FUND COMMENTARY

JUNE 2016

eastspring investments

Equity Market Review & Outlook

REVIEW

- After months of uncertainty regarding the changing risk probability of a BREXIT, US interest rate hike and slower economic data from China, global markets corrected sharply after the third week of June as the unexpected happened : UK voted to leave the European Union. This result was so unexpected that surveys prior to the voting day, were dismissed as being not accurate, when in hindsight the slim majority was as the pre-referendum polls suggested. However markets were quick to rebound post the panic selling, although, not all the details as to the real impact of UK leaving the EU are known and expect the process to be a long drawn affair. The Japanese market seems to be the hardest hit thus far, with the Yen strengthening against the USD to just below 100Yen intraday as investors sought it as a safe haven currency, and levels not seen since November 2013. Going against Japan's Prime Minister Shinzo Abe's push to weaken the Yen as part of the three arrows strategy to get Japan's economy going again, the Yen has strengthened by about 16% YTD against the USD.

- Malaysia performed better than many of its Asian peers during the month, despite the concerns surrounding the BREXIT, and the exposure by Malaysian corporates to the UK and the EU, such as plantation companies, property companies, and certain exporters. The British pound (GBP) has declined by 18% YTD against the ringgit, with most of the depreciation occurring just after a BREXIT result was confirmed. With most of the negative events out of the way (poor results, Shariah rebalancing, MSCI rebalancing, etc) the KLCI performed relatively well, ending the month on a positive note with a gain of 1.73%, as investor sentiment improved with the decent by-election wins by Barisan Nasional Party, in Sungai Besar (Selangor) and Kuala Kangsar (Perak). The broader market gained 1.22% underperforming the KLCI, as construction and technology stocks declined during the month. The FBM Small Cap Index declined by 1.2%. Foreign institutional investors were net sellers in June of RM1.8bn, after recording a net sell for equities of RM4.3bn in May.

- The sector indices on the local bourse closed higher for June with the best performing sectors being Consumer (+2.17%) and Plantation (+1.57%) as investors sought defensive stocks and plantation companies rebounded after recording one of the worst price performances last month. Property (-1.82) and Technology (-1.62%) took a tumble as property companies were sold down on fears of their linkage with the UK as some had ventured overseas to develop properties there.

