Maybank PRIVILEGE

Reopening
Recalibration
Resilience

Humanising Financial Services.

Maybank

Maybank Singapore Limited (UEN: 201804195C)
RWM223/DEC21/BR1/A

Tripartite Alliance Award 2018 Pinnacle Winner

Champion of Good 2020 For Exemplary Corporate Giving

World's Top 100 Banking Brand 2021 Brand Finance

MACRO ECONOMIC OUTLOOK

KEY HIGHLIGHTS

Global economic growth to moderate but stay above-trend in 2022 with further reopening.

Recalibration of monetary and fiscal policies to take place as economy normalises.

Key risks include persistently high inflation, re-escalation of U.S. - China tensions and unfavourable regulation tightening.

The post-pandemic economic recovery has been remarkably swift, with global gross domestic product (GDP) surpassing the pre-pandemic peak by the second quarter of 2021 thanks to rising vaccination rates and the end of strict mobility restrictions in major developed economies. Having said that, the recovery has been uneven given slower vaccination programmes in developing countries and many of them will only regain levels last seen prior to the COVID-19 pandemic in 2022 or 2023.

We are likely to see ongoing resilience and strength in 2022 as the huge accumulation of excess household savings and strong job prospects lend support to consumer spending, particularly in the U.S. and Europe. Meanwhile, we see more cyclical upside for economic growth in Asia, driven by Southeast Asia (ASEAN) members' readiness to reopen their respective economies amid rising vaccination rates.

Having said that, the pace of growth will be tempered by the winding down of massive emergency fiscal and monetary stimuli, as well as headwinds from supply chain disruptions which could hold back real consumption and investments. Notably, we expect global economic growth to moderate in 2022, but will still remain above-trend at 4.5% after rebounding by an estimated 6.0% in 2021.

The remarkable growth recovery and the inability of the supply side of the economy to catch-up with the sudden surge in demand for consumer goods has led to a sharp rise in inflation globally. The rise in energy prices amid tight supplies and rebounding demand for fuel has also added to global inflationary pressures. We believe that elevated inflation rates may persist going into 2022, albeit less acutely.

Still, there are reasons to believe the high inflation could ease in the second half of 2022. We expect supply chain bottlenecks to be progressively resolved amid a more extensive economic reopening.

REAL GDP FORECAST (%)

	2020	2021E	2022E
WORLD	-3.1	6.0	4.5
U.S.	-3.4	5.8	4.2
EUROZONE	-6.3	5.0	4.3
JAPAN	-4.6	2.2	2.9
CHINA	2.3	8.4	5.0
ASEAN-6	-4.0	3.8	5.4

INFLATION FORECAST (%)

	2020	2021E	2022E
WORLD	2.3	3.6	3.0
U.S.	1.2	3.9	2.7
EUROZONE	0.3	2.1	1.6
JAPAN	0.0	-0.1	0.6
CHINA	2.5	1.2	2.2
ASEAN-6	1.7	2.2	2.9

RATES FORECAST (%)

	1Q22E	2Q22E	3Q22E	4Q22E
FED FUND TARGET (UPPER BAND)	0.25	0.25	0.25	0.50
FED FUND TARGET (LOWER BAND)	0.00	0.00	0.00	0.25
ECB DEPOSIT RATE	-0.50	-0.50	-0.50	-0.50
BOE BANK RATE	0.23	0.23	0.35	0.35
BOJ TARGET RATE	-0.10	-0.10	-0.10	-0.10

Sources: Maybank, Bloomberg | November 2021

In addition, the expected shift in consumer spending patterns away from goods towards services will lead to slower growth in goods prices.

While our base view is for inflationary pressures to abate, the normalisation of monetary policies will gradually set in. Notably, several central banks including Canada, New Zealand, Brazil and South Korea had already started to hike policy rates in 2021. Meanwhile, the U.S. Federal Reserve (Fed) has started to taper its bond purchases in late 2021, with the process likely to end in 1Q22. The Fed funds rate will likely be raised subsequently if the economy progresses as expected. The 10-year U.S. Treasury (UST) yield could also grind higher to 1.5% - 2.0% range amid modest policy tightening.

In comparison, the European Central Bank (ECB) continues to maintain its dovish stance and does not expect to hike rates in 2022 as it believes inflation will remain below its 2% target in the medium-term. The central bank is nevertheless looking to wind down its Pandemic Emergency Purchase Programme (PEPP) come March 2022, although it may consider boosting its Asset Purchase Programme (APP) to ensure sufficient liquidity support to keep a lid on government bond yields within the Eurozone.

