Maybank Investment Strategy

March 2024

Market Recap

- Global equities rallied in February with major indices in the developed markets hitting record highs. Notably, the strong earnings of Artificial Intelligence (A.I.)-related firms fuelled optimism on growth. In addition, Asia ex-Japan stocks outperformed with China rebounding strongly amid more supportive policy measures.

- In contrast, global bonds languished amid reduced expectations of aggressive U.S. Federal Reserve (Fed) rate cuts, with the 10-year U.S. Treasury (UST) yield ticking higher to 4.3%. Nevertheless, credit spreads narrowed with High Yield (HY) bonds outperforming Investment Grade (IG) credit.

- Commodities-wise, oil moved higher while gold prices were flat with the U.S. dollar inching higher.

Macro Outlook and Investment Strategy

- The robust macro and earnings growth momentum will likely remain supportive of risk assets. We maintain our base case for a soft-landing in the U.S. though the probability of a no-landing scenario is on the rise. Still, equity markets may consolidate in the near-term with the volatility index near historical trough, hence highlighting the need to be more selective and nimble.

- While the Fed may not cut rates any time soon, it will likely pause and not hike rates further. Given the peaking rates outlook, we see rising reinvestment risk for cash. Hence, we maintain our overweight stance on fixed income with a preference for quality IG bonds including Sukuk.

- Further policy support will likely aid the rebound in China equities will all eyes on the National People Congress starting 5th March. Still, investors looking for more resilient returns may wish to consider a broader "China+" strategy in Asia. We also see opportunities in the developed markets including the U.S. and Japan but would emphasise sector diversification as well as margin and safety.

- We remain neutral on gold but would look to turn more constructive should prices fall nearer to USD 1,900/ounce. Separately, the OPEC+ alliance is expected to extend its production cut, lending support to oil prices.

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)		
	MTD	QTD	FY23
MSCI AC World	4.3%	5.0%	22.8%
MSCI USA	5.4%	7.0%	27.1%
MSCI Europe	1.6%	1.5%	20.7%
MSCI Japan	3.0%	7.8%	20.8%
MSCI Asia ex-Japan	5.6%	-0.1%	6.3%
China	8.4%	-3.1%	-11.0%
Hong Kong	4.6%	-5.6%	-14.8%
Taiwan	5.5%	4.2%	31.3%
South Korea	7.4%	-3.3%	23.6%
India	2.8%	5.3%	21.3%
Singapore	0.9%	-3.5%	5.3%
Malaysia	2.4%	2.0%	-3.5%
Indonesia	3.2%	1.6%	8.4%
Thailand	0.7%	-7.2%	-10.3%
Philippines	5.5%	6.5%	4.3%
Barclays Multiverse	-1.2%	-2.5%	6.0%
U.S. Treasuries	-1.3%	-1.6%	4.1%
Barclays Global IG	-1.3%	-2.0%	9.2%
Barclays Global HY	0.8%	0.6%	14.0%
EM Asia	-0.2%	0.1%	7.1%
EM Asia IG	-0.5%	-0.6%	7.5%
EM Asia HY	1.7%	4.3%	4.7%
Gold	0.2%	-0.9%	13.1%
WTI Crude	3.2%	9.2%	-10.7%
Dollar Index (DXY)	0.9%	2.8%	-2.1%

Source : Bloomberg | 29 February 2024

Macro Outlook and Investment Strategy cont'd

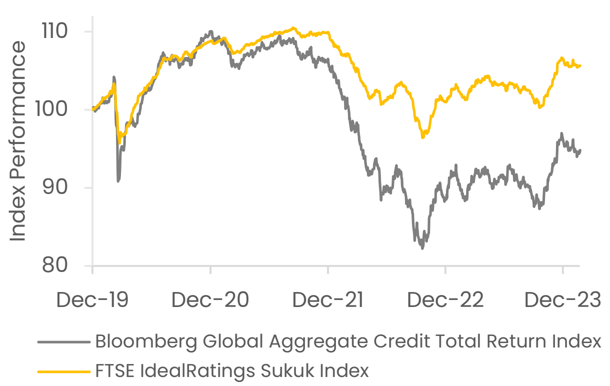
- The AtlantaFed GDP Nowcast is estimating 1Q24 annualised growth of 3.0% while the Cleveland Fed Nowcast is suggesting headline consumer price index (CPI) to remain stable at 3.1% year-on-year (YoY) in February. With the U.S. economy holding up well, the Fed will likely wait for clearer signs of dis-inflation before cutting rates. Still, we maintain our view the central bank will cut rates by 100 basis points in 2024 with the first cut likely to occur in July this year.

- With the 10-year UST yield likely to retreat in tandem with lower policy rates, we see support for fixed income returns. Although credit spreads are tight relative to historical averages, we would seek to lock in the still compelling yields (>5%) of IG bonds before they fall further. Segments-wise, we continue to favour the European financials senior and Tier-2 bonds. We also see opportunities in new Additional Tier-1 (AT1) bond issues from Global Systemically Important Banks (G-SIB). In addition, Indonesia credits especially the quasi-sovereigns may see more demand given the positive election outcome. Meanwhile, we continue to advocate having some exposure in Sukuk as an additional source of resilient returns.

- The S&P 500 is estimated to have delivered 4% YoY earnings growth in 4Q23, making it the second-straight quarter of positive growth. Still, the index is now trading expensively near 21x forward price-to-earnings (P/E), which highlights the need to be more selective. We would continue to look beyond the megatech stocks to other sectors including healthcare, materials and energy. As for Japan, all eyes will be on the upcoming *Shunto* negotiations to see if wage growth momentum can be sustained. Sectors-wise, we see opportunities in industrial and selected tech stocks as well as laggard plays including healthcare, real estate and energy.

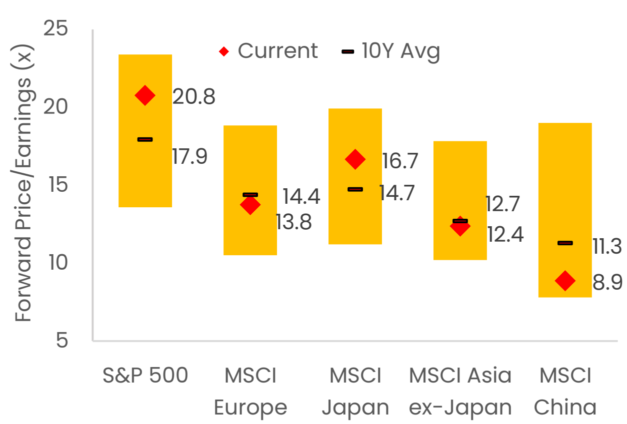
- Investor sentiment on China has improved over the past month amidst the announcements of a larger-than-expected loan prime rate cut and drafting of laws to promote the private sector economy. Given the undemanding valuation, China equities could rebound further though a sustained rally will require more policy certainty over a period of time. For a smoother ride, we continue to advocate adopting a broader Asia ex-Japan exposure with India and ASEAN being our preferred markets alongside China. Notably, we have turned more constructive on Indonesia with the likely one-round election outcome being optimal for the market. Within Indonesia, we favour large-cap blue chips as well as cement and mining companies that can benefit from a continuation of the current economic policies.

Figure 1: Sukuk has historically delivered more resilient returns than conventional bonds



*Index rebased to 100 as of 31 December 2019
Source: Bloomberg | 29 February 2024

Figure 2: MSCI China is trading at less demanding valuation versus global peers



Source: Bloomberg | 29 February 2024

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