SATURNA Since 1989

MARKET REVIEW ASEAN

OVERVIEW

Q4 2017

2017 was a remarkable year for equity markets around the world but not entirely in the way we normally think of a "Great Year for Stocks." While the percentage gains were significant, they were not unprecedented. As recently as 2013, the S&P 500 Index (SPX) returned 32.39% compared to the 21.82% gain of 2017. That said, the consistency of price appreciation and absence of reversals (volatility) was unprecedented. There was not a single month during 2017 when the total return of the S&P 500 went negative.[1] Considering multiple Fed rate hikes, escalating tension between the US and North Korea, President Trump's restive Twitter rhetoric, administration departures, and an ongoing FBI investigation, that's pretty surprising. Secondly, hope springs eternal and, despite the US Congress' failure to repeal the Affordable Care Act, tax reduction remained firmly in Republican sights. Growing confidence that a tax bill would be passed contributed to the strongest market appreciation of the year during the fourth quarter. That confidence was rewarded with the bill's passage and a cut in the US corporate tax rate from 35% to 21%.

Vincent Thien *CFA®*
Equity Analyst

While US stock market returns were impressive, overseas markets did just as well and often were helped by currency strength versus the US dollar. Even emerging markets joined in for the first time in several years with the MSCI Emerging Markets Index gaining 37.28%.

While US stock market returns were impressive, overseas markets did just as well and often were helped by currency strength versus the US dollar.

Malaysia

Malaysia's fourth quarter GDP grew 5.9% from a year earlier. Year-on-year, Malaysia's full-year 2017 GDP also grew 5.9%. This represents an improvement from GDP growth of 4.2% in 2016. Malaysia's Ministry of Finance forecasts economic growth between 5.0% and 5.5% in 2018, driven by resilient domestic demand and improving global trade prospects.

Malaysia's equity market in 2018 is expected to be volatile but likely healthy due to the upcoming general election in the second quarter. Furthermore, the expected strengthening of local currency and rising crude oil prices may help improve the economy and bring in more foreign investors.

The FTSE Bursa Malaysia KLCI gained 13.19% in 2017 in local currency, modest relative to other ASEAN markets.

Market Indicators	Current Value	1 Quarter		YTD		1 Year	
FBM EMAS Shariah (RM)	13,303	3.62%	▲	13.74%	▲	13.74%	▲
FBM KLCI (RM)	1,797	5.16%	▲	13.19%	▲	13.19%	▲
S&P 500 (US$)	5,213	1.11%	▲	21.83%	▲	21.83%	▲
Dow Jones Industrial Average (US$)	24,719	1.92%	▲	28.11%	▲	28.11%	▲
FTSE All World (US$)	339	1.71%	▲	24.65%	▲	24.65%	▲
MSCI All Country World Index (US$)	513	1.63%	▲	24.62%	▲	24.62%	▲
MSCI Emerging Markets (US$)	521	3.59%	▲	37.28%	▲	37.28%	▲
Dow Jones ASEAN Islamic (RM)	9,836	3.03%	▲	9.93%	▲	9.93%	▲
Jakarta Composite Index (RM)	6,356	5.67%	▲	10.47%	▲	10.47%	▲
Philippine Stock Exchange Index (RM)	8,558	3.71%	▲	14.14%	▲	14.14%	▲
Straits Times Index (RM)	3,403	-0.56%	▼	19.54%	▲	19.54%	▲
Stock Exchange of Thailand (RM)	1,754	2.80%	▲	16.88%	▲	16.88%	▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.06	4.09	4.48
Crude oil (US$)	60.42	57.40	53.77
Crude palm oil (RM)	RM 2,444	RM 2,495	RM 3,196

Indonesia

In 2017, Indonesia's GDP grew by 5.1%. This is slightly below the Indonesian

Continued on next page.

government's estimate of 5.2% that was set in the state budget. Household spending, which constitutes about 50% of GDP, remained weak, registering only a 5.0% year-on-year growth in the fourth quarter.

In December 2017, Fitch Ratings upgraded Indonesia's sovereign rating to BBB, the second-lowest investment grade. Indonesia's Ministry of Finance forecasts economic growth of 5.4% in 2018, thanks to stronger commodity prices boosting exports.

The Jakarta Composite Index rose 22.48% in local currency in 2017. We believe continued infrastructure spending and Indonesia's upcoming 2019 presidential elections may positively impact its equity market.

Philippines

The Philippine Stock Exchange Index gained 4.90% in local currency, up 2.73% in ringgit terms during the quarter. Year-to-date, the index rose 27.15% in local currency and 14.14% in ringgit terms.

The Philippines remained the fastest growing country in the ASEAN region when it registered 6.7% GDP growth in 2017, compared with 6.9% growth a year ago.

As in Indonesia, consumption was relatively weak, but government spending picked up, driven by the Duterte government's emphasis on infrastructure projects. Exports also improved in the fourth quarter. The government is projecting 2018 GDP growth of between 7% and 8%. Notably, the administration is planning to spend PHP 8.0 trillion by 2022 on infrastructure projects. Separately, remittances from overseas Filipinos and the business process outsourcing sector both remain strong.

Singapore

Singapore's economy grew 3.1% year-on-year in the fourth quarter according to the Ministry of Trade and Industry as manufacturing growth remained strong at 6.2% driven by electronics. However, GDP growth slowed relative to 5.4% in the third quarter which saw 19.2% growth in the manufacturing sector. For 2017, the economy grew 3.5%, in line with the government expectations of 3.0% to 3.5%.

For 2018, GDP growth is expected to be steady with manufacturing easing a bit but construction and services sectors picking up. US tax reform may also help global growth. Separately, there is speculation Singapore's government may raise the GST to 8.0% to offset rising expenditures.

FTSE Straits Times Index gained 22.01% in 2017 in local currency.

Thailand

Thailand's economy is expected to grow 3.9% in 2018, holding steady from 3.9% in 2017, according to Bank of Thailand forecasts. Like Singapore, Thailand benefited from expansion in the manufacturing and electronics sectors. In addition, tourism, particularly tourists from China, has been and will likely remain a key driver of growth, along with infrastructure projects picking up.

Elections are currently scheduled for November 2018. The ruling army leadership—led by Prime Minister Prayut Chan-o-cha—is expected to win, reducing political uncertainty. Separately, the coronation ceremony for King Rama X is expected to occur in the second quarter. Of note, the royals are closely aligned with the military leadership. Also, from a historical perspective, Thai stocks tend to do well in the lead-up to elections.

The Stock Exchange of Thailand index rose 17.31% in 2017 in local currency.

PORTFOLIO TACTICS

We are optimistic on the ASEAN region in the near to mid-term, as improved exports and stable currencies offset future Fed rate hikes or other adverse events. Given that economic conditions have improved, we see potential favorable returns in the region. As such, we will continue to look for exciting catalysts and take appropriate long-term positions. Within the region, we favor Malaysia, Singapore, and Thailand over Indonesia and the Philippines.

[1] *Chicago Board Options Exchange. www.cboe.com/micro/buywrite/dailypricehistory.xls*

Saturna Sdn Bhd (342171-V) Suite 5-03, 5th Floor, Menara Atlan 161B, Jalan Ampang 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***