Maybank Investment Strategy

April 2024

Market Recap

- Risk assets were supported by dovish central bank expectations in March. The MSCI All-Country (AC) World Index rose 3.2% with positive returns witnessed across major markets. Global bonds also ended on a positive note with the 10-year U.S. Treasury (UST) yield largely unchanged.

- The U.S. Federal Reserve (Fed) kept the policy rate unchanged but reiterated rates have likely peaked. The Swiss National Bank's surprise rate cut also led to speculations that the European Central Bank may soon follow suit. Meanwhile, the Bank of Japan (BOJ) exited its negative interest rate policy but ruled out further aggressive tightening.

- Commodities-wise, gold prices surged above USD 2,200/ounce amid expectations of Fed rate cuts. Meanwhile, oil prices reached a four-month high with a tighter supply outlook.

Macro Outlook and Investment Strategy

- The likelihood of a recession is fast receding with central banks ready to ease policies once there are clearer signs of disinflation. Hence, risk assets will likely remain supported though persistently higher inflation could dampen the dovish policy expectations and hence investor sentiment.

- For now, global equities will likely sustain the positive momentum. Any pull-back will likely be shallow and represents an entry opportunity. While Asia ex-Japan remains as our preferred market, we have turned less negative on Europe equities. The ramp up of energy transition activities should also lead to new investment opportunities.

- Fixed income-wise, we continue to favour UST and investment grade (IG) bonds as the peaking rates outlook suggested reduced duration risk and hence supportive of their returns. We also adopt a more neutral stance towards developed market high yield (HY) bonds given the lowered default risk but the tight credit spread could limit price gains.

- We maintain our neutral stance on gold given the balanced risk-reward. While gold may witness some profit-taking in the near-term, it may have found a new floor at USD 2,000/ounce with sustained central bank demand likely to lend support to prices.

Tactical Asset Allocation

Asset Class *		Segment*	
Equity	+	U.S.	=
		Europe	=
		Japan	=
		Asia ex-Japan	+
Fixed Income	+	Sovereigns	+
		Developed Market (DM) Investment Grade (IG)	+
		Developed Market High Yield (HY)	=
		Emerging Market (EM) Asia	=
Hedge Funds	=		
Gold	=		
Cash	-		

* Overweight : +, Neutral : =, Underweight : -
Source: Maybank Group Wealth Management (GWM)

Asset Class	Changes to date (in USD currency)		
	1M	3M	12M
MSCI AC World	3.2%	8.3%	23.8%
MSCI USA	3.2%	10.4%	30.3%
MSCI Europe	3.9%	5.4%	14.8%
MSCI Japan	3.2%	11.2%	26.2%
MSCI Asia ex-Japan	2.6%	2.4%	4.4%
China	0.9%	-2.2%	-16.9%
Hong Kong	-6.5%	-11.7%	-22.9%
Taiwan	7.9%	12.5%	28.7%
South Korea	5.3%	1.8%	14.7%
India	0.8%	6.1%	37.3%
Singapore	3.8%	0.1%	-1.5%
Malaysia	1.0%	3.0%	3.1%
Indonesia	1.1%	2.6%	4.4%
Thailand	-0.9%	-8.1%	-16.2%
Philippines	-0.1%	6.4%	8.1%
Barclays Multiverse	0.6%	-1.9%	0.9%
U.S. Treasuries	0.6%	-1.0%	0.1%
Barclays Global IG	1.1%	-0.9%	4.8%
Barclays Global HY	1.5%	2.1%	12.9%
EM Asia	1.0%	1.1%	5.2%
EM Asia IG	0.8%	0.3%	4.8%
EM Asia HY	1.8%	6.2%	8.3%
Gold	9.1%	8.1%	13.2%
WTI Crude	6.3%	16.1%	9.9%
Dollar Index (DXY)	0.3%	3.1%	1.9%

Source : Bloomberg | 31 March 2024

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Fixed Income Strategy

- Economic activities in the U.S. are gradually cooling, with retail sales growing less-than-expected and there were big downward revisions to nonfarm payrolls data for the month of December and January. Nonetheless, the data is not dire enough to spur the Fed to start cutting rates anytime soon as the latest producer prices showed a larger-than-expected increase.

- We still believe that the Fed will likely wait for clearer signs of disinflation before cutting rates and the first rate cut is anticipated to occur in July this year. Our expectations for a 100 basis points (bps) rate cut remains unchanged. While the 10-year UST yield may bounce back up to 4.5%, it would be a good chance to capitalise on the higher yield.

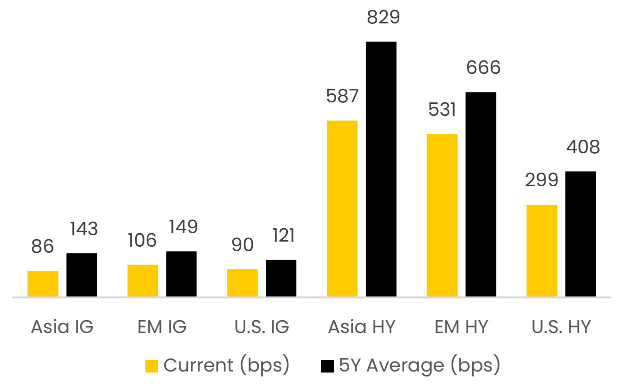
- Bonds currently offer compelling income and total return opportunities. Notably, IG bonds are offering compelling yields of more than 5% and the still resilient growth outlook could keep defaults low. On duration, we continue to recommend a barbell strategy to optimise a bond portfolio, especially if investors are concerned about near-term rates volatility.

