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Shanghai Commercial Bank Wealth Management

Investment Outlook Q3 2021

上海商業銀行
SHANGHAI COMMERCIAL BANK

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Global Market and Currency Outlook

Transitory Bottleneck

The Federal Reserve signals high tolerance to inflation, soothing market concerns about premature tapering. But inflation scare is ever present, as time passes by, the central bank may come under the spotlight again.

Before key Fed members change their dovish tone, we anticipate the dollar to wander around yearly bottom. Risk sentiment seems fairly firm as market calms down, yen could underperform despite improvement in vaccine rollout. While the uptrend for the pound and the euro is hard to fight for now, we think most of the positive news have been factored in and thus turned cautious. On the contrary, we depict a bright outlook across the Pacific. Buoyed by the commodity boom as well as less-dovish-than-once-thought central banks, AUD and NZD will remain elevated.

Source: Shanghai Commercial Bank Limited

Asset Managers' Corner – J.P. Morgan Asset Management

Dividend stocks are back on multi-income investors' radar

The massive rollout of monetary and fiscal support to taper the markets' 'winter chills' of 2020 has set up a conducive backdrop for dividend stocks[1]. With the global economy now on the road to recovery, we believe such assets are presenting relatively attractive valuations for multi-income investing.

Why dividend stocks[1] could be making a comeback

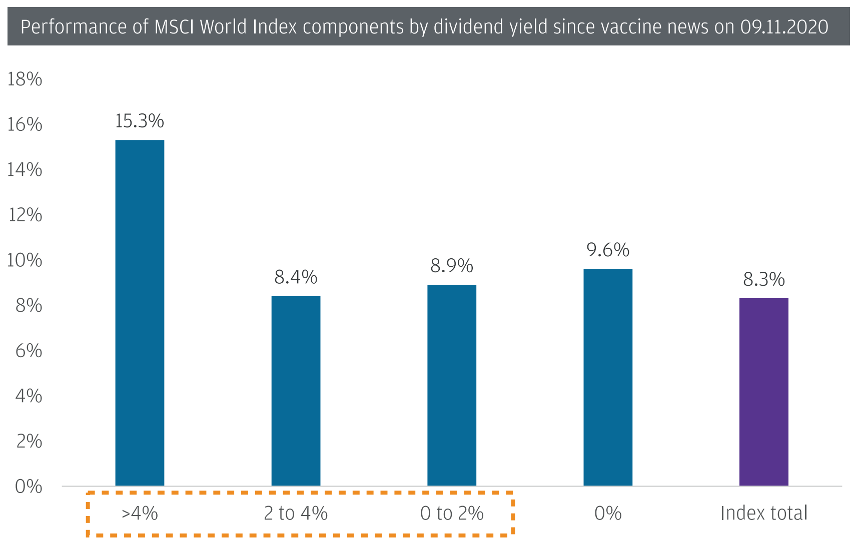
In 2020…

- Some companies halted dividend payments in 2020 as global growth faltered in the wake of the public health crisis. In the US equity market[2], 38 companies in the S&P 500 Index suspended dividends and 85 didn't pay in 2020. Still, 359 companies either maintained or increased their dividend.
- Meanwhile, growth stocks are in the spotlight as the rebound in global activity is supportive of risk assets. A majority of the returns of the MSCI World Index through 2020 were generated by zero-dividend names[3].

… and today

- Positive efficacy data on vaccine development since November 2020 has bolstered the outlook of dividend stocks, changing the market dynamic which was previously led by growth names.
- The improved sentiment on dividend stocks has also established a constructive backdrop. In our view, this could help narrow the valuation gap - which was significant in 2020 - between dividend stocks and growth stocks.

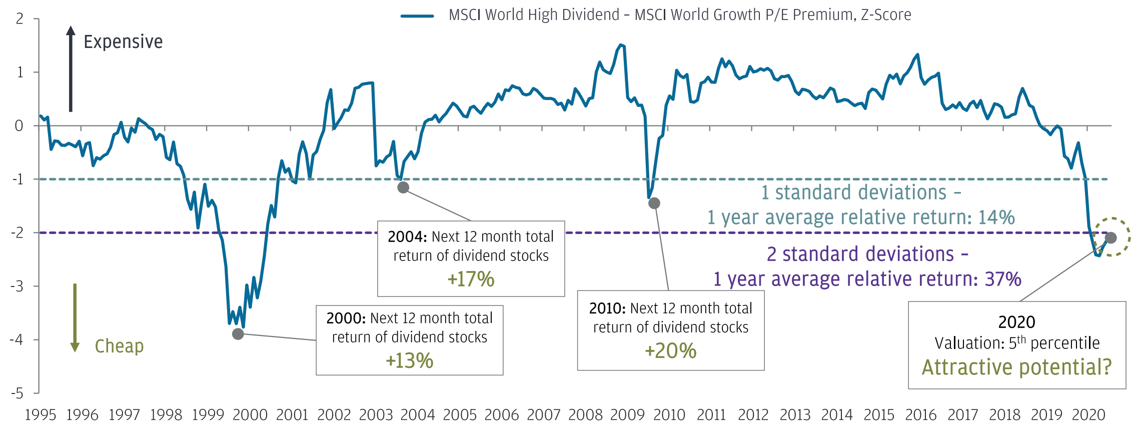
Dividend stocks supported by vaccine news[3]



