INVESTMENT INSIGHT OCT 2020

Investment Services Department

Altruist®
Altruist Financial Group Limited
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GET USED TO THE VIRUS; INVEST WITH THE NEW NORMAL

Last quarter market highlights

- *The bullish momentum of the U.S. equities continued in the third quarter. The Dow Jones, S&P 500 and Nasdaq Composite Indexes gained 8.22%, 8.93% and 11.23% respectively.*
- *The Federal Reserve switched to "Average Inflation Target" and reiterated its commitment to dovish monetary policy.*
- *Strong and quick economic recovery was seen in China and the CSI 300 rose over 11% while the CNY appreciated more than 4% against the USD in the past 3 months.*

What has happened in the market?

Although we are encountering the worst global recession since the 2nd World War, the global financial markets seem to be stabilized with the help of extraordinary monetary easing and enormous fiscal stimulus across the globe. Almost all asset prices rebounded since March but there were growing performance divergence among different asset classes in the last quarter.

"New Economies" stocks were still the engine of the rising markets. The share prices of those leading companies in the U.S., like Apple, Amazon, Microsoft, etc, have climbed to all-time high in early September and helped the Nasdaq Composite Index gained more than 10% during the period from June to September.

In Asia, India, Korea, Taiwan and China all posted double-digit returns in the last quarter. Among them, the Chinese A-Shares was the most outstanding as it delivered more than 15% return in USD term. China has largely contained the spread of COVID-19 through several stringent and tough prevention measures, the Chinese economy has quickly recovered and the Organization for Economic Cooperation and Development("OECD") also predicted that China will be the only G20 country with positive economic growth in 2020.

In Europe, the STOXX 600 Index, the benchmark of European stock markets, was almost flat as the number of COVID-19 infected cases surged again after certain relaxation of social distancing measures in the summer time. In South East Asia, although the spread of COVID-19 was generally under control, stock markets in the region underperformed as their economies rely quite heavily on external demand.

Gold price has also climbed to historical high at USD2,063 per ounce in August due to the weakening U.S. Dollar and global ultra-low interest rate environment although it fell back to around USD1,900 per ounce at the end of September. On the other hand, the volatility of oil price was greatly reduced, the WTI Futures price was almost unchanged in the past 3 months after its rebound from the negative zone in the previous quarter.

What's next?

U.S. President Election

The most influential uncertainty in the coming months would be the result of the U.S. Presidential Election on 3rd November. Although the former Vice-President, Joe Biden, is currently polling ahead of incumbent Republican President Donald Trump in key battleground states, the outcome of the election is still highly unpredictable as Hillary Clinton also led nearly every pre-election nationwide polls and in most swing state polls in 2016. In addition, Trump has repeatedly stated that he may refuse to accept defeat in the coming election and it may create further political uncertainty in the U.S.

COVID-19 pandemic

Unfortunately, the spread of COVID-19 has not been slowed down globally and the number of new infected cases in the U.S. and Europe has reached record high recently. We are now in a dilemma situation, as winter is coming, the pandemic will get worse if there are no stricter measures. However, if those measures are imposed, the vulnerable economies will be further weakened. Perhaps only a safe and reliable vaccine can rescue the global economies, however, we still do not know when it will be found.

High valuation of U.S. stocks but some mega-cap tech companies are doing really well

The U.S. stock markets have disconnected with the true state of the economy as the U.S. equity Indexes climbed to all-time high level in the period of economic recession. However, the global economy has transformed to be more technology oriented in recent years and the COVID-19 pandemic speeds up the pace. Those mega-cap tech stocks like Apple, Microsoft, Amazon and Alphabet which represent one-fifth of the market capitalization of S&P 500 Index have benefitted from business lockdowns resulting from the COVID-19 pandemic and their recent earnings results were also outstanding as well.

More fiscal stimulus and longer than expected low interest rate environment

To boost economic recovery, it is believed that more fiscal stimulus will be provided by those global major economies. Besides, as the Federal Reserve shifted the inflation target to 2% in average during the recent meeting in September, it may imply that the central bank will allow consumer price to rise since the average inflation in the U.S. was only 1.5% in the past 10 years and the ultra-low interest rate environment is expected to maintain for a longer period of time.

