MARKET INSIGHTS

March 2024

Equity

MSCI China index rose by 9.35% in the month of Feb. The market finally saw a rebound after experiencing multiple rounds of selling at the beginning of 2024 which led to a bottom-ranking performance globally last month. The recent actions of the CSRC are expected to attract more incremental capital to the equity market and fully maintain market stability. The expansion of ETF holdings by Central Huijin Investment has firmly maintained the smooth operation of the capital market. The flattening of the loan interest rate curve is beneficial for stabilizing investment, the real estate market, and expectations, as well as reducing long-term loan interest payments such as mortgages. However, the domestic economy has not shown clear signs of a strong recovery, and some high-frequency data in March has once again indicated a weakening of economic growth. The government work report released during the two sessions did not exceed market expectations in terms of work goals, and investor risk appetite remains low. Investor confidence and expectations are in need of more explicit and definitive signals to be further uplifted in the near term.

Market Performance

MSCI China index rose by 9.35% in the month of Feb. The market finally saw a rebound after experiencing multiple rounds of selling at the beginning of 2024 which led to a bottom-ranking performance globally last month. The China Securities Regulatory Commission (CSRC) has expressed its commitment to cracking down on market manipulation, malicious short-selling, and it encourages and supports listed companies to increase their buyback and holdings efforts. Central Huijin Investment announced that it has recently expanded the range of ETF purchases and plans to continue increasing its holdings and expanding the scale of purchases. The PBOC announced an asymmetric interest rate cut, with a record-breaking 25 basis points reduction in the 5-year LPR.

Greater China Indices	Feb Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	3516.08	9.35	2.48	3108.35	4169.67
MSCI China	54.34	8.55	-2.88	48.75	68.92
HSI	16511.44	6.63	-3.14	14794.16	21005.66
HSCEI	5677.88	9.32	-1.57	4943.24	7100.95
Global Indices					
S&P 500	5096.27	5.17	6.84	3808.86	5149.67
Dow Jones Industrial Average	38996.39	2.22	3.47	31429.82	39282.28
Nasdaq Composite	16091.92	6.12	7.20	10982.80	16302.24
FTSE 100	7630.02	-0.01	-1.33	7206.82	7974.40
DAX 30	17678.19	4.58	5.53	14458.39	17816.52
Nikkei 225	39166.19	7.94	17.04	26632.92	40314.64

Economic Data

China's manufacturing PMI index edged down to 49.1 in Feb from 49.2 in Jan. The output sub-index fell to 49.8 from 51.3, the new orders sub-index remained flat at 49.0, and the employment sub-index inched down to 47.5 from 47.6. The non-manufacturing PMI rose to 51.4 in Feb from 50.7 in Jan, driven by an acceleration in the services sector. The services' PMI increased to 51.0 in Feb from 50.1 in Jan. According to the survey, the PMIs of transport service industries such as catering, airline and road transport services were above 55 while the PMIs of real estate and resident service industries were below 50 in Feb. The construction PMI fell in Feb to 53.5 from 53.9 in Jan. NBS noted that the growth of the construction sector decelerated in Feb due to LNY holiday and bad weather such as low temperatures and snow.

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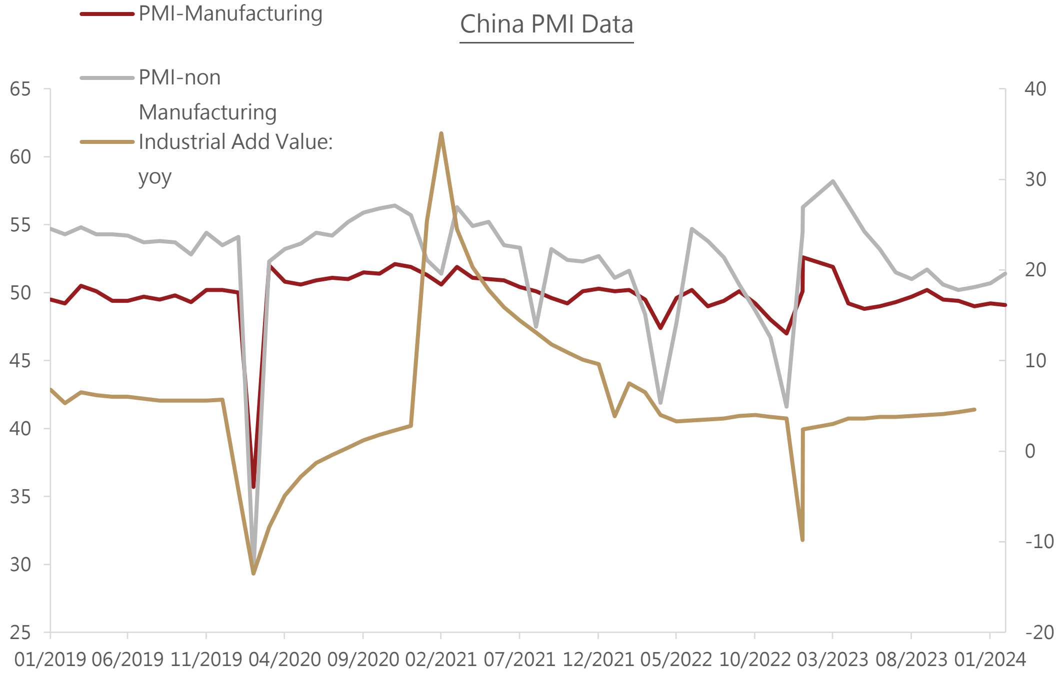
Outlook

