FUND MANAGER'S INSIGHTS

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Trump's election as the 45th US President triggered a wave of selling across Asia. For the period between 8th Nov to 24th Nov, the FBM KLCI lost 2.38%. MSCI Asia ex Japan in USD terms, plunged 4.15%.

If Trump were to enact his election promises, Asian economics are expected to be negatively impacted. Firstly, an expansionary fiscal policy (tax cuts and infrastructure spending) will be pursued. This is expected to give rise to an inflationary environment, hence the rise in global yields and a steepening of the yield curve. Secondly, his pre-election rhetoric on trade protectionism will have damaging consequences to global trade.

Trump's Proposed Policies

Fiscal Policy	Taxes	Three Income Tax Brackets (12%,25%,33%) Corporate Tax Rate: 15% One Time Repatriation Tax: 10% Repeal the Estate Tax
	Infrastructure	Increase Infrastructure Investment (No specific amount proposed)
Globalisation	Trade	Reject TPP Renegogiate NAFTA Peg China as Currency Manipulator
	Immigration	Border Wall with Mexico Deportation of Criminal Aliens Put American Workers First
Entitlements	Education	Eliminate Department of Education Remove 'Common Core'
	Health	Repeal ACA Encourage Imports of Cheaper Drugs
Regulation	Finance	Overhaul Dodd-Frank
	Energy	Rescind Climate Action Plan and Waters of the US Rule Support Coal Industry Reengage with Keystone Pipeline

Source: Credit Suisse estimates, UOB

However, we opine that the Trump administration's eventual policy may not be as extensive as the market has feared. We note that he has softened his stance of late. As the saying goes, could the dog's bark be worse than its bite? Time will tell.

We think that it is likely that the Federal Reserve will hike rates come December. A largely expected 25bps increase is in the cards. In this regard, 10y US Treasury yields which have jumped circa 50bps since, looks overdone.

The selloff in the 10y US Treasuries exerted strong pressure on Asian sovereign bonds, causing yield spreads to widen. Malaysian Government Securities (MGS) were correspondingly sold off. Yields on 10y issuance jumped from 3.67% on 9th Nov to around 4.33% on 24th November. For the same period, Ringgit has weakened 5.01% against the USD to trade around RM4.45 to a dollar.

What's the outlook for the Ringgit? We see a few catalysts ahead for the local currency unit:

1) MGS at current levels look attractive. Hypothetically, if a foreign fund were to hold a 10y MGS at a 4.33% yield for a one year period and hinging on a rebound in RM, it could potentially be sitting on a handsome profit. A circa 10% gain by our estimates.
2) Construction for the East Coast Rail Line is expected to start next year. The RM55billion project is set to be built and financed by China. Entry of such funds could support the RM.
3) The selldown in RM may entice corporates to repatriate some of their funds from overseas. It makes sense to realise your additional forex gains.

For the Malaysian equity market, volatility could be here to stay. Sentiment will likely remain weak until December, pending the Fed decision and uncertainty over the Trump administration's policies.

As mentioned in our client note released on 9th Nov, after the dust settles, fundamentals will prevail. We will undertake a cautious and defensive strategy with our Equity Funds.

Nevertheless, selloffs such as these provide opportunities for us to buy into the weakness. Malaysia is a stock-picker's market. We will focus on stock selection to generate outperformance. At this juncture, large caps and high dividend yielders are our preference.