華夏基金(香港)
ChinaAMC (HK)

MARKET INSIGHTS

May 2024

Equity

In addition to the strong performance of GDP in the first quarter, China also saw improvements in fixed asset investment and manufacturing investment compared to the beginning of the year. The improvement in manufacturing investment can be attributed to the boost from previous export growth and improvement in industrial enterprise profits. During the Politburo meeting, the government called for more policy support for the delivery of pre-sold new homes, local government debt resolution, high-tech manufacturing, green industries, and market reforms. The government also focused more on the implementation of planned easing measures. The five measures to boost the Stock Connect and the Ministry of Finance proposal to support the gradual increase in government bond trading to enhance liquidity have generated positive expectations among investors for the advancement of other key measures in the future.

Market Performance

MSCI China index rose by 6.42% in April, driven by rising buyback and dividend payout by internet names, China's capital market guideline, and anticipation of more property easing at the April 30th politburo meeting. The central bank emphasized that China's economic performance continues to show a positive trend of recovery and improvement, which will promote a moderate increase in prices and enhance the effectiveness of monetary policy tools. Meanwhile, during the process of economic recovery, the central bank will also pay attention to changes in long-term interest rates and ensure the smooth transmission mechanism of monetary policy. Structurally, the central bank has pointed out the need to increase financial support for large-scale equipment renewals and trade-ins of consumer goods. The regulatory commission has also announced five measures to enhance cooperation in the capital markets with Hong Kong, which include expanding the range of eligible products for stock ETFs under SH-HK Stock Connect and SZ-HK Stock Connect, adding REITs to the SH-HK Stock Connect and SZ-HK Stock Connect, etc. In the first quarter of 2024, China's GDP grew by 5.3% year-on-year and 1.6% quarter-on-quarter, indicating a marginal improvement in economic momentum. The government issued the " Implementation Rules for Car Trade-in-Subsidy," which specifies the subsidy policy for the trade-in of old vehicles for new ones.

Greater China Indices	Apr Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3604.39	1.89	5.05	3108.35	4092.85
MSCI China	58.34	6.42	4.27	48.75	67.27
HSI	17763.03	7.39	4.20	14794.16	20361.03
HSCEI	6273.75	7.97	8.76	4943.24	7023.88
Global Indices					
S&P 500	5035.69	-4.16	5.57	4048.28	5264.85
Dow Jones Industrial Average	37815.92	-5.00	0.34	32327.20	39889.05
Nasdaq Composite	15657.82	-4.41	4.31	11925.37	16538.87
FTSE 100	8144.13	2.41	5.31	7215.76	8199.95
DAX 30	17932.17	-3.03	7.05	14630.21	18567.16
Nikkei 225	38405.66	-4.86	14.77	28931.81	41087.75

Economic Data

China's manufacturing PMI index fell to 50.4 in Apr from 50.8 in Mar. Among major sub-indexes of NBS manufacturing PMI, the new orders sub-index fell to 51.1 from 53.0, the output sub-index increased to 52.9 from 52.2, and the employment sub-index inched down to 48.0 from 48.1. The non-manufacturing PMI fell to 50.3 in Apr from 52.4 in Mar, driven entirely by a decline in the services PMI which decreased to 50.3 from 52.4. According to the survey, the PMIs of transport service industries such as postal, railway, and road transport services were above 55 while the PMIs of real estate and financial services were weak in April. The construction PMI edged up in April to 56.3 from 56.2 in March. NBS also noted that the growth of the infrastructure-related construction sector accelerated in April.

