BCT 銀聯集團

An optimistic outlook for economic recovery amid generally positive macro data

Investment Markets	BCT's Investment Views	Summary
Equities	Overweight	
US	Neutral	We are neutral on U.S. equities. Expectations of pent-up consumer demand in the second half of 2021, driven by massive fiscal stimulus and infrastructure spending, earnings recovery and a supportive Fed paint an optimistic picture for economic recovery and equities. However, expensive valuations in some corners of the market and potential tax hikes are areas to be monitored. Overall, the need to be selective is high.
Europe	Neutral	We are neutral on European equities. Even though vaccinations in Europe are progressing at a slow pace and recovery will be slow, the current earnings season has been positive so far. The cyclical and value features of European Union markets should help overcome the economic growth lag.
Japan	Overweight	We are positive on Japanese equities. Our positive stance on Japan is corroborated by the strong earnings season, which has supported the performance of Japanese equities in 2021, coupled with the weakening of the yen.
Asia ex Japan	Overweight	We are positive on Asian equities. Despite an increase in U.S. bond yields, we believe the potential for Asia remains intact. The rebound in global growth and the planned rebalancing of a more sustainable growth path in China are positive overall for Asia.
China & HK	Overweight	We remain positive on Chinese equities, supported by companies' earnings growth trajectory in 2021 amid consumer activities rebound. However, we expect lingering pressure from policy tightening, U.S.-China tensions, sensitivity to rising yield and rising regulatory uncertainties. We are neutral on Hong Kong equities. The vaccination program has started, but the progress is not up to expectation.
Global Bonds	Overweight	
Government Bonds	Neutral	We are neutral on government bonds. The rapid approval of President Biden's fiscal stimulus package will push growth and inflation expectations higher, leading to higher nominal yields and steeper yield curves, which will support reflationary trades. We remain positive on credit. Macroeconomic prospects should support credit fundamentals over the medium to long term.
Credit	Overweight	

Scales of weighting	Underweight	Neutral	Overweight

U.S. EQUITIES

U.S. equities continued to gain in April, with the S&P 500 up +4.4%, driven by positive macro data: good developments on the vaccination campaign boosted expectations of the US achieving a relatively quick return to economic normality and investors focused on growth and its consequences, such as potential higher inflation. The U.S. ISM Purchasing Managers' Index (PMI) moved to 64.7 in March thanks to a strong rise in new orders and it signalled a marked improvement in operating conditions across the U.S. manufacturing sector and business expectations became even more optimistic. USD 1.9 trillion relief package bill was finally signed into law by President Joe Biden. The spending bill includes one-off direct payments worth USD 1,400 to be sent off to most Americans and an extension of jobless benefits. Jerome Powell confirmed the economic outlook was improving and clarified that the Federal Reserve (Fed) was not going to immediately pull its monetary stimulus, adding that any rate hikes or reduction in the pace of asset purchases would happen very gradually.

Thanks to fiscal aid and still extremely accommodative monetary policy, the U.S. economy will likely recover much of the ground lost during 2020, returning to pre-COVID levels around mid-year, while the labour market will take longer to recover fully. Easing restrictions and broadening vaccination campaigns, plus the build-up of extra savings, represent an upside risk to consumption growth. Inflation is expected to rise and overshoot in spring 2021. The Federal Open Market Committee (FOMC) upgraded its projections of economic growth, employment and inflation but showed no change in the projected path of interest rates, with still no rate hike until 2024 in the dot plot. We are neutral on U.S. equities. Expectations of pent-up consumer demand in the second half of 2021, driven by massive fiscal stimulus and infrastructure spending, earnings recovery and a supportive Fed paint an optimistic picture for economic recovery and equities. However, expensive valuations in some corners of the market and potential tax hikes are areas to be monitored. Overall, the need to be selective is high.

