Maybank Investment Strategy

June 2022

Summary

- Central bank tightening and COVID lockdowns in key cities in China continue to cloud the growth outlook and weighed on investor sentiment in May.
- The MSCI All-Country (AC) World Index only managed to eke out a small gain of 0.2%. Within Asia, Indonesia was amongst the top losers on profit-taking, while Taiwan and Hong Kong led the gainers.
- Economic growth concerns have led to the widening of credit spreads, with investors favouring U.S. Treasuries (UST) over corporate bonds. Notably, the 10-year UST yields fell 9 basis points (bps) in May, lending support to overall fixed income returns.
- Prospects of an European Union agreement to curtail purchases of Russia oil, combined with tight supply concerns, drove West Texas Intermediate (WTI) crude prices higher in May.

Macro Outlook and Investment Strategy

- The weaker-than-expected global Purchasing Managers' Indices (Figure 1) and disappointing earnings guidance from large corporates have heightened concerns over slowing growth and corporate profit margins.
- Yet, earnings expectations remained too optimistic, particularly in the developed markets. Coupled with the tightening monetary policy, we believe the risk-reward outlook has further deteriorated over the past month.
- From a technical perspective, global equities appear oversold and may stage a relief rally in the near term. However, we believe gains may not be sustainable given the lack of visibility on growth, policy and earnings front.
- Consequently, we have further reduced portfolio risk by downgrading equity to an underweight and upgrading cash to an overweight. Within equities, we have downgraded both China and Asia ex-Japan to neutral.
- With 10-year UST yields hovering near the 3% handle - the peak levels last seen during the 2018 bond tantrum - we are turning less negative on sovereign bonds. For now, we continue to prefer Asia Investment Grade (IG) bonds for their defensive carry.
- We continue to maintain some exposure in real assets as a hedge against inflation, as well as gold as a portfolio diversifier.

June 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	-0.2%	-9.3%	-14.0%
MSCI Europe	1.0%	-4.7%	-11.6%
MSCI Japan	1.6%	-7.3%	-13.3%
MSCI Asia ex-Japan	0.5%	-4.7%	-12.3%
China	1.2%	-2.9%	-16.7%
Hong Kong	2.8%	-2.3%	-4.1%
Taiwan	3.6%	-6.5%	-12.6%
Korea	1.9%	-4.6%	-13.6%
India	-5.8%	-7.3%	-9.0%
Singapore	-2.8%	-10.0%	-11.6%
Malaysia	-2.3%	-4.9%	-3.1%
Indonesia	-3.2%	0.4%	10.3%
Thailand	2.4%	-2.4%	1.8%
Philippines	1.4%	-6.7%	-4.5%
MSCI EM	0.5%	-5.1%	-11.7%
Bonds			
Barclays U.S. IG	1.1%	-2.7%	-8.5%
iBoxx U.S. HY	1.0%	-3.0%	-7.2%
Commodity			
Gold	-3.1%	-5.2%	0.4%
Oil	9.5%	14.3%	52.5%

Source : Bloomberg | 31 May 2022

Macro Outlook and Investment Strategy cont'd

- Investors are increasingly shifting their focus from inflation fears to growth fears, sending the yield on the benchmark 10-year Treasury note lower from an intraday high of 3.2% in early May. Notably, there were some relief that minutes from the May 3-4 Federal Open Market Committee meeting indicated that the central bank will not turn more hawkish in the near term. We have turned less negative on fixed income since April and would be looking for opportunities to build further exposure to sovereign bonds, particularly U.S. Treasuries, as a hedge against increased growth uncertainties.

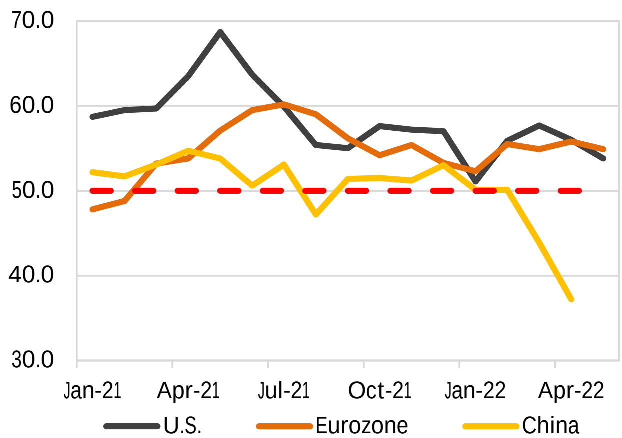
- We see selected opportunities in corporate bonds following the recent widening of credit spreads. In light of growth concerns, we continue to prefer an up-in-quality stance and favour IG bonds over High Yield. We maintain an overweight stance on Asia IG bonds as default rates will likely remain low given the improving credit metrics. In addition, Asia IG credit currently trades at 151 basis points (bps) (Figure 2), above 5-year average of 142 bps and has blended ratings of A3/A-, two notches above Emerging Market IG.

- In the U.S., while the earnings downgrade cycle has begun, it has yet to materially affect overall earnings forecasts. Analysts are still expecting the S&P 500 to report 2022 earnings and revenue growth of 10.1% and 10.2%, respectively, which are higher than the estimates of 9.2% and 7.5%, respectively, at the start of the year. We see risks of further downgrade of consensus earnings that could weigh on U.S. equity market performance. Nevertheless, the market has retreated closer to historical average valuation, thereby limiting the downside. As such, we maintain our neutral stance on U.S. equities.

- China has shown "clear urgency" to speed up the implementation of the supportive policies as it looks increasingly difficult to achieve its GDP growth target of 5.5% in 2022. However, we believe any economic or market rebound will be hamstrung by the continued cautious approach towards COVID-19, and this has led to our downgrade of China equities to a neutral stance. Consequently, Asia ex-Japan equities was also lowered to a neutral stance. Positively, earnings expectations have been recalibrated in China, with analysts projecting an earnings growth of just 3.8% in 2022. Coupled with the undemanding 12-month forward price-to-earnings ratio of 11.0x, we believe the overall risk-reward is balanced at current levels.

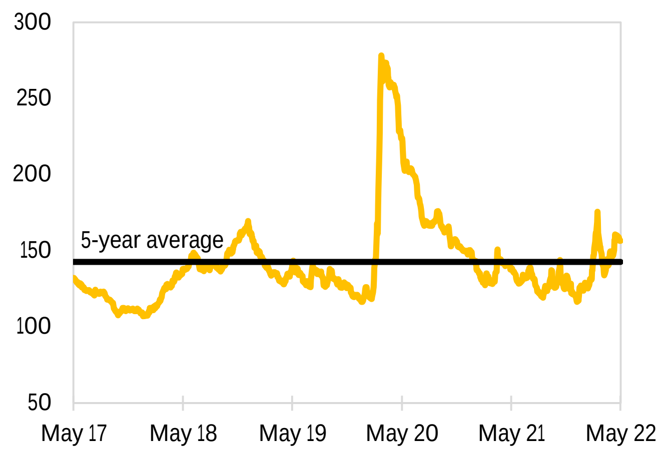
- Within Asia ex-Japan, we maintain our overweight position on Indonesia, and underweight stance on India and Thailand. While inflation is picking up in Indonesia, its economic outlook remains positive, supported by the commodity boom and the recovery of household consumption back above pre-pandemic levels.

Figure 1: Composite Purchasing Managers' Indices



Source: Bloomberg | 31 May 2022

Figure 2: Asia Investment Grade credit spreads



Source: Bloomberg | 31 May 2022

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