Monthly Bulletin

Interest rate hikes and global liquidity

At the moment, the market assigns less than 10% probability to a Fed interest rate hike before June 2019 – in fact, the market expects a cut by the end of 2019. In our view the US economy is growing strongly, and inflationary pressures will continue to feed into it. If US growth remains strong going into 2019 and the Fed's dot plot remains unchanged, US Treasury yields will trade higher and put additional pressure on global liquidity in 19H1. The ECB quitting its QE is also impacting liquidity, though we don't expect an interest rate hike in 2019. Overall, we expect to see a certain degree of liquidity drain across developed and emerging markets ex China in 19H1. China is a different story; regulation on shadow banking triggered a credit squeeze in 2018, but growth slowdown will mitigate the impact by reducing financing demand. For China, we believe the worst is behind us. We expect to see the end of the Fed's hiking cycle and a global slowdown in 2019, which could be good news for emerging markets. Within EM, we currently favour emerging market bonds over equities.

U.S.- China trade talks

We think both sides need an agreement to be reached. We expect to see more constructive dialogue, and an agreement on matters like opening-up of the Chinese economy, and market-oriented as well as SOE reforms. However, we still expect the US – China relationship to have a bumpy road ahead medium to long term, as the upgrade of China's industrial capacity will continuously challenge US leadership in high-tech sectors.

Chinese assets remain underpriced

Looking at valuations, the Chinese stock market is close to its historical lows, and we believe that the market is overpricing a 2019 slowdown. We see a cyclical slowdown in 2019, as structural problems were brought under control during the 2016-2018 supply-side reform - especially the excess capacity problem in certain industries. We therefore expect an earnings drop that will be less detrimental than that of 2014-2015. Medium to long term we are optimistic on the equity market. On the other hand, we expect China's credit profile to deteriorate to some degree, fixed income having had gains in 2018. We therefore remain cautious on the fixed income market.

2nd Floor | 75 King William Street
London EC4N 7BE

+44 203 617 5260

marketaccess@chinapostglobal.co.uk

www.chinapostglobal.com

2nd Floor | 75 King William Street
London EC4N 7BE

+44 203 617 5260

marketaccess@chinapostglobal.co.uk

www.chinapostglobal.com

China Post Global

Market Access
Exchange Traded Funds