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進邦滙理有限公司
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2018 – Will it be an even better year?

2017 was a stellar year for investors, filled with pleasant surprises. Global economic performance was the best since 2011, with estimated annual growth rate accelerated to 3% (according to the World Bank estimate in January 2018). Gains were made in almost every asset class and many of the world' s equity markets set new-highs. The MSCI world index unprecedentedly delivered positive return in every month of the year and a total return of 23.10%. The MSCI Asia ex-Japan Index did even better, with total return surged to 41.79% in the year. The market was also eerily calm — with many countries' stock market volatility being extremely low. The U.S. stock market is enjoying its second longest bull market, repeatedly setting record-highs. Technology stocks in both China and U.S. led the way in their respective markets. The U.S. Dollar slid despite the three rate hikes throughout the year, which translated to gains for majorities of the global currencies against the Dollar, and was also a major support to gold price. Crude oils were on the rise since the second half of the year. It is trading at the highest in more than 3 years and the current prices are more than double of that during their trough in early 2016. Prices of industrial metals including aluminum, zinc, copper and palladium soared due to higher demand and limited supply. Despite the many years of recovery underwent by the major economies, evidence of impending recession remained unapparent. With 2017 already behind us, trust that most investors are now at the crossroad: Should I take profit at this moment of multi-year-high? But then would I miss out on further rally if I do, given the encouraging economic backdrop? Below are some factors worth considering that could be of significant influence to this year' s investment market.

1. Among key countries which used quantitative easing to improve economic conditions, the U.S. was the first to tighten its monetary policies with their first rate hike at the end of 2015 since last recession. Thereafter, several countries followed suit by raising their benchmark interest rates - Canada in July 2017, the United Kingdom and South Korea in November 2017. China tightened its monetary policy by raising the reverse repo rates it charges in open-market operations and on funds lent via its Medium-Term Lending Facility (MLF) to stabilize interest rate spread and exchange rates, usually shortly after U.S. rate hikes. Meanwhile, The European Central Bank set its slow path of tapering in October 2017, announcing the halving of bond purchase to 30 billion euro each month from January to September 2018, and expectations on continuation of bond purchase beyond such date is diminishing. Strengthening economic indicators and the possible return of inflationary pressure will certainly lead to expedition in tapering around the globe which may represent headwind to the market.

2. The unprecedented quantitative easing in the past years supported economic growth throughout the globe, injecting confidence in investors and corporations; the unexpected Trump rally, absence of political black swan in Europe, dampening of the geopolitics in Korean Peninsula and Middle East, and the surprising stability of the Chinese economy in spite of the spiked debt level, further buoyed asset prices. But as the underlying problems remained unresolved, the development of these issues could be of significant impact to asset prices in 2018.

3. The major tax overhaul in U.S. will not only stimulate spending and investment from both individuals and corporations, but also encourage the U.S. multinationals to bring home overseas profits at substantially reduced tax rates, as well as additional jobs to the U.S. which were initially overseas. These should improve the U.S. business environment as a whole and increase the strength of the U.S. Dollar, which will have corresponding impact to all asset classes around the globe.

4. As more than half of the global economies accelerated, global economic output is expected to grow by 3% in 2017, but the forecast is that growth is going to plateau at approximately this level. According to the World Bank, "global growth appears to have peaked, with demographics, a lack of investment, a slowing in productivity gains and tightening monetary policy placing limits on economic expansion". In addition, the above said issues may coincide with short-term downside risks which make the investment market more vulnerable to future shocks. These downside risks may include concerns of soaring capital markets, unexpected inflationary pressure, protectionism and outbreak of political or geopolitical issues.

It is apparent that extending the prosperity of 2017 into 2018 is becoming more difficult. We remain cautiously optimistic on the global investment market in general judging from the health of economic fundamentals of the key economies. At the same time, we cannot ignore the risk factors which we have discussed above as any one of them may kick off domino effect on asset prices. While we understand that risk is always the price for return, some forms of profit taking at this stage is definitely a prudent measure for investors.

