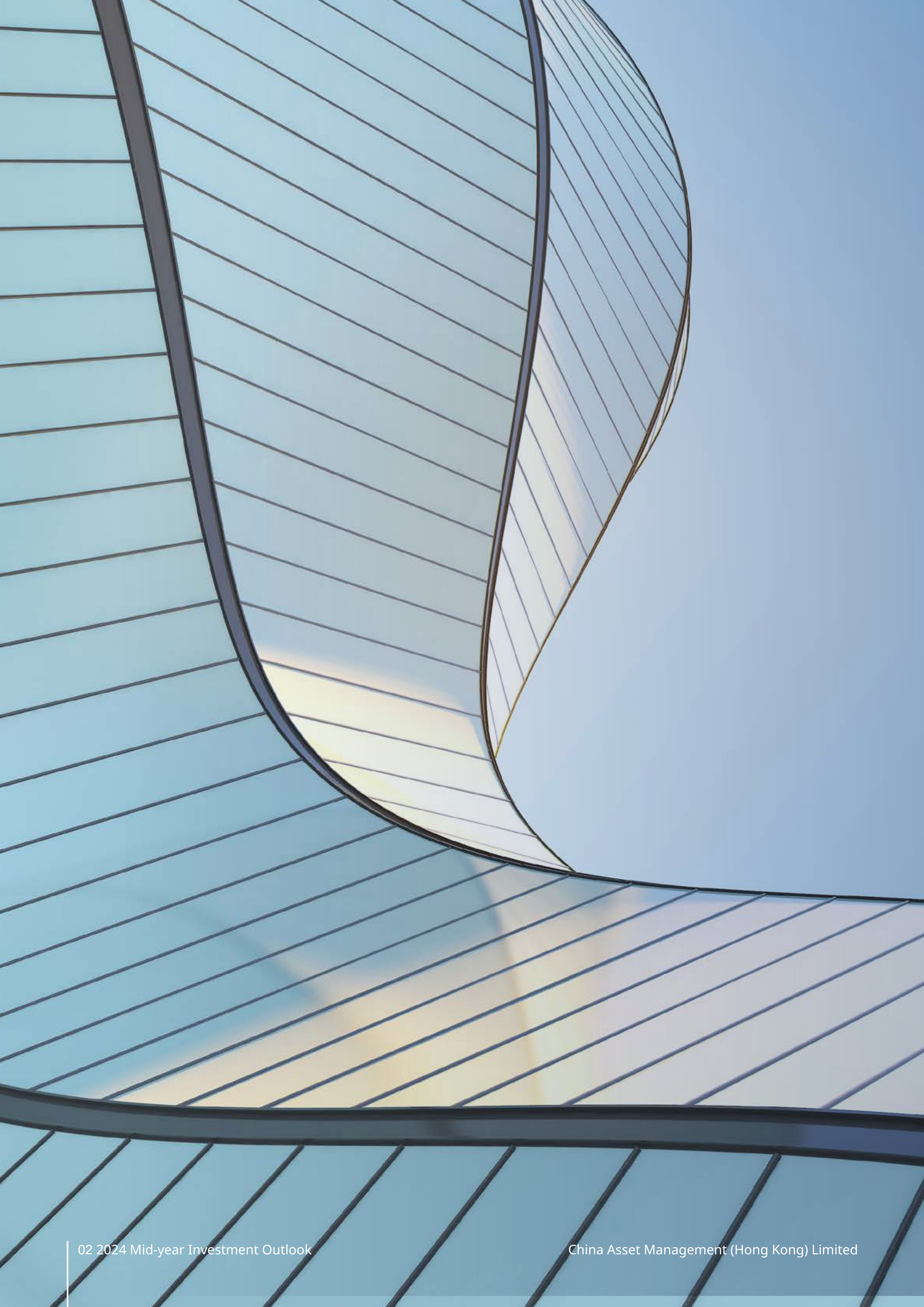
ChinaAMC (HK)

2024

Mid-Year Market Outlook



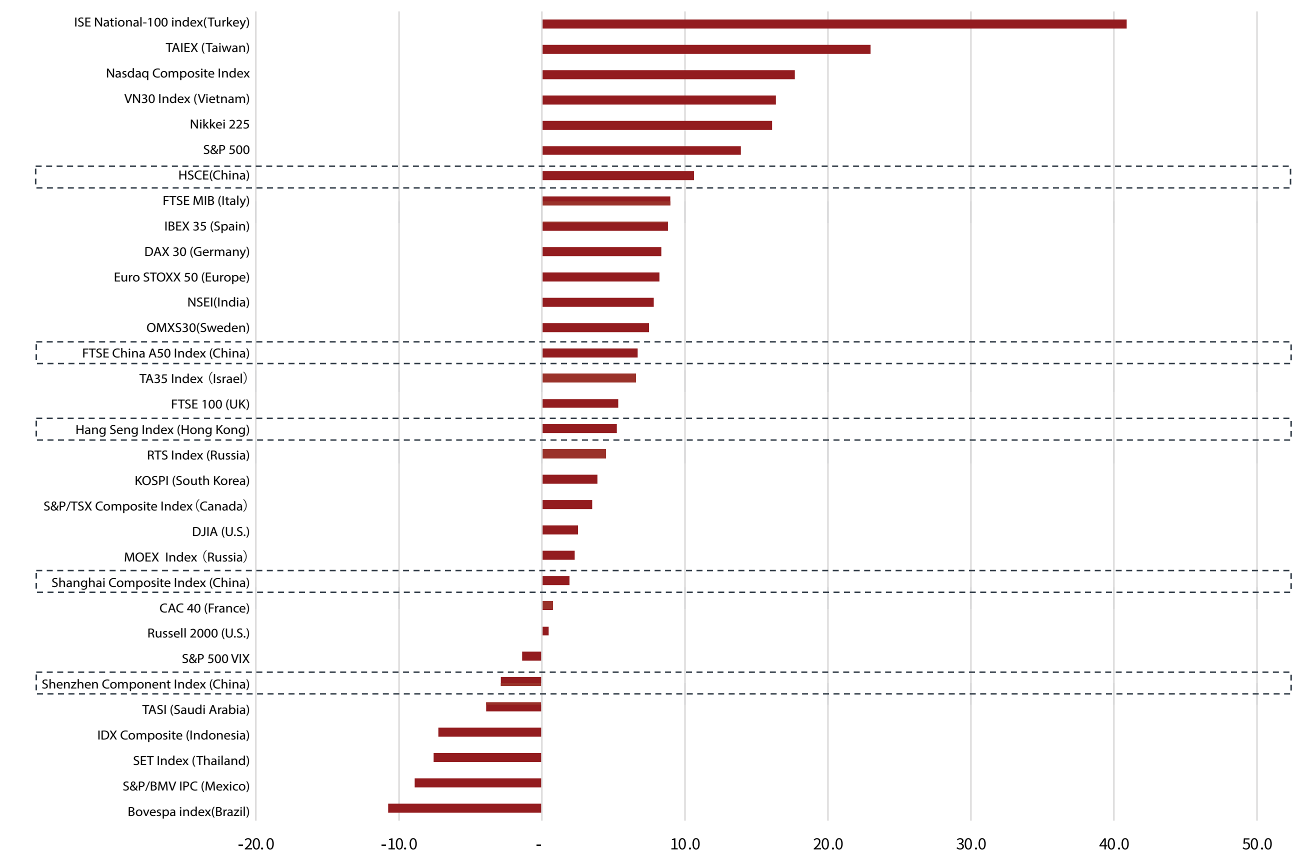
Contents

China Stock Market

2024 1H Market Review

China's stock markets have seen a relatively better performance in the first half of 2024 (as of June 13) compared to the previous three-year period. Among the world's major stock markets, key Chinese indexes have delivered robust gains, with the Hang Seng China Enterprises Index and the FTSE A50 Index rising 10.6% and 6.7% respectively. In the meantime, the Hang Seng Index and the Shanghai Composite Index have also recorded positive returns. Notably, during the rally from mid-to-late April to late May, Chinese stocks, especially Hong Kong-listed stocks, outperformed global stock indexes.

Figure 1: Year-To-Date Performance of Major Global Stock Markets



Source: Investing.com, as of 13 June 2024.

The recovery of China's equity assets in the first half of 2024 was underpinned by attractive valuations in the A-share and Hong Kong stocks markets relative to global peers. This favorable pricing paved the way for the market rebound. The Chinese economy demonstrated greater resilience than many pessimistic investors had anticipated, providing a strong fundamental catalyst for the equity rally. In addition, a series of supportive measures introduced by the government in the second quarter helped bolster investor confidence in the property sector, and raised expectations for more reform initiatives going forward.

Phase I — A plunge in China's stock markets from late November 2023 to early February 2024

While financial regulators have affected the regulation of certain trading behaviors, weak economic data remained the main drive behind the market correction. According to the Citi Economic Surprise Index – China, an indicator reflecting the gap between the newly announced economic data and prior market expectations, China's economic data from December through early February have remained soft and weaker than expected.