EXHIBIT 1: The average inflation in the U.S. was only 1.5% in the past 10 years

Source: Bloomberg (as at 30/09/2020)

China-U.S. relationship

It is unarguable that the current relationship between China and the U.S. has deteriorated to the worst time in recent decades. No matter who win the U.S. presidential election, the general direction of the U.S.'s China policy will have little change. However, it is still believed that both countries would like to take economic benefits in a peaceful way. From the recent trade data, we find that the value of China's imports from the U.S. skyrocketed 24.7% to $13.2 billion in September which was the highest level since August 2018. Besides, according to Bloomberg, firms based in China have raised $9.1 billion through U.S. initial public offerings this year, putting 2020 on course for the highest annual total since 2014.

The quick recovery of the Chinese economy

Despite China was the first place to be hit by the COVID-19, in contrast to most parts of the world, it seems that the virus in China has been under control. The latest released GDP recorded 4.9% growth year-on-year in the third quarter as the business and social activities are almost back to normal due to the stringent quarantine policy, a large number of virus testing and health code tracking system which is hard to fully implement in the western world.

In summary, we may need to understand the "New Normal".

- *No one know when the COVID-19 pandemic will end, and we have to live with the virus.*
- *The ultra- low interest rate environment will be much longer than our previous expectation.*
- *The China and U.S. relationship will remain volatile but both countries may still have certain compromise for their own economic benefits.*
- *The influence of China towards global economy is increasing as the economic growth of China has almost returned to the pre-crisis level.*

TABLE 1: Global Stock Markets Performance

	2020 Q3 Return		2020 YTD Return	
Indexes	**Local Currency**	**USD**	**Local Currency**	**USD**
S&P 500	8.93%	8.93%	5.57%	5.57%
Nasdaq Composite	11.23%	11.23%	25.40%	25.40%
STOXX Europe 600	-0.70%	3.53%	-12.58%	-8.74%
DAX	3.65%	8.07%	-3.69%	0.70%
CAC 40	-2.03%	2.14%	-17.90%	-14.29%
Nikkei 225	4.58%	6.86%	-0.36%	2.81%
Hong Kong Hang Seng	-2.62%	-2.62%	-14.18%	-13.74%
Hang Seng China Enterprises	-1.90%	-1.90%	-12.56%	-12.12%
Shanghai Stock Exchange Composite	9.04%	13.45%	7.94%	10.69%
Shanghai Shenzhen CSI 300	11.22%	15.71%	14.25%	17.15%
Singapore Straits Times	-3.54%	-1.48%	-20.65%	-21.83%
Korea KOSPI	10.41%	13.43%	6.38%	5.30%
Taiwan TWSE	10.31%	12.38%	7.75%	11.06%
India SENSEX	9.62%	12.57%	-6.79%	-9.76%
Indonesia JCI	-0.31%	-3.08%	-20.69%	-25.74%
Thailand SET	-7.02%	-9.13%	-19.27%	-23.45%
Russia RTS	-0.34%	-0.34%	-20.85%	-20.85%
Brazil IBOV	-0.48%	-3.58%	-18.20%	-41.70%
S&P Pan Arab Composite	10.40%	10.40%	-4.78%	-4.78%
MSCI World	8.05%	8.05%	2.14%	2.14%

Source: Bloomberg (as at 30/09/2020)

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

	Change in 2020 Q3	Change in 2020
Currencies	**In terms of USD**	
Euro	4.34%	4.53%
British Pound	4.19%	-2.54%
Japanese Yen	2.32%	2.97%
Hong Kong Dollar	0.01%	0.53%
Chinese Renminbi (CNY)	4.02%	2.54%
Australian Dollar	3.75%	2.01%
New Zealand Dollar	2.53%	-1.82%
Singapore Dollar	2.07%	-1.43%
South Korean Won	2.85%	-1.14%
Taiwanese Dollar	1.82%	3.43%
Indian Rupee	2.37%	-3.23%
Indonesian Rupiah	-4.13%	-6.81%
Thai Baht	-2.45%	-5.41%
Russian Ruble	-8.30%	-20.15%
Brazilian Real	-2.53%	-28.15%

