Maybank Investment Strategy

February 2021

Summary

- Stubbornly high inflation prints and signs that the U.S. Federal Reserve (Fed) is preparing to hike interest rates as early as March 2022 led to heightened volatility in risk assets at the start of the year.
- The MSCI All-Country (AC) World Index retreated 4.9%in January, led lower by South Korea and the U.S. In contrast, the West Texas Intermediate crude benchmark rallied 17.2% as worldwide consumption continues to recover and geopolitical worries centering around key oil producer Russia supported prices.
- Meanwhile, the bond market was also sold off on more hawkish rate hike expectations. Notably, the spread between the yields on the 2-year and 10-year U.S. Treasury note further flattened to 60 basis points (bps) as at end-January, suggesting growing worries over economic growth and uncertainty about monetary policy.

Macro Outlook and Investment Strategy

- Global growth is set to remain strong, albeit uneven, fuelled by consumption, rising investments, and resilient global trade. Meanwhile, central banks are shifting towards a more hawkish monetary stance amid continued uncertainty about the scale and duration of inflationary pressures.The potential shift in policy stance coupled with less compelling valuations from riskier asset classes suggest higher volatility ahead. In addition, the regulatory uncertainty on Chinese Tech has lifted the risk premium and suppressed near-term return expectations.
- Nevertheless, we are maintaining the pro-risk tilt in our asset allocation over the next 6-12 months with an overweight in equities given the still robust macro and earnings outlook. Russia-Ukraine tensions, China's battered property sector and lingering Omicron variant concerns may however cause near-term market volatility to persist. Within equities, we are selectively biased towards China, Japan, Singapore and Indonesia, while avoiding India, Taiwan and Thailand given their rich valuations.
- We are negative on fixed income, as inflation could continue to put upward pressure on government bond yields. Hence, we prefer U.S. and Asian High Yield (HY) bonds for their shorter duration and more attractive carry.
- Despite a lacklustre performance last year, we continue to recommend some allocation to gold as a portfolio diversifier and hedge against stagflation risks. We also maintain our neutral stance on oil given the balanced risk-reward.

February 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	=		

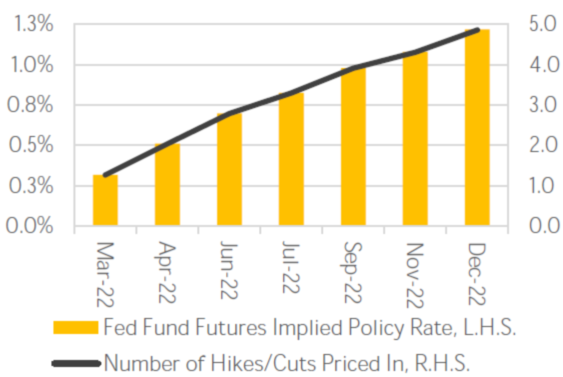
Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	-5.7%	-5.7%	-5.7%
MSCI Europe	-4.6%	-4.6%	-4.6%
MSCI Japan	-5.1%	-5.1%	-5.1%
MSCI Asia ex-Japan	-3.1%	-3.1%	-3.1%
China	-2.9%	-2.9%	-2.9%
Hong Kong	1.0%	1.0%	1.0%
Taiwan	-2.0%	-2.0%	-2.0%
Korea	-10.1%	-10.1%	-10.1%
India	-1.4%	-1.4%	-1.4%
Singapore	-1.1%	-1.1%	-1.1%
Malaysia	-3.6%	-3.6%	-3.6%
Indonesia	0.6%	0.6%	0.6%
Thailand	0.2%	0.2%	0.2%
Philippines	4.1%	4.1%	4.1%
MSCI EM	-1.9%	-1.9%	-1.9%
Bonds			
Barclays U.S. IG	-2.2%	-2.2%	-2.2%
iBoxx U.S. HY	-2.9%	-2.9%	-2.9%
Commodity			
Gold	-1.8%	-1.8%	-1.8%
Oil	17.2%	17.2%	17.2%

Source : Bloomberg | 31 January 2022

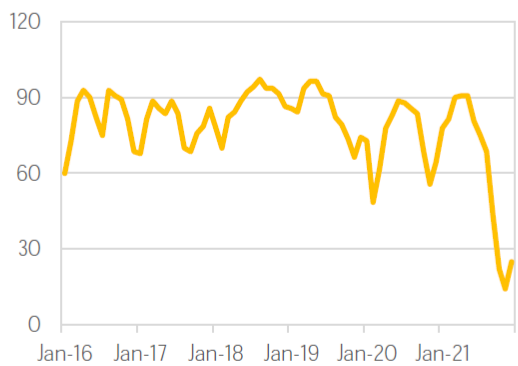
- The Fed funds futures market is currently pricing in close to five Fed Fund rate hikes in 2022 (Figure 1), as well as an early end to tapering of asset purchases as inflation is proving to be more than "transitory" . The inflation story will remain a key market driver and could lead to elevated market volatility in the coming months. Nevertheless, we expect developed market central banks to use all the substantial tools at their disposal to ensure a smooth transition to normalising their respective monetary policies and avoid derailing the economic recovery. Hence, overall financial condition is likely to remain supportive of growth.
- We expect U.S. Treasury (UST) yields to grind higher over the next 6-12 months and our 10-year UST yield forecast remains unchanged at 1.50% - 2.00% in 2022. Nevertheless, the yield could possibly overshoot the 2% handle in the near term until there are clearer signs of inflation abating. On credit, we expect corporate default rates to remain low and will continue to seek income opportunities in the U.S. and Asia HY bonds in light of solid fundamentals for the former and tactical value in extremely oversold conditions for the latter.
- The U.S. stock market was amongst the worst performers to-date and both the S&P 500 and NASDAQ composite have retreated to their 5-year historical average Price/Earning valuation. While the U.S. market may remain choppy in the near term due to lingering Fed policy uncertainties, the increasingly reasonable valuation could limit the downside. Meanwhile, the overall macro backdrop in the U.S. remains solid with an above-average number of positive 4Q earnings surprises. As such, we retain our neutral stance on the U.S.
- We remain positive on China as the government has signalled it will implement targeted measures to support growth, even as other major economies embark on monetary tightening. Indeed, the People's Bank of China (PBOC) has followed through with cuts in the reserve requirement ratio (RRR) and loan prime rate (LPR) to ease liquidity conditions. With average nationwide residential property prices falling significantly (Figure 2) and predatory practices of private sector industry giants largely rooted out, the negatives for Chinese equities may have largely all been priced-in.
- In Southeast Asia, we retain our overweight in Indonesia as the market will likely benefit from improving domestic demand and is still trading at undemanding valuations. We also retain our positive stance on Singapore and favour sectors with operating leverage to reopening or earnings visibility from structural growth. In contrast, we maintain our negative stance on Thailand as its tourism-dependent economy continues to reel from the slow growth of tourism arrivals and weak domestic demand.

Figure 1: Fed Fund Futures implied policy rate and number of hikes



Source: Bloomberg | 31 January 2022

Figure 2: Bloomberg China House Price Diffusion Index at multi-year lows



Source: Bloomberg | 31 January 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.