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Humanising
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SINCE 1960

NAVIGATING A SEA OF UNCERTAINTY

EDITORIAL

2019 was a year not lacking in headlines. The U.S.-China conflict went beyond the confines of trade to technology and currencies, with market sentiment affected by ongoing uncertainties. At the same time, growing recession fears sparked by inverted yield curves also saw a flight to quality and safe haven assets, such as fixed income and gold. Nevertheless, increasing worries over an economic slowdown were offset by the easing of monetary policies globally, supporting the return of risk assets.

Looking ahead, the macro outlook remains highly unpredictable. The trade war has brought about manufacturing recession in most parts of the world, with global manufacturing Purchasing Managers' Index remaining lacklustre. This also suggests global economic growth momentum is likely to remain weak in 2020. Weakness in certain parts of the U.S. economy and disappointing economic data from China may imply some increasing pressure to reach a conclusion to the trade dispute. However, we believe a comprehensive agreement is unlikely given the many structural differences between the U.S. and China.

Adding to that, various geopolitical disruptions around the world could continue to weigh on global growth outlook. The silver lining is that global consumers' health is in robust shape and this has helped to cushion the slowdown. Furthermore, governments are increasingly focusing on fiscal stimulus, which could support the global economy in 2020. A wildcard on the table is the U.S. presidential election in November 2020. Historical observations have pointed out that volatility typically rises during the election year, although economic fundamentals ultimately matter most.

Our prudent stance in 2019 has worked relatively well in our favour. With lingering growth uncertainties still present in the markets, we continue to focus on managing risks in 2020. We continue to emphasise the importance of diversification and the role alternative investments could play in reducing overall portfolio volatility. That said, opportunities still exist in a late stage economic cycle. Focusing on carry strategies: the ones designed to pay income in the form of coupons or dividends are defensible investment strategies in a challenging market environment.

I would like to take this opportunity to thank you for your continued support, which is really important to us. Guided by our mission of Humanising Financial Services, Maybank values the strong relationships we have built with you over the years. Last year also saw us repeating our multiple award wins at the Private Banker International Global Wealth Awards and Asia Private Banker Awards, as we strive to provide best-in-class products and market-leading services for you.

As we usher in the new year, we are pleased to share our 2020 Investment Outlook and Strategy, comprising in-depth research and investment insights.

On behalf of everyone at Maybank Group Wealth Management, we wish you a prosperous 2020!

Alvin Lee
Head, Group Wealth Management &
Community Financial Services, Singapore

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MACRO ECONOMIC OUTLOOK AND INVESTMENT STRATEGY

MACRO ECONOMIC OUTLOOK

KEY HIGHLIGHTS

- **Global economic growth will moderate further in 2020, but we do not anticipate a U.S. recession.**
- **Additional monetary easing as well as fiscal stimulus could lend support to growth.**
- **Key risks include a breakdown of U.S.-China trade talks and higher-than-expected inflation.**

Global economic growth to moderate further

Global economic growth is projected to remain lacklustre this year after a slowdown in 2019. Nevertheless, we do not anticipate that the U.S. will enter a recession. Our global GDP growth forecast currently stands at 2.8% in 2020, a notch lower than that of last year. The anticipated slowdown in the U.S. would be a key drag on the global economy with U.S. GDP growth projected to fall below trend to 1.8% this year. Likewise, economic growth in Europe and Japan are likely to remain muted. We also see downside risks to China's estimated 6% growth in 2020 as economic data continues to be lacklustre.

A major impediment to global growth is the ongoing trade tensions that have affected trade and manufacturing activities, as well as business investments. Although we expect China and the U.S. to remain engaged in trade negotiations, both parties are unlikely to reach a comprehensive resolution before the U.S. presidential election in November 2020. The ongoing impeachment probe of U.S. President Donald Trump could also complicate matters, should Trump decide to adopt a harder stance on trade to distract voters from his impeachment investigation.

Still, the services sector as well as consumer spending across the globe have stayed resilient. Notably, the U.S. employment market is still in a healthy state with unemployment rate near multi-decade lows. Consequently, income growth is expected to remain solid. With the household balance sheet in good shape, we expect consumption growth to remain supported.

Subdued inflation outlook provides more room for easing

Inflation wise, it is expected to remain stable and under control this year. U.S. inflation is forecasted to inch higher but anchor around 2.0% in 2020. Core inflation in Europe and Japan is also projected to stay below the target rate of 2.0%. Similarly, many Asian economies, including China, will continue to see moderate inflation. Given the benign inflation outlook, it could provide room for central banks to implement additional monetary stimulus to mitigate growth risks. Nevertheless, the extent of easing may differ across the globe.

Another Fed rate cut likely in 2020

The U.S. Federal Reserve (Fed) had resumed rate cuts last year and we are pencilling in another rate cut, if not more, this year. It has also expanded its balance sheet to address money market stresses and prevent a recurrence of the spike in overnight repurchase agreement (repo) rates witnessed in 2019.

REAL GDP FORECAST (%)

	2018	2019E	2020E
WORLD	3.6	3.0	2.8
U.S.	2.9	2.3	1.8
EUROZONE	1.9	1.1	1.0
JAPAN	0.8	0.9	0.3
CHINA	6.6	6.2	6.0
ASEAN-6	5.0	4.3	4.5

INFLATION FORECAST (%)

	2018	2019E	2020E
WORLD	3.0	3.0	3.0
U.S.	2.5	1.8	2.0
EUROZONE	1.8	1.2	1.2
JAPAN	1.0	0.6	0.9
CHINA	2.1	2.5	2.4
ASEAN-6	2.7	2.1	2.7

RATES FORECAST (%)

	1Q20E	2Q20E	3Q20E	4Q20E
FED FUND TARGET (UPPER BAND)	1.50	1.50	1.50	1.50
FED FUND TARGET (LOWER BAND)	1.25	1.25	1.25	1.25
ECB DEPOSIT RATE	-0.50	-0.50	-0.50	-0.50
BOE BANK RATE	0.75	0.75	0.50	0.50
BOJ TARGET RATE	-0.10	-0.10	-0.10	-0.10

SOURCES: MAYBANK KIM ENG, BLOOMBERG I NOVEMBER 2019

In contrast, the European Central Bank (ECB) may take a more measured approach towards monetary easing even though it has revived Quantitative Easing (QE) in September 2019. Still, we cannot rule out that the central bank could cut rates further in 2020 even though it is not our base case scenario. In addition, the ECB appears to be pushing the governments to implement more fiscal stimulus.

As for China, the People's Bank of China (PBoC) has embarked on a series of Reserve Requirement Ratio (RRR) cuts since 2018. However, the growth impact from the RRR cuts may be limited as many private small and medium-sized enterprises still lack access to credit. It also remains to be seen if the revamped loan prime rate (LPR) system could help to improve monetary transmission and lower effective lending rates for corporates.

Fiscal stimulus measures on the rise globally

Apart from monetary easing, we expect to see increasing reliance on fiscal stimulus to support growth, particularly from Europe and Asia. European economies have been focused on exercising fiscal discipline to prevent a recurrence of the sovereign debt crisis in 2012. Nevertheless, there is increasing pressure on the governments – especially those with stronger fiscal positions – to adopt a more expansionary policy given the deteriorating growth outlook. The rising amount of negative-yielding sovereign bonds will also make it easier for the governments to increase borrowing to spend.

Within Asia, we have also witnessed fiscal moves from various governments, including India's surprise corporate tax rate cut in September 2019. Moving forward, we will likely see higher fiscal spending across many Asian economies in 2020 although the governments will likely exercise caution to avoid becoming overly leveraged.

Stay alert as downside risks abound

We see several key risks this year. First, should trade talks between the U.S. and China completely break down, this could result in persistent manufacturing weakness that may spill over to the services sector and bring us a step closer to recession.

Second, there remain pockets of geopolitical risks globally. In Europe, the U.K.'s free trade negotiations with the European Union (EU) could continue to weigh on sentiment. The fragile coalition government in Italy could also collapse and lead to another political crisis. Meanwhile, heightened tensions in the Middle East could result in events that could affect growth more severely than the earlier drone attacks on Saudi Arabian oil facilities.

Third, global inflation may rise faster than expected, which could limit central banks' ability to implement further monetary stimulus. Lastly, there could be unexpected episodes of liquidity stresses elevating recessionary concerns. This could include repeated spikes in overnight repo rates in the U.S.

U.S. UNEMPLOYMENT RATE AT MULTI-DECADES LOW (%)

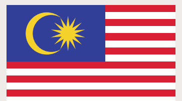
SOURCE: BLOOMBERG I NOVEMBER 2019

FISCAL MEASURES ANNOUNCED BY GOVERNMENTS

Germany
Announced EUR 54 billion of spending measures to cut emissions

India
Slashed corporate tax from 30% to 22% to help spur investments

Netherlands
Announced substantial tax cuts and additional expenditure



Malaysia
Widens budget deficit target and will step in with stimulus measures

SOURCE: MAYBANK GROUP WEALTH MANAGEMENT RESEARCH I NOVEMBER 2019

MACRO ECONOMIC OUTLOOK AND INVESTMENT STRATEGY

INVESTMENT STRATEGY

KEY HIGHLIGHTS

- **Adopt a prudent stance on asset allocation to manage uncertainties and downside risks.**
- **Neutral stance on both equities and fixed income; prefer gold over cash.**
- **Hunt for yield remains highly relevant in a world of declining interest rates.**

Focus on risk management in 2020
After an eventful 2019, the tug of war between bulls and bears will likely continue to dominate risk assets as we move into 2020. Market volatility will also be heightened on persistent trade and geopolitical uncertainties. Still, the prospects of additional liquidity through new monetary and fiscal stimulus measures could help mitigate growth risks and lend support to the market. More importantly, the global economy is likely to slow, but not stall.

Given the many uncertainties, it would be prudent to focus on diversification and capital preservation in order to manage downside risks. On balance, we maintain a neutral stance on both equities and bonds. Both asset classes will likely generate positive albeit modest returns. In contrast, cash is becoming less attractive given expectations of declining short-term rates. We also favour gold as a hedge against tail risks, resulting in an overweight on alternative investments.

Favour carry strategies in a low yielding environment
On equities, MSCI All-Country (AC) World earnings are projected to rise 10.0% in 2020 (versus 2.0% in 2019), which seems high amid a slowing global economy. As such, we see risks of further earnings downgrades particularly in developed markets and that may weigh on equity returns. Nevertheless, we still see opportunities in gaining defensive exposure through dividend plays as investors continue their hunt for income in an environment of declining interest rates. Markets wise, we are broadly neutral on the developed markets. Within Asia ex-Japan, we are neutral on China but overweight on India and Singapore as both economies are projected to bottom out, thus lending support to their respective equity markets.

On fixed income, we prefer corporates to sovereign bonds for the carry. We are neutral on U.S. Treasuries (UST) with the 10-year yields projected to trade in the range of 1.25% - 1.75% this year. Meanwhile, we favour the more defensive Investment Grade (IG) over High Yield credits in both Developed Markets (DM) and Emerging Markets (EM), with the latter likely to face higher risks of widening credit spreads. Within EM IG, we are positive on Asia IG credits given their resilient fundamentals and still attractive valuations.

Overweight gold as a hedge against risk events
While gold had performed well last year, we continue to view the precious metal as an effective portfolio diversifier given its historically low correlation with both equities and bonds. Investors' demand for gold will also be supported with total amount of negative-yielding debt on the rise. In contrast, we are less sanguine on oil given the rising oversupply risks in view of weaker demand and higher U.S. oil output. Still, the geopolitical situation in the Middle East remains fluid and could lead to a supply shock situation. Hence, we hold a neutral view on oil.

GOLD PRICES SUPPORTED BY RISING AMOUNT OF NEGATIVE-YIELDING DEBT

- SPOT GOLD PRICES (USD PER OUNCE), L.H.S.
- TOTAL AMOUNT OF NEGATIVE-YIELDING DEBT (USD TRILLION), R.H.S.

SOURCE: BLOOMBERG I NOVEMBER 2019

ASSET ALLOCATION

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
OVERALL POSITION	Cash USD	Equities Fixed Income	Commodities
EQUITIES	South Korea	U.S. Europe Japan Asia ex-Japan China Hong Kong Taiwan Malaysia Thailand Indonesia Philippines	India Singapore
FIXED INCOME	Developed Markets High Yield Emerging Markets High Yield	Sovereigns Developed Markets Investment Grade Emerging Markets Investment Grade Asia High Yield	Asia Investment Grade
COMMODITIES		Oil	Gold

SOURCE: MAYBANK GROUP WEALTH MANAGEMENT RESEARCH | NOVEMBER 2019

EQUITIES

EQUITIES – DEVELOPED MARKETS

KEY HIGHLIGHTS

- **Accommodative monetary policies to cushion growth downside risks.**
- **Neutral on Developed Markets equities due to our modest earnings expectations.**
- **Favour defensive sectors such as Telecommunication Services and Consumer Staples.**

U.S. - NEUTRAL

U.S. economic growth to converge with Rest of World

U.S. economic growth is projected to slow to 1.8% in 2020 from 2.3% in 2019. The slower growth is a result of weakening business sentiment due to ongoing trade tensions with China, which has negatively impacted investment decisions. On top of that, political uncertainty is mounting as the U.S. will be holding their presidential election in November. Positively, U.S. consumption remains a bright spot as unemployment rate stands at a 50-year low while continued accommodative monetary policies could help to mitigate some of these weaknesses.

