[For immediate release]

Everbright Securities International projects economic downward pressure to continue swaying investment market in Q1 2023

Central banks expected to adjust monetary policy to create favorable conditions for recovery

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"FLAG" asset allocation themes: <u>F</u>intech, <u>L</u>ow volatility income players, <u>A</u>sset allocators and <u>G</u>reen global investment

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HSI target for 2023: 23,000

Four major sectors for Hong Kong stocks:

Technology, Domestic consumption, Aviation and Dividend stocks

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Forex: Dollar Index momentum slowing; Buy the dips for peer currencies

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Overview:

- Everbright Securities International expects economic downward pressure to continue into Q1 2023, and major central banks will review rate hike and monetary policies to ease economic pressure, creating favourable conditions for recovery.
- **"FLAG"** investment themes: **F**inancial technology ("fintech"), **L**ow volatility income players, **A**sset allocators and **G**reen global investment.
- Hong Kong equities are expected to see a mid- to long-term rebound inflection point in 2023 and HSI may target at 23,000. Full year targets for HSTECH at 4,600 and Shanghai Composite at 3,500.
- Hong Kong equities' four major sectors: Technology, Domestic consumption, Aviation and Dividend stocks.
- Global market: Economic downturn risk amid recovery opportunities; timely adjustment of portfolio and allocation is recommended.
- Forex: Dollar Index momentum slowing; Buy the dips for peer currencies.

Hong Kong, December 6, 2022 – China Everbright Securities International Company Limited ("Everbright Securities International", "EBSI" or the "Company") remarks that looking back on 2022, the Russia-Ukraine conflicts dealt a blow to global energy, food and commodities supplies, which drove prices up and pushed global inflation to a new high in recent decades. Central banks were compelled to raise interest rates significantly to combat the high inflation. However, the economy, which was slowly recovering from the pandemic, was too fragile to withstand the abrupt policy tightening. Recession fears sent shock waves to investment markets, causing drops in stocks, currencies, bonds and commodities across the board, a rare phenomenon in history. The economy underwent a rather notable correction following a round of steep interest rate hikes by major central banks.

Stepping into Q1 2023, the economic downward pressure is predicted to remain; yet, it is forecast that major central banks will re-examine the negative impact of past aggressive interest rate hikes on the economy, thereby adjusting monetary policy and even halting interest rate hikes. Therefore, there is the possibility that the economic downward pressure would ease after Q1, which should build favorable conditions for recovery.

Based on the analysis by EBSI's Product Development and Retail Research team, while the chance of economic recession cannot be ruled out, the extent of any downturn is forecast to be relatively mild and within control given the timely response of governments and central banks, and a deep recession is unlikely to occur. Historical data reveals that assets including stocks, high yield bonds and commodities bottom out before economic turmoil ends. Moreover, global assets traded at a steep discount in 2022. At the start of 2023, therefore, investors may consider reallocation at opportune time by adding risk assets to their portfolios to seize opportunities from potential economic and asset valuation recoveries, while diversifying market risk at the same time.

The **investment themes of "FLAG"** are worth considering for asset allocation in 2023: 1. **F**inancial technology (fintech); 2. **L**ow volatility income players; 3. **A**sset allocators; and 4. **G**reen global investment.

1. Financial Technology

   The pandemic has changed people's way of life in many ways, including the acceleration of global digitalization and fintech which is playing an increasingly instrumental role in the financial service system. In 2021, global fintech investment totaled US$210 billion, up about 40% from 2018.

   The MSCI ACWI IMI Fintech Innovation Index launched in 2013 only posted a cumulative decline of approximately 4.24% during the 2020 recession, and it soared 63.45% in the following year to outperform all other MSCI sub-indexes.

   The fintech sector already traded at an apparent discount in 2022. It is poised to have considerable room for development in the post-pandemic era, in which stocks with high resilience and strong rebound potential could boost the overall portfolio performance.

2. Low Volatility Income Players

   After a series of monetary tightening by major central banks, the risk of economic slowdown is mounting. The International Monetary Fund and the World Bank even predict that aggressive interest rate hikes by central banks will curb economic growth, and that more than 30% of the world's economies will face recession in 2022-2023. Despite the vastly uncertain future, investors are not advised to sell all assets and keep cash, especially at the current environment of high inflation. When inflation is eating into purchasing power, the losses from depreciation will be even greater. This highlights the importance of maintaining a certain amount of investment.

