Maybank Asset Management

A RETURN TO AB-NORMALITY

2Q2021

OUTLOOK & STRATEGY

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1Q2021 REVIEW

"The high participation rate of many 'first-time' retail investors contributed to the volatility in markets..."

In line with our view, Asian equities began the year on a positive note on anticipation of a global reflation, as Covid-19 vaccinations were rolled out and given the confirmation of the Democratic sweep of Congress. The prospects of US fiscal stimulus further fed buoyant markets.

Throughout the quarter, however, there were bouts of correction driven by concerns over overextended markets, quantitative easing (QE) taper fears, and inflationary expectations leading to rising bond yields. Also, the high participation rate of many 'first-time' retail investors contributed to the volatility in markets - the most notable example of which were the short squeezes in selected US stocks in January, which fuelled hedge fund unwinding of long positions, thereby exacerbating the sell-off.

From mid-February onwards, the market narrative was dominated by concerns over rising interest rates due to rising commodity prices and concerns over higher inflation. This caused the benchmark UST 10-Year yield to rise to 1.75%. Investors' fear was on the basis that if inflation rise, interest rates will have to rise to quell inflation. For instance, oil prices have already hit USD60 per barrel, more than doubling from the lows in 2020. As a result, interest rates have been rising in anticipation of higher inflation. The benchmark UST 10-Year has gone up to around 1.60% from just 0.90% in 2021 and up 110bps from the lows in August 2020.

If inflation becomes entrenched, investors are anxious that interest rates will have to rise to quell inflation. Higher interest rates will in turn lead to reduced investment appetite into risk assets including equities (See Exhibit 1). There is also the element of profit-taking after a strong run and rotation from outperformers (e.g., tech) into laggard cyclicals. So far we have seen a correction in the Asian markets of 8% from the peak but stock markets are still positive year to date.

Exhibit 1: US 10-year Treasury Bond Yields (black line) and Asian equities (gold line).
Sharp rise in interest rates has seen equity markets correct.
| Source: Maybank Asset Management, Bloomberg | Period Mar 2019- Mar 2020

Exhibit 2: Oil Prices (Brent) have doubled since the lows in 2020
| Source: Bloomberg, Maybank Asset Management | Period Mar 2020- Mar 2021

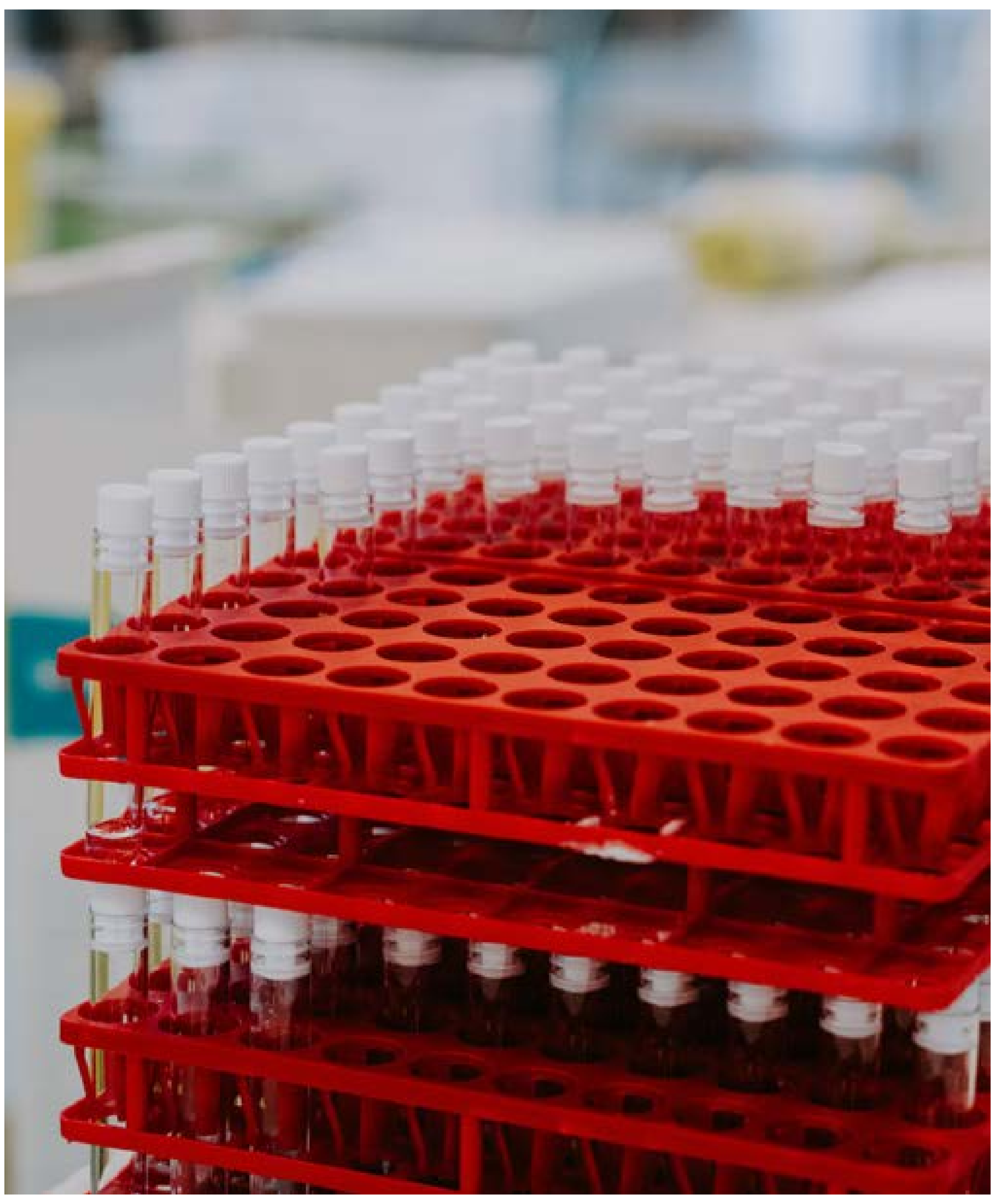
"The reality was not as rosy as we expected...we saw a sharp sell-off with the UST 10-Year rising from 1% start of the year, to peak at 1.75% mid-March."

We started the year being optimistic on fixed income credits, based on two main anchor points. Firstly, we expected the successful roll-out of vaccines will help economies and businesses to re-open faster, spurring recovery and growth. This would be positive for risk assets, including corporate bonds and corporate credit spreads would tighten.

Secondly, we expected that even as economies recover, major central banks will not reduce their asset purchasing programmes or raise interest rates any time soon. Overall, we expected a calmer 1H2021 and market to only start pricing in rates hikes gradually from 2H2021 onwards. This would provide a stable environment for bond investors to earn 3% - 4% total returns for FY2021.

However in 1Q2021, the reality was not as rosy as we expected. In 1Q2021, we saw a sharp sell-off with the UST 10-Year rising from 1% start of the year, to peak at 1.75% mid-March, piercing through pre-COVID-19 levels. Currently, it is hovering around the 1.6% levels. The weakness persisted even after the Fed and ECB reaffirmed that they remain committed to keep liquidity flushed by maintaining asset purchases and keeping interest rates low.

On the credit front, things have also been challenging especially for Chinese high yield and weak local government entities. The unexpected default and restructuring of several high profile issuers, including Yongcheng Coal and China Fortune Land resulted in investors selling down bonds from weak provinces such as Henan, Yunan and Hebei.



Within high yield, Chinese credits sold off the most, followed by Indonesian high yield. Indian high yield remained resilient especially their renewables as they are well sought after by ESG funds.

Exhibit 3: 10yr UST at 1.508% as at end-Jan 2020
| Source: Bloomberg, Maybank Asset Management | Period March 2016- Mar 2021

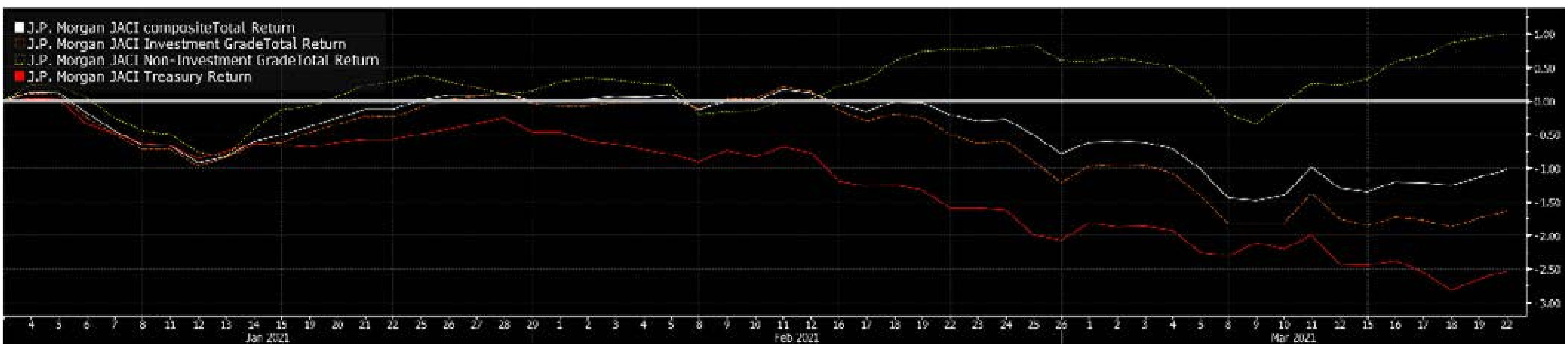


Exhibit 4: JP Morgan Asia Credit Index (JACI)
| Source: Bloomberg, Maybank Asset Management | Period Dec 2020- Mar 2021

The JP Morgan Asia Credit Index (JACI) fell about -1% year-to-date as of 22nd March 2021. The bulk of the negative returns came from investment grade bonds due mainly from the Treasury sell-off. While high yield bonds delivered about 1% total returns, the returns are paltry in context of high yield bonds which are trading at 7% yields.

Overall, it was a challenging quarter for Asian markets. The sharp sell-off in Treasuries reversed risk appetite across major asset classes and disrupted the positive returns momentum carried over from FY2020. However, we still maintain our Outlook & Strategy for 2021 and we think Asia would be the focus this year. Hence, we have a positive view on Asian equities, fixed income and currencies.

On the credit front, things have also been challenging especially for Chinese high yield and weak local government entities, which saw investors selling down bonds from weak provinces such as Henan, Yunan and Hebei.

