

e-Market Outlook

2020 Quarter 1

Content Navigation

Click on the topic you wish to read.

Quarterly Commentary



Summary of Market Outlook and Strategy



Global Outlook



Asia-Pacific Outlook



ASEAN Outlook



Strategy Going Forward

Market Outlook



2020Q1 Market Outlook on Equity by Patrick Chang



2020Q1 Market Outlook on Fixed Income by Jesse Liew



2020Q1 Market Outlook on Global Sukuk by Mohd Fadzil



This e-document is best viewed in Adobe Reader applications.



Quarterly Commentary

First Quarter Market Review

01 Summary of Market Outlook and Strategy

As we move into 2020, we continue to see pockets of opportunities in the equity market in the 1st half. This is on the back of supportive central banks policies, stabilising earnings estimate, and some progressive outcome coming from US and China trade tension.

Market Review – 2019 was a good year for all asset classes

Asset Class	Currency	3-mth	1-mth	2019	2018	2017	2016	2015	2014	2013	2012	2011
Equities												
MSCI World	USD	8.2%	2.9%	25.2%	-10.4%	20.1%	5.3%	-2.7%	2.9%	24.1%	13.2%	-7.6%
S&P 500	USD	8.5%	2.9%	28.9%	-6.2%	19.4%	9.5%	-0.7%	11.4%	29.6%	13.4%	0.0%
Stoxx 600-Europe	EUR	5.8%	2.1%	23.2%	-13.2%	7.7%	-1.2%	6.8%	4.4%	17.4%	14.4%	-11.3%
Nikkei 225	JPY	8.7%	1.6%	18.2%	-12.1%	19.1%	0.4%	9.1%	7.1%	56.7%	22.9%	-17.3%
MSCI Emerging	USD	11.4%	7.2%	15.4%	-16.6%	34.3%	8.6%	-17.0%	-4.6%	-5.0%	15.1%	-20.4%
MSCI Asia Pac ex-Japan	USD	10.1%	5.6%	15.8%	-16.2%	33.5%	3.7%	-12.0%	-0.2%	0.5%	18.6%	-18.0%
ASEAN	USD	3.7%	3.7%	5.0%	-8.5%	29.1%	5.9%	-21.9%	3.2%	-6.6%	16.0%	-6.1%
H-Shares	HKD	9.5%	8.4%	10.3%	-13.5%	24.6%	-2.8%	-19.4%	10.8%	-5.4%	15.1%	-21.7%
Shanghai Composite	CNY	5.0%	6.2%	22.3%	-24.6%	6.6%	-12.3%	9.4%	52.9%	-6.7%	3.2%	-21.7%
KOSPI-Korea	KRW	6.5%	5.3%	7.7%	-17.3%	21.8%	3.3%	2.4%	-4.8%	0.7%	9.4%	-11.0%
SENSEX-India	INR	6.7%	1.1%	14.4%	5.9%	27.9%	1.9%	-5.0%	29.9%	9.0%	25.7%	-24.6%
TAIEX-Taiwan	TWD	10.8%	4.4%	23.3%	-8.6%	15.0%	11.0%	-10.4%	8.1%	11.8%	8.9%	-21.2%
Straits Times-S'pore	SGD	3.3%	0.9%	5.0%	-9.8%	18.1%	-0.1%	-14.3%	6.2%	0.0%	19.7%	-17.0%
KLCI-Malaysia	MYR	0.3%	1.7%	-6.0%	-5.9%	9.4%	-3.0%	-3.9%	-5.7%	10.5%	10.3%	0.8%
SET-Thai	THB	-3.5%	-0.7%	1.0%	-10.8%	13.7%	19.8%	-14.0%	15.3%	-6.7%	35.8%	-0.7%
Jakarta Comp-Indonesia	IDR	2.1%	4.8%	1.7%	-2.5%	20.0%	15.3%	-12.1%	22.3%	-1.0%	12.9%	3.2%
Bonds & FX												
Bberg Barclays Global Agg Index	USD	0.5%	0.6%	6.8%	-1.2%	7.4%	2.1%	-3.2%	0.6%	-2.6%	4.3%	5.6%
JPM Asia Credit Index-Core	USD	0.9%	0.4%	13.0%	-1.4%	6.7%	6.2%	1.7%	9.5%	-2.5%	14.8%	4.5%
Asia Dollar Index	USD	2.0%	1.3%	-0.2%	-4.0%	6.6%	-3.4%	-5.5%	-2.8%	-1.9%	2.6%	-1.1%
Commodities												
Crude Oil-Brent	USD	8.6%	5.7%	22.7%	-19.5%	17.7%	52.4%	-35.0%	-48.3%	-0.3%	3.5%	13.3%
Gold	USD	3.0%	3.6%	18.3%	-1.6%	13.5%	8.1%	-10.4%	-1.4%	-28.3%	7.1%	10.1%
Copper	USD	8.5%	5.9%	6.3%	-20.3%	31.7%	17.4%	-24.4%	-16.8%	-7.0%	6.3%	-22.7%

