Maybank
Asset Management

FY2023
OUTLOOK & STRATEGY

Parting Storm Clouds

Content List

2022 Review

Our theme for 2022, "Navigating Uncertainty with Certainty", was certainly apt in a very challenging year. Both the equity and fixed income markets ended up in the red with huge volatility. There were many potholes to navigate around, including the war in Ukraine, high inflation, and interest rates. We also had to contend with the zero-Covid policy in China, continued high US-China tensions, and the slowing economies in Europe and the US.

On the whole, higher interest rates were the single biggest factor in driving asset prices down in 2022. After keeping rates low in 2021, the Fed had to play catch up in 2022 and hike interest rates throughout 2022 as it tried to control inflation that surged to levels not seen since the 1970s. Therefore, the Fed has increased interest rates at a fast pace, and the magnitude of each hike has been greater than in previous hiking cycles. The Fed funds rate has increased by more than 400bps since the start of 2022. Interest rates across the curve also went up, with the benchmark UST 10-year rate also going up sharply. This has drained liquidity from financial markets and dampened investors' sentiment.

Both equity and bond markets have suffered, but the pain in the latter has been more significant. With low interest rates over the past decade, the environment has been good for fixed income markets.

The surge in interest rates has seen fixed income markets experience drawdowns of between 10% - 20%. This has been a shock, as few investors would have expected a stable asset class like bonds to see such a large correction. The fixed income market has also been very volatile in 2022. Bond markets ended the year down between 10% - 20%.

Exhibit 1: US Interest Rates, Fed Funds Rate Representing Short Term Rates (Red). UST 10-Year Yields (Blue)

Source: MAMG and Bloomberg | Period: 1996 to December 2022

The equity markets around the world have also been weak, and growth stocks around the world, especially those of non-profitable companies, have taken a beating. Higher rates have reduced liquidity, and the speculative stocks that were once the darlings of investors in 2021 have slumped. Alternative asset classes like crypto currencies and nonfungible tokens (NFT) have also collapsed. Old-economy and value stocks with strong dividend yields have fared better. The few bright spots have been Indonesia and India. Both of these countries' stock markets are populated with old economic sectors like banking and commodities that have fared better in 2022. While most countries suffered from high inflation, Indonesia and India coped better as these countries are used to an elevated inflation environment and it did not dampen economic growth. China's equity market suffered for much of 2022 as the zero-Covid dampened economic growth, resulting in weaker corporate earnings. Only after the National Party Congress did the Chinese government move towards an opening with adjustments in policy made in November. Overall, equity markets were down between 10% - 30% for the year.

Equity markets around the world have also been weak

Looking back at our strategy in 2022, we were initially too early to turn positive on the financial markets, thinking that things would improve after 1H2022 as inflation peaked. US inflation did peak in 1H2022 (at 9.1% in June 2022), but financial markets continued to correct. Interest rates continued to go up as inflation stayed high, and this dragged down financial markets going into 3Q2022. We had to reverse our positive stance and go back to defensive mode in 3Q2022. We only turned more positive on the financial markets in mid-November based on two factors. Firstly, inflation moderated further, clearly indicating that inflation was on a downtrend, and investors believed that the pace of interest rate hikes would slow. This has been clearly seen in the longer term rates that have already peaked. Second, the Chinese government has adopted a more accommodating policy on two fronts. They announced a range of measures to support the troubled property sector and also moved to a more liberal stance on Covid with clear plans to reopen the economy.

> **“Higher rates have reduced liquidity, and the speculative stocks that were once the darlings of investors in 2021 have slumped. Alternative asset classes like crypto currencies and nonfungible tokens (NFT) have also collapsed.”**

2023 Key Investment Themes

For 2023, we have similar investment themes to 2022. The main difference is that the global economy has slowed down further from the post-Covid normalcy in 2022 to higher risks of a US recession in 2023.

We also believe that inflation, which was an issue in 2022, will no longer be the focus. Another new theme for 2023 is that we believe that Asia should outperform in 2023 as China moves to reopen the economy. While it would be difficult to see a full decoupling should the US fall into a recession, there is a good chance that Asia will do better as China regains its economic footing and stock valuations in Asia are cheap.

In terms of the other themes, we still see de-globalization as the world moves towards a multi-polar world. Companies are now diversifying their operations across multiple locations as a result of supply-side disruptions caused by Covid-19 and the US-China trade war. Overall, this is negative for global growth as it is more inefficient and costs will go up. However, there are some winners, as countries that can be the 2nd source of supply after China will benefit, and this includes Vietnam, Thailand, Indonesia, Malaysia, and India. Tensions between the United States and China will remain high as the United States seeks to maintain its position as the world's leading country. New alliances will be built as countries around the world sense the changes in power taking place. We have already seen the Kingdom of Saudi Arabia, a traditional US ally, roll out the red carpet for China.

Sustainability is still a key theme and is a multi-year project for the world. We have seen the effects of climate change, and every country will have to transition to more sustainable sources of energy and also more sustainable ways of doing things. Technology disruption is also a multi-year theme. During the Covid-19 period, we have seen technology change the way people work. Work from home is now an accepted practice, made possible by the technological advances of the internet, paperless offices, and Zoom calls. Markets will still be volatile, as economic downturns are periods of increased volatility. We can expect large corrections as well as rallies to happen.

Themes	Implications / Strategy
Recession Risks	Global economic growth is still slowing, with a high risk of recession in developed countries. Sovereign bonds will benefit from interest rate cuts in 2023 following hikes in 2022. Expensive growth stocks will still see more downside. Not so good for commodities as soft economic growth will cut demand.
Asia Outperformance	Asian equities have seen an underperformance and led the correction. With valuations cheap and China opening up, we expect Asia to lead the rebound in 2023. Asian corporate bonds should also do better as Chinese credit, which constitutes a big proportion of Asian bonds, was hit by restrictive policies in 2022. This will reverse in 2023. Asian currencies to benefit as investment inflows should provide support.
De- Globalization	The US-China trade tensions and Covid-19 have seen countries setting up secondary supply chains. The Ukraine War will intensify de-globalization and create a multipolar world. Countries will build alliances on specific issues, and this will lead to more conflicts in the future. All of this will mean higher costs.
Sustainability	Positive on EV and green energy. However, due to ESG policies, there has been a lack of investment in "dirty" industries. Oil and commodities prices remain higher for longer.
Technology disruption	Continued trend toward digitalisation. Work from home will disrupt office REITs, especially in the US.
Volatile Markets	Given the volatility of the markets, more tactical trading is required.

Our Outlook in 2023

For FY2023, we expect markets to continue to be challenging and volatile as the higher risks of a US recession get reflected by the markets. However, we are turning more positive for 2023 based on a few rationales.

Our many indicators of a US recession are turning red. What happens in a recession? Stock markets in the US will correct by more than 30%, and interest rates will fall until the depths of the recession. In terms of interest rates, the short end (Fed rates) tends to fall more than the long end (UST 10-year).

With rates already far higher than pre-Covid levels for many countries, there is considerable room for rates to come down once the slowdown is evident. In 2023, central banks would have to cut rates to support growth. Certainly, a recession will not be welcoming for corporate bonds as credit spreads will widen, but for some corporate bonds, the absolute yields and spreads are already high and will cushion the impact of the recession.

Secondly, China has implemented supportive policies to help the troubled property market and, more importantly, is moving away from the zero-Covid policy.

Exhibit 2: Impact On Equities During A Recession

Recession		Peak-Through	S&P 500		Data Level		Peak Hit Months	Trough Hit Months	
Start	End	Decline	Peak	Trough	Peak	Trough	Before Recession	After Recession Starts	Recession Duration
Dec-69	Nov-70	-33.3%	108.37	72.25	29-Nov-68	22-May-70	(12)	6	11
Nov-73	Mar-75	-48.0%	119.87	62.34	5-Jan-73	4-Oct-74	(10)	11	16
Jan-80	Jul-80	-9.6%	111.27	100.55	5-Oct-79	18-Apr-80	(3)	4	6
Jul-81	Nov-82	-26.2%	140.52	103.71	28-Nov-80	6-Aug-82	(7)	13	16
Jul-90	Mar-91	-17.4%	363.16	300.03	1-Jun-90	12-Oct-90	(1)	3	8
Mar-01	Nov-01	-36.8%	1527.46	965.8	24-Mar-00	21-Sep-01	(11)	7	8
Dec-07	Jun-09	-56.7%	1562.47	676.53	10-Oct-07	9-Mar-09	(2)	15	18
1-Mar-20	Apr-20	-33.9%	3386.15	2237.4	19-Feb-20	Mar-20	(0)	1	2
	Average	-32.7%				**Average**	(6)	8	

Exhibit 3: Interest Rate During A Recession

Recession		Fed Rate				US 10 Year				
Start	End	Start	End	Difference	Min	Start	End	Difference	Min	Min Diff
Nov-73	Mar-75	9.00	5.50	(3.50)	5.50	6.72	8.08	1.36	6.68	(0.04)
Jan-80	Jul-80	14.00	9.50	(4.50)	9.50	10.66	10.35	(0.31)	9.49	(1.17)
Jul-81	Nov-82	15.50	9.00	(6.50)	9.00	13.95	10.51	(3.44)	10.42	(3.53)
Jul-90	Mar-91	8.25	6.00	(2.25)	6.00	8.51	8.06	(0.45)	7.77	(0.74)
Mar-01	Nov-01	5.50	2.00	(3.50)	2.00	4.95	4.99	0.04	4.30	(0.64)
Dec-07	Jun-09	4.50	0.25	(4.25)	0.25	3.94	3.54	(0.40)	2.12	(1.81)
1-Mar-20	Apr-20	1.25	0.25	(1.00)	0.25	0.76	0.60	(0.16)	0.59	(0.17)
Now		4.50				3.70				

Source; MAMG, Bloomberg

Then why are we more positive? We are more positive for two main reasons, which have been mentioned briefly in the review section. Firstly, we believe the interest rate hike cycle will end in 2023. With inflation having peaked and the US likely to head into recession, we believe that interest rates will fall in 2023. This would be positive for the fixed income market, especially sovereign bonds.

They are opening up because they have calculated that the benefits to the economy will outweigh the impact on people's lives. Economic activity in China has been hampered by measures to control the spread of Covid-19, with the people having to endure regular PCR tests and periodic lockdowns. After looking at the data for months, they have seen that the Omicron variant is much less deadly than the Alpha or Delta variants, with a case fatality similar to that of severe flu.

Over the past 3 years, China has prepared by vaccinating its people, with more than 80% having 2 jabs and more than 60% fully boosted, which is high in comparison to other large countries like the US, India, and the EU. China has also ramped up the number of ICU beds per 100,000. So they will continue opening so long as the fatality rate remains low and the medical facilities are not overwhelmed.

