Maybank Investment Strategy

March 2022

Summary

- Tensions between Russia and Ukraine escalated into a full-scale military conflict between both countries in late February. The rapid deterioration of events had resulted in heightened volatility across all asset classes.
- The MSCI All-Country (AC) World Index slumped 2.7% in February, dragged lower by U.S. and Europe. In contrast, the West Texas Intermediate crude benchmark jumped 8.6% on worries over supply-disruption, while gold also gained 6.2% as investors sought safe-haven assets.
- However, the 10-year U.S. Treasury (UST) yield rose 4.8 basis points (bps) to 1.82% as the flight-to-safety bid from Russia-Ukraine news was more than offset by persistently high inflation and expectations of rising interest rates.

Macro Outlook and Investment Strategy

- While downside risk to growth has increased, the Russia-Ukraine conflict will unlikely derail the global economic recovery unless it significantly broadens beyond Ukraine. Notably, previous geopolitical events rarely have a lasting impact on the economy and markets as long as the military conflicts remain relatively localised.
- Against this backdrop, we remain constructive on equities in the medium-term although investors may want to phase-in their equity investments given the near-term uncertainties. We prefer selected markets including China and Singapore which are still trading at undemanding valuation and their economies are relatively shielded from the Russia-Ukraine situation.
- Meanwhile, we expect the U.S. Federal Reserve (Fed) to continue normalising its monetary policies amid elevated inflationary pressures although the central bank will remain data-dependent. Within fixed income, we retain our underweight stance on sovereign bonds given the upward pressure on yields and prefer U.S. and Asia High Yield (HY) credit for the shorter duration exposure and more attractive carry.
- With the Russia-Ukraine situation still evolving, investors should maintain some exposure to gold as a portfolio hedge. Oil prices may also move higher in the near-term although they could reverse quickly to the downside once the supply concerns dissipate. Overall, we suggest investors maintain a diversified portfolio including some cash buffer and ensure that the portfolio is not over-leveraged to mitigate the downside risks.

March 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	-3.1%	-8.6%	-8.6%
MSCI Europe	-3.0%	-7.4%	-7.4%
MSCI Japan	-1.2%	-6.2%	-6.2%
MSCI Asia ex-Japan	-2.4%	-5.4%	-5.4%
China	-3.9%	-6.7%	-6.7%
Hong Kong	-2.8%	-1.8%	-1.8%
Taiwan	-2.5%	-4.5%	-4.5%
Korea	0.5%	-9.7%	-9.7%
India	-4.1%	-5.4%	-5.4%
Singapore	-1.3%	-2.3%	-2.3%
Malaysia	5.3%	1.5%	1.5%
Indonesia	5.5%	6.0%	6.0%
Thailand	4.9%	5.1%	5.1%
Philippines	0.0%	4.1%	4.1%
MSCI EM	-3.1%	-4.9%	-4.9%
Bonds			
Barclays U.S. IG	-1.1%	-3.2%	-3.2%
iBoxx U.S. HY	-0.7%	-3.5%	-3.5%
Commodity			
Gold	6.2%	4.4%	4.4%
Oil	8.6%	27.3%	27.3%

Source : Bloomberg | 28 February 2022

Macro Outlook and Investment Strategy cont'd

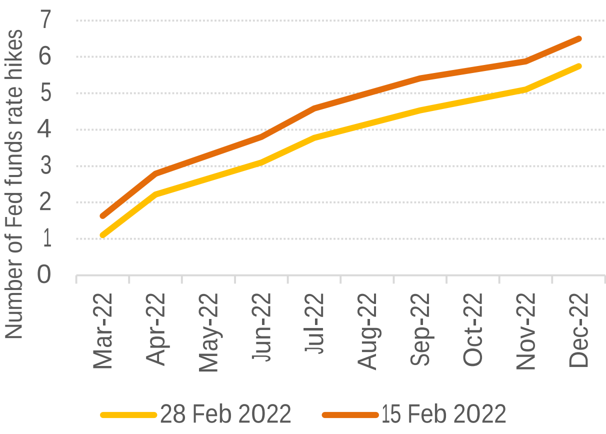
- The Fed's preferred inflation gauge, the core personal consumption expenditure (PCE) price index, rose 5.2% year-on-year (YoY) in January up from the prior month's pace. At this point, comments from the policymakers suggest that path of policy normalisation has not been altered by recent developments, even though heightened uncertainties between Russia and Ukraine may bring about higher energy prices and inflation. Notably, markets are pricing in a less aggressive pace of policy rate hikes versus two weeks ago (Figure 1). Still, an increase of 150 bps (or 6 hikes of 25 bps each) is projected by end 2022. For now, we expect the 10-year UST yield to trade largely within the range of 1.50% - 2.00% in 2022, although the yield could still overshoot to the upside in the near-term.

