Market Insights

May 2022

Equity

MSCI China Index fell 3.94% in the month of April. The market continued the rally in early April driven by de-escalated concerns on Russia-Ukraine tensions and potential spillover risks towards China, together with the positive progress of regulatory cooperation between China and the US. However, China equity market suffered another round of panic selloff after Qingming Festival until late April, triggered by the surprisingly severe COVID-19 outbreak in mainland China, the more moderate than expected monetary easing policy, the sharp depreciation of RMB against USD, and the weak performance of global equity markets. The epidemic control measures and lockdowns in mainland China caused problems in production, transportation and supply chain, and also dampened the consumption growth of both physical goods and services. We maintain our optimistic view on the market in the medium and long term, but the market will likely continue to fluctuate if short-term disturbances increase. We expect the market to remain volatile for a while, and the excess returns of high-dividend value stocks in a turbulent environment are expected to continue. At the same time, we will continue to maintain a balanced allocation between value stocks and growth stocks. The statement of the Politburo meeting on promoting the healthy development of the platform economy is expected to be beneficial to the profitability and valuation of related companies in the medium and long term. Growth industries such as medicine and technology are undervalued and there are good medium and long-term opportunities.

Market Performance

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More pro-growth policies were published in April and China government reiterated positive stance to support both physical economy and financial market. Investors finally saw the light at the end of tunnel and reacted positively at the end of the month after the meeting of the Central Committee for Financial and Economic Affairs and the Politburo meeting chaired by President Xi. The meetings set a bullish tone on China government's commitment to infra construction. Besides, the Politburo meeting reiterated no change in this year's economic growth target, stressed further policy support to boost growth, and positively responded to recent market concerns on platform economy, fiscal & monetary policy, housing policy and COVID policy. The Politburo meeting called for the most concerted efforts since 2018 to stabilize the economy. Though there's no immediate change in zero-COVID policy, the meeting mentioned that China will effectively coordinate COVID control with economic development and minimize negative impacts. The number of confirmed positives and asymptomatic cases in mainland China significantly declined in late April and Shanghai achieved "societal zero" on April 29. The improving COVID situation in mainland China, combined with the Politburo vows led to the sharp market rebound on the last trading day of the month.

Equity

Greater China Indices	Apr Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	4016.24	-4.89	-18.71	3757.09	5378.48
MSCI China	69.78	-3.94	-17.21	58.68	112.40
HSI	21089.39	-4.13	-9.87	18235.48	29490.61
HSCEI	7298.69	-3.02	-11.38	6051.62	11036.97
Global Indices					
S&P 500	4131.93	-8.80	-13.31	4056.88	4818.62
Dow Jones Industrial Average	32990.06	-4.91	-9.25	32272.64	36952.65
Nasdaq Composite	12334.64	-13.26	-21.16	12315.74	16212.23
FTSE 100	7544.55	0.38	2.17	6787.98	7687.27
DAX 30	14097.88	-2.20	-11.25	12438.85	16290.19
Nikkei 225	26847.90	-3.50	-6.75	24681.74	30795.78

Economic Data

China's manufacturing PMI declined to 47.4 in April from 49.5 in March, registering the lowest reading since the first round of pandemic in March 2020 and suggesting more significant slowing in production and demand. The output component slipped 5.1ppt to 44.4 and the new order component slipped 6.2ppt to 42.6. Besides, the suppliers' delivery time component plunged 9.3ppt to 37.2, reflecting the recent supply chain and logistics pressure amid the mobility restriction measure in multiple cities. The non-manufacturing PMI fell to 41.9 in April from 48.4 in March, also registering the lowest reading since March 2020. The construction activity index fell 5.4ppt to 52.7 in April, still staying above the 50 expansion threshold amid ongoing infra-FAI policy support. However, China's PMI has likely bottomed in April as logistics and production resume gradually.

