Maybank Investment Strategy

December 2022

Summary

- Global equities rebounded further in November with MSCI All-Country (AC) World Index rising 7.8%. Investors were encouraged by the softer than expected U.S. inflation that may lead to the Federal Reserve (Fed) slowing its pace of rate hikes. More impressively, MSCI China jumped nearly 30% with gradual easing of COVID-19 restrictions and more support for the property sector.
- Global bonds also rose in November with the Bloomberg Barclays Multiverse Index gaining 4.7%. Notably, the 10-year U.S. Treasury (UST) yield dipped below 4% and trades at a negative spread of about 70 basis points to both 3-month Treasury bills and 2-year Treasury note.
- On commodities, gold prices moved higher on a weaker dollar in November. In contrast, West Texas Intermediate (WTI) crude retreated as demand concerns outweighed the supply risks.

Macro Outlook and Investment Strategy

- While inflation may be showing signs of peaking, it will take time to moderate to more normalised levels. Hence, central banks will likely maintain a restrictive monetary policy that will weigh on growth and consequently the performance of risk assets.
- In view of the above, we remain cautious towards equities. We downgrade U.S. to underweight alongside Europe and India, with the downside earning risk of U.S. stocks not fully priced in. In contrast, we prefer South East Asia as a safe harbour and continue to expect more resilient performance from the region.
- We see better risk reward for Fixed Income relative to equities. Apart from our positive stance on sovereign bonds, we also upgrade Developed Market (DM) Investment Grade (IG) bonds to overweight as a source of defensive carry. However, we remain negative on High Yield (HY) credits which are still vulnerable to further widening of credit spreads.
- Overall, we retain our defensive stance in our asset allocation. Notably, market volatility could spike again in the coming weeks as investors may look to trim exposure given the recent market gains. To mitigate the downside risks, we would continue to maintain a cash buffer and look to diversify into assets with less correlated returns including gold, hedge funds as well as private assets to add resilience to portfolio returns.

December Outlook			
Asset Class *		**Sector ***	
Equity	-	U.S.	-
		Europe	-
		Japan	=
		Asia ex-Japan	=
Bonds	+	Sovereigns	+
		Developed Markets (DM) Investment Grade (IG)	+
		Developed Markets (DM) High Yield (HY)	-
		Emerging Markets (EM) IG	=
		Emerging Markets (EM) HY	-
		Asia IG	=
		Asia HY	-
Alternatives	=	Gold	=
		Oil	=
		Hedge Funds	=
Cash	+		

Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	5.4%	13.8%	-14.4%
MSCI Europe	11.4%	19.4%	-14.6%
MSCI Japan	9.7%	12.9%	-16.5%
MSCI Asia ex-Japan	18.8%	11.6%	-19.2%
China	29.7%	7.9%	-25.7%
Hong Kong	24.5%	9.3%	-11.9%
Taiwan	22.2%	16.0%	-25.1%
Korea	14.9%	24.5%	-25.3%
India	5.2%	8.0%	-2.1%
Singapore	11.5%	11.4%	-10.2%
Malaysia	8.8%	12.0%	-7.4%
Indonesia	0.6%	1.0%	9.1%
Thailand	10.6%	11.9%	1.4%
Philippines	13.4%	23.7%	-11.7%
MSCI EM	14.8%	11.3%	-18.6%
Bonds			
Barclays U.S. IG	5.2%	4.1%	-15.4%
iBoxx U.S. HY	2.2%	4.8%	-10.6%
Commodity			
Gold	8.3%	6.5%	-3.3%
Oil	-6.9%	1.3%	7.1%

Source : Bloomberg | 30 November 2022

Macro Outlook and Investment Strategy cont'd

- No doubt, the moderating inflation in the U.S. is encouraging with Consumer Price Index (CPI) dipping to 7.7% year-on-year (YoY) in October (September: 8.2% YoY). Still, the inflation is high by historical standard and consensus is projecting CPI to stay above 3% in 2023. With unemployment rate remaining below 4%, we see little reason for the U.S. Fed to pivot from its restrictive monetary policy even though it may start to slow its pace of tightening with a 50 basis point (bps) hike likely for the meeting in December.

