



匯霸致遠投資管理有限公司

Dynasty Alliance Investment Management Limited

EQUITY MARKET STRATEGY

November 1st, 2024



Disclaimer

The content of this presentation is for reference only and does not constitute an offer, solicitation or invitation, publicity, or any other advice or recommendation.

The information and charts in this presentation are for reference only, and the accuracy of such information and charts is not guaranteed. In making investment decisions, readers are requested to make their own independent thinking and to seek professional advice (if necessary). Fund investment involves risk. Past performance is not indicative of future performance. Before subscribing for a Fund, investors should refer to the relevant offering documents of the Fund for details, including the risk factors involved. If any loss is incurred as a result of the contents of this publication, there shall be nothing to do with Dynasty Alliance Investment Management Limited or any company within its Group.

This presentation is issued by Dynasty Alliance Investment Management Limited and has not been reviewed by the Hong Kong Securities and Futures Commission



Content

01

Latest Market Topics

02

Short Term Market Outlook

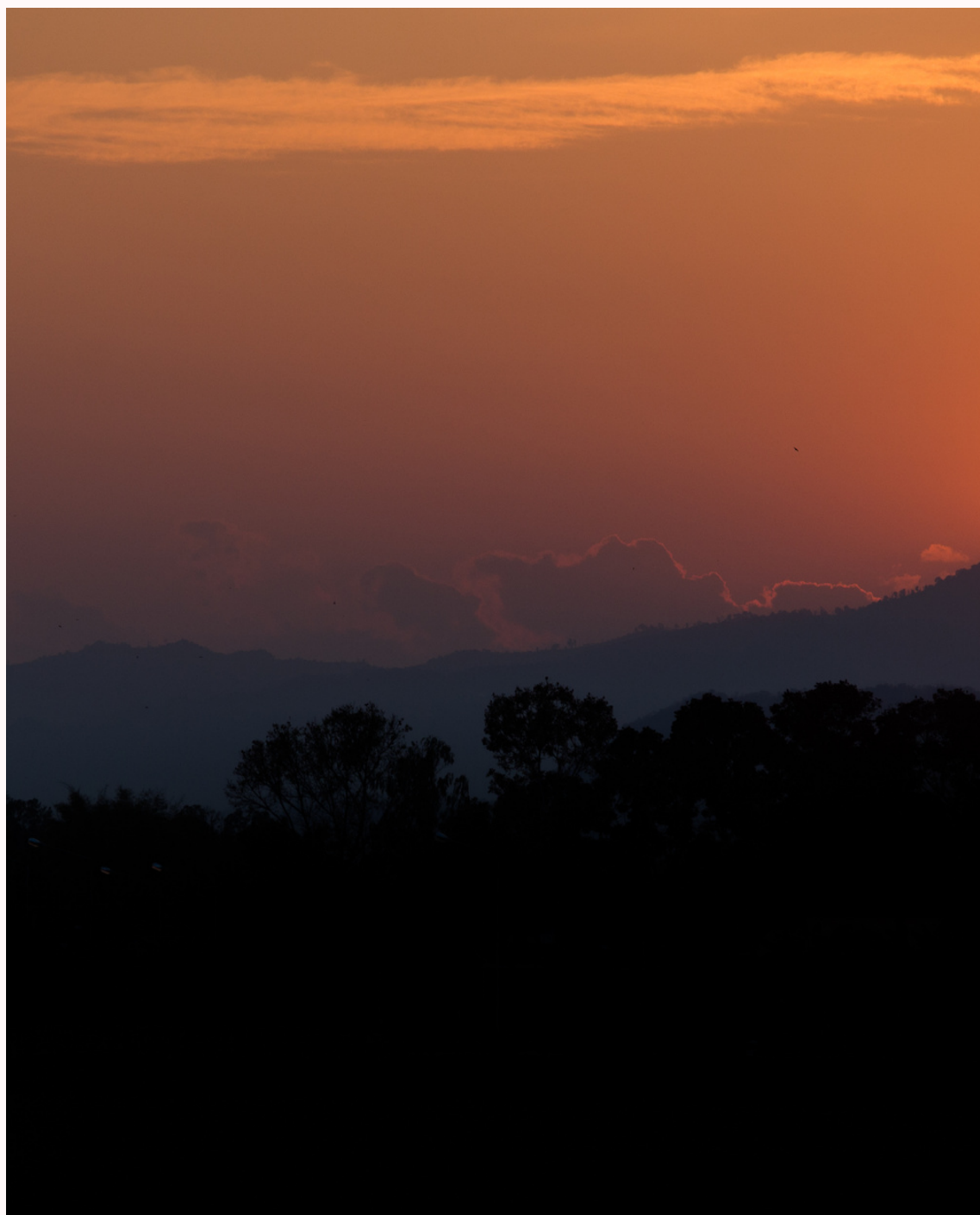
03

Stock Recommendations

04

Long Term Market Outlook





NPC Standing Committee Meeting 人大常委會會議

Size of Local Government Debt Swap – Critical Factor for Market
Direction



Size of Local Government Debt Swap will Likely Indicate Equities Market Direction

- The NPC Standing Committee Meeting will take place between 4-8 November and local government debt swap plan size will be announced on 8 Nov
- The recent press conference held by Ministry of Finance (MoF) has already provided a framework of key items to be reviewed by NPC Standing Committee
- Out of the 3 key items that require NPC Standing Committee approvals, the size of local government debt swap is the most critical focus as it will likely set equities market direction (onshore A-shares in particular) with reference to the policy-induced market rally in 2014-2015

Key Messages from Recent Ministry of Finance (MoF) Press Conference

方面	具体内容	是否要过人大决议
化债	• 今年已经下达的额度：1.2 万亿（4000 亿元结存限额+用于化债的特殊专项债约 8000 亿元）	否
	• 仍在推进的：拟一次性增加较大规模债务限额置换地方政府存量隐性债务（具体规模未提）	是
确定落地	补充银行资本 发行特别国债支持国有大型商业银行补充核心一级资本（具体规模未提）	是
地产	使用地方专项债、专项资金、税收等工具推动地产止跌回稳，专项债券可用于土地储备、收存量商品房，调整地产和土地增值税	否
民生	针对学生群体加大奖优助困力度	否
正在研究中	中央财政还有较大的举债空间和赤字提升空间（具体规模未提）	是

Market Expectation

- Onshore investors: more aggressive; in general expecting >Rmb6tn (base case) and up to Rmb10tn (bull case)
- Offshore investors: more conservative; in general expecting c.Rmb6tn

Source: Wind, Huaxi Securities



Size of Local Government Debt Swap will Likely Indicate Equities Market Direction (Cont.)

- Local government debt and LGFV debt (i.e. hidden debt) have been a structural issue for the Chinese economy in the past decades given the heavy reliance on investments to drive GDP growth, which substantially lifted China's debt-to-GDP ratio
- The most aggressive one-off debt swap program took place in 2015-2018, which features a total swap size of Rmb12.2tn in 4 years (1.3tn – 4.9tn each year and front-loaded)
- In 2023 and 2024, the size of similar debt swap programs was Rmb2.2tn and Rmb1.2tn

Distressed Debt Specialist	
China is promising the biggest debt swap in recent years	
Year	Debt swap
2015-2018	12.2T yuan
2019	157.9B
Late 2020-09/2021	612.8B
10/2021-06/2022	502.4B
2023	2.2T
2024	1.2T



Source: Caixin, Bloomberg, Citic



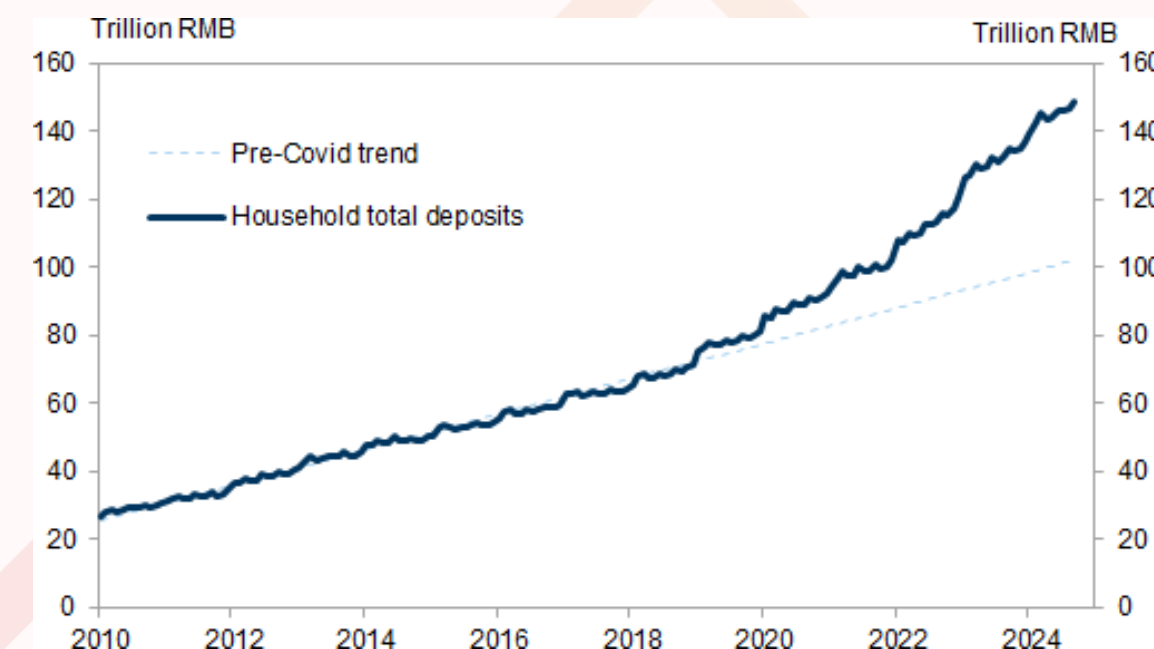
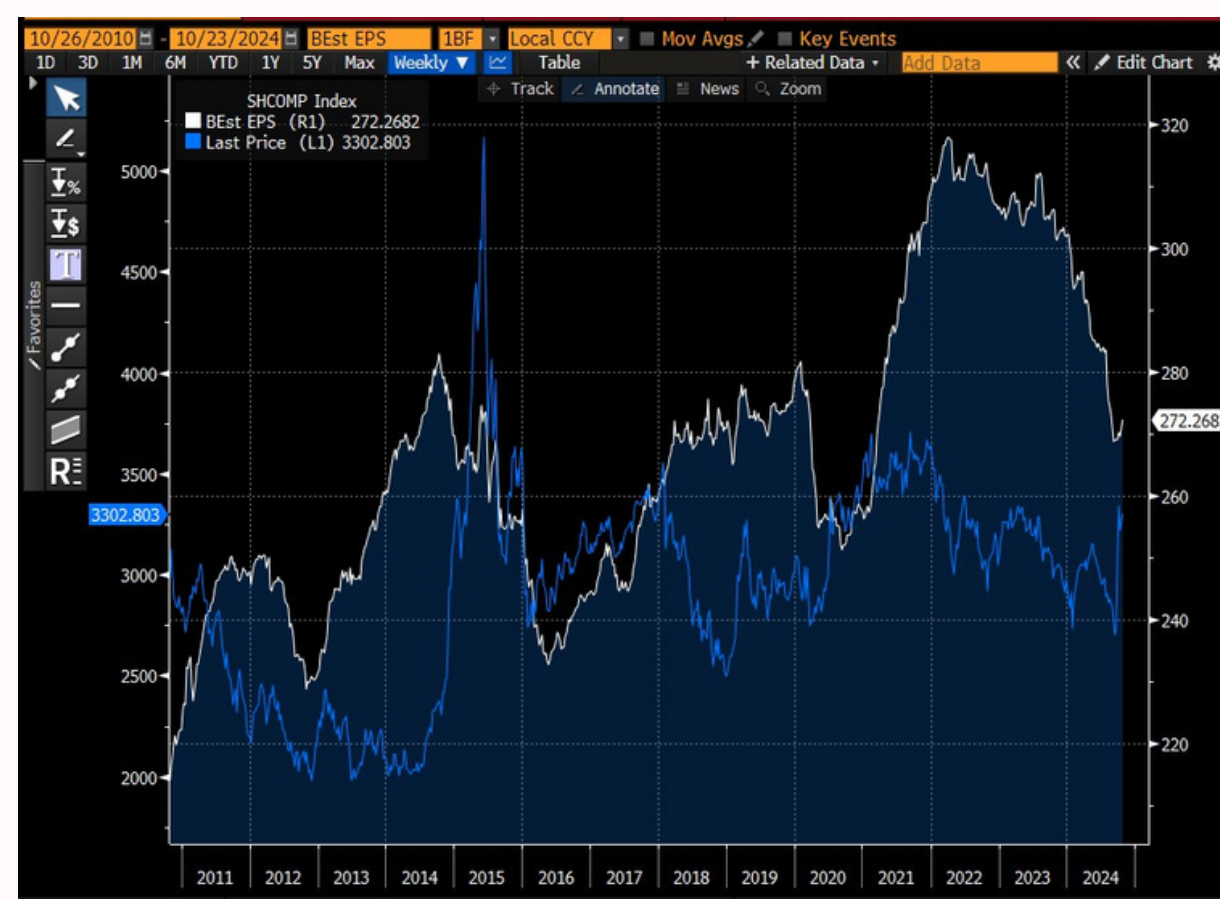
Mainlanders' Animal Spirit and Cash Pile Led to the 2014-2015 Rally