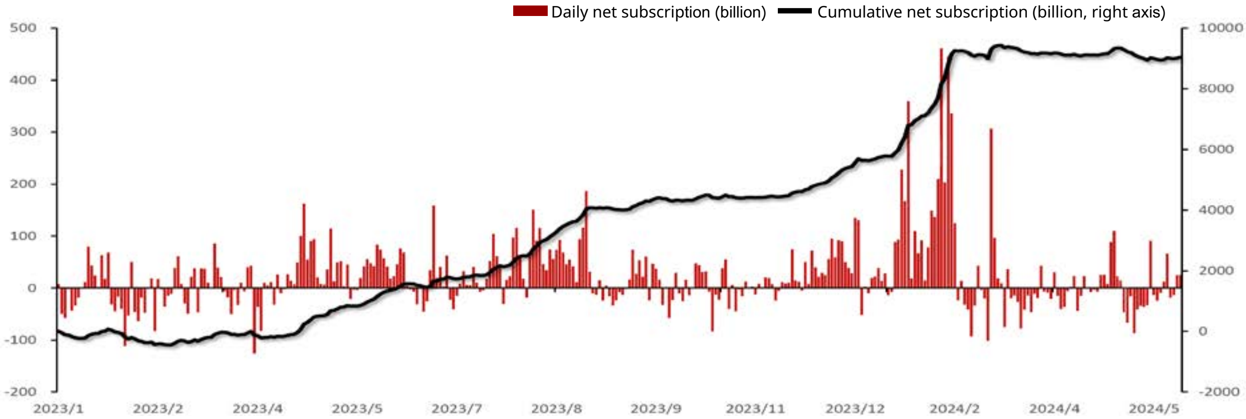
As the market has suffered a prolonged decline, some investors were forced to trigger stop-loss orders, further strengthening the pessimistic sentiment. During this period, growth stocks were hit hardest, while high-dividend and low-valued state-owned enterprises (SOEs) performed relatively steadily.

Phase II — Improvements in economic data and government efforts to stabilize the financial market drove a rally in both the A-share and Hong Kong stock markets in February 2024, with A-shares experiencing a sharper rebound

Economic data during the Lunar New Year holiday period, particularly the better travel and consumption figures as well as stronger-than-expected financial data, helped improve some investors' assessment of the fundamentals. The previous pessimistic sentiment towards economic outlook was lifted to a degree, and the resilience of China's economy started to be more widely recognized.

Stop-loss orders triggered by the market plummet intensified the decline and eroded investment confidence, further weakening the stock market during phase I. However, in February 2024, Central Huijin Investment Ltd. (Central Huijin) revealed that it had expanded the scope of its ETF holdings. The significant increase in the net subscription in A-share ETFs during the weakest phase in January and February helped alleviate the stop-loss pressure and rebuild investor confidence, ultimately stabilizing the market.

Figure 2: Net subscription of A-share equity ETFs since 2023

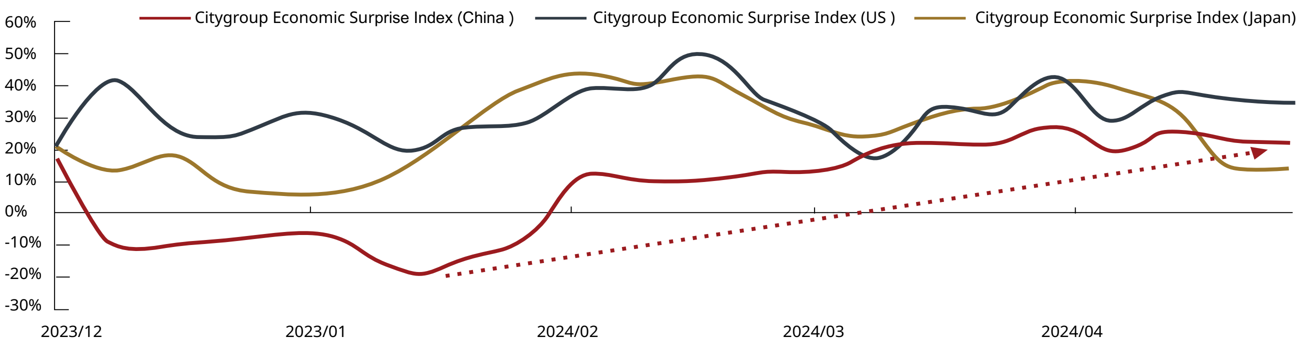


Source: CITIC Securities, as of 30 May 2024.

Phase III — Swinging upward in March and the first half of April

During this period, the Citi Economic Surprise Index - China stayed in positive territory and moved upward, reflecting the generally positive newly released economic data.

Figure 3: Citi Economic Surprise Index: United States, China and Japan



Source: Citi, as of 10 May 2024.

Phase IV — A rapid rebound from mid-April to mid-May, with Hong Kong stocks jumping nearly 20%

Some listed companies announced plans to increase share repurchases and dividend payments during the earnings seasons, partly contributing to the stabilization of the market.

The government rolled out a series of fresh capital market reforms and real estate supportive policies, including:

- The Nine New Guidelines (April 12)
- China Securities Regulatory Commission's five measures on capital market cooperation with Hong Kong (April 20)
- People's Bank of China's four measures to support real estate sector, including affordable housing refinancing (May 17)

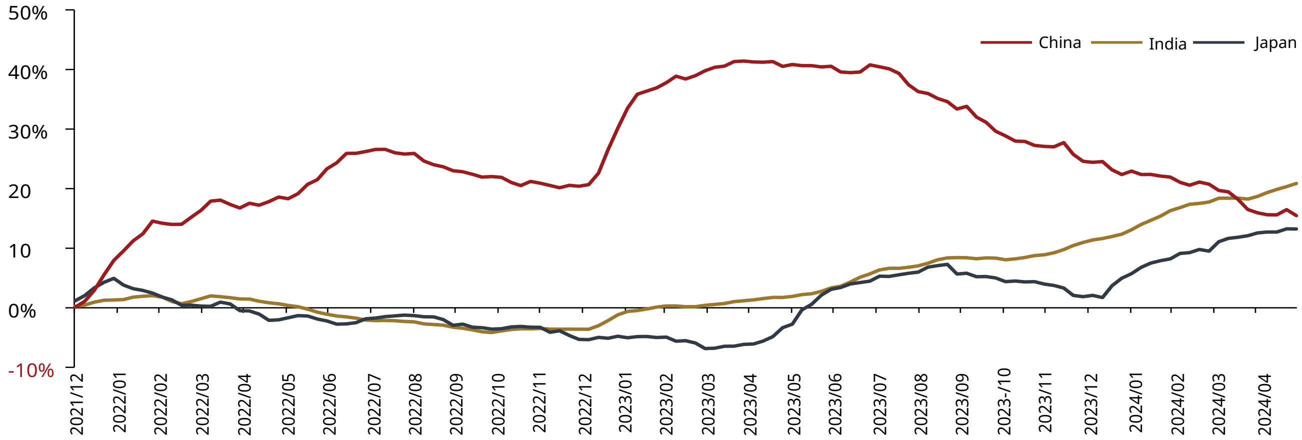
This rebound was mainly driven by investor expectations for the end-April Politburo meeting, the subsequent Third Plenum, and adjustments of real estate policies in first-tier cities in May, such as reduced downpayment ratios and eased purchase restrictions. However, China's manufacturing purchasing managers' index (PMI) fell into contraction territory in May, coming in lower than expectations. The breakdown data showed that external demand and future exports could be under pressure. The fluctuations in economic data and the external environment naturally leads to market corrections.

Looking ahead, a sustainable rise mainly depends on the continuous recovery of China's economy and corporate earnings, a wider range of stimulus policies, or a stronger-than-expected improvement of the external monetary environment and geopolitical landscape.

Traditionally, the dynamics of foreign capital flows are a key focus for investors assessing China's stock market performance. When markets spiral down, close attention is paid to signs of persistent selling by overseas investors. Conversely, during periods of market rebound, the focus shifts to whether foreign capital starts flowing back in. However, in the first half of 2024, this traditional pattern was disrupted, as foreign actively-managed funds continued to see outflows from Hong Kong stocks, irrespective of the market's overall trajectory. This suggests that the impact of foreign capital on China's stock markets has been relatively muted as valuations hit historical low levels after a prolonged period of correction. Given the current geopolitical landscape, the probability of traditional overseas investors significantly reallocating their funds in the second half of the year will probably be relatively low.

