BEA 東亞銀行 | PRIVATE BANKING 私人銀行

3rd Quarter 2022

BEA Asset Navigator

Investment Themes

Aggressive US interest rate hike twists global stock and debt trends

- The US Federal Reserve (Fed) is determined to aggressively raise interest rates amid an atmosphere of rising inflation, and other major central banks are following suit. In the short term, DM sovereign bonds and IG corporate bonds remain under pressure.
- The 10-year US Treasury yield and corporate credit spread continues to rise, which will be detrimental to DM high-dividend-paying stocks, especially those with low dividend payout ratios.
- Rising treasury yields will be detrimental to new economy stocks, but will generally favour value stocks in the early stage of the rate hike cycle. However, growth stocks tended to outperform value stocks in the mid-cycle.
- Attention should be paid to the impact of sector rotation amid the spate of interest rate hikes.

Election in the US and China would benefit domestic investment markets

- US mid-term elections will be held on 8th November. The Biden administration is expected to shift its focus from foreign to domestic affairs, launching stimulus policies to offset high inflation. This could help restore Biden's popularity in polling, which would benefit domestic investment markets.
- During the past 10 mid-term election years (i.e. going back 40 years), the S&P 500 index has on average bottomed out and rebounded in Q3, then continued to perform well in Q4.
- The 20th NCCPC (National Congress of the Communist Party of China) will be held in October. Stabilising the economy will be the top priority for the administration ahead of the meeting. In terms of data, GDP is mainly being dragged down by low consumer activity and a weak housing market – these will likely be the key focuses of stimulus policies, from which the relevant sectors will benefit.

A healthy Asian economy will benefit regional stocks and bonds

- Asia is rich in resources and has generally adopted a neutral attitude towards the Russia-Ukraine war. Inflation in the region is lower than that in the G7. There is no urgency to raise interest rates, which is conducive for the regional bond market.
- The improvement of Asian economies is supported by China's economic rebound and post-pandemic supply chain relaxation. Earnings forecasts will likely stabilise and stock prices will be bolstered.
- Food and energy sanctions between Europe, the US, and Russia are causing a global tightening of supply chains. Some Asian countries are implementing export bans to protect their economies; moreover, the RCEP, CPTPP, and IPEF agreements, launched in the shadow of Sino-US tensions, will help boost regional economies.

Asset Class Overview

↑ Outperform → Neutral ↓ Underperform

Asset Class	Quarterly View	Commentary
Equities		
United States	→	Sector rotation and restored momentum ahead of the midterm elections provide an opportunity for asset rebalancing.
Europe	↓	The soaring risk of a recession, quantitative tightening by the ECB, and FX depreciation are hurting investment sentiment in region.
Asian ex-Japan	↑	Lower inflation with stable economic growth is setting up a remarkable 2H earnings forecast in the APAC region.
China	↑	Economic recovery along with stimulus policies provides space for increased momentum.
Hong Kong	↑	Anticipation of a reopened border and comparatively low stock valuations are causing a mild uptrend.
Bonds		
US Government	↓	Aggressive pace of rate hikes by the Fed will dampen demand for US sovereign bonds, especially short-term bonds.
USD Investment-grade	→	Demand for long-term investment-grade bonds will accelerate because of the heightened risk of a recession in the US and Europe.
Global High-yield	→	Europe's risk of a recession is escalating, offsetting the improved risk appetite in the APAC region; this is impacting the corporate bond markets in particular.
US High-yield	↑	Risk appetite will improve along with equity markets, while a narrowing credit spread will benefit performance.
Asian Pacific Investment-grade	↑	Comparatively low inflation is easing the pressure of rate hikes across the region; the region's outperformance among global bond indexes will continue in Q3.
Commodities		
Gold	→	The downtrend will continue in the short term amid global rate hikes, but demand for solid gold from foreign reserves will offset this.
Crude Oil	↓	A forecast of lower demand amid the recession and quantitative tightening is pushing oil prices further downward.
FX		
AUD	→	Continual high commodity prices will benefit Australia's exports and economy, providing ample room for the RBA to raise interest rates.
NZD	→	New Zealand's economy shrank for first time recently in Q1, but the possibility of a continued slowdown is low. The central bank is expected to raise interest rates to suppress inflation.
EUR	↓	Regional fragmentation is keeping the ECB from deliberating on rate hikes, and the EU's pace of rate hikes is expected to lag behind that of neighbouring economies.
GBP	↓	The UK is now facing the problems of high inflation and zero growth, meaning that the pace of rate hikes by the BoE may be constrained.
JPY	↓	The BoJ's tightening policy contrasts sharply with Fed's rate hike momentum. The widening yield spread between the two countries is expected to weaken the JPY.
CNH	→	China is currently plagued by domestic Covid outbreaks, while also benefitting from a better economy in 2H 2022, which makes it difficult for the CNY to break out of its current value range against other currencies.

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	4.0%
		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%
		US Investment-grade	US Corporate	0.8%	Asian-Pacific Investment-grade	Asian-Pacific Aggregate	1.0%
		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	2.8%
		NZD	NZD/USD	3.2%	JPY	USD/JPY	3.2%
		EUR	EUR/USD	4.0%	CNH	USD/CNH	2.2%

* A quarterly figure within the threshold positive and negative percentages is rated as "neutral". A figure over the threshold is rated "outperformance", while a figure under the threshold is an "underperformance".