- Base Case: We believe the market has already priced in a debt swap package size of Rmb6-7tn (likely covering 2-3 years), or roughly Rmb2-3tn per year on average, which is roughly on par with the size announced for 2023 – overall equities market reaction may be mostly neutral in this case
- Bull Case: In case the final plan size exceeds the 2015 plan (Rmb12.2tn in 4 years) – we might see a meaningful boost to market sentiment and equities market (onshore market in particular)
- One should never forget the crazy policy-induced A-shares bull market in 2014-2015 despite tough economic conditions – the animal spirits and big retail deposit base (Rmb140tn+) may trigger another short-lived but massive rally should policy be bigger than expected
- In the 2014-2015 bull market episode, SHCOMP generated 150%+ price return in a year, which pushed the 12-month forward P/E to a peak of 18.9x – yet ironically EPS was only flattish in the same period given tough macro conditions

Household bank deposits size



Source: Bloomberg, Goldman Sachs

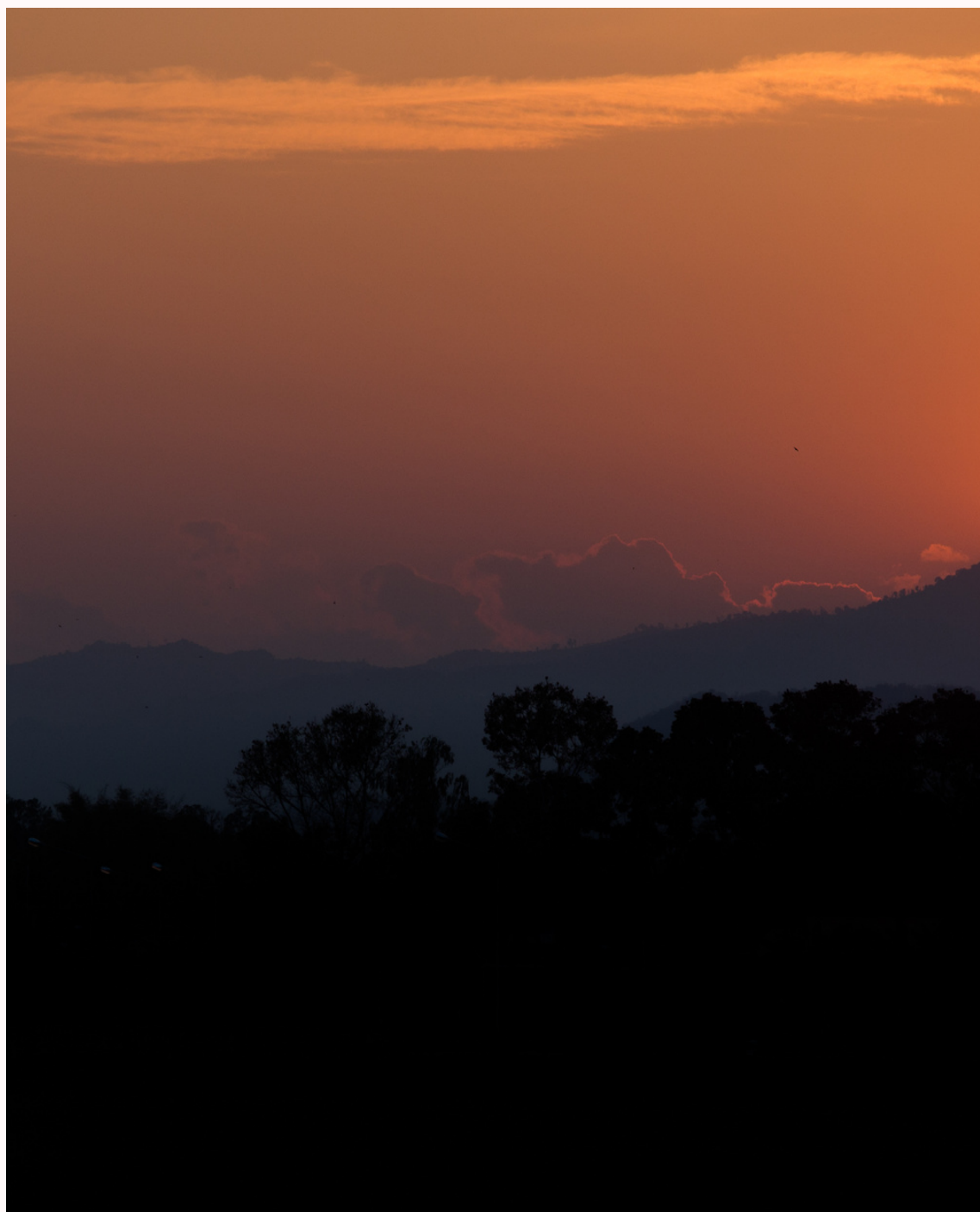




Likely Scenarios and Short-term Market Reactions this Time

- Given the highly uncertain outcome, we therefore created 5 scenarios with subjective probabilities and the corresponding Hang Seng Index reaction in November
- Despite low visibility, we tend to believe the swap size package will be “moderate” (60% chance) to “large” (20% chance), which implies that Hang Seng Index could trade up to 22,000 points if the swap size is close to Rmb10trn and that 20,500 points may be a near-term key anchor level if the swap size is Rmb6trn as widely expected by offshore investors at present
- Another swing factor would be whether additional support for the property sector is announced as the market in general has not fully priced in this additional support – latest market chatter suggests Rmb4trn extra debt is a possibility

Scenario	Swap Size (Rmb trn)	Subjective Probability (%)	HSI Target (end-Nov)
X-Large	>10	5%	>22,000
Large	7-10	20%	21,000 – 22,000
Moderate	6-7	60%	20,500 – 21,000
Small	3-6	10%	19,000 – 20,500
X-Small	<3	5%	<19,000



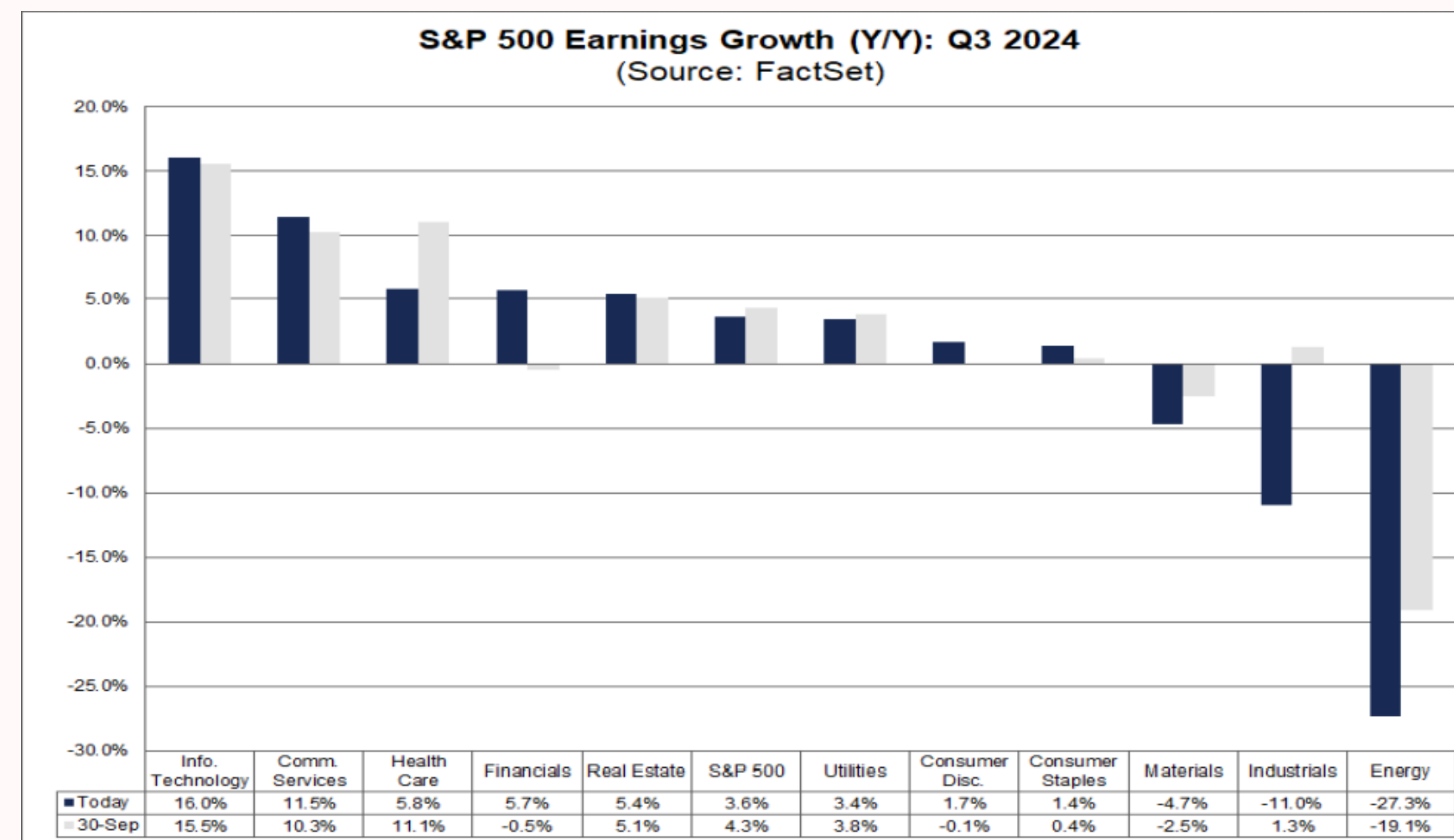
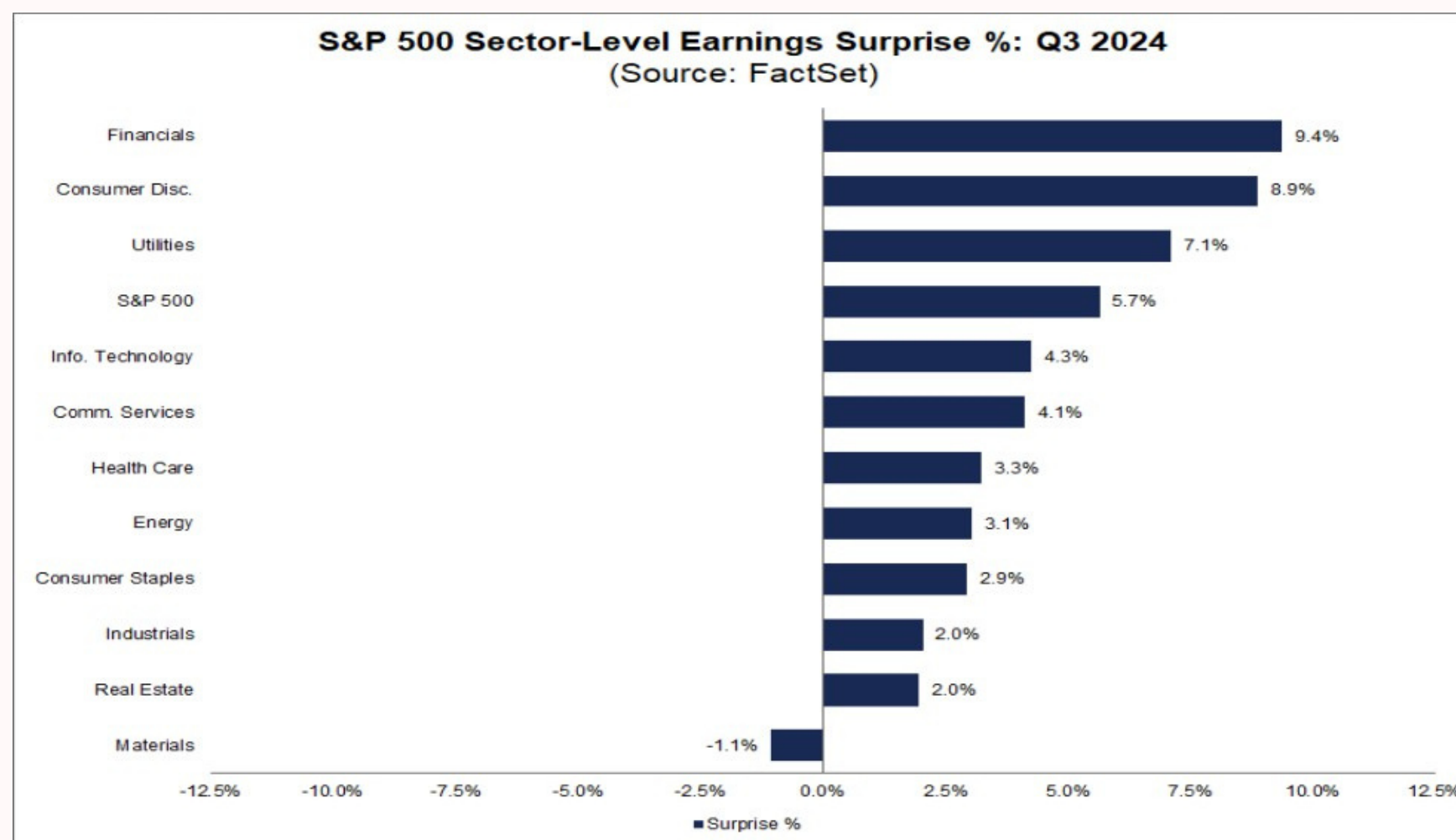
US 3Q Earnings

