光大新鴻基
EVERBRIGHT SUN HUNG KAI

[For immediate release]

EBSHK is cautious on 2019 global outlook

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Buy stocks in phases with short-term bond allocation
Focus on risk management with diversification

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HSI to be in range-bound trading at 21,500-30,000
Major themes for HK equities: stable demand in the pharmaceutical industry; 5G technological upgrade; natural-gas consumption boom

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Expects USD to pull back and RMB to trend lower amid volatility

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Overview:

- EBSHK expects the 2019 global economic outlook to face impacts of the China-U.S. trade war, global liquidity tightening and Brexit. EBSHK takes a cautious stance on the global outlook with higher asset price volatility and global investing risks
- Focus on risk management and diversified strategies. Buy the dip in equities on different stages. More allocation for short-term bonds with a well-balanced portfolio
- Three investment strategies: "Capture Asian assets' upside potential", "Diversify risks with short-term bonds" and "Buy the dip in healthcare stocks"
- The targeted range for Hang Seng Index is set at 21,500-30,000 and the HSCEI and Shanghai Composite Index targets are set at 8,700-12,300 and 2,400-3,000 respectively
- Major themes for HK equities: (1) stable demand in the pharmaceutical industry; (2) 5G technological upgrade; (3) the natural-gas consumption boom
- Investment opportunities for sectors that benefit from macro environment and industry boom
- FX: Expects USD to pull back and RMB to trend lower in volatile trade

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Hong Kong, December 4, 2018 – Everbright Sun Hung Kai Company Limited ("Everbright Sun Hung Kai", "EBSHK" or the "Company") expects the global economic outlook to be clouded by China-U.S. trade disputes, as well as headwinds of slowing economic growth and Brexit. The Company holds a cautious stance on the global economic outlook. It also expects asset prices to be more volatile in 2019 and the global investing risks to rise further. Investors are suggested to focus more on risk management with the diversified strategy and build a well-balanced portfolio by buying stocks in phases on correction and enhancing the short-term bond allocation.

EBSHK Wealth Management Strategist Kenny Wen says, "Global equities peaked in January 2018 and then demonstrated a downtrend pattern. U.S. equities delivered strong performance this year, but there has been a substantial correction in Q4 2018, reflecting the markets' cautious view towards the outlook for economic growth and corporate earnings. There is no sign of financial systemic risks in 2019; yet, we should still pay heed to China-U.S. trade war news, global liquidity tightening as well as Brexit impact on the European economy in the transition period." Kenny recommends three major strategies for portfolio positioning: "Capture Asian assets' upside potential", "Diversify risk with short-term bonds" and "Buy the dip in healthcare stocks". Kenny expects the U.S. to have two rate hikes as China-U.S. trade tension lingers, which affects Hong

Kong equities. For FX, Bruce Yam, Forex Strategist of EBSHK, says, "This is the end of the credit expansion era. The USD may pull back and the RMB is expected to trend lower in volatile trade."

Strategy One: "Capture Asian assets' upside potential"

Asian assets: Attractive valuation with flexible multi-asset allocation

Asian equities have gradually seen the long-term investment value following their market correction. Asian (ex-Japan) equities are trading at trailing P/E of 11.8X (as of Nov 30, 2018), compared with 14.7X in the global market. In addition, MSCI Asian (ex-Japan) index offers ~3% dividend yields, reflecting the stability of corporate earnings and dividends in the Asian markets. However, the markets are still under pressure by the U.S. Dollar strength and China-U.S. trade tensions. Investors may consider adopting a diversified strategy by investing in a wide range of assets in various Asian regions to minimize the portfolio risks.

Strategy Two: "Diversify risks with short-term bonds"

Short-duration bonds: Lower interest-rate risk support higher returns

Compared with long-term bonds, the bonds with short duration are often less sensitive to interest rates and their interest-rate risk is lower in the rate-hike cycle. EBSHK prefers Asian USD corporate bonds which feature higher yields and shorter duration. Despite the trade-dispute impacts on Asian markets next year, the 2019 GDP growth of Asia's developed economies and emerging economies are estimated by the International Monetary Fund (IMF) to reach 1.8% and 6.3% respectively, which reflects the Asian regions are likely to maintain stable growth. Meanwhile, the overall corporate credit quality is strong in the region with relatively low default rates. The bond allocation may enhance the portfolio yields and help diversify risks.

