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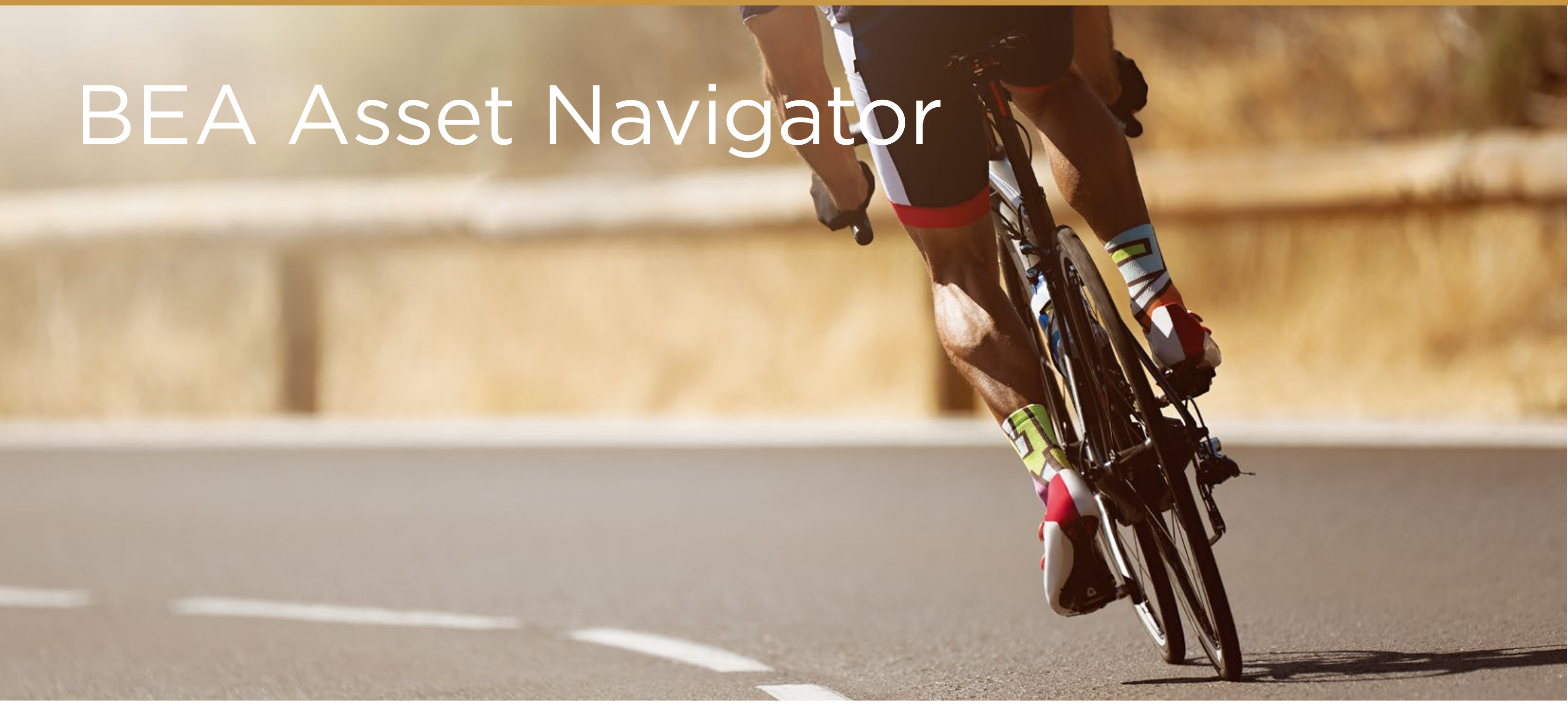
3rd Quarter 2023



Investment Themes

Friction between China and the US harms both economies, while emerging markets reap the benefits

- China's economy is facing both internal and external challenges, and it is difficult to reverse the trend in the short term. It is expected that stimulus policy in the second half of the year will become the focus of the market, and the impact of the Sino-US friction is gradually emerging in various economic sectors.
- Although the US economic forecast has been revised upward, overall data is still declining. The anticipation of a "soft landing" is supporting the local market, but the indecisiveness of the central bank's rate hike pace is increasing market volatility.
- Emerging markets are outperforming mature markets in terms of economic data, and forward-looking indicators show that emerging Asia is expected to perform outstandingly. However, capital liquidity will dominate market performance in the region.
- The expectation is that the Sino-US friction will not reverse within the year, and the "de-risking" trend will divert funds to emerging markets with better valuations and potential.

