Fund Manager Perspective

September 2018

Stock Market

The redemption and stop-loss funds have continued to withdraw from the market. The market continued to look for its own bottom level and initially stabilized in late September. In the first week of October, with the US interest rate hike and the rising oil prices, the US stock market dropped significantly, driving the global stock market to go down, which will act as another test for the bottom level of the Chinese stock market.

China's reserve requirement ratio (RRR) cuts continue. During the National Day holiday, China reduced the RRR once again, which was the fourth round of RRR reduction in 2018. Since the United States is in the interest rate hike cycle, China's easing policy has been relatively restrained, so the reaction of the stock market has not been fierce.

The real estate market has fluctuated. During the National Day holiday, some properties developed by Vanke, Country Garden and other companies saw the prices reduced by about 30%, resulting in mass incidents, which reflected the fluctuations of the real estate market. The transaction volume of the real estate market has shrunk rapidly this year, which has a negative impact on the GDP growth.

Bond Market

In September, the overall bond market fluctuated. In an environment where capital was generally stable, the fluctuations of credit bonds were moderate, and interest arbitrage could generate stable income, while the fluctuations of interest rate bonds increased. Increased supply of local government debts compressed the demand for interest rate bonds on the one hand, and economic fundamentals showed signs of weakening, and as a result, the market lacked a definite direction for investment. From the perspective of the holding period return, credit bonds with shorter maturities and lower grades were the best performers.

The market fluctuated in a narrow range without a clear direction. During the National Day holiday, the focus of overseas markets is the quickly rising US Treasury yields, especially those with longer maturities, of which 10-year US Treasury yields increased 17bps to 3.23%, exceeding the critical point of 3.2%, and 30-year US Treasury yields increased 20bps to 3.4%. On the other hand, two-year US Treasury bonds increased a mere 6bps to 2.89%, and the 10-year and 2-year spread widened to 35bps from around 20bps.

For the bond market, the yield curve is expected to change from a bullish sharp curve into a bullish flat one under a mounting downside pressure and a geared up expansionary policy. On the one hand, short-term interest rates will not significantly rise in an expansionary M2 environment, while the central bank may recall liquidity when the short-term rates are too low to stabilize exchange rates and avoid excessive leverage. On the other hand, mid-and-long-term rates and financing costs may be more related. As one symbol of the effectiveness of monetary policies is for the short-term rates to drag down long-term rates, future monetary policies will aim to fix the short-term rates while loosening the long-term ones (open market operations + RRR cut) and lower long-term rates through distortions to a certain extent, thereby flattening the yield ratio curve.