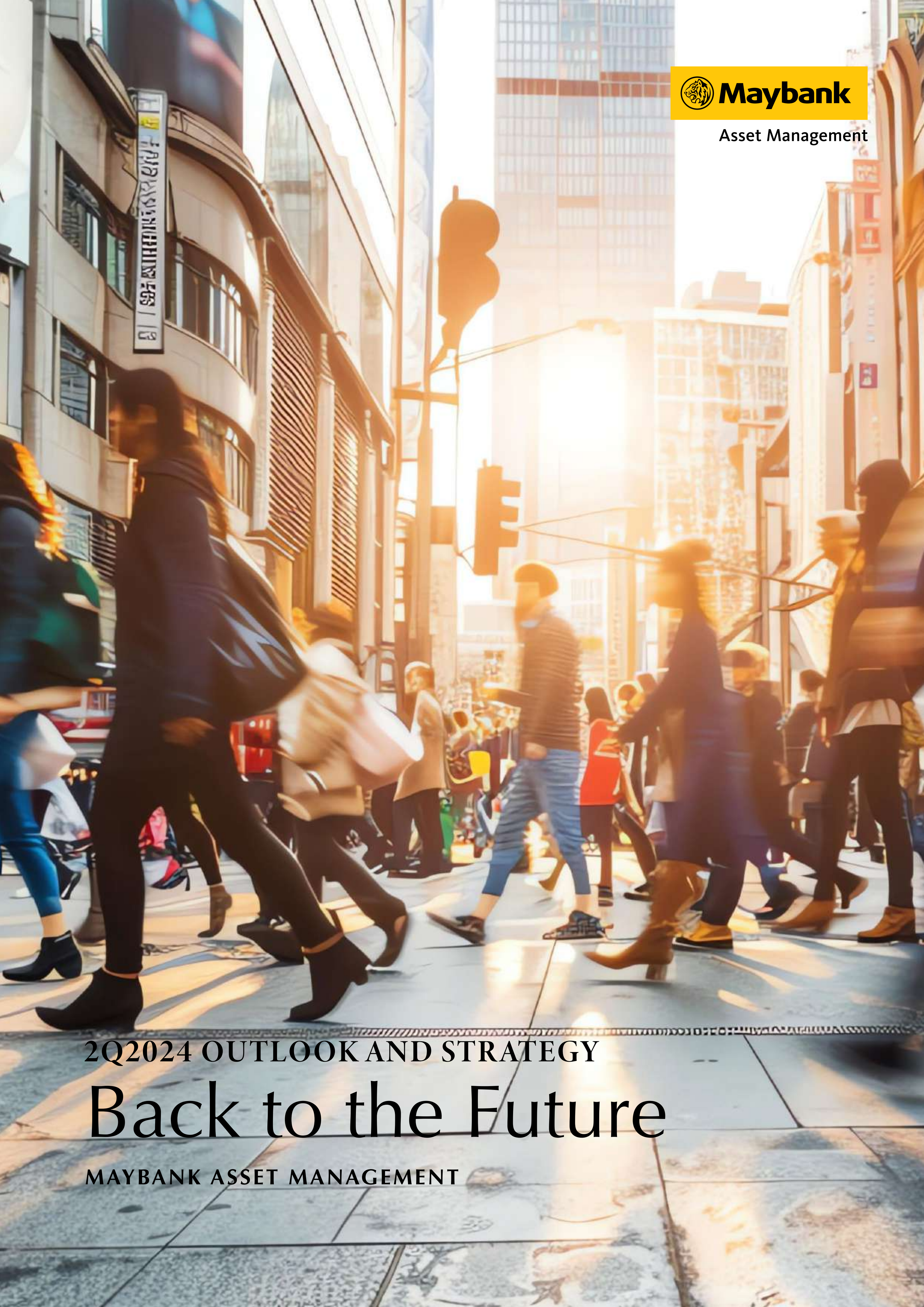


Maybank Asset Management

2Q2024 OUTLOOK AND STRATEGY

Back to the Future

MAYBANK ASSET MANAGEMENT

Content List

1Q2024 Review

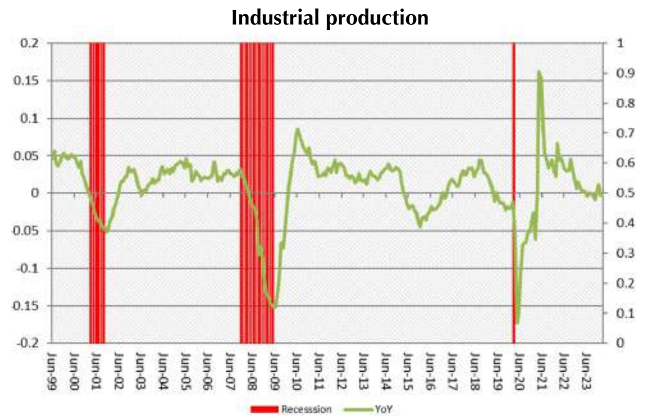
The financial markets have started the year on a promising trajectory, aligning with the anticipated US soft-landing narrative. However, a notable deviation from our 2024 expectations is the resilience of interest rates, with the benchmark 10-year US rates surging above 4% due to persistent inflationary pressures. Despite this, the equity rally has broadened, with most equity markets, including small and mid-cap companies, posting gains between 2% and 10%. On the bond market front, gains have been more subdued but still positive, ranging between 0% and 2%, reflecting the headwinds from elevated interest rates.

The year has kicked off on a positive note, with the majority of stock and bond markets posting gains. Financial markets are aligning with the US soft-landing narrative, meeting our expectations thus far. US job growth remains robust, averaging between 200,000 and 300,000 new jobs per month.

After a challenging 2023, US manufacturing and industrial production seem to have turned a corner and are showing signs of recovery. Additionally, major export countries such as Korea, China, and Japan have seen improvements in their exports, indicating a strengthening global growth outlook.

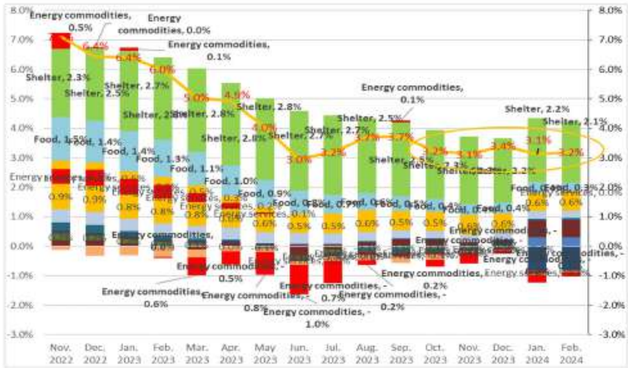
However, one deviation from our initial 2024 expectations is the resilience of interest rates. The benchmark 10-year US rates have surged above 4%, nearing 4.30%, marking the highest since November 2023. Sticky inflation has been the primary driver behind these elevated rates. Despite inflation moderating significantly from its 2022 peak of over 9.0%, it has hovered at or above 3% for the past six months, exceeding the Fed's target of 2%.

Chart 1: US softlanding – US Industrial production bottoming



Source: Maybank Asset Management, Bloomberg | Jun 1999 – Mar 2024

Chart 2: US inflation remains sticky



Source: Maybank Asset Management, Bloomberg | Jun 1999 – Mar 2024

The soft-landing scenario has led to a broadening of the equity rally. In 2023, the bulk of US stock market gains came from a select group of stocks known as the 'Magnificent 7.' However, 2024 has seen more widespread gains, with most equity markets, including small and mid-cap companies, showing positive performance. This trend is particularly evident in countries like Malaysia and the US. Buoyed by positive sentiment, stock markets have risen between 2% and 10%.

On the bond market front, gains have been more subdued due to the headwinds from elevated interest rates. Nonetheless, they have managed to post gains from the high carry of 4–6%. Overall, bond markets are up between 0% and 2%.

The benchmark 10-year US rates have surged above 4%, nearing 4.30%, marking the highest since November 2023.

2024 Key Investment Themes

There have been no changes to our themes for 2024, as both macro and financial markets are tracking as expected. On the election front, developments have largely aligned with our predictions.

In Taiwan, the Democratic Progressive Party (DPP) candidate won the presidential elections but with a reduced majority. Meanwhile, in Indonesia, Prabowo Subianto emerged victorious, endorsed by the incumbent President Jokowi, signalling a vote for continuity. The major elections in India and the US remain the final pieces of the electoral puzzle for 2024.

Themes	Implications / Strategy
Peaking interest rates	*Generally positive for financial assets* *: Fixed income - add duration, selective high yield.* *: REITs (non-US offices)* *: Emerging markets - fixed income and equities.*
China Transition	*Quality growth: High tech sectors – Semiconductor chips, renewables, and biotech.*
Elections	*Key elections in 2024 which include Indonesia, Taiwan, India and the US. Election years tend to be more volatile.*
Sustainability	*Cost of using renewables (Solar, Batteries) are now competitive with traditional power sources. Look to users of the products rather than the producers.*
AI/Tech disruption	*Continued trend towards digitalisation. Work from home will disrupt office REITs especially in the US.*
De-globalisation	*Supply chains set up to "derisk" from a single supply chain. China +1 EMS companies with exposure in India, Malasysia and Thailand. Higher inflation longer term.*
Volatile Markets	*More tactical trading given volatile markets.*

Growth Scenarios in 2Q2024

Our 2024 outlook remains unchanged, reinforcing our belief in a US soft-landing and sustaining our positive stance on financial markets. US equity markets are buoyant, and ASEAN markets, notably Malaysia and Vietnam, are also demonstrating resilience. Bond market returns are anticipated to be backloaded to the latter half of 2024, with persistent inflation and high US budget deficits posing challenges. However, a carry of 5% to 6% per annum offers potential returns.

We continue to hold our view of a US soft-landing and maintain our positive outlook for financial markets. Our 2024 scenarios remain unchanged from the start of the year, as economic and financial market conditions have aligned with our expectations.

US equity markets are on the rise, driven by strong corporate earnings, particularly in the AI and tech sectors. The hardware tech space is staging a comeback, with improved pricing and orders boosting stocks in the US, Taiwan, and Korea. Additionally, ASEAN markets are showing strength, with Malaysia and Vietnam performing well.

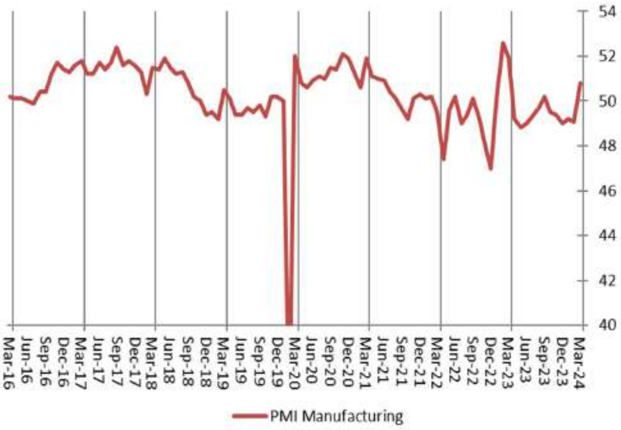
Investor sentiment towards China has been negative for some time. They had good reasons for this, as China was transitioning from economic growth that supported property and infrastructure-led growth to a focus on higher-value-added sectors. The popping of the property bubble and increased government regulations on internet and education companies have further dampened sentiment. Measures such as restricting gaming time for minors and curbing tuition costs for core subjects aim to mitigate the societal impact of excessive gaming and high education expenses.

However, as we entered 2024, our outlook on Chinese markets turned more positive. The Chinese stock market is attractively valued, trading below 10x earnings and at a decade low. Recent macroeconomic data shows promising signs, with industrial production and PMI manufacturing numbers picking up significantly. Retail sales are also growing at a rate of 5–7%. While there have been several false starts to the recovery, and China can still be a value trap, recent corporate earnings from major Chinese internet platforms like Alibaba, Meituan, and Tencent suggest that the worst may be behind us. These companies have reported decent revenue growth, ranging from 5% to 25%.

