Maybank Investment Strategy

Fourth Quarter 2023

Summary

- Global equities were choppy in 3Q23 with the MSCI All-Country (AC) World Index ending negative for the quarter. In addition, nearly all sectors were in the red although energy stocks outperformed and jumped more than 10% during the same period.

- Global bonds were also under pressure in 3Q23 with the 10-year U.S. Treasury (UST) yield hitting a fresh 15-year high of 4.7% before retreating. Corporate bonds in both Developed Market (DM) and Emerging Market (EM) Asia were negatively impacted with Investment Grade (IG) bonds being more affected than High Yield (HY) credits due to the former's higher duration exposure.

- Commodities wise, oil prices rose nearly 30% during the quarter with WTI crude soaring above USD 90/barrel. In contrast, gold prices dipped below USD 1,900/ounce as a stronger U.S. dollar and higher Treasury yields weighed on demand for the non-yielding precious metal.

Macro Outlook and Investment Strategy

- The global economy is expected to hold up in the coming months though the growth momentum may slow. Meanwhile, inflation will likely be sticky and take more time to normalise. Hence, while major central banks are likely nearing the end of the hiking cycle, they are unlikely to cut rates any time soon.

- In view of the above, we continue to seek quality investments amid the macro uncertainties. We maintain our overweight in Fixed Income with a preference for IG bonds to HY credits for more defensive carry. The risk-reward for 10-year UST also remains attractive even though rates may remain volatile in the short-term.

- On equities, we retain our neutral stance across major markets. We continue to advocate a diversified sector exposure with a positive tilt towards healthcare and consumer staples companies for more resilient growth. We also see opportunities in selected tech stocks that are offering better risk reward after the recent pull-back. Meanwhile, we will look to lock-in profits in the energy sector given its recent outperformance.

- We continue to see merits in maintain some cash to mitigate downside risks. In contrast, gold prices may remain under pressure with the U.S. dollar strength likely to persist for now. Meanwhile, oil prices may take a breather and consolidate with supply concerns due to extension of OPEC+ production cuts likely priced in.

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	-4.1%	-3.3%	10.5%
MSCI USA	-4.7%	-3.1%	13.5%
MSCI Europe	-4.0%	-4.9%	8.6%
MSCI Japan	-2.0%	-1.4%	11.6%
MSCI Asia ex-Japan	-2.6%	-3.2%	-0.1%
China	-2.7%	-1.8%	-7.1%
Hong Kong	-5.4%	-11.1%	-17.6%
Taiwan	-3.7%	-7.1%	11.8%
South Korea	-5.1%	-6.6%	7.1%
India	1.7%	2.9%	8.3%
Singapore	-0.4%	-0.3%	0.8%
Malaysia	-1.7%	4.5%	-7.7%
Indonesia	-3.3%	-3.3%	6.2%
Thailand	-9.1%	-4.4%	-13.6%
Philippines	2.9%	-3.5%	-2.1%
Barclays Multiverse	-2.9%	-3.5%	-1.9%
U.S. Treasuries	-2.2%	-3.1%	-1.5%
Barclays Global IG	-2.7%	-2.8%	0.5%
Barclays Global HY	-1.6%	-0.2%	5.0%
EM Asia	-1.2%	-2.2%	0.8%
Asia IG	-1.5%	-2.0%	1.1%
Asia HY	0.6%	-3.9%	-1.6%
Gold	-4.7%	-3.7%	1.3%
WTI Crude	8.6%	28.5%	13.1%
Dollar Index (DXY)	2.5%	3.2%	2.6%

