BCT 銀聯集團

BCT Market Outlook

April 2015

US Equities

The Fed commented that the rate hike would depend on economic data, with maximum employment and 2% inflation target as the major factors under consideration. The Feb further described the economic growth as "moderated somewhat" compared with December, but at the same time it did not rule out rate rise in June. On the data side, February's ISM Manufacturing dropped further from January's 53.5 to 52.9, forming a trend of slowing expansion rate. Besides, the core personal consumption expenditure (PCE) in February rose 1.4% year-on-year, while CPI excluding food and energy rose 1.7% which was slightly higher than January's 1.6%.

The latest Fed statement could be interpreted as giving more flexibility for rate hikes but it is still trying to manage market expectation to avoid unnecessary market volatility. The market has been gradually shifting focus to the pace of rate increases rather than the timing, and we now expect rate hike in September after the annual economic policy symposium at Jackson Hole (Wyoming), and the interest rate should increase in a gradual manner. However, the price-to-earning ratio of the S&P 500 Index has exceeded its 10-year average, implying overvaluation, and we hence downgrade US to NEUTRAL due to stretched valuation.

European Equities

The ECB started buying sovereign bonds monthly for EUR 60 billion and stated that it would continue the bond purchasing until inflation saw sustainable improvement. Meanwhile, the March's Eurozone manufacturing PMI recorded 52.2, up from February's 51, indicating manufacturing expanded at a quicker pace. Moreover, the year-on-year CPI of Eurozone was down by 0.3% in February, same as January, while the core CPI rose by 0.7%, quicker than January's 0.6%. However, it was still far below the 2% target. On the other hand, the credit demands in the region continued to show weakness.

Further action by the ECB is unlikely as it should consider the potential significance of the tools to be used if the latest action failed to boost credit, inflation and the overall economy. Moreover, retreated oil prices slowed inflation outlook but should lower the cost of production and boost consumption. In addition, the Euro is expected to further depreciate under the ECB's QE programme and US's tendency to rise rate in the medium term. Export and corporate earnings should be benefited, but the total equity return could be confined by the Euro depreciation. We hold NEUTRAL stance for uncertainties in fundamentals and credit condition.

Japanese Equities

The finalised GDP for 4Q was up by 1.5% from previous quarter, ended the decline in the previous 2 quarters and stepped out from a technical recession. February's year-on-year PPI increased by 0.5%, accelerated from January's 0.3%, while the CPI rose by 2.2%, slower than January's 2.4%. On the other hand, the momentum of labour cash earnings continued, with January's figure rose by 1.3%, which was the same as December's revised one. Besides, the year-on-year company profits in 4Q jumped by 11.6% from previous year, speeded up from 3Q's 7.6%. The Consumer Confidence Index rose to 40.7 in February, which was the 3rd straight month that recorded an increment.

The company profits and labour cash earning continued to be encouraging, implying improvement in fundamentals, and consumer confidence also benefited. However, the retail-related figures still await further improvement. Whether the improvement in the earnings level can be translated into retail sales is crucial to bring up inflation and a sustained recovery. Nevertheless, any worsening of geo-political conflicts or outbreak of diseases will trigger Yen's appreciation and hit the stock markets for a shorter-term. We maintain NEUTRAL, but it is possible that more solid retail figures are coming.

Asia ex-Japan ex-Hong Kong Equities

The estimated price/earning ratio of MSCI Asia Pacific ex Japan Index was 13.6 times, traded at a discount to 17.7 times of the US S&P 500 Index, reflecting the valuation remained attractive. Besides, the US dollar strength and easing inflation concerns hindered market upsides. For individual countries, Korea surprisingly cut its interest rate to historical low of 1.75% to tackle disinflation and deteriorating economy, together with expectation towards the sales of new smartphone model also spurred market sentiment. India carried out unscheduled interest rate cut on the back of low capacity utilisation and weaknesses in credit and production indicators.

Investors should be aware that the continuous strength of the US dollar and easing stances of Central Banks in the regions could hinder the currency return of equities. Focus should be on oil importing countries (such as India, the Philippines and Indonesia) provided that oil prices are still sluggish, while avoiding those economies that are relying on oil export such as Malaysia. Moreover, the Fed may still rise rates quicker than expected, which could further enlarge currency weaknesses in the regions, especially for those that are under the interest rate cut cycle. We are still SLIGHTLY POSITIVE due to attractive valuation and favourable policy anticipation.

China & Hong Kong Equities

The 'two sessions' did not reveal any eye-catching policies, and the government announced 7% GDP growth target for 2015 which was lowered than 2014's 7.4%. On the economic data side, the year-on-year CPI in February rose from January's 0.8% to 1.4%. Meanwhile, the year-on-year average price of newly built residential buildings from 70 cities dropped by 5.7% in February, which was the 6th consecutive month of decline, and the authority lowered the down payment requirement for second home from 60% to 40%. Finally, the regulator allowed Chinese public offered funds to buy HK equities through the Shanghai-HK Stock Connect Scheme.

The Chinese housing market is still awaiting improvement and is the key to achieve target economic growth, and possible stimuli include further cutting the down payment on second housing and loosening the floating bound of borrowing rate. Moreover, the shadow of disinflation enlarged and act as a catalyst for further RRR / interest rate cut, but the easing pace should be considered with the risk of asset bubbles and overall fundamentals. Besides, the allowance of Chinese funds to buy HK equities directly through the Scheme and the anticipation of Shenzhen-HK Stock Connect are new market focuses and may act as further positive catalysts. We maintain SLIGHTLY POSITIVE for the regions.

Global Bonds

The performances of high yields lagged behind corporate bonds, triggered by the Fed's and the ECB's easing direction, at the same time signaling money flow to safer assets which was an indication of de-risking. In addition, the yield of Asian bonds showed divergence as Central Banks in the regions act differently on monetary policies, with countries like Korea and India cut interest rates while Malaysia held rate unchanged. On the other hand, the RMB recorded significant gain after the Fed's statement and the fall of the US dollar, while the Euro extended its depreciation trend and yen fluctuated.

The Euro is expected to continue its depreciation, and the USD is likely to be back to uptrend once the expectation of interest rate hike of the US is reignited, while the currency move of Asian countries depends on the country-specific fundamentals and Central Banks' monetary policies. Our preference towards RMB in the long term is unchanged at slightly positive due to the relatively strong Chinese economic growth in the world and favourable trade surplus, but volatility may increase under USD fluctuation on rate rise schedule. We hold SLIGHTLY NEGATIVE towards bonds in expectation of global recovery, particularly in the US.

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