Exhibit 4: Fatality Rate of Covid-19 Variants

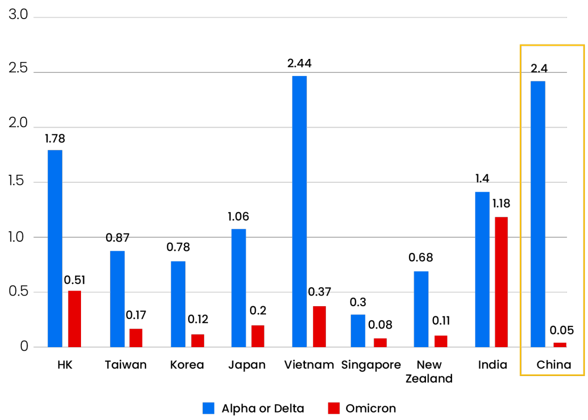
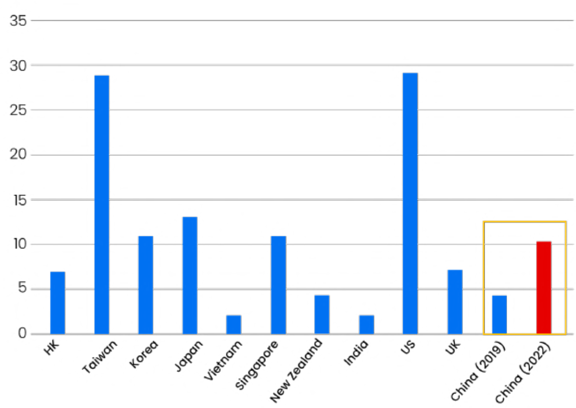


Exhibit 5: No of ICU Beds per 100,000 People



Source: MAMG, Nomura, Our World In Data

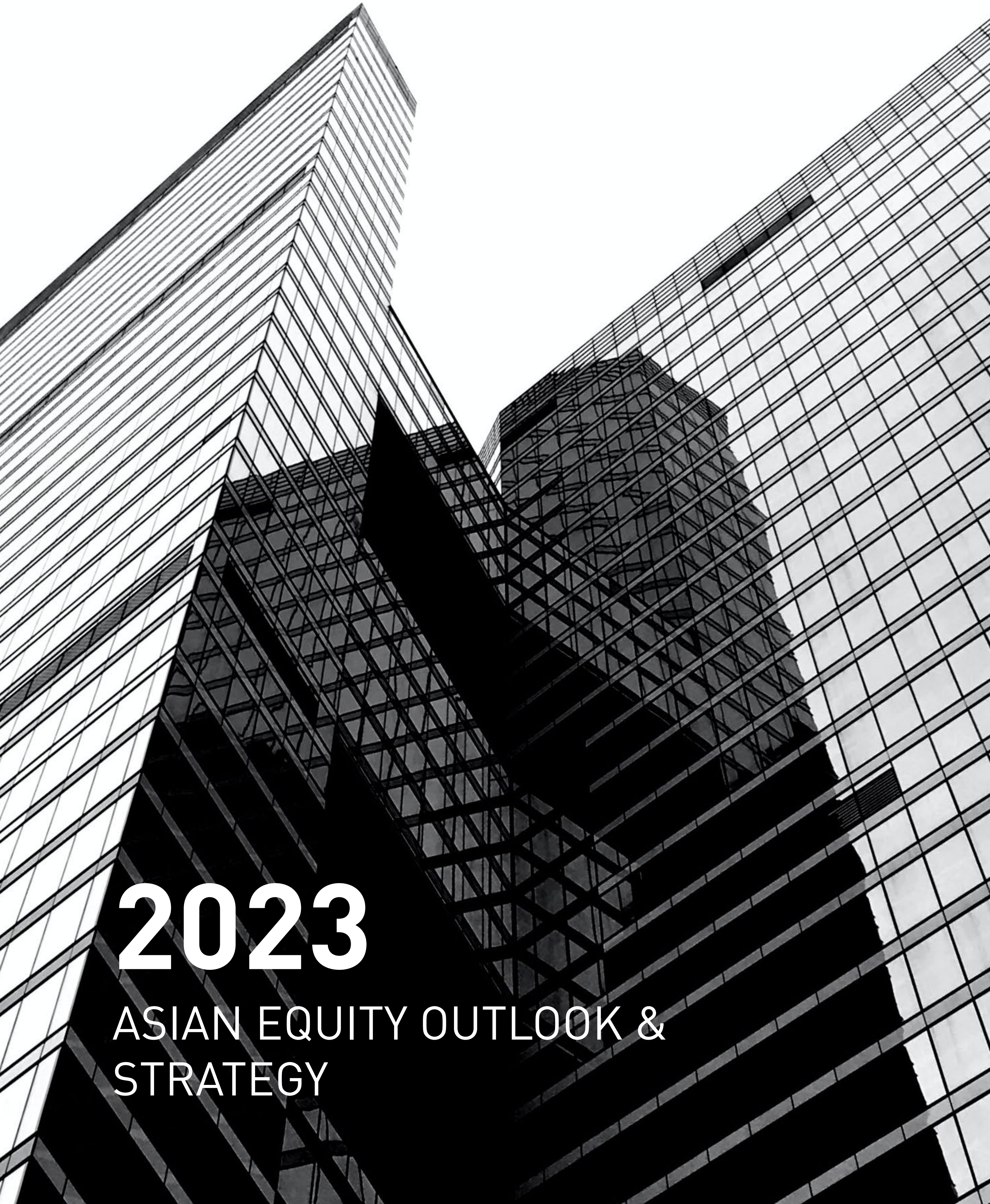
Asian equities are cheap based on traditional valuation metrics such as price earnings. They have been cheap for a while, but the catalyst for the bottoming came from the change in China policy. We also believe that Asian stocks have bottomed because the Asian Dollar Index (ADXY) reached extreme levels that coincided with previous crises. Asian equities are highly correlated to the ADXY. When Asian currencies strengthen, Asian markets tend to rally, and when Asian currencies depreciate, Asian stocks go down. Asian currencies depreciated for much of 2022 and reached levels similar to those in previous crises. The ADXY dropped close to 95 in October 2022, and this is similar to levels last seen during the Asian Financial Crisis in 1998 and the Tech Crash in 2001.

Exhibit 6: MSCI Asia Ex Japan & The Asian Dollar Index

Source: MAMG, Bloomberg as of end-2022

For the US equity markets, the stock indices have corrected but have not reflected the recession risks of falling about 15% to 20%. Therefore, we believe that for 2023, there are more downside risks for US equities, and Asian equities should outperform. With China reopening, the economy should improve, which should provide some support for Asian equities in 2023.

In summary, 2023 will still be a challenging year as the US recession hits. It will undoubtedly drag down financial markets in other parts of the world. Investors will need to be nimble once again as economic downturns create volatile markets. Initially, sovereign bonds will benefit as interest rates will be cut to support the economy. Then, as Asian economies appear to do better, benefiting from the reopening of the Chinese economy, Asian equities and Asian corporate bonds will follow suit. The major risk in 2023 will be that of stagflation. This is where inflation remains stubbornly high even when the world's major economies experience a downturn. This would limit central banks' ability to cut rates to support economies in 2023.



2023

ASIAN EQUITY OUTLOOK & STRATEGY

2023 Asian Equity Outlook & Strategy

In 1H2023, Asia is expected to reverse its underperformance against other markets and deliver positive absolute returns, with China outperforming ASEAN. However, ASEAN is also expected to have positive returns due several factors.

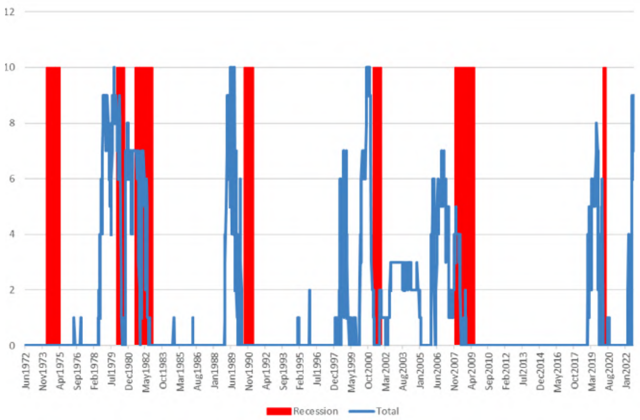
After a total of 425bps rate hikes in 2022, the Fed remained hawkish, stating that despite significant tightening so far, policy is not sufficiently restrictive yet and that it would take substantially more evidence to have confidence that inflation was on a sustained downward trend.

The consequence of worsening sentiment is showing in recent deterioration of global PMI reading towards 50 (below which indicates contraction) with widening breadth of countries facing contracting manufacturing activities. While Asia will feel the effects of weaker external demand and continued high interest rates, the impacts will vary by country.

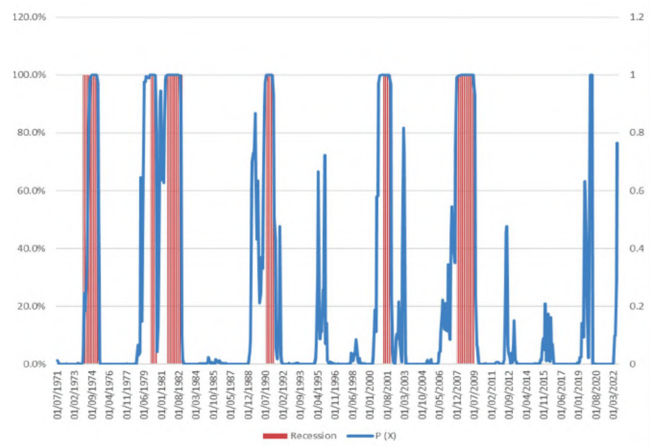
Observations of past stock market behaviour suggest that while the US stock market always peaks ahead of the start of a recession, it bottoms during a recession.

Exhibit 7: A Number of Signals Are Indicating Rising Chance of a US Recession

Number of Yield Curve Inversions



MAMG Model Probability of US Recession



Source: MAMG

The Fed Chairman's warning that the policy stance needs to be restrictive for longer has increased the risk of a US recession in 2023. In addition to a wider spread of the US Treasury yield curve inversions, our internal Logit multi-factor model indicates about a 60% probability of a US recession. This rising recession risk is likely to keep equity markets volatile in 1H2023.

Based on the current cycle, we note that the S&P500 peaked on 3rd January 2022, at 4,796 points and will likely bottom in the latter half of the recession period widely expected in 2023, possibly stretching into early 2024. Positively though, we note that in this current cycle, Asia, led by China has peaked ahead of the US by a year and should also bottom ahead of the US.

Exhibit 8: MSCI China Peaked on 17th February 2021, Ahead of S&P500's Peak on 3rd January 2022.

Source: MAMG, Bloomberg as of end-December 2022

Amid the downside risks in the developed markets, we expect Asia ex-Japan, to reverse its underperformance against the world and the US in 1H2023, delivering positive absolute returns. Within Asia, we expect China to outperform ASEAN, reversing the trend from 2022. That said, we remain positive on ASEAN on an absolute return basis, noting that its below-mean valuation makes it attractive at a time when Asia enters a cyclical bottom amidst a peak ADXY.

