ChinaAMC(HK)

2024
Investment Outlook

Contents

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Following the lifting of COVID-19 restrictions at the start of 2023, we all harbored high hopes for life, work, and the financial markets. While our day-to-day lives have resumed normalcy, the upheaval caused by the three-year pandemic, in conjunction with complex global economic and geopolitical landscapes, has perpetuated instability in the financial markets. Not only have overall returns fallen short of expectations, but global markets have also continued to diverge.

A confluence of headwinds has seen China’ s stock market trailing behind its global counterparts in 2023: a slower-than-anticipated economic recovery, a further weakening of the Chinese real estate sector, and sustained economic growth with extended interest rate hikes in other developed economies. Within Chinese equities, high-dividend stocks with stable earnings growth have stood out as a refuge, while cost-effective and outbound consumption represent bright spots in the consumer sector. Furthermore, sectors such as electric vehicles, AI, and consumer electronics have yielded positive returns at various intervals. Despite these challenges, we have remained proactive in uncovering investment opportunities throughout 2023, steadfast in our commitment to delivering value to our investors. Our Greater China Technology Fund and China Focus Fund have been industry leaders in total returns for the year.

The global bond markets faced heightened volatility throughout 2023. A banking crisis in the first quarter sparked increased risk aversion, while unexpected fiscal stimuli and a resilient U.S. economy drove up interest rates in the following quarters. By year’ s end, anticipated rate cuts in November and December caused the Federal Funds Rate and credit spreads to trend downwards, culminating in satisfactory returns, particularly within the credit bond market. USD-denominated bonds from China and broader Asian bonds continued to undergo structural adjustments, with inverted interest rates between most local and foreign currencies contributing to a scarcity of USD bond supply. Our bond team has navigated these rapidly changing and tumultuous conditions with dexterity, diversifying risks and offering investors products tailored to their risk profiles and enhanced risk-adjusted returns. Several of our global fixed-income funds have outpaced their peers in 2023.

As we look to 2024, the rate hike cycle in most developed economies appears to be winding down. The Federal Reserve is poised to initiate rate cuts in the first half of the year, potentially boosting liquidity in emerging markets. China’ s real estate sector is likely to persist in its decline, albeit at a slower rate, while consumption is expected to recover incrementally. The current market sentiment, which reflects a deep-seated pessimism towards China’ s economic growth and financial market performance, seems to have been fully priced in. This sentiment is poised for a turnaround with the emergence of more growth indicators and the announcement of stabilization policies in the year ahead. With China’ s stock market valuations at historical lows after three years of decline, we hold firm confidence in the market’ s potential and in the prospects of our equity funds for 2024.

The U.S. Treasury yield curve is anticipated to normalize as the rate cut cycle commences. However, the global bond market must still contend with uncertainties such as a potential slowdown in the U.S. economy, pivotal leadership elections, and ongoing geopolitical conflicts. The high valuations of risk assets may precipitate increased volatility in the credit bond market, leading to multiple peaks and troughs in yields. Our strategy will focus on balanced allocation, aiming to seize investment opportunities within these volatile conditions.

Environmental, Social, and Governance (ESG) considerations will continue to be a cornerstone of our investment strategy in 2024. By weaving ESG principles more deeply into our investment processes, we are poised to contribute positively to the sustainable development of businesses and communities alike. Furthermore, we will actively engage with the burgeoning field of digital currencies, offering our investors a more varied array of investment options.

We look forward to a fresh start in 2024!

China Stock Market

2023 Market Review

Since the beginning of 2023, among major global asset classes, U.S. stocks and other developed countries' stocks have performed outstandingly. Gold also recorded a 14.6% gain during the same period. In contrast, China's equity market has been relatively weak, underperforming the global indexes for the third consecutive year. The Hang Seng Composite Index and the MSCI China (USD) Index fell 13.8% and 13.3% respectively, while the Wind All A Index declined 5.2%.

2023 Market Recap

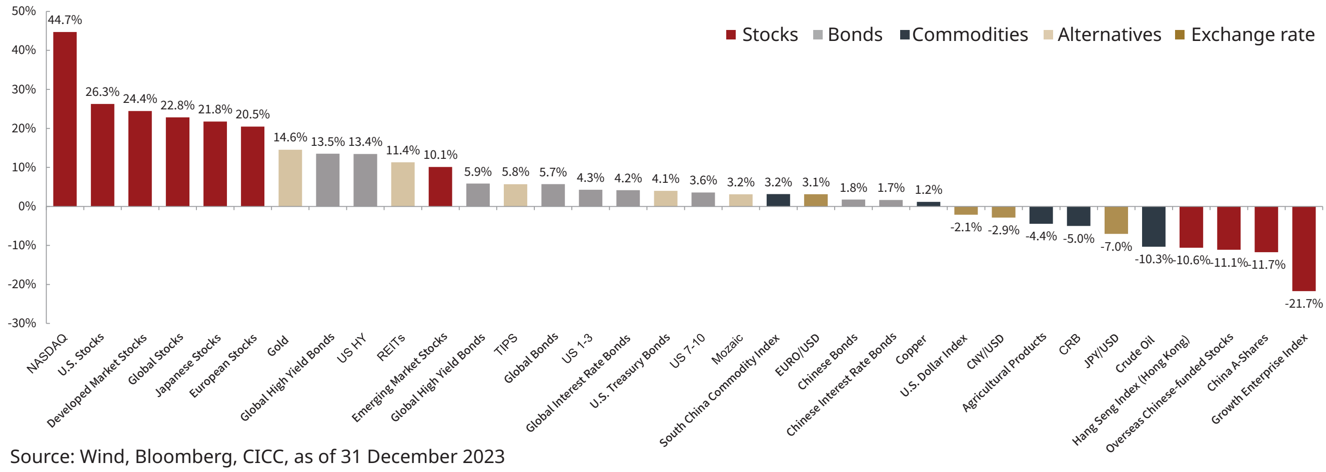
Month	Market Movements	Influencing Factors
Jan	Continuation of the rebound that began in Oct 2022	Investors held high expectations for China's economic recovery following the reopening and the implementation of property policy adjustments
Feb - Early Apr	Remained volatile	High-frequency economic data indicated a weak recovery
Late Apr - Jun	Investors began to lower their expectations, leading to a volatile market and a downward trend	China's economy was recovering at a slower pace than market expectations
Q3 and Q4	The weak economic recovery in China, combined with the rapid increase in US Treasury rates, exerted additional pressure on the market, resulting in a new historic low	During this period, the market experienced a brief rebound, supported by positive factors such as monetary and fiscal policies aimed at stabilizing the economy and the market in China, the improvement of Sino-US relationships, and the decline in US Treasury rates from the peak. However, global investors' lower expectations for China's endogenous growth (i.e., corporate earnings) was the key influencing factor that dominated the market and ultimately ended the rebound.

Throughout 2023, China's endogenous growth remained lackluster despite the implementation of a more accommodative monetary policy. The need for longer-term solutions to address real estate and local financing vehicles related issues and insufficient fiscal support are two main factors. In addition, lower economic growth expectations also undermined overseas investors' confidence, leading to a relatively large outflows of foreign capital in 2023.

By the end of 2023, there were signs of sequential improvement in certain consumption, investment and export indicators in China. Looking ahead, we expect more positive changes in China's monetary, fiscal and regulatory policies to further stabilize the economic growth.

