e-Market Outlook

2019 Quarter 4

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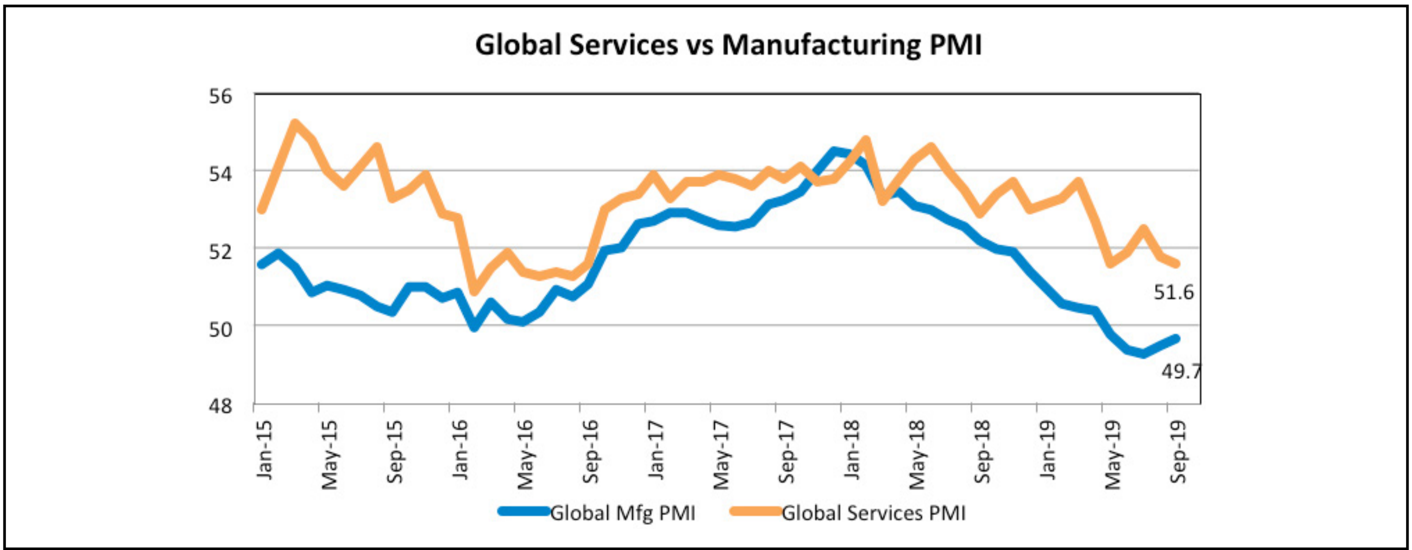
Fourth Quarter Market Review

01 Market Recap

We continue to see pocket of opportunities in the equity market in 4th quarter of 2019 on the back of supportive economic policies, stabilising earnings estimate, and some reduction in trade tension between US and China.

Weakness in manufacturing but services is holding up



Source: Principal Asset Management & Bloomberg

*Investors should maintain a neutral asset allocation of **50:50** between equities and fixed income by focusing on the diversified global income funds such as REITs and selected growth fund that include China.*

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02 Global Outlook

The World Bank in June has revised the global growth to 2.6% from 2.9% which has made in January 2019.