Supporting the case for ASEAN are firstly, the Foreign Direct Investment (FDI) in manufacturing to ASEAN remains strong due to shifting supply chains. Secondly, intra-regional trade has increased over the years, and finally, the timing of China's reopening should likely boost ASEAN's prospects, cushioning the region from the impact of a US recession.

We expect 1Q2023 to remain fairly volatile for equities as the Fed enters late-cycle hikes and there is a growing risk of a US recession. However, Asia should outperform throughout 2023 due to superior economic and corporate growth, as well as China's reopening and a recovering property sector. A softer USD helps Asia's investment case too. North Asia is expected to outperform India and ASEAN. We maintain an overweight stance on China, a neutral stance on Taiwan, and raise Hong Kong and Korea from underweight to neutral within North Asia. While we are gradually becoming more positive on the technology sector, it will take a turn in the US rate hike cycle before we upgrade it to overweight. Within ASEAN, we raise Thailand from neutral to overweight on the potential upside of a recovery in tourism but downgrade overcrowded Indonesia from overweight to underweight.

Exhibit 9: Returns of Various Markets in 2022

	Returns in 2022
MSCI World Index	-17.71%
S&P500 Index	-18.13%
MSCI China Index	-21.72%
MSCI Asia ex Japan	-19.58%
MSCI ASEAN Index	-4.11%
MSCI Europe Index	-8.95%

Source: MAMG, Bloomberg as of end-December 2022

From a valuation perspective, we remain neutral toward India, despite it being the most expensive Asian market. Despite a 2023 P/E of 19.5x (above mean and pricier than ASEAN and even the S&P500), India's appeal lies in its large domestic market and is home to a number of quality growth stocks, and there are upside risks if commodity or energy prices rollover due to the global recession.

In terms of sector, we have turned overweight on consumer discretionary as it is expected to benefit from the reopening of China's international borders and the spending power of Chinese households, which have accumulated excess savings during the pandemic. PBOC data shows that Chinese households hold USD 17trn of deposits which translates to excess savings of USD 3trn. The financial sector is another area of potential growth, particularly in north Asia, as the region approaches the tail end of the rate hike cycle and growth slows due to global weakness.

On top of that, the materials sector may be worth paying attention to due to its potential for hedge against inflationary and geopolitical risks, particularly for hard commodities with structural demand from the digital and information age, such as copper, nickel, lithium, rare earths, and semiconductors. Prices may remain elevated in the near term due to disruptions in production from Russia and Ukraine.

The push for sustainability will continue to be a source of defensive growth for the chemical and plastics recyclers, water conservationists and sustainability management software providers. Therefore, we remain neutral on industrials as the sector as a traditional space, offers defensive value, less vulnerable to global de-risking.

Exhibit 10: 1-Year Forward P/E of Various MSCI Asian Indices vs S&P500

Source: MAMG, Bloomberg as of end-December 2022

Country Calls

Country	Call	Rationale
China	Overweight	In 2023, China is growing off a low base from 2022 (which barely grew 2%) due to extensive lockdowns and a crippled property market that saw housing starts tumble 35%. Driving 2023's 5% projected GDP growth will be the unleashing of pent-up demand as pandemic restrictions are gradually lifted and the absence of a large negative drag from property. The services sector related to hospitality, catering, retail, and travel should be well placed to offer attractive investment returns. With low downside risk to earnings, China is undervalued, with the MSCI China index on 10.5x 2023 P/E (sitting at a 5-year mean), having declined 23% YTD, an Asian laggard.
Hong Kong	Neutral	China's reopening will benefit financials and casino plays as tourism and retail recover. Hong Kong is abundant with high dividend yielders that could benefit when bond yields fall as the US recession sets in. Positives are that it has fiscal resilience and is attractively valued with a P/B of 1x and a forward P/E of 14.5x, which sits at the 5-year mean.
India	Neutral	India, a strong market performer in 2022, is expensive at over 19x forward P/E. An expensive and crowded trade, it is vulnerable to likely rotation into North Asia as index companies in the IT, auto, and pharmaceutical spaces exposed to global demand are particularly vulnerable. The positive is that this is home to a number of quality growth stocks, and there are upside risks if commodity or energy prices rollover due to the global recession.
Korea	Neutral	The reasons for Korea's massive 2022 FX and stock market underperformance (-28%) were continued weakness in semiconductor and memory demand, as well as the rate hike cycle. Prospects of a rate pause in 2H2023 will likely limit downside risk for this oversold and attractively valued market (P/B 0.9x). Foreign investor positioning is light, and China's reopening helps lift sentiment.
Indonesia	Underweight	A preferred ASEAN market, Indonesia is sailing on still elevated commodity prices that bode well for its current account. The recently reduced fuel subsidy was viewed positively as a good long-term reform to better manage an already stretched government's budget. While relatively better positioned than cyclical/growth markets at a time when US rate cycle is still rising, short-term risks abound if commodity prices roll over and Indonesian Rupiah (IDR) weakens. Nonetheless, valuation remains reasonable.
Malaysia	Neutral	With GDP growth expected to halve to a more sustainable 4%, FY2023 will witness a new government put to the test over the soundness of its policies, execution, and resilience. The necessity to consolidate the budget via subsidy rationalisation, prudent spending programmes, and striking a sensible balance between financial and social support funded by new sources of revenue will weigh on the outlook for 2023. Positively, however, Malaysia is cheaply trading at a forward PE of 13.2x, well below its 5-year mean.
Philippines	Underweight	The BSP has been among ASEAN's most aggressive central banks, having hiked 350 bps to 5.50% in 2022, which helped arrest the decline in the Peso, which had been among the region's weakest currencies in that year. Given that the Philippines' inflation is particularly vulnerable to rising energy and food prices, which are its largest imports, further hikes may be necessary if these remain elevated, posing downside risks to the economy.
Singapore	Overweight	The MSCI SG's tech and growth stocks have dragged the index down, but not the STI. Slowing global trade is a risk to the economy and market. Policy-wise, it will keep pace more closely with the Fed compared to its regional peers. Positively, it will benefit as China finally reopens, foreign employment recovers, and it has the strongest government balance sheet with ample reserves, supporting a strong currency.
Taiwan	Neutral	Like Korea, Taiwan was victim to a memory/export cycle downturn worsened by the rising risk of recession in developed economies. A major negative factor is its position as a source of geopolitical tension. However, a positive is that its valuation is no longer high and it continues to offer QSG (quality sustainable growth) with dividend yields. Taiwan (along with Korea) have the best long-term secular themes that strengthen with time. China's reopening aids sentiment.
Thailand	Overweight	There is scope for upgrades as the tourism recovery theme gains traction with China's reopening (traditionally accounting for over a quarter of tourism receipts), which will help its current account turn a surplus and support the Baht. There is ample fiscal room to cushion downside risks, as the public debt-to-GDP ratio of 61% is still below the 70% ceiling.

Sector Calls

Country	Call	Rationale
Communication Services	Neutral	The advent of 5G and shifts in consumer behaviour due to COVID-19 have forced telcos to innovate to deliver services beyond traditional connectivity services. Capturing 5G opportunities necessitates telcos capturing and analysing data from new sources in order to deliver new layers of enterprise solution services, which will likely initiate a capex upcycle and a point of inflexion in terms of returns.
Consumer Discretionary	Overweight	This sector comes off 2022's low base as China's international borders reopen with promising spending power unleashed by excess savings accumulated during the lockdown. This will benefit industries such as hospitality, retail, travel, and casinos. PBOC data shows that Chinese households hold US$17 trillion in deposits, which translates to excess savings of US$3 trillion based on simple trend line estimates.
Consumer Staples	Neutral	Agriculture commodity producers have had a strong run since 12 months ago, prolonged by war-disrupted supply issues. Despite the strong run-up, some exposure may still be necessary to "insure" against prolonged geopolitical risks and concerns about food security. Food security thematics via better entry points are the ones to own.
Energy	Neutral (from overweight)	Despite the carbon-emitting properties and sustainability issues surrounding oil and coal, these industrial age commodities will be needed for many more years, although the demand will be on a long term declining curve. They are desperately needed in the short term due to a severe shortage caused by wars and geopolitical sanctions. The current situation gives opportunities for repositioning into renewables.
Financials	Overweight	As Asia approaches the tail end of the rate hike cycle and growth slows due to global weakness, we make a more selective tilt in favour of north Asian financials over those in India and ASEAN. This is to leverage the impact of China's reopening more directly and take it away from those that have fully extracted the prospects of NIM expansion from rising rates.
Health Care	Neutral	Healthcare is defensive given the general ageing demographics globally, which places hospitals and medical equipment as our preferred picks over pharmaceuticals and glove makers that are prone to margin compressions, although value has emerged in the latter following a steep sell-off since over a year ago.
Industrials	Neutral	The industrial sector, as a traditional space, offers defensive value, making it less vulnerable to global de-risking. The push for sustainability will continue to be a source of defensive growth for chemical and plastic recyclers, water conservationists, and sustainability management software providers. In the short term, shipbuilders should benefit from new building orders generated by Western Europe diversifying energy sources away from Russia, such as natural gas.
Information Technology	Neutral	According to the World Semiconductor Trade Statistics, global semiconductor revenue will fall 4% in 2023, the first decline since 2019. Consumer demand for smartphones and PCs is falling. There is a polarised situation where consumer-driven markets are weakening (due to inflation, high rates, and slowing economies) while enterprise-driven markets are resilient (due to scaling up and improving IT infrastructure). These known risks are probably priced in, but it would take a turn in the rate hike cycle to prompt an upgrade from neutral.
Materials	Neutral	Commodities have performed well over the last 12-18 months, despite the fact that some valuations have peaked and forward earnings are vulnerable to weakness from a higher base. Still, some exposure is required to hedge against inflationary and geopolitical risks, especially those of hard commodities with structural demand from the digital and information age such as copper, nickel, lithium, rare earths, and semiconductors. And in the near term, prices can remain elevated as Russia and Ukraine are major producers.
Real Estate	Underweight	A rising interest rate environment and generally sluggish growth may dampen demand for properties in Asia. In China, although the real estate sector exhibits deep value, it remains a market on the mend as policies have been implemented in support of the debt restructuring process. While not likely to rerate yet in 1Q2023, declining long term yields heading into a global slowdown make the dividend yielding character of financially secure REITs attractive again in the longer term.
Utilities	Neutral	Utilities with exposures to regulated assets tend to be defensive in an environment of slowing growth. Preferred are those with concession terms that protect their values from being eroded by prolonged inflation (via cost-pass-through clauses) while also benefiting from increased present value discounted cash flow when long-term bond yields begin to fall during a global downturn. Those with long-term strategies to address climate change sustainability issues are even more valuable.

