中國銀行(香港)
BANK OF CHINA (HONG KONG)

BOCHK
2024 Market Outlook & Investment Strategy

May Version

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Core views

- **Global economy |** Since early 2024, the process of curbing inflation has been faced with significant headwinds in the US. The seasonally adjusted month-over-month growth rates of both CPI and core CPI reached 0.4% in March, surpassing the market's expectations for the third consecutive month, and the annualized rates far exceeded the policy target of 2%. Global durable goods have entered into the cycle of replenishment. Commodity prices represented by crude oil and copper started to rise, and industrial metals including aluminum and nickel have risen. As such, it becomes increasingly challenging for the US to curb inflation. Due to contradictory signals, the Fed's policymakers failed to reach consensus among themselves on how to adjust monetary policy. However, market pricing is moving closer to "risk of inflation rebound", and the market has raised the interest rate expectations for the end of the year 2024 prior to the Fed's actual policy moves. Moreover, the market has even shown concerns about the possibility of another interest rate hike in 2024. Against the backdrop of combined influence of a variety of structural and cyclical factors, only time will tell whether the path of interest rates will follow the current market expectations of a slight and slow decline, or replicate the historical experience of a sharp and rapid decline, or even restart the path of upward movements. At the policy meeting in April, the ECB kept its three key rates unchanged for the fifth time in a row as expected, but sent a clearer signal to the market that it would cut interest rates in June. Judging from the movements of the interest rate futures market, the probability of the start of an interest rate cut cycle in June has increased from 80% prior to the policy meeting in April to about 90% after the meeting. It is expected by the market that there will be four interest rate cuts in the remaining five policy meetings in 2024. In the near term, closer attention needs to be paid to the two sets of inflation data released before the policy meeting in June. In case that the changes of wage growth that the ECB is concerned about could drive down services inflation and verify the slowdown in inflationary growth, then the ECB will start the cycle of interest rate reductions ahead of the Fed in June. Since early 2024, falling inflation and rising expectations for interest rate cuts have bolstered the economic performance in the UK. The British economy grew by 0.1% month-over-month in February, consisting with the market's expectations and marking the second consecutive month of positive month-over-month growth. The UK services PMI reached 53.1 in March, remaining in the expansionary range above 50 for five consecutive months. The manufacturing PMI reached 50.3, exceeding the value of 47.5 in February and entering into the expansionary range for the first time since July 2022. In Q1, 2024, the British economy is expected to achieve positive growth overall. However, the sustainability of the British economic recovery is being tested, and an interest rate cut is still possible in Q2, 2024. First, consumer confidence has weakened. Second, financing for small and medium-sized enterprises (SOEs) has been faced with constraints. Third, investments have weakened on a marginal basis. Switzerland has become the first developed economy to cut interest rates after the Swiss National Bank lowered its main policy rate, and the probability of an interest rate cut by the ECB in June has increased. Guided by the signals of interest rate cuts from major European central banks, the BoE may also lower interest rates in June. In Q1, 2024, China's GDP went up by 5.3% year-over-year and 1.6% month-over-month, exceeding the market's expectations, and the month-over-month growth rate was even stronger. Compared with the strong data in terms of GDP in Q1, China's economic data in March were generally weak. The sluggish data in the real estate sector and CPI showed that the recovery of domestic demands still experienced twists and turns. Furthermore, the exchange rate pressure derived from the strength of the USD overseas has imposed constraints on China's policy space to a certain extent. Moving forward ,closer attention shall be paid to three aspects. First, the support of pace and scale of government bond issuance to the economic growth in China. Second, the year-over-year growth rate of PPI and the recovery of industrial corporate profits. Third, the impact imposed by high interest rate environment overseas represented by policies of the Fed and the BoJ on global macroeconomic expectations.

- **Stock market |** Risk events have led to adjustments in the US stock market. Judging from historical experience, US stocks are likely to quickly absorb the impact and return to fundamentals despite short-term disruptions. It is expected by the market that the earnings of the S&P 500 Index will increase year-over-year for the third consecutive quarter. Although the 12-month forward P/E ratio is higher than the average of the past decade, the equity risk premium is still at a historically low level. Data on both retail sales and employment exceeded the market's expectations, and the forecast on the GDP growth for Q1, 2024 has also been raised, thus bolstering profit growth expectations for US stocks. Given that the valuation expansion of US stocks since October 2023 has overdrawn expectations for interest rate reductions, and that the US inflation has been high since early 2024, the expectations for interest rate reductions have cooled to a significant extent, thus suppressing the growth of valuation. European stocks experienced declines after reaching a new high in early April. The energy sector benefited from the rise in crude oil prices, leading to the outperformance of British stocks compared with French and German stocks. The ECB clearly expressed expectations for an interest rate cut at its policy meeting in April. As such, European and US monetary policies may start to diverge in Q2, which will lead to a depreciation of the EUR and benefit large European companies oriented towards exports. In addition, interest rate cuts are expected to reduce interest payments by companies and consumers, while falling inflation will increase purchasing power, thereby bolstering consumption and corporate earnings, both of which will benefit the performance of European stocks in the mid-term. However, closer attention shall be paid to the net outflow of funds from European stocks and the return of inflation once crude oil prices soar. Such trend could lower expectations of interest rate cuts, leading to fluctuations in European stocks. In the Chinese mainland, the PMI has returned to the expansionary range. Corporate production and operation activities have accelerated, and the policies of stabilizing the economy remain effective. Moreover, the consumption in the downstream has gradually picked up, and market operations have recovered to some extent, whereas liquidity remains reasonable and ample. It is expected that the China A-share market may experience a steady rally. The economic growth in the Chinese mainland exceeded the market's expectations in Q1, injecting growth momentum into Hong Kong, China stocks. Furthermore, the low valuation and high dividends of Hong Kong, China stocks are highly attractive to incremental funds, and the value of asset allocation has increased. The BoJ put an end to the policy of negative interest rates and started the rate hikes for the first time in 17 years, but still found it hard to prevent the JPY from experiencing consistent depreciation. Rising prices have led to a consistent contraction in household spending, but also brought hope for the corporate income growth. Given that the valuation in the Japanese stock market and the prices of individual stocks are still low, Warren Buffett may further increase asset allocation, and the value of Japanese stock investments remains high. The strengthening of the USD and the risk event led to the declines of Asian stocks. After the market priced in the impact, it is expected to return to fundamentals. In addition, certain Asian countries have implemented policies to stimulate the economy and stock markets, which will drive economic and stock market growth in the mid-to long-term.

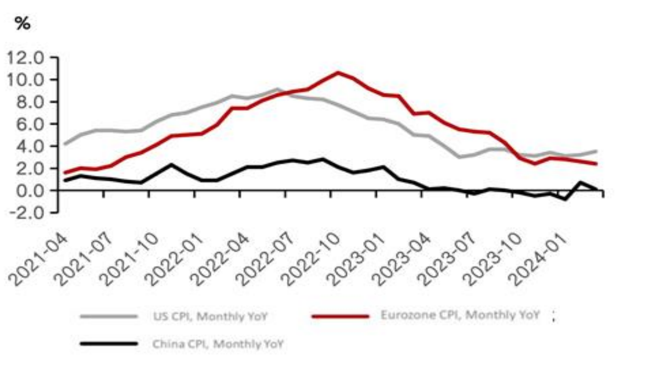
- **Bond market |** Strong data on consumption and labor market have further consolidated the market's expectations for "risk of inflation rebound", and the US bond yields may return to high levels amid volatility. Moreover, the short-term US treasury bonds are expected to perform better in May. At present, it is expected by the market that Europe may start to cut interest rates in June, and the valuation of European bonds remains attractive, especially for sovereign European bonds. Hence, it is recommended to properly increase the duration of the European bond portfolio. In China, disturbing factors in the bond market are likely to increase in May, but from the aspect of fundamentals, funding and supply, the risks of a rapid reversal in the market are limited, and there is a high chance that the market will remain volatile within the range. Chinese USD bonds are relatively resilient and remain a crucial variety of bonds worthy of closer attention, which could have a high chance of success in terms of investments. Emerging bond markets are still under pressure in the near term, but there are also evident investment opportunities.