- The U.S. and Europe economies have remained resilient, with flash data for both manufacturing and services purchasing managers' indices (PMIs) coming in better than expected in February following an Omicron-related lull in January. In addition, the 4Q earnings have been encouraging with nearly 80% of S&P 500 companies posting positive earnings surprise. That said, our optimism is tempered by the moderating earnings revision trend in both markets. In addition, European equities may be more affected by the Russia-Ukraine situation given the close economic ties. As such, we maintain our neutral stance on both markets.

- In contrast, we retain our overweight stance on Japan, supported by healthy earnings outlook and less demanding valuation relative to its developed market peers. We also stay constructive on China given the attractive risk-reward. Notably, inflationary pressures remained benign which will enable policymakers to implement more targeted easing measures to bolster growth. The progress in COVID treatment and vaccine development should also help the government gradually shift away from its "zero-COVID" strategy. Positively, Chinese companies are still trading at inexpensive levels relative to their historical valuation (Figure 2). There are also signs of earnings revision bottoming out, which should lift sentiment.

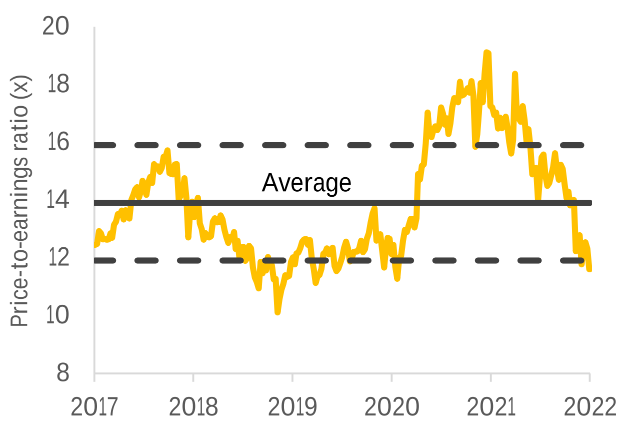
- To date, Southeast Asia equities have held up better than global peers. We believe the region will benefit from further reopening and continue to see Singapore and Indonesia as attractive recovery laggard plays. The latest Singapore Budget remained largely expansionary and there remain pockets of opportunities in consumer services, telecommunications and REITS sectors apart from the banking stocks. Meanwhile, Indonesia's 4Q21 GDP expanded by 5% with the recovery of domestic demand boding well for the market. In contrast, we are less sanguine on Thailand given the still rich market valuation and vulnerability to potentially higher oil prices.

Figure 1: Market is pricing in a more gradual pace of Fed policy rate hike



Source: Bloomberg | 28 February 2022

Figure 2: MSCI China is trading below its 5-year historical average price-earnings valuation



Source: Bloomberg | 28 February 2022

Disclaimer

This advertisement has not been reviewed by the Monetary Authority of Singapore.

This report is for information purposes only and under no circumstances is it or any part of it to be considered or intended as an offer to sell or a solicitation of an offer to buy any of the financial or investment products referred to herein (each, a “Product”, and collectively, “Products”), or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy or enter into any legal relations, or an advice or a recommendation with respect to such Products.

