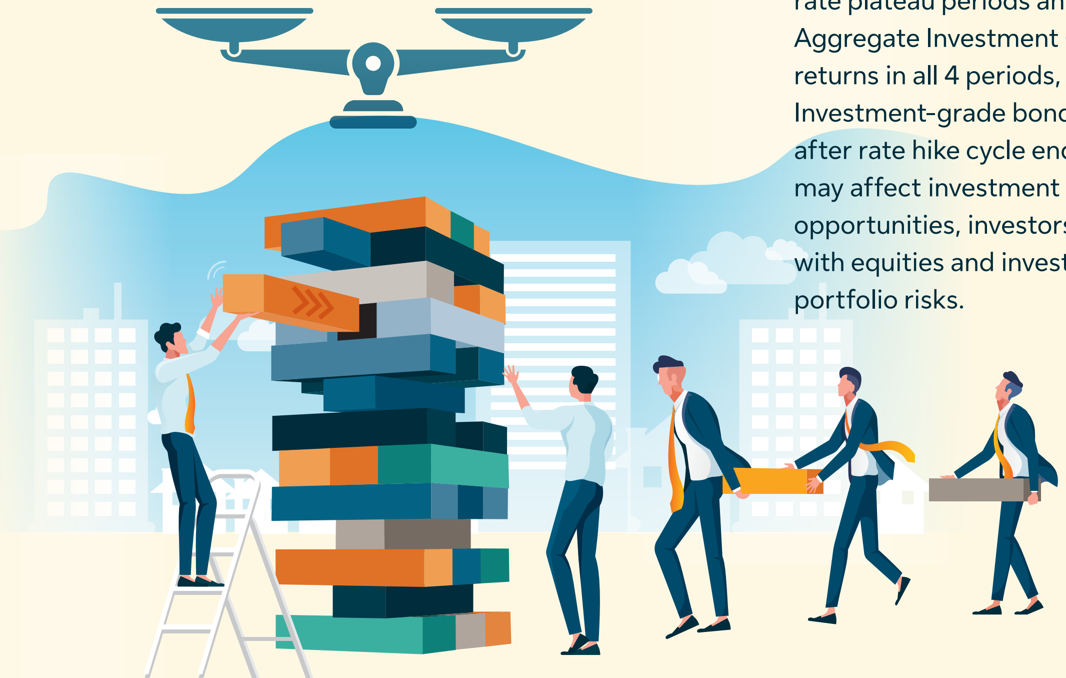
MARKET NAVIGATOR

2023Q4

Sun Life Asset Management 永明資產管理

Stock-Bond Hybrid Strategy Helps Balance Risk & Returns



As we enter the last quarter of 2023, our view for overall markets remains neutral and slightly optimistic. In fact, stock markets generally outperform in Q4. From 2002 to 2022, the MSCI World Index registered a quarterly increase in Q4 in 17 out of 20 years, with an average increase of about 3.8%*. Performance in Q4 has been the best compared with other quarters. As for bonds, investors are expecting a "Higher for Longer" interest rate environment. Taking historical data* as a reference, the federal funds rate typically enters a plateau period before rate cuts. Since 1990, there has been 4 interest rate plateau periods and the Bloomberg Barclays Global Aggregate Investment Grade Bonds Index recorded positive returns in all 4 periods, outperforming global equities. Investment-grade bonds, therefore, may offer opportunities after rate hike cycle ends. However, higher rates for longer may affect investment sentiment. While capturing seasonal opportunities, investors may consider diversifying portfolios with equities and investment-grade bonds for to balance portfolio risks.

* Source: Bloomberg

12-Month Outlook

Positive	Neutral		Negative
Global Bond	Global Equity	Basic Materials	–
	Asian Equity	Cash	
	Hong Kong Equity		

Positive

Global Bond

No Change

- Yields are oscillating in opposite directions, led by market expectations of inflation, economic growth and the FED's policy response. While a 'soft landing' in the US seems possible, inflation is still high and accordingly the FED remains hawkish. The sell-off has taken yields back toward cycle highs, but while this in principle represents a more attractive entry point given valuations are cheaper.
- The investment grade bond provides attractive carry, displays strong corporate fundamentals and should benefit from the resilience of the US economy.
- A recession in the EU region is likely to be caused by high inflation, which is increasing the cost of living and will eventually affect consumer demand. The European Central Bank (ECB) is committed to controlling inflation and is likely to raise rates higher than previously expected.

Neutral

Hong Kong Equity

No Change

- China's economic growth momentum begins to slow. Property FAI was still the weakest link. Supportive policies on real estate sector have been rolled out including mortgage rate cut, downpayment ratio easing and relaxation of HPR in certain second tier cities and in first tier city Guangzhou. But these measures only triggered short-lived spikes in home transactions. Weak investment sentiment may limit the potential for rebound in Hong Kong stocks.
- Geopolitical particularly US-China relationship poses a medium-term concern and is a large swing factor of PE multiple. US presidential election next year may add to the uncertainty of the stock market.
- Although the stimulus measures are expected to continue, they take time to be realized and investors may need to wait longer for earnings recovery.

Global Equity

No Change

- Economic activities are slowing down. Some investors are concerned about the risk of recession though a shallow one amid restrictive monetary policy, and subsequent earnings downgrade. Fundamentals are trending positively with interest rate hike cycle peaking, resilient economic activities, and solid earnings growth. Yet valuation is demanding.
- The central bank's interest rate hiking is coming to an end, but the high interest rate environment may be more persistent than expected. The tightening monetary policy will limit the momentum of economic growth.
- Companies remain under downward pressure on earnings by the "Higher for Longer" interest rate. Thus, we stick to our Neutral stance on equity.

Asian Equity

No Change

- With no additional positive on the micro-side, macro situation is getter more difficult with the hawkish pause by the US Fed. Mounting bond yields, stronger DXY and delayed rate cut expectation bode ill to Asian equity.
- While expecting low earnings cut risk for growth stocks near term, we expect valuation of those to remain suppressed. Rates "staying higher for longer" scenario remains in place, which will in turn restrain the valuation for both tech-laden markets, i.e. Taiwan and Korea. Both markets account for the majority of the Asian ex-China domain. This leads us to take a more conservative stance toward the overall rating for the region.

Basic Materials

No Change

- The interest rate hike cycle of global central banks is not over yet. The impact of tightening monetary policy on economic growth may be longer than previously expectation, and may affect short-term demand for basic materials.
- Recovery of China economy has been slower than expected, further hitting the demand for 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.
- With expectation of market jitters continuing in the near term, cash's role as a defensive asset is growing in importance, helping to lower overall portfolio beta.
- 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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