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October 10, 2024

CSOP Asset Management Opportunities in Divergency

Andy Lau, CFA

Portfolio Manager
CSOP Asset Management

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CSOP 2024 Market Outlook **Opportunities in Divergency**

October 2024



2024 Midyear Outlook

Global Outlook

The monetary policies of the US and Japan are in divergence.

01

China Outlook

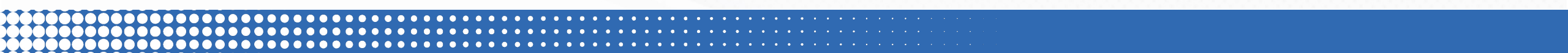
A sustainable recovery both in economy and stock market requires more stimulus, especially in property sector.

02

Allocation Views

Upbeat about Long-term US treasuries and trading opportunities in China equity market.

03



01

Global Outlook

Divergency

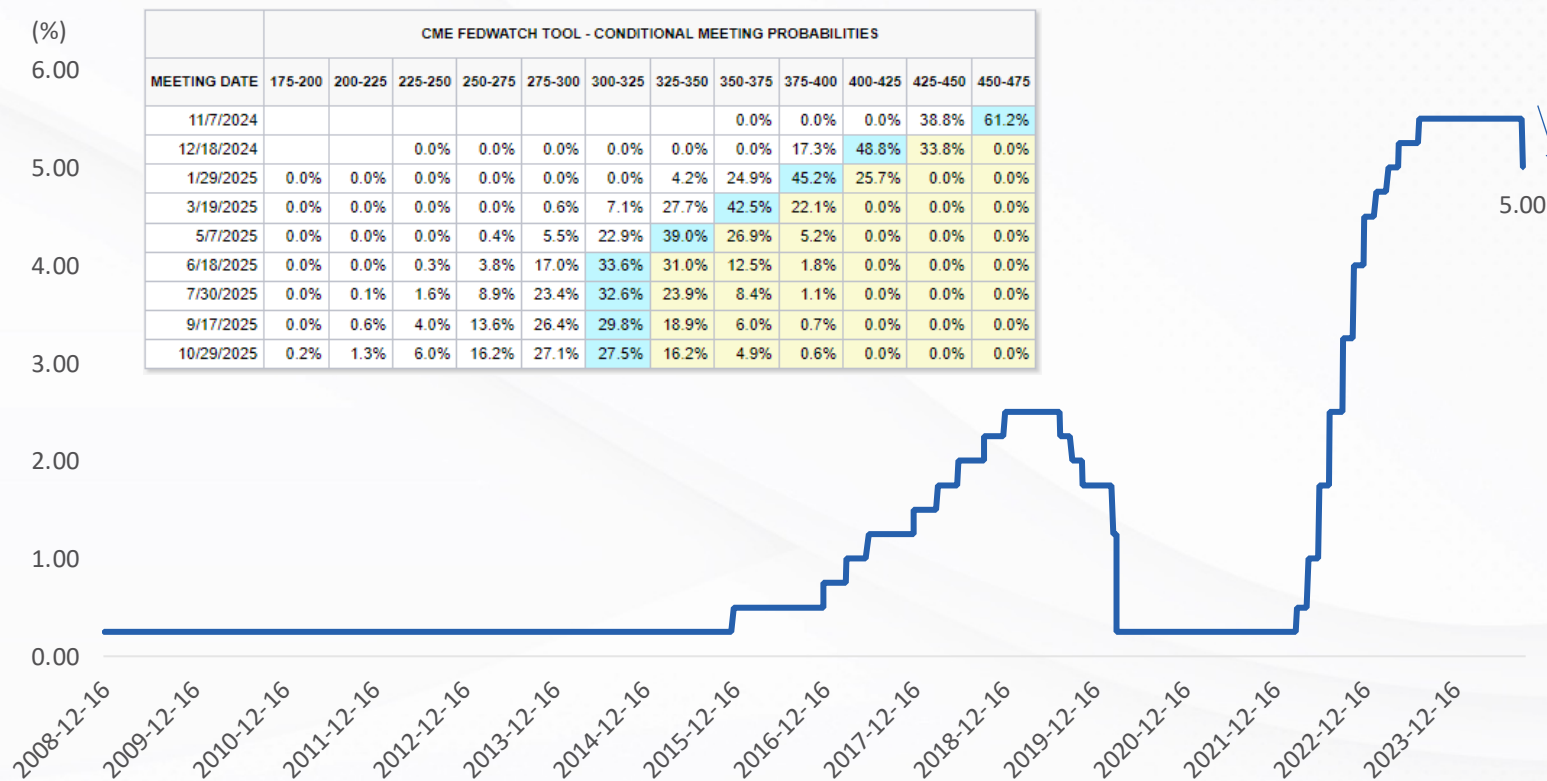
US Rate Cut starts

With the labor market and inflation cooling down, the Fed has cut rate by a half point at September 2024 meeting for the first time in four years.

Disinflation continues and labor market cools down*

Actual (Estimate)	ADP Employment (Thousand)	Nonfarm Payroll (Thousand)	Unemployment Rate (%)	Core CPI YoY (%)
202401	107 (145)	353 (187)	3.7 (3.8)	3.9 (3.7)
202402	140 (149)	275 (198)	3.9 (3.7)	3.8 (3.7)
202403	184 (148)	303 (212)	3.8 (3.9)	3.8 (3.7)
202404	192 (179)	175 (238)	3.9 (3.8)	3.6 (3.6)
202405	152 (173)	272 (182)	4.0 (3.9)	3.4 (3.5)
202406	150 (163)	206 (190)	4.1 (4.0)	3 (3.1)
202407	111 (145)	114 (175)	4.3 (4.1)	3.2 (3.2)

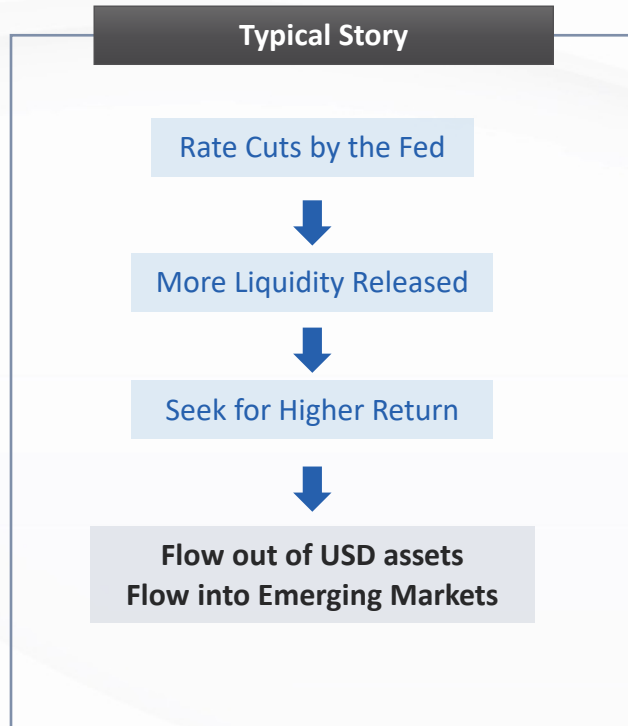
Federal Fund Rates – Upper Limit^



Source: *Bloomberg. ^FRED, FedWatch, as of 2024/9/30.

Where Will the Extra Liquidity Flow?

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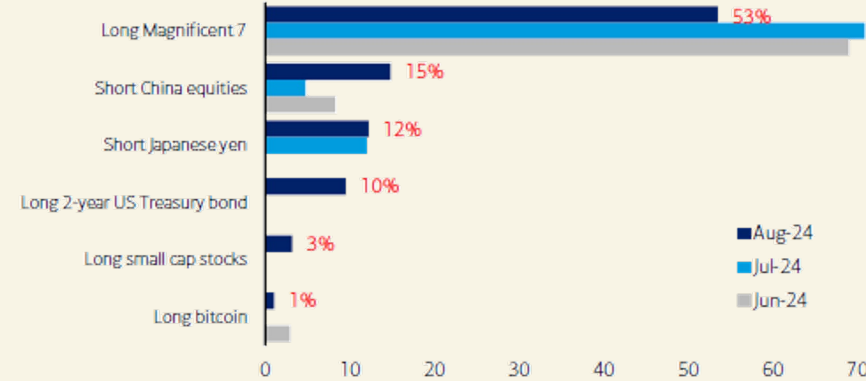


BUT...

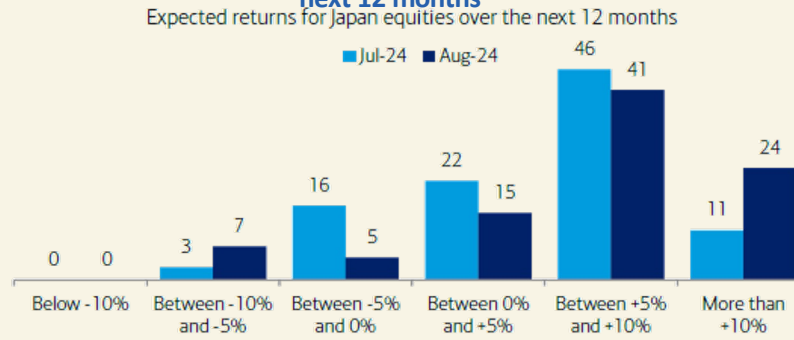
History may not always repeat itself.

“AI” and “Japan Equities” remain as the themes with the largest growth potential so that they could attract more liquidity until the growth rationale falsified.

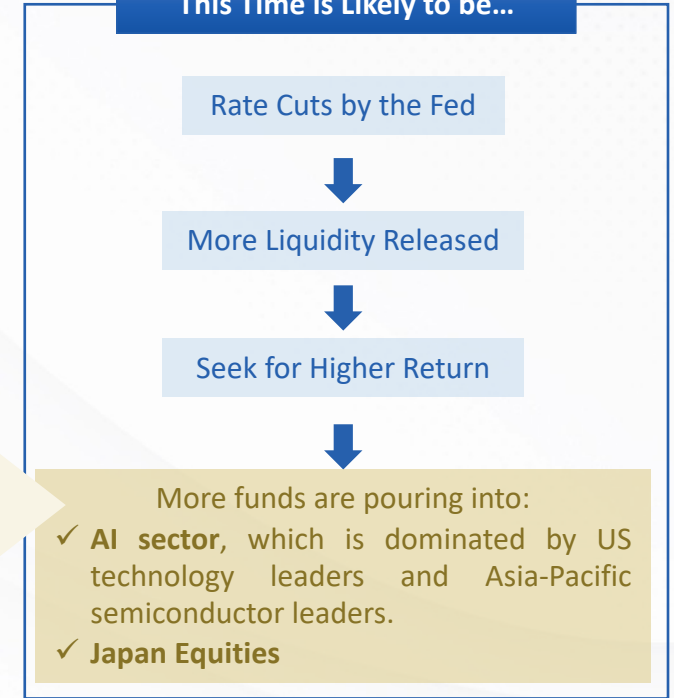
“Long Magnificent 7” remains the most crowded trade[^]



80% of the participants expect Japan equities to rise in the next 12 months*



This Time is Likely to be...



