

Maybank Investment Strategy

February 2022

Summary

- Stubbornly high inflation prints and signs that the U.S. Federal Reserve (Fed) is preparing to hike interest rates as early as March 2022 led to heightened volatility in risk assets at the start of the year.
- The MSCI All-Country (AC) World Index retreated 4.9% in January, led lower by South Korea and the U.S. In contrast, the West Texas Intermediate crude benchmark rallied 17.2% as worldwide consumption continues to recover and geopolitical worries centering around key oil producer Russia supported prices.
- Meanwhile, the bond market was also sold off on more hawkish rate hike expectations. Notably, the spread between the yields on the 2-year and 10-year U.S. Treasury note further flattened to 60 basis points (bps) as at end-January, suggesting growing worries over economic growth and uncertainty about monetary policy.

Macro Outlook and Investment Strategy

- Global growth is set to remain strong, albeit uneven, fuelled by consumption, rising investments, and resilient global trade. Meanwhile, central banks are shifting towards a more hawkish monetary stance amid continued uncertainty about the scale and duration of inflationary pressures.
- Nevertheless, we are maintaining the pro-risk tilt in our asset allocation over the next 6-12 months with an overweight in equities given the still robust macro and earnings outlook. Russia-Ukraine tensions, China's battered property sector and lingering Omicron variant concerns may however cause near-term market volatility to persist. Within equities, we are selectively biased towards China, Japan, Singapore and Indonesia, while avoiding India, Taiwan and Thailand given their rich valuations.
- We are negative on fixed income, as inflation could continue to put upward pressure on government bond yields. Hence, we prefer U.S. and Asian High Yield (HY) bonds for their shorter duration and more attractive carry.
- Despite a lacklustre performance last year, we continue to recommend some allocation to gold as a portfolio diversifier and hedge against stagflation risks. We also maintain our neutral stance on oil given the balanced risk-reward.

February 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	-5.7%	-5.7%	-5.7%
MSCI Europe	-4.6%	-4.6%	-4.6%
MSCI Japan	-5.1%	-5.1%	-5.1%
MSCI Asia ex-Japan	-3.1%	-3.1%	-3.1%
China	-2.9%	-2.9%	-2.9%
Hong Kong	1.0%	1.0%	1.0%
Taiwan	-2.0%	-2.0%	-2.0%
Korea	-10.1%	-10.1%	-10.1%
India	-1.4%	-1.4%	-1.4%
Singapore	-1.1%	-1.1%	-1.1%
Malaysia	-3.6%	-3.6%	-3.6%
Indonesia	0.6%	0.6%	0.6%
Thailand	0.2%	0.2%	0.2%
Philippines	4.1%	4.1%	4.1%
MSCI EM	-1.9%	-1.9%	-1.9%
Bonds			
Barclays U.S. IG	-2.2%	-2.2%	-2.2%
iBoxx U.S. HY	-2.9%	-2.9%	-2.9%
Commodity			
Gold	-1.8%	-1.8%	-1.8%
Oil	17.2%	17.2%	17.2%

Source : Bloomberg | 31 January 2022



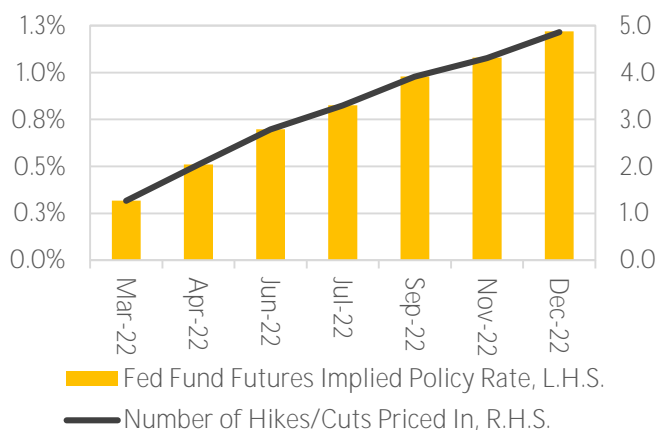
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Macro Outlook and Investment Strategy cont'd

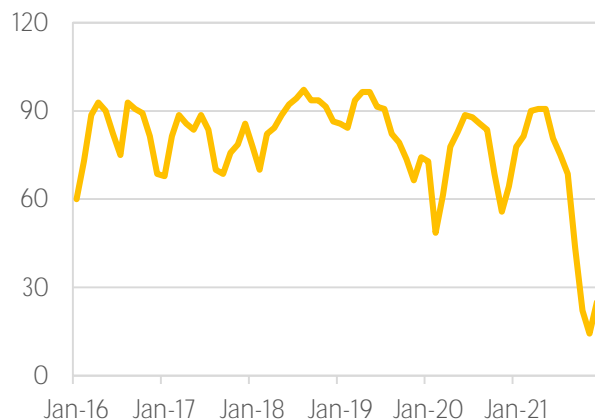
- The Fed funds futures market is currently pricing in close to five Fed Fund rate hikes in 2022 (Figure 1), as well as an early end to tapering of asset purchases as inflation is proving to be more than 'transitory'. The inflation story will remain a key market driver and could lead to elevated market volatility in the coming months. Nevertheless, we expect developed market central banks to use all the substantial tools at their disposal to ensure a smooth transition to normalising their respective monetary policies and avoid derailing the economic recovery. Hence, overall financial condition is likely to remain supportive of growth.
- We expect U.S. Treasury (UST) yields to grind higher over the next 6-12 months and our 10-year UST yield forecast remains unchanged at 1.50% - 2.00% in 2022. Nevertheless, the yield could possibly overshoot the 2% handle in the near term until there are clearer signs of inflation abating. On credit, we expect corporate default rates to remain low and will continue to seek income opportunities in the U.S. and Asia HY bonds in light of solid fundamentals for the former and tactical value in extremely oversold conditions for the latter.
- The U.S. stock market was amongst the worst performers to-date and both the S&P 500 and NASDAQ composite have retreated to their 5-year historical average Price/Earning valuation. While the U.S. market may remain choppy in the near term due to lingering Fed policy uncertainties, the increasingly reasonable valuation could limit the downside. Meanwhile, the overall macro backdrop in the U.S. remains solid with an above-average number of positive 4Q earnings surprises. As such, we retain our neutral stance on the U.S.
- We remain positive on China as the government has signalled it will implement targeted measures to support growth, even as other major economies embark on monetary tightening. Indeed, the **People's** Bank of China (PBOC) has followed through with cuts in the reserve requirement ratio (RRR) and loan prime rate (LPR) to ease liquidity conditions. With average nationwide residential property prices falling significantly (Figure 2) and predatory practices of private sector industry giants largely rooted out, the negatives for Chinese equities may have largely all been priced-in.
- In Southeast Asia, we retain our overweight in Indonesia as the market will likely benefit from improving domestic demand and is still trading at undemanding valuations. We also retain our positive stance on Singapore and favour sectors with operating leverage to reopening or earnings visibility from structural growth. In contrast, we maintain our negative stance on Thailand as its tourism-dependent economy continues to reel from the slow growth of tourism arrivals and weak domestic demand.

Figure 1: Fed Fund Futures implied policy rate and number of hikes



Source: Bloomberg | 31 January 2022

Figure 2: Bloomberg China House Price Diffusion Index at multi-year lows



Source: Bloomberg | 31 January 2022

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