- **Commodities |** In the near term, any changes in risk event are likely to weaken the demands for safe-haven assets like gold. In addition, the strong US economic data and high inflation over the recent period have driven the increasingly hawkish expectations for interest rate cuts. Gold prices may lose some of the recent gains, and closer attention shall be paid to the risks of correction. In May 2024, crude oil prices are likely to fluctuate upward due to the supply-side factors, which are faced with increasing pressure of tightening. The OPEC+ alliance is expected to extend production cuts into Q2, and the agreement on production cuts is well implemented. Saudi Arabia has played a leading role, and the control of Russian oil output is expected to improve. The number of US oil rigs has dropped, and the growth of shale oil production has slowed to some extent. Furthermore, the demand side is gradually improving. Seasonal demands for gasoline are increasing in Q2, and improvements in the manufacturing PMI data from major economies have provided support for crude oil prices.

- **Foreign exchange |** In April, the foreign exchange market showed the pattern of strengthening of the USD as well as weakening of non-USD currencies. This was mainly attributable to the consistently strong US employment data released in March. In the meantime, the inflation data showed that the US is faced with the risks of reinflation, leading to the constant delay of the market's expectations for the timing of the Fed's first interest rate cut. In May, the market's focus shall still be placed on major economic data. With respect to specific currencies, US dollar: USD is supported by the consistent delay of interest rate cuts, and focus shall be placed on the resistance level of 107. Euro: EUR is unlikely to achieve ideal performance due to the pressure imposed by the ECB's potential interest rate cuts ahead of the Fed. British pound: GBP is faced with the adjustment to the carry, and attention shall be paid to the risks of corrections of long positions. Japanese yen: JPY is likely to remain weak in the near term due to its lack of strength despite interest rate hikes. Canadian dollar: CAD is likely to experience the pattern of weakening amid oscillations. Australian dollar: AUD is expected to remain volatile at lows while being tested at key support level. Renminbi: RMB is faced with strong external pressure imposed by the USD, and the RMB exchange rate is supported by both import and export data, whereas the currency will continue to operate within a reasonable range with maintenance of policy support.

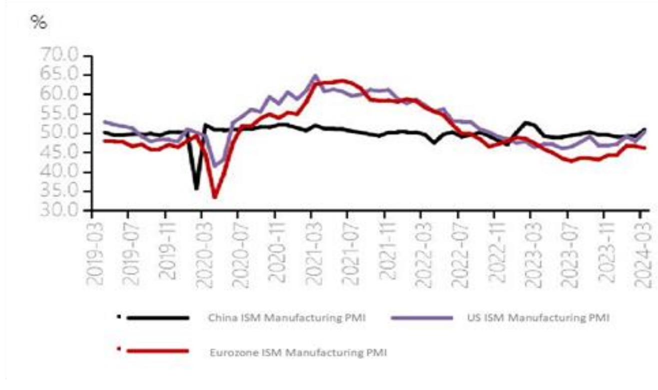
Global Economy

Fig. 1: Monthly CPI YoY (As of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center

Fig. 2: Monthly Manufacturing PMI YoY (As of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center

US: Narrative is switching from “soft landing” to “risk of inflation rebound”

Since early 2024, the process of curbing inflation has been faced with significant headwinds. The seasonally adjusted month over-month growth rates of both CPI and core CPI reached 0.4% in March, surpassing the market’s expectations for the third consecutive month, and the annualized rates far exceeded the policy target of 2%. Judging from the breakdown, due to the production cuts by the OPEC+ and the risk event , crude oil prices have surged, thus driving up gasoline prices. The supercore inflation related to housing rents that the Fed is most concerned about rebounded from 0.5% to 0.6% month-over-month, and the annualized inflation growth rate over the past three months has been as high as 8.2%, mainly driven by transportation services, car insurance and medical services, etc. In addition, the inflationary expectations rose to some extent. In particular, the 5-year CPI swap rose from 2.06% to a nearly one-year high of 2.47%. Furthermore, according to the surveys by the New York Fed, the 3-year and 5-year consumer inflation expectations increased for the first time since last autumn. Global durable goods have entered into the cycle of replenishment. The global manufacturing PMI of the JPMorgan Chase entered into the expansionary range and hit a 17-month high. Commodity prices represented by crude oil and copper started to rise, and industrial metals including aluminum and nickel have risen, thus heightening the difficulty of curbing inflation in the US.

The headline employment data have achieved robust growth, but there are hidden concerns. The US non-farm payrolls rose by 303,000 in March, exceeding the market’s expectations for four consecutive months, and the unemployment rate remained at a low of 3.8%. Nevertheless, most of the added jobs were low-paying part-time jobs (many of which were assumed by illegal immigrants), concentrated in healthcare (72,000), government authorities (71,000), leisure and hospitality (49,000) and other non-cyclical industries. Judging from the strengths of the US economy, the high-paying industries that offer full-time jobs such as technology and finance are either laying off workers or freezing hiring, and thus the job market is not as strong as the headline data seems.

Due to contradictory signals, the Fed’s policymakers failed to reach consensus among themselves on how to adjust monetary policy. However, market pricing is moving closer to “risk of inflation rebound”, and the market has raised the interest rate expectations for the end of the year 2024 prior to the Fed’s actual policy moves. Judging from the FedWatch tool of the CME Group, the probability of an interest rate cut in June has dropped to 20% as implied by the US interest rate futures market. In addition, the expected number of rate cuts during the year has dropped sharply to one from seven in early 2024. Some people were even concerned about the possibility of another interest rate hike in 2024. According to Lawrence Summers, former US Treasury Secretary, the possibility of a rate hike for the next monetary policy move ranges between 15% and 25%.

It is indeed necessary to get prepared for unexpected moves in interest rates. Factors in support of keeping the USD interest rates high include: Anti-globalization and risk events have led to an upward shift in the center of inflation; the application of AI technology has structurally increased economic growth; the fiscal stimulus measures have been consistently adopted; and the influx of immigrants into the US has bolstered employment and internal economic growth. Factors in support of lower USD interest rates include: The burden of government debt is unsustainable; the M2 money supply is stagnant; and financial risks in the commercial real estate sector and the banks’ balance sheets have yet to be defused. Against the backdrop of combined influence of a variety of structural and cyclical factors, only time will tell whether the path of interest rates will follow the current market expectations of a slight and slow decline, or replicate the historical experience of a sharp and rapid decline, or even restart the path of upward movements.

Eurozone: The ECB sent a clearer signal of lowering interest rates, and a rate cut is expected to be implemented in June

At the policy meeting in April, the ECB kept its three key rates unchanged for the fifth time in a row as expected, but sent a clearer signal to the market that it would cut interest rates in June. According to the monetary policy statements, the majority of potential inflation indicators are slowing down. In case that the future inflation prospects, potential inflation dynamics and the strength of monetary policy transmission could further enhance the confidence of the central bank that inflation would move towards the policy target of 2%, then the restrictions on the current monetary policy level would be properly lifted. In addition, the ECB's president Christine Lagarde stated that she would not wait until inflation returned to 2% for each item before making a decision, and the next direction of interest rate movements is clear. The market is also gradually pricing in the ECB's expectations for interest rate cuts. Judging from the movements of the interest rate futures market, the probability of the start of an interest rate cut cycle in June has increased from 80% prior to the policy meeting in April to about 90% after the meeting. Furthermore, the overnight deposit interest rate is expected to drop to about 3% at the end of the year 2024, and the overall decline is expected to reach 1%. In case that the interest rate is lowered by 0.25% each time, it is expected by the market that there will be four interest rate cuts in the remaining five policy meetings in 2024.

