MARKET NAVIGATOR
2019Q3

Sun Life
Asset Management
永明資產管理

BE DEFENSIVE !

Financial markets have generally performed well in the past six months, but global economic activities and corporate earnings are poised to head lower in the second half of the year. Investors may consider tuning their portfolios to a more conservative posture.

80%
of primary stock indexes tracked by Bloomberg with positive returns year-to-June

US$13Trillion
total amount of negative-yielding bonds outstanding at end of June, the highest level on record

51.2
JP Morgan Global Composite Purchasing Manager Index for June, unchanged from previous month

POSITIVE	NEUTRAL	NEGATIVE
Cash	Global Bond	Global Equity
Gold		Hong Kong Equity
		High Yield Bond
		Commodities

Global Equity	**NEGATIVE**	• Global equities are priced for near perfection, making them vulnerable to volatile movement due to slightest disappointment • US-China trade war is starting to inflict damages to global growth and corporate profit • Expectations for Q2 and Q3 corporate earnings are being trimmed and could put downward pressure on share prices
Global Bond	**NEUTRAL**	• Government bond prices continued underlie by prospects of monetary easing US Federal Reserve Bank, European Central Bank and Bank of Japan • Rapidly declining bond yields (75% of all Japan government bonds and over 50% of European government bonds are negative yielding) are hurting their attractiveness • Barring a stock market collapse or global economy plunging into a recession in the short term, it may be difficult for yields to move meaningfully lower from current levels
Cash	**POSITIVE**	• Cash is a residual (or balance) of our stance in terms of equities and fixed income • As we are turning more cautious on equities and a neutral stance on bonds, cash has been raised to slightly overweight
Hong Kong Equity	**NEGATIVE**	• Valuations of local shares and H-shares are getting demanding (close to 1 standard deviation above 10-yr average), hence making them less attractive • US-China trade conflict starting to hurt corporate earnings and could pressure share prices • Slowing economic activities and structural decline in consumption growth bodes for more defensive plays
Gold	**POSITIVE**	• Gold prices jumped to new 6 year high on the back of continued rebuilding of reserves by various central banks • Investors might also be seeking refuge in gold as market risks creep up and that major central banks mull about monetary easing (or re-easing)
High Yield Bond	**NEGATIVE**	• High yield bond spreads have narrowed far more than investment grade spreads, which seems excessive given deteriorating corporate balance sheet • At this level, there is little value/attractiveness for this asset class • High yield bonds have been gaining this year partly due to rising crude prices, which may not be sustainable
Commodities	**NEGATIVE**	• Heightened tension between US and Iran, and the latter's recent move to increase production of higher concentration uranium could only be a short-term boost to crude prices • Surging production and exports from US shale regions and slowing global demand growth could drag down crude prices • Iron ore prices could be hurt by slowing global economic activities • Weakening prices of hot and cold rolled steel plates portends slackening demand and could drag down iron ore prices

BE DEFENSIVE !