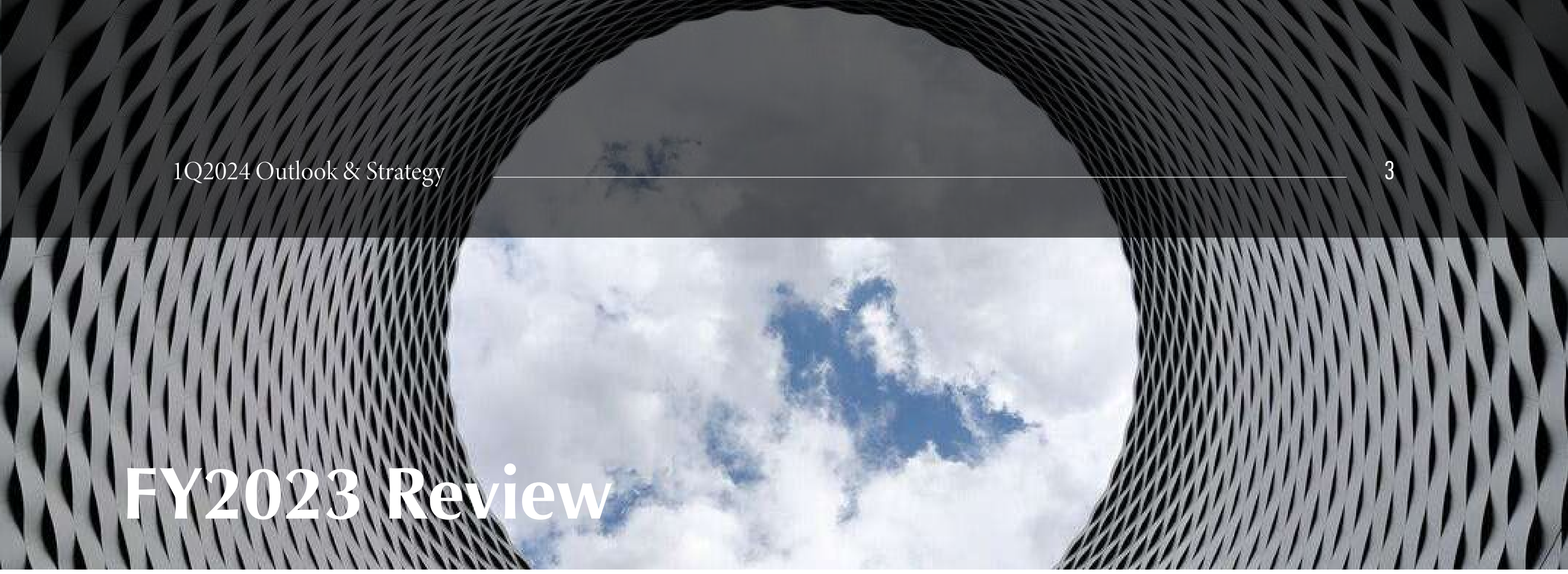
Maybank
Asset Management

2024 OUTLOOK & STRATEGY

Back to the Future

MAYBANK ASSET MANAGEMENT

Content List

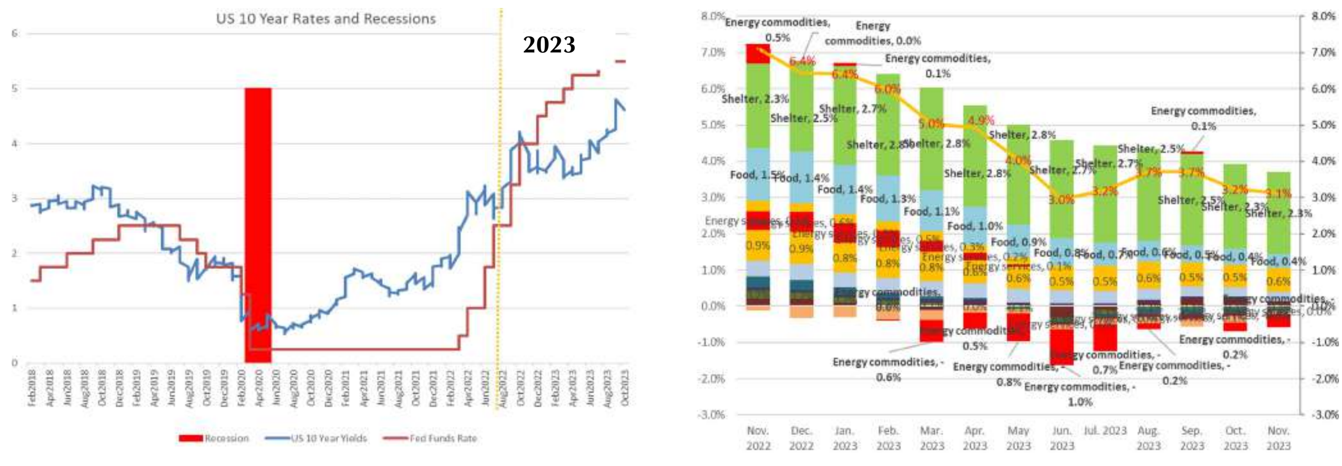


FY2023 Review

Summing up 2023 for Asian financial markets in a single word: ‘Disappointing’. Our theme of “Parting Storm Clouds” for 2023 turned out to be prescient. The year started brightly, with both Asian bonds and Asian equities chalking up strong gains in 1Q2023. The two drivers that we emphasised at the start of the year: peaking interest rates and China’s economic recovery, both seemingly to be in play. Notably, the downtrend in inflation, plummeting from its 2022 peak of 9% and steadily declining throughout the year, instilled an expectation of a parallel decline in interest rates.

However, midway through the year, it became evident that US interest rates remained stubbornly high. The benchmark US 10-year interest rates surged, touching a decade-high of 5.0% in 3Q2023. The Federal Reserve (the Fed) continued hiking rates, driving short-end rates going from 4.25% at the start of the year, to a peak of 5.25% in July 2023. Rising interest rates put a dampener on financial markets. We believe that rates remained high despite falling inflation due to persistent budget deficits. The US government had been using fiscal policy to support the economy in the COVID years and continued to do so in 2023, with the budget deficit hitting 6%. This is the highest level observed outside of a recession and/or pandemic. The spending propped up the US economy but also kept rates high. However, where we were right was focusing on domestic bond markets in Malaysia and Indonesia. With domestic inflation in Malaysia and Indonesia already at pre-COVID levels, domestic rates remained more controlled and resulted in decent returns for the Ringgit and Rupiah bonds. Similarly, our projections regarding the China recovery theme did not play out as we expected. While China did rebound from COVID with the reopening towards the end of 2023, it was also clear by the middle of the year that the pace of the recovery was softer than expected. The crux of the matter lay in the Chinese government’s cautious approach

Figure 1: US interest rates going up (LHS), while inflation dropped (RHS)



Source: Maybank Asset Management | Period 2022 – Nov 2023

The Fed continued hiking rates, driving short-end rates going from 4.25% at the start of the year, to a peak of 5.25% in July 2023. Rising interest rates put a dampener on financial markets.

towards implementing expansive fiscal stimulus measures. Contrary to investor expectations of robust support for the property sector and a swift return to pre-COVID growth rates of 7-10%, governmental interventions were more targeted. The Chinese authorities focused on the completion of uncompleted properties rather than boosting and bailing out the entire property sector. The Chinese authorities were content with economic growth rates of 5% and thus, retail sales and corporate earnings growth moved down to reflect the lower economic growth rates. The lower growth rates, coupled with the ongoing geo-political tensions between the US and China, saw weak sentiment on Chinese financial markets.

It was only towards the end of the year in November that we saw a revival in Asian markets. Interest rates dropped sharply in the last two months of the year, falling by more than 100bps. Headline inflation fell to around 3%, and softer US economic data convinced markets that higher interest rates had already done its job of cooling inflation and rates could fall to more normal levels.

Asian bond and equity markets rallied to conclude the year with moderate single-digit growth. At the end of the year, US equity markets were the best-performing asset class, with the S&P500 up more than 20% and exhibiting remarkable growth between 40 to 50%. One observation that we saw in 2023 is the extreme polarisation in financial markets. Although there are 500 stocks in the S&P500, the gains were not broad-based. Most of the gains in the US were due to the "Magnificent Seven", in which stocks like Facebook, Apple, Microsoft, and NVIDIA were instrumental in driving the majority of these gains. Fuelled by the AI narrative and against the backdrop of scarce global growth, investors demonstrated a willingness to invest in these stocks at premium valuations. Similarly, in Asia, the market leadership remained narrow. Only the stock markets of India, Korea, and Taiwan saw decent gains, while ASEAN and China disappointed.

To be fair, 2023 turned out to be better for Asian assets compared to the challenging 2022, when almost all financial markets were in the red. We had just expected a stronger rebound in 2023 after a tough 2022.

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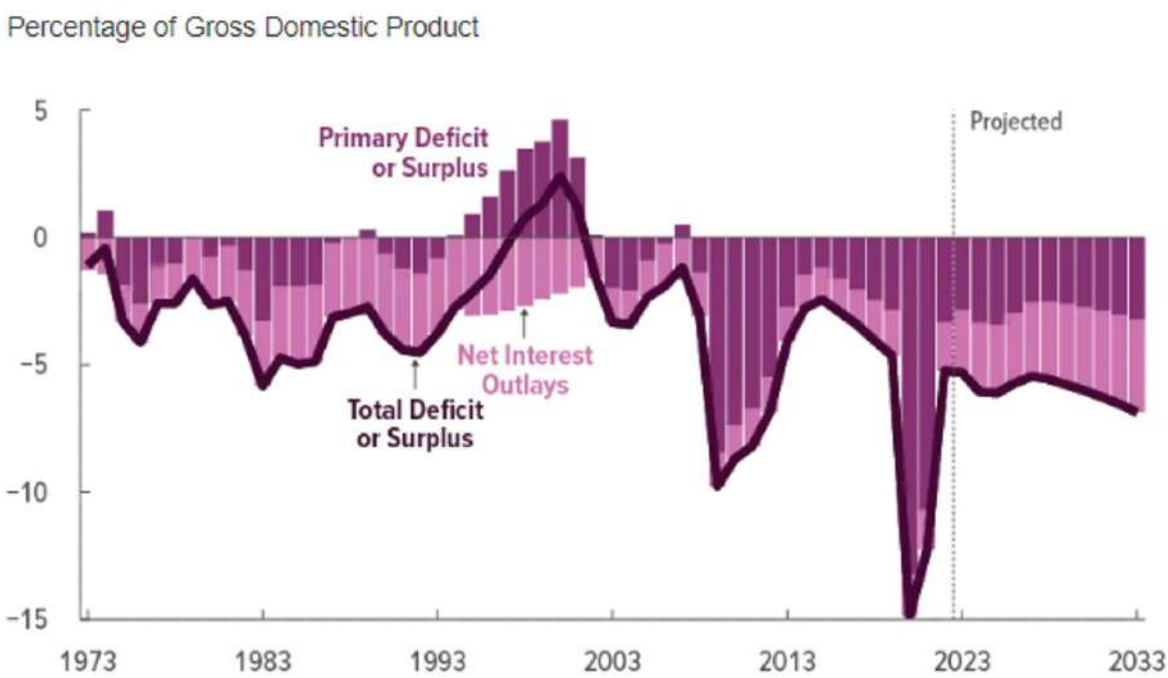
Figure 2: US Budget Deficits



Source: Maybank Asset Management, Congressional Budget Office | Period: 1973 - June 2023

FY2024 Outlook – Back to the Future

As we enter 2024, a sense of déjà vu permeates the landscape and the possible scenarios outlined for the upcoming year might strike a familiar chord. If readers do sense a certain familiarity with the items below, you have been alerted! Many of the scenarios and key themes for 2023 are still relevant for 2024. With that in mind, our theme for 2024 is Back to the Future.

Drawing a parallel to the iconic movie series starring Michael J. Fox, where the protagonist navigates the past, altering its course through actions that ripple into the future. Similarly, as we enter 2024, while reminiscent of the past, we anticipate divergent outcomes, reminiscent of the series' longing to be 'Back to the Future'.

In the event of a soft landing, the anticipated rally in financial markets is expected to transition from the current dominance of US mega-cap stocks to encompass US mid-caps, and subsequently extend to global markets, including Asia. Under this scenario, corporate earnings should continue to recover from the earnings decline in 2021 and this would be supportive of equity markets heading into 2024. A soft-landing scenario also bodes well for fixed income, benefiting from the prospect of moderate inflation. Even if interest rates persist at the current 4-5% range, the yield from fixed income appears attractive in comparison to pre-COVID levels. Furthermore, should interest rates continue their downward trajectory initiated in 4Q2023, it would serve as an additional bonus, further enhancing overall returns.

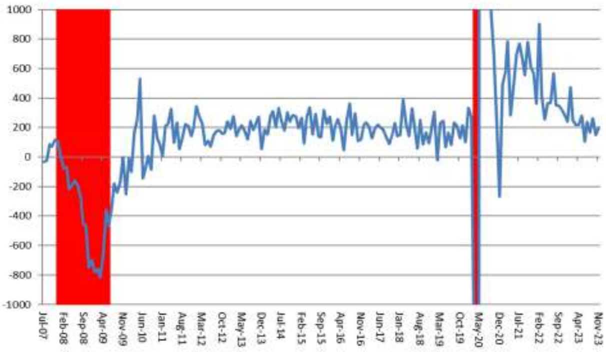
Table of Scenarios

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	*The risk 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

We begin with our base case, assigning a 60% probability to a US soft landing. Despite the close call with recession in 2023, our investment team foresees the US economy navigating through 2024 without succumbing to one. Heading into 2024, we see that inflation has come down with jobs, while retail sales still growing.

The next scenario is a US recession. While the US successfully evaded a recession in 2023, the looming spectre of an economic downturn remains a significant concern, with a 30% probability of occurrence. It must be pointed out that we are seeing the US economy at a softer level now compared to 12 months ago.

Figure 3: US Soft-landing – Jobs still growing



Source: Maybank Asset Management | Period: 2008 – Nov 2023

For instance, retail sales have moderated to a range of 2-4%, a decline from the previous 6-9% range. Likewise, job growth has decelerated to a range of 150-200k per month, contrasting with the 200-300k figures witnessed during the same period last year.

The last scenario for 2024 is stagflation. This scenario is characterised by persistent high inflation paired with stagnant or shrinking economic growth. However, we assess the probability of this scenario as remote, as inflation already appears to be in a downtrend and a deceleration of economic growth will drag down inflation further.

In terms of asset allocation between equities and bonds, a soft landing would generally favour equities. However, considering the lingering risks of a US recession on a risk-adjusted basis, we advocate for a more balanced approach. Fixed income will still post positive returns in the two of the three scenarios, while equities are only likely to post positive, albeit stronger, returns in the soft-landing scenario.

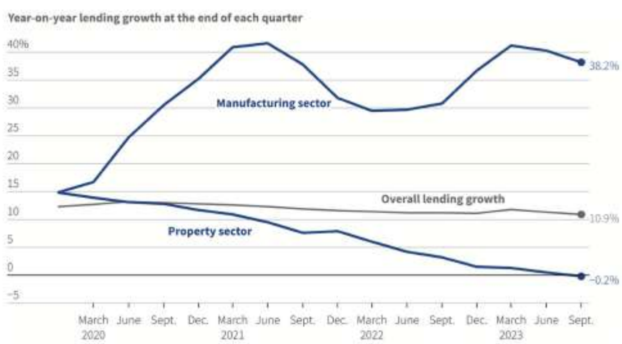
We begin with our base case, assigning a 60% probability to a US soft landing. Despite the close call with recession in 2023, we foresee the US economy navigating through 2024 without succumbing to one.