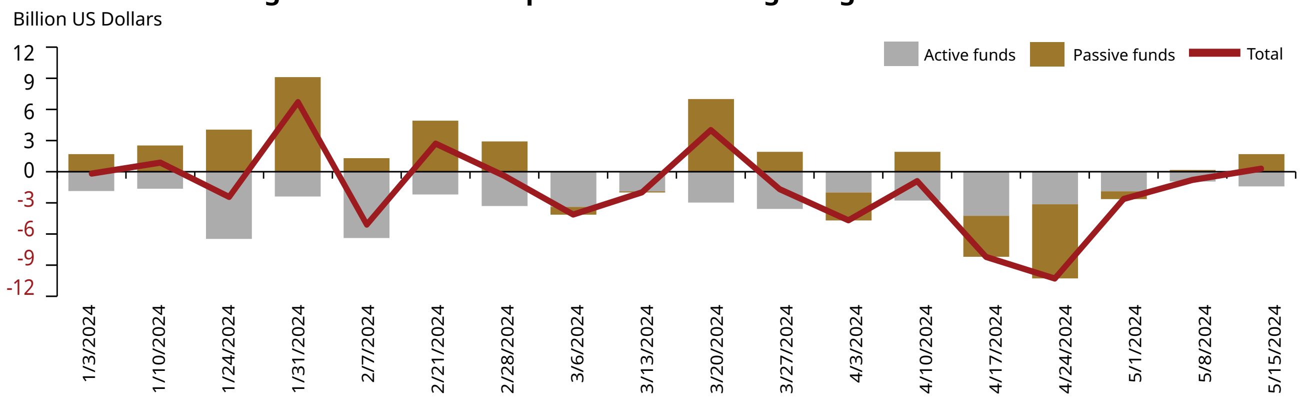
The key determinants of China's stock market performance lie in the economy's ability to overcome short-term challenges in the real estate sector, medium-term issues related to local government fiscal challenges, and the country's long-term economic structural transformation.

Figure 4: Overseas capital inflows into Asian equity markets



Source: CICC, as of 31 May 2024.

Figure 5: Overseas Capital Flows of Hong Kong Stock Market



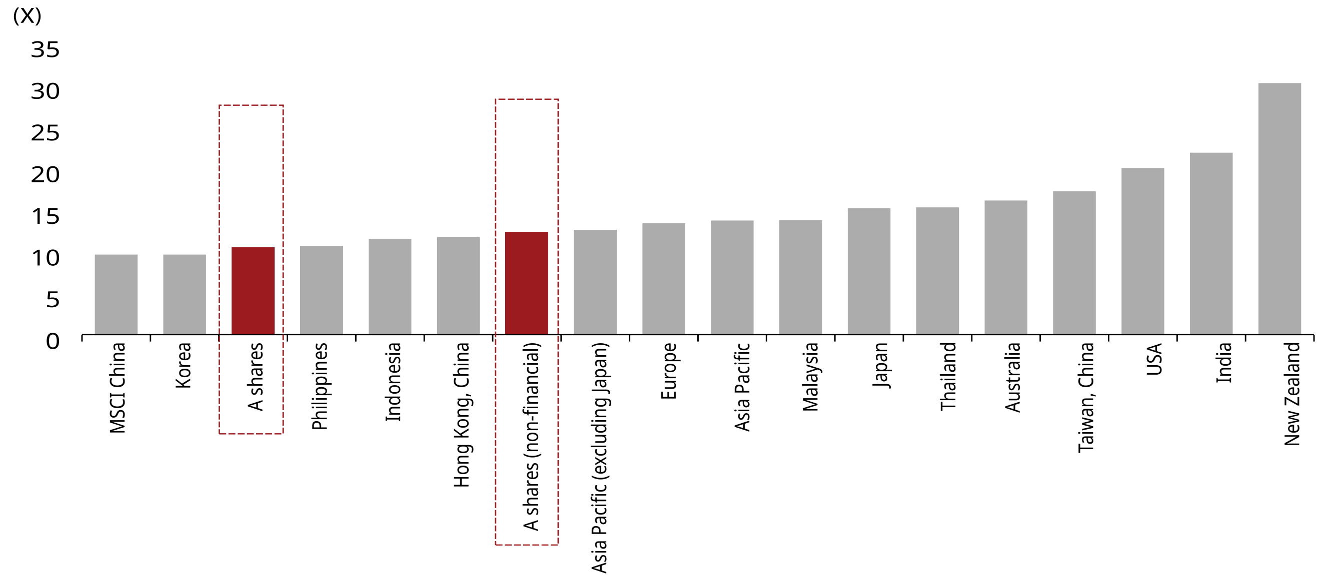
Source: CCB International, as of 20 May 2024.

2024 2H Market Outlook

We remain optimistic in general and believe in opportunities for continued recovery in China's stock market.

First of all, the valuation of China's stock market remains at low levels compared with other major markets globally, even after the recent readjustment. Notably, the current valuation of the Hong Kong stock market is around the low levels seen during previous market turmoil, such as the 2008 global financial crisis, the 2011 European debt crisis, the 2015 bursting of the domestic financial bubble, the 2018 deleveraging cycle, the COVID-19 pandemic in 2020, and the lockdown in 2022. Meanwhile, earnings expectations and risk appetites among investors remain extremely bearish.

Figure 6: Global valuation comparison (12M forward P/E ratio)



Source: CICC, as of 31 May 2024.

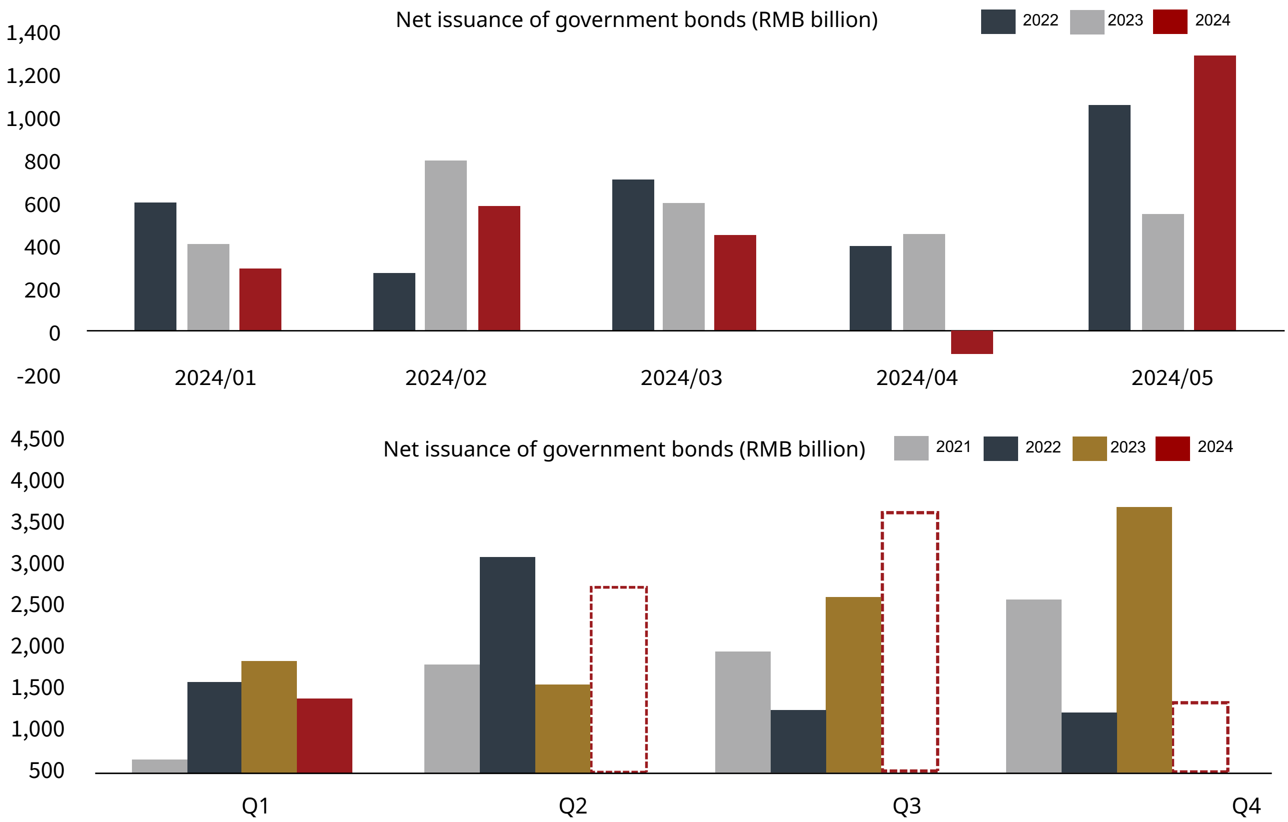
Secondly, the continuous improvement of economic fundamentals and the roll-out of more supportive measures to address short- to long-term challenges will be key to translating the current low valuations into a sustained rally. China's economic growth over the next two years is expected to outpace the global average, including both developed and developing economies. Domestically, the potential acceleration in government bond issuance may support expanded infrastructure investment in the second half of 2024. Currently, around 70% of the 2024 bond issuance quota remains unused, despite a significant jump in bond issuance observed in May. Moreover, China's exports are expected to remain robust. All these factors should help stabilize the overall economy and facilitate the recovery of corporate earnings. As a result, we expect earnings of companies listed in the A-share and Hong Kong stock markets to return to positive growth in 2024, with earnings growth expected to pick up from the third quarter onwards.