Downside risks for 2020 earnings estimates

Despite an increasingly challenged outlook, consensus is still expecting S&P 500 earnings growth to accelerate to about 10.2% in 2020 from 8.5% in 2019. In addition, consensus is also expecting operating margins to expand from 13.1% in 3Q19 to 15.8% in 2020.

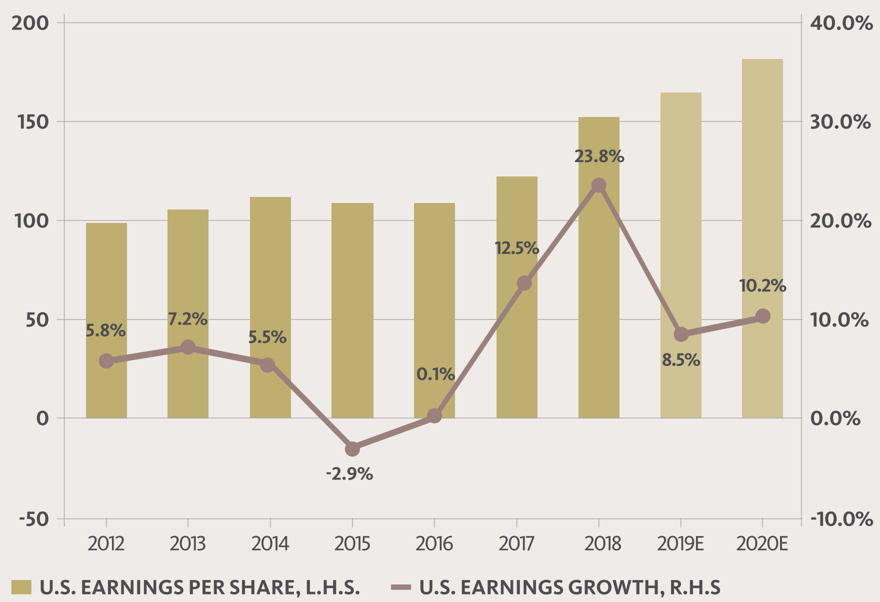
In contrast, we hold a less optimistic outlook on earnings growth. With more than 40% of S&P 500 sales derived from abroad, sectors such as Energy, Information Technology and Materials are highly sensitive to trade tensions and the slowdown in global growth. Yet, they are forecasted to deliver an average earnings growth of 19.5% in 2020. Moreover, many firms have been unable to keep pace with their input cost inflation. A business survey conducted by the National Association for Business Economics showed that the net share of respondents reporting rising wages (44%) and materials costs (37%) is well above the net share reporting rising prices charged (19%). Historically, this pattern has been a precursor to declines in operating margins.

Neutral but defensively positioned

Nonetheless, we believe U.S. companies are still able to deliver reasonable mid-single digit earnings growth in 2020, partly supported by strong cost discipline. In addition, total shareholder yield of about 4.0% (share buybacks and dividends) could serve as an underlying support for S&P 500. Against this backdrop, we are neutral on U.S. equities but would position more defensively in sectors such as Telecommunication Services (Telecom). The Telecom sector could offer more resilient earnings, as well as dividends during periods of economic uncertainty.

S&P 500 INDEX PROJECTED EARNINGS GROWTH OF 10.2% IN 2020 VERSUS 8.5% IN 2019

SOURCE: BLOOMBERG I NOVEMBER 2019



EUROPE - NEUTRAL

Subdued economic growth in 2020
We are neutral on European equities as macro weakness and political risks are offset by prospects of further monetary and fiscal stimulus as well as the inexpensive market valuations.

With the Eurozone Manufacturing Purchasing Managers' Index (PMI) remaining below the 50 threshold level, we expect economic growth to remain soft in 2020. Given the subdued macro outlook, Eurozone earnings growth will likely remain muted with downside risks to consensus forecast of 10% growth in 2020. Meanwhile, the U.K.'s free trade negotiations with the EU and still fragile Italian political situation could also lead to heightened market volatility.

Supportive monetary and fiscal stimulus mitigate downside risks
Still, the prospect of additional monetary easing by the ECB could lend support to European equities. Historically, there has been a positive correlation between the performance of European equities and looser financial conditions. Although the pace of easing may be measured, the resumption of open-ended purchases does provide some form of insurance for investors.

With interest rates remaining low, it could also provide relief to highly indebted European economies (for example, Italy, Portugal and Greece) with gross debt of more than 100% of GDP. We also see scope for positive surprises on the fiscal front. In particular, Germany could embark on more aggressive stimulus measures, should the economic outlook deteriorate further, although the Germans have appeared restrained so far.

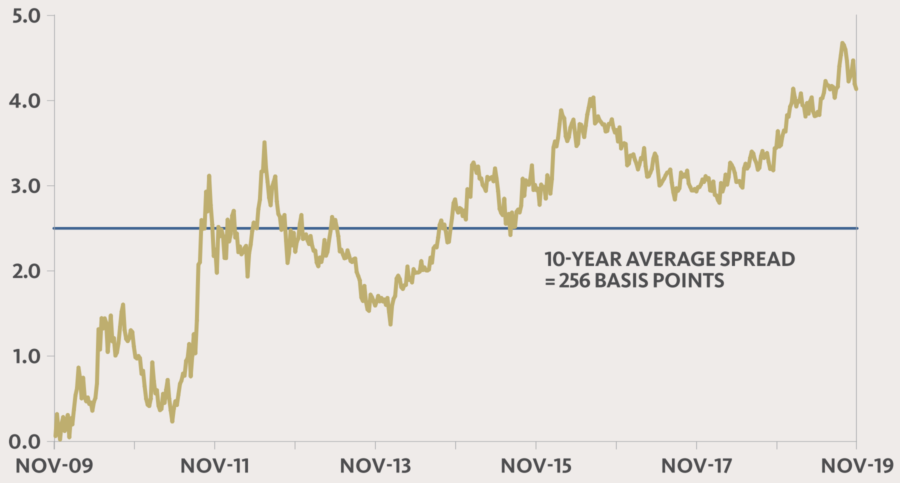
Relatively high dividend yield support European equities
Despite delivering positive returns in 2019, European equities are still trading inexpensively around historical average Price/Earnings (P/E) ratio of 14x.

More significantly, the spread between European equities' dividend yield and the Eurozone 10-year government bond yield has also widened to around 400 basis points (bps) as at end-November 2019. This compares favourably to the long-term averages of 256 bps.

The sustained demand for dividend plays will thus provide support for European equities. In particular, we see opportunities in selected Telecom, Consumer Staples, and Integrated Energy companies.

MSCI EUROPE'S DIVIDEND YIELD IS SIGNIFICANTLY ABOVE EUROZONE 10-YEAR GOVERNMENT BOND YIELD

SOURCE: BLOOMBERG I NOVEMBER 2019



JAPAN - NEUTRAL

Economic growth to weaken on trade war and consumption tax
Japan's economic growth is losing momentum as weaker global growth is putting downward pressure on the manufacturing sectors while a higher sales tax implemented in October last year could continue to dampen domestic consumption. The non-manufacturing sectors are showing signs of weakness as the slowdown spreads across the wider economy. Thus, Japan's economic growth is expected to moderate to below trend at 0.3% in 2020 from 0.9% in 2019. This also suggests that inflationary pressures will largely remain benign, where inflation is expected to stay low at around 0.9% this year.

Bank of Japan (BOJ) unlikely to cut rates further
With an already ultra-loose monetary policy, Japanese policymakers have looked into introducing fiscal measures to support the economy. The additional spending is expected to boost growth and may also alleviate the pressure on the Bank of Japan (BOJ) to implement further monetary easing. As such, the central bank is unlikely to cut interest rates further into the negative territory unless the economy goes into recession. Meanwhile, it could widen the tolerance band around the 10-year Japanese government bond target, creating further space for yields to fluctuate to the downside.

Earnings growth to be capped by relatively strong currency
Japanese earnings are very sensitive to the Japanese yen and the global macro backdrop. Weakening global PMIs since June 2018 have had an adverse impact on Japanese corporate earnings revisions. Consensus is now expecting Tokyo Stock Exchange Price Index (TOPIX) to deliver a paltry low mid-single digit earnings growth in the fiscal year ending March 2021 (FY3/2021E). Corporate earnings could be further capped by our expectations of a relatively strong Japanese yen in 2020.

Undemanding valuation provides support
Japan's valuation is one of the most undemanding among the developed markets, trading at FY3/2021E Price/Book of 1.2x versus its long-term historical average of 1.3x. Meanwhile, Japanese corporates have improved their profitability over the last few years through capital discipline, efficiency gains, and more shareholder-friendly policies. While the market remains vulnerable to external risks such as trade protectionism, the BOJ has been actively buying Japanese equities to the tune of JPY 6 trillion a year. Thus, we believe current valuations and supportive BOJ purchases could provide support to the market.

PREFERRED SECTORS FOR DEVELOPED MARKETS

Telecommunication Services
Telecom stocks could benefit as global growth uncertainty continues to linger. These stocks are seen as more defensive given their stable earnings as well as their relatively high dividend yields mitigating downside risks. In addition, telecom stocks are also well-positioned to capitalise on the new opportunities arising from the push towards the fifth-generation (5G) network technology.

Consumer Staples
Given the defensive nature of their business, the resilient performance of consumer staples companies will stand out given the macro uncertainties. The healthy dividend yield, which is backed by robust cash flow generation, will also support total return of the sector.

EQUITIES

EQUITIES – ASIA EX-JAPAN

KEY HIGHLIGHTS

- **Neutral on Asia ex-Japan equities although fading USD strength could reduce headwinds.**
- **Overweight on India on anticipated economic recovery and Singapore on attractive dividend yield.**
- **Underweight on South Korea, which remains vulnerable to trade tensions.**

Asia ex-Japan equities witnessed an improved performance but still lagged the developed markets in 2019. Trade uncertainties continued to weigh on the region, particularly in export-oriented economies such as South Korea. The U.S. dollar (USD) strength against most Asian currencies also affected market returns.

Looking ahead, trade headwinds are likely to linger on as we do not expect a comprehensive U.S.-China trade resolution before the U.S. presidential election. That said, a still relatively solid earnings growth of 13.7% in 2020, as well a fading USD strength could underpin Asia ex-Japan performance this year. Given the balanced risk-reward profile, we are neutral on Asia ex-Japan equities.

On the economic front, the implementation of new monetary and fiscal measures could help to arrest the growth decline, particularly for domestic driven economies such as India. Selectively, we favour markets that are more likely to see improving growth and/or offer attractive dividend yields. Within Asia, we are overweight on India as the market could benefit from a projected economic recovery in 2020. In contrast, we are neutral on China as it will likely take more time to stabilise growth. We are underweight on South Korea as the economy remains vulnerable not only to the U.S. and China tensions but also the dispute between itself and Japan. In addition, the market's projected earnings growth of more than 20% in 2020 seems overly optimistic and is vulnerable to further downgrades, which could lead to its de-rating.

