# Maybank Investment Strategy

February 2023

## Summary


- Contrary to the tumultuous 2022, risk assets witnessed a positive start to 2023. Global equities moved higher in January with MSCI All-Country (AC) World Index rising 7.2%. Notably, MSCI China continued its climb with rising optimism on the country's recovery.

- Meanwhile, global bonds rose with the Bloomberg Barclays Multiverse Index gaining 3.2% in January. Further decline in the U.S. inflation led to expectations of a Federal Reserve (Fed) policy pivot soon. The 10-year U.S. Treasury (UST) yield retreated to 3.5% as at end-January, while corporate bonds gained across both developed and emerging markets.

- On commodities, gold prices moved higher on a weaker dollar. In contrast, West Texas Intermediate (WTI) crude fell as demand concerns outweighed the supply risks.


## Macro Outlook and Investment Strategy

- Although headline inflation continues to ease globally, it remains uncomfortably high and will likely force central banks to stay restrictive. Meanwhile, the downside risk to corporate earnings will continue to weigh on risk assets. Hence, we retain our defensive stance and would maintain a cash buffer to protect the portfolio.

- We continue to see better risk reward for Fixed Income relative to Equities. In particular, we view sovereign bonds favourably and see Developed Market (DM) Investment Grade (IG) bonds as a source of stable income. In contrast, we are less sanguine on HY bonds which are more vulnerable in an economic downturn.

- While we remain cautious on global equities, there are reasons to be more positive on China amid the relaxation of zero-COVID policy and additional support for the property sector. We view China equities as a laggard play that will likely catch up and outperform global peers in the coming months. In contrast, the U.S. and Europe remain as our least preferred markets that could re-test new lows yet again.

- Meanwhile, we stay neutral on Gold but it could move higher with more entrenched USD weakness. Overall, the fast evolving macro landscape is leading to performance dispersion with some asset classes like IG bonds and China equities reaching an inflection point earlier than others. As such, investors have to remain nimble and reposition accordingly to capitalise on the opportunities as they arise.

**Tactical Asset Allocation**

| 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) Bonds | - |
| Alternatives | = | Hedge Funds | = |
| | | Gold | = |
| Cash | + | | |

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

| Asset Class | Changes to date (in USD currency) 1M | 3M | 12M |
|---|---|---|---|
| **Equity** | | | |
| **MSCI USA** | 6.6% | 5.8% | -9.0% |
| **MSCI Europe** | 8.7% | 21.1% | -2.7% |
| **MSCI Japan** | 6.2% | 16.8% | -6.4% |
| **MSCI Asia ex-Japan** | 8.2% | 28.4% | -9.9% |
| China | 11.8% | 52.5% | -9.9% |
| Hong Kong | 3.8% | 39.7% | -2.1% |
| Taiwan | 12.7% | 30.3% | -18.5% |
| South Korea | 12.4% | 22.9% | -11.1% |
| India | -3.0% | -3.5% | -9.0% |
| Singapore | 7.5% | 18.8% | -3.3% |
| Malaysia | 2.9% | 13.9% | 0.5% |
| Indonesia | 3.3% | -0.7% | 7.1% |
| Thailand | 3.8% | 19.1% | 9.0% |
| Philippines | 5.4% | 17.1% | -12.4% |
| **Bonds** | | | |
| U.S. Treasuries | 2.5% | 4.7% | -8.5% |
| Barclays Global IG | 3.5% | 9.3% | -11.4% |
| Barclays Global HY | 4.1% | 10.1% | -6.7% |
| Barclays EM Bonds | 3.2% | 11.0% | -10.2% |
| **Alternatives** | | | |
| Hedge Funds | 1.7% | 1.8% | -1.4% |
| Gold | 6.1% | 17.4% | 7.2% |
| WTI Crude | -1.7% | -8.9% | -10.5% |
| **Dollar Index (DXY)** | -1.4% | -8.5% | 5.8% |

Source : Bloomberg | 31 January 2023

## Macro Outlook and Investment Strategy cont'd

- With inflation moderating further in the U.S., we expect the Fed to slow its pace of tightening after the massive 425 basis points (bps) hike in 2022. Still, the central bank will refrain from easing too quickly as core inflation is unlikely to normalise to its target of 2% anytime soon. Hence, we expect monetary policy to remain restrictive, putting a drag on economic growth.

