Market Insights

April 2022

Equity

MSCI China Index fell 8.01% in March. In the first half of March, the market was affected by Russian-Ukrainian conflict, inclusion of many Chinese ADR stocks on the delisting risk list, investors' concerns over spillover risk from geopolitical conflicts and Hong Kong epidemic. The decline accelerated until mid-month. Hang Seng Index hit a nearly 10-year low and its 10-day volatility rose to its highest level since 1975. Hong Kong stocks depreciated sharply reflecting capital outflows pressure from local market. On March 16, Vice Premier Liu He presided over a special meeting of the Financial Stability and Development Committee, responded to issues such as macroeconomics, monetary policy, real estate risks, platform economic governance, supervision of Chinese stocks and Hong Kong financial market stability. The proposal to "actively introduce policies that favorable to market and cautiously introduce contractionary policies" clearly shows the Chinese government's supportive attitude towards macro economy and financial market. We remain optimistic in the mid to long term. Historically, MSCI index never fell below the lowest level again after rebounded by more than 20% from the bottom. Considering the uncertainty of the conflict between Russia and Ukraine and Sino-US relations, and the recent mainland epidemic, we expect that the market will likely not show a "V-shaped" reversal after a short-term rebound, but the medium term and long-term opportunities far outweigh the risks.

Market Performance

The MSCI China Index fell 8.01% in March. In the first half of March, the market was affected by the Russian-Ukrainian conflict, the inclusion of many Chinese ADR stocks on the delisting risk list, investors' concerns over the risk of spillover from geopolitical conflicts, the Hong Kong epidemic and other negative factors, which continued since late February. The decline accelerated until mid-month. The Hang Seng Index hit a nearly 10-year low, and its 10-day volatility rose to its highest level since 1975, surpassing levels during the financial crisis. Hong Kong stocks also depreciated sharply in March, reflecting the pressure of capital outflows from the local market. On March 16, Vice Premier Liu He presided over a special meeting of the Financial Stability and Development Committee, which responded to issues of high market concern such as macroeconomics, monetary policy, real estate risks, platform economic governance, supervision of Chinese stocks, and Hong Kong's financial market stability. The proposal to "actively introduce policies that are favorable to the market and cautiously introduce contractionary policies" clearly shows the Chinese government's supportive attitude towards the macro economy and financial market, and greatly boosts the confidence of market participants. The market rebounded sharply after the news was released. The Hang Seng Index recorded its largest one-day gain since 2008, the Hang Seng Technology Index and ADR Index recorded the largest one-day gain in history, and the MSCI China Index rebounded by more than 20% in two days, reversing the decline. More positive factors emerged in mid-to-late March, including the easing of the conflict between Russia and Ukraine, the peak and fall of the epidemic in Hong Kong, Alibaba's announcement of the largest repurchase in the history of Chinese Internet companies, positive progress in Sino-US regulatory cooperation to reduce the risk of delisting Chinese stocks. The market fluctuated strongly after a sharp rebound, due to weakening of investors' concerns that China may face potential sanctions and more easing measures in China's real estate market. In terms of industries, energy and telecommunications continued strong performance in the previous period, and local stocks in Hong Kong benefited from the improvement of the epidemic in Hong Kong.

Greater China Indices	Mar Close	Mar Price Change	YTD %	52 Week Low	52 Week High
CSI 300	4222.60	-7.84%	-14.53%	3942.86	5378.48
MSCI China	71.81	-8.01%	-14.21%	58.63	111.95
HSI	21996.90	-3.15%	-5.99%	18235.48	29490.61
HSCEI	7525.89	-6.21%	-8.63%	6051.62	11281.14
Global Indices					
S&P 500	4530.41	3.58%	-4.95%	3972.89	4818.62
Dow Jones Industrial Average	34678.35	2.32%	-4.57%	32272.64	36952.65
Nasdaq Composite	14220.52	3.41%	-9.10%	12555.35	16212.23
FTSE 100	7515.68	0.77%	1.78%	6713.63	7693.77
DAX 30	14414.75	-0.32%	-9.25%	12436.06	16291.15
Nikkei 225	27821.43	4.88%	-3.37%	24664.00	30805.00

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 31 March 2022. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

Economic Data

In March, the manufacturing PMI index fell by 0.7 percentage points month-on-month to 49.5%, the first time since March 2020 that it fell below 50%, mainly due to supply chain problems caused by recent mainland COVID-19 epidemic prevention and control measures and international trade caused by geopolitical conflicts' impact of the problem. The new orders index fell by 1.9 percentage points month-on-month to 48.8%, reflecting the recent weakening of demand. The non-manufacturing PMI index fell by 3.2 percentage points month-on-month to 48.4%, mainly because the service industry was significantly weakened by the recent outbreak of the COVID-19 epidemic in many places. The prosperity level of the construction industry improved by 0.5 percentage points month-on-month to 58.1%, benefiting from the development of policies and the acceleration of the construction progress of climate warming.

