Maybank Investment Strategy

November 2024

Market Recap

- Global equities were lacklustre in October with higher U.S Treasury (UST) yields and election uncertainty weighing on sentiment. MSCI U.S. ended lower while major markets including Europe, Japan and China were also in the red.

- Global bonds registered negative returns with the 10-year UST yield jumping 50 basis points (bps) to 4.3%. High Yield (HY) credits were however less affected than Investment Grade (IG) bonds due to the former's lower duration exposure.

- Gold bucked the trend and pushed higher above USD 2,700/ounce despite a stronger greenback. Meanwhile, oil prices were choppy with increased tensions between Iran and Israel.

Macro Outlook and Investment Strategy

- While the U.S. election remains too close to call, the U.S. economy will likely hold up regardless of the outcome. As the election uncertainty subsides, it could also bring about some relief and allow investors to re-focus on the solid macro fundamentals and corporate earnings.

- In view of the above, we raise our equity exposure with an overweight stance on the U.S. given the robust earnings outlook. We also turn positive on Asia ex-Japan and view the recent dips in India and ASEAN as buying opportunities. In contrast, we are less constructive on Japan amid the heightened yen volatility and political uncertainty.

- We believe the Federal Reserve's (Fed) rate cut intent remains intact even though the road ahead for U.S. inflation may still be "bumpy" until it reaches the 2% target. Given the improving risk reward, we upgrade both UST and Developed Market (DM) IG bonds to overweight.

- Despite the constructive outlook, we remain mindful of the downside risks, including higher than expected inflation, escalation in Israel-Iran conflict as well as a prolonged U.S. election outcome. As such, it remains critical to maintain a well-diversified portfolio including a strategic exposure to gold. While gold price may consolidate in the near-term, it could move towards USD 2,800/ounce in the next 12 months on the back of lower rates and sustained demand from global central banks.

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	-2.2%	2.7%	16.4%
MSCI USA	-0.7%	3.8%	20.8%
MSCI Europe	-5.9%	-1.8%	6.7%
MSCI Japan	-3.9%	-3.8%	8.3%
MSCI Asia ex-Japan	-4.5%	5.7%	16.1%
China	-5.9%	17.8%	21.9%
Hong Kong	-5.9%	16.5%	4.4%
Taiwan	3.7%	9.0%	35.5%
South Korea	-7.5%	-12.2%	-12.0%
India	-7.6%	-4.6%	16.2%
Singapore	-3.3%	10.4%	24.0%
Malaysia	-8.0%	5.3%	19.2%
Indonesia	-4.9%	5.7%	-1.0%
Thailand	-3.9%	17.2%	8.6%
Philippines	-5.7%	10.1%	9.4%
BBG Multiverse	-3.3%	0.7%	0.4%
BBG U.S. Treasury	-2.4%	0.1%	1.4%
BBG Global IG	-2.7%	1.0%	2.3%
BBG Global HY	-0.6%	3.5%	8.9%
BBG EM Asia	-1.2%	1.5%	5.7%
BBG EM Asia IG	-1.5%	1.3%	4.2%
BBG EM Asia HY	0.7%	3.1%	14.6%
Gold	4.2%	12.1%	33.0%
WTI Crude	1.6%	-11.1%	-3.3%
Dollar Index (DXY)	3.2%	-0.1%	2.6%

Source: Bloomberg (BBG) | 31 October 2024

Fixed Income Strategy

- In October, growing expectations of a Trump election victory have cast doubts on the U.S. economy's disinflationary path given his plans to raise tariffs and curb immigration, leading to higher UST yields. The solid 3Q GDP growth of 2.8% and better-than-expected jobs data also contributed to the higher yields.

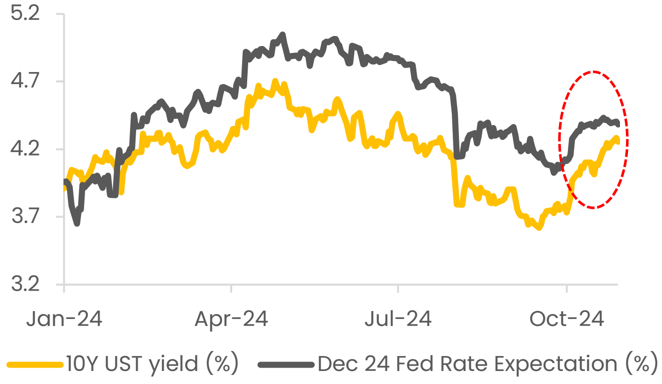
- While the U.S. non-farm payrolls unexpectedly accelerated in September, prior months' data have been consistently revised lower. In addition, job openings have continued to fall. U.S. headline inflation may tick higher in October but should not deter the Fed from easing further with the overall disinflation trend likely to be intact. Coupled with the cooling labour market, we maintain our expectations for the Fed to cut 50 bps for the rest of 2024. The lower Fed policy rates should help to put a lid on the longer-end Treasury yields.

- With the 10-year UST yield back above 4%, it is an opportune time for investors to re-engage U.S. Treasuries, as well as DM IG bonds. Tenor wise, we maintain our preference for longer-dated bonds with maturity between 5 and 10 years to lock in the more attractive yields. Nevertheless, credit spreads remained tight for both IG and HY bonds in both DM as well as Emerging Market (EM) Asia. Hence, we reiterate the need to focus on quality credits for resilient returns.

- Segments wise, European bank credits continue to be a source of attractive carry. However, we note that the credit spreads of Additional Tier 1 (AT1) bonds have narrowed significantly since March 2023. Investors may thus wish to be more selective and focus on AT1 bonds issued by Global Systemically Important Banks (G-SIBs). We also see merits in diversifying into insurers. Despite potential losses from Hurricane Milton, S&P Global has highlighted that earnings fundamentals of global reinsurers will likely remain intact. Within the insurance complex, we prefer the Senior, Tier 2 and Tier 3 over the Restricted Tier 1 (RT1) bonds.

