光大證券 | 國際
EVERBRIGHT SECURITIES | INTERNATIONAL

[For immediate release]

EBSI Expects Global Inflation to Ease Gradually in 2024
Creating Favorable Conditions for Central Banks to Adjust Monetary Policy by Year-End

* * *

"ACE" as Three Major Asset Allocation Themes for H2:

Asian bonds for offensive-and-defensive quality at end of interest rate hike; China HK recovery; European opportunities maintain

* * *

HSI Target for H2 2024 at 21,000
Four Target Sectors of HK Stocks: Large-cap Technology, Local Finance, Consumer Consumption, and Traditional Automobiles

* * *

Forex: U.S. Dollar Index in Range-bound Volatility; EUR and Gold Show Appreciation Potential

---

Overview:

- EBSI expects global inflation to ease in the second half of this year, and major central banks around the world to maintain the current interest rate levels for some time, with room for interest rate cuts starting to appear only by the end of this year, which can alleviate economic pressure and create favorable conditions for recovery.
- The investment strategy "ACE" for the second half of this year is based on three major themes, namely **A**sian Income, **C**hina HK Recovery and **E**uropean Opportunity.
- EBSI maintains the full-year forecast for the Hong Kong stocks in 2024: HSI year-end target at 21,000, HSTECH at 4,700 and SSE Composite Index at 3,400.
- Four target sectors in the Hong Kong stock market: large-cap technology, local finance, consumer consumption, and traditional automobiles.
- Global market: Inflation in the U.S. continues to slow down, yet its economic growth momentum remains strong, indicating a higher chance of only one rate cut this year. Given the possibilities that the Fed will cut rates by the year-end, investors may consider timely incorporating stocks of Hong Kong and Mainland markets, European markets, as well as bond investments into their asset allocations for both offense and defense.
- Forex: The U.S. Dollar Index (DXY)'s momentum weakens; the EUR, GBP, AUD, and Gold should be bought on dips.

Hong Kong, June 6, 2024 - China Everbright Securities International Company Limited ("Everbright Securities International", "EBSI" or the "Company") says that looking back at H2 2023, the gradual slowdown in the pace of interest rate hikes in the U.S. and the decline in global inflation levels were the driving force behind the rebound of major global markets. Central banks' monetary policy remained a key factor influencing the performance of the investment market. The continuous rate hikes by the U.S. have brought inflation down to 3%. While the U.S. economy has not lost growth momentum due to high interest rates, the economies of some Asian countries, emerging markets, and Europe have begun to slow down in 2023. Therefore, we expect that the Federal Reserve (the Fed)'s current rate hike cycle has come to an end and will start cutting rates in the second half of 2024. With the economic data in Mainland China gradually stabilizing, the Mainland's economy is showing a trend of gradual recovery, which is worth continuing to monitor.

Entering the second half of 2024, while inflationary pressures in the U.S. have slightly rebounded, inflation in the Eurozone and the U.K. have eased. It is expected that the European Central Bank will cut interest rates sooner than the U.S., and capital will start to flow back from mature markets such as the U.S. and Japan to the Hong Kong and Mainland markets. This reflects an optimistic view of the Mainland's economic recovery and will also drive the recovery of the European consumer market. Both the Hong Kong and Mainland stock markets and the European market are set to benefit.

For the second half of 2024, investors may consider the "ACE" investment themes for asset allocation: 1. **A**sian Income; 2. **C**hina HK Recovery; and 3. **E**uropean Opportunity.

1. **A**sian Income

At the May 2024 Federal Open Market Committee (FOMC) meeting, Federal Reserve Chairman Jerome Powell made dovish remarks, suggesting that the likelihood of further rate hikes by the Fed would be low. Coupled with the U.S. April non-farm data falling short of expectations and the unemployment rate rising to 3.9%, the market has begun to anticipate that the U.S. will maintain a rate cut of one time this year, but the timing of the rate cut will be postponed until the fourth quarter of this year. If the U.S. pauses its rate hikes, it will facilitate the flow of funds into the bond market. Should the Fed begin to cut rates in the fourth quarter of this year, bond prices are expected to rise. Among them, Asian bonds stand to benefit from narrowing interest rate differentials, which could enhance bond investment returns by 4-6%. In terms of Asian macro investment portfolios, we recommend continuing to focus on Asian market bonds with strong fundamentals and higher yields.

2. **C**hina HK Recovery

The Mainland economy continues its robust recovery momentum, gradually demonstrating a benign cycle of moderate inflation. The central government's work report has set this year's economic growth target at around 5%, with both monetary and fiscal policies continuing the previous easing stance. This macroeconomic environment provides solid support for further economic recovery in the latter half of the year. In terms of capital market performance, the Mainland continues to deepen measures to "Activate the capital market", including policies such as the new "Nine Measures," aimed at regulating the long-term healthy development of the capital market and encouraging listed companies to increase dividend payout returns. Against this backdrop, the valuation of Chinese stocks is expected to be reevaluated. For an extended period, the performance and valuation of the Hong Kong and Mainland stock markets have lagged behind other major global markets. Driven by capital seeking the optimal return within acceptable risk, there is a strengthening trend in the inflow of funds into the Hong Kong and Mainland markets. It is anticipated that this trend will continue in the second half of the year, thereby enhancing the performance of the Hong Kong and Mainland stock markets.

