2018 OUTLOOK

SINGAPORE

CRUISING BUT BE ALERT

THEMES

SYNCHRONIZED GROWTH CONTINUES

MONETARY POLICY MOVES TOWARDS TIGHTENING

INFLATION TO PICK UP BUT WILL STILL BE LOW

TECHNOLOGY DISRUPTION CONTINUES

Maybank Asset Management

Happy New Year
to our valued clients and business partners.

At the start of 2018, we take this opportunity to prepare you for the currents and ripples in the investment landscape.

First, let's look over the past year which has been fairly generous but not without surprises. We had projected 2017 to be 'Bumpy But Better' and true enough, there were jolts here and there but no major bruises.

2017 left us in good shape to venture forth confidently.
While 2018 appears calm and definitely welcoming, our theme this year sums it up - 'Cruising But Be Alert'.

As stable, strong or buoyant the investment market may be, we'd advice you to keep a watchful eye on a few global and domestic factors.

For the Equities and Fixed Income markets, we leave you with a 2017 Review, 2018 Outlook and Strategy. May our views help you plan a successful year ahead.

An Overview :

SINGAPORE EQUITIES

SINGAPORE FIXED INCOME

SYNCHRONISED GROWTH CONTINUES TO SAIL WITH MODEST ROOM TO NAVIGATE.

We expect the global growth that began in 2017 to continue at least through the first half of 2018.

In developed markets, we forecast more modest growth post the surprisingly strong growth acceleration these markets have enjoyed in 2017, while the US and Eurozone are more advanced along the recovery cycle.

> China: slower but steady China could also see slower growth albeit we expect growth to be largely stable. 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.

> ASEAN: machinery and infrastructure take it up a notch. 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.

> New policies could do the trick. We expect policy makers to be more pro-active in boosting the domestic economy with a focus on job creation and increased infrastructure spending. More populist policies may be introduced in countries with upcoming elections in 2018 and 2019 *(e.g., Thailand, Indonesia, India).*

> Tighter monetary policy in US. Headwinds in ASEAN. 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.

> The needle won't move much from low. 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.

> Inflation making a modest comeback but oh... so shy. 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.

> Watch out traditionalists. Tech disruptions are still trending. 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 is more profitable with better growth prospects given economies of scale and early adoption by consumers.

KEY IMPACTS

POSITIVE

- → For equities and fixed income
- → For domestic demand, machinery/ equipment and infrastructure
- → For fixed income securities as the reach for yield will continue
- → For oil and selective hard commodities
- → For tech sector; more selective on consumer retail

MIXED

- → For fixed income; higher rates generally negative for FI

NEUTRAL

- → For equities; focus on earnings momentum; greater emphasis on active investment management

Upside RISKS

Favourable policies to boost economic growth.

In Asia, governments have increased infrastructure spending while in the US, there are hopes that President Trump's tax reform plans would boost economic growth. An improving economic outlook could also stimulate increased capital expenditure/business investment.

US tax reform as the booster.

Tax reforms may lift business investment leading to stronger economic growth in the US.

Downside RISKS

Weaker-than-expected economic growth.

The business cycle is mature and we are into the 10th year since the last downturn in 2008. The business cycle will not be repealed and downturns will follow upturns with the only uncertainty being timing.

Asset bubbles popping.

The low interest rate environment has led to asset bubbles as the search for yield has pushed prices of various asset classes including real estate, private equity and European high yield. With global debt levels high, a deflation of asset bubbles may lead to a crisis.

Higher-than-expected inflation.

Current inflation expectations are low but with commodity prices up and labour markets relatively tight, this could lead to an inflation scare. There is a risk that wages may rise sharply if workers take advantage of the tighter job markets and force employees to increase pay.

Geopolitical tensions.

This is on the rise given political instability in Middle East, North Korea and even in Europe.

Mark Chua, CFA – Portfolio Manager

SINGAPORE EQUITIES

2017 REVIEW

Singapore was one of the first to reap from a synchronised global growth. Indeed, 2017 was a good year.

