BEA 東亞銀行 | PRIVATE BANKING 私人銀行

1st Quarter 2023

BEA Asset Navigator

Investment Themes

Global economic fragmentation dominates capital flows

- The aftermath of the Russia-Ukraine war and impact of interest rate hikes are lingering the European and US economies. On the contrary, the Chinese economy will rebound significantly after the relaxation of COVID-19 control measures.
- The Sino-US GDP divergence will accelerate fragmentation of the global economy. Inter-organizational cooperation and corresponding friction will coexist. In particular, Deteriorating Sino-US relationship would influence the economy and capital flows.

Monetary tightening in developed countries is still on the way in first half of 2023

- US inflation is likely to peak, but not fall significantly. Interest rate is expected to be raised 2 to 3 times, with a total of 75 bps in this year.
- Due to the interaction between inflation and recession, it is unrealistic to expect excessive interest rate cuts. The forced interest rate hike in Europe and the potential adjustment in monetary policy by the Bank of Japan will be another core risk in the global investment market.

Chinese economic recovery dominates the scale of mean reversion in asset classes

- Divergence of volatility indices reflects the potential mean reversion sentiment in the first quarter of 2023.
- The US, European and Japanese equity and commodity markets are at risk while the bond and FX markets would rebound after significant corrections last year.
- The pace of China's economic recovery will dominate the scale of reversion.

Asset Class Overview

↑ Outperform → Neutral ↓ Underperform

Asset Class	Quarterly View	Commentary
Equities		
United States	→	Discount on earnings forecast triggers retreatment on valuation and equity index; the rate hike cycle is not over yet which is another reason of correction.
Europe	↓	4Q corporate earnings would plummet as a result of ultra-high PPI. Energy shortage is still on the table and conflict within the region will escalate.
Asian ex-Japan	→	Beneficiary of China's economic recovery and Sino-US tension, but the regional liquidity tightening and currency depreciation will suppress market momentum.
China	↑	Economic recovery is on a bumpy road but in a positive direction. Stimulus is expected to be launched after the National People's Congress in March.
Hong Kong	↑	Reopening policy is the core of economic rebound this year. Sectors supported by China and Hong Kong's government policy will beef up a positive sentiment.
Bonds		
US Government	↑	Duration risk would be lower during the last stage of rate hike cycle, but this is the time of rebound in historical record.
USD Investment-grade	↑	Default risk is low enough to gain an extra yield. The outperformance during the recession period is supported by histories.
Global High-yield	↓	Although default rate is capped in last quarter, the level is still higher than average. Risk premium tends to be higher during recession periods.
US High-yield	→	Liquidity tightening jets up the yield spread and issuance sentiment. The outperformance during recession periods is supported by histories.
Asian Pacific Investment-grade	→	Comparatively high yield is attractive but default risk is climbing since last quarter, especially in emerging Asian countries.
Commodities		
Gold	→	The cap of US dollar appreciation and last stage of rate hike cycles support the positive momentum, but head room is limited at USD1,950.
Crude Oil	→	The pent-up demand is questionable under China's economic recovery. Energy ban in European regions limits the downside risk.
FX		
AUD	↑	AUD will be benefited from both the rate hike expectations from the Reserve Bank of Australia and modest rise in iron ore price.
NZD	↑	Inflation pressure will keep driving the Reserve Bank of New Zealand for continuous rate hike that may lead to higher risk of a shallow recession.
EUR	→	The European Central Bank shows determination to fight against high inflation by raising interest rates, but the economic difficulties may limit the amplitude of rate hike.
GBP	↓	The UK economy is on the verge of recession, that the economic outlook will be very challenging and full of uncertainty.
JPY	→	The Bank of Japan still has a very high threshold for raising interest rates, thus there is little chance of relaxing yield control in short term.
CNH	↑	Relaxation of COVID-19 control measures can boost up the prospect of economic growth, which strengthens the upside momentum of RMB.

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%			
Commodities	S&P Goldman Sachs Commodity	Gold	Spot Gold	4.1%	Crude Oil	WTI Futures	2.8%
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.