Figure 7: Global Economic Growth Projections

	2023	2024	2025
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Emerging Market and Developing Economies	4.3	4.2	4.2
China	5.2	4.6	4.1
India	7.8	6.8	6.5
Russia	3.6	3.2	1.8
Brazil	2.9	2.2	2.1
Mexico	3.2	2.4	1.4
Nigeria	2.9	3.3	3.0

Source: IMF, 30 April 2024.

Figure 8: Net Issuance of Chinese Government Bond



Source: Morgan Stanley, as of 28 May 2024. Data from the second to fourth quarter of 2024 are Morgan Stanley's forecasts.

Thirdly, China's reform initiatives and evolving external landscape in the second half of 2024 should be closely watched, as political events both at home and abroad are expected to weigh on the stock markets. For example, the reform policies that the Chinese government may introduce at the Third Plenum scheduled for July, and the potential chain effects stemming from the US presidential election could have significant implications. Other key issues expected to be covered during the Third Plenum that can have notable influence on China's medium- to long-term economic development include reforms to the fiscal and tax system, production factors and corporate governance.

Figure 9: Timeline for Major Global Political Events in the Second Half of 2024

June 2024		
European Central Bank Monetary Policy Meeting	Eurozone	Jun-6
European Parliament elections	European Union	Jun 6-9
Federal Reserve Monetary Policy Meeting	United States	Jun-12
Bank of Japan monetary policy meeting	Japan	Jun-14
Ukraine Peace Summit	Global	Jun15-16
July 2024		
UK General Election	United Kingdom	Jul-4
U.S. Republican National Convention	United States	Jul15-18
European Central Bank Monetary Policy Meeting	Eurozone	Jul-18
Bank of Japan monetary policy meeting	Japan	Jul-31
Federal Reserve Monetary Policy Meeting	United States	Jul-31
2024 Olympic Games	France	Jul 26-Aug 11
People's Bank of China Work Conference	China	To be determined
"The Third Plenary Session of the 20th Central Committee of the Communist Party of China"	China	To be determined
The latest economic outlook from the International Monetary Fund	Global	To be determined
August 2024		
Democratic National Convention	United States	Aug19-Aug22
Jackson Hole Economic Symposium	United States	Aug22-Aug24
September 2024		
European Central Bank Monetary Policy Meeting	Eurozone	Sep-12
Federal Reserve Monetary Policy Meeting	United States	Sep-18
Bank of Japan monetary policy meeting	Japan	Sep-20
Federal Reserve Chairman's Semiannual Congressional Testimony	United States	To be determined
Japan Liberal Democratic Party presidential election	Japan	To be determined
October 2024		
European Central Bank Monetary Policy Meeting	Eurozone	Oct-17
Bank of Japan monetary policy meeting	Japan	Oct-31
2024 Hong Kong Policy Address	Hong Kong	To be determined
IMF Global Economic Outlook Update	Global	To be determined
November 2024		
US presidential election	United States	Nov-5
Federal Reserve Monetary Policy Meeting	United States	Nov-7
G20 Summit	Brazil	Nov 18-19
APEC Meeting	Global	To be determined
December2024		
European Central Bank Monetary Policy Meeting	Eurozone	Dec-12
Federal Reserve Monetary Policy Meeting	United States	Dec-18
Bank of Japan monetary policy meeting	Japan	Dec-19
China Economic Work Conference	China	To be determined

Source: CCB International, as of 20 May 2024.

Last but not least, high-frequency economic data is expected to fluctuate as the pace of policy rollout varies during short-term economic recovery. In the meantime, external currency valuations and geopolitical events may also lead to ups and downs in investors' risk appetites. The performance of China's stock market ultimately roots in the stabilization of the economy and the introduction of medium- and long-term reform policies. While we expect a moderate recovery in China's economy and the performance of listed companies, the overall trend of increasing share buybacks and dividend payouts is expected to continue. In general, the market expects more policies to deepen reforms, as well as the implementation of real estate-related policies, to emerge from the upcoming Third Plenum and other high-level meetings.

Figure 10: Earnings Forecasts for A-shares and Overseas Chinese Stocks

Year	A-share profit forecast %					Overseas Chinese stocks profit forecast %				
	Financial	Non-financial			All	Financial	Non-financial			All
	Profit growth rate	Revenue growth rate	Net profit margin	Profit growth rate	Profit growth rate	Profit growth rate	Revenue growth rate	Net profit margin	Profit growth rate	Profit growth rate
2019A	15.2	7.7	4.8	-4.2	5.5	8.3	6.3	6.6	15.7	11.4
2020A	-0.1	1.6	5.0	4.2	2.3	-6.9	2.4	6.3	-2.0	-4.8
2021A	11.3	22.0	5.2	26.0	18.4	28.5	38.6	5.0	9.7	20.2
2022A	1.0	8.8	5.1	1.5	1.3	-1.2	6.6	4.2	-9.6	-4.6
2023A	1.1	2.2	5.0	-3.3	-1.3	-2.5	0.4	4.4	6.7	1.0
2024E	0.4	3.6	4.9	1.6	1.0	0.8	3.7	4.4	4.7	3.7

Source: Wind, CICC, as of 31 May 2024.

Based on our analysis of the observed economic data, policy buffers and reform direction, we probably expect China's stock market to exhibit an overarching trend of upward climbing, albeit with some fluctuations, in the coming six months.

2024 2H Main Allocation Strategies and Investment Themes

In the first half of 2024, three investment themes achieved excess returns in both the A-share and Hong Kong stock markets despite elevated volatility: **1) high-dividend companies with competitive edges/operating advantages; 2) "going global" companies with capabilities to enter new markets/expand global footprints;** 3) energy sector stocks that provide protection for investors in a chaotic monetary environment.

As the Chinese economy continues to improve, underpinned by supportive policies, the market's overall risk appetite is expected to increase gradually in the second half of 2024. As a result, investors are likely to rebalance their funds allocations towards both value and growth sectors. We recommend using state-owned enterprises (SOEs) offering high dividends to form a robust investment foundation, particularly those with clear competitive edges and operating advantages. Investors may also consider increasing exposure to growth sectors that reflect the ongoing transformation of China's economic structure, focusing on companies that innovate domestically and have the potential to expand globally.

High-dividend SOEs generally trade at low valuations but with high payout ratios. In the coming months, factors such as the weakening of the overseas economies, fluctuations in Sino-US relations, the possibility of the Federal Reserve rate cuts and high interest rates may still contribute to market volatility. However, under the new "one profit and five rates" assessment requirements for SOEs, the overarching business objectives have shifted towards improving ROE and enhancing shareholder returns. This makes high dividend payout ratios an attractive premium for investors in the volatile market environment.

The Internet and technology industry is experiencing a new wave of AI-led technological innovation. Leading Hong Kong-listed internet companies are leveraging AI models to drive down costs, improve operational efficiency, and spur innovation across industries. The stabilization of China's macroeconomy is expected to provide support for the performance of these listed internet giants. In the medium-to long-term, the AI technology revolution is poised to drive further growth in the sector.

Valuation of **the biopharmaceutical industry** have reached historical lows after a three-year correction period. During this phase, a large number of listed companies have significantly advanced their R&D pipelines, with many lower-valuation players licensing their products to large global pharmaceutical companies. We expect leading biopharmaceutical companies to gradually return to profitability over the next three years, leading to more stable valuation for the overall industry probably.

Global Bonds

2024 1H Market Review

As we reach the midpoint of 2024, market performance has deviated significantly from initial expectations at the start of the year. While the US Federal Reserve (Fed) has held interest rates steady despite persistent inflation and a healthy labor market, central banks across the rest of world have shifted towards a rate cut cycle. As the US economy remains on track for a soft landing, the overall market risk sentiment has stayed positive in the mid-year of 2024.

Volatility has declined across most asset classes, with commodities and equities outperforming bonds. In the bond market, US Treasury yields have fluctuated upward, with the 10-year yield rising about 40 basis points year-to-date. Meanwhile, credit spreads have continued to narrow, extending the 2023 trend of credit bonds outperforming interest rate bonds and high-yield bonds outperforming investment-grade.