After a disappointing 2016, 2017 turned out to be a good year for the Singapore economy. The government's forecast for 2017 GDP growth was revised upwards twice, to 3.0 - 3.5%, from their initial 1.0 - 3.0% forecast. Being a small, open economy, Singapore was among the first to benefit from a synchronised recovery in global exports. The manufacturing sector showed robust growth, driven by the Electronics and Semiconductor industries. The economic recovery soon spread to other domestic sectors such as Real Estate. During the third quarter, we saw Residential property prices increase on a quarterly basis, for the first time since September 2013, and precipitating a wave of collective sales for older residential apartments. Prime Office properties continue to transact at rich valuations driven by strong demand from large institutional investors.

GDP forecast
revised twice Upwards to

3.0% -3.5%

Robust growth

Starting with the manufacturing sector, followed by domestic sector with a boost in real estate.

Equity markets fared well, with the MSCI Singapore index up 22% from January to end December.

At this time last year, we had advised investors to position for a gradual economic recovery as the Singapore equity market was trading at an acceptable valuation in line with its historic average. Equity markets are forward-looking and equity prices start to rise well before any evidence of the economic recovery. This phenomenon was seen in the first half of the year, as share prices of cyclical sectors started to rise, for example in Banking, Real Estate and the Offshore Marine. By the second half of the year, we started to see more evidence of the economic recovery through data on business loans, physical property prices, new offshore marine orders, as well as in corporate earnings.

In the first half of 2017, equity prices started to rise. The second half of the year showed even more economic recovery.

2018 OUTLOOK

SINGAPORE EQUITIES

2018 OUTLOOK

Major segments of the Singapore economy such as Exports, Real Estate and Banking are doing well.

Cyclical momentum is firming and this should spread out to support a gradual recovery in labour markets. We can expect to see stronger consumption power supporting economic growth in the next phase. We do not expect the government to tighten monetary policy unless there is more evidence of inflationary pressures. However, a potential risk which may trigger macro-prudential measures is if the heady pace of en-bloc collective sales was to continue unabated.

Outside of Singapore, a global economic recovery is picking up pace. Major economies such as the US, Europe, China and Japan are growing. We are expecting global interest rates to rise gradually as the US Federal Reserve normalises monetary policy, which is consistent with an improving economy. However, geopolitical tensions have risen, especially on the Korean peninsula, in the Middle East, and within nations in the form of rising popular discontent.

For Singapore equities, we would advocate more caution as equity valuations are elevated at 1 standard deviation above its historic mean. Expectations are high and there could be periodic corrections if earnings do not turn out to be as strong as expected or if geopolitical tensions flare up. We have a mid to high single digit growth target in 2018. At 15 times Price Earning *(P/E)* multiple, Singapore appears attractive relative to equity markets in the US or Europe.

SINGAPORE EQUITIES

2018
STRATEGY

Giving more attention to valuations.

In 2018, we will focus our stock picks on companies which have earnings growth at reasonable valuations. Market valuations have risen meaningfully and higher expectations have been incorporated into equity prices. In this environment, it is important to pay more attention to valuations.
At the same time, we have to be aware that technology trends are in flux and new entrants are disrupting traditional industries. Business valuations using traditional financial metrics may not be sufficient and need to be supplemented with an understanding of business models and potential competitive risks from new entrants. These market conditions will make 2018 a challenging year for security selection, but we take it as a challenge and an opportunity for active managers to add value to their client portfolios.

Going overweight or underweight... Jack, be nimble.

In terms of sector allocation, we would advocate Overweight positions on Real Estate, Manufacturing, Neutral positions on Financials, Gaming, and Underweight positions on Transport and Consumer Staples. We expect volatility would remain high, and would suggest investors remain nimble in the view of potential changes to the macroeconomic and geopolitical landscape.

Watch out :

Business valuations using traditional metrics are insufficient especially in an environment with new competitive entrants and technology disruptions.

