Maybank Investment Strategy

October 2022

Summary

- Global markets continued their roller coaster ride in the third quarter, with global equities and fixed income falling in tandem. Commodities including both oil and gold also struggled during the quarter.
- Central banks remained under pressure to extend their aggressive monetary tightening stance as inflation continues to be sticky in many countries.
- Notably, the September “dot plot” showed that the U.S. Federal Reserve’s (Fed) projected median Fed funds peak rate is now much higher-than-expected at 4.6% in 2023, up from the previous forecast of 3.8%.
- Recession risks continue to grow amid tighter financial conditions and the geopolitical tensions related to the Russia-Ukraine conflict and the U.S.-China relationship are adding to overall market volatility

4Q22 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 Allocation

- We have turned more cautious on the markets since 2Q amid persistently high inflation and hawkish central banks. Given the inflation, policy and corporate earnings risks, we continue to maintain a defensive stance.
- We retain an underweight stance in equities with Europe and India being our least preferred markets. We prefer to seek shelter in defensive sectors such as Consumer Staples and Healthcare. Meanwhile, investors should seek to increase their cash buffer to hedge their investment portfolios against the current headwinds.
- In fixed income, the risk reward is increasingly attractive with the re-calibration of rate expectations and spike up in Treasury yields to multi-year highs. With growth fears playing an increasingly dominant role, we believe that U.S. Treasuries (UST) could serve as a good hedge against recession risk. We continue to overweight sovereign bonds and maintain an up-in quality stance in credit selection.
- We remain neutral on oil and gold as their overall gains will likely be constrained by the persistent U.S. dollar strength amid rising Treasury yields. The lingering geopolitical tensions nevertheless could lend some support to gold while potential OPEC supply cuts may also mitigate the risks of weakening oil demand.

Asset Class	Changes to date (In USD currency)		
	Month	Quarter	Year
Equity			
MSCI USA	-9.3%	-4.7%	-24.8%
MSCI Europe	-8.7%	-10.1%	-28.4%
MSCI Japan	-10.2%	-7.5%	-26.1%
MSCI Asia ex-Japan	-12.7%	-13.7%	-27.6%
China	-14.5%	-22.4%	-31.1%
Hong Kong	-10.7%	-17.0%	-19.4%
Taiwan	-15.8%	-14.0%	-35.4%
South Korea	-18.2%	-16.3%	-40.0%
India	-6.3%	6.8%	-9.4%
Singapore	-5.3%	-1.5%	-19.4%
Malaysia	-9.8%	-7.1%	-17.4%
Indonesia	-0.7%	7.8%	8.0%
Thailand	-6.2%	-2.8%	-9.4%
Philippines	-17.6%	-13.5%	-28.6%
MSCI EM	-11.7%	-11.4%	-26.9%
Bonds			
Barclays US IG	-4.3%	-4.8%	-14.6%
iBoxx US HY	-3.7%	-0.7%	-14.4%
Commodity			
Gold	-2.9%	-8.1%	-9.2%
Oil	-11.2%	-24.8%	5.7%

Source : Bloomberg | 30 September 2022

Maybank Investment Strategy

Fourth Quarter 2022 - Bonds

Summary

- Global fixed income market had another daunting quarter as market confidence was rattled by central banks' aggressive rate hikes and credit spreads also widened amid growing recession risks. Notably, the Fed has guided a higher policy rate trajectory path and is willing to tolerate slower economic growth and higher unemployment rate to combat sticky inflation.
- In the U.S., inflation remains broad-based, with headline Consumer Price Index coming in higher-than-expected at 8.3% year-on-year for the month of August. Consequently, the Fed had little options but to deliver its third consecutive supersized rate hike of 75 basis points (bps) during the September policy meeting.
- In the latest September Fed's "dot plot", the projected median Fed funds rate has been revised upwards to 4.4% at the end of 2022 and 4.6% by end-2023 (Figure 4). This implies an additional of 125 bps of rate hikes in total for the remaining two Federal Open Market Committee meetings this year.

