新鴻基金融集團
SUN HUNG KAI FINANCIAL

**[For immediate release]**

# SHKF expects global economic outlook to remain optimistic in 2018

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## Adopt risk management approach
## Buy stocks in phases on correction
## with allocation to bonds and commodities

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## HSI target: 34,000
## HK equities may see strong early gains before a year-end turnaround
## Three major themes: financial sector; green industries; medical sector
## FX: Find good spots to short USD

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**Overview:**

- SHKF expects the global economic outlook to remain optimistic in 2018
- Central banks are unlikely to implement swift policy shifts; the Fed is likely to raise interest rates three times or more in 2018
- Investors may consider a well-diversified portfolio buying stocks in phases on correction, in addition to allocation to bonds and commodities
- Three key strategies: 1) "Allocation to European markets amid ongoing QE"; 2) "Buy Asian equities on corrections"; and 3) "Add energy stocks on improved supply-demand dynamics"
- The HSI is targeted at 34,000 and HK stocks may "see strong early gains before a year-end turnaround" with higher volatility; the HSCEI and Shanghai Composite Index targets are 13,500 and 3,850 respectively.
- Hong Kong equities' investment themes in 2018: (1) financial sector supported by economic expansion; (2) green industries' development backed by Chinese government; (3) medical sector to benefit from ageing population
- FX: Find good spots to short USD; RMB may consolidate in a horizontal pattern

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**Hong Kong, 5 December 2017** – Sun Hung Kai Financial Limited ("SHKF" or "Sun Hung Kai Financial") expects the global economic outlook to remain optimistic in 2018. Given the above-historical average valuation in stock markets, investors will need to pay more attention to portfolio risk management in 2018, and adopt a diversification strategy to consider buying stocks in phases on correction, in addition to allocation to bonds and commodities so as to build a well-diversified portfolio to maintain risk/return balance. Attention should also be put on geopolitical risks and sustainability of the global economic growth.

As there were no material black swan events in the global economic, political and policy domains in 2017, asset prices may have a relatively smaller chance of being affected by political instability in 2018. Investors should be cautious about German Chancellor Angela Merkel's coalition talks, Brexit and North Korea tensions. On the economic front, the world's major economies delivered growth in GDP as well as corporate earnings. The International Monetary Fund (IMF) lifted its 2018 global growth forecast to 3.7%, compared with 3.6% in 2017, hinting optimism on the worldwide economic outlook. Meanwhile, financial markets have seen forecast-beating performance. As far as central bank policies are concerned, the Federal Reserve (Fed)'s gradual tapering did not bring any negative impact to the overall economy. The European Central Bank (ECB) and the Bank of Japan (BoJ) have maintained their accommodative policy stance. It is unlikely that central banks will go for swift policy shifts and they may still maintain good communications with investors in 2018 with a view to avoid dramatic volatility of asset prices. The Fed is likely to raise interest rates three times or more in 2018.

SHKF Wealth Management Strategist Kenny Wen says, "We prefer three major strategies for our portfolio positioning: 1) "Allocation to European markets amid ongoing QE", which means we may take advantage of the opportunities from monetary easing and steady expansion of the Eurozone economy; 2) "Buy Asian equities on correction", as the Asian economies may have stronger growth potential as they are one of the fast-growing regions with higher GDP growth compared with the developed European and US markets; 3) "Add energy stocks on improved supply-demand dynamics", since oil prices have stabilised at around US$55/barrel and may rise further as supply-demand imbalance may continue to improve in 2018, and we may increase the related fund exposure to capture the opportunities created by the sector's earnings growth."

**Strategy One: "Allocation to European markets on ongoing QE"**
**Europe: Optimism over European stocks amid stronger growth**

The regional political risk receded as the election results in several European nations were mostly in line with market expectations. Eurozone economic indicators were broadly positive in recent months. For example, the region's unemployment rate hit an eight-year low of 8.9% in September; the manufacturing PMI climbed to 57.5 in November, the highest level since February 2011. At the October rate policy meeting, the ECB announced it will extend its QE program by nine months to September 2018, suggesting that economic recovery in the Eurozone may be further strengthened by the ongoing accommodative policy. The MSCI Europe Index target is set at 150 in 2018.

**Strategy Two: "Buy Asian equities on correction"**
**Asian equities: Stable economic growth attracts fund inflows to the region**

The solid fundamentals may continue to attract fund inflows to Asian markets in 2018. In China, GDP growth for the first three quarters was above the official target of 6.5%. The IMF has put China's growth forecast at 6.5% for 2018. Since positive GDP growth may bode well for corporate earnings and higher market valuations, Chinese stocks are poised to see further uptrend in the medium/long term. Japan's Prime Minister Shinzo Abe is widely expected to maintain the economic stimulus measures with his leadership retained. The Japanese economy expanded for a consecutive seventh quarter with the preliminary reading of Q3 2017 GDP growth coming in at an annualised rate of 1.4% QoQ. The IMF estimated that Japan's 2018 GDP growth may reach 0.7%, and the domestic firms recorded positive earnings in Q2 2017. Based on the above factors, investors with Asian exposure may also consider setting up allocations to the Japanese market. The 2018 target for MSCI Asia Pacific Index is 185.

**Strategy Three: "Add energy exposure on improved supply-demand dynamics"**
**Energy investment: Improved supply-demand may boost crude prices; buy energy stocks on dips**

Global GDP growth may lead to stronger crude oil demand. There has been no sharp rise in the number of active oil rigs in the US while Saudi Arabia (the largest oil producer in the Organisation of Petroleum Exporting Countries (OPEC)) is keen on limiting oil production. This helps ease the lingering oversupply worries. US crack spread (an important indicator for gross margin analysis in energy firms)-related indicators extended their upward trend in the last financial year, suggesting that energy players may see more earnings upside in the year ahead. Oil prices may test US$65/barrel in 2018 if the excess supply issue is further improved. Aggressive investors may consider buying related energy funds on dips when NYMEX crude futures fall to around US$55/barrel.