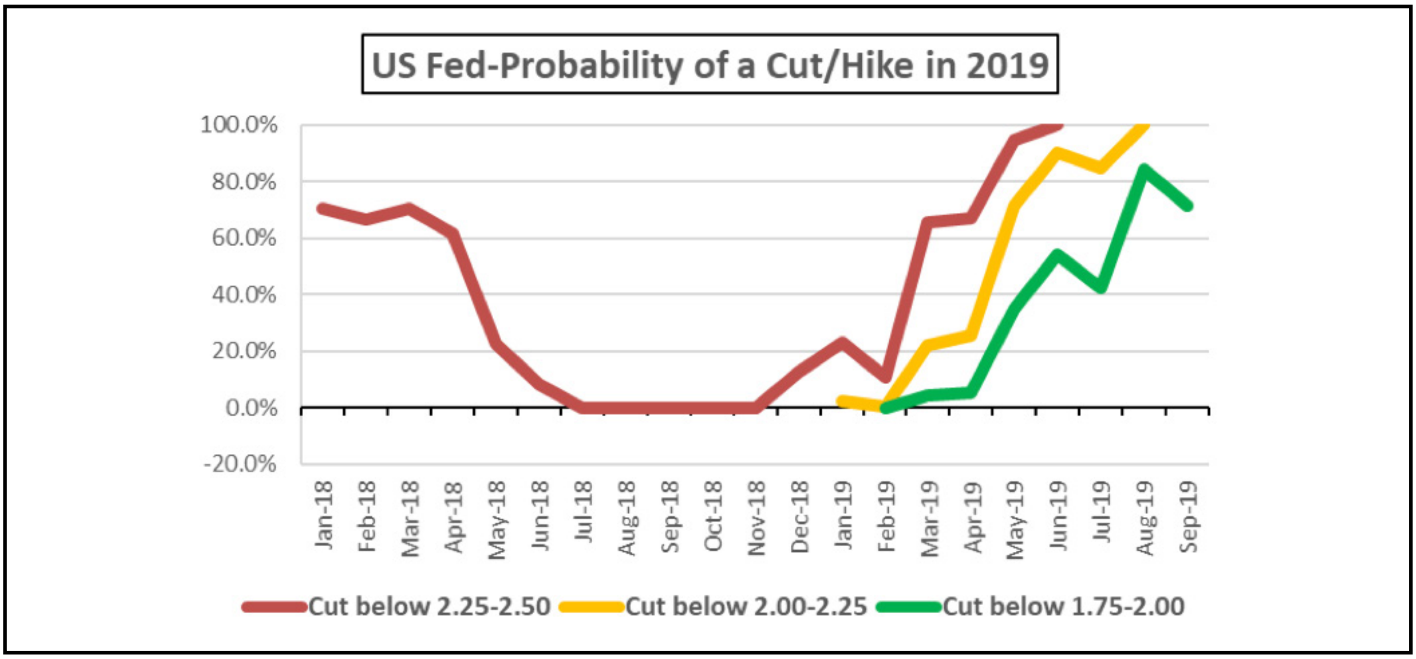
With global growth moderating, policymakers around the world have implemented measures such as cutting rates to support growth. The central bank of Thailand, Indonesia and India recently eased their monetary policy with 25 to 75 bps of rate cuts.

Marco Policy Dashboard

Country	Current Fiscal policy	Future Fiscal Policy bias (+6m)	Sep '19 Score (1-5) Tight-Loose	Aug '19 Score (1-5) Tight-Loose	Jul '19 Score (1-5) Tight-Loose	Fiscal balance 2018	Fiscal balance 2019	Current Monetary policy	Future Monetary Policy bias (+6m)	Sep '19 Score (1-5) Tight-Loose	Aug '19 Score (1-5) Tight-Loose	Jul '19 Score (1-5) Tight-Loose	Central Bank Rate	Last Change	Real GDP YoY 2018	Real GDP YoY 2019	CPI YoY % 1Q19A	CPI YoY % 4Q19E
US	Loose	Loose	5	5	5	-4.1	-4.5	Neutral	Loose	4	4	4	2.00	Cut 25bp in Sep '19	2.9	2.3	1.6	2.0
Europe	Neutral	Neutral	3	3	3	-0.8	-1.0	Loose	Very Loose	5	5	5	0.00	Cut 5bp in Mar '16	1.9	1.4	1.6	1.4
Japan	Loose	Loose	5	5	5	-3.8	-3.5	Loose	Loose	5	5	5	-0.10	Cut 20bp in Jan '16	0.7	0.9	0.3	1.1
Developed Markets			**87%**	**87%**	**87%**					**93%**	**93%**	**93%**						
China	Loose	Very Loose	5	5	5	-4.1	-4.5	V. Loose	Very Loose	5	5	5	2.85	Cut RRR 100bp to 13.5% Jan '19	6.6	6.2	1.8	2.8
Korea	Neutral	Loose	4	4	4	2.5	0.1	Neutral	Loose	4	4	4	1.50	Cut 25bp in Jul '19	2.7	1.9	1.5	0.8
Taiwan	Neutral	Neutral	3	3	3	-0.7	-1.0	Neutral	Neutral	4	4	4	1.38	Cut 50bp in June '16	2.7	2.1	1.4	1.0
India	Loose	Very Loose	5	4	4	-3.6	-3.4	Loose	Loose	4	4	4	5.15	Cut 25bp in Oct '19	7.2	6.4	4.0	3.7
Singapore	Neutral	Loose	4	4	4	-0.1	-0.7	Neutral	Neutral	3	3	3	1.88	Hiked slope of S$NEER band Oct '18	3.2	0.7	0.6	0.8
Malaysia	V. Loose	Very Loose	5	5	5	-3.7	-3.4	Loose	Loose	4	4	4	3.00	Cut OPR by 25bp in May '19	4.7	4.5	0.1	1.6
Thailand	V. Loose	Very Loose	5	5	5	-3.0	-2.7	Neutral	Neutral	3	3	3	1.50	Cut 25bp in Aug '19	4.2	3.0	1.1	1.0
Indonesia	Loose	Loose	4	4	4	-1.9	-2.0	Loose	Very Loose	5	4	4	5.25	Cut 25bp in Sep '19	5.2	5.0	3.2	3.5
Philippines	V. Loose	Very Loose	5	5	5	-3.0	-2.9	Loose	Loose	4	3	3	4.00	Cut 25bp in Sep '19	6.2	5.9	5.2	2.1
Asia ex-Japan			**89%**	**87%**	**87%**					**80%**	**76%**	**76%**						

