Maybank Investment Strategy

October 2021

Summary

- Global equities witnessed a choppy month with the MSCI All-Country World Index closing 4.1% lower in September. Apart from China's Evergrande crisis, investor concerns on the U.S. Federal Reserve (Fed hawkish tilt as well as signs of moderating growth momentum also weighed on sentiment.
- Similarly, the bond markets witnessed increased volatility with a late September rebound in 10-year U.S. Treasury (UST) yields leading to a 1.8% decline in Barclays Multi-verse index for the month. In addition, Asia High Yield (HY) credits came under pressure due to heightened concerns on the China property sector.
- In contrast, West Texas Intermediate (WTI) crude prices rebounded 9.5% in September, backed by improving demand and supply dynamics due to the U.S. hurricanes. Gold, however, retreated as the prospects of an imminent Fed tapering and a stronger U.S. dollar dragged prices to below USD 1,800 per ounce yet again.

Asset Allocation

- Looking ahead, market volatility could persist as we move into 4Q. Apart from lingering growth risks, the energy crunch in China may pose additional downside. The U.S. debt ceiling negotiation could also add to market worries although the situation should be resolved in time to prevent a significant fallout.
- We continue to exercise prudence in our asset allocation but investors should not be overly pessimistic. The global economic recovery remains in good shape that should be supportive of corporate earnings. The normalisation of the Fed's monetary policy should also remain gradual as a runaway inflation is unlikely.
- We are neutral on equities but turned more positive on Japan. In contrast, we are now underweight on India and consequently Asia ex-Japan but remain neutral on Asia as a region given our increased optimism on Japan. As for fixed income, we continue to favour credits over sovereign bonds with Asia Investment Grade (IG) and U.S. High Yield (HY) as our preferred segments.
- While oil may be supported by the ongoing demand recovery, the potential ramp-up of OPEC+ production could limit further price increase. Gold prices may remain subdued in the near-term with rising Treasury yields although investors should maintain some exposure as a hedge against growth risks.

4Q21 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	-4.7%	0.4%	15.3%
MSCI Europe	-4.7%	-1.5%	10.6%
MSCI Japan	2.9%	4.7%	6.2%
MSCI Asia ex-Japan	-4.1%	-9.2%	-3.3%
China	-5.0%	-18.1%	-16.6%
Hong Kong	-6.1%	-9.4%	-0.4%
Taiwan	-4.1%	-1.7%	16.9%
Korea	-6.5%	-13.2%	-7.3%
India	0.6%	12.7%	26.8%
Singapore	-0.1%	0.0%	9.4%
Malaysia	-3.7%	0.2%	-7.9%
Indonesia	3.4%	9.5%	-3.6%
Thailand	-7.1%	-3.5%	-4.0%
Philippines	-1.9%	-3.5%	-6.9%
MSCI EM	-3.9%	-8.0%	-1.0%
Bonds			
Barclays US IG	-1.1%	0.0%	-1.3%
iBoxx US HY	0.0%	0.9%	4.5%
Commodity			
Gold	-3.1%	-0.7%	-7.4%
Oil	9.5%	2.1%	54.6%