Source: Principal Asset Management & Bloomberg as at 31 December 2019

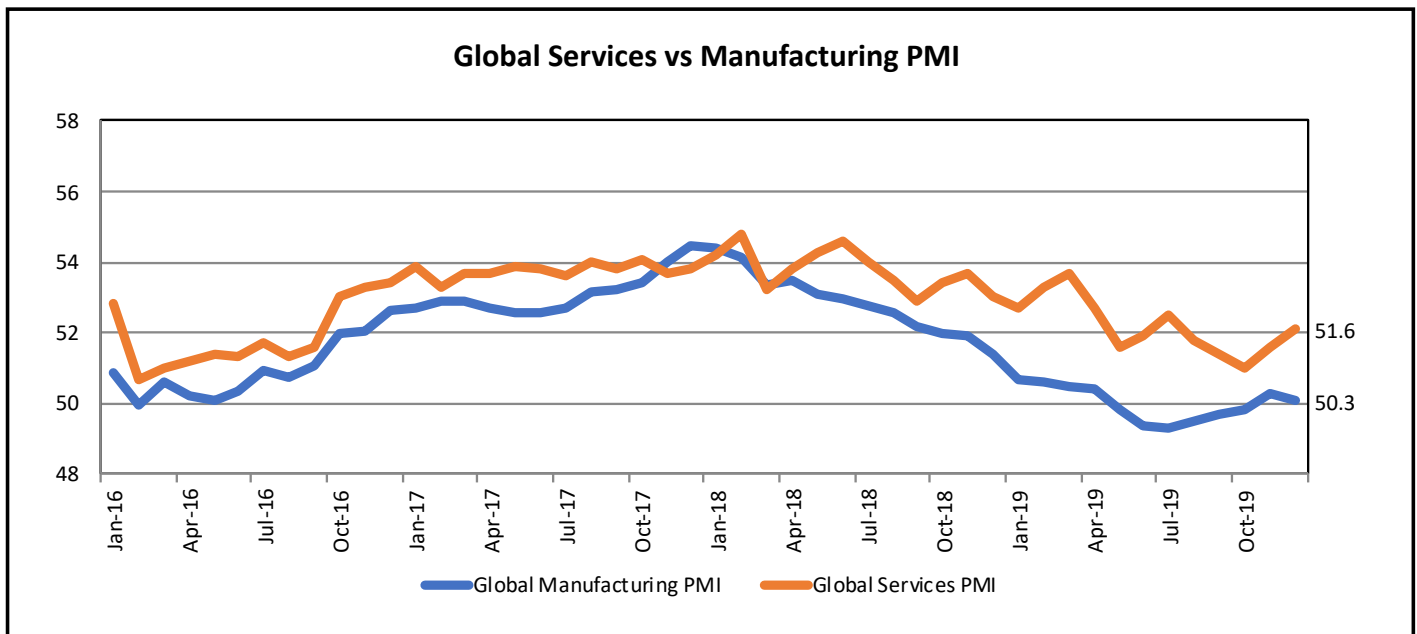
Investors should remain diversified across full spectrum of asset classes depending on their respective risk profiles. We currently think that fixed income returns will be more moderate and thus favour riskier assets like Asia Pacific equities, Global equities or Global REITS. Equity markets like ASEAN and Malaysia which have underperformed in 2019 may now set to improve in 2020.

[Back](#)

02 Global Outlook

The 2020 macro environment marks a big shift from the dynamics of 2019, where we start seeing “green shoots of recovery” as indicated by forward indicators such as the recovery in Global manufacturing PMIs, steeper yield curves and higher commodity prices.