TABLE 1: Global Stock Markets Performance

	2017 Q4 Return		2017 Full Year Return	
Indexes	Local Currency	USD	Local Currency	USD
Dow Jones Industrial Average	10.96%	10.96%	28.11%	28.11%
Euro STOXX 50	-2.22%	-0.41%	9.95%	25.32%
Euro STOXX 600	0.64%	2.51%	11.22%	26.78%
DAX	0.69%	2.56%	12.51%	28.25%
CAC 40	-0.01%	1.84%	12.54%	28.28%
Nikkei 225	11.97%	12.01%	21.29%	25.66%
Hong Kong Hang Seng	8.84%	8.83%	41.27%	40.22%
Hang Seng China Enterprises	7.33%	7.32%	29.63%	28.66%
Shanghai Composite	-1.24%	0.70%	8.75%	15.99%
Shanghai Shenzhen CSI 300	5.08%	7.15%	24.25%	32.52%
Singapore FSSTI	6.03%	7.61%	22.01%	32.07%
Korea KOSPI	3.12%	10.16%	22.24%	37.70%
Taiwan TWSE	3.04%	5.46%	19.41%	30.37%
India SENSEX	9.02%	11.58%	29.56%	37.93%
Indonesia JCI	8.00%	7.04%	22.48%	22.05%
Thailand SET	5.03%	7.39%	17.31%	29.12%
Russia RTS	2.67%	2.67%	5.88%	5.88%
Brazil IBOV	2.84%	-1.60%	26.86%	24.70%
S&P Pan Arab Composite	-0.43%	-0.43%	4.28%	4.28%
MSCI World	5.62%	5.62%	23.1%	23.1%

Source : Bloomberg (as at 29/12/2017)

TABLE 2: Major Currencies Performance (In terms of USD)

Currencies	Change in 2017 Q4	Change in 2017
	In terms of USD	
Euro	1.62%	14.15%
British Pound	0.86%	9.51%
Japanese Yen	-0.16%	3.79%
Hong Kong Dollar	-0.04%	-0.74%
Chinese Renminbi (CNY)	2.25%	6.74%
Australian Dollar	-0.32%	8.34%
New Zealand Dollar	-1.54%	2.37%
Singapore Dollar	1.62%	8.29%
Korean Won	6.98%	12.81%
Taiwanese Dollar	1.75%	8.23%
Indian Rupee	2.20%	6.35%
Indonesian Rupiah	-0.71%	-0.70%
Thai Baht	2.30%	9.88%
Russian Ruble	-0.23%	6.32%
Brazilian Real	-4.42%	-1.77%

Source : Bloomberg (as at 29/12/2017)

Review highlights and outlook around the globe:

United States

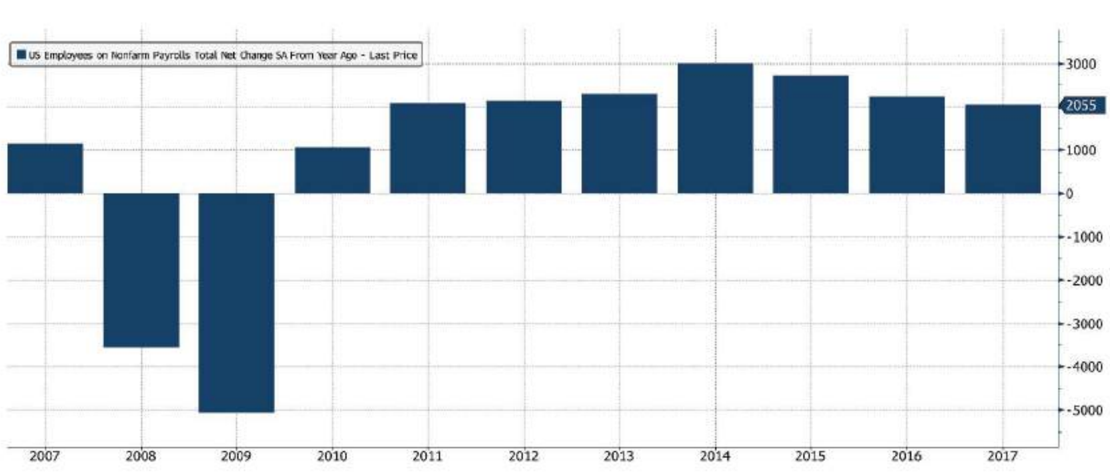
- It was a vibrant year for U.S. stock market in 2017 and to the surprise of many, the election of Donald Trump as President seemed to be the turning point. The total return of S&P 500 for the year was 21.82%, yet that of the Dow Jones Industrial Average and Nasdaq Composite Index was even more impressive — at 28.11% and 29.73% respectively. The promise on a sweeping tax cut, which finally materialized in December, fueled the rally since the beginning of 2017. Solid economic fundamentals, hopes for roll back on financial industry regulation, and robust corporate earnings escorted the upward trajectory throughout the year, while market volatility was at historical low. As geopolitical risks dampened towards the end of year, and consumer confidence has surged to historically strong levels, it is likely that the U.S. stock market may continue its streak into the first half of 2018.