Looking forward, we maintain our long-term positive view on the Chinese equity market. The recent actions of the CSRC are expected to attract more incremental capital to the equity market and fully maintain market stability. The expansion of ETF holdings by Central Huijin Investment has firmly maintained the smooth operation of the capital market, and it explicitly acknowledges the current value of A-share market allocation. The flattening of the loan interest rate curve is beneficial for stabilizing investment, the real estate market, and expectations, as well as reducing long-term loan interest payments such as mortgages. However, the domestic economy has not shown clear signs of a strong recovery, and some high-frequency data in March has once again indicated a weakening of economic growth. The government work report released during the two sessions did not exceed market expectations in terms of work goals, and investor risk appetite remains low. Investor confidence and expectations are in need of more explicit and definitive signals to be further uplifted in the near term.

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) and economic recovery-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

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Continued positive market sentiment was observed in February 2024. Despite discussions of potential risks in commercial real estate and private credit in the middle of the month, the performance of risk assets remained strong, driven by the expectation of a soft landing. US Treasury yields experienced upward volatility, with the 10-year Treasury yield surpassing 4.3% multiple times. The fluctuating inflation data and speeches by Federal Reserve officials led to a revision of market expectations for the timing of the first rate cut, now pushed back to June.

Market Performance

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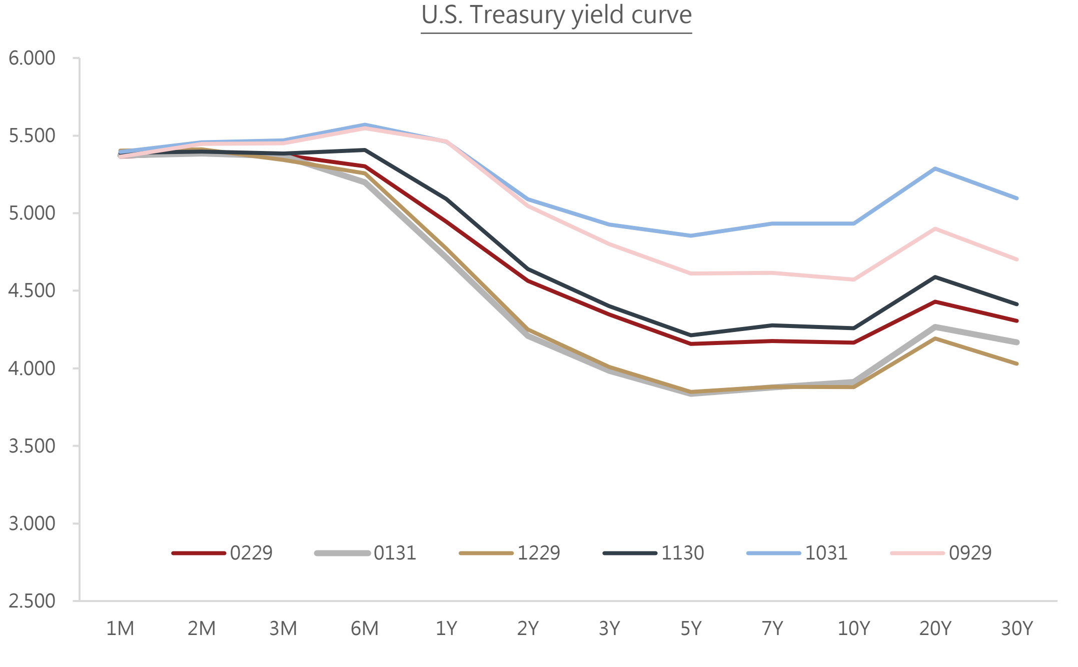
United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.62	41	37	3.55	5.26
5Y	4.24	41	40	3.20	4.99
7Y	4.27	40	39	3.24	5.03
10Y	4.25	34	37	3.25	5.02
30Y	4.38	21	35	3.52	5.18

