華夏基金(香港)
ChinaAMC (HK)

MARKET INSIGHTS

February 2024

Equity

MSCI China index dropped by 10.53% in the month of January, which is a very big monthly decline. Several factors led to the downside trigger, including a lack of necessary policy responses to boost business and consumer confidence, concerns about US-China relations, early worries about Hong Kong's fiscal conditions, and the unwinding of onshore structural products. But we have still seen many positive aspects. Beyond the national team's measured and recurrent purchases of leading indices, policy actions have centered around rebalancing the onshore market's microstructure and returns to shareholders for likely steadier outcomes.

Market Performance

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Greater China Indices	Jan Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3215.35	-6.29	-6.29	3108.35	4169.67
MSCI China	50.06	-10.53	-10.53	48.75	73.39
HSI	15485.07	-9.16	-9.16	14794.16	21820.78
HSCEI	5194.04	-9.96	-9.96	4943.24	7463.28
Global Indices					
S&P 500	4845.65	1.59	1.59	3808.86	4975.29
Dow Jones Industrial Average	38150.30	1.22	1.22	31429.82	38783.62
Nasdaq Composite	15164.01	1.02	1.02	10982.80	15664.21
FTSE 100	7630.57	-1.33	-1.33	7206.82	8047.06
DAX 30	16903.76	0.91	0.91	14458.39	17004.55
Nikkei 225	36286.71	8.43	8.43	26632.92	36984.51

Economic Data

China's manufacturing PMI index rose to 49.2 in Jan from 49.0 in Dec. The output and new orders sub-index improved to 51.3 and 49.0 in Jan from 50.2 and 48.7 in Dec, respectively. The non-manufacturing PMI rose to 50.7 in Jan from 50.4 in Dec. The services PMI decreased to 50.1 in Jan from 4.93 in Dec. The PMIs of service industries such as postal and railway transportation were above 60 while the PMIs of real estate and public facility management were below 50. The construction PMI decreased to 53.9 in Jan from 56.9 in Dec because the construction industry has entered the off-season on low temperatures in winter and the upcoming Chinese New Year holiday.

