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INNOVEST ASSET MANAGEMENT LIMITED

# Equity Market Strategy

May 31st, 2024



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## China Offshore Equities: Earnings Improvement Needed - Otherwise Just a Short-Lived FOMO Bounce

**The recent rebound was “initiated” by fast overseas money and southbound inflow ... and then some FOMO money joined recently**

- The rapid rebound in the offshore China equity markets started on 22nd April might have caught some investors off-guard given the absence of verifiable development (mostly rumors + policy speculation) at the beginning of the rebound
- The rebound was triggered by eased Middle East tensions and more importantly online articles from the Chinese investment community (aka. 小作文): (1) the Chinese government will purchase unsold housing inventory in the market and announce supportive housing measures around the Politburo Meeting; (2) regulators are reviewing a plan to waive the 20% tax on dividends from HK stocks bought via Stock Connect
- Initially the market was skeptical of the online articles given the high failure rate of such in the past - but southbound money and some fast overseas money was apparently “convinced” this time and thus loaded up offshore Chinese stocks; and later some FOMO buying further fueled the rebound – but pullbacks were again seen recently amid profit taking and JD/BABA’s CB issuance

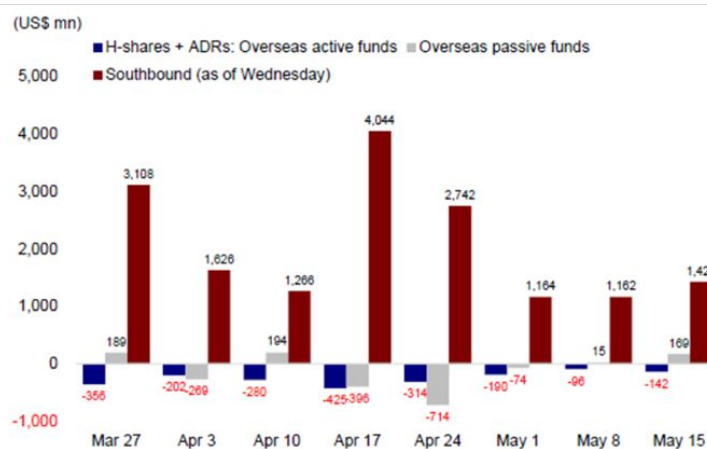
**History suggests earnings delivery/upgrade is key to sustain the rally, otherwise most likely some/all of the gains will be given back**

- So far, we only see mild upward earnings revisions in MSCI China (c.1% in 4 weeks) and very limited upward revisions in Hang Seng Index (<0.5% in 4 weeks) as:
  - o Major upward earnings revisions are concentrated in PDD (PDD US) and Kuaishou (1024 HK), which have c.4/1% weight in the MSCI China Index but zero weight in Hang Seng Index
  - o Sticky earnings forecasts at major Chinese banks/insurers (c.20-25% of Hang Seng Index weight) due to flattish A-shares equity markets, net interest margin pressure and still-constrained fiscal stimulus
- Looking ahead, we currently expect limited upward earnings revisions in the near term but will carefully reassess our judgement in June as it is an important time window for major earnings revisions ahead of 1H results – and these are some early signals/catalysts to monitor:
  - o (1) PMI/Export for May – likely strong, but somewhat priced in by market; (2) stabilization in **new home sales/price** in coming weeks – highly uncertain as investment demand remains lukewarm while demand from real end-users is gradually picking up; (3) **618 shopping festival** performance – on track so far but still 2 more weeks ahead; (4) any indications of further supportive policy rollouts around **Third Plenary Session** in July

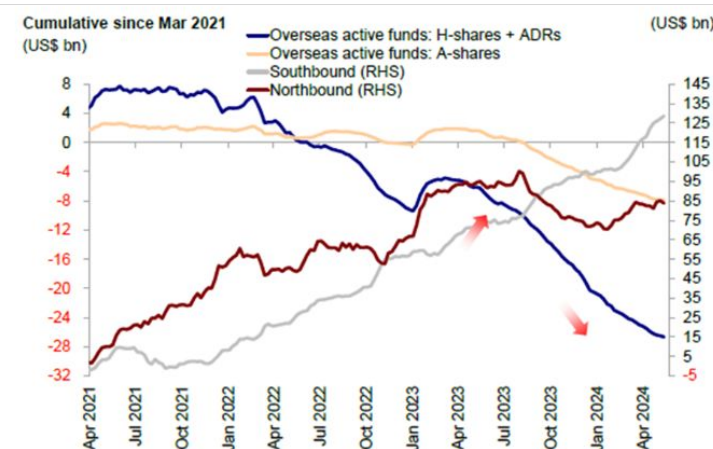
## Global Hedge Funds and Southbound the Key Initial Force behind this Rally

- The key initial force behind this rally was fast overseas money (i.e. global hedge funds) and southbound investors
- Overseas passive funds appear to be late-comers and just turned net buyers since mid-May (net purchased US\$15/169mn in the week ended 8/15 May)
- Overseas active funds have reduced their net outflow but remained net sellers in aggregate
- Institutional investors' China allocations have increased but remain low vs. history

