華夏基金(香港)
ChinaAMC (HK)

MARKET INSIGHTS

September 2024

Equity

With clear expectations of rate cuts overseas, a retreat in the U.S. dollar index, recent consecutive appreciation of RMB, and the recovery of this year's decline, this bodes well for Chinese equity assets. The "Opinions on Promoting the High-Quality Development of Service Consumption" provides strong support for high-quality economic development, favoring the subsequent development of consumption-oriented service industries and boosting market confidence in the service consumption sector. The detailed implementation rules for the second round of exchanging old home appliances for new ones have been released, and the nationwide rollout of this program is expected to follow. Coupled with the upcoming traditional peak shopping season "Golden September and Silver October," a noticeable acceleration in offline retail sales of home appliances is anticipated in the near future.

Market Performance

In August, the MSCI China Index rebounded slightly by 0.78%. On August 3rd, the State Council issued the "Opinions on Promoting the High-Quality Development of Service Consumption," proposing to expand the opening up of the service industry, focusing on improving service quality, enriching consumption scenarios, and optimizing the consumption environment. On August 25th, the Ministry of Commerce and four other departments issued a notice on further improving the trade-in of old appliances, providing subsidies to individual consumers who purchase Class 2 and above products in 8 categories of home appliances, amounting to 15% of the final selling price, and offering an additional 5% subsidy for products with Class 1 and above energy efficiency or water efficiency. On August 29th, President Xi Jinping met with U.S. National Security Advisor Sullivan, stating that China is committed to the stable, healthy, and sustainable development of U.S.-China relations and hopes the U.S. will work with China in the same direction, viewing China and its development with a positive and rational attitude. Additionally, there are expectations of a new round of policy support this month, with fiscal measures in July measuring the enhancement of fiscal strength through a pulse of fiscal deficits. On August 30th, Bloomberg reported that China may further reduce interest rates on existing home mortgages domestically.

Greater China Indices	Aug Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3321.43	-3.51	-3.20	3108.35	3854.26
MSCI China	57.04	0.78	1.95	48.75	64.95
HSI	17989.07	3.72	5.52	14794.16	19706.12
HSCEI	6331.14	3.67	9.75	4943.24	6986.20
Global Indices					
S&P 500	5648.40	2.28	18.42	4103.78	5669.67
Dow Jones Industrial Average	41563.08	1.76	10.28	32327.20	41585.21
Nasdaq Composite	17713.63	0.65	18.00	12543.86	18671.07
FTSE 100	8376.63	0.10	8.32	7279.86	8474.41
DAX 30	18906.92	2.15	12.87	14630.21	18990.78
Nikkei 225	38647.75	-1.16	15.49	30487.67	42426.77

Economic Data

China's manufacturing PMI index edged down to 49.1 in August from 49.4 in July. Among major sub-indexes of NBS manufacturing PMI, the new orders sub-index edged down to 48.9 from 49.3, the output sub-index decreased to 49.8 from 50.1, while the employment sub-index decreased to 48.1 from 48.3. The non-manufacturing PMI edged up to 50.3 in August from 50.2 in July, entirely driven by improvement of activity in the services sector, thanks to the boost from summer holiday in August. The services PMI increased to 50.0 from 50.2. According to the survey, the PMIs of railway and airline transportation, postal, telecommunication and satellite transmission services industries were above 55, while the PMIs of retail sales, capital market services and real estate services industries were below 50 in July. The construction PMI fell to 50.6 in August from 51.2 in July.