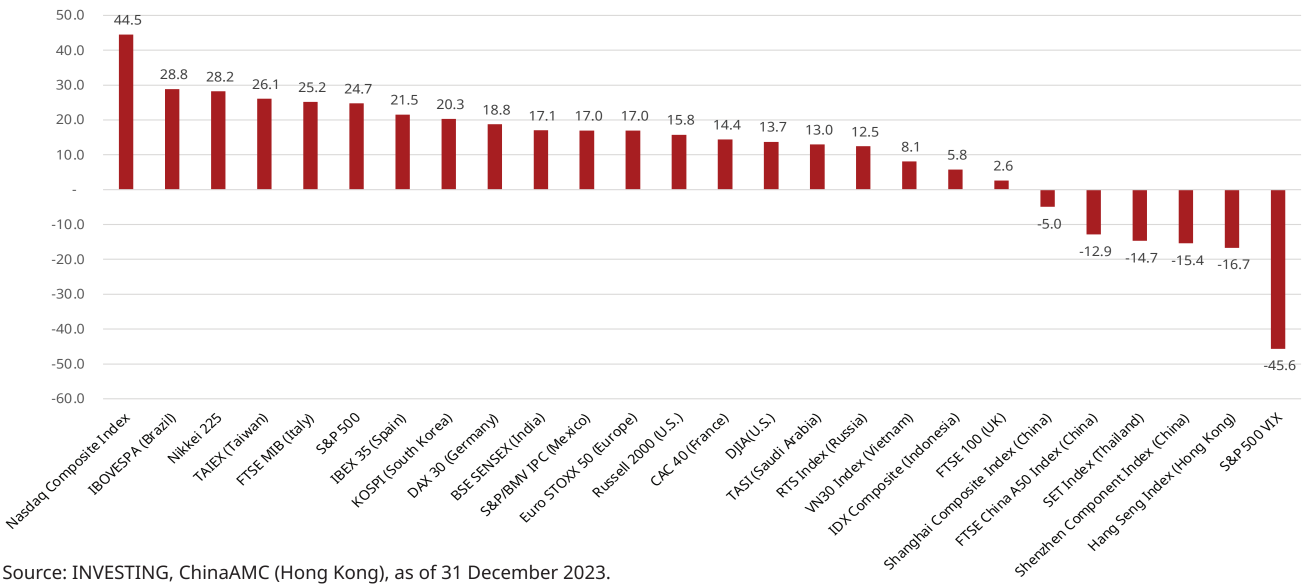
In the meantime, external markets may face escalated geopolitical uncertainties in 2024 due to elections taking place in several countries and regions. However, we expect **China's endogenous growth to remain the key influencing factor for its stock market, as the impact of external factors has been marginally weak. If the Chinese government implements more proactive fiscal and monetary policies and introduces longer-term solutions for issues in the property sector and local government financing platforms, we expect China's stock market to recover in 2024.**

Chart 1: Performance of Major Global Asset Classes in 2023



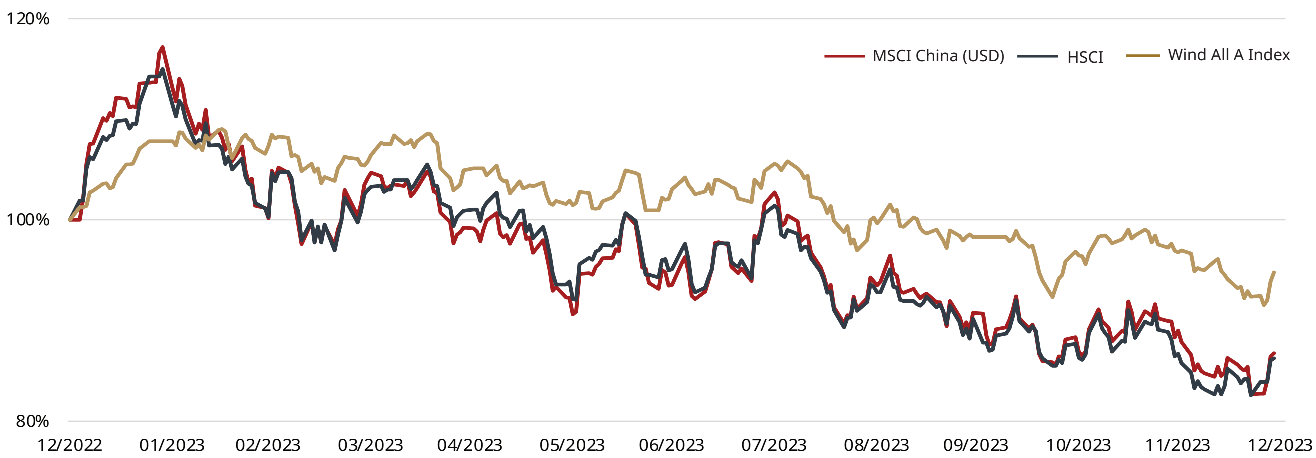
Source: Wind, Bloomberg, CICC, as of 31 December 2023

Chart 2: Performance of Major Global Stock Indices in 2023



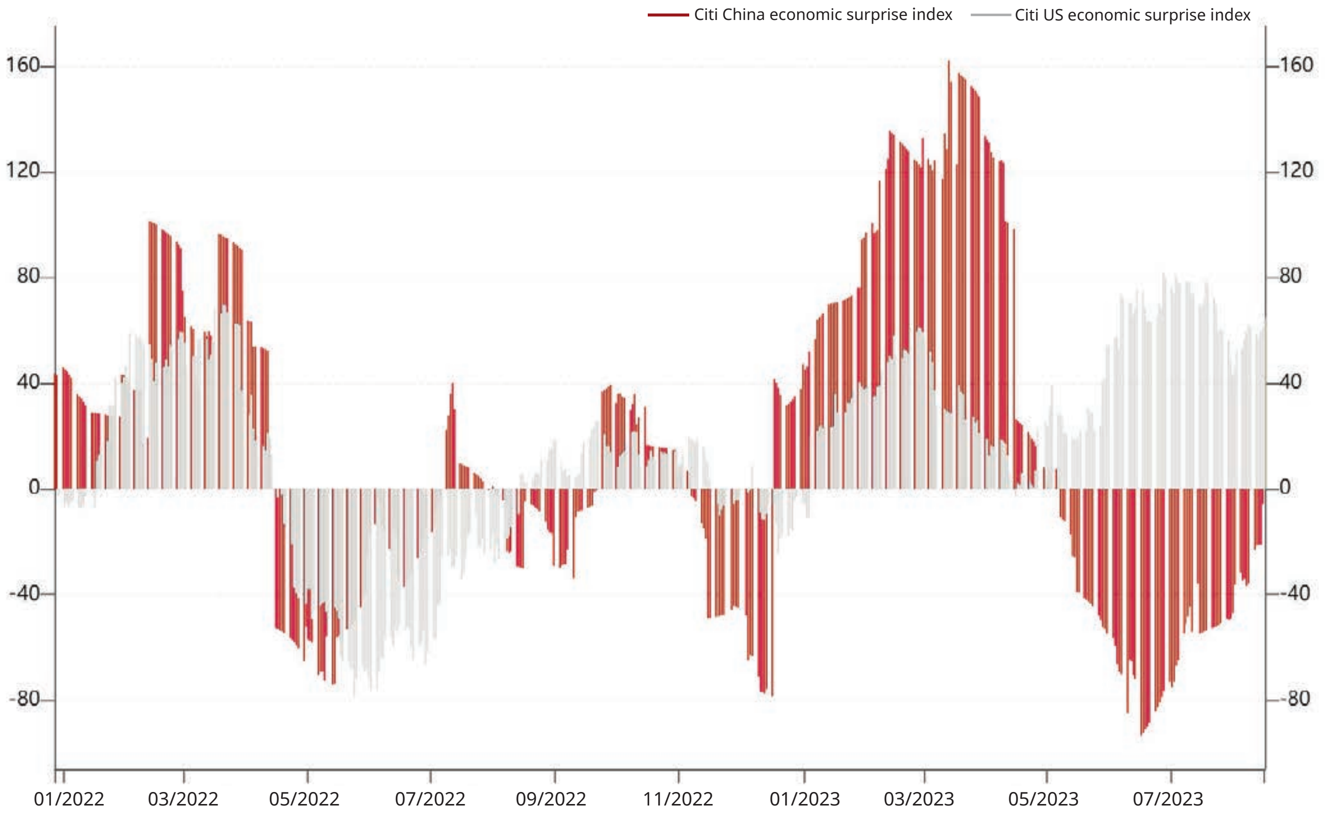
Source: INVESTING, ChinaAMC (Hong Kong), as of 31 December 2023.

Chart 3: Performance of Major China Stock Indices in 2023



Source: Wind, ChinaAMC (Hong Kong), as of 31 December 2023.

