Maybank Investment Strategy

November 2020

Summary

- Global equities posted their second straight month of losses as concerns over sharp rises in coronavirus cases in the U.S. and Europe, as well as U.S. election uncertainties weighed on sentiment. MSCI All-Country World Index fell by 2.4%, led by Europe and the U.S.

- Meanwhile, West Texas Intermediate crude oil prices tumbled 11% in October on concerns that the return of lockdowns in Europe will hit fuel demand.

- The U.S. Treasury market, which is considered a safe haven during periods of risk-off sentiment, did not benefit from haven flows in October. Notably, long-end Treasuries sold off as investors are pricing in a unified Democratic government outcome and the possibility of a bigger fiscal stimulus package under this scenario.

- Consequently, the yield curve bearishly steepened as the 10-year U.S. Treasury yield climbed 19 basis points to 0.88% over the month.

Macro Outlook and Investment Strategy

- We believe that the easy part of the economic recovery is over and a slower grind up is more likely in the next few quarters. While resurging coronavirus cases is a challenge, we are still cautiously optimistic on the economic outlook given the massive policy stimulus and positive developments on vaccines.

- U.S. political turbulence is likely to be short-lived. We believe investors should think long term and opportunistically build exposure to benefit from the eventual growth normalisation. The trough in corporate earnings growth is likely behind us with global earnings expected to grow by 27% in 2021.

- We retain our neutral stance on equities and fixed income. In equities, we continue to overweight China as the economy is going from strength to strength given its effective dealing of the COVID-19 pandemic.

- The benchmark 10-year U.S. Treasury yield is likely to grind higher, thus we retain our underweight on sovereign bonds and favour Developed Market and Asia Investment Grade credits for their defensive carry, as well as Asia High Yield bonds given China's economic recovery. Lastly, we continue to overweight gold as a hedge against market volatility and underweight oil.

November Outlook			
Asset Class *		Sector *	
Equity	=	U.S.	=
		Europe	=
		Japan	=
		Asia ex-Japan	=
Bonds	=	Sovereigns	-
		Developed Markets (DM) Investment Grade (IG)	+
		Developed Markets (DM) High Yield (HY)	-
		Emerging Markets (EM) IG	=
		Emerging Markets (EM) HY	-
		Asia IG	+
		Asia HY	+
Alternatives	=	Gold	+
		Oil	-
		Hedge Funds	=
Cash	=		

Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	-2.6%	-2.6%	4.5%
MSCI Europe	-5.6%	-5.6%	-13.6%
MSCI Japan	-1.6%	-1.6%	-1.9%
MSCI Asia ex-Japan	2.8%	2.8%	8.6%
China	5.3%	5.3%	22.8%
Hong Kong	-1.2%	-1.2%	-9.4%
Taiwan	1.3%	1.3%	16.8%
Korea	0.6%	0.6%	5.5%
India	1.2%	1.2%	-3.2%
Singapore	-2.7%	-2.7%	-24.2%
Malaysia	-1.5%	-1.5%	-7.3%
Indonesia	8.7%	8.7%	-23.7%
Thailand	-2.3%	-2.3%	-31.1%
Philippines	7.9%	7.9%	-14.3%
MSCI EM	2.1%	2.1%	1.1%
Bonds			
Barclays U.S. IG	-0.4%	-0.4%	6.3%
iBoxx U.S. HY	0.3%	0.3%	-0.8%
Commodity			
Gold	-0.4%	-0.4%	23.8%
Oil	-11.0%	-11.0%	-41.4%

Source : Bloomberg | 31 October 2020

Macro Outlook and Investment Strategy cont'd

- The recent spike in COVID-19 cases in the U.S is overshadowing some positive vaccine news from the likes of Pfizer and the stronger-than-expected 3Q earnings season to-date. As of 23 October, 27% of the S&P 500 companies have reported their results with 87% of these companies posting a positive earnings surprise. Overall, U.S. corporate earnings are projected to decline by 16.5% year-on-year (YoY) in 3Q, an improvement from -32.1% YoY in 2Q (Figure 1). While the upcoming election may lead to elevated market volatility in the short-term, investors should think long term and opportunistically build exposure to benefit from the eventual growth normalisation, as well as beneficiaries of secular growth trends.