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Equity

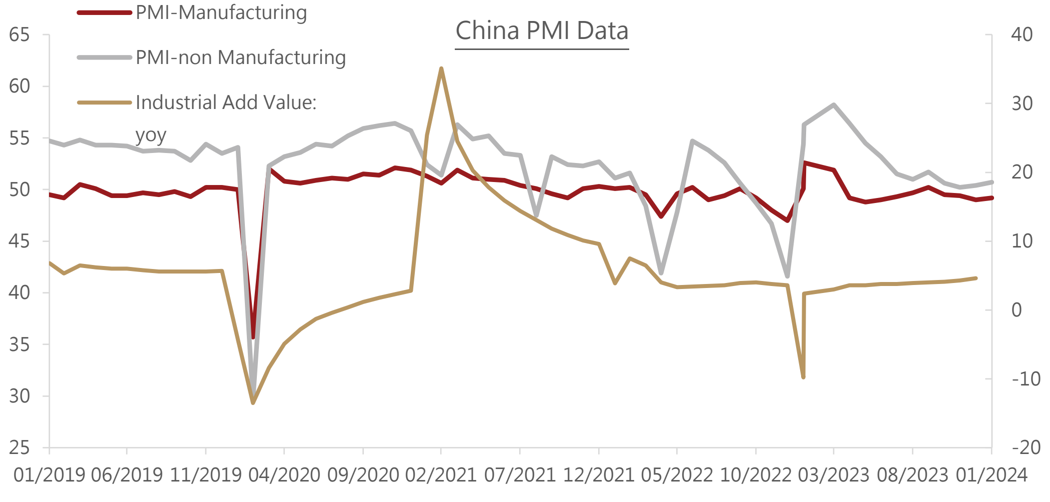
Outlook

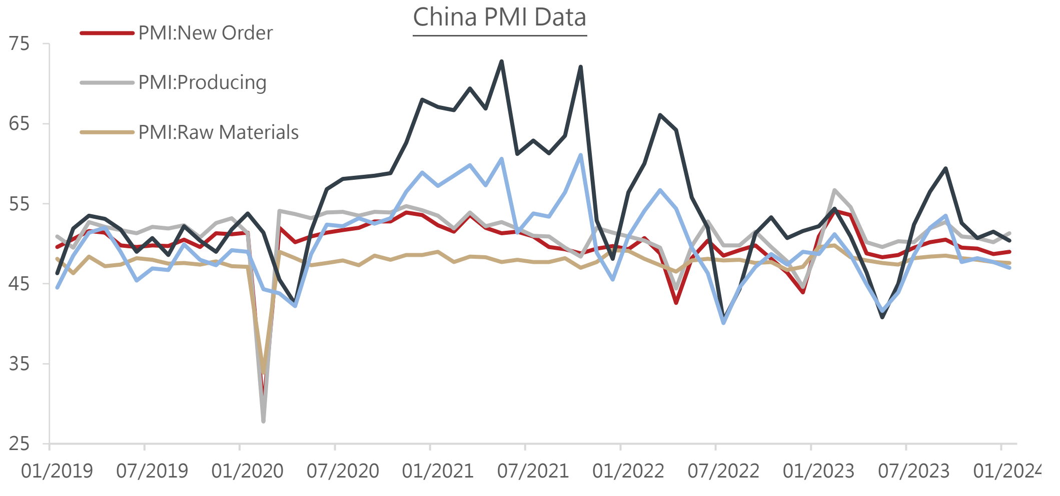
Looking forward, we maintain our long-term positive view on the Chinese equity market. Beyond the national team's measured and recurrent purchases of leading indices, policy actions have centered around rebalancing the onshore market's microstructure and returns to shareholders for likely steadier outcomes. The ban on new lending of restricted shares is a plus, and the existing book of stock loans will expire in due time to ease selling pressure. For SOEs, new KPIs of ROE and operating cash flow introduced last year will likely be expanded to include market value management, with cash dividends and share buybacks encouraged. We also believe that the feedback from the current market and sentiment will drive the introduction of more favorable policies.

In terms of portfolio positioning, we will continue to seek a balance between value and growth. We continue to focus on the long-term policy beneficiaries (e.g. software localization and advanced manufacturing), short-term policy beneficiaries (property and property-related sectors), and reopening-related opportunities (e.g. consumer, Internet, and financials). We will prudently pay attention to some thematic opportunities, including AI and SOE re-rating.

Risk

Sino-US relationship worsens than expectation. International geopolitics worsens than expectation; China's economy recovers less than expected.





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Equity


China Economy Activities
40
30
20
10
0
-10
-20
-30
200
150
100
50
0
-50
-100
-150
-200
01/2016
07/2016
01/2017
07/2017
01/2018
07/2018
01/2019
07/2019
01/2020
07/2020
01/2021
07/2021
01/2022
07/2022
01/2023
07/2023
FAI: yoy
Total Retail Sales of Consumer Goods: yoy
Net Export: yoy

Fixed Income

In December, the US bond market experienced significant volatility, with US Treasury yields continuing their substantial decline from November. Overall, we maintain a neutral view on the US economy for 2024. Economic growth is expected to moderate but should avoid a severe recession barring any black swan events. The pace of credit contraction is a key indicator to monitor, and there are two risk points to be cautious of. Currently, we remain cautious on duration, and stay alert to the potential reversal of the extremely optimistic trading logic seen in the market over the past two months, which could lead to asset price corrections.

