Maybank Asset Management

A RETURN TO AB-NORMALITY

2H2021

OUTLOOK & STRATEGY

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2Q2021 REVIEW

"Nowhere has such a sharp rise in inflation been more clearly demonstrated than in the commodity space..."

Concerns over rising inflation and higher interest rates continue to dominate the narrative in 2Q2021.

The market remains divided on whether this post-recession pick-up in inflation is transitory, or a more worrying sustained trend which could force the US Federal Reserve (Fed) to 'taper down' its unprecedented monetary stimulus earlier than expected.

If the current inflation trend is merely the result of a pent-up demand, we would foresee that inflation should eventually fade over the course of the next quarter or so. Nowhere has such sharp rise in inflation been more clearly demonstrated than in the commodity space with notable increases in metal (e.g., iron ore, steel, copper, nickel) and oil prices.

Another concern for markets in 2Q2021 was the re-emergence of COVID-19 cases driven by more infectious variants which resulted many Asian countries returning to lockdown-like conditions while vaccination rollout lagged behind developed countries.

On the equity markets front, sentiment was dampened by the re-emergence of regulatory risks in China such as the tightening regulations for online platforms.

US President Joe Biden also amended a series of Trump-era executive orders, withdrawing some companies like TikTok and WeChat from the ban list but expanding the list of Chinese companies banned from US investments. In addition, the US Senate passed the US Innovation and Competition Act aimed at countering China's technological ambitions.

Exhibit 1: Commodity Prices On The Rise

| Source: Bloomberg | Period 11 Jun 2016 - 11 Jun 2021

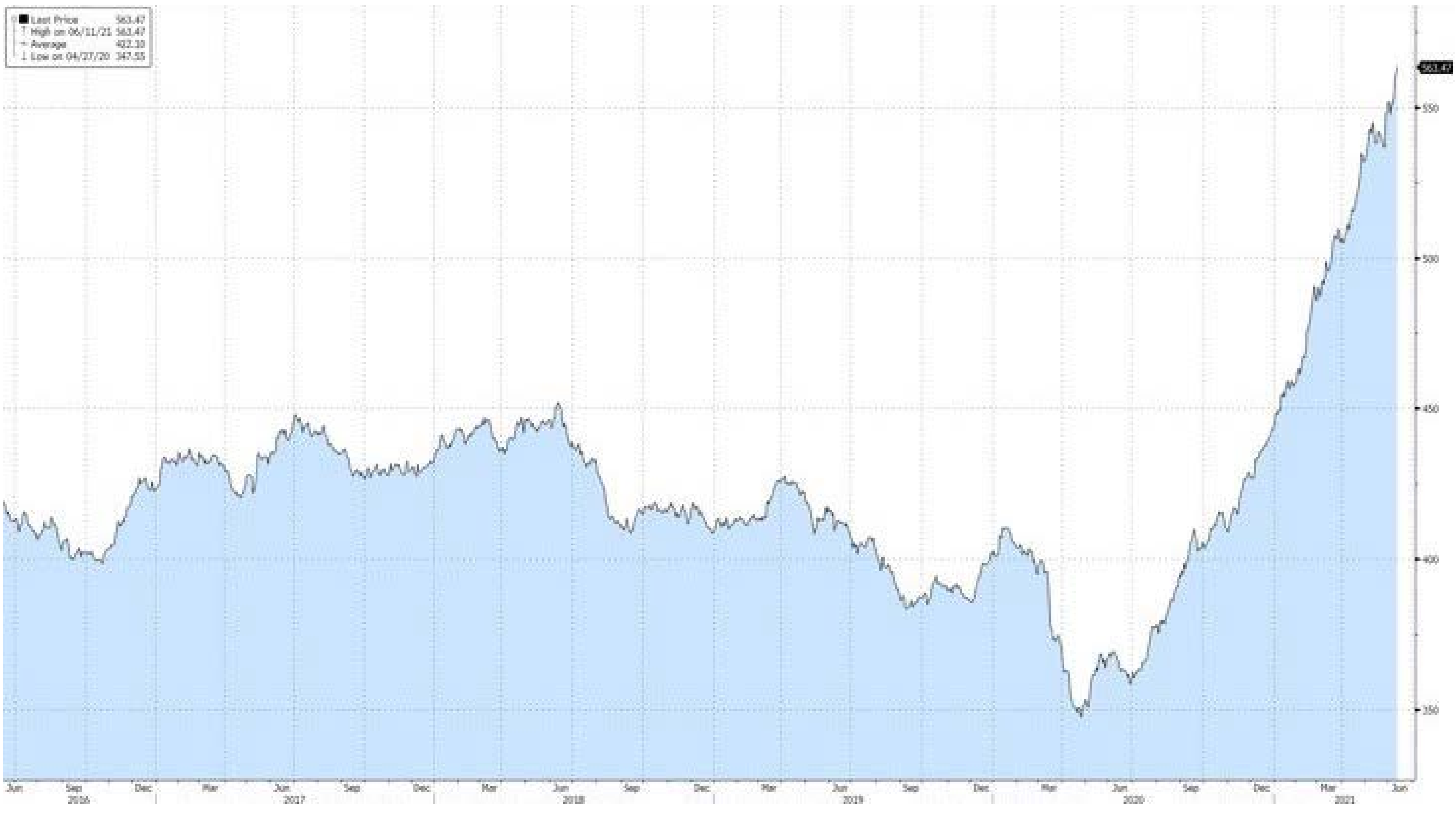
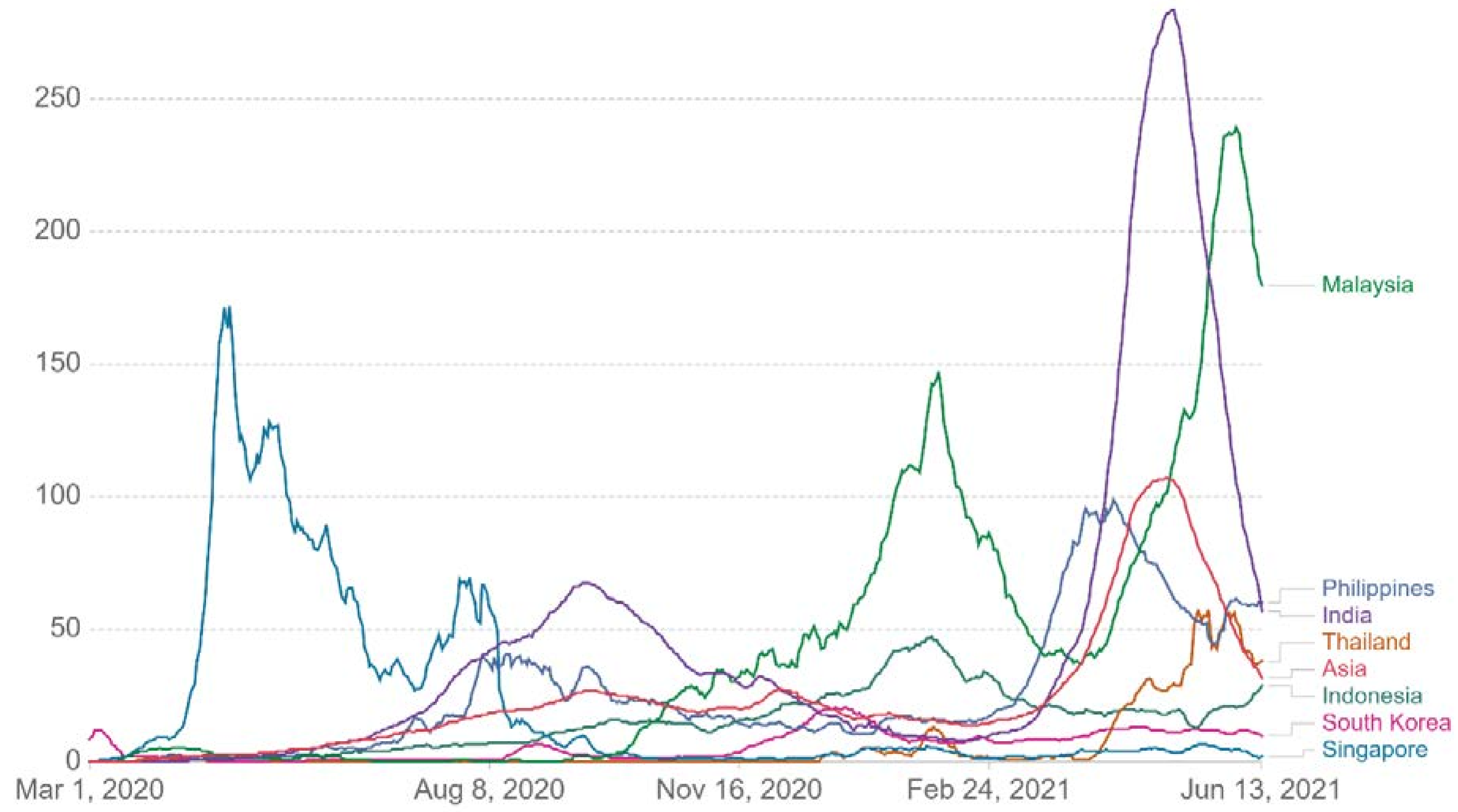


Exhibit 2: Re-emergence of COVID-19 Waves Across Asia

| Source: Our World In Data | Period Mar 1 2020 - 13 Jun 2021



The JP Morgan Asia Credit Index generated 1.21% total return for the quarter as of 18th June 2021 versus negative returns of -1.17% recorded in the first quarter of the year.

In the fixed income space, bonds fared up in 2Q2021 as compared to 1Q2021 and managed to deliver better returns. The JP Morgan Asia Credit Index generated 1.21% total return for the quarter as of 18th June 2021 versus negative returns of -1.17% recorded in the first quarter of the year.

A large part of returns is due to bond yields from stable Treasuries, as the index's yield was at 3.4%. After relentlessly charging up from 0.91% at end-Dec 2020 to a peak of 1.74% by end-March 2021, the 10-Year US Treasury traded range bound between 1.5% to 1.7% for most of 2Q2021.

On the surface, it appears that high yield bonds have outperformed investment grade papers. In reality, majority of the returns came from bond yields as the high yield bond index was at 7% yield while the investment grade index's yield was at 2.75%. Therefore we can see that bond prices in the high yield space did not rally at a greater magnitude than the investment grade bonds.

