Maybank Investment Strategy

November 2021

Summary

- October was a better month for risk assets after a challenging September. Global equities rebounded with the MSCI All-Country World Index gaining 5.1%, backed by encouraging corporate earnings and further reopening of the economy, which helped offset growth uncertainties amid supply chain challenges.
- In contrast, the Bloomberg Barclays Multiverse Index retreated 0.3% last month. Notably, the 10-year U.S. Treasury (UST) yields spiked to 1.70% before pulling back to 1.55% as at end-October. Asia High Yield (HY) credits also remained under pressure given the ongoing concerns on the China property sector.
- Oil was a notable outperformer with West Texas Intermediate (WTI) crude prices jumping 11.4%, backed by demand recovery amid constrained supply increase. Gold also edged higher to USD 1,783 per ounce.

Macro Outlook and Investment Strategy

- Global economic growth is moderating but projected to remain above trend. Still, the supply chain issues, coupled with lingering COVID-19 uncertainties, will pose near-term risks to growth. With inflation remaining persistently high, investors may continue to worry about stagflation although it remains a low probability scenario, in our view.
- We remain neutral on equities which remain vulnerable to volatility spike in the near term. Still, we continue to favour Japan equities, which offer more attractive risk reward than their U.S. and European peers. Meanwhile, we prefer to wait for more policy clarity before turning positive on China equities even though the negatives may have been largely priced-in.
- We retain our neutral stance on fixed income. We continue to look for more resilient carry through credits, with Asia Investment Grade (IG) and U.S. HY bonds being our preferred segments. In contrast, we remain negative on sovereign bonds as the upward pressure on Treasury yields will likely weigh on the performance.
- The recent surge in oil prices may sustain given the current favourable demand-supply dynamics although the OPEC and its alliance partners may respond with increased oil production should the price hike become excessive. Meanwhile, we see limited upside for gold but expect prices to remain supported by safe-haven demand in view of ongoing growth uncertainties.

November 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	=		

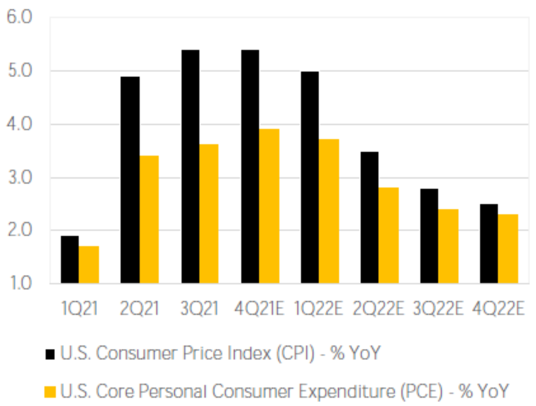
Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	7.0%	7.0%	23.4%
MSCI Europe	4.5%	4.5%	15.7%
MSCI Japan	-3.4%	-3.4%	2.6%
MSCI Asia ex-Japan	1.4%	1.4%	-2.0%
China	3.2%	3.2%	-14.0%
Hong Kong	1.3%	1.3%	0.9%
Taiwan	0.6%	0.6%	17.7%
Korea	-2.3%	-2.3%	-9.4%
India	-0.8%	-0.8%	25.9%
Singapore	4.2%	4.2%	14.0%
Malaysia	2.5%	2.5%	-5.6%
Indonesia	8.4%	8.4%	4.4%
Thailand	3.0%	3.0%	-1.2%
Philippines	3.3%	3.3%	-3.8%
MSCI EM	1.0%	1.0%	0.0%
Bonds			
Barclays U.S. IG	0.0%	0.0%	-1.6%
iBoxx U.S. HY	-0.3%	-0.3%	3.4%
Commodity			
Gold	1.5%	1.5%	-6.1%
Oil	11.4%	11.4%	72.2%

Source : Bloomberg | 31 October 2021

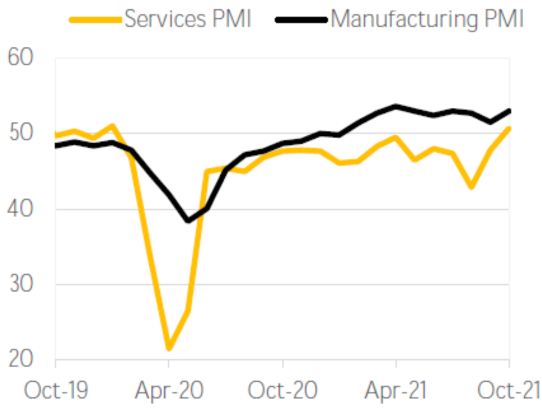
- The 3Q earnings season in the U.S. has been encouraging with positive surprises from more than 80% of the S&P 500 companies that have reported. Still, a number of companies have highlighted supply chain and labour shortage issues that could weigh on near-term growth. Inflation is also likely to remain high for longer (Figure 1), which could lead to concerns of a tighter monetary policy stance. While the corporate earnings outlook remains constructive, we prefer to remain neutral on U.S. equities given the near-term risks amid a relatively stretched market valuation.
- In contrast, we remain positive on Japan equities as its GDP growth is projected to pick up in 4Q as the economy reopens further. Notably, the improving Purchasing Manager's Index (PMI) data for both manufacturing and services (Figure 2) bode well for the outlook. Further details on Prime Minister Fumio Kishida's economic stimulus package could also serve as a potential catalyst with the Liberal Democratic Party (LDP) retaining control in the latest election. With Japanese stocks trading at relatively more attractive valuation to other developed market peers, we see room for the market to play catch up.
- China's weaker-than-expected 3Q GDP of 4.9% year-on-year highlights the weakening growth momentum, which could persist due to the power crunch situation and the property sector doldrums. Nevertheless, policymakers are likely to announce more targeted pro-growth measures to cushion the slowdown. Further clarity on the regulatory front, particularly for the Technology sector, should also provide an uplift to China equities. Meanwhile, we are encouraged by the improving COVID-19 situation in South-East Asia although the surprise proposal of the Cukai Makmur one-off windfall/prosperity tax may dampen the near-term returns of Malaysia equities. For now, we retain our preference for Singapore with the market performance likely to be supported by the banks amid their robust earnings outlook as well as consumer and transport related plays that could benefit from the gradual lifting of border restrictions.
- Although the U.S. Fed is well-expected to announce its tapering of asset purchases in November, any hawkish tilt in the central bank's policy tone may cause some market jitters. Separately, Asia HY bonds could remain choppy even though their credit spreads are now well above historical average levels. While China Evergrande has managed to make bond coupon payments so far, the defaults of other smaller developers such as Modern Land and Sinic Holdings will continue to weigh on sentiment. As such, we prefer to seek defensive carry through U.S. HY and Asia IG credits which have demonstrated relatively more resilient fundamentals and returns to-date.

Figure 1: U.S. inflationary pressure is projected to persist well into 1H22



Source: Bloomberg | 31 October 2021

Figure 2: Improving manufacturing and services PMI data bode well for Japan



Source: Bloomberg | 31 October 2021

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