January Outlook – Ready, Get Set, Go

SUMMARY

- **Phase 1 trade deal cheers to end the year**. Major bourses globally ended the year 2019 positively with positive news on the US and China potentially inking a 'phase-one' trade deal. Additionally, economic slowdown may have bottomed out in some countries with the JPM Global Manufacturing PMI staying above 50 in Nov-19 and Dec-19, after contracting for six consecutive months. Concomitantly, more central banks are taking a pause from further cut in policy rates.
- **Malaysian manufacturing up but exports still down**. Manufacturing PMI rises to 15-month high in Dec-19, the first expansion in the sector since Sep-18. However, exports dropped for the fourth straight month in Nov-19, on lower shipments of manufactured goods and commodities. Meanwhile, headline inflation slowed to 0.9% YoY in Nov-19 (Oct-19: 1.1%) due to the decline in cost of transport which contracted by -2.4% YoY.
- **KLCI down on last trading day; foreign inflows drove local yields lower.** Instead of being dressed up, we saw dressing down of almost all index stocks on the last trading day of 2019. Within Asian region, FBMKLCI was the only index delivering negative return in 2019. Even Hang Seng index which suffered from anti-government protests did better than us, upped 9.1% last year. Nevertheless, KL Plantation, KL Property and FBM Small Cap were the outperformers in Dec-19. On the other hand, MGS yields trended lower towards year end - tracking global yields. This was also propelled by the influx of foreign money into relatively higher yielding bonds in emerging markets as yields in developed markets continued to compress.
- **Macro – Risk assets tend to perform during US presidential re-election year.** For 1Q2020, we think that investors will likely focus on: 1) US-China Phase-1 trade deal that does not mark the end of trade war; 2) The end of aggressive easing monetary policy cycle; 3) Green shoots of recovery in global economy; and 4) Potential supply shock from oil markets. Combination of those 4 factors mentioned above could lead to: 1) risk-on market sentiment; 2) Marginally bear steepening sovereign bond yield curve; and 3) Strengthening Asian FX vs USD. This investment thesis is further supported by historical data where the US equities and to certain extent MSCI EM Index tend to perform particularly in 1Q and second half of the US presidential election year.
- **Equities – Potentially pre-CNY rally**. Our KLCI was down by -6% in 2019 vs the rest of the world which all closed higher, especially the US markets. Hence, we expect a catch up play for our local market. And this play would likely be led by small and mid-cap where we expect positive spillover effect into 2020, especially in Jan-2020. Risk to our more bullish view would be fear of the escalating geopolitical concerns in the Middle East.
- **Fixed Income – Lesser new govvy auctions in 2020.** There will only be 4 new issues this year compared to 12 last year which would improve bond liquidity of off-the-run bonds in an effort to address one of FTSE-Russell's concerns in assessing Malaysia's standing in the WGBI. We believe that this would moderate the risk of exclusion and add further support to local yields. New issuances are typically front loaded in 1Q2020, followed by RM28bn, RM29bn and RM24bn in the subsequent quarters. In the near term, we believe that the 10y MGS yield could trend lower towards Feb-2020 on the back of OPR cut noises and alongside falling yields on the safe haven US Treasuries in light of increasing geopolitical risks with US-Iran tensions.

This document has been prepared by Etiqa Life Insurance Berhad (ELIB) solely for informational purposes and shall not be construed as the basis for making investment, financial or other decisions. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. ELIB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by ELIB. ELIB and any of its related affiliates accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.