

## Market Comment

### U.S. Stock Market Plunge Hit Global Stock Market

#### **De-risking mode on; HK stocks may see good entry point on volatility**

We expect market sentiment to remain weak in the near term after S&P 500's biggest single day drop in 6 years. Global capital market turned on de-risking mode with funds seeking safe havens in treasury and gold. We expect US stocks to remain weak with its very stretched valuation and we expect global volatility to increase in 2018. However, overall emerging market stocks may outperform US stocks in 2018 due to cheaper valuation and faster growth. Hong Kong stocks are measured by HSI with a TTM PE of 15x and HKCEI with a TTM PE of 10.53x. While US portfolio inflows maybe weakened, southbound inflows from Stock Connect may come to offset this. Short-term volatility may present good entry point. Watch out for Chinese New Year when Stock Connect is closed (13-21 Feb). Offshore Chinese high yield bond market is unlikely to see large scale selloff due to limited liquidity. However, we see risks of increasing supply due to the cleanup on non-standard credit in China.

#### **U.S. stocks tumbles on inflation expectation & stretched valuation**

U.S stock tumbled on Monday and hit global stock market. We believe this is a long-awaited de-rating on revived inflation expectation instead of stock market crisis. Some data support high inflation expectations 1) higher wages growth expectation; 2) job report supports inflation expectation and 3) rising interest rates ahead. In addition, the valuation of U.S. Stock market has reached a very stretched level. PE ratio of the S&P 500 is 23x in Jan-18 compared with 17.5x of October 2007 when the stock hit the peak during that time. In the last 5 trading days, healthcare and energy sector has fallen the most, by 10.0% and 10.9%, respectively. The stock market sentiment is quite weak after the plunge last Friday. We believe U.S. ETF funds' selloff pushed the fall quicker on Monday.

#### **Impact on Hong Kong Stock market**

The global stock selloff may trigger US and Europe investors to take profit on the liquid HK stock market, given the rally in 2017. On the other hand, southbound inflows through Stock Connect program may come to offset this. We see a total of HK\$ 10.5bn net buying on Monday and HK\$ 8bn on Tuesday, which is 2x as average net buying amount of last 20 days. Compared with U.S stock market and China A-share valuation of Hong Kong stock market is relatively low. We believe Southbound inflow will keep looking for stocks with lower-than-A-share valuation and solid fundamentals. However, Stock Connect will be closed during the CNY holidays which could be a good entry point should HK stocks tumble.

#### **Impact on Offshore US dollar bond market**

Chinese high yield dollar bonds are marked down but transactions are not active. We believe the market is still holding a wait-and-see attitude on IG market and cutting risky names to increase cash on hands. We highlight the risks of potentially higher supplies in 2018. We suggest short-dated paper will be more defensive as UST curve is expected to steepen with higher inflation expectation.

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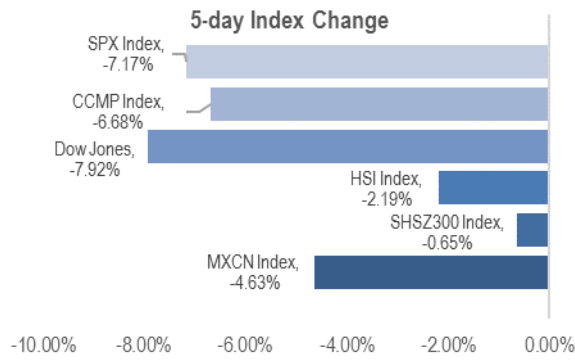
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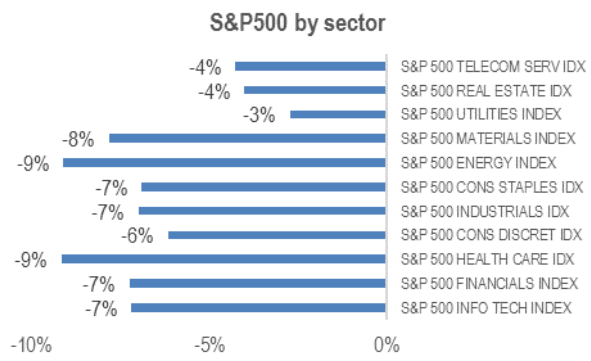
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**Figure 1: US index dropped the most significantly in last several days**



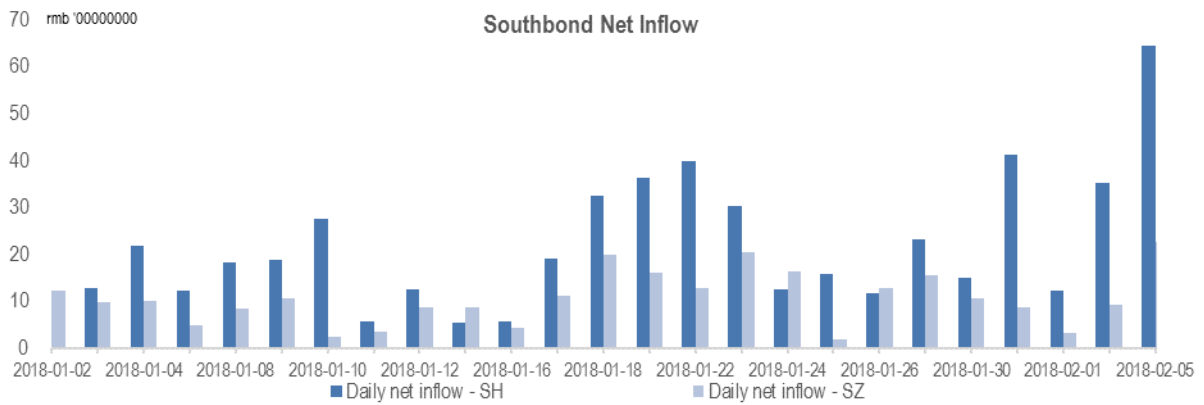
Source: Bloomberg, AMTD Research  
 Note: As of 5 Feb 2018, EST

**Figure 2: Health care and energy sectors suffered the most in S&P500**



Source: Bloomberg, ATD Research  
 Note: As of 5 Feb 2018, EST

**Figure 3: Continuing and strong money inflow from north through Stock Connect**



Source: Wind; AMTD Fixed Income Research  
 Note: As of 5 Feb, 2018, EST

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