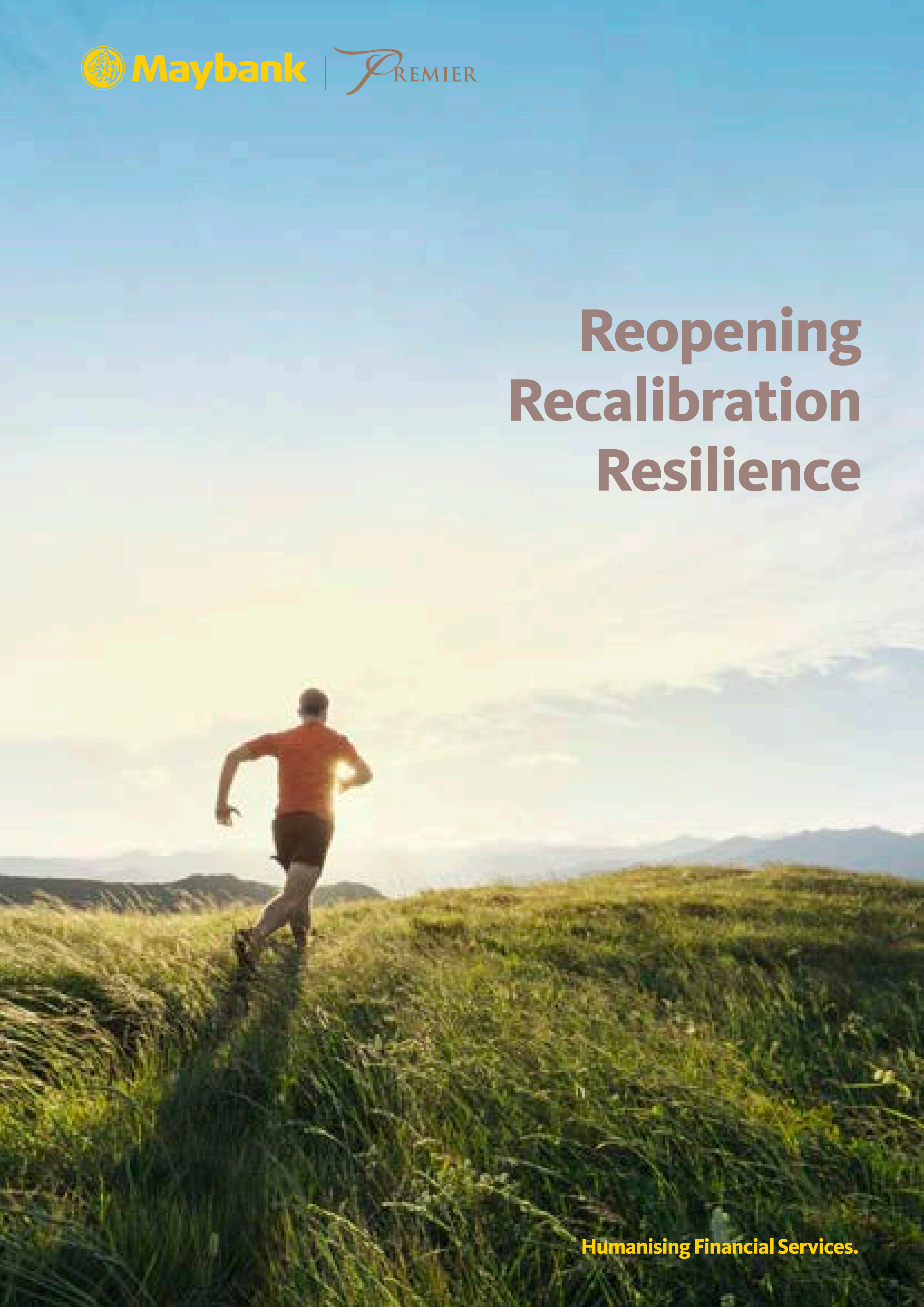
Maybank | PREMIER



Reopening Recalibration Resilience

Humanising Financial Services.

EDITORIAL

The global economy went into a slump with the onset of the COVID-19 pandemic in 2020 but it was a vastly different picture in 2021. The global economy rebounded sharply with some stock markets surpassing pre-pandemic levels on the back of generous stimulus packages and aggressive vaccination efforts. These have helped to open up borders and revive manufacturing as well as exports. Looking ahead, we see Asia leading the economic growth as the region emerges from the Delta variant impact while growth momentum decelerates in developed markets in the West. However, this recovery will not be without headwinds. Lingering supply chain disruptions and tight labour markets pose risks to economic growth and underpin a possible period of elevated inflationary pressures. Rising bond yields in response to tightening monetary policy is also forcing investors to review their exposure to assets sensitive to higher interest rates.

Despite near-term risks to global growth, the outlook remains favourable and this stems from more countries pivoting their treatment of COVID-19 as endemic and being more prepared to open up domestic and international borders. We expect pent-up demand amongst consumers to lead to higher consumption, and companies to increase capital and operating expenditures to meet such consumer demands. While supply chain vulnerabilities related to medical and food supplies could persist, we believe these disruptions should gradually normalise when economies reopen. In addition, the USD 1.2 trillion infrastructure bill will further lend credence to a recovery story. A gradual adjustment of monetary policy will lower the risk of overtightening. Overall, we expect the global economy to normalise as we adjust to new norms while growth remains above-trend, which should lead to healthy corporate earnings growth.

Despite near-term risks to global growth, the outlook remains favourable as vaccinations limit new lockdowns.

Therefore for 2022, our call is to be moderately risk-on while keeping an actively diversified portfolio to mitigate growth uncertainties. As economies reopen, we continue to be positive in selected equity markets and sectors. In the current low interest rate environment, we also look for dividend income to complement bond carry. We see new opportunities emerging from long-term secular shifts accelerated by the pandemic and global efforts to pursue a more sustainable development path.

We hope that our investment insights are useful to you in this ever-changing world. Thank you for your continued support and we look forward to be of service in helping shape your portfolio in 2022 and beyond.

On behalf of everyone at Maybank Group Wealth Management, we wish you a healthy and prosperous year ahead!

Alvin Lee
Head, Group Wealth Management & Community Financial Services, Singapore

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Macro Economic Outlook And Investment Strategy

MACRO ECONOMIC OUTLOOK

KEY HIGHLIGHTS

- Global economic growth to moderate but stay above-trend in 2022 with further reopening.
- Recalibration of monetary and fiscal policies to take place as economy normalises.
- Key risks include persistently high inflation, re-escalation of U.S. - China tensions and unfavourable regulation tightening.

The post-pandemic economic recovery has been remarkably swift, with global gross domestic product (GDP) surpassing the pre-pandemic peak by the second quarter of 2021 thanks to rising vaccination rates and the end of strict mobility restrictions in major developed economies. Having said that, the recovery has been uneven given slower vaccination programmes in developing countries and many of them will only regain levels last seen prior to the COVID-19 pandemic in 2022 or 2023.

We are likely to see ongoing resilience and strength in 2022 as the huge accumulation of excess household savings and strong job prospects lend support to consumer spending, particularly in the U.S. and Europe. Meanwhile, we see more cyclical upside for economic growth in Asia, driven by Southeast Asia (ASEAN) members' readiness to reopen their respective economies amid rising vaccination rates.

Having said that, the pace of growth will be tempered by the winding down of massive emergency fiscal and monetary stimuli, as well as headwinds from supply chain disruptions which could hold back real consumption and investments. Notably, we expect global economic growth to moderate in 2022, but will still remain above-trend at 4.5% after rebounding by an estimated 6.0% in 2021.

The remarkable growth recovery and the inability of the supply side of the economy to catch-up with the sudden surge in demand for consumer goods has led to a sharp rise in inflation globally. The rise in energy prices amid tight supplies and rebounding demand for fuel has also added to global inflationary pressures. We believe that elevated inflation rates may persist going into 2022, albeit less acutely.

Still, there are reasons to believe the high inflation could ease in the second half of 2022. We expect supply chain bottlenecks to be progressively resolved amid a more extensive economic reopening.

REAL GDP FORECAST (%)

	2020	2021E	2022E
WORLD	-3.1	6.0	4.5
U.S.	-3.4	5.8	4.2
EUROZONE	-6.3	5.0	4.3
JAPAN	-4.6	2.2	2.9
CHINA	2.3	8.4	5.0
ASEAN-6	-4.0	3.8	5.4

INFLATION FORECAST (%)

	2020	2021E	2022E
WORLD	2.3	3.6	3.0
U.S.	1.2	3.9	2.7
EUROZONE	0.3	2.1	1.6
JAPAN	0.0	-0.1	0.6
CHINA	2.5	1.2	2.2
ASEAN-6	1.7	2.2	2.9

RATES FORECAST (%)

	1Q22E	2Q22E	3Q22E	4Q22E
FED FUND TARGET (UPPER BAND)	0.25	0.25	0.25	0.50
FED FUND TARGET (LOWER BAND)	0.00	0.00	0.00	0.25
ECB DEPOSIT RATE	-0.50	-0.50	-0.50	-0.50
BOE BANK RATE	0.23	0.23	0.35	0.35
BOJ TARGET RATE	-0.10	-0.10	-0.10	-0.10

Sources: Maybank, Bloomberg | November 2021

In addition, the expected shift in consumer spending patterns away from goods towards services will lead to slower growth in goods prices.

While our base view is for inflationary pressures to abate, the normalisation of monetary policies will gradually set in. Notably, several central banks including Canada, New Zealand, Brazil and South Korea had already started to hike policy rates in 2021. Meanwhile, the U.S. Federal Reserve (Fed) has started to taper its bond purchases in late 2021, with the process likely to end in 1Q22. The Fed funds rate will likely be raised subsequently if the economy progresses as expected. The 10-year U.S. Treasury (UST) yield could also grind higher to 1.5% - 2.0% range amid modest policy tightening.

In comparison, the European Central Bank (ECB) continues to maintain its dovish stance and does not expect to hike rates in 2022 as it believes inflation will remain below its 2% target in the medium-term. The central bank is nevertheless looking to wind down its Pandemic Emergency Purchase Programme (PEPP) come March 2022, although it may consider boosting its Asset Purchase Programme (APP) to ensure sufficient liquidity support to keep a lid on government bond yields within the Eurozone.

Meanwhile, the unwinding of emergency fiscal stimulus is inevitable given ongoing economic resilience and strength. Still, it should be viewed as a recalibration of policies and not a withdrawal of fiscal support. Specifically, we expect governments to shift away from expensive emergency fiscal policies to more targeted measures to build a greener, smarter and more inclusive economy.

For instance, Singapore is looking into ways to expand the wealth tax system to ensure a more inclusive economy. China recently announced a second Belt and Road initiative that will focus on greener projects, which is in line with the country's aim to peak carbon emissions before 2030.

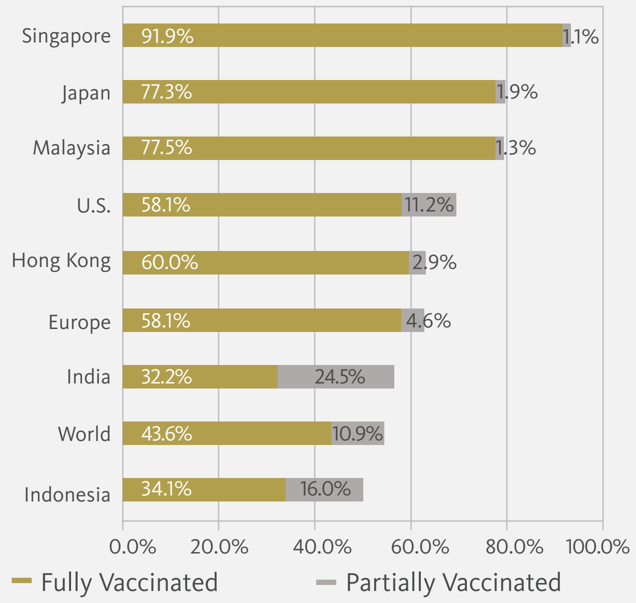
No doubt, the recalibration of both fiscal and monetary policies may lead to tighter global financial conditions and increase the vulnerability of economies and markets. Having said that, we believe policymakers will try to find a "smooth exit" to avoid derailing the economic recovery.

Overall, we maintain a constructive macro outlook. Still, there are several scenarios that could shift our baseline view. Firstly, should inflation stay higher for longer, it could eventually dampen growth and increase the likelihood of stagflation.

Secondly, the re-escalation of tensions between the U.S. and China may not only lead to the imposition of more sanctions and scrutiny of Chinese companies, but also affect global economic confidence as witnessed during the Trump presidency in 2018. More broadly, the rise of nationalism (or protectionism) amid the pandemic could also prolong supply shortages with governments arguing for the need to boost local production capacity to ensure economic security.