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Wind, as of 30 April 2024. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

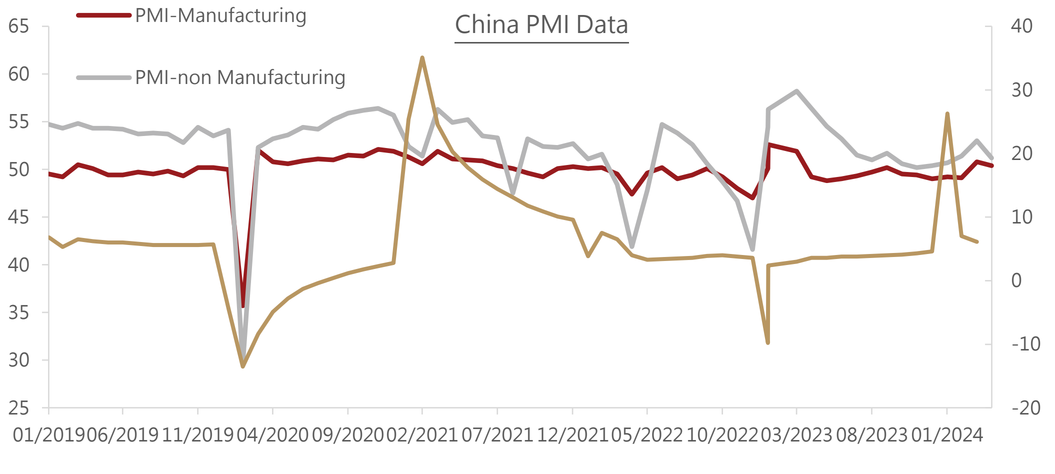
Risk

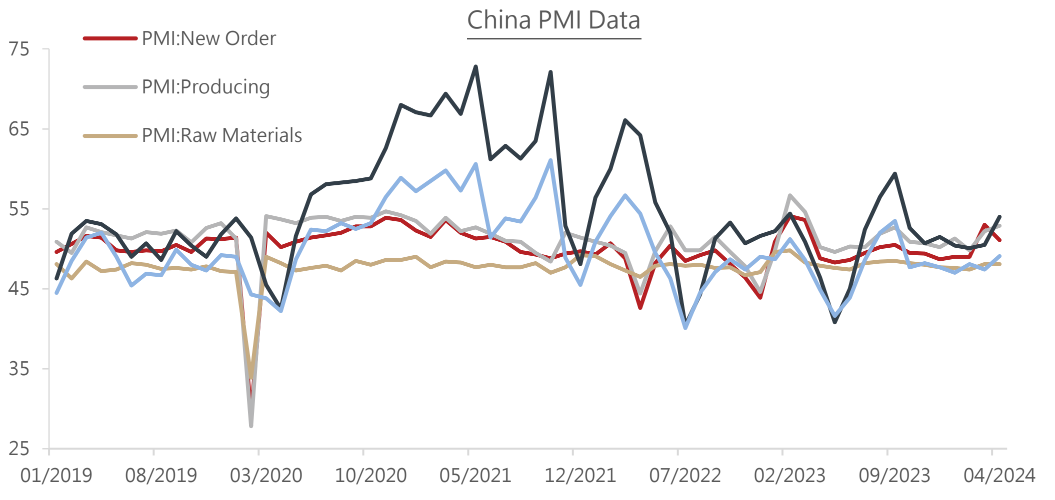
Sino-US relationship worsens than expectation. International geopolitics worsens than expectation; China's economy recovers less than expected.

