BCT 銀聯集團

Investors dive into markets after U.S. election and positive vaccine news

Investment Markets	BCT's Investment Views	Summary
Equities	Underweight	
US	Underweight	We are slightly negative on the U.S. equities. Equity risk premium is attractive, but this doesn't mean there cannot be volatility, particularly with the COVID-19 evolution. Overall, investors should play market divergences with a balanced stance.
Europe	Neutral	We are neutral on European equities. The economy is improving, but resurgence of COVID-19 cases and subsequent lockdowns in the region may make the recovery bumpy. The result is extreme market dispersions, which are creating opportunities for active stock pickers.
Japan	Neutral	We are neutral on Japanese equities. Pro-cyclical markets such as Japan should be supported by global growth prospects and attractive valuations. However, investors should stay watchful and balanced till there is more visibility on the growth path.
Asia ex Japan	Neutral	We are neutral on Asian equities. Although valuations are attractive, earnings in Q3 have been disappointing so far and we believe it is too early to dip aggressively into these markets.
China & HK	Overweight	We are positive on Chinese equities. The U.S. Democratic win is positive for China as policies will now be more predictable and cordial. We are neutral on Hong Kong equities. We do not expect Hong Kong market to outperform in the month ahead on the lackluster residential property sales and that prices are under pressure.
Global Bonds	Overweight	
Government Bonds	Overweight	We remain positive on government bonds. We are aware that some rates are already at low levels, but we remain active, with a focus on relative value trades.
Credit	Overweight	We are positive on credit. The Investment Grade segment will continue to find support in monetary stimulus from the central banks.

Scales of weighting	Underweight	Neutral	Overweight

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U.S. EQUITIES

As the U.S. had a strong increase of COVID-19 cases and a dropping probability of a fiscal stimulus agreement prior the election, the S&P 500 fell by 2.7% over the month. The Nasdaq experienced a smaller drop of 2.3%. The U.S. GDP beat the expectation by growing at a record 33.1% annualized rate in Q3. It was led by the gradual reopening of businesses and revitalized spending activity as quarantine eased. Purchasing Managers' Indices (PMIs) slowed their pace of recovery but the business activity growth was positive. The service sector led the expansion as increasing numbers of companies adapted to the life with COVID-19, while manufacturing continued to report solid growth thanks to good demand from both households and businesses. September reading for the inflation (Consumer Price Index) was +1.4% up from 1.3% in August. The Federal Reserve (Fed) unveiled new forward guidance associated with the recent changes to its longer-run goals and monetary policy strategy. The Fed made no changes to the asset purchase programme and showed no urgency in transitioning to a more traditional Quantitative Easing that tilts purchases toward longer maturities.

Given the signs of a progressive deceleration in several economic and behavioural indicators, influenced by the new rise in COVID-19 cases, we are more cautious about the speed at which the economy will enter 2021. Headline inflation should increase, with a temporary mid-year overshoot due to reversing oil price base effects. On the monetary side, the new economic projections show that rates will stay at zero at least through to the end of 2023. Divided government means that the incoming Biden administration will be hamstrung to pass a large fiscal stimulus package, a big infrastructure bill, and higher taxes. This could help contain the budget deficit. We are slightly negative on the U.S. equities. Equity risk premium is attractive, but this doesn’t mean there cannot be volatility, particularly with the COVID-19 evolution. Overall, investors should play market divergences with a balanced stance.

EUROPEAN EQUITIES

In Europe, the majority of equity indices posted negative returns with the MSCI Europe depreciating by 5.3%. The Euro Stoxx 50 did worse, finishing the month down by 7.3%. The Eurozone economy grew by 12.7% in Q3 of the year with many countries beating growth forecasts. The labour market remained under severe pressure, in particular the services sector and in the last reading Eurozone unemployment rose to 7.5% from 7.4% in August. In September, the inflation was -0.3% with a similar value expected for the month of October. The resurgence of COVID-19 started again to disrupt the services sector, with key businesses like tourism and consumer-facing activities suffering the most. The manufacturing sector continued to recover as firms reported sustained growth in production volumes and new orders. Confidence on future business activity softened due to the increasing uncertainty around the evolution of the pandemic. The pace of European Central Bank (ECB)'s purchases failed to return to July levels, with technical factors and the market environment supportive to Euro government bonds.

We have revised our forecasts for 2020 slightly upwards. However, the recovery curve for the Eurozone economy has flattened significantly. We expect a progressive pickup in both domestic and external demand, supported by an extraordinary easing of monetary policy and counter-cyclical fiscal policies. Inflation should remain subdued in the near term with possible downside risks before moving gradually higher in 2021. A broad consensus expects the ECB to increase the size and extend the horizon of its Quantitative Easing programme into the second half of next year. The downside risks to the macro outlook, and the upside risks to next year's sovereign financing needs due to recent pandemic trends, together with low inflation expectations, support this eventual move before the end of the year. We are neutral on European equities. The economy is improving, but resurgence of COVID-19 cases and subsequent lockdowns in the region may make the recovery bumpy. The result is extreme market dispersions, which are creating opportunities for active stock pickers. We look for investments in companies with strong balance sheets and resilient business models.

JAPANESE EQUITIES

Japan's equity market declined over the month, the Nikkei 225 was down 0.9% and the Topix depreciated by 2.8%. Investor sentiment was dampened by growing concerns about the reopening of economy, a resurgence of COVID-19 infections internationally and the outcome of the U.S. presidential election. The corporate results season for Q3 started in late October. Initial indications were good, with a significant proportion of companies beating consensus estimates. After making a good start in September, Prime Minister Suga and his cabinet continued to hold a favourable approval rating while the Bank of Japan maintained its large-scale accommodative stance at its Monetary Policy Meeting at the end of October, as widely expected.

