

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

# Monthly Insight

15 September 2021

## No Time to Lose

- Narrative is flimsier than most recognized. In some ways, the mental inability to even think of the possibility of losing feels the same as it was in early 2018.
- In 2018 spring, the house of cards crumbled due to the unwinding of short volatility strategies. On a positive note, the VIX is now a notch higher at around 18. And the market capitalization of ProShares SVXY ETF, a VIX-shorting flagship fund, is much lower than it was in early 2018. Simply put, investors learned to be much more circumspect this day.
- While we are no longer in the sweet spot, the notion of a 2018-like volatility scare is overdone.



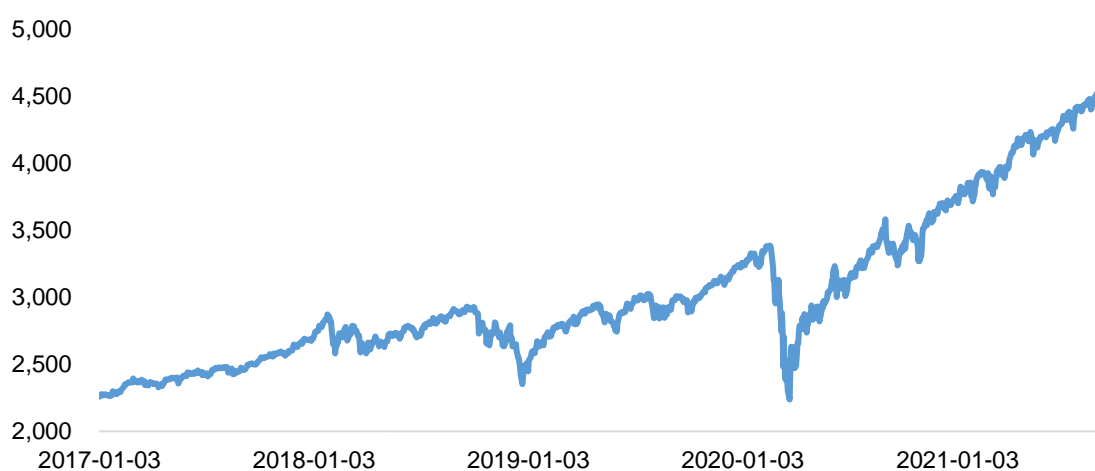
上海商業銀行

SHANGHAI COMMERCIAL BANK

## Theme Article

Hardly a day goes by without some analysts warning about the threat of historically terrible valuation of the U.S. equities. All this cacophony would give casual observer an impression that the market is not getting ahead of itself. Actually, it is. Investors find themselves somewhat desensitized to the sky-high valuation, with a 3% drop proving to be another dip to buy (Exhibit 1).

Exhibit 1: S&P 500



Source: CEIC

For now, “infinite duration” qualities of U.S. tech stocks make it well-placed to extend its seemingly invincible run when money has nowhere to go. But don’t cheer too hard for the dip-buying waves. The best investors are not those who can extrapolate the recent themes into the distant future, but rather those who foresee the newfound narrative before everyone else.

Narrative is flimsier than most recognized. In some ways, the mental inability to even think of the possibility of losing feels the same as it was in early 2018 (Exhibit 1). Back then, like a bolt in lightning, the market morphed from bulletproof to conquerable.

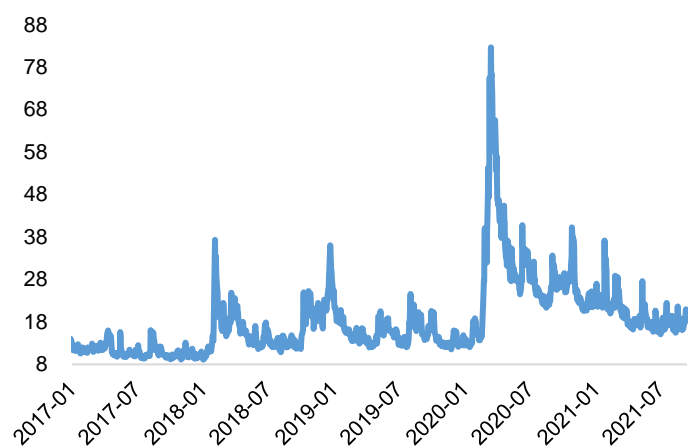
Are we setting ourselves up for fiasco? Not necessarily. To flesh out our view, let’s look at the volatility. In 2018 spring, the house of cards crumbled due to the unwinding of short volatility strategies. On a positive note, the VIX is now a notch higher at around 18 (Exhibit 2). And often fallen from the radar, the market capitalization of



