

MARKET NAVIGATOR

2020Q3

DON'T WASTE AN ECONOMIC PULLBACK

3

of the 93 primary stock indices tracked by Bloomberg, only 3 posted positive return in USD terms in the first half

US\$ 1,800

gold price hit our target set early this year, which is the highest level since 2012

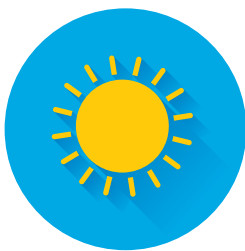
10 million

total global confirmed coronavirus infected cases at Jun 30, a 10-fold increase during Q2



By various measures, the COVID-19 pandemic has greatly impacted and impaired global economic growth this year. Some industries have endured deep scars that could lead to drastic changes in how they operate in the future. But if we step back and take a look at similar events over the past decades, even centuries, this is how the world evolves. Economies grow until hitting certain constraints, pull back and adjust to adapt new conditions, then resume growing. Markets and societies follow similar patterns. Investors should learn to embrace short-term market pains and indeed make use of market pullback to position for capturing long-term growth.

POSITIVE



Global Equity



Hong Kong Equity



Asian Bond



Precious Metals

NEUTRAL



Global Bond



Crude Oil

NEGATIVE



Cash



Global Equity



POSITIVE

▲ UPGRADED

- Easing lockdown measures by various countries have seen gradual resumption of economic activities
- Economic sensitive/Cyclical sectors have been gaining ground as investors expect economic reflation and improving business conditions in the second half of the year
- Strong rebound in share prices in Q2 (especially for US stocks which recorded the biggest quarterly gain in 20 years) have pushed up valuations to rather expensive levels and there is chance of a pull back when Q2 economic data and corporate results become due
- Investors should plan to add to equity exposure on a market pullback



Global Bond



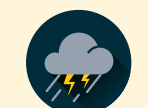
NEUTRAL

■ NO CHANGE

- Massive quantitative easings by major central banks have greatly supported sovereign and corporate bonds, driving bond yields to record low levels
- Gradual resumption of economic and business activities could ease the demand for safe haven assets and reduce the allure of low-yielding bonds
- In longer term, record fiscal stimuli could see record issuance of government bonds that may drive up bond yields at a later stage



Cash



NEGATIVE

▼ DOWNGRADED

- Cash is a residual of our stance in terms of equities and fixed income
- With growing signs of economic activities normalizing, investors should make plans to trim their cash pile and add back to equities



Hong Kong Equity



POSITIVE

▲ UPGRADED

- More pro-growth policies on the fiscal side are confirmed during the National Party Congress session and lend support to Hong Kong's economy
- A number of new-economy China companies are being (scheduled to be) listed in Hong Kong and attracting strong interest from local and overseas investors
- Unfamiliarity of the recently introduced national security law could cause short term market jitters



Asian Bond



POSITIVE

■ NO CHANGE

- Asian economies have generally weathered the COVID-19 pandemic without suffering deep economic scars
- Economic and business activities in the Asian region were among the earliest to resume, and there were relatively few big corporate failures
- Stable currencies and attractive yields compared to more developed markets could continue attracting inflow from overseas investors



Crude Oil



NEUTRAL

▲ UPGRADED

- Crude oil prices, notably for the US WTI futures, have been rebounding from the trough in late-April on gradual normalization of economic activities and commitment from OPEC members to stick to production cuts
- While there is room for more gains on energy prices in the short term as renewed demand depletes inventory, crude oil may have difficulty moving substantially higher to USD50 or beyond
- Even at prevailing prices, which is still about one-third below levels at the start of the year, US frackers are standing ready to restart pumping shale oil
- Once US crude oil producers resume drilling, Russia, Saudi Arabia and other OPEC members may not be willing to hold back on production



Precious Metals



POSITIVE

■ NO CHANGE

- Gold prices have met our target set early this year and could overshoot as some investors seem to have growing concern of central banks' aggressive monetary easing eventually stoke inflation and weaken fiat currencies
- Other precious metals have generally recouped earlier losses and could have further upside as economic normalization may boost demand for industrial applications

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