Source: Principal Asset Management & Bloomberg

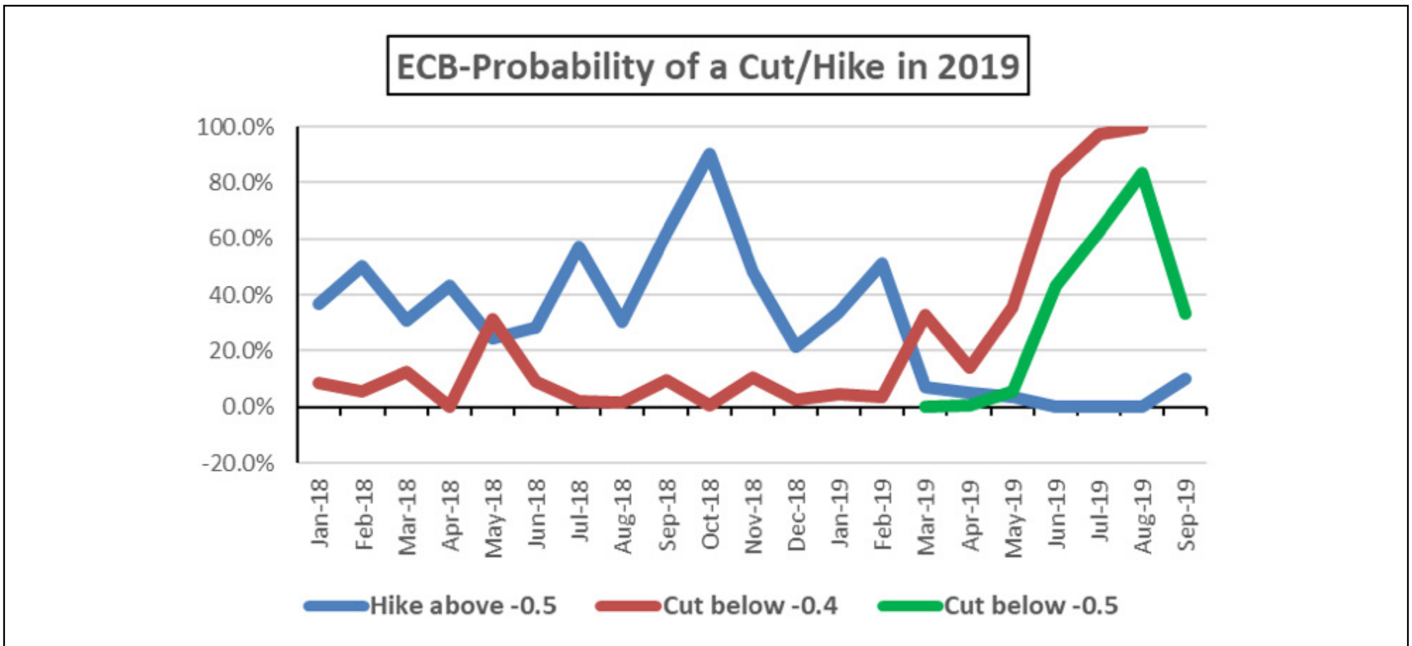
The US Fed has also cut the interest rate by 50 basis point, as an insurance against the potential slowdown of the economy.



