Maybank Investment Strategy

September 2021

Summary

- Global equities marched higher for the sixth straight month, with the MSCI All-Country World Index rising 0.7% in July, driven by the U.S. on the back of solid second quarter earnings report. In contrast, Asia ex-Japan equities underperformed, weighed down by China after the clamp down on the after-school tutoring sector.
- The Bloomberg Barclays Multiverse Total Return Index also climbed 1.3% in July. Notably, U.S. Treasuries (UST) saw sharp volatility, with the 10-year yields declining 25 basis points to 1.22% as at end-July amid concerns over rising Delta variant cases.
- Meanwhile, gold finished 2.5% higher as lingering global growth concerns supported demand for the precious metal while oil performance was more subdued following a strong run in June.

Macro Outlook and Investment Strategy

- We expect global economy to grow above trend in 2022 (Figure 1), albeit at a moderate pace as fiscal and monetary supports fade. Notably, the U.S. Federal Reserve (Fed) is signalling the likely scale back of monetary stimulus with the recovery well on track.
- The potential shift in policy stance coupled with less compelling valuations from riskier asset classes suggest higher volatility ahead. In addition, the regulatory uncertainty on Chinese Tech has lifted the risk premium and suppressed near-term return expectations.
- Taking a prudent stance, we tactically downgrade China and Malaysia to neutral, which consequently led us to neutralise Asia ex-Japan and global equities from overweight. We raise cash to neutral and would wait for the opportunity to redeploy the cash into risk assets.
- Malaysia's growth outlook may be hampered further by elevated COVID-19 infections and an uncertain political backdrop. Within equities, we continue to prefer Singapore and South Korea for their positive earnings outlook and attractive valuations.
- We retain our neutral stance on fixed income and continue to prefer credits over sovereign bonds. We maintain our overweight stance on Asia Investment Grade (IG) and U.S. High Yield (HY) on attractive risk-reward outlook. We continue to see value in maintaining exposure in gold to mitigate uncertainties, including the threat from Delta variant and geopolitical tensions.

August 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	=		

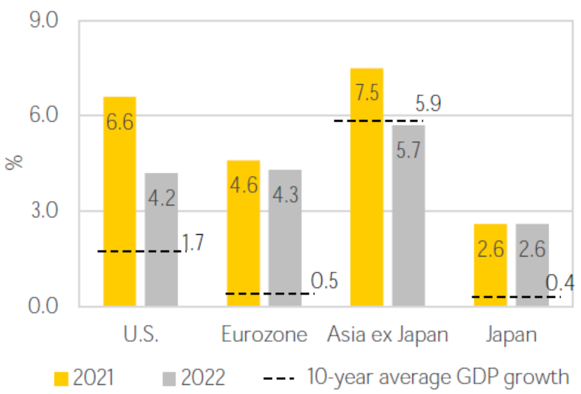
Source: Maybank Wealth Management Research
* Overweight : +, Neutral : =, Underweight : -

Asset Class	Changes to date (in USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	2.4%	2.4%	17.6%
MSCI Europe	1.9%	1.9%	14.4%
MSCI Japan	-1.3%	-1.3%	0.2%
MSCI Asia ex-Japan	-7.4%	-7.4%	-1.4%
China	-13.8%	-13.8%	-12.2%
Hong Kong	-2.9%	-2.9%	6.8%
Taiwan	-2.0%	-2.0%	16.5%
Korea	-5.6%	-5.6%	0.8%
India	0.9%	0.9%	13.6%
Singapore	1.3%	1.3%	10.9%
Malaysia	-4.0%	-4.0%	-11.8%
Indonesia	-1.9%	-1.9%	-13.7%
Thailand	-6.9%	-6.9%	-7.5%
Philippines	-11.7%	-11.7%	-14.8%
MSCI EM	-6.7%	-6.7%	0.4%
Bonds			
Barclays U.S. IG	1.1%	1.1%	-0.5%
iBoxx U.S. HY	0.2%	0.2%	3.2%
Commodity			
Gold	2.5%	2.5%	-4.4%
Oil	0.7%	0.7%	52.4%

Source : Bloomberg | 31 July 2021

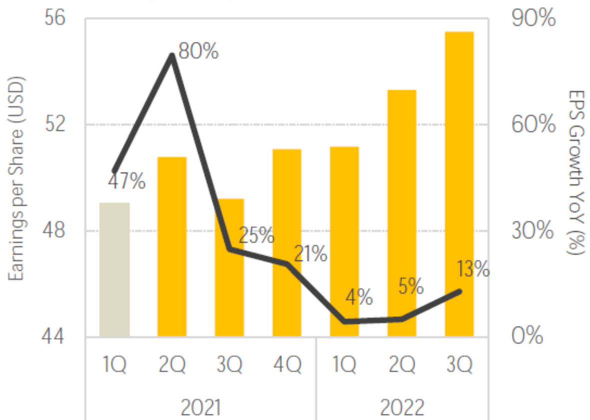
- The U.S. economy grew solidly in the second quarter, but the pace of GDP growth at an annualised rate of 6.5% was below consensus expectations of 8.4%. Still, we expect growth to remain above trend even though the momentum is expected to moderate in the coming quarters. Meanwhile, U.S. corporates have delivered robust second quarter performance to-date, with consensus projecting S&P 500 earnings to grow 80% year-on-year (YoY) (Figure 2). However, volatility could spike from current low levels with the elevated inflation and a potential shift in monetary policy remaining as key risks apart from COVID uncertainties. With the MSCI U.S. Index trading at relatively rich valuation, we maintain our neutral stance on U.S equities.
- In Europe, economic conditions are improving rapidly as the block's vaccination programme and business reopening gather pace. Notably, the July composite Purchasing Manager Index (PMI) came in stronger than expected, indicating a good start to 3Q21. Meanwhile, the European Central Bank (ECB)'s dovish monetary policies and the EUR 750 billion recovery fund will continue to support growth. The broadening recovery has benefitted European stocks which are expected to register strong earnings rebound of 50% in 2021. Nevertheless, we see these positives well-priced in as MSCI Europe is trading above historical average valuation at 12-month forward price-earnings ratio of 16x, hence retaining our neutral view on the market.
- Within Asia, the recovery has been uneven, with a growing divergence in market performances driven by vaccination rollouts. We remain positive on Singapore and South Korea equities with their externally oriented economies doing well while valuations are still attractive on the back of positive earnings revisions. In contrast, we downgraded Malaysian equities to neutral as the market could struggle to outperform amidst record-high COVID-19 cases and elevated political uncertainties. We also tactically moved Chinese equities down to neutral on increased regulatory uncertainties, which would continue to weigh on sentiments in the near term. While we remain constructive on China's structural growth prospects, investors may need to be patient as the focus will likely shift back to fundamentals only when there is more clarity on the regulatory front.
- On fixed income, we believe the 10-year UST yield would rebound to the range of 1.5%-2.0% by end-2021 as the economy continue to normalise. As such, we believe sovereign bonds would likely underperform credits given the former's higher duration risk. Notably, we continue to overweight U.S. HY for its low duration exposure and improving fundamentals, and also favour Asia IG given the attractive risk reward outlook.

Figure 1: GDP growth projected to stay above trend across economies



Source: Bloomberg | 31 July 2021

Figure 2: U.S. corporates earnings are projected to grow by 80% YoY in 2Q21



Source: Factset I 30 July 2021

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