Maybank Investment Strategy

May 2022

Summary

- Risk assets continued their volatile ride as investors digested the ongoing war in Ukraine, the U.S. Federal Reserve's (Fed) monetary tightening, China's COVID-19 lockdowns and a mixed set of corporate earnings results.

- The MSCI All-Country (AC) World Index slumped 8% in April, led lower by Taiwan and the U.S. Meanwhile, global bonds also fell in tandem as hawkish comments from the Fed officials and inflation worries sent the yields on the 10-year U.S. Treasury (UST) to a high of 2.94% as at end-April 2022, the highest level since 2018.

- Notably, the 2-year/10-year Treasury yield curve briefly inverted, which has historically served as a leading indicator of a recession. Gold prices also fell 2.1% amid a stronger U.S. dollar and rising yields. Bucking the downtrend, West Texas Intermediate crude futures edged 4.4% higher in April due to tight supply concerns.

Macro Outlook and Investment Strategy

- Financial markets could remain volatile as surging commodity prices and sustained inflationary pressures are forcing major central banks to front-load interest rate hikes this year. That said, the tailwinds from reopening, pent-up demand, and healthy labour markets could cushion the potential slowdown in global growth as monetary and fiscal policies normalise.

- Year-to-date, returns for bond investors have been challenging as worsening inflation drove up rate hike expectations and sent global bond yields sharply higher. Still, the risks to long-term bond yields are now more balanced as the aggressive central bank tightening this year may have been largely priced-in. As such, we maintain a neutral stance on fixed income and sovereign bonds, while favouring an up-in-quality stance in credit.

- While economic growth could slow, an imminent recession is unlikely. As such, we retain our neutral stance on equities and prefer higher quality, defensive companies with resilient profit margins and pricing power. Within equities, we are selectively biased towards China and Indonesia, while avoiding Europe, India, Taiwan and Thailand given the rich valuations.

- With geopolitical tensions expected to remain elevated, investors could use gold as a portfolio diversifier to hedge against the current uncertainties. Meanwhile, we expect oil prices to remain range-bound with the supply disruption risks being offset by demand concerns.

May 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	-9.1%	-9.1%	-13.8%
MSCI Europe	-5.6%	-5.6%	-12.4%
MSCI Japan	-8.8%	-8.8%	-14.7%
MSCI Asia ex-Japan	-5.2%	-5.2%	-12.7%
China	-4.1%	-4.1%	-17.7%
Hong Kong	-5.0%	-5.0%	-6.7%
Taiwan	-9.8%	-9.8%	-15.7%
Korea	-6.3%	-6.3%	-15.2%
India	-1.7%	-1.7%	-3.4%
Singapore	-7.5%	-7.5%	-9.0%
Malaysia	-2.7%	-2.7%	-0.8%
Indonesia	3.8%	3.8%	14.0%
Thailand	-4.6%	-4.6%	-0.6%
Philippines	-8.0%	-8.0%	-5.8%
MSCI EM	-5.5%	-5.5%	-12.1%
Bonds			
Barclays U.S. IG	-3.8%	-3.8%	-9.5%
iBoxx U.S. HY	-3.9%	-3.9%	-8.1%
Commodity			
Gold	-2.1%	-2.1%	3.7%
Oil	4.4%	4.4%	39.2%

