

CHALLENGING DRIVE

4Q 2019 OUTLOOK & STRATEGIES



Maybank Asset Management

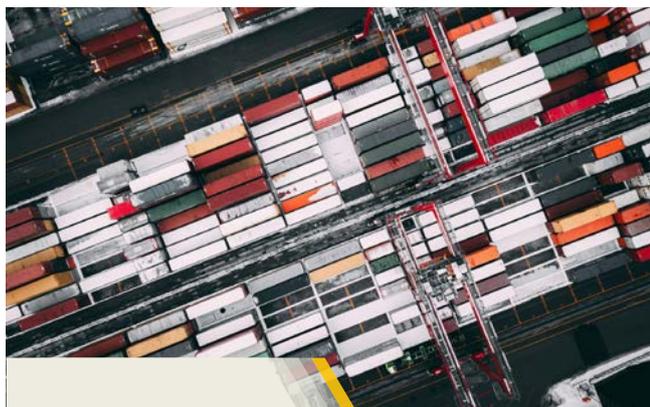
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Our 3Q 2019 Review

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 triggered 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 triggered 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	<p>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.</p> <p>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.</p>	<p>Neutral for equities and mixed for fixed income (positive government bonds, less so for credits).</p> <p>Favour ASEAN over North Asia for equities and local currency fixed income.</p> <p>Prefer Asian credits with high carry.</p>
	<p>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).</p> <p>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.</p>	
INFLATION MUTED; LOWER OIL PRICES	<p>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.</p> <p>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.</p> <p>Given excess capacity in most of the region, we see little price pressure stemming from capacity constraints.</p>	<p>Negative on most oil plays.</p> <p>Lower oil prices positive for India, Indonesia, the Philippines and Thailand.</p>

CHALLENGING DRIVE

KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
MONETARY POLICY CONTINUES TO TIGHTEN BUT CLOSER TO THE END; A WEAKER USD	<p>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.</p> <p>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.</p> <p>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.</p> <p>We see less pressure on Asian central banks to hike rapidly given a benign inflation environment and less currency pressure from a weaker USD.</p> <p>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.</p>	<p>Prefer US government bonds and Asian local currency government bonds.</p> <p>Favor REITs and high dividend yielding stocks.</p> <p>Favor Asian currencies over the USD. Favor beneficiaries of weaker USD</p>
MORE VOLATILITY; GEOPOLITICS MATTER	<p>We expect markets to remain volatile in 2019 given the uncertainty and risks to growth. For fixed income, we expect continued refinancing pressure.</p> <p>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.</p> <p>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.</p> <p>Other sources of geopolitical risks include Brexit; elections in Europe (namely, in Germany and Italy); ECB tapering and Middle East tensions.</p>	<p>More tactical trading.</p> <p>High cash allocation from time-to-time.</p> <p>Once election uncertainty is out of the way, India and Indonesia might rally.</p>
GLOBAL TRADE / SUPPLY CHAIN REFORM	<p>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.</p> <p>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.</p>	<p>Favor selected exporters that benefit from production shifts away from China.</p>

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-slowng 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-slowng 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

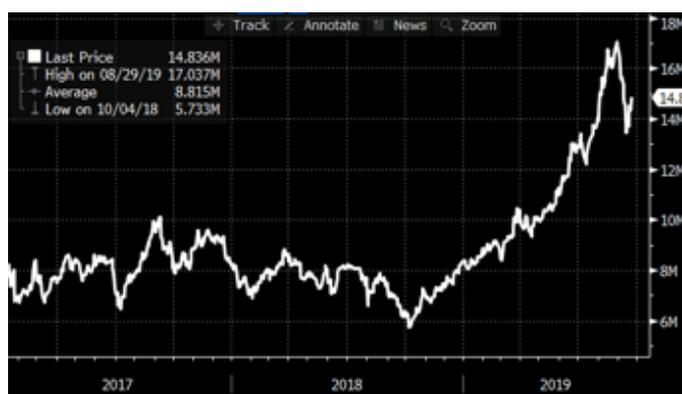
FIXED INCOME



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".

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.



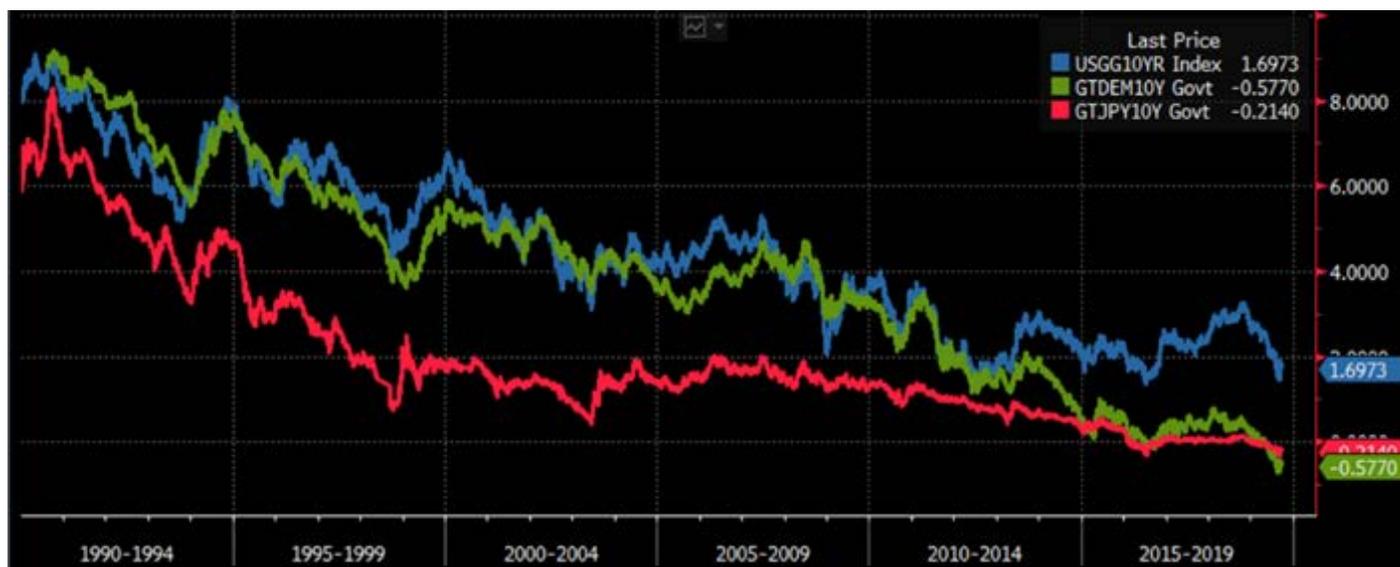
Source: Bloomberg; as of 24 September 2019