Chart 4: China vs U.S. Economic Surprise Index



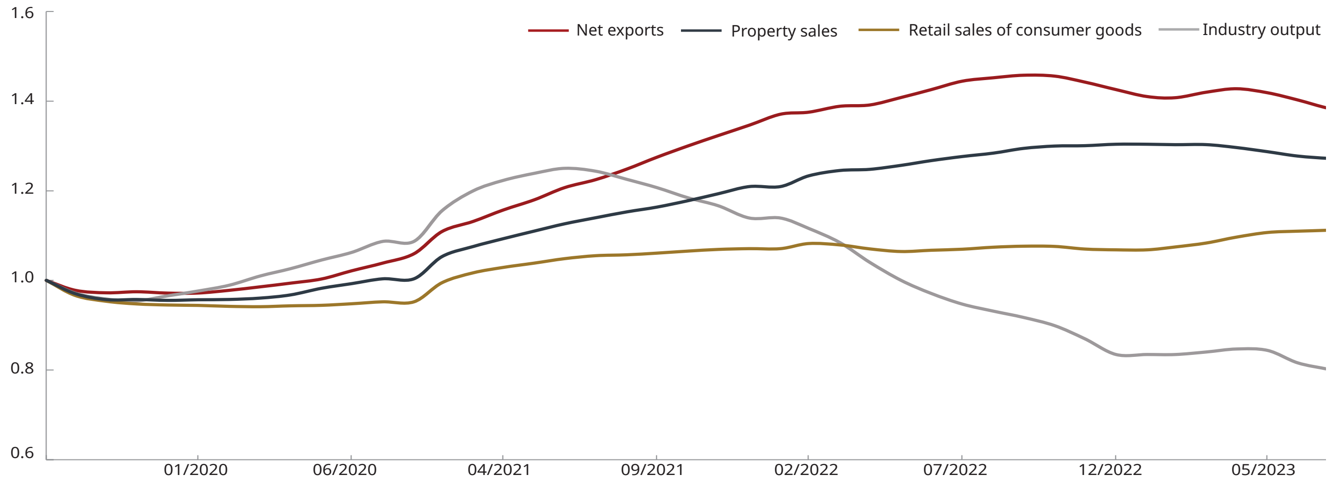
Source: Citigroup, Wind, Banxia Investment, as of October 2023.

Endogenous Growth Factors in China

Total Output Analysis

As mentioned above, the lower-than-expectation endogenous economic growth and the unresolved structural issues in the property market and local financing vehicles are key factors that contributed to the weaker performance of China's equity market in 2023. Furthermore, the spike in U.S. Treasury rates in the third quarter, along with factors such as corporate earnings, risk-free interest rates and investor confidence have all weighed on the stock market. Although the Chinese government has introduced a series of monetary and fiscal policies aimed at stabilizing the economy and the market, these measures have not been effective or efficient enough to reverse the pessimistic expectations of investors.

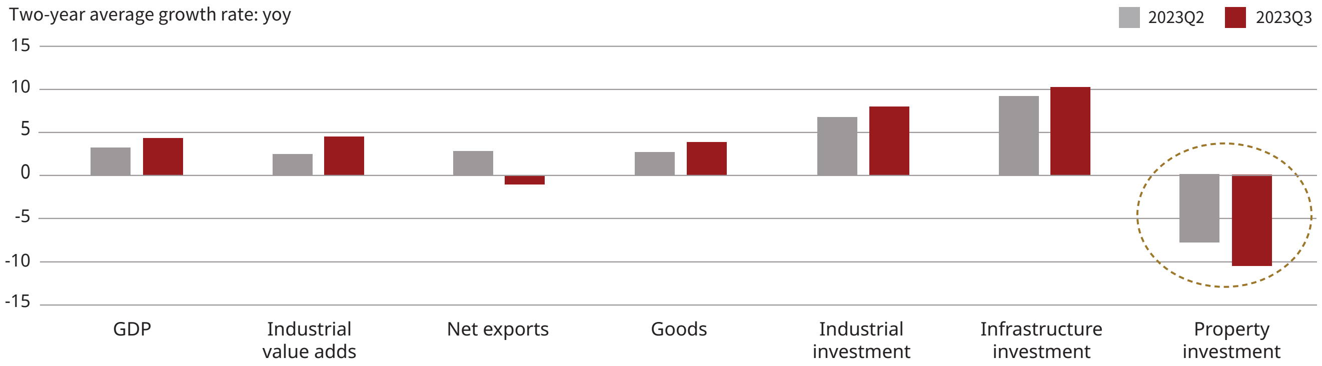
Chart 5: China's Economic Data



Source: Everbright Securities, as of 30 November 2023.

The chart below shows that the growth rates of consumption and net exports experienced a rapid decline following a brief recovery in early 2023. Both indicators then remained relatively stable for the rest of the year. In contrast, fixed asset investment showed a continuous weakening trend, starting at 5.5% at the beginning of the year and dropping to 2.9% in October. More specifically, real estate investment contracted 9.3% from January to October, while manufacturing and infrastructure investment grew 6.2% and 8.3% respectively during the same period. These figures suggest that the drag on China's weak endogenous growth primarily stems from the real estate sector.

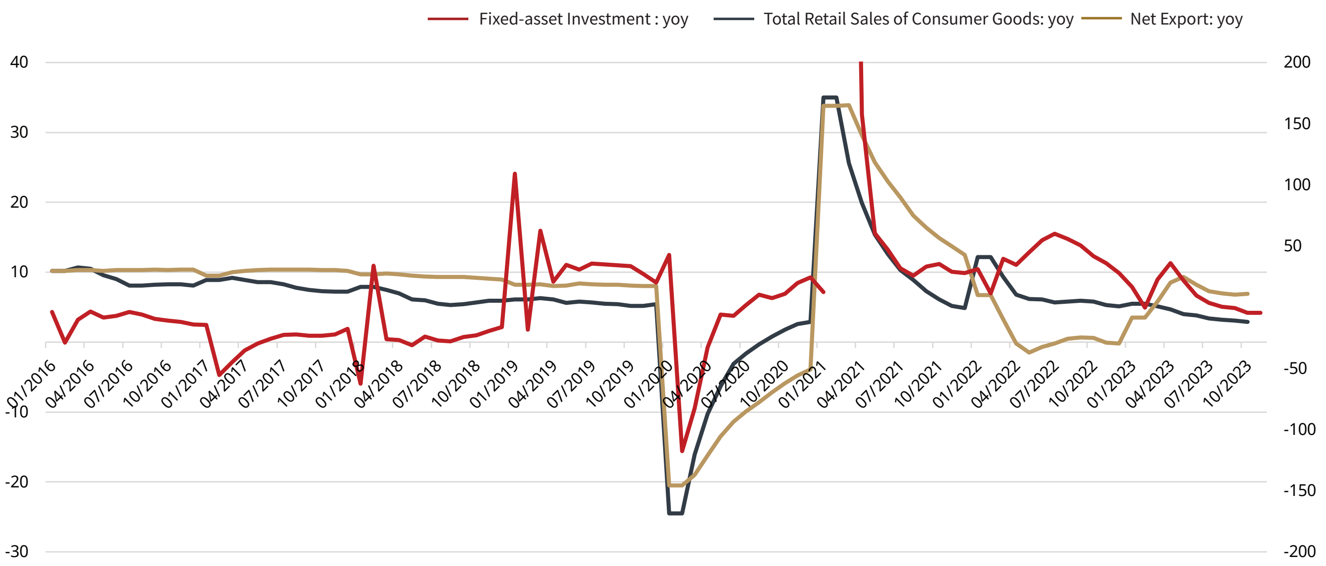
Chart 6: China's Weak Economic Recovery is Largely Dragged Down by the Property Sector



Source: Wind, BOC Securities, as of September 2023.

Despite historical low lending rates for businesses, households, and governments, the relatively accommodative monetary conditions have not translated into effective credit expansion in China. For households, the demand for credit expansion has been mainly driven by real estate investments. However, with housing prices falling across the country, household balance sheets have shrunk by a certain extent over the past three years, and the public has become relatively pessimistic about property investment returns. Furthermore, the lowering expectations for future income by individuals have added more pressure to property sales in 2023, negatively impacting real estate investments. On the other hand, fiscal contributions to GDP declined across all levels in 2023 due to unresolved issues in the property sector and local government financing vehicles. The overall fiscal strength is also the primary factor contributing to the divergence between the Chinese and U.S. economies. In the context of a relatively weak economy, China's fiscal policies have not been able to provide adequate support, resulting in continued economic weakness.