Strategy Three: "Buy the dip in healthcare stocks"

Healthcare industry: Tactical allocation with attractive potential returns

The healthcare industry includes the pharmaceutical stocks with stable dividend payment as well as the biotech stocks with strong growth potential. The healthcare products and services have seen sustained demand growth since the drug efficacy has achieved tremendous improvement for cancers and elderly chronic illnesses amidst the medical and biotech advancement. The related stocks deliver attractive potential returns despite the market volatility, and for example, the MSCI World Health Care Index generated a return of 260% over the past decade, well above the utilities, telecoms and consumer staples (76%, 115% and 188% respectively). During the global financial crisis in 2008, MSCI World Health Care Index only declined by ~21%, far below over 40% plunge of MSCI World Index, reflecting the defensive strength of the healthcare industry.

U.S.: 2 rate hikes are expected as China-U.S. trade tension lingers

The U.S. economic growth may show signs of slowdown given the gradual impacts of the USD strength and global trade tensions in H2 2018. The U.S. equities had seen sharp corrections in Q4 2018 as investors were worried that the U.S. economic slowdown and weaker corporate earnings may hardly support the high valuation. EBSHK expects the U.S. equities to remain volatile before any agreement between China and the U.S. over the trade issues. For the interest-rate movement, it is expected that the Federal Reserve (Fed) will raise the interest rates in December 2018, raising a total of four rate hikes this year. Looking ahead, the Fed is expected to keep its gradual rate hike path by lifting rates by 2 times in 2019, due to the slowing economic growth and moderate inflation.

HK equities: Clouded by China-U.S. trade tensions, but low valuation limits downside potential

With the intensified economic competition between China and the U.S., the trade disputes are not expected to dissipate even if the tension may ease further. The U.S. is likely to maintain its hawkish stance towards the China trade policy which may eventually hurt the Chinese economy. As the Chinese Q3 2018 GDP growth had slowed down to a nine-year low of 6.5% YoY, it is expected the 2019 growth would further slow to 6.2%. The sustained impacts on China's manufacturing, trading and tech sectors may bring downside pressure to the Mainland and HK equities. On the other hand, the Mainland and Hong Kong equities have gained defensive strength in terms of valuation following the market corrections in H2 2018, while China's monetary easing and supportive policies may help stabilize the Chinese equities, which may in turn support Hong Kong equities' stability. Based on HK equities' historical cycle bottom P/E at around 9.5X over the past two decades, there is only a slim chance for a sharp downtrend, and if there is any surprising messages about the trade-war, Hong Kong equities may even recoup losses in H2 2018. The Mainland and HK equities are expected to be broadly in range-bound trading in 2019.

Range-bound trading. Three key themes in focus

Based on EBSHK's internal valuation model (factoring in the impacts of global monetary policy moves, capital flows and Mainland and HK financial market fluctuation), the 2019 targeted range for Hang Seng Index is set at 21,500-30,000 and HSCEI and Shanghai Composite Index targets are set at 8,700-12,300 and 2,400-3,000 respectively. The key investment themes for Hong Kong stocks in 2019 include: (1) stable demand in the pharmaceutical industry; (2) 5G technological upgrade; (3) the natural-gas consumption boom. The macro environment and the industry boom may present attractive opportunities in these related sectors.

With respect to risk factors, EBSHK expects the U.S. rate-hike cycle to sustain in 2019 and Hong Kong is also set to follow such trends. In terms of our key investment categories in 2019, investors may avoid investing in stocks that are highly related to trade tensions or sensitive to rate increases. The three key investment themes in H2 2019 are: (1) stable demand in the pharmaceutical industry; (2) 5G technological upgrade; (3) the natural-gas consumption boom. These sectors are more resilient to the rate-hike impacts and market volatility driven by the trade-war news.