Market Performance

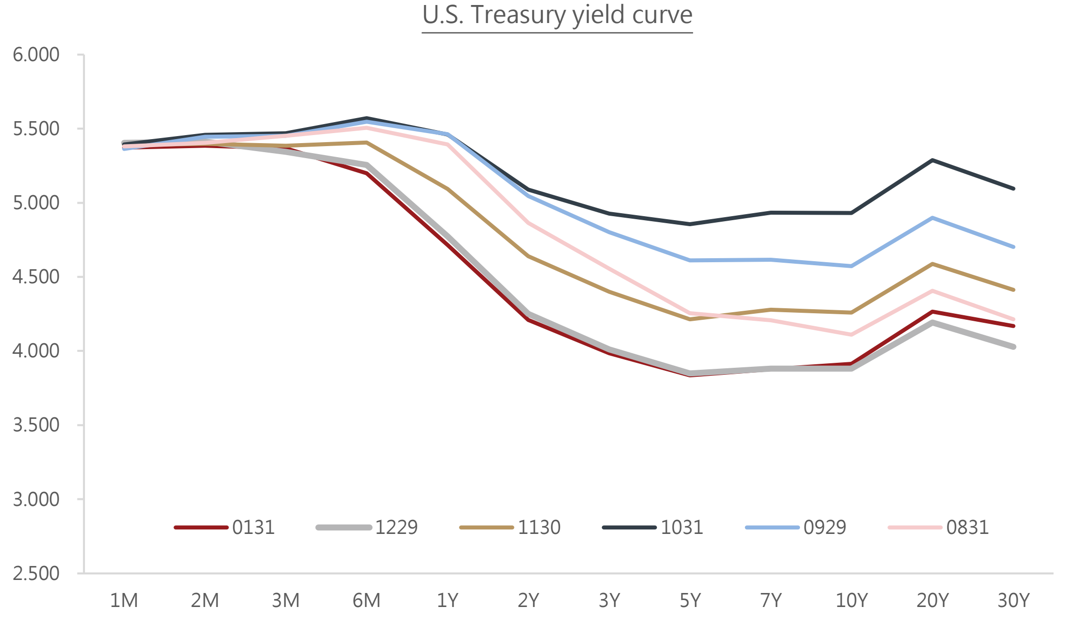
Global risk sentiment was generally positive in January, as strong US economic data led to a decline in expectations for a rate cut in March, while US Treasury yields traded within a range and credit spreads continued to tighten. The overall outcome of 2024's first interest rate meetings of developed markets met market expectations, with Federal Reserve officials mitigating market expectations for rate cuts while mentioning a slowdown in the pace of balance sheet reduction. Geopolitical conflicts persisted but had limited impact on the market. In terms of major asset performance for the month, there was differentiation among regions: in developed markets equities outperformed fixed income, while in China equities lagged behind fixed income.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.21	-4	-4	3.55	5.26
5Y	3.84	-1	-1	3.20	4.99
7Y	3.87	-1	-1	3.24	5.03
10Y	3.91	3	3	3.25	5.02
30Y	4.17	14	14	3.50	5.18

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	2.18	-11	-11	2.15	2.57
5Y	2.29	-10	-10	2.26	2.75
7Y	2.43	-11	-11	2.41	2.89
10Y	2.43	-13	-13	2.42	2.93
30Y	2.66	-18	-18	2.63	3.32

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.08	3	3	-0.09	0.18
5Y	0.31	10	10	0.05	0.49
7Y	0.45	9	9	0.08	0.73
10Y	0.73	12	12	0.18	0.97
30Y	1.83	20	20	1.11	1.91

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.43	2	2	2.10	3.38
5Y	2.05	10	10	1.86	2.93
7Y	2.06	12	12	1.83	2.94
10Y	2.17	14	14	1.89	3.03
30Y	2.41	14	14	2.04	3.26



