Maybank Investment Strategy

June 2024

Market Recap

- Risk appetite improved in May with global equities gaining 4%. The U.S. outperformed with technology stocks leading the gains while Europe benefitted from bottoming fundamentals. China stocks were also boosted by stronger policy support but faced profit-taking towards the later part of the month.

- Global bonds were mildly higher with the 10-year U.S. Treasury (UST) yield edging lower to 4.5% amid shifting expectations of growth and inflation. Investment grade (IG) and high yield (HY) bonds ended in positive territory with tighter spreads.

- Gold closed slightly higher for the month but failed to stay above USD 2,400/ounce. Meanwhile, WTI crude sold off as demand concerns outweighed supply disruption risks.

Macro Outlook and Investment Strategy

- Risk assets will likely remain supported by robust macro fundamentals and corporate earnings. We continue to see opportunities to generate above-cash returns amid the peaking rates outlook. While inflation and geopolitical uncertainties may persist, a multi-asset approach should help diversify risk and achieve steady returns over time.

- We retain our overweight on equities, including the positive tilt on Asia ex-Japan with the region likely to be supported by both China and India stocks. Sectors wise, we reiterate our stance to look beyond artificial intelligence (AI)-related stocks, including the energy sector.

- The risk reward for UST remains favourable even though rates may remain choppy in the short-term. However, credit spreads have tightened to near historical trough levels across both IG and HY segments. We move Developed Market IG bonds to neutral and would adopt a more selective stance to obtain quality carry. Segments wise, we see opportunities in European financials and IG-rated corporate perpetual bonds as well as Asia utilities and telecommunication credits.

- Gold remains vulnerable to a pull-back given the still stretched positioning. In contrast, oil prices should be supported with the OPEC+ alliance agreeing to extend its crude output cuts into 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	YTD
MSCI AC World	4.1%	4.0%	9.1%
MSCI USA	4.8%	3.6%	10.9%
MSCI Europe	5.0%	7.2%	8.8%
MSCI Japan	1.4%	-0.5%	7.2%
MSCI Asia ex-Japan	1.6%	5.5%	5.4%
China	2.4%	10.2%	6.8%
Hong Kong	2.5%	0.9%	-4.7%
Taiwan	5.3%	11.1%	15.8%
South Korea	-3.6%	-4.3%	-7.5%
India	0.8%	3.9%	9.4%
Singapore	3.8%	12.1%	8.1%
Malaysia	2.9%	5.6%	7.7%
Indonesia	-6.2%	-13.2%	-11.9%
Thailand	-1.6%	-3.7%	-10.6%
Philippines	-6.0%	-11.5%	-5.8%
Barclays Multiverse	1.3%	-0.6%	-3.1%
U.S. Treasuries	1.5%	-0.3%	-1.9%
Barclays Global IG	1.8%	0.6%	-1.3%
Barclays Global HY	1.5%	2.2%	2.8%
EM Asia	1.7%	1.2%	1.4%
EM Asia IG	1.5%	0.8%	0.2%
EM Asia HY	2.5%	3.9%	8.3%
Gold	1.8%	13.8%	12.8%
WTI Crude	-6.0%	-1.6%	7.5%
Dollar Index (DXY)	-1.5%	0.5%	3.3%

Source : Bloomberg | 31 May 2024

Fixed Income Strategy

- Macro data were mixed in May, which led to shifting expectations on growth and inflation. Investors initially took comfort in the slightly lower U.S. consumer price index (CPI) in April, which reduced the risk of the Federal Reserve (Fed) having to hike rates. However, the subsequent stronger-than-expected U.S. PMI data and consumer confidence stoked inflation concerns again. The lacklustre auction of the U.S. government debt also led to some upward pressure on UST yield though the downward revision of 1Q GDP growth drove yields lower thereafter.

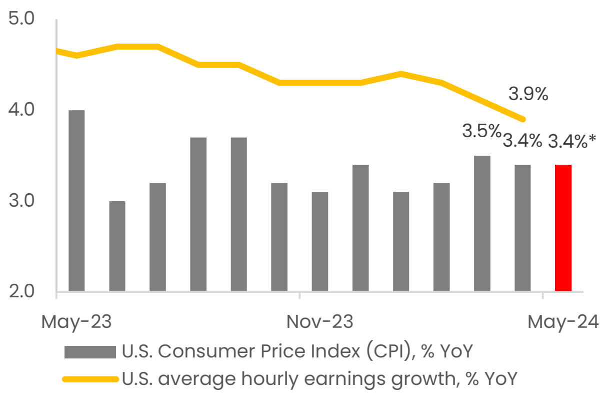
- The Fed will likely remain on hold in its June meeting given the sticky U.S. inflation. Notably, the Cleveland Fed Nowcast is suggesting May CPI of 3.4% year-on-year (YoY), similar to the levels in April (Figure 1). That said, we continue to expect U.S. inflation to gradually decline with growth likely to moderate given the Fed's restrictive policy rates. Further softening of the U.S. labour market and wage growth will also give the Fed additional impetus to ease policy rates.

- We continue to expect the Fed to cut 50 basis points (bps) this year though it may start to do so only in September or later. The peaking rates outlook bodes well for Treasuries with the 10-year UST yield likely to trend lower towards 4% again even though it may remain volatile for now. In contrast, the credit spreads of IG and HY bonds in both developed and emerging markets have tightened significantly when compared to historical average levels (Figure 2). It suggests limited scope for further spread tightening and highlights an increasing need to focus on credit valuation to obtain more stable and resilient return.

