MARKET INSIGHTS

October 2024

Equity

The financial policy combo were mainly focused on two approaches: lowering financing costs and boosting expectations for investment returns. Measures such as interest rate cuts, reserve requirement ratio reductions, lowering down payment requirements, and adjusting existing mortgage rates were primarily aimed at reducing financing costs and easing the leverage threshold. On the other hand, in order to stabilize asset prices and expectations for investment returns, the central bank introduced two new structural monetary policy tools to stabilize stock market prices and for the first time explicitly stated the goal of "promoting the stabilization of the real estate market," greatly exceeding market expectations. Furthermore, the summary of the Political Bureau meeting also emphasized the integration of promotional fees with livelihood projects to increase income for middle and low-income groups. This move itself beat expectation, and if implemented, it could bring about a significantly positive impact on the Chinese economy.

Market Performance

In September, the MSCI China Index surged by 23.07%, mainly boosted by the policy combo from the financial authorities and the outcomes of the Central Political Bureau. On September 13, the 11th meeting of the 14th National People's Congress Standing Committee passed a decision to gradually raise the statutory retirement age. On September 24, the heads of the central bank, the banking and insurance regulator, and the securities regulator announced a comprehensive 50 basis points cut in the reserve requirement ratio, a reduction in the 7-day reverse repurchase operation rate to 1.5%, a decrease of around 50 basis points in existing housing loan rates to the level of new housing loan rates. Additionally, they introduced innovative tools for stock repurchase and incremental lending for securities, funds, and insurance companies. On September 26, the Political Bureau meeting emphasized the need to intensify the countercyclical adjustments of fiscal and monetary policies, including issuing and utilizing ultra-long-term special government bonds and local special bonds, reducing the reserve requirement ratio, and implementing substantial interest rate cuts.

Greater China Indices	Sep Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	4017.85	20.97	17.10	3108.35	4038.70
MSCI China	70.20	23.07	25.47	48.75	71.31
HSI	21133.68	17.48	23.97	14794.16	22667.74
HSCEI	7509.79	18.62	30.19	4943.24	8146.25
Global Indices					
S&P 500	5762.48	2.02	20.81	4103.78	5767.37
Dow Jones Industrial Average	42330.15	1.85	12.31	32327.20	42628.32
Nasdaq Composite	18189.17	2.68	21.17	12543.86	18671.07
FTSE 100	8236.95	-1.67	6.51	7279.86	8474.41
DAX 30	19324.93	2.21	15.36	14630.21	19491.93
Nikkei 225	37919.55	-1.88	13.31	30487.67	42426.77

Economic Data

China's manufacturing PMI index increased to 49.9 in September from 49.1 in August. Among major sub-indexes of NBS manufacturing PMI, the new orders sub-index rose to 49.9 from 48.9, the output sub-index increased to 51.2 from 49.8, and the employment sub-index edged up to 48.2 from 48.1. The non-manufacturing PMI fell to 50.0 in September from 50.3 in August, entirely driven by slower activity in the services sector. The services PMI decreased to 49.9 from 50.2 in August. According to the survey, the PMIs of postal, telecommunication and satellite transmission services and information technology industries were above 55, while the PMIs of railway and water transportation, culture, sports and entertainment, and real estate services

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industries were below 50 in September. The construction PMI edged up to 50.7 in September from 50.6 in August, which was still lower than previous years.

