

[For immediate release]

**Sun Hung Kai Financial forecasts stronger global growth with liquidity in 2017  
US may outperform**

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**“Diversified allocation” is the priority  
Asset allocation for equities, bonds and commodities**

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**HK equities may swing up and down in a large horizontal range  
HSI target: 25,000**

**Three major themes: (1) new economy industries  
(2) RMB devaluation; (3) southbound capital inflow**

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**Overview:**

- Global economic growth may accelerate in 2017. The US economy may outperform with GDP growth at 2% or above. Europe’s growth may further slow down, as weakened by Brexit.
- Global liquidity is expected to stay strong: the US monetary policy may gradually move towards normalisation and the US may hike rates three times in 2017. Europe may announce additional monetary policy easing in December 2016.
- Among the BRIC nations, Brazil and Russia may see notable improvements, of which India is set to become the world’s fastest-growing major economy, and China is likely to maintain a stable growth.
- With the uncertainties in Trump’s era, our top priority is “diversified allocation” with a focus on equities, bonds and commodities. Prices across different asset classes remain volatile.
- Two key strategies: “in search of Trump policy gainers” ie capturing opportunities in US high-yield bonds; “buy quality assets at dips to enhance returns” ie buying Asian equities and energy-related investments at their lows.
- Hong Kong stocks may swing up and down in a large horizontal range. The Hang Seng Index target for 2017 is 25,000, with the key investment themes among Hong Kong stocks for 2017 being: (1) new economy industries; (2) RMB devaluation; and (3) southbound capital inflow

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**6 December 2016, Hong Kong** – Sun Hung Kai Financial Limited (“SHKF” or “Sun Hung Kai Financial”) expects global economic growth to accelerate in 2017 as a result of strengthening growth momentum in the US and emerging markets. The US economy may outperform among developed markets with an estimated GDP growth of 2% or above in 2017; concurrently, Europe’s growth may further slow down, as derailed by Brexit uncertainties. Under US President-elect Donald Trump, the US economic policy focus may shift from the monetary to the fiscal front, including corporate tax cuts and higher infrastructure spending while normalisation of monetary policy may gradually take place. Moreover, the US may hike rates three times in 2017. Europe will probably further ease monetary policy by December 2016, implying global liquidity may remain strong. For emerging markets, Brazil and Russia may see notable improvements, driving up overall GDP growth among developing countries, of which India is set to become the world’s fastest-growing major economy, and China is likely to maintain a stable growth.

Kenny Wen, Wealth Management Strategist of SHKF, says, “Under Trump, it seems difficult to predict the global political and economic impacts brought by his policies. ‘Diversified allocation’ is therefore our top priority for 2017 and we should build a balanced portfolio by buying stocks on dips with allocation of bonds and commodities in response to the upcoming uncertainties.” Despite

growing hopes of US economic growth remarkably being boosted by Trump's expansionary fiscal policy, it remains unclear whether the new president could put his proposed policies in practice, Kenny adds. Meanwhile, it is expected that investors will face economic and political uncertainties in 2017, which may result in high volatility of asset prices across different asset classes due to the triggering of Britain's formal withdrawal process from the European Union as well as the elections in France and Germany, held from April to May and August to October next year respectively.

Kenny Wen prefers two major strategies: (1) "in search of Trump policy gainers" by capturing opportunities in US high-yield bonds; and (2) "buy quality assets at dips to enhance returns", which involves buying Asian equities and energy investments at their lows to enhance the portfolio's growth potential in the medium/long term.

### **Strategy One: "in search of Trump policy gainers"**

#### **US high-yield bonds: the pick in rate hike cycle on capital flows to US assets**

Investors believed growth momentum in the US economy would pick up following Donald Trump's victory in the presidential election. On the other hand, they were concerned about the impacts on emerging markets from the policy stance of "America First" and monetary tightening of the President-elect. Capital may thus leave developing regions and flow into the US. The weekly data as at 16 November shows capital inflows to US equity funds saw an increase of US\$31.2bn approximately. Investors should focus on whether Trump can put his economic policies in action, and are advised to take note that the Dollar may be supported if US economic conditions improve with interest rate hikes, in which investors may add Dollar-denominated assets including US stocks or bonds to their portfolios.

We may consider buying the dips for US stocks, given the forward P/E of S&P500 at 18.3x, higher than its five-year average of 15.7x. Investors may also keep an eye on US high-yield bonds with exposure to Dollar-based assets in developed markets and US growth opportunities because of the lower default risk. In addition, high-yield bonds may be more attractive in a rate hike cycle as they are less sensitive to interest rate movements compared with investment-grade bonds.