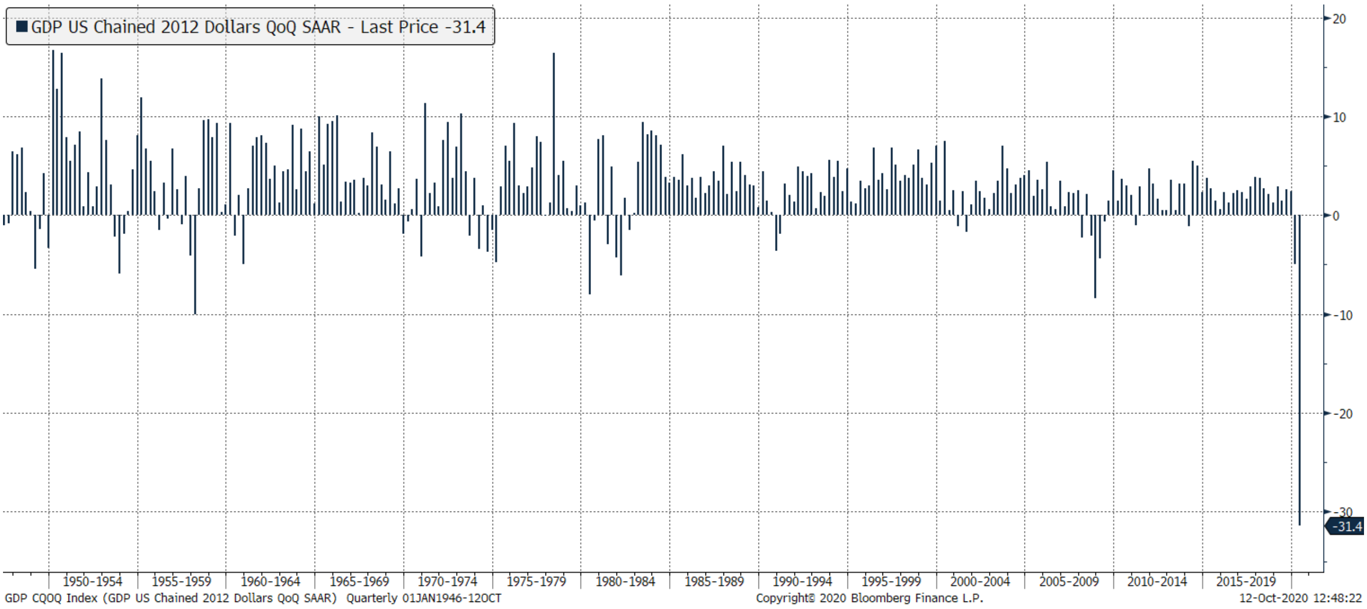
Source: Bloomberg (as at 30/09/2020)

Review highlights and outlook around the globe

United States

- The U.S. economy plunged at a record rate of 31.4% quarter-to-quarter in the second quarter of 2020. However, economists believe that the economy will expand at an annual rate of 30% in the third quarter as businesses have re-opened and millions of people have gone back to work. That would shatter the old record for a quarterly GDP increase, a 16.7% surge in the first quarter of 1950 when Harry Truman was the President.

EXHIBIT 2: The U.S. economy plunged at a record rate of 31.4% QoQ in the second quarter of 2020



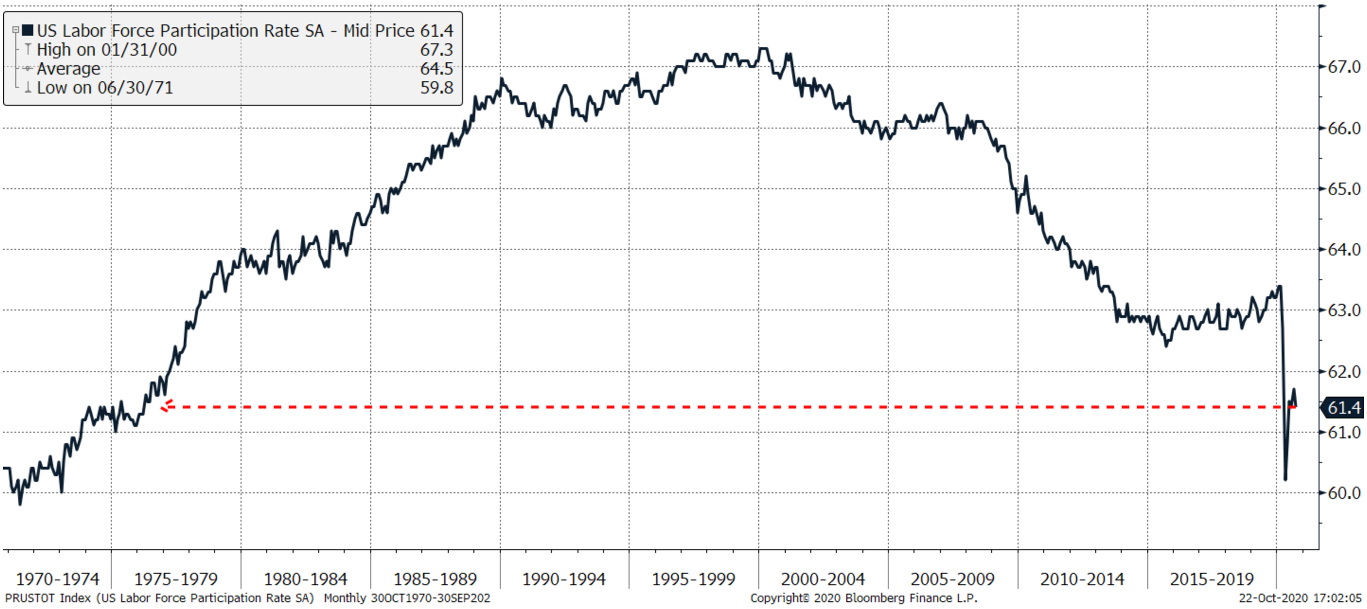
Source: Bloomberg (as at 30/09/2020)