US stock market is departing from fundamentals, while Asian stock markets benefit from capital inflows and fundamental factors

- In the first half of the year, the global stock market performed exceptionally well against other assets, but historically, this phenomenon suggests that there may be significant financial risks in the future, in contrast to today's excessively complacent stock market.
- The phenomenon of the US stock market departing from its fundamentals is evident in data such as narrow market breadth, highly concentrated sectors, high valuations, and declining index profits. The risk of a sharp reversal in the index is rising rapidly.
- Although the rate hike cycle is coming to an end, the pace of rate hikes in history will affect short-term trends in the US stock market, especially the impact of the "one raise, one pause" pace.
- Emerging stock markets generally have valuations lower than the 10-year average, and they are benefiting from the Sino-US friction. Emerging Asia is particularly worth paying attention to.

Short-term government bonds are more attractive than long-term ones in mature markets. Bond stands out when the US economy declines.

- Considering downside risks, the bond market is more attractive than the stock market, and the end of the rate hike cycle is beneficial for US government bonds.
- Inverted yield curves and the pressure to renew US government bonds will stimulate yields on bonds with maturities of less than 2 years to be more than 5%, generally higher than global market dividend yields and their equity returns.
- The short-term yields on some non-US mature market and Asian IG bonds are higher than those of the US, especially when Asian bond rates are flat, which is more conducive to capital inflows.
- Historically, when making investment 1 to 2 quarters before the US GDP was below 1% and 0% respectively, global bond markets and gold generally outperformed global stock markets, reflecting the importance of diversification under recessionary clouds.

Asset Class Overview

↑ Outperform → Neutral ↓ Underperform

Asset Class	Quarterly View	Commentary
Equities		
United States	→	Soft economic landing and the end of rate hikes are expected to support the stock market, but risk of deviation from fundamentals and the escalation of Sino-US friction is high.
Europe	↓	Insisting on significant rate hikes will damage the currently weak economy, and the Russia-Ukraine conflict may become a regional black swan event.
Asian ex-Japan	↑	The Sino-US friction is actually beneficial to the economy in the region, and moderate inflation and steady interest rates will benefit the local market.
China	→	Massive stimulus policies are expected to benefit the stock market, but the problems of real estate companies and local government debt are becoming risks.
Hong Kong	→	Although mainland China's policies and low valuations are favorable, the escalation of Sino-US friction will scare away capital.
Bonds		
US Government	↑	Expectations are that keeping interest rates high will reduce interest rate risk by the end of the year, and short-term government bonds are more attractive than long-term ones.
USD Investment-grade	→	If the central bank insists on tightening liquidity, the risk will offset the flat spreads and economic recovery highlights.
Global High-yield	↓	Continued rate hikes by non-US central banks and rising default spreads will be unfavorable for high-yield bond prices.
US High-yield	→	The peak of US interest rates and low default risk are favorable for a slight rebound in bond prices.
Asian Pacific Investment-grade	→	Flat interest rates and default spreads in the region are favorable for bond prices, but the Sino-US friction is harming capital inflows.
FX		
AUD	↑	The hawkish shift in the Reserve Bank of Australia's monetary policy is adding upside momentum to the AUD.
NZD	→	It is expected that the economic recession in New Zealand is temporary, and the NZD still has an interest rate advantage in short term.
EUR	→	Due to sticky inflation in Europe, the European Central Bank needs to keep raising interest rates. Pay attention to the economic changes after the rate hikes.
GBP	→	The UK is temporarily staying away from recession, which may strengthen the Bank of England's determination to raise interest rates.
JPY	↓	Persistent rate hikes by major central banks will continue to put pressure on the JPY due to its interest rate disadvantage.
CNH	→	China's economic recovery momentum is currently slowing down, and that will be boosted when the simulative fiscal policies from the government are announced eventually.

Important Note:

Quarterly view of each asset class is benchmarked against a corresponding proxy index

Asset Class	Benchmark	Asset Class	Proxy Index	Threshold*	Asset Class	Proxy Index	Threshold*
Equities	MSCI World	US	S&P500	1.1%	China	CSI300	4.3%
		Europe	STOXX Europe 600	1.6%	Hong Kong	Hang Seng	3.3%
		Asian ex-Japan	MSCI Asia ex Japan	2.8%			
Bonds	Bloomberg Global Aggregate Bond	US Government	US Gov't/Credit	0.8%	US High-yield	US Corporate High-yield	1.5%
		USD Investment-grade	US Corporate	0.8%	Asian-Pacific Investment-grade	Asian-Pacific Aggregate	0.9%
		Global High-yield	Global High-yield	1.8%			
FX	US Fed Trade Weighted Advanced Foreign Economies	AUD	AUD/USD	2.8%	GBP	GBP/USD	2.7%
		NZD	NZD/USD	3.2%	JPY	JPY/USD	3.1%
		EUR	EUR/USD	4.0%	CNH	CNH/USD	2.2%

* **Outperform:** Quarterly performance of proxy index is higher than the positive threshold percentage of corresponding benchmark; **Neutral:** Quarterly performance of proxy index within the positive and negative threshold percentages of corresponding benchmark; **Underperform:** Quarterly performance of proxy index is lower than the negative threshold percentage of corresponding benchmark.