We know that markets move on expectations. So, what are the market expectations for 2024? Currently, equity markets are pricing in a soft landing, envisioning a 'Goldilocks' scenario, with the US economy neither too hot nor too cold. Investors have high expectations for US stocks, with the S&P 500 trading close to historical highs with elevated valuations. US strategists are also expecting a recovery in earnings in the US with double-digit earnings growth. Concurrently, fixed income markets are factoring in potential interest rate cuts. Should these expectations materialise, the year could progress smoothly. Given the heightened expectations for 2024, it becomes imperative to closely monitor macroeconomic indicators and corporate earnings, remaining adaptable to potential shifts in expectations that may necessitate a change in strategy.

Similar to the preceding two years, interest rates are poised to remain a pivotal force steering financial markets in 2024. As mentioned, the market is already anticipating moderating interest rates in 2024, and cuts in interest rates will continue to drive bond and equity markets. Recent years have witnessed unprecedented volatility in interest rates, a trend unseen in a decade. Reflecting on 2023, our expectation of peaking interest rates was misconstrued as rates continued to ascend despite declining inflation, largely owing to substantial budget deficits. This time, we are more confident that interest rates will be more controlled. Firstly, headline inflation has now dropped to 3.0%, not far from the target rate of 2.0%. Secondly, in an election year, the budget deficit is likely to be more controlled as it would be difficult to get House and Senate approval for large spending.

The other key driver for financial markets, especially in Asia, is China. We have to admit that China has been a difficult place to invest with negative returns over the past two years. Hopes were high for a rebound following China's post-COVID reopening. However, while the nation did recover from the pandemic, it fell short of the anticipated return to pre-COVID growth rates of 7% to 10%. The property-related sectors, historically contributing between 20% to 30% of economic growth, faced restraint as the government refrained from re-inflating the bubble. This cautious approach shaved off an estimated 2-3 percentage points from the growth

Figure 4: China transitioning from Property to High-Value added Manufacturing.



Source: People's Bank of China, Reuters | Period 2020 – Sep 2023 trajectory. Instead, Chinese authorities aimed for a more modest 5% growth range, emphasising the shift from a property infrastructure-led economy to one centred on higher-value industrial sectors. This transition is evident in the Chinese economy, showcased by a surge in loans to the manufacturing sector alongside a decline in property sector investments. China's focus on high-value sectors such as renewables, electric vehicles, and semiconductor chips indicates a deliberate strategic pivot. For fixed income investors, Chinese USD bonds should follow US interest rate trends and there should be good opportunities in 2024.

Equity valuations, particularly those affected by lower growth rates and geopolitical tensions between the US and China, have witnessed a derating. Utilising Shiller's Cyclically Adjusted Price-to-Earnings ratio (CAPE) as a valuation metric, we adopt a method advocated by Robert Shiller, a Nobel laureate economist. CAPE averages earnings over a 10-year period to mitigate cyclicality, offering a broader perspective on market valuations. Usually during downturns or recessions, earnings for the one year are cut, and the "E" in PE drops, causing the ratio to increase and the PE measure to appear to be expensive. The CAPE adjusts for this cyclicality using the average earnings over the 10-year period. Using this measure, valuations for China are at trough valuations. It's important to note that CAPE is not a precise timing tool and expensive markets can sustain their rally, just as cheap markets may persist in their undervalued state. Nonetheless, it serves as a valuable indicator for longer-term returns. Historical data suggests a relationship between CAPE valuations and returns over 5 to 10 years, highlighting extremes as crucial points to observe. For instance, in the year 2000, US markets were trading at more than 40x during the Tech bubble, where fervour for internet prospects led to hefty investments in growth stocks without earnings. Subsequently, US stock returns were poor, lagging behind other regions. Similarly, in 2008, Chinese stocks traded at excessively high valuations due to the overexcitement surrounding China's growth narrative. Since then, Chinese stocks have underperformed.

So, what do we do with Chinese stocks? Most investors appear to have given up as policy risks and geopolitical concerns, coupled with disappointing corporate earnings, have depressed the markets. However, considering the crisis-level valuations, we believe overlooking Chinese stocks would be remiss. Historical analysis of CAPE charts suggests that investors often benefit from purchasing markets at exceedingly low valuations. It must be conceded that our conviction level over the next 12 months for Chinese stocks is not high, given the many false starts and Chinese stocks could stay a value trap in 2024. Nevertheless, with China's prolonged underperformance, certain stocks are now trading at single-digit Price-to-Earnings ratios (PERs), offering dividend yields exceeding 5% alongside promising earnings growth. Hence, our focus will revolve around identifying and capitalising on such deep-value investment opportunities.

Another thing we want to point out is in 2024, elections will be a focal point, involving nearly half the world's population. Indonesia, Taiwan, and India are slated for elections from early to mid-year, while the US elections are scheduled towards the year's end. Of course, out of the elections listed above, the US elections hold the utmost significance. Historical patterns reveal that the US stock markets tend to exhibit volatility and weaker returns in the lead-up to elections. However, once elections conclude, returns typically show strength and resilience.

In summary, while some parallels with 2023 exist, we anticipate a more favourable year for Asian equities and bonds, largely attributed to the expected moderation in interest rates. A projected US soft landing suggests a broader market rally extending beyond the US, benefiting Asian bonds and stocks alike. However, the most significant risk factor remains a potential US recession, posing a more adverse impact on equities compared to bonds.

Figure 5: Cyclically Adjusted PER Valuations Selected Countries

Source: Maybank Asset Management, Barclays | Period 1985 - 2023

2024 Key Investment Themes

We've consolidated several key investment themes for 2024, incorporating elements from our earlier outlook and carrying over some from the previous year. The theme of peaking interest rates, as touched upon earlier, is anticipated to positively impact various financial assets. Additionally, the China transition theme takes precedence, highlighting China's shift from an infrastructure-driven economy to one centred around higher-value sectors like chips, renewables, and biotech. Moreover, with major general elections scheduled in significant countries, particularly the US, the potential for volatility in US election years is noteworthy and requires careful observation.

Sustainability, de-globalisation, and tech disruption, retained from our 2023 outlook, continue to hold significant relevance and are displaying notable traction in current markets. For instance, the acceleration of renewables and the increased adoption of electric vehicles (EVs) are gaining substantial momentum. Both China and India are actively bolstering their adoption of solar, hydrogen, and EV technologies, evident in China's remarkable 36% market share in new vehicle EVs. Furthermore, investments in countries like Malaysia and India underscore companies' endeavours to diversify supply chains away from singular sources, marking a strategic shift.

For tech disruption, there has been some evolution with the development of AI. Chat GPT, Bard, Ernie, and many other Large Language Models (LLMs) are on the market providing users with tools for generative AI. These AI models empower users to craft documents, generate videos, images, and music utilising AI-driven capabilities.

It is important to consider the risks that we will face in 2024.

With many companies investing in Graphics Processing Units (GPUs) to advance these LLMs, the development of AI holds the potential to disrupt industries in the future. Already, we observe glimpses of this disruption, particularly in sectors such as animation and copywriting, where AI models play a substantial role in initiating and streamlining initial work processes.

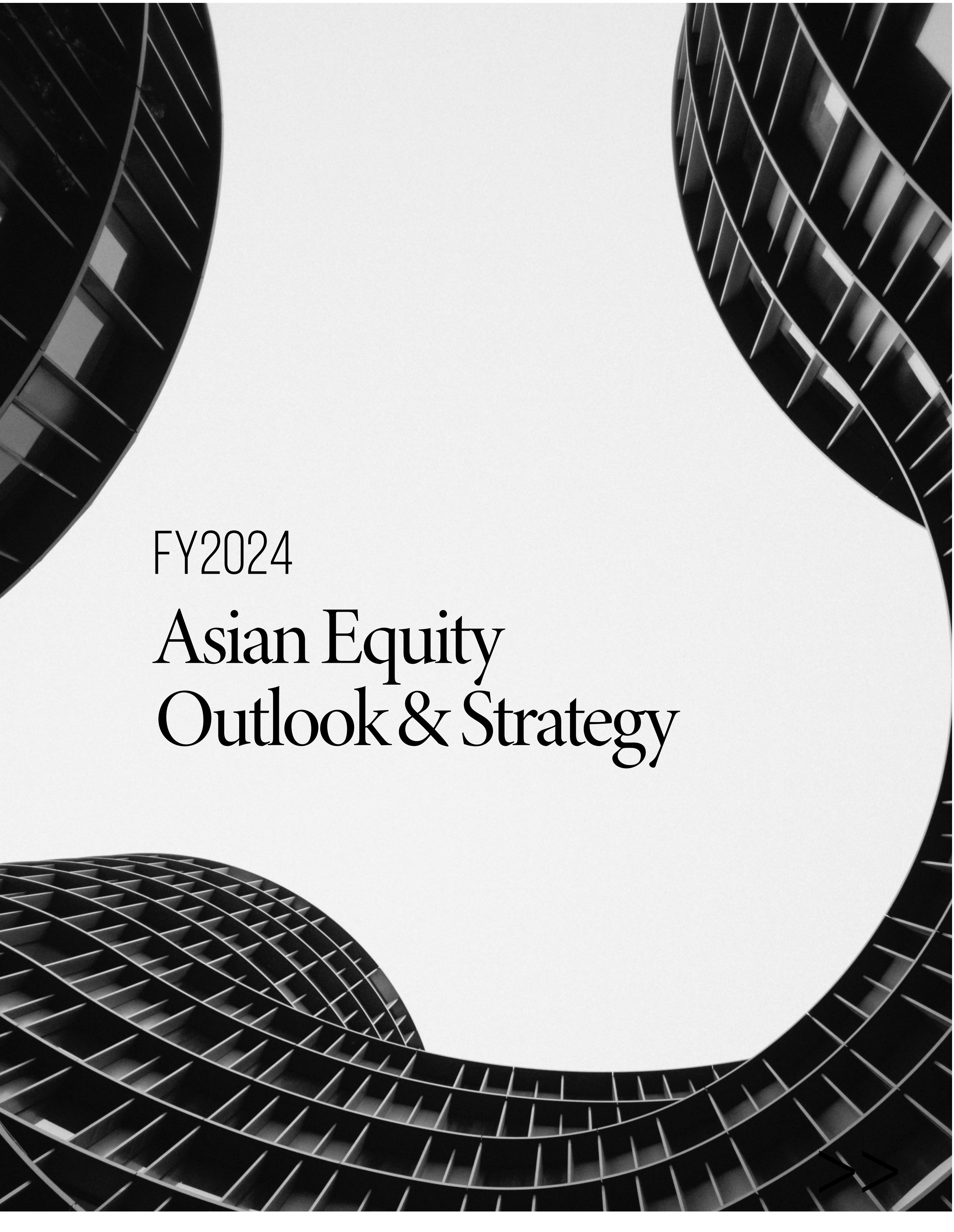
The primary beneficiaries of the AI theme remain narrowly focused, primarily benefiting companies like NVIDIA and a select few mega-tech companies. TSMC benefits to a more limited extent as the company fabricates the chips for NVIDIA. While there will certainly be winners in this landscape, the burgeoning development of AI is poised to disrupt legacy companies, potentially leading to more losers in the market. As a result, evaluating AI threats across our investments becomes imperative. Moreover, with elections looming and heightened market expectations, volatility is anticipated to persist.

It is also important to consider the risks that we will face in 2024. While we have briefly covered some of these risks in our outlook, we would like to underscore the risk of potential stagnation in China. Certain strategists have drawn parallels between China's current situation and Japan's economic stagnation three decades ago. Similarities, such as weak demographics, elevated property prices, and a mounting debt burden, exist between the two economies. Notably, both nations are export-oriented. However, it is important to note several distinctions that mitigate the risks of stagnation in China. Unlike Japan's bubble-like stock market valuations in the 1990s, China's markets are currently at decade lows, trading at single-digit Price-to-Earnings ratios (PERs). Additionally, while Japan faced challenges due to the Plaza Accord's impact on the rising Yen, China's Renminbi trades weaker against the USD in line with its Asian counterparts. In terms of competitiveness, many Chinese companies lead the way in cutting-edge sectors like 5G, renewables, and EVs. Moreover, the starting points for both countries differ significantly. China recently achieved middle-income status, with Eastern provinces like Guangzhou and Jiangsu already reaching developed county income levels. However, in the West and Northeastern provinces, there is a huge runway for development. Lastly, the proactive measures taken by Chinese authorities to cool down the property sector and deleverage it stand in contrast to Japan, where widespread participation in rising asset prices by individuals, companies, and banks contributed to the aftermath of the burst property bubble.

The last risk we would like to mention is the US commercial real estate market. It has been a slow-moving crisis and therefore, tends to be ignored. However, the collapse of WeWork and large drop in commercial real estate valuations of 50%, do warrant some caution.

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	*Almost the world population will be voting in 2024 with Indonesia, Taiwan, India, and the US having elections. 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 these 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 "de-risk" from a single supply chain. China +1 EMS companies with exposure in India, Malaysia and Thailand. Higher inflation longer term.*
Volatile Markets	*More tactical trading given volatile markets.*

Risk Factors	Implications
US Recession	*US markets are expecting a soft-landing. However, in a recession, US equity markets fall 30% from peak to trough. Cyclically oriented sectors and countries will be more at-risk including tech hardware, Taiwan, and Korea. Interest rates to go down.*
Political Risks	*US elections and continued geopolitical risks between the US and China.*
China Stagnation/ Japanification	*China hits middle income trap and growth stagnates. China equity market continues to underperform even though valuations are cheap.*
US commercial property	*Slow moving crisis in US commercial property. Could trigger defaults and bad loans could drag down the financial system. Smaller US regional banks are more at risk.*
Japan rates moving up	*Rates have stayed low in Japan for so long that there are a lot of uncertainties if interest rates do rise meaningfully. Japan has the largest government debt load in the world.*



FY2024

Asian Equity Outlook & Strategy

FY2024 Asian Equity Outlook & Strategy

The US economy is anticipated to experience a soft landing in 2024, marked by decreasing interest rates and lower inflation, providing a favourable environment for equities. Globally, GDP growth is expected to slow, but opportunities for corporate earnings persist, especially in economies emphasising external trade. A weaker US dollar and lower global interest rates may boost MSCI Asia ex-Japan's performance in 2024. China's economy is undergoing a transition, and though undervalued, selective investments in Consumer Staples, Services, Healthcare, and Telecommunications are recommended.

US interest rates have seemingly reached their peak, supported by a gradual easing of inflation that has toned down the "higher for longer" narrative that troubled capital markets for much of 2023. The latest inflation readings for both October and November have continued trending down and came in within market expectations.

Figure 6: Declining US headline and core CPI 2023

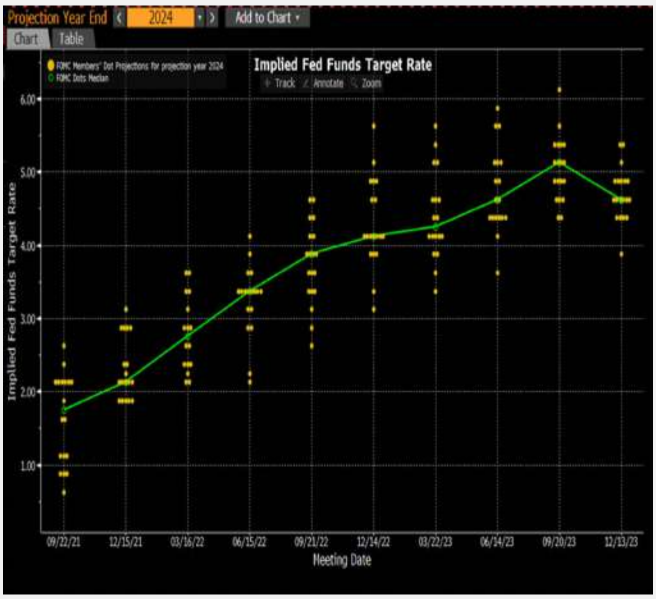
Source: US Bureau of Labor Stats as at 30th November 2023

Headline and core CPI for November were 3.1% and 4.0%, down from 6.4% and 5.6%, respectively, in January 2023. These encouraging trends, along with a labour market that is starting to soften, have emboldened the FOMC to reveal a more dovish dot plot during the final meeting in December. This revision saw the median projection for the 2024 fed funds rate decrease by 50 points compared to September's dot plot, indicating a potential 75 basis points cut from current levels in 2024.

