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## MAYBANK GREATER CHINA ASEAN EQUITY-I FUND (MGCAEI)

## MAY 2020

In April, markets had seen quite a strong and rapid rebound. However, the recovery may not be sustainable as the Covid-19 risk is still around and there could be a second of wave profit taking as investors began to assess weak corporate earnings and economic data. Furthermore, the lower oil prices as well as the US-China “blame game” could add more uncertainties into the already fragile markets. However, having said that, we do not expect any sell-off to be as bad as it was in March given the support and measures provided by governments and central banks globally.

Our expectation is that a gradual recovery would come in 2H2020 onwards as we expect Covid-19 cases to peak in May/June and economies will to start re-open. However, the biggest risk in the near to medium term is a second wave of infections that could see countries extending its lockdown up to August or September and also, the re-emergence of a US-China trade war.

Therefore, for the Asian equity markets, we are Neutral in 2020 but are more constructive over the longer term. With the recent sharp recovery, valuations are no longer cheap, trading at 12-13x PER compared to where it was in March at 10-11x PER.

For the Maybank Greater China ASEAN Equity-I fund (MGCAEI), as we’re expecting a second wave of correction, we will continue to be defensive and we will maintain a relatively high cash position at 20-25% to ensure that we are well positioned to opportunistically buy deep value stocks in the near-medium term, and position the portfolio for the long-term recovery.

On the Greater China portfolio, we will be focusing on certain sectors to ensure that the fund is positioned well. In terms of valuations, Greater China remains attractive vs global markets, hence we would be selective with our stock picking strategy.

We remain positive on the consumption related sectors as we think consumption will be the pillar of China’s economy as growth in consumption continue to overtake expenditures in the industrial sector since 2015. We also like the private healthcare sector in China as its medical expenditure is currently lower than other developed countries and with the over-65 population rising gradually, demand for improved healthcare and medical could increase. The education sector have also seen strong demand. Hence, we’re positive on the sector as the higher education enrolment rate in China is still way lower vs the US (48% vs 87%). We also prefer the e-commerce sector in the Greater China region as the sector continue to benefit from faster adoption of online services, especially post the virus outbreak.

For the ASEAN portfolio, we’ll be looking to switch out from more defensive positions to a more cyclical, deep value names that could benefit in a recovery in the long-term. Optimally, our equity portfolios would have a mix of growth, good quality and high dividend yielding names. ASEAN stocks used to trade at a large premium to the overall market, however given the recent sell-off, it is now trading at a discount.

We continue to prefer Singapore given its market composition of decent dividend-yielding names and we also see value in the Philippines given the extent of the correction seen. We’re underweight Thailand given its weak economic prospects and underlying political tensions and are neutral on Indonesia and Malaysia.

Generally, we expect volatility to continue to be heightened in the Greater China and ASEAN markets given the uncertain market conditions globally. However in the long-term, we believe that these markets could potentially provide decent returns to the portfolio. The MGCAEI portfolio could offer a good mix of two dynamic markets. The Greater China and ASEAN regions offers solid macroeconomic backdrop, dynamic economies, and favourable demographics with attractive valuations.

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