Maybank Investment Strategy

March 2025

Market Recap

- Global equity markets displayed a mixed performance in February. MSCI Europe and Asia ex-Japan registered healthy returns but U.S. stocks retreated slightly. Notably, China stocks jumped more than 10% with sentiment boosted by positive developments on both technology and policy fronts.

- Bond returns were supported by lower 10-year U.S. Treasury (UST) yield that dipped to 4.2% amidst rising U.S. growth concerns. Meanwhile, credit spreads remained stable for both Investment Grade (IG) and High Yield (HY) bonds.

- Gold moved higher amid increasing trade uncertainty. In contrast, oil prices registered negative returns on oversupply concerns.

Macro Outlook and Investment Strategy

- Policy uncertainty linked to the new Trump administration on several fronts – including trade and immigration - has weighed on growth sentiment. Still, the U.S. economy is unlikely to enter a recession even though growth may moderate this year.

- Given the above, we maintain our positive stance on equities, particularly the U.S. and Asia ex-Japan. Notably, we view the recent dip in U.S. stocks as an entry opportunity amid the robust corporate earnings outlook. Still, we reiterate the importance of diversifying beyond the Megacap stocks to other sectors including financials and industrials.

- Meanwhile, Asia ex-Japan remains reasonably valued and could benefit from stronger growth in both China and India. In contrast, we retain our underweight stance on Europe equities as the positives have been more than priced in.

- As for bonds, we continue to see value in maintaining exposure to UST as a hedge against growth uncertainty. Investors can also gain stable carry through quality credits in both developed markets and Asia.

- The gold rally may take a pause after the strong performance year-to-date. Nevertheless, the pullback may be shallow with the robust central bank demand likely to lend support to 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)		
	1M	YTD	FY24
MSCI AC World	-0.6%	2.8%	18.0%
MSCI USA	-1.6%	1.4%	25.1%
MSCI Europe	3.7%	10.8%	2.4%
MSCI Japan	-1.4%	0.2%	8.7%
MSCI Asia ex-Japan	1.1%	1.8%	12.5%
China	11.8%	12.8%	19.7%
Hong Kong	6.9%	4.4%	0.1%
Taiwan	-4.4%	-1.2%	35.1%
South Korea	-0.2%	6.1%	-23.1%
India	-8.0%	-11.2%	12.4%
Singapore	2.8%	7.5%	32.3%
Malaysia	0.4%	-4.4%	20.7%
Indonesia	-15.8%	-16.7%	-11.9%
Thailand	-8.6%	-11.6%	1.6%
Philippines	3.7%	-6.4%	0.0%
BBG Multiverse	1.4%	2.0%	-1.3%
BBG U.S. Treasury	2.2%	2.7%	0.6%
BBG Global IG	1.6%	2.2%	0.7%
BBG Global HY	0.8%	2.2%	9.2%
BBG EM Asia	2.0%	2.6%	5.2%
BBG EM Asia IG	2.0%	2.6%	3.6%
BBG EM Asia HY	2.0%	2.4%	14.5%
Gold	2.1%	8.9%	27.2%
WTI Crude	-3.8%	-2.7%	0.1%
Dollar Index (DXY)	-0.7%	-0.8%	7.1%

Source: Bloomberg (BBG) | 28 February 2025

Fixed Income Strategy

- The latest decline in the S&P U.S. Services Purchasing Managers' Index (PMI) in February, coupled with the disappointing retail sales data for January, stoked growth concerns in the U.S. Notably, talks of large-scale layoffs of federal employees, coupled with uncertainties surrounding U.S. President Donald Trump's trade policies, have dampened consumer sentiment. Despite the signs of slowing growth, the probability of a U.S. recession remains low in our view.

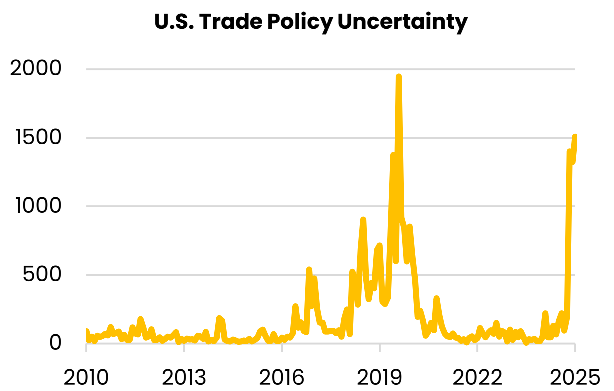
- The Trump administration is expected to implement more pro-growth measures such as de-regulation and lower taxes to support the economy. In addition, the U.S. Federal Reserve (Fed) still has room to ease further especially if inflation were to trend lower again. Notably, the Cleveland Fed Nowcast is estimating the U.S. Consumer Price Index (CPI) to edge lower to 2.8% year-on-year YoY) in February (January: 3.0%). Hence, while the Fed is expected to keep rates unchanged in its upcoming meeting (19-20th March), it may surprise with a rate cut should growth deteriorate. All eyes will be on the upcoming U.S. non-farm payrolls and inflation data.

- The 10-year UST yield has trended lower amid the rising growth concerns and may approach the 4% mark soon should jobs and inflation data come in weaker-than-expected. We continue to see merits in maintaining exposure in UST as a growth hedge though we would caution against over-extending duration exposure. Meanwhile, we retain our neutral stance on both IG and HY bonds with credit spreads remaining tight relative to history.

- Within the developed markets, we maintain our preference for Europe financials Tier 2 Subordinated bonds, Additional Tier 1 bonds from domestic systemically important banks (D-SIB) in Australia and Japan insurers Subordinated Tier 2 bonds. In addition, we expect the U.S. banks to perform well amid the robust macro environment and potential de-regulation that could favour the sector. Investors with the risk appetite may wish to seek opportunities in new perpetual securities issued by the top tier U.S. banks.