However, the market's expectations for the ECB's policy moves still need to be supported by data. As can be seen, the inflation in the Eurozone continued to slow down in March. Driven by a 1.8% decline in energy prices, the year-over-year increase in the CPI slowed from 2.6% to 2.4%. In the same period, the core CPI also slowed from 3.1% to 2.9%, and the overall slowdown in inflation continued to provide the ECB with ample grounds of lowering interest rates. Nevertheless, the services inflation remained at 4% for five consecutive months, and international oil prices are still faced with the risks of rising. Therefore, in the near term, closer attention still needs to be paid to the two sets of inflation data released before the policy meeting in June. In case that the changes of wage growth that the ECB is concerned about could drive down services inflation and verify the slowdown in inflationary growth, then the ECB will start the cycle of interest rate reductions ahead of the Fed in June.

UK: The economy is expected to achieve positive grow in Q1, and the BoE may still cut interest rates in 1H, 2024

Since early 2024, falling inflation and rising expectations for interest rate cuts have bolstered the economic performance in the UK. The British economy grew by 0.1% month-over-month in February, consisting with the market's expectations and marking the second consecutive month of positive month-over-month growth. The manufacturing output went up by 1.1% month-over-month, with the automotive industry achieving evident growth. The output of the service industry went up by only 0.1% month-over-month, and the output in the transportation and warehousing industry improved to some extent. Due to the negative impact imposed by severe weather conditions, the output of the construction industry dropped by 1.9% month-over month. Moreover, the UK revised its economic growth rate in January upward by 0.1 percentage points to 0.3%. The UK services PMI reached 53.1 in March, remaining in the expansionary range above 50 for five consecutive months. The manufacturing PMI reached 50.3, exceeding the value of 47.5 in February and entering into the expansionary range for the first time since July 2022. The construction PMI rose to 50.2 in March from 49.7 in February. In Q1, 2024, the British economy is expected to achieve positive growth overall.

However, the sustainability of the British economic recovery is being tested, and an interest rate cut is still possible in Q2, 2024. There are also hidden concerns amid the economic recovery. First, consumer confidence has weakened. The credit data in February showed that credit card borrowings by residents fell from GBP 1.8 billion in January to GBP 1.4 billion in February, and household deposits further increased, indicating that the declines in interest rates did not effectively stimulate household consumption. In addition, the GfK's headline confidence index remained in the negative territory. Second, financing for small and medium-sized enterprises (SOEs) has been faced with constraints. The growth rate of bank loans for SOEs has declined, and loan costs have increased, thus diverging from the trend seen in large enterprises. Third, investments have weakened on a marginal basis. The year-over-year growth in the Halifax house price index slowed to 0.3% in March from 1.6% in February. As a result, the British economy is growing at a slow pace. Switzerland has become the first developed economy to cut interest rates after the Swiss National Bank lowered its main policy rate, and the probability of an interest rate cut by the ECB in June has increased. Guided by the signals of interest rate cuts from major European central banks, the BoE may also lower interest rates in June.

China: GDP growth in Q1 exceeded the market's expectations

In Q1, 2024, China's GDP went up by 5.3% year-over-year and 1.6% month-over-month and the month-over-month growth rate was even stronger. Nevertheless, the nominal GDP growth rate in Q1 only reached 4.2%, which is still at a rather low level. In March, the industrial value-added went up by 4.5% year-over-year (previous value was 7%), and the seasonally adjusted month-over-month decline reached 0.08%. The last time when the month-over-month growth rate of industrial value-added was negative dated back to November 2022. The total retail sales of social consumer goods in March rose by 3.1% year-over-year (previous value was 5.5%). However, given that retail sales only include catering services, the data represent predominantly commodity consumption, but it is the service consumption that has grown faster over the recent years. In Q1, the household consumption expenditure rose by 8.3% year-over-year, and the compound growth rate based on the same period in 2019 reached 4.2%. Consumption is still recovering at a moderate pace. From January to March, the fixed-asset investment went up by 4.5% year-over-year (previous value was 4.2%). In particular, the manufacturing investment rose by 9.9% year-over-year (previous value was 9.4%), and the infrastructure investment expanded by 8.8% year over-year (previous value was 9.0%). Moreover, the investments into real estate development went down by 9.5% year-over year (previously value was a decline of 9.0%). The manufacturing investment remained strong. Driven by the supportive policies for large-scale equipment renewals, manufacturing investment is expected to remain strong in 2024. On the other hand, the real estate construction, sales and other data maintain a weak pattern, and are expected to consistently drag down the overall growth of investment.

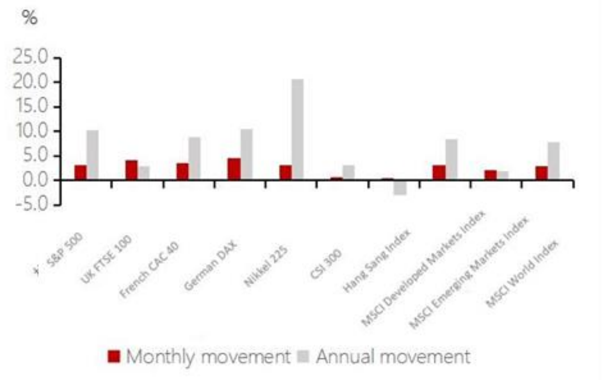
In March, the USD-denominated exports slumped by 7.5% year-over-year (previous value was an increase of 7.1%), and imports dropped by 1.9% year-over-year (previous value was an increase of 3.5%). The decline in export growth is partly attributable to the base number. We maintain our previous view that exports would return to normal growth in 2024. The CPI in March went up by 0.1% year-over-year (previous value was 0.7%), and the core CPI in March increased by 0.6% year-over year (previous value was 1.2%). The core CPI growth rate fell back, indicating that the recovery of consumption is still undergoing twists and turns. Moreover, we maintain our view that the CPI will continue to experience a moderate recovery. In March, the PPI fell by 2.8% year-over-year and 0.1% month-over-month. It is expected that the PPI will turn positive year over-year in Q3, 2024.

The increase in the scale of the aggregate financing to the real economy (AFRE) in March reached RMB 4,867.5 billion, a decline of RMB 519.2 billion year-over-year. The stock of AFRE in March went up by 8.7% year-over-year, a decline of 0.3 percentage points from the previous month. The high base and slow issuance of government bonds are the major factors contributing to the declines in the year-over-year growth rate of AFRE. The newly-issued loans in March reached RMB 3.090 billion. In particular, RMB 940.6 billion worth of loans were newly granted to residents, a decrease of RMB 304.1 billion year over-year. RMB 2.340 billion worth of loans were newly granted to enterprises, an increase of RMB 360 billion year-over-year. The overall credit increment continued to be smooth in Q1. In general, the growth of corporate loans was not weak and that of residential loans was not strong. In March, the M2 rose by 8.3% year-over-year, and the M1 increased by 1.1% year-over-year. The growth of M1 was still at a historically low level.

Compared with the strong data in terms of GDP in Q1, China's economic data in March were generally weak. The sluggish data in the real estate sector and CPI showed that the recovery of domestic demands still experienced twists and turns. Furthermore, the exchange rate pressure derived from the strength of the USD overseas has imposed constraints on China's policy space to a certain extent. Moving forward ,closer attention shall be paid to three aspects. First, the support of pace and scale of government bond issuance to the economic growth in China. Second, the year-over-year growth rate of PPI and the recovery of industrial corporate profits. Third, the impact imposed by high interest rate environment overseas represented by policies of the Fed and the BoJ on global macroeconomic expectations.

