Maybank Investment Strategy

December 2021

Summary

- Risk aversion has increased considerably since late November amid growing fears of the potentially more contagious Omicron COVID-19 variant and the efficacy of existing vaccines against this new variant. The U.S. Federal Reserve (Fed) Chairman Jerome Powell's unexpected pivot towards faster tapering of asset purchases also led to increased volatility in risk assets.
- MSCI All-Country World Index retreated 2.4% in November, led lower by Asia ex-Japan and Europe. The West Texas Intermediate crude benchmark also plunged 20.8%, driven by demand concerns and increased supply from the U.S.-led Strategic Petroleum Reserves release to battle rising energy prices.
- Meanwhile, U.S. Treasuries and Investment Grade bonds (IG) saw some inflows on safe-haven buying. The 10-year U.S. Treasury (UST) yields closed 11 basis points lower to 1.44% as at end-November, although short-maturity yields rose amid faster rate hike expectations next year.

Macro Outlook and Investment Strategy

- The global economic recovery remains intact, underpinned by strong pent-up demand and solid corporate balance sheets. The unwinding of extremely easy fiscal and monetary stimuli is inevitable given the improving economy. Nevertheless, we view it more as a recalibration of policies and not a complete withdrawal of fiscal and monetary support.
- Near-term, the Omicron variant, risks in China's property sector, the pace of Fed tapering amid inflation concerns and year-end liquidity constraints may cause market volatility to persist. Against this backdrop, we remain neutral on equities and are selectively biased towards Japan, Singapore and Indonesia, while avoiding India, Taiwan and Thailand given their rich valuations.
- The neutral stance on fixed income remains unchanged. Inflation could continue to pose upward pressure on government bond yields. Thus, we prefer U.S. High Yield (HY) and Asia IG bonds which are likely to offer resilient returns on robust credit quality and less sensitive to changes in Treasury yields.
- While the upside for gold may remain limited, we still recommend some allocation to this asset class as a portfolio diversifier and hedge against stagflation risks. We maintain our neutral stance on oil given the balanced risk-reward.

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

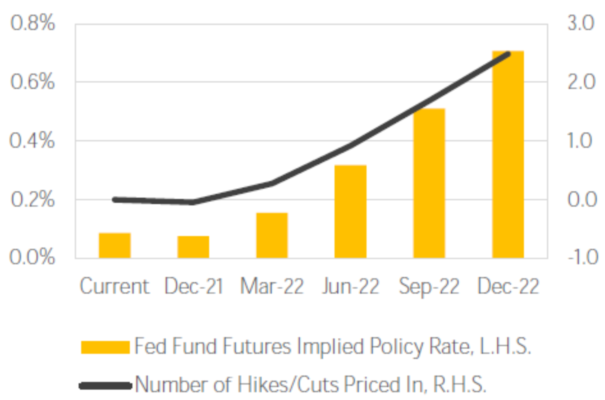
Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	-1.0%	5.9%	22.1%
MSCI Europe	-5.1%	-0.8%	9.7%
MSCI Japan	-2.5%	-5.7%	0.1%
MSCI Asia ex-Japan	-3.9%	-2.6%	-5.8%
China	-6.0%	-3.0%	-19.1%
Hong Kong	-5.3%	-4.1%	-4.4%
Taiwan	2.2%	2.9%	20.2%
Korea	-4.6%	-6.8%	-13.5%
India	-3.0%	-3.8%	22.1%
Singapore	-7.5%	-3.6%	5.4%
Malaysia	-4.7%	-2.3%	-10.0%
Indonesia	-2.8%	5.3%	1.5%
Thailand	-6.0%	-3.2%	-7.1%
Philippines	2.6%	6.0%	-1.3%
MSCI EM	-4.1%	-3.1%	-4.1%
Bonds			
Barclays U.S. IG	0.0%	0.0%	-1.6%
iBoxx U.S. HY	-1.1%	-1.4%	2.3%
Commodity			
Gold	-0.5%	1.0%	-6.5%
Oil	-20.8%	-11.8%	36.4%

Source : Bloomberg | 30 November 2021

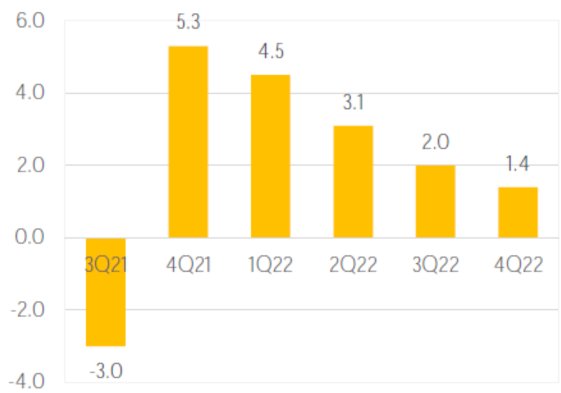
- Investors are currently pricing in two to three Fed Fund rate hikes in 2022 (Figure 1) and faster tapering of asset purchases as inflation is proving stickier-than-anticipated. The inflation story will remain an important market driver and could lead to elevated market volatility from time to time. Nevertheless, we expect central banks to find a “smooth exit” in normalising their respective monetary policies to avoid derailing the economic recovery. Hence, overall financial conditions should remain supportive of growth.
- We expect Treasury yields to grind higher over the next six months although the 10-year UST yield is unlikely to push above 1.75% anytime soon. Coupled with low corporate default rates, we continue to seek income opportunities in U.S. HY and Asia IG bonds in light of better fundamentals and resilient carry.
- The overall macro backdrop in the U.S. remains solid and the robust third quarter earnings season has led to further upward earnings revisions. U.S. earnings are projected to grow by 46% in 2021, up from 44% a month ago. However, the favourable backdrop could be tempered by the Omicron variant and taking into account of the relatively rich market valuation, we remain neutral on U.S. equities.
- We continue to overweight Japan as its GDP growth is poised to rebound in 4Q as the economy reopens further (Figure 2). The announcement of a bigger-than-expected JPY 55.7 trillion stimulus package would lend additional support to the growth recovery and corporate earnings. While the Omicron variant is a concern, the inexpensive market valuation provides some buffer to the downside risks. With investors yet to fully price in the recovery, we see room for Japanese stocks to play catch up in the months ahead.
- China’s economy is showing signs of stabilisation in October with retail sales, industrial production, and trade data beating expectations. However, the performance of China equities may remain choppy in the near term given the property sector woes and regulatory overhang on technology stocks. Still, the negatives are likely priced in and the government may also implement targeted measures to support growth.
- In Southeast Asia, we upgrade Indonesia to Overweight as the market will likely benefit from improving domestic demand with further reopening of the economy. We also retain our positive stance on Singapore and favour sectors with operating leverage to reopening or earnings visibility from structural growth. In contrast, we downgrade South Korea to neutral due to the unexciting earnings outlook in 2022 and expectations of tighter financial conditions following Bank of Korea’s policy rate hikes.

Figure 1: Fed Fund Futures implied policy rate and number of hikes



Source: Bloomberg | 30 November 2021

Figure 2: **Japan’s GDP growth quarter**-on-quarter %, seasonally adjusted annual rate



Source: Bloomberg I 30 November 2021

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