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EVERBRIGHT SUN HUNG KAI

**[For immediate release]**

**EBSHK expects H2 2021 market trends to be shaped by China/U.S. inflation, global monetary policy, and uneven pandemic and recovery paths around the world**

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**Three major investment themes: European stocks in developed markets, diversify risks with Asian bonds, recovery supports commodities**

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**HSI may test higher at 31,000**
**Themes for HK stocks: Emerging economies recovery, oil rebound, home appliances growth, communication services as a balanced pick**

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**FX: Dollar and RMB may move in a narrow trade**
**AUD, NZD and CAD may turn stronger**

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**Overview:**

- EBSHK expects the H2 market focus would be on China and U.S. inflation as well as the normalization path of monetary policy around the globe. The ongoing divergence of recovery path across countries and sectors in H2 2021 due to the uneven pandemic situations and policy impacts amidst the global economic optimism
- Investment may focus on risk management with three major themes: European stocks in developed markets, diversify risks with Asian bonds and recovery supports commodities
- HSI may re-test 31,000; HSCEI may reach 11,800 in H2 2021; 2021 target for Shanghai Composite at 3,750
- Themes for HK stocks: Emerging economies recovery, oil rebound, home appliances growth and communication services as a balanced pick with both aggressive and defensive features
- FX: Risk aversion and non risk-aversion currencies may have divergent trends; US Dollar and RMB may move in a narrow range while AUD, NZD and CAD may turn stronger

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**Hong Kong, June 22, 2021** – Everbright Sun Hung Kai Company Limited ("Everbright Sun Hung Kai", "EBSHK" or the "Company") maintains the optimistic view towards the global economy in H2 2021, and expects China's 2021 GDP growth to reach 9.1%. The pace of economic recovery is expected to remain divergent across countries and sectors amidst their uneven pandemic severity and policy support magnitude. The U.S. and some European nations seem likely to achieve herd immunity, but investors may still have to pay heed to the pandemic uncertainty with the spread of new variants and the pandemic still being not totally under control in emerging markets.

With inflation expectations heating up in recent months, the Federal Reserve may start cutting the monthly bond-buying scale in Q4 2021 if the U.S. recovery path remains intact. Based on the historic data, the Federal Reserve's sudden change of monetary policy may bring volatility of assets prices and capital outflow in emerging markets. As such, major central banks may need accurate assessment on economic situations and properly manage market anticipations. The inflation in China and the U.S. as well as the normalization path of monetary policy around the globe are expected to come into focus in H2 2021.

**Kenny Wen, EBSHK Wealth Management Strategist**, says, "The three major factors shaping the market trends in H2 2021 includes the containment levels of pandemic, changes in inflation expectations and the U.S.-China relation. For the bilateral relationship, we still maintain our 2020 views that Joe Biden may adopt the 3C strategies in tackling various issues, namely Cooperation, Competition and Containment. The stabilizing economy in the U.S. may also give room for Washington to put more pressure on China, which could in turn dampen the investment sentiment. We prefer taking a diversified approach to build a well-balanced portfolio. For risk assets such as equities and commodities, we should only consider buying the dip to enhance potential returns. Strategically, investors may focus on the three major themes: 1. European stocks in developed markets, 2. Diversify risks with Asian bonds and 3. Economic recovery supports commodities."

1. <u>European stocks in developed markets</u>

European stocks outperformed the developed markets with accumulated YTD return of ~15%, mainly because some regions are planning to ease pandemic restrictions as the pandemic has gradually been brought under control, together with market anticipations on the recovery driven by reopening of economy, as well as the low-rate policy and monetary easing of European Central Bank and Bank of England. On the economic data front, the IMF estimates that the Eurozone and U.K. GDP growth in 2021 would reach 4.4% and 5.3% respectively. As the pandemic recedes in Europe, several nations have eased the travel restrictions to streamline the measures for travelers and boost tourism in summer, which may bode well for the economic recovery as tourism is a key pillar for the region. European stocks still show solid fundamentals and attractive valuation, and for example, the Stoxx Europe 600 trades at ~18x P/E FY21E, below its long-term average, and upward revision is possible on the back of region's further economic improvement and corporate earnings growth.

2. <u>Diversify risks with Asian bonds</u>

Asia seems to enjoy much faster economic recovery, but vaccine shortage remains a concern in some regions with ongoing vaccine skepticism in society, which has resulted in low vaccination rate in several regions without herd immunity for now. The vaccination gap may have also led to a divergence of macroeconomics and investment prospects in Asian regions, which may delay the economic recovery across the board and weaken the growth momentum of equities markets. As a result, Asian bonds are preferred in the portfolio to reduce volatility and improve yields. However, investor may pay heed to the risks and selectively consider quality bonds amidst growing debt default concerns in China.

3. <u>Economic recovery supports commodities</u>

China may further curb the rising price trends of commodities, which may lead to volatility of resources prices and related stocks in the short term, but the Company is still optimistic about resources prices (mostly for commodities like crude oil and industrial metals highly correlated to economic growth), mainly because the global economy may further improve in H2 especially for China and the U.S., coupled with rising inflation expectations and weak USD rebound. On the other hand, investors should also keep an eye on policy changes in various emerging markets, including possible resources tax hikes by major resources producers such as Peru and Chile in addition to China. Strategically, EBSHK prefers buying at different price levels with moderate allocation based on the individual risk tolerance.