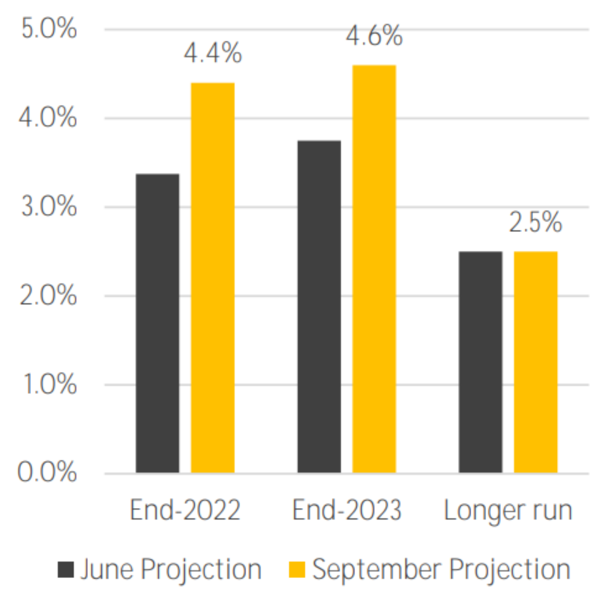
Market Outlook

- While headline inflation in the U.S. may continue to moderate, core inflation could remain stubbornly high until wage growth softens on higher unemployment. Hence, it will take some time before inflation gets back to 2%. In view of the above, we expect the Fed to continue hiking interest rates and reducing its balance sheet until there are clearer signs that core inflation is easing.
- Taking into consideration of the latest dot plot where the Fed has recalibrated its median Fed funds rate higher, we revised our 10-year UST yield forecast higher to 3.25% by end-2022. Nevertheless, we continue to expect 10-year UST yield to trend lower from current levels, with the negative yield spread between the 10-year and 2-year Treasuries deepening as growth fears continue to rise. As such, we continue to view U.S. Treasuries as an effective hedge against recession and maintain our preference for sovereign bonds to credits.
- In Europe, we expect the central banks to remain hawkish and move further away from the negative rates territory. Still, the government bond market volatility could remain elevated especially if there were to be more negative news flow from the likes of the U.K. or Italy.

Figure 3: 10-year U.S. Treasury yield climbed higher in 3Q

Source: Bloomberg I 30 September 2022

Figure 4: Median forecasts for the Fed funds rate based on the Fed's "dot plot"



Source: Bloomberg I September 2022

Maybank Investment Strategy

Fourth Quarter 2022 –Bonds

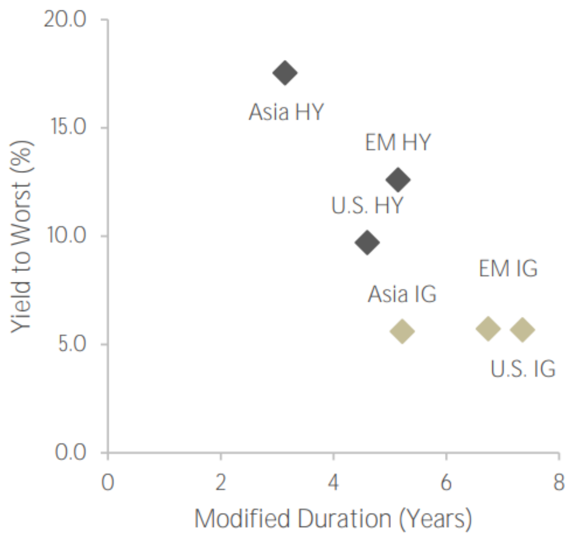
Market Outlook – continued

- Given the macro backdrop of slower growth and rising inflation, we favour a defensive positioning preferring Investment Grade (IG) over High Yield (HY) bonds. Investors should consider to adopt a selective approach focusing on resilient issuers that can withstand a more challenging macroeconomic backdrop.
- We maintain a neutral view on Developed Market (DM) IG credit amid balanced risk-reward dynamics. While nominal bond yields have become more attractive, the DM IG credit spreads may not have fully priced in the growth risks and could widen further if the economy weakens, hence warranting a neutral stance for now.
- In contrast, we maintain an underweight stance on DM HY credit as the risk-reward profile remains unattractive. Although DM HY credit spreads have widened materially year-to-date, valuations remained below levels that prevailed at the peak of growth scares in 2011 and early 2016. Furthermore, a worse-than-expected economic slowdown could drive an increase in default rates from the current low levels amid elevated funding costs and deteriorating earnings outlook.
- We have a neutral view on Emerging Market (EM) IG credit as the resilient credit fundamentals and limited bond issuance are offset by downside risks to growth. However, we are underweight EM HY credit as the lower quality corporates will likely be more affected by the higher interest rates and un-abating dollar strength, undermining their access to debt capital markets amid heightened risk of fund outflows.
- Within Asia, we are neutral on Asia IG credit following its recent outperformance against DM IG credit. However, the strong credit quality in Asia IG bonds suggests that the segment still offers defensive carry during a downturn. In contrast, we are underweight Asia HY credit given still elevated default concerns and weak sentiment towards the China property sector. While Chinese authorities have announced supportive policies, weak contracted sales and credit market access for property developers implies that the recovery will be gradual.

