Nice Talent Asset Management

MONTHLY UPDATE

2019 JUL

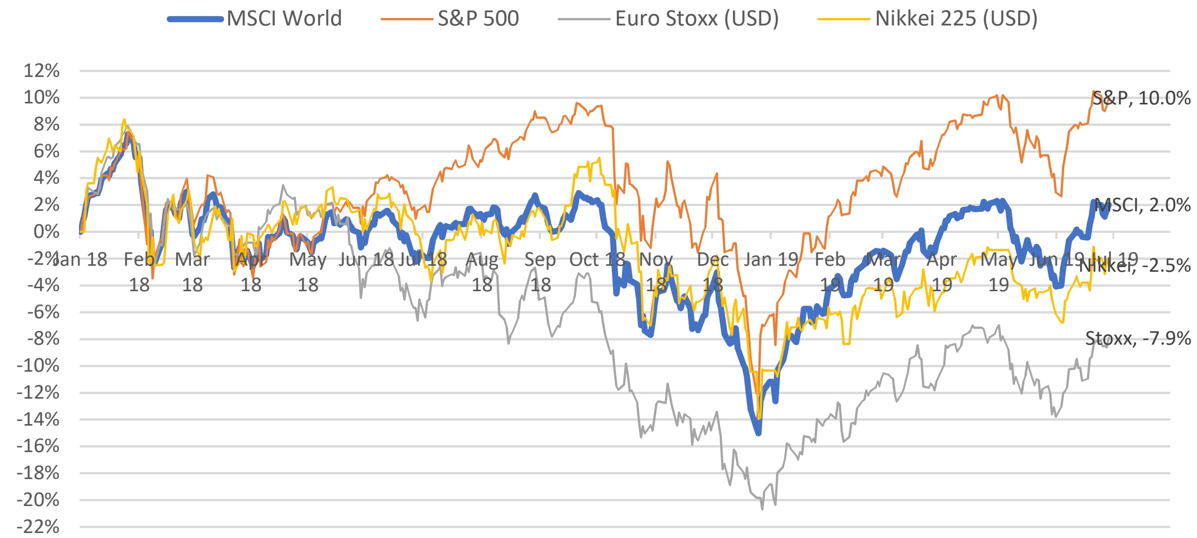
Market in June

USA-Mexico deal and expectation on G20 meeting between Trump and Xi mitigated previous concerns on global economic slowdown, while Federal Reserve, European Central Bank and Bank of Japan signaled more stimuli to support economies. These factors reversed pessimism in May and drove up investors' bullishness again. Most asset classes, from equity and commodity to bond and gold, rallied in the month.

Equity Market

Stock markets rebounded from correction in May and had solid rally in the month, thanks to dovish stances from major central banks and eased concerns on USA's trade tensions with China and Mexico. S&P 500 recorded its best first-half performance in 22 years. S&P 500, Euro Stoxx and Nikkei 225 returned +6.89%, +6.87% and +3.89% (in USD) respectively.

	MSCI World	S&P 500	Euro Stoxx	Nikkei 225
May 2019	492.12	2,752.06	357.87	20,601.19
Jun 2019	523.44	2,941.76	375.82	21,275.92
Return (USD)	+6.36%	+6.89%	+6.87%	+3.89%



source: Bloomberg

The Forward price earnings ratio ("Fwd. P/E") of SPX was 17.74x, above its 7yrs historical average ("7YHA") of 16.76x; the Fwd. P/E of SXXE and NKY were 14.17x and 15.34x, still below their 7YHA of 14.40x and 17.31x respectively.

