[For immediate release]

EBSI expects global growth under pressure in H2 2023
Yet central banks' gradual ending of monetary policy tightening may lessen negative impact

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"ACE" as three major asset allocation themes:
A-shares to benefit from China recovery; High Credit-rating bonds to play defense; Emerging markets for offensive-and-defensive quality

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HSI target for H2 2023 at 23,000
Four categories of Hong Kong stocks to watch:
China financial and domestic demand sectors;
Recovery and dividend themes

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Forex: DXY to weaken ahead of rate cuts;
EUR, GBP and gold with appreciation potential

Overview:

- EBSI is of the view that the slowing U.S. rate hike pace and eased global inflation were two major driving forces for stock market rebound in the first half of 2023, but the lagging effects of interest rate increases are forecast to weigh on economic growth in the second half of the year. It is hoped that monetary policies in different regions could alleviate related negative impact.
- The three major themes of "ACE" are recommended – 1. **A**-share market to benefit from capital growth stimulated by China recovery; 2. High **C**redit-rating fixed income to play defense with high grade bonds; and 3. **E**merging markets to be positioned for a balance in offensive and defensive qualities.
- Hong Kong stocks are forecast to extend the trend towards stabilization in H2 2023: HSI year-end target at 23,000, that for the Shanghai Composite at 3,700.
- Four categories of Hong Kong stocks to watch: China financial and domestic demand sectors; recovery and dividend themes.
- Forex: Given the DXY's diminishing upward momentum, investors could pay attention to EUR and GBP. Commodities: Consider gold for potential gains in the short to medium term.

Hong Kong, June 13, 2023 – China Everbright Securities International Company Limited ("Everbright Securities International", "EBSI" or the "Company") is of the view that the slowing U.S. rate hike pace and eased global inflation were two major forces in the first half of 2023 driving rebounds in major global stock markets, however the market is currently being swayed by central banks' monetary policies, while the lagging effects of interest rate

increases will weigh on macroeconomic growth in the second half of the year. With inflation falling but still at a high level, and a possible downturn in global economic growth, it is expected that the present rate hike cycle by the U.S. Federal Reserve (the "Fed") is nearing an end. Meanwhile, the degree of recovery is projected to vary across sectors in the gradual post-pandemic economic recovery in China.

Alvin Chan, Director and Head of Product Development and Retail Research of EBSI, says, "Since inflationary pressures around the world have gradually eased, central banks in Europe and the U.S. are projected to end monetary policy tightening gradually, which should alleviate the negative impact of interest rate hikes on the economy in H2. The Fed rates should be on a long-term downward trend which would support emerging markets. Moreover, emerging markets are trading at below earnings forecasts, therefore they could offer more optimistic investment opportunities in the remaining of the year. As for the Mainland China, its economic recovery is in progress, the stock market's valuation is still relatively reasonable, and its inflation is under control. As a result, EBSI maintains an optimistic view on the Mainland stock market, and expects it to have stronger upside than markets in other regions in H2."

According to the analysis by EBSI's Product Development and Retail Research department, the **three major investment themes of "ACE"** may be considered for asset allocation in the second half of 2023: 1. **A**-share market to benefit from capital growth stimulated by China recovery; 2. High **C**redit-rating fixed income to play defense with high grade bonds; and 3. **E**merging markets to be positioned for a balance in offensive and defensive qualities.

1. **A**-share market to benefit from capital growth stimulated by China recovery

   The Mainland set a 5% GDP growth target for the full year of 2023, and its Q1 GDP grew 4.5% YoY, while the growth for Q2 is projected to pick up further. The existing level of inflation in the Mainland is relatively mild and the Fed is expected to pause rate hikes, giving the Mainland favourable conditions to introduce more flexible monetary policy to safeguard the fruits of economic recovery in this year. With the continuous improvement in liquidity, Mainland residents' consumption confidence will potentially be improved.

   Further, the Mainland stock market has delivered a steady upward performance YTD and yet its valuation remains relatively low. The Shanghai Composite is trading at a P/E of less than 12, in the range between the 5-year average and one standard deviation down. In the future, enterprise earnings will be driven by better economy, coupled with further enhanced valuation of the market by investors, making the Chinese stock market a capital inflow target.

