Maybank Investment Strategy

September 2021

Summary

- Global equities trended higher with the MSCI All-Country World Index gaining 2.5% in August on solid second quarter earnings results. Investors brushed off inflation fears amid the U.S. Federal Reserve's (Fed) dovish tilt at the Jackson Hole symposium.

- In comparison, the Bloomberg Barclays Multiverse Total Return Index retreated 0.3% in August as sovereign bonds lagged. Notably, the 10-year U.S. Treasury (UST) yields rose 9 basis points to 1.31% as at end-August. Credits nevertheless held up particularly in the High Yield (HY) segment.

- Oil was a notable underperformer with West Texas Intermediate (WTI) crude prices declining 7.4% in August, as concerns over the impact of the Delta variant weighed on fuel demand. Meanwhile, gold was little changed at USD 1,814 per ounce.

Macro Outlook and Investment Strategy

- The global economic recovery is intact in view of the encouraging macro data and corporate earnings trends. Still, we remain mindful of the downside risks posed by the lingering COVID-19 and inflation concerns, as well as regulatory and geopolitical uncertainties.

- We stay neutral on equities and believe a selective approach is warranted as the risk of a short-term correction remains with the extended rally. We remain neutral towards the U.S. and Europe as the robust fundamentals are offset by less compelling valuations. Within Asia, China equities may remain choppy in the near-term given ongoing regulatory uncertainties. Instead, we maintain our preference for Singapore and South Korea equities given their positive earnings outlook and still attractive valuations.

- We retain our neutral stance on fixed income and continue to prefer credits over sovereign bonds given the former's more attractive carry and scope for spread compression as investors continue hunt for yield. In particular, we maintain our overweight stance on Asia Investment Grade (IG) and U.S. HY bonds given the more attractive risk reward.

- We continue to see value in maintaining exposure in gold as a hedge against growth uncertainties. Oil prices could also be supported by further demand recovery, although the threat of increasing supply could cap the upside.

September 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	3.0%	5.4%	21.1%
MSCI Europe	1.5%	3.4%	16.1%
MSCI Japan	3.1%	1.8%	3.2%
MSCI Asia ex-Japan	2.3%	-5.3%	0.9%
China	0.0%	-13.8%	-12.2%
Hong Kong	-0.7%	-3.5%	6.1%
Taiwan	4.6%	2.5%	21.9%
Korea	-1.6%	-7.1%	-0.8%
India	11.0%	12.0%	26.1%
Singapore	-1.2%	0.1%	9.6%
Malaysia	8.4%	4.1%	-4.4%
Indonesia	7.9%	5.9%	-6.8%
Thailand	11.6%	3.9%	3.2%
Philippines	11.5%	-1.5%	-5.1%
MSCI EM	2.6%	-4.2%	3.1%
Bonds			
Barclays U.S. IG	-0.2%	0.9%	-0.7%
iBoxx U.S. HY	0.6%	0.8%	3.9%
Commodity			
Gold	0.0%	2.5%	-4.5%
Oil	-7.4%	-6.8%	41.2%

Source : Bloomberg | 31 August 2021

Macro Outlook and Investment Strategy cont'd

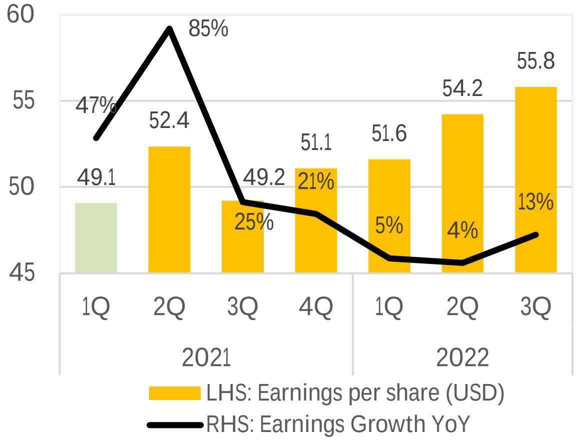
- U.S. earnings growth remains the key driver for equity returns, with the S&P 500 second quarter earnings growing by 85% year-on-year (YoY) (Figure 1). The USD 4.5 trillion in new fiscal spending on infrastructure, environment and social benefits could provide additional impetus if a budget is approved by the Congress this year. While U.S. stocks could grind higher, the relatively expensive valuation and moderating U.S. growth momentum suggest limited upside versus global peers. In view of the above, we retain our neutral stance on U.S. equities.

- Macro fundamentals remain healthy in Europe, with the August composite Purchasing Manager's Index (PMI) still pointing to a strong pace of expansion (Figure 2), driven by the bloc's successful vaccination drive. Meanwhile, the European Central Bank will likely look past the transitory spike in inflation and remain accommodative. Robust earnings growth will continue to lend support although the market's higher than average valuation suggest the positives may be priced-in. Upcoming German elections in September could also be a source of near-term volatility. Thus, we retain our neutral view on the market.

- In Asia, we maintain our neutral stance on China equities as the un-abating regulatory news flow continue to dampen market sentiment in the near-term. Recent resurgence in COVID-19 infections is also posing setback to a number of countries in South–East Asia although it will likely delay but not derail the economic recovery. In particular, rising vaccinations portend a cyclical recovery next year for the likes of Malaysia and the Philippines. For now, we stay positive on Singapore and South Korea equities which appear more attractive given the positive earnings momentum as well as still reasonable valuation. In particular, we see opportunities for Singapore REITS to do well on the back of improving dividend outlook.

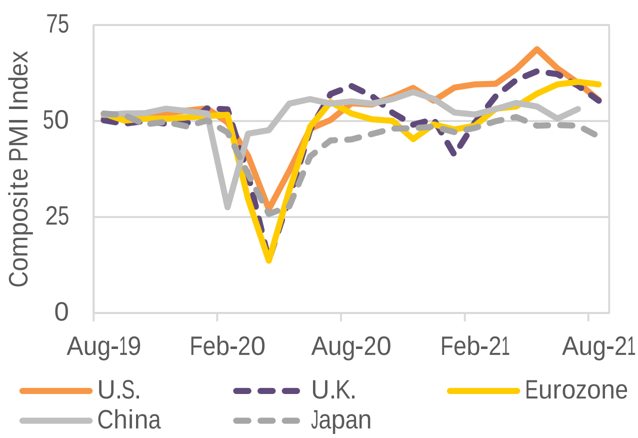
- Fed Chairman Jerome Powell acknowledged the healthy pace of economic recovery in the U.S. but remained dovish given the gap in the labour market, particularly on the service sector. While the Fed may start tapering by end-2021, the reduction of asset purchases will likely be gradual and well-telegraphed. Meanwhile, inflation is showing signs of plateauing as supply bottlenecks and job dislocations ease. We still continue to expect the 10-year UST yields to rise, albeit more gradually to the range of 1.25% - 1.75% for the next six months given the easing inflation concerns. On balance, we continue to prefer corporate over sovereign bonds, given the former's lower duration risk and more attractive carry. In particular, we are overweight U.S. HY bonds given the improving corporate fundamentals and favour Asia IG bonds for its attractive risk-reward profile.

Figure 1: U.S. corporates earnings grew by 85% YoY in 2Q21



Source: Factset | 13 August 2021

Figure 2: Business confidence remains healthy among major economies



Source: Bloomberg I 31 August 2021

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