智盈 多元资产绝对收益策略
Plutus Multi-Asset Absolute Return Strategy (MARS)

SERESIA

Investment Outlook – 1Q 2020

SUMMARY – As this round of growth deceleration ended in 3Q19, we expect to see a mild improvement in corporate earning into 1Q 2020, supported mostly by fiscal stimulus and incremental monetary easing. Global macro backdrops remain support at least in the foreseeable future. Thus we expect Chinese equities to deliver positive returns after a descent 4Q 2019. We prefer larger industry leaders over mid- or small-cap stocks at this early stage of market recovery. Valuation dispersion between growth and value stocks are narrowing slightly as earning risk have been re-priced. After being laggards to HSI and HSCEI in 4Q19, we expect A-shares to outperform into 1Q 2020. Among Financials, Chinese developers have become crowded trades and we prefer big-cap Non-bank Financials over Banks. We also like Materials and Discretionary Consumer stocks in China that will benefit from the economic recovery. Tech Hardware and e-Commerce stocks have done well in the last few months of 2019 and we would be more selective ahead.

Business Cycle & Macro Backdrops

Business Cycle – We believe the Chinese economy and corporate earnings have bottomed in 3Q19 and there are emerging signs of recovery or at least stabilization in many economic segments. Looking ahead, we expect a mild growth acceleration would be in place in early 2020 amid the improvements in manufacturing sectors and housing construction, as well as the new fiscal stimulus that will be in place.

Fiscal policy - Policy makers in China continue to rely mainly on tax cuts and infrastructure spending as the key measures to support growth. More details on new infrastructure spending into the New Year will help to restore confidence and boost the once sluggish FAI. Thus, we believe the overwhelmingly consensus view of a slower 1H 2020 GDP growth in China may be proved too conservative in time.

Monetary policy - Incremental monetary easings have started since Sep with RRR cuts and liquidity injection, as well as small reductions in MLF and LPR. Real estate tightening has also been loosened selectively in many tier-2/-3/-4 cities given the struggling fiscal position of local governments and lenders. Nevertheless, we believe China monetary policy remain too tight to drive any substantial growth improvement and remain cautious on the medium-term outlook of China's credit market.

Business Cycle & Macro Backdrops (cont.)

External Backdrops - Phase 1 of Sino-US trade deal was principally agreed despite the risk of a dumpy road of enforcements in the coming months. Global trade deceleration also halted in late Summer and the JPM Global PMI has rebounded since Sep. Meanwhile, Rmb has also staged a steady recovery from its August low against USD. While we see short-term USD weakness as investors become less risk averse, we would like to flag the dark clouds in the distant horizon. First, the Sino-US trade war truce could be short-lived once the US Presidential Election machine run into full speed next Summer. Moreover, the medium-term impacts of Brexit are still relatively unpredictable.

Yield curves - While US yield curve have steepened in the past 3 months or so, China long bond yields are laggard behind the increases we saw in most developed market yield curves. Nevertheless, as more high frequency data continues to show improvement in Jan/Feb, we believe long bond yields in China to climb steadily, which will support the performance of more cyclical sectors especially in the A-share market.

Earning outlook - This 6-quarter long earning deceleration for Corporate China should have ended in 3Q19. Industrial profitability growth has stabilized in 4Q19 and we see rising earning upside risk on more cyclical counters into early 2020. However, we still have low visibility for the sustainability of this growth improvement because the economic and political factors we mentioned above.

Valuation - Overall, A-shares and HK stocks are climbing from the lower end of the historical trading bands (PE/P/BV, dividend yield basis). Global and China growth acceleration and the Sino-US trade truce should push the market valuation up especially as positive earnings revisions trend kick in. Valuation dispersion between growth and value stocks are narrowing slightly as earning risk have been re-priced. Certain deep valuation counters have started to perform since Nov/Dec, a trend we believe would continue into 1Q 2020.

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Tactical Allocation – 1Q 2020

Stock attributes matrix - The previous growth bias, that we had in Sep/Oct, was replaced by an increase in weighting towards China financials and large-cap value stocks in Nov/Dec. We continue to prefer larger industry leaders over mid- or small-cap stocks at this early stage of market recovery. But we also see selected opportunity for mid-cap alpha plays as positive earnings growth revisions accelerate into the New Year. Having said that, when we consider compare companies within the same counter, we still prefer companies with the ability to generate strong free-cashflow and low gearing level among peers, given the lack of meaningful monetary easing. Going forward, we do acknowledge that earnings revisions shall become more important return driver than low-gearing or strong cashflow position.

Investment Attributes (as of 13 January 2020)

	Underweight		Neutral		Overweight	Change
SECTOR						
Technology					⑤	↑
Financials				④		
Real Estate			③			↑
Communication Services		②				↓
Consumer Discretionary			③			
Consumer Staples		②				
Energy & Materials		②				
Industrials		②				
Utilities	①					↓
Healthcare	①					
STYLE						
Large Gap					⑤	
Mid Cap		②				
Growth					⑤	
Value			③			
Interest Rate Sensitive				④		↑
Cyclical			③			
Income			③			
Defensive	①					↓

** ① being most Underweighted and ⑤ being most Overweighted*

Tactical Allocation – 1Q 2020 (cont.)

Sector Allocation – Tactically, there is an implicit assumption of a risk premium reduction and/or valuation mean reversion expected for the next few months. After lagging behind HSI and HSCEI in 4Q19, we expect A-shares to outperform for the most of 1Q 2020. Among Financials, Chinese real estates are crowded trades and we like big-cap non-bank financial stocks such as insurers and brokers relative to banks and developers. We also prefer discretionary consumer stocks that will benefit from the economy improvement over those over-priced and over-owned consumer staples and F&B growth names. Tech hardware and e-commerce stocks have done well in the last few months of 2019 and we would be more selective ahead. Finally, we see good value on some overlooked and even well-hated material stocks and expect good alpha from them as earning outlook and risk appetite improve.

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