# Market Insights

March 2022

# Equity

**The market continued its relatively strong trend in the first half of the month and value stocks benefited from pro-growth policy performed well. However, some investors rotated back to growth stocks in mid-February and took profit on value stocks such as financials, infrastructure construction and property-related names after the publication of upbeat financial data. Russia's invasion of Ukraine significantly impact global financial markets with prices of gold and crude oil up due to risk aversion and potential supply shock, putting downward pressure on the prices of most risk assets. We remain positive on China equity market based on factors including China's pro-growth policy, the marginal demand-side easing in real estate, the long-term growth prospect of China's economy, the abundant liquidity in financial market, the very low valuation of China equity market and the implied high equity risk premium.**

## Market Performance

MSCI China Index fell 3.90% in the month of February. The market continued its relatively strong trend in the first half of the month, and the value stocks that benefit from pro-growth policy also performed well. A wave of real estate demand-side easing policy came from local governments, including mortgage rate cuts, lower down payment ratio, higher housing provident fund loan limit, etc. These efforts may partially relieve the pressure of China's real estate market. Both China's total social financing and RMB loans accelerated materially in January and reached record high, exceeding market expectations. CBIRC released 4Q21 operating data for China banking sector, which exhibit accelerated earnings growth, resilient loan growth, marginally improved NIM, and stable asset quality.

However, some investors started to rotate back to growth stocks in mid-February, and took profit on value stocks such as financials, infrastructure construction and property-related names, after the publication of upbeat financial data. The NDRC released the guideline calling for supportive measures to assist the recovery of service-related sectors and required food delivery platforms to lower fees charged to restaurant merchants. The deep dive of Meituan's share price activated investors' worry about Internet supervision policy risk and most Internet stocks underperformed for the rest of the month.

Russia's invasion of Ukraine had a significant impact across global financial markets, with the prices of gold and crude oil up due to risk aversion and potential supply shock, putting downward pressure on the prices of most risk assets. The escalated geopolitical tension also led to lower probability of rate hike in the US and Europe, with the government bond yields in the US and Europe down much near the end of the month. RMB remained strong and reached the highest level since April 2018 in the last week. Sector wise, energy, basic materials, consumer staples, healthcare and telecom led, while property, tech and Internet lagged.

| **Greater China Indices** | Feb Close | Feb Price Change | YTD % | 52 Week Low | 52 Week High |
|---|---|---|---|---|---|
| CSI 300 | 4581.65 | 0.39 | -7.26 | 4488.48 | 5454.97 |
| MSCI China | 78.06 | -3.90 | -6.74 | 77.74 | 118.88 |
| HSI | 22713.02 | -4.58 | -2.93 | 22406.12 | 31183.36 |
| HSCEI | 8023.93 | -3.90 | -2.58 | 7873.28 | 11679.10 |
| | | | | | |
| **Global Indices** | | | | | |
| S&P 500 | 4373.94 | -3.14 | -8.23 | 3209.45 | 4818.62 |
| Dow Jones Industrial Average | 33892.60 | -3.53 | -6.73 | 26143.77 | 36952.65 |
| Nasdaq Composite | 13751.40 | -3.43 | -12.10 | 12397.05 | 16212.23 |
| FTSE 100 | 7458.25 | -0.08 | 1.00 | 5525.52 | 7693.77 |
| DAX 30 | 14461.02 | -6.53 | -8.96 | 11412.70 | 16291.15 |
| Nikkei 225 | 26526.82 | -1.76 | -7.87 | 22878.71 | 30805.00 |

## Economic Data

China's manufacturing PMI improved to 50.2 in February, from 50.1 in January, which was higher than the consensus of 49.8. The output component fell 0.5ppt in February to 50.4, slightly better than the CNY seasonal pattern. The new order component rose 1.4ppt to 50.7, ending the contraction status in the last 6 consecutive months, which was a constructive signal showing improving demands. The non-manufacturing PMI recovered moderately by 0.5ppt to 51.6 in February. The constructive activity index showed solid rebound, reflecting the front-loading of policy support on infrastructure FAI, while consumer-related service sectors remained weak.

Data Source: unless otherwise specified, the data in this report extracted from Bloomberg and Winds, as of 28 February 2022. Data shown is for informational and reference purposes only, historical data does not represent future trend of development.

