BCT 銀聯集團

BCT Market Outlook

June 2014

US Equities

The ISM Manufacturing Index rebounded to 54.9 in April, which was better than the survey of 54.3, showing improvement in the economy. April's unemployment rate fell to 6.3% and wages saw signs of rising, indicating improvement in the employment market. The traditional "Sell in May" phenomenon did not happen this year with the Chicago Board Options Exchange Market Volatility Index (VIX Index, which indicates market volatility) stayed at a relatively low level. Going forward, US tapering may end in October and market will then shift its focus to the timing of the first rate hike. Besides, the US equity markets are at high valuation, especially in the technology and bio-technology sectors. With the housing market weakened which poses threats to growth, it may imply an extended accommodative monetary policy for a short period of time after October. Due to the current high valuation, we have adjusted down the US equity outlook from POSITIVE to SLIGHTLY POSITIVE.

European Equities

Eurozone CPI rose 0.7% in April from last year and was at the same level as March this year, but the figure was still quite distant from European Central Bank's (ECB) 2% target. The market is expecting ECB to continue its easing policy until there is a solid proof of recovery. At this stage, the sign of recovery in Europe is less solid than the US and is mainly threatened by high unemployment rate (10% as at March 2014). Recently, sovereign bond yields of several European countries saw upward trend, meaning that the market may be in doubt of ECB's commitment to deploy easing policies further. On a separate note, RBS and Lloyds Bank in the UK have retreated from lending to the London property market since the financial crisis, in a sign of caution amid fears of an inflating housing bubble. However, we still believe that the overall economic picture in Europe is positive under potential policy support, and we maintain our POSITIVE outlook for European equities.

Japanese Equities

In the first quarter of 2014, Japan's annualised GDP growth figure was strong, up by 5.9% from a year ago. Industrial production in March was also encouraging, which was up by 7.4% from the same period last year. Overall inflation was at 1.6% in March from last year and is expected to exceed the 2% target soon. However, the strong data casts doubt on whether the Bank of Japan (BoJ) will further its stimulus action. With the expected rise in consumption tax (from 5% to 8%) in April, the overall household spending was up by 7.2% in March from the same time last year, mainly due to household purchase front-running before the consumption tax hike. However, wage hike refusal from companies could hurt inflation and consumption outlook. Moreover, the yen has strengthened recently, reflecting doubts from the market on the effectiveness of Abenomics' 3rd arrow and the needs for the BoJ to act further. Therefore, we maintain our NEUTRAL outlook for Japanese equities.

Asia ex Japan ex Hong Kong Equities

At the end of April, MSCI Asia Pacific Index traded at 12.8 times estimated earnings only, much less expensive than the 16.1 times from the US S&P's 500 Index. Then in May, positive election results from Indonesia and India drove up most markets in the ASEAN and the Indian sub-continent. It is worth noting that recent market appreciation is mainly due to investors chasing-up on lagging Asian markets, putting the sustainability of the rally into question. Also, China's relationships with surrounding Asian countries could become a long-term problem, resulting in political instability. Moreover, US tapering and interest rate hike expectation could affect asset prices later this year. Nevertheless, in view of the reasonable valuation and positive market momentum, we have upgraded the outlook for the region from NEUTRAL to SLIGHTLY POSITIVE.

China & Hong Kong Equities

The monetary policy in China continues to be tight, though there is room for policy easing such as lowering the Reserve Requirement Ratio (RRR). Several local government debts and shadow-banking related problems that have surfaced in 2014 might negatively impact financial stability. In addition to concerns on economic slowdown, the Government might release more targeted stimuli policies. What's more, the new Trans-Pacific Partnership (TPP) could change the Asian geo-political mapping by isolating China further, casting more political risks. Lastly, A/H premium / discount is likely to be narrowed down under the Shanghai-Hong Kong Stock Connect (互聯互通), with expected implementation to begin in the early fourth quarter of 2014. We maintain our NEUTRAL outlook for China and Hong Kong equities.

Global Bond

US bond yields have lowered recently, indicating that the market expects continuous accommodative monetary policy from the Federal Reserve. Corporate earnings in general continue to be better than market's expectation. However, economic recovery is usually not favourable to bond returns, especially lower-yielding government bonds. Therefore, corporate bonds are likely to continue to outperform government bonds. Bond yields of the PIIGS countries have dropped, showing recovery in market confidence. Closer to home, RMB offshore bond issuance hit record level so far this year. Although it is expected that the RMB volatility is likely to expand further, we maintain the RMB's long-term appreciation trend outlook and our positive view on RMB offshore bonds for the long run. But for global bonds in general, we maintain our SLIGHTLY NEGATIVE outlook.

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