[1] For illustrative purposes only based on current market conditions, subject to change from time to time. Not all investments are suitable for all investors. Exact allocation of portfolio depends on each individual's circumstance and market conditions.
[2] Source: J.P. Morgan Asset Management. Data as of September 2020.
[3] Source: Bloomberg, J.P. Morgan Asset Management. Data as of 31.12.2020. Indices do not include fees or operating expenses and are not available for actual investment. Past performance is not a reliable indicator of current and future results. Yield is not guaranteed. Positive yield does not imply positive return.

- When we look at the normalised price-to-earnings (P/E) divergence between dividend and growth stocks over a 25-year period, we are currently rotating through two standard deviations while 95% of the observations previously have been closer to an average level, creating compelling valuation opportunities.
- Not only is this attractive on a relative basis, but also on an absolute basis as highlighted in the chart below - historically, there had been a 13-20% absolute return on dividend-oriented stocks in the next 12 months after the valuation gap between dividend and growth stocks had widened. With the current valuation level, we believe this has created potential opportunities in dividend stocks to reverse the divergence with growth stocks.

P/E of MSCI World High Dividend Index versus MSCI World Growth Index[4]



Three key factors to keep in mind

We believe the valuation gap between dividend stocks and growth stocks could narrow in 2021 on the back of current supportive macroeconomic policies. The key factors for the normalisation of the divergence include:

1. Pace of the economic recovery

- The rebound in global economic activity could continue through 2021. But the pace of recovery in each location differs, and would likely be dependent on how the economies are tackling subsequent waves of infections.
- China has been able to successfully contain the health crisis thus far, and this has allowed businesses and consumers to gradually return to normality.
- The pace of recovery in Europe and the US is largely dependent on the policy priorities of the respective governments, and how they could effectively tackle new waves of infections while maintaining economic momentum.

2. Sustained medical solutions

- Several types of vaccines are already being rolled out globally, and the medical community is expected to obtain more data on their efficacy and the potential side effects.
- These factors could determine the pace at which economies can return to normal. A longer road to recovery could lead to higher risk of defaults for companies that are more vulnerable to the health crisis.

3. Easing of restrictions on dividends and share buybacks

- In December 2020, the Bank of England[5] lifted the temporary ban on shareholder payouts and large UK banks could resume paying dividends from 2021. The European Central Bank[6] and the US Federal Reserve[7] made similar announcements, but European lenders could only distribute dividends from October 2021. The restrictions were imposed in an effort to help maintain capital buffers, allowing banks to continue lending to support the broader economy.

[4] Source: Bloomberg, J.P. Morgan Asset Management. Data as of 31.12.2020. MSCI World Growth Index, MSCI World High Dividend Index. P/E = 12 month trailing price-to-earnings ratio. Past performance is not a reliable indicator of current and future results.
[5] Source: "PRA statement on capital distributions by large UK banks", Bank of England, 10.12.2020.
[6] Source: "ECB asks banks to refrain from or limit dividends until September 2021", European Central Bank, 15.12.2020.
[7] Source: "Federal Reserve Board releases second round of bank stress test results", US Federal Reserve, 18.12.2020.

Source: J.P. Morgan Asset Management

Outlook of Hong Kong Equities Market in Q3

Expansionary measures may step back amid raging inflation; Hong Kong market is expected to further consolidate

In the second quarter of 2021, epidemic in some emerging countries tends to be severer, with a variant virus of COVID-19 being heard occasionally. However, thanks to the liquidity injection by the economic stimulus policies, performance of the global equity market was not too bad. US stock indices kept reaching record highs while the Hong Kong stocks remained fluctuating; Hang Seng Index was trading roughly between 28,200 and 29,400 points in the quarter. The two sharp corrections which resulted HSI to trade below 28,000 points in late March and mid-May were followed by substantial buying forces which eased downward pressures, with sharp rebound occurred and the market returned to a range-bound trading manner.

Looking at the coming third quarter, liquidity is expected to be abundant in the United States while China's economy is in the stage of rapid recovery after the epidemic. Foreign capital seems to continue flowing into the China equities market, and the exchange rate of Renminbi against the US dollar may hit a three-year high recently, further pushing up the valuations of Chinese stocks and indirectly benefitting the Hong Kong stock market. However, investors should note that there are still uncertainties around the global pandemic and the international political environment has become increasingly tense. This might heighten their awareness of risk avoidance. Besides, the gradual economic recovery of the United States will prompt the Federal Reserve to curb the raging inflation, and the tightening of funds is expected to cause great fluctuations in the stock market.

