Understanding the Environment that Equity Fund Managers have to Navigate

by

Win Udomrachtavanic
Executive Chairman, KTB Securities (Thailand)

Outline

- Fund Manager Investment Process
- Global fund flow trend
- Global economic perspectives
- Asset Allocation Summary

Fund Manager Investment Process

Active Management

- For Active Management space, we are talking for equity security selection which leverage **Bottom-Up analysis** to select most likely outperform securities against representative benchmark.

Passive Management

- Passive investment involves **Top-Down analysis** to make an investment decision on big picture level such over-weight ***Country, Sector and Factors***. *The invested instrument of passive management style would be Exchange-Traded Funds (ETFs), passive mutual fund or index futures.*

Fund Manager Investment Process

Active Management

- *For Active Management space, we are talking for equity security selection which leverage **Bottom-Up analysis** to select most likely outperform securities against representative benchmark.*

Passive Management

- *Passive investment involves **Top-Down analysis** to make an investment decision on big picture level such over-weight **Country, Sector and Factors**. The invested instrument of passive management style would be Exchange-Traded Funds (ETFs), passive mutual fund and index futures.*

"We will focus on passive style (not go into security selection and will based all of analysis on Top-Down investment process"

Fund Manager Investment Process

Top-Down/Macro Analysis	Asset Class Analysis	Valuation Analysis
Goal > To assess cross-asset class preferences based upon prevailing economic conditions **Focus:** > Growth, inflation, production > Employment > Consumption > Housing and interest rates > Financial conditions > Government policy > Leading economic indicators **Outcome:** > Macro economic investment clock is generated to map asset classes to the economic cycle	**Goal** > To assess unique return drivers of each asset class **Focus:** > Momentum > Sentiment > Fundamental drivers > Capital flows > Liquidity > Stress indications **Outcome:** > Predictive analytical model generated for asset classes	**Goal** > To understand relative and absolute valuation across global asset classes **Focus:** > Relative global P/E multiples > Spreads > Earnings growth > Yields > Volatility > Global cross-correlations **Outcome:** > Risk-adjusted cross-asset class valuation matrix generated to assess relative appeal of investment instruments

Fund Manager Investment Process

Top-Down/Macro Analysis	Asset Class Analysis	Valuation Analysis

Economic Forecast

	Gross Domestic Product			Consumer Prices				Gross Domestic Product			Consumer Prices		
	2016	2017	2018	2016	2017	2018		2016	2017	2018	2016	2017	2018
	Annual rate of change in percent							Annual rate of change in percent					
Euro zone	1.7	1.8	1.6	0.2	1.4	1.4	Poland	2.8	3.3	2.8	-0.6	2.1	1.9
							Hungary	1.4	2.4	2.4	0.4	2.2	1.8
Germany	1.9	1.6	1.5	0.5	1.7	1.6	Czech Rep.	2.3	2.6	2.5	0.7	2.5	1.9
France	1.1	1.6	1.7	0.2	0.9	0.9	Turkey	1.4	3.3	2.0	7.8	10.0	7.4
Italy	0.8	1.0	1.1	-0.1	0.7	0.9	Russia	-0.6	1.3	2.0	7.1	4.5	4.5
Spain	3.2	2.8	2.5	-0.2	2.4	1.3							
Netherlands	2.1	2.0	1.7	0.3	0.8	1.1	USA	1.6	2.3	2.3	1.3	2.5	2.5
Belgium	1.3	1.5	1.4	2.0	1.8	1.9	Canada	1.4	2.3	2.0	1.4	2.0	2.0
Austria	1.5	2.0	1.5	0.9	1.5	1.6							
Greece	0.3	1.8	2.5	-0.8	0.7	1.0	Japan	1.0	1.0	1.0	-0.1	0.7	1.0
Finland	1.3	0.5	1.2	0.3	1.4	1.6	Australia	2.5	2.5	3.2	1.3	2.0	2.3
Portugal	1.3	2.0	1.5	0.6	1.3	1.5	New Zealand	3.1	3.0	3.1	0.6	1.6	2.0
Ireland	4.4	3.5	3.0	-0.2	0.8	1.3							
Slovakia	3.3	2.9	2.8	0.8	1.8	1.1	China	6.7	6.5	6.3	1.8	2.0	2.2
Slovenia	2.6	2.6	2.2	0.7	1.5	1.5	India	7.4	7.3	7.4	5.2	5.3	5.1
							Brazil	-3.4	0.1	2.0	8.8	4.3	4.5
United Kingdom	1.8	1.8	1.7	0.7	2.8	2.8	Mexico	2.3	1.4	1.0		5.1	3.5
Sweden	3.1	2.7	2.1	1.0	1.6	2.0	South Africa	0.3	0.8	1.5	6.3	6.2	6.0
Switzerland	1.3	1.2	1.7	-0.4	0.4	0.7							
Norway	0.9	1.6	1.8	3.5	2.0	2.0	World	2.8	3.3	3.4			

"By performing macro analysis, we can evaluate economic cycle of each country. In reality, we would not focus only the forecast figures, but also the implemented economic policies."