Outlook

Looking forward, we maintain our long-term positive view of the Chinese equity market. In addition to the strong performance of GDP in the first quarter, China also saw improvements in fixed asset investment and manufacturing investment compared to the beginning of the year. The improvement in manufacturing investment can be attributed to the boost from previous export growth and improvement in industrial enterprise profits. During the Politburo meeting, the government called for more policy support for the delivery of pre-sold new homes, local government debt resolution, high-tech manufacturing, green industries, and market reforms. The government also focused more on the implementation of planned easing measures. The five measures to boost the Stock Connect and the Ministry of Finance proposal to support the gradual increase in government bond trading to enhance liquidity have generated positive expectations among investors for the advancement of other key measures in the future. Additionally, there is significant attention on the optimization of aspects such as Hong Kong stock dividend taxes and real estate policies in first-tier cities. The optimization of Hong Kong's dividend tax and policies about the real estate market in first-tier cities have also garnered significant attention. The detailed rules for the car trade-in subsidy specify the funding sources, criteria, and scope, and it’s expected that this policy will stimulate the sale of 1-2 million domestic passenger vehicles. Marginally, expectations for overseas interest rate cuts have diminished, leading to an increase in the US dollar index and US bond yields, resulting in a slight tightening of external liquidity. However, as major developed stock markets were already at high levels while Chinese equity assets were at medium-to-long-term lows, some long-term overseas funds have chosen to increase their exposure to the Chinese stock market, providing significant support to the Hong Kong stock market's performance in late April.

In terms of portfolio positioning, we will continue to seek a balance between value and growth. We continue to focus on the long-term policy beneficiaries (e.g. software localization and advanced manufacturing) and economic recovery-related opportunities (e.g. consumer, Internet, and financials). We will prudently pay attention to some thematic opportunities, including AI and SOE re-rating.




China PMI Data
PMI:New Order
PMI:Producing
PMI:Raw Materials
75
65
55
45
35
25
01/2019
08/2019
03/2020
10/2020
05/2021
12/2021
07/2022
02/2023
09/2023
04/2024


China Economy Activities
40
30
20
10
0
-10
-20
-30
200
150
100
50
0
-50
-100
-150
-200
01/2016
07/2016
01/2017
07/2017
01/2018
07/2018
01/2019
07/2019
01/2020
07/2020
01/2021
07/2021
01/2022
07/2022
01/2023
07/2023
FAI: yoy
Total Retail Sales of Consumer Goods: yoy
Net Export: yoy

In April, global markets broke the overall relative calm of the first quarter. The consecutive higher-than-expected US inflation readings increased concerns about the Fed postponing rate cuts, particularly as commodities remained at relatively high levels due to the recovery in US and Chinese demand and decreased supply elasticity. This raised market apprehensions about the risk of second-round inflation. However, at the same time, we observed signs of a slowdown in certain US economic data (although more data is needed to confirm this). The Fed displayed a relatively dovish stance at the FOMC meeting in early May, explicitly announcing plans to slow down tapering, indicating the Fed's focus on nurturing the overall economy and financial conditions. Fiscal stimulus in the US for the 2024 fiscal year was also higher than expected by the market.

Market Performance

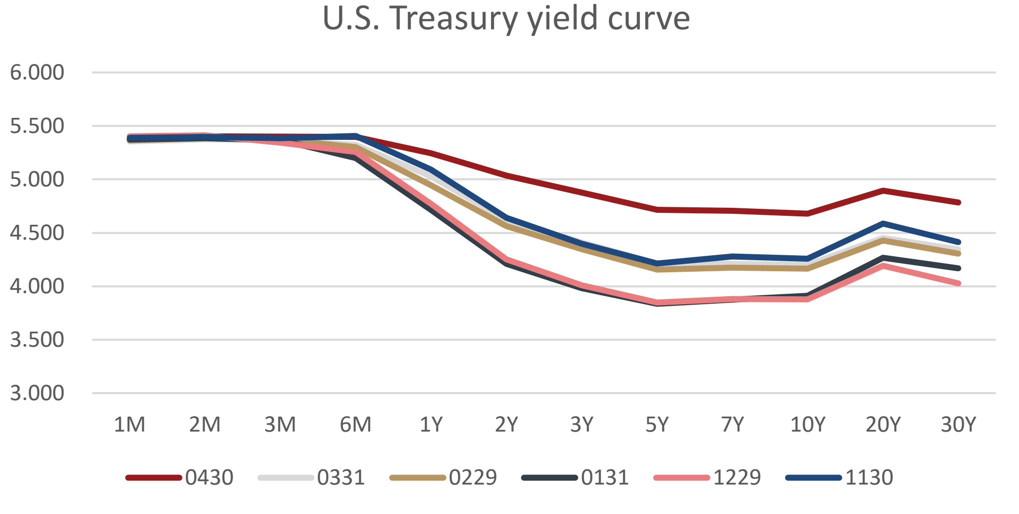
The main themes in the market in April revolved around inflation and geopolitical conflicts. US inflation exceeded market expectations for the third consecutive month, leading to a market repricing that pushed the anticipated timing of the Federal Reserve's first rate cut to November. As a result, US Treasury yields surged across the board. Meanwhile, the fluctuating conflict between Israel and Iran drove up prices of commodities such as gold and copper. Against this backdrop, asset volatility increased significantly in April, with commodities outperforming bonds and stocks. Asset prices experienced mixed movements during the month.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	5.04	42	79	3.81	5.26
5Y	4.72	50	87	3.28	4.99
7Y	4.70	50	82	3.29	5.03
10Y	4.68	48	80	3.34	5.02
30Y	4.78	44	76	3.71	5.18

