OVERVIEW

May 2014

Global stock markets continued to roll higher in May. The FTSE All World Index rose 2.24% month-over-month, led by strong US stock market performance, in tandem with the improved global economy. The S&P 500 and Dow Jones Industrial Average advanced 2.35% and 1.19%, respectively, while the MSCI Emerging Markets Index jumped 3.49% over the month. In line with the regional markets, the ASEAN stock markets moved higher, with the Dow Jones ASEAN Islamic Total Return Index gaining 1.28% over the month. Year-to-date, the index has gained 9.69%.

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Malaysia

Malaysia's economy grew 6.2% in the first quarter, surpassing market estimates of 5.7%, lifted by robust domestic demand and better exports, which rose 7.4% and 7.9% year-over-year, respectively. The private sector remained the pillar supporting growth, with both private consumption and investment expanding 7.1% and 14.1% year-over-year, respectively. Inflation, meanwhile, inched down to 3.4% year-over-year in April after peaking at 3.5% in March, thanks to smaller price increases for food and non-alcoholic beverages. Given that inflation is projected to stay above the 10-year average of 2.5%, Malaysia's central bank in its last meeting signaled to raise the Overnight Policy Rate ("OPR") in order to tame inflation. For the past two years, Bank Negara Malaysia has left the OPR unchanged at 3%. Supported by the positive economic data, foreign investors were net buyers for the month, recording net purchases of US$897 million.

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Indonesia

The economy in the first quarter decelerated to 5.2%, compared to 5.7% in the fourth quarter of 2013. It was stung by contracting exports as mining ore exports were curtailed by the ban in January, and commodity demand was subdued. Domestic demand, however, remained resilient and grew at 5.3% year-over-year. The current account deficit, meanwhile, improved marginally to US$4.2 billion for the quarter, compared to minus US$4.3 billion in the fourth quarter of 2013, and minus US$8.5 billion in the third quarter. In May, inflation ticked up marginally at 7.3% year-over-year due to higher food and clothing prices, which rose 7.2% and 4.2% year-over-year, respectively. Year-to-date, the equity market has continued to attract foreign investors, with an average of US$720 million net foreign fund purchases per month.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	13,136	-0.10% ▼	1.70% ▲	8.75% ▲
FBM KLCI (RM)	1,873	0.47% ▲	1.64% ▲	9.08% ▲
S&P 500 (US$)	3,480	2.35% ▲	4.97% ▲	20.45% ▲
Dow Jones Industrial Average (US$)	16,717	1.19% ▲	1.92% ▲	13.27% ▲
FTSE All World (US$)	278	2.24% ▲	4.49% ▲	17.78% ▲
MSCI All Country World Index	422	2.22% ▲	4.51% ▲	17.87% ▲
MSCI Emerging Markets (US$)	424	3.49% ▲	3.39% ▲	4.27% ▲
Dow Jones ASEAN Islamic (US$)	2,424	1.28% ▲	9.69% ▲	-5.36% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.22	3.26	3.10
Crude oil (US$)	$102.71	$99.74	$91.97
Crude palm oil (RM)	RM2,426	RM2,691	RM2,360

Philippines

First quarter GDP grew 5.7% year-over-year, slower than the market's 6.4% forecast, dragged

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by lower construction spending due to a 6% decline in private construction, and slower agriculture activity due to Typhoon Haiyan/Yolanda. Other economic data, meanwhile, remained resilient, with household spending growing 5.8% year-over-year, government spending increasing 2% year-over-year, and higher services activities. Personal remittances were robust, registering 6.9% growth year-over-year in March. As a result, foreign funds have continued to flow into the country, with a net purchase of US$193 million in equities for the month.

Singapore

GDP expanded 4.9% year-over-year, led by stronger manufacturing and construction activities. Manufacturing expanded strongly at 9.8% largely due to a sharp rebound in the biomedical industry, stronger growth in chemicals output, and sustained expansion in electronics. The construction sector, meanwhile, grew 6.7% on stronger expansion in the public sector. Other economic indicators were also positive, with non-oil domestic exports increasing 0.9% in April, while inflation risk was benign at 2.5%.

Thailand

Political uncertainty continued to hog the limelight: Prime Minister Yingluck Shinawatra was ousted for abuse of power, and the army seized power on May 22. Prolonged political uncertainty has taken its toll on the country's economy: first quarter GDP declined 0.6% year-over-year, with domestic demand falling 4.2% year-over-year amid a further drop in private consumption (-3.0% in 1Q14 versus -4.1% in 4Q13), private investment (-7.3% in 1Q14 versus -13.2% in 4Q13) and public investment (-19.3% in 1Q14 versus -4.7% in 4Q13). The economic data for April remained soft, pointing to a potential technical recession in the second quarter. Reflecting the concern over looming uncertainty, foreign investors withdrew US$1.1 billion from the Thai equity market in May.

COMPANY REVIEW

Kalbe Farma (KLBF IJ) performed well in 1Q, with both revenue and profit before tax growing strongly by double-digits, helped by continued introduction of new products and higher selling prices.

Jollibee Foods Corporation (JFC PM) reported a strong 1Q, with revenue increasing 15.2% year-over-year, driven by 6-7% same-store sales growth and new store expansion. Profit before tax, meanwhile, jumped 21.7% on cost efficiency.

PORTFOLIO TACTICS

The economies of ASEAN countries continued to perform well, albeit with some volatility. Political uncertainties remain the wild card in the region, but apparently they are heading toward the right direction: stability for Thailand and pro-business presidential candidates in Indonesia and the Philippines. For the long term, we believe ASEAN markets remain an attractive asset class, given their solid fundamentals, decent growth, and compelling valuations (against developed markets). Companies that have solid and long-term growth profiles, such as Consumers (e.g., Unilever Indonesia and Jollibee Foods), Health Care (e.g., Bangkok Dusit and Bumrungrad), Building Materials (e.g., Semen Indonesia), and Telcos (e.g., Advanced Info Service) remain our picks.

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