INVESTMENT INSIGHT JULY 2020

Investment Services Department

Altruist®
Altruist Financial Group Limited
進邦滙理有限公司

REMARKABLE MARKET REBOUND AMID EXTRAORDINARY UNCERTAINTIES

Last quarter market highlights

- *There was a disconnection between the investment markets and the real economy. Different asset prices rebounded remarkably while the economy still struggled to recover.*
- *The balance sheet of global major central banks swelled dramatically due to the unprecedented scale of quantitative easing. At the same time, global governments also brought enormous fiscal stimulus to the markets.*

According to the latest forecast from the International Monetary Fund ("IMF") in June, the global economy is projected to slide 4.9% in 2020. The COVID-19 pandemic has had a more negative impact to the global economic activities and the recovery is expected to be slower than the previous anticipation. The IMF also estimates that the global economy would grow at 5.4% in 2021, lower than the pre-COVID-19 projections in January 2020. Overall, the IMF expects that the cumulative loss of total output for the global economy in 2020 and 2021 will top USD 12 trillion.

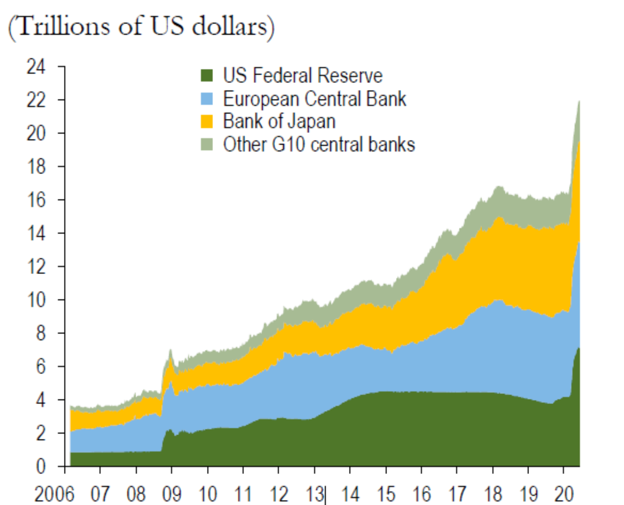
The COVID-19 pandemic is still not yet under control and the threat of second wave of infection is heightening. Since the U.S. started to reopen the economy in June, the daily new infection cases surged again, and the latest number even passed the previous peak in April and May. As described by the U.S. Federal Reserve("Fed") Chairman, Jerome Powell, the path forward for the economy is extraordinarily uncertain and will depend largely on the success in containing COVID-19.

While the global economy still struggles to recover, it seems that the investment markets have delinked from the real economic activities and rallied significantly. In the second quarter, the MSCI World Index surged about 20% and the Nasdaq Composite Index even rocketed over 30%

and hit record high again as investors were enthusiastic to increase their investment exposure in "New Economy" stocks.

The remarkable market rebound in the second quarter was mainly contributed by the aggressive fiscal and monetary policies imposed by those major economies. According to the latest report from the IMF, governments around the world have provided large emergency subsidies amounting to near USD 11 trillion. In addition, those major central banks not only cut the interest rate aggressively and promised to remain at a very low level for several years, they also actively purchase assets and provide liquidity support for the banking system in order to sustain the flow of credit to the economy. According to the data from IMF in June, the aggregate assets of G10 central banks have increased by about USD 6 trillion since mid-January, more than double the increase seen during the two years of the global financial crisis from December 2007, with the rise in assets accounting for almost 15% of G10 GDP.

EXHIBIT 1: G10 Central Bank Assets



Source: IMF, as at June 2020

In the first half of 2020, what happened in the financial markets were unprecedent and unbelievable. We have seen the governments and central banks of global major economies imposed extraordinary measures to stimulate the economies at the same time and we have also experienced a tremendous market plummet and rebound in a very short period of time as well. Looking ahead in the second half of the year, the following key factors may have significant impacts to the investment markets.

Market valuation

Although it is believed that another market freefall is unlikely to happen in the near term because of the abundant market liquidity, the recent stock market rebound may be lack of concreate fundamental support since the overall corporate earnings estimates in the developed countries are falling except those new economy companies. Besides, after the rally, the valuation of many global major stock markets has exceeded the pre-COVID-19 level and was expensive indeed.

