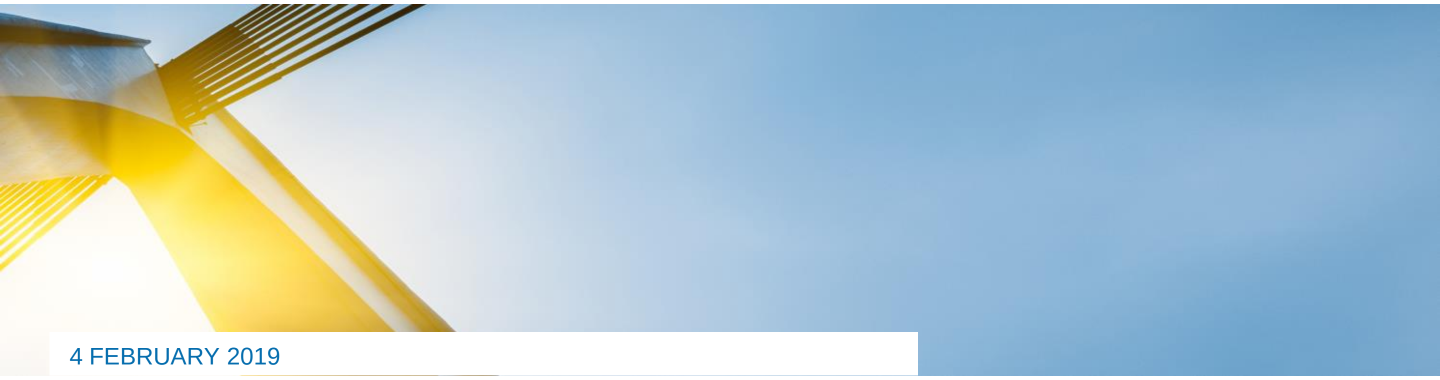

4 FEBRUARY 2019

Chinese Astrology and Investment: Myths and Pre-conceptions

In Chinese mythology, the most auspicious zodiac is the dragon. Yet in Hong Kong, dragon years historically have shown poor stock market returns, going back to 1965. Likewise in Taiwan: dragon years have been volatile but the median return was -1%. Only in Singapore has the dragon breathed some fire, providing the 3rd-best returns among the 12 zodiacs. In the case of HK, the best zodiac in terms of equity returns has been the pig, which could bode well for the upcoming year; in Taiwan, the rabbit has most rewarded equity investors, while the goat has been the mascot in Singapore.

Read more on page 2 >

Market Performance

In the US – the Dow Jones Industrial Average, S&P 500 and Nasdaq Composite advanced by 7.17%, 7.87% and 9.74% respectively in January.

The European Stoxx 600 gained 6.23% alongside the Nikkei 225 and Topix (3.79% and 4.91%, respectively).

The MSCI Emerging Markets also rose 8.71% led by MSCI Latin America (14.87%), MSCI Emerging Europe (10.73%) and MSCI AsiaXJapan (7.28%).

Within Asia, the Hang Seng China Enterprises Index was the biggest outperformer, surging 9.00%.

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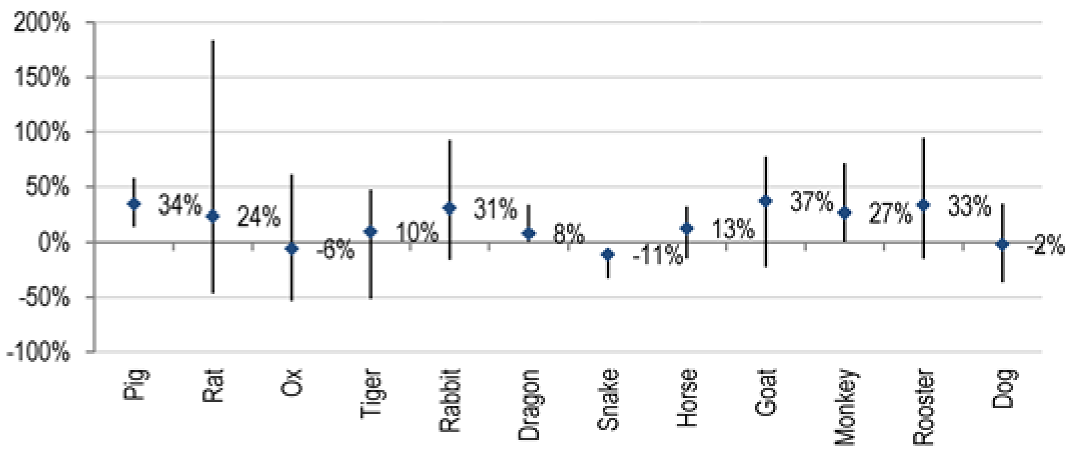
Chinese Astrology and Investment: Myths and Pre-conceptions (continued)

