MARKET NAVIGATOR

2019Q4

Sun Life Asset Management
永明資產管理

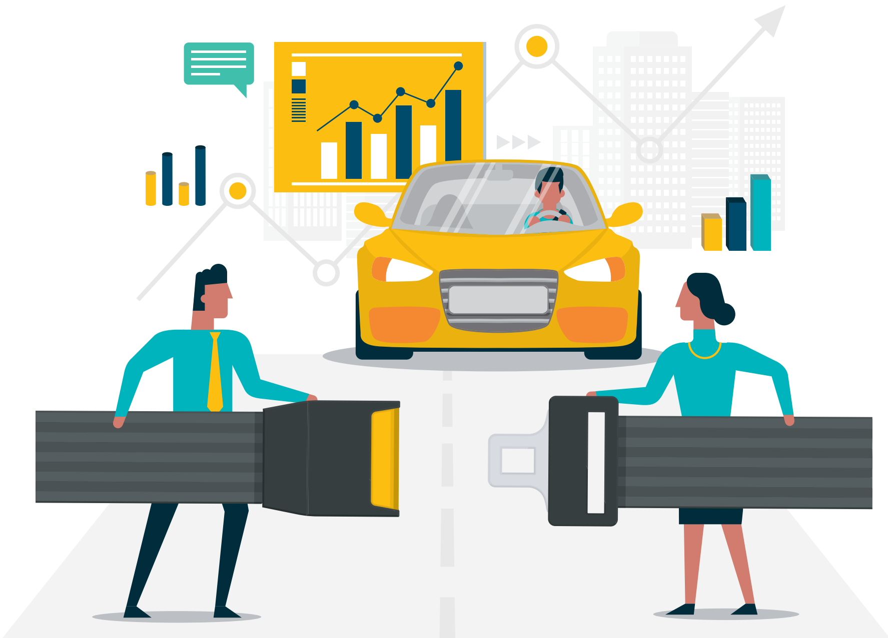
BUCKLE UP!

Both World Bank and International Monetary Fund have recently downgraded estimates for global economic growth for this year and next. Business activities, especially manufacturing, of major economies have slid into contraction lately. Corporate earnings growth is poised to slow further and may have even fallen into negative in the third quarter. Investors should stay defensive as financial markets could endure heightened volatility in the months ahead.

68%
of primary stock indices tracked by Bloomberg with positive returns year-to-September, dropping from 80% at end of June

78.4 billion yuan
total corporate bond defaults in China year-to-August, on pace for this year to be the highest level on record

47.8
ISM Manufacturing Purchasing Manager Index for US for September, the lowest level since June-2009



POSITIVE

- Cash
- Precious Metals

NEUTRAL

- Global Bond

NEGATIVE

- Global Equity
- Hong Kong Equity
- High Yield Bond
- Commodities

Global Equity

NEGATIVE

NO CHANGE

- Global economic activities broadly slowed in the third quarter, with manufacturing taking the blunt of the impact but starting to spread into service sector
- US-China dispute on trade shows no signs of reaching resolution; instead new trading restrictions are targeting a list of high-tech Chinese companies
- Companies around the world have taken on more debt while earnings growth has slowed (and even declined), a combination that is troublesome for share prices

Global Bond

NEUTRAL

NO CHANGE

- Government bond prices continued underlie by monetary easing stance of US Fed, ECB and BOJ and concerns of slowing global economic growth
- Growing pool of zero/negative yielding bonds starting to raise investor concern and may limit further price gains

Cash

POSITIVE

NO CHANGE

- Cash is a residual (or balance) of our stance in terms of equities and fixed income
- As we are maintaining a cautious stance on equities and neutral stance on bonds, cash stays slightly overweight

Hong Kong Equity

NEGATIVE

NO CHANGE

- Recent sell off has pushed down valuations of local shares close to 1 standard deviation below 10-year average, hence making them appear attractive
- Global economic slowdown and domestic social events could negatively impact corporate earnings, thus making current share prices a value trap
- Clouds of uncertainty warrants keeping a defensive stance for the time being

High Yield Bond

NEGATIVE

NO CHANGE

- High yield bond spreads have widened lately as investors becoming more concerned of deteriorating corporate balance sheet
- Growing debt piles and slowing (even negative) earnings growth could see more companies running into financial difficulty
- Corporate defaults could be rising and weigh down high yield bond prices

Commodities

NEGATIVE

NO CHANGE

- Faster than expected recovery of oil production in Saudi Arabia and easing tension against Iran led to easing of crude prices
- Slowing global economic growth has led to retreat in industrial metal prices, such as iron ore, aluminum, copper, etc
- Decline in auto sales prompted auto makers to cut back on production and lead to lower steel prices, and could further pressure iron ore prices

Precious Metals

POSITIVE

NO CHANGE

- Gold prices continued to be supported by rebuilding of gold reserves by various central banks
- Investors looking for safe haven from volatile financial markets could be seeking refuge in precious metals beyond just gold considering relative cheapness standpoint

BUCKLE UP!

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