Table of Scenarios

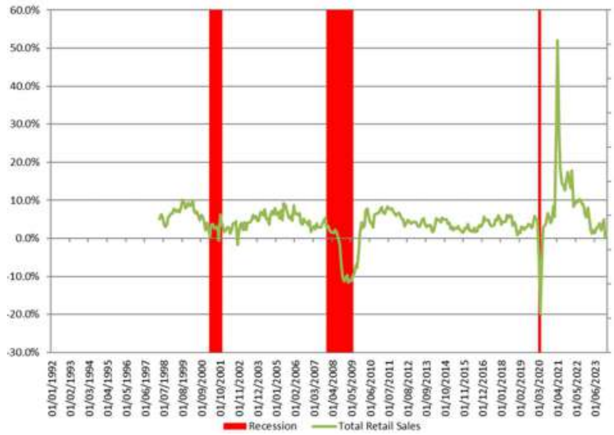
Scenarios	Description and strategy	Probability	Impact
US Soft-landing	*The Federal Reserve manages to engineer a soft-landing in 2024 as inflation normalises with positive economic growth. This is the base case and consensus heading into 2024.*	*60%*	• Positive for Equity • Positive for EM • Positive for REITS • Positive for Bonds • Positive for EM FX • Positive for Commodities
US Recession	*Risks of a US recession is still significant.*	*30%*	• Negative for Equity • Positive for Govt bonds • Negative for Corporate bonds • Negative for EM FX • Negative for Commodities • Positive for Gold
Stagflation	*High inflation in addition to a stagnant or shrinking economy.*	*10%*	• Negative for Equity • Negative for Bonds • Negative for EM FX

Chart 3: China PMI - Manufacturing Reaccelerating?



Source: Maybank Asset Management | Period: Mar 2016 – Mar 2024

Chart 4: US retail sales - soft and a concern



Source: Maybank Asset Management | Period: 1998– Mar 2024

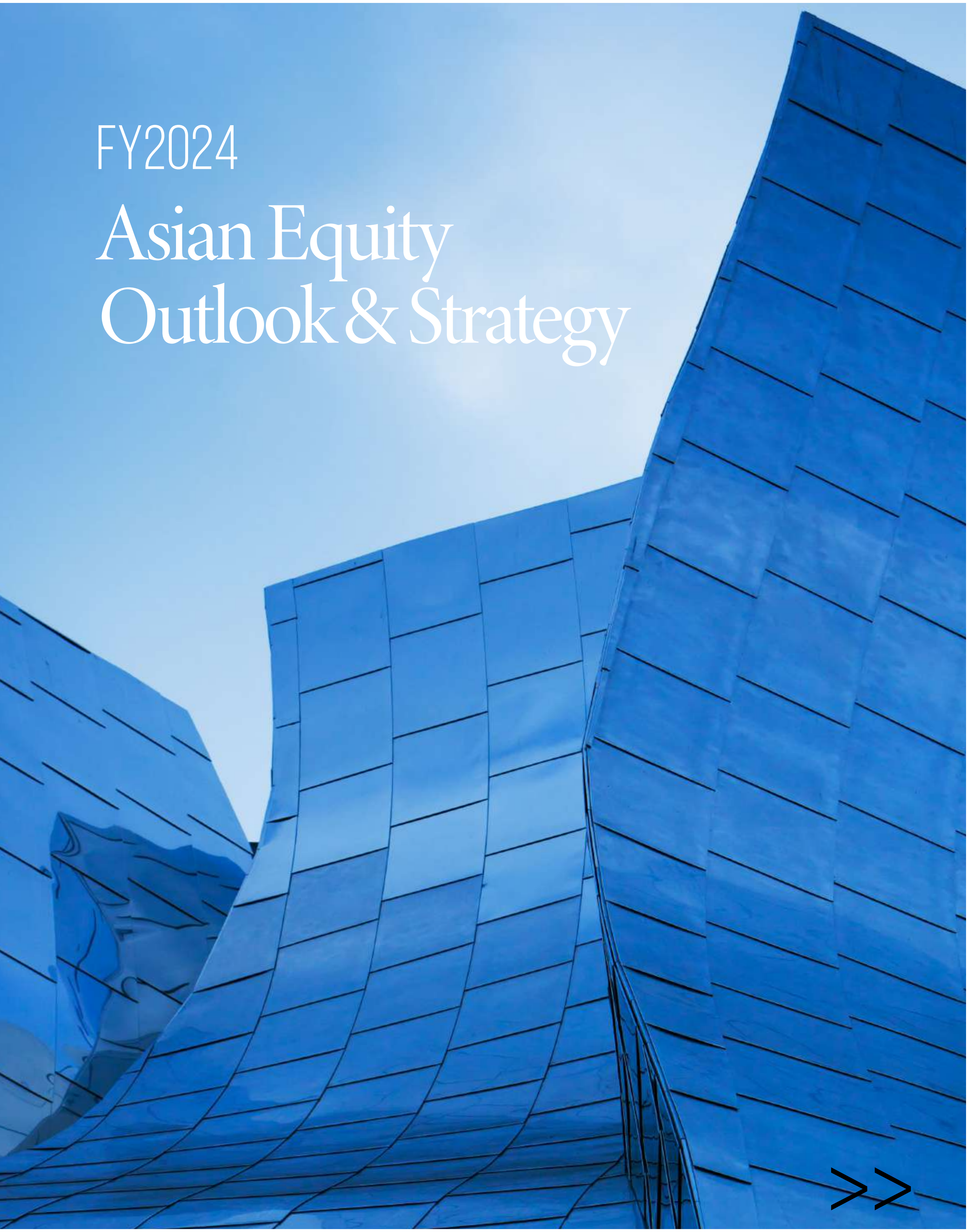
We expect bond market returns to be backloaded to the second half of 2024. Persistent inflation will likely keep rates elevated, acting as a headwind for bond returns. The US budget deficit will remain above 6% in 2024, contributing to these higher interest rates. While high government spending aimed at reindustrializing the US is supporting the economy, it's also fuelling stubborn inflation. In the meantime, investors can expect to benefit from a carry of 5% to 6% per annum.

We have a few concerns to highlight. First, US stock markets have performed exceptionally well, making them vulnerable to a correction given their extended valuations. Second, US retail sales grew by just 1.5% in March 2024. As consumption accounts for nearly 70% of the US economy, retail sales serve as a crucial indicator of economic health and a recession predictor for us. Weak retail sales are generally not a good sign for the US economy. While the weak retail sales could be a temporary blip, we will closely monitor this metric and adjust our investment outlook accordingly.

Our 2024 scenarios remain unchanged from the start of the year, as economic and financial market conditions have aligned with our expectations.

FY2024

Asian Equity Outlook & Strategy



FY2024 Asian Equity Outlook & Strategy

In 1Q2024, Asian equities thrived with US rates peaking. US shifted expectations to a soft-landing, with robust employment and modest retail growth. While inflation persists, the Fed's rate likely peaked at 5.25-5.50%. China's macro data hints at recovery, despite real estate challenges, with urbanisation and economic diversification supporting long-term growth prospects. We maintain overweight on China, India, and Malaysia, but underweight Hong Kong. Thailand is downgraded due to economic weakness, while the Philippines is upgraded to Neutral on improving economic indicators and market attractiveness.

Peaking US interest rates supported Asian equities in 1Q2024, with the MSCI Asia ex-Japan index (MXASJ) delivering a total return of 2.4% for the quarter. The continued crowding into AI plays globally lifted Taiwan (+12.5%) and Korea (+2.1%). However, China lagged behind, posting a -1% return, while MSCI Hong Kong suffered significantly at -9.9% due to continued foreign selling.

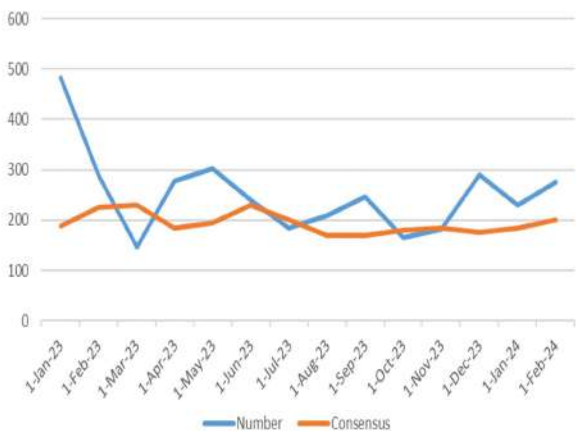
In 1Q2024, market expectations shifted from anticipating a US recession to a soft-landing scenario. US monthly employment data, as reflected by non-farm payrolls, has consistently exceeded expectations over the past year. Meanwhile, US retail sales have maintained positive year-on-year growth, albeit in low single digits. We believe the Fed's Fund Rate has peaked at 5.25–5.50% but will likely remain elevated for the rest of the year. The market expects only a 75-basis point cut, as inflation remains stubbornly high, with both headline and core rates hovering in the 3-4% range for the past three months.

If a soft-landing scenario materialises instead of a recession, it would be an ideal outcome for Asian equities. Many trade-dependent economies in Asia stand to benefit from improved external trade, as they are geared towards tapping into developed world export markets. Additionally, if the Fed starts easing and the USD weakens, many emerging markets will have ample room to cut rates.

In China, recent macroeconomic data have been fairly upbeat, with retail sales growing at +5.5% YoY and industrial production at +7% YoY during the January-February period, both surpassing expectations. However, residential real estate activity remains subdued. A common question arises: will China's real estate market suffer a prolonged decline, or can a cyclical recovery take off within a year or two? Despite the current slump, there's reason for optimism. China's urbanisation rate stands at just 67%, comparable to Japan's rate in the 1960s and 1970s. When Japan's property bubble burst in the early 1990s, its urbanisation rate was close to 78%. Moreover, China's real estate downturn has been more rapid than Japan's in the 1990s. Unlike Japan, where a real estate

Chart 5: US Monthly Non-Farm Payrolls

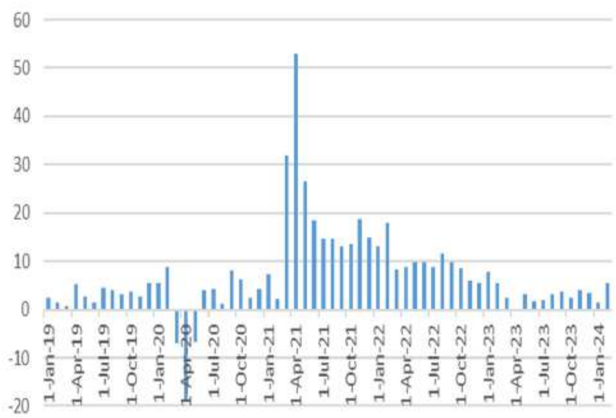
Non-farm payrolls mostly beat expectations the past 14 months



Source: Bloomberg as at 29th February 2024

Chart 6: US Monthly Retail Sales

US retails sales still growing YoY since end of pandemic



Source: Bloomberg as at 29th February 2024 collapse led to a recession, China's diversified economy, with strong manufacturing and consumption sectors, continues to expand, albeit at a slower rate of low-to-mid single digits. This suggests that China's real estate market still has room for long-term growth, making prospects for a meaningful recovery promising.

China's Two Sessions, which is the annual meetings of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in China, reaffirmed its ambition to achieve 5% economic growth in 2024. To reach this target, further monetary and fiscal easing will likely be necessary, as current measures have been insufficient. Despite this, the Loan Prime Rate (LPR) has increased in real terms due to deflationary trends. One recent policy move by the People's Bank of China (PBOC) resembles a form of stealth Quantitative Easing (QE) is PBOC claims on commercial banks have surged as it aggressively lends to the banking system. This suggests the government's commitment to supporting its capital markets by injecting liquidity, a strategy reminiscent of the US post-GFC in 2009–2010.

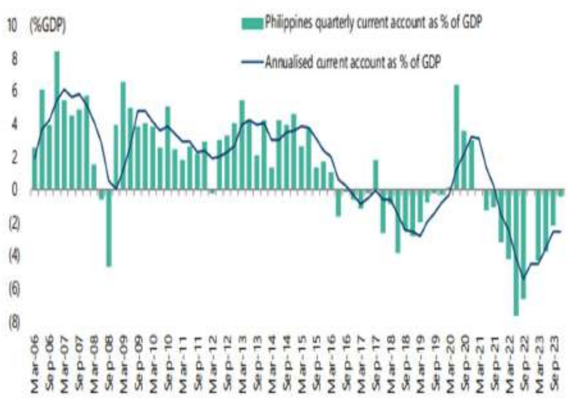
Positively, there has been a decline in the yields of bonds issued by local government financing vehicles. This may facilitate some local governments to help fund the completion of uncompleted property projects. Such an initiative satisfies the political objective of ensuring project completion without bailing out the developers, perhaps a less than ideal solution from the perspective of investors but still, better than having the local governments completely distancing themselves from the problem.

