2018 OUTLOOK HIGHLIGHTS

CRUISING BUT BE ALERT

Maybank Asset Management

Dear Valued Clients and Business Partners,

We would like to wish you a Happy New Year!

As is the usual practice at Maybank Asset Management, we will provide a review of the year that has gone by and share our outlook for the year ahead. Every year, our investment team gathers round to formulate our views for the year. We believe this process is beneficial as the sharing of ideas helps us gain a different perspective and gives us the opportunity to learn from one another. We have in our team experienced investment professionals, some with more than 20 years in the markets who have tasted the highs and the lows of financial markets. We believe that the accumulated experience at Maybank Asset Management will help us make better investment decisions that will be beneficial to you.

Generally, 2017 was a much happier year compared to 2016. While 2016 was marked by a weak global economy and political shocks like Brexit and the US Presidential elections, 2017 proved to be very different.

In 2017, we saw a synchronised global economic recovery. The worst fears of a Trump Presidency did not materialize. Trump did not impose trade barriers nor did he build a wall blocking Mexico. Of course, neither did he manage to restructure the US healthcare system or push through tax reforms.

The emerging market economies recovered after 2 years of consolidation. Countries like Brazil, China and Russia and other parts of Asia finally grew again (in the case of Brazil and Russia where these countries were in recession in 2016) or managed to reverse the slowing growth (in the case of Indonesia, Malaysia, Singapore and the vast majority of Asia).

Nailing it on 2017 Outlook 'Bumpy but Better'!

If you look at our views for 2017, we were largely right. To recap, our theme for 2017 was "Bumpy but Better" as we were expecting improvement from weak economic conditions in 2016. At that time, not many people were bullish on Asia and it is fair to say that our relatively bullish view was not shared widely by the investment community at that time. In hindsight, we were actually too conservative as markets, especially equity markets, were not bumpy at all.

Almost all Asian stock markets achieved strong gains of between 10-40% in a steady upward trend.

A Review :

A Forecast :

2017 SUB-THEMES : RIGHT ON THE MONEY ...WITH THE EXCEPTION OF VOLATILE MARKETS

SUB-THEME 1: **Global economic growth had bottomed and would improve in 2017.** In fact, the recovery was much stronger and more widespread than anyone expected and now market commentators have termed this the synchronised global recovery. Every region in the world is posting a recovery in economic growth - something not seen since 2009 post the Global Financial Crisis (GFC). Clearly, this was main factor behind the strong equity markets and tight credit spreads.

SUB-THEME 2: **Low interest rate monetary policy had reached its limits and rates would have to rise although policy would remain easy.** The Zero Interest Rate Policies (ZIRP) around the world was not sustainable leading to asset bubbles while the benefits were not evenly distributed. Corporates and the rich have benefitted from the low rates through lower borrowing costs and higher asset prices while the majority have been left behind. The central bankers are aware of the negative effects and have been slowly dialing back on monetary stimulation. The US Federal Reserve is one central bank that is leading the way, having started hiking rates in Dec 2015 and hiking by 3 times in 2017 bringing short term rates to 1.50%.

SUB-THEME 3: **Fiscal policy to be more prominent.** We have seen some evidence of this in various Asian countries including China, Indonesia and Philippines. The One-Belt-One-Road (OBOR) initiative by China to improve infrastructural links within Asia is moving along nicely. In Malaysia, the government is proposing the East Coast Rail Link (ECRL) that would link the east cost of Peninsular Malaysia with the west coast of Peninsular Malaysia. This project will be part of the OBOR and will be funded by China. Beyond Asia, one of Trump's main policy aims as the US President was to rebuild the infrastructure in the US.

SUB-THEME 4: **We expected markets to be volatile but it was not.** The Volatility Index (VIX), that measures how volatile stocks are in the US, fell to all-time lows in 2017. One of the factors that led to the less volatile environment was the absence of political shocks in 2017, unlike 2016 with Brexit and the US Presidential Elections. A number of binary events, like the French Presidential elections, the Dutch and German General elections were all resolved in line with consensus. Without a doubt, the lower volatility was also due in part to the global synchronised recovery that led to better investor sentiment. 2017 saw more positive investor confidence resulting in support for markets whenever there was even the mildest correction. This 'buy the dip' mentality was in force throughout 2017 and many investors, who were waiting for a significant correction before taking action, missed out. The lack of a correction, especially in the equity markets, meant that these investors did not pull the trigger and missed the chance to participate in the rally.