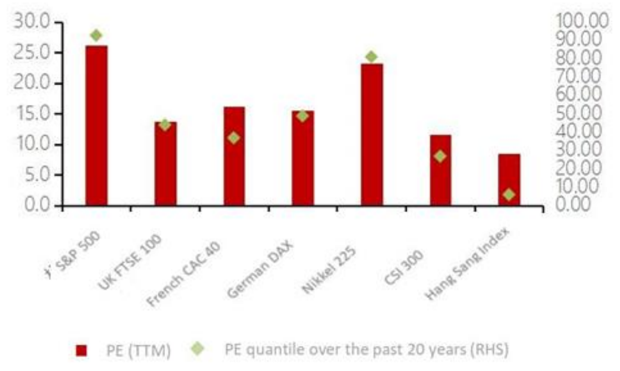
Stock Market

Fig. 3: Stock Index Movements (as of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center

Fig. 4: Stock Index Valuation (as of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center

US: Risk events and rising US bond yields have led to corrections

The escalation of the risk event has led to corrections unseen for a long time in the US stock market over the recent period. The market is concerned that the risk event may trigger a wider conflict, thus causing crude oil prices to skyrocket and the inflation to soar while heightening the risks of economic recession. Although such scenario is unlikely for the moment given that it is not beneficial to both parties after all. Moreover, major countries are persuading both parties to exercise restraint. It shall be noted that risk event could cause certain interference to the US stock market in the short term, but judging from historical experience, the US stock market is usually capable of quickly pricing in the impact and regaining the lost ground, and the market's focus is likely to be placed on corporate profits and economic fundamentals once again.

With respect to earnings, it is expected by the market that the EPS of the S&P 500 Index will increase by 3.4% year-over-year in Q1. If realized, it would be the third consecutive quarter of year-over-year earnings growth. The current 12-month forward P/E ratio for the S&P 500 Index stands at 20.6, which is higher than the average of 19.1 over the past five years and the the average of 17.8 over the past decade. Against the backdrop of risk-free rates at 20-year highs, equity risk premiums are at historically low levels.

The macroeconomy remains quite resilient with the unemployment rate remaining at low levels. The US retail sales increased by 0.7% month-over-month in March, far exceeding the market's expectations of 0.4%, and the data in February was also revised upward by 0.3 percentage points to 0.9%. The Atlanta Fed's GDPNow model has revised up the estimated quarter over-quarter real GDP growth rate in Q1 in the US to an annualized rate of 2.8%, which is further higher than the long-term trend level and could support the expectations for the US stock earnings growth. However, given that the valuation expansion of US stocks since October 2023 has overdrawn expectations for interest rate reductions, and that the US inflation has been high since early 2024, the expectations for interest rate reductions have cooled to a significant extent. The market started to be concerned about the risks of not cutting interest rates or even restarting the rate hikes, and long-term US bond yields have consistently risen naturally, thus suppressing the valuation of US stocks. There is still the chance of a repeat of the market movements seen in last autumn.

Europe: Liquidity is likely to improve in the market, which is expected to bolster the market performance

Due to the gradual declines of the Eurozone inflation and the optimism about the moderate global economic growth, the Stoxx Europe 600 Index hit a record high of 515 points in early April, and has since fallen back to the level above the 50-day moving average. Driven by the sharp rise in the Brent oil futures to a five-month high, the performance of the European energy sector has been bolstered. The Stoxx Europe 600 Energy Index has risen by more than 6% in the first two weeks of April, and it has also driven the rise of the UK FTSE Index, which outperformed compared with the two major stock indices in Germany and France.

At its policy meeting in April, the ECB sent a clearer signal to the market that it would cut interest rates for the first time in June. The policy move is expected to impose impacts on European stocks from two aspects. First, given that the market is delaying the timing of the Fed’s interest rate cuts, which is opposite to the expectations for the ECB’s policy moves, the EUR is likely to reach a lower level. Coupled with the moderate global economic growth, it is expected to support large European companies oriented towards exports. Second, when the ECB lowers its interest rates, it is expected to reduce interest costs for both enterprises and consumers. At the same time, the declines in inflation will lead to an increase in real disposable income, thus bolstering consumption and the growth of corporate earnings. Although the ECB will not cut interest rates until June at the earliest, recent improvements in economic data in the Eurozone, coupled with the expectations that inflation is moving towards the policy target and the increase in market liquidity, are expected to support market sentiment and provide favorable conditions for the performance of European stocks in the mid-term. However, there are two hidden concerns that might constrain the performance of European stocks. First, the flow of funds. As of the week of April 10, European stocks continued to record net outflows of funds since early 2024. In case that such situation does not change, it could impose constraints on the growth momentum in European stock markets. Second, the trend of international oil prices. In case that crude oil prices rise sharply and rekindle the ECB’s concerns about inflation, once the expectations for interest rate reductions alter, it could bring increasing volatility to European stocks.

China: A-share market is likely to experience a stable rally, and the cost-performance of asset allocation into Hong Kong, China stocks has improved

The China A-share market stabilized amid fluctuations in April. The market slightly pulled back in mid-to-late March, and then rebounded in April with narrowing volatility. The declines in the ChiNext Index intensified at the end of March, and continued to fall after a brief consolidation in April. With respect to industries, the majority of sectors experienced declines. In particular, the non-ferrous metals, public utilities and banking sectors have led the market, and the computer, real estate and media sectors have declined the most.

In May, the China A-share market is likely to experience a stable rally. At the macro level, the PMI rose to 50.8% in March. Corporate production and operation activities have accelerated, and the economic prosperity level continued to rebound. At the market level, the commodity index rose slightly by 0.6% month-over-month, and the policies of stabilizing the economy remain effective. Moreover, the consumption in the downstream has gradually picked up, and market operations have recovered and shown positive signs. At the liquidity level, the newly issued credit and the AFRE continued to fall month-over month in March, and the scale of new additions in each sub-item was higher than in February, consisting with the seasonal pattern of holiday factors receding and end-of-quarter credit growth. At the risk level, the Fed’s arrangements of interest rate reductions during the year, the risk event , and the effectiveness of domestic policies of stabilizing the economy will all impose an impact on the trend of the China A-share market in May.

In general, global stock markets rose in March, and yet Hong Kong, China stocks experienced declines overall. With respect to the industrial performance, the Hang Seng Composite Index experienced divergent performance in March. In particular, the raw materials, information technology, and energy sectors achieved remarkable performance. On the other hand, the healthcare, comprehensive industry, and real estate and construction sectors have declined the most. In April, Hong Kong, China stocks continued to fluctuate amid corrections.

Moving forward, the cost-performance of asset allocation into Hong Kong, China stocks has improved to some extent. On the one hand, the Chinese mainland’s economic data in Q1 exceeded the market’s expectations, and the national economy achieved a good start. The economy continued to recover, injecting growth momentum into the Hong Kong, China stock market. On the other hand, although the expectations for the Fed’s interest rate cuts have cooled over the recent period, the low valuation and high dividend of Hong Kong, China stocks remain rather attractive to incremental funds, which may provide financial support for Hong Kong, China stocks to bottom out amid stabilization. With respect to risk factors, against the backdrop of intricate international situation and risk event at present, the overall performance of the Hong Kong, China stock market may be undermined.

