

4th Quarter 2023

# BEA Asset Navigator



## Investment Themes

### **Deglobalisation leads to further economic slowdown, the “Cold Peace<sup>1</sup>” strategy is not a game changer**

- Intensifying standoff between BRICS and G7 hastens de-risking.
- US reliance on fiscal deficit stimulus is expected to be unsustainable, lingering concerns over China’s local government and corporate debt crisis are expected.
- “Cold Peace” strategy is merely a stopgap measure to prepare for the next round of escalating friction.
- Investment risk can be reduced but not completely removed, it is an opportunity to reduce risk assets for the coming storm.

### **Multiple adverse factors emerging, the “Value-stock-first” strategy is desirable**

- Soaring treasury yields rattle high beta stocks and growth stocks; over-optimistic forecasts are being revised
- History shows the value stocks, particularly the Utilities, Consumer Staples and Healthcare sectors outperform when economies and interest rates reach the turning point
- China’s economic growth is on track for the year, and debt issues show signs of improvement, but higher HIBOR continues to suppress both Chinese and Hong Kong stock markets
- Rising risk of recession in the US and Europe offsets China’s rebound in Asia, widening performance disparities across regions are expected

### **Bond yields continuous surge is expected, “Bearish Steepening” in focus**

- Last quarter saw massive capital inflow into bonds from other assets; the surface optimism covers hidden concerns.
- Last phase of interest rate hikes accompanied by economic weakness, the expected normalisation of the yield curve is just an inevitable historical recurrence.
- “Bearish Steepening” strategy emphasises buying short-term bonds and selling long-term bonds until the yield curve normalises and sustains for some time.
- Yield curve normalisation is occurring in other mature bond markets; the cross-border arbitrage strategy can be used to diversify US bond risk.

<sup>1</sup> “Cold Peace”: Describes a confrontation between two (or more) countries in which there is no relationship breakdown due to historical, ethnic and economic factors, and they can only cooperate with each other in a limited and restricted manner.

## Asset Class Overview

↑ Outperform → Neutral ↓ Underperform

Asset Class	Quarterly View	Commentary
<b>Equities</b>		
United States	→	Growing risk of recession and bond yields surge dampen expectations for positive corporate earnings forecasts.
Europe	↓	Increasingly evident recession and weak corporate earnings likely prompt cash-outs in local stock markets.
Asian ex-Japan	↓	Risk aversion keeps stocks weak as global economic downturn amplifies regional economic problems.
China	→	China's economic data rebound and enhanced stimulus measures provide crucial support, yet valuations are still affected by the high external interest rate environment.
Hong Kong	→	HKSAR Government implement the policies to stabilize stock and property markets, but surging HIBOR continues to hamper local real estate and financial stocks.
<b>Bonds</b>		
US Government	↑	Economic recession and surging bond yields drive continuous inflows into Treasuries.
USD Investment-grade	↑	Investment grade corporate bonds benefit from elevated bond yields and expectations of improved corporate earnings.
Global High-yield	↓	Europe and US may face rising defaults and bankruptcy risks amid potential economic downturn.
US High-yield	→	Resilient US economic data may offset bankruptcy and default concerns.
Asian Pacific Investment-grade	→	The expected economic rebound of China and strong performance in India provide stability over regional bond markets.
<b>FX</b>		
AUD	→	The market expects slim chance of short-term rate hike by Reserve Bank of Australia, iron ore prices may support Australian Dollar.
NZD	→	New Zealand's economy returns to expansion, and the current interest rates is expected to be maintained for a prolonged period.
EUR	↓	Eurozone inflation falls and economic contraction looms, slim chance of short-term rate hike is expected by European Central Bank.
GBP	↓	UK economy slips back into contraction, the Bank of England likely pauses rate hike.
JPY	↓	Intervention by the Bank of Japan may temporarily boost the Japanese Yen, long-term outlook remains weak.
CNH	→	With China economy's improving fundamentals, short-term stability for CNH is expected at around 7.3.

**Important Note:**

Quarterly view of each asset class is benchmarked against a corresponding proxy index

Asset Class	Benchmark	Asset Class	Proxy Index	Threshold*	Asset Class	Proxy Index	Threshold*
Equities	MSCI World	US	S&P500	1.1%	China	CSI300	4.3%
		Europe	STOXX Europe 600	1.6%	Hong Kong	Hang Seng	3.3%
		Asian ex-Japan	MSCI Asia ex Japan	2.8%			
Bonds	Bloomberg Global Aggregate Bond	US Government	US Gov't/Credit	0.8%	US High-yield	US Corporate High-yield	1.5%
		USD Investment-grade	US Corporate	0.8%	Asian-Pacific Investment-grade	Asian-Pacific Aggregate	0.9%
		Global High-yield	Global High-yield	1.8%			
FX	US Fed Trade Weighted Advanced Foreign Economies	AUD	AUD/USD	2.8%	GBP	GBP/USD	2.7%
		NZD	NZD/USD	3.2%	JPY	JPY/USD	3.1%
		EUR	EUR/USD	4.0%	CNH	CNH/USD	2.2%

\* **Outperform:** Quarterly performance of proxy index is higher than the positive threshold percentage of corresponding benchmark; **Neutral:** Quarterly performance of proxy index within the positive and negative threshold percentages of corresponding benchmark; **Underperform:** Quarterly performance of proxy index is lower than the negative threshold percentage of corresponding benchmark.

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