SUB-THEME 5: **Commodities bottomed after a difficult 2 years. Almost all commodities from oil, gas, soft and hard commodities saw price appreciation in 2017.** Hard commodities especially industrial commodities like iron ore, coal and copper saw a strong surge in prices. Suffice to say, the better commodity prices was due to the economic recovery that resulted in stronger demand for commodities as the economy picked up. One other factor driving commodity prices was the reduction in supply as commodity producers showed discipline when they struggled for profitability when commodity prices dipped from 2015 and 2016. China was also one of the drivers for commodity prices as the government reduced supply by shutting down various producers. The authorities mandated closures of smaller and more inefficient plants as part of their initiative to tackle the pollution that has blighted various cities in China especially Beijing and Chongqing.

SUB-THEME 6: **We were partially right to expect low returns from the developed world. While developed world equities have posted decent returns in 2017, these returns have been outstripped by Asia.** We note that this is a longer term view and will take many years to play out. With the rich valuations of developed world equities and the compressed yields of developed world fixed income markets, we still stick to this view and are confident that developed world assets will see low returns in the future. At the very least, Asian assets will outperform those in the developed world over the next 5-7 years.

In summary, we had correctly assessed at the start of the year that economies had bottomed and were in the recovery phase. We positioned our portfolios to take advantage of the upswing and we believe that our customers have seen the fruits of our strategy in 2017. We will now review the individual asset classes, finish off with the overall theme for 2018 and discuss a little on the investment strategy for 2018. We have also provided more in-depth reports on the individual asset classes in each country that Maybank Asset Management has a presence at the end of this write-up.

2017 THEMES – BUMPY BUT BETTER

THEMES	MAYBANK ASSET MANAGEMENT ASSESMENT	KEY IMPACT(S)
GLOBAL GROWTH STILL REMAINS LOW BUT BETTER	•Developed markets *(DM)* and Asian economic growth will be subdued but stable-to-modestly better, partly helped by lower comps from last year. •Asian exports are still declining, but at a less rapid pace. Sequential growth has picked up and year-on-year *(yoy)* growth rates are stabilising from the negative mid-teens percentage range. •Potential inventory restocking may modestly boost GDP growth in the US after the drag on US GDP following the weak inventory cycle in first half 2016. •US economic growth is projected to accelerate following Trump's election as President as he intends to boost fiscal measures. •A trend of increased protectionism may see an increased domestic focus in many countries.	Domestic focus and defensive plays preferred. 2017 for fixed income (FI) credits will be more of a rotation play.
MONETARY POLICIES STILL EASY BUT REACHING LIMITS	•Monetary easing in developed markets has reached a limit, e.g., in the US, Europe and Japan. We expect one to two rate hikes by the US Fed in 2017. •Extreme monetary policies may in fact be harmful. Pensions in developed countries are underfunded due to low interest rates. Low yields have seen prices of assets no longer reflect fundamentals. Lower interest rates *(negative interest rates in EU and Japan)* have also led to flat yield curves undermining bank profitability. •Certain countries like India, Indonesia and Korea may have further headroom to cut interest rates due to domestic factors.	Selective on yield plays as low interest rates have reached its limits Dividends stocks that have growth preferred. Buy selective local currency bonds.
FISCAL POLICY TO BE MORE PROMINENT	•Policy makers in developed markets and many parts of Asia are increasing fiscal spending to complement monetary easing and support growth, given that monetary policy may be reaching its limits. •In our view, an organized effort to increase fiscal stimulus and infrastructure spending, if successfully executed, will likely pose upside risk to the earnings outlook and government bond supply. •Fewer emerging market *(EM)* central banks buying US Treasuries. •Expansionary fiscal policy means higher budget deficits. Therefore, we expect a steeper yield curve with 10-year US Treasury about 2% to 3% in 2017.	Positive for infrastructure plays.
VOLATILITY TO PERSIST	•Binary outcomes lead to volatility. We have seen surprising political events in 2016. We may see more of these binary events in the next few months and in 2017. Upcoming events in 2017 include Malaysian general elections; UK to invoke Article 50 *(1Q2017)*; French Presidential Election *(April 2017)*; and German general election *(September 2017)*. •Unconventional monetary policy increases the risk of government bond markets and currencies destabilising as a result of systemic risks. This is one of the reasons gold remains an essential insurance for investors. •Periods of risk aversion will see resilient demand for safe haven currencies such as US Dollar *(USD)*, Japanese Yen *(JPY)* and Swiss Franc *(CHF)*. •Financial markets have placed great hope on Trump. Pro-cyclical stocks that are exposed to US economic growth have already rallied post the elections. If these expectations are not met, we would witness risk-off periods in 2017 once again leading to volatility.	Active managers may add value. Safe haven assets may rally during risk-off periods.
COMMODITY PRICE BOTTOMING	•With producers cutting back on production and projected increase in fiscal spending by governments in 2017, commodity prices may have bottomed. •Oil price may recover to between USD50-60 per barrel as OPEC agrees to a cut in production. •Outlook for other commodities like steel, aluminium, coal and zinc is brighter as production has been cut aggressively. •Inflation may start to pick up.	Incrementally more positive for the commodity sector.
LOW ASSET RETURNS IN THE DEVELOPED WORLD *(CONT'D from 2016)*	•Lower interest rates and high asset prices may see low asset returns in the medium term. Developed world equities and fixed income do not offer value. Developed world equities are trading at relatively high multiples in the high teens. Likewise, developed world sovereign and even corporate credits are priced to yield very low returns. Relative value is found in emerging markets equities.	Positive in the medium term for Asian assets.