2. High **C**redit-rating fixed income to play defense with high grade bonds

   Europe and the U.S. are facing relatively high inflation; despite their central banks may end monetary policy tightening gradually, considerable uncertainty remains looming over their economies. Given all this, the performance of crude oil and gold can reflect the rising demand for safe haven assets in the near run. To ensure asset safety and relatively stable returns, high grade bonds may be deployed as one of the strategies for global asset allocation.

   As U.S. interest rate hikes peak for the current cycle, the U.S. Treasury yields are expected to trend down further in the medium to long run, which will have a positive effect

on bonds with medium and long durations. The prices of high grade bonds that generally have a longer duration than other bonds are poised to benefit by a larger extent.

3. **E**<u>merging markets for a balance in offensive and defensive qualities</u>
   Emerging markets as a whole are supported by optimistic economic growth expectations in 2023, and are flagging a better and stable outlook for the next five years. The International Monetary Fund (the "IMF") forecasts that emerging markets will see average GDP growth close to 4% from 2023 to 2028. The fact that the stock markets in emerging economies are falling behind their economic growth expectations could be beneficial to their valuation recovery.

   In addition, a pause in the U.S. rate hike is forecast to attract capital flows into emerging markets. Historical data reveals that within six months after each time the Fed stopped raising interest rates, emerging market bonds often recorded decent gains, which deserves investors' attention.

Hong Kong stocks: Awaiting breakout

Everbright Securities International pointed out at the end of last year that Hong Kong stocks would still be confronted with adverse factors including slowing global economic growth and tense China-U.S. relations in 2023. On the other hand, stabilizing external inflation is easing the pressure of sharply increasing interest rates, and the Mainland economic recovery is underway, building the conditions for Hong Kong equities to usher in an inflection point of initial rebound for the medium to long run. The YTD performance of Hong Kong stocks has been basically in line with EBSI's earlier forecast.

Kenny Ng, Securities Strategist of EBSI, remarks, "The Mainland economy is regaining growth momentum, at the same time the market is looking forward to major central banks' gradually ending monetary policy tightening – these are positive factors that help the investment market continue to stabilize. We maintain an optimistic view on Hong Kong stocks as well as the HSI target of 23,000 by the end of this year. Investors may consider adopting the phased-in approach towards investing in Hong Kong stocks."

Mr. Ng adds that the Mainland is staying the course with economic recovery. Despite the foundation is not yet solid, the recovery effects should last in H2 given the favorable credit environment in the Mainland. When the Fed stops raising interest rates, the interest rate environment may start to trend down, and that is expected to support Hong Kong stocks.

Factors predicted to move the Hong Kong stock market in the second half of 2023 include: interest rate trends of European and U.S. central banks, the development of European and U.S. banking crises, geopolitics and global economic recession risk, alongside Mainland factors such as the momentum of economic recovery, monetary policy, regulatory enforcement, real estate sales and business operating data, and the RMB trend.

Valuation of Hong Kong stocks supported by multiple factors; HSI's target at 23,000 by year end

At present, the forward P/E and forward P/B of Hong Kong equities are less than one standard deviation below the mean. In addition to HSI's higher dividend yield than global major indexes, HSI has a comparative advantage in valuation. Q1 earnings data shows the profits of listed companies are in recovery mode, hence a close to 15% increase in earnings

per share of Hong Kong stocks is projected for 2023, and the increase is expected to fall back to less than 10% in 2024. Moreover, the U.S. has experienced six rate hike cycles over the past 40 years, and HSI trended upward six months after the rate hikes stopped in five of those cycles, reflecting that HSI could benefit from capital inflows as a result of declining global interest rates.

Concurrently, the valuation of Chinese state-owned enterprises ("SOEs") has regained market attention. In an environment where the reform of Chinese SOEs is accelerating, their dividend payout ratios are being increased, and macroeconomic recovery is continuing, **investors may consider focusing on the two major sectors of China financial and domestic demand, and the two major themes of recovery and dividend play in H2.**

Forex: DXY lower ahead of rate cuts; foreign currencies and commodities flashing appreciation potential

In the past six months, the overall USD trend matched the forecast made by EBSI on December 6 last year. As inflationary pressures eased in the U.S. and the Fed's rate hikes might have come to an end in Q2, the factors buoying up the strength of the USD began to fade; a downtrend of the U.S. Dollar Index (DXY) has formed and the index is moving toward the 100 threshold.