SINGAPORE EQUITIES

SCENARIO	ASSUMPTION / RISK	MARKET IMPLICATIONS AND STRATEGY
BASE CASE	• GDP to grow 1.5 - 3.5% in 2018 with recovery in financial services and offshore oil & gas sector. • Non-oil domestic exports to show high-single digit growth in 2018. • Low inflation of 2.0% expected in 2018. The MAS to maintain its policy of zero appreciation of the SGD.	• FSSTI target 3,598 based on 14.0x 2019 EPS of 257 *(+5.7%)*
GOOD CASE	• Better than expected recovery in external demand, driven by the US, Europe and China, which will be positive for exports. • Robust economic data outweighing interest rate hike concerns. • Relaxation of macro-prudential measures in the property sector. • Supportive fiscal policies from the US and successful tax reform package.	• FSSTI target 3,855 based on 15.0x 2019 EPS of 257 *(+13.3%)*
BAD CASE	• Heightened external headwinds on slowing US growth, Europe debt crisis re-emerges and/or China "hard landing". • Policy misstep by the Fed or other DM central banks, leading to disorderly outflow from EM. • Inflation climbs faster than expected. • Unexpected fall in property prices/demand putting pressure on financial position and corporate earnings.	• FSSTI target 3,341 based on 13.0x 2019 EPS of 257 *(-1.8%)*

Note: Return calculations based on FSTE Straits Times Index ("FSSTI") 29 December 2017 close of 3,402.92.
Source: Bloomberg as of 29 December 2017

Notes:
REITs refers to Real Estate Investment Trusts
MSCI refers to Morgan Stanley Capital International
DM refers to Developed Markets
EM refers to Emerging Markets
Feds refers to the United States of America Federal Reserves
GDP refers to Gross Domestic Product
SGD refers to Singapore Dollars
YTD refers to year-to-date

Joyi Wu – Credit Analyst / Portfolio Manager
John Lim – Credit Analyst / Portfolio Manager

SINGAPORE FIXED INCOME

Macro

2017 Delivered above expectations.

Concluding 2017, the year had been better than expected on the back of demand pickup in G3 economies while China's growth held stable. This had helped to drive up demand in manufacturing, financial services, wholesale trade and transport/logistics. Back in late 2016, MTI's initial forecast for 2017's growth was "1%-3%". However, by November, this figure is projected to at "3%-3.5%", slightly above the initial 3%. Inflation had been low, with MAS's core inflation expected at 1.5% for 2017.

Growth forecast was re-projected

3.0%-3.5%

2018 Key influences in Asia with a domestic impact.

Looking into 2018, some themes in Asia stand out and will have a domestic impact.
1) Growth to be sustained as the global business cycle continues its expansion since late 2016 but enters a mature phase.
2) Inflation to rise, both from sustained growth and higher commodity and oil prices.
3) China to continue to exert a significant influence via the "One-belt, One-road" initiative.

Singapore's growth for 2018 is expected to range from 1.5% to 3.5%, with a projected moderation in tech-related manufacturing to be balanced out by other sectors. Core inflation is estimated at 1%-2% in 2018 with the likelihood of upside surprises.

On idiosyncratic developments, the fallout from the oil & gas services sector will likely abate and prevent a deterioration in the banking system's NPL. The private property market was buoyant in 2017 with aggressive land bidding activity spilling over into a series of high-profile collective sales. These activities add to concerns of already high existing housing stock that waits to be absorbed and hence the possibility of macro-prudential regulations to cool the market in 2018 cannot be ruled out. Lastly, the Singapore-KL HSR project tender will be finalised in 2018 which might see a Chinese consortium winning the bid.

Expected growth

1.5%-3.5%

Estimated inflation

1%-2%

Oil & gas fallout will likely subside.

The 2017 aggressive property market may lead to macro-prudential regulations this year.

SINGAPORE FIXED INCOME

Rates & FX

2017 Reporting an impressive performance.

In 2017, both SGS and SGD swap curves had mirrored the flattening trends in other economies' bond markets, with yields at the front end increasing to reflect FOMC rate hikes while yields at the intermediate to long end tightened.
The SGD had appreciated 6.8% against the USD over the past 11 months, marking its performance in middle of the pack relative to other Asian currencies *(TWD, THB, KRW and MYR had posted stronger performances YTD)*.
Nevertheless, this is an impressive performance considering the strength of the SGD relative to peers.

SGD appreciated

6.8%

against the USD

SGS & SGD curve swapping

Yields at the front increased.
Yields at the intermediate/ long end tightened.