Source : Bloomberg | 30 April 2022

Macro Outlook and Investment Strategy cont'd

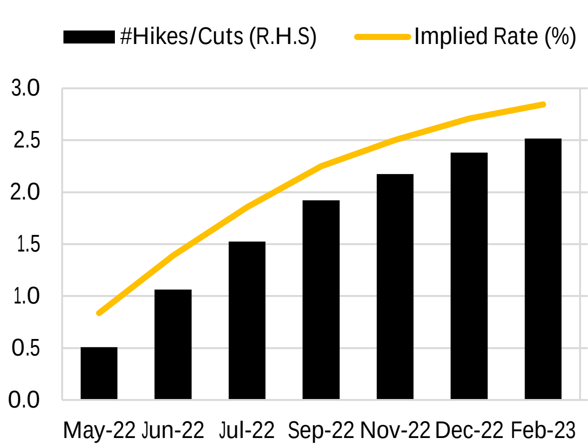
- With heightened supply chain risks due to the Russia-Ukraine conflict and renewed lockdowns in China, near-term inflation concerns could persist and lead to elevated rate hike expectations. Notably, markets are already pricing in the U.S. Federal Reserve (Fed) to impose another 225 basis points (bps) increase (or 9 hikes of 25 bps each) by end-2022 (Figure 1). Still, we continue to see 2.00% - 2.50% as the likely range for 10-year UST by end of the year with moderating growth likely to a limit a further increase in long-end yield. In fact, we are starting to see some value within the bond universe with 1o-year UST yield back to a 4-year high and credit spreads widening to more attractive levels. As such, it may make sense for investors to start building some exposure in sovereign bonds. As for credit, we continue to favour an up-in-quality stance with a preference for Investment Grade over High Yield bonds for more defensive carry.

- The Russia-Ukraine conflict has significantly increased uncertainties about the economic outlook, leading to cuts to GDP growth estimates across the U.S. and Europe. Still, we expect at least trend-growth in the U.S. amid a strong job market and healthy consumption. We do see some downside risks to corporate earnings with rising input costs likely to erode profit margins. Given the balanced risk reward, we retain our neutral stance on U.S. equities. In contrast, we remain negative on Europe equities which are more vulnerable to the Russia-Ukraine conflict given the region's higher dependence on Russian oil and gas.

- Meanwhile, China's ambitious 2022 GDP growth target of 5.5% is at risk given the imposition of mobility restrictions across cities due to the zero COVID strategy. The market was also disappointed with the cautious monetary response by the People's Bank of China (PBOC), which recently announced a modest 25 bps cut (instead of 50bps) to the reserve requirement ratio. However, we do expect policymakers to implement more concrete measures on both monetary and fiscal front to mitigate the economic downside risks. Coupled with the relatively cheaper market valuation (Figure 2), we maintain our overweight stance on China equities in view of the attractive medium-term risk reward despite the near-term market volatility.

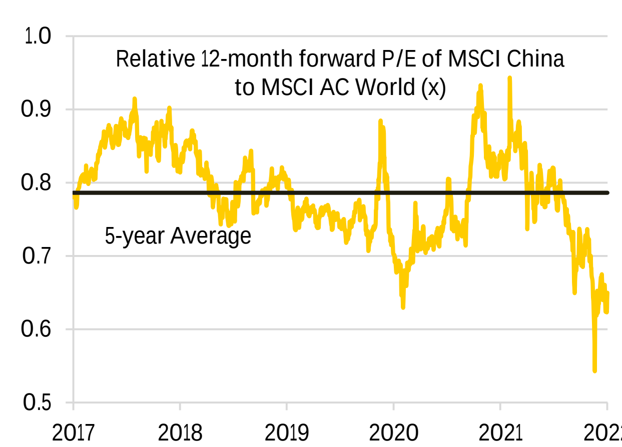
- Year-to-date, ASEAN equities have outperformed global peers with the respective Southeast Asia economies benefitting from further reopening. In particular, our positive stance on Indonesia equities could continue to do well given the country's robust commodity exports and consumption growth. Notably, Indonesia's real GDP growth is projected to expand by 5.1% in 2022, an acceleration from 3.7% growth in 2021. In comparison, we retain our neutral stance on both Singapore and Malaysia given the increasing external demand uncertainties although the inexpensive market valuations should limit the downside risk.

Figure 1: Markets are already factoring in close to nine more hikes (225 bps) this year



Source: Bloomberg | 30 April 2022

Figure 2: China equities are relatively more attractively valued versus global equities



Source: Bloomberg | 30 April 2022

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