How to invest practically in an uncertain world: Maybank

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From left: Thilan Wickramasinghe, head of research, Maybank Securities Singapore; Robin Yeo, CIO, Maybank Asset Management Singapore; Freddy Lim, co-founder and CIO of StashAway; and Alvin Chow, CEO, Dr Wealth, at the Maybank Invest Asean 2022 conference

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Times are tough. Period. Just when the world was reaching the light at the end of the tunnel, another tunnel has appeared and again the light seems far away. The Covid-19 pandemic is almost history, but the world is smack in the middle of an ongoing war between Russia and Ukraine, as well as tensions brewing between China and Taiwan.

"It might seem now that we're jumping from a hot pandemic, to a hot war, hot prices and a hotter planet. The hot pandemic and the hot war have led to hotter prices," says Alvin Tan, Minister Of State (Trade And Industry) and Monetary Authority of Singapore (MAS) board member at the Maybank Invest Asean 2022 conference on June 8.

"It all appeared that after a difficult two years in the Covid-19 frying pan, we would get a breather. Are we getting a breather?" asks Tan.

Despite the crazy situations the world is facing, Aditya Laroia, CEO of Maybank Securities Singapore, says: "Our present is dominated by shocks from rising interest rates, inflation and recession. Through all this, we believe Asean will be resilient. This year's Invest Asean theme of 'Framing a Future' will focus on how to navigate this uncertain environment and find the right opportunities to maximise the region's true potential."

"As a regional hub, Singapore will play a pivotal role in leading this journey. As an investment bank in Asean, we will be standing by our clients with our broad suite of products, world-class execution, and deep, actionable insights," adds Laroia.

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To that end, Maybank's group president and CEO Khairussaleh Ramli believes that cooperation and collaboration is the key to a sustainable and prosperous Asian. He says: "It is important for us to work together to shape a sustainable and prosperous Asean. Home to the fastest growing population in the world and expected to be the fourth largest economy by 2030, Asean is an extremely attractive destination for businesses and investors. Asean's economic growth this year is expected to be faster than China's for the first time in 30 years."

Having said that, Khairussaleh warns investors to remain cautious of headwinds from the tightening of global monetary policies, a US and China economic slowdown and the ongoing Russia-Ukraine conflict. Adding to these concerns include the debate on climate change and the need for tangible plans to start reducing its medium- to longer-term impact within Asean economies. Therefore, it is key for investors to find a sustainable approach that fosters shared prosperity and unlocks productivity across segments of the population.

Cross currents

Reopening is lifting growth in the first half of this year, but crosswinds threaten to douse the momentum by the second half. While border control measures are relaxing, allowing laggard sectors to catch up and support recovery, global headwinds such as China's zero-Covid strategy, the Russia-Ukraine war and global monetary tightening may roil the reopening tailwind and douse recovery.

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According to Chua Hak Bin, regional co-head for macro research at Maybank, three major shocks — the inflation shock, impending interest rate shock and potential recession shock — will undercut Asean's economic recovery in 2022–23.

Firstly, inflation shock. Asean-6 inflation (+3.4% in March) has been climbing but remains low compared to developed and other emerging markets. Singapore is the exception because of its earlier reopening and strong recovery. But inflation is picking up quickly with higher commodity prices, reopening and fuel subsidy cuts.

Secondly, interest rate shock. The US Federal Reserve on June 15 increased interest rates by 75 basis points, the biggest increase since 1994, and there is more to come, as inflation fighting becomes the priority. Fed chair Jerome Powell says that another 75 basis-point hike, or a 50 basis-point move, was likely at the next meeting of policymakers. They forecast interest rates would rise even further this year, to 3.4% by December and 3.8% by the end of 2023.

Chua says the rising US interest rates may spark capital outflows and pressure on Asean currencies, forcing the region's central banks to tighten more than otherwise despite the nascent recovery. However, he believes that a repeat of the 2013 taper tantrums and equity sell-off is unlikely, given larger foreign exchange reserves and lower foreign investor positions. The current episode represents a broader US dollar rally, impacting all other currencies and not just Asean's. But tighter global monetary conditions and rising interest rates will dampen Asean's economic recovery.

Thirdly, Chua is concerned about recession shocks amid the Ukraine-Russia war, extended lockdown in China and a US recession in 2023–2024 — if the Fed is overzealous in battling inflation.