Future Outlook

We remain optimistic about the direction of the market in the medium term to long term. Historically, after the MSCI China Index rebounded by more than 20% from the bottom of the market, it never fell below the lowest level again. Considering the uncertainty of the conflict between Russia and Ukraine and Sino-US relations, as well as the negative impact of the recent mainland epidemic on the economy and business operations, we expect that the market will likely not show a "V-shaped" reversal after a short-term rebound, but the medium term and long-term opportunities far outweigh the risks. After more than a year of sharp adjustments in the past year, the market's valuation has become extremely attractive. A large number of companies plan to buy back shares (such as Alibaba, Xiaomi Group, etc.) or pay large dividends (such as China Shenhua, China Mobile, etc.). These will not just be forming support to the market, and it will also boost investor confidence. In addition, the Chinese government has recently announced more fiscal easing policies, including large-scale value-added tax refunds, increased financial support for local governments, and accelerated government bond issuance and fiscal spending. The first-quarter regular meeting of the Monetary Policy Committee of the People's Bank of China also continued the easing tone, pointing out that it would increase the implementation of prudent monetary policy and enhance the transmission efficiency of monetary policy. We expect that under the recent negative impact of the epidemic on economic growth, more stable growth policies are expected to be introduced to support economic growth and the achievement of the full-year GDP growth target.

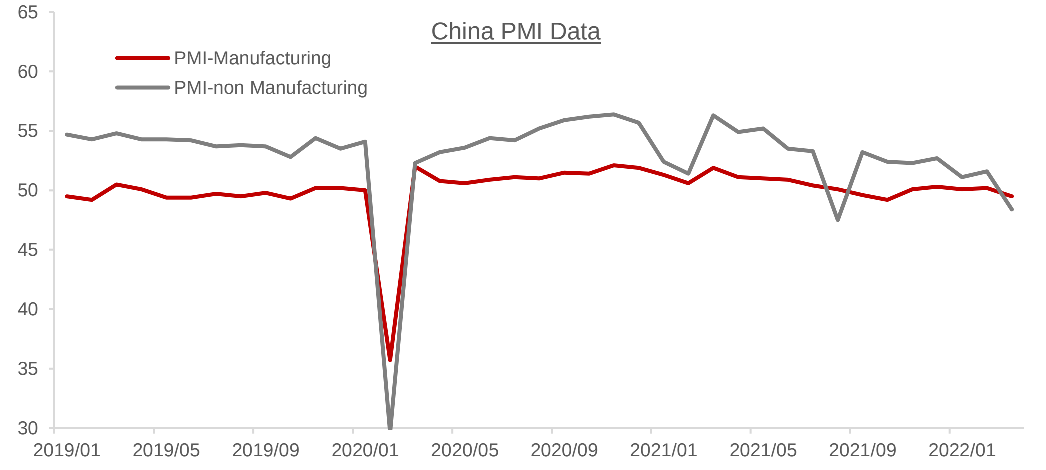
We will continue to be balanced between value and growth stocks. On one hand, the high dividends of value stocks and the attributes of benefiting from pro-growth policies will continue to support their good performance in a turbulent market environment. On the other hand, high-quality stocks in growth industries such as medicine and the Internet have become more attractive in the medium and long term after a sharp correction. At the same time, we will closely monitor the development of the epidemic in the mainland and its potential impact on the economy and financial markets.

