MARKET NAVIGATOR

2022Q1

Sun Life Asset Management 永明資產管理

During Monetary Normalization

Investors Should be More Discerning

The US Federal Reserve and various central banks around the world are ending an extended period of ultra-loose monetary policy. During the forthcoming normalization, reversal of bond purchases and higher interest rates would lead to costlier and tighter liquidity. Companies that had been borrowing heavily to finance unprofitable businesses might be dealt a rude awakening as investors turn more impatient. On the other hand, established companies with robust business models, solid balance sheets and strong cash flow generating ability could be in favor. In the short term, we could see a jump in volatility as investors adjust to the new market backdrop. With the world economy growing steadily, overall markets should be supportive though investors need to be more discerning in where to place their wager.

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

Global Equity

POSITIVE

NO CHANGE

- The Omicron variant has replaced Delta as the dominant strain of virus leading to COVID infection and daily infection cases across many countries have reached new record. Somewhat on a positive note is that Omicron seems to be less pathogenic than other variants and most countries/regions have not seen serious disruption to economic production activities
- Despite setback to resumption or normalization of international travel/tourism, the global economy is set to continue the path of recovery in the new year albeit at more moderate pace. Such backdrop is conducive for most businesses and supportive to most equity markets around the world. Still, with the US Fed and other central banks prepared to normalize ultra-loose monetary policy, those sectors that are richly valued and companies with weak balance sheet could see heightening volatility
- From Delta to the Omicron variants, most countries have stepped up vaccinations for their people with improvements across emerging markets being most notable. This should bode well for emerging markets, including Asia and Latin America, to play catch-up after being lagging behind developed markets since the outbreak of pandemic

Global Bond

NEUTRAL

NO CHANGE

- Despite signs of easing logistic pressure and costs and losening of supply chain bottlenecks, recent inflation measures particularly on the consumer or retail levels continue to trend upward. Higher inflation makes the steady flow of coupon payment from holding bonds much less attractive
- The US Fed has sped up the pace of tapering on its bond purchase program and there were discussion of earlier than expected interest rate hikes and shrinking of its bloated assets pool. This could lead to more downward pressure on government bonds.
- On the other hand, continued economic growth and demand for basic materials could lend support to high quality corporate bonds and emerging market bonds

Cash

NEUTRAL

UPGRADED

- Cash is a residual of our stance in terms of equities and fixed income
- With rising inflation and a shift to tighter monetary policy, market volatility could jump in the short term. Investors may consider saving a bit of dry powder for better entry point down the road

Hong Kong Equity

POSITIVE

NO CHANGE

- Market sentiment continued being weighted down by financial/default risk of Chinese property developers and policy risk on internet platform operators
- There is however signs of more supportive measures by central government in the form of injecting liquidity to steady economic growth. This should lend support to companies and sectors that focus on domestic consumption and economically-related industries
- Market valuations is now at historical attractive levels and a steady economic picture could draw renewed interest to companies that are more anchored to economic cycle with strong balance sheets and robust dividends

Asian Equity

POSITIVE

NO CHANGE

- The Omicron variant strain has been spreading fast across various Asian countries, and put to a halt of the planned resumption of international travel/tourism. On the other hand, manufacturing PMIs remain steady and indicate continued moderate pace of economic expansion in the region
- Vaccination rates around the region reflect rapid uptick, and should enable most Asian countries to weather the impact from the latest round of COVID infection, and more importantly letting the region to reopen its borders once the pandemic situation eases
- At the same time, robust economic growth in US and Europe continue to lend support to the Asian region that has always been export-oriented

Basic Materials

POSITIVE

NO CHANGE

- Even as the Omicron variant strain rapidly spread around the world, the demand for fuel has held up well and energy prices have shown high resilience staying near multi-year high levels. Oil producers have exercised prudence in their production expansion plans to avoid getting hit by another oil glut. With global economic growth continued, energy prices should be well-supported
- Despite pullback in prices of steel-related base metals, industrial metals have generally been stable, underlined by robust demand from the rapid build-out of renewable energy projects and infrastructure spending. Disciplined capex for mining companies means production level will be relatively flatlined for the next few years that could lead to higher prices down the road

Precious Metals

NEUTRAL

NO CHANGE

- According to Bloomberg data, gold prices have been range-bounded within US$1,700 to US$1,900 per ounce for nearly a year. Even with inflationary pressure on the boil, the price of gold has not been able to break into higher ground suggesting diminishing inflation-hedge characteristic of gold
- Other precious metals were also being ignored by investors, though tight production/inventory and continued demand from global build-out of renewable energy might lead to rising physical demand for silver, platinum and palladium

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