Maybank Investment Strategy

April 2022

Summary

- Global markets got off to a difficult start in 1Q22 as investors were rattled by the Russia-Ukraine war, China's regulatory risks, and accelerated rate hike expectations amid the inflation surge.
- Global equities, as represented by MSCI All-Country World Index, fell 4% in 1Q. Bucking the overall trend, commodity-exporting countries including Indonesia and Australia posted strong gains, benefitting from the surge in commodity prices. Notably, Brent crude futures surged 39% in 1Q amid supply concerns and investors pricing in a sizeable geopolitical premium. Gold also advanced 5% in 1Q, benefitting from safe haven demand.
- Meanwhile, a sharp repricing of monetary tightening expectations has led to a global bond rout. The yields on the 10-year U.S. Treasury (UST) rose over 2.50% for the first time since 2019 before pulling back to 2.34%. The 2- year/10-year Treasury yield curve continues to flatten, a potential signal of an economic slowdown.

Asset Allocation

- Looking ahead, we remain mindful of the persistent inflationary pressure and the hawkish guidance from major central banks. Coupled with the Russia-Ukraine crisis, we see increased downside risks to growth. Still, an imminent recession is not our base case with further reopening lending some support to the economy.
- Global bond yields have surged as the market priced-in a more rapid rise in the U.S. Federal Reserve (Fed) policy rates. While we have shifted our 10-year UST yield trading range higher to 2.00% - 2.50%, further upside to the yield may be capped by rising growth risks. As such, we upgrade fixed income at the expense of equities, leading to a neutral stance on both asset classes.
- Within fixed income, we upgrade sovereign bonds to neutral and shift the allocation from High Yield (HY) to Investment Grade (IG) credit for more defensive carry. Our neutral stance on equities suggest we stay invested in the asset class but in a more selective manner given the many uncertainties. We maintain our overweight on China and Indonesia.
- A lot of geopolitical risk premium is currently being built into the crude oil complex, thus we prefer to retain our neutral view on oil despite the tight supply. Meanwhile, we continue to like gold as a portfolio diversifier to hedge against the current uncertainties.

2Q22 Outlook			
Asset Class *		Sector *	
Equity	=	U.S.	=
		Europe	-
		Japan	=
		Asia ex-Japan	+
Bonds	=	Sovereigns	=
		Developed Markets (DM) Investment Grade (IG)	=
		Developed Markets (DM) High Yield (HY)	=
		Emerging Markets (EM) IG	=
		Emerging Markets (EM) HY	-
		Asia IG	+
		Asia HY	=
Alternatives	=	Gold	=
		Oil	=
		Hedge Funds	=
Cash	=		

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

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	3.5%	-5.2%	-5.2%
MSCI Europe	0.0%	-7.2%	-7.2%
MSCI Japan	-0.3%	-6.4%	-6.4%
MSCI Asia ex-Japan	-2.7%	-8.0%	-8.0%
China	-8.0%	-14.2%	-14.2%
Hong Kong	0.0%	-1.8%	-1.8%
Taiwan	-2.2%	-6.5%	-6.5%
Korea	0.0%	-9.5%	-9.5%
India	3.7%	-1.8%	-1.8%
Singapore	0.5%	-1.7%	-1.7%
Malaysia	0.2%	2.0%	2.0%
Indonesia	3.6%	9.9%	9.9%
Thailand	-1.3%	4.2%	4.2%
Philippines	-1.7%	2.4%	2.4%
MSCI EM	-2.2%	-6.9%	-6.9%
Bonds			
Barclays US IG	-2.8%	-5.9%	-5.9%
iBoxx US HY	-0.9%	-4.4%	-4.4%
Commodity			
Gold	1.5%	5.9%	5.9%
Oil (WTI Crude)	4.8%	33.3%	33.3%

Source : Bloomberg | 31 March 2022

Maybank Investment Strategy

Second Quarter 2022 - Bonds

Summary

- Surging inflation prints have led to a scramble by the U.S. Fed, along with other major central banks, to normalise rates at a faster-than-expected pace. This is despite the ongoing geopolitical risk to global growth brought on by the breakout of war in Ukraine, introducing the spectre of stagflation.
- Benchmark 10-year UST yields surged higher at the start of the year (Figure 3) as the Fed vowed tough actions on inflation, bringing its own year-end median estimate of total hikes to seven (25 basis points each). We expect policy rates to rise this year, but we believe the long-end will ultimately be influenced by growth expectations which is expected to moderate over the coming months.
- We upgrade fixed income to neutral as this asset class has undergone a significant repricing and the increasingly attractive valuations are hard to ignore. We upgrade sovereign bonds to neutral. Meanwhile, in an up-in-quality stance, we downgrade Developed Market (DM) and Asia HY to neutral and upgrade DM IG to neutral and Asia IG to overweight.

