CSOP ASSET MANAGEMENT 南方東英

Can China Consumption Continue to Sustain?

November 1, 2023

Contents

01

Global Macro

1. Interest Rate Hikes Come to an End

- Following the aggressive rate hikes in 2022, the Federal Reserve continues to increase interest rate in 2023, but at a noticeably slower pace and magnitude. The European Central Bank will continue to raise interest rates and shrink balance sheet to combat inflation.
- The current market consensus is a pause in rate hikes in September, but the probability of another hike before year-end significantly increased after Jackson Hole meeting.

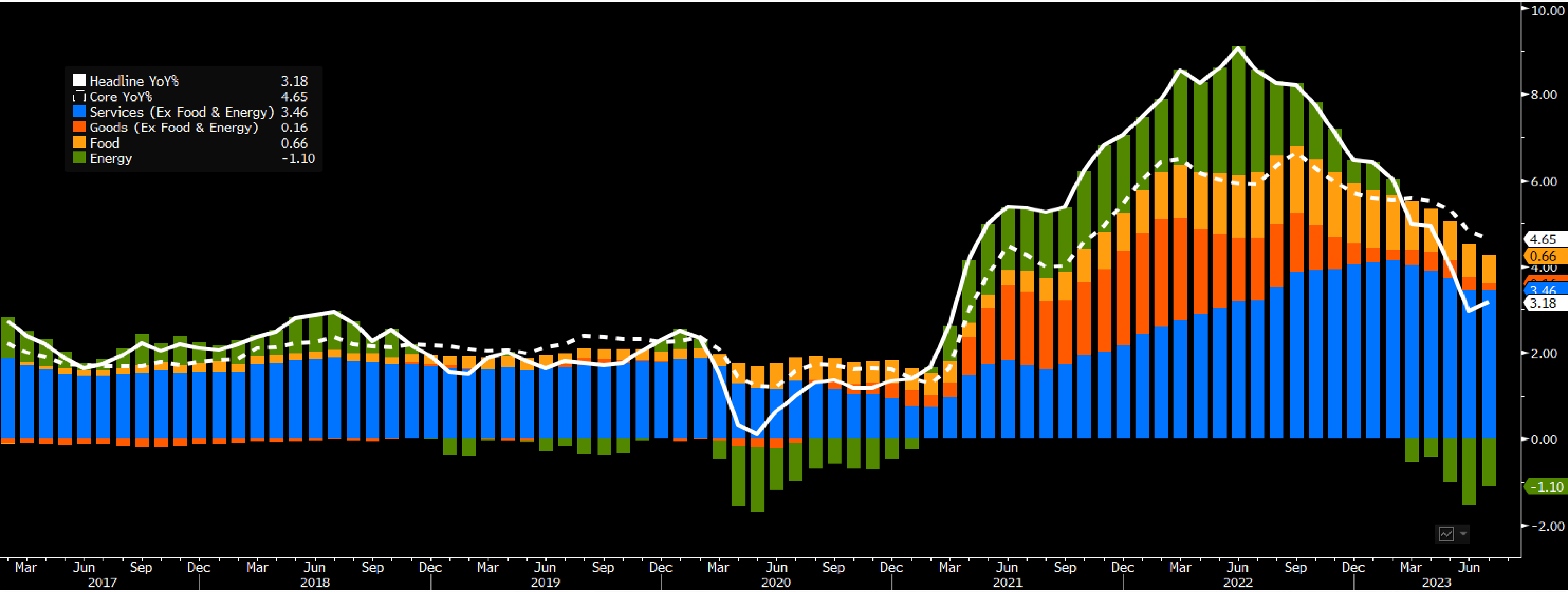
Market Expectations of Federal Reserve Interest Rate Path

MEETING PROBABILITIES											
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
2023/9/20				0.0%	0.0%	0.0%	0.0%	0.0%	80.5%	19.5%	0.0%
2023/11/1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	38.9%	51.0%	10.1%
2023/12/13	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.6%	40.0%	47.2%	9.1%
2024/1/31	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	8.1%	40.9%	42.5%	8.0%
2024/3/20	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	2.6%	17.3%	41.4%	32.8%	5.8%
2024/5/1	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	8.4%	26.8%	38.0%	22.1%	3.5%
2024/6/12	0.0%	0.0%	0.0%	0.0%	0.6%	5.1%	18.4%	32.9%	29.4%	12.0%	1.6%
2024/7/31	0.0%	0.0%	0.0%	0.4%	3.4%	13.5%	27.5%	30.7%	18.4%	5.4%	0.6%
2024/9/18	0.0%	0.0%	0.3%	2.7%	11.1%	24.2%	29.9%	21.4%	8.5%	1.8%	0.1%
2024/11/7	0.0%	0.2%	1.9%	8.3%	19.8%	28.0%	24.2%	12.8%	4.0%	0.7%	0.0%
2024/12/18	0.2%	1.4%	6.5%	16.5%	25.7%	25.3%	16.1%	6.5%	1.6%	0.2%	0.0%

Source: Federal Reserve, CSOP. As of 2023/08/28. These are forecasted numbers and are provided for reference purpose only. The forecasts are based on pricing data from Chicago Mercantile Exchange (CME) 30-day fed futures.

2. Rate Hikes Work with Strong Demand Resilience

- US CPI has exceeded market expectations to a downward trend for 3 consecutive months, with May expected to be 4.1% vs. 4.0% actual, June expected to be 3.1% vs. 3.0% actual, and July expected to be 3.3% vs. 3.2% actual.
- However, the core CPI remains high at 4.7%. As a result, high interest rate level is expected to continue until the year end, and the first rate cut is likely to happen in January 2024, even highly likely to be postponed.



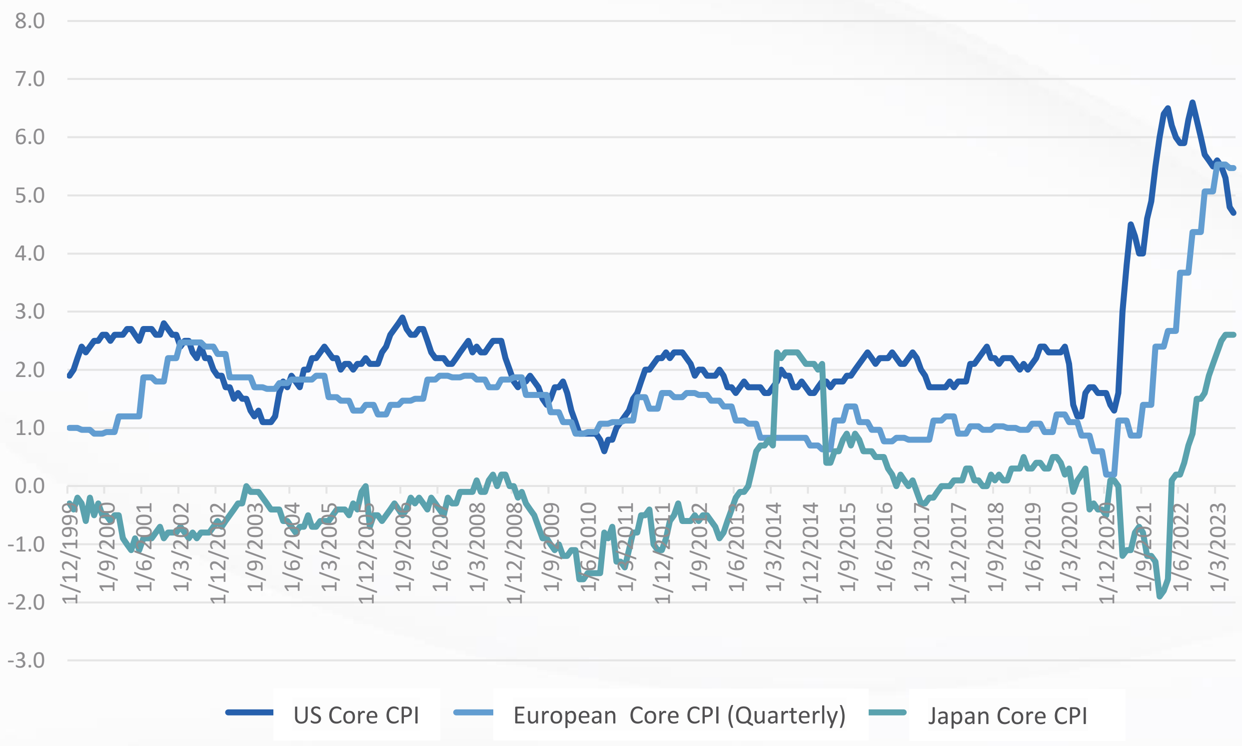
Source: Bloomberg, CSOP. As of 2023/08/15.

3. Baseline Scenario: Soft Landing or Even No Landing

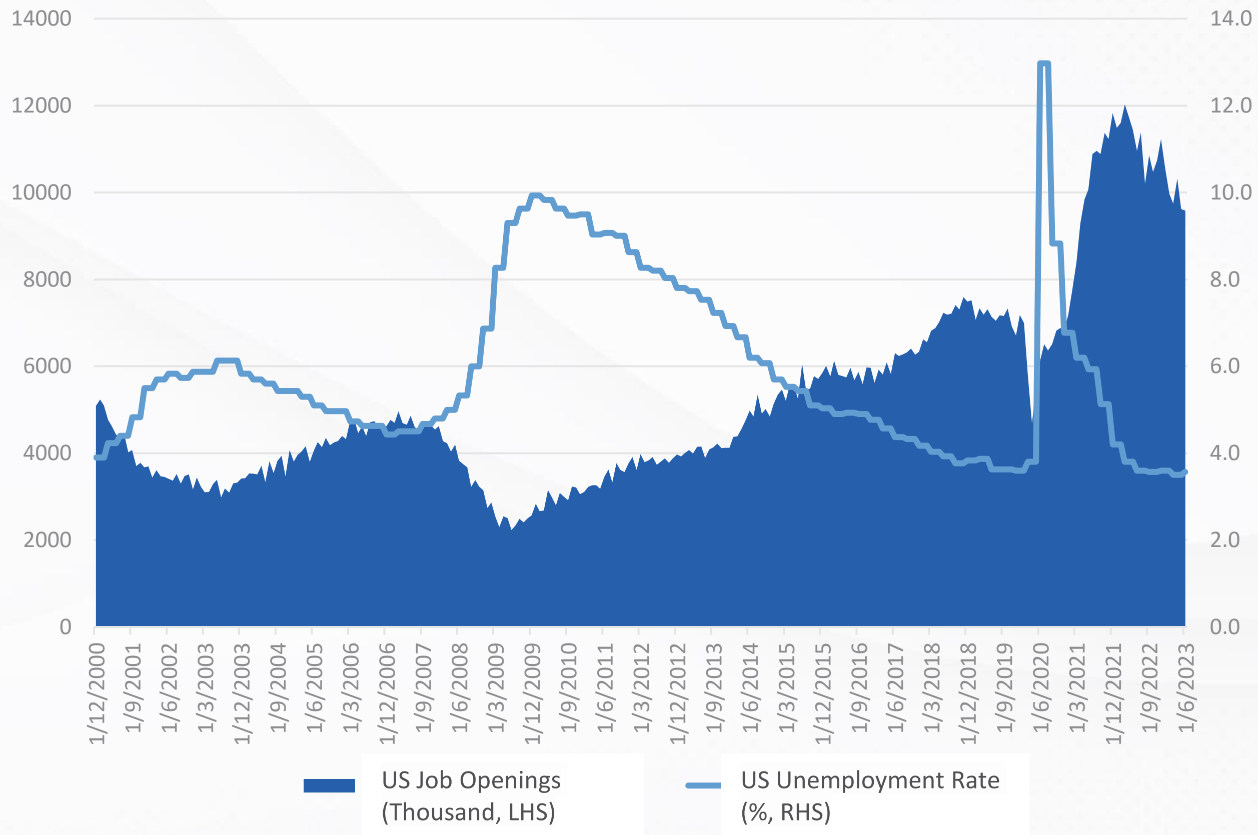
- CPI has shown a significant decline and is gradually approaching Fed's long-term target.
- Labor market remains robust, with unemployment rate at historical lows. According to data from the U.S. Department of Labor, average hourly earnings increased by 4.4% YoY in July, surpassing market expectations of 4.2%.

Based on the available information, weak recession in the U.S. is the current baseline scenario.

US Experiencs Inflation ahead of Other Developed Economies



US Labor Market Remains Tight: High Job Vacancies and Low Unemployment Rate

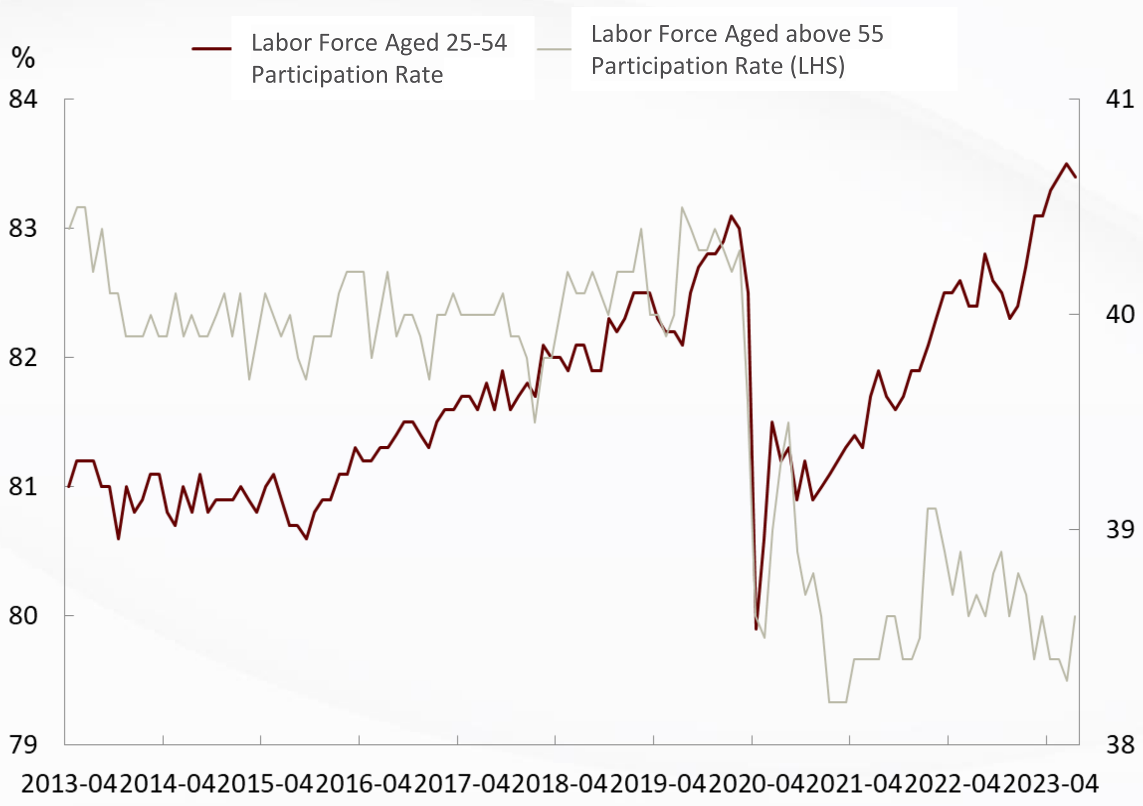


Source: Bloomberg, CSOP. As of 2023/08/15.

