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- *Feeling stress from slowing global growth, EM and DM equities likely to consolidate in the coming month*
- *More upside potential in the second half after the worst of the economic growth scare is over. A correction, if any, should be considered healthy in our view*
- *Singapore market is supported by a low bond-yield environment and sustainable pro-growth government policies*
- *China A's low correlation with the global markets makes it an attractive safe haven in the face of global risks; Chinese stocks listed in Hong Kong should catch up*

**Asia equities: Another volatile month ahead**

We believe global equity markets are likely to continue to be volatile during the month with a downside bias. While the Fed sent a dovish signal last month which is generally positive for Asian markets, market participants are likely to shift their attention to slowing economic growth now that the yield curve has inverted – a development that is stoking recession fears. Moreover, stress is also seen in some of the emerging markets in other regions such as Turkey, Argentina and Brazil due to domestic political and economic concerns. As in the emerging market rout in August / September last year, there are risks that some of these stresses could flow through to Asia.

Looking at technicals, global markets have remained overbought and the volatility index (VIX) has remained low for the most part of Q1. The performance in the past month probably reflects the payback for Asian markets as well as currencies that had benefited from the last Fed rate pause in December. The VIX has just spiked after hovering at low levels for an extended period of time. We don't think the spike in volatility will end at current levels considering the near-term risk events and nervousness over global growth.

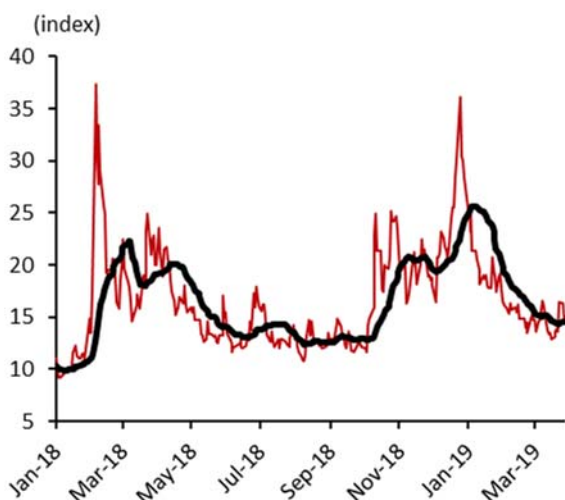
**In the near term, we recommend investors to stay cautious as Asian markets have generally done well in the first quarter, and that we are likely to go through a soft data patch in the very near term.**

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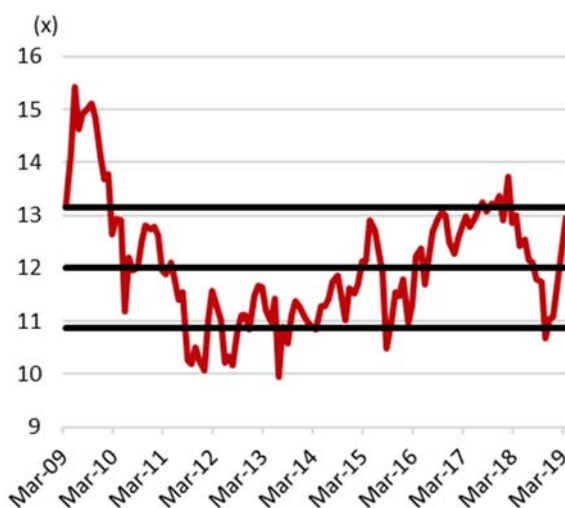
VIX — too low for too long



Source: Bloomberg

Asia ex-Japan has returned 11.4% in Q1, and 2019 forecast earnings integer has come off by 7% since beginning of the year. In the wake of strong market and earnings downgrades, valuations appear to be no longer attractive compared to earlier in the year. PE valuations have returned to +1SD above historical average compared to when they were at -1SD in the beginning of the year, leaving very little room for valuation re-rating. **A correction, if any, should be considered healthy in our view, as it could set the stage for a better second half.**

Asia ex-Japan — 12-month forward PE valuations



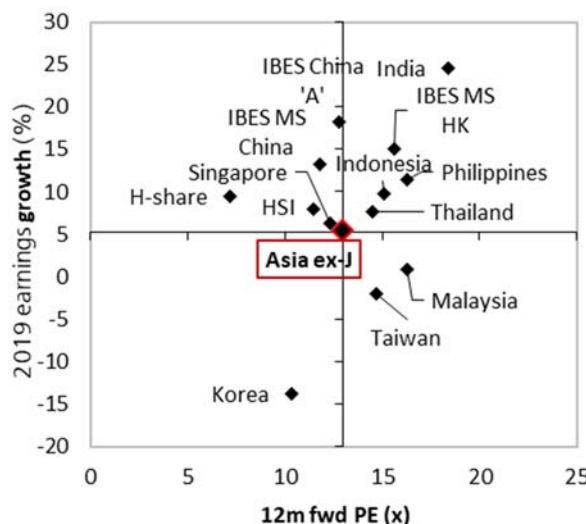
Source: Thomson Reuters, DBS

**We believe that Asian markets will have more upside potential in the second half after the worst of the economic growth scare is over, leading to earnings upgrades.** While recession risk has increased, our view is that the risk is for recession to happen at end 2020 and a

