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[For immediate release]

EBSI expects global inflation to ease gradually in 2024, creating favorable conditions for central banks to adjust tightening monetary policies

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"DRAGON" as three major asset allocation themes for the Year of the Dragon: Developed Regions; Artificial intelligence Globalization; Bonds

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Full-year target for HSI at 21,000

Four target sectors of Hong Kong equities: Frontier economy; External recovery; Consumer electronics; Industrial production

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Forex: U.S. Dollar Index at the end of its strength

Foreign currencies and commodities flashing appreciation potential

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Overview:

- EBSI expects global inflation to ease next 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 in Q2 2024, which can alleviate economic pressure and create favorable conditions for recovery.
- The investment strategy "DRAGON" for the Year of the Dragon is based on three major themes, namely **D**eveloped **R**egions that can benefit from the anticipated end of interest rate hikes, **A**rtificial intelligence **G**lobalization trend, and B**on**ds for defensiveness.
- EBSI is cautiously optimistic about the outlook for Hong Kong stocks in 2024. For the full year: target for HSI at 21,000, HSTECH at 4,700 and Shanghai Composite at 3,400.
- Four target sectors in the Hong Kong stock market: Frontier economy, external recovery, consumer electronics and industrial production.
- Global market: Inflation in the U.S. continues to slow down, but its economic growth momentum remains strong, indicating a greater chance of achieving a soft landing. Given the possibility that the Fed will lower interest rates in H1 2024, investors may consider timely adding bonds and technology sector stocks of developed markets including the U.S. to their asset allocations for defensive-offensive quality.
- Forex: The U.S. Dollar Index (DXY) is running out of steam. Suggest to buy at dip on the EUR.

Hong Kong, December 7, 2023 – 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 receded inflation globally were the driving forces behind the stock rallies in major global markets. Central banks' monetary policy direction remained a key factor influencing the performance of the investment market. Continued interest rate hikes in the U.S. pushed inflation back to close to 3%. While the U.S. economy has not lost momentum due to high interest rates, some Asian and emerging markets, and European economies started to exhibit indications of slowing down in 2023. Therefore, it is forecast that the current U.S. Federal Reserve (the "Fed") rate hike cycle is nearing an end, and it may start cutting interest rates in Q2 2024. As China's economic indicators are showing signs of stabilization, the Mainland China economy displays a gradual recovery trend. Investors may continue to keep a close eye on the performance of the Mainland economy.

Entering Q1 2024, inflationary pressures are easing in different parts of the world. It is expected that central banks in Europe and the U.S. will progressively end their tight monetary policies, which should help mitigate the negative impact of the past aggressive interest rate hikes on the economy, while benefiting macroeconomic recovery. The Fed's interest rates are on a long-term downward trend, supporting the artificial intelligence ("AI") technology sector and bonds.

In 2024 or the Year of the Dragon, investors may consider incorporating three investment themes of "DRAGON" into their asset allocation: 1. **D**eveloped **R**egions; 2. **A**rtificial Intelligence **G**lobalization; and 3. B**on**ds.

1. **D**eveloped **R**egions
   The U.S. GDP growth of 5.2% in Q3 2023 beat estimates. Moreover, October's inflation was revised down sharply to 3.2%, and its producer price index (PPI) decelerated for the same month. The odds of the U.S. economy experiencing a soft landing are high. In March 2023, the U.S. stock market was shocked by the Silicon Valley Bank failure and Credit Suisse crisis. Later, Fitch Ratings downgraded the U.S. government's credit rating. Additionally, the Israeli-Palestinian conflict and a possible U.S. government shutdown increased market fear, however it was only temporary since the U.S. government was able to contain the associated disturbance. The S&P 500 resumed an uptrend in November. On the other hand, the cyclical factors of U.S. stocks must not be overlooked that 2024 will be the year of the U.S. presidential election: Statistics reveal that the S&P 500 index of US stocks had a 70% to 80% chance of rising in every presidential election year, with the exception of 2000 and 2008 when the index was dragged down by the dotcom burst and the financial tsunami, respectively. As a result, the technical rebound in U.S. stocks is forecast to continue.

2. **A**I **G**lobalization
   With the current U.S. interest rate hike cycle peaking, the Fed is expected to cut rates in the 2Q 2024 at the earliest. In the medium to long term, the AI sector in mature markets will take the lead, driving new technology and value-chain opportunities. Its related applications span across various industries such as healthcare, retail, finance, education, and government institutions, enabling businesses to enhance productivity and growth potential. YTD, AI has contributed about one-third of the gains in global technology stocks. U.S. technology stocks have delivered mid-double-digit annual returns over the past few decades, outperforming the high-single-digit returns of the

general stock market. Investors may consider rotating from early-cycle favorites that include semiconductors and hardware to mid-cycle picks such as software, Internet and mobile phones, but should be mindful of AI bubbles and regulatory risks.

3. B**on**ds

   In the event of a U.S. rate hike pause, it is forecast capital flows will be diverted to the bond market. Historically, bond prices rose considerably in the six months after the Fed stopped raising interest rates, so it is expected that bond prices will increase after the Fed finishes its current cycle of interest rate hikes. The peaking of the U.S. interest rate provides conditions for a downtrend in the medium- to long-term yields of U.S. Treasuries, which is favorable for medium- to long-duration bonds.

Hong Kong stocks: Opportunities and challenges coexist; capture range-bound rallies; 2024 target for HSI at 21,000

At the end of 2022, EBSI forecasted a maximum full-year target of 23,000 for the HSI in 2023, supported by China's economic recovery and expectations of major central banks gradually stopping monetary tightening. YTD, the Mainland's economic recovery has been unstable. However, there is a good chance that the annual growth target of around 5% will be achieved. At the same time, external inflation has been slowing down; it is possible that the Fed is done with its current rate hike cycle. Such macroeconomic performance and target for Hong Kong stocks are basically in line with our earlier forecasts.

