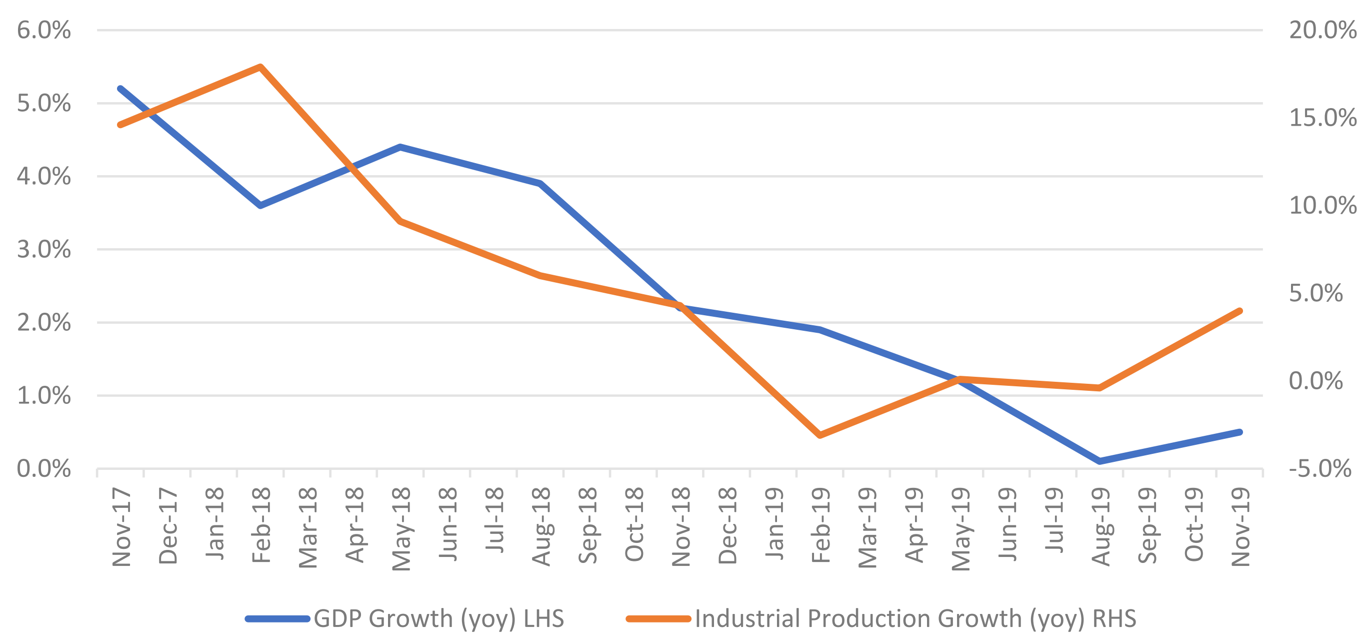
Singapore Outlook 2020

Singapore's trade sensitive economy has been hard hit by global trade tensions with growth falling to six-year lows as the manufacturing sector has been impacted by trade uncertainty. The deterioration in the economy amid the trade war has also been felt in Singapore's equity market, with the benchmark Straits Times Index (+9.1%) heavily underperforming global equities (+20.4%), when measured in Singapore Dollar terms.

What cause then for optimism on the city state's economy and markets in 2020? We see several reasons why Singapore could fare relatively better following progress towards a stage one deal in the trade war between the US and China. Singapore's globalised economy stands to benefit more than most from any trade war détente. Accordingly, if a deal were to occur, Singaporean markets could come back into favour, supported by renewed investor interest, attractive valuations and a Government that is well positioned to offer an expansionary fiscal budget, prior to a likely 2020 election.