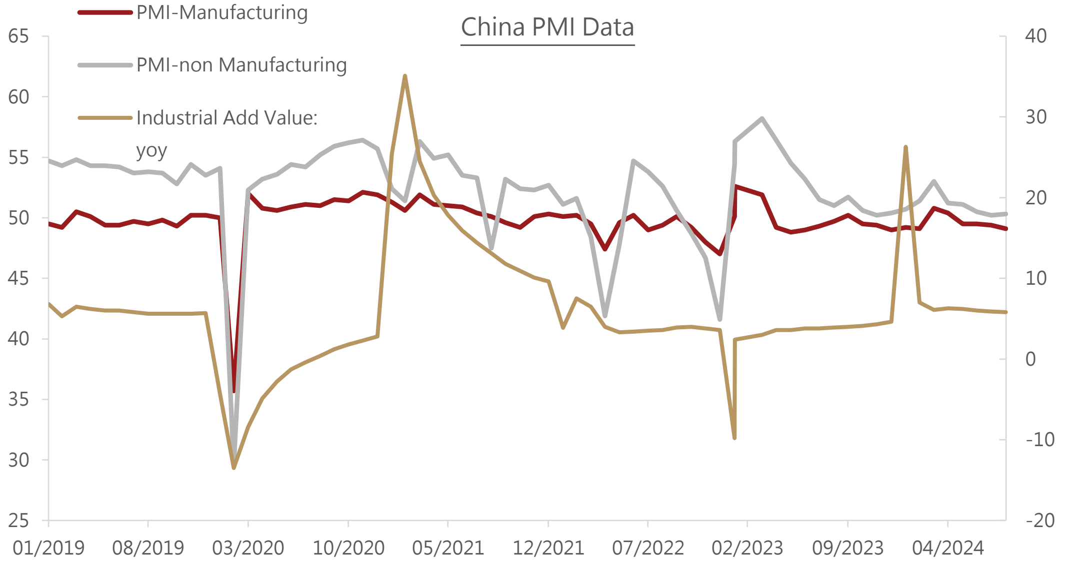
Outlook

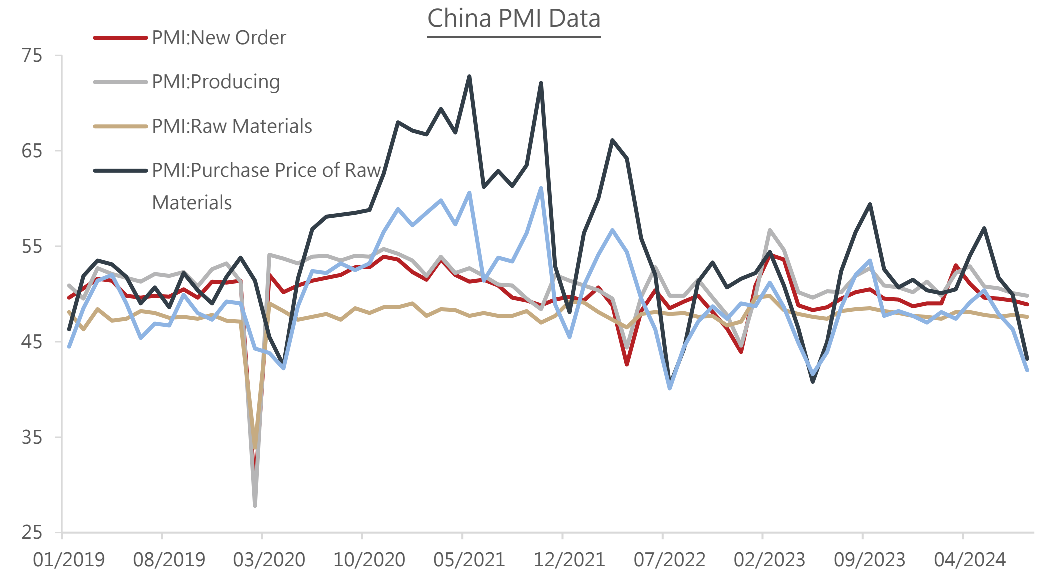
Looking forward, we maintain our long-term positive view of the Chinese equity market. The financial policy combo on September 24th and the adjustments and statements made regarding policies during the Political Bureau meeting on September 26th were mainly focused on two approaches: lowering financing costs and boosting expectations for investment returns. Measures such as interest rate cuts, reserve requirement ratio reductions, lowering down payment requirements, and adjusting existing mortgage rates were primarily aimed at reducing financing costs and easing the leverage threshold. On the other hand, in order to stabilize asset prices and expectations for investment returns, the central bank introduced two new structural monetary policy tools to stabilize stock market prices and for the first time explicitly stated the goal of "promoting the stabilization of the real estate market," greatly exceeding market expectations. Furthermore, the summary of the Political Bureau meeting also emphasized the integration of promotional fees with livelihood projects to increase income for middle and low-income groups. This move itself beat expectation, and if implemented, it could bring about a significantly positive impact on the Chinese economy.

