MARKET NAVIGATOR
2022Q4

Sun Life
Asset Management
永明資產管理

Preparing to Buy?

Global equities have been derated this year amid sharp increase in interest rates. Growth sectors such as technology stocks were particularly under pressure. According to Bloomberg data*, Nasdaq Composite Index, the index reflecting the performance of US tech stocks, dropped 32% in total return terms in the first three quarters of this year. Although corporate earnings are likely to revise downward while central bank constraints under high inflation and low economic growth environment should not be neglected, valuations of many stock markets have fallen to rather low levels. Lower valuations provide more cushions for investors with high cash level to buy gradually for long-term. In addition, as US rate hike cycle enters middle phase, interests offered by fixed income assets show signs of attractiveness. We believe long-term government bonds and investment-grade corporate bonds would benefit first by capital inflow.

* Source: Bloomberg

NEUTRAL

- Global Equity
- Hong Kong Equity
- Asian Equity
- Basic Materials
- Global Bond
- Precious Metals
- Cash

POSITIVE

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NEGATIVE

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Global Equity — **NEUTRAL**

▼ **DOWNGRADED**

- Uncertainties might continue to cloud global markets as geopolitical tension heightens and volatilities in forex markets increase. Investors concern when inflation would peak, whether rate hike pace would accelerate and whether global economic recession to deepen
- Although valuation has fallen to low level, we continue to expect earnings downgrades to have some ways to go. Technical rebound might happen if market sentiment improves, given the recent deep correction

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 from long-term investors in the future

Cash — **NEUTRAL**

■ **NO CHANGE**

- Cash is a residual of our stance in terms of equities and fixed income
- With core inflation remains sticky and tighter monetary policy, market volatility could continue to be elevated in the short term. Investors may consider deploying some of the dry powder saved in previous months as market valuation drops

Hong Kong Equity — **NEUTRAL**

▼ **DOWNGRADED**

- Investors neglected the better-than-expected Chinese August data while bailout measures for property sector were still inadequate and asymmetric LPR cuts provided little help
- Earnings outlook of index-heavy internet sectors remained subdued
- However, market valuations remained fairly low in historical perspective. Market continued to await strong policy boost

Asian Equity — **NEUTRAL**

▼ **DOWNGRADED**

- Rising global recession fears and volatile commodity prices add some pressure to Asian assets
- Strong US dollar posed short-term headwinds to Asian markets
- Exports from Taiwan and South Korea continued to slow due to weaker demand in consumer electronics and weaker share of wallet in the US
- Valuation of Asian equities fell to low level similar to global equities, with the exception of India

Basic Materials — **NEUTRAL**

▼ **DOWNGRADED**

- Leading indicators have shown heightened risks of developed markets recession in 2023. It might drive down short-term demand for basic materials. Our downgrade reflected weaker outlook for basic materials
- US dollar outperformance might continue to be a macro headwind
- However, the trend of de-globalization triggers long-term demand for basic materials. We believe fundamentals stay strong in the long run

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
- A hawkish Fed, the back-up in real rates, and a strong greenback offset the appeal of gold as a safe haven during recession
- Gold would be regarded as a reasonable hedge for the short term given current market concerns

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