BCT Market Outlook

March 2015

US Equities

The Fed stayed "patient" to rate hike and is unlikely to raise rate in at least the next couple of meetings, but the Fed addressed the existence of limit on the zero rate policy. Besides, the latest Fed minutes showed disparity between Fed's officials on rate increment, concerning the market impact on the timing to remove "patience" towards rate hike. Officials asking for no rate hike until inflation was stabilised and above the target. On the economic side, the ISM Manufacturing Index in January was further down from 55.1 in December to 53.5, signifying continuous slowdown in manufacturing expansion, but January's durable goods orders increased 2.8% from previous month, reversed from December's -3.7%.

Labour market figures indicate US economic growth remain intact, but there may be negative impact on recovery by oil prices plunge, adverse weather, potential reversal of housing markets and sustainability of wage growth. On the other hand, the CPI growth excluding food and energy was still under the 2% target which may provide ground for the Fed to delay rate hike. If the Fed delays rate hike, it may indicate weakness in fundamentals, but liquidity should be favoured. We are still SLIGHTLY POSITIVE based on the sustained signs of recovery.

European Equities

Agreement was reached between Greece's government and the EU on extending the rescue plan for Greece for 4 months, and concerns of "Greexit" was temporarily eased. Besides, the advanced GDP of Eurozone in 4Q rose by 0.9% from previous year, slightly up from 0.8% in 3Q. Moreover, the CPI of Eurozone in January dropped by 0.6%, staying in the negative territory for the 2nd consecutive month. However, the retail sales of Eurozone in December rose 2.8% from previous year, up from 1.6% in November, while February's Consumer Confidence Index recorded -6.7, improved from -8.5 in January.

The liquidity has improved under the new QE programme. But the effectiveness of the programme to fundamentals will depend on the corporates' economic outlook to Eurozone and the willingness to borrow, which is still sluggish. On the other hand, concerns of Greexit has temporarily eased, but the risk may be reignited when the renegotiation returns in June. Weak fundamentals, and the diminishing marginal effect of further QE by the ECB may result in differentiation between equity markets and the economy. We hold NEUTRAL view for the region with uncertainties in both the fundamentals and credit condition.

Japanese Equities

The BoJ maintained the annual rise in monetary target at 80 trillion yen. The preliminary annualised GDP for 4Q was up by 2.2% from previous quarter, recovered from recession, but fell short of estimate. Also, the year-on-year PPI in January rose only by 0.3%, slowed down from December's 1.8%, indicating potential slowdown in inflation, while the CPI of January rose by 2.4% from previous year, same as December. Meanwhile, the labour cash earnings in December jumped by 1.6% from a year earlier, which speeded up from November's 0.1%, but household spending in January dropped 5.1% from previous year, worsened from December's -3.4%.

Yen's depreciation might be hindered by the encouraging export figures. The breakout of epidemics and worsening of geo-political condition are also likely to trigger yen's appreciation and enhance its role as safe haven. On the other hand, the wage condition sees improvement but needs to focus on sustainability. Certain positive data such as GDP may boost the equity markets return more than offset the yen's depreciation, favouring the total equity return. However, the continuity of signs of recovery is needed. We are NETURAL on Japanese equities and are awaiting for further improvement in fundamentals.

Asia ex-Japan ex-Hong Kong Equities

The discount of the region compared with the developed market persists. In terms of estimated earning, the MSCI Asia Pacific ex Japan Index traded at 13.3 times, while the US S&P 500 Index was at 17.8 times. For specific countries, Taiwan equities rose, thanks to the electronic firms benefited from strong demand of 'smart' products. India rallied to new high on reform anticipation after the new budget by Prime Minister Modi, lowered inflation concerns by weak oil prices and positive economic prospect. Indonesia equities were up on the back of easing stance by the central bank through surprised rate cut. Meanwhile Korean market was encouraged by the expectation of further rate reduction.

For countries with easing moves, their currencies may depreciate and cancel out the aggregate returns of equities. On the other hand, oil prices showed initial stabilsation but still remains weak. Although its weakness will strike the economies of certain export-orientated countries such as Malaysia, other countries benefited from lower import price and inflation pressure. Government-led reform (India), central banks' easing act (Indonesia and Korea), and positive corporate earnings (Taiwan) are also likely to support the sustainability of market prospects, besides attractive valuation. Our stance to the region remains SLIGHTLY POSITIVE.

China & Hong Kong Equities

The PBoC cut interest by 0.25% again since November and reduced the reserve requirement ratio for major banks from 20% to 19.5% earlier when faced with the risk of disinflation and economic slowdown. For the economic figure, the CPI in January rose by 0.8%, slowed from 1.5% in December, and PPI in January declined by 4.3%, deepened from December's 3.3%, indicating risk of further disinflation. Moreover, the Manufacturing PMI in February rebounded to 49.9 from 49.8 in January, but was still lower than the line of expansion (50), suggesting contraction in the manufacturing sector.

Further rate cuts are anticipated due to relatively high real interest rate and slowdown in inflation. Besides, housing recovery in China is one of the keys for the timing and tool to be used in further easing, as asset bubbles is one of the authority's concerns in regulating marco-economy. Investors should also pay attention to the potential announcement of new policies in the annual "two sessions" which are to be held in March. These include restructuring of state-owned enterprises and policy direction in both monetary and fiscal sides. Policy anticipation is likely to be the driving force to the markets and we maintain our SLIGHTLY POSITIVE view.

Global Bonds

The RMB kept on depreciating on the PBoC's act of cutting interest rate and reserve requirement ratio, and the extension of rescue deal between the Greece and EU helped ease the risk-adverse sentiment of the markets, hindering the role of major government bonds as safe haven. In addition, yields of US and Japanese government bonds rose in expectation of rate hike and economic recovery respectively. Moreover, performances of non-investment grade corporate bonds outperformed those of investment grade on the back of abundant liquidity by major central banks and reduced risk averse sentiment.

Only corporate bonds with good earnings prospects are favoured. Besides, upside for major government bonds is restricted due to the already low yield level, and money may flow into lower-grade bonds. Fading of risk-adverse sentiment will further drive the return of higher yielding bonds. Moreover, we maintain RMB's appreciation view for the longer term due to relatively higher GDP growth and encouraging trade data from China, though short-term depreciation may occur on the PBoC's easing stance. We are slightly positive for RMB bonds but holds SLIGHTLY NEGATIVE stance in expectation of global recovery.