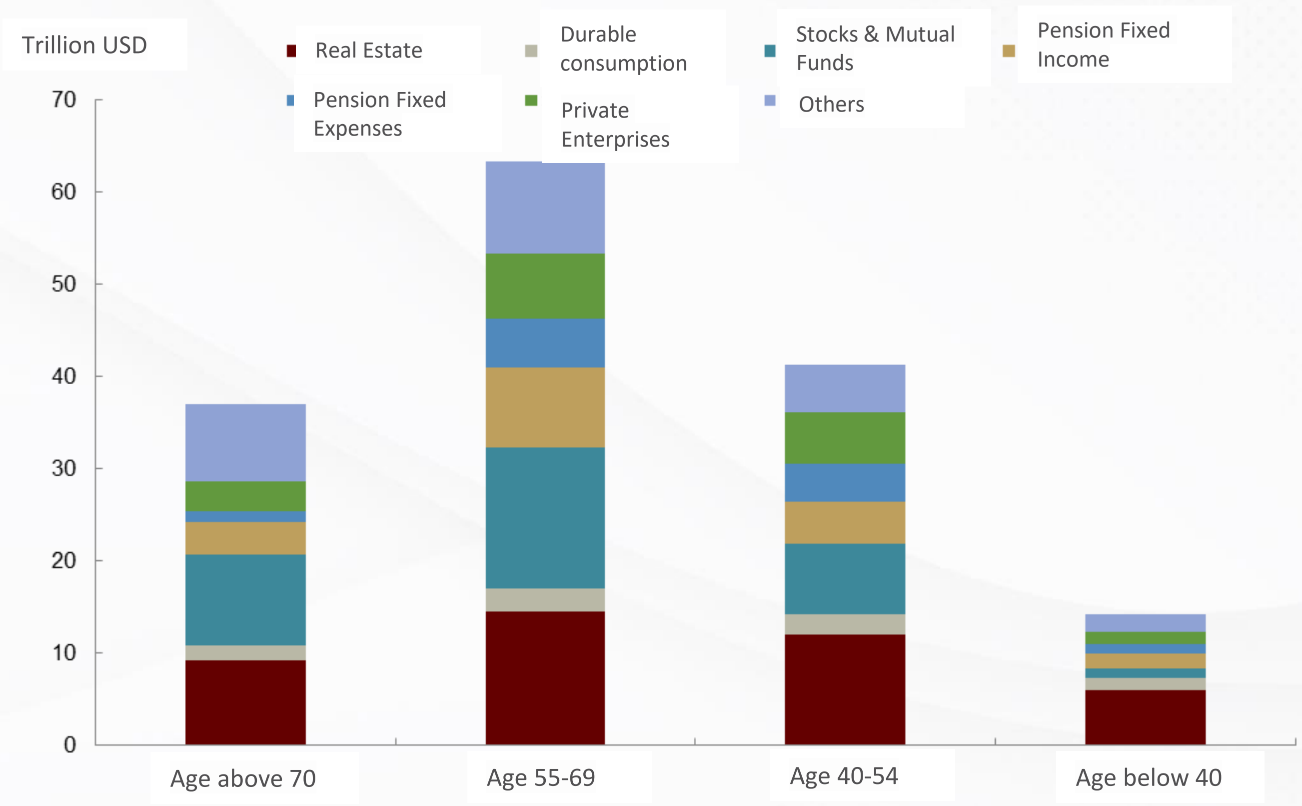
4. Strengthening of Household Assets (Income + Financial Assets)

- Household consumption capacity is derived from the strengthening of their balance sheet. The household assets consist of various income sources (labor income, financial asset income, fixed asset income, etc.).

Employment Resilience Comes from the Elder Exit from Labor Market



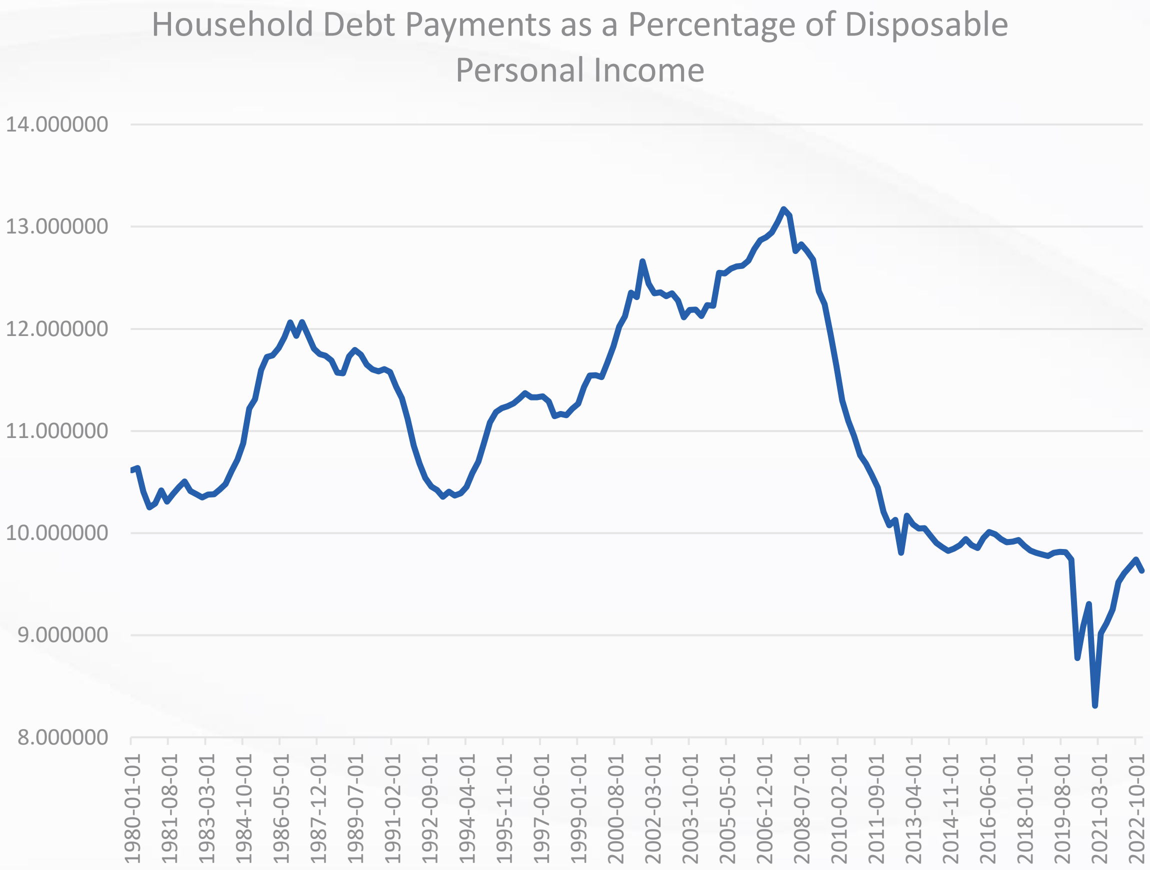
US Household Wealth Distribution by Age

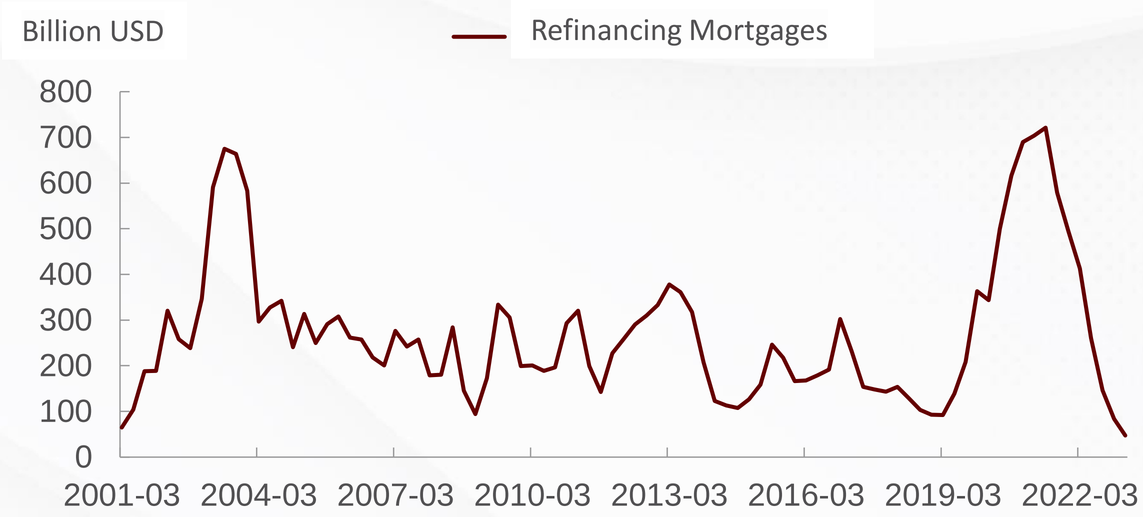


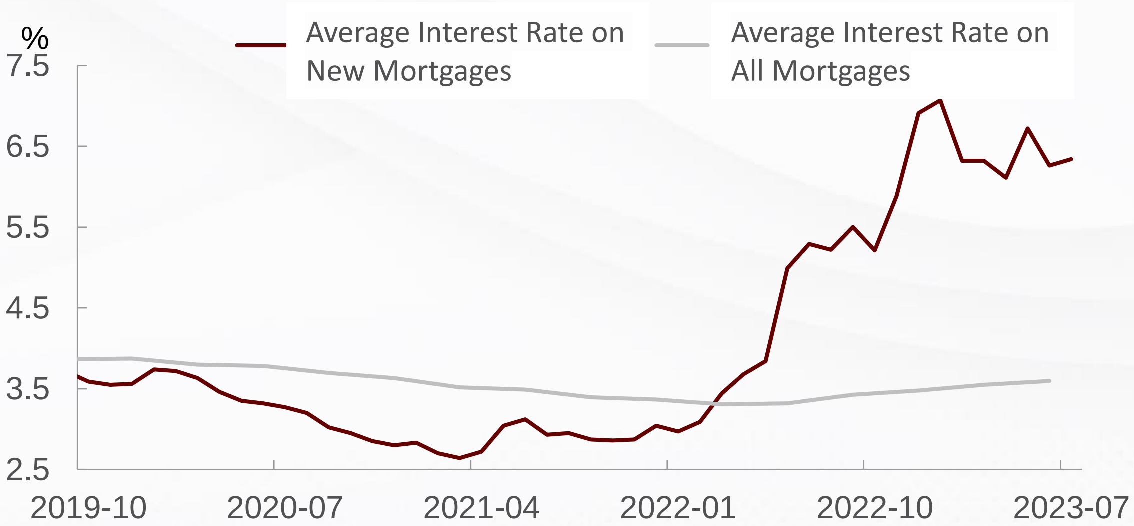
Source: https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:133;series:Assets;demographic:age;population:13,5,7;units:levels;range:2007.4,2022.4
Bloomberg, CSOP, as of 2023/08/15.

5. Household Liabilities Is Not under Pressure

- Household consumption capacity comes from the strengthening of their balance sheet. The household liabilities include various types of loans, with mortgage being the primary long-term debt.
- Debt burden of the U.S. household is at historical lows.



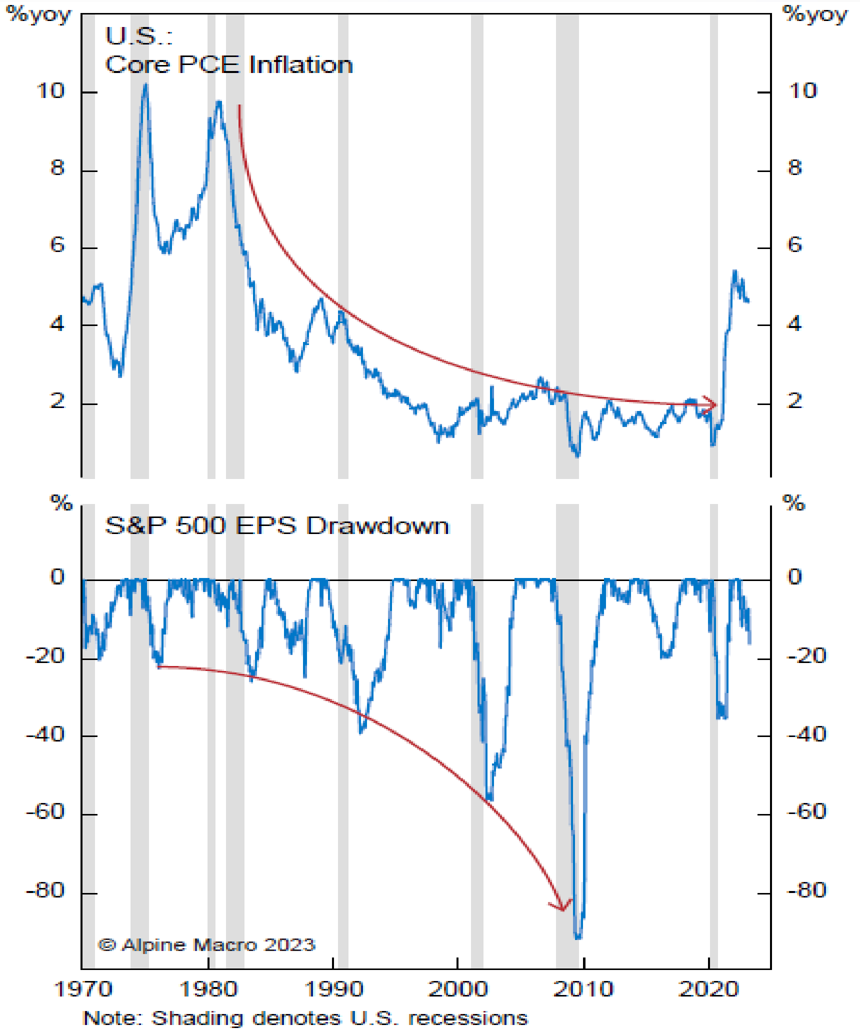


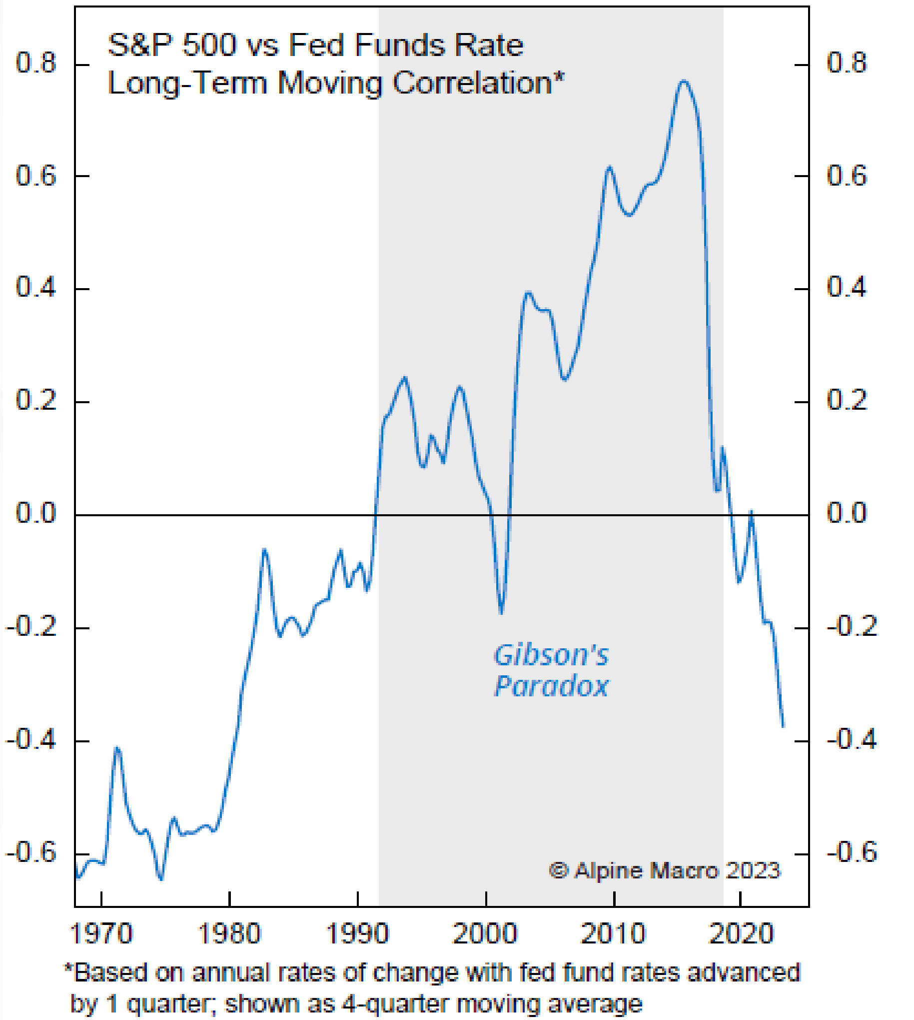


Source: https://fred.stlouisfed.org/series/TDSP， New York Fed Consumer Credit Panel / Equifax， https://www.dallasfed.org/research/economics/2022/1227, CSOP, as of 2023/08/15.

6. Interest Rate Cut May not be Good for Enterprises

- In a high inflation environment, the elasticity of US corporate earnings tends to be smaller compared to a low inflation environment.
- Different inflation environments lead to varying market responses to monetary policy.





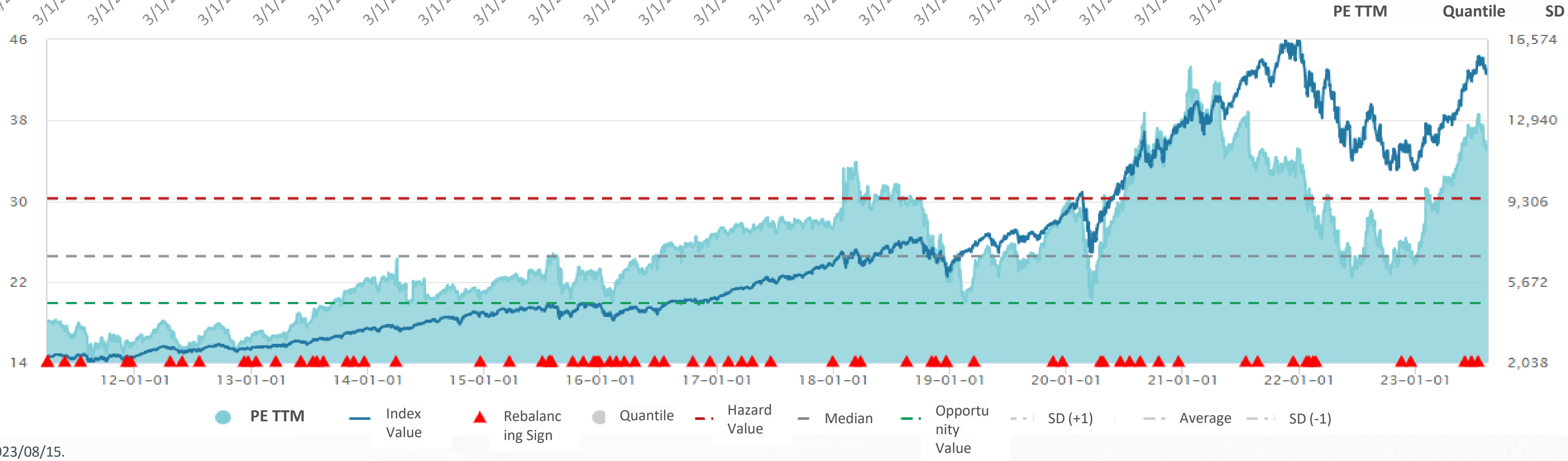
Source: Bloomberg, Alpine Macro 2023, as of 2023/05/31.