EQUITIES 2017

WHEN THE GOING GETS GOOD.

Asia was one of the best performing asset classes in 2017, up close to 40% with the developed markets following in the 20% range.

Thanks to sharp improvements in exports

Asian countries with stronger links to the global economy benefited

China, Hong Kong, Korea, Taiwan and Singapore : markets up about 20%. Malaysia, up just 8% in local currency terms.

The equity market marched on without missing a beat

Virtually all markets did well, with stock markets globally riding on the synchronised economic recovery.
Asian economies are generally more sensitive to the pulse of the global economy as many countries like China, Korea, Taiwan, Malaysia and Singapore are heavily linked to trade with a large external sector. Throughout the economic recovery, Asia has benefited from sharp improvements in exports resulting in better than expected economic growth. This has resulted in the stronger corporate earnings driving the stock markets. On the whole, a large part of the gains in the equity markets have come from P/E *(Price Earnings)* multiple expansion and markets have become more expensive in 2017. For instance, the US markets has rerated from 16x to 19x *(a 18% gain)* forward earnings while Asia has rerated from 11x to 14x *(a 27% gain)*.

Banks. Telcos. Utilities. The index heavyweights in KLCI.

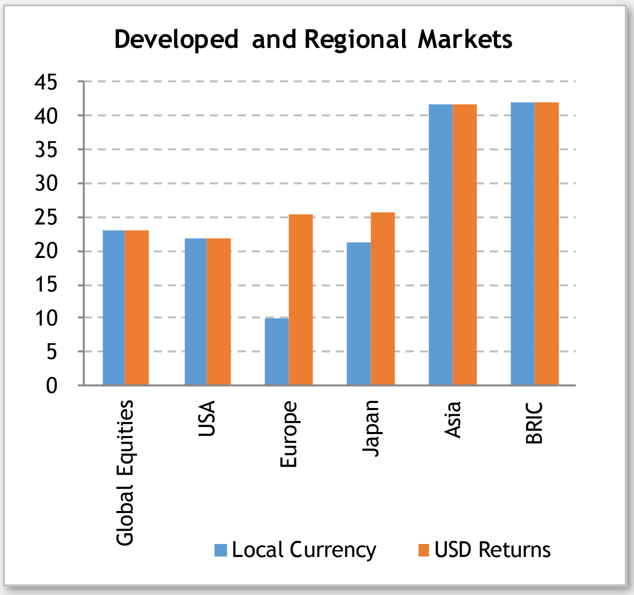
Of the 3 sectors, only the banks benefited from the upswing in economy with the other 2 sectors being more stable in nature. The smaller cap FBMSCAP Index has been more representative of the recovery in the global economy and is up 15%. Many of the index members are exporters and have appreciated strongly on the back of the sharp improvement in earnings.

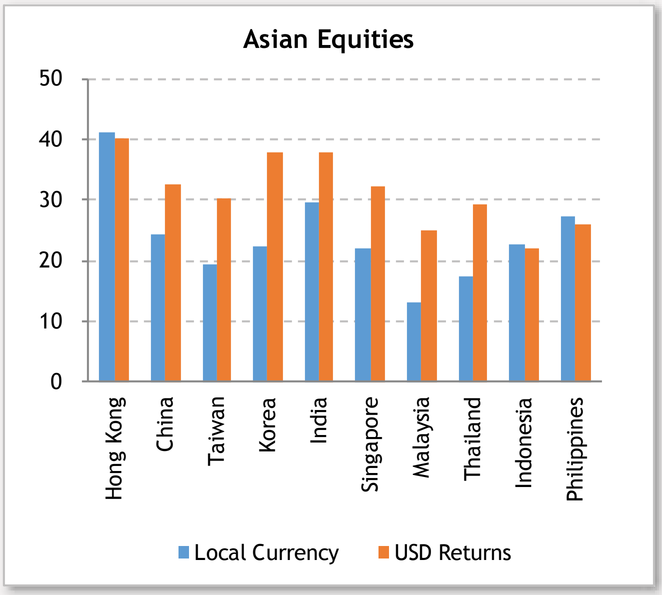
Volatility took a back seat.

Where we had Brexit and Trump in 2016 there was no major shock event in 2017. All major elections in France, Spain and Germany went according to script, and despite the saber rattling from North Korea with missile launches and nuclear tests there was no actual conflict with parties in that area namely US, China and Japan. Towards the year end, the new Crown Prince of Saudi Arabia took a range of measures that led to heightened geopolitical risks in the Middle East. The equity market shrugged off these events as small concerns and marched forward.