- Segments-wise, we continue to favour European financials over non-financials. For the bank bonds, we advocate going higher in the capital structure, that is, Senior and Tier 2 bonds as they offer more protection compared to Additional Tier 1 (AT1) bonds. No doubt we are seeing a resumption in the AT1 issuances, from a valuation angle, credit spread has tightened to a level last seen prior to the Credit Suisse saga. With the tight spread valuation, it may be an opportune time for investors to take profit, especially those with large exposure to these bank capital instruments in their portfolios.

- In the insurance sector, Japanese insurers' credit profile will remain supported as they maintain healthy solvency ratio buffers and benefit from a stable operating business. We retain our preference on the Senior, Tier 2 and Tier 3 subordinated bonds over Restricted Tier I bonds.

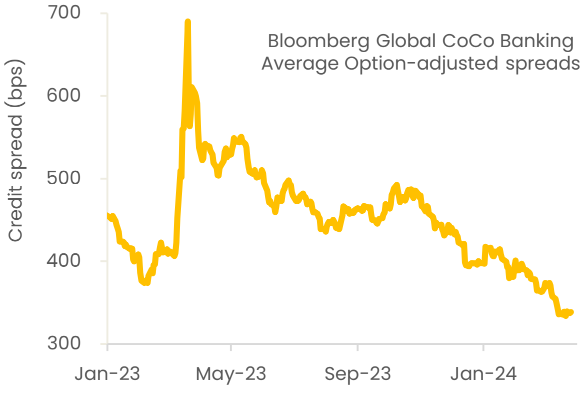
- Closer to home in Singapore, we see opportunities in retail and hospitality Real Estate Investment Trusts (REITs), while staying cautious on pure-play developers as the higher financing costs continue to weigh on their credit metrics. Lastly, as Sukuk or Islamic bonds are gaining traction globally, this instrument class can act as a source of diversification to a portfolio. In times of uncertainty, Sukuk has also proven to be resilient.

Figure 1: Credit spreads are now trading below 5-year historical averages.



Source: Bloomberg | 31 March 2024

Figure 2: AT1 credit spreads have tightened to pre-Credit Suisse collapse.



Source: Bloomberg | 31 March 2024

Equity Strategy

- The U.S. market rally has broadened out beyond the Magnificent 7 to other non-technology stocks. Notably, the energy and materials sectors have started to outperform amid expectations that their negative earnings revisions are largely over. We continue to look beyond the megatech stocks to other sectors including materials and selected industrial names as a play on the resilient economy.

- Meanwhile, the European economy is showing signs of stabilisation in manufacturing, which could suggest an end to the earnings recession in the region. We have turned neutral on Europe as the region could benefit from the manufacturing greenshoots given its greater exposure towards the value sectors. We continue to see opportunities in energy, miners and telecom.

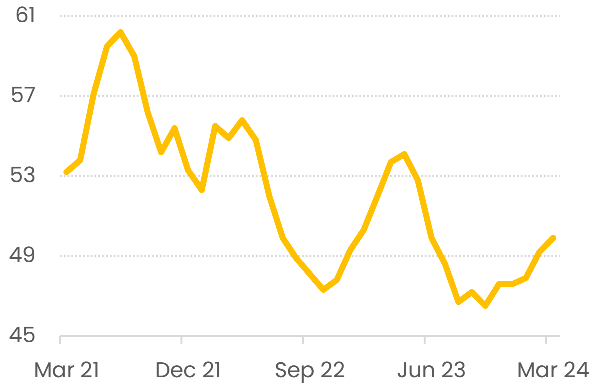
- The BOJ finally exited its negative interest rate policy after 8 years, together with its yield curve control programme and exchange traded funds/Japan Real Estate Investment Trusts (J-REITs) purchases. While the normalisation of monetary policy will not undermine the earnings improvements and corporate governance reforms, valuations are no longer compelling. Thus, we maintain neutral on Japan and focus on the laggard plays including real estate and healthcare.

- China's economic growth remains uneven. On the bright side, the government is committed to stabilise its economy through technological innovation and advanced manufacturing. Hence, we continue to focus on these "new productive forces" highlighted during the National Party Congress in consumer discretionary as well as communication services.

- In India, we see increased volatility ahead due to some nervousness around the six-week long national election starting 19 April. Still, we expect the market to resume its uptrend post election as investors' focus shift to India's strong fundamentals and corporate earnings. Notably, India's economy grew by 8.4% year-on-year during the October-December quarter.

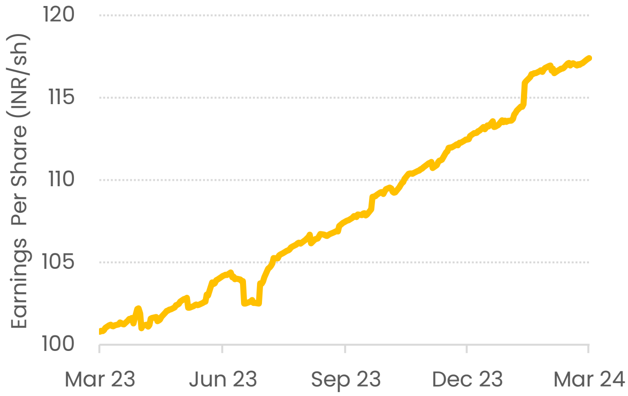
- Within South East Asia (ASEAN), we continue to stay constructive on Indonesia and Malaysia with the ongoing improvements in their respective economies. Thailand could also play catchup after the Lower House passed a delayed budget bill for FY2024 aimed at accelerating spending in the country. Meanwhile, Singapore's economic growth has stayed resilient and we see opportunities in selected Singapore REITs as well as industrials.

Figure 3: Eurozone's composite purchasing managers' index is improving



Source: Bloomberg | 31 March 2024

Figure 4: MSCI India continues to see strong upward earnings revision



Source: Bloomberg | 31 March 2024

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