The US economy appears poised for a soft landing in 2024, supported by a gradually softening yet robust jobs market. This scenario, favourable for equities, signals lower inflation without growth shocks, offering the Fed room for rate cuts. Still, the risk of a full-blown recession due to unforeseen shocks or a severe impact from the lagged effect of the past two years' tightening monetary conditions and depleting savings simply cannot be ruled out. Having chalked in an impressive 26% total return in 2023 alongside a projected EPS growth of 10% for 2024, the S&P500 doubtlessly is pricing a soft landing, as reflected by a forward PE multiple of 19.5x that implies an equity risk premium of just 116 basis points (or 2-standard deviations below mean). In simple terms, US equities are not cheap, skewed though they may be by the 'Magnificent Seven'.

Driven by the US GDP growth that is projected to slow down from 2.4% in 2023 to 1.2% in 2024 and that of

Figure 7: 2024 dot plot projection finally fell in 4Q2023



Source: US Federal Reserve as of December 2023

China from 5.2% to 4.5%, the OECD expects global GDP to slow to 2.7% in 2024 from 2.9% in 2023. Despite this slowdown, opportunities for corporate earnings growth persist, particularly in economies emphasising external trade such as ASEAN, Taiwan, and Korea. We believe that the semiconductor cycle in 2024 will bottom on excess inventory depletion, but beyond the recovery in demand from normalisation of inventory, it remains to be seen if end-demand will be strong enough to sustain a further phase of recovery given, hitherto, the still sluggish sales growth of smartphones, PCs, and global autos. Taiwan and Korea equities have outperformed strongly in 2024 on the back of AI-led demand, but it remains to be seen what new AI applications will be available in 2024 that may lengthen this demand cycle. Outside AI, laggard tech plays that may fall back in favour are EMS (Electronic Manufacturing Services) and OSAT (Outsourced Semiconductor Assembly and Testing) segments with exposures in ASEAN and India that benefit from supply chain shifting towards more diverse sources due to deglobalisation.

The strong USD over the last two years is likely to peak, if not reverse, in the second half of 2024, given the slowing US GDP and the Fed's easier monetary policy. The combination of a weaker dollar, lower global interest rates and MSCI Asia ex-Japan's corporate earnings growth of 17% (as per market consensus) should likely see this asset class performing in the later part of 2024. Asia's anchor, China, continues to deal with what we believe to be the tail end of its real estate debt crisis, but its near-crisis low market valuation is far from pricing in a recovery. China may remain undervalued for a while as its economy transitions from a debt-fuelled investment growth model driven by real estate and infrastructure and low-value manufacturing to a higher-quality growth model centred on technology self-sufficiency and renewable energy, along with private consumption. These macroeconomic policy reforms will take time to realise. In the meantime, the best approach to gaining exposure to China is by selectively investing in Consumer Staples and Services, Healthcare, and Telecommunications where pockets of strength are to be found. Positively, China has benign inflation with adequate monetary and fiscal space to provide stimulus and support when needed, although much of the implementation has been at a measured pace. While we like Korea and Taiwan as offering Asia's best exposures to the structurally appealing AI supply chain play, they have risen far too quickly in 2023, and being cyclical makes them vulnerable to a market pullback. For this reason, we keep Korea at underweight and Taiwan at neutral on a relatively better valuation.

Besides the challenges of subdued global growth, the uncertain outcomes of several key elections around the world add to investment risks. While a return of the DPP (Democratic Progressive Party) in Taiwan will preserve the status quo where relations with China are concerned, a win by the KMT (Kuomintang) may bring Taiwan closer to China. The Indonesian presidential election on 14th February will likely see a runoff to June, according to market observers, which may cast some uncertainty on Indonesians equities in 1H2024. The US election will lead to major policy changes if Donald Trump returns as president. To name a few, we are almost certain to see higher import tariffs, a less hostile stance towards Russia and hence, withdrawal of support for the Ukraine, stepped-up anti-China rhetoric, stepped-up US shale production and U-turns on sustainability initiatives.

We keep India at Neutral on its favourable geopolitical relations with the developed world and seen by some investors as an investment alternative to China, but we stop short of an Overweight call due to expensive valuation.

Figure 8: Expensive US Equity valuation

Source: Bloomberg

Figure 9: China PE is historically near bottom vs peers

Source: Bloomberg

Country Calls

Country	Call	Rationale
China	Overweight	*China will eventually resolve the real estate debt crisis while redirecting its economy towards technological self-sufficiency and greater domestic consumption. Slower growth closer to 4.0% in 2024 is already widely expected while foreign investors interest remains distant, but valuations are cheap, and the outlook further out is promising. There will likely be more supportive policy announcements.*
Indonesia	Overweight	*Indonesia's presidential election in February that is likely to runoff into June, may cast near-term uncertainty. However, underlying fundamentals are sound given global monetary easing supportive of commodity prices, putting a cap on its widening current account deficit, leading to a stronger IDR. Government is raising spending to support the lower-income group ahead of general election in 2024.*
Malaysia	Overweight	*Low foreign ownership buffers Malaysia's stock market from potential risk-off fall out. However, 2024 will remain challenging given hike in SST and targeted subsidy reform that may crimp consumption, while higher cost continues to squeeze business margins. However, valuation is compelling, and pockets of opportunities exist in the RE and construction space.*
Hong Kong	Neutral	*HK's domestic economy is expected to benefit from on-going visitations from the mainland as locals prefer regional travel. Its real estate prospects improve as rates are expected to fall as the Fed pivots. China onshore will continue trading at premium over H-shares due to relatively better interest amongst domestic investors, but this premium is likely to narrow as distressed valuations, share buybacks, and pause in interest rate hikes boost appeal of H-shares.*
India	Neutral	*Indian stock market has continued to do well despite 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 makes it an alternative to China, which is falling out of favour. However, one issue has been stubborn inflation, which still hovers above 5%.*
Singapore	Neutral	*Singapore is an open economy, most exposed to global trade and hence vulnerable near term if US slows sharply. The banking sector's net interest margins have peaked, and credit costs are creeping up again. But it has defensive fundamentals as it has sufficient monetary and fiscal space to execute countercyclical supports during economic stress. This market offers companies with strong dividend yield and generally balance sheet strength.*
Taiwan	Neutral	*Taiwan has outperformed in 2023 riding on AI. In the near-term it will enjoy a recovery from depletion of excess traditional semiconductor inventory but the end demand strength from smartphones and PCs remains to be seen depending on the extent of global slowdown.*
Thailand	Neutral	*Tourist arrivals should gather momentum after a disappointing 2023 given normalisation of flight frequencies out of China especially. Post-election cash aid in 2024 supports a positive 12-month outlook for consumption. Political outlook is more stable compared to the recent past.*
Korea	Underweight	*The first wave of frenzied demand for AI memory chips has run its course and delivered a good 2023 for Korea. Near-term prospects may be capped if US falls into recession. It remains to be seen if there are enough new AI applications that will push up demand again within the next 12 months, but we are positive longer term.*
Philippines	Underweight	*The market has underperformed due to multiple headwinds such as sticky inflation and strong USD which have caused higher current account deficit, weaker peso, and higher interest rate. Still sticky local inflation and softening in loan growth is a concern which may be a sign of a slowdown. It is lowly weighted in the MXASJ index hence carry insignificant underperformance risk if underinvested.*

Our sector calls for FY2024

Sector	Call	Rationale
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 ageing 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, who were victims of oversupply due to industry consolidation, are seeing value emerge following steep sell-off over a year ago.*
Communication Services	Neutral	*Continue avoiding the digital advertising and entertainment segment as these are highly cyclical and prone to weakness due to slowing global growth. Preferred are those less economically sensitive – including mobile phone and home broadband internet services as these are essential services and the last that consumers will cut. The start of declining rates in 2024 provides some relief for highly geared companies but those that have other room for cost cuts should still emerge stronger in a weaker economic setting.*
Consumer Discretionary	Neutral	*In 2023, consumption has surprised pleasantly in the US, but China has disappointed even after post-lockdown reopening as travel around the region was slow to recover. But with international flights frequencies rising and consumers' guardedness fades, consumption among the better-off segments of consumers will likely improve, lifting hospitality, retail, travel, and casinos around the Asian region. For now, we maintain Neutral on the belief of a gradual recovery given the time required to restore confidence and the weak RMB.*
Consumer Staples	Neutral	*Agriculture commodities, amidst 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. Companies best positioned to face the headwinds are those dealing in cheaper brands that pressured consumers can trade down to.*
Energy	Neutral	*OPEC+ extended supply cuts and consensus around a US soft-landing has lent considerable support to Brent staying above $80. The upside risk to oil price stems from a potentially widening conflict in the Middle East that drags Iran into the picture. However, in the event of a Trump presidency, US Shale production is likely to increase in 2025 and beyond. For the longer term, the preferred plays are those in the renewable energy space especially those involved upstream in raw material supply.*
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) but we may be incrementally positive on those from developed Asia (HK, Singapore, and Korea) if the commercial real estates' adjustment to higher rates proves to be orderly.*
Industrials	Neutral	*In the near term, Asia's industrial sector is vulnerable to risks of slower global growth. Longer term, the US-Sino geopolitical tensions and supply chain disruptions which have prompted the US to bolster domestic manufacturing or onshoring may mean less demand for industrial goods from Asia. Positive though, is that the push for digitization will continue to be a source of defensive 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 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 but it is not clear yet as to the resilience of demand from smartphone replacement cycles and PC upgrades due to cessation of Windows 10 support in 2025.*
Real Estate	Neutral	*The REIT sector is likely to outperform as interest rate declines in 2024. Widening yield spread between dividend yield and 10-year government bond yield means that REITs' dividend yield will become more attractive again as government yield starts to decline. Fundamentally, the operational performance of Asian REITs is generally solid in terms of occupancy rates and rental reversions, driven by post-Covid economic recovery. However, distributable incomes have been impacted by higher interest expenses. We expect dividend per unit to resume to growth in 2H2024 once interest rates decline. A weak spot is China's housing sector but that remains on the mend, supported by easing rates and less restrictive purchasing conditions.*
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.*
Materials	Underweight	*Materials are a cyclical sector and prospects of slower global market demand will weigh on it. And, 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.*

FY2024

Asian Fixed Income Outlook & Strategy

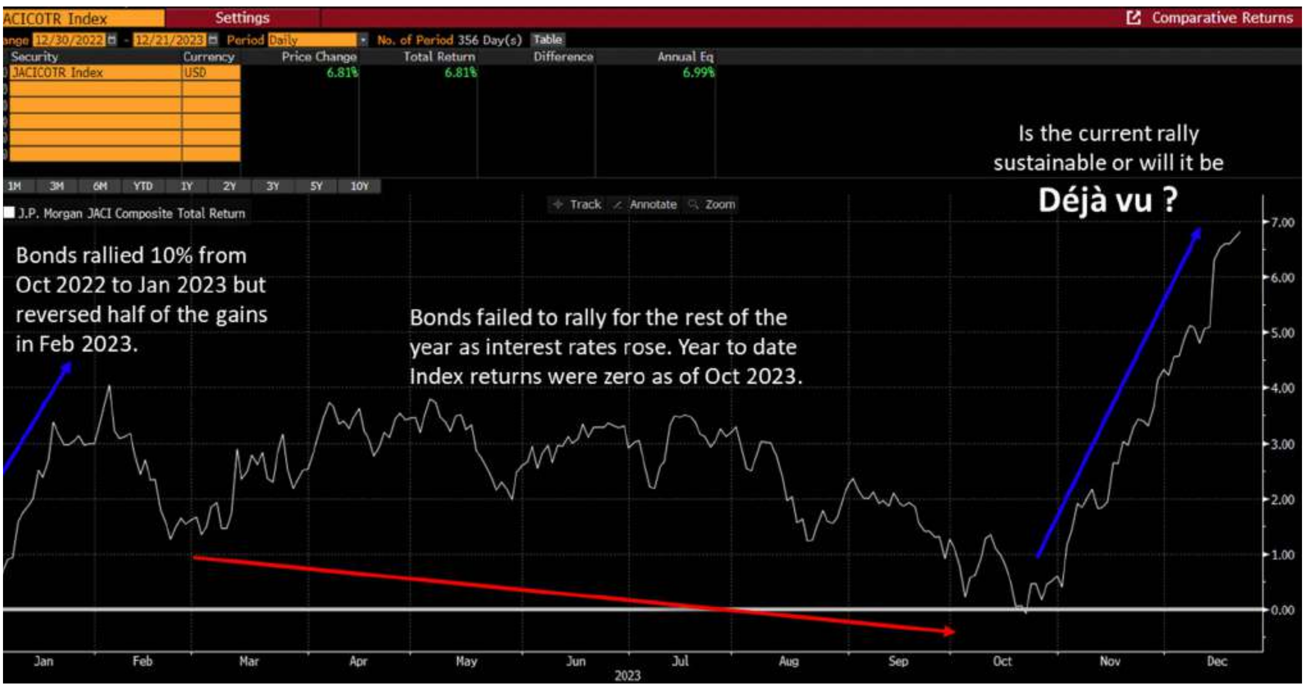
4Q2023 USD Asian Fixed Income Review – Déjà vu?

The US Fed's more dovish stance, with a revised dot plot forecasting a 75bps cut in FY2024, fuelled a robust end of the year rally, which witnessed the 10-year Treasury yield receding from 5% to below 4%. Bond portfolios were adjusted to take advantage of this trend, with an extension in duration and cash reinvestment. Despite concerns about the sustainability of positive sentiment in 1Q2024, the full year outlook for 2024 remains optimistic, anticipating a total return of 6% to 8% for the JP Morgan Asia Credit Index. Key drivers include expectations of declining inflation, slowing global growth, attractive valuation, and positive sentiment/ technical factors.

In the first month of 4Q2023, USD interest rates continued the massive selloff that started in 3Q2023. The US 10-year Treasury yield was at 3.8% as of end June, but it marched relentlessly to pierce through 5% on 19th October 2023, setting a new peak well above the last peak of 4.2% in October 2022. The dramatic selloff was driven by a confluence of factors, including an adverse Treasury supply shock due to a higher US deficit, concerns regarding Japan exiting the zero-interest rate policy, and inflation reemerging as a potential risk as oil rose above US$90 per barrel in September.

Additionally, a more hawkish stance from the Fed in September indicated an expectation of cutting only 50 basis points in FY2024, a stark contrast to the market's prior pricing of a 100 basis points cut before the meeting. Fast forward to December, a robust rally unfolded over the past two months. The US 10-year Treasury yield has descended from 5% to below 4% at present. Recent US macroeconomic indicators point to a slowdown, as evidenced by weakening consumer spending and employment data, showing signs that higher interest rates

Figure 10: JP Morgan Asia Credit Index



Source: JP Morgan, Bloomberg as of December 2023 could finally be biting into the economy. Inflation has also moderated, retracing as oil prices declined to US$70 per barrel, setting the stage for a potential halt in US Fed rate hikes and a likelihood of accelerated interest rate cuts. During the December meeting, the US Fed revised their dot plot, forecasting 75bps cut in FY2024, 25bps more than the September meeting, which further provided more ammunition for the year-end bond rally.

