Maybank Investment Strategy

September 2023

Summary

- It was a choppy month for global equities in August with the MSCI All-Country (AC) World Index retreating 2.8%. Equity markets were lower across the board with Asia ex-Japan (and China) leading the losses. Sectors wise, materials and financial stocks lagged while energy and healthcare stocks were more resilient.

- Global bonds also pulled back but to a lesser extent versus equities. Notably, the 10-year U.S. Treasury (UST) yield remained volatile and hit a 52-week high of 4.4% at one point. Both Investment Grade (IG) and High Yield (HY) bonds in Developed Markets (DM) also registered negative returns while Emerging Market (EM) Asia bonds continued to face a drag from China HY credits.

- Meanwhile, gold prices declined amid a stronger U.S. dollar with the dollar index (DXY) closing above the 103 level for the month. In contrast, oil was firmer with WTI crude remaining above USD 80/barrel.

Macro Outlook and Investment Strategy

- Global economy will likely hold firm in the coming months, particularly in the U.S. Still, the robust growth may also keep inflation higher, suggesting policy rates could remain elevated for longer. The macro uncertainties continue to highlight the need to stay invested in a diversified portfolio with a focus on quality.

- Asset class wise, we continue to see more attractive risk reward in Fixed Income, particularly in IG credits. We maintain our positive stance on UST although upward pressure on yields could persist in the near-term.

- We retain our neutral view on global equities as well as the U.S. Meanwhile, we notch down our optimism on China as it may require more time to rebuild confidence in the economy and markets. Consequently, we adopt a more neutral stance towards Asia ex-Japan equities but continue to see selected opportunities in dividend plays within the region.

- We upgrade cash to neutral at the expense of gold. With U.S. dollar strength likely to persist in the near-term, it could continue to weigh on gold given its negative correlation with the dollar. The opportunity cost of owning the non-yielding precious metal is also high with cash rates of above 5%. In contrast, oil prices will likely remain supported with expectations of additional supply curbs offsetting demand concerns.

Tactical Asset Allocation			
Asset Class *		**Sector ***	
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	-2.8%	6.7%	15.2%
MSCI USA	-1.7%	8.5%	19.1%
MSCI Europe	-4.0%	3.8%	13.1%
MSCI Japan	-2.4%	4.7%	13.8%
MSCI Asia ex-Japan	-6.4%	2.2%	2.6%
China	-9.0%	5.0%	-4.5%
Hong Kong	-8.6%	-2.8%	-12.9%
Taiwan	-4.4%	-1.6%	16.1%
South Korea	-7.6%	-0.9%	12.8%
India	-1.9%	5.9%	6.5%
Singapore	-8.5%	1.8%	1.2%
Malaysia	-3.1%	4.3%	-6.1%
Indonesia	-1.4%	-0.2%	9.9%
Thailand	-2.7%	3.0%	-5.0%
Philippines	-9.2%	-4.4%	-4.8%
Barclays Multiverse	-1.4%	-0.5%	1.0%
U.S. Treasuries	-0.5%	-1.6%	0.7%
Barclays Global IG	-1.0%	0.7%	3.3%
Barclays Global HY	-0.5%	4.0%	6.7%
EM Asia	-1.0%	-0.6%	2.1%
Asia IG	-0.7%	-0.6%	2.7%
Asia HY	-3.3%	-1.4%	-2.2%
Gold	-1.3%	-1.1%	6.4%
WTI Crude	2.2%	22.8%	4.2%
Dollar Index (DXY)	1.7%	-0.7%	0.1%

