Market Snapshot (30th August, 2021)

Monetary Easing Policies Will Persist as Inflation Expected to Continue Rising

Economies Reopen And Commodity Prices Drive up Inflation

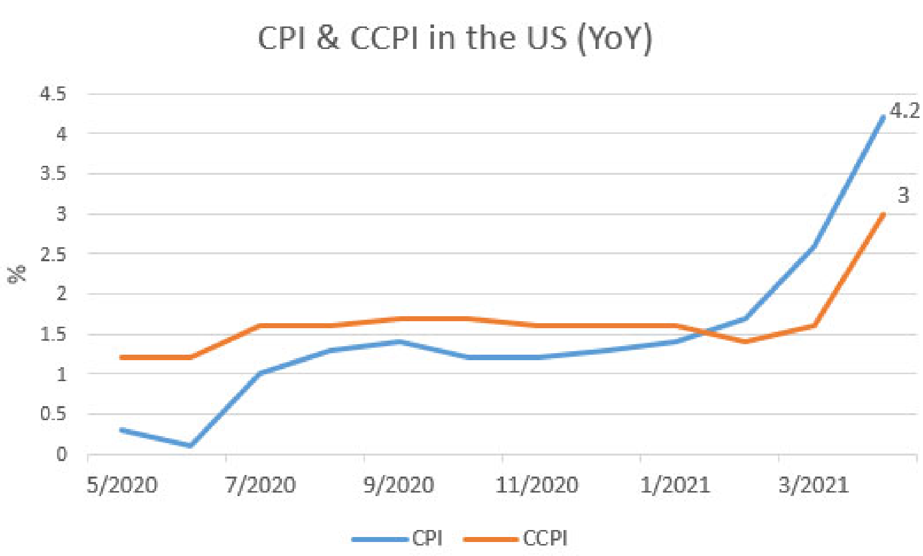
The global economy continues to recover gradually from the fog of the pandemic. The U.S. Manufacturing Purchasing Managers' Activity Index ("PMI") hit 62.1 in May, being the fourth consecutive month above 60[1]. Last year, global trade was suppressed by the outbreak of COVID, leading to an increase of both demand and supply to this year. Reduced global supplies have led to price rises for energy, commodities, and raw materials, as well as heightened inflation expectations. International copper and aluminum prices have hit new highs, while oil prices in New York have shot up by 40% in the first five months of this year, causing a gradual rise in the U.S. consumer price index.

1 Source: Investing.com at https://hk.investing.com/economic-calendar/manufacturing-pmi-829, as at 20th August, 2021

Jobs Market Still Uncertain, QE Likely to Remain in Place in Second Half of 2021

According to the minutes of the Jun meeting of the Federal Reserve (“Fed”) on interest rates, some federal open market committee officials believed that if the economy continued to make substantial progress in line with the Fed’s target, they might begin to discuss reducing debt purchases in the next few meetings. Although we expect global inflation to be at a relatively high level in the third quarter, the Fed’s quantitative easing policy will remain basically unchanged. Firstly, as Fed officials have reiterated, the current rise in inflation is transitory. By comparing the U.S. consumer price index (“CPI”) with the core index (“CCPI”) excluding energy and food prices, it is evident that the rise in U.S. inflation in recent months is mainly driven by energy prices. The month-on-month growth rate of prices in other sectors such as housing, education, and medical services is not that apparent. To get a clearer picture of whether inflation is "out of control", it may be necessary to observe the data for two to three months to come.

Secondly, the U.S. jobs market is yet to fully recover, the Fed will not make major changes in monetary policy for the time being, which means that market liquidity will remain abundant and benefit the capital market as well. We estimate that the global stock market will still achieve positive returns in the second half of the year.



Source: Investing.com, data from May 2020 to April 2021

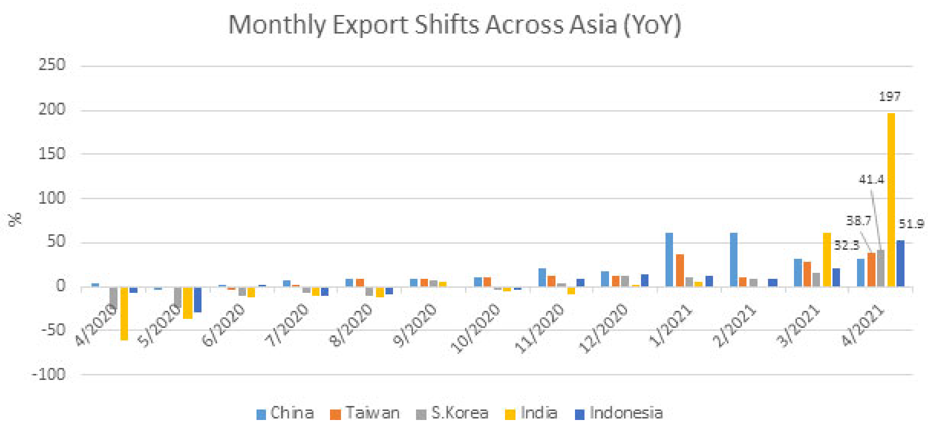
Asia: Mass Vaccination in Europe And America Boosts Asia's Exports

Rising Number of Vaccinations in Europe And America

As Europe and America are the main export markets for Asian goods and services, the Western vaccination rate is having a positive impact on the profits of Asian companies. The market generally predicts that the vaccinated population in emerging markets will gradually increase by next year, and there may even catch up with Europe and the U.S..