OUR 2021 INVESTMENT THEMES

THEMES	OUR ASSESSMENT	IMPLICATIONS / STRATEGY
Biden Presidency with Split Congress	• US is divided with extreme polarization of views. • Fiscal stimulus will be delayed and its quantum pared down. • More quantitative easing, keeping rates lower for longer, as the US Fed picks up the slack (given the impasse on fiscal stimulus). • Less hostile US-China relationship but tensions would remain. • Weaker USD on improving global growth and negative real rates.	• A divided US is positive for Asia in the long term. Reversal of US outperformance on inflows into Asia. • Positive for Asian credits and currencies. • Mixed for local government bonds. Positive for China and Korea (which could also benefit from inclusion into the FTSE bond index). • Positive for equities. Risk being equity market dependency on stimulus. • Rotation to Value from Growth equities. • Weak USD to benefit commodities, Asian equities and currencies.
Global Growth Recovery	• Recovery in global growth off low base. • Return to normalcy given COVID-19 vaccine development/ achieving herd immunity (in certain locations). • Greater room to rebound in worst hit economies. • Positive news flow on vaccines will be a positive catalyst for markets. • Earnings growth to be key driver of returns. • Recovery in demand and prices for commodities such as oil, copper.	• Positive for risk assets i.e., equities and fixed income. • Better ASEAN performance which has lagged North Asia in recovering from the pandemic. • Rotation to cyclicals (e.g., industrials) from defensives, COVID-19 beneficiaries (e.g., healthcare, home entertainment). • Favor commodity plays e.g., selected mining companies, oil and gas plays.
Lower Rates for Longer but Steeper Yield Curve	• Accommodative monetary policy globally amidst still- fragile economy. • US Fed keeps rates lower for longer to compensate for reduced fiscal stimulus. • Long end of the yield curve (for US Treasuries and local government bonds) to steepen given higher fiscal deficits.	• Positive for ASEAN currencies. • Low real and nominal rates supportive of elevated equity valuations. • Positive for gold given low opportunity cost of holding gold and its fiat currency status (amidst an expanding monetary base). • Prefer high yield over high grade bonds.
Volatile Market	• Markets to remain volatile given uncertainty (e.g., vaccine development/distribution, US fiscal stimulus) and risks to growth. • Sources of geopolitical risks include Brexit, political uncertainty in some emerging markets, US-China tensions etc.	• More tactical trading. • High cash allocation from time-to-time.
Technology Disruption	• Structural trend of disruptive technology, digital economy, work-from-home to continue.	• Technology names may suffer from rotation into cyclicals/value in the short term but this may prove to be a buying opportunity.
Sustainability	• Structural trend of sustainability, ESG to continue. • Governments to commit more to sustainability e.g., to be carbon neutral by 2050. • Biden Presidency may curtail development of shale resources and benefit 'green-energy' plays.	• Positive for 'green-energy' plays e.g., electric vehicle plays, renewables. • Mixed for oil plays given demand risks but also supply curtailment. • Structural de-rating of less ESG-friendly equities e.g., tobacco, gambling.

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.

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. Vaccine development in 1Q2021 with distribution from 2H2021 onwards. • Less hostile but still tense US-China relationship.	• Focus on Asia. • Positive for Asian equities (including REITs). • Positive for Asian fixed income. Favour high yield over investment grade. • Positive for Asian currencies.
Good Case	• Robust economic recovery on strong policy support and faster-than-expected return to pre-COVID-19 normalcy. Vaccine development in 1Q2021 with distribution from 2Q2021 onwards. • A more amicable-than-expected US-China relationship.	• Focus on Asia. • More positive for Asian equities. • Neutral for Asian fixed income. Favor high yield over investment grade. • Overweight equities vs. fixed income. Positive for Asian currencies. Underweight gold.
Bad Case	• Rebound in global growth falters. • COVID-19 pandemic rages on with sporadic lockdowns. Vaccine development/distribution delayed. • Re-escalation of US-China tension.	• Negative for Asian equities. • Positive for Asian fixed income. Favor investment grade over high yield. • Underweight Asian currencies. Overweight gold.

ASIA EX-JAPAN

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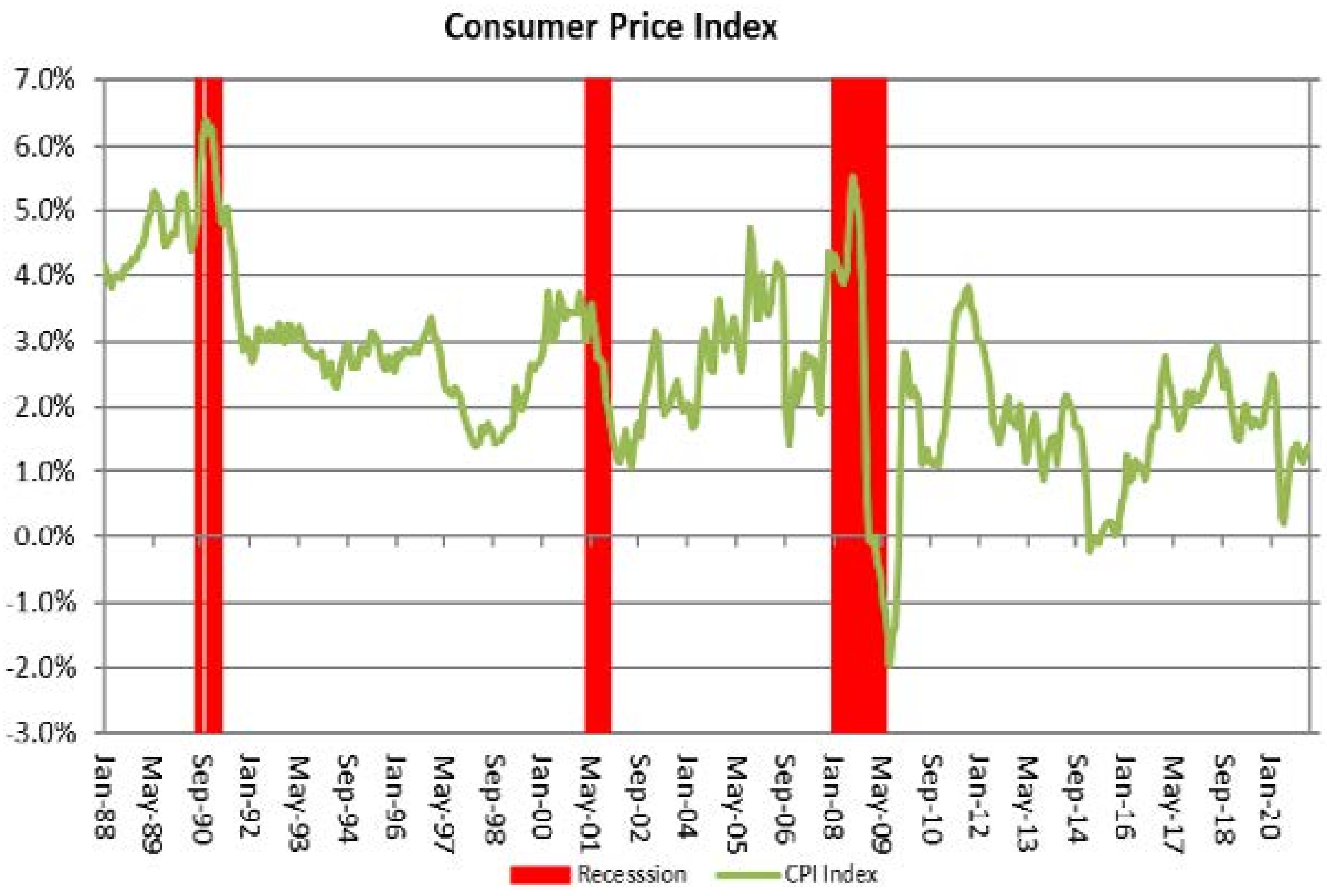
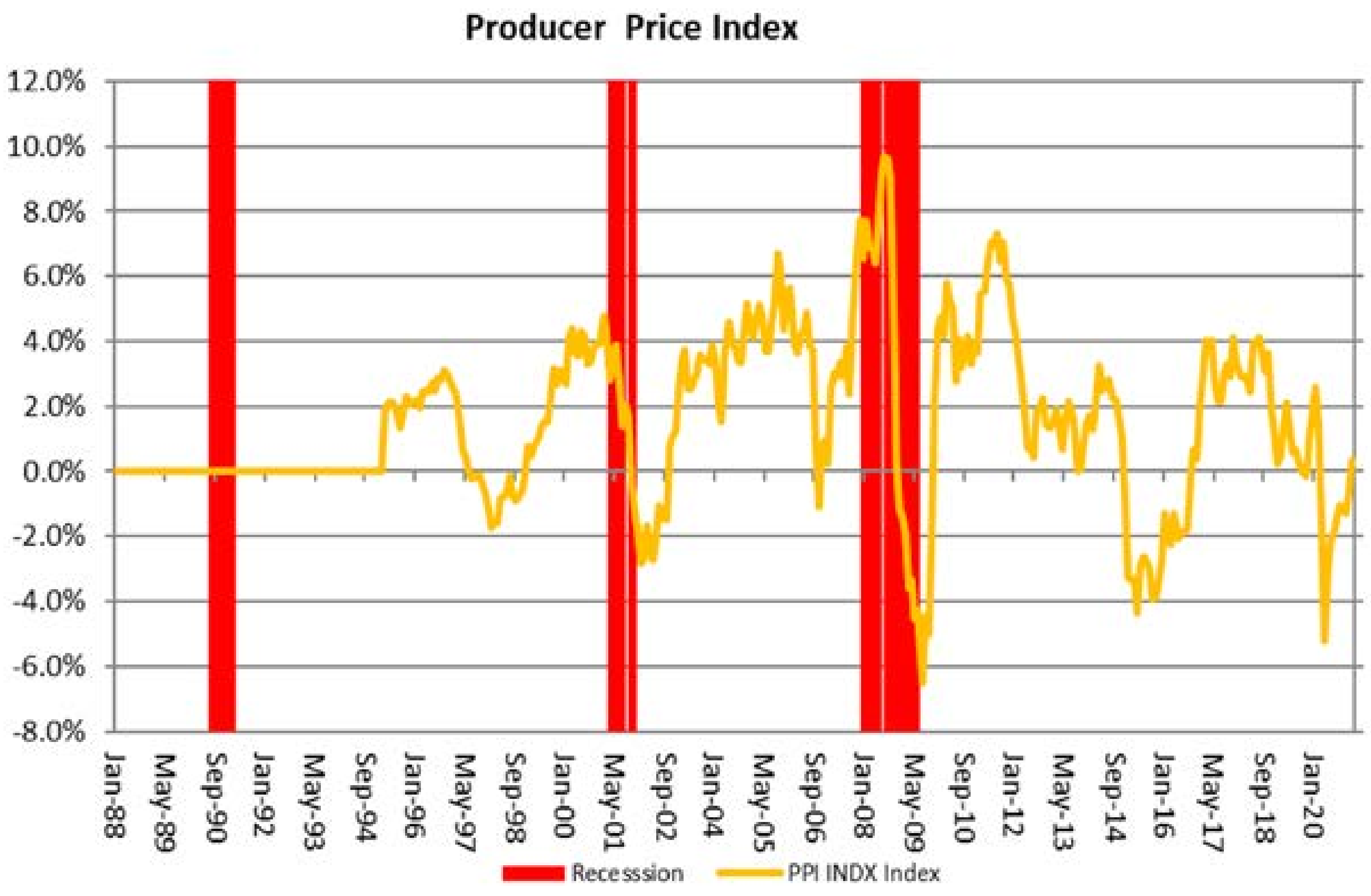
2Q2021 ASIA EX-JAPAN EQUITIES OUTLOOK & STRATEGY

Exhibit 5: Measures of Inflation usually rebound sharply post-recession and presently remain at the low end of the scale
| Source: Bloomberg Maybank Asset Management | Period: Jan 1988 - March 2021





While rising commodity prices may lead to an inflation scare and a correction in risk assets, we remain sanguine. Rising (but still low) inflation will not be unduly detrimental for equities in the medium-term if accompanied by improving growth.

We view this post-recession rebound in inflation and interest rates as being normal in the course of an economic recovery. Looking at previous recoveries (see Exhibit 3) we find that inflation does go up but this is because of the low base in economic activity during the downturn.

Inflation measures like the US Consumer Price Index (CPI) and the US Producer Price Index (PPI) did rebound following the economic recovery post the Global Financial Crisis (GFC) in 2008. However that was not the start of a new era of high inflation. On the contrary, it was the start of a disinflation where inflation was in a range of between 1% to 3% and appeared to be on a downtrend all the way to 2020.

Exhibit 6: US 10 Year rates (Blue Line) and US Fed Funds (Red line)
| Source: Bloomberg, Maybank Asset Management | Period: Jun 1994- Mar 2021

Now what about interest rates? Similarly, the benchmark US rates do rise in an economic recovery but this is because rates are normalising from the low rate prevalent during economic downturns.