Global manufacturing seeing a tentative recovery



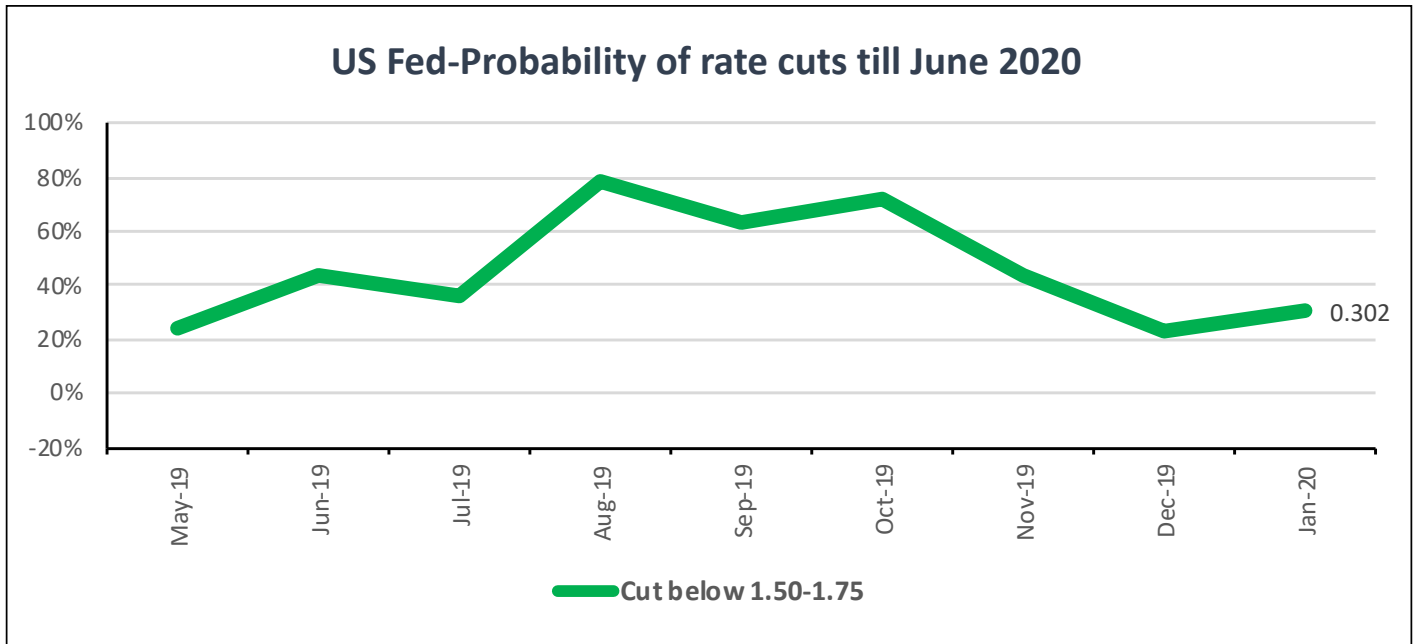
Source: Principal Asset Management & Bloomberg as at 31 December 2019

We see economic fundamentals driving markets in this year with progressive outcome from trade talk, accommodative monetary policies and a possible weaker USD.



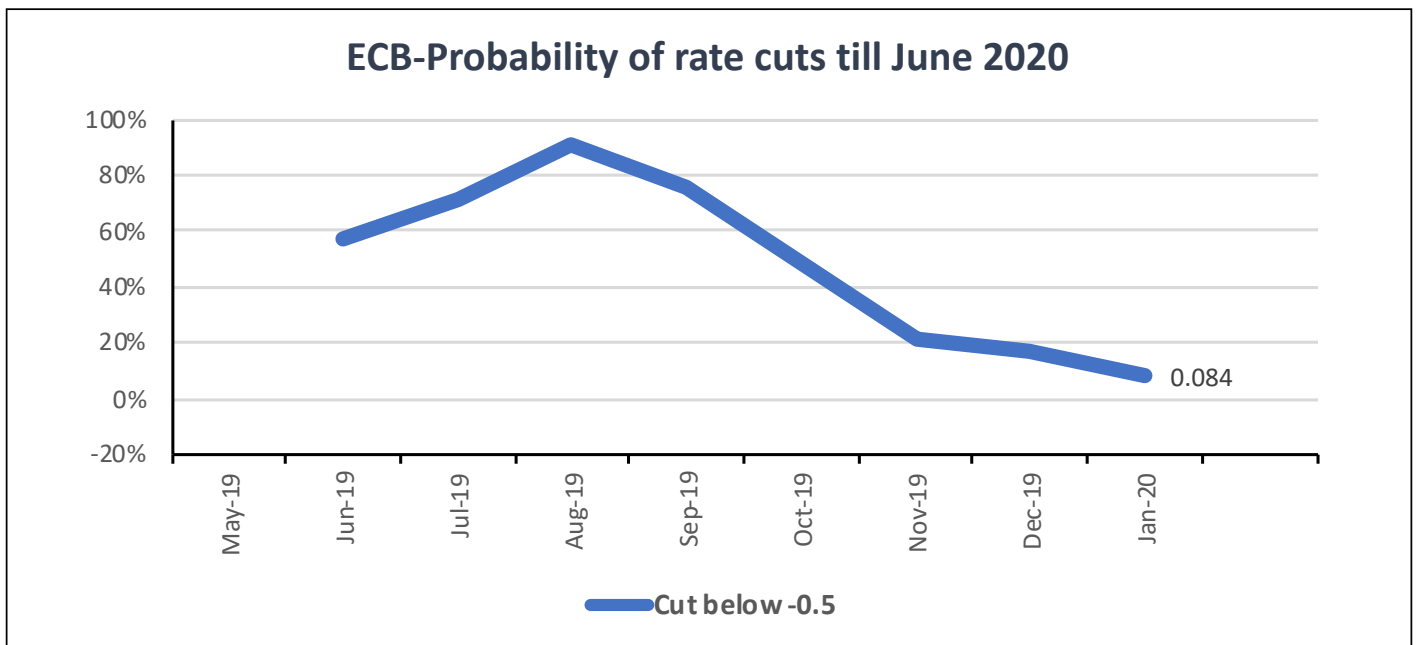
Global central banks may not cut rates aggressively but will continue to accommodate with loose monetary policy. As additional policy tools, they will increasingly look at government spending and tax policy to spur growth.

