
The economic outlook going into 2023 remains challenging as investors have to deal with slower global growth and tighter monetary policies to combat decades-high inflation, alongside lingering geopolitical uncertainties. For 2023, we expect global GDP growth to slow further to 1.7% from 2.9% in 2022 as tighter financial conditions continue to cool demand.

Notably, the risk of an economic recession has risen sharply, particularly in Developed Markets (DM). Among major DM economies, both the U.K. and Eurozone are facing a risk of a severe downturn. The U.S. may also witness negative GDP growth at some point in 2023 with rising probability of a recession.

Inflation has surprised to the upside in many countries in 2022. While inflation is likely to moderate in 2023, we expect it to remain higher than historical average levels. In the U.S., services inflation could stay elevated marked by a demand shift from goods to services post COVID. The still tight labor market is also pushing up wages, leading to a more sticky inflation. While inflation in Europe may cool with softer energy price increases, the lingering uncertainties related to the Russia-Ukraine war will impose supply constraints and lead to persistent price pressure. Meanwhile, inflation could remain higher than normal in Asia with external price pressures a key contributing factor.

Given the stickier than expected inflation, central banks may be pressured to maintain a restrictive monetary policy to safeguard price stability even though the pace of tightening may start to slow. Having said that, the central banks are wary of over tightening with several U.S. Federal Reserve (Fed) officials signaling the need to remain data dependent. Hence, we will not be surprised to see an earlier than expected pause in rate hikes or even rate cuts should the economy deteriorate faster than expected.

Looking ahead, we will continue to look for clear and sustained signs of inflation downshift and the need for policy recalibration. In the U.S., we expect the Fed funds rate to peak at 5.00% – 5.25% by 1H 2023 but the 10-year U.S. Treasury (UST) yield to peak well below the terminal rate. Resilience in the labor markets and a still large stock of private sector excess savings are key to our view that global growth bends but does not break.

| REAL GDP FORECAST (%) | 2021 | 2022E | 2023E |
|---|---|---|---|
| WORLD | 6.0 | 2.9 | 1.7 |
| U.S. | 5.7 | 1.7 | 0.3 |
| EUROZONE | 5.2 | 3.0 | 0.0 |
| JAPAN | 1.7 | 1.6 | 1.4 |
| CHINA | 8.1 | 3.3 | 4.0 |
| ASEAN-6 | 3.8 | 5.6 | 4.3 |

| INFLATION FORECAST (%) | 2021 | 2022E | 2023E |
|---|---|---|---|
| WORLD | 4.7 | 8.8 | 6.5 |
| U.S. | 4.7 | 8.1 | 4.0 |
| EUROZONE | 2.9 | 8.5 | 6.0 |
| JAPAN | -0.2 | 2.5 | 1.8 |
| CHINA | 0.9 | 2.2 | 2.3 |
| ASEAN-6 | 2.2 | 4.5 | 4.1 |

| RATES FORECAST (%) | 4Q22E | 1Q23E | 2Q23E | 3Q23E | 4Q23E |
|---|---|---|---|---|---|
| FED FUND TARGET (UPPER BAND) | 4.50 | 5.00 | 5.25 | 5.25 | 5.25 |
| FED FUND TARGET (LOWER BAND) | 4.25 | 4.75 | 5.00 | 5.00 | 5.00 |
| ECB DEPOSIT RATE | 2.00 | 2.50 - 2.75 | 2.50 - 2.75 | 2.50 - 2.75 | 2.50 - 2.75 |
| BOE BANK RATE | 3.50 | 4.00 | 4.00 | 4.00 | 4.00 |
| BOJ TARGET RATE | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |

*Source: Maybank IBG Research | November 2022*

The energy crisis in Europe continues to dampen business and consumer confidence, while governments need to provide fiscal support in the face of high inflation. As the negative impact on economic growth becomes more evident and inflation rolls over, both the Bank of England (BOE) and European Central Bank (ECB) would have to consider pausing their rate hike cycle earlier than anticipated.