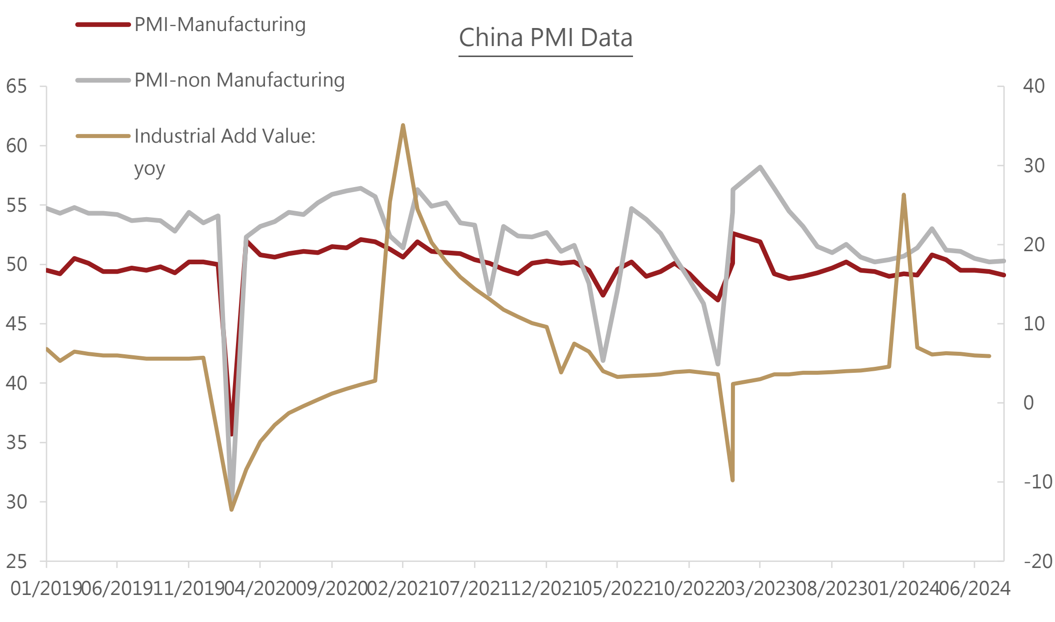
Outlook

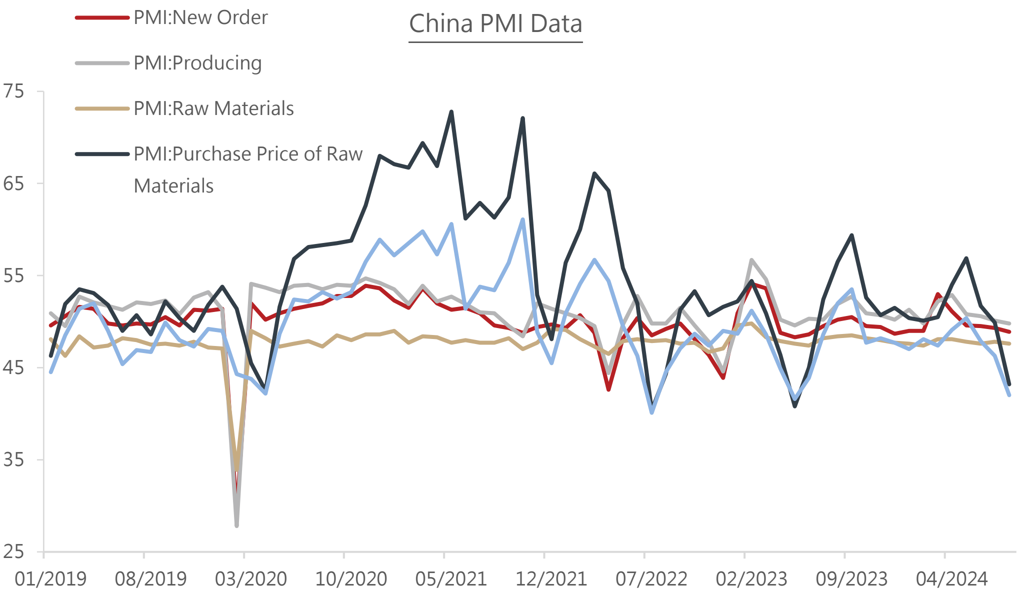
Looking forward, we maintain our long-term positive view of the Chinese equity market. With clear expectations of rate cuts overseas, a retreat in the U.S. dollar index, recent consecutive appreciation of RMB, and the recovery of this year's decline, this bodes well for Chinese equity assets. The "Opinions on Promoting the High-Quality Development of Service Consumption" provides strong support for high-quality economic development, favoring the subsequent development of consumption-oriented service industries and boosting market confidence in the service consumption sector. The detailed implementation rules for the second round of exchanging old home appliances for new ones have been released, and the nationwide rollout of this program is expected to follow. Coupled with the upcoming traditional peak shopping season "Golden September and Silver October," a noticeable acceleration in offline retail sales of home appliances is anticipated in the near future. Regarding reports of a possible reduction in existing home mortgage rates domestically, there is mention of the potential allowance for existing home mortgages to seek refinancing. If realized, this could potentially reduce the burden of household debt, boost consumption, and alleviate the trend of residents actively deleveraging.