Kenny Ng, Securities Strategist of EBSI, explains, "The improved external interest rate environment, coupled with the reduced risk of a hard landing in the U.S., is expected to favor global equity market performance in 2024. For Hong Kong stocks, apart from benefiting from the long-term downward trend in bond yields, the progress of the Mainland's economic recovery will determine the future development of the market. At present, various data reflects that the Mainland economy is bottoming out. With continued policy support, the domestic consumption and industrial sectors may have stronger resilience in the future. Conversely, the Mainland housing market is still under considerable pressure, which is expected to continue posing challenges to the fixed asset investment sector.

"Therefore, EBSI expects Hong Kong stocks to face the coexistence of opportunities and challenges through 2024. We are cautiously optimistic about the overall market performance for the whole year, with the HSI having a chance to test the 21,000 level at the highest next year. Investors may watch out for investment opportunities in range-bound movements. We are of the view that in 2024, Hong Kong stocks will continue to be driven by two major factors, namely external interest rates and the performance of the Mainland economy, while the valuation of Hong Kong equities will also have notable impact on the index's performance."

Analyzing Hong Kong stock valuations in different dimensions

Currently, the forward P/E and P/B ratios of Hong Kong stocks are at a downward deviation of about one standard deviation, indicating the relatively favorable valuation of the HSI. On the other hand, the weak performance of the Hong Kong stock market in recent years has coexisted with low valuations, undermining the accuracy of traditional valuation indicators in predicting future market trends. Against the backdrop of the significant rise in external interest rates over the past two years, including the risk-free rate as one of the reference factors in analyzing valuation may give a more realistic reflection of the current attractiveness of the market.

Looking ahead at the performance of the external economy and the Mainland's recovery, it is forecast that the HSI's earnings per share in the next two years will be better than in 2023. This is expected to bring sound fundamentals to Hong Kong stocks in the medium to long term.

Furthermore, as some industries displayed more pronounced counter-cyclical performance during the past market volatility, they might continue to show greater growth momentum when the Mainland economy recovers, while the fall in external interest rates will also benefit some sectors in terms of valuation. 2024 may be a good time to focus on the four major sectors of frontier economy, external recovery, consumer electronics and industrial production.

Forex: U.S. Dollar Index at the end of its strength, foreign currencies flashing appreciation potential

The overall USD trend could have peaked at 107.3 in early October. With inflationary pressures in the U.S. easing, the Fed did not raise interest rates again after its last hike in July 2023, and the U.S. inflation rate fell as expected. These developments underscore that the factors supporting a strong USD in the past are beginning to diminish. The DXY has formed a downtrend, and it hit the low of 102.4.

Kimmy Tong, Global Market & FX Strategist of EBSI, says, "Although the U.S. headline inflation is trending down as projected, there is a long way to go before the Fed's target of 2% is attained. Hence, the Fed may need to maintain the existing high interest rates for some time. The average time gap between the four rate hikes since the 1990s and their subsequent rate cuts was about nine months. If July marks the last rate hike, the Fed is expected to start cutting rates in Q2 2024 at the earliest. In addition, the DXY's technical trend shows the USD has broken below the up channel formed since July; if the index hovers below 105.5, there is a chance it may further fall to 102. Yet, 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. In 2024, investors may look to the EUR to capture its short- to medium-term appreciation potential. Simultaneously, commodities such as gold are trending positively, and we maintain our oil view at neutral.

Gold prices have upside as the USD and U.S. Treasury yields will lose support because of the expected end to Fed rate hikes. Since the Israeli-Palestinian conflict began, gold prices had risen over 8% at one point, and hovered around the psychological threshold of

US$2,000 per ounce before retreating. It was not until the recent release of U.S. economic data showing a slowdown in the U.S. job market that investors began to pay attention to the Fed's rate path and expect increased chances of the Fed pausing rate hikes, which eventually led to a breakout in gold prices to over US$2,135 per ounce. Lately, gold prices have consolidated at high levels. If gold prices retreat and are restrained below US$2,000 per ounce, gold prices may continue to fluctuate between US$1,965 and US$2,000 per ounce. In the medium term, we are bullish on gold prices rising to US$2,200 to US$2,250 per ounce in 2024.

On the oil front, even if Saudi Arabia and Russia continue to shrink oil production, oil prices are being dragged down by the surge in U.S. crude oil inventories and low global demand. Nevertheless, with the market now focused on the Fed ending rate hikes, the demand for crude oil should rebound on accelerated economic recovery. We therefore maintain a neutral view on oil prices, with WTI futures trading in the ranging of US$72.5 to US$82.5 per barrel.

Inflation in the Eurozone fell sharply in September; the European Central Bank (the "ECB") kept interest rates unchanged for the first time at its October meeting after multiple rate hikes in a row as expected. ECB President Christine Lagarde remarked it was too early to talk about rate cuts, and prices in the region could rebound slightly in the following few months. The ECB believes that keeping interest rates at current levels for some time can still suppress inflation. The final annualized Eurozone inflation for October came in at 2.9%, in line with forecasts and the lowest level since July 2021. In addition, the Eurozone current account improved recently. Capital flows are expected to increase the appeal of the EUR. The EUR has a weighting of 57.6% in the DXY, so it is poised to benefit from a USD downtrend. Technically, EUR/USD rallied back to the up channel formed since October, and has been trading around the 50-day moving average level. A breakout upwards to about 1.088 to 1.18 is possible in the medium horizon.

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

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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.

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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 more than HK$73 billion**. For more information, please visit www.ebshk.com.

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