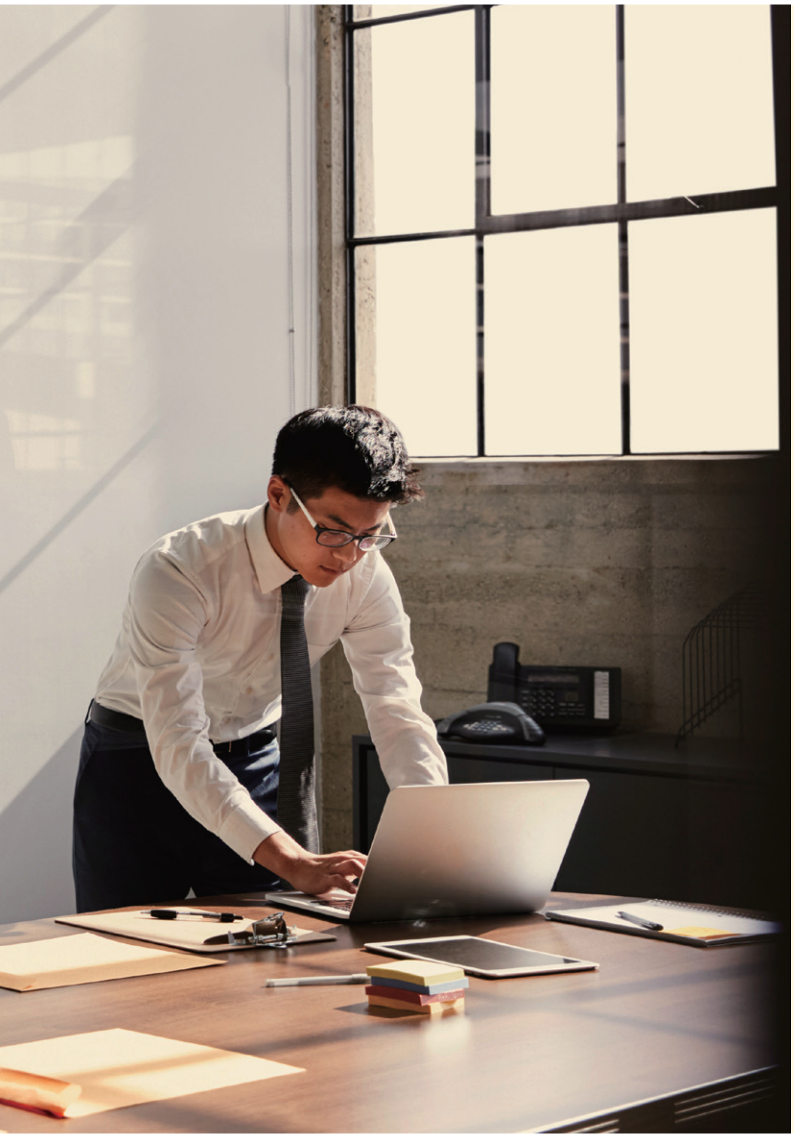
MARKET NAVIGATOR 2024Q4

Sun Life Asset Management 永明資產管理



Diversify Portfolios as Policy Risks Heighten

Investor confidence has been boosted by a series of "Policy Combo" announced by the Chinese government to deal with slowing economic growth and a sluggish real estate market. At the same time, as markets expect the US dollar to weaken, capital outflows from China may be alleviated with potential stronger renminbi. We raised our outlook on Hong Kong stocks to positive in the fourth quarter due to potential re-rating from previous low valuation. However, it should be emphasized that market conditions fluctuate rapidly with numerous news flows and the effectiveness of policy stimulus on economy remains to be seen. In addition, the external market is full of challenges, including the US presidential election and continued tensions in the Middle East. In order to reduce the volatility of investment portfolios, investors may adopt a diversified investment strategy to avoid the risk of over-concentration in a single region; as for investment tools, they may also consider adding more resilient tools such as bonds or low-carbon strategies to diversify portfolio risk and reduce volatility.

Source: Bloomberg

12-Month Outlook

Positive

- Global Equity
- Global Bond
- Asian Equity
- Hong Kong Equity
- ESG (Low Carbon)

Negative

- Cash

Positive

Global Equity

No Change

- Global equities have accumulated gains of more than 20% in the first three quarters of this year. Stepping inthe the fourth quarter, we expect market volatility to increase, especially with the US presidential election to be held in November. Increased uncertainties may trigger profit-taking activities
- Economic data shoed renewed deterioration in the global manufacturing cycle. Markets expected increased risk of a hard landing. The US Federal Reserve's 50bps rate cut in September might suggest they share this view
- However, on a 12-month outlook perspective, we hold a positive view in global equities as we believe earnings outlook remains healthy. Valuations of ex-US markets are still attractive

Global Bond

No Change

- Fed kicked off rate cut cycle in September. The future path for interest rate is still data dependent, but the asset class provides attractive carry, displays strong corporate fundamentals and should benefit from the resilience of the US economy
- The upcoming US election and ongoing geopolitical tensions are likely to cause market volatility. Capital may flow into safe-havens such as government bonds
- We foresee rates volatility to remain high and will 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

- We maintain our constructive view despite recent rally in China, which may divert fund flow across the Asian region. Dovish Fed outlook together with soft-landing scenerio is the tailwind in Asian eqiuties and currencies
- Solid AI demand growth upon strong guidance from leading technology companies continues to benefit Taiwan and Korea Tech
- Market has been pricing in further rate hike amid normalization of monetary policy by BOJ. With narrowing interest rate differential between US and Japan, the market expects Yen to appreciate which would have negative impact on corporate earnings especially for exporters

Hong Kong Equity

▲ Upgrade

- China government rolled out a series of supportive measures to save both the economy and capital market. The stimulus is known as "bazooka" package where the magnitude and coverage are much larger than expected, targeting the "pain points" in property, consumption, A-share, banking etc.
- The policy is real, and the timing is well captured in view of monetary easing among DM having been kicked off. Aided by abundant return of foreign capital, we believe the rerating is mainly reflected in the narrowed country risk premium or mean-reversal of valuation
- We upgrade to Positive in view as global funds may keep reallocating money from those high valuation regions into China because of the stimulus and the narrowed risk. However, as markets are driven by policies which are not easy to predict, market volatilities may increase. Investors should manage risks well

ESG (Low Carbon)

No Change

- 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 be increased 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

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

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