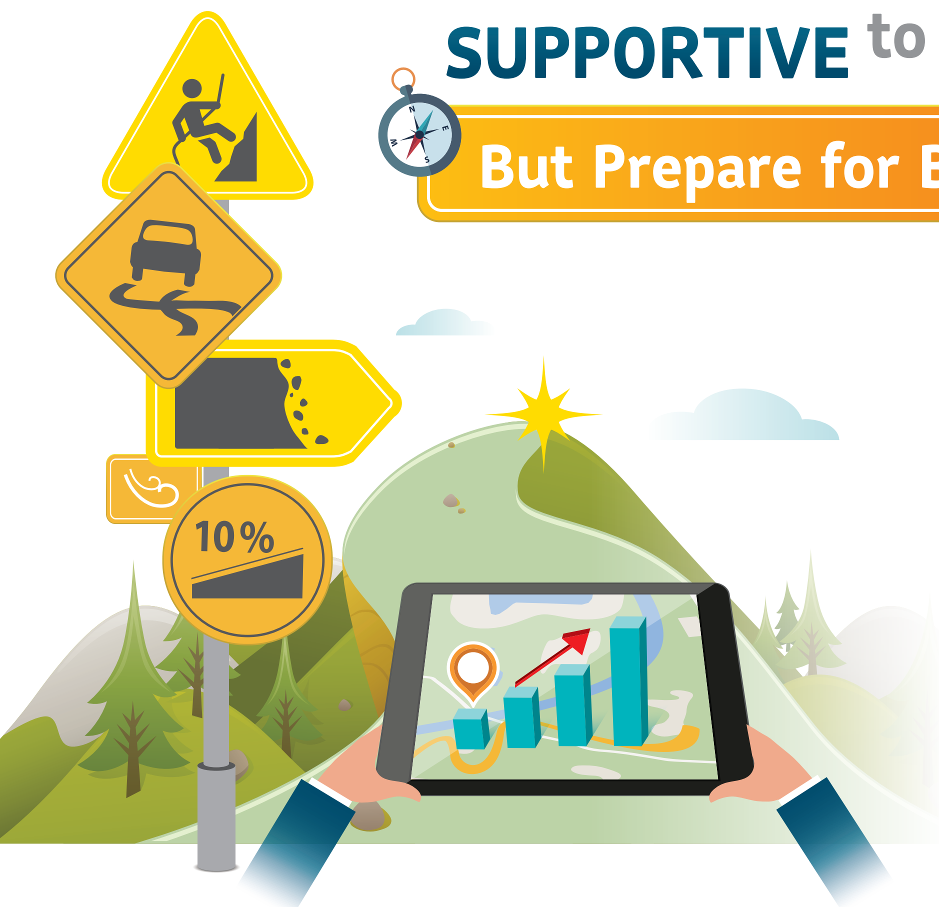
MARKET NAVIGATOR
2021Q2

Sun Life Asset Management
永明資產管理

ECONOMIC GROWTH SUPPORTIVE to EQUITIES

But Prepare for Bumpy Ride



The International Monetary Fund recently raised its projections for global economic growth for this year and the next, crediting aggressive stimulus spending by the US and other developed nations as well as broadening of vaccinations to tame COVID-19. Rebounding consumption and accelerating business activities should be positive to equity prices. But bottlenecks in ramping up production and logistics could lead to disappointment in earnings in the short term. Meanwhile, soaring input prices could push up real bond yields and dent investor optimism. While the way forward is ascertain, it should be caution that the ride could be bumpy at times.

POSITIVE	NEUTRAL	NEGATIVE
Global Equity	Global Bond	Cash
Hong Kong Equity	Precious Metals	
Asian Equity		
Basic Materials		

Global Equity — POSITIVE

NO CHANGE

- Continued broadening of vaccinations of COVID-19 around the world, especially among more developed economies, helps underline quicker pace of global economic recovery, which in turn is supportive to equity markets
- Economically sensitive/Cyclical sectors (i.e., energy, financial, basic materials and industrials) have benefitted the most as so-called reflation trade prompted investors rotating out from New Economy plays to Old Economy stocks
- With more and more countries mulling taking steps to roll back restrictive measures on social functions and allowing travel (with conditions, i.e., vaccine passports), service-related sectors could attract renewed attention from investors

Global Bond — NEUTRAL

NO CHANGE

- Surging input prices, from commodities to components, have spurred rising inflation expectation and prompted investors dumping low-yielding government bonds
- US Fed and ECB have largely brushed aside concerns of structurally rising inflation and pledged their commitment to ultra-easy monetary policies for some time to come, resulting in steepening yield curves as short-end stay put while long-end flares up on inflation concerns
- Improving economic conditions and rebounding business activities should benefit corporate bonds compared to government bonds

Cash — NEGATIVE

NO CHANGE

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

Hong Kong Equity — POSITIVE

NO CHANGE

- Economic activities starting to rebound, with cyclical sectors taking the lead while so-called New Economy stocks experienced broad retreat
- Rising bond yields have benefitted financials, notably big cap banks and insurance companies, with further gains likely given valuation gaps remain large by historical standard
- With Chinese officials reiterating the importance to cap speculative activities and pare down excess leverage, southbound flow could fizzle and further weigh down on previous high-flying names

Asian Equity — POSITIVE

NO CHANGE

- Business activities across Asian region have picked up since late last year, with Taiwan, India, South Korea and Vietnam benefitting the most as international trade accelerates
- As the pace of vaccination quickens, various countries are considering ways to safely resume travelling that would benefit South East Asian economies given their reliance on tourism
- Despite factories running at full capacity, chips and component manufacturers in Taiwan and South Korea are unable to meet insatiable demand that could translate to near term setback in earnings

Basic Materials — POSITIVE

NO CHANGE

- Despite Saudi Arabia's pledge to maintain reduced daily oil production quota, both Brent and WTI benchmarks fell back after hitting US$70/barrel. In view of strengthening global economic growth, in particular gradual resumption of travel (with conditions), crude prices should see good support at ~US$60-level
- Commodity prices across industrial metals and agricultural produces have seen broad advance on rebounding economic activities and renewed demand from China
- Emphasis on infrastructure spending and de-globalization/de-China development could see further gains in commodity prices

Precious Metals — NEUTRAL

NO CHANGE

- Gold may rebound in the near term after dipping below US$1,700/oz, though medium term outlook remains dim as economic reflation does not favor safe haven assets such as gold
- US President Joe Biden's push for big spending on infrastructure will favor renewable and green energy and boost demand for silver, platinum and palladium

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