Source: Principal Asset Management & Bloomberg.
Note: Current Fed fund rate is 2.00-2.50% and ECB policy rate is -0.40%

In addition, the Fed stopped shrinking its balance sheet in August, which stood at **$3.6 trillion** which translate to more liquidity in the financial system. In the next 12 months we expect at least 2 more rate cuts.

In Europe, the European Central Bank (ECB) has announced a new stimulus package aimed to revive the Eurozone economy and to bring inflation. The ECB has cut deposit rates by 10 basis point and will reinstate the quantitative easing programme in November to inject more money into the economy.



Source: Principal Asset Management & Bloomberg.
Note: Current Fed fund rate is 1.75-2.00% and ECB policy rate is -0.50%

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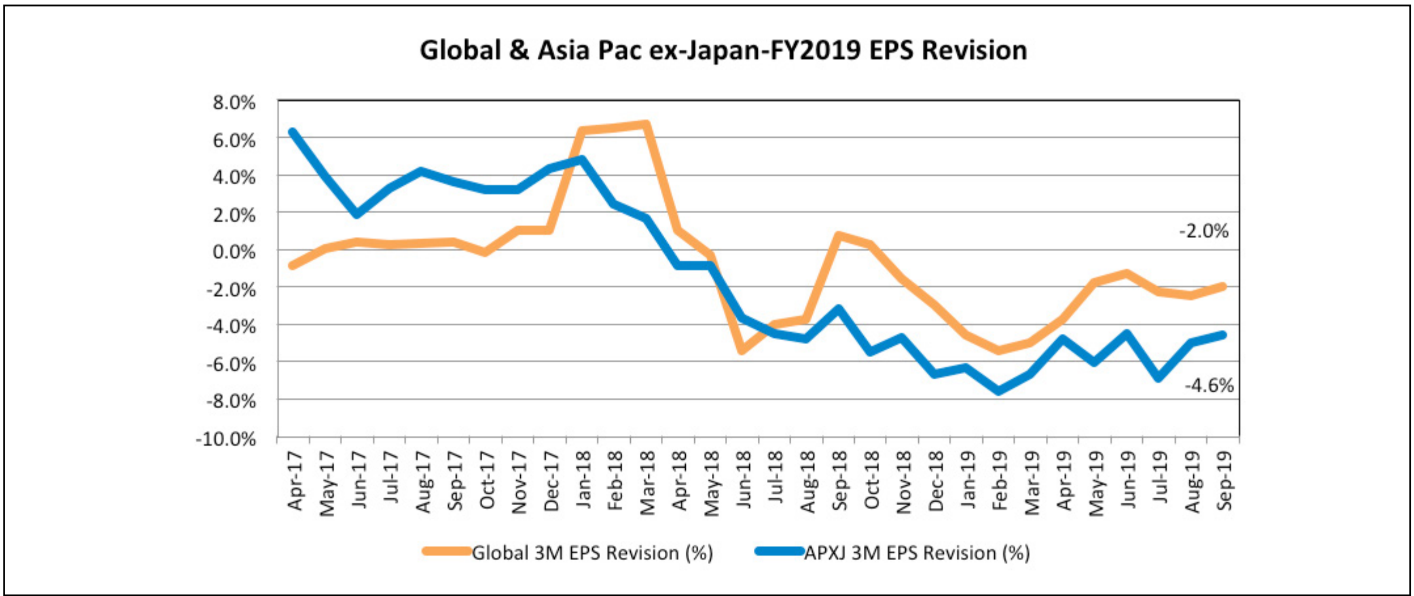
03 Asia-Pacific outlook

We believe Asia's export-oriented economies will need policy intervention to sustain domestic consumption as part of the efforts to maintain overall economic activity. Inevitably, a combination of more rate cuts and increased government spending to support growth will be put in place.

Despite facing challenges owing to the trade dispute, Asia's corporate earnings appeared to be bottoming supported by economic policies for growth.



Source: Principal Asset Management, Bloomberg, Factset

We anticipate Chinese policymakers to continue to stimulate the economy. This includes:

- The restructuring the current tax structure that would return nearly **2 trillion yuan** to the economy.
- The central bank has **cut the deposit** reserved ratio to make financing cheaper, **aimed to help small and private firms** that are vital for economic growth and employment.

