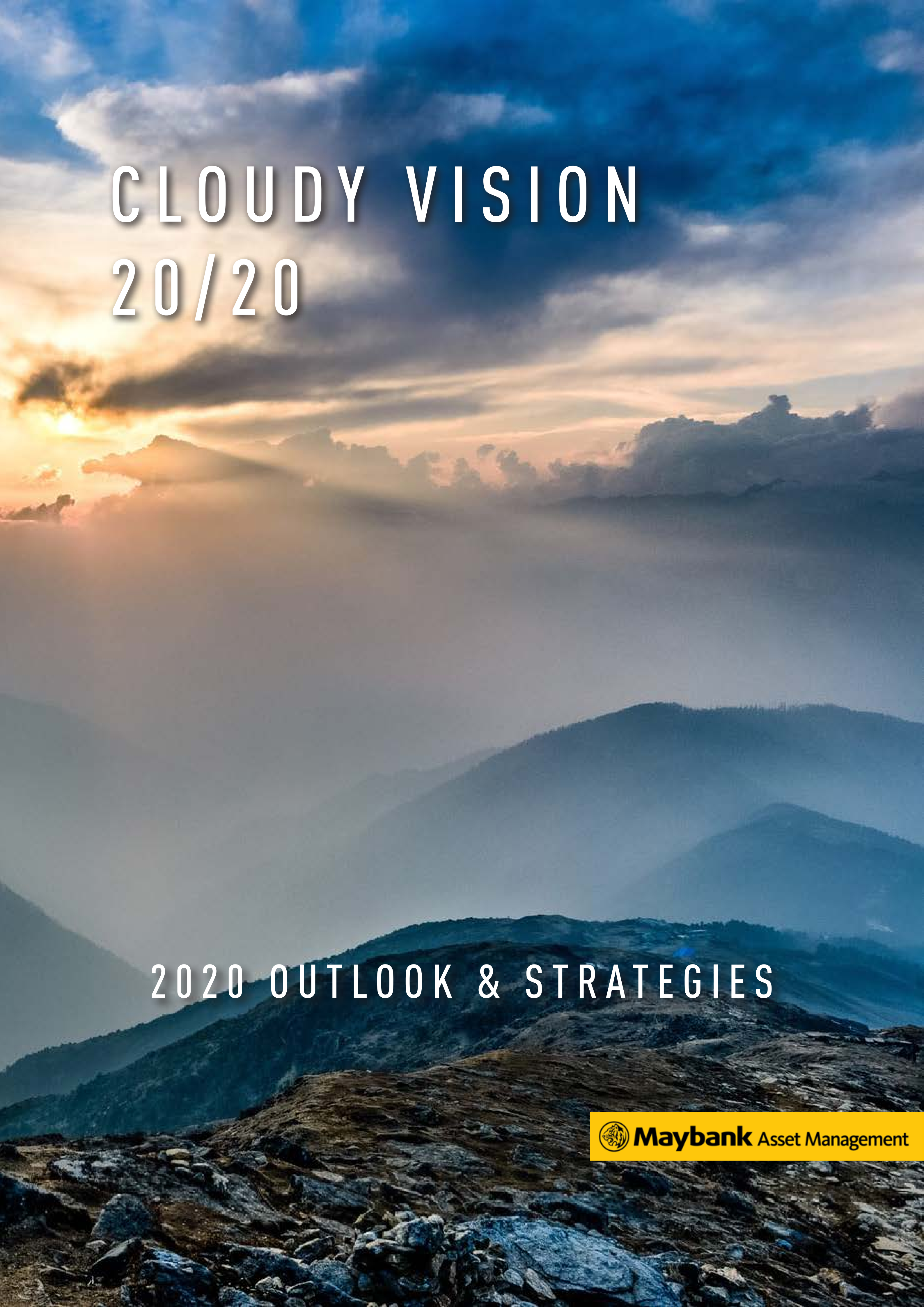


CLOUDY VISION 20/20

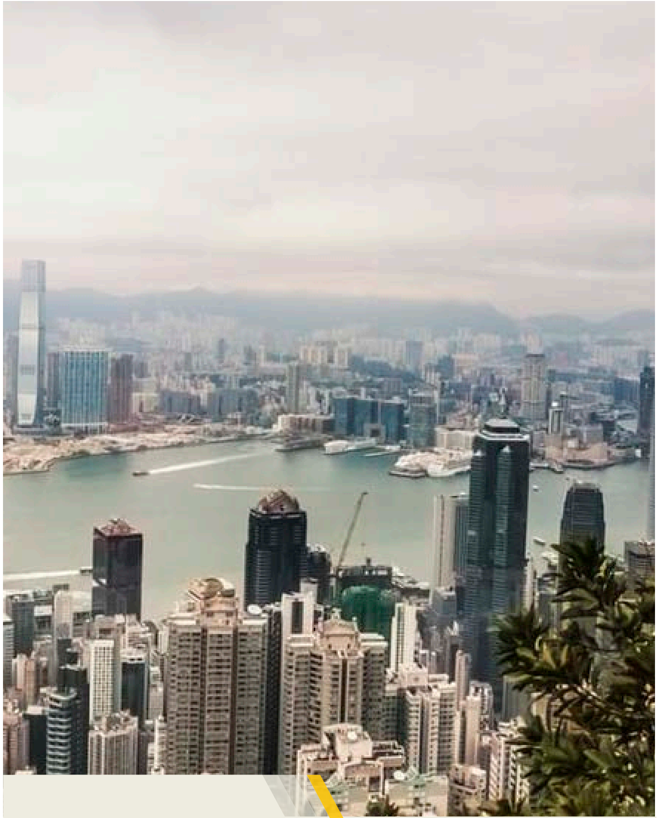
2020 OUTLOOK & STRATEGIES

Maybank Asset Management

Contents

Our 2019 Review & 2020 Investment Strategy

CLOUDY VISION 20/20



Investors in our fixed income funds enjoyed strong gains for the whole of 2019 as interest rates fell in reaction to the weak economic growth.