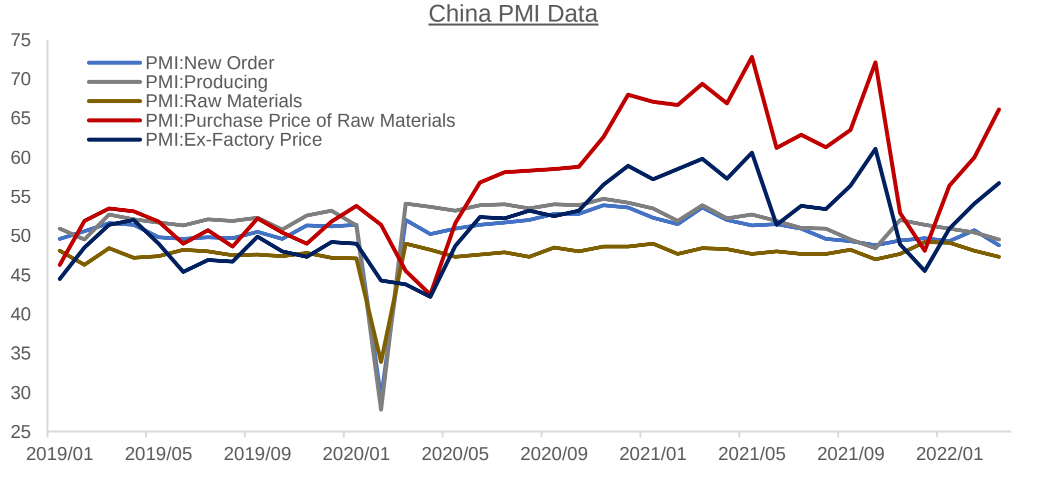
Risk

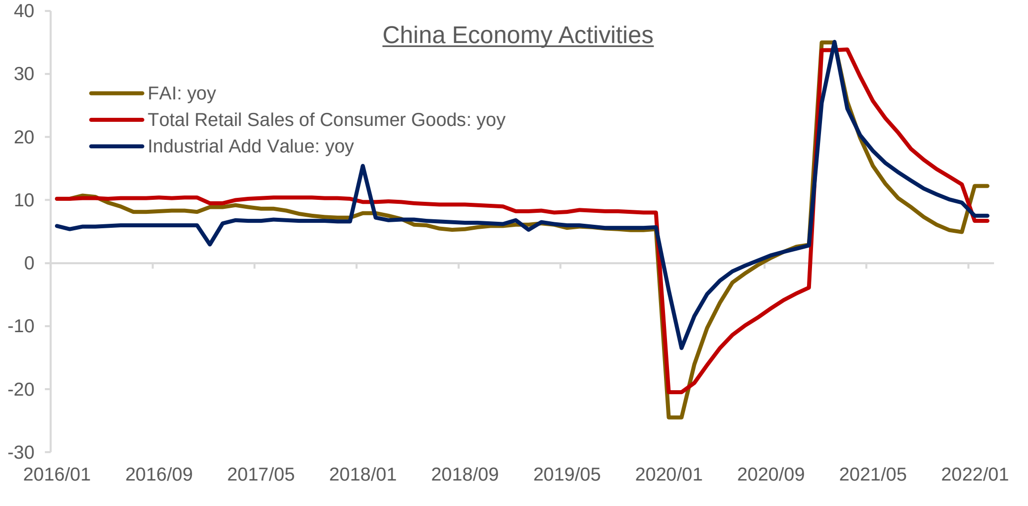
Inflationary pressure passed to downstream sectors; foreign monetary policies being tightened due to higher-than-expected inflation. Sino-US relationship worsens than expectation. Russia-Ukraine War worsens than expectation.

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 31 March 2022.
Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

Equity







Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 31 March 2022.
Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

In March, the war in Ukraine continued. Some European countries sought engagement and negotiation while the U.S. maintained a hardline stance. The March FOMC meeting officially kicked off the rate hike cycle with a 25bp move for a start and monetary officials in the U.S. and Europe sending out hawkish signals. In response, the U.S. Treasury yield curve surged substantially and inverted, with both investors and the Fed having concerns over growth and inflation. Global financial markets were marked by high volatility. We will closely monitor any improvement in economic data and geopolitical situations, as well as potential restorations in the shape of the yield curve. In China's high yield , bond prices further collapsed in the first half of month. Despite the sluggish sales data, re-emergence of large-scale housing company bonds, and failure of a large number of issuers to release financial reports on time, a series of high-level speeches restored certain market confidence. In China, we favor the SOE sector in the investment grade space, as fiscal stimulus and strength in commodity prices support the sector's fundamentals. Moreover, the sector's low-beta features underpin its relative performance when risk-off sentiment dominates.