## Future Outlook

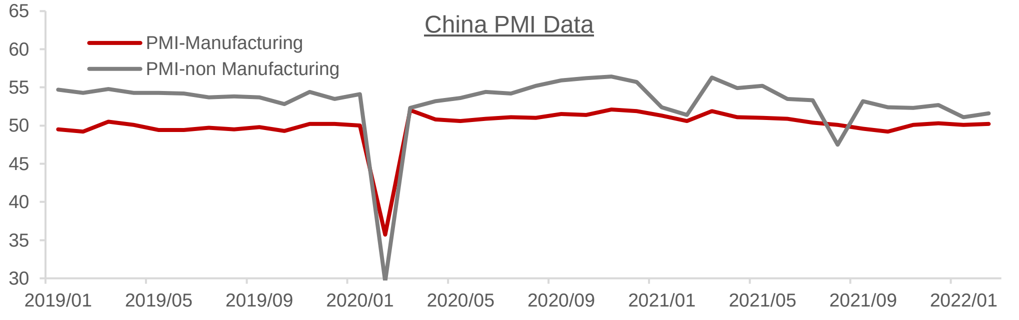
Looking forward, we maintain our positive view on China equity market. Although the short-term trend of the market is negatively influenced by the escalated Russia-Ukraine tension and investors' worry about potential policy risks, the long-term positive factors are unshaken, including China's pro-growth policy, the marginal demand-side easing in real estate, the long-term growth prospect of China's economy, the abundant liquidity in financial market, and the very low valuation of China equity market, as well as the implied high equity risk premium.

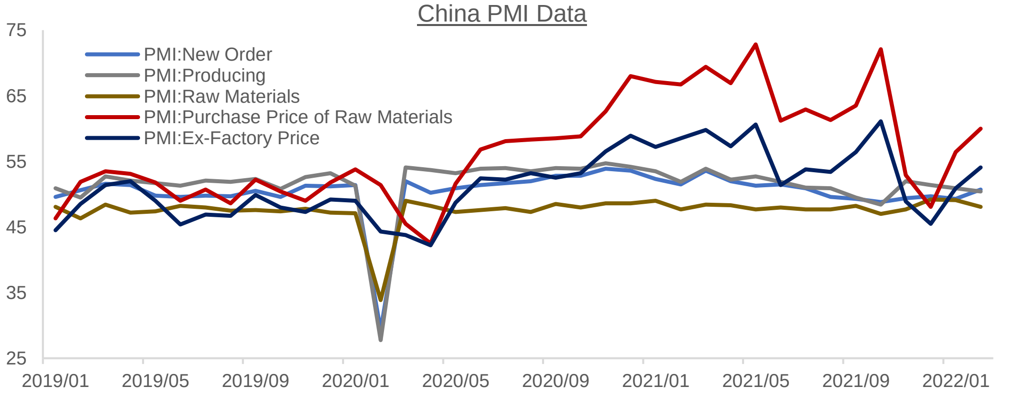
The uncertainty of the development of geopolitical conflicts still exists, but we expect it to affect the short-term trend for the most part, while limited impact on the long-term trend. The strong performance of RMB showed global investors' confidence in China economy and RMB assets.

We expect the outperformance of pro-growth sectors to continue for some time in near term, and we continue to be optimistic about the follow-up performance of the value sector benefiting from pro-growth. At the same time, considering that the adjustment of technology, Internet, and pharmaceutical sectors has been relatively sufficient this year, our follow-up allocation will be more balanced, and we will gradually increase our attention to investment opportunities in high-quality companies in the abovesaid industries.

## Risk

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





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During the first half of February, inflation remained in spotlight while the second half of the month saw global markets overwhelmed by intensifying geo-political tensions. The 10-year yield retraced after the breakout of the Russo-Ukrainian War which led to substantial risk-off market sentiment globally with outflows from the emerging markets. Most risk assets and corporate bonds in Europe and emerging markets were weak as geo-political risks continued to fret markets. The China high yield market continued to be hit by negative news. Corporate spreads still have room to widen. We observed clear signals from China policymakers on stabilizing growth but require times before reflecting on real economy. Assets in China exhibit strength as a destination of flight-to-quality flows. For real estate sector, we closely monitor short term trading and long-term allocation opportunities.

