Maybank Investment Strategy

November 2022

Summary

- Risk assets rebounded in October after two consecutive months of declines. In particular, hopes that global central banks might start to slow the pace of interest rate hikes after disappointing economic data boosted the demand for equities.

- The MSCI All-Country World Index climbed 6.1%, with U.S. equities leading the gains. However, China performed poorly amid fears that President Xi Jinping's new leadership team will lead to heightened policy uncertainties and weaken the growth prospects.

- Meanwhile, bond markets were range-bound with the Bloomberg Barclays Multiverse Index adding 0.1%. Notably, the 10-year U.S. Treasury (UST) yield climbed above 4% with expectations of U.S. Federal Reserve peak policy rate rising to 5% after the higher than-expected inflation print. Surprisingly, U.S. High Yield (HY) debt managed to deliver positive returns on tighter spreads amid improved risk appetite

Macro Outlook and Investment Strategy

- Risk assets may bounce further in the near-term especially if the upcoming Fed guidance turns out to be less hawkish than expected. However, the sticky inflation will prevent any meaningful monetary easing anytime soon. More significantly, earnings risks have not been fully priced-in and could lead to markets testing new-lows yet again.

- In addition, there are several high profile events in November that could add to market volatility. Apart from the U.S. mid-term election, the G20 Bali Summit may lead to increased geopolitical uncertainties with the tense U.S.-China relationship likely to be in focus.

- In view of the above, we maintain our defensive stance and would look to build cash buffer to protect the portfolio. We also continue to underweight equities but are relatively more sanguine on South East Asia and favour the region over Europe and India markets.

- While there may be an upward bias to UST yields for now, further increase may be capped with the Fed tightening cycle closer to the end than the beginning. We retain a positive tilt towards sovereign bonds and continue to favour Investment Grade (IG) bonds over HY credit. Meanwhile, we maintain our neutral view on gold and oil given the balanced risk-reward.

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	7.9%	7.9%	-18.8%
MSCI Europe	7.2%	7.2%	-23.3%
MSCI Japan	3.0%	3.0%	-23.9%
MSCI Asia ex-Japan	-6.1%	-6.1%	-32.0%
China	-16.8%	-16.8%	-42.7%
Hong Kong	-12.2%	-12.2%	-29.2%
Taiwan	-5.1%	-5.1%	-38.7%
South Korea	8.3%	8.3%	-35.0%
India	2.6%	2.6%	-7.0%
Singapore	0.0%	0.0%	-19.4%
Malaysia	2.9%	2.9%	-14.9%
Indonesia	0.4%	0.4%	8.4%
Thailand	1.2%	1.2%	-8.3%
Philippines	9.1%	9.1%	-22.1%
MSCI EM	-3.1%	-3.1%	-29.2%
Bonds			
Barclays U.S. IG	-1.0%	-1.0%	-19.6%
iBoxx U.S. HY	2.6%	2.6%	-12.5%
Commodity			
Gold	-1.6%	-1.6%	-10.7%
Oil	8.9%	8.9%	15.1%

Source : Bloomberg | 31 October 2022

Macro Outlook and Investment Strategy – continued

- More cracks are starting to surface in the financial markets and the economy. The panic in the U.K. bond market, which required the Bank of England to intervene, is a recent example. In the U.S., while the economy grew at a better-than-expected annualised 2.6% rate in 3Q, recent indicators are still pointing to a broader slowdown particularly in the housing market (Figure 1). Meanwhile, the yield spread between three-month Treasury bills and 10-year notes has inverted, further signalling a forthcoming recession.

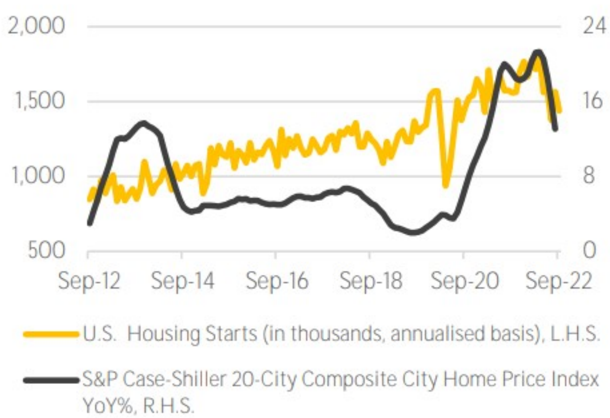
- The smaller-than-expected 50 basis points (bps) rate increase by the Bank of Canada and the European Central Bank's less hawkish tone have prompted speculation that the Fed could pivot soon. However, the still-strong U.S. labour market and wage growth would likely lead to persistent inflationary pressures. With the Fed accused of waiting too long in tightening its monetary policy earlier on, the central bank will require clearer signs of moderating inflation before turning dovish in a bid to restore its credibility.

- While the 10-year UST yield may stay above 4% for now, it would likely dip lower once there are stronger signs of growth deterioration. Hence, we continue to favour the UST as a hedge against recession on the back of the favourable risk reward. In contrast, we expect credit spreads to widen in the coming months, particularly for HY bonds. Still, there are defensive carry opportunities in short-dated IG issuers given their relatively stronger balance sheets and lower default risk.

- In equities, consensus earnings are still far from pricing in the scenario of a recession (Figure 2). We expect further downgrade of earnings expectation following the disappointing guidance from the U.S. mega-cap technology companies. Until this is fully played out, earnings risks will likely weigh on market returns in the coming months. In particular, we continue to underweight Europe given the more pronounced growth risks and potential weakness in euro against the dollar.