- The ISM Manufacturing PMI slipped to 54.6 in September from 21-month-high of 56 in the previous month. It was the index's first decline since April and fell short of the forecast. At the same time, the service sector also showed improvement as the ISM Services PMI increased to 57.8 which indicated the fourth consecutive months of expansion.

- As the mortgage rates is at record-low, the U.S. housing market is hot, both of the new home and existing home sales volume were at the highest level since 2006 even though the overall economy is still suffering from COVID-19 pandemic. In August, the sales of new home accelerated by 4.8% to annual rate of 1 million units while the existing home sales increased 2.4% to a seasonally adjusted annual rate of 6 million units.

- According to the figure from the Labor Department, the nonfarm payroll rose by 661,000 in September which was lower than the expectation of 800,000 and it was also the smallest increase in jobs since employment started to pick up again in May. In the meantime, the jobless rate fell to 7.9%, dropping for the fifth month, however, the decline was in part driven by a drop in the labor force as roughly 700,000 stopped working or looking for job entirely. The labor force participation rate was 61.4% in September, down from 61.7% a month earlier and lower than any pre-pandemic time since the 1970s. In addition, the unemployment crisis continued to disproportionately affect different races of workers. The unemployment rate for White, Black, Asian and Latino workers were 7%, 12.1%, 8.9% and 10.3% respectively in September.

Exhibit 3: The U.S. labor force participation rate was the lowest since the 1970s



Source: Bloomberg (as at 30/09/2020)

- Based on the policy statement and economic projections of the Federal Reserve in September, it is excepted that the interest rate will be remained at near zero at least through 2023 as the Fed is committed to using full range of tools to rescue the economy after the pandemic-induced recession. The Fed also set new guidance on when it may raise rates, saying it "expects to maintain an accommodative stance of monetary policy until maximum employment is achieved and inflation averages 2% over time." The shift signals the policymakers will allow for periods of greater-than-2% inflation to balance out the slow price growth in recent quarters

- The U.S. Presidential election will be held on 3 November 2020, the former Vice-President Joe Biden, the Democratic party's nominee, is currently polling ahead of incumbent Republican President Donald Trump in key battleground states. However, the outcome of the election is still highly unpredictable as Hillary Clinton also led nearly every pre-election nationwide poll and in most swing state polls in 2016. No matter who wins the election, the new president has to encounter those tough challenges form COVID -19 pandemic and the getting- worse U.S.-China relationship.