- Segments wise, we retain our preference for European financials over the corporates from a spread valuation perspective. Still, we see opportunities in the IG-rated perpetual bonds within the European corporates space. Notably, they offer a more defensive carry (versus the lower-rated HY credits in the region) with supportive technicals amid the limited new issue supply. The European IG corporate bonds also remain more attractively valued than their U.S. peers.

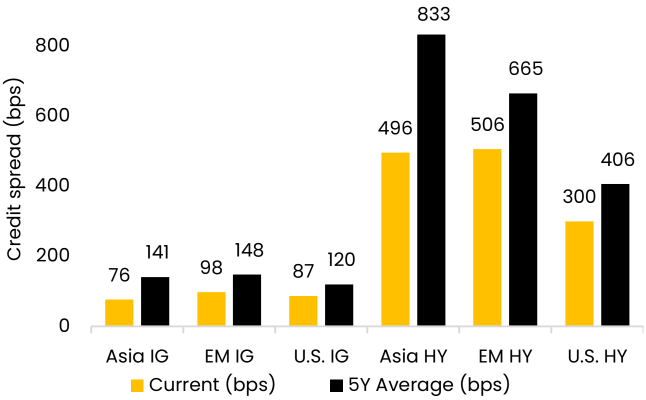
- Within Asia, we like the utilities and telecommunications credits as these companies operate in a regulated environment; thus, providing better visibility on cash flows and earnings trajectory. We also see merits in holding SGD-denominated bank bonds for defensive yield carry. In contrast, we remain cautious towards the distressed China property credits despite the recent easing measures.

Figure 1: U.S. inflation may remain sticky; Softer job market and wage growth to help



*Cleveland Fed Nowcast
Source: Bloomberg | 31 May 2024

Figure 2: Increasing need to focus on credit valuation with tightening spreads



Source: Bloomberg | 31 May 2024

Equity Strategy

- Although U.S. 1Q GDP growth was revised lower to an annualised rate of 1.3%, the Atlanta Fed GDPNow model is estimating higher 2Q growth at 2.7%. Coupled with the expected acceleration in earnings growth, we see modest upside for the U.S. market. However, with the S&P 500 trading at higher-than-average valuation and 6-month low implied volatility, we prefer to stay neutral. Sectors wise, we believe it is timely to revisit the U.S. oil plays as a geopolitical hedge.

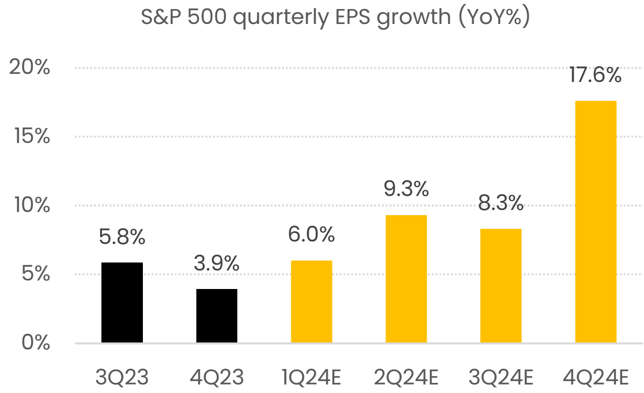
- The economic outlook in Europe is turning incrementally positive and we expect the earnings recession to end in 2Q. While U.K. Prime Minister Rishi Sunak has called for a surprise election on 4 July, the outcome will likely have limited impact on U.K. equities and the British pound. With imminent monetary easing expected in the region, we continue to favour the dividend plays including those in energy, healthcare and telecommunication sectors.

- Japan's equities delivered solid FY2024 earnings performance, with profits growing by 13%, partly driven by the weak yen. Sectors wise, we remain positive on companies with domestic exposure such as the transportation and real estate sectors. We also see interesting opportunities in selected semiconductor production equipment companies given the strong demand for generative AI applications.

- Over in China, the government has announced its boldest housing support to stabilise the economy. This includes the setting up of a Rmb 300 billion funding programme to buy up excess housing inventory. Notably, earnings revision for MSCI China has turned positive amid the stronger policy support. We stay constructive on communication services and technology sectors while broadening into selected laggards in the consumer discretionary sector as consumer confidence improves. We also like the high dividend-paying state-owned enterprises listed in Hong Kong as these stocks may benefit from China's proposed dividend tax exemption plan.

- Elsewhere, investors are gearing up for Prime Minister Narendra Modi to win his third term in office on 4 June. His victory would lead to political stability and policy continuity, helping to sustain India's positive earnings outlook. Within South East Asia, Malaysia's 1Q GDP grew faster-than-expected at 4.2% YoY. We expect better policy execution and a technology upcycle to support Malaysia equities. In addition, the proposed Johor-Singapore Special Economic Zone may bring about new growth opportunities with freer movement of people, goods and capital.

Figure 3: U.S. earnings growth is expected to accelerate in the coming quarters



Source: FactSet I 24 May 2024

Figure 4: Improving earnings revision for China equities amid stronger policy support

Source: Bloomberg | 31 May 2024

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