新鴻基金融集團
SUN HUNG KAI FINANCIAL

45 周年 years

[For immediate release]

SHKF expects modest global economic growth in 2015

* * *

HSI to reach 27,000

* * *

Asia stocks favoured

Highlights:

- Global economy is expected to grow modestly in 2015
- US economy to expand steadily while Europe and Japan may stabilise on accommodative monetary policy
- China strikes a balance between growth and reforms, with its GDP growth target likely to be revised down to 7%
- Overweight allocation in equities, favouring Asian countries' stocks
- HSI to reach 27,000; and HSCEI targeting 12,450
- Three major investment themes: (1) sectors driven by Shanghai-Hong Kong Stock Connect; (2) China's policy-led sectors; (3) sectors led by the modest US growth

---

Hong Kong, 25 November 2014 – Sun Hung Kai Financial ("SHKF") expects the global economy to grow modestly in 2015. Among the developed markets, the US economy is likely to expand steadily; while Europe and Japan may stabilise on their accommodative monetary policy. China will strike a balance between growth and reforms, with its GDP growth target likely to be revised down to 7% in 2015. Since the valuations of major stock markets have climbed to near their historical averages, their upside potential would be mainly driven by earnings.

Mr Kenny Wen, Wealth Management Strategist of SHKF, said, "We maintain an overweight allocation in equities but we expect asset prices to turn volatile due to a gradual divergence of monetary policies among the US and other developed economies, and therefore a diversified portfolio will be the investment focus in 2015. With optimistic earnings and reasonable valuations, Asian equities will become our core selection while China and Hong Kong equities are set to trend higher on the back of Shanghai-Hong Kong Stock Connect and the SOE reform anticipations."

<u>HK Equities: HSI to reach 27,000 in 2015 with volatility in 1Q15</u>

The HSI rallied beyond the 25,000 level and hit a six-year high on optimism of Shanghai-Hong Kong Stock Connect in 2H14. However, it plunged as much as 9% in the single month, mainly dragged by weaker external markets and the political conflicts in Hong Kong. It then has gradually stabilised following the official launch of the Stock Connect scheme.

With the commencement of Shanghai-Hong Kong Stock Connect, the market turnover and investment sentiment are expected to improve in the medium to long run, which will boost the valuations of Hong Kong equities. In addition, the economic momentum of some developed economies may be strengthened as a result of their quantitative easing measures. This may drive up global asset prices, which may also bode well for Hong Kong equities. Therefore, SHKF is optimistic about Hong Kong equities in 2015.

The People's Bank of China unveiled various targeted easing measures in 2014 in a bid to improve market liquidity. The central government's accelerated approval process of infrastructure projects and promotions of six major consumption areas may help maintain the stable economic growth. We believe China will deepen the implementation of these measures so as to ensure sustainable economic development.

Despite the favourable market conditions, we should pay heed to related risk factors. Since the political conflicts in Hong Kong have gone beyond market expectations in terms of persistence and development, consequent negative economic impacts may emerge in 4Q14 and 1Q15, and Hong Kong equities may encounter significant market volatility in 1Q15. Further, China's economic issues such as GDP growth slowdown, pullback of property prices and local government debt woes could affect China and Hong Kong equities in 2015.

On the valuation front, the HSI's estimated P/E is 10.4X in 2014, below the five-year average of 11.6X, suggesting a rather low valuation of Hong Kong equities. We set our FY15 targets for the HSI at 27,000 and the HSCEI at 12,450, and we lift our target of the Shanghai Composite to 3,100 given that Shanghai-Hong Kong Stock Connect may help revive and realise reasonable values for the long-subdued China equities.

The central government is engaged in the drafting of the 13^{th} five-year plan with the policy framework to be finished by late 2015, and the related themes are expected to be the key investment opportunities in 1H15. The three major investment themes in 2015 are: (1) sectors driven by Shanghai-Hong Kong Stock Connect; (2) China's policy-led sectors; and (3) sectors led by the modest US growth among which healthcare, renewable energy, logistics and infrastructure are favoured.

Asia: still the global growth engine

The global economy is expected to expand modestly and Asian countries are building intraregional closer ties with growing regional trade. Asia is likely to become the world's economic growth engine next year. Asia's overall growth may reach 5.6% despite the potential slowdown of China. Concurrently, Asian stocks have an attractive valuation at 11.9X P/E, below its historical average and that of its global peers, so coupled with the optimistic earnings, Asian equities will be the core investment of the portfolio in 2015. Besides China and Hong Kong equities, North Asian markets such as South Korea and Taiwan are preferred.

Japan: a honeymoon period in 1H15 but structural reforms will be the key for long-term growth

Japan equities may maintain the momentum in 1H15 with the additional QE of Bank of Japan, the Japanese Government Investment Pension Fund's decision to change the investment strategies as well as the robust corporate earnings growth. However, the upside potential of the Japanese market in 2H15 will be determined by whether "Abenomics" could help the economy pick up the structural growth. Since Japan equities have remained clouded by uncertainty in the second half of 2015, investors should avoid excessive focus on Japan and consider a well-balanced allocation in Asia Pacific equities in order to grasp the investment opportunities in the Japanese and other Asian markets.

US: strong economic growth but valuation is quite high; buying opportunity in 1H15

The US economy expanded faster than estimated in 3Q14, reflecting its solid economic foundation. Its growth may rise about 3% in 2015. With uncertainties in the external markets and mild inflationary pressure in the US, the Federal Reserve may take a wait-and-see attitude and consider rate adjustments in 2H15. US equities may still have upside potential next year but their slightly high valuations may result in adjustments in 1H15. Investors with a low risk appetite may consider investing in global high-dividend equities to diversify risks and capture the opportunities in global equity markets. They may also enjoy better timing by buying on the dips following a correction of US equities.

Europe: avoid over-aggressive investments despite Draghi's efforts to ensure regional growth

The Eurozone may hardly resume the sustained growth momentum despite the European Central Bank (ECB)'s rate cut for a second time and the launch of the bond-buying programme in October this year. The ECB is expected to unveil full-blown quantitative easing in 1H15, by which the Eurozone's GDP growth may reach about 1% in 2015. The regional economy and the corporate earnings growth remain weak. It may take time for the stimulus package to realise effects, suggesting a clearer investment outlook may emerge in 2H15. Hence investors should avoid an over-aggressive approach to European equities in 1H15.

- End -

About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited ("SHKFL"), with its foundation dating back to 1969, is a wholly-owned subsidiary of Sun Hung Kai & Co. Limited (stock code: 86).

Operating under the Sun Hung Kai Financial brand as well as the SHK Private and SHK Direct sub-brands, SHKFL has two core business segments, Wealth Management and Brokerage, and Capital Markets. They offer customised financial solutions for retail, corporate and institutional clients.

SHKFL has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$73.7 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 30 June 2014*

For enquiries:

Juliana Chan	(852) 3920 2511	juliana.chan@shkf.com
Maggie Chan	(852) 3920 2513	maggie.chan@shkf.com
Rona Chau	(852) 3020 2509	rona.chau@shkf.com

 # This press release is based on the views and opinions of the retail research team of Sun Hung Kai Investment Services Limited.