Weekly Fund Flow into the Offshore China Market

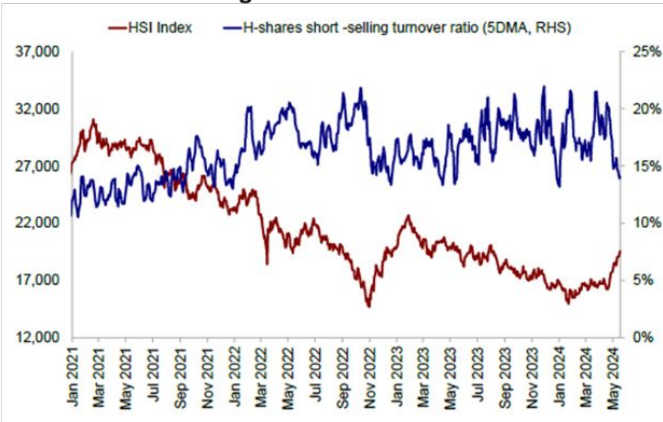


Cumulative Fund Flow into the Offshore China Market



Source: Wind, FactSet, Bloomberg, EPFR, CICC

H-shares Short-selling Ratio



Source: Wind, FactSet, Bloomberg, EPFR, CICC

Exhibit 23: Based on EPFR data, mutual funds globally in aggregate have 5.7% allocation in Chinese equities as of end-April, which represents 3rd percentile over the past decade



Source: EPFR, MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 24: Asia/EM fund exposures have increased to 36-40th %-ile while Global/Global ex-US funds have also raised their exposure in China, but remains low vs. history



Note: Hedge fund data is based on GS Prime Services and represents 5-yr %-ile given shorter history; Mutual fund data is based on EPFR as of April-24 and shows 10-yr %-ile

Source: EPFR, MSCI, FactSet, Goldman Sachs Global Investment Research, Goldman Sachs Prime Services



## History Suggests Earnings Delivery/Upgrade is Key to Sustain Rallies

- In the past 20 years, there were 23 episodes for which MSCI China has delivered 20+% returns (under 4 scenarios)
- The initial 20% gains were typically driven by valuation multiple expansion while whether the rallies went further up generally depended on earnings delivery/upgrade
- In the “further 20+%” scenario (i.e. rallying another 20% with <10% drawdown; or scenario #1) happened 7 times out of 23, earnings were raised by 10% on average to propel the rallies
  - Do note that the spectacular rallies happened during 2006-2007 and 2008-2009 were broken down into several episodes, some of which fell into the “ending with +ve return” and “falling below starting point of rally within 6 months” scenarios (scenario #2 & 4)**
  - But still, positive earnings revisions were observed in most of those episodes**
- In summary, earnings delivery is indeed a key element to sustain rallies

Rallies of MSCI China Index over the past 20 years classified into 4 scenarios and 23 episodes

	Start Date	20% Date	Peak Date within 6m	Duration of First 20% Rally (Days)	Duration from 20% to 6m Peak (Days)	Maximum Further Gain within 6m after 20% Rally	Maximum Drawdown from 20% within 6m	Valuation			Earnings Growth	
								12m fP/E at 20%	12m fP/E Gain (First 20%)	12m fP/E Gain (20% to Peak)	12m fEPS Change (First 20%)	12m fEPS Change (20% to Peak)
1 20+% Further Rally within 6 Months <sup>(1)</sup>	2005-10-28	2006-01-09	2006-05-08	73	119	26%	-1%	11.2x	16%	19%	4%	5%
	2006-06-14	2006-08-14	2007-01-03	61	142	44%	-2%	12.7x	20%	34%	0%	7%
	2007-08-17	2007-08-27	2007-10-30	10	64	43%	-12%	18.9x	25%	28%	1%	11%
	2009-03-02	2009-03-26	2009-09-17	24	175	46%	-5%	11.9x	28%	21%	-3%	21%
	2016-12-23	2017-05-09	2017-11-09	137	184	29%	1%	12.6x	14%	12%	6%	16%
	2020-03-19	2020-05-19	2020-11-09	61	174	29%	-6%	12.8x	27%	21%	-5%	7%
	2022-10-31	2022-11-15	2023-01-27	15	73	25%	-6%	9.9x	23%	19%	3%	5%
2 Ending with +ve Return after 6 Months <sup>(2, 3)</sup>	2007-03-05	2007-04-16	2007-10-15	42	182	81%	-3%	16.4x	18%	46%	2%	24%
	2008-10-27	2008-10-30	2009-04-15	3	167	32%	-8%	7.8x	32%	65%	-1%	-20%
	2008-11-20	2008-12-08	2009-06-01	18	175	35%	-16%	10.1x	34%	45%	-5%	-7%
	2010-05-25	2010-10-04	2010-11-08	132	35	9%	-6%	12.6x	13%	6%	7%	3%
	2011-10-04	2011-10-26	2012-02-29	22	126	15%	-6%	8.4x	24%	16%	-2%	-1%
	2014-03-20	2014-09-03	2015-02-26	167	176	3%	-10%	9.5x	18%	10%	3%	-6%
	2016-02-12	2016-04-13	2016-09-22	61	162	12%	-9%	10.3x	25%	23%	-3%	-9%
3 Ending with Negative Return after 6 Months <sup>(2, 3)</sup>	2011-11-25	2012-02-09	2012-02-29	76	20	2%	-16%	9.5x	19%	3%	1%	-1%
	2012-09-05	2012-12-12	2013-01-22	98	41	7%	-8%	10.0x	19%	4%	1%	2%
	2013-06-25	2013-09-10	2013-12-02	77	83	6%	-9%	9.2x	19%	3%	2%	3%
	2019-01-03	2019-02-25	2019-04-09	53	43	5%	-13%	11.6x	22%	5%	0%	0%
	2022-03-15	2022-03-17	2022-06-28	2	103	7%	-12%	10.4x	21%	16%	0%	-7%
4 Falling Below Starting Point of Rally within 6 Months	2008-03-20	2008-04-07	2008-05-06	18	29	8%	-40%	14.4x	21%	9%	2%	-1%
	2014-10-16	2015-04-02	2015-04-27	168	25	16%	-25%	10.8x	27%	16%	-6%	0%
	2019-08-06	2020-01-02	2020-07-02	149	182	4%	-20%	12.4x	19%	15%	1%	-10%
	2022-05-12	2022-06-27	2022-06-28	46	1	0%	-36%	11.9x	24%	0%	-2%	0%
Current	2024-01-22	2024-05-02	-	101	-	-	-	9.8x	24%	-	-1%	-
Average (20+% Further Rally)				54	133	35%	-4%	12.9x	22%	22%	1%	10%
Average (Ending with Positive Return)				64	146	27%	-8%	10.7x	23%	30%	0%	-2%
Average (Ending with Negative Return)				61	58	5%	-11%	10.1x	20%	6%	1%	-1%
Average (Falling Below Starting Point)				95	59	7%	-30%	12.4x	23%	10%	-1%	-3%

