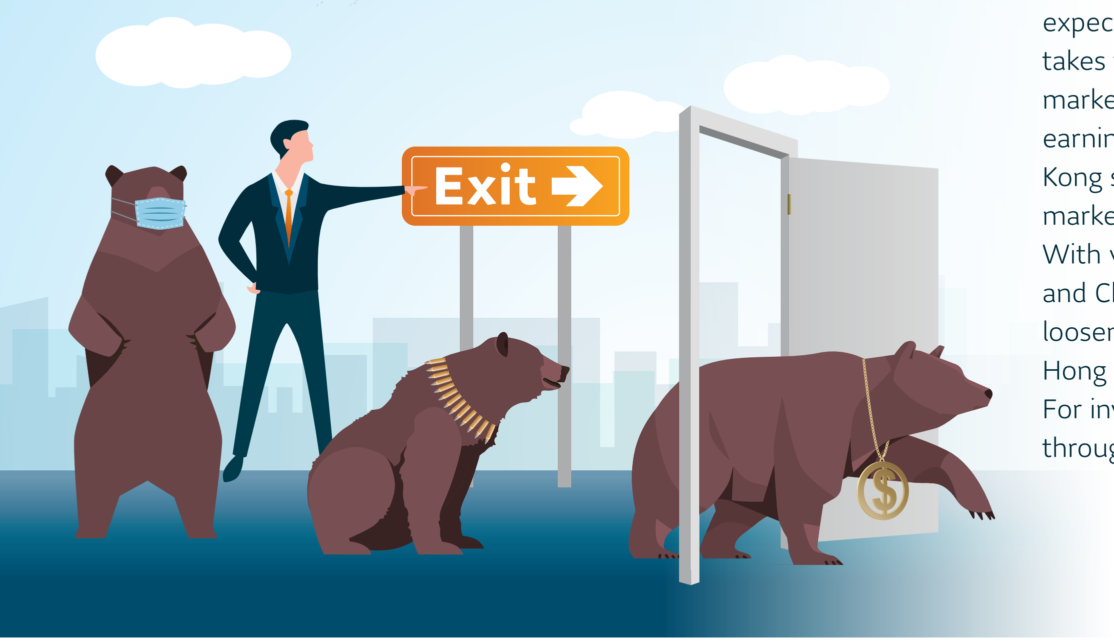
MARKET NAVIGATOR
2022Q3

Sun Life Asset Management
永明資產管理

Time for Bear Market



It feels like a lifetime for investors in this first half of year as the Russia-Ukraine conflict, global tightening of monetary policies and China COVID situation pushed global stocks into bear market territory. Markets are pricing in a recession scenario that stocks suffered selloffs. However, we do not expect the bear markets to last long. It takes time for inflation to peak and for markets to further price in company earnings cut. On the other hand, Hong Kong stocks have been in the bear market territory for over four years. With valuation at multi-year lows and Chinese policy cycle remaining at loosening phase, the hardest time of Hong Kong stocks may have passed. For investors, time is the key to ride through bear markets. Stay patient.

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

Global Equity — POSITIVE

NO CHANGE

- Although there are only few signs of economic slowdown, markets are pricing in a recession scenario as inflation heats up and worries over more hawkish monetary policies grow
- 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
- We think sentiment has been overly pessimistic about inflation and economic condition. Signs of inflation peaking would provide condition for market rebound, though markets are expected to jitter during the course

Global Bond — NEUTRAL

NO CHANGE

- Rising inflation and hawkish central banks have already caused global bonds to suffer from the largest drawdown in decades and most signs are pointing to bond yields heading higher
- Liquidity conditions are not showing signs of distress and the widening in yield spreads remains orderly though the development needs to be monitored closely in case things take an abrupt turn for worse
- As rates offered by fixed income universe become higher, we believe government bonds and investment grade credit would attract some fund flows in the second half of year

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

- Geopolitical and Covid shocks inflicted a deep drawdown of Hong Kong equities in the first quarter. However, the market managed a sharp reversal in Q2, rebounding over 20% from its lows. Such outperformance was a large contrast to global equities when the latter endured the worst first half returns since 1970
- Market valuations may not be depressed now, but remain fairly low in historical perspective. Though with a lot of uncertainties, we think China appears to be well positioned in its growth, inflation and policy cycles versus the rest of the world. Improvement in investor confidence also support capital flows in HK/China markets

Asian Equity — POSITIVE

NO CHANGE

- Rising global recession fears and volatile commodity prices add some pressure to Asian assets
- Although Asia continues to benefit from contained economic reopening, the economic outlook is highly dependent on how inflation in the US and Europe evolves
- Exports from Taiwan and South Korea also see first sign of slowdown which have been dragged by weaker demand in consumer electronics and weaker share of wallet in the US

Basic Materials — POSITIVE

NO CHANGE

- As recession risks dominate all macro markets in the second quarter, basic materials are unable to escape from risk-off trades
- However, inventories of metals continue to fall and demand remains above supply, meaning fundamentals stay strong
- In light of recessing fear, we think government spending on infrastructure would increase to support economic growth. The trend would provide supports for basic material demand

Precious Metals — NEUTRAL

NO CHANGE

- With macro recession concerns trumping a tight micro picture, cross commodity correlations have increased. Precious metals fell during the quarter
- Gold, though, held up much better relative to basic metals. A greater risk of recession in US and Europe boosted the appeal of gold as a safe haven
- Gold would be regarded as a reasonable hedge for the short term given current market concerns

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