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EVERBRIGHT SECURITIES | INTERNATIONAL

[For immediate release]

EBSI expects H2 2022 markets to be driven by monetary policy, pandemic impacts and global stagflation risk due to Russia-Ukraine conflicts

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"GAS" investment themes: Green Global Investment, Asia Equities and Short Duration Bonds

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HSI target: 25,000
Themes for HK stocks: Oil, New Energy, Infrastructure and Selected Chinese Property Developers

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FX: Dollar Index support remains intact; Geopolitical situation may bode well for commodity currencies

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Overview:

- EBSI expects investor focus to remain on uncertainties derived from global high inflation but low economic growth due to Russia-Ukraine conflicts, Federal Reserve's monetary policy, and pandemic-led economic impacts. Commodities prices are expected to increase, while major central banks may curb inflation with rate hikes.
- Asia is a more attractive pick with **GAS** as the three investment themes in H2 2022: **G**reen Global Investment, **A**sia Equities and **S**hort Duration Bonds.
- HK equities may gradually stabilize in H2 2022 and HSI may target at 25,000. Targets for HSCEI at 8,500 and Shanghai Composite at 3,500.
- HK equities' four major themes: Oil, New Energy, Infrastructure and Selected Chinese Property Developers.
- FX: Support factors for U.S. Dollar Index remain intact; Geopolitical situation may bode well for commodity currencies.

Hong Kong, June 8, 2022 – China Everbright Securities International Company Limited ("Everbright Securities International", "EBSI" or the "Company") notes that the performance of global financial markets in H1 2022 was mainly driven by three factors including the pandemic, monetary policies and significant impact from the Russia-Ukraine conflicts since February. International Monetary Fund ("IMF") has lowered the 2022 forecasts on global real GDP growth to 3.6% from 6.1% in 2021, a rare notable decline in recent years. With agricultural and commodities prices pushed up by market uncertainties, IMF has also sharply revised up the 2022 inflation forecasts to be 7.7% in the U.S., 7.4% in the U.K. and 5.3% in the Eurozone. Looking forward to H2 2022, the investor focus remains on uncertainties derived from the global high inflation but low growth (stagflation risk) due to Russia-Ukraine tensions, the Federal Reserve's (the "Fed") monetary policy moves and pandemic impacts on economic growth.

Alvin Chan, Director, Head of Product Development & Retail Research of Everbright Securities International, says, "The outbreak of Russia-Ukraine conflicts since late February is the main black swan event in H1 2022, resulting in soaring commodities prices. Major central banks are expected to act forcefully to curb inflation with rate hikes. On the macro front, the Asian markets and sectors are conspicuously more attractive from the perspectives of inflation, economic growth and valuation. The key investment allocation and strategy in H2 2022 could be summarized into three major themes as **GAS** – 1. **G**reen Global Investment; 2. **A**sia Equities; and 3. **S**hort Duration Bonds."

1. Green Global Investment
   Environmental, Social and Governance ("ESG") has become the spotlight in capital markets in recent years. According to the consolidated data from major investment banks and Bloomberg, global ESG assets value is estimated to exceed US$53 trillion by 2025, representing more than one-third of total assets under management globally. With ESG likely to be included widely in the scope of investment reviews, the element of sustainable investment may see a rapid growth in coming years, which may pose positive effects for corporates' share prices and business prospects. Data also shows that stocks with ESG concepts generally outperformed traditional indices in the past three years. Meanwhile, the global climate change is also accelerating the world's commitment on Environmental (E) and Social (S), ranging from *Paris Agreement* 2015, China's *Guidelines for Establishing the Green Financial System* by the Ministry of Finance in 2016 and the State Council's *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* in 2019, with extensive coverage on green financial development, aiming to realize environment protection and sustainable development through various financial instruments.