Note (1): Didn't experience a 10% drawdown before rallying for another 20%

Note (2): These episodes may experienced a 10% drawdown before reaching their +6m peak

Note (3): Not included in the episodes where there was a 20+% further rally or index has fallen below starting point of the rally

Note (4): The prevailing macro and external challenges that China faces are more complicated than in the previous cycles, the market reaction function could deviate significantly

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

## MSCI China: Mild Upward Earnings Revision Driven by Internet Stocks

- Recent upward earnings revisions were primarily driven by Tencent, PDD, Trip.com and Kuaishou after they reported stronger-than-expected 1Q results
- Based on their earnings trends and management guidance, earnings beats are likely to continue in 2Q for these stocks
- However, the key “structural” drags on overall index-level earnings remain sectors that are more closely-linked with real estate (Materials, Real Estate) and those negatively affected by US sanctions (Healthcare, Technology) – earnings of which are highly sensitive to government policies, which are rather unpredictable in terms of details and timing

MSCI China – Earnings Revisions (4 weeks) of Top 20 Constituents

代码	名称	市值 (亿港元)	市盈率 (倍)	FY1	FY2	4w 盈利调整 (%)	
						FY1	FY2
700 HK	TENCENT	36,211	17.3	15.4		6.1	4.8
9988 HK	BABA-SW	15,476	9.7	8.6		-1.8	-1.4
PDD US	PDD HOLDINGS INC	17,085	13.4	10.5		39.1	34.3
3690 HK	MEITUAN-W	7,482	21.8	15.3		0.1	0.1
939 HK	CCB-H	14,798	4.1	4.0		0.1	0.4
3988 HK	BANK OF CHINA-H	13,388	4.8	4.7		0.9	0.0
1398 HK	ICBC-H	19,994	4.4	4.3		-0.8	-2.2
9618 HK	JD-SW	3,651	10.2	9.2		0.4	-1.0
1810 HK	XIAOMI CORP-W	4,599	25.6	22.1		9.5	13.9
9999 HK	NETEASE INC	4,550	12.6	11.9		-0.6	5.0
2318 HK	PING AN	8,233	6.2	5.6		1.0	0.7
9888 HK	BIDU-SW	2,791	9.3	8.8		3.2	2.2
9961 HK	TRIP.COM GROUP L	2,682	17.6	15.5		15.9	11.8
1211 HK	BYD COMPANY	6,307	16.2	13.4		0.2	1.0
857 HK	PETROCHINA-H	19,941	8.2	7.8		-1.8	1.3
3968 HK	CM BANK-H	9,438	5.9	5.6		-0.5	-0.8
600519 CH	KWEICHOW MOUTA-A	22,577	23.8	20.6		0.0	0.0
1024 HK	KUAISHOU-W	2,476	12.8	9.8		12.5	7.7
386 HK	SINOPEC CORP-H	8,189	8.5	8.1		0.5	0.3
1088 HK	CHINA SHENHUA-H	8,903	11.8	12.4		-2.7	-5.7
YUMC US	YUM CHINA HO	1,086	16.2	14.4		0.0	-0.4

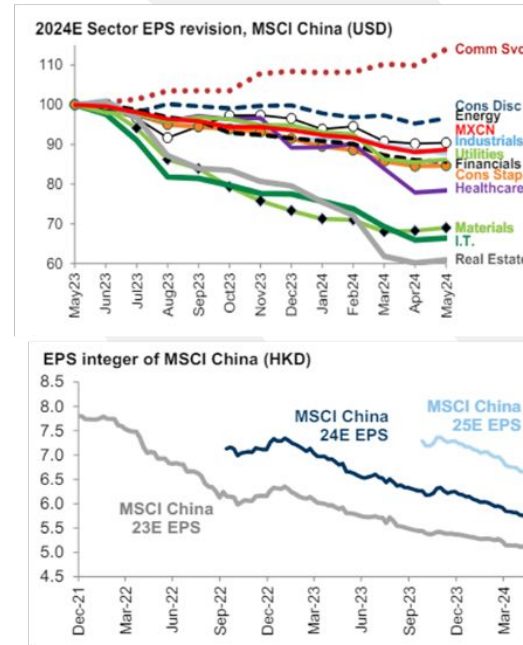
Source: Bloomberg. Data as of 28 May 2024. Major earnings revisions are highlighted.

