華夏基金(香港)
ChinaAMC (HK)

MARKET INSIGHTS

November 2024

Equity

Despite the likelihood of President Trump imposing significantly higher tariffs on China after his election, in the current domestically "stimulus-driven" policy response environment, if there is a major external shock, it may lead to even greater fiscal stimulus. In the near term, there is potential for the Standing Committee of the National People's Congress to pass resolutions to issue special national bonds and expand local debt limits, providing the next catalyst for the domestic market. Next year, overall macroeconomic policies are expected to be more accommodative compared to the second and third quarters of this year. In such an environment, the downward cycle of the real estate sector may also reach a trough next year. In October, the sales area of new and second-hand houses both saw a year-on-year increase in growth rates. Going forward, we may continue to witness marginal changes in real estate sales and improvements in funding sources for real estate developers. Additionally, domestic demand growth may also show signs of recovery.

Market Performance

In October, the market gradually returned to normal from the extreme overbought state at the end of the previous month, with the MSCI China Index falling by 5.9%. This was mainly due to concerns over tariff issues as Trump's chances of winning increased, and the policy details announced by the country were slightly below expectations. On October 8, the NDRC press conference clearly stated that 200 billion yuan would be allocated by the end of October to support local investment projects for early implementation, and measures to expand the scope of support for local government special bonds would be introduced as soon as possible. On October 12, the Ministry of Finance announced that 400 billion yuan would be allocated from the remaining balance of local government debt limits to supplement the comprehensive financial resources of local governments and that the central government still has significant room to increase its deficit, as well as the largest measure of recent years to support debt-for-equity swaps. On October 17, the Ministry of Housing and Urban-Rural Development reiterated the use of monetary compensation for housing displacement, announcing the implementation of an additional 1 million sets of urban villages and dangerous housing renovations, increasing the scale of approved loans for "white-listed" projects to 4 trillion yuan by the end of the year. On October 25, the State Council executive meeting emphasized the continued implementation of a package of incremental policies, increasing counter-cyclical adjustment efforts, and further improving the effectiveness of macroeconomic regulation. On October 23, the NDRC stated that a batch of incremental policy measures would continue to be introduced and implemented, including expanding the areas where special bonds can be invested and the areas, scale, and proportions where special bonds can be used as capital.

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

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Equity

Economic Data

The NBS manufacturing PMI headline index rose to 50.1 in October from 49.8 in September, the first time above 50 since April this year. Among major sub-indexes of NBS manufacturing PMI, the new orders sub-index inched up to 50.0 from 49.9, the output sub-index increased to 52.0 from 51.2, and the employment sub-index rose to 48.4 from 48.2. The official non-manufacturing PMI edged up to 50.2 in October (vs. 50.0 in September), entirely driven by improvement of activity in the services sector thanks to the boost from National Day Golden Week. The services PMI increased to 50.1 (vs. 49.9 in September). According to the survey, the PMIs of railway, water and airline transportation, postal, and capital market services industries were above 55, while the PMIs of hotel, household services and real estate services industries were below 50 in October. The construction PMI fell to 50.4 in October (vs. 50.7 in September).