- With Fed funds rate anticipated to rise to 5% by March 23, it may lead to some upward pressure on long-end Treasury yields for now. Still, we expect 1o-year UST yield to peak well below the terminal rate and trend towards 3.5% or lower by 1H23 with a further deceleration in growth. Consequently, we maintain our positive stance on 10-year UST as a hedge against the rising risk of a U.S. recession.

- In addition, we are adding exposure to DM IG bond (using U.S. IG as a proxy) which are trading at yield-to-worst of more than 5% (Figure 1). While price volatility could persist, we see opportunities to lock in the current high level of yield as a stable source of income. Notably, we do not expect U.S. IG default rates to escalate significantly given the still robust corporate fundamentals. In contrast, we are more wary of HY bonds in both DM and EM and expect credit spreads to widen more significantly in a downturn.

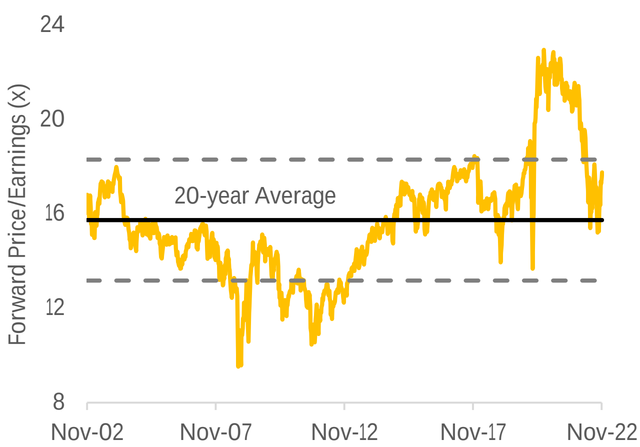
- In contrast to U.S. IG, the risk reward of U.S. equities have become less attractive with the S&P 500 now trading above its historical average valuation (Figure 2). With consensus earnings still overly optimistic, we expect the market to re-test its recent low on further earnings downgrade. Our analysis suggests a 15% potential downside from current S&P 500 level of around 4000 assuming a 5% earnings decline in 2023 and price-to-earnings multiple of 16x. We also see similar earnings downside risks for Europe and hence maintain our underweight stance on the market.

- Within Asia, we retain our preference for Southeast Asia over the expensive Indian stocks. In particular, Indonesia's robust macro outlook may continue to lend support to its stock market. We also expect Malaysia to reverse its year-to-date underperformance given the reduced political uncertainty, with the inexpensive market valuation and low foreign ownership limiting the downside. As for China, the recent fine-tuning of COVID measures and the 16-point rescue package for the property sector has lifted investor sentiment. Still, the reopening would likely be gradual with lingering zero-COVID policy uncertainties leading to heightened market volatility. Hence, we remain neutral on China for now.

Figure 1: U.S. IG bonds are offering yield of more than 5%, nearing a 10-year high

Source: Bloomberg | 30 November 2022

Figure 2: S&P 500 is trading on 18x forward price/earnings, above the 20-year average of 16x



Source: Bloomberg | 30 November 2022

Disclaimer

This advertisement has not been reviewed by the Monetary Authority of Singapore.

This report is for information purposes only and under no circumstances is it or any part of it to be considered or intended as an offer to sell or a solicitation of an offer to buy any of the financial or investment products referred to herein (each, a "Product", and collectively, "Products"), or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy or enter into any legal relations, or an advice or a recommendation with respect to such Products.

