MARKET REVIEW ASEAN

OVERVIEW

Q2 2018

Markets remained volatile during the second quarter as trade war rhetoric between the US and China escalated further. President Trump threatened to impose additional import tariffs of up to $200 billion on Chinese products if China continues to retaliate against US duties on imports announced earlier. As a result, global markets saw increased volatility and mixed returns as most investors believe the tariffs could undermine global competitiveness and hurt the US and other major economies. On the political front, relations between the US and North Korea seem to have eased following the historic meeting between Trump and North Korean leader Kim Jong-un.

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In the US, consumer confidence remained near a 17-year high, but the PMI Manufacturing Activity Index retreated in June from strong levels recorded earlier in the year. US companies reported weaker output and slower order book growth alongside rising prices. The eurozone economy registered modest but decelerating growth with industrial production declining in Germany and exports falling. Tensions between Trump and European leaders also made the headlines as the US imposed tariffs on European steel and aluminum.

Most investors believe the tariffs could undermine global competitiveness and hurt the US.

China's economy continued to perform well, posting first quarter GDP growth of 6.8%, with services doing particularly well. Most economists, however, expect the growth to slow down later this year due to trade disputes with the US. Japan's economy is also beginning to see reduced manufacturing activity driven by weak exports due to global trade dynamics.

Most emerging markets—including those in ASEAN—experienced a selloff driven by a rising US Treasury yield and US dollar appreciation. The ASEAN region is generally export-oriented and could be further impacted if global trade rows are extended.

For the second quarter, the S&P 500 rose 3.43%, with the Dow up 1.26% in the US. In Europe, the FTSE 100 climbed 9.51% and the DAX rose 1.73%. By contrast, emerging markets fared poorly with the MSCI Emerging Markets Index falling -7.96%. On a year-to-date basis, most major markets except the S&P 500 and the FTSE 100 fell.

For the rest of 2018, the course of the global markets will likely be dictated and shaped by US policy toward European, Chinese, and North American trade, and the counter-policies undertaken by these blocs. Growth in China, Asia, and Europe would also be instrumental, along with earnings in the US.

Market Indicators	Current Value	1 Month	1 Quarter	1 Year
FBM EMAS Shariah (RM)	12,093	-0.46% ▼	-7.94% ▼	-3.09% ▼
FBM KLCI (RM)	1,692	-2.31% ▼	-8.43% ▼	-0.87% ▼
S&P 500 (US$)	5,351	0.62% ▲	3.43% ▲	14.37% ▲
Dow Jones Industrial Average (US$)	24,271	-0.49% ▼	1.26% ▲	16.31% ▲
FTSE All World (US$)	334	-0.57% ▼	0.54% ▲	11.21% ▲
FTSE 100 (GBP)	7,637	-0.24% ▼	9.51% ▲	8.69% ▲
DAX (EUR)	12,306	-2.37% ▼	1.73% ▲	-0.16% ▼
MSCI All Country World Index (US$)	505	-0.50% ▼	0.68% ▲	11.32% ▲
MSCI Emerging Markets (US$)	487	-4.15% ▼	-7.96% ▼	8.20% ▲
Dow Jones ASEAN Islamic (RM)	2,166	-4.66% ▼	-7.11% ▼	-8.78% ▼
Jakarta Composite Index (RM)	5,799	-4.00% ▼	-4.58% ▼	-10.72% ▼
Philippine Stock Exchange Index (RM)	7,194	-4.00% ▼	-7.19% ▼	-17.37% ▼
Straits Times Index (RM)	3,269	-5.10% ▼	-3.13% ▼	-0.72% ▼
Stock Exchange of Thailand (RM)	1,596	-9.14% ▼	-10.55% ▼	0.55% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.04	3.98	4.29
Crude oil (US$)	74.15	67.04	46.04
Crude palm oil (RM)	RM 2,298	RM 2,427	RM 2,596

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Malaysia

Malaysia's economy grew 5.4% in the first quarter of 2018 and is expected to grow by 5.5%-6.0% in the second quarter of 2018, as forecasted by Bank Negara. According to the World Bank, Malaysia's GDP is expected to grow by 5.4% in 2018, on the back of a sustained high level of private sector expenditure. Moving forward, economists are bullish on the economy, citing positive signs in export growth and private expenditure. Other positive indicators include steady private investment and a pick-up in private consumption resulting from implementation in September of the sales and services tax to replace the goods and services tax.

The FTSE Bursa Malaysia KLCI fell by -8.43% in local currency during the quarter.

Indonesia

Indonesia's GDP grew 5.06% in the first quarter of 2018. Consumer demand continued to disappoint, with household spending rising 4.95% from a year earlier in the first quarter. Indonesia's Finance Ministry forecasts that Indonesia's economy will grow by 5.2% this year. Economic drivers in 2018 will include the 2018 Asian Games in Jakarta and Palembang, as well as the IMF/World Bank meeting on Bali. Strengthening commodity prices will also boost Indonesia's export performance.

The Jakarta Composite Index fell -4.79% in local currency in the second quarter.

Philippines

The Philippines' GDP grew 6.8% in the first quarter of 2018, and economists expect full-year 2018 growth to come in at 6.8%, mainly driven by government infrastructure programs, exports, and outsourcing services. Of note, inflation has been rising steadily in the Philippines, currently standing at a five-year high of 4.5%, the highest in the ASEAN region.

The Philippine Stock Exchange Composite Index retreated -9.35% in local currency in the second quarter.

Singapore

According to the latest quarterly survey by the Monetary Authority of Singapore, economists continue to expect GDP to grow 3.2% in 2018, with services growth replacing electronics exports as the primary driver. Overall, the economists remain concerned about escalating trade disputes between the US and China. Of note is that Singapore's export growth is linked strongly with Chinese and US growth.

The FTSE Straits Times Index fell by -3.32% in local currency during the quarter.

Thailand

Thailand's economy is expected to grow at 4.1% in 2018 compared with 3.9% in 2017, according to World Bank forecasts. The country continues to benefit from manufacturing and electronics sector expansion, though this trend could change. In addition, tourism—particularly tourists from China—and infrastructure projects remain key drivers of growth.

There are no further updates on elections, which are scheduled for February 2019, or the coronation ceremony for King Rama X.

The Stock Exchange of Thailand Index decreased by -9.26% in the second quarter of 2018 in local currency.

PORTFOLIO TACTICS

We are less optimistic on the ASEAN region in the near term as declining exports and unstable currencies could put a damper on growth. We are more optimistic over the medium to longer term and 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.

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