Serving Hong Kong
since 1950

全面為您服務

Shanghai Commercial Bank Wealth Management

Investment Outlook Q2 2019

上海商業銀行
SHANGHAI COMMERCIAL BANK

處處為您着想

Global Market and Currency Outlook

Play the Ranges

The dollar is on solid footing, as investors bet on a US outperformance with interest in Fed's dovish tilt on the back-burner. The theme of US exceptionalism is, however, so well telegraphed now, it takes much more to convince the market to buy the dollar onwards. A touch of fatigue will set in and strategy will be to play the ranges.

The EUR still feels vulnerable to ongoing string of poor data, political tensions around Italy and Brexit uncertainty. Battling against stiff headwind, the low yielder will be a tough sell. Outside the EU, the picture was not uniformly gloomy. In the UK, there is a sense of renewed urgency to find some compromises in Brexit talk to avert chaos in a "no-deal" rupture. Bias to buy into GBP dips remains intact. The bearish tone for the JPY appears shallow, with buyers coming in around 111. Until central banks depart from an entrenched dovish bias, the JPY will be left in an uninspiring range. The Aussie and Kiwi retreated since Antipodean central banks raised the dovish white flag. As long as equities can hang on, however, the beaten-down commodity currencies are getting the benefit of doubt. Commodity currencies could drift higher before an unappetizing reality sets in.

Source: Shanghai Commercial Bank Limited

Asset Managers' Corner – FIL Investment Management (Hong Kong) Limited

Growth and valuation uncertainty highlight the attractiveness of a dividend-based return in 2019

3 Components of total return

An equity investor's return breaks down into 3 components; dividends, growth and valuation change. These different drivers of return behave differently in different market environments, and so when thinking about our expectations for future returns, in can be helpful to think about them somewhat separately. With an uncertain outlook for earnings growth and valuations, dividends could be a valuable source of return for investors in 2019. The sum of these three components gives an investor their total return. In the market's best years, we can see a positive return coming from all three components. For example, in 2017, the breakdown was; earnings growth of 17% + dividends of 3% + valuation change of 5% = total return of 25% for global equities. In 2018, although earnings growth continued to be strong, a severe de-rating caused a negative total return. Earnings growth of 20% + dividend return of 2.3% - falling valuation of 31% = total return of -9%.

Growth Outlook

2017 and 2018 saw very strong earnings growth, at c20%. However, weakening leading indicators now suggest that we are entering a period of lower demand, and with profit margins at peak levels, investors are now significantly more cautious about the earnings outlook for 2019. Cyclical sectors are particularly exposed to any deterioration in the broader economic environment, which explains why they underperformed substantially in 2018.

Valuation Outlook

Changes in the valuation of the market are notoriously hard to predict. While the de-rating in 2018 has left equity markets more reasonably priced on current-year earnings, on a forward-looking, 'normalised' view, it is hard to argue that global equities are significantly undervalued, given the growth uncertainty outlined above. The other major factor affecting valuations is the direction of monetary policy. Rising interest rates put pressure on valuations, although central banks are likely to reduce the pace of monetary tightening if the economy encounters difficulties.