Future Outlook

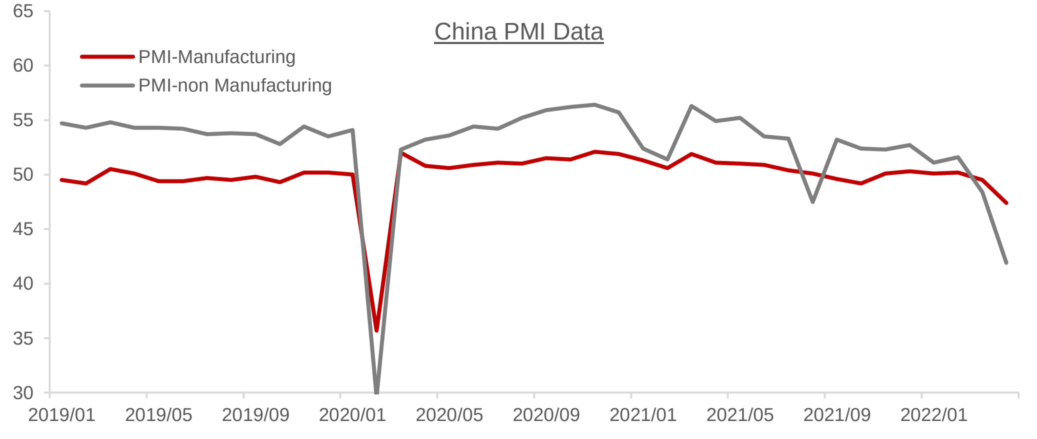
We maintain our optimistic view on the market in the medium and long term, but the market will likely continue to fluctuate if short-term disturbances increase. The Politburo meeting maintained the economic growth target for this year, and the follow-up policy of stabilizing growth is expected to continue to exert force. At the same time, the positive statements of the conference on the platform economy, real estate and capital markets will also be positive for related industries and stock markets. However, while the "dynamic clearing" epidemic prevention policy remains unchanged, subsequent sporadic outbreaks of epidemics in the mainland and tightening of local epidemic prevention policies are expected to disrupt the economy and business operations. In addition, after the Federal Reserve raised interest rates in May, risk assets rebounded on the same day but failed to continue. The US dollar index and US bond interest rates continued to strengthen. The liquidity of the global financial market tightened significantly. There is still depreciation pressure on the RMB against the US dollar in the short term. External factors like Russia-Ukraine conflict and Sino-US relationship will still put pressure on the market trend in the short term.

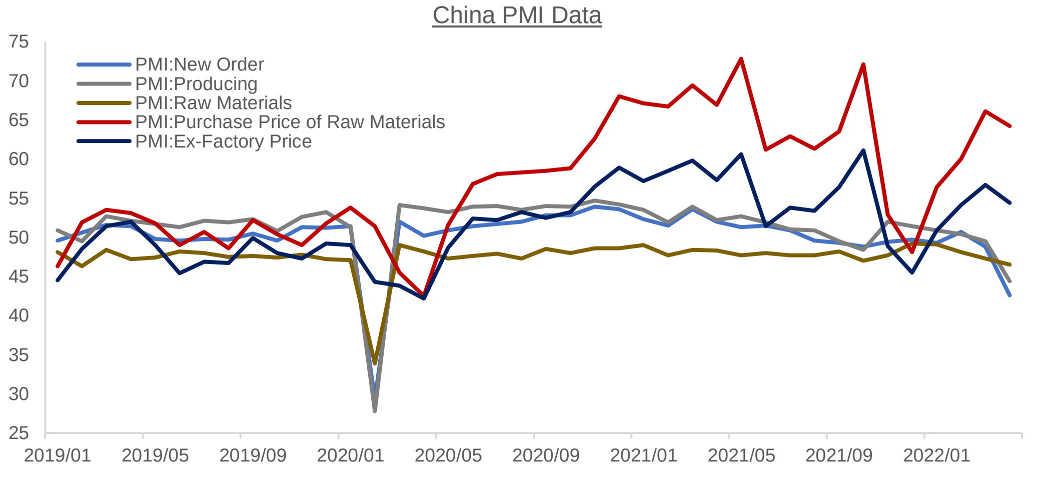
We expect the market to remain volatile for a while, and the excess returns of high-dividend value stocks in a turbulent environment are expected to continue. At the same time, we will continue to maintain a balanced allocation between value stocks and growth stocks. The statement of the Politburo meeting on promoting the healthy development of the platform economy is expected to be beneficial to the profitability and valuation of related companies in the medium and long term. Growth industries such as medicine and technology are undervalued and there are good medium and long-term opportunities.