Our overall theme for 2020 is "Cloudy Vision 20/20". The number 2020 is usually associated with perfect vision and those with a Malaysian heritage will also note the significance of the number. 2020 is the year that Malaysia planned to reach developed nation status as part of the "Wawasan 2020" or Vision 2020 that was first set forth by Prime Minister Dr Mahathir in his first stint as Prime Minister from 1981 to 2003. Malaysia has achieved much in terms of economic development since independence but will just miss developed world status with GDP per capita at USD10,500 slightly below the World Bank threshold of USD12,000. For 2020, we believe that the outlook is cloudy and we clearly don't have 20/20 vision and we will explain why in our outlook below.

In our outlook last year, we were reasonably optimistic that 2019 would be a better year than 2018 for both Fixed Income and Equity though it would be a "Challenging Drive". We were bullish on Fixed Income given that we expected global economic growth would slow and that is exactly what happened. Global economic growth deteriorated as the US-China trade war continued to escalate with higher tariffs from both sides. So investors in our fixed income funds enjoyed strong gains for the whole of 2019 as interest rates fell in reaction to the weak economic growth. For equities, we turned more cautious from 2Q2019 as equity markets rose sharply in 1Q2019. From then on equity markets were extremely volatile, trading on news flow from the trade wars. There were large corrections like in May when trade talks disappointed and then rallies when trade hopes were restored and this occurred over and over again. Indeed, for equities it was a very '"Challenging Drive". However, after the Federal Reserve restarted a form of quantitative easing in September, markets started recovering and ended the year up 10 percent. There were other events that made 2019 a very challenging year. In no particular order, there was Brexit that was eventually postponed, the devaluation of the Argentina Peso and also the unrest in Hong Kong.

For 2020, we are not so clear that the year will be better even if economic conditions improve. Certainly, fixed income is unlikely to see the strong returns that we saw in 2019 as interest rates have now dropped to lower levels. We will not be able to see the same degree of compression in interest rates that would push up bond prices. Indeed, globally interest rates are already at or close to record lows. In the Eurozone and Japan, even investment grade corporate bonds are yielding close to zero. It is only in Asia and the US where the yields are more reasonable with investment grade bonds yielding 3.0 to 3.5% although these yields are close to the all-time lows. There is also some risk of higher

For equities, we turned more cautious from 2Q2019 as equity markets rose sharply in 1Q2019. From then on equity markets were extremely volatile.

Our 2019 Review & 2020 Investment Strategy

We do think equities may start off well as economic fundamentals should improve in 2020.

interest rates in 2020 should economies rebound. Therefore, our fixed income team is expecting a more modest return of around 4% to 5% for 2020.

With interest rates at such low levels, investors may think that the obvious choice would be to invest in equities and there is some merit in the idea. **We do think equities may start off well as economic fundamentals should improve in 2020.** Our Maybank Kim Eng economist Dr Chua Hak Bin and consensus are expecting economies to recover on expectations of a trade deal between US and China. **However, it is also difficult to get overly excited about equities because in our opinion the valuations and economic fundamentals are not compelling.** Often the right time to buy stocks is when economic conditions are bleak and also when stock markets have corrected substantially. Undeniably, current economic conditions are weak but equity markets have not corrected but have actually gone up.

Throughout 2019, corporate earnings have been revised downwards due to the weak economic situation as share prices have gone up and in terms of PER (Price Earnings Ratio), the market is not cheap. Asia is trading at a PER multiple of 13.5x and the US is trading at a multiple of 18x. These multiples are far above the long term averages indicating that stock markets are relatively expensive. Corporate earnings should bottom and improve in 2020 in line with the economic recovery but it would require a huge jump in earnings for current valuations to be justified. There is a risk that corporate earnings disappoint. Further gains in the stock market require more PER multiple expansion and this is not a certainty as valuations are already expensive. Therefore, we expect a rally at the start of the year as stocks react to better economic data in 2020 but there is a risk that earnings expectations disappoint later in the year leading to muted returns of between 6-7% for the rest of 2020.

With modest returns for both assets classes it is difficult to favour one asset class over the other unlike last year where we were more positive on Fixed Income. **We would tend to be more positive on equities at the start of the year as better economic data will boost the stock market while putting upward pressure on interest rates.** Higher rates would in turn negatively impact bond prices. **However, as the year progresses we expect a reversal and we would favour Fixed Income later in the year.** Even if economic growth does picks up, the expansion may fall short of expectations and be weaker than expected.

In terms of risks, while there has been a slight uptick in economic data and steady US job numbers, the risk of a US recession is still present. Current economic data remains weak with manufacturing activity in various parts of the world in contraction including the US. Early indicators like the inverted yield curve have already been triggered. So far what is still holding up is US jobs and the US consumer. Another risk is that our expectations of subdued economic growth are wrong and a full-fledged recovery occurs in 2020. Then we should be overweight equities and underweight Fixed Income. Earnings would then grow strongly boosting equity markets while the better economic prospects would see the benchmark US 10-year interest rates rise from below 2% back to 3% triggering a correction in bonds. In the interest of being prepared, there are a whole lot of events that would trigger volatility and this includes Brexit and the US Presidential elections.

Risk: current economic data remains weak with manufacturing activity in various parts of the world in contraction including the US.