Taking the example from the GFC, UST 10-Year rates rose sharply from about 2.0% during the depths of the recession to about 4.0% (See Exhibit 6, blue line) during the initial recovery phase in 2010 but rates were in a downtrend from there onwards. Short rates as indicated by the US Fed funds rate (See Exhibit 6, red line) remained anchored at close to zero from the GFC until the later part of 2015.

After the initial economic rebound, inflation and rates will normalise at relatively low levels.

Based on this perspective, while inflation and rates could rise further from here we do not expect a sustained spike in inflation. It is likely that after the initial economic rebound, inflation and rates will normalise at relatively low level. Rates could rise by another 40-50bps to 1.8-2.0% to normalised pre-COVID-19 levels.

This could trigger further corrections but should not derail the overall market recovery. Higher interest rates after the GFC did not disrupt the recovery. On the contrary as the economy recovery gained traction, corporate earnings increased and propelled equity markets in an uptrend till COVID-19 struck in 2020.

Given our expectations of benign inflation in the medium term we expect monetary policy to remain accommodative. The US Federal Reserve continues to reiterate its stance of no rate hikes until 2023 even in the face of a temporary rise in inflation above the 2% threshold (given the low base for year-on-year comparison). It took 7 years for the Federal Reserve to raise short term rates in the last expansion and we believe the Fed will be reluctant to hike rates too soon.

Therefore we are not overly concerned about the recent correction as some profit-taking was inevitable given the stellar run in markets last year.

The backdrop for Asian equities in 2021 remains promising on expectations of a global growth recovery, less-hostile US-China relations and still-accommodative monetary and fiscal policy. While valuations are elevated, this is compensated by still-ample liquidity. Asia remains relatively more attractive compared to the US and following the recent correction, we see value emerging in selected names especially in the tech sector. We were positive on the cyclical old economy and value stocks at the start of the year. However, we now have to be more selective as some of these stocks have already rallied strongly and are anticipating a full recovery.

We remain structurally positive on the tech sector in the mid-to-long term but now prefer Taiwan (over Korea), where we continue to see strong corporate earnings. We remain neutral on China but underweight Hong Kong in the face of its stagnation over time as its importance to China diminishes. We are neutral on India with its elevated valuations supported by strong domestic liquidity.

The backdrop for Asian equities in 2021 remains promising with a global growth recovery, less-hostile US-China relations and still-accommodative monetary and fiscal policy.

Within ASEAN, we would overweight Indonesia and the Philippines as laggards in pandemic recovery. In addition, the passing of the Omnibus Law in Indonesia is positive for structural reforms that would benefit the economy and encourage foreign direct investment. In the face of delayed travel resumption, we are neutral on Singapore but underweight Thailand given the underlying political tension. We are neutral on Malaysia – although a beneficiary of higher oil prices, we are watchful of political developments.

We continue to expect a challenging investing environment in 2021 with occasional volatile periods. Risks include a delayed return to normalcy (on vaccine distribution challenges), high valuations and overreliance on fiscal and monetary stimulus.

• Indonesia:	Overweight
• Philippines:	Overweight
• Malaysia:	Neutral
• Singapore:	Neutral
• Thailand:	Underweight

We continue to expect a challenging investing environment in 2021 with occasional volatile periods.

2Q21 ASIA EX-JAPAN FIXED INCOME OUTLOOK & STRATEGY

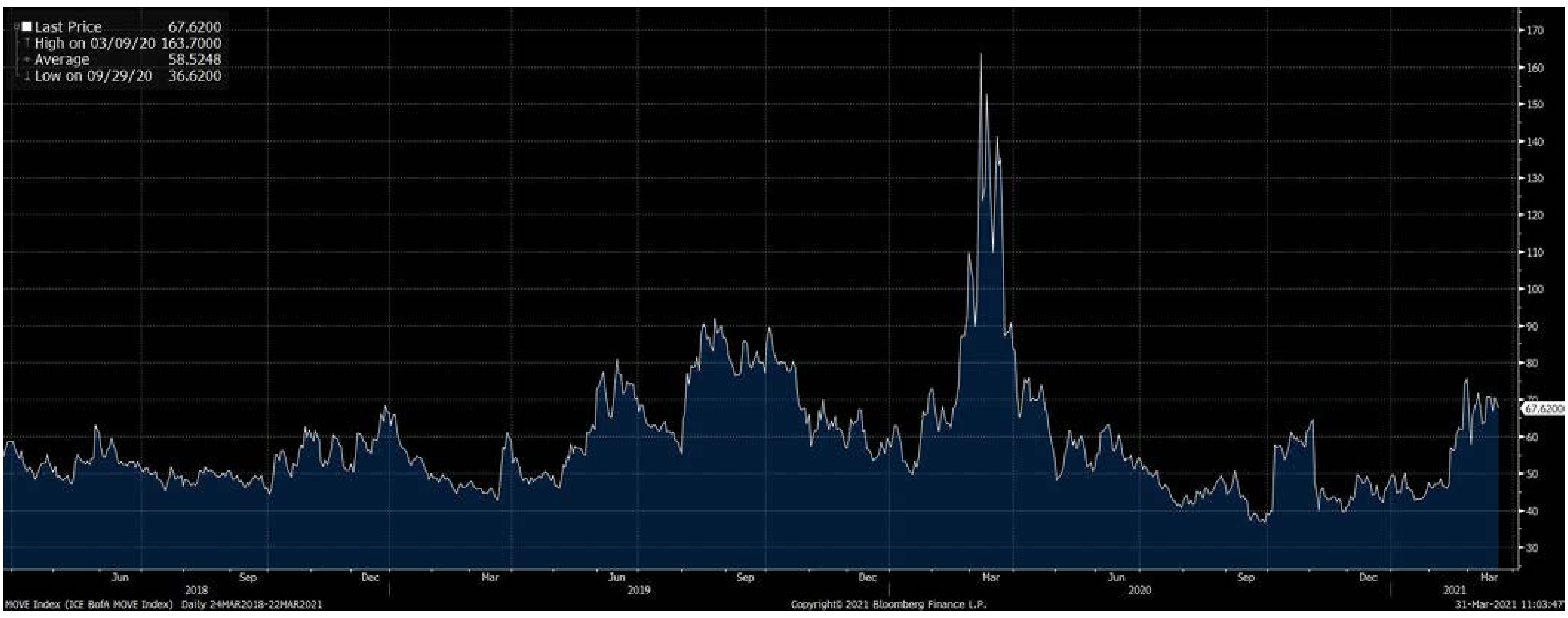


Exhibit 7: MOVE Index

| Source: Bloomberg, Maybank Asset Management | Period: Mar 2018 - Mar 2021

After a disappointing 1Q2021, can we still expect positive returns for Asia Fixed Income for FY2021?

To generate positive returns, we first need the US treasury yields to stabilise. With the UST 10-Yr yield hovering at 1.6% - 1.7% levels, we are back at the pre-COVID-19 mark, even when both the Fed and ECB have not reduced tapering or even hinted at raising interest rates yet. **We think that the UST 10-Yr yield could peak at 2%, after which most of the selling should be done.** Following this, the sentiment should stabilise and bonds can start generating positive performance again.

Nevertheless, we continue to remain cautious. While we feel that President Biden's signature USD 1.9trn stimulus bill (The American Rescue Plan Act) has been fully priced in, President Biden is now talking about a new infrastructure bill targeting USD 3trn.

The UST 10-Yr yield could peak at 2%, after which most of the selling should be done.

We have not seen any market reaction to this new stimulus package yet. Hence, we would prefer to remain underweight on duration for now. We would want to see the Treasury volatility decrease (Move Index) and inflation expectations stabilise (5 year breakeven rates) before we consider moving to neutral or overweight for duration.

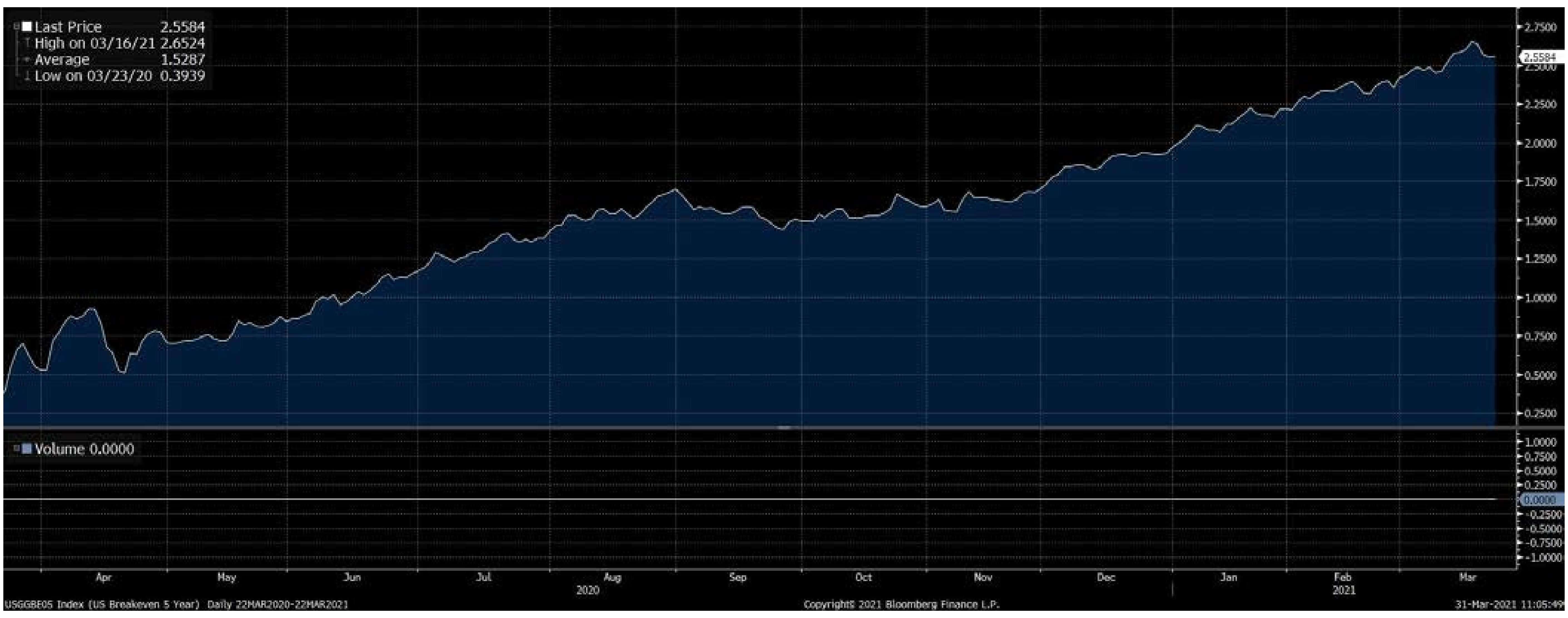


Exhibit 8: What markets are pricing in for the 5 year breakeven.

