



OVERVIEW

Q2 2017

The global economy continues to pick up steam buoyed by both advanced and emerging economies. As a result, the Fed at its June meeting slightly upgraded growth forecasts and tightened monetary policy further. May was another decent month for US job gains, with the labor market adding 138,000 jobs and the unemployment rate falling to 4.3%.

During May, manufacturing and services sector output in advanced economies, including the US, eurozone, and the UK, helped push the PMI global manufacturing index reading past the 50 threshold that indicates expansion. However, factory activity softened a bit in ASEAN economies, including Malaysia, Thailand, and Singapore. Separately, commodity prices gave up gains recorded in the previous quarter with oversupply concerns, particularly for crude oil. In China, factory activity moderated but was offset by a resurging services sector, with retail spending up 11% in recent months. In Japan, where GDP is expected to grow at 1.5% this year, economic activity remained relatively healthy.

Malaysia

The Malaysian FBM KLCI Index gained 2.21% during the second quarter of 2017, modest relative to other ASEAN markets given a dearth of major events. The Malaysian economy expanded 4.6% in the first quarter of 2017, easily beating analysts' forecasts, driven by growth in private consumption and a positive trade surplus. Forecasts now call for upwards of 4.8% growth for the Malaysian economy in 2017. Further, foreign investors remained strong buyers of Malaysian equities as they reallocated some of their developed market gains.

Most investors expect a general election in the second half of this year, which could prove a major catalyst for the stock market driven by election spending and favorable policies.

Indonesia

Standard & Poor's raised Indonesia's sovereign rating to investment grade in May. Indonesia now has investment-grade ratings from the three major rating agencies. The upgrade reflects waning fiscal risks given a more balanced budget, an easing commodities slump, record-high foreign reserves, and rupiah appreciation that continues to strengthen the economy and lure investors.



Zahid Siddique
Senior Equity Analyst

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| Market Indicators | Current Value | 3 Months | YTD | 1 Year |
|--------------------------------------|---------------|----------|----------|----------|
| FBM EMAS Shariah (RM) | 12,822 | 0.71% ▲ | 8.02% ▲ | 8.60% ▲ |
| FBM KLCI (RM) | 1,764 | 2.21% ▲ | 9.14% ▲ | 10.02% ▲ |
| S&P 500 (US\$) | 4,678 | 3.09% ▲ | 9.34% ▲ | 17.90% ▲ |
| Dow Jones Industrial Average (US\$) | 21,350 | 3.95% ▲ | 9.35% ▲ | 22.12% ▲ |
| FTSE All World (US\$) | 307 | 4.36% ▲ | 11.74% ▲ | 19.52% ▲ |
| MSCI All Country World Index (US\$) | 465 | 4.43% ▲ | 11.81% ▲ | 19.44% ▲ |
| MSCI Emerging Markets (US\$) | 450 | 6.27% ▲ | 18.43% ▲ | 23.75% ▲ |
| Dow Jones ASEAN Islamic (RM) | 9,571 | 1.53% ▲ | 6.96% ▲ | 11.70% ▲ |
| Jakarta Composite Index (RM) | 6,297 | 1.73% ▲ | 8.69% ▲ | 26.29% ▲ |
| Philippine Stock Exchange Index (RM) | 7,843 | 4.15% ▲ | 9.12% ▲ | 2.90% ▲ |
| Straits Times Index (RM) | 3,226 | 1.28% ▲ | 14.57% ▲ | 24.30% ▲ |
| Stock Exchange of Thailand (RM) | 1,575 | -0.59% ▼ | 5.40% ▲ | 25.52% ▲ |

| | Current | 1 Month Ago | 1 Year Ago |
|---------------------|----------|-------------|------------|
| Ringgit per US\$ | 4.30 | 4.43 | 4.03 |
| Crude oil (US\$) | 46.04 | 50.60 | 48.33 |
| Crude palm oil (RM) | RM 2,596 | RM 2,833 | RM 2,400 |

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Investors believe Indonesia's GDP can expand between 5.15% and 5.30% in the second quarter of 2017. Rising global consumption – especially in the US and Europe – should positively impact Indonesia's export performance, and increased consumption during Ramadan is expected to expand domestic performance.

The Jakarta Composite Index rose 1.81% in local currency and 1.73% in ringgit terms during the quarter.

Philippines

The Philippines market was the best-performing equity market in the ASEAN region during the quarter. The Philippine Stock Exchange Index gained 7.72% in local currency and 4.15% in ringgit terms, despite disruptive events, such as the Marawi siege and the Resorts World Manila attack.

Economic results in the second quarter are expected to show the Philippines economy expanded faster than the first quarter's 6.4% growth and could even hit close to 7% thanks to robust growth in exports and agriculture. The country's outlook for the remainder of 2017 remains strong as GDP growth is forecasted to be between 6.5% and 7.5%. Recently, Moody's indicated it is keeping its investment-grade rating for the country, citing strong growth prospects on the back of robust consumption supported by remittances from overseas Filipinos and a well-established business process outsourcing sector.

Singapore

Singapore's Straits Times Index gained 2.78% in local currency and 1.28% in ringgit terms.

Singapore's growth contracted by -1.3% quarter-on-quarter in Q1 2017 as the economy pulled back from impressive growth of 12.3% in Q4 2016. Singapore is expected to see a higher GDP growth rate of 2.7% in 2017, thanks to improved growth dynamics and the ongoing recovery in global trade.

Thailand

After recording strong gains in 2016, Thailand's equity market took a breather in the first and second quarters of 2017. The Stock Exchange of Thailand Index ended the second quarter with a gain of 1.13% in local currency and -0.59% in ringgit terms.

Thailand's economy is expected to grow 3.8% this year, driven by growing exports, higher private investment, improving agriculture prices, and accelerated infrastructure development.

Thai exports in May rose to their highest level in more than four years, jumping 13.2% over the prior year to US\$19.9 billion (676 billion baht). Economic recovery globally boosted demand for manufactured products and commodities, lessening the impact of the baht's appreciation.

PORTFOLIO TACTICS

We are cautiously 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. We believe economic conditions have improved slightly, and 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 Philippines.