Alvin Chan, Director and Head of Product Development and Retail Research of EBSI, notes, "Despite expectations that the Fed will start decreasing interest rates in July at the earliest, the overall inflation trend in the U.S. remains unsettled. The Fed therefore may need to maintain interest rates at current levels for a period of time. At the same time, since the 1990s, the average interval between the four stoppages of interest rate hikes and interest rate cuts was about nine months, so the chance of interest rate cuts this year is slim. Based on data of one year after the past four interest rate cuts, the probability of the DXY declining is only 50%, underscoring that the USD's trend is not only determined by interest rate changes. On the contrary, after the 5th interest rate hike in last September, the DXY hit a recent years' high of 115 and then receded after pricing in a slower rate hike path. We expect the DXY to weaken in H2 or before rate cuts. Technically, if it falls below the YTD low of 100.8, chances are it will test lower at 94.6, with resistance at 106."

"Interest rate cuts could happen as soon as Q1 2024; the USD may not fall, but instead rise, following the official start of interest rate cuts. Recently, however, the Fed officials have expressed divided comments on monetary policy, which could affect the direction of interest rates as well as the DXY. The USD is forecast to lean towards weakness before rate cuts, from which the constituent currencies of the DXY are more ready to benefit. In H2 2023, the EUR and the GBP are worthy of attention, and investors may consider adding gold as commodity play to seize short-to-medium-term appreciation opportunities."

The Eurozone's consumer price index (the "CPI") growth has slowed down YoY, but core inflation remains at a record high level. This should drive the European Central Bank (the "ECB") to continue raising interest rates. Although the ECB introduced a lessened rate increase of 0.25% in April, the ECB President Christine Lagarde stated recently that inflationary pressures in the region were still strong, and the central bank would strive to bring down inflation to 2%, in view of which she expected interest rates to be lifted further if necessary. Compared with the Fed, the ECB is taking a more hawkish stance towards

monetary policy that may support the EUR. EUR/USD should see support at 1.03 with resistance at 1.17.

The U.K.'s inflation is stubbornly high – despite the CPI increase in recent months has slowed YoY, it still exceeded forecasts by a large margin, making the U.K.'s inflation the highest among the Group of Seven ("G7") and supporting the Bank of England to continue raising interest rates. The Bank's Governor Andrew Bailey said earlier that the effort to curb inflation would not stop because of the latest turmoil in the banking sector, which was decoded by the market as that the rate hike cycle has not yet ended. Besides the relatively leading local monetary policy, the IMF raised its forecast for the U.K. GDP growth in 2023 to a shrinkage of 0.3%; in other words, the U.K. may manage to avoid a deep recession, sending the GBP certain appreciation potential. The projected support for GBP/USD is 1.18, with the possibility of rising to test 1.32 by the end of 2023.

With the Fed's rate hikes nearing an expected end, key factors that have been supporting the USD and U.S. Treasury yields will subside, a favorable condition for gold prices. The U.S. economy is indeed at risk of continued contraction; the Fed is also predicting a mild recession this year. Furthermore, banks have begun to tighten credit conditions, making it difficult for enterprises and individuals to obtain loans, whose potential negative impact could be more serious than interest rate increases. The uncertain economic outlook has prompted capital to seek safe haven in gold. Gold prices are forecast to find support at US$1,810, potentially testing the high of US$2,200 in H2.

(From right) Alvin Chan, Director and Head of Product Development and Retail Research, and Kenny Ng, Securities Strategist, of Everbright Securities International share their views on H2 2023 market outlook.

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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, serving individuals, corporations and institutions in Hong Kong, Macau, Mainland China and the U.K.

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 adhering to the business philosophy of "Hong Kong based, Bay Area exposure, global vision".

EBSI has customer assets of more than HK$82 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, 2023*

For enquiries:

Juliana Chan	+852 3920 2511	juliana.chan@ebshk.com
Sherman Yu	+852 3920 2513	sherman.yu@ebshk.com
Kit Chan	+852 3920 1863	kit.chan@ebshk.com