Key Risks

- Persistent inflation leading to accelerated tightening.
- Escalating geopolitical tensions.

Figure 5: Yield-to-Worst and modified duration of bond sub-asset classes



Note: The above indices are based on Bloomberg Barclays bond indices.
Source: Maybank Group Wealth Management Research I 30 September 2022

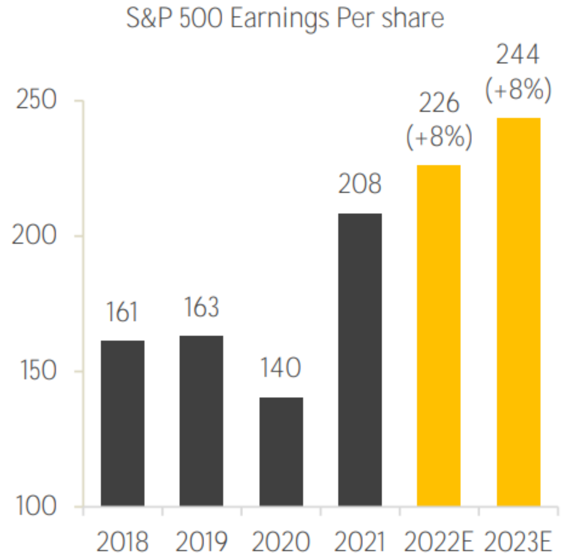
Maybank Investment Strategy

Fourth Quarter 2022 - Equities

Summary

- After a choppy 3Q, global equities may yet witness another volatile quarter in 4Q with earnings risks yet to be fully priced in. While valuation has retreated to historical average levels yet again, the market could remain depressed amid the earnings uncertainties.
- In view of the above, we expect equity returns to remain subdued. With rising rates and increased probability of a recession, it remains critical for investors to maintain focus on companies with stronger earnings resilience and balance sheet.
- Markets-wise, Europe remains most vulnerable when compared to other global peers. In contrast, South-East Asia equities, particularly Indonesia, may be relatively more resilient with their economies partially decoupling from a potential U.S. recession.
- Consumer Staples and Healthcare stocks may continue to outperform as investors seek shelter in these defensive sectors. Separately, while there are longer term merits in maintain exposure to secular growth plays, we prefer to focus on larger cap names with strong earnings visibility and trading on reasonable valuation for better risk reward.

Figure 6: More earnings downgrade could occur during the 3Q reporting season

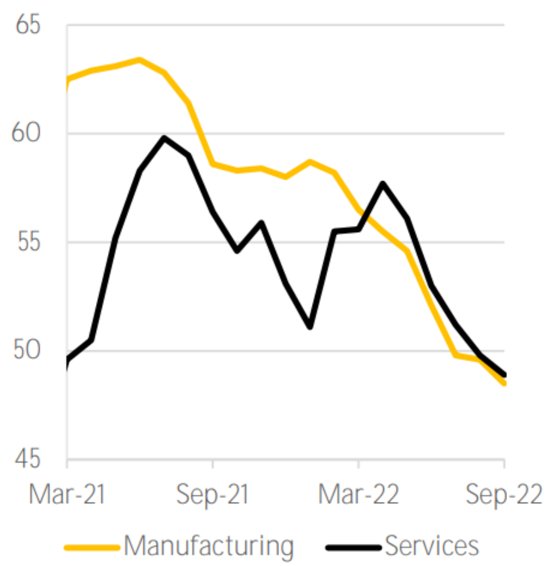


Source: Factset | 21 September 2022

Market Outlook

- We maintain our neutral stance on U.S. equities despite the S&P 500 dipping below its 10-year historical average valuation. Apart from inflation, the upcoming 3Q earnings season as well as mid-term elections could be additional sources of volatility. Notably, the 8% S&P 500 earnings growth projected for 2023 (Figure 6) seems overly optimistic when compared to the median earnings decline of 13% observed during past recessions since 1948. Any market rebound will unlikely sustain until there is more clarity on the policy and earnings front.
- The downward pressure on European equities remains unabated on the back of record high inflation, tightening monetary policies amid the ongoing Russia-Ukraine war. Increased fiscal risk in the U.K. will only complicate matters further. We see continued moderation of economic activities in the Eurozone (Figure 7) with consensus projecting GDP growth to turn negative by 4Q22. Hence, we remain underweight on Europe with the pace of negative earnings revision expected to accelerate and weigh on the market performance.

