Maybank Investment Strategy

May 2023

Summary

- Calm returned to markets in April with a growing belief that the banking turmoil will not trigger a systemic crisis. Notably, the VIX index (a proxy for equity market volatility) dipped to a 15-month low. Still, the upside was capped by lingering growth and geopolitical concerns.

- Global equities edged higher with MSCI All-Country (AC) World Index returning 1.5%. Notably, U.S. and Europe markets ended higher with hopes of soft landing and easing inflation. In contrast, China equities lagged amid concerns on the sluggish recovery and renewed U.S.-China tensions.

- Meanwhile, global bonds remained firm with the 10-year U.S. Treasury (UST) yield hovering around 3.5%, lending support to the performance of Developed Market Investment Grade (IG) bonds. Separately, both gold and oil prices ended higher on the back of a weaker dollar.

Macro Outlook and Investment Strategy

- While the rate-hike cycle may be nearing an end, central banks will unlikely ease aggressively given the stubbornly high inflation. We also expect tightening credit conditions to weigh on growth, particularly that of the U.S economy. Meanwhile, the U.S debt ceiling impasse could be another source of market volatility.

- In view of the above, we maintain a cautious stance on equities. In particular, the U.S. markets appear too calm for our comfort with the weakening corporate earnings yet to be fully priced in. In contrast, we remain more sanguine on China and see further catalysts to reverse the market's recent underperformance.

- We also retain our overweight stance on fixed income. Notably, investors should do well by locking in the higher than historical average yield of IG bonds with rates peaking.

- On commodities, we expect gold to take a near-term breather but the price uptrend may resume with further weakness in dollar. As for oil, the improving fuel demand from China as well as potential OPEC+ supply cut should put a floor on prices.

- Despite the macro uncertainties, there are still selected investment opportunities with attractive risk reward. Hence, we would stay invested in a nimble and diversified manner whilst maintaining a cash buffer to protect the downside risks.

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	1.3%	2.4%	1.9%
MSCI Europe	4.3%	6.3%	12.8%
MSCI Japan	0.4%	0.5%	4.7%
MSCI Asia ex-Japan	-2.1%	-5.5%	-5.6%
China	-5.2%	-11.2%	-5.6%
Hong Kong	0.6%	-5.4%	0.3%
Taiwan	-4.2%	-2.4%	-7.6%
South Korea	-0.9%	-3.3%	-9.0%
India	4.2%	0.6%	-6.5%
Singapore	-0.7%	-1.1%	4.1%
Malaysia	-1.3%	-7.5%	-9.6%
Indonesia	6.7%	9.9%	3.8%
Thailand	-3.3%	-8.4%	0.7%
Philippines	1.2%	-1.4%	-4.6%
Bonds			
U.S. Treasuries	0.5%	1.0%	-0.9%
Barclays Global IG	1.2%	0.8%	-0.3%
Barclays Global HY	0.6%	-0.4%	0.7%
Barclays EM Bonds	0.4%	-0.6%	0.1%
Alternatives			
Hedge Funds	0.3%	-1.4%	-2.0%
Gold	1.1%	3.2%	4.9%
WTI Crude	1.5%	-2.6%	-26.7%
Dollar Index (DXY)	-0.8%	-0.4%	-1.3%

Source : Bloomberg | 30 April 2023

Macro Outlook and Investment Strategy cont'd

- A further fallout of U.S. regional banks is expected to be contained. Still, the increasingly stringent lending standards, particularly on commercial real estate, will likely slow credit growth and raise the risk of a recession. Although the U.S. Federal Reserve (Fed) may pause after hiking 25 basis points (bps) in May, it is unlikely to cut rates any time soon with core inflation still well above its target of 2%.

- Meanwhile, the risk of a U.S. debt ceiling stalemate is increasing as reflected in the surging 1-year U.S. sovereign credit default swap spreads. Even though the U.S. Congress should eventually agree to lift the ceiling, we may see a spike in market volatility from the current low levels (Figure 1) before a last-minute deal is reached. To recall, the S&P 500 declined 17% between July-August 2011 when the credit rating of the U.S. government was downgraded.

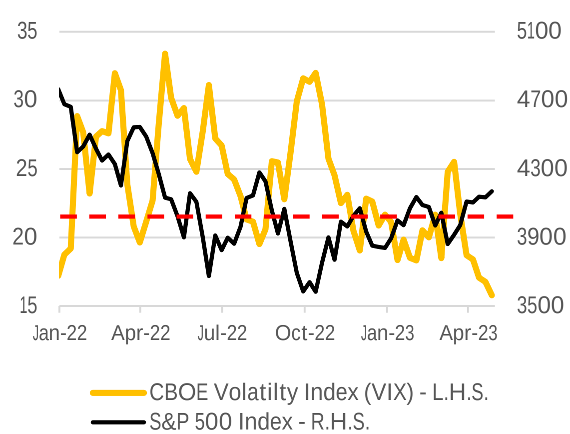
- In view of the above, the U.S. remains as our least preferred market. While there were pockets of strength in 1Q23 earnings, we see scope for potential downgrade for 2H23 with consensus estimates still overly optimistic. Sectors wise, we would position defensively in consumer staples and healthcare, as well as selected Tech companies with strong pricing power and sound balance sheet to navigate the headwinds.

- In contrast, we remain relatively more sanguine on China stocks. The pace of recovery could pick up after the 1Q GDP growth of 4.5% year-on-year (YoY), with stronger domestic growth mitigating the risk of softening external demand. Chinese leaders have also reiterated their pro-growth stance in the latest politburo meeting. No doubt, U.S. and China tension could persist but the risk reward is attractive with MSCI China trading at 10x forward price-to-earnings ratio, versus its historical average of 12x.

- Meanwhile, we maintain our preference for Fixed Income over Equities amidst the macro uncertainties. Notably, we expect the 10-year UST yield to trend lower towards 3% by end 2023 given our base case of a mild U.S. recession. Hence, we continue to seek defensive carry in quality IG bonds with more resilient fundamentals as compared to high yield credits.

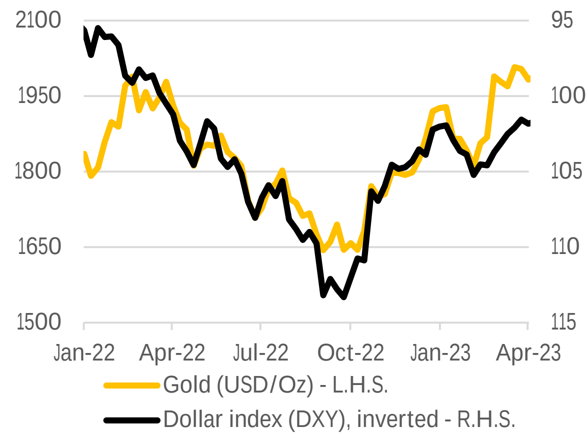
- As for gold, we retain our neutral stance as the near-term upside looks limited. Nevertheless, our view for a weaker USD in the medium-term should bode well for gold prices which have shown a negative correlation with the dollar index (Figure 2). We would look to turn more constructive on the precious metal should prices pull back from current levels, with immediate support seen at USD 1,800/oz.

Figure 1: S&P 500 has retreated whenever the VIX Index dipped below 20 since 2022



Source: Bloomberg | 30 April 2023

Figure 2: Negative correlation between Gold and the U.S. dollar will likely persist for now



Source: Bloomberg | 30 April 2023

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