In fact, when we look at credit spreads, high yield bonds underperformed. High yield bond spreads ended the quarter wider (red line/ arrow below) while investment grade spreads weakened mid-quarter, but tightened closer to the end of the quarter. (blue line/arrow below).

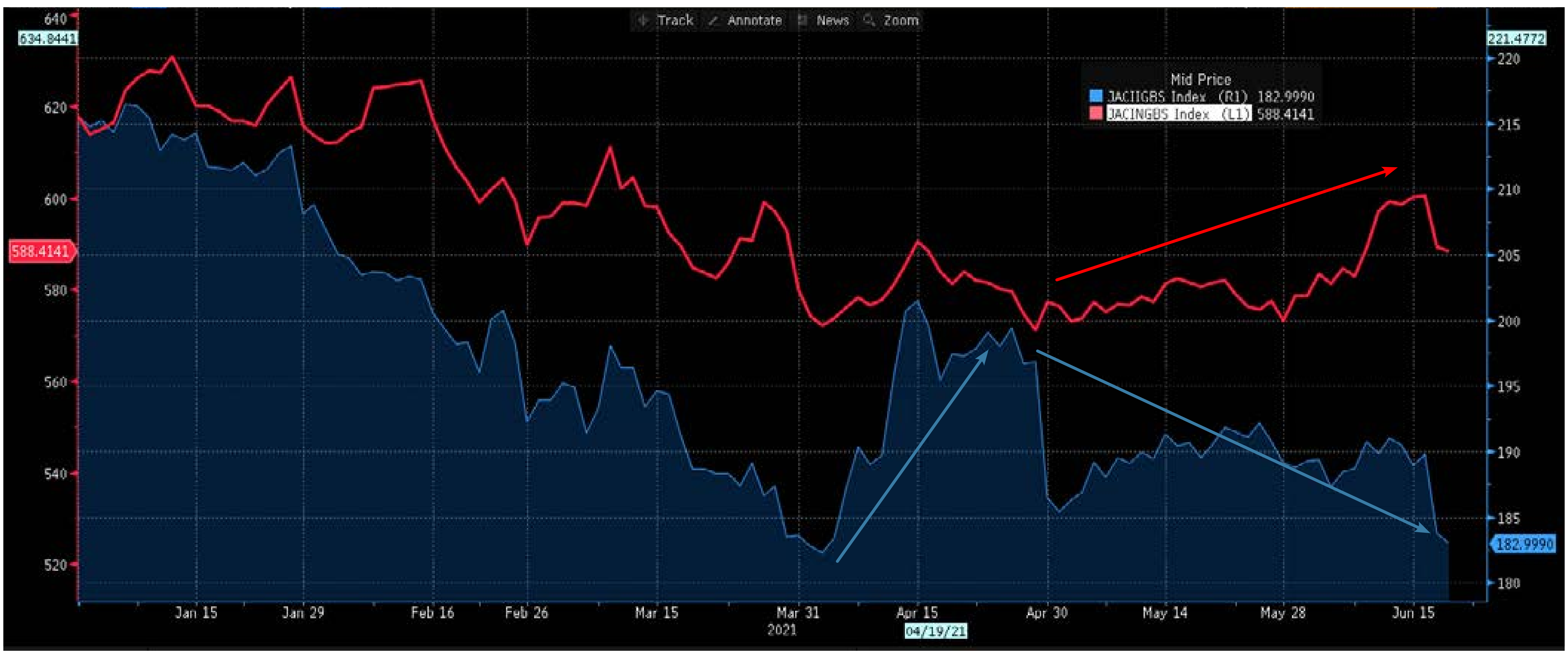


Exhibit 3: High Yield & Investment Grade Bond Spreads

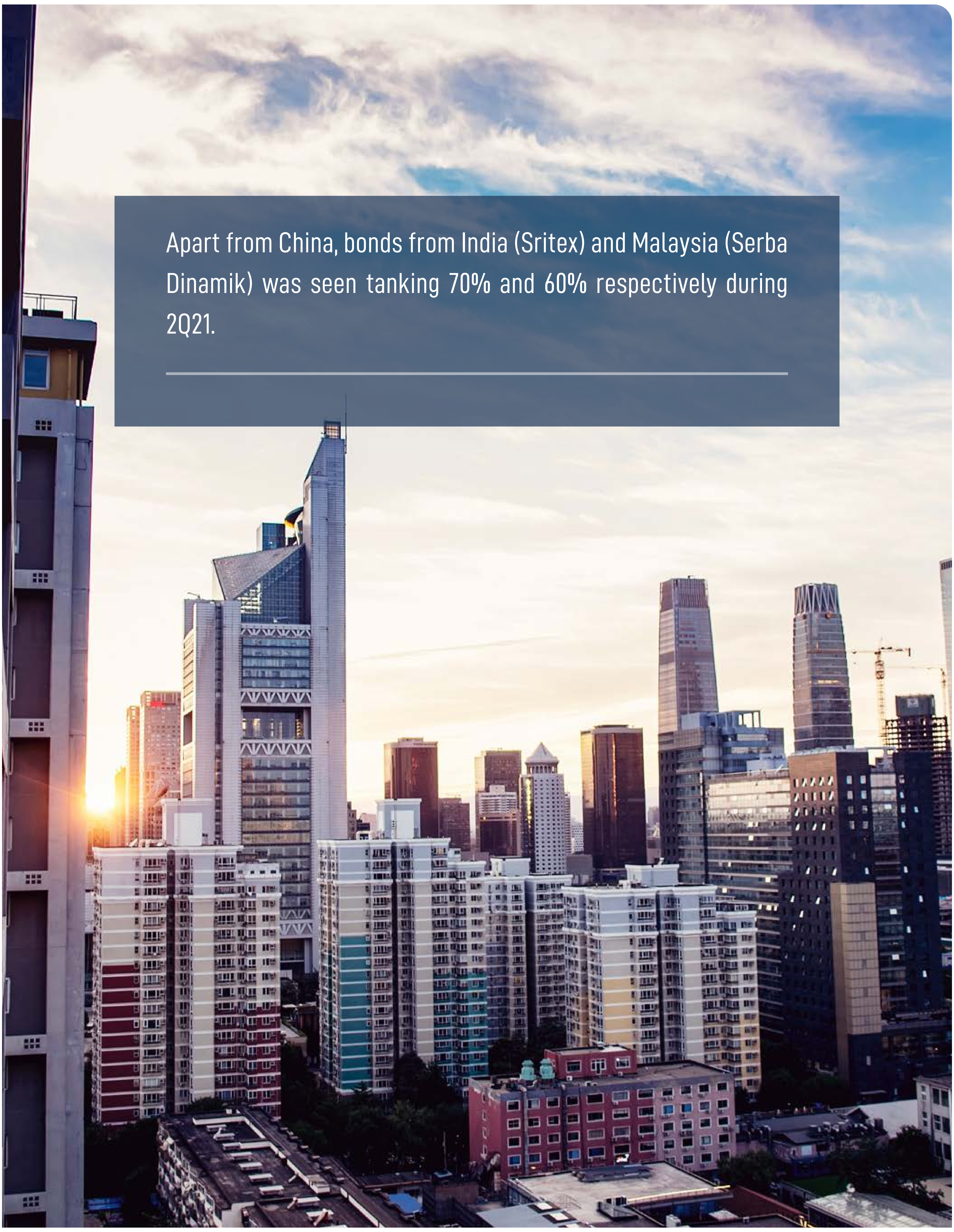
| Source: Bloomberg, Maybank Asset Management | Period Jan 2021 - Jun 2021

High yield bonds underperformed 2Q2021 as idiosyncratic risks continued to plague the market throughout the quarter.

China suffered the bulk of such headline risks from high yield names including Greenland, Yuzhou and Evergrande where bond prices fell between 10% to 15%. This dragged weaker Chinese property companies in the single B rating as well, with bonds falling around 5% due to negative sentiments. The biggest shock of the quarter came from investment grade China Huarong Asset Management.

China Huarong, being a state-owned enterprise (SOE), was rated A3, BBB+, and A by Moody's, S&P and Fitch respectively as of April 2021, due to the expected sovereign support. However, the company missed its FY2020 annual results reporting deadline in end-March 2021 causing a plunge at average of 30% in its bond prices. Bonds of other Chinese asset managers were also sold off as investors questioned the willingness of the Chinese government to allow such strategic central government owned entity to fail.

Apart from China, bonds from India (Sritex) and Malaysia (Serba Dinamik) also tanked 70% and 60% respectively during 2Q2021. Sritex bonds plummeted when the management failed to rollover their syndicated loans whereas Serba Dinamik bonds tumbled after their auditor, KPMG, raised concerns on their RM3.5bn contracts and transactions that they have not been able to verify with the customers.



POSSIBLE GROWTH SCENARIOS IN 2021

Downside Risks

- Resurgence in COVID-19 cases prompting further lockdowns.
- COVID 19 vaccines efficacy and availability issues, logistics/operational challenges.
- Re-escalation of US-China tensions.
- 'Hard' Brexit geopolitical & economic disruption.
- Regulatory risks e.g., in the tech sector.
- Political risks e.g., in Malaysia (that could see snap elections).
- Unanticipated withdrawal or faster-than-expected tapering of stimulus.
- Bond yields rise more than expected or faster than expected.
- Inflation scare with inflation not being as transitory as widely expected

Upside Risks

- Faster-than-expected return to normalcy on better-than-expected vaccine development and distribution.
- Stronger-than-expected policy support.

SCENARIOS	ASSUMPTIONS / RISKS	IMPLICATIONS / STRATEGY
Base Case	• Global growth recovery off low base with policy support and virus impact gradually fading. • Increase in vaccine roll-out rate from 2H2021 onwards. • Inflation scare is transitory rather than permanent. • Asian economic recovery is uneven with new waves of COVID-19 outbreaks. • Less hostile but still tense US-China relationship.	• Focus on Asia. • Neutral for Asian equities in short term but positive in the longer term (including REITs). • Favour internet stocks as low interest rate outlook is a positive sign for growth stocks. • More selective on cyclical value stocks as these names have priced in full recovery. • Favour Taiwan hardware names, given continued component supply shortage. • Neutral for Asian fixed income. Favour high yield over investment grade as high yield offer decent absolute yields between 6% - 7% and spreads are at historically attractive levels. • Neutral for Asian currencies.
Good Case	• Robust economic recovery on stronger policy support and faster-than-expected return to pre-COVID-19 normalcy. • Rapid rise in vaccine distribution from 2H2021 onwards. • Interest rates to remain low until full economic recovery. • A more amicable-than-expected US-China relationship.	• Focus on Asia. • More positive for Asian equities. • Neutral for Asian fixed income. Favour high yield over investment grade. • Positive for Asian currencies. • Underweight gold.
Bad Case	• Rebound in global growth falters. • COVID-19 pandemic rages on with more sporadic lockdowns. • Vaccine distribution getting more delayed. • Inflation rate to rise with no signs of tapering. • Re-escalation of US-China tension.	• Negative for Asian equities. • Positive for Asian fixed income. Favour investment grade over high yield. • Underweight Asian currencies. • Overweight gold.