COVID-19 pandemic

Secondly, the COVID-19 pandemic is still far from under control as the number of new infected cases have not slowed down, and the negative impacts of COVID-19 will continue to affect the global economies.

U.S. presidential election

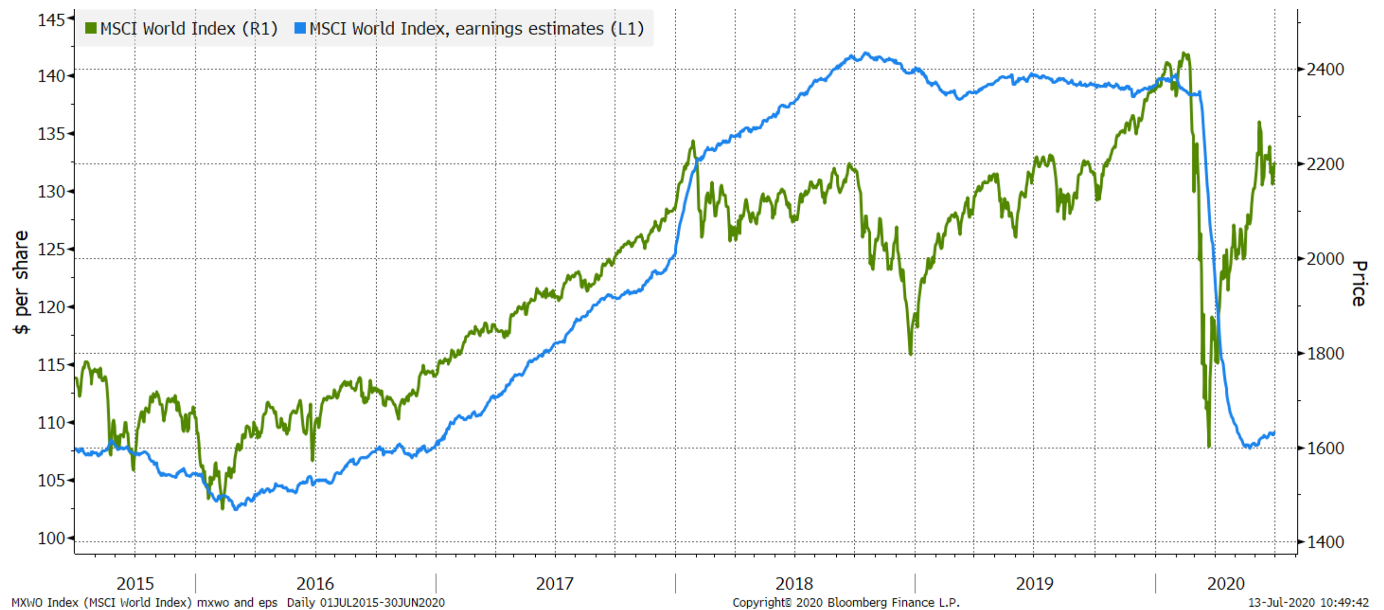
Apart from the virus, investors may need to be aware of the market uncertainties coming from the U.S. presidential election in November.

Currently, the polls show former Vice President Joe Biden is in the lead, ahead of President Donald Trump. Some analysts think that if the Democrats win the presidentship, some of the tax cuts may be reversed and that will probably be negative to the market.

China-U.S. relationship

The recent China- U.S. relationship has deteriorated to their worst in decades and it is expected that the tension is difficult to ease as the conflicts between both countries have extended to different dimensions.