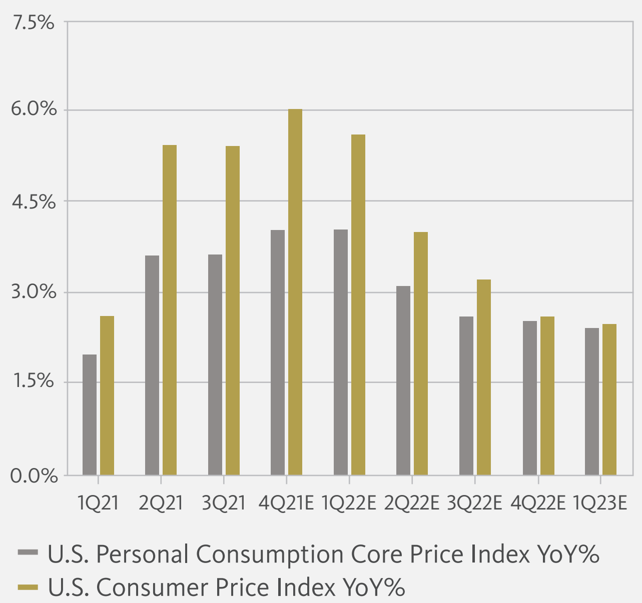
Lastly, we believe we are entering an era of rising regulations in areas such as privacy issues, content and anti-competition, to address societal concerns. An over-tightening of regulations could also hamper the pace of global growth recovery.

VACCINATION RATES ARE IMPROVING ALBEIT STILL UNEVEN ACROSS ECONOMIES



Source: Our World in Data | November 2021

U.S. INFLATION IS EXPECTED TO MODERATE IN 2H22



Source: Bloomberg | November 2021

INVESTMENT STRATEGY

KEY HIGHLIGHTS

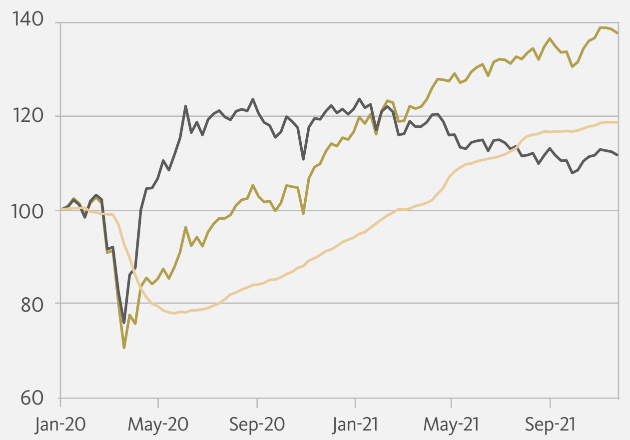
- Healthy macro environment bodes well for risk assets.
- Overweight equities over fixed income; neutral on both alternatives and cash.
- Active selection to play a bigger role as recovery matures.

The healthy macro environment bodes well for risk assets including equities with further reopening of the global economy. Still, policymakers are expected to recalibrate their monetary and fiscal stances as growth and inflation normalise. The adjustment process could lead to heightened market volatility from time to time, which requires investors to maintain their focus on building portfolio resilience.

In view of the above, we start the year with an overweight stance on equities. Nevertheless, equity returns are likely to moderate amid more normalised earnings growth trend with limited scope for valuation expansion.

Markets wise, we prefer Asia equities, particularly Japan, China, Singapore and Indonesia, as investors may be more inclined to rotate to laggard markets that are poised to catch-up on still reasonable valuations. While the U.S. and Europe markets are expected to deliver positive returns, their performances may be relatively more subdued. With further reopening, we see selected opportunities in cyclical-oriented sectors, particularly those with exposure to consumer services whereby the recovery has not been fully priced in.

EARNINGS GROWTH WAS THE KEY DRIVER OF EQUITY RETURNS IN 2021



- Total return*
- Forward price-to-earnings*
- Forward earnings per share*

*MSCI All-Country World Index (rebased to 100 as of 1 January 2020)

Source: Bloomberg | November 2021

Longer-term, we maintain a strong focus on secular plays that can benefit from structural growth trends such as healthcare and technology that will persist in a post-pandemic era. These companies would also be less affected should growth slow more-than-expected.

In contrast to equities, we are less constructive on fixed income and have an underweight stance. With upward pressure on still low government bond yields, it will be difficult for sovereign bonds to register positive returns. Nevertheless, there are still selected carry opportunities within credit. We prefer High Yield (HY) credit to Investment Grade (IG) credit as the former can potentially benefit more from tighter credit spreads and face lower duration risks.

As for alternatives, we are neutral on both oil and gold in view of the balanced risk-reward. For oil, we expect prices to remain supported with demand recovery but the threat of increased supply from the Organization of the Petroleum Exporting Countries (OPEC) and U.S. producers would limit the upside potential. Similarly, we expect gold prices to remain subdued although gold remains an effective portfolio diversifier and could do well in the unlikely event of a stagflation scenario.

While our asset allocation is positively tilted towards equities, we are cognisant of a number of risk factors including new COVID-19 variants, unresolved supply chain issues, tighter monetary policies, potential tax hikes, as well as renewed escalation in geopolitical tensions. As such, investors should maintain a cash buffer and ensure they are not over-leveraged. Active selection could also play a bigger role as market returns moderate in a maturing recovery. Last but not least, we advocate maintaining a diversified portfolio to mitigate the uncertainties with an increased emphasis on sustainability to help future-proof one's investments.

ASSET ALLOCATION

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
OVERALL POSITION	Fixed Income	Alternatives Cash/USD	Equities
EQUITIES	India Taiwan Thailand	Europe Hong Kong Malaysia Philippines South Korea U.S.	Asia ex-Japan China Indonesia Japan Singapore
FIXED INCOME	Developed Market Investment Grade Emerging Market High Yield Sovereigns	Asia Investment Grade Emerging Market Investment Grade	Asia High Yield Developed Market High Yield
ALTERNATIVES		Gold Oil	

Source: Maybank Group Wealth Management Research | December 2021

Equities

EQUITIES

KEY HIGHLIGHTS

- U.S. and Europe supported by above-trend growth but equity returns to moderate.
- Overweight China and Japan, alongside Singapore and Indonesia on favourable risk-reward.
- Underweight India, Taiwan and Thailand on expensive valuations.

DEVELOPED MARKETS

Developed market (DM) equities have performed well last year with growth rebounding sharply on widespread vaccination. While we expect DM economic growth to remain healthy, there are some developing headwinds. Growth momentum is decelerating and we are seeing some changes on policy front as central banks and government worldwide look to recalibrate monetary and fiscal support. As such, we could see increased market volatility from time to time, requiring investors to increase their focus on building portfolio resilience.

Within DM, we are more positive on Japan with the country projected to see improving GDP growth in 2022 after the prolonged pandemic restrictions. In particular, a broader reopening of the economy should support the recovery of domestic consumption. With the vaccination ramp up and favourable policy environment, we see scope for more positive earnings revision for Japan equities.

In contrast, growth momentum in the U.S. and Europe is moderating but likely to remain above-trend. While earnings growth is projected to remain positive, the stretched valuations would limit the upside, leading to our neutral stance on both markets.

U.S. (NEUTRAL)

U.S. growth driven by service consumption

The easy phase of market recovery is firmly behind us. The U.S. is entering a more mature phase of the economic cycle amid the ongoing supply chain disruptions as well as normalisation of monetary policy. Still, the reopening of the economy remains intact with advancement in vaccinations and COVID-19 treatments. This suggests demand for consumer services would likely accelerate, supporting economic growth. We forecast GDP growth to moderate to 4.0% in 2022 from 5.7% in 2021, but remain comfortably above-trend, driven by service-led consumption.

Earnings growth to remain positive

U.S. equities have staged an impressive earnings rebound last year, with the S&P 500 earnings projected to grow by 46% in 2021 from a low base across most sectors. With healthy economic growth prospect, corporate earnings are expected to continue growing, albeit at a slower pace of 8% in 2022. While the cyclically-oriented sectors such as Industrials and Consumer Discretionary are projected to lead the growth, the Technology-related stocks are also expected to deliver robust earnings as they continue to benefit from secular growth trends.

Higher taxes a potential risk

A key risk for the U.S. equity market, however, is the prospect of higher corporate taxes. A potential tax hike from 21% to 25%, alongside an additional hike to taxes on foreign income, could reduce S&P 500 earnings growth by 5% in 2022, with the technology sector likely to be affected more due to its relatively higher level of profitability. Nevertheless, the negative growth impact of the tax hikes could be offset by increased fiscal (including infrastructure) spending approved last year.

In addition, there are downside risks on profit margins in view of higher costs due to supply chain bottlenecks and labour shortages issues. That said, U.S. corporates have largely been able to pass on the higher costs and defend their profitability. While the S&P 500 profit margin declined from 13.1% (2Q21) to 12.9% (3Q21), it remained above the 5-year average of 10.9%. An easing of the supply constraints in 2H22 could lend further support to prevent a significant margin decline.

Neutral on U.S. equities

Despite the above-mentioned headwinds, U.S. equities are still likely to deliver positive returns in 2022 on the back of healthy earnings growth and supportive financial conditions. Nevertheless, the upside may be more moderated with the S&P 500 already trading at 21x forward price-to-earnings, which is higher than the 5-year historical average of 18x.

In view of the above, we are neutral on U.S. equities, preferring to position towards consumer recovery plays as these companies will likely benefit from elevated consumer savings and a pick up in demand for services. Meanwhile, we stay neutral on the Technology sector as rising bond yields may weigh on its valuation, particularly for those high growth pre-earnings stocks. Nevertheless, there are still selected opportunities within the segment especially for companies that are well-positioned to benefit from long-term secular growth trends including digital consumption, cloud computing and cybersecurity and still trading on relatively reasonable valuations.

EUROPE (NEUTRAL)

Supportive macro backdrop
With the Eurozone economy well-poised to exceed pre-pandemic levels in 2022, the robust macro backdrop remains supportive of European equities and corporate earnings outlook. At the same time, we are not expecting aggressive tightening of monetary and fiscal policies, which will give rise to still easy financial conditions that are positively correlated to equity market performance on a historical basis.

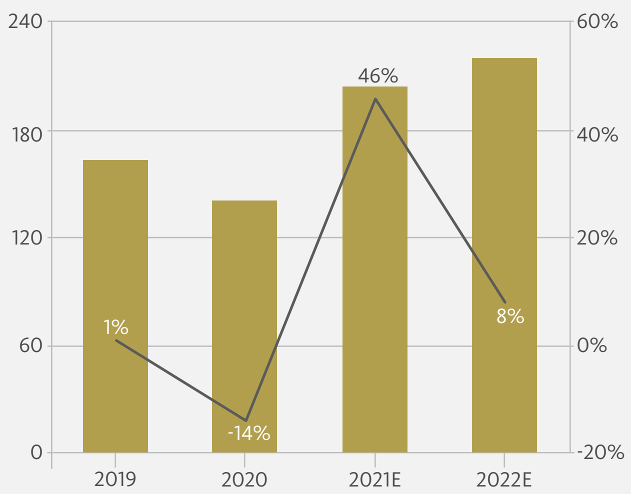
Expecting more moderate returns
While European equities could make further gains, we may not see a repeat of last year's stellar performance in 2022. With the MSCI Europe trading above historical average valuation based on consensus forward price-to-earnings ratio, we are not anticipating any meaningful re-rating of the market multiples. As such, the market returns this year will be largely dependent on earnings growth, which is projected to grow by 6% in 2022. Notably, the earnings revision momentum may start to turn less positive with economic growth moderating.

Adopting a neutral stance
In view of the above, we are neutral on Europe. Nevertheless, we continue to see pockets of opportunities within the region. In particular, Europe remains a good hunting ground for dividend plays. With interest rates expected to remain low, European equities continue to offer dividend yields that are trading at a reasonable spread above long-term government bond yields.

Favour Healthcare and Telecommunications
Within Europe, we prefer the Healthcare and Telecommunications sectors given the healthy dividend yields and reasonable valuations. Specifically, there are a number of healthcare companies in the region with global market leadership that could benefit from the structural growth in healthcare demand. Meanwhile, Telecommunications stocks in Europe could see stronger growth with a broader roll-out of 5G services. The resumption of international travel may also offer a boost to data roaming revenues.

