Maybank Investment Strategy

September 2024

Market Recap

- Global equities were sold off in early August amid a growth scare and unwinding of JPY carry trade but rebounded strongly subsequently. MSCI All Country (AC) World ended the month nearly 3% higher with gains across major markets. Notably, Southeast Asia equities outperformed in both U.S. dollar and local currency terms.

- Global bonds also delivered positive returns with the 10-year U.S. Treasury (UST) yield retreating below 4%. Both Investment Grade (IG) and High Yield (HY) bonds were higher with credit spreads remaining largely unchanged.

- Commodities wise, gold closed above USD 2,500/ounce on the back of a weaker U.S. dollar. In contrast, oil prices retreated with concerns over demand outlook outweighing the supply disruption risks linked to the Middle East tension.

Macro Outlook and Investment Strategy

- The macro outlook remains supportive of risk assets with our base case for a U.S. soft landing remaining intact. While the economy is slowing, the moderating inflation will allow the U.S. Federal Reserve (Fed) to cut policy rates more aggressively to support growth if necessary.

- Still, the market is not without risks. Rate cut expectations may yet again shift especially if the inflation outlook were to be complicated by renewed geopolitical tensions. The U.S. elections may also be a source of volatility. Hence, we would maintain a well-diversified portfolio with a focus on margin of safety to navigate the uncertainties.

- We are tactically adopting a more neutral stance across both equities and bonds. Nevertheless, we continue to favour selected opportunities in Asia including Malaysia and dividend plays. We also continue to seek resilient income from quality bonds. Our preferred credit segments include Japanese banks and insurers as well as Singapore Real Estate Investment Trusts (REITs).

- With the U.S. dollar looking oversold and poised for a bounce, gold may pull back in the short-term. Still, the growing central bank demand for gold will likely lend support and limit any potential decline in prices. Hence, we upgrade gold to neutral.

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	2.6%	6.6%	16.3%
MSCI USA	2.4%	7.4%	19.1%
MSCI Europe	4.0%	3.8%	13.0%
MSCI Japan	0.5%	5.6%	13.2%
MSCI Asia ex-Japan	2.0%	6.3%	12.0%
China	1.0%	-2.1%	4.6%
Hong Kong	5.8%	-0.5%	-5.2%
Taiwan	3.5%	11.1%	28.6%
South Korea	-2.2%	6.0%	-2.0%
India	1.1%	12.6%	23.1%
Singapore	5.5%	9.6%	18.5%
Malaysia	9.8%	15.3%	24.2%
Indonesia	9.9%	16.8%	2.9%
Thailand	9.3%	13.4%	1.3%
Philippines	10.5%	16.4%	9.7%
BBG Multiverse	2.4%	5.3%	2.0%
BBG U.S. Treasury	1.3%	4.5%	2.6%
BBG Global IG	2.0%	4.7%	3.3%
BBG Global HY	2.2%	4.6%	7.5%
BBG EM Asia	1.3%	4.0%	5.4%
BBG EM Asia IG	1.4%	4.1%	4.3%
BBG EM Asia HY	0.6%	3.2%	11.8%
Gold	2.3%	7.6%	21.3%
WTI Crude	-5.6%	-4.5%	2.7%
Dollar Index (DXY)	-2.3%	-2.8%	0.4%

Source: Bloomberg (BBG) | 31 August 2024

Fixed Income Strategy

- The weaker-than-expected U.S. jobs report in early August has raised concerns about a potential recession, with unemployment rate hitting a new high of 4.3% in July. Nevertheless, Inflationary pressures remain under control, with the U.S. consumer price index (CPI) easing for another month to 2.9% year-on-year in July (June: 3.0%). The moderating inflation in the U.S. could give the Fed confidence to start easing to support growth.

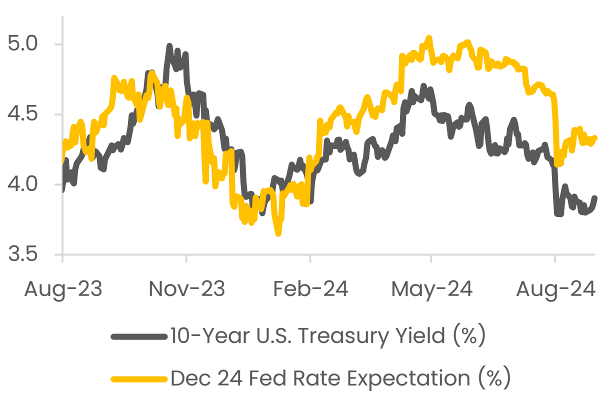
- At the Jackson Hole Symposium, Fed Chair Powell signalled "the time has come" for the central bank to cut rates. We are currently pencilling in the Fed to cut rates by 50 basis points (bps) in 2024, followed by another 100 bps in 2025. Nevertheless, we do not rule out more aggressive easing by the Fed to support growth if necessary.

- Having said that, interest rate expectations may yet again shift as the Fed's dot plot currently suggests only 25 bps rate cut versus the 100 bps priced in the market for 2024. Hence, the 10-year UST yield may remain range-bound in the short term. Nevertheless, it would likely trend lower again once there is further clarity on the policy rates trajectory. In terms of duration, we shift our focus to the belly of the curve i.e. between the 5 year and 10 years with the yield curve becoming less inverted. Meanwhile, the tight credit spreads for both IG and HY bonds highlights the need to focus on credit selection to achieve a stable and resilient return.