EXHIBIT 2: Global equities surged even though earning forecasts collapsed



Source: Bloomberg (as at 30/06/2020)

TABLE 1: Global Stock Markets Performance

	2020 Q2 Return		2020 YTD Return	
Indexes	**Local Currency**	**USD**	**Local Currency**	**USD**
S&P 500	20.54%	20.54%	-3.09%	-3.09%
Nasdaq Composite	30.95%	30.95%	12.74%	12.74%
STOXX Europe 600	13.91%	16.74%	-11.75%	-11.64%
DAX	23.90%	26.98%	-7.08%	-6.82%
CAC 40	13.48%	16.30%	-16.19%	-16.09%
Nikkei 225	17.97%	17.91%	-4.74%	-3.80%
Hong Kong Hang Seng	5.07%	5.08%	-11.87%	-11.43%
Hang Seng China Enterprises	3.74%	3.76%	-10.87%	-10.42%
Shanghai Stock Exchange Composite	9.79%	10.05%	-1.01%	-2.43%
Shanghai Shenzhen CSI 300	14.16%	14.43%	2.72%	1.24%
Singapore Straits Times	6.25%	8.54%	-17.74%	-20.66%
Korea KOSPI	20.21%	21.95%	-3.82%	-7.32%
Taiwan TWSE	20.39%	23.21%	-2.32%	-1.17%
India SENSEX	18.67%	18.39%	-14.97%	-19.84%
Indonesia JCI	9.61%	23.22%	-20.44%	-23.38%
Thailand SET	20.51%	27.77%	-13.18%	-15.76%
Russia RTS	20.90%	20.90%	-20.57%	-20.57%
Brazil IBOV	30.18%	23.99%	-17.80%	-39.54%
S&P Pan Arab Composite	12.57%	12.57%	-13.77%	-13.77%
MSCI World	19.57%	19.57%	-5.47%	-5.47%

Source: Bloomberg (as at 30/06/2020)

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

	Change in 2020 Q2	Change in 2020
Currencies	**In terms of USD**	
Euro	1.84%	0.19%
British Pound	-0.15%	-6.46%
Japanese Yen	-0.36%	0.63%

Hong Kong Dollar	0.01%	0.53%
Chinese Renminbi (CNY)	0.26%	-1.43%
Australian Dollar	12.59%	-1.68%
New Zealand Dollar	8.36%	-4.24%
Singapore Dollar	2.04%	-3.42%
South Korean Won	1.30%	-3.88%
Taiwanese Dollar	2.27%	1.58%
Indian Rupee	0.04%	-5.47%
Indonesian Rupiah	14.34%	-2.80%
Thai Baht	6.13%	-3.04%
Russian Ruble	10.16%	-12.92%
Brazilian Real	-4.79%	-26.29%

Source: Bloomberg (as at 30/06/2020)

Review Highlights and outlook around the globe

United States

- The U.S. economy shrank 5% in the first quarter with a much worse decline expected in the second quarter because of the COVID-19 pandemic. According to the recent forecast from the IMF in June, the U.S. economy is projected to contract by 8% in 2020, lower than the previous estimate of 5.9% contraction in April.

- The ISM Manufacturing PMI jumped to 52.6 in June, recovered sharply from 43.1 in May and 41.5 in April and was better than the market expectations of 49.5. The reading pointed to the strongest expansion in factory activity since April of 2019 after 3 straight months of coronavirus disruptions. In addition, the June ISM Non-Manufacturing PMI also surged to 57.1 from 45.5 last month. It was the largest single-month percentage-point increase ever as businesses started to reopen after the lockdown.

- According to the data from the Labor Department, the nonfarm payrolls soared by 4.8 million in June, the largest single-month gain in history. Although the job report was impressive, it is thought that the job market may still have a long way to fully recovery. Firstly, the job market was still at a depression-era level as the Continuing Jobless Claims and the unemployment rate was stood at 19.5 million and