Chart 7: China's Economic Activities



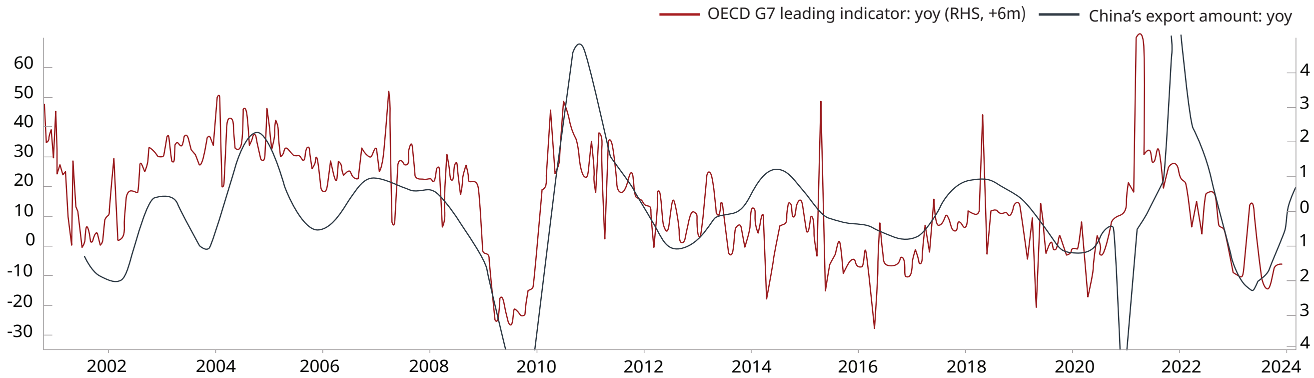
Source: Wind, ChinaAMC (Hong Kong), as of December 2023

China's export has reached or even surpassed pre-COVID levels, even though it is still facing a certain degree of pressure at the moment. Looking ahead, inventories in major developed countries have bottomed out, and the global economy challenges stemmed from high inflation, high interest rates, and destocking may have reached the final stage. All these factors suggest there might be room for improvement in China's exports in 2024.

Chart 8: Global Manufacturing PMI

Source: Wind, Hongze Research, as of October 2023.

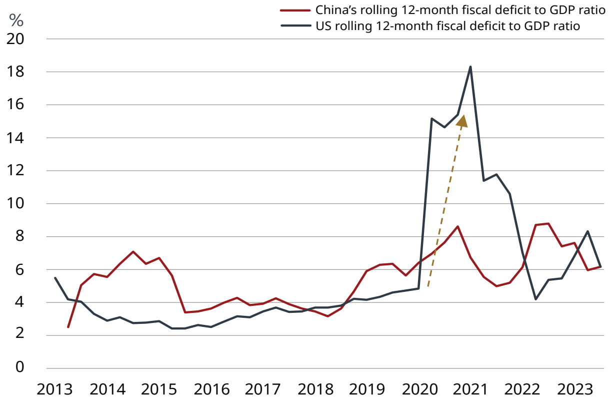
Chart 9: China's Export Indicators



Source: Wind, Hongze Research, as of October 2023.

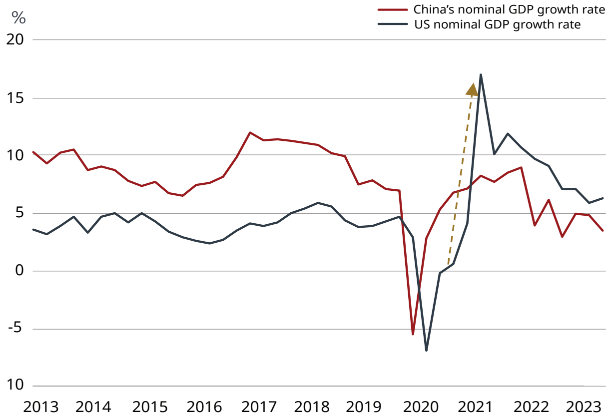
Structural transformation and improved competitiveness continued to support positive growth in manufacturing investments. Although consumption has been weaker than pre-COVID levels, it has remained stable throughout the year. Looking ahead to 2024, the growth of social finance is expected to remain stable, suggesting a continuation of stable consumption. Infrastructure is expected to grow around 6%, slightly lower than the previous year. This is partly caused by shrinking support from special financial instruments and self-owned funds in 2024. In addition, on-balance sheet fiscal hedging is expected to be strengthened. (Total net proceeds from government bond issuance this year will stay flat compared with 2023, but a portion of last year's proceeds will be used for this year. Loan demand for 1 trillion special treasury bonds will be released in the first half of 2024).

Chart 10: China vs U.S. Fiscal Deficit



Source: DH Investment, as of October 2023.

Chart 11: China vs U.S. GDP Growth



We believe that stepped-up monetary and fiscal stimulus, as well as more short- and long-term support policies for property market and local financing vehicles, will be crucial for stabilizing the Chinese economy.

China’s Economic Growth Outlook

Baseline (Probability: 50%)

Economic conditions	Expected GDP growth	Market performance
• Weak growth of housing starts; the growth rate is expected to drop moderately in the future • Relative strong growth of new fiscal/ infrastructure projects; the growth rate is expected to decline gradually in the future • Consumption flattens while exports increase slightly • Social finance flattens	4.7% (It will be a challenge to achieve a 5% growth rate with the existing policies and it is expected that more supportive measures will be announced in the second half of 2024).	• Internal factors will have a balanced impact across asset classes, with the pivot point of 10-year treasury bond at 2.65%. • There are both resemblance and differences when compared with 2019: (1) less external liquidity leading to weaker support for the equity and bond markets;(2) the auspicious start of the credit market has moved up to Q4 2023, with the current interest rates partially pricing in the positive factor. Thus the bond market may enter a “reverse seasonal” pattern

Optimistic (Probability: 25%)

Economic conditions	Expected GDP growth	Market performance
• Property market improves significantly • Fiscal strength surpasses expectations (e.g., deficit ratio exceeding 4% or resumption of highly leveraged special financial instruments). • Private financing rebounds to more than 10%.	5%	• Strong equity and weak bond market • The pivot point of 10-year treasury bond is expected to reach 2.8%.

Pessimistic (Probability: 25%)

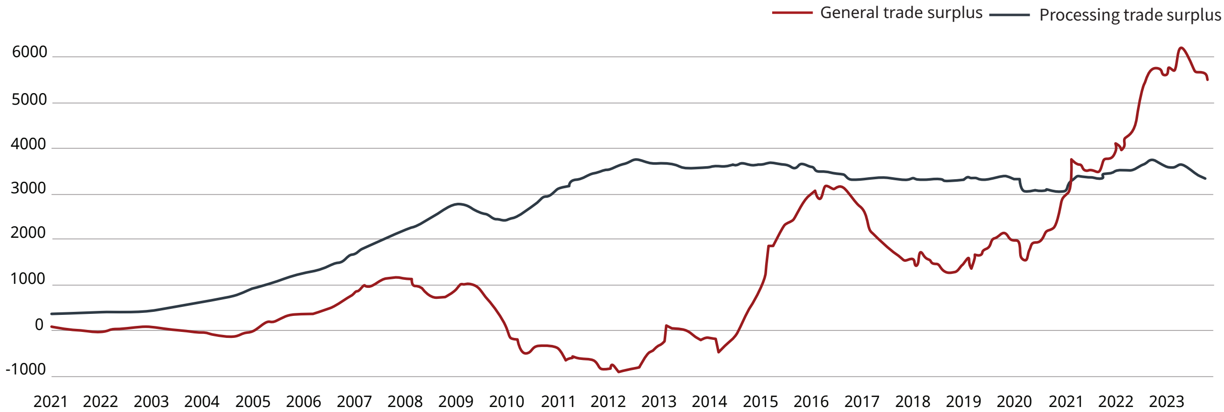
Economic conditions	Expected GDP growth	Market performance
• Property market follows a similar trajectory to the baseline scenario • Fiscal stimulus injected earlier, with Q4 2023 being the peak period of fiscal support • Private financing remains at a similar level as in 2023, falling below 9%.	4%	• Bond bull and equity bear • The pivot point of 10-year treasury bond is expected to hit a new low, falling below 2.5%.

Structural Analysis

Although the property sector continues to pose challenges to the Chinese economy, it is undeniable that positive structural transformations have taken place. Chinese companies have seen a dramatic improvement in their competitiveness in the global market over the past years, leading to a gradual shift in the growth drivers of the overall economy towards the export of local branded products. Export data indicates a decreasing proportion of processing trade with imported materials in the trade surplus, which suggests an overall elevation in the competitiveness of Chinese brands and an upgrade of industries. Of particular significance is the remarkable increase in the number and total amount of overseas authorizations of Chinese innovative drugs, which has reached a record high. These are evidence of the strengthening in the research and development capabilities of Chinese pharmaceutical companies.

