Market Snapshot (28th May, 2021)

Global Quantitative Easing Policy Remains Unchanged and There is Still Abundant Liquidity

Amid Economic Recovery, Inflation Expectations Heat Up

The pandemic has gradually slowed down as vaccines are being rolled out. The market expects that the economic activities of advanced countries including the United States will gradually restart, and the pace of economic recovery will accelerate. The economic outlook for Europe is unclear. It is estimated that until citizens in the region are widely vaccinated, lockdown measures may still reoccur intermittently.

Although short-term inflation in the United States is likely to rise further, given that the global economic recovery is in its infancy and the effectiveness of vaccines is still uncertain, prices still lack the momentum for an overall increase.

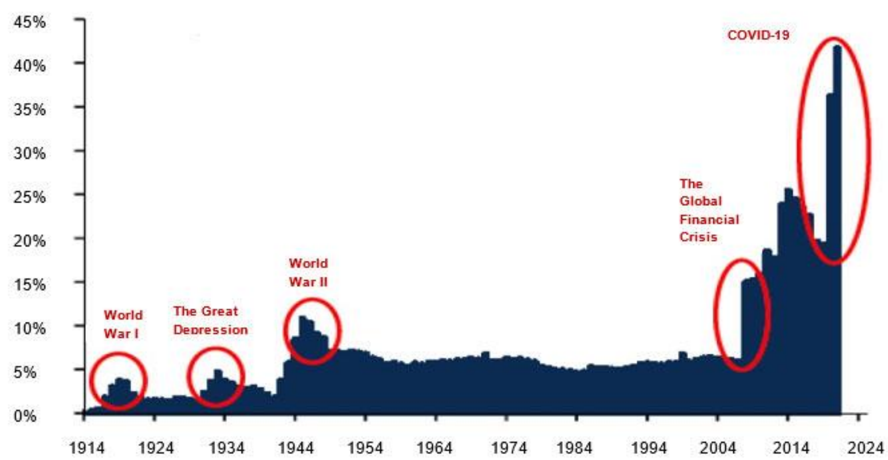
Continued Loose Monetary Policy

Fed Chair Jerome Powell publicly stated that the economic reopening may bring inflationary pressure, but that it's not at a high enough level to make the central bank change its quantitative easing policy. Additionally, two major conditions need to be met before U.S. interest rates can be raised – full employment and inflation remaining above 2% – but Powell believes neither of these conditions will be met within the year. Furthermore, U.S. Secretary of the Treasury Janet Yellen gave a "reassurance" to the market, saying that the increase in long-term bond yields reflects the market's expectation of a strong economic growth as well as rising inflation. She also supported Congress to pass President Biden's USD 1.9 trillion fiscal stimulus package.

The Fed's balance sheet is equivalent to approximately 40% of GDP, which is a historical high. We believe that the direction of global easing monetary policies will remain unchanged this quarter, and that there will still be an abundance of liquidity in the market.

The European Central Bank ("ECB") does not expect the economy to normalise until the end of this year, so it will not withdraw supportive economic policies too soon. Excessive rise in real interest rates could also hinder the pace of recovery. Therefore, the ECB will ensure that financing conditions remain loose.

Fed's balance sheet as a percentage of GDP



Source: BofA Merrill Lynch Global Research, GFD, Haver. Data as at 11th August, 2020

Asia: Recovery in Europe and The U.S. Driving Profit Growth for Asian Companies

Asian P/E Ratio is Still Attractive

Since the early resumption of economic activity in China, major Asian stock markets have been performing well. Among them, major indexes in South Korea, Taiwan, and Mainland China have risen by between 23% and 31%. Although individual stock markets in the region saw major surges last year, there is still a gap between the current level and their earlier peak. Taking the Chinese market as an example, there is still more than a 10% gap between the CSI 300 Index now and its 2007 peak.

At the same time, Asian enterprises are expected to record better profitability this year, especially in the first half, following the low base of last year. The base effect serves to disguise Asian stock markets' falling price-to-earnings ratio, which in fact makes Asia more attractive than other regions.

P/E ratios of China and Hong Kong's major stock indexes

Source: BEA Union Investment and Bloomberg. Data is between 4th October, 2000 and 11th March, 2021

Global Economic Recovery Supports Asian Export Performance

As Europe and the U.S. begin to resume one economic activity after another, their exports to Asia have undoubtedly provided a considerable impetus. In fact, since the fourth quarter of last year, the export growth of major high-end electronic product component-exporting countries such as South Korea and Taiwan has rebounded sharply.

With the gradual restart of retail business activity in Europe and the U.S., demand for new inventory supplies has increased, and Asian exports are expected to rise steadily. We expect to see Taiwan and South Korea's exports of technology products, computers, and mobile phone components continue to benefit from the full resumption of production in the global electronics and mobile phone industry chain since the second half of last year. As for the resumption of production in the global manufacturing industry, demand for upstream resources and raw materials will be boosted.