MSCI China – EPS and Share Price Trend (5 Years)



Source: Bloomberg

MSCI China – EPS Trends



Source: FactSet, IBES, MSCI, Goldman Sachs



## Hang Seng Index: Earnings Still Stagnant In General

- In general, index earnings forecasts were stagnant over the past few weeks with major positive contributions from Tencent and Xiaomi, which reported decent 1Q earnings; positive revisions were also observed in global banks/insurers, but only in the low single-digit range
- The EPS cuts after 4Q23/1Q24 results release (early March 2024) seem unlikely to repeat for 2Q24 results release after government tried to put a floor to the property sector by rolling out some easing measures in recent weeks, but the overall modest policy strength shows such measures are mainly for “risk prevention” instead of reflating the bubble

HSI – Earnings Revisions (4 weeks) of Top 20 Constituents

代码	名称	市值 (亿港元)	市盈率 (倍)		4w 盈利调整 (%)	
			FY1	FY2	FY1	FY2
700 HK	TENCENT	35,646	17.0	15.2	6.1	4.8
5 HK	HSBC HOLDINGS PL	12,921	6.8	7.2	2.4	2.0
9988 HK	BABA-SW	15,360	9.6	8.5	-1.8	-1.4
3690 HK	MEITUAN-W	7,395	21.6	15.1	0.1	0.1
1299 HK	AIA	6,904	13.4	11.9	1.6	2.2
939 HK	CCB-H	14,773	4.1	4.0	0.1	0.4
941 HK	CHINA MOBILE	16,283	10.6	10.0	-0.8	-0.9
1398 HK	ICBC-H	19,955	4.4	4.3	-0.8	-2.2
388 HK	HKEX	3,497	28.4	27.2	0.1	-1.3
3988 HK	BANK OF CHINA-H	13,393	4.7	4.7	0.9	0.0
1810 HK	XIAOMI CORP-W	4,534	25.2	21.8	9.5	13.9
883 HK	CNOOC	10,155	6.3	5.9	3.2	5.2
2318 HK	PING AN	8,199	6.1	5.6	1.0	0.7
1211 HK	BYD COMPANY	6,321	16.2	13.4	0.2	1.0
9618 HK	JD-SW	3,605	10.1	9.1	0.4	-1.0
857 HK	PETROCHINA-H	19,879	8.2	7.8	-1.8	1.3
669 HK	TECHTRONIC IND	1,820	20.6	17.3	-0.3	0.1
3968 HK	CM BANK-H	9,420	5.9	5.6	-0.5	-0.8
2 HK	CLP HOLDINGS	1,666	13.5	12.9	0.6	0.3
386 HK	SINOPEC CORP-H	8,150	8.5	8.1	0.5	0.3
2020 HK	ANTA SPORTS	2,481	17.9	16.3	-0.3	-0.2

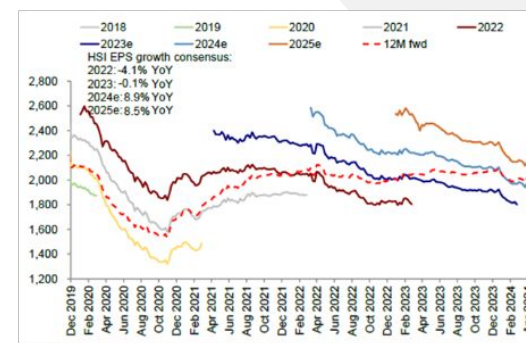
Source: Bloomberg. Data as of 28 May 2024. Major earnings revisions are highlighted.

HSI – EPS and Share Price Trend (5 Years)



Source: Bloomberg

HSI – EPS Trends



Source: Bloomberg, FactSet, Wind, CICC

## Don't Forget Market is Always Efficient in the End

**China Offshore and HK:** The flattish MSCI China Index performance since 2012 is well justified by the rangebound EPS; the years-long correction in HSI after Covid lockdown was supported by EPS downtrend

### China (MSCI China Index)



### Hong Kong (Hang Seng Index)





## Don't Forget Market is Always Efficient in the End (Cont.)

**Japan and US:** These two developed markets reached all-time high helped by their exposure to growth sectors (industrial automation) and technology (AI, semi equipment, etc.); Japan's export was also helped by weakened JPY since 2021