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US Treasury yields initially rose and then fell in January, with the yield curve steepening. Volatility decreased significantly compared to most of the previous year, as strong economic data and improving supply-demand expectations led various types of investors to exercise restraint at current levels. In the corporate bond market, new supply was large in various sectors in Europe and the United States, but market digestion was favourable. Credit spreads mostly narrowed, except for the first three days of the new year. In terms of sector performance, the banking and financial sectors and ultra-long duration bonds continued to outperform. Chinese USD bonds continued to perform steadily, with investment-grade credit spreads unaffected by the decline in stocks and instead continued to tighten to multi-year lows, while property bonds had slight overall gains.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	57	(0)	(0)	54	94
HY CDX	361	5	5	345	554
EM CDX	183	15	31	165	275
Bond index					
ICE Asian Dollar Corporate	447	0.5%	0.5%	416	448
ICE China Issuers Dollar IG Corporate	211	0.3%	0.3%	198	211
ICE China Issuers Dollar HY Corporate	160	4.4%	4.4%	143	218
ICE US Corporate	3244	0.2%	0.2%	2929	3259
ICE US High Yield	1591	0.0%	0.0%	1418	1595
ICE Emerging Markets Corporate	434	0.1%	0.1%	401	435
Bloomberg Global-Aggregate	465	-1.4%	-1.4%	429	473
Bloomberg Global-Aggregate 1-3 Year	173	-0.8%	-0.8%	166	175

Economic Data

US economic indicators pointed to a "soft landing" in December, with US GDP growth for the fourth quarter at 3.3%, significantly surpassing market expectations of 2.0%. Although core CPI exceeded expectations slightly, inflation data displayed relatively optimistic sub-component structures. Employment data, both non-farm and job vacancy figures, were stronger than expected. Other economic data, including retail, consumer confidence, and PMI, were better than anticipated, with housing data being relatively weak. In terms of monetary and fiscal policies, most Federal Reserve officials' speeches in the middle of the month aimed to control excessive market expectations for rate cuts. The FOMC meeting leaned slightly hawkish, but the market remained calm, with futures pricing indicating a probability of rate cuts in March falling below 50%. The Treasury's refinancing plan for the new quarter was lower than market expectations due to improving fiscal revenues. In other countries, European inflation receded but still faced pressure from technical recession, while long-term government bond yields showed a more pronounced rebound. The Bank of Japan's interest rate meeting mentioned the possibility of rate hikes in March and April, with the objective of controlling market expectations.

Outlook

Looking ahead, the global market sentiment remained fervent in the first month of 2024. Although both the market and the Federal Reserve made certain adjustments to expectations of an early rate cut in March, this was largely due to the heating up of expectations for a soft landing. If economic data and market performance continue as they did at the beginning of the year, the Fed may still adopt a cautious forward guidance approach in the short term, not rushing to initiate rate cuts or slow down balance sheet reduction. Conversely, if economic data weakens due to the impact of high base figures or if more companies fail to meet profit expectations, leading to a dampening of risk sentiment in risk assets, the Fed may choose to provide timely liquidity to repair cracks and prevent this round of rate hikes from ultimately falling short. These factors collectively will result in a certain offsetting effect on fixed income assets, and short-term market conditions will continue to be characterized by volatility. A potentially significant source of uncertainty may arise from the market's anticipation of potential policy adjustments if Trump returns to power this election year.

Regarding interest rates, we believe that the steepening of the yield curve remains relatively certain in the medium term, although the process may not be entirely smooth, especially as the supply-demand situation of short-term Treasuries may cause some disturbance. Credit spread valuations have essentially returned to the low levels seen at the end of 2021, and we believe that the short-term optimistic sentiment will support continued low-level volatility in spreads, with the possibility of periodic corrections. However, as expectations for rate cuts increase and volatility decreases, the correlation between credit and interest rates may gradually return to a normal negative correlation. As we adopt a relatively restrained and balanced allocation strategy for the credit market, without excessive bets on a single duration or country, we actively seek trading opportunities during the fluctuation process of multiple bottoms and multiple tops in the market, and explore investment opportunities in emerging market countries during phases of liquidity injection from the Fed.