| Source: Bloomberg, Maybank Asset Management | Period: Mar 2020 - Mar 2021

Asia Credit HY Bond Index Yield: 7.15%

US Credit HY Corp Bond Index Yield: 4.41%

EU Credit HY Corp Bond Index Yield: 3.38%

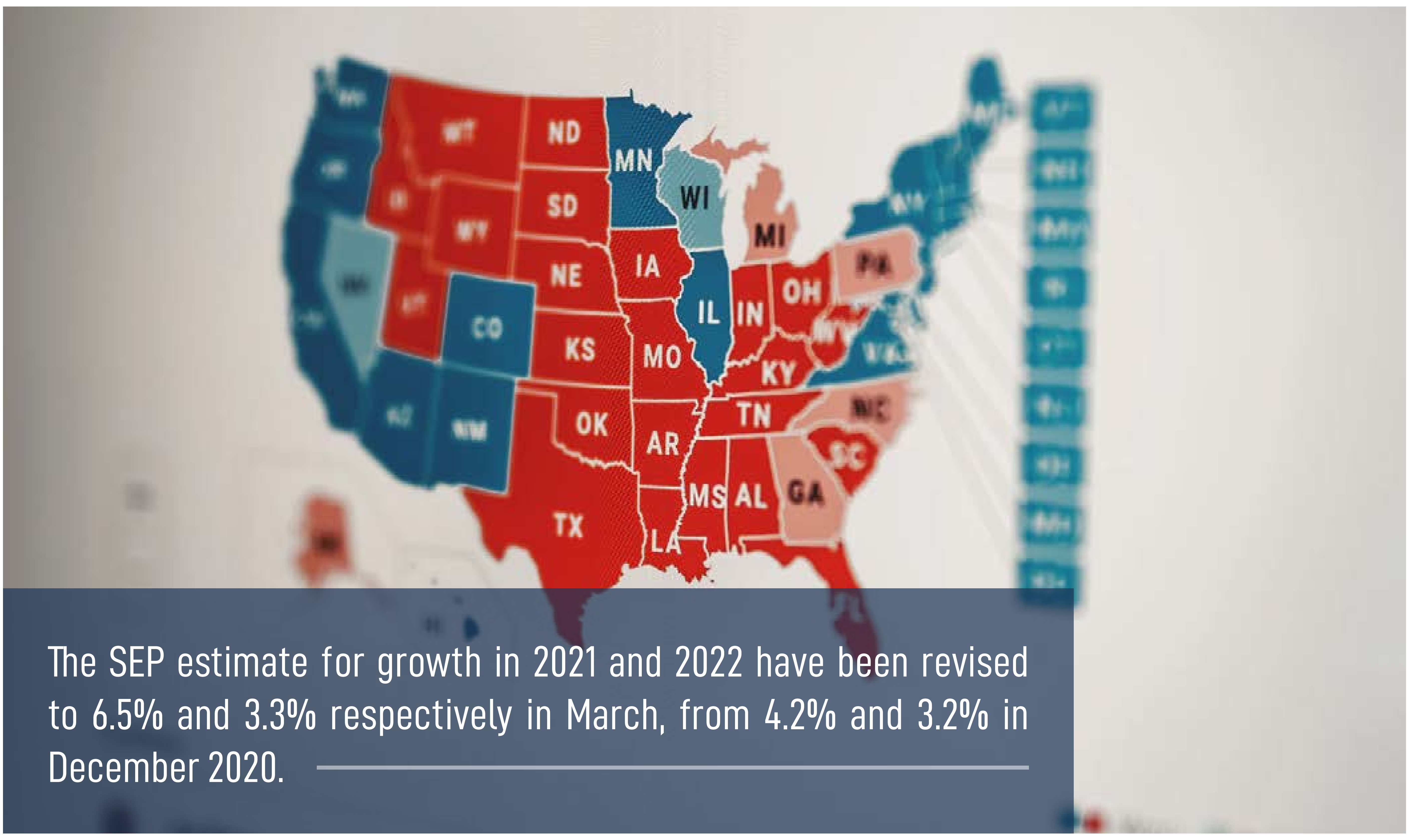
Exhibit 9: Global Credit Bond Yield - High Yield
| Source: Bloomberg, Maybank Asset Management | Period: Jul 2020 - 8 Mar 2021

Once US interest rates stabilise, we feel that Asian credit spreads should start to tighten and Asian high yield bonds should outperform. Comparatively, Asian corporate high yield bonds continue to offer much better value versus US and Europe.

Expected default rates in Asia are lower than US and Europe, yet we are paid more to invest in Asian corporate USD bonds. Both US and Europe credit bonds have rallied more versus Asia in FY2020 due to the US and Europe asset purchase program that is still ongoing.

As economies reopen and growth improves, US and Europe credit bonds may face selling pressure due to the tapering of asset purchases. Hence overall we feel that Asian credit bonds should be able to deliver positive returns for the rest of FY2021.

2Q21 LOCAL CURRENCY BONDS & FX OUTLOOK



The SEP estimate for growth in 2021 and 2022 have been revised to 6.5% and 3.3% respectively in March, from 4.2% and 3.2% in December 2020.

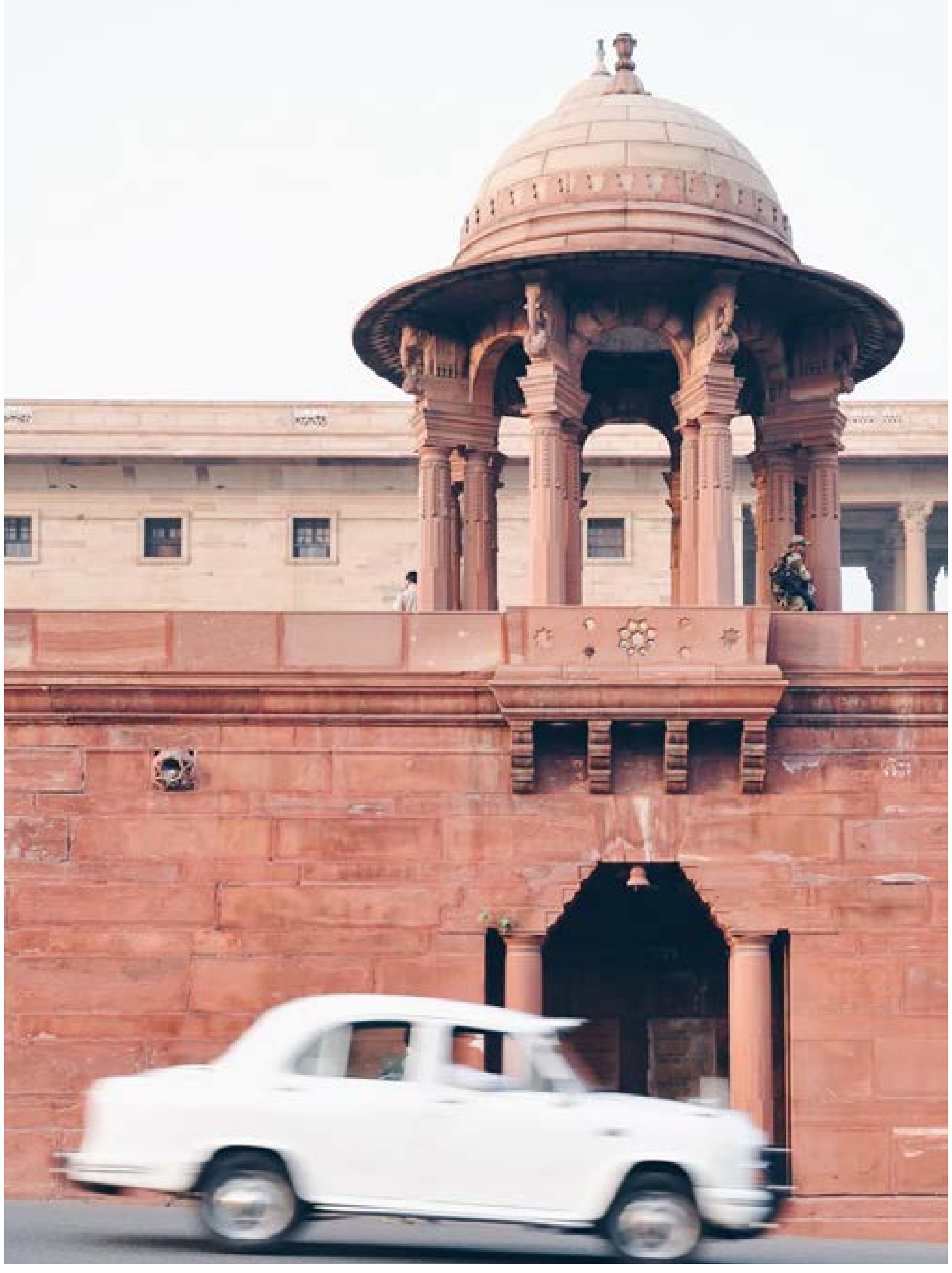
The USD's strength in the first quarter caught the market by surprise, as the market rapidly priced in higher inflation expectation amidst strong growth prospects. This was mainly due to Democrats winning slim control of Congress in early January's Georgia senate runoff election and the new USD 1.9trn fiscal stimulus introduced by the Biden administration amidst vaccine roll out.

For the USD to potentially stop rising, we believe we would at least need to see inflation data in the US stabilising beyond impacts brought by COVID-19, with the 5 year/5 year forward inflation stabilising around 2.20-2.30%. Moreover, upside risks to inflation remains given the scale of this new fiscal stimulus.

Despite clear USD strength to stay in the near term, the impact to USD/Asia Pacific currencies is not felt evenly and there remains pockets of resilience. Also, relative to other emerging market (EM) regions, USD/Asia Pacific currencies remain more resilient relative to Latin America as well as Central and Eastern Europe, Middle East and Africa (CEEMEA.)

Other important factors supporting EM Asia FX and local currency bonds are the positive real yields and cheap real effective exchange rates. This episode of rates sell-off led the USD to strengthen, resembling 2Q2013's taper tantrum, although valuations are cheaper now.

In Asia, our top picks remains INR, AUD, NZD and SGD. India stands out among EM Asia given the expected high pace of growth rebound yet the pace of current account deterioration remains measured this year. Besides, India's inclusion into major EM debt indices would also be beneficial for INR on passive flows in the medium term.



For the THB and PHP, we expect them to stay weak going into 1H2021. This is primarily due to the slow reopening of the tourism sector in Thailand and the relative lack of strong fiscal stimuli as well as slowness in vaccine roll out in the Philippines.