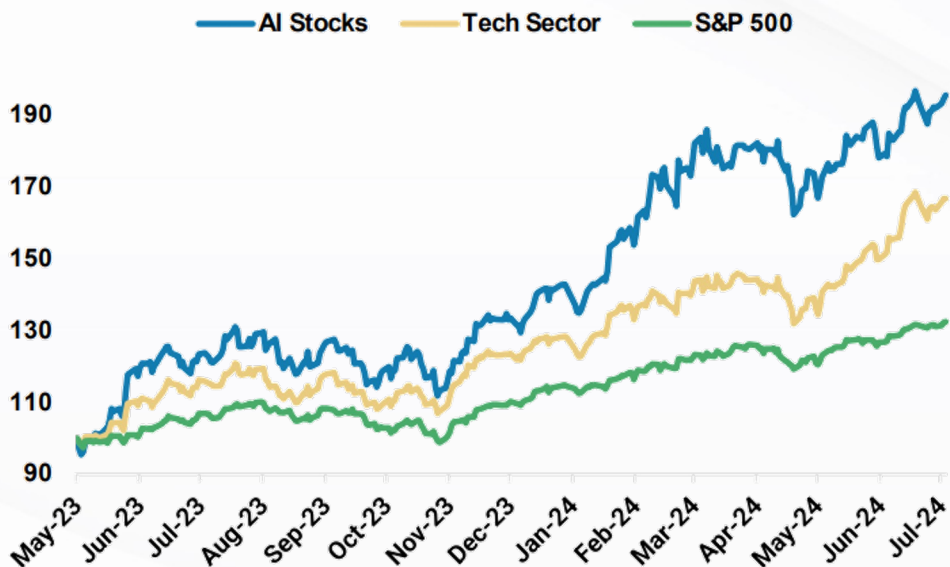
Source: [^]BofA Global Fund Manager Survey in August. *BofA Asia Fund Manager Survey.

AI to Power the Growth

- Driven by imagination of generative artificial intelligence (AI), US stocks have continued its fabulous performance in 2024, driven by a narrow list of high-quality tech mega caps. “Long Magnificent 7” remains the most crowded trade.
- In the fundamental wise, the hardware investment keeps growing, while barriers to profitable use remain. We can imagine with the rising AI adoption, the companies benefiting from AI development is expected to spread from infrastructure (semiconductor, cloud, etc.) to device and software, but the short-term volatility is worth paying attention to in the backdrop of high concentration of US stock market.

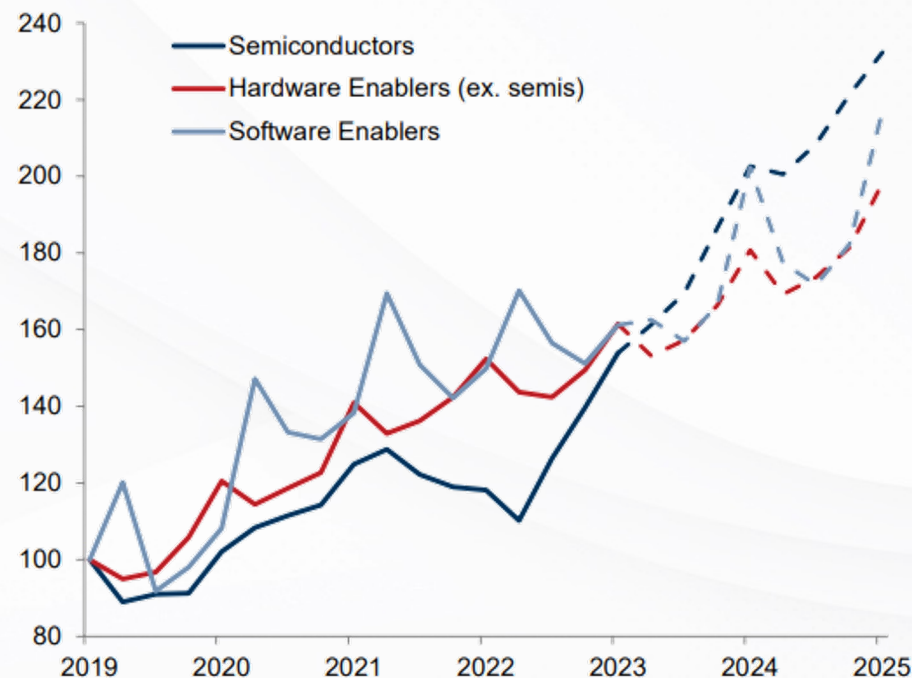
AI-related Stocks Have Outperformed

Index, 202305=100^



AI Investment Surge

Actual and forecasted revenues by AI-exposed sector, index, 4Q19=100^



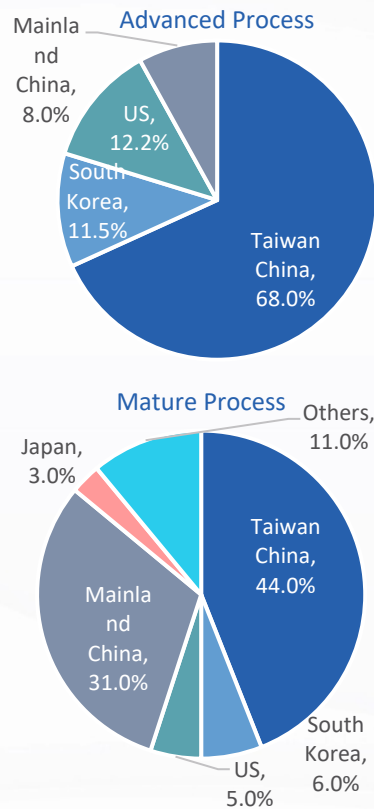
Past performance is not indicative of future results.

Source: ^FactSet, Goldman Sachs. Dashed lines indicate consensus revenue forecasts

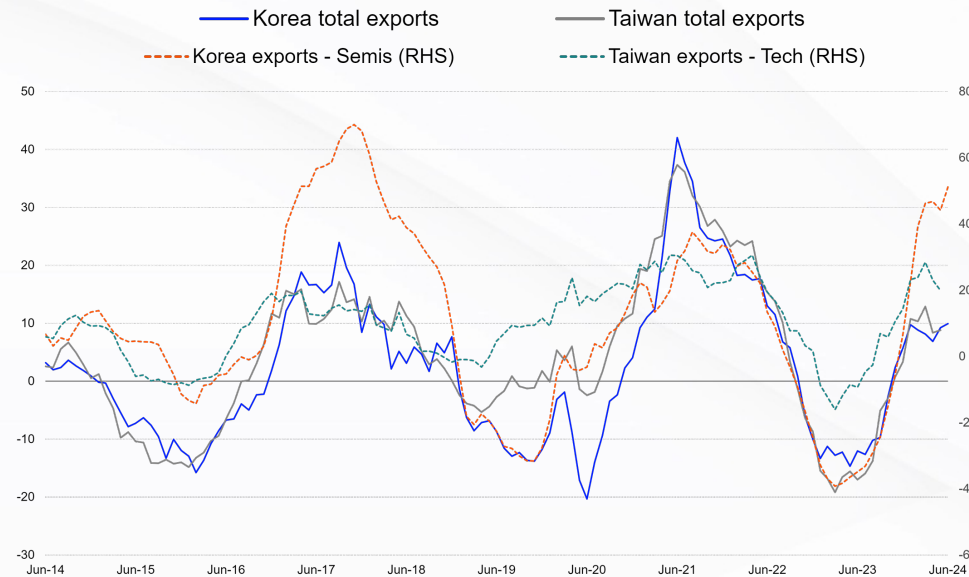
Taiwan / South Korea Continue to Ride the AI Boom

With the world's largest foundry capacity, Taiwan and South Korea benefit from the growing demand for semiconductors and AI technologies. The semi names listed in these two markets usually rose with US tech stocks, attracting the large fund inflow year to date.

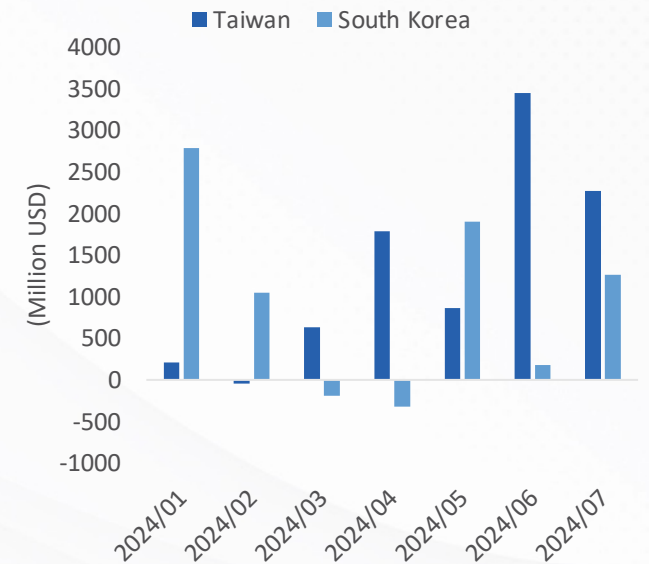
Distribution of Global Mature and Advanced Foundry Capacity by Region*



South Korea and Taiwan Exports YoY – 3M Moving Average (%)^



Taiwan and South Korea Attracted Large Inflow ETF Flows of Taiwan and South Korea Markets#



Source: *TrendForce. Dec 2023. "Advanced process node" is defined as a non-planar transistor architecture process, including ≤16/14nm nodes. Also, "mature process node" is defined as including ≥28 nm nodes. ^FTSE Russell and LSEG. Korea data as of Jun 2024; Taiwan data as of May 2024. #Bloomberg, CSOP. As of 2024/7/30.

