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Shanghai Commercial Bank Wealth Management

Investment Outlook Q3 2020

上海商業銀行
SHANGHAI COMMERCIAL BANK

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Global Market and Currency Outlook

The Bumpy Road to Recovery

The COVID-19 swept over the world with shocking speed, wreaking havoc on our otherwise well-ordered life. Many countries are now sparing no efforts to reopen by stage after long-time lockdown. Which is to say the worst moment might be over, though a V-shaped economic rebound remains a remote possibility.

The future is fraught with uncertainties, and it rings especially true to China. With a new round of trade war on the simmer, the CNH could further depreciate to above 7.15. The sterling is likely to come under strain because of the renewed Brexit risk. We lean towards fading the Aussie strength as the pace of improvement in global consumption has muted. On contrary, JPY might benefit under such environment. As for the greenback, until another catalyst shakes the market, it will most likely wander in a well-established range.

Source: Shanghai Commercial Bank Limited

Asset Managers' Corner – Pictet Asset Management

Global Environmental Opportunities: Investing to safeguard the planet does not mean sacrificing returns

Green investing has long been misconstrued as a dull and unrewarding asset class. This is not necessarily the truth. The emergence of a thriving investable universe means investing to provide solutions to environmental challenges can be both spiritually and financially rewarding.

The latest outbreak prompts many to rethink the relationship between man and nature. That, together with market volatility, give investors more reason to seek long-term investment opportunities beyond short-term noises. European investors are forerunners in this regard, and the Asian investment community is narrowing the gap with the latest move being the first list of green fund from the SFC in Hong Kong.

As an award-winning thematic fund provider[1], we believe that secular trends on environmental solutions can offer investors an attractive long-term risk-return profile. Population growth, economic expansion and the rise of the global middle class increase the strain on natural resources. Environmental awareness is rising across the world. With public opinion on environmental policies becoming increasingly favorable, we believe that companies providing solutions to resource scarcity and pollution challenges will experience increasing demand for their products and services.

Access the fast-growing $2trn environmental solutions sector

Public pressure on governments and businesses to reverse this ecological degradation and safeguard the world's natural resources is growing, and as a result a distinct and attractive group of environmental equity investments has emerged. Investors can now tackle specific environmental challenges such as chemical pollution, ocean acidification, and the scarcity of fresh water through the companies in which they invest. Once niche, environmental investing is now moving firmly into the mainstream. The environmental solutions sector is approximately $2trn in size and growing by 6-7% per year, or roughly twice the rate of global growth[1] .

The size of the environmental industry today	Expected annual growth	Sales growth of companies in the environmental industry^
USD 2 trillion	6-7%	6.5%

^ Median 2016-18e sales CAGR (%) in local currency. Source: Bloomberg, Pictet Asset Management (Hong Kong) Limited

Sustainable investing doesn't mean giving up gains

"Investors don't necessarily have to compromise on performance if they want to invest sustainably. As one of the leaders in both thematic and responsible investing, we combine the two to deliver strong investment performance for our clients, as well as sustainable growth for the planet."

Pictet's thematic strategy invests in the shares of companies that are making an active contribution to safeguarding the world's natural resources. Investments are chosen from a broader universe consisting of the world's 3,500 most environmentally-responsible publicly-held firms – companies that meet the criteria of our proprietary ESG framework, operating in fields such as pollution control, water supply, renewable energy, waste management and sustainable agriculture.

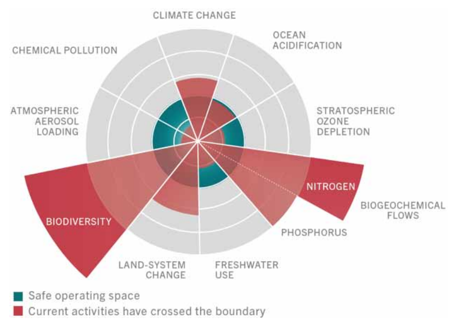
Investment based on a scientific model – the Planetary Boundaries framework

The investment managers have developed a proprietary screening tool to identify companies with a low environmental footprint across nine dimensions: climate change, oceanic acidification, ozone depletion, eutrophication, fresh water, land use, biodiversity, aerosols and chemical pollution.

This screening is based on the Planetary Boundaries, a model which defines the ecological "safe operating space" within which human activities should take place. The model sets thresholds for these nine most damaging man-made environmental phenomena, as well as a set of boundaries, which, if breached, have the potential for catastrophic damage to our planet.

Planetary Boundaries[2]

We believe environmental awareness is well established. COVID-19 reminds us that we need a better relationship between humans and nature - the "safe operating space". System resilience and an "insurance mindset" are likely to take center stage in light of the fragility of the global economy.