EXHIBIT 1: Price Chart of three major U.S. Stock Indexes in 2017

Source : Bloomberg (as at 29/12/2017)

- In the third quarter, the U.S. economy grew at the fastest pace in more than two years at an annualized rate of 3.2%. Retail sales, labor market and housing data as well as other reports have suggested that the solid momentum could well be maintained for the fourth quarter. The nation's current economic expansion is approaching it longevity record. If economic growth extends to the first quarter of 2018, it will be 35 consecutive quarters which the economy is in expansion, matching with the 1961-1969 cycle as the second longest in history.
- On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act (TCJA) into law. The TCJA represented the most comprehensive reform to the U.S. tax code in over thirty years and took effect on January 1, 2018. Corporate taxes will be reduced from 35% to 21%. The tax cut takes the U.S. from having the highest corporate tax rates in the Organization for Economic Cooperation and Development (OECD) countries to a level close to global average. Individual tax rates, inheritance tax and overseas profits will be lowered too. It is anticipated that the overall new Act will have material impact on consumer and business spending behavior and subsequent multiplying effect on the economy.
- Sales of new single-family houses surged 17.5% to a seasonally adjusted annual rate of 733,000 in November which was the strongest number since July 2007. Existing homes sales, which make up about 90% of U.S. homes sales, also rose 5.6% to a seasonally adjusted annual rate of 5.81 million which was the highest level since December 2006. Sales price jumped 7% annually in November, according to the latest report from CoreLogic. Apparently the upswing of economic fundamentals was driving the low supply and high demand situation, which fueled prices.
- As with the labor market, non-farm payroll increased by 148,000 in December, which came in below the 2017 monthly average of 171,000 and was below the market expectation of 190,000. Nevertheless, unemployment rate was held at a 17-year low for the third straight month at 4.1%. For the whole of 2017, 2,055,000 jobs were added in the country which was the seventh consecutive year of job growth in excess of 2 million. Average hourly earnings rose 2.5% in December year-on-year. Wage growth was disappointing throughout 2017 and the economic recovery in general which was counterintuitive given the promising employment market. The muted wage growth is likely to keep inflationary pressure at bay, which in turn may limit rate hikes thus supports the bond and stock market.

EXHIBIT 2: Annual change of U.S. non-farm payrolls exceed 2,000,000 in the last 7 years

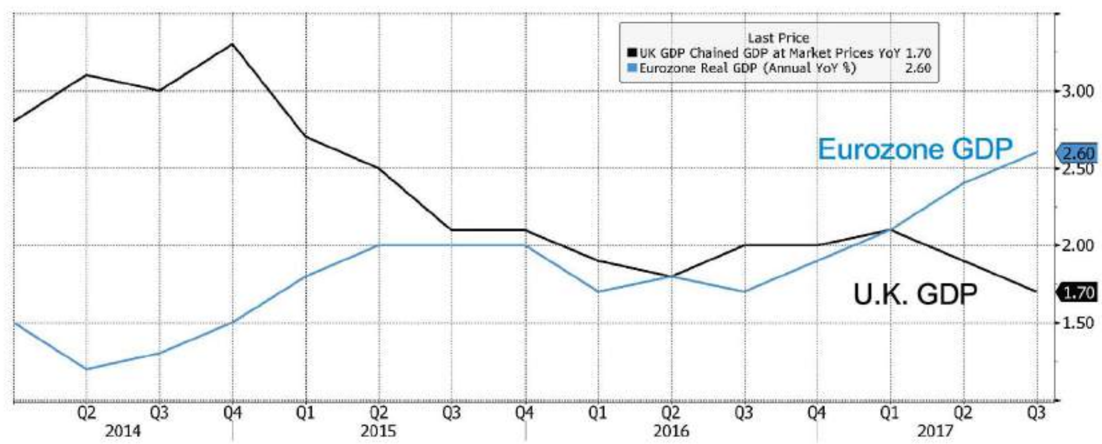


Source : Bloomberg (as at 29/12/2017)