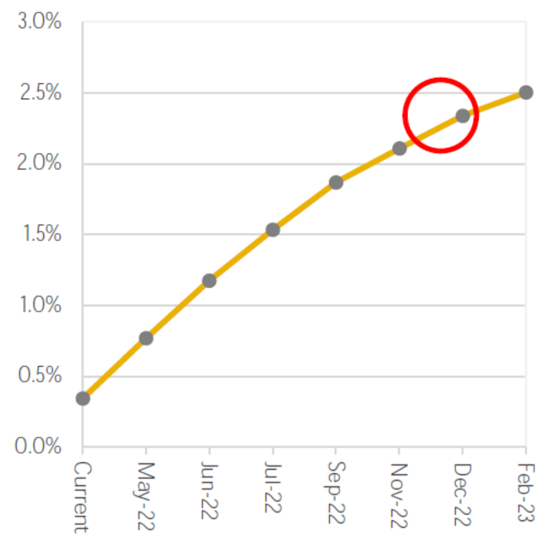
Market Outlook

- In view of the Fed's hawkish tilt, we believe incoming inflation and other key economic data will inform the size and pace of Fed rate hikes going forward. Commodity price shocks brought on by the Ukraine conflict may have unforeseen consequences and heighten the already volatile economic backdrop.
- Tightening 2-year and 10-year Treasury spread differential (the '2-10 spread' is a phenomenon that has not gone unnoticed by market participants, hinting at the relative slowness of the Fed in embarking on the rate hike cycle relative to history. With a more muted growth outlook, the 10-year Treasury may well be at or near its peak yield in this cycle. We expect the 10-year UST yield to trade within the 2.00% - 2.50% range over the next six months.
- In view of the above, we turn neutral on sovereign bonds (mainly U.S. Treasuries), with a select overweight in Asia IG which is more geographically and economically remote from the geopolitics of Europe, while offering safe and stable carry. Conversely, we are underweight Emerging Market (EM) HY, which is very susceptible to food and energy price inflation shocks.

Figure 3: 10-year U.S. Treasury yields soared on rising inflation expectations in 1Q22

Source: Bloomberg I 31 March 2022

Figure 4: Markets are now pricing in another eight 25 basis points hikes for rest of 2022



Source: Bloomberg I 31 March 2022

Maybank Investment Strategy

Second Quarter 2022 - Bonds

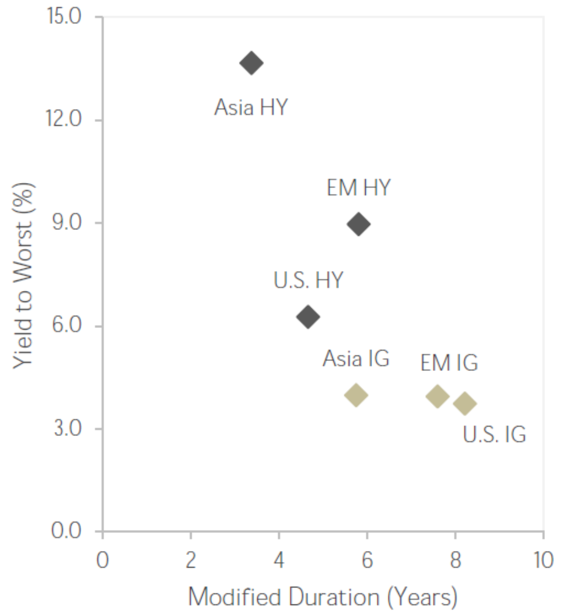
Market Outlook – Continued

- We turn neutral on DM HY credit as the risk reward has become less attractive. DM HY credit has outperformed its stronger rated peers year-to-date, driven by strong corporate pricing power, and credit fundamentals remain in decent shape, underlined by still benign default rates. That said, growth headwinds are rising, and without wider spreads to compensate for this risk, DM HY credit returns will likely moderate from here.
- In contrast, we upgrade DM IG credit to neutral as valuations are reasonable based on its strong credit fundamentals. While duration has been the Achilles heel for DM IG credit, its underperformance should be capped as we do not expect the 10Y UST yield to rise much higher from current levels.
- Despite lingering geopolitical risks, we are neutral on EM IG credit as valuations have cheapened and we expect Asia and Middle East to provide better stability. EM IG credit spreads have widened due to Russia's index contribution, but the removal of Russia from the benchmark index should cause spreads to normalise. Meanwhile, we continue to underweight EM HY as the segment remains more vulnerable to inflation shocks stemming from food and energy prices.
- In Asia, we prefer Asia IG over HY credit in an up-in-quality stance as the former offers defensive carry and lower default risk. Asia remains relatively more resilient to fund outflows relative to other EM regions given the high (over 70%) local participation in the asset class observed over the past several years. In addition, Asia IG credit is trading more attractively relative to its U.S. peers.
- In contrast, we turn neutral on Asia HY credit as the market volatility and default concerns could persist for longer. China property sector credit fundamentals have deteriorated in the past two months with downward pressure on contracted sales, and more developers running into liquidity problems. While the Chinese authorities have introduced supportive policy measures, a more substantial loosening of onshore credit conditions is likely needed for to stabilise the property sector.