Chart 1: Singapore's economy has suffered amid the trade war

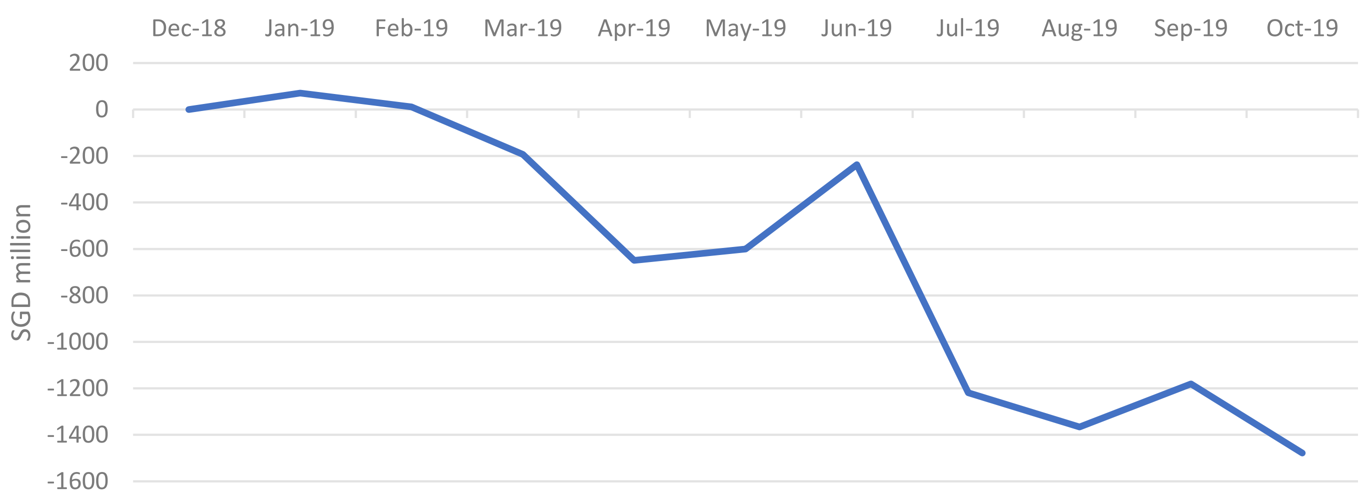


Trade War Détente and Sensitivity to Global Growth

If there is a détente in the trade war, Singapore, with its high external exposure (trade over 300% of GDP)[1], will be a chief beneficiary within ASEAN. Amid the recent thawing in the Trade War and following policy support from Central Banks around the world, the global manufacturing PMI has registered three consecutive months of increases and Singapore's macroeconomic data are showing early signs of recovery with three consecutive months of increases and Singapore's macroeconomic data are showing early signs of recovery. Abnormally low growth through 2019 in certain sectors such as semiconductors and electronics, should also lead to positive "base effects" heading into 2020, flattering headline growth rates. Growth in earnings may accompany any recovery in the economy. Given listed Singaporean companies' dependence on external demand, any global growth recovery should lead to positive revisions in earnings. Consensus growth earnings forecasts for 2020 are positive at 7.3% for FY2020[2].

The unfavorable trade thematic and heightened geopolitical concerns have led to net outflows from Singaporean equities, of SGD 1.5bn in the year to October 2019, on top of outflows in 2018. Accordingly, investor positioning is light, and a trade deal (of any significance) could lead to a recovery in investor interest.

Chart 2: Outflows from Singaporean Equities (by institutional investors) to October 2019