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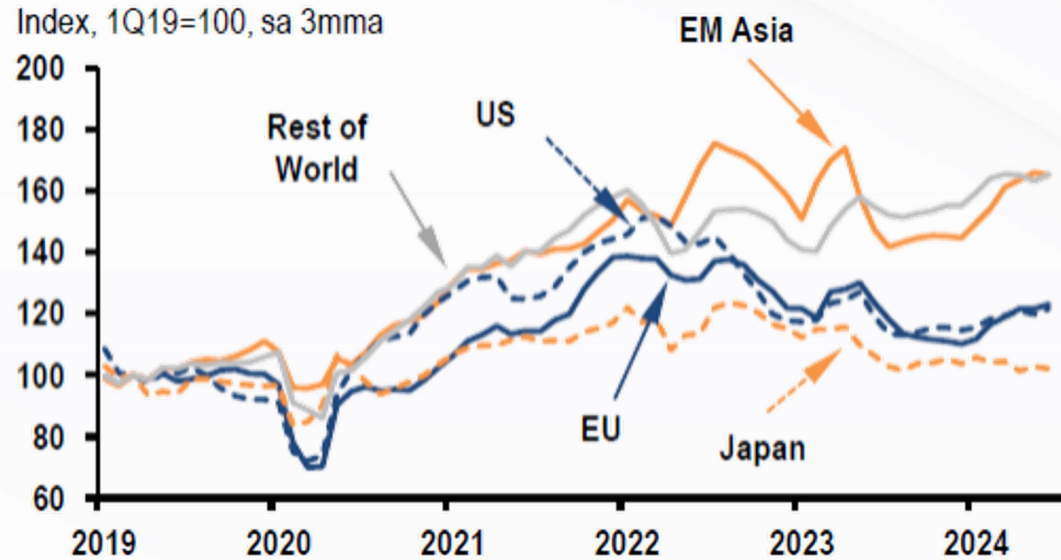
Southeast Asia Tech Could Benefit from AI Spillover

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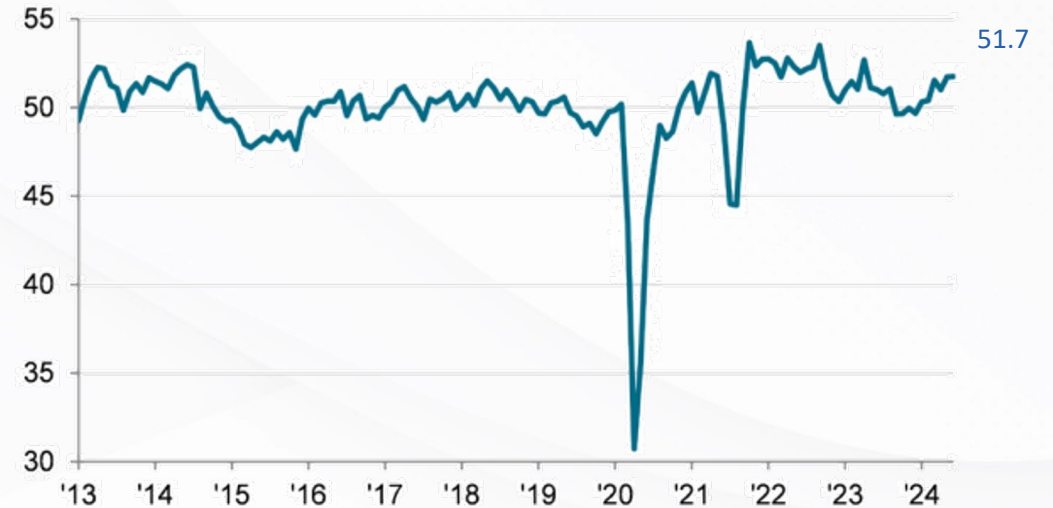
- Southeast Asia has been the major beneficiary of supply-chain relocation as firms relocate their production to the region to avoid trade barriers and make use of cheaper inputs from China, and the more entrepot trade has been seen.
- SEA manufacturers saw another solid improvement in new orders at the end of the second quarter. With the global manufacturing recovery and AI development, the emerging manufacturing hub –Southeast Asia will continue to benefit from it.

China Exports to EM Asia Trend up, and ASEAN has been the largest trade partner of China

China Export Breakdown by Destination*



S&P Global ASEAN Manufacturing PMI^



Source: *Haver, JP Morgan. ^S&P Global PMI.

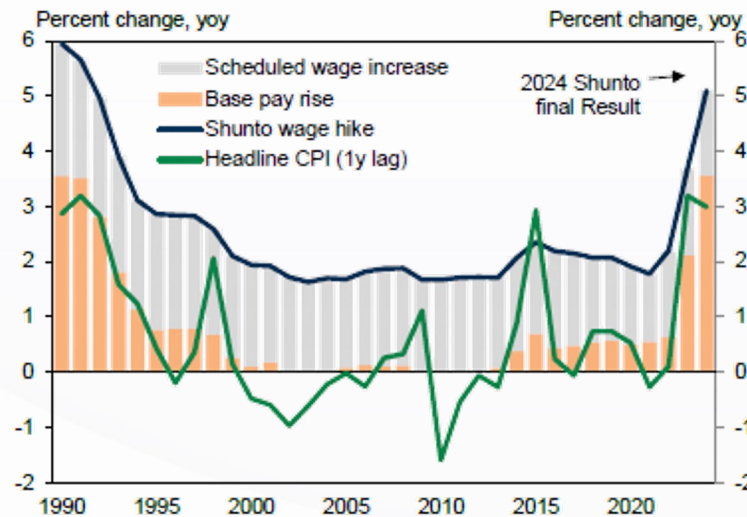
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Japan: Back on Track

In opposite to the major DM economies, Japan is on a firmer footing toward reaching inflation goal of 2% and cautious exiting ultra-loose monetary policy. In July 31 meeting, BOJ unexpectedly announced a 25bps rate hike and decided on a gradual reduction plan for JGB purchases to around 3 trillion Yen over two years. The reasons behind

Shunto Base Pay Rise the Highest Since 1990^

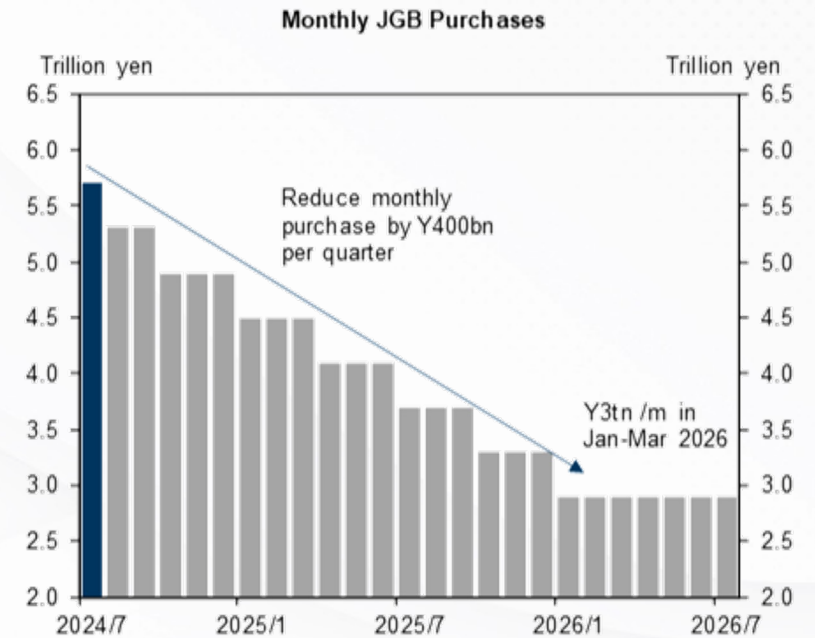
- If 2024 wage growth reaches nearly 5%, **the real wage increase will turn positive** in the second half of 2024.
- Wage increases are being passed through to prices, and inflation is likely to be sustainable.



The BOJ is Open for More Rate Hikes and Announce the Reduction Plan on JGB Purchase*



- In its **April** Outlook Report, the BOJ stated that "If...underlying inflation will increase, the Bank will **adjust the degree of monetary accommodation...**"
- Governor Ueda's remarks at the post-MPM press conference in **July** suggests that **the BOJ sees room for further rate hikes.**
- Following the Black Monday in **August**, the Bank of Japan's influential deputy governor said that the central bank **won't hike interest rates when markets are unstable**, playing down the chance of a near-term hike in borrowing costs.



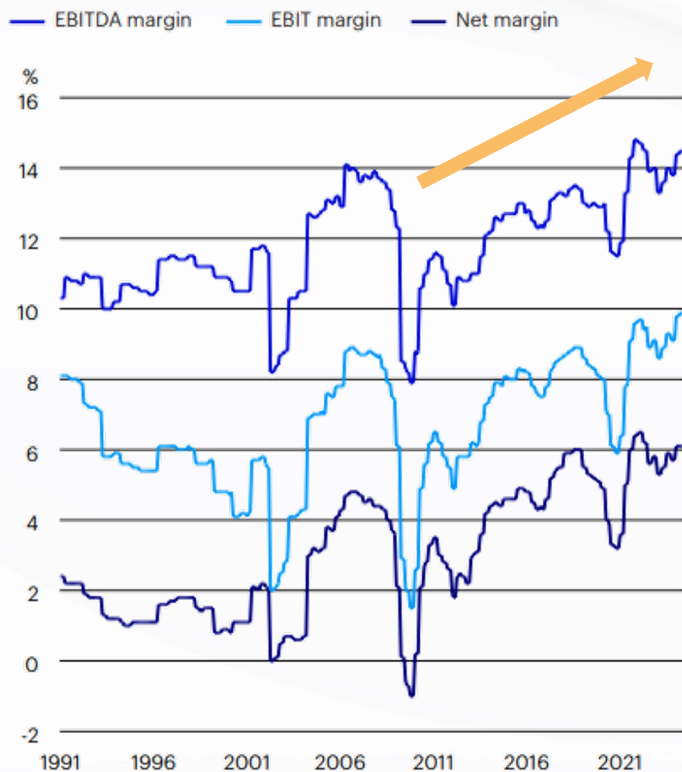
Source: ^JTUC-RENGO, Keidanren, MIC, MHLW, Goldman Sachs. *BOJ, Goldman Sachs.
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Japan: Solid Corporate Earnings

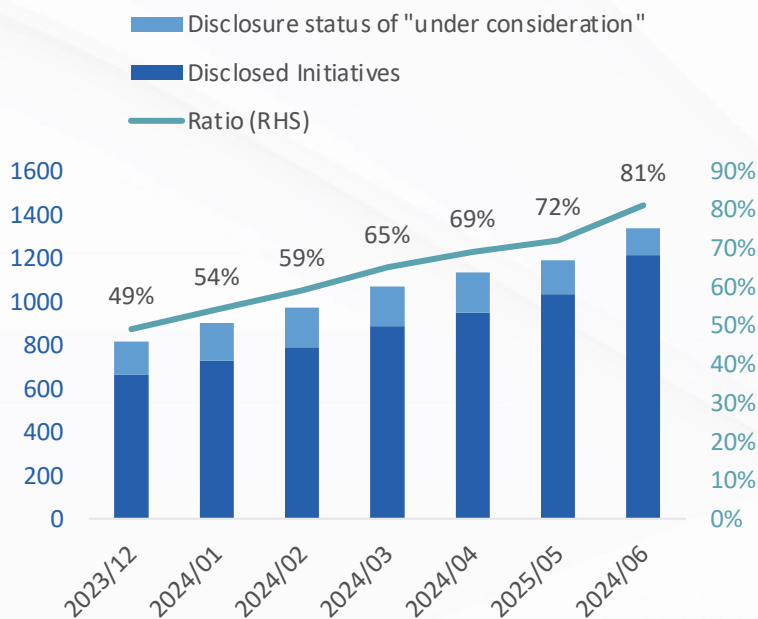
The sustainable and mild inflationary regime and ongoing reforms to improve profitability are helpful to improve corporate profitability.