## Market Performance

In 2021, pandemic-related structural factors contributed to high levels of inflation, which became the focal point around the world. In response, many countries started policy tightening in the second half of the year. Going into 2022, as the Federal Reserve continued its hawkish tilt, market sentiment moved notably towards the risk-off side. During the first half of February, inflation remained in the spotlight, while the second half of the month saw global markets overwhelmed by intensifying geo-political tensions, which escalated into the ongoing Russo-Ukrainian War. As the 10-year US Treasury yield climbed over 2% at mid-month after the release of January's economic data and Fed officials' hawkish comments, market expectation of the probability of a 50bps rate-hike in March went over 80% at some point. Yet the 10-year yield retraced to 1.83% after the breakout of the Russo-Ukrainian War, which led to substantial risk-off market sentiment globally with outflows from the emerging markets. Across asset classes, most risk assets were weak, while gold and other commodities outperformed.

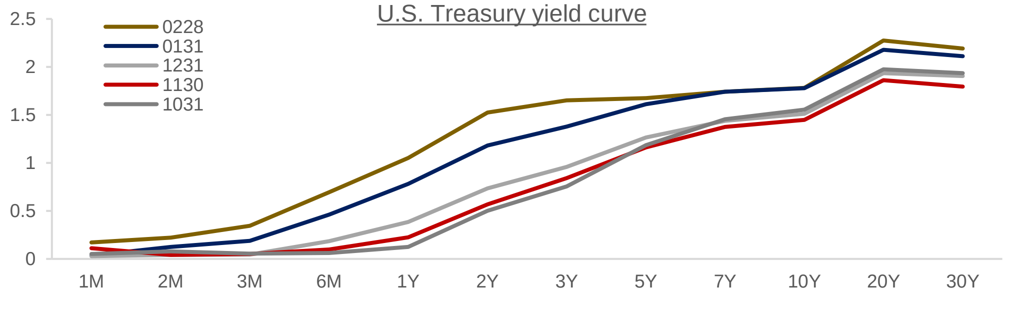
| United States | Last Price % | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|---|---|---|---|---|---|
| 2Y | 1.43 | 25 | 70 | 0.11 | 1.64 |
| 5Y | 1.72 | 11 | 45 | 0.60 | 1.98 |
| 7Y | 1.81 | 7 | 37 | 0.89 | 2.05 |
| 10Y | 1.83 | 5 | 31 | 1.13 | 2.06 |
| 30Y | 2.16 | 5 | 26 | 1.66 | 2.51 |

| China | Last Price % | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|---|---|---|---|---|---|
| 3Y | 2.27 | 5 | -18 | 2.18 | 2.96 |
| 5Y | 2.50 | 11 | -8 | 2.34 | 3.10 |
| 7Y | 2.77 | 11 | -3 | 2.61 | 3.27 |
| 10Y | 2.79 | 8 | 1 | 2.68 | 3.28 |
| 30Y | 3.35 | 7 | 2 | 3.25 | 3.80 |

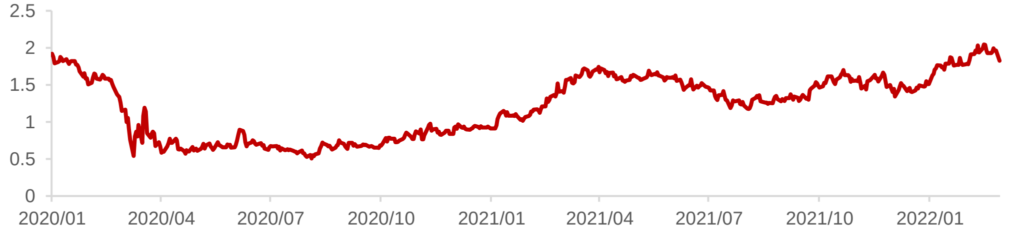
| Japan | Last Price % | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|---|---|---|---|---|---|
| 2Y | (0.03) | 2 | 6 | -0.15 | -0.01 |
| 5Y | 0.02 | 3 | 9 | -0.14 | 0.07 |
| 7Y | 0.05 | 2 | 11 | -0.14 | 0.11 |
| 10Y | 0.19 | 1 | 12 | 0.00 | 0.23 |
| 30Y | 0.90 | 11 | 21 | 0.61 | 1.00 |

| Germany | Last Price % | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|---|---|---|---|---|---|
| 2Y | (0.53) | 0 | 9 | -0.79 | -0.22 |
| 5Y | (0.16) | 6 | 29 | -0.78 | 0.11 |
| 7Y | (0.07) | 10 | 28 | -1.15 | 0.16 |
| 10Y | 0.14 | 12 | 31 | -0.52 | 0.33 |
| 30Y | 0.42 | 14 | 22 | -0.13 | 0.57 |