上海商業銀行  
SHANGHAI COMMERCIAL BANK

ProShares SVXY ETF, a VIX-shorting flagship fund, is much lower than it was in early 2018 (Exhibit 3). Simply put, investors learned to be much more circumspect this day.

Exhibit 2: VIX Index



Source: Bloomberg, Shanghai Commercial Bank

Exhibit 3 : Market Capitalisation of ProShares SVXY ETF



Source: Bloomberg, Shanghai Commercial Bank

The Fed is, of course, the elephant in the room. Here too the picture is comforting. Meanwhile, its balance sheet is still expanding while in early 2018, the taper was squeezing up short-dated rates in a big way.

In short, while we are no longer in the sweet spot, the notion of a 2018-like volatility scare is overdone. If we throw our hands in the air, we risk making the mistake that throwing the babies of trend following out with the bathwater of investment. What we needed, instead, is a more nuanced approach to investment.



上海商業銀行  
SHANGHAI COMMERCIAL BANK

## UK

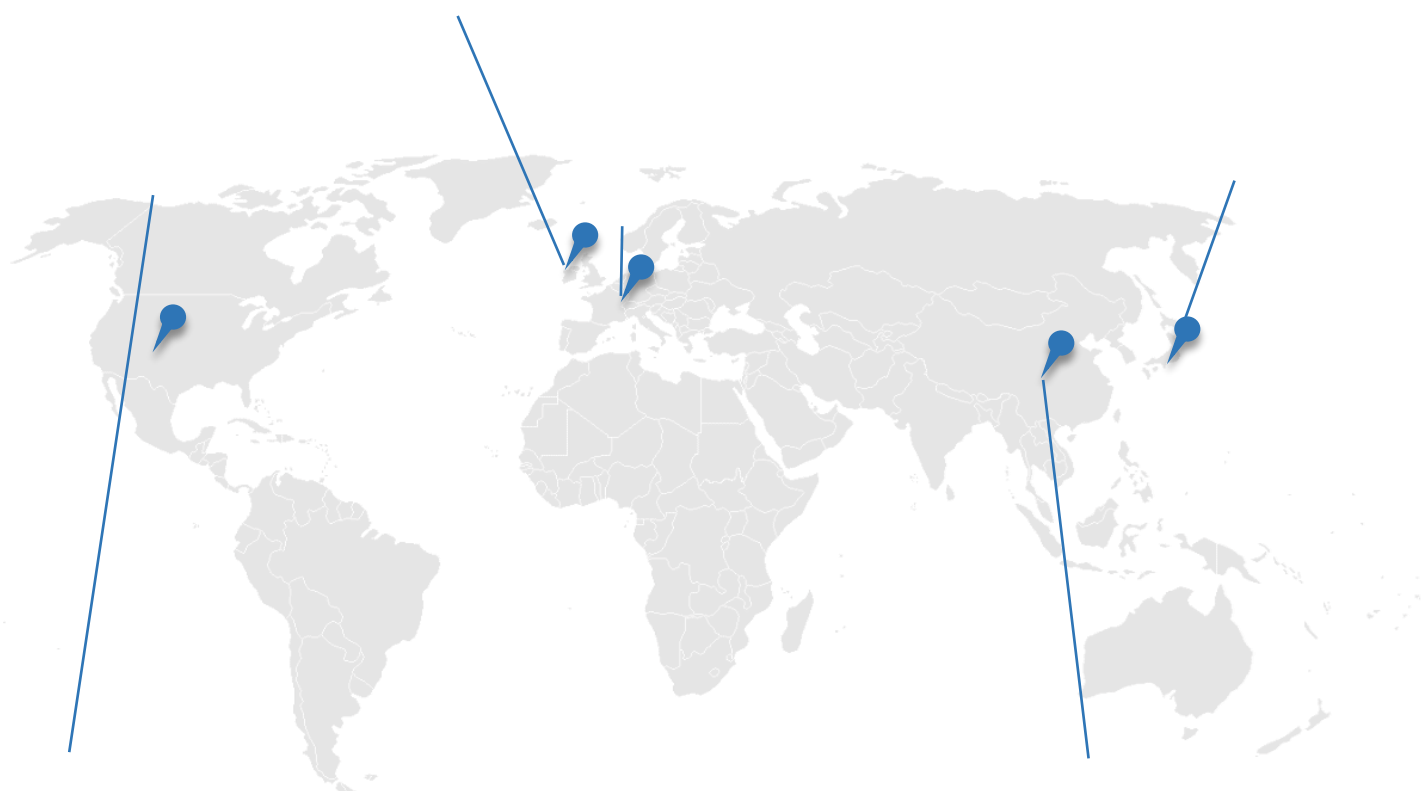
COVID cases will rise and fall with social contact. But we expect no further economically disruptive lockdowns with high vaccination rates among the most vulnerable.