- Number 8 spells wealth but not for equity investors - Stocks with an 8 in the ticker or 8 as the first number of the ticker have failed to yield the best returns. In the case of China, the number 7 has yielded higher returns than the supposedly lucky 8. Indeed, the number 4 has yielded better returns than the number 8. In HK, the number 3 has yielded better returns than an 8 in the ticker, though a number 8 has beaten stocks with the number 4. As to Taiwan stocks, those with a 0 have yielded the best returns while the notionally lucky 8 has left investors out of pocket. In Korea, 7 is the lucky number, and yet stocks in the domestic market with the ticker 8 have beaten those with a 7.

Hang Seng Index Performance by Chinese Zodiac



Source: Citi Research. As of 29 January 2019.

- Myth #1: Earnings growth is the way to stellar returns - Emerging markets appeal as an investment class as they offer the lure of growth. While stocks of companies with high earnings growth beat those with low or negative earnings growth, their performance is trumped by those of stocks enjoying positive earnings revisions. When it comes to EPS growth, analysts tend to set their estimates high and then chip away at them in subsequent months. As such, the market assigns a high discount rate to earnings forecasts. Rather, Citi analysts believe that earnings revisions are more reliable, which signal whether analysts are turning more bullish or bearish on a stock.

- Myth #2: Dividends signal that stocks are ex-growth - Unlike the common misperception, stocks paying decent dividends are not ex-growth investment has-beens. Quite the opposite. Investing in the top quintile of dividend yields would have delivered the best returns in all of EM, the best in Asia ex-Japan, the third best in EMEA and the best in Latin America. Why so? Dividend plays are largely neglected, inexpensive, and they offer exposure to profitable companies in which the interests of shareholders are aligned.

Emerging Market Debt – What to Expect in 2019?

In this update, Citi analysts discuss the emerging market debt landscape, its challenges and our expectations for the asset class in the new year.

- Bond valuations in global emerging markets (EM) look much different than 12-months ago. While we would not classify EM bonds as cheap, spreads and yields have largely discounted many known risks. Still, elevated volatility should be expected and may likely remain a challenge to benchmark performance over the coming year.

- Obstacles to the EM outlook include the path of Federal Reserve policy, US/China trade wars, commodity prices and politics (foreign and domestic). That said, Citi analysts believe EM debt is poised to modestly outperform over the coming year. As such, Citi analysts hold a slight overweight in EM debt in our global asset allocation framework.

- In Asia, real rates in Indonesia, India and Malaysia have risen thanks to rising nominal rates and falling inflation. The currencies of these countries have been among the weakest in the region over the last two years, but that may change in 2019. The key issues in India and Indonesia remain the general elections in April-May 2019. However, high yields (nominal and real) can also provide an important cushion as Fed tightening continues. In China credit, markets have pushed real estate bond spreads significantly wider due to poor financial conditions. That said, recent policy steps to ease credit for the private sector may see liquidity flow into the property sector, benefitting both bonds and bank loans. Moreover, property sales have met or exceeded targets in 2018, particularly for large developers, while construction starts have begun to rebound. As such, Citi analysts see value in this sector, as investor worries over default risk are likely overdone.

"China property bonds have widened meaningfully, though may benefit from recent policy steps to ease credit for the private sector."

Asia property bond spreads widest since 2015

Source: Citi Private Bank. As of 4 December 2018.

- In Latin America, Brazil is Citi's favored market, while political uncertainty has cheapened Mexican bonds. In Eastern Europe/Africa, volatility may likely be persistent, though South Africa and Russia are areas which may offer opportunity.

Where could Oil Prices be Heading?

In this report, Citi analysts explore three cases of OPEC+ projection cuts and their respective inventory trajectories.