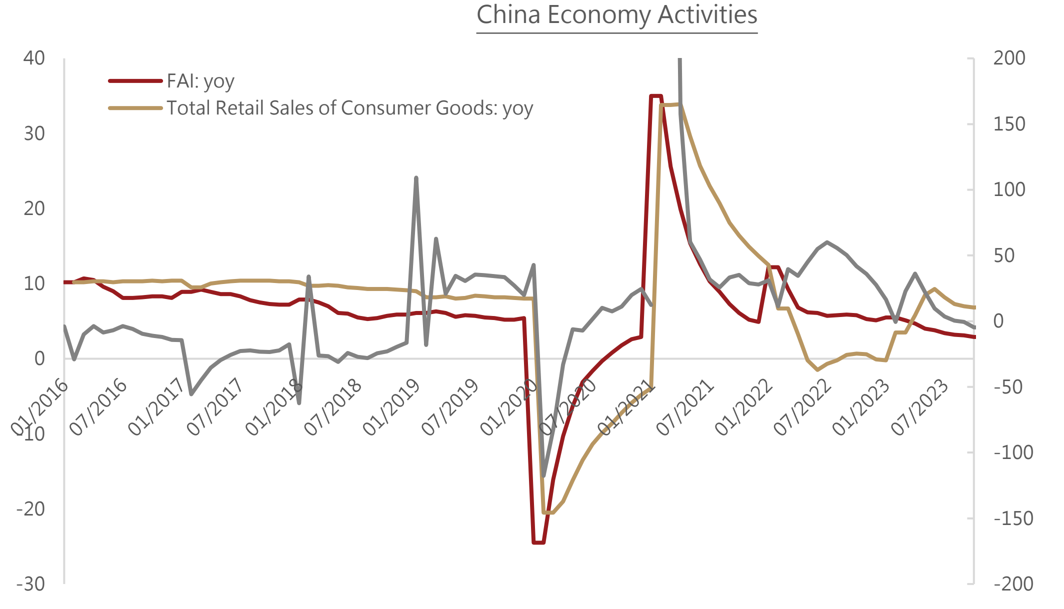
In terms of portfolio positioning, we will continue to seek a balance between value and growth. We continue to focus on the long-term policy beneficiaries (e.g. software localization and advanced manufacturing) and economic recovery-related opportunities (e.g. consumer, Internet, and financials). We 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.




China PMI Data
PMI:New Order
PMI:Producing
PMI:Raw Materials
PMI:Purchase Price of Raw Materials
75
65
55
45
35
25
01/2019
08/2019
03/2020
10/2020
05/2021
12/2021
07/2022
02/2023
09/2023
04/2024


China Economy Activities
FAI: yoy
Total Retail Sales of Consumer Goods: yoy
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

Fixed Income

The US has officially commenced its interest rate cutting cycle, with the initial reduction of 50 basis points exceeding the expectations of most market participants. This move reflects the Federal Reserve's commitment to not fall behind the curve while demonstrating a strong resolve to support both the labor and financial markets ahead of the upcoming election. Despite substantial expectations for further rate cuts within the year, the current economic conditions in the U.S. have not significantly deteriorated. Chairman Powell is likely to determine the extent of future cuts based on economic data, particularly employment figures, and may consider slowing the pace of rate reductions. Additionally, the improved sentiment towards Chinese assets and the release of liquidity in the U.S. are expected to provide marginal benefits to other global markets, especially emerging economies. However, it remains crucial to monitor tail risks in light of the U.S. election and potential geopolitical conflicts.