Plus, the corporate governance reforms led by Japan Exchange Group have achieved significant progress. As of 2024/6/30, 81% of prime market listed companies have disclosed information regarding "Action to Implement Management that is Conscious of Cost of Capital and Stock Price".

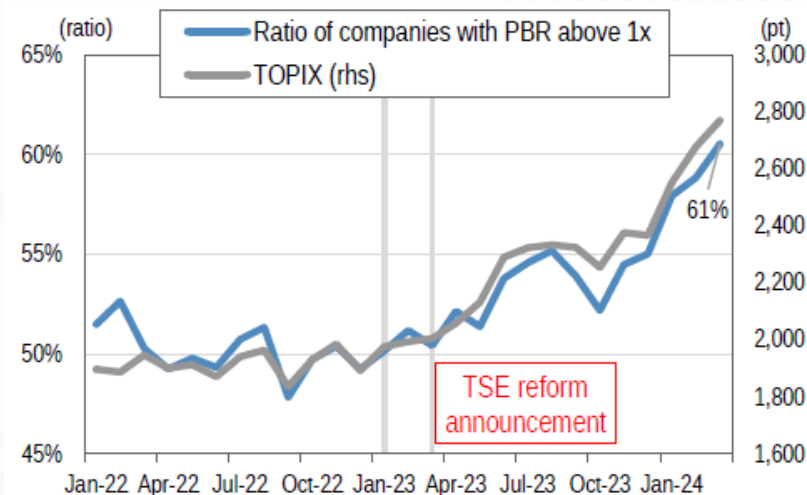
Margins of Japanese-listed Companies[^]



More and more Companies to Take Action to Boost Valuation*



More and more Companies got PBR above 1x[#]



Past performance is not indicative of future results.

Source: [^]Invesco, Datastream, as of 2024/5/31. ^{*}Japan Exchange Group. As of 2024/6/30. [#]Bloomberg, JP Morgan.

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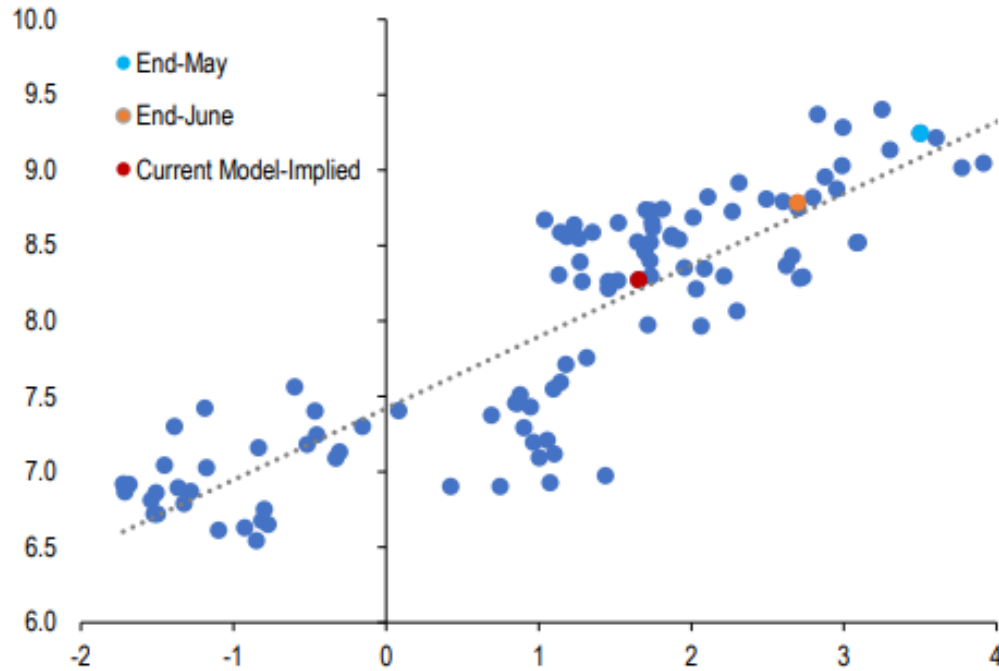
Japan: Global Carry Trades Unwinding as JPY Gains

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- Protracting low interest rates in the past decades have made **JPY (Yen) the global funding currency**, and the carry trade that used low-yielding currencies like JPY to fund investments in higher yielders has been one of the most popular trading strategies around the world, even fueled further by the JPY's sharp depreciation this year.
- However, the upside risk of Yen is increasing with the Japan's interventions and the expectations of a rate reduction by the Fed and a rate hike by the BoJ. **Yen's gain could spark the widespread liquidation across markets and drive the market volatility up in the short term**, which has been seen in 2007-08 or July to date this year.

~50%-60% of carry trades may have been unwound Since May^

(X): Proxy for MXN/JPY positioning (5Y z-score of MXN futures positioning vs USD, less 5Y z-score of JPY futures positioning vs USD); (Y): MXN/JPY spot. Since 2H'22. Red is model-implied positioning level based on latest spot (8.2640)



Yen's Surge Could Hit the Global Assets in the Short Term*



Source: ^JP Morgan, CFTC, Bloomberg. The chart is as of end of July and shows up to 40% carry trades were unwound. *Bloomberg. As of 2024/8/6. For illustration purpose only, not to be construed as a recommendation to buy/sell in the above-mentioned jurisdictions or sectors.

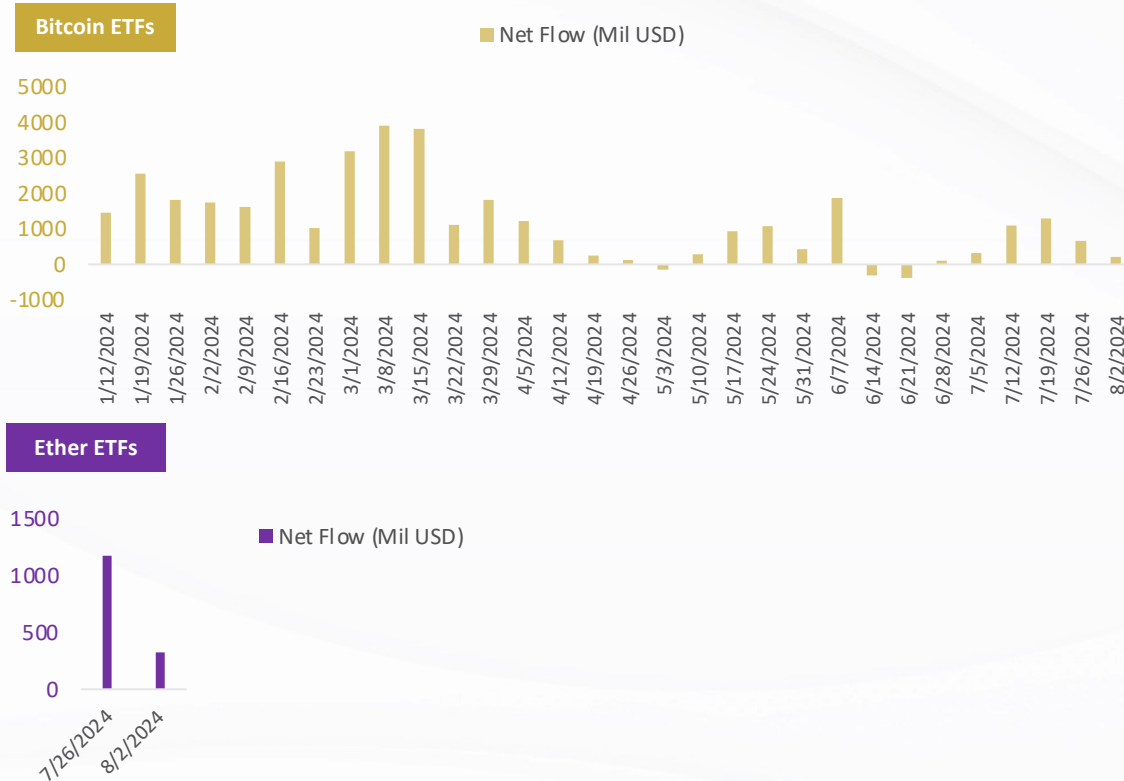
Virtual Assets: Prices Up with High Volatilities

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ETF boom empowered the prices of virtual assets, but the approval of Spot Ether ETFs does not replicate the Bitcoin ETFs' popularity since listing.

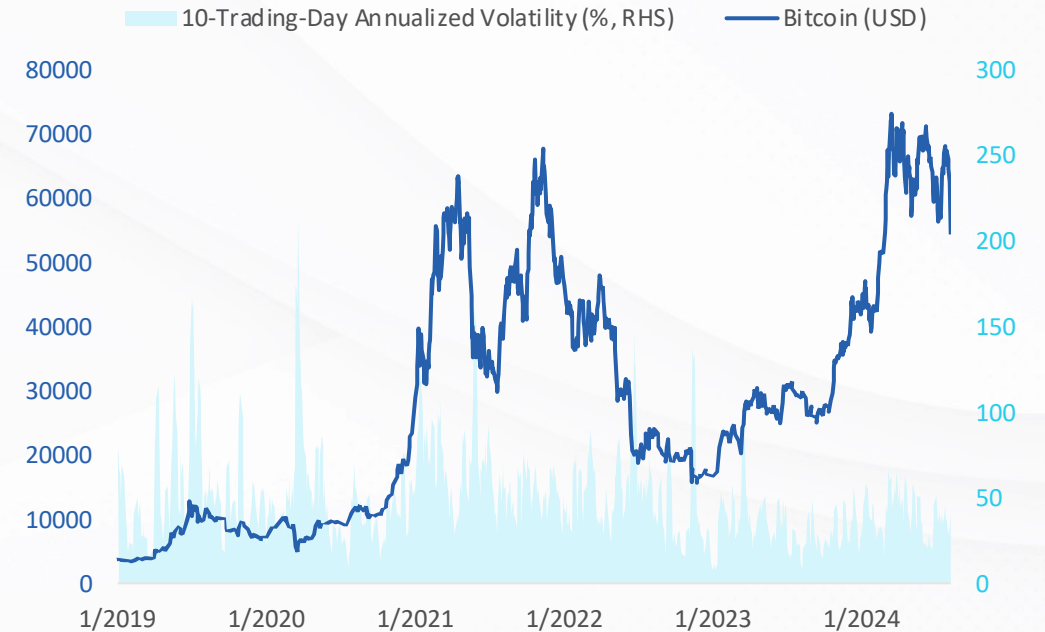
The volatility remains high. Bitcoin does not have any intrinsic value. Its price mainly relies on investor confidence and market demand & supply which are sensitive to market news and rumors.[^] The drawdown of bitcoin could be extremely high.