Source : Bloomberg | 31 August 2023

Macro Outlook and Investment Strategy cont'd

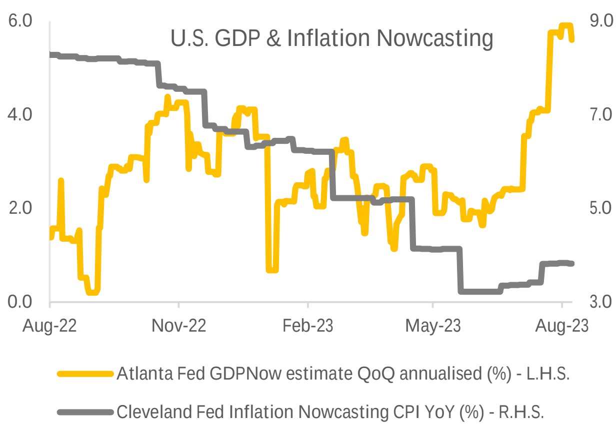
- Despite softer jobs data, the U.S. economy is not entering a recession anytime soon. In fact, the Atlanta Fed Nowcast estimates GDP growth to accelerate to a QoQ annualised rate of 5.6% in 3Q23 (2Q23: 2.4%). Nevertheless, inflation is also expected to remain sticky with the Cleveland Fed Nowcast estimating headline inflation to come in at 3.8% YoY in August (July 23: 3.2%). Notably, U.S. Federal Reserve (Fed) Chair Jerome Powell indicated inflation is still "too high" at the Jackson Hole symposium. While the central bank may pause its rate hike in September, we cannot rule out further tightening for the rest of the year.

- The hawkish policy rate expectations, coupled with the anticipated increase in Treasury supply, may keep the 10-year UST yield elevated in the near-term. Still, we believe Treasury yields are near to their cyclical tops as the economy may not withstand such restrictive rates for long. Hence, we retain our overweight on UST and IG bonds. In contrast, we remain cautious towards HY credits with rising number of bankruptcies in the U.S. highlighting the economy is not without risks. Our preferred segments include European financial bonds (Senior and Tier-2), Australia non-financial corporates and Asia quasi-sovereign credits. We also see value in building some exposure in Sukuk bonds to enhance portfolio stability.

- On equities, the U.S. market may remain range-bound with expectations of improving earnings being offset by the rich valuation. We continue to advocate a diversified sector exposure, with preference for energy, healthcare and consumer staples stocks, as well as selected Tech plays with reasonable valuations. Separately, we closed our underweight call on Europe with the market slightly underperforming global peers year-to-date. While the macro outlook remains challenging in the Eurozone, the negatives may have been priced-in with the market trading below its historical average valuation.

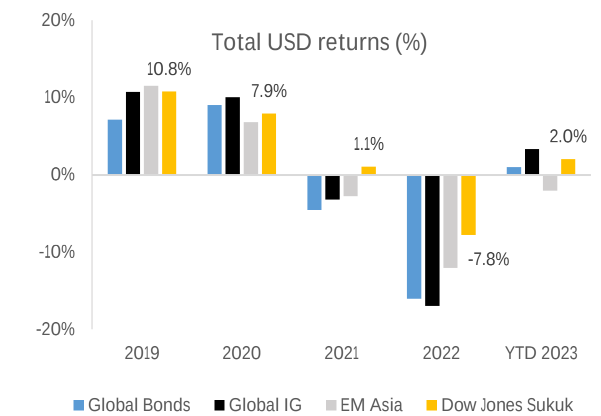
- As for China, recent macro data suggests downside risk to the 2023 GDP growth target of 5%. No doubt, the policymakers have responded with increased urgency – including more support for the troubled property sector – which should provide some relief. Still, the re-rating of the market may not sustain until there is a marked improvement in business and consumer confidence which could take time. While the risk of a systemic crisis remains low, it could be a difficult grind for China equities for now. Hence, we adopt a more neutral stance on China and would focus on areas of resilience that are less vulnerable to current headwinds. These include consumption-related plays, electric vehicles as well as state-backed energy and telecommunication stocks for their resilient dividends. Investors can also adopt a broader Asia exposure to benefit from not only the growth of China but also other economies including India in the region.

Figure 1: U.S. growth and inflation projected to stay up in 3Q based on Fed Nowcast estimates



Source: Bloomberg | 31 August 2023

Figure 2: Sukuk bonds can serve as an additional source of resilient returns



Source: Bloomberg | 31 August 2023

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