Source : Bloomberg | 30 September 2023

Maybank Investment Strategy

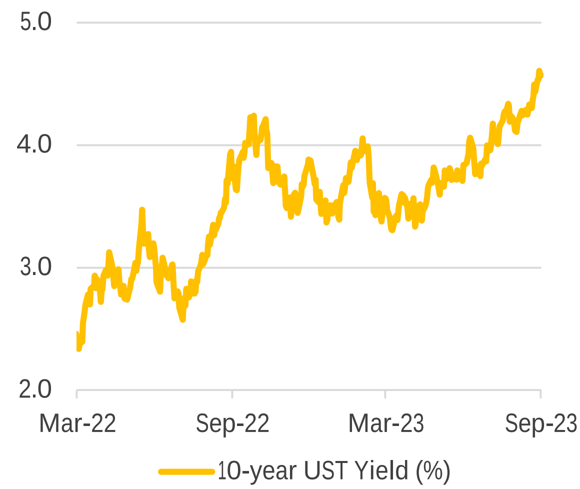
Fourth Quarter 2023 - Bonds

Summary

- Fixed income returns were negative in 3Q23 with 10-year UST yield climbing to new highs (Figure 3). With more hawkish U.S. Federal Reserve (Fed) expectations and renewed inflation concerns amid higher oil prices, demand for U.S. Treasuries took a hit. Notably, U.S. August Consumer Price Index (CPI) came in at 3.7% year-on-year (YoY), which is higher than the 3.2% YoY registered in July. The Cleveland Fed Nowcast is also estimating headline CPI to remain steady at 3.7% YoY for the month of September.

- Although the Fed had paused its rate hike in September, Fed Chair Jerome Powell indicated the central bank would like to see more progress in the fight against inflation. Notably, the latest Fed's "dot plot" pointed to a projected median Fed funds rate of 5.625% for end-2023 (Figure 4), highlighting the potential of another rate hike for the year. More significantly, the projected median Fed funds rate for end-2024 was also revised higher to 5.125%, suggesting that policy rates could remain high for longer.

Figure 3: 10-year UST yield hit a fresh 15-year high in 3Q 2023



Source: Bloomberg I 30 September 2023

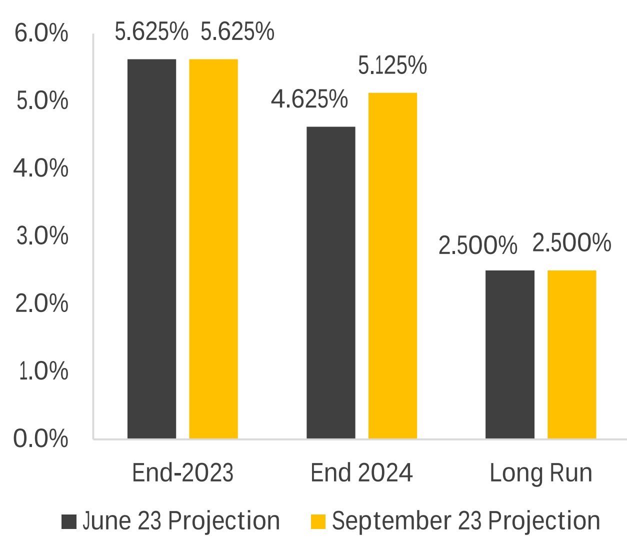
Market Outlook

- Given the sticky U.S. inflation outlook, we expect the Fed to hike rates by another 25 basis points (bps) this year. In addition, the Fed may cut rates only from 2H24 (instead of 2Q24) given expectations of resilient U.S. growth. The Congress has also managed to avert a government shutdown with a 45-day funding bill although the relief may be short-lived.

- Nevertheless, the economy is not without risks. Notably, the number of U.S. bankruptcies now stands at 459 year-to-date (as of August 2023 based on S&P Global data), which is more than the full-year total of 373 for 2022 and 408 for 2021. In addition, the political tussle in the U.S. could imply downside risks to fiscal spending ahead of the 2024 presidential election.

- No doubt, the 10-year UST yield may see upside risk of 25-50 bps in the near-term given the inflation and rate uncertainties. Nevertheless, the yield could decline very quickly towards the 3.5% level once there are clearer signs of a growth slowdown and Fed pivot, potentially by mid-2024. As such, we continue to view the risk-reward for 10-year UST favourably, hence retaining our positive stance. As for credits, we retain our preference for quality IG bonds in DM. In contrast, we remain underweight on DM HY bonds with the segment increasingly vulnerable to rising interest rates. We remain neutral on EM Asia credits with a tilt towards IG bonds.