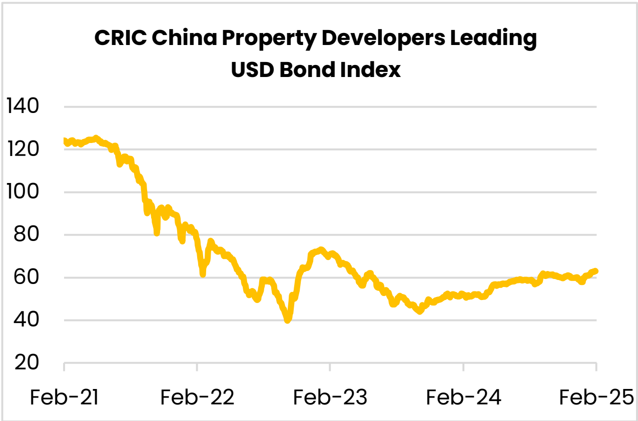
- Asia credits remain as a source of stable carry given the attractive starting yield and robust fundamentals of the regional economies. Sectors-wise, we continue to favour Hong Kong utility and insurance, as well as Singapore REITs. Meanwhile, China property credit performance has further stabilised amid stronger signs of government support for the sector. We continue to monitor opportunities in the stronger state-owned enterprises (SOEs) that are well positioned to navigate the current challenges of the property sector. However, we stay cautious on non-SOE developers with homebuyer sentiment towards these firms remaining fragile.

Figure 1: U.S. trade policy uncertainty nearing highs seen in U.S.-China trade war (2018-19)



Source: Bloomberg | 28 February 2025

Figure 2: China property credit performance has stabilised further



Source: Bloomberg | 28 February 2025

Equity Strategy

- U.S. stocks declined following weaker-than-expected macro data which raised concerns on the consumer front. However, the weakness is likely temporary with corporate earnings still remaining robust. Notably, 75% of the S&P 500 companies (that have reported) delivered a positive earnings surprise in the 4Q24 reporting season. Consensus is also projecting S&P 500 earnings growth of 12% in 2025 following the healthy 10% in 2024. Nevertheless, we would continue to look beyond the Megacap stocks to other sectors including financials and industrials.

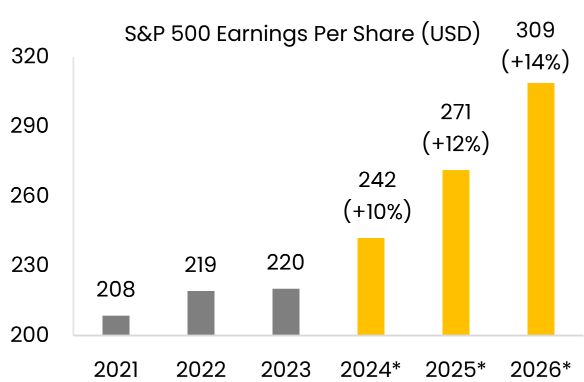
- We remain underweight on Europe as the recent outperformance was driven mainly by speculation over a potential end to the war and hopes of stimulus rather than positive fundamental changes. The economic environment remains challenging with ongoing tariff uncertainties. Sector-wise, we see opportunities in selected industrial and luxury goods companies. Nevertheless, we look to take profit and trim exposure in banking stocks.

- We retain a neutral stance on Japan with the improving macro landscape and ongoing corporate reforms offsetting the lingering Japanese Yen volatility. On the policy front, the Bank of Japan is expected to gradually hike rates, supported by wage growth and inflation. We prefer domestically focused stocks including financials, which should benefit from higher policy rates.

- Meanwhile, we remain positive on Asia ex-Japan. Notably, market sentiment in China has turned positive following developments in DeepSeek and a high-profile meeting between President Xi Jinping and tech entrepreneurs, including Jack Ma from Alibaba. We expect further stimulus from the upcoming National People's Congress though they would likely be more measured than bazooka-like. We also find the emergence of DeepSeek promising though the related artificial intelligence (AI) plays may be vulnerable to profit taking given the recent sharp rally. Hence, there is a need to more selective for better downside protection. Meanwhile, we would seek laggard opportunities in non-AI plays including consumer, insurer and even selected property stocks.

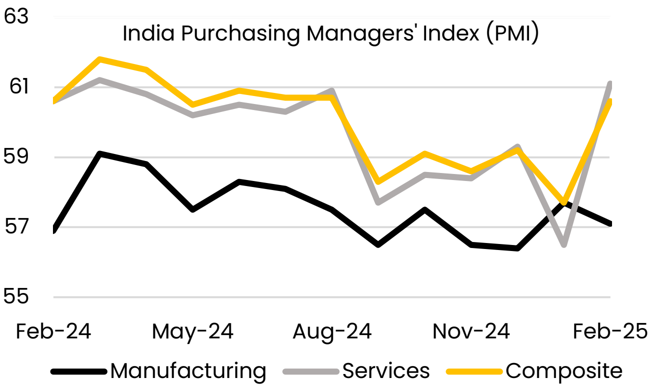
- Despite the near-term cyclical headwinds in India, we remain optimistic about the country's structural growth potential. India's latest budget, which prioritises infrastructure spending and middle-class consumption, has likely contributed to the strong surge in private sector activity in February. Meanwhile, we remain constructive on ASEAN, with Singapore and Malaysia being our preferred markets in the region.

Figure 3: U.S. corporate earnings growth is still projected to remain robust



Source: Factset I 28 February 2025; *Forecasts

Figure 4: India's rebounding composite PMI is suggesting signs of cyclical recovery



Source: Bloomberg | 28 February 2025

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