Fund Manager Investment Process

Top-Down/Macro Analysis | Asset Class Analysis | Valuation Analysis

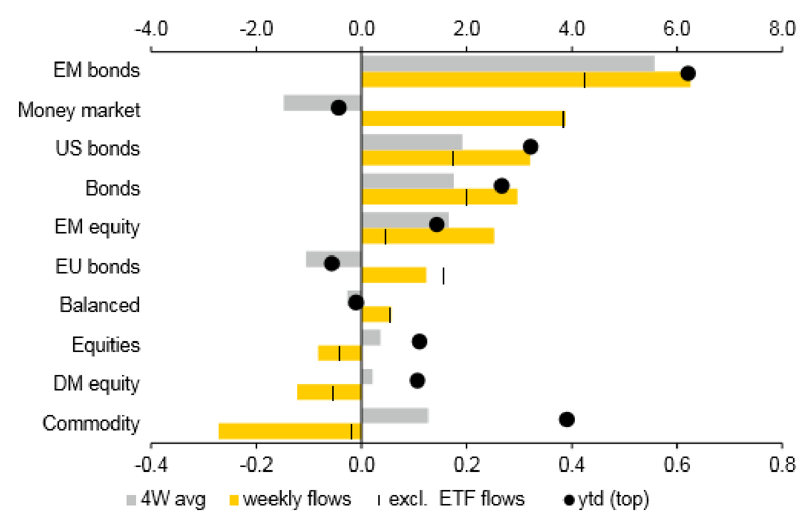
Fund Flow

EPFR fund flow data

AuM*, streak of flows, z-score of 1w/4w avg flows*****

as at 05/04/2017	AuM	Streak	● 1W ◆ 4W		AuM	Streak	● 1W ◆ 4W
Equities	8,888	-1		**Bonds**	4,193	3	
DM equity	7,936	-1		**DM bonds**	3,843	3	
Int. equity	1,818	16		Int. bonds	728	13	
Pacific	66	13		US bonds	2,272	3	
Europe	1,145	2		EU bonds	729	1	
Japan	388	13		Credit	495	11	
US equity	4,435	-3		Government	351	2	
EM equity	952	3		Credit/Government	1,313	16	
GEM	519	13		Inflation	109	-1	
EM Asia	364	2		Municipals	385	3	
Lat Am	29	2		Bank Loan	116	21	
EMEA	41	-2		High yield	527	1	
Global sector	1,199	-1		Total return	424	10	
Materials	218	-1		Mortgage	119	-1	
Consumer	58	-5		**EM bonds**	350	10	
Energy	135	-1		Blended currency	49	11	
Financials	122	-1		Local currency	149	5	
Health care	97	-4		Hard currency	155	15	
Infrastructure	36	1		**Others**			
Real estate	359	1		Money market	3,759	1	
Technology	97	5		Balanced	1,022	1	
Telecom	6	4		Alternative	140	1	
Utilities	46	1		Commodity	353	-1	

Fund flows by asset class (% of AuM)



"Fund flow was a by-product of historical actions which resulted from investment decision. We use fund flow analysis to conduct sentimental analysis whether it was still persist or any change in the crowed."

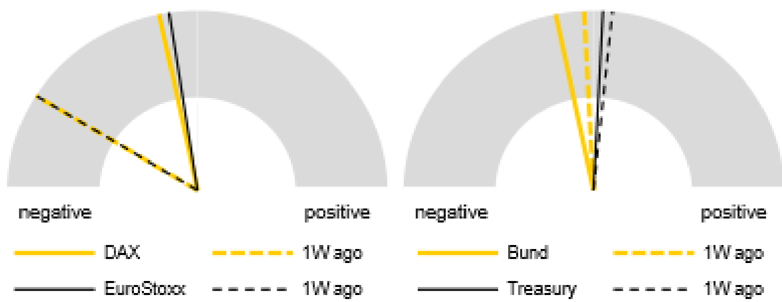
Fund Manager Investment Process

Top-Down/Macro Analysis	Asset Class Analysis	Valuation Analysis

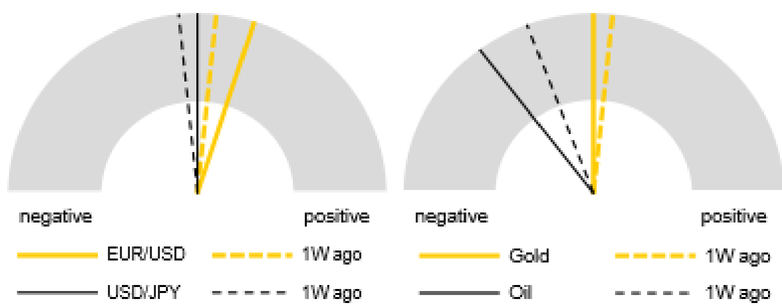
Sentiment Monitor

Sentimeter: signals for future asset performance

Equity | **Sovereign Fixed Income**



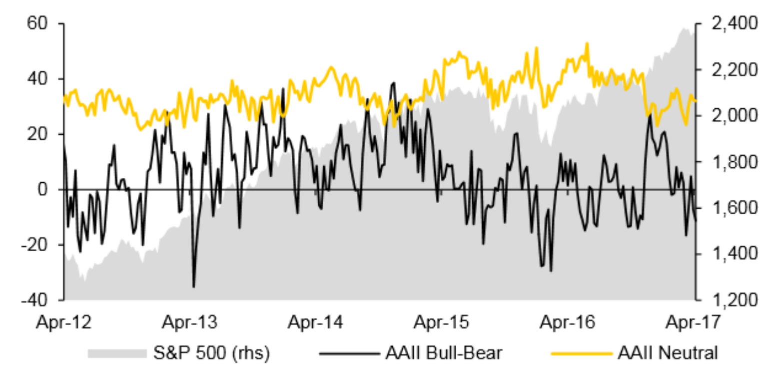
Currencies | **Commodities**



Note: Indication based strategies described in the sentiment Cross Asset Feature (01/11/2011); for currencies and gold based on bull-bear index, for equities, fixed income and oil also based on neutrality index

"Sentiment monitor gives an overview of key market sentiment data obtained from investor surveys. Hence, it would give the current investment environment whether it was in bullish / bearish or neutral stage."

AAII Sentiment Survey

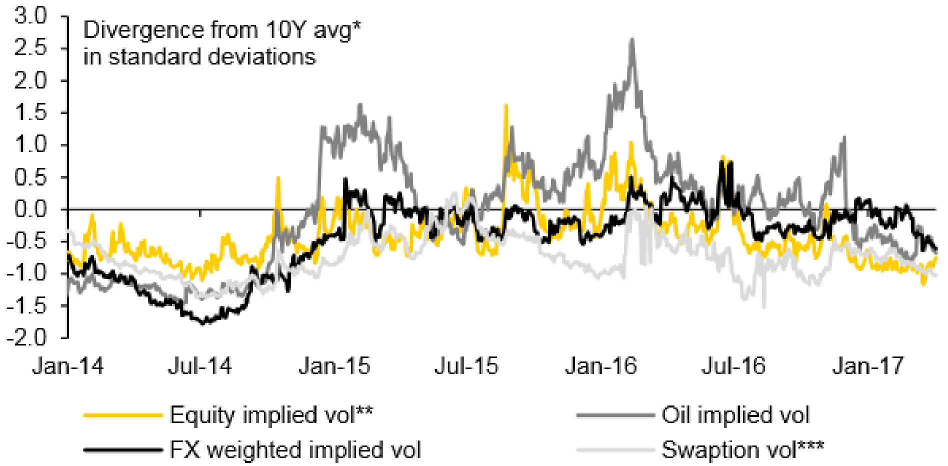


Fund Manager Investment Process

Top-Down/Macro Analysis	Asset Class Analysis	Valuation Analysis

Volatility monitor

Normalised implied volatilities



"Volatility Monito contains the information on the level and development of volatilities implied by option markets on cross asset classes (oil, equity, fixed income and currencies). The rising in implied volatility indicates risk averse of investors toward asset class."