Market Performance

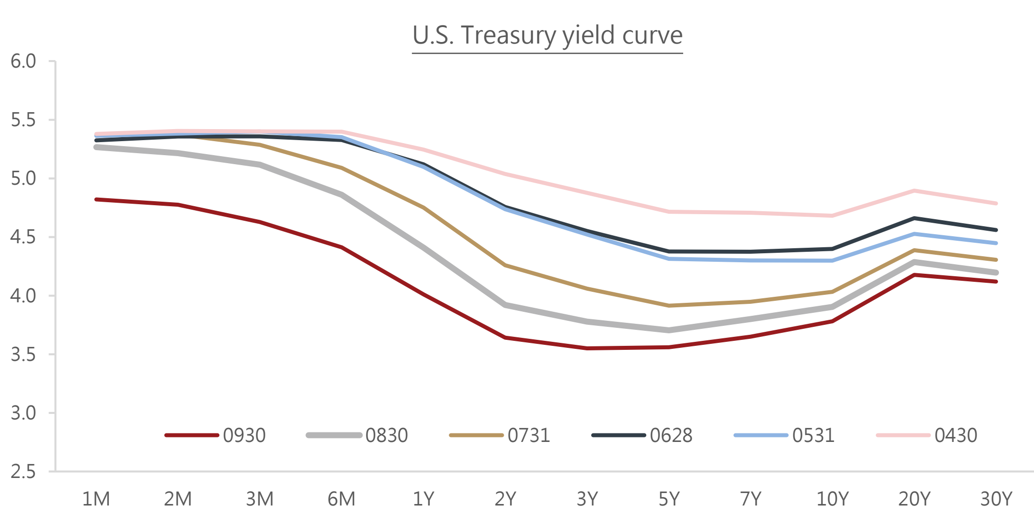
With the Federal Reserve's 50 basis point rate cut, overall market risk sentiment surged in September. During the September FOMC meeting, the Fed announced a 50 basis point reduction, exceeding market expectations. Chairman Jerome Powell emphasized the importance of maintaining employment but cautioned against viewing the 50 basis point cut as a benchmark, with the press conference leaning hawkish. The dot plot indicated an expectation of two more rate cuts totaling 50 basis points by year-end (with significant divergence among members), while market pricing was more aggressive. Following this pivotal decision, risk assets continued to rise, with the S&P 500 and gold reaching new highs. China's A-shares and H-shares surged under supportive policies, and most commodities rebounded, except for crude oil.

United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	3.64	-28	-61	3.50	5.26
5Y	3.56	-14	-29	3.38	4.99
7Y	3.65	-15	-23	3.48	5.03
10Y	3.78	-12	-10	3.60	5.02
30Y	4.12	-8	9	3.89	5.18

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.61	-6	-68	1.45	2.53
5Y	1.85	0	-54	1.68	2.64
7Y	2.11	3	-43	1.87	2.75
10Y	2.21	3	-35	2.02	2.74
30Y	2.37	-1	-46	2.12	3.03

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.39	2	34	0.00	0.47
5Y	0.51	0	30	0.16	0.68
7Y	0.60	-3	23	0.30	0.85
10Y	0.86	-4	25	0.56	1.11
30Y	2.09	-1	46	1.48	2.31

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.07	-32	-34	1.99	3.25
5Y	1.95	-24	0	1.84	2.89
7Y	1.93	-21	-1	1.83	2.94
10Y	2.12	-18	10	1.89	3.03
30Y	2.46	-9	20	2.12	3.26