Source : Bloomberg | 30 September 2021

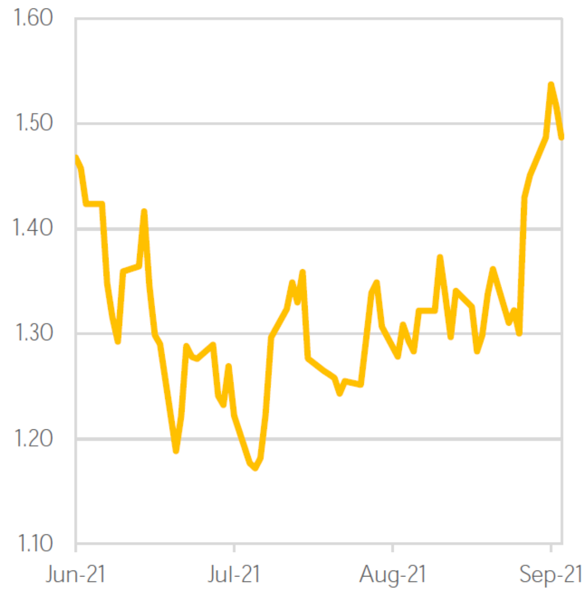
Summary

- The economic recovery is taking a firmer footing in many developed countries and is en route in some emerging countries. Leading central banks are unwinding - or getting closer to unwinding - crisis-era support measures. Notably, the Norges Bank became the first central bank in developed markets (DM) to hike policy rates since the onset of the pandemic.
- The benchmark 10-year UST yields surged higher in September (Figure 3) after the U.S. Federal Reserve (Fed) hinted at scaling back bond purchases during the latest Federal Open Market Committee (FOMC) meeting. In addition, more Fed officials indicated that they could envision raising interest rates by the end of next year.
- We maintain a broadly neutral stance on fixed income, with a preference for credits over sovereign bonds, given the former's more attractive carry and as a buffer against the latter's duration risk.

Market Outlook

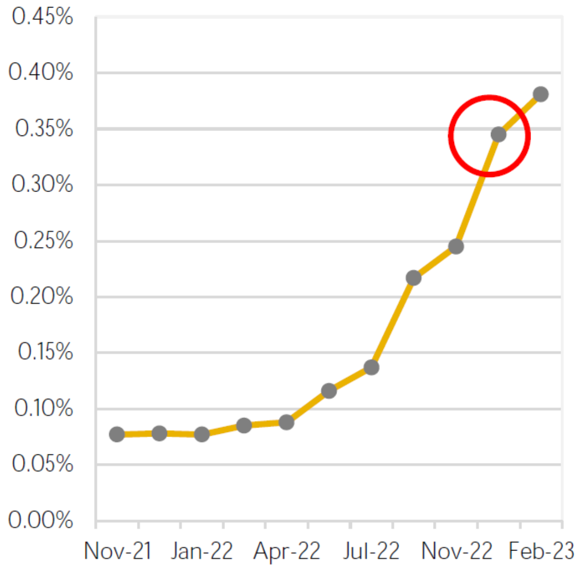
- In view of the Fed's hawkish tilt, we believe the central bank may start reducing its asset purchases as early as November this year and conclude the tapering by the middle of next year. Post-FOMC, we also noted the market is now pricing in a first rate hike of 25 basis points (bps) from the current 0.0%-0.25% band in December 2022 (Figure 4) versus previous expectations of a rate hike in early 2023.
- Meanwhile, inflation readings are showing signs of plateauing after the U.S. Consumer Price Index came in at 5.3% year-on-year (YoY) in August versus 5.4% YoY in July. Still, inflation could remain elevated in the near term due to supply chain bottlenecks. Coupled with an improving labour backdrop, the prospect of tighter monetary policy suggests upward pressure on longer-end bond yields.
- In view of the above, we maintain our negative view on sovereign bonds (mainly U.S. Treasuries) and believe credits offer better carry opportunities for investors hunting for yield in a still low-rate environment. Having said that, the upward move in Treasury yields may be limited by lingering Delta variant threats and U.S. political gridlock that could dampen the economic outlook. Hence, we expect the 10-year UST yield to trade within the 1.25% - 1.75% range over the next six months.

