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[For immediate release]

EBSI Expects Global Central Banks to Continue Rate Cuts in 2025 and Monetary Policy Easing to Foster Opportunities in the Global Economy

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'3A' as three major asset allocation themes for H1:
Attractive valuations in Mainland China, Hong Kong, and European markets;
Alternative solutions with diversifying options; Optimistic outlook for Asian bonds

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HSI highest target for 2025 at 25,000
Four major sectors of Hong Kong Stocks: High Growth Tech; Large-cap insurers; Metal resources; Stable high-dividend

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Forex: U.S. Dollar Index in range-bound volatility;
Appreciation potentials for GBP and gold

Overview:

- EBSI expects global inflation to ease in the first half of next year, and major central banks worldwide to maintain accommodative monetary policies, bringing opportunities to the global economy. Trump's return to office will have a significant impact on the U.S. economic policies – most importantly his policies on trade and tariffs with Mainland China, Europe, and Mexico as the most affected countries given their relatively large trade deficits with the U.S.
- '**3A**' as three major asset allocation themes for the first half of the year: **A**ttractive Valuation, **A**lternative Solutions, and **A**sian Bond.
- The highest targets for 2025: HSI at 25,000; Hang Seng Tech Index at 5,500; SSE Composite Index at 3,650.
- Four major sectors of Hong Kong stocks: high growth tech, large-cap insurers, metal resources, and stable high-dividend.
- Global market: U.S. inflation continues to decelerate despite downtrend in its employment data, and the U.S. is more likely to cut interest rates twice in the first half of 2025. As the U.S. leans towards gradual future interest rates, it is worth considering adding markets with attractive valuations to asset allocation, including Mainland, Hong Kong and European stock markets, as well as alternative investment sectors such as gold, U.S. artificial intelligence technology, real estate investment trusts, Saudi concepts, along with Asian bond investments, as a mix of offensive and defensive strategies.
- Forex: U.S. Dollar Index (DXY) loses momentum; Euro, GBP, and Gold should be bought on dips.

Hong Kong, December 3, 2024 – China Everbright Securities International Company Limited (“Everbright Securities International”, “EBSI” or the “Company”) says that looking back at 2024, the U.S. cut interest rates for the first time in over four years initiating a rate cut cycle set for major global markets rebound. The direction of global central bank monetary policies, as well as the policies and stance of the U.S. President-elect Trump towards Mainland, remain key factors affecting the performance of the investment market. After the U.S. unveiled a rate cut in September, the global stock market rebounded significantly. A number of Mainland government agencies have jointly launched a series of multi-pronged measures to stimulate the economy, including reduction in the reserve requirement ratio (RRR) and interest rates, interest rates cut on existing mortgages, and lowering "minimum down-payment ratio" for second home purchases, etc. Accordingly, Mainland's economic data is showing signs of stabilization, prompting notable recoveries in stock markets across parts of Asia, emerging markets, and Europe in the Q4 2024. Mainland's economic recovery trend continues bolstering market interests in its performance. With central banks worldwide implementing easing monetary policies, capital has started to flow back from mature markets such as the U.S. and Japan into undervalued markets. The upward trend of gold can continue and the market remains optimistic about Mainland's economic recovery prospect benefiting the stock markets in Mainland and Hong Kong.

For the first half of 2025, investors may consider the '**3A**' as three major investment themes for asset allocation: 1. **A**ttractive Valuation; 2. **A**lternative Solution; and 3. **A**sian Bond.

1. **A**ttractive Valuation

   Asian stock assets have been very sluggish in earnings and price performance over the past four years, and the current valuation reflected in price is still below the average 5-year valuation level, which starts to draw investor attention. The rate-cut cycle initiated by the Federal Reserve in September 2024, the post-COVID-19 economic restart, and asset-rich balance sheets have all helped Asian shares emerge from rout. It is recommended to continue monitoring undervalued markets, including Mainland, Hong Kong, Japan, South Korea, Indonesia, the Philippines, Thailand, Singapore, Malaysia, Vietnam in Asia; Saudi Arabia in the Middle East; and the U.K. and France in Europe. We forecast that the market liquidity will be boosted by the expected U.S. interest rate cut, making the medium-term growth prospects of undervalued markets promising. Given the current valuation discount level, we believe that now is a good time to re-evaluate the investment potential of Asian stocks.

2. **A**lternative Solution

   We seized the opportunity to successfully predict that the price of gold would reach our 2024 full-year target of US$2,650 per ounce, with spot gold prices reaching close to US$2,800 per ounce at one point. Hence, recent gold prices have experienced fluctuations due to profit-taking. After the Fed enters a period of interest rate cut, the subsequent low-interest-rate environment typically boosts gold prices. At the same time, global geopolitical tensions, especially in the Middle East uncertainty and the unresolved situation in Ukraine, along with the potential tariff policies of the U.S. President-elect

Trump, have prompted investors to prefer gold as a safe-haven asset allocation. Accordingly, we predict gold prices will hit US$2,877 per ounce in the first half of 2025.