recession is unlikely this year. A concerted global central banks' monetary easing effort should see recession risk abating if we see the front end of the yield curve coming down more meaningfully when central banks start cutting rates and the long end picking up after global slowdown fears diminish. Cyclically, we should see data recovering after a soft batch as early as the middle of Q2.

**Among Asia markets, positions in growth vs PE quadrants have not changed very much. Singapore and China are still attractively valued versus their growth prospects. Singapore and China remain our favoured markets.**

Asia ex-Japan markets — 2019 earnings growth vs PE



Source: Thomson Reuters, DBS

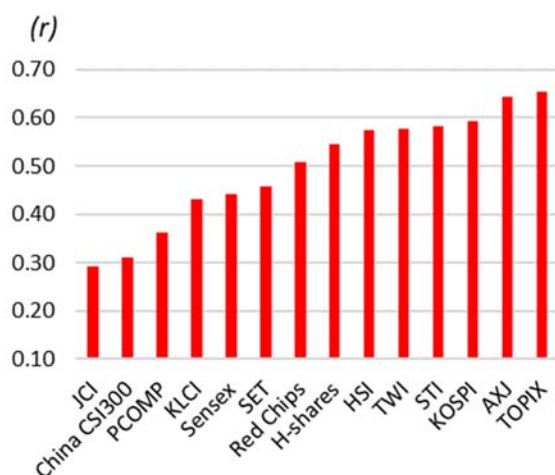
Meanwhile, earnings are already in a recession in Korea and Taiwan, and we believe there are still downside risks as the global electronics cycle have yet to see any uptick. EM Asean and India have resilient growth but are expensive. We are selective in these markets depending on technicals and momentum. **Indonesia is one market we favour structurally but near-term elections should put the market in a pause, though it will still see good support.**

In Singapore, we believe that there are still pockets of opportunities in some sectors. **Singapore REITS should enjoy a prolonged rally as the yield gap widens further versus bond yields,** and dividend yields offered by the sector are very attractive in a low bond-yield environment. Government policies should still be pro-growth in its efforts to transform and upgrade the

economy, and a general election expected to take place by January 2021 at the latest.

**China A's low correlation with the global markets should make it an attractive safe haven in the face of global risks.** Driven by MSCI 'A' share inclusion, government stimulus, indications of progress made on the trade war and still attractive valuations, we believe the rally can still be sustained. Other than efforts made in stimulating the economy and stabilising growth, structural changes such as new growth transformation initiatives in Greater Bay Area, science and technology innovations and capital market reforms should bring about more opportunities.

#### Asia markets — Correlation with the US



Source: Thomson Reuters, DBS. Correlation calculated based on 5-year weekly returns with 1-day lag for the US

**Chinese listed stocks in Hong Kong should catch up with their Chinese peers.** We believe investors are waiting for a trade deal before reassessing the more positive aspects of the market. A trade deal, such as one which rescinds past tariffs and stabilise the RMB could boost confidence in a global trade recovery and kick start a new investment cycle. **We are positive on Chinese stocks that are listed in both Hong Kong and China, as they could benefit from**

**1) policy stimulus (such as banks and infrastructure companies); 2) capital market policy reforms (such as insurance and Chinese brokerages); and 3) new growth transformation initiatives in Greater Bay Area and the Technology sector.**

#### Events to monitor in April / May

1. Increasing prospects for Fed rate cuts — March meeting minutes April 11, and next Fed meeting May 1-2
2. Brexit development — likely knee-jerk reaction, but remains watchful for impact on euro
3. European parliamentary elections — watch out for impact on euro and USD, and exaggerated downside risk to global growth
4. Monitor exports growth and PMI surveys to look out for bottoming signals, especially from China
5. Indonesia – election result, if unexpected, is a major tail risk for the market
6. Thailand – expect policy delays post elections and downside risk to growth accelerate
7. Philippines – possible RRR and interest rate cut if inflation falls further
8. Singapore 1Q GDP and MAS currency policy changes – A re-assessment on growth outlook and prospects of fund flows
9. India elections stretching over 11 April-19 May – sentiments to remain positive for India markets; remains watchful for sentiment swing as market has rallied
10. Oil price – Uncertainties over Iran's oil exports when 180-day waiver ends in April; OPEC output cut, Venezuela political risks, and resumption of US refinery activities

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