Our 2020 Investment Themes & Strategy

CLOUDY VISION 20/20

KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
GLOBAL GROWTH UNCERTAINTY	• Modest global growth in 2020 but no recession albeit risks remain. • Assumes partial US-China trade deal (but no major concessions), motivated by upcoming US Presidential elections amidst slower US growth (as past fiscal stimulus fade and given its late cycle stage). • Growth uncertainty to persist with politics and trade policy being unpredictable swing factors. • Policy makers look to boost their domestic economies via fiscal spending. • Positive factors: (1) supportive monetary/fiscal policy; (2) (possible) easing trade tension; (3) better year-on-year comparison against a muted base of 2019 (as global manufacturing and electronics cycle may be bottoming/stabilizing) • Negative factors: (1) corporate decision making/investment slows (on diminished business confidence given uncertainty)	• Modest returns for fixed income and equities expected but active management will be required. • Focus on structural themes that are less dependent on global macro-economic conditions e.g., 5G, technology change/trends, policy beneficiaries.
CONTINUING TRADE TENSION AND TECH WAR	• US protectionist trade stance and global trade tension to remain an overhang but sentiment will fluctuate between hope and caution. • Meaningful US-China trade war resolution unlikely as underlying issues (e.g., containing the rise of China) extend beyond the economics of trade. • Ongoing US-China tech war to continue given US/China rivalry/ aspirations, national security and intellectual property concerns etc. • Corporates hedge against the risk of rising trade friction by reconfiguring regional supply chains. • Risk of trade friction broadening out to other countries (e.g., on currency manipulation accusations, re-routing of trade flows to circumvent tariffs).	• Favor a trading-oriented/tactical stance. • Favor beneficiaries of production shifts away from China.
ACCOMMODATIVE MONETARY POLICY AMIDST SUBDUED INFLATION	• Monetary policy to remain accommodative globally amidst benign inflation but this may not be sufficient to prevent an economic downturn. • US Fed likely to remain on hold in an election year with slower economic growth. • Expect steeper curves in developed markets on fiscal stimulus. • Expect a weaker USD due to already strong valuations. • Negative output gaps (given excess capacity) and economic worries (weakening demand) to keep inflation subdued.	• Favor short-end Asian local currency government bonds for carry and currency appreciation. • Low inflation generally positive for ASEAN and India.

Our 2020 Investment Themes & Strategy

CLOUDY VISION 20/20

KEY THEMES	OUR ASSESSMENT	MARKET IMPLICATIONS & STRATEGY
MORE VOLATILITY; GEOPOLITICS MATTER	• Markets to remain volatile given uncertainty thereby requiring nimble trading. • Sources of geopolitical risk include, amongst others: possible impeachment of US President Trump, US elections, Brexit, Latin America/Middle East political instability, continuing Hong Kong protests (triggering hardline response from China), human rights issues (affecting trade status) etc.	• More tactical trading. • High cash allocation from time-to-time.

2020 OUTLOOK RISKS

Upside Risks

- Positive resolution to the US-China trade war or easing trade tensions.
- Better-than-expected global economic growth.
- Stronger-than-expected inflows into Asia ex-Japan.

Downside Risks

- Further escalation of the US-China trade war and a broadening of trade tensions to other nations.
- Weaker-than-expected global economic growth; US recession or China hard landing.
- Higher-than-expected inflation.
- Rising geopolitical tension: US, China, Brexit, Latin America, Middle East.
- Credit shocks exacerbating an economic slowdown.

Our 2020 Asia Ex-Japan Outlook

EQUITIES

Entering 2020 we are positive on Asian equities in 1Q, but we expect markets to remain volatile for the rest of the year.

With 2019 performance having been driven by Price-to-Earnings (P/E) multiple expansion, amidst earnings downgrades, Asian equities are now trading at 13.5X forward P/E, versus historical average of 12X. This above-average valuation suggests that markets have already partly priced in easing trade tension and a potential earnings revival off 2019's muted base. We see limited room for further P/E multiple expansion hence 2020 performance will largely depend on whether earnings expectations are met or exceeded as well as geopolitical factors.

Our base case MSCI Asia ex-Japan index target as at end-2020 of 680 implies a modest total return of c.7%, composed of c.4% price appreciation plus c.3% dividend yield. The path to achieving this return throughout the year may be a bumpy one as equity returns likely to be front-loaded.

Entering 2020 with the prospect of a partial US-China trade deal and supported by still-ample liquidity, we are positive on Asian equities and could potentially see valuations overshoot. Low yields further support the attractiveness of equity relative to fixed income. **However, from 2Q20 onwards, uncertainty regarding the upcoming US Presidential election could set in motion to impact markets.** US-China trade tension could also remain an overhang as the situation is fluid and erratic. We expect markets to remain volatile in 2020 thereby necessitating nimble trading.

We are neutral on China given the trade uncertainty although we see selected pockets of resilience on structural themes (e.g internet plays, policy stimulus beneficiaries etc). We would underweight Hong Kong given its economy has fallen into recession and in view of persisting protests.
We are neutral on the tech-heavy markets of Taiwan and Korea as valuations, on P/E basis, have largely factored in a bottoming or rather a stabilizing tech cycle. With no clear visibility on global growth or trade, both markets might not outperform.

We would overweight India despite expensive valuations given such supportive domestic fund flows and positive earnings momentum on the back of a series of government measures including tax cuts, support to public sector banks or non-bank financials, exporters and the real estate sector.

Within ASEAN, we would overweight the Philippines on better growth expectations, boosted by the spill-over from unspent 2019 government budget and given a relatively inexpensive valuations. Conversely, we would underweight Thailand given elevated valuations even if external and internal headwinds that have troubled Thailand in 2019 abate.

Despite being a low growth market, we would overweight Singapore as dividend yields are still decent, added with an improving growth picture and expectations of a generous budget in the run-up to general elections. We are neutral on Malaysia but see the possibility of a better 2020 after past years' underperformance. We are also neutral on Indonesia on macro or earnings risk despite possible tax and labour reforms planned.