### Japan (MSCI Japan)



### US (S&P 500)

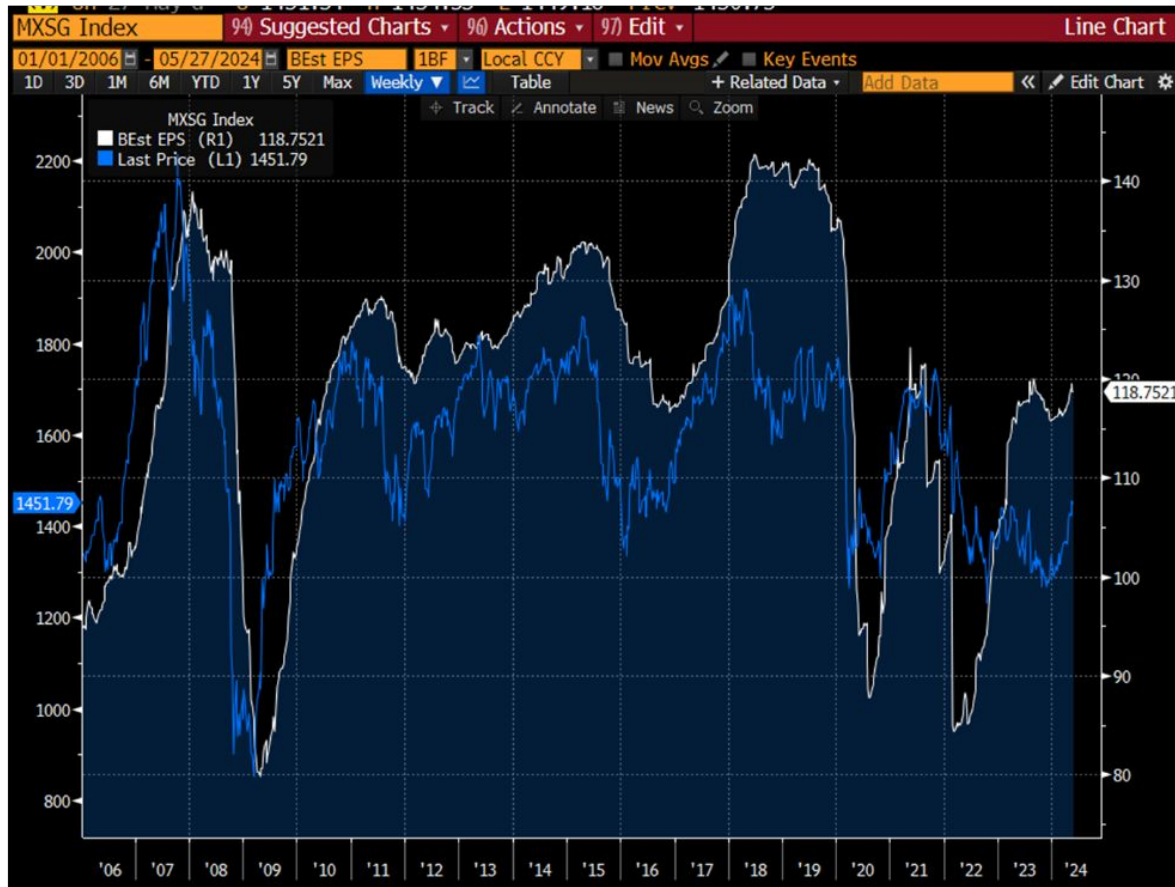




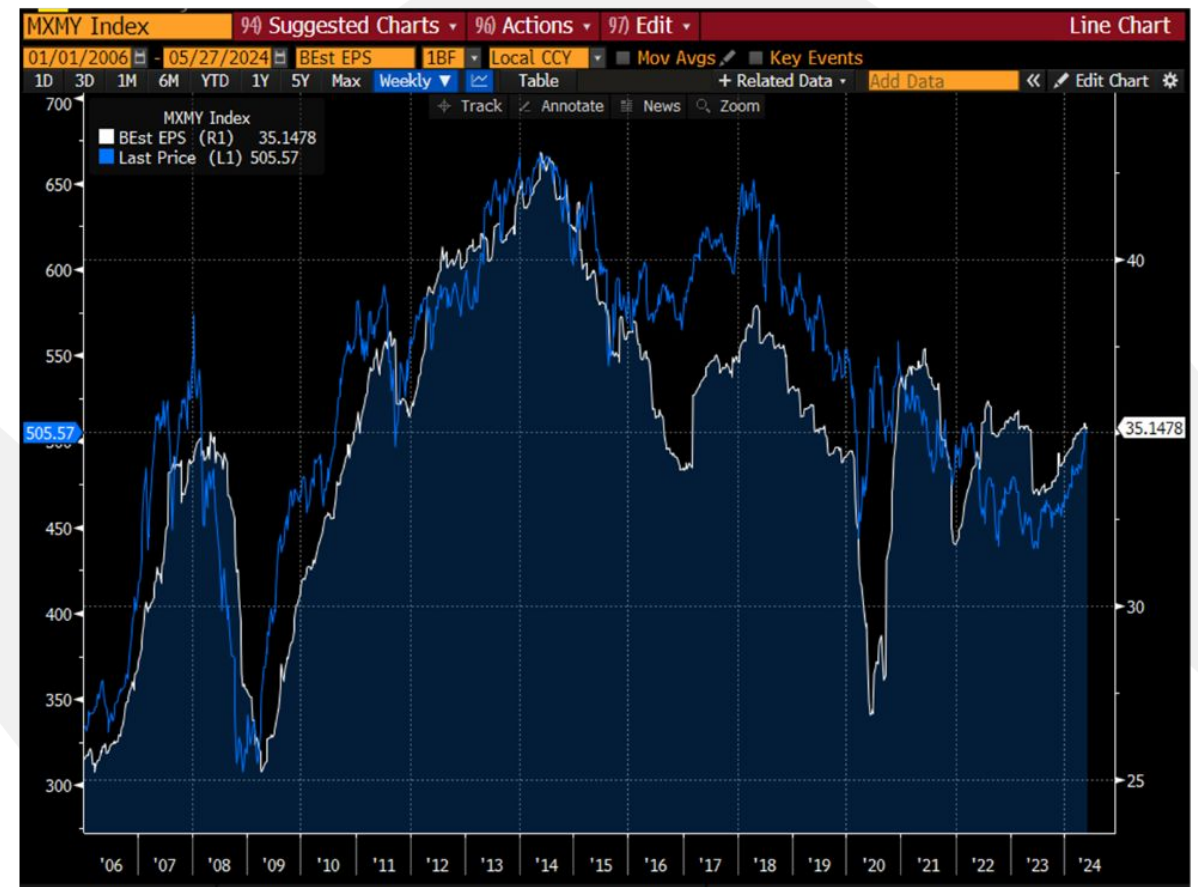
## Don't Forget Market is Always Efficient in the End (Cont.)