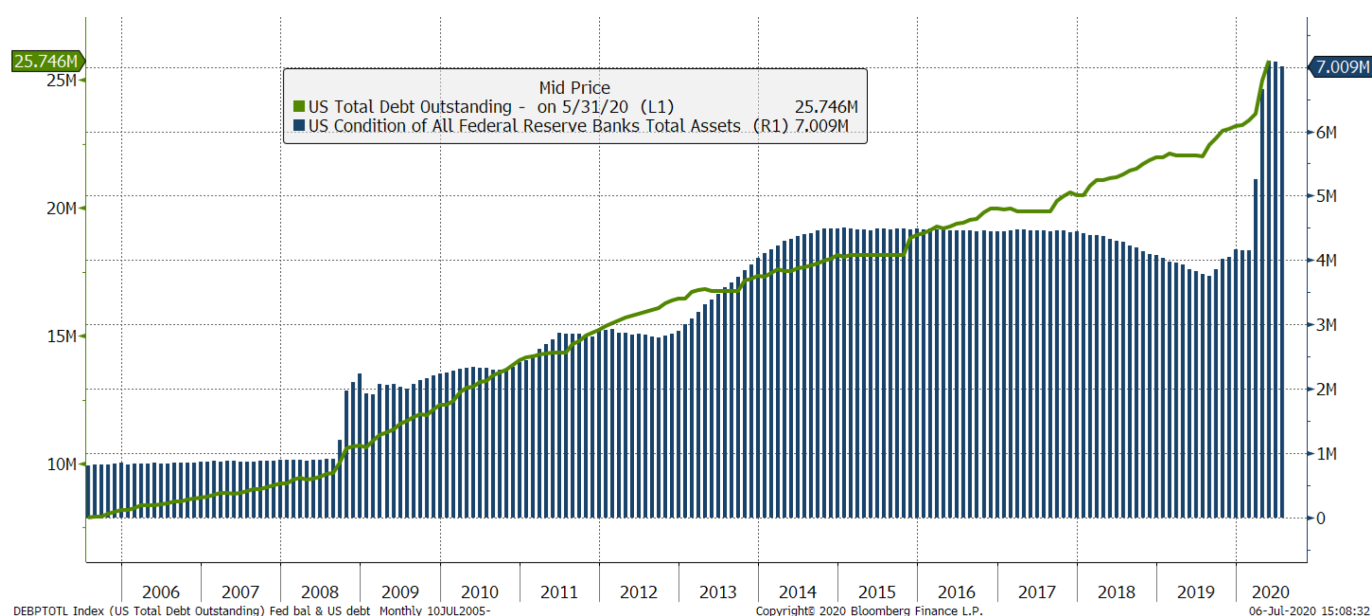
11.1% respectively. Besides, the second wave of COVID-19 in the U.S. was coming and several states were scaling back or pausing reopening, it may trigger a new round of layoffs.

- Sales of existing homes fell 9.7% in May compared with April, to a seasonally adjusted annualized rate of 3.91 million units. On annual basis, the sales fell 26.6% which was the largest decline since 1982, when the interest rates were at about 18%. Those numbers were based on closed sales, representing contracts signed in March and April. Given that those months saw the worst of the economic shutdown from the COVID-19, it was not surprising that the volume came in so low.

- On the other hand, the U.S. new home sales in May, which really reflected what went on in that month, jumped 16.6% to a seasonally adjusted annual rate of 676,000 units, showing that the U.S. housing market was on the cusp of recovery after being hammered by the COVID-19 and it is believed that rebound may go on as the mortgage rate fell to all-time low and it is expected that the low rate will remain for a certain period of time.

- Since the outbreak of Covid-19 in the U.S., the Fed has already cut the interest rate to zero and started its asset purchase program in March so as to stabilize the financial market, the Fed's balance sheet asset jumped from USD 4.159 trillion in February to over USD 7 trillion in June. At the same time, the U.S. Congress has also passed 3 financial aid bills totaling in excess of USD 3 trillion to provide emergency financial relief to the public. As the Government keeps on spending, ultimately, they have to issue more debts. From the day that the World Health Organization declared COVID-19 a pandemic (March 11) through June 8th, the U.S. national debt rose by USD 2.5 trillion to around USD 26 trillion in total, the highest debt level in the history of the United States.