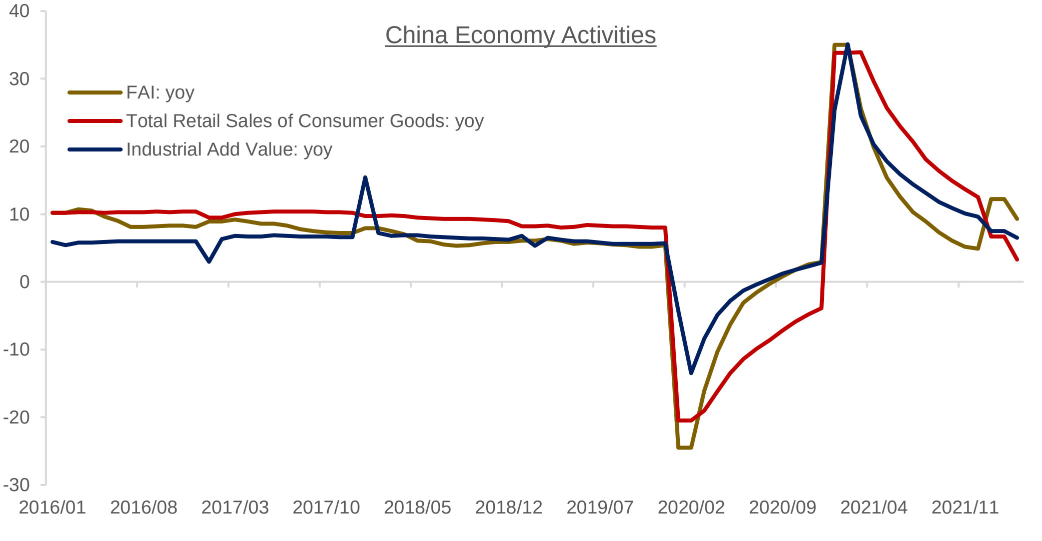
Risk

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; Lock-down policy in China lasts longer than expectation.

Equity







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Against the backdrop of elevated inflation driven by structural issues in the global economy, the Federal Reserve has officially kick-started the rate hike cycle. Risk-off sentiment dominated the markets. Global market sentiment notably weakened as risk asset prices declined in both developed and emerging markets. The Nasdaq index marked the largest monthly drop since 2008. Global corporate bonds were under notable pressure as the U.S. Treasury yields climbed and credit spreads widened. For China's USD bonds, fiscal policies and rising commodity prices provided support for China's LGFV and SOE names, and regulators moderated the grip on TMT sector to some extent. Market participants showed strong demand for bonds in shorter tenors. In China's high yield space, some companies have defaulted while many others were able to make the payments successfully. After the rapid climb of U.S. Treasury yields so far this year, U.S. yields are generally at historical highs within the last ten years. In the near term, if inflation continues to climb and the U.S. economy shows more signs of weakening, the shape of yield curve will be susceptible to another inversion, raising stagflation fears for risk assets. It will be noteworthy if policymakers of U.S. and Europe will still maintain their commitment to the hawkish policy stance. For China's USD bonds, recent RMB volatility has not generated significant shocks to the issuers' credit fundamentals. For the investment grade space, it is salient to observe market sentiment and monitor technical drivers. In the real estate sector, the market has offered waning reactions towards news on policy relaxations and defaults from some issuers. We are watchful for the turning point in the presales and land market, which is still yet to come; meanwhile, we remain cautious and only capture adequate short-term trading opportunities.