**Singapore and Malaysia:** These two markets are weighed by their heavy exposure to banking/financials, low-growth sectors (telcos, airlines, etc.) and limited exposure to technology; their EPS remain well below peak levels and so do index price levels

### Singapore (MSCI Singapore)



### Malaysia (MSCI Malaysia)





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# Long-term Views Summary



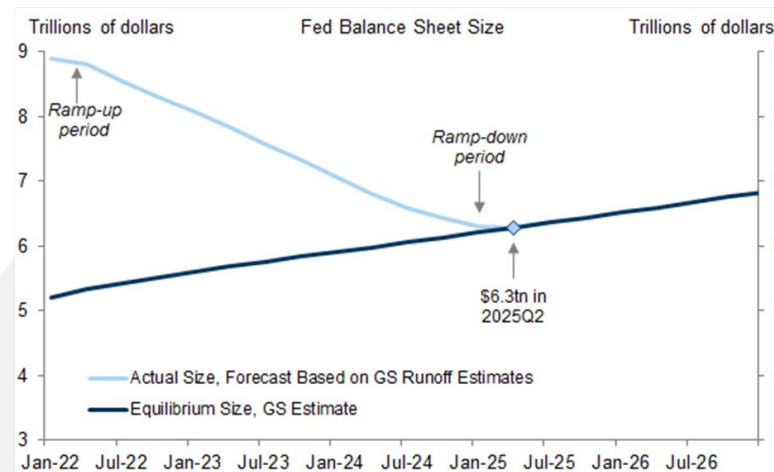
## US Market Views: Slower QT ahead of US Election an Intentional Pivot

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**

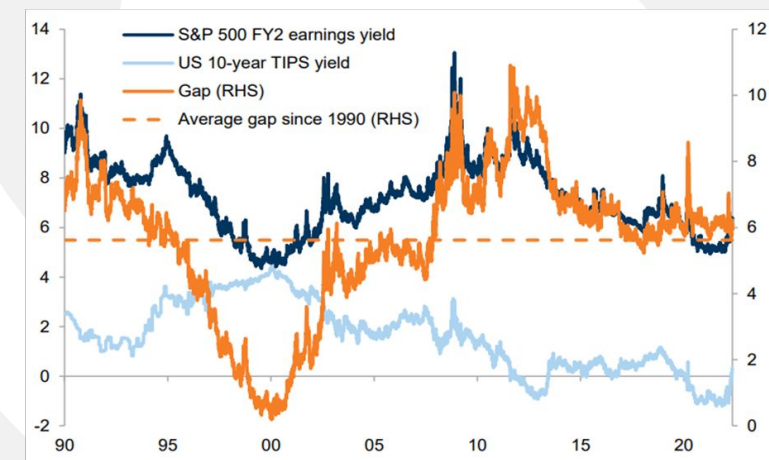
- Fed entered phase 1 (Jun-Aug 2022) of this round of tapering cycle by shrinking its balance sheet by a cap of \$47.5bn per month and we are now in phase 2 (since Sep 2022), with the amount increased to \$95bn per month; **but then in the May FOMC, the Fed announced to slow QT size to \$60bn per month 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
- ~~We expect increased market volatility and negative skewed overall index performance as the tapering cycle continues;~~ 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 Grey 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