EUROPEAN EQUITIES

The MSCI Europe was up +7.6% in local total return terms in March, thanks to the cyclical and value features of the European markets. In Europe macro data was generally positive with confidence in recovery post-vaccination, boosting economic confidence, as the Eurozone's manufacturing sector expanded at a record rate with both consumers and businesses expressing stronger optimism about the ongoing recovery. The Eurozone's PMI advanced from 57.9 in February to 62.5 in March, thanks to Germany, which had a strong expansion during the month, and the improving trend across the region as factories benefitted from rising domestic demand and resurgent export growth. Inflation data released for February 2021 saw the Eurozone's annual inflation rate increased to +0.9%. The European Central Bank (ECB) confirmed its dovish tone, affirming it would use its power should bonds yields were pushed higher and would continue their purchase programs flexibly, according to market conditions, to prevent a tightening of financing conditions.

With winter restrictions extended or tightened into Q1 of the year, we expect the economy to contract again in this period, continuing along a very bumpy road to recovery, where the speed of vaccination campaigns remains crucial to reopening safely. Economic growth will pick up in Q2. Governments will continue to offer fiscal support until recovery is on track, while the ECB is accommodating. Inflation will progress upward, be volatile on transitory factors, while remaining below target on average. We are neutral on European equities. Even though vaccinations in Europe are progressing at a slow pace and recovery will be slow, the current earnings season has been positive so far. The cyclical and value features of European Union markets should help overcome the economic growth lag. However, we remain focused on stock selection and fundamental analysis and are exploring opportunities in segments linked to recovery.

JAPANESE EQUITIES

Japanese equities finished higher during the month, with the MSCI Japan up +4.8%. Sentiment was helped by the improved global growth outlook and better visibility surrounding recovery in corporate profitability. Japan has seen very few COVID-19 cases even though it has not imposed very strict economically damaging restrictions that were introduced in other countries. The March monetary policy review confirmed that the Bank of Japan (BoJ) was moving away from continuously massive monetary stimulus, and adopting a more sustained and flexible approach. The BoJ decided to widen the trading band for 10-year yield to 0.25% from 0.2%, allowing the Japanese Government Bond to fluctuate more with global bonds. It removed the annual ETF purchase target of 6 trillion yen, and kept the upper limit of 12 trillion yen, suggesting that it would only step in when markets fell sharply.

Although Japan's vaccinations lag behind Europe and the U.S. (only started in mid-February), the retreat of winter outbreak has laid the ground for a solid recovery. Mobility data improved further in early March. Business sentiment continued to recover, with cash earnings picking up to pre-COVID levels. Overall, Japan's economy may avoid a contraction in Q1, supported by business capital expenditure and exports. In light of the brighter economic outlook, we expect inflation to pick up from the negative territory and print positive for the full year. We are positive on Japanese equities. Our positive stance on Japan is corroborated by the strong earnings season, which has supported the performance of Japanese equities in 2021, coupled with the weakening of the yen. The country's cyclical and industrials tilt will continue to benefit from a global cyclical recovery.

ASIA EX-JAPAN EQUITIES

The performance of the Asian equity markets was mixed as investor sentiment was dampened by expectations surrounding economic policy normalisation. In Indonesia, the vaccination rollout has been speeding up in March, though the numbers has remained relatively low and mobility has been showing a lacklustre economic performance in Q1. Inflation remained below the Bank of Indonesia (BI) target, at 1.4% year-over-year with very subdued core components. The BI kept its policy rate at 3.5%, signalling a long pause ahead, while reiterating the message for the banking system to lower lending rates further. The Philippines struggled in Q1 with many headwinds unravelling such as inflationary pressures, delayed vaccine purchases and a spike in COVID-19 cases. At the moment, the country is still lagging behind peers in controlling COVID-19 infections as well as execution of vaccination program throughout the country.

On 5 February, the Monetary Policy Committee of India left its policy repo rate unchanged at 4%. Since then, inflation figures have risen to 5.0% year-over-year on the headline in February and to 5.9% year-over-year on the core. In Singapore, we consider that the pace of Singapore's economy and equity market to recover is premised on the reopening of its borders due to its regional and global exposures. Indonesia should benefit from the relatively quicker economic recovery post-COVID, which is supported by the country's ability for further fiscal support as well as the economy's main reliance on domestically driven activities. We are positive on Asian equities. Despite an increase in U.S. bond yields, we believe the potential for Asia remains intact. The rebound in global growth and the planned rebalancing of a more sustainable growth path in China are positive overall for Asia. However, we remain very selective in identifying themes linked with domestic consumption, the countries most affected by COVID-19 (now in recovery mode) and names with value/cyclicals characteristics.