Positive Surprises from Financials/Consumer Disc.



3Q24 US Earnings Broadly Intact

- As of 25 October, c.37% of S&P 500 companies have reported 3Q results – of which 75% have delivered positive earnings surprises
- Earnings surprises (+5.7%) is mainly led by Financials/Consumer Discretionary and dragged by Materials
- 3Q net profit grew 3.6%, which is the 5th consecutive quarter of YoY growth – but also the lowest growth rate since 2Q23 (-4.2%)
- Major tech companies (Nvidia, Amazon, etc) are yet to report earnings, which are key investor focuses

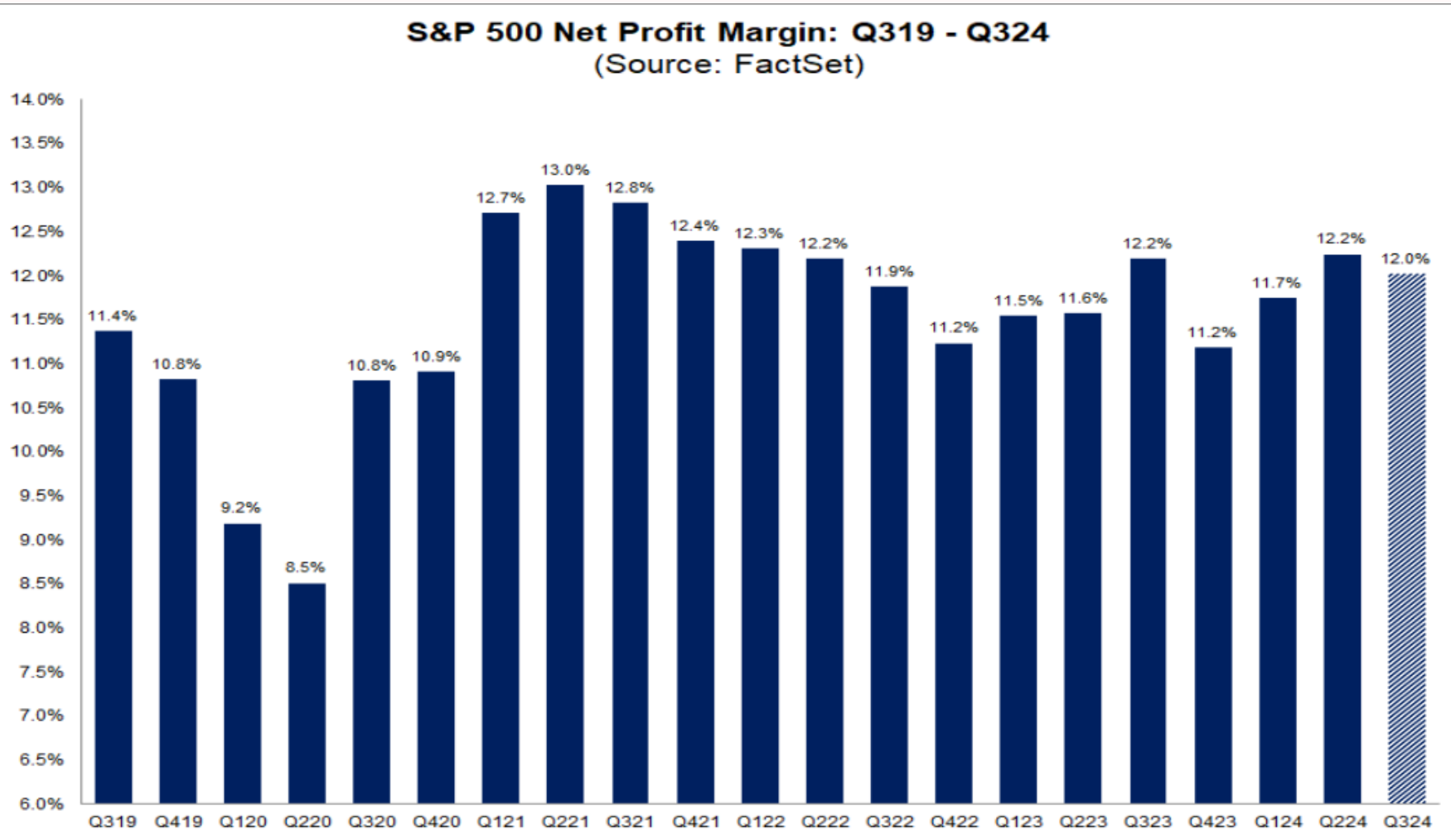


Source: Factset

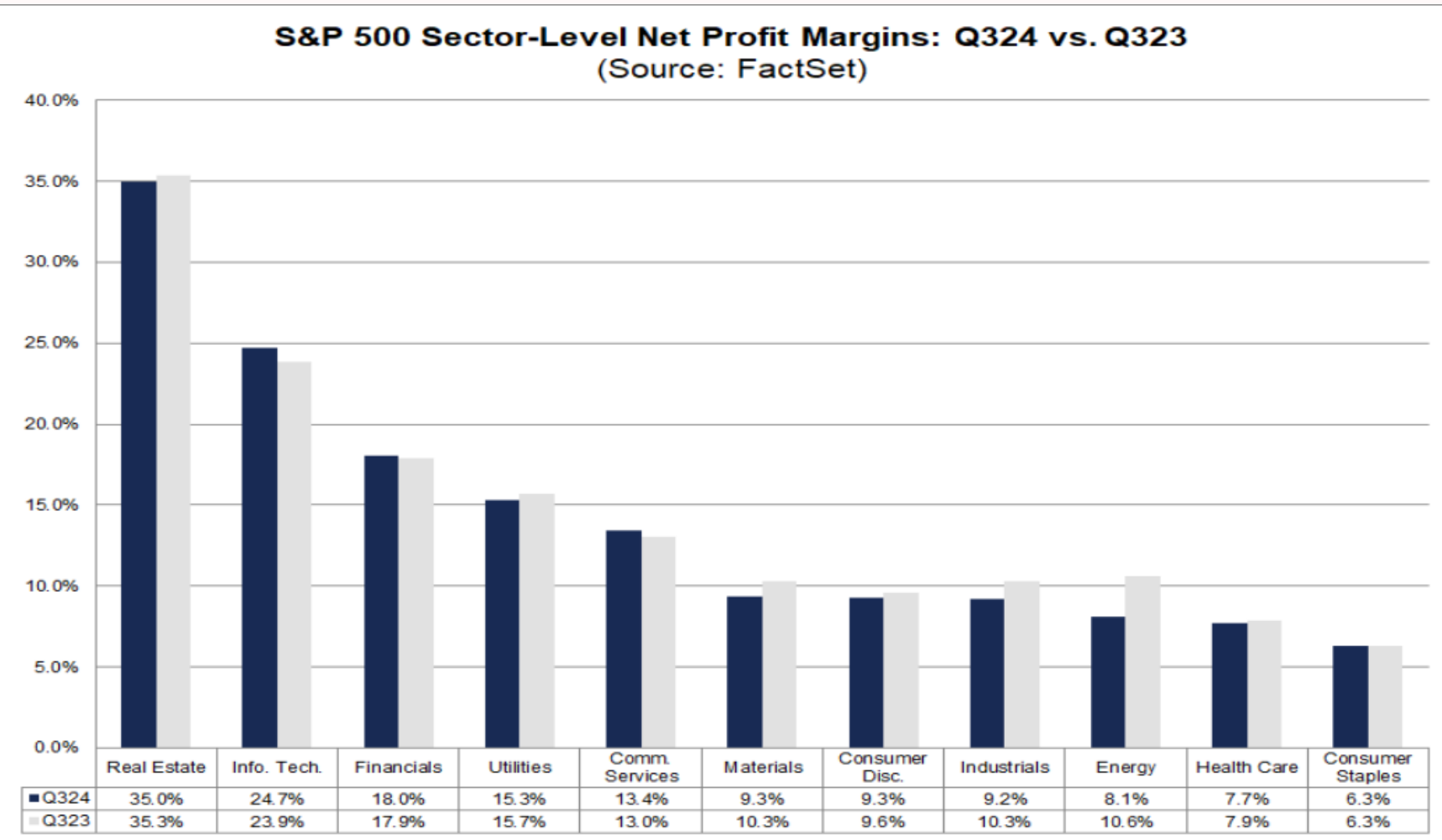


Resilient Margins in General

- Despite continuing concerns in the market about inflation, the net profit margin for the S&P 500 for 3Q24 stands at 12.0%, which appears resilient
- IT sector stood out with YoY margin expansion from 23.9% to 24.7%
- On the other hand, the Energy sector saw the most significant margin decline mainly due to lower crude oil and natural gas prices
- Consensus points to continued margin resilience in coming 3 quarters at 12.1%, 12.6% and 13.1%