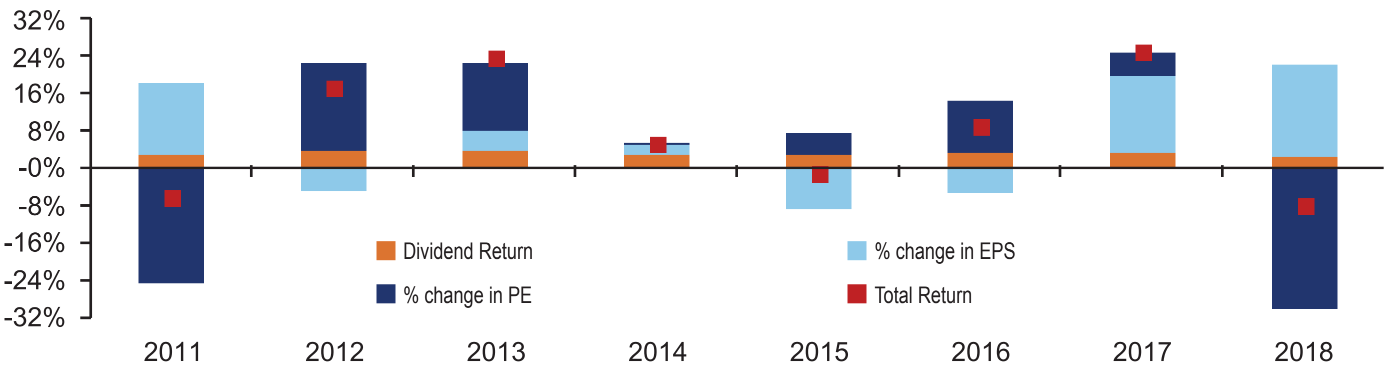
Dividend Outlook

The dividend yield on global equities is currently 2.5%. Dividends tend to be more stable than earnings as most companies will prefer to maintain dividend payments even through periods of earnings volatility. However, a serious economic slowdown would force dividend cuts in cyclical sectors such as financials, energy and industrials - the top 3 dividend paying sectors in the market in terms of dollars paid.

Valuation change is influenced by growth expectations, sentiment and interest rates

Growth is influenced by levels of economic demand and changes in profitability

Dividends are the most stable component of total return over time



Source: Fidelity International, Thomson Reuters Datastream, December 2018.

Source: FIL Investment Management (Hong Kong) Limited

Outlook for Hong Kong stocks in the second quarter

Hong Kong equities to expect volatility amidst gradually emerging political and economic risks

Investment sentiment in the first quarter of 2019 has improved, thanks to an array beneficial news. These include expected moderation of rate hikes by the Federal Reserve of the U.S., the rolling out of stimulus policies in the mainland, the stabilising RMB, as well as the capital inflow triggered by attractive valuation of Hong Kong stocks. In addition, mainland A-shares have also bottomed out and heading upwards. As a result, the HSI rebounded significantly in the last quarter, rising from the low point in January to the peak of 29,241 points at the end of February, recording a bounce back of over 4,000 points. However, this rebound range has already reflected a number of favourable news, in particular, the calmed down tensions in China-U.S. trade. As we approach the second quarter, the trade negotiations between China and the US is entering a critical stage, while there are still uncertainties in the progress of Brexit. Added with mounting economic downside pressure in Europe, and with most listed Hong Kong companies announcing last year's results, many companies are faced with the reality that the trade war is yet to reach closure this year. Although monetary policies had taken the stock market out of its worst circumstances in the last quarter, a consolidation stage is expected this quarter amidst political and economic risks

We pointed out in the last quarter that "the HSI is rather difficult to rise above the resistance range of 29,000 to 30,000 despite market rebound". In technical analysis, the index has rebounded 50% from the downturn since last year's peak to around 29,000 - a level that exhibits a rather strong resistance. At the moment, Hong Kong stocks have failed repeatedly to rise through this checkpoint, suggesting there will be even stronger headwind to go past the 30,000 mark. After all, Hong Kong equities have significantly rebounded with more than 4,000 points within two months, meaning there is much profit-taking pressure and major good news is needed to successfully take Hong Kong stocks through the resistance range. Therefore, we expect Hong Kong stocks will, very likely, consolidate within the range of 27,000-30,000 this quarter.

As for sectors, investors can consider 5G industries stocks, domestic demand stocks, mainland real estate and China-based securities firms while their prices are low. Investors can also keep a close eye on certain stocks that will benefit from tax and fee reduction measures, or those related to the Greater Bay Area development concept.

