



Interview Series

WIOF South-East Asia Performance Fund

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ASEAN MAY BENEFIT FROM STRONGER US ECONOMY UNDER TRUMP

In this latest interview with selected fund managers, Ken Goh, Portfolio Manager at CIMB-Principal Asset Management and portfolio manager for the WIOF South-East Asia Performance Fund, gives his view on what the year's big political shocks of Brexit and the election of Donald Trump as US president mean for South-East Asian economies and other emerging markets and what 2017 may have in store for the ASEAN region.

2016 delivered two major political surprises for world markets – the UK's Brexit vote and Donald Trump's US presidential election victory. Markets did not expect either to happen. Why do you think they did not expect them?

There are several reasons. 1) Polls failed to accurately depict sentiment on the ground. 2) Market participants tend to be from the upper class, and divorced from the day to day problems of the working class. Market participants also live in cities, and won't have a good picture of the rural/urban divide. 3) Markets also failed to grasp the seismic anti-globalisation sentiment engulfing developed economies.

Do you think that in the wake of these two surprise votes, markets and investors will have a major re-think of how much they can rely on pre-election polls and forecasts?

Yes they will. Polls can give a skewed and incomplete picture.

Both events, particularly Brexit, have raised questions about the long-held belief that emerging markets carry inherently more political risk than developed markets. Do you think what has happened this year might have changed investors' views of political risk in emerging markets and if so, how much would markets in a region like ASEAN be able to benefit from this?

Perhaps, but anti-globalisation sentiment in developed markets, if it becomes extreme, could negatively affect emerging markets due to trade protectionism. ASEAN also seems to be increasingly pivoting towards China and if the shift in pivot to China turns out to be too fast, then it could create uncertainties among businesses, for example the Philippines.

Looking firstly at Brexit, is it likely to have much of a direct effect on ASEAN markets or is its effect on the region likely to be more an indirect one if it causes global growth to slow?

Largely indirect for now. Direct trade exposure to the UK is low for most ASEAN countries. There would be concern, though, if there were a domino effect across Europe.

In the first few weeks since Donald Trump's election we have seen quite a lot of volatility on world markets. Are you expecting much of this volatility to have dissipated by the time he takes office in January or is it likely to go on for some time?

Volatility will continue. But from a risk reward perspective, the market is clearly already now pricing in that he will push through infrastructure spending, tax cuts etc. and therefore, on the flip side, it reduces the room for him to exceed expectations after he takes office in January.

While it is still very early days and Trump's plans for his presidency are not completely clear yet, he has already said he will pull the US out of the Trans Pacific Partnership (TPP) deal. What effect will this have on the ASEAN region both directly in terms of trade with the ASEAN countries which were to be involved in the TPP and also as a signal on what the region can expect in his future approach towards its markets?

TPP has yet to be implemented, so the impact of the US pulling out from TPP will be in the form of opportunity loss, not a direct hit to existing economic conditions in ASEAN. Vietnam was expected to be one of the countries to benefit the most from TPP. ASEAN countries, especially the Philippines, are increasingly pivoting towards China. ASEAN countries will also try to hedge their bets with other large economies such as Japan.

So far, many analysts have predicted that the Trump presidency is likely to be largely negative for emerging markets. Would you agree with that sentiment?

The initial expectation of the Trump presidency is that there will be a potentially significant boost to the US economy and inflation, resulting in rising US bond yields and USD appreciation, which is negative for emerging markets if the USD rises too rapidly. On the other hand, due to improving supply discipline, commodity prices have been recovering, which is positive for emerging markets. With a potentially stronger US economy, emerging markets could benefit via better terms of trade.

Obviously, 2016 was not all about Trump and Brexit. What other events and developments were, in your view, important for ASEAN markets this year and why?

Geopolitically, the clear shift in the Philippines' pivot away from the US and towards China, which has created uncertainty among businesses in the Philippines.

It has also been almost exactly a year since the establishment of the ASEAN Economic Community (AEC). How has the AEC worked out so far and what do you see as the AEC's long-term benefits for the region?

Most of the initial changes have had to deal with tariffs related to goods, which have gradually been brought down over the past few years. In the long term, a more consolidated economic community will facilitate efficient trade, capital and labour flows among the members, improve economies of scale and the competitiveness of the community in the global context for trade and capital flow.

Looking forward to 2017, what major events and developments are you expecting for the ASEAN region as a whole and the individual countries within it?

For the ASEAN region as a whole, certain economies like Indonesia and Thailand are showing signs of recovery after fiscal and monetary easing while the commodity price recovery is a boon. To cultivate a resilient long term growth outlook, ASEAN governments need to roll out reform and infrastructure projects, especially in the Philippines, Indonesia and Thailand. We also need to watch out for elections in Thailand and Malaysia. In Thailand, the general election is expected to be held in late 2017/early 2018, while the junta is rolling out infrastructure projects and small incentives to support the slow-growth economy. For Malaysia, general elections need to be held before the middle of 2018, therefore the government is expected to roll out election-friendly measures to support the economy. Singapore, as an open economy linked to the region's other economies, might also indirectly benefit from the recovery in its neighbours' economies. Indonesia should see the fruits of the good progress made on reforms in 2016 but will need to see progress in tax reform and infrastructure roll out from the new administration, and more refined speech from the President.

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