Market Performance

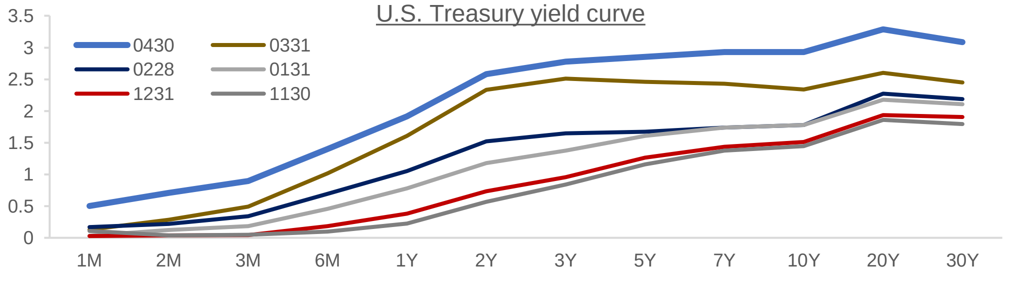
Against the backdrop of elevated levels of inflation driven by structural issues in the global economy, the Federal Reserve has officially kick-started the rate hike cycle, and risk-off sentiment has dominated the markets. Going into April, the Fed continued to give out hawkish signals, and the ongoing Russo-Ukrainian War did not help to lift investors' spirits. Market participants were expecting that the Fed would start the fastest tightening cycle of this century in May. In the futures market, possible 50bps rate hikes were expected in May, June, and July. The U.S. Treasury yields surged by substantial amounts in April, with the 10-year yield climbing by more than 60bps over the month. As a result, the government bond yields of the U.S. and China showed inversions along the curve. Global market sentiment notably weakened, as risk asset prices declined in both developed and emerging markets. The Nasdaq index marked the largest monthly drop since 2008. Meanwhile, the US dollar index hit a 20-year high with a monthly return of 4.6%.

美国	现值 %	一月变动bp	YTD变动bps	52周低点%	52周高点%
2Y	2.71	38	198	0.13	2.78
5Y	2.95	50	169	0.60	3.05
7Y	2.98	55	154	0.89	3.04
10Y	2.93	60	142	1.13	2.98
30Y	3.00	55	109	1.66	3.03

中国	现值 %	一月变动bp	YTD变动bps	52周低点%	52周高点%
3Y	2.39	18	-6	2.18	2.86
5Y	2.64	24	5	2.34	3.03
7Y	2.83	17	2	2.61	3.16
10Y	2.84	13	6	2.68	3.18
30Y	3.35	8	3	3.25	3.80

日本	现值 %	一月变动bp	YTD变动bps	52周低点%	52周高点%
2Y	(0.05)	-2	4	-0.15	-0.01
5Y	0.02	-3	9	-0.14	0.08
7Y	0.13	2	19	-0.14	0.18
10Y	0.23	1	16	0.00	0.30
30Y	0.97	3	28	0.62	1.11

德国	现值 %	一月变动bp	YTD变动bps	52周低点%	52周高点%
2Y	0.26	34	88	-0.79	0.30
5Y	0.68	30	113	-0.78	0.76
7Y	0.77	35	113	-1.15	0.83
10Y	0.94	39	112	-0.52	0.98
30Y	1.09	43	89	-0.13	1.12