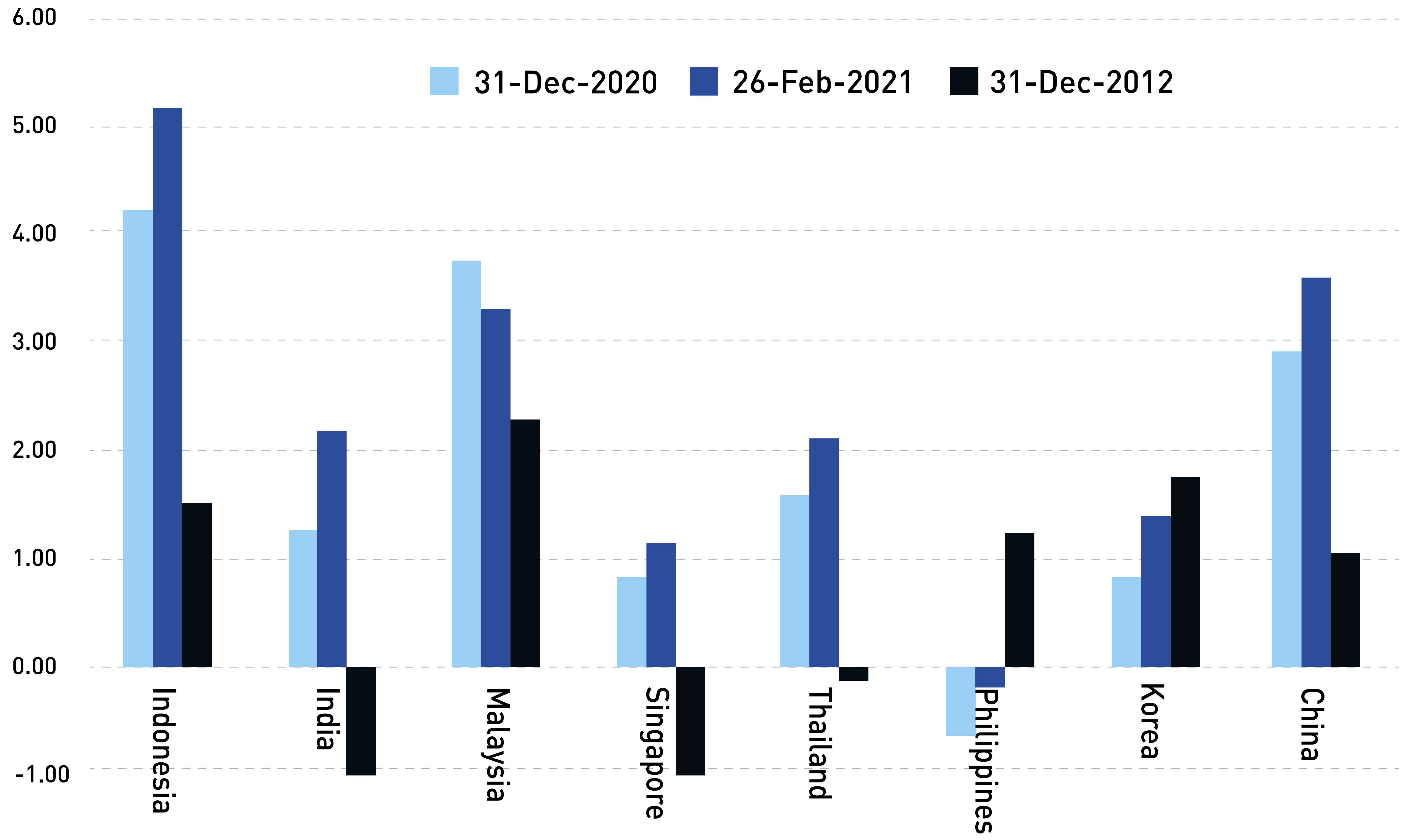


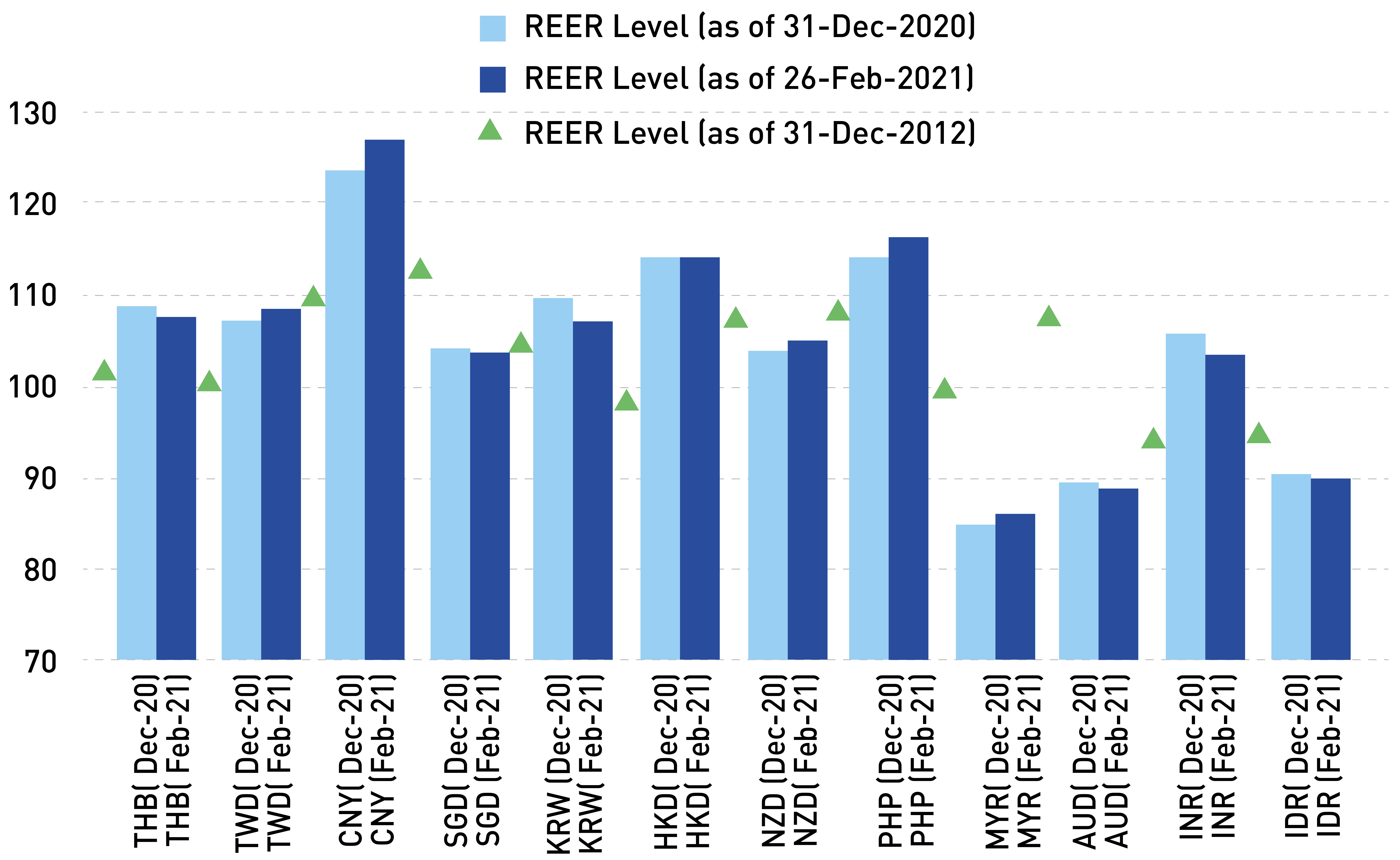
Exhibit 10: 10 Year Local Government Bond Real Yield (Current and 2013 Taper Tantrum)
| Source: Maybank Asset Management Singapore, Bloomberg & JP Morgan.

Our forecasts for THB and PHP in 1H2021 are to range at 31.40-31.50 and 49-49.20 respectively. Meanwhile for the IDR and MYR, we expect them to stay range bound within 14,000-14,500 and 4-4.15 respectively.

For Asian Local rates, we still prefer to position ourselves in the short end of the curve, given our view that the long-end UST yields have yet to find a footing and also a higher supply is anticipated in these domestic economies.

Year to date, most of Asia's local government yield curve has sold-off about 50-80 bps along the belly to the intermediate end of the curve.

Exhibit 11: Asian LCY Real Yields and Real Effective Exchange Rate Change
| Source: Maybank Asset Management Singapore, Bloomberg & JP Morgan.



COUNTRY	INTEREST RATES	CURRENCY
China	Still like the Chinese long end bonds as real rates remain positive. Importantly, the onshore market remains buffeted from the global yields rising pressure. Also being part of the bond Index, we expect more inflows in the local markets given China's inclusion into FTSE Russell bond indices.	We expect CNH to weaken in 2nd quarter due to higher rates and outflows from equity markets and conservative Chinese growth.
India	Persistent negative real yields and still high supply are negative factors though RBI's implementation of "Operation Twist" to keep long end yields anchored. Prefer short end for carry.	Overweight given strong inflows to persist; forcing RBI to ultimately allow INR appreciation, medium term inclusion of IGBs into Emerging Market bond indices also a positive.
Indonesia	Prefer short term INDOGB for carry given range bound IDR; BI is likely to participate in primary bond auction in 2021, supporting long end yields.	Neutral on IDR given strong USD pressure to persist near term.
Korea	Prefer to stay in the short end given low real yields relative to Singapore and China; Prospect of further yield curve steepening in 2H 2021 with higher fiscal spending and more bond issuances.	Neutral on KRW given strong USD pressure to persist near term.
Singapore	Neutral on Singapore rates in near term due to sell-off. Long term we are bearish as we expect more supply driven by infrastructure/green bonds.	Neutral on SGD for second quarter but bullish on SGD for the year as MAS may tighten policy in the second half as reflation theme manifests.
Malaysia	Neutral on MGS given real positive yields. Prefers short end for carry.	Neutral to slight overweight on MYR from long term perspective given improved trade and higher oil prices; Risk of snap elections is high, likely in 2H 2021 which may be negative in the short term.
Thailand	Neutral on Thailand local bond market given low yields and limited supply; BOT might pursue yield curve control in 2021.	Neutral to negative on THB for second quarter. BOT is concerned about THB strength amidst weaker recovery in 2021; Political risks remain uncertain.
Philippines	Negative on Philippine local bond market given higher fiscal deficit.	Negative on PHP due to higher fiscal deficit.
Taiwan	Neutral on Taiwan local bond market given low yields.	Neutral on TWD given valuations and easing of tech exports.

Exhibit 12: Asia Interest Rates and Currency Outlook

2Q2021
GLOBAL SUKUK OUTLOOK

We continue to prefer BBB rated credits in the GCC space following wider reflation theme.

Global Sukuk as an asset class has outperformed conventional bonds year to date. Bloomberg Barclays GCC Sukuk index returned -0.24%, while in contrast, the JACI index's return was -1.22%.

In terms of total sukuks outstanding, the global sukuk market has reached USD 550bn in 2019, of which USD 144bn is represented by international sukuks with Malaysia, Saudi Arabia and Indonesia constituting 47%, 22% and 13% respectively.

We estimate that total sukuks outstanding would have increased around 13 - 15% to reach USD 630bn by 2020. Despite the increase in size, the majority of them are in local currencies and hence the international sukuk supply will remain limited. For instance, the Gulf Cooperation Council (GCC) credit market has grown tremendously in the last 5 years to USD 486bn, but only about USD 122bn are hard currency sukuks.

As credit spreads have already normalised, returns this year will come more from carry and new issuances. We continue to prefer BBB rated credits in the GCC space following wider reflation theme. **We also remain constructive on GCC Real Estate** generally given liquidity conservation, fundamentally strong business models and conservative leverage – Aldar, Emaar, MAFUAE in the investment grade (IG) space; DARALA, DAMAC, MEERAS in the high yield (HY) space.

For GCC IG Banks, we continue to prefer the subordinate debts across AT1 and Tier 2 versus seniors given the added carry. GCC banks continue to exhibit strong buffers (high government ownership and high NIMs to absorb increase in provisions). We foresee M&A in the sector to continue given secular themes of costs and persisting efficiency management.

We are bullish on sukuk for 2021, given limited supply and short duration. Entering into 2Q2021, we turn slightly neutral on sukuks and would prefer to hold more cash to take advantage of market weaknesses and extending duration when we are convinced long-end UST yields have found a stable footing.

We are bullish on sukuk for 2021, given limited supply and short duration.

Lastly for crude oil, we expect prices to trade in the USD 60-70 per barrel range throughout 1H2021 as inventories are reduced whilst being supported by output restrictions from OPEC+.

COUNTRY	RECOMMENDATIONS
Malaysia	• Current Account improved in 2020 to 3.8% GDP despite hit to trade as demand declined; 2021 recovery. • MYR outperformed in Q420 on USD weakness and cheap valuations which will persist into 2021. Target USDMYR to trade 4.10 to 4.20 on broad USD strength. • Prefer short end MGII for carry while real yields remain positive. • Market weight on USD denominated Malaysia sovereign, SOE Sukuks – Malaysia may face downgrade pressure in 2021 following Fitch's downgrade to BBB+ but impact will be minimal. • Continue to like local currency Sukuk with periodic MYR weakness; opportunity to add. • Expect FTSE Russell to keep Malaysia in its World Government Bond Index come March 2021's review .
Indonesia	• USDIDR expected to trade 14,000 – 14,500 in 1H2021. • Prefer short-dated IDR INDOIS despite recent curve steepening as supply remains heavy and long end rates globally have yet to find stale footing. • Prefer long end of INDOIS USD Sukuk after the sell-off.
Saudi Arabia	• Market weight on USD KSA Sovereign Sukuks as supply remains limited. • Supply of sovereign conventional bonds and Sukuks can be absorbed given JPM Index Inclusion. • Prefer IG over HY Saudi names as increase in VAT rate to 15% from 5% effective July 2020 is likely a drag on consumers and corporates.
UAE	• Residential real estate market might have bottomed but any recovery is likely to be slow. • In the UAE HY space, continue to overweight bank AT1s for carry given strong support to redeem on their call dates; Neutral to slightly overweight on GCC HY real estate names (Damac, Meraas) as default risks remain controlled due to strong liquidity. • Overweight financials given strong government ownership/support and sovereigns as UAE best positioned to weather this current oil price downturn.
Qatar	• Market weight on Sukuks issued by Qatari financials, Prefer banks AT1 for carry. • Overall Sukuk supply from Qatar should remain limited in 2021. • Overweight OMAN USD Sukuks due to lower deficit in 2021 and focus on reforms by the new government.
Oman	• Overweight OMAN USD Sukuks due to lower deficit in 2021 and focus on reforms by the new government.
Bahrain	• Bahrain's sovereign and quasi-sovereign conventional bonds and Sukuks to remain supported despite tight levels for its B+ rating. It has strong support from Saudi and UAE • Government's fiscal position set to improve given existing reforms in place and USD 10 bn support package form UAE and Saudi • Remain overweight on BHRAIN and MUMTAK USD sukuks for carry. Opportunistic add in weakness.