Market Performance

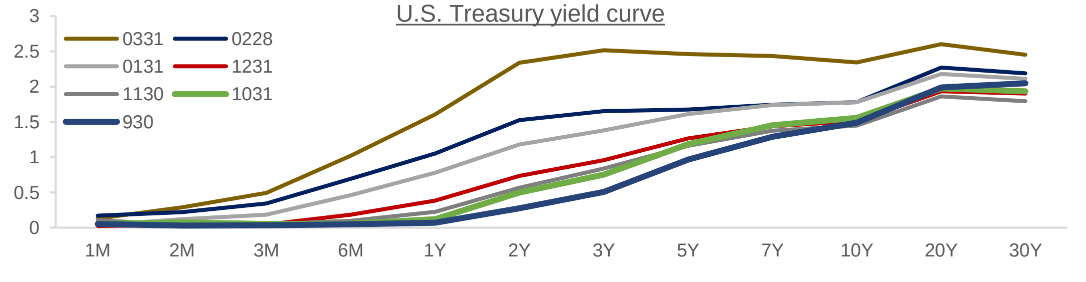
As the pandemic entered its third year in 2022, global financial markets were characterized by substantial volatility, particularly in response to the hawkish turn from monetary policymakers, the onset of the Russo-Ukrainian War, and concerns over inflation. In March, the situation in Ukraine continued to develop, as some European countries sought engagement and negotiation, while the U.S. maintained a hardline stance. The March FOMC meeting officially kicked off the rate hike cycle with a 25bp move for a start, and monetary officials in the U.S. and Europe continued to give out hawkish signals. In response, the U.S. Treasury yield curve surged substantially, with the 2-year yield climbing up by 90bp and the 10-year yield shooting over 2.5%. The yield curve inverted, with both investors and the Fed having concerns over growth and inflation. Global financial markets were marked by high volatility, as major risk assets showed declines, which were followed by rebounds later in the month. Across asset classes, commodities were leading in performance, while risk-haven assets outperformed risk assets, and developed markets generally outperformed emerging markets.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.33	90	160	0.13	2.45
5Y	2.46	74	120	0.60	2.67
7Y	2.43	62	99	0.89	2.65
10Y	2.34	51	83	1.13	2.55
30Y	2.45	29	54	1.66	2.64

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	2.41	15	-4	2.18	2.90
5Y	2.58	8	-1	2.34	3.07
7Y	2.80	2	-1	2.61	3.21
10Y	2.79	0	1	2.68	3.24
30Y	3.36	1	3	3.25	3.80

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	(0.03)	-1	6	-0.15	-0.01
5Y	0.04	3	12	-0.14	0.08
7Y	0.11	6	17	-0.14	0.17
10Y	0.22	3	15	0.00	0.26
30Y	0.94	4	25	0.62	1.11

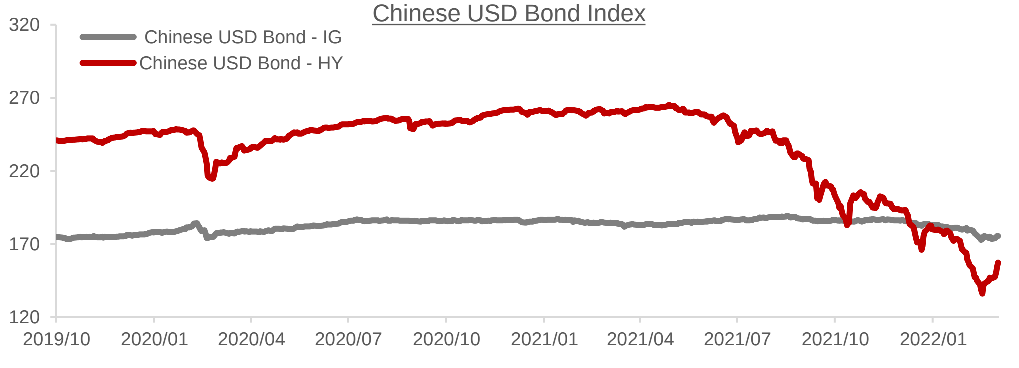
Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	(0.07)	46	55	-0.79	0.06
5Y	0.38	54	83	-0.78	0.55
7Y	0.42	49	77	-1.15	0.59
10Y	0.55	41	73	-0.52	0.73
30Y	0.67	25	47	-0.13	0.82



Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 31 March 2022. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