MACOECONOMIC SCENARIO SUMMARY

CASE	ASSUMPTION / RISK	MARKET IMPLICATIONS & STRATEGY
GOOD CASE	• Better-than-expected economic growth. • Resolution of US-China trade war.	• Overweight: India, Singapore, Philippines. Underweight: Hong Kong, Thailand. Neutral for the rest. • MSCI Asia ex-Japan target 680, based on 13X 2021E EPS of 52 (+4%).
BASE CASE	• Modest global growth but no recession. • Partial US-China trade deal but no major concessions. • Monetary policy to remain accomodative globally amidst benign inflation. • More government fiscal policies to support growth. • No severe geopolitical incidents.	• MSCI Asia ex-Japan target 740, based on 13.5X 2021E EPS of 54 (+14%).
BAD CASE	• Weaker-than-expected economic growth. • Further trade war escalation. • Negative inflation surprise. • Heightened geopolitical tension.	• MSCI Asia ex-Japan target 540, based on 11X 2021E EPS of 49 (-17%).

Based on MSCI Asia ex-Japan Index closing price of 650.95 on 9 December 2019.

Our 2020 Asia Ex-Japan Outlook

FIXED INCOME

The biggest threat to Asia LCY and FX markets will be strong revival in global growth and fiscal stimulus in developed markets.

We expect global GDP growth to pick up from around 3% in 2019 to around 3.3% in 2020. Growth in China and India is expected to remain sluggish which brings EM Asia GDP growth to below 6.0%. Despite slower growth in the coming years for Asia, **we are cautiously optimistic on Asian local government bonds and currencies as USD strength is likely to abate due to a pause in Fed hikes and lower crude oil prices.** However, we expect the curve to steepen as we believe that easy money is over and we expect some sort of fiscal stimulus in developed Europe and Japan which may put a floor on Asian long end yields.

The biggest threat to Asia LCY and FX markets will be strong revival in global growth and fiscal stimulus in developed markets. Indeed, for 2020, our base case is for the developed economies to maintain status quo on rates and QE, and low for longer theme will continue in 2020 albeit with lot of volatility. Given negative rates around the world and slower growth, the biggest threat will come from synchronized selling of long end bonds around the globe. As a result, **we will continue to maintain short duration position throughout 2020**.

Looking back at 2019, Asian LCY bonds did very well due to unexpected easing by the FED. The Markit Asian Local Bond Index delivered 10% return in 2019. After a stellar 2019, returns for 2020 are likely to be muted and alpha will come from currencies rather than rates.

Geopolitics: In 2019, that intensification of the US/China trade conflict was a gift for bonds as central banks acted decisively and cut rates across the globe. However, the de-escalation in the form of a Phase-I deal signing and the promise of further negotiations should conversely dampen bond return expectations. As a result, we expect Asian bond curves to steepen in 2020. However, the de-escalation will be positive for currencies in the short term as GDP boost in the first half may drive inflows in Asian local markets thus strengthening their currencies.

Overall Neutral on Local government bonds: We expect developed market central banks to remain status quo on QE and rates in the first half of 2020. Hence, US treasury yields will be range bound in 2020, ranging from 1.5-2.25% for the 10 year UST. Most of the Asian central banks are either staying on hold or cutting further in 2020. However rich valuations in low yielders and flat curves in high yielders, we do not have strong conviction and hence we will buy short dated government

We are cautiously optimistic on Asian local government bonds and currencies as USD strength is likely to abate due to a pause in Fed hikes and lower crude oil prices.

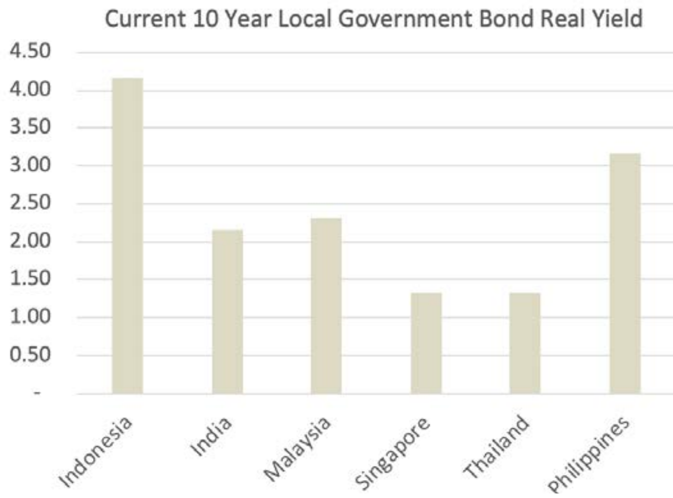
bonds like IDR, INR and MYR for carry purposes. We start 2020 with neutral position in the Asian local currency bonds

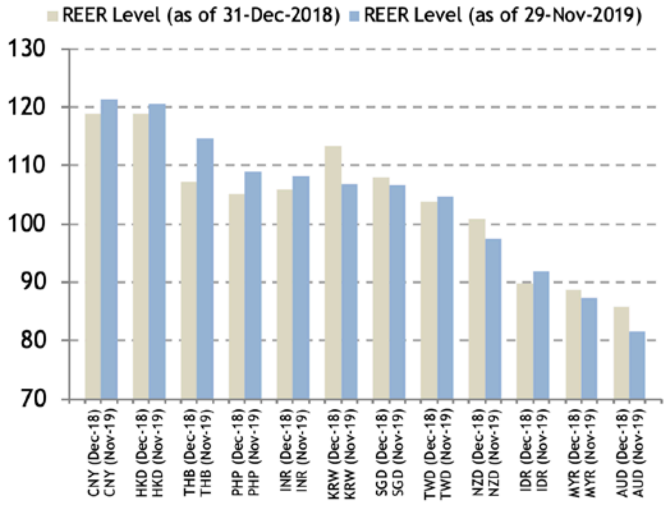
Overall Neutral to bullish on Asian currencies: Despite the outlook for slightly positive growth, fundamentals of many Asian currencies remain challenging as they grapple with an environment of high debt, worsening demographics, lower growth and sluggish productivity. Hence we expect mixed performance in Asian currencies next year as few will stand out. Our top picks for first half are INR and IDR for yield, and MYR and TWD for growth.

