Maybank Investment Strategy

July 2024

Market Recap

- Global equities outperformed in 1H24 with the MSCI World (All Country) gaining nearly 12% on the back of resilient growth. Notably, equities continued to move higher in June with Asia ex-Japan and U.S. markets outperforming. However, Europe lagged amid heightened election uncertainties.

- In contrast, global bond returns were lacklustre in 1H24 with the 10-year U.S. Treasury (UST) yield climbing to 4.4% from 3.9% at the start of the year. Nevertheless, corporate bonds benefitted from tighter spreads particularly the high yield credits in both developed as well as emerging markets.

- Gold witnessed robust returns in 1H24 though the upward momentum appeared to have stalled in June. In contrast, WTI crude rebounded strongly in June and ended nearly 14% higher in 1H24.

Macro Outlook and Investment Strategy

- As we enter 2H24, the macroeconomic landscape remains favourable for both equities and bonds. Nevertheless, the shifting expectations on growth and rates as well as geopolitics could drive market volatility higher periodically. The key is to stay invested in a well-diversified portfolio to achieve an optimal investment outcome.

- On equities, we expect solid corporate earnings to drive markets higher. Notably, we continue to see better risk reward in Asia ex-Japan while maintaining our positive tilt towards China, India and Malaysia. Sectors wise, we also see interesting opportunities in energy and selected financial stocks in the U.S., Europe and Japan.

- As for fixed income, we continue to seek quality bonds for quality carry. Notably, the 10-year UST yield should head decisively lower once the U.S. Federal Reserve (Fed) starts cutting rates. Apart from opportunities in Europe and India, we also reiterate our preference for Sukuk as a source of resilient returns.

- We see limited upside potential for gold from current levels, suggesting a high opportunity cost in holding the non-yielding precious metal. Meanwhile, the U.S. dollar should remain supported ahead of the U.S. election with talks of an imminent "de-dollarisation" likely premature.

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**	**YTD**
MSCI AC World	2.3%	3.0%	11.6%
MSCI USA	3.6%	4.0%	14.9%
MSCI Europe	-2.2%	0.9%	6.4%
MSCI Japan	-0.7%	-4.2%	6.5%
MSCI Asia ex-Japan	4.3%	7.3%	9.9%
China	-1.8%	7.2%	4.8%
Hong Kong	-6.4%	0.9%	-10.8%
Taiwan	12.0%	15.2%	29.6%
South Korea	8.9%	-1.1%	0.7%
India	7.0%	10.4%	17.1%
Singapore	0.8%	8.9%	9.1%
Malaysia	-0.2%	4.4%	7.5%
Indonesia	2.3%	-12.2%	-9.8%
Thailand	-2.0%	-4.7%	-12.4%
Philippines	1.0%	-10.6%	-4.8%
Barclays Multiverse	0.2%	-1.0%	-3.0%
U.S. Treasuries	1.0%	0.1%	-0.9%
Barclays Global IG	0.3%	-0.2%	-1.1%
Barclays Global HY	0.4%	1.0%	3.2%
EM Asia	0.8%	1.1%	2.2%
EM Asia IG	0.8%	0.7%	1.0%
EM Asia HY	1.1%	3.2%	9.6%
Gold	0.0%	4.3%	12.8%
WTI Crude	5.9%	-2.0%	13.8%
Dollar Index (DXY)	1.1%	1.3%	4.5%

Source : Bloomberg | 30 June 2024

Fixed Income Strategy

- On the macro front, the recent U.S. inflation data showed signs that price pressures are abating with May consumer price index (CPI) dipping to 3.3% year-on-year (YoY) (April: 3.4% YoY). Encouragingly, the Cleveland Fed Nowcast is estimating June CPI to retreat further to 3.1% YoY. Nevertheless, May's nonfarm payroll addition surprised on the upside while average hourly wage growth also ticked higher to 4.1% YoY. Hence, the U.S. Fed may still wait a little longer before embarking on any rate cuts.

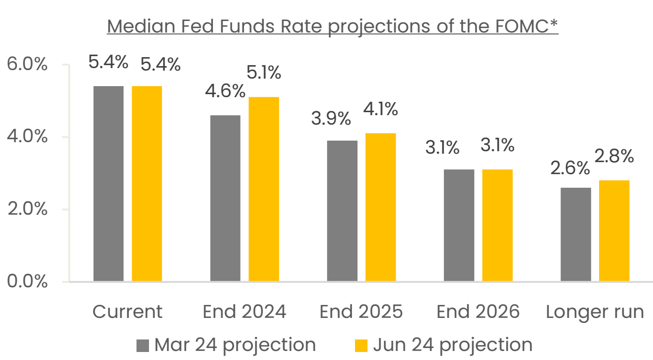
- Notably, the central bank held rates in June while its median forecast is suggesting only one rate cut of 25 basis points (bps) in 2024 (Figure 1). Nevertheless, a further moderation in inflation as well as a softer jobs market could lead to a more aggressive Fed easing. We are currently pricing in 50 bps cut this year with the first cut likely in September or later.

- Near-term, UST yield could remain range-bound with the Fed rate expectations continuing to shift. Still, we expect the 10-year UST yield to head towards 4% or lower once there is clearer visibility of the Fed rate cut trajectory. With current yields still attractive, we continue to seek quality bonds to generate above-cash returns through a bar-bell duration approach.

- Segments wise, we continue to see opportunities in Europe financial bonds. Nevertheless, investors who have excessive exposure in French bank bonds may consider to profit take, especially in the riskier Additional Tier 1 bonds. Since the snap election announcement in early June, the average senior credit default swap spreads of French banks have widened. We expect the spread weakness in French bank bonds to persist until the election overhang subsides. Investors who wish to add exposure in Europe may consider the bank bonds in Germany as well as the U.K. instead. Notably, the policy environment in the U.K. will likely remain benign regardless of the outcome of the upcoming election.