While we remain overweight on China, we have taken the opposite stance by underweighting Hong Kong (shifting from Neutral last quarter). Real Estate and Banks dominate the MSCI Hong Kong and Hang Seng Index indices. The downturn in Shenzhen's real estate market, integral to the Greater Bay Area project, has had a deflationary impact on Hong Kong. Given this backdrop, it's not surprising to see the recent budget eliminate stamp duty on foreign property purchases. Hong Kong property will recover for sure, as will China's, but we don't expect a meaningful one in 2024.

We downgrade Thailand from Neutral to Underweight and upgrade the Philippines to Neutral. In the Philippines, foreigners are returning after six years of net selling, lured by the market's attractive discount to historical PE and EPS growth of 8%, low equity exposure by domestic institutional funds and both its current account and fiscal account deficits, which have shown improving trends. While the economy and market environment are looking up for the Philippines, Thailand confronts the challenge of a weakening economy, as evidenced by just 1.7% YoY GDP growth (-0.6% QoQ) in the 4Q2023. Both private and public investments were weak in 2023 and households are highly leveraged at 91% of GDP. Yet, the much-anticipated post-election Bt10,000 digital wallet handout has been delayed by political bureaucracy.

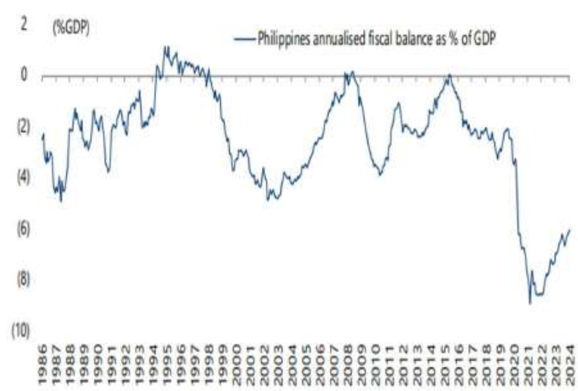
If a soft-landing scenario materialises instead of a recession, it would be an ideal outcome for Asian equities.

Chart 7: Philippines CA balance as % of GDP



Source: BSP, CEIC as of March 2024

Chart 8: Annualised fiscal balance as % of GDP



Source: Bureau of the Treasury, CEIC Data as of March 2024

Country Calls

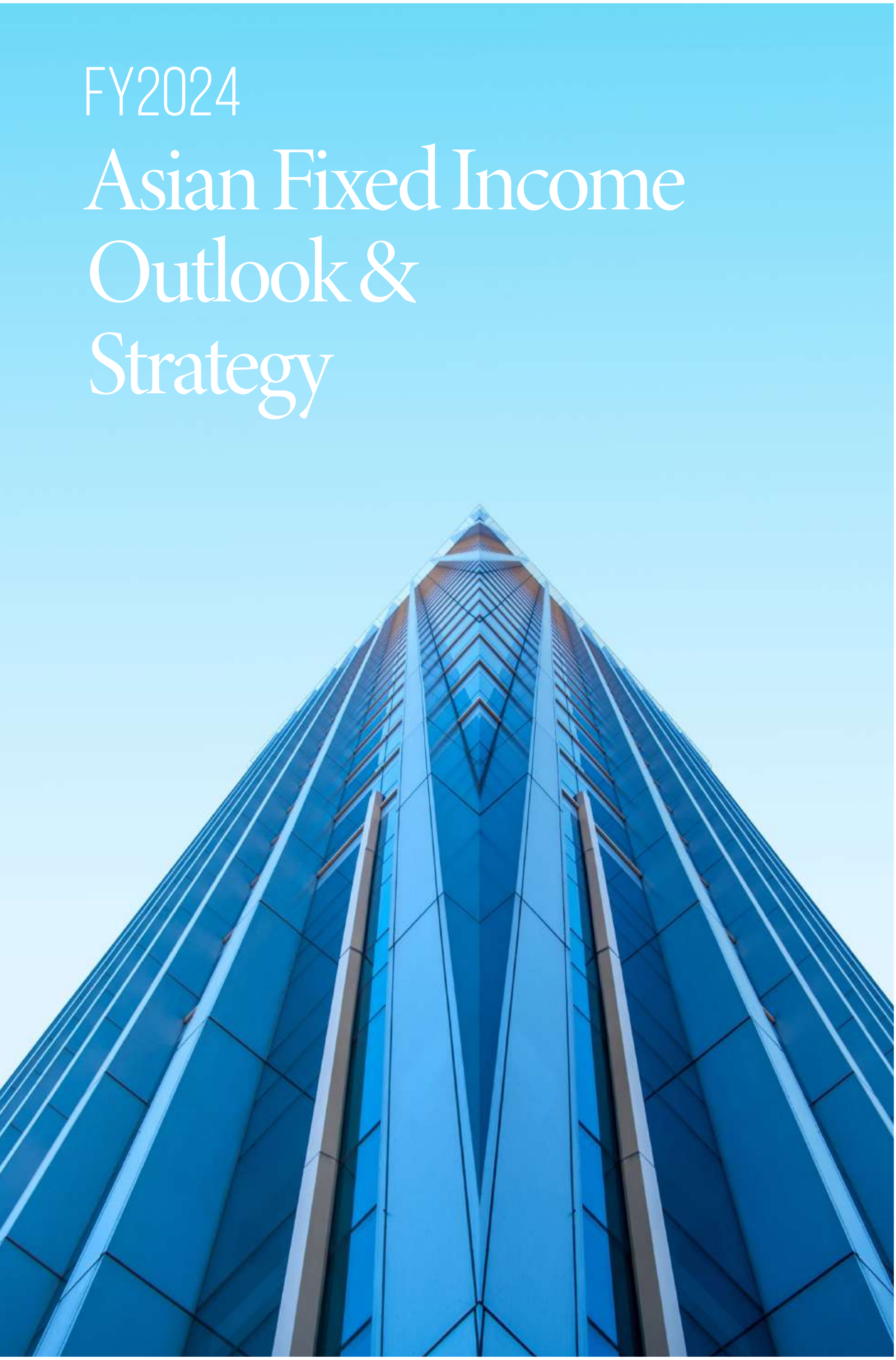
Country	Call	Rationale
China	Overweight	*China's Two Session's target of around 5% GDP for 2024 will likely require forceful policy stimulus to achieve. Ironically, these expected measures themselves may be the needed catalysts to spark the market beyond just a trading rally. Recent changes have seen the PBoC expanding its balance sheet and lower the LPR (loan prime rate) but rates are still high in real terms given early deflationary conditions. Rising system liquidity and targeted policies to support an undervalued stock market justifies keeping an Overweight call.*
Indonesia	Overweight	*Indonesia's economy should remain robust with recovering commodity prices while consumption has seen a recovery led by the mid and high-end segments that have done well. The conclusion of elections should see the continuation of sound policies. Indonesian banks are expected to outperform. Policy rate at 6% is adequate in managing inflation while supporting economic growth and maintaining the Rupiah stability.*
Malaysia	Overweight	*Thematics along the lines of subsidy and taxation reforms, infrastructure development, renewable energy, an undervalued currency and improved political stability set the backdrop to what we believe to be a stock market recovery that will take valuation back to at least historic mean level. Expectation of an improved trade account and firm oil and CPO prices lends support for the MYR.*
India	Neutral	*India stocks will indirectly benefit from India's inclusion in the JP Morgan Government Bond Index Emerging Market in June as it reduces the cost of capital, lowers risk premium and boost financing capacity at a time when the market undergoes a capex growth cycle. Hence it should continue trading at pricey valuation of above 20x forward PE. It has a huge domestic economy that has stayed resilient and a large, diverse enough stock market that make it an alternative to China. Positive economic performance will bolster the prospects of the Bharatiya Janata Party (BJP) returning to power in the coming election – a market positive event.*
Philippines	Neutral (from Underweight)	*Recent data revealed foreigners are returning to the Philippines stock market after six straight years of net selling. The economy has been resilient against 450 bps monetary tightening by the Bangko Sentral ng Pilipinas (BSP) while the external account has been improving in that the current account deficit and fiscal deficit have been trending down. The market is cheap yet offers decent earnings growth. We raised this country call from Underweight to Neutral.*
Singapore	Neutral	*Exports in 2024 are recovering off a low base but consumption growth will likely be flat with the high cost of living cushioned by a tight jobs market. Despite some concerns of the extended timing of Fed's first rate cut impacting REITs, dividends remain a major source of return for the market given our view that Singapore banks – collectively a large index component - are more than adequate in their capital adequacy and given the lack of growth, they may well surprise on the dividend front.*
Taiwan	Neutral	*Taiwan has outperformed in 1Q24, thanks mainly to TSMC's exposure to AI as well as others within its ecosystem. In the 2H24, Taiwan will likely benefit from a recovery from excess traditional semiconductor inventory depletion as sales of AI-enabled PCs and even smartphones begin. Uncertainties include restructuring of the global supply chain and geopolitical tension that could weigh on corporate capex plans.*
Hong Kong	Underweight (from Neutral)	*China onshore will continue trading at premium over H-shares due to relatively better interest amongst domestic investors. But this premium is unlikely to narrow despite cheaper H-share valuation, share buy-backs and pause in interest rate hikes given the lack of foreign investor interest. The moribund state of HK real estate to which the index has a large exposure is also a bugbear.*
Korea	Underweight	*The impact of demand momentum for AI memory chips that delivered a strong equity return in 2023 for Korea eased somewhat with 1Q24's more muted 2.1% return. The unfortunate "Korea discount" remains as institutional investors think Korea's "corporate value up program" introduced by regulators in March lacks the bite to address poor governance due to lack of punitive measures needed to undermine the chaebols' pervasive influence in listed businesses. Not helping Korea is the case that inflation has remained elevated and exceeded expectation in the 1Q24 prompting the Bank of Korea (BoK) to keep policy rate elevated at 3.5%.*
Thailand	Underweight (from Neutral)	*The Thai economy is weak with 4Q23 GDP at just 1.7% YoY and Bank of Thailand (BoT) has cut 2024 GDP growth expectation from 3.2% - 3.8% to 2.5% - 3.0%. NPLs are rising and loans growth is weak. In the absence of inflation, BoT is likely to be the among the first in ASEAN to cut rates. Public and private investments remain weak although tourism where Chinese tourist arrivals are finally picking up is the only positive point. We downgrade the country call from Neutral to Underweight.*