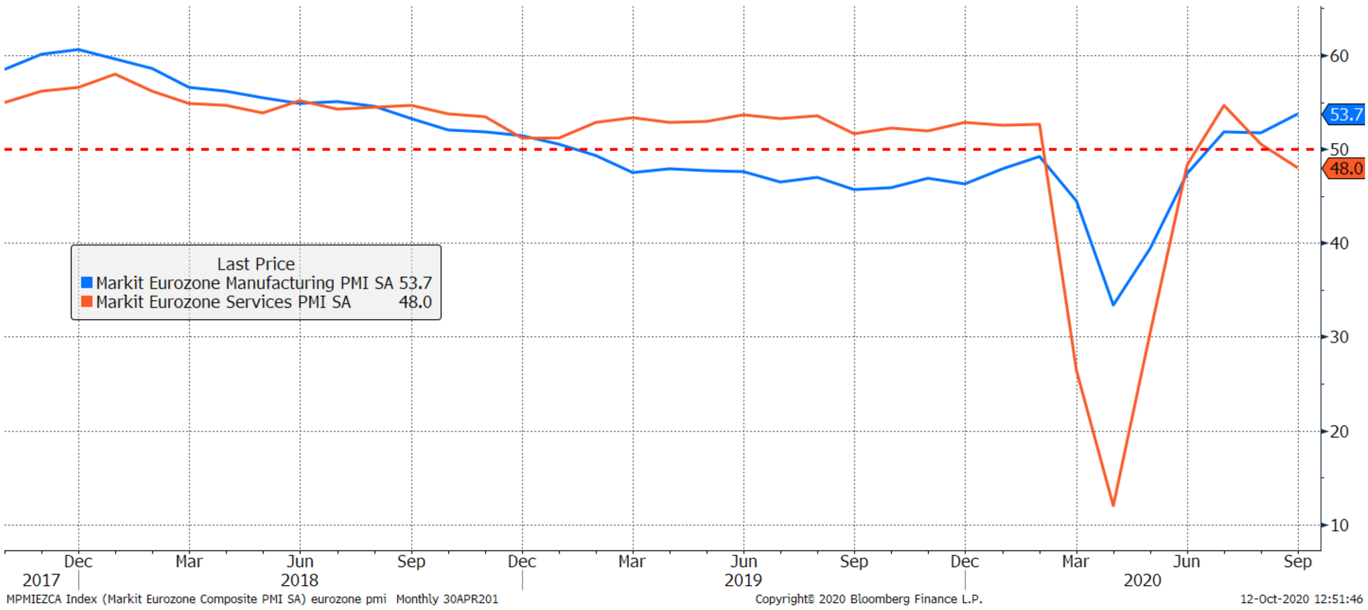
- The U.S. stock indexes continued their rising momentum in the third quarter. Similar to the last quarter, the gain mainly came from those "New Economy" stocks. Although they maintain strong earnings, their valuations are relatively high. Besides, the rising COVID-19 new infected cases and the political uncertainty due to the Presidential election may also add further volatility to the markets shortly. However, since the market has abundant liquidity, market freefall like the one in March this year is unlikely to happen again. On the other hand, aggressive investor may consider increasing exposure if the markets have certain corrections as the U.S. stock markets still have a leading position in global investment.

Europe

- The GDP of the Eurozone shrank by 11.8% while the number of employed persons decreased by 2.9% in the second quarter of 2020 as compared to the previous quarter. While the impact of the pandemic on the employment rate remained relatively moderate due to government support schemes, declines in hours worked were much more pronounced. Hours worked decreased by 12.8% in the eurozone on quarterly basis.

- The Eurozone's private sector growth slowed further towards stagnation in September. The IHS Markit Eurozone PMI Composite Output Index slipped to a three-month low of 50.4, down from August's 51.9 and indicative of only a marginal expansion although the manufacturing sector was still robust.

EXHIBIT 4: The growth momentum of manufacturing and service activities diverged in Europe



Source: Bloomberg (as at 30/09/2020)

- The service sector activity has already slipped back into contraction, the IHS Markit Eurozone Services PMI posted 48, down from 50.5 in the previous month and was the lowest level since May. Among the countries in Eurozone, Spain has been especially hard-hit as rising COVID-19 infected cases led to further disruptions to daily life. With the exception of the March-to-May period at the height of the first wave of infections, Spain's service sector contraction in September was the largest recorded since November 2012. Whether the second wave of COVID-19 infection can be controlled or not will determine the pick-up of the service sector activities in the region.

- The UK’s transition period after Brexit will come to the end on 31 December 2020. However, the European Union (“EU”) and the UK still have not yet agreed the rules for the new relationship between the 2 parties. If there is no new UK-EU trade deal after the transition period, tariffs and border checks would be applied to UK goods travelling to the EU under the rules of the World Trade Organization and the UK could also decide what tariffs and checks to impose on EU goods. Although the negotiation between the EU and UK still go on, it is still uncertain whether the agreement can be reached in time as the UK refused to abandon the controversial provision of its Internal Market Bill. Due to the Brexit uncertainty, the UK Pound has been weakened around 5% against the USD in September.

