Maybank Investment Strategy

March 2023

Summary

- Risk assets retreated in February as stronger than expected U.S. inflation led to expectations of a more hawkish Federal Reserve (Fed). Renewed geopolitical tensions did not help after the China "spy" balloon incident and Russia-Ukraine war remaining in a stalemate after one year.

- Global equities sold off with MSCI All-Country (AC) World Index declining 2.8%. Notably, Asia ex-Japan markets underperformed, led by China stocks that witnessed profit-taking despite the recovery fundamentals remaining intact.

- Similarly, global bonds witnessed negative returns in February. The Bloomberg Barclays Multiverse Index pulled back 3.3% as the 10-year U.S. Treasury (UST) yield rose to nearly 4%. Credits were also under pressure with longer-duration bonds being affected more. Separately, gold prices declined on a stronger dollar.

Macro Outlook and Investment Strategy

- We continue to see upside risks to U.S. inflation amid the tight labour market and robust wage growth. This could lead to more aggressive monetary tightening that will negatively impact corporate earnings growth.

- In view of the above, we remain cautious on U.S. equities, alongside Europe. We would also avoid U.S. High Yield (HY) and Emerging Market (EM) bonds with the recession risks not being fully priced in.

- Given the macro uncertainties, it is prudent to maintain a cash buffer to preserve capital. Market volatility could also pick up with investors reacting to inflation data and central banks' decisions. Nevertheless, there are still selected investment opportunities in an increasingly uneven growth landscape.

- We remain optimistic on China's recovery and view the recent correction as an opportunity to add exposure. The higher than historical average yield also makes Developed Market (DM) Investment Grade (IG) bonds an interesting value proposition.

- Separately, we continue to view sovereign bonds as an effective hedge against recession with the 10-year yield unlikely to break new highs. While we remain neutral on Gold, it is also worthwhile to maintain some exposure for diversification within the portfolio.

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	12M
Equity			
MSCI USA	-2.4%	-2.1%	-8.5%
MSCI Europe	-0.6%	8.1%	-0.4%
MSCI Japan	-3.8%	2.4%	-8.9%
MSCI Asia ex-Japan	-6.8%	0.7%	-14.1%
China	-10.4%	5.4%	-16.0%
Hong Kong	-7.1%	4.3%	-6.4%
Taiwan	-1.1%	5.4%	-17.4%
South Korea	-7.0%	-0.6%	-18.0%
India	-4.5%	-12.4%	-9.5%
Singapore	-5.1%	1.1%	-7.1%
Malaysia	-7.2%	-2.9%	-11.6%
Indonesia	-1.0%	-2.2%	0.5%
Thailand	-9.2%	-2.2%	-6.1%
Philippines	-5.1%	-2.0%	-16.9%
Bonds			
U.S. Treasuries	-2.3%	-0.4%	-10.1%
Barclays Global IG	-3.1%	0.7%	-12.1%
Barclays Global HY	-1.9%	2.9%	-6.2%
Barclays EM Bonds	-2.2%	1.8%	-8.0%
Alternatives			
Hedge Funds	-0.4%	1.2%	-1.4%
Gold	-5.3%	3.3%	-4.3%
WTI Crude	-2.3%	-4.3%	-19.5%
Dollar Index (DXY)	2.7%	-1.0%	8.4%

Source : Bloomberg | 28 February 2023

Macro Outlook and Investment Strategy cont'd

- U.S. consumer price index (CPI) moderated further to 6.4% year-on-year (YoY) for the month of January. However, the core Personal Consumer Expenditure (PCE) price index came in higher than expected at 4.7% YoY (Figure 1). With core PCE being closely tracked by the Fed, the sticky inflation outlook will force the central bank to maintain a restrictive monetary policy especially given the still tight labour market. Notably, there are talks of a 50 basis points (bps) hike in the Fed's upcoming March meeting although consensus are still pricing in a 25 bps hike.

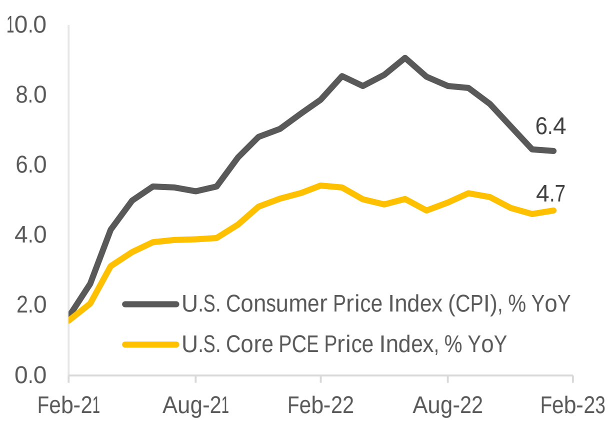
- Admittedly, the inflation risk may be somewhat priced in with the Fed Funds futures now implying a higher terminal rate of 5.4% in July (versus 5.0% in June at the start of the year). Still, we believe interest rate expectations may continue to shift according to data releases and drive market volatility. That said, the 10-year UST yield will unlikely breach its 52-week high of 4.2% given the growth concerns. Instead, we believe the UST yield curve will only get more inverted, reflecting the high probability of an imminent recession.

- In view of the above, we continue to see attractive risk reward in sovereign bonds (using UST as a proxy). We also maintain our positive stance on DM IG bonds, with the higher than historical average yield offering an attractive entry point. In contrast, we remain cautious towards HY bonds, particularly those with credit ratings of B or lower as they remain vulnerable to a downturn and a rise in default rates should growth slow.

- As for equities, we are expecting to see performance divergence across markets. The U.S. remains as our least preferred market as the lacklustre earnings growth cannot justify the still lofty valuation. Notably, the S&P 500 is still trading above historical average at 18x forward price-to-earnings while consensus earnings growth has been lowered to merely 2% for 2023.

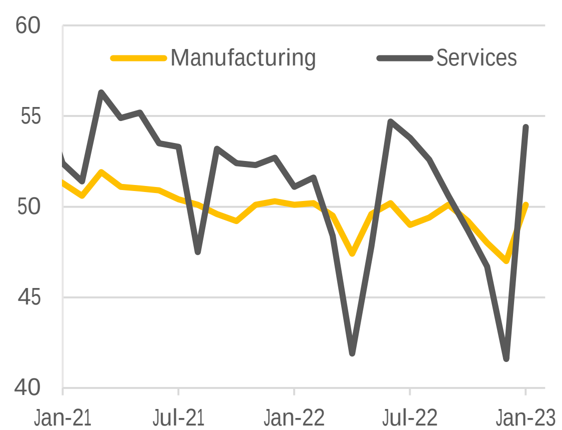
- In contrast, the risk reward for China has become even more attractive with the recent pull-back. We expect policymakers to maintain a pro-growth stance in the upcoming National People's Congress starting on 5 March. Notably, China has witnessed a rebound in PMI data for both manufacturing and services amid the reopening of its economy. Further evidence of recovery should propel China stocks higher. Elsewhere, the absence of additional levies in the recently released Malaysia budget will be a relief to the corporate sector. We also see value in selected Singapore REITs with the sector likely to deliver more resilient returns in 2023 after the underperformance last year.

Figure 1: U.S. headline inflation is moderating but core inflation remains sticky



Source: Bloomberg | 28 February 2023

Figure 2: Rebound in PMI data bodes well for China's economic and growth recovery



Source: Bloomberg | 28 February 2023

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