FX: End of credit expansion era, USD may pull back

With the Federal Reserve's balance sheet reduction and rate normalization, the tax-cut measures' support to bring the U.S. capitals back home, the USD has rebounded since February 2018. These factors have resulted in the dollar shortage in the overseas markets, but such human factors for the Dollar strength may be minimized as the U.S. capital return is almost completed.

Bruce says, "The Fed will begin to hold a press conference after every meeting starting from 2019, showing the central bank's lack of confidence in its rate policy. Even though the Fed's dot plot points to three rate hikes in 2019 and one more in 2020, there is a slimmer chance for rate hikes in the second half since the U.S. corporate bonds will see a massive number of maturity starting from Q2 2019, and the central bank may need to consider a rate cut in Q4 2019 while the yield curve may trend steeper. The USD hit the phased peak in January 2017, but the QE withdrawal and rate hikes in other countries/regions may end the advantage of the widening yield difference, and therefore the USD may retreat again and test lower at the support of 92."

Britain will leave the European Union (EU) on March 29, 2019 at 11:00pm. The focus is whether the U.K. Parliament would support the Brexit deal, since it may literally be seen a hard Brexit if it has no transition period without the Brexit deal. The inadequate preparation for legal, tariffs, migration and arbitration measures may fuel downside risks for the U.K. economy, especially for the banking sector's high leverage ratio. Since the Pound is deeply undervalued, and it may bounce back to the fair range of 1.38-1.42 if the Brexit deal is passed, and otherwise, it may test lower at 1.2.

The U.S. growth slowdown may help mitigate risks of China-U.S. trade war escalation. However, the U.S. political deadlocks may also imply a further escalation would depend on whether Trump may shift the public attention back to China. A large number of Chinese corporate bonds will mature before 2019, accounting for 60% of the maturing bonds in emerging markets. The People's Bank of China is expected to have room for cutting the reserve requirement ratios. China's economic growth may face downside risk, while the ongoing upgrade in the manufacturing sector, unsettled debt problems and mixed results of China-U.S. disputes may also restrain the RMB upside potential and USD/RMB may break above 7.00 in 2019. Unlike the situation in 2018, the uptrend of USD has come to an end and RMB may trend lower in a volatile trade. USD/RMB may hover around 6.68-7.15 in 2019.

Since Australia has a close economic tie with China, the economy (especially for the real estate market) is also likely to be hit by impacts of China-U.S. trade war, China's slowing manufacturing sector and capital outflow restrictions. Following the upward trends since 1980s, the Australian housing market has begun to cool down in 2018, and the interest-only mortgage loans hit up to 40% (i.e. the subprime mortgages in Australia), and this has triggered the Reserve Bank of Australia's (RBA) concerns over its rate hikes, and RBA is expected to raise the rates once at most. AUD may see resistance at 0.77 and it may test lower at 6.5 if the housing downtrend persists.

With the EU Parliament elections scheduled in May 2019, the European Central Bank (ECB) president Mario Draghi's term will end in October, while Jens Weidmann, the head of the Bundesbank (the central bank of Germany) has a higher chance to succeed the leadership, followed by Bank of France Governor Francois Villeroy de Galhau. As both candidates had voiced out their worries over QE and negative interest rates, the ECB is likely to announce policy changes starting from Q2 2019. Euro's rising rates may help narrow the Eurozone-U.S. rate gap. In addition, the EU reform progress may also be dragged down by Italy's budget issues, and affect the EU stability. Euro is expected to be in range-bound trading at 1.1-1.18.

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About Everbright Sun Hung Kai Company Limited

Everbright Sun Hung Kai Company Limited ("EBSHKCL") is a leading financial institution with four core 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 a subsidiary of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178), with Sun Hung Kai & Co. Limited (HKEX: 86) as its substantial shareholder, 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$140 billion* in assets under management, custody and/or advice. For more information, please visit www.ebshk.com.

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