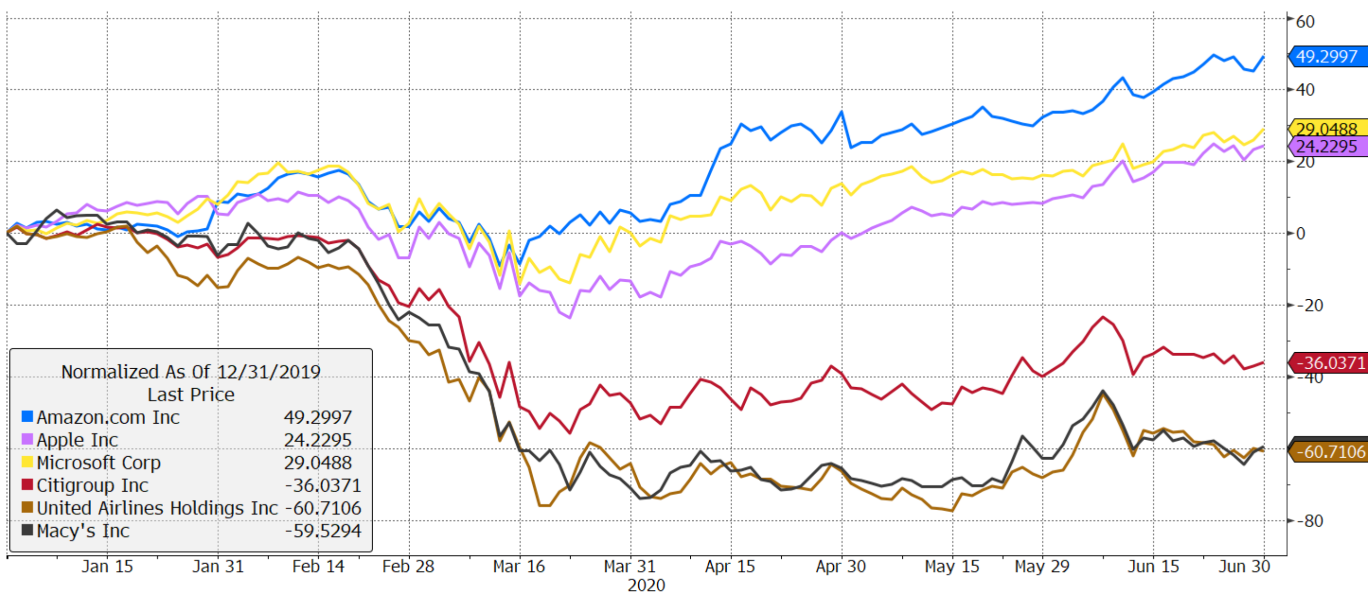
EXHIBIT 3: The Fed's Asset size and U.S. National Debt rose to record high level



Source: Bloomberg (as at 30/06/2020)

- Due to the abundant market liquidity mentioned, the S&P 500 rebounded over 20% in the past 3 months and achieved the best quarterly performance since the final quarter of 1998. The market rally was mainly contributed by the technology companies which their business models have not been affected by the COVID-19 pandemic. On the other hand, those "Old Economy" companies, like banks, airlines, retailers suffered heavily. After the market rebound, the valuation of some of the largest technology companies reached new high, it is believed that the U.S. stock will be more turbulent in near future and the result of coming corporate earnings release and the spread of COVID-19 will be the key factors to determine the market direction in the next quarter.

EXHIBIT 4. : "New Economy" companies vs. "Old Economy" companies (% of gain or loss)



Source: Bloomberg (as at 30/06/2020)

Europe

- Affected by the COVID-19 pandemic, the Eurozone economy contracted 3.6% on quarterly basis and fell 3.1% compared to the same period last year in the first quarter and it was the largest decline in GDP since the birth of Euro in 1999. According to the latest forecast from IMF, the Eurozone and U.K. is expected to shrink 10.2% in 2020 which was larger than 8% fall projection for the U.S.

- The business sentiment of the Eurozone had certain improvement in June as lockdowns relaxed and more and more businesses reopened. The June IHS Markit Eurozone PMI Composite Index rebounded for a second successive month, and rose to 48.5, up nearly 17 points from May's 31.9. It was the index's best level in four months. All countries in the eurozone enjoyed their best month since February. France's reading climbed to 51.7, while Spain moved close to neutral mark

at 49.7. However, despite the vigour of the return to work following COVID-19 business closures, investors were still cautious to the strength of the recovery as companies continued to report weak underlying demand in June. Many of them remained risk averse and were reluctant to commit to spending and hiring because of persistent uncertain economic outlook.