Source: Singapore Stock Exchange Monthly Digest

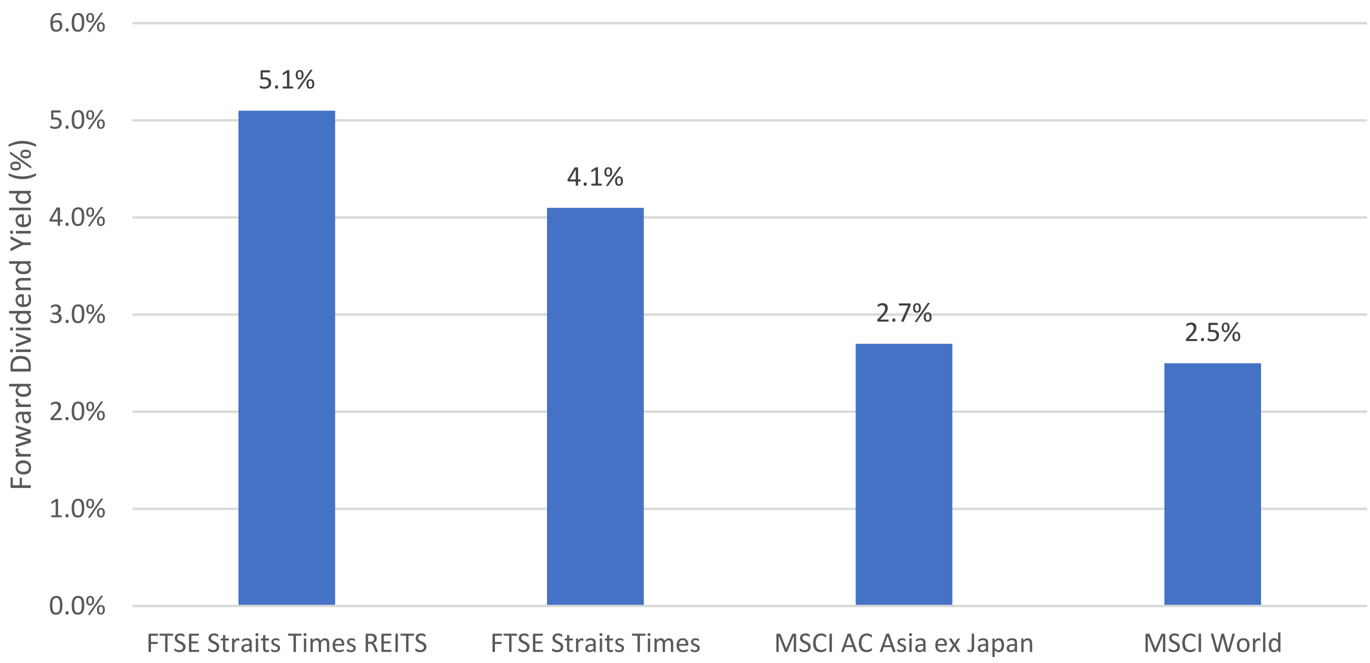
[1] Source: World Bank, as at end of 2018
[2] Source: Bloomberg, MSCI Singapore (MXSG)

Valuations are Reasonable

Singapore is trading on FY20 consensus P/E of 12.5x, below its 10 year average of 13.1x. Viewed on a relative basis, this is the cheapest in ASEAN (a 13% discount to ASEAN overall)[3].

Alongside reasonable valuations is an attractive dividend story. Interest rate cuts and the chase for yield, alongside any receding in trade war related fears may drive attention towards Singapore equities which are among the highest dividend yielding in Asia and compare favorably to other developed markets. Real estate investment trusts (REITS), which are a key component of the Singapore market, may be a particular beneficiary of the search for income.

Chart 3: Dividend yields in Singapore are attractive



Source: Bloomberg

Government & Monetary Support

Increased domestic policy support from higher fiscal spending looks likely as Singapore moves into an election year in 2020. According to Singapore's constitution, the Government is required to maintain a balanced budget over the course of its term. Having accumulated surpluses of an estimated SGD 15.6bn from prior fiscal years[4], the Government has ample room to support the economy in the context of the election and any ongoing economic challenges.