For Malaysia and Taiwan, we are bullish the currency as we believe growth will pick up in first half due to previous rate cuts by central banks and MYR is one of cheapest currency in the long run based on REER. In addition, the tech cycle is bottoming out and will benefit TWD.

For India and Indonesia, we expect one more rate cut. Also balances of payment for both these countries will be manageable due to lower oil prices, import restrictions and our view that crude oil price will remain in the range of $50-70$/bbl.

While country allocation remains important, local currency bond returns in 2020 will come from carry, and some FX appreciation. Expectations of a Fed pause and low for longer, and weaker USD will be most favourable for Asian countries.





Source: JPM, Bloomberg

KEY HIGHLIGHTS FOR 2020

- Pick up in first half followed by slower global growth in second half;
- USD weakness
- Steeper curve
- Oil prices to remain low in the range USD 50-70/bbl
- Interest rates: 10-year UST to trade between 1.5-2.5%
- Yield curve: UST, German bunds and JGB's curve to steepen
- ECB, FED and BOJ to remain status quo
- China, India and Indonesia to implement marginal easing measures

RISKS FOR 2020

- Massive sell off in long end government bonds in developed markets going from 0 to positive
- Inflation come back
- US elections
- Credit spreads blow out in US and Europe
- US-China trade tensions

Our 2020 Asia Ex-Japan Outlook

FIXED INCOME ASIAN MARKET OUTLOOK

COUNTRY	INTEREST RATES	CURRENCY
CHINA	• We expect China to keep its stable policy and we would like to maintain neutral stance on Chinese bonds. We expect more fiscal stimulus in China as a result we are bearish on duration for the first quarter, and expect the yield curve to steepen. However in the second half as US election nears, we expect Chinese government bond yields to rally.	• We prefer CNH to outperform USD for the first half. However, due to continued geopolitical risk, lower trade surplus and US election, we expect CNH to underperform in second half.
INDIA	• We are neutral on duration in India and expect RBI to remain neutral. We like short dated government bonds in INDIA for carry.	• We expect INR to appreciate given lower current account deficit and oil prices and high carry compared to rest of Asia.
INDONESIA	• We are neutral on duration from a long term perspective. However given structural reforms and ability for the government to reign in deficit, we will be positive for Indonesia and carry is still attractive.	• Fundamentals for the IDR have improved, thanks to the correction in external imbalances. We like IDR from a carry perspective.
KOREA	• We expect steepening of the yield curve in the first half due to higher spending and more issuance, which will present an opportunity to establish long duration exposure for the second half.	• We are neutral on KRW due to continued US-China trade tensions. Hence, KRW will be positive for first quarter if Phase-1 deal is signed or delayed and neutral for the rest of the year. The key risk is North Korea tensions flare up.
Singapore	• Neutral on Singapore bonds and expect curve to steepen. Talk about climate change bonds and more fiscal stimulus due to election year will add further pressure on long end bonds.	• We expect MAS to keep its monetary policy stable in the first half of 2020 due to pick up in global growth. However, Singapore faces challenges in terms of trade and lower structural growth. As a result, we expect SGD to remain neutral against the rest of G3 currencies.
Malaysia	• We expect central bank to keep rates stable. We also expect the MGS/MGII curve to steepen from present flat levels	• The current account balance has improved in 2019 and we expect it to continue to improve as we expect stable oil prices in 2020. Our top pick in first half of 2020 is MYR due to pick up in global growth and tech sector demand.
Thailand	• We expect Bank of Thailand to remain neutral in 2020. However we expect the curve to steepen due to very low rates and flat curve	• We are neutral to on THB as central bank want to engineer a weaker baht in 2020
Philippines	• We expect the central bank Bangko Sentral ng Philipinas (BSP) to keep rates stable . We expect the curve to steepen due to higher fiscal deficit	• We are negative on PHP in the first quarter of 2020 due to higher current account deficit.
Taiwan	• Expect steeper curve	• Expect TWD to strengthen due to pick up in tech cycle and global growth.

TRADES FOR 2020

Duration: FY2020

- Neutral duration in Philippines, China, Thailand, Malaysia, India, Indonesia,
- Bearish duration in Singapore and Korea

Currencies: FY2020

- Bullish on INR,AUD,IDR, TWD and MYR
- Neutral on THB, SGD, CNH, JPY, PHP and KRW

Our 2020 Asia Ex-Japan Outlook

FIXED INCOME - USD CORPORATES

REVIEW FY2019: Bonds Outperformed

When FY2019 began, USD bonds were a screaming buy. Asian USD investment grade bonds were at 4.5% while high yield bonds were at 8.5%. Macro outlook looked weak with escalating trade war tensions and the financial markets were inundated with political risks ranging from North Korea to Brexit and Hong Kong protestors joined in enroute. With so many negative headwinds affecting the global economy, we called for an overweight in bonds as we expected central banks that have been tightening in FY2018 to move to easing bias to support overall economic growth. We also expected increased inflows into bond investments to support bond prices as investors turn defensive against the challenging backdrop.

Fast forward to December 2019 and USD bond funds delivered between 10% to 14% in total returns for FY2019. Above 10% returns for bonds is phenomenal for an asset class with historical volatility of just 2%. As we expected, the US Federal Reserve reversed course and cut interest rates three times in FY2019. China unwound many of their tightening policies in an attempt to guide their economy to a soft landing in the face of US increasing trade tariffs and trade sanctions against China technology companies. European Central Bank resumed interest rate cuts and maintained their QE programs to avoid Japanification. With coordinated easing policies globally, USD interest rates fell by around 100 basis points, driving the strong rally in bond returns.

