

**Maybank****PREMIER**

Maybank Investment Strategy

Summary

May 2023

- Calm returned to markets in April with a growing belief that the banking turmoil will not trigger a systemic crisis. Notably, the VIX index (a proxy for equity market volatility) dipped to a 15-month low. Still, the upside was capped by lingering growth and geopolitical concerns.
- Global equities edged higher with MSCI All-Country (AC) World Index returning 1.5%. Notably, U.S. and Europe markets ended higher with hopes of soft landing and easing inflation. In contrast, China equities lagged amid concerns on the sluggish recovery and renewed U.S.-China tensions.
- Meanwhile, global bonds remained firm with the 10-year U.S. Treasury (UST) yield hovering around 3.5%, lending support to the performance of Developed Market Investment Grade (IG) bonds. Separately, both gold and oil prices ended higher on the back of a weaker dollar.

Macro Outlook and Investment Strategy

- While the rate-hike cycle may be nearing an end, central banks will unlikely ease aggressively given the stubbornly high inflation. We also expect tightening credit conditions to weigh on growth, particularly that of the U.S. economy. Meanwhile, the U.S. debt ceiling impasse could be another source of market volatility.
- In view of the above, we maintain a cautious stance on equities. In particular, the U.S. markets appear too calm for our comfort with the weakening corporate earnings yet to be fully priced in. In contrast, we remain more sanguine on China and see further catalysts to reverse the market's recent underperformance.
- We also retain our overweight stance on fixed income. Notably, investors should do well by locking in the higher than historical average yield of IG bonds with rate speaking.
- On commodities, we expect gold to take a near-term breather but the price uptrend may resume with further weakness in dollar. As for oil, the improving fuel demand from China as well as potential OPEC+ supply cut should put a floor on prices.
- Despite the macro uncertainties, there are still selected investment opportunities with attractive risk reward. Hence, we would stay invested in a nimble and diversified manner whilst maintaining a cash buffer to protect the downside risks.

| Tactical Asset Allocation | | |
|---------------------------|--|---|
| 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) Bonds | - |
| Alternatives | = Hedge Funds | = |
| | Gold | = |
| Cash | + | |

Source: Maybank Wealth Management Research

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

| Asset Class | Changes to date (in USD currency) | | |
|--------------------|--------------------------------------|-------|-------|
| | 1M | 3M | 12M |
| Equity | | | |
| MSCI USA | 1.3% | 2.4% | 1.9% |
| MSCI Europe | 4.3% | 6.3% | 12.8% |
| MSCI Japan | 0.4% | 0.5% | 4.7% |
| MSCI Asia ex-Japan | 2.8% | 5.5% | 5.6% |
| China | 5.2% | 11.2% | 5.6% |
| Hong Kong | 0.6% | 5.4% | 0.3% |
| Taiwan | 4.2% | 2.4% | 7.6% |
| South Korea | 0.9% | 3.3% | 9.0% |
| India | 4.2% | 0.6% | 6.5% |
| Singapore | 0.7% | 1.8% | 4.8% |
| Malaysia | 1.3% | 7.5% | 9.6% |
| Indonesia | 6.7% | 9.9% | 3.8% |
| Thailand | 3.3% | 8.4% | 0.7% |
| Philippines | 1.2% | 1.4% | 4.6% |
| Bonds | | | |
| U.S. Treasuries | 0.5% | 1.0% | 0.9% |
| Barclays Global IG | 1.2% | 0.8% | 0.3% |
| Barclays Global HY | 0.6% | 0.4% | 0.7% |
| Barclays EM Bonds | 0.4% | 0.6% | 0.8% |
| Alternatives | | | |
| Hedge Funds | 0.3% | 1.4% | 2.0% |
| Gold | 1.8% | 3.2% | 4.9% |
| WTI Crude | 1.5% | 2.6% | 26.7% |
| Dollar Index (DXY) | 0.8% | 0.4% | 1.3% |

Source: Bloomberg | 30 April 2023

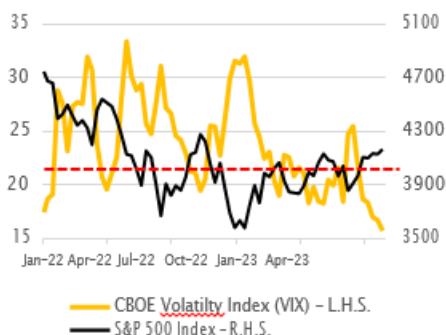


May 2023

Macro Outlook and Investment Strategy cont'd

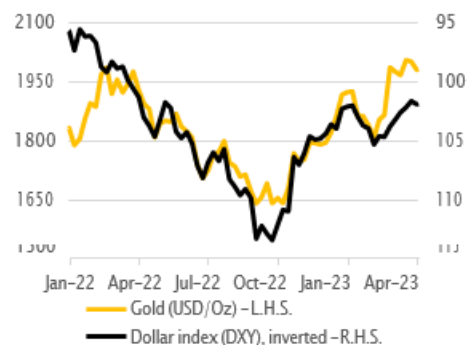
- A further fallout of U.S. regional banks is expected to be contained. Still, the increasingly stringent lending standards, particularly on commercial real estate, will likely slow credit growth and raise the risk of a recession. Although the U.S. Federal Reserve (Fed) may pause after hiking 25 basis points (bps) in May, it is unlikely to cut rates any time soon with core inflation still well above its target of 2%.
- Meanwhile, the risk of a U.S. debt ceiling stalemate is increasing as reflected in the surging 1-year U.S. sovereign credit default swap spreads. Even though the U.S. Congress should eventually agree to lift the ceiling, we may see a spike in market volatility from the current low levels (Figure 1) before a last-minute deal is reached. To recall, the S&P 500 declined 17% between July–August 2011 when the credit rating of the U.S. government was downgraded.
- In view of the above, the U.S. remains as our least preferred market. While there were pockets of strength in 1Q23 earnings, we see scope for potential downgrade for 2H23 with consensus estimates still overly optimistic. Sectors wise, we would position defensively in consumer staples and healthcare, as well as selected Tech companies with strong pricing power and sound balance sheet to navigate the headwinds.
- In contrast, we remain relatively more sanguine on China stocks. The pace of recovery could pick up after the 1Q GDP growth of 4.5% year-on-year (YoY), with stronger domestic growth mitigating the risk of softening external demand. Chinese leaders have also reiterated their pro-growth stance in the latest politburo meeting. No doubt, U.S. and China tension could persist but the risk reward is attractive with MSCI China trading at 10x forward price-to-earnings ratio, versus its historical average of 12x.
- Meanwhile, we maintain our preference for Fixed Income over Equities amidst the macro uncertainties. Notably, we expect the 10-year UST yield to trend lower towards 3% by end 2023 given our base case of a mild U.S. recession. Hence, we continue to seek defensive carry in quality IG bonds with more resilient fundamentals as compared to high yield credits.
- As for gold, we retain our neutral stance as the near-term upside looks limited. Nevertheless, our view for a weaker USD in the medium-term should bode well for gold prices which have shown a negative correlation with the dollar index (Figure 2). We would look to turn more constructive on the precious metal should prices pull back from current levels, with immediate support seen at USD 1,800/oz.

Figure 1: S&P 500 has retreated whenever the VIX Index dipped below 20 since 2022



Source: Bloomberg | 30 April 2023

Figure 2: Negative correlation between Gold and the U.S. dollar will likely persist for now



Source: Bloomberg | 30 April 2023



Maybank

PREMIER

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 in 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.



Maybank

PREMIER

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.