Investors should note that income from such Products, if any, may fluctuate and that each Product's price or value may rise or fall. Accordingly, investors may receive back less than what they have originally invested or they may also not receive back anything at all from what they have originally invested. **All investments involve an element of risk, including capital and principal loss. Past performance is not necessarily a guide to or an indication of future performance.**

This report is prepared for general circulation. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and particular needs of any particular recipient or reader and thus should be read with this in mind. An investor should therefore independently and separately evaluate and assess each Product and consider the suitability of the same and the risks involved or the investment strategies discussed or illustrated in this report, taking into account the investor's specific investment objectives, financial situation, risk tolerance and particular needs, and seek independent financial, audit, tax, legal and/or other professional advice as necessary, before dealing, transacting and/or investing in any of the Products mentioned in this report or communicated to the investor as a follow-up to this report. All investments will be made solely upon and in reliance on the investor's own judgment and discretion, notwithstanding any opinion, commentary or recommendation this report, Maybank or its Relationship Managers may provide. Unless expressly agreed otherwise, Maybank offers no investment, financial, legal, tax or any other type of advice to recipients or readers of this report. Maybank has no fiduciary duty towards any such recipients and readers, and makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for the financial needs, circumstances or requirements of the recipients and readers.

Some of the information herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank and consequently no representation and/or warranty is made by Maybank as to the accuracy or completeness of this report for any particular purpose and it should not be relied upon as such. Maybank may have issued other documents, investment proposals, reports, analyses or emails expressing views different from the contents hereof and all views expressed in such documents, investment proposals, reports, analyses and emails are subject to change without notice. The information or opinions or recommendations contained herein are subject to change at any time without prior notice. Accordingly, to the maximum extent permitted by applicable laws and regulations, Maybank and its officers, directors, associates, agents, connected parties and/or employees shall not be liable for any error or omission contained in this report or for any direct, indirect, special or consequential losses or damages that may arise from the use of, reliance on or any action taken in connection with this report. Maybank and its officers, directors, associates, connected parties and/or employees, including persons involved in the preparation or issuance of this report, may from time to time have positions or be materially interested in the Products referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such Products and may also perform or seek to perform investment banking, advisory or other services in relation thereto. One or more directors, officers and/or employees of Maybank may be a director

Disclaimer

of any of the corporations of the Products mentioned in this report to the extent permitted by law. Accordingly, Maybank may have a conflict of interest that could affect the objectivity of this report.

This report may contain information such as valuation, performance, yield or the like, derived from a variety of valuation metrics, all of which may change at any time without notice and investors are cautioned not to place undue reliance on such information. This report may also contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made by and/or information currently available to Maybank and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements. This report is current as at the date of its publication and Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. This report may also contain charts, diagrams or graphs, including sample portfolio overview, which may differ or vary from the actual charts, diagrams or graphs, including any portfolio overview, which an investor may receive separately.

In this report, references to "Maybank" mean Maybank Singapore Limited and/or its affiliates and related corporations. The information herein and the contents of this report remain the intellectual property of Maybank. The contents of this report are confidential and its circulation and use are restricted. This report is prepared for the use of Maybank's clients and/or prospective clients and may not be reproduced, altered in any way, copied, published, circulated, distributed or transmitted to any other party in whole or in part in any form or manner or by any means (including electronically, photocopying, recording or via any information storage and retrieval system) without the prior express written consent of Maybank. Maybank and its officers, directors, associates, agents, connected parties and/or employees accept no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who/which is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or where Maybank may become subject to new or additional legal or regulatory requirements. The Products described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers or warnings may apply based on the geographical location of the recipient of this report.

Prohibition of sales to EEA Investors: Effective 1st January 2018, Maybank Singapore Limited prohibits any offer and/or sale of any investment products ("PRIIPs") to investors in the European Economic Area ("EEA"), in accordance with the guidelines made to Regulation (EU) No 1286/2014. The EEA region includes the following countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK, Iceland, Liechtenstein Norway and Switzerland.

Maybank Singapore Limited (UEN: 201804195C)