Investors should note that income from such Products, if any, may fluctuate and that each Product’s price or value may rise or fall. Accordingly, investors may receive back less than what they have originally invested or they may also not receive back anything at all from what they have originally invested. **All investments involve an element of risk, including capital and principal loss. Past performance is not necessarily a guide to or an indication of future performance.**

This report is prepared for general circulation. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and particular needs of any particular recipient or reader and thus should be read with this in mind. An investor should therefore independently and separately evaluate and assess each Product and consider the suitability of the same and the risks involved or the investment strategies discussed or illustrated in this report, taking into account the investor’s specific investment objectives, financial situation, risk tolerance and particular needs, and seek independent financial, audit, tax, legal and/or other professional advice as necessary, before dealing, transacting and/or investing in any of the Products mentioned in this report or communicated to the investor as a follow-up to this report. All investments will be made solely upon and in reliance on the investor’s own judgment and discretion, notwithstanding any opinion, commentary or recommendation this report, Maybank or its Relationship Managers may provide. Unless expressly agreed otherwise, Maybank offers no investment, financial, legal, tax or any other type of advice to recipients or readers of this report. Maybank has no fiduciary duty towards any such recipients and readers, and makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for the financial needs, circumstances or requirements of the recipients and readers.

Some of the information herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank and consequently no representation and/or warranty is made by Maybank as to the accuracy or completeness of this report for any particular purpose and it should not be relied upon as such. Maybank may have issued other documents, investment proposals, reports, analyses or emails expressing views different from the contents hereof and all views expressed in such documents, investment proposals, reports, analyses and emails are subject to change without notice. The information or opinions or recommendations contained herein are subject to change at any time without prior notice. Accordingly, to the maximum extent permitted by applicable laws and regulations, Maybank and its officers, directors, associates, agents, connected parties and/or employees shall not be liable for any error or omission contained in this report or for any direct, indirect, special or consequential losses or damages that may arise from the use of, reliance on or any action taken in connection with this report. Maybank and its officers, directors, associates, connected parties and/or employees, including persons involved in the preparation or issuance of this report, may from time to time have positions or be materially interested in the Products referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such Products and may also perform or seek to perform investment banking, advisory or other services in relation thereto. One or more directors, officers and/or employees of Maybank may be a director

Disclaimer

of any of the corporations of the Products mentioned in this report to the extent permitted by law. Accordingly, Maybank may have a conflict of interest that could affect the objectivity of this report.

This report may contain information such as valuation, performance, yield or the like, derived from a variety of valuation metrics, all of which may change at any time without notice and investors are cautioned not to place undue reliance on such information. This report may also contain forward looking statements which are often but not always identified by the use of words such as “anticipate”, “believe”, “estimate”, “intend”, “plan”, “expect”, “forecast”, “predict” and “project” and statements that an event or result “may”, “will”, “can”, “should”, “could” or “might” occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made by and/or information currently available to Maybank and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements. This report is current as at the date of its publication and Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. This report may also contain charts, diagrams or graphs, including sample portfolio overview, which may differ or vary from the actual charts, diagrams or graphs, including any portfolio overview, which an investor may receive separately.

In this report, references to “Maybank” mean Maybank Singapore Limited and/or its affiliates and related corporations. The information herein and the contents of this report remain the intellectual property of Maybank. The contents of this report are confidential and its circulation and use are restricted. This report is prepared for the use of Maybank’s clients and/or prospective clients and may not be reproduced, altered in any way, copied, published, circulated, distributed or transmitted to any other party in whole or in part in any form or manner or by any means (including electronically, photocopying, recording or via any information storage and retrieval system) without the prior express written consent of Maybank. Maybank and its officers, directors, associates, agents, connected parties and/or employees accept no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who/which is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or where Maybank may become subject to new or additional legal or regulatory requirements. The Products described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers or warnings may apply based on the geographical location of the recipient of this report.

Prohibition of sales to EEA Investors: Effective 1st January 2018, Maybank Singapore Limited prohibits any offer and/or sale of any investment products (“PRIIPs”) to investors in the European Economic Area (“EEA”), in accordance with the guidelines made to Regulation (EU) No 1286/2014. The EEA region includes the following countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK, Iceland, Liechtenstein Norway and Switzerland.

Maybank Singapore Limited (UEN: 201804195C)