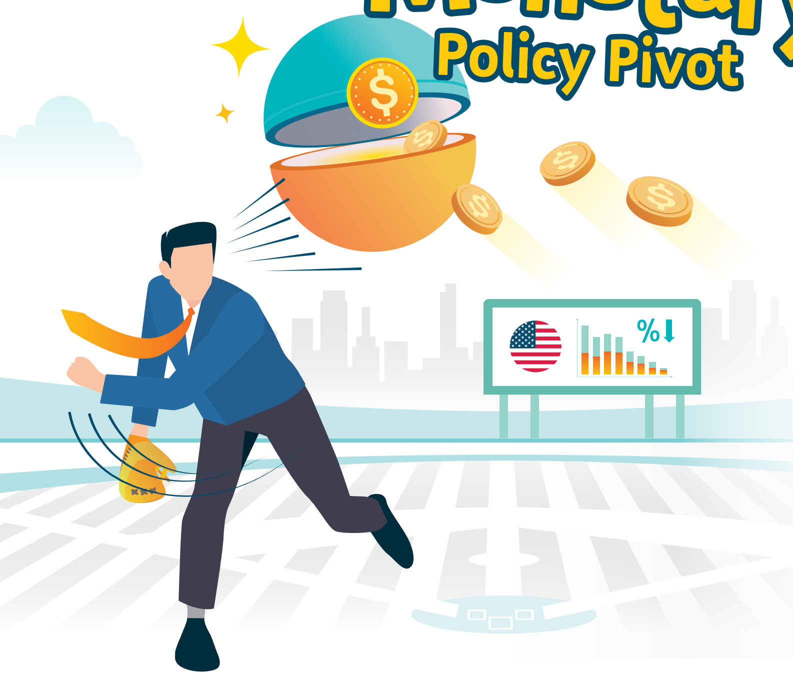
MARKET NAVIGATOR 2024Q1

Sun Life Asset Management
永明資產管理

CAPTURE the Opportunities of Monetary Policy Pivot



In 2024, we may see a pivot in global monetary policy. At this time last year, markets were still worrying about more aggressive rate hikes. Markets are now paying close attention to the timing of monetary easing. The latest interest rate dot plot from the US Federal Reserve indicates that US may cut interest rates three times in 2024. The act would be more aggressive than September's forecast last year. With interest rates peaking and the economy staying resilient, corporate earnings may be supported. We prefer the US stock market. Overall bond markets have registered decent rebound after sharp fall in US treasury yields since early November last year. Bonds with longer duration can help capture opportunities from falling interest rates as they are more sensitive to interest rate changes. Furthermore, bonds may play a buffering role during an economic downturn. From an asset allocation perspective, bonds diversify portfolios and reduce portfolio volatilities. We expect geopolitical tension to continue in 2024. Demand for precious metals, as safe-haven assets, may increase. After all, a weaker US dollar amid expectations of rate cuts may support prices of precious metals.

Source: Bloomberg

12-Month Outlook

Positive	Neutral	Negative
Global Equity	Hong Kong Equity	Cash
Global Bond	Asian Equity	
Precious Metals		

Positive

Global Equity

▲ Upgrade

- The US, Europe and China face divergent macroeconomic outlooks. The US looks resilient, Europe is facing recession risks and potentially sticky inflation while China's recovery is slower than expected after the pandemic. Problems in Chinese property sector remain to be solved. We believe diversification among regions is the key. We prefer the US, which has a high proportion of growth stocks. Valuation of China and Hong Kong stocks is low but they are still awaiting rebound catalysts.
- Elections would be held in many places this year and they may trigger market volatility. However, experience shows that the volatility caused by elections is only short-lived and instead provides investors with bottom-fishing opportunities.

Global Bond

No Change

- Tightening bias in the December 2023 FOMC statement was watered down, the Dot Plot shows 75bps of easing in 2024, and Chair Powell broached the potential for rate cuts at the press conference. These developments reinforced our view that treasury yields have scope to fall.
- Downward pressure on the US economy remains. In addition to persistent risk events in the investment market, capital may flow into safe-havens. Government bonds may benefit.
- Current high yields in both government bonds and credit markets increase demand from investors who expect stable/declining yields to lead to strong total returns.

Precious Metals

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- Central banks and physical demand continue to support gold prices. The inverse relationship between gold and real yields will likely release some upside convexity as real yields fall.
- US Federal Reserve's rate cutting cycle in 2024 is expected to support the gold prices.
- With the re-emergence of stronger physical market fundamentals, platinum prices look tied to macro precious metals price drivers with a sympathy rally.

Neutral

Hong Kong Equity

No Change

- China's recovery is slower than expected. However, supportive policies remain. Economic fundamentals are expected to continue to improve. The US Federal Reserve may begin to loosen monetary policy. Markets are pricing in a weaker US dollar and relatively stronger yuan. Capital may flow into China and help lift asset prices.
- Geopolitical risks particularly US-China relationship poses a medium-term concern and is a large swing factor of PE multiple. US presidential election may add to uncertainties.
- Although stimulus measures are expected to continue, it take time to be realized and investors may need to wait longer for earnings recovery.

Asian Equity

No Change

- 2024 will see some important elections for Asian markets which could all have an impact on macro and market conditions in the region. Volatility often increases before elections, and markets are also concerned about the political direction of the new government.
- China represents a significant portion of Asian stock markets. Although the Chinese government has actively introduced economic support measures to facilitate economic recovery, short-term investment confidence remains low. Investment atmosphere for Asian markets may be dragged.
- Japanese stocks are expected to perform relatively well due to gradually expanding domestic demand, improving corporate balance sheets and flexible valuations.

Negative

Cash

▼ Downgrade

- Cash is a residual of our stance in terms of equities and fixed income.
- With interest rates expected to fall, cash is starting to become less attractive. Besides a more resilient economic performance than expected, cash's role as a defensive asset has begun to weaken.
- We have revised our 12-month cash outlook to negative, as global bonds have relatively more favorable outlook than cash.

CAPTURE the Opportunities of Monetary Policy Pivot

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