Maybank Investment Strategy

November 2023

Summary

- Global equities endured another lacklustre month with the MSCI All-Country (AC) World Index declining 3% in October. Apart from higher U.S. Treasury yields, the surge in Middle-East tensions also weighed on sentiment. Sectors wise, consumer discretionary, industrial and energy stocks underperformed.

- Similarly, global bonds retreated with the 10-year U.S. Treasury (10Y UST) yield breaching the 5% handle for the first time since 2007. Consequently, corporate bonds also registered negative returns mainly due to negative impact of higher rates while credit spreads stayed largely stable.

- Commodities wise, oil and gold prices witnessed heightened volatility with the onset of Israel-Hamas conflict. Notably, gold rebounded 7% but WTI crude prices retreated as demand concerns outweighed the supply disruption risks in the Middle-East.

Macro Outlook and Investment Strategy

- With Israel starting ground operations in Gaza, we are unlikely to see a ceasefire between Israel and Hamas anytime soon though the conflict will likely be contained. Meanwhile, U.S. Treasury yields may remain elevated till there are better demand-supply dynamics and/or more visible recession risks.

- Given the geopolitical and rates uncertainties, investors should remain nimble and maintain some cash buffer for downside protection. Still, we see merits to stay invested for the long-term. The key is to maintain a well-diversified portfolio with a focus on quality.

- Equities wise, we continue to advocate a diversified exposure with a positive tilt towards the defensive consumer staples, healthcare and telecom stocks that may be less sensitive to war developments. In addition, we favour selected tech/new economy plays with strong balance sheet and valuation buffer.

- On fixed income, we retain a bar-bell duration approach in quality investment grade (IG) bonds though the 10Y UST is offering increasingly attractive risk reward with the higher carry. In contrast, we remain cautious on high yield credits which are more vulnerable in a downturn.

- We expect oil and gold price volatility to persist in the near-term though investors may consider some energy exposure to hedge against geopolitical risks.

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 Research

Asset Class	Changes to date (in USD currency)		
	1M	3M	YTD
MSCI AC World	-3.0%	-9.5%	7.2%
MSCI USA	-2.3%	-8.5%	10.9%
MSCI Europe	-3.7%	-11.2%	4.6%
MSCI Japan	-4.5%	-8.6%	6.6%
MSCI Asia ex-Japan	-3.9%	-12.4%	-4.0%
China	-4.3%	-15.2%	-11.1%
Hong Kong	-2.1%	-15.3%	-19.3%
Taiwan	-1.7%	-9.5%	10.0%
South Korea	-7.0%	-18.4%	-0.4%
India	-3.0%	-3.1%	5.1%
Singapore	-4.6%	-13.0%	-3.9%
Malaysia	-0.1%	-4.9%	-7.8%
Indonesia	-8.3%	-12.5%	-2.6%
Thailand	-3.2%	-14.4%	-16.4%
Philippines	-5.7%	-12.0%	-7.7%
Barclays Multiverse	-1.2%	-5.3%	-3.1%
U.S. Treasuries	-1.2%	-3.9%	-2.7%
Barclays Global IG	-1.1%	-4.8%	-0.6%
Barclays Global HY	-0.9%	-3.0%	4.1%
EM Asia	-0.8%	-3.0%	0.0%
Asia IG	-0.9%	-3.1%	0.2%
Asia HY	-0.6%	-3.3%	-2.1%
Gold	7.3%	1.0%	8.8%
WTI Crude	-10.8%	-1.0%	0.9%
Dollar Index (DXY)	0.5%	4.7%	3.0%

Source : Bloomberg | 31 October 2023

Macro Outlook and Investment Strategy cont'd

- We expect the U.S. economy to slow with the Atlanta Fed Nowcast suggesting an annualised GDP growth of 2.3% in 4Q23 (3Q23: 4.9%) though an imminent recession remains unlikely. Meanwhile, inflation is also expected to moderate but remain well above the policy target of 2% in the coming months. Hence, while the U.S. Federal Reserve (Fed) may pause its rate hikes, it is unlikely to cut rates anytime soon.