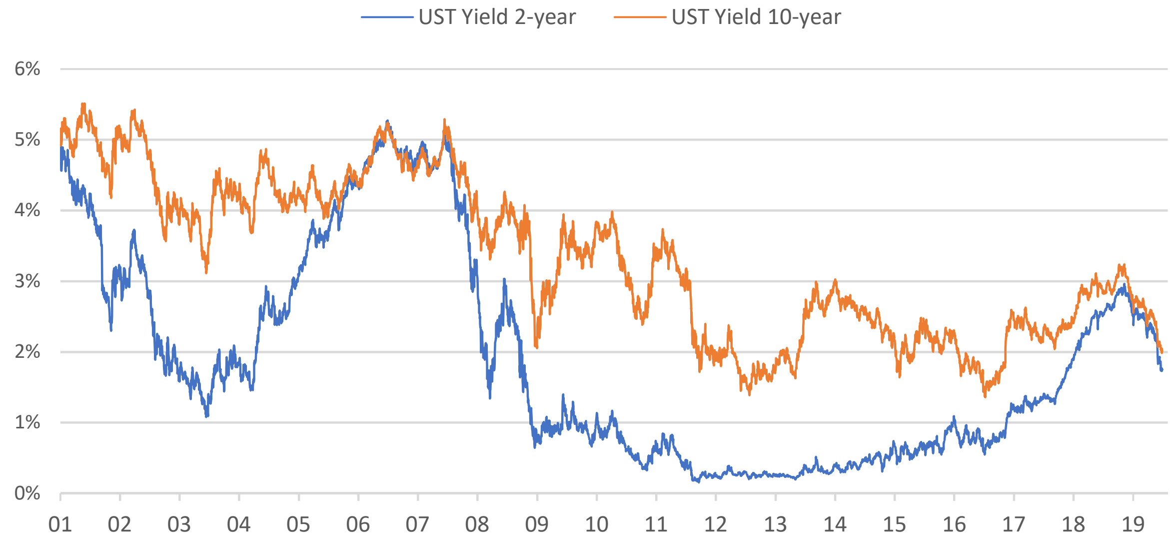
With Q2 2019 recently ended, we will skip the reporting on Quarterly financial reporting this month and resume in our next report when such information becomes available.

Bond Market

Federal Reserve, European Central Bank and Bank of Japan signaled more stimuli if needed, due to concerns of economic outlook. Bank of England kept main interest rate unchanged only, but also warned the economic outlook for UK is weakening.

The central banks' dovish stances, associated with worries about economic outlook, further drove down government bond yields. US 10-year treasury yield dropped below 2% for the first time since Nov 2016, while 10-year bond yields in Germany and France fell to record lows.

	US Treasury Yield - 5 Yrs	US Treasury Yield - 10 Yrs	EU Treasury Yield - 5 Yrs	EU Treasury Yield - 10 Yrs	Bloomberg Barclays US Aggregate Bond Index
May 2019	1.911%	2.125%	-0.580%	-0.202%	2.686%
Jun 2019	1.766%	2.005%	-0.663%	-0.327%	2.493%
Δ (bps)	-14.5	-12.0	-8.3	-12.5	-19.2



source: Bloomberg

Commodity Market

Oil prices rose in the month. Despite China-USA trade tension continued to threaten demand for crude oil, conflict between USA and Iran stoked fears that USA could attack Iran and disrupt supply from the Middle East, which supported oil prices.

Gold price hit new 6-year high, as both Fed and ECB hinted at monetary easing, US dollar weakened and geopolitical tensions escalated.

	WTI	Brent	Gold
May 2019	53.50	64.49	1,305.58
Jun 2019	58.47	66.55	1,409.55
Return (USD)	+9.29%	+3.19%	+7.96%

Macroeconomic

Economic figures were mostly negative. In USA, May data showed that jobs creation slowed dramatically and trade deficit widened more than expected, while retail sales rose and core capital goods orders rebounded. In China, industrial output growth slowed to more than 17-year low in May, and investment cooled down. In Japan, exports fell for a sixth straight month in May. Owing to reignited concerns on trade tension, Japan manufacturers' business confidence dropped to more than 2.5-year low and Eurozone economic sentiment sank to its lowest point in nearly three years.

