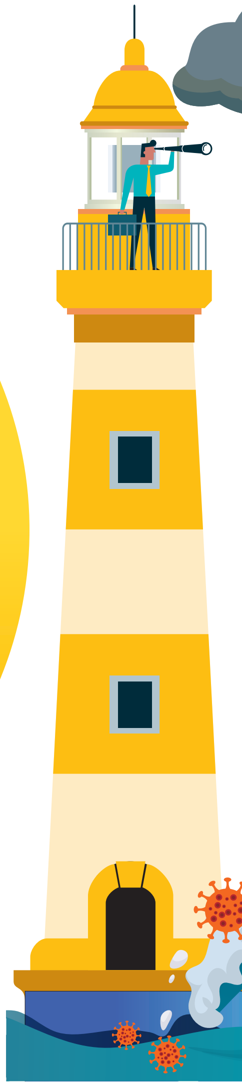
MARKET NAVIGATOR
2020Q2

Sun Life Asset Management
永明資產管理

2002
last time global crude oil prices seen recent low levels

1 million
total global confirmed coronavirus infected cases on Apr 2, and counting...

10 million
number of Americans filled for unemployment benefits in the last two weeks in March



ALL STORMS COME TO PASS

The world has been hit by two black swan events in the first quarter of 2020, namely the coronavirus (Covid-19) pandemic and the crude oil war between Saudi Arabia and Russia. The two events formed two destructive vortexes, which occur against a backdrop of already slowing global economic growth and sky-high debts (government, corporate and household) combined to form a perfect storm that ravages across the globe. Companies from a wide swath of industries and their employees confronted unprecedented challenges, causing business closure and job losses, even altering normal daily lives. Yet it is important to keep in mind that even the most destructive storms will come to pass. Economy will return to growth, sound companies will get stronger, job opportunities will reopen and asset prices will climb again. At some point, investors should prep to tiptoeing back into markets.

POSITIVE

- Precious Metals

NEUTRAL

- Global Equity
- Hong Kong Equity
- Global Bond
- Cash

NEGATIVE

- High Yield Bond
- Crude Oil

Global Equity — NEUTRAL

NO CHANGE

- Global economy is being hit by a perfect storm from the coronovirus pandemic and crude oil war
- Although worldwide recession is imminent, the hope is that it will be relatively short-lived
- Aggressive central bank monetary easing and record fiscal stimuli by most governments could aid the recovery of equity markets
- Stock prices are expected to remain highly volatile in the short term but may bottom out towards the end of this quarter

Global Bond — NEUTRAL

NO CHANGE

- Flight to safety has benefited most developed government bonds
- Massive quantitative easings by major central banks lift sovereign bonds and high-quality corporate bonds
- But record fiscal stimuli means record issuance of govenment bonds which may drive up bond yields at a later stage

Cash — NEUTRAL

NO CHANGE

- Cash is a residual of our stance in terms of equities and fixed income
- While it is sensible to hide out the perfect storm by holding cash, investors should not overstay in cash when asset prices become too attractive to pass

Hong Kong Equity — NEUTRAL

▲ UPGRADED

- The economy has been hard hit by dwindling tourism and forced social distancing has caused a deep freeze in retail sales
- Retracting corporate profits and property prices could further drive down equity prices
- But market valuation is nearing historically attractive levels and may soon appeal to courageous bottom-fishing investors

High Yield Bond — NEGATIVE

NO CHANGE

- Coronavirus pandemic has led to widespread lockdown across the globe and halting economic activities is threatening survival of financially weak companies
- Junk-rated corporate bonds have been dumped as investors cut back on credit risk
- Heavy downgrade by credit rating firms could lead to "fallen angels" which in turn further depress junk bond prices

Crude Oil — NEGATIVE

▼ DOWNGRADED

- Breakup of cooperation between Saudi Arabia and Russia has resulted in a crude oil war that saw oil prices fallen to near two decades lows
- The US is trying to bring all sides back to the negotiation table to stabilize oil prices though reaching a mutually agreed deal is far from certain
- Meanwhile, the coronavirus pandemic has led to deep freeze in economic activities that severely cut down demand for crude oil

Precious Metals — POSITIVE

NO CHANGE

- Gold and other precious metals were sold off at one point as investors dumped everything for cash
- Nonetheless, desire for safe haven from the perfect storm could still lead to demand for gold and other precious metals that are relatively cheap

Check out the online version