Figure 4: Median forecasts for the Fed funds rate based on the Fed's "dot plot"



Source: Bloomberg I 30 September 2023

Market Outlook- cont'd

- We would adopt a bar-bell duration approach when investing in IG bonds. While shorter-tenure (<3 years) credits offer attractive yield pick-up, there are also merits in having some longer-tenure (~7-10 years) bonds to lock in the higher-than-historical average yields. Still, the longer-dated bonds could witness higher price volatility given the rate uncertainties though their performance should improve once 10-year UST yield trend lower.

- Segments wise, we see attractive carry opportunities in European bank credits with robust capital ratios mitigating the downside growth risks in the Eurozone. Nevertheless, we would prefer the senior and subordinated Tier 2 bonds that are more defensive than the Additional Tier-1 (AT1) credits. For AT1s, we are selective and would prefer to seek opportunities in quality Globally Systemically Important Banks (G-SIB). Separately, we favour Australia IG corporates for the attractive yield, as well as the strong corporate governance and high level of transparency in financial information disclosure.

- Within Asia, we continue to seek investment opportunities in quasi-sovereigns and selected corporates. In particular, the planned addition of India to JPMorgan's Emerging-Markets Bond Index from June 2024 should have a positive spill-over effect and support the valuation of India quasi-sovereign and corporate credits.

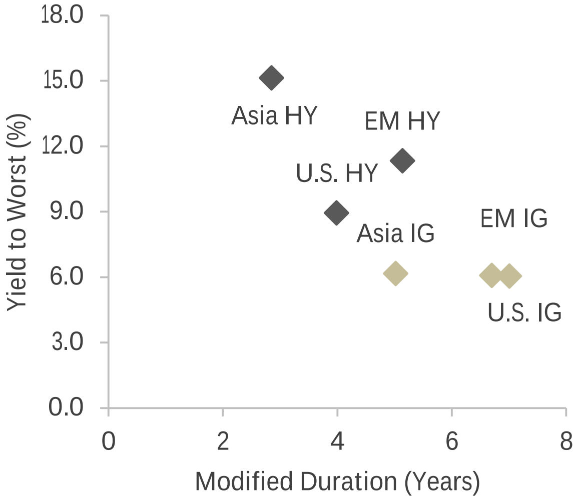
- As for China, the recent bout of macro data has shown encouraging signs of stabilisation. Still, the negative news flow related to China property credits could continue to weigh on market sentiment. Hence, we would prefer to position defensively into corporate credits with strong market positioning and balance sheet including selected Tech sector as well as state-owned names.

- Separately, we continue to see value in building some exposure in Sukuks to enhance portfolio stability. Notably, our analysis showed that Sukuks have historically provided reasonable upside as well as downside protection over the past years. In particular, the Dow Jones Sukuk bond index was down by only 8% while global bonds were lower by nearly 20% in 2022. Hence, Sukuks could serve as an additional source of resilient returns.

Key Risks

- Prolonged period of elevated rates
- Unexpected rise in corporate defaults

Figure 5: Yield-to-Worst and modified duration of bond sub-asset classes



Note: The above indices are based on Bloomberg Barclays bond indices.
Source: Maybank Group Wealth Management Research I 30 September 2023

Maybank Investment Strategy

Fourth Quarter 2023 - Equities

Summary

- Equities retreated in the month of September and consequently in 3Q23 as the Fed signalled another interest rate rise in the near term and projected fewer rate cuts in 2024 and 2025. The recalibration of interest rate expectations resulted in a pullback in equities across the regions, notably in the technology space.

- As we head into 4Q23, the global economy will likely remain resilient. While services purchasing manager indices (PMIs) are moderating, the manufacturing PMIs of major economies are showing signs of stabilisation, which may help offset any potential softening of services activities.

