

EBSHK expects V-shaped rebound in 2021, weighed down by vaccine efficacy

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Allocation of Asian and China/HK equities, global consumption and ESG investment with focus on risk management

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HSI target at 29,000

Themes for HK equities: re-rating of highway sector, new energy and materials sectors, consumption driven by internal circulation

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FX: Dollar Index at 94-88; RMB at 6.5-7.1

Overview:

- ▲ EBSHK is cautiously optimistic about the global economic outlook in 2021, expecting strong V-shaped rebound, which may still be weighed down by vaccination progress and vaccine efficacy; financial markets may remain volatile on China-U.S. tensions
- ▲ Investors may build a well-balanced portfolio by adopting a diversified strategy with focus on risk management. Strategically, we may focus on three major themes: Asian and China/HK equities, global consumption concept and ESG investment
- ▲ HSI may test 29,000, and 2021 targets for HSCEI at 11,500 and Shanghai Composite at 3,700
- ▲ Themes for HK equities: 1) Re-rating of highway sector, 2) New energy and materials sectors, 3) Consumption driven by internal circulation
- ▲ FX: Dollar Index may trade along 94-88, RMB at 6.5-7.1

Hong Kong, December 15, 2020 – Everbright Sun Hung Kai Company Limited (“Everbright Sun Hung Kai”, “EBSHK” or the “Company”) is cautiously optimistic about the global economic outlook with strong rebound expected in 2021 following a deep recession in 2020, due to several positive factors for investment markets including stimulus measures of different countries, some COVID-19 vaccines entering a final stage trials. However, the global markets may still be clouded by some uncertainties, for example, the economic performance and corporate earnings may face another wave of impacts if the pandemic is not put under control as expected. As mentioned previously in June 2020, the China-U.S. confrontation involves several aspects, it seems difficult to find a perfect solution for them, and conflicts between the two countries may continue to bring volatility to financial markets.

Kenny Wen, EBSHK Wealth Management Strategist, says, “The U.S. election and the pandemic are the two major factors shaping the global markets in 2020, but their impacts may get weaker gradually in 2021. We expect a V-shaped global recovery in 2021 with two implications: the V-shaped economic growth in different regions due to the low base effect; vaccines: the pace of global recovery may depend on the vaccination progress. For the U.S. policy towards China, we believe Joe Biden may adopt the 3C strategies at the same time, namely Cooperation, Competition and Containment, while there is just a slim chance to see a completely different strategy from Washington. Investors are advised to pay more attention to risk management by taking a

diversified approach to build a well-balanced portfolio. Strategically, investors may focus on three major themes – Asian and China/HK equities, global consumption concepts and ESG investment.”

Asian and China/HK equities: 2021 will be the year of Asia

Asia is positioned to lead the economic recovery again in 2021 in anticipations of the world’s economic improvement and earnings rebound. Data from the International Monetary Fund (IMF) suggests that emerging Asia may see 8% GDP growth, among which China may even achieve 8.2% growth, far better than global peers. Asian assets may also benefit from capital inflow, attributable to the stabilized economic growth and receded risk aversion, while valuation recovery is set to become a supportive factor for equities in the region. Meanwhile, 15 Asia-Pacific countries (the region accounts for about 30% of the world’s total measured by the size of their economies and by trade volume) earlier signed the world’s largest trade agreement – the Regional Comprehensive Economic Partnership (RCEP), covering commitments in areas such as trade in goods/services and market access, which may boost the liberalization and facilitation for trade and investment in the East Asian region, with notable growth of capital inflow to the East in the medium/long-term.

Global consumption: Economic recovery boosts consumption growth

The concept of global consumption covers not only traditional consumption and services, but also online sales under the new economy model. The widespread online consumption has resulted in a sharp growth of stay-at-home consumption throughout the year. The COVID-19 vaccines have recently been approved for use, but they may not be widely available until the fourth quarter of 2021, mainly dragged by production capacity and logistical restraints from vaccine manufacturers. As the pandemic may last for a longer time, it is believed that next year's online consumption would continue this year's strong growth with restricted travel. At the same time, once the epidemic is under control and the economy recovers rapidly, it is believed that traditional offline consumption, tourism and hotel-related service consumption will also resume significant growth.

ESG: As core selection that support long-term share prices

For investors who are optimistic about the medium/long-term performance of global equities, they may consider the ESG concepts (previously recommended in June 2020). About 76% of academic research studies show a positive correlation between ESG and share price movement. As such, investors may build a well-diversified portfolio and put ESG stocks as part of the core selection to achieve a win-win situation: enhance potential returns while helping create build a sustainable community and environment.

HK equities: Theme changes with extended uptrend

In December 2019, EBSHK set a FY20 target for the HSI at 30,000, and another H2 target was set at 26,500 in June 2020. Looking back over the year, the HSI once touched about 29,200 as the peak of this year, and the index has recently reached a high of 27,000 in H2 2020, roughly in line with the estimates.

With the pandemic becoming the biggest black swan event for global equities in 2020, HK equities have been hit by the related factors with a steep decline in the beginning of the year and then gradually stabilized in the later stage. The pandemic and global economic downturn have pushed some major central banks to adopt the zero interest-rate policy.

