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MARKET REVIEW ASEAN

OVERVIEW

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The ASEAN equity markets were generally weak in November as Malaysia, Indonesia, and the Philippines retreated meaningfully while Singapore and Thailand posted monthly gains. On November 8, US Republican Party presidential nominee Donald Trump unexpectedly won the US presidential election. Most polls and pundits were predicting a win for Hillary Clinton, the Democratic Party nominee. The Trump victory sent the global market into a tailspin initially reflecting investor uncertainty about the impact on international trade and the global political landscape.

The initial shock and denial were short-lived. Investors shifted focus and now expect the Trump administration's fiscal policies – such as increased infrastructure spending and reduced corporate and individual tax – to help grow the US economy. US markets rallied in the subsequent days and weeks, and the benchmark Treasury yields moved higher on rising inflation expectations. The dollar has been equally strong as investors flee emerging and other markets in favor of US markets.

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From an ASEAN perspective, Trump has proposed a tariff of as much as 45% on all imports from China, a top-five ASEAN trading partner, if it keeps its currency artificially low and continues to subsidize its industries to stay competitive. Such US policies could make China less competitive and hurt its exports over the long run. ASEAN countries, particularly Thailand, Malaysia, and Singapore, are large exporters to China. As investors bet on economic growth in the US and contemplate continued slowdown in China – and by extension across ASEAN – they are reallocating investment capital away from these emerging Asian markets and into the US. This is reflected in continued weakness in the Chinese yuan as well as most ASEAN currencies, relative to the US dollar, and the post-election ASEAN market malaise.

Going forward, investors can expect global markets to remain fluid with an increase in volatility at least in the near-term as Trump uncertainty lingers on. Over the medium to long-term, the degree to which any of Trump's policies are implemented may shape the overall market direction. Interestingly, if the US economy does pick up steam as investors now anticipate, China and the ASEAN economies may still benefit given their meaningful reliance on America. However, an emphasis on domestic production could offset some of these benefits.

Market Indicators	Current Value	1 Month		YTD		1 Year	
FBM EMAS Shariah (RM)	11,901	-3.57%	▼	-4.92%	▼	-2.25%	▼
FBM KLCI (RM)	1,619	-2.92%	▼	-1.54%	▼	-0.04%	▼
S&P 500 (US$)	4,196	3.70%	▲	9.79%	▲	8.06%	▲
Dow Jones Industrial Average (US$)	19,124	5.88%	▲	12.62%	▲	10.91%	▲
FTSE All World (US$)	273	0.83%	▲	6.23%	▲	4.43%	▲
MSCI All Country World Index (US$)	413	0.82%	▲	6.17%	▲	4.31%	▲
MSCI Emerging Markets (US$)	379	-4.60%	▼	10.94%	▲	8.47%	▲
Dow Jones ASEAN Islamic (RM)	8,888	-1.09%	▼	6.22%	▲	7.90%	▲
Jakarta Composite Index (RM)	5,149	-3.16%	▼	20.73%	▲	26.18%	▲
Philippine Stock Exchange Index (RM)	6,781	-5.03%	▼	-2.58%	▼	-1.20%	▼
Straits Times Index (RM)	2,905	6.75%	▲	7.14%	▲	9.28%	▲
Stock Exchange of Thailand (RM)	1,510	5.48%	▲	26.98%	▲	21.05%	▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.47	4.20	4.26
Crude oil (US$)	49.44	46.86	41.65
Crude palm oil (RM)	RM 3,082	RM 2,764	RM 2,140

Malaysia

Malaysia inked an agreement with China to develop the East Coast Rail Line connecting the east coast and central regions of Malaysia. The project is estimated to cost MYR55 billion and would be funded with a 20-year soft loan provided by the Export-Import Bank of China as well as a bond issuance. This and other ongoing infrastructure-related projects are expected to provide a boost to the domestic economy in upcoming years. Separately, the Malaysian economy grew 4.3% year-over-year in the third quarter, beating estimates on the back of expanding private sector spending. Elsewhere, October exports contracted -8.6% year-over-year due to weakness in the Oil and Gas and Manufacturing sectors. The trade surplus

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widened to MYR9.8 billion in October (versus MYR7.6 billion in September) but is below the MYR12.1 billion surplus recorded a year ago.

