Market Outlook 2017

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Financial Market Outlook 2017

- Equities
  - Still overweight US Equities in first half of 2017 but tend to be more selective and cautious as valuation is not cheap.
  - We remain neutral in Hang Seng Index amid Shenzhen-HK connect scheme and RMB depreciation
  - Dividend stocks may come under pressure from higher bond yields, we prefer companies that can sustainably grow dividends.

- Bonds
  - We prefer shorter-duration fixed income products and underweight sovereign debts.
  - We overweight investment grade corporate bonds in the Eurozone, UK and US.
  - We find EM debt attractive but have become more selective.

Financial Market Outlook 2017

- Foreign Exchange

  - US Dollar will remain strong but with a slower pace of appreciation.
  - RMB depreciation will continue after inclusion in the SDR, target an average of 3%-5% rate next year.
  - GBP and EUR will remain weak and spread may narrow to below 10% (Spread before Brexit ~ 30%)

- Commodities

  - Gold will consolidate at above $1200/oz, price will depend on the strength of US Dollar.
  - WTI Crude Oil will range bounce at between $40-$60, expect deadlock in OPEC meeting.

Key Equity Themes

- New Material
  - Graphene [Dongxu G-King Battery, 000413.SZ] (light, durable, high capacity energy storage and shorter charging times)
- FinTech
  - Ant Financial (Valuation at US$60b, Alipay expands globally before IPO)
- VR and AR Hardwares
  - Nvidia [NVDA] (Drive PX2, Autocruise Driving and HD Mapping)
- Gaming and Entertainment
  - Tencent [0700.HK], NetEase [NTES], Galaxy Entertainment [0027.HK]
- Cloud Business
  - Amazon [AMZN], Microsoft [MSFT]
- High and Consistent Dividend Play
  - Overseas REITs (Singapore, Australia, Canada)

Key Market Focus

- US Presidential Election (Nov 8)

❖ **Our view on US election**

▸ We see a 65% probability of a Clinton win, with a 35% probability of a Trump win.

▸ We see a high probability that either the House, Senate or both may remain Republican even if Clinton wins the White House.

▸ The likelihood of a change in both the House and Senate to a Democrat majority could be just 10% to 20%.

❖ **Market Implication:**

▸ Clinton win would be viewed favorably by markets as the status-quo result.

▸ Markets have partially priced in a Trump victory – recent higher bond yields, volatility in the US stock market

▸ A Trump win would likely spark much more financial-market volatility

Latest Election Polls 2016

Updated 7 hours ago

Updated daily as new polls are published. Sign up for updates

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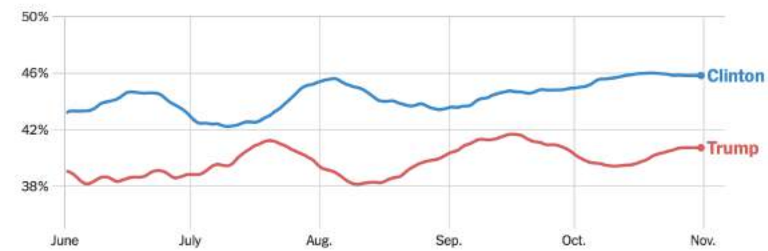
National Polling Average