The surge in U.S. Treasury yields and inflows back to the U.S. had a notable impact on global capital markets. Credit spreads re-priced, especially for high-beta names, whose spreads widened notably. For China's investment grade bonds, the spreads took a V-shaped turn. During the first half of the month, following global market sentiment for risk assets such as stocks, spreads greatly widened, with the TMT sector underperforming the most. Later in the month, as the Financial Stability and Development Committee gave out positive policy signals, the spreads took a turn and started to tighten. In China's high yield, bond prices continued to decline in the first half of the month. During the month's second half, sales data remained sluggish, large property developers were again seen extending their debt, and many issuers could not release their financial statements on time. Despite the insipid environment, the market was still encouraged by positive policy communications from the top regulators: the property sector saw a clear rebound, which could be attributed a combination of short coverings and real money inflows. Over the whole month, the market was down by 2.8% for China investment grade bonds and down by 6.1% for China high yield names.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	67	(0)	18	46	78
HY CDX	376	11	83	269	412
EM CDX	228	(59)	77	146	352
Bond index					
ICE Asian Dollar Corporate	440	-2.6%	-7.2%	428	495
ICE China Issuers Dollar IG Corporate	206	-2.8%	-5.7%	202	222
ICE China Issuers Dollar HY Corporate	216	-6.1%	-25.2%	174	436
ICE US Corporate	3260	-2.6%	-7.7%	3215	3587
ICE US High Yield	1508	-0.9%	-4.5%	1479	1580
ICE Emerging Markets Corporate	426	-3.8%	-9.6%	422	485
Bloomberg Global-Aggregate	500	-3.0%	-6.2%	494	550
Bloomberg Global-Aggregate 1-3 Year	176	-1.8%	-2.9%	175	187



Economic Data

As the U.S. and European countries were abandoning COVID control measures, the pandemic-related economic impact was diminishing, and employment data was robust. Meanwhile, U.S. inflation remains elevated, partly inhibiting manufacturing and consumer demand.

In China, economic activities from the past two months have picked up faster than expected, although credit growth moderated. The annual NPC and CPPCC session set this year's growth target at 5.5%. In mid-March, the Financial Stability and Development Committee also released positive signals, although markets still had some concerns over the economic growth momentum, especially given the country's commitment to zero-COVID efforts amid sizable Omicron outbreaks lately.

Outlook

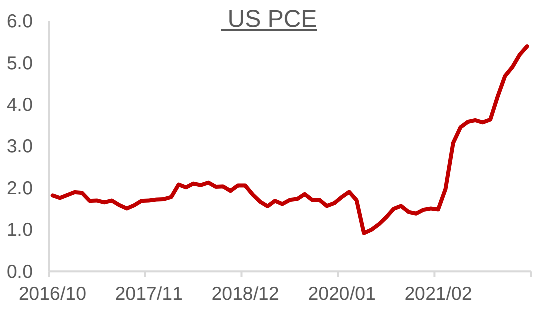
Elevated inflation, exacerbated by Russia-Ukraine War, have compelled many central banks to make the turn towards policy tightening, albeit not necessarily having sufficient economic conditions to do so. As markets are gradually digesting the effects from the war, the marginal impact on capital markets in response to additional developments in the conflict is diminishing. In the second half of March, there was notable alleviation for panic selloffs in emerging market assets.

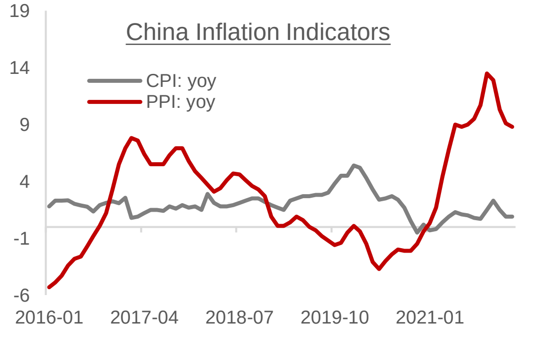
Policy-wise, hawkish comments from Fed officials have guided markets' policy expectation towards tighter side, both in scale and pace. It is necessary to monitor if the Fed will still commit to hawkish stance when rate hikes start to take a significant toll on financial markets and economy. Moreover, the Fed's policy implications for other central banks, especially the ECB and PBoC, will be under observation.

