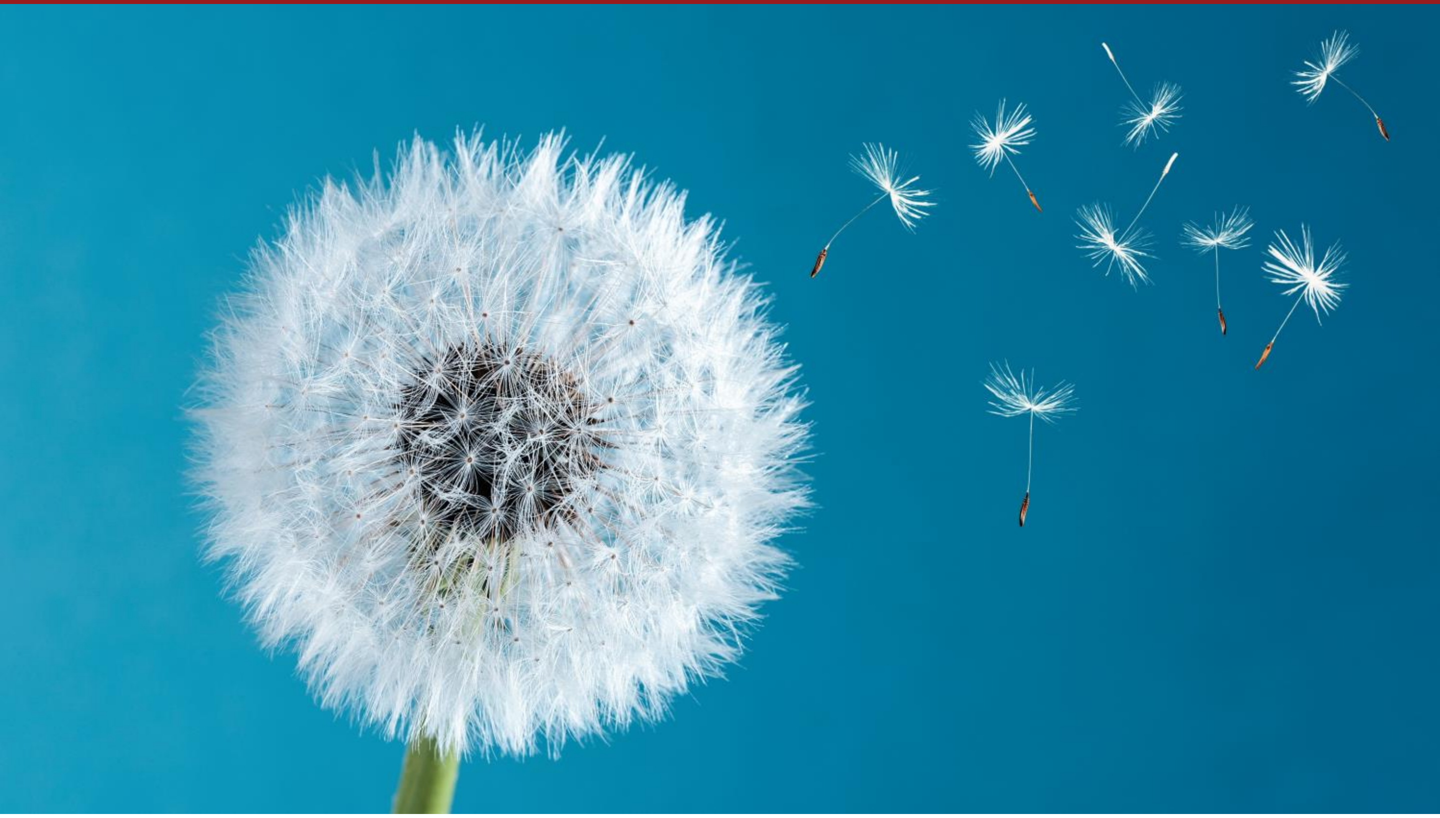

Market Insights

January 2023

Equity

MSCI China index rose by 5.20% in the month of December, mainly driven by the definitively faster-than-expected reopening process of China, the CEWC's positive tone on POEs and platform economy, the easing property regulations and the removal of China ADRs' delisting risk. The relaxation of COVID control measures without any doubt means a surge of infected cases in the mainland China. China's domestic consumption and transportation have entered a rapid recovery mode, especially in the cities where the first COVID wave peaked. On Dec 15, the PCAOB announced that it was able to inspect and investigate completely issuer audit engagements of PCAOB-registered accounting firms headquartered in mainland China and Hong Kong, which effectively removed the delisting risk of China ADRs. Looking forward, we maintain our long-term positive view on China equity market. With the reopening of China's economy and the introduction of more stabilization policies, China's economic growth is expected to accelerate to at least 5% in 2023, with corporate earnings gaining support and market uncertainties likely to diminish. Meanwhile, investors' higher risk appetite and reduced impacts from external adverse factors are all pointing to improved return prospects in the coming year.

Market Performance

MSCI China index rose by 5.20% in the month of December, mainly driven by the definitively faster-than-expected reopening process of China, the CEWC's positive tone on POEs and platform economy, the easing property regulations and the removal of China ADRs' delisting risk. On Dec 7, following the "20 measures" in November, Chinese government unveiled new "10 measures" to further relax its COVID policies, including the home quarantine option for eligible cases, significant relaxation of PCR testing requirements and more policy push for the elderly vaccination. On Dec 26, China released new guidelines to significantly relax its COVID control policy for both domestic infections and inbound travellers, effective from Jan 8, 2023. Also, the NHC announced the downgrade of COVID management to Level 2 from Level 1 and rename "COVID-19 pneumonia" as "COVID-19 infection", which marked the eventual exit from the Zero-COVID policy and actual reopening.