ASIA VALUATION METRICS

MARKETS	RATING	EARNINGS PER SHARE GROWTH (%)	DIVIDEND YIELD (%)	PRICE/EARNINGS RATIO (X)	
		2020E	2020E	2020E	10-YEAR AVERAGE
ASIA EX-JAPAN	NEUTRAL	13.7	3.0	14.7	12.7
CHINA	NEUTRAL	11.6	2.6	12.4	11.4
HONG KONG	NEUTRAL	7.5	3.7	15.3	16.1
SOUTH KOREA	UNDERWEIGHT	27.4	2.8	14.5	10.0
TAIWAN	NEUTRAL	12.1	3.7	18.0	14.4
INDIA	OVERWEIGHT	21.8	2.0	21.2	17.4
SINGAPORE	OVERWEIGHT	3.7	4.6	13.2	13.8
MALAYSIA	NEUTRAL	6.0	3.7	16.7	15.9
THAILAND	NEUTRAL	9.8	3.2	17.1	13.7
INDONESIA	NEUTRAL	12.2	1.8	16.6	15.4
PHILIPPINES	NEUTRAL	10.3	3.0	16.9	18.0

SOURCE: BLOOMBERG I NOVEMBER 2019

INDIA - OVERWEIGHT

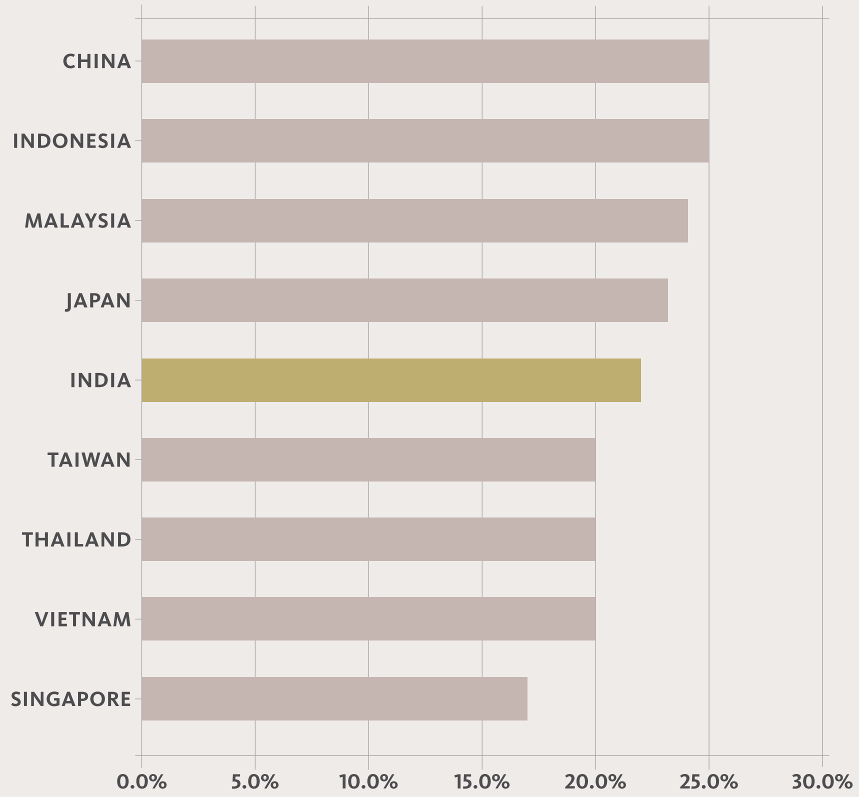
2019 was a year of changes and reforms

The landslide victory for the Bharatiya Janata Party in the May 2019 general election has given Prime Minister Narendra Modi a stronger mandate to rule for the next five years. The honeymoon phase of the resounding election win was relatively short as India's economic growth has slipped below the long-term trend to 4.5% in the second quarter of fiscal year ending March 2020 (FY3/2020) following a sharp deceleration in consumer demand and investment growth.

To address the slowing Indian economy and prop up investor sentiment, a raft of measures has been introduced, which includes 1) rolling back of tax hikes on foreign and domestic equity investors, 2) cutting the key lending rate to a nine-year low of 5.15% as at end-November 2019, 3) increasing government spending on auto and infrastructure, and 4) lowering the base corporate tax rate from 30% to 22%. Under the new corporate tax structure, a special 17% tax rate will be offered to new companies starting new manufacturing facilities before March 2023.

INDIA'S CORPORATE TAX IS NOW IN LINE WITH THE REST OF ASIA

SOURCES : KPMG, INDIA FINANCE MINISTRY, BLOOMBERG I NOVEMBER 2019



India well-positioned for stronger long-term growth

India's inflation is expected to remain benign this year, giving the Reserve Bank of India more room to cut rates, if necessary, to stimulate growth. The combination of fiscal and monetary stimulus, as well as continued reform momentum could lead to a rebound in economic growth. That said, we do not believe these measures are sufficient to create a V-shaped recovery, especially in the context of slowing global growth and the non-banking financial companies still recovering from the liquidity crisis. The government might need to consider lowering personal income taxes if they want to see an immediate demand revival. We forecast a mild economic recovery by March this year and believe the above-mentioned measures could support India's stronger long-term growth.

Overweight on India on attractive risk-reward

The reduction in corporate tax rates has created room for improved earnings growth. Based on consensus estimates, MSCI India's corporate earnings are expected to grow by 21.8% in 2020. We are overweight on India given its better valuations and stronger earnings growth prospects. As at end-November 2019, MSCI India's forward Price/Earnings ratio relative to MSCI Asia ex-Japan stood at 1.4x, close to the 10-year historical average. Given the market's higher return on equity of 13% and earning growth of 21.8% (13.7% for Asia ex-Japan), we believe that Indian equities are well-positioned to deliver stronger returns this year than its Asian peers.

CHINA / HONG KONG - NEUTRAL

Continuation of prudent policy stance

While the stimulus measures are gradually having an effect on the Chinese economy, the government might need to introduce more measures if it wants to keep China's economic growth above the key 6% level. That said, we believe China will remain committed to managing this cycle in a prudent way. We expect a long-drawn trade negotiation between the U.S. and China, leading to a modestly weaker path of growth this year.

The move in the Renminbi (RMB) to above 7.0 per USD in August 2019 had unnerved investors. The RMB has been largely regarded as a stabiliser for Asian currencies and the weakness has triggered some capital outflows from Asia last year. The weak RMB has also piled pressure on the highly indebted Chinese property developers as they have been the largest offshore borrowers in recent years. We believe the PBOC is keen to maintain a relatively stable RMB and does not want to lose their credibility at a time when the authorities are accelerating efforts to open the domestic financial markets and encourage foreign inflows.

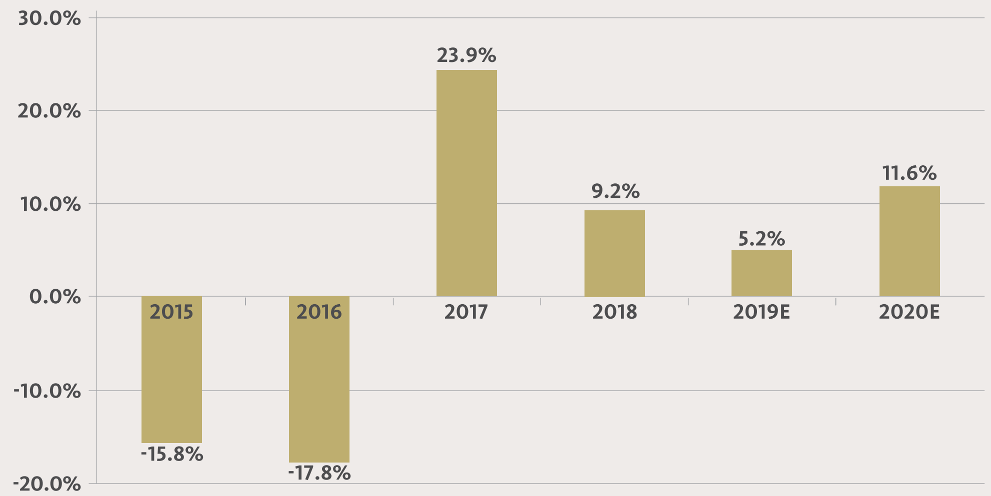
Stay neutral on China as trade situation remains fluid

There is a risk that trade tensions could intensify going forward, exacerbating the ongoing cyclical slowdown in global economic activity. Nevertheless, taking an aggressive de-risking approach at this juncture could prove costly if the Trump administration decides to change the trade agenda in light of slowing economic growth. Chinese equities are currently attractively priced and have the potential to do well this year if trade tensions do not intensify further. Furthermore, Chinese corporate earnings are likely to remain relatively solid, growing by 11.6% in 2020, supported by the stimulus measures. In this environment, the overall risk-reward profile is balanced, in our opinion, thus we are neutral on China.

In terms of positioning, we continue to prefer the domestic-focused companies in the e-commerce and communication services sectors for their resilience against economic cycles. While the pace of growth has slowed in the e-commerce segment, the big secular trends that are happening in China remain intact – demographics and rapid pace of digitisation.

MSCI CHINA EARNINGS GROWTH (%)

SOURCE: BLOOMBERG I NOVEMBER 2019



We are neutral on Hong Kong despite the uncertainties posed by the social unrests. No doubt, there are downside risks to 2020 growth forecasts, particularly in the real estate and retail sectors given the ongoing protests. However, the negatives may have been priced in with market trading close to one standard deviation below historical mean. Admittedly, the domestic situation remains highly fluid and warrants close monitoring. Should the protests prolong and escalate further, it could have a severe and more lasting impact on Hong Kong's status as a global financial hub.

ASEAN - OVERWEIGHT

Within ASEAN, our preferred market is Singapore. After delivering a robust 1H 2019 performance, Singapore equities faltered in 2H 2019 as domestic growth weakened. Still, the economy managed to avoid a technical recession and growth looks set to pick up in 2020, albeit at a moderate pace. Singapore could see an uplift in earnings growth to 3.7% in 2020 versus an earnings contraction last year. Valuations wise, the market is trading around 13x forward earnings as at end-November 2019, which is at one standard deviation below historical averages. More significantly, the average dividend yield of the market is now at 4.6%, which is nearly 3.0% higher than Singapore's 10-year government bond yield of 1.7%.

Sectors wise, Singapore banks could benefit from steady loan and fee income growth, which could offset the risks of lower interest margins, as well as higher non-performing loans. The banks also remain well-capitalised and are expected to be resilient to external shocks, if any. Separately, the real estate investment trusts (REITS) sector could hold firm given the benign interest rate outlook.

We are neutral on the rest of the ASEAN markets, which are projected to witness either a stabilisation or mild rebound in their respective economies. There is also scope for additional monetary and fiscal stimulus, which will be supportive of growth. In Malaysia, the 2020 budget was less expansionary-than-expected although there are customised incentives to capitalise on potential shifts in supply chain due to the U.S.-China trade dispute. Still the muted earnings outlook prevents us from turning more positive even though the market valuations are inexpensive.

PREFERRED SECTORS FOR ASIA EX-JAPAN

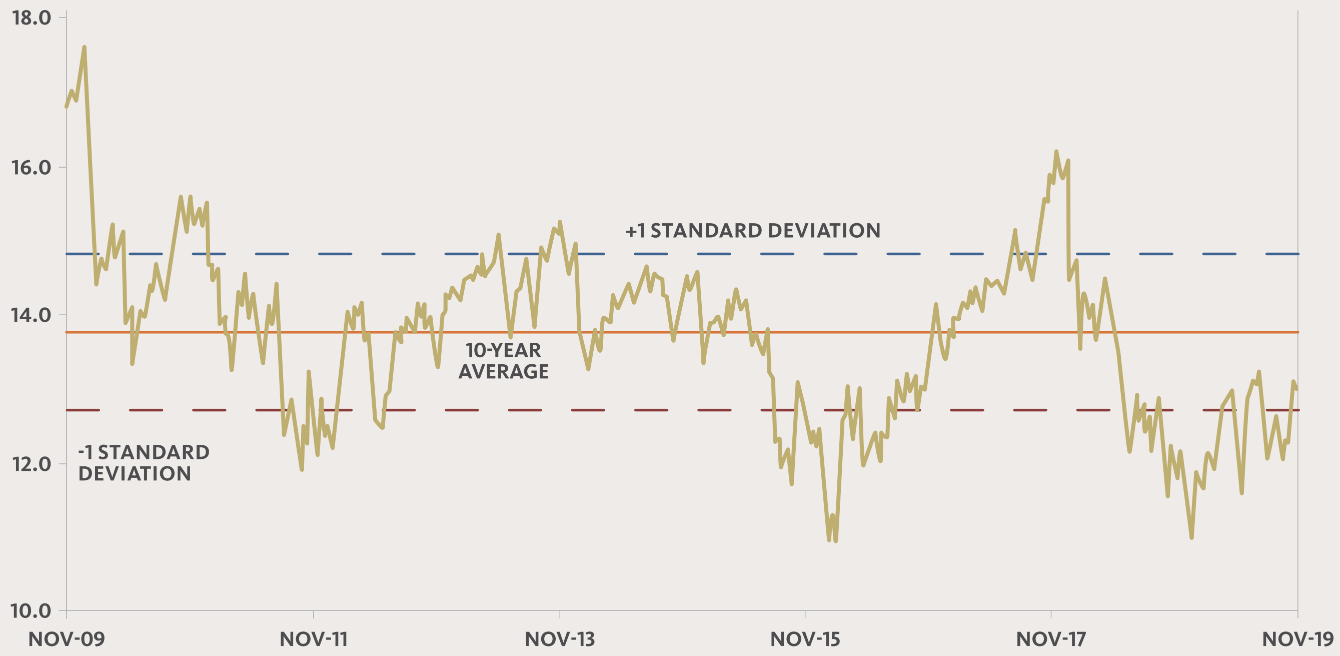
Telecommunication Services

Telecom stocks will remain in favour given their defensive revenue streams and stable dividend income, as slow growth and low interest rates persist. Further consolidation within the sector could also ease price competition and lead to improved profit margins over time.