3. **E**uropean Opportunity

Inflation data in the Eurozone and the U.K. have shown a significant slowdown, and European Central Bank officials have expressed their belief that European inflation will return to the 2% target by mid-next year. As a result, the market expects the European Central Bank to cut interest rates faster than the Fed in the second half of this year. With the increase in consumption desire of mainland tourists to Europe after the pandemic, European luxury stocks and other industrial stocks related to China have recently been in high demand. The Stoxx Luxury 10 index has risen by nearly 10% since the beginning of this year. Compared to direct investment in the Chinese stock market, European stocks offer an indirect way to benefit from the recovery of the Chinese economy, and the European stock market is expected to have the potential to exceed historical highs in the second half of this year. Additionally, we concisely predicted at the end of last year that the mature markets of the U.S. and Japan would perform well. However, their price-earnings ratios have exceeded the five-year average due to the rapid rise of these stock markets. Therefore, we anticipate that the upward momentum of the U.S. and Japanese stock markets will slow down.

Hong Kong Stocks: First Half Performance in Line with Expectations; HSI Highest Target of 21,000 Maintained for 2024

At the end of last year, EBSI forecasted a full-year target high of 21,000 for the HSI in 2024 and pointed out that the stock market trend in Hong Kong this year would be low first and then high, with the low point likely to occur around 15,000. Looking back at the stock market in Hong Kong in the first half of the year, the performance has basically met expectations. In the first quarter of this year, the Mainland economy recorded a growth of 5.3%, continuing its recovery momentum. During the first half of this year, the central bank of the Mainland successively implemented monetary policy adjustments such as interest rate cuts and reserve requirement ratio reductions, injecting liquidity into the market and providing liquidity support for economic recovery in the second half of the year. Although the external interest rate environment in the second half of the year carries uncertainties, the current rebound of Mainland manufacturing to an expansionary level, the exit of consumer prices from the deflationary territory, and the robust performance of the export market are all likely to become concrete manifestations of continued economic growth.

Kenny Ng, Securities Strategist of EBSI, says, "Foreign markets are at relatively high valuations, and the stagnation concerns amid an uncertain interest rate environment will drive capital to continue focusing on the investment opportunities presented by China's economic recovery. The Hong Kong stock market, which has been undervalued, is expected to benefit.

The Hong Kong stock market's repeated record highs for the year in the first half, along with a reversal in the trend of consecutive quarterly declines in transaction volume, are also a partial reflection of these factors."

"In the second half of the year, the Hong Kong stock market is expected to continue benefiting from economic expansion and an accommodative monetary environment. Additionally, the gradual recovery of the Mainland's long-term government bond yield rates from their lows is likely to bolster investor confidence. Therefore, EBSI maintains its outlook for the Hong Kong stock market as stated six months ago, anticipating that the HSI could potentially reach a high of 21,000 points in the latter half of the year. However, during this investment period, investors should remain vigilant about the U.S. presidential election in the second half, as the related campaign policies may introduce volatility to the market."

Hong Kong Stocks Gain New Momentum in Upward Revaluation

Currently, in addition to the traditionally low projected price-to-earnings ratio and price-to-book ratio, the dividend yield, which has been a more effective reflection of the Hang Seng Index's attractiveness, is showing a more pronounced upward trend. In recent years, the Mainland has encouraged listed companies to increase their dividend payout levels, striving to enhance potential returns for investors, which also brings a new round of revaluation opportunities for the Hong Kong stock market. Although the index has rebounded significantly from its lows, due to many large blue-chip companies increasing their dividend payout ratios, the current dividend yield ratio of the HSI remains close to historically attractive levels, providing a solid fundamental for the Hong Kong stock market in the medium to long term.

For the second half of the year, in terms of sectors to watch, investors might consider focusing on those that stand to benefit from the market's valuation rebound and those whose prosperity is elevated by the recovery of the real economy. In 2024, particular attention could be given to the four major sectors: large-cap technology, local finance, consumer consumption, and traditional automobiles.

Forex: U.S. Dollar Index in Range-bound Volatility; EUR and Gold Show Appreciation Potential

The USD reached a 52-week high when it climbed to the 107.3 level in early October last year. After the Fed's final interest rate hike in July last year, there were no further increases. With the U.S. inflation rate showing mixed performance and employment data deteriorating, the market anticipates a potential interest rate cut by the U.S. in the second half of this year. A sideways trend with a weaker bias for the DXY is gradually forming, with expectations that the index will hover within the 102 to 107 range in the second half of the year.