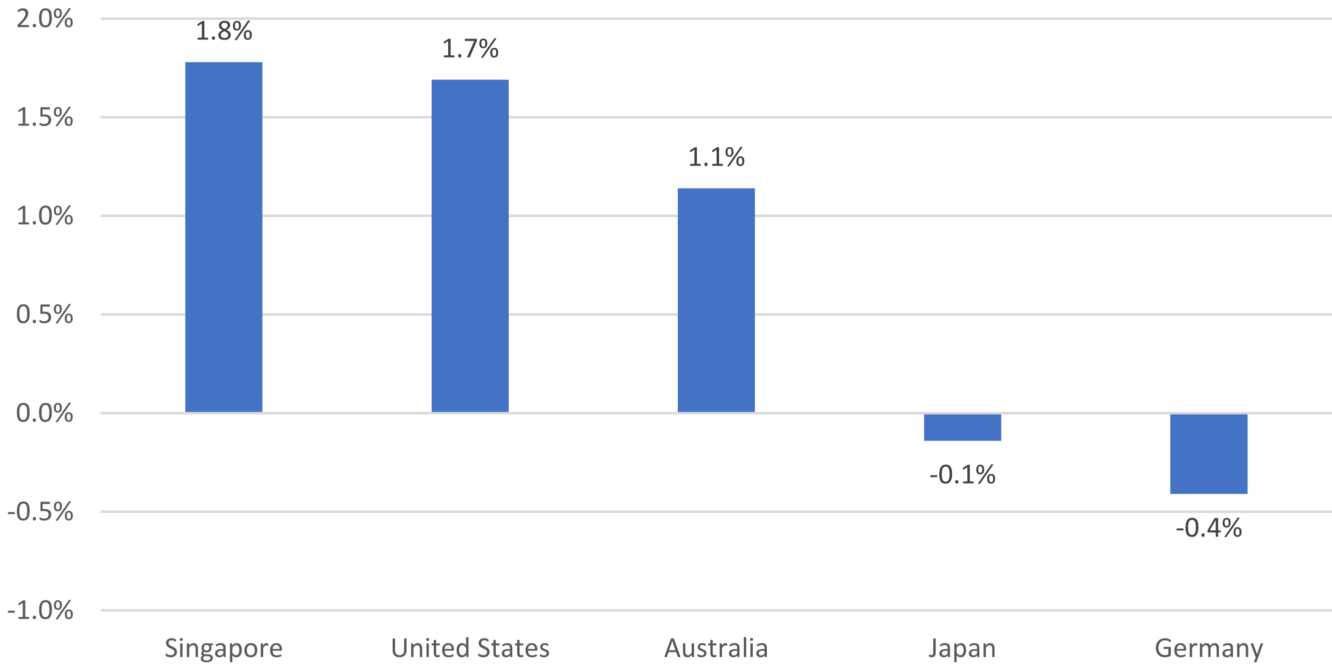
[3] Source: Bloomberg, MSCI Singapore (MXSG)

[4] Source: Singapore Department of Statistics

The economy may also be supported by Central Bank policy. In its October statement, the Monetary Authority of Singapore (MAS) reduced the rate of appreciation of the Singapore Dollar, given expectations for below average inflation and growth in output remaining below potential. The MAS also highlighted its willingness to adjust monetary policy in response to changes in the inflation and growth outlook.

In a low interest-rate world, Singapore stands out among developed markets for still having meaningfully positive bond yields across its yield curve. Given the nation's AAA-rated status, Singaporean Government Bonds may serve as a source of diversification and downside protection in 2020.

Chart 4: Singapore has higher bond yields than other developed nations



Source: Bloomberg 10 year government bond yields as at 31 October 2019

Long-Term Prospects

In the short-term the trade war has clearly had a negative impact on Singapore's economic prospects, but in the long-term the situation could reverse. The trade war appears to have benefitted ASEAN nations, in particular Vietnam, as Chinese and US companies have shifted production to the region in order to circumvent the trade war restrictions. To highlight this point, trade between the US and Vietnam rose 34.0%[5] in the first ten months of 2019, relative to the same period in 2018. Singapore could benefit from these shifts in global supply chains if companies looking to relocate production move their headquarters, or open offices in the country. Singapore's favourable business environment, with low tax, a constructive immigration policy and access to Asian markets make it a strong candidate for firms looking to set up in the region.

[5] Source: US Census Bureau

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