FUND COMMENTARY

JANUARY 2016

eastspring investments

Equity Market Review & Outlook

REVIEW

- January was a very volatile month as markets globally corrected on the back of weak oil prices, fears over the state of the US economy, and continued concerns over China's stock market rout. Equity markets in China corrected sharply on the first trading day of the year as regulators lifted the ruling that investors with holdings exceeding 5%, and corporate executives and directors would be prohibited from selling their stakes. The ruling was in place since 8 July 2015, following the suspension of initial public offerings and curbs on short selling. However, in tandem with this lifting of the ruling, China's Securities Regulatory Commission (CSRC) introduced the use of circuit breakers in an attempt to tame the wild gyrations of the market, but had the opposite reaction, resulting in increased selling pressure triggering the circuit breaker many times in the first week of trading, until the CSRC abandoned it four days later.

- Domestically, the Malaysian equity market succumbed to initial selling pressure before rebounding post the SRR cut by BNM from 4% to 3.5%. The Malaysian ringgit strengthened 3.3% during the month, despite Brent oil prices falling from US$38/bbl to a low of US$28.6/bbl. Given the sharply lower oil prices, the Malaysian government announced a recalibrated Budget 2016 in an effort to maintain fiscal discipline. The KLCI closed the month at 1,667.80 points, lower by 24.71 points or 1.46% mom. The broader market underperformed the KLCI with the FBM Emas Index declining 1.92% mom. The KLCI outperformed the FBM Small Cap Index which declined 5.65%. Average value traded on Bursa in January was higher 3.5% mom at RM2.03bn per day.

- The sector indices on the local bourse closed lower for January with the best performing sectors being Plantation (3.89%), and Industrial (1.55%), and the sectors that performed the worst were Technology (-12.18%), and Property (-6.41%).

OUTLOOK

- We are expecting global monetary policy to remain in focus in 2016, and markets are likely to remain volatile with investors second guessing the timing of policy events as they did for most of 2015. Expectations for the US rate hike in 2016 have been tampered down from initially 4 hikes to maybe hikes only in 2H 2016, and now likelihood of a hike before end 2016 is between 20-30% (according to Bloomberg). The outlook for USD strength is now not as certain as before. Volatility increases with China's slowing economy, with the potential for the Chinese Yuan to continue depreciating against the US Dollar. Complicating the mix will be commodity prices, in particular oil which is also expected to remain weak, as demand will take a while to catch up with the growing supply, given the moderate global economic growth outlook, unless geo-political tensions escalate or severe weather disruptions create supply shocks.

- On a macro level for Malaysia, we remain relatively cautious as we continue to expect a challenging environment for the Malaysian economy in 2016. With uncertainty brewing over the US economic outlook, the Malaysian ringgit may continue to strengthen which may be negative for exporters but help ease the imported inflation. Corporate earnings forecasts for 2016 appear too optimistic with consensus expecting earnings to grow by 8% yoy, despite weaker consumer demand, increased risk of rising non-performing loans, ongoing price pressures, potential profit margin and cash flow squeeze. The event risk that we highlighted earlier on BNM Governor's successor, is likely to be from within BNM, and hence in the near term should sit well with the market, however we will need to monitor his policy stance and how independent he will be from the government.

- Despite the lack of macro catalysts, any correction in the market would serve as an opportunity to accumulate fundamentally strong stocks on weakness.

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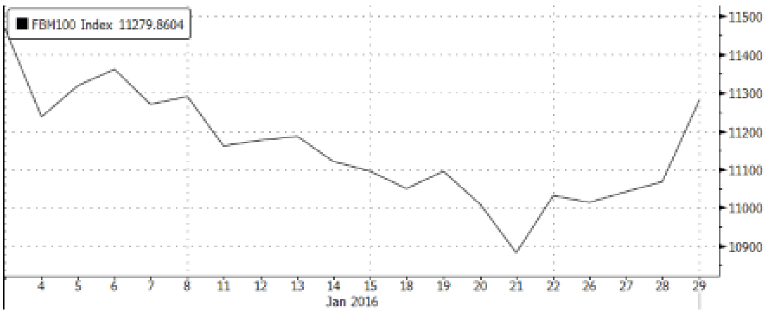
8) Historical Chart 9) Scatter Plot

Start	11470.57	End	11279.86
Change	-190.71	%Change	-1.66%
Current	100	Up	38
Additions	0	Down	62
Removals	1	Unch	1



Date Range 2016/1/4 - 2016/1/29

Sort Index Points

Display ⊙ Name ○ Ticker

View ⊙ Detailed ○ News

Change ○ Net ⊙ Percent

10) View All Securities...

Laggers	End Price	%Chg	Points↓	%Idx M	Leaders	End Price	%Chg	Points↑	%Idx M
21) Axiata Group Bhd	5.61	-12.48	-63.2771	-33.18	41) IOI Corp Bhd	4.85	+8.74	+25.1584	+13.19
22) Maxis Bhd	5.72	-15.88	-49.8770	-26.15	42) Genting Bhd	7.88	+7.36	+21.0592	+11.04
23) CIMB Group Holdin	4.15	-8.59	-37.4396	-19.63	43) Sime Darby Bhd	8.07	+4.13	+18.1887	+9.54
24) DiGi.Com Bhd	4.88	-9.63	-34.1409	-17.90	44) Tenaga Nasional B	13.60	+2.10	+17.3705	+9.11
25) Top Glove Corp Bh	5.42	-20.18	-19.7537	-10.36	45) Malayan Banking B	8.58	+2.14	+17.0039	+8.92
26) MISC Bhd	8.77	-6.40	-15.5481	-8.15	46) Kuala Lumpur Kepo	23.90	+4.46	+9.5899	+5.03
27) Kossan Rubber Ind	7.11	-23.55	-12.3189	-6.46	47) HAP Seng Consolid	7.20	+11.11	+7.3485	+3.85
28) Telekom Malaysia	6.50	-4.13	-10.9212	-5.73	48) PPB Group Bhd	16.58	+4.28	+7.0918	+3.72
29) UMW Holdings Bhd	7.01	-10.93	-10.0224	-5.26	49) Genting Plantations	11.44	+7.92	+5.1468	+2.70
30) SapuraKencana Pet	1.88	-6.93	-9.4429	-4.95	50) AirAsia Bhd	1.42	+10.08	+5.1082	+2.68
31) Hartalega Holdings	5.40	-9.09	-6.8594	-3.60	51) British American T	57.90	+3.25	+4.5717	+2.40

Source: Bloomberg

	Last Price		MoM Changes	
Indices	31-Dec-15	31-Jan-16	+/-	%
FBM KLCI	1,692.51	1,667.80	-24.71	-1.46%
FBM MES	6,389.24	5,916.96	-472.28	-7.39%
FBM 100	11,470.57	11,279.86	-190.71	-1.66%
FBM 70	13,135.15	12,833.10	-302.05	-2.30%
FBM SCAP	15,944.13	15,042.56	-901.57	-5.65%
FBM EMAS	11,793.65	11,567.65	-226.00	-1.92%
FBM SHA	12,800.65	12,420.82	-379.83	-2.97%
FBM HIJRAH	14,332.58	13,904.43	-428.15	-2.99%
MSCI APxJ	411.31	379.01	-32.30	-7.85%

Source: Bloomberg