China: Supportive Policies Expected under The 14th Five-Year Plan

Domestic Demand, Industrial Upgrading, and A Green Energy Policy

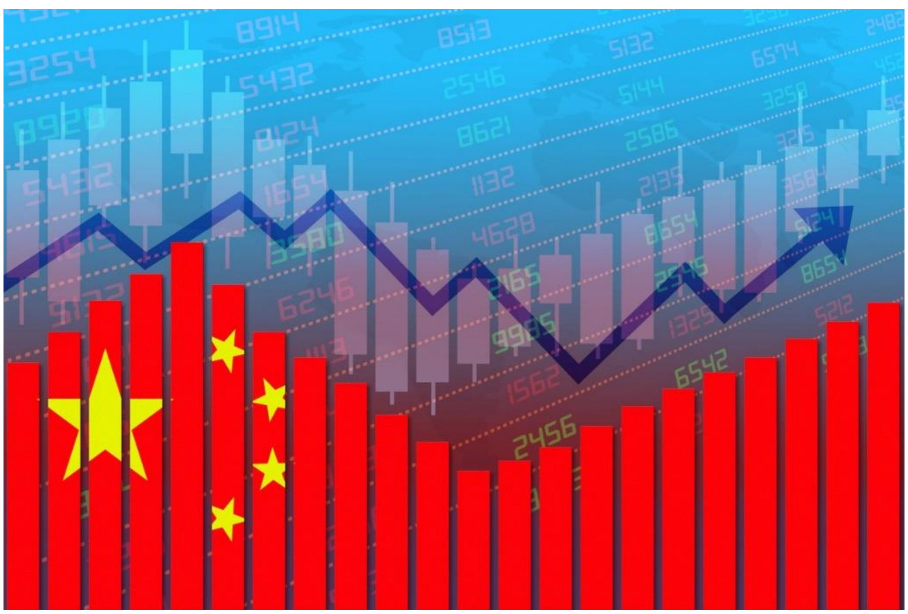
China's policy direction for the 14th Five-Year Plan was discussed at the "Two Sessions" (a high-level government conference) held in early March. Premier Li Keqiang emphasized in the government work report that China has to promote domestic demand and industrial innovation as part of its "dual cycle" policy. Additionally, in order to achieve the goal of "carbon neutrality" by 2060 and promote green development, it is expected that specific support policies will be introduced in succession. The prospects for China's green industry look promising.

Monetary Policy Stable While RMB Runs Steadily

The central government will maintain a stable monetary policy and adjust it flexibly. It is believed that no large-scale quantitative easing measures will be implemented like in Western countries so as to avoid structural risks and asset bubbles, and that the government will not allow credit contractions to trigger risks. Mainland financial institutions'net interest income will likely benefit accordingly. We expect the exchange rate of the renminbi ("RMB") to remain stable and this is mainly due to the strong growth of China's trade surplus.

Accelerating The Integration of Chinese and Hong Kong Financial Markets

At the beginning of this year, Hong Kong stocks rose sharply due to the large inflow of southbound funds. The main reason for the southward movement of "Northern Water" is still the lower valuation of Hong Kong's H-shares relative to A-shares. In addition, outside of mainland markets, individual Chinese companies can only list in Hong Kong, which is one of the main attractions for mainland investors. With the return of more Chinese concept stocks and as the preferred listing location, Hong Kong will see more quality Chinese concept stocks listed here in the future, allowing investors to fully capture the opportunities of China's new economy. At the same time, the accelerated integration of the mainland and Hong Kong financial markets will also help expand both of them and attract more domestic and overseas funds.



Outlook for Bond Markets

Long-term Bond Yields Still at Historically Low Levels

Although long-term bond yields have soared to an annual high, over a longer horizon, the yields are in fact still at a historically low level. The recent upward trend has temporarily brought yields back to a relatively reasonable level, following on from a significant increase last year. Thus, the recent increase represents the readjustment of an overbought bond market. With the economic rebound, rising resource prices, and the low base effect in the same period last year, there will be ongoing market concerns about rising inflation. We believe that bond yields will still be volatile in the near term. We prefer bonds with shorter duration, and choose companies with strong cash flow and superior balance sheets for our portfolios.

U.S. 10-year Treasury bond yield

Source: Macrotrends.net. Trend chart from 2nd March, 1984 to 5th March, 2021. Darker grey bars represent periods of economic recession (https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart)

Bond market outlook: Turmoil creates opportunities

Due to the rapid economic recovery in Asia, sound fundamentals, relatively stable credit rating outlooks, and a low base factor, corporate earnings are expected to grow robustly this year. The default rate of Asian bonds is also lower than that of the U.S., and they can still provide higher yields than similar bonds in Europe and the U.S.. The performance of Asian investment-grade bonds is likely to become more attractive.

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