2023 Asian Fixed Income Outlook & Strategy

We believe there is a good chance that bond returns will be positive in 2023. The primary pressures that drove the bond selloff in 2022 have subsided. By 1H2023, we believe we will have reached the peak of the interest rate hike cycle. The current high default cycle in Asia caused by Chinese property is coming to an end, and default risks in Asia should diminish in the future. The aggressive interest rate hikes in FY2022 have paved the way for a global economic slowdown, if not recession, laying the groundwork for a bond market rally.

Bonds were initially sold off during 4Q2022, as the UST 10-Year reached a peak of 4.2% in October 2022, but have since recovered to 3.7% as of end-December 2022. Hawkish statements out of the Fed during the September meeting that they are prepared to hike even at the risk of a recession caused a selloff in interest rates from September to October. Fed statements in November that future hikes will be dialled smaller fuelled a relief rally during November.

During 2H2022, the weakness spread to non-China high yield. As fund managers saw persistent redemptions on their bond funds, they turned to selling down non-property bonds to raise cash, as China property bonds have already been sold down massively.

Excluding the catastrophic Lehman Financial Crisis in 2008, we have witnessed the most severe selloffs in bond history in FY2022. While in the midst of the storm, time and time again, we have felt that bond yields looked very attractive and cheap for medium to long-term investing. . Yet bond yields continue to edge up higher and higher, quarter after quarter, as the market is devoid of any buying despite very attractive yields. Temporary reprieves during the year only set us up for a further selloff. Market fatigue set in during the 3Q2022, and we saw increased selling, even to good credits, as fund managers needed to raise cash for fund redemptions or simply preferred overweight cash.

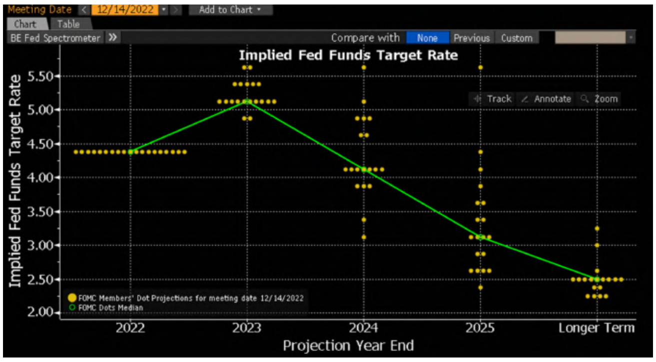
Exhibit 11: US Treasury 10-year Yield Peaked In October 2022

Source: Bloomberg as of December 2022

The JP Morgan Asia Credit Index (JACI) was down 11% as of 22nd December 2022. All bonds suffered, from Treasury notes to investment grade and high yield corporate bonds. High yield was a key underperformer (-16%), and the main weakness was in China high yield (-22%), specifically China property bonds.

However, in October, the bond selloff appeared to have plateaued and stabilised. In November, we saw the first signs of life as healthy buying was observed in the market from real money fund managers and institutional investors.

Exhibit 12: Fed's Dot Plot End-2022

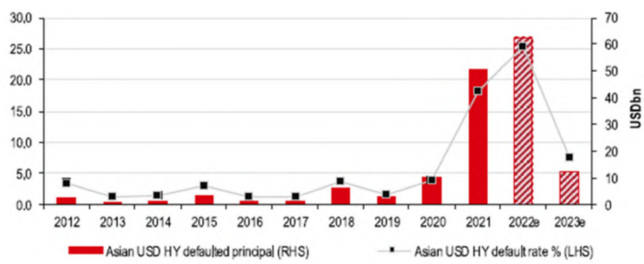


Source: FOMC, Bloomberg as of December 2022

For FY2023, we believe that there is a good probability that bond returns should be positive by 5% - 10%. We have three key supporting arguments. The first important supporting factor is that the main pressure points that drove the bond selloff in FY2022 has dissipated. During FY2022, persistent high inflation pressure resulted in central banks hiking interest rates aggressively throughout the year. In the US, the Fed raised interest rates by 425 bps in less than one year, from 0.25% to 4.5%. This caused the price of USD bonds to drop dramatically. In the past few months, inflation appears to have peaked and has been trending lower. The market is pricing in another 75 bps hike in FY2023. We believe that we are approaching the peak of the current interest rate hike cycle by 1H2023.

Another pressure point that drove bond selling in FY2022 was the negative investor sentiment resulting from the liquidity crisis and the high default rate in China's high yield property. However, the Chinese government announced several significant policies in November, including the Three Arrows and 16 financing support measures outlined in Policy Document 254. We believe that these announcements signal a clear inflection point in policy direction and that the worst of China's property liquidity stress should be over. Hence, the current high default cycle in Asia due to Chinese property is approaching an end, and default risks in Asia should dissipate going forward. However, we still need to see property sales improving before turning fully positive on China property. Hence, we remain selective with high yield bonds.

Exhibit 13: Current Default Cycle Is Nearing An End

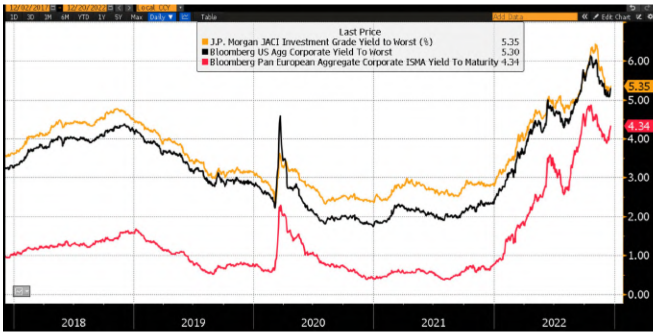


Source: Bloomberg, HSBC estimates as of December 2022

The main pressure points that drove selloff in 2022 has dissipated

The second reason for positive bond returns is compelling valuation. On a historical basis, current bond yields of 5% - 6% for investment grade and 9% for high yield look very appealing. If we believe that inflation will eventually return to 3%, locking in current bond yields for the next 5 to 10 years makes a lot of sense for institutional and retail investors.

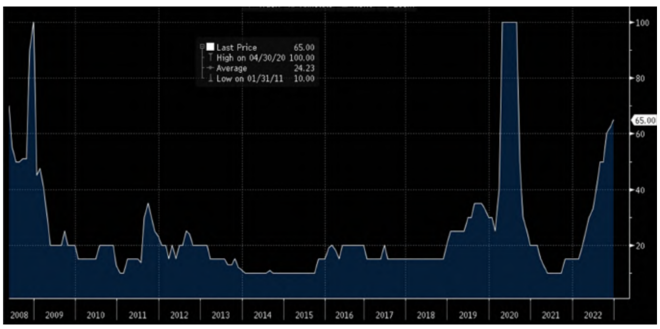
Exhibit 14: Attractive Bond Yields



Source: Bloomberg, JPM, December 2022

The last supporting factor for positive bond performance in FY2023 is that the aggressive interest rate hikes in FY2022 have paved the way for a global economic slowdown or even recession, which would lay the foundation for a bond market rally. Recent macro readings in the US, such as PMI and retail sales, have shown signs of weakness, with employment data as the remaining bright spot. Increasingly, various prediction tools are forecasting the US to enter a recession by FY2023 or FY2024. A slowing economy, or even a mild recession, would be favourable for bonds because interest rates would be cut, causing bond prices to rise. Therefore, credit selection would be very important to manage increased recession risks.

Exhibit 15: US Recession Probability Forecast



Source: Bloomberg, December 2022

Strategy and Positioning

Main Views	Our Assessment	Strategy
Central banks globally are reaching the peak of their current hiking cycle	Inflationary pressures have peaked and are gradually easing. The Fed has front-loaded 425 bps in FY2022 and is expected to hike another 75 bps in FY2023 before pausing.	The end of the aggressive interest rate hike cycle is positive for bonds. One of the main drivers of negative bond performance is dissipating. We are deploying cash back into bonds.
The default risk on China property bonds has peaked and should be contained going forward	The China government has announced significant policies that indicate the worst of the country's property liquidity stress should be over. Hence, the current high default cycle in Asia due to China property should improve going forward.	Selectively add exposure to strong surviving property developers that should benefit from improving liquidity access and less competition going forward.
Bond yields are at very attractive levels versus historical levels	Because of the severe selloff in FY2022, investment-grade bonds now offer 5% to 6% yields, while non-China high yield bonds offer 9%. This is very attractive to lock in for the medium term for insurance and pension investors.	Adopting a barbell strategy to buy short-dated high yield bonds and long-dated investment grade bonds.
Aggressive interest rate hikes during FY2022 have increased the probability of recession in FY2023	A recession would mean interest rate cuts, which would be positive for bonds, especially investment grade and sovereign bonds.	Overweight long end investment grade and sovereign bonds. Selective on high yield bond exposures.

A global ecocnomic slowdown would lay the foundation for a bond market rally

2023 Asian Currencies and Interest Rates Outlook & Strategy

We are of the view that the path to USD rates peaking may be a bumpy one in 2023, in view of (i) sticky US wages feeding into the services component of the CPI; (ii) a still robust US labour market thus far; and (iii) upside surprises in near term US economy data. At this point, we believe the Fed will slow the pace of tightening but will not engage in premature easing or rate cuts.

Notably, Asian central banks' tightening cycles have varied in 2022, indicating differences in priorities. In general, front-loaders such as Korea and Singapore had proactively tightened monetary policy in response to inflationary pressures, while Thailand and Malaysia's central banks tightened more "dovishly" in order to balance currency weakness against domestic economic support. Meanwhile, Indonesia (+200 bps in 2H2022) and the Philippines (+300 bps in 2H2022) who were reluctant to hike in 1H2022, relented to large hikes in 2H2022, to stem FX depreciation. Separately, there were "divergents" like the Chinese and Japanese central banks who held on to an easing path in 2022.

Notwithstanding that, the BoJ provided a year-end surprise when it tweaked its yield curve control plan and expanded the JGB 10-Year yield trading band to around ±0.5%.

The JPY appreciated post announcement. We opine that this policy tweak may signal that the BOJ is open to more policy adjustment once Governor Kuroda's term ends in April 2023. With market expectations for more policy adjustments, we expect the JPY to strengthen further in 2023.

We believe that the Chinese reopening theme will drive CNH strength, Chinese risk assets, and certain EM Asia currencies (particularly those with a high beta with China). Moving forward, Asia's EM currencies may lead the way in recovery, underpinned by China's reopening theme and the Fed's slower pace of hikes in 2023. As such, we turn optimistic on EM Asian local government bonds and currencies. That said, given how much EM Asia currencies have performed in 4Q2022 and the uneven path for US rates and inflation to peak, we opine that valuations may not be sufficiently attractive to increase positions at this juncture. As a result, we prefer to hold off on re-positioning until we see signs of USD strength peaking and/or EM Asia local currency bonds and currencies consolidating in 1Q2023.

