on the basis that the Syrian government had used chemical weapons. On top of these geopolitical events, rising commodity prices have led to inflation concerns, triggering a further rise in interest rates with the US 10-year interest rates touching 3% (see Chart 2). Going forward, the Trump administration has decided to back away from the deal with Iran and reimpose sanctions on the country. This may trigger another bout of geopolitical instability. With the various concerns yet to be resolved, we expect markets, both fixed income and equities, to remain volatile over the next two months.

The overall global economy appears to remain robust -- which is comforting -- while equity valuations for Asia are compelling trading at just 12x PER, far below the high-teens PERs seen in developed markets. Value is also emerging for Asian fixed income with decent yields seen, but we are still relatively defensive and would be waiting for markets to stabilise before turning more constructive on the markets.

Malaysia Markets

The result of the General Election 14 was a surprise with Pakatan Harapan winning. They have won a simple but clear majority obtaining 55% of the parliamentary seats. Just like Brexit and the US Presidential elections, the result has confounded experts with virtually all predictions pointing to Barisan Nasional (BN) retaining control.

In the short term, a correction is likely because the local market has rallied to be one of the best performing markets in Asia year-to-date with the expectations of a BN win. Based on Pakatan Harapan's election manifesto, certain promises such as removing GST may lead to a wider budget deficit, raising concerns among the international rating agencies. With the uncertainty on Pakatan Harapan's economic policies, financial markets are likely to stay range-bound until investors have a clearer view on the direction of policy making. A mitigating factor is that the current coalition has members with ministerial experience and therefore are likely to be more pragmatic on economic policy.

Longer term, the election is positive because it shows that Malaysia has become a mature democracy. The transition has been smooth and peaceful with BN's leaders and supporters accepting the result. Our Malaysia investment team has a more detailed analysis and has prepared a full write-up on this.

Indonesia Markets

Both the stock market and the fixed income market have been affected by the rising interest rates. Indonesia and Philippines are markets perceived to be more sensitive to interest rates given twin deficits: fiscal and current accounts.

The Rupiah has weakened to the 14,000 level, the currency's weakest position since 2016 when it was negatively impacted by foreign investment outflows from both the bond and equity markets.

We were correct in turning more cautious on the markets and will position to be more positive from 2H2018.

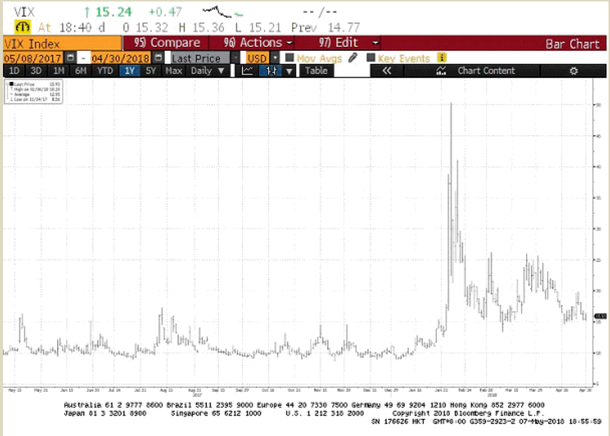

Chart 1: VIX Index

Chart 2: US 10yr Interest Rates

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