MARKET NAVIGATOR 2022Q2

Sun Life Asset Management
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De-Globalization Inflation AND Investment

The Russia-Ukraine conflict has brought jitters to asset prices across a broad spectrum, from equity to fixed income, and from currency to commodity markets. While some markets have since stabilized to a certain extent, this geopolitical event, which is still ongoing as of writing, could have much farther and wider ramifications. The de-globalization movement, which began taking sharp in 2018 when US and China were at loggerhead on trade-related matters, is poised to exacerbate with European and other Western nations determined to reduce reliance on Russia for their energy and other natural resources needs. De-globalization in turn would lead to higher prices and costs while at the same time moderating global economic growth. Investors may need to adjust their portfolios as well as expectations on future investment gains in the coming new world order.

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

Global Equity

POSITIVE

NO CHANGE

- Amidst the Russia-Ukraine conflict, renewed supply chain and logistic bottleneck due to city-wide lockdowns in China and monetary normalization of the US Fed, economic data from most parts of the world continued showing expansion remains on track albeit slowing somewhat in the past month or so
- Inflation has moved up considerably and expect to stay at elevated levels in the short term. This will benefit companies that have the ability to dictate prices while penalize companies that are mainly price takers. As a result, investors need to be more discerning and focus on sectors and companies that are better positioned instead of simply buying up market indexes
- With the US Fed and other central banks moving into rate hike cycle, higher costs of borrow means investors need to pay closer attention to company valuations. Companies with high debt levels and unable to generate meaningful cash flows are particularly vulnerable

Global Bond

NEUTRAL

NO CHANGE

- Rising inflation has dent investor appepite for fixed income instruments and central banks starting to shift into reverse of years of quantitative easing (also referred to as "quantitative tightening") means bond markets will lose their biggest buyers in the past decade
- Higher costs of borrow could pose serious challenge to companies with weak balance sheets and this is already reflecting in soaring yields of junk-graded bonds and the widening of credit spreads (over comparable government bonds)
- Bonds issued by companies with solid balance sheets and those from countries that are commodity exporters could stand to benefit as investors focus on the high quality end

Cash

NEUTRAL

NO CHANGE

- 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 remain elevated 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

- Hong Kong equities had recently fallen to multi-year lows amidst plethroa of concerns, including tightening monetary policy in the US, risk of de-listing of Chinese companies from US bourses, protracted economic slowdown in China due to flare-up of the pandemic
- Some of the concerns seem to be overblown, such as de-listing of Chinese companies which is something that take place at least 3 years down the road, if at all, while Chinese government has stepped up stimulus measures to steady economic growth
- Market valuations have fallen to near depressed levels and from a historical perspective represents an attractive entry point to investors with long investment horizons

Asian Equity

POSITIVE

NO CHANGE

- Apart from China/HK, other Asian markets have fared better with commodity exporters such as Australia and Indonesia benefiting from soaring prices, tech powerhouse such as Taiwan and South Korea seeing continued strong demand and record export orders
- With more and more countries in the region reopening to international travel, the number of visiting tourists are on the rise albeit tepidly for now. Regional governments are determined to further relax requirements to entry and early signs from travel and hotel bookings are encouraging
- Still, it may take some time to see tourism and services-related activities returning to more normal levels particularly with all-important Chinese tourists largely absent due to China still adhere to its COVID-Zero policy stance

Basic Materials

POSITIVE

NO CHANGE

- The Russia-Ukraine conflict is disrupting the supply of commodities, particularly in energy and grains. More importantly is the distrust among Western countries against Russia could lead to de-globalization and structurally higher commodity prices in the years ahead
- Cutting off or significantly reducing reliance on Russia for natural resources means Western nations need to invest heavily on renewable energy on domestic soil. At the same time, China and US are stepping up on infrastructure spending to support economic growth could further add to demand for basic materials

Precious Metals

NEUTRAL

NO CHANGE

- Gold prices have at one point soared past US$2,000 per ounce as investors seeked safe haven amid the Russia-Ukraine conflict and also ever-rising inflation. Prices have since eased as investors are turning to other assets that may benefit more from higher commodity prices led inflation
- Other precious metals also experienced wild swings in prices. Longer term prospects are picking up from likely accelerating global build-out of renewable energy and probably less supply of platinum and palladium from Russia, which was among the biggest exporters

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