Falling Inflation in Asian Economies set to be Central Theme for 2023

Exhibit 16: Falling food and oil prices is expected to ease Asia's inflationary pressure

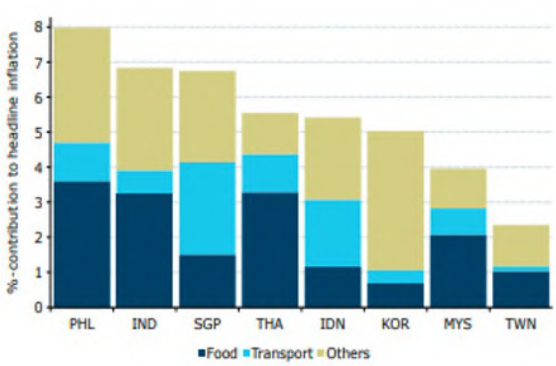
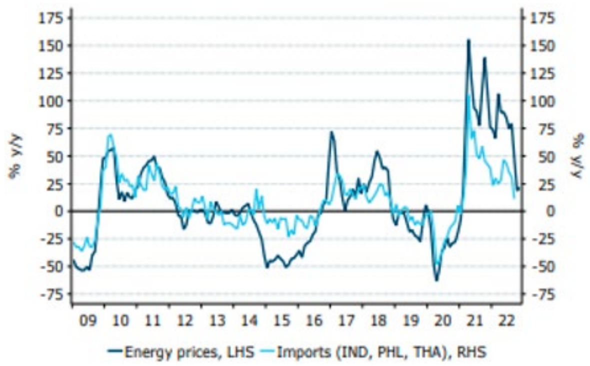


Exhibit 17: Economies reliant on imported energy expected to fare better with falling oil prices



Source: ANZ

KEY TRADE THEMES

NORTH ASIA

For the CNH, there is a positive outlook due to an improving macroeconomic outlook in North Asia, coupled with China's reopening and continued policy easing in the property sector. Additionally, markets are expecting the USD to be more subdued in 2023, which could be a catalyst for the CNH to appreciate. There is also the potential for bond inflows and foreign demand for local CNH bonds, which may aid local rates as well.

The JPY is expected to benefit from market pricing in tighter monetary policy adjustments, as the Bank of Japan's recent policy tweak may signal that it is open to more adjustments once Governor Kuroda's term ends. In addition, with Japanese government bond yields trending higher and hedging costs remaining high, it is expected that Japanese investors will continue to purchase JGBs rather than US Treasury bonds, which could provide a catalyst for the JPY to strengthen.

Meanwhile, the KRW is seen as having potential for appreciation due to the potential return of portfolio investors rotating back to Korean equities, which have low foreign ownership and cheap valuations. The KRW may also benefit from the inclusion of local government bonds in the WGBI and the possibility of an upgrade into MSCI DM for Korean equities.

Elsewhere, the TWD is expected to trend towards 30 against the USD over the course of 2023, supported by a potential easing of geopolitical risk and a weaker USD as the Federal Reserve slows its pace of hiking. It is believed that a reversal of large foreign equity outflows in Taiwan, which took place in 2022, may occur as the geopolitical risk premium that had been priced into domestic risk assets starts to unwind.

SINGAPORE

SGD is one of the best-performing Asian currencies in 2022 following 4 tightening moves (of which 2 moves were inter-meeting, i.e., January 2021 and July 2022). We are positive on the SGD in 2023 given that we expect the Monetary Authority of Singapore (MAS) to tighten policy further via a slope increase as inflation remains elevated.

Furthermore, inflation expectations may remain stubborn over the next 2 years due to back-to-back hikes in the goods and services tax (GST) in 2023 and 2024. As such, we are of the view that MAS will likely keep monetary policy tight to ensure inflation expectations are well anchored. Broadly, Singapore's interest rate moves in tandem with US rates in varying degrees given that MAS manages monetary policy through FX. SGD has become a "high yielder" following the Fed's aggressive moves last year. This may allow SGD to enjoy a strong appreciation bias owing to continuous capital inflows, thus keeping SGD in demand. In addition, the estimated gross SGS bond issuance size for 2023 (excluding the optional mini-bonds and the 50Y green bond) is approximately $22 bn to $24 bn which is lower than 2022. Given lower supply and expected healthy inflows, the Singapore nominal effective exchange rate (SNEER) may trend towards the upper bound of the policy band. As such, we favour going long on both SGD and SGD rates.

MALAYSIA

We opine that MYR will gradually appreciate over the course of 2023 as the Fed's hike cycle comes to an end, coupled with the resolution of political stalemate.

Furthermore, headline inflation is likely to peak and is expected to moderate gradually over 2023, aided by high base effects as well as subsidies being maintained. In addition, we also expect increased portfolio inflows from offshore investors to boost the currency.

Moving forward, we are of the view that BNM may be more cautious about additional rate hikes as a deteriorating growth outlook led by a drop in external demand takes centre stage. As we have previously observed, we do not believe BNM would use FX weakness as a primary driver of policy tightening. With inflation expectations moderating and the country's growth highly sensitive to a global growth downturn, we expect BNM to reach the end of its hiking cycle with a terminal rate range of 2.50% - 2.75%. Underpinned by the above, we start to be more constructive with local currency rates.

BNM to reach the end of its hiking cycle with aterminal rate range of 2.50% - 2.75%

INDONESIA

The interest rate differential was a major contributor to IDR depreciation in 2022, but it was partially offset by higher commodity prices. We expect Indonesia's trade surplus to decline from the highs seen in 2022 as commodity prices trend lower amidst the global slowdown, and as a result, we expect USD/IDR to underperform Asian currencies in 2023. Following the rate hike "catch-up" in 2H2022, we now expect Bank Indonesia (BI) to deliver more "controlled" hikes in support for IDR stabilisation and to ensure a gradual decline in inflation (November 22 headline inflation: 5.42% vs BI's 2%-4% range). As such, we recommend a slight overweight on local INDOGB bonds, in particular the 5Y-10Y portion (the belly is typically preferred by investors based on historical data) for carry purposes.

THAILAND

For 2023, we believe THB should see an appreciation bias as Thailand's current account surplus is set to improve, aided by a pickup in tourist arrivals, which is further accelerated by the China reopening theme.

For the mid-term horizon, moderating commodity and oil prices as well as a decline in international freight rates (hence, lowering import costs) will also aid in Thailand's current account recovery. Even though general elections are expected to be held in 2Q2022, we have observed that foreign investors have broadly looked past political instability after their initial knee-jerk reaction to local risk assets. Coupled with dollar strength peaking, we expect THB to gather strength and trend towards 33-34 against the USD by the end of 2023.

Furthermore, we also expect portfolio inflows from offshore following subdued bond positioning by foreign investors in 2022. With the Bank of Thailand expected to maintain a gradual pace of policy normalisation as inflation stabilises and a favourable bond supply in view of weaker government spending in 2023, we turn more constructive on Thai government bonds.

PHILIPPINES

In contrast to other EM Asia currencies, we think the BSP may remain under some pressure, especially into 1Q2023, due to continued weakness in the Philippines' current account deficit, which saw historical lows in 2022.

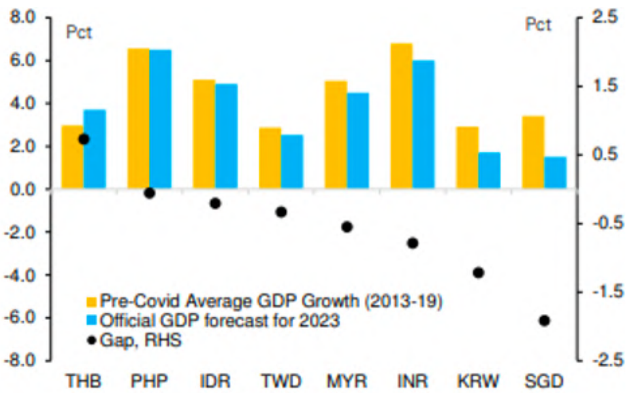
We think still elevated oil and food prices in 1Q23 may result in higher imports, thus weighing further on its currency. Even though the Philippines has been intervening in the FX market since 2022 to stem the slide of the PHP, we think the BSP is unlikely to resist the fundamental depreciation pressure on the currency. BSP had also raised its 2023 CPI inflation forecast to 4.5% from 4.3% (further beyond its 2% - 4% target) in its recent December meeting, thus tilting the likelihood of rate hikes to the upside. We acknowledge that PHP may likely face less volatility in 2023 as US rate hikes moderate and improving remittance flows continue to provide support to the country. But given the near-term headwinds from the deteriorating current account deficit weighing on PHP and the still hawkish central bank stance, we are underweight both the PHP and local rates for at least 1Q2023.

Even though the Philippines has been intervening in the FX market since 2022 to stem the slide of the PHP, we think the BSP is unlikely to resist the fundamental depreciation pressure on the currency.

INDIA

Even with oil prices expected to moderate and the Fed stepping down from its aggressive stance, we believe the INR will still face headwinds in 2023, in particular from the wide trade deficit. India's superior growth position will likely spur domestic demand vis-à-vis slowing external demand. The positive impact of lower import prices (from moderating oil prices) will likely be offset by a possible fall in exports, limiting India's net trade position. We acknowledge that India will benefit from net inflows as investors turn more constructive on risk assets. That said, the RBI may not allow the INR to strengthen significantly as the central bank could likely absorb USD to replenish its USD reserves, which had dwindled over the course of 2022 as the RBI stepped up to defend the currency. Overall, we expect limited appreciation of the INR in 2023, especially relative to its Asian peers.

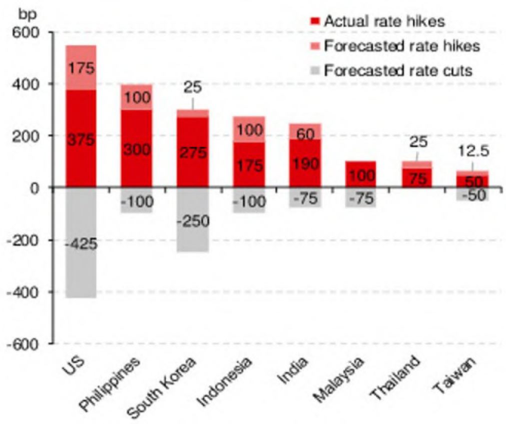
Exhibit 18: Asia GDP Growth Rate Forecast



Asian economies are expected to see moderate growth in 2023, save for Thailand, which is the only economy expected to grow above trend next year.

Source: Deutsche Bank

Exhibit 19: Cumulative Rate Hikes And Cuts By Various Central Banks Until The End Of 2024



With many rate hikes being delivered in 2022, we expect slower growth and moderating inflation will lead Asian central banks to bring monetary policy closer to neutral, which bodes well for local rates. With markets pricing in potential cuts by the Fed, this would be supportive of Asian currencies.