Kimmy Tong, Global Market & FX Strategist of EBSI, says, "Although the U.S. headline inflation is trending down as projected, there is still some distance to reach the Fed's 2% inflation target. Therefore, the Fed may need to maintain the current high interest rates for some time and must closely monitor the U.S. employment and GDP data. We anticipate that the U.S. will conduct an interest rate cut by the end of this year. Additionally, if the DXY remains below 105.5, there may be a chance for it to further fall to 102, but attention should be paid to DXY movers including international factors."

The DXY's constituent currencies will benefit from the weakening USD ahead of a rate cut. Therefore, in 2024, attention can be paid to the EUR and the GBP to capture short - to medium-term appreciation opportunities. In addition, we are optimistic about the trajectory of the AUD and gold prices, while the outlook for oil prices has turned to a neutral-to-bearish stance.

Gold prices have an upside as the USD and U.S. Treasury yields will gradually diminish because of the expected end to Fed rate hikes and the ongoing situation in the Middle East. The price of gold has already reached our target of US$2,250 per ounce set at the end of last year. Since the escalation of the situation in the Middle East, the price of gold has risen by 13% since the beginning of the year and is currently hovering near the psychological threshold of US$2,300 per ounce, finding support at this level. Investors have begun to focus on the Fed's interest rate path and anticipate that there may still be opportunities for a rate cut within the year. Therefore, we maintain a positive outlook on gold prices. In the medium term, we forecast that gold prices will rise to US$2,650 per ounce in the second half of 2024 after a minor pullback.

In terms of oil prices, even though Saudi Arabia and Russia continue to reduce oil production, oil prices are being dragged down by the surge in U.S. crude oil inventories and low global demand. However, as the market is now fully focused on the Fed ending rate hikes, the demand for crude oil should rebound on accelerated economic recovery. Therefore, we maintain a neutral-to-bearish view on oil prices, with WTI futures expected to fluctuate within the range of US$70 to US$87 per barrel.

Eurozone inflation has dropped significantly, and there is a chance that the European Central Bank (ECB) and the Bank of England will announce interest rate cuts this year. ECB President Christine Lagarde has indicated that if the data align with projections, the ECB may lower interest rates in June. We anticipate that the ECB will cut rates at some point this year. However, after Eurozone inflation stabilized at an annual rate of 2.4% in April, core inflation was higher than the market's expected 2.7%, suggesting that the ECB will not implement too many rate cuts within the year. The EUR represents 57.6% of the DXY, so a weaker USD is favorable for the EUR's trajectory. Technically, if the EUR breaks through the exchange rate of 1.09 against the USD, there is a possibility that it could rise to approximately 1.12 in the medium term.

We are also optimistic about the performance of the GBP, and the Bank of England is likely to cut interest rates sooner than the Fed. Bank of England Governor Andrew Bailey has stated that it is reasonable for the market to expect an interest rate cut this year, and that the U.K. does not need to meet its inflation target before cutting rates. If the U.K. proceeds with an interest rate cut, the GBP could potentially drop to 1.23 against the USD before rebounding to 1.32.

The Reserve Bank of Australia (RBA) announced that it will maintain the interest rate at 4.35% unchanged. However, due to the weakening of the hawkish stance of the RBA, the AUD may experience short-term weakness. Yet, as the Mainland's economy is expected to bottom out and rebound, Australia, which has close economic and trade ties with China, is anticipated to benefit, which could support a rebound of the AUD to 0.68.

(From left) Kenny Ng, Securities Strategist, and Kimmy Tong, Global Markets & FX Strategist of Everbright Securities International share their views on market outlook 2024.

- End –

About Everbright Securities International

Everbright Securities International* ("EBSI") is a leading financial services institution. As an international business platform of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178), EBSI is engaged in five key businesses: Wealth Management, Corporate Finance & Capital Markets, Institutional Business, Asset Management, and Investment & Financing. With offices established in Hong Kong, Macau and the U.K., EBSI provides all-round financial services to individuals, corporations and institutions.

Operating under the "Everbright Securities International" brand and business brand "EBSI Wealth", as well as service brands "EBSI Private", "EBSI Direct" and "EBSI Forex", EBSI is a full-fledged financial platform providing excellent global financial products and services with Moody's "Baa3" long-term issuer and "Prime-3" short-term issuer credit ratings.

Established in 1996, Everbright Securities is one of the first three innovative pilot companies approved by the China Securities Regulatory Commission. It is also the core financial service platform of Fortune Global 500 company China Everbright Group Co., Ltd. ("China Everbright Group"). Backed by China Everbright Group and Everbright Securities, coupled with its more than 50 years of international financial experience, EBSI is committed to becoming an influential first-class wealth management brand based in Hong Kong with global vision.

EBSI has customer assets of about HK$67 billion**. For more information, please visit www.ebshk.com.

** EBSI refers to the group of companies including China Everbright Securities International Company Limited, Everbright Securities International (HK) Limited and their respective subsidiaries, associated and affiliated companies.*
*** As of March 31, 2024*

For enquiries:

Juliana Chan	+852 3920 2511	juliana.chan@ebshk.com
Gretel Chu	+852 3920 1863	gretel.chu@ebshk.com