

# Maybank Investment Strategy

November 2022

## Summary

- Risk assets rebounded in October after two consecutive months of declines. In particular, hopes that global central banks might start to slow the pace of interest rate hikes after disappointing economic data boosted the demand for equities.
- The MSCI All-Country World Index climbed 6.1%, with U.S. equities leading the gains. However, China performed poorly amid fears that President Xi Jinping's new leadership team will lead to heightened policy uncertainties and weaken the growth prospects.
- Meanwhile, bond markets were range-bound with the Bloomberg Barclays Multiverse Index adding 0.1%. Notably, the 10-year U.S. Treasury (UST) yield climbed above 4% with expectations of U.S. Federal Reserve (Fed)'s peak policy rate rising to 5% after the higher-than-expected inflation print. Surprisingly, U.S. High Yield (HY) debt managed to deliver positive returns on tighter spreads amid improved risk appetite.

## Macro Outlook and Investment Strategy

- Risk assets may bounce further in the near-term especially if the upcoming Fed guidance turns out to be less hawkish than expected. However, the sticky inflation will prevent any meaningful monetary easing anytime soon. More significantly, earnings risks have not been fully priced-in and could lead to markets testing new-lows yet again.
- In addition, there are several high profile events in November that could add to market volatility. Apart from the U.S. mid-term election, the G20 Bali Summit may lead to increased geopolitical uncertainties with the tense U.S.-China relationship likely to be in focus.
- In view of the above, we maintain our defensive stance and would look to build cash buffer to protect the portfolio. We also continue to underweight equities but are relatively more sanguine on South East Asia and favour the region over Europe and India markets.
- While there may be an upward bias to UST yields for now, further increase may be capped with the Fed tightening cycle closer to the end than the beginning. We retain a positive tilt towards sovereign bonds and continue to favour Investment Grade (IG) bonds over HY credit. Meanwhile, we maintain our neutral view on gold and oil given the balanced risk-reward.

## November 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	7.9%	7.9%	-18.8%
MSCI Europe	7.2%	7.2%	-23.3%
MSCI Japan	3.0%	3.0%	-23.9%
MSCI Asia ex-Japan	-6.1%	-6.1%	-32.0%
China	-16.8%	-16.8%	-42.7%
Hong Kong	-12.2%	-12.2%	-29.2%
Taiwan	-5.1%	-5.1%	-38.7%
South Korea	8.3%	8.3%	-35.0%
India	2.6%	2.6%	-7.0%
Singapore	0.0%	0.0%	-19.4%
Malaysia	2.9%	2.9%	-14.9%
Indonesia	0.4%	0.4%	8.4%
Thailand	1.2%	1.2%	-8.3%
Philippines	9.1%	9.1%	-22.1%
MSCI EM	-3.1%	-3.1%	-29.2%
Bonds			
Barclays U.S. IG	-1.0%	-1.0%	-19.6%
iBoxx U.S. HY	2.6%	2.6%	-12.5%
Commodity			
Gold	-1.6%	-1.6%	-10.7%
Oil	8.9%	8.9%	15.1%

Source : Bloomberg | 31 October 2022



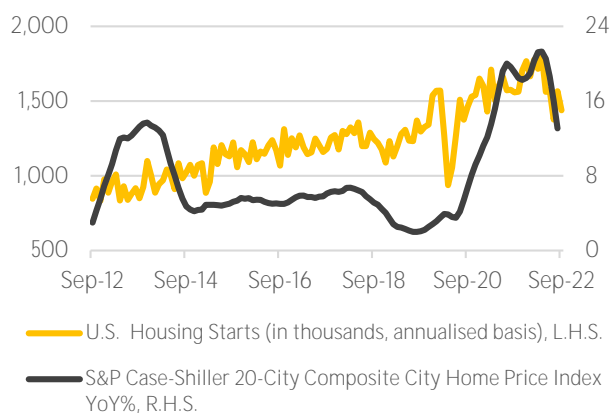
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November 2022

## Macro Outlook and Investment Strategy cont'd

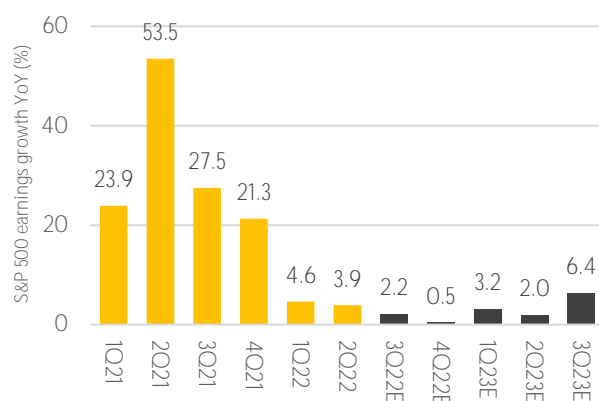
- More cracks are starting to surface in the financial markets and the economy. The panic in the U.K. bond market, which required the Bank of England to intervene, is a recent example. In the U.S., while the economy grew at a better-than-expected annualised 2.6% rate in 3Q, recent indicators are still pointing to a broader slowdown particularly in the housing market (Figure 1). Meanwhile, the yield spread between three-month Treasury bills and 10-year notes has inverted, further signalling a forthcoming recession.
- The smaller-than-expected 50 basis points (bps) rate increase by the Bank of Canada and the European Central Bank's less hawkish tone have prompted speculation that the Fed could pivot soon. However, the still-strong U.S. labour market and wage growth would likely lead to persistent inflationary pressures. With the Fed accused of waiting too long in tightening its monetary policy earlier on, the central bank will require clearer signs of moderating inflation before turning dovish in a bid to restore its credibility.
- While the 10-year UST yield may stay above 4% for now, it would likely dip lower once there are stronger signs of growth deterioration. Hence, we continue to favour the UST as a hedge against recession on the back of the favourable risk reward. In contrast, we expect credit spreads to widen in the coming months, particularly for HY bonds. Still, there are defensive carry opportunities in short-dated IG issuers given their relatively stronger balance sheets and lower default risk.
- In equities, consensus earnings are still far from pricing in the scenario of a recession (Figure 2). We expect further downgrade of earnings expectation following the disappointing guidance from the U.S. mega-cap technology companies. Until this is fully played out, earnings risks will likely weigh on market returns in the coming months. In particular, we continue to underweight Europe given the more pronounced growth risks and potential weakness in euro against the dollar.
- We remain neutral on China stocks, which may continue to hover below historical average valuation until there are more concrete developments to convince investors that China is "investable" again. We will be looking out for any pro-growth policies from the Central Economic Work Conference in December as well as a potential shift away from the stringent zero-COVID policy. Meanwhile, we retain our overweight on Indonesia with the economy still holding up well. Separately, Malaysia equities could trade range-bound as investors await the outcome of the general election on 19 November. Still, the return of a strong majority government and reduced political uncertainty could make us turn more constructive on the market.

**Figure 1: U.S. housing starts and prices fell as high mortgage rates are weighing on demand**



Source: Bloomberg | 31 October 2022

**Figure 2: Consensus estimates have yet to price in a earnings recession in the U.S.**



Source: Factset | 28 October 2022



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