# Maybank Investment Strategy

Third Quarter 2023

## Summary


- Risk assets delivered stronger than expected 1H23 returns on the back of a resilient global economy. While monetary policies have remained largely restrictive, the tight labour market and excessive savings have helped support consumption and services growth.

- The MSCI All-Country (AC) World Index returned 14% in 1H23, with U.S. stocks leading the gains. Asia equities also rose with cyclical markets including Japan, South Korea and Taiwan outperforming. In contrast, China stocks lagged with a stalling of the recovery momentum.

- Global bond performance was more muted with the 10-year U.S. Treasury (UST) yield largely unchanged over 1H23. Investment Grade (IG) bonds delivered stable returns while High Yield (HY) bonds benefitted from the increased growth optimism. Meanwhile, gold prices retreated in June but still ended 1H23 higher.


## Macro Outlook and Investment Strategy

- We adopt a more balanced view in our asset allocation with an imminent collapse of the U.S. economy looking less likely. Policymakers have also demonstrated the willingness and ability to avert a severe downturn as witnessed during the U.S. regional banking crisis. Still, downside risks to growth persist given the restrictive financial conditions. Hence, we would continue to seek quality investments amidst the uncertainties.

- In view of the above, we close our underweight call on global equities and turn neutral on the U.S. market. Still, investors should look to broaden beyond U.S. Tech stocks to laggard sectors including Energy, Healthcare and Consumer Staples. We also see better risk reward in Asia including China and dividend plays in the region.

- Meanwhile, fixed income remains as our most preferred asset class. With 10-year UST yield likely on a downward trend, we see opportunities to achieve steady income through quality sovereign and IG bonds. In contrast, we remain cautious on HY bonds, particularly those in developed market with credit spread not wide enough to compensate for the higher default risk.

- Separately, investors may wish to consider some exposure in gold and oil to hedge against geopolitical risks including the re-escalation of the Russia-Ukraine war. Agricultural prices may also spike if the current El-Nino event were to be severe and disrupt crop supply significantly.

**Tactical Asset Allocation**

| Asset Class * | | Sector * | |
|---|---|---|---|
| Equity | = | U.S. | = |
| | | Europe | - |
| | | Japan | = |
| | | Asia ex-Japan | + |
| Fixed Income | + | Sovereigns | + |
| | | Developed Market (DM) Investment Grade (IG) | + |
| | | Developed Market High Yield (HY) | - |
| | | Asia Investment Grade (IG) | = |
| | | Asia High Yield (HY) | = |
| Hedge Funds | = | | |
| Gold | = | | |
| Cash | - | | |

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

| Asset Class | Changes to date (in USD currency) 1M | 3M | YTD |
|---|---|---|---|
| MSCI AC World | 5.9% | 6.3% | 14.3% |
| MSCI USA | 6.7% | 8.7% | 17.1% |
| MSCI Europe | 4.8% | 3.1% | 14.2% |
| MSCI Japan | 4.1% | 6.4% | 13.2% |
| MSCI Asia ex-Japan | 2.8% | -1.1% | 3.2% |
| China | 4.0% | -9.6% | -5.4% |
| Hong Kong | 3.4% | -5.0% | -7.3% |
| Taiwan | 2.0% | 4.8% | 20.4% |
| South Korea | 0.7% | 4.5% | 14.6% |
| India | 4.8% | 12.4% | 5.3% |
| Singapore | 1.7% | -5.6% | 1.1% |
| Malaysia | -1.9% | -8.4% | -11.7% |
| Indonesia | -0.2% | 3.2% | 9.9% |
| Thailand | -2.0% | -8.1% | -9.6% |
| Philippines | 2.0% | -1.1% | 1.5% |
| Barclays Multiverse | 0.1% | -1.4% | 1.6% |
| U.S. Treasuries | -0.8% | -1.4% | 1.6% |
| Barclays Global IG | 0.8% | 0.1% | 3.4% |
| Barclays Global HY | 2.6% | 2.0% | 5.2% |
| Asia IG | -0.1% | 0.3% | 3.2% |
| Asia HY | 3.1% | -0.3% | 2.4% |
| Hedge Funds | 0.6% | 0.5% | 0.5% |
| Gold | -2.2% | -2.5% | 5.2% |
| WTI Crude | 3.7% | -6.6% | -12.0% |
| Dollar Index (DXY) | -1.4% | 0.4% | -0.6% |

Source : Bloomberg | 30 June 2023

# Maybank Investment Strategy

Third Quarter 2023 - Bonds

## Summary

- Fixed income returns were mildly positive in 1H23 amidst a choppy rates market. The 10-year UST yield hit a low of 3.3% in March amidst the U.S. regional bank crisis before rebounding to 3.8% (Figure 3) as at end-June with the Federal Reserve (Fed) remain hawkish.