- Oil prices are being influenced by global factors, particularly OPEC+ output cut decisions, overlapping with foreign policy and oil policy considerations between the US, Iran, Saudi Arabia, and Russia, but also worries about weak oil demand, reflecting global economic concerns, including over US-China trade.

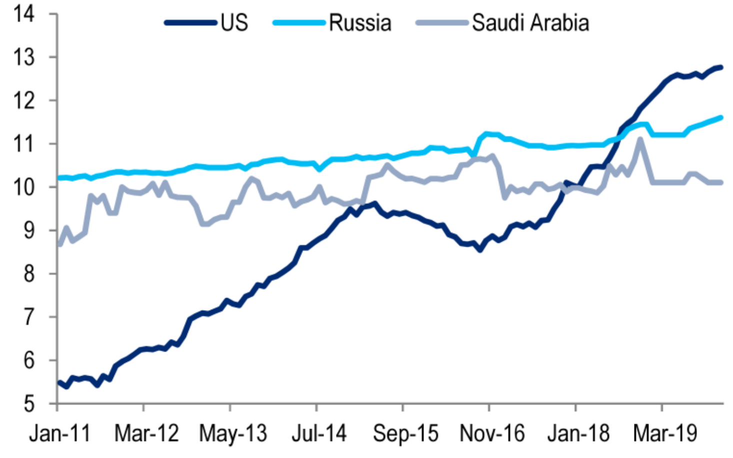
- Supply disruption risks remain pertinent, particularly in Iran due to US sanctions as well as Iraq, Libya, Nigeria, and Venezuela.

- In Citi's main updated scenarios, OPEC+ could
- (1) hold their nominal 1.2-m b/d of output cuts to end-2019, pointing to $62 Brent in 2019, or
- (2) OPEC+ might gradually reverse cuts gradually over 2H19, pointing to $57 Brent in 2019 but seeing greater market share versus US shale.
- If (3) OPEC+ holds cuts to end-2020, prices could be higher at $69 in 2019, but at the expense of market share as US shale grows more rapidly.

- In all cases, Citi analysts see oil prices trending back to the $45-60 range through to 2023, with a key tension for OPEC+ vis-à-vis US shale – supporting a higher price could mean ceding more market share to US producers.

"Global oil markets could be roughly balanced through to 2023 at $45-60 Brent."

Crude oil output by the largest three producer (m b/d)



Source: Citi Research. As of 15 January 2019.

Implications of a Fed Pause

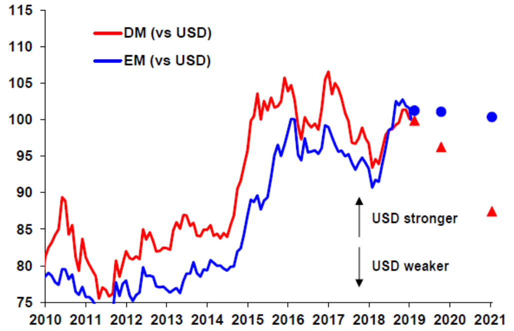
Citi analysts forecast the USD to be flat vs. G10 over 0-3 months and around 3-4% weaker over 6-12 months.

- USD: As the Trump fiscal stimulus fades in its impact on US economic activity, longer term Treasuries yields may likely peaked and the relative growth support to the $ may be perceived to be fading. Fading growth support and tighter financial conditions have prompted the Fed to be more dovish which in turn has prompted US rates to start pricing cuts and has caused yield spreads to move against USD. This is likely to continue and coupled with the wider fiscal deficit twinned with a wider external deficit, Citi analysts believe the USD may head lower.

- EUR: Whilst the underlying growth in Europe slowing, the ECB may still be able to lift rates provided exports to China remain strong. To that end, China's reflation is key and would be EUR positive. Even so, broader support for EUR still continues from strong current account surplus. Additionally, as ECB actions reduce net bond outflows further in 2019, this may eventually turn into a EUR positive.

"Citi analysts forecast the USD to be flat vs. G10 over 0-3 months and around 3-4% weaker over 6-12 months."

DM & EM – Forecasts Path



Source: Citi Research. As of January 2019.

