Maybank Investment Strategy

August 2024

Market Recap

- Global markets endured an eventful July with contrasting election outcomes in the U.K. and France, the shooting of Donald Trump, and the dropping out of Joe Biden from the U.S. presidential race. The surge in Japanese Yen (JPY) volatility also weighed on risk sentiment amidst the unwinding of carry trade.
- The S&P 500 witnessed heightened volatility but managed to close higher for the month. Notably, the non-tech stocks including small-and-mid caps outperformed the mega-cap tech stocks. Meanwhile, China stocks edged lower amid a lack of new stimulus after the plenum meeting.
- In comparison, bonds delivered steadier performance in July with the 10-year U.S. Treasury (UST) yield retreating further to nearly 4% while credit spreads were largely unchanged.

Macro Outlook and Investment Strategy

- Markets could stay choppy amidst heightened policy and election uncertainties. Still, the resilient economic growth and moderating inflation remain supportive of risk assets. We continue to see opportunities in equities and bonds but would mitigate downside through diversification and structured solutions.
- On equities, Asia remains in the sweet spot. While we turned neutral on China, we added South Korea to our preferred markets in the region alongside India and South-East Asia. Meanwhile, the rotation of interests to value cyclicals beyond mega-caps could persist as earnings growth broadens. Still, we will keep a lookout for oversold tech stocks with the secular growth prospects intact.
- With major central banks embarking on rate cuts, the window is narrowing for investors to lock in the currently still attractive bond yields. We would nevertheless retain our focus on quality credits to ensure resilient returns. Segments wise, we see opportunities in Europe bank and insurer bonds as well as Indonesia consumer-related credits.
- While gold hit fresh highs in July, we deem the risk reward as unattractive at current levels. Meanwhile, we see limited downside for the U.S. dollar ahead of the U.S. elections.

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	YTD
MSCI AC World	1.6%	8.2%	13.4%
MSCI USA	1.3%	9.9%	16.3%
MSCI Europe	2.2%	4.9%	8.7%
MSCI Japan	5.8%	6.5%	12.6%
MSCI Asia ex-Japan	-0.1%	5.9%	9.9%
China	-1.2%	-0.7%	3.5%
Hong Kong	0.4%	-3.6%	-10.4%
Taiwan	-4.1%	13.1%	24.3%
South Korea	-0.5%	4.4%	0.2%
India	4.0%	12.2%	21.8%
Singapore	3.0%	7.8%	12.3%
Malaysia	5.2%	8.1%	13.2%
Indonesia	3.8%	-0.3%	-6.4%
Thailand	5.8%	2.1%	-7.4%
Philippines	4.4%	-0.9%	-0.7%
Barclays Multiverse	2.7%	4.2%	-0.3%
U.S. Treasuries	2.2%	4.7%	1.3%
Barclays Global IG	2.4%	4.5%	1.3%
Barclays Global HY	2.0%	3.9%	5.2%
EM Asia	1.9%	4.4%	4.1%
EM Asia IG	1.9%	4.3%	2.9%
EM Asia HY	1.4%	5.1%	11.1%
Gold	5.2%	7.1%	18.6%
WTI Crude	-4.5%	-4.9%	8.7%
Dollar Index (DXY)	-1.7%	-2.0%	2.7%

Source : Bloomberg | 31 July 2024

Fixed Income Strategy

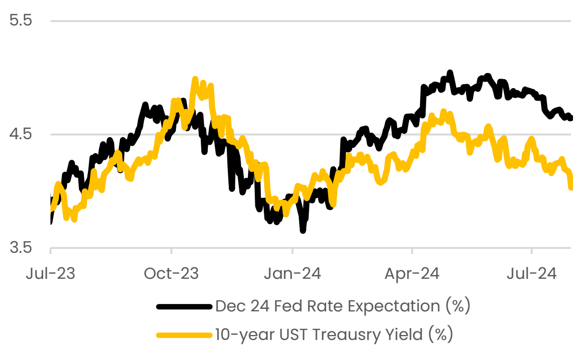
- The U.S. economy remained resilient in 2Q, with the latest GDP growth accelerating to an annualised rate of 2.8%, well above consensus estimates. Positively, inflationary pressures remained in check, with the U.S. consumer price index (CPI) easing for the third straight month to 3.0% year-on-year in June, down from 3.3% in May. While the U.S. Federal Reserve (Fed) left the benchmark rates unchanged in July, easing price pressures and a cooling jobs market could bolster the case for a rate cut soon. Notably, U.S. unemployment has climbed to 4.1%, the highest since 2021.

- We maintain our expectations that the Fed would deliver a total of 50 basis points (bps) rate cut by end-2024, with the first cut as early as September. With the Fed likely to start easing, the 10-year U.S. Treasury yields (UST) may continue to trend lower. However, the decline could be limited by growing expectations of a Trump win in the U.S. presidential election in November as his policies could spur worries about the U.S. fiscal health. Nonetheless, we continue to see opportunities in bonds and would lock in the currently still attractive bond yields via a bar-bell duration approach. Although credit spreads remained tight for both investment grade and high yield bonds, there is scope to generate steady income and returns through a selection of quality credits in developed markets as well as Asia.

- From a spread valuation perspective, we maintain our preference for the bank bonds over the corporates in Europe. While there are lingering political concerns in France, there are attractive opportunities in other part of the region including the U.K. and Germany. For investors who wish to diversify from the banking sector, insurance bonds can be a good alternative. Notably, the insurer credits are supported by favourable demand-supply dynamics and a lower historical default rate compared to other sectors including the banks (i.e. financial institutions). Apart from insurers in Europe, we also favour the insurance issuers from Australia.

