MARKET NAVIGATOR 2023Q3

Sun Life Asset Management
永明資產管理

Navigate short-term Risks
Focus on mid-term Opportunities

US FOMC has paused the pace of raising interest rates in June. However, as the banking crisis has not further fermented and inflation remains at high level, Monetary Policy may remain tight and increase the risk of economic recession. Thus, investors may consider holding a certain percentage of bonds in their portfolios. The Bloomberg Barclays Global Aggregate Investment Grade Bonds Index recorded positive returns in the last four recession periods, with an average return of more than 4.5%*. The data shows that investment-grade bonds could bring opportunities to investors during the economic downturn. As for equities, we expect concerns about recession to be rising, short-term performance of risky assets may be limited. However, with the US economy only experiencing a mild recession, the stock markets will find support after adjustment, so the strategy of accumulating stocks at low prices remains appropriate.

* Source: Bloomberg

12-Month Outlook

Positive	Neutral		Negative
Global Bond	Global Equity	Basic Materials	–
	Asian Equity	Cash	
	Hong Kong Equity		

Positive

Global Bond

No Change

- Top line inflation continued to ease in US and Europe, however, core inflation remains sticky, it is expected that the tightening monetary policy by global central banks will continue
- Higher rates in US and Europe may stay for longer, the uncertainty of the Monetarty Policy has also heightened risk of recession. Bonds can be regarded as a good hedge in recession time. Bonds with longer duration were chased higher. For credit, high yield bonds might suffer from higher default rates during recession time, we are more bullish on investment grade credit

Neutral

Hong Kong Equity

▼ Downgraded

- Improvement in macro on all fronts continued to send positive signals. Not many positive surprises from the NPC but we believe better policy coordination would support cyclical recovery
- Geopolitical particularly US-China relationship poses a medium-term concern and is a large swing factor of PE multiple. US presidential election next year will add to the uncertainty of the stock market
- Although the stimulus measures are expected to continue, the positive effect needs time to be realized and impacting the corporates earning and valuation recovery

Global Equity

No Change

- The positive news that the banking crisis has not further fermented is believed to have been reflected in the equity market in the second quarter. Investors will refocus on economic fundamentals and the possibility of recession. The overall investment strategies will be cautious
- The central bank's interest rate hiking is coming to an end, but the high interest rate environment may be more persistent than expected. The tightening monetary policy will limit the momentum of economic growth
- We maintain our expectations of a mild recession and companies remain under downward pressure on earnings. Thus, we stick to our Neutral stance

Asian Equity

No Change

- As global inflation slows and some Asian central banks nearing the end of the tightening cycles, some of the Asian central banks have started the rate cut cycle, Asian assets are benefitted, also from weakening of USD
- Japan, Taiwan and South Korea all recorded double-digit gains in the first half of the year, benefiting from surge in orders, improved economic fundamentals and stimulus measures. However, the expected recession in later period may limit the performance of Asian export markets, and most of the positive news has been digested, and the market appreciation momentum may weaken in the absence of catalysts

Basic Materials

No Change

- Leading indicators have shown heightened risks of developed markets recession. It might drive down short-term demand for basic materials
- Recovery of China economy has been slower than expected, further hitting short-term demand for basic materials
- However, the trend of de-globalization triggers long-term demand for basic materials. We believe fundamentals stay strong in the long run

Cash

No Change

- Cash is a residual of our stance in terms of equities and fixed income
- We continue to overweight Global Bond on a 12-month horizon. Financial shock heightens uncertainty and cash provides short-term cushion, with higher rates

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