7. US Stock Indexes May Face a Correction Primarily due to High Valuation

- The upward movement of the U.S. stock market is driven by large-cap stocks this year, which has been a long-term trend in the past two decades, demonstrating the competitiveness of leading companies. However, at present, valuations are not cheap.

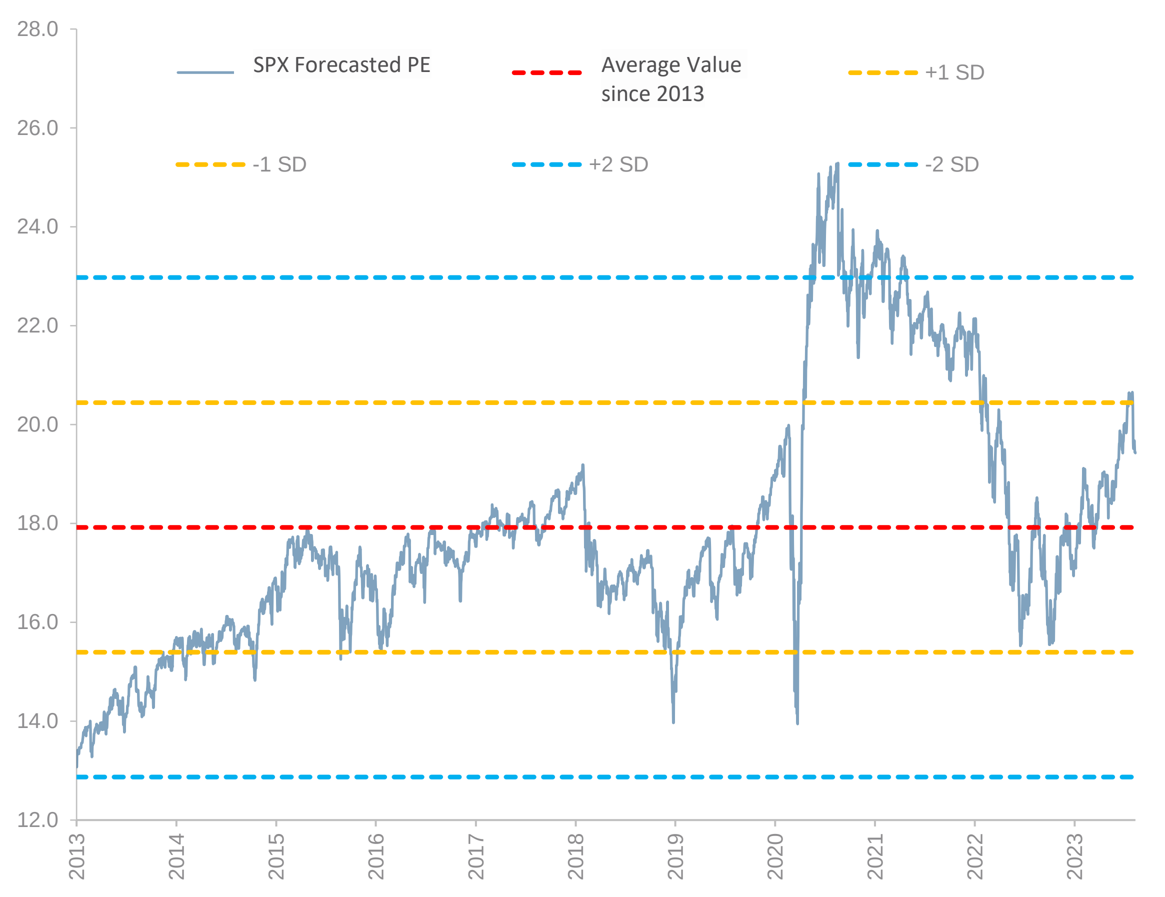
PE TTM

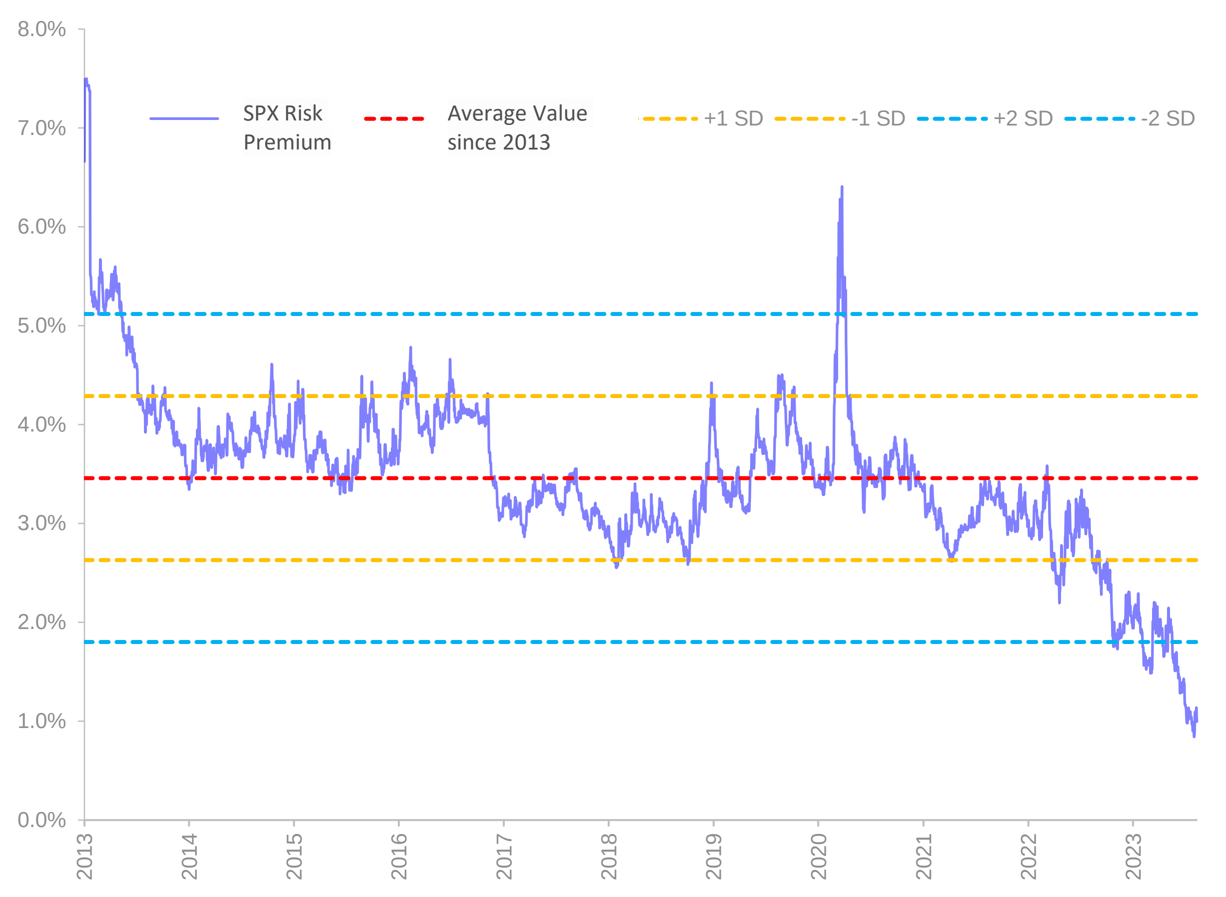
Current	35.50
Quantile	92.28%
Hazard Value	30.27
Median	24.54
Opportunity Value	19.90
Index Value	15,205.59
Max	43.32
Average	25.19
Min	14.53
SD (+1)	31.41
SD (-1)	18.96
Z-value	1.66



Source: Bloomberg, as of 2023/08/15.

7. US Stock Indexes May Face a Correction Primarily due to High Valuation

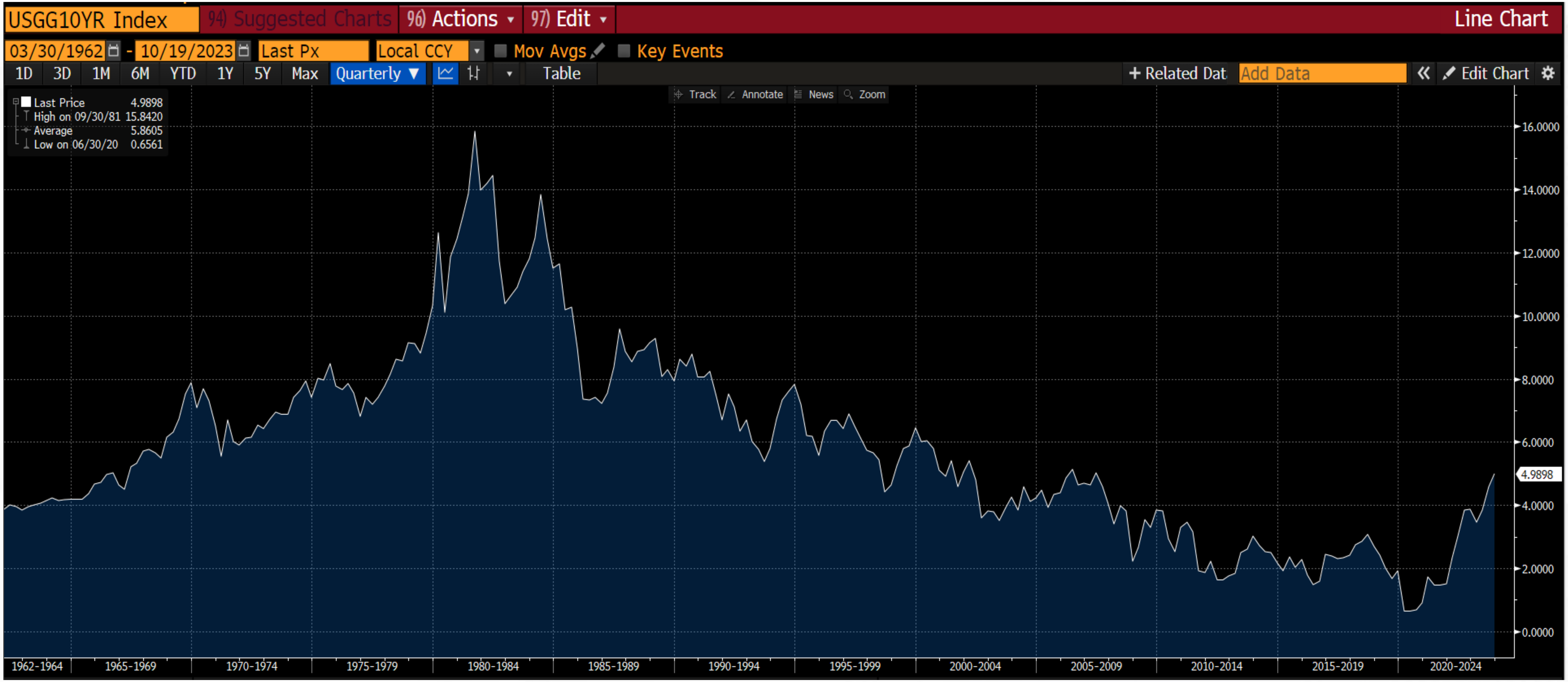




Source: Bloomberg, CSOP, as of 08/11/2023. The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investment involves risks, and past performance is not indicative of future performance.

8. US Treasury Bonds - Pricing Anchor for Global Assets

- Short-term government bonds reflect short-term policy rates, while long-term government bonds reflect expectations for economic growth.



Source: Bloomberg, as of 2023/10/19. The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investment involves risks, and past performance is not indicative of future performance.

02

Factors Influencing China/HK Stocks

Risk Factors Are Mitigating

Major Risks	Previous Ratings		Current Rating
	As of 2022/03	As of 2022/08	As of 2023/06
❑ Tightening Industrial Regulation • Moderate Policies Expected • Gaming License Approval, Didi Sees Process in Follow Up	0.5	1	**1**
❑ COVID-19 Policy • Acceleration of Zero-Covid exit	0	0.5	**1**
❑ Strict Real Estate Regulations • Sales and Investment； • Predictions for Future Property Prices	0	0	**1**
❑ Increased short term risk aversion caused by Russia-Ukraine War, Risk of higher energy raw material prices • Has caused Seesaw effects	0	0.5	**0.5**
❑ Central Banks Increase Interest Rates to fight against Inflation • "As the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation. " (The Fed)	0	0.5	**0.5**
❑ US "Holding Foreign Companies Accountable Act"	0	0	**1**
Total	0.5	2.5	⬆ **5**

Current Rating/Full Marks

⬆ 5/6

Source: CSOP
Ratings range from 0~1. A higher rating indicates a better prediction while a lower rating indicates a worse prediction.

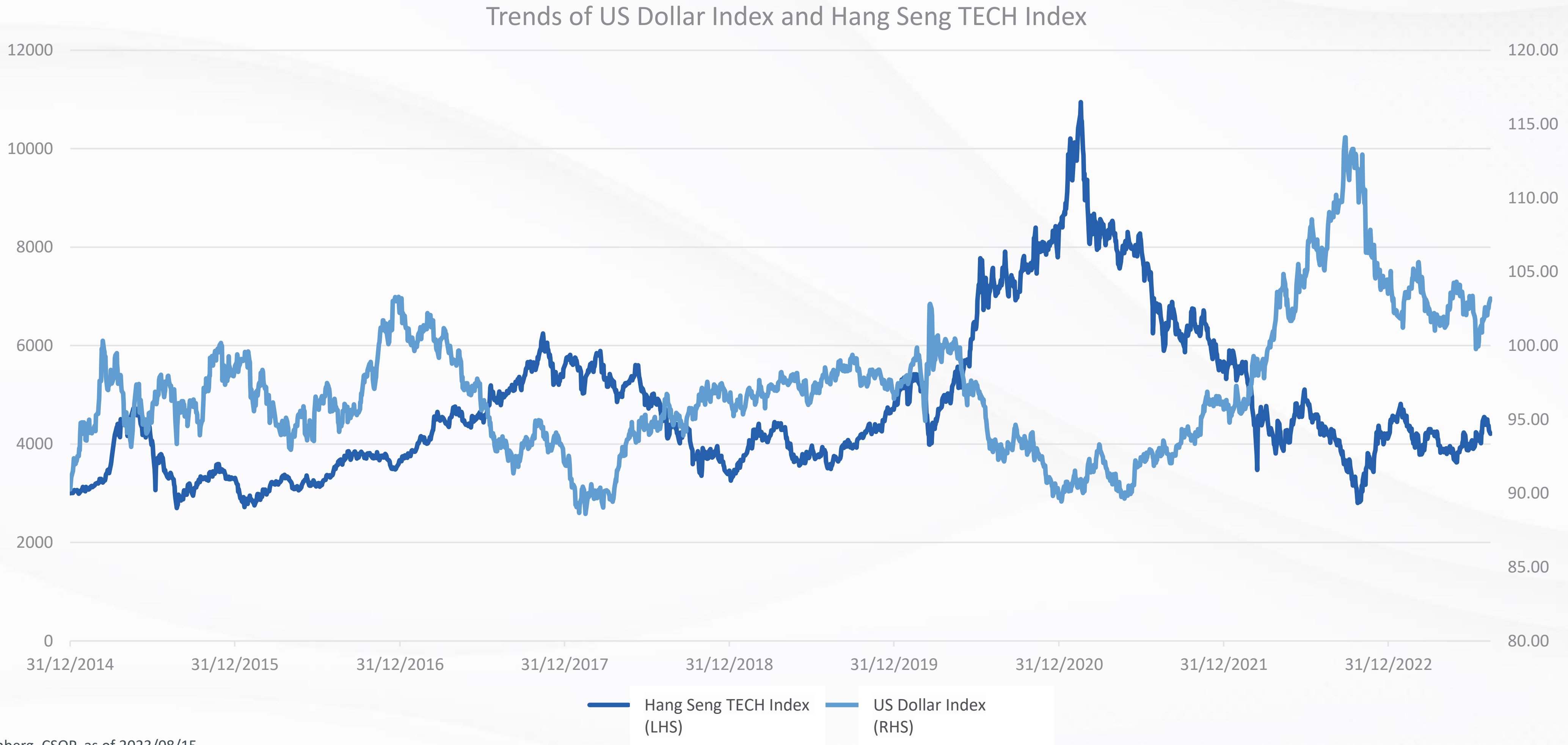
2. Three Factors Influencing China/HK Stocks

- Monetary Environment (Fund Flows)
- Fundamentals (Micro: Corporate Performance; Macro: Economic Development)
- Foreign Exchange Rate

Source: CSOP

3. Foreign Exchange Rate (1)

From a historical perspective, the US dollar index and the Hang Seng TECH Index have shown a strong negative correlation in their trends. As the US dollar index enters a new major downward trend, the Hang Seng TECH Index is expected to perform well.



