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Shanghai Commercial Bank Wealth Management

Investment Outlook Q1 2020

上海商業銀行
SHANGHAI COMMERCIAL BANK

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Global Market and Currency Outlook

Greet for a Brave New World

Contrary to the then-pervasive pessimism at the end of 2018, rush for risk is on. The once-inverted yield curve of US Treasuries, an omen of recession returns, has righted itself. Freed from the specter of recession, US dollar index see a broad-based appreciation in 2019.

As 2020 dawns, the world can bid farewell to the US exceptionalism. Dollar bulls will come to terms with the reality that the greenback is overvalued following aggressive Fed easing. This sets stage for a front-loaded dollar depreciation. If the constructive environment lasts into 1Q20 as we expect, 'risk on, dollar off' would be an overriding theme.

The GBP is well-positioned to bounce back in the midst of dollar softness, as we see light at the end of the Brexit tunnel. The prospect for EUR, likewise, is bright. A liquidation of EUR-funded carry trade or a realization of regional recovery will lend support to the single currency. What's perhaps more striking is that, we maintain a bearish bias with the Aussie in spite of tariffs rollback on China. The Reserve Bank of Australia's first foray into QE program could be a game changer. Consider this as idiosyncratic risk though. We hold a relatively neutral view on its neighbor Kiwi.

However, 2020 is unlikely to be entirely smooth sailing. Presumably, Trump will re-escalate to his trade fight with China during the election year. The vagaries of trade war will keep the JPY afloat and, conversely, may push the CNH to revisit 7.20s against the dollar. The gold selloff, triggered by speculative excesses, leaves us opportunity to harvest the high-low difference.

Source: Shanghai Commercial Bank Limited

Asset Managers' Corner – UBS Asset Management

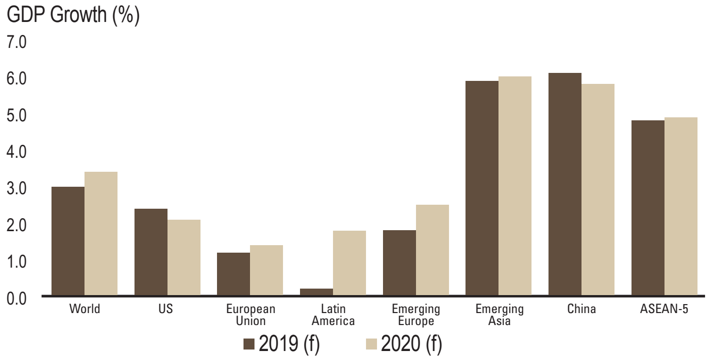
Asia Outlook 2020

- Asia remains a bright spot in the global economy;
- Asia is expected to grow by 6.0% in 2020[1], compared with 3.4% for the world economy, according to estimates by the International Monetary Fund[2];
- China's economy is expected to stabilize after a series of stabilization measures taken during the past 18 months;
- Valuations on China's equity markets continue to look attractive and China fixed income offers attractive relative value compared to other markets around the world;
- A multi-asset approach to China may offer investors risk-controlled exposure to China's growth story.

Asia: a bright spot in the global economy

While many expect a slowdown in global growth in 2020, Asia remains a bright spot, with the International Monetary Fund forecasting that Emerging Asia will grow 6.0% in 2020 , compared with 3.4% for the world economy, 2.1% for the US, and 1.4% for the European Union.

GDP Growth (%) Forecasts Compared, 2019 & 2020



Source: International Monetary Fund, October 2019

Note: ASEAN-5 consists of Indonesia, Malaysia, Philippines, Singapore, and Thailand.

Fundamentals are strong in Asia, policy support a tailwind

In part, perhaps that's down to attractive fundamentals in Asia itself: urbanization is still playing out and consumer demand remains strong. However, supportive policy is playing its part too.After the US Federal Reserve started easing rates in early August 2019, central banks in Asia have moved to ease lending rates, with Malaysia, Philippines, India, Indonesia, Thailand, and South Korea have eased rates since May.

