Maybank Investment Strategy

June 2023

Summary

- Global equities were choppy in May with returns being capped by lingering U.S. debt ceiling concerns. Still, there were pockets of strengths with technology stocks outperforming amid the Artificial Intelligence (A.I.) buzz. However, China equities underperformed with investors losing confidence in the economic recovery.

- In contrast, global bonds retreated with the 10-year U.S. Treasury (UST) yield climbing to as high as 3.8% given the persistent inflation outlook. Consequently, the performance of Developed Market Investment Grade (IG) bonds was also negatively impacted mainly due to the duration exposure.

- Commodities wise, both oil and gold prices ended lower during the month on the back of a stronger dollar.

Macro Outlook and Investment Strategy

- We expect the U.S. debt ceiling to be eventually lifted. Still, any relief rally may be short-lived with the economy not entirely out of the woods. Hence, we remain defensive in our asset allocation and would manage the uncertainties with a focus on quality.

- While we retain a cautious stance on overall equities, we see better risk reward in Asia ex-Japan relative to developed markets. Despite the concerns on China, we remain optimistic the recovery can extend beyond the initial reopening phase with support from additional policy measures. In contrast, we remain less sanguine on U.S. and Europe equities and would focus on quality plays with strong pricing power and balance sheet that are not excessively valued.

- Meanwhile, we see opportunities to capitalise on the recent rebound in Treasury yields to lock in higher carry through quality IG bonds. While there are still merits in maintaining a cash buffer, we are cognisant of the emerging re-investment risks for cash with policy rates peaking as the hiking cycle nears an end.

- Despite the recent dollar strength, we maintain our view for the USD to resume its weakness in the medium-term. This should bode well for Asian currencies including the SGD and MYR. Meanwhile, gold remains as an important portfolio diversifier even though prices are likely to remain range-bound in the short-term. Separately, we will not be surprised to see additional OPEC+ supply cut to limit a further fallout in oil prices.

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	YTD
Equity			
MSCI USA	0.7%	5.5%	9.8%
MSCI Europe	-5.7%	0.9%	9.0%
MSCI Japan	1.9%	6.5%	8.8%
MSCI Asia ex-Japan	-1.8%	-0.5%	0.4%
China	-8.4%	-9.2%	-9.0%
Hong Kong	-8.7%	-7.1%	-10.4%
Taiwan	7.3%	6.0%	18.0%
South Korea	4.8%	8.9%	13.9%
India	3.0%	8.5%	0.5%
Singapore	-6.5%	-2.5%	-0.6%
Malaysia	-5.4%	-5.6%	-9.9%
Indonesia	-3.1%	7.6%	10.1%
Thailand	-3.0%	-2.1%	-7.8%
Philippines	-4.2%	-0.4%	-0.4%
Bonds			
U.S. Treasuries	-1.5%	1.9%	2.0%
Barclays Global IG	-2.0%	2.0%	2.5%
Barclays Global HY	-1.0%	0.6%	2.8%
Barclays EM Bonds	-0.9%	0.8%	1.7%
Alternatives			
Hedge Funds	-0.3%	-1.2%	0.0%
Gold	-1.4%	7.4%	7.6%
WTI Crude	-11.3%	-11.6%	-15.2%
Dollar Index (DXY)	2.6%	-0.5%	0.8%

Source : Bloomberg | 31 May 2023

Macro Outlook and Investment Strategy cont'd

- Our base case is for the U.S. to raise its debt ceiling and avoid any default. However, the potential deluge of Treasury-bill issuance after the deal could lead to a squeeze on short-term liquidity. In addition, U.S. core inflation has remained sticky, suggesting the Federal Reserve (Fed) may still hike in June while continuing with its quantitative tightening. The tight financial conditions will have a drag on growth with the consensus pricing in a 65% probability of a U.S. recession within the next 12 months.

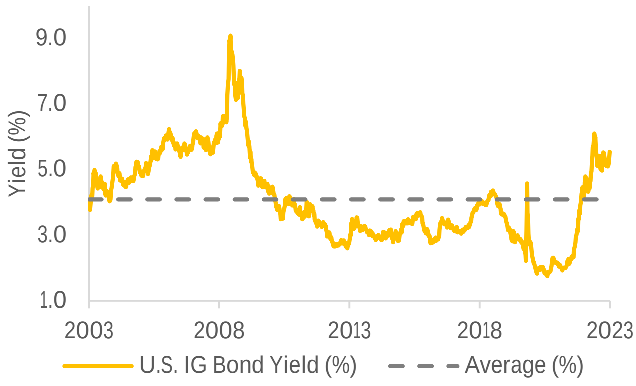
- Despite the growth challenges, S&P 500's 2H23 earnings are projected to rebound 8% year-on-year (YoY). We see downside risk to the estimates and expect weaker earnings to drag U.S. equities lower. While we recognise the long-term growth potential of A.I., we would avoid related stocks that may have run ahead of their fundamentals. Likewise, we continue to see persistent macro headwinds in the Eurozone with the market vulnerable to further profit-taking. Notably, Germany is already in technical recession but the European Central Bank is still expected to hike rates further as inflation remains well above its target.

- Within Asia equities, Japan has been one of the outperformers alongside South Korea and Taiwan. Nevertheless, we stay neutral on these markets as positives may have been priced in. In contrast, while China's recovery has been uneven, we expect it to broaden out to support new job creation and domestic consumption. There is also upside potential from additional policy support and easing U.S.-China relations. We favour the beaten-down China internet names as well as clean energy plays.

- As for fixed income, the 10-year UST yield is unlikely to sustain its rebound and could trend lower yet again once the U.S. economy shows more visible signs of deterioration. Hence, we continue to favour UST as a recession hedge. In addition, we maintain our preference for Developed Market IG bonds given the attractive carry of more than 5%. In contrast, we remain wary of high yield credits in both developed and emerging markets amid expectations of increasing defaults.

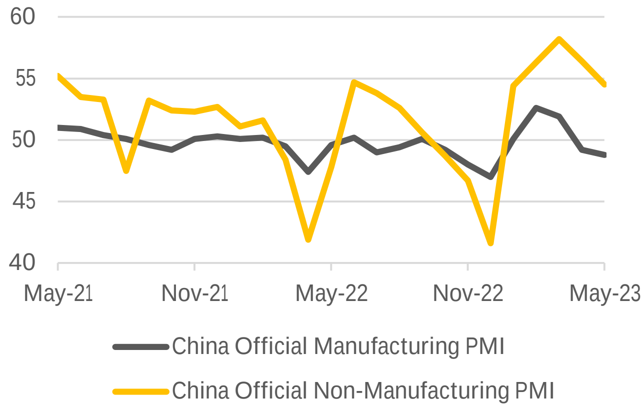
- On currencies, the recent MYR weakness is due mainly to external factors that are short-term in nature. We expect the ringgit to strengthen by year-end with USDMYR projected to trend lower towards 4.25 on the back of a softer USD, more visibility China recovery and reversal of the recent foreign outflows from Malaysia. We also expect SGD to remain resilient with a USDSGD forecast of 1.30 by year-end. While SGDMYR may pull-back slightly from current levels, the continued SGD policy of a gradual appreciation path and its resilience during crisis could continue to support the SGDMYR pair in the long-run.

Figure 1: Developed market investment grade bonds continue to offer attractive yield



Source: Bloomberg | 31 May 2023

Figure 2: China has witnessed stronger recovery in services than manufacturing



Source: Bloomberg | 31 May 2023

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