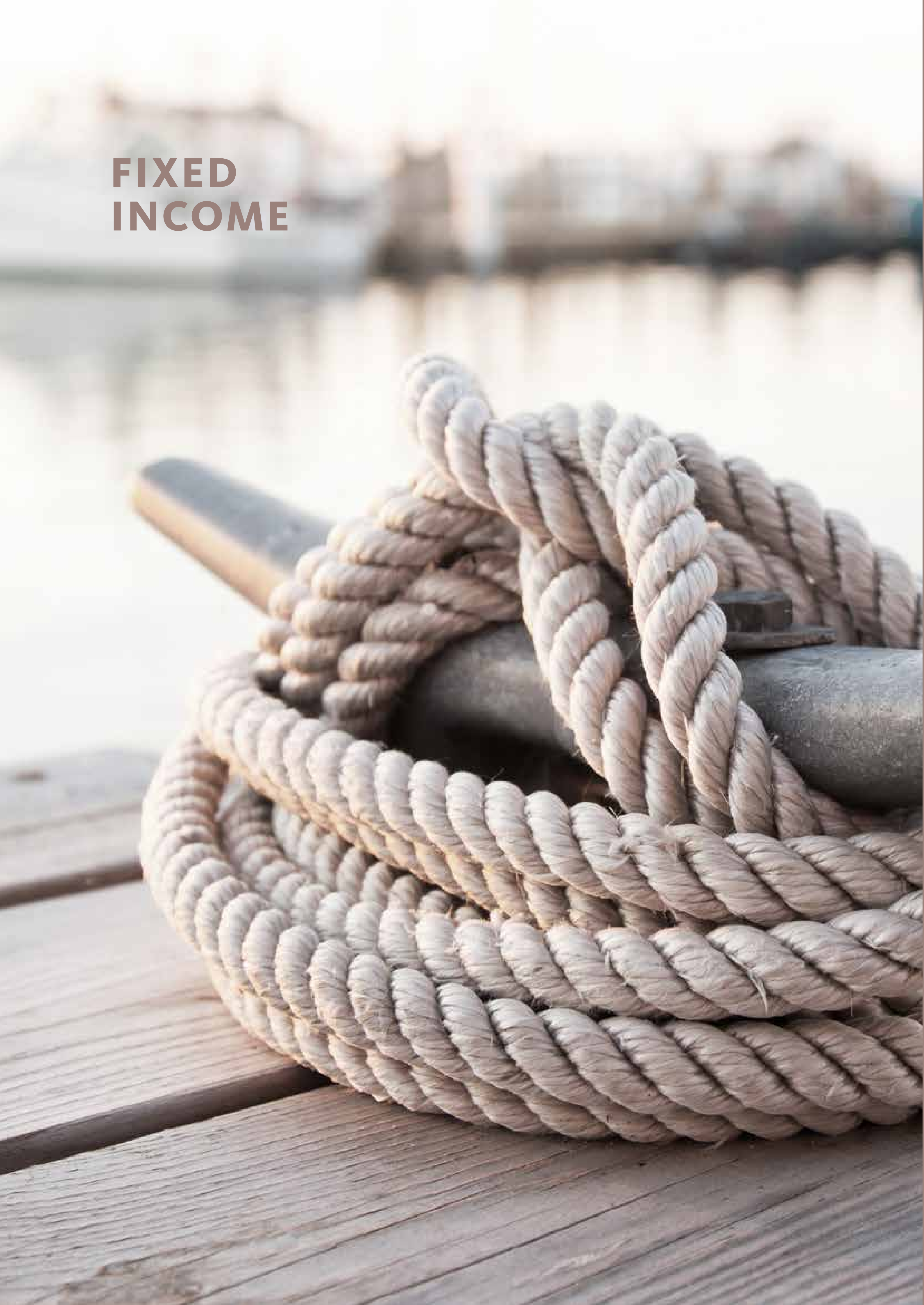
Financials

We like the banking sector's undemanding valuations and attractive dividend yield, particularly for banks in China and Singapore. While growth headwinds remain, the sector's robust capital position will serve as a good buffer and help it weather through any potential downturn.

MSCI SINGAPORE FORWARD 12-MONTH PRICE/EARNINGS RATIO (X)



SOURCE: BLOOMBERG I NOVEMBER 2019



FIXED INCOME

FIXED INCOME – SOVEREIGN BONDS

DEVELOPED MARKETS - NEUTRAL

The Fed had dramatically shifted its policy stance from a hawkish bias in December 2018 to a more accommodative stance last year. Fed Chairman Jerome Powell reiterated readiness to sustain the expansion amidst global growth and trade risks. As such, we believe the Fed will continue its data-dependent approach for its monetary policy. We are penciling in another rate cut, if not more, this year as we do not expect the U.S. and China to reach a comprehensive trade deal before the U.S. presidential election.

The funding squeeze experienced by the U.S. short-term repo market in September 2019 has prompted the Fed to start considering measures to increase liquidity in the financial system. In our view, restarting the purchase of U.S. Treasuries (UST) could help absorb some of the heavy Treasury supply pressure in 2020.

Similarly, the ECB has cut rates to a record low and announced a restart of bond purchases. Further growth slowdown in the Eurozone will likely spur the governments to increase fiscal spending to complement accommodative monetary policy. Slowing growth, benign inflation and rising downside risks have also caused other central banks globally to turn increasingly accommodative. This has driven the amount of negative-yielding debt stock to hit a high of USD 17 trillion in late August 2019.

Developed Markets (DM) sovereign bonds are effective hedges against an economic downturn. Inflation expectations remain subdued and U.S.-China trade uncertainties will continue to lend support to safe haven demand. However, the low yields on offer and sizeable negative-yielding debt stock limit the scope for outsized returns. Thus, we are neutral on DM sovereign bonds.

Maintain neutral to slightly long duration positioning

Given the increasingly volatile UST movements over the past few quarters, we would avoid taking excessive directional bets on duration. Hence, we suggest a neutral to slightly long portfolio duration position. This is premised on our base view which expects 10-year UST yields to move within our forecast range of 1.25% - 1.75% in 2020. Given our view of broadly stable UST yields from current levels, investors can consider extending duration slightly to enhance income returns.

PREFERRED SECTORS

U.S. Treasuries

U.S. Treasuries will benefit from the hunt for yield given their positive carry in a negative-yielding environment. Moreover, they will outperform during times of heightened volatility for its perceived safe-haven qualities. Given our neutral to slightly long duration positioning, we would focus on keeping portfolio duration within the 5-7 years segment.

10-YEAR INFLATION BREAKEVEN RATES (%)

- U.S.
- JAPAN
- GERMANY
- AUSTRALIA

SOURCE: BLOOMBERG I NOVEMBER 2019

FIXED INCOME – DEVELOPED MARKETS CREDITS

INVESTMENT GRADE - NEUTRAL

What a spectacular year it has been
2019 saw solid credit performance across the board led by lower UST yields. The robust demand for income assets has also tightened credit spreads. Within Developed Markets (DM), U.S. Investment Grade (IG) bonds led the way, up 14.2% year-to-date (YTD) as at end-November 2019. In the same period, U.S. High Yield (HY) bonds also generated 12.1%, driven by carry.

Looking ahead into 2020, DM credit fundamentals could stay vulnerable amid weaker earnings growth, but an easier monetary policy and lack of positive yielding alternatives globally could underpin DM corporate performance. For this year, we expect returns for corporate bonds to be driven mainly by carry with limited room for spreads to tighten further in a slower growth environment.

Take comfort in deleveraging before a recession
In 2019, we saw some deterioration in credit metrics and that was mostly concentrated in A-rated issuers rather than BBB-rated issuers. Indeed, the growing segment of BBB-rated issuers, which caught headlines late 2018, has shown modest improvements in credit metrics through debt-friendly actions such as asset sales and dividend reductions. This reflects the efforts of BBB-rated companies to deleverage and avoid rating downgrades. A-rated corporates, on the other hand, have taken advantage of the lower borrowing costs for liability management and extended their debt maturity profiles.

DM IG bonds are defensive plays given their high credit quality and reasonable interest coverage ratios, which continue to be supportive. However, stretched valuations in DM IG credits deter us from taking on a more constructive stance and hence we are neutral on the asset class.

HIGH YIELD - UNDERWEIGHT

More prone to bouts of volatility
Weak fundamentals, ongoing trade uncertainties and subdued oil prices are likely to weigh on DM HY performance. Although U.S. HY default rates of 2.6% (as at end-November 2019) remain below the long-term average of 3.5%, we see risks of an uptick in the default rates. Coupled with tight valuations and higher risks of rating downgrades, we are underweight on DM HY bonds as credit spreads are likely to widen in a late business cycle.

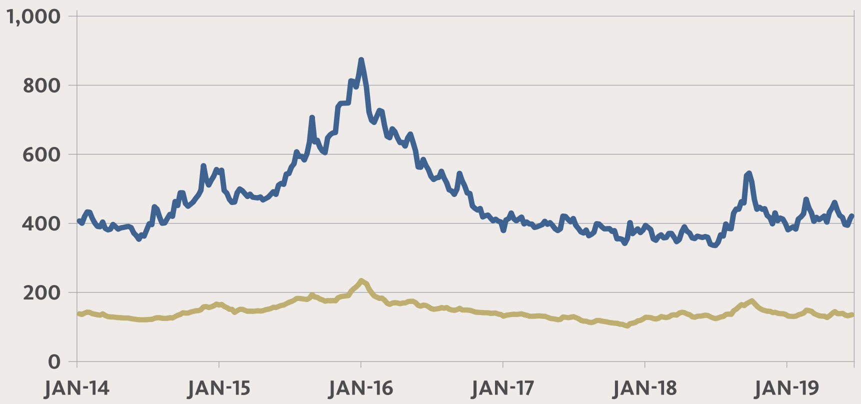
PREFERRED SECTORS

BBB-Rated Financial Bonds
From a rating perspective, BBB-rated bonds offer a healthy yield pickup over A-rated bonds. We take comfort that BBB-rated issuers have been on a deleveraging path last year, which helps to reduce the risk of downgrade to HY. Furthermore, the collapse of global bonds yields will continue to support demand for BBB-rated bonds. Within the BBB-rated space, we prefer Financials over Non-Financial Corporate bonds as the former's stronger capital and liquidity positions will continue to underpin the outperformance.

U.S. IG AND HY OPTION-ADJUSTED SPREADS (BPS)

— U.S. HY — U.S. IG

SOURCE: BOFA MERRILL LYNCH GLOBAL RESEARCH I NOVEMBER 2019



FIXED INCOME – EMERGING MARKETS CREDITS

Carry play in 2020
The dovish turn by the Fed and the ECB has allowed Emerging Markets (EM) central banks to ease policies further, helping them to mitigate some of the damage caused by global trade uncertainty. However, most EM economies, with the exception of Asia, have limited room to implement additional fiscal stimulus to spur growth. Nevertheless, they are generally in better shape now to prevent systemic issues that have occurred in the past. Vulnerabilities like Argentina are more idiosyncratic in nature and unlikely to have a contagion impact on the rest of EM.

The ongoing dovish central bank wave could underpin EM credits as a carry play for 2020. We also take comfort in improving corporate fundamentals in EM. Recent years of prudent financial management have provided EM corporates a stronger footing to weather potential downturns. However, the many growth and geopolitical uncertainties remain as headwinds. Hence, we are neutral on EM IG but underweight on EM HY bonds given the former's more defensive yield and better risk-adjusted returns.

INVESTMENT GRADE - NEUTRAL

Focus on quality yield
Within EM IG bonds, Gulf Corporation Council (GCC) credits are one of our preferred segments. GCC credits have overall strong credit profiles in systemically important entities and strong technical factors driven by a largely domestic investor base. Although Latin America (LATAM) IG offers 78 basis points spread pick up to other EM IG peers (based on ICE BofA Merrill Lynch data), we do not think it is sufficient to compensate for the additional credit risks of the LATAM IG bonds.

HIGH YIELD - UNDERWEIGHT

Remain selective in EM HY
From a valuation perspective, EM HY credits appear expensive as they offer only 120 basis points spread pick up over U.S. HY, below the 10-year average of 150 basis points (based on ICE BofA Merrill Lynch data). Furthermore, the valuations may have been skewed by recent spread widening in Argentina (with HY credits yielding over 2,000 basis points). Excluding Argentina, overall valuations are even less attractive, leading us to underweight EM HY bonds.

Moreover, lingering uncertainties over the future of Argentina, including the government's stance on debt restructuring, could continue to dampen sentiment on the segment.

PREFERRED SECTORS

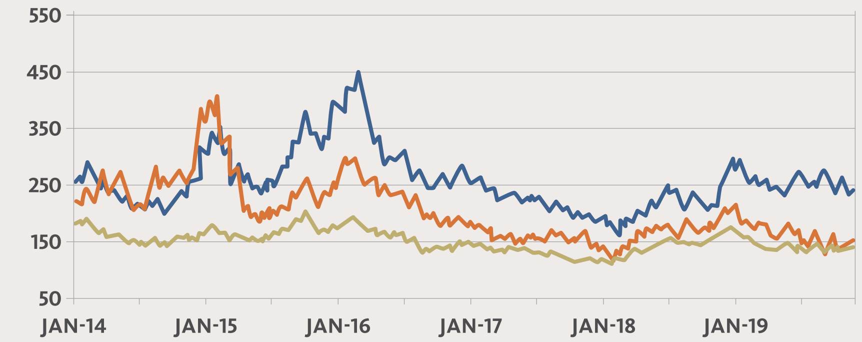
Gulf Corporation Council Investment Grade
GCC credits are expected to be more resilient due to their improved current account balances. Within this segment, government linked credits and quasi-sovereign bonds are our top picks.