Since early November, we have actively moved to extend duration on bond portfolios from Underweight to Overweight, as well as reinvesting cash from Treasury bills to long end bonds to take advantage of the year-end rally. The JP Morgan Asia Credit Index “JACICOTR” went from zero year-to-date (YTD) returns as of October 2023, to rally almost 7% in November and December. This was a very welcome change for bond fund managers, who would have suffered an unprecedented consecutive third year of negative returns if this rally did not happen.

While we remain fully invested for now, we exercise caution regarding the sustainability of the positive sentiment for bonds. Our concern primarily centres around 1Q2024. However, our outlook for the full fiscal year FY2024 remains optimistic for bonds. We remember the false dawn a year ago when the JP Morgan Asia Credit Index, after a painful 18% selloff in the first ten months of FY2022, also reversed to deliver a dramatic 10% rally from October 2022 to January 2023. Regrettably, this positive momentum faded shortly after early February 2023, resulting in disappointment for most of FY2023 until recently. Given the sharp rally in the past two months, it will be prudent to stay nimble as we roll into 2024, which will bring new opportunities as well as new challenges.

FY2024 USD Asian Fixed Income Outlook – Sow Now for a Bountiful Harvest

Asian USD bonds embarked on a path towards normalisation following two consecutive challenging years, we do believe that the worst is over for bonds. The significant factors that previously led to heightened interest rates appear to be subsiding. Looking ahead, our expectation is for Treasuries to rally approximately 30 basis points from current levels, although this could be potentially offset by a 10-basis point widening in credit spreads. Coupled with the existing index yield of 6.25%, we anticipate the total return for JACICOTR to range between 6% to 8% for FY2024. To convince our readers and ourselves of a decent year for bond performance, we revert back to the basic drivers of bond investment and focus on **Macroeconomics, Valuations, and Sentiment/Technical.**

JP Morgan as of 22nd Dec 2023
JACI Yield to Worst % **6.25**
JACI Weighted Duration **4.46**

Expected Total Return for JACI FY2024

	Credit spread change							
US Treasury change	-30	-20	-10	0	10	20	30	40
-70	10.21	9.81	9.42	9.02	8.63	8.23	7.83	7.44
-60	9.81	9.42	9.02	8.63	8.23	7.83	7.44	7.04
-50	9.42	9.02	8.63	8.23	7.83	7.44	7.04	6.65
-40	9.02	8.63	8.23	7.83	7.44	7.04	6.65	6.25
-30	8.63	8.23	7.83	7.44	7.04	6.65	6.25	5.85
-20	8.23	7.83	7.44	7.04	6.65	6.25	5.85	5.46
-10	7.83	7.44	7.04	6.65	6.25	5.85	5.46	5.06
0	7.44	7.04	6.65	6.25	5.85	5.46	5.06	4.67
10	7.04	6.65	6.25	5.85	5.46	5.06	4.67	4.27
20	6.65	6.25	5.85	5.46	5.06	4.67	4.27	3.87
30	6.25	5.85	5.46	5.06	4.67	4.27	3.87	3.48
40	5.85	5.46	5.06	4.67	4.27	3.87	3.48	3.08

Source: JPM, MAM as of December 2023

Macroeconomics: Runaway inflation prompted central banks globally to enact successive interest rate hikes. After the global pandemic lockdown in FY2021, countries reopened simultaneously, spurring pent-up demand in an environment where global inventory and interest rates were at historical lows. US interest rate was near zero, while Europe and Japan were at negative interest rates. Inflation skyrocketed and reached 9% in the US as of June 2022. The US Fed had no choice but to raise interest rates from 0.25% to 5.5% over a short span of eighteen months, from March 2022 to August 2023. Unsurprisingly, bond prices tanked. Going forward, we believe that inflation is no longer a significant threat. In fact, global inflation has been plummeting for most of FY2023.

Across the broad group of economies that saw a large and unwanted post-Covid price surge (G10 excluding Japan and early-hiking EMs), estimates show that core inflation ran at a sequential annualised pace of 2.2% over the past three months and just 1.3% in November. With central bank rates currently above core inflation, we see a good chance that central banks will cut rates going forward, which will be positive for bonds in FY2024.

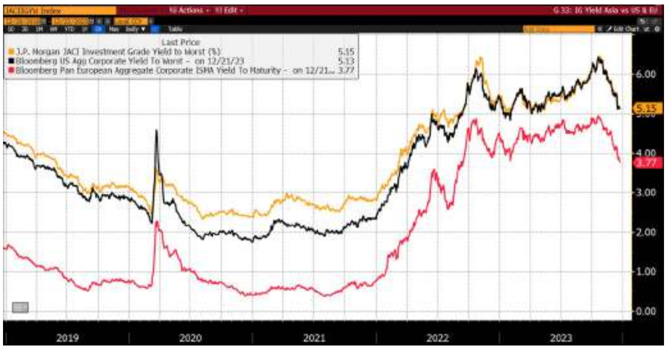
Figure 11: Sequential Core Inflation for Countries with Large and Unwanted Inflation Surge

Source: Goldman Sachs Research November 2023

There are also increasing signs that global growth is likely to slow to below potential levels due to the continued drag from tight monetary policy and rising yields, as well as the fading of this year's positive support. US growth surprised on the upside this year, despite high borrowing costs and high inflation due to increased government spending and consumer drawdowns on excess savings accumulated during the pandemic. Employment is still holding up despite weaker profitability and outlook, as businesses are hesitant to fire so soon after widespread difficulty in hiring after the pandemic lockdown. However, the tide will turn as the boost from these tailwinds is likely to recede soon. A slowing economy and weaker employment in an important election year is another strong case for the US to ease off on its punitive high interest rates, which will also support bonds' performance.

Valuation: We have been stating that bond yields have been attractive throughout FY2023 versus historical. With 5-year investment grade bonds at 5% to 6% yield versus 2% to 3% yield just two years ago, under normal circumstances, it would have been a screaming buy. However, with the US Fed turning more hawkish since 2H2023 and US Treasury bills offering an average yield of 5.3%, there was simply no incentive for investors to extend duration risk for most of FY2023.

Figure 12: 5-Year JP Morgan JACI Investment Grade Yield



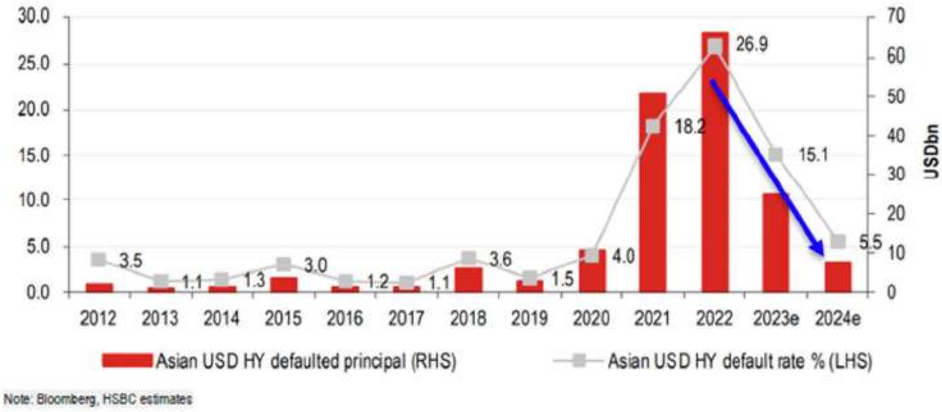
Source: JPM, Bloomberg as at 22nd December 2023

As inflation has been receding, growth has slowed and US Fed has shifted towards rate cuts, we believe that interest rates should continue to come down in FY2024. We think that investment grade bond yields should trend towards 4.5%, offering potential total returns of 7% for low-risk credits, which is very attractive for investors on a risk-adjusted basis. In addition, there is an increasing risk of a recession in the US, which would add to the attractiveness of bonds versus equities.

With higher risk of a recession, we are generally cautious on high yield credits. The past three years have seen unprecedented levels of Asian defaults, but defaults have been almost exclusively from Chinese property. Asian default rates, excluding Chinese property, are expected to remain low at 2% as non-China high yield issuers have demonstrated an ability to refinance easily and affordably within domestic markets. Therefore, we think some short duration, good quality, high yield bonds at 7% yield also offers decent returns.

We think short duration good quality high yield bonds at 7% yield also offers decent returns.

Figure 13 – Asia default rate normalising as Mainland China property sector shrinks



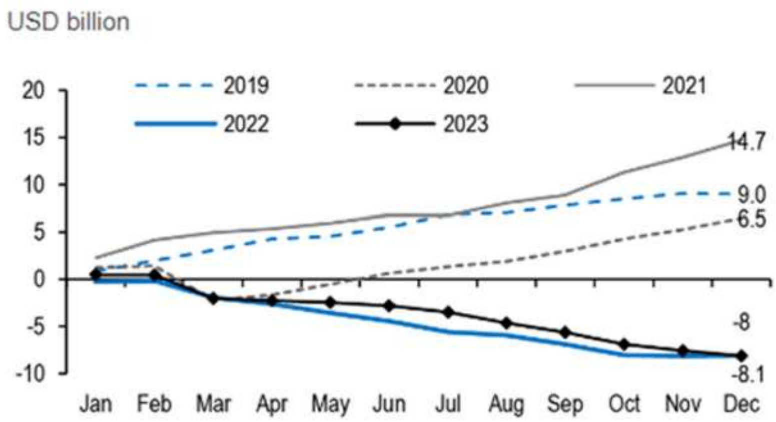
Asia default rate has been coming down since the China property meltdown in FY 2022 and FY2023. Excluding China property Asia default rate is below 2%.

Source: HSBC as of December 2023

Sentiment/Technical: During FY2023, the sentiment towards bonds was generally negative as interest rates continued to rise. We saw outflows from Asian USD bonds in FY2022 and FY2023. As the US Fed continued to raise interest rates much higher in FY2023, we saw strong inflows into money market funds. We believe that this trend will reverse in FY2024 as the US Fed transitions from raising to cutting interest rates and investors believe in a bond rally. Bond funds will see decent inflows in 2024, pushing up bond prices. Conversely, money market yields will drop, edging investors to move out of money market into bond funds.

Supply technical in 2024 is also positive for Asian USD bonds. In FY2023, gross supply was low as demand for bonds was very low in an interest rate-hiking environment. Corporate issuers also preferred not to borrow when rates were so high compared to historical funding costs. While gross supply should be higher in FY2024 due to some pent-up issuance demand, net issuance after coupons and bond redemptions is expected to be negative. China quasi-sovereigns used to be a large issuer in the USD credit market but have since moved to onshore funding due to higher FX hedging costs and lower onshore rates. Restrictions imposed on China by the US added to negative investor sentiment towards China, driving China to avoid issuing offshore. India is another country in which we saw many corporates tap onshore this year as well. With expected increases in demand for bonds but a negative net bond supply, this will support bond performance.

Figure 14: Annual cumulative Asian USD bond fund flows

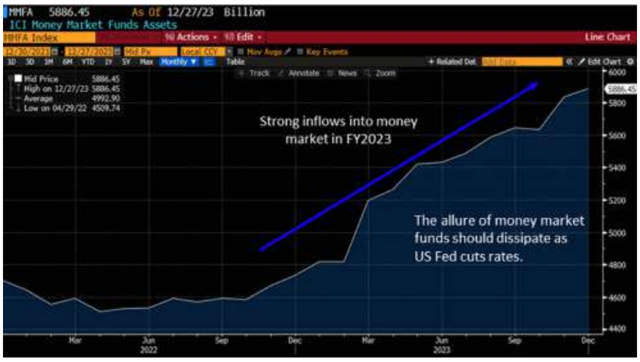


Asian USD bond fund flows have been negative for two consecutive years FY2022 and FY2023.
With Fed pivoting, we should see this trend reverse which will be supportive for bonds.

Source: JPM as of December 2023

In conclusion, we believe that FY2024 have all the fundamental conditions required for a year of stable bond returns. We estimate total returns of 6% to 8%, which is very decent on a risk-adjusted basis, as bond volatility historically has been low at below 2%. While bond yields have fallen in the past two months, we believe that the bond rally is sustainable as central banks globally pivot from interest rate hikes to interest rate cuts. Given the increasing risks of recession, we prefer to extend duration on investment grade bond while selectively holding short duration BB-rated high yield for carry. The key risks for FY2024 are the US presidential elections and new or worsening geopolitical risks. Inflation pressure may build up again from geopolitics or trade protectionism. Therefore, we will continue to be watchful in FY2024 and will try to be flexible and nimble.

Figure 15: Fund flows into Money Market for the past two years



Source: Bloomberg as at 27th December 2023

Figure 16: Historical gross and net supply for Asian USD bonds

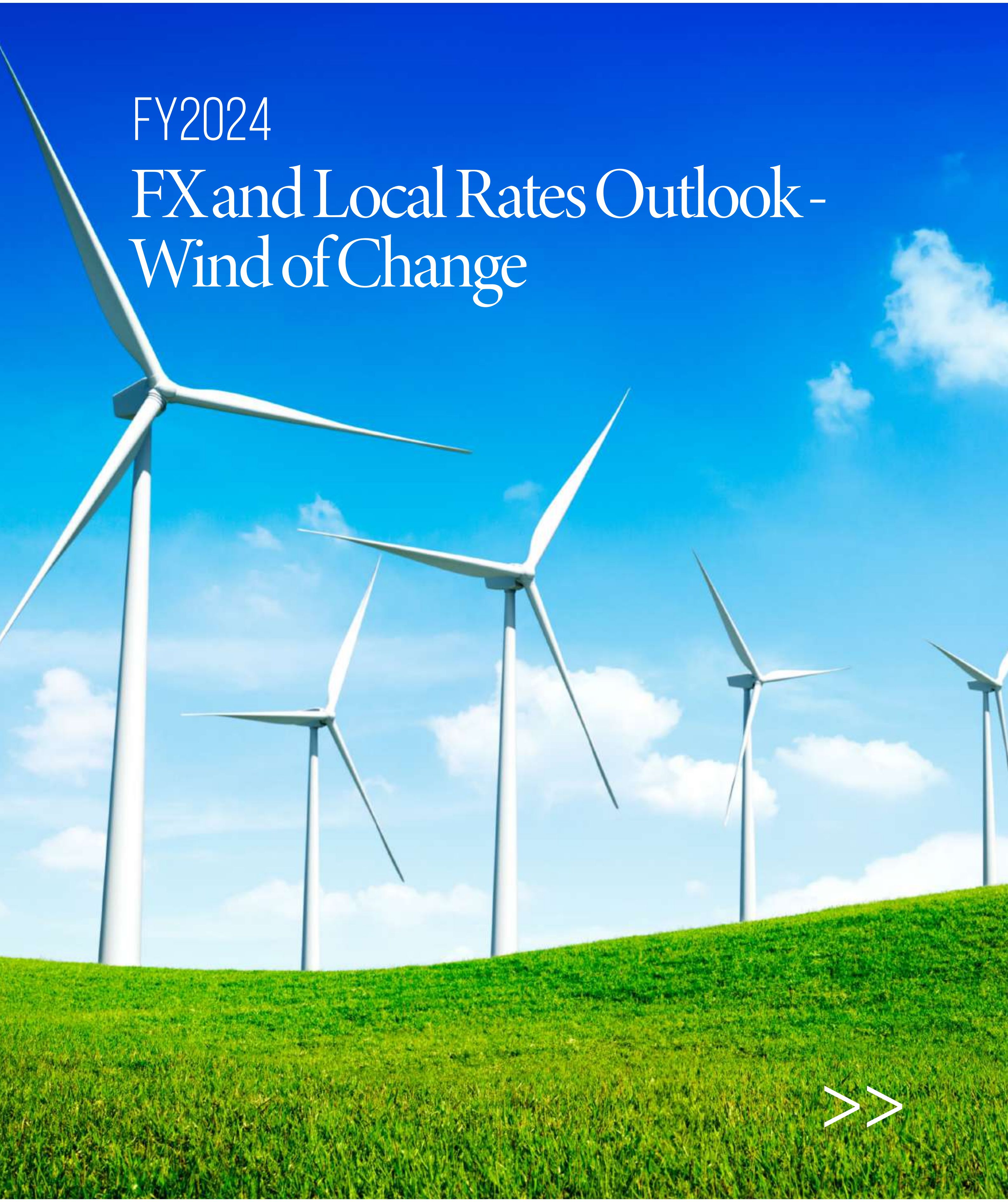
Source: Bloomberg, Barclays Research as at 24th November 2023