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.

Risk

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




China PMI Data
PMI:New Order
PMI:Producing
PMI:Raw Materials
PMI:Purchase Price of 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

Fixed Income

Despite a reversal in risk assets from the carry trades seen in early August, the foreign exchange market still exhibits several anomalous indicators. Additionally, we perceive considerable uncertainty surrounding the outcomes of the U.S. elections in the fourth quarter, particularly regarding fiscal, taxation, and immigration policies. If Trump is re-elected, this could amplify tail risks in the economy and financial markets. On a positive note, prior to and around the end of fiscal year 2024 (by the end of September this year), the U.S. has ample fiscal space. Given that the U.S. elections are entering a critical phase, the Democratic Party has reason to prioritize economic stability. Thus, it is reasonable to expect increased fiscal deficit spending in the third quarter to avoid a hard landing in the economy this year. Overall, we anticipate that the U.S. economy is likely to experience a soft landing this year. Furthermore, the commencement of the rate-cutting cycle by the Fed may present certain investment opportunities for some emerging market countries.

Market Performance

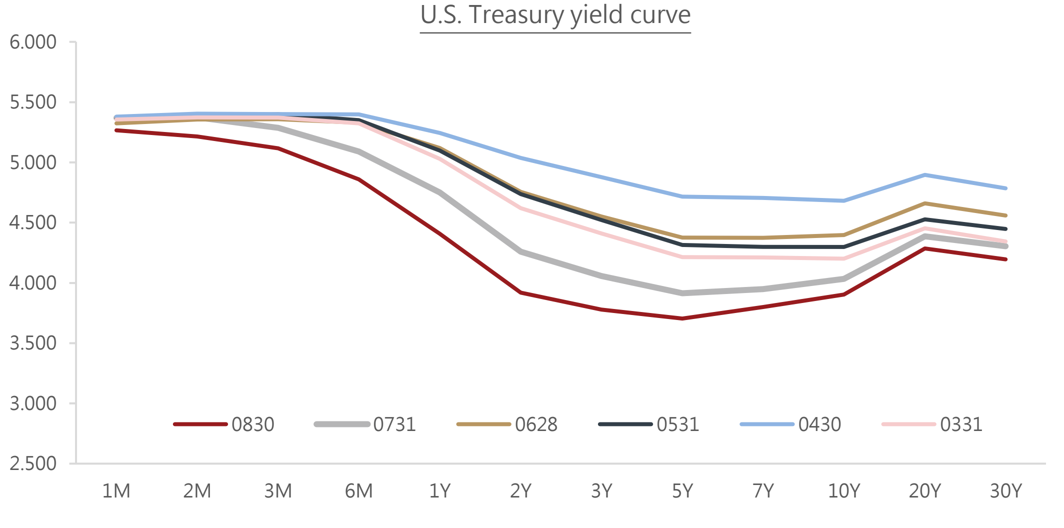
In August, risk sentiment gradually improved. Federal Reserve Chairman Jerome Powell indicated during the July FOMC meeting that the earliest opportunity for a rate cut could occur at the September FOMC meeting, contingent on economic data. At the August Jackson Hole global central banking conference, Powell formally announced that "the time for policy adjustment has arrived," shifting focus towards the labour market. The heightened expectations for interest rate cuts contributed to a rebound in equity markets, which recovered from corrections experienced in late July and early August, approaching previous highs. However, despite the recovery in risk assets like U.S. equities, the U.S. dollar weakened while the Japanese yen strengthened, maintaining its upward momentum. Overall, gold and industrial metals showed strong performance throughout the month, with bonds outperforming equities, while crude oil lagged behind.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.75	-12	50	4.12	5.26
5Y	4.38	-13	53	3.75	4.99
7Y	4.37	-13	49	3.78	5.03
10Y	4.40	-10	52	3.72	5.02
30Y	4.56	-9	53	3.81	5.18

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.80	-13	-49	1.77	2.53
5Y	1.97	-11	-42	1.95	2.64
7Y	2.10	-14	-43	2.08	2.75
10Y	2.21	-11	-35	2.18	2.74
30Y	2.43	-14	-41	2.40	3.04