REGIONAL EM IG OPTION-ADJUSTED SPREADS (BPS)

— EMEA* IG — LATAM IG — ASIA IG

SOURCE: BOFA MERRILL LYNCH GLOBAL RESEARCH I NOVEMBER 2019

*EMEA STANDS FOR EUROPE, THE MIDDLE EAST AND AFRICA.

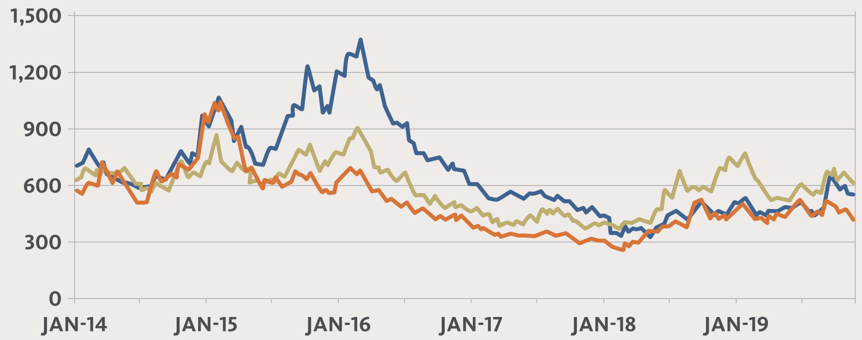


REGIONAL EM HY OPTION-ADJUSTED SPREADS (BPS)

— EMEA* HY — LATAM HY — ASIA HY

SOURCE: BOFA MERRILL LYNCH GLOBAL RESEARCH I NOVEMBER 2019

*EMEA STANDS FOR EUROPE, THE MIDDLE EAST AND AFRICA.



FIXED INCOME – ASIA CREDITS

Resilient despite challenging macro backdrop

While the U.S.-China trade dispute is the biggest macro tail risk, there is limited direct impact on Asia credits as it mainly affects technology names and exporters, which constitute only about 1.1% of total market capitalisation of J.P. Morgan Asia Credit Index. As a result, Asia credits have been relatively resilient to the trade tensions last year.

In Asia, stable governments with sufficient policy flexibility would help to buffer the economy from the impact of the ongoing trade war. Due to better economic management since the Asian Financial Crisis, these Asian economies have more fiscal buffers compared to other EM countries. Across the region, several central banks have eased monetary policies, which will help to cushion the blow from the trade war.

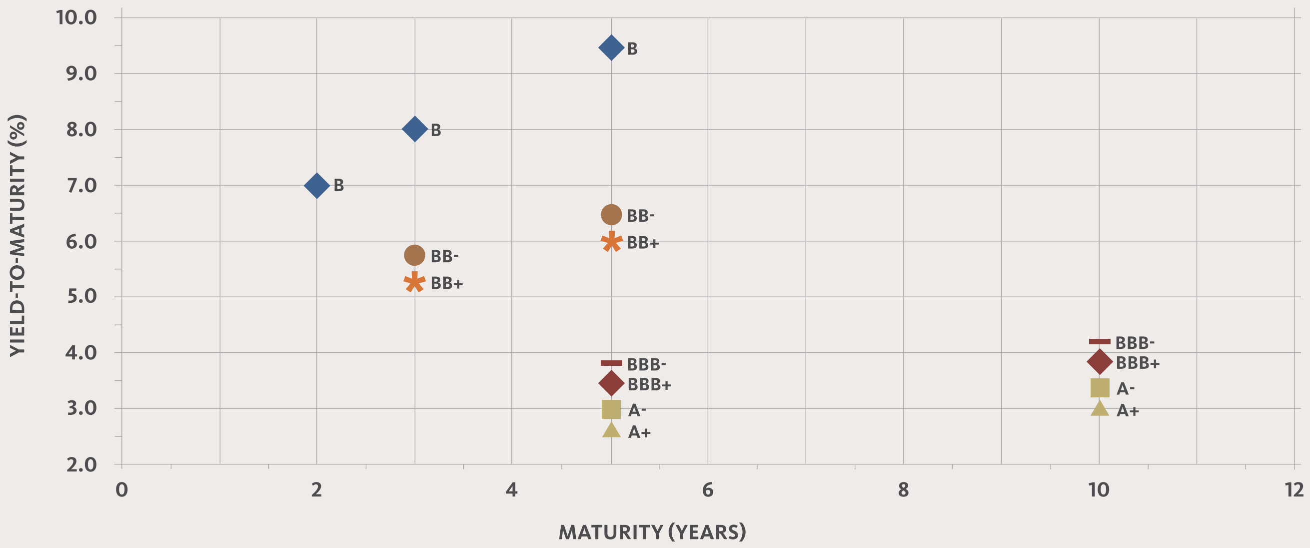
In view of the above, we expect Asia credits to outperform their global and EM peers. Moreover, Asia credits have a higher proportion of domestic investors relative to other EM peers. Thus, we see lower risks of fund outflows from Asia credits, which could help to reduce overall price volatility. Within Asia, we are overweight IG and neutral on HY.

INVESTMENT GRADE - OVERWEIGHT

Stay with quality

Asia IG bonds continue to exhibit high credit quality, low volatility and improving fundamentals. Despite a more challenging macro backdrop, Asia IG credit fundamentals have remained healthy, supported by a sustained deleveraging trend. 1H 2019 report cards also showed resilient balance sheets with steady net leverage and rising interest coverage levels. Although credit spreads have tightened, they are still near historical average. Given our key investment theme of staying prudent in a slower growth environment, we are positive on Asia IG for its quality yield and prefer the segment over Asia HY bonds.

ASIA CREDITS MEDIAN YIELD-TO-MATURITY



SOURCE: BLOOMBERG I NOVEMBER 2019

HIGH YIELD - NEUTRAL

Balanced risk-reward

From a valuation perspective, Asia HY appears compelling. It currently offers 171 and 30 basis points in spread over Europe, the Middle East and Africa (EMEA) and LATAM HY bonds, respectively, excluding Argentina, based on ICE BofA Merrill Lynch data. Most Asia HY corporates have also been able to maintain their credit profiles. In particular, China HY property developers (which form the bulk of Asia HY bonds) have seen more positive than negative rating actions in recent months. However, we see heightened refinancing risks, particularly for those lower-rated issuers, which are facing a higher level of debt maturing in 2020 compared to the previous year. On balance, we are neutral on Asia HY and would stay with the higher quality BB-rated bonds.

PREFERRED SECTORS

IG Quasi-Sovereigns

For the additional carry, we would extend duration in some long-dated quasi-sovereign bonds in Indonesia. We also continue to like bonds issued by central state-owned enterprises in China for its attractive relative value against other Asian peers.

IG Corporates

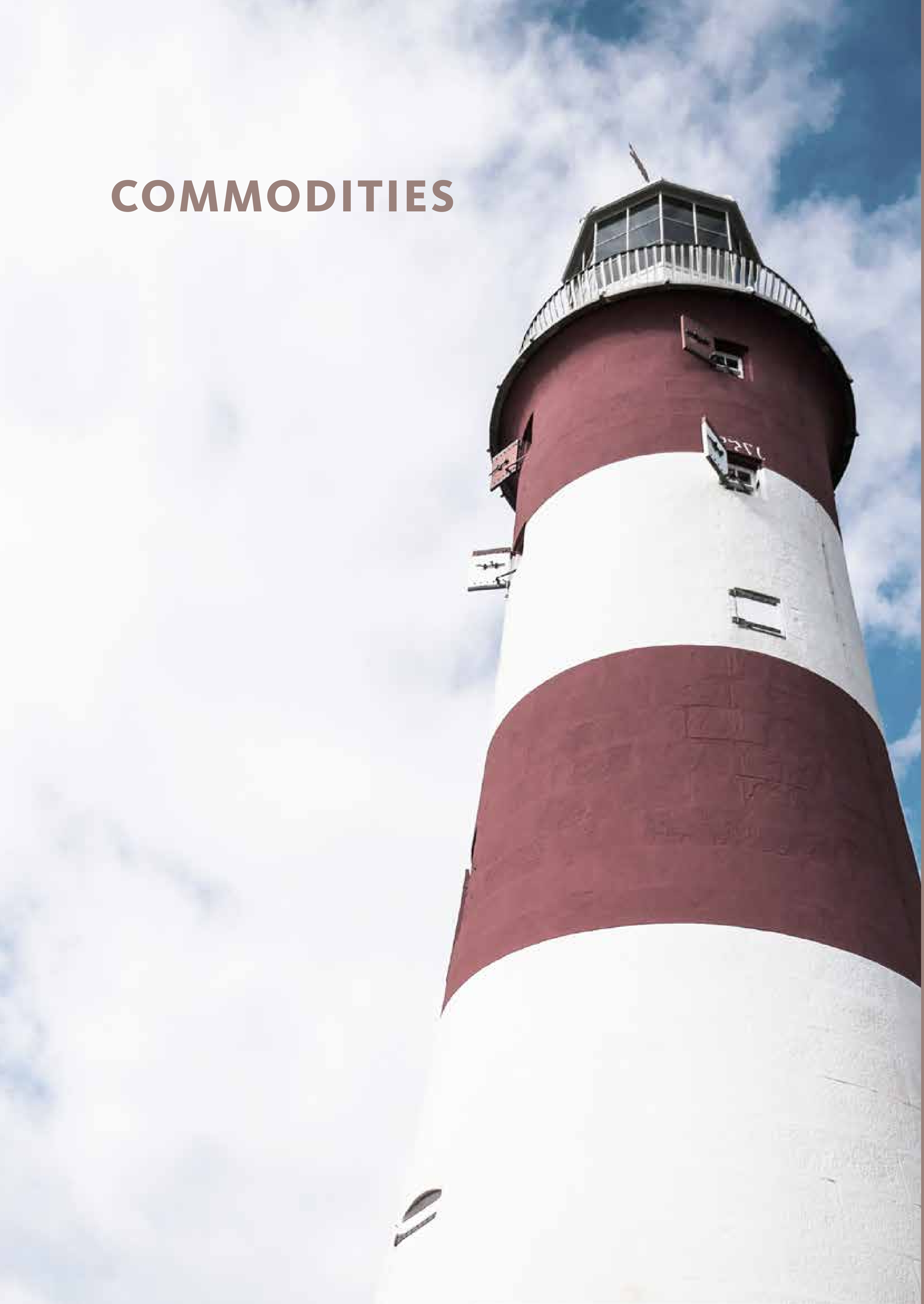
Prefer corporates over financials given attractive relative value and yield pick-up offered by the former's longer duration. We prefer defensive sectors such as Utilities and Telecommunications.

HY China Property Developers

We have a preference for larger China property developers with prudent financial management and improving credit profiles. We would stay with BB-rated over B-rated issuers as the former is less vulnerable in a weak macro environment.