- Segments wise, we retain our preference for the bank bonds over the corporates from a spread valuation perspective in Europe. Within the banks segment, we continue to favour the more defensive Senior and Tier 2 over the riskier Additional Tier 1 (AT1) bonds. Notably, the AT1 bond spreads were more volatile during the risk-off episode in early August. Hence, active monitoring of AT1 exposure in one's bond portfolio is vital.

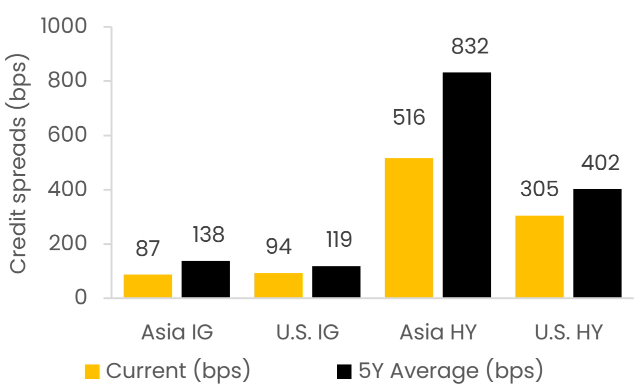
- In Asia, credits will remain supported by the stable economic and negative net supply backdrop. We seek resilient carry opportunities in the fundamentally sound Japanese banks and insurers. Notably, their credit spreads have remained relatively stable despite the recent market volatility due to the unwinding of yen carry trades. In Singapore, the REITs will likely benefit from the proposed simplification in leverage requirements. The anticipated decline in interest rates will also be supportive of the REITs' credit fundamentals. Segment wise, we prefer credits issued by retail and hospitality REITs.

Figure 1: 10-year UST yield may remain range-bound till further clarity on policy rates



Source: Bloomberg | 31 August 2024

Figure 2: Credit spreads remained below historical averages for both IG and HY bonds



Source: Bloomberg | 31 August 2024

Equity Strategy

- While the U.S. economy remains resilient, growth scares could resurface from time to time amidst the shifting rates expectations. In addition, political uncertainties could keep investors cautious with the presidential race being too close to call. Nevertheless, the equal-weighted S&P 500 is less demandingly valued when compared to the market-cap weighted S&P 500. In addition, corporate earnings growth in the U.S. is picking up outside the mega-cap technology companies. As such, we would continue to broaden our exposure beyond the mega-caps to other sectors including healthcare as well as industrials.

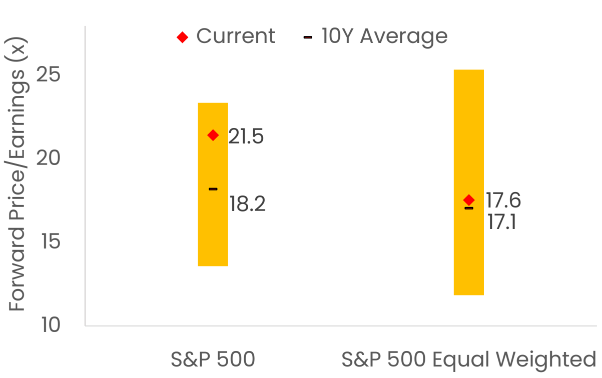
- Europe's growth momentum remains subdued with lingering uncertainty related to France's hung government. Still, the market downside may be limited given the undemanding valuation. Corporate earnings are also seeing signs of bottoming. Sectors wise, we continue to favour healthcare and bank stocks that offer attractive dividend yield.

- Japan's economy delivered positive growth in the 2Q, growing by 3.1% year-on-year (YoY) on the back of an increase in private consumption. Despite the robust growth, we are increasingly concerned about the fading tailwind of a weaker JPY on corporate earnings. Hence, we stay neutral and prefer the domestic-oriented sectors such as financials after the recent pullback, as well as the real estate and telecommunications which are less sensitive to currency fluctuations. In addition, these sectors will benefit from a recovering domestic economy.

- China's growth momentum remains sluggish partly due to the lack of meaningful fiscal stimulus. The persistent slowdown in the housing market is also weighing on consumer sentiment, with retail sales declining 7.3% month-on-month in July. We turn cautious on the consumer discretionary sector and prefer state-owned enterprises in energy and telecommunications given their defensive dividend yields and better liquidity support from China sovereign funds.

- More broadly, we neutralise our overweight call on Asia ex-Japan, preferring not to take any outsized bets for now. Still, we continue to see opportunities in dividend stocks within the region as well as selected markets including India and Malaysia. Both markets remain supported by robust domestic growth and earnings prospects with the potential of attracting more foreign funds flow. In addition, we continue to see interesting risk reward in South Korea equities despite the recent volatility given the market's solid earnings outlook and undemanding valuation.

Figure 3: S&P 500 equal-weighted is less expensive than market-cap weighted S&P 500



Source: Bloomberg I 31 August 2024

Figure 4: China's retail sales deteriorated as housing slowdown weighs on sentiments

	July 2024	June 2024	May 2024
Retail Sales (Rmb billions)	3,776	4,073	3,921
Growth (month-on-month)	-7.3%	3.9%	9.8%
Urban	-6.9%	3.0%	9.9%
Rural	-9.3%	9.6%	9.2%

Source: Bloomberg | 31 August 2024

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