Source: Bloomberg, CSOP, as of 2023/08/15.

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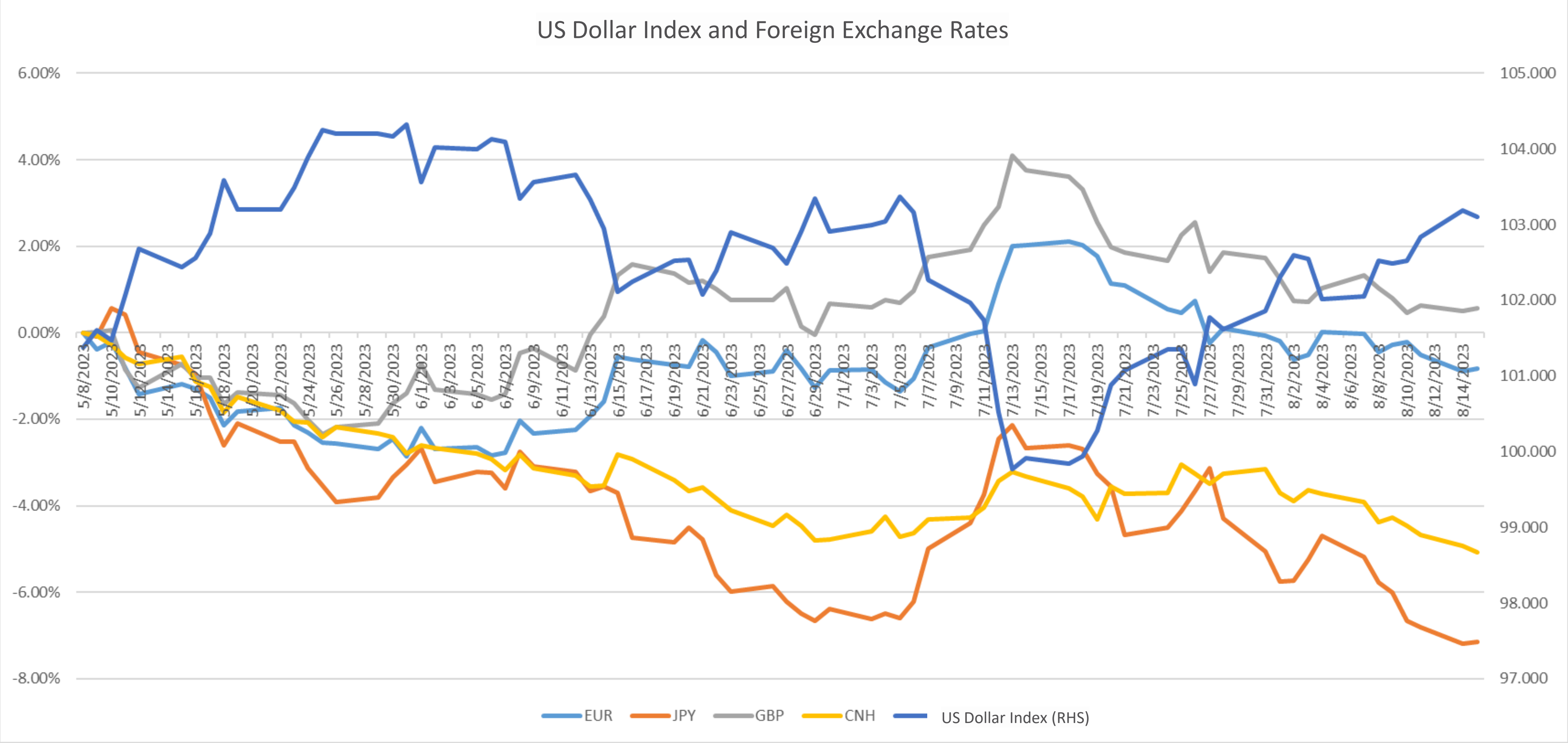
3. Foreign Exchange Rate (2)

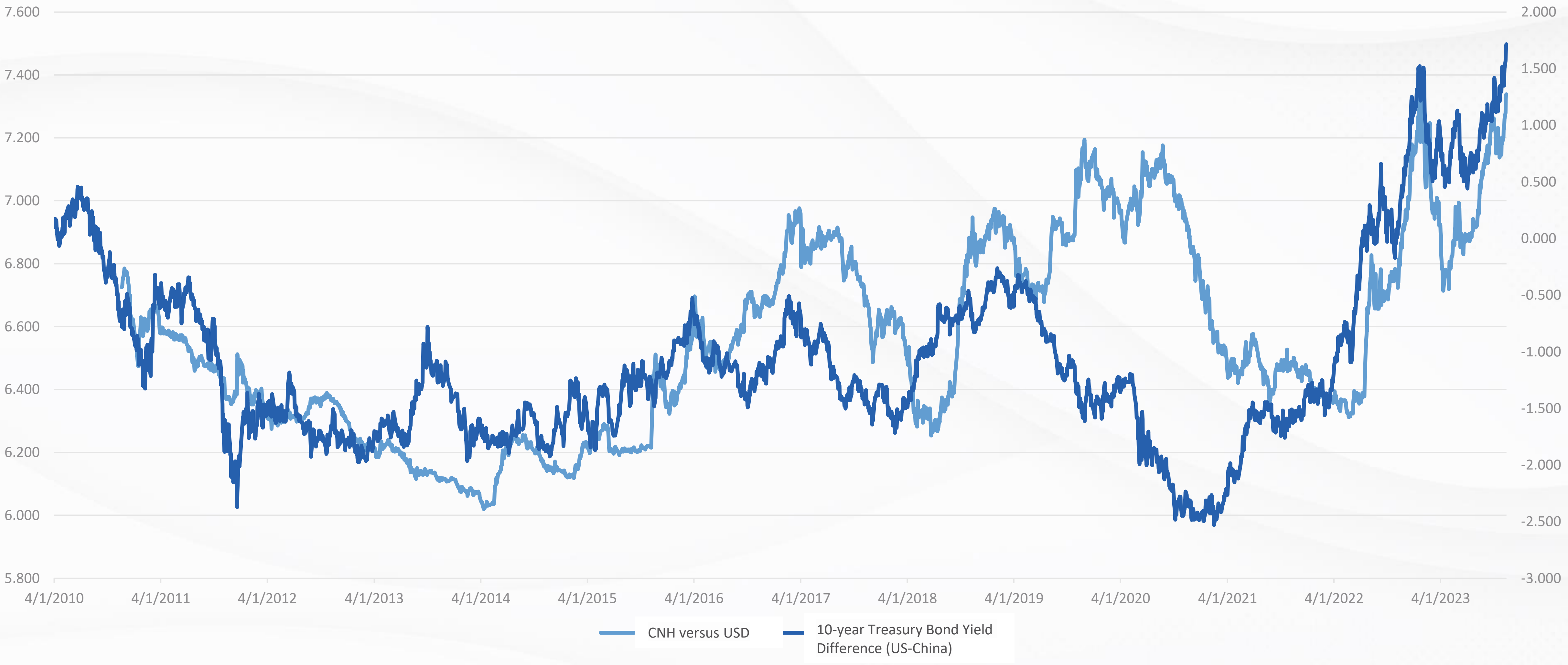
The short-term trend of foreign exchange rate can refer to US Dollar Index.



Source: Bloomberg, CSOP, as of 2023/08/15. The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investment involves risks, and past performance is not indicative of future performance.

3. Foreign Exchange Rate (3)

There are many factors that can influence exchange rates, including foreign trade and finance. Long-term government bond rates are often considered as a key reference.

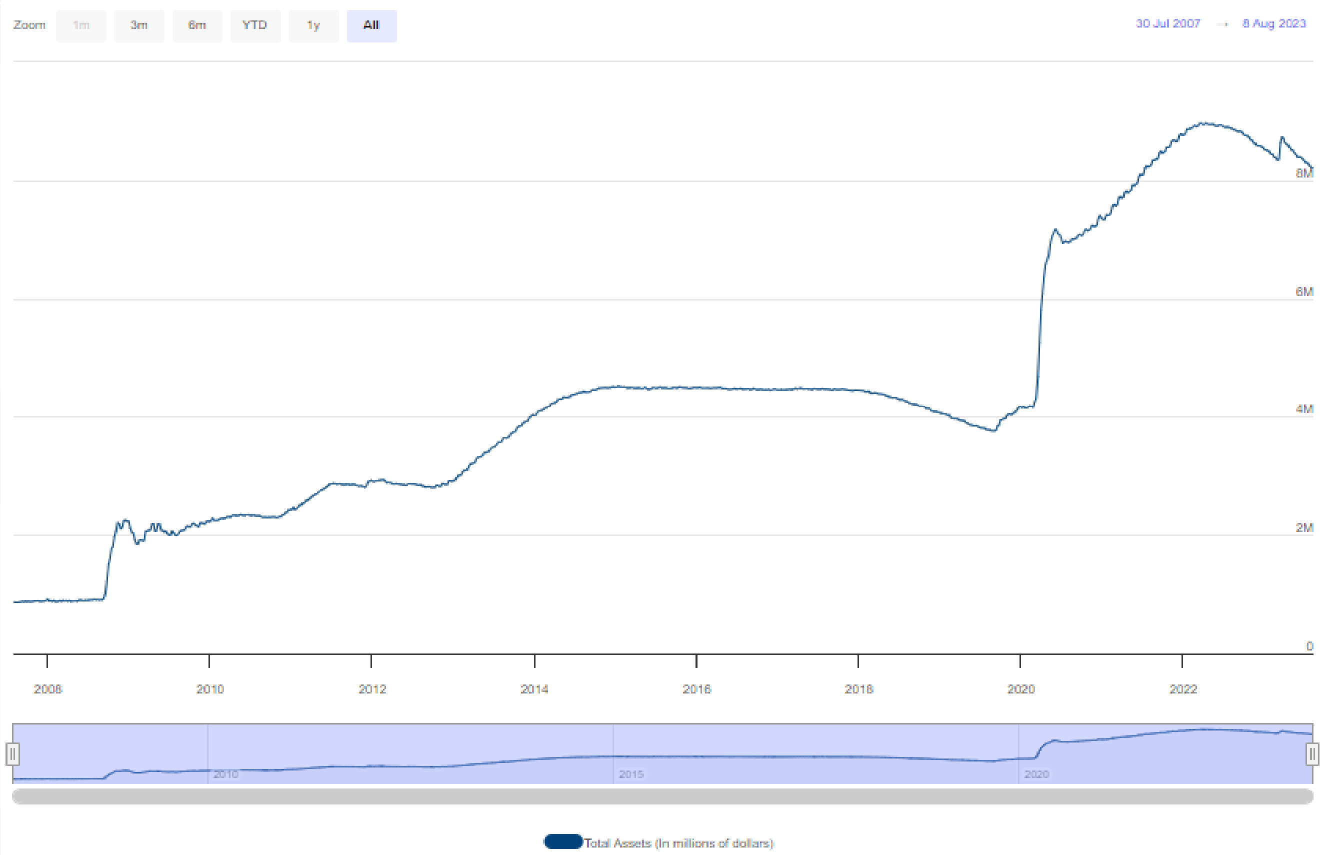


Source: Bloomberg, CSOP, as of 2023/08/17. The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investment involves risks, and past performance is not indicative of future performance.

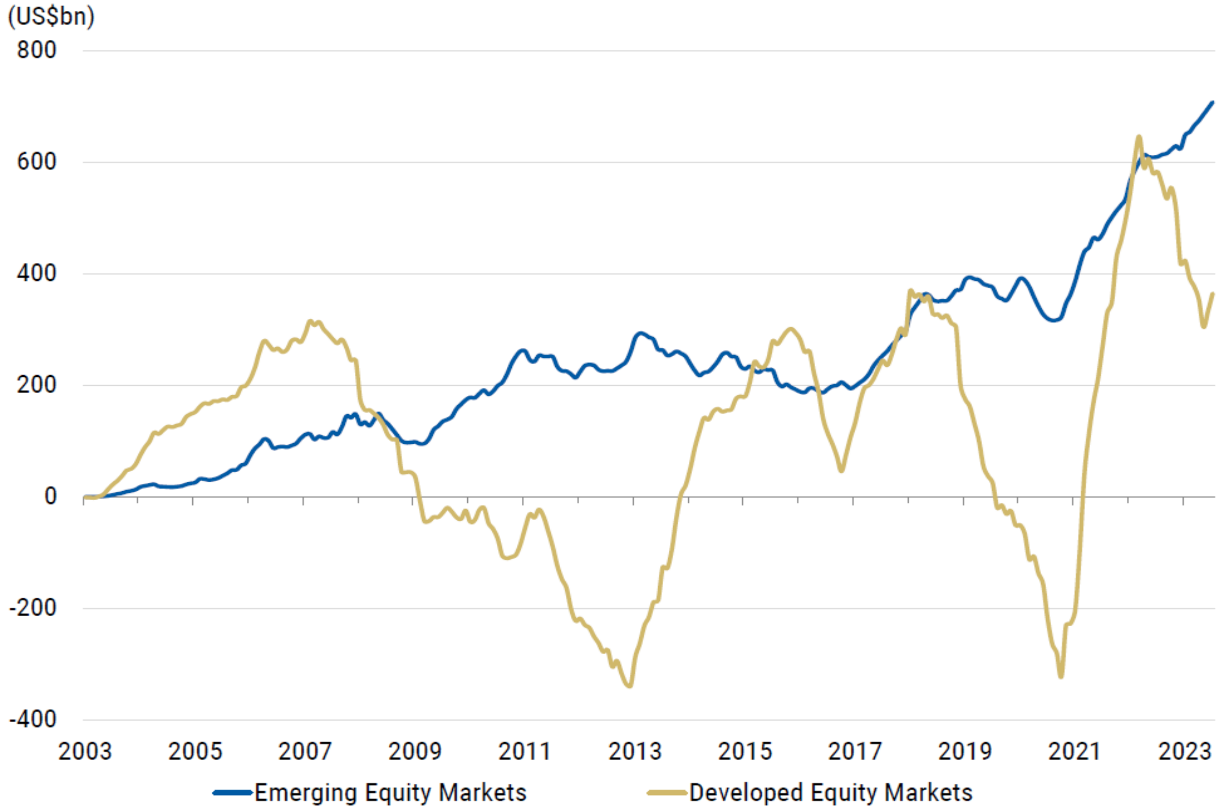
4. Global Active Fund Managers Increase Investment in Emerging Markets

- As the US Dollar Index reaches its peak and the interest rate hike may come to an end. There is a sustained inflow of funds into equity assets in emerging markets.
- The Federal Reserve's balance sheet shrinking is progressing slowly, which indicates that the market does not lack funds, but rather lack direction. After the emergence of AI, US stock indexes continue to show significant growth. At the end of July, the U.S. Department of the Treasury reported that total US government debt was 32.7 trillion USD, with public debt at 25.7 trillion USD. Federal Reserve data showed its Treasury holdings of 5.1 trillion USD as of July 12th.