The global infrastructure sector currently presents a good entry point. It benefits from the active government support for infrastructure development, continuous investment in innovative infrastructure initiatives such as 5G, new energy, electric vehicles, and charging piles. In addition to traditional infrastructure projects in maritime, land, and air transport, as well as railways and highways, more emphasis is put on creating digital public facilities. These emerging trends together with the interest rate cut cycle by the global central banks indicate the abundant market liquidity which is beneficial to the investment returns of the global infrastructure sector.

"Real Estate Investment Trusts" (REITs) are also an alternative investment option we recommend for asset allocation. REITs offer stable returns and ample cash flow. Moreover, REITs have a fixed dividend ratio and often offer higher dividend yields than common stocks. Since REITs are exempt from corporate income tax, it is conducive to investors to obtain higher returns. Furthermore, REITs can be part of a stock investment portfolio, which also helps to diversify investment risks and improve overall returns.

Recently, listed companies from Mainland are actively deepening cooperation with Saudi Arabia and initiating a series of close business collaborations. Many listed companies have announced cooperation agreements with the Saudi region, covering strategic sectors. The Middle East is gradually becoming a popular destination for overseas expansion of Mainland enterprises. Moreover, the price-to-earnings ratio and price-to-book ratio of the Tadawul All Share Index (TASI) are both lower than the 5-year average, making the valuation attractive and worthy of investor attention.

3. **A**sian Bond

The Fed's interest rate cut cycle favors the performance of the bond market. Among them, the positive performance of the Asian bond market is fueled by moderate economic growth of Asian countries. Asian economies such as South Korea, Taiwan, Malaysia, Singapore, and Thailand, which rely more on trade driven by external demand, will benefit from the interest rate cuts that steadily increase their economic growth potentials. Following the Fed's rate cut, the interest rate differentials between some Asian countries and the U.S. have gradually narrowed. Coupled with the strong YTD performance of high-yield Asian bonds, we prefer Asian investment-grade bonds. The ongoing geopolitical tensions also lead us to opt for high-quality bonds. At the same time, the Asian investment-grade bond market provides investors with diversified investment opportunities. Most sovereign bonds in the Asian region are investment-grade, and are expected to maintain that credit rating in the medium term.

Hong Kong Stocks: Target for 2024 Achieved, Bullish on Hang Seng Index Prospects with Highest Target at 25,000 in 2025

EBSI pointed out at the end of last year that Hong Kong stocks have fallen for four consecutive years, setting the record of the longest consecutive declines. We also projected that there would be a rebound in Hong Kong stocks in 2024, with a full-year target set at 21,000. Looking back at the performance of Hong Kong stocks in the past year, the major rhythms have been bottoming and rebounding. The Hang Seng Index reached the target position and even climbed to as high as 23,200.

In 2024, Mainland's economy experienced considerable volatility, with preliminary signs of GDP growth slowdown in the first three quarters, creating certain pressure on the investment market. However, thanks to a package of incremental policy measures launched in late September to stimulate the economy, the fourth quarter has made a good start on the macroeconomic performance in Mainland, and growth momentum is expected to continue in 2025, laying a solid foundation for overall market profitability.

On the external front, the Federal Reserve initiated a new round of interest rate cuts, a cycle expected to extend into 2025, easing the flow of funds back to the U.S. At the same time, the probability of a U.S. economic recession has significantly decreased, which also has a positive impact on the Hong Kong stock market. While the dust has settled on the U.S. presidential election, President-elect Trump's policy towards Mainland still warrants attention, adding a significant element of uncertainty to the market.

Kenny Ng, Securities Strategist of EBSI, stated: "The Hong Kong stock market in 2025, compared to the past, is notably different in that the central government's current policy efforts to rescue the market are more apparent, and the determination is more resolute. As the recovery momentum of Mainland economy is poised to be strengthened in recent months, and the impact of most previous stimulus policies on economic data becomes more evident in the first half of next year, the economic performance in Mainland during this period is something to look forward to.

In terms of valuation, after the rebound since late September, the current market price-to-earnings ratio and price-to-book ratio are no longer significantly undervalued. The Hang Seng Index's price-to-earnings ratio and price-to-book ratio are slightly lower than the average of the past five years, indicating that the index is currently at a relatively reasonable level. However, driven by economic recovery factors, it is expected that the Hang Seng Index will still have approximately a 5% profit enhancement next year, which will support further upward momentum in Hong Kong stocks".

Valuation Recovery in Hong Kong stocks

In 2025, the Hang Seng Index's price-to-earnings ratio may have the opportunity to reach an upside deviation of one to two standard deviations. This scenario occurred in the past and is not uncommon, despite that fact that downward deviations have been more prevalent historically. If this extent of deviation occurs, the corresponding Hang Seng Index target will be around 25,000.