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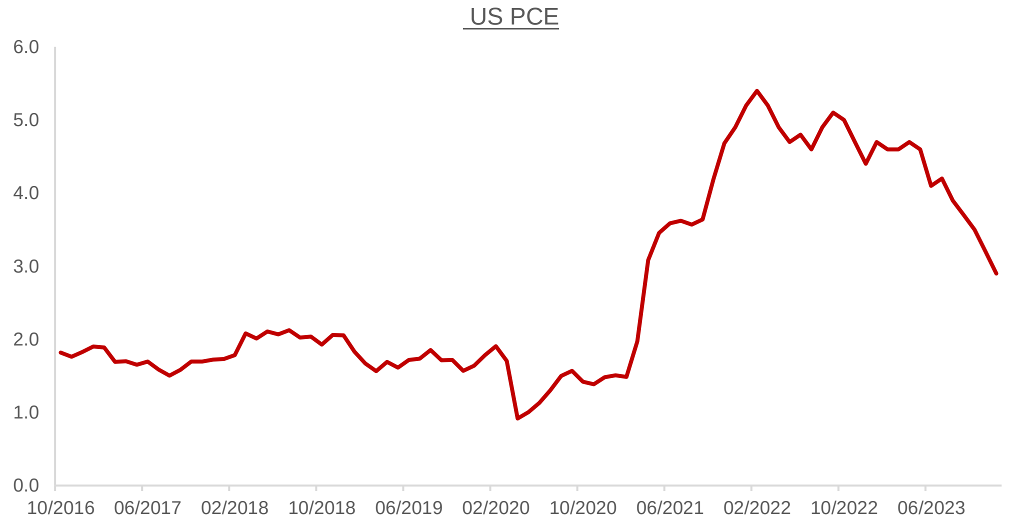
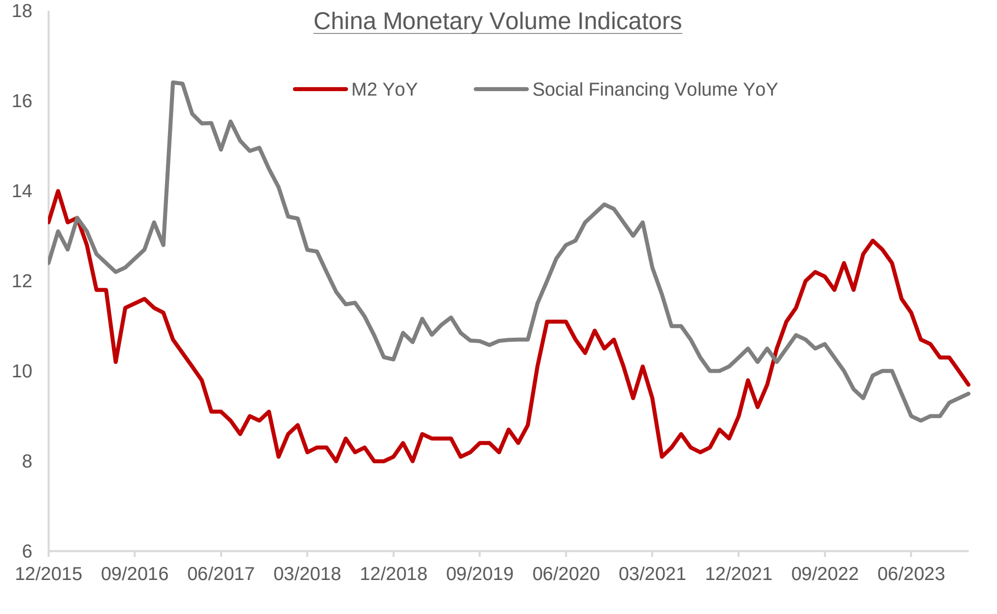

US PCE
6.0
5.0
4.0
3.0
2.0
1.0
0.0
10/2016
06/2017
02/2018
10/2018
06/2019
02/2020
10/2020
06/2021
02/2022
10/2022
06/2023


China Inflation Indicators
CPI: yoy
PPI: yoy
15
10
5
0
-5
-10
01/2016
10/2016
07/2017
04/2018
01/2019
10/2019
07/2020
04/2021
01/2022
10/2022
07/2023


China Monetary Volume Indicators
M2 YoY
Social Financing Volume YoY
18
16
14
12
10
8
6
12/2015
09/2016
06/2017
03/2018
12/2018
09/2019
06/2020
03/2021
12/2021
09/2022
06/2023

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