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

INDONESIA

4Q 2019 Indonesia Outlook

EQUITIES



The recent BI's decision to cut rates further came in as a surprise but nevertheless, helped to restore investors' confidence on riskier assets, which saw cyclicals outperform quality defensives.

The Jakarta Composite Index (JCI) had a positive start to the quarter as Bank Indonesia (BI) had loosened its monetary policy. However, in August, the JCI weakened as it followed Asia's weakened trend on the back of a sudden US-China trade war escalation, while the index's reduced weightage in the MSCI index piled on more pressure.

The market however recouped some of its earlier losses as recent positive news boosted market confidence when the US delayed their additional tariffs imposed on Chinese goods from 1st October to 15th October. What further supported the market was the expected Federal Reserve's second rate cut. The recent BI's decision to cut rates further came in as a surprise but nevertheless, helped to restore investors' confidence on riskier assets, which saw cyclicals outperform quality defensives.

Such a turnaround was short-lived given the presence of currency vulnerability risk. This is mainly due to the Fed's less dovish stance which raised uncertainties amongst investors i.e. of negative systemic risk for Asian currencies. From a macro point of view, there has been a lack of significant improvements in economic data with many gauges pointing instead towards a common weakening global trend. In addition mass demonstrations on new law bills took place around major Indonesian cities which increased political instability prior

to the new cabinet appointment on 20th October 2019, which warranted a higher risk premium.

We feel that Indonesian equity markets will still be driven by external events as BI's flexibility is determined by portfolio flow movements. China's stimulus to support the recovery of industrial commodity prices is needed to sustain the risk-on mode as there is no domestic catalyst in the short-term as domestic growth remained lackluster. Therefore, we are cautious in the short-term but positive in the longer-term given that support from both BI and the Government should start to provide a cushion for economic growth.

Consumption recovery should aid GDP growth for 2019, however weak exports and investments will drag growth down as a result of global factors and policies given their role in lowering the country's current account deficit. Going into 2020, growth may strengthen supported by higher direct investment and supply-side reform, but this is subject to the political environment which has been risky as of late. At this stage, our base JCI target of 6,375 points (3.8% upside) reflects our neutral and tactical view on equity positioning with higher allocation on quality stocks. We like telcos (and tower companies), industrial products and industrial estates names due to its favourable idiosyncratic risk-reward benefits in the long term.

4Q 2019 Indonesia Outlook

FIXED INCOME



Going forward, we remain positive on IDR bonds as we expect 10-Year bonds to trade within the range of 6.75% – 7.25% by year-end 2019.

Bank Indonesia (BI) cut its benchmark BI 7-Day Repo Rate by 25bps in every month of 3Q19, lowering the rate overall from 6.00% to 5.25%. Such cuts mainly act as a pre-emptive measure to stimulate economic growth amid the global slowdown, supported by benign inflation and a healthy balance of payment conditions. BI has also decided to loosen its macro-prudential measures to support credit growth momentum, which has eased persistently to 9.6% YoY in July 2019 from 12.1% in February 2019.

A further 25bps rate cut would most likely take place in November or December 2019 if domestic economic data is weak and does not signal growth or improvement. Such action might not be needed in the event of stable inflation and improved balance of payment conditions. However, we believe BI would execute a rate cut if the US Federal Reserve continues to cut their rates in 4Q19.

From July to mid-September the Government has already issued an on-target IDR 167.3t worth of bonds from auction programs, both in conventional bonds and sukuk but would need another IDR 17.8t to fulfil its bond issuance target for 3Q19. Year-to-date the average issuances for conventional bonds and sukuk per auction are IDR 21.4t and IDR 7.6t respectively, with total bids averaging at IDR 49.1t and IDR 22.8t respectively. Year-to-date, the government has successfully issued IDR 708.3t gross or 84.3% of its target.

In 3Q19, the local currency fluctuated within a stable range of IDR 14,000 – IDR 14,500 per USD, while foreign exchange reserves have now reached USD 126.4b.

Going forward, we remain positive on IDR bonds as we expect 10-Year bonds to trade within the range of 6.75% – 7.25% by year-end 2019.



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