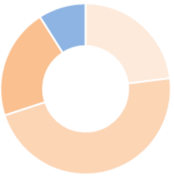
- AUD: Remains highly correlated to Asia Dollar Index (ADXY) and in the near term is supportive for AUD, as US – China trade negotiations have positive momentum and PBoC manages the currency accordingly. However, the outlook for RBA remains questionable with risks increasingly two way as house prices continue to fall, credit conditions tighten and inflation remains low. But this is balanced by supportive China easing and a bearish dollar narrative all of which is likely to see AUD/USD broadly flat.

- Asia: RMB depreciation pressure may remain limited during the 90-day trade truce between China and the US. As 7.00 is still an important psychological barrier, the PBoC may not allow RMB to depreciate beyond this level. However, depreciation pressure may resume after March 1 if there is no bilateral agreement.

1Q19 Model Portfolios

Defensive

Seeking primarily capital preservation over time and only willing to accept very minor portfolio value fluctuations from month to month.



Cash	20%
Developed Govt Bonds	47%
Global IG Corp Bonds	21%
Global Equities	12%

Income Oriented

Seeking growth of wealth over time but unwilling to accept significant fluctuations in the value of portfolio from month to month.

Developed Govt Bonds	37%
Global IG Corp Bonds	26%
HY Bonds	5%
US Equities	9%
European Equities	6%
Global Equities	12%
Global REITs	5%

Growth And Income

Seeking long-term capital growth foremost but unwilling to accept significant losses on value of portfolio over the medium term.

Developed Govt Bonds	21%
Global IG Corp Bonds	19%
HY Bonds	4%
Emerging Market Debt	4%
US Equities	19%
European Equities	13%
Pacific Equities	7%
EM Equities	5%
Global REITs	8%

Growth Oriented

Seeking long-term capital appreciation and willing to tolerate measured medium-term volatility in order to enhance longer-term performance.

Developed Govt Bonds	8%
Global IG Corp Bonds	14%
HY Bonds	5%
Emerging Market Debt	6%
US Equities	24%
European Equities	16%
Pacific Equities	9%
EM Equities	8%
Global REITs	10%

Aggressive Growth

Seeking long-term capital appreciation and can accept potentially large losses on portfolio over the near-to-medium term in order to maximise long-term performance.

Global IG Corp Bonds	5%
HY Bonds	5%
Emerging Market Debt	6%
US Equities	29%
European Equities	22%
Pacific Equities	11%
EM Equities	10%
Global REITs	10%

World Market at a Glance

	Last price	52-Week	52-Week	Historical Returns (%)			
	31-Jan-19	High	Low	1 week	1 month	1 year	Year-to-date
US / Global							
Dow Jones Industrial Average	24999.67	26951.81	21712.53	1.82%	7.17%	-4.40%	7.17%
S&P 500	2704.10	2940.91	2346.58	2.34%	7.87%	-4.24%	7.87%
NASDAQ	7281.74	8133.30	6190.17	2.94%	9.74%	-1.75%	9.74%
Europe							
MSCI Europe	430.75	514.01	390.84	2.02%	6.65%	-16.32%	6.65%
Stoxx Europe 600	358.67	397.86	327.34	0.84%	6.23%	-9.30%	6.23%
FTSE100	6968.85	7903.50	6536.53	2.20%	3.58%	-7.50%	3.58%
CAC40	4992.72	5657.44	4555.99	2.48%	5.54%	-8.92%	5.54%
DAX	11173.10	13204.31	10279.20	0.39%	5.82%	-15.29%	5.82%
Japan							
NIKKEI225	20773.49	24448.07	18948.58	0.97%	3.79%	-10.06%	3.79%
Topix	1567.49	1867.88	1408.89	0.96%	4.91%	-14.66%	4.91%
Emerging Markets							
MSCI Emerging Market	1049.93	1248.51	929.90	2.99%	8.71%	-16.31%	8.71%
MSCI Latin America	2947.57	3203.58	2366.54	2.46%	14.87%	-7.83%	14.87%
MSCI Emerging Europe	168.46	185.91	147.18	1.79%	10.73%	-8.44%	10.73%
MSCI EM Middle East & Africa	266.27	315.64	229.47	2.76%	10.75%	-15.22%	10.75%
Brazil Bovespa	97393.74	98405.21	69068.77	-0.29%	10.82%	14.70%	10.82%
Russia RTS	1214.45	1339.41	1033.31	2.21%	13.64%	-5.30%	13.64%
Asia							
MSCI Asia ex-Japan	640.04	761.10	568.61	2.96%	7.28%	-16.58%	7.28%
Australia S&P/ASX 200	5864.65	6373.50	5410.20	-0.02%	3.87%	-2.87%	3.87%
China HSCEI (H-shares)	11035.73	13622.42	9761.60	3.22%	9.00%	-18.63%	9.00%
China Shanghai Composite	2584.57	3487.72	2440.91	-0.27%	3.64%	-25.75%	3.64%
Hong Kong Hang Seng	27942.47	32778.51	24540.63	3.03%	8.11%	-15.04%	8.11%
India Sensex30	36256.69	38989.65	32483.84	0.17%	0.52%	0.81%	0.52%
Indonesia JCI	6532.97	6693.47	5557.56	1.03%	5.46%	-1.10%	5.46%
Malaysia KLCI	1683.53	1896.03	1626.93	-0.59%	-0.42%	-9.90%	-0.42%
Korea KOSPI	2204.85	2565.99	1984.53	2.79%	8.03%	-14.09%	8.03%
Philippines PSE	8007.48	8810.75	6790.58	-0.71%	7.25%	-8.63%	7.25%
Singapore STI	3190.17	3641.65	2955.68	-0.02%	3.96%	-9.73%	3.96%
Taiwan TAIEX	9932.26	11261.68	9319.28	0.56%	2.11%	-10.55%	2.11%
Thailand SET	1641.73	1852.51	1546.62	1.31%	4.98%	-10.13%	4.98%
Commodity							
Oil	53.79	76.90	42.36	1.24%	18.45%	-16.90%	18.45%
Gold spot	1321.20	1365.40	1160.27	3.12%	3.02%	-1.78%	3.02%