Figure 11: Performance of Global Asset Classes

Index	2020	2021	2022	2023	Q1 2024	Since April 2024	YTD
Nasdaq	43.6%	21.4%	-33.1%	43.4%	9.1%	7.9%	17.7%
Nikkei index	16.0%	0.5%	-5.3%	28.2%	20.0%	-3.6%	15.7%
U.S. S&P 500 stocks	18.4%	28.7%	-18.1%	26.3%	10.6%	3.7%	14.7%
Gold	25.1%	-3.6%	-0.3%	13.1%	8.1%	3.3%	11.7%
Industrial metals	14.8%	29.6%	-7.6%	-4.5%	0.3%	9.5%	9.7%
WTI crude oil	-20.5%	55.0%	6.7%	-10.7%	16.1%	-5.5%	9.7%
Eurozone stock index	-5.1%	21.0%	-11.7%	19.2%	12.4%	-2.9%	9.2%
Hong Kong Hang Seng Index	-3.4%	-14.1%	-15.5%	-13.8%	-3.0%	9.5%	6.2%
Emerging market stocks	15.8%	-4.6%	-22.4%	7.0%	1.6%	3.4%	5.1%
U.S. dollar index	-6.7%	6.4%	8.2%	-2.1%	3.2%	0.6%	3.8%
Global high yield bond total return	7.0%	1.0%	-12.7%	14.0%	2.1%	1.2%	3.4%
Agricultural products	14.9%	24.7%	12.1%	-8.3%	0.9%	2.2%	3.1%
CSI 300	27.2%	-5.2%	-21.6%	-11.4%	2.6%	0.1%	2.8%
Russell index	18.4%	13.7%	-21.6%	15.1%	4.8%	-4.0%	0.6%
Global investment grade bond total return	9.2%	-4.7%	-16.2%	5.7%	-2.1%	-0.4%	-2.5%

Source: BBG, updated as of 14 June 2024.

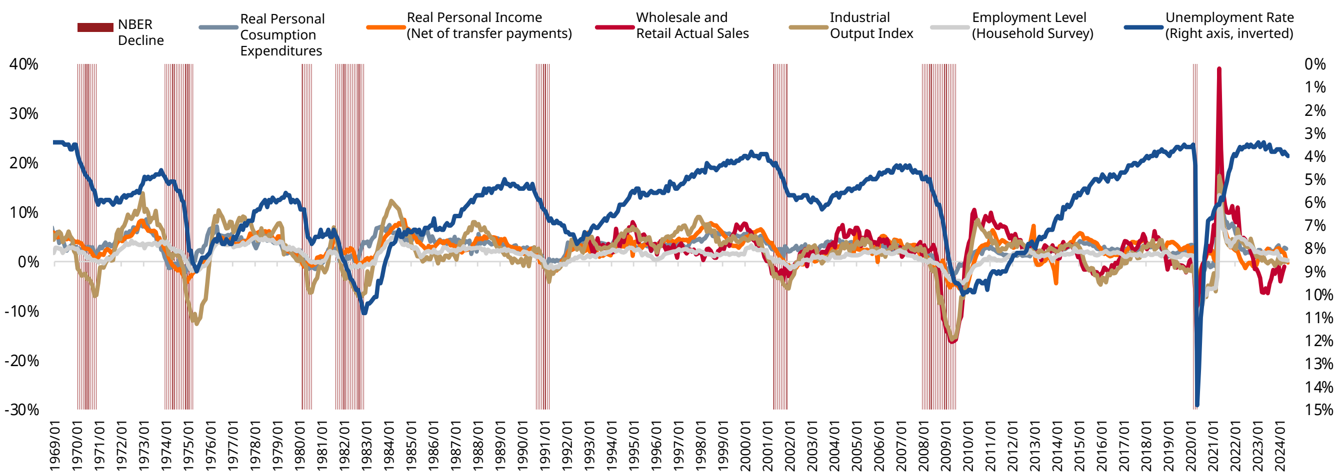
Macro Economy and Policies

Inflation. High flying prices remain the key factor holding the Fed back from cutting interest rates. Inflation readings have exceeded expectations for three consecutive months in the first quarter, suggesting the last mile to achieving the Fed's 2% inflation target may prove choppy. In the second quarter, price pressures showed signs of easing in two out of three months. Looking ahead, we believe the rise of the emerging industrial chain and a three- month streak of core PCE below 2.75% will help pave the way for rate cuts. This is in spite of the expectations that certain commodities will inch upward over the amid global structural changes. At the same time, the impact of the third quarter's baseline should not be underestimated.

Labor market. Indicators have displayed mixed signals across periods and metrics. However, we notice that the overall US labor market has gradually cooled to an equilibrium level after eliminating factors such as government and immigration-related hiring. While further softening is possible, the probability of a sharp spike in the unemployment rate remains low.

Macroeconomy. We concur that the US economy remains well-positioned for a soft landing in the baseline scenario. That said, we expect a weaker third-quarter reading because of two reasons: consumption retreats with the drawdown of excess savings, and slower recovery in manufacturing investment and real estate as a result of tighter credit conditions brought by higher interest rates.

Figure 12: The US economy has weakened recently, but remains relatively healthy



Source: BBG, updated as of 14 June 2024.

US monetary policy. The Fed outlined details of a measured slowdown in the pace of its balance sheet reduction at the May Federal Open Market Committee (FOMC) meeting. Yet the latest dot plot suggests neutral expectation for rate cuts in 2024 has been lowered from three to one. In consideration of our assessment of inflation and labor market conditions, we expect the Fed will initiate rate cuts in the third quarter, with 1-2 reductions in total this year. Importantly, we expect the Fed to carefully manage rate cut expectations in alignment with economic growth and market trends. The initial phase of easing is likely to proceed gradually, with the federal funds rate declining to around 3.5% by the end of this cycle.

Fiscal Policies. This year, both government revenues and expenditures, as well as Treasury issuance have remained at high levels. At the same time, we expect a tight race at the year-end presidential election, and that fiscal policy uncertainties may persist given the polarized Congress.

Other major economies. Central banks in Japan and Europe have made modest policy adjustments in the first half. However, the Fed's stance has introduced challenges to Japan's inflation control and exchange rate stabilization efforts, as well as the European Central Bank's growth stabilization goals. Meanwhile, in emerging markets, several Latin American countries have initiated rate cuts. And while the overall election results in India and Mexico aligned with market expectations, the newly-formed parliaments in both countries have disrupted their respective local currency markets to a degree. We expect overall economic growth in emerging economies to remain robust, but recommend close monitoring of fiscal policies and government debt levels.

2024 2H Market Outlook

Interest Rates

In the first half of 2024, the US Treasury interest rate edged up from the low point at the beginning of the year. The 10-year benchmark yield spiked to over 4.7% in mid-April from 3.8% at the start of 2024, before dropping to the current level of around 4.3%. Meanwhile, 2-year and 10-year Treasury yield curves have inverted within a narrow range of 20-50bp for most of the period. Looking ahead, we expect US Treasury yields to continue fluctuating within a certain range in the coming quarter, with long and short positions reaching a relatively balanced level and a large auctioned issuance volume restraining rapid yield declines. However, as we approach the first anticipated Fed rate cut, Treasury yields are restrained from rising significantly, and the yield curve is likely to steepen in the medium term.

Given this outlook, we now maintain a relatively neutral stance on interest rates. We prefer allocating funds to 5- to 7-year Treasuries, which can provide better protection against investment risks to a degree while generating higher returns. For 10-year Treasuries, we recommend adding long-duration positions opportunistically when rates rise.

Credit Bonds

Global credit spreads have exceeded our initial expectations, tightening unilaterally across most sectors in the first quarter and fluctuating within a tight range at low levels during the second quarter. This development can be attributed to two main factors. On one hand, the decline in interest rates and easing of financial conditions in the United States towards the end of last year provided support for credit expansion in the first quarter. This has in turn bolstered corporate credit fundamentals, such as profitability and liquidity. On the other hand, strong demand from non-US all-in-yield buyers, particularly those in Asia and the Middle East, has not only effectively absorbed the substantial supply of credit bonds year-to-date, but also pushed credit spreads to historical highs relative to their own valuation record or when compared to US Treasuries and mortgage-backed securities (MBS).

At present, we remain cautious towards US credit spreads. From a valuation perspective, the current spread between BBB-rated and A-rated credits is at a relatively low level, leaving limited room for further tightening. Whether interest rates rise due to heightened inflation pressures or decline in response to risk events, credit spreads are still expected to widen.

Looking at the fundamental factors, while the bond financing costs for large corporates have not increased significantly, low-quality issuers with weaker profitability and shrinking operating cash flow are likely to face difficulties in debt repayments. This came as bank lending rates for small businesses soar and a sizable volume of corporate bonds mature in 2025.

From a supply-and-demand perspective, as we enter the rate cut cycle in the second half of the year, new bond issuance is expected to decline while investor demand is projected to increase, providing technical support for the credit market.