US Fed and ECB US Fed and ECB likely to stay on hold as they wait to see the impact of previous cuts



Source: Principal Asset Management & Bloomberg as at 31 December 2019

In Europe, the European Central Bank (ECB) has announced a new stimulus package aimed to revive the Eurozone economy.



Source: Principal Asset Management & Bloomberg as at 31 December 2019

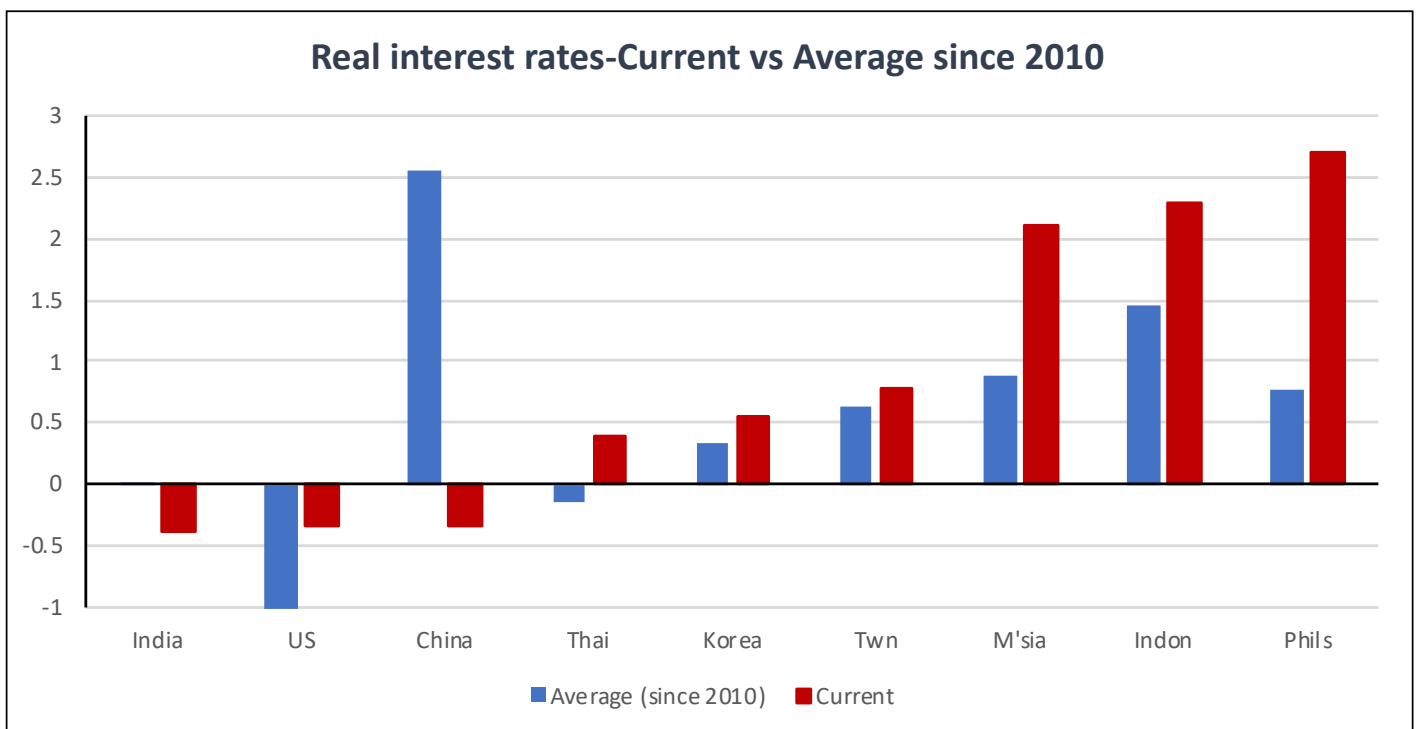
The lifting of Brexit uncertainty and the increased of fiscal stimulus should support the UK economy in 2020. The Conservative Party winning on the Dec. 12 general election has provided a clearer pathway to Brexit resolution and the end of fiscal austerity.