EQUITIES 2017

CHART 1: **EQUITY MARKET**





Source: FTSE, MSCI, Bloomberg, data as of 31 Dec 2017

Equity Markets		YTD Ret (%)	
Market	Index	Local Currency	USD Returns
Global Equities	MSCI World	23.1	23.1
USA	S&P500	21.8	21.8
Europe	Euro Stoxx 50	9.9	25.3
Japan	Nikkei 225	21.3	25.7
Asia	MSCI Asia ex Japan	41.8	41.8
BRIC	MSCI BRIC	42.0	42.0
Hong Kong	HSI	41.3	40.2
China	Shanghai Shenzhen	24.3	32.5
Taiwan	TAIEX	19.4	30.4
Korea	KOSPI	22.3	37.8
India	SENSEX	29.6	37.9
Singapore	STI	22.0	32.1
Malaysia	KLCI	13.2	25.0
Thailand	SET	17.3	29.1
Indonesia	JCI	22.5	22.0
Philippines	PCOMP	27.2	26.0

FIXED INCOME 2017

ON GOOD POISE AND PERFORMANCE.

Fed Reserve interest rates only rising at a measured pace.

Despite the rising Federal Reserve rate, fixed income markets have actually performed well in 2017. While the US short end rates have gone up (from 0.75% to 1.50% after 3 hikes in 2017), the long end rates *(US 10 Year Treasury rates)* have actually stayed in a range of between 2.00% to 2.60% as inflationary pressures have been dormant. The concerns of sharply higher interest rates stemming from US President Trump's election promises for expansionary fiscal policy has dissipated. In fact, the US Federal Reserve has continued its relatively dovish policy with interest rates rising only at a measured pace. Therefore, after spiking to a high of about 2.60% at the start of the year, the US 10 year rates have been trading in the aforementioned range.

Not too hot, not too cold. A 'Goldilocks' environment favourable for fixed income portfolios. The environment has been even more positive for local currency bonds of emerging markets especially India and Indonesia. With inflationary pressures absent, the central banks in these 2 countries have been able to cut domestic interest rates and as a result the aggregate bond market has appreciated strongly by between 10 to 16%. Furthermore, USD returns of local currency bonds have been boosted by the strong appreciation of Asian currencies.

Outperforming the developed markets

Asian (JP Morgan Asia Credit index JACI) and Emerging Market bonds : 5.6% and 8.6% year-to-date respectively.

Synchronised economic recovery improved the earnings and cashflows of companies. It boosted their ability to service debt. As a result, credit spreads have become even tighter from already tight levels. Spreads are close to all-time lows with yields of BBB rated Asian bonds just 200 bps above Treasuries. These slim yields are a function of improved investor sentiment and the search for yield as investors take increased risks for the pick-up in yield. Asian bonds are now fully valued but on a relative value perspective Asian bonds still appear attractive compared to European and US bonds.

Asian bonds fully valued. Still attractive compared to European and US bonds.

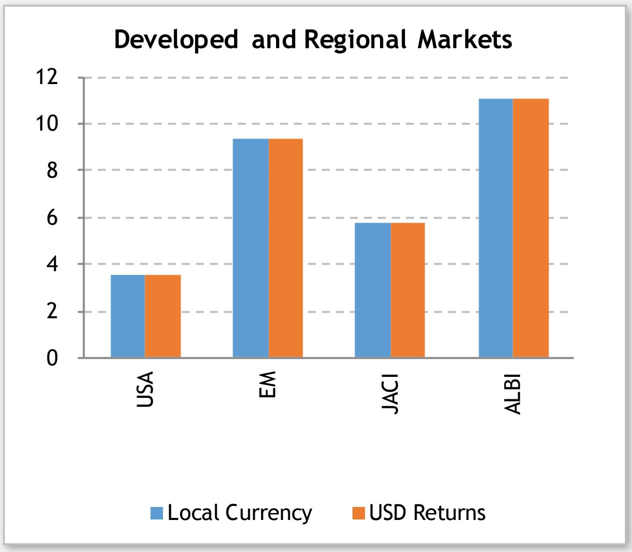
Very low volatility for fixed income markets. It was only towards the end of the year where we saw a slight wobble with spreads widening especially in the High Yield space. This was due to increased supply especially from China as companies came to the primary market to lock in yields at attractive levels in anticipation of a further increase in interest rates.