The relaxation of COVID control measures without any doubt means a surge of infected cases in the mainland China. Based on the survey data, about 70% of the population in mainland China have been infected and most cities have passed the peak of recent COVID resurgence. China's domestic consumption and transportation have entered a rapid recovery mode, especially in the cities where the first COVID wave peaked. The CEWC listed 5 key tasks in 2023: boosting domestic demand, accelerating the development of modern industrial system, equally supporting for SOEs and POEs, encouraging foreign investment, and taking effective measures to prevent and mitigate economic and financial risks. The policy stance will help boost investor confidence and further policy support on domestic demand could be expected. On Dec 15, the PCAOB announced that it was able to inspect and investigate completely issuer audit engagements of PCAOB-registered accounting firms headquartered in mainland China and Hong Kong, which effectively removed the delisting risk of China ADRs.

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Equity

Greater China Indices	Dec Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3871.63	0.48	-21.63	3495.95	4856.65
MSCI China	63.95	5.15	-23.51	47.43	87.25
HSI	19781.40	6.37	-15.46	14597.31	25050.59
HSCEI	6704.94	5.18	-18.59	4919.03	8822.80
Global Indices					
S&P 500	3839.50	-5.90	-19.44	3491.58	4748.83
Dow Jones Industrial Average	33147.25	-4.17	-8.78	28660.94	36513.88
Nasdaq Composite	10466.48	-8.73	-33.10	10088.83	15319.03
FTSE 100	7451.74	-1.60	0.91	6707.62	7700.81
DAX 30	13923.60	-3.29	-12.35	11862.84	16090.29
Nikkei 225	26094.50	-6.70	-9.37	24681.74	29222.77

Economic Data

China's manufacturing PMI further dropped to 47.0 in Dec from 48.0 in Nov, the lowest reading since Feb 2020. This number has stayed in the contraction territory over the past 3 months as COVID resurgence negatively impacted domestic demand and supply. The new order sub-index fell to 43.9 in Dec from 46.4 in Nov, and the output sub-index fell to 44.6 in Dec from 47.8 in Nov. The non-manufacturing PMI fell sharply to 41.6 in Dec from 46.7 in Nov, hit by the acceleration of COVID cases. The services sub-index fell significantly to 39.4 in Dec from 45.1 in Nov, and the construction sub-index fell modestly to 54.4 in Dec from 55.4 in Nov.

Although the adjustment of COVID control measures will put pressure on the short-term economic growth, the earlier-than-expected reopening process will benefit the growth in 2023.