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	2.11	-7	-18	2.09	2.56
5Y	2.22	-7	-17	2.20	2.72
7Y	2.34	-8	-19	2.30	2.86
10Y	2.35	-8	-21	2.30	2.91
30Y	2.47	-19	-37	2.45	3.30

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.18	10	13	-0.09	0.20
5Y	0.36	6	16	0.05	0.49
7Y	0.46	1	10	0.08	0.73
10Y	0.71	-2	10	0.18	0.97
30Y	1.75	-9	12	1.11	1.91

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.90	47	50	2.10	3.38
5Y	2.43	38	48	1.86	2.93
7Y	2.38	32	44	1.83	2.94
10Y	2.41	25	39	1.89	3.03
30Y	2.54	13	28	2.04	3.26



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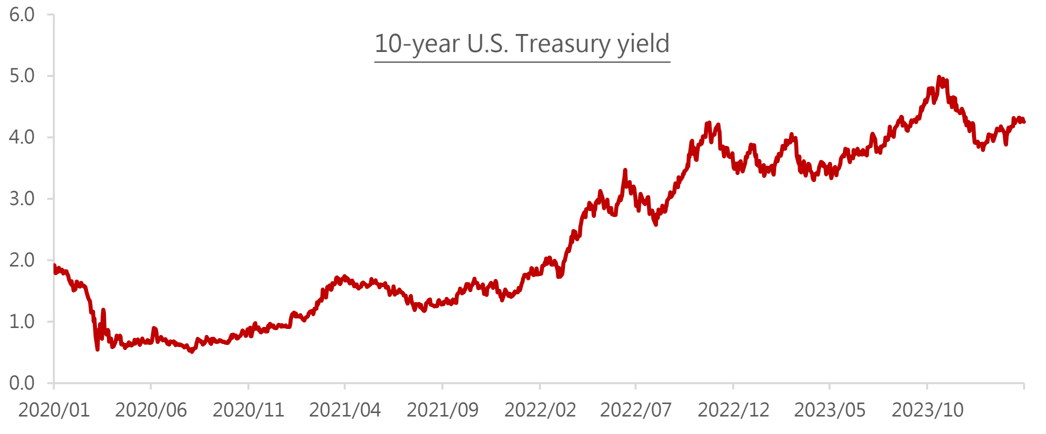
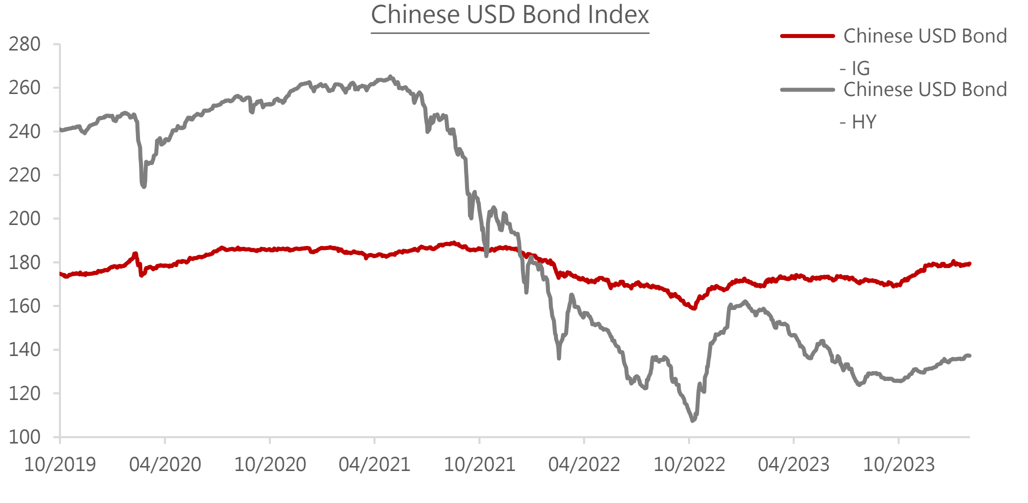