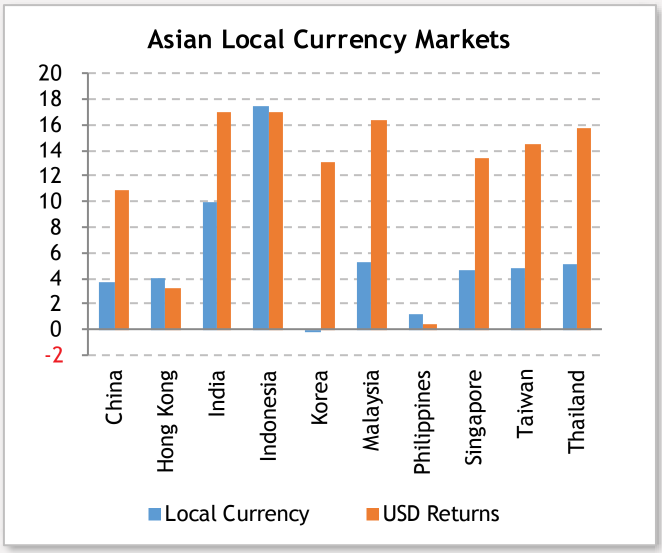
With the better economic conditions, central banks will want to move from the low interest rate environment and normalise the interest rates.

Central banks will want to hike interest rates but at a gradual pace so as not to unsettle the market. With the high indebtedness of many economies, central banks are aware of the risks of sharply higher rates. □

FIXED INCOME 2017

CHART 2: FIXED INCOME MARKET





Source: JPM, IBOXX, Barclays, Bloomberg, data as of 31 Dec 2017

Fixed Income Markets		YTD Ret (%)	
Market	Index	Local Currency	USD Returns
USA	US Aggregate Bond	3.5	3.5
EM	JPM EMBI	9.3	9.3
JACI	JPM Asia USD	5.8	5.8
ALBI	IBOXX Asia	11.0	11.0
China	IBOXX China	3.6	10.8
Hong Kong	IBOXX Hong Kong	4.0	3.2
India	IBOXX India	9.9	17.0
Indonesia	IBOXX Indonesia	17.4	17.0
Korea	IBOXX Korea	-0.2	13.0
Malaysia	IBOXX Malaysia	5.3	16.3
Philippines	IBOXX Philippines	1.2	0.4
Singapore	IBOXX Singapore	4.7	13.3
Taiwan	IBOXX Taiwan	4.8	14.5
Thailand	IBOXX Thailand	5.1	15.7

CURRENCIES 2017

A WALK ON THE WOW SIDE.

Risk appetite up

Creating inflows to fixed income and equities, and resulting in a thrust in Asian currencies.

The Ringgit

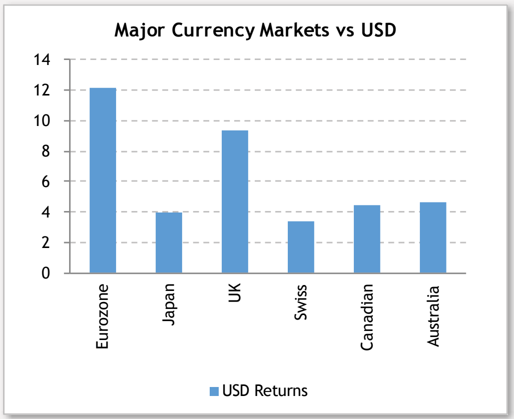
Up roughly 10%, appreciating from RM4.50 to RM4.10.

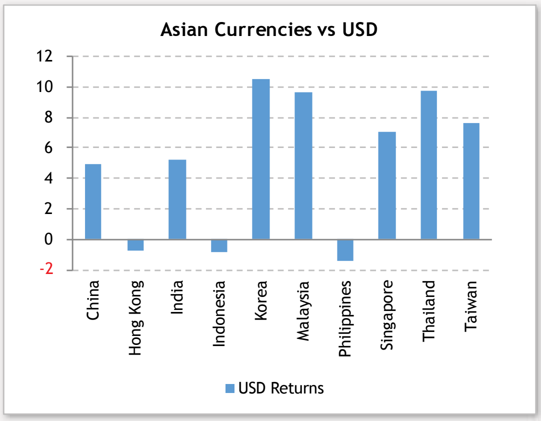
Asian currencies appreciated strongly against the USD. With the synchronised economic recovery, investors regained their risk appetite resulting in flows to both Asian fixed income and equities. These inflows have resulted in upward pressure in Asian currencies. One of our more contrarian calls has been our view that the Ringgit was undervalued and would appreciate in 2017. With the better economic growth and recovery in oil prices, the Ringgit has been one of the better performing currencies this year.

From a broader perspective, it's a reflection of USD weakness rather than Asian currency strength.

Almost all currencies appreciated versus the USD in 2017. We have seen these "risk on" periods before from 2003 to 2007 and more recently from 2009 to 2013. The other notable gains have been seen in the Euro which has appreciated by 12% due to better than expected growth in the Eurozone which is at its highest levels since the Global Financial Crisis. The British Pound has also staged a partial recovery in 2017 after depreciating by 15% triggered by Brexit in 2016.