Europe

- The economy of the Eurozone area expanded at the fastest pace since 2011 in the third quarter of 2017. It advanced 2.6% on yearly basis or 0.6% comparing with the last quarter. Growth was mainly boosted by household consumption, fixed investment and exports. Among Eurozone's largest economies, GDP growth eased slightly in France and Spain; and picked up in Germany and Italy.
- It is believed that the economy's growth momentum will continue in 2018. Stimulated by a near-record expansion of manufacturing production and the steepest increase in service sector activity for over-six-and-a-half years, the final IHS Markit Eurozone PMI Composite Output Index rose to 58.1 in December, its best level since early 2011. Growth was broad-based and business conditions improved across all of the countries covered.
- As widely expected, the European Central Bank ("ECB") kept its interest rates on hold in its December meeting, but confirmed that it plans to reduce its asset purchase programme from the monthly pace of €60 billion to €30 billion starting from January 2018 until the end of September 2018. Besides, the ECB has also substantially upgraded the GDP growth forecasts for the Eurozone, reflecting the brightening economic prospects for the single currency area. The ECB forecasted growth to reach 2.3% in 2018 and 1.9% in 2019, up from previous projections of 1.8% and 1.7% respectively.
- On the other hand, the GDP growth of the U.K. was on a declining trend. The British economy grew 1.7% year-on-year in the third quarter of 2017. Although the figure was above the preliminary estimate of 1.5%, it was the weakest annual growth rate since the first quarter of 2013 as household consumption and fixed investment rose at a slow pace. Looking forward, the U.K. economy is set to continue on an underwhelming growth trajectory over the near term due to the uncertainty of the Brexit negotiation progress.

EXHIBIT 3: The GDP growth of Eurozone and U.K. moved in opposite direction



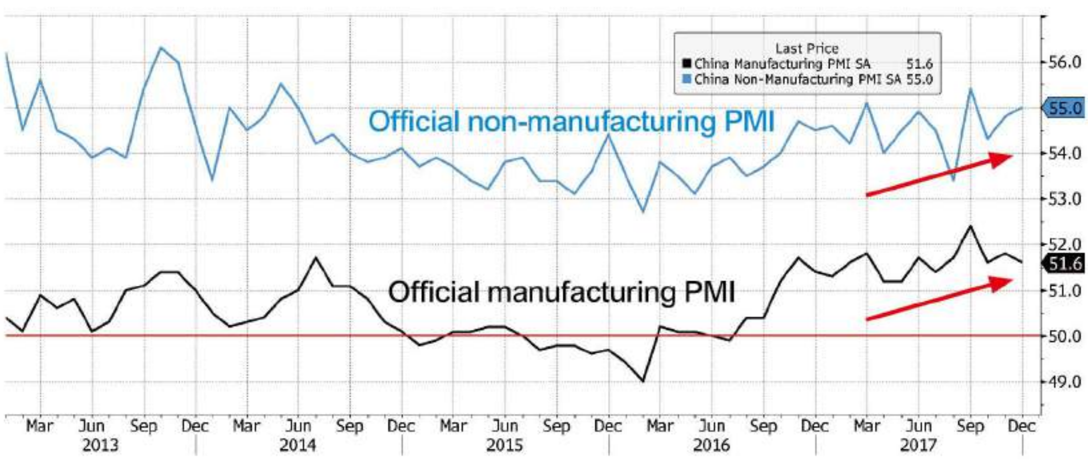
Source : Bloomberg (as at 29/12/2017)

- The inflation rate remained low in the Eurozone. According to the preliminary data from Eurostat, consumer prices in the Euro Area was expected to decrease to 1.4% year-on-year in December 2017 from 1.5% in the previous month, which was well below the ECB's 2% target; the core inflation held steady at 0.9%.
- Euro was the strongest major currencies in 2017, it rose 14.15% against the USD. The strong Euro, somehow, has limited the performance of the European stock markets. The Euro Stoxx 600 Index only rose 11.22% which underperformed the U.S. markets. However, since the region's economy is recovering and the business confidence is at recent-years-high, the corporate earnings of those European companies should maintain growth. It is believed that the outlook of the European equities remains positive.