China: policy loosening leads to economic stabilization

Over the past year, the China authorities have used a broad range of monetary, fiscal and regulatory stimulus measures to try and cushion the growth slowdown prompted by deleveraging initiatives, tighter financial sector regulation and rising trade tension with the US. Importantly in our view, recent monetary and fiscal stimulus measures have carefully targeted more capital efficient private sector corporates and consumers rather than the highly indebted property and state owned enterprise sectors.While we are convinced that China's stimulus measures and global liquidity improvement are the two main reasons for China's improving outlook, uncertainty around the US-China trade development could be a dominating factor that weighs on China's economic growth. Taking all into account, we are still constructive on China's recovery towards the end of 2019 and into 2020.Specifically, we see good prospects within China multi-asset investing, particularly for those investors who want risk-aware exposure to China's ongoing growth story.

Love China but hate risk? Take a look at China Allocation Opportunity Strategy

Looking at China's equity and fixed income market, there's a range of opportunities for investors. Take equities for example. Valuations in China's markets remain attractive by historical levels and specific sectors, like consumer, healthcare, education, and insurance, have attractive fundamentals which may still have a long way to run. Additionally, on the fixed income side, Chinese bonds currently offer attractive relative value versus global rates, particularly against Europe as bund yields have remained deeply negative. Additionally, high-yield fixed income stands to benefit from easier credit conditions in China. Currently, the China Allocation Opportunity strategy is neutral to risk assets with a preference for equities over bonds. It is currently allocated more toward onshore equities compared to the historical average as the domestic market is likely to benefit more from the onshore stimulus and it is decoupled from the global markets versus the offshore Chinese assets. As for the fixed income allocation, the strategy is tiled to USD-denominated high-yield bonds and is constructive on onshore RMB bonds exposure as an efficient diversifier in the portfolio context. The strategy has hedged out part of its CNY exposure to protect the portfolio valued in USD.

Get set for 2020

So as investors prepare for 2020, the outlook for Asia continues to be a bright spot in the world economy, and it is supported by robust fundamentals and wide-reaching policy support. China, of course, is at the heart of it but, despite slower growth, we see good opportunities in both the equity and fixed income markets where valuations and yields continue to look attractive. For those investors concerned about volatility, a China Multi-Asset allocation may be an attractive way of combining China's ongoing equity story with potential stability from a fixed income allocation.

[1] International Monetary Fund, World Economic Outlook, October 2019.
[2] The IMF defines Emerging Asia as a 29 country bloc, which includes China, India, Indonesia, Malaysia, Thailand, and Vietnam.

Source: UBS Asset Management

Outlook for Hong Kong stocks in the first quarter 2020

Investment value of Hong Kong equities emerging amidst China-U.S. political and economic volatility

Repeated delays in China-U.S. trade negotiations during the fourth quarter 2019 have created much tension in the situation. Added with the intense local social atmosphere, the yield of Hong Kong equities was underperformed the average of major global markets in 2019. For the first quarter 2020, China-U.S. relationship is expected to be a major influence on the outlook of Hong Kong equities. At the time when this article was finalised, the heads of the two countries were yet to enter the much-awaited first-stage trade agreement after recurring suspensions. The market was also anxious that the earlier postponement of upward tariff adjustment would only be temporary. In other words, the U.S. could have an attitude change any time. If there is no further escalation in the China-U.S. tensions, and the tariffs that were increased in December are withdrawn, then positive impact to the quarter's financial environment and investment sentiment is expected from the rolling back of tariffs under continuously loose global monetary policies.

Stock market movements are intertwined with economic situation. The market will focus on the official target on China's economic growth. Yet, investors must also note that the weakened Hong Kong economy may limit potential upside in Hong Kong market. Furthermore, Taiwan's presidential election will take place in January 2020 - the impact it has on the cross-strait situation shall be closely monitored.