Source: Citi Research as of 31 January 2019.

Currency Forecasts

	Currency	Last price 31-Jan-19	Forecasts Mar-19	Jun-19	Sep-19	Dec-19
G10-US Dollar						
Euro	EURUSD	1.14	1.15	1.16	1.18	1.20
Japanese yen	USDJPY	109	108	106	103	101
British Pound	GBPUSD	1.31	1.30	1.32	1.34	1.36
Swiss Franc	USDCHF	0.99	1.00	0.99	0.98	0.97
Australian Dollar	AUDUSD	0.73	0.72	0.73	0.73	0.74
New Zealand	NZDUSD	0.69	0.68	0.68	0.68	0.68
Canadian Dollar	USDCAD	1.31	1.31	1.30	1.29	1.28
EM Asia						
Chinese Renminbi	USDCNY	6.70	6.86	6.88	6.90	6.85
Hong Kong	USDHKD	7.85	7.83	7.84	7.84	7.84
Indonesian Rupiah	USDIDR	13,973	13853	13966	14080	14233
Indian Rupee	USDINR	71.1	71.4	70.1	68.7	69.1
Korean Won	USDKRW	1,113	1121	1123	1125	1121
Malaysian Ringgit	USDMYR	4.10	4.09	4.07	4.05	4.01
Philippine Peso	USDPHP	52.1	52.9	53.000	53.2	53.2
Singapore Dollar	USDSGD	1.35	1.35	1.34	1.34	1.33
Thai Baht	USDTHB	31.2	32.1	32.5	32.9	32.8
Taiwan Dollar	USDTWD	30.7	30.8	30.9	31.000	30.9
EM Europe						
Czech Koruna	USDCZK	22.49	22.3	22.0	21.7	21.1
Hungarian Forint	USDHUF	276	282	278	274	270
Polish Zloty	USDPLN	3.72	3.73	3.69	3.64	3.57
Israeli Shekel	USDILS	3.63	3.69	3.67	3.65	3.64
Russian Ruble	USDRUB	65.4	67.5	66.3	65.2	65.8
Turkish Lira	USDTRY	5.16	5.76	6.10	6.44	6.55
South African Rand	USDZAR	13.25	13.84	13.48	13.12	13.19
EM Latam						
Brazilian Real	USDBRL	3.65	3.74	3.71	3.68	3.68
Chilean Peso	USDCLP	654	667	662	656	656
Mexican Peso	USDMXN	19.1	20.0	20.1	20.3	20.4
Colombian Peso	USDCOP	3107	3157	3108	3059	3033

Source: Citi Research as of 31 January 2019.

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