Meanwhile, the unwinding of emergency fiscal stimulus is inevitable given ongoing economic resilience and strength. Still, it should be viewed as a recalibration of policies and not a withdrawal of fiscal support. Specifically, we expect governments to shift away from expensive emergency fiscal policies to more targeted measures to build a greener, smarter and more inclusive economy.

For instance, Singapore is looking into ways to expand the wealth tax system to ensure a more inclusive economy. China recently announced a second Belt and Road initiative that will focus on greener projects, which is in line with the country's aim to peak carbon emissions before 2030.

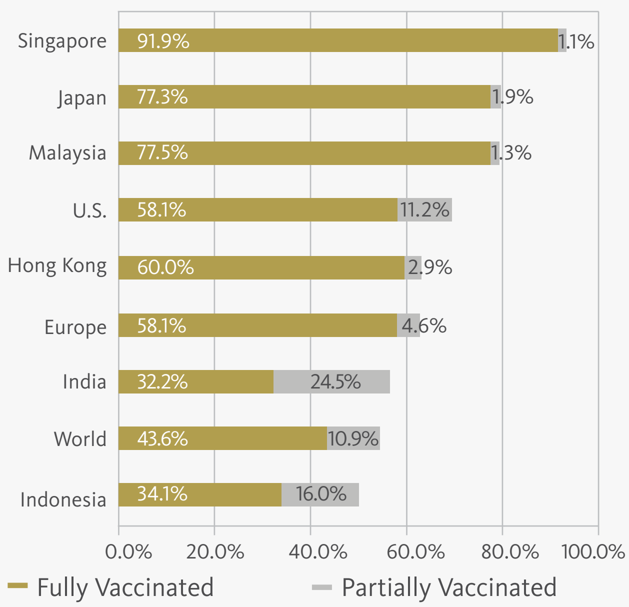
No doubt, the recalibration of both fiscal and monetary policies may lead to tighter global financial conditions and increase the vulnerability of economies and markets. Having said that, we believe policymakers will try to find a "smooth exit" to avoid derailing the economic recovery.

Overall, we maintain a constructive macro outlook. Still, there are several scenarios that could shift our baseline view. Firstly, should inflation stay higher for longer, it could eventually dampen growth and increase the likelihood of stagflation.

Secondly, the re-escalation of tensions between the U.S. and China may not only lead to the imposition of more sanctions and scrutiny of Chinese companies, but also affect global economic confidence as witnessed during the Trump presidency in 2018. More broadly, the rise of nationalism (or protectionism) amid the pandemic could also prolong supply shortages with governments arguing for the need to boost local production capacity to ensure economic security.

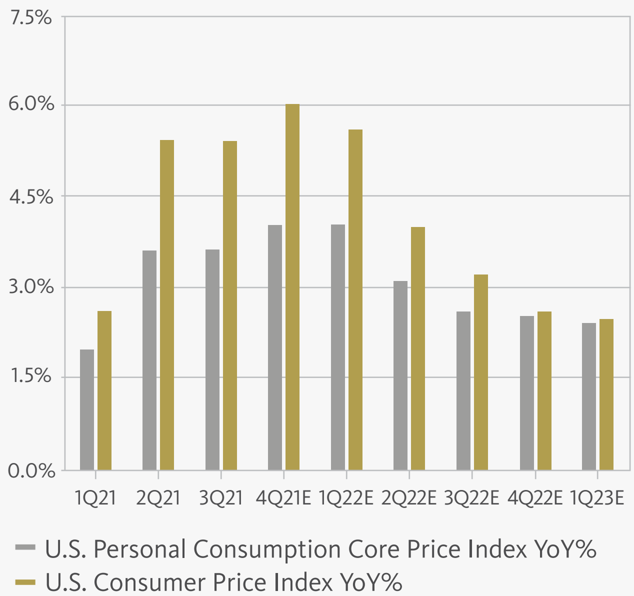
Lastly, we believe we are entering an era of rising regulations in areas such as privacy issues, content and anti-competition, to address societal concerns. An over-tightening of regulations could also hamper the pace of global growth recovery.