CHART 3: CURRENCY MARKET





Currency Markets		YTD Ret (%)
Market	Index	USD Returns
Eurozone	EUR	12.2
Japan	JPY	3.9
UK	GBP	9.3
Swiss	CHF	3.4
Canadian	CAD	4.5
Australia	AUD	4.7
China	CNY	5.0
Hong Kong	HKD	-0.7
India	INR	5.2
Indonesia	IDR	-0.9
Korea	KRW	10.5
Malaysia	MYR	9.7
Philippines	PHP	-1.4
Singapore	SGD	7.0
Thailand	THB	9.7
Taiwan	TWD	7.6

Source: Bloomberg, data as of 31 Dec 2017

COMMODITIES 2017

GREAT ON THE HARD. SOFT ON THE SOFT.

The economic recovery has been beneficial to hard commodities. After bottoming in 2016, hard commodities have continued to rally in 2017. These industrial commodities like copper and aluminium are highly linked to economic activity. As economic activities gathered momentum in 2017, demand for these commodities rose, pushing up prices.

Oil and gas segment traded in a range in 2017 after a recovery in 2016.

Organization of Petroleum Exporting Countries *(OPEC)* countries led by Saudi Arabia together with Russia agreed to supply cuts in November 2016 and this agreement was renewed a year later in 2017. This has put a floor on oil prices even with continued supply from US shale oil. The benchmark Brent Crude oil prices have traded in a range of USD50-60 for much of the year only breaking USD60 recently after the recent renewal of the supply cuts in November 2017.

Soft commodity prices were generally weak with strong global supply pushing prices down. Palm oil prices were also negatively impacted when India raised import duties on refined palm oil from 25% to 40% to protect domestic oil seed crushers. As India is the largest importer of palm oil, the higher taxes would have a significant impact and would dampen overall demand for palm oil.

Up the economic activities. Up the demand for commodities.

One up. One down.

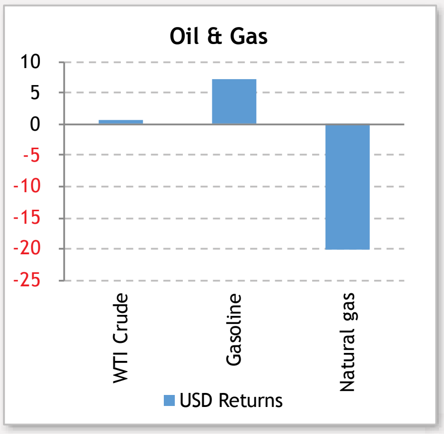
Oil remains strong. Better than expected economic growth led to upward revisions of demand.

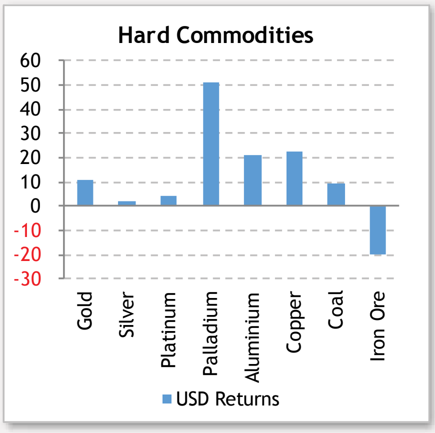
Natural gas slumped because of higher supply as US shale gas continues to grow.

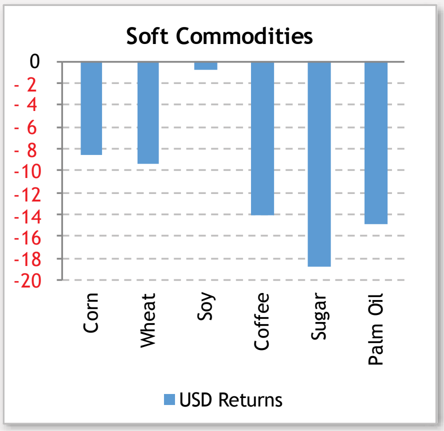
COMMODITIES 2017

Commodity Markets		YTD Ret (%)
Market	Index	USD Returns
NYMEX WTI Crude	WTI Crude	0.7
NYMEX Gasoline	Gasoline	7.2
NYMEX Nat Gas	Natural gas	-20.0
Spot Gold	Gold	10.5
Spot Silver	Silver	1.9
Spot Platinum	Platinum	4.4
Spot Palladium	Palladium	50.8
LME 3mth Aluminium	Aluminium	21.0
LME 3mth Copper	Copper	22.2
Newcastle Coal Futures	Coal	9.5
Iron Ore Futures	Iron Ore	-20.1
CBOT Corn	Corn	-8.5
CBOT Wheat	Wheat	-9.4
CBOT Soybeans	Soy	-0.7
ICE Coffee	Coffee	-14.1
ICE Sugar	Sugar	-18.8
Palm Oil	Palm Oil	-14.9

CHART 4: **COMMODITY MARKET**







Source: Bloomberg, data as of 31 Dec 2017

2018 THEME : CRUISING BUT BE ALERT

Investment Themes

Our investment themes provide the framework for our investment strategy in the different asset classes that we currently focus on. We have put considerable thought into these themes and hope that it will help us navigate the markets and add value to our customers.