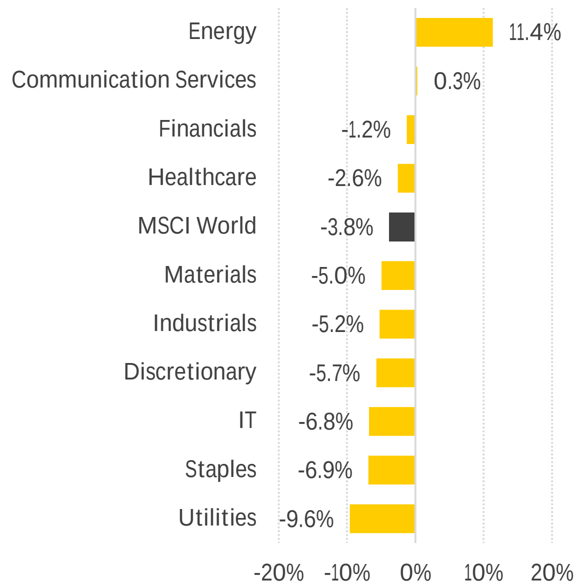
- In view of the above, we maintain a neutral stance on overall equities. We continue to seek margin of safety in DM and advocate a broader exposure (beyond China) in Asia. Sectors wise, our positive tilt towards the energy sector (Figure 6) has worked well with crude oil surging to a 10-month high. Nevertheless, we suggest taking profit on the energy stocks as the risk reward has become less attractive. Instead, we would use the recent pull-back to selectively add exposure in quality tech-related stocks.

Market Outlook

- Despite the higher-for-longer interest rate outlook, the expectations for a 2H23 earnings rebound in U.S. equities remain intact. Notably, we continue to see upward earnings revision, with consensus now projecting S&P 500 earnings growth at 0.8% YoY (3Q23) and 8.5% YoY (4Q23), respectively. Still, the U.S. market valuation remains demanding relative to history. Hence, we would continue to seek margin of safety in healthcare and consumer staples stocks. Additionally, we are seeing incremental value from selected tech-related companies with the recent correction.

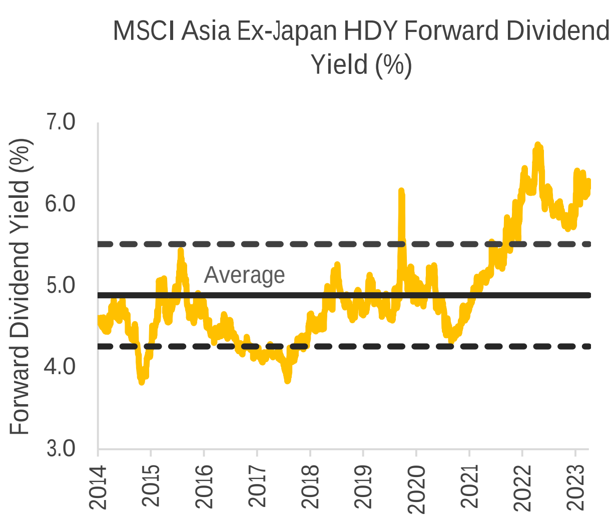
- The Eurozone economy is stagnating and economic activities in Germany and France continue to shrink in September. Lingering concerns on China's macro outlook could also weigh on the region. Nevertheless, these concerns may be reflected in the valuation, with MSCI Europe trading at forward price-to-earnings ratio of 12.6x, well below its historical average level. Sectors wise, we see value in healthcare, auto, hospitality and selected materials stocks.

