光大新鴻基
EVERBRIGHT SUN HUNG KAI

[For immediate release]

EBSHK expects long path to global recovery in H2 2020

*   *   *

Gold allocation, ESG investment, U.S. large caps and tech shares

*   *   *

HSI target at 26,500

Themes for HK equities: emerging industries, property management stocks, 5G concept and Macau gaming stocks

*   *   *

Recession supports USD strength Depreciation pressure on RMB

Overview:

- EBSHK takes a cautiously optimistic stance on the H2 2020 global investment market that the pace of global recovery may be capped by ongoing economic impacts of coronavirus, default risks in bond markets, the U.S. elections and escalation in China-U.S. tensions. The investment market may see positive effects from the accommodative fiscal and monetary policy stance worldwide, coupled with a massive scale of economic stimulus and employment assistance
- High market volatility is expected in H2 2020, and investors may focus more on risk management with diversified strategy via a well-balanced portfolio by buying stocks in phases on corrections with gold for risk balancing
- Consider the four themes for allocation: gold, ESG concept, U.S. large caps and tech sector
- The H2 2020 target for HSI is 26,500, with targets for HSCEI at 11,000 and Shanghai Composite at 3,100
- Themes for HK equities: (1) historic opportunities from emerging industries; (2) short-term focus on property management stocks; (3) 5G concept attractive in the long term; (4) recovery ahead for Macau gaming stocks
- FX: Recession supports USD strength; RMB may see depreciation pressure

---

Hong Kong, June 2, 2020 - Everbright Sun Hung Kai Company Limited (“Everbright Sun Hung Kai”, “EBSHK” or the “Company”) holds a cautiously optimistic outlook for the global investment market in H2 2020 that the pace of global recovery may be restrained by ongoing economic impacts of coronavirus pandemic, default risks in bond markets, the U.S. elections and escalation in China-U.S. tensions. On the other hand, the investment market may see positive effects from the accommodative fiscal and monetary policy stance worldwide, coupled with a massive scale of economic stimulus and employment assistance. For Hong Kong equities, EBSHK is of the view the HSI has reached its year high and low in H1 2020, and the H2 target is set at 26,500; nevertheless, it is forecast the HSI will display sturdiness and be less elastic in H2 2020.

Kenny Wen, **EBSHK Wealth Management Strategist,** says, “The markets in general may be more volatile in H2 2020 and investors should pay more attention to risk management. We recommend a diversified strategy by buying stocks in phases during market corrections, while gold allocation may be used for risk balancing to build a well-balanced portfolio. Strategically, investors may focus on four major themes – gold, the ESG concept, U.S. large caps and tech stocks.”

Gold: Still in uptrend amid mounting global political and economic risks

The global economy faces a downturn worse than the 2008 financial crisis, and risk aversion remains strong amidst the low rate environment and negative bond yields. The spot gold price has rallied as much as 15% YTD and strong upside potential is expected due to persisting positive factors, and the gold price is expected to hover around US$1,500-1900/ounce. Meanwhile, gold has a lower correlation with stock markets and the Company recommends moderate gold allocation for balancing the portfolio risk.

ESG concept: As a core selection, supportive for share prices in long term

The tamed coronavirus pandemic and economic reopening may be conducive to stable corporate earnings. EBSHK is optimistic about global equities in the medium/long term, backed by the central banks' massive easing measures worldwide. Investors may also consider stocks with the ESG concept (environmental, social and governance). A study conducted by the University of Oxford reveals that good ESG practices could help 90% of companies lower their cost of capital, and 80% could have positive influence on share price performance by introducing ESG measures. Therefore, ESG stocks may be a part of the core selection when building a well-diversified portfolio.

U.S. large caps: Buy on dips, capture recovery opportunities

EBSHK is optimistic about the prospects of the U.S. stock market among developed markets. The U.S. is expected to outperform other regions including Europe and Japan as boosted by fiscal stimulus from Washington and the Federal Reserve. Since some historical data suggests that U.S. stocks are often poised for positive returns in presidential election years, U.S. equities may see improvement in H2 2020 despite impacts of the pandemic in the first half. However, the U.S. economy may hardly achieve a V-shaped rebound with the slow and gradual recovery of business environment. As such, investors may note better growth potential in U.S. large cap stocks with strong financing capacity and abundant cash reserves. U.S. large caps with more stable price trends may attract strong fund inflows in the volatile period, and therefore the chances are apparent that they will outperform SME stocks.

Tech sector: A pandemic beneficiary for strategic allocation

Coronavirus is spurring the use of technological applications with the rapid growth in working from home, e-learning and online shopping. Firms are keen on boosting their digital competiveness, leading to a dramatic surge in the demand for cloud-based and online services as well as network security solutions. In addition, the global medical sector is racing to leverage biotechnology to enhance Covid-19 testing efficiency and the R&D of drugs and vaccines. High-end biotech stocks with promising R&D capacity are projected to deliver strong business growth. Strategically, investors may consider buying tech stocks on the dips for range-bound trading.

HK Equities: Steady and less elastic in H2 2020

During the first half of the year, the HSI approached a high of 29,200 at one point, close to our full-year target of 30,000 set in December 2019. However, the black swan event (the pandemic and its impacts on global equities) dragged down the market with the HSI plunging to a low of 21,000. Major uncertainties in H2 2020 include: development of the pandemic and the pace of global recovery; and China-U.S. relations ahead of the U.S. presidential election, which is expected to affect market sentiment. Hong Kong equities may also be moved by fund flows driven by global quantitative easing programs and their valuation changes after market corrections in H1 2020.