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.37	-4	31	-0.07	0.41
5Y	0.59	-6	38	0.06	0.66
7Y	0.74	-3	38	0.18	0.78
10Y	1.06	-1	44	0.38	1.11
30Y	2.25	3	62	1.20	2.31

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.83	-26	43	2.36	3.36
5Y	2.48	-23	53	1.86	2.93
7Y	2.46	-19	52	1.83	2.94
10Y	2.50	-16	48	1.89	3.03
30Y	2.69	-9	43	2.12	3.26



Fixed Income

U.S. Treasury yields experienced a significant decline at the beginning of the month, with the 10-year Treasury yield briefly dipping to 3.67%. Subsequently, yields fluctuated primarily within the range of 3.8% to 4%. Overall, the U.S. Treasury yield curve steepened throughout the month. In the credit market, supply remained relatively quiet, leading to a gradual tightening of credit spreads. High-beta assets, such as AT1 bonds, performed well. Overall, the credit market continued its positive momentum from the previous two months, with the global investment-grade bond index rising by 1.5%, while Chinese USD bonds lagged in comparison.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	49	(3)	(7)	48	83
HY CDX	322	(9)	(35)	309	533
EM CDX	162	(7)	10	155	247
Bond index					
ICE Asian Dollar Corporate	471	1.3%	5.9%	416	472
ICE China Issuers Dollar IG Corporate	221	1.3%	5.2%	198	221
ICE China Issuers Dollar HY Corporate	177	0.2%	15.8%	143	178
ICE US Corporate	3367	1.5%	4.0%	2929	3386
ICE US High Yield	1690	1.6%	6.3%	1457	1691
ICE Emerging Markets Corporate	460	1.8%	6.3%	401	461
Bloomberg Global-Aggregate	480	2.4%	1.9%	429	483
Bloomberg Global-Aggregate 1-3 Year	179	2.0%	2.4%	166	179

Economic Data

U.S. inflation data continues to cool. In the employment sector, July's unemployment rate unexpectedly rose to 4.3%. While weather factors contributed to some volatility, several Federal Reserve officials have emphasized the importance of monitoring the labour market. U.S. ISM Manufacturing PMI has declined for three consecutive months; however, the PMI new orders index remains relatively resilient. On the consumption front, strong housing prices and a buoyant equity market have propelled U.S. household net worth to record highs, indicating robust consumer resilience, which also supported second-quarter U.S. GDP growth. In Europe, overall economic and employment conditions have exceeded expectations, yet markets still anticipate rate cuts from both the Bank of England and the European Central Bank in September.