- The probability of a U.S. recession remains high with the UST yield curve deeply inverted (Figure 1). Notably, the ongoing 4Q22 reporting season has been lacklustre with consensus projecting S&P 500 earnings to decline by 5% year-on-year for the quarter. Yet, the market is still trading at 18x forward price-to-earnings, higher than historical mean of 16x. This suggests earnings negatives have not been sufficiently priced in, leading to our underweight stance on the U.S. market alongside its European counterparts.

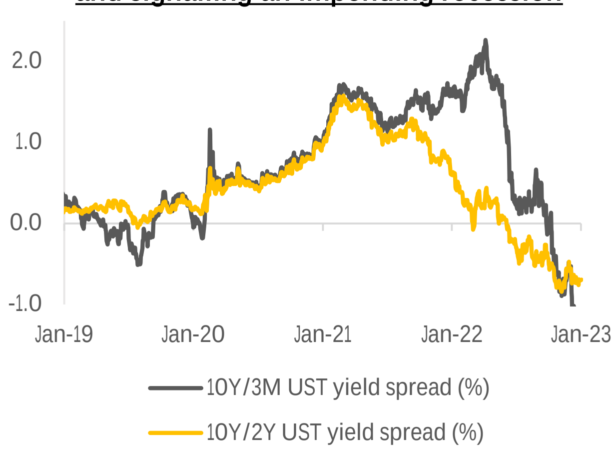
- In contrast, we move to an overweight on China equities given the improving risk reward. Notably, we have raised our 2023 GDP growth forecast for China to 5% (from 4%) amid the faster-than-expected reopening. Valuation wise, MSCI China remains inexpensive despite the ~50% rebound over the past 3 months. While there could be some profit taking in the near-term, the market has likely witnessed its worst. We expect further re-rating of China equities and would view any dip as an opportunity to add exposure.

- While other Asian markets may benefit from the China recovery, we still see pockets of weakness in the region, particularly India. In addition, we took profit on our overweight call on Indonesia amid moderating commodity and consumer tailwinds, as well as potential political uncertainties ahead of the 2024 elections. In view of the above, we maintain our neutral stance on Asia ex-Japan.

- As for Fixed Income, we are seeing better times ahead with the rate hike cycle closer to the end than the beginning. While the 10-year UST yield may remain volatile amid the renewed U.S. debt ceiling uncertainties, we expect it to trend lower and remain sustainably below 3.5% by 1H23. Meanwhile, we continue to view IG bonds, particularly those in DM, as a source of defensive income and would look to lock in the higher than historical average yield.

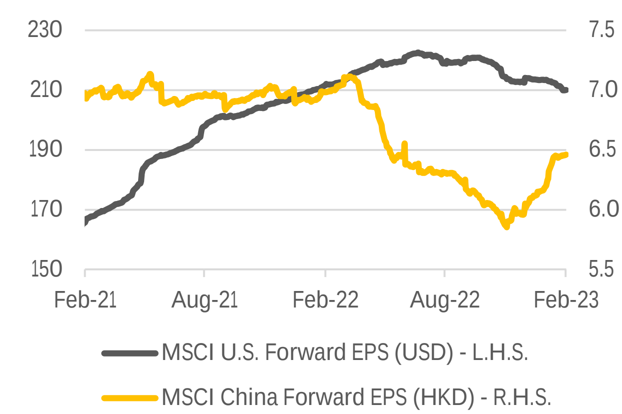
- We remain cautious towards HY bonds as credit spreads are likely to widen further in an economic downturn. Nevertheless, we do see selected opportunities in Asia HY bonds given the improving China outlook, particularly issuers with a stronger credit profile that are better positioned to navigate a downturn.

**Figure 1: UST yield curves remain deeply inverted and signalling an impending recession**




Source: Bloomberg | 31 January 2023

**Figure 2: We see upside potential to China earnings versus downside risk to U.S. earnings**




Source: Bloomberg | 31 January 2023

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