In contrast with the slowing growth in the U.S. and Europe, China's economy showed signs of recovery with GDP growth expanding stronger than expected by 3.9% quarter-on- quarter in 3Q 2022. Looking ahead, a key driver of China's economy will be developments related to the zero-COVID policy. While the recent easing of the COVID restrictions is encouraging, the reopening process will likely be gradual and bumpy.

Meanwhile, it will take time for China's property sector to show more visible bottoming despite more concerted efforts to support the sector and boost demand. Still, China is one of the few economies where inflation remains benign, allowing room for more accommodative stimulus to support growth. As such, we expect strong measures and implementation to come through if necessary, especially after the National People's Congress in March 2023 with the latest political reshuffling.

For the rest of Asia, the growth outlook will be challenging as well given heightened recession risks in DM, fading reopening benefit, and subdued growth in China. In particular, Asia's export downturn could continue to deepen, while tighter financial conditions weigh on capital expenditure and consumption.

Notably, Southeast Asia (ASEAN) is also not immune and cannot fully decouple from the global downturn. However, we expect their economies to be more resilient, partly supported by increased foreign direct investments (FDI) to ASEAN as countries reconfigure their manufacturing supply chains away from China. Meanwhile, regional central banks are expected to further tighten their monetary policies to combat inflation and stem further currency weakness, but the pace of tightening could moderate as growth slows.

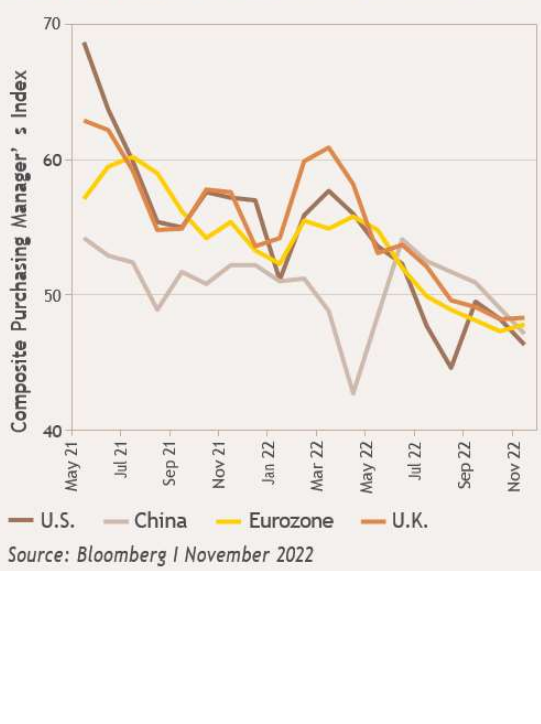
Given the risks to the economic outlook, we believe investors should stay cautious in the near term. In particular, several downside risks to the outlook remain that could shift our baseline view. Firstly, global central banks are treading a fine line between growth and inflation, and any monetary policy missteps could miscalculate the right stance to reduce inflation. The tightening of global financial conditions and/ or a sharp U.S. dollar (USD) appreciation could trigger widespread financial instability, resulting in Emerging Market (EM) sovereign default risks or corporate bond market stress.

Secondly, deglobalisation and unexpected supply chain disruptions (e.g. energy, food, and climate shocks) could cause inflation to persist, leading to a deeper and more protracted downturn. Notably, climate change effects (e.g. droughts, flooding, and hurricanes etc.) are already increasing in intensity and frequency.

Thirdly, China's reopening remains a wildcard and a resurgence of COVID cases may further curtail growth. In an adverse scenario where COVID-19 restrictions stay for longer, the property sector weakness could persist and be a drag on consumption as well as property-related investments. Meanwhile, the prolonged property sector crisis could also spill over to the domestic banking sector and constrain growth in China and Asia.