Exhibit 20: Macroeconomic Data Forecasts of Asian Economies

	Real GDP, yoy (%)	CPI, yoy (%)	Policy Rates, %	Fiscal Balance, % of GDP	Current Account, % of GDP
	2023F	2023F	End 2023	2023F	2023F
China	4.8	2.5	2.00	-3.9	1.5
India	4.5	5.3	5.75	-6.2	-2.5
Indonesia	4.4	5.0	5.75	-3.0	-0.5
Malaysia	3.7	2.6	2.50	-5.8	1.9
Philippines	4.3	4.2	5.50	-6.6	-4.4
Singapore	1.4	4.6	2.75	-0.5	13.3
South Korea	-0.6	2.4	2.00	-3.5	1.0
Taiwan	2.2	1.8	1.50	-1.6	9.8
Thailand	3.8	2.4	1.50	-3.2	4.5

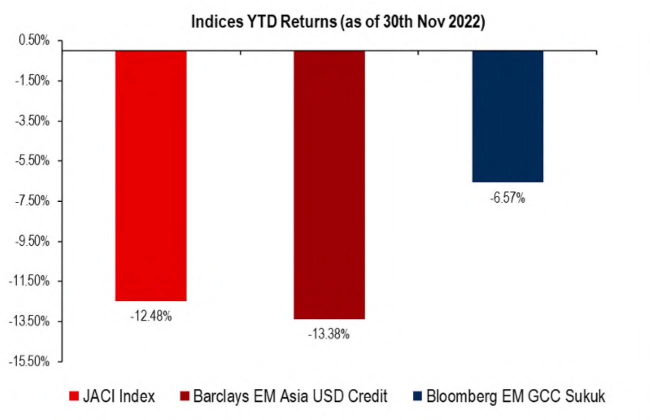
2023 Global Sukuk Outlook & Strategy

The Gulf Cooperation Council (GCC) economies are expected to outperform EM peers in 2023 and credit fundamentals will strengthen due to better economic, fiscal, and external prospects. Alpha is expected to come from long duration and currency appreciation in MYR and IDR and the preference is for sovereign and quasi-sovereign bonds in the UAE and Saudi Arabia over Bahrain in the high yield space and Islamic banks for carry purposes. GCC sukuk are attractive for a carry play due to their relatively higher yield.

GCC economies enter 2023 on the front foot as the region had the fastest nominal GDP growth of around 7% in over a decade, double-digit growth in oil production, buoyant non-oil sector growth despite a slowing global growth backdrop, and an improved GCC budget performance (an average surplus of 8% in the region versus 7 years of deficits prior to 2022).

The global sukuk market outperformed emerging markets in 2022. The global sukuk index, as measured by the Bloomberg EM GCC Sukuk Index, returned -6.57% YTD as of end-November, outperforming the Asian fixed income space (as measured by the JACI index), which returned -12.48%. Within the sukuk rating bucket, high yield sukuk (YTD -3.39%) outperformed investment grade sukuk (YTD -8.49%) owing to the former's higher coupon rates and wider spreads, which provided better cushioning during a rising interest rate environment.

Exhibit 21: Sukuk vs Asia Credit Indices YTD Returns

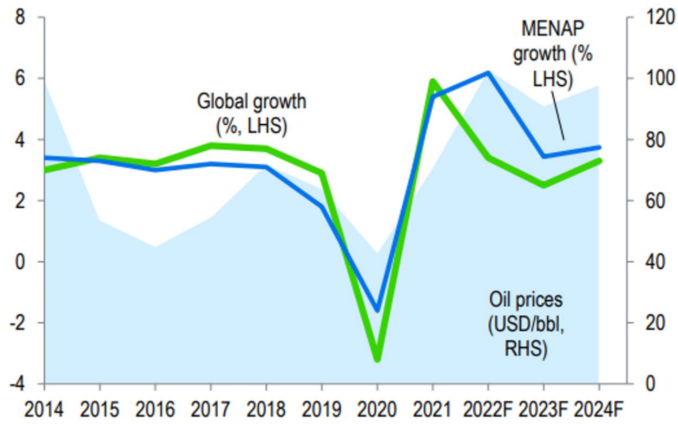


Source: Maybank Asset Management Singapore as of end-November 2022

Notwithstanding the positive outlook for the GCC region in 2023, GDP growth is expected to slow as the increase in oil and gas contribution to GDP last year is unlikely to be repeated. Any further unexpected OPEC+ production cuts pose a downside risk to growth.

Non-oil GDP is also likely to slow but remain relatively robust as countries continue to invest strategically to diversify their economies (for example, the UAE's 2031 National Tourism Strategy and Saudi Arabia's "Global Supply Chain Resilience Initiative") on top of the resulting spillover benefits from the World Cup.

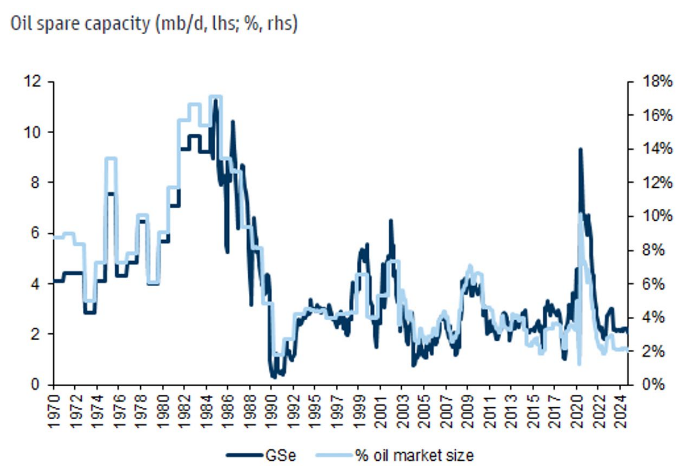
Exhibit 22: MENA set to outpace global growth on robust oil prices and non-oil recovery



Source: Standard Chartered

We expect oil prices to remain in the range of $65 - $95, well above GCC fiscal and external breakeven levels at $65 - $50, respectively, driven by: 1) continued tightness in global oil markets due to a structural underinvestment and lack of supply response, 2) pent-up demand from China amidst a disorderly reopening, 3) a waning US Dollar; and 4) geopolitical risks arising from the prolonged Russia-Ukraine war.

Exhibit 23: Despite recent OPEC cuts, spare capacity remains low and depleted



Source: Goldman Sachs

In this context, we expect that advanced economies globally will experience stagnating growth and even recession, against a bullish oil backdrop. As a result, we expect the GCC economies to continue to outperform EM peers in 2023, and credit fundamentals will continue to strengthen on the back of better economic, fiscal, and external prospects.

In 2023, we think that alpha will likely come from long duration and currency appreciation in the MYR and IDR as the strength of the dollar wanes. Within the sukuk rating bucket, we prefer to position ourselves in the IG space over HY.

Among countries, we prefer the UAE and Saudi Arabia for sovereign and quasi-sovereign bonds. Within the HY space, we prefer Oman to Bahrain. For carry purposes, we continue to favour Middle Eastern Islamic banks such as AT1.

From a valuation standpoint, GCC Sukuks are very compelling for a carry play, with the Bloomberg EM GCC Sukuk Index returning 5.33% yield, a relatively higher yield as compared to its 5-year historical range.

Exhibit 24: Bloomberg EM GCC Sukuk Index (2017 to 2022)

Source: Bloomberg, December 2022

Country	Recommendations
United Arab Emirates	• Credit positives include: 1) launch of National Tourism Strategy 2031 which should boost the tourism and hospitality 2) undertaken an accord to increase FDI through economic and bilateral trade agreements with India and Israel. • Remain overweight on bank AT1s over seniors for carry and high likelihood of redemption on the first call date; prefer IG real estate names. We also like long-duration sovereign and quasi-sovereign bonds.
Saudi Arabia	• Positive rating outlooks by S&P/Fitch. • Many positives in Saudi's economic prospects – 1) PMI is the highest in the world (57.1), 2) rising household spending as a result of social reforms, 3) tourism and travel momentum to continue (AFC Asian Cup and annual Hajj), 4) "Global Supply Chain Resilience Initiative" to boost investments in private sector, 5) muted inflation. • Overweight Sovereigns and Quasi sovereigns as credit profile is expected to fare well globally and outperform in risk-off periods; Cautious on Saudi financials amidst backdrop of liquidity squeeze, and risk of lower bank profitability.
Oman	• Recently upgraded to BB by S&P. Oman should sustain twin surpluses in 2023. • Bond buyback in 2022 could repeat in 2023 to further reduce government debt/GDP. • OMAN Sovereign Sukuks have performed extremely well this year, tightening by some 100bps during the year to end Nov/Dec. • Market weight at these levels due to recent outperformance, will add on weakness.

Country	Recommendations
Qatar	• Recently upgrade to AA by S&P, we could see further credit rating upside in the horizon from the other 2 rating agencies. • World Cup economic boost by as much as 2.5pp of GDP (ICAEW estimates); North Field gas expansion project – positive medium-term impact on O&G sector. • Qatar USD sovereign Sukuks remain limited (only 1 Sukuk due in 2023). Market weight on Qatari Financials.
Indonesia	• Expect USD/IDR to appreciate slightly by end-2023. • USD Indonesia Sukuk's have outperformed this year and hence prefer local currency Sukuk for carry of 6-7% and potential IDR appreciation.
Malaysia	• Waning USD strength will be a key driver for MYR's trajectory, we expect MYR to appreciate gradually. • We prefer local currency MYR bonds in the long end part of the curve, given MYR currency appreciation view. • OW on Quasi sovereign Sukuks on news of maiden rated issuance in 2023 (same as Malaysia sovereign at A3/A-/BBB+ by M/S/F), a positive for existing curve.
Bahrin	• Revised to stable outlooks by Moody'/Fitch. • Cautiously optimistic on Bahrain's prospects despite higher fiscal deficit due to the strong support from GCC peers. Non-oil sector needs to do the heavy lifting. • Tilt towards USD Sukuk from a carry perspective. Underweight oil and gas sector (tighter than sovereign by 40bps).
Kuwait	• Downgraded from AA to AA- by Fitch. • Recent approval of budget by Parliament a step in the right direction, but still require more steps to be give assurance. • Oil production will be below capacity of 2.7mbd vs 3.2mbd due to OPEC cuts. • Overweight on IG names in the petrochemical industry. Neutral on Kuwaiti bank's AT1 perp.

Malaysia

OUTLOOK & STRATEGY

2023 MALAYSIAN EQUITY OUTLOOK & STRATEGY

The Malaysian stock market is expected to perform well in 1H2023 due to political stability following the 15th General Election (GE15), implementation of growth and business-oriented policies, and an increase in visitors to the country. Inflationary risk is expected to ease, but equity market volatility is expected to persist.

It has been an eventful 4Q2022 for the local bourse. The biggest event was the GE15 held in November, which resulted in a hung parliament as no coalition was able to meet the simple majority requirement. Upon the advice of the King, a government led by Prime Minister (PM) Anwar Ibrahim has been formed in coalition with other parties such as Barisan Nasional component parties, Gabungan Parti Sarawak (GPS), and Gabungan Rakyat Sabah (GRS). Post-formation of the Cabinet, a motion of confidence by the PM was held, and he got the majority support of the Members of Parliament. This should augur well for Malaysia in terms of political stability going into 2023.