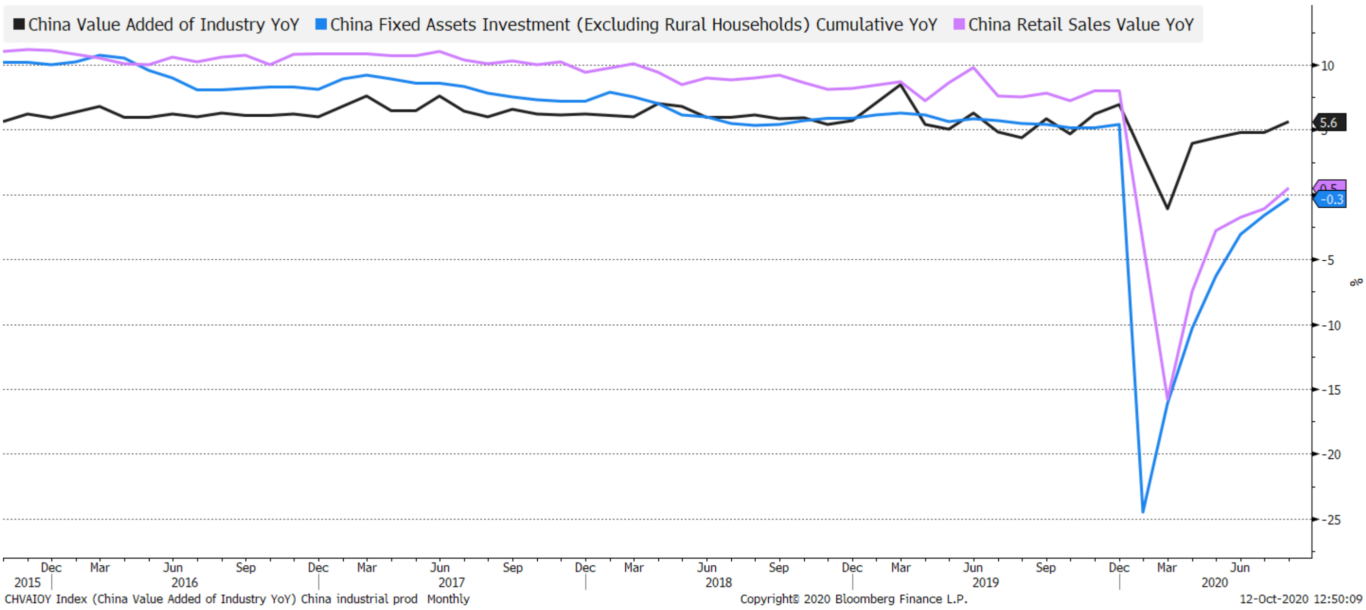
- The STOXX 600 Index, the benchmark of the European stock markets, had little change in the previous quarter as the number of COVID-19 infected cases surged again after certain relaxation of social distancing restrictions in the summer time. Whether the European countries can control the new wave of virus outbreak will be the market focus. In addition, the uncertainty of the trade deal between the EU and the UK may cause further market volatility.

Asia

- China has greatly contained the COVID-19 pandemic, and the economy quickly returned to growth in the April-June period and the momentum continues. In the second quarter, the Chinese economy expanded 3.2% year-on-year and 11.7% as compared to the previous quarter.

- Several economic indicators in China improved. The retail sales rose 0.5% from a year ago in August which was the first time of growth since the outbreak of COVID-19. Factory also stepped up production, the country's value-added industrial output went up 5.6% year-on-year in August, marking the fastest gain in eight months. China's fixed-asset investment edged down 0.3% as compared to last year during the January-August period, with the decline narrowing from the 1.6% drop seen in the first seven months.

EXHIBIT 5: The Chinese economic activities rebounded



Source: Bloomberg (as at 30/09/2020)