In the first half of February, US Treasury yields experienced a rapid upward movement, followed by tight fluctuations for most of the month. Economic data dominated market trends, resulting in a relatively balanced flow between bulls and bears. The market effectively absorbed the increase in supply. In the corporate bond market, the primary market for investment-grade bonds remained robust in the US, and continued inflows supported relatively strong credit spreads. Emerging market USD bonds outperformed in February, following a relatively weaker performance in the previous period. Towards the end of the month, sectors that had shown strong performance over the past three months experienced a slight widening of spreads. Chinese USD bonds demonstrated overall stability throughout the month, with credit spreads continuing to tighten in the backdrop of rising interest rates.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	52	(4)	(4)	50	94
HY CDX	340	(21)	(17)	330	554
EM CDX	166	(17)	14	164	275
Bond index					
ICE Asian Dollar Corporate	447	0.0%	0.4%	416	448
ICE China Issuers Dollar IG Corporate	210	0.2%	0.2%	198	211
ICE China Issuers Dollar HY Corporate	162	1.4%	5.9%	143	209
ICE US Corporate	3198	1.4%	1.2%	2929	3259
ICE US High Yield	1595	0.3%	0.3%	1418	1600
ICE Emerging Markets Corporate	434	0.1%	0.2%	401	435
Bloomberg Global-Aggregate	459	1.3%	2.6%	429	473
Bloomberg Global-Aggregate 1-3 Year	172	0.6%	1.4%	166	175



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Economic Data

January US economic data presented a mixed picture. Non-farm payroll additions of 353,000 significantly exceeded market expectations, while wage growth reached a new annual high. Meanwhile, inflation unexpectedly rebounded, particularly in the housing sector. Many Federal Reserve officials emphasized their close attention to inflation. However, other economic indicators such as retail sales, PMI, and consumer confidence fell short of expectations. Some European countries experienced a technical recession once again, with the overall economy showing a pattern of strength in the US and weakness in Europe. In Japan, inflation again surpassed expectations, making the March G7 interest rate meeting a focal point for market participants.

Outlook

The further trajectory of the US economy and inflation remains the primary determinant for the market. On one hand, the inflation data for February deserves attention. If there is another unexpected rebound that refutes the seasonal effect observed in January, it could have a greater negative impact on the market. On the other hand, there is significant divergence in the actual state of the US economy. Short-term expectations suggest that the housing and wage components will remain benign, but areas such as consumption may gradually weaken against a high base. The March FOMC meeting of the Federal Reserve is expected to maintain a cautious stance, but it may provide clearer guidance on the focus of potential interest rate cuts or tapering. The political risks associated with most emerging markets are currently deemed manageable, although caution is warranted regarding the fiscal and debt pressures that have accumulated in some regions since the outbreak of the pandemic. Market risk factors still persist, and if multiple negative news and data points converge, there may be a temporary reversal of the previously high market sentiment.

Regarding interest rates, short-term volatility will continue to be the main theme. Our fundamental view remains that there will be three to five rate cuts within the year, and the probability of a second round of inflation or no landing/no rate cuts is low. As the timing of interest rate cuts approaches, the probability of significant upward breakthroughs in rates, especially in the short end, is low. In the medium term, we maintain a relatively positive view on interest rate duration.

In terms of credit, given the current expensive valuations, the strategy of playing credit spreads or seeking higher yields through lower-rated credits has a relatively low probability of success. Therefore, we exercise caution with respect to credit duration. In the short term, we prefer adopting a barbell strategy for some risk mitigation, while in the medium term, we maintain a relatively balanced allocation strategy, diversifying risks and actively capturing investment opportunities amid market volatility.

RMB Outlook: The spot USDCNH fluctuated from 7.1850 to above 7.2, mainly influenced by the strength of the US dollar. This is due to the fact that the US economy and the Federal Reserve's stance have not undergone a complete turnaround. The yuan depreciated by about 0.3% against the US dollar, compared to the euro's depreciation of 0.6% against the dollar and the yen's depreciation of 2.4% against the dollar, indicating a certain resilience on the yuan's side. From the perspective of monetary policy and liquidity conditions, the central bank continues to maintain loose monetary policy to support the economy. This includes a 50 bp reserve requirement ratio cut to 10% in January and a 25 bp unexpected reduction in the loan prime rate (LPR) to 3.95% in February. The three-month SHIBOR in the onshore market has declined, but the offshore market's renminbi implied interest rate remains stable. Therefore, the spot rate has not seen a significant increase due to loose monetary policy. In terms of market risk sentiment, both A-shares and H-shares showed obvious bottoming and rebound in February, and economic data