Our sector calls for FY2024

Sector	Call	Rationale
Energy	Overweight (from Neutral)	*Elevated oil prices in 2024 due to heightened geopolitical tensions in the middle east and constrained supply besides firm demand generally support profitability of oil & gas producers. Equipment suppliers and service providers should benefit from upsized investment activities in this sector. Brent hovers at around $85 currently and there is adequate margin of safety as even at $75, it would still enable many oil producers to be quite profitable. And, there is interest among OPEC members and Russia to keep Brent at the $80-$100 range by managing supply.*
Health Care	Overweight	*The healthcare sector has a record of resilience as healthcare services are inelastic against an economic downturn while benefitting structurally given the general aging demographics in north Asia and above average population growth in ASEAN. These factors put hospitals and medical equipment as our preferred picks, while glove makers that were victims of oversupply and excess inventories have experienced industry consolidation. Value is gradually emerging following steep sell off since over a year ago.*
Communication Services	Neutral	*The outlook for 5G monetization is mixed where most Asia's telcos will be focusing on accelerating 5G roll out and profitability in 2024. Singapore and Korea have largely completed 5G network roll-out, while 5G capex is moderating in India and Thailand. Among the 5G laggards are Indonesia and Malaysia where the market is still struggling over terms of a dual wholesale network service model. The digital advertising and entertainment segments are highly cyclical and prone to risks of slowing global growth. The start of declining rates in 2024 provides some relief for highly geared companies but those that have room for cost cuts eg. merged entities, should emerge stronger.*
Consumer Discretionary	Neutral	*Consumption has held up in India driven by growing affluence and higher levels of mobile penetration while China has seen pockets of strength in spending in the online retail space and selective high-end brands. Travel around the region has been slow to recover post-lockdown reopening in China but the CNY travel data suggests the pace of recovery is picking up. With flights frequencies rising, consumption among the better-off segments of consumers will likely improve, lifting hospitality, retail, travel and casinos around the Asian region.*
Financials	Neutral	*Rates in Asia have likely peaked and so the NIM expansion theme has largely played out. In 2023, we have been watchful over the potential of a US commercial real estate fallout where a considerable number of refinancing is expected over the next two years but given that the Fed is likely to start cutting rates in 2024, such risks should subside further out. Still, they will likely have to refinance at higher rates on lower market values given weak demand especially for office properties. Hence, we prefer banks from domestic oriented economies (India, Malaysia, Philippines and Indonesia) unlike those in HK and Korea. We are also positive on Singapore banks as they have very adequately capitalised, hence generous dividend payouts may be a welcome surprise.*
Industrials	Neutral	*India's and ASEAN's investment upcycle provide the counterbalance to the industrial sector's vulnerability to risks of slower growth in China. Longer term, the US-Sino geopolitical tensions and supply chain disruptions which have prompted the US to bolster domestic manufacturing or on shoring may mean less demand for industrial goods from Asia. Positive though, is that the push for digitization and China's push for self-reliance in manufacturing will continue to be a source of growth for manufacturers in automation equipment, advanced robotics, AI and technologies that enhance competitiveness.*
Information Technology	Neutral	*Korea and Taiwan have led the first wave of AI driven gains in Asia Pac in 2023 and into 1Q24, that valuation makes the sector vulnerable to any disappointments in the continuity of near-term AI chip demand. Outside AI, recovery in traditional semiconductor demand stems from normalisation of inventory and it will increasingly be likely with time that demand will accelerate from smartphone replacement cycles and PC upgrades due to AI-enablement and cessation of Windows 10 support in 2025. Likely to provide tailwind for tech sector is when the Fed's rate cuts become clearer by mid-2024.*
Materials	Neutral (from Underweight)	*Given its cyclical nature, any prospects of a brightening in global economic outlook will catalyse the sector. But with easing inflationary pressures globally and on the basis of continuing supply chain normalization, producers may no longer be incentivized to maintain higher inventory margin for hedge against supply and hence, price risks. Still, for longer term investors, the investment appeal remains for hard commodities with structural demand from the digital information age and EVs such as copper, nickel, lithium and rare earths.*
Utilities	Neutral	*Utilities in a number of Asian markets face risks of margins squeeze from higher fuel costs, testing regulatory commitments on cost-pass through by the governments to raise end-user tariffs which is made more difficult when growth slows. Last year collections of receivables including China's renewable subsidies, Indonesia's compensation on non-subsidised fuel to PT Perusahaan Listrik Negara and Malaysia's Tenaga imbalance cost-pass-through (ICPT) recovery from the government that eventually materialised came as a relief to the market. In 2024, Malaysia is taking the right bold steps to cut electricity subsidies for high usage households, thereby reducing risks of delayed/failure recovery payments from the government.*
Consumer Staples	Underweight (from Neutral)	*Agriculture commodity amidst El Nino weather effects supporting prices may introduce input cost pressures that squeeze margins, against pressured consumers if the economy slows. Offsetting input cost pressures are likelihood of lower funding costs on Fed's expected pivot but there are concerns over possible extended timing of this. Companies best positioned are the upstream planters that benefit from firming agriculture output prices. For the downstream producers, the better off are those dealing in cheaper brands that pressured consumers can trade down to.*
Real Estate	Underweight (from Neutral)	*The REIT sector is likely to stay flat in 2Q24 given concerns of the extended timing of the Fed's first rate cut but the operational performance of Asian REITs is generally solid in terms of occupancy rates and rental reversions, driven by post-Covid economic recovery though distributable incomes have been impacted by higher interest expenses. We expect dividend per unit to resume to growth in H2 2024 once interest rates decline. A weak spot is China's housing sector that remains on the mend. This will take time to meaningfully recover as will those in Hong Kong, saddled with high unsold stocks which suffered the deflationary winds from the collapse of Shenzen real estate.*

FY2024

Asian Fixed Income Outlook & Strategy



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FY2024 Asian Fixed Income Outlook & Strategy

General Review for USD Asian Fixed Income In 1Q2024: Boring but Steady

In our FY2024 outlook in January, we cautioned about a potential correction in the bond market following a robust rally in the last two months of FY2023. We pointed to a similar performance a year earlier, where a bond rally from late FY2022 to January 2023 could not sustain through most of FY2023. Anticipating some profit-taking after the decent performance in November–December 2023, we advised staying nimble entering the New Year. As a precaution, we reduced duration in portfolios in early January and favoured investment-grade bonds over high-yield bonds due to recession risks. While US Treasury rates weakened in 1Q2024, credit spreads tightened, keeping USD credit bond prices steady.

In 1Q2024, the JP Morgan Asia Credit Index (JACICOTR) delivered total returns of 1.4%, driven mainly by bond carry as the index yield remained steady at 6%. High-yield bonds were the star performers, surging nearly 7%, while investment-grade bonds lagged with total returns of just 0.57%. US Treasuries were the main detractor, posting negative returns of -0.5% as the US 5-year Treasury yield rose by 35 basis points, from 3.85% to 4.3%. The outperformance of high-yield credit bonds can be attributed to increasing confidence in steady US growth, reducing recession risks. Notably, high-yield credit spreads tightened significantly, narrowing from 1,077 bps to 887 bps.

Chart 9: JP Morgan Asia Credit Index Return in 1Q2024

Source: JP Morgan, Bloomberg as at 4th April 2024.

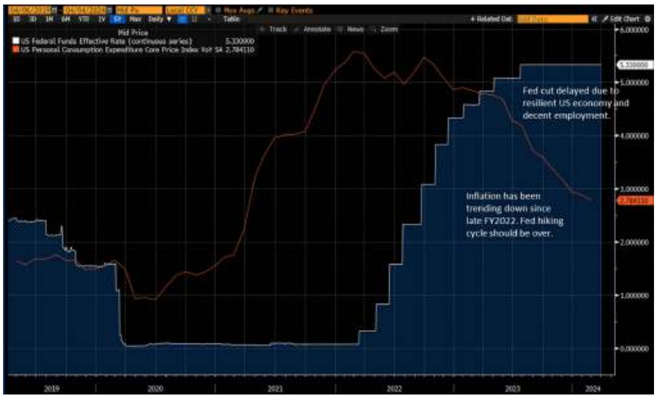
Sow Now for a Sustainable and Steady Harvest

In our January FY2024 outlook, we anticipated a bountiful harvest, expecting bond yields to rally with the US Fed cutting interest rates early in the year. However, the US economy has proven resilient despite high borrowing rates, suggesting the possibility of a soft landing and defying recession predictions. As a result, the Fed is not rushing to cut rates, and high interest rates could persist longer than expected. However, staying high does not necessarily mean rates will rise further and erode interest income. On the positive side, it could mean more measured returns over the next three years, offering sustainability. High bond yields remain an attractive option for investors seeking steady income.

In light of changing return expectations, we have tweaked portfolios to a neutral duration. In a soft-landing scenario, the yield curve should bull steepen over time. Hence, we have positioned with a steepening bias by overweighting the short and belly of the curve while underweighting the ultra-long end of the curve. We have also increased our allocation to high-yield bonds to enhance bond carry but are focusing on quality BB bonds to avoid extending risk into weaker, highly leveraged names.

In our FY2024 outlook, we forecasted returns of 6% to 8%, leaning towards the higher end due to rate-cut expectations. We are now adjusting our expectations to the lower end of 6%. If this materialises, similar returns could be sustained for the next few years with bond yields around 5%. We maintain our view that the US hiking cycle is behind us, given that inflation pressures peaked in late FY2022 and have been on a downtrend throughout FY2023.

Chart 10: US Fed Funds Rate vs US Core PCE



Source: Bloomberg as at 4th April 2024

Chart 11: 5-Year JP Morgan JACI Investment Grade Yield

Source: JP Morgan, Bloomberg as at 4th April 2024

FY2024
FX & Local Rates Outlook

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FY2024 FX & Local Rates Outlook - Wind of Change

Asian currencies began 2024 optimistically as the Federal Reserve (Fed) signalled the end of its tightening cycle. However, 1Q2024 saw choppy increases in US Treasury yields due to stronger-than-expected US economic data. This raised doubts about the Fed's rate-cut outlook, bolstering the USD's strength in 1Q2024. Overall, the USD, measured by Bloomberg's Dollar Spot Index, returned +2.68% in 1Q2024, while Asia FX currencies, measured by Bloomberg Asia Dollar Index, declined by -2.28% during the same period. The US economy's resilience suggests the Fed may need to exercise patience with its monetary easing policies.

We opined that the Asian FX trajectory in the coming quarters remains dependent on the pace and magnitude of rate cuts. Market expectations of cuts have been trimmed from 6-7 cuts in December 2023 to 2-3 cuts presently. This has inadvertently weighed on Asian FX given the ongoing negative real rate differential with the US (in particular for those low-yielding currencies). In the short run, higher UST yields will induce a stronger appetite for USD from investors, as higher carry will likely benefit the USD more than most Asian currencies.

Notwithstanding that, we stick to our playbook that Asian FX is poised for outperformance in the medium term, in particular in 2H2024. Improving external demand will bolster Asian exports, especially in the semiconductor sector. Riding on the tailwinds of artificial intelligence optimism will likely aid regions like Korea and Taiwan. Green shoots in Chinese economic data (recent PMI prints surprised to the upside) coupled with stronger than expected Yuan fixing are expected to provide stability and support to CNH for the time being. This in turn may provide support for Asian currencies that have a high beta to Yuan, such as MYR and THB. Additionally, welcomed news of the Bank of Japan (BOJ) ending negative interest rate policy and yield curve control is likely to aid JPY trajectory in the mid-to-long run. The downside risk is the potential "higher for longer" US rates, which will lead to headwinds for Asian FX.

Key Trades for 2024

Currencies

- Fundamental trades: Medium term bullish on IDR and INR due to higher real yields and favourable domestic factors. Non-outright trades can be expressed in short CNH/INR or short CNH/IDR trades.
- Neutral MYR, KRW, SGD and PHP
- Underweight THB, TWD and CNH

Rates/Duration

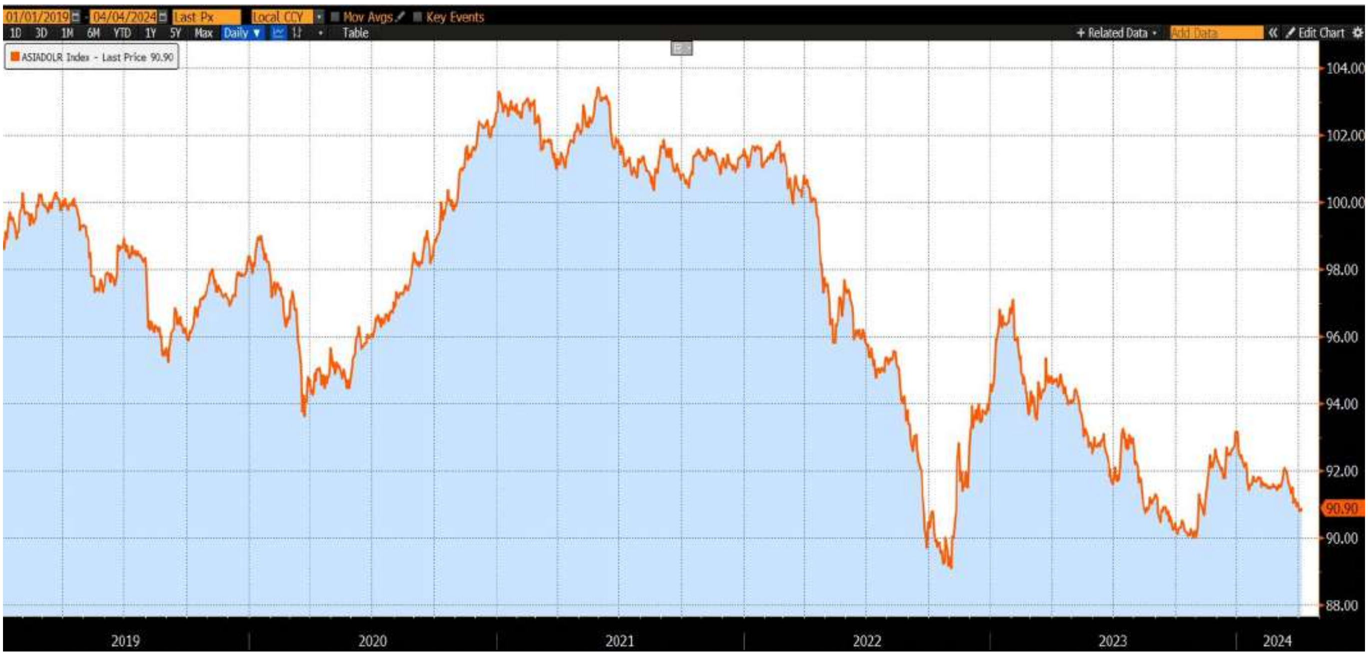
- Bullish duration for India and Indonesia
- Neutral Malaysia rates
- Underweight Thailand duration