2. Asia Equities
   Inflation has undoubtedly intensified, but IMF data suggests that Asia may only be moderately affected with estimated 3.2% inflation in 2022, well below that of Europe and the U.S.. Asia's GDP growth may reach 4.9%, and in particular, emerging Asian markets may even hit 5.4%, higher than the global growth of 3.6%. Therefore, Asia's stagflation risk is significantly lower than other regions. On the valuation basis, MSCI Asia (ex-Japan) Index is estimated to have 11.77x P/E (vs. 10-year average of 13.36x), representing a difference of -1 standard deviation. The index based on earnings per share now stands at 53.46 compared with the 10-year average of 46.49, which implies +2 standard deviation from the historical level. Both figures reflect that Asian equities are at an attractive level. On the sector basis, the Regional Comprehensive Economic Partnership ("RCEP") has come into effect earlier this year, aiming to promote economic synergies among the member states in Asia Pacific. The RCEP members are expected by the Hong Kong Trade Development Council to deliver at least 0.2% extra GDP growth annually in coming eight years. In addition, China's real economy and capital markets may be well supported by recent positive signs to expand domestic demands and inject impetus in areas of platform economy, the weak real estate sector, and infrastructure.

3. Short Duration Bonds
   Besides the market anticipation of further rate hikes for five times following the rate decisions in March and May, the Fed will start to shrink its balance sheet in June, which may pose noticeable impacts to long duration bonds. An allocation to short-term bonds

may be considered to lower the effects of rate-hike risks. Referencing the previous rate-hike cycle (2015-2018) based on the ICE Treasuries Bond Index movement, which tracks the performance of Treasuries on short (1-3 years), medium (3-7 years) and long duration (10-20 years) basis, both the medium and long duration bond indices showed a downward trend. On the contrary, the short duration bond index was on a generally upward pattern with ~2% growth in the period. Therefore, adding short-term bonds and reducing holdings of long-term bonds could help mitigate impacts of rate hikes on investment portfolios.

HK stocks: gradually stabilize in H2 2022

HK equities were heavily hit by multiple bearish factors including major central banks' monetary tightening led by global inflation, geopolitical tensions amidst Russia-Ukraine escalated conflicts, and prolonged pandemic influence on global economic growth. As a result, the HSI reversed its strong rebound momentum and even hit a 10-year low in early 2022. Furthermore, the Chinese government's continuing scrutiny measures on certain industries have weakened market expectations on related sectors' valuation re-rating.

Kenny Ng, Securities Strategist of Everbright Securities International, says, "HK equities' H1 2022 underperformance was mainly dragged by several negative factors. Compared with 2021, the key change in investment environment for HK equities this year is the tipping point in the low-rate environment, which may pose a challenge to liquidity in capital markets. However, investors should still note that the local stock market has been lagging behind for a prolonged period of time, and its valuation advantage is getting more conspicuous under the highly volatile markets recently."

Looking forward in H2 2022, HK equities will continue to face impacts of the H1 adverse factors, which would limit the potential of a sharp rebound. Compared with the market trends six months ago, there is a new positive factor of the anticipated further monetary easing in China which would support the steady growth of its real economy. HK equities may also see benefits from China's additional measures to maintain stability in the financial market.
The stock market is expected to trade in a range-bound situation in the second half of the year with limited upside potential and support at its downtrend.

Favorable policies for market stabilization with HSI H2 target at 25,000

China has released more positive signals that it is working to achieve full-year growth objectives. In H2 2022, China is likely to extend its proactive monetary policy, strengthen the inward-circulation economic growth and boost fixed asset investment. Some sectors that were previously affected by scrutiny policies may look more optimistic as economic stability is of paramount importance. These factors may offset impacts of global rate hikes and the U.S.-China tensions. However, HK stocks may still be clouded by uncertainties such as Chinese stocks' regulatory negotiations and the Russia-Ukraine development, heightening the possibility of range-bound trading. Based on EBSI's internal valuation models, the HSI may test higher at 25,000 in H2 2022; targets for HSCEI at 8,500 and Shanghai Composite at 3,500.