Kenny Ng, EBSHK Securities Strategist, says, “Looking forward, the global capital market is expected to maintain a low interest-rate environment in coming 1-2 years as it may take some time for economic recovery in both global and local markets. The low-rate environment may attract

more fund flow to search for suitable markets, which could become a core factor to support HK equities to rally in a volatile trading environment next year. On the other hand, the current tensions between China and U.S. may not change remarkably in the coming year, and we expect the China-U.S. relation to have moderate impacts on the market movement next year as both sides may take a reprieve from the confrontation.

As we have seen frequent rotation between old and new economy stocks in 2020, the new economy stocks are likely to remain strong due to positive financial results in next year, while the old economy stocks may outperform amidst recovery, and as a result, both the old and new economy sectors are expected to stand out, supporting the market uptrend in the year.

HSI may test 29,000 led by valuation recovery in 2021

With anticipation of post-pandemic recovery, the forecasts revision on earnings may become a dominating factor for valuation recovery in the market. The old economy sectors seem more likely to benefit from it based on such perspectives. Despite the gradual slow pace of global recovery, the stock valuation may be reflected in advance, especially given the fact that the Mainland economy is showing a strong momentum of rebound, and growing presence of Chinese stocks in the HK stock market may further support the market performance. In the meantime, the widening of A-H shares premium may also attract fund flows from Chinese stocks into HK stocks.

On the other hand, the HSI remains competitive compared with global peers but based on the historical data, when the valuation recovery is complete, the low valuation may no longer be the upside catalyst for the HSI. Based on the EBSHK's internal valuation models, the HSI may test higher again at 29,000 in 2021, and the full-year target for the HSCEI is set at 11,500 in 2021 and the Shanghai Composite at 3,700.

Based on the above forecasts, investors may look for traditional economy sectors benefiting from recovery while keeping an eye on sectors with supportive policies and higher chance of sector boom in the future. The three key investment themes in 2021 include re-rating of the highway sector, the new energy and materials sectors; and consumption driven by internal circulation.

FX: Inflation may see post-pandemic rebound

Bruce Yam, EBSHK Forex Strategist, says, "2020 is a unique year. Following the trade deal agreement between China and the U.S in January, most countries are forced to fight against the pandemic and avoid economic collapse during the COVID-19 outbreak, while the central banks have turned to massive quantitative easing. The currency trends in the future will be affected by the relations between China and U.S. as well as the rest of the world."

The Federal Reserve (Fed) cut the interest rates to 0% with unlimited QE during the pandemic outbreak. Despite the U.S. government's relief package, the U.S. economy has been hit by notable economic downturn, falling leverage and shrinking international trade, while the USD has declined after the Fed's massive liquidity injection. On the other hand, the Dollar's downside may show signs of improvement once international trade recovers and leverage picks up again, and when the ultimate election results are finalized in early 2021, USD may rebound slightly and then pull back with the Dollar index trading along 94-88 in 2021.

EBSHK expects a stronger-than-estimated inflation growth in 2021 and such strong rebound may also push gold prices higher, especially when the Fed may keep the rates on hold and wait until 2023 for a rate hike, which means the inflation may continue to rise further, pushing gold to test a

high of US\$2,075/ounce again, and it may even test higher at US\$2,300/ounce by the year-end on an optimistic perspective.

The European Central Bank is unwilling to see a sharp rise of EUR to avoid the impacts on its currency policy. The Target 2 imbalances are now worse than that of European debt crisis in 2012. The further upside of EUR may depend on the recovery pace of Italy and Spain, and EUR may move along 1.14-1.24.

China has adopted the dual circulation economic strategy, but the economic model is mainly relying on internal circulation. High-leverage investment will decline in the future even it has been so common in the past. The Chinese economic development may still face the key challenges of China-U.S. confrontation and debt concerns. Even though the reduced trade deficit in the service sector may curb foreign exchange losses, but the outflow of foreign capital may still be affected by crude oil, chips and food supplies. In the coming year, the rebound of oil price and USD are likely to put pressure on RMB, which may hover around 6.5-7.1 in 2021.

The Pound's movement will be mainly driven by Brexit and post-pandemic recovery path as well as the Scottish Parliament elections. GBP may test 1.38 or further at 1.42 if Brexit is implemented in a smooth and orderly way and the Scottish independence referendum would not take place. Otherwise, it should not be ruled out that GBP may test lower again at 1.24 if the referendum is held in Scotland.

With more efficient measures to put the pandemic under control, Australia and New Zealand are expected to recover more quickly than major peers in the Northern Hemisphere. Both AUD and NZD may stabilize further, with AUD trading along 0.68-0.78 and NZD at 0.65-0.75.



Photo caption: (from left) Bruce Yam, Kenny Wen and Kenny Ng share their views on 2021 market outlook.

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About Everbright Sun Hung Kai Company Limited

Everbright Sun Hung Kai Company Limited ("EBSHKCL") is a leading wealth management institution with five key business segments: Wealth Management, Corporate Finance & Capital Markets, Institutional Business, Asset Management, Investment & Financing, serving individual, corporate and institutional clients in Hong Kong, Macau, Mainland China and the United Kingdom.

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Backed by Everbright Securities and China Everbright Group, coupled with its heritage in the financial industry beginning in 1969, EBSHKCL has emerged to be a full-fledged financial platform providing excellent global financial services with Moody’s “Baa3” long-term issuer and “Prime-3” short-term issuer credit ratings. The customer assets of EBSHKCL and its associated companies are currently about HK\$122billion. For more information, please visit www.ebshk.com.

[^] *This refers to EBSHKCL, China Everbright Securities International Limited and their respective subsidiaries and affiliated companies.*

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