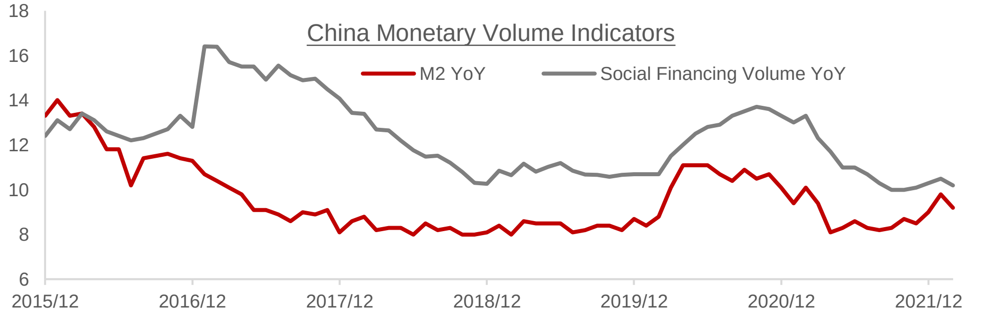
The U.S. Treasury yield curve displayed numerous inversions throughout the month. In mid-March, the 5-year and 10-year yields were inverted. At the end of the month, the 5-year and 30-year yields inverted for the first time since 2006, and the 2-year and 10-year yields also exhibited its first inversion since 2019. Going forward, we will closely monitor any improvement in economic data and geopolitical situations, as well as potential restorations in the shape of the yield curve.

For corporate bonds, despite substantial widening in spreads across global markets, current valuations are still not in the cheap territory if we consider the historical averages across a longer time horizon. After the market rebound in the second half of March, credit spreads are still expected to face pressure and volatility. With the rapid climb of U.S. rates, the yields have started to show some attractiveness for portfolio allocation, relative to the valuations in the past ten years. In China, we favor the SOE sector in the investment grade space, as fiscal stimulus and strength in commodity prices support the sector's fundamentals. Moreover, the sector's low-beta features underpin its relative performance when risk-off sentiment dominates.

In property sector, an end is near for regulatory tightening, while the sluggish sales numbers may hit bottom later in the year. Nonetheless, the land market for private real estate developers would still need a longer period of time to recover. As pandemic controls are challenging the expectation of this year's economic growth to meet the target of 5.5%, real estate regulators are expected to potentially offer a series of policy accommodations to help build market confidence and lower the sector's burden for GDP growth. In April, the property sector faces mounting repayment pressures. For companies that have not experienced default or debt extension, we will closely monitor their credit fundamentals and liquidity situations, and look for good opportunities to make minor allocations on select quality names. Overall, our strategy prioritizes on managing portfolio risks, before capturing adequate short-term trading opportunities under varying market conditions.







Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 31 March 2022. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

Disclaimer:

This material is for informational and reference purpose of the intended recipients only, and does not constitute an invitation to invest in any securities. The content of this material about a fund (if any) is not applicable to persons who live in areas where the release of such content is restricted. No one shall regard this material as an offer or invitation to purchase or subscribe to fund shares, nor use the fund subscription agreement under any circumstances, unless the invitation and distribution are legal in the relevant jurisdictions. Non-Hong Kong investors are responsible for complying with all applicable laws and regulations in their relevant jurisdictions before reading the information contained in this material.

The information contained in this material only reflects current market conditions and the judgment of China Asset Management (Hong Kong) Company Limited (the "Company") on the date of compilation. It does not represent an accurate forecast of individual securities or market trends, and judgments are subject to change at any time without prior notice. When composing this material, the Company relied on and assumed the correctness and completeness of the information provided by the public media. The Company believes that the information contained in this material is reliable; however, the Company does not guarantee the completeness and accuracy of the material. The Company or its associated companies, directors and employees shall not be liable for any errors or omissions in the information provided in this material, and the Company shall not be responsible for any loss incurred by any person as a result of reliance on or use of such information.

Investment involves risks. Past performance does not represent future performance. The price of the fund and its return may go up or down and cannot be guaranteed. Investment value may also be affected by exchange rates. Investors may not be able to get back the original investment amounts.

37/F, Bank of China Tower, 1 Garden Road, Hong Kong

www.chinaamc.com.hk

China Asset Management (Hong Kong) Limited

Phone: (852) 3406 8688

Fax: (852) 3406 8500

Product inquiry and client service

Email: hkservice@chinaamc.com

Phone: (852) 3406 8686

Follow us: ChinaAMC (HK)

WeChat LinkedIn Facebook