Future Outlook

Looking forward, we maintain our long-term positive view on China equity market. With the reopening of China's economy and the introduction of more stabilization policies, China's economic growth is expected to accelerate to at least 5% in 2023, with corporate earnings gaining support and market uncertainties likely to diminish. Meanwhile, investors' higher risk appetite and reduced impacts from external adverse factors are all pointing to improved return prospects in the coming year. The even faster reopening track and clearer signals of policy makers prioritizing the economy should support the 1Q23 earnings growth bottoming out trajectory, and investors would turn focus to the post-reopening recovery and assess the impact from recent policy pivots for both near and longer term.

In terms of portfolio positioning, we will continue to seek a balance between value and growth and pay more attention to both long-term policy beneficiaries (eg. software localization and advanced manufacturing), short-term policy beneficiaries (property and property-related sectors) and reopening-related opportunities (eg. consumer, Internet, financials and healthcare).

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; China's economy recovers less than expected amid outbreak of COVID-19 after the directional adjustment of policy.

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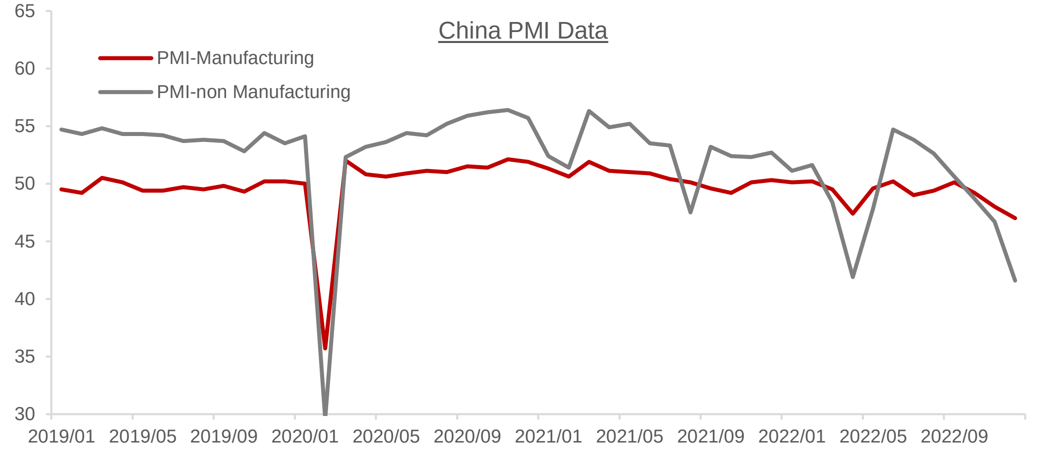
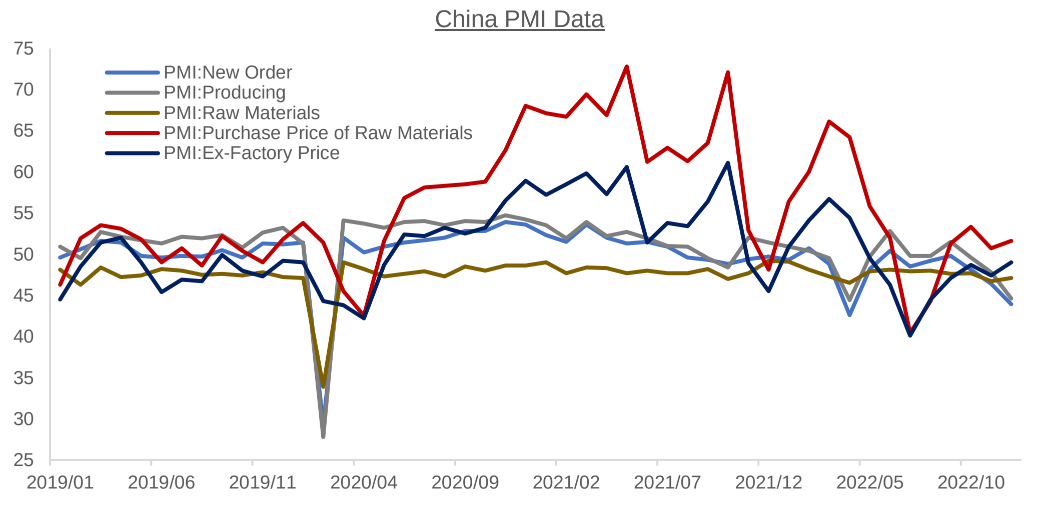
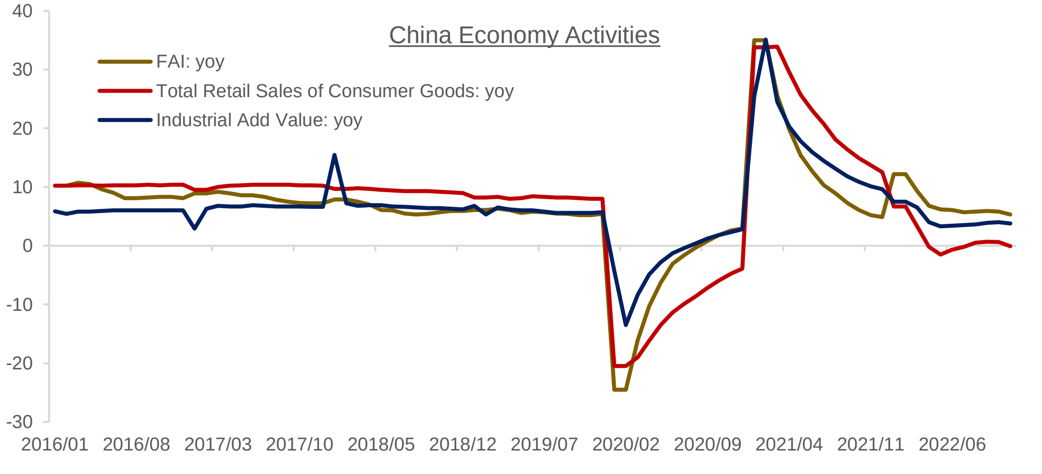
Equity