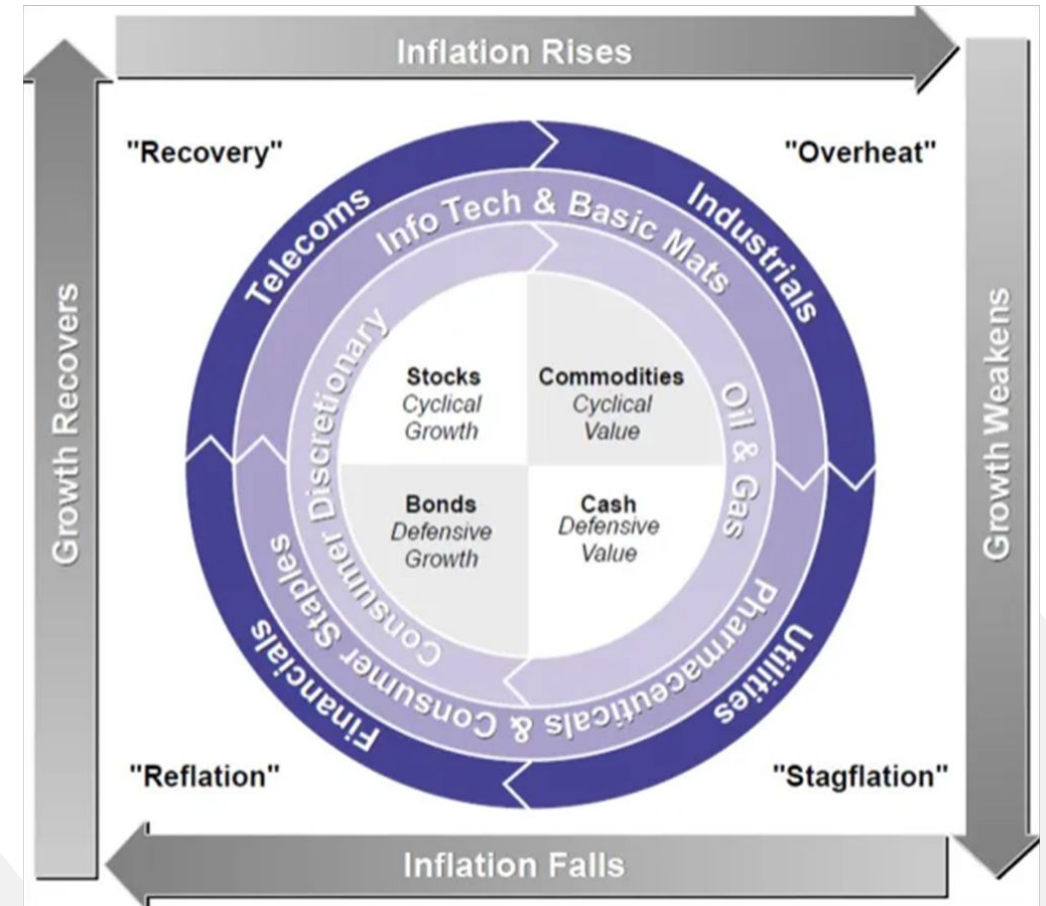
Our base case is a mild US recession to take place around 2Q24; US corporate earnings momentum will weaken further in coming months as impact from the rapid interest rate hikes to ripple through the economy; expect US HY default risks to rise

### 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 2Q24

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





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# Short-term (1 month) Views

## Summary

## June: Consolidation as Market Awaits Further Signals to Decide Next Direction

Hang Seng Index (HSI) had another roller-coaster ride in May. In the first 3 weeks of the month, the rally since 22 April extended to push HSI to a 9-month high of 19,706 (c.23% return in a month, which fulfilled the “bull market” definition to some investors). But then the market retreated c.7% in the past week after earnings miss from Li Auto and CB issuance from JD/BABA weighed on investors optimism. Furthermore, the size of the initial re-lending scheme (Rmb300bn, which can be leveraged up to Rmb500bn) for local governments to buy unsold homes also slightly disappointed the investment community as it is widely expected that Rmb1-1.5trn is needed in a year to absorb housing inventory.

Although the scheme size might still be increased later, this cautious move suggests policy delivery remains piecemeal. For June, we expect a consolidation in the 18,000 – 19,000 range as: (1) market/government takes time to observe real impact from housing policy relaxation; (2) history suggests earnings upgrades are usually needed to extend a 20+% rally or some of the gains would be given back – and we see limited upward earnings momentum at this point. Having said that, we will be constantly reassessing our judgement in June as it is an important time window for major earnings revisions ahead of 1H results and that global active funds’ China allocation remains low. PMI, trade data, industrial production, 618 online sales campaign performance and new home sales volume/price will be the most important early signals that we will be monitoring closely in June. Policy signals (especially towards housing sector and private enterprises 民營企業, given that these two are the major “pain points” for the economy) ahead of the important Third Plenary Session in July are also key in setting the next market direction.

## Summary of Upcoming Major Events

**7 June**

### **US – Job data**

- Nonfarm payrolls are expected to rise to 200k+ (vs. 175k in April)
- Will unemployment rate hit 4% for the first time since Jan 2022? But market consensus points to 3.9%

**12 June**

### **US – CPI**

- Will the downtick in core CPI continue?

**13 June**

### **US – FOMC Meeting**

- Will Powell stay dovish? Or another expected hawkish pivot?

**21 June**

### **US – Existing Home Sales**

Will it stay weak amid rising mortgage rate?

**31 May – 5 June**

### **CH – PMI**

Will PMI stay strong and above 50 across the board?

**7 June**

### **CH – Export Data**

Can the strength sustain into May?

**20 June**

### **CH – Loan Prime Rate (LPR)**

Any reduction?