VACCINATION RATES ARE IMPROVING ALBEIT STILL UNEVEN ACROSS ECONOMIES



Source: Our World in Data | November 2021

U.S. INFLATION IS EXPECTED TO MODERATE IN 2H22



Source: Bloomberg | November 2021

INVESTMENT STRATEGY

KEY HIGHLIGHTS

Healthy macro environment bodes well for risk assets.

Overweight equities over fixed income; neutral on both alternatives and cash.

Active selection to play a bigger role as recovery matures.

The healthy macro environment bodes well for risk assets including equities with further reopening of the global economy. Still, policymakers are expected to recalibrate their monetary and fiscal stances as growth and inflation normalise. The adjustment process could lead to heightened market volatility from time to time, which requires investors to maintain their focus on building portfolio resilience.

In view of the above, we start the year with an overweight stance on equities. Nevertheless, equity returns are likely to moderate amid more normalised earnings growth trend with limited scope for valuation expansion.

Markets wise, we prefer Asia equities, particularly Japan, China, Singapore and Indonesia, as investors may be more inclined to rotate to laggard markets that are poised to catch-up on still reasonable valuations. While the U.S. and Europe markets are expected to deliver positive returns, their performances may be relatively more subdued. With further reopening, we see selected opportunities in cyclical-oriented sectors, particularly those with exposure to consumer services whereby the recovery has not been fully priced in.

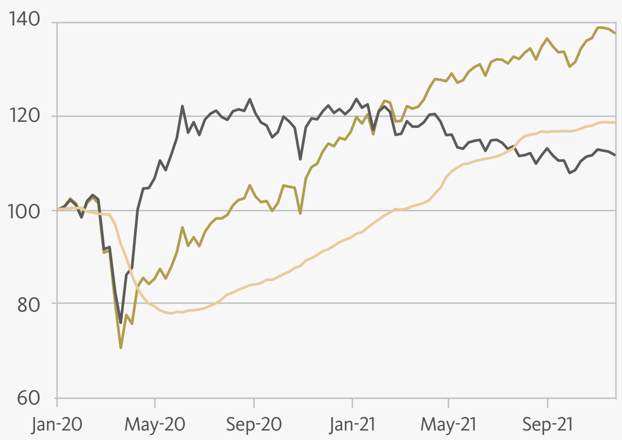
Longer-term, we maintain a strong focus on secular plays that can benefit from structural growth trends such as healthcare and technology that will persist in a post-pandemic era. These companies would also be less affected should growth slow more-than-expected.

In contrast to equities, we are less constructive on fixed income and have an underweight stance. With upward pressure on still low government bond yields, it will be difficult for sovereign bonds to register positive returns. Nevertheless, there are still selected carry opportunities within credit. We prefer High Yield (HY) credit to Investment Grade (IG) credit as the former can potentially benefit more from tighter credit spreads and face lower duration risks.

As for alternatives, we are neutral on both oil and gold in view of the balanced risk-reward. For oil, we expect prices to remain supported with demand recovery but the threat of increased supply from the Organization of the Petroleum Exporting Countries (OPEC) and U.S. producers would limit the upside potential. Similarly, we expect gold prices to remain subdued although gold remains an effective portfolio diversifier and could do well in the unlikely event of a stagflation scenario.

While our asset allocation is positively tilted towards equities, we are cognisant of a number of risk factors including new COVID-19 variants, unresolved supply chain issues, tighter monetary policies, potential tax hikes, as well as renewed escalation in geopolitical tensions. As such, investors should maintain a cash buffer and ensure they are not over-leveraged. Active selection could also play a bigger role as market returns moderate in a maturing recovery. Last but not least, we advocate maintaining a diversified portfolio to mitigate the uncertainties with an increased emphasis on sustainability to help future-proof one's investments.

EARNINGS GROWTH WAS THE KEY DRIVER OF EQUITY RETURNS IN 2021



*MSCI All-Country World Index (rebased to 100 as of 1 January 2020)

Source: Bloomberg | November 2021

ASSET ALLOCATION

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
OVERALL POSITION	Fixed Income	Alternatives Cash/USD	Equities
EQUITIES	India Taiwan Thailand	Europe Hong Kong Malaysia Philippines South Korea U.S.	Asia ex-Japan China Indonesia Japan Singapore
FIXED INCOME	Developed Market Investment Grade Emerging Market High Yield Sovereigns	Asia Investment Grade Emerging Market Investment Grade	Asia High Yield Developed Market High Yield
ALTERNATIVES		Gold Oil	

Source: Maybank Group Wealth Management Research | December 2021

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