Source: Factset





Tracking The Two E's

Economy: **Recession or Soft Landing**
Election: **Harris or Trump**



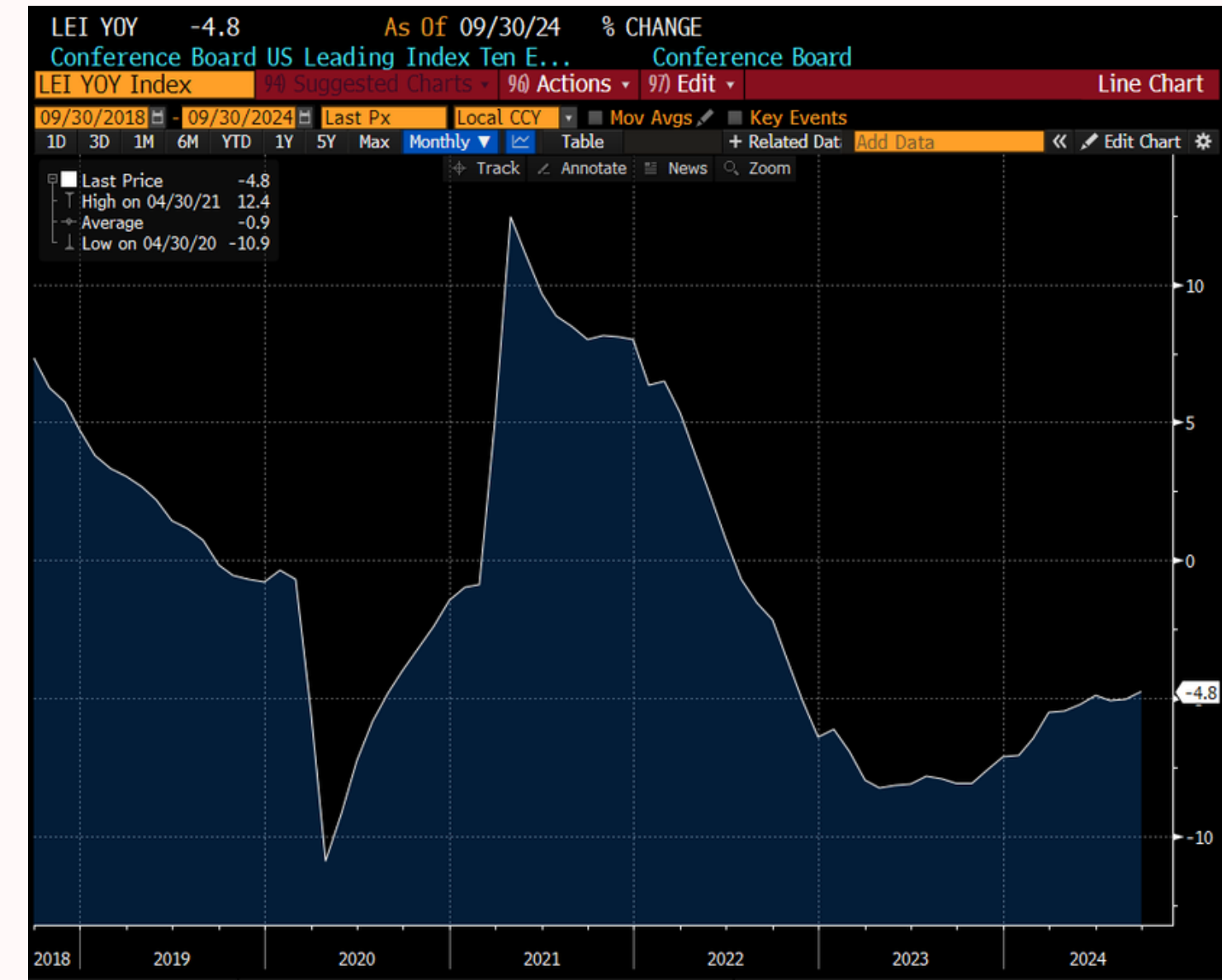
US Economic Conditions – Sequential Improvement Shown in Past Month

- Citi US Economic Surprise Index: marginally improved from -5% YoY in August to -4.8% YoY in September
- Conference Board US Leading Index: recovered to +17.5 on 23 Oct (vs. -0.8 on 30 Sep)

Citi Economic Surprise Index – United States Conference Board US Leading Index (% YoY)



Source: Bloomberg. As of 23 Sep 2024.



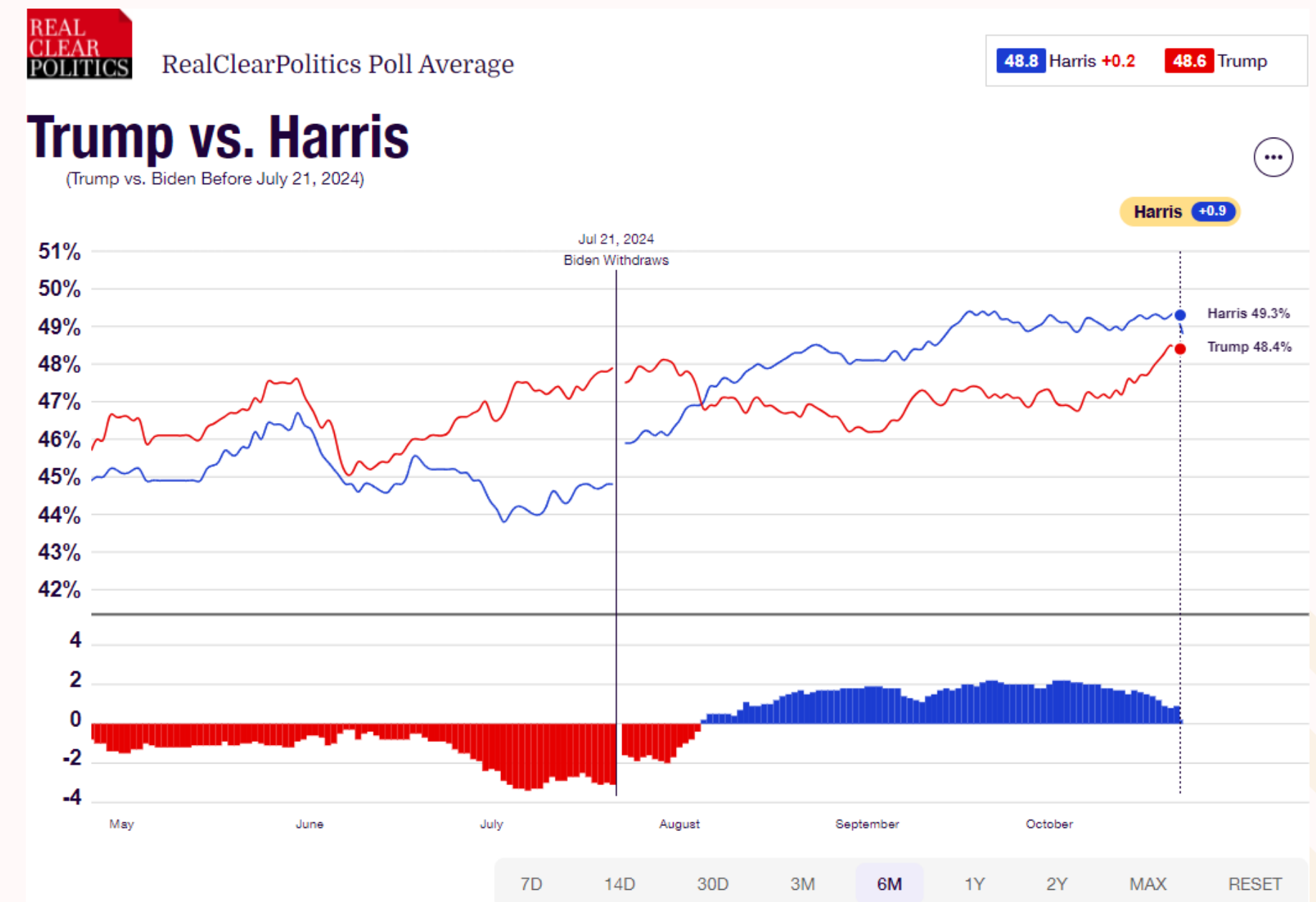
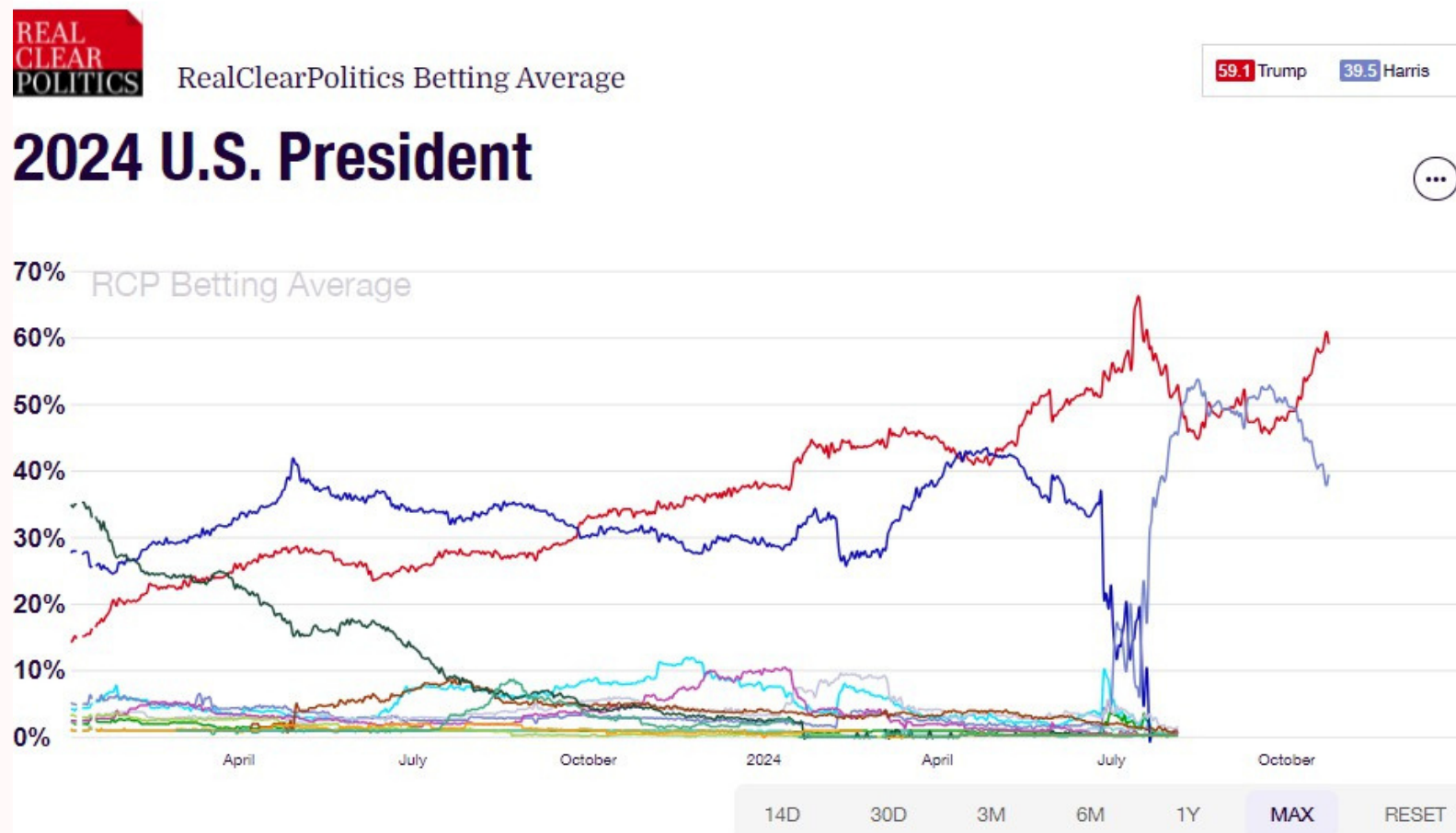
Source: Conference Board



US Presidential Election – Trump is Gaining Momentum

- Betting odds suggest a rather meaningful lead by Trump over Harris – 20% higher chance of winning (vs. 7.7% last month)
- In terms of poll results, Harris' lead over Trump has narrowed – currently leads by just 0.2% (vs. 2.2% last month)

BETTING ODDS	TRUMP	HARRIS
RCP Average	59.1	39.5
BetOnline	60	40
Betfair	55	40
Betsson	62	38
Bovada	61	38
Bwin	60	41
Points Bet	60	41
Polymarket	59	37
Smarmets	56	41



Source: Real Clear Politics. As of 24 October 2024.