Figure 3: 10-year U.S. Treasury yields dipped before recovering ground in 3Q21



Source: Bloomberg I 30 September 2021

Figure 4: Fed Fund Futures are now pricing in a first rate hike of 25bps in December 2022



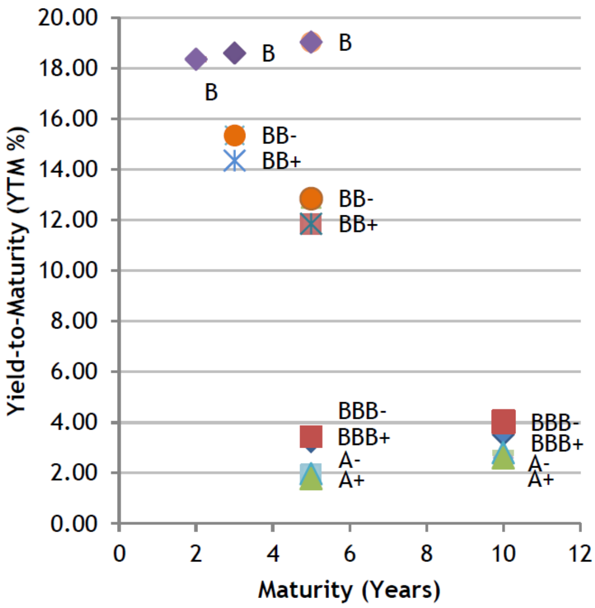
Source: Bloomberg I 30 September 2021

- We continue to overweight DM HY credits given reasonably attractive risk-adjusted returns amid improving corporate fundamentals. DM HY corporates continue to benefit from a vaccination-driven growth rebound, resulting in earnings improvement and lower default rates. While credit spreads are rich relative to history, this could remain the case for some time as the business cycle progresses.
- Meanwhile, we stay underweight on DM IG credits as it is particularly vulnerable to rising rates, while its low credit spread component is insufficient to compensate investors for higher duration risk.
- Within Emerging Market (EM) credits, we are neutral on both EM IG and EM HY credits, given fair valuations versus historical average levels. While the region has seen good progress on the vaccine rollout, concerns over the impact of a stronger dollar and incrementally tighter DM monetary policy are not to be discounted.
- That said, the EM space continues to offer good carry and is a welcome diversification to EM Asia, where volatility due to China-related developments has been higher than normal.
- In Asia, we prefer Asia IG over HY credits in an up-in-quality stance as the former offers resilient carry and lower default risk. Despite the fallout from Evergrande, Asia IG bonds have been fairly resilient which suggests that contagion from Asia HY appears to be contained for now. In addition, Asia IG credits offer attractive valuations relative to U.S. peers and are less sensitive to changes in Treasury yields which help reduce interest rate risk.
- In comparison, we remain neutral on Asia HY credits as market volatility could remain elevated in the near-term until there is further resolution on the Evergrande crisis. Despite widening credit spreads, Asia HY could continue to struggle as limited transparency and policy uncertainties in China keep gains in check.

Key Risks

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

Figure 5: Median Yield-to-Maturity (YTM) in the Asian Credit Space



Median YTM Range :

A	10yr	: 2.60% - 2.80%
A	5yr	: 1.80% - 2.00%
BBB	10yr	: 3.50% - 4.00%
BBB	5yr	: 3.20% - 3.40%
BB	5yr	: 11.80% - 12.80%
BB	3yr	: 14.30% - 15.30%
B	5yr	: 19.00%
B	3yr	: 18.60%
B	2yr	: 18.30%