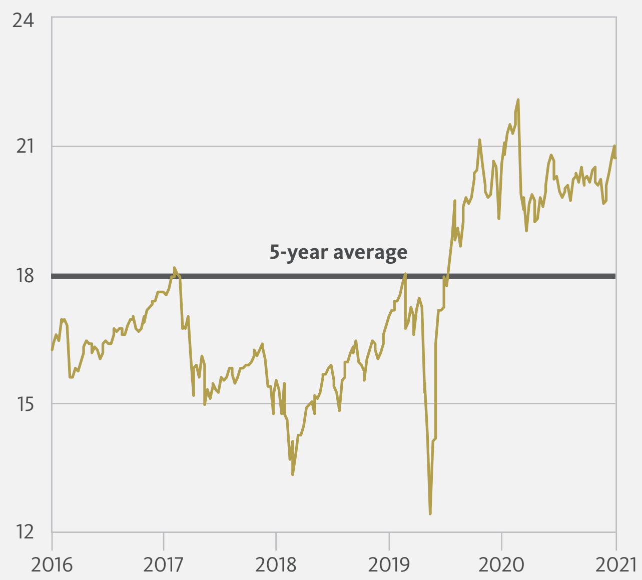
In contrast, we believe a more selective approach towards Banks and Energy stocks may be required. While European banks will continue to benefit from a robust macro environment, the positives may have been priced in. As such, we prefer to stick with banks that have executed well and are still trading at reasonable valuations including those with more exposure to higher growth regions such as Asia. Similarly, the positives of higher oil prices have been largely priced in for the Energy sector, which continues to face structural challenges as the world looks to shift away from fossil fuels to renewable sources. As such, we would prefer energy companies that can cope with the transition as they are more likely to emerge as winners over the long run.

S&P 500 EARNINGS GROWTH IS EXPECTED TO MODERATE IN 2022



Earnings per share (USD), L.H.S.
Earnings growth year-on-year %, R.H.S.
*2022E estimate assumes no change in corporate tax
Source: Factset | November 2021

S&P 500 FORWARD PRICE-TO-EARNINGS RATIO ABOVE HISTORICAL AVERAGE



Source: Bloomberg | November 2021

JAPAN (OVERWEIGHT)

Japan economic growth powers ahead
Japan's economic recovery has trailed behind its DM peers last year. However, that is changing with vaccination rate reaching 80%, supporting a pick up in activities. Notably, Japanese corporates are more optimistic on business outlook as recovery takes a firmer footing. In fact, Japan's GDP is projected to grow by 2.7% in 2022 from 2.4% in 2021, a contrast to the moderating growth momentum in other major economies.

New leadership, new hopes
With the Liberal Democratic Party retaining control in the recent election, Prime Minister Fumio Kishida pushed through a larger-than-expected JPY 56 trillion fiscal package to support the economic recovery. Notably, Japan equities have tended to perform well after the announcement of fiscal stimulus since the Abenomics era in late 2012.

Positive earnings revision could extend further
The additional fiscal push, coupled with the dovish Bank of Japan (BoJ), could offer a favourable macro backdrop that is supportive of earnings growth. In fact, MSCI Japan's earnings are projected to grow by 7% in the fiscal year ending March 2023. Apart from robust global demand supporting exports, there is room for the positive earnings revision momentum to extend further as domestic consumption returns on a stronger footing.

Overweight on Japan equities
Valuation wise, Japan equities are trading relatively more attractive than their other global peers. Notably, MSCI Japan is trading at a forward price-to-earnings ratio of 14.0x versus MSCI All-Country (AC) World at 17.5x.

Given the improving growth prospects, we see scope for Japan equities to play catch-up and are hence overweight Japan. Longer-term, the continued focus on improving corporate governance may also boost profitability and consequently returns for investors.

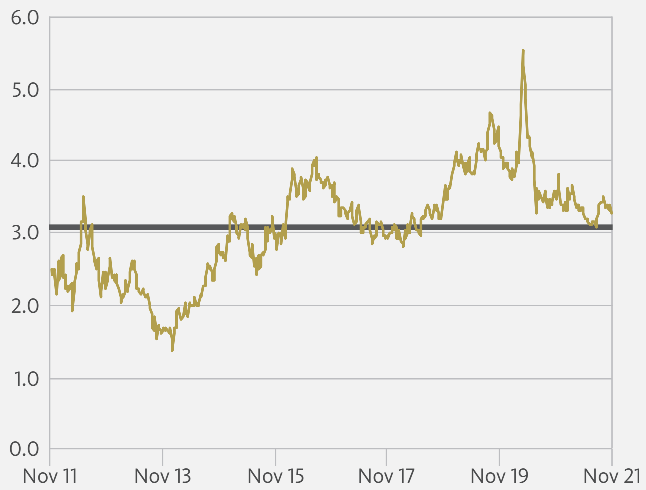
Sectors wise, we favour Industrial stocks that have well-established global presence that could benefit from stronger capital spending across the globe. Meanwhile, consumer-related companies that could benefit from a pick up in domestic spending could also do well with further reopening of the economy. Longer-term, the creation of a digital government agency could accelerate the push for digitalisation in Japan and benefit the related technology companies.

PREFERRED SECTORS

Consumer Services
Improving prospects for consumer service-related companies as pent-up demand is being unleashed with further reopening of economy.

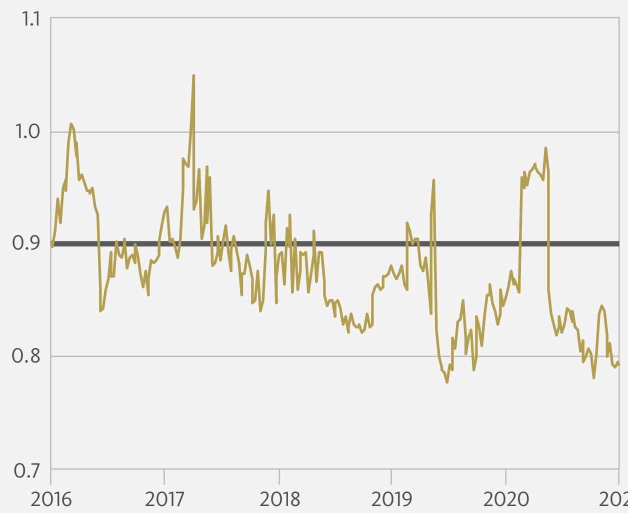
Healthcare
Rising demand for healthcare products and services is underpinned by secular trends across the globe.

EQUITY DIVIDEND YIELD IS STILL AT A REASONABLE SPREAD ABOVE GOVERNMENT BOND YIELD IN EUROPE



Spread between MSCI Europe dividend yield and 10-year German government bond yield (%)
10-year average (%)
Source: Bloomberg | November 2021

MSCI JAPAN IS ATTRACTIVELY VALUED VERSUS MSCI AC WORLD



MSCI Japan price-to-earnings ratio relative to MSCI AC World
5-year average (%)
Source: Bloomberg | November 2021

ASIA EX-JAPAN (OVERWEIGHT)

Asia ex-Japan equities underperformed in 2021 as the outlook was tempered by the slower reopening of economies and a spate of regulatory actions in China. Nevertheless, the region could perform better in 2022 in view of the stronger earnings growth potential and more attractive valuation relative to DM.

Market leadership rotating towards Asia

We expect GDP growth rates in Asia ex-Japan to outpace that of advanced economies in 2022, driven by further reopening with rising vaccination rates. Meanwhile, inflation will remain largely in check across Asia, giving central banks in the region room to retain their accommodative stance. The positive macro outlook will lend support to Asia ex-Japan's earnings growth, which is projected at 8.9%. Coupled with the more attractive valuation, we are overweight Asia ex-Japan as we expect market leadership to rotate towards the region in 2022.

We remain selectively biased towards China, Singapore and Indonesia equities. In contrast, we are less sanguine on India alongside Taiwan and Thailand given the expensive valuations. Sectors wise, we continue to advocate a balanced approach between value cyclicals that could benefit from further reopening and secular plays that offer exposure to structural growth trends.

CHINA (OVERWEIGHT)

Slower growth ahead amid economic rebalancing

China's push for common prosperity may speed up the economic rebalancing towards consumption and services, and reduce reliance on investments and exports. These policies are arguably positive for China's long-term sustainability, but they came at a time when the economic momentum is also slowing and could exacerbate China's soft patch in the near-term. Some of these policies including addressing monopolistic behaviour, providing more equal opportunities in education, and property tax reform, could weigh on the private sector that has been a vital engine of growth and jobs.

Silver lining within the dark clouds

Still, we believe these policies would be carefully recalibrated to the needs of the economy. In our view, China has already frontloaded the regulatory tightening and fiscal consolidation. Looking ahead, a more neutral fiscal stance, coupled with moderately supportive monetary policy could cushion the economic slowdown. We also anticipate a shift in China's "Zero COVID-19" strategy to "Living with COVID-19" ahead of the 2022 Beijing Winter Olympics in February, further lending support to the recovery of private demand for services.

Earnings downgrades largely over for the technology-related sector

China's corporate earnings rebounded from -9.3% in 2020 to 10.4% in 2021E, largely driven by the cyclical industries amid reopening of the economy. However, the cyclical sectors that are unable to pass on the rising costs to customers are likely to face greater pressure for downward revisions to earnings this year given the sharp rise in producer prices. In contrast, the technology-related companies and property developers which bore the brunt of analysts' downward earnings revisions last year, could see a reversal in 2022. Notably, the Hang Seng TECH Index is expected to deliver a strong earnings growth of 46% this year, compared to an earnings decline of 39% in 2021E.

Attractive risk-reward

China was one of the worst performing markets in 2021 as investors digested the tighter regulatory environment, growth headwinds, and rising default risks in the property sector. Notably, MSCI China's 2022E price-to-earnings ratio has retreated to 12.6x and is at a huge discount to MSCI AC World at 17.5x. We believe the risk-reward is attractive and see greater investment opportunities in the technology-related stocks which have been hurt by tighter regulations and downward earnings revisions. We expect the market, in particular the technology-related stocks, to play catch-up in 2022 as the fear premium dissipates and investors shift their focus to the still attractive long-term structural drivers.

PREFERRED SECTORS

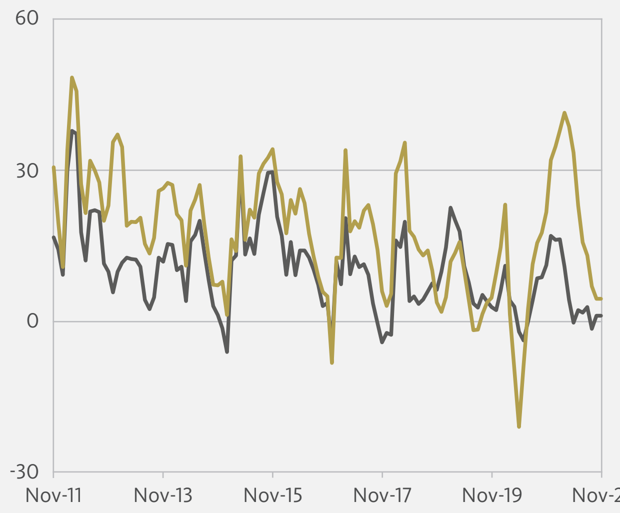
Consumer Discretionary

We are positive on the internet retail industry as the coronavirus has hastened the structural shift in consumer behaviour towards online retail.

Communication Services

Well-positioned to benefit from increased demand for social media and streaming entertainment.

CHINA FISCAL REVENUE AND EXPENDITURE



— Fiscal Revenue Taxes, year-on-year %, 3-month moving average

— Fiscal Expenditure, year-on-year %, 3-month moving average

Source: Bloomberg | November 2021

HONG KONG (NEUTRAL)

China and Hong Kong are the only major countries that are still pursuing a "Zero COVID-19" strategy, which increases the risk of intermittent lockdowns. We expect this to pose a constraint on the pace of Hong Kong's GDP growth to just 3.0% in 2022. Still, corporate earnings growth will likely remain healthy at 19.8% in 2022, underpinned by the financial and Macau gaming sectors. However, policy risks in the property sector could pose some headwinds, leading to our neutral stance on Hong Kong.

SOUTH KOREA (NEUTRAL)

TAIWAN (UNDERWEIGHT)

Moderating but above-trend GDP growth

We still see above-trend GDP growth in South Korea and Taiwan even as the pace is moderating. South Korea is projected to deliver GDP growth of 3.0% in 2022, aided by a gradual recovery in private consumption, while Taiwan's economic growth is expected to come in at 3.2%.

Tighter financial conditions in South Korea

The rate hike cycle has started in South Korea and we expect Bank of Korea to continue normalising its monetary policy amid concerns on elevated debt and financial stability.

Further rate hikes could lead to tighter financial conditions and weigh on overall market performance in 2022. Notably, South Korea's expected earnings decline of 4.3% in 2022 also pales in comparison to its regional peers. Having said that, the undemanding valuations in South Korea could limit the downside risk, leading to our neutral stance on the market.

Demanding valuations in Taiwan

In Taiwan, the expected 1.2% earnings decline in 2022 is also unappealing. Coupled with the demanding valuations, we are underweight Taiwan. MSCI Taiwan is trading at FY22E price-to-book ratio of 2.4x, which is at a huge premium to MSCI South Korea's 1.1x book value and MSCI Asia ex-Japan's 1.6x book value.