[Back](#)

03 Asia-Pacific outlook

The economic momentum of Asia Pacific should turn positive in 2020. This is supported of accommodative monetary and fiscal policy to sustain domestic consumption as part of the efforts to maintain overall economic activity.

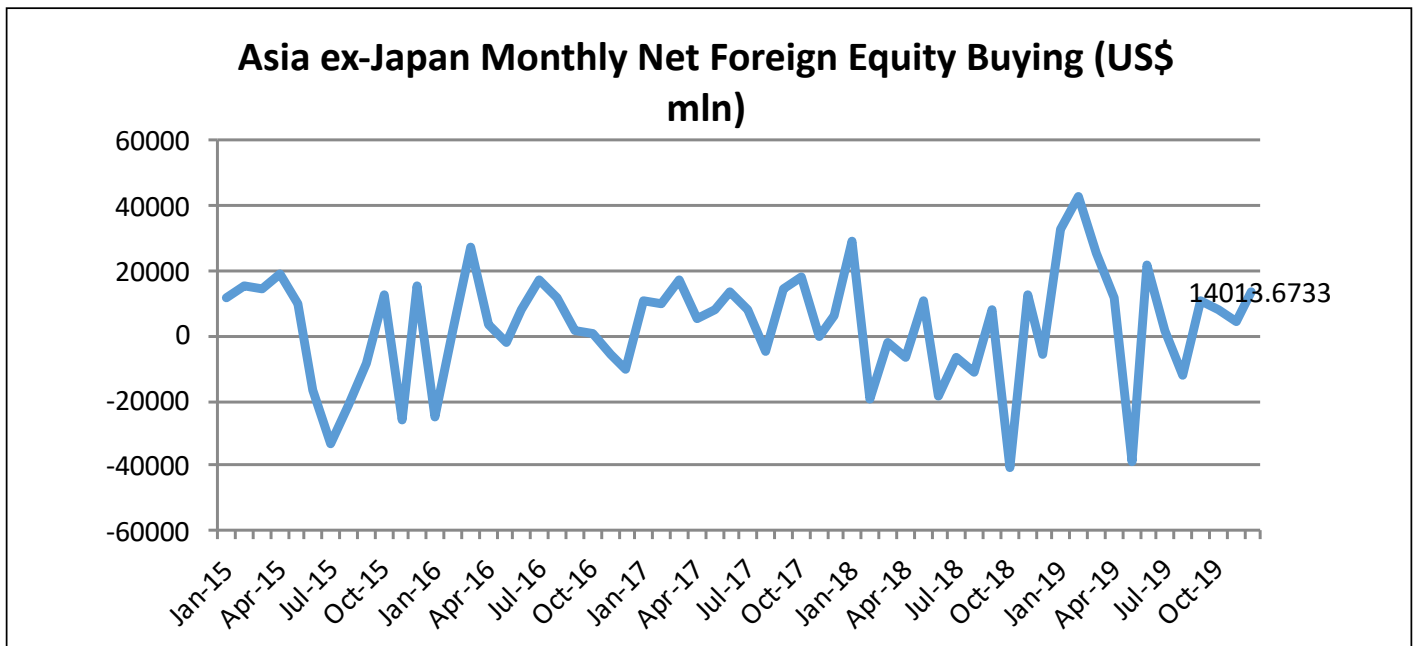
Asian currencies should be supported by high real rates