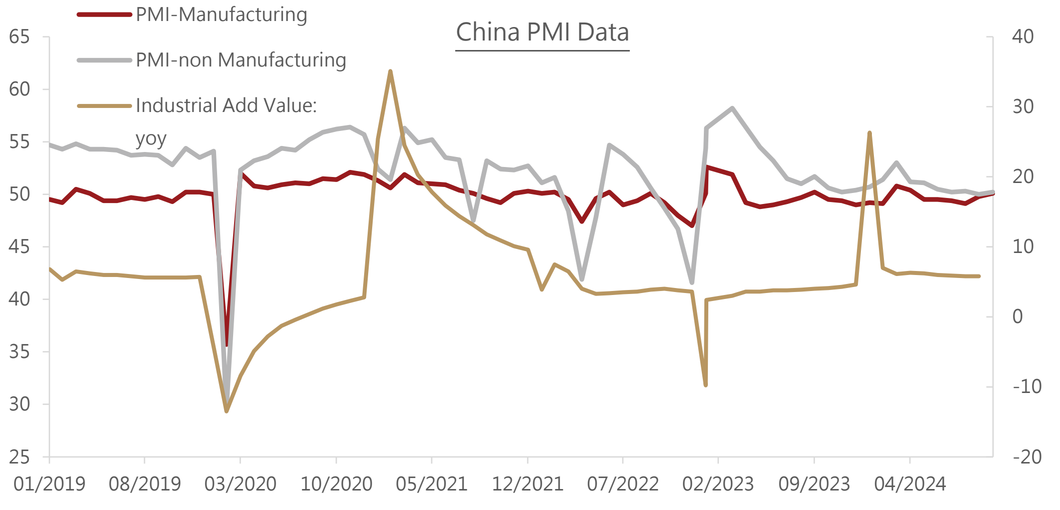
Outlook

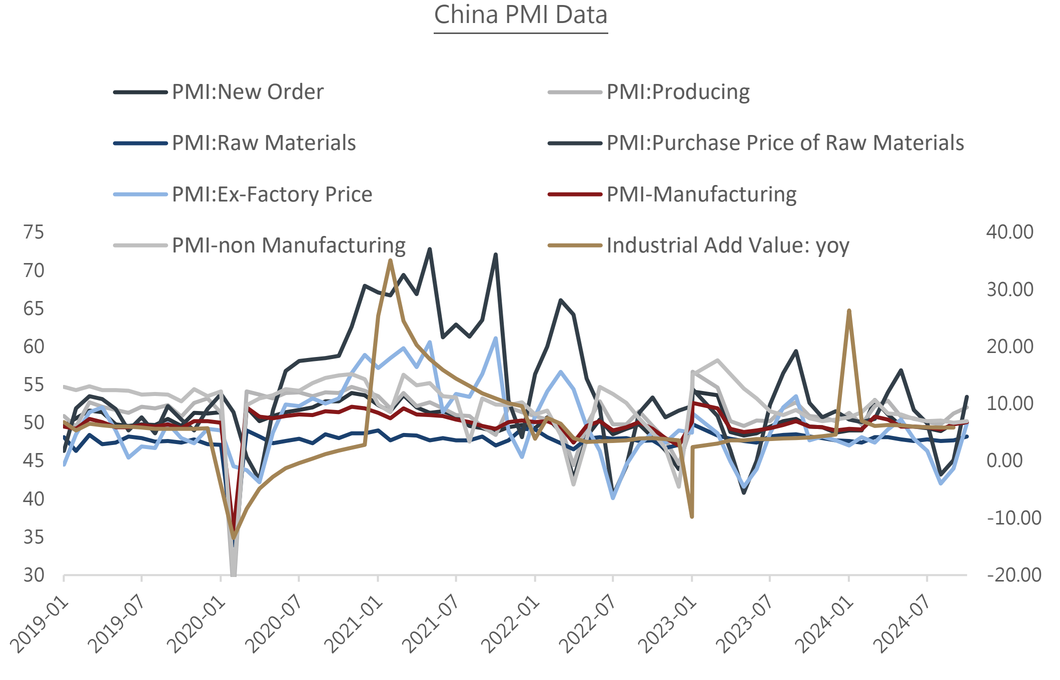
Looking ahead, we maintain a long-term positive view on the Chinese stock market. Despite the likelihood of President Trump imposing significantly higher tariffs on China after his election, in the current domestically "stimulus-driven" policy response environment, if there is a major external shock, it may lead to even greater fiscal stimulus. In the near term, there is potential for the Standing Committee of the National People's Congress to pass resolutions to issue special national bonds and expand local debt limits, providing the next catalyst for the domestic market. Next year, overall macroeconomic policies are expected to be more accommodative compared to the second and third quarters of this year. In such an environment, the downward cycle of the real estate sector may also reach a trough next year. In October, the sales area of new and second-hand houses both saw a year-on-year increase in growth rates. Going forward, we may continue to witness marginal changes in real estate sales and improvements in funding sources for real estate developers. Additionally, domestic demand growth may also show signs of recovery.

