Maybank Investment Strategy

February 2025

Market Recap

- Global markets witnessed a tentative start to 2025, weighed by uncertainty surrounding inflation, Trump policies and the latest development of DeepSeek's low-cost Artificial Intelligence (AI) model. Nevertheless, MSCI All-Country (AC) World ended higher in January with Europe outperforming.

- Meanwhile, bond returns were slightly positive with the 10-year U.S. Treasury (UST) yield ending the month flat at 4.5%. Credit spreads also remained tight for both Investment Grade (IG) and High Yield (HY) credits amidst the benign default outlook.

- Gold surged nearly 7% amidst trade and geopolitical uncertainties. Oil prices were also higher though the gains were held in check by the potential increase in U.S. supply.

Macro Outlook and Investment Strategy

- The escalating trade tensions will no doubt weigh on market sentiment but we would advise against reacting to every piece of news. Prioritising a fundamentals-driven approach with diversification remains key to achieving optimal returns over time.

- The emergence of DeepSeek will unlikely derail the AI growth story. In fact, it could hasten the adoption of AI which we view as a net positive to the overall economy. In addition, it will likely broaden the range of AI beneficiaries beyond just a handful of chip and infrastructure companies.

- Markets-wise, we maintain our positive outlook for the U.S. and Asia ex-Japan equities. However, we believe Europe's recent outperformance is unlikely to be sustained given the Eurozone's still lacklustre growth and vulnerability to the U.S. trade tariffs.

- As for bonds, the attractive starting yield should help mitigate near-term rates volatility. We continue to see opportunities in Developed Markets (DM) financials, as well as Asia credits.

- While the U.S. dollar may remain supported in the near-term amidst Trump policy uncertainty, it should not deter the sustained uptrend of gold prices. We maintain our overweight stance on the precious metal with prices likely to move closer to USD 3,000/ounce by end of 2025.

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	FY24
MSCI AC World	3.4%	4.8%	18.0%
MSCI USA	3.0%	6.7%	25.1%
MSCI Europe	6.9%	2.6%	2.4%
MSCI Japan	1.6%	1.9%	8.7%
MSCI Asia ex-Japan	0.8%	-2.4%	12.5%
China	1.0%	-0.9%	19.7%
Hong Kong	-2.3%	-6.3%	0.1%
Taiwan	3.3%	3.0%	35.1%
South Korea	6.3%	-7.1%	-23.1%
India	-3.5%	-6.6%	12.4%
Singapore	4.6%	11.6%	32.3%
Malaysia	-4.7%	-3.5%	20.7%
Indonesia	-1.0%	-11.9%	-11.9%
Thailand	-3.3%	-9.5%	1.6%
Philippines	-9.8%	-17.5%	0.0%
BBG Multiverse	0.6%	-1.1%	-1.3%
BBG U.S. Treasury	0.5%	-0.3%	0.6%
BBG Global IG	0.6%	-1.0%	0.7%
BBG Global HY	1.4%	1.6%	9.2%
BBG EM Asia	0.6%	0.1%	5.2%
BBG EM Asia IG	0.6%	0.1%	3.6%
BBG EM Asia HY	0.4%	0.3%	14.5%
Gold	6.6%	2.0%	27.2%
WTI Crude	1.1%	4.7%	0.1%
Dollar Index (DXY)	-0.1%	4.2%	7.1%

Source: Bloomberg (BBG) | 31 January 2025

Fixed Income Strategy

- The U.S. Federal Reserve (Fed) kept policy rates unchanged at 4.25%-4.50% in its January meeting as expected. Fed Chair Jerome Powell also said the central bank is in no hurry to cut rates and highlighted the "very wide" range of possibilities for the effects of trade tariffs. Notably, the U.S. has implemented the 25% tariffs on Mexico and Canada, as well as 10% duty on China though the actual impact on both growth remains uncertain. Despite the above, we expect the Fed to resume cutting rates given the still restrictive monetary policy. Nevertheless, we acknowledge the upside risks to U.S. growth and inflation under Trump 2.0 policies on de-regulation, immigration, trade and the fiscal fronts. Hence, we now expect only 50 basis points (bps) rate cuts (instead of 75 bps) in 2025.