Content

01

Latest Market Topics

02

Short Term Market Outlook

03

Stock Recommendations

04

Long Term Market Outlook





November: It all Hinges on the Upcoming NPC Meeting

Recap of previous month:

For October, Hang Seng Index (HSI) retreated c.4% amid profit-taking. The strong rally started in late September continued at the beginning of October with the HSI breaking through 23,000 on 7th October. However, the market corrected massively on the next day (8th October: -9.4% in a day) when the NDRC Meeting failed to provide incremental positives to investors. After that, the market largely stayed in a consolidation mode for the rest of October.

Our view for the coming month:

The upcoming NPC Standing Committee Meeting (4-8 November) is critical in setting the next major direction for the China/HK equities market as details regarding local government debt swap plan will be unveiled. The base case for the size of the swap plan is “Rmb6trn over several years” based on Caixin’s news article and offshore brokers’ estimates (onshore brokers likely have higher expectation of >Rmb6trn). In the bull case in which the final plan size is much bigger than the base case (say >Rmb12trn), equities markets (onshore market in particular) will likely react positively with reference to the 2014-2015 policy-induced bull market. The worst case (although we see a low probability) for equities is the absence of any swap plan, which will send a negative signal to the market as this implies top decision makers have once again pivoted to the previous cautious policy-making approach.

Given the “binary-type” NPC Meeting outcome, we believe scenario-based targets for HSI are more appropriate for November. We are slightly tilted to the positive side for the stimulus package size but would like to remind investors that visibility remains low.

Scenario	Swap Size (Rmb trn)	Subjective Probability (%)	HSI Target (end-Nov)
X-Large	>10	5%	>22,000
Large	7-10	20%	21,000 – 22,000
Moderate	6-7	60%	20,500 – 21,000
Small	3-6	10%	19,000 – 20,500
X-Small	<3	5%	<19,000

Other key events to watch for in the coming month: (1) 3Q results and 4Q guidance from Chinese companies; (2) rate decision during the FOMC Meeting on 8th November – pause or another cut? Market has mostly priced in a 25bps cut; (3) US Presidential Election results – betting odds suggest Trump is winning however poll data still suggests a close race.



Summary of Upcoming Major Events

Date	Events
1 November	US – PMI and ISM data • Likely still below 50 but any marginal surprises?
1 November	US – Job data • Unemployment rate is the key – Any surprises?
8 November	US – FOMC Meeting • 25bps cut is the base case and fully priced by market (97% chance) – but any indication for another 25bps cut in December meeting? Market currently assigned a c.72% chance
13 November	US – CPI • Is the downtrend intact?
4-8 November	CH – NPC Standing Committee Meeting How big is the stimulus package?
7 November	CH – Export Data Any slowdown?
15 November	CH – Retail Sales Any marginal improvement?



Content

01

Latest Market Topics

02

Short Term Market Outlook

03

Stock Recommendations

04

Long Term Market Outlook





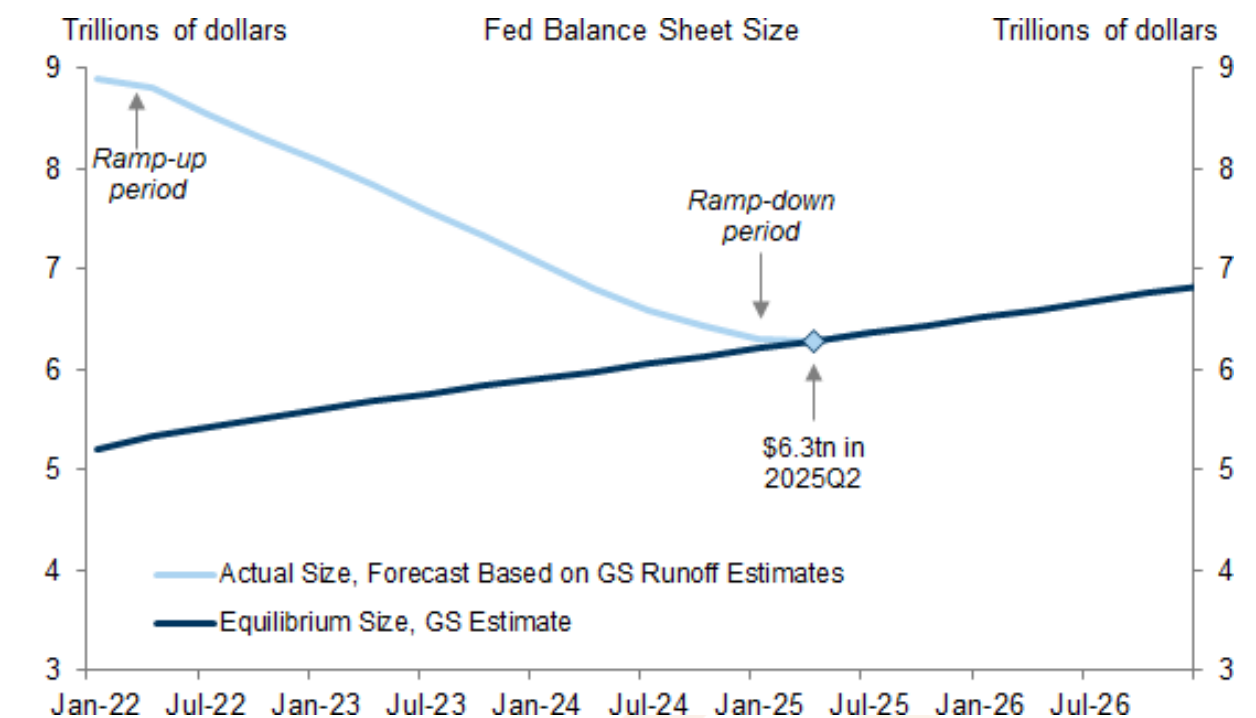
US Market Views: Slower QT ahead of US Election an Intentional Pivot

2017-2019 Taper Cycle implies bumpier road ahead amid valuation de-rating despite positive earnings growth; Fed's announcement on 1 May to slow QT starting on 1 June is likely an intentional pivot due to election factor, which will potentially keep valuation elevated for longer, in our view

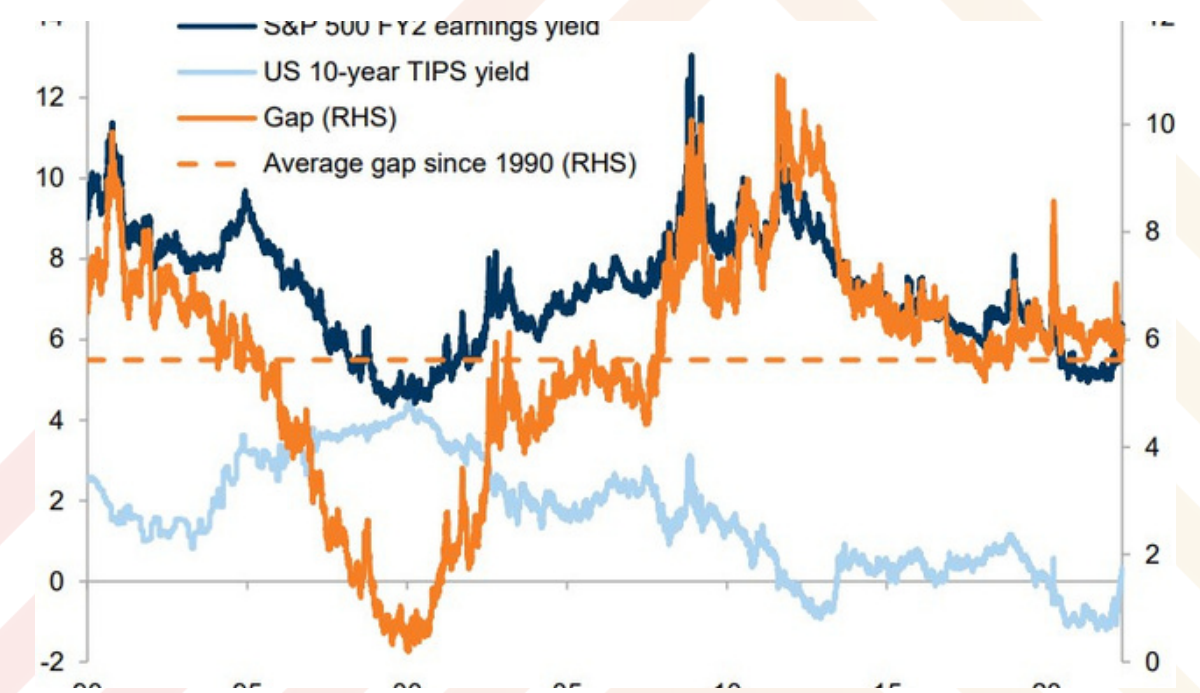
- Fed entered phase 1 (Jun-Aug 2022) of this round of tapering cycle by shrinking its balance sheet by a cap of \$47.5bn per month and we are now in phase 2 (since Sep 2022), with the amount increased to \$95bn per month; but then in the May FOMC, the Fed announced to slow QT size to \$60bn per month starting on 1 June 2024
- In the 2017-2019 Taper Cycle, S&P 500's 12-month forward P/E **de-rated from c.18x to c.14x at one point** and recovered to the pre-taper level only after Fed's sharp policy U-Turn in late 2019
- The slower QT, coupled with resilient near-term earnings, will potentially keep the overall market valuation elevated for longer – likely to facilitate re-election of Joe Biden, in our view
- While valuation may stay at an elevated level for longer (potentially till November election) due to Fed's intentional pivot, we continue to believe S&P 500 Index's 2024E **P/E of 22x** (above LT ave. of 15.7x) is not compelling enough to us amid: (1) slowing but still elevated inflation; (2) geopolitical tensions between global super-powers; (3) US economic growth slowdown
- **Strategy:** Stay relatively defensive and nimble; shift some allocation to liquid Gold ETF (e.g. GLD US) or physical gold trust (e.g. PHYS US); cautious on unprofitable Tech with high valuation; prefer IG vs HY in USD markets; gradually increase overall investment portfolio duration to capture peaking market interest rates

