Martin Currie

December 2018

ASEAN EQUITIES REVIEW

Asian equities were generally weak in December, but ASEAN markets, as measured by the MSCI AC ASEAN index, were only down by 0.9% in Singapore dollar terms. Thailand was the weakest market falling 3.5%, followed by Singapore which was down 1.5%. The other markets were up, but all by less than 1%.

We have commented over the past six months on the pressure on the region's central banks to raise rates, despite relatively weak growth in their respective economies, due to the actions of the US Federal Reserve. This has been particularly true in Indonesia, where the current account risk has been an issue, and in the Philippines where inflation has been a concern.

One central bank which had seemed able to withstand this pressure was the Bank of Thailand. However, in December it also raised rates unexpectedly by 25 basis points – the first increase in many years. The commentary suggests this was very much a prudent raise, aimed at preventing longer-term stability issues and potentially giving the bank some policy room further down the line. Certainly, growth in Thailand has continued to be weak and the central bank also took the opportunity to lower its own forecasts slightly to just 4% in 2019. Economists are debating if this rate rise will be a one off, or if there will be another early in 2019. Other than growth and interest rates, the other risk in Thailand we will be watching for is the election in February. The ban on campaigning has now been lifted and, given Thailand's recent history, we can expect to see increased tensions leading up to the vote.

Indonesia sadly has now suffered three horrific disasters in just a few months – December's tsunami in western Java and southern Sumatra following on from an earthquake and tsunami in Sulawesi in September and August's earthquake in Lombok. Indonesia's government has made the promotion of tourism, especially beyond Bali, a major pillar of its efforts to grow the economy. Its aims could have been impacted from these disasters, especially given the failure of the early warning systems. With an election due in early 2019, infrastructure may be an issue. Meanwhile, the exchange rate does appear to have stabilised for the time being, following the series of rate rises and a lower oil price improving the fiscal outlook via the energy subsidies.

Higher rates and generally lower growth expectations have taken their toll on earnings expectations in 2018. Consensus forecasts for 2019 now look far more achievable than earlier in the year. Earnings-per-share growth is forecast at just 2.6% in Thailand, 3.9% in Singapore, 5.6% in Malaysia and a little over 11% in Indonesia and the Philippines. Valuations against history, however, are diverse, with Singapore looking particularly cheap on a price-to-earnings (p/e) basis, whereas Indonesia and Thailand remain expensive against their own history, despite the lower growth outlook.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

LEGG MASON
GLOBAL ASSET MANAGEMENT

- Brandywine Global
- Clarion Partners
- ClearBridge Investments
- EnTrustPermal
- **Martin Currie**
- QS Investors
- RARE Infrastructure
- Royce & Associates
- Western Asset Management

Legg Mason is a leading global investment company committed to helping clients reach their financial goals through long term, actively managed investment strategies.

- Over US$742 billion* in assets invested worldwide in a broad mix of equities, fixed income, alternatives and cash strategies
- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
- Over a century of experience in identifying opportunities and delivering astute investment solutions to clients

* As of 30 November 2018.

IMPORTANT INFORMATION

Source: Martin Currie. This document, provided by Legg Mason Asset Management Singapore Pte. Limited ("**Legg Mason**") (Registration Number (UEN): 200007942R), is for information only and does not constitute an offer or solicitation to buy or sell any units in any fund.

The mention of any individual securities / funds should neither constitute nor be construed as a recommendation to purchase or sell securities, and the information provided regarding such individual securities / funds is not a sufficient basis upon which to make an investment decision. Portfolio allocations, holdings and characteristics are subject to change at any time. Legg Mason, its affiliates, officers or directors, may have an interest in the acquisition or disposal of the securities mentioned herein.

The views expressed are opinions of the portfolio managers as of the date of this document and are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice.

Although information has been obtained from sources that Legg Mason believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice.

SG190102