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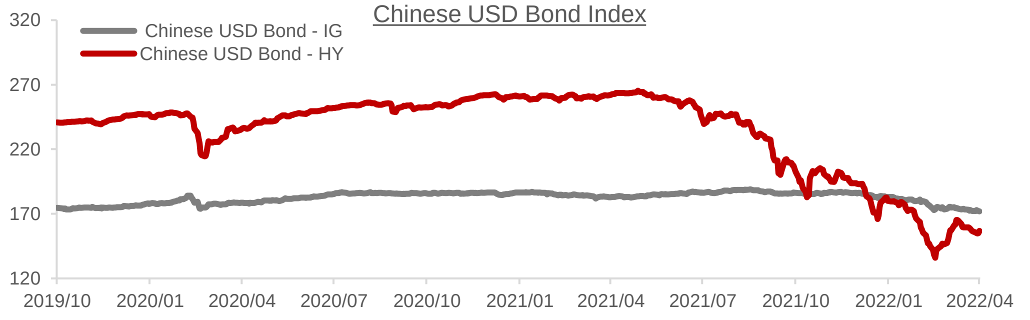
For corporate bonds, as the U.S. Treasury yields climbed and credit spreads widened, global corporate bonds were under notable pressure. In particular, European assets underperformed, with borrowing costs rising as well. For China's USD bonds, the primary market saw less new issues, compared with the same period in the past two years. China's investment grade bonds held up relatively well compared to other regions, as the credit spreads widened by less amounts in general. Fiscal policies and rising commodity prices provided some support for China's LGFV and SOE names, and regulators moderated the grip on the TMT sector to some extent. Market participants showed strong demand for bonds in shorter tenors. In China's high yield space, the property sector did not show any one-sided moves, under the mix of policy moderation and Covid impact on sales over the month. During the debt maturity peak in April, some companies have in turn defaulted on their obligations, while many other developers were able to make the payments successfully. Overall in April, China's investment grade bonds declined by 1.7%, while China high yield bonds remained mostly flat with a slight return of 0.1%.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	84	16	34	46	85
HY CDX	461	85	168	269	469
EM CDX	285	57	133	146	352
Bond index					
ICE Asian Dollar Corporate	431	-2.1%	-9.1%	428	495
ICE China Issuers Dollar IG Corporate	202	-1.7%	-7.4%	201	222
ICE China Issuers Dollar HY Corporate	216	0.1%	-25.2%	174	436
ICE US Corporate	3098	-5.0%	-12.3%	3072	3587
ICE US High Yield	1452	-3.7%	-8.0%	1443	1580
ICE Emerging Markets Corporate	413	-3.1%	-12.4%	411	485
Bloomberg Global-Aggregate	472	-5.5%	-11.3%	470	550
Bloomberg Global-Aggregate 1-3 Year	170	-3.2%	-6.0%	170	187



Economic Data

The IMF lowered its global economic growth forecasts. Inflation statistics continued to hit new highs in the U.S. and Europe, while the PMI data was mixed. U.S. first quarter GDP unexpectedly declined by 1.4% on an annualized basis, which fell short of market expectations and raised concerns for stagflation.

In China, the 4.8% YoY GDP growth for the first quarter beat market expectations, and policymakers maintained the 5.5% growth target for the year. However, considering the severity of the Covid outbreaks and China's commitment to dynamic zero-Covid policy, market participants still had concerns over the vibrancy of economic activities in the near term.

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Outlook

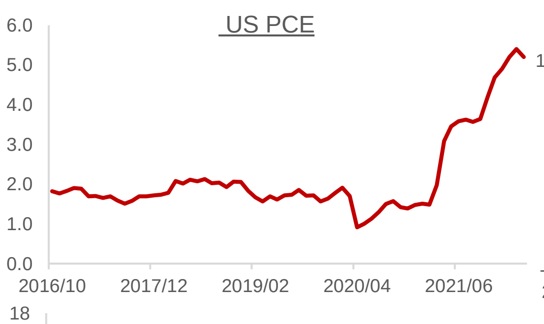
The current state of the global economy does not bode well for optimistic growth prospects. As Japan's central bank maintained its ultra-low rate policy and Europe's economic outlook remained weakened, the US dollar index surged, while emerging market currencies displayed evident depreciation recently. It still remained uncertain if global inflation would peak in May, especially depending on development of the Russo-Ukrainian War and the recovery speed of Chinese export.