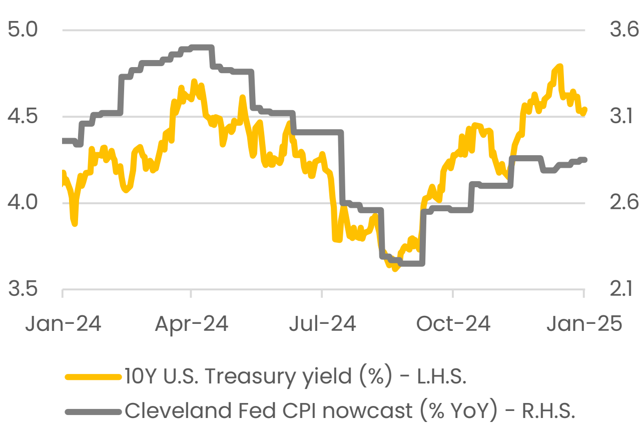
- The latest Cleveland Fed Nowcast suggests the U.S. Consumer Price Index (CPI) will hold steady at 2.9% year-on-year (YoY) in January. However, inflation expectations will likely continue to shift and lead to interest rates volatility. While the relatively high carry of 10-year UST could help mitigate the downside risks, we would caution against over-extending duration exposure. Meanwhile, the benign default outlook should remain supportive of credit performance for both IG and HY bonds. Still, there is a need to be more selective given the relatively tight credit spreads. Hence, we would continue to seek quality credits with a valuation buffer for margin of safety.

- Our preferred sectors in DM include Europe financials, Australia banks and Japan insurers. Notably, Europe banks' Additional Tier 1 (AT1) bonds have delivered a stellar performance in 2024, with credit spreads tightening by almost 200 bps. Nevertheless, the AT1 bonds are now trading at below average yield premium over the Tier 2 subordinated bank bonds, suggesting better risk-reward for the latter. As for the AT1 bonds, we would prefer to stick to the Global Systemically Important Banks (G-SIBs) and national champions.

- Separately, the recent volatility in the U.K. Gilts market had caused some concerns on the U.K. banks. Nevertheless, the sector's credit profile remains well supported by its earnings resilience, stable asset quality, as well as solid funding and capitalisation. Hence, we would view any significant credit spread widening as a potential entry opportunity for selected U.K. bank bonds.

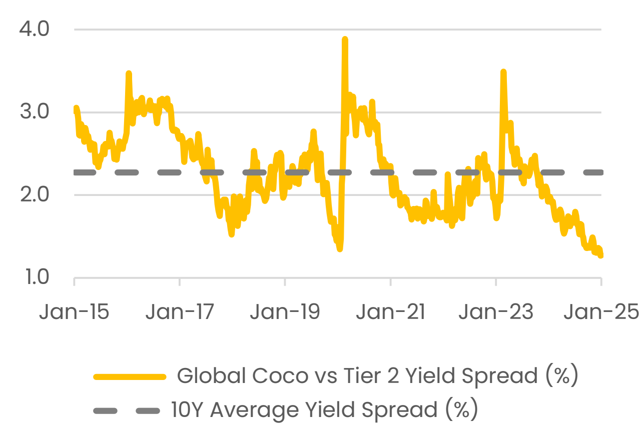
- As for Asia credits, their performance should remain supported by the robust macro fundamentals, as well as favourable demand-supply dynamics. The anticipated monetary easing by the Fed should also help. Sectors-wise, we see opportunities in Hong Kong utility and insurance firms, as well as Indonesia consumer staples companies.

Figure 1: 10Y UST yield may continue to shift with inflation and policy rate expectations



Source: Bloomberg | 31 January 2025

Figure 2: Narrowing yield spread between global AT1 and Tier 2 subordinated bank bonds



Source: Bloomberg | 31 January 2025

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Equity Strategy

- Market performance remains positive in the U.S., backed by a strong start to the 4Q earnings season. We continue to favour the banks given their strong earnings momentum, as well as industrial companies including those that will benefit from the growth in smart grid investments. We also see entry opportunities in the technology sector as the market may have over-reacted to the latest threat posed by DeepSeek. Still, we prefer to be selective and continue to maintain a diversified exposure in the AI ecosystem to mitigate the expected volatilities ahead.