High grade bonds have a track record of outperformance in recession. Since 1990, investment grade bonds delivered positive average returns during all of the four recessions, with U.S. Treasury bonds and global composite investment grade bonds being the best performers. Investors may consider adding a certain proportion of investment grade bonds to their asset portfolios to diversify the downside risks of the economy, while obtaining relatively stable returns and avoiding the purchasing power of cash being eroded by inflation.

3. <u>Asset Allocators</u>
   The investment market has gone through a wave of volatility and asset prices have seen rather notable declines. The MSCI AC Asia ex Japan Index and MSCI Emerging Markets Index once fell to pandemic lows in 2022, and their P/Es were close to below two standard deviations, indicating that relevant asset prices have reached comparatively attractive levels. At the same time, Asian and emerging market high yield bonds are lagging behind global high yield bonds; investors may watch out for the former's valuations.

   Although the economic environment remains challenging, it is expected that governments will roll out policies to promote economic growth, which is favorable to recoveries in Asian and emerging markets. The USD is projected to recede from highs in 2023; this will support corporate earnings hence better conditions for the valuation recovery of stocks and bonds in relevant regions. Investors may consider adopting a multi-asset strategy with stocks and bonds, which combines offensive and defensive qualities to weather market movements.

4. <u>Green Global Investment</u>
   Russia-Ukraine tensions are prompting global transition to green energy. The Western countries have been increasing green investments; countries in Asia Pacific are also investing more into related projects gradually. Moreover, China has announced the Beautiful China Initiative, setting the goals of peak carbon dioxide emissions by 2030 and achieving carbon neutrality by 2060. China, India and South Korea invested a total of US$293 billion in energy transition in 2021, accounting for approximately 39% of the total global investment in energy transition, and the related investments are expected to continue growing.

<u>Silver lining of Hong Kong stocks value recovery</u>

EBSI in late 2021 projected that the investment environment for Hong Kong equities would undergo evident changes in 2022, including an inflection point in the low interest rate environment that would challenge the capital markets' liquidity. Looking back the year of 2022, the U.S. Federal Reserve (the "Fed") initiated a new interest rate hike cycle in March. Since then Hong Kong stocks were caught in a downtrend. Simultaneously, COVID outbreaks dampened the Chinese economy on and off, while China-U.S. conflicts and geopolitical tensions persisted; this aggravated the correction in Hong Kong stocks, with the HSI dropping to the lowest in more than 13 years.

Kenny Ng, Securities Strategist of Everbright Securities International, says, "In 2022, Hong Kong stocks were challenged by both internal and external adversities. Rising external interest rates led to a significant correction in the valuation of the new economy sector, whereas earnings growth of the old economy sector was slowed by negative impacts of COVID outbreaks in China. Hong Kong equities' valuations dropped to historic lows after a deep correction. Due to lingering concerns over an uncertain economic outlook, the Russia-Ukraine conflicts and China-U.S. power struggle, the market still shows a lack of confidence.

"It is forecast that in 2023, Hong Kong stocks will continue to be overshadowed by unfavorable factors such as slowing global economic growth, China-U.S. tensions and geopolitical conflicts. On the other hand, it is expected that external inflation will stabilize gradually, the pressure from steep interest rate hikes will lessen, and the Chinese economy will be on track for recovery, prompting investors to refocus on the fundamentals such as valuations. According to projections, the inflection point of a mid-to-long term rebound in Hong Kong stocks will turn up in early 2023."

HSI target 2023 at 23,000 on improved fundamentals and sentiment

The pace of the current U.S. rate hike cycle is forecast to slow down notably in 2023. Also, the expected gradual upturn in economic activities in China will benefit the economic indicators in its manufacturing, social consumer goods retail and export sectors. It is therefore possible for Hong Kong stocks to trend low then high in 2023. However, the room for rebound in the HSI is expected to be still restrained by China-U.S. relations and geopolitics including the Russia-Ukraine conflict. Consolidated analysis from EBSI's internal valuation models reveals chances of the HSI climbing to test 23,000 in 2023. Corresponding to the HSI's forward P/E in 2023, the level of 23,000 approximately represents the average value of the past 5 years. The HSTECH target is 4,600 and the Shanghai Composite target is 3,500 for the full year of 2023.