- In the U.S., the robust non-farm payrolls data and low unemployment rate continued to paint a resilient economy. However, the tight labour market is also driving higher wages leading to persistent inflationary pressures. Notably, while headline inflation has dipped to a low of 4% in June, core inflation remained sticky at 5.3%.

- Although the Fed has paused its rate hike in June, Fed Chair Jerome Powell reiterated the fight against inflation is not over. Notably, the latest June Fed's "dot plot" pointed to a projected median Fed funds rate of 5.6% for end-2023 (Figure 4), implying an additional 50 basis points (bps) rate hike for the year. For end-2024, the Fed's projection was also revised to 4.6% (from 4.3%), implying a rate cut of 100 bps for the year.

## Market Outlook

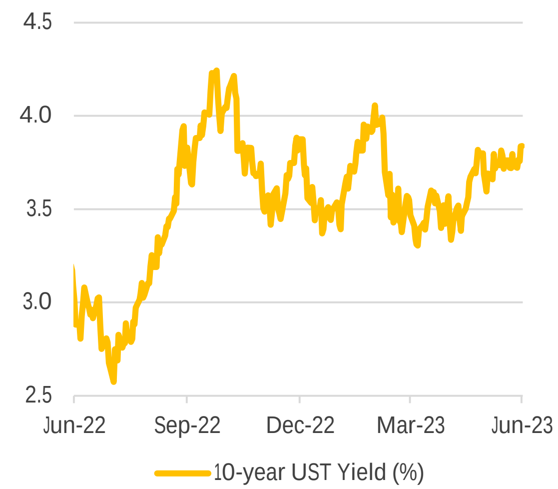
- The dramatic tightening of monetary policy over the past year has helped ease price pressures. Still, inflation remains sticky in most advanced economies requiring central banks to maintain a restrictive policy stance.

- Nevertheless, we believe policymakers will remain data-dependent and exercise flexibility in their monetary policies. The Fed's decision to pause in June suggest a willingness to wait and gauge the impact of rate hikes on the economy. Notably, the central bank has already hiked its policy rate by 500 bps since March 22, including the 75 bps in 1H23.

- In our view, the Fed may hike rates by only another 25 bps (instead of 50 bps as per the dot plot) this year. Still, we are expecting rate cuts to occur only in 2024 unless growth (and inflation) deteriorates much earlier and faster than expected. Meanwhile, the cyclical growth headwinds will continue to keep long-end Treasury yields depressed. Hence, we expect 10-year UST yield to trend lower, potentially towards 3% by end -2023.

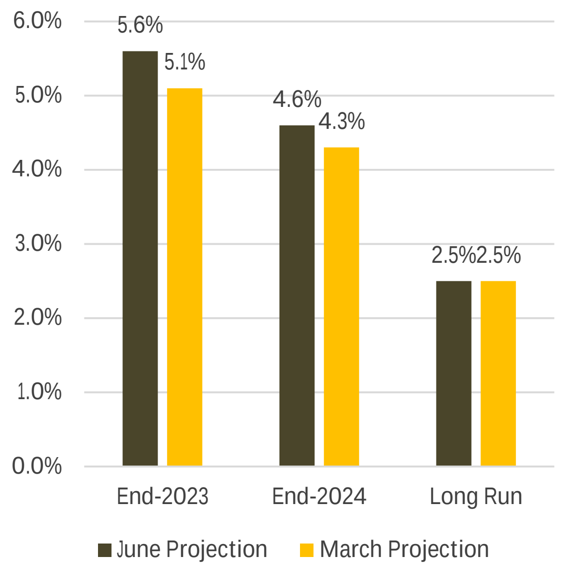
- In view of the above, we maintain our overweight stance on sovereign bonds (using UST as a proxy) given the favourable risk reward. The declining UST yield should also support the performance of IG credit and lead to stable returns.