FIXED INCOME

COMMODITIES



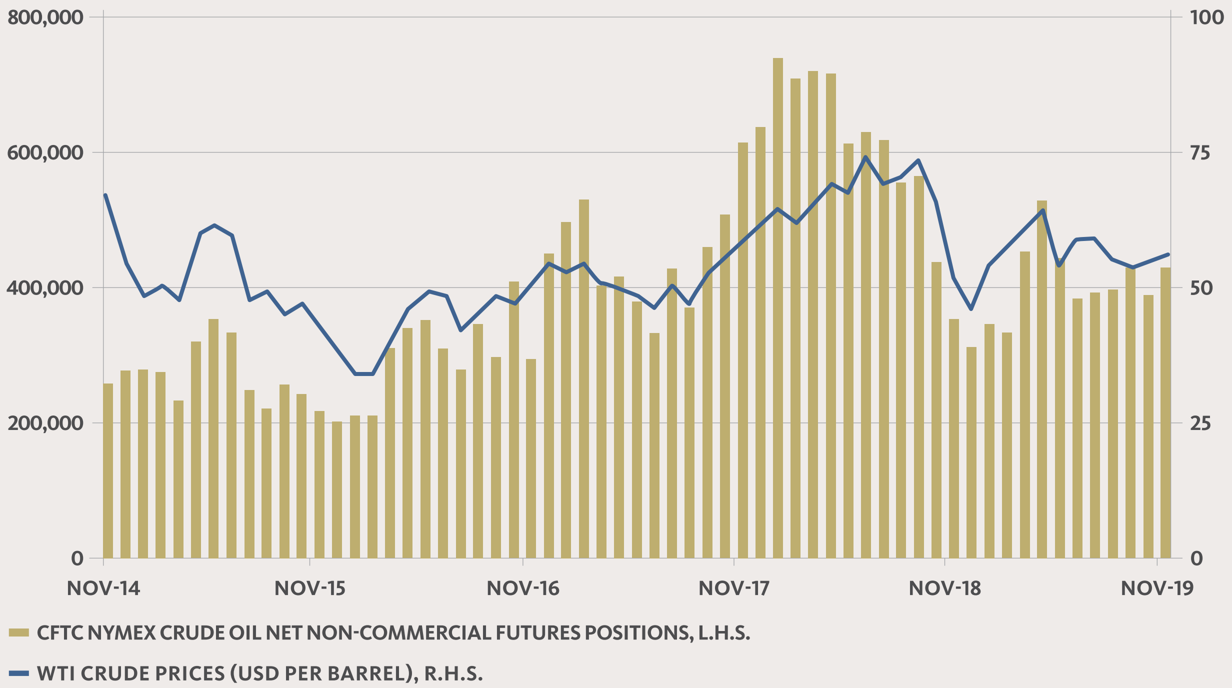
COMMODITIES – OIL

OIL - NEUTRAL

The crude oil markets have been held hostage by oil demand uncertainties and increased supply from the U.S. shale producers. All these have overwhelmed the escalation of tensions in the Middle East following the drone attacks on two Saudi Arabian oil facilities and Turkey's military offensive in northern Syria. Demand worries remain as many countries are now experiencing contractions in manufacturing output amid the ongoing U.S.-China conflict. The Organisation of Petroleum Exporting Countries (OPEC) has lowered 2019 global oil demand growth forecasts numerous times to 0.98 million barrels per day (mb/d). We continue to see downside risks to OPEC's 2020 global oil demand growth forecast of 1.08 mb/d due to slowing global growth momentum.

The OPEC and Russia coalition (OPEC+) appears to be stuck in a vicious cycle of cutting production. OPEC+ might need to extend their output cuts longer than anticipated to balance markets against a faltering global economy and higher supply from non-OPEC producers, particularly in the U.S. While the crude oil market outlook appears grim, geopolitical risks are deterring the hedge funds from becoming aggressive sellers. According to data from the U.S. Commodity Futures Trading Commission (CFTC) and ICE Futures Europe, the hedge fund community is still maintaining a net bullish position on crude oil, albeit at a significantly less positive level as compared to the peak in early 2018. Threats to production in the Middle East remain and risk premium is still warranted at this juncture. Thus, we are neutral on crude oil markets this year.

NYMEX CRUDE POSITIONS VERSUS WEST TEXAS INTERMEDIATE (WTI) CRUDE PRICES



SOURCE: BLOOMBERG I NOVEMBER 2019

COMMODITIES – GOLD

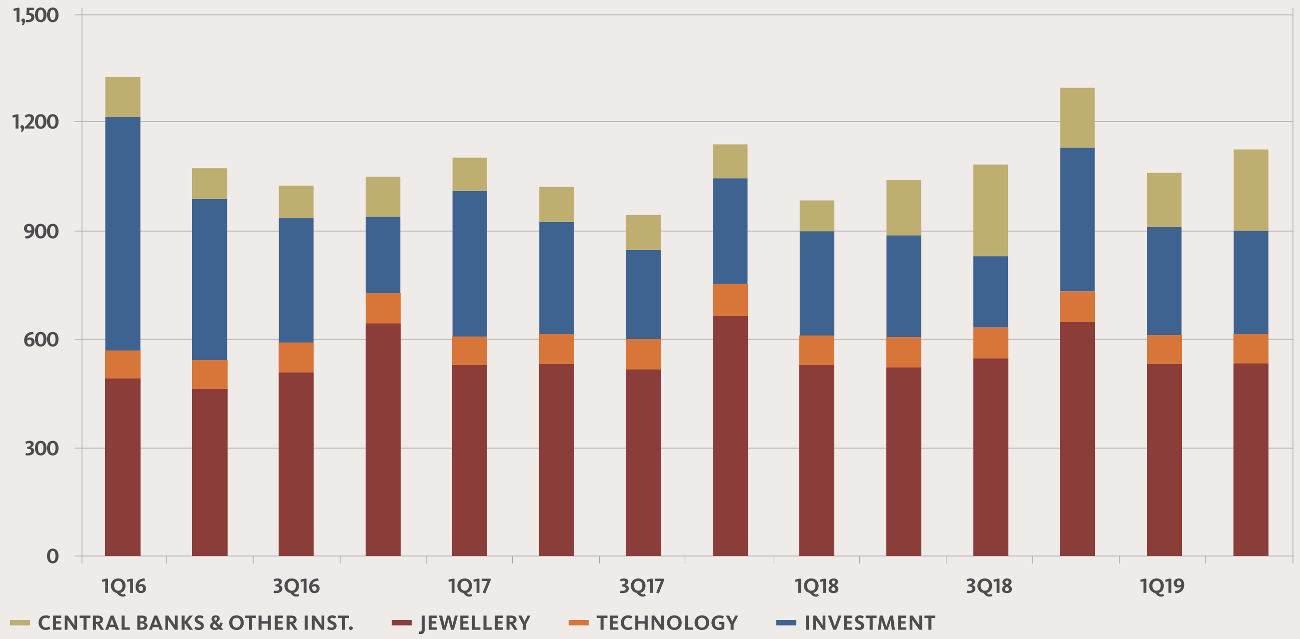
GOLD - OVERWEIGHT

Gold was one of the best performing asset classes last year, underpinned by three pillars: growth concerns, the global rate cut cycle, and political and event risks. We are bullish on gold in 2020, based on the assumption that these three pillars will remain intact and could continue to support the performance of gold.

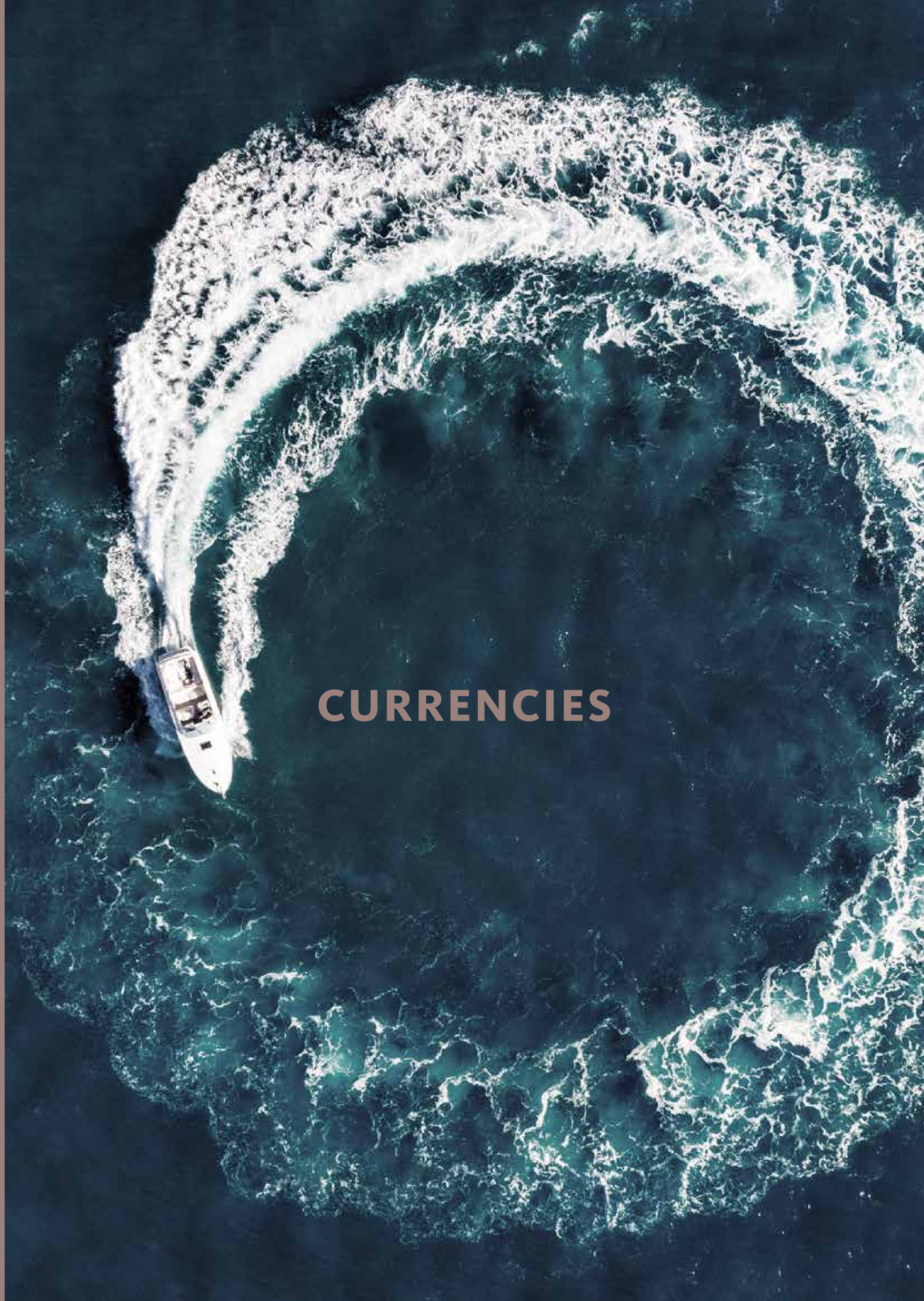
Global growth is expected to moderate this year, but we will likely avoid a U.S. recession. That said, uncertainty, pessimism and concerns about the future, even if mild, could continue to act as a support for gold prices. Against a slowing and stable inflation backdrop, global easing is gaining momentum. This has driven yields lower across the bond market and the amount of negative-yielding debt climbed to a high of USD 17 trillion in late August 2019, or around 25% of the total government bond market. Based on our assumption that inflation is likely to remain benign this year, real rates will continue to fall, fuelling the search for assets such as gold, as they can hold their value during challenging times.

Gold purchases by central banks and bullion-backed exchange traded funds are likely to stay strong this year, driven by the demand for hedges against large holdings of the U.S. dollar, protectionist policies and geopolitical concerns. The formal impeachment inquiry into U.S. President Donald Trump, the U.S. presidential election in November 2020 and ongoing geopolitical tensions in the Middle East are adding to the wall of worries and that could continue to augment the case for owning gold to protect one's wealth.

GOLD DEMAND BOOSTED BY RECORD CENTRAL BANK BUYING (TONNES)



SOURCES: METALS FOCUS, REFINITIV GFMS, WORLD GOLD COUNCIL I NOVEMBER 2019



CURRENCIES

CURRENCIES - DEVELOPED MARKETS

KEY HIGHLIGHTS

- **We enter into an environment of low growth, inflation, and interest rates.**
- **USD strength is not likely to be sustained in the medium term while flows towards other DM currencies could gain traction.**

In 2019, the USD strength was driven by U.S. growth outperformance, the allure of higher carry relative to other currency majors, and safe haven characteristic in times of market uncertainties. These factors may still support the USD in the interim.

However, we are of the view that USD strength cannot be sustained in the medium term as the supporting drivers start to fade on i) an asymmetric Fed that is more ready to ease than hike, taking into consideration that the Fed is not likely to restart a tightening cycle in a U.S. election year; ii) a slowdown in U.S. economic momentum and iii) heightened political uncertainty with ongoing impeachment inquiry on U.S. President Donald Trump. Structural medium term factors such as deteriorating twin deficits of current and fiscal accounts in the U.S. and ongoing reserves diversification away from USD could come into play, supporting the short USD bias.