FY2024 Outlook & Strategy – Sow Now for a Bountiful Harvest

Main Views	Our Assessment	Strategy
Central banks globally are pivoting from hiking to easing	Interest rates have been dropping since November 2023 and we expect them to continue to trend lower in FY2024. The main risk is from Japan eventually exiting their negative interest rate policy which may cause DM interest rates to rise initially but the bond rally should resume thereafter.	We have been slight overweight duration since November 2023 and will look for opportunities to extend more in FY2024. Long duration is held mainly in investment grade sovereigns and quasi-sovereigns.
Bond yields are at very attractive levels versus historical	USD investment grade bonds are at 5% to 6% yields currently while BB rated non-China high yield is offering 7%. This is very attractive to lock in for the medium term for insurance and pension funds. While money market funds still offer attractive yields of 5%, we think these rates will come down when US Fed starts to cut in 2H2024.	Currently overweight long end investment grade and sovereign bonds. Selective on high yield credit for additional carry.
Aggressive interest rate hikes since FY2022 have increased the probability of recession in FY2024	A recession would mean interest rate cuts, which would be is positive for bonds especially investment grade and sovereign bonds.	If macro-fundamentals worsen more than expected, will add more exposure and duration in A rated bonds or higher. Target overweight duration by 2 years. Overweight investment grade versus high yield.
Key Risks: US Presidential Election; Geo-political tensions; Unexpected Inflation pressure	A US Presidential election with Trump as the Republican nominee can get very boisterous and unpredictable. Geo-political tensions can exacerbate as part of the election agenda. Inflation pressure may build up again from geo-politics or trade protectionism.	Watch and be nimble throughout FY2024.

Source: Maybank Asset Management Singapore, December 2023

FY2024
FX and Local Rates Outlook - Wind of Change



FY2024 FX and Local Rates Outlook - Wind of Change

In the backdrop of a challenging 2023 for Asian currencies, marked by the relentless USD strength driven by rising US interest rates, 2024 presents a potential turning point. As the Fed signals the end of its tightening cycle with expected rate cuts in 2024, Asian currencies are poised for a rebound. The outlook for 2024 suggests a broad rebound in Asian FX, varying in degrees, as improving external demand boosts exports and the Fed's easing aligns with a waning USD strength. Key considerations include the potential for a choppy USD weakening path, the impact of US elections, and uncertainties in the geopolitical landscape. Strategic trades involve a bullish stance on currencies like KRW, TWD, AUD, and CNY, while IDR and INR are viewed favorably for medium-term bullish trends.

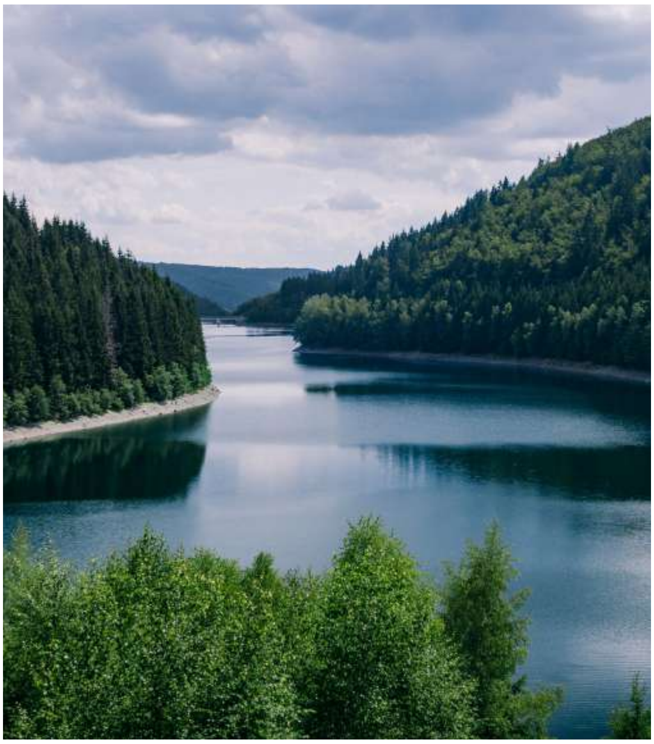
Asian currencies started 2023 with a recovery prospect from China reopening theme but they came under broad pressure as rising US interest rates kept the USD strong.

This was primarily influenced by several factors:

- Stronger USD due to rising US interest rates given Fed's hawkish stance, which is driven by robust US economy/strong US labour market.
- Fed's reiteration of "higher-for-longer" interest rates narrative.
- Benign inflationary environment in key Asian economies led to Asian central banks hiking less aggressively compared to US and Developed Market central banks, leading to widening interest rates differential.
- Wide yield differential between the US and Japan, causing JPY to weaken significantly in 2023.
- Weakness in RMB, driven by China's dismal economic recovery, leading to People's Bank of China (PBOC) monetary easing.

Overall, the factors above created a divergence between the USD trajectory and Asian FX in 2023. To alleviate pressure, Asian central banks took a proactive stance to defend their respective currencies. For instance, PBOC's fixing of RMB had capped the upper bound of USD/CNH movement. Currency pressure also prompted Bank Indonesia (BI) and the Bangko Sentral ng Pilipinas (BSP), to raise interest rates in 4Q2023 after a period of pausing.

Moving towards 2024, Asian currencies are positioned for outperformance as the Fed reaches the end of its tightening cycle, with almost 75 bps rate cuts priced in for 2024. In addition, improving external demand will bolster Asian exports and lead to better growth prospect. Moreover, Chinese stimulus announcement and Bank of Japan (BOJ) expected end of negative interest rate policy are key considerations as well. Lower US Treasury (UST) yields and narrowing interest rates differential is likely to be supportive of flows to EM Asia risk assets.



Key Highlights for 2024:

- Expect broad rebound in Asian FX as Fed approaches end of its hiking cycle leading to wane in overall USD strength.
- Given that US rates were the key factor driving widening interest rates differential against Asian rates, we expect rebound in Asian FX, at varying degrees, for 2024.
- But USD strength is not over just yet as markets may be overpricing rate cuts way ahead (Fed pricing in three cuts vs markets expecting five to six rate cuts; as of time of writing). Still resilient US economy and repeated caution by Fed officials on "higher-for-longer" stance may firm up USD strength at least in 1H2024.
- Improvement in Asia's exports especially tech cycle upswing will aid KRW and TWD (once election overhang is removed in January 2024) in the shorter-term horizon.
- As for Asia high yielders, we think IDR and INR may see short term weakness in 1Q2024, but expected to shine in 2H2024 as USD strength starts to wane.
- India government bond index inclusion, removal of election overhang for Indonesia (February 2024) and India (April/May 2024) and improving external balance of these domestically driven economies will be supportive of these currencies in the later half. Higher real yields for both this countries will be a positive factor for these currencies to strengthen.
- JPY likely to be beneficiary of negative interest rates policy exit and normalisation of monetary policy.
- RMB may still be a wild card given uncertainties but expect China's economy to tilt to a more positive setting given government's willingness to increase fiscal spending, PBOC's fixing to stabilise RMB and Beijing's pivot to channel aid to developers via local banks/funding channel.
- Given the recent weakening of USD in November/December 2023, we think USD weakening path may be bumpy and could prove sudden reversal in the short term as US-Asia rates differentials are still wide. US elections is also a big uncertainty which may cause USD strength. Furthermore, we opine that markets may want further concrete data pointing towards a slide in US labour market and/or continued deflation.

Asia FX/Macro Overview for 2024

We expect the USD to weaken in 2024, as the Fed has signalled that hikes are over in line with the easing of US inflation data. Easing cycle could come earlier if the Fed sees more concrete evidence of a US labour market slowdown. However, the timing and extent of 2024 rate cuts are key considerations, as markets are now pricing rate cuts ahead and the path of USD weakening could be choppy. Meanwhile, we see Asia entering a more favourable backdrop as growth is likely to be driven by exports, in particular semiconductor shipments. With the global semiconductor cycle bottoming out in 2H2023, we expect currencies for tech-oriented economies like Korea and Taiwan to benefit. We also favour THB, as the tourism industry is set to normalise with visa-free entry granted to Chinese and Indian tourists; this will likely further strengthen its current account position. In 2024, we see the worst period for RMB to be over, as cumulative stimulus measures may now start to take effect. Although monetary easing by PBOC may weigh on CNY in the short term, we think the Fed cutting rates is the dominant driver on top of stabilising growth from property-related funding support and the Chinese government's willingness to raise budget deficit to 3.8% of GDP.

Furthermore, the BOJ's scrapping of yield curve control and negative interest rates policy will also be key to the broad Asian FX trajectory in 2024. This is contingent upon the virtuous cycle of Japanese wage growth, which is key to sustainable inflation for the Japanese economy.

We are optimistic on IDR in the mid-to-longer term. We also expect IDR to be upgraded by rating agencies in 2024 given lower fiscal deficit. However, Presidential election uncertainty and weakening external demand (from lower commodity price) may weigh on IDR in the 1Q2024. But we expect IDR to play catch up later if election outcome concludes smoothly and carry trade appeal to emerge once US starts easing.

Meanwhile, Singapore inflation remains elevated with a 1% hike in GST next year and tight labour conditions continues to pressure wage cost. We expect the Monetary Authority of Singapore (MAS) to leave its policy stance unchanged but unlikely to tighten further. With the Singapore Dollar nominal effective exchange rate (S$NEER) currently trading towards the upper bound of the policy band set, we think upside for the SGD will be limited, and any SGD appreciation will need to come from further USD weakening. While India will benefit from equity and bond inflows (from bond index inclusion), we think USDINR's downward trend may be capped as the RBI may use inflows to rebuild FX reserves that were used to stabilise the currency.

In addition, we expect Asian central banks (except for the BOJ) to deliver a lesser degree of monetary easing as they hiked less than the Fed. This move will likely be supportive of Asian FX. Furthermore, we also see scope for Asian FX appreciation from a more stable China growth outlook and stronger RMB, in particular, currencies with strong correlations such as THB and MYR. Lastly, it should be noted that Asian exporters (such as MY, ID, CN) have been hoarding USD proceeds in 2023, given stronger USD and/or higher rates. Asian exporters may convert accumulated export proceeds as the USD starts to weaken, thus spurring further support for local FX.

Risks for 2023

- Potential selloff in UST due to BOJ's exit of negative interest rates policy as Japanese investors shift towards domestic assets.
- Resurgence in US inflationary pressure prolonging Fed's higher-for-longer narrative.
- US fiscal deficit and supply a long-term concern.
- US election risk; continued geopolitical risks involving US-China; return of Trump may lead to some policy changes.
- Geopolitics, such as war in the Middle East and Russia-Ukraine, may potentially lead energy prices to go higher.
- Political uncertainties may loom as India, Indonesia, and Taiwan as they head into elections.

Key Trades for 2024

Currencies

- Tactical trades: Bullish on KRW, TWD, AUD, and CNY.
- Fundamental trades: Medium term bullish on IDR and INR due to higher real yields and favourable domestic factors.
- Neutral MYR, SGD, PHP, and THB.

Rates/Duration

- Bullish duration for India and Indonesia and Korea
- Underweight Thailand duration.

Asian FX & Interest Rates Outlook

	Currency	Local Rates
China	**Slight bullish on CNH; expect USD/RMB to trend towards 6.90-7.00.** Modest US-China rate differential path, fiscal deficit gap of 3.8% GDP and RMB 1tn funding stimulus for property is touted to sustain the economy. US yields peaking/rate cuts may prompt increasing exporter conversion as well. But expect bigger RMB appreciation move to be limited as markets may monitor the delivery/implementation of both monetary-fiscal coordination and reducing FDI inflows due to geopolitical risks.	We remain **constructive on local short end rates as PBOC expected to be accommodative** (potential RRR cut in 2024). 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.
India	**Positive on INR given higher real yield and positive carry as FED starts cutting rates.** Potential equity and bond inflow also will drive INR appreciation. However, will need to monitor oil prices and RBI building up of FX reserves.	**OW INR rates** given GBI-EM bond index inclusion.
Indonesia	**Positive IDR in the medium term.** High stakes presidential elections, widening current account deficit (from lower commodity prices) and still high USD rates at present may weigh on IDR strength. However, we expect IDR to play catch up in 2H as Fed easing cycle starts and the political overhang resolves with additional push in IDR if we see more policy continuity from incumbent.	**OW local rates** as we see return of IDR carry play as US starts to cut rates. BI is expected to cut rates aggressively in 2024 thus providing cushion against USD rates. Supply tends to skew towards the downside (i.e. expected supply tend to be lower than actual issuances). Importantly, we think relatively high real yields make IDR valuation more attractive than its Asian peers. Expect additional inflows as 2024 progresses.
Korea	**Bullish KRW tactically** on combination of improving trade surplus from global semiconductor recovery cycle alongside decline in USD strength as Fed rate cuts are priced in. Potential return of foreign flows into equity will push the KRW stronger.	**Constructive on Korea Treasury Bonds (KTB)** due to talks of World Government Bond Index (WGBI) inclusion. Sluggish domestic consumption and disinflationary forces will result in BOK to cut rates in 2H24 and thus supportive of local rates.
Taiwan	**Mildly bullish TWD short term but turn bullish in 2Q.** Historical data points to positive correlation between global semiconductor sales vs USD/TWD trajectory. Outlook of TWD likely to be supported by rebound in semiconductor exports but this will be balanced by persistent geopolitical tensions as presidential elections will be held in Jan 24.	**Neutral.**
Singapore	**Neutral SGD.** MAS frontloaded monetary policy tightening ahead of other Asian central banks in 2022/23. But we think MAS is unlikely to tighten further despite inflationary pressure from +1% GST increase and relatively tight labour market. With S$NEER trading around top of the band, we do not expect strong appreciation of SGD moving forward. Expect currency to remain stable and strengthen towards 1.30 against USD.	**Neutral 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. SGD rates will underperform UST in 2024 given that 30-year spread between the two is 120 bps; considered one of the highest in the last 10 years.
Malaysia	**Neutral (1H24) to slight bullish in MYR (2H24)** as US growth outperformance and economic data resiliency may persist in early part of 2024. Present wide interest rates differential between USD and MYR will weigh on MYR for time being. That said, backdrop will turn favourable as US hiking cycle ends and improving external demand may boost exports/ CA surplus. Recovery in tourism sector due to increased demand from China (visa-free granted) and increasing exporter conversion of USD proceeds will provide some support.	**Slight UW local rates** given positive carry (post hedging for USD-based investors as rates could underperform given that fiscal deficit normalisation is underway. Subsidy rationalisation plan, if implemented will pose inflationary upside risk. As such, BNM may not pivot to cuts in 2024 via-a-vis other central banks.
Thailand	**Neutral to mildly bullish THB.** Disappointing tourism recovery story in 2023 may gradually pan out in 2024 as more Chinese tourists' arrivals are expected thus improving current account position. THB should remain supportive as DM rates start to ease. That said, THB strength may be moderated by higher fiscal deficit as new government announced greater spending and potential digital wallet scheme.	**UW local Thai government bonds.** Larger fiscal spending in 2024 is likely to be funded via higher government debt issuance.
Philippines	**UW 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.	**UW to neutral** Philippine local bond market.