Asia

- Despite concerns about debt level and property bubble, the Chinese economy showed robust growth in 2017 due to increasing government spending on infrastructure and a pick-up in the overall global macroeconomic environment. The Caixin Manufacturing Purchasing Managers Index, an indicator of conditions of small manufacturers, rose to 51.5 in December, up from 50.8 in November and the highest reading since August. The official Manufacturing Purchasing Managers' Index dipped to 51.6 in December and showed a slight deceleration compared with 51.8 in November, nevertheless it largely maintained momentum.

EXHIBIT 4: Steady growth trend of China PMI in 2017



Source : Bloomberg (as at 29/12/2017)

- Growth was also seen in non-manufacturing sector. The official non-manufacturing Purchasing Managers' Index rose to 55 December from 54.8 in previous month. At the same time, The Caixin/Markit Services Purchasing Managers' Index also rose to 53.9 in December from 51.9 in November and it was the highest reading since August 2014. Improved growth of services activity was widely linked to greater volumes of new business. Latest data indicated that services companies saw the strongest upturn in new orders since May 2015.

- In late December, The China Securities Regulatory Commission (CSRC) announced that it would launch a pilot scheme that allowed mainland-incorporated companies listed in Hong Kong to convert their non-tradable equity into free-floating shares. Under current rules, shares held by founders or major shareholders of Hong Kong-listed mainland firms are not eligible for trading on exchanges and it explains why those founders and major shareholders may not be concerned with the valuation of their H-shares. Although the scheme would potentially increase share supply, investors largely interpreted the reform as positive since it would improve corporate governance and boost foreign investors' interest in Hong Kong-listed Chinese companies. As of today, China Construction Bank, which debuted in Hong Kong in 2005, is the only Chinese firm shares of which are fully convertible.

- Supported by strong exports and faster increase in business spending, the Japanese economy advanced 2.5% year-on-year in the third quarter which was substantially better than the preliminary reading at 1.4%. Japan's economy has now expanded for seven consecutive quarters, the longest stretch of uninterrupted growth for the world's third-largest economy since early 2001. It is believed that the growth momentum will continue in 2018 since the booming global economy will boost Japan's exports and stimulate local demand.

- To a certain extent, the implementation of demonetization and Goods and Service Tax had impeded the economic growth of India in 2017 and the economy recorded the lowest GDP growth in recent years. However, 2017 probably would be a year of transition for the Indian economy and the negative impact of the economic reforms should only bring short term pain. In recent months, the PMI figures showed that the country's manufacturing and services sector has returned to expansionary zone. Besides, the global credit rating agency, Moody's Investor Service, upgraded India's sovereign credit rating in November which was the first time since 2004, and the move reflected foreign investors' confidence on India's recent changes. It is believed that gradual decline in the government debt burden and continued economic and institutional reforms will enhance India economy's high growth potential in medium-to-long term.
- The MSCI Asia Pacific Index rallied over 30% in 2017 and reached the record high level again since the 2007 Financial Tsunami. Among those major Asian stock markets, Hong Kong, South Korea and India performed the best. Their benchmark stock indexes rose around 40% in USD term in 2017. Although the Asian equity market has already risen substantially in 2017, it is expected that the Asian market will benefit the most from the global economic expansion, as the Price-to-Earnings ratio of the MSCI Asia Pacific Index was at 16 times which was still at historical average level. For these reasons, we still favor investment in Asian equities in medium-to-long term.

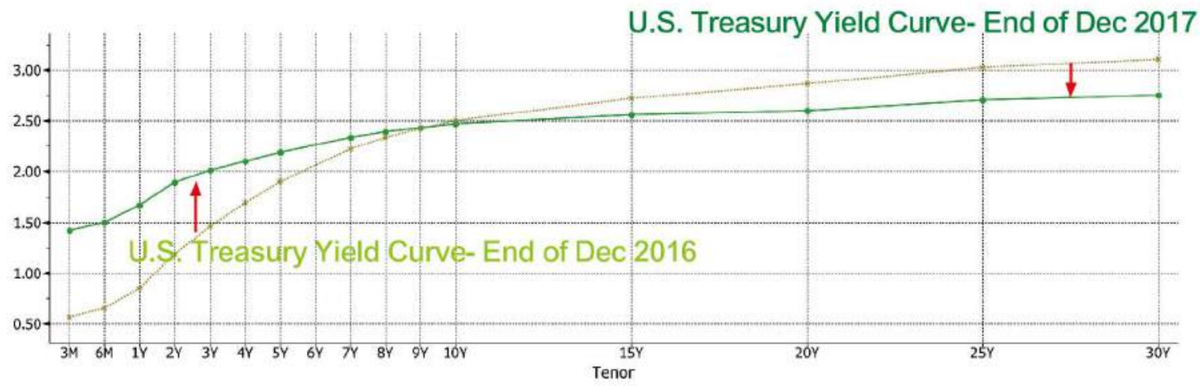
EXHIBIT 5: The MSCI Asia Pacific Index broke record high level