"Our recession model, based on the US three-month and 10- year yield spread, is estimating the recession probability at 6% in Singapore and 5% in Malaysia over the next 12 months. The New York Fed model is forecasting only a 4% recession probability, but the odds will rise as the Fed hikes. A Fed funds rate above 3.5% will likely tip the US and trade-dependent Asean economies into recession," says Chua. In this case, Asean could plummet into recession at the end of 2023 if interest rates reach the Fed's forecast of 3.8%.

Recovery play

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While the numerous macro challenges have been articulated, Anand Pathmakanthan, Maybank's head of regional equity research, believes that banks and corporates are generally in sound shape, while new economy drivers are starting to carry greater weight. Furthermore, Asean is a "neutral" player in the intensifying US-China rivalry, with strong geographical and human capital attractions, and hence stands to benefit diplomatic courting and investment flow from both sides.

Nonetheless, Pathmakanthan is upbeat on the rebound in domestic mobility that benefits the broad economy, particularly consumption-linked sectors such as consumer and retail where footfall is recovering even as rental rebates decline. "Reopening of internal borders will most directly benefit the aviation sector, especially airport operators and entrenched regional, volume-driven airlines. Tourism proxies will also gain, including hotels/leisure and hospital groups that are recipients of medical tourism," he adds.

Some top sector picks for **Singapore Exchange**-listed stocks include **DBS Group Holdings** and **Oversea-Chinese Banking Corp** for banks; **Genting Singapore** for hotels and leisure; **Bumitama Agri** for plantations; and **Mapletree Commercial Trust**, **Frasers Centrepoint Trust** and **CapitaLand Integrated Commercial Trust** for retail REITs.

Meanwhile, its top three stock picks for Singapore are **DBS**, **Singapore Telecommunications** and **Venture Corp**.

Maximising opportunities

While equities are attractive today as growth investments amid a recovery economy, there are other investments investors can look at to maximise their opportunities within today's volatile market.

Speaking at the conference, Freddy Lim, co-founder and chief investment officer (CIO) of StashAway, advises investors to take their emotion out, especially in times like these where the global economic situation is constantly changing.

As for young investors, he says: "[Young investors] can afford to do dollar cost averaging. But they should first start with a 'rainy day fund' with a safe six to 12 months [worth of cost spending] to feel safe, depending on job security. But beyond that, they should invest systematically on a monthly basis, because given enough time, regardless of what happens to the market, it does not matter, just as long as they don't leverage."

What Lim means is that young investors have the luxury of time to build their portfolio and position while recovering from market corrections.

Meanwhile, there has been a devastation on several growth stocks of late, as investors shift their priority to present earnings instead of future growth. So are growth stocks still relevant now?

Robin Yeo, CIO of Maybank Asset Management Singapore, shares: "Although many people do view me as a value investor, I do have various styles and I do invest in growth as well. And I do not think that growth investing is dead this time around. If you look at it, it is just a cycle. If you stretch through the decades, value and growth always cycle each other and they always have a bit of anti-correlation."

However, Yeo is aware that the world is in a situation that cannot be compared to the last 30 years — interest rates and inflation are going up. This means that the discounting on these growth stocks are going to be very heavy. And that is why Yeo observes that growth stocks have been beaten down since November last year. “I don’t think this situation will change anytime soon, meaning that growth investing may stay out of fashion for the next few years, while value is in vogue. Eventually, I think they will take turns — growth goes back up and value goes back down — so everything is a cycle,” he adds.

On the other hand, the shift in macro conditions have caused passive investments to be less popular, as the sell-offs have been rather sharp. Is this time for investors to switch to more active investment strategies?

The way Yeo sees it, this too is a cycle. “Passive investment was all the rage the past five years. But of course, things got extreme because passive investing as just buying based on market cap, and not on valuation. And we’ve seen as a result of that, valuations of various market indices, and ETFs go to extreme levels,” he adds.

As an active investor, Yeo says this move has helped active investors, because active investing has outperformed all passive investment vehicles. But he admits that there will be a stage where it will make more sense to invest passively, as passive investing is cheaper than active investing.

“There is room for both, but in the past two to three years, this passivity has gone to be such a big part of the market that they’ve pushed valuations this way beyond extremes,” says Yeo.

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