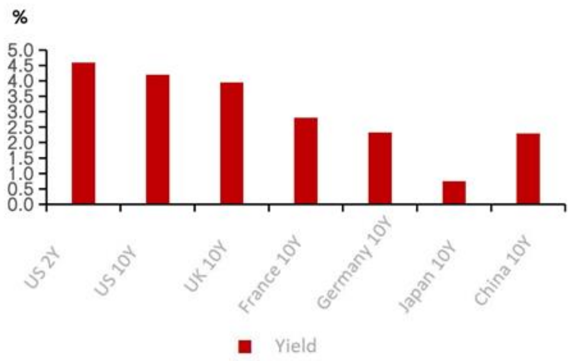
Asia ex-China: Japanese stocks have maintained cost-performance amid corrections at highs, and the fundamentals of the Asian economy remain unchanged

The Nikkei 225 Index fell amid fluctuations in the first half of April due to the fading expectations of the Fed's interest rate hikes and risk event. The BoJ finally put an end to its negative interest rates at the policy meeting in March, and stopped buying ETFs and REITS. However, despite the rate hike for the first time in 17 years, the BoJ failed to prevent the JPY from experiencing consistent depreciation. Even though officials have taken turns to signal that measures will be taken to support the JPY if necessary, the market believes that the BoJ is unlikely to raise interest rates to a significant extent due to concerns about debt sustainability. Certain institutions even expected the JPY to constantly depreciate by 10% against the USD to the level of 170. On the other hand, the price hike initially triggered by the depreciation of the JPY and the rise in commodity prices caused by the risk event lasted longer than many people expected. In April, Japan saw another wave of price increase. With respect to the food prices, there are more than 2,806 items that have seen rising prices, leading to a decrease in Japanese household consumption expenditure for 12 consecutive months. As Japan becomes a country with normal inflation, Japanese companies are expected to enter into a stage where revenue will increase even if costs rise. Nearly one-third of Nikkei 225 constituent stocks are still trading below their book value, and the proportion is much higher than the S&P 500 Index as well as the Stoxx600 Europe Index. Overall, the valuation of the Nikkei 225 Index is at a medium level. In addition, Berkshire Hathaway formally filed to sell JPY-denominated senior notes. This triggered the market's speculation that Warren Buffett might further increase his investment in Japanese stocks. The investment value of Japanese stocks remains high.

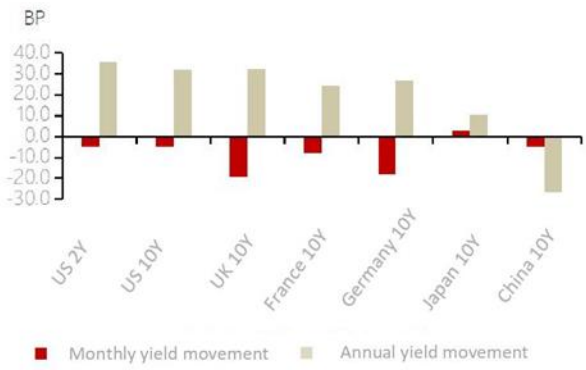
As mentioned in our previous monthly commentary, Asian stock markets may experience fluctuations in April. As of the time of writing, the MSCI AC Asia ex-Japan index fell back after breaking through the high in March and fell to the 50-day moving average of about 646 points. The majority of Asian stock markets recorded declines to varying degrees, but the MSCI India Index recorded growth of about 1.5%. The strength of the USD has become one of the reasons for the declines in Asian stocks. However, the strength of the USD is attributable to risk events and the resilience of the US economic growth, which has led to the delay in interest rate cuts. Therefore, as market sentiment improves, investors are likely to shift their attention to the moderate economic growth around the globe that could drive Asian exports and improve corporate earnings as well as other fundamentals. In addition, the policies implemented by certain Asian countries to stimulate the economy and stock markets are still the driving force for Asian stocks. For instance, the Indian government approved a USD 1.25 billion worth of investment in AI projects, which is expected to support the development of local AI technology and promote the economy. In addition, the South Korean government has pledged to invest more than USD 7 billion in AI and semiconductors by the end of 2027. This shows that Asia is also committed to developing the AI technology, which is expected to bolster the development of related industries and support the economic growth in the mid-to long-term.

Bond Market

Fig. 5 and Fig. 6: Government Bond Yields (as of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

Developed markets: Short-term bonds are likely to achieve better performance as the expectations for interest rate cuts converge, and European sovereign bonds have shown greater advantages

US bonds: Over the recent period, the yields of US treasuries across multiple maturities have hit new highs in 2024. In particular, the US 10-year treasury yield rose above 4.6%, returning to the level reached in early November, 2023. This was mainly because the risks of "risk of inflation rebound" continued to rise in the US, and the US inflation heated up across the board in March. The CPI went up by 3.5% year-over-year, and the core CPI increased by 3.8%, whereas the month-over-month increase reached 0.4%, indicating that endogenous inflation is highly sticky. In case that the month-over-month growth continued, the "secondary inflation" will become a reality in the US. According to the minutes of the FOMC meeting in March, the US inflation data did not provide adequate evidence to support the introduction of interest rate cuts, and the market's expectations for an interest rate cut by the Fed have been lowered at an accelerated pace. The data on the US retail sales in March also exceeded the market's expectations, and strong consumer and labor markets further consolidated the market's expectations for "risk of inflation rebound". As of the time of writing, according to Bloomberg interest rate futures, the market's expectations for interest rate cuts in 2024 have fallen to less than 2 times (calculated on the basis of 25-bp rate cut each time), which is only half of the estimated number according to dot plots in March. The next FOMC meeting will not update the dot plots on interest rates, but it is foreseeable that the post-meeting statement and the remarks of the Fed's chairman Jerome Powell will receive much attention from the market. In case that the inflation remains strong, the Fed's policy stance may become increasingly hawkish. It shall be noted that the minutes of the FOMC meeting in March also mentioned that members generally supported shrinking the balance sheet by half, indicating that the Fed overall is still trending in a loose direction. In addition, housing costs in the sub-item of core inflation continued to slow down, and the inflation is still expected to fall in the mid-term. It is still the general direction to start interest rate cuts within the year 2024, and the room for US bond yields to rise above the current level is gradually limited. With fluctuations of bond yields at highs, short-term bonds are expected to achieve better performance in May.

European bonds: The decision of the ECB's policy meeting in April was to keep interest rates unchanged, which was in line with the market's expectations. However, according to the policy statement after the meeting, in case that the inflation continued to move towards the 2% target, it would be appropriate to reduce the current restrictive level of monetary policy, indicating that a rate cut may be initiated in June. Judging from the current overnight index swap rate, it is expected by the market that the chance of the ECB lowering interest rates in June is more than 90%. As of the time of writing, the German 2year and 10-year treasury yields were about 2.85% and 2.36% respectively, an increase of nearly 21.5% and 19.6% from the lowest points of 2.36% and 1.97% in early 2024. It is expected that when the ECB lowers interest rates, the yields on European bonds will gradually decline, thus ushering in investment opportunities. The lowest yields on Bloomberg Barclays Pan European Aggregate Sovereign Bonds and Bloomberg Barclays Pan-European Investment-grade Corporate Bonds are each around two standard deviations from their averages over the past decade, thus revealing attractive valuations. The economic outlook remains uncertain in Europe, and sovereign bonds are more attractive than investment-grade bonds given that they offer a hedge against recession risks. Therefore, in the near term, sovereign bonds are likely to have greater advantages, and investors may properly increase the duration of the bond portfolio to capture investment opportunities in European bonds.

