US Equities

The Fed reiterated its ‘patient’ stance to rate hike, and revised their wordings on economic activity from expanding at a ‘moderate pace’ to a ‘solid pace’. The Fed also mentioned that short-term inflation may decline in the near term, but will gradually move up to 2% in the medium term after the transitory effects of lower energy prices and other factors faded. Besides, average hourly earnings in December dropped by 0.2% from previous month (November grew by 0.2%). Moreover, orders for durable goods for December dropped by 3.4% from previous month, which was the 2nd consecutive month of decline, and deepened from November’s -2.1%.

Markets generally have questions on the sustainability of wage growth, and the continuation of housing recovery is another area of concern. Apart from the plunge in oil prices, economy-sensitive commodities such as copper and lumber also declined, which may indicate decrease in demands and slowdown in the global economy. However, the overall US economy is still under expansion. On the other hand, the Fed’s stance on rate hike will mainly depend on inflation. And as the inflation outlook is hurt by the slump in commodity prices, the rate hike schedule may thus be delayed, favouring economic prospect. We maintain our SLIGHTLY POSITIVE outlook based on the recovery anticipation.

European Equities

ECB launched a new round of QE programme, with a monthly bond purchasing amount of EUR 60 billion, totalled at about EUR 1.14 trillion. The programme will sustain for 18 months. Nevertheless, the left wing party Syriza, which opposed austerity, won the Greece parliamentary election. On the economic side, with its CPI in December dropped by 0.2% from previous year, the Eurozone had entered deflation, and it further fell behind the 2% target. In addition, December’s Markit Eurozone Manufacturing PMI maintained at 50.6, which was just slightly above the line of expansion. For the Euro, its weakness was enhanced by Greece’s uncertainty in the Eurozone and ECB’s latest austerity move.

The new QE programme mainly targets at sovereign bonds in the Eurozone, and needs to consider the limited marginal effect it could bring at the current low yield level. Whether the credit market and inflation can be stimulated under the programme or not is to be seen, but market liquidity should improve. On the contrary, the political and economic outlook of the Eurozone will be weighed by the new Greece government, which may re-ignite the fear of “Greexit”, threatening Eurozone’s stability. Our outlook to the market remain unchanged at NEUTRAL, due to economic and political uncertainty.

Japanese Equities

The PPI in December rose 1.9% year-on-year, adjusted downward from November's up 2.6%, indicating potential slowdown in inflation. On the other hand, the year-on-year growth of CPI remained at 2.4% in December. Moreover, the consumer confidence index was slightly up from 37.7 in November to December's 38.8, while the industrial production in November was down by 3.7% year-on-year, versus October's -3.8%. In addition, the export in December surged by 12.9% from November's 4.9% year-on-year.

With respect to the sluggish consumer confidence and economy, the concerned authority may need to be more focus on its fiscal stance. Besides, with the Yen acting as a risk shelter, its movement may be hindered by the potential sovereignty bond crisis triggered by Greece, geo-political instability or epidemic outbreak, hurting the effectiveness of Abenomics. What's more is on the balance-out effect brought by the inverse movement between the equity and currency in Japan. We hold our NEUTRAL stance towards Japan on concerns to over the uncertainty in its fundamentals.

Asia ex-Japan ex-Hong Kong Equities

The ECB's latest expansion in QE further fuelled the global liquidity in addition to BoJ's monetary stance. On the other hand, a US rate hike is also unlikely in near future as inflation outlook was dampened by the slump of oil prices. While abundant liquidity condition remains, it should favour money inflows to Asian markets with attractive valuation. The MSCI Asia Pacific ex Japan Index was traded at 12.9 times estimated earnings, enjoying a discount to the 17.1 times for the US S&P 500 Index. There are divergence in economic development within the region. The economic outlook for certain countries were detracted by weakness in oil prices, with Malaysia lowered its economic growth and inflation for 2015 and increased its percentage of fiscal deficit target of GDP to 3.2%. However, countries like India benefited from reforms and rally to new high in January.

With the USD continued to rally, the uncertainty of the Eurozone brought on by Greece's new government will enhance market's risk-adverse sentiment, thus affecting both equity and currency returns in the region. Furthermore, the downtrend of commodity prices is likely to remain as a detractor, especially for those countries relying on exports. However, based on valuation discounts, we maintain our SLIGHLTY POSITIVE view.

China & Hong Kong Equities

The PBoC introduced reverse repurchase again to support liquidity. At the same time, the regulatory authority acted against illegal margin practice, striking market sentiment. For the economic data, GDP in 4Q increased by 7.3% from previous year while that of 2014 was up by 7.4% which was closed to the target level of 7.5%. Besides, the sales of residential buildings rose by 4.2% in December from previous year, reversed from previous downtrend. However, the CPI in the month grew by 1.5% year-on-year, PPI declined by 3.3% (deepened from November's -2.7%), indicating the potential slowdown in inflation. Moreover, the bad loan ratio in 4Q for banks jumped to a 4-year high.

The short-term borrowing cost (indicated by SHIBOR) may point upward when approaching the Lunar New Year due to settlement needs, and may limit the liquidity and equity market upside. On the other hand, the reintroduction of reverse repurchase and the rebound in property market lowered the anticipation of interest rate cut in the short term. And the effect by the curb in illegal margin trading is believed to be temporary, with the purpose of maintaining healthy development of the markets and lowering market volatility. We are still SLIGHTLY POSITIVE on the market on the back of sufficient room for further easing policies.

Global Bonds

The ECB launched a new round of QE, together with the BoJ easing stance and Fed's patience on rate hike, all favoured bond performance overall. Besides, USD strength persisted, while the Yen consolidated and the Euro dropped further on ECB's expansion of its monetary policy. On the other hand, the victory of the left-wing party in Greece cast uncertainties over the Eurozone's outlook, favouring demand for safety assets and put pressure on the yield of developed markets and sovereign bonds. For the RMB, it depreciated on easing anticipation and worries over Chinese economic outlook.

The easing stance of major central banks and risk-averse sentiment are likely to support the performance of major government bonds, but their upsides are relatively limited as the yield level was already low. Another point of note is that currency return plays an important role in bond performance. The USD is expected to rally on the back of the expanded programmes by the ECB and BoJ (which resulted in continued weakness of the Euro and the Yen), and this is favourable to the performance of USD-denominated bond. We maintain our SLIGHTLY NEGATIVE stance to overall bond investing as we anticipate global recovery, but slightly positive towards RMB bonds in the long term as we expect RMB will appreciate with positive Chinese economic outlook.

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