ASIA EX-JAPAN

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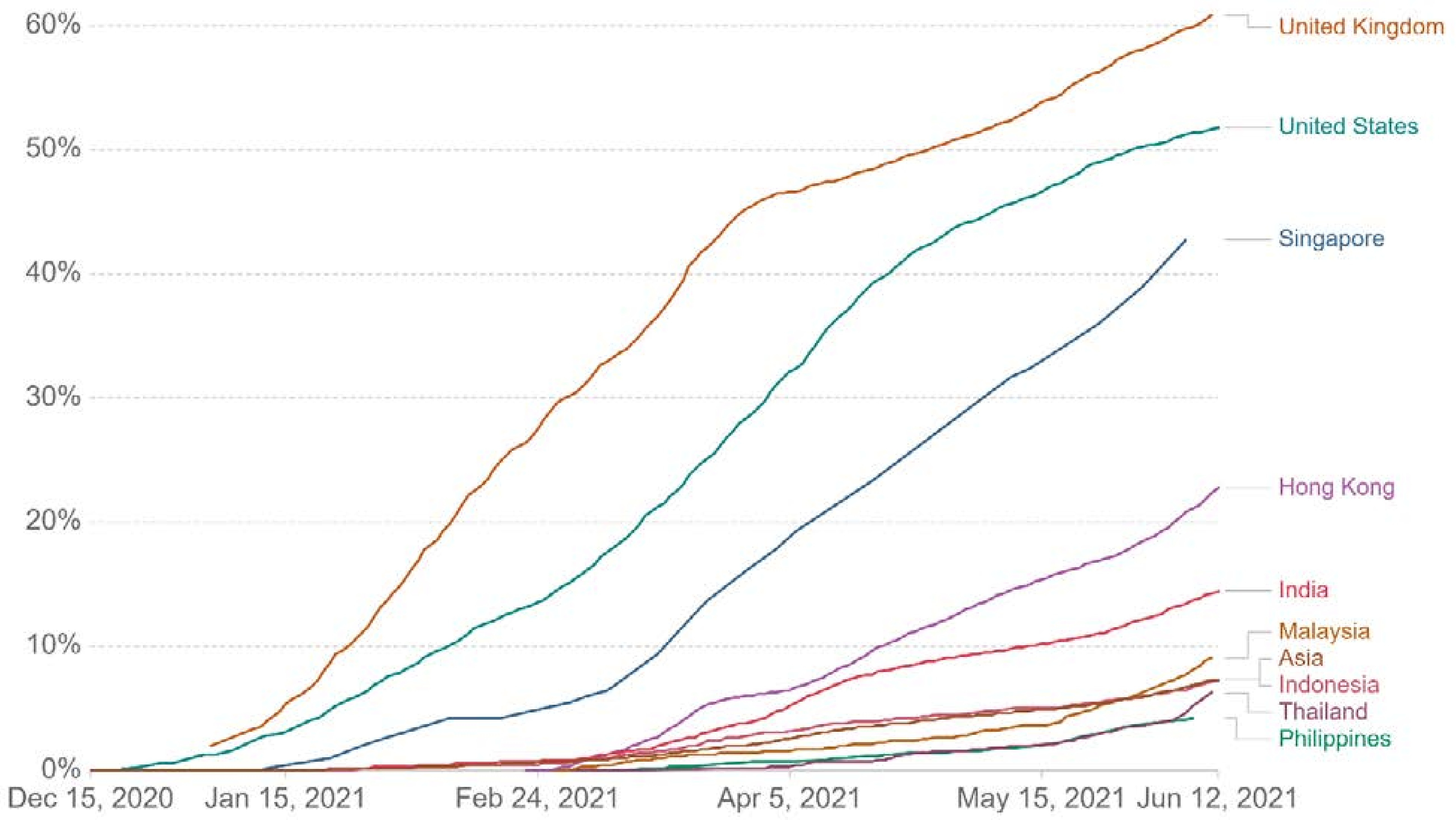

Exhibit 4: Asia's Vaccination Rate is Rising Despite Lagging Developed Countries
| Source: Our World In Data | Period: Dec 15 2020 - 12 Jun 2021

We have turned more cautious on Asian equity markets in the short term although we remain positive in the medium-long term. We expect markets to be volatile as investors continue to grapple with uncertainties over the true state of the global economy.

While the impressive rise in commodity prices suggests a strong demand recovery, economic indicators released have been mixed, resulting in confusion among investors. Likewise, an ongoing debate regarding whether inflation is merely transitory as postulated by the Fed or a catalyst for earlier-than-expected tapering of unprecedented monetary stimulus would continue in 3Q2021

Adding to the uncertainty, a fresh wave of COVID-19 cases driven by more infectious variants has triggered a return to lockdowns in many Asian countries. With vaccination rollout still being patchy and slow, economic re-opening and cross-border travel has been delayed further.

In the near term, these factors will act as headwinds for Asian equities. Hence, our more cautious stance. In particular, we expect to see higher inflation over the next few months off the low base of 2020, when COVID-19 hit the hardest.

As producers slowly ramp up supply and base effects fade, inflation should also moderate but during that interim period, an 'inflation scare' is liable to keep markets soft. Over the medium term, we remain positive on Asian equities as we expect inflationary pressures to ease and the interest rate environment to remain relatively benign.

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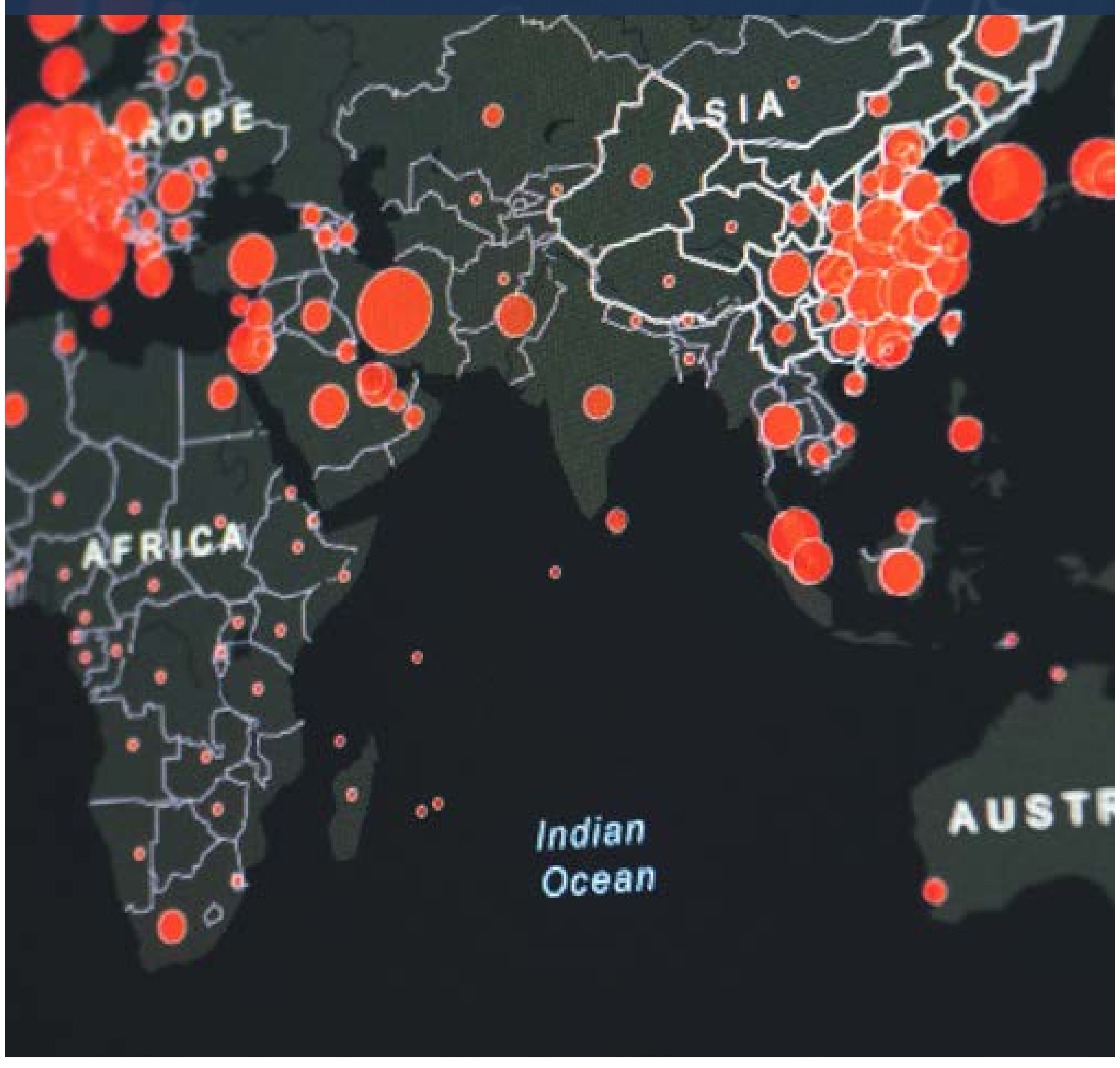