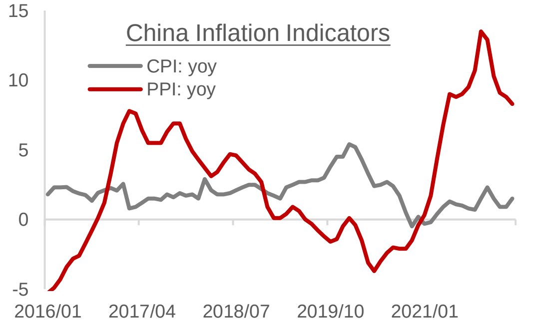
After the rapid climb of U.S. Treasury yields so far this year, U.S. yields are generally at historical highs within the last ten years, although there is still room for further yield increases when we compare past yields in a longer time horizon. In the near term, if inflation continues to climb and the U.S. economy shows more signs of weakening, the shape of the yield curve will be susceptible to another inversion, raising stagflation fears for risk assets. In this scenario, the reaction of U.S. and Europe's central banks will be essential: it will be noteworthy if policymakers will still maintain their commitment to the hawkish policy stance under such circumstances.

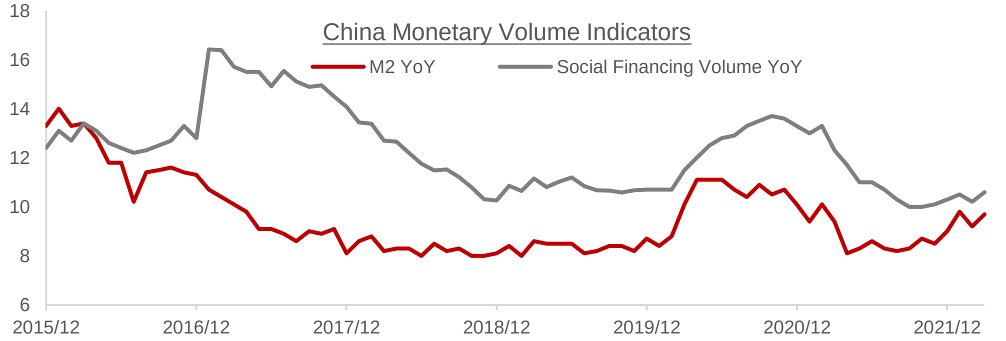
Global corporate bonds underwent an unusual pattern in April, as both credit spreads and interest rates climbed up by large margins. Current valuations have tilted towards a more reasonable side, after the fall in prices this year so far. Although the lowered valuations exhibit some attractiveness for asset allocation, given the current economic cycle, credit spreads may not be able to sustain a rapid one-sided rebound based on the fundamentals. Going forward, two-sided swings are more likely, and it is important to caution against credit duration risk, as well as the risk of the high yield sector's further declines.

For China's USD bonds, recent RMB volatility has not generated significant shocks to the issuers' credit fundamentals. For the investment grade space, it is salient to observe market sentiment and monitor technical drivers. In the real estate sector, the market has offered waning reactions towards news on policy relaxations and defaults from some issuers. We are watchful for the turning point in the presales and land market, which is still yet to come; meanwhile, we remain cautious and only capture adequate short-term trading opportunities.

In the RMB market, the yuan depreciated against the dollar by nearly 3000 pips since mid-April. As the yuan had sustained a robust performance during the pandemic, especially against a basket of currencies, the recent retracement was still within reasonable bounds. Recent Covid outbreaks in China and surges in the dollar could put pressure on the yuan in the short-to-medium term, but the central bank still has not utilized its policy tools or exercised direct market interventions, keeping its policy toolbox well-stocked. Therefore, the yuan is unlikely to enter an uncontrollable downward spiral of depreciation against a basket of currencies. In the longer term, aided by progress in RMB internationalization, the yuan's outlook remains positive.







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