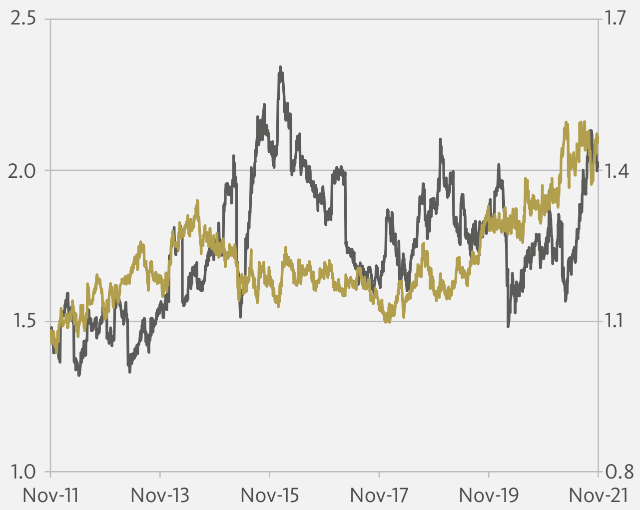
INDIA (UNDERWEIGHT)

Little room for disappointment

Thanks to the strong domestic inflows, 2021 has been a good year for Indian markets despite concerns about the sustainability of its post-pandemic economic recovery. Nevertheless, vaccination coverage in India remains low and offers little safeguard against a new wave of COVID-19 infections.

The Reserve Bank of India (RBI) will likely keep monetary policies accommodative given the emerging stresses in the banking sector and current account balance. Having said that, rate hikes in the U.S. could pressure the RBI to change its stance to prevent a reversal of capital flows and currency depreciation. Meanwhile, India's demanding valuations also leave very little room for setbacks, be it on the macro or earnings front. We are underweight on India in 2022 given the unattractive risk-reward outlook.

INDIA AND TAIWAN ARE TRADING AT DEMANDING PRICE-TO-BOOK RATIOS



— MSCI India versus MSCI Asia ex-Japan, L.H.S.

— MSCI Taiwan versus MSCI Asia ex-Japan, R.H.S.

Source: Bloomberg | November 2021

ASIA EX-JAPAN'S EARNINGS FORECASTS AND VALUATIONS

Country / Region	2022E EPS Growth (%)	2022E Valuations		
		P/E (X)	P/B (X)	Dividend Yield (%)
MSCI Asia ex-Japan	8.9	13.6	1.6	2.5
China	16.1	12.6	1.6	2.1
Hong Kong	19.8	15.3	1.2	3.3
Taiwan	-1.2	14.5	2.4	3.8
South Korea	-4.3	10.4	1.1	2.1
India	18.6	20.7	3.1	1.4
Singapore	13.3	14.6	1.3	3.9
Malaysia	3.2	14.4	1.4	3.9
Indonesia	20.2	15.0	2.2	3.3
Thailand	12.9	17.8	2.0	2.9
Philippines	25.3	17.7	1.7	1.6

Source: Bloomberg | November 2021

SINGAPORE (OVERWEIGHT)

We are positive on Singapore equities as the market is anticipated to sustain its positive momentum into 2022. Although Singapore's GDP growth is projected to moderate this year, the economy remains in good shape. In particular, we expect a pick up in services sector growth, which could help offset the potential slowdown in manufacturing. The government is also unlikely to revert to stringent COVID-19 mobility restrictions as long as the healthcare system is not overloaded.

Valuation wise, MSCI Singapore is trading on FY22E price-to-earnings ratio of 15x as at end-November 2021, which seems reasonable when compared to the projected double-digit earnings growth in 2022. Sectors wise, Singapore banks may benefit from stronger loan growth, particularly from the small-medium enterprises. We also expect an increase in both outbound and inbound travel, which will benefit companies with related exposure to sectors such as retail, hospitality and transport services.

MALAYSIA (NEUTRAL)

Malaysia's GDP growth is expected to accelerate to 6.0% in 2022 after a sluggish recovery last year. With a high level of vaccination, it has enabled the government to ease mobility restrictions including allowing inter-state travel since 4Q21. Malaysia equities are also trading on relatively cheaper valuations when compared to other ASEAN peers. Having said that, the surprise Cukai Makmur "prosperity tax" has weighed on sentiment given the one-off impact on corporate earnings. The government may also call for an earlier general election in 2022, which may result in heightened political uncertainties. As such, the upside potential of the market could be limited, leading to our neutral stance.

MAJOR ASEAN ECONOMIES ARE PROJECTED TO ACHIEVE FULL VACCINATION BY 1H22

Country	Real GDP (% YoY)		Estimated date to hit 70% vaccination rate
	2021E	2022E	
Singapore	7.1	3.8	August 2021
Malaysia	3.8	6.0	October 2021
Indonesia	3.9	5.4	April 2022
Philippines	5.5	7.0	April 2022
Thailand	1.6	4.0	January 2022

Source: Maybank | November 2021

INDONESIA (OVERWEIGHT)

With its GDP having returned to pre-pandemic levels in 2021, Indonesia looks set to sustain its growth momentum in 2022. As vaccination rate continues to rise, the country is expected to witness stronger domestic consumption growth with consumer confidence rebounding. Meanwhile, the robust commodity pricing environment should also remain supportive. With earnings revision turning positive, there is scope for Indonesia equities to play catch-up this year. Longer-term, the structural positives of Omnibus Law and digitisation of economy should also appeal to investors. Hence, we are overweight Indonesia and expect the market to re-rate higher from the current undemanding valuation.

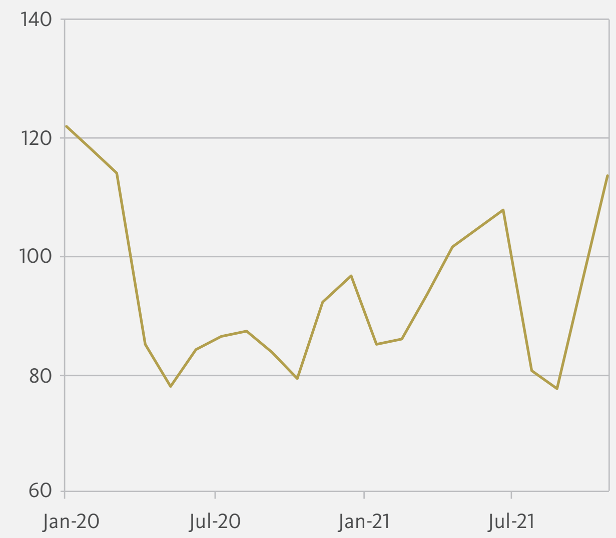
PHILIPPINES (NEUTRAL)

The Philippines economy should rebound further with the improving COVID-19 situation in the country. This bodes well for equity markets which will benefit from a pick up in domestic economic activities. In fact, corporate earnings revision has started to show signs of stabilisation. Nevertheless, the upcoming elections in May 22 may pose some uncertainties with President Rodrigo Duterte announcing his retirement. While the market valuation is inexpensive, we prefer to stay neutral until there is more clarity on the political front.

THAILAND (UNDERWEIGHT)

With an acceleration in vaccine roll-out, the Thai economy is expected to benefit from the gradual lifting of border restrictions, particularly the tourism sector. Nevertheless, the positives may have been priced in with the market trading at one standard deviation above historical average valuation. As such, the market remains relatively more vulnerable to other ASEAN peers, particularly if the earnings revision momentum were to turn negative. In view of the above, we are underweight on Thailand.

INDONESIA CONSUMER CONFIDENCE IS ON THE REBOUND



Source: Bloomberg | November 2021

Fixed Income

FIXED INCOME

KEY HIGHLIGHTS

We prefer credit over sovereign bonds amid a healthy macro backdrop and rising interest rates.

Within Developed Markets, we prefer U.S. HY to U.S. IG on divergent risk-reward.

Within Emerging Markets, we prefer Asia HY in view of the attractive valuation.

SOVEREIGN BONDS (UNDERWEIGHT)

Moving towards policy normalisation
Global central banks have embarked on their normalisation path, albeit gradually, as the global economic recovery takes hold. With "substantial further progress" having been made towards maximum employment and price stability goals, the Fed announced at its November Federal Open Market Committee (FOMC) meeting the beginning of its taper of monthly asset purchases. Meanwhile, the ECB also announced the intent to retire its PEPP come March 2022, while Norway became the first G10 currency country to raise key rates.

No doubt, inflation risks remain skewed to the upside and may lead to a quick pivot towards tighter monetary policy. Having said that, we still believe the pace of policy normalisation will be gradual to avoid derailing the economic recovery.

Modest upward pressure on long-end yields
Fed funds futures, a gauge of market expectations, are pricing in more than two 25 basis point (bps) hikes by end-2022. With inflation turning out to be more persistent, we do expect the Fed to start hiking policy rates this year although the pace of tightening remains uncertain. Notably, signs of slowing growth after the initial post-COVID-19 surge, and the lingering concerns about new coronavirus variants may temper excessive yield rises, if any. Hence, we expect the 10-year UST yield to trade within a modestly higher range of 1.5%–2.0% by end-2022.

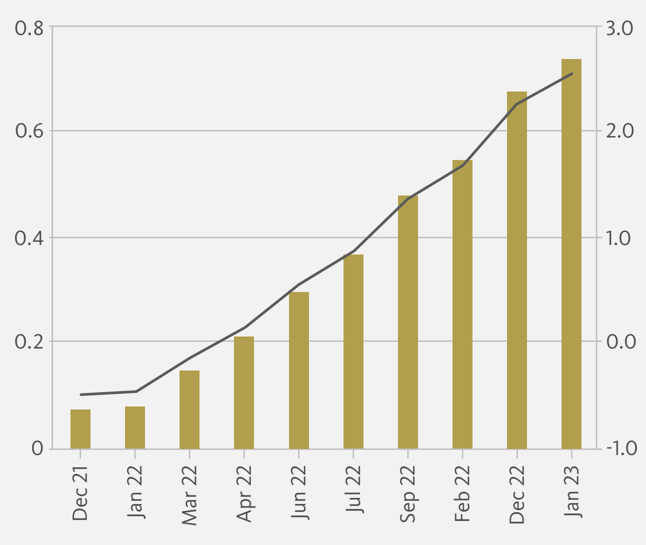
Sovereign bonds likely to underperform credit
Overall, we are underweight sovereign bonds from the U.S. and negative-yielding regions like core Europe, as they will likely underperform credit in a rising interest rate environment. In the U.S., from a positioning perspective, we are underweight duration and hence prefer short-to-intermediate-term U.S. government bonds to longer-dated Treasuries.

In contrast, we are positive on China government bonds and expect them to continue to outperform other sovereign bond peers in 2022, underpinned by their relatively attractive absolute yield, as well as increasing acceptance and adoption in global bond indices. Despite a tumultuous year of mainly internal challenges on the regulatory and resources front, the 10-year China government bond traded within a remarkably stable range of less than 50 bps. Although yield differentials have narrowed, in a low interest rate environment, China government bonds continue to offer value with the 10-year bond yielding 2.86% as at end-November 2021 versus the yield on the benchmark 10-year Treasury note at just 1.44% and the 10-year German Bund yield of -0.35%.

PREFERRED REGIONS

China
Despite some macro challenges, China's monetary policy has remained relatively stable. Given the relatively higher yield, China government bonds remain a good choice for investors looking for resilient carry.

FED FUND FUTURES PRICING IN MORE THAN TWO RATE HIKES IN 2022



Implied Policy Rate (%), L.H.S
Number of Hikes/Cuts Priced In, R.H.S
Source: Bloomberg | November 2021

DEVELOPED MARKETS

Low interest rate environment supports hunt for yield theme
We prefer credit to sovereign bonds in a modestly tighter monetary policy environment. Our view of a broadening economic recovery and waning supply chain pressures should underpin the credit upgrade cycle and solid earnings outlook. Amongst the credit segments, we favour DM HY bonds for their higher carry, improving fundamentals and attractive valuations, and see room for further spread compression.

DM IG (UNDERWEIGHT)

Incremental tightening of central bank monetary policy to weigh on asset class
We hold a negative stance on DM IG bonds given their unattractive risk-reward. Throughout the developed world, rising input prices are feeding into higher consumer prices and fuelling market bets that central banks will have to act sooner rather than later. Indeed, DM central bank messaging has turned more hawkish recently amid rising longer-term rates. Against this backdrop, we believe DM IG (with possibly the exception of DM Financials), will struggle to generate positive returns going forward, as generally modest credit cushions and longer average duration will weigh on the asset class.