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Throughout August, U.S. Treasury curve bull steepened, with significant declines occurring prior to the rate cut announcement. The two-year Treasury yield has decreased by over 60 basis points since the beginning of the year, while the longer-dated 30-year Treasury yield fell only 8 basis points to 4.12%. In the credit markets, primary issuance surged by 30% year-over-year, setting a new record; however, robust demand led to a continued narrowing of credit spreads, approaching May's low levels. Against this backdrop, corporate bonds recorded positive returns for the fifth consecutive month, and Chinese USD bonds also saw significant spread tightening by month-end in line with market sentiment.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	53	3	(4)	47	83
HY CDX	329	7	(27)	306	533
EM CDX	163	1	11	153	247
Bond index					
ICE Asian Dollar Corporate	478	1.4%	7.4%	416	478
ICE China Issuers Dollar IG Corporate	224	1.4%	6.6%	198	224
ICE China Issuers Dollar HY Corporate	183	2.9%	19.1%	143	183
ICE US Corporate	3426	1.7%	5.8%	2929	3441
ICE US High Yield	1718	1.6%	8.1%	1457	1718
ICE Emerging Markets Corporate	467	1.5%	8.0%	401	468
Bloomberg Global-Aggregate	488	1.7%	3.6%	429	490
Bloomberg Global-Aggregate 1-3 Year	181	1.3%	3.7%	166	181

Economic Data

In August, the U.S. Consumer Price Index (CPI) increased by 2.5% year-over-year. Although core CPI showed a rebound in the housing component on a month-over-month basis, market concerns continued to ease. After excluding weather-related disturbance, non-farm payrolls in August experienced a modest recovery, and the unemployment rate did not worsen; however, the decline in the V/U ratio indicated weakening conditions in the labor market. Furthermore, early signs of consumer spending weakness emerged, while interest rate-sensitive sectors such as housing remained relatively stable. In Europe, inflation continued to cool, leading the European Central Bank to cut rates by 25 basis points, while the Bank of Japan maintained its current stance; however, Japan's election of the new Prime Minister introduced some market volatility.

Outlook

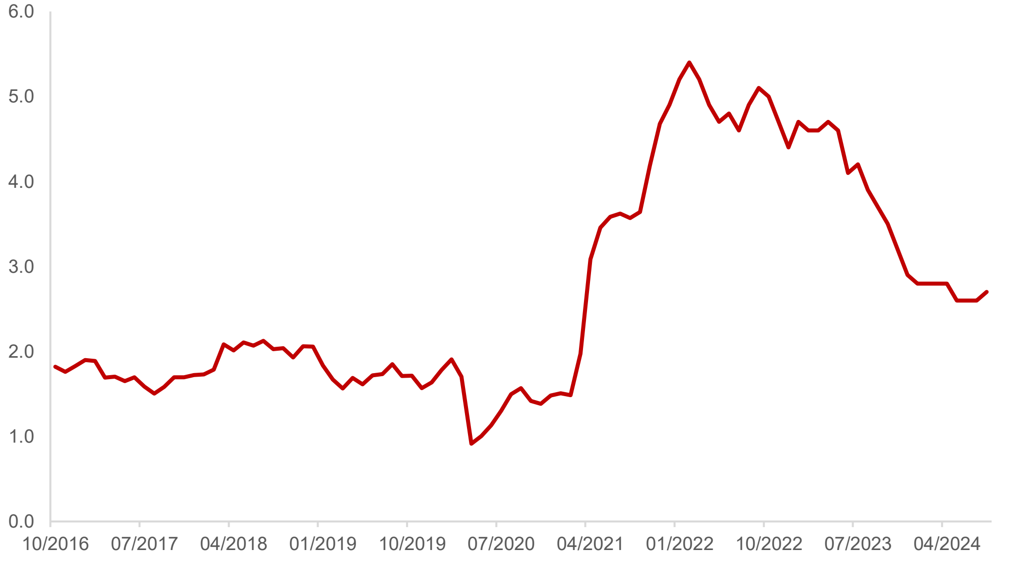
The US has officially commenced its interest rate cutting cycle, with the initial reduction of 50 basis points exceeding the expectations of most market participants. This move reflects the Federal Reserve's commitment to not fall behind the curve while demonstrating a strong resolve to support both the labor and financial markets ahead of the upcoming election. Despite substantial expectations for further rate cuts within the year, the current economic conditions in the U.S. have not significantly deteriorated. Chairman Powell is likely to determine the extent of future cuts based on economic data, particularly employment figures, and may consider slowing the pace of rate reductions. Additionally, the improved sentiment towards Chinese assets and the release of liquidity in the U.S. are expected to provide marginal benefits to other global markets, especially emerging economies. However, it remains crucial to monitor tail risks in light of the U.S. election and potential geopolitical conflicts.