SUB-THEME 1: Synchronised Economic Growth Continues

The synchronised economic recovery of 2017 would extend to synchronised economic growth for 2018. Leading indicators including Asian exports and ISM Manufacturing statistics (surveys conducted by the Institute of Supply Management) are strong and point to a continuation of global economic growth. Economies appear to have fully recovered from the bout of weakness brought on by the sharp drop in commodity prices in 2014 and 2015.

SUB-THEME 2: Monetary Policy Moves To Tightening

After 3 interest rate hikes by the US Federal Reserve in 2017, the Fed guides for another 3 hikes in 2018. Other Asian countries are also expected to move towards tighter monetary policy. Even after the 3 interest rate hikes in 2017, rates are still low at 1.50% and to put matters into perspective the US 10 year interest rate rose to more than 5% just before the Global Financial Crisis. Therefore, we can expect the US Federal Reserve to continue to normalise interest rates with other central banks following suit.

SUB-THEME 3: Inflation To Pickup But Still Remain Low

The economic growth is likely to prompt higher inflation. However, it is likely to remain controlled. Reasons for the dormant inflation :

(1) Technology. At the basic level, the internet has facilitated price comparisons by consumers, enabling consumer to select the cheapest prices and putting pressure on companies to keep prices competitively low. On another level, technology companies are now competing directly with incumbent bricks and mortar companies. For instance, Amazon acquired food retailer Wholefoods and slashed prices, forcing the traditional retailers to follow. In many instances, these new technology companies do not need to show profits and with significant cash hoards from venture capital monies, are able to burn cash. Inherently, they have zero capital cost, allowing them to sell cheaper, thus forcing traditional competitors to keep prices low. (2) Globalisation. With the free flow of capital and good and services, it is now easier to manufacture goods from any part of the globe. Multi-national companies shift to where production cost and labour are cheaper. This has resulted in downward pressure on wages in developed world countries. Workers in the developed world are unable to demand higher wages as this may result in their jobs being "off-shored" or "outsourced" to cheaper workers in a cheaper location. So increases in the prices of goods, services and wages will likely stay restrained.

SUB-THEME 6: Technology Disruption To Continue

In Asia, technology disruption is pronounced, and its value to the consumer is clear. (1) Cashless payment. Leading the game is China, where electronic payments are widespread and purchases are made through the mobile phone within the We Chat channel provided by Tencent. In many instances, Chinese internet is ahead of the rest of the world as there is a high acceptance for technology. (2) Online shopping. The shift to shopping on the Net has left traditional bricks and mortar retailers struggling. Shopping malls in Asia have been forced to change the mix of their shops to include more Food and Beverage (F&B) shops in order to draw visitors to the mall. This has been generally negative for retail. (3) Ride-sharing services. With the ease of use and price transparency, ride sharing services have disrupted taxi services in the region. Grab in ASEAN and Gojek in Indonesia have become an indispensable part of the transportation system.