EXHIBIT 5: The business sentiment of the Eurozone had certain improvement in June

Source: Bloomberg (as at 30/06/2020)

- To support the ravaged economy, the European Central Bank ('ECB") decided to expand its Pandemic Emergency Purchase Programme ("PEPP") by €600 billion to a total of €1.35 trillion, more than an expected €500 billion increase, and extended it at least to June 2021. Many economists believed that the ECB is now following the path of the Bank of Japan as the ECB's balance sheet asset has expanded to over 50% of the Eurozone's GDP and it is expected that the ECB would boost asset purchases by an additional trillion Euros over the next two or three years.

- The Euro Stoxx 600 climbed about 14% in the second quarter but was still down about 11% in 2020 and unperformed the U.S. counterparts. The market now eyes on whether the members of the European Union would agree the setup of €750 billion Pandemic Recovery Fund and it is expected that the investment sentiment and the medium-to-long term economic growth potential of the region would be boosted if the fund can be successfully launched.

Asia

- Because of the COVID -19 pandemic, the first-quarter GDP of China dropped 6.8% from a year earlier, however, the economic activities picked up quickly in the second quarter and the IMF also forecasted that China will be the only major economy to report a positive growth in 2020.

- China's factory activity expanded at a strong pace in June as the economy continued to recover after the government lifted strict lockdowns and ramped up investment, but export orders remained weak as the global COVID-19 crisis shattered demand. The official manufacturing PMI came in at 50.9 in June, compared with May's 50.6 while the forward-looking total new orders gauge also brightened, rising to 51.4 from May's 50.9, suggesting domestic demand is picking up. However, export orders continued to contract although certain improvement was seen, with a sub-index standing at 42.6 compared to 35.3 in May. At the same time, the June official non-manufacturing PMI also rose to 54.4, from 53.6 in May, marking the strongest growth since November 2019.

- The Japanese household spending slumped at a record pace in May. It fell 16.2% from a year earlier even though businesses began to reopen, and more people ventured out after a nationwide state of emergency was lifted. The outlook for household spending in the months ahead also remains weak as job losses are expected to rise. Meanwhile, the factory output fell 8.4% month-on-month in May, to the level that has not been seen since March 2009 when the financial crisis sapped global demand. Japan's economy shrank at an annualised rate of 2.2% in the first quarter, slipping into recession for the first time in 4-1/2 years, and analysts expect the COVID-19 crisis would drive the Japanese economy to a deeper slump in the second quarter.

- In South Korea, the consumption has recovered slightly due to the government's emergency cash handout, but the country's industrial production remained sluggish. South Korea's consumer spending in May rose 1.7% compared to a year earlier, up from a 2.2% decline reported in April. The industrial output plunged 5.6% year-on-year and fell 1.2% month-on-month in May as COVID-19 continued to infect the national economy. Among key items, production of semiconductors jumped 10.8% month-on-month as demand for data storage increased during the lockdowns period, on the other hand, auto output fell 21.4% because of supply-chain disruptions.

- Deflation in Thailand persisted in June. The consumer prices fell 1.6% year-on-year, and it was the fourth consecutive month drop. The Thailand economy is facing a continued downdrift ahead as exports and tourism are almost stagnant, and the weakness from external sectors has broadened to domestic demand. Consumer confidence has been at a record low, job losses are rising as well. At the recent monetary policy meeting, the Bank of Thailand was even cut its 2020 GDP outlook to a record contraction of 8.1% from the previous forecast of 5.3% shrinkage.

- Apart from the Covid-19 pandemic, the new National Security Law may also intensity the uncertainties of the financial market in Hong Kong. Some hedge fund managers even speculated the HKD would unpeg with the USD in the near future and devaluate. However, because of the rise of carry trade activities and a number of large-scale IPOs of Chinese "New Economy" companies in Hong Kong Stock Exchange, hot money flowed into the Hong Kong market. The HKD hit the strong end of the Linked Exchange Rate System repeatedly and triggered the Hong Kong Monetary Authority to intervene the

market 10 times in June by selling HKD at the strong-side convertibility Undertakings of HKD 7.75 to 1 USD.

