光大新鴻基 EVERBRIGHT SUN HUNG KAI 50 周年 years

[For immediate release]

EBSHK is cautious on 2020 global outlook

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Allocation on global bonds, gold, U.S. stocks, HK equities with strategic allocation on A-shares

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HSI target at 30,000

Major themes for HK equities: rigid demand consumption, 5G concepts, property management

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GBP to narrow downtrend, RMB to hover around 6.96-7.19

Overview:

- EBSHK takes a cautious stance on the 2020 global investment market and currency trends since they are mainly affected by key factors including the global growth slowdown and central banks' policy stance, the China-U.S. relation changes (economically and politically), the post-Brexit prospects, corporate debt maturity and the U.S. presidential election
- Investors are suggested to focus more on risk management with the diversified strategy and build a well-balanced portfolio by buying stocks in phases on correction with the global bonds and gold allocation
- Focus on 2+2 Strategies: Two core strategies: "Flexible allocation of global bonds", "Diversify risks with gold allocation"; two major strategic plans: "Equities may extend upbeat momentum in the U.S. election year", and "Small stake at A-shares to capture uptrend"
- The 2020 target for Hang Seng Index is 30,000, with HSCEI's target at 12,000 and Shanghai Composite's target at 3,400
- Major themes for HK equities: (1) Rigid-demand consumption; (2) Opportunities from 5G concepts; (3) Growth of property management stocks
- FX: GBP may narrow the downtrend and RMB may hover around 6.96-7.19

Hong Kong, December 10, 2019 – Everbright Sun Hung Kai Company Limited ("Everbright Sun Hung Kai", "EBSHK" or the "Company") expects the cautious outlook for the global investment market and currency trends in 2020, mainly driven by factors including the global growth slowdown and central banks' policy stance, the China-U.S. relation changes (economically and politically), the post-Brexit prospects, corporate debt maturity and the U.S. presidential election. Following its three rate cuts in 2019, the U.S. Federal Reserve (Fed) is expected to keep the interest rates on hold if the U.S. growth shows no sharp deceleration in H1 2020. On the other hand, the International Monetary Fund (IMF) earlier lowered the U.S. growth in 2020 by 0.2ppt to 3.4%. The economic downside risks may also come from firms' consistent capital spending cut and sustained growth of collateralized loan obligation (CLO) in recent years.

<u>Build a well-balanced portfolio with 2+2 strategies</u>

Since the global investing risks are rising further, investors are suggested to focus more on risk management with diversified strategy and build a well-balanced portfolio by buying stocks in phases on correction and enhancing the short-term bond allocation. **EBSHK Wealth Management Strategist Kenny Wen** says, "Global equities performed positively this year despite the mounting risks of economic slowdown globally. As of late November, MSCI World Index delivered total return of 25% and U.S. equities also hit fresh highs. Since the global equity valuation has remarkably rebounded, the asset prices may turn to be more volatile in 2020." Kenny recommends 2+2 strategies – two core strategies: "Flexible allocation of global bonds", "Diversify risks with gold allocation"; and two strategic plans: "Equities may extend upbeat momentum in the U.S. election year" and "Modest allocation to capture A-share uptrend with policy support".

Core Strategy 1: Flexible allocation of global bonds

The global economic slowdown, surge in trade protectionism and the China-U.S. trade disputes triggered risk aversion, resulting in strong capital flow to bond markets, and therefore the global bonds delivered high single-digit YTD return. EBSHK points out that despite the sharp increase of global bond prices, the credit quality of global investment-grade bonds remains positive with longer duration, and therefore the global bond allocation may help lower the portfolio's volatility and enhance returns amidst high risks of economic downside and the low rate environment.

Core Strategy 2: Diversify risks with gold allocation

The trade and geopolitical risks supported the gold prices this year and the spot gold hit as high as US$1,557/ounce in early September, but later on it pulled back to consolidate at around US$1,450-1,520. Based on the EBSHK estimates, the gold price is likely to climb further up to around US$1,400-1,700/ounce in 2020 , mainly driven by the low-rate environment, negative bond yields, rising risk-averse demand, stronger holding of central banks and weaker USD. Meanwhile, the gold price has lower correlation with equities and investors may consider moderate gold allocation to diversify the portfolio risks.

Strategic Plan 1: Stocks may extend upbeat momentum in the U.S. election year

With the U.S. presidential election to be held in November 2020, the S&P500 posted an average return of 10% over the past 15 election years. The U.S. stocks had positive return in 13 election years except for 2000 and 2008. Apart from the election, EBSHK believes that even if the U.S. economy may slow down, the risk of recession remains low in the H1 2020, which supports the U.S. stocks to test higher. Investors may consider buying U.S. stocks on the dips for range-bound trading.