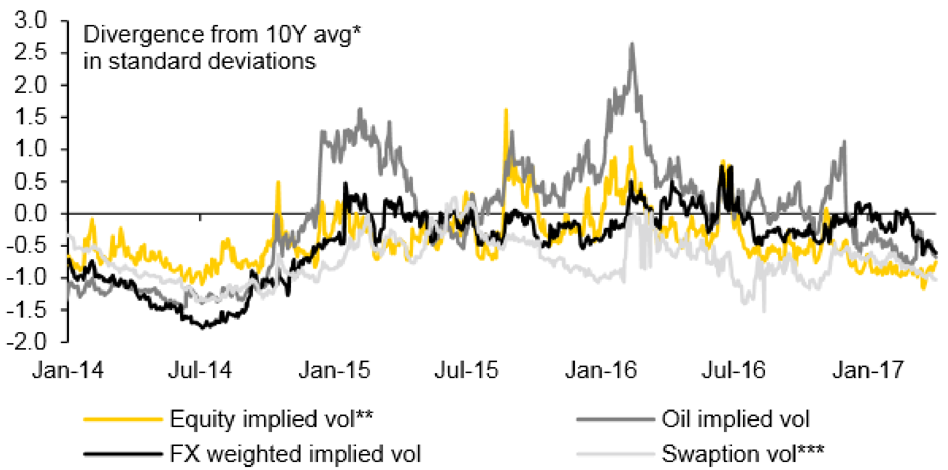
Source: Commerzbank AG

Fund Manager Investment Process

Top-Down/Macro Analysis	Asset Class Analysis	Valuation Analysis

Volatility monitor

Normalised implied volatilities



"Volatility Monito contains the information on the level and development of volatilities implied by option markets on cross asset classes (oil, equity, fixed income and currencies). The rising in implied volatility indicates risk averse of investors toward asset class."

Fund Manager Investment Process

Top-Down/Macro Analysis | Asset Class Analysis | **Valuation Analysis**

Valuation Analysis

12M fwd P/E ratio developed markets

"By performing macro analysis, we can evaluate economic cycle of each country. In reality, we would not focus only the forecast figures, but also the implemented economic policies."

Equity markets: valuation, earnings, growth and revisions

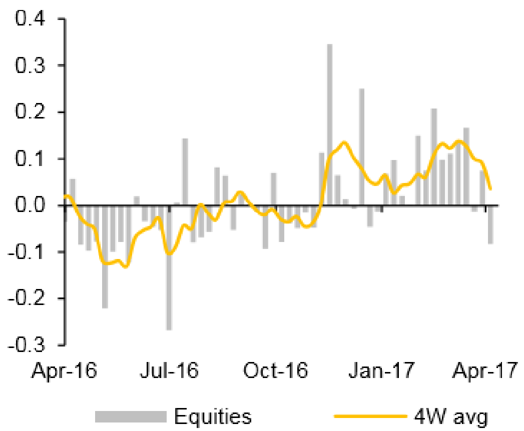
Index	Valuation						Earnings					Earnings growth		Revisions	
	Price 07/04/2017	P/B	Div yield	P/E 2017E	P/E 2018E	10Y avg*	2017 current	2017 1/3M chg (%)	2018 current	2018 1/3M chg (%)	Un-certainty**	2017E	2018E	Company rev (total/up/down)	Rev ratio***
MSCI World	**1845.5**	**2.2**	**2.8**	**17.0**	**15.3**	**13.7**	**108.5**	**+0.1/+0.1**	**120.4**	**+0.2/+0.1**	**6.4**	**12.4**	**11.0**	**(1604/838/650)**	**0.12**
S&P 500	2355.5	2.9	2.4	18.3	16.3	14.3	128.4	-0.2/-1.2	144.2	-0.1/-0.8	4.2	10.0	12.3	(500/233/242)	-0.02
Stoxx 600	381.3	1.8	3.6	15.6	14.2	12.3	24.4	+0.2/+0.7	26.8	+0.1/+0.3	8.9	14.3	9.8	(592/329/236)	0.16
Euro Stoxx	373.9	1.6	3.6	15.3	13.8	11.9	24.5	+0.1/+0.4	27.1	-0.1/+0.4	8.8	14.5	10.6	(291/164/120)	0.15
DAX	12225.1	1.7	2.7	14.0	13.0	11.5	870.2	-0.1/+0.5	942.5	-0.1/+0.3	8.3	8.9	8.3	(29/16/13)	0.10
MSCI UK	2140.8	1.8	4.2	14.7	13.6	11.9	145.4	+0.9/+2.1	157.0	+0.7/+0.4	10.5	21.6	8.0	(108/61/42)	0.18
SMI	8640.9	2.4	3.3	17.4	15.7	13.6	497.8	-0.4/-1.3	551.3	-0.4/-1.8	6.9	7.4	10.7	(20/8/11)	-0.15
Topix	1489.8	1.3	2.0	13.7	12.6	14.9	108.9	+1.4/+4.1	118.1	+1.3/+4.2	9.3	14.8	8.5	(1102/411/237)	0.16
MSCI Pacific ex Japan	1290.7	1.6	3.8	15.8	15.1	13.9	81.6	+1.2/+3.4	85.3	+0.9/+2.2	8.2	16.4	4.5	(148/78/61)	0.11
MSCI EM	**961.6**	**1.5**	**2.6**	**12.3**	**11.1**	**11.1**	**77.9**	**+0.3/+3.0**	**86.9**	**+0.6/+2.0**	**12.2**	**19.3**	**11.5**	**(788/329/402)**	**-0.09**
MSCI EM Asia	475.7	1.5	2.4	12.6	11.4	11.7	37.6	+0.4/+2.7	41.6	+0.5/+2.3	11.0	19.1	10.6	(545/233/275)	-0.08
MSCI EMEA	248.8	1.2	3.4	10.2	8.8	9.1	24.4	-0.1/+0.7	28.1	+0.6/+0.9	15.1	16.7	15.1	(151/69/73)	-0.03
MSCI EM Latin America	2648.3	1.7	2.4	13.6	12.2	11.9	194.4	+0.8/+8.1	217.5	+1.5/+2.6	14.9	24.3	11.9	(107/36/56)	-0.19