Source: Shanghai Commercial Bank Limited

SCB 2019 Q1 Top 10 Best-Selling Funds*

	Product Risk Rating	Fund Inception Date[1]	Fund AUM[1] ($m)	YTD Cumulative Returns (%)	2018 Calendar Year Returns[2] (%)	2017 Calendar Year Returns[2] (%)	2016 Calendar Year Returns[2] (%)	2015 Calendar Year Returns[2] (%)	2014 Calendar Year Returns[2] (%)	3-Year Annualised Volatility[2] (%)	3-Year Sharpe Ratio[2]
AB FCP I - American Income Portfolio - AA/USD	4	1/7/1993	USD 12,327.94	3.38	-1.11	4.73	7.73	-2.57	5.13	3.42	0.99
Allianz Income and Growth - AM/dis/USD	4	15/10/2012	USD 31,056.07	10.02	-4.69	13.29	8.97	-3.45	5.28	7.78	1.25
BGF Asian Tiger Bond Fund - A6/USD	3	2/2/1996	USD 2,311.03	3.89	-3.16	6.73	4.71	2.30	8.20	3.61	0.67
BGF Dynamic High Income Fund - A6/USD	4	6/2/2018	USD 2,739.59	9.25	N/A	N/A	N/A	N/A	N/A	N/A	N/A
JPM Income Fun - A/mth/USD	4	2/6/2014	USD 233.1	4.26	0.38	6.14	7.87	-1.47	N/A	2.89	1.78
JPM China - A/dis/USD	4	4/7/1994	USD 1,267.7	20.60	-23.13	59.11	-4.64	-7.71	6.12	19.41	0.99
JPMorgan Multi Income - mth/USDD	3	9/9/2011	USD 5,770.8	6.02	-5.03	10.60	7.41	-1.57	4.40	5.21	1.20
Pictet HK - Pictet Strategic - P dm/USD	3	30/9/2016	USD 331	3.92	-5.30	12.96	N/A	N/A	N/A	N/A	N/A
Templeton Global Total Return Fund - A/Mdis/USD	5	29/8/2003	USD 16,590	2.56	-0.58	3.57	5.97	-5.77	-0.26	6.91	0.74
Value Partners Greater China High Yield Income Fund - P/MDis/HKD	5	27/3/2012	USD 5,749.2	5.43	-4.63	10.78	16.13	5.94	1.13	4.82	1.64

Fund Risk Level is classified into 5 categories (1. Low / 2. Low to Medium / 3.Medium / 4. Medium to High / 5. High).

[1] Source: AllianceBernstein Hong Kong Limited, Allianz Global Investors Hong Kong Limited , BlackRock Asset Management North Asia Limited, Franklin Templeton Investments (Asia) Limited, J.P. Morgan Asset Management, Pictet Asset Management (Hong Kong) Limited, Value Partners Limited as of 31 Jan 2019.

[2] Source: Bloomberg, as of 28 Feb 2019

Smart Tips / Promotion

We provide a comprehensive collection of more than 600 investment funds, with the choice of lump sum subscription or Investment Savings Plan, to match your specific investment needs and risk tolerance level. Investment involves risks. Terms and conditions apply. For details, please contact our staff.

Remarks:

- *"SCB 2019 Q1 Top 10 Best-Selling Funds" lists the top 10 best-selling funds among all funds distributed by Shanghai Commercial Bank Limited (the "Bank") during 1 Jan 2019 to 13 Mar 2019, based on the total subscription and switching amount (in HKD or equivalent) for each fund. The funds shown in the table under "SCB 2019 Q1 Top 10 Best-Selling Funds" are sorted by ascending alphabetical order, without reference to the total subscription amount involved for each fund. Result of the Top 10 Best-Selling Funds is provided for information and reference only and is not intended to constitute any investment advice or opinion. The funds referred to in this document constitute only a portion of the funds that are available for distribution from the Bank and references to such funds in this document do not constitute recommendations over any other fund available from the Bank.
- The data used to calculate the year to date cumulative returns are as of 13 Mar 2019.
- Fund inception date refers to the fund's first share class inception date.
- Shanghai Commercial Bank Limited Product Risk Rating ("Product Risk Rating") is assigned by the Bank to each distributing investment fund in a scale of 1 to 5, with 1 indicating the lowest risk category and 5 being the highest. Product Risk Rating of each investment fund is assigned by the Bank according to its product features and corresponding risk factors. The categorization results may be different from those provided by the respective fund houses. The Bank may revise the Product Risk Rating assigned to an investment fund from time to time without prior notice. For more information on the Product Risk Rating and the respective investment preference, please visit your nearest Shanghai Commercial Bank Limited branch.
- Volatility is a statistical measure of risk. The above 3 year volatility has been annualised for comparison and is calculated by using the annualised standard deviation of the monthly returns during 28 Feb 2016 to 28 Feb 2019.
- Risk relative to return can be measured by 3-year Sharpe Ratio. Sharpe Ratio at the table above is a measure of the fund's performance against the 3-month US Treasury bill rate (risk free investment return), adjusted for risk. A relatively high positive ratio indicates that the fund has a relatively high risk-adjusted return historically. Data is calculated by using the returns from 28 Feb 2016 to 28 Feb 2019.
- In respect of each relevant fund, the returns were calculated based on the principle of NAV-to-NAV of the relevant fund, with reinvestment of all dividends (if any). Only the funds that have an investment track record of at least 6 months as of the information captured date will have their percentage returns displayed.
- Certain funds may have significant exposure in financial derivatives instruments. Risks associated with these instruments include among other risks, counterparty risk, credit risk and liquidity risk. Such exposure may lead to a high risk of loss of all or part of the invested capital.
- The returns are denominated in relevant fund currency (which may be foreign currency). Investors may be exposed to exchange rate fluctuations which may cause the value of investments to go up or down. The value and income of your investment can fall as well as rise and you may get back less than invested.
- The fund(s) mentioned above has been authorized by the Securities and Futures Commission in Hong Kong (the "SFC"). SFC authorization is not a recommendation or endorsement of a fund nor does it guarantee the commercial merits of a fund or its performance. It does not mean the fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The information herein contained has not been reviewed by the SFC.

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 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 subscribing and redeeming 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, as well as 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 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. 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 Unit Trust: The price of investment funds 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 investment funds. 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 should refer to relevant investment fund offering documents for detailed information, as well as 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 housed 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 in bonds denominated in non-local currency should be aware of the risk of exchange rate fluctuations, which may cause a loss of principal. Unless specified, these investments are not obligations of or guaranteed by the Bank. The price of bonds 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. Any past performance figures shown are not indicative of futures performance, 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, as well as 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 realized 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 realized 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 may result in losses in the event that the customer converts RMB into HKD or other foreign currencies. If your home currency is different from the Investment Fund currency or the Investment Fund's reference currency, changes in currency exchange rates may erode your investment gains or widen your investment losses.
- 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.
- Although the information herein contained is obtained or compiled from sources the Bank believes to be reliable but which 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) 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, all views, forecasts and estimates constitute the 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 and may be affected by risks and uncertainties, actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements.
- 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 above offers are not applicable to the staff of the Bank. The above offers cannot be used in conjunction with other promotion offers that are not listed in this promotional material. The above offers are subjected to prevailing regulatory requirements and restrictions and relevant terms and conditions of the Bank, please refer to relevant materials or consult our staff. The Bank reserves the right to amend these terms and conditions or to amend, suspend or terminate all or any part of the offers. The Bank is entitled at its absolute discretion for the above rights without prior notice to customers. If any matters or disputes arise at any time in relation to the contents of the promotional offers, the Bank's relevant recordings / decisions / explanations shall be conclusive evidence of the offers. The decision of the Bank on all matters relating to this promotion and the relevant offers shall be final and binding on all parties concerned.
- 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.
- In case of any inconsistency between the Chinese and English versions of this promotional material, the English version shall prevail.

Customer Service Hotline:

2818 0282

www.shacombank.com.hk