Source: Principal Asset Management & Bloomberg as at 31 December 2019

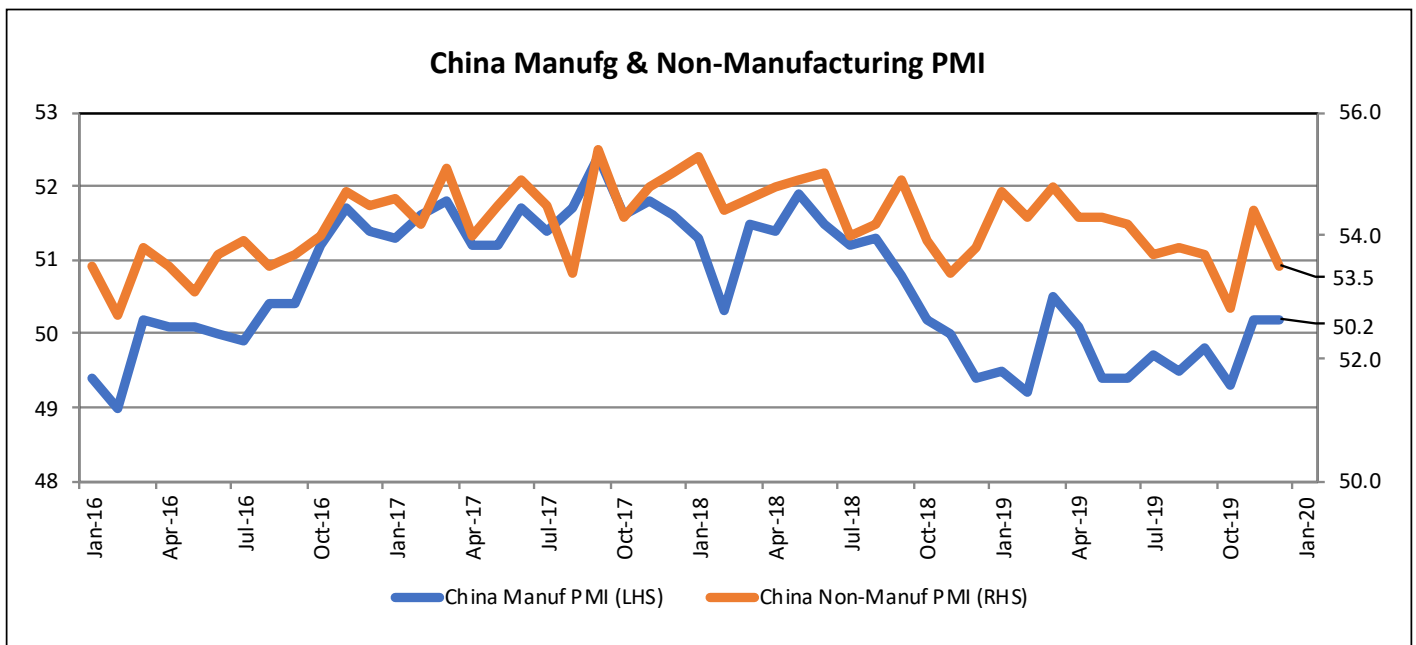


- Leading indicators such as Asia ex Japan PMI index is currently above 50 after recovering from the lows in July.
- This is usually an encouraging sign that external demand is returning as the impact of the US-China trade war is diminishing.