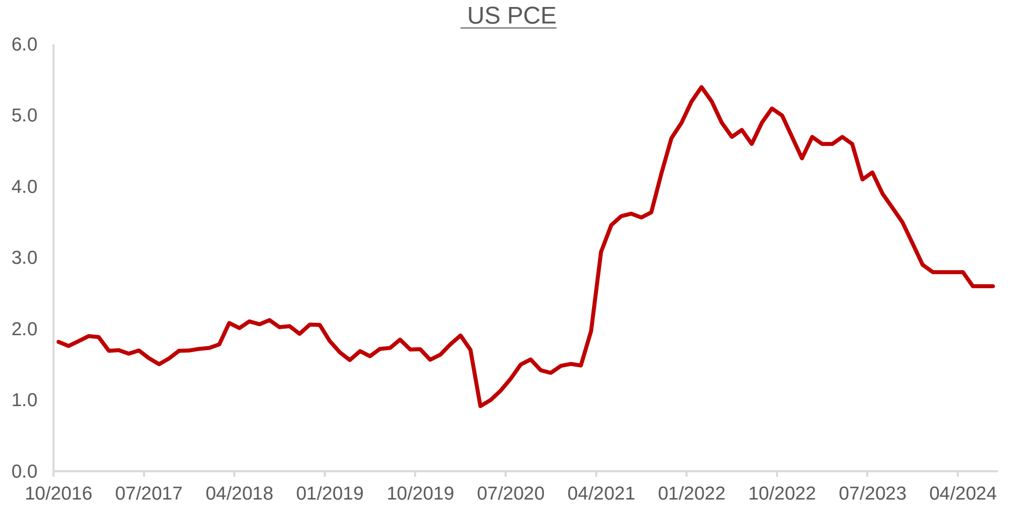
Outlook

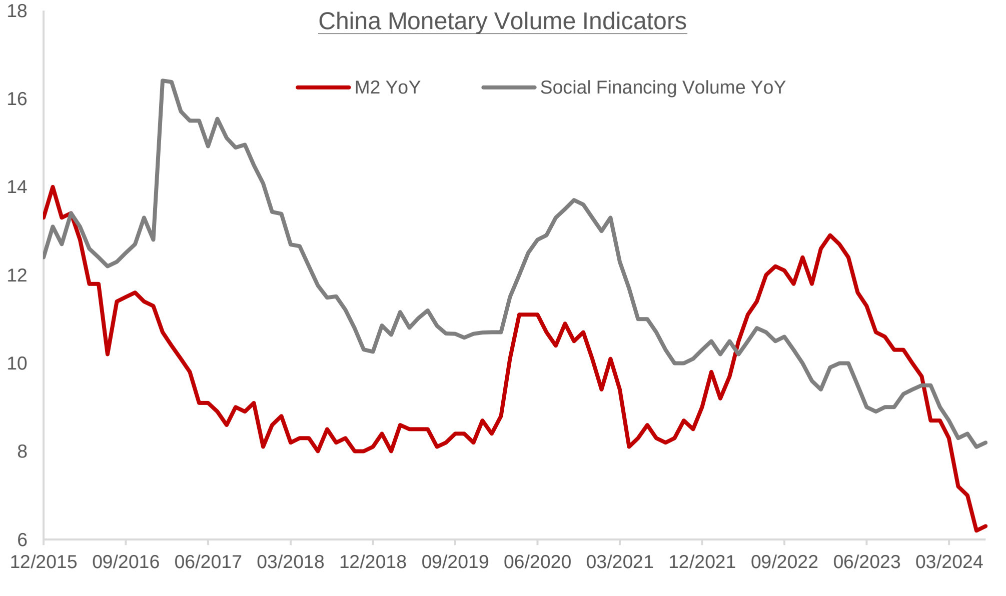
The Federal Reserve's decision to officially initiate interest rate cuts in September is largely settled, with market focus shifting to the extent of the cuts, particularly in light of the upcoming U.S. employment data for August. Despite a reversal in risk assets from the carry trades seen in early August, the foreign exchange market still exhibits several anomalous indicators. Additionally, we perceive considerable uncertainty surrounding the outcomes of the U.S. elections in the fourth quarter, particularly regarding fiscal, taxation, and immigration policies. If Trump is re-elected, this could amplify tail risks in the economy and financial markets. On a positive note, prior to and around the end of fiscal year 2024 (by the end of September this year), the U.S. has ample fiscal space. Given that the U.S. elections are entering a critical phase, the Democratic Party has reason to prioritize economic stability. Thus, it is reasonable to expect increased fiscal deficit spending in the third quarter to avoid a hard landing in the economy this year. Overall, we anticipate that the U.S. economy is likely to experience a soft landing this year. Furthermore, the commencement of the rate-cutting cycle by the Fed may present certain investment opportunities for some emerging market countries.

Looking ahead, although U.S. dollar interest rates and credit bonds have outperformed in the past three months, historical cycle data indicates that U.S. Treasury securities and investment-grade credit bonds generally perform well after the first rate cut. Regarding Treasury yields, under baseline conditions, there is a relative certainty of downward movement in the short end of the curve (2-5 years), while the long end (10-30 years) may initially decline before eventually rising as the benefits of rate cuts are fully priced in. From a credit spread perspective, the fundamentals suggest that high-yield companies have refinanced a substantial amount of upcoming debt this year, and the overall credit fundamentals across most sectors remain robust. Technically, although supply is expected to increase in September, strong demand is likely to persist due to the decline in short-term rates and the restoration of the yield curve shape. While valuations may appear relatively expensive, we anticipate that short-term credit spreads will continue to fluctuate at low levels. However, there is a significant possibility of a phase of widening adjustments over the next 3 to 6 months.

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Wind, as of 31 August 2024. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

Fixed Income





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