Other Segments

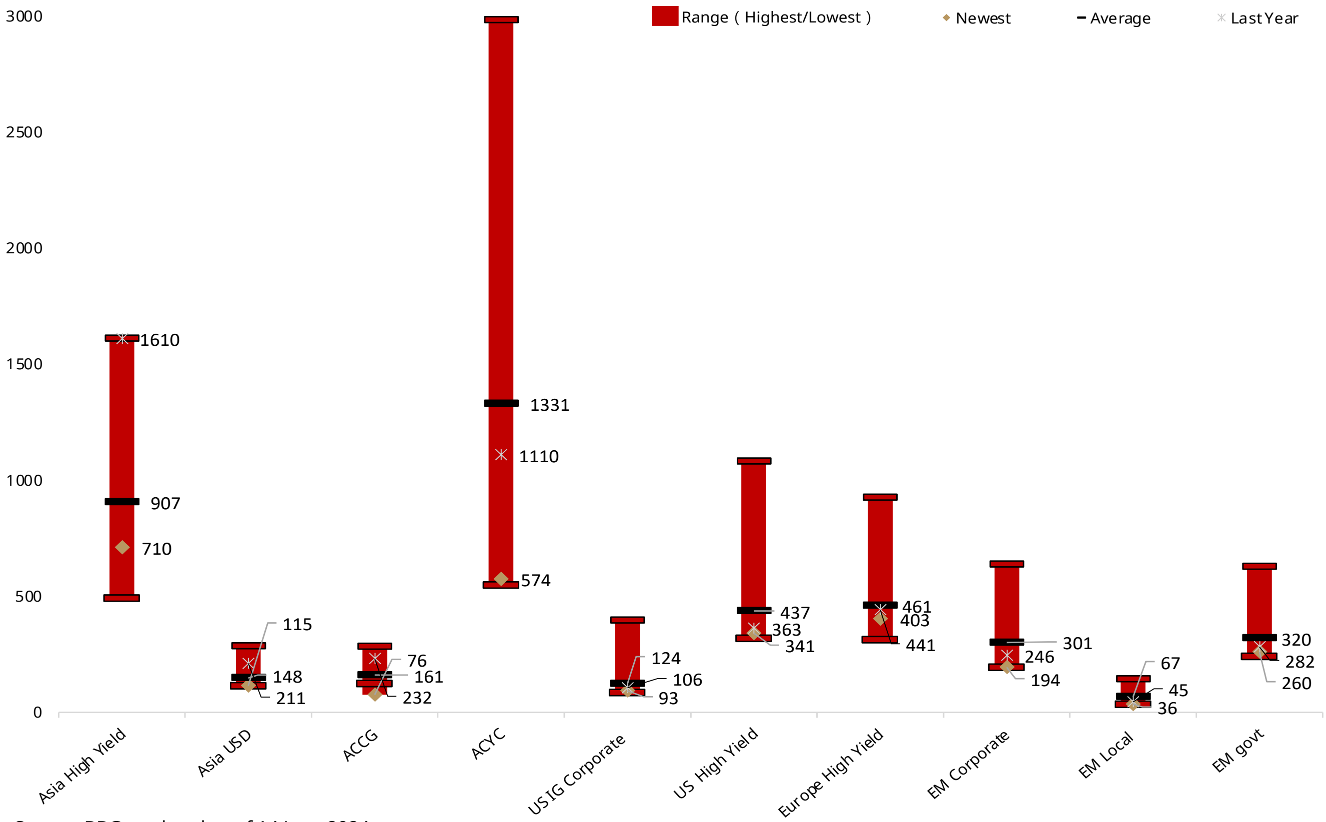
Chinese-issued USD bonds. The low correlation of Chinese-issued USD bonds makes them an attractive option for risk diversification, despite historical high valuations.

Developed markets. The financial sector in markets such as Europe and Australia continue to trade at a premium over large US banks.

USD-denominated emerging markets bonds. Corporate bonds have significantly outperformed sovereign bonds year-to-date. As political risks become more priced-in, bonds from certain commodity-exporting countries may offer opportunistic investment value as commodity prices rise again.

Overall, the relatively lagging bond sectors since the start of the current rate hike cycle have reversed course this year. For example, the spread between financial and corporate bonds has narrowed, while 30-year credit spreads have widened relative to 10-year spreads. These developments suggest that the market has begun to price in future rate cuts. We maintain a relatively neutral stance towards these sectors and remain cautious about the overall credit duration. We prefer a balanced allocation approach, seeking sector rotation opportunities amid market volatility, rather than betting on a single region or industry.

Figure 13: Valuation Levels of Bond Assets by Sector



Source: BBG, updated as of 14 June 2024.

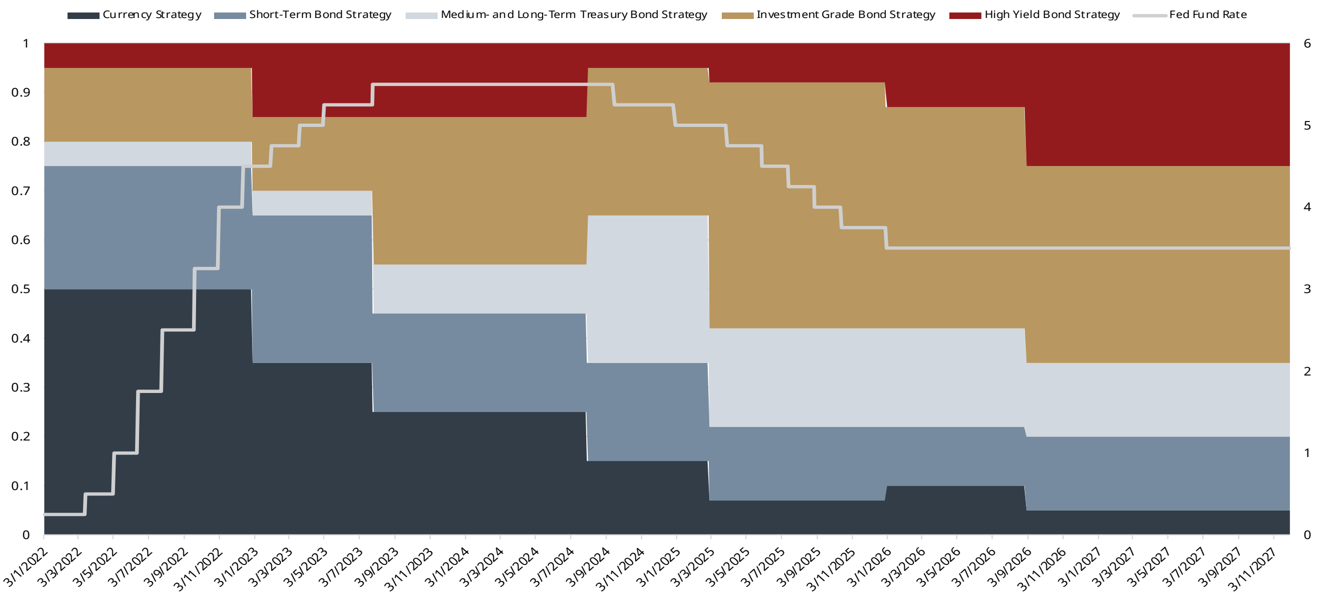
Asset Allocation Strategies for Overseas Bonds

Long-term investment returns from fixed income assets hinge on making right adjustments to sector allocations in alignment with evolving economic cycles. As the Fed gradually transitions from a high interest rate environment to a rate cut cycle, we recommend overweighting rates over credits. Within the rates space, we favor medium and long tenors over short tenors.
We suggest reducing exposure to high-yield and cash strategies in the coming quarter, and reallocating towards medium- and long-term rates that have lagged the broader bond market in the past three years. This approach should allow investors to capitalize on the anticipated decline in interest rates, while avoiding potential downside risks associated with credit fundamentals and valuation corrections.

Risk points to carefully monitor

- US presidential election and fiscal policy uncertainties
- The rise of benchmark interest rates and credit spreads in a weak economy with persistent inflation

Figure 14: Bond Asset Allocation Strategies



Source: ChinaAMC Hong Kong as of 14 June 2024.

RMB Market Review and Outlook

The USD/CNH spot has risen from 7.1250 to 7.27 year-to-date, trading within a range of 7.23 to7.28. Despite depreciating roughly 2% against the USD in the first half of the year, the RMB has remained relatively strong compared to other Asian currencies. Looking ahead, we expect the upward pressure on the RMB to persist in the second half, though the possibility of a breakthrough move cannot be ruled out. The USD has maintained resilience, bolstered by the strength of the US economy, inflation, and labor market. Furthermore, the divergence between the Fed policy path and that of other major central banks, such as the European Central Bank and Bank of Canada, is leading to a later-than-expected timeline for rate cuts, providing additional support for USD. The RMB, however, lacks solid and sustainable economic fundamentals. Its upward trajectory relies on supportive policy for the real estate sector and a generally easing monetary environment.