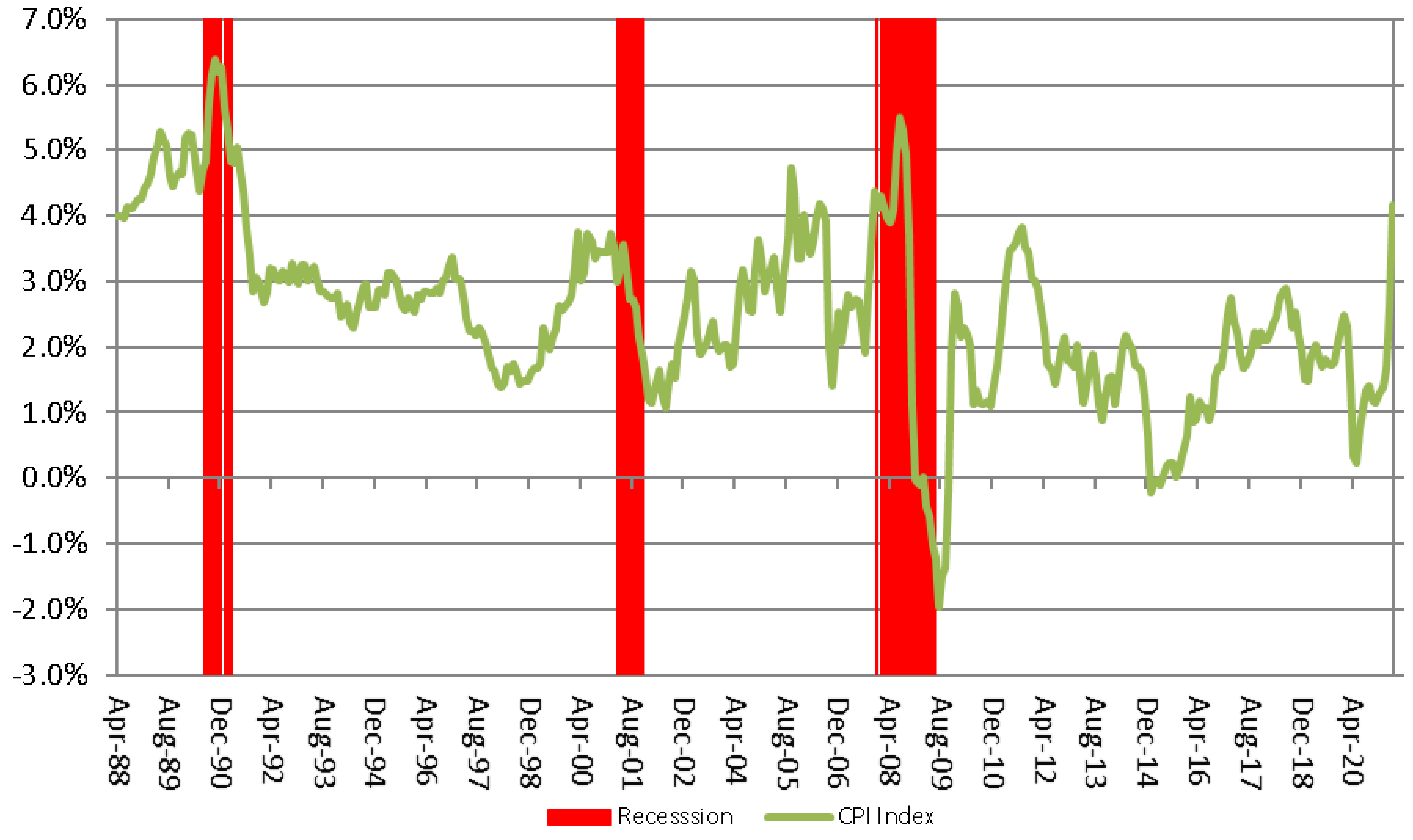


Exhibit 5: Post Recession, CPI Usually Rises But To Only Peak Within 2 Years

| Source: Maybank Asset Management, Bloomberg, Apr 1988 – May 2021

We are more selective on cyclical stocks as these names have largely priced in a full recovery.

Examples of cyclicals that have been priced in for recovery include commodity plays such as iron ore and steel related stocks. We do not subscribe to the theory of a commodity supercycle where commodities trade above their long-term price trend over a long period. Rather, we expect commodity prices to moderate as producers gradually resume operations in a post-pandemic world.

On the other hand, an example of a cyclical play that we are more selective to is the retail sector, as the re-emergence of new COVID-19 variants that are more infectious delayed full economic reopening in many countries. However, we are not bearish on cyclicals per se but more of a discerning investment view for now.

Having said that, we tilt our view towards the growth stocks, in particular the technology sector. We firmly believe that the technology sector is at its dawn of a bigger revolution. The likes of 5G infrastructure rollout, internet of things, digital payments, cloud computing as well as semiconductor demand would still dominate investment headlines in the medium to long term. Technology sector would account for a significant portion of economic activities with its growth continue to outpace other industries.

It is beyond doubt to deem that the technology sector has benefitted mostly, owing to the current COVID-19 pandemic situation. However, the sector's valuations are in line with historical ranges. We can see that valuations are still attractive with the likes of the long term drivers for growth still remain intact. Thus, providing bright growth prospect.

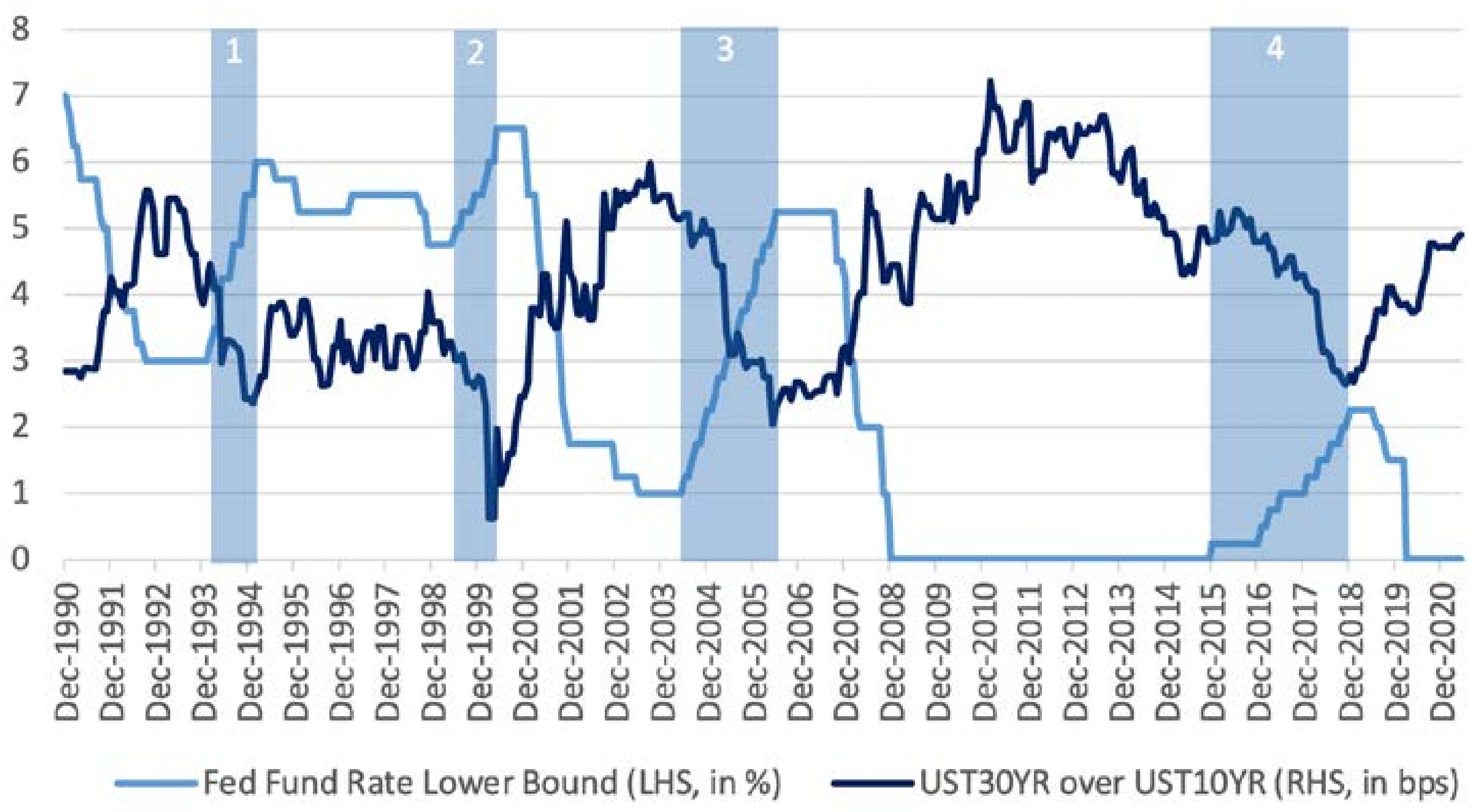
In terms of geographical exposure, we overweight Taiwan with having such high conviction on the technology sector. Indonesia and the Philippines also fall into our overweight list of countries as they are laggards in the pandemic recovery. Closer to home, we are neutral on Malaysia and Singapore. Elsewhere, we underweight Hong Kong given its importance to China continues to diminish. On top of that, we underweight Thailand given the delays in resumption of cross-border travel and underlying unresolved political tension.

Tech names are more preferable, given their structural growth story.