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.98	-9	-31	1.94	2.53
5Y	2.18	-2	-22	2.06	2.64
7Y	2.29	-4	-24	2.18	2.75
10Y	2.31	1	-25	2.22	2.75
30Y	2.54	7	-30	2.40	3.12

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.29	10	24	-0.08	0.32
5Y	0.48	12	27	0.05	0.52
7Y	0.61	14	25	0.15	0.73
10Y	0.88	17	27	0.36	0.97
30Y	1.95	17	31	1.19	1.99

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	3.03	19	63	2.36	3.36
5Y	2.62	30	67	1.86	2.93
7Y	2.57	30	63	1.83	2.94
10Y	2.58	29	56	1.89	3.03
30Y	2.69	24	43	2.12	3.26



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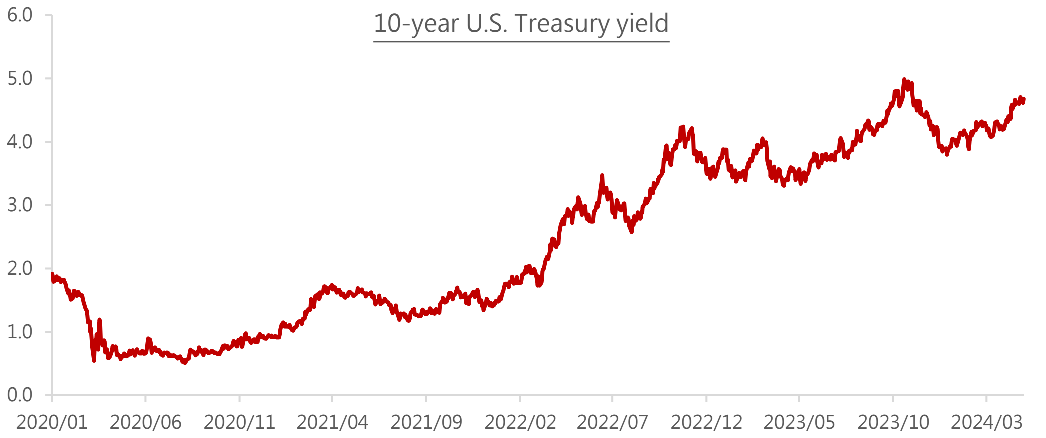