Major changes vs previous views are highlighted in **RED**

Fed balance sheet to shrink: a year-long progress



S&P 500 earnings yield gap below LT average



Source: Basis Asset Management, Bloomberg, Goldman Sachs



China Market Views: Taming Big Gray Rhinos Takes Time

- LGFV debt and property sector are regarded as two big gray rhinos given their importance to the economy, asset markets and banking system
- Top-level decision makers have taken a piecemeal approach thus far (Rmb1trn local debt swap program, city-level housing policy easing, etc.), which suggests a gradual pace of deleveraging and longer drag on economic recovery
- Unless policymakers turn to a “bazooka-style” approach (which we see unlikely at present given the scale of the problems and challenging geopolitical/economic conditions), we see no quick fix to the problems and the deleveraging processes could take another few years
- We expect the overall government policy direction to remain **“To Hold Without Lifting; Stability First” 托而不举，稳字当先, which means stimulus or policy easing will only kick in when instability appears in the economy or financial markets**
- We thus expect China/HK equity market major direction to remain range-bound with downside cushioned by cautious government support but upside capped by continued deleveraging efforts, unless we see turns in policy direction and/or improvement in geopolitical/economic conditions

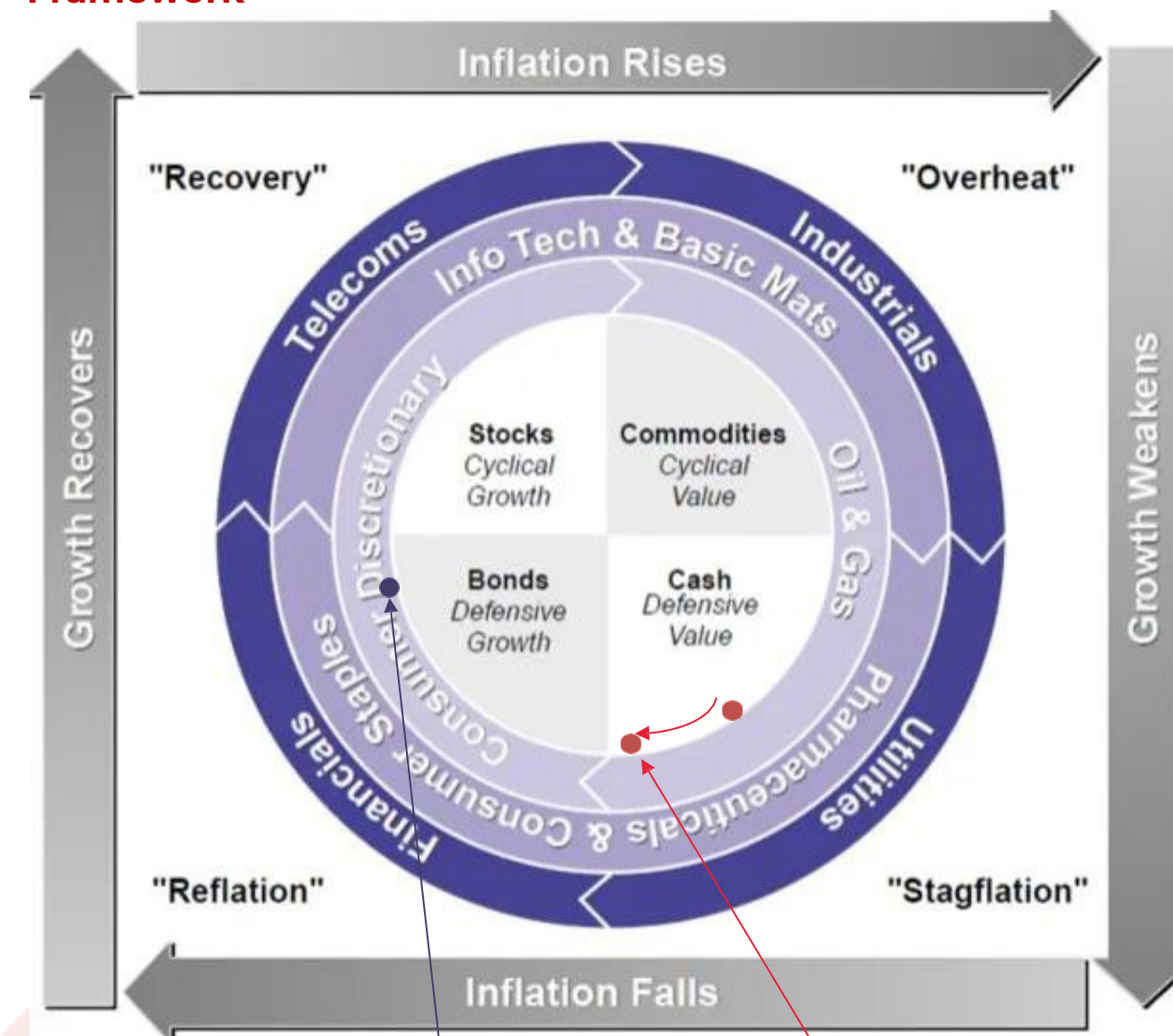


Putting US/China Economic Cycle Into Perspective

- **US Economic Cycle** is in the late “stagflation” phase (i.e. slowing growth and falling inflation) and **China** in the late “reflation” phase (but can be swung by policies), in our **view**
- **Our base case** is a mild US recession to take place around 4Q24; **US corporate earnings momentum will weaken further in coming months as impact from the rapid interest rate hikes to ripple through the economy**; expect US HY default risks to rise
- **Our Recommendations:**
 - **Equity:** Stay very cautious on loss-making companies with poor cashflow/balance sheet as global interest rate remains elevated
 - **Credit:** Overweight IG vs. HY in the USD markets (IG ETF: LQD US); for investors with heavy US equity market exposure, increase US IG credit exposure by cutting equities
 - **Asset Allocation:** Reiterating our prudent stance; suggest maintaining some gold allocation on a 3-6 months horizon to hedge US recession risks in around 4Q24

Major changes versus previous views are highlighted in **RED**

BofAML Investment Clock Framework



Source: BofAML, Basis AM

US has moved further to the very-late stage in “stagflation”, in our view

China is likely at this point; however it can be heavily swung by China policies



Major Events for 2024

时间	事件	重点关注
2023年4季度		
11月30日-12月12日	联合国气候变化大会（COP28）	关注全球与中国碳达峰、碳中和工作进展
12月14日	欧央行议息会议	关注欧央行货币政策走向
12月14日	FOMC议息会议	关注对于全球流动性环境的影响
12月	中央政治局会议	关注经济政策走向
12月	中央经济工作会议	回顾2023年经济形势，部署2024年经济工作
2024年		
1月	1号文件发布	一般为农业相关主题
1月左右	地方两会	关注重点地方的政策导向
1月15日-1月19日	达沃斯世界经济论坛	关注全球主要领袖在论坛上的相关发言
2月1日	FOMC议息会议	关注对于全球流动性环境的影响
2月	中国央行2023年第四季度货币政策执行报告	回顾2023年四季度货币政策情况，部署未来货币政策工作
3月初	全国两会	关注政府工作报告的政策导向
3月	中国财政部2023年财政政策执行报告	回顾去年财政政策情况，部署未来财政政策工作
3月	OECD发布经济前瞻	关注全球经济预测
3月21日	FOMC议息会议	关注对于全球流动性环境的影响
3月左右	博鳌亚洲论坛2024年会	关注领导人在年会上的相关发言
4月	中央政治局会议	关注经济政策走向
5月2日	FOMC议息会议	关注对于全球流动性环境的影响
5月	中国央行第一季度货币政策执行报告	回顾一季度货币政策情况，部署未来货币政策工作
6月13日	FOMC议息会议	关注对于全球流动性环境的影响
7月	中央政治局会议	关注经济政策走向
7月26日-8月11日	巴黎奥运会	关注相关产业的影响
8月1日	FOMC议息会议	关注对于全球流动性环境的影响
8月	中国央行第二季度货币政策执行报告	回顾二季度货币政策情况，部署未来货币政策工作
9月19日	FOMC议息会议	关注对于全球流动性环境的影响
11月5日	美国总统大选	关注美国政局变化
11月8日	FOMC议息会议	关注对于全球流动性环境的影响
11月	中国央行第三季度货币政策执行报告	回顾三季度货币政策情况，部署未来货币政策工作
11月	G20峰会在里约热内卢举行	关注峰会议题
12月19日	FOMC议息会议	关注对于全球流动性环境的影响
12月	中央政治局会议	关注经济政策走向
12月	中央经济工作会议	回顾2024年经济形势，部署2025年经济工作

Key things to monitor:

- **Housing and economic policies during the Third Plenary Meeting in China**
- **Timing of first rate cut by Fed and ECB**
- **US Presidential Election**
 - **Market widely expecting Trump to return**
 - **Poll suggests Trump will win**
 - **Trump victory will likely introduce higher policy uncertainties**

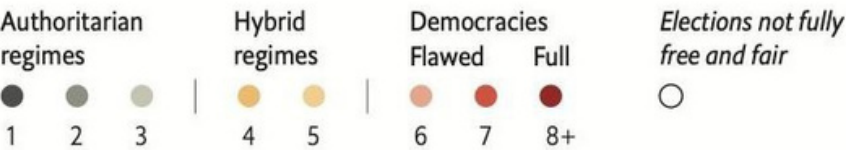


Election Calendar for 2024

2024 Election events that could most impact APAC trading and market structure

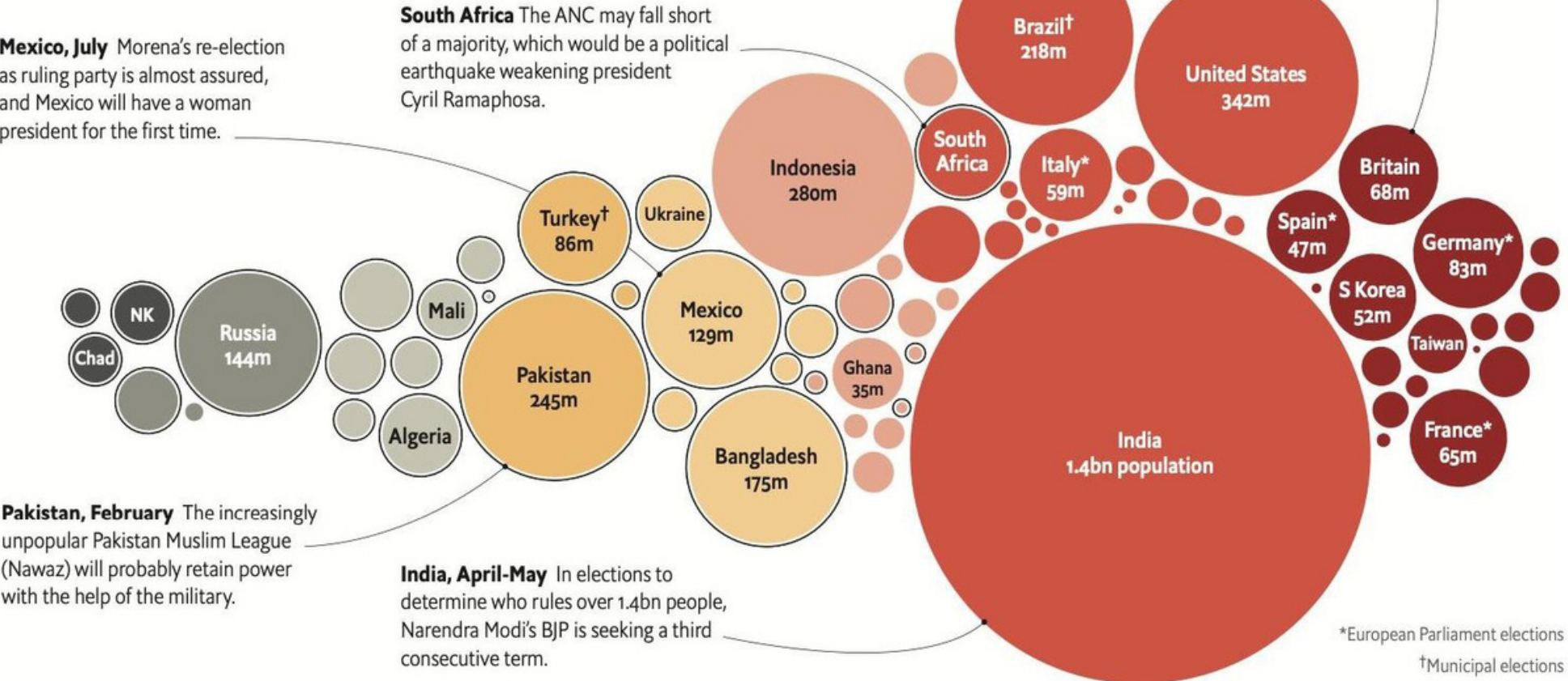
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	No date yet
13 th Taiwan (Presidency, Legislative Yuan)	8 th Pakistan (National Assembly) 14 th Indonesia (Presidency, Reg Rep. Council, House of Rep.)	15 th -17 th Russia (Presidency) 31 st Ukraine (Presidency – may not occur due to martial law)	10 th S. Korea (National Assembly)	TBC India (House of The People)	6 th -9 th EU (Parliament)			16 th & 25 th USA Presidential Debates	1 st & 9 th USA Presidential Debates	5 th USA Election (Presidency, Senate and House of Rep.)		By Jan 28, 2025 UK (House of Commons)