Source: Maybank Group Wealth Management Research I 30 September 2021

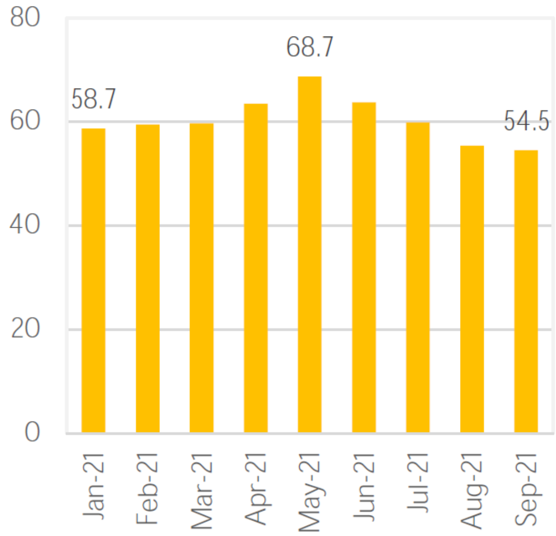
Summary

- Equity markets may remain choppy in the near-term amid concerns of slowing growth momentum, fading monetary stimulus and higher-than-historical-average valuations. As such, we remain neutral on equities. Having said that, global economic growth is projected to remain above trend in 2022 which should lend support to corporate earnings. In fact, we would be inclined to turn more positive should markets correct further and valuations become attractive again.
- For now, we remain selectively biased towards Japan, South Korea and Singapore equities. In particular, Japan is well-positioned to outperform with the change in political leadership driving new hopes for growth. In contrast, we turn negative towards India alongside Taiwan and Thailand given the expensive valuation.
- 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. We also continue to focus on sustainable investing as it gains further traction across asset classes including equities.

Market Outlook

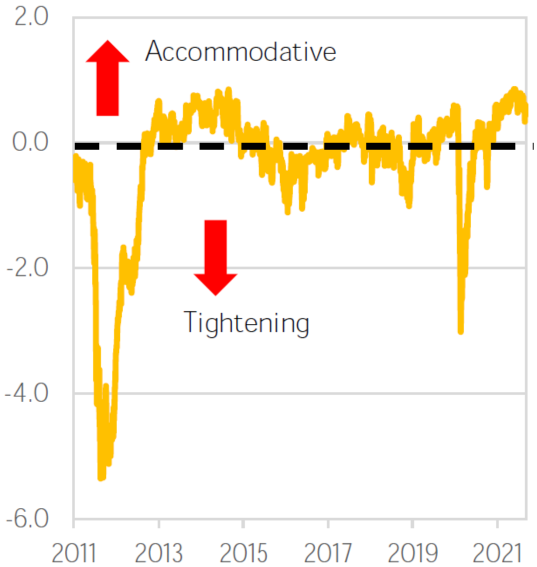
- The Purchasing Managers Indices (Figure 6) in the U.S. suggest that the pace of economic growth may have peaked. However, the overall economy remains on a firm footing with an expected above trend growth of 4.2% in 2022, allowing the Fed to begin tapering its asset purchases this year. Meanwhile, U.S. corporate earnings outlook remains positive, with analysts revising up the estimated earnings growth rate for 3Q to 27.6% year-on-year. However, valuations are quite stretched relative to historical average and the upcoming debt-ceiling showdown is a risk. As such, we maintain our neutral stance on the U.S. equities.
- With the Eurozone recovery remaining firmly on track, the European Central Bank recalibrated its Pandemic Emergency Purchasing Programme in September, while keeping overall financing conditions accommodative (Figure 7). Some risks to the outlook remain, including the potential spill over effects from China's slowdown and the recent rise in energy prices acting as a drag on growth. In addition, European companies' positive earnings revision momentum is slowing. Given the balanced risk-reward, we are neutral on Europe.