Figure 6: The energy sector was the best performing sector in 3Q23



Note: Data are based on sectors in MSCI AC World Index, MSCI AC World Real Estate data not available
Source: Bloomberg I 30 September 2023

Figure 7: Asia dividend stocks offer attractive yields to enhance portfolio resilience



Note: MSCI Asia ex Japan High Dividend Yield (HDY) Index include companies in the parent index (i.e. MSCI Asia ex-Japan) that have higher than average dividend yields that are both sustainable and persistent
Source: Bloomberg | 30 September 2023

Market Outlook- cont'd

- Japan's equity performance was relatively more resilient than global peers in September and 3Q23. Notably, fiscal 1Q net profits rose 13% YoY, driven by a weaker Japanese yen and robust inbound tourism. Despite the positives, there may be a need for more active selection with the market valuation having run-up. Sectors wise, we see better risk reward in auto and healthcare stocks.

- We remain neutral on Asia ex-Japan equities and continue to favour dividend stocks in the region that offer resilient and attractive yields (Figure 7). While we continue to advocate a diversified market exposure, there may be opportunities for Malaysia and Thailand to play catch up given the year-to-date underperformance. In contrast, the Philippines may remain under pressure as the local central bank could remain hawkish given the inflation concerns. Taiwan may also be vulnerable to profit-taking ahead of the presidential elections in January 2024.

- On China, the market may remain range-bound despite the undemanding valuations. No doubt, China is showing tentative signs of stabilisation, with the recent macro readings largely ahead of expectations (Figure 8). Nevertheless, more time is needed to rebuild confidence particularly for the property sector. Corporate earnings revision has also yet to bottom-out. We will be monitoring the upcoming Central Committee Plenum meeting in 4Q23 for further policy support. In terms of sectors, we continue to focus on areas of resilience which include consumption/new economy plays, electric vehicles as well as selected state-owned enterprises.

- Meanwhile, India's robust economic growth has supported a solid earnings season, driving upward revision which led to the market's recent outperformance. Notably, MSCI India's earnings are expected to grow by 21.8% for 2023 versus an earlier forecast of 19.0% last month (Figure 9). However, the positives may have been largely priced in with MSCI India trading at 20.5x forward price-to-earnings ratio, above its historical average of 18.4x. Given the balanced risk reward, we remain neutral on India for now.

Key Risks

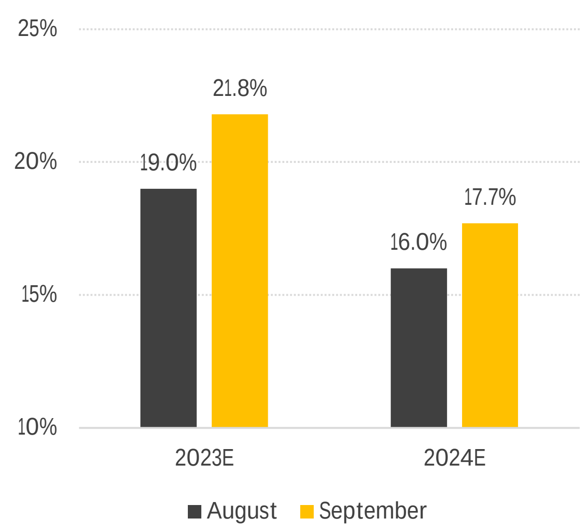
- Faster and deeper-than-expected economic downturn.
- Worse-than-expected deterioration in corporate earnings.
- Escalation in geopolitical uncertainties.

Figure 8: China macro data showing signs of improvement in recent weeks

Data	August	September	Forecast
Official Manufacturing PMI	49.7	50.2	50.2
Official Non-Manufacturing PMI	51.0	51.7	51.5
Official Composite PMI	51.3	52.0	-
Data	**July**	**August**	**Forecast**
Industrial Production, YoY	3.7%	4.5%	3.9%
Export Growth, YoY	-14.3%	-8.8%	-9.0%
Retail Sales, YoY	2.5%	4.6%	3.0%
Industrial Profits, YoY	-6.7%	17.2%	-

Source : Bloomberg | 30 September 2023

Figure 9: MSCI India earnings are projected to grow at 21.8% for 2023



Note: MSCI India earnings forecasts calendarised to December year end

Sources : Factset, MSCI | 30 September 2023

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