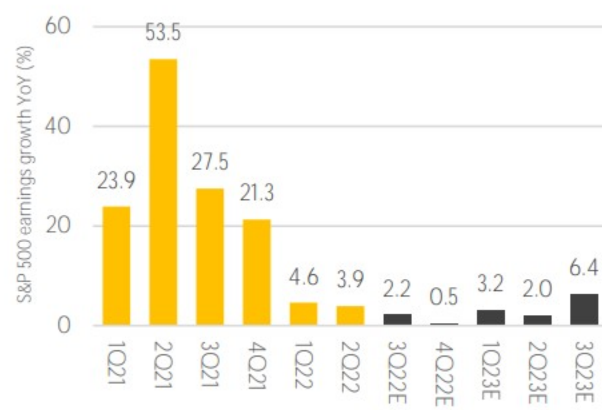
- We remain neutral on China stocks, which may continue to hover below historical average valuation until there are more concrete developments to convince investors that China is "investable" again. We will be looking out for any pro-growth policies from the Central Economic Work Conference in December as well as a potential shift away from the stringent zero-COVID policy. Meanwhile, we retain our overweight on Indonesia with the economy still holding up well. Separately, Malaysia equities could trade range-bound as investors await the outcome of the general election on 19 November. Still, the return of a strong majority government and reduced political uncertainty could make us turn more constructive on the market.

Figure 1: U.S. housing starts and prices fell as high mortgage rates are weighing on demand



Source: Bloomberg | 31 October 2022

Figure 2: Consensus estimates have yet to price in a earnings recession in the U.S.



Source: Factset | 28 October 2022

Disclaimer

This advertisement has not been reviewed by the Bangko Sentral ng Pilipinas. This report is for information purposes only and under no circumstances is it or any part of it to be considered or intended as an offer to sell or a solicitation of an offer to buy any of the financial or investment products referred to herein (each, a "Product", and collectively, "Products") or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy or enter into any legal relations, or an advice or a recommendation with respect to such Products.

Investors should note that income from such Products, if any, may fluctuate and that each Product's price or value may rise or fall. Accordingly, investors may receive back less than what they have originally invested or they may also not receive back anything at all from what they have originally invested. All investments involve an element of risk, including capital and principal loss. Past performance is not necessarily a guide to or an indication of future performance.

This report is prepared for general circulation. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and particular needs of any particular recipient or reader and thus should be read with this in mind. An investor should therefore independently and separately evaluate and assess each Product and consider the suitability of the same and the risks involved or the investment strategies discussed or illustrated in this report, taking into account the investor's specific investment objectives, financial situation, risk tolerance and particular needs, and seek independent financial, audit, tax, legal and/or other professional advice as necessary, before dealing, transacting and/or investing in any of the Products mentioned in this report or communicated to the investor as a follow-up to this report. All investments will be made solely upon and in reliance on the own judgment and discretion, notwithstanding any opinion, commentary or recommendation this report, Maybank or its Relationship Managers may provide. Unless expressly agreed otherwise, Maybank offers no investment, financial, legal, tax or any other type of advice to recipients or readers of this report. Maybank has no fiduciary duty towards any such recipients and readers, and makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for the financial needs, circumstances or requirements of the recipients and readers.

Some of the information herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank and consequently no representation and/or warranty is made by Maybank as to the accuracy or completeness of this report for any particular purpose and it should not be relied upon as such. Maybank may have issued other documents, investment proposals, reports, analyses or emails expressing views different from the contents hereof and all views expressed in such documents, investment proposals, reports, analyses and emails are subject to change without notice. The information or opinions or recommendations contained herein are subject to change at any time without prior notice. Accordingly, to the maximum extent permitted by applicable laws and regulations, Maybank and its officers, directors, associates, agents, connected parties and/or employees shall not be liable for any error or omission contained in this report or for any direct, indirect, special or consequential losses or damages that may arise from the use of, reliance on or any action taken in connection with this report. Maybank and its officers, directors, associates, connected parties and/or employees, including persons involved in the preparation or issuance of this report, may from time to time have positions or be materially interested in the Products referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such Products and may also perform or seek to perform investment banking, advisory or other services in relation thereto. One or more directors, officers and/or employees of Maybank may be a director of any of the corporations of the Products mentioned in this report to the extent permitted by law. Accordingly, Maybank may have a conflict of interest that could affect the objectivity of this report.

This report may contain information such as valuation, performance, yield or the like, derived from a variety of valuation metrics, all of which may change at any time without notice and investors are cautioned not to place undue reliance on such information. This report may also contain forward looking statements which are often but not always identified by the use of words such as “anticipate”, “believe”, “estimate”, “intend”, “plan”, “expect”, “forecast”, “predict” and “project” and statements that an event or result “may”, “will”, “can”, “should”, “could” or “might” occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made by and/or information currently available to Maybank and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements. This report is current as at the date of its publication and Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. This report may also contain charts, diagrams or graphs, including sample portfolio overview, which may differ or vary from the actual charts, diagrams or graphs, including any portfolio overview, which an investor may receive separately.

The information herein and the contents of this report remain the intellectual property of Maybank. The contents of this report are confidential and its circulation and use are restricted. This report is prepared for the use of Maybank’s clients and/or prospective clients and may not be reproduced, altered in any way, copied, published, circulated, distributed or transmitted to any other party in whole or in part in any form or manner or by any means (including electronically, photocopying, recording or via any information storage and retrieval system) without the prior express written consent of Maybank. Maybank and its officers, directors, associates, agents, connected parties and/or employees accept no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who/which is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or where Maybank may become subject to new or additional legal or regulatory requirements. The Products described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers or warnings may apply based on the geographical location of the recipient of this report.