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

SERESIA

Investment Outlook – 3Q 2020

SUMMARY – Pro-growth economic policies in major economies already in place combined with the quick and vast fiscal and monetary responses to the coronavirus crisis should help the global economy rebound once the pandemic is under control later this Summer. Our base case remains for a successful virus containment and an improving global economy later this Summer, low inflation and growth fear will allow the central banks to remain accommodative in the foreseeable future. We think US$ assets are over-owned and an extended period of relative outperformance of US$ assets could be coming to an end. As evidences of growth acceleration emerge, Chinese equities are likely to be re-rated. We have seen early evidences of an economic recovery from China and expect more supportive datapoints in May both in term of magnitude and breath of growth acceleration relative to the rest of the world.

Business Cycle & Macro Backdrops

Business Cycle – The lockdowns and halts in economic activities in China caused by the COVID-19 outbreak has created a temporary and sharp cyclical trough for this 2-year long growth deceleration. We believe the Chinese economy and corporate earnings have bottomed in 1Q 2020 and there are emerging signs of recovery or at least stabilization in many economic segments starting March. Looking ahead, we think a mild growth acceleration would start in 2nd quarter amid a sharp recovery in manufacturing sectors and the gradual acceleration in infrastructure and housing construction activities. The recovery momentum would gradually improve over the Summer as other segments of the economy benefit from macro stimulus and higher private spending.

Fiscal Policy - Policy makers in China continue to rely mainly on tax cuts and infrastructure spending as the key measures to support growth in 1Q. More details on new government stimulus should be announced after the “Two Session”, which will help to restore confidence and boost the still sluggish private sector spending. We think infrastructure investment spending for 2020 should be made large enough to hedge against external demand weakness and domestic employment pressures. In particular, the new infrastructure in seven major areas, such as 5G, cloudputing, etc could help lifting short-term growth as well as boosting the longer term productivity of the Chinese economy.

Business Cycle & Macro Backdrops (cont.)

Monetary Policy – Since last September, we had seen incremental monetary easing 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 since 4Q 2019. Despite the economic challenges imposed by virus outbreak, we believe current monetary policy has not be accommodative enough to support any substantial growth improvement into early 2Q. But there are plenty of rooms for PBoC to adopt more aggressive policy including more interest rate cuts and further liquidity injection, especially as the headline inflation is likely to fall along with lower PPI, and food/energy prices. In short, we shall see money supply and credit growth to accelerate this Summer to boost China’s medium-term growth outlook.

External Backdrops – The Fed opened-ended QE plus the aggressive easing by other major central banks around the world have made the co-ordinated easing in 2008 like an atomic bomb as central bankers go nuclear recently. But monetary policy cannot fix a health crisis and tail risks on global growth remain as many developed countries plan to end lockdown gradually. The upcoming presidential election may make it harder for US policymakers to strike a conciliatory tone on China given the negative public opinion. So, there are still plenty of uncertainty regarding China’s external demand ahead.

Yield Curve – Unlike most developed markets, China yield curve seems to be a lagging economic indicator. Since most high frequency data have bottomed in February, we are looking forward for a steepening yield curve to confirm this recovery that many investors remain skeptical with. We expect long bond yields will climb steadily for May/June, which will support the performance of more cyclical sectors.

Earning Outlook – Earning deceleration for Corporate China should have bottomed in 1Q 2020 as the nationwide lockdowns ended and we shall see rising earning upside risk on more cyclical counters into Summer 2020. But visibility for the momentum and the breath of this earning recovery remains low now. After the forthcoming “Two Session” in late May and we can have better assessment on the macro stimulus available and the pace of recovery into 2H 2020. Thus we would be restrained from paying high valuation premium for cyclical stocks unless we get a better sense of when more normalized earnings will be achieved by 2H 2021 or beyond.

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Business Cycle & Macro Backdrops (cont.)

Valuation – After the rally since the stock market low in March, A-shares and HK- and US-listed Chinese stocks are just off the lows from the lower end of the historical trading bands (PER, P/BV, dividend yield basis, etc). The lack of high quality big-cap growth stocks in China would put a lot of weight on the reliance on positive earning revisions to drive the re-rating of Chinese equities. Thus, great value remains a necessary but not sufficient condition to trigger a re-rating for Chinese equities. In the short-term, valuation dispersion between growth and value stocks should but we expect it to narrow later this Summer as earnings risk will be re-priced.

Investment Views & Quarterly Adjustments

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

** ① being most Negative and ⑤ being most Positive*

Tactical Allocation – 3Q 2020

Stock Attributes Matrix – The outbreak of COVID-19 virus has triggered a portfolio re-allocation back to a growth bias stance and a preference over industry leaders in time of uncertainty. But we also see great long-term value among Financial stocks and decided to adopt a "Barbell Approach" for our portfolio construction since January. Even as the stock market has rallied off the low in March, we continue to prefer larger industry leaders over mid-cap stocks at this early stage of stock market recovery. But we also see selected opportunities for mid-cap alpha plays as positive earnings growth revisions accelerate later into 2Q 2020.

Sector Allocation – We continue to overweight large-cap Chinese Financials and Technology leaders. Property loosening measures and lower rates could lead to stronger than expected primary sales in 2Q, which will be the catalyst needed for mainland Developers' relative performance. We also like Energy stocks amid the aggressive global supply-side responses and the potential of a demand recovery into 2Q as lockdowns will gradually end. Infrastructure and construction companies should also benefit from the accelerating fiscal spending to fill the spending shortfalls of private sectors. From the coming "Two Sessions", we could see more supportive measures and stimulus to boost household spending, which would benefit both Discretionary Consumption stocks. The outlook for Industrial Commodities should improve but we would remain selective and focus on counters that offer attractive long-term risk-return trade-off. Once we have more concise market signals and actual macro evidences of growth acceleration, we will slowly add onto mid-cap growth and cyclical stocks.