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

Appendix: Asia economy forecast

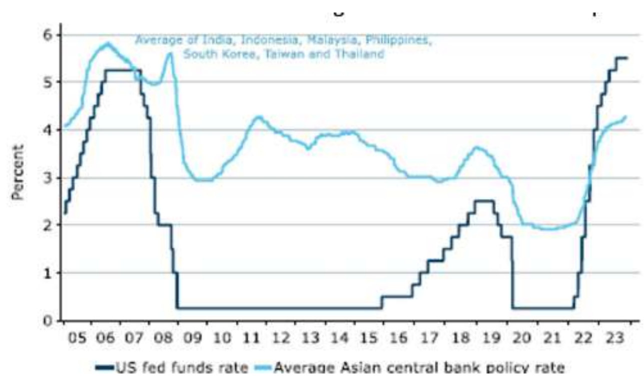
	Real GDP, YoY (%)	CPI, YoY (%)	Current Policy Rates (%)	Fiscal Balance, % of GDP	Current Account, % of GDP
	2024F	2024F	End 2023	2024F	2024F
China	4.5	1.4	1.80	-4.5	1.3
India	6.6	5.4	6.40	-5.9	-1.5
Indonesia	5.0	3.0	6.00	-2.3	-0.8
Malaysia	4.5	2.5	3.00	-4.3	2.4
Singapore	2.3	3.2	N/A	0.1	17.4
Thailand	3.5	1.6	2.50	-3.7	2.8
South Korea	2.1	2.4	3.50	-1.9	2.5
Taiwan	3.0	1.6	1.875	-1.0	11.5
Philippines	5.7	3.7	6.50	-5.5	-3.0

Source: Bloomberg

Figure 17: Strong UST yields have push Asia FX weaker; correlation suggests recovery in Asia FX when US rate hike cycle eases

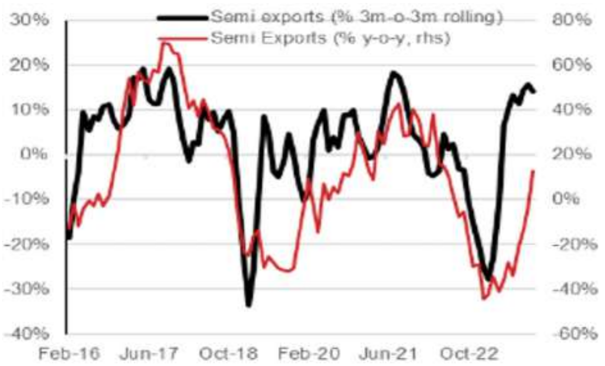
Source: Standard Chartered Bank as of December 2023

Figure 18: Asian central banks having hiked less than Fed are expected to likely ease much less



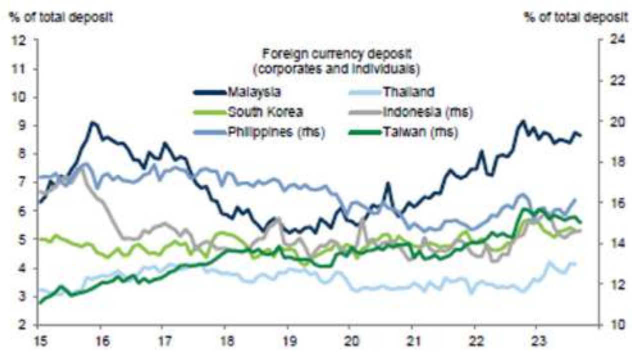
Source: ANZ Bank as of December 2023

Figure 19: Korea semiconductor export recovery will be impetus to KRW appreciation



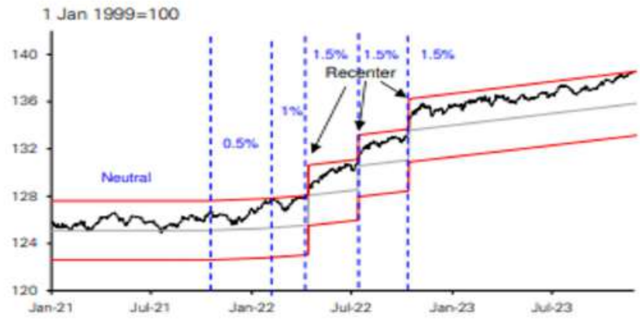
Source: Nomura as of December 2023

Figure 20: Corporates have been hoarding USD for past years >> particularly Malaysia; conversion of proceeds may boost currency



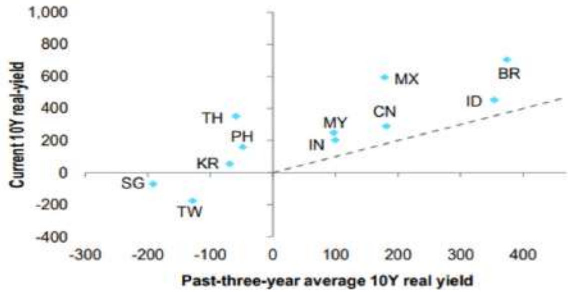
Source: Goldman Sachs as of December 2023

Figure 21: S$NEER trading at upper bound of the policy band >> limiting upside for SGD



Source: Deutsche Bank as of December 2023

Figure 22: Asia LCY bonds, especially IDR still offer pockets of high yields compared to lower yielding Asian peers



Source: Standard Chartered Bank as of December 2023

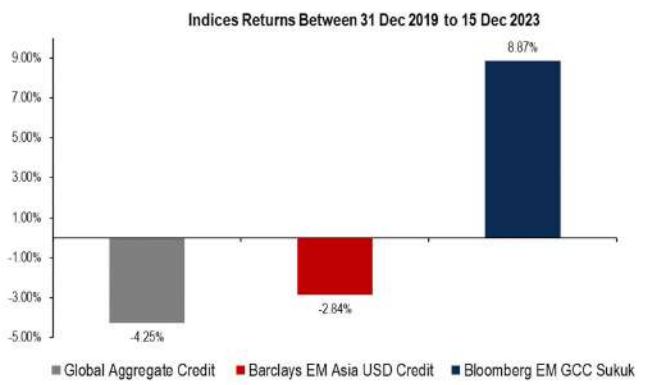
FY2024 Global Sukuk - Non-Hydrocarbons to do the Heavy Lifting

Looking ahead to 2024, crucial elections in key nations and ongoing developments have led to cautious optimism amid easing financial conditions. The outlook underscores potential shifts in the 'bond train' trajectory and emphasises strategic considerations for Asian currencies and energy markets. The GCC's economic outlook remains promising, propelled by non-hydrocarbon sectors, though external downside risks loom. Amidst a dynamic year in 2023 for GCC capital markets, bond and Sukuk issuances surged, setting the stage for an anticipated supply glut in 2024. Noteworthy deals and regional developments, including Oman's rating upgrade and the UAE's hosting of COP28, shape country and credit positioning strategies.

We closed the year strong across all bond markets. Asian Fixed Income, tracked by the Barclays EM Asia USD Credit Index, posted an impressive 6.43% return YTD. Meanwhile, the Global Sukuks, both Investment Grade (IG) and High Yield (HY), captured by the Bloomberg EM GCC Sukuk Index, delivered a commendable 4.98% return YTD.

The variance in performance between markets is mainly due to the difference in index duration, with the Global Credit Index having the highest duration followed by Asia and then Global Sukuks. Credit spreads have remained relatively supressed and below historical averages across the board. Taking a broader view, spanning back to the COVID period in 2020, global sukuks have markedly outperformed their counterparts.

Figure 23: GCC Sukuk vs Asia Credit vs Global Indices Returns



Source: Maybank Asset Management Singapore, Bloomberg as at 15th December 2023

Figure 24: Global, Asia and Sukuk spread from 2018 to 2023

Source: Maybank Asset Management Singapore, Bloomberg as at 30th November 2023

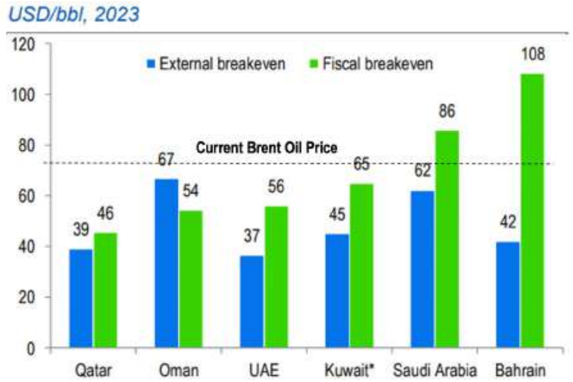
Global Macro

2024 marks a year of crucial elections in several key nations like the US, Taiwan, Indonesia, and India. These events historically bring increased uncertainty to global markets and, more often than not, a time when countries ease their fiscal policies, keeping stimulus flowing through the economy. Notably, the high-stakes and polarising nature of the US elections could significantly impact growth and inflation dynamics.

Like some, we remain a tad cautious on ongoing developments and now-easing financial conditions. We maintain our outlook for a cutting cycle to only begin in 2H 2024 and believe the current overpricing of rate cuts as increasingly unrealistic and, at some point, could potentially steer the 'bond train' off tracks.

Elsewhere, in the energy markets, Brent oil prices swiftly reversed their ascent in 3Q2023, dropping below the $80/bbl mark. This downturn likely resulted from global demand concerns, incremental supply from non-OPEC, and eased concerns regarding the Gaza conflict's impact on supply. We expect the market to turn into a surplus in 1H2024 in the absence of further OPEC+ production cuts. This gives us reasons to believe that oil markets will gently trend downward in 2024. China's demand will remain a key tipping point for the oil market. Nonetheless, we recognise that oil prices have been less relevant versus previous decades for the GCC and take comfort in the fact that they are still largely above the GCC nations' fiscal and external break-evens.

Figure 25: Fiscal and external breakeven oil price



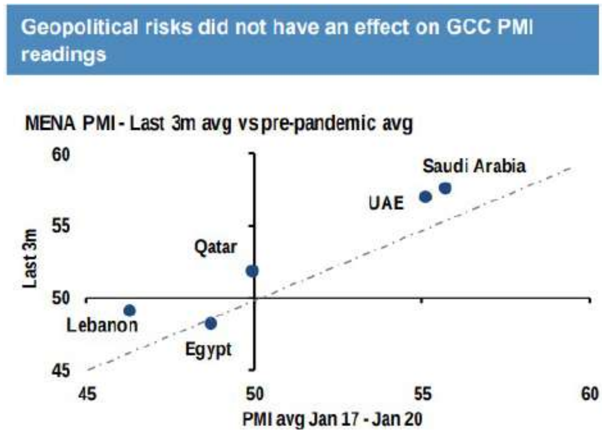
Source: Standard Chartered Bank, IMF, MAMS as of December 2023

GCC Economic Outlook

Despite the hydrocarbon markets had been somewhat a headwind to growth in 2023, we witnessed strong growth momentum in the region's non-hydrocarbon sectors, which offset the drag, especially in the UAE, Saudi Arabia, and Qatar. This is largely driven by key events held throughout the year, consistently strong domestic demand, increased capital inflows, and continued reform efforts. With these dynamics at play, the near-term outlook for the GCC remains promising. Furthermore, Saudi Arabia's recent successful bid to host the Expo 2030 will undoubtedly prop up the non-oil sector in the mid-term. The IMF's December World Economic Outlook forecasts real GDP growth of 3.7% in 2024 for the GCC, surpassing the global growth projection of 3.0%.

However, our optimistic outlook is subject to external downside risks, specifically: 1) lower hydrocarbon prices and further production cuts, and 2) the rise in geopolitical risks such as the conflict between Israel-Palestine right in the region's vicinity. While the regional Israel-Palestine tension has, thus far, had minimal direct impact on growth, we anticipate these twin risks to dominate investors' concerns as we are enter 2024. Overall, we remain steadfast in our view that ongoing reforms and diversification efforts will continue to drive economic momentum, with GCC Sukuks prospering in the medium term.

Figure 26: GCC PMI - Last 3m average (Oct to Dec) vs pre-pandemic average



Source: J.P Morgan, S&P Global as of December 2023

Issuances/Supply

It has been a dynamic year for the GCC capital markets, witnessing a surge in bond and Sukuk issuances that far outpaced the totals from 2022. With interest rates clearly off its peaks and an oncoming wave of debt maturities (nearing USD 82 billion across GCC bonds/ Sukuks) approaching in 2024, we are likely to see a glut of supply throughout the New Year. We saw a couple of landmark deals in the region that have clearly boosted investor sentiment; firstly, post Credit Suisse's additional tier one perpetual (AT1) write-down, we saw Abu Dhabi Islamic Bank's USD750mn AT1 Sukuk in July, and later in October, the two tranches USD3.5bn Sukuk by the Public Investment Fund (PIF) of Saudi Arabia just days after the onset of the war in Gaza.

Both deals were heavily oversubscribed, with spreads tightening significantly in the secondary markets. The UAE also hosted the recently concluded COP28, which brought about many green issuances in the region in its run-up. While there is no noticeable "greenium" spotted for these green issuances, we believe the demand for ESG and Sukuk deals, given their natural overlap, will continue to be buoyant.

Country/Credit Positioning

Oman's recent sovereign rating upgrade by Moody's to Ba1, merely a notch below investment grade, reflects the nation's steadfast commitment to fiscal consolidation and improved debt credit metrics. We foresee an imminent shift to an investment grade rating in 2024, underscoring our optimistic outlook for Oman. There were no other rating actions in the region except for Bahrain, whose outlook was revised back to stable from positive by S&P. We remain underweight on Bahrain and prefer to be overweight UAE in 2024, especially for quasi-sovereigns operating in non-hydrocarbon sectors.

In our credit positioning, we're tilting slightly towards investment grade over high yield. While spreads have indeed tightened significantly, both IG and HY valuations strike us as expensive, with a higher susceptibility to spread widening, particularly for high yields as the rate cut cycle commences. Our overall strategy and focus in 2024 will be skewed towards selecting corporates with strong balance sheets and diversified businesses, favouring sectors that are less sensitive to hydrocarbon prices (i.e. Consumer, Utilities). We continue to like Financial and AT1 in the UAE region, given their high capital ratios.

Finally, we recognise that it is impossible to accurately predict short-term growth, inflation, and its impact on profits, investor flow, and sentiment. Thus, we find it important to be nimble as ongoing developments unfold. However, with the relative expansionary economic backdrop in the GCC versus the rest of the world, and still attractive outright yields at 5.41%, we find little reason to stay uninvested.

