US Equities

The Fed left interest rates unchanged, stating the recent global financial and economic development may affect US inflation outlook and would keep monitoring. The Fed also emphasized the importance of rate hike path rather than the timing of first rise, though Chairwoman Janet Yellen expects the rate hike to occur in 2015. In addition, August's ISM manufacturing index further dropped to 51.1 from July's 52.7, indicating a manufacturing slowdown. Non-farm payroll employment increased 173,000 in August, lower than July's revised 223,000, and unemployment rate slid to 5.1% from 5.3%. Average hourly earnings increased by 0.3% from July, representing a slight acceleration from 0.2% in the previous month.

The Fed delivered a rather dovish stance on the rate hike, but did not give a clear timing, as uncertainties in money flows remain. However, recent figures are mixed especially in employment. The decision will hinge on inflation expectations, and the stability of economic figures and global markets. The Fed may raise rates when the global stock and currency markets stabilize, and more clues on the path of rate hike should be revealed after the first hike. On the other hand, the sharp depreciation of emerging market currencies in recent months and the strong US dollar threaten import prices and US export competitiveness, which is unfavourable to inflation and the economy. We are NEUTRAL on US given the lack of visibility in the timing of the rate hike.

European Equities

ECB kept interest rates unchanged and cut eurozone's growth and inflation forecasts. It expects GDP growth of 1.4% and 1.7% in 2015 and 2016 respectively, versus 1.5% and 1.9% previously, on concerns of a slowdown in emerging markets (especially China) and deflation risk due to weak oil prices. ECB intends to extend the QE programme beyond September 2016 and adjust the scale of bond purchase to boost inflation to the 2% target if necessary. Moreover, the preliminary 2Q GDP of the eurozone rose 1.5% year-on-year and 0.4% quarter-on-quarter, while August's finalized CPI rose 0.1% from the previous year and core CPI was up by 0.9%.

ECB's cut in growth and inflation outlook of the eurozone reflects deteriorating fundamentals, while China's growth concerns and weak oil prices may be ongoing headwinds. These factors give grounds for ECB to act further. In the case of further easing, the marginal effect and availability of bonds to be purchased should be considered. Meanwhile, the downside risk of the eurozone is relatively low, given the fact that the threat of Grexit has diminished, its attractive valuation and its nature as a developed market. Liquidity from the QE programme is also likely to support a market rally. We remain SLIGHTLY POSITIVE on the region.

Japanese Equities

September's monthly economic report maintained the view of Japan's moderate recovery, but added that the slowdown in emerging markets dragged on exports and production. In addition, Abe remained prime minister after being re-elected as the president of the ruling party, and the government plans to cut the corporate tax rates by 3.3% from approximately 35% in 2016 and anticipates a more significant cut. In terms of statistics, finalized 2Q GDP was down 1.2% quarter-on-quarter, revised upward from a 1.6% contraction. Corporate profits in 2Q grew 23.8% from the previous year, compared with the meager 0.4% in 1Q. Real cash earnings in July rose 0.3% year-on-year, reversed from the 3% loss in June.

The victory of Abe ensures political stability and is favourable to the execution of Abenomics. Apart from enhancing monetary policies, fiscal stimuli may be more effective in spurring corporate earnings and investment incentives, and in turn drive wage growth, household spending and inflation. Moreover, the US rate hike is likely to trigger yen depreciation due to widening of interest rate differential. As the QE programme's key objective is to stimulate exports and the overall economy through currency depreciation, the likelihood of BoJ strengthening the monetary policy is expected to decrease. We remain NEUTRAL on Japan before we see clearer evidence of a recovery.

Asia ex Japan ex Hong Kong Equities

Uncertainties on the US rate hike, China's growth concerns, sustained weak oil prices and foreign trades continued to put pressure on the markets. The Central Banks of Indonesia, Malaysia and Korea all kept interest rates unchanged. In terms of individual countries, the Malaysian government injected MYR 20bn (approximately USD4.6 billion) into the state investment fund to purchase undervalued stocks. Taiwan cut interest rates for the first time since 2009 by 0.125% to 1.75% to tackle the economic slowdown. India's market sentiment was supported by Central Bank's interest rate cut by 0.5% to boost growth. Korea's finalized 2Q GDP grew 2.2% quarter-on-quarter, down from 2.5% in 1Q.

The correction of Asian currencies in recent months increased export competitiveness of those countries. Nevertheless, low commodity prices are expected to partially offset the positive impact, in particular for export-oriented countries. Another Asian financial crisis is not likely, due to improved balance sheets of Asian countries, but China's slowdown would affect product demand, foreign trade and the countries' fundamentals. However, several central banks still have room to act either on a monetary or fiscal level, and long-term buying opportunities may arise once there is better clarity of the US rate hike. We are NEUTRAL on the region given worries on capital outflows before the US rate hike.

China & Hong Kong Equities

On the policy front, the State Council issued a framework proposal for reforms of state-owned enterprises, and a circuit breaker was proposed for CSI 300 Index to mitigate severe volatility. In terms of statistics, the yuan positions in financial institutions fell month-on-month in August, and the slump reached a historical high, indicating worsening capital outflows. CPI growth in August accelerated to 2% year-on-year from 1.6% in July, while PPI was down 5.9%, which worsened from July's decline of 5.4%. In addition, the authorities lowered the down payment for first-time home buyers from 30% to 25% in cities without house purchase restrictions, favouring sentiment in property sector. Meanwhile, deleveraging of margin financing continued.

The sustained deleveraging of margin finance lowered market risk. We look forward to the disassociation between market movements and the outstanding balance of margin finance, as this would mean the market is focusing on fundamentals rather than pure speculation, favourable to long-term capital market development. In addition, the widening gap between yearly change of CPI and PPI raises concerns. Worsening PPI reflects weakness in industrials but an increase in CPI (mainly driven by food prices) may hinder the extent and pace for further easing, posing threat to economic outlook. Moreover, reforms of state-owned enterprises take time, and effects on the markets may not surface in the short term. However, due to policy room, we remain SLIGHTLY POSITIVE but are mindful on volatility risk.

Global Bonds

Yield of 10-year US Treasury moved down after the Fed announced to keep interest rates unchanged, while that of 2-year recorded significant decline and US dollar fluctuated. German 10-year bonds showed upward momentum on ECB's ready-to-act stance on the bond purchase programme, though the euro stayed stagnant. Certain Asian currencies rebounded as the US Fed maintained its interest rate, however, Malaysian ringgit and Indonesian Rupiah remained weak. Offshore RMB saw stabilization and appreciated after the one-off devaluation in August by the PBoC. Yen fluctuated amid mixed economic figures.

US is likely to increase rates within this year, and the US dollar is expected to be strong and depress bond performances in the medium term, with both experiencing increased volatility when the rate hike is once again put on the agenda. On the other hand, the prospect of euro bonds look rosy given ECB's commitment in QE programme, but at the same time would place pressure on the euro and hurt total returns. For RMB bonds, we are NEUTRAL to avoid another spike in volatility, possibly triggered by capital outflows. For overall bonds, we stay SLIGHTLY NEGATIVE in expectation of the US rate increment.

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