

Martin Currie

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# ASEAN EQUITIES REVIEW

Markets in Southeast Asia, as measured by the MSCI AC ASEAN Index rose by 0.8% in Singapore dollar terms during November. As in October, Singapore was again the strongest performer with Indonesia and the Philippines relatively weaker. As we approach the end of the year we can look back on a very positive investment experience in ASEAN markets, but one which has lagged the performance of North Asia.

The reason for the relatively better performance of North Asia has been superior earnings. With the third quarter 2017 complete, Malaysia appears to have beaten muted expectations, the Philippines to have missed the most bullish expectations, while elsewhere earnings have been largely in-line with consensus. Singapore banks had a generally positive set of results, supporting our positive stance on the sector. Growth forecasts for 2018 in the ASEAN region call for 9% growth in earnings, the second strong year in a row, following a generally weak earnings environment since 2013. This offers some encouragement that the current valuation levels can be sustained, although the global interest rate environment remains the greatest threat to elevated levels of valuation.

One of the major debates within the region is whether countries can make the switch from being export-driven to domestic-driven (especially consumption-driven) economies. This has been a particular conundrum in Indonesia. Ordinarily, one might have expected the improvement of both palm-oil & coal prices to have led to an improvement in consumption data. However, this has not happened, possibly as a result of the removal of subsidies, or due to a muted increase in the minimum wage. Whatever the reason, on the ground, there remains great hope that the consumption picture will improve with a lag into 2018.

Meanwhile, in Thailand there is also optimism consumption data will improve, as the mourning period following the Kings' death has come to an end. However, our recent contact with companies across sectors suggest

this improvement has yet to start, and expectations are becoming increasingly muted as a result. In Malaysia, spending increases are widely expected in the lead up to the country's election which will help consumption. However, this could also mean, by comparison a rather difficult second half to 2018. The most consistent market over the last few years has been the Philippines, and we are also positive on the consumption story there.

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