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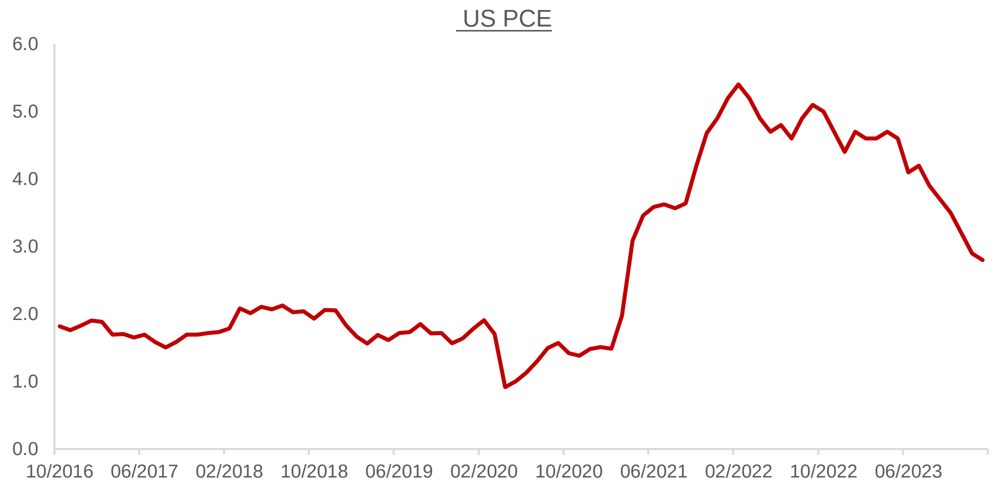
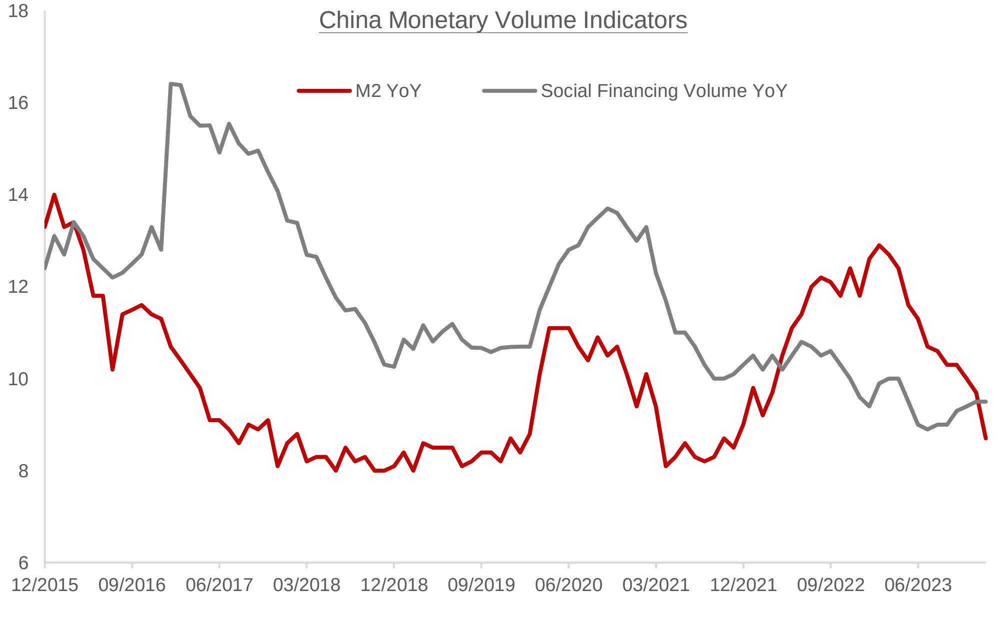
remained stable. This has led to an overall increase in risk appetite for renminbi assets (equities, government bonds, credit spreads), providing support for the renminbi. Additionally, it is possible that the control of offshore renminbi liquidity and the spot rate is a result of the central bank's cautious approach toward the 7.25 level. The USDCNH swap curve has shown a trend of convergence, with the short end following the tightening of offshore renminbi liquidity, while the long end of the curve is influenced by the widening of the one-year interest rate differential between China and the US. This has led to a flattening of the entire curve and hedging costs across different tenors, with current annualized costs ranging from around 2.3% to 2.5%. Government bond yields have declined by approximately 8 basis points across the yield curve, which can be directly attributed to the PBoC’s loose monetary policy stance, economic expectations, and long-end positioning. The market is focused on whether there will be an interest rate cut in March for the Medium-Term Lending Facility (MLF) and the convening of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC). The US dollar remains resilient, while the renminbi's performance depends on economic recovery and policy guidance, which can be referenced from the Chinese stock market. In the short term, the spot rate still has an upward trend, but faces significant resistance at 7.25. From a risk-return perspective, a downward movement in the short term could target the range of 7.16-7.18. As for swaps, considering the maintenance of the China-US interest rate differential, the view for the one-year tenor remains biased towards the downside (with increased hedging costs). The funding conditions and the short end, however, will depend on the magnitude of upward pressure on the spot rate.





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