

Maybank Investment Strategy

March 2022

Summary

- Tensions between Russia and Ukraine escalated into a full-scale military conflict between both countries in late February. The rapid deterioration of events had resulted in heightened volatility across all asset classes.
- The MSCI All-Country (AC) World Index slumped 2.7% in February, dragged lower by U.S. and Europe. In contrast, the West Texas Intermediate crude benchmark jumped 8.6% on worries over supply-disruption, while gold also gained 6.2% as investors sought safe-haven assets.
- However, the 10-year U.S. Treasury (UST) yield rose 4.8 basis points (bps) to 1.82% as the flight-to-safety bid from Russia-Ukraine news was more than offset by persistently high inflation and expectations of rising interest rates.

Macro Outlook and Investment Strategy

- Against this backdrop, we remain constructive on equities in the medium-term although investors may want to phase-in their equity investments given the near-term uncertainties. We prefer selected markets including China and Singapore which are still trading at undemanding valuation and their economies are relatively shielded from the Russia-Ukraine situation.
- Meanwhile, we expect the U.S. Federal Reserve (Fed) to continue normalising its monetary policies amid elevated inflationary pressures although the central bank will remain data-dependent. Within fixed income, we retain our underweight stance on sovereign bonds given the upward pressure on yields and prefer U.S. and Asia High Yield (HY) credit for the shorter duration exposure and more attractive carry.
- With the Russia-Ukraine situation still evolving, investors should maintain some exposure to gold as a portfolio hedge. Oil prices may also move higher in the near-term although they could reverse quickly to the downside once the supply concerns dissipate. Overall, we suggest investors maintain a diversified portfolio including some cash buffer and ensure that the portfolio is not over-leveraged to mitigate the downside risks.

March 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	=	Asia HY	+
		Gold	=
		Oil	=
		Hedge Funds	=
Cash	=		

Source: Maybank Wealth Management Research

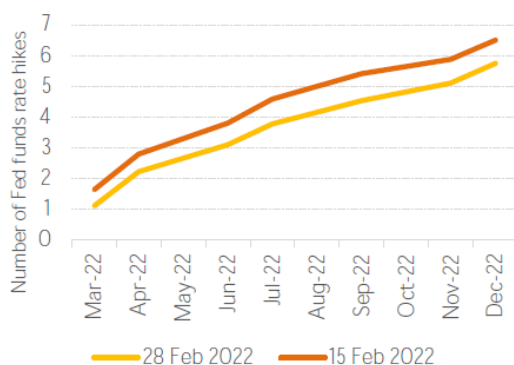
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	-3.1%	-8.6%	-8.6%
MSCI Europe	-3.0%	-7.4%	-7.4%
MSCI Japan	-1.2%	-6.2%	-6.2%
MSCI Asia ex-Japan	-2.4%	-5.4%	-5.4%
China	-3.9%	-6.7%	-6.7%
Hong Kong	-2.8%	-1.8%	-1.8%
Taiwan	-2.5%	-4.5%	-4.5%
Korea	0.5%	-9.7%	-9.7%
India	-4.1%	-5.4%	-5.4%
Singapore	-1.3%	-2.3%	-2.3%
Malaysia	5.3%	1.5%	1.5%
Indonesia	5.5%	6.0%	6.0%
Thailand	4.9%	5.1%	5.1%
Philippines	0.0%	4.1%	4.1%
MSCI EM	-3.1%	-4.9%	-4.9%
Bonds			
Barclays U.S. IG	-1.1%	-3.2%	-3.2%
iBoxx U.S. HY	-0.7%	-3.5%	-3.5%
Commodity			
Gold	6.2%	4.4%	4.4%
Oil	8.6%	27.3%	27.3%

Source : Bloomberg | 28 February 2022

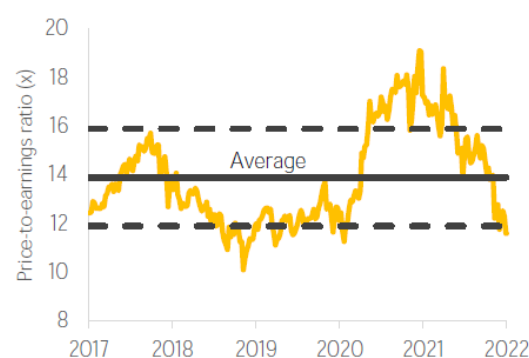
- The Fed's preferred inflation gauge, the core personal consumption expenditure (PCE) price index, rose 5.2% year-on-year (YoY) in January up from the prior month's pace. At this point, comments from the policymakers suggest that path of policy normalisation has not been altered by recent developments, even though heightened uncertainties between Russia and Ukraine may bring about higher energy prices and inflation. Notably, markets are pricing in a less aggressive pace of policy rate hikes versus two weeks ago (Figure 1). Still, an increase of 150 bps (or 6 hikes of 25 bps each) is projected by end 2022. For now, we expect the 10-year UST yield to trade largely within the range of 1.50% - 2.00% in 2022, although the yield could still overshoot to the upside in the near-term.
- The U.S. and Europe economies have remained resilient, with flash data for both manufacturing and services purchasing manager's indices (PMIs) coming in better than expected in February following an Omicron-related lull in January. In addition, the 4Q earnings have been encouraging with nearly 80% of S&P 500 companies posting positive earnings surprise. That said, our optimism is tempered by the moderating earnings revision trend in both markets. In addition, European equities may be more affected by the Russia-Ukraine situation given the close economic ties. As such, we maintain our neutral stance on both markets.
- In contrast, we retain our overweight stance on Japan, supported by healthy earnings outlook and less demanding valuation relative to its developed market peers. We also stay constructive on China given the attractive risk-reward. Notably, inflationary pressures remained benign which will enable policymakers to implement more targeted easing measures to bolster growth. The progress in COVID treatment and vaccine development should also help the government gradually shift away from its "zero-COVID" - strategy. Positively, Chinese companies are still trading at inexpensive levels relative to their historical valuation (Figure 2). There are also signs of earnings revision bottoming out, which should lift sentiment.
- To date, Southeast Asia equities have held up better than global peers. We believe the region will benefit from further reopening and continue to see Singapore and Indonesia as attractive recovery laggard plays. The latest Singapore Budget remained largely expansionary and there remain pockets of opportunities in consumer services, telecommunications and REITS sectors apart from the banking stocks. Meanwhile, Indonesia's 4Q21 GDP expanded by 5% with the recovery of domestic demand boding well for the market. In contrast, we are less sanguine on Thailand given the still rich market valuation and vulnerability to potentially higher oil prices.

Figure 1: Market is pricing in a more gradual pace of Fed policy rate hike



Source: Bloomberg | 28 February 2022

Figure 2: MSCI China is trading below its 5-year historical average price-earnings valuation



Source: Bloomberg | 28 February 2022

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