Below list includes the major events/news of the month:

- China and USA reached a trade truce after meeting at G20 summit, which includes restart of trade talks, pause on new tariffs on Chinese products, and easing restrictions for US companies to sell to Huawei
- USA and Mexico reached a deal that Mexico will assist USA in curbing migration across the border; however, the threat of tariffs is still hanging over Mexico if the measures do not do enough to satisfy USA
- Rising tension between USA and Iran as USA accused Iran of attacks on two oil tankers in the Gulf of Oman and downing of an unmanned US drone, followed by new sanctions on Iran; in response, Iran threatened to exceed limits on its uranium stockpiles
- Boris Johnson and Jeremy Hunt are the two candidates left in the race to become British prime minister, and the result will be announced on July 23; on the other hand, European Commission reiterated that the European Union will not renegotiate Brexit deal

Nice Talent's Current View

With major central banks signaling more stimuli to support the economies, investment markets across asset classes, including equity, commodity, bond and gold, rallied to cheer the advent of another era of excess liquidity. However, excess liquidity is a double-edged sword, and the blossom in investment markets does not come at no cost.

IMF data shows that levels of global borrowing are continuing to rise even as profitability is falling, with highlighting US and China particularly vulnerable. In USA, current level of corporate borrowing is even higher than the peaks during the tech bubble and the housing bubble. Furthermore, quality of debts is worsening. Corporate debt is skewed toward lower-rate issuers, and amount of leveraged loans surpassed its peak before the financial crisis. In China, the scale of debt balloons further as the tax cuts in its stimulus program depleted local governments' revenue to fund infrastructure projects, and many of the projects have questionable earning potential. In several European countries, banks are overloaded with government bonds.

Given this backdrop, global financial instability is likely to increase in the foreseeable 2 to 3 years with global economy potentially entering into a notable recession around 3 to 4 years from now. With preference of dovish policies by major central banks, this would dampen the effect of economic slowdown in the foreseeable 2 years. If global recession occurs 3 years from now, we anticipate there is very little room for further adjustment to monetary policies and USA may have to resolve to zero or even negative interest rate while China may have to reduce the required reserve ratio of banks.

On the other hand, China and USA declared a truce during lately G20 meeting. This resembles the truce made in previous G20 meeting last December. We expect that the truce this time would give short-term peace, but a genuine end to the trade war remains to be seen. This potential hazard is still hanging over the global economy. We believe that investors are getting accustomed to ever-changing development on trade talks. Investment markets price in related news and change direction quickly. With the aid of excess liquidity, we expect equity market will be on rising trend, with high volatility stemmed from progress on trade talks. As a result, from now until Q1 2020, we believe any equity correction provides good opportunities to further accumulate equities with view of generating tactical trading returns in short-term.

In conclusion, the easing from major central banks may mitigate short-term economic risk but leave medium-to-long-term risk to global financial stability, which would be vulnerable to shocks – such as further economic slowdown, failure in reaching trade agreement between China and USA, or escalated geopolitical tensions – and the impact would likely be amplified. Therefore, we remain prudent in investments for medium-to-long-term.

For equity, we recommend to focus in companies with secular growth stories which are less impacted by economic downtown, such as companies involved in: (1) AI development for enterprise software, (2) battery's raw materials and manufacturers for electric vehicles, (3) drug development with multiple drug pipeline in late clinical stage and limited commercialized drugs, and (4) 5G infrastructures suppliers. Also, investors may consider to realize partial profit on significant short-term rally as volatility is expected rising from on-going issues like China-USA trade talks and Brexit.

For bond, it is almost certain that Federal benchmark will cut rates this year. Given that, we suggest to switch some short-term bonds into long-term bond (at least seven years), which will benefit more from rate cut. USD investment grade bond issued by companies from USA, Mexico, UK and Russia are preferred. For investors with higher risk appetite, one could consider utilizing their portion of bond portfolio of long duration as collateral for borrowing more money that gets invested into high yield bonds of shorter durations (less than 3 years) for capturing more yields now.

With further dovish stance from Federal Reserve continues supporting gold price, investors may consider to take more partial profit above USD 1,400 per ounce level as the gold price seems to have priced in the bullish case in short-term.