Latest data confirmed our view of a slow economic recovery. The second wave of COVID-19 casted a shadow over consumption and business sentiment. Mobility and domestic tourism were less hit thanks to less stringent restriction measures. External demand started to bottom out, but Japanese export recovery lagged behind its Asian peers. We expect investments to bounce back and forecast GDP to remain below pre-pandemic levels until 2022. We expect the central bank to continue accommodative policy stance into 2021, in the form of asset purchasing, yield curve control and a special funding programme for small and medium enterprises. Meanwhile, Suga's cabinet has hinted at a third supplementary budget for the fiscal year 2020, and an expansive fiscal stance for fiscal year 2021. We are neutral on Japanese equities. Pro-cyclical markets such as Japan should be supported by global growth prospects and attractive valuations. However, investors should stay watchful and balanced till there is more visibility on the growth path.

ASIA EX-JAPAN EQUITIES

In Asia, many indices delivered positive returns. The best performers were the Philippines and Indonesia, posting respectively +7.8% and +5.3%. In India, the Sensex progressed by 4.1%. The South Korean KOSPI fell by 2.6% and among other few negative markets, the Malaysian Bourse and the Thai SET dropped by 2.5% and 3.4% respectively. The Philippines had positive news flow, with 4.5 billion pesos national budget, as well as declining numbers of infections. Overseas remittance declined by 4% to 2.5 billion US dollars, which was also better than expectations. The Bank of Indonesia held the policy rate steady at 4% as the parliament passed the Omnibus Bill on job creation, reducing severance payout from a maximum of 32 months to a maximum of 19 months, as well as the methodology of calculating the minimum wage. In Thailand, the state of emergency was declared in mid-October, but was soon lifted on 22 October, under the pressure of massive protests.

Economic activities remain robust and with a benign inflationary outlook, there is plenty of scope for further monetary easing and fiscal stimulus in the region. The U.S. Democratic win is positive for Asian economies and capital markets. Policies will be more predictable, collaborative and negotiation-based, aided by higher fiscal spending, it will compensate the negative drag on personal and corporate taxes. Earnings growth of Asia is expected to remain flat in 2020 and 25% of growth will be led by China, Taiwan and South Korea on China's dual circulation strategy, and the demand for 5G and technology. The political turbulence in Thailand, Malaysia and Indonesia's Omnibus Bill lowered sentiment and might continue to drag the economies. We are neutral on Asian equities. Although valuations are attractive, earnings in Q3 have been disappointing so far and we believe it is too early to dip aggressively into these markets.

CHINA & HONG KONG EQUITIES

The MSCI China rebounded by 5.3% on positive earnings surprises with 65% of companies reported in line or better than expectations. Technology stocks, including Tencent, Alibaba, Meituan, as well as domestic consumer names continued to lead the gains in October, on positive tourist numbers in the Golden Week holidays and in anticipation of warmer ties between the U.S. and China. After the initial v-shaped rebound, economic recovery slowed sequentially in Q3, posting a growth of 4.9% year-over-year, increasingly driven by the private sector. Consumption made a larger contribution to growth than investments, following a further normalisation of services activities. The MSCI Hong Kong rose by 1.3%, as restrictions were slightly eased over the month. The Hong Kong's Q3 GDP rebounded by 12.6% quarter-over-quarter as domestic demand remained resilient with domestic consumption rising 10.7%.

As policy tilted towards neutral, state-led stimulus started to ease, with infrastructure investments slowing for the third consecutive month in September. In light of this policy adjustment, we expect the Chinese economy to recover at a slower but more sustained pace. The Loan Prime Rate was unchanged for the sixth consecutive month in October, as we expected. On the 21 October, Governor Yi said he expected China's macro leverage ratio to stabilise in 2021, at 266%, to mitigate the damage caused by the pandemic. We are positive on Chinese equities. The U.S. Democratic win is positive for China as policies will now be more predictable and cordial. We are neutral on Hong Kong equities. Heading into the year end, we do not expect Hong Kong market to outperform in the month ahead on the lackluster residential property sales and that prices are under pressure.

GLOBAL BONDS

The U.S. yield curve moved higher and steepened, driven by the initial move to riskier asset at the beginning of the month and, by the improved growth prospects and anticipation of more fiscal stimulus in the second part of the month. The U.S. 2-year yield rose 0.03% from +0.13% to +0.16%, and the U.S. 10-year yield started the month at +0.69% and finished at +0.88%. German Bund experienced lower yields and curve flattening: having started the month at -0.52%, German 10-year yield fell steadily finishing October at -0.63%. German 2-year yield fell approximately 0.09% to -0.80%. Despite the market's overall risk-off tone, particularly in global equities, Asian local currency bond yields were mixed over the month. Higher-yielding markets such as Indonesia and India outperformed. Lower-yielding markets such as South Korea sold off in line with higher U.S. Treasuries rates. The JPM Emerging Markets Bond Index Plus Composite depreciated by 0.5%.

We have witnessed a partial economic rebound in the U.S., but the extent of permanent job losses must be watched, whereas leading indicators coming out of China are already above their pre-pandemic levels. In Europe, the situation seems to have deteriorated a bit due to a new wave of infections. Overall, we are not convinced that the economy is out of the woods yet. Investors should note that the current crisis is all about avoiding traps and gaining exposure to sectors/names that favour an improving economy. We remain positive on government bonds. We are aware that some rates are already at low levels, but we remain active, with a focus on relative value trades. Asian local bond markets continue to be well-supported and offer opportunities for investors. We are positive on credit. The Investment Grade segment will continue to find support in monetary stimulus from the central banks. Overall, we maintain high focus on selection and liquidity.

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