Maybank Investment Strategy

May 2024

Market Recap

- Global equities endured a choppy month amid renewed inflation concerns and escalation of Iran-Israel tensions. The MSCI All-Country (AC) World Index retreated 3.3% with Japan leading the decline. In contrast, Asia ex-Japan stocks held up better with China stocks outperforming.

- Global bonds also registered negative returns with the 10-year U.S. Treasury (UST) yield climbing above 4.6%. With inflation exceeding expectations again in March, the Federal Reserve (Fed) is likely to cut rates later and to a lesser extent this year.

- While the U.S. dollar held firm in April, gold briefly breached USD 2,400/ounce amid strong buying momentum for the precious metal. In comparison, WTI crude ended flat for the month.

Macro Outlook and Investment Strategy

- With market volatility likely to persist in the short-term, it is prudent to manage the downside risks. However, investors should not over-react and panic sell. The U.S. disinflation process is more likely delayed than de-railed while the Middle East conflict should be contained. We reiterate the importance of staying invested in a well-diversified portfolio with a focus on quality.

- We maintain our positive tilt on Asia ex-Japan equities. At the same time, we continue to advocate a broad sector exposure. Notably, we add Europe healthcare to our preferred sectors and continue to see commodity-related stocks as a hedge against inflation risks. In addition, we are keeping an eye for oversold tech opportunities.

- With our peaking rates outlook remaining intact, the risk reward has become even more attractive for UST and investment grade (IG) bonds given the recent increase in yields. Segments wise, we see opportunities in insurance credits globally, Asian utilities, as well as Sukuk for their resilience.

- We moved to a tactical underweight on gold amid the sharp run-up in prices with investor positioning looking increasingly stretched. Nevertheless, we acknowledge the strategic benefits of having gold as a portfolio diversifier and would look to turn more constructive should there be a meaningful retreat in 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	3M	YTD
MSCI AC World	-3.3%	4.2%	4.8%
MSCI USA	-4.1%	4.2%	5.9%
MSCI Europe	-1.7%	3.7%	3.6%
MSCI Japan	-4.9%	1.1%	5.8%
MSCI Asia ex-Japan	1.3%	9.7%	3.7%
China	6.6%	16.6%	4.3%
Hong Kong	5.2%	2.9%	-7.1%
Taiwan	-2.3%	11.2%	9.9%
South Korea	-5.7%	6.6%	-4.1%
India	2.3%	6.0%	8.6%
Singapore	4.0%	8.9%	4.1%
Malaysia	1.6%	5.0%	4.6%
Indonesia	-8.5%	-4.6%	-6.1%
Thailand	-1.2%	-1.4%	-9.2%
Philippines	-5.8%	-0.7%	0.3%
Barclays Multiverse	-2.5%	-3.1%	-4.4%
U.S. Treasuries	-2.3%	-3.0%	-3.3%
Barclays Global IG	-2.2%	-2.4%	-3.1%
Barclays Global HY	-0.8%	1.5%	1.3%
EM Asia	-1.4%	-0.6%	-0.3%
EM Asia IG	-1.6%	-1.3%	-1.3%
EM Asia HY	-0.5%	3.0%	5.7%
Gold	2.5%	12.1%	10.8%
WTI Crude	-1.5%	8.0%	14.3%
Dollar Index (DXY)	1.7%	2.9%	4.8%

Source : Bloomberg | 30 April 2024

Fixed Income Strategy

- The recent slew of U.S. economic data has dwindled hopes of a summer rate cut by the Fed. Headline inflation has come in hotter than expected for three straight months while the labour market remained robust. Still, the weaker-than-expected 1Q24 GDP, which grew at an annual rate of 1.6%, suggests a moderation in economic growth that could eventually lead to lower prices.

- The Fed has kept rates unchanged in May amid the sticky inflation. We now expect the Fed to cut rates by only 50 basis points (from 100) this year. Nevertheless, the likelihood of a Fed rate hike remains low with longer-term inflation expectation still anchored. Average hourly wage growth is also decelerating amid a more balanced jobs market. Notably, the Fed is slowing the pace of its balance sheet reduction to USD 60 billion (from UDS 95 billion) per month starting June.

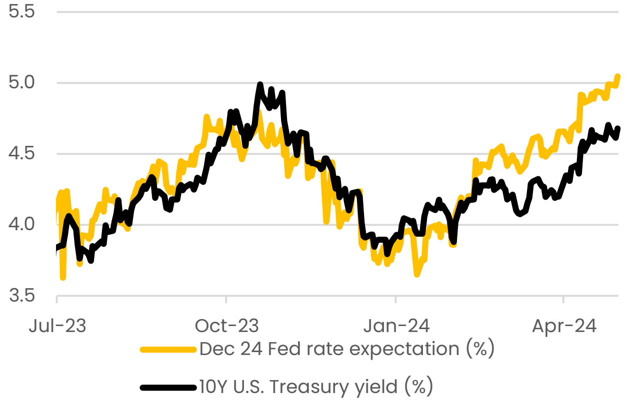
- With the 10-year UST yield approaching 5% again (Figure 1), we see opportunities to capitalise on the higher yield. Nevertheless, investors concerned about the near-term rates volatility may wish to maintain a bar-bell duration strategy. No doubt, credit spreads are tight relative to historical averages for both IG and high yield (HY) bonds across developed as well as emerging markets. Nevertheless, there are still attractive carry opportunities particularly from the more defensive IG bonds which have lower default risks relative to HY credits.