OUTLOOK FY2020: No More easy Money

History will not repeat. The easy money has already been made for bonds. At current yield levels of 3.1% for investment grade and 7% for high yield, USD bonds are no longer cheap. **However we remain positive on bonds and expect between 4% to 6% returns for USD bonds in FY2020.**

The key support for our positive view on bonds is that interest rates will remain stable in FY2020. Central banks are now fairly low on ammunition on the monetary policies and they will not be able to cut as aggressively as before but will start doling out more fiscal stimulus. Growth has probably troughed and we may see some young shoots as the lagged effects of monetary policies take effect paired with fiscal spending. However sustainable growth momentum needs time to build. Therefore we are not expecting global growth to improve in a big way but rather for growth to improve gradually up towards long term trend growth.

Under this scenario, inflation will remain low and central banks will not be rushing to hike interest rates. Central bankers are also mindful that the geopolitical risks that dragged down global growth in FY2019 have not been resolved but merely paused in escalation. Adding to the bandwagon of risks, we have the US elections to contend with this year. We believe that concerns on sustainable growth will dominate and financing conditions will remain accommodative. **Hence we are projecting total returns of 4% to 6% for USD bonds this year and see more value in high yield bonds versus investment grade bonds given low yields in a fairly stable macroeconomic environment.**

We remain positive on bonds and expect between 4% to 6% returns for USD bonds in FY2020.

Our 2020 Asia Ex-Japan Outlook

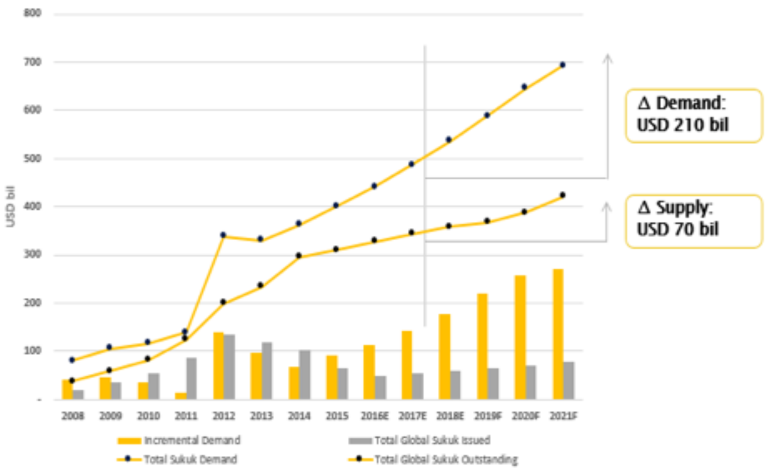
FIXED INCOME - USD CORPORATES

KEY THEMES	MAYBANK ASSET MANAGEMENT ASSESSMENT	POSITIONS
BONDS ARE EXPENSIVE BUT EXPECTED TO BE STABLE	• USD Bond yields have dropped by around 150bps in FY2019. • Investment grade bonds at 3.1% levels currently is just 10 basis points above the 5 year low of 3%. • High yield bonds at 7% currently is above 5 year low of 5% and 5 year average of 6.6%.	• Within bonds prefer high yield bonds over investment grade bonds. • Balanced portfolios overweight bonds versus equities.
CENTRAL BANKS ARE NOT EXPECTED TO HIKE	• Interest rates are at historical lows and central banks have limited ammunition to ease from here. • For FY2020, the burden of fresh economic stimulus is shifted to fiscal. • Inflation will remain low allowing central banks to continue with easy monetary policies to support growth recovery. Central bankers are also expected to be tolerant of temporary inflation spikes as growth targets dominate.	• Yield curve may steepen as governments issue more to fund increasing deficits from fiscal stimulus. • Avoid long end and overweight short to middle part of the curve.
GROWTH HAS TROUGHED	• Recession likely averted as the lagged effects of monetary policies start to take effect. • Recent PMI data offers optimism that the slowdown has troughed and a positive turn is around the corner. • However we are in a late stage of expansion cycle and will be vulnerable to external shocks.	• Overweight high yield exposure, selectively. • Access to funding is key. Prefer liquid balance sheet such as property sector. • Prefer Indonesia and China as risk-reward is attractive.
VOLATILITY TO REMAIN	• While we enter FY2020 with less geopolitical stress, many of the risks remain and have material impact. • Technicals are less supportive as yields are lower and fiscal stimulus will result in gross new supply of bond issuance, pressurizing bond yields upwards. • Key risks include continuing global trade war, Brexit and US elections.	• Stay nimble. Buy liquid bonds or short dated less liquid bonds. • Keep 40% to 50% in short dated high yield bonds for carry. • Avoid long end sovereigns and quasi-sovereigns. • Maintain 20% in cash for opportunistic trading.

Source: Maybank Asset Management.

Our 2020 Global Sukuk Outlook

Global Sukuk: Supply Demand Dynamics



The Global Sukuk markets in 2019 is expected to reach total issuance of USD 130 bn, slightly surpassing 2018's USD 120 bn. This has represented a pickup from the lows of 2015, where issuance was only USD 80 bn equivalent. Based on 1H19's issuance trends, Malaysia remains the largest issuance of Sukuks at 41% of total volume, followed by Indonesia at 18% and Saudi Arabia at 15%.

Despite the boost in crude oil prices post OPEC+ announcement of further production cuts (by another 500k bpd to 1.7m bpd till March 2020), they continue to remain below the fiscal breakeven levels for most GCC sovereigns. Additionally, as GCC government spending in 2019 and 2020 had increased, requiring new debt to fund the deficit. However, supply should be well absorbed given the inclusion of GCC sovereigns bonds (conventional and sukuks) into JPM EMBIG Index.