We believe that the development opportunities for Chinese companies mainly arise from structural changes in the economy, including market share gains, improved global competitiveness, and fostering innovation.

Chart 12: : Structure of China's Trade Surplus (12-month rolling sum)



Source: Wind, Hongze Research, as of October 2023.

External environmental factors

Geopolitics

2024 is an election year for many countries and regions around the world, which may generates geopolitical uncertainties. While their potential impact is too early to determine, we believe that China's stock market has already priced in the pessimistic expectations of these uncertainties, and the marginal impact of relevant events will be limited.

Major Geopolitical Events in 2024

January 2024
Election of government leaders in Taiwan Province, China

February to June 2024
U.S. Election: Parties hold caucuses

March 17, 2024
2024 Russia Presidential election

March 31, 2024
Ukraine Presidential election

Mid-2024
U.S. Election: Parties hold national conventions

August to November 2024
U.S. Election: Open Campaign

November 5, 2024
The 60th U.S. presidential election

Source: ChinaAMC (Hong Kong), as of December 2023.

Monetary Environment

Between February and June, the U.S. dollar index experienced two rounds of brief volatility cycles due to a mix of factors such as liquidity, risk aversion sentiment, and recession expectations at the beginning of 2023. However, since July, it has shown a significant pickup in value as the U.S. economy exceeded expectations and the U.S. bond yields rose sharply.

Currently, the dollar index has become less responsive to positive factors and remains volatile at a high level, trending towards a flat trajectory. The resilience of the U.S. economy is expected to persist in the short term, but it has come at the cost of unrestrained fiscal expansion. As a result, the U.S. GDP growth rate has gradually been weakened compared to that of other economies. This could undermine the attractiveness of U.S. economy to international capital and further impact the real value of U.S. dollar relative to other currencies.

The key factor that will exert downward pressure on the dollar index is the relative monetary easing environment in the United States compared to the Eurozone. Right now, both the Federal Reserve (Fed) and European Central Bank (ECB) are nearing the end of their rate hike cycles. Market consensus suggests that ECB is unlikely to cut rates before September 2024, while the Fed may do so as early as May. This time difference will create a multi-month gap in benchmark spreads between the U.S. and Eurozone. We expect a slight decline in the dollar index in 2024 driven by the downward trajectory of the U.S. economy, falling inflation, the high potential for rate cuts, and the negative impact of the U.S. fiscal deficit on the dollar.

Furthermore, we expect a significant reduction in the marginal imapct of U.S. Treasury yields on China's stock market in 2024. This can be attributed to a combination of factors, including the U.S. fiscal expansion, a marginal decline in households' excess savings, a slowdown in economic growth, a gradual decline in inflation, and the Fed's potential rate cuts.

In summary, the trend of U.S. dollar index and U.S. Treasury yields in 2024 may provide some support for China's stock market, particularly the Hong Kong stock market.

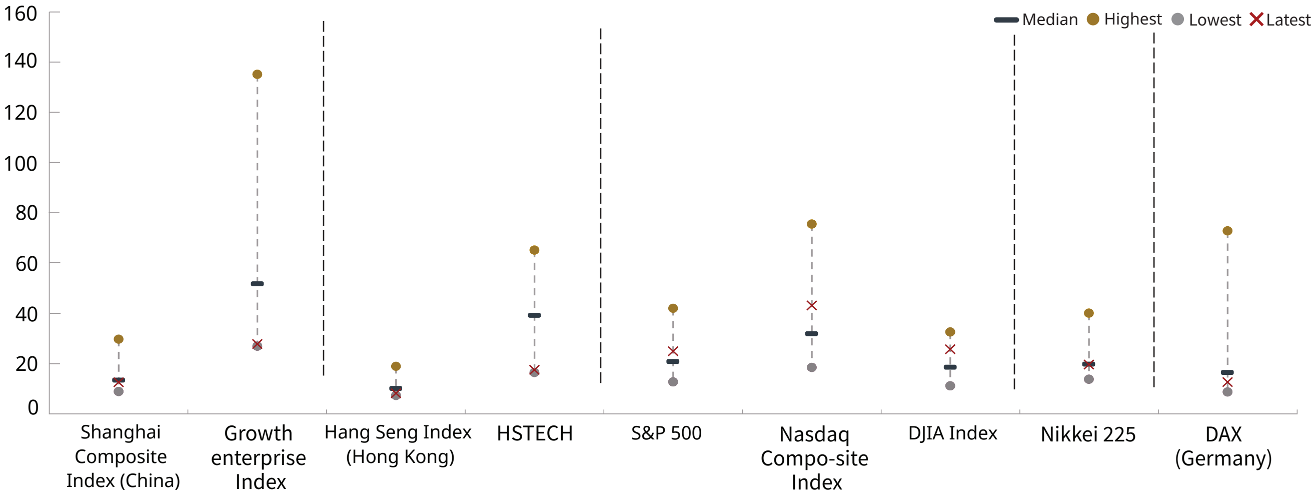
Chart13: : 10-year U.S. Treasury Yield Expectations in 2024

Source: Wind, Bloomberg, as of December 2023.

Market factors

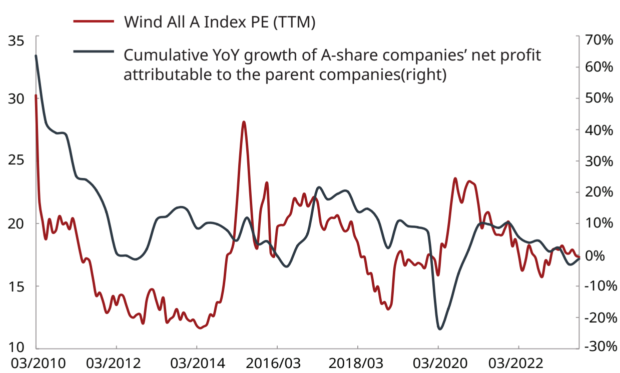
In 2023, China's equity market remained weak and experienced outflows of overseas active funds throughout the year. Since August 2023, there have also been outflows of northbound funds. The proportion of short selling in the Hong Kong stock market reached a historical high level. Valuations of A-shares and Hong Kong stocks were at neutral to low levels. Nevertheless, it is important to note that the equity market has already priced in pessimistic outlook on corporate earnings, risk-free interest rates and potential uncertainties. With the improvement of China's economy in 2024, especially the rollout of more supportive policies, Hong Kong stocks and A-shares are expected to rebound.

Chart 14: Valuations of Major Global Stock Indices



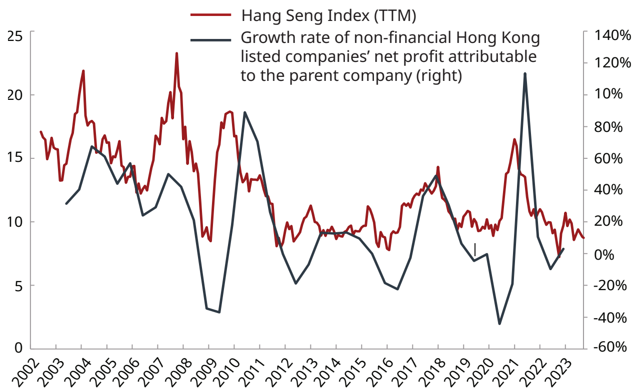
Source: Huaxi Securities, as of 31 December 2023.

Chart 15 : A-share Valuation



Source: Everbright Securities, as of November 2023

Chart 16 : Hong Kong Stock Valuation



In 2024, We anticipate a recovery in both A-shares and Hong Kong stocks. This will be driven by improvements in global investors' sentiment towards risk factors such as economic growth expectations, Sino-US relations, geopolitical tensions, and the Fed's rate hike moves. These positive developments are expected to ease the outflows from Hong Kong stocks and A-shares. On the other hand, the current valuations of Hong Kong stocks and A-shares are at their historical lows. Hong Kong stock valuations have reached a historical low since the 2008 financial crisis, while A-shares are at the lowest point since 2010.

- We believe global investors' expectations towards China's economic growth are overly pessimistic. The lack of confidence in China's long-term growth potential results in consistently lower growth projections by overseas institutions in the past three years compared with the World Bank's projections and the Chinese government's economic growth guidance. Based on our understanding, we believe that the Chinese government has excised prudence in setting the economic growth goals and will implement a series of monetary and fiscal policies to restore confidence and achieve growth targets. One example is the recent issuance of one trillion special treasury bonds. In addition, the Central Financial Work Conference has issued high-level policy instructions to address issues in the property sector and local government financing platforms, aiming to avoid any potential debt crisis. Furthermore, China's central government still has room to increase leverage. The Chinese government has kept a good debt payment record and holds a large amount of state-owned assets. There is no need for investors to be pessimistic about China's economy.