Countries with an election in 2024, by democracy score



US, November 5th Domestic politics are likely to remain painfully polarised, but who wins matters greatly for foreign policy.

Britain A win for Labour could see the Conservatives unravel, but will also expose Labour's schisms.



Source: The Economist, JP Morgan

Number of Countries
40 (21% of Global)

Population
3.2bn (41% of Global)

GDP
\$44.2bn (42% of Global)



Contact Information

For additional information please contact:

SAM LAU

SamLau@basisamhk.com
+852 3701-0312

KELVIN CHAN

KelvinChan@basisamhk.com
+852 3701-0303

CYRUS CHONG

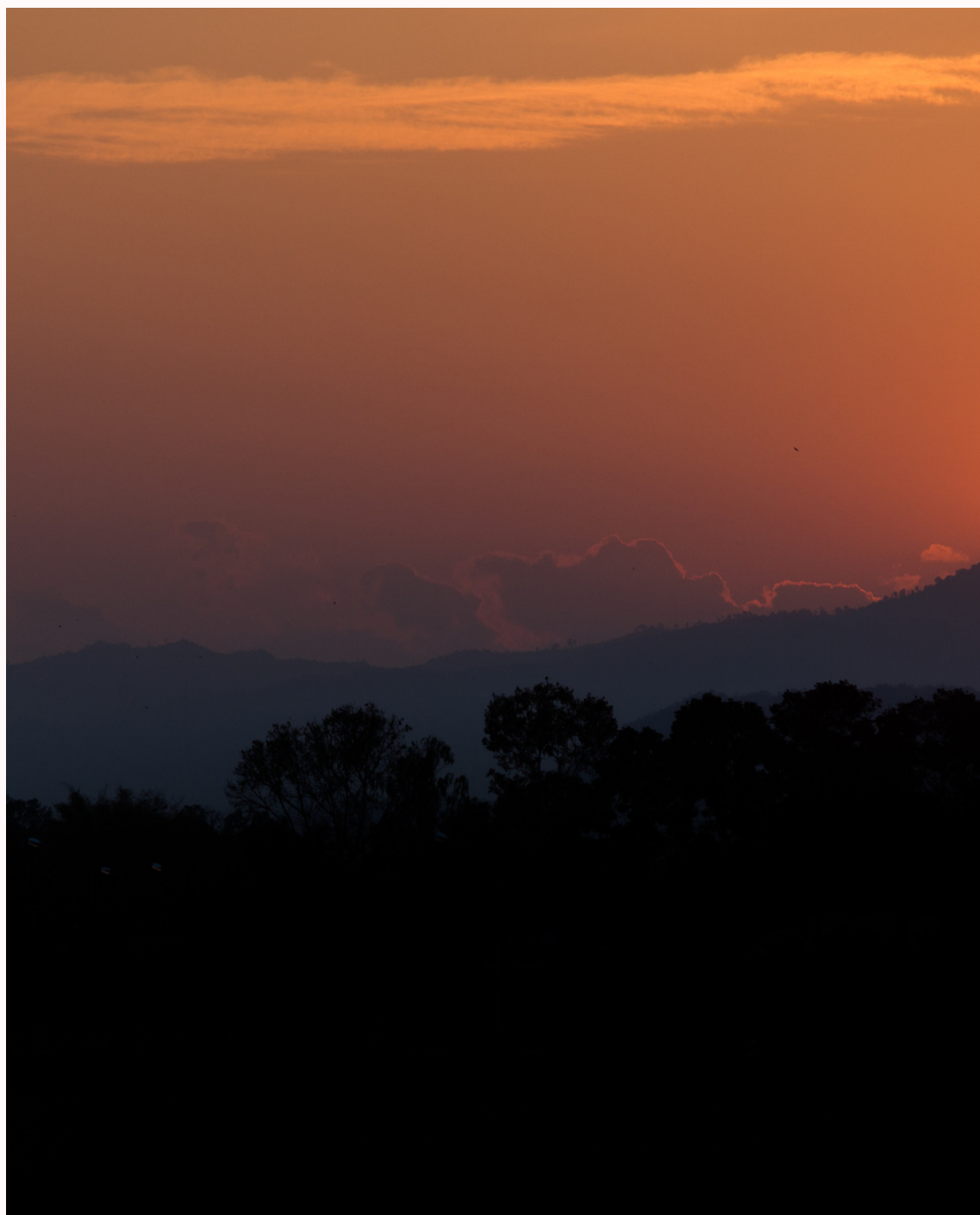
CyrusChong@basisamhk.com
+852 3701-0306

HERMIA CHAN

HermiaChan@basisamhk.com
+852 3701-0307

RIO WANG

RioWang@basisamhk.com
+852 3701-0305

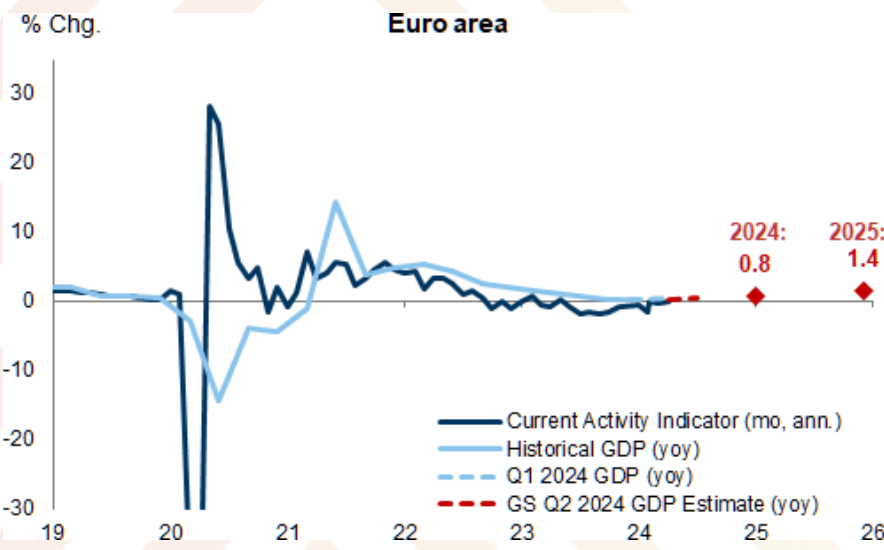
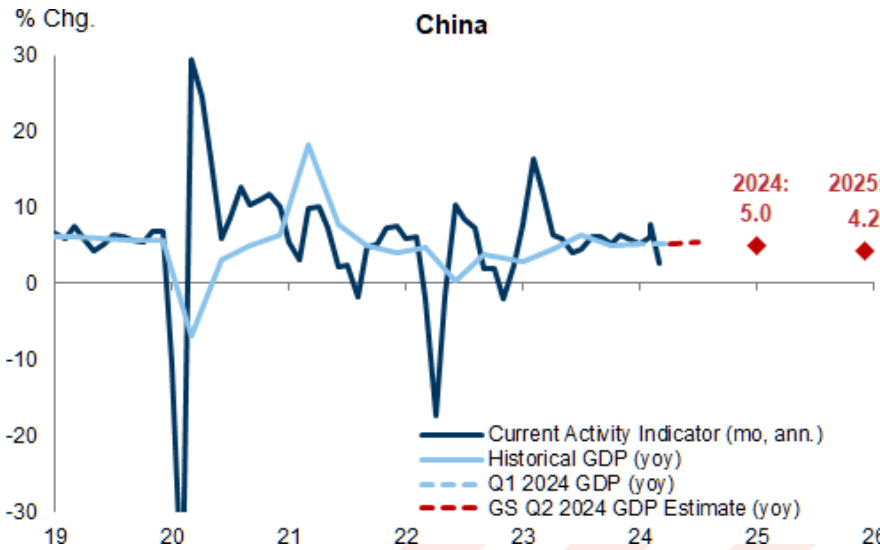
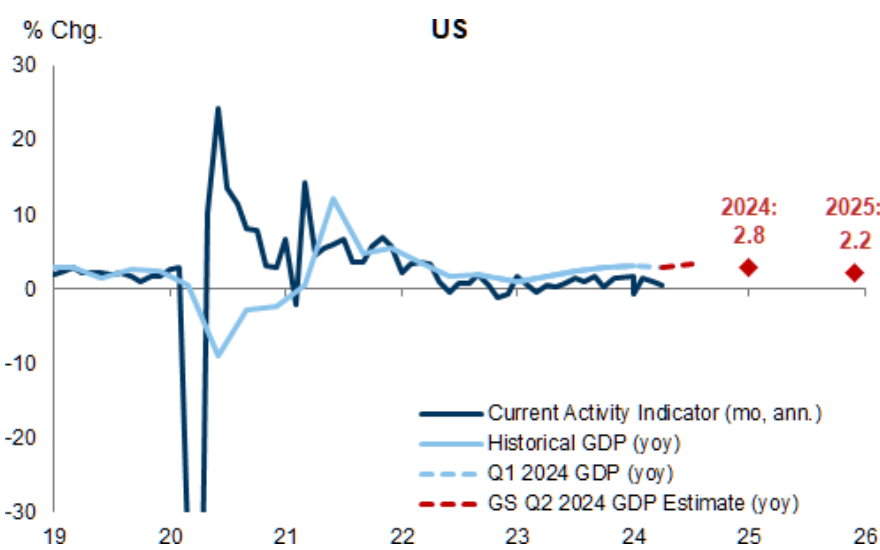
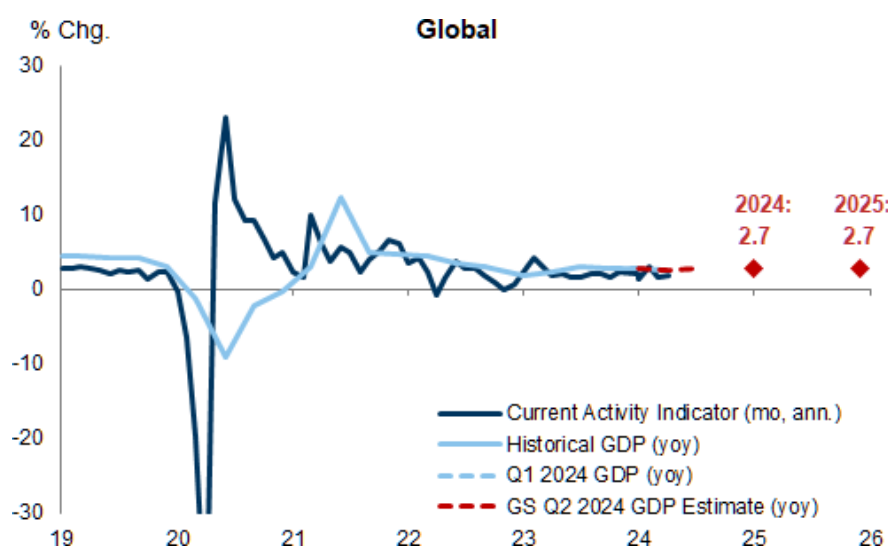