Expensive valuations and technical headwinds
DM IG (represented largely by the U.S. IG asset class) was a major beneficiary of the Fed's commitment to backstop U.S. corporate bonds in the spring of 2020. Credit spreads have since tightened a whopping 274 bps from the March high of 3.73%, and are now below historical averages.

Furthermore, proposed corporate tax increases and regulatory changes to insurance capital investment guidelines may negatively affect the asset class as well.

Biden corporate tax implications and regulatory changes
Under the latest proposals, 34% of the funding for the Democrats' infrastructure bill will likely come from corporate tax increases, skewed mainly to large multinationals that would largely be IG-rated. The increased tax burden could spur additional issuance and increase overall bond supply within the space.

Additionally, recent changes to the capital charge classifications for U.S. insurers (who are key investors within this asset class) by the governing National Association of Insurance Companies could incentivise them to search for better value outside of the IG space.

Overall, we see limited room for further spread compression and are underweight U.S. IG credit.

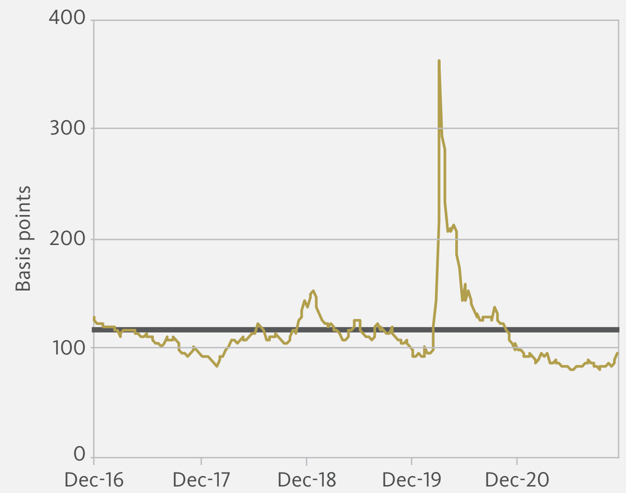
Tight valuations and long duration to cap performance
Valuation wise, U.S. IG credit is trading at 99 bps as at end-November, below the 5-year historical average of 115 bps, suggesting limited scope for meaningful outperformance.

Moreover, average ratings for the asset class have fallen from A- to BBB+, while average duration at 8.7 years is higher than Emerging Market (EM) and Asian peers, suggesting a higher sensitivity to interest rates rises. As we expect a modest rise in Treasury yields in 2022, any compression in credit spreads may not be sufficient to offset an overall negative return.

PREFERRED SECTORS

DM Financials
We see value in DM Financials as bank earnings will generally benefit from a higher interest rate environment as well as the steady recovery of DM economies.

U.S. IG BONDS NO LONGER ATTRACTIVE VERSUS HISTORICAL AVERAGES



Bloomberg Barclays U.S. IG Corporate Credit Spread
Average
Source: Bloomberg | November 2021

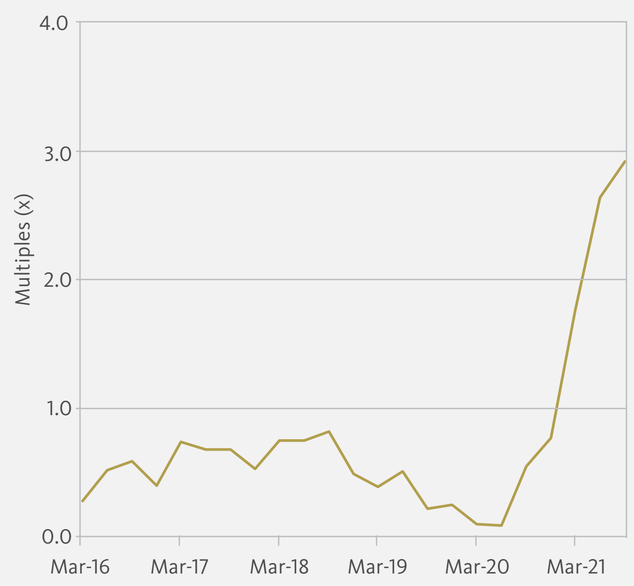
DM HY (OVERWEIGHT)

Broadening economic recovery
We are positive on DM HY credit given the sustained demand for yield in a still low rate environment. Since the start of 2021, credit upgrades within the space have outpaced downgrades, underpinned by positive earnings surprises and higher vaccination rates which have paved the way for the easing of COVID-19 related restrictions. Funding access for HY corporates remains solid with robust issuance in 2021, while default rates are expected to fall significantly compared to last year.

Credit rating upcycle underpinned by solid earnings
We like DM HY (largely represented by U.S. HY) as the asset class' constituents are more broadly representative of the real economy than the technology and multinational-heavy IG segment. Hence, we believe this segment will continue to benefit from the broadening economic recovery as COVID-19 restrictions ease. In particular, bonds within the Energy, Automotive and Food & Beverage sectors should continue to see rating upgrades this year. Unsurprisingly, rising stars are expected to outpace fallen angels, further supporting credit spreads. Robust credit fundamentals underpin this constructive view, with average earnings before interest, taxes, depreciation, and amortisation in HY up around 15% versus pre-COVID-19 levels, while leverage has fallen from pandemic peaks as well.

Room for more spread compression
From a valuation perspective, DM HY is expensive versus its historical average. However, within a low-yield environment, there is an absolute pick up in U.S. HY of 238 bps versus U.S. IG, while average duration of 4.3 years implies a much lower sensitivity to changes in interest rates than its IG counterpart.

S&P U.S. HY UPGRADE / DOWNGRADE RATIO



Source: Bloomberg | November 2021

EMERGING MARKETS

Less supportive macro conditions
Macro conditions were benign for EM credit for a large part of 2021. The marked improvement in global growth as well as accommodative Fed policy provided support to EM bonds. However, the positives were offset by higher Treasury yields and relatively tight credit spreads, leading to a flat performance for EM credit for the year.

With the U.S. Fed tapering its asset purchases amid persistently high inflation, the macro environment may be less supportive for EM bonds going into 2022. In fact, several central banks in the region have taken pre-emptive measures to curb inflation, with monetary tightening thus far most prominent in the Central Eastern Europe (CEE) region and in Latin America (LATAM). Further recalibration of fiscal measures may also lead to reduced support for the respective economies, which in turn could expose heavily indebted corporates to additional pressures.

In addition, social unrest could resurface as economic inequality has widened since the onset of the pandemic. Notably, Costa Rica, Colombia and Brazil will have elections in 2022, which could lead to heightened political uncertainties and dampen market sentiment. In view of the above, we are less sanguine on the outlook of EM credit, particularly HY bonds in the CEE and LATAM region. Nevertheless, we have a neutral stance towards EM IG bonds, which have more financial buffers to weather an economic downturn than their HY counterparts.

EM IG (NEUTRAL)

Resilient EM IG credit fundamentals
EM IG corporates have been focusing more on reducing debt and strengthening their balance sheets in recent years, enabling them to ride through the challenges posed by the COVID-19 pandemic. In fact, they have witnessed improving credit metrics in 2021, with many of the issuers being exporters that benefitted from robust global demand for manufactured goods.

Notably, leverage ratios have already fallen below pre-pandemic levels, and are set to improve further on the back of robust earnings and subdued capital expenditures. The resilient credit fundamentals should lead to relatively stable credit rating revision trends despite the less supportive macro conditions going forward.

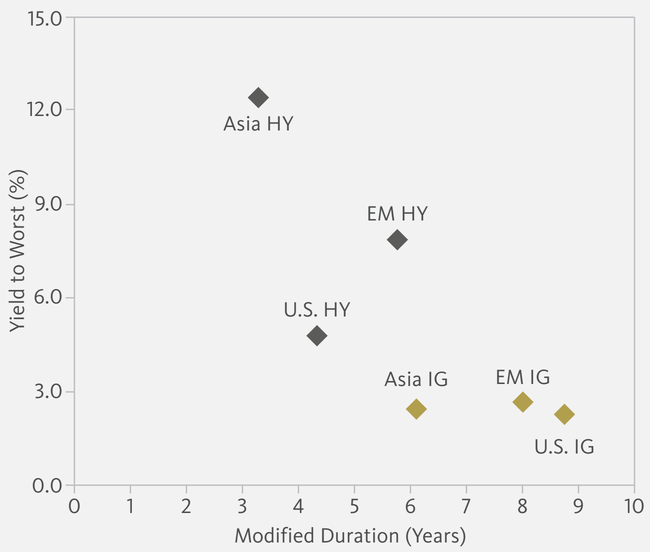
Neutral given limited upside
While we remain constructive on EM IG's fundamentals, the upside could be capped by the segment's relatively expensive valuation. Notably, EM IG bonds are trading at a credit spread of 140 bps, which is lower than the 5-year historical average spread of 157 bps (as of 30 November 2021). This suggests limited scope for further tightening of credit spreads. In addition, EM IG credit is also susceptible to higher Treasury yields although duration exposure of 8.0 years is relatively lower than the 8.9 years of U.S. IG credit. Overall, we are neutral on EM IG credit in view of the balanced risk-reward.

EM HY (UNDERWEIGHT)

Unattractive risk-adjusted returns
In contrast to EM IG, we are underweight EM HY. Valuation wise, EM HY bonds are trading reasonably at credit spreads of 668 bps, versus the 5-year average of 557 bps (as of 30 November 2021). Nevertheless, it may be insufficient to mitigate the downside risks for the segment.

In particular, we believe EM HY bonds are more vulnerable (than EM IG peers) to any shock to financing conditions as a result of faster than expected U.S. monetary tightening. It could lead to a higher number of defaults and bankruptcies, especially among the lower rated entities. Moreover, the HY segment could be more affected by the elevated political risks in the LATAM region. In view of the above, we are underweight on EM HY credit on the back of the less favourable risk-adjusted returns.

EM CREDIT HAS RELATIVELY HIGHER AVERAGE DURATION



Note: The above indices are based on Bloomberg Barclays bond indices
Source: Bloomberg | November 2021

ASIA

A better year ahead
2021 was a challenging year for Asia credit, particularly for the HY segment with China corporate bonds leading the decline. While China spearheaded Asia's pandemic recovery, the government later confounded markets with regulatory actions that had a negative impact on growth prospects. The power crunch situation as well as China property sector woes did not help.

While economic growth is projected to slow further in China, there is still room for policymakers to ease monetary policy and provide fiscal stimulus to cushion the slowdown in 2022. We also believe the property sector contagion risks will be contained, which should help to improve market sentiment and consequently, the performance of China corporate bonds.

Meanwhile, the ASEAN countries are poised to witness an acceleration in growth momentum in 2022 amid rising vaccination rates that are driving further reopening of their respective economies. This should lend support to sovereign ratings and consequently the performance of Asia credit. Nevertheless, we remain mindful of duration risks given our view of modestly higher UST yields. As such, we believe Asia HY credit could outperform Asia IG bonds given the former's more attractive valuation and lower duration risk although both segments will likely still deliver positive returns this year.

ASIA IG (NEUTRAL)

Macro support for Asia IG
Asia IG credit fundamentals remained resilient despite the COVID-19 shock, with strong earnings growth of 19.2% half-on-half and gross leverage falling to 4.8x (2H20: 5.3x) in 1H21. Notably, fallen angel volume had declined to a low of 0.6% (as of 30 September 2021) of total Asia IG bond stock compared to the 1.2% as at end-2020. Looking ahead, the supportive macro outlook should continue to underpin credit fundamentals of Asia IG issuers, with Asia expected to experience one of the highest growth rates globally in 2022 and 2023.

Balanced risk-reward
Valuation wise, Asia IG credit spreads of 133 bps are now trading slightly below the 5-year average level. While these may look just reasonable when compared to their longer-term historical range, Asia IG credit is still relatively more attractive versus DM peers, whose credit spreads are trading closer to historical tights. That said, our view of modestly higher UST yields could constrain the performance of Asia IG bonds in 2022. Hence, the returns may be moderated although the stable carry of Asia IG credit will likely continue to appeal to investors who are hunting for yield. Overall, we are neutral on Asia IG credit, given the balanced risk-reward.

ASIA HY (OVERWEIGHT)

China property risks appear contained
In late 2021, uncertainty over Evergrande and other China property developers' ability to meet debt obligations sent ripples across the Asia HY bond market as investors repriced default risks. It is not a surprise as China corporate bonds accounted for about 50% of the Asia HY segment, with the Chinese property sector making up a significant share. Nevertheless, the spillover appears to be contained as HY credit spreads for Asia ex-China have remained relatively stable during the sell-off.

Short-term pain, long-term gain
For the Chinese property developers, the stricter mortgage policies have slowed their cash collection, while housing price caps and elevated land costs also drove their profit margins lower. Meanwhile, high borrowing costs and investor aversion have also limited their access to the capital markets for funding.