Exhibit 13: Asia Interest Rates and Currency Outlook

MALAYSIA

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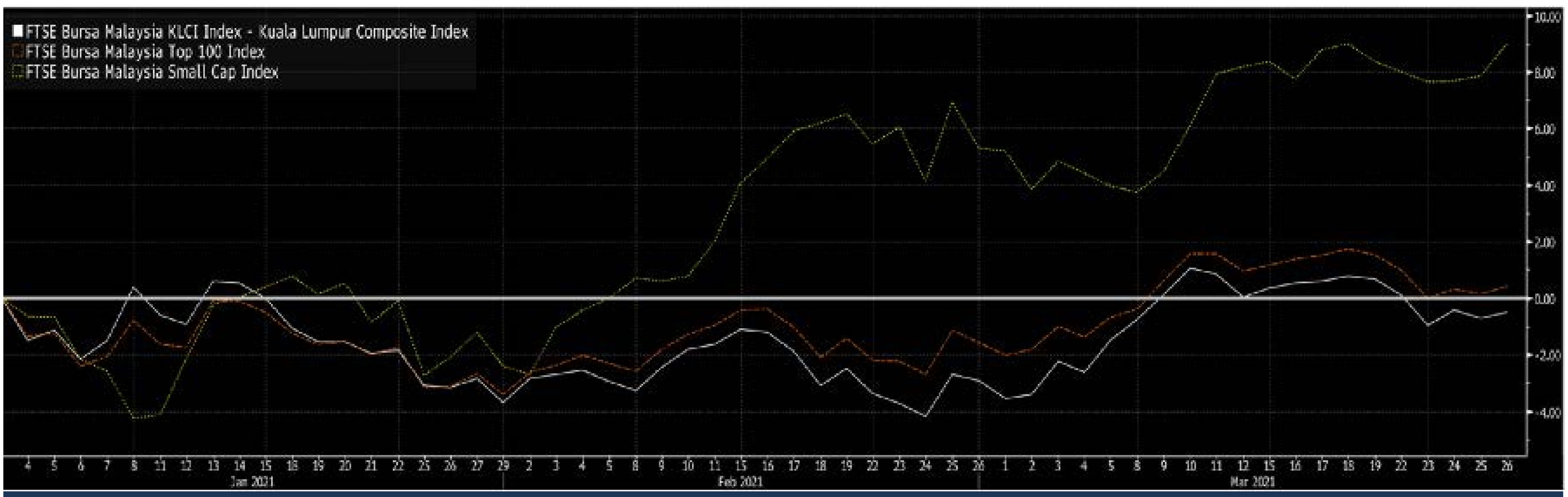
1Q2021 MALAYSIA
MARKET REVIEW



INDEX / INDUSTRY	CY2020 (%)	YTD 26/3/21 (%)
FBM100 Index	6.7	0.4
Communication services	3.4	-0.4
Consumer discretionary	-18.3	15
Consumer staples	-4.5	-0.8
Energy	-11.4	-5.8
Financials	2.3	1.4
Healthcare	122.5	-14
Industrials	-6.3	4.7
Information Technology	72.8	14.1
Materials	26	10.6
Real Estate	-13.7	-0.5
Utilities	-9.6	0.8

Exhibit 14: Bursa Malaysia Indicies and Industries Performance
| Source: Bloomberg, Maybank Asset Management, bottom-up compilation (FBM100 index and GIC sector)

The FBM KLCI saw a -0.49% decline in its year-to-date performance as of 26th March 2021. This was largely due to profit-taking in the glove space as well as by the lifting of the ban on restricted short-selling.

While the movement control order (MCO 2.0) was re-introduced and is currently relaxed, its overall impact on the economy is less compared to its predecessor which was implemented in March 2020. The emergency rule announced during this period may have also dampened investors' appetites marginally. However, from an economic perspective, it has been business as usual.

Instead, investors' focus has been turned to the gradual re-opening of the economy and the roll-out of the COVID-19 vaccination programme. In fact, there has been a noticeable switch into cyclical and value plays in anticipation of an economic recovery.

SEGMENT	YTD (RM mil)
Foreign	-1,515
Local	-3,471
Retail	4,986

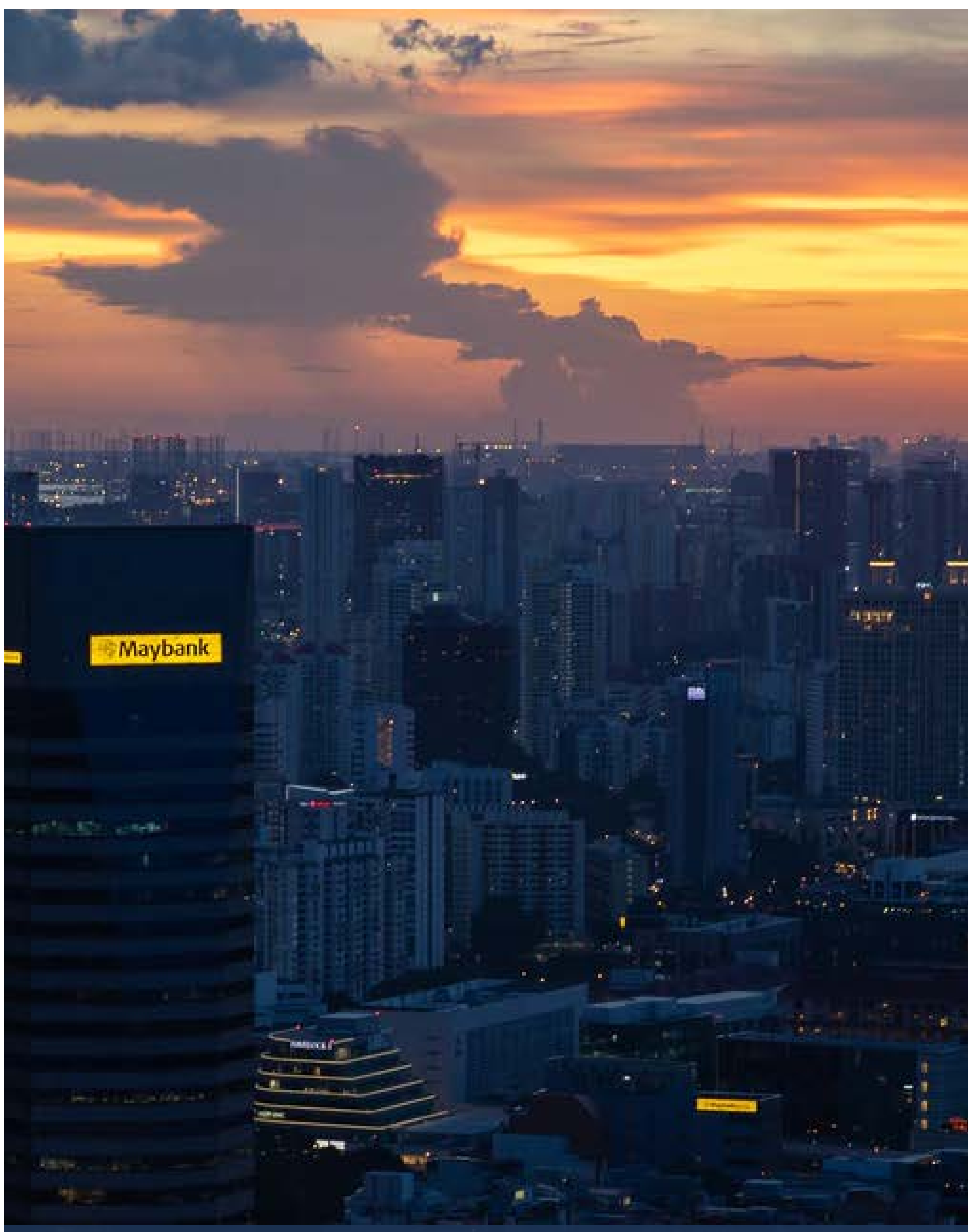
Exhibit 15: Bursa Malaysia Flow Analysis
| Period: 26 March 2021

We also noted that FBM Small Cap Index rose +8.99% on a year-to-date basis and retail investors remained net buyers in the market while local institution and foreign investors were net sellers.

Our base case remains. We expect a gradual economic recovery and growth in corporate earnings. Malaysia's 4QCY20 corporate results season in February saw more companies meeting and exceeding expectations despite the reintroduction of movement restrictions from late October 2020. Such outperformance came primarily from the technology, Electronic Manufacturing Services ("EMS") and petrochemical companies. Meanwhile, weak earnings were mainly from the REITs, construction and transportation sector.

The Malaysian fixed income market experienced very acute selling in 1Q21, triggered by a sharp upsurge in US treasury yields and global reflation trades.

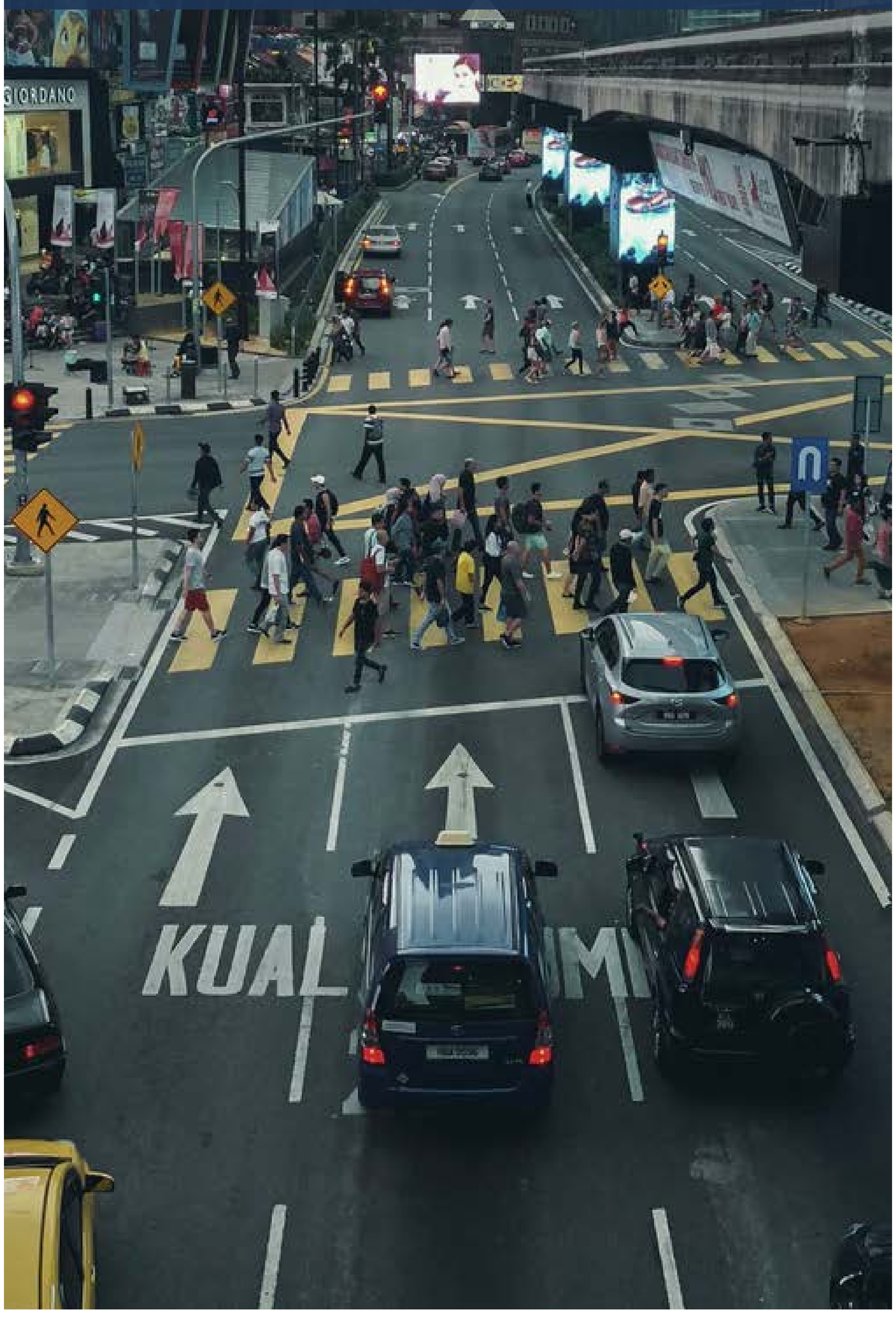
Locally, the MGS 10-Year yield rose above 3.50% levels in mid-March 21, around 80bps higher than the beginning of the year. This is also higher than 3.30% seen in the beginning of 2020 before the outbreak of the pandemic.