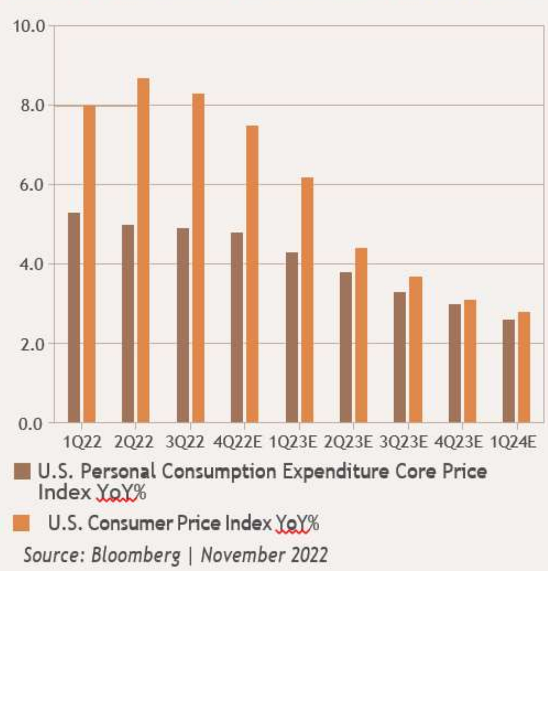
Lastly, elevated geopolitical risks in Europe and between the U.S. and China could deter trade and capital flows, as well as delay climate policy cooperation.

**HAWKISH CENTRAL BANKS RAISED RECESSION RISKS**




*Source: Bloomberg I November 2022*

**U.S. INFLATION LIKELY TO REMAIN ABOVE 2% TARGET**




*Source: Bloomberg | November 2022*


The global economy has benefitted from further reopening over the past 12 months. Unfortunately, the recalibration of policies, particularly on the monetary front, has led to a sell-off in risk assets amidst heightened inflationary pressures and geopolitical tensions. In light of these macro headwinds, it highlights the importance of building portfolio resilience.

**Downside earnings revision to weigh on risk assets**

Looking ahead, the sticky inflation trajectory will force global central banks to maintain restrictive monetary policies that will weigh on the economy. The anticipated slowdown in economy will negatively impact corporate earnings, with further downward revision dampening the performance of risk assets. The tightening liquidity will also result in reduced financial stability and a rise in the probability of a black swan event, further adding to market stress and volatility.

Still, we expect most central banks to pause their rate hikes by 1H 23 as inflation and growth moderates. However, unlike past cycles, we do not expect any aggressive policy easing soon after the pause. Hence, any growth recovery is also likely to be gradual.