**Figure 3: 10-year UST yield has been choppy in the first half of 2023**




Source: Bloomberg I 30 June 2023

**Figure 4: Median forecasts for the Fed funds rate based on the Fed's "dot plot"**




Source: Bloomberg I 30 June 2023

## Market Outlook- cont'd

- For credits, we retain our preference on Investment Grade (IG) over High Yield (HY) bonds as downside growth risks continue to persist with tightened bank lending conditions weighing on credit expansion and economic growth.

- We maintain an overweight stance on Developed Market (DM) IG credit given its solid credit fundamentals. As DM IG bond yields are still attractive, strong demand from institutional investors should continue to support the sector performance. In contrast, we remain underweight on DM HY credit as the late cycle risks build-up may culminate in a rise in default rate and tighter financing conditions could lead to credit spreads widening.

- European bank credits have witnessed a rebound since the Credit Suisse Additional Tier-1 (AT1) saga with abating investor concerns on the segment. Still, valuation has yet to fully revert to the pre-saga level, with lacklustre demand of hybrid capital and limited new issues. In our view, investors should continue to de-risk on European banks' AT1 instruments and move up the bank capital structure into either Senior bank or Tier 2 bonds with a preference for the Senior bonds given the higher level of risk buffer.

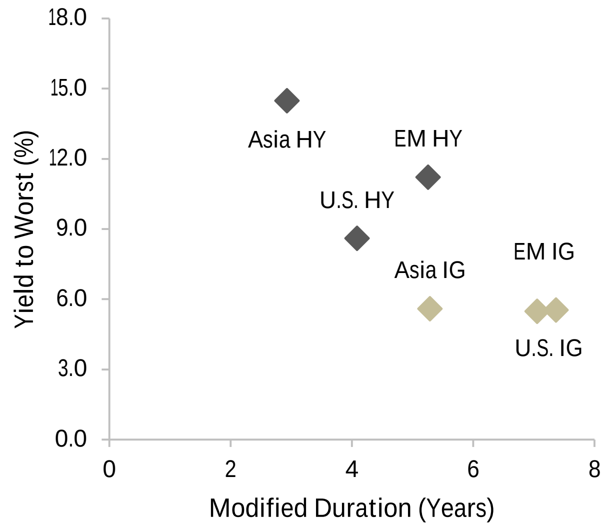
- Within Asia, we maintain our neutral stance on Asia IG credit. The sector has witnessed further credit spread tightening and is trading relatively more expensive than its developed market peers. Still, Asia IG bonds remained attractive on absolute terms as the sector is offering average yields of more than 5% which compares favourably to its historical average levels. We believe investors can position into strong quality credits including Asia quasi-sovereigns for cash flow stability.

- Concurrently, we hold our neutral stance on the Asia HY bonds. Although Asia HY credits will be vulnerable to a slowdown in growth, the negatives may have been priced in given the significantly wider than historical average credit spreads. The performance of the sector should also be supported by expectations of resilient economies in the region, including India and ASEAN. Still, we would prefer to stay nimble and selective while steering away from the higher beta Chinese property credits given the lingering credit default concerns and lacklustre property sales.

## Key Risks

- Higher than expected increase in interest rates.
- Unexpected rise in corporate defaults.

**Figure 5: Yield-to-Worst and modified duration of bond sub-asset classes**




Note: The above indices are based on Bloomberg Barclays bond indices.
Source: Maybank Group Wealth Management Research I 30 June 2023

# Maybank Investment Strategy

Third Quarter 2023 - Equities


## Summary

- Global economy has been surprisingly resilient with consensus pushing out the U.S. recession till late 2023 or early 2024. Consequently, the expected sharp decline in corporate earnings may not materialise, lending support to equity performance.

- No doubt, the markets could pull-back in the near-term given the strong gains year-to-date. Still, investor positioning in equities is not overly excessive at this juncture. Hence, the correction may be contained unless growth expectations were to deteriorate significantly.