On the back of expected upward drivers including valuation recovery based on a less steep interest rate hike path, Mainland China's optimized COVID measures that are forecast to uplift the Chinese economy, as well as a refocus on the fundamentals of individual stocks by the market, investors may consider putting the four major sectors of technology, domestic consumption, aviation and dividend stocks on their watchlists. Technology, domestic consumption and aviation sectors could benefit from the COVID situation and economic improvement, whereas dividend stocks are defensive with their strong balance sheets and cashflow.

Forex: Dollar Index momentum slowing; Buy the dips for peer currencies

The strength of the U.S. Dollar Index (DXY) in 2022 was mostly driven by bond yields, safe haven seeking and the relative weakness in the constituent currencies. The latest U.S. inflation data shows signs of peaking and falling back, implying diminished grounds for the Fed to increase interest rates significantly.

Kirk Wong, Global Market & FX Strategist of Everbright Securities International, remarks, "The Fed's rate hike pace in 2023 is expected to moderate notably, and it may even stop raising interest rates after Q1, putting downward stress on bond yields. It is forecast that slowing down rate hikes will reduce the negative impacts on the economy and calm the risk aversion sentiment. Technical analysis shows the DXY broke below its long-term upward channel in one go, losing the critical support levels at the 100-day moving average (MA) or 109.07, and the golden ratio of 0.236 or 108.74. A medium-term downtrend may have developed; in other words, it may have lost the strength to test the high of 2022. The DXY should have peaked at 115, and the level of 90 will be its next support."

The USD's peaking and falling back could mean forex trading opportunities. Helped by improved domestic political and economic conditions, expansion in commodity demands and economic recovery, individual currencies may deliver outstanding performance. In 2023, positions in the GBP, AUD, NZD and RMB could be set up to take advantage of the potential economic recovery.

The U.K. has entered into a recession in Q3 2022, but the Bank of England is expected to slow down the pace of interest rate hikes to avoid a deep recession. Concurrently, the new U.K. government under Prime Minister Rishi Sunak has introduced an array of economic support programs in the mid-term budget, and has reduced the fiscal deficit that has plagued the UK for years by means of increasing revenue and reducing expenses. These could eliminate the political and economic uncertainties which otherwise the U.K. will be facing in 2023, and enable the GBP's catch-up potential. It is projected GBP/USD will see support at around 1.14 while flashing the potential of rebounding to 1.3 or above in 2023.

The Reserve Bank of Australia began to lower interest rate hikes to 0.25% in October 2022, making it the first major central bank to ease monetary policy. Subsequently, the AUD is under stress on widened interest rate spreads, but that can relieve economic downward pressure as well as balance supporting economic growth and curbing inflation, forming the conditions for an AUD rebound. The AUD exhibits high sensitivity to the global economy; despite the currency's inevitable downward pressure in early 2023, the foreseeable clarity on the Australian economic outlook will send the AUD higher in value. AUD/USD is forecast to encounter more obvious support at 0.62, with a 2023 target of 0.75 and above.

Although COVID still exists, the return to normalcy is underway. Countries around the world are lifting COVID prevention and lockdown measures progressively. The flows of people and goods are increasing. New Zealand, an export-oriented economy, is forecast to be led by recoveries in tourism and trade, which highlights its economic conditions. Indeed, after factoring in inflation, New Zealand has a higher real interest rate than other major countries, making the NZD attractive. NZD/USD is expected to have formed a double bottom pattern at 0.55, and has the potential to test 0.68 and above.

The Fed is expected to stay put on tight monetary policy in early 2023, hence the economic downturn concerns would somehow weigh on the RMB. Nevertheless, the market is predicting a Fed policy shift within 2023, which will visibly narrow the monetary policy gap between China and the U.S, in addition to alleviating the downward pressure on the Chinese economy, from which the RMB would benefit. The Chinese government's policies to support its economy have always been consistent. In the face of a complex and rapidly changing external environment, its stable policies can bring resilience to the economy compared with other countries, which also facilitates the backflows of funds and holds up the economy and RMB. USD/CNH is projected to trade in the range of 6.35 and 7.35.

<u>Photo caption</u>

(From left) Kirk Wong, Global Market & FX Strategist, and Kenny Ng, Securities Strategist, of Everbright Securities International share their views on 2023 market outlook.

Kenny Ng, Securities Strategist of Everbright Securities International

Kirk Wong, Global Market & FX Strategist of Everbright Securities International

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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 Group has customer assets of about HK$78 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 September 30, 2022*

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