

# Maybank Investment Strategy

December 2022

## Summary

- Global equities rebounded further in November with MSCI All-Country (AC) World Index rising 7.8%. Investors were encouraged by the softer than expected U.S. inflation that may lead to the Federal Reserve (Fed) slowing its pace of rate hikes. More impressively, MSCI China jumped nearly 30% with gradual easing of COVID-19 restrictions and more support for the property sector.
- Global bonds also rose in November with the Bloomberg Barclays Multiverse Index gaining 4.7%. Notably, the 10-year U.S. Treasury (UST) yield dipped below 4% and trades at a negative spread of about 70 basis points to both 3-month Treasury bills and 2-year Treasury note.
- On commodities, gold prices moved higher on a weaker dollar in November. In contrast, West Texas Intermediate (WTI) crude retreated as demand concerns outweighed the supply risks.

## Macro Outlook and Investment Strategy

- While inflation may be showing signs of peaking, it will take time to moderate to more normalised levels. Hence, central banks will likely maintain a restrictive monetary policy that will weigh on growth and consequently the performance of risk assets.
- In view of the above, we remain cautious towards equities. We downgrade U.S. to underweight alongside Europe and India, with the downside earning risk of U.S. stocks not fully priced in. In contrast, we prefer South East Asia as a safe harbour and continue to expect more resilient performance from the region.
- We see better risk reward for Fixed Income relative to equities. Apart from our positive stance on sovereign bonds, we also upgrade Developed Market (DM) Investment Grade (IG) bonds to overweight as a source of defensive carry. However, we remain negative on High Yield (HY) credits which are still vulnerable to further widening of credit spreads.
- Overall, we retain our defensive stance in our asset allocation. Notably, market volatility could spike again in the coming weeks as investors may look to trim exposure given the recent market gains. To mitigate the downside risks, we would continue to maintain a cash buffer and look to diversify into assets with less correlated returns including gold, hedge funds as well as private assets to add resilience to portfolio return

December Outlook		
Asset Class *	Sector *	
Equity	- U.S.	-
	Europe	-
	Japan	=
	Asia ex-Japan	=
Bonds	+ Sovereigns	+
	Developed Markets (DM) Investment Grade (IG)	+
	Developed Markets (DM) High Yield (HY)	-
	Emerging Markets (EM) IG	=
	Emerging Markets (EM) HY	-
	Asia IG	=
Alternatives	= Gold	=
	Oil	=
	Hedge Funds	=
Cash	+	

Source: Maybank Wealth Management Research

\* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (In USD currency)		
	Month	Quarter	Year
<b>Equity</b>			
MSCI USA	5.4%	13.8%	-14.4%
MSCI Europe	11.4%	19.4%	-14.6%
MSCI Japan	9.7%	12.9%	-16.5%
MSCI Asia ex-Japan	18.8%	11.6%	-19.2%
China	29.7%	7.9%	-25.7%
Hong Kong	24.5%	9.3%	-11.9%
Taiwan	22.2%	16.0%	-25.1%
Korea	14.9%	24.5%	-25.3%
India	5.2%	8.0%	-2.1%
Singapore	11.5%	11.4%	-10.2%
Malaysia	8.8%	12.0%	-7.4%
Indonesia	0.6%	1.0%	9.1%
Thailand	10.6%	11.9%	1.4%
Philippines	13.4%	23.7%	-11.7%
MSCI EM	14.8%	11.3%	-18.6%
<b>Bonds</b>			
Barclays U.S. IG	5.2%	4.1%	-15.4%
iBoxx U.S. HY	2.2%	4.8%	-10.6%
<b>Commodity</b>			
Gold	8.3%	6.5%	-3.3%
Oil	-6.9%	1.3%	7.1%

Source : Bloomberg | 30 November 2022



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## Macro Outlook and Investment Strategy - continued

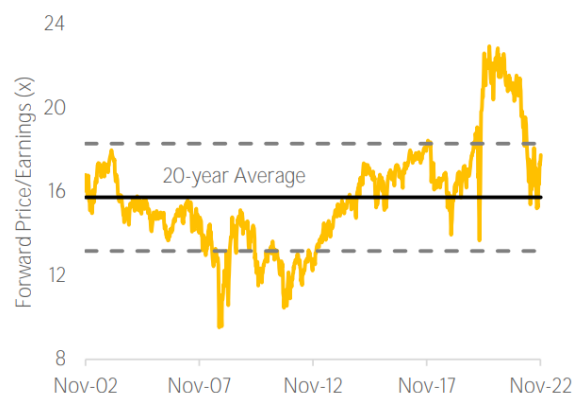
- No doubt, the moderating inflation in the U.S. is encouraging with Consumer Price Index (CPI) dipping to 7.7% year-on-year (YoY) in October (September: 8.2% YoY). Still, the inflation is high by historical standard and consensus is projecting CPI to stay above 3% in 2023. With unemployment rate remaining below 4%, we see little reason for the U.S. Fed to pivot from its restrictive monetary policy even though it may start to slow its pace of tightening with a 50 basis point (bps) hike likely for the meeting in December.
- With Fed funds rate anticipated to rise to 5% by March 23, it may lead to some upward pressure on long-end Treasury yields for now. Still, we expect 10-year UST yield to peak well below the terminal rate and trend towards 3.5% or lower by 1H23 with a further deceleration in growth. Consequently, we maintain our positive stance on 10-year UST as a hedge against the rising risk of a U.S. recession.
- In addition, we are adding exposure to DM IG bond (using U.S. IG as a proxy) which are trading at yield-to-worst of more than 5% (Figure 1). While price volatility could persist, we see opportunities to lock in the current high level of yield as a stable source of income. Notably, we do not expect U.S. IG default rates to escalate significantly given the still robust corporate fundamentals. In contrast, we are more wary of HY bonds in both DM and EM and expect credit spreads to widen more significantly in a downturn.
- In contrast to U.S. IG, the risk reward of U.S. equities have become less attractive with the S&P 500 now trading above its historical average valuation (Figure 2). With consensus earnings still overly optimistic, we expect the market to re-test its recent low on further earnings downgrade. Our analysis suggests a 15% potential downside from current S&P 500 level of around 4000 assuming a 5% earnings decline in 2023 and price-to-earnings multiple of 16x. We also see similar earnings downside risks for Europe and hence maintain our underweight stance on the market.
- Within Asia, we retain our preference for Southeast Asia over the expensive Indian stocks. In particular, Indonesia's robust macro outlook may continue to lend support to its stock market. We also expect Malaysia to reverse its year-to-date underperformance given the reduced political uncertainty, with the inexpensive market valuation and low foreign ownership limiting the downside. As for China, the recent fine-tuning of COVID measures and the 16-point rescue package for the property sector has lifted investor sentiment. Still, the reopening would likely be gradual with lingering zero-COVID policy uncertainties leading to heightened market volatility. Hence, we remain neutral on China for now.

Figure 1: U.S. IG bonds are offering yield of more than 5%, nearing a 10-year high



Source: Bloomberg | 30 November 2022

Figure 2: S&P 500 is trading on 18x forward price/earnings, above the 20-year average of 16x



Source: Bloomberg | 30 November 2022



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