**US: Three or more rate hikes next year; market upside may be limited on stretched valuation**

SHKF expects the Fed to raise interest rates three to four times in 2018 given its possible rate hike in December. Despite the US forecast-beating growth momentum, the November FOMC meeting minutes signalled the committee members' doubts towards the inflation outlook. Therefore, the central bank is likely to adopt a gradual path of rate increases. The US stocks' upside may be capped by their high valuation (20x P/E) while the target for the S&P 500 target is 2,720.

**HK stocks: Early gains expected before a year-end turnaround. Three key themes in focus**

Based on SHKF's internal valuation model (factoring in the impacts of global monetary policy moves, capital flows, and valuations of financial markets), the 2018 target for the Hang Seng Index is set at 34,000 and Hong Kong stocks may "see strong early gains before a year-end turnaround" at higher volatility compared with 2017; the HSCEI and Shanghai Composite Index targets are 13,500 and 3,850 respectively. These are the investment themes for Hong Kong stocks in 2018: (1) economic expansion may support the financial sector; (2) Chinese government's policies may bode well for the green industry's development; and (3) the medical sector may benefit from ageing population, while related sectors may see attractive opportunities on the back of China's economic uptrend and supportive government policies.

**China's growth slowdown worries fading with opportunities from individual stocks**

With China's better-than-expected economic performance in 2017, some leading indicators have point to a sustained economic improvement in the future. For example, the official manufacturing purchasing managers' index (PMI) remained in the expansionary territory for the 16$^{th}$ consecutive month, signalling expansion in the manufacturing sector. Despite the targeted RRR cuts taking place in 2018, the authorities are less likely to announce full-scale easing policy and the restrictive efforts in the property market are expected to remain unchanged. In our view, China may achieve a 6.6% GDP growth next year. The supply-side reform could be helpful in curbing excess capacity in some sectors, which would in turn support Hong Kong stocks' earning growth momentum; moreover, recognition of investment value by Mainland investors may further strengthen the market.

On a valuation basis, although the HSI staged a sharp rise in 2017, Hong Kong equities are trading at an average P/E of around 13x, the lowest among the world's major capital markets. What's more, deepened development of the Shanghai and Shenzhen-Hong Kong Stock Connects, together with A-shares' inclusion into the MSCI index, may present investment opportunities the China and Hong Kong markets.

With respect to risk factors, the momentum of Hong Kong equities may slow down next year with divergence between sectors given the global stock surge in 2017. We therefore may focus on sectors and individual stocks that are supported by sound fundamentals; in particular, we may consider banking shares in China, new energy vehicle concept stocks, and the pharmaceutical and medical device sectors.

**FX: Find good spots to short USD**

Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, says "The major support for the Dollar may come from expected overseas fund inflows to the US market following the tax reform, and the Dollar Index may move within the range of 91 to 97. If the tax reform materialises or if the Dollar Index drops below 91, it will be a good opportunity to short the USD." The Dollar Index fell from its then YTD high of 103.82 to 91.01 in September in 2017, slightly below the 2015 to 2016 low of 91.92. Such correction appears to be unusual in view of the Fed's three rate hikes and its balance sheet reduction that began in 2017. Looking ahead to 2018, the Fed is expected to continue to shrink its balance sheet with three or more rate hikes, and the Dollar Index may stay volatile.

In the Eurozone, currency movements may be driven by the number of seats won by the anti-European Union (EU) Five Star Movement in Italy's election in March. A key mover for the EUR may depend on whether French President Emmanuel Macron and German Chancellor Angela Merkel will team up to lead EU reforms. Any imbalance of economic development could lead to renewal of regional debt crisis. The ECB will maintain quantitative easing (QE) in 2018. Its EUR30bn monthly bond buying programme will be extended until September. The EUR is expected to trade in the range of 1.1 to 1.25, and investors may consider buying at the low.

GBP movements are expected to be influenced by Brexit negotiations and Prime Minister Theresa May's challenges in her own Conservative Party. If May is eventually forced to step down, that could heighten the possibility of a hard Brexit considering the instability in UK politics and unresolved Brexit negotiations. Although the UK inflation rate reached 3%, the Bank of England (BoE) is predicted to continue to take a conservative stance on rate decisions due to a GDP growth of just 0.4%. The GBP's resistance is expected to be at 1.36 to 1.38; shorting the GBP is the main strategy.

The BoJ will maintain its QE implementation; however, it has scaled back bond purchases, which are approaching the limit. Since long-term profits of Japan's banking sector are weakened by the negative rates, it is forecast that the BoJ will begin the process of rate normalisation when the time is appropriate. Domestic demand in Japan is as weak as it has been. The USD/JPY is likely to move along 100 to 125. Investors may consider following a main strategy of buying USD/JPY at lows.

With China's ongoing deleveraging efforts, the People's Bank of China (PBoC)'s new rules on the asset management business can be seen as another deleveraging move, aiming to reduce the possibility and impact of Minsky moment. The RMB may benefit from the Chinese economic transition, upgrade of the manufacturing sector and supple-side reform. Chances are the RMB will move in the range of 6.4 to 6.8.

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**About Sun Hung Kai Financial**

Sun Hung Kai Financial, with its foundation dating back to 1969, is 70% owned by Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178).

Sun Hung Kai Financial 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, Sun Hung Kai Financial provides greater access for Hong Kong and Mainland investors to a broad range of products and services.

Sun Hung Kai Financial has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. Sun Hung Kai Financial's group of companies currently has about HK$104.4 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

*As of 30 September 2017

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