2018 THEMES – CRUISING BUT BE ALERT

THEMES	MAYBANK ASSET MANAGEMENT ASSESMENT	KEY IMPACT(S)
SYNCHRONISED ECONOMIC GROWTH CONTINUES	•We expect the synchronised global growth that began in 2017 to continue at least through the first half of 2018. •We expect to see more modest growth for developed markets in 2018, post the surprisingly strong growth acceleration these markets have enjoyed in 2017, as the US and Eurozone are more advanced along the recovery cycle. •China could also see slower growth but we expect a modest slowdown with growth rates still at a healthy 6%-7%. Despite fears that policy measures/reforms *(e.g., a crackdown on polluting industries)* may limit near term growth, we believe the government will manage the reform-growth balance given China remains a command economy. •In ASEAN, growth is expected to be stable with the export-driven growth recovery in 2017 broadening to domestic demand and private investment in 2018. •Synchronised global growth and continued export recovery will likely spur machinery and equipment investment. In addition, after a prolonged slump, a step up in infrastructure investment will complement the trade-sparked private investment recovery.	Positive for equities and fixed income. Positive for domestic demand, machinery/ equipment and infrastructure plays.
MONETARY POLICY MOVES TOWARDS TIGHTENING	•While monetary policy in the US looks set to tighten further in 2018, we expect the pace of tightening to be gradual and do not anticipate a severe impact on Asia. Nevertheless, this remains a headwind for Asian markets and in particular ASEAN which tends to be more sensitive to US rates. •In general, we see slightly higher rates in Asia ex-Japan in 2018 albeit rates will still remain relatively low. •In line with still low money market rates, local currency liquidity will continue to be good. Robust domestic inflows could help offset reduced foreign fund flows into Asia *(as a result of tighter monetary conditions)*. •Low rates have enabled the expansion of equity valuation multiples. Going forward, earnings growth/momentum should be a more important driver of share price performance in 2018.	Mixed for fixed income. Higher rates generally negative for FI. Neutral for equities. Focus on earnings momentum. Greater emphasis on active investment management.
INFLATION TO PICK UP BUT WILL STILL BE LOW	•Inflation has surprised on the downside in most of Asia in 2017. Thus, we could see a slight pick-up in 2018 off a low base, given rising prices of oil and China-centric hard commodities *(e.g., steel)*. Barring weather shocks, we expect food inflation to be benign. •However, inflation likely to remain low with wages growth remains muted. Technology disruption will continue to put downward pressure on wages as automation encourages companies to substitute labour with capital •Low inflation will allow policy makers the leeway to calibrate a smooth normalisation of monetary policy.	Positive for fixed income securities as the search for yield will continue. Positive for oil and selective hard commodities plays.
TECHNOLOGY DISRUPTION CONTINUES	•We expect the trend of disruptive technology to continue, thereby displacing traditional/'old economy' roles. •Some tech companies have an implied zero cost of capital resulting in an uneven playing field with the traditional incumbent players. These tech companies are able to lower prices sacrificing profitability for market share while putting the incumbents under severe pressure. •With technology enabling productivity growth, we are positive on medium-to- long term economic growth. •China internet more profitable with better growth prospects given economies of scale and early adoption by consumers.	Positive for the tech sector. More selective on consumer retail.

Investment Strategy

With the synchronised economic growth and shift to tighter monetary policy we would tilt our preference to Equities. Fixed income returns may be capped given the move to higher interest rates. However, we still expect to see gains from fixed income as interest rates are only likely to rise at a measured pace given the restrained inflation. Portfolio managers will have to be nimble as interest rates will trade in a range albeit with an upward bias. Interest rates will spike whenever we get data suggesting higher inflation, only to fall back when other data indicate otherwise. With equity valuations now at a higher level, we expect returns to come from earnings growth rather than further valuation expansion. The current situation with strong economic growth and controlled inflation is still conducive for corporate earnings growth. We expect commodity prices, especially oil, to be on an upward trend riding on the buoyant economic conditions. With technology disruption, investors will have to be careful as market conditions in each sector are evolving rapidly and traditional players can be disrupted overnight. Investors will also need the judgement to pick the right tech company as by nature and design only one or two tech companies will come to dominate each area in a "winner take all environment".

- A preference for Equities.
- Gains from Fixed Income, but may be capped.
- Still conducive for corporate earnings growth.
- Commodity prices (oil) on the up.
- Technology disruption means tread carefully.

Investment Risks

While at this point the economic conditions appear to be benign, we are well aware of the various long tail risks. The global economic cycle is mature and is probably in the late stages as it has been 10 years since the last crisis. Furthermore, equity valuations have expanded globally and valuations in the US are now the highest since the tech bubble in 2000. For Asia, one comfort is that Asian equity valuations are still far cheaper, trading at a significant discount to the developed world and on a relative basis, Asian equities are possibly the most attractive asset class globally. We also see a similar situation in fixed income where credit spreads are close to all-time lows and widespread acceptance of covenant-lite bonds. The long period of low interest rates have seen the search for yield push the prices various asset classes up and some display the characteristics of a bubble. We see this in some real estate markets, the mania surrounding crypto-currency and some segments of private equity especially anything associated with tech. We also know that debt in aggregate, including both private and public debt, as a proportion of the GDP is at all-time highs. We do not know if a popping of any of the bubbles will result in a crisis but we have to be ready for should it occur. We also have the ever present geopolitical risks coming from terrorism, North Korea and instability in the Middle East.

- Equity valuations in the US at its highest since 2000.
- Nonetheless, Asia equity valuations are still cheaper and fixed income credit spreads are near all-time low.
- Characteristics of a bubble in real estate, crypto-currency and tech associated private equity.
- Private and public debt at all-time highs.
- Global geopolitical risks.

CRUISING BUT BE ALERT in 2018, as the momentum in economic growth will continue. And we need to be cautious as there are some risks built up over the years that could trigger a crisis. We hope our key themes and insights would prove useful to you as we move forward to 2018. Finally, we would like to extend our appreciation again to you for your support. At Maybank Asset Management, we will continue to strive towards generating good performance and providing investment solutions to meet your investment needs.

Robin Yeoh – Head, Regional Investments