The Hang Seng Index fluctuated much in the fourth quarter of 2019. Following a rebound to the peak of 27,900 in early November, significant drop was registered, with the lowest hovering in the range of 25,000. While the present estimated value of Hong Kong equities is already quite attractive, the recent historic P/E ratio of HSI was still lower than its five-year average (as at 3 December, Bloomberg's data indicated that the P/E ratio of HSI was 11.2, while the 5-year average was 11.9). The present price has already reflected substantial potential risks. The investment value for the medium-to-long term is rather attractive. As such, following the adjustment and consolidation of Hong Kong equities at the end of 2019 and the beginning of 2020, we expect that there is much room for rebound for Hong Kong equities if capital positions and news are favourable. From the perspective of technical analysis, upper resistance in the range of 28,000 to 29,000 would be quite strong for the first quarter. The support point is expected to be around the low points of 2019 at 25,000.

As for sectors, investors can take note of technology stocks, which are benefiting from the growth of the new economy and showing stronger growth potentials. Individual consumption stocks that are relatively inexpensive can also be considered. The estimated value of more defensive stocks, such as those from the China property, China banking and China insurance sectors, are also rather attractive. However, as risk aversion heightens from time to time, investors can also consider gold-related stocks or inverse products for hedging purposes.

Source: Shanghai Commercial Bank Limited

SCB 2019 Q4 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	2	1/7/1993	USD 26,161.75	11.62	-1.11	4.73	7.73	-2.57	5.13	2.62	1.39
AB FCP I-European Income Portfolio - AA/USD Hedged	4	26/2/1999	USD 4,594.69	10.32	0.13	5.46	6.36	0.44	5.00	2.78	1.50
AB SICAV I-All Market Income Pf - AD/USD	3	11/12/2014	USD 678.47	14.41	-6.42	10.80	6.65	-3.54	N/A	5.19	0.98
Fidelity Funds - China High Yield Fund - A-MINCOME(G) - USD Hedged	5	30/11/2015	USD 857	11.45	-5.08	7.24	11.66	N/A	N/A	4.78	0.65
HSBC Collective Investment Trust - HSBC Asia High Income Bond Fund -AM2/USD	3	24/2/2017	USD 1.263.29	11.08	-2.77	N/A	N/A	N/A	N/A	N/A	N/A
HSBC Investment Funds Trust - HSBC Asian High Yield Bond Fund - AM2/USD	5	20/5/2011	USD 831.72	13.24	-3.29	6.79	9.97	1.70	5.77	3.98	0.96
JPM Income - A/mth/USD	4	2/6/2014	USD 1,429.1	10.90	0.38	6.14	7.87	-1.47	N/A	2.21	2.01
JPMorgan Multi Income - A/mth/USD	3	9/9/2011	USD 5,023.2	13.19	-5.03	10.60	7.41	-1.57	4.40	4.85	1.04
UBS (Lux) Key Selection SICAV - China Allocation Opportunity (USD) - P/6Pct/Mdist/USD	4	8/6/2015	USD 487.38	22.71	-10.70	25.81	2.04	N/A	N/A	10.47	0.88
Value Partners Greater China HY Income - P MDis USD	5	27/3/2012	USD 6,357.2	7.58	-4.74	10.04	15.90	6.14	1.02	4.50	0.67

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, FIL Investment Management (Hong Kong) Limited, HSBC Global Asset Management (Hong Kong) Limited, J.P. Morgan Asset Management, UBS Asset Management (Hong Kong) Limited, Value Partners Limited as of 31 Oct 2019

[2] Source: Bloomberg

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- The data used to calculate the year to date cumulative returns are as of 30 Nov 2019.
- Fund inception date refers to the fund's first share class inception date.
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- 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 1 Dec 2016 to 30 Nov 2019.
- Risk relative to return of fund 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 monthly investment returns from 1 Dec 2016 to 30 Nov 2019.
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- 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 suffer a loss.
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