Appendix



Weaker Global Growth and Tighter Financial Conditions in Most Major Economies

Economics							Markets								Equities									
GDP growth (%)	2024				2025		Interest rates 10Yr (%)	Last	E2024	E2025	FX	Last	3m	12m	S&P 500	E2024		E2025		Returns (%)	12m	YTD	E2024 P/E	
	GS (Q4/Q4)	Cons. (Q4/Q4)	GS (CY)	Cons. (CY)	GS (CY)	Cons. (CY)										GS	Cons.	GS	Cons.					
Global	2.8	--	2.7	2.6	2.7	2.6	US	4.43	4.25	4.10	EUR/\$	1.08	1.05	1.08	Price	5,200	--	--	--	S&P 500	-2	11.3	22.2x	
US	2.4	1.6	2.8	2.4	2.2	1.8	Germany	2.49	2.25	2.00	GBP/\$	1.27	1.24	1.28	EPS	\$241	\$244	\$256	\$278	MXAPJ	2	7.5	14.7x	
China	4.7	4.7	5.0	4.9	4.2	4.5	Japan	1.00	1.25	1.80	\$/JPY	156	155	150	Growth	8%	10%	6%	14%	Topix	6	15.7	16.1x	
Euro area	1.4	1.2	0.8	0.7	1.4	1.4	UK	4.17	3.75	3.75	\$/CNY	7.22	7.30	7.20					STOXX 600	4	8.8	14.3x		
Policy rates (%)	2024				2025		Commodities	Last	3m	12m	Credit (bp)	Last	1H24	2H24	Consumer	2024		2025		Wage Tracker 2024 (%)				
	GS	Mkt.			GS	Mkt.																		
US	4.88	4.91			3.88	4.36	Nat Gas, NYMEX (\$/mmBtu)	2.84	2.70	4.00	USD	IG	87	89	90	US	3.3	3.8	2.7	3.7	4.3	--	--	--
Euro area	3.25	3.26			2.25	2.83	Nat Gas, TTF (EUR/MWh)	34.64	30	32		HY	300	297	291	Euro area	2.4	6.7	2.1	6.7	--	--	--	--
China	1.70	1.85			1.70	--	Copper (\$/mt)	10,295	10,500	13,000	EUR	IG	121	121	120	China	0.4	--	1.5	--	--	--	--	--
Japan	0.13	0.36			0.63	0.52	Gold (\$/troy oz)	2,408	2,600	2,700		HY	328	341	336									



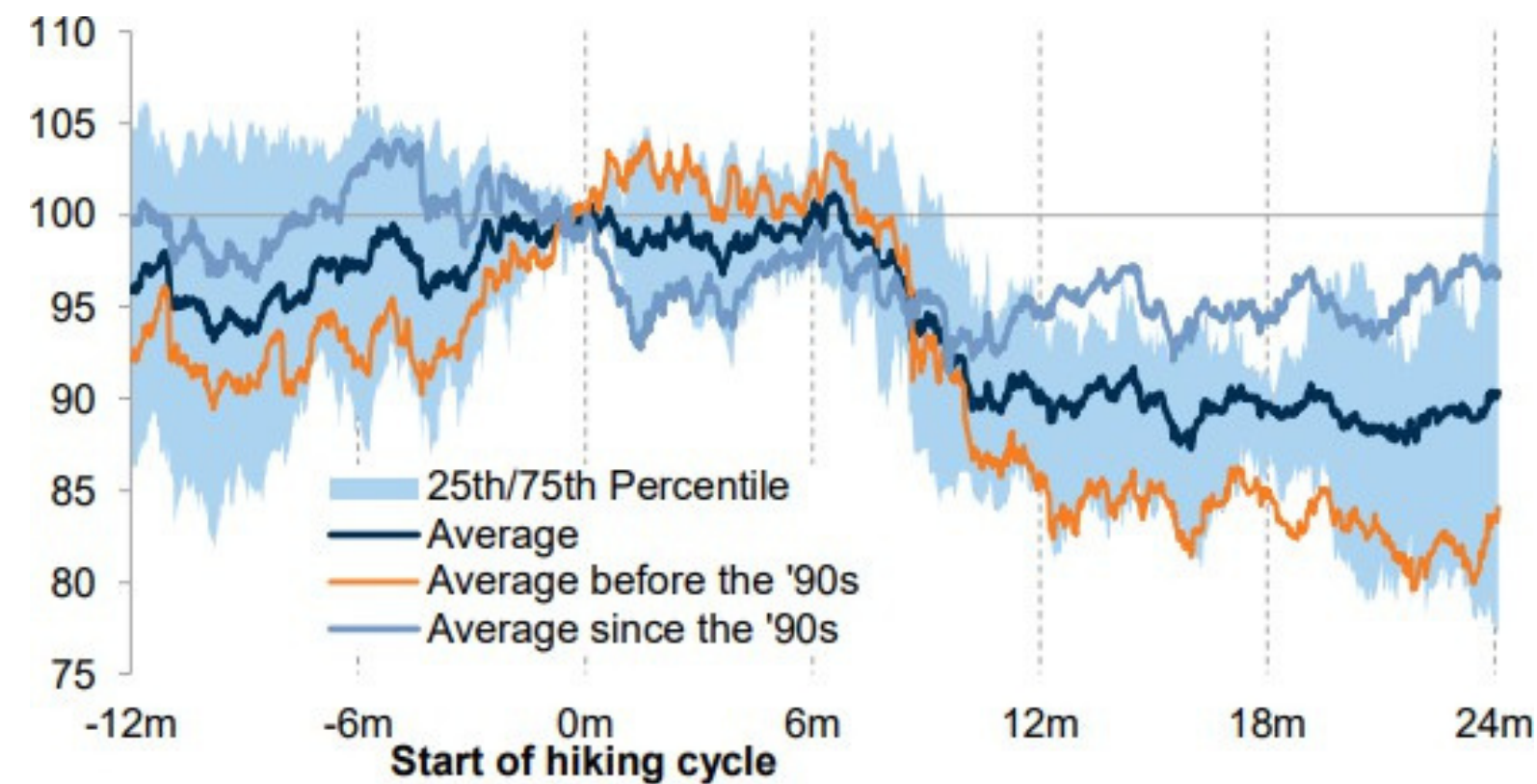
Source: Basis Asset Management, Bloomberg, Goldman Sachs. Data as of 24 May 2024.



US Equity Valuations to De-rate and Value to Outperform Growth During Fed Rate Hike Cycles

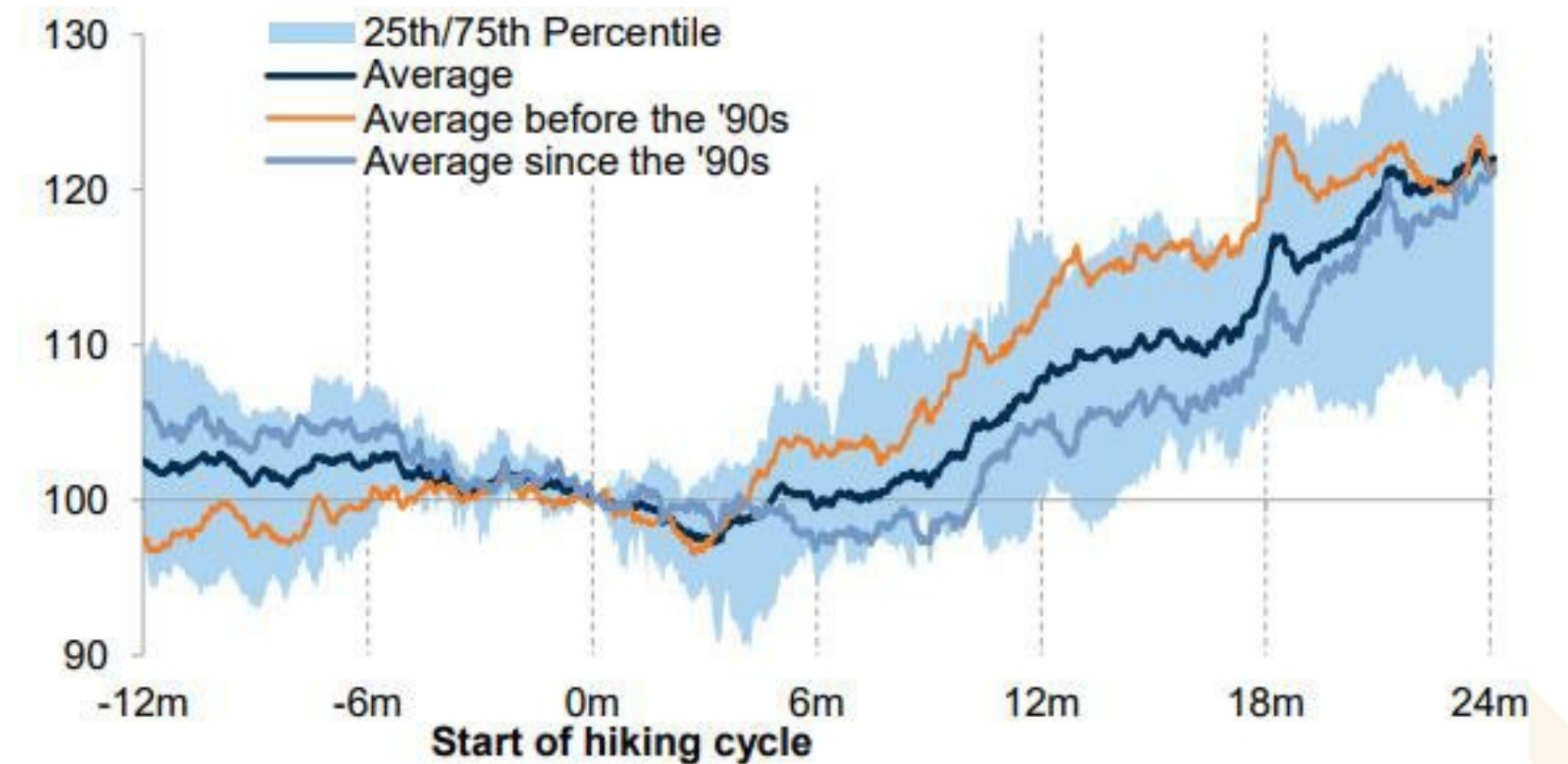
Equity valuations de-rated on average during Fed rate hike cycles

S&P 500 12-month forward P/E ratios (trailing P/E before 1985)



Value has eventually outperformed growth during Fed rate hike cycles

S&P 500 12-month forward P/E ratios (trailing P/E before 1985)



Source: Basis Asset Management, Bloomberg, Goldman Sachs



匯霸致遠投資管理有限公司

Dynasty Alliance Investment Management Limited



Suite 1901, Chinachem Leighton Plaza, 29 Leighton
Road, Causeway Bay, Hong Kong