## EU

Eurozone inflation rose to 3% in August, a level last seen in November 2011. Boosted by the dropping-out of the Germany VAT rate cut, inflation is projected to rise further in the coming months.

## Japan

We see no major differences between the leading PM candidates' economic policies. Yet any announcements about an economic stimulus package likely to be delayed.



## US

The U.S. economy added 235,000 jobs on net in August, only about a third of what economists had been forecasting. The resurgence in COVID cases is complicating the final stages of the recovery.

## Mainland China





In spite of the upside surprise in export growth, the domestic data paints a similar slowdown picture as the July readings.



上海商業銀行

SHANGHAI COMMERCIAL BANK

## Foreign Exchange Outlook

 <b>USD</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>US yields started to grind higher with an increased issuance slate, putting a bid tone on the greenback. Excess liquidity will be further mopped by the U.S. Treasury if the debt ceiling drama ends. USD is expected to stay bid.</p>
 <b>EUR</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>The focus will be on the German elections. The SPD-Green coalition is gaining ground, its preference towards fiscal activism and European fiscal solidarity may spur EUR strength. Still, the failed technical break through 1.19s might disappoint some bulls.</p>
 <b>GBP</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>After a long slumber, the pound showed some signs of life on the back of hawkish comments from several BoE members. Johnson's tax hike plan could be seen as a by-product of a booming economy and might be accompanied by a steady pound.</p>
 <b>RMB</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Decent bounce in USD/CNY this month. Traders are surprisingly nonchalant amid rising concerns over China's property debt cycle and disappointing growth data. It seems the pair are heading back into an old range.</p>
 <b>JPY</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>JPY continues to trade within a tight range around 110. Spotlight turned to the upcoming PM election. Leading candidates call for a reflationary policy in a unison, which could support USD/JPY.</p>
 <b>AUD</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>The Aussie slipped a little since the RBA delivered what could be considered as a "dovish tapering". While risk sentiment remains in the driver's seat, lackluster economic data see further momentum selling.</p>
 <b>NZD</b>	<p>Overweight</p> <p>Neutral</p> <p>Underweigh</p> 	<p>The economy is emerging from the pandemic given the rapid vaccination take. Coupled with a possible 25bp rate hikes in both October and November, bar for pro-NZD trades is relatively low.</p>



**Table 1: GDP Growth and Rates Forecasts**

	GDP growth (% YoY)				Key policy rate (% yearend)			
	2018	2019	2020	2021F	2018	2019	2020	2021F
<b>US</b>	2.9	2.2	-3.5	5.3	2.25-2.50	1.75-2.00	0.00-0.25	0.00-0.25
<b>Eurozone</b>	1.8	1.2	-6.8	4.0	-0.40	-0.50	-0.50	-0.50
<b>UK</b>	1.4	1.4	-9.8	4.5	0.75	0.75	0.10	0.10
<b>Japan</b>	0.8	0.7	-4.8	3.0	-0.10	-0.10	-0.20	-0.20
<b>China*</b>	6.6	6.1	2.3	7.5	4.35	4.35	4.35	4.35
<b>Hong Kong^</b>	3.5	-1.2	-6.1	5.7	5.125	5.125	5.125	5.125