Slow Reduction of Federal Reserve's Balance Sheet, Market Is not Short of Money



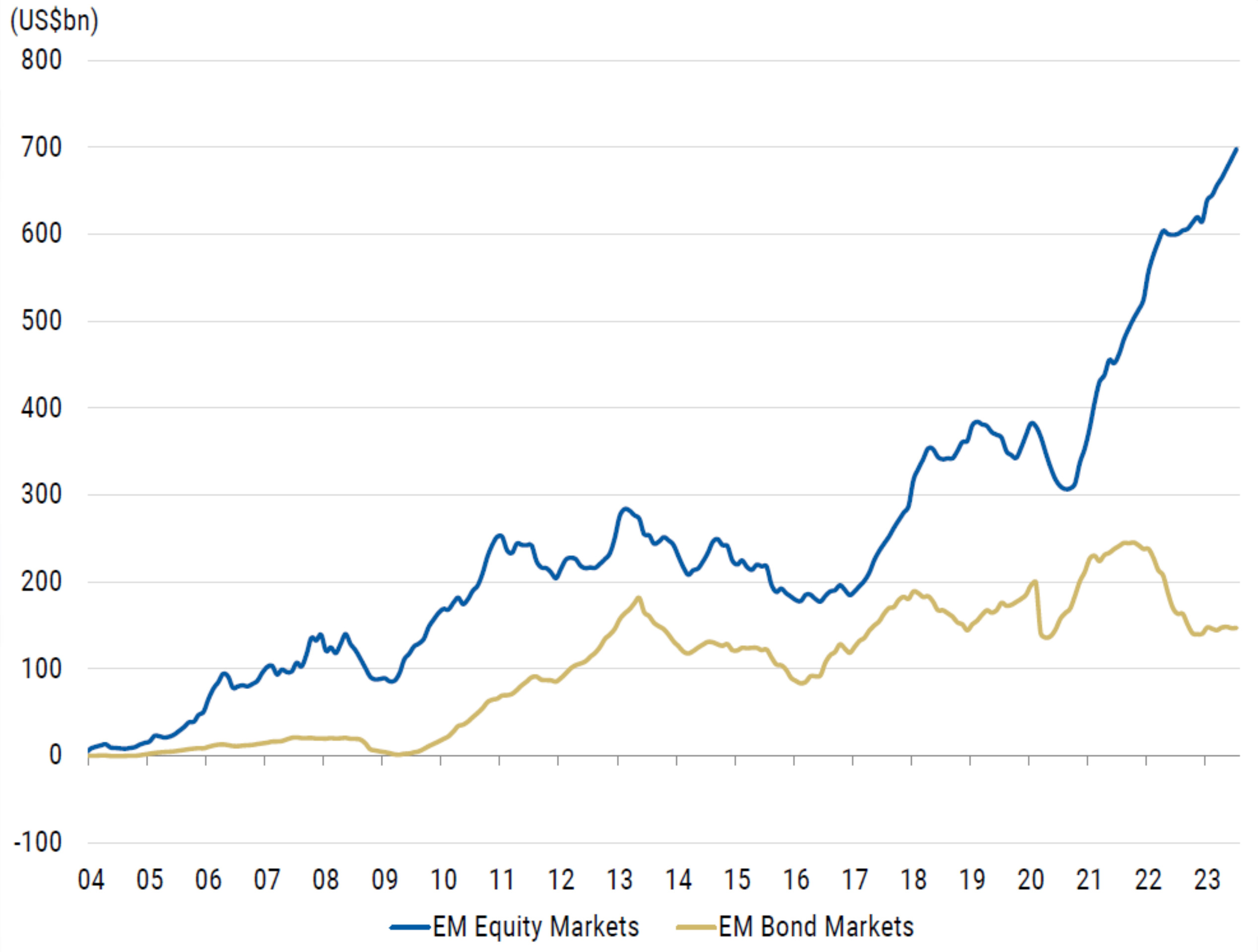
Continuous Fund Inflow to Equity Assets in Emerging Markets



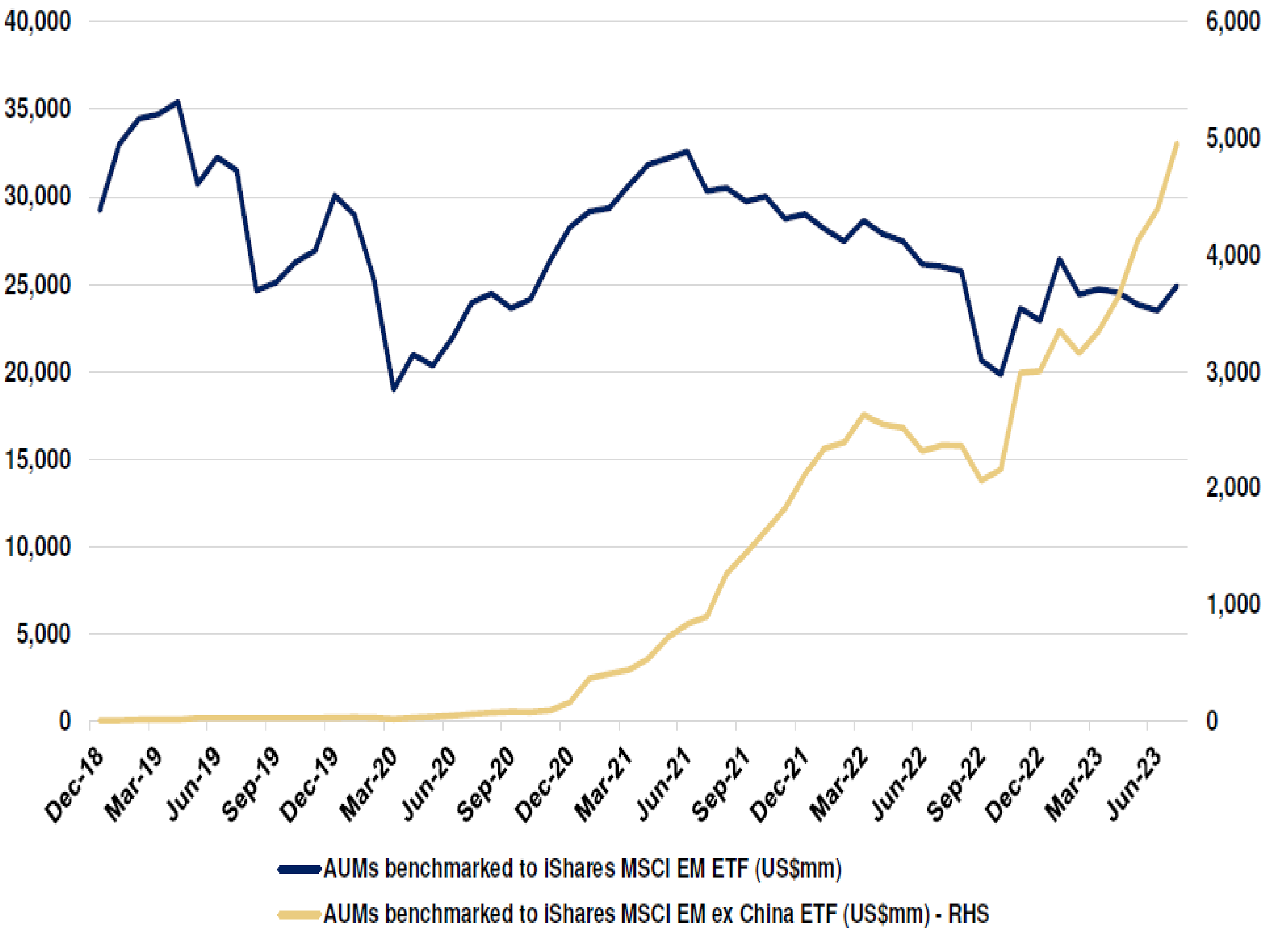
Source: The U.S. Department of the Treasury, Federal reserve, EPFR Global Equity Fund Flow Database, Morgan Stanley, EM includes GEMs, LatAm, EMEA, and EM Aisa regional funds, as of 2023/08/02.
The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investing involves risks.

4. Global Active Fund Managers Increase Investment in Emerging Markets (2)

Fund Inflows to Emerging Markets Mainly Direct to Equity Assets



Passive Funds Flow into Emerging Markets, but not to China



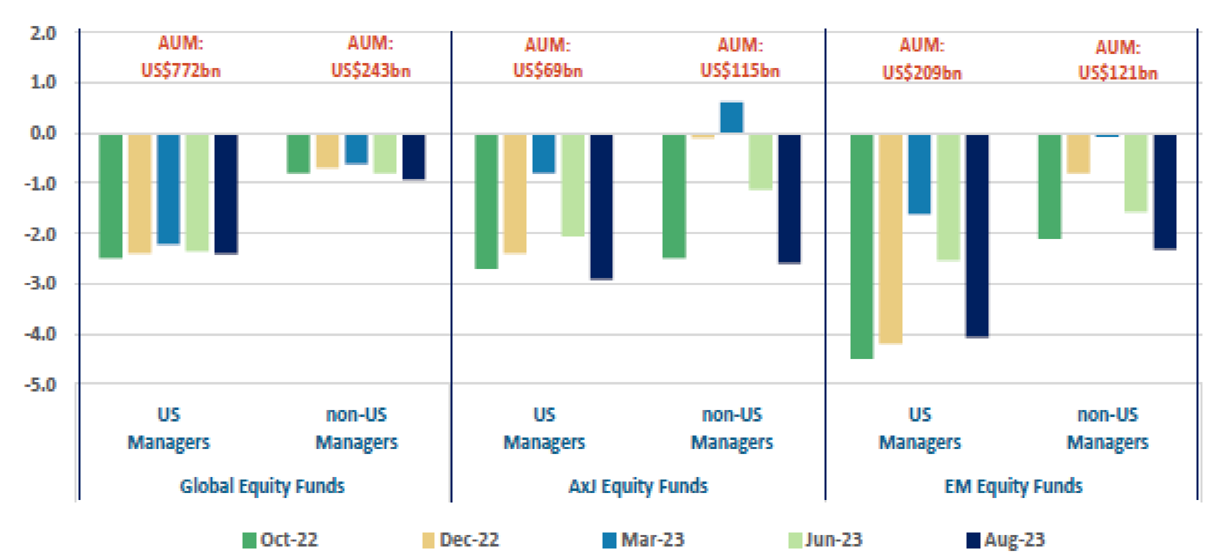
Source: Bloomberg, Morgan Stanley Research, as of 2023/07/31.

4. Global Active Fund Managers Increase Investment in Emerging Markets (3)

- China's current economic recovery still faces imbalances and fragile structural issues, leading to sufficient support from the Central Bank.
- In late October last year, global active equity funds had significantly reduced their allocations to China, reaching extreme underweight levels. As the fundamentals improved, active fund managers gradually increased their positions in China. However, since April this year, there has been a renewed outflow trend, with August reaching the lowest allocation level since October last year.

Growth Rate of China M2 is at 10-year High in 2023^

Active Weights of China A/HK equities by regional fund category and manager domicile*



Source: ^Bloomberg.*MorningStar, FactSet, EPFR, EPFR Global Equity Fund Flow Database, Morgan Stanley, Bloomberg. As of 2023/8/31.
Notes: Fund universe of each category is formed by the largest 30 active mutual funds under MorningStar regional category. Funds under "non-US Managers" are mostly domiciled in Europe. ESG funds, Income funds, and Systematic funds are excluded. All the covered funds are benchmarking to either MSCI or FTSE standard regional indices of All Country World, Asia ex Japan, or Emerging Markets.
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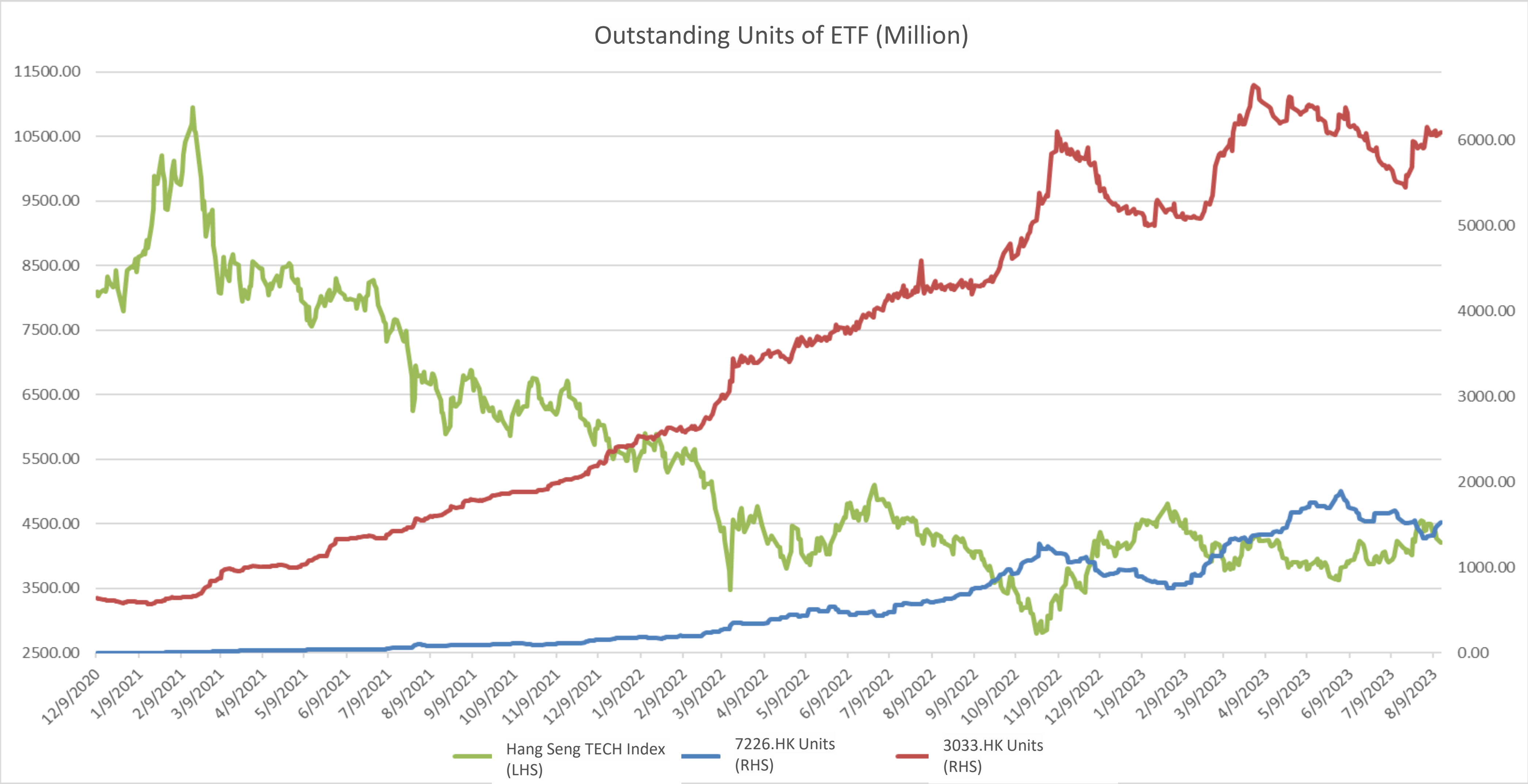
5. Investors Are Actively Buying at Low, against Prevailing Market Trend

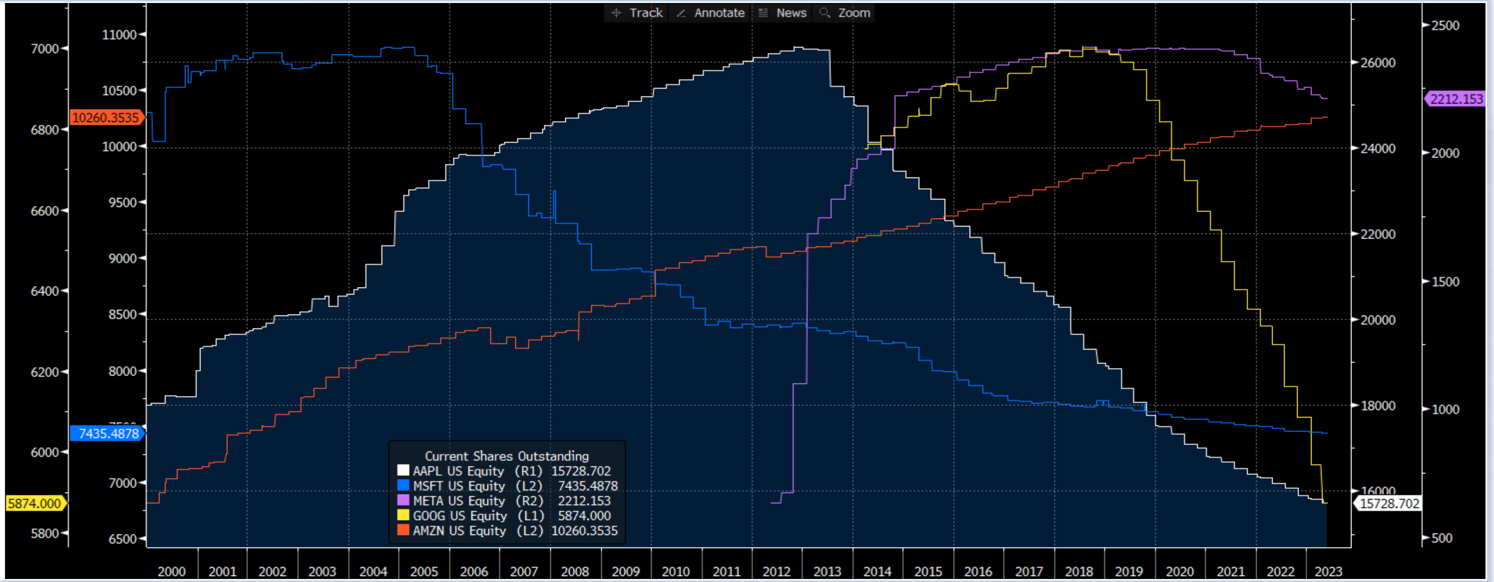


Source: Bloomberg, CSOP, as of 2023/08/14. 7226.HK is the code for CSOP Hang Seng TECH Index Daily (2x) Leveraged Product. The product has announced a consolidation of every 5 fund units into one consolidated fund unit, effective from July 27, 2022. The above information is provided for reference purposes only and does not constitute any solicitation or offer to buy or sell any securities, funds, or financial products. It should not be considered as actual investment advice. Investing involves risks, and past performance is not indicative of future performance.