- In particular, we favour insurance credits globally, including those in the U.K. and Japan. We do have a preference for Senior, Tier 2 and Tier 3 subordinated bonds over Restricted Tier I bonds. As for bank credits, we continue to favour the Senior and Tier 2 bonds over the Additional Tier 1 (AT1) bonds for more resilient returns. Notably, the AT1 credit spreads have tightened to the levels prior to the collapse of Credit Suisse last year.

- Within Asia, the limited new supply should lend support to the valuation of credits in the region. Apart from insurers and quasi-sovereigns, we also like utilities given their stable earnings and cash flow profile. In contrast, we maintain a cautious stance towards Chinese property credits. As for Singapore, we will continue to keep a look out for new issue opportunities.

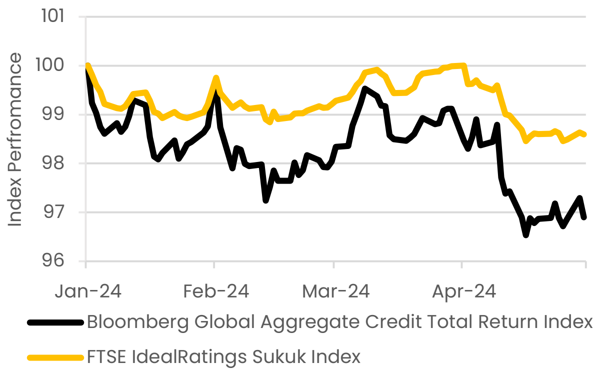
- Meanwhile , we continue to view Sukuk as a source of resilient returns. Notably, Sukuk have held up better than conventional bonds year-to-date (Figure 2), highlighting the merits of investing in Sukuk for their steady performance.

Figure 1: UST yields have risen but could fall again once inflation concerns subside



Source: Bloomberg | 30 April 2024

Figure 2: Sukuk have held up better than conventional bonds year-to-date



*Index rebased to 100 as of 1January 2024

Source: Bloomberg | 30 April 2024

Equity Strategy

- U.S. equities suffered the first monthly decline since October 2023 as the weaker-than-expected 1Q GDP growth and stubborn inflation weighed on investor sentiment. Nevertheless, we believe the economy remains on track to achieve a "soft landing" with corporate profits holding up. While market upside may be constrained by the demanding valuation, we continue to see opportunities beyond the "Magnificent 7". Notably, our positive stance on energy and materials sectors has panned out well over the past two months. We also maintain our preference for industrial and selected financial stocks.

- Europe's recovery is gathering momentum, helped by a revival of real income growth with normalising inflation in the Eurozone. With the European Central Bank signalling strongly an imminent rate cut, we favour dividend plays in the communication services and energy sectors, as well as healthcare and mining stocks.

- The robust Japanese economy has helped sustain the positive corporate earnings revision. Still, the market is trading slightly higher than historical average valuation despite the recent pull-back. Sectors wise, we prefer transport and real estate stocks which are more domestic-oriented. The industrial sector has also yet to fully price in the improving global manufacturing outlook.

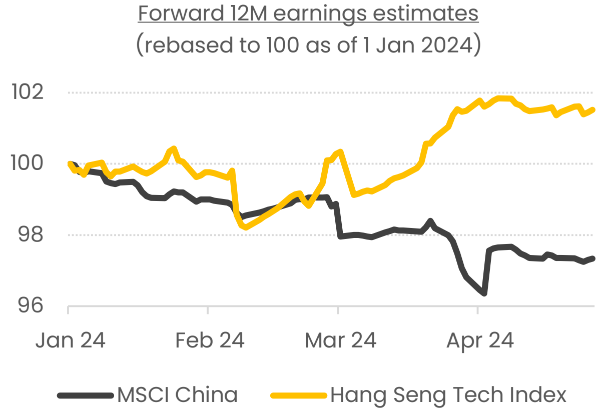
- China equities registered healthy gains in April, supported by the stronger-than-expected economic data and funds inflows. Notably, China's 1Q GDP expanded by 5.3% year-on-year versus forecasts of 4.8%. Earnings revisions for the Hang Seng Technology Index is also stabilising. We believe China companies with increasing global exposure could offer better growth opportunities. These entities are usually found in the communication services, consumer discretionary and technology sectors. We also like the high dividend-paying state-owned enterprises for their resilient earnings and income.

- While India stocks may see short-term spike in volatility during the election, we remain constructive on the market given the robust growth prospects and corporate earnings outlook. In contrast, we are increasingly mindful of the sharp currency weakness witnessed in a number of South-East Asia countries with the U.S. dollar likely to remain supported until there are clearer signs of Fed rate cuts. Nevertheless, we see attractive opportunities in dividend plays, particularly in the larger-cap Singapore REITs, underpinned by our peaking rates outlook.

Figure 3: Japan equities are enjoying robust positive earnings revision

Source: Bloomberg | 30 April 2024

Figure 4: Earnings revision for Hang Seng Technology Index is stabilising



Source: Bloomberg | 30 April 2024

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