Kenny Ng, EBSHK Securities Strategist, says, "The HSI may have seen its year high and low given its cumulative decline of over 8,000 points in H1 2020. The H2 2020 target for HSI is set at 26,500, and the HSI's high and low in H2 2020 may still be within the range seen in H1 2020."

Valuation recovery is restrained, HSI target for H2: 26,500

Market forecasts are mainly based on two major fundamental developments: a gradual slowdown in the global spread of coronavirus, and the persistent tensions in China-U.S. relations in H2 2020. It is expected that the recovery of the global economy in H2 2020 may bring opportunities in recouping loss in valuation of Hong Kong stocks. While monetary easing and valuation factors provided support to the HSI in the first half, the development of China-U.S. relations may further restrain the upside potential. Based on EBSHK's internal valuation models, the H2 2020 target for the HSI is set at 26,500, that for the HSCEI at 11,000, and the Shanghai Composite, at 3,100.

Judging from the above projections, investors may look for sectors that may benefit from key policy support and economic recovery, and which have a lower correlation with external economic impacts and whose business is benefiting from an industry boom. The four key investment themes in H2 2020 include: (1) historic opportunities from emerging industries; (2) short-term focus on the property management sector; (3) 5G concept attractive in the long term; and (4) recovery ahead for Macau gaming stocks.

FX: Recession supports USD strength; RMB may see depreciation pressure

Bruce Yam, EBSHK Forex Strategist, says, "The U.S. Federal Reserve took emergency action in response to coronavirus with rate cuts, unlimited quantitative easing (QE) and more purchases of corporate bonds, while the unemployment rate may remain high despite the federal government's pandemic relief programs. Weaker consumer demand may have slightly derailed the pace of economic recovery. The U.S. Dollar is facing adverse impacts fundamentally as it has been overvalued for ~20% and the U.S. competitive advantage over peers in terms of interest rate gap and growth was eroded in 2019. The USD strength is often seen during economic slowdown since 1970 as the Dollar is perceived as a safe-haven currency, but it eventually pulls back when recession ends and risk-averse sentiment retreats."

China's GDP growth was -6.8% in Q1 2020, dragged by shrinking trade orders, but its economy is set to stabilize in the third quarter on the back of stronger overseas orders in the Q4 peak season for the retail industry, as a result of expected taming of coronavirus in both the U.S. and Europe in Q3. The People's Bank of China (PBoC) is likely to adopt easing measures including rate cuts, reserve requirement ratio (RRR) cuts, bond issuance and the ramping up of government spending. With a sharp decline in revenue among local governments, China may plan to expand the scale of bond issuance or introduce new types of tax for the period from this year-end to early 2021. China is seeing US$1.2tn of debts mature this year, equivalent to 38% of its US$3.1tn foreign exchange reserves, while it is increasingly difficult for China to generate foreign exchange earnings compared with the situation in 2019, which may result in depreciation pressure on the RMB. The PBoC may be reluctant to flood the economy with massive QE, and rising inflation may also hold back the stimulus scale. The RMB is expected to be in range-bound trading between 6.9-7.19, but it may still test 7.4 should the economy slow down further or the central bank change its monetary policy. The PBoC has unveiled a Digital Currency Electronic Payment (DCEP) pilot project in selected cities including Suzhou, Xiongan, Chengdu and Shenzhen. Digital currency is forecast to help the government achieve precise management of money supply and capital flows.

AUD once hit a high of 1.1082 in 2011 but then fell into the bearish cycle and even touched the bottom of 0.5506 in March 2020, which means it has reached the target of downtrend range. Australia has done better in containing coronavirus as it is an island nation with a population of just about 25 million. Meanwhile, the 40% debt-to-GDP ratio has given more room for the Australian government to roll out more stimulus to boost its economy. The stimulus package is worth up to 10% of its GDP; this is crucial for Australia's severely hit economy to offset some impacts from China's slowdown and declining tourist arrivals and foreign students. AUD/USD is expected to find support at 0.59-0.60 and it may test higher at 0.68 or further up to 0.70 by year-end.

The pandemic has slowed down the Brexit talks between the U.K. and EU. The U.K. will replace the EU Customs Union with a new post-Brexit regime called UK Global Tariff (UKGT), under which a 10% tariff will be maintained on automotive, fishing and agricultural products, while 60% of imports will be tariff-free, compared with 47% at present. Starting from January 1, 2021, levies on approximately GBP30bn worth of products that are part of the U.K. supply chains will be canceled. Investors may consider buying the Pound at below 1.3. Further clarification of tariffs and trade aspects will mean an attractive opportunity. The GBP may find support at 1.18-1.2 with resistance at 1.28-1.3. The Buy call remains a key strategy for GBP.

Photo caption: (from left) Bruce Yam, Kenny Wen and Kenny Ng share their views on H2 2020 market outlook.

- End -

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$110 billion* in assets under management, custody and/or advice. For more information, please visit www.ebshk.com.

**As of March 31, 2020*

For enquiries:

Juliana Chan	+852 3920 2511	juliana.chan@ebshk.com
Maggie Chan	+852 3920 2513	maggie.chan@ebshk.com
Kit Chan	+852 3920 1863	kit.chan@ebshk.com

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