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In December, the U.S. CPI print dipped below expectation, and recession concerns continued to be on the mind of market participants. Against this backdrop, U.S. Treasury yields declined, however, in the second half of the month, U.S. economic data demonstrated resilience, and Treasury yields moved upward. Overall, risk sentiment remained on the cautious side in December. Chinese high-yield bonds outperformed other markets, largely owing to improved market sentiment in response to the policy support for the real estate sector as well as easing of pandemic controls. U.S. economic data was mixed. In China, the PPI showed some decline, and increase in total social financing was below the level of the same period last year. As global central banks are starting to dial down the pace of rate hikes, this hiking cycle is reaching the final stage. With mixed signals from U.S. economic data, the recession risk in 2023 remains substantial. We are closely monitoring economic indicators and Fed's guidance, in order to fend off asset price volatility in response to changes of market sentiment during various stages of recession trades. In China, with pandemic policy easing rapidly, conditions will be favorable for China's economic recovery in 2023. For these high yield property issuers, it remains to be seen whether they can salvage themselves under the new policy support and improving financing environment.

Market Performance

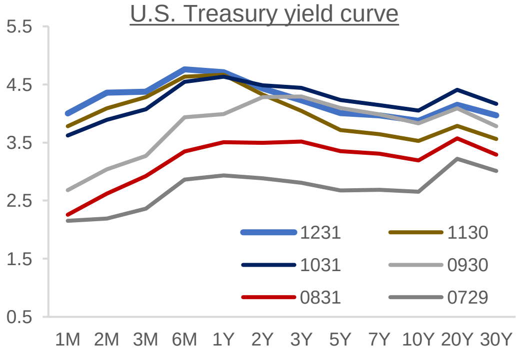
In the first half of December, as U.S. CPI print dipped below expectation again, the December FOMC meeting stepped down the step of the rate hike for the first time to 50bp, and recession concerns continued to be on the mind of market participants. Against this backdrop, U.S. Treasury yields declined across 2-year to 10-year tenors. In the second half of the month, U.S. economic data demonstrated resilience, and Treasury yields moved upward, with the 10-year yield reaching over 3.8% and the 2-year rate over 4.3% again. Overall, risk sentiment remained on the cautious side in December, with risk assets such as crude oil and U.S. equity both declining. Chinese assets, nonetheless, outperformed other markets, thanks to new policy support for the property sector as well as China's latest re-opening policies.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.43	12	369	0.75	4.80
5Y	4.00	27	274	1.35	4.50
7Y	3.97	29	253	1.54	4.44
10Y	3.87	27	236	1.61	4.34
30Y	3.96	23	206	2.01	4.42