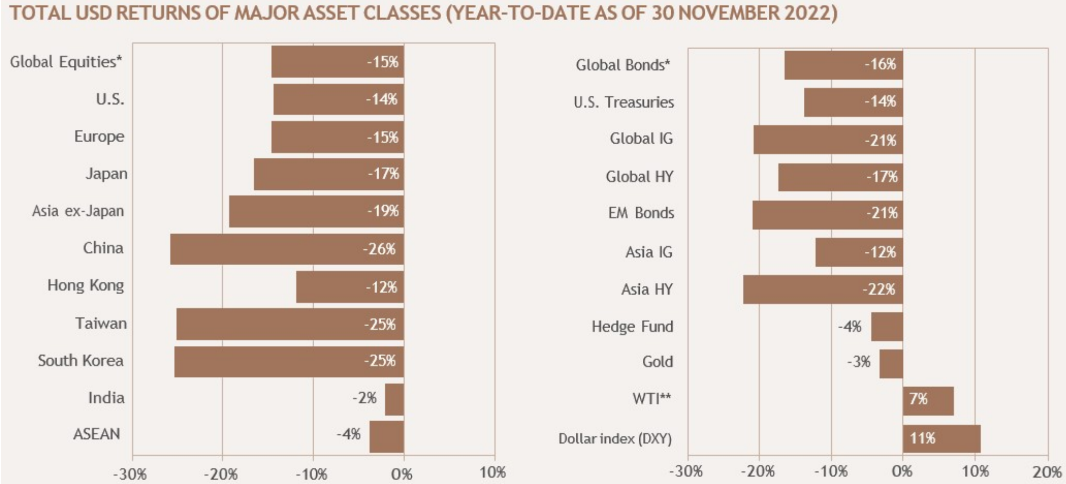
**Awaiting the inflection**

While the performance of risk assets could remain lackluster for now, it is likely to improve once we hit an inflection point in terms of inflation, growth and policies. Hence, the evolving macro landscape would require investors to stay nimble and reposition accordingly in order to rejuvenate portfolio returns.

In view of the above, we start the year with a defensive stance in our asset allocation. Given the heightened macro and policy uncertainties, we prefer to maintain a cash buffer to preserve capital while protecting the portfolio against significant drawdowns.

Nevertheless, the increased cash buffer could also serve as ammunition for us to deploy into risk assets once the inflection point is triggered. This could be a peaking of Fed rates, the bottoming of earnings revision and/or distressed market valuation that has more than priced in the negatives.

**TOTAL USD RETURNS OF MAJOR ASSET CLASSES (YEAR-TO-DATE AS OF 30 NOVEMBER 2022)**




*Global Equities = MSCI All-Country (AC) World; The others are MSCI regional/country equity indices; Global Bonds = Bloomberg Barclays Multiverse
**WTI = West Texas Intermediate

*Source: Bloomberg | November 2022*

**Staying defensive on equities**

We are underweight on equities. While global markets are inexpensively valued, we believe earnings risks have not been sufficiently priced in. In particular, we are least sanguine on the U.S. and Europe as they offer less attractive risk-reward compared to global peers. We are neutral on the other markets including Japan and Asia ex-Japan. On a relative basis, ASEAN could be more resilient and acting as a safe harbor within equities, with the region likely to partially decouple from a potential U.S. recession.

Sectors wise, we seek shelter in more defensive Healthcare and Consumer Staples stocks, which are likely to enjoy resilient demand during an economic downturn. We also see select opportunities within the Telecommunications sector to generate steady dividend income. In contrast, the rate-sensitive Real Estate Investment Trusts (REITs) sector could remain under pressure until policy rates peak. We also see headwinds for late cyclicals including Industrial and Materials stocks, which would be vulnerable to weakening demand and falling prices if a recession were to hit.

Nevertheless, there may be opportunities to turn more constructive on equities when we hit the inflection point. Early cyclical such as Technology/Semiconductor will be in the limelight again once the economy bottoms out. Tech-heavy markets like South Korea and Taiwan could also start to outperform. In addition, secular growth plays (e.g. HealthTech and FinTech) could regain favor after the significant de-rating, particularly for those pre-earnings growth companies that can achieve their break-even point. Having said that, investors will likely avoid overpaying for such companies again as the risk-free rate is likely to settle at higher than historical average level. Hence, we would prefer to seek growth at reasonable valuation.

Longer-term, the various issues arising from the COVID-19 pandemic have made the world more aware of the importance of being self-reliant. We may witness further deglobalisation that will have implications on supply chain, food, energy and technological security. While a more polarized world may not be good for overall growth, it may still drive investment opportunities for specific businesses including alternative/renewable energy, agricultural/ alternative food and defense/cybersecurity as governments strive for self-reliance.

**A better time for fixed income**

In contrast to equities, we are more sanguine on fixed income with an overweight stance. While upward pressure on government bond yields could persist in the short- term, we believe the increase is limited with the tightening cycle nearer to the end than the beginning. This suggests a favorable risk-reward for sovereign bonds, with U.S. Treasuries acting as an effective tool against recession risk.

In addition, we see defensive carry opportunities in DM Investment Grade (IG) credit which will likely offer more resilient returns even during a downturn. In contrast, we would avoid High Yield (HY) credit in both DM and EM given the risk of significant credit spread widening. Nevertheless, once the risk environment improves, we will be prepared to take on more credit risk.

