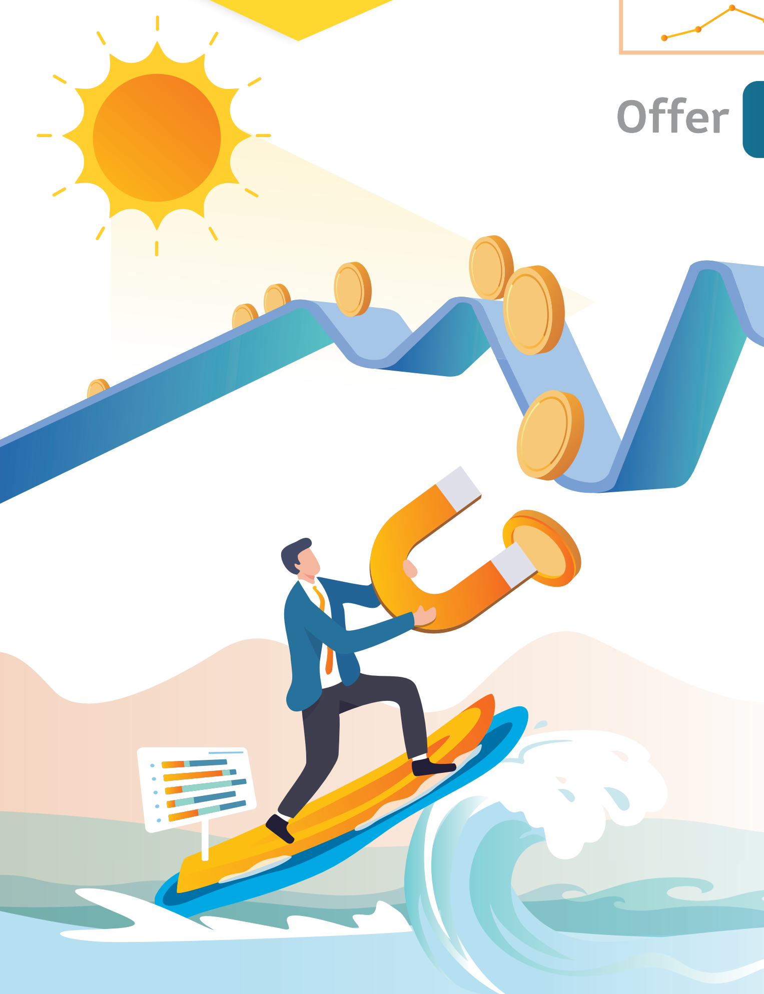
MARKET NAVIGATOR

2023Q2

Sun Life Asset Management
永明資產管理

Volatile Markets in Summer Offer Good Opportunity to Stock Up



As the US rate hike cycle draws to a close, clouds over bond markets faded as we expected. According to Bloomberg data, Bloomberg Global Aggregate Bond Index increased 3% in the first quarter of year. What we didn't expect was the collapse of banks in US and Europe. Investors tended to risk off and funds poured into safe-haven assets such as Treasuries. We believed as financial markets stabilize, investment-grade corporate bonds would attract investors again. As for equities, we expect outlook to stay unclear as markets continue to be influenced by economic data. And stock market performances are relatively weaker in summer. However, volatile markets offer opportunities to accumulate at low prices.

12-MONTH OUTLOOK

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

POSITIVE

Global Bond

NO CHANGE

- The intersection of above-target inflation with a financial shock poses challenge to central banks. Tighten credit condition triggered by banking stress, however, could be viewed as taking of place of one or two policy rate increases. Therefore we believe US Fed is closer to ending their rate hike cycle
- Recent banking stress 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

Hong Kong Equity

NO CHANGE

- 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. Nonetheless, market correction leading to China's underperformance YTD has further priced in such geopolitical risk
- Our OW call on China remains unchanged, backed by ongoing earnings recovery and now even more undemanding valuation

NEUTRAL

Global Equity

NO CHANGE

- With banking stress storming markets, recession risks grew in the first quarter of year. However, we believe the central banks have adequate tools to address bank liquidity problems
- Therefore, we maintain our mild recession scenario and continue to expect earnings downgrades to have some ways to go. We stick to our Neutral stance
- We believed growth stocks could benefit around middle of year as rate hike cycle peaks. But as growth stocks have already shone in Q1, patience is needed to accumulate at dip

Asian Equity

NO CHANGE

- 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. However, Taiwan's exports continued to improve in Jan and Feb, mainly on tech sector while non-tech sales remained under pressure. Tech orders showed signs of improvement mainly from rush orders from downstream tech players. Outperformance in Taiwan versus regional peers suggests positive outlook has been largely priced in
- Overall earning outlook for Asian region still looks less attractive than China

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
- 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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