Figure 7: Eurozone's Purchasing Manager Indices (PMI) trending lower



Source: Bloomberg | 30 September 2022

Maybank Investment Strategy

Fourth Quarter 2022 - Equities

Macro Outlook – continued

- Without the coordinated yen-buying from other nations, we believe the recent currency intervention by Japan's Ministry of Finance is unlikely to have a lasting effect on markets. While the Bank of Japan's ultra-loose monetary policy will continue to weigh on the yen and market sentiment, the reopening of the economy should provide a tailwind for the Japanese market. As such, we retain our neutral stance on Japan.

- The foundation of China's economic recovery is still not solid (Figure 8), with the housing market slump and COVID outbreaks remaining key growth impediments. In addition, the weak Renminbi amid growing monetary policy divergence and possible reshuffle of China's top economic roles in the upcoming 20th Party Congress could dampen investors' appetite for Chinese assets in the near term. Nevertheless, we see reasons to stay neutral on China given the positive signposts that are coming through on the zero-COVID restrictions, as well as its undemanding valuation.

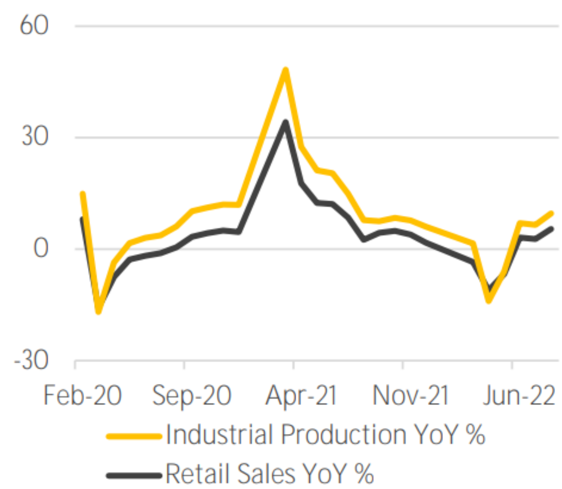
- In India, domestic institutional investors, a strong pillar of the stock market, have turned net sellers after seventeen months of buying. While India's growth continues to outpace other major economies, the record valuation premium relative to Asian peers (Figure 9) and the vulnerability of the Indian Rupee against the U.S. dollar could deter the return of foreign institutional investors to the market. Consequently, we retain our underweight stance on India.

- Amongst the South-East Asian markets, we continue to overweight Indonesia. Its core inflation remains benign at below 3%, giving Bank of Indonesia room to hold rates a little longer, providing growth support. Looking ahead in Singapore, we expect government-linked corporation restructuring theme to be a key driver of corporate activities. Lastly, while Malaysia is trading at inexpensive valuations, lingering macroeconomic and political uncertainties will put a lid on its upside potential. We maintain neutral on both Malaysia and Singapore.

Key Risks

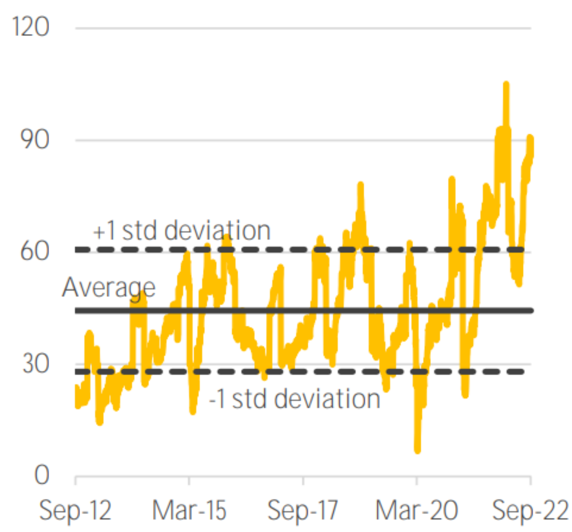
- A deeper and protracted economic downturn.
- Worse-than-expected deterioration in corporate earnings.
- Escalation in geopolitical uncertainties.

Figure 8: China's retail sales and industrial production growth continued to improve, albeit at a moderate pace



Source : Bloomberg | 30 September 2022

Figure 9: MSCI India is trading at a huge 91% premium to MSCI Asia ex-Japan's price-to-earnings ratio



Source : Bloomberg | 30 September 2022

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