Exhibit 6: Asia ex-Japan Country Calls

COUNTRY	CALL	RATIONALE
China	Neutral	• Chinese market is expected to enter range-bound territory, considering the combination of US bond yields' overshoot, input cost hike but solid earnings growth as well as a less hostile US-China relationship but tension remains.
Hong Kong	Underweight	• Economic outlook is gradually improving with sustained strong trade data, low base effect for GDP growth and peaked out unemployment rate.
India	Neutral	• India has outperformed and its equity market is trading at elevated levels with record high valuations at over 20x P/E. • We continue to expect the market to be range-bound as the impact from the rise in COVID-19 cases. • Key near term catalyst will be superior reported earnings in the coming results 4QFY21 results. • India will benefit from an expansionary budget announced recently by the government and the normalisation to pre-COVID levels which will be one of the main drivers for further growth.
Indonesia	Overweight	• We remain positive as earnings revision is set to have positive surprises, but challenges remain. • Existing vaccine supply issues and the recent rise in COVID-19 cases following festival holiday dampened sentiment being set beginning of 2021 and slowed the economic recovery. • Longer term prospect looks well given global recovery narrative, inexpensive valuations and a supportive domestic policies especially from the passing of the Omnibus Law.
Korea	Neutral	• Conditions for firmer recovery such as better domestic COVID-19 situation, stimulus packages and rebound in exports are in place. • Valuations are now more palatable following positive earnings revisions.
Malaysia	Neutral	• With the reopening of the economy, we should see a stronger recovery going into the second half of 2021 driven by sustained earnings growth in selected sectors. • Stocks benefitting from the re-opening theme will be in focus, while investors may continue to trade in and out of defensive and growth stocks that have performed well this year.
Philippines	Overweight	• During this pandemic, Philippines market has been the clear laggard in Asia weighed by the snail-paced vaccine rollout and numerous lockdowns. • However, as the pace of vaccinations started to pick up considerably in May 2021, market sentiment has since improved. Along with the implementation of CREATE Act and easing quarantine restrictions in June, these are some of the catalysts for the economy moving forward. • As national elections are next year, expect to see ramp-up in government spending as early as 2H2021 to assist their re-election bid.
Singapore	Neutral	• While recovery may have been interrupted by the latest movement restrictions, swift actions by the government have successfully reduced the number of new COVID-19 infections. • With easing measures, reengagement with low-risk countries on travel bubble arrangements and speedy vaccination rollouts, we expect more focus on reopening sectors like retail, tourism and hospitality.
Taiwan	Overweight	• Recent COVID-19 outbreak in Taiwan highlights the threat posed by the global technology supply chain's reliance on a few of Taiwan's key players. • As chipmakers grapple with surging COVID-19 infections, a drought and disrupted power supply, these factors threaten to knock back productivity in Taiwan's growth-driving semiconductor industry. • Expect some volatility but long term positive view on semiconductors remain.
Thailand	Underweight	• With a stronger 3rd wave of infection, this could push struggling sectors close to another liquidity crunch which could lead to earnings downgrade. • While the re-opening of Phuket is a good start, a strong recovery is still contingent upon a rebound in nationwide tourism and exports. • SET valuation is currently expensive at nearly 3SD >10-Year mean. • Hence we continue to stay selective until we see a more visible recovery in the travel and tourism sector.

2H2021 ASIA EX-JAPAN FIXED INCOME OUTLOOK & STRATEGY



Rate Hike Since 1990	Period
1	Feb 1994 - Feb 1995
2	Jun 1999 - May 2000
3	Jun 2004 - Jun 2006
4	Dec 2015 - Dec 2018

Exhibit 7: FED Rate Hike & UST Curve Flattening | Source: Bloomberg | Period: Dec 1990 - Dec 2020

We remain cautious on risk going into 2H2021. We had a more constructive view on credit bonds earlier, as we expected the successful rollout of the vaccines and the gradual re-opening of the economy to provide a conducive environment for companies and businesses to deliver strong growth and profitability.

We also expected credit spreads to tighten and high yield bonds to outperform. However, tightening credit conditions caused by increased regulations in China, such as the “three red lines” as well as increased scrutiny by banks when rolling over existing debt as in the case of Sritex, has resulted in increased credit headlines risks.

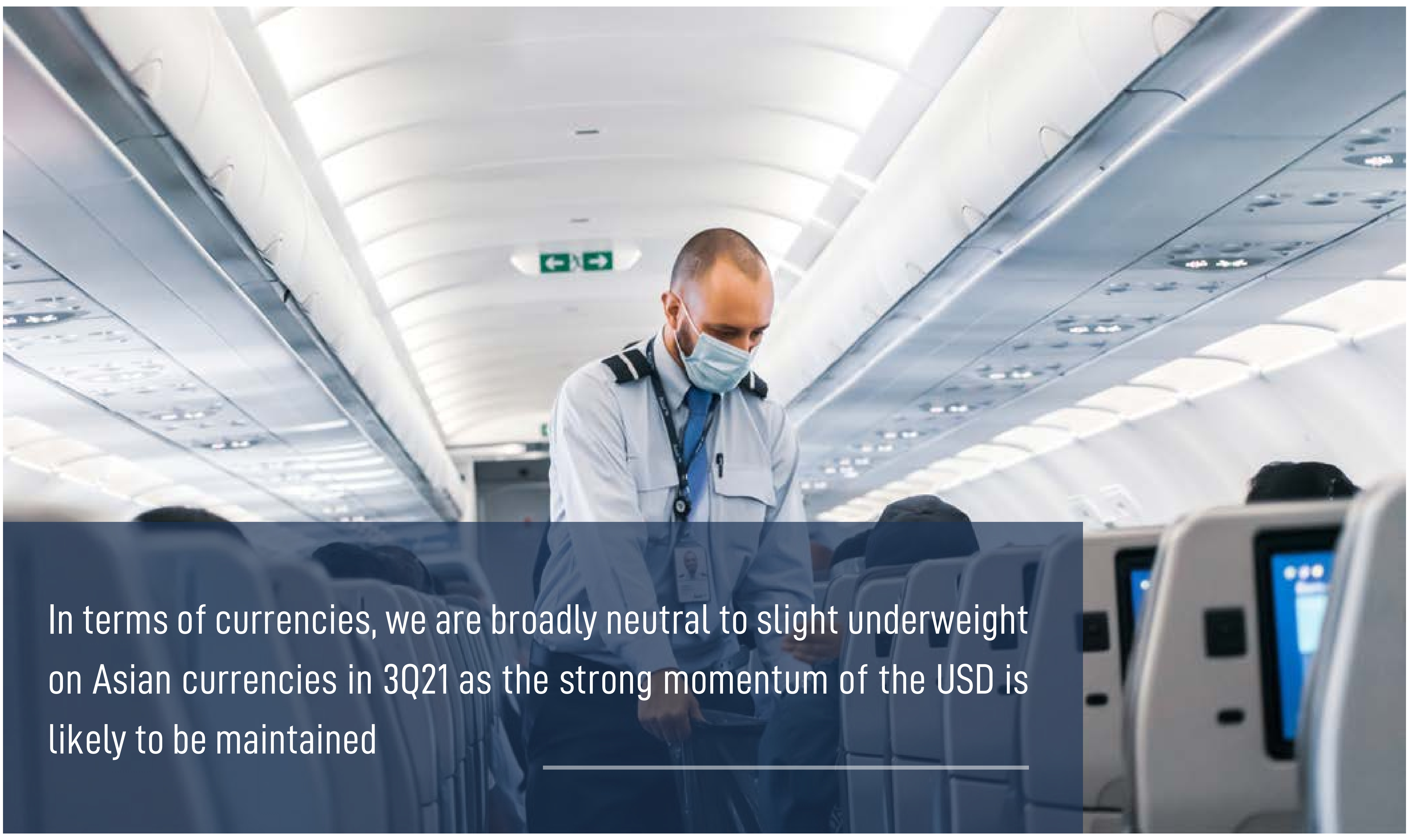
In the past six months, we have seen more occurrences of idiosyncratic risks hitting individual issuers that we have seen in previous years. Therefore, we are more cautious on credit risks and prefer to diversify across more issuers and hold stronger names even if these bonds offer lower yields. Slow and steady is the name of the game for now.

As for duration risk, we think the worst could be over. Surprisingly, the Fed turned more hawkish during the FOMC meeting on 16th June. The dot plot now shows two rate hikes by end-FY2023 versus zero hikes by end-FY2023 during the March 2021 meeting, causing the long end Treasuries to rally.

Historically, the long end yield curve usually flattens as we start to enter into a tightening cycle, around one year before the Fed starts the lift-off. This can be seen in Exhibit 7. With the Fed now signalling that they are prepared to tighten in the near future, we think that long end bonds could stabilise from here, thus, we are comfortable to add long end duration bonds to our fixed income portfolios.

We turn more cautious on credit risks and prefer to diversify across more issuers and hold stronger names even if these bonds offer lower yields.

2H2021 LOCAL CURRENCY BONDS & FX OUTLOOK



For 2H21, we believe that the onus is for emerging markets in Asia to get their COVID-19 situation under control, although some countries are much better placed to handle this as they progressively exit from very accommodative fiscal and monetary policies.

In contrast to the US economy which, thus far, arguably has successfully emerge from COVID-19 pandemic, emerging markets in Asia need to balance against different degrees of COVID-19 related lockdowns, rising inflationary pressures from higher commodity prices potentially feeding into long term inflation expectations and the continuing need for governments to maintain high spending levels in order to sustain the fiscal momentum.

Still, we believe that inflation across Asian economies seen in 1H21 should prove transitory which reflects supply bottle necks as domestic demand across most Asian economies remain fairly conservative.

In terms of currencies, we are broadly neutral to slight underweight on Asian currencies in 3Q2021 as the strong momentum of the USD is likely to be maintained as Asian economies are still unable to untangle themselves fully out of the COVID-19 fiasco. In terms of local rates, we would generally continue to favour the short end of the countries' curve for carry since long end rates are generally expensive.

In terms of local rates, we would generally continue to favour the short end of the countries' curve for carry.

Exhibit 8: Asia Interest Rates and Currency Outlook

COUNTRY	DESCRIPTION
China	• Despite being the first economy to exit from COVID-19, their government is comfortable to engineer a softer growth, with growth target in 2021 being set slightly over 6% in March considering China's GDP growth was only 2% in 2020. • High corporate debt across the corporate sector and the local government sectors remains a concern due to the nationwide increase in home and land prices. • While PPI inflation rose due to the restrictions on domestic mining and rising commodity prices, CPI remained tame as Chinese consumers remained cautious as saving rates increased.
India	• We remain optimistic on its growth prospect in FY2021 although real GDP expectations are slightly revised from 10%-11% earlier this year to 8%-9% this year due to the second Covid-19 wave. • While India's debt-to-GDP is expected to climb from 70% area pre-COVID level to 90% in 2021-2022, growth momentum will help to keep leverage in check. • India is unlikely to face a rating downgrade this year as both Moody's and Fitch have just affirmed India's BBB- Negative while S&P continues to maintain India at BBB- Stable. • Inflation in India has increased by some margins due to supply issues and has breached RBI's inflation target as May 2021's CPI came at +6.3% YoY while core inflation was at +6.5% YoY. • RBI is likely to sound more hawkish in its subsequent MPC meetings, especially given our view that crude oil prices are likely to stay in the USD 70/bbl – USD 80/bbl range in 2H2021.
Indonesia	• The recent pickup in COVID-19 infections concerns the country's growth momentum. • COVID-19 vaccination rates remain slow, with the projected timeline to reach herd immunity being relatively late among other Asian economies in 3Q2023. • Liquidity conditions will remain loose with the 3.5% policy rate to stay throughout 2H2021. • Inflation is also expected to remain tame and below Bank Indonesia's (BI) 2% - 4% given the lower growth outlook. • We believe that BI will not perform any further rate cuts but will provide liquidity via bond purchases. As of YTD, BI has purchased a total of IDR116 trn of government bonds from the primary market, as compared to IDR 65trn in mid-March. • Although Indonesia is likely to face some fiscal slippage risks from the expectations of the budget deficit this year, we believe that the government remains fiscally prudent in the longer run.
Malaysia	• Currently grappling with persistently high COVID-19 infections post-Eid holidays and renewed nationwide lockdown. • Risk of further credit downgrades remain low as S&P has just affirmed its A- rating at negative outlook while Moody's has also just affirmed its A3 rating with stable outlook. • While MCO 3.0 is expected to end by June, re-opening will proceed in phases. This is likely to pose some downside risks to the 5.7% growth expected in 2021 which could go towards 5%.
Singapore	• After shrinking by 5.4% in 2020, the economy is expected to show a sharp rebound in 2021 to 6.5% as global trade revives. • Thanks to the job support scheme, unemployment has remained low. Job vacancies to unemployed increased from 0.75% in 4Q2020 to 0.96% in 1Q2021. Thus, as the economy continues to reopen, certain sectors of the economy which are more reliant on foreign labour could face wage inflationary pressures. • In its policy meeting in April 2021, the Monetary Authority Singapore (MAS) decided to keep the pace of appreciation of the SGD nominal effective exchange rate (NEER) flat, leaving both the centre and band unchanged. • As core inflation pressure is expected to remain tame, we believe that MAS will remain neutral in its policy meeting in October 2021.