Nevertheless, there has been easing taking place to prevent a further fallout of the China property sector. We believe policymakers are well-positioned to do more if necessary to support a sector that indirectly accounts for close to 25% of China's GDP. In the long run, China's deleveraging exercise will also ultimately instil stronger market discipline and improve credit fundamentals across the sector.

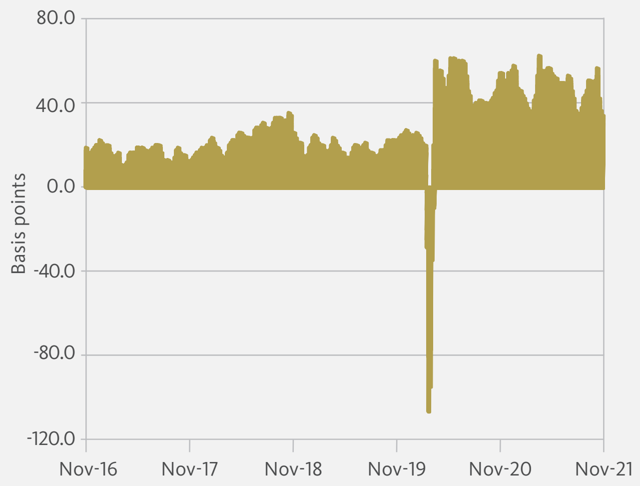
Attractive valuation as spreads peak
Although the Asia HY bond market may see more defaults in the near-term, we believe the negatives have largely been priced in. Notably, Asia HY bonds are trading at credit spreads of 1,148 bps, which are significantly higher than the 5-year historical average spread of 560 bps (as of 30 November 2021).

Based on historical data, credit spreads tend to peak before defaults peak for Asia HY bonds. This suggests that while Asia HY defaults could still rise from the projected 9.0% in 2021, we may very well have seen the peak of credit spreads especially if policy easing becomes more forthcoming for the China property sector. In view of the above, we believe the risk-reward favours a overweight stance on Asia HY bonds.

PREFERRED SECTORS

China HY Property Bonds
Given the liquidity driven sell-off, China HY Property bonds offer attractive valuation. Our preference remains skewed towards BBB/BB-rated names within the context of a well-diversified portfolio, in order to mitigate potential default risks and price volatility.

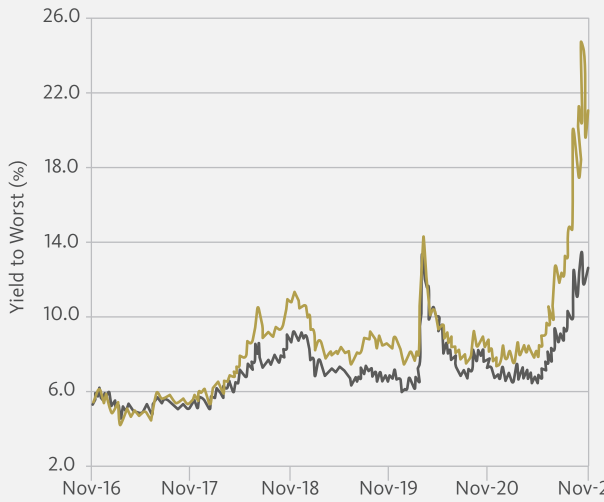
ASIA IG CREDIT OFFERS ATTRACTIVE YIELD PICK UP OVER U.S. IG PEERS



Bloomberg Barclays Asia IG and U.S. IG Credit Spread Differential

Source: Bloomberg | November 2021

ASIA HY BONDS APPEAR TO HAVE PRICED IN SIGNIFICANT DOWNSIDE RISK



Bloomberg Barclays Asia HY Total Return Index
Bloomberg Barclays China HY Total Return Index

Source: Bloomberg | November 2021

Alternatives

ALTERNATIVES

KEY HIGHLIGHTS

We are neutral on gold given the balanced risk-reward.

We are neutral on oil as tight supply should ease over time.

GOLD (NEUTRAL)

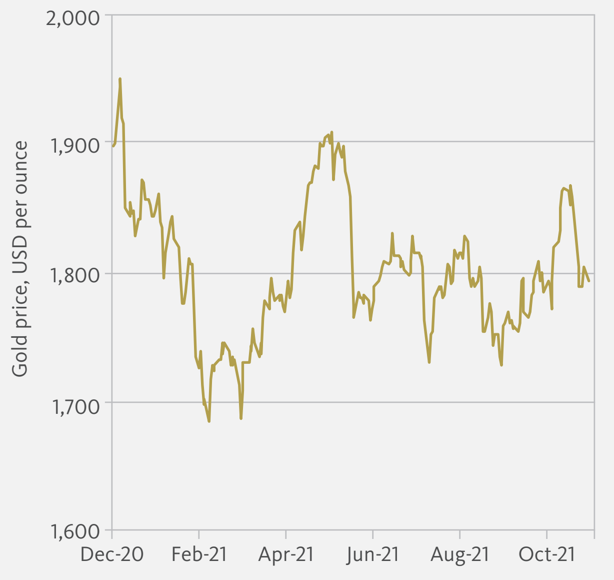
Lacklustre performance in 2021
The combination of strong economic recovery and accommodative monetary policies have led to investors' preference for equities over safe haven assets like gold in 2021. The performance of the precious metal was also weighed down by a stronger U.S. dollar and higher UST yields.

Global monetary policy tightening to weigh on gold
We expect gold prices to remain subdued this year and its performance could lag behind the other major asset classes. The healthy macro environment continues to bode well for risk assets including equities on the back of further reopening of the global economy. Meanwhile, central banks of major economies have started or are at the cusp of ending crisis-era support, sending bond yields higher across the globe. We expect the 10-year UST yield to grind higher to a range of 1.5% - 2.0% in 2022, diminishing the appeal of owning the precious metal as it is a non-yielding asset.

Lingering growth concerns could mitigate downside
Having said that, there are reasons not to be overly pessimistic on gold. The global economic recovery is not without risks and there are challenges (e.g. re-escalation of tensions between the U.S. and China, new Omicron COVID-19 variant, and rising regulatory risks) that could lead to bouts of excessive volatility, lending support to gold. Notably, historical data has shown that gold remains an effective portfolio risk diversifier.

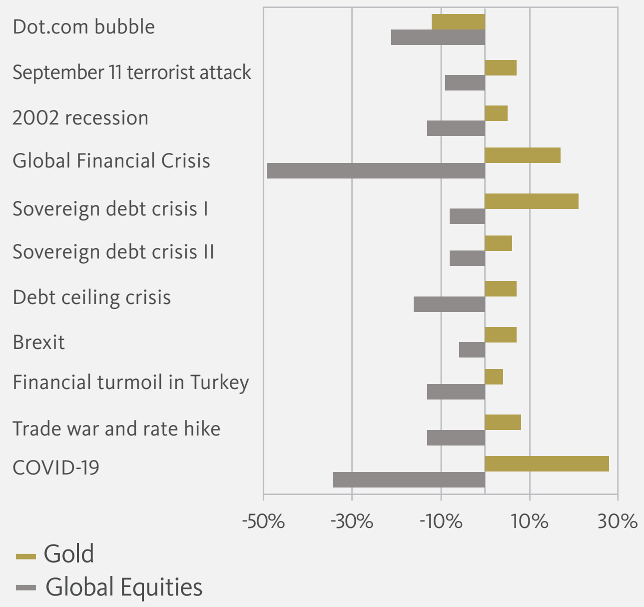
Balanced risk-reward for gold
In addition, the light futures positioning and improving demand from central banks and consumers amid the ongoing economic recovery, as well as a weaker U.S. dollar could support the precious metal in 2022. We expect dollar strength to fade over time as the U.S. dollar countercyclical factor comes into play and policy divergence in favour of the currency narrows. Overall, we maintain a neutral stance on gold given the balanced risk-reward.

GOLD PERFORMANCE IN 2021



Source: Bloomberg | November 2021

GOLD TYPICALLY OUTPERFORMS WHEN VOLATILITY INCREASES



Source: Bloomberg | November 2021

OIL (NEUTRAL)

A reversal of fortune
After a volatile 2020, oil witnessed a reversal of fortune and was amongst the best performing asset classes in 2021. Both Brent and West Texas Intermediate (WTI) crude prices soared above USD 80 per barrel at one point as oil demand recovered strongly with a normalisation of the global economy.

At the same time, the constrained output increases, particularly from OPEC and its oil producing allies (OPEC+), resulted in a supply deficit situation. This led to the drawdown of oil inventories that were built up in 2020, pushing oil prices higher.

Demand recovery to sustain into 2022
In its recent monthly report, OPEC projected global oil demand to increase from 96.6 million barrels per day (mb/d) in 2021 to 100.8 mb/d in 2022. Notably, demand in 2022 will surpass the 100 mb/d recorded in 2019. Similarly, the U.S. Energy Information Administration (EIA) is also optimistic on the outlook and is forecasting oil demand to rise to 101 mb/d in 2022.

In particular, the further easing of mobility and border restrictions will drive demand for transport fuels, which constitute a large part of global oil consumption.

Meanwhile, the energy crunch situation observed across many countries also suggests the sustained need for fossil fuels as it still takes time to build new renewable power generation capacities to cope with current demand.

Gradual OPEC+ output increase
Despite the strong demand recovery, OPEC+ has been disciplined in raising production. In fact, the alliance reiterated its plans in December 2021 to gradually raise output by 0.4 mb/d per month, which implies that production quota will only be fully restored to pre-pandemic levels in late 2022.

Notably, OPEC recorded 26.9 mb/d of crude output in 3Q21, which is still lower than the 29.4 mb/d recorded in 2019. While OPEC+ has attributed its cautious approach to lingering growth uncertainties, the lack of new investments in wells/infrastructure may have also made it more difficult to meet a higher production quota.

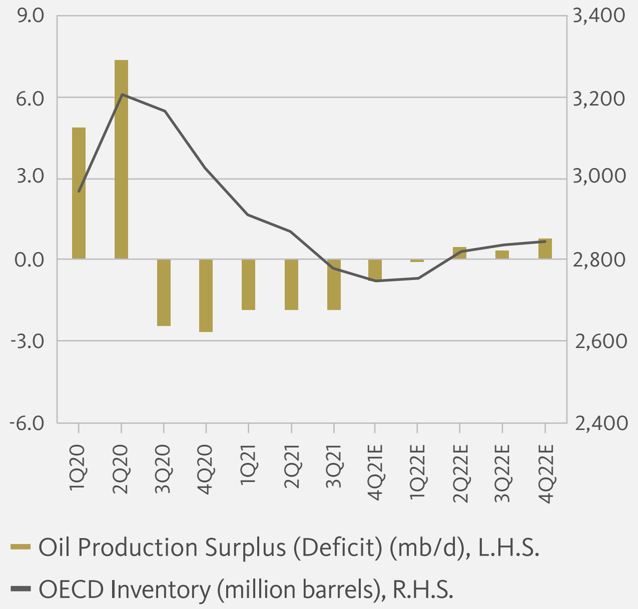
Meanwhile, U.S. output is projected to increase, albeit modestly as shale producers will likely continue to exercise caution with new investments.

Adopting a neutral stance
Overall, we believe oil will remain well supported as the supply deficit is projected to extend well into 1Q22 or even later. In fact, oil prices may overshoot to the upside should there be a demand or supply shock especially when investor positioning in oil does not appear to be over-extended.

Nevertheless, the tight supply situation should ease as we move into 2H22, which should lead to some softening in oil prices. We will also not be surprised if OPEC+ were to respond with more aggressive supply increases should the price hike be excessive. Longer-term, the structural demand for oil also remains under pressure given the push for cleaner energy sources amid global efforts toward climate protection.

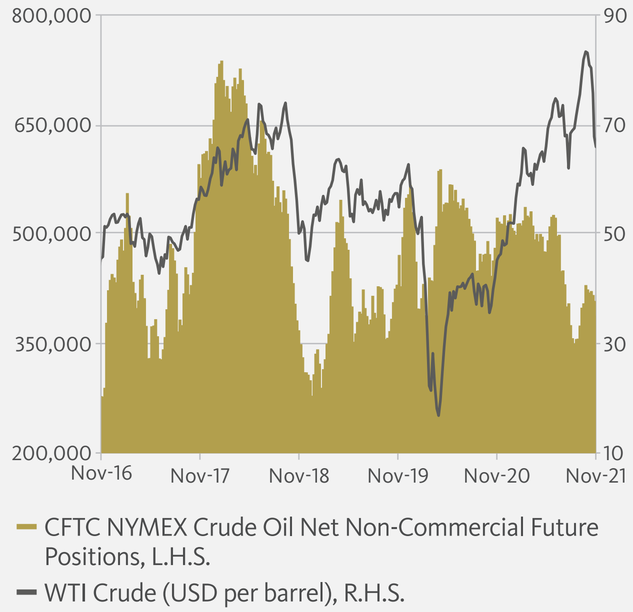
In view of the above, we are neutral on oil and project Brent prices to average around USD 75-80 per barrel in 2022.