Triggered by reflation concerns, US Treasury yields experienced a rapid climb in early April, followed by high volatility. Throughout the month, the entire yield curve rose significantly by 40-50 basis points. In the credit market, overall performance was relatively subdued compared to rates. Primary supply of investment-grade bonds saw some decline, and overall credit spreads fluctuated slightly wider at low levels. Certain emerging markets lagged behind due to currency depreciation, while commodities-themed bonds demonstrated stronger performance. In the Chinese USD bond market, credit spreads for investment-grade bonds further compressed, and the real estate sector experienced some upward movement driven by expectations of policy easing.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	54	2	(3)	48	84
HY CDX	357	27	1	309	533
EM CDX	178	9	26	158	264
Bond index					
ICE Asian Dollar Corporate	445	-1.2%	0.1%	416	451
ICE China Issuers Dollar IG Corporate	210	-1.0%	-0.1%	198	212
ICE China Issuers Dollar HY Corporate	163	0.1%	6.4%	143	178
ICE US Corporate	3161	-2.3%	-2.4%	2929	3259
ICE US High Yield	1598	-1.0%	0.5%	1448	1617
ICE Emerging Markets Corporate	433	-1.2%	0.1%	401	439
Bloomberg Global-Aggregate	450	-2.5%	-4.6%	429	473
Bloomberg Global-Aggregate 1-3 Year	170	-0.9%	-2.2%	166	175

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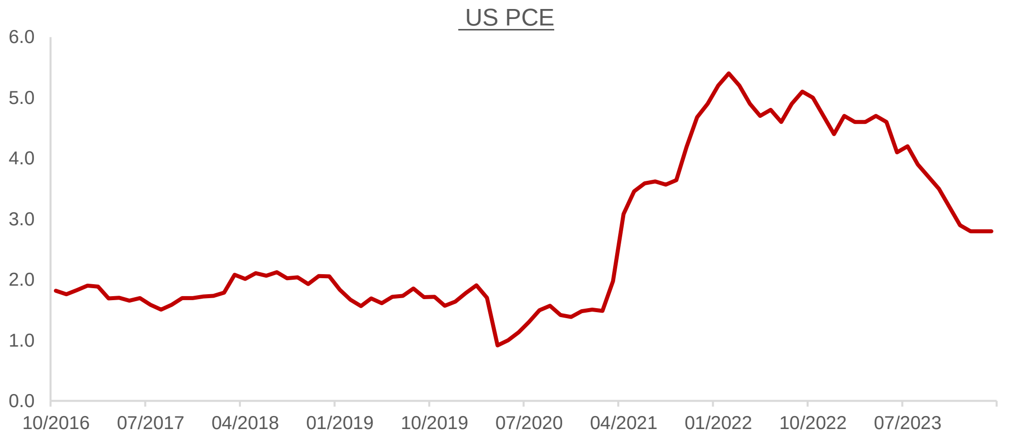
Economic Data

In the US, both the March CPI and PCE data exceeded market expectations, indicating significant challenges for tackling inflation in the US. The overall economic data in the US showed relative divergence. While first-quarter GDP was lower than market expectations, the underlying structure remained favorable. Retail and durable goods orders outperformed expectations, but the PMI and consumer confidence index unexpectedly fell well below expectations. In Europe, overall economic data stabilized, and the Bank of Japan intervened to support the yen. Both the market and central banks continue to focus on the future trends of inflation and employment.