- The capital outflows from Hong Kong stock market are expected to ease as factors such as Sino-US relations, geopolitical tensions, and the Fed's interest rate hikes abate. With the Fed's rate hike cycle coming to an end, capital outflows from emerging markets are expected to ease, gradually relieving pressures on Hong Kong stocks.

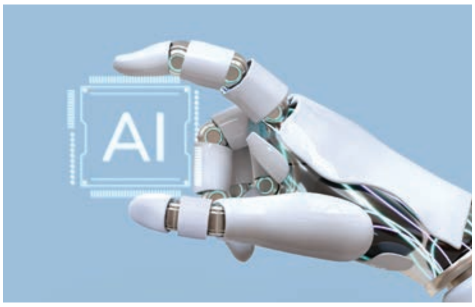
- The current valuations of Hong Kong stocks and A-shares are at their lowest since 2010, which reflects that pessimistic expectations on corporate earnings and risk appetite have been priced in. As long as investors have confidence in China's economy over the next three years, there is a high possibility of achieving positive returns.

Featured Investment Themes

During periods of volatility, high-dividend state-owned enterprises (SOEs) will provide positive returns. Besides, as interest rates decrease in overseas markets, there are likely medium to long-term investment opportunities in the internet technology, consumer discretionary, and biopharmaceutical industries, as companies in these sectors continue to grow.

High-dividend SOEs

Currently, such companies are a combination of low valuation and high dividend ratios. Looking ahead, the slowdown in overseas economies, the potential fluctuation in Sino-US relations, and overall high level of U.S. interest rates may contribute to waves of market volatilities. Despite such macroeconomic conditions, SOEs are required to adhere to the new "one profit and five ratios" guidance and prioritize enhancing return on equity (ROE) and shareholder returns. Such requirements will translate into high dividend payments for investors, providing attractive returns in a volatile market environment.



Internet and technology industry

The technology industry is undergoing a wave of new technological innovation. Leading Hong Kong-listed internet companies are capable of cost reduction, efficiency enhancement, and innovation empowerment in various industries through the application of AI technology. The stable growth of China's economy further supports the prospects of these companies. In the medium to long term, breakthroughs of AI technologies may create new growth opportunities.

Biopharmaceutical industry

The industry's valuation is at a historical low following a three-year adjustment period. During this time, a large number of listed companies in this sector have made significant progress in product research and development, with many product authorizations to multinational pharmaceutical companies. We expect leading companies in the biopharmaceutical industry to gradually achieve profitability, leading to a more stable valuation.

Global Fixed Income Market

2023 Global Fixed Income Market Review

The global markets experienced a complex and fast-changing year in 2023. Although investors' risk appetite fell briefly in March in response to the breakout of the U.S. banking crisis, the overall resilience of the U.S. economy far exceeded market expectations at the beginning of the year. In the meantime, falling commodity prices gradually brought down global inflation, leading to a rebound in risk assets. Assets that lagged in 2022 made a comeback in 2023. The Fed raised interest rates four times in the first half of the year, totaling 100 basis points (bps), at gradually reduced magnitude and frequency. Towards the end of the year, the Fed released dovish signals after a nearly four-month pause since August. U.S. Treasury yields have fluctuated broadly at high levels and remained inverted throughout the year. Since the second quarter, Treasury yields have climbed for a few months in response to larger-than-expected fiscal stimulus, with 10-year Treasury yield topping 5% in October before falling sharply in November and December, making 2023 a strong year for fixed income assets.

Credit spreads fluctuated in a narrow range for most of the year, except for March. Supported by solid fundamentals and technical factors, credit spreads across most sectors hit their lowest point at the end of 2023. Among developed markets, the U.S. outperformed Europe, while in emerging markets, Asia outperformed Europe and Africa and the Middle East outperformed Latin America. In the case of Chinese-issued USD bonds, spreads for investment-grade bonds tightened, while high-yield real estate bonds continued to see a large number of defaults.

Chart 17 : Performance Across Fixed Income Segments

Index	2020	2021	2022	2023 Q1	2023 Q3	2023 Q4	2023
US National Bond	8.2%	-2.4%	-12.9%	1.6%	-3.4%	5.8%	3.9%
Developed Market Sovereign Bond	9.3%	-6.9%	-18.0%	0.5%	-4.9%	8.5%	3.6%
US Investment Grade Company Bond	9.8%	-1.0%	-15.4%	3.2%	-2.7%	7.9%	8.4%
US High Yield Bond	6.2%	5.4%	-11.2%	5.4%	0.3%	7.3%	13.4%
Europe Investment Grade Bond	2.8%	-0.8%	-16.4%	2.1%	-0.8%	6.9%	8.3%
Europe High Yield Bond	9.5%	-1.6%	-18.3%	6.9%	-0.8%	9.7%	16.4%
EM Company Bond	7.8%	-1.9%	-14.8%	3.0%	-1.5%	6.4%	7.9%
Asia High Yield Bond	6.2%	-17.5%	-21.8%	0.8%	-2.3%	6.4%	4.8%
Asia USD Bond	7.1%	-3.1%	-12.6%	2.8%	-2.0%	6.4%	7.2%
EM Sovereign Bond	6.9%	-3.6%	-18.8%	3.8%	-3.4%	10.7%	10.9%
China USD Investment Grade	6.6%	-0.2%	-9.9%	2.9%	-1.4%	5.4%	6.8%
China USD High Yield	9.4%	-33.3%	-33.3%	-12.1%	-12.6%	3.5%	-20.5%

Source: Bloomberg, ChinaAMC (Hong Kong)

2024 Macro Environment Outlook

Entering 2024, market focus has gradually shifted from the end of the rate hike cycle to imminent rate cut. The aggressive fiscal policy and the wealth of residents and companies accumulated during COVID-19 propelled the better-than-expected performance of the U.S. economy in 2023. In 2024, both of these factors are likely to move in the opposite direction:

1) The likelihood of another large-scale fiscal stimulus in an election year is decreasing, and the U.S. fiscal deficit ratio is expected to fall;

2) Residents' excess savings are nearly drained, while disposable income is expected to fall and consumption tends to be weak as the labor market returns to balance. Companies are facing rising real interest rates for new loans and the decline in net interest income will dampen investment interests.

As a result, we expect the U.S. economy to slow down on a quarter-on-quarter basis compared to 2023, and technical recessions may occur in certain quarters. However, in our base scenario, the U.S. economy is able to withstand the impact of the current rate hike cycle, with only a shallow recession, and the probability of a deep recession is extremely low. Unlike previous economic cycles, there was no irrational bubbles before the current rate hike cycle, and the leverage of the financial system, residents and companies was at a relatively reasonable level. In addition, the Fed now has an enhanced policy mechanism, deeper insights into the economy, closer communications with the market, and stronger willingness to maintain a stable financial system.

We expect the Fed to start slashing rates in the second quarter of 2024, with a total of 3 to 5 rate cuts anticipated over the course of the year. The rate-cutting cycle is projected to continue into mid-2025, with the endpoint interest rate estimated to be around 3%. The U.S. Treasury yield curve is expected to steepen, with a high possibility of short-term interest rates trending down. Long-term interest rates, however, are expected to be influenced by supply and demand dynamics and long-term economic growth projections.

The uncertainties in 2024 mainly stem from political and geopolitical risks. With many countries holding leadership elections, potential conflicts caused by intensified competitions among major countries over resources and technologies in a deglobalization era could be the key risk factor affecting the bond market.