U.S. Treasury yield curve




10-year U.S. Treasury yield

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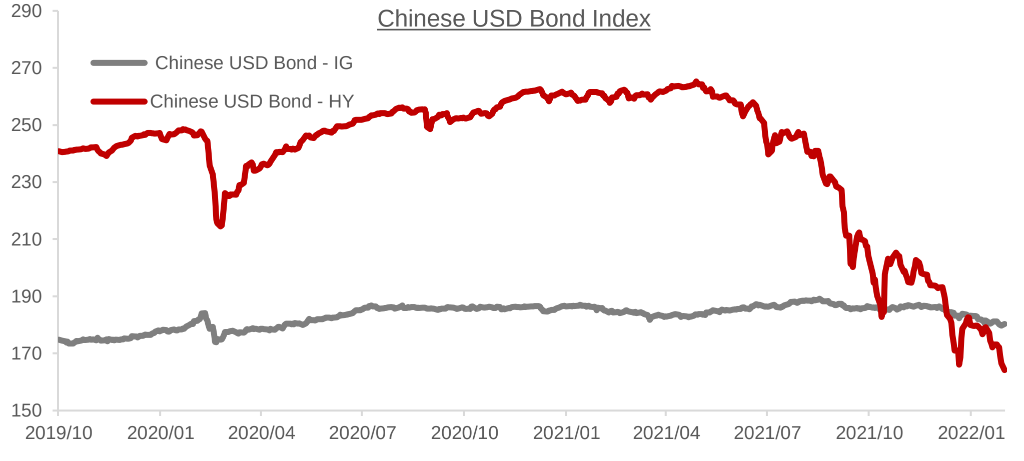
For corporate bonds, global risk appetite remained sluggish for corporate bonds. U.S. investment-grade bonds saw spreads widen since mid-February. Corporate bonds in Europe and emerging markets were also weak, as geo-political risks continued to fret markets. For China's investment-grade bonds, most LGFV and financial names had relative outperformance, while high-beta bonds saw spreads widen by around 30bps. The China high yield market continued to be hit by negative news. Sentiment for the property sector remained weak, as the February's sales number declined by 40% on a YoY basis and some companies, which were previously deemed reliable by investors, were plagued by concerning credit events. Over the month, the market was down by 1.4% for China investment grade bonds and down by 12.4% for China high yield names.

| CDX Index | Current Value | 1M chg bp | YTD chg bps | 52W low% | 52W high% |
|---|---|---|---|---|---|
| IG CDX | 68 | 8 | 18 | 46 | 75 |
| HY CDX | 365 | 26 | 72 | 269 | 401 |
| EM CDX | 287 | 75 | 136 | 146 | 308 |
| **Bond index** | | | | | |
| ICE Asian Dollar Corporate | 452 | -2.3% | -4.7% | 451 | 495 |
| ICE China Issuers Dollar IG Corporate | 212 | -1.4% | -3.0% | 211 | 222 |
| ICE China Issuers Dollar HY Corporate | 230 | -12.4% | -20.4% | 230 | 436 |
| ICE US Corporate | 3349 | -2.2% | -5.2% | 3309 | 3587 |
| ICE US High Yield | 1522 | -0.9% | -3.6% | 1498 | 1580 |
| ICE Emerging Markets Corporate | 443 | -3.7% | -6.0% | 443 | 485 |
| Bloomberg Global-Aggregate | 515 | -1.2% | -3.2% | 511 | 550 |
| Bloomberg Global-Aggregate 1-3 Year | 179 | -0.2% | -1.1% | 178 | 187 |




## Economic Data

U.S. employment was substantially better than expected while inflation expectation remained at elevated levels. PMI and consumer confidence data was relatively weak.

In China, total social financing was above expectation by large margins, although M1 data showed that the real economy still had not shown very strong growth momentum. The CPI remained at relatively low levels. The RMB did not show much weakness amid the global risk-off tilt, demonstrating the currency's strength during market turmoil.