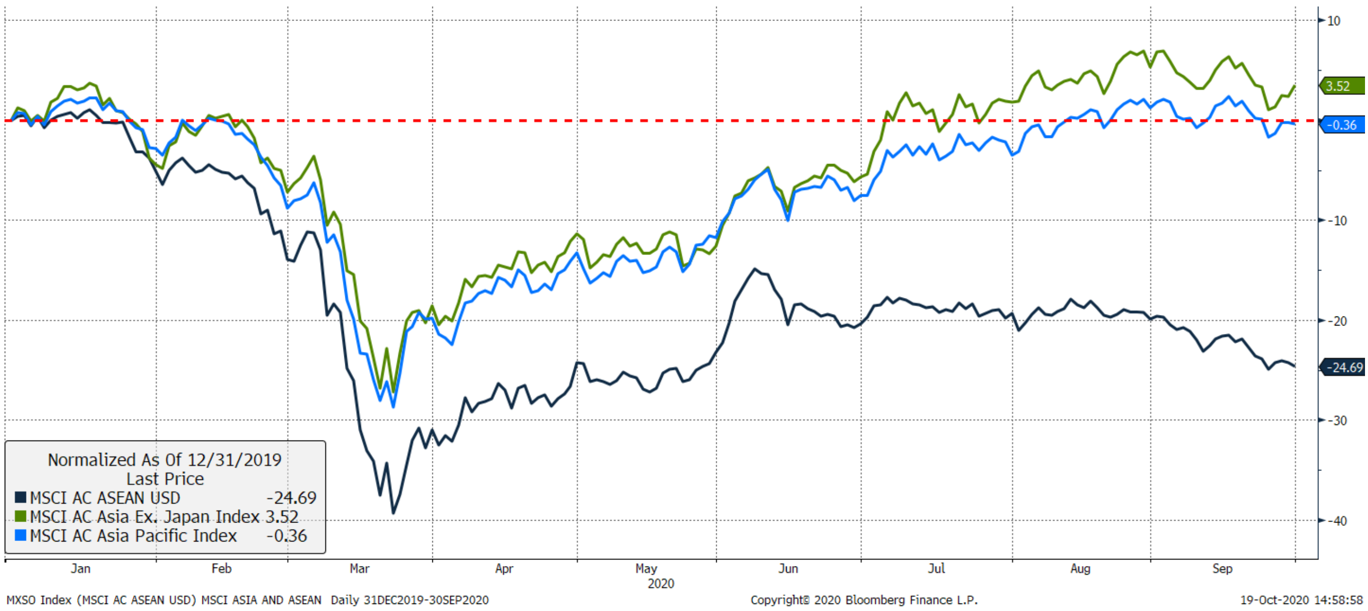
- Japan suffered its biggest economic slump on record in the second quarter, but the economy has sign of recovery recently after the Bank of Japan expanded stimulus in March and April by ramping up asset buying and creating a new lending facility to ease corporate funding strains. According to the data of Cabinet Office of Japan, the index of coincident economic indicators, which measures a range of data including factory output, employment and retail sales numbers, rose a preliminary 1.1 points from the previous month to 79.4 in August and the Japan Government has upgraded its assessment of the economy on for the first time since May 2019. The improved economic outlook may offer certain relief for the new Prime Minister Yoshihide Suga, who has pledged to contain the coronavirus outbreak and revive Japan's crashed economy.

- According to the data released by the Ministry of Trade, Industry and Energy, South Korea's exports jumped 7.7% year-on-year to US$48.05 billion in September as demand from major economies was recovering. This was the first rebound in exports since the beginning of the COVID-19 pandemic and was the highest figure since October 2018 as well. Besides, imports rose 1.1% to US$39.17 billion over the same period. The trade surplus reached US$8.88 billion, which was the largest in the past 2 years. As the recent released economic data in Korea was improving, the OECD revise the GDP projection recently and forecasted that South Korea economy would merely contract 1% in 2020, the second-best performer among major economies behind only China.

- Comparing to the Western countries, most of the Asian countries has successfully controlled the spread of COVID-19. Besides, it is believed that the prompt economic recovery of China will benefit the economy of other Asian countries and the investment outlook of Asia stock markets look more attractive.

- In addition, Asean market used to be the investment darling as they always represent growth and yield in the mind of investors. However, the MSCI Asean Index is down more than 20% this year which is significantly underperformed other Asia stock markets. If investors who are aggressive and looking for the investment opportunities of global economic recovery in the future, the underperformed Asean stock markets may be one of the good choices.