COUNTRY	DESCRIPTION
Philippines	• Real GDP is expected to rebound to 7% in 2021, helped by the government's increasing infrastructure spending to stoke demand. Still, they remain unwilling to provide higher stimulus with the fear of creating wider fiscal deficit. • However, continued movement restrictions and slow vaccination progress would keep demand side pressure in check. • While in 1Q21, we initially saw higher inflation in the Philippines on food import shortages, this has been mitigated since the government took steps to increase pork imports. • We expect Bangko Sentral ng Pilipinas (BSP) to stay accommodative in 2021.
Thailand	• COVID-19 infection rates have been well controlled and vaccination rates have been high among the ASEAN region, where 8.2% of the local population has received at least one dose. • While Thailand tries to revive its moribund tourism sector by opening up Phuket earlier than planned to vaccinated international visitors without quarantine from 1st July 2021, we doubt that it would gain meaningful traction given restrictions continue to be in place in neighbouring countries. • Thailand is also expected to see its current account balance shrink in 2021 as tourism receipts remain weak while imports have picked up in part due to higher commodity prices.

Relative to other Asian economies, both Taiwan and Korea have been beneficiaries from the global semi-conductor chips shortage as exports surged.

In Korea, thanks to swift vaccine roll out, domestic demand is also increasing rapidly and inflationary pressure looks likely to be sustained as the economy is expected to close its negative output gap towards year end.

The Bank of Korea (BoK) is thus likely to sound less accommodative into 3Q2021 not only due to rising inflation but also due to higher household credit which is about 101% of GDP.

In contrast to Korea, Taiwan's inflation rate showed signs of rising in 1H2021 due to transitory factors. However, this should moderate going into 3Q2021 as Taiwan deals with the latest spike in COVID-19 infections amidst slow vaccination rates.

Korea's inflationary pressure looks likely to be sustained as the economy is expected to close its negative output gap towards year end.

2H2021 GLOBAL SUKUK OUTLOOK

Global sukuk will continue to be a preferred asset class in our fixed income strategies for the remainder of 2021, given the limited supply and short duration nature of Sukuk. Moreover, we believe that this asset class can complement conventional fixed income instruments. Global sukuk as an asset class persistently continue to outperform conventional bonds in 2Q2021, as rates retraced from March's high amidst structurally low supply.

Both the investment grade only Dow Jones Sukuk Index (DJSUKTXR) and Bloomberg Barclays GCC Sukuk Index (BBGCC) returned +1.7% and +1.8% respectively during quarter since March 2021, while Asian credits trailed with the JACI index recording a +1.05% return. As of year-to-date (YTD), both DJSUKTXR and BBGCC returned +0.6% and +1.52% respectively, whereas JACI returned -0.13% as sentiment soured in Chinese investment grade space due to the situation and news developments that surrounded Huarong Asset Management.

Global sukuk as an asset class persistently continued to outperform conventional bonds in 2Q21.

We foresee the total sukuk issuances in 2021 to be on par with 2020's, reaching the USD 40 bn – USD 45 bn levels.

Total global amount of outstanding USD denominated International Sukuk is around USD140 bn. Sukuk issuances in 1Q2021 was at USD9.9 bn globally but they were largely denominated in their respective local currencies, as USD sukuk issuances was relatively at a smaller quantum, amounting to only USD1.2 bn.

The pace of issuances has picked up in 2Q2021. Close to USD19 bn was issued from sovereign and Quasi-Sovereign issuers such as Malaysia, Indonesia, Oman, Turkey, Saudi Aramco, Khazanah Nasional as well as benchmark names like Dubai Islamic Bank.

Thus, we foresee that the total sukuk issuances in 2021 should be on par with 2020's, reaching the USD40 bn – USD45 bn levels. We would not want to omit the possibility of it to go even higher, reaching USD50 bn.

As credit spreads have normalised, returns in 2021 will be generated from carry and new issues. We continue to prefer BBB rated credits in the GCC space following wider reflation theme. We also remain constructive on GCC

Real Estate, given its liquidity conservation, fundamentally strong business model and conservative leverage.

On GCC investment grade rated banks, we continue to prefer subordinated debts across AT1 and Tier 2 as compared to seniors, given the added carry. GCC banks continue to exhibit strong buffers due to high government ownership and support. Not just that, they also possess high net interest margins to absorb increase in provisions.

Looking ahead in 2H2021, we are neutral on sukuk, thus, maintaining duration lower against the benchmark. Following June's FOMC meeting, the US Treasury curve has pivoted, moving from a steepening bias at the intermediate to long end, to flattening pressures from the belly to the intermediate part of the curve.

This happened as market absorbed the Fed's rhetoric about transitory inflation with attention turning to tapering of asset purchases. Long end rates will likely remain range bound in

We remain positive on crude oil going into 2H21 and believe it will trade between USD 70/bbl – USD 80/bbl range.

For GCC investment grade rated banks, we continue to prefer subordinated debts across AT1 and Tier 2 as compared to seniors.

the near term, with UST 10-Year and UST 30-Year are expected to be in the range of 1.40% - 1.70% and 2.00% - 2.50% respectively. Such occurrences would present opportunities to increase duration tactically.

Meanwhile, Brent crude oil traded at an average of USD65/bbl over 1H2021. We remain positive on crude oil going into 2H2021 and we certainly believe that Brent crude oil to trade between USD70/bbl – USD80/bbl range over the period.

Exhibit 9: Asia Interest Rates and Currency Outlook

COUNTRY	RECOMMENDATIONS
Malaysia	• USDMYR to trade between 4.10 – 4.20 levels on broad USD strength and high COVID-19 infections. • Prefer short end MGII for carry, while real yields remain positive; periodic MYR weakness presents adding opportunities. • Market weight on USD denominated Malaysian sovereigns and older sukuk issues; overweight new USD Khazanah 2031 sukuk, given wide spread pickup to MALAYS 2031. • FTSE Russell's decision to keep Malaysia in its World Government Bond Index remains positive for investors' sentiment.
Indonesia	• USDIDR is expected to trade range bound between 14,000 – 14,500 in 3Q21. • Prefer short dated IDR INDOIS. • Intermediate to long end USD INDOIS sukuk presents opportunities to add duration as long term inflation concerns recede.
Saudi Arabia	• Market weight on USD KSA sovereign sukuks as supply remains limited; overweight recently issued Aramco sukuk, with preference on intermediate to long end. • Supply of sovereign conventional bonds and sukuk can be absorbed, given the JPM Index inclusion.
UAE	• Residential real estate market might have bottomed, but any recovery is likely to be slow. • In the UAE high yield space, we continue to overweight bank AT1s for carry, given strong support to redeem on their call dates; neutral to slightly overweight on GCC high yield real estate names (DAMAC & MERAAS) as default risks remain controlled due to strong liquidity.
Qatar	• Market weight on sukuk issued by Qatari financials. • Prefer banks AT1s for carry purposes. • Overall sukuk supply from Qatar should remain limited in 2021.
Oman	• Overweight USD OMAN or OMAOIL sukuk for carry, due to lower deficit in 2021 and focus on reforms by the new government.
Bahrain	• Bahrain's sovereign and quasi-sovereign conventional bonds and sukuk to remain favoured despite tight levels for its B+ rating as it receives strong support from Saudi and UAE. • Government's fiscal position set to improve given existing reforms in place as well as the USD 10 bn support package received form UAE and Saudi Arabia. • Remain overweight on BHRAIN, MUMTAK, and GASOIL USD sukuk for carry. Opportunistically to add on weakness.

INDONESIA

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2Q2021 INDONESIA MARKET REVIEW

2Q2021 started with rebounds on both the Jakarta Composite Index (JCI) and the Indonesian government bonds, following FOMC meeting which reaffirmed the Fed's accommodative policy with its chair, Jerome Powell, reiterating that the rising inflation rate is rather transitory.

However, the rebound in Indonesian equities were also due to technical oversold while the upside was capped by fundamental factors. In this case, the US economy was growing stronger as compared to Indonesia, which led to negative growth premium for Indonesia which is still hampered by such slow vaccination rates.