**<u>HK stocks: Expected to trend higher steadily in H2</u>**

In December 2020, EBSHK pointed out that valuation re-rating would become the main theme for Hong Kong stocks as the low interest rate was the core factor for HSI to strengthen in a volatile trade, with a view to break beyond 29,000 in 2021. Back in H1 2021, Hong Kong stocks bounced back in a volatile trade from its low in the beginning of the year, and then it gained momentum by spiking beyond 31,000 at one point, which was in line with our positive view. Since the global economy is expected to remain in the recovery stage, Hong Kong stocks may continue to benefit and extend the uptrend in H2 2021.

**EBSHK Securities Strategist Kenny Ng**, says, "The global economy is gradually entering the post-pandemic recovery stage, and hence growth stability and sustainability of global central banks' monetary easing would become the two core factors for shaping the market trends in the second half of the year. The key theme for Hong Kong stocks in H2 2021 is expected to continue the first half's valuation re-rating, and the anticipations of global monetary policy adjustment may also become a dominating factor for the market trends. Since the economy has marched into another recovery stage, the speculation style on various sectors may also be different compared with H1, and the new and old economy stocks may take turn to stand out while the uptrend of cyclical stocks may show signs of slowdown in the period."

**Valuation re-rating remains with catch-up for HSI in H2 2021**
Hong Kong stocks seem to be lagging behind global peers in H1 2021, mainly driven by notable pullback of new economy stocks in the period. These stocks still have positive fundamentals and their possible improvement in the second half may prompt Hong Kong stocks to play a catch up with global stocks. Based on the EBSHK's internal valuation models, the HSI may test higher at 31,000 again in H2 2021, with the second-half target for HSCEI at 11,800 and the full-year target of Shanghai Composite at 3,750.

In H1 2021, EBSHK recommended three major investment themes: re-rating of highway sector, new energy and materials, consumption driven by internal circulation. Based on the above market anticipations, for H2 2021, the Company prefers traditional sectors that may further benefit from economic recovery as well as new-economy stocks that had lagged behind in H1 2021. The four key investment themes in H2 2021 are: Emerging economies' recovery, crude oil's ongoing rebound, home appliances consumption growth and communication services as a balanced pick with both aggressive and defensive features.

**FX: Weak USD may still move in a narrow range Commodity currencies preferred**
By taking a review on the FX market in H1 2021, the Dollar Index, which has seen the least volatile period in recent years, showed a divergent trend with other currencies.

**Alvin Chan, Director, Head of Product Development and Retail Research of Everbright Sun Hung Kai** says, "The difference comes from risk-aversion and non risk-aversion currencies. Traditional risk-aversion currencies such as Japanese Yen and Swiss Franc have been disappointing so far this year, compared with the appreciation of Euro, GBP, AUD, NZD and CAD, which reflects the market outcomes due to the bottoming of the index reflecting stock market's expectation of volatility, VIX, and rising risk appetite. The Dollar Index is also driven by the inflation-driven U.S. 10-year Treasury yield movement as well as the Federal Reserve's views on the federal funds rates. By taking these three major factors into consideration, we remain neutral towards the Dollar Index while USD may swing in a narrow range and hit the bottom at 88, but it seems there is no clear momentum for the Dollar Index to spike beyond the March's high, with USD's upper limit at 93 in H2 2021."

The governments have been putting much effort to boost infrastructure spending to spur the economic growth that has been hardly hit by pandemic, while green infrastructure concept has also been widely encouraged. Commodities demand growth is likely to sustain in H2 2021 and the index may grow further and support the AUD movement. The Reserve Bank of Australia's monetary policy stance remains unchanged for now, but its Minutes have offered no hint on additional bond purchases to support labor market growth. Such comments have been widely seen as a hawkish stance in the market, and AUD is quite likely to test USD0.80 with lower support at USD0.75.

The Reserve Bank of New Zealand's hawkish stance is far beyond the market anticipation and such stance's catalyst mainly comes from alleviated uncertainty in the domestic economy. If the economy recovers as expected, New Zealand may deliver more attractive yields compared with peers and further support NZD, which may test further at a high of USD0.74 with the lower support at USD0.69.

The Bank of Canada is among the first major central banks in developed countries to turn hawkish, hinting that it would adjust benchmark interest rates as soon as H2 2022, instead of the previously expected 2023, and its comments are even more hawkish than the market anticipations. The two major factors above have driven CAD higher to hit its 2015 high, but further upside seems to have weakened in the short term. On the other hand, the crude price trend and domestic economic performance is expected to support CAD strength in the second half, with USD/CAD likely to test 1.19 (the high of 2015) with the resistance level at 1.24.

The gradual economic reopening around the world has accelerated China's exports with trade surplus up more than 1.7 times yoy to ~RMB1tn. The People's Bank of China clearly pointed out that RMB appreciation could not offset the surging commodities prices and would not become an instrument, and hence the recent currency uptrend would be near the end. The PBoC would firmly stabilize the confidence of financial markets, and RMB is expected to be less volatile in H2 2021, with USD/RMB trading at around 6.3-6.6.


Photo caption: (from left) Kenny Wen, Alvin Chan and Kenny Ng share their views on H2 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.

As an international business platform of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178), EBSHKCL together with its associated companies^ operate under the Everbright Sun Hung Kai brand ("EBSHK") and Everbright Securities brand, as well as the EBSHK Direct and EBSHK Private sub-brands.

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$138billion. For more information, please visit www.ebshk.com.

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

* *As of March 31, 2021*

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