六月市況

美墨協議和對特朗普與習近平在 20 國集團的會議有所憧憬，緩和之前對全球經濟放緩的擔憂，而聯儲局、歐洲央行和日本央行均示意會以更多刺激措施來支持經濟。這些因素扭轉於五月的悲觀情緒，並再次提高投資者的樂觀情緒。大多的資產類別 – 由股票和商品以至債券和黃金 – 於月內上升。

股票市場

於月內，股市從五月的回調反彈並穩固上揚，受惠於央行們的鴿派取態，及對美國與中國和墨西哥的貿易緊張的憂慮有所緩和。標普錄得 22 年來最好的半年表現。標普 500、歐洲斯托克和日經 225 分別錄得 +6.89%、+6.87% 和 +3.89% 的回報（以美元計）。

	MSCI World	標普 500	歐洲斯托克	日經 225
2019 年 5 月	492.12	2,752.06	357.87	20,601.19
2019 年 6 月	523.44	2,941.76	375.82	21,275.92
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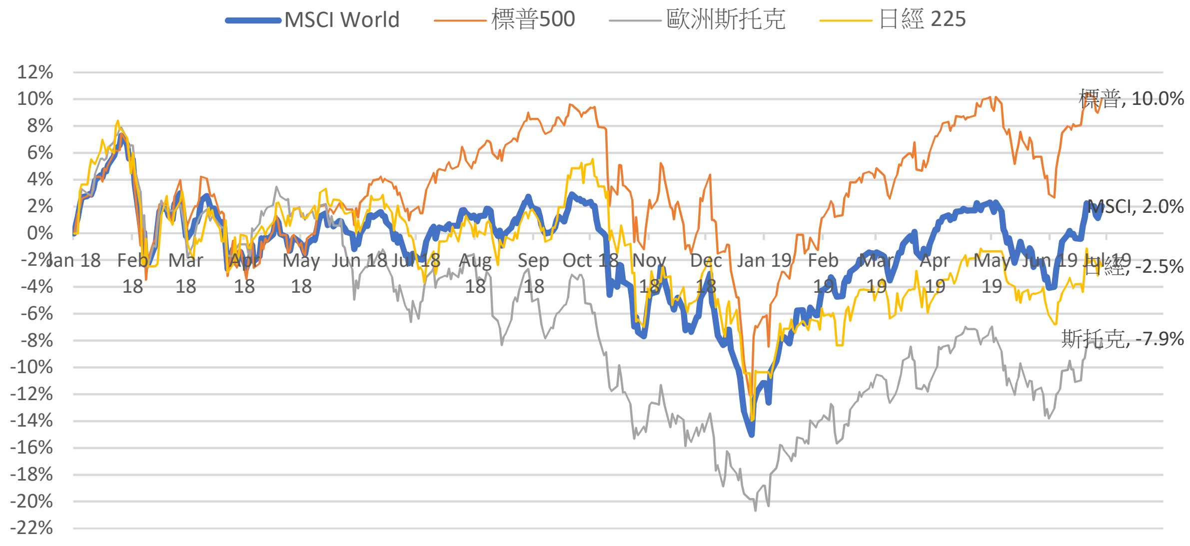

來源: Bloomberg

標普 500 指數的預測市盈率為 17.74 倍，高於其七年平均值 16.76 倍；歐洲斯托克和日經的預測市盈率分別為 14.17 倍 和 15.34 倍，仍低於它們的七年平均值 14.40 倍和 17.31 倍。

由於 2019 年第二季剛完結，我們於本月剔除季度財務報告，當相關資料出爐時將於下月回復報導。

債券市場

由於對經濟前景的擔憂，美國聯儲局、歐洲央行和日本央行均表示在需要時會推出更多刺激措施。英倫銀行僅保持主要利率不變，但亦警告英國的經濟前景正在減弱。

央行們的鴿派取態，伴隨對經濟前景的擔憂，進一步推低政府債券孳息率。美國十年期國債孳息率自 2016 年 11 月以來首次跌穿 2%，而德國和法國的十年期國債孳息率亦跌至紀錄低位。