Chart 18 : Macro Environment Comparison (2022 vs 2023)

		2022		2023	
		Actual	Expectations	Actual	Expectations
Economic conditions	Inflation	• 6.5% (broad) / 5.7% (core)	• Broad inflation would peak and fall significantly	• 3.2% (broad) / 4% (core)	• Core inflation will come down slowly
	Employment	• 285k (3-month moving average)/3.5% (unemployment rate)	• Relatively strong though with structural issues	• 204k (3-month moving average)/3.7% (unemployment rate)	• Structural issues will be improved remarkably, and the labor market will get back to balance
	Economic Growth	• 1.90%	• 0.3%/65% (recession probability)	• 2.40%	• 1.2%/50% (recession probability)
Policies	Fed Speech	• Emphasizing its determination to fight inflation, extending the rate hike cycle, and making it clear that no rate cut in 2023		• Taking financial conditions into policy considerations, indicating that interest rates have reached restrictive levels, and discussing the timing of a rate cut	
	Fiscal Policy (Deficit)	• 5.40%	• 5.90%	• 6.30%	• 5.80%
	Federal Fund Rates	• 4.25%-4.5%	• The market priced in a rate hike to 5% before a rate cut to 4.5%	• 5.25%-5.5%	• The market is pricing in 5-6 rate cuts to 4% for the year
Asset price	2-year U.S. Treasuries	• 4.42%	• Maintained high levels and moved up before trending down	• 4.25%	• Fluctuates and moving down to 3.5%
	10-year U.S. Treasuries	• 3.87%	• Remained an inverted curve and rose from time to time	• 3.87%	• The curve will gradually steepen and fluctuates within certain ranges
	Global Credit Spreads	• 140bp	• Fluctuated throughout the year and ended with a flat curve	• 106bp	Higher valuations and low • chances of investment losses
Risks and		Risks of stagflation and commodity inflation		Last mile of services inflation reduction	
		Rate hike was more aggressive than expected		Federal Fund Rates will remain at a high level longer than expected	
		U.S. debt ceiling negotiations		U.S. Election	
		Recession risk in Europe		Long-term economic growth risks in China	

Source: Bloomberg, ChinaAMC (Hong Kong)

2024 Global Credit Market Outlook

We are cautiously optimistic about the global USD credit bond market in 2024. Since the second half of 2023, global credit spreads and benchmark interest rates has moved in the same direction after a six-month negatively correlated period. This suggests that the overall performance of credit bonds for most of the current rate hike cycle has been driven by technical factors instead of fundamentals. Historical data shows that the average performance of bond-like assets in the three months before the first rate cut leads major asset classes. **Despite the decline in the past two months, with the overall yield of credit bonds remaining at its 20-year attractive level, it is worth incorporating the asset class into a long-term investment portfolio.**

That said, the current valuation of credit bonds in most regions and sectors is at a historically high level. The shows that the market is relatively optimistic about the economy and corporate earnings. Considering that the corporate credit fundamental indicators have weakened for three consecutive quarters, and the current winning rate and odds of betting on further compressed credit spreads are low when risk premiums are already at low levels, we recommend investors improve the overall quality of the portfolio and capture trading or allocation opportunities when spreads widen.

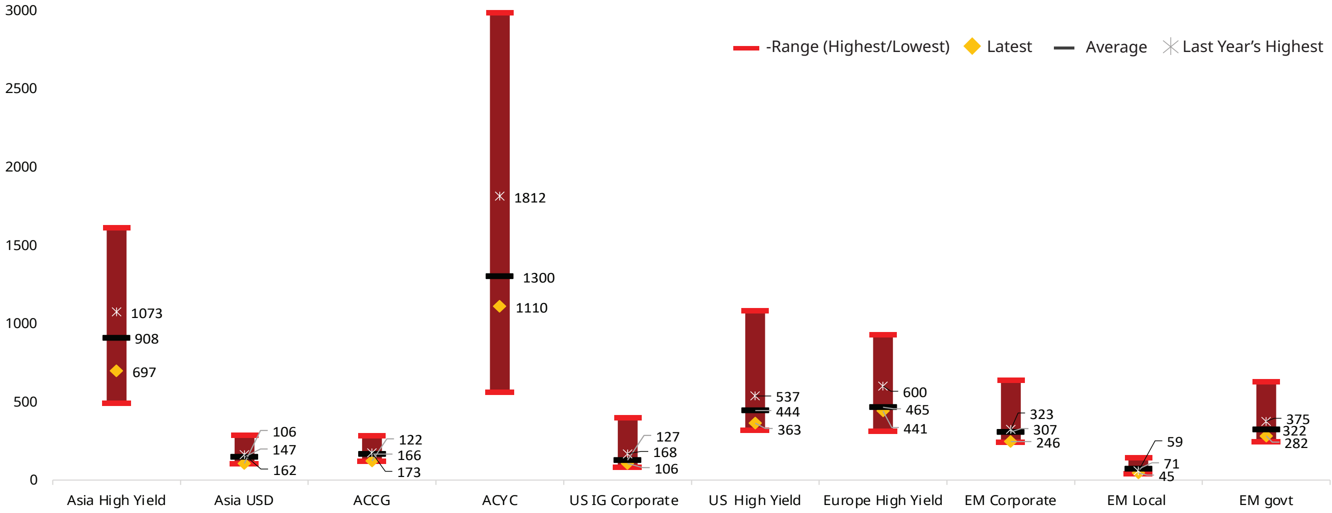
In 2023, driven by supply and demand factors, long-term credit spreads continued to narrow compared to short-term spreads. Against this background, **we expect the yield curve to steepen, and prefer 5- to 10-year credit bonds. We hold a neutral view on the overall duration.**

Overall, we expect asset prices to exhibit a multiple-bottom pattern next year, with a resilient financial system and a low probability of global coordinated liquidity injection. The likelihood of a unilateral fluctuated V-shape will be low.

Chart 19 : Performance of Major Asset Classes on The Eve of Rate Cuts in Past Cycles

Start Time	1989-03-06	1995-04-06	2000-10-03	2007-06-18	2019-05-01	Average
End Time	1989-06-06	1995-07-06	2001-01-03	2007-09-18	2019-08-01	
Number of Months	3	3	3	3	3	3
MSCI Global	-1.8%	6.3%	-5.5%	-2.0%	0.8%	-0.4%
S&P	11.0%	10.2%	-5.2%	-0.3%	1.5%	3.4%
NASDAQ	10.3%	17.4%	-24.2%	1.2%	1.1%	1.1%
Hang Seng Index	-29.7%	12.8%	-6.9%	14.7%	-6.0%	-3.0%
U.S. Treasury Bonds	4.6%	6.6%	5.4%	4.8%	4.0%	5.1%
Global IG Corp Bonds	6.1%	7.8%	3.8%	2.2%	5.2%	5.0%
Global HY Corp Bonds	0.0%	5.5%	-2.3%	-1.4%	2.2%	0.8%
Industrial Metals	-18.3%	0.7%	-6.1%	-6.8%	-2.3%	-6.6%
Brent Crude Oil	5.8%	-11.2%	-19.4%	7.5%	-16.2%	-6.7%
Spot Gold	-5.8%	-2.3%	-1.5%	10.2%	13.2%	2.8%
U.S. Dollar Index	6.7%	-0.5%	-3.5%	-4.2%	0.7%	-0.2%

Chart 20 : Valuations by Sector



Source: Bloomberg, ChinaAMC (Hong Kong), as of 31 December 2023.

2024 Sector Outlook and Asset Allocation Strategies

• U.S. Investment-grade bonds

Whether valued vertically or horizontally, credit spreads of U.S. investment-grade bonds have well reflected the comparative advantage of the U.S. economy over other economies. Corporate fundamentals are under pressure but remain controllable, with healthy revenues but declining profits. Additionally, debt and interest expenses due next year are expected to be up 10-15% compared with 2023.

The net supply of U.S. investment-grade bonds is expected to decline, with asset managers being the main source of incremental demand in 2024, supporting the price to some extent. We prefer A-rated defensive sectors and sectors that languished in 2023.

• Chinese-issued USD bonds

The lack of investable assets in the onshore market and the inverted interest rate spreads between China and the U.S. will continue to provide technical support for most sectors. We prefer bonds issued by central state-owned enterprises and long-term quality TMT (Technology, Media and Telecommunications) bonds that can provide protection against macroeconomic risks.

In the short term, China's economy still faces downward pressure, and there is a high possibility of a downward adjustment of the average growth rate. Consequently, we exercise caution towards bonds and private real estate bonds issued by weak entities, and prefer to selectively increase allocation upon the implementation of large-scale stimulus policies.

• Other developed market bonds

In our view, Europe faces greater structural challenges compared to the U.S. Hence, we hold a relatively bullish stance on investment opportunities in European bank bonds, particularly Tier 2 capital bonds that offer attractive valuations and counter-cyclical high-grade senior bonds.

In Asia, we favor Japan and Australia, where the economies are relatively robust though there is a possibility of an uptick in core inflation in Japan. In addition, passive inflows driven by market index funds are likely to further narrow credit spreads.