Emerging markets: China's bond market maintains oscillations within the range, and USD bonds are rather resilient, whereas adjustments in emerging market bonds provide investment opportunities

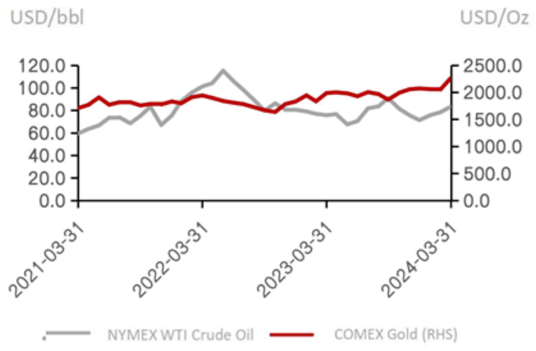
China's bond market: Since April, the bond market has been operating stably in general. In particular, the 10-year government bond yield consolidated below the level of 2.3%. The performance of short-term bonds has been driven by the entry of large amounts of wealth management funds, and the yields on certificates of deposit and short-term credit bonds continued to decline. In the near term, disturbance factors in the bond market may increase in May, but the risks of a rapid reversal in the market are limited, whereas there is a high chance that the market would remain volatile within the range. From a fundamental perspective, China's GDP grew by 5.3% year-over-year in Q1, which was higher than the market's forecast as well as the growth rate of 5.2% for the whole year of 2023. However, this was mainly attributable to the contribution of industrial growth. The year-over-year economic data in March was generally lower than expected, and certain data deviated from the trend of GDP, including the total retail sales of social consumer goods and real estate investment, showing that the current recovery of domestic demands is still weak. Closer attention shall be paid to the verification of economic recovery by economic data in April. From a financial perspective, the PBOC renewed MLF at parity with lower volume in April, and showed no intention of investing too much funds. The recent pressure on the RMB exchange rate is an external constraint for further easing of monetary policy. However, certain small and medium-sized banks have recently announced further reductions in deposit interest rates. The downward movements of liability costs may not be over yet, and a loose funding balance is still the norm at present. From the perspective of bond supply, the pressure may be gradually released on the supply side. It is necessary to pay closer attention to the role of the increase in government debt and the greater efforts made in credit easing policies in stabilizing growth in Q2, especially the increase in the supply of ultra-long-term special government bonds and local special bonds. Long-term varieties of bonds will usher in the window of opportunities for observation of the launch of special government bonds in the near term. It is expected by the market that the issuance of special government bonds may start in May or June. Greater supply pressure in the short-term bond market may impose certain constraints on the bond market. Before market conditions become clarified, investors shall be wary of the adjustment risks in the ultra-long-term bonds. In a nutshell, the bond market is likely to maintain the pattern of oscillations, and there will be little room for yields to either rise or fall.

Chinese USD bond market: As the market re-evaluates the expectations for the Fed to cut interest rates, the US bonds have generally suffered from a decline over the recent period. Chinese USD bonds have also given up some of their gains in 2024, but the declines have been rather limited, showing relatively strong resilience. In particular, high-yield and real estate-related USD bonds have benefited from the ongoing implementation of China's urban real estate financing coordination mechanism, which has bolstered the domestic real estate sector. Chinese USD bonds in the real estate sector have bucked the trend, and certain real estate USD bonds have even surged by more than 200%. In addition, although the yield of China's LGFV USD bonds has been compressed by nearly 100 bps, compared with domestic bonds, the interest rate spread of Chinese USD bonds is still evident, showing potential opportunities of achieving gains.

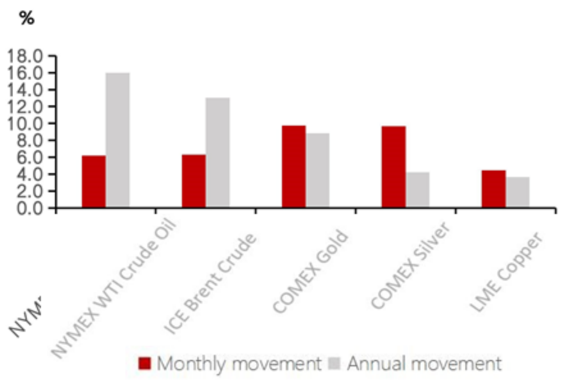
Global emerging bond markets: Emerging bond markets provide investment opportunities amid adjustments. As the market's expectations for interest rate cuts by the Fed have further cooled, the USD has risen by about 4.6% year to date, hitting a high for the year and imposing pressure on emerging bond markets. Since early 2024, emerging bond markets have recorded net outflows of approximately USD 7.6 billion. The Bloomberg Barclays Emerging Markets Investment-grade Bond Total Return Index also went down about 1.84% year to date. However, the lowest yield of the index is about 5.72% at present, which is well above the 10-year average of 3.9%, indicating that it is attractive for investments at present. Although the timing of the Fed's interest rate cut has yet to be determined, and emerging bond markets are still under pressure in the near term, the Fed's general direction of lowering interest rates during the year remains unchanged, thus providing investment opportunities for emerging bond markets amid adjustments.

Commodities

Fig. 7 and Fig. 8: Commodity Prices (as of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

Gold: There is still upward momentum in the mid-to long-term, and there have been heightened risks of corrections in the near term

Gold prices have repeatedly broken new highs since April. In early April, the risk event bolstering the demands for safe-haven assets, and the Fed's rhetoric about three rate cuts in 2024 also provided support for gold price movements. Moreover, the optimal data on US job openings and factory orders put temporary pressure on gold prices, but speculators chasing momentum are joining retail investors and central banks to purchase gold and cover shorts.

In May, gold prices are likely to be influenced by a variety of factors, including global economic conditions, monetary policy trends, and risk event. There are three vital logics for gold pricing: Whether the global tension eases in the near term (safe-haven attribute); whether the expectations for US interest rate cuts will increase (monetary attribute); and whether the demands for gold purchases slow down in the long term (commodity attribute).

First, the current gold price includes a premium from risk event and local turmoil, as well as uncertainties about the outlook for world economic growth. At present, risk event are still unfolding, and it is necessary to reassess the tension in the near term, and analyze whether the tension of risk event will further escalate. In case that risk event does not engage in follow-up measures, gold prices could experience corrections.

Second, the stickiness of the US inflation has yet to be falsified, and the US economy is facing the consistent dilemma of “high inflation, high interest rates, and high deficits”. The Fed’s maintenance of high interest rates will increase the interest paid by the US government on its debt, and the global financial vulnerability will be higher than previously. Closer attention needs to be paid to the policy movements of the Fed, and the market’s expectations for the Fed to cut interest rates three times before the end of the year have been reduced. In particular, the possibility of a rate cut in June has almost been ruled out, but the release of numerous economic data before the rate cut will affect the market’s expectations for interest rate cuts, and cause gold prices to fluctuate within a narrow range.

Third, with respect to the commodity attribute, the sensitivity of gold prices originates more from demands, and gold prices have been supported by central bank purchases as well as demands from Asian individual investors since 2022.Due to the increasing risk event and the over-issuance of currencies, numerous central banks have optimized the structure of foreign exchange reserves to hedge against the possible instability of the USD exchange rate in the future, and increased the demands for gold accordingly. Hence, the purchase of gold by central banks may still be a general trend. In addition, as the sell-off of gold-backed ETFs slows down and may shift to buying, ETF holdings are expected to become a new driver for gold prices. As of March, global gold-backed ETFs continued to see net outflows for 10 consecutive months. Nevertheless, Asia saw net inflows for the 13th consecutive month. All regions except Europe saw net inflows in March, with North American holdings shifting into net inflows for the first time in 2024.

In the near term, any changes in risk event are likely to weaken the demands for safe-haven assets like gold. In addition, the strong US economic data and high inflation over the recent period have driven the increasingly hawkish expectations for interest rate cuts. Gold prices may lose some of the recent gains. Closer attention shall be paid to the risks of correction, and it is recommended to purchase gold at lows.

Crude oil: Driven by the supply-side factors, crude oil prices fluctuated upward

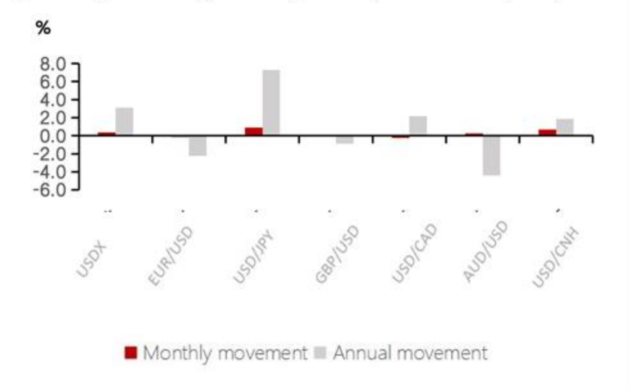
In April 2024, the US crude oil rose for the fourth consecutive months and broke through the crucial point of USD 80 per barrel. Due to the gradual strengthening of oil prices, the center of oscillations continued to move upward. The release of the data on non-farm payrolls that exceeded the market’s expectations and the strong PPI in US in March led to lower chance for the Fed to cut interest rates in June. It is estimated by the market that the date of rate cuts will continue to be postponed, and the number of rate cuts will be reduced in 2024, but oil prices have not suffered from a major impact. Due to risk event, crude oil prices have been constantly rising.