	美國國債 5 年期孳息率	美國國債 10 年期孳息率	歐洲國債 5 年期孳息率	歐洲國債 10 年期孳息率	Bloomberg Barclays US Aggregate Bond Index
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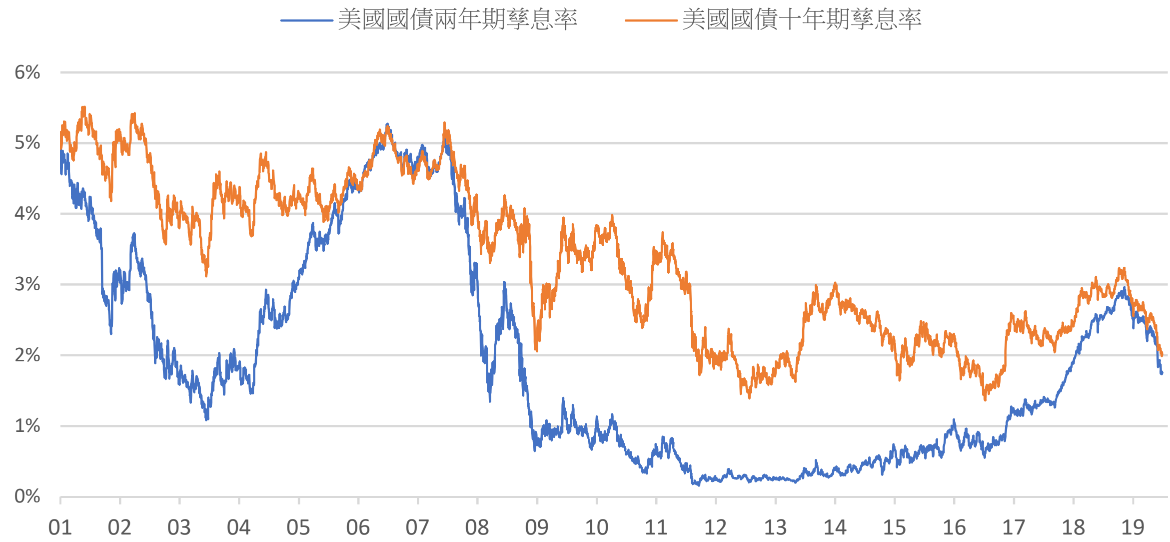

來源: Bloomberg

商品市場

石油價格於月內上漲，儘管中美貿易緊張局勢繼續威脅原油需求，但市場憂慮美國與伊朗之間的衝突或激起美國攻擊伊朗而擾亂中東石油供應，從而支持油價。

金價創下六年新高，因美國聯儲局和歐洲央行暗示會放鬆貨幣政策、美元走軟，及地緣政治緊張局勢升級。

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宏觀經濟

經濟數據大多為負面。在美國，5 月份的數據顯示，就業增長大幅放緩和貿易赤字擴大幅度超過預期，而零售銷售上升及核心資本商品訂單反彈。在中國，5 月份工業產出增長放緩至逾 17 年來的低位，投資降溫。另外，日本 5 月份出口連續第六個月下降。由於對貿易緊張的擔憂重燃，日本製造商信心下降至逾兩年半低位，而歐元區經濟信心跌至近三年的低位。

下列包括上月一些主要事件：

- 中國和美國在二十國峰會會面後達成停戰協議，當中包括重啓貿易磋商、暫停對中國貨品徵收新一輪關稅 和 放寬美國企業出售予華為的禁令
- 美國和墨西哥達成協議，墨西哥將協助美國限制跨境移民；然而，如果這些措施不能滿足美國的要求，關稅的威脅仍然籠罩著墨西哥
- 美國和伊朗的緊張局勢升溫，因美國指控伊朗襲擊於阿曼灣的兩艘油輪及擊落美國無人機，隨後更對伊朗實施新一輪制裁，而伊朗以突破其鈾庫存的限制作回應
- 約翰遜與侯俊偉成為最後兩位候選人競逐成為英國首相，而結果將於 7 月 23 日公佈；另一方面，歐盟委員會重申不會再就脫歐協議談判