In the second quarter, the Hang Seng Index of Hong Kong stocks fluctuated between 27,500 and 29,500 points. We expect the range-bound trading pattern to continue at the beginning of the third quarter, with the stock market still being in a consolidation stage. The high level of 30,000 points requires favorable news to stimulate the market for a breakthrough, and the low level of 27,000 points in the fourth quarter of last year can be a good reference for the support level in this quarter. Given that overall valuations of Hong Kong stocks are reasonable at the moment, new economy stocks are gradually driving the rise of the Hang Seng Index. As both the global and domestic economies are expected to recover, we can anticipate that Hong Kong stocks will regain its growth momentum in the late period of this quarter or in the next quarter.

For our sector outlook, heightening regulation had led technology stocks to heavily adjust in the last quarter, which made valuations of some leading new economy stocks attractive, and many technology stocks were favored by funds from mainland China under the “Shanghai-Hong Kong Stock Connect Program”. The medical and pharmaceutical sector is also one of the focusing sectors, and stocks in the golden sectors have great growth potential. In addition, the domestic consumption sector is expected to continue to benefit from the "dual circulation" policy and "retaliatory consumption after the epidemic", so investors may continue to pay attention to this sector.

Source: Shanghai Commercial Bank Limited

SCB 2021 Q2 Top 10 Best-Selling Funds*

	Product Risk Rating	Fund Inception Date[1]	Fund AUM[1] ($m)	YTD Cumulative Returns[2](%)	2020 Calendar Year Returns[2] (%)	2019 Calendar Year Returns[2] (%)	2018 Calendar Year Returns[2] (%)	2017 Calendar Year Returns[2] (%)	2016 Calendar Year Returns[2] (%)	3-Year Annualised Volatility[2] (%)	3-Year Sharpe Ratio[2]
Allianz Income and Growth Fund - AM/dis/HKD	4	15/10/2012	USD 34,044	4.76	21.37	18.91	-4.69	13.29	8.97	14.01	0.81
Amundi HK - Balanced Fund - Classic/dis/USD	3	30/06/2011	USD 1,010	5.22	14.91	17.88	-11.10	20.47	1.81	12.36	0.63
BlackRock Asian High Yield Bond Fund - A8 Distributing Monthly - HKD Hedged	5	01/12/2017	USD 785	1.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fidelity Funds - China High Yield Fund - A/MINCOME (G) HKD (Hedged)	5	30/11/2015	USD 2,392	1.16	8.62	12.18	-5.95	6.46	11.24	10.23	0.48
First Sentier Asian Bridge Fund - I/Mdis/HKD	4	25/09/2003	USD 418	1.63	13.48	N/A	N/A	N/A	N/A	N/A	N/A
JPMorgan China A -Share Opportunities Fund - A/Acc/USD	5	18/08/2014	USD 418	4.65	70.70	50.27	-28.73	47.58	-18.50	23.74	1.08
JPMorgan Multi Income - A/mth/HKD	3	09/09/2011	USD 4,764	6.36	4.18	14.27	-4.83	11.40	7.54	10.44	0.58
Pictet HK - Pictet Strategic Income - P/HKD/dm	3	30/09/2016	HKD 1,803	6.83	17.01	10.92	-5.11	13.84	N/A	9.41	0.75
UBS (Lux) Key Selection SICAV - China Allocation Opportunity (USD) - P/6Pct/Mdist/HKD	4	08/06/2015	USD 3,176	0.42	15.43	26.38	-10.55	26.86	2.11	11.92	0.66
Value Partners Greater China High Yield Income Fund - P/MDis/HKD	5	27/03/2012	USD 2,708	-1.68	-0.82	8.88	-4.63	10.78	16.13	10.42	-0.02

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

[1] Source: Allianz Global Investors Asia Pacific Ltd., Amundi Hong Kong Ltd, BlackRock Asset Management North Asia Ltd., FIL Investment Management (HK) Ltd, First Sentier Invesors Hong Kong Ltd, J.P. Morgan Asset Management, Pictet Asset Management (HK) Ltd , UBS Asset Management (HK) Ltd, Value Partners Ltd, as of 30 Apr 2021.

[2] Source: Bloomberg

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Remarks

- *"SCB 2021 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 2021 to 15 Jun 2021, based on the total subscription and switching amount (in HKD or equivalent) for each fund. The funds shown in the table under "SCB 2021 Q2 Top 10 Best-Selling Funds" are sorted by ascending alphabetical order, without reference to the total subscription amount involved for each fund. The 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 31 May 2021.
- 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 2018 to 31 May 2021.
- 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 2018 to 31 May 2021.
- 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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