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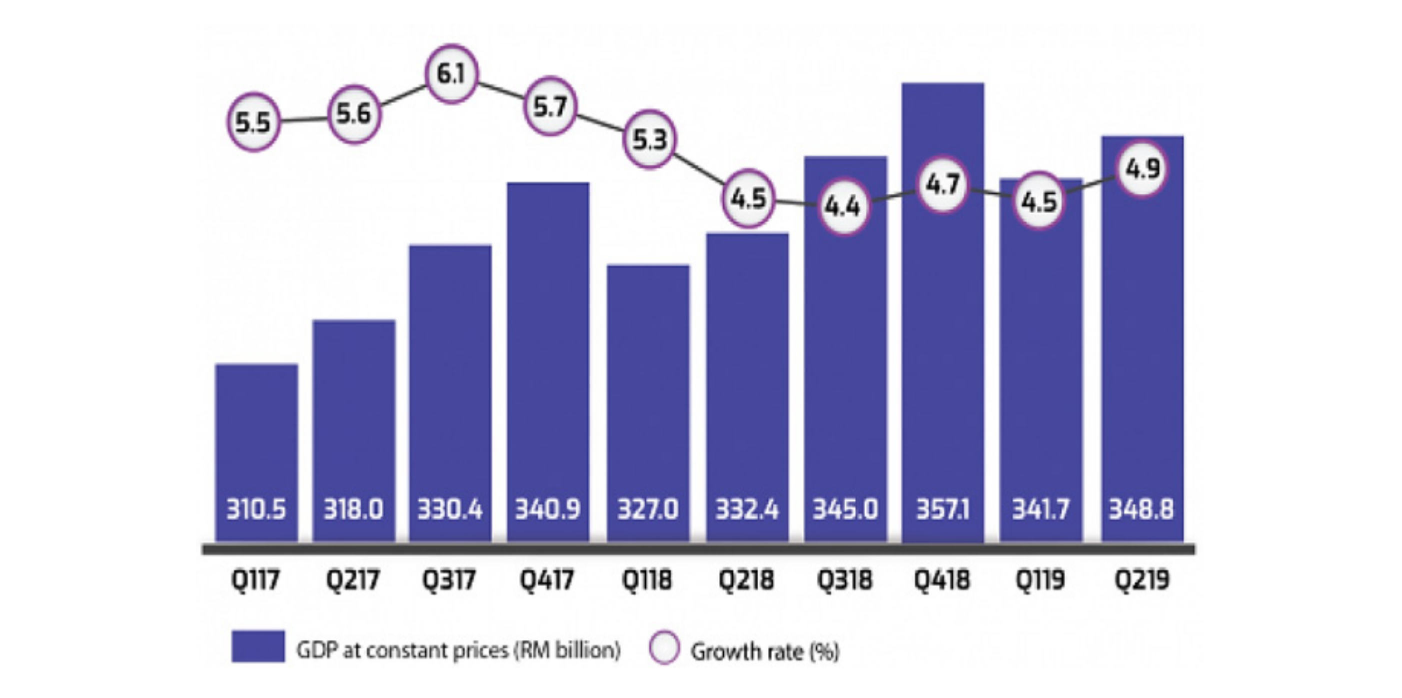
04 ASEAN outlook

Malaysia is projected to grow moderately in second half owing to softening external demand and government austerity measures.



Source: Department of Statistics Malaysia Official Portal, 2019

The bright spots are Malaysia's export has rebounded unexpectedly by **1.7%** YoY in July, with the **electronics sector being the key export driver**.

The Budget 2020 is focussed on sustaining economic activities with introduction of various investment incentives, especially for the manufacturing and technology sectors. It is also an inclusive budget with measures targeted at the lower income B40 group.

Budget deficit as a percentage of GDP to be moderately lower in 2019 and 2020 at 3.4% and 3.2% respectively compared with 3.7% in 2018.