6. Industrial Capital Brings Important Incremental Fund to Current Market

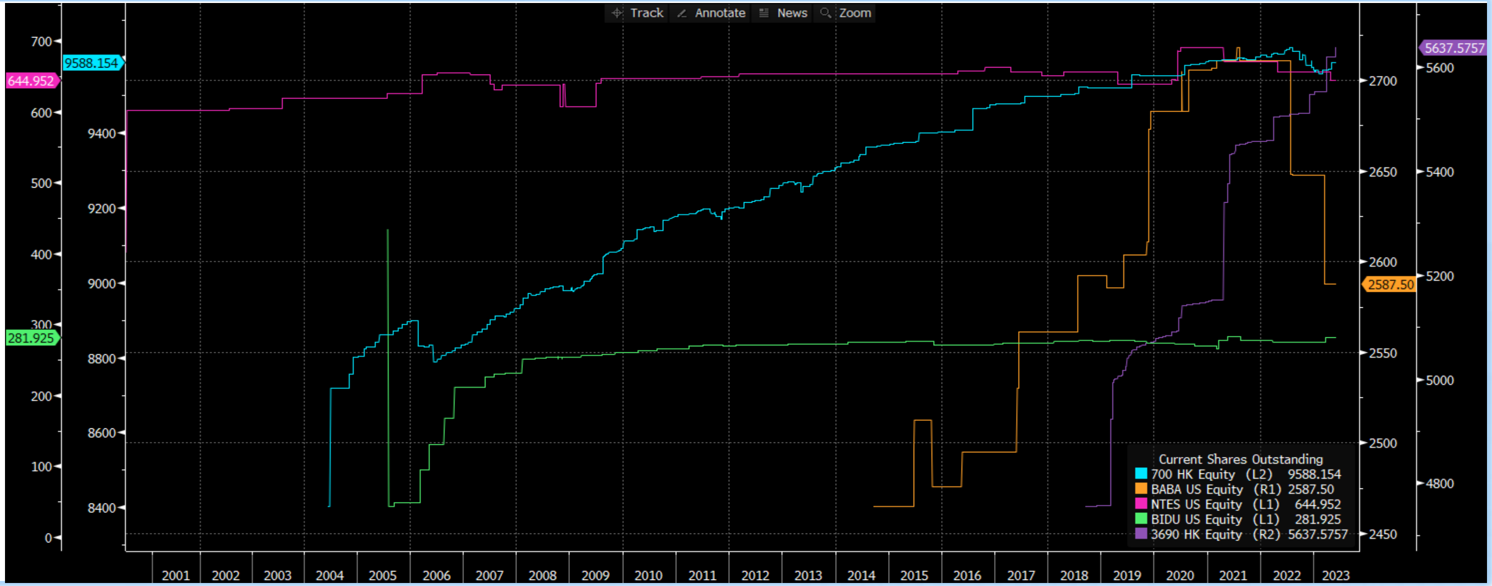
The United States

- Shareholder returns have been a key cornerstone of the U.S. bull market over the past 10 years.
- US technology giants engage in continuous share buybacks to enhance shareholder returns.



China

- Represented by Tencent and Alibaba, Chinese tech giants have increased their share buyback since 2021.
- **Share buyback advantages include:**
  - Hedging against price fluctuations caused by major shareholders reducing their stakes.
  - In HK, repurchased shares need to be cancelled, so active buybacks efficiently increase shareholder returns.



Source: Bloomberg, as of 2023/05/31.

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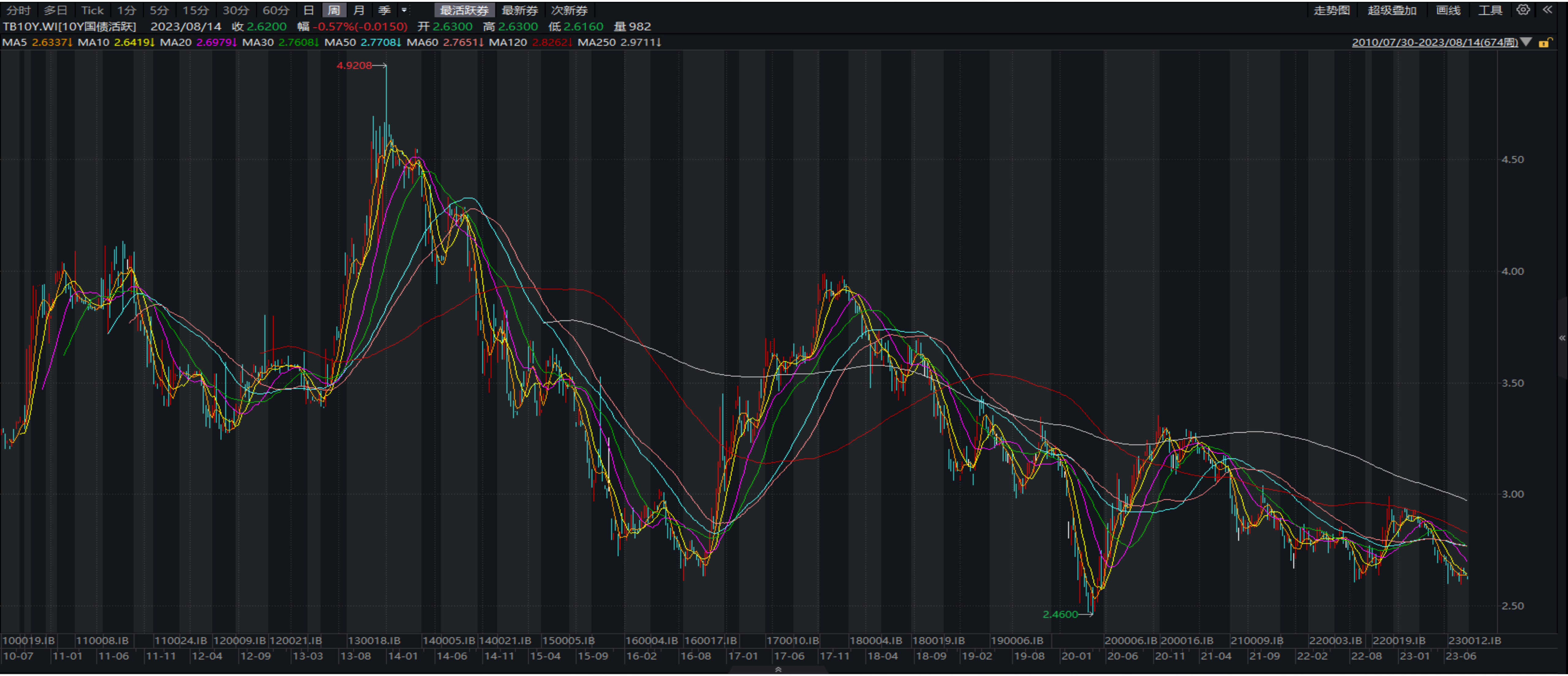
7. Short-term Economy Fundamentals are under Pressure



Source: Wind, CSOP, as of 2023/08/15. For illustration purpose only. Not to be construed as recommendation to buy/sell in the above-mentioned securities, sectors and/or jurisdictions.

03

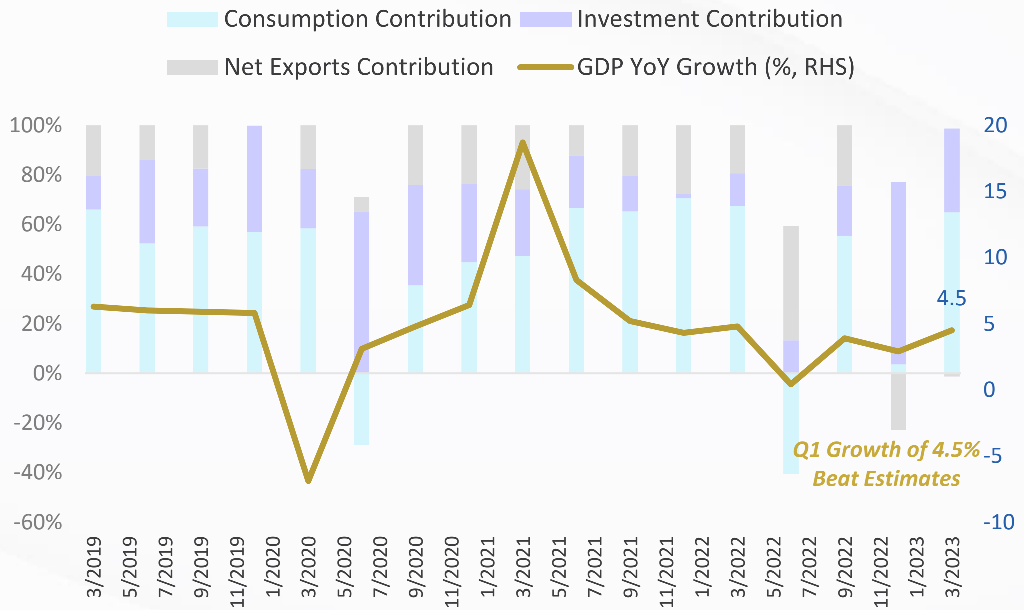
Where Are We in China's Recovery?

Where Are We in Economic Recovery?

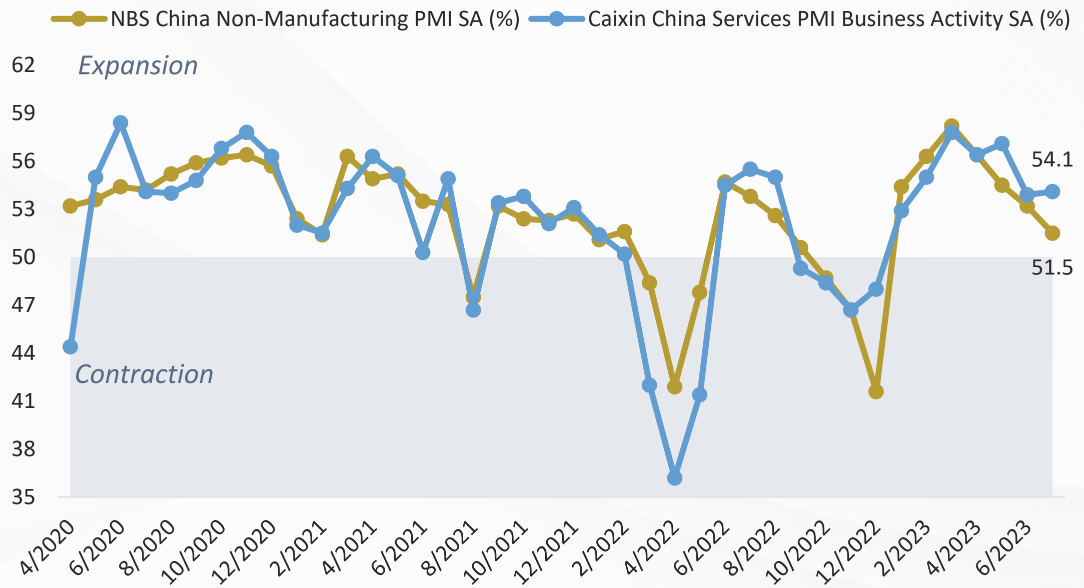
Reopening Completed

The completion of reopening drove a better-than-expected economic recovery in 1Q23, led by COVID-hit segments in service industry. Strong service PMI shows endogenous and sustainable recovery in service demand.

China Achieved Strong Rebound in Q1, Led by Consumption*



Service PMI remain at High Level#



Source: *Bloomberg, CSOP. #Bloomberg. 2018/1-2023/7.

Where Are We in Economic Recovery?

Growth Concerns Raised

Disappointing July economic data raised concerns about whether the growth momentum can continue.

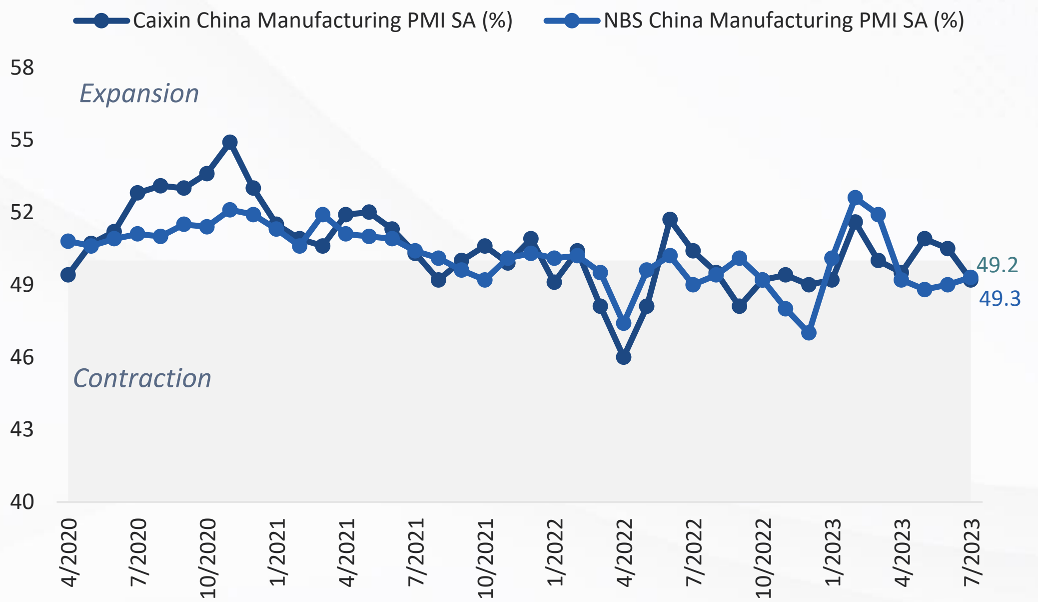
Weak goods demand globally dragged the recovery of manufacturing industries and exports, and soft consumption momentum moderated further in July.

Following China Q2 Macro Data, July Activities Softer than Expected^

	1Q23 YoY Change (%)	2Q23 YoY Change (%)	July 2023 YoY Change (%)
GDP	4.5	6.3	
Industrial Value Added	3.9	5.6	3.7
Retail sales	10.6	18.4	2.5
Fixed asset investment	4.8	3.9	1.2
Manufacturing FAI	6.2	5.3	4.3
Infrastructure FAI	9.9	7.9	5.3
Real estate development FAI	-5.9	-7.3	-12.2
Property Sales (floor space)	0.1	5.5	-15.5
Property new starts (floor space)	-29.1	-27.3	-25.9
Exports (in USD)	14.8	8.5	-14.5
Imports (in USD)	-1.4	-7.9	-12.4

Converged PMI Indicates Potential Contraction

NBS Manufacturing PMI and Caixin PMI Edged Down#



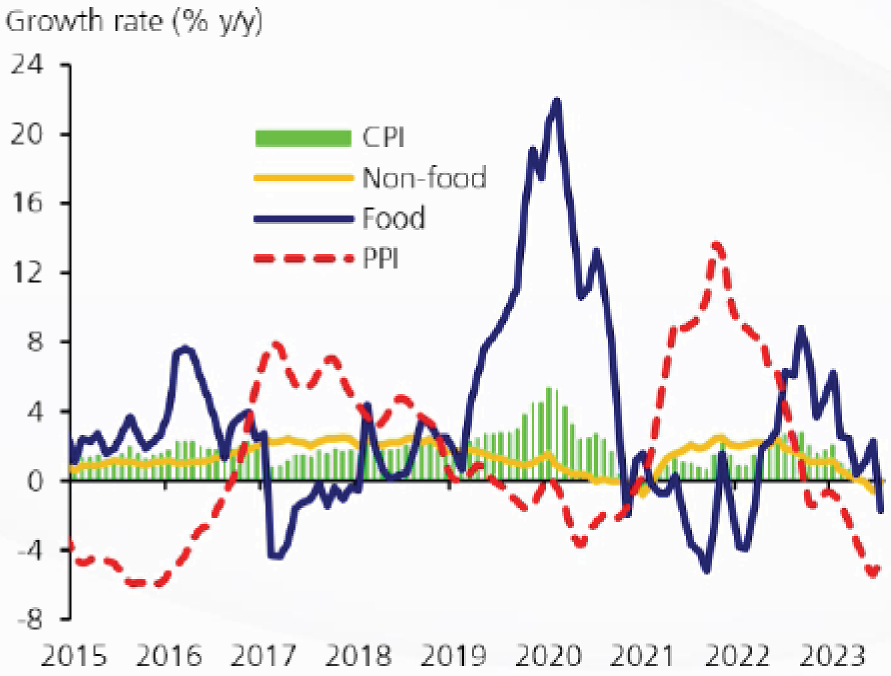
Source: ^National Bureau of Statistics of China, Bloomberg. #Bloomberg. 2020/4-2023/7.

