Martin Currie

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ASEAN EQUITIES REVIEW

Markets in Southeast Asia, as measured by the MSCI AC ASEAN Index, delivered a total return of 3.7% during December, in Singapore dollar terms. Returns were led by Indonesia, while Singapore languished. Market strength in Indonesia was driven by the materials sector, where cement stocks rebounded, but also by banking and consumer staples stocks. In general, these sectors were among the strongest across the ASEAN countries, with the exception of Singapore. The full-year index return was 20.4%, significantly less than broader Asian indices and reflecting the absence of a meaningful IT sector in the ASEAN region (a sector which delivered particularly strong earnings growth in 2017).

Earnings momentum continued to improve across the region. This was most pronounced in Singapore, with only Malaysia seeing muted earnings revisions. For Indonesia and Malaysia, the ratio of upgrades to downgrades of analysts' earnings forecasts is still below its long-term average. By contrast, earnings expectations have improved over the past year in Singapore, the Philippines and Thailand, to the extent that the ratio of upgrades to downgrades in these countries is sitting above its long-term average.

In Malaysia, central bank Governor Muhammad Ibrahim said risks in the banking system have eased, allowing more flexibility to adjust monetary policy as global interest rates rise. Bank lending growth has been subdued, but this extra policy flexibility may be useful as infrastructure investment ramps up. However, with a general election due in late summer 2018, politics, as well as economics, will influence investor sentiment in the months ahead.

In Singapore, a key debate for investors is the extent to which the improved global macro and trade environment (which has boosted the manufacturing sector as well as foreign exchange reserves) will permeate through the economy. Improved sentiment in the residential property market is already well documented, but there is also the possibility we could see a recovery in consumption spending. Also, with recovering oil prices, there could be a revival of the local energy/industrial sector. At the very least, this should de-risk asset quality in the banking sector.

In Indonesia, we are still waiting for a genuine improvement in domestic demand. The pace of earnings downgrades relative to the rest of the region might be slowing, but currently an earnings recovery remains a tantalising prospect, rather than a reality. Meanwhile, as the global monetary environment tightens concerns over foreign-investor outflows from Indonesian markets may be rekindled. However, the country has seen an improvement in its external balance and a build-up of its foreign exchange reserves should lessen this risk.

While, on a range of measures, equity valuations across the region are broadly in line with 10-year averages, this cannot be said for Thai equities. Low bond yields have been a key support factor for equity valuations, but there may limited upside from this source in the future. Thailand also has important elections in 2018, with a general election due in November.

Finally, as we watch to see if infrastructure investment can provide incremental growth (as the impetus from the strong export environment abates), President Rodrigo Duterte removed some policy uncertainty in the Philippines, by finally signing the much-anticipated tax reform bill into law. This will increase tax on petroleum products, tobacco and sweetened beverages to fund infrastructure investment, but also reduce personal income tax for many Filipino workers. Meanwhile, the World Bank reconfirmed its expectation for 6.7% real economic growth for the country in 2018[1].

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* As of 30 November 2017.

[1] Source: World Bank, as at 15 December 2017.

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