Hillary Clinton 45.8%

Donald J. Trump 40.7%

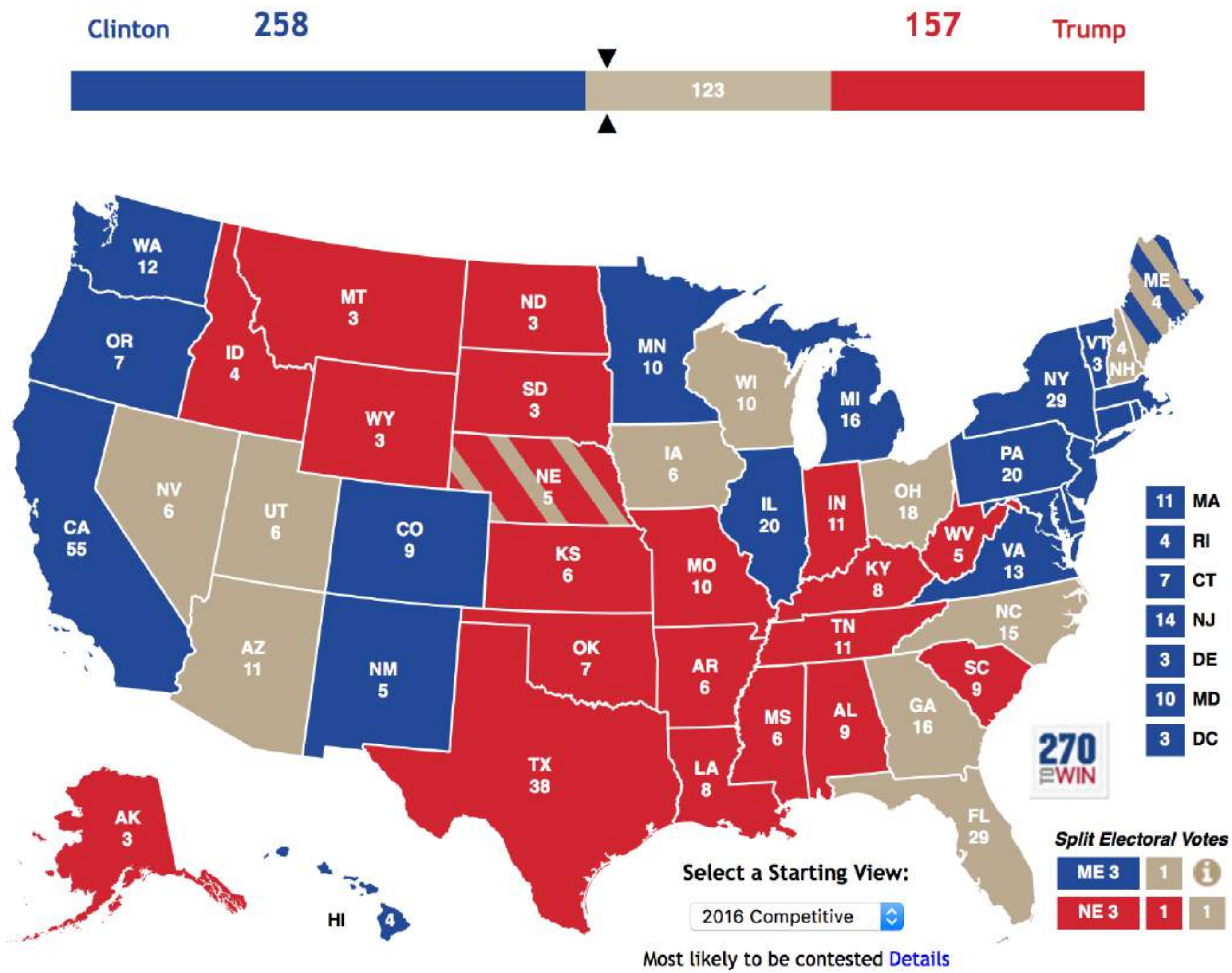
Upshot Forecast: Hillary Clinton has a 90% chance to win →



Polls	Dates	Type, Respondents	Clinton	Trump	Margin
IBD/TIPP NEW	10/24 - 10/29	Live Phone 1,039	44	42	Clinton +2
ABC News/Washington Post NEW	10/25 - 10/28	Live Phone 1,160	46	45	Clinton +1
Rasmussen	10/25 - 10/27	I.V.R./Online 1,500	45	45	Even
Lucid/The Times-Picayune	10/25 - 10/27	Online 875	43	40	Clinton +3
YouGov/Economist	10/22 - 10/26	Online 1,209	46	41	Clinton +5
Saint Leo University	10/22 - 10/26	Online 1,050	45	34	Clinton +11
UPI/CVoter	10/20 - 10/26	Online 1,363	49	47	Clinton +2
Fox News	10/22 - 10/25	Live Phone 1,221	44	41	Clinton +3
ABC News/Washington Post	10/22 - 10/25	Live Phone 1,135	48	42	Clinton +6
Pew	10/20 - 10/25	Live Phone 2,120	46	40	Clinton +6

Source: The New York Times

Presidential Election Map – It will take 270 electoral votes to win the election



Presidential Election – Market Implication

	Trump wins		Clinton wins	
USD	+	It could be positive for USD in short to medium term if fiscal expansion plans are not blocked and/or if profit repatriation flies. Long term less so if the US net asset position is worse.	-	A sideways to slightly lower USD is likely.
US Equities	-	Negatives from stronger USD, greater uncertainty and higher risk aversion. Defence and Infrastructure sectors likely to benefit from increased spending. Healthcare may suffer.	+	Financial markets likely to respond more favourably given greater certainty and more moderate views. Healthcare may suffer.
Rates	-	Fed may hike rates if growth rises in the short term. However, expect sustained or lower rates given slower growth eventually.	+	Status quo. Fed likely to continue gradual unwind of loose monetary policy.
Credit	-	Fiscal expansion may raise risk free returns and lower spreads.	+	Credit may continue to offer decent volatility adjusted returns.
Commodities (Gold)	+	Uncertainty could see $1400+ with implied volatility unusually elevated and remaining so.	-	Sideways to lower gold prices, target $1250 in 2017.
EM growth, assets and currencies	-	Hurt by strong USD, higher bond yields, rising protectionist measures and risk aversion. Mexico and China are likely to be most affected on the trade front. Russian assets and RUB may benefit if US sanctions are lifted.	+	Relatively dovish Fed, slightly lower USD, and gradual improvement in EM fundamentals.

Source: Citibank

Risk and Opportunity

- Risk of hard Brexit could complicate BoE decision, Mark Carney’s stay is crucial.
- More referendums of other EU member countries (Italy, Dec 4th).
- As Shenzhen-HK connect scheme announced, doubts grow on exchange links.
- Chinese debt and property bubble are causing market worries.
- Investors warn of greater volatility from liquidity problems.
- More regulations in financial institutions.
- Investors have accepted that we are in low-growth, low-inflation environment.

Thank You !

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