2018 Contributors to a steeper SGS curve.

For 2018, we believe the SGS curve can experience steepening pressures due to the following contributing factors:
1) 2017 has been a year of flattening bond curves *(especially in USA)*. If inflation picks up above market expectations, the momentum could reverse. 2) There remains 4 vacancies in FOMC governors for US President Trump to fill, with the potential for more "hawkish" members to be appointed and 3) an active 2018 SGS issuance calendar with 9 auctions being arranged vs. 7 in 2017 4) Shift in monetary policy in Europe and Japan

For our FX outlook, we believe the impact from US rate hikes will likely be limited due to higher domestic inflation and tightening of monetary policy by MAS, thus keeping USDSGD supported and range within 1.34 to 1.37 in Q1 2018.

US effect on FX

US rate hikes will have limited impact.
US tax reforms, if passed, may weaken SGD

SINGAPORE FIXED INCOME

Credit

2017 Comfortable and generally stable.

2018 Optimistic that stability still owns the day.

In 2017, we have seen the banking system's NPL levels rise although absolute NPL levels remain very comfortable. News of an unrated bond issue default by Nam Cheong brought volatility into the unrated bond space, but investment grade rated issues remained generally stable as the credit impact was viewed as manageable. Heading into 2018 this should stabilise given higher oil prices and the restructuring of debt in the offshore marine sector. 2018 is also the year where IFRS 9 will be implemented and hence we will see a hit to banks' earnings although overall capitalization levels will remain strong.

Gross SGD bond issuance *(ex-SGS & MAS bonds/bills & CDs)* year-to-date reached SGD 25.2 billion as of 8th December 2017 and will finish the year above 2016's gross amount of SGD 19.1 billion. Companies were actively re-financing and strengthening their financial capital as rates fell post the US election at end of 2016. Despite the MAS encouraging rated issuance, a larger percentage i.e., 68% of issues came unrated in 2017, compared to only 60% in 2016.

The majority of the unrated issues still came from financial institutions and real estate. In the rated space, the majority of the issues are investment grade. Financial issuers and real estate issuers together account for 77% of the total amount of rated issues in 2017 year-to-date, with government related entities taking another 14%. We expect the issue pipeline to remain buoyant in 2018, as we believe the global economy will improve and borrowers will be motivated to issue before the expected Fed rate hikes.

Capitalisation levels will still be strong in 2018

Despite IFRS 9 affecting banks' earnings.

Bond issuance as of December 2017

SGD 25.2 billion

Buoyant forecast

As global economy improves, there's confidence in borrowers to issue.

SINGAPORE FIXED INCOME

SCENARIO	ASSUMPTION / RISK	MARKET IMPLICATIONS AND STRATEGY
BASE CASE	• Federal Open Market Committee *(FOMC)* to continue its hikes in 2018 *(2-3 hikes)*, ECB and BoJ to sound more positive on economy. • Growth in Asia to remain firm as the global business cycle matures; some slowdown in China expected as the cooling measures of the housing market takes effect. • Oil prices to remain at US$50-US$70 per barrel, as global oil supply gets absorbed. • Inflation to rise slightly although pressures will be contained.	• Curve to experience some steepening. • Continue to prefer credit over government bonds. • Expect MAS to tighten monetary policy in first half of 2018. • USDSGD to range 1.34-1.37 in 1st quarter of 2018. We expect slightly weaker SGD due to one-off repatriation tax benefits for US companies' offshore earnings.
GOOD CASE	• Inflation pressures to remain low amid steady growth. • Tech-related *(such as electronics)* demand proves stronger than expected and triggers a revival in domestic demand, which leads to better economy and labor market. • Higher than expected oil prices benefit the marine & offshore engineering sector.	• Yield curves to continue stay flat as per 2017. • Credit spread tightens following the better economic conditions, prefer credit over government bonds. • SGD to remain range bound.
BAD CASE	• Oil/commodity prices to continue to rise in 2018, putting Asian economies under higher inflation and balance of payment pressures. • G3 central banks to sound less accommodative on monetary policy, nomination of more hawkish leaning members in FOMC.	• Rates curve to experience stronger steepening pressures. • Asian currencies like INR, IDR and SGD to weaken.

STRATEGY

- **Rates:** Curve likely to see some steepening pressure so would prefer to stay at the shorter end.
- **Credit:** Broadly stable with tightening potential if growth surprises on the upside.
- **Currency:** USDSGD to stay supported, hovering between 1.34-1.37 in the near term.

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YTD refers to year-to-date
NPL refers to non-performing loan
UST refers to United States Treasury