The higher fiscal spending may lead to a budget deficit amounting to 6.0% of gross domestic product (GDP) in 2021, but which is still slightly lower than the 6.2% of GDP recorded in 2020.

On Malaysia's fiscal policy, the government has rolled out multiple economic stimulus packages including the RM260bn PRIHATIN, the RM35bn PENJANA, the RM15bn PERMAI, and more recently the RM20bn PEMERKASA assistance package to cushion the severe economic impact of the pandemic on the livelihood of Malaysians. The higher fiscal spending may lead to a budget deficit amounting to 6.0% of gross domestic product (GDP) in 2021, but which is still slightly lower than the 6.2% of GDP recorded in 2020.

The MGS 10-Year yield rose above 3.50% levels in mid-March 21, around 80bps higher than the beginning of the year.



Meanwhile on the monetary policy front, during the latest 4th March Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75%, indicating that the current 1.75% all-time low rate remains accommodative and appropriate. BNM has also signalled its willingness to do more by using its policy levers as the economic outlook is still subject to great uncertainties. We expect BNM to maintain the OPR at 1.75% until end-2021.

Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75%.

2Q2021 MALAYSIA EQUITIES
OUTLOOK & STRATEGY

1,834 by end-2021

Pegging the KLCI at their forward price-earnings ratio (P/E ratio) of 16.0X (7-year regression mean), we could see the KLCI trading around 1834 by end-2021.

For 2021, the consensus market EPS estimate has risen from RM 88.8 in Dec-20 to RM 117.9 currently.

This was primarily due to earnings upgrades for companies such as Genting, Genting Malaysia, Press Metal, and CIMB. However, the consensus market EPS estimate for 2022 was forecasted to decline slightly to RM114.6, largely as the glove sector earnings begin to normalise. Pegging the KLCI at their forward price-earnings ratio (P/E ratio) of 16.0X (7-year regression mean), we could see the KLCI trading around 1834 by end-2021.

However, downside risks still lurks. Recently, cases of COVID-19 have been reported to be spiking in Europe while its vaccination drive has slowed down. The US is also seeing new cases of COVID-19 rising.

Overall, the backdrop for Malaysia's equities in 2021 looks promising with a global growth recovery...

On the geo-political front, the confrontation between US and China seems likely to re-escalate while on the domestic front, political uncertainty still looms once the emergency rule is lifted by end August 2021.

We also need to keep a close watch on the rising commodity prices and bond yields as these are forward indicators of potential rising inflation threat. At the current level, we remain sanguine. Overall, the backdrop for Malaysia's equities in 2021 looks promising with a global growth recovery, an improved commodities outlook and still-accommodative monetary and fiscal policy. While valuations are elevated, this is compensated by still-ample liquidity.

We continue to expect a challenging investing environment in 2021 with occasional volatile periods. Strategy wise, we may hold higher cash from time to time and will have some trading positions to take opportunity of the volatility.

In terms of sectors, we are rebalancing our portfolios from sectors that have done well (healthcare) into bashed down cyclicals and value plays (Banks, oil & gas, plantation, construction and transportation/logistics). We continue to look for stocks that will benefit from the economic recovery.

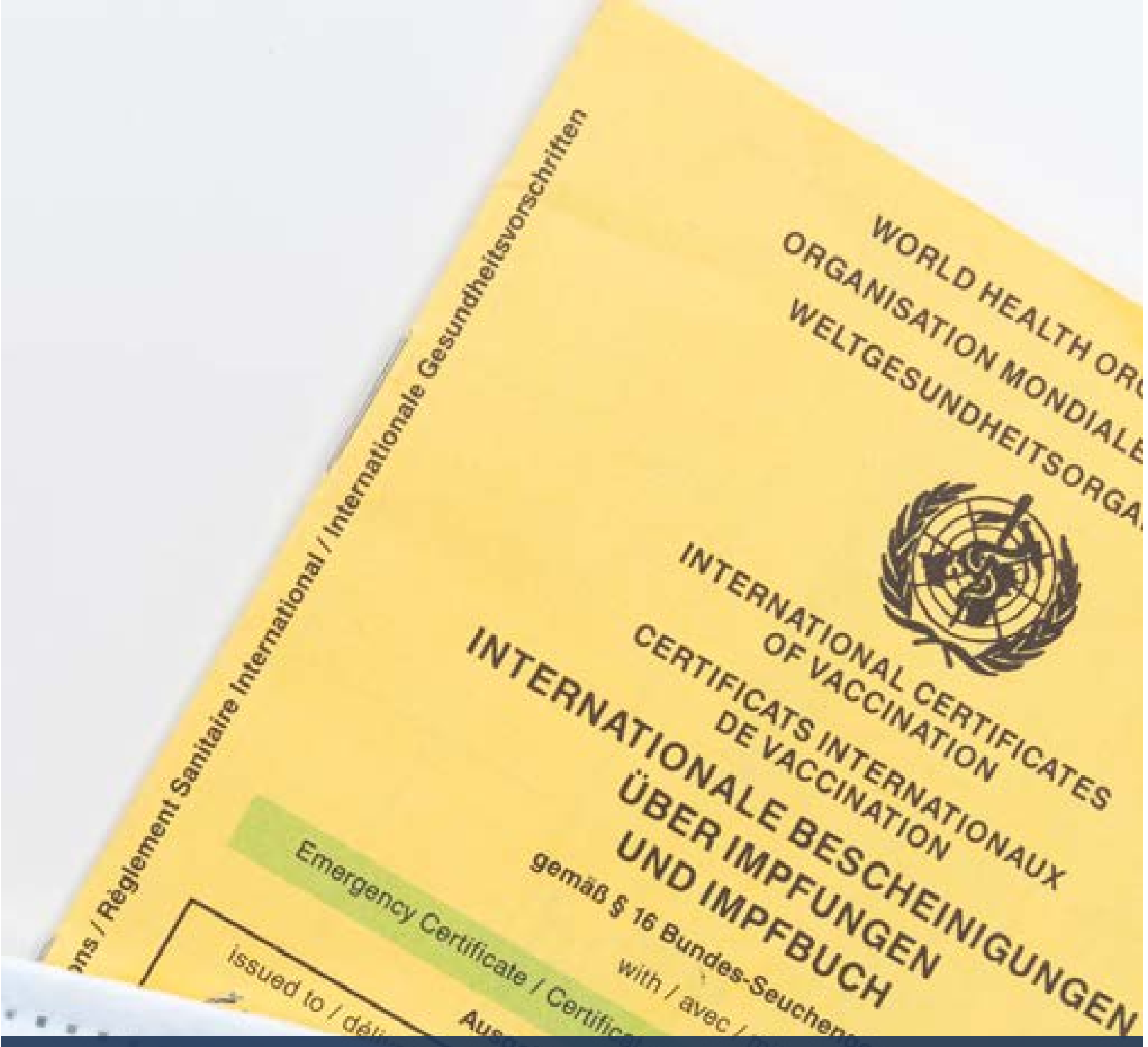
Over a longer term, we continue to favour technology as the long term prospects remain intact with the push for 5G Infrastructure and accelerated digitalisation post COVID-19 pandemic. In the shorter term, we are cautious on valuations as multiples are undoubtedly high to reflect future strong growth. Any correction will be an opportunity for us to accumulate for longer term.

2Q2021 MALAYSIA FIXED INCOME
OUTLOOK & STRATEGY

Going into 2Q2021, with the vaccines to be made available globally, economic activities are expected to pick up steam with less lockdowns and disruptions, hence investors' sentiments will improve accordingly. On a relative basis, we see risky assets like equities and commodities performing better than bonds in 2021. As a result, we are neutral with defensive positioning for bond funds.

With that being said, we expect global economic recovery to be uneven and some countries may recover stronger than others, especially developed nations over their developing counterparts. Furthermore, we expect central banks around the globe to maintain a low interest rate policy for longer to ensure an accommodative economic environment.

Hence, the risk of higher interest rates in 2021 may have largely been priced in for 1Q21. Furthermore, central banks still have tools and levers at their disposal to contain any disorderly rise in bond yields to safeguard the nascent economy recovery. We have seen the European Central Bank (ECB) starting to increase its weekly bond purchases to restrain spikes in bond yields seen earlier in March 2021.



We see risky assets like equities and commodities performing better than bonds in 2021.

Specifically, the issuance of corporate bonds and sukuks will be in the range of RM100bn to RM110bn in 2021, on the back of economic recovery leading to increased private investment. Given the flush liquidity in the system as well as strong investor preference to buy corporate bonds for yield pickup, we expect the supply will be well absorbed by the market.

With abundant liquidity from both local and foreign investors, the bond market will still be a good alternative for yield pickup.

With abundant liquidity from both local and foreign investors, the bond market will still be a good alternative for yield pickup as compared to lower yielding fixed deposits and money market funds. With tax-exemption status on money market funds for corporates to end in June 2021, more liquidity could find its way into local bond markets in 2021.

On the supply side, the Securities Commission Malaysia (SC) expects a healthy fundraising pipeline for equities and fixed income in 2021.

Strategically, the strong reflation will cause the yield curve to steepen. Therefore, we are cautious to take on duration risk and would favour to position ourselves defensively, favouring short-term credit bonds for yield pickup. We will continue to trade opportunistically and realise profit given our expectations that the economy is expected to pick up gradually. We will also look into new primary issuances that offer higher yields to deliver better performance.

1Q2021 MALAYSIA PRODUCT TRENDS

Despite the rotation towards cyclicals in the market, tech funds still garnered interest from the investors due to the expected higher returns coupled with the sector's stellar run in 2020. Global equity and US equity funds also had high inflows of AUM throughout 1Q21 as well with the global economic recovery theme in play.

With countries globally undergoing their vaccination rollouts and abundance of liquidity to support, equity markets rallied globally in the first quarter which inevitably caused Investors to turn risk-on as this was translated in the product trend in Malaysia. Equity funds as a whole benefitted from such market sentiment with large influx of AUM.