Asian FX & Interest Rates Outlook

	Currency	Local Rates
Indonesia	**Positive IDR in the medium term, but neutral short term.** Recent relative underperformance in IDR was attributed to dividend repatriation and bond outflows. Mounting pressure from USD strength and fiscal concerns are also key factors. We expect IDR to see a slower appreciation path in the longer term as foreign investors get more clarity on fiscal policies from the incoming cabinet. Moreover, Fed's easing cycle in the 2H should provide support to IDR as well.	**OW local rates** as carry play remains key consideration, we think relatively high real yields make IDR valuation more attractive than its Asian peers. Expect additional inflows as investors get more clarity on fiscal situation. Despite some uptick in inflation data, inflation continues to remain within BI's target range of 1.5% to 3.5%.
India	**Moderately Bullish on INR given higher real yield and positive carry.** Potential equity and bond inflow from (GBI-EM index inclusion) also will drive INR appreciation. Furthermore, INR is considered currency with relatively lower beta and thus should fare better than peers during bouts of USD strength. However will need to monitor oil prices and RBI building up of FX reserves. We also acknowledge that the long INR trade is considered a crowded trade.	**OW INR rates** in 2Q given GBI-EM bond index inclusion and carry remains high thus far. India inflation remained anchored and well contained with recent cuts to gas and fuel prices as elections loom. May see some degree of monetary easing by RBI, which in turn may bolster local currency sovereign bonds.
Korea	**Constructive on KRW >>** combination of improving trade surplus from global semiconductor recovery cycle alongside decline in USD strength as Fed rate cuts come to fruition in medium term.	**Constructive on KTB** as Bank of Korea hinted a more dovish tilt. Sluggish domestic consumption and disinflationary forces will result in BOK to cut rates in 2H24 and thus supportive of local rates.
Singapore	**Mildly bullish.** Following Jan MAS meeting's unchanged move, we are of the belief that MAS may not be able to ease in coming Apr meeting given stickier than expected inflation prints. Moreover, resilient growth and improving external demand will likely keep labour market tight and thus fuelling further potential inflation. Current S$NEER appreciation (expected no change in Apr) should continue to be supportive of SGD in 2Q24.	**Neutral to modest underweight SGD rates.** Past 1-2 years, long end SGS has outperformed UST given strong demand from local banks and lower net supply of S$6.4 bn. We expect higher supply in 2024 given issuance of 50 year green bonds for infrastructure.
Malaysia	**Neutral to slight bearish (1H24) but turn moderately constructive (2H24).** Despite recent repatriation and conversion of overseas proceeds by government linked companies providing respite to MYR, we expect strong US growth/economic data resiliency will weigh on MYR for time being. Present wide interest rates differential between USD and MYR will continue to take centre stage. That said, backdrop will turn favourable as US starts to ease and improving external demand may boost exports and current account surplus.	**Neutral to slight UW local rates** as BNM expected to sit out any rate cut given priority for MYR stability (as widening rate differentials between US and Malaysia is key factor) plus ongoing plans to roll out subsidy rationalisation. If implemented successfully, this will pose inflationary upside risk. As such, BNM may not rush into cuts in 2024.
Philippines	**Neutral PHP** (short term) due to headwinds from current account deficit and still elevated inflation; expect Peso to underperform against Asian peers. But more constructive in the mid-to-longer run as USD strength wanes/Fed easing. Remittance will likely provide continued structural support to the currency.	**Neutral.** Do not expect any imminent rate cuts by BSP as underlying inflation pressures fairly elevated (but contained thus far).
Thailand	**Neutral on THB. THB has underperformed most of the Asian currencies in the first quarter due to weaker growth and higher oil prices.** However improving current account position from stellar tourist arrivals will be positive in the long run. That said, THB strength is moderated by higher fiscal deficit and wider interest rate differential against the US. Weaker domestic growth and exposure to China may also weigh on THB in the short run.	**UW local Thai government bonds.** Larger fiscal spending in 2024 is likely to be funded via higher government debt issuance. But expect rollout of digital wallet to be more controlled due to fiscal constraints and growing rift between Thai government and central bank. Recent weak inflation does not provide conviction for central bank to deliver rate cuts unless Fed starts cutting rates.
China	**Slight bearish on CNH in the short term; expect USD/RMB to trend sideways between 7.2 – 7.4.** We have witnessed PBOC fixing the Yuan at much stronger level (i.e. below 7.10 level in late March) than market expectation. However we believe given stronger USD, PBOC will adjust fixing given export competitiveness and weaker growth. That said, bigger RMB deprecation move to be limited as PBOC does not want capital flight.	We remain **constructive on local short end rates as PBOC expected to be accommodative** (potential RRR cut or MLF cut in 2024). We expect front end rates to be stable given PBOC's continued actions to maintain banking system liquidity through net injection. Expect a steeper CGB curve as higher supply from local government/sovereign bond issuance. But opine that China's monetary and fiscal expansion to be coordinated to prevent sudden spikes in long end CGB yields.
Taiwan	**Slight Bearish.** Despite benefitting from being an exporter of semiconductor, TWD's upside may be limited owing to its low-yielding nature (see Exhibit 2). The interest rate differentials between TWD and USD is still wide; and investors use it as a funding currency. Moreover, local lifers intend to reduce hedging ratio of their offshore investments due to high cost of hedging.	**Neutral.**

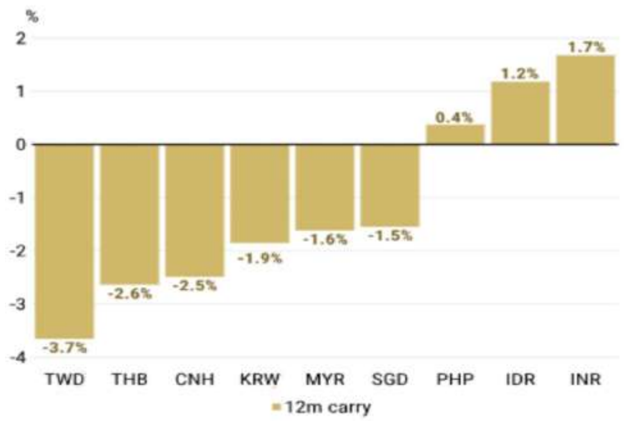
OW= overweight | MW= market weight | UW= underweight

Chart 12: Bloomberg Asia Dollar Index: Following 4Q2023 stellar run, seeing some pressure in 1Q2024 amidst relentless USD strength



Source: Bloomberg as at 4th April 2024

Chart 13: Asia currencies tend to have high cost of carry given their low-yielding nature (save for IDR and INR)



Source: Morgan Stanley Research as of March 2024

FY2024 Global Sukuk Outlook & Strategy

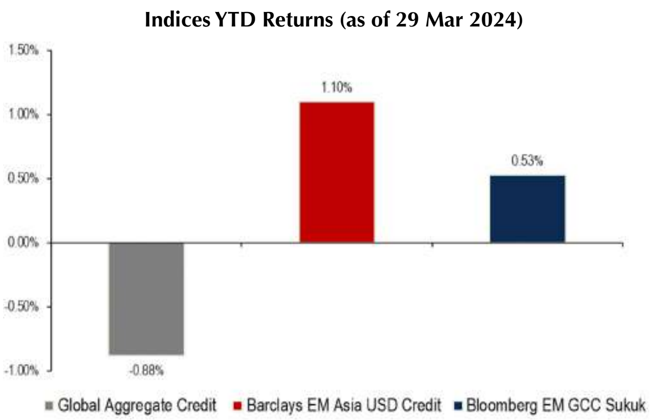
In 1Q2024, bond market performance was subdued as rate cut expectations cooled. Asian fixed income, measured by the Barclays EM Asia USD Credit Index, posted a modest YTD return of 1.1%, while global sukuks returned 0.53% YTD, as per the Bloomberg Barclays EM GCC Sukuk Index. We see a similar playbook in 2023, with credit spreads narrowing across all bond markets, supporting the soft-landing narrative. We note that the tightening was more pronounced in Asian fixed income and sukuks versus global credit, explaining the relatively better performance.

The recently revised 4Q2023 GDP figures by the BEA showed robust 3.4% QoQ growth, underscoring the US economy's strength. Atlanta's GDP forecast for 1Q2024 was also revised up to 2.8% from 2.3% just a week earlier. Meanwhile, inflation-related data for the past three months painted a mixed story, with the CPI report in February indicating a stronger YoY rise in headline inflation, while prices paid indexes from both manufacturing and services gave opposing signals.

While we note that the inflation data, in all forms, has been under the spotlight by the Fed, the prevailing takeaway from 1Q2024 is that though the rate cut is delayed, we still maintain our call of a rate cut starting in 2H2024.

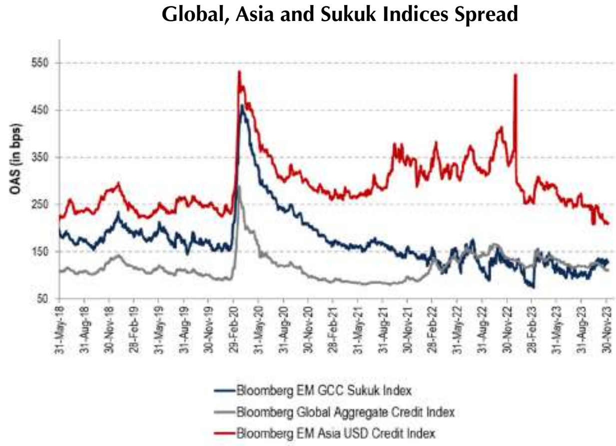
Closer to home, economic data in the region has held up well, led by Saudi Arabia and the UAE, with PMI readings still indicating healthy expansion (Saudi: 57.0, UAE: 56.9, Kuwait: 53.2, Qatar: 50.6). Corporate earnings, based on FY2023 results, have been robust and better than expected across most non-hydrocarbon sectors.

Chart 14: GCC Sukuk vs Asia Credit vs Global Indices Returns



Source: Maybank Asset Management Singapore, Bloomberg, 29 Dec 2023 to 29 Mar 2024 (YTD returns)

Chart 15: Global, Asia and Sukuk Spread



Source: Maybank Asset Management Singapore, Bloomberg from 2018 to 2024

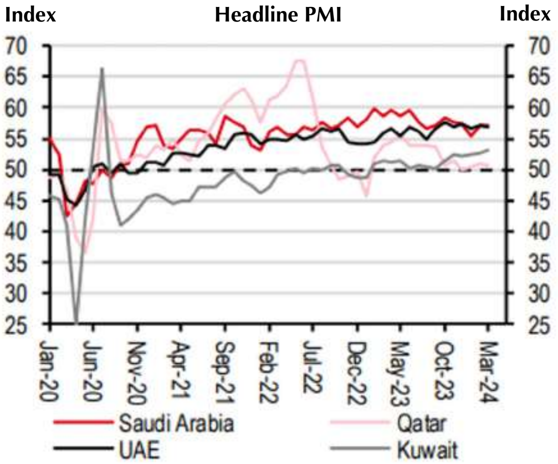
Elsewhere in the energy markets, we witnessed an unrelenting upwards move in the oil markets, with Brent crude marching from USD77/bbl at the start of the year to USD89/bbl as of writing. We believe this can be attributed to two key factors: 1) Better-than-expected global oil demand; and 2) Russia's recent pledge to deepen its oil output cuts (by an additional 471 kbd) through 2Q2024. Further supply-side inflicted actions, such as the OPEC+ voluntary production extension, could fuel the move to 2023 highs (USD96/bbl). We think that such a move would undoubtedly be detrimental to economies and could also muddy the global disinflation trend.