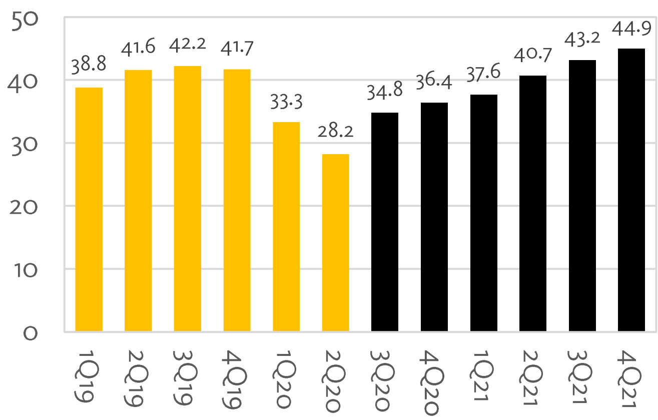
- The renewed lockdown restrictions in Germany and France could potentially push the Eurozone economy into a double-dip recession. Overall, we are less sanguine on Europe's economic recovery and believe that it will not return to pre-COVID-19 levels until 2022 or later. Nevertheless, with the European Central Bank surprising on the upside both in strength and scope at the recent monetary policy meeting, we retain our neutral stance on Europe.

- Global economies are still some quarters away from returning to pre-pandemic levels, weighed down by renewed outbreaks of infections and introduction of targeted restrictions in hot spots. China is the only exception, having already returned to pre-pandemic levels by mid-2020. We expect China's economy to expand 7.5% in 2021, posting the fastest expansion since 2013. China's continued economic recovery, coupled with supportive fiscal and monetary policies should provide a conducive environment for Chinese corporate earnings and the stock market. Maintain overweight on China.

- Singapore could kick-start Phase 3 of the re-opening as soon as end of 2020. Despite the relatively better handling of the COVID-19 situation, the stock market has lagged its regional peers as more than 80% of the benchmark is made up of cyclical equities (Figure 2), which are sensitive to the global economy. That said, the downside may be limited as MSCI Singapore now trades at 12-month forward price-to-earnings ratio of 13.2x, compared to MSCI All-Country Asia ex-Japan at 15.0x. As such, we are neutral on Singapore.

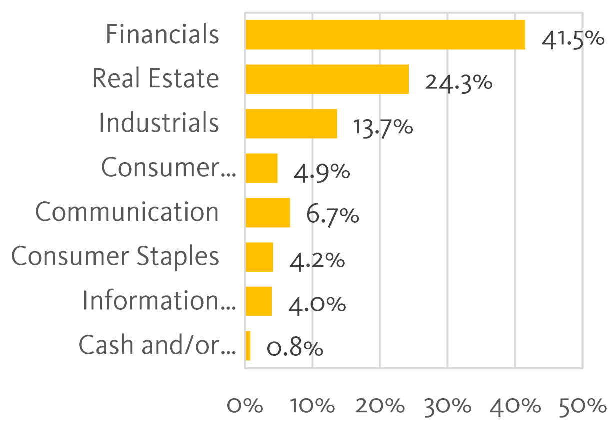
- Malaysia is currently facing multiple headwinds including a resurgence of COVID-19 cases and a fragile coalition government. Still, we maintain our neutral stance on Malaysia as we believe the downside risks could be mitigated by the outperformances of the glove manufacturers which are witnessing strong demand for their products amid the COVID pandemic .

Figure 1: S&P 500 quarterly bottom-up EPS actual and estimates



Source: FactSet I 23 October 2020

Figure 2: More than 80% of iShares MSCI Singapore ETF is made up of cyclical stocks



Source: iShares by Blackrock I 30 September 2020

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