## US Equities

The Fed mentioned "patient" on the timing of interest rate hike and is not expected to rise rates at least for the next couple of meetings, implying that policy normalisation is not likely to happen in the short term. The overall US economy is still on track of recovery. The ISM Manufacturing Index in November slightly lowered to 58.7 from October's 59, but still indicated a momentum in manufacturing expansion. Besides, the quarter-to-quarter growth of 3Q annualised GDP was revised upward from 3.9% to 5%. Moreover, November's non-farm payrolls jumped to 321K from 243K in October, while the advanced retail sales in November was up by 0.7% from the previous month, compared with October's 0.5%.

The impact of low oil price to inflation will not be short-term only if it remains weak for a sustainable period, which favours the Fed to delay the interest rate hike. Housing recovery is also unstable at this stage. On the other hand, the Fed's stance further brings out a clearer picture on the interest rate hike schedule. While the earliest rate hike would be in April this year, we maintain the expectation of rate hike in mid-2015, due to continuous recovery and employment improvement. We maintain SLIGHTLY POSITIVE for US market.

## European Equities

ECB stressed to act further if necessary in face of sluggish inflation and economic growth, while the CPI for November only rose by 0.3% year-to-year which was far from the 2% of ECB's target. Besides, the Markit Eurozone Manufacturing PMI slipped from 50.6 in October to 50.1 in November, indicating slowdown in manufacturing expansion. Nevertheless, October's retail sales rose by 0.4% month-on-month, reversed from -1.2% in September. On the other hand, euro further weakened on the ECB's easing move and determination to boost inflation and economy.

Eurozone credit market is still waiting for improvement and is the key to recovery, while disinflation, high unemployment rate, the potential return of political crisis and sovereign debt concerns also weigh on the progress. Moreover, the plunge in oil prices are not in favour of the inflation outlook of Eurozone, being a potential catalyst for the ECB to act further. Euro's depreciation is likely to benefit export and boost inflation of Eurozone, but these will need time to realise, and total equity return may suffer from currency depreciation. We hold our NEUTRAL stance on the markets.

**Japanese Equities**

Prime Minister Abe won the parliamentary election, implying political stability, the continuation of Abenomics implementation, and the delay of sales tax originally scheduled in 2015. Moreover, the final GDP in 3Q declined quarter-to-quarter by 1.9%, which was revised down from -1.6%. And the consumer confidence index in November further declined from 38.9 in October to 37.7. However, the corporate profits in 3Q grew by 7.6% from the previous year, accelerated from 2Q's 4.5%. In addition, the Yen's weakness was limited by the oil price drop and the Ruble crisis.

The liquidity generated from the easing policy may not stay in local markets, and the long-term market performance will still rely on fundamentals. Also, the policy will weigh on Yen and result in detraction in total equity return. What's more to note is that the risk of disinflation has intensified, which might urge the BoJ to strengthen easing stance further, but it should consider the marginal effect and impact to imports if Yen depreciated at a quick pace, before achieving the goal of boosting inflation. Our outlook to the market maintain at NEUTRAL due to uncertainties in fundamentals and effectiveness of the BoJ's monetary stance.

**Asia ex-Japan ex-Hong Kong Equities**

The Fed asked to be patient towards policy normalisation, erasing the concerns of early interest rate increase, and encouraging liquidity to flow into emerging markets. The valuation in the region remained attractive, with the MSCI Asia Pacific ex-Japan Index valued at 13.3 times estimated earnings which is more advantageous than the 17.4 times for the peak-testing US S&P 500 Index. On the other hand, the plummeted oil prices further weighed on the energy sectors and the by-product of crude oil substitutes, such as rubber, hitting the export of certain countries such as Thailand, and resulted in retrenchment of some of the markets.

The USD continued its strength which caused negative impact on other currencies in the region and detracted the overall equity return. Furthermore, weakness in oil price and commodity also have negative impact on the equity markets. In addition, the markets are highly liquidity-sensitive, for incidents such as escalating geo-political risks, worsening of epidemics or earlier-than-expected rate hike by the Fed, market correction may come in severe scale yet providing long-term buying opportunity. We are SLIGHTLY POSITIVE on the back of relative undervaluation.

## China & Hong Kong Equities

The PBoC adjusted the deposit calculation of banks to release more funds for credit lending. When facing the year-end demands for settlement and red hot equity markets, short-term borrowing cost (reflected in SHIBOR) surged. On the other hand, the inflation further slowed down. The year-on-year CPI in November slackened as it rose 1.4% compared with 1.6% in October, and the proxy leading indicator, PPI, dropped by 2.7% in November from the previous year, which was deepened from October's -2.2%. Moreover, the aggregate financing in November recorded RMB 1.15 trillion, rallied by 69% from October.

The inflation further slowed down, which is negative to the economic growth and increases PBoC's motivation to act further through both fiscal and monetary means. Although there is still room for more easing, large-scaled monetary and fiscal easing could fuel asset bubble and risk of shadow banking. What's more is that the impact of easing policy to credit lending and property market is yet to have been fully reflected, we believed the authority will keep on an accommodative stance, but in a progressive pace. We maintain SLIGHTLY POSITIVE view.

## Global Bonds

Latest Fed meeting calmed market concerns on early rate hike, and the ECB, BoJ and PBoC eased their monetary policies, supporting market liquidity. On the other hand, the oil price kept moving downwards, hitting global inflation outlook but favouring bond performances. Besides, the USD strength persisted, together with the Fed's stance to keep interest rate low, which was beneficial to the US Treasuries. For the RMB, the import and export figures of China in November were unsatisfactory, together with the rate cut by the PBoC and USD strength pressed on the RMB, dragging down the return of dim-sum bonds.

While considering the return from yield retrenchment, currency return is also a main factor affecting the bond performance, especially during a period of strong USD, which detracted the performance of non-USD-denominated bonds. Besides, the depreciation of RMB is believed to be short-term and we maintain the view of long-term appreciation towards RMB, due to the continuation of trade surplus, relative stable and quick economic growth. In overall, we are SLIGHTLY NEGATIVE to bonds in anticipating global economy recovery but slightly positive on RMB bonds.

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