An increase in oil prices will benefit the GCC economies. However, our 1-year target is still in the range of 60–80 dollars, which is still healthy for the GCC economies.

Issuances/Supply

In 1Q2024, the market saw a flood of new supply, totaling approximately USD56bn according to Bloomberg, as both governments and corporates anticipate that interest rates have peaked. Government issuances accounted for roughly half, around USD23bn, featuring Saudi Arabia, Bahrain, Sharjah, and Oman. Meanwhile, Banks and

Chart 16: Headline PMI in the GCC



Source: HSBC, Macrobond, CEI

Financial services continue to make up the bulk of the new supply. A notable deal in the region that has boosted investor sentiment and sector confidence was Alinma Bank's USD1bn additional tier one perpetual (AT1) Sukuk in March. The deal was the largest AT1 issuance in the region for the past 3 years and garnered healthy subscriptions exceeding 4.5 times, a testament to the growing domestic and foreign demand for Shariah compliant issuances. As the Eid al-Fitr celebrations wrap up in April, we anticipate renewed activity in the public markets. With around USD82bn of debt maturities across GCC bonds and Sukuks due for refinancing in 2024, the market is poised for further action.

Country/Credit Positioning

On sovereign ratings, we saw two positive rating actions to start the year, with Moody's upgrading Qatar's rating to Aa2, while S&P brought Oman's rating outlook to positive (BB+) with a possibility of upgrading to investment-grade in the next 18 months. We maintain our view that an upgrade to Oman's rating in 2024 is imminent, as public

Chart 17: Bloomberg EM GCC Sukuk Index (2017 to 2024)

Source: Bloomberg as at 3 Apr 2024

debt has consistently trended down. Elsewhere in the region, we remain upbeat on the outlook for the UAE, as the momentum for the the country's non-oil economy at the start of the year appears to hold strong. We believe the UAE authorities have been ahead of the curve in implementing its structural reforms and especially enhancing its competitive position.

As for credit positioning, we maintain our bias towards investment grade over high yield. The risk is that spreads could widen from here as global risk assets are seemingly priced for perfection. Our overall strategy and focus in 2024 remain unchanged, selecting corporates with strong balance sheets and diversified businesses and picking sectors that are less sensitive to hydrocarbon prices, such as Consumer and Utilities. We continue to see opportunities in new AT1 issuances and Financials in the region, given their healthy credit fundamentals and strong credit growth outlook.

With yields of the index still compelling at 5.49%, and amidst a backdrop of relative expansionary economic backdrop in the GCC versus the rest of the world, we prefer to stay invested and advocate adding incremental exposure towards higher quality bonds if index yields were to tick higher from here.

Country	Recommendations
Indonesia	• BB+ (positive) outlook revision by S&P. We expect investment-grade rating in 2024 (last achieved in 2019). • **Overweight. Though trading at IG risk levels, add-on dips. Prefer the Quasi-sovereign names due to decent spread over sovereign (40 – 45bps).**
United Arab Emirates	• Non-oil sector growth held up well at the start of the year. Dubai real estate prices are expected to moderate but will remain firm. UAE GDP is expected to outpace global growth by a sizeable margin in 2024 according to IMF. • **Remain OW on bank AT1s over seniors for carry and high likelihood of redemption on first call date. OW on IG high quality names in non-oil sectors.**
Kuwait	• Recent approval of budget by Parliament is a step in the right direction, but still require more steps to give assurance to the invetsors. • **MW on IG names in the petrochemical/energy industry, on better-than-expected earnings. Neutral on Kuwaiti bank's AT1 perp.**
Qatar	• Ratings equalized across all agencies at AA. • Expecting twin surpluses to roll over to the end of 2024. Growth is expected to remain steady with North Field gas expansion project driving the construction sector and strong inflows of tourists after the World Cup. • **No outstanding Qatar sovereign Sukuk after maturity in 2023. Market weight on Qatari Financials.**
Bahrain	• Remain cautious on Bahrain's prospects with weak fiscal consolidation efforts. Bahrain is projecting a deficit of US0.4bn in 2024; non-oil sector has seen some slowing. Still heavily depend on regional spillovers and support. • **Like USD Sukuks from a carry perspective. UW Oil & Gas quasi on rich valuation. MW BAHRAIN sovereign.**
Saudi Arabia	• Positive rating outlooks by all 3 rating agencies. • Fiscal deficit is here to stay in 2024, in the tune of 1.9% of GDP (govt. forecast). Slowdown in non-oil activities in 3Q was puzzling despite increased spending. • **UW Sovereigns and Quasi sovereigns as PIF related entities expect to drive significant issuance in 2024; prefer to position in Saudi bank AT1s on high likelihood of redemption on the first call date.**

OW= overweight | MW= market weight | UW= underweight

FY2024
Malaysia Outlook & Strategy

Malaysian Equity Outlook & Strategy

The Malaysian stock market rose in 1Q2024, reflecting positive sentiment and improving corporate earnings, with a consensus growth forecast of 7% for 2024. Despite challenges, we expect further upside as the market broadens its focus beyond momentum plays, supported by major infrastructure projects and the National Energy Transition Roadmap (NETR). Our sector recommendations favour Real Estate, Construction, Utilities & Energy, and Banking & Consumer sectors. We project the KLCI to reach 1,701 points by year-end, with potential to hit 1,862 points in a blue-sky scenario.

Malaysia's economy grew by 3.7% in 2023, slightly below the consensus forecast of 3.9%. A weak point was external demand, with exports contracting by 8%, a significant drop from 14.5% growth in 2022. This decline was primarily attributed to slower global trade, tighter monetary policies, and a global tech downturn, causing manufacturing growth to slow to just 0.7% from 8.1% in 2022.

Going forward, the resilience of private consumption in holding up Malaysia's economic growth will be tested as 2024 progresses. Private consumption, the largest demand side component making up 59% of GDP, faces headwinds from rising prices due to a 2% sales and service tax hike effective from 1st March, and the introduction of a luxury tax in May, alongside targeted subsidy programs. Subsidy rationalisation for petrol (RON 95) and diesel is also on the horizon, but it remains unclear when exactly after the 31st March PADU registration deadline it will be implemented. It has been previously reported in the press that the government will roll out the RON95 targeted subsidy in 2H2024.

Chart 18: Malaysia External Debt

Source: Bloomberg as at 31st December 2023

While a drag on consumption, these measures are necessary from a fiscal management perspective. Given the rise in the federal government debt level since the pandemic, where the statutory debt to GDP now stands at circa 62%, just short of the 65% limit, the government has to strike a delicate balance between supporting a growth environment on the one hand and fiscal prudence on the other. We believe these programmes to broaden the tax base and lessen subsidy spending are credit-positive initiatives.
We expect that in 2024, the budget deficit will improve from 5% in 2023 to 4.5% in 2024. That said, the outlook on economic growth is not as grim as there are measures to be put in place by the government to cushion the impact of higher living costs and other economic engines, namely a better external trade outlook and investments that support our base case GDP growth of 4.5% for 2024.

Based on Budget 2024, the government budgeted RM58.1b (Budget 2023: RM64.2b) for various forms of government grants, including subsidies, incentives, and assistance. This is 9.5% less than Budget 2023. We believe this RM6.1b differential or "savings," will be funded or borne by higher-income earners who are also burdened by the imposition of the luxury tax. Thus, we expect down trading by these higher-income earners in mass market offerings. With compensating mechanisms in place, such as firstly, the expected monthly cash supports to B40/M40 (when PADU data updates are completed and when the targeted subsidy programme is operational), secondly, a still healthy labour market and thirdly, the creation of EPF Account 3 (a flexible withdrawal mechanism), the negative impact of the 2% SST hike and higher retail price of selected goods due to targeted subsidy would be rather muted. However, the unintended consequence of targeted subsidies is inflation, which will likely remain sticky at 3.0%. The price of RON95 could rise by as much as 50% to RM3 per litre if floated at market price. Furthermore, the government has alluded to as much as a 35% reduction in subsidy expenditure in 2024, which is likely to come from petrol and diesel.

For this reason, we believe Bank Negara is unlikely to cut the OPR even as the US Fed is expected to ease it this year. Another reason why we think the OPR will remain at 3.00% is the concern over the MYR, which has been one of Asia's weakest currencies last year and compared to most Asian central banks, the BNM has been less aggressive in hiking during the tightening cycle.

The Malaysian Ringgit (MYR) has been a weak spot for the economy, partly due to the weakening current account as trade surpluses dwindled. But with the US no longer likely to fall into a recession and the worst of logistic issues on account of the Red Sea tensions behind us, external demand should improve, helping to shore up the country's reserves, which over the years have been declining towards the current 1x. We believe that larger inbound tourism spending on the back of a cheap MYR will further boost foreign exchange income in 2024.

Given the limited room for monetary stimulus to spur the economy, we expect the government to accelerate the rollout of the development plans announced in Budget 2024. Let us not forget that in Budget 2024, there was an announced net 7% increase in development expenditure from RM84b to a record RM90b. All in all, construction activity should remain robust in 2024. The pace of transport network development is expected to pick up, with 2024 likely to see the beginning of MRT3 construction and potential progress in news flows on the Penang LRT by year-end, besides large on-going projects like the East Coast Rail Link (ECRL), Pan Borneo Highway and the Rapid Transit System (RTS).

Along with much of the rest of Southeast Asia, Malaysia continues to benefit from the trade diversion theme, which has manifested in FDI pick-ups in electronics, medical devices, aerospace, and data centres, all of which are consistent with raising the value added of the economy, which lends support to the progressive wage policy in raising labour's share of the GDP.

Malaysia's Equity Market Outlook and Strategy 2Q2024

Malaysia ended the 1Q2024 in positive territory, riding on the momentum that started in the 4Q2023. The benchmark Kuala Lumpur Composite Index (KLCI) ended the 1Q2024 higher by 5.60%, driven by a broad base of buying interest across all sectors in Bursa Malaysia. In 1Q2024, only FBM Ace Market ended in negative territory, declining by 7.99%, while the FBM Mid 70 Index was the best performer in 1Q2024 with a gain of 11.09%. The encouraging start to the year in Bursa Malaysia was also contributed by improving sentiments among the local institutional investors and continuous foreign inflow into the local bourse.

Despite some setbacks in the GDP and some other economic numbers for FY2023, we are seeing some positive development in corporate earnings for FY2023. The conclusion of the FY2023 earnings reporting season saw more corporate reporting more positive than negative surprises. It also marked the first positive quarterly market earnings since 3Q2022. This has led to street's revising the forecasted earnings for 2024 higher, with a consensus growth of 7%. Key upgrades came from the Financials, Industrial and Utilities sectors. This will be in line with our key investment theme for 2024.

We are encouraged by the heightened market activity in 1Q2024. Nevertheless, we remain optimistic that there is still plenty of upside left as investors' focus broadens out from just strong momentum ideas and concept plays (such as the potential revival in Singapore-Johor activity). Our "Rock and Roll" theme and strategy will continue to gather strength going into 2H2024. We will see more project roll-outs involving mega projects like the Penang LRT and MRT 3. On the National Energy Transition Roadmap ("NETR"), the much-talked-about Fifth Large Scale Solar (LSS5) will be tendered out in 2Q2024, with an oversized allocation by the government of 2GW. This is a clear signal from the government in an effort to expedite the adoption of GHG reduction by 2030. A clear policy and focus in the NETR is much anticipated, as this will drive the Direct Domestic Investment ("DDI") higher, thus creating a lot of economic multiplier effects on the domestic economy. The much-anticipated Special Economic Zone (SEZ) in Johor and the development of Sarawak's renewable drive will take economic growth activity beyond the Peninsular and this is one of the crucial pillars under the Madani Economic Framework to ensure equitable economic growth for Malaysia.