Figure 27: Bloomberg EM GCC Sukuk Index (2017 to 2023)

Source: HSBC as of December 2023

Country	Recommendations
Indonesia	• **We like IDR from a fundamental perspective given very high real yield and lower fiscal deficit. We believe Indonesia will get upgraded to BBB+ after the election.**High stakes presidential elections, widening current account deficit (from lower commodity prices) and still high USD rates at present may weigh on IDR strength in the short term. • **USD Indonesia Sukuk's have outperformed this year and hence prefer local currency Sukuk for carry of 6-7% and IDR appreciation.**
United Arab Emirates	• Non-oil sector growth has been stellar, especially in Abu Dhabi. Strong performance expected to continue into 2024, despite geopolitical tension/risks as business confidence still remained high. GDP expected to outpace global growth by a sizeable margin in 2024. • **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. We also like Dubai corporates and property, and quasi sovereign names for alphabank profitability and tight valuations.**
Oman	• Ratings upgraded to Ba1/BB+ by all 3 rating agencies, now 1 notch below IG ratings (last achieved in 2019). The sovereign remains committed to fiscal consolidation and debt repayments; current account position set to improve as well. • Expect Investment Grade rating in 2024. • **Market weight. Trading at IG risk levels. Only add positions on dips as we think they are rich at current levels (spread at 85/120 bps for the 25s/30s).**
Qatar	• 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.**
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. • Inclusion into BRICs grouping next year is positive; recently won the bid to host the Expo 2030, implying strong trajectory for non-oil sector ahead. • **MW Sovereigns and Quasi sovereigns as PIF related entities expect to drive significant issuance in 2024; UW on Saudi financials amidst backdrop of tighter liquidity conditions, downbeat bank net interest margin guidance and tight valuations.**
Malaysia	• **Neutral (1H2024) to slight bullish in MYR (2H2024)** as US growth outperformance and economic data resiliency may persist in early part of 2024. • **Slight UW local rates** as rates could underperform given that fiscal deficit normalization is underway. Subsidy rationalization plan, if implemented will pose inflationary upside risk. As such, BNM may not pivot to cuts in 2024 via-a-vis other central banks
Bahrain	• Outlook revised downwards to stable from positive by S&P. • Remain cautious on Bahrain's prospects with weak fiscal consolidation efforts. Its budget 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 OILGAS quasi on expensive valuation. MW BHRAIN sovereign.**
Kuwait	• Recent approval of budget by Parliament a step in the right direction, but still require more steps to be give assurance. • **UW on IG names in the petrochemical industry, with major players like SABIC downbeat on the cycle, expect recovery only from 2H24. Neutral on Kuwaiti bank's AT1 perp.**

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

FY2024 Malaysia Outlook & Strategy

>>

Malaysian Equity Outlook & Strategy - Time for Rock & Roll

We enter 2024 with an optimistic outlook for Malaysia, supported by the Coalition Government's stability and the execution of the Madani Economic Initiatives. The macroeconomic outlook suggests a 'soft-landing' in the US, while Malaysia's GDP growth is expected to be firmer in 2024 than in 2023. We have upgraded Malaysia's outlook from Neutral to Overweight, and we maintain focus on high-yielding stocks and emphasise thematic investing, such as NETR-related segments for growth stocks.

In 2023, the Malaysian equity market faced challenges, culminating in the Kuala Lumpur Composite Index (KLCI) having a volatile performance as the year unfolded in two distinct halves with the first half was shadowed by political rather than economic focus, resulting in subdued market activity. However, a notable turnaround occurred in the third quarter with the introduction of key economic initiatives like the Madani Economic Framework, the New Energy Transition Roadmap (NETR), and Malaysia New Industrial Master Plan 2030 (NIMP2030). Despite these efforts, the KLCI was impacted by lacklustre earnings across crucial sectors and external factors such as geopolitical tensions and the Federal Reserve's interest rate hike in the United States. Concurrently, domestic political uncertainties added to the overall market volatility. However, it was not all doomed and gloomed for the local market in 2023, as the mid and small capitalisation stocks bucked the trend and registering positive performance.

As we usher in the year of the Dragon in 2024, there are promising signs that the tide could finally turn, and we should see a better year for Malaysia on several fronts. The 14-month tenure of the Coalition Government, under PMX's leadership, appears to be steadily establishing itself as a resilient coalition despite initial challenges. Despite continuous efforts by the opposition coalition to disrupt the government, it has maintained a **"Rock"**-solid foundation.

Secondly, the stability within the Coalition government will play a pivotal role for the **"Roll"**-ing out of all measures under the Madani Economy. This year marks the execution phase for the macro blueprints introduced in 2023, along with additional reform initiatives hinted at by PMX. Among these reforms, fiscal restructuring stands out as a linchpin for the Madani Economy, aiming to bring the country's balance sheet back on stronger footing. The ongoing subsidy rationalisation programme is poised to intensify in 2024, potentially impacting domestic prices. Thus, we expect a slight inflation uptick in 2024 in the range of 2.5 to 3.0%, from 2.0% as of the end of 2023. However, we do not think the uptick would create any major price escalation that would require major monetary policy intervention by the Bank Negara Malaysia (BNM). In fact, we expect BNM to maintain the Overnight Policy Rate (OPR) in 2024, despite the outlook of interest rate cuts in major advanced economies and regional peers. This is expected to be positive for the MYR versus the USD.

On the macroeconomic front, in-line with consensus, we expect a soft-landing for the US economy and a deceleration in global growth, notably in economic powerhouses like the EU and China. However, we see green shoots sprouting in ASEAN's exports and manufacturing, brightening their growth outlook. For Malaysia, there is a high possibility that 2024 GDP growth will be firmer compared to 2023, underpinned by resilient consumer spending, sustained private and infrastructure investment momentum, plus recoveries in trade-related services and manufacturing industries.

As we enter the 2024, the tail-end of global monetary policy tightening could provide the much-needed impetus for domestic equities, while stable domestic interest rate policy outlook, economic transformation via the NETR and NIMP2023, and rising FDI momentum are the key catalysts. Anticipated improvements in corporate earnings for 2024 further contribute to the positive outlook. With attractive valuations and potential higher risk-adjusted returns versus regional peers, we have upgraded Malaysia from Neutral to Overweight. Building on the themes of 2H2023, high-yielding companies will remain a cornerstone of our portfolio structure while we add on more growth stocks. In our pursuit of growth, we propose thematic investing for 2024 focusing on 1) Emphasising NETR-related segments such as Water, Solar, and Energy-efficiencies businesses, 2) Allocation of additional government spending for Penang & East Malaysia (Sabah & Sarawak) from the 2024 Budget, likely to drive pent-up economic activities in these states, 3) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State and with the next Yang DiPertuan Agong coming from Johor, we believe all stars are aligned for businesses in the Johor state.

Malaysian Fixed Income Outlook & Strategy

The global economic landscape faced a series of challenges in 2023. However, despite these challenges, the US economy showcased resilience, outperformed expectations, and maintained high interest rates. As we enter 2024, there is a shift towards more accommodative monetary policies globally. In Malaysia, the fixed income market is expected to continue its recovery, benefiting from the global trend of central banks easing interest rate hikes. With BNM anticipated to maintain the OPR at 3.00% throughout 2024 and Malaysia's GDP projected to grow between 4.00% and 5.00%, the local fixed income market remains attractive.

2023 was full of surprises, began with elevated fears of a recession, low global growth expectations, large fiscal stimulus in the U.S. and the Europe, reopening of China with disappointing recovery, Israel–Palestine war, energy crisis, and largest increase in the interest rate. However, the year also showcased economic resilience despite the surprises. US economy outperformed and kept interest rate high throughout 2023 while fears of supply compounded the duration selloff some months back. However, a high consensus on "soft landing" lowers the bar to disappoint and optimisms tend to peak before a downturn. For year 2024, the Fed is probably going to be the lead dove, just as it was the lead hawk in the tightening cycle of 2021-2023.

We expect the recovery in Malaysia's fixed income market to continue in 2024, as central banks around the world have peaked on interest rate hikes and are signalling a shift towards more accommodative monetary policy. The end of the central bank hiking cycle would present a more positive dynamic to yield movements globally, positively impacting MGS yields to trend lower, just like the recent dovish tone by Fed has brought the yields retracted from multi-year highs.

The OPR was maintained at 3.00% by BNM at the most recent Monetary Policy Committee (MPC) meeting in November. The MPC viewed the risks to the growth outlook as broadly balanced, with the expectation that inflation would stay steady in the near future. However, the medium-term trajectory is subject to the risks of changes to subsidy and price control policies, as well as global commodity prices. Our view remains that BNM will maintain OPR at 3.00% throughout 2024 in the absence of demand pulled pressures, although monthly CPI is likely to trend higher depending on the pace of subsidy rationalisation.

In term of growth prospect, Malaysia GDP growth is projected to expand by around 4.00% in 2023, and 4.00 – 5.00% in year 2024. This justifies a continuation of current monetary policy stance. Having said no change, the next move in OPR, if any, is likely to be a cut rather than a hike as Malaysia's 3Q2023 GDP growth came in at 3.3% YoY, a small improvement from 2.9% YoY in 2Q2023, albeit with a softening monthly trend. In addition, MGS/GII duration remains an important hedge in MYR portfolio allocation as global rates dynamics may descend unexpectedly from the late cycle to end of cycle pricing. As such, we maintain our positive outlook for Malaysia's fixed income market.

As rates appear to have reached a peak and 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 opportunities. 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 AAAs and GIIs will be primed for trading and ROI (return on investment) purposes. We will continue to trade opportunistically to realise profits.

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

FY2024

Product Trends

>>

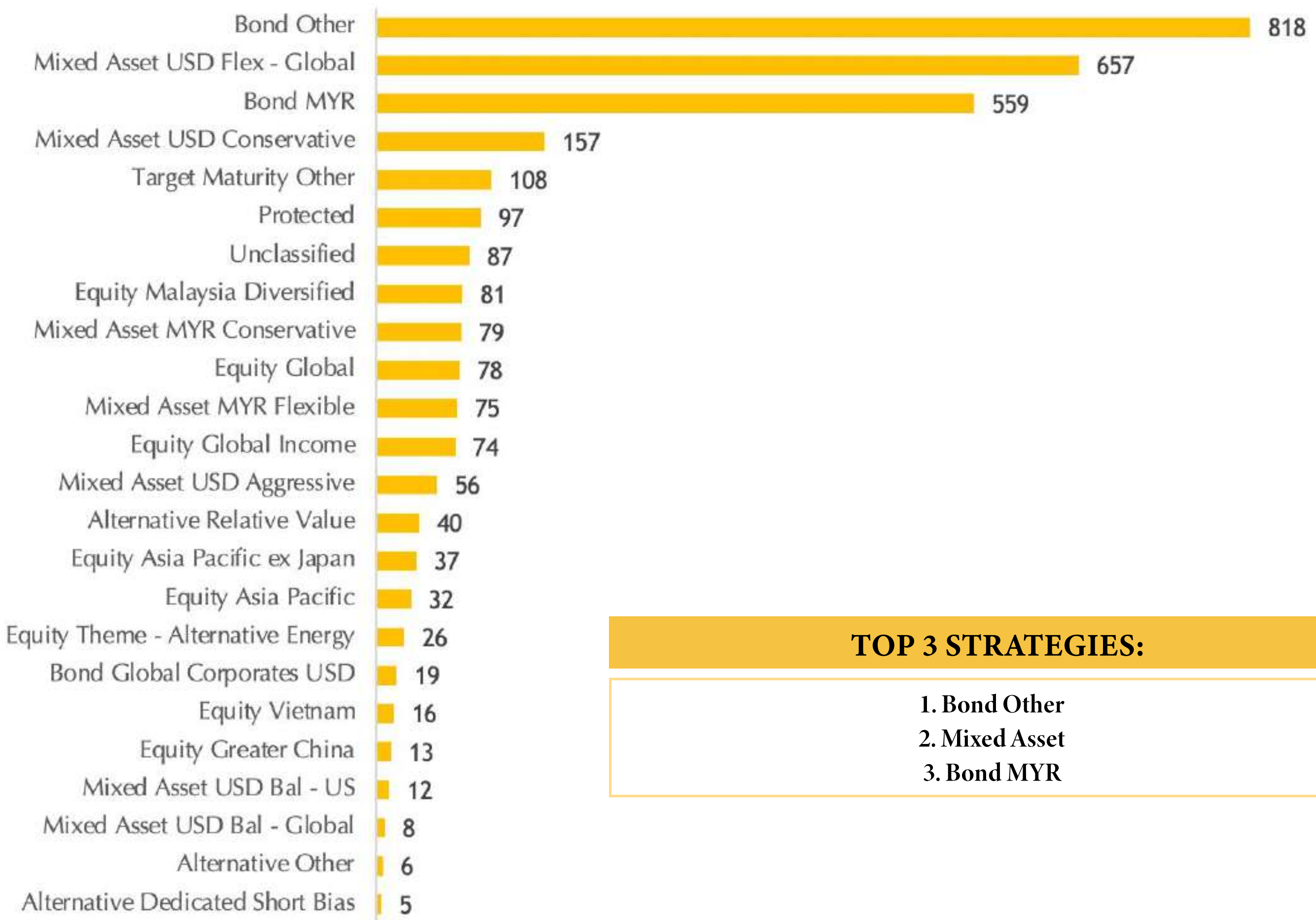
2023 Product Trends

The investment landscape in 2023 was impacted by the volatile environment driven by various headwinds, including the global banking crisis early in the year, China's slower-than-expected COVID recovery, and the prevailing 'higher for longer' interest rate narrative. In response to these challenges, there was a notable surge in flows into bond funds, surpassing other asset classes. The resilience of bonds and the appealing yields they offered were key factors behind this robust investor interest.

Another noteworthy trend during this period was the growing popularity of mixed asset strategies, especially those denominated in USD and globally diversified. Investors increasingly embrace diversified approaches to capture alpha opportunities while effectively managing downside risks. The flexibility in asset allocation decisions by portfolio managers played a crucial role in driving the appeal of these strategies.

Additionally, target maturity funds emerged as sought-after investment options in 2023, benefiting from attractive bond yields. Investors eagerly sought to secure these yields for the coming years.

AUM Raised as at 31 December 2023 (RM 'million)



TOP 3 STRATEGIES:

1. Bond Other
2. Mixed Asset
3. Bond MYR

Product Highlight - MAMG Systematic Asia Pacific Equity Absolute Return Fund

In the dynamic realm of investment, the search for consistent and robust returns often demands innovative strategies. Enter the MAMG Systematic Asia Pacific Equity Absolute Return Fund, our newly launched fund with BlackRock designed to redefine how investors navigate the diverse and ever-evolving APAC markets.

The allure of the Asia Pacific region as an investment destination is undeniable. This fund harnesses the potential of APAC markets, seizing opportunities across diverse sectors and geographies within this burgeoning economic powerhouse.

Spanning across a wide investment universe of over 4,500 stocks, the fund bridges the gap between small and large cap companies. This broad coverage is instrumental in exploiting market inefficiencies, providing a rich array of alpha opportunities often overlooked by traditional strategies.

The hallmark of this fund is its AI-driven methodology, a pioneering system that forecasts returns and adapts swiftly to the fluid nature of markets. With the ability to react in real-time to changing environments, this fund maintains a proactive stance, ensuring optimized performance in the face of market shifts.