1. Source: Asian Private Banker, "Best Thematic Provider – 2017-2020"

2. Source: Stockholm Resilience Centre, as of September 2009

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Source: Pictet Asset Management (Hong Kong) Limited

Prospects for Hong Kong Stock Market in the Third Quarter

Take a Cautious Stance in investment in Hong Kong Stock market; Strong Performance in Selected Sectors

Global stock markets have been volatile in the second quarter of this year as the impact of COVID-19 epidemic spread across global financial markets. As the epidemic gradually subsides, the international trade situation has stabilized for the time being, the economies are recovering and investors are looking forward to an economic revitalization, enabling the stock market to pick up. The Nasdaq Index has sharply rebounded and recorded historical high recently. In terms of Hong Kong stocks, the HSI has been hovering around 22,800 to 24,800 points since the second quarter. Influenced by the political situation, it went down to 22,500 points in late May, but later recovered to around 24,500 points, which shows how fast the impact of political instability arises and diminishes. Although the political crisis has subsided for the time being, the potential impact of the global political and economic situation on the stock market has not abated yet.

Looking ahead to the third quarter, the political and economic situation in China and the US, as well as in Hong Kong, is likely to be one of the defining factors of the domestic investment environment in the second half of the year. As the global economy has yet fully recovered from the epidemic, the market is concerned about whether the number of infected people will rise sharply again and bring about the so-called "second wave" of the epidemic. The global capital has pushed some stocks to rebound to a high seen at the beginning of the year as if the epidemic has never happened. The hot money may flow into the risky asset, and the stocks markets may catch up. Meanwhile the prices of assets such as foreign currencies and precious metals have repeatedly reached yearly highs, reflecting the market's certain concern over the investment prospect for the current quarter.

Technical trend analysis shows the HSI plummeted to near 26,000 points in early March and failed to break the 24,800 points level after it rebounded from the market lows. It has failed to break the level many times. If Hong Kong stocks successfully maintain the level at 25,000-26,000 points, the market is expected to rise again, but it requires the driving force of basic factors or news flow. Hong Kong stock valuation shows that the recent P/E (TTM) of HSI is still lower than its 5-year average (according to Bloomberg as of 4 Jun., HSI's P/E is around 10.6 and its five-year average is 11.5), reflecting that the current valuation is still attractive. From a medium- to long-term investment perspective, investors may consider sectional absorption.

In terms of industry sectors, the stronger sectors in the previous quarter were Internet stocks, new economy stocks, medical and pharmaceutical stocks, property management stocks, and some consumption stocks. Investors can pay continuous attention to these sectors. To balance risks, investors may choose gold-related stocks or hedge their portfolio with inverse products.

Source: Shanghai Commercial Bank Limited

SCB 2020 Q2 Top 10 Best-Selling Funds*

	Product Risk Rating	Fund Inception Date[1]	Fund AUM[1] ($m)	YTD Cumulative Returns[2] (%)	2019 Calendar Year Returns[2] (%)	2018 Calendar Year Returns[2] (%)	2017 Calendar Year Returns[2] (%)	2016 Calendar Year Returns[2] (%)	2015 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 24,084	-4.15	12.31	-1.11	4.73	7.73	-2.57	7.35	0.15
AB FCP I - Global High Yield Portfolio - AA/USD	4	22/9/1997	USD 16,870	-12.67	13.42	-5.47	7.32	13.91	-5.25	11.79	-0.21
Allianz HKD Income Fund - AM/dis/USD	2	1/3/2013	HKD 4,086	1.06	4.64	0.31	1.83	1.01	1.52	1.34	0.27
Allianz Selection Income and Growth Fund - AM/dis/H2 RMB Hedged	3	14/10/2014	USD 261	2.85	19.06	-2.36	17.03	11.98	1.85	12.08	0.54
BlackRock Asian Tiger Bond Fund -A6 Distributing Monthly/USD	3	2/2/1996	USD 2,913	-1.63	11.37	-3.16	6.73	4.71	2.30	5.86	0.21
BlackRock World Gold Fund - A2 Acc/USD	5	30/12/1994	USD 5,769	19.55	34.55	-17.58	2.68	50.92	-21.88	32.17	0.39
Fidelity Funds - China High Yield Fund - A-MINCOME(G) USD (Hedged)	5	30/11/2015	USD 1,108	-4.45	12.90	-5.08	7.24	11.66	N/A	9.63	0.05
JPMorgan Multi Income - A/mth/USD	3	9/9/2011	USD 4,379	-9.42	14.81	-5.03	10.60	7.41	-1.57	9.37	0.01
UBS (Lux) Key Selection SICAV - China Allocation Opportunity (USD) - P/6%/Mdist/USD	4	8/6/2015	USD 856	-1.29	27.00	-10.70	25.81	2.04	N/A	11.29	0.63
Value Partners Greater China High Yield Income Fund - P/MDis/USD	5	27/3/2012	USD 4,014	-9.61	9.30	-4.74	10.04	15.90	6.14	9.96	-0.19

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, FIL Investment Management (Hong Kong) Limited, J.P. Morgan Asset Management, UBS Asset Management (Hong Kong) Limited, Value Partners Limited, as of 30 Apr 2020

[2] Source: Bloomberg

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Remarks:

- *"SCB 2020 Q2 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 Apr 2020 to 12 Jun 2020, based on the total subscription and switching amount (in HKD or equivalent) for each fund. The funds shown in the table under "SCB 2020 Q2 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 29 May 2020.
- 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 Jun 2017 to 29 May 2020.
- 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 Jun 2017 to 29 May 2020.
- 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.
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