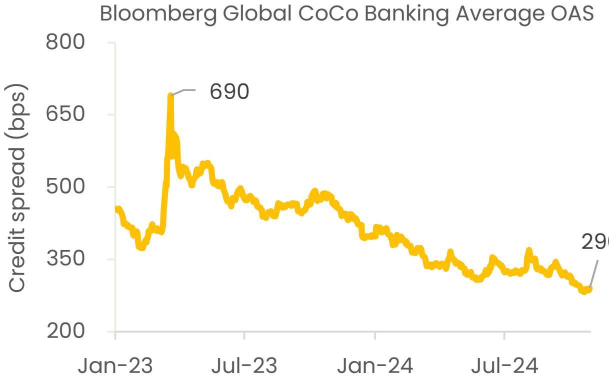
- In Asia, credit performance will likely remain supported by positive fundamentals and technical factors. Notably, we see value re-emerging in the longer-dated utilities and telecommunications bonds. Meanwhile, SGD primary issues continue to witness strong investor demand and serve as an additional source of investment opportunity. Still, we would avoid new issues that are priced too tightly to ensure a better margin of safety.

Figure 1: 10-year UST yields have risen in tandem with Fed rate expectations



Source: Bloomberg | 31 October 2024

Figure 2: European AT1 credit spreads have tightened by over 250 bps since March 2023



Source: Bloomberg | 31 October 2024

Equity Strategy

- The U.S. exceptionalism continues to persist, with the economy growing solidly in 3Q and a stronger corporate earnings trajectory relative to global peers. While we are mindful of the U.S. election uncertainty and higher-than-average market valuation, the moderating inflation, lower interest rates, and healthy earnings outlook should lend support to the U.S. stocks. Notably, the S&P 500 has historically performed well in November-December. Sectors wise, we would adopt a broad exposure to technology and consumer-related stocks as well as income-oriented sectors including telecommunications and healthcare.

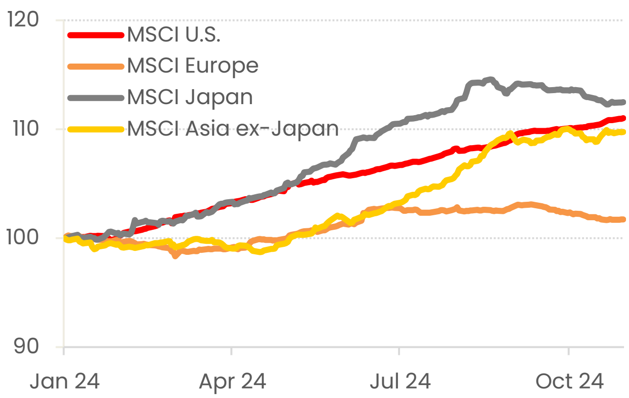
- Europe's economic recovery continues to fall short of its full potential. Still, the low earnings expectations and dovish European Central Bank could help cushion the downside risks. We continue to prefer the defensive dividend plays including healthcare and communication services stocks. We also like the banks given the earnings upside potential.

- Japan may face a period of political uncertainty after the ruling Liberal Democratic Party - Komeito coalition failed to win a majority in parliament in the Lower House election. Notably, when the ruling coalition lost its majority in the 2009 election, the market retreated post-election. Meanwhile, the heightened yen volatility could also dampen sentiment on Japan equities. Therefore, we downgrade Japan to underweight and prefer to seek shelter in dividend yielding stocks such as the telecommunications sector.

- Against a more constructive U.S. outlook, we believe Asia ex-Japan will benefit given its undemanding valuation. Thus, we turn positive on the region with India and ASEAN being our preferred markets. India's economic growth momentum could accelerate in 4Q as industrial activities and consumption rebound after a poor monsoon season. On ASEAN, we are optimistic on Indonesia's economic outlook after the cabinet formation, and favour the market alongside Malaysia and Singapore amid their resilient economic growth and solid earnings outlook.

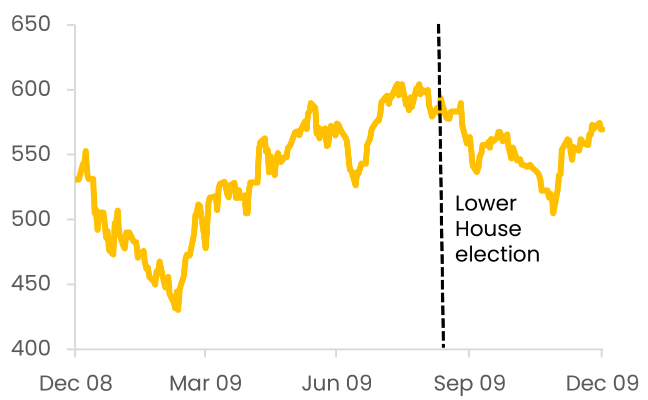
- Market sentiment on China has significantly improved after the Chinese authorities announced a slew of support measures to lift the economy. Nevertheless, we prefer to stay neutral on China for now. We could turn more constructive after the U.S. election especially if more fiscal measures were to be announced during the National People's Congress (NPC) meeting on 4-8 November. Sectors wise, we continue to favour the resilient dividend yield plays as well as selected consumer and internet-related sectors with visible growth drivers.

Figure 3: Forward 12M earnings estimates (rebased to 100 as of 1 Jan 2024)



Source: Bloomberg I 31 October 2024

Figure 4: MSCI Japan declined after the election on 30 August 2009



Source: Bloomberg | 31 October 2024

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