俊賢目前看法

就主要央行發出更多訊號以刺激措施支持經濟，包括股票、商品、債券及黃金的不同資產類別的投資市場，均因應迎接下一個流動性泛濫年代而錄得上漲。不過， 流動性泛濫是雙刃劍，投資市場的上漲並非沒有成本。

國際貨幣基金組織數據顯示環球借貸水平正持續上漲惟企業盈利正在萎縮，並強調美國及中國尤其脆弱。在美國，目前的企業借貸水平更高於科技和房屋泡沫時期。再者，借款的質量卻是愈來愈差。企業債務傾向低評級發行人，而槓桿貸款已高於過往金融海嘯時之頂峰。在中國，債務的規模進一步膨脹，因其刺激措施中的稅務優惠耗損當地政府的收入，削減可投放於基建項目的資金，而當中很多項目的盈利前景卻充滿問號。在部分歐洲國家，銀行亦過量持有政府債務。

基於以上背景，環球金融市場的不穩定性在可預見的未來 2 至 3 年內升溫，而環球經濟由目前至未來 3 至 4 年，亦潛在步入顯著的衰退期。由於主要央行傾向實施鴿派政策，這將會拖延未來 2 年經濟放慢所帶來的影響。假若環球衰退在未來 3 年後發生，我們預期屆時美國將剩下很少調整貨幣政策的空間，甚至或需要推行零息或負息政策；而中國亦可能需要降低銀行的存款準備金率。

另方面，中國及美國在剛舉行的 G20 會議後，宣布重啟談判暫緩貿易戰，情況一如去年 12 月的 G20 會議。我們預期是次暫緩將帶來短暫和平，惟貿易戰的確實結果仍有待觀察，對環球經濟的潛在傷害尚未被消除。我們相信投資者已適應貿易談判其變幻莫測的形勢發展，投資市場價格對相關的新聞 將作出迅的反應。基於市場流動性偏高，估計股票市場仍呈現上升趨勢，但貿易談判的發展卻帶來高波動性。因此，由現在至 2020 年首季，我們相信任何的股市調整都是吸納股票的良機，短期亦可透過策略操作賺取回報。

總括而言，主要央行的寬鬆措施或有助緩和短期經濟風險，卻遺下中長期風險影響環球金融市場的穩定性，一旦震盪出現時將顯得額外脆弱，就如更深遠的經濟放緩、中美貿易談判破列或地緣政治緊張升級等，對金融市場所帶來打擊將被更為放大。因此，我們持續中長線審慎的投資建議。

就股票市場，我們建議集中於擁有中長期增長故事的公司身上，因它們受經濟放慢的影響較少，其業務如涉及：(1) 為企業軟件開發人工智能系統、(2) 電池原料及電動車生產商、(3) 擁有多

隻處於臨床實驗尾段及有限度商品化的藥物、(4) 5G 基建供應商。此外，投資者可考慮當短期升幅出現時獲利，因中美貿易談判及英國脫歐等因素將添加股市的波動性。

債券市場方面，聯儲局幾乎肯定會在今年減息。就此，我們建議將短期債券轉換成長債（最少 7 年期），這將更受惠於減息。由美國、墨西哥、英國及俄羅斯等地的公司所發行的投資評級美元債是值得考慮。部分能承受較高風險的投資者，亦可利用並債券投資組合中的長年期債券作為抵押品，透過借貸並投資在短期高息債券（少於 3 年），以收取更高利息回報。

當聯儲局更鴿的派作風繼續支持金價，投資者可考慮當金價處於每盎士 1,400 美元之上時部分獲利，因短線金價表現已反映相關因素。