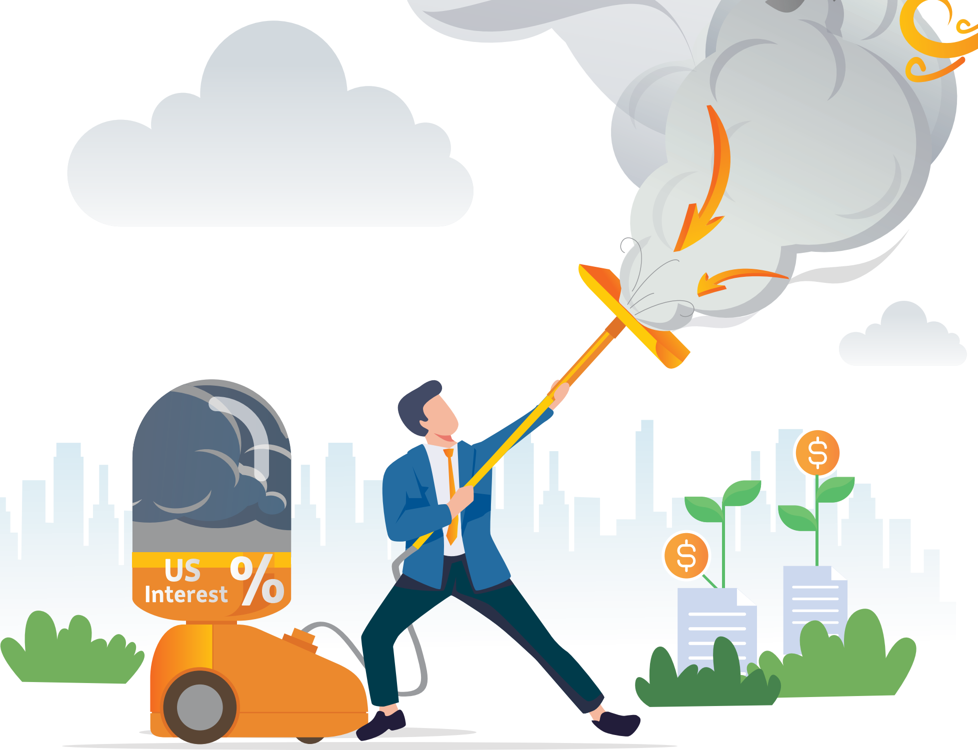
MARKET NAVIGATOR
2023Q1

Sun Life Asset Management
永明資產管理

Clouds Over Bond Markets to Fade



Most asset prices registered decrease in a volatile year of 2022 as pandemic, geopolitical risks and central bank sharp tightening cast shadow over markets. Yearly decline in both stocks and bonds have not been seen for decades. According to Bloomberg data*, there is sharp increase in US interest rates from 0.25% to 4.5% rocked bond market in 2022. Although the markets expect US interest to reach 5%-5.5% in first half of year, such increase was largely reflected and should pose less shock to bond markets. As the rate hike cycle enters mid- to late-phase, and there may even be speculations of rate cut with recession, clouds over bond markets could hopefully fade. Higher yield income also increases attractiveness of bonds in the future.

* Source: Bloomberg

12-MONTH OUTLOOK

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

POSITIVE

Global Bond

▲ **UPGRADE**

- Rising inflation and hawkish central banks have already caused global bonds to suffer from the largest drawdown in decades. However, bonds are becoming increasingly attractive with signs of inflation pressure easing and central banks closer to ending their rate hike cycles
- Aggressive rate rises led to significant spread volatility. But as rate hike cycles mature, such volatility might decrease. Higher yields relative to a year ago also provide stable income to investment portfolio
- Also, bonds can be regarded as a good hedge in recession time. For credit, high yield bonds might suffer from higher default rates during recession time, we are more bullish on investment grade credit

Hong Kong Equity

▲ **UPGRADE**

- The end of Zero COVID and policy reversals in Chinese property sector boosted the Hang Seng Index by about 40% from its low bottomed in last October (Bloomberg data). Short-term retreat provides opportunities for bottom-fishing
- According to Bloomberg data, the 12-month rolling forward P/E ratio of Hang Seng Index is still reflecting a low valuation. The potential for further corporate earnings upgrade could support brighter outlook on a 12-month perspective
- US-China tensions and geopolitics might likely continue to drive volatility in markets

NEUTRAL

Global Equity

■ **NO CHANGE**

- 2023 is the Year of Inflection with some changes in macro picture: Slowing inflation, ending policy tightening from central banks and rising expection of economic recession
- We maintain our mild recession scenario and continue to expect earnings downgrades to have some ways to go. Therefore we stick to our Neutral stance
- We believe growth stock could be considered when rate hike coming to an end around middle of year

Asian Equity

■ **NO CHANGE**

- Policy reversals of Zero COVID and property sectors might trigger the belated "Economic Recovery 2.0" in Asia. However, there may be short-term rotation within region as capital flow favors China/ Hong Kong equities to those outperforming markets last year such as India and Southeast Asia
- As global inflation slows and some Asian central banks nearing the end of the tightening cycles, Asian assets are benefitted, also from weakening of USD
- Expectation of economic recession in the US and Europe may limit performance of Asian exports countries

Basic Materials

■ **NO CHANGE**

- Leading indicators have shown heightened risks of developed markets recession in 2023. It might drive down short-term demand for basic materials
- Recovery in China would likely support services industry this time rather than infrastructure and 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. Since we slightly upgraded our outlook on fixed income, cash was slightly downgraded on a relative basis
- Market focus shifts from inflation and rate hikes to economic recession. Markets remain volatile as investors are highly sensitive to economic data. Cash provides short-term cushion under heightened volatilities

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