## Major Events for 2024

### 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

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

## Election Calendar for 2024

### Number of Countries

40 (21% of Global)

### Population

3.2bn (41% of Global)

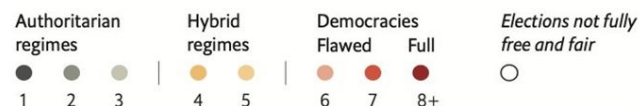
### GDP

\$44.2bn (42% of Global)

## 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 <sup>th</sup> <b>Taiwan</b> (Presidency, Legislative Yuan)	8 <sup>th</sup> <b>Pakistan</b> (National Assembly)  14 <sup>th</sup> <b>Indonesia</b> (Presidency, Reg Rep, Council, House of Rep.)	15 <sup>th</sup> -17 <sup>th</sup> <b>Russia</b> (Presidency)  31 <sup>st</sup> <b>Ukraine</b> (Presidency – may not occur due to martial law)	10 <sup>th</sup> <b>S. Korea</b> (National Assembly)	TBC April/May <b>India</b> (House of The People)	6 <sup>th</sup> -9 <sup>th</sup> <b>EU</b> (Parliament)			16 <sup>th</sup> & 25 <sup>th</sup> <b>USA</b> Presidential Debates	1 <sup>st</sup> & 9 <sup>th</sup> <b>USA</b> Presidential Debates	5 <sup>th</sup> <b>USA Election</b> (Presidency, Senate and House of Rep.)		By Jan 28, 2025 <b>UK</b> (House of Commons)

### Countries with an election in 2024, by democracy score

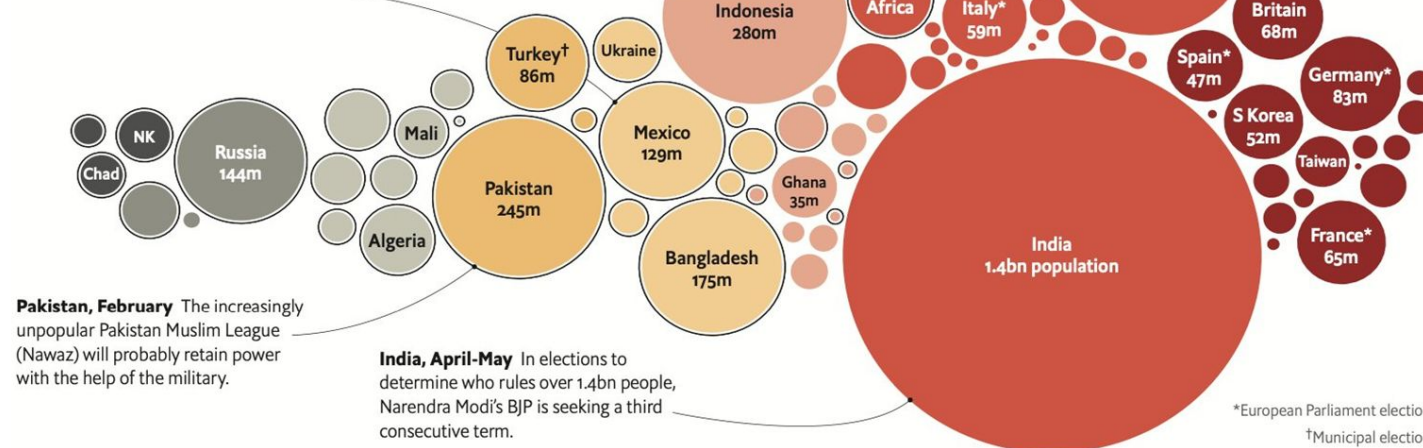


**Mexico, July** Morena's re-election as ruling party is almost assured, and Mexico will have a woman president for the first time.

**South Africa** The ANC may fall short of a majority, which would be a political earthquake weakening president Cyril Ramaphosa.

**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



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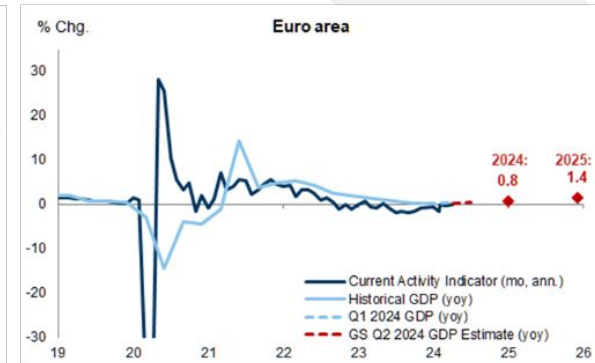
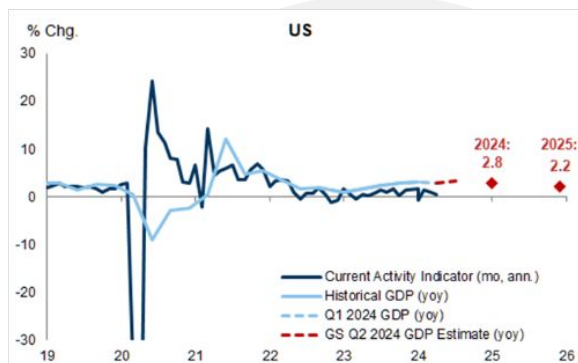
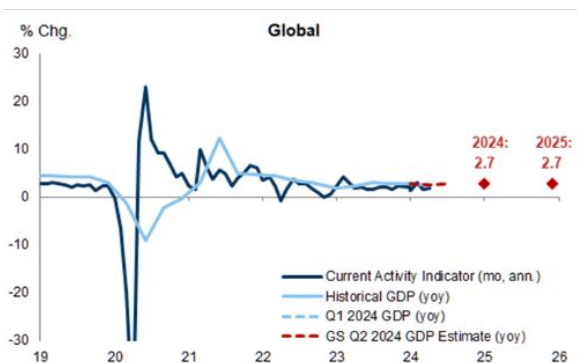


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# Appendix

## 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.										CPI (%, yoy)	Unemp. Rate	CPI (%, yoy)	Unemp. Rate	Q1	Q2	Q3	Q4	
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									