The pandemic situation was encouraging in April where the average daily COVID-19 cases in Indonesia declined versus December 2020 levels. However, investors' sentiment turned more cautious in May on COVID-19 fears following high movement activity during the

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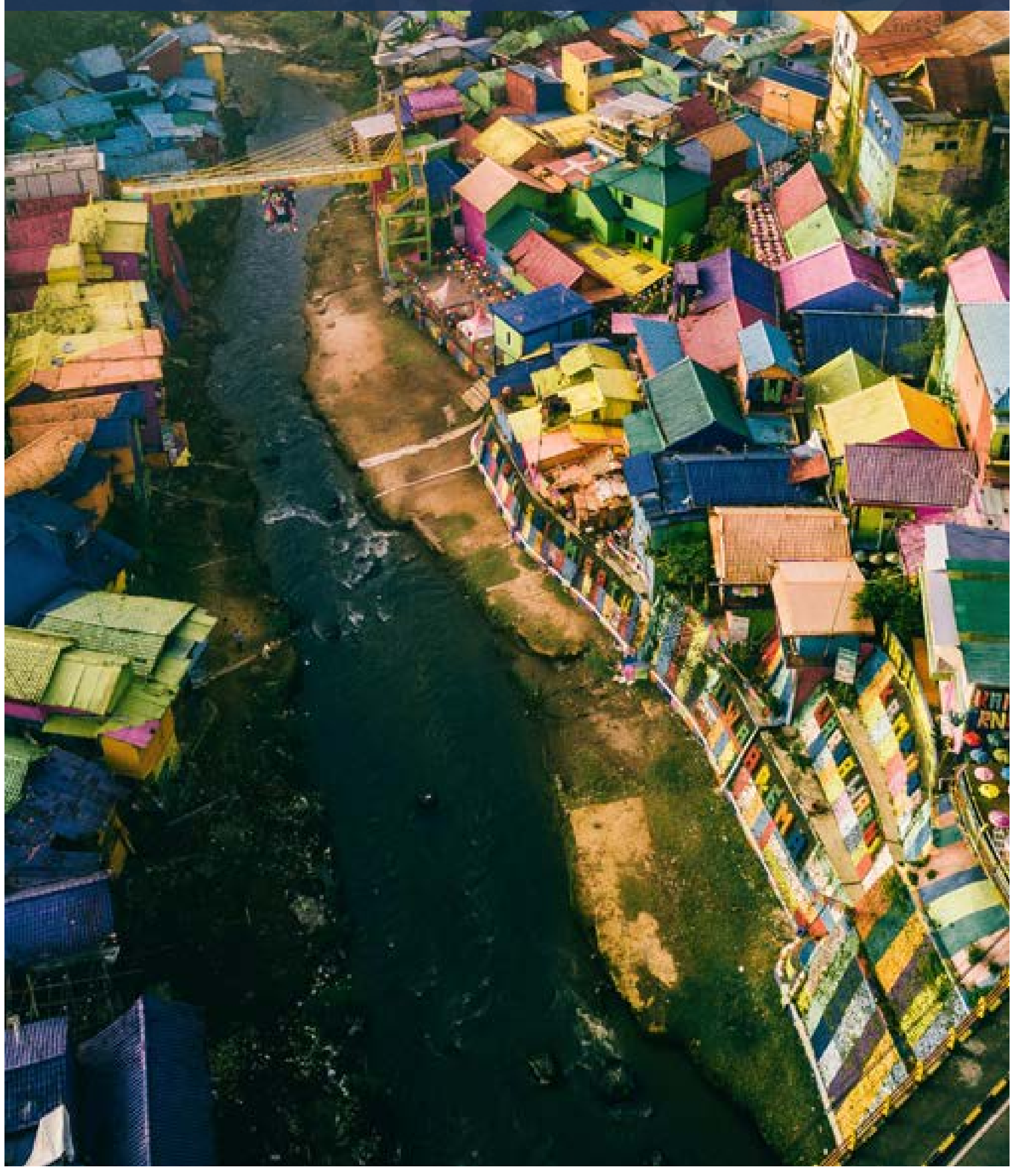
Indonesia's 1Q2021 GDP growth improved to -0.74% YoY versus -2.19% in 4Q2020.



Lebaran holiday, which in turn, overshadowed US inflation data and seasonality factors in the second quarter. On top of that, spikes of COVID-19 cases in many Asian countries also affected Indonesia's vaccine supply chain.

JCI, which initially traded sideways at the beginning of May, faced heavy selling pressures during the third week, reaching low November 2020 levels. This occurred despite Indonesia's 1Q2021 GDP growth improving to -0.74% YoY versus -2.19% in 4Q2020, led by stronger export, government spending and investment.

However, JCI managed to recover slightly at the end of the month driven by foreign net inflows of USD 246m which reversed consecutive three months of net outflow – cued by a slight increase of Indonesia's weighting in the MSCI index. Local sentiments also improved following the move from Indonesia Stock Exchange to cap maximum stock weight in JCI at 9%, in line with the mutual fund limitations, while daily COVID-19 cases trend was still under a safe threshold.

Going into June, the rally in global equities provided positive sentiment for Indonesia as US Treasury yields fell.

A jump in US inflation that was not accompanied by strong labour data was viewed as insufficient to change the Fed's easy monetary policy stance materially, providing a tailwind for Indonesia.

Additionally, encouraging news came from the acceleration of the domestic vaccination pace and May trade data that reached a larger than expected surplus of USD 2.36 bn, highest since November 2020.

However, the Fed then surprised the market in its June FOMC meeting after they signalled that the rate would likely rise faster than previously expected and a decision on tapering may come sooner than later. As a result, JCI sold-off with the 10-Year Indonesian government bond yields rising, but managed to recoup some of the losses after the FOMC chair reassured the market with more dovish messages. Respectively, Bank Indonesia (BI) decided to leave rates unchanged despite inflation and started hinting that monetary policy normalisation is on the card.

May trade data that reached a larger than expected surplus of USD 2.36 bn, the highest since November 2020.

Due to high COVID-19 numbers, the government has decided to implement stricter micro-scale restrictions rules on community activities (PPKM Mikro) until July 5th.

Nonetheless, the Indonesian market remained under pressure going into the end of the quarter as Indonesia is facing a new outbreak with daily COVID-19 cases reaching record highs while nationwide bed occupancy rate (BOR) are reaching above World Health Organisation's (WHO) threshold. Additionally, BOR in most hospitals in the main Java cities are already at alarming levels, in the range of 70% - 90%. As a result, the government decided to implement stricter micro-scale restriction rules on community activities (PPKM Mikro) until July 5th.

INDONESIA EQUITIES
OUTLOOK & STRATEGY

As compared to 2013, Indonesia's current situation has stronger fundamentals, with in-place key reforms as well as better policies anticipated.

Following signals from the Fed, markets are likely to weigh in on earlier policy normalisation by BI.

However, BI is not yet ready to tighten its policies as most of the population are still unvaccinated, implying economic growth recovery will remain slow. Nonetheless, JCI had a muted reaction towards the FOMC minutes with such a view that tapering is somewhat priced in.

As compared to 2013, Indonesia's current situation has stronger fundamentals, with in-place key reforms as well as better policies anticipated. Therefore, market reaction should be less drastic in the current cycle versus the taper tantrum that happened in 2013. On top of that, we expect a gradual monetary policy normalisation from BI going forward.

With that being said, such assumption could be revoked if daily new COVID-19 cases over the next few weeks do not subside. Such an event may necessitate more draconian actions to contain infections and put monetary policy in a big dilemma; thus, driving instability into the financial market.

A major outbreak could pose significant risks to the current modest growth outlook as the government will implement stricter mobility restriction measures for longer, potentially leading to wider fiscal deficits as spending increases and budget revenue shortfall gets larger. In this case, debt monetisation risks would increase, as BI's role in supporting government financing becomes more crucial, which might be conflicting with their FX stability objective.

On the other hand, with the global pandemic ebbing, policy support in the developed markets (DM) has also peaked. Assuming that the DM growth will remain strong despite decelerating, this can provide a tailwind for Indonesia as growth premium should start to improve.

Our base case remains that a significant ramp up in domestic vaccination will occur in 2H2021, which we believe could lay the platform for further re-opening, driving stronger economic recovery and market sentiment while having more clarity on the Fed's tapering.

However, this relies on the assumption that Indonesia can see the peak of the current outbreak before the end of July with the market bottoming out 1-2 weeks before that with India's recent outbreak to act as a guide. In such case, the recent outbreak may worsen first before it gets better.

Hence, the pandemic situation will remain as the main catalyst for the market, which means acceleration in vaccinations should propel stronger growth and EPS to recover next year. Particularly, the equity market needs to see an

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improvement in Indonesia's growth differential as compared to the US in order to march higher with foreign inflow becoming more crucial.

Given factors mentioned above, we are being flexible and tactical in the short term as Indonesia's recovery is currently lagging the DM. Ongoing vaccine supply issues and the recent rise in COVID-19 cases may mean mobility restrictions to stay longer and fuller economic reopening being delayed till the year end.

On the other hand, equity valuations are relatively attractive as compared to regional peers, which imply a volatile and trading market. However, we are more positive in the longer term given improving growth premium, inexpensive valuations and supportive domestic policies. However, we expect that the upside potential has lowered as liquidity driver is currently subsiding.

The positive longer-term outlook also depends on Indonesia's Omnibus Law success and upcoming e-commerce stocks' initial public offering (IPO) in attracting foreign direct investments (FDI) and foreign inflow, which we see as key to prop up the market, countering the effect of Fed's tapering.

Sector-wise, we prefer telecommunication and consumer discretionary stocks which have lower correlations to market's volatility and better industry or firm-specific stories. Meanwhile, banks may offer an attractive trading opportunity once the recent outbreak reaches its peak.