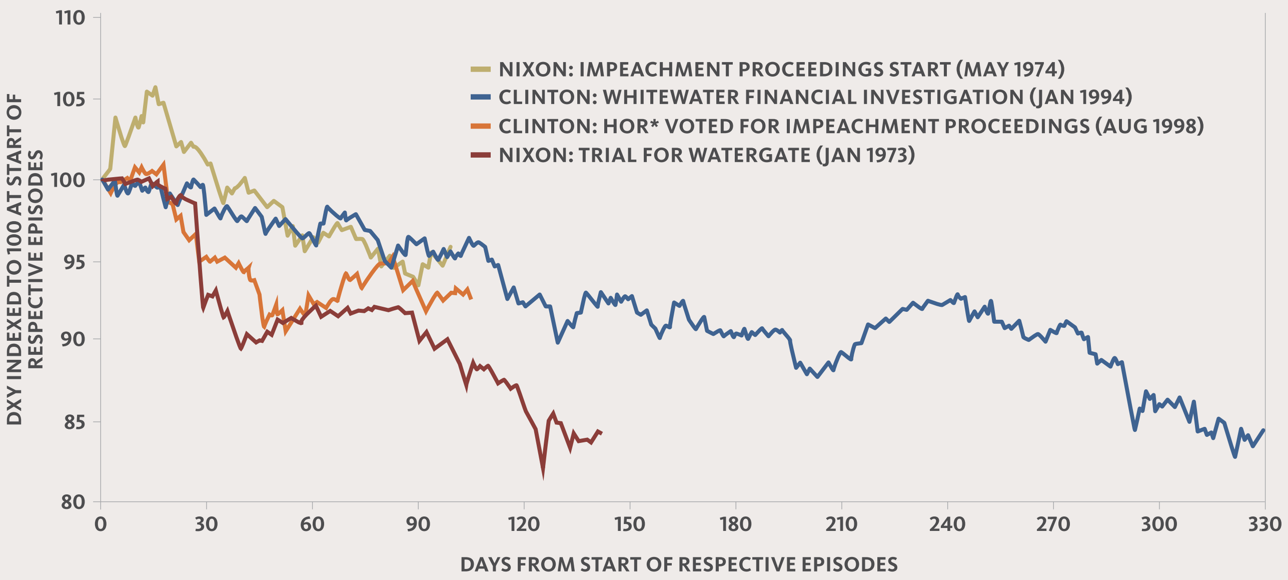
The medium term outlook for EUR is mildly skewed to the upside, underpinned by a potential shift towards fiscal stimulus in the region to spur growth and lesser reliance on further ECB stimulus, especially when the monetary policy is closer to "effective lower bound". A lower debt servicing burden owing to a sharp drop in European bond yields could provide a fiscal breather for government spending. Nevertheless, the near term bias is skewed to the downside on negative carry. Meanwhile, GBP's outlook appears binary in the interim, driven by Brexit uncertainties. Our bias remains for GBP to trend higher on the back of our base case assumption that looks for a soft Brexit.

We retain a bearish bias on USDJPY. In a late-cycle environment, we favour long JPY as a hedge against potential deep corrections in equity markets amid soft global growth, trade uncertainties and geopolitical tensions. Despite some signs of reconciliation for the current Japan-South Korea spat, the negative impact on firms in tourism, automotives, apparel and other consumer goods sectors could persist in the interim and lead to increased demand for JPY as well.

MOST PREFERRED PLAYS

- **Lean against DXY strength.**
- **Accumulate GBP and EUR on dips.**
- **Consider a long JPY hedge against the risk of steep equity corrections.**

USD FELL IN PAST EPISODES OF SCANDALS AND IMPEACHMENT PROCEEDINGS



SOURCES: BLOOMBERG, MAYBANK FX RESEARCH & STRATEGY I NOVEMBER 2019
* HOR STANDS FOR HOUSE OF REPRESENTATIVES

CURRENCIES - ASIA EX-JAPAN

KEY HIGHLIGHTS

- **Asia ex-Japan currencies to be supported by stabilising fundamentals.**
- **Bias for selected higher-yielding currencies in a low rate environment.**

The fate of RMB is still tied to the U.S.-China trade talks and its concomitant impact on growth. Further de-escalation of trade tensions could bring some RMB gains against the USD but the structural slowdown of the Chinese economy and re-emergence of deleveraging priorities would likely keep RMB on the back foot against Asian peers.

The SGD has seen multiple rounds of two-way swings in 2019, alongside shifts in expectations regarding U.S.-China trade relations. Going into 2020, we could see a strengthening of the SGD relative to the USD due to a gradual recovery in domestic growth momentum and a broader uptick in the global technology cycle. With deflationary risks still low, we see dissipating need for the Monetary Authority of Singapore (MAS) to ease further, which would lend support to the SGD.

Relative resilience of the MYR remains underpinned by a healthy current account surplus, constructive growth outlook as well as a resumption of major infrastructure projects and government development spending. Evidence of Malaysia benefitting from trade diversion also supports sentiment and the MYR, to some extent. Near-term risks that could undermine the MYR include lower oil prices, the FTSE Russell review in March 2020 and the U.S.-China trade dispute.

The IDR and PHP could be relative outperformers in 2020 with fiscal and current account deficits of both Indonesia and the Philippines remaining manageable. In addition, the focus on attracting foreign direct investments (FDI) via tax and labour reforms, as well as a robust pipeline of infrastructure projects, should support growth of both economies. Coupled with their attractive carry, both IDR and PHP could be favoured by investors in search of higher yields.

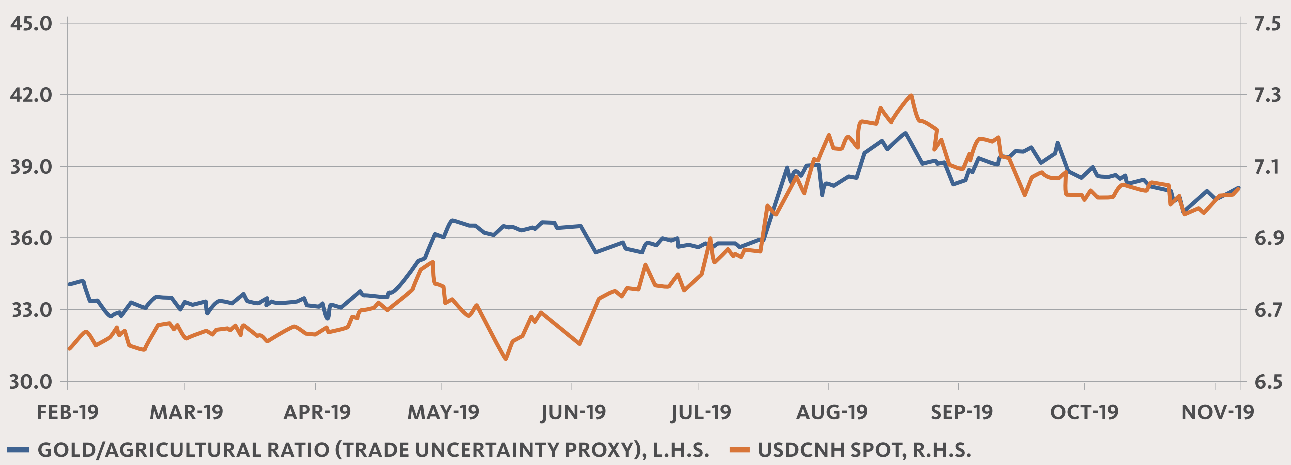
We are relatively less sanguine on the INR as the currency could be hurt by fiscal slippage as the government steps up with more stimulus measures to support growth. Further rate cuts could also erode the carry allure of the INR. In addition, the currency is vulnerable to any surprise increase in oil prices given India's heavy dependence on oil imports.

Should the growth outlook improve, the AUD would have an opportunity to rise against the USD. Nevertheless, the gains could be crimped by i) persistently negative AUD-USD yield differential, ii) lingering quantitative easing expectations on trade uncertainty and potentially weakening hiring momentum, and iii) terms of trade deterioration as China remains on a structural slowdown.

MOST PREFERRED PLAYS

- **Prefer to short the USDCNH on rallies.**
- **Relative value trade to long IDR and PHP versus short INR.**

FATE OF THE RMB STILL DICTATED BY U.S.-CHINA TALKS



NOTE: THE GOLD/AGRICULTURAL RATIO CAN BE SEEN AS ANOTHER PROXY FOR TRADE WAR ESCALATION/DE-ESCALATION AS GOLD IS A SAFE HAVEN TO BE UNWOUND IN BETTER RISK ENVIRONMENT WHILE THE AGRICULTURAL INDEX TENDS TO RALLY WHEN CHINA ANNOUNCES PURCHASES OF MORE U.S. AGRICULTURAL GOODS.

SOURCES: BLOOMBERG, MAYBANK FX RESEARCH AND STRATEGY I NOVEMBER 2019

SETTING THE COURSE

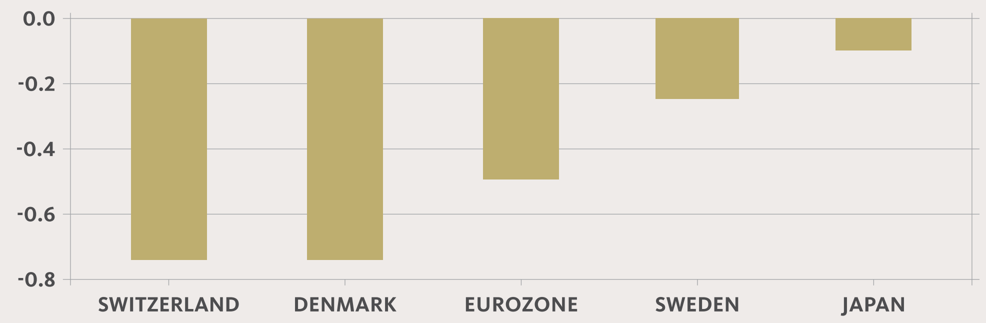
IS CASH STILL KING?

Cash is no longer the king. When it comes to payments, millennials now favour digital payments as opposed to cash. The growth in mobile e-payments has been very strong, with China leading the pack with its mobile e-payment systems: Alipay and WeChat Pay. In Sweden, very few people use cash now and it could become the first cashless society by 2023.

In the financial markets world, cash is also losing its lustre as a valuable asset class. During periods of uncertain times or in a rising interest rate environment, investors typically opt to load on cash as it tends to do relatively better when compared to other asset classes. However, since the global financial crisis, cash has been a consistent underperformer. Given the raft of monetary policy easing by global central banks, the returns on cash deposits are now practically zero or in certain instances - negative. Banks do not want to hold any more cash. In the case of Japan, the domestic banks actually have to pay the BOJ for parking the excess cash and currently the excess reserves in Japan have soared to over 60% of gross domestic product! European banks are facing the same conundrum as well.

CENTRAL BANKS WITH NEGATIVE INTEREST RATES (%)

SOURCE: BLOOMBERG I NOVEMBER 2019



People who park their money in the banks are facing an even more grim scenario. To mitigate the costs of deepening negative rates in the Eurozone, UBS Group AG, the world's largest wealth manager, has started to introduce an annual 0.6% charge on cash deposits of more than 500,000 euros and 0.75% on cash deposits of more than 2 million Swiss francs. Swiss rivals such as Julius Baer and Pictet are also charging the ultra-high net worth clients for their big cash deposits. What all these mean is that cash is no longer a valuable asset and we are paying to save!

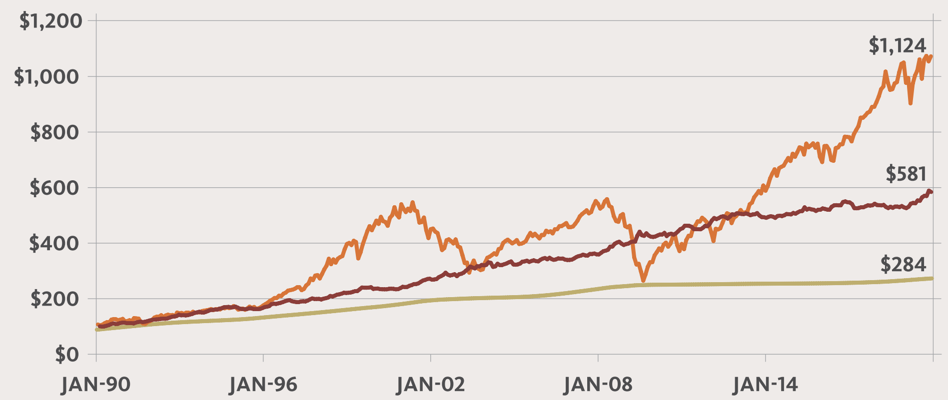
Against a backdrop of low to negative interest rates, investors are increasingly looking at bonds and stocks that pay decent income and/or dividends as an alternative to cash. Investors are even willing to buy bonds with negative yields because if rates fall further, the value of the bonds can rise and investors can walk away with gains. This payoff is better than putting the money in a bank that pays minimal interest or even charges a fee for the cash deposits.

From a portfolio perspective, cash is still an important component of the holistic portfolio construction process as it can act as a buffer against tail risks. But, cash is also a danger as it carries underlying costs in the form of opportunities missed. In terms of our asset allocation strategy, given the many uncertainties, we continue to stress the importance of managing downside risks. Global growth is slowing, but a recession is not imminent. We believe it is not time to be overly bearish as there are still selected opportunities with attractive risk-reward. On balance, we maintain a neutral stance on both equities and bonds. Both asset classes will likely generate positive albeit modest returns. In contrast, cash is becoming less attractive given expectations of declining short term rates.

GROWTH OF $100 IN U.S. EQUITIES, BONDS AND CASH (JANUARY 1990 TO NOVEMBER 2019)

- 3-MONTHS LIBOR
- S&P 500 INDEX
- BLOOMBERG BARCLAYS U.S. TREASURY TOTAL RETURN INDEX

SOURCE: BLOOMBERG I NOVEMBER 2019



WHO WILL BENEFIT FROM TRADE DIVERSION?