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04 Malaysia Budget 2020: Our View

Summary of macro data

	2020f	2019e	2018
GDP (%)	4.8	4.7	4.7
Budget deficit (% of GDP)	3.2	3.4	3.7
Revenue (RM bn)	244.5	263.3	232.9
Operating expenditure (RM bn)	241.0	262.3	231.0
Net development expenditure (RM bn)	55.2	52.8	56.1

Source: Ministry of Finance, 2019, f – forecast, e - estimate

Equity and Fixed Income implications

Sectors	Budget proposals	Implications	Comments
Construction	Restarting of some projects	Neutral	Relaunched of JB-Singapore RTS and Bandar Malaysia. Nevertheless, focus on rural infrastructure and hospitals will be a boost to smaller contractors.
Consumer	Minimum wage, toll reduction & fuel subsidy	Positive	Rise in minimum wage in major cities to RM1,200, continuation of Bantuan Sara Hidup, reduction in toll charges and implementation direct fuel subsidy will be a boost to the B40 group
Oil & Gas	No special dividend from Petronas	Positive	Petronas to maintain its dividend pay-out of RM24bn to the government in 2020. It is expected that Petronas will be able to ramp up its capex which will benefit the oil & gas service providers.
Property	Lower threshold for foreign buyers	Positive	Lower the floor price for purchase of high-rise residential property by foreigners from RM600k to RM1m which will help to alleviate property oversupply. Real Property Gains Tax will also be indirectly lowered as the deemed purchase price for properties acquired prior to 2013 will be fixed at the market value in 2013.
Manufacturing/ Technology	Tax incentives for reinvestment and automation	Positive	Foreign and domestic investments is expected to be boosted by tax incentives to promote high-value added activities in the Electrical and Electronic sector to transition into 5G digital economy and Industry 4.0.

Source: Ministry of Finance, 2019. Principal Asset Management, Oct 2019

In Indonesia, the government has launched an expansionary budget (of USD177.6 bn) for 2020 with GDP growth forecasted at 5.3%. Focus will remain on infrastructure spending with education as the second focal point.

The central bank of Thailand has lowered the policy rate by 25bp and proposed a USD10bn stimulus to support the farmers and the lower income segments. Moody’s has affirmed Thailand’s sovereign rating and upgraded their outlook from stable to positive due to strong public and external finances.

Going forward

In conclusion, we see the investment outlook are as follows:

1

We maintain a neutral asset allocation of 50:50 between equities and fixed income. **Within equities, we prefer quality and growth names**.

2

By geography, our preference is: Global to Asia Pac ex-Japan followed by single country equities. **We anticipate turning more positive towards Asia Pac ex-Japan equities** soon, why because we see **earnings estimates stabilizing**, economic impact of the trade war is better appreciated, and the technology sector starts to see revenue growth.

3

For core portfolios, **we recommend funds which are globally or regionally diversified with income focussed**, such as REITs.

4

For more aggressive portfolio **we advise clients to focus on funds exp China for food technology fund**.

For Equities:

Developed Market Equities: While global growth continues to slow as evidenced in the PMI readings, central banks in developed markets have been able to cut interest rates in the absence of inflation. We are neutral in US because of its relative stronger economic stance and earnings outlook, despite its higher valuation. We are underweight Europe because of the weaker economic outlook and downward earnings revision. We are neutral in Japan because of the favorable valuation, stable earnings forecast despite slightly lower PMI reading.

Asian equities: The current environment requires equity investors to focus on capital preservation and prudent allocation. On country allocation, we are over-weighted Singapore for the attractive dividends in REITs and industrials, offsetting an underweight in North Asia. We intend to judiciously deploy cash towards investment opportunities that may arise on market correction. Asian equities continue to post long-term opportunity as dovish central banks stand ready to mitigate economic and geopolitical downsides with supportive policies.

Malaysian Equities: The announced budget 2020 is positive for oil & gas, consumer, property and technology/ manufacturing. With expectation of further OPR cuts over the next 18 months, we continue to favor high dividend yielders with earnings resilience. We also look to accumulate selective growth stocks on weakness.

For Fixed Income:

Global Bonds: Stay invested in US Treasury in view of higher yield relative to the other government bonds and expectation of further easing by the US Fed. Maintain overweight in peripheral European Government Bonds in anticipation of tighter spread versus the German Bunds and possible further monetary policy easing by the ECB. Keep overweight position on credit to anchor the total return of the portfolio.

Malaysian Bonds: As global growth trajectory is still heading south and interest rate environment remain dovish, this couple with the recent steepening and the removal of the overhang from FTSE Russell, there are pockets of opportunity in government bonds. However, traditionally liquidity is thin going into the final quarter of the year. For corporates, as more issuers are tapping the market, we can afford to cherry pick on issuers with stronger financial metrics and relatively higher yields. Stay defensive overall duration as more profit taking will kick in before year end.

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