Source: Commerzbank AG

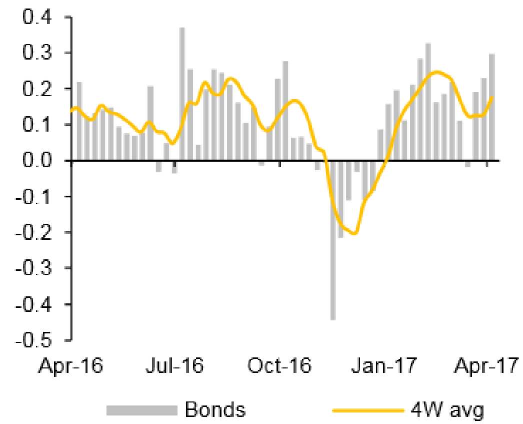
Global fund flow trend

Asset Classes Fund Flow

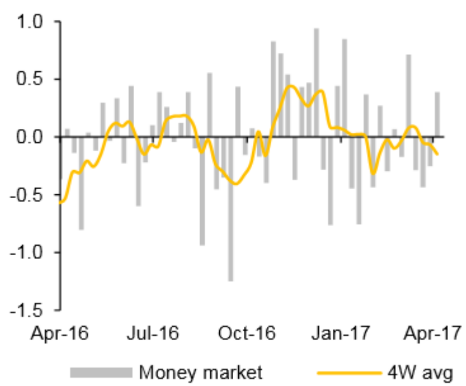
All equities



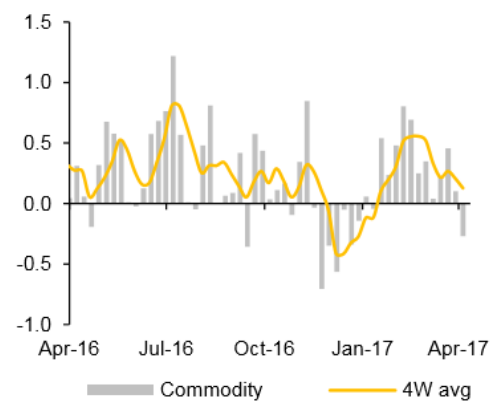
All bonds



Money market



Commodities



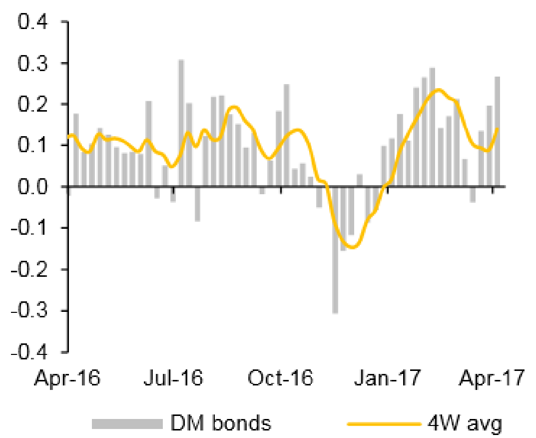
"From fund flow perspectives, they indicated that investors allocated more money toward fixed income securities which gained the benefit from slower pace of policy interest rate hike in US"

Source: Commerzbank AG, KTBST as of 10 April 2017

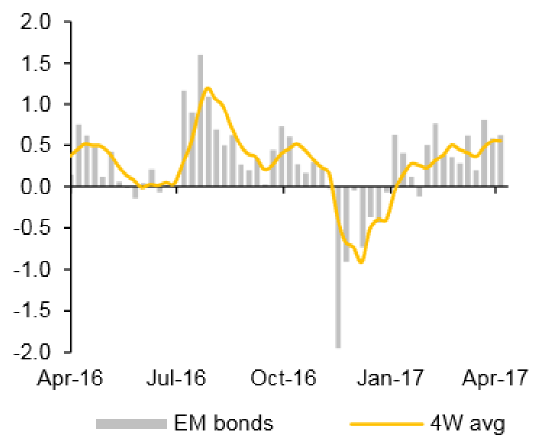
Global fund flow trend

Fixed Income Fund Flow

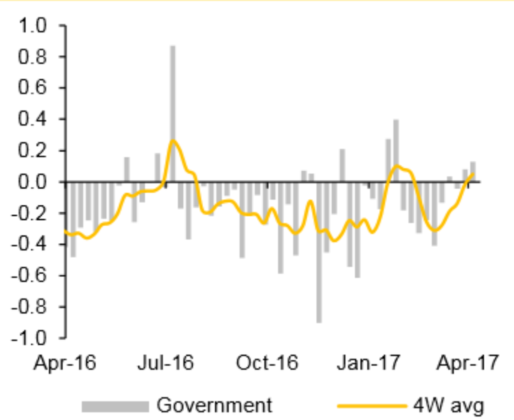
Developed market bonds



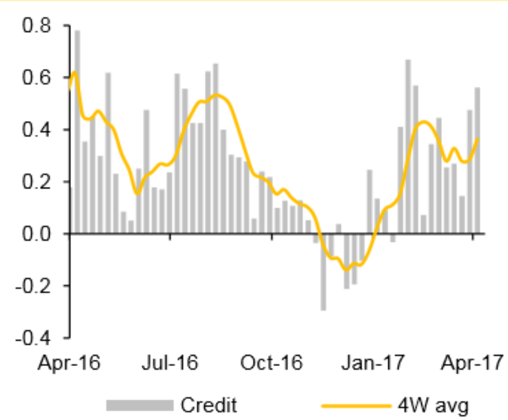
Emerging market bonds



Government bonds



Credit



"Among fixed-income sub-categories, risky fixed-income outpaced the interests of investors especially Credit and Emerging-market bonds."

Source: Commerzbank AG, KTBST as of 10 April 2017

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

Arising tension in North Korea

- ✓ Tensions could escalate further in April. Angered by the deployment of the aircraft carrier strike group USS Carl Vinson to waters off the Korean peninsula, North Korea's state media has warned of a nuclear attack on the US ("N.Korea warns of nuclear strike if provoked; Trump 'armada' steams on," Reuters, 11 April 2017). We expect tensions to rise amid the ongoing South Korea-US joint military exercises and a busy political calendar in North Korea (Noted, 25 April is the 85th anniversary of the Korean People's Army).

- ✓ Past incidents suggest that tensions tend to eventually give way to talks, and the focus in North Korea could potentially shift to seeking diplomatic concessions from the US. For example, during the summer of 2003, a similar period of escalating tension began on 9 June when North Korea declared its intention to build a nuclear deterrent. However, on 1 August 2003, North Korea said it was ready for talks. This precipitated the first round of six-party talks on 27 August 2003, followed by a second round in early 2004. These talks ended with North Korea agreeing to give up its nuclear program in exchange for aid. Past incidents suggest that heightened tensions tend to result in negotiations, with a larger pay-off to be potentially extracted from the negotiation table.

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

Timeline from breakout of tensions

Date	Events
12 Feb 17	North Korea Launches A New Intermediate-Range Ballistic Missile, Called Pukguksong-2, Into The East Sea. Experts Said The Country Appears To Apply Submarine-Launched Technology In The New Missile
26 Feb 17	China Bans All Imports Of North Korean Coal
06 Mar 17	North Korea Fires Four Ballistic Missiles From The Dongchang-Ri Launch Site Towards The Sea Of Japan
04 Apr 17	North Korea Test-Fires A Medium-Range Ballistic Missile From Its Eastern Port Of Sinpo Into The Sea Of Japan
06-07 Apr 17	Presidents Xi And Trump Meet In The US
07 Apr 17	US Cruise Missiles Strike An Airbase In Syria, In Retaliation For A Chemical Attack
07 Apr 17	China Asks Trading Companies To Return Their North Korean Coal Cargoes
09 Apr 17	USS Carl Vinson Strike Group Deployed Towards The Korean Peninsula
12 Apr 17	China's President Xi Jinping Urges Peaceful Approach To North Korea
16 Apr 17	News reported North Korea's missile test was failed shortly after launch.