The U.S.-China trade war has disrupted global trade and supply chains, creating opportunities for smaller countries as multinational corporates (MNCs) source for substitutes and alternative manufacturing locations. High U.S. and China tariff walls are diverting import demand to third countries unencumbered by these tariffs, including Southeast Asia (ASEAN). High U.S.-China tariff walls are also forcing more MNCs to find alternative manufacturing sites outside of China, with ASEAN witnessing a surge in manufacturing FDI applications. Vietnam and Malaysia are the major beneficiaries from rising FDI, while Indonesia appears to be losing out.

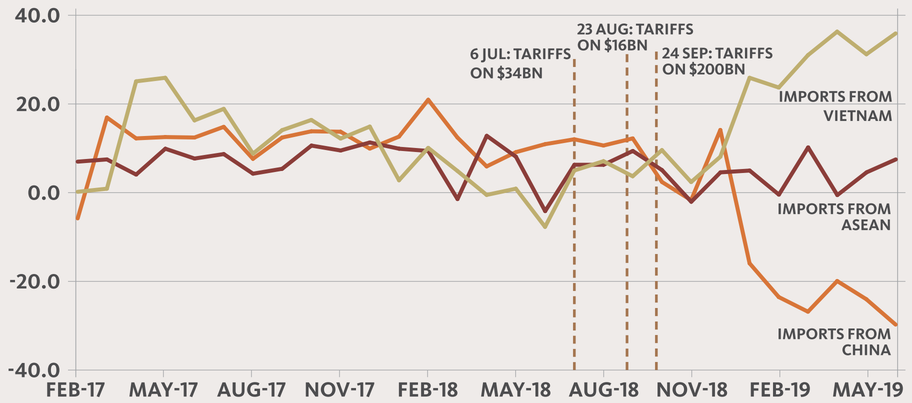
The trade war has led to trade diversion, as both the U.S. and China source for substitutes from alternative sources, including ASEAN. However, the gains are uneven across countries and diverge widely across product lines. Vietnam, as a manufacturing powerhouse and ASEAN's largest exporter to the U.S., has emerged as the clear winner from U.S. tariffs on China. American imports of products, under the USD 250 billion tariff list, from Vietnam surged by +31% year-on-year (YoY) in 1H 2019. The world's largest furniture retailer IKEA, for example, has shifted its furniture orders to Vietnam from China because of the high 25% U.S. tariff rate. Other countries that also posted strong exports growth to the U.S. for the tariffed items include Cambodia (+85%), Laos (+41%) and Myanmar (+80%). In contrast, Indonesia (-8%) and Singapore (-6%) are not capturing any material gains from trade diversion.

TRADE WAR: U.S. IMPORTS FROM VIETNAM SURGING, WHILE U.S. IMPORTS FROM CHINA COLLAPSING

- IMPORTS FROM CHINA
- IMPORTS FROM ASEAN
- IMPORTS FROM VIETNAM

SOURCES: ITC TRADE MAP, MAYBANK KIM ENG I JUNE 2019

U.S. IMPORTS OF PRODUCTS UNDER USD 250 BILLION TARIFF LIST



The U.S.-China trade war is also disrupting the China-centred supply chain and prompting more MNCs to build an alternative manufacturing base outside of China. About 25% of China-based U.S. MNCs are considering relocating to ASEAN, according to an American Chamber of Commerce survey in May 2019. With a comprehensive deal remaining elusive, many MNCs could further accelerate their investment and relocation plans.

The supply chain will likely reconfigure towards ASEAN. Governments are capitalising on this seismic shift by offering incentives to attract large MNCs, which will create jobs, and transfer technology and new skills.

Thailand, for example, has launched a "Thailand Plus" package targeted at firms relocating from China, which includes measures such as a 50% corporate income tax reduction for another five years for qualifying firms and a "one-stop service" to facilitate foreign investors.

Vietnam, Malaysia, and to some extent, the Philippines are emerging as the initial beneficiaries of the investment diversion. Companies expanding plants in ASEAN include Harley Davidson (Thailand), Nintendo (Vietnam), Hon Hai/Foxconn (Vietnam), Micron (Malaysia) and Pegatron (Indonesia).

MANUFACTURING FDI RISING AS SUPPLY CHAINS MOVE TO ASEAN

MANUFACTURING FDI APPROVALS	1H2019 USD BN	1H2018 USD BN	2018 USD BN	1H2019 %YOY	2018 %YOY
*VIETNAM (FDI REGISTERED)	18.1	11.3	16.6	59.7%	4.5%
THAILAND (FDI APPLICATION APPROVED)	2.52	2.54	5.4	-1.0%	23.4%
MALAYSIA (FOREIGN INVESTMENT APPROVED)	6.1	3.9	14.4	56.9%	187.1%
PHILIPPINES (APPROVED FDI)	0.8	0.4	1.6	86.5%	48.1%
INDONESIA (FOREIGN INVESTMENT REALISATION)	4.4	5.6	10.3	-21.5%	-21.4%

*REFERS TO MANUFACTURING FDI REGISTRATIONS FOR 9M2018 AND 9M2019, WITH YOY INCREASE CALCULATED BASED ON 9M2018 AND 9M2019 NUMBERS.

SOURCES: CEIC, MAYBANK KIM ENG I NOVEMBER 2019

DOES THE U.S. ELECTION MATTER?

UPCOMING 2020 PRESIDENTIAL ELECTION

The U.S. presidential election will be held on 3 November 2020. The election is highly anticipated by investors given this is a high-stakes event that could shape future domestic and foreign policies for at least the next four years. Incumbency and the electoral college still favour President Trump's re-election but manufacturing weakness in key industrial states could weaken support for him. Meanwhile, former Vice President Joe Biden, Senator Bernie Sanders and Senator Elizabeth Warren are leading in national polls to represent the Democratic party as presidential candidate. Apart from the presidential election, elections will be held concurrently for both the Senate and the House of Representatives (House).

WHAT IS AT STAKE?

Whoever the Democrats nominate, there is a sharp difference in policy orientation with President Trump, which could have significant impact on the overall economy and markets. In varying degrees, the Democrats are in favour of increasing taxes on the corporate sector and upper-income individuals, in essence partly reversing Trump's policies. Moreover, the Democrats are also in favour of reinstating many of the deregulation measures Trump has implemented. The Democrats and Republicans also have different policy objectives for the Energy, Finance and Healthcare sectors.

POLICY DIFFERENCES BETWEEN DEMOCRATS AND REPUBLICANS

MACRO	DEMOCRATS	REPUBLICANS
TAXES	Democrats favour raising taxes on corporations and upper-income groups.	President Trump enacted 2017 corporate tax reforms.
DEREGULATION	Democrats favour reinstating various regulations that were eliminated.	President Trump pushed for easing regulations.
SECTORS	**DEMOCRATS**	**REPUBLICANS**
ENERGY	Democrats favour green energy.	President Trump is pro-fossil fuels.
HEALTHCARE	Democrats want to expand national healthcare.	Republicans want to unwind the Affordable Care Act.
FINANCIALS	Democrats favour tightening oversight on banks.	Republicans favour deregulations.

SOURCE: MAYBANK GROUP WEALTH MANAGEMENT RESEARCH I NOVEMBER 2019

MARKET IMPACTS DEPEND ON THE OUTCOME OF THREE RACES (WHITE HOUSE, HOUSE OF REPRESENTATIVES, AND SENATE)

Broadly speaking, the most disruptive outcome would be the Democrats taking full control of the White House and the Congress as previous tax reforms and deregulations could be reversed. In addition, among the potential presidential candidates, Elizabeth Warren appears to be least preferred by investors given her stance on tighter regulations for the financials and technology sectors.

In contrast, a split Congress would typically make it more difficult to enact changes in key legislations given the differences in opinion. This outcome will likely lead to policy continuity and hence, viewed more favourably by investors.

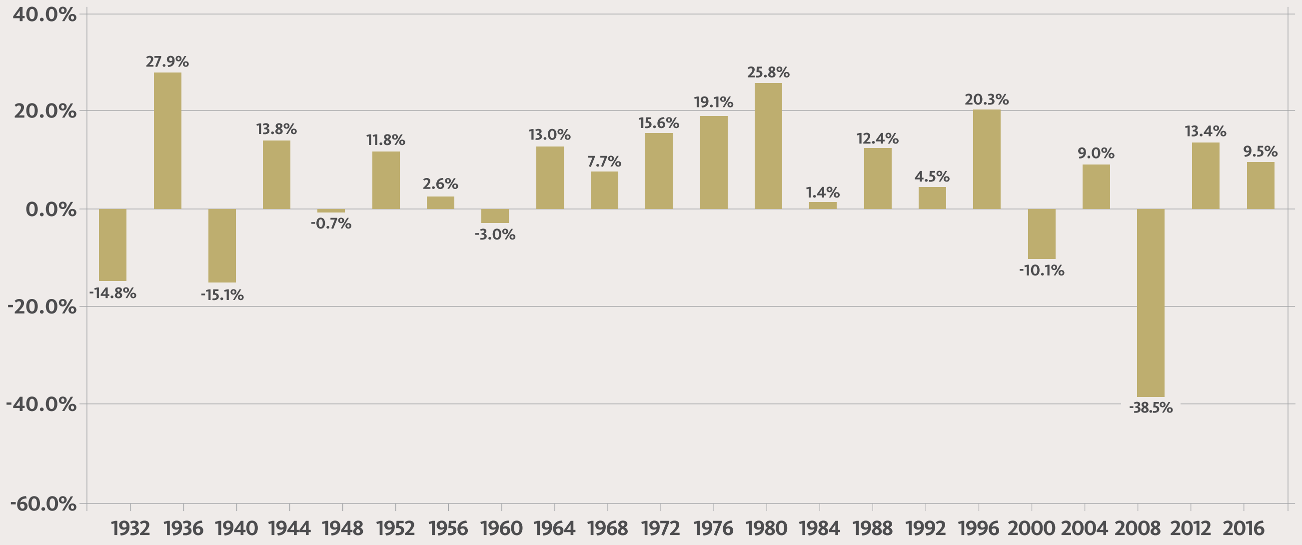
Regardless of the election outcome, historical data suggests the broad economic environment plays a more important role in determining market performances. In fact, market returns have varied widely over past election years since 1932. Notably, election years which recorded negative returns have mostly coincided with recessionary periods.

WHAT ARE THE IMPLICATIONS FOR INVESTORS?

While macro fundamentals ultimately matter more, we do expect market volatility to increase and peak one to two months before the November election. In particular, we could see heightened uncertainties in Financials, Energy and Healthcare stocks given the sharp difference in policy opinions between the Democrats and Republicans over these sectors. In contrast, Consumer Staples, and Telecommunication Services stocks may be subjected to less scrutiny and debate, leading to more stable returns for these sectors.

Meanwhile, the U.S. and China tensions could linger even after the presidential election given their stark differences over major issues including intellectual property rights and technology transfers, which may add to market uncertainties.

S&P 500 YEARLY PERFORMANCES DURING ELECTION YEARS



SOURCE: BLOOMBERG I NOVEMBER 2019

2020 EVENTS CALENDAR

UNITED STATES

Federal Open Market Committee Meetings

28-29 January
17-18 March
28-29 April
9-10 June
28-29 July
15-16 September
4-5 November
15-16 December

4-6 March
Jackson Hole Investor Summit

10-12 June
46th G7 Summit

3 November
Presidential and Legislative Elections

EUROZONE

European Central Bank Meetings

23 January
12 March
30 April
4 June
16 July
10 September
29 October
10 December

21-24 January
World Economic Forum

30 January
Brexit deadline

15-22 March
French Municipal Elections

UNITED KINGDOM

Bank of England Meetings

30 January
26 March
7 May
18 June
6 August
17 September
5 November
17 December

AUSTRALIA

Reserve Bank of Australia Meetings

4 February
3 March
7 April
5 May
2 June
7 July
4 August
1 September
6 October
3 November
1 December

CHINA

March
National People's Congress
FTSE Russell broadens China-A inclusion

JAPAN

Bank of Japan Meetings

20-21 January
18-19 March
27-28 April
15-16 June
21-22 July
16-17 September
28-29 October
17-18 December

24 July – 9 August
Summer Olympics

INDONESIA

23 September
Regional elections

THAILAND

January
2020 Budget approval

PHILIPPINES

17-19 March
ASEAN Gaming Summit

VIETNAM

April/May
36th ASEAN Summit

October/November
37th ASEAN Summit

MALAYSIA

March
FTSE Russell review

4Q 2020
APEC Summit

SINGAPORE

February
Budget 2020

April
Monetary Authority of Singapore Policy Meeting

October
Monetary Authority of Singapore Policy Meeting

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AWARDS AND ACCOLADES

2019 Brand Finance Awards
TOP 100 BANKING BRAND

2019 WINNER

2018 ASIAN PRIVATE BANKER AWARDS FOR DISTINCTION
BEST PRIVATE BANK GROWTH STRATEGY OF THE YEAR

BEST PRIVATE BANK AWARD 2018
GLOBAL FINANCE

EUROMONEY
PRIVATE BANKING SURVEY 2018

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