Core CPI Inflation Picks Up Despite Negative Headline CPI Inflation

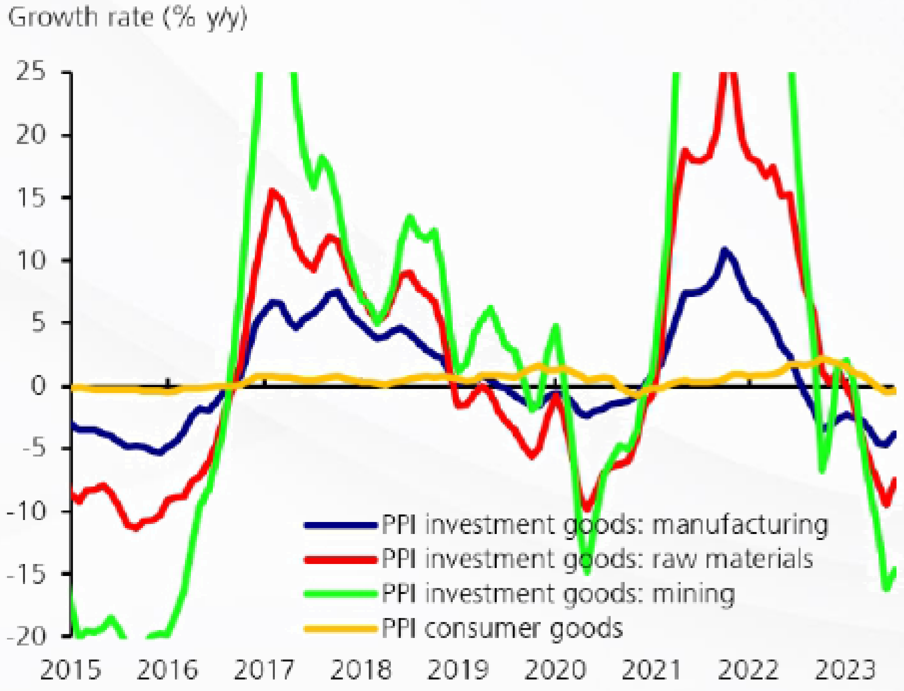
Core CPI inflation picked up to 0.8% yoy in July, the strongest monthly run-rate since February 2020. Headline CPI inflation turned negative at -0.3%yoy in July, mainly attributable to a large drop in food prices.

Headline PPI continued to decline for the tenth month in a row, narrowed slightly by -0.2% m/m, leading to a y/y decline of -4.4%.

July CPI inflation fell into a small y/y contraction*



July PPI saw a less bad y/y contraction*



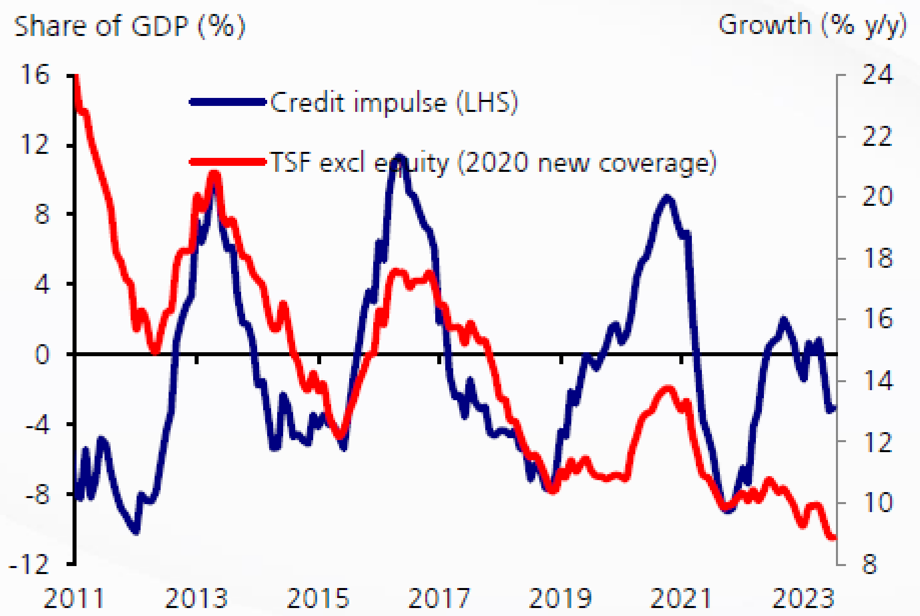
Source: *CEIC, UBS estimates.

Credit Demand Remains Weak

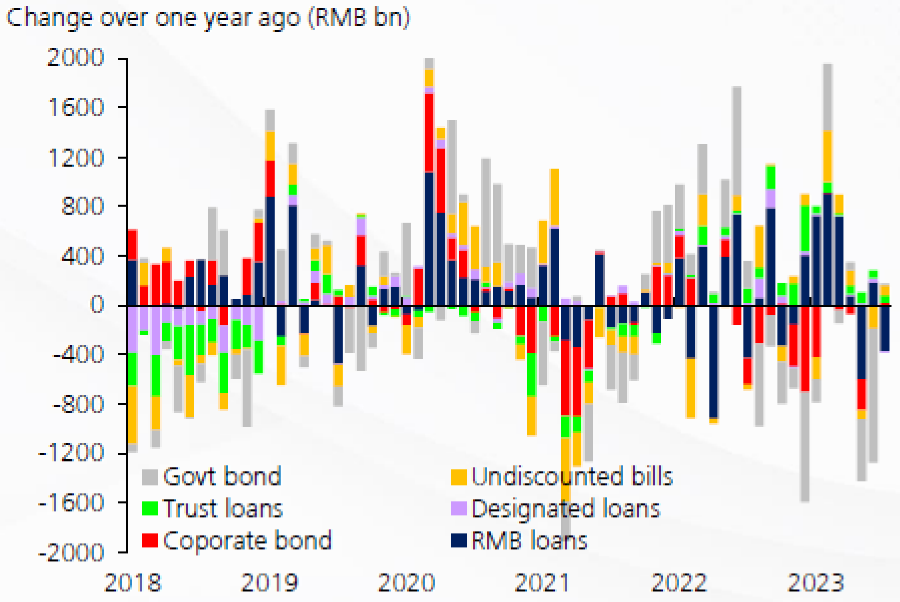
New headline RMB loans recorded only RMB 346 billion in July, notably lower than expected (Bloomberg consensus RMB 760 billion). The weakness was mainly driven by household loans, with both short-term loans (at -134bn, -107bn y/y) and M&L loans (at -67bn, -216bn y/y) in contraction.

July’s weak new credit also implies sluggish property sales, payback of unexpected strong reading in June, and slow issuance of government bonds.

Credit growth slowed further in July*



Loans were the main drag*



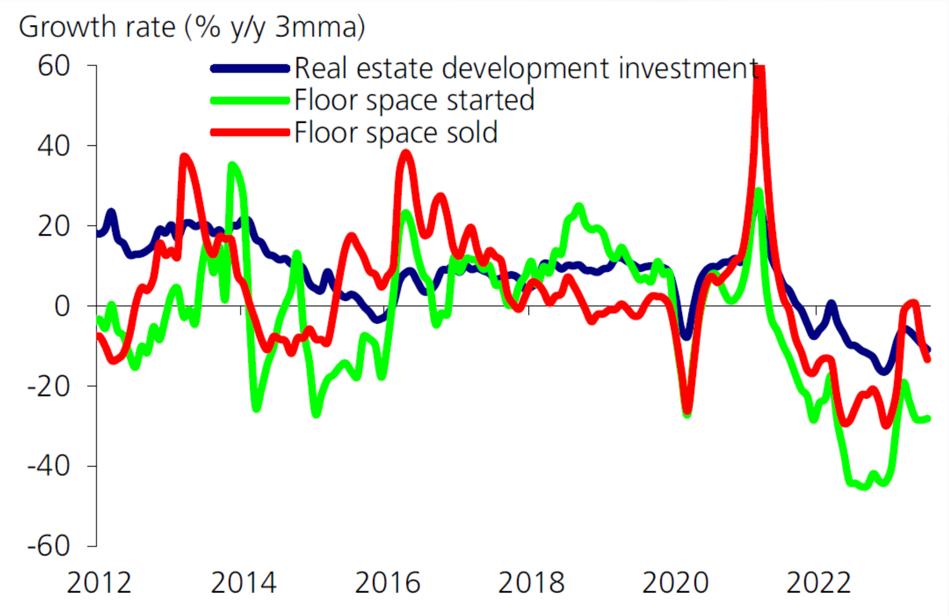
Source: *CEIC, UBS estimates.

Property Still a Drag

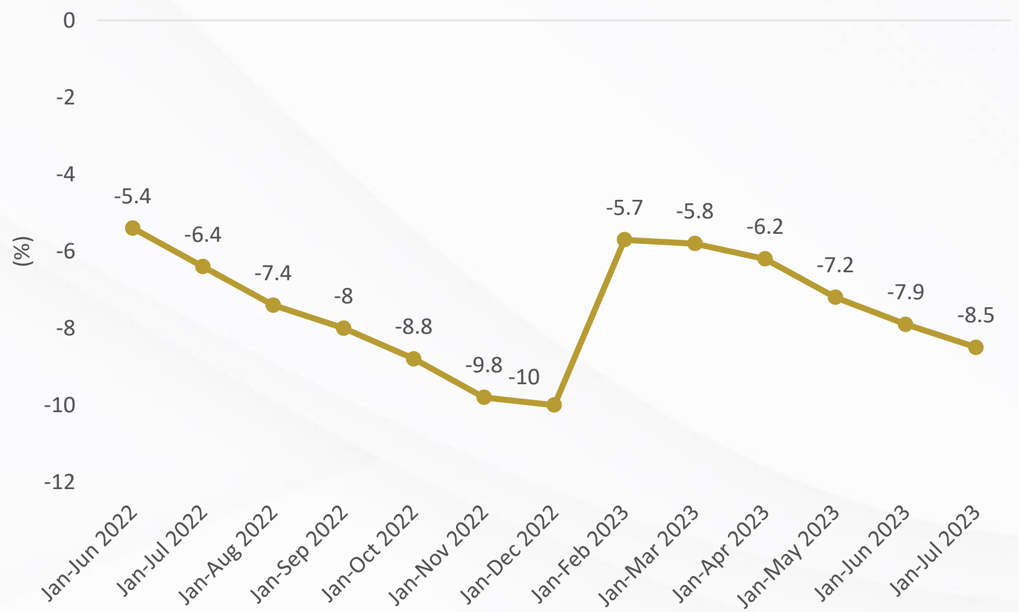
Housing sales improved partly on pent-up demand in 1Q23 but weaken sequentially in May and June.

The recovery of the property sector **requires more forceful and swift policies such as ① further cuts in 5-year LPR rate (benchmark rate for residential mortgage), ② easing purchase restrictions in Tier1-2 cities, and ③ big fiscal support (e.g., special LG bonds and policy banks' special infrastructure investment funds) for private developers**.

Property sales growth weakened further in Q2 and July*



Property Investment Growth (%) Stay Sluggish this year^



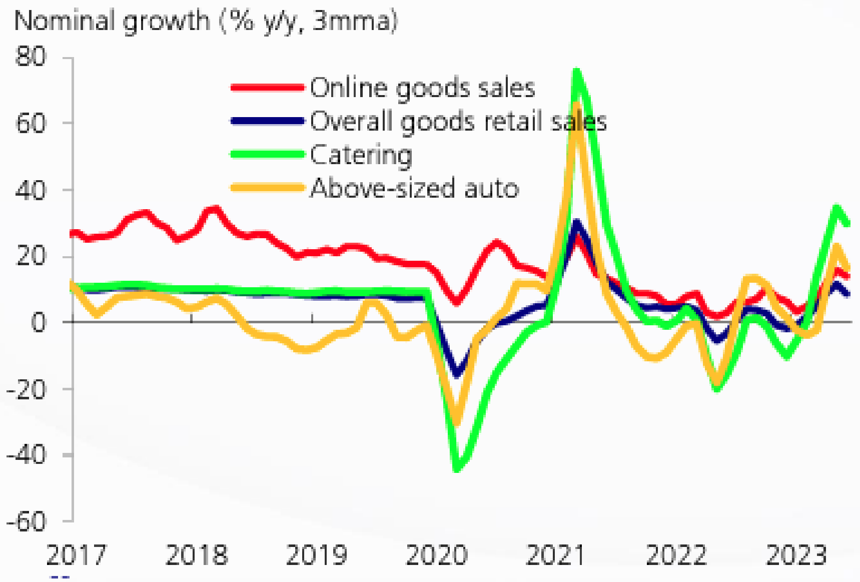
Source: *CEIC, UBS estimates. ^National Bureau of Statistics of China.

Consumption Recovery Continue but Normalize

Consumption was the largest contributor to the Q1 strong economic rebound, but the recovery is uneven. **The first wave consumption rebound boosted by rapid reopening is likely peaking**, while lagging employment recovery, increasing saving willingness, traumatized household balance sheet and well below pre-COVID levels of confidencelead to the weakness in both consumption willingness and capabilities, and hinder consumption from growing further.

We expect that service consumption recovery remains endogenous and strong, but goods consumption takes more time to pick up and need the help from targeted consumption stimulus and property supportive policies.

Retail sales growth slowed in June while Q2 y/y growth picked up from a low base*



Recent Consumption Supportive Policies^

Date	Policy	Sector
July 19, 2023	The Ministry of Commerce and 13 departments issued the "Notice of the Ministry of Commerce and other 13 departments on **several measures to promote household consumption**", covering multiple fields such as home appliances, furniture, home textiles, and home decoration, in order to release the potential of household consumption and consolidate the momentum of consumption recovery.	Home appliance
July 21, 2023	The National Development and Reform Commission (NDRC) and other seven departments jointly issued the "**Several Measures to Promote the Consumption of Electronic Products**", encouraging the active use of domestically produced artificial intelligence (AI) technology to improve the intelligence level of electronic products.	Electronics, AI
July 21, 2023	The National Development and Reform Commission and other thirteen departments jointly issued the **"Several Measures to Promote the Consumption of Automobiles",** optimizing the automobile purchase restriction policies, encouraging regions with purchase restrictions to increase their annual vehicle purchase quotas according to local conditions. Supporting infrastructure for new energy vehicles will be improved, and the promotion and application of battery exchange models will be accelerated. The purchase and usage costs of new energy vehicles will be reduced.	Auto; EVs
July 24, 2023	July Politburo said that focus will be on auto, electronics, and home appliances, and also mentioned the service consumption like sports, leisure and tourism	Auto, electronics, and home appliances

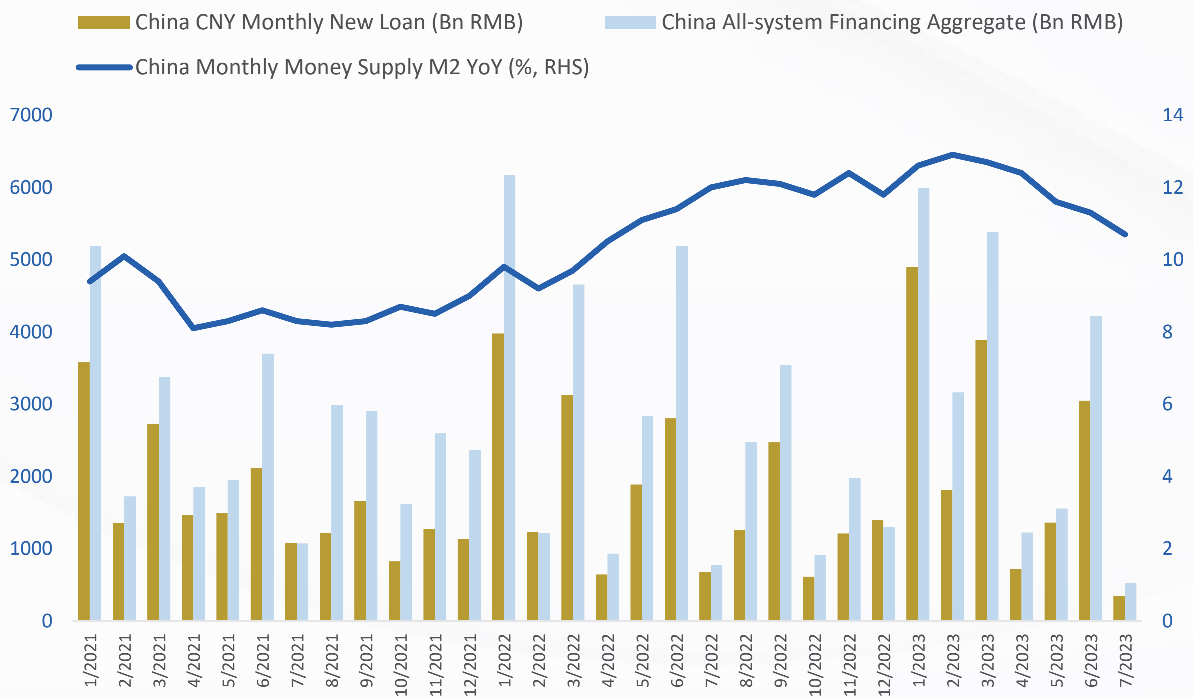
Source: *CEIC, UBS. ^NDRC, media reports.

Monetary Policy to Remain Accommodative

In the first half, monetary policy remained prudent easing and liquidity is reasonably sufficient, with **growing M2, one RRR cut of 25bps and saving rates reduction by several banks**. But with sluggish real demand, the policy transformation to real economy may take more time.

The monetary policy is expected to remain accommodative to support the economy, and **a new round of rate cuts has begun**.

Liquidity Remains Sufficient, But Sluggish Real Demand Led to Declining Loans^



"Stimulus Mode" is On -- A New Round of Rate Cuts Has Begun*

Interest Rates	
Deposit Rates	China's six state-owned commercial banks cut demand deposit rates to 0.2% from 0.25% and cut 5-year time deposit rate to 2.5% from 2.65% on 8 June. China joint-stock banks cut rates on demand deposits by 5 basis points (bps) to 0.2%, 2-year time deposits by 10 bps, and three-year and 5-year time deposits by 15 bps on 12 June.
7-day Reverse Repo Rate	PBOC cut the interest rate on 7-day reverse repurchase operations (repo) to 1.9% from 2.0% on 13 June. PBOC cut 7-day repo rate by 10bps to 1.8% from 1.9% on 15 Aug.
SLF Rate	PBOC cut rates on its standing lending facility (SLF) by a 10 bps on 13 June. After the adjustment, the rate on the overnight SLF was reduced to 2.75%, while rates for the seven-day SLF fell to 2.9% and for the one-month SLF to 3.25%.
1-year MLF Rate	PBOC lowered the rate on 1-year medium-term lending facility (MLF) loans by 10 bps to 2.65% from 2.75% on 15 June. PBOC cut 1-year MLF rate by 15bps to 2.50% from 2.65% on 15 Aug.
LPR rates	The one-year LPR was lowered by 10 basis points to 3.45% from 3.55% on 21 Aug.

Source: ^Bloomberg. *PBOC, official websites of China commercial banks

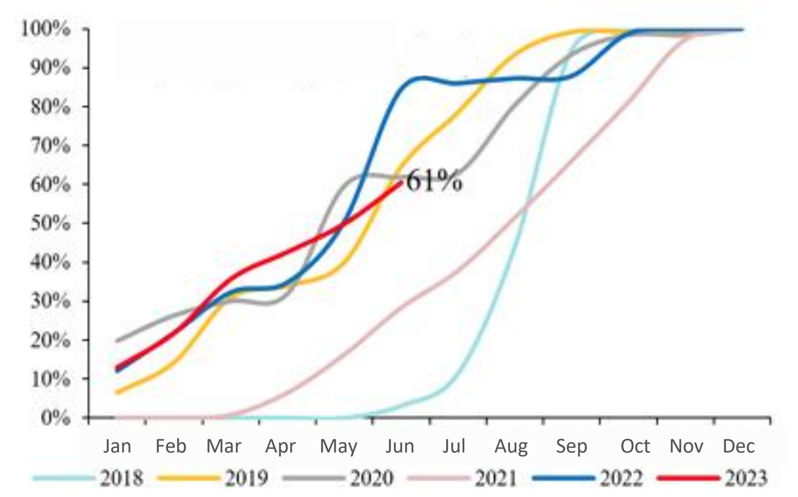
Expansionary Fiscal Policy to be Expected

In the first 4 months of 2023, fiscal policy stance is neutral to positive and fiscal expenditures remain balanced.

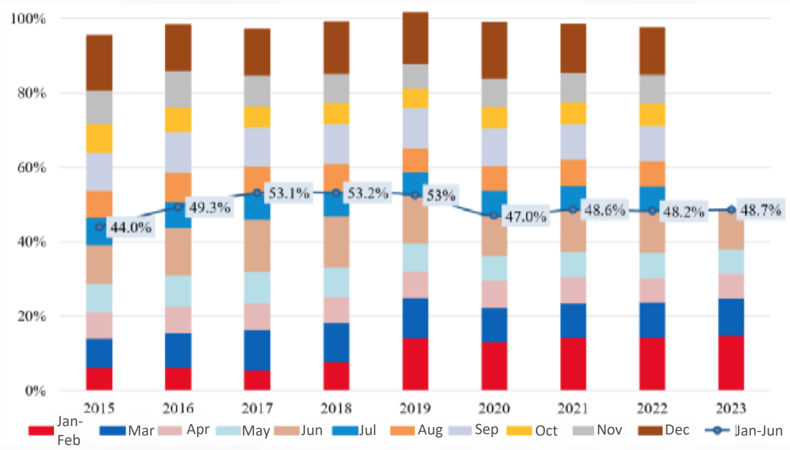
Fiscal policy is the key to boosting real demand. If China's growth momentum continue to weaken with disappointing manufacturing/consumption activities, we look forward to seeing more fiscal stimulus to support growth, for example, accelerated issuance of special bonds and issuance of special government bonds to boost infrastructure investment, rolling out some targeted consumption support.

Fiscal Policies Were Supportive in 1Q23 Despite Slowing Down in April and May

Special Bond Issuance May Accelerate in Q3*



% Completion of Annual Public Finance Expenditure Budget in 1H23 is Faster than 10-year Average*



Potential Fiscal Stimulus

- Accelerated issuance of special bonds
- Issuance of Special Government Bonds
- Issuance of Policy Bank Bonds
- ……

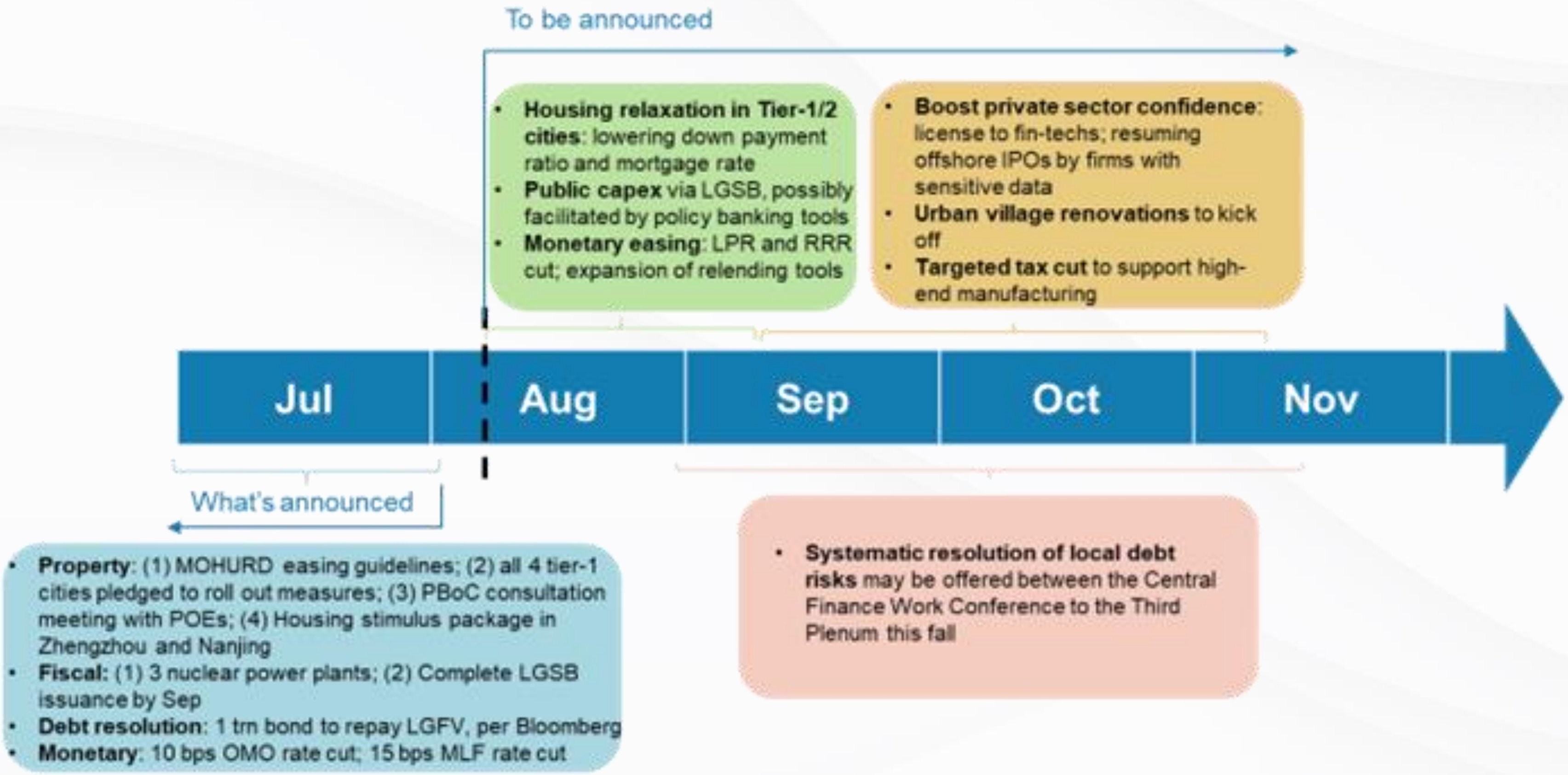
Boost Infrastructure Investment

Targeted Consumption Support, like new energy vehicles

……

Source: *Wind, Huachuang Securities.

What More to Expect



Source: Morgan Stanley.

More Events to Watch

In the Politburo meeting concluded in the end of April, the policy stance remained pro-growth to ensure the sustainability of economic recovery. We expect the upcoming July Political to disclose policy tone change and the rumored US-China talks recently to release some positive signals.

July Politburo: More Supportive than Expected^

Politburo meeting started on July 24. In the context of worsening macroeconomic situations in July than April, it is encouraging to see a more supportive policy tone from China's top leadership. The meeting called for stronger "counter-cyclical" macro policies, many structural reforms, and confidence-boosting measures.

Policy Focus	Key Takeaway
Policy Easing	- Increase countercyclical policy support and expand policy toolbox - Make better use of aggregate (implying room for RRR/rate cuts) and structural monetary policy tools - Accelerate issuance and usage of local government special bonds - Promote consumption in autos, home appliances and electronics
Private Sector	- Resolve payables to private sector suppliers - Establish regular communication channels with the private sector - Promote risk-taking and "animal spirits" among entrepreneurs
Property Sector	- No mention of "houses are for living, not for speculation" - Optimize housing policy given a fundamental shift in supply-demand dynamics - Better support first-home and home upgrade demand

Key Events in 2H23*

Time	Event
Aug. 2023	BRICS summit in South Africa
Sep.-Oct. 2023	• The Third Belt and Road Forum for International Cooperation: The 10th anniversary of Belt and Road Initiative • 2023 G20 New Delhi summit in September
Nov. 2023	• The Third Plenary Session of the 20th Central Committee of the Communist Party of China (三中全會): Focus on economic development and economic system reform • APEC CEO Summit 2023 in San Francisco, California
Dec. 2023	• Central Economic Work Conference • Politburo meeting

Source: ^July Politburo. *Compiled by CSOP.

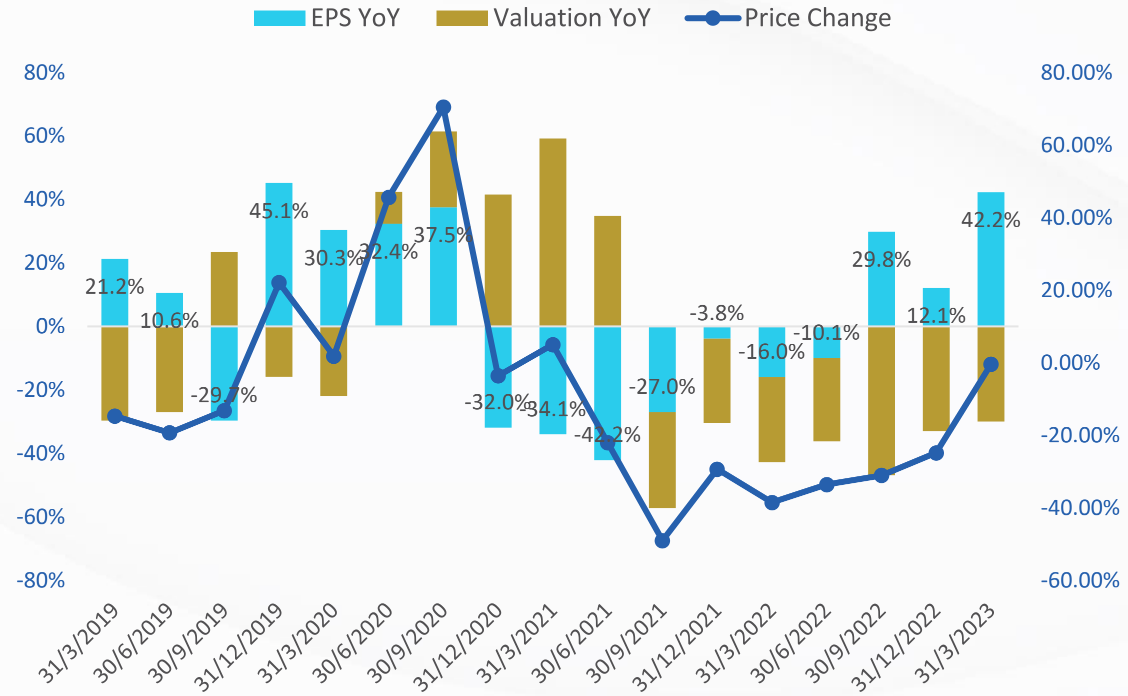
Valuation Pressure is the Main Reason for Recent Correction

The fundamental side of China's tech stocks have significantly improved, with supportive statements from central government and strong earnings growth in 1Q23.

But the unresolved geopolitical conflict posed pressure on the valuation side, making a negative contribution to the stock price movement.

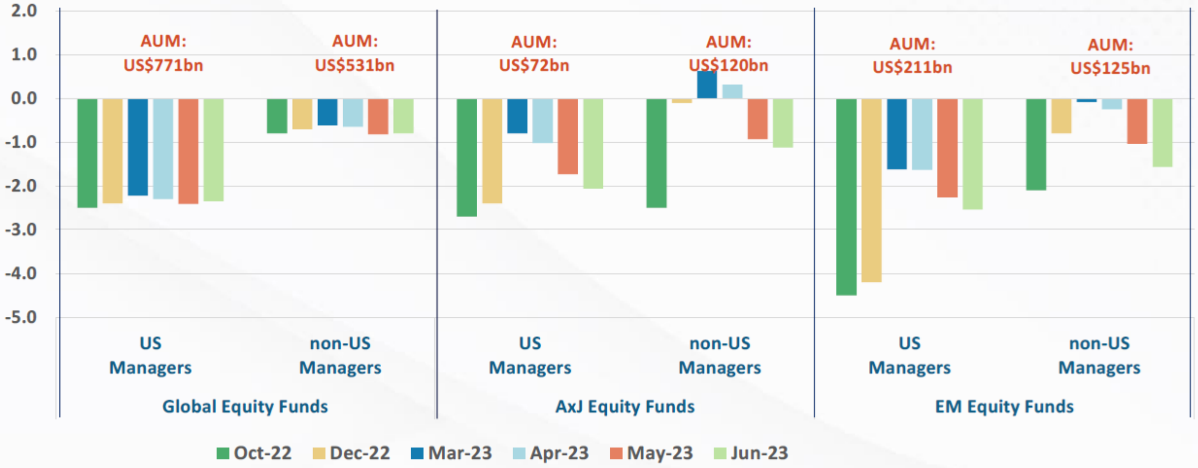
Earnings Strong Beat But Valuation Drag the Q1 Performance

The Valuation and Earnings Contribution of Price Change of Selected Tech Giants*



Long-only Mandates Notably Reduced Their China Exposure in May and June

Active Weights of mainland China/HK Equities by Regional Fund Category and Manager Domicile^



Source: *Bloomberg, CSOP estimation. ^MorningStar, FactSet, EPFR, Morgan Stanley Research. As of 2023/6/30.

Investment Implications for China

With the first phase of strong economic recovery completed driven by China's rapid recovery, we stand in a crossroad amid lots of unresolved concerns. Whether there would be positive signals in geopolitical issues and whether the expectations on expansionary policy stimulus would be the key to look at.

Scenarios	Asset Views
Macro Policies Remain Unchanged No Positive Signal in Geopolitical Issues	**Chinese Government Bond:** ○ Declining interest rates to bring bond yield down further to support the prices ○ RMB hard to enter depreciation trend and remain volatile ○ The current pessimistic outlook on China's economy increased the attractiveness of government bonds as the safe-haven asset
More Stimulus Introduced Such as LPR cut, expanding fiscal spending *And/or* Positive Signal in Geopolitical Issue Driving the Sentiment to Improve	**We turn to risk-on mode and prefer equities to government bonds.** **Onshore A-share:** Upbeat about the policy-friendly sectors, such as SOEs benefiting from valuation system with Chinese characteristics (中特估) and digital economy, high-end manufacturing sectors benefiting the requirement of technological self-reliance. **Offshore HK stocks/ADRs:** With the strong beat of Q1 estimate, recovering earnings expectations, supportive stance to promote the private economy development, the Chinese tech sectors have robust fundamental. Once the sentiment picks up, the valuation pressure could alleviate, and we are optimistic about the Hang Seng TECH Index

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