Our sector and stock recommendations remain focused on a strong domestic economy and we are still relatively cautious on most externally driven names. We will continue to favour and overweight areas such as Real Estate and Construction (riding on the infrastructure boom), Utilities & Energy (for exposure to the NETR and Petronas rising Capex) and Bank and Consumer (for the expectation of a broad-based economic recovery and increasing tourism-related activities). We expect the KLCI to reach 1,701 points by the end of 2024 but in the blue-sky scenario, the index could reach as high as 1,862 points based on the 5-year mean valuation of 14.5x. The two key risk factors for the local market will be the upcoming US presidential election and the Federal Reserve Bank's rate hike due to inflationary pressure.

Malaysian Fixed Income Outlook & Strategy

Although the global bond market faced headwinds from the Fed's potential delay in rate cuts, our outlook remains optimistic for Malaysia's fixed income market, anticipating declining global interest rates and setting the stage for falling bond yields. With a neutral to long-duration stance, we favour corporate bonds over sovereign bonds for higher yields and stability. Expecting central banks to adopt dovish policies in 2024, we aim to capitalize on trading opportunities and reinvest strategically to optimise returns.

The global bond market's performance in 1Q2024 was hampered by the possibility of the Fed delaying rate cuts until the middle of the year. Bond funds with those most sensitive to interest-rate movements, hence suffered losses. Strategies heavily invested in corporate bonds and other loan instruments did better, in part due to the strength of the economy.

The Fed kept the Fed funds rate unchanged at 5.25–5.50% in a unanimous vote, as widely expected in March and almost identical languages in the FOMC statement. The 2y10y US Treasury inversion spread widened to -42bps from -37bps in February (Jan: -32bps), with 10y settled 32bps higher for the quarter at 4.25% level compared to 3.88% at the end of December. Meanwhile, the US stock market continued its bullish trend, gaining over 10% in the first quarter of the year. The solid performance was unaffected despite the threat of interest rates staying higher for longer.

The Malaysian yield curve mostly shifted upward in the first quarter on the back of the delayed Fed rate cut. The 10y closed at 3.86% for the quarter, compared to 3.74% at the end of last year. BNM kept the OPR at 3.00% in both January and March's MPC meetings, for the 4th and 5th straight time since the last 25 bps hike in May 2023. The monetary policy stance remains neutral and the language of the policy stance has been unchanged since September. On growth assessment, the MPC expects improvement in 2024 on export recovery and resilient domestic spending, while the balance of risks to growth appears roughly even with both downside (weaker external demand and declines in commodity production) and upside (tech upcycle, robust tourism activity, and faster implementation of projects) drivers. On inflation assessment, the MPC expects the CPI to remain moderate in 2024, although it is subject to domestic subsidy and price control policies. In terms of currency, the USDMYR spot surged past 4.80 briefly in February but rebounded strongly after that and closed the quarter at 4.725. BNM has increased the frequency of verbal interventions in support of the Ringgit, as evidenced by the news flow, and stepped up engagements with GLICs, GLCs, corporates, and investors to encourage inflows into the FX market.

Our view remains that interest rates are peaking and we are in the stage of market recovery, although we expect some volatility in between. As such, we maintain our positive outlook for Malaysia's fixed income market as central banks globally shift towards more accommodative monetary policy. The peaking interest rate outlook, as well as the anticipation of slower global growth, will set the stage for bond yields to fall. This would bode well for the valuations of fixed income funds.

As most central banks are anticipated to turn dovish in 2024, we believe that government bond yields are likely to decline in 2024, allowing for advantageous trading positioning. Strategy-wise, we will continue to trade opportunistically and realise profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase returns. We will maintain our neutral to long-duration stance as we find current bond yields to be attractive. We continue to overweight corporate bonds over sovereign bonds to anchor the Fund's income, as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup, while our holdings in AAA and GIIs will be primed for ROI purposes. We will continue to trade opportunistically to realise profits.

Malaysia's fixed income market continues to offer a positive outlook.

FY2024

Product Trends

>>

2024 Product Trends

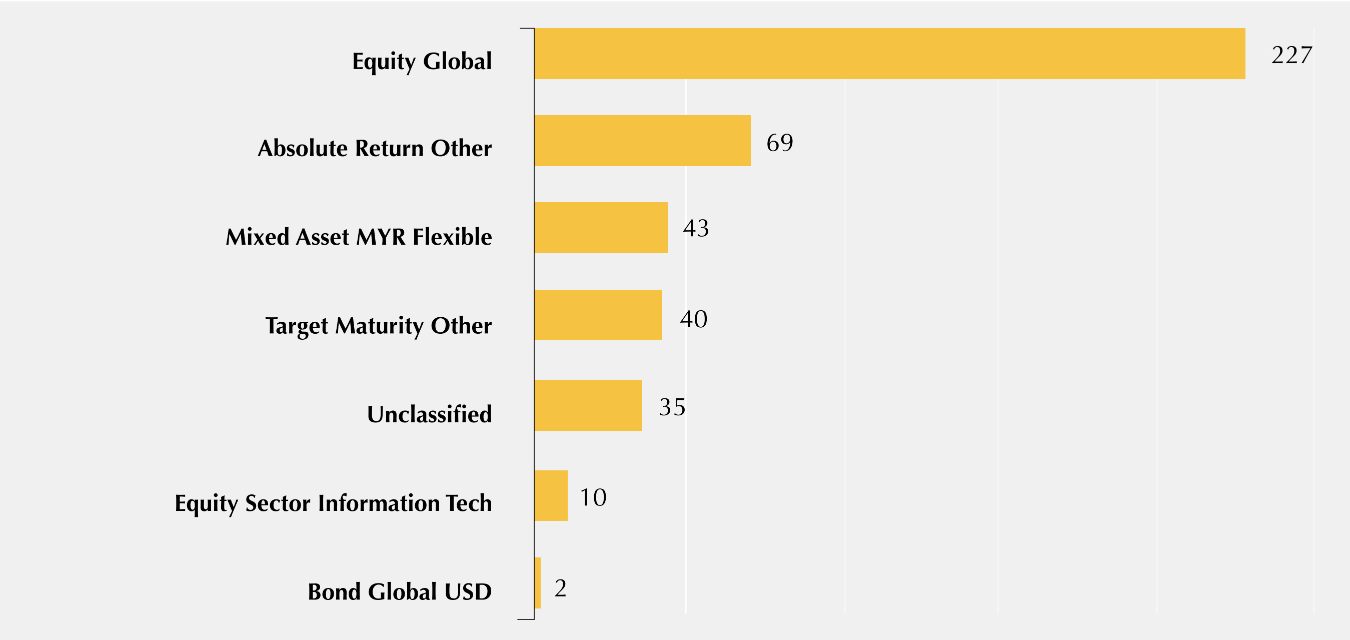
The financial market in 2024 saw the global stock markets registered strong gains in 1Q2024 amid a resilient US economy and ongoing enthusiasm around Artificial Intelligence (AI). Expectations of interest rate cuts also boosted shares although the pace of cuts is likely to be slower than that market had hoped for at the turn of the year.

Against this backdrop, there was a notable surge in flows into global equities, surpassing other asset classes. The strong gains registered in global stock markets, particularly in the first quarter, fuelled investors' confidence in global equities. Investors sought to capitalize on the growth potential of companies across various sectors and regions, reflecting a bullish sentiment towards global markets.

Another noteworthy trend during this period was the growing popularity of Absolute Return fund, which attracted significant inflows from investors seeking consistent positive returns in a dynamic market environment. Despite the adjusted expectations around interest rate cuts, the promise of stable and uncorrelated returns offered by Absolute Return funds resonated with risk-conscious investors.

Additionally, Mixed Asset MYR Flexible funds emerged as one of the sought-after investment options in 1Q2024. These funds offer a balanced blend of asset classes and geographic exposures, allowing investors to capitalise on global growth opportunities while maintaining flexibility to adapt to changing market conditions.

AUM Raised as at 31 March 2024 (RM'milllion)



Product Highlight – Our Malaysia Funds of Focus

As Malaysia embarks on a transformative journey, transitioning from political uncertainties to the execution of major economic initiatives, the investment landscape is evolving with new opportunities on the horizon. At Maybank Asset Management, we are proud to introduce our Malaysia Funds of Focus, designed to harness the country's growth potential and offer investors a unique avenue to participate in Malaysia's promising trajectory.

	Maybank Malaysia Growth Fund	Maybank Malaysia Income-I Fund	Maybank Malaysia Balanced-I Fund
Fund Type	*Equity*	*Sukuk*	*Equity & Sukuk*
Shariah Compliant	*No*	*Yes*	*Yes*
2023 Net Returns	*+7.98%*	*+6.77%*	*+6.64%*
2024 YTD Returns*	*+13.71%*	*+1.45%*	*+8.05%*

Why Malaysia now?

1. Time for Malaysia to Rock and Roll
Malaysia is currently moving past its previous political uncertainties and is now focused on the execution phase of long-term economic initiatives. This transition phase offers a conducive environment for investments, with the country poised to realize its economic potential and drive sustainable growth.

2. Capture Long-Term Investment Opportunities
Malaysia is in the early stages of awarding contracts for long-term projects, presenting a wealth of undiscovered opportunities for investors. As these projects materialize over time, they are expected to contribute significantly to Malaysia's economic growth and offer attractive investment prospects.

3. Rising Investment Momentum
Both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI) have been on an uptrend, signalling growing confidence in Malaysia's economic prospects. This trend is expected to lead to improved corporate earnings and contribute to the country's economic resilience.

4. Attractive Valuations
The KLCI has been trading below its 10-year historical mean, offering significant upside potential to investors. This presents an opportune moment for investors to capitalise on Malaysia's undervalued market and potentially benefit from future market corrections.

Maybank Malaysia Growth Fund

INVESTING IN MALAYSIA'S GROWTH	FUNDAMENTAL BOTTOM-UP APPROACH	OPTIMISED GROWTH PORTFOLIO
Capture long-term growth opportunities from investments in Malaysia, benefiting from long-term economic plans such as the NIMP30 and NETR.	A portfolio focusing on companies with a strong profit track record, potential growth opportunity, industry leaders, and strength of management.	Allocation to industry leaders with consistent returns, providing investors with an optimised Malaysian growth portfolio at lower volatility.

This fund aims to provide investors with exposure to Malaysia's growth story through a diversified portfolio of equity investments in Malaysian companies. By investing in high-potential companies across various sectors, the fund seeks to capture the growth opportunities presented by Malaysia's dynamic economy. This fund is currently ranked in the 1st quartile among its peers, with a robust return of +13.71% in the first quarter of 2024.

Maybank Malaysia Income-I Fund

STRONGHOLD ACCESS	STABILITY & POTENTIAL HIGHER YIELD	CONSTANT INCOME PAYOUT
The fund provides access to the Malaysian sukuk market for investors, which is the largest sukuk issuer in the world.	Up to 98% of the fund is invested in a portfolio of MYR denominated sukuk with a minimum rating of 'A3' by RAM or equivalent rating by MARC.	The fund targets to distribute income on an annual basis. Benchmarked to the 12-months General Investment Account ("GIA")-i tier 1 Rate.

Catering to income-focused investors, this Sukuk fund aims to provide annual income by investing in a portfolio of Sukuk with a minimum credit rating of A-. With a focus on stability and income generation, the fund offers investors a reliable source of income while maintaining a prudent approach to risk management. Within the first three months of 2024, the fund delivered a commendable return of +1.45%.

Maybank Malaysia Balanced-I Fund

GROWTH AND INCOME

Balanced investments in equities to provide capital growth and low risk sukuk to offer potential income distribution.

DYNAMIC ASSET ALLOCATION

Asset allocation ranging from 40% to 58% between equities and sukuk to dynamically manage risk and capture upside, providing investors with an optimal Malaysian portfolio.

