Maybank Asset Management

Performance & Market Outlook

Monthly Report

February 2018

Fund Manager Commentary: Speed bumps but markets were travelling too fast anyway

The recent correction in stock markets globally is a reaction to the higher US interest rates. We have seen the benchmark 10-year US Treasury rates rise sharply from about 2.40% at the end of the year to about 2.80%. Investors are concerned that interest rates will go up further and higher rates are usually not positive for investment assets.

We have to bear in mind that equity markets have been on a strong and smooth upward trend since the start of 2017. Even 2018 started off with one of the strongest starts in the past 10 years with various markets up between 4-12% in January. It is a case of "Too Much Too Soon" that we are seeing a correction now. This concern with higher interest rates appear to be the catalyst for investors to take profits and may have been the trigger for the profit taking.

At the start of the year, we had a positive view on Asian equity markets given the reasonable valuations and positive economic outlook. We were more cautious with fixed income markets as the rising interest rates and compressed yield spreads would cap returns. So far this has been the case with Asian market still showing positive returns and fixed income markets down for the year. We also shared our concerns on the high valuations of US stocks and observe so far that the correction has been greater in the US markets. This may reflect investor concerns on US stock market valuations. Our views have not changed and we are still positive on Asian equities as recent corporate earnings and economic statistics continue to support this thesis. Looking at the economic fundamentals, there is no need to panic. US economic statistics continue to reflect a growth with an estimated 200k jobs created while manufacturing activities as represented by the Institute for Supply Management (ISM) show solid growth at 59.1 for January 2018.

For fixed income, we expect volatility to continue in the coming weeks as markets grapple with a more hawkish Fed, increased concerns on inflation creeping higher with strong payrolls and increasing Treasury supply to fund the increased US account deficit from the new tax cuts. Also there is some uncertainty on whether the Bank of Japan and European Central Bank will continue to keeps its easing policy this year. Hence we still prefer to keep short duration until the market stabilizes. While credit spreads are still tight, absolute yields on outright basis now look more attractive versus last year. Hence, we would like to position the portfolio for carry. One point to note in this cycle is that despite US equities selling off, Asian currencies are holding up well. As a result we continue to like Asian local government bonds versus USD bonds for carry. This also shows that investors are generally still positive on Asian investment assets despite the correction.

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