- Given the more balanced risk reward, we adopt a more neutral stance on overall equities as well as the U.S. Notably, while U.S. Tech stocks have outperformed amid the artificial intelligence (AI) buzz, we would be selective and avoid areas of excessive valuation. Investors may also want to broaden out beyond Tech to laggard sectors including Energy, Healthcare and Consumer Staples.

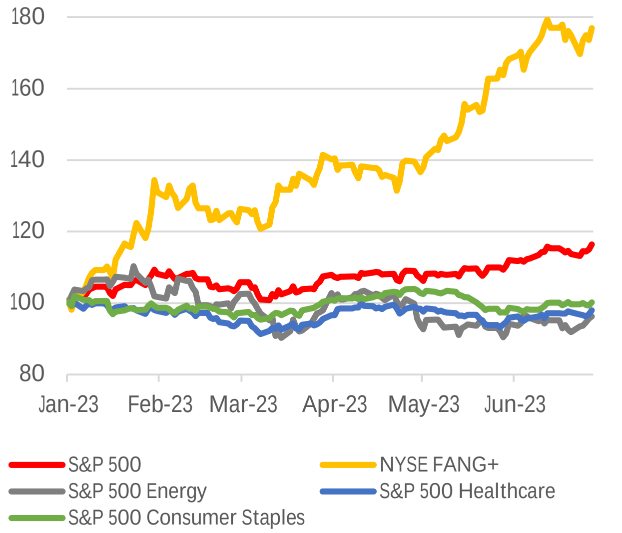
- Meanwhile, we upgrade Asia ex-Japan to overweight on the back of our positive stance on China and more constructive view on India. Notably, the region is projected to deliver resilient growth despite the headwinds in advanced economies. We also like Asia dividend stocks offering attractive yields.


## Market Outlook

- The U.S. market could stay range-bound despite lingering recession risks. Notably, consumer spending, which makes up 70% of the U.S. economic activity, continues to hold up despite the Fed's tightening moves. U.S. household balance sheet remains in a good shape, buffeted by strong jobs growth and an increase in the value of assets led by equity market gains. In addition, the broader market ex-mega tech is not trading at excessive valuations.

- Europe continues to be our least preferred market. The euro zone has been dragged by Germany into a technical recession in 1Q23 and we expect its economic growth to hover close to zero in the coming quarters. The persistent inflation, particularly on the services front, could push the European Central Bank (ECB) to deliver two more rate hikes and tighten financial conditions further. Hence, we prefer to stick with the defensive Healthcare and Consumer Staples sectors. We do see value in the energy stocks which have lagged to-date.

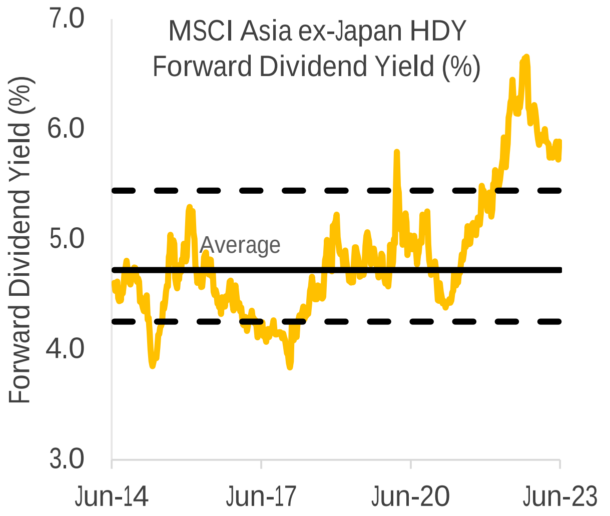
**Figure 6: U.S. Tech stocks have outperformed but laggard sectors may catch up**




Notes: Indices rebased to 100 as of 1 January 23; NYSE FANG+ includes Meta, Apple, Amazon, Microsoft, Snowflake, Tesla, Nvidia, Alphabet, Netflix, AMD; AI = Artificial Intelligence

Source: Bloomberg I 30 June 2023

**Figure 7: Asia dividend stocks offer attractive yields to enhance portfolio resilience**




Notes: MSCI Asia ex Japan High Dividend Yield (HDY) Index include companies in the parent index (i.e. MSCI Asia ex-Japan) that have higher than average dividend yields that are both sustainable and persistent

Source: Bloomberg | 30 June 2023

## Market Outlook- cont'd

- Japan had a stellar run in the 2Q, underpinned by strong corporate earnings and renewed interest from foreign investors on positive corporate reforms. Given the sharp run-up in prices, Japan's stock markets are showing signs of exuberance, notably with valuations now trading above historical averages. Nevertheless, we maintain our neutral view as ongoing structural reforms to improve shareholder returns may limit the downside risks.