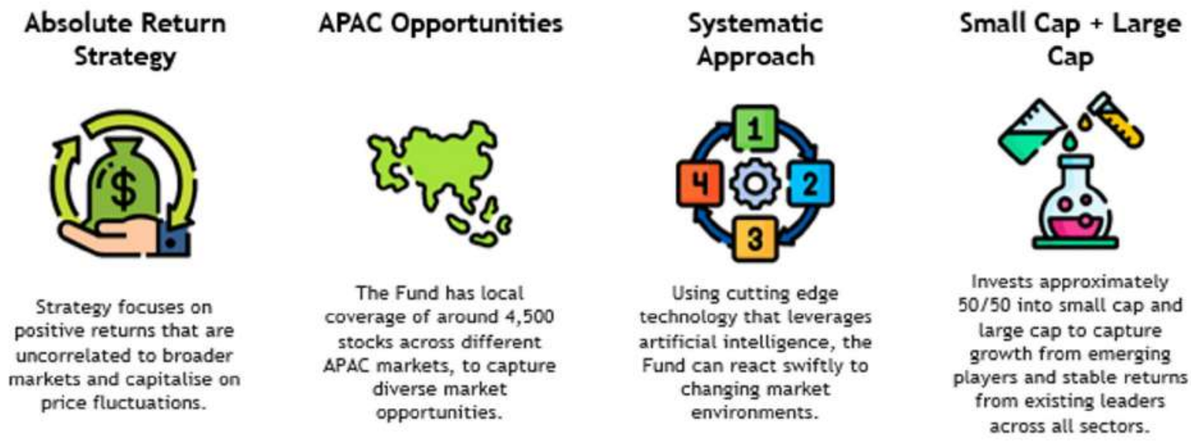
Managed by BlackRock, a stalwart in the investment landscape with a sterling track record, the MAMG Systematic Asia Pacific Equity Absolute Return Fund embodies a commitment to excellence and reliability.

So why should you choose MAMG Systematic Asia Pacific Equity Absolute Return?

- **Absolute Returns Across Market Conditions:** Delivering positive returns irrespective of market fluctuations.
- **Capture APAC's Exposure and Alpha:** Accessing a wide spectrum of opportunities across the dynamic APAC region.
- **Proven Track Record, Managed by Blackrock:** A testament to unwavering expertise and excellence in investment management.

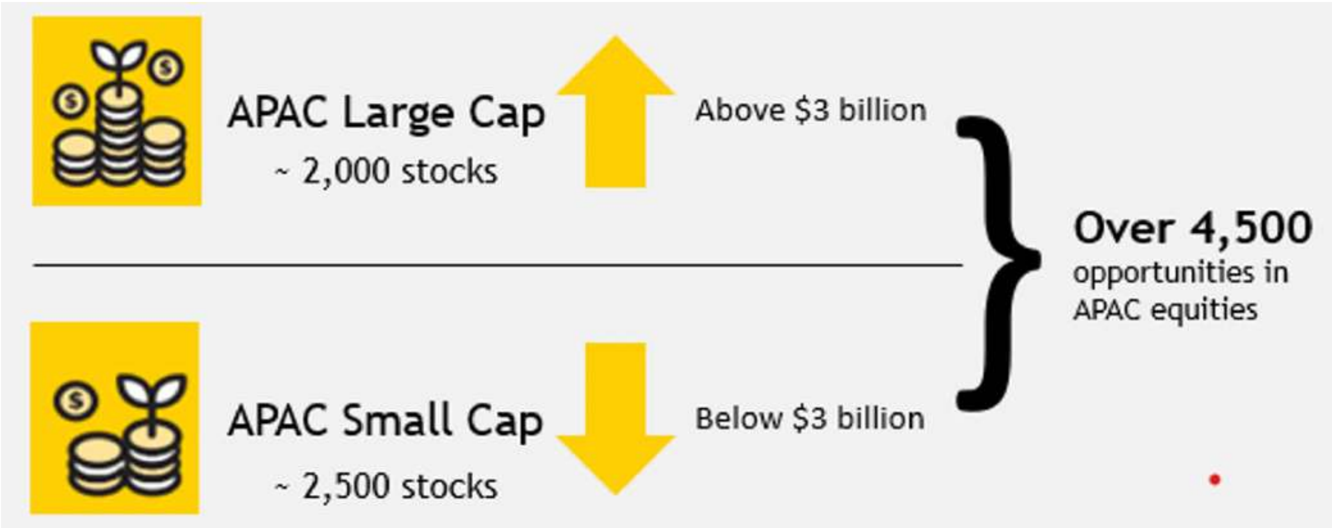
In a realm driven by innovation and adaptability, the MAMG Systematic Asia Pacific Equity Absolute Return Fund emerges as a beacon of cutting-edge investment strategy. It is not merely a fund; it's a transformative approach to navigating the complex APAC markets. Embrace the future of investing and secure your stake in this trailblazing opportunity today.

Figure 28: Fund value propositions of MAMG Systematic Asia Pacific Equity Absolute Return



Source: Blackrock, Maybank Asset Management as of December 2023

Figure 29: Small Cap + Large Cap: A Wide and Broad Investment Universe to Capture Market Inefficiencies Between Small And Large Cap Companies



Source: Blackrock, Maybank Asset Management as of December 2023

Our Solution: Islamic Funds

Risk Rating	Our Funds	Type	Inception	Performance 1Yr	Performance 3Yr	Performance Ann. Since Inception	Geographical Exposure
AGGRESIVE	Maybank Asiapac Ex-Japan Equity-I	R	08-Jan-14	16.89	1.36	6.07	Asia Ex-Japan
	Maybank Global Sustainable Equity-I - MYR	R	25-Aug-20	22.98	6.67	6.74	Global
	Maybank Global Sustainable Equity-I - MYR Hedged	R	25-Aug-20	14.94	1.18	2.61	Global
	Maybank Global Sustainable Equity-I - USD	R	25-Aug-20	17.70	1.94	3.48	Global
	Maybank Malaysia Growth-I	R	24-Nov-00	2.43	-4.98	4.19	Malaysia
MODERATE	MAMG Global Income-I MYR	R	13-Mar-18	2.46	-0.35	3.32	Global
	MAMG Global Income-I USD	R	08-Jul-20	4.90	-0.30	2.59	Global
	Maybank Asia Mixed Assets-I MYR	R	16-Aug-21	-1.33	-	-6.87	Asia
	Maybank Asia Mixed Assets-I SGD-H	R	16-Aug-21	-0.48	-	-2.01	Asia
	Maybank Asia Mixed Assets-I USD	R	16-Aug-21	0.93	-	-6.94	Asia
	Maybank Global Mixed Assets-I AUD Hedged	R	15-Jun-20	9.78	-0.25	2.77	Global
	Maybank Global Mixed Assets-I MYR	R	17-Jun-19	16.78	5.26	7.27	Global
	Maybank Global Mixed Assets-I MYR Hedged	R	17-Jun-19	8.77	-0.08	4.29	Global
	Maybank Global Mixed Assets-I SGD Hedged	R	15-Jun-20	9.94	0.42	3.56	Global
	Maybank Global Mixed Assets-I USD	R	17-Jun-19	11.90	0.62	4.82	Global
	Maybank Global Mixed Assets-I USD Institutional Distribution	W	17-Sep-20	63.91	15.30	16.10	Global
	Maybank Global Wealth Conservative-I MYR Hedged	R	13-Feb-23	-	-	1.16	Global
	Maybank Global Wealth Conservative-I USD	R	13-Feb-23	-	-	1.73	Global
	Maybank Global Wealth Growth-I MYR Hedged Accumulation	R	15-Feb-22	10.79	-	-0.52	Global
	Maybank Global Wealth Growth-I USD Accumulation	R	01-Jun-22	14.86	-	4.54	Global
	Maybank Global Wealth Moderate-I MYR Hedged Accumulation	R	15-Feb-22	5.94	-	-1.80	Global
	Maybank Global Wealth Moderate-I MYR Hedged Distribution	R	15-Feb-22	5.78	-	-1.77	Global
	Maybank Global Wealth Moderate-I USD Accumulation	R	01-Jun-22	8.47	-	1.72	Global
	Maybank Global Wealth Moderate-I USD Distribution	R	01-Jun-22	8.47	-	2.16	Global
	Maybank Income Management-I	R	08-Jan-20	6.01	2.69	3.04	Malaysia
	Maybank Institutional Income Management-I	W	09-Mar-20	-	-	-	Malaysia
	Maybank Malaysia Balanced-I	R	17-Sep-02	6.64	0.15	4.39	Malaysia
	Maybank Malaysia Income-I A MYR	R	27-Apr-04	6.77	2.9	4.37	Malaysia
	Maybank Malaysia Income-I C MYR	R	21-Aug-13	6.79	2.95	4.65	Malaysia
	Maybank Malaysia Income-I C USD	R	17-Sep-14	2.13	-2.20	0.39	Malaysia
	Maybank Malaysia Sukuk	R	08-Jan-14	5.74	2.03	4.06	Malaysia
CONSERVATIVE	Maybank Corporate Money Market-I A	R	06-Jul-11	3.58	2.54	2.90	Malaysia
	Maybank Corporate Money Market-I B	R	18-Oct-19	3.68	2.64	2.65	Malaysia
	Maybank Income Flow-I	R	27-Mar-23	-	-	2.32	Malaysia
	Maybank Retail Money Market-I	R	03-Nov-21	3.53	-	2.83	Malaysia
	Maybank Shariah Enhanced Cash	W	24-Nov-08	2.06	1.47	2.50	Malaysia

Source: Maybank Asset Management, Lipper as at 31st December 2023

Our Solution: Conventional Funds

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	3Yr	Ann. Since Inception	
AGGRESIVE	MAMG All-China Focus Equity MYR	W	29-Jul-21	-20.46	-	-19.66	China
	MAMG All-China Focus Equity MYR Hedged	W	29-Jul-21	-25.65	-	-23.22	China
	MAMG All-China Focus Equity USD	W	29-Jul-21	-23.78	-	-22.03	China
	MAMG China Evolution Equity AUD Hedged	W	03-Jan-22	-18.07	-	-21.94	China
	MAMG China Evolution Equity MYR	W	03-Jan-22	-12.09	-	-14.97	China
	MAMG China Evolution Equity MYR Hedged	W	03-Jan-22	-17.63	-	-19.75	China
	MAMG China Evolution Equity SGD Hedged	W	03-Jan-22	-17.96	-	-20.03	China
	MAMG China Evolution Equity USD	W	03-Jan-22	-15.99	-	-19.17	China
	MAMG Dynamic High-Income AUD Hedged	W	22-Jan-19	9.50	-1.52	1.41	Global
	MAMG Dynamic High-Income EUR Hedged	W	22-Jan-19	6.95	-1.88	-0.01	Global
	MAMG Dynamic High-Income MYR	W	22-Jan-19	16.86	4.70	4.88	Global
	MAMG Dynamic High-Income MYR Hedged	W	22-Jan-19	9.09	-0.38	2.12	Global
	MAMG Dynamic High-Income SGD Hedged	W	22-Jan-19	10.31	-0.71	1.89	Global
	MAMG Dynamic High-Income USD	W	22-Jan-19	12.03	0.22	2.50	Global
	MAMG Global Dividend AUD H	R	12-Jul-23	-	-	6.02	Global
	MAMG Global Dividend MYR	R	12-Jul-23	-	-	4.78	Global
	MAMG Global Dividend MYR H	R	12-Jul-23	-	-	3.40	Global
	MAMG Global Dividend SGD H	R	12-Jul-23	-	-	2.42	Global
	MAMG Global Dividend USD	R	12-Jul-23	-	-	2.94	Global
	MAMG Global Environment AUD Hedged	R	22-Aug-22	0.00	-	0.00	Global
	MAMG Global Environment MYR	R	22-Aug-22	20.97	-	12.64	Global
	MAMG Global Environment MYR Hedged	R	22-Aug-22	8.63	-	4.11	Global
	MAMG Global Environment SGD Hedged	R	22-Aug-22	9.24	-	2.23	Global
	MAMG Global Environment USD	R	22-Aug-22	10.61	-	5.01	Global
	MAMG Liquid Alternative MYR	W	15-Nov-21	6.35	-	6.15	Global
	MAMG Liquid Alternative MYR Hedged	W	15-Nov-21	0.41	-	1.46	Global
	MAMG Liquid Alternative USD	W	15-Nov-21	2.61	-	2.41	Global
	Maybank Global Sustainable Technology MYR	R	18-Jan-21	43.41	-	0.42	Global
	Maybank Global Sustainable Technology MYR Hedged	R	18-Jan-21	34.48	-	-4.39	Global
	Maybank Global Sustainable Technology USD	R	18-Jan-21	37.56	-	-4.11	Global
	Maybank Malaysia Dividend	R	06-Jun-06	4.72	-2.09	7.92	Malaysia
	Maybank Malaysia Ethical Dividend	R	07-Jan-03	6.54	2.96	8.84	Malaysia
	Maybank Malaysia Growth	R	26-Mar-92	7.98	2.31	4.77	Malaysia
	Maybank Malaysia SmallCap	R	03-Mar-04	1.89	-4.91	3.55	Malaysia
	Maybank Malaysia Value A MYR	R	07-Jan-03	5.84	1.94	8.93	Malaysia
	Maybank Malaysia Value C MYR	R	21-Aug-13	6.05	2.12	2.16	Malaysia
	Maybank Singapore REITs MYR	R	13-Sep-18	9.22	1.14	4.38	Singapore
	Maybank Singapore REITs MYR Hedged	R	13-Sep-18	1.75	-3.21	1.96	Singapore
	Maybank Singapore REITs SGD	R	13-Sep-18	2.93	-3.29	1.67	Singapore

Risk Rating	Our Funds	Type	Inception	Performance			Geographical Exposure
				1Yr	3Yr	Ann. Since Inception	
AGGRESIVE	MAMG Green Tigers AUD-H	R	18-Sep-23	-	-	0.00	Asia
	MAMG Green Tigers MYR	R	18-Sep-23	-	-	-6.91	Asia
	MAMG Green Tigers MYR-H	R	18-Sep-23	-	-	10.40	Asia
	MAMG Green Tigers SGD-H	R	18-Sep-23	-	-	0.00	Asia
	MAMG Green Tigers USD	R	18-Sep-23	-	-	0.00	Asia
MODERATE	MAMG Gold MYR	W	03-Jun-20	15.72	5.41	3.23	Global
	MAMG Gold MYR Hedged	W	03-Jun-20	8.84	0.24	0.50	Global
	MAMG Gold USD	W	03-Jun-20	12.57	2.07	2.60	Global
	Maybank Asian Credit Income MYR	R	07-Jul-20	4.06	-4.06	-2.60	Asia ex-Japan
	Maybank Asian Credit Income SGD Hedged	R	07-Jul-20	5.36	-4.11	-2.82	Asia ex-Japan
	Maybank Bluewaterz Total Return MYR	W	24-Jul-15	3.44	-1.28	3.66	Asia ex-Japan
	Maybank Bluewaterz Total Return USD	W	18-Jun-18	5.54	-1.31	3.63	Asia ex-Japan
	Maybank Financial Institutions Income	W	17-Dec-09	5.24	2.95	4.04	Malaysia
	Maybank Financial Institutions Income Asia	R	26-Aug-14	3.36	-0.84	4.05	Asia Pacific
	Maybank Flexi Income AUD Hedged	R	28-Nov-19	2.41	-3.73	-1.29	Global
	Maybank Flexi Income MYR	R	28-Nov-19	9.39	1.79	2.29	Global
	Maybank Flexi Income MYR Hedged	R	28-Nov-19	1.71	-3.45	-0.82	Global
	Maybank Flexi Income SGD Hedged	R	28-Nov-19	3.36	-3.33	-1.03	Global
	Maybank Flexi Income USD	R	28-Nov-19	4.89	-2.68	-0.39	Global
	Maybank Malaysia Balanced	R	19-Sep-94	6.19	1.95	3.77	Malaysia
	Maybank Malaysia Income	R	19-Jun-96	6.12	1.84	4.34	Malaysia
CONSERVATIVE	Maybank Enhanced Cash XIII	W	24-Sep-08	2.60	1.74	2.67	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 December 2023