\*1-year lending rate, ^Prime rate

Source: Bloomberg, Shanghai Commercial Bank

**Table 2: Foreign Exchange Outlook**

	Yearend target		
	Current	2020	2021F
<b>EUR/USD</b>	1.18	1.22	1.16
<b>GBP/USD</b>	1.39	1.37	1.36
<b>USD/JPY</b>	110	103	110
<b>USD/CNH</b>	6.44	6.50	6.55
<b>AUD/USD</b>	0.73	0.77	0.71
<b>NZD/USD</b>	0.71	0.72	0.69

Source: Bloomberg, Shanghai Commercial Bank



上海商業銀行  
SHANGHAI COMMERCIAL BANK

## Recent Publications

Optimism Unbound, Seemingly 	Sep 6, 2021
Taper Reaches Our Shore 	Aug 26, 2021
Fear Strikes 	Aug 20, 2021
Fire and Ice 	Aug 16, 2021
The Valley of Silence 	Aug 5, 2021
Dipping Toe in the Water 	Jul 29, 2021
Bad Term Brings Out True Colors 	Jul 21, 2021
Deja Vu 	Jul 12, 2021
Why Friends Don't Let Friends Become Habitual Contrarian 	Jul 2, 2021
Wisdom on a Whim 	Jun 25, 2021
The Unbearable Lightness of Being Cashless 	Jun 21, 2021
Throwing in the Powell 	Jun 17, 2021
Trading Momentum Like Soros 	Jun 10, 2021
The Waiting Game 	Jun 3, 2021
Shake Well Before Using 	May 31, 2021
Gold in Negative Rate 	May 27, 2021
How to Flourish When Inflation Roars Back 	May 24, 2021
The Job Anxiety Is Baaaack! 	May 12, 2021
The Heat Is On 	May 5, 2021
Beware the Sting in the Tail 	Apr 29, 2021
The Tax-the-Rich Boomerang 	Apr 28, 2021
Withering of Money Tree 	Apr 22, 2021
On the House 	Apr 15, 2021
In No Man's Land 	Apr 12, 2021
Looking Through Smoke and Mirror 	Mar 31, 2021
In the Seventh Inning of Sell-off 	Mar 26, 2021
Gut-Check on Turkey 	Mar 23, 2021
Nothing to See Here 	Mar 18, 2021
Pushing the Limit 	Mar 15, 2021
Following the Script 	Mar 5, 2021
Until It's Gone 	Mar 2, 2021
Every Silver Cloud Has a Dark Lining 	Feb 26, 2021
The Amazing Rate 	Feb 22, 2021
Shorts on the Rocks? 	Feb 16, 2021



上海商業銀行  
SHANGHAI COMMERCIAL BANK

## Disclaimer - Investment Involves Risk

### Investment Risk Disclosure

- The following risk disclosure statement cannot disclose all the risks involved and does not take into account any circumstances that are unknown to Shanghai Commercial Bank Limited (the "Bank"). Investment involves risks. Securities, Investment fund and Bonds are investment products. The price of investment products may go up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying or selling investment products. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment subscription. The products described herein may not be suitable for all people. The decisions to invest are made by customers and customers should not invest in investment products unless the intermediary selling them has explained to them that the product is suitable for them having regard to customers' financial situation, investment experience and investment objectives. Customers should not make any investment decisions based on this document alone. Customers must make their own assessment of the information provided in this document. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. If customers have any doubt about this material or any relevant offering document, they should consult their own independent advisers on the legal, regulatory, tax, investment and financial implications of the investments (including but not limited to estate duty and withholding tax and other tax obligations which may arise from local or foreign investment) as they deem appropriate to ensure that they understand the nature of the investments in order to consider whether the investments are suitable investments for them.
- Investment Risk in Securities: The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers must ensure to read and understand the information of Shanghai and Shenzhen Connect A-shares trading of the Bank including relevant details, trading rules, risk, fees, restriction and notices before investing in Shanghai and Shenzhen Connect A-shares trading.
- Investment Risk in investment funds: The prices of investment funds fluctuate, sometimes dramatically. The price of an investment fund may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling investment funds. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the