**China as a wildcard**

While we are neutral on China assets, the reopening of the economy is a wildcard. An earlier than expected pivot away from the stringent zero-COVID policies could bolster the economic recovery. Notably, sectors that could benefit and outperform from the reopening include travel, hospitality and gaming. In addition, China property stocks and bonds would also benefit as the reopening would support the recovery momentum of property sales.

**TACTICAL ASSET ALLOCATION**

| OVERWEIGHT | NEUTRAL | UNDERWEIGHT |
| --- | --- | --- |
| Cash/USD<br>Fixed Income | Alternatives | Equities |
| | Japan<br>Asia ex-Japan | U.S.<br>Europe |
| U.S. Treasuries<br>Developed Market Investment Grade | | Developed Market High Yield<br>Emerging Market Bonds |
| | Hedge Funds<br>Gold | |

*Source: Maybank Group Wealth Management Research | December 2022*

**Alternatives**

The weak performance of both equities and bonds in 2022 highlights the importance of adding uncorrelated returns through alternatives, including hedge funds and private assets. Notably, the resilient performance of these alternative investments have helped reduce the drawdown and volatility of the overall portfolio.

Nevertheless, hedge funds and private assets can be less liquid and more opaque hence investors would need to consider their respective preferences and requirements when pursuing such investments. In addition, the performance disparity among different alternative investment managers is typically very wide. Hence, careful due diligence and selection of managers are paramount to achieve the desired investment outcome.

Separately, we expect gold prices to remain range-bound for now. However, the precious metal could see stronger demand with a softening of the USD on peaking Fed rates.

**Strategic Asset Allocation (SAA) as an anchor**

While we are tactically cautious on risk assets, there is no doubt their valuation has become appealing for investors with a longer-term investment horizon. Still, it remains critical for investors to adopt a multi-asset approach for better risk diversification and a smoother investment journey.

To this front, we are introducing our SAA framework, to serve as a guidance for investors in building their portfolios according to their respective investment objectives and risk profiles. The allocation in each model portfolio is designed to reflect the optimized risk-return outcome for the respective profile.

Using the SAA framework, investors will be able to build a core portfolio to serve as anchor to reflect their longer-term investment views. A tactical overlay could then be applied (via satellite ideas) to the core portfolio to benefit from short-term mispricing opportunities in assets. By doing so, it would help to enhance overall portfolio returns through this core and satellite approach.

STRATEGIC ASSET ALLOCATION

| | Conservative | Moderate Conservative | Balanced | Moderate Aggressive | Aggressive |
|---|---|---|---|---|---|
| **Equities** | **0%** | **22%** | **42%** | **62%** | **83%** |
| U.S. | 0% | 10% | 18% | 27% | 33% |
| Europe | 0% | 4% | 7% | 10% | 15% |
| Japan | 0% | 4% | 5% | 5% | 5% |
| Asia ex-Japan | 0% | 4% | 12% | 20% | 30% |
| | | | | | |
| **Fixed Income** | **65%** | **63%** | **53%** | **30%** | **10%** |
| U.S. Treasuries | 30% | 23% | 10% | 0% | 0% |
| Developed Market Investment Grade | 35% | 30% | 23% | 8% | 0% |
| Developed Market High Yield | 0% | 5% | 10% | 12% | 5% |
| Emerging Market Bonds | 0% | 5% | 10% | 10% | 5% |
| | | | | | |
| **Alternatives** | **0%** | **0%** | **0%** | **5%** | **5%** |
| Hedge Funds | 0% | 0% | 0% | 2% | 2% |
| Gold | 0% | 0% | 0% | 3% | 3% |
| | | | | | |
| **Cash** | **35%** | **15%** | **5%** | **3%** | **2%** |

*Source: Maybank Group Wealth Management Research | December 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.