EXHIBIT 6: The Asean equity market underperformed in 2020



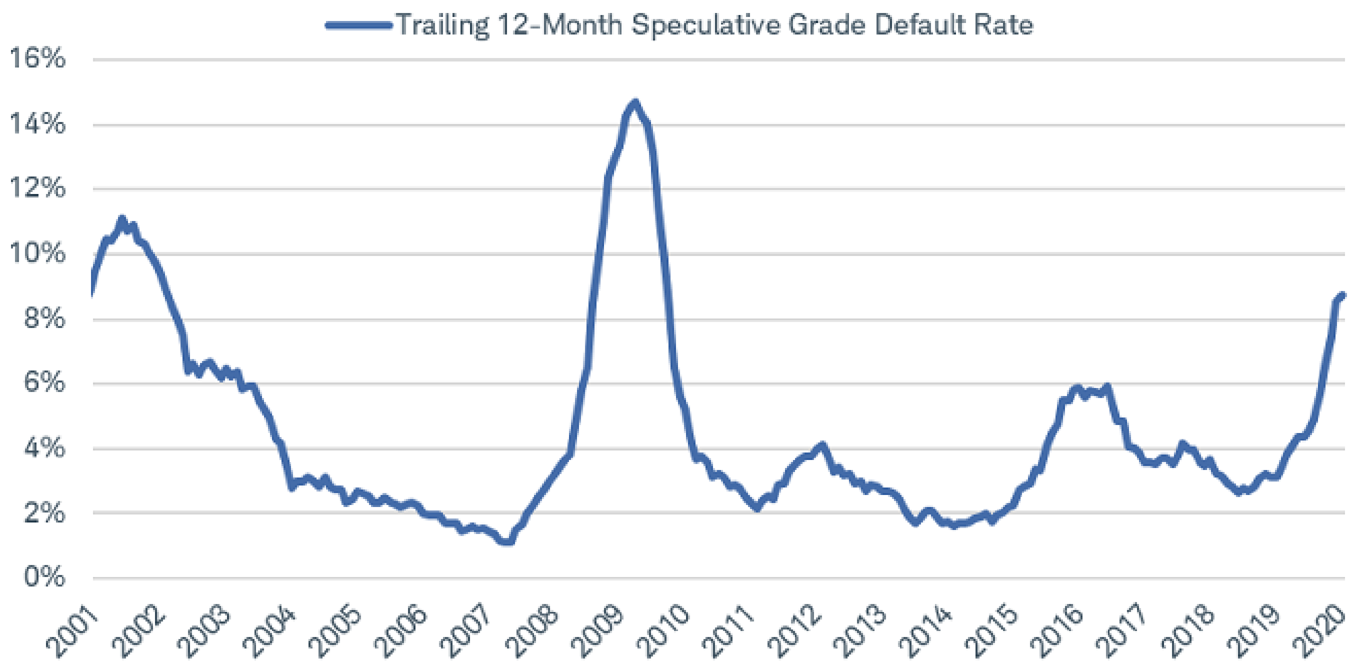
Source: Bloomberg (as at 30/09/2020)

Fixed Income

- Due to the Fed's accommodative monetary policy and the tightening risk premiums, the issuance of U.S. high-yield bond reached to $345.6 billion for 2020 through 7th October, marking a new annual record for the asset class and exceeded 2019's full-year sum of $272.6 billion according to the data from S&P Global Market Intelligence. In addition, the average new-issue yield was 6.12% in 2020, which was less than the 6.60% average in the previous year and on track to set a new record-low borrowing costs as well.

- As of 30 September 2020, the Bloomberg Global High Yield Bond Index has rebounded more than 25% since the massive sell-off in March and almost recovered all the loss this year. However, according to the Moody's Investors Service, the trailing 12-month speculative-grade default rate rose to 8.7% in August, more than double the rate from just one year ago. Although the average yield of high yield bond is still close to around 6% and offer investors an opportunity to earn more income in the current ultra-low interest rate environment, investor should also be aware of the potential downside risk. A diversified fixed income portfolio that invest across a wide range of bonds with different credit quality and categories would be a more preferable investment approach.

EXHIBIT 7: The default rate of speculative-grade fixed Income was rising



Source: Moody's, "Default Trends – Global August 2020 Monthly Default Report," September 9, 2020.

Commodities

- OPEC and some major oil and gas companies issued reports on the outlook of oil demand recently. OPEC expects global oil demand will exceed the pre-pandemic levels in 2022 and grow steadily until the late 2030s when it will begin to plateau while Total SE also predicted oil demand growth will end in 2030. On the other hand, BP claimed that the demand may have already been peaked in 2019.

- COVID-19 pandemic has suddenly halted a lot of global economic activities and the Oil Future price has even fallen into the negative zone in the second quarter. In the long term, it may have a long-lasting impact towards consumer behavior, like a shift to homeworking and teleconferencing over commuting, as well as a move to electric cars. COVID-19 may accelerate the timeline for the peak of oil demand, and it would be a negative factor for the oil price.

- The gold price reached an all-time high on 6th August, rising by 35% since the start of 2020 and 40% from the March lows. After that, the gold price dropped over 8% at the end of September. Since the Fed will maintain the accommodative monetary policy in the coming few years and the new U.S. stimulus package is very likely to pass no matter who wins the U.S. President. Looking ahead, the USD dollar may remain weak and it will provide a further upside potential for gold price in the future.

EXHIBIT 8: Gold price fell more than 8% after reaching all-time high

Source: Bloomberg (as at 30/09/2020)