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	2.42	-3	-3	2.14	2.55
5Y	2.63	-9	4	2.34	2.77
7Y	2.82	-6	1	2.58	2.91
10Y	2.84	-8	6	2.61	2.96
30Y	3.20	-7	-12	3.08	3.42

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.04	6	13	-0.11	0.06
5Y	0.23	12	31	-0.07	0.26
7Y	0.45	23	51	-0.04	0.46
10Y	0.42	17	35	0.08	0.49
30Y	1.61	9	92	0.69	1.72

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.76	64	338	-0.79	2.77
5Y	2.58	64	303	-0.45	2.58
7Y	2.57	66	292	-0.34	2.57
10Y	2.57	64	275	-0.15	2.57
30Y	2.55	72	235	0.10	2.55



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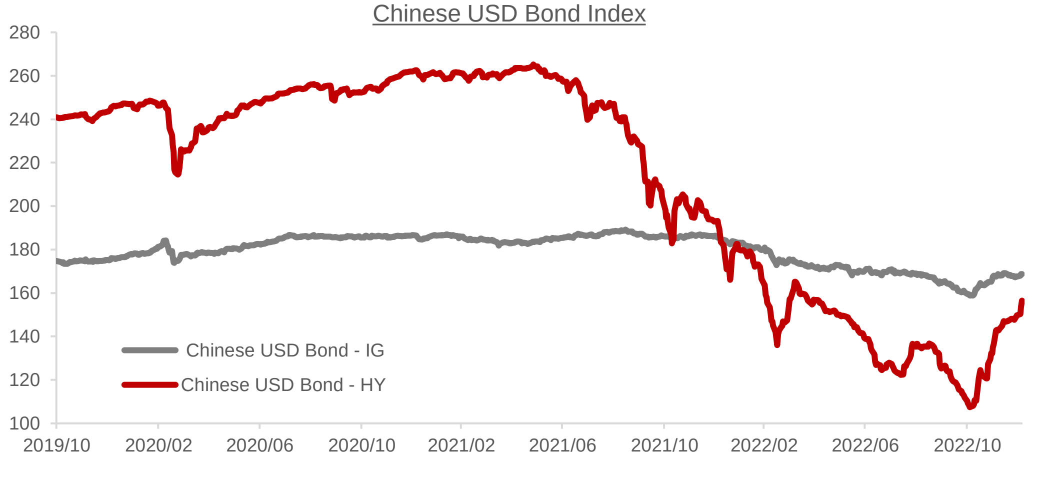
For corporate bonds, most regions and sectors had their spreads move in ranges as interest rates went up. Chinese high-yield bonds outperformed other markets, largely owing to improved market sentiment in response to the policy support for the real estate sector as well as easing of pandemic controls. The Chinese investment-grade bond market was relatively calm, with trading volumes cooling down near year-end. As a whole, in December China's investment-grade bonds went up by 1.2%, and China's high yield market climbed 17.2%.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	82	6	32	50	114
HY CDX	484	31	191	294	640
EM CDX	239	12	87	189	395
Bond index					
ICE Asian Dollar Corporate	417	1.7%	-12.1%	384	472
ICE China Issuers Dollar IG Corporate	197	1.2%	-9.9%	185	217
ICE China Issuers Dollar HY Corporate	193	17.6%	-33.3%	115	284
ICE US Corporate	2988	-0.2%	-15.4%	2809	3491
ICE US High Yield	1402	-0.8%	-11.2%	1345	1576
ICE Emerging Markets Corporate	401	1.6%	-14.8%	373	469
Bloomberg Global-Aggregate	446	0.5%	-16.2%	416	531
Bloomberg Global-Aggregate 1-3 Year	167	1.8%	-7.7%	159	182



Economic Data

U.S. economic data was mixed. The November CPI print was lower than expected, and consumer sales data also undershot estimates. The non-farm payroll data for November was 263k, surpassing the 200k estimate. The third quarter U.S. GDP growth rate's final number was 3.2%, higher than consensus.