TIGHT OIL SUPPLY COULD PERSIST IN THE NEAR-TERM AND EASE ONLY IN 2H22



Source: EIA | November 2021

INVESTOR POSITIONING IN OIL DOES NOT APPEAR TO BE OVER-EXTENDED



Source: Bloomberg | November 2021

CURRENCIES

KEY HIGHLIGHTS

- USD strength to fade over time.
- Asia ex-Japan currencies to be supported as regional reopening picks up pace.
- Central bank policy divergences to favour NZD and CAD over EUR.

2021 was a year of partial healing. Vaccination progress and reopening efforts imbued resilience to broad economic activity, but uneven inoculation pace and intermittent COVID-19 waves proved challenging at times. In particular, supply side shortages and energy market rallies also exacerbated price pressures in 2H21, complicating plans for gradual monetary policy normalisation among central banks. Into 2022, we look for a more sustained recovery trajectory. Our base case is for both growth and inflation to remain above-trend on the back of vaccine availability, inoculation picking up pace and broader reopening of economies, notwithstanding interim Omicron risks and lingering supply side constraints. This supports our bias for commodity-linked and pro-cyclical Asia ex-Japan (AxJ) currencies.

DEVELOPED MARKETS

Dollar strength to fade over time

The U.S. dollar (USD) trended higher in 2H21 with support from several factors. The normalisation of Fed policy led to some extent a policy divergence bias that was in favour of the USD. Energy price shocks (with the U.S. being a net energy exporter) as well as lingering COVID-19 uncertainties and growth concerns in China also led to increased risk aversion which supported the USD. While these factors may persist in the interim, we expect the support to fade in 2022 as the USD countercyclical factor comes in, and policy divergence in favour of the USD narrows. Fundamentally, we are negatively biased towards the USD in the medium term given the country's twin deficits and the national debt is also expected to rise further over the next few years.

Favour NZD and CAD over EUR

We are cautious on the EUR due to the widening monetary policy divergence between the ECB and Fed. In particular, the ECB still aspires to be a policy tightening laggard even as Eurozone annual inflation rate spiked to an all-time high of 4.9% in November 2021. Hence, it is possible that EUR could reassert itself as a funding currency of choice. Still, there is a risk that the ECB may be underestimating price pressures. If so, the central bank may need to walk back on its words and normalise policies earlier than expected, which would be a positive for the EUR.

In contrast, the NZD is poised to strengthen as the improving growth and labour market as well as inflation overshoot conditions may push the Reserve Bank of New Zealand to embark on a series of rate hikes (possibly back-to-back) over the next six months. The Bank of Canada (BoC) too has hopped onto the hawkish bandwagon with an explicit rate lift off projected in April-September 2022. Notably, the BoC has been getting anxious on inflation while demand conditions strengthened further. The resulting policy divergences could favour the NZD and CAD over EUR.

While Omicron concerns have provided some support due to safe haven demand, the JPY remains prone to near-term downside risks on the back of a dovish BoJ and yield differentials between the UST and Japanese government bonds remaining wide. Over time though, global price pressures could gradually moderate as winter demand for energy and supply chain disruptions ease, leaving room for the JPY to return to a slight strengthening bias against the USD.

MOST PREFERRED PLAYS

- Prefer NZD and CAD longs.
- EUR can remain a funding currency.

MONETARY POLICY AND ENERGY PRICES TO IMPACT FOREIGN EXCHANGE PERFORMANCE

	Tightening bias	Dovish bias
Monetary policy	USD, CAD, GBP, NZD, SGD	EUR, JPY, IDR, PHP, THB
	Positively correlated	**Negatively correlated**
Energy prices	USD, CAD, AUD, IDR, MYR	EUR, JPY, GBP, THB, PHP

Source: Maybank FX Research & Strategy | November 2021

ASIA EX-JAPAN

Our trajectory for the AUD is a mildly bullish one as the emphasis on infrastructure spending in many countries (with added invigoration from COP26) should translate to demand for Australia's base metals and energy exports. AUD should typically lead in a reflationary world but the currency faces headwinds. A key risk is that the supply chains of the world remain broken and cost-push inflation casts doubts on the current growth trajectory. With China determined to regulate property as part of its "common prosperity" endeavours, iron ore outlook remains weak. In addition, the AUD may find no help from the Reserve Bank of Australia which is determined to keep the policy rate low for as long as possible to generate the elusive wage growth that has faded for much of the past decade.

A more resilient RMB on cross-cyclical policy

The RMB strength witnessed in 2021 was mainly a reflection of China's solid export performance and perceived progress in the U.S.-China trade relations. Meanwhile, domestic demand remains weak, weighed down by the downturn in the Chinese property sector alongside fresh and persistent COVID-19 outbreaks. China's new cross-cyclical policy design could mean a deployment of both monetary and fiscal policy tools to achieve longer-term economic goals that should render some support for the RMB. A stable currency could also set a more benign backdrop for the 20th Party Congress in 2022 where President Xi is expected to stay for an unprecedented third term.

The Monetary Authority of Singapore's (MAS) surprise hawkish tilt last October provided some support to the SGD then, with the currency likely to remain supported in 2022. It is not a surprise that the MAS was among the first movers to normalise policy in the region, given Singapore's robust growth outlook and rising inflation risks. Vaccine and booster shot progress should significantly lower the likelihood of an aggressive tightening in domestic mobility curbs, as Omicron risks play out. The drag on broader economic activities has also been relatively contained, with external demand likely to remain supportive for the economy as well as the SGD.

The relative resilience of the MYR could remain largely intact into 2022. Macro activity has recovered as mobility curbs eased, and positive growth momentum could extend into the quarters ahead. Firmer oil prices are beneficial for Malaysia's trade balance, and alongside healthy foreign reserves, look to be broadly supportive of the MYR. Meanwhile, political developments have also thus avoided the worst case scenario of a leadership vacuum or an abrupt derailment in health and economic policies.

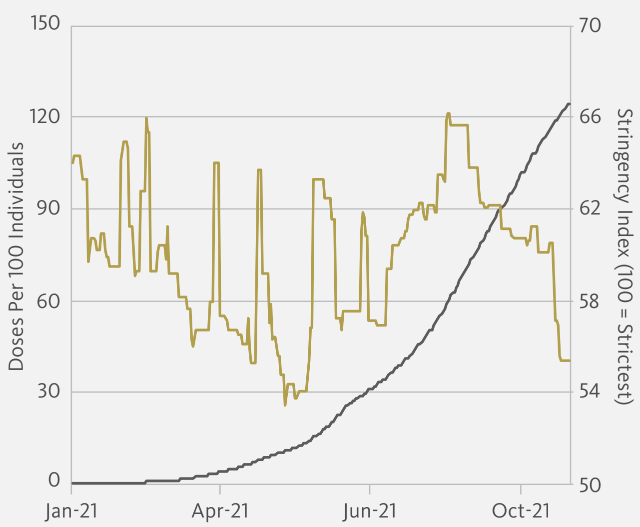
While the IDR may not be immune to U.S. tapering and rate hike concerns, it is likely to exhibit significantly greater resilience versus the tapering episode in 2013, given lower foreign holdings in domestic sovereign bonds, healthier current account balance, larger foreign exchange reserves, and still benign domestic inflation. Being a net energy exporter could also add to IDR's resilience as long as oil and crude palm oil prices remain supported. The ongoing focus on attracting foreign direct investments via tax and labour reforms to aid the post-pandemic recovery should also help.

Cautious optimism on the THB was on display amid Thailand's concerted reopening efforts last November, with vaccinated visitors from many countries now allowed to enter without quarantine. But a more discernible turnaround in Thailand's tourism outlook and current account may require substantial progress in global vaccinations and easing of travel curbs especially in China. Meanwhile, Thailand's higher energy import bills could still pose intermittent drags on THB should oil prices remain high. As such, we remain cautious on the pace of THB recovery.

MOST PREFERRED PLAYS

- Short USDCNH and USDSGD on rallies.
- Buy AUD on pullback.

ASIA BROADLY BACK ON REOPENING PATH AMID VACCINATION PROGRESS



- Vaccination Progress, L.H.S.
- Stringency Index, R.H.S.

Sources: Our World In Data, Maybank FX Research & Strategy | November 2021

Note: Stringency is a composite measure based on 9 response indicators, rescaled to a value from 0-100 (100=strictest). Vaccination progress, stringency series shown are GDP-weighted averages for Singapore, Malaysia, Indonesia, Thailand, Philippines, South Korea, Australia, New Zealand.

The pandemic has accelerated the development of ASEAN's digital economy, as lockdowns and work-from-home policies forced consumers and businesses to shift online. ASEAN's internet economy surged strongly by 49% to USD 174 billion in 2021, and is expected to exceed USD 360 billion by 2025, according to estimates by Google, Temasek and Bain & Company. E-commerce (+62% in 2021) has been the key driver, more than tripling from USD 38 billion in 2019 to USD 120 billion in 2021. Online media (+32% in 2021) and transport & food (+36%) also recorded strong growth, while online travel (+5%) continued to be weighed down by travel and mobility restrictions.

Nearly two thirds of ASEAN are online

Technology adoption proliferated with the ASEAN-6 countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) adding 70 million new "digital consumers" since the start of the pandemic, bringing the total to 350 million or 60% of the total population, based on findings by Facebook and Bain. Based on another survey by the World Economic Forum and SEA Group, 64% of respondents across ASEAN digitalised over half of their tasks. The share was higher at 74% among owners of Micro Small Medium Enterprises.

E-commerce penetration rates jumped, in contrast to falling brick-and-mortar sales

E-commerce was already rising rapidly pre-pandemic, but accelerated as the pandemic drove more people to make their purchases from home. E-commerce penetration rates rose strongly across ASEAN in 2020, particularly in Indonesia (19.9% of total retail sales) and Singapore (15.6%), based on data compiled by Euromonitor. Penetration rates also climbed in Thailand (8%), Malaysia (7.3%) and the Philippines (5.9%), in contrast to the decline in brick-and-mortar sales. In fact, new shoppers generated over one third of e-commerce in 2020, based on estimates by Google, Temasek and Bain & Company, and 80% of this cohort intend to continue purchasing online in the future.

Digital banking and online platforms

Digital financial services also accelerated during the pandemic. The average number of cash transactions by consumers fell while e-wallet transactions rose from the pre-COVID era. Notably, central banks have laid out roadmaps and issued formal guidelines for digital banks with Singapore awarding 4 licenses, along with Indonesia (7) and the Philippines (6). Malaysia will be issuing up to 5 licenses in 1Q 2022, after receiving 29 applications during the six-month application period ending June 2021.

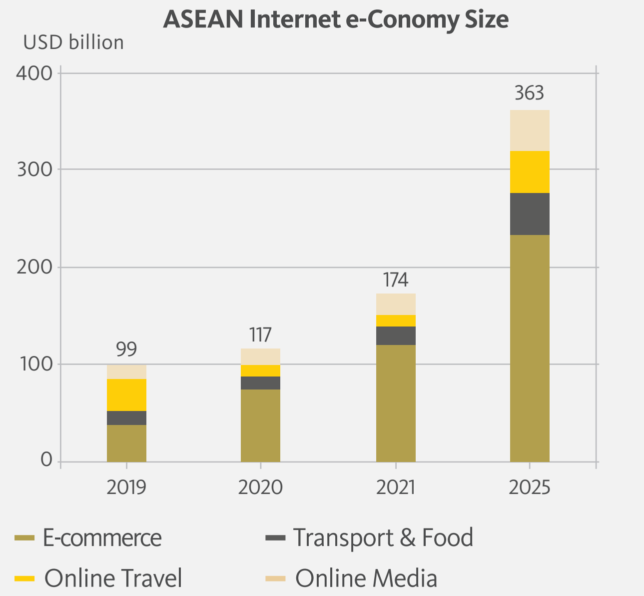
Darling of tech investors

ASEAN's tech investment remained vibrant despite the pandemic. In the first 9 months of 2021, funds raised by ASEAN startups from venture capital firms and other investors totalled USD 17.2 billion, more than double the total amount in 2020 (USD 8.5 billion), according to data compiled by DealStreetAsia. The region also added 15 tech unicorns – defined as venture-capital-backed startups that have succeeded in fundraising at a valuation of USD 1 billion or more – bringing the total count to 27 during the period. Notably, Bukalapak recorded Indonesia's largest stock market listing after raising USD 1.5 billion in August 2021 while Singapore-based Grab also made its NASDAQ debut in December 2021. Other major tech companies looking to go public in 2022 or beyond include GoTo Group, Traveloka, Tiket.com, J&T Express, Carousell and PropertyGuru.