Source : Bloomberg (as at 29/12/2017)

Fixed Income

- In 2017, several developed countries entered into the interest rate hike cycle. The U.S. Federal Reserve raised the interest rate 3 times and the federal fund rate rose above 1% for the first time since 2008. In Canada, the Bank of Canada raised its benchmark overnight rate 2 times to 1%. Besides, the Bank of England also lifted its Bank Rate to 0.5% in November. It was the first rate increase in a decade after the inflation stayed well above the 2% target for almost all the months in 2017. As recent growth momentum has been even better than expected across global economies, it is expected the central banks of other developed countries, like ECB and Bank of Japan may follow suit in 2018 and gradually tighten their loose monetary policy.
- Since it is widely expected that the U.S. Federal Reserve will continue to raise interest rate in the near future, the short term U.S. Treasury yield climbed in 2017. However, the price of longer term U.S. Treasury only dropped modestly due to steady demand and persistently low inflation expectation in the future. As a result, the U.S. Treasury yield curve flattened and the difference between the 10-year and 2-year bond yield steadily narrowed from 1.32% in December 2016 to 0.58% by the end of December 2017.

EXHIBIT 6: The U.S. Treasury yield curve flattened



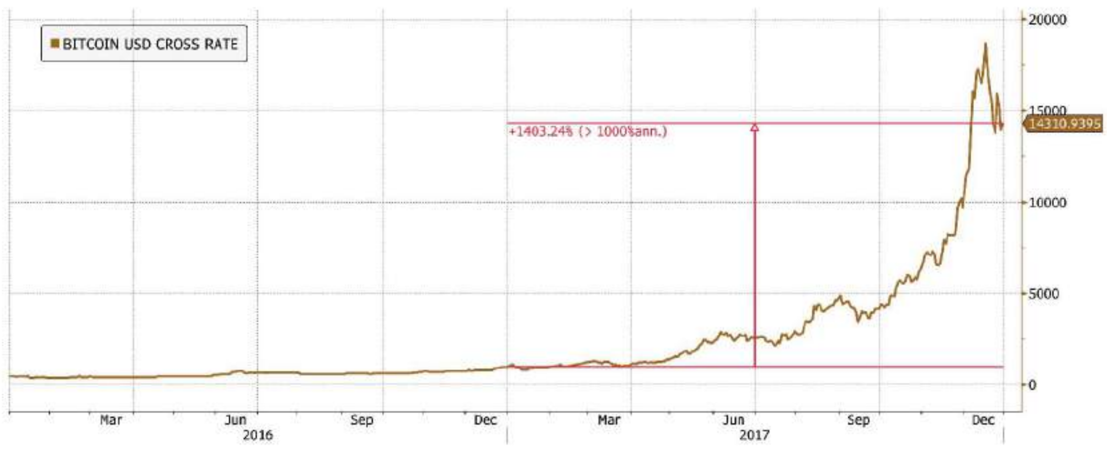
Source : Bloomberg (as at 29/12/2017)

- The high yield bond sector delivered a solid and stable return in 2017. According to the Bloomberg Barclays US Corporate High Yield Bond Index, the sector rose 7.5% for the year. Although the yield spread between the U.S. high yield bond and U.S. Treasury narrowed and the current high yield bond price may not be as attractive as before, the sector may still provide steady return in 2018. Since the performance of high yield bond is sensitive to credit risk instead of interest rate risk, it is believed that those speculative-grade securities can benefit from a low default rate because of the current blooming economy and improving business environment.