The conclusion of GE15 and the solitary position of the Prime Minister will act as the catalyst for the local stock market going into 1H2023. The government can now focus on implementing all the growth and business-oriented policies while at the same time reforming the social and governance agendas.

Economic growth prospects are expected to be challenging in 2023, driven by the expected global slowdown. Therefore, it will be very crucial for the government to continue pump-priming to provide the growth support while at the same time managing the deficits. The final leg of the economic reopening play should see an increase in the number of visitors to the country. This will have a big impact on domestic economic pillars, which will help mitigate weaknesses in other economic pillars such as exports and investments.

Strategy wise, we have been reducing our cash position in view off subsiding risk domestically, particularly the political risk. We will maintain our asset allocation between 85% - 90% going into 1H2023, as compared to 70% - 75% in 2H2022. Further improvement in the global inflation numbers and clarity on the recession risk will warrant a further reduction in our cash position. Although we expect inflationary risk to ease, we expect volatility in equities to persist. Therefore, it is very crucial to maintain a balanced portfolio structure approach, and we will focus on idiosyncratic opportunities across sectors such as consumer, transport, and utilities. Our base case scenario KLCI target for 2023 will be at 1,592 points, which provides a decent upside of 6.5%.

The conclusion of GE15 and the solitary position of the Prime Minister will act as the catalyst for the local stock market going into 1H2023

2023 MALAYSIAN FIXED INCOME OUTLOOK & STRATEGY

We expect the recovery in Malaysia's fixed income market to continue in 2023, as central banks around the world have peaked on interest rate hikes and are signalling a shift towards more accommodative monetary policy. Inflation in Malaysia is also expected to moderate, leading to less pressure on the central bank to raise interest rates.

After the initial impact of global interest rate hikes, particularly from the US, we believe that the recovery in local fixed income will continue into the year since its start in October 2022. This comes as central banks around the world appear to have peaked out on interest rate hikes and are signalling a shift to a more accommodating monetary policy. Furthermore, a more moderate inflation in the domestic economy after the highs in 2022 is likely to release pressure on Bank Negara Malaysia (BNM) to introduce more hikes and on the local yields to increase.

With Malaysia GDP growth expected to be 4.00% in 2023, down from an estimated 8.00% in 2022, the indication of domestic growth softening could lead to more stable and positive MGS yields in 2023. Any slowdown in economic growth caused by the recent spate of hikes could manifest in 2H2023, prompting central banks to become more accommodating and abandon their restrictive stance in order to avoid a hard landing. This would be ideal for bond yields to fall.

Following four consecutive 25bps rate hikes beginning in April to 2.75%, we anticipate another 25 bps hike by BNM in 2023 to bring the OPR level to 3.00%, as we believe the OPR hike cycle is nearing its end.

This would restore OPR to its pre-Covid level. The end of the central bank hiking cycle in 1H2023 would present a more positive dynamic to yield movements globally, positively impacting MGS yields to trend lower.

Nonetheless, potential challenges to our baseline estimates include a higher terminal Fed funds rate, which may have an influence on regional rates, including Malaysian yields. As a result of the Fed's previous rate hikes, the market anticipates a terminal rate between 5.00% - 5.10%. However, if achieving price stability in the US remains a priority, the Fed could be forced to implement additional rate hikes that would increase the predicted terminal rate. This would pose a risk to the upside for MGS yields as the effect would echo throughout the global market.

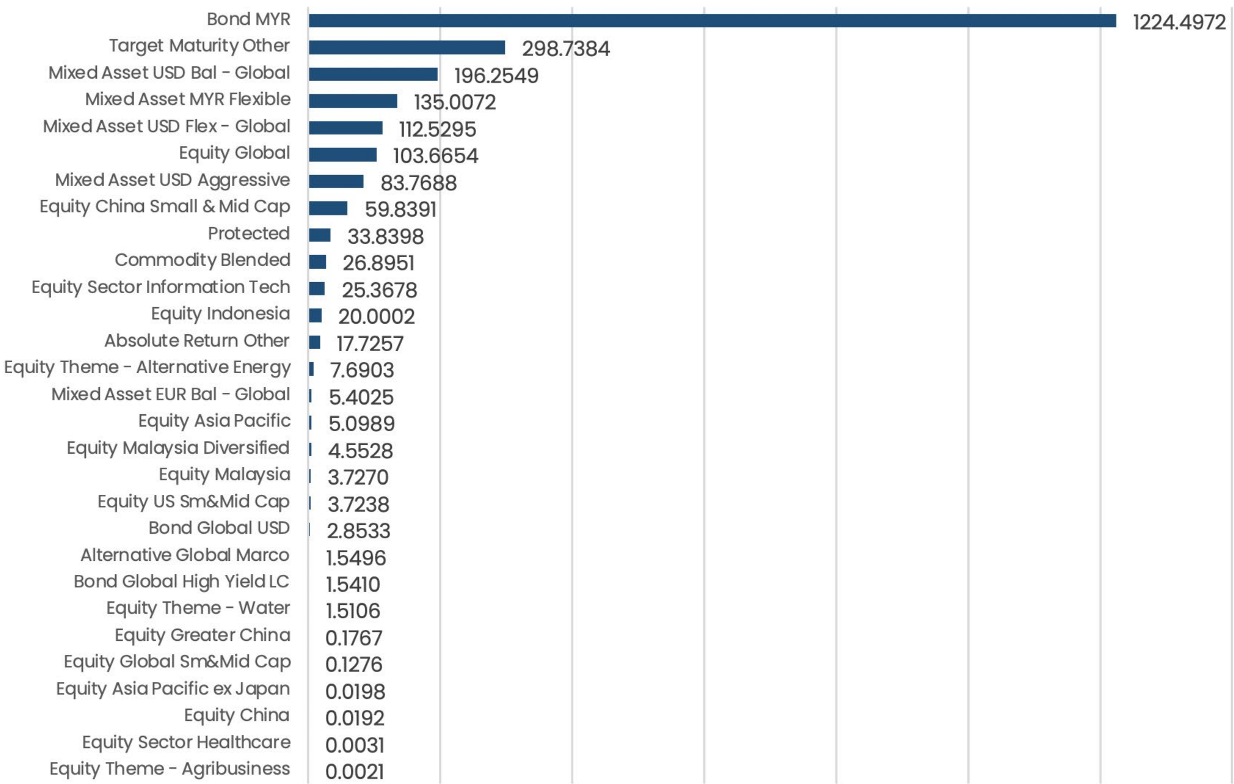
In spite of all these headwinds, we will continue to trade opportunistically and realise profits, while also considering new primary issuances with higher yields to increase returns. As the outlook improves, we will consider extending duration from present neutral positions with preferred investments into attractive govvies yields and healthy AAA and AA corporate credits. Last but not least, we are more inclined to invest in govvies in 2023 after staying on the sidelines in 2022 due to rising global sovereign yields. As rates appear to have reached a peak and central banks are anticipated to become more accommodating in 2023, we believe that government bond yields are likely to decline in 2023, allowing for advantageous trading positioning.

Product Trend

2023

Product Trend 2023

AUM Raised as of 30 December 2022 (RM 'million)



TOP 3 STRATEGIES:

1. **Bond MYR**
2. **Global Mixed Assets – Balanced**
3. **Global Mixed Assets – Flexible**

Due to the volatile environment created by multiple headwinds in 2022, investors have sought refuge in safer assets such as the local fixed income market. As a result, flows into MYR bond funds continue to top the list, far outpacing other asset classes. The resilience of MYR bonds, as well as the attractive yields being offered at the moment, are two of the primary reasons for such strong flows.

Target maturity funds are also one of the top destinations for investment in 2022 as bond yields were attractive. Therefore, investors flocked to lock in such attractive yields for the next few years.

It is worth noting that, given the current market environment, mixed asset strategies remain one of the primary options for Malaysian investors looking to produce profits while safeguarding their investments from adverse risks.

Product Highlights

We believe Asian equities will outperform other markets and provide positive absolute returns in 2023. While the global outlook remains bleak, the relaxation of Covid measures in China has sparked hopes for a recovery in the region, and we believe the downside risk is lower than in other regions, with earnings being revised downwards in 2022. China remains our conviction call as the relaxation of Covid measures pose as a positive catalyst. Investors with a higher risk tolerance should consider our Asian-focused equity funds.

On the other hand, as the aggressive interest rate hike that drove the bond selloff and the negative sentiment surrounding the China liquidity crisis in 2022 have dissipated, we believe that 2023 will be the year for fixed income. Yields across the Asian fixed income space remain compelling, and we expect future yield compression given the recessionary outlook to provide a strong potential upside for fixed income investors. Therefore, investors with a lower risk appetite can look toward our Asian fixed income funds. Meanwhile, investors with a more moderate risk appetite that seek opportunities in the equity market may invest in our mixed asset funds which provides access to both the equity and fixed income markets.

Based on our market rationale for 2023, here are funds that we would highlight:

Equity Funds

Maybank AsiaPac Ex-Japan Equity-I Fund
The fund provides investors with a diversified exposure into the Asia Pacific-ex Japan region. Investors are able to have a diversified equity portfolio as the fund currently has exposures in 10 Asian countries across 11 sectors. Leveraging on Maybank Asset Management's strong regional presence and expertise in Malaysia, Singapore and Indonesia, Maybank AsiaPac Ex-Japan Equity-I Fund has been performing consistently throughout the challenging market condition in 2022, ranked first amongst comparable peers in Malaysia throughout 2022.

MAMG China Evolution Equity Fund
The MAMG China Evolution Equity fund enables investors to diversify their China investments away from the mega caps. The fund focuses beyond the 100 largest Chinese stocks to unearth hidden gems in the stock market. These hidden gems possess exponential growth capabilities and some are dubbed as "Alibabas and Tencents of Tomorrow". The target fund manager, T. Rowe Price, holds a long history of investing in China, seeking to identify companies beyond the widely owned mega cap stocks.

MAMG All-China Focus Equity Fund
An all-China strategy approach enables the fund to have access across local onshore as well as offshore global listings of China equities, covering all industry sectors and market capitalisation. Such combinations should provide wider opportunities for potential alpha generation. With over 30 years of experience in the emerging markets, the target fund manager, Wellington Management looks for companies with above average organic growth prospect and good corporate governance to generate long-term total returns.

Fixed Income Funds

Maybank Bluewaterz Total Return Fund
Our flagship Asian fixed income fund Maybank Bluewaterz Total Return Fund, a wholesale feeder fund for sophisticated investors which aims to achieve an absolute return of 6.5% p.a. in MYR terms. Key features of the fund would be flexibility, as the fund invests in local currency government bonds and Asian offshore USD credit markets. On top of that, the fund is very nimble as it has the capability to hold cash up to 100% of NAV to minimise downside risks during downturns.

