新鴻基金融集團
SUN HUNG KAI FINANCIAL

**[For Immediate Release]**

# SHKF Expects Non-trending and Highly Volatile Markets in 2012

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**EUROzone Crisis to Continue, China's Growth to Slow to 8%, but Excess Liquidity Could Drive HSI to 25000**

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**Highlights:**

- The global investment landscape will be event-driven in 2012 – with global equity valuations relatively low but economies and markets more vulnerable and less resilient in withstanding shocks.
- Markets will be buffeted by forces of financial-system de-leveraging and reflationary policies of central banks; major asset classes and currencies to remain non-trending and highly volatile.
- Reflationary efforts by central banks throughout year could earn risky assets some respite and drive HSI to long-term average forward P/E of 12.5X, equivalent to 25000.
- Recommend investment approach geared toward stable income generation and long-term accumulation of quality assets.
- Market participants may profit tactically from ongoing oscillation between risk-on and risk-off modes by adding to risk during times of pessimism and sell-offs, and reducing risk during times of market optimism.
- Favor high-yielding stocks and quality corporate bonds, stocks of market leaders in specific industries at reasonable valuations, and stocks of companies that exhibit stability, cash generation, and low leverage.
- Strategically, recommend reducing exposure to the EURO and to commodities.

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**Hong Kong, 7 February 2012** – Sun Hung Kai Financial ("SHKF") believes that global economies and financial markets have become more vulnerable and less resilient in withstanding shocks. Most major asset classes and currencies are likely to remain non-trending and highly volatile in 2012, buffeted by ongoing de-leveraging and a continued global economic slowdown on one hand, and the reflationary efforts of central banks as economic conditions worsen on the other. SHKF expects these fluctuating conditions to present opportunities to strategically accumulate and invest in quality assets for the longer term, but also to offer opportunities for market participants to tactically profit from ongoing oscillation between risk-on and risk-off modes.

Mr. Alvin Chong, Head of Research, Retail Brokerage, Sun Hung Kai Financial says, "The investment landscape in 2012 will be event-driven and buffeted by ongoing global de-leveraging, and reactive policies by major governments and central banks worldwide. In the short term, risky assets may continue to rally given the policy of effectively turning on the liquidity taps by the US Federal Reserve, European Central Bank and central banks in major emerging markets in the past weeks. However, the collective reflationary moves effectively signal expected anemic growth and are unlikely to generate growth against a backdrop of financial de-leveraging, weak demand and overcapacity. As the imbalances of the past – excessive spending in the West, excessive reliance on exports in the East, and the accumulation of high levels of government debt – are being unwound, major economies will continue to slow and growth will remain well below trend. Even though global equity valuations remain relatively low, new imbalances are arising and markets and economies have become increasingly vulnerable and less resilient to high-impact events."

Mr. Chong noted that although the US economic recovery appears to be gaining traction, high debt and massive spending and employment cuts by state and local governments are keeping the recovery fragile. Of greater concern is the EUROzone, where the credit crisis is a long way from being solved as some periphery countries' incomes are insufficient to service their debts. Large-scale purchases of these countries' sovereign bonds would compel them to implement more austerity measures, which would only ensure that growth declines even more. Mr. Chong added, "When a household has taken on too much debt, spending can be reduced to service that debt. Within an economy, however, reducing one's spending means reducing someone else's income so the economy then contracts just when expansion is needed the most. As aggregate income falls relative to debt, servicing that debt becomes an even bigger problem." Mr. Chong believes periphery countries in the EUROzone need to devalue their currencies to gradually grow out of their malaise, adding, "The world cannot devalue against itself, but countries can devalue and trade themselves out of trouble. Unfortunately, for the periphery countries to devalue their currencies would mean exiting the EUROzone."

In China, SHKF sees 2012 as one of the most challenging years of the post-reform era. Mr. Chong states, "Policies will likely be reactive. Unwinding the massive credit increases of the past three years would generate deflationary pressure, but over-easing could generate inflationary pressures. With investment accounting for a large proportion of GDP, declines in investment would sharply reduce GDP growth. The aggressive restrictions on residential property have generated a downturn in the residential real estate market that will act as a drag on other sectors of the economy and reduce consumption growth. Externally, the EUROzone sovereign crisis is depressing demand. Some goods intended for external markets could be re-directed to the domestic market, intensifying these deflationary pressures. Weaker external and domestic demand, tight credit conditions and a slowdown in investment growth are likely to result in economic growth slowing to around 8% in 2012, with no bottom yet visible".

SHKF expects the HSI to trade between 18000 and 25000, and the HSCEI to trade between 9000 and 14000 in 2012, largely reflecting deflationary pressures and reactive fiscal and reflationary efforts. Such efforts throughout the year could earn risky assets some respite and drive up the HSI to its long-term average forward P/E of 12.5X, equivalent to the top end of SHKF's forecast range. Market participants may profit tactically from ongoing oscillation between risk-on and risk-off modes by adding to risk during times of market pessimism and sell-offs, and reducing risk during times of market optimism. As was the case throughout 2011, SHKF also continues to recommend an investment approach geared toward stable income generation and long-term accumulation of quality stocks, focusing on fundamentals and valuation. Mr. Chong continues to favor high-yielding stocks and quality corporate bonds, stocks of market leaders in specific industries at reasonable valuations, and stocks of companies that exhibit stability, cash generation, and low leverage.

Given the anticipated slowdown in economic growth, Mr. Chong recommends strategically reducing exposure to commodities as these have been proxies for global economic growth. He also continues to recommend strategically reducing exposure to the EURO, maintaining that the single currency is unlikely to survive in its current form.

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**About Sun Hung Kai Financial Limited**

Sun Hung Kai Financial Limited ("SHKFL"), founded in 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 three core business segments, which are Wealth Management and Brokerage, Capital Markets and Asset Management. They offer customised financial solutions for retail, corporate and institutional clients. SHKFL has an extensive branch and office network in Hong Kong, China and Macau, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$72 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.**Figures as of 30 June 2011*

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*# This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's research team.*