Negative Correlation with US Treasuries

	DJ Sukuk Total Return Index	JPMorgan Emerging Markets Bond Index	US Govt 5 Year Yield Index	MSCI EM Equity Index	DJUBS Commodity Index	boxx + Liquid High Yield Index
DJ Sukuk Total Return Index	1.000					
JPMorgan Emerging Markets Bond Index	0.698	1.000				
US Govt 5 Year Yield Index	-0.481	-0.199	1.000			
MSCI EM Equity Index	0.374	0.627	0.137	1.000		
DJUBS Commodity Index	0.144	0.255	0.143	0.440	1.000	
boxx + Liquid High Yield Index	0.337	0.603	0.182	0.585	0.444	1.000

Heading into 2020, global Sukuk issuance could be in the range of USD 170 - 190 bn, given supportive macro-economic environment for the GCC countries that is underpinned by range-bound oil prices (USD 50-70/bbl), increasing interest of conventional bond investors in Sukuks and the negative correlation of Sukuks with US rates, which makes Sukuk an alternative to conventional Fixed Income.

In 2018, amidst a period of market volatility triggered by rising USD rates, the DJ Sukuk Total Return Index was flat at +0.12% while JPM Asia Credit Index returned -0.79%. Apart from Sukuks' low duration profile, a rising interest rate environment tends to trigger more buying from middle east investors. The Global Sukuk market is expected to remain structurally short in supply as increasing demand continues to outstrip supply as can be seen in the below graph.

What had been interesting in the Sukuk space in recent years was a slow but steady pick-up in new issuance away from the typical Financials, Sovereigns or Quasi-Sovereigns. Saudi Arabia's food producer Almarai, retail landlord Arabian Centers and Malaysia's O&G service provider Serba Dinamik. Also, the Sukuk market is likely to see slightly less UAE bank issuers given the recent revival in M&A activity (Abu Dhabi Commercial Bank and Al Hilal Bank; Dubai Islamic Bank and Noor Bank) in the space.

> Heading into 2020, global Sukuk issuance could be in the range of USD 170 - 190bn, given supportive macro-economic environment for the GCC countries that is underpinned by range-bound oil prices (USD 50-70/bbl).

Source: Bloomberg, Refinitiv, Moody's, Azimut, Maybank Asset Management

Our 2020 Global Sukuk Outlook

Global Sukuks: Recommendations	
MALAYSIA	• Current Account to continue to improve given stable oil prices (USD 50-70/bbl) and revival of trade; MYR likely to appreciate against USD in 1Q20. • Prefer short end MGII for carry and currency appreciation potential given flat curve; avoid duration. • Market weight on USD Malaysia sovereign and SOE Sukuks and overweight on local currency Sukuk.
INDONESIA	• Expect IDR to stay range bound on stable external balances. • Prefer short dated IDR Sukuks for carry given similar theme of flat yield curves. • Inflation is expected to remain stable and thus IDR real yields remain positive. • Market weight on USD INDOIS Sukuks and overweight on local currency Sukuk.
SAUDI ARABIA	• Market weight on KSA Sukuks. • Supply of conventional bonds and sukuks can be absorbed given JPM Index Inclusion. • Prefer USD High yield corporate sukuks over sovereign due to lower supply pressure.
UAE	• Expo 2020 to provide some boost to consumer spending and hospitality sector. • Residential real estate market might have bottomed but any recovery is likely to be slow. • Prefer UAE HY. Also UAE bank AT1s for carry given expectation of profitability and strong capital ratios .
QATAR	• Market weight on sukuks issued by Qatari financials. • Overall Sukuk supply from Qatar should remain limited in 2020.
OMAN	• Underweight OMAN USD Sukuks on impending supply risks. • Financing needs of Oman to remain heavy despite sales of stakes in SOEs.
BAHRAIN	• Bahrain's sovereign and quasi conventional bonds and Sukuks to remain supported despite tight levels for it's B+ rating. • Government's fiscal position set to improve given existing reforms in place and USD 10 bn support package form UAE and Saudi; S&P raised outlook to positive. • Market weight on BAHRAIN's USD sovereign Sukuks but prefer MUMTAK 21 and 24 sukuks for carry due to improved credit trajectory.
TURKEY	• Underweight USD TURKSK Sukuks on tight valuations and increasingly susceptibility to geo-political risks.
KUWAIT	• Continue to like Kuwaiti Banks AT1 perps for carry given limited supply vs UAE banks.

Source: Bloomberg, Refinitiv, Moody's, Azimut, Maybank Asset Management

2020 OUTLOOK

INDONESIA

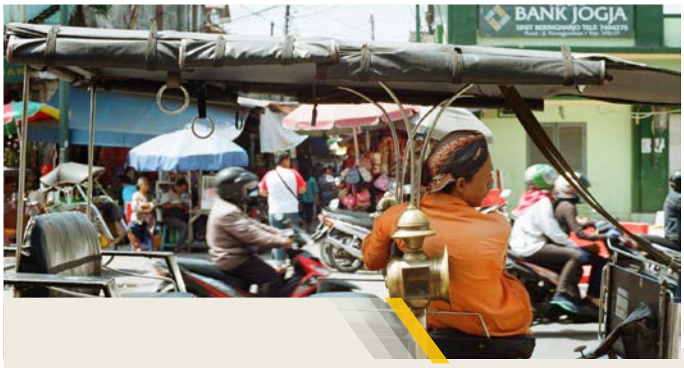
2020 Indonesia Outlook

EQUITIES

Looking into 2020, low inflation and low growth environment are likely to persist based on current data, however, potential positive catalysts do exist which include readiness from the Indonesian Ministry of Finance (MoF) to support growth.

Looking into 2020, low inflation and low growth environment are likely to persist based on current data. Therefore, there is still no evidence for rotation out of bonds back into equity. **However, potential positive catalysts do exist which include readiness from the Indonesian Ministry of Finance (MoF) to support growth by enlarging fiscal deficits, implement structural reforms to promote higher investments, in addition to improving global trade.** These can lead to visible developments in the 2H20, with bottoming in the 1H20, thus providing a boost for equity play.