- We continue to see an attractive risk-reward outlook in China despite the recent slew of disappointing macro data. The Chinese government will likely step up its efforts to support the economy to revive corporate and consumer confidence. In addition, MSCI China trades at a compelling price-to-earnings ratio of 10.0x with healthy earnings growth of 16.3% in 2023. In terms of sectors, we focus on policy easing beneficiaries, notably on consumption and green energy plays. State-owned enterprises in the financial, energy and telecom sectors also offer attractive dividend yields and potential upside in view of the renewed focus on reforms.

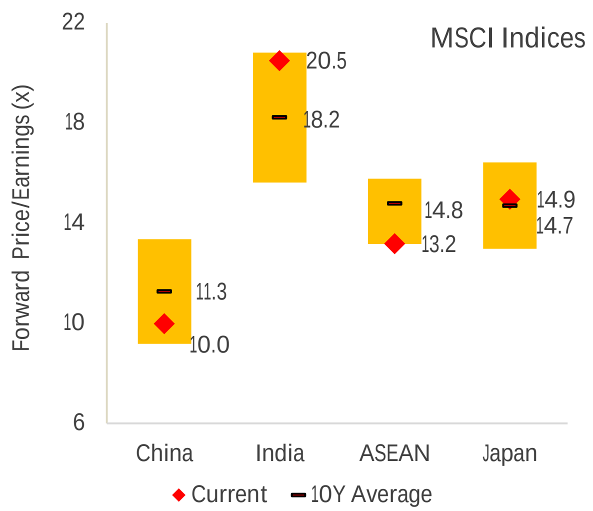
- Meanwhile, we upgrade India to neutral on the back of an improving economic and earnings outlook as well as the longer-term structural positives. Notably, India's 2Q GDP growth is expected to rise to 6.9% YoY (1Q: 6.1%) driven by strength in its exports while consumer confidence has remained robust on the back of solid jobs gains. However, our optimism on India is tempered by the slightly rich valuation with MSCI India trading at 20.5x forward price-to-earnings ratio, above its historical average of 18.2x.

- In South-East Asia, Indonesia may sustain its resilient performance on the back of robust domestic consumption and solid foreign direct investment flows. In contrast, Malaysia and Thailand have been weighed down by increased political uncertainties and persistent currency weakness though the negatives appear to be priced in. Meanwhile, Singapore remains vulnerable to a further slowdown given its external-oriented economy though we see selected opportunities in S-REITS with the sector likely to benefit from peaking rates.

## Key Risks

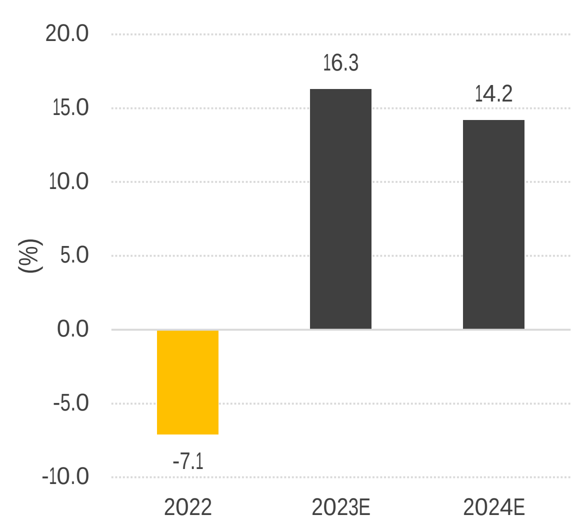
- Faster and deeper than expected economic downturn.
- Worse-than-expected deterioration in corporate earnings.
- Escalation in geopolitical uncertainties.

**Figure 8: China and ASEAN equities are inexpensively valued**




Source : Bloomberg | 30 June 2023

**Figure 9: MSCI China earnings is projected to grow at 16.3% YoY for 2023**




Source : Factset | 30 June 2023

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