BEA 東亞銀行 | PRIVATE BANKING 私人銀行

4th Quarter 2023

BEA Asset Navigator

Investment Themes

Deglobalisation leads to further economic slowdown, the "Cold Peace[1]" 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 reduces 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.

[1] "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
Equities		
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.
Bonds		
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.
FX		
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.