Key Risks

- Significant corporate defaults affecting market sentiment.
- Faster-than-expected pace of Fed rate hikes.
- Escalating political uncertainties in emerging markets.

Figure 5: Yield-to-Worst and modified duration of bond sub-asset classes



Note: The above indices are based on Bloomberg Barclays bond indices.
Source: Maybank Group Wealth Management Research I 31 March 2022

Maybank Investment Strategy

Second Quarter 2022 – Equities

Summary

- Market volatility will likely remain elevated for now given the downside risks to growth and corporate earnings. As such, we have adopted a more prudent stance and turned neutral on equities. Still, there remains pockets of opportunities with global growth likely to remain at trend despite the lingering geopolitical and inflation uncertainties. Diversification remains key while valuation matters even more at the current juncture.
- We advocate a diversified exposure in both U.S. and Asia ex-Japan equities, with both China and Indonesia standing out from a risk reward perspective. However, we are less sanguine on Europe, which will likely be worst hit should the Russia-Ukraine crisis deteriorate. We also turn neutral on Japan and Singapore with both economies vulnerable to weaker external demand.
- Sectors wise, we would adopt a balanced approach towards value cyclicals that could benefit from further reopening and secular plays that offer exposure to structural growth trends. We would also seek stable dividends to enhance the stability of portfolio returns.

Market Outlook

- The geopolitical crisis is adding downward pressure to U.S. economic growth at a time when the U.S. Fed is tightening its monetary policy. Still, U.S. growth is likely to remain at-or-above trend, boosted by current strong labour market and wage growth, thereby supporting consumption. Meanwhile, consensus is projecting S&P 500 earnings to grow healthily at 6% year-on-year (YoY) in 1Q22 (Figure 6) though we remain mindful of the risk of downward earnings revision. With valuations remaining stretched relative to historical average, we maintain our neutral stance on U.S. equities.
- The Eurozone economy is being threatened by potential Russia energy supply risks. Higher energy costs will also likely dampen household spending. Meanwhile, the European Central Bank (ECB) continues to struggle with persistently high inflation, hence limiting its ability to ease monetary policies to support the economy. With manufacturing and services activities starting to soften (Figure 7), we see further downside to growth and corporate earnings that will weigh on the market performance. Consequently, we downgrade our view on Europe equities to underweight.

Figure 6: Consensus estimates suggest a healthy 1Q22 earnings season with S&P 500 earnings expected to grow by 6% YoY

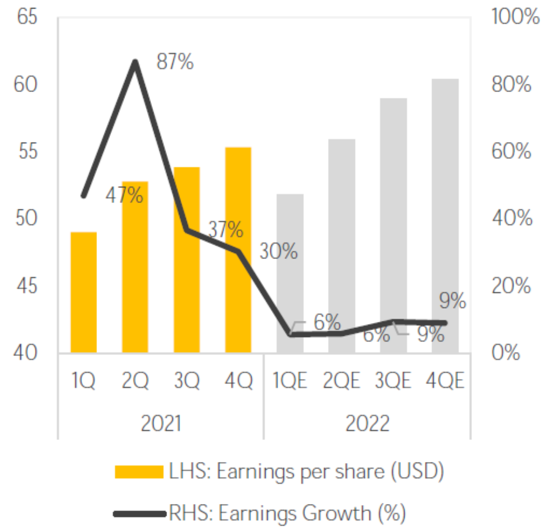
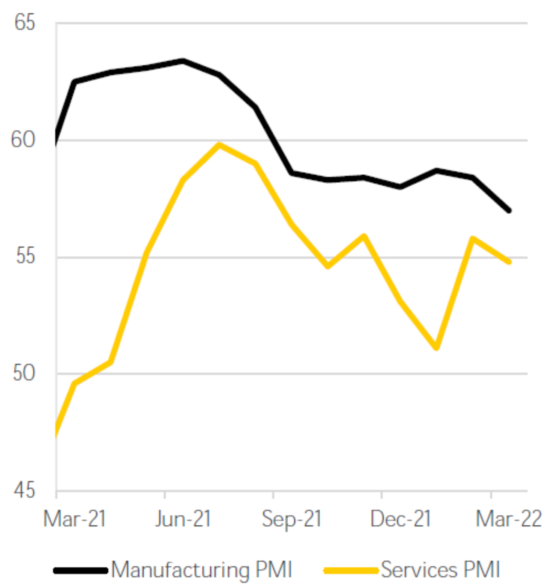