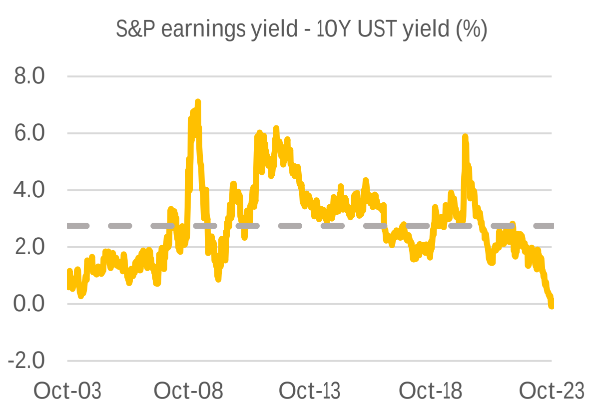
- While the 10Y UST yield may breach 5% again, it may struggle to remain at such elevated levels with real rates now implying highly restrictive financial conditions for the economy. In addition, we expect the higher carry of the 10Y UST to help buffer any potential price decline. Similarly, we see merits to lock-in the higher yield of longer-dated IG bonds. Still, investors concerned about near-term rates volatility may wish to focus on shorter-tenure IG credits for more stable returns. Apart from European bank credits (Senior and Tier-2), we also see opportunities in the insurance segment in both developed markets and Asia. In contrast, Indian corporates may be more affected by the Middle-East conflict with India being a net oil importer.

- We remain neutral on U.S. equities and advocate an "up in quality" stance. While corporate earnings recession could end in 3Q23, we see limited room for the market to re-rate given the still demanding valuation. The potential government shutdown in mid-November could also trigger some volatility though it is unlikely to have a lasting impact. Sectors wise, we retain our preference for healthcare and consumer staples but see tactical opportunities in selected mega-tech stocks that have pulled back in recent months.

- We maintain a diversified approach in Asia ex-Japan equities with a focus on dividend stocks. Markets wise, we prefer Malaysia and Thailand over Taiwan and the Philippines. In particular, we are encouraged by Malaysia's pro-growth Budget 2024 with construction and aviation sectors as key beneficiaries. The longer-term focus on developing a digital and low-carbon economy could also lead to new growth opportunities. Meanwhile, the inexpensive valuation of Malaysia equities should help limit the market downside.

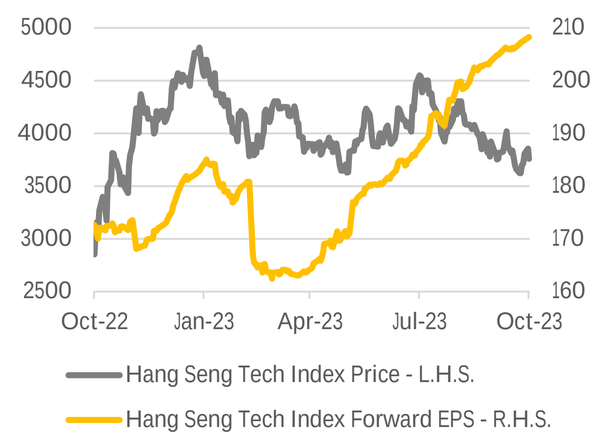
- As for China, the approval of additional Rmb 1 trillion central government bond quota demonstrated a stronger policy conviction to support the economy. However, the latest Purchasing Managers' Index data disappointment as well as lacklustre property sector suggest the economy remains fragile. We retain our focus on areas of resilience including selected state-owned enterprises as well as private technology-related firms that should benefit from reduced regulatory scrutiny. Investors will also be watching for a potential Xi-Biden meeting in the mid-November APEC summit which may ease tensions between China and the U.S.

Figure 1: Yield spread between S&P 500 earnings and 10Y UST is at historical trough



Source: Bloomberg | 31 October 2023

Figure 2: Hang Seng Tech Index performance has yet to reflect the improving consensus earnings



Source: Bloomberg | 31 October 2023

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