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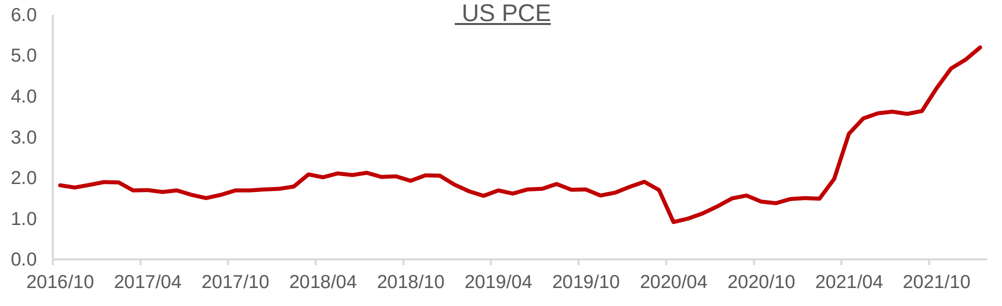
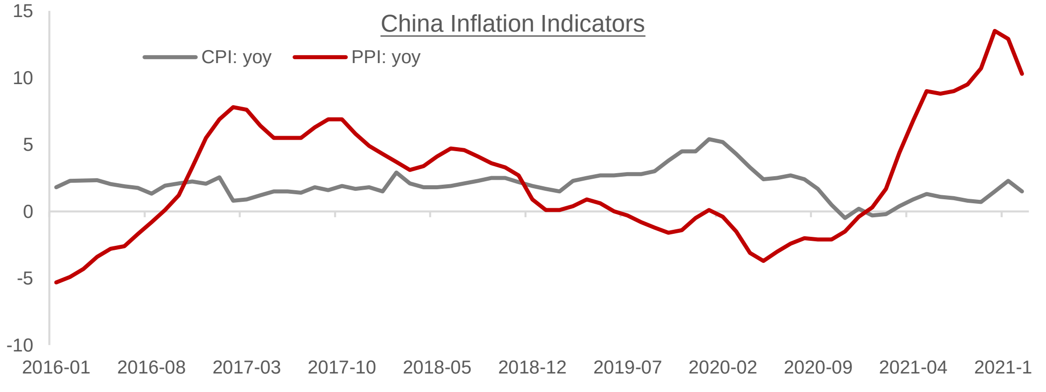
## Outlook

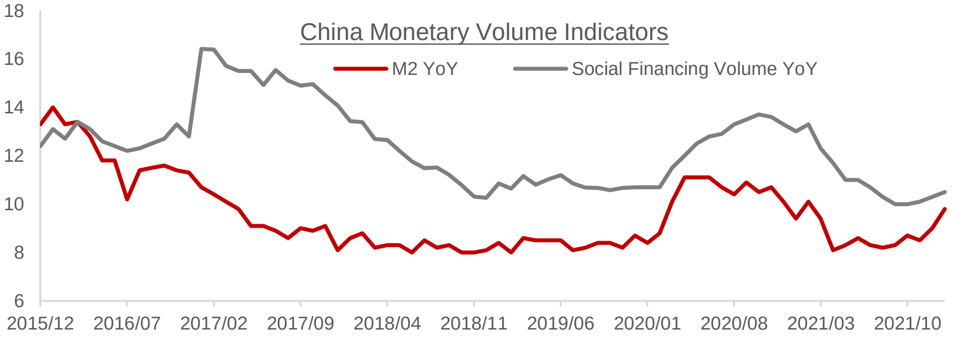
The rapidly escalating conflict between Russia and Ukraine became the biggest "black swan" event since the pandemic. The scale, persistence, and impact of the event may far exceed market expectation. We expect that the Fed's next policy making will be notably constrained by a macro environment in which heightened risk-off global market sentiment is combined with growing inflationary pressure, especially considering Russia as a major exporter of commodities. This is evidenced by the decline in the market's March rate-hike expectation at the end of February. The impact will be palpable for other countries that have started or planned monetary tightening as well.

For corporate bonds, despite apparent widening of spreads among most regions and sectors, current valuations do not adequately reflect potential risks for the global macro outlook. Going forward, corporate spreads still have room to widen.

In China, we observe clear signals from policymakers on their commitment to stabilize growth. Relaxing some regulations for the property sector, building up momentum for infrastructure, and encouraging credit expansion, these policies nonetheless require some time before the real economy picks up the impact. Against the backdrop of global risk-off sentiment, assets in China are likely to exhibit their strength as a destination of flight-to-quality flows. For the real estate sector, low sales levels are potentially hitting the bottom of the cycle. However, if financing relaxation for private developers is not materialized for extended periods of time, debt extension might become an "active" method to solve liquidity issues for more developers to come. Strategy-wise, we will closely monitor market and portfolio risks, prioritize risk controls, and look for short term trading and long-term allocation opportunities.

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