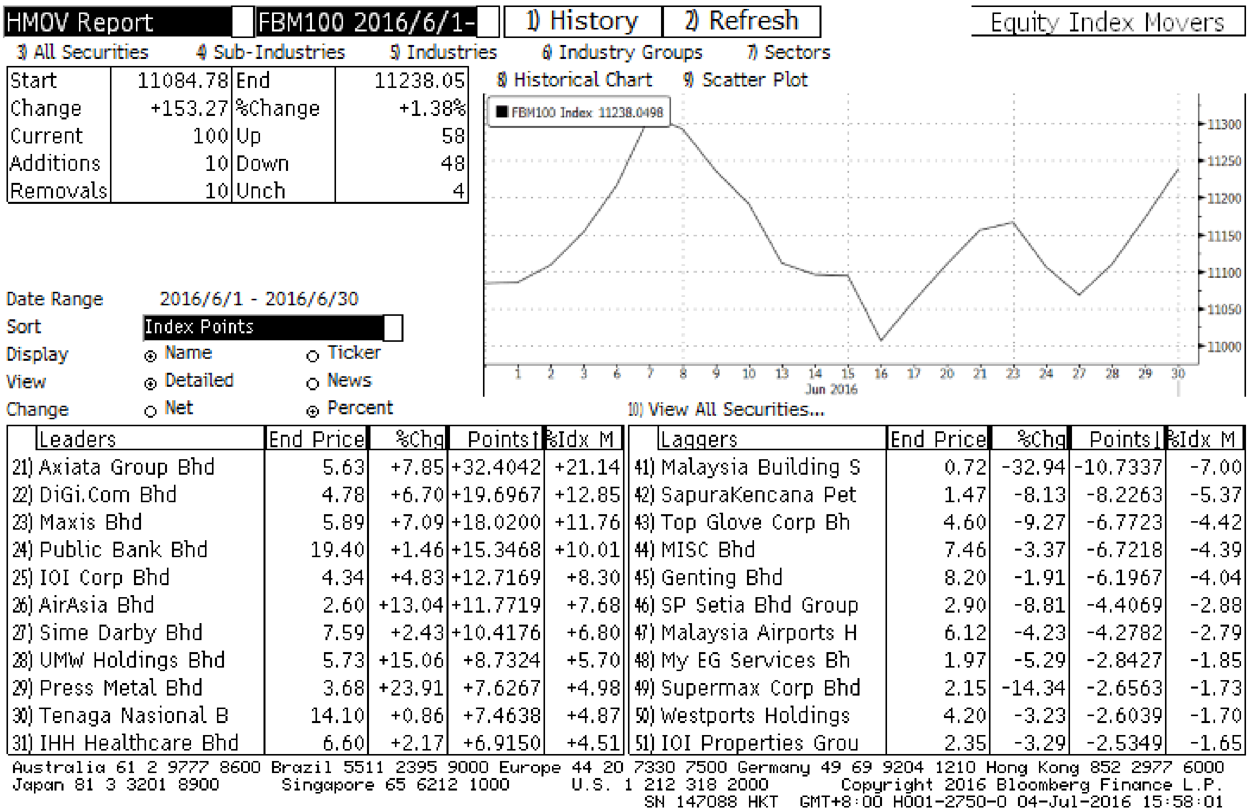
OUTLOOK

- With the volatility and the level of uncertainty arising from the BREXIT referendum, and with economists predicting a negative global GDP impact from such an event, the timing of the US rate hikes has now been pushed back to perhaps Dec 2016, or even 2017. However, the US economy still seems fairly strong, but now the possibility of a Trump Presidency cannot be discounted, which is likely to be challenging for global trade pacts in the future. Other risks to the global market to monitor include the potential contagion impact to the rest of the EU, and other developed countries who are leaning towards nationalistic policies. China, whilst may benefit from being a more credible Reserve Currency option, will have its own internal issues to deal with, from the weak economy, to the increased tensions leading up to the 2016 Hong Kong Legislative Council elections slated to be held 4 September 2016.

- Domestically, we expect the Malaysian to continue to hold up well, with the benefit of the EPF contribution cut, the next BRIM installments, and the civil servants bonus and increment payments in June to help shore up consumer demand which has been fairly resilient thus far. Politics will likely stay in the limelight as a weakened Federal opposition party, and the recent By-election results has spurred the expectation of an early General Election in 1H2017. This would result in another people centric Budget 2017, slated to be announced in October 2016. As we approach the next results season, with some corporates due to report in June, we believe consensus has not fully incorporated all the down sides to their earnings forecast, and may need to revise down further. Since Jan 2016, consensus has downgraded their earnings by 5-6% and 2016 is looking to be another flat year of growth, and potentially being the 4th year of consecutive earnings downgrades.

- We expect the BREXIT event will be a long drawn out affair, and markets will remain very volatile, compounded by the other risks we mentioned above. We remain cautious on Malaysian equities, but any correction in the market would serve as an opportunity to accumulate fundamentally strong stocks on weakness.

INDEX PERFORMANCE & MOVERS



HMOV Report | FBM100 2016/6/1- | 1) History | 2) Refresh | Equity Index Movers

3) All Securities 4) Sub-Industries 5) Industries 6) Industry Groups 7) Sectors

8) Historical Chart 9) Scatter Plot

Start	11084.78	End	11238.05
Change	+153.27	%Change	+1.38%
Current	100	Up	58
Additions	10	Down	48
Removals	10	Unch	4

Date Range 2016/6/1 - 2016/6/30

Sort Index Points

Display ⊙ Name ○ Ticker

View ⊙ Detailed ○ News

Change ○ Net ⊙ Percent

10) View All Securities...

Leaders	End Price	%Chg	Points	%Idx M	Laggers	End Price	%Chg	Points	%Idx M
21) Axiata Group Bhd	5.63	+7.85	+32.4042	+21.14	41) Malaysia Building S	0.72	-32.94	-10.7337	-7.00
22) DiGi.Com Bhd	4.78	+6.70	+19.6967	+12.85	42) SapuraKencana Pet	1.47	-8.13	-8.2263	-5.37
23) Maxis Bhd	5.89	+7.09	+18.0200	+11.76	43) Top Glove Corp Bh	4.60	-9.27	-6.7723	-4.42
24) Public Bank Bhd	19.40	+1.46	+15.3468	+10.01	44) MISC Bhd	7.46	-3.37	-6.7218	-4.39
25) IOI Corp Bhd	4.34	+4.83	+12.7169	+8.30	45) Genting Bhd	8.20	-1.91	-6.1967	-4.04
26) AirAsia Bhd	2.60	+13.04	+11.7719	+7.68	46) SP Setia Bhd Group	2.90	-8.81	-4.4069	-2.88
27) Sime Darby Bhd	7.59	+2.43	+10.4176	+6.80	47) Malaysia Airports H	6.12	-4.23	-4.2782	-2.79
28) UMW Holdings Bhd	5.73	+15.06	+8.7324	+5.70	48) My EG Services Bh	1.97	-5.29	-2.8427	-1.85
29) Press Metal Bhd	3.68	+23.91	+7.6267	+4.98	49) Supermax Corp Bhd	2.15	-14.34	-2.6563	-1.73
30) Tenaga Nasional B	14.10	+0.86	+7.4638	+4.87	50) Westports Holdings	4.20	-3.23	-2.6039	-1.70
31) IHH Healthcare Bhd	6.60	+2.17	+6.9150	+4.51	51) IOI Properties Grou	2.35	-3.29	-2.5349	-1.65

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance L.P.
SN 147088 HKT GMT+8:00 H001-2750-0 04-Jul-2016 15:58:01

Source: Bloomberg

Indices	Last Price 31-May-16	30-Jun-16	MoM Changes +/-	%
FBM KLCI	1,626.00	1,654.08	28.08	1.73%
FBM MES	5,489.79	5,145.07	-344.72	-6.28%
FBM 100	11,084.78	11,238.05	153.27	1.38%
FBM 70	12,925.51	12,965.97	40.46	0.31%
FBM SCAP	15,274.40	15,090.79	-183.61	-1.20%
FBM EMAS	11,390.69	11,530.21	139.52	1.22%
FBM SHA	11,922.64	12,102.94	180.30	1.51%
FBM HIJRAH	13,305.04	13,574.26	269.22	2.02%
MSCI APxJ	408.32	414.33	6.01	1.47%

Source: Bloomberg