Maybank Investment Strategy

October 2024

Market Recap

- Global equities endured another shaky start in September. Nevertheless, sentiment subsequently improved with support from the outsized rate cut by the U.S. Federal Reserve (Fed) and implementation of new policy stimulus in China.

- Notably, Asia ex-Japan equities outperformed with ASEAN and China stocks leading the gains. The S&P 500 also broke fresh highs and closed above 5,700. In comparison, Europe and Japan equity performances were relatively more muted.

- Meanwhile, global bonds continued to deliver steady returns amidst lower Treasury yields. Gold also benefitted from the lower rates outlook and closed firmly above USD 2,600/ounce.

Macro Outlook and Investment Strategy

- While some view the dis-inversion of the Treasury yield curve as a pre-cursor to a U.S. downturn, we believe the risk of an imminent recession remains low. We also expect the Fed to ease further in 4Q to help the U.S. economy achieve a soft landing.

- Still, the markets remain vulnerable to a pull-back amidst the rising valuation and lingering geopolitical uncertainties. Hence, we continue to advocate a balanced portfolio allocation with a focus on diversification and margin of safety.

- We retain our neutral stance across major equity markets which are likely to trade range-bound for now. Within Asia, we prefer to maintain a broader regional exposure with a focus on quality stocks with lower volatility. Dividend plays including the Real Estate Investment Trusts (REITs) should also continue to benefit from lower interest rates.

- Whilst there are rising re-investment risks for shorter-dated bonds, we caution against over-extending duration given the higher volatility. Tenor wise, we see 5-10 years as being the sweet spot. We also see opportunities in quality Australia credits alongside Europe financials.

- Gold will likely benefit from a weaker U.S. dollar and robust central bank demand in the medium-term. However, the pace of gain could slow given the stellar year-to-date performance. Hence, we remain neutral on the precious metal for now.

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	2.4%	6.7%	19.1%
MSCI USA	2.2%	5.9%	21.7%
MSCI Europe	0.4%	6.6%	13.4%
MSCI Japan	-0.4%	5.9%	12.7%
MSCI Asia ex-Japan	8.5%	10.6%	21.5%
China	23.9%	23.6%	29.6%
Hong Kong	17.1%	24.4%	11.0%
Taiwan	1.6%	0.8%	30.6%
South Korea	-2.9%	-5.5%	-4.9%
India	2.1%	7.4%	25.8%
Singapore	8.3%	17.6%	28.3%
Malaysia	4.4%	20.5%	29.6%
Indonesia	1.1%	15.4%	4.0%
Thailand	11.6%	29.1%	13.0%
Philippines	5.7%	21.8%	16.0%
BBG Multiverse	1.7%	7.0%	3.8%
BBG U.S. Treasury	1.2%	4.7%	3.8%
BBG Global IG	1.8%	6.3%	5.1%
BBG Global HY	2.0%	6.2%	9.6%
BBG EM Asia	1.5%	4.6%	6.9%
BBG EM Asia IG	1.4%	4.8%	5.8%
BBG EM Asia HY	1.8%	3.9%	13.8%
Gold	5.2%	13.2%	27.7%
WTI Crude	-7.3%	-16.4%	-4.9%
Dollar Index (DXY)	-0.9%	-4.8%	-0.5%

Source: Bloomberg (BBG) | 30 September 2024

Fixed Income Strategy

- U.S. inflation continues to steadily moderate towards the Fed's 2% target, which could give the central bank confidence to continue its easing path to support growth. Meanwhile, we believe the risk of an imminent recession is low as the labour market slowdown remains gradual and the economy is still growing at a steady pace. Notably, the final reading of GDP showed that the U.S. economy grew at a 3% annualised pace in 2Q.

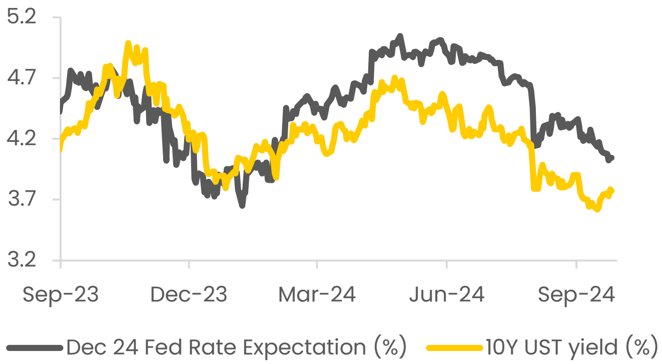
- The Fed has surprised the market with a 50 basis points (bps) cut in September, bringing the federal funds rate to the 4.75% - 5.00% range. The revised dot plot suggests another 50 bps rate cut by end-2024, albeit less than market expectations of another 75-100 bps cut. Near-term, the 10-year U.S. Treasury (UST) yield could remain range-bound with the Fed rate expectations continuing to shift.

- In September, we tactically downgraded fixed income to a neutral stance as the big bond rally had played out largely in-line with our expectations. On duration, we currently find the 5 - 10 year range to be the sweet spot given the rising re-investment risk on the shorter-end while the longer tenors are susceptible to higher market volatility. Meanwhile, with both Investment Grade (IG) and High Yield bonds credit spreads still at historical lows, we continue to focus on credits with strong fundamentals to achieve stable and resilient returns.