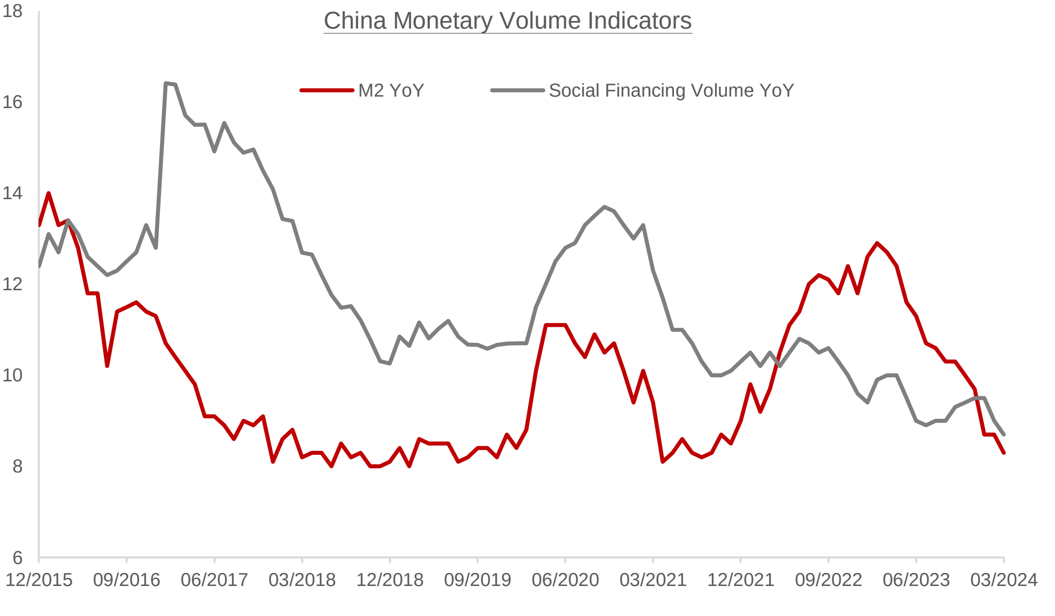
Outlook

In April, global markets broke the overall relative calm of the first quarter. The consecutive higher-than-expected US inflation readings increased concerns about the Fed postponing rate cuts, particularly as commodities remained at relatively high levels due to the recovery in US and Chinese demand and decreased supply elasticity. This raised market apprehensions about the risk of second-round inflation. However, at the same time, we observed signs of a slowdown in certain US economic data (although more data is needed to confirm this). The Fed displayed a relatively dovish stance at the FOMC meeting in early May, explicitly announcing plans to slow down tapering, indicating the Fed's focus on nurturing the overall economy and financial conditions. Fiscal stimulus in the US for the 2024 fiscal year was also higher than expected by the market. Therefore, we maintain our basic judgment that the US can achieve a soft landing in this cycle. As for other countries, Japan and Europe are likely to continue relatively dovish policies but are still constrained by the decisions of the Fed, especially in the backdrop of a stronger US dollar. In emerging markets, if the Chinese real estate sector can recover under policy stimulus, it may potentially drive overall market performance. Despite some temporary yuan depreciation in mid-April, the likelihood of a widespread debt crisis is very low.

In terms of interest rates, after experiencing a rapid increase in April, rates have retraced slightly in early May. In the short term, they may continue to consolidate at current levels until the next direction is determined based on economic data. The steepening of the yield curve still remains a very likely outcome. In the credit market, spreads have not widened significantly during this round of rate increases, unlike in previous cycles. Instead, they have fluctuated at elevated valuation levels, reflecting the market's continued high expectations for Fed rate cuts and a soft landing of the economy. However, geopolitical conflicts and tightening financial conditions pose potential risks to the financial sector and small to medium-sized enterprises, increasing volatility in asset prices. In terms of duration, a preference for bonds with a duration of around 5 years is relatively favorable. In credit strategy, a barbell approach is recommended, while capturing overall trading opportunities from a macro perspective, and selecting different sectors, countries, and issuers based on fundamental analysis and relative valuation.


US PCE
6.0
5.0
4.0
3.0
2.0
1.0
0.0
10/2016
07/2017
04/2018
01/2019
10/2019
07/2020
04/2021
01/2022
10/2022
07/2023


China Inflation Indicators
CPI: yoy
PPI: yoy
15
10
5
0
-5
-10
01/2016
11/2016
09/2017
07/2018
05/2019
03/2020
01/2021
11/2021
09/2022
07/2023


China Monetary Volume Indicators
M2 YoY
Social Financing Volume YoY
18
16
14
12
10
8
6
12/2015
09/2016
06/2017
03/2018
12/2018
09/2019
06/2020
03/2021
12/2021
09/2022
06/2023
03/2024

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