Strategic Plan 2: Small stake on A-share upside on policy support

On the back of China's continuous monetary easing and stabilizing macroeconomic situation in the second half of 2020, the A-share market valuation may see "restorative rebound"(修復式反彈). The Chinese economy has shown resilience this year in the face of trade disputes with the U.S., while the swine fever has pushed inflation higher which may restrain the flexibility of monetary policy. With the gradual stabilizing price levels in 2020, the Chinese authorities may have more flexibility on monetary and fiscal policies. According to EBSHK estimates, Shanghai Composite may test higher at 3,400 as the corporate earnings growth may bottom out and bounce back. The A-share market uncertainty mainly comes from the progress of China-U.S. trade negotiation.

HK Equities: fundamentals uncertainties and trade opportunities

Hong Kong equity performance was affected by the ups and downs of the China-U.S. trade talks this year with market uncertainties triggered by the city's social unrests in H2 2019. EBSHK believes there is no imminent resolution for the China-U.S. disputes as they may still be dominated by the long and bumpy roads that could lead to fluctuations to markets. Meanwhile, despite the receding market worries over the U.S. recession, the downside risks of both U.S. and China should not be overlooked, and China's GDP growth may even fall below 6.0% in 2020. Based on the above macroeconomic fundamentals, the Chinese government is likely to strengthen the flexibility of both fiscal and monetary policies with the neutral but inclining to loosening stance.

Kenny Ng, Securities Strategist of EBSHK, says, "Hong Kong equities mainly jittered between the economic downside pressure and monetary policy decisions this year. In 2020, it will be further derailed by uncertainties such as external markets' recession and geopolitical factors. Hong Kong equities may still present opportunities for investors in range-bound trading in 2020 as the HSI valuation is still lower than the global major peers, while the market may benefit from a temporary reprieve of the China-U.S. trade talks and anticipations of policy impacts on economic stability."

<u>HSI sees 30,000 in 2020 amid the uncertain economy</u>

Based on EBSHK's internal valuation models (factoring in the global economic and political development, monetary policy expectations and China/HK financial markets' unique features), the 2020 target for HSI is set at 30,000; HSCEI is set at 12,000 while Shanghai Composite Index target is set at 3,400.

With respect to risk factors, EBSHK expects the 2020 market to be driven by the China-U.S. relations, the global economic recovery and corporate debt resolutions. For the HK equities market in 2020, 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 2020 include: (1) rigid-demand consumption; (2) opportunities from 5G concept; (3) the growth of property management stocks.

<u>FX: GBP may narrow downtrend and RMB may hover around 6.96-7.19</u>

Bruce Yam, Forex Strategist of EBSHK says "the British Pound would eventually end its three-year depreciation in 2020 as it may narrow its decline following its 13% fall amid orderly Brexit. In addition, the RMB may remain in range-bound trading as the People's Bank of China (PBOC) may need to support the Chinese economy with rate cuts and the required reserved ratio (RRR) cuts amid the Chinese economic downturn, trade war and the maturity of municipal/corporate bonds."

Australia has close economic ties with China. However, China is under the pressure of economic downturn, while the high household debt to GDP ratio (one of the highest in the world) and high housing prices in Australia may also trigger pressure on personal repayment capacity, property prices and banks' asset quality. The Reserve Bank of Australia (RBA) is expected to reduce interest rates again in 2020 and AUD is likely to test lower at 0.65 or 0.62, with the upper resistance at 0.7.

Following the 2016 Brexit referendum, the U.K. is likely to achieve smooth and orderly Brexit in 2020. Some businesses may return to invest in Britain after taking a wait-and-see stance over the past several years. The U.K. assets have become more attractive to foreign investors after the Pound's sharp depreciation. The Pound has dropped 13% since 2016 compared with Euro's 3% fall in the same period. Without the hard Brexit, GBP is expected to narrow the decline and test around 1.32-1.35. However, the Pound's upside potential may depend on the EU-UK trade talk progress and recovery of investor confidence, and hence GBP may also test higher at 1.38.

For the RMB, the economic downturn cycle and the trade war have led to structural problems in China. The maturity of municipal and corporate bonds in 2020 as well as the high CPI level may possibly weaken the consumption. The PBOC may have to cut rates and RRR to support the economy. In 2019, the Chinese government unveiled various relief measures on tariffs and tax as well as RRR/rate cuts, which provided liquidity of about RMB4.68 trillion. China's GDP growth may fall below 6% in 2020 while the RMB may hover around 6.96-7.19 or even test 7.4.

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About Everbright Sun Hung Kai Company Limited

Everbright Sun Hung Kai Company Limited ("EBSHKCL") is a leading wealth management institution with four 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$121 billion* in assets under management, custody and/or advice. For more information, please visit www.ebshk.com.

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