### **Strategy Two: "Buy quality assets on dips to enhance returns"**

#### **Asian equities: optimism on earnings growth prospects boosts portfolio growth potential**

According to the International Monetary Fund (IMF) estimates, emerging Asian countries are likely to lead the world in economic growth with their GDP expanding at 6.5% and 6.3% in 2016 and 2017 respectively. The regional inflation rate may see a moderate rise of 0.2ppt to 3.2% in 2017, which is supportive for the central banks' persisted accommodative policy stance regionally. The macroeconomic stability is positive for corporate profits in the region, and double-digit growth across Asia (ex-Japan) for 2017 is projected. Since the market conditions may stabilise soon and there are the hopes of capital returning to Asia, investors are recommended to hold Asian equities in the medium/long-term to enhance the growth potential of their portfolios.

#### **Energy investment: Excess supply may ease, with rally expected in H2 2017**

Based on the data of Energy Information Agency (EIA) as at 8 November, the global demand for crude oil in Q3 2017 was estimated to reach 97.73 million barrels/day, slightly higher than the production forecast of 97.70 million barrels/day in the same period in 2017. The excess oil supply is expected to ease further as OPEC members have reached an output cut deal. Given the high crude inventory level, SHKF expects oil prices to remain in range-bound trading in H1 2017, and investors are advised to adopt a strategic approach, for example, buying oil-related assets if oil prices fall back to around US\$45/barrel and selling them at around US\$55/barrel. Looking ahead, oil prices may even break the resistance by testing US\$60/barrel or higher in H2 2017.

#### **Hong Kong equities: Swing up and down with volatility; HSI target: 25,000; focus on three major themes**

Based on SHKF's internal valuation model (factoring in the impacts of global monetary policies and China's capital flows), the 2017 target of the Hang Seng Index is set at 25,000 and Hong Kong stocks may swing up and down in a large horizontal range, with the upward trend in volatile conditions. The targets of the HSCEI and the Shanghai Composite Index are set at 10,500 and 3,600 respectively. The key investment themes among Hong Kong stocks for 2017 include: (1)

new economy industries; (2) RMB depreciation; and (3) southbound capital inflows that may create opportunities in the technology, export, brokerage sectors as well as individual stocks with attractive valuations.

### **Chinese economy may stabilise with new economy development as the spotlight**

Several economic leading indicators pointed to stable growth of the Chinese economy in the coming months. China's official manufacturing PMI edged up to a two-year high at 51.2 in October, staying in the expansionary territory for the third consecutive month. Nine out of twelve leading indicators including new orders, output and inventory tracked by SHKF showed improvement, suggesting the economy has broadly stabilised. PMI data generally precedes GDP figures by around one quarter, hinting the Chinese economy is on track for a soft landing. The Chinese government is expected to take a more active role in boosting economic reforms amid the "transition from the old to the new economy"; at the same time, southbound capital inflows following the launch of Shenzhen-Hong Kong Stock Connect are forecast to push stock valuations in both China and Hong Kong markets higher, which may become a key factor for a market rally.

The USD once rallied to 6.96 against the offshore RMB as the RMB experienced a steep decline recently. The likelihood of the PBoC cutting rates or lowering the required reserve ratio (RRR) in 2017 is not high because the PBoC may want to avoid widening of the US-China interest rate spread. Against this background of less aggressive monetary policy, risk appetite and upside momentum in the stock markets in both China and Hong Kong may be restrained. China's state-owned enterprises may now face higher possibility of bankruptcy under the existing policy framework, in contrast to the previous perception, and the corporate default risk is on the rise, which may weaken the investor sentiment. The good news is measures of the Chinese government including the "debt-equity swap" scheme may reduce some cases of credit defaults, and China and Hong Kong stocks are expected to rally in volatile conditions.

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### **About Sun Hung Kai Financial Limited**

Sun Hung Kai Financial Limited ("SHKFL"), with its foundation dating back to 1969, is a 70%-owned subsidiary of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788 HKEx: 6178).

Operating under the Sun Hung Kai Financial brand as well as the SHK Direct and SHK Private sub-brands, SHKFL has two core business segments, Wealth Management and Brokerage, and Capital Markets. It offers customised wealth management and investment solutions for retail, corporate and institutional clients. Backed by Everbright Securities, SHKFL provides greater access for Hong Kong and Mainland investors to a broad range of products and services.

SHKFL has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has about HK\$85.5 billion\* in assets under management, custody and/or advice. For more information, please visit [www.shkf.com](http://www.shkf.com).

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