MARKET NAVIGATOR 2021Q4

Sun Life Asset Management 永明資產管理

GET READY TO SET SAIL by Catching the Tailwind of "Economic Reflation 2.0"

Global markets had been caught in a quagmire in the third quarter due to a spate of economic challenges and policy uncertainty. Soaring commodity prices, supply and logistic bottlenecks have pushed up inflation and prompted central banks to rein in ultra-loose monetary policy. Rebound in daily confirmed COVID-19 cases forced some countries to reinstate social distance requirements leading to acute shortfall in labours, which in turn further worsen the global supply chain. As the world enters the winter months, we should not forget that spring will soon follow. More and more countries are adopting a coexist (with the virus) mindset and pushing for higher vaccination rates to enable reopening to overseas visitors. Latest development in an oral medication could turn a new page to treating the infected. Rapidly depleting inventories mean ever stronger need for restocking down the road. Instead of focusing on short-term snags, investors should set eyes for the coming upturn in what we labelled "Economic Reflation 2.0".

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

Global Equity

POSITIVE

NO CHANGE

- While daily new infection cases remain elevated for some countries, notably the UK and US, hospitalizations and death counts have been moderating aid by rising vaccination rates across the globe
- More and more countries have announced plans to ease travel restrictions before year end, even foregoing quarantine requirement, for fully vaccinated tourists. This should provide a lift to services-related activities, especially for countries that rely on tourism
- Supply and logistic bottlenecks, as well as soaring commodity prices, result in slower economic growth and corporate earnings in Q3. As inventories deplete, restocking demand should lead to economic reacceleration by year end or early next year

Global Bond

NEUTRAL

NO CHANGE

- Soaring commodity prices and supply bottlenecks have boosted inflation higher and stayed longer than most central banks envisaged
- Some central banks have already hiked interest rates to try to rein in inflation expectations, and the US Fed is also getting ready to moderate its bond purchase program before long
- Normalization of monetary policies may dampen demand for sovereign bonds, particularly among developed nations, while corporate bonds and emerging market bonds may deem more attractive

Cash

NEGATIVE

NO CHANGE

- Cash is a residual of our stance in terms of equities and fixed income
- With expectations of economic activities picking up speed again by year end or early next year, investors may wish to take steps to reduce cash pile and add to equities

Hong Kong Equity

POSITIVE

NO CHANGE

- Market indexes have endured severe sell-offs during the past quarter, particularly for Chinese tech/online companies and property developers, on Chinese government's scrutiny against anti-competition practices for the former group and excessive reliance on debt financing for the latter
- Investor sentiment has also taken a beating as can be seen in dwindling daily trading volume, which could be taken as a sign of selling pressure moderating
- Overall market valuations have turned attractive on improving economic readings and healthy corporate earnings. Sectors that are more anchored to economic cycle with robust dividends should benefit and lead an eventual turnaround in the market

Asian Equity

POSITIVE

NO CHANGE

- Surging COVID-19 infections in the past quarter had hampered economic growth across Asian countries, but manufacturing PMIs seem to suggest the worst could be over for a number of ASEAN economies, notably Indonesia, Philippines and Malaysia
- Asian countries are also ramping up vaccinations in the hope to uplift travel restrictions well before year end, which would be a big step forward in terms of normalizing economic growth given many nations in the region are highly dependent on tourism
- Meanwhile, robust economic growth in US and Europe continues to lend support to the region that has always been export-oriented

Basic Materials

POSITIVE

NO CHANGE

- Energy prices have been on a tear as strong demand driven by robust economic activities and adverse weather outstripped global supply. Crude oil, natural gas and coal prices have all soared to multi-year high. Prices could stay elevated as winter months approach when heating needs tend to reach seasonal peak
- Overall industrial metals prices stay close to multi-year highs despite Chinese government's attempt to cool the run by releasing part of its strategic stockpile in the open market. Metals that are associated with renewable energy soared to new record high as demand far exceeds supply. Capex for oil exploration and mining companies may stay relatively flatlined for the next few years could mean even higher prices down the road

Precious Metals

NEUTRAL

NO CHANGE

- Gold prices have been trending lower after briefly exceeding US$1,800/oz. While inflationary pressure stays elevated, investors have turned to other commodities (mainly industrial metals) and assets to hedge against inflation that is fuelled by economic expansion
- Other precious metals experienced a choppy quarter though the global trend towards build-out of renewable energy should lead to resilient demand for silver, platinum and palladium

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