In May 2024, crude oil prices are expected to fluctuate upward. On the supply side, the OPEC+ alliance has been bolstering oil prices by controlling production since April 2023. However, due to the banking crisis in Europe and the US at that time, the macroeconomic factors suppressed oil demands, and the supply-side measures were insufficient. However, driven by the gradual implementation of production cuts by the OPEC+ alliance, oil prices have gradually increased. With respect to the current implementation of agreement, Saudi Arabia remains the core force behind the production cuts. The country has maintained a production level of around 9 million b/d since July 2023. Moreover, Saudi Arabia is still willing to sacrifice production for more favorable oil prices, and thus it will persist in setting an example in terms of production control. In addition, the Russian government ordered companies to lower oil production in Q2 so as to fulfill Russian commitment to the OPEC+ alliance. Rising US interest rates will continue to raise production costs for shale oil companies and further dampen upstream investment activities. This will in turn weigh on US crude oil output, which is expected to grow by less than 500,000 b/d in 2024, down by half from the year 2023. On the demand side, the performance of global economic activities in Q2, especially the performance of manufacturing PMI in major economies, will play a key role in the increase in oil prices. The macroeconomic data released in March showed that the ISM manufacturing PMI in the US rose above the threshold of 50 for the first time after a downturn of one year and a half, and China’s manufacturing PMI also stood above 50 after a half-year downturn. The performance of the PMI of these two major consumer countries has bolstered oil demands to a significant extent.

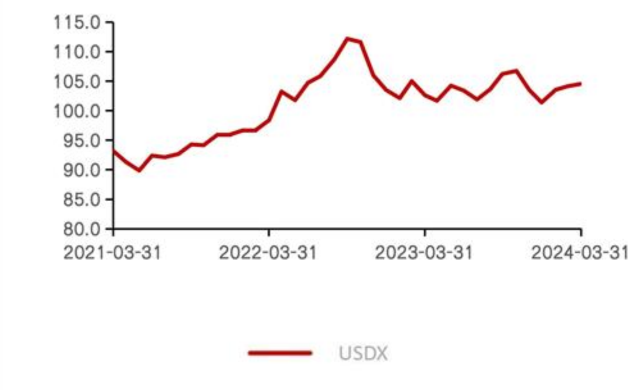
Overall, the consistent production cuts implemented by the OPEC+ alliance and Russia will lead to oil supply shortage in 2024, which is expected to drive crude oil prices higher. In addition, due to the persistence of the risk event , the risks of supply disruption due to global geopolitical incidents becomes increasingly severe at present, which may heighten the volatility of oil prices.

Foreign Exchange

Fig. 9 and Fig. 10: Foreign Exchange Prices (as of March 31, 2024)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

U.S. dollar: USD's strength is supported by the consistent delay of interest rate cuts, and focus shall be placed on the resistance level of 107

From early April to the time of writing, the USD has strengthened consistently, mainly due to the increasingly distant expectations of interest rate reductions. The USD index once hit a low of 103.88 in April. Subsequently, as the economic and inflation data showed resilience, the market has postponed the expectations for the timing of interest rate cuts. Coupled with the impact of risk events, the USD index broke through the level of 106, hitting a record high in five months. According to the trend of interest rate futures, the current market expectations for interest rate cuts in June and July have fallen below 25% and 60%. In addition, the cumulative interest rate reduction for the whole year is expected to reach only about 0.5%, which is lower than the rate of 0.75% estimated by dot plots on interest rates released by the Fed in March. This means that the market is no longer 100% confident that the Fed would cut interest rates three times in 2024 (calculated on the basis of 25 bps each time). From the economic aspect, the number of new non-farm payrolls in the US reached 303,000 in March, hitting a record high over the past year and exceeding the market's expectations. In addition, the latest increase in the core CPI was higher than expected for the third consecutive month. Judging from data, the US economy was rather resilient, and a delay in interest rate reductions was also a reasonable expectation by the market. Under circumstances where the expectations persist for interest rates to remain high and risk events have yet to ease, the USD is still likely to reach a relatively high level overall. The high level of 107 reached in early November 2023 is expected to be the next resistance level. At present, there are still two sets of CPI data to be released prior to the FOMC meeting in June. Changes in the inflation data are likely to affect expectations of interest rate cuts. However, when the market has priced in the expectation for the delay of interest rate cuts, the USD may fall slightly, thus supporting the rebound of other currencies at lows.

Euro: EUR is faced with the pressure imposed by the ECB's potential interest rate cuts ahead of the Fed

Subsequent to the ECB's policy meeting in April, the market has divergent expectations for the pace of interest rate cuts in Europe and the US. During the policy meeting, the ECB sent a clearer signal to the market for its first interest rate cut in June. According to the policy statement after the meeting, in case that the future inflation continued to move towards the 2% target, it would properly lower the current level of monetary policy restrictions. In addition, the ECB's President Christine Lagarde stated that she would not wait until all inflation indicators return to 2% before making a decision. Instead, she was convinced that more data would be available in June to determine the orientation of interest rates, and the ECB would not rely on the Fed's policy path. At present, the probability of interest rate cut in June has risen to nearly 90% in interest rate futures, indicating that the ECB's inflation target is likely to be fulfilled for the "last mile". As inflation in the US remained volatile, the market is delaying the timing of the Fed's interest rate cuts. The divergence in European and US monetary policies have formed the basis for the short-term weakness of the EUR. As of the time of writing, the EUR/USD has fallen below 1.07 and returned to the level reached in November 2023. In case that the Eurozone economy did not show any particular improvement to support the fundamentals of the EUR, then the potential rebound of the EUR would depend on the weakening of the USD.

British pound: GBP is faced with the adjustment to the carry

On a year to date basis, GBP has somewhat kept pace with the USD, being similarly high yielding and supported by a less dovish central bank so far. The success has been built on a policy rate which is close to that being offered by the USD, and central bank guidance that retained a hawkish risk case even while leaving policy unchanged. That narrative has been challenged by recent data and the March Bank of England meeting. With GBP long positioning looking stretched, the potential downward adjustment could have further to run. The March Bank of England revealed that the two hawkish dissenters of prior meetings had abandoned their calls for a hike. The only dissenting vote was for an immediate cut. Recent International Monetary Market (IMM) data shows net non-commercial long GBP positions are at their largest since the global financial crisis. This suggests that any mispricing can expose the sizeable net long positions to a correction.

Japanese yen: JPY is likely to remain weak in the near term due to its lack of strength despite interest rate hikes

Despite the interest rate hikes by the BoJ, the trend of depreciation of the JPY has yet to be reversed. The USD/JPY has risen to the level above 154, reaching a record low since 1990. From a technical aspect, after breaking through the previous high, the USD has room for further gains against the JPY. According to sources familiar with the policymakers, the BoJ is likely to shift to a more discretionary approach when formulating policies, and may place less emphasis on inflation. Subsequent to its historic decision in March to end its aggressive stimulus scheme, the BoJ is charting its monetary policy path. Three sources familiar with the matter said that while the BoJ expects inflation to remain near its 2% target until early 2027, such forecast alone does not serve as a strong hint for a interest rate hike in the near term.