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 fiscal stimulus falls short of expectations





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With Trump's election and the strong likelihood of a Republican sweep, the short-term market trading narrative is expected to continue to revolve around this outcome. Trump's policies, including bringing back manufacturing, deregulation of the financial sector, tax reductions, and increased tariffs, are likely to favor U.S. assets in the near term while suppressing performance in Europe and emerging markets. However, in the medium to long term, the process of de-globalization may introduce some uncertainty regarding global inflation and economic growth. As we previously assessed, U.S. Treasury yields have experienced a noticeable rebound since October. While various indicators suggest that the yield curve is poised to continue steepening, the 10-year yield has surpassed 4.4%. We view bonds as having entered a favorable allocation range once again, with a relatively neutral stance on interest rate duration.

Market Performance

Since October, as the U.S. officially entered a rate-cutting cycle, market trading theme has shifted significantly compared to the third quarter. The combination of the "Trump trade" and robust economic data has led to strengthening of the U.S. dollar, with Treasury yields rising sharply—both the 2-year and 10-year Treasury yields increased by over 50 basis points in a single month. As expectations for further rate cuts have moderated and the U.S. elections approach, overall risk sentiment remained relatively restrained. Most countries have experienced slight declines in both equities and bonds, while gold continued to reach new highs.

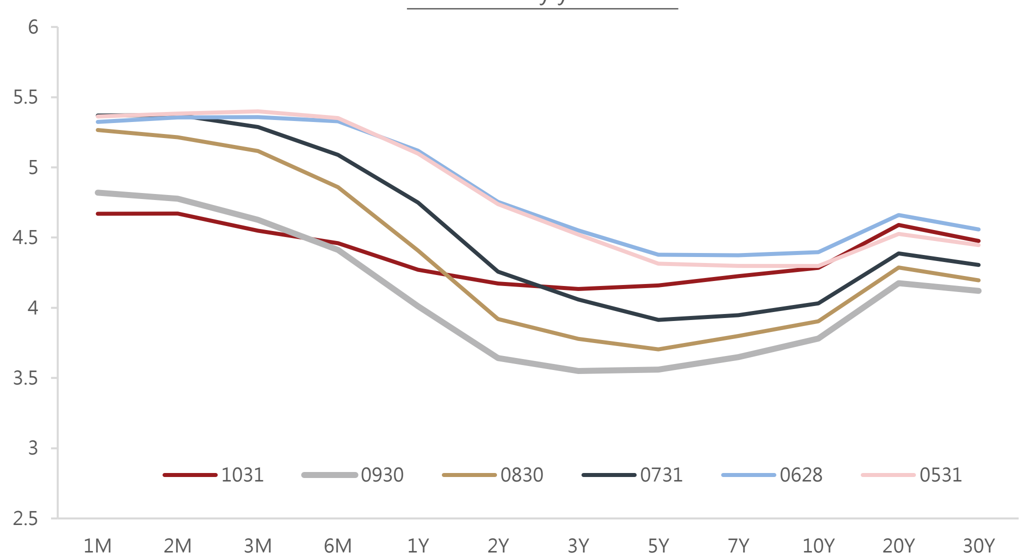
United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	4.17	53	-8	3.50	5.08
5Y	4.16	60	31	3.38	4.75
7Y	4.22	58	34	3.48	4.76
10Y	4.28	50	41	3.60	4.74
30Y	4.48	36	45	3.89	4.85

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.62	1	-67	1.45	2.52
5Y	1.82	-3	-57	1.68	2.62
7Y	2.03	-7	-50	1.87	2.72
10Y	2.15	-6	-41	2.02	2.72
30Y	2.36	-2	-48	2.12	2.98

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.45	5	39	0.00	0.51
5Y	0.59	8	38	0.16	0.68
7Y	0.69	9	33	0.30	0.85
10Y	0.95	9	34	0.56	1.11
30Y	2.22	13	59	1.48	2.31

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.28	21	-12	1.99	3.13
5Y	2.27	32	32	1.84	2.77
7Y	2.23	30	29	1.83	2.70
10Y	2.39	27	37	1.89	2.75
30Y	2.60	14	33	2.12	2.97

