光大新鴻基 EVERBRIGHT SUN HUNG KAI 50 周年 years

[For immediate release]

EBSHK expects H2 2019 market to be driven by risk aversion

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Buy stocks in phases with increased global bond allocation
Diversify risk with gold to build a well-balanced portfolio

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HSI to be in range-bound trading at 25,000-30,000
Major themes for HK equities: Domestic consumption demand remains stable; Infrastructure investments support the economy; Gold looks attractive in the long term

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Expects USD to test 100 RMB remains range-bound

Overview:

- EBSHK expects markets to still be clouded by China-U.S. trade tensions and hard Brexit risk, and global equities to likely to face high volatility amid risk aversion
- Focus on risk management and diversified strategy by buying stocks in phases in market corrections. Increase global bond allocation and diversify risk with a modest allocation to gold to build a well-balanced portfolio
- Three investment strategies: “flexible allocation of Asian multi-assets”, “increase global bond allocation for higher returns” and “diversify risk with a modest allocation to gold”
- The target range for HSI is 25,000-30,000; HSCEI and Shanghai Composite Index targets are set at 9,700-12,000 and 2,700-3,200 respectively
- Major themes for HK equities: (1) Domestic consumption demand remains stable; (2) Infrastructure investments support the economy; (3) Gold looks attractive in the long term
- FX: The Dollar Index is expected to test 100 while RMB remains range-bound

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June 11, 2019, Hong Kong — Everbright Sun Hung Kai Company Limited (“Everbright Sun Hung Kai”, “EBSHK” or the “Company”) expects the trade disputes between China and the U.S. to remain unresolved in the near term as the confrontation has escalated since mid-May, with tensions having spread from the trade to technology sector. The two countries are likely to see ongoing conflicts with talks in progress at the same time, which may bring adverse effects to the global economy in H2 2019. In Europe, with a new British prime minister who is likely to push for a hard Brexit as the prospect of a withdrawal deal is dim, it is forecast that the markets would still be clouded by hard Brexit risk while global equities are likely to face high volatility amid risk aversion. Investors should focus more on risk management and adopt a diversified strategy by buying stocks in phases in market corrections. Investors are advised to increase global bond allocation and diversify risk with a modest allocation to gold and build a well-balanced portfolio.

EBSHK Wealth Management Strategist Kenny Wen says, “Global equities delivered strong performance in the first 4 months of 2019 when Chinese A-shares surged by over 23%. However, global equities may experience sell-offs in May and June given the intensified trade tensions between the U.S. and China, while a rebound in July may depend on whether both sides would resume talks at the G20 summit in late June.” Kenny recommends three major strategies: “flexible allocation of Asian multi-assets”, “increase global bond allocation for higher returns” and “diversify risks with a modest allocation to gold”.

Strategy One: Flexible allocation of Asian multi-assets

Chances are Asian equities will stay bearish in the near term as market sentiment is dragged down by escalated trade tensions between China and the U.S. On the other hand, Asia continues to be the global growth engine as the world's sustainable low-rate environment may provide room for Asia's central banks to maintain their monetary-easing mode. These factors may bode well for Asian assets. A growing number of firms are planning to relocate their production lines and sales destinations from China to other Asian emerging markets. ASEAN nations are well positioned to attract more long-term capital inflows and they may benefit from the China-U.S. trade war. Aggressive investors may consider a small allocation to ASEAN equities.

Strategy Two: Higher global bond allocation to improve returns

The Organization for Economic Cooperation and Development (OECD) has recently cut its 2019 global growth forecast by 0.1 percentage point to 3.2%, which was the lowest since 2016, a sign of rising downside risks to the global economy. Yet, the Federal Reserve maintains its "dovish" stance and the probability of a Fed rate cut by year-end has climbed to near 90%, according to interest rate futures data. EBSHK expects the monetary-easing condition to be sustainable, and fixed income products may become more attractive to investors as rate reduces; moreover, the markets are likely to be hit by several uncertainties in H2 2019, and therefore an allocation of global bonds may reduce the portfolio's volatility and improve returns.

Strategy 3: Diversify risks with modest allocation to gold

Gold was supported by trade or geopolitical risks in H1 2019 as spot gold once hit US$1,346/ounce but the strong Dollar restrained the gold's upside potential. However, these risks are likely to persist in H2 2019 and global equities' rising volatility may push risk-averse demand higher. The world's low-rate environment may bode well for gold prices. Gold has a lower correlation with equities due to its nature as an alternative investment asset. Investors may diversify risk by considering a modest allocation to gold.

Hong Kong equities: Economic fundamentals remain uncertain but monetary policy helps ease downside pressure

China's GDP growth came in at 6.4% YoY in Q1 2019 but the Chinese economy still faces downside risk for Q2 and H2 2019. Escalated trade tensions are likely to impact sectors related to investments, production, and imports and exports. As China's economic fundamentals are under downside pressure, the Chinese Government is expected to be paying close attention to market liquidity and it may consider timely monetary policies and sector-stimulating measures to maintain the liquidity and support a smooth transition in the real economy. In H1 2019, market anticipations of trade talks and forecast-beating earnings supported a rebound in Hong Kong equities, and the HSI bounced back to a high of about 30,000, meeting the targets set by EBSHK in late 2018.