Commodities

- Commodity Futures Trading commission (CFTC) officially classified Bitcoin as a commodity in the U.S in September 2015, but the Bitcoin frenzy did not take place until 2017 as investors expected approval from CFTC on the launch of their respective Bitcoin futures by two of the largest futures exchanges, the Chicago Mercantile Exchange (CME) group and Cboe Futures Exchange (CFE), which eventually materialized towards the end of the year. The crytocurrency surged more than 1400% in 2017 and occupied the front-page news many times. Opinion extremity can be reflected from the hot debates on the Bitcoin rally. Many commented that it will not have the endorsement of governments around the world, as it has anti-money laundering concerns and popularity of which may jeopardize the effectiveness on a nation's monetary policy in the long run. Others see it as a reserve form of money like gold and an asset class that will work over time, and countries with weak institutions and unstable national currencies may see growing use. As at the time of writing, South Korea, one of the biggest markets for Bitcoin, has announced its plan to ban all crytocurrency trading in the country. One thing for sure is that the price volatility of Bitcoin is extremely high, which may not be an asset class for regular investors.

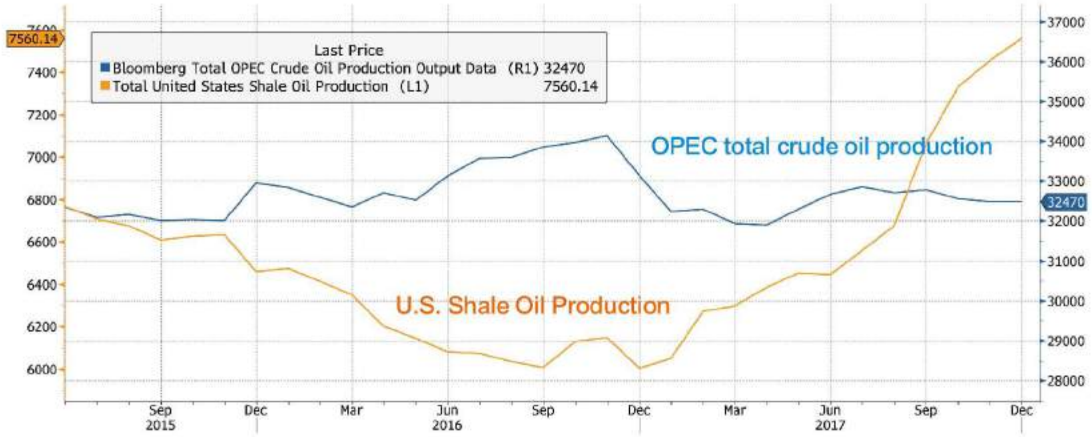
EXHIBIT 7: The Sky-rocketing of Bitcoin price (USD) in 2017



Source : Bloomberg (as at 29/12/2017)

- The WTI and Brent crude oil price rose 12.47% and 17.69% in 2017, which was the highest level since 2015. The upward trajectory however, was not a smooth one. The production cut from Organization of the Petroleum Exporting Countries (OPEC) did not show effectiveness in the first half of the year and oil price took a dive until mid-June, when the production cut in the previous months finally resulted in material reduction in oil inventories. Focus started to switch to increasing demand rather than excess supply, and the price upswing started from the third quarter and continued through the end of the year. In addition, geopolitical risk returned to the crude oil agenda with outrages in Libya, Iraq, the North Sea and Canada. As we enter into 2018, we have on one hand the alliance between OPEC and Russia which will certainly help in curbing supply, but on the other hand, the U.S. shale production is on the rise which can also have a substantial counteracting effect on supply. Nevertheless, outlook for the global growth remains strong for both developed and emerging markets which favors demand, so the oil bulls should still have a strong foothold in the short term.

EXHIBIT 8: OPEC total crude oil production vs U.S. Shade oil production 06/2015 - 12/2017



Source : Bloomberg (as at 29/12/2017)

- While the global equity market posted shining performance in the 2017, gold also had its best year since 2010. Spot gold price defied the odds of rising interest rate hikes, strong equity markets and improving global economy and gained 13.53% last year. It was anticipated that the start of interest rate hike cycle would put pressure on gold price; however, the drop in the U.S. dollar, uncertainty over the U.S. tax overhaul and geopolitical issues all boosted gold's attractiveness as a safe haven asset, allowing the metal to weather the surge in equity prices as well as the tightening monetary policy from the Federal Reserve, and rise above its 100-day moving average as at the end of 2017. The outlook for gold in 2018 remains strong as many stock markets have hit their historical highs, yet inflationary pressure remained subdued on a global level, making gold a competitive asset class for investors.