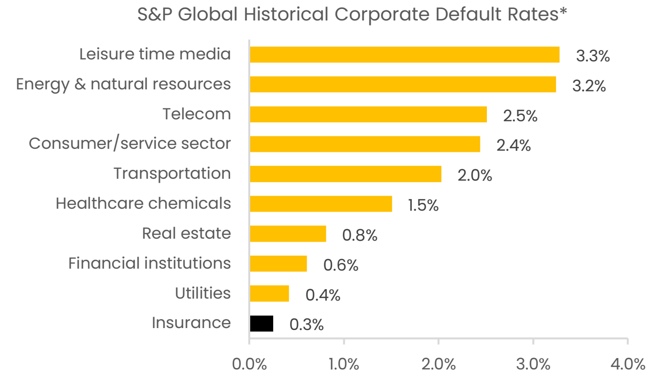
- Within Asia, the favourable economic and technical backdrop should continue to lend support to Asian credits. We still like the utilities and telecommunications sectors given their stable cash flows and earnings visibility. As for Indonesia, we prefer the corporates over the quasi-sovereigns for a better yield pick-up, particularly the consumer goods-related issuers with dominant market position and strong credit fundamentals. In contrast, we are turning more cautious on selected India credits with a downgrade of their respective credit outlook.

Figure 1: 10-year UST yield may continue to trend lower amid Fed rate cut expectations



Source: Bloomberg | 31 July 2024

Figure 2: Insurers have exhibited lower historical default rate versus other sectors



* 1981 to 2023 weighted average
Source: S&P Global Ratings | 2024

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Equity Strategy

- The U.S. economy appears to be entering a state of Goldilocks, with the economy growing steadily and inflation trending towards the Fed's 2% target. Notably, investors have started to rotate from the mega-cap technology companies into the rate-sensitive cyclicals in July. We retain our stance to broaden our portfolio exposure as the U.S. presidential election could lead to increased volatility ahead. We are taking profit on financials and would continue to accumulate industrials and energy plays, as well as selected oversold technology names.

- Within Europe, the worst-case scenario has been avoided in France, with the far-left alliance (New Popular Front) failing to win an absolute majority in the French election. While a sustained political gridlock could weigh on business and consumer sentiments, the negatives may have been priced-in for French equities (including the banks). As for the region, we prefer to maintain a barbell approach given the likely bumpy recovery with exposure in both defensive (e.g. healthcare and communication services) and cyclical (e.g. financials and industrials) sectors.

- MSCI Japan registered positive USD returns of ~6% in July but was slightly negative in local currency (JPY) terms. Looking ahead, concerns about policy continuity with the upcoming Liberal Democratic Party (LDP) presidential election in September as well as ongoing JPY volatility could weigh on the market. Yet, these concerns may be mitigated by expectations of improving corporate governance and shareholder returns. Sectors wise, we are taking profit on financials, which have outperformed in July but continue to favour the real estate sector.

- We downgrade China to Neutral amid concerns on its economic outlook and rising trade frictions with the U.S. While China leaders have reiterated their commitment to support the economy in the latest policy meetings, the lack of detailed measures has failed to lift sentiment. Investors may also stay on the sideline ahead of the U.S. elections that may weigh on U.S.-China relations.

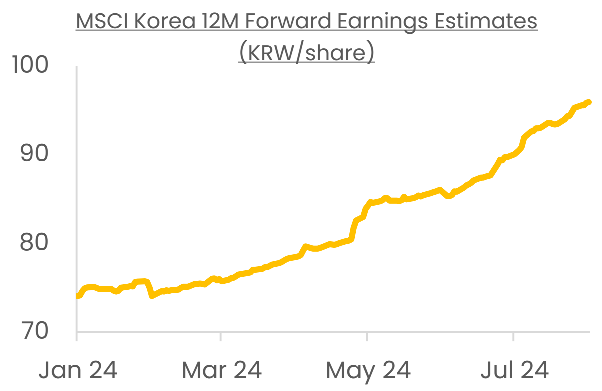
- While we have turned less constructive on China for now, we remain optimistic on Asia ex-Japan equities with support from growth in other markets including India, South Korea and South-East Asia (ASEAN). In particular, we see better risk reward in South Korea with the market being backed by robust earnings growth, improving corporate governance and attractive valuation. We also remain positive on ASEAN with growth picking up. Notably, we have raised Singapore's GDP growth to +3.0% from +2.4% in 2024 and remain upbeat on Malaysia as the strategic initiatives will continue to support investments in the country.

Figure 3: Investors have rotated to non-Technology related sectors in July

	Jul-24	YTD 24
S&P 500	**1.1%**	**15.8%**
Technology	-2.2%	25.1%
Communication Services	-4.2%	20.9%
Financials	6.3%	16.1%
Energy	2.0%	11.3%
Utilities	6.7%	14.8%
Staples	1.8%	9.5%
Industrials	4.8%	12.2%
Healthcare	2.5%	9.6%
Discretionary	1.6%	7.0%
Materials	4.3%	7.6%
Real Estate	7.1%	2.7%

Source: Bloomberg | 31 July 2024
*Boxes in green denote top 3 performing sectors for July

Figure 4: South Korea's earnings are revised higher on the back of AI acceleration



Source: Bloomberg | 31 July 2024

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