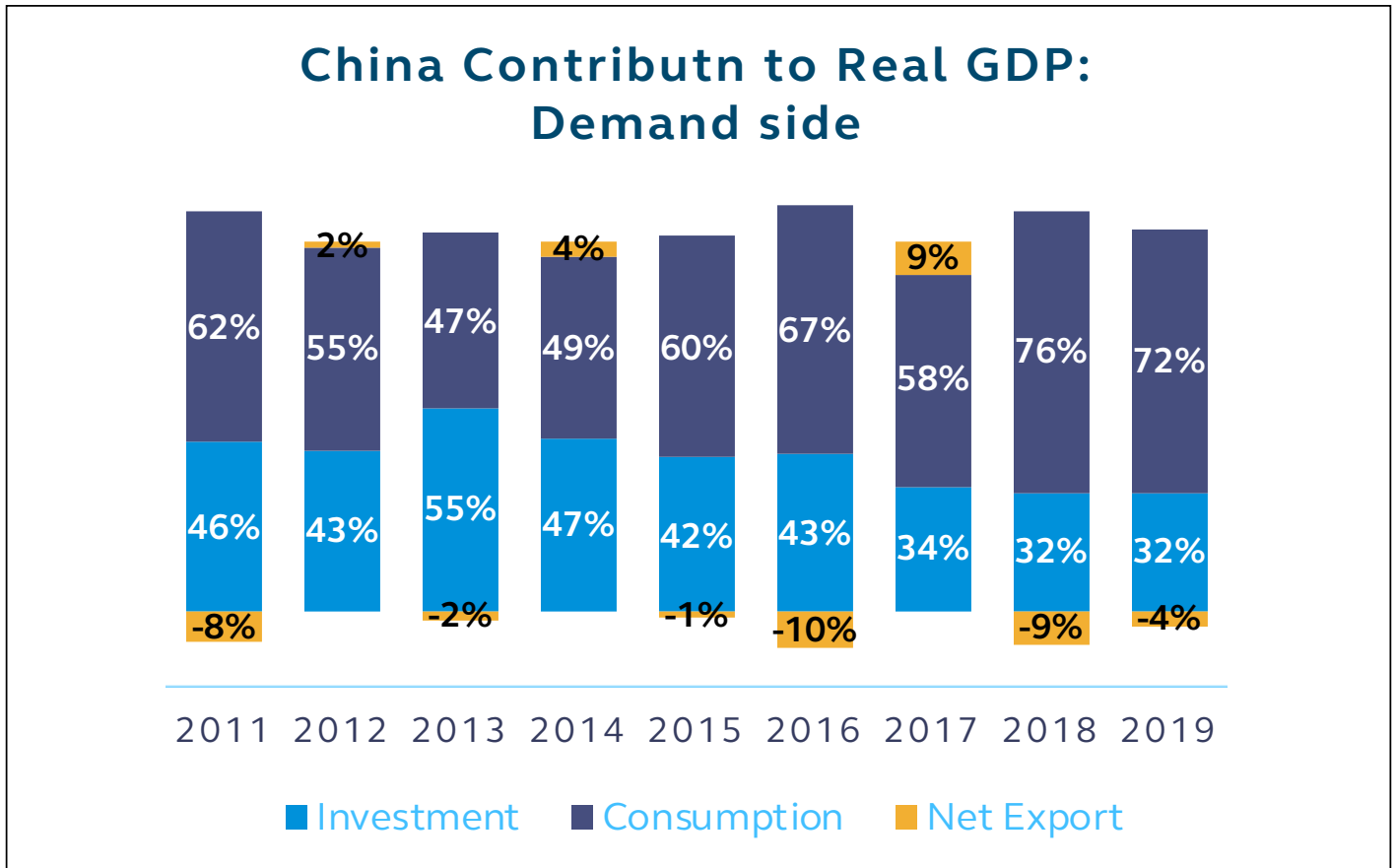
Source: Principal Asset Management & Bloomberg as at 31 December 2019

For China, stimulus will likely to be modest in this year, which is enough to stabilise and provide a small boost to the Chinese economy. The Government’s central goal is to stabilise the broad economy rather than growing it too rapidly.



Source: Principal Asset Management & Bloomberg as at 31 December 2019

China: Moving to a more consumption-based economy over time



Source: Principal Asset Management & Bloomberg as at 31 December 2019

For Japan, the economy will continue to be supported by easing trade tensions, the improvement in global manufacturing, and tourism spending from hosting the 2020 Olympics.

Thus, we view that such catalysts will increase investor sentiment to be more optimistic and drive capital flow towards Asian equity markets.