U.S. Treasury yield curve



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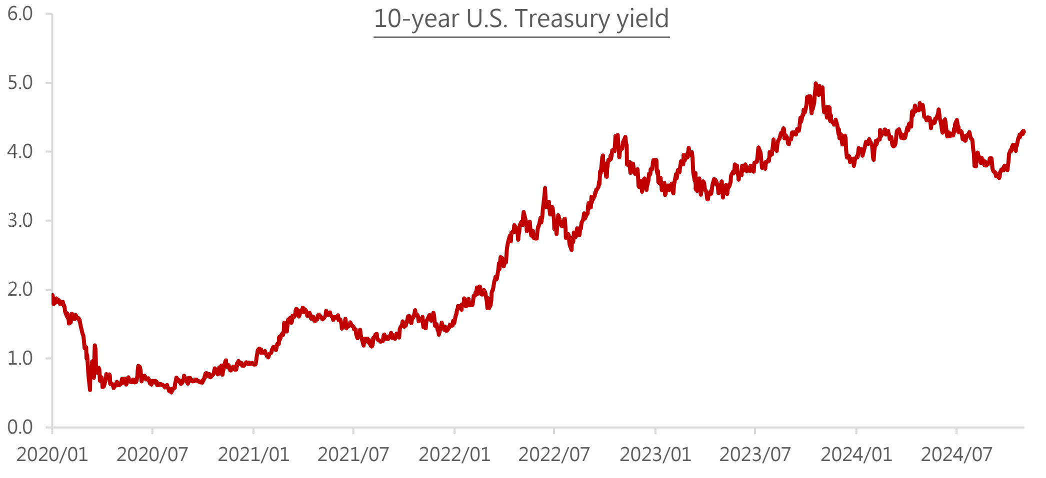


U.S. Treasury yields rose sharply throughout the month, with mid-curve performance relatively weaker as the 10-year Treasury yield repeatedly breached the critical 4.3% level. In the credit market, primary supply experienced a relative decline, while the secondary market continued to see support from buyers as overall yields increased. At mid-month, several sectors recorded new year-to-date lows in credit spreads. However, by the end of the month, investor restraint ahead of the elections led to a slight widening of spreads, with energy and consumer discretionary sectors lagging slightly behind. Against the backdrop of a significant rise in benchmark rates, corporate bonds recorded their worst monthly performance in the past year. Conversely, Chinese dollar bonds outperformed due to their shorter duration and favorable technical support.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	54	1	(3)	47	70
HY CDX	336	7	(21)	300	447
EM CDX	168	6	17	153	217
Bond index					
ICE Asian Dollar Corporate	472	-1.2%	6.2%	423	478
ICE China Issuers Dollar IG Corporate	221	-1.3%	5.3%	201	224
ICE China Issuers Dollar HY Corporate	184	0.9%	20.2%	145	184
ICE US Corporate	3348	-2.2%	3.4%	3008	3441
ICE US High Yield	1709	-0.6%	7.5%	1497	1718
ICE Emerging Markets Corporate	461	-1.3%	6.5%	409	468
Bloomberg Global-Aggregate	472	-3.4%	0.1%	438	490
Bloomberg Global-Aggregate 1-3 Year	177	-2.1%	1.5%	167	181

Economic Data

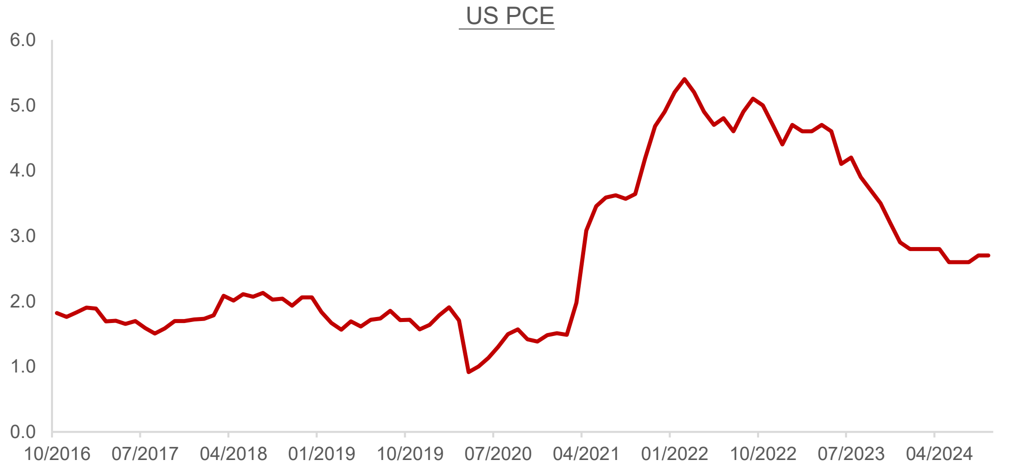
In the U.S., September non-farm payroll data significantly exceeded market expectations. However, due to the impacts of strikes and weather-related factors, October saw a modest increase of only 12,000 in non-farm payrolls, with the unemployment rate and job vacancy numbers also falling short of expectations, indicating that the U.S. labor market remains on a gradual cooling trend. At the same time, September inflation slightly exceeded expectations, raising concerns about potential re-inflation. On a more positive note, October data on consumption, housing, and PMI came in better than anticipated, bolstering market confidence in avoiding a hard landing. In Europe, overall economic data has been relatively weak, while the Bank of Japan, influenced by multiple factors, has slightly shifted toward a more dovish stance, which has tempered the performance of the Japanese yen.