Furthermore, the current dividend yield of the Hang Seng Index has dropped to about 4.0% as relatively at a mid-to-high level, reflecting that the valuation of the Hang Seng Index is reasonable but slightly low. Considering that the historical dividend yield of the Hang Seng Index mostly ranged between 3% and 4%, the upper limit of the Hong Kong stock market's range is projected to be 25,000. This will continue to present potential investment opportunities to the Hong Kong stock market.

Regarding sectors to watch, investors may focus on industries or sectors that benefit from government policies, gain from Mainland economic recovery, and experience valuation increases in the context of a global environment with declining interest rates. In 2025, key attention can be given to the four major sectors: high growth tech, large-cap insurers, metal resources, and stable high-dividend.

Forex: U.S. Dollar Index in Range-bound Volatility; Appreciation Potentials for GBP and Gold

The U.S. dollar reached a low of 100.16 in late September responding to the Fed's rate cuts, which aligns with our prediction for the U.S. Dollar Index to fluctuate between 100 and 102 in 2024. However, with Trump being poised to become the next U.S. president, the U.S. Dollar Index experienced a short-term surge to 108, exhibiting market anticipation of Trump's economic measures like tariffs. However, due to weaker U.S. employment data, we expect two rate cuts by the U.S. in December 2024 and the first half of 2025, leading to a gradual weakening trend for the U.S. Dollar Index which is expected to hover between 101.9 and 107.8 in the first half of the year.

According to **Kimmy Tong, Global Markets & FX Strategist of EBSI**, “While the overall inflation trend in the U.S. is as expected to the downside, the rate of inflation is still some way off the Fed's 2% goal. Market watchers need to observe Trump's policies on domestic tax cuts and external tariffs, leading to a more fluctuating U.S. inflation level in the U.S. in the future, contingent upon U.S. employment and GDP data. We expect two rate cuts in the U.S. from December this year to the first half of 2025. In addition, if the U.S. Dollar index remains below the 105.5, there is a chance it could further retreat to 101, but international factors affecting the index's volatility must be considered."

With the Fed initiating a rate-cutting cycle, components of U.S. Dollar Index are expected to benefit. In 2025, attention can be paid to the GBP for capturing short to medium-term appreciation opportunities. We are also optimistic about the gold price trend, while the oil price remains neutral to slightly bearish in the first half of 2025.

Regarding oil prices, the voluntary production cuts by OPEC+ countries and Russia, along with the policy measures towards U.S. oil and gas by the incoming U.S. president, will influence oil price trends in the coming year. U.S. oil producers generally expect less regulation on crude oil production during Trump's presidency, resulting in increased supply and subsequently lower oil prices. On the other hand, Trump is more likely to implement a policy of ‘tax cuts for domestic producers and increase tariffs on imported goods’ that could also drive up U.S. inflation, causing oil prices to fluctuate and potentially soften due to policy factors. However, if Trump imposes more oil sanctions on Iran, it could also temporarily push up oil prices. Hence, we maintain a neutral-to-bearish view on WTI crude oil prices in the first half of 2025, expecting prices to fluctuate between US$63 and US$78 per barrel.

The European Central Bank and the Bank of England have both announced interest rate cuts this year. For Europe, economic challenges have shifted from controlling prices to sustaining economic growth and stimulating consumption. The market generally worries that the economic activity of European countries will be slower than previous estimation, and a series of forward-looking indicators do indeed point to a slowdown in growth, and we therefore expect Europe to have three rate cuts in December and the first half of next year to support the recovery of the European economy. The Euro accounts for 57.6% of the U.S. Dollar Index, and while Fed rate cuts benefit the Euro against the Dollar, Europe's economic data is more variable than that of the U.K. Accordingly, we anticipate a more favorable trend for the GBP compared to the Euro, with the Euro expected to fluctuate between 1.038 and 1.16 in the first half of next year. As of November 12, 2024, the GBP's YTD return rate reached 0.53%, the only non-U.S. currency to record a positive return. Additionally, the GBP reached 1.34 against the Dollar at the end of late September, hitting our target level of 1.31. The U.K.'s economic growth is more favorable than European countries, despite the short-term implications for the GBP due to signs of slowing labor demand. However, the average earnings growth rate in the U.K. is faster than market expectations. We anticipate fewer rate cuts in the U.K. compared to Europe, with support seen at 1.21 for the GBP against the Dollar, which is followed by a potential rebound to 1.34.

(From left) Kenny Ng, Securities Strategist, and Kimmy Tong, Global Markets & FX Strategist of Everbright Securities International share their views on market outlook H1 2025.

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EBSI has customer assets of about HK$75 billion**. For more information, please visit www.ebshk.com.

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