CHINA & HONG KONG EQUITIES

Chinese equities dropped with the MSCI China down -6.0%, due to the new economy plays leading the market lower amidst tightened regulatory measures. The U.S. Securities and Exchange Commission adopted a law called the "Holding Foreign Companies Accountable Act" which reinforced the de-listing risk for Chinese American Depositary Receipts. In addition, many China concept stocks linked to Archegos Capital have been sold off heavily as Archegos Capital couldn't meet the margin call, which also created volatility. On a more positive note, Q4 2020 results in aggregate beat consensus, confirming the ongoing macro recovery. The MSCI Hong Kong was up by +0.4% in March. Hong Kong's February underlying Consumer Price Index deflation narrowed to 0.1% year-over-year vs. -0.5% in January, showing that the deflation pressure is easing. This should be beneficial for private consumption.

Staycation was a moderate boost to the industrial sector and exporters, and the low base last year means Q1 GDP figure could easily show growth. We expect the economy to grow at trend, led by consumption. Inflation-wise, we expect the Producer Price Index (PPI) to increase from 1.7% year-over-year in February to above 4% in Q2, then soften in the second part of the year. We expect the People's Bank of China to leave its rates unchanged. That said, effective lending rates will likely increase, especially for mortgage rates. In light of tighter global financial conditions, and de facto tightening in domestic macro prudential policies, risks of policy rate hikes remain low in 2021. We remain positive on Chinese equities, supported by companies' earnings growth trajectory in 2021 amid consumer activities rebound. However, we expect lingering pressure from policy tightening, U.S.-China tensions, sensitivity to rising yield and rising regulatory uncertainties. We are neutral on Hong Kong equities. The vaccination program has started, but the progress is not up to expectation. The impact from vaccines will not reflect until late in Q2 when the majority of people inject the vaccines. The economy in the first part of the year will still under pressure.

GLOBAL BONDS

U.S. long-dated bond yields continued to rise, favored by encouraging economic data and the FOMC's upward revision of economic growth, employment and inflation projections. However, the Fed remains determined to keep rates close to zero until inflation is clearly above 2% and full employment has returned. Despite this accommodative tone, U.S. yields continued to rise in March: the 10-year U.S. Treasuries rose by 0.3%, reaching 1.7% and the 2-year yield rose by +0.2%. Government yields in the Eurozone remained steady thanks to the ECB's commitment to step up its pace of purchases. The German 10-year yield remained stable at -0.3%. The J.P. Morgan Asia Credit Index posted a negative return, driven by yields selloff. However, return from spreads continued to be positive. Asian Investment Grade underperformed Asian High Yield. Inflation expectations continue to rise thanks to the combination of stronger inflation figures, sustained buying flows, accelerating commodity prices marking the ongoing global recovery, and the Organization of the Petroleum Exporting Countries' production control.

Strong economic data in the U.S. confirm that the U.S. GDP is back to pre- COVID path, helped by massive fiscal intervention. Europe is experiencing a different situation: notwithstanding the fiscal effort put in place at the Eurozone and national level, policies implemented so far have not “filled the gap” and it could take years for the Eurozone to intersect the pre- COVID trend. In most of developed markets (DM), inflation will get closer to targets; outside the U.S., the rise of core inflation is likely to be temporary. DM central banks will stay accommodative, while emerging markets have started reversing policy easing. We are neutral on government bonds. The rapid approval of President Biden’s fiscal stimulus package will push growth and inflation expectations higher, leading to higher nominal yields and steeper yield curves, which will support reflationary trades. In Europe, we favour peripherals over core bonds, and encourage investors to search for yields and carry in the longer duration segments of the market. We remain positive on credit, which are still attractive based on the combination of technical factors and relative value. Macroeconomic prospects should support credit fundamentals over the medium to long term.