Maybank Malaysia Sukuk Fund
Our flagship local sukuk fund, the Maybank Malaysia Sukuk Fund, provides investors access to one of the largest sukuk markets in the world, the Malaysian sukuk market. With stability as a priority, the Fund is invested in a portfolio of strong rated MYR-denominated sukuk with a minimum rating of "AA-" by RAM or an equivalent rating by MARC. During the previous yield compression in 2018, the Maybank Malaysia Sukuk Fund returned +13.14%, translating to a return of +6.84% per annum.

Mixed Assets Funds

Maybank Asia Mixed Assets-I Fund
The Maybank Asia Mixed Assets-I Fund combines our proprietary quant engine and the expertise of our experienced fund managers to deliver the best outcome to investors. The quant engine uses the application of data science, computer programs and mathematical models to deduce the fund's asset allocation from time to time, adapting to the market environment. Primarily, the quant engine makes the stock selection process easier and faster with its multi-factor quant model where ESG is a permanent factor in screening stocks to ensure sustainable investments. The fund has 6% - 7% p.a. target return with a potential income of 5% - 6% p.a. to be paid out on a quarterly basis.

Our Solution: Islamic Funds

Risk Rating	Our Funds	Type	Inception	Performance 1Yr	3Yr	Since Inception	Geographical Exposure
AGGRESIVE	Maybank Asiapac Ex-Japan Equity-I	R	8-Jan-14	-11.52	2.38	4.89	Asia Ex-Japan
	Maybank Global Sustainable Equity-I MYR	R	25-Aug-20	-17.51	-	0.45	Global
	Maybank Global Sustainable Equity-I MYR Hedged	R	25-Aug-20	-22.79	-	-2.24	Global
	Maybank Global Sustainable Equity-I USD	R	25-Aug-20	-22.02	-	-2.07	Global
	Maybank Malaysia Growth-I	R	24-Nov-00	-10.91	-2.86	4.26	Malaysia
MODERATE	MAMG Global Income-I MYR	R	13-Mar-18	-5.15	1.09	3.51	Global
	MAMG Global Income-I USD	R	08-Jul-20	-5.08	-	1.68	Global
	Maybank Asia Mixed Assets-I MYR	R	16-Aug-21	-12.83	-	-10.70	Asia
	Maybank Asia Mixed Assets-I USD	R	16-Aug-21	-14.82	-	-12.28	Asia
	Maybank Global Mixed Assets-I AUD Hedged	R	15-Jun-20	-20.79	-	0.13	Global
	Maybank Global Mixed Assets-I MYR	R	17-Jun-19	-14.17	5.85	4.73	Global
	Maybank Global Mixed Assets-I MYR Hedged	R	17-Jun-19	-19.37	3.34	3.05	Global
	Maybank Global Mixed Assets-I SGD Hedged	R	15-Jun-20	-19.35		1.15	Global
	Maybank Global Mixed Assets-I USD	R	17-Jun-19	-18.96	2.67	2.90	Global
	Maybank Global Mixed Assets-I USD Institutional Distribution	W	17-Sep-20	-17.86	-	-0.14	Global
	Maybank Global Wealth Growth-I MYR Hedged Accumulation	R	15-Feb-22	-	-	-	Global
	Maybank Global Wealth Growth-I USD Accumulation	R	01-Jun-22	-	-	-	Global
	Maybank Global Wealth Moderate-I MYR Hedged Accumulation	R	15-Feb-22	-	-	-	Global
	Maybank Global Wealth Moderate-I MYR Hedged Distribution	R	15-Feb-22	-	-	-	Global
	Maybank Global Wealth Moderate-I USD Accumulation	R	01-Jun-22	-	-	-	Global
	Maybank Global Wealth Moderate-I USD Distribution	R	01-Jun-22	-	-	-	Global
	Maybank Income Management-I	R	08-Jan-20	1.77	-	2.06	Malaysia
	Maybank Institutional Income Management-I	W	09-Mar-20	-3.53	-	10.61	Malaysia
	Maybank Malaysia Balanced-I	R	17-Sep-02	-3.34	1.23	4.28	Malaysia
	Maybank Malaysia Income-I A MYR	R	27-Apr-04	1.62	2.73	4.25	Malaysia
	Maybank Malaysia Income-I C MYR	R	21-Aug-13	1.62	2.75	4.42	Malaysia
	Maybank Malaysia Income-I C USD	R	17-Sep-14	-5.73	0.28	0.18	Malaysia
	Maybank Malaysia Sukuk	R	08-Jan-14	0.92	2.25	3.88	Malaysia
	Maybank Mixed Assets-I Waqf A	R	03-May-21	-6.51	-	-5.09	Malaysia
CONSERVATIVE	Maybank Money Market-I A MYR	R	6-Jul-11	2.22	2.14	2.84	Malaysia
	Maybank Money Market-I B MYR	R	18-Oct-19	2.32	2.24	2.30	Malaysia
	Maybank Retail Money Market-I	R	3-Nov-21	2.15	-	2.25	Malaysia
	Maybank Shariah Enhanced Cash	W	24-Nov-08	1.33	1.24	2.54	Malaysia

Source: Maybank Asset Management, Lipper as at 31st December 2022

Our Solution: Conventional Funds

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	Ann. 3Yr	Ann. Since Inception	
AGGRESIVE	MAMG All-China Focus Equity MYR	W	29-Jul-21	-21.91	-	-18.99	China
	MAMG All-China Focus Equity MYR Hedged	W	29-Jul-21	-26.33	-	-21.35	China
	MAMG All-China Focus Equity USD	W	29-Jul-21	-25.31	-	-20.67	China
	MAMG China Evolution Equity AUD Hedged	W	03-Jan-22	-	-	-	China
	MAMG China Evolution Equity MYR	W	03-Jan-22	-	-	-	China
	MAMG China Evolution Equity MYR Hedged	W	03-Jan-22	-	-	-	China
	MAMG China Evolution Equity SGD Hedged	W	03-Jan-22	-	-	-	China
	MAMG China Evolution Equity USD	W	03-Jan-22	-	-	-	China
	MAMG Dynamic High Income AUD Hedged	W	22-Jan-19	-19.73	-3.65	-0.55	Global
	MAMG Dynamic High Income EUR Hedged	W	22-Jan-19	-19.64	-5.09	-1.70	Global
	MAMG Dynamic High Income MYR	W	22-Jan-19	-12.96	-0.15	2.02	Global
	MAMG Dynamic High Income MYR Hedged	W	22-Jan-19	-17.77	-2.16	0.41	Global
	MAMG Dynamic High Income SGD Hedged	W	22-Jan-19	-18.31	-3.11	-0.16	Global
	MAMG Dynamic High Income USD	W	22-Jan-19	-17.44	-2.45	0.20	Global
	MAMG Global Environment AUD Hedged	R	22-Aug-22	-	-	-	Global
	MAMG Global Environment MYR	R	22-Aug-22	-	-	-	Global
	MAMG Global Environment MYR Hedged	R	22-Aug-22	-	-	-	Global
	MAMG Global Environment SGD Hedged	R	22-Aug-22	-	-	-	Global
	MAMG Global Environment USD	R	22-Aug-22	-	-	-	Global
	MAMG Liquid Alternative MYR	W	15-Nov-21	7.40	-	5.73	Global
	MAMG Liquid Alternative MYR Hedged	W	15-Nov-21	1.52	-	2.34	Global
	MAMG Liquid Alternative USD	W	15-Nov-21	1.47	-	2.15	Global
	Maybank Global Sustainable Technology MYR	R	18-Jan-21	-35.50	-	-16.35	Global
	Maybank Global Sustainable Technology MYR Hedged	R	18-Jan-21	-39.42	-	-19.67	Global
	Maybank Global Sustainable Technology USD	R	18-Jan-21	-39.31	-	-20.24	Global
	Maybank Malaysia Dividend	R	06-Jun-06	-10.93	-0.73	8.11	Malaysia
	Maybank Malaysia Ethical Dividend	R	07-Jan-03	-2.04	1.86	8.96	Malaysia
	Maybank Malaysia Growth	R	26-Mar-92	-4.11	2.51	4.28	Malaysia
	Maybank Malaysia SmallCap	R	03-Mar-04	-14.64	7.05	3.64	Malaysia
	Maybank Malaysia Value A MYR	R	07-Jan-03	-2.31	3.38	9.09	Malaysia
	Maybank Malaysia Value C MYR	R	07-Jan-03	-2.18	3.56	1.75	Malaysia
	Maybank Singapore REITs A MYR	R	13-Sep-18	-8.18	-2.33	3.23	Singapore
	Maybank Singapore REITs B MYR Hedged	R	13-Sep-18	-13.23	-4.00	1.98	Singapore
	Maybank Singapore REITs C SGD	R	13-Sep-18	-13.52	-4.72	1.35	Singapore

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	Ann. 3Yr	Ann. Since Inception	
MODERATE	MAMG Gold MYR	W	03-Jun-20	3.61	-	-1.24	Global
	MAMG Gold MYR Hedged	W	03-Jun-20	-2.58	-	-2.57	Global
	MAMG Gold USD	W	03-Jun-20	-0.63	-	-1.01	Global
	Maybank Asian Credit Income MYR	R	07-Jul-20	-12.73	-	-5.17	Asia
	Maybank Asian Credit Income SGD Hedged	R	07-Jul-20	-12.87	-	-5.95	Asia
	Maybank Bluewaterz Total Return MYR	W	14-Aug-15	-9.11	0.83	3.68	Asia
	Maybank Bluewaterz Total Return USD	W	20-Jul-18	-9.61	0.23	3.18	Asia
	Maybank Financial Institutions Income	W	17-Dec-09	1.86	2.96	3.94	Malaysia
	Maybank Financial Institutions Income Asia	W	26-Aug-14	-7.51	0.15	4.12	Asia
	Maybank Flexi Income AUD Hedged	R	28-Nov-19	-9.86	-2.53	-2.45	Global
	Maybank Flexi Income MYR	R	28-Nov-19	-4.34	0.45	0.09	Global
	Maybank Flexi Income MYR Hedged	R	28-Nov-19	-9.92	-1.67	-1.62	Global
	Maybank Flexi Income SGD Hedged	R	28-Nov-19	-9.87	-2.47	-2.40	Global
	Maybank Flexi Income USD	R	28-Nov-19	-9.56	-2.11	-2.04	Global
	Maybank Malaysia Balanced	R	19-Sep-94	-1.82	2.10	3.38	Malaysia
	Maybank Malaysia Income	R	19-Jul-96	0.05	1.76	4.72	Malaysia
CONSERVATIVE	Maybank Enhanced Cash XIII	W	24-Sep-08	1.47	1.35	2.69	Malaysia
	Maybank Money Market A MYR	R	01-Mar-19	1.73	1.58	1.43	Malaysia
	Maybank Money Market B MYR	R	01-Mar-19	2.12	1.98	1.55	Malaysia
	Maybank Money Market C MYR	R	01-Mar-19	2.12	1.98	1.55	Malaysia

Source: Maybank Asset Management, Lipper as of 31st December 2022

Maybank Asset Management