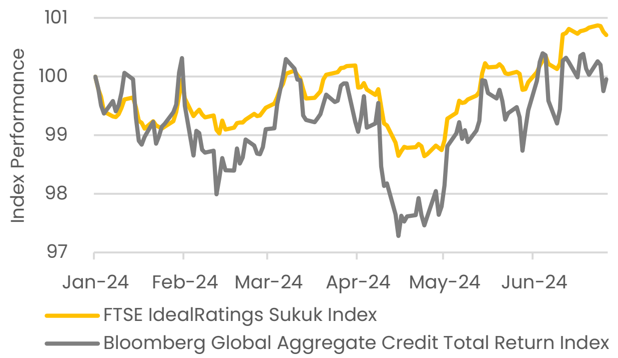
- Within Asia, we continue to favour the utilities and telecommunications credits given their strong cash flow and earnings visibility. India credits should also benefit from more foreign inflows with the recent inclusion of government bonds in JPMorgan's Emerging Market Bond Index. In contrast, Indonesia credit performance may be dampened by policy uncertainties until Prabowo Subianto takes over as President in late October. Last but not least, we retain our preference on Sukuk. Notably, Sukuk have outperformed conventional bonds to-date (Figure 2), highlighting the benefits of having them as a source of resilient returns.

Figure 1: Fed rate expectations may continue to shift with inflation data



*FOMC: Federal Open Market Committee
Source: Bloomberg | 12 June 2024

Figure 2: Sukuk have outperformed conventional bonds year-to-date



*Index rebased to 100 as of 1 January 2024
Source: Bloomberg | 30 June 2024

Equity Strategy

- The anticipated Fed rate cuts and solid earnings growth momentum continue to present a constructive backdrop for U.S. equities over the medium term. Nevertheless, we would prefer to diversify beyond the increasingly expensive technology stocks that have largely driven the gains in S&P 500 to-date. Specifically, we would accumulate the U.S. oil plays as a geopolitical hedge and see increasingly attractive risk reward in financials amid the solid 2Q earnings expectations.

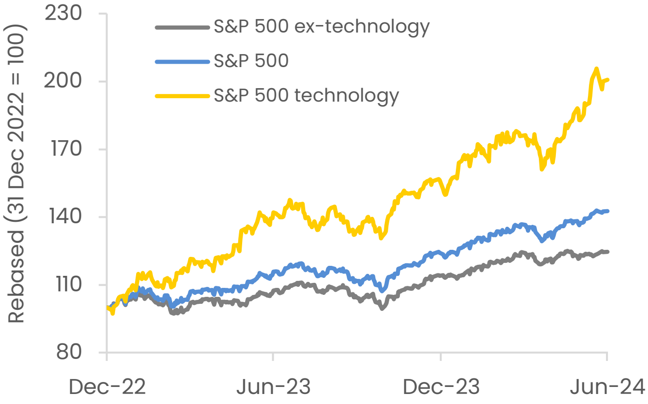
- Election uncertainties may weigh on Europe equities for now, particularly in France. Still, we do not expect drastic policy changes barring a surprise majority win by the far-left alliance (New Popular Front) in the French parliamentary election. Once the political drama subsides, the gradually improving euro area economy and earnings will likely return to the fore. We see opportunities to take advantage of the recent increase in volatility for selected European banks. We also retain our preference for healthcare and selected dividend yield plays in the region.

- Japan's latest economic releases including inflation suggest the Bank of Japan will likely further normalise its monetary policy in 2H24. Sectors wise, we prefer companies with domestic exposure such as financials and real estate while staying constructive on semiconductor production equipment companies, which still trade at reasonable valuations with strong growth.

- Asia ex-Japan equities continue to offer attractive risk reward relative to global peers. In particular, dividend plays should benefit from the peaking rates outlook. On China, we are cautiously optimistic despite concerns over geopolitics and its patchy economic recovery. Notably, the earnings upgrades have started to broaden out while valuation remains undemanding at below 10x forward price-to-earnings. While expectations for the upcoming plenum (15-18 July) are relatively muted, any upside policy surprise would be viewed positively. Sectors wise, we like travel and leisure-related stocks as well as selected technology companies.

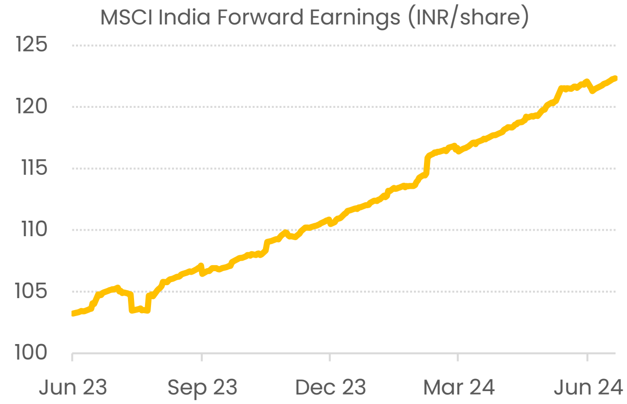
- We maintain our optimism on India with the election overhang being lifted. Notably, corporate earnings are still being revised higher amidst expectations of broad policy continuity despite the reduced majority in the parliament. As for Malaysia, investments are gaining momentum, notably towards building infrastructure that supports cloud and data centres. Apart from the financial and construction sectors, we also see interesting opportunities in selected telecommunications companies.

Figure 3: Technology stocks have largely driven the gains in S&P 500 to-date



Source: Bloomberg | 30 June 2024

Figure 4: India's earnings revision trend remains positive after the elections



Source: Bloomberg | 30 June 2024

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