Source: Various media sources, KTBST

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

Syria, the started point

- ✓ The US launched Tomahawk missiles at Syria overnight, escalating the conflict there. In a response to the recent chemical attack on a town in Idlib province that killed almost 100 people, the Trump administration launched missiles on a base that allegedly was the source of the chemical attack. Oil and other safe-haven assets such as gold increased on the news. Prompt and deferred month prices all increased, while time spreads did not move much. This comes on the eve of Iranian elections, an OPEC meeting, and dramatic Gulf OPEC member supply cuts.

- ✓ Why this matters for oil. There are three main reasons why this matters for the oil market. First, it likely signals a more interventionist Trump administration policy in the Middle East, a policy that, in our view, could be seen as more aligned with Saudi Arabia's goals, which could further deepen Sunni/Shia and external-actor fault lines in the region. Second, the market is tightening, and almost any escalation in geopolitical risk in the region that exports roughly 25 mb/d in crude and petroleum products increases prices. Third, with a major OPEC meeting just over a month away, such a conflict puts at risk an amicable outcome due to the critical role that heads of state played in the prior agreement.

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

Implication from Syria:

- ✓ ***States Intervention***, it signals a more interventionist foreign policy in the Middle East. With the Obama administration's aversion to military strikes in the aftermath of the Assad regime's attack in August 2013, Iranian and Russian support of the Assad regime has increased. This action is a clear contrast and in our view is a signal of US willingness to use military force against not just to the Assad regime but against other countries as well. Moreover, it is an effort by the Trump administration to move off the sidelines on diplomatic efforts to drive the outcome in Syria.

- ✓ From the oil perspective, the probability of military conflict elsewhere puts the market on edge. More direct proxy conflict between Saudi Arabia and Iran, in Yemen and in Iraq, given the destabilization in the status quo in Syria adds to geopolitical risk. Though heightened conflict with other Middle Eastern countries would likely be bullish for oil, conflict with North Korea would hinder trade routes and, depending on China's stance, would likely have bearish implications. The risk of a Persian Gulf blockade, direct and proxy conflict between Saudi Arabia and Iran, and the targeting of critical energy infrastructure by state and non-state actors has increased since the Arab Spring in 2011.

Global economic perspective

Arising geopolitical risks | Recap with French Election | UK General Election

- ✓ ***Oil Inventory,*** **the market is tightening. Crude inventories in the OECD increased in January and February, but will likely begin to draw in earnest in April and May when refinery turnarounds are complete. The oil market is never immune to geopolitical risk; however, the critical variable is the state of inventories. In an environment where inventories are building and the market is in contango, geopolitical risks to supply tend to have less price impact. Though the market today is not yet in backwardation, inventories are expected to draw through June, and the global balance of supply and demand is one that is currently, and forecast to be, far different than the 1-2 mb/d build/quarter environment that characterized 2015-2016.**

- ✓ ***OPEC meeting:*** **This event is yet another turning point that comes on the eve of Iranian elections, an OPEC meeting, and dramatic Gulf OPEC member supply cuts. The involvement of heads of state was a key determinant of success at the OPEC meeting in Vienna in November 2016. Our base case expectation remains that the meeting rolls over the agreement, but is likely to change some of the quotas. The escalation of the conflict in Syria complicates those delicate relationships.**

- ✓ **On balance, if the conflict continues to escalate, or if, for example, Iran retaliates in some form, prices are likely to continue their upward drift this quarter, supported by already strengthening fundamentals. A bearish scenario would entail OPEC failing to achieve a deal on May 25. Or, in the longer term, there would be bearish effects from a political scenario that brings about an endgame in Syria more quickly. We see the latter bearish scenarios as less likely than continued conflict, given the Assad regime's consolidation of power and reassertion of control over eastern territory.**

ktb Securities (Thailand)

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

The candidates:

Emmanuel Macron
En Marche!
Socially liberal centrist, pro-business

Marine Le Pen
National Front
Far-right leader with populist economic agenda

Jean-Luc Mélenchon
Rebellious France
Far-left anti-austerity firebrand

Benoît Hamon
Socialist Party
Left wing radical advocating a 32h-week

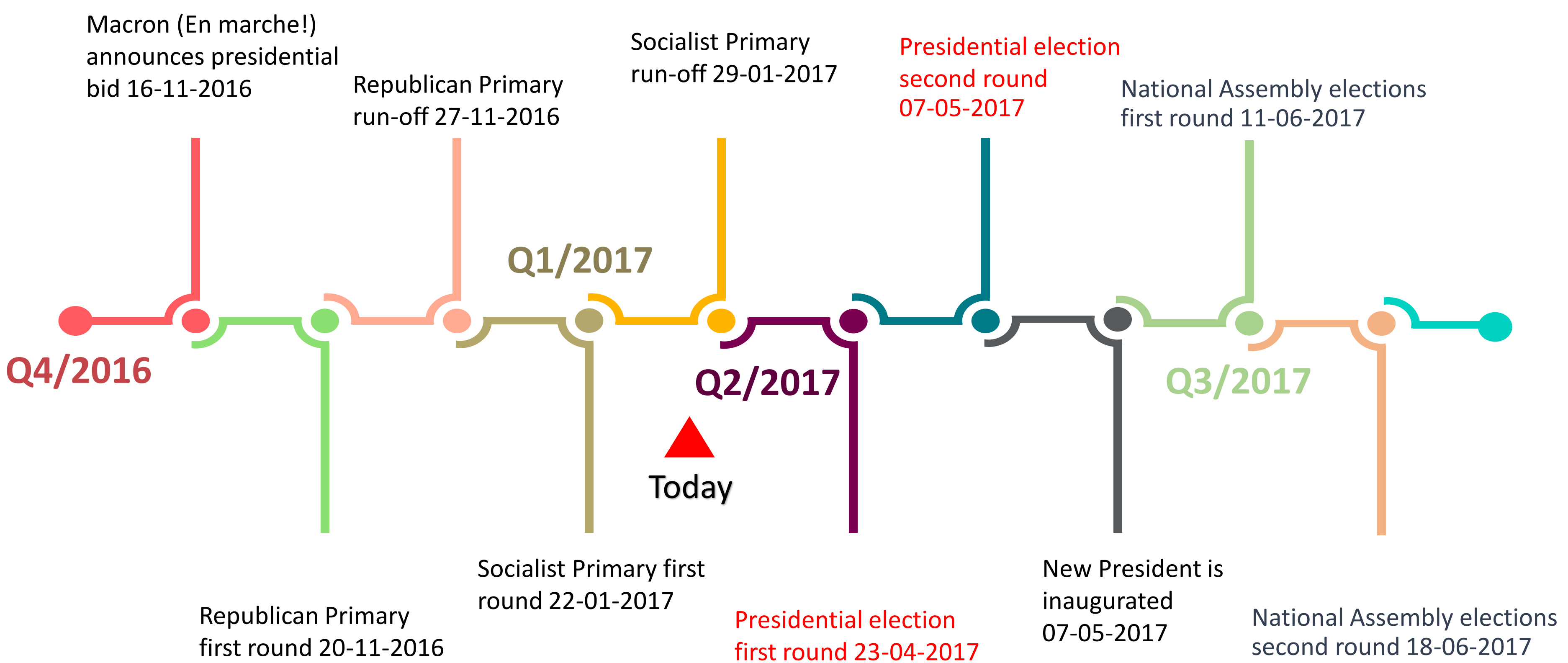
François Fillon
The Republicans
Centre-right conservative, pro deregulation