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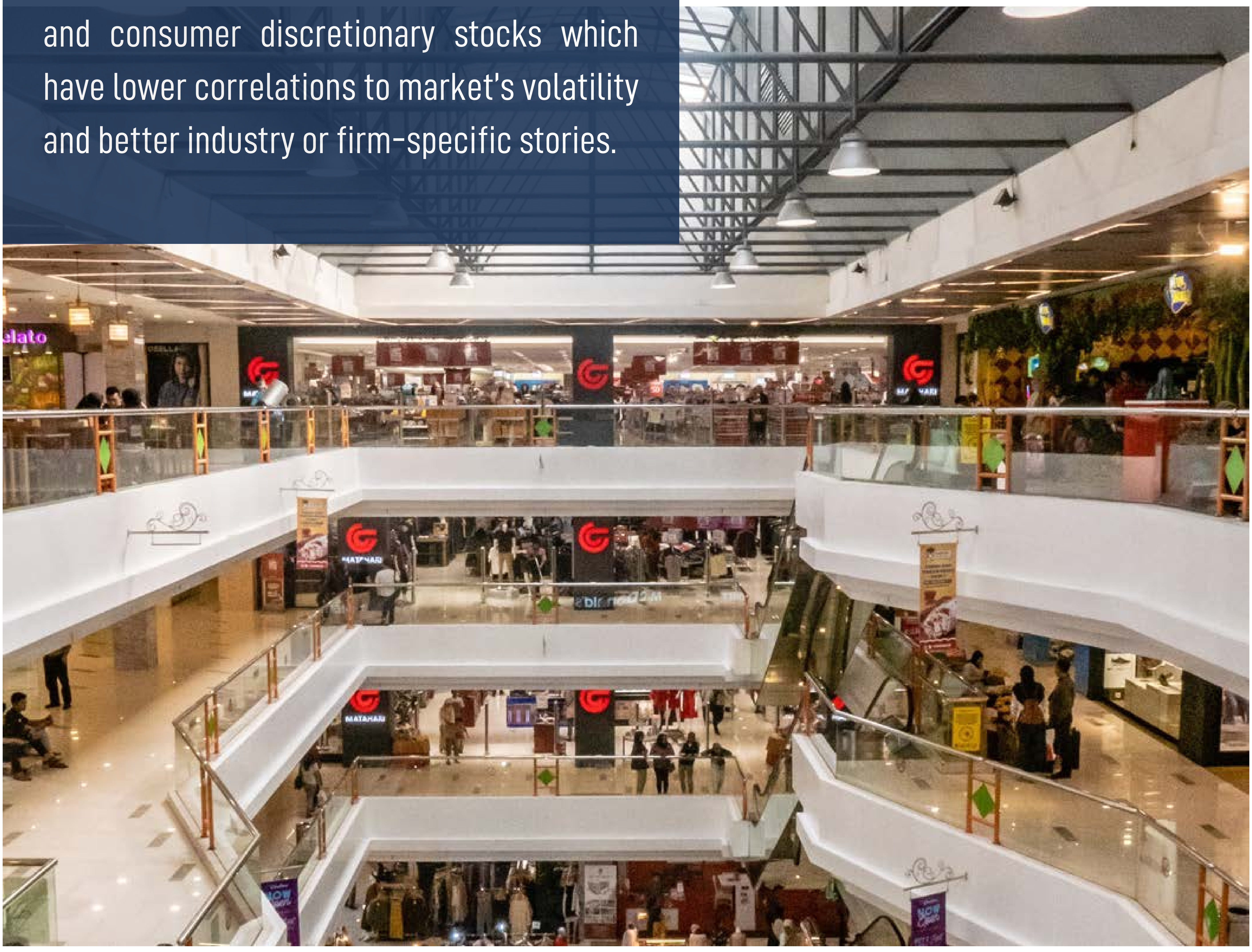


INDONESIA FIXED INCOME OUTLOOK & STRATEGY

Within 2Q2021, the fixed income market has moved into a positive territory.

Whereas at the beginning, the 10-Year Indonesia government bond yield decreased by around 30 bps from 6.79% to 6.46% and moved relative sideways until the end of May.

Since then, we have seen trading levels in the 6.35% - 6.55% area. From a currency perspective, USD/IDR has moved in a more constructive pattern than the bond market, where it strengthened from the weakest level of 14,615 to as strong as 14,198. Then, it moved in the range between 14,250 - 14,350 as Indonesia's external balance has been resilient while the inflation number was relatively low.

The market was moving pragmatically following the development of US economic data, the Fed 's stance on interest rate and the pace of economic recovery around the world. Such movement occurred given that the pandemic is far from over, especially in developing countries like Indonesia.

The market was also worried that the improving US economy driven by accelerated vaccinations throughout the country and also higher inflation expectation would prompt the Fed to begin tapering adjusting rates.

Domestically, we have seen positive sentiment coming from liquidity abundance, where the M2's growth in May was robust at +8.10% YoY. Meanwhile, banking loan growth was recorded at +1.28% YoY. On external balance, Indonesia has been resilient, where surplus trade balance has been recorded for four consecutive months.

The total surplus since the beginning of 2021 is around USD 7.50 bn – USD 8.00 bn. Inflation was low at 1.68% YoY, and we expect it to reach right below the 3% level at the end of the year. From the demand side as of 20th June 2021, most buyers were local entities, while foreign investors have decreased their exposure.

Local banks and BI have added exposures by 0.54% and 0.52% respectively, on their ownership in government bonds, while foreign investors have decreased their ownership by 2.28%.

Meanwhile, other local entities such as insurance and pension funds have also added exposure by 0.20%. Going forward, we expect

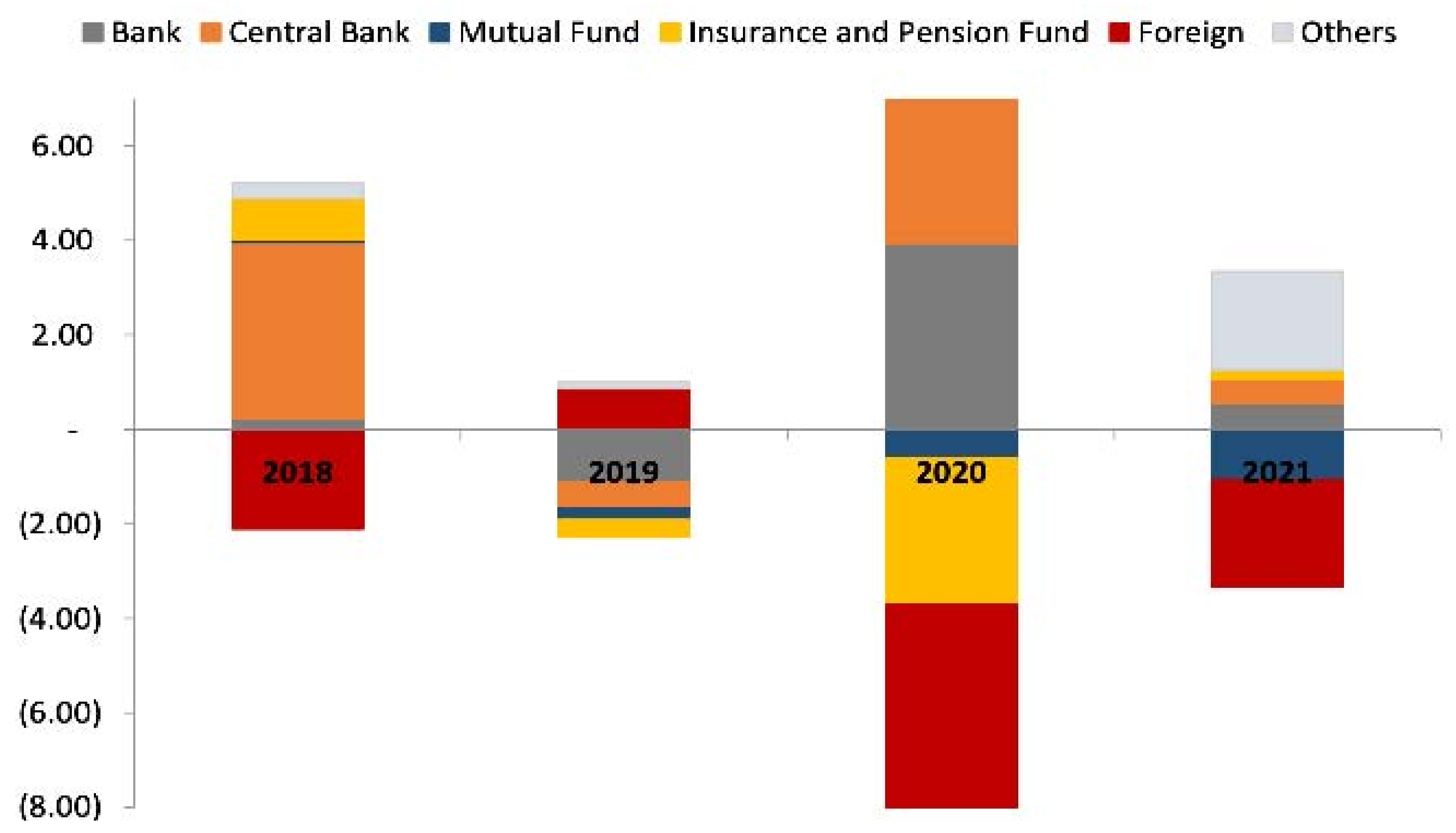
Exhibit 10: Indonesia's 10-Year yield vs USD/IDR

| Source: Maybank Asset Management, Bloomberg | Date: As of 22 Jun 2021

Exhibit 12: Investors' Activities on Bonds

| Source: Ministry of Finance Indonesia | Date: As of 20 Jun 2021

Institution	2018	2019	2020	2021
Bank	0.24	(1.11)	3.94	0.54
Central Bank	3.71	(0.54)	12.68	0.52
Mutual Fund	0.06	(0.25)	(0.59)	(1.06)
Insurance & Pension Fund	0.89	(0.37)	(3.11)	0.20
Foreign	(2.10)	0.86	(13.41)	(2.28)
Others	0.31	0.13	0.49	2.08



that liquidity would still be ample. With continuing monetary expansion by BI, buyers would be dominated by local entities.

Besides that, we see that Indonesia currently has the highest real yield among its peers at 4.92%. This shows that Indonesia has been in low inflation condition despite the increasing commodity price environment.

In 2H2021, we expect the 10-Year bond yield to hover around 6.40% - 6.80% levels, as ample liquidity and attractive valuations act as catalysts.

However, we are cautious on the potential steepening of the US treasury yield as faster pace of economic recovery could boost inflation and early tapering off by the Fed is possible.

Exhibit 11: Real Yield As Compared To Peers

| Source: PTMAM, Bloomberg | Date: As of 30 Jun 2021

No.	Country	Soverign Rating			10 Yr Bond Yield	YTD	CPI (YoY)	Real Yield
		Moody's	Fitch	S&P	21 Jun 21	Change		
1	Indonesia	Baa2	BBB	BBB	6.60	0.64	1.68	4.92
2	South Africa	Ba2	BB-	BB-	9.39	0.53	5.20	4.19
3	Brazil	Ba2	BB-	BB-	9.32	2.38	8.06	1.26
4	India	Baa3	BBB-	BBB-	6.03	0.14	6.30	-0.27
5	South Korea	Aa 2	AA-	AA	2.01	0.31	2.60	-0.59
6	Thailand	Baal	BBB+	BBB+	1.81	0.48	2.44	-0.63
7	Vietnam	Ba3	BB	BB	2.22	-0.19	2.90	-0.68
8	Filipina	Baa2	BBB	BBB+	3.72	0.90	4.50	-0.78

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