In China, the PPI showed some decline, and increase in total social financing was below the level of the same period last year. China's easing of pandemic control measures beat expectation, and online search data indicates that nationwide daily new cases rapidly climbed to the peak in December, bringing notable impact on short-term economic activities. The online search data also suggests that new cases across regions have in turn reached their peaks and begun falling by the end of the month.

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Outlook

As global central banks are starting to dial down the pace of rate hikes, this hiking cycle is reaching the final stage. That being said, market expectations of slower rate hikes were mostly already priced in during November, while in December most risk assets could not sustain the outperformance. U.S. November inflation data again undershot expectation, reinforcing market perception that inflation has passed its peak. Although more future data is needed, so far core inflation items seem likely to subside in due course. With mixed signals from U.S. economic data, the recession risk in 2023 remains substantial. We are closely monitoring economic indicators and Fed's guidance, in order to fend off asset price volatility in response to changes of market sentiment during various stages of recession trades. For U.S. rates, under the "slower, but higher for longer" policy path, in the short term the 2-year yield could gradually find its way upwards, while the 10-year rate is more likely to move in ranges under the influence of risk-off sentiment and recession expectations. In China, with pandemic policy easing rapidly, short-term economic activities could be impacted by infection peaks; as new cases quickly climb to the peak and fall, and re-opening policies are introduced, conditions will be favorable for China's economic recovery in 2023.

For corporate bonds, as trading volumes fell near year-end, market sentiment also cooled down, unable to sustain the outperformance seen in November. Most regions saw credit spreads widen in December. However, spreads have fallen substantially from the 2022 year-highs, and given the current stage of the economic cycle and macro environment, current spreads are not considered cheap, while significant tightening also seems unlikely in the near future. On the contrary, it is necessary to heed for risks of spreads' widening caused by recession concerns and geopolitical tensions. China high yield bonds outperformed other sectors, with market sentiment encouraged by policy support to the real estate sector and pandemic policy easing. For these high yield property issuers, it remains to be seen whether they can salvage themselves under the new policy support and improving financing environment.

For the yuan, with the redemption of fixed income assets cooling down and relaxation of financing conditions near year-end, the backwardation of government bond futures was notably mitigated, and mid-to-short-term yields of high-quality corporate bonds also quickly declined. Spreads on short-duration credits tightened and market sentiment returned to neutral. With the Chinese New Year in sight, the central bank is likely to improve liquidity injection. Even though yields of deposits and money markets rebound, the pace and speed will tend to be mild, and short-term yields are expected to remain at low levels. At the same time, short-term pandemic outbreaks will still be relevant, affecting economic activities. However, as major regions saw their new case numbers move past the peaks, markets will put more weight on economic recovery. With all things considered, long-term yields before the Chinese New Year might oscillate within a narrow range. Recently the dollar index trades around 104, while the yuan has been strong since the last trading day of 2022, pushing the yuan index against a basket of currencies toward 100. Market consensus of China's economic recovery is palpable; meanwhile, from a seasonality standpoint, the yuan is typically strong in January. Moreover, the exporters' foreign exchange activities before the Chinese New Year could contribute to the yuan's appreciation in the short run. Despite the dollar index's recent rebound, there are also plenty of market participants willing to bet the yuan's appreciation against the dollar. From a technical perspective, given the narrow spread between USDCNY and USDCNH, if USDCNH falls below the 200-day average of 6.865, the technical support of 6.83 for USDCNY could also come under pressure.