The USD/CNH swaps market has exhibited heightened volatility so far this year. After a sharp spike, the USD/CNH swap rates have fallen back to below their level at the beginning of the year. Specifically, the short-term three-month hedging cost has climbed from its lowest point of 1.1% to 2.9%, while the one-year hedging cost has risen from 2% to 2.6%. The drivers behind these ups and downs are multifaced. The upward pressure on the spot USD/CNH has led to tightening overseas liquidity, pushing up the swap curve. Conversely, the rate spreads between China and the United States, as well as arbitrage trades between onshore and offshore markets, have contributed to the downward movements. This year, we continue to observe tighter USD liquidity in the onshore swap market, vis-a-vis tighter RMB liquidity in the offshore market. Looking ahead, we expect the USD/CNH swap rates to remain on a downward trajectory over the next six months. In this context, we recommend investors be opportunistic in capturing short-term favorable exchange rates, locking in gains as the swap curve moves up.

The Chinese government bond yield curve has exhibited a downward slope of around 25-45 basis points and signs of flattening out, aligning with our previous year-end projections.

The short-end has been driven by the accommodative monetary policy of rate cuts and reserve requirement ratio reductions, while the medium to long-end has been driven by market expectations for the economy and risk sentiment. The recent rally in the equity market provided very limited upside impact on government bond yields, and was further compounded by a flight-to-safety and yield-seeking behavior, with both institutional and retail investors increasing their inflows into the domestic government bond market.

Currently, the 10-year government bond yield of 2.3% and the 1-year Negotiable Certificates of Deposit (NCD) of 2% are significantly lower than the medium-term lending facility rate(MLF) of 2.5%. The market still holds expectations for further rate and RRR cuts. Additionally, the upcoming issuance of special government bonds and the seasonal issuance peak in the third quarter are not expected to have a significant impact from the supply side, based on recent issuance results and market responses. Investors should closely monitor the People's Bank of China's guidance for rural commercial banks. **In conclusion, we expect the government bond yield to fluctuate within a range of 20 basis points in the short term and continue to move downward in the medium term.**

2024 1H Crypto Market Review

US spot Bitcoin exchange-traded funds (ETFs) were approved on 10 January 2024; HK spot Bitcoin and Ethereum (ETH) ETFs received approval on 29 April 2024.

Bitcoin Halving Milestone on 20 April 2024

The Bitcoin halving event, which reduces mining rewards, occurs every 210,000 blocks generated or approximately every four years. This year, it took place on 20 April. Since that date, the daily mining reward has dropped from 900 bitcoins (1.8% new issuance rate) to 450 bitcoin (0.9% new issuance rate), reducing the monthly addition to the total bitcoin supply to approximately 13,500 bitcoins. The Bitcoin halving is a programmed event that will continue to occur every 210,000 blocks mined unitil 21 million bitcoin have been mined, which is estimated to happen sometimes around the year 2140.

Figure 15: Historical Bitcoin Halving Milestones

Bitcoin Halving Dates	Rewards per Block	New Issuance Rate (Annual)	Total Bitcoin Supply (Million)
2012/11/28	25.0 BTC	9.6%	10.50 BTC
2016/07/09	12.5 BTC	3.8%	15.75 BTC
2020/05/11	6.25 BTC	1.8%	18.37 BTC
2024/04/20	3.125 BTC	0.9%	19.68 BTC

Source: Coin Metrics, as of 13 March 2024.

Accelerated approval of US spot ETH ETFs

On May 23, The US Securities and Exchange Commission (SEC) granted approval of the 19b-4 filings from eight spot ETH ETFs issuers, including VanEck, BlackRock, Fidelity, Grayscale, Franklin Templeton, ARK 21 Shares, Invesco Galaxy, and Bitwise. This essentially greenlights the listing and trading of their ETH ETFs.

According to Bloomberg's ETF analyst, if the SEC follows a similar timeline to the approval of spot Bitcoin ETFs, the debut of these spot ETH ETFs could come as early as July 2024.

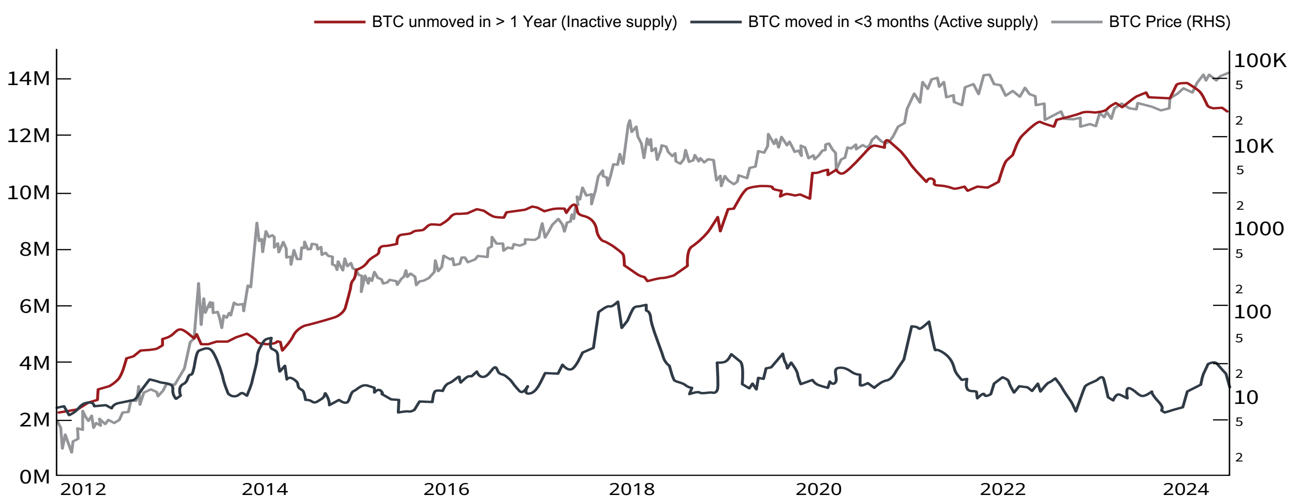
Figure 16: YTD Bitcoin and ETH Returns

Source: Coin Metrics, as of 27 May 2024.

Active Bitcoin Supply Spiralled Down in Q2 2024

Historical data shows that a decline in active bitcoin supply - the amount of bitcoin that has been traded over the past 3 months - typically lags local price highs, suggesting a slowdown in trading volume. Active bitcoin supply dropped to 3.1 million in early June after hitting a local price high of 4 million in early April. In the meantime, inactive bitcoin supply, which refers to the amount of bitcoin that hasn't changed hands within one year, has remained stable year-to-date. We believe this is an indicator that the recent "euphoria wave" has subsided, though longer-term cyclical investors remain vigilant.

Figure 17: Bitcoin Supply vs. Demand



Source: Glassnode, Coinbase, as of 13 March 2024.

All eyes on Long-term holders

The market value to realized value (MVRV) ratio of long-term holders is approaching 3.5, which has partly cemented the ongoing Bitcoin bull market. However, the current market has yet to enter the "euphoria phase".

Figure 18: Bitcoin Long-Term Holder MVRV

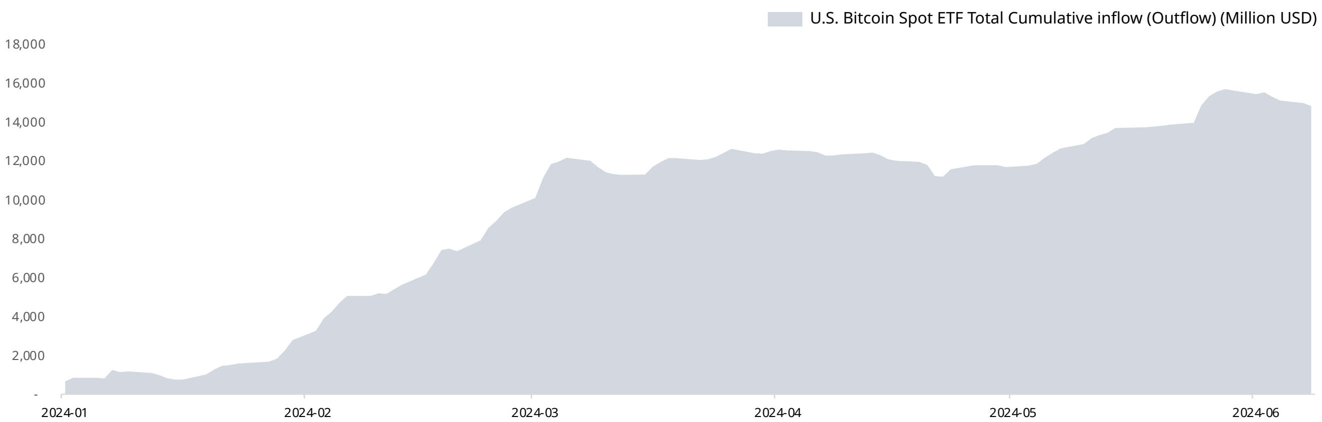
Source: Glassnode, as of 28 May 2024.

The number of active and new addresses in Bitcoin is declining.