Digital divide remains

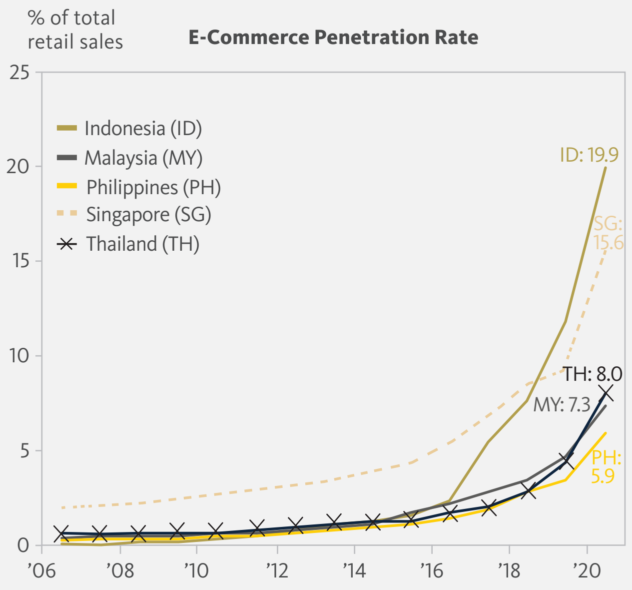
However, there remain barriers for ASEAN's path to digitalisation. Digital infrastructure is lagging and internet penetration rates remain low in some countries including Indonesia, the Philippines and Vietnam. Fixed broadband is still prohibitively expensive in the less developed ASEAN countries while the lack of digital skills is also holding back the region's full potential. Hence, the pace of development may remain uneven although we remain optimistic on the long-term trajectory.

INTERNET ECONOMY IS POISED TO EXPAND FURTHER IN THE ASEAN REGION



Sources: Google, Temasek, Bain & Company | November 2021

ROOM FOR E-COMMERCE PENETRATION RATE TO GO HIGHER IN ASEAN



Source: Euromonitor | November 2021

Common Prosperity In China

The pursuit of common prosperity

President Xi Jinping has called for China to achieve "common prosperity", seeking to narrow a widening wealth gap that threatens social stability and the legitimacy of the Communist Party rule. Common prosperity as an idea is not new in China, but a sharp escalation in official rhetoric and a sweeping crackdown within industries such as technology, property and private tuition have rattled investors in the world's second-largest economy last year.

Paradigm shift in China

Broadly speaking, we believe policymakers' goal of "common prosperity" focuses on rebalancing China's economy towards consumption, ensuring social stability and a more sustainable economic growth path. Facing his third term in 2022, President Xi has signalled heightened commitment to deliver on this promise. Apart from reforms on taxation and welfare, we also expect more regulation, particularly within the technology sector to limit the rise of corporate power. In addition, China's move to deleverage the property sector will ultimately reduce the sector's reliance on credit to drive growth going forward. This is also in line with the government's goal of increasing housing affordability and to channel resources to other strategically important sectors such as advanced manufacturing, technology and renewable energy.

Investment implications – recalibrating China risks

Regulatory tightening could dampen corporate sentiment and curtail private investment, which would weigh on the growth outlook. In addition, it may deter global investors from extending their participation in China's capital market. As such, markets could price in a higher equity risk premium in order to compensate investors for significant earnings uncertainty. Indeed, MSCI China's equity risk premium has risen sharply from 2.0% to about 4.0% since the beginning of February last year.

Looking beyond the short-term

While all industries require regulation to varying degrees, these constraints need to be balanced against the overarching objective of maintaining economic progress. The private sector plays a crucial role in innovation and driving productivity gains, which have become more important against the backdrop of weakening demographics. We believe that policymakers understand the negative impact of their actions on corporate sentiment and investment, and will avoid taking an overly harsh stance, while ensuring a sustainable rate of economic growth.

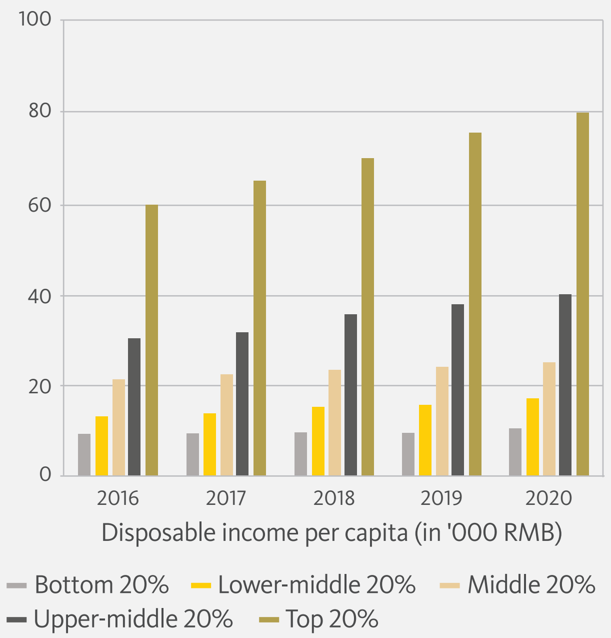
Aligning interest with government

Rather than staying away from China, investors could map the leadership's overarching objectives onto their portfolios. Technology innovation and renewable energy remain key priorities for the Chinese government. China's pledge to reach carbon neutrality by 2060 will usher in secular investment themes on renewables and environmentally-friendly energy applications. The country's focus on remaining self-sufficient in technology will also spur more investments in the production capability of semiconductors as well as select industrial and manufacturing sectors to increase global competitiveness. Interestingly, we believe state-owned enterprises (SOEs) will continue to play a crucial role as President Xi acknowledged the importance of state ownership to drive "common prosperity". Nevertheless, we remain selective on these SOEs, preferring companies that have shown an ability to enhance shareholder returns.

MSCI CHINA EQUITY RISK PREMIUM

Source: Bloomberg | November 2021

RISING INCOME DISPARITY IN CHINA



Sources: NBS, Wind | November 2021

Fixed Income In A Rising Rate Environment

Rising rates amid an inflationary environment

Economic recovery, along with ongoing supply chain constraints have contributed to an upsurge in inflation and consequently, a recent rise in bond yields. Fixed income investors who invest mainly in fixed rate instruments are at a distinct disadvantage, as bond prices fall when yields rise.

Adopting a diversified and flexible strategy

Fortunately, there are ways to mitigate the impact of rising rates via investments in other fixed income instruments that benefit from such scenarios. These include floating rate notes (FRNs), senior loans and inflation-linked securities.

FRNs

FRNs provide a variable rate of interest that resets periodically, based on a specified benchmark (e.g. Secured Overnight Financing Rate (SOFR) or federal funds rate) plus an added "spread". While the yield of the bond fluctuates as the reference interest rate is reset at a specified interval, the spread typically stays the same. FRNs can effectively remove interest rate risk and have generally performed better than traditional fixed income securities when interest rates are rising. Conversely, investors in floating rate securities will risk lower yields when interest rates adjust downwards.

Senior Loans

Sometimes referred to as leveraged or syndicated loans, these refer to loans that banks extend to corporations and then package and sell to investors. Senior loans are generally structured as floating rate and tend to rise in rising rate environments, which help to mitigate interest rate risk.

Spreads of this asset class tend to be higher than those of IG bonds because senior loan borrowers typically have below IG credit ratings. To mitigate this risk, most senior loans are secured against the borrower's hard assets and therefore typically have higher recovery rates in the event of default than other creditors. With low historical correlations to other fixed income asset classes, senior loans certainly have an important part to play in a diversified portfolio.

Treasury Inflation Protected Securities (TIPS)

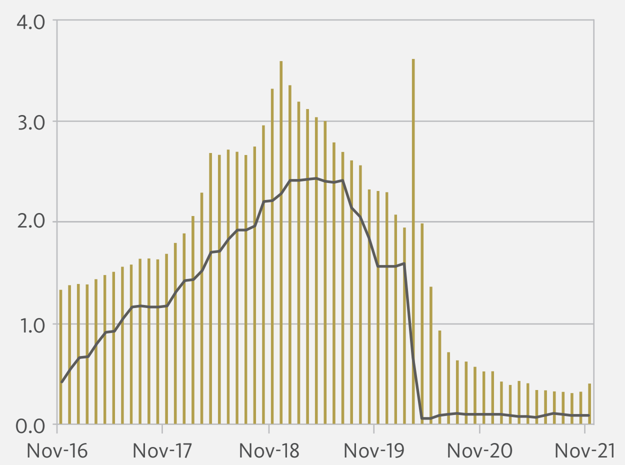
TIPS are a type of bond issued by the U.S. Treasury that provide protection against inflation. The principal value of TIPS changes each month based on movements in the Consumer Price Index (CPI), increasing during periods when CPI rises and decreasing when CPI falls. As inflation is generally correlated with rising interest rates, the inflation protection built into TIPS is an advantage over other bonds with no such protection when interest rates rise.

While the coupon rate for TIPS is fixed, investors will receive higher absolute coupon payments if the principal value adjusts higher, and vice versa if they fall. In general, holders of TIPS will benefit more than holders of nominal Treasuries if actual inflation exceeds inflation expectations.

Summary

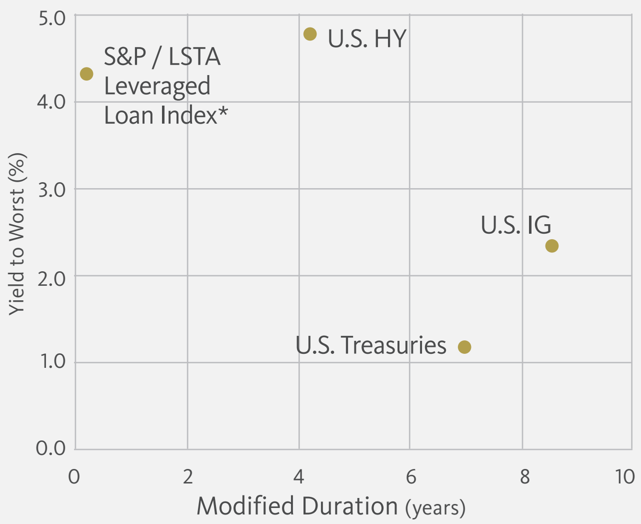
While by no means exhaustive, the above strategies are just some ways the fixed income investor can successfully navigate the challenges a rising rate cycle brings and stay ahead in the hunt for yield game.

FLOATING RATE NOTE YIELDS HAVE HIGH CORRELATION TO FED FUNDS' RATE



Bloomberg FRN <5yr Index Yield-To-Worst (%)
Effective Fed Funds Rate (%)
*Succeeded by SOFR
Source: Bloomberg | November 2021

SENIOR LOANS ARE A TOP ASSET CLASS FROM A YIELD TO DURATION RATIO STANDPOINT



*Most widely followed index for senior loans
Note: Data for U.S. HY, U.S. IG and U.S. Treasuries is based on Bloomberg Barclays Fixed Income Indices
Sources: Bloomberg, S&P | November 2021

2022 EVENTS CALENDAR

UNITED STATES

Federal Open Market Committee Meetings

26-27 January	27-28 July
16-17 March	21-22 September
4-5 May	2-3 November
15-16 June	14-15 December

August
Jackson Hole Symposium

November
Mid-term elections

EUROZONE

European Central Bank Meetings

3 February	21 July
10 March	8 September
14 April	27 October
9 June	15 December

17 -21 January
World Economic Forum

10 -24 April
French Presidential Election

TBD
48th G7 Summit

UNITED KINGDOM

Bank of England Meetings

3 February	4 August
17 March	15 September
5 May	3 November
16 June	15 December

JAPAN

Bank of Japan Meetings

17-18 January	20-21 July
17-18 March	21-22 September
27-28 April	27-28 October
16-17 June	19-20 December

AUSTRALIA

Reserve Bank of Australia Meetings

1 February	2 August
1 March	6 September
5 April	4 October
3 May	1 November
7 June	6 December
5 July	

NEW ZEALAND

Reserve Bank of New Zealand Meetings

23 February	17 August
25 May	23 November

CHINA/HONG KONG

March
National People's Congress

February, April, June, August, October, December
Standing Committee Meetings

4-20 February
Winter Olympics

27 March
Hong Kong Chief Executive Election

Fourth Quarter
20th National Party Congress

SINGAPORE

February
Budget 2022

April/October
Monetary Authority of Singapore Policy Meeting

MALAYSIA

Bank Negara Malaysia Meetings

19-21 January	5-6 July
2-3 March	7-8 September
10-11 May	2-3 November

INDONESIA

October
G20 Summit

THAILAND

Bank of Thailand Meetings

9 February	17 August
30 March	28 September
18 May	16 November
29 June	28 December

PHILIPPINES

May
Presidential Election

VIETNAM

May
31st Southeast Asian Games

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