Commodity currencies:

Canadian dollar: CAD is likely to experience the pattern of weakening amid oscillations

The Bank of Canada announced that it would hold its benchmark overnight rate unchanged at 5%, and hinted at an interest rate cut at the policy meeting in June. With respect to the core inflation, the Canadian inflation rate slowed to 2.8% in February, and other potential price pressure indicators have also shown signs of easing. The slowdown in core inflation has provided ample grounds for the Bank of Canada to make further decisions on the interest rates. In addition, the Bank of Canada lowered its expectation for the inflation rate in 2024, which returned to the target level of 2% by the end of the year. The shift in monetary policy expectations has laid a foundation for the return of the CAD to the mean. With respect to crude oil prices, there are still huge uncertainties in the risk event, which is expected to consistently support the crude oil market. Oil prices continued to consolidate at high levels, supporting the CAD to a certain extent. Overall, the CAD has certain potential support against the backdrop of unfavorable policy, and it is expected to maintain the pattern of weakening amid oscillations during subsequent market movements.

Australian dollar: AUD is expected to remain volatile at lows while being tested at key support level

Against the backdrop of suppressive environment where the USD continued to strengthen, the AUD has been losing ground. According to the minutes of the policy meeting in March, the RBA would further shift its monetary policy towards a neutral stance, and accordingly, the market started to predict that the first rate cut by the RBA would be delayed. Amid the expectations that the interest rate gap between the US and Australia would not widen, the AUD/USD stabilized despite declines. Overall, although the AUD/USD has fallen sharply, it is still within the previous wide range of sideways fluctuations. At present, the exchange rate is faced with resistance at the level of 0.65 in the simple moving average of the Bollinger band amid a weakening trend. Moving forward, the AUD is likely to remain volatile at lows while being tested at the key support level as well as previous low of 0.62.

Renminbi: RMB is expected to constantly operate within a reasonable range, and closer attention shall be paid to the policy stance of the PBOC

As of April 12, the CFETS USD/RMB exchange rate closed at the level of 7.2232, maintaining the trend of slight depreciation from February. The CFETS RMB Exchange Rate Index reached 100.05, a slight increase from the previous month. Judging from the performance of the foreign exchange market in the first two weeks of April, the RMB depreciated against the USD and appreciated against non-USD currencies. As mentioned in our latest monthly commentaries, due to the resurgence of inflation and persistent resilience in the employment in the US, the market continued to lower its expectations for the number of interest rate reductions by the Fed in 2024, and the timing of interest rate cuts has been constantly postponed. The economic data from non-US countries were generally weak, and the USD index rose to the level above 106 in April. In the near term, the external pressure faced by the RMB is mainly imposed by the USD, and the overall pressure against non-USD currencies is not expected to be significant. Domestically, the latest economic data for March did not exceed the market’s expectations overall. Although the export data in March slumped by 7.5% year-over-year (denominated in USD), after excluding the impact of the high base, the performance of exports in March was not weak. The two-year compound growth rate of exports amounted to 1.2%, higher than the rate of -0.9% from January to February, and the month-over-month growth rate amounted to 27%. In addition, the PBOC did not ease its monetary policy further since April. To a certain extent, this is also a defense against the strengthening of the USD, revealing the consistent policy support for the exchange rate. Overall, the RMB exchange rate is still in a period of coexistence of bullish and bearish factors in the near term, and the level of 7.3 remained crucial for the USD/RMB. In case that the USD index continued to be strong, closer attention shall be paid to the policy stance of the PBOC.

Asset Allocation

Fig. 11: Asset allocation recommendations in 2024

Stocks	Underweight			Overweight	
	Bearish	Conservative	Neutral	Recommended	Bullish
U.S. (S&P 500)		●	●		
Europe (DAX, CAC)		●			
U.K. (FTSE 100)		●			
Japan (Nikkel 225)				●	
China A-shares (CSI 300)				●	
Hong Kong, China (Hang Seng Index)				●	

Bonds	Bearish	Conservative	Neutral	Recommended	Bullish
U.S. Treasuries				●	
Chinese Dollar Debt				●	
China: Money Market			●		
China: Rate Securities			●		
China: Credit Debt			●		
China: Convertible Bonds			●		

Precious metals	Bearish	Conservative	Neutral	Recommended	Bullish
Gold				●	
Silver				●	
Crude Oil		● →	●		
Copper		● →	●		
Aluminum			●		

Foreign currencies	Bearish	Conservative	Neutral	Recommended	Bullish
USD		● →	●		
EUR		●			
GBP		●	← ●		
CAD			●		
AUD			●		
JPY			●	← ●	
CNY			●		

Source: BOC Investment Strategy Research Center

Note: The gray dots represent preset conditions; the red dots represent revisions for Q2; and the black dots represent annual opinions.

In Q1, 2024, driven by the expectations that the USD is about to enter into the cycle of interest rate cuts, global asset prices have ushered in a silver lining. With respect to global stocks, the performance of overseas and Chinese stock markets continued to diverge. Overseas stock markets have experienced a rally with consistent momentum, whereas the Chinese stock markets have experienced a V-shaped reversal with structurally divergent and mixed performance. With respect to the performance of global bond markets, Chinese bonds were rather strong and US bonds were rather weak. In particular, Chinese bond markets continued to experience a bull run, and US bond yields have repeatedly withdrawn from their highs and underperformed. With respect to currencies, the USD outperformed, whereas non-USD currencies generally weakened. In addition, the RMB exchange rate remained stable. The gold market started its major rally and hit record highs repeatedly. The commodities market traded the USD interest rate cuts in advance and entered into a bull run. In Q2, 2024, there is a higher chance for the US to achieve a soft landing. The Eurozone economy is faced with the risks of recession, and the Japanese economy is expected to further strengthen. China has stepped up efforts in implementing fiscal and monetary policies, and certain economic data are showing signs of pick-up, leading to the recovery that is stronger than expected. With respect to stock markets, US stocks have risen with consistent momentum, and interest rate cuts are likely to trigger corrections. The positioning of the A-share market is subject to adjustments, thus bolstering the market confidence. Subsequent to a V-shaped reversal, the market is consolidating and biding for a recovery. Hong Kong, China stocks went through twists and turns while being repeatedly undervalued, and set sail again amid revaluation. With respect to the bond markets, the asset allocation into US bonds has taken place at the opportune moment as investors are trading interest rate cuts in advance. Chinese bond markets may be bearish in the near term and bullish in the mid-term, and are likely to exceed the market’s expectations. With respect to the currency markets, the USD has entered into a neutral territory and fluctuated within a wide range. The RMB is biding for a turnaround in thee fluctuations within the range. Other non-USD currencies have been involved in mirror trading with the USD. The gold market entered into the stage of major rally on the eve of USD interest rate reduction cycle, and the commodities market also took the lead in ushering in a bull run.

In Q2, 2024, investors are faced with both opportunities and risks. First, the gold market has entered into the stage of major rally, and is likely to maintain the positioning of income-generating strategic assets with an overweight. It is reasonable to chase highs, hold positions steady, or take profits while existing the market during rally, depending on the risk preference of specific investors. Moving forward, closer attention shall be paid to the speed and path of the declines of the USD’s strength amid changes, the growth of the debt scale of the US and major economies, and the subsequent progress of the central bank’s gold purchases. Second, after the V-shaped reversal of the A-share market, it is recommended to increase asset allocation into equity products. Equity positions are expected to determine the outcomes of future asset allocation within permitted scope of risk appetites, which hold true for both the value of dividends and the growth of tech stocks, and both the index-enhanced passive investment and active management products. Last but not least, for US and Japanese stocks, investors should be cautious in chasing highs. The Nasdaq and Nikkei 225 indices have risen by 56.32% and 54.71% respectively from early 2023 to the end of Q1, 2024. The innovation effects of technology have been fully reflected in the stock market. Moving forward, stock markets are expected to usher in a stage where industrial applications are promoted and leading companies take the challenges of other rising stars. Accordingly, leading enterprises may enter into a stage of declining profit margins.

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