Figure 6: U.S. Markit Composite Purchasing Managers' Index



Source: Bloomberg I 30 September 2021

Figure 7: Bloomberg Eurozone Financial Conditions Index



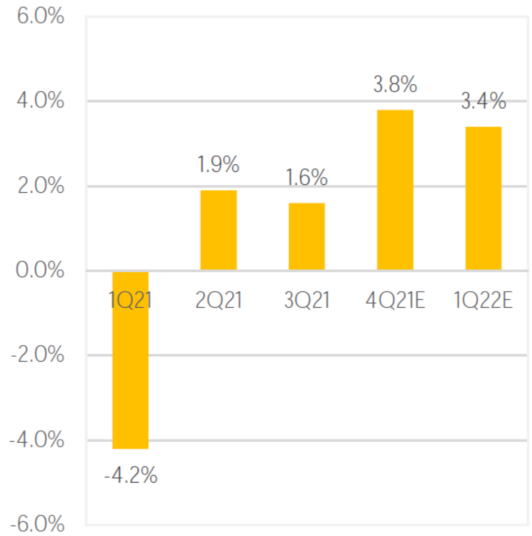
Source: Bloomberg | 30 September 2021

- We upgrade Japan to overweight as we believe expectations for economic reopening are likely to increase further following the lifting of the country's state of emergency at the end of September (Figure 8). Meanwhile, Japan's ruling party has elected Fumio Kishida as the next prime minister and his administration could announce additional economic stimulus after the general elections that must be held by November 28. With the economy on a more sustainable recovery, this would likely translate to more upward earnings revisions.
- In the near term, the uncertainties surrounding China Evergrande, tightening regulations, and energy crunch will remain an overhang on investor sentiment towards China market. In our view, the government will help facilitate an orderly debt restructuring of Evergrande. Looking ahead, the People's Bank of China may possibly look at easing its monetary policy to support the economy as well. We believe that these headwinds have been mostly priced-in and thus we retain our neutral call on China.
- India has benefited from funds flow as investors pulled out of China due to its multiple headwinds. However, this trend is not sustainable. India's economic recovery is not on stable footing as only 15% of the total population is fully vaccinated. We downgrade India to Underweight as there is very little room for earnings disappointment given the demanding valuations. MSCI India is trading at a record 65% premium to MSCI Asia ex-Japan equities.
- In Singapore, while the resurging COVID cases is a concern, the high vaccination level (Figure 9) should continue to support the reopening and we maintain our 2021 GDP growth forecast of 6.8%. We continue to overweight Singapore, which remains as an attractive source of dividend plays amid reasonable valuation. Meanwhile, we expect Malaysia growth prospects to improve from 4Q with the vaccination ramp-up but retain our neutral view until we see clearer signs of a turnaround in earnings revision trend.

Key Risks

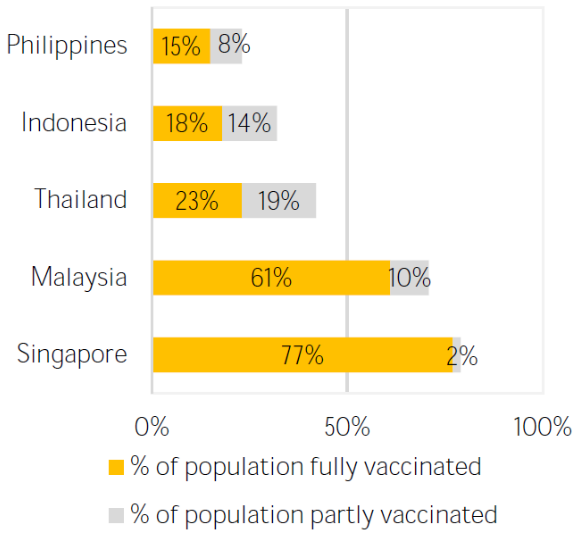
- Persistent inflationary pressures leading to earlier-than expected monetary tightening.
- Unexpected slowdown in growth with COVID variants leading to widespread resurgence in infections.
- Escalation of geopolitical uncertainties.

Figure 8: **Japan's** Real GDP QoQ% (seasonally adjusted annual rate)



Source : Bloomberg | 30 September 2021

Figure 9: Singapore has relatively higher level of vaccination in South-East Asia



Source : Our World in Data | 28 September 2021

Disclaimer

This advertisement has not been reviewed by the Bangko Sentral ng Pilipinas.

This report is for information purposes only and under no circumstances is it or any part of it to be considered or intended as an offer to sell or a solicitation of an offer to buy any of the financial or investment products referred to herein (each, a "Product", and collectively, "Products") or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy or enter into any legal relations, or an advice or a recommendation with respect to such Products.