EXHIBIT 6: HKD strengthened due to hot money inflow

Source: Bloomberg (as at 30/06/2020)

- The Asian equity markets rebounded sharply in the second quarter. As at the end of June, the MSCI Asia Pacific and MSCI Asia ex Japan index almost recovered all the loss this year while the Asean markets still dropped about 20%. As mentioned in the previous "Investment Insight", those developing countries in South East Asia may be more vulnerable to financial crisis as their economies rely more on external demand. On the other hand, the investment outlook of the Chinese Market seems to be brighter since the economic growth of China has shifted to more domestic consumption oriented in recent years and it is believed that the country can still maintain stable growth even though the foreign demand is falling.

EXHIBIT 7: The Asean stock markets left behind in the 1st half of 2020

Source: Bloomberg (as at 30/06/2020)

Fixed Income

- In the past three months, the U.S. Fed has unveiled an unprecedented series of relief measures aimed at restoring financial market functioning. The Fed started to buy broad-based fixed income exchange-traded funds in mid-May through its Secondary Market Corporate Credit Facility (SMCCF), which high yield bond ETFs were also included in this purchase program. On June 16, the facility extended the purchase to individual corporate bonds. It supports market liquidity by purchasing corporate bonds issued by investment grade U.S. companies as of March 22, 2020 in the secondary market. In addition, the Fed also kicked off the Primary Market Corporate Credit Facility (PMCCF) on 29 June and the bond buying program covered new issued debt as well now.

- The market is full of liquidity since the major central banks in the world are "printing money" simultaneously in response to the COVID-19 crisis. Not surprisingly, global debt issuance hit record highs in the 1st half of 2020 according to the data from Refinitiv. Among all, about USD 1.2 trillion worth of U.S. investment-grade debt were issued in the first six months of 2020 which were more than the total in 2019. Global high yield debt issuance was also up by 22% from the first half of 2019 to USD251.4 billion, led by a 61% increase in the U.S.

- The Bloomberg Global High Yield Bond Index rebounded over 12% in the second quarter and almost returned to the level in the beginning of 2020. After the sharp rally, the risk premium of high yield bond was greatly reduced. In the meantime, the COVID-19 crisis brings a lot of uncertainties to the economies, it is likely that the default rate of high yield bonds may increase accordingly. For this reason, investors should avoid too much exposure in low-rated bonds even though the yields look more attractive. In contrast, it is believed that putting more allocation to investment grade fixed income may be a more prudent decision.

Commodities

- Oil prices registered their best quarterly performance in 30 years in the second quarter of 2020. Brent Crude futures and U.S. WTI futures surged around 80% and 90% respectively, however, they also experienced extreme volatility during the period. On April 20, the price of the U.S. WTI future tumbled into negative territory for the first time in history and fell to as low as -USD 40 a barrel. This happened because the COVID-19 caused a halt in demand while the supply cuts from OPEC and Russia were not come to effect until 1 May.

- Although the oil demand has certain slow recovery as quarantine and lockdown rules were eased in many countries in June, the supply is still abundant as the U.S. still held record-high level of commercial crude oil inventories according to the data from the Energy Information Administration (EIA). For this reason, the upside potential of oil price may be limited in the near term after the speedy

rebound.

EXHIBIT 8: The U.S. WTI Oil Futures was extremely volatile in the last quarter

Source: Bloomberg (as at 30/06/2020)

- According to the data from the World Gold Council, global net inflows to gold-backed ETFs reached $39.5 billion in the first half of 2020, which surpassed the previous annual inflow record in 2016. Gold price rallied about 13% in the second quarter and reached to USD 1,800 per ounce level. As the global ultra-low interest rate environment is expected to continue for a longer period of time, the opportunity cost of holding gold is low. In addition, the COVID-19 crisis and the conflict between China and the U.S. may add market uncertainties and reinforce the safe haven status of gold. It is believed that the outlook of gold price remains positive.

Disclaimer

The information contained is for general information only, without warranty of any kind. The information contained should not be regarded as an offer to sell, to subscribe to, or to provide any investment recommendation. Investment involves risks, past performance is not indicative of future performance. Reader should consult their professional financial consultant before making any investment decision.