Weekly Fund Flow of US Spot Bitcoin ETFs and US Ether ETFs Since Debut*
(Excluding Grayscale Bitcoin Trust and Grayscale Ethereum Trust)



Bitcoin Prices, Volatilities and Maximum Drawdown*

Year	2019	2020	2021	2022	2023	2024YTD
Max. Drawdown	-48.04%	-52.79%	-52.90%	-67.41%	-20.07%	-25.65%



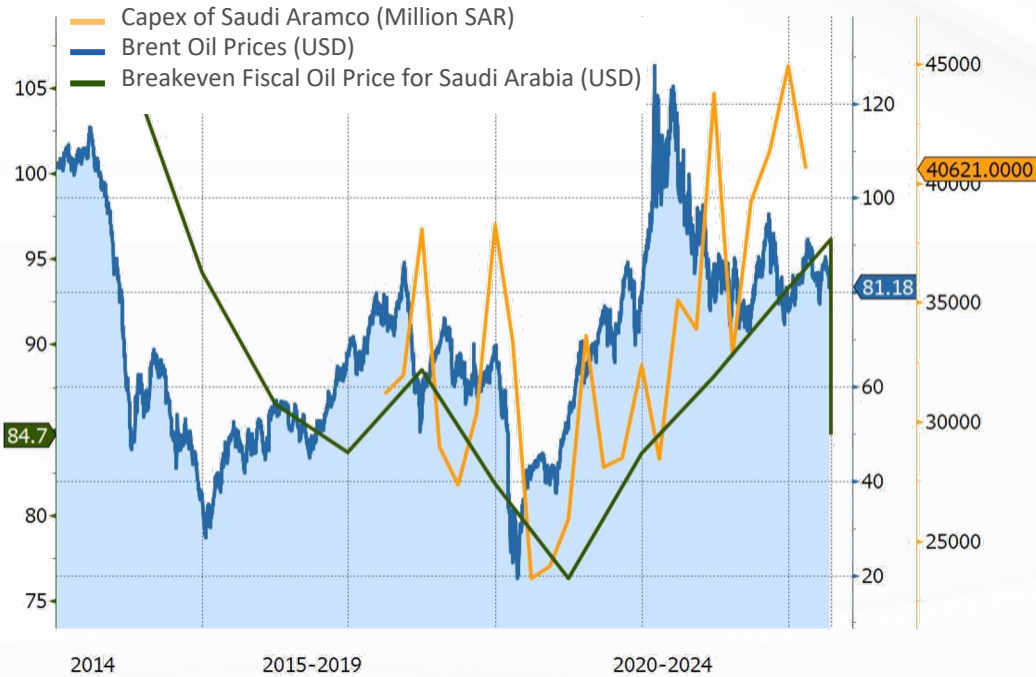
Source: [^]IFEC. *Bloomberg, CSOP, As of 2024/8/6.

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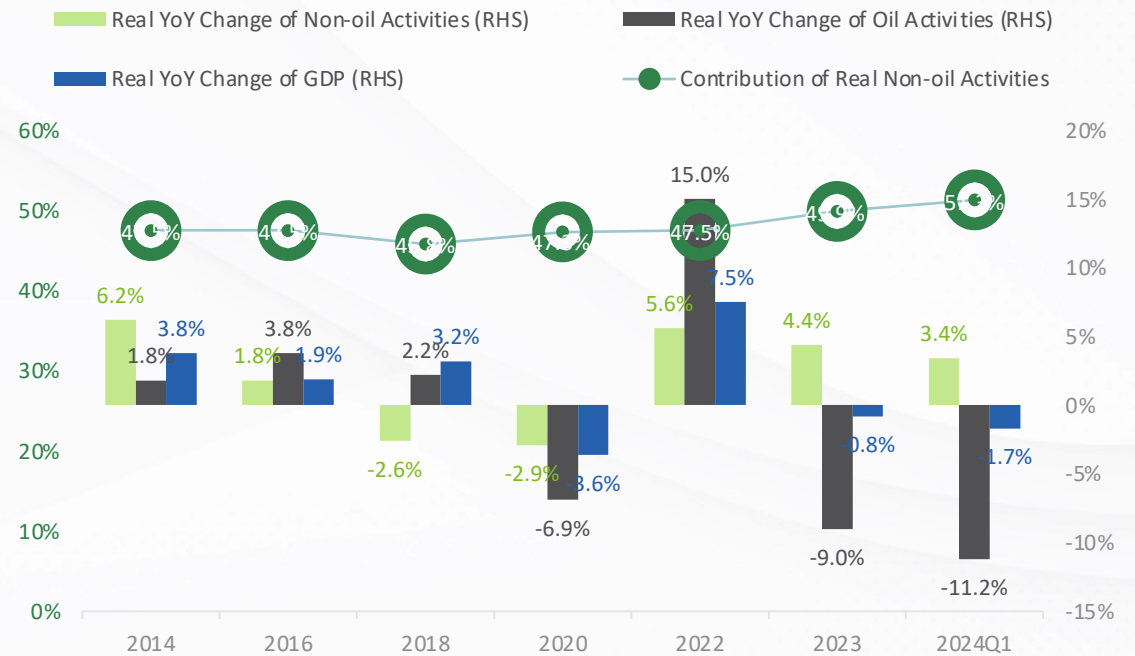
Saudi Arabia: Towards Diversified Growth

- As the largest oil exporter around the world, Saudi Arabia (KSA) economic performance highly relies on the oil prices. The volatile oil prices this year cast a shadow over KSA's fiscal revenue and raised the market concerns.
- Fortunately, the diversification of economy, derived from Vision 2030 plan published in 2016, has seen positive progress. Saudi Arabia's non-oil business activity delivered steady growth steady from 2023 to date.

Roller-coaster Oil Prices this year Affect KSA's Revenue; Aramco Keeps Expanding Capex^



KSA's non-oil GDP have been growing steadily, outpaced oil GDP and overall GDP*



Past performance is not indicative of future results.

Source: ^Bloomberg. *EIA. Forecasts are from the June 2024 EIA Short-Term Energy Outlook.

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The Potential Risks in the Second Half

US Presidential Election



The US election process has twists and turns. Biden's unprecedented exit and Harris's rise in the polls added further uncertainty.

If Trump is reelected, there are three key aspects worth paying attention to: 1) Trade protectionism and tariff hike; 2) Corporate income tax cuts; 3) Push interest rate drop. These could weigh on the global trade structure (especially for China and SEA), the popularity of small-cap investment strategy, the fiscal deficit of the US, etc.

Monetary Policy of BOJ



The unexpected rate hike and hawkish statement on future rate path by BOJ in July sparked the Japanese Yen appreciation, leading to the carry trade unwinding and the market shock. Then, the BOJ turned around to play down chance of near-term rate hike, and the Japanese equity market recovered.

Considering the market consensus of Japan's growth story and uncertain BOJ's policy stance and FX intervention, we expect more volatilities to be seen.

02

China Outlook

More stimulus needed

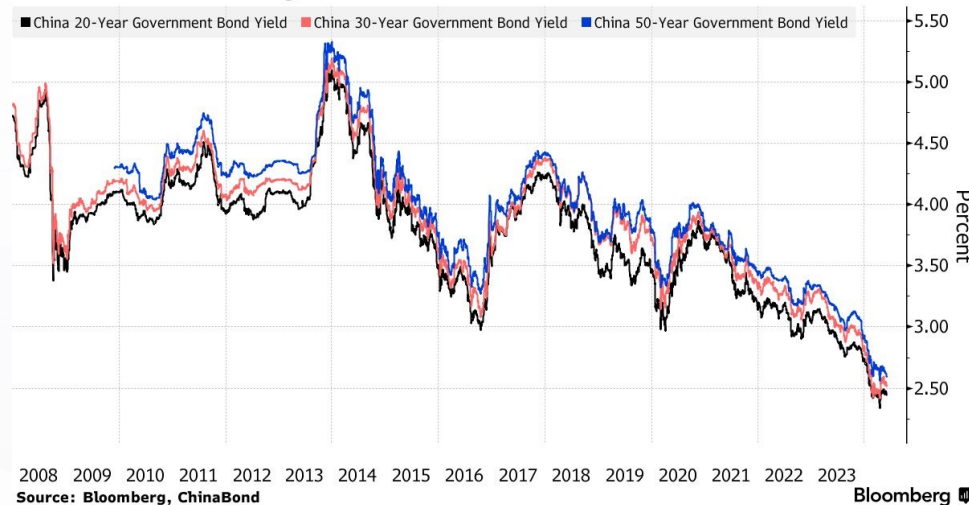
Cautious Sentiment amidst Mixed Views

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Chasing for Safe-haven assets in onshore market may imply cautious market sentiment*

In the lack of high-quality assets, the defensive play has been popular in onshore market this year, with high-dividend strategy, government bonds attracting large inflows.

China's Ultra-Long Bond Yields Near Historic Lows



Source: *Bloomberg.

Manufacturing PMI in Contraction Range

Property still a drag

Sluggish consumption recovery

Bear



Bull



Exports remain resilient

Pro-growth Policy Stance

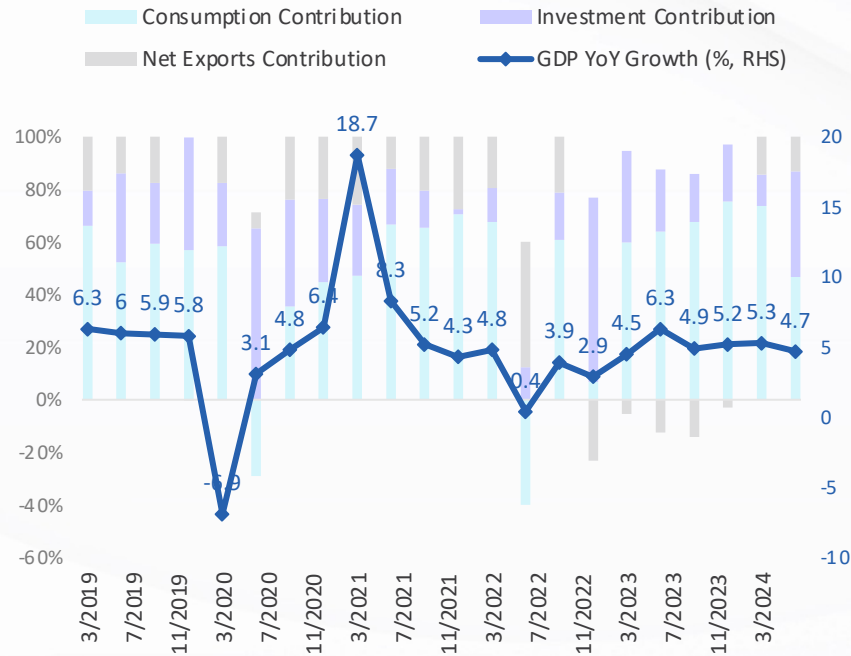
Fiscal Expanding on Property

Growth Pressure Looms

Everyone is still waiting for stimulus package

The negative effect of deleveraging in property sector and local government sector still weigh the economic growth, but the aggressive fiscal stimulus and persistent monetary stimulus have not seen yet.