Source: Financial Times, KTBST

Global economic perspective

Arising geopolitical risks | **Recap with French Election** | UK General Election

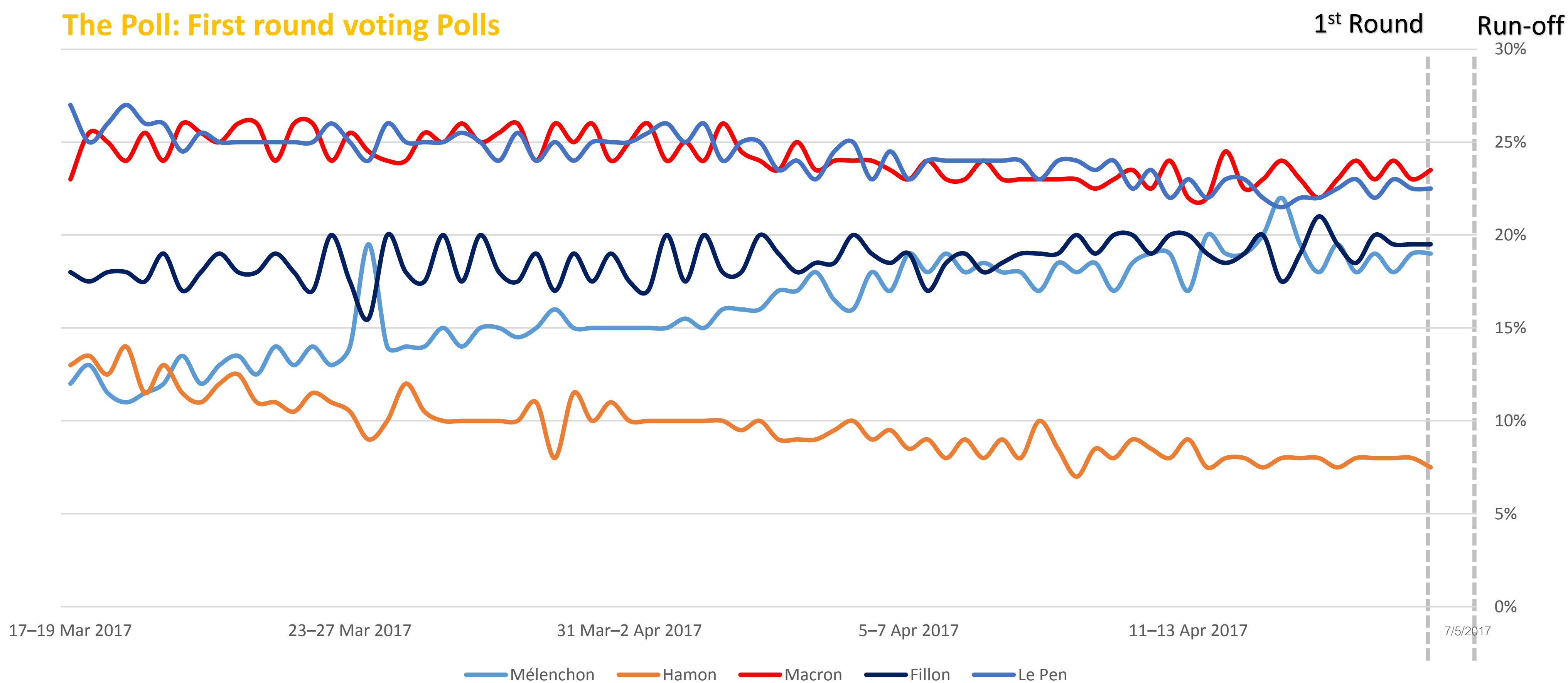
Timeline of the French presidential and parliamentary elections:



Global economic perspective

Arising geopolitical risks | Recap with French Election | UK General Election

The Poll: First round voting Polls



Source: Wikipedia, KTBST

Global economic perspective

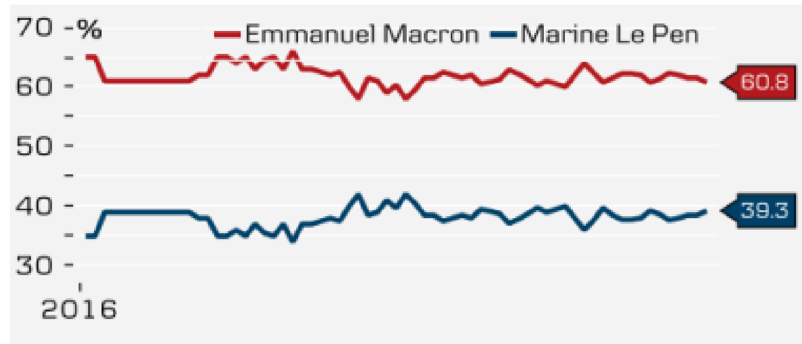
Arising geopolitical risks | Recap with French Election | UK General Election

Summary:

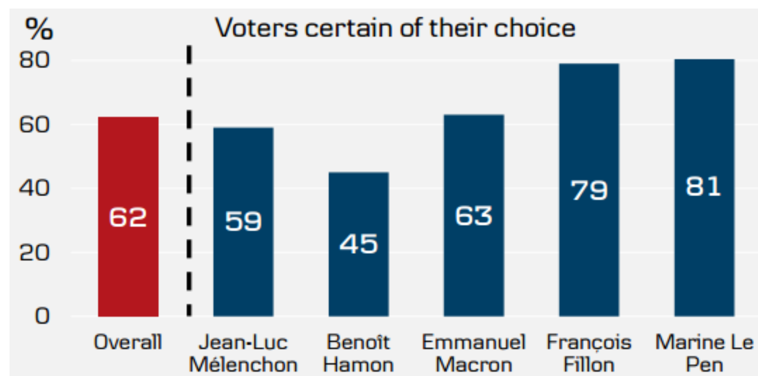
- ✓ For now, it still seems to come down to a second round run-off on 7 May between Le Pen and Macron, where the latter is projected to win at around 61% and the margin of winning for Macron has also stayed relatively stable since the beginning of the year

- ✓ However, the overall electorate is still not too determined in their voting intentions, as only 62% express certainty in their choice of candidate. Hence, the election outcome remains unpredictable and will to a large extent also depend on the participation rate. Traditionally, participation for presidential elections has been relatively high at around 80%. However, recent polls have suggested that voter turnout might be lower this time, only around 66-76%, due to widespread dissatisfaction with the political class. Should this be the case, it would be likely to boost Le Pen's chances of winning, as her supporters remain the most certain of their vote at 81%, compared to only 63% for Macron supporters. For the short-term market implications of a Le Pen win.

Run-off Polls



Le Pen voters remain the most certain in their choice



Source: Danske Bank, KTBST

Global economic perspective

Arising geopolitical risks | **Recap with French Election** | UK General Election

EU Economic Outlook Under the New President:

	Marine Le Pen	Macron
Government Debt (SR)	+	+
Government Debt (LR)	+	+/-
FR Credit Rating	-	+
Uncertainty	+	+/-
Protectionism	+	+
Anti-immigration	+	+
Unemployment Rate	+	-
Pro-Russian	+	N.A.

The outcome of the presidential election will also have important implications for the future direction of the French economy, which accounts for about one fifth of euro area GDP.

Source: KTBST

Global economic perspective

Arising geopolitical risks | Recap with French Election | UK General Election

Conclusion: Impact on asset classes

In reality, Frexit is unlikely, but impact in short term is inevitable

	Marine Le Pen		Macron	
	Positive	Negative	Positive	Negative
Currency	USD	EUR EM currency JPY	EUR	EM currency
Fixed Income	Developed Fixed Income (Ex-EU)	EU Fixed income EM Fixed income	EU Fixed income	EM Fixed income
Equity		Global EQ	EU equity	EM Equity
Commodity	Gold	Global REIT Basic Material		

Source: KTBST

Global economic perspective

Arising geopolitical risks	Recap with French Election	UK General Election

Theresa May

Prime minister of UK

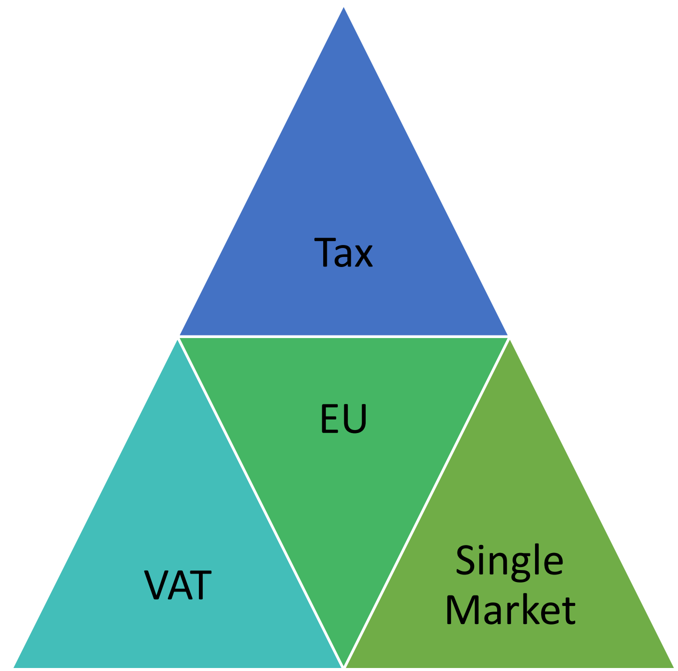
"Prime Minister Theresa May has announced her intention to push for a snap general election for the UK on 8 June. Our initial impression is that this is a mild positive for UK assets. We believe that the first reactions from the currency market, where sterling has strengthened by more than 1%, are justified. "

Global economic perspective

Arising geopolitical risks | Recap with French Election | **UK General Election**

Why call Election now?

- ✓ **The Conservative government has found itself hemmed in by the terms of the 2015 election manifesto which promised "we will not raise VAT, National Insurance contributions or Income Tax" and "We are clear about what we want from Europe. We say: yes to the Single Market." Following the budget debacle, when the Chancellor was forced to rescind a rise in National Insurance Contributions on the self-employed following a backbench revolt, it is clear that the current set of election promises is not fit for purpose in a post-Brexit UK. In addition, the government has only a relatively small working majority so it is hard not to conclude that Mrs. May wants more room for maneuver during the Brexit negotiations. Moreover, the fact that the opposition Labor Party is so far behind in the polls suggests they have little chance of causing an upset. Thus, despite the past promises by Theresa May that she would not call an early election, it is now the politically expedient thing to do.**



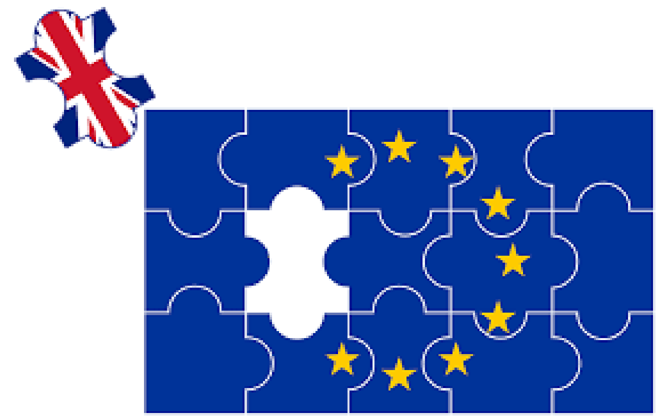
Source: KTBST

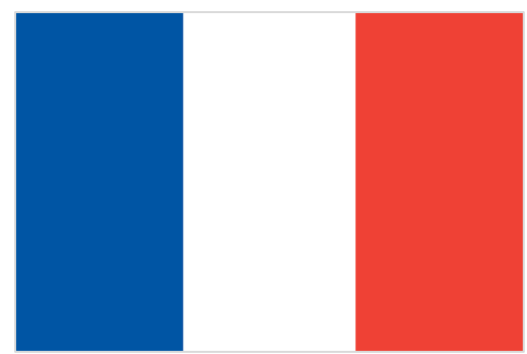
Global economic perspective

Is this a good or bad thing for European assets?