However, such upsides are rather lukewarm given several challenges. 1) US-China binary trade outcome is a net negative to Indonesia's equity, 2) Indonesia's valuations are less attractive as compared to early 2016 with the consensus still being too optimistic, 3) tax-cut plans may lead to a higher tax enforcement which can back-fire businesses, and 4) the improvement in realised Foreign Direct Investment (FDI) and higher fiscal deficits without compromising IDR stability will be externally dependent on global economic recovery.



There has been sufficient evidence of FDI inflows as shown by significant increases in approved tax holidays albeit not yet realised, amounting to ~IDR800tn from ~IDR200tn in FY2018.

Nevertheless, factors such as the underperformance of equities as compared to bonds over the past two to three years, the risk of higher fiscal deficits, and low money market rates may induce local investors to time their re-entries back into the equity market from the bond market as soon as positive catalysts occur. Additionally, government efforts in implementing structural reforms such as the proposal of new Omnibus law which covers taxation, labour, investment, bureaucracy, and several amendments on negative investment lists are still greatly underappreciated by the market due to the government's poor historical track record in executing reforms. Therefore, any successes on this front may provide an upside for equity valuation re-ratings. Even without this progress, there has been sufficient evidence of FDI inflows as shown by significant increases in approved tax holidays albeit not yet realised, amounting to ~IDR800tn from ~IDR200tn in FY2018. The holistic reform approach from the current government while promoting growth should be taken positively by equity investors.

We would expect such a significant surge in FDI and government's fiscal expansion contingency plan are needed to support growth. JCI earnings should be driven by basic materials, telco, banks, and industrial estate land sales. Consumption can be restrained in 1H20 due to high-base effect, lesser subsidies, and higher soft commodities prices. However, it should recover in 2H20 given that there will be a boost through regional election. **For stocks selection, we are opting a mixed of thematic and alpha play.**

For thematic and beta plays, we prefer selected banks, CPO, construction and basic industrials. For structural and alpha plays, we prefer tower companies, industrial estates, selected mining, and hospitals. Our approach on the thematic play will be more into tactical trade, depending on global backdrop and risk sentiment. In combination of the above, we will maintain an adequate portion of structural picks to navigate volatile periods that we expect to persist in 2020 given several geopolitical events.

For thematic and beta plays, we prefer selected banks, CPO, construction and basic industrials.

For structural and alpha plays, we prefer tower companies, industrial estates, selected mining, and hospitals.

2020 Indonesia Outlook

FIXED INCOME

Indonesia's GDP growth may stabilise at 4.90% - 5.20% in 2020 from an estimated 5.0% in 2019.

Indonesia's GDP growth may stabilise at 4.90% - 5.20% in 2020 from an estimated 5.0% in 2019. The main growth engine will come mostly from foreign direct investments (FDI) and domestic investments with assumptions of several aspects such as political stability, business-friendly regulations, low-interest rate environment and robust domestic demand. Such new infrastructure being set up will also help to increase economic productivity, which may help offset cost pressures. However, growth will probably be capped by stabilising consumption and tight domestic liquidity.

Inflation will remain benign and stable in 2020, very likely to be on the lower band of BI's inflation target of 3.5% (+/- 1%) or 2.5% - 3.5%.

Monetary policy in 2020 will remain accommodative with low-interest rates and monetary support from the government. This would maintain macro stability, finance a higher fiscal deficit as well as attract investments thus justifying such policy. However, a tighter domestic liquidity is a risk as the government seeks funding to finance the wider budget deficit in both 2019 and 2020. This would crowd out liquidity for the private sector and may push up the loan-to-deposit ratio even further.

Indonesia Central Bank (BI) is comfortable with the current interest rate at 5% to maintain macro stability. Should further stimulus is required, BI would have much room for further monetary easing. BI can be seen to churn benchmark rate, 7-Day RRR, by 50bps to 4.5% in 2020.

Inflation will remain benign and stable in 2020, very likely to be on the lower band of BI's inflation target of 3.5% (+/- 1%) or 2.5% - 3.5%.

The IDR and the current account deficit (CAD) should remain stable, as oil imports will continue to decline due to the on-going biodiesel program. **We expect the IDR to move around at IDR 13,700 – 14,200 against the greenback, and the CAD to improve to 2.5% of GDP in 2020 from an estimated 2.7% of GDP in 2019.** We continue to be positive on IDR bonds. The 10-year yield will fluctuate around 6.6% – 7.2% in 2020. **We also expect a large amount of bond issuances from the corporates as low yield would mean cheaper financing.**

Disclaimer: This presentation has been prepared solely for informational purposes and does not constitute (1) an offer to buy or sell or a solicitation of an offer to buy or sell any security or financial instrument mentioned in this document and (2) any investment advise. Investors should seek financial or any relevant professional advice regarding the suitability of investing in any securities or investments based on their own particular circumstances and not on the basis of any recommendation in this presentation. Investors should note that income from such investments, if any, may fluctuate and that each investment's price/value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not an indication of future performance. Accordingly, investors may receive less than originally invested. Investors should be aware of the risks involved when investing in any investments. Please seek clarification on potential risks that may arise prior to any decision made to invest in any investments.

The opinions, analysis, forecasts, projections and/or expectations (together referred to as "Information") contained herein are inputs provided by entities within Maybank's Asset Management Group Berhad which have been obtained from sources believed to be reliable and are based on the technical investment expertise. Maybank Asset Management Group Berhad and its entities makes no representation or warranty, expressed or implied that such Information is accurate, complete or verified and should not be relied to as such. The Information contained herein are published for recipients' reference only and is subject to change without notice.

Maybank Asset Management Group Berhad shall at all times perform all transactions at arms' length for all its clients, especially when in situations where there is conflict of interest or potential conflict of interest. Maybank Asset Management Group Berhad accepts no liability for any direct, indirect or consequential loss arising from use of this presentation. No part of this presentation may be distributed or reproduced in any format without the prior consent of Maybank Asset Management Group Berhad.