MARKET NAVIGATOR
2024Q3

Sun Life Asset Management
永明資產管理

Beware of Short-term Volatilities Amid Higher Geopolitical Risks

2024 is regarded as the year for elections, with voters in as many as 77 countries head to the polls. Some election results were quite unexpected. For example, although Indian Prime Minister Modi was able to return for a third term, he did not win outright as expected; opposition parties won in Europe. In November 2024, all eyes would be on the US presidential election. With a lot of uncertainties ahead, markets might be more volatile in the coming months. In the short term, investors could consider diversifying across different asset classes and regions. But in the long run, investment megatrends remain to be the focus. Carbon reduction is regarded as one of the major megatrends, and researchers have found that if companies pay attention to factors such as environmental, social and governance (ESG) and carbon emissions, their financial resilience may be better. According to Bloomberg data, not only are low-carbon investment strategies more defensive, they also outperform parent indices when markets rebound. Global low-carbon investment strategy is considered as a defensive play in down markets while as an aggressive play for up markets.

Source: Bloomberg

12-Month Outlook

Positive	Neutral	Negative
Global Equity	Hong Kong Equity	Cash
Global Bond		
Asian Equity		
ESG(Low Carbon)		

Positive

Global Equity

No Change

- Although the economic data in various markets appeared mixed beginning Q2, leading indicators such as PMIs, for example, showed that US is moderating, European service industry remained strong, and China has slightly improved, but overall global economy is growing moderately, with almost no signs of recession
- Corporate earnings growth prospects continued to improve, and we remained bullish in global equities. As global stock markets performed well in H1, market focused on valuations. However, we believed valuations at current levels are not too high after healthy corrections in April
- We favor markets with high earnings visibility and corporate resilience

Global Bond

No Change

- Mild strength in the labour markets prevented the Fed from cutting rates in June. But eventually, we think, the central bank would reduce rates at least once this year as inflation progressively declines
- Continued geopolitical tensions, coupled with the elections held in many places this year, may cause market fluctuations. Capital may flow into safe-havens such as government bonds
- Rates volatility may remain high and we remain patient before adding duration. There is good value in the short to intermediate portion of the US Treasury curve for better carry

Asian Equity

No Change

- 2024 will see some important elections for Asian markets which could all have impacts on macro and market conditions in the region. Volatility often increases before elections, and markets are also concerned about the political direction of new governments
- Taiwan as the positive country view with solid AI demand growth. While AI demand to reaccelerate in 2H guidance, we believe the US tech giants capex guidance has been supportive on Taiwan tech AI
- Japanese economy is exiting deflation and transitioning to moderate inflation with real wage growth. Virtuous cycle between wages and prices is kicking in. Another structural factor is that Japanese companies are improving corporate governance and expanding shareholder returns in response to TSE reform

ESG (Low Carbon)

–

- Global investments in energy transition surpassed $1.7 trillion, marking an annual growth rate of 17% in 2023. However, to achieve net-zero emissions by 2050, annual investments will need to increase to an average of $4.8 trillion between 2024 and 2030. This indicates that investment in energy transition will become increasingly significant, presenting substantial opportunities.
- Investors are increasingly prioritizing Environmental, Social, and Governance (ESG) factors. Companies that emphasize ESG and carbon emission considerations tend to exhibit more resilient financial performance.
- With increasing volatility in the investment environment, low-carbon strategies provide higher downside protection and relatively better returns compared to traditional stock strategies

Neutral

Hong Kong Equity

No Change

- China announced the 2024 GDP growth target to be around 5% and CPI at 3%. The 1-Trillion RMB special central government bond was a positive surprise, showing government determination to help mitigate debt repayment risks at local government level
- With the confirmation of Third Plenum in July, market has further expected on policies supports for weakened domestic demand and deflation, with more easing in housing market remain a key priority. Although stimulus measures are expected to continue, it takes time to be realized and investors may need to wait longer for earnings recovery
- We maintain Neutral in view of still undemanding valuation which is at -1 standard deviation to 15-year averages

Negative

Cash

No Change

- Cash is a residual of our stance in terms of equities and fixed income
- With interest rates expected to fall, cash is starting to become less attractive. Besides a more resilient economic performance than expected, cash's role as a defensive asset has begun to weaken
- We remain our 12-month cash outlook to negative, as global bonds have relatively more favorable outlook than cash

Check out the online version