• Other emerging market bonds

Some emerging economies have already begun to cut interest rates. We expect endogenous growth to remain strong in 2024, although uncertainties may arise from leadership elections and a potential decline in China's demand. Primary investment opportunities will come from capital inflows from developed economies when central banks start to cut interest rates. We hold a relatively bullish view on new energy bonds in India, semi-sovereign bonds in Indonesia, commodity-related bonds in Latin America and sovereign long-term bonds in the Middle East.

Thematic Investment Opportunities

ESG Bonds

Despite the cooling down of ESG concepts in 2023, a slight dip in the issuance of ESG bonds year on year, and a month-on-month slowdown in inflows into ESG funds, the long-term investment prospects of ESG-related assets remains promising as ESG principles become broadly accepted and prices of traditional energies fall.

Offshore RMB Bonds

The inverted interest rate spreads between China and the U.S. and the tightening regulatory trend in China have pumped up the supply of offshore RMB bonds, particularly urban investment bonds. These bonds offer higher premiums compared to similar bonds issued onshore. The expansion in the scale of the market will further boost the overall liquidity. We prefer offshore RMB bonds issued by high quality entities and hold an optimistic view on the long-term development of RMB internationalization.

Asset Allocation Strategies

	Horizontal Relative Valuation	Risk	Short-Term Allocation Recommendations	Medium- and Long-Term Allocation Recommendations		
				Pessimistic	Neutral	Optimistic
China	Expensive	Neutral	Neutral	Pessimistic	Neutral	Optimistic
Asia ex-China	Neutral	Neutral	Slightly Overweight	Overweight	Neutral	Neutral
U.S.	Slightly Expensive	Low	Overweight	Neutral	Overweight	Overweight
Europe	Slightly Cheap	High	Neutral	Overweight	Overweight	Neutral
Other Emerging Markets	Slightly Cheap	High	Underweight	Underweight	Underweight	Overweight
Money Market Instruments		Extremely Low	Underweight	Underweight	Neutral	Overweight

Source: ChinaAMC (Hong Kong), as of 31 December 2023.

2024 RMB outlook

RMB interest rates

In 2023, the yield curve of Chinese government bonds flattened as prices increased, with short-term interest rates fluctuating more than long-term rates. During the first half of 2023, China's economic recovery was weaker than expected and the scarcity of investable onshore assets pushed down interest rates. In the middle of the year, the People's Bank of China cut interest rates through a series of measures, including reverse repo, MLF, and LPR, leading to a bottoming out of interest rates. The issuance of large-scale fiscal bonds, the implementation of debt resolving solutions, and liquidity tightening in the third and fourth quarters drove interest rates to rebound. By the end of 2023, the recovery of economic fundamentals and the expectation of monetary easing in 2024 pushed interest rates downward again. In addition, onshore interest rate swaps experienced a smoother decline compared to government bond yields, as the supply has a more pronounced impact on the latter in the second half of the year.

Looking ahead, we expect monetary policies to remain steady and accommodative, with a potential strengthening at the beginning of 2024. Investors should be wary of profit-taking orders during the periods of rapid decline. If the Fed starts cutting rates in the middle of the year as expected, China's monetary easing path is likely to be smoother as it aligns with the same cycle. We expect additional fiscal efforts to be rolled out to support bond issuance and debt solutions, while the net issuance of local bonds and urban investment bonds will be restricted.

Overall, China's monetary policy is expected to contribute to a bull bond market, and fiscal efforts will present opportunities for bond investments. A decline in interest rates is highly probable.

RMB exchange rate

In 2023, offshore swaps declined due to falling RMB interest rates. The RMB depreciated against the USD, starting at 6.93 and reaching 7.37 before ending the year at 7.12. The People's Bank of China's liquidity measures led to a significant rebound. The spot exchange rate stabilized between 7.27-7.33 before falling with the weakening USD.

Looking ahead to 2024, projecting the currency exchange rate is challenging due to uncertainties on both sides. In the US, uncertainties arise from economic landing, inflation decline, and Fed policy. In China, uncertainties include economic recovery, real estate rebound, policy effectiveness, and stock market performance. The USD index will be influenced by global economic growth and G10 monetary policies.

In 2024, relative value comparison and short-term opportunities are expected. The USD may not weaken significantly in the first half, and China's fundamentals require close observation. The RMB may not strengthen substantially until the Fed announces its first rate cut in the middle of the year.

About Us

China Asset Management (Hong Kong) Limited (“ChinaAMC (HK)”) was established in September 2008 as an overseas subsidiary of China Asset Management Co. Limited (“ChinaAMC”) and as one of the pioneer Chinese asset management firms tapping into overseas markets. With nearly HK$1.9 trillion in assets under management, ChinaAMC is among the largest asset companies in China, with a 25-year track record of creating value for 213 million retail clients and 228,000 institutional clients.

Today, we are a leading asset manager in Hong Kong, drawing on the combination of local expertise and international insights of our experienced investment and research professionals. We strive to offer the best investment solutions under every market condition. Our comprehensive and diversified one-stop investment platform provides clients with a full suite of investment options, including global ETFs, actively managed equity or fixed-income funds, money market funds, leveraged and inverse products, hedge funds, separate account management, and investment advisory.

Supported by over 200 investment specialists at ChinaAMC, we are dedicated to delivering robust long-term returns for investors through a disciplined investment process and extensive research coverage. Our investment capabilities and track record have been recognized by more than 80 major industry awards.

Product Strategies

Active Strategies		
Equity	**Fixed Income**	**Money Market**
• China A-share Long Only • Hong Kong Equity Long Only • Greater China Equity Long-Short	• Asia ESG Bond • Asia Bond • Global Investment Grade Bond • RMB Investment Grade Bond • Global Multi Income • Fixed Income Allocation (Short-term Bond)	• HKD Money Market • USD Money Market

ETPs		
Greater China Equity	**Asia Equity**	**Global Equity**
• CSI 300 ETF • MSCI China A50 Connect ETF • HSI ESG ETF • Hang Seng Tech ETF • Hong Kong-Listed Biotech ETF	• Asia High Dividend ETF • Japan Hedged to USD ETF	• NASDAQ 100 ETF • Europe Quality Hedged to USD ETF
Fixed Income & Money Market	**Leveraged & Inverse Product**	
• Asia USD Investment Grade Bond ETF • RMB Money Market ETF • China Treasury + Policy Bank Bond Index ETF	• NASDAQ 100 Daily (2x) Leveraged • NASDAQ 100 Daily (-1x) Inverse • NASDAQ 100 Daily (-2x) Inverse	

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Benchmark
Fund of the Year Awards 2023
- ETF - Best China Equity ETF Issuer - Outstanding Achiever
- Mutual Fund - Alternatives - Long/Short Equity - Best-in-Class
- Top Fund - ETF - China A Shares Equity - Best-in-Class
- Top Fund - Mutual Fund - Global Fixed Income - Best-in-Class

Refinitiv
Lipper Fund Awards 2023
- Equity China – Hong Kong
- Bond Asia Pacific HC-Hong Kong

The Asset
Tripple A Sustainable Investing Awards 2023
- Asset Management Company of the Year – Mutual Fund

Insights&Mandate
Professional Investment Awards 2023
- China A-share Equity (3 Years & 5 Years)
- Asia Bonds (3 Years)
- Global Aggregate Bonds (3 Years)
- ESG Fund of the Year

Asia Asset Management
Best of the Best Awards 2023
- Hong Kong Best Fund House

China Securities Journal
The 7th Overseas Golden Bull Fund Awards
- China Equity Fund (3 Year)

China Fund News
The Yinghua Awards (Overseas Funds) 2023
- Greater China ETF (1 Year)

Benchmark Fund of the Year Awards 2023: BENCHMARK, data as of Dec 20, 2023; Refinitiv Lipper Fund Awards 2023: Refinitiv, data as of May 9, 2023; Insights&Mandate Professional Investment Awards 2023: Insights&Mandate, data as of Mar 3, 2023; The Asset Triple A Sustainable Investing Awards 2023: The Asset, Asset Publishing and Research Ltd, data as of Jun 5, 2023; Asia Asset Management Best of the Best Awards 2023: Asia Asset Management, Asia-Pacific Media Limited, data as of Feb 2, 2023. China Securities Journal Overseas Golden Bull Fund Awards: China Securities Journal Co. Ltd, data as of Sep 29, 2023, China Fund News The Yinghua Awards: China Fund News, as of Dec 5, 2023.

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