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 – The business cycle is playing out as it typically does. A new bull market in stocks (and credit too) has led the economic recovery and is born from the depth of despair in March when it seems all hope is lost with economic data at its worst, financial conditions tightest, and market volatility at extremes. While enormous liquidity and record low rates have lifted valuation, growth stocks have led early recovery trades as investors still shy away from pro-cyclical exposures. The huge valuation dispersion between Growth and Value does signal long-term opportunity for value investors. In China, macro policy easing last quarter have facilitated a board-based economic recovery. But there is still plenty of room to roll out more fiscal and monetary stimulus. Looking ahead, more evidences of growth/earnings acceleration will support Chinese equities further and could reverse the negative outflows of China funds we saw in 2Q20.

Business Cycle & Macro Backdrops

Business Cycle – As China gradually ended the lockdowns in Feb/March, the post-pandemic recovery was in full swing in 2Q and overall economic activity has entered the positive territory on a YoY basis. We are surprised by the strength in manufacturing and export activities so far given the weak global growth. Moreover, Infrastructure FAI has posted double-digit YoY growth on government stimulus and Property FAI has picked up significantly, consistent with anecdotes of local easing measures in certain cities. But hard-hit sectors such as restaurant and leisure industries remain the weak links. The financial stress of SMEs will also suggest the needs of more policy supports.

Fiscal Policy – The government continues to rely mainly on tax cuts and infrastructure spending as the key measures to support growth. Augmented fiscal deficits (which also incorporates special bond issued by the government) reached 17% of GDP in May/June amid strong local debt issuances, property market policy was selectively loosened in several cities, and more capital market reform/liberalization measures have been introduced. While the post COVID-19 spending has pushed the fiscal deficit to a historic high, there are still doubts that a bigger stimulus package would be necessary after China experienced an unprecedented 6.8% YoY contraction in its GDP in 1Q20. Given the high national saving rate and a reasonable government debt level, we believe there is still plenty of room for China to roll out more fiscal stimulus measures in the coming months.

Business Cycle & Macro Backdrops (cont.)

Monetary Policy – The PBoC has vowed to provide on-going accommodative monetary policy necessary to support the economic recovery. But the concern is that policy makers could become a little complacent about the rebounds in economic activities seen in 2Q and policymakers may prefer waiting for the credit and fiscal stimulus to find its way to the real economy before taking the next step. While policy rates in other countries either stayed at low levels or were cut further recently, China's SHIBORs increased notably in June, with the PBOC focusing on more targeted approaches such as encouraging lending to SMEs. This perceived pause in more broad-based monetary policy easing have confused the market recently and continue to weigh on the performance of interest rate sensitive counters.

External Backdrops – The Fed opened-ended QE plus the aggressive easing by other major central banks have provided enormous global liquidity since March. We believe the severe shortage of US dollar should be over and the crisis management phase of central banking is replaced by incremental long-term easing. Looking ahead, USD may weaken as US economic recovery is likely to lag behind many other regions and investors start to question on how the US government will finance the recent surge in fiscal deficits. While the global economy are recovering, the path could remain bumpy and Chinese exports growth could disappoint in 3Q20.

Yield Curve – While sovereign bond yields in China have gone up significantly since May, the yield curve has flattened in recent weeks. We believe lower interest rates remains necessary to prevent credit growth from slowing again later this Summer. Besides, the supply pressure of government bonds remains large in the coming months. Therefore, the PBoC may have to cut RRR further since an ample liquidity condition is necessary to encourage banks to take up the flood of policy bank bonds.

Earning Outlook – After more than 2 years of deceleration, consensus earnings revision trend are stabilizing, and the latest industrial profits growth of +6.0% YoY for May has confirmed that trend. The key message is that the worst of negative earning downgrades for Corporate China is behind us. The question going forward is the momentum of positive earnings revision and when/how that would impact the rotation away from over-owned Growth stocks into Value/Cyclical plays.

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Business Cycle & Macro Backdrops (cont.)

Valuation – Despite the rally in Chinese equities last quarter, valuation are still below the means on historical trading bands (PER, P/BV, dividend yield basis, etc). As the worst of the earnings downcycle has come to an end, we see good potential for mean reversion for Chinese equities as risk premium falls along with the economic recovery. While domestic liquidity condition may not improve much last month given the relevancy of more aggressive monetary easing by the PBoC, we believe foreign fund flows will sooner or later return to Chinese equities (after aggressive sellings last quarter) and Yuan amid improving relative growth outlook for China and an emerging surplus of US$.

Investment Views & Quarterly Adjustments

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

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

Tactical Allocation – 3Q 2020

Stock Attributes Matrix – The slowdown in the global and Chinese economy in 2019 and the outbreak of COVID-19 virus early this year has facilitated the on-going outperformance of Growth stocks. As we saw some material mis-pricings in many Value counters, we have adopted a "Growth plus Financials" Barbell-Approach of portfolio construction early this year to take advantage of a potential post-pandemic V-shaped recovery. While this have served us well in the 1H20, the valuation dispersion between Growth and Value stocks were at extreme historical levels towards the end of June. We believe this is the right point of the stock market cycle to expect relative outperformance of Value/Cyclical plays against over-owned Growth stocks. Thus, we have trimmed our Growth stocks exposures to a NEUTRAL stance in favour of some under-appreciated Value and Cyclical industry leaders as Size does matter until the breath of the stock market rally improves further.

Sector Allocation – We are overweighting large-cap Chinese Financials by adding positions on Brokers and Insurance stocks and are looking to increase weighting on Banks, especially if the PBoC eases further in July. We continue to like Energy stocks amid the aggressive global supply-side responses and the potential of a demand recovery into 2H20 as lockdowns in many DM economies will gradually end. While we are convinced that Basic Materials and Consumer Discretionary stocks will benefit from further economic recovery this Summer and beyond, we would remain selective and focus on counters that offer attractive long-term risk-return trade-off. We are underweighting Defensive/Utilities and F&B counters at the moment but would also consider distinct value/mispricing opportunities on quality big franchise names.

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