If we compare the current rate-cutting cycle to the pre-emptive cuts of 1995, it is noteworthy that fixed income assets did not perform well following the initial rate cut in the previous cycle. Additionally, given the expansive fiscal backdrop, there is a need to remain vigilant regarding the risk of a rebound in U.S. Treasury yields, particularly at the long end of the curve. In the credit markets, the decline in short-term financing costs and the normalization of the yield curve will provide some marginal technical support. High-yield, high-beta assets, exemplified by AT1 securities, have continued to rise in September, reflecting investors' pursuit of yield. However, considering current valuations and the impending U.S. elections, we maintain that a relatively diversified approach remains highly necessary.

In September, the People's Bank of China (PBOC) unexpectedly accelerated its monetary easing measures, cutting the seven-day reverse repo rate by 20 basis points to 1.5%, the 14-day reverse repo rate by 10 basis points to 1.85%, and the Medium-term Lending Facility (MLF) rate by 30 basis points to 2%. Additionally, the reserve requirement ratio was lowered by 50 basis points to 9.5%. While the Loan Prime Rate (LPR) remained unchanged, market expectations suggest a potential reduction of 20-25 basis points in the near future. The Politburo meeting analyzed the current economic situation and work priorities, indicating that discussions about economic performance will primarily occur in October and December, making this easing earlier than expected. Aside from positive export data, other economic indicators do not sufficiently support the fundamentals. As we enter the fourth quarter, investment activity in northern China is expected to slow due to winter conditions, and policy measures may not lead to a rapid improvement in fundamentals. Currently, equity market price-to-earnings (P/E) valuations are nearing double those of the past two to three years, driven primarily by buying activity and market sentiment, which is deemed reasonable at this juncture. However, a return to fundamental valuations would necessitate significant fiscal policy initiatives and GDP growth exceeding 5% or returning to pre-pandemic levels for adequate support. Market participants are closely monitoring fiscal policy developments ahead of the end of October. The issuance of an additional ¥2 trillion in special government bonds serves as a baseline; exceeding this scale or implementing direct central government measures for land and housing purchases would be a positive surprise. It is worth noting that the interest rate cuts by other central banks, along with the Federal Reserve's easing measures, have opened the door for the People's Bank of China (PBOC) to implement a pro-cyclical monetary policy. Additionally, the recent peak in U.S. dollar assets presents an opportunity for global multi-asset funds to allocate capital into the Chinese market. Consequently, the recent appreciation of the renminbi and the rally in Chinese equities can be attributed not only to domestic policy initiatives but also to favorable external conditions.

The USDCNH spot rate initially rose from 7.09 to 7.14 before quickly declining to 6.97, and is currently trading at 7.02. This movement can be attributed to favorable internal and external factors, including companies rushing to convert foreign exchange, declining U.S. dollar rates, unexpected Chinese policy measures, improved market sentiment, and capital inflows, alongside tightening liquidity conditions in the renminbi market. From a technical perspective, the support level at 7 has been breached, with the next strong support level identified at 6.9. USDCNH swaps have risen significantly, lagging behind the onshore USDCNY by approximately one month. The current upward trend is primarily driven by the narrowing interest rate differential between China and the U.S., as well as the prior abnormal swap positions that were unsustainable; the market is now returning to a more normal state. The entire swap curve remains inverted, but the hedging costs have narrowed to between 2.1% and 2.7%, indicating that this level represents a balanced and appropriate position. In terms of government bond yields, a V-shaped trajectory has been observed, with yields initially declining before rising again, exhibiting volatility of about 15-20 basis points. The yield curve is steepening, and this trend is expected to continue in the short term, primarily influenced by policy measures and stock market dynamics. If there are subsequent issuances of special government bonds and continued stock market gains, resistance levels are projected at 2.3% for the 10-year bonds and 2.5% for the 30-year bonds.

US PCE



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