In H1 2022, EBSI's sector picks on financials, clean energy and domestic consumption delivered satisfactory performance despite the weak market. For H2 amid global market uncertainties and steady growth in China backed by national policies, investors may keep an eye on four sectors namely oil, new energy, infrastructure and selected Chinese property developers.

FX: Dollar Index still benefits from supportive factors while geopolitical situation bodes well for commodity currencies

The global FX markets have seen a greater extent of volatility in H1 2022 due to rising risk-averse sentiment caused by a number of risk events, coupled with the monetary tightening by central banks worldwide.

Kirk Wong, Global Market & FX Strategist of Everbright Securities International, says, "The U.S. inflation hit a 40-year high with record-high labor costs, and the overall inflation may be pushed up further by the service sector's inflation broadly led by wage increase. The Fed is expected to lift the federal fund rate range sooner to 2.5%-2.75% before the end of 2022. Meanwhile, the Euro (representing ~60% of the U.S. Dollar Index ('DXY')) may stay weak on risk aversion amidst Russia-Ukraine tensions and weak Eurozone economy, which may also support U.S. Dollar performance. The DXY is expected to stay strong in the second half on the back of rate hikes, risk-averse sentiment and Euro's performance – it may face resistance at 109.144 with the support at 95.8."

Commodities prices have soared due to the supply interruption by Russia-Ukraine conflicts. Australia, New Zealand and Canada are major commodities exporters and their trade performance could benefit from the political tensions, hence the outlook for commodity currencies (AUD, NZD and CAD) is relatively optimistic in H2 2022.

Australia's economy is steadily recovering with the retail sales, services and manufacturing sectors in expansion. The economy has positive signs of growth momentum as the latest data shows that the fall in unemployment rate has stimulated wage growth. The rate hike cycle has begun and the Reserve Bank of Australia is playing a catch-up game with peers in monetary policy, providing catalysts to AUD. In the short term, investors should watch out the Covid-19 development in China, the largest trading partner of Australia. AUD/USD may face resistance at 0.76 with the support level at 0.68.

New Zealand has adopted a quarantine-free policy for visitors since May, and the border reopening measures may noticeably boost the economic growth as tourism has a 10% GDP contribution to the economy. More than 40% exports of New Zealand come from food exports, so its trade performance could benefit from rising food prices on Russia-Ukraine tensions. The Reserve Bank of New Zealand may continue to lift interest rates, and its cash rates may further rise to 1.75% by the year end, hence the advantage of rate differences may make NZD more attractive in the carry-trade environment. NZD/USD may return to the level of 0.69 with the support level at 0.62.

Canada's benchmark interest rate has risen to 1% but the Bank of Canada may maintain progressive rate-hike stance as the inflation remains above the central bank's target. With easing pandemic and gradual lifting of travel restrictions around the globe, the resumption of economic activities may tremendously boost the crude oil demand. Since OPEC and its allies did not greatly increase oil output to address the Russia-Ukraine situation, and by contrast, Russia is cutting crude production, crude prices have gained support as the overall production capacity fails to offset the supply shortfall, which may provide some support to Canadian Dollar, widely seen as a petrocurrency in markets. USD/CAD may face resistance at 1.31 and then it may test further 1.24 again.

China has shown noticeable slowdown in Q2 GDP growth due to the new wave of pandemic. RMB assets may become less appealing as the People's Bank of China continues to maintain monetary easing, which is opposite to the Fed and major central banks' policy stance. On the other hand, the pandemic is believed to be brought under control soon in China, and the central government is keen on strengthening economic support with more facilitative measures to achieve growth targets. Such moves ensure steady economic growth and capital inflow in H2 2022, which would help support RMB performance with USD/RMB likely to move along 6.4-6.9.

Photo caption: (From left) Kirk Wong, Alvin Chan and Kenny Ng share their views on H2 2022 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$111 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, 2022*

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