Bitcoin Market Status

US Bitcoin spot ETFs saw outflows of around $64 million on June 10, $200 million on June 11, and $226 million on June 13. These sizable withdrawals have softened Bitcoin price.

Figure 19: Total Cumulative Inflows into US Bitcoin spot ETFs



Source: ChinaAMC (HK), Penta Lab; Data as of June 12, 2024.

Bitcoin Market Outlook

The 10-year US Treasury yield dropped from 4.43% on June 7 to 4.22% on June 14, a 21 basis-point correction. This signals an increase in investor demand for risk assets, which could provide price support for all risk assets, particularly Bitcoin.

The Bitcoin Miners ETF (BBG ticker: WGMI), a leading indicator of Bitcoin price movements, has seen a 21% increase in value this week. This upward trend suggests that "smart money" investors are betting on a brighter future by leveraging the current softness in Bitcoin prices to increase their holdings.

The positive development in the approval of spot ETH ETFs has had a positive spillover effect, further boosting Bitcoin prices. Bitcoin may have significant potential to rise further before becoming overheated.

In summary, despite the occasional softening of Bitcoin prices, we still see a series of positive factors supporting the cryptocurrency. Investors may closely monitor the impact of these factors, assess risks and rewards in a prudent manner, and develop their own investment strategies.

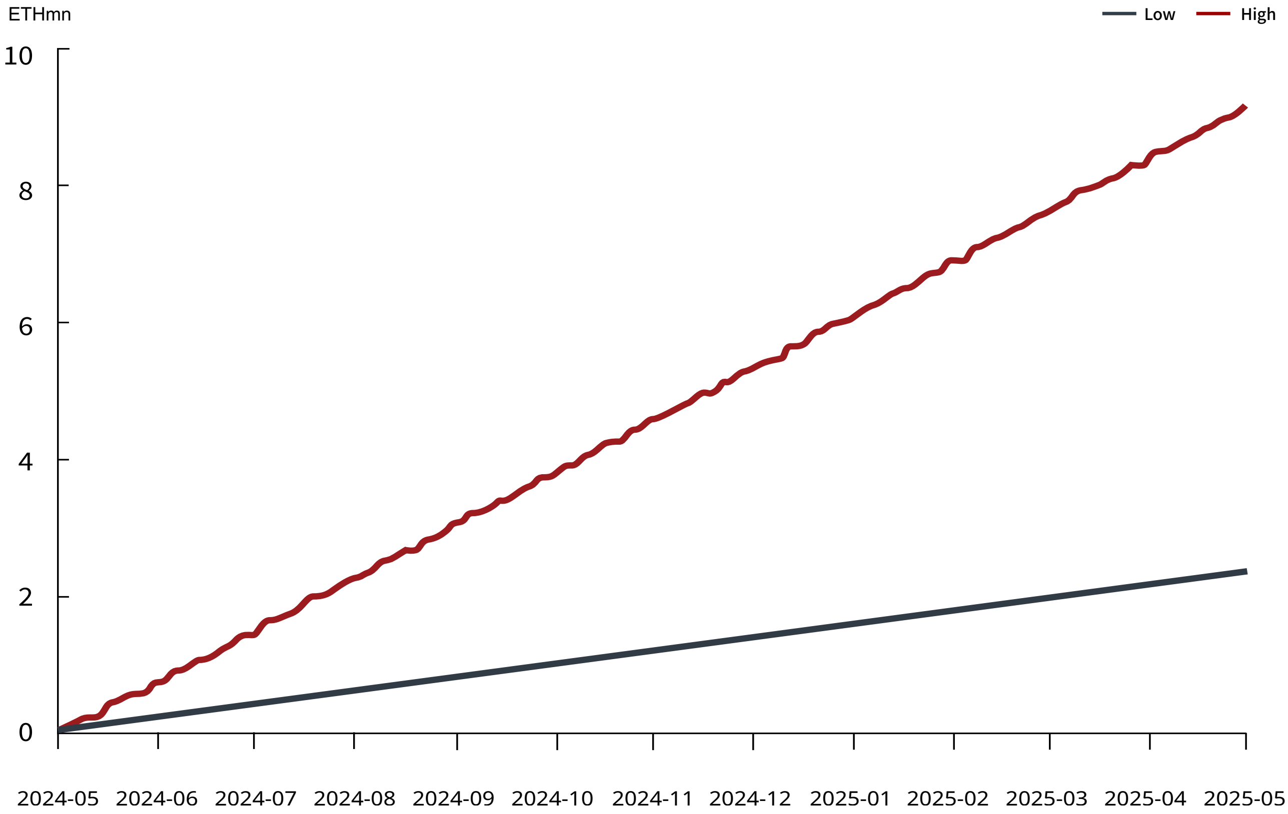
In addition, we are watching closely for the potential impact of the 2024 US presidential election on digital assets. We believe that a Trump presidency will positively influence the crypto market through more friendly regulatory measures.

Ether Market Outlook

A recent tweet by Bloomberg ETF analyst Eric Balchunas suggesting an earlier-than-expected spot ETH ETF debut on July 2 has sparked wide discussion in the market.

According to a recent Standard Chartered report, sizable funds are expected to flow into ETH market, driven by the anticipated launch of ETH ETFs. This resembles the fund flow pattern seen in the Bitcoin market after the approval of relevant Bitcoin ETFs. The debut of spot ETH ETFs is expected to bring about $150 to $450 billion in the first 12 months following approval.

Figure 20: Estimated inflows to Spot ETH ETFs Over the Next 12 Months



Source: Standard Charted Research, data as of March 18, 2024.

Cooling inflation and the Fed's hawkish policy stance, the dominated focus in the markets lately, have been sending somewhat confusing signals to the cryto asset space. Latest CPI data shows a year-on-year decline for the second straight month in the United States. This continuous decline in inflation could potentially be positive for crypto assets. Meanwhile, the Fed also surprised the market by increasing the expected number of rate cuts from one to two in 2024, which should further boost risk assets. Even though the Fed has driven up long-term interest rates, the upward trajectory of the 10-year Treasury yield has been reversed, suggesting that the market anticipates a more accommodative monetary environment ahead. Looking forward, lower inflation may lead to further policy adjustments. However, we expect the Fed's stimulus measures to further bolster crypto assets by the end of this year.

About ChinaAMC (HK)

Established in 2008, China Asset Management (Hong Kong) Limited ("ChinaAMC (HK)") is a leading Chinese asset manager in Hong Kong. The company is a wholly owned subsidiary of China Asset Management Co. Limited, one of the trusted asset managers and largest ETF provider in Mainland China with over USD 300 billion in assets under management as of March 31, 2023.

ChinaAMC (HK) has amassed an impressive performance history in both active and passive investments over the past 16 years. Boasting robust expertise in a variety of asset classes, such as Greater China equities, Asian and global fixed income, and global ETF series, ChinaAMC (HK) adopts a global outlook to build a versatile platform catering to institutional and retail investors in the region and worldwide. Committed to innovation and growth in the financial sector, ChinaAMC (HK) is actively expanding into the Web 3.0 space, exploring new opportunities in blockchain and decentralized finance technologies. All efforts align with their vision of being "Beyond China Expert".

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Active Strategies

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Global Multi Asset		
• Global Multi Income Fund		

Global ETF Suite

Greater China Equity	Asia Equity	Global Equity
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Fixed Income & Money Market	**Leveraged & Inverse Product**	**Crypto Asset**
• 20+ Year US Treasury Bond ETF • Asia USD Investment Grade Bond ETF • China Treasury + Policy Bank Bond Index ETF	• NASDAQ 100 Daily (2x) Leveraged • NASDAQ 100 Daily (-2x) Inverse	• Spot Bitcoin ETF • Spot Ether ETF

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Asia Asset Management
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- Greater China/China Equity- Platinum

Bloomberg Businessweek Top Fund 2023
- Fixed Income (1 year)- RMB Bond - Outstanding Performer
- Equity (5 years) - China - Best Performer
- ETF - Total Return (1 year) - China Bond - Outstanding Performer
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- ETF - Tracking Error (1 year) - Technology - Outstanding Performer

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- Top Fund - Mutual Fund - Global Fixed Income - Best-in-Class

The Asset Triple A Sustainable Investing Awards 2024: The Asset, data as of May 2, 2024; LSEG Lipper Fund Awards 2024: LSEG, data as of May 10, 2024; Insights&Mandate Professional Investment Awards 2024: Insights&Mandate, data as of March 1, 2024; Asia Asset Management Best of the Best Awards 2024: Asia-Pacific Media Limited, data as of January 30, 2024; Fund Selector Asia Fund Awards Hong Kong 2024: Fund Selector Asia, data as of January 30, 2024;Bloomberg Businessweek Top Fund 2023: Bloomberg Businessweek, data as of March 27; BENCHMARK Fund of the Year Awards 2023: BlueOnion, data as of January 20.

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