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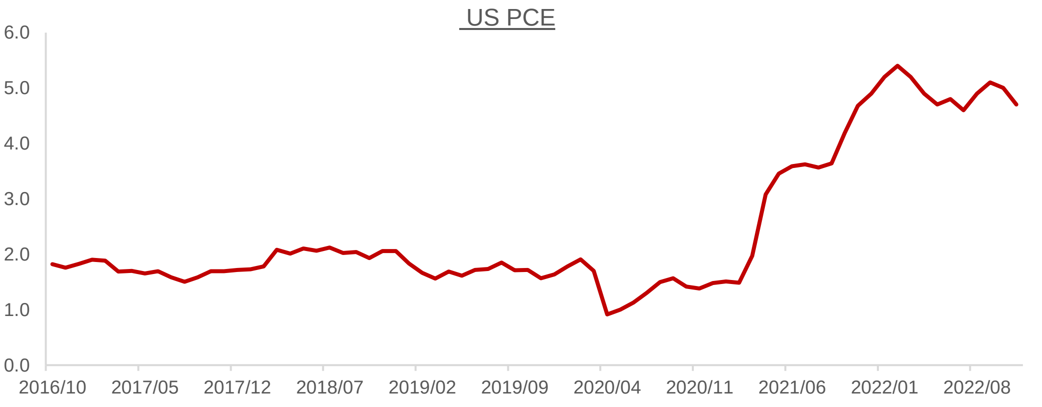

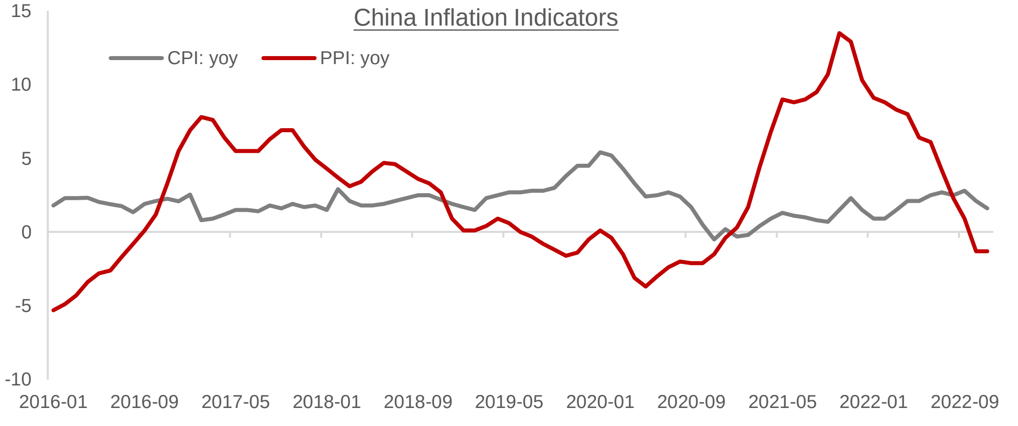

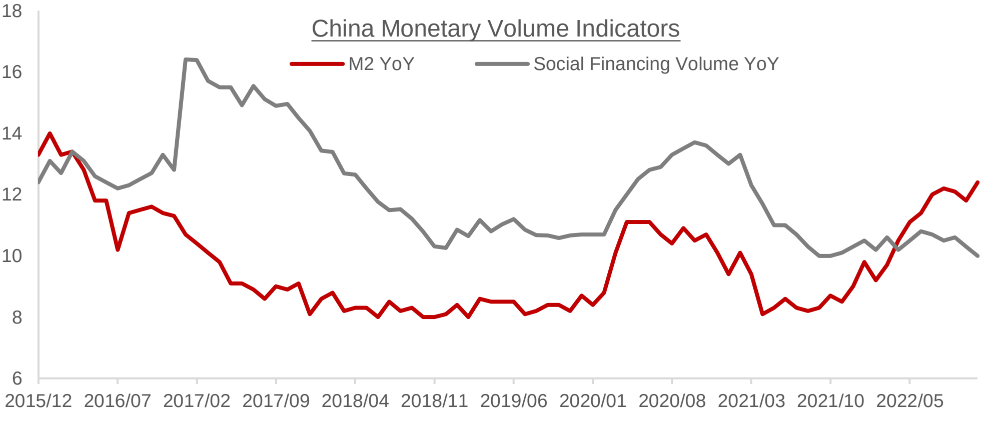

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