
ASEAN EQUITIES REVIEW

The weakness of Southeast Asia stockmarkets continued in June, with the MSCI AC ASEAN index falling by 5.1% over the month in Singapore dollar terms. Asia markets more generally have been weak, on the back of tighter US monetary policy, a stronger US dollar and concerns over a trade war. Southeast Asia markets are often perceived as being at the higher end of the risk spectrum, particularly with regards to US dollar strength, hence there has been a notable amount of selling by foreign investors.

Year to date, Indonesia and the Philippines have lagged the most, reflecting weaker exchange rates and current account deficits, making them far more exposed. The worst performer over the month was Thailand, which fell 8.6%. Malaysia fared best, down less than 1%, following a big fall after the election in May. All the region's currencies were down against the US dollar over the month.

Currency weakness has begun to impact monetary policy, creating a situation we have been concerned could emerge for some time. Bank Indonesia put up rates by 50 basis points at the end of the June, having already raised rates twice earlier this year. In the Philippines, policy rates were increased by 25 basis points for the second time this year. The concern here is that rates are going up to protect the exchange rates and reduce the capital outflow, at a time when domestic economies may need support. This issue is particularly true currently in Indonesia, where signs of weakness still remain, particularly in the consumer area. The Philippines has a far more inflationary environment to offset, with tax reforms and higher utility rates all feeding through to raised inflation. In May, consumer prices rose by 4.6% year on year, with the Central Bank warning of second-round impacts. It is worth noting that the Philippines is the one country where the yield gap with the US has increased significantly.

The news from Thailand has actually been reasonable, considering the market performance over the month, with no change in interest rates and the central bank revising up its GDP estimates. Clearly market participants are anticipating the next country to suffer, and Thailand may be more vulnerable as the only Southeast Asia market still trading at a significant premium to its five and 10-year average valuation.

In Malaysia, the new government has started to implement some of its election promises. The goods and services tax (GST) has been removed, large infrastructure projects are being reviewed and the restarted investigation of the 1MDB scandal has already resulted in announcements suggesting the fiscal situation in Malaysia is significantly worse than presented. Overall, there is a great deal of uncertainty about the country at the moment and flow data shows foreign investors withdrew a large amount of capital immediately post election.

As for Indonesia, apart from interest rate moves, there are two more areas worth watching over the coming month. The first will be the results from regional elections, which have just taken place, and could provide a guide to the likely outcome and risk around Presidential elections due in 2019. We have heard from several companies that investment is largely on hold until those elections, so any omens could either help or hinder investment appetite. Secondly, we will begin to see how consumer-facing companies fared over the Lebaran holiday period. Consumption has been stubbornly weak in Indonesia, but there is some expectation that this Lebaran will see an improvement.

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\$747.2 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 31 May 2018.

With effect from 1 August 2017, the sub-manager of Legg Mason Southeast Asia Special Situations Trust has been changed from Havenport to Martin Currie Investment Management limited (Martin Currie). In addition, the fund name has been changed from Legg Mason Southeast Asia Special Situations Trust to Legg Mason Martin Currie Southeast Asia Trust.

IMPORTANT INFORMATION

Source: Martin Currie. This document is issued by Legg Mason Asset Management Singapore Pte. Limited in Singapore ("Legg Mason") (Registration Number (UEN): 200007942R). This document is for information only and does not constitute an offer or invitation to the public to purchase any shares in any fund in Singapore.

This document is for information only and is not intended to provide investment advice. All data, opinions, estimates and other information are provided as of the date of this document and may be subject to change without notice. Where past performance is quoted, such figures are not indicative of future performance. Investors intending to subscribe for any units or shares of a fund should refer to the Fund's most current offering document. **INVESTMENT INVOLVES RISKS.** Please refer to the offering documents for further details, including the risk factors. 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.

Any views expressed are opinions of the respective investment affiliates/sub-manager as of the date of this document and are subject to change based on market and other conditions without notice and may differ from other investment affiliates 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. 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. Distribution of this document may be restricted in jurisdictions, other than Singapore. Any person coming into possession of this document should seek advice for details of, and observe such restrictions (if any).

Neither Legg Mason nor any officer or employee of Legg Mason accepts any liability whatsoever for any loss arising from any use of this document or its contents. The information in this document is confidential and proprietary and may not be used other than by the intended user. This document may not be reproduced, distributed or published without prior written permission from Legg Mason.

SG180710