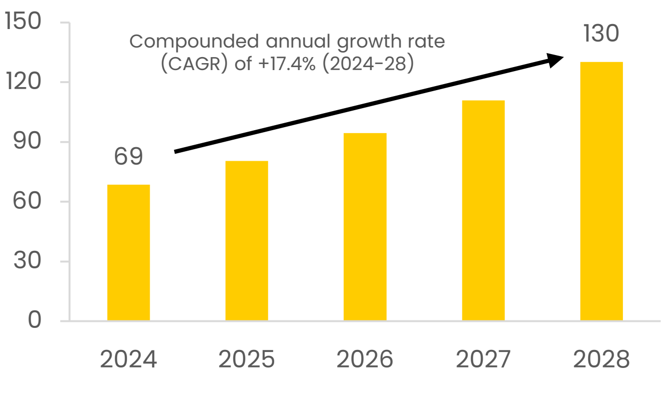
- While the easing monetary policy may support growth, we prefer to stay cautious on Europe equities as the recent gains may not be sustainable. The economic landscape remains challenging, marred by political headwinds as well as trade uncertainties. As such, we move Europe to underweight. Sectors-wise, we would seek shelter in defensive dividend stocks (e.g. telecommunications sector) while waiting to see more evidence of earnings growth recovery. The Europe bank earnings may also remain resilient and supportive of dividend payouts.

- China's economic data remains uninspiring and stronger fiscal stimulus is needed to boost the economy amidst growing trade headwinds. Still, we continue to see selected opportunities as the government has demonstrated its willingness to backstop the economy. We prefer stocks that will benefit from consumption-related policy measures, which have now expanded to include smartphones and tablets. We also like the state-owned banks and telecommunications sector for their defensive dividend yields.

- We turned less negative on Japan equities given the improving macro landscape. Meanwhile, the Bank of Japan will likely adopt a more gradual approach in its rate hikes. The ongoing corporate reforms will also continue to drive higher shareholder returns. Sectors-wise, we prefer the domestic-oriented financial stocks which should benefit from the higher policy rates. We also see opportunities in selected industrial stocks that could benefit from the drive in automation.

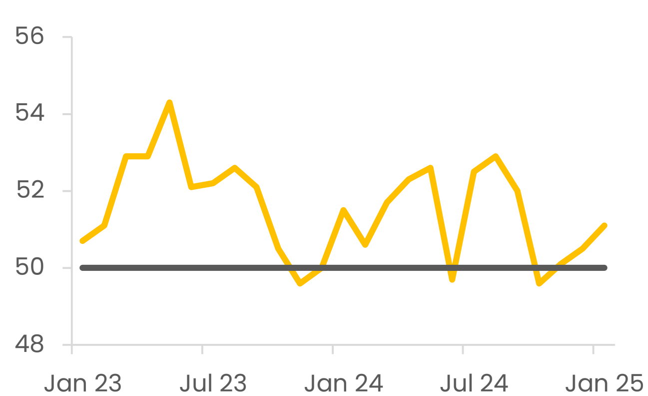
- Indian shares have been dragged down by a cyclical slow down though we remain optimistic on the economy's structural growth. Notably, India's latest budget is supportive of infrastructure spending and middle-class consumption that should benefit financials, industrials and consumer stocks. Meanwhile, we stay constructive on ASEAN, particularly Indonesia, Malaysia and Singapore. Stronger regional integration should also help mitigate the external uncertainties with the latest Johor-Singapore Special Economic Zone being an exemplary example.

Figure 3: Projected smart grid market size (USD billion)



Source: Statista I 11 December 2024

Figure 4: Japan's composite purchasing manager's index on steady uptrend



Source: Bloomberg | 31 January 2025

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