Investors should note that income from such Products, if any, may fluctuate and that each Product's price or value may rise or fall. Accordingly, investors may receive back less than what they have originally invested or they may also not receive back anything at all from what they have originally invested. **All investments involve an element of risk, including capital and principal loss. Past performance is not necessarily a guide to or an indication of future performance.**

This report is prepared for general circulation. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, financial situation and particular needs of any particular recipient or reader and thus should be read with this in mind. An investor should therefore independently and separately evaluate and assess each Product and consider the suitability of the same and the risks involved or the investment strategies discussed or illustrated in this report, taking into account the investor's specific investment objectives, financial situation, risk tolerance and particular needs, and seek independent financial, audit, tax, legal and/or other professional advice as necessary, before dealing, transacting and/or investing in any of the Products mentioned in this report or communicated to the investor as a follow-up to this report. All investments will be made solely upon and in reliance on the own judgment and discretion, notwithstanding any opinion, commentary or recommendation this report, Maybank or its Relationship Managers may provide. Unless expressly agreed otherwise, Maybank offers no investment, financial, legal, tax or any other type of advice to recipients or readers of this report. Maybank has no fiduciary duty towards any such recipients and readers, and makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for the financial needs, circumstances or requirements of the recipients and readers.

Some of the information herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank and consequently no representation and/or warranty is made by Maybank as to the accuracy or completeness of this report for any particular purpose and it should not be relied upon as such. Maybank may have issued other documents, investment proposals, reports, analyses or emails expressing views different from the contents hereof and all views expressed in such documents, investment proposals, reports, analyses and emails are subject to change without notice. The information or opinions or recommendations contained herein are subject to change at any time without prior notice. Accordingly, to the maximum extent permitted by applicable laws and regulations, Maybank and its officers, directors, associates, agents, connected parties and/or employees shall not be liable for any error or omission contained in this report or for any direct, indirect, special or consequential losses or damages that may arise from the use of, reliance on or any action taken in connection with this report. Maybank and its officers, directors, associates, connected parties and/or employees, including persons involved in the preparation or issuance of this report, may from time to time have positions or be materially interested in the Products referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such Products and may also perform or seek to perform investment banking, advisory or other services in relation thereto. One or more directors, officers and/or employees of Maybank may be a director of any of the corporations of the Products mentioned in this report to the extent permitted by law. Accordingly, Maybank may have a conflict of interest that could affect the objectivity of this report.

This report may contain information such as valuation, performance, yield or the like, derived from a variety of valuation metrics, all of which may change at any time without notice and investors are cautioned not to place undue reliance on such information. This report may also contain forward looking statements which are often but not always identified by the use of words such as “anticipate”, “believe”, “estimate”, “intend”, “plan”, “expect”, “forecast”, “predict” and “project” and statements that an event or result “may”, “will”, “can”, “should”, “could” or “might” occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made by and/or information currently available to Maybank and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements. This report is current as at the date of its publication and Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events. This report may also contain charts, diagrams or graphs, including sample portfolio overview, which may differ or vary from the actual charts, diagrams or graphs, including any portfolio overview, which an investor may receive separately.

The information herein and the contents of this report remain the intellectual property of Maybank. The contents of this report are confidential and its circulation and use are restricted. This report is prepared for the use of Maybank’s clients and/or prospective clients and may not be reproduced, altered in any way, copied, published, circulated, distributed or transmitted to any other party in whole or in part in any form or manner or by any means (including electronically, photocopying, recording or via any information storage and retrieval system) without the prior express written consent of Maybank. Maybank and its officers, directors, associates, agents, connected parties and/or employees accept no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who/which is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or where Maybank may become subject to new or additional legal or regulatory requirements. The Products described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers or warnings may apply based on the geographical location of the recipient of this report.