上海商業銀行  
SHANGHAI COMMERCIAL BANK



investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant investment fund offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment fund subscription. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. Please refer to explanatory memorandum or relevant materials of the fund for further information. The subscription of investment fund is subjected to prevailing regulatory requirements and restrictions and relevant terms and conditions of the Bank. The Bank acts as a distributor of the funds managed by fund houses and the funds are the product of the third party fund houses. For distribution of funds – in respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between the Bank and the customers out of the selling process or processing of the related transaction, the Bank is required to enter into a Financial Dispute Resolution Scheme process with the customers; however any dispute over the contractual terms of the product should be resolved directly between the third party fund house and the customers.

- Investment Risk in Bonds: Bond investments are not bank deposits and involve risks, including the possible loss of the principal amount invested. Customers should be aware of the risk of exchange rate fluctuations for bonds denominated in non-local currency, which may cause a loss of principal. Unless specified, these investments are not guaranteed by the Bank. The prices of bonds fluctuate, sometimes dramatically. The price of a bond may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of subscribing and redeeming bonds. Investment involves risks. Any past performance figures shown are not indicative of future performance, which the Bank does not guarantee the existence of a secondary market for bonds. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant bonds offering documents for detailed information, including but not limited to Risk Disclosures, prior to any bonds subscription.
- RMB is subject to exchange rate risk (only applicable to Individual Customers): RMB is currently not freely convertible. Customers should be aware that they can conduct conversion of RMB at CNH rate through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB Conversion Limitation Risk (only applicable to Corporate Customers): RMB is currently not freely convertible. Corporate Customers should be aware that they can conduct conversion of RMB through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB investments are subject to exchange rate fluctuations which may provide both opportunities and risks. The fluctuation in the exchange rate of RMB



上海商業銀行  
SHANGHAI COMMERCIAL BANK

may result in losses in the event that the customer converts RMB into HKD or other foreign currencies. If the home currency of the customer is different from the Investment product currency or the Investment product's reference currency, changes in currency exchange rates may erode the investment gains or widen the investment losses of the customer.

- The information of this document has not been reviewed by the Securities and Futures Commission of Hong Kong or any regulatory authorities in Hong Kong.

**Important Notice / Disclaimer:**

- This document is issued and solely owned by the Bank. This document is for general information and reference only and does not constitute any offer, solicitation, invitation, advice or recommendation to subscribe, trade, redeem or sell for any deposits or investments. No representation, guarantee or other assurance as to the outcome of any investment has been made or will be given to you by or on behalf of the Bank.
- This document contains information from third party, which may be incomplete or simplified. Although the information herein contained is obtained or compiled from sources the Bank believes to be reliable, it has not been independently verified. The Bank cannot and does not represent or warrant the accuracy, validity, reliability, timeliness or completeness of any such information (whether in whole or in part), and accepts no liability for any loss or damage howsoever arising from or in reliance upon the whole or any part of such information or opinions (unless due to the negligence or wilful default of the Bank, the Bank's authorised officers, employees or agents). The Bank reserves the right to amend all or any part in this document, which all views, forecasts and estimates constitute judgments made before the publication date, and are subject to change without further notice. This document contains certain statements that may be deemed as forward-looking statements involving risks and uncertainties. Customers should be aware that actual results may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements due to different factors, risks and economic situation.
- The information herein contained may not be reproduced, quoted, distributed, disclosed or published (whether in whole or in part) in any media for any purpose without prior express written consent from the Bank. The Bank accepts no liability for any loss arising from or in reliance upon such information or contents. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be contrary to the laws or regulations.
- The Bank and its affiliates or subsidiaries, and/or their officers, directors, agents and employees may have positions in and may trade for their own account in all or any of the securities or investments mentioned in this document. Companies within the Bank may have provided investment services or underwritten in relation to these securities. Commission or other fees may be earned by the Bank respect of the services provided by them relating to these securities or investments.



上海商業銀行  
SHANGHAI COMMERCIAL BANK