- From a spread valuation perspective, we continue to favour the bank bonds over the corporates in Europe. Within the banks segment, we prefer the more defensive Senior and Tier 2 over the riskier Additional Tier 1 (AT1) bonds. Elsewhere in Australia, we have seen increased demand for issuers from Australia following their inclusion in the expanded J.P. Morgan Asia Credit Index (JACI) Asia Pacific Index in 2023. Investors can consider these higher quality Australia credits for potential credit spreads compression and portfolio diversification.

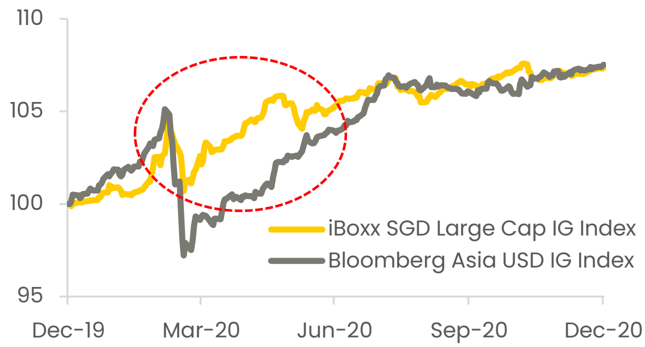
- Within Asia, the favourable economic and technical backdrop should continue to lend support to Asian credits. We still like the defensive telecommunications sector given its stable cash flows and earnings visibility, as well as selected insurers with solid business franchise. We also like the SGD-denominated credits for their relatively stable returns and the default rates have been modest in the past five years. Notwithstanding, with the limited supply in the SGD space, investors can seek for opportunities via the new primary issues.

Figure 1: 10-year UST yield to remain range-bound amid shifting Fed rate expectations



Source: Bloomberg | 30 September 2024

Figure 2: SGD credits demonstrated lower volatility during the COVID-19 period



* Rebased to 100
Source: Bloomberg | 30 September 2024

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Equity Strategy

- The S&P 500 hit a record high in September as Investors applaud the Fed's outsized rate cut and expect the monetary easing to cushion the economy from further slowdown. Positively, the U.S. stock market breadth has started to improve and the latest earnings season also showed that earnings strength is broadening. Still, with the presidential race being too close to call, we continue to focus on margin of safety by diversifying beyond the mega-caps tech to navigate the uncertainties. We continue to like healthcare for its improving earnings growth momentum and selected communication services companies for their resilient earnings.

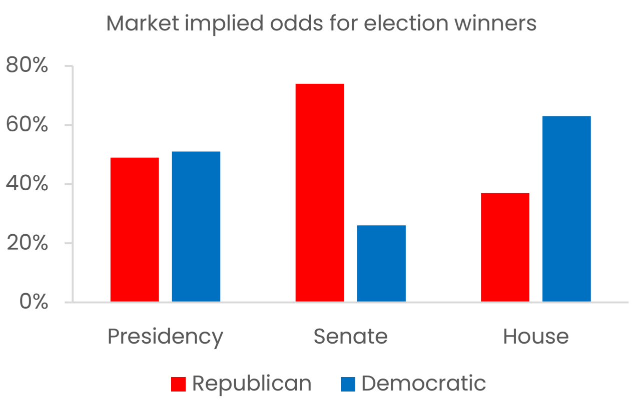
- The eurozone economy continues to lose momentum in the 3Q, which could prompt further rate cuts from the European Central Bank. While macro risks remain, we see reasons to stay invested in Europe. Notably, corporate sales guidance has ticked up from historical lows and market valuations remain undemanding. Against this backdrop, we favour defensive plays (e.g. healthcare and communication services) and selected banks for their attractive dividend yields.

- Japan's monetary policy remains on a divergent path with the U.S. and the JPY strength is a key concern for Japan equities. However, this concern is balanced out by the ongoing corporate reforms as companies speed up the unwinding of their cross-holdings and increase share buybacks. Hence, we stay neutral and prefer the domestic-oriented sectors such as financials, real estate and telecommunication sectors given their more resilient earnings.

- China markets reacted positively after the regulators unveiled a series of stimulus measures, covering many aspects from cutting interest rates to plans to set up a stock stabilisation fund to support its economy. The concerted suite of easing measures have lifted investor sentiments meaningfully but the effectiveness is too early to tell. The impending U.S. election could remain a source of volatility, and hence, we prefer to position defensively. We prefer the resilient dividend yield plays in the telecommunications, financials and oversold energy, as well as selected companies that have visible growth drivers to navigate the uncertainties.

- The outsized Fed's rate cut has lifted Asia ex-Japan equities, with the ASEAN region outperforming the global equity benchmark given supportive local policies and attractive valuations. We stay positive on Malaysia's growth prospects with the encouraging progress on its economic initiatives. Meanwhile, we like India as its steady economic expansion will likely continue to underpin its robust earnings growth outlook.

Figure 3: U.S. election is too close to call



Source: Polymarket I 30 September 2024

Figure 4: China unveiled a series of stimulus

Segments	New policy measures
Stock Market	RMB 500bn swap facilities RMB 300 bn re-lending facilities
Property	Lower interest rates on social housing Reduce downpayment ratio Cuts to existing mortgage rate
Liquidity	Cuts in policy rates Cuts in Reserve Requirement Ratio (RRR)

Source: Bloomberg | 30 September 2024

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