- ✓ **We think good. A softer Brexit is a positive, in our view, for both the UK and the European Union. Given that the UK is one of the largest economies in the EU (and indeed about the size of the smallest 20 EU economies combined), a hard Brexit was always going to be a negative for the EU (though potentially less so than for the UK). A 'softer' UK Brexit strategy should in principle mitigate the negative implications for the EU as well.**

- ✓ **The French elections remain a key factor. But a scenario appears more likely in which the UK is led by a Prime Minister with wider latitude to negotiate (and make some politically difficult concessions if needed), coupled with pro-EU governments in France (assuming the polls are correct in forecasting an eventual Macron win) and Germany. This should further reduce the angst of a complete implosion of the EU, harbored by some since the Brexit vote and Trump election. Meanwhile, most European risk assets (especially equities) look relatively cheap and the Euro Area has economic momentum. An acrimonious Brexit would have upset this narrative but the odds of that have now fallen, in our opinion.**





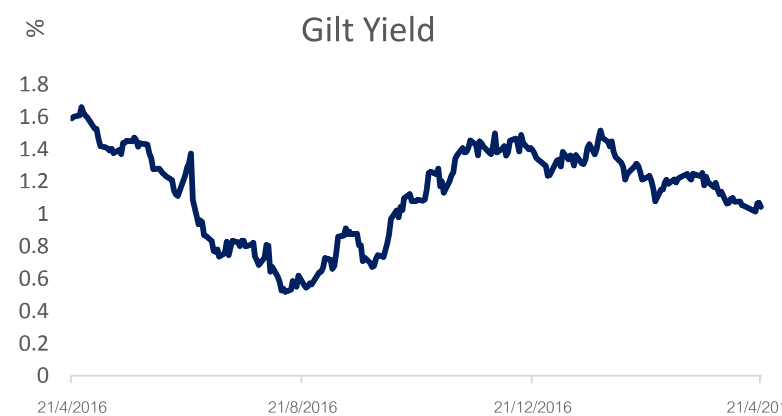
Source: KTBST

Global economic perspective

Arising geopolitical risks | Recap with French Election | **UK General Election**

- ✓ **We do not expect the General Election to be the primary driver of gilt yields over the coming Months, with global sentiment amid geopolitical risks likely to be more important. The short-end should remain anchored, with the BoE unlikely to signal any change in policy stance over a General Election. However, we see this news as a GBP positive. We currently estimate the GBP is about 11% below its long-term fair value on a real effective exchange rate basis. We expect much of this uncertainty discount to be removed over the next few quarters; this should be hastened by an election that reduces political uncertainty and gives the Prime Minister wider latitude to negotiate.**

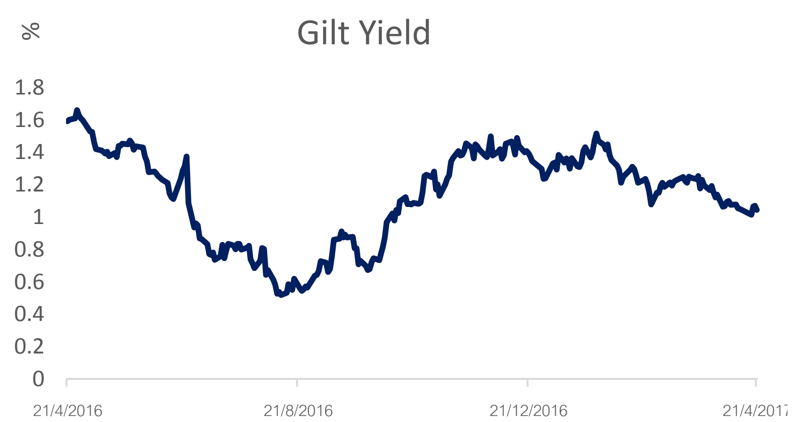
- ✓ **In short, the election itself does not seem to create any additional uncertainty for the UK, and could strengthen PM May's stance within the Conservative party (she did not become PM by winning a general election, a win now will be seen as a mandate for her leadership, etc.). On balance, we believe today's decision should therefore be good for UK assets.**



Source: KTBST, Bloomberg

What does this decision mean for the GBP, gilt yields, and UK risk assets?

- ✓ **We do not expect the General Election to be the primary driver of gilt yields over the coming Months, with global sentiment amid geopolitical risks likely to be more important. The short-end should remain anchored, with the BoE unlikely to signal any change in policy stance over a General Election. However, we see this news as a GBP positive. We currently estimate the GBP is about 11% below its long-term fair value on a real effective exchange rate basis. We expect much of this uncertainty discount to be removed over the next few quarters; this should be hastened by an election that reduces political uncertainty and gives the Prime Minister wider latitude to negotiate.**
- ✓ **In short, the election itself does not seem to create any additional uncertainty for the UK, and could strengthen PM May's stance within the Conservative party (she did not become PM by winning a general election, a win now will be seen as a mandate for her leadership, etc.). On balance, we believe today's decision should therefore be good for UK assets.**



Source: KTBST, Bloomberg

Asset Allocation Summary

Reiterate recommendation equity from Neutral to Overweight

- Overweight equity. We believe French election will end up with pro-EU victory. Reiterate EU equity from Underweight to Neutral.
- **Underweight**
  - East Asia countries, exclude china, as Korea peninsula conflict overhang.
- **Overweight**
  - US equity because of strong economic momentum and supportive fiscal and monetary policy.
  - Japan equity as recent correction offer good value for entry. Consensus forecast JPY/USD at 111 by YE 2017.
  - China Equity as pressure from US Anti-trade policies ease after US turn focus to geopolitical issue than trade issue.

Stay underweight long end bond

- Multiple rate hikes are inevitable. Growth inflation and US economic growth will force FOMC to hike the rate 2-3 time more in this year.

Asset Allocation Summary

Action summary

- **Reduce**
  - Reduce deposit and allocate to other asset class which offer higher yield in short term.
- **Add**
  - Add EU equity as it have already priced in most of Frenxit risk and relatively cheap compare to potential growth.
  - Add Property/REIT/Infrastructure for yield enhancement as market concern on aggressive rate hike ease.

ktb Securities (Thailand)

"KTBST Service Contacts"

www.ktbst.co.th   ktbst.channel   02 648 1111

- Securities & Derivatives Trading
  02 648 1777
- Wealth Management /Private Fund
  02 648 1705
- Mutual Funds
  02 648 1718
- Islamic Wealth Management
  02 648 1712
- Foreign Investment / Smart Algo
  02 648 1458
- Research Centre
  02 648 1123

ktb Securities (Thailand)