In context of bond funds, global high yield segment outran the others by far, as other bond funds have only observed a minimal gain in AUM. The main reason being is that high yield bonds' returns outperformed investment grade by quite a margin.

However, the recent sell-off have caused bond's performance to plummet. On top of that, unexpected default and restructuring of several high profile issuers might have added jitteriness to the market. With that, bond funds seemingly less attractive to investors in the first quarter which is reflected in the product trend in Malaysia.

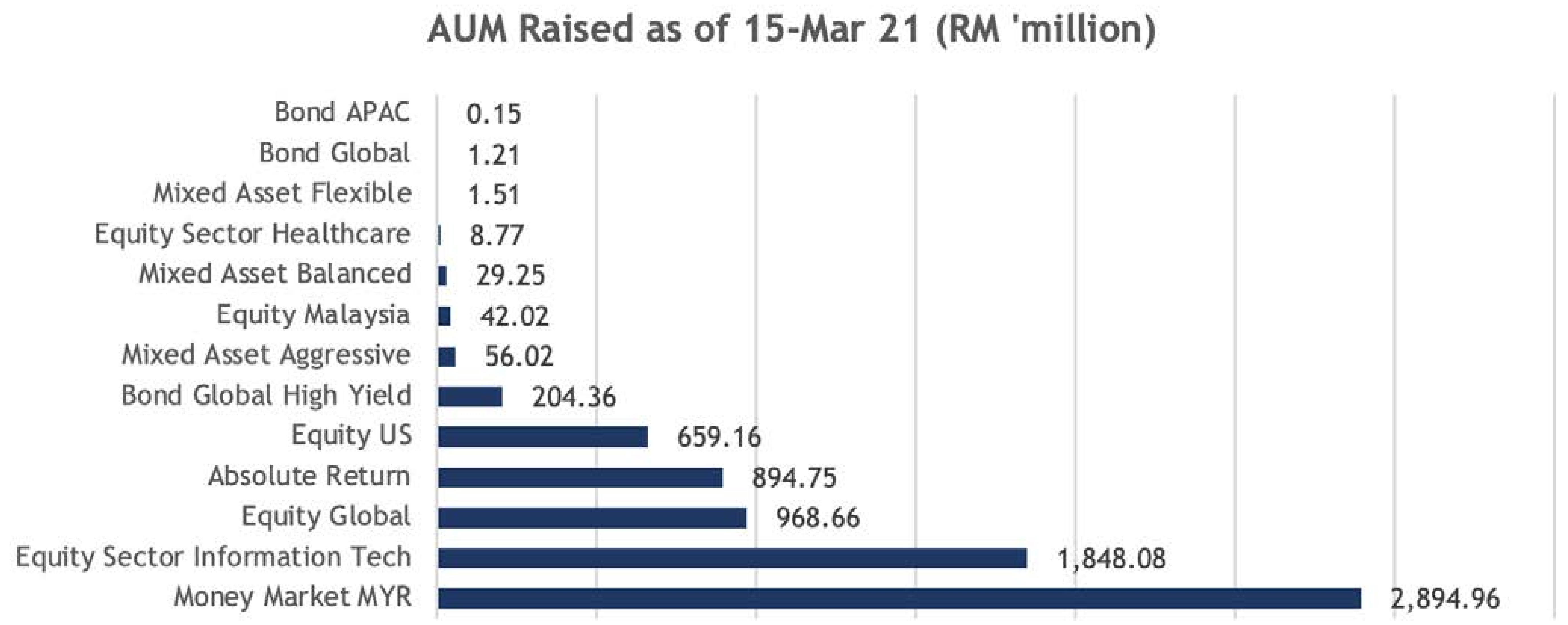


Exhibit 15: AUM Raised for Fund Categories as of 15-Mar-21

| Source: Bloomberg, Maybank Asset Management | Period: Jan 2021 - 15 Mar 2021

1

Top 3 strategies (excl. money market strategies)

1. Equity Sector Tech
2. Equity Global
3. Absolute Return

2

Most Popular Equity Fund Theme

1. Technology
2. Global
3. US

3

Most Popular Bond Fund Theme

1. Global High Yield

4

Most Popular Mixed Asset Fund Theme

1. Mixed Asset Aggressive
2. Mixed Asset Balanced

OUR SOLUTIONS (ISLAMIC)

Performance data: as of 25th March 2021

Legend: W (Wholesale) | R (Retail) | S.I. (Since Inception)

*Annualised

Fund (Strategy)	Type	Inception	Performance (%)			Geo. Exposure
			1 Yr	3 Yr*	S.I.*	
AGGRESSIVE						
Maybank Asiapac Ex-Japan Equity-I	R	08-Jan-14	48.56	8.34	8.50	Asia Ex-Japan
Maybank Global Sustainable Equity-I MYR	R	25-Aug-20	-	-	10.12	Global
Maybank Global Sustainable Equity-I MYR Hedged	R	25-Aug-20	-	-	10.03	Global
Maybank Global Sustainable Equity-I USD	R	25-Aug-20	-	-	10.59	Global
Maybank Greater China ASEAN Equity-I A MYR	R	27-Apr-15	21.42	0.52	3.18	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I B USD	R	27-Apr-15	29.44	-1.04	1.15	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I C USD (Institutional)	R	27-Apr-15	29.96	-0.41	2.00	ASEAN & Greater China
Maybank Greater China ASEAN Equity-I D USD (Institutional)	R	26-Jun-18	31.73	-	2.52	ASEAN & Greater China
Maybank Malaysia Growth-I	R	24-Nov-00	37.38	1.27	5.70	Malaysia
MODERATE						
Maybank Global Mixed Assets-I AUD Hedged	R	15-Jun-20	-	-	14.82	Global
Maybank Global Mixed Assets-I MYR	R	17-Jun-19	24.17	-	11.57	Global
Maybank Global Mixed Assets-I MYR Hedged	R	17-Jun-19	32.41	-	11.85	Global
Maybank Global Mixed Assets-I SGD Hedged	R	15-Jun-20	-	-	17.10	Global
Maybank Global Mixed Assets-I USD	R	17-Jun-19	32.08	-	11.74	Global
Maybank Global Mixed Assets-I USD (Institutional)	R	17-Sep-20	-	-	14.08	Global
Maybank Malaysia Balanced-I	R	17-Sep-02	23.48	3.41	5.09	Malaysia
MAMG Global Income-I MYR	R	13-Mar-18	4.95	5.17	4.30	Global
Maybank Income Management-I	R	08-Jan-20	4.70	-	1.11	Malaysia
Maybank Malaysia Income-I A MYR	R	27-Apr-04	4.32	4.76	4.40	Malaysia
Maybank Malaysia Income-I C MYR	R	21-Aug-13	4.32	4.99	4.80	Malaysia
Maybank Malaysia Income-I C USD	R	17-Sep-14	13.78	3.54	0.76	Malaysia
Maybank Malaysia Sukuk	R	08-Jan-14	4.12	5.17	4.30	Malaysia
CONSERVATIVE						
Maybank Money Market-I A MYR	R	06-Jul-11	2.14	2.77	2.99	Malaysia
Maybank Money Market-I B MYR	R	18-Oct-19	2.21	-	2.50	Malaysia
Maybank Shariah Enhanced Cash	W	24-Nov-08	1.27	1.96	2.74	Malaysia

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OUR SOLUTIONS (CONVENTIONAL)

*Annualised

Fund (Strategy)	Type	Inception	Performance (%)			Geo. Exposure
			1 Yr	3 Yr*	S.I.*	
AGGRESSIVE						
Maybank Malaysia Dividend	R	06-Jun-06	28.35	2.16	9.98	Malaysia
Maybank Malaysia Ethical Dividend	R	07-Jan-03	34.18	-1.54	9.97	Malaysia
Maybank Malaysia Growth	R	26-Mar-92	42.53	0.68	4.73	Malaysia
Maybank Malaysia SmallCap	R	03-Mar-04	130.13	16.38	5.56	Malaysia
Maybank Malaysia Value A MYR	R	07-Jan-03	49.51	1.66	10.33	Malaysia
Maybank Malaysia Value B USD	R	07-Jan-03	58.27	-0.15	-1.68	Malaysia
Maybank Malaysia Value C MYR	R	07-Jan-03	49.76	1.82	2.81	Malaysia
Maybank Malaysia Value C USD	R	07-Jan-03	58.60	-0.09	-0.33	Malaysia
Maybank Singapore REITs A MYR	W	13-Sep-18	22.93	-	9.04	Singapore
Maybank Singapore REITs B MYR Hedged	W	13-Sep-18	22.56	-	9.16	Singapore
Maybank Singapore REITs C SGD	W	13-Sep-18	21.32	-	8.44	Singapore
MAMG Dynamic High Income AUD Hedged	W	22-Jan-19	37.70	-	6.22	Global
MAMG Dynamic High Income EUR Hedged	W	22-Jan-19	39.37	-	4.44	Global
MAMG Dynamic High Income MYR	W	22-Jan-19	30.34	-	6.75	Global
MAMG Dynamic High Income MYR Hedged	W	22-Jan-19	38.87	-	6.40	Global
MAMG Dynamic High Income SGD Hedged	W	22-Jan-19	37.19	-	6.16	Global
MAMG Dynamic High Income USD	W	22-Jan-19	38.73	-	6.27	Global
Maybank Global Sustainable Technology MYR	R	18-Jan-21	-	-	-	Global
Maybank Global Sustainable Technology MYR Hedged	R	18-Jan-21	-	-	-	Global
Maybank Global Sustainable Technology USD	R	18-Jan-21	-	-	-	Global
MODERATE						
Maybank Flexi Income AUD Hedged	R	28-Nov-19	23.49	-	5.23	Global
Maybank Flexi Income MYR	R	28-Nov-19	16.27	-	5.76	Global
Maybank Flexi Income MYR Hedged	R	28-Nov-19	24.07	-	6.06	Global
Maybank Flexi Income SGD Hedged	R	28-Nov-19	22.16	-	5.14	Global
Maybank Flexi Income USD	R	28-Nov-19	23.57	-	5.66	Global
Maybank Malaysia Balanced	R	19-Sep-94	22.68	1.94	3.69	Malaysia
MAMG Gold MYR	W	03-Jun-20	-	-	-12.20	Global
MAMG Gold MYR H	W	03-Jun-20	-	-	-9.10	Global

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Fund (Strategy)	Type	Inception	Performance (%)			Geo. Exposure
			1 Yr	3 Yr*	S.I.*	
MAMG Gold USD	W	03-Jun-20	-	-	-6.69	Global
Maybank Asian Credit Income MYR	R	07-Jul-20	-	-	3.07	Asia
Maybank Asian Credit Income SGD Hedged	R	07-Jul-20	-	-	1.80	Asia
Maybank Bluewaterz Total Return MYR	W	14-Aug-15	22.41	8.23	6.37	Asia
Maybank Bluewaterz Total Return USD	W	20-Jul-18	23.20	-	9.04	Asia
Maybank Constant Income 7	R	17-Mar-17	17.44	-	6.01	Asia
Maybank Constant Income 8	R	21-Oct-19	17.73	-	0.19	Asia
Maybank Financial Institutions Income	W	17-Dec-09	4.78	4.76	4.22	Malaysia
Maybank Financial Institutions Income Asia	R	26-Aug-14	17.01	6.19	6.26	Asia
Maybank Malaysia Income	R	19-Jul-96	4.04	4.22	4.97	Malaysia
CONSERVATIVE						
Maybank Enhanced Cash XIII	W	24-Sep-08	1.42	2.19	2.89	Malaysia
Maybank Money Market A MYR	R	01-Mar-19	1.57	-	1.37	Malaysia
Maybank Money Market B MYR	R	01-Mar-19	1.86	-	1.22	Malaysia
Maybank Money Market C fMYR	R	01-Mar-19	1.86	-	1.22	Malaysia

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