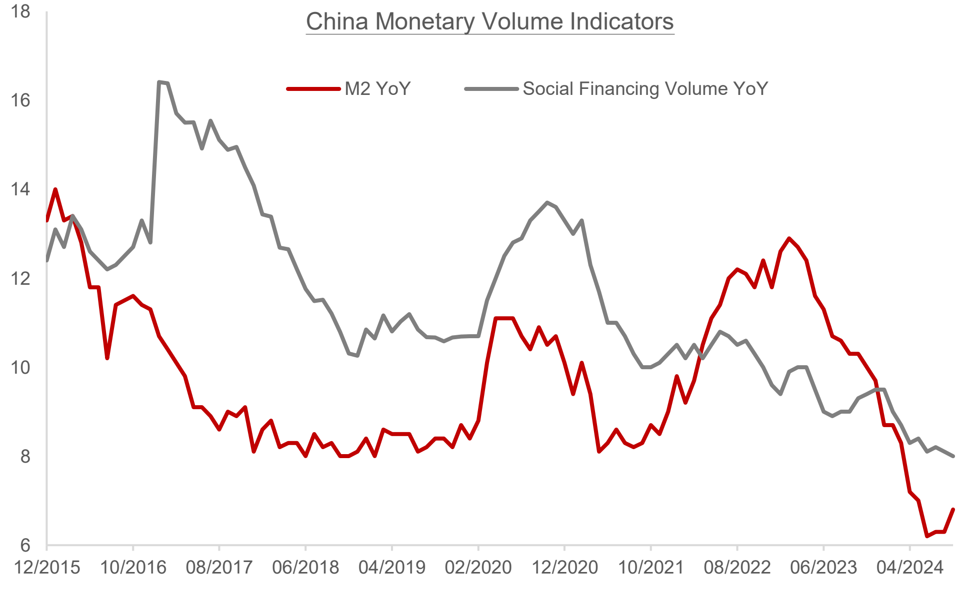
Outlook

With Trump's election and the strong likelihood of a Republican sweep, the short-term market trading narrative is expected to continue to revolve around this outcome. Trump’s policies, including bringing back manufacturing, deregulation of the financial sector, tax reductions, and increased tariffs, are likely to favor U.S. assets in the near term while suppressing performance in Europe and emerging markets. However, in the medium to long term, the process of de-globalization may introduce some uncertainty regarding global inflation and economic growth.

As we previously assessed, U.S. Treasury yields have experienced a noticeable rebound since October. While various indicators suggest that the yield curve is poised to continue steepening, the 10-year yield has surpassed 4.4%. We view bonds as having entered a favorable allocation range once again, with a relatively neutral stance on interest rate duration. In the credit market, rising yields have attracted all-in yield buyers, and with the conclusion of the U.S. elections, some previously cautious capital has begun to flow back in, triggering another wave of compression in credit spreads. We anticipate that various segments of the short- to medium-term credit market will develop structurally as they gradually digest the implications of the rate cuts and Trump's administration. Consequently, we plan to avoid sectors with high valuations and focus on identifying relative investment opportunities across different segments and issuers.

Fixed Income





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