Kenny Ng, Securities Strategist of EBSHK, says, "For H2 2019, we project that the HSI will jitter between economic downside pressure and monetary policy decisions. Meanwhile, progress in China-U.S. trade talks may fuel uncertainties in the market. The HSI's P/E is now trading at its 10-year average (about 11.7x). The market may not see a dominant direction in H2 2019."

HSI sees 25,000-30,000 in a slowing economy

Based on EBSHK's internal valuation model (factoring in the impacts of global monetary policy moves, capital flows, and fluctuations in the Mainland and Hong Kong financial markets), the H2 2019 target range for Hang Seng Index is set at 25,000-30,000; the HSCEI and Shanghai Composite Index targets are set at 9,700-12,000 and 2,700-3,200 respectively.

With respect to risk factors, EBSHK expects the U.S. to keep the Dollar stable in H2 2019 while China may adopt a loosening stance. Global economic growth may continue to be derailed by China-U.S. trade frictions. In terms of our key investment categories in 2019, investors may focus on the sectors that are less affected by the global volatility and consider some defensive sectors. The three key investment themes in H2 2019 include: (1) Domestic consumption demand remains stable; (2) Infrastructure investments support the economy; (3) Gold looks attractive in the long term.

FX: The Dollar Index is expected to test 100 Expect RMB to remain range-bound

Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, says "It is forecast that market movements in H2 2019 will still be dominated by risk aversion, which may be a driver for a USD rally. U.S. firms' high debt levels (also a Fed's concern) may also be a key factor that will trigger a reversal in the economic trend. The intensified China-U.S. trade war tensions are limiting the upside of the RMB. A lingering or hard Brexit may lead the GBP to fall."

U.S. Treasuries have been attracting fund inflows on a global scale amid risk aversion, which may push the Dollar higher eventually. Although the Fed has pointed out it may put interest rates on hold this year, U.S. economic data is still ahead of that of others, which supports the Dollar's strength together with the rate advantage. U.S. inflation rate in late 2019 may be pushed higher by tariff hikes and food price increases. The rate decision (rate hikes, rate cuts or staying put) may mainly depend on which factor the Fed considers to be a priority on the rate path. The Dollar Index is expected to test higher at 100. The USD is less likely to pull back as long as the market has strong sentiment of risk aversion.

The Brexit deadline is now October 31 this year. Several prime minister candidates said it could be possible for the U.K. to leave the European Union (EU) with or without a deal. Following Theresa May's resignation on June 7, the Conservative Party is busy looking for a new prime minister, which implies less time for handling the Brexit deal, while the Parliament's recess session will take place from mid-July to early September. It seems unlikely for Britain to negotiate a new deal with the EU. The odds of a hard Brexit have gone up given the Brexit Party and Liberal Democrats having won the highest voting shares in the EU elections and the Conservative Party's Brexit stance. The GBP is likely to test 1.2 or lower.

Chinese growth is likely to be further derailed by the trade war, especially unfavorable for RMB appreciation amid the China-U.S. confrontation. According to EBSHK's estimates in December 2018, the USD/RMB would break above 7.00 in 2019. It is expected that the RMB will remain range-bound and USD/RMB may hover around 6.68-7.15 in 2019. Since Australia has close economic ties with China, the Australian economy is also likely to be hit by impacts of the China-U.S. trade war, and China's slowing manufacturing sector and capital outflow restrictions. The Reserve Bank of Australia (RBA) is expected to cut rates; the AUD may test lower at 0.65 or even 0.61.

Japan's economy is likely to be hit by the proposed sales tax increase in October as well as the Chinese economic slowdown. The Bank of Japan has become the largest holder of Japan government bonds, which has indirectly weakened volatility of Japanese bonds and JPY. Risk aversion and the 2020 Tokyo Olympics may prompt USD/JPY to test lower at 105, but it is less likely to test 100 with the range-bound trading pattern.

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About Everbright Sun Hung Kai Company Limited

Everbright Sun Hung Kai Company Limited ("EBSHKCL") is a leading financial institution with four core businesses, Wealth Management and Brokerage, Corporate Finance and Capital Markets, Asset Management, Investment and Structured Financing. Operating under the Everbright Sun Hung Kai brand ("EBSHK") as well as the EBSHK Direct and EBSHK Private sub-brands, EBSHKCL is an international business platform of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178), and an affiliated company of Sun Hung Kai & Co. Limited (HKEX: 86), serving individual, corporate and institutional clients in Hong Kong, Macau, Mainland China and the U.K.

Backed by Everbright Securities and China Everbright Group member companies, coupled with its heritage in the financial industry beginning in 1969, EBSHK has emerged to be a full-fledged financial platform providing excellent cross-border and global financial services with Moody's "Baa3" long-term issuer and "Prime-3" short-term issuer credit ratings. EBSHKCL, through its subsidiaries, currently has over HK$144 billion* in assets under management, custody and/or advice. For more information, please visit www.ebshk.com.

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For enquiries:

Juliana Chan	+852 3920 2511	juliana.chan@ebshk.com
Maggie Chan	+852 3920 2513	maggie.chan@ebshk.com
Kit Chan	+852 3920 1863	kit.chan@ebshk.com

This press release is based on views and opinions of the Retail Research team of Sun Hung Kai Investment Services Limited.