Drivers of China GDP Growth *



Manufacturing PMI Below 50 for Consecutive 3 months *



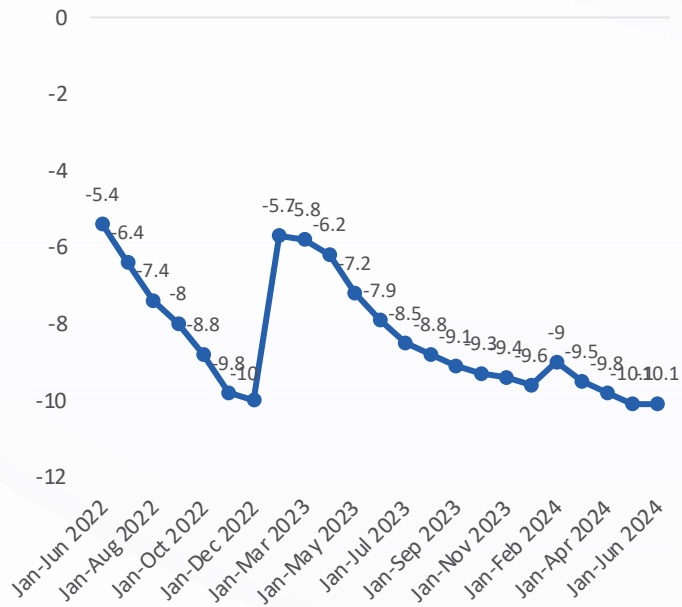
Source: *Bloomberg.

Property Still a Drag

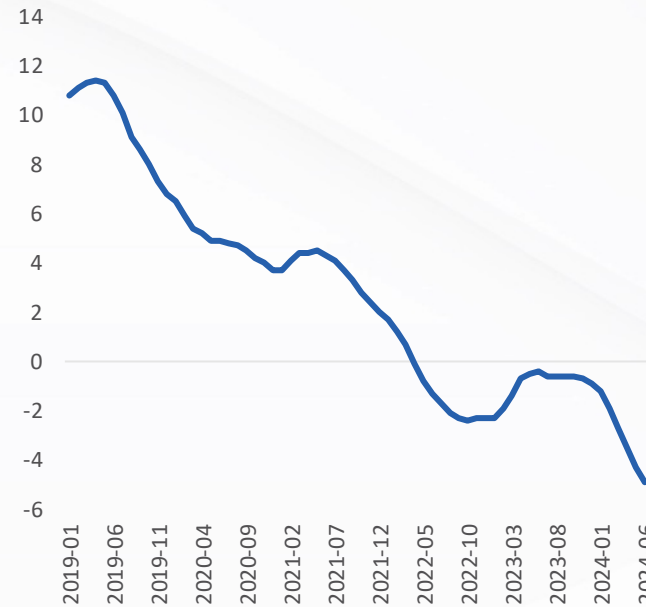
Lack of encouraging and big stimulus in property market, the downward pressure in property investment, prices and inventory has deepened this year.

The “517 Housing Stimulus”* released on May 17 was followed by the rebound in secondary housing sales volume growth, but such rebound seems short-lived as the investment shrinking and price adjustment continue.

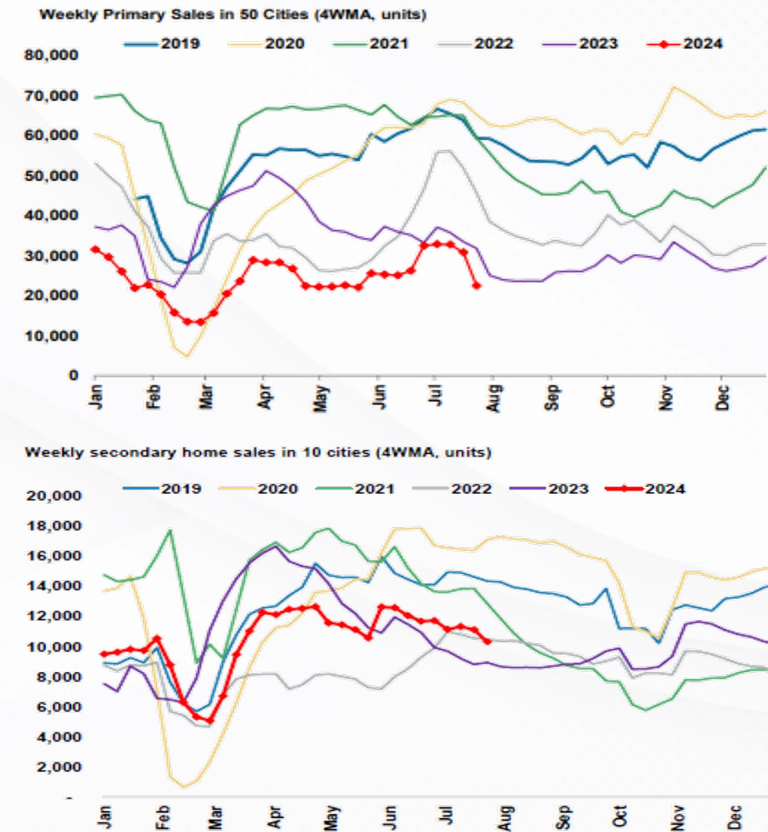
Property Investment Growth (%) Stay Sluggish^



70-City Property Price YoY Change (%)^



Impact of “517 Housing Stimulus” Largely Faded*



Source: ^NBS, CSOP. *Morgan Stanley.

Note: *On May 17, the People's Bank of China, the State Administration of Financial Supervision and other departments issued a series of measures to support real estate ("517 Property Market New Deal"), including clearly canceling the lower limit of the national-level mortgage interest rate policy and lowering the down payment ratio of mortgage loans, and provident fund loan interest rates, establishment of affordable housing refinancing and many other aspects.

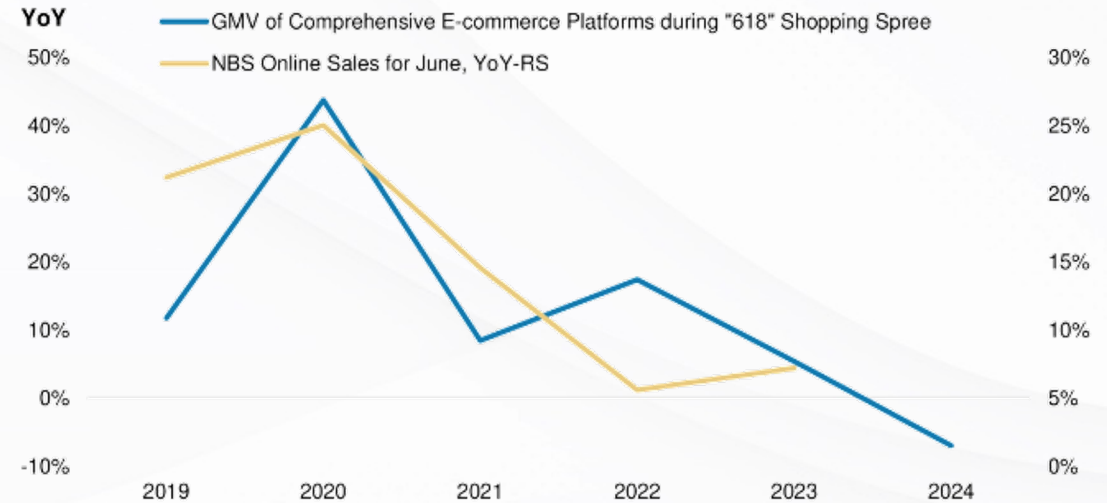
Consumption Growth Turns to be Weak

The strong rebound of retail sales after reopening has subdued. The retail sales slowing significantly in the second quarter, mainly dragged by the goods consumption. The online sales still recorded robust growth this year, while the GMV of 618 sales among major platforms declined by 7% versus 2023, the first YoY decline ever. *

YoY Growth Rate of Total Retail Sales of Consumer Goods^



YoY Growth Rate of Online Sales and Estimated "618" GMV*

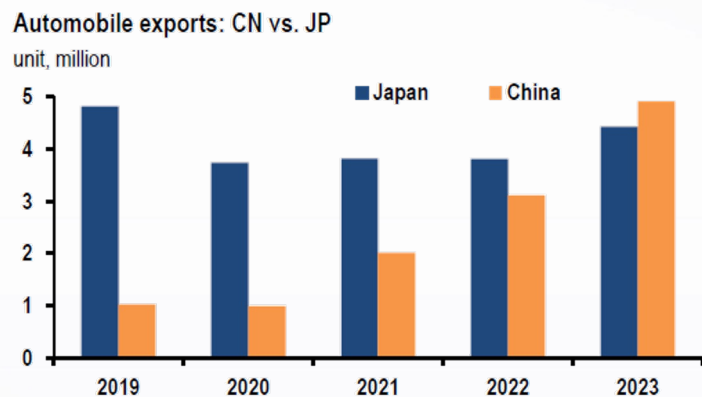


Source: ^NBS, CSOP. *Syntun, Morgan Stanley.

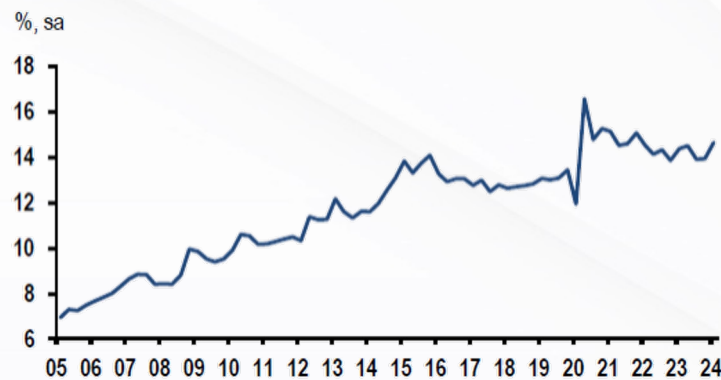
Resilient Exports

China's export value growth remained robust backed by solid global demand and China's the largest and most complete supply chain. The potential tariff war 2.0 may impose limited impact as China has lowered export dependence on US and G10 markets.