Figure 7: Eurozone manufacturing and services **Purchasing Managers' Index (PMI)** data are trending lower



Source: Bloomberg | 31 March 2022

Maybank Investment Strategy

Second Quarter 2022 – Equities

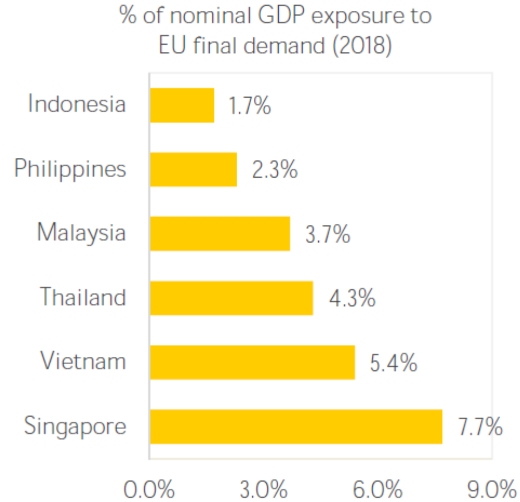
Market Outlook – Continued

- We downgrade Japan equities to neutral. Recent market performance has been supported by improving domestic economic activities post an Omicron lull at the start of the year. However, we are turning more cautious on Japan's overall growth outlook and corporate earnings prospects as it is a relatively more open economy and net oil importer. Nevertheless, the inexpensive market valuation may limit the downside.
- We see downside risks to China's growth target of 5.5% given the resurging COVID cases and real estate problems. In addition, the risk of secondary sanctions on Chinese firms remains. Nevertheless, China's current equity risk premium suggests that the negatives may have been largely priced in. Coupled with increasingly supportive policies, the overall risk reward favours staying overweight on China. We believe more concrete policy measures to support the economy, a pivot away from the zero-COVID strategy as well as more share buybacks are potential positive catalysts for the market.
- India's stock market has been largely supported by domestic flows, which is vulnerable to a quick reversal once the Reserve Bank of India starts to hike rates. Earnings risks are also growing. We continue to underweight India as there is very little room for earnings disappointment given the demanding valuations.
- For Singapore, we have lowered our 2022 GDP growth forecast to 2.8% (from 3.8%) given the external demand risks. While we have turned neutral on the market, the reopening positives and inexpensive valuation could lend some support. Meanwhile, we expect both Indonesia and Malaysia to be more shielded from higher oil prices as well as the Russia-Ukraine crisis with domestic demand likely to remain robust with further reopening of their respective economies.

Key Risks

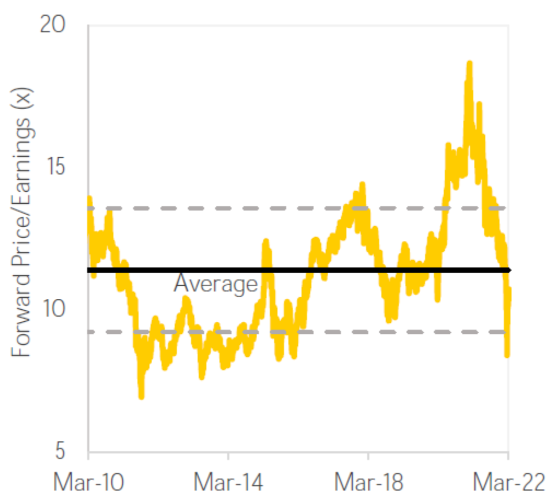
- Prolonged Russia-Ukraine war and the imposition of additional sanctions that will negatively impact trade flows and commodity supply.
- Persistent inflationary pressures leading to more aggressive monetary tightening.
- U.S. and China policy missteps leading to a drag on global economy.

Figure 9: Singapore, Vietnam and Thailand are more vulnerable to falling Europe (EU) final demand within South East Asia



Source: Maybank, OECD Database | 8 March 2022

Figure 8: MSCI China is trading inexpensively below historical average valuation



Source : Bloomberg | 31 March 2022

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