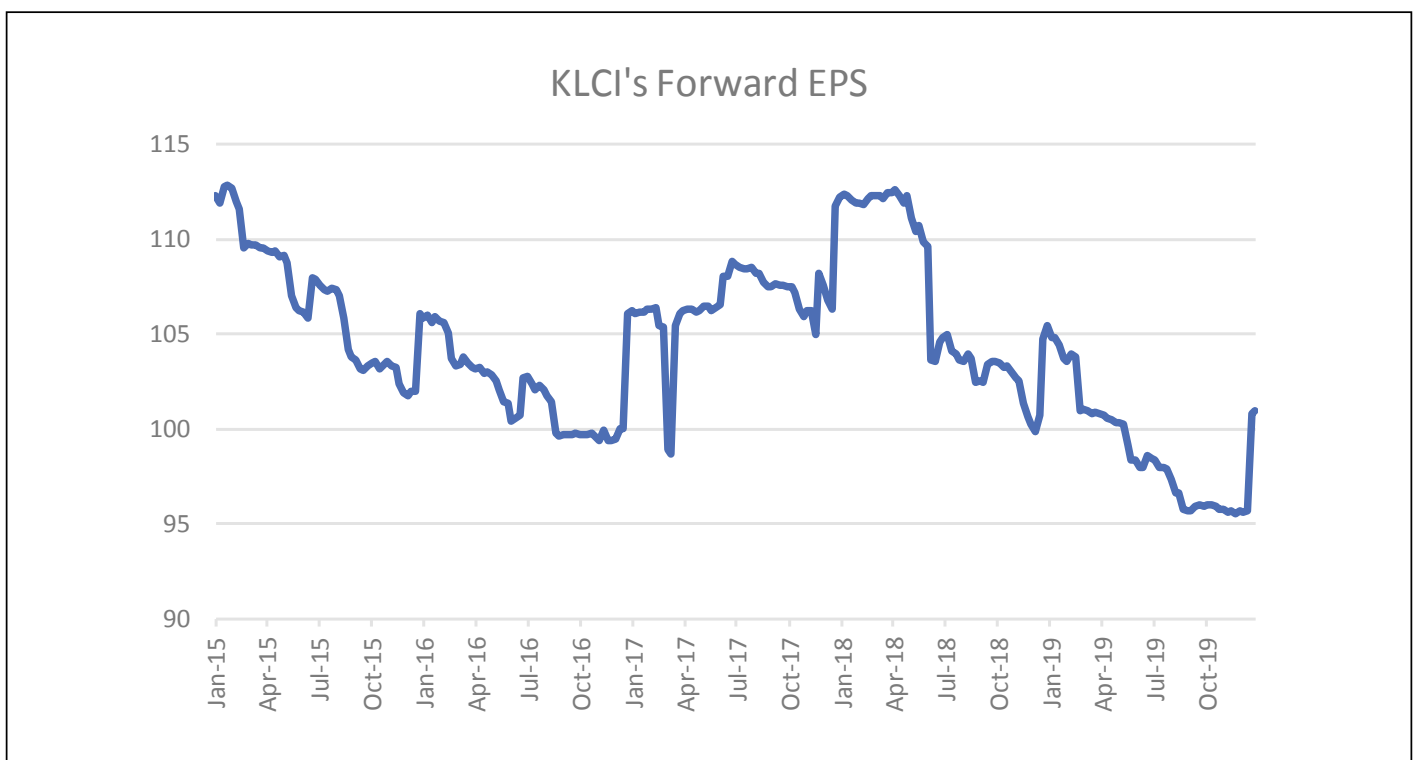
[Back](#)

04 ASEAN outlook

In Malaysia, the recent December PMI survey showed a firm footing, rising to 50, which suggests an expansion going forward.

Hence, we expect the Malaysian economy to achieve a stronger and sustainable growth supported by growth-oriented Budget 2020, accommodative monetary policy, rebound in exports, and more FDI from supply reallocation from US and China.

Earning downgrade has bottomed



Source: Principal Asset Management & Bloomberg as at 31 December 2019

In Indonesia, post elections, the incumbents are shifting the focus to attract FDIs and improving domestic infrastructure. Infrastructure investments is still the priority for the country and the government has indicated their intention to increase spending significantly.

In Thailand, the policies announced so far have been relatively populist. However, we expect the government to announce something more concrete in 2020 especially on the fiscal front as Thailand is highly exposed to external weakness.



That said, we are **Overweight Malaysia, Indonesia and Singapore** as we turn constructively more positive in 2020.

[Back](#)

05 Strategy Going Forward

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



Equities:

This is on the back of improving earnings recovery from Asia driven by Technology and cyclical sectors.

Regionally, our preference in Equities is Asia, Global and last but not least ASEAN.



Fixed Income:

For Malaysia in particular, our broad sector allocation would be in favour of corporates vs govies, which is something that we have already done since 3Q2019 and will continue to remain in our playbook out as we move further in 2020.



Global Sukuk

The Global Sukuk asset class delivered outstanding returns in 2019, driven by interest rate cuts globally and the US-China trade tensions. Going forward, the outlook for Global Sukuk continues to be positive as major central banks are expected to remain accommodative to support the slowing growth. We will continue to mitigate credit risk by selectively investing in higher-rated sovereign Sukuk and issuers which display strong fundamentals and cashflow generating capabilities.

2 For more conservative clients, we recommend funds which are globally or regionally diversified with income focussed, such as Asia Dynamic Income funds or Global REITs.

3 For more aggressive clients, we would advise to focus on growth-oriented funds with direct exposure to growth areas in China, Asia- Pacific and Global Technology.

Disclaimer: We have based this document on information obtained from sources we believe to be reliable, and we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion herein are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad. Persons wishing to rely upon this information should perform their own independent evaluation of risks and benefits or consult directly with the source of information or obtain professional advice. Past performance is not reflective of its future performance.

[Additional Disclaimer](#)



[Back](#)