STRINGENT SECURITY SELECTION

A portfolio of companies with earnings growth potential and a consistent earnings track record, and investment in sukuk with a minimum rating of A3.

Aiming for optimal balance, this fund invests in both Malaysian equities and sukuk. The portfolio is dynamically allocated depending on prevailing market conditions, offering investors a balanced Malaysian portfolio designed to navigate various market environments effectively. As at 31st March 2024, the fund has returned +8.05% YTD, showcasing its ability to navigate diverse market environments effectively.

Our Solution: Islamic Funds

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	Ann. 3Yr	Ann. Since Inception	
AGGRESIVE	Maybank Asiapac Ex-Japan Equity-I	R	08-Jan-14	20.90	1.92	6.55	Asia Ex-Japan
	Maybank Global Sustainable Equity-I - MYR	R	25-Aug-20	28.91	9.22	9.68	Global
	Maybank Global Sustainable Equity-I - MYR Hedged	R	25-Aug-20	17.22	3.32	4.70	Global
	Maybank Global Sustainable Equity-I - USD	R	25-Aug-20	20.16	4.40	5.70	Global
	Maybank Malaysia Growth-I	R	24-Nov-00	16.47	-1.89	4.67	Malaysia
MODERATE	MAMG Global Income-I MYR	R	13-Mar-18	1.76	-0.39	3.23	Global
	MAMG Global Income-I USD	R	08-Jul-20	9.90	1.98	4.09	Global
	Maybank Asia Mixed Assets-I MYR	R	16-Aug-21	1.34	-	-4.86	Asia
	Maybank Asia Mixed Assets-I SGD-H	R	16-Aug-21	2.25	-	0.72	Asia
	Maybank Asia Mixed Assets-I USD	R	16-Aug-21	3.88	-	-4.72	Asia
	Maybank Global Mixed Assets-I AUD Hedged	R	15-Jun-20	10.85	0.91	4.02	Global
	Maybank Global Mixed Assets-I MYR	R	17-Jun-19	21.04	6.64	8.83	Global
	Maybank Global Mixed Assets-I MYR Hedged	R	17-Jun-19	9.70	0.89	5.16	Global
	Maybank Global Mixed Assets-I SGD Hedged	R	15-Jun-20	10.71	1.32	4.75	Global
	Maybank Global Mixed Assets-I USD	R	17-Jun-19	12.85	1.98	5.81	Global
	Maybank Global Mixed Assets-I USD Institutional Distribution	W	17-Sep-20	65.30	16.84	16.86	Global
	Maybank Global Wealth Conservative-I MYR Hedged	R	13-Feb-23	1.63	-	1.86	Global
	Maybank Global Wealth Conservative-I USD	R	13-Feb-23	3.91	-	2.85	Global
	Maybank Global Wealth Growth-I MYR Hedged Accumulation	R	15-Feb-22	12.41	-	2.69	Global
	Maybank Global Wealth Growth-I USD Accumulation	R	01-Jun-22	15.53	-	7.91	Global
	Maybank Global Wealth Moderate-I MYR Hedged Accumulation	R	15-Feb-22	6.15	-	0.02	Global
	Maybank Global Wealth Moderate-I MYR Hedged Distribution	R	15-Feb-22	5.93	-	0.04	Global
	Maybank Global Wealth Moderate-I USD Accumulation	R	01-Jun-22	9.03	-	3.87	Global
	Maybank Global Wealth Moderate-I USD Distribution	R	01-Jun-22	9.04	-	4.26	Global
	Maybank Income Management-I	R	08-Jan-20	5.49	4.00	3.17	Malaysia
	Maybank Institutional Income Management-I	R	09-Mar-20	-	-	-	Malaysia
	Maybank Malaysia Balanced-I	R	17-Sep-02	14.64	2.53	4.72	Malaysia
	Maybank Malaysia Income-I A MYR	R	27-Apr-04	5.90	4.34	4.39	Malaysia
	Maybank Malaysia Income-I C MYR	R	21-Aug-13	5.89	4.36	4.68	Malaysia
	Maybank Malaysia Income-I C USD	R	17-Sep-14	-1.46	-0.79	0.24	Malaysia
	Maybank Malaysia Sukuk	R	08-Jan-14	4.96	3.72	4.13	Malaysia
CONSERVATIVE	Maybank Corporate Money Market-I A	R	06-Jul-11	3.64	2.69	2.92	Malaysia
	Maybank Corporate Money Market-I B	R	18-Oct-19	3.76	2.79	2.69	Malaysia
	Maybank Income Flow-I	R	27-Mar-23	3.21	-	3.17	Malaysia
	Maybank Retail Money Market-I	R	03-Nov-21	3.56	-	2.92	Malaysia
	Maybank Shariah Enhanced Cash	R	24-Nov-08	2.15	1.57	2.50	Malaysia

Source: Maybank Asset Management, Lipper as at 31st March 2024

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	-17.03	-	-17.08	China
	MAMG All-China Focus Equity MYR Hedged	W	29-Jul-21	-24.54	-	-21.44	China
	MAMG All-China Focus Equity USD	W	29-Jul-21	-22.62	-	-20.18	China
	MAMG China Evolution Equity AUD Hedged	W	03-Jan-22	-18.25	-	-19.57	China
	MAMG China Evolution Equity MYR	W	03-Jan-22	-10.37	-	-11.68	China
	MAMG China Evolution Equity MYR Hedged	W	03-Jan-22	-18.81	-	-17.54	China
	MAMG China Evolution Equity SGD Hedged	W	03-Jan-22	-18.18	-	-17.70	China
	MAMG China Evolution Equity USD	W	03-Jan-22	-16.44	-	-16.72	China
	MAMG Dynamic High-Income AUD Hedged	W	22-Jan-19	10.32	-1.21	1.93	Global
	MAMG Dynamic High-Income EUR Hedged	W	22-Jan-19	8.42	-2.18	0.63	Global
	MAMG Dynamic High-Income MYR	W	22-Jan-19	21.50	5.11	5.95	Global
	MAMG Dynamic High-Income MYR Hedged	W	22-Jan-19	10.31	-0.22	2.61	Global
	MAMG Dynamic High-Income SGD Hedged	W	22-Jan-19	11.40	-0.36	2.41	Global
	MAMG Dynamic High-Income USD	W	22-Jan-19	13.25	0.68	3.08	Global
	MAMG Global Dividend AUD H	R	12-Jul-23	-	-	15.12	Global
	MAMG Global Dividend MYR	R	12-Jul-23	-	-	18.84	Global
	MAMG Global Dividend MYR H	R	12-Jul-23	-	-	11.27	Global
	MAMG Global Dividend SGD H	R	12-Jul-23	-	-	10.30	Global
	MAMG Global Dividend USD	R	12-Jul-23	-	-	11.30	Global
	MAMG Global Environment AUD Hedged	R	22-Aug-22	0.00	-	0.00	Global
	MAMG Global Environment MYR	R	22-Aug-22	22.04	-	18.04	Global
	MAMG Global Environment MYR Hedged	R	22-Aug-22	9.63	-	8.25	Global
	MAMG Global Environment SGD Hedged	R	22-Aug-22	11.09	-	6.35	Global
	MAMG Global Environment USD	R	22-Aug-22	12.66	-	9.39	Global
	MAMG Liquid Alternative MYR	W	15-Nov-21	18.16	-	9.14	Global
	MAMG Liquid Alternative MYR Hedged	W	15-Nov-21	7.45	-	3.26	Global
	MAMG Liquid Alternative USD	W	15-Nov-21	10.12	-	4.44	Global
	Maybank Global Sustainable Technology MYR	R	18-Jan-21	41.74	5.93	4.88	Global
	Maybank Global Sustainable Technology MYR Hedged	R	18-Jan-21	29.38	0.55	-0.78	Global
	Maybank Global Sustainable Technology USD	R	18-Jan-21	32.16	1.12	-0.35	Global
	Maybank Malaysia Dividend	R	06-Jun-06	19.80	2.22	8.65	Malaysia
	Maybank Malaysia Ethical Dividend	R	07-Jan-03	19.88	5.66	9.36	Malaysia
	Maybank Malaysia Growth	R	26-Mar-92	22.44	5.16	4.78	Malaysia
	Maybank Malaysia SmallCap	R	03-Mar-04	11.87	-3.37	4.16	Malaysia
	Maybank Malaysia Value A MYR	R	07-Jan-03	18.90	4.21	9.44	Malaysia
	Maybank Malaysia Value C MYR	R	21-Aug-13	19.11	4.39	3.26	Malaysia
	Maybank Singapore REITs MYR	R	13-Sep-18	-1.82	-2.09	3.00	Singapore
	Maybank Singapore REITs MYR Hedged	R	13-Sep-18	-8.04	-6.22	0.61	Singapore
	Maybank Singapore REITs SGD	R	13-Sep-18	-7.03	-6.13	0.36	Singapore

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	Ann. 3Yr	Ann. Since Inception	
AGGRESIVE	MAMG Green Tigers AUD-H	R	18-Sep-23	-	-	2.56	Asia
	MAMG Green Tigers MYR	R	18-Sep-23	-	-	-0.26	Asia
	MAMG Green Tigers MYR-H	R	18-Sep-23	-	-	3.85	Asia
	MAMG Green Tigers SGD-H	R	18-Sep-23	-	-	0.00	Asia
	MAMG Green Tigers USD	R	18-Sep-23	-	-	0.00	Asia
	MAMG Systematic Asia Pacific Equity Absolute Return Fund AUD H	W	8-Jan-24	-	-	15.35	Asia
	MAMG Systematic Asia Pacific Equity Absolute Return Fund MYR	W	8-Jan-24	-	-	10.61	Asia
	MAMG Systematic Asia Pacific Equity Absolute Return Fund MYR H	W	8-Jan-24	-	-	9.76	Asia
	MAMG Systematic Asia Pacific Equity Absolute Return Fund SGD H	W	8-Jan-24	-	-	11.47	Asia
	MAMG Systematic Asia Pacific Equity Absolute Return Fund USD	W	8-Jan-24	-	-	10.23	Asia
MODERATE	MAMG Gold MYR	W	03-Jun-20	16.33	11.59	5.47	Global
	MAMG Gold MYR Hedged	W	03-Jun-20	7.39	6.18	2.10	Global
	MAMG Gold USD	W	03-Jun-20	10.88	8.31	4.28	Global
	Maybank Asian Credit Income MYR	R	07-Jul-20	2.95	-3.49	-2.30	Asia ex-Japan
	Maybank Asian Credit Income SGD Hedged	R	07-Jul-20	3.95	-3.43	-2.48	Asia ex-Japan
	Maybank Bluewaterz Total Return MYR	W	24-Jul-15	2.42	-1.64	3.51	Asia ex-Japan
	Maybank Bluewaterz Total Return USD	W	18-Jun-18	4.67	-1.33	3.49	Asia ex-Japan
	Maybank Financial Institutions Income	W	17-Dec-09	4.89	3.40	4.05	Malaysia
	Maybank Financial Institutions Income Asia	W	26-Aug-14	5.49	-0.50	4.09	Asia Pacific
	Maybank Flexi Income AUD Hedged	R	28-Nov-19	2.42	-3.40	-0.93	Global
	Maybank Flexi Income MYR	R	28-Nov-19	11.96	2.13	3.25	Global
	Maybank Flexi Income MYR Hedged	R	28-Nov-19	1.22	-3.27	-0.54	Global
	Maybank Flexi Income SGD Hedged	R	28-Nov-19	2.67	-3.10	-0.68	Global
	Maybank Flexi Income USD	R	28-Nov-19	4.41	-2.31	0.02	Global
	Maybank Malaysia Balanced	R	19-Sep-94	12.67	3.57	3.69	Malaysia
	Maybank Malaysia Income	R	19-Jun-96	5.38	3.25	4.78	Malaysia
CONSERVATIVE	Maybank Enhanced Cash XIII	W	24-Sep-08	2.70	1.88	2.68	Malaysia
	Maybank Money Market A MYR	R	01-Mar-19	-	-	-	Malaysia
	Maybank Money Market B MYR	R	01-Mar-19	-	-	-	Malaysia
	Maybank Money Market C MYR	R	01-Mar-19	-	-	-	Malaysia

Source: Maybank Asset Management, Lipper as at 31st March 2024