The ringgit declined -6.1% in November to MYR4.47 against the US dollar, in line with other emerging market sell-offs, and the FBM KLCI index declined -2.92% in November and is down -1.54% year-to-date.

Indonesia

Indonesia's government temporarily suspended its membership in OPEC as it could not agree with the proposed 5% production cut on fears the move could hamper its 2017 budget. The proposed budget focuses on infrastructure development, which remains a priority for President Jokowi. Separately, a violent protest took place in Jakarta, demanding the ouster of the city's governor, Basuki Tjahaja Purnama, also known as Ahok, on blasphemy charges. Investors will likely keep a close eye on any further developments that potentially threaten the country's stability.

On the economic front, inflation remained benign around 3.6% in November, and the trade surplus improved to US$1.2 billion primarily due to a growing non-oil and gas surplus. The rupiah declined -3.9% compared to the previous month and ended the month at IDR13,555.

Foreign investors remained net sellers and sold US$920 million in Indonesian equities. The Jakarta Composite Index ended the month at 5,148.9, down -5.02% over October in local currency terms and -3.16% in ringgit terms. Year-to-date, the index is up 14.08% in local currency and 20.73% in ringgit terms.

Philippines

The Philippines' markets were particularly weak in November, down -8.38% in local currency and down -5.03% in ringgit terms, driven primarily by Trump's antiglobalization stance and his vitriol against immigrants, which could hurt remittances, exports, and other aid for the country. Further, his protectionist stance and imposition of taxes on US companies that outsource abroad would likely have an adverse impact on the Philippines' business process outsourcing (BPO) sector, which is rather sizeable. The peso plunged to an eight-year low in November. Overseas investors offloaded a net $327 million from the stock market in November in the fourth straight month of selloffs.

Separately, the Philippine economy grew 7.1% in the third quarter of 2016, compared with 7.0% in the second quarter, and 6.0% a year ago. Private sector investments in construction grew by 16.2%, and public investment in infrastructure remained strong, up 20% over last year.

Singapore

Singapore's economy shrank -2.0% in the third quarter from the second quarter on an annualized basis. Further, the government downgraded its 2016 forecasts for economic growth and exports to 1.5% compared with the previous projection of up to 2.0% amid fresh uncertainty around global trade under US President-elect Trump. On a slightly positive note, activity at Singapore's factories in November expanded marginally based on manufacturing performance measures rising to 50.2 from 50.0 in October, helped by new orders and exports.

Singapore's Straits Times Index rose 3.33% in November to 2,905.2. In ringgit terms, the index advanced 6.75% in the month. Year-to-date, the index is up 4.41% in local currency and is up 7.14% in ringgit terms.

Thailand

The Thai economy grew 3.2% in the third quarter, compared to a 3.5% expansion in the second quarter, and slightly below expectations for a 3.4% expansion. Private consumption grew by 3.5% compared to a 3.8% increase in the preceding quarter; expenditures on durable and nondurable goods eased; and exports improved slightly. For 2016, Thailand's economic planning agency (NESDB) projected the economy to advance 3.2%, toward the low end of the previous forecast range of 3.0-3.5%. Exports in the year are expected to be flat, following earlier projections of a -1.9% drop.

The Stock Exchange of Thailand Index closed up 1.06% in November to 1,510.2. In ringgit terms, the index gained 5.48% in the month. Year-to-date, the index is up 21.18% in local currency, and is up 26.98% in ringgit terms.

PORTFOLIO TACTICS

We continue our cautious approach toward the ASEAN region as markets weigh the impact of a Trump presidency on exports and currency volatility, and as we interpret the effects of economic slowdown in China and future Fed rate hikes. We will continue to look for exciting catalysts and take appropriate long-term positions. Within the region, we favor Indonesia and the Philippines over Malaysia, Singapore, and Thailand.

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