Maybank Investment Strategy

September 2022

Summary

- Global equities retreated on diminished hopes of an early policy pivot by the U.S. Federal Reserve (Fed) with MSCI All-Country (AC) World Index down 3.6% in August. Developed markets (DM) led the losses, with MSCI Europe retreating 6.2%. Meanwhile, MSCI China managed to eke out a small gain of 0.2% after the government stepped up its stimulus policies.
- U.S. Treasury yields (UST) moved higher amid hawkish Fed expectations. Consequently, the Bloomberg Barclays Multiverse Index fell 3.8% in August. Notably, the U.S. yield curve is flashing stronger signs of recession risks ahead. The 10-year (10Y) versus 2-year UST yield curve has been inverted for most of the past 2 months and the 10Y versus 3-month yield spread has also narrowed significantly from 231 basis points (bps) in May to 29 bps.
- On the commodities front, West Texas Intermediate (WTI) crude prices slumped 9.2%, pressured by fears that an economic slowdown would hurt fuel demand. Gold prices also declined 3.1% as persistent rate hikes diminished the allure of the non-yielding precious metal.

Macro Outlook and Investment Strategy

- The global economy is veering towards a bumpy ride as central banks are increasingly focused on bring down inflation at the expense of economic growth. While inflation may have peaked, the pace of moderation will likely matter more now for policymakers.
- The uncertain macro backdrop continues to warrant a defensive stance in asset allocation. As such, we retain underweight stance in equities with Europe and India being our least preferred markets. In contrast, investors should look to increase cash buffer to protect the investment portfolio against the current headwinds.
- In fixed income, we continue to prefer sovereign bonds to credits. With growth fears playing an increasingly dominant role, we expect the benchmark 10Y UST yields to trend towards 2.5% by year-end. In credits, we continue to prefer investment Grade (IG) over High Yield (HY) bonds in an up-in-quality stance.

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	-3.9%	5.0%	-17.1%
MSCI Europe	-6.2%	-1.6%	-21.6%
MSCI Japan	-2.5%	3.0%	-17.7%
MSCI Asia ex-Japan	0.0%	-1.1%	-17.1%
China	0.2%	-9.2%	-19.4%
Hong Kong	-3.5%	-7.0%	-9.7%
Taiwan	-1.2%	2.1%	-23.3%
Korea	-3.3%	2.3%	-26.7%
India	4.2%	13.9%	-3.3%
Singapore	-1.8%	4.1%	-14.8%
Malaysia	0.5%	3.0%	-8.4%
Indonesia	5.2%	8.6%	8.8%
Thailand	5.7%	3.6%	-3.3%
Philippines	2.7%	5.0%	-13.4%
MSCI EM	0.5%	0.3%	-17.2%
Bonds			
Barclays U.S. IG	-2.8%	-0.5%	-10.8%
iBoxx U.S. HY	-3.4%	3.2%	-11.1%
Commodity			
Gold	-3.1%	-5.3%	-6.5%
Oil	-9.2%	-15.3%	19.1%

Source : Bloomberg | 31 August 2022

- Meanwhile, we expect rising rates to keep a lid on gold although it could still serve as a hedge against growth uncertainties. We also anticipate oil prices to remain range-bound given the sustained tug of war between demand and supply concerns.

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Macro Outlook and Investment Strategy (Continued)

- In his recent speech at Jackson Hole, Fed Chair Jerome Powell indicated that higher interest rates may need to stay longer to bring inflation under control, dashing investors' hopes that the central bank will soon pivot to easier monetary policies. The increased pace of Fed's balance sheet reduction to USD 95 billion/month from September will only tighten financial conditions further and weigh on economic activities.

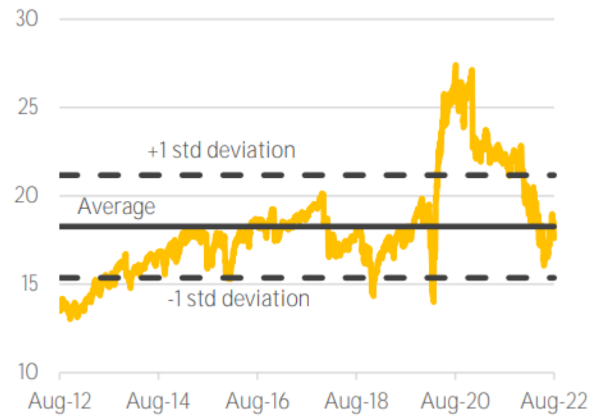
- The deteriorating growth environment will likely put a lid on the long-end Treasury yields with the yield curve becoming more inverted. With the 10Y UST yield now back above 3%, we see favourable risk reward in sovereign bonds given the increasingly attractive carry and safe-haven appeal. In comparison, we remain selective towards credits and prefer shorter-dated IG bonds. We maintain our underweight stance on HY credits as we see scope for further spread widening given elevated recession risks.

- MSCI AC World Index has tumbled 17.5% year-to-date as worries about the global economy intensify. Unfortunately, we believe the stock market has yet to fully reflect the growth concerns. Consensus views on earnings remain overly optimistic, particularly in DM. For instance, consensus is still projecting S&P 500 earnings growth of 9% in 2022 and 8% in 2023. Further downgrade of earnings expectations, particularly for next year, will likely weigh on market returns for the rest of 2022.

- Markets wise, we maintain our preference for Indonesian stocks amid robust consumption activities but would continue to avoid Europe and India. In particular, we see further moderation of economic momentum in the Eurozone with the looming energy crisis threatening a recession in the region. As for the U.S., we have observed increasingly cautious management guidance on earnings outlook and expansion plans. Political uncertainties could also escalate ahead of the midterm elections in November. Still, the market has de-rated substantially since the start of the year (Figure 1), suggesting that further downside to valuation could be cushioned. Hence, we maintain our neutral stance on U.S. equities.

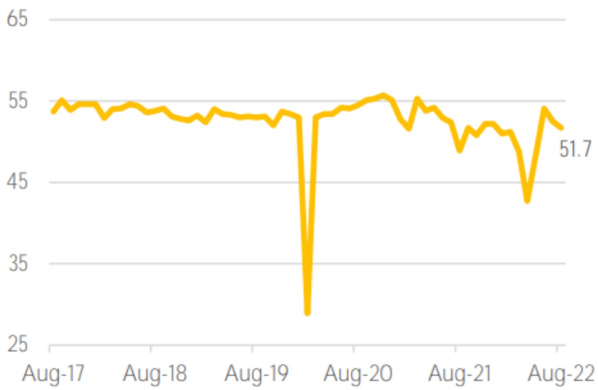
- Meanwhile, the activity momentum in China remains weak, with the latest composite Purchasing Managers' Index (PMI) easing further in August (Figure 2). While the government has stepped up its stimulus policies in recent weeks, the pace of economic recovery will likely be capped by the country's zeroCOVID strategy, low consumer confidence and very recently a drought-induced power shortage. Nevertheless, the pace of downward earnings revisions has slowed and market valuation remains undemanding at 10.9x forward earnings. As such, we retain our neutral view on China.

Figure 1: S&P 500 is trading at 17.6x forward earnings, in line with 10-year historical mean



Source: Bloomberg | 31 August 2022

Figure 2: China's composite PMI further eased to 51.7 in August from 52.5 in July



Source: Bloomberg | 31 August 2022

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