China replaced Japan as the world's No. 1 auto exporter (by location) #



China's Global Export Share Has Remained Elevated^



China Lowers export dependence on US (G10) market Exports breakdown by destination and product*

	14-17avg	18-19avg	20	21	22	23	24ytd
By destination, % of total exports							
US	18.0	18.0	17.4	17.1	16.1	14.8	14.1
EU	16.0	16.8	15.1	15.4	15.6	14.7	14.6
EM Asia	18.5	20.1	21.5	21.2	22.7	22.1	23.1
JP	6.1	5.8	5.5	4.9	4.8	4.6	4.3
RU	1.9	2.0	1.9	2.0	2.1	3.3	3.0
Africa	4.5	4.4	4.4	4.4	4.6	5.2	5.0
LatAm	5.7	6.0	5.8	6.8	7.0	7.2	7.7
Others	29.3	27.0	28.3	28.2	27.1	28.1	28.1
By product, % of total exports							
Solar Cell	0.5	0.7	0.8	0.8	1.3	1.3	1.0
Lithiumion Battery	-	-	0.6	0.8	1.4	1.9	1.6
EV	-	0.0	0.1	0.3	0.7	1.2	1.4
Motor Vehicle	0.5	0.6	0.6	1.0	1.7	3.0	3.2
Memo: total exports (US\$ bn)							
China	2,261	2,500	2,598	3,368	3,605	3,422	-
Global	17,325	19,275	17,653	22,322	24,942	23,799	-

Source: #CAAM, JAMA, J.P. Morgan. ^WTO, JP Morgan. *China Customs, WTO, JP Morgan. Yellow=decrease, Green=increase.



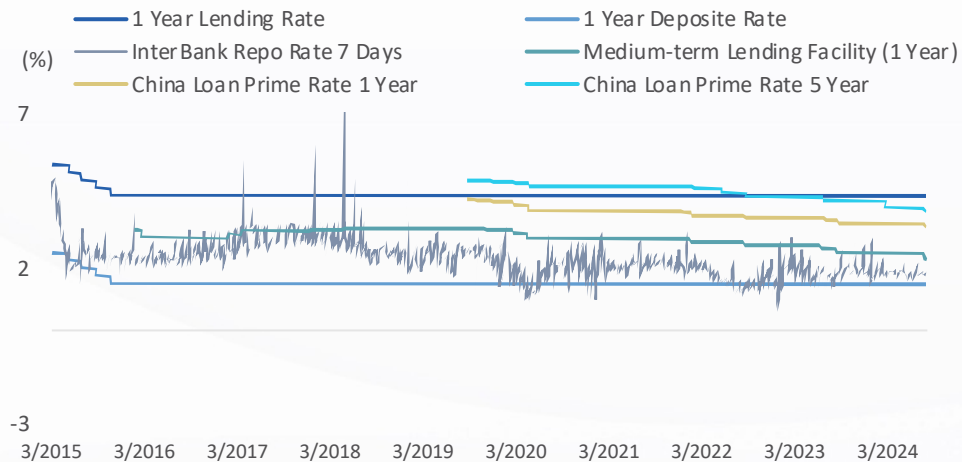
Monetary Policy: “Whatever It Takes”.

PBOC governor Pan Gongsheng announced a set of policy easing measures on September 24, spanning across monetary policy, property, and equity market cohorts, implying strong support to the stock market.

1

Policy Rate Cuts and RRR Cut

RRR cuts	The PBOC cut RRR rate by 50bps to 9.5% and injected RMB 1tn of liquidity to the banking system. The governor hinted at another 25-50bp cut by end of 2024.
Policy rate cuts	PBOC's the 7-day OMO rate rate cut by 20bps to 1.5% The PBOC cut 1-year MLF rate by 30bps to 2.0% Potential following-up LPR adjustments in the future.



Source: PBOC, Bloomberg, Goldman Sachs.

2

Equity Market Support

1) A RMB 500bn swap facility for non-bank financial institutions (insurers, funds and securities companies) to borrow money directly from the PBOC with qualified collateral

➤ **PBOC Governor: This is just the phase 1; the second and even the third RMB 500bn swap facility is possible.**

“首期互换便利操作规模5000亿元，未来可视情况扩大规模。我和吴清主席讲，只要这个事儿做得好，第一期5000亿元，还可以再来5000亿元，甚至可以搞第三个5000亿元，我觉得都是可以的，是开放的。通过这项工具所获取的资金只能用于投资股票市场。”

2) A RMB 300 bn relending program for banks to support listed companies' **share buy-backs**.

3) Improve listed companies' quality, attract long-term capital/investors into the market

4) Promote high-quality development and serving the real economy, promote mergers, acquisitions, and reorganization activities

5) Focus on investor protection and shareholder returns

3

Property Policy Easing

Cut Interest Rate for Existing Mortgage

Lowering Interest rate for existing mortgage 50bp on average, bringing it to par with new mortgage rate, which lower the household annual interest expenses by RMB150bn.

Cut Downpayment for 2nd Homebuyer

Lower the floor for the downpayment ratio of the second-home purchase to 15% from 25%, to the same level of the first-home purchase downpayment requirement.

Raise Relending Quota

Raise direct funding support to account for 100% of Rmb300bn relending quota from previous 60%

Allowing Banks to Support Land Reserve Buyback

Potential plan to permit policy banks and commercial banks to lend to qualified entities for marketized buyback of developer land reserve

Clear Easing Signals Further in September Politburo Meeting

Two days after the stimulus package announced by PBOC, the September Politburo meeting was held ahead of schedule on September 26. The policymakers pledged to launch more forceful stimulus measures, and reiterated their call to “strive to achieve the full-year growth targets”. We believe that **consumption stimulus might be the only way to achieve the 5% annual growth target**.

Takeaway of September Politburo Meeting, and All Eyes on Meaningful Fiscal Stimulus in Q4[^]

Policies

Monetary and Fiscal Policy

- Pledge to “strengthen the counter-cyclical adjustment of fiscal and monetary policies” (加大财政货币政策逆周期调节力度). Specifically on fiscal policy:
 - Ensure “**necessary fiscal expenditure**”.
 - Make a good use of **special ultra-long-term central government bonds (CGB)** and **special local government bonds (LGB)** effectively.
- Monetary policy: Promise to **lowering the RRR**, and implementing **forceful interest rate cuts**.

Property

- Prevent the **property market from declining and facilitate its stabilization** (促进房地产市场止跌回稳).
- Expand loan extensions for the “white-list” projects, adjusting policies on home purchase restrictions, and lower existing mortgage rates.

Capital market

- Call for efforts to **boost the capital market**, encourage the middle-to-long-term capital to enter the market and removing obstacles for the inflows from social security funds, insurance and wealth management products.

Consumption on and labor market

- Highlight the necessity to **boost consumption** and improve livelihood, promote income growth among middle and low-income growth.
- Require improving the employment of key groups including college graduates, migrant workers and low-income families, and reinforced policy support for troubled groups including the elderly, the disabled and the unemployed.



Market Speculation on the Fiscal Stimulus*

Reuters reported that China is likely to issue **RMB 2 billion of sovereign debt this year to help revive economy**:

- 1 trillion yuan of special bonds mainly to stimulate **consumption-sources**
- Another 1 trillion yuan via special bonds to help **local governments tackle debt problems-source**



Consumption would be the policy focus to achieve full-year target 5%*

The successive months of soft macro datapoints have put the full-year official growth target of ~5% at risk.

Since export growth is resilient and property recovery takes time, **consumption stimulation could be the most efficient way** to achieve the full-year target.

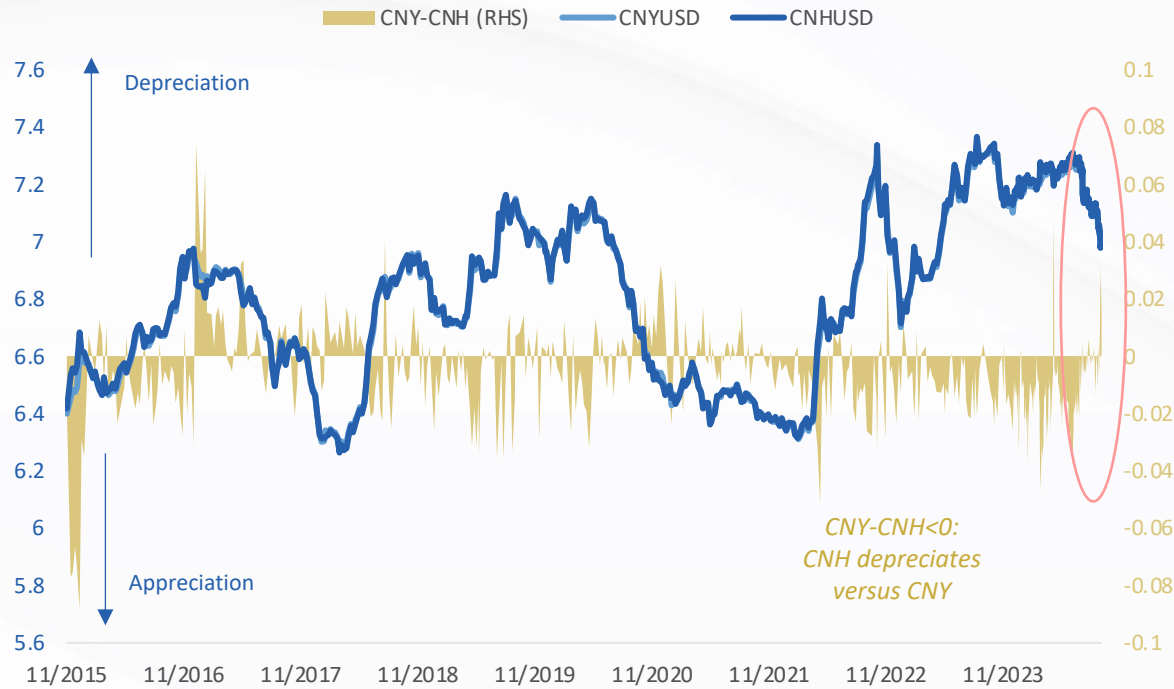
Source: [^]Government Website, Goldman Sachs. *Reuters, 2024/9/26.