Asian Exports Remain Strong, While Concerns about The Pandemic Remain

Benefitting from the economic recovery of Europe and the U.S. as well as the low base effect, exports in Asia have seen strong growth since the beginning of the year. This came mainly from producers of high-end electronic components in South Korea, Taiwan, etc., which rebounded sharply from the end of last year. The second half of the year used to be the peak season of traditional export trades. However, we believe that market demand for electronic products, commodities, and raw materials has been strong and continues to be the key driver for the stable economic growth in the region. Taiwan and South Korea's technology products, high-end components, Energy and Materials sector of Indonesia and Australia are still looking promising. However, it should be noted that if the vaccination rate is not as good as desired, the uncertainties from COVID-19 will have an impact on the pace of recovery in the region and may also trigger selling pressure on the stocks in relevant sectors during the quarter.



Source: Bloomberg, data from April 2020 to April 2021, calculated in USD, combined January and February data for China

Chinese Stock Market: Valuations of A-shares Likely to Pick up

A-shares Valuation is Relative Attractive

Since the beginning of the year, A-shares have underperformed the global stock markets. Taking the Shanghai Shenzhen CSI 300 Index as an example, the cumulative increase in the first five months of this year was 2.3%, while the S&P 500 Index increased by 11.9% in the same period. The current valuation of A-shares is relatively attractive. In fact, the valuation of A-shares is now far below historical highs. We believe that the U.S. dollar will remain weak in the medium term. The U.S. exchange rate index fell to a nearly five-month low at the end of May, and the offshore renminbi hit a nearly three-and-a-half-year high against the U.S. dollar. The relative strength of the renminbi's exchange rate, coupled with corporate earnings prospects, will provide support to A-shares in the second half of the year.

Source: BEA Union Investment and Bloomberg, data from Mar 2004 to May 2021

Stable Monetary Policy with Comparatively Low Risk

The People's Bank of China issued its first quarter monetary policy implementation report in May[2], stating that monetary policy must be prudent and consistent. It is expected that China's monetary policy will remain stable this year and that market risks will be relatively low.

[2] Source: Website of the Central People's Government of the People's Republic of China at http://www.gov.cn/zhengce/2021-05/14/content_5606273.htm, as at 20th August, 2021

China's Policies Pose Uncertainties for Individual Industries

Since the beginning of the year, China's anti-trust investigations of the internet sector have caused persistent uncertainty in the sector. Enterprises may be penalized and fined or forced to undergo corporate restructuring. In addition, the central government still strictly controls speculation in the property industry, and local governments' property market restrictions are yet to be relieved. There are increasing signs that capital flows into the property market will be restricted. Uncertainties in regulatory policies have hampered investment appetite to a certain extent, and we hold a wait-and-see attitude towards the sector.

Sector Rotation Continues

Economies across the globe are recovering at varying paces, and this will continue to depend on the pandemic situation in the second half of the year. In the financial market, U.S. stocks are hovering at historical highs, and investors are also waiting to see the Fed's monetary policy in the second half of the year. We will adopt a more balanced strategy on the rotation of growth and cyclical recovery plays.

Bond Market Outlook

Inflation is Moderate And Monetary Policy Continues to Be Loose

U.S. employment continues to improve, but not significantly enough for the Fed to change its easing policy. The market predicts that the U.S. does not yet have the right conditions for the Fed to begin tapering, and yields on long-term U.S. bonds have dropped back accordingly.

Source: BEA Union Investment and Bloomberg, data from May 2020 to May 2021

Asian Markets See Mixed Performances, but Pace of Recovery Is Generally Stable

The Impact of COVID-19 on Asian countries is varied, and economic growth in the region has been mixed. North Asia and Singapore are expected to see greater growth than India and the ASEAN countries. While Asia faces problems such as rising inflation and long-term bond yields, we believe there will be sufficient capital to tackle the situation.

Currently, the market is looking forward to the economy reopening while resource prices are rising, which is benefitting some Asian countries that are rich in natural resources. Such an advantage is going to increase as economic activities normalize and demand for resources increases. Continuing US-China tensions have caused a reset in Asia's supply chain. Countries neighbouring China, which have cheap labour costs and young populations look set to enjoy a competitive advantage.

Hong Kong Bonds

Hong Kong has a unique position in Asia. According to information from the International Capital Market Association ("ICMA"), 75% of the first bond issuance in the Asian market was arranged through Hong Kong[3]. Bond issuers tend to re-issue bonds in the original place of listing, which in many cases is Hong Kong, and that imply the enormous growth potential for Hong Kong's bond market.

In addition, the market expects the "Southbound Trading" of "Bond Connect" to be launched this year. According to foreign news reports, China's state-owned banks are also preparing to issue offshore renminbi bonds (dim-sum bonds) in Hong Kong in the short term, allowing Chinese investors to participate after the launch of "Southbound Trading". It is believed that any new changes will accelerate the pace of China's integration with the international bond market. At the same time, the outflow of funds from China's markets will help to ease the upward pressure on the renminbi.

[3] Source: Website of the Hong Kong Monetary Authority at https://www.hkma.gov.hk/eng/news-and-media/insight/2021/03/20210303/, as at 20th August, 2021

Important Information for Customers

Investment involves risk. You should consider your own risk tolerance level and financial circumstances before making any investment choices. The unit prices of the funds may go down as well as up. Past performance of the funds is not indicative of future performance. For further details including the product features, fees and charges, and the risk factors involved, please refer to the MPF Scheme Brochure of the relevant scheme.

The documents have not been reviewed by the Securities and Futures Commission in Hong Kong.

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