MARKET COMMENTARY

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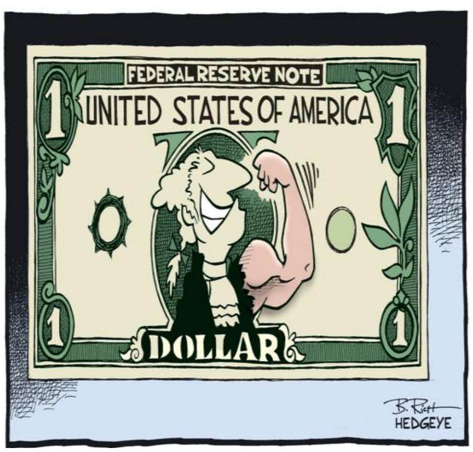
As the end of the year 2016 beckons, it is again the time to look forward and articulate our views for the year 2017.

This time, for those readers who have an interest in regional equities, we will also take the opportunity to present a short snippet on our regional market view.

Enjoy the festive season and may we all have a joyous 2017 to look forward to.



CARTOON BY: HEDGEYE

OUR HOUSE VIEW

Optimism Among The Uncertainties

- Asian equity markets especially the currencies have experienced increased volatility post Trump's surprise victory at the US Presidential Election. Uncertainty on policies remain till Trump officially becomes the US President on 21st January 2017. Meanwhile, Asian equity markets are likely to trade according to the noises of the environment. In particular, trade protectionism will feature largely in investors' concern over Asian economies.

- Nonetheless, China continues on its economic recovery path, as evidenced by the succession of encouraging economic data-points. It is our belief, that even before Trump's fiscal push makes its mark, this regional economic impetus is enough of a short to medium term driver for our Asian equity markets. Investors should ignore external distractions or otherwise miss out on this turnaround.

- Year-to-date, Malaysia is the only market that has a net outflow though the selling was absorbed by the support from domestic financial institutions. It is likely that the foreign negative outlook may persist in 2017.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.11.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	19,123.6	5.4	8.6	18.8
NASDAQ	5,323.7	2.6	5.1	31.7
DAX	10,640.3	-0.2	-1.0	17.6
KLCI	1,619.1	-3.2	-4.4	17.0
USD / MYR	4.47	6.5	4.1	-

SOURCE: BLOOMBERG (AS AT 30/11/2016)

MALAYSIA – A MORE CONSTRUCTIVE YEAR 2017

We have been bearish on Malaysia since early this year, but we are now slightly more comfortable, not so much because fundamentals have improved significantly but more so, because we believe that most of the negatives have already been priced in.

Oil prices have rebounded, and hence, is expected to stabilise around the current level. Consumer sentiment has improved (albeit at a low base). From a political perspective, PM Najib has survived a turbulent 2015, and the market likes political stability. The recent 2Q 2016 result season shows promise of bottoming out.

We expect Malaysia's economy to pick up in 2017 for the following reasons: (1) Fading out of earlier negative fiscal shocks; (2) public infrastructure project activities, e.g. MRT2 and Pan Borneo Highway; and (3) the lagged impact of oil price stabilisation. In addition, Malaysia's valuations are less expensive than before. Both MSCI Malaysia and KLCI P/B valuations are trading at their lowest valuations post-GFC.

There are still headwinds; it is not yet smooth sailing. Corporates will likely see further dents to their margins, with the rise in minimum wage, commodity prices and the extension of the Anti-Profiteering Act. Political noise continues.

REGIONAL – A PROFITEERING OPPORTUNITY FROM MARKET DISCONNECT?

On 20th January 2017, Donald Trump will become the 45th President of the United States of America.

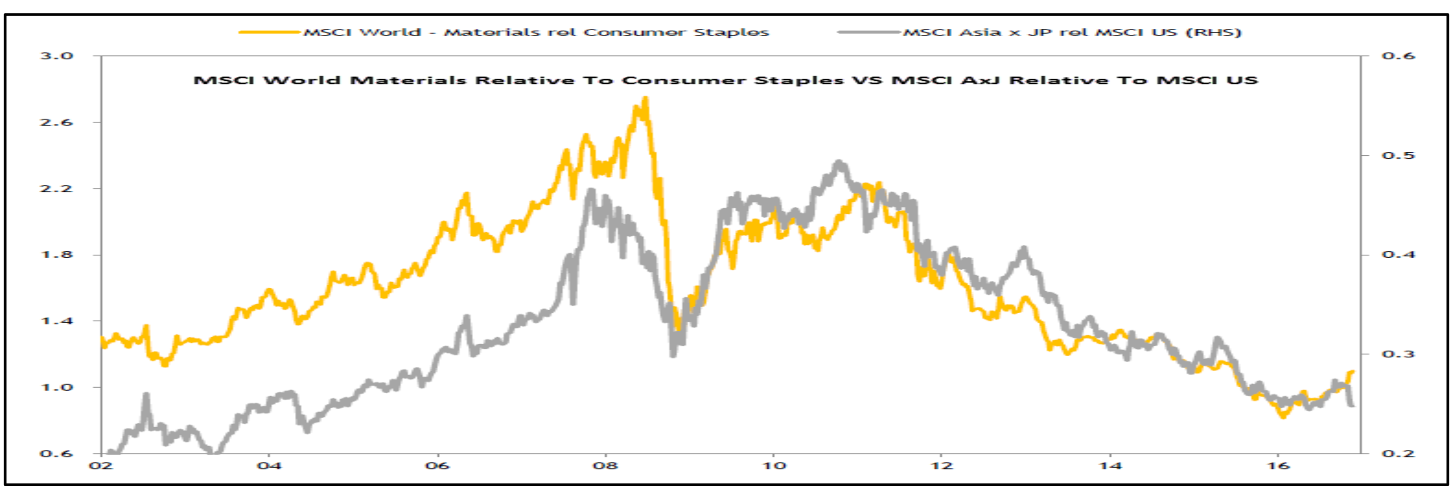
We have expounded on the implications in our previous Newsletter Issue 16. Suffice to say, we see much market uncertainty, as do many others, due to the shortage of details, running up to Trump's official term. Nonetheless, we need to reiterate that Trump's stance post-election has been more reconciliatory than his election threats.

We also remain positive over improving Asian fundamentals and therefore still remain constructive in our positioning.

We present below an interesting chart to ponder over. Firstly, we need to remind that the crux of this upshift in the US Dollar and the US 10-Year Bond Yields have largely been on the expectations of a reflating US economy, that President Trump will embark on a massive fiscal push.

It is also the case that when growth is favoured and where we have experienced a shift from defensives such as consumer staples to cyclical sectors like materials, emerging markets such as Asia have also tended to outperform the US.

FIGURE 2: THE NATURE OF CYCLICAL ROTATIONS



SOURCE: MSCI, BLOOMBERG, MAYBANK KE

In the short-term, we see a huge disconnect. We suspect part of the reason for this near-term concern is the issue of trade protectionism. If Trump backs down from his protectionism threats, we believe that this disconnect will be closed through a recovery in Asian markets.

This means that the more cyclical equity markets of China, Korea, and Indonesia should be favoured into this recovery. From a currency perspective, Malaysia, Indonesia, and Korea should benefit.

SELECTED HOLDINGS

FIGURE 3

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2017	EPS ($) 2017	GROWTH (%) 2017	P/BVPS 2017	DY (%) 2017
TENAGA NASIONAL BHD	TNB MK EQUITY	14.00	10.57	1.32	0.76	1.37	2.07
UNISEM BHD	UNI MK EQUITY	2.33	11.15	0.21	3.47	1.15	4.72

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 14/12/2016).

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