RMB Surge on Stimulus

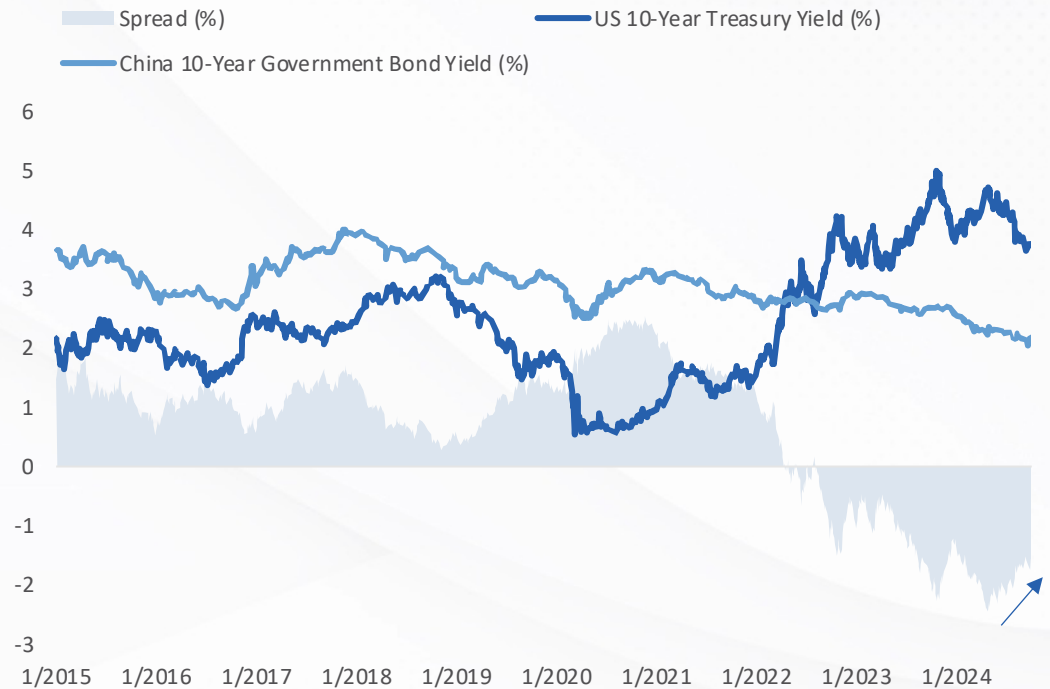
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RMB surged to 16-month peak on new stimulus measures and Fed rate cuts.

CNY, CNH and CNY-CNHS Spread[^]



US-China Yield Spread Narrowed after Fed Pivot in September[^]



Source: [^]Bloomberg. As of 2024/10/1. Past performance is not indicative of future performance.

Big China's Events

Time	Events
October 2024	The 75th anniversary of the founding of PRC Hong Kong Policy Address
Mid to late Dec 2024	Central Economic Work Conference
Jan-Feb 2025	2025 provincial-level "Two Sessions"
Early-to-mid Mar 2025	2025 "Two Sessions"



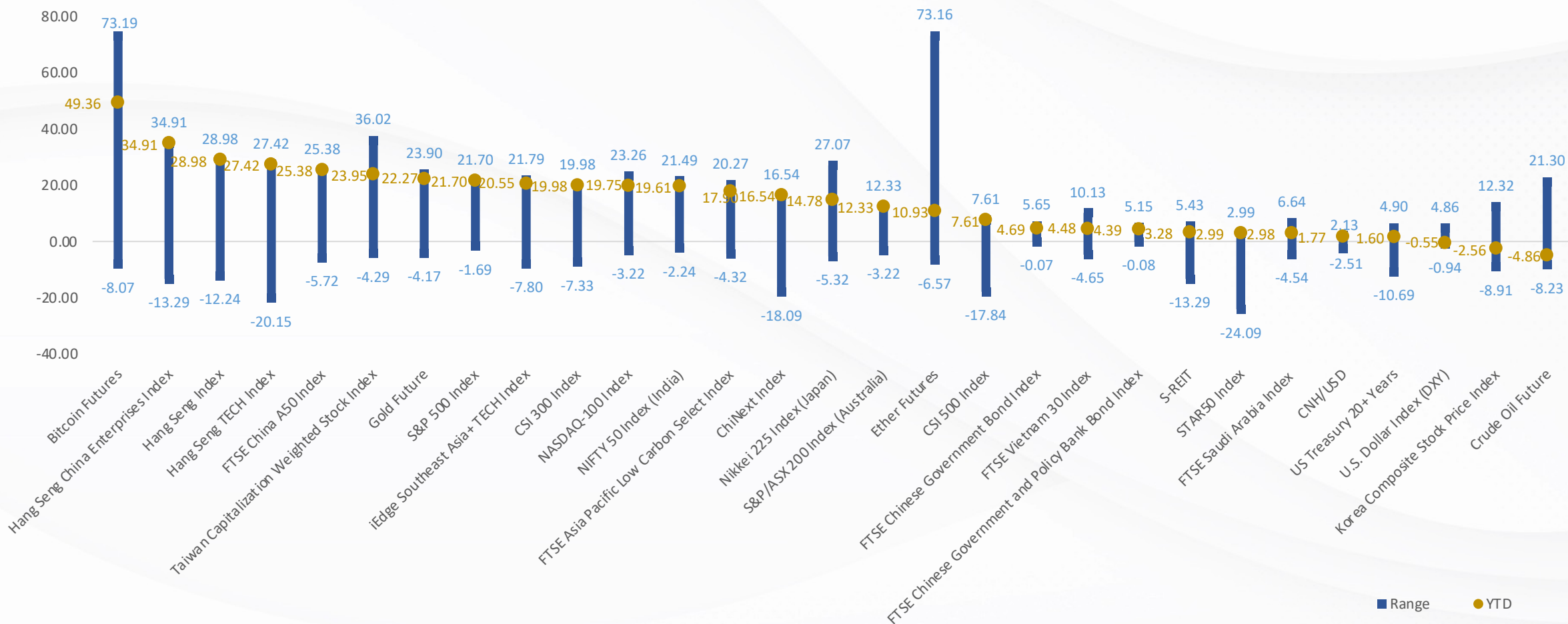
03

Allocation Views

Be Patient and Prepared

Market Review – Total Returns

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Source: Bloomberg, as of 2024/9/30. The two ends of the blue bars show the lowest and highest returns at any point this year to date, and the gold dots represent current year-to-date returns. Gold future refers to the excess return index of Solactive Gold 1-Day Rolling Futures Index. Crude oil future refers to the excess return index of Solactive WTI 1-Day Rolling Futures Index. ChiNext Index, FTSE Chinese Government Bond Index, Bloomberg Barclays China Treasury + Policy Bank Index are the total return indexes. Bitcoin futures and ether futures are both the price levels of CME futures active contracts. The remaining are net total return indexes. The above information is for reference only, and should not be regarded as an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities, funds, or investment products. Investment involves risk. Past performance is not indicative of future performance.

Investment Themes in 2H2024

Updated Four Investment Themes

1. Fed's rate cuts

- **Investment implication:** US Treasuries and Emerging markets may see upside potential.

2. Divergence in global pictures may drive volatilities up

- **Investment implication:** We favor diversified allocation and L&I products.

3. China's sustainable rebound requires good stimulus plan

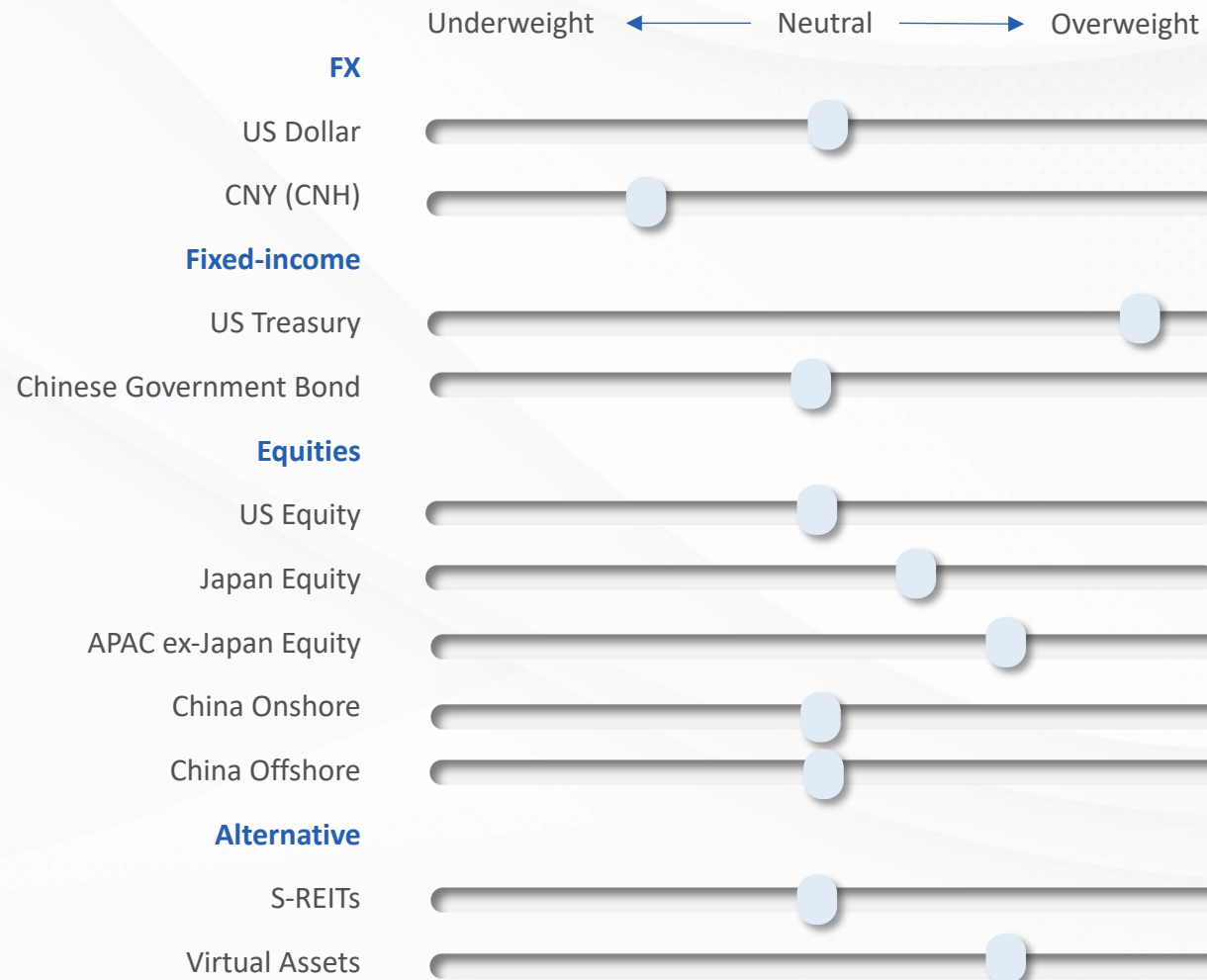
- **Investment implication:** We turn to more regional opportunities, but keep positions in China to bet on stimulus given extremely low valuations

4. Virtual asset bull may extend

- **Investment implication:** Upbeat about growth opportunities in virtual assets.

Key Risks: 1) Fed's pivot miss estimate; 2) Systematic liquidity crisis; 3) AI turns to bubble.

Relative Asset Allocation Positioning



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Compliance code: KC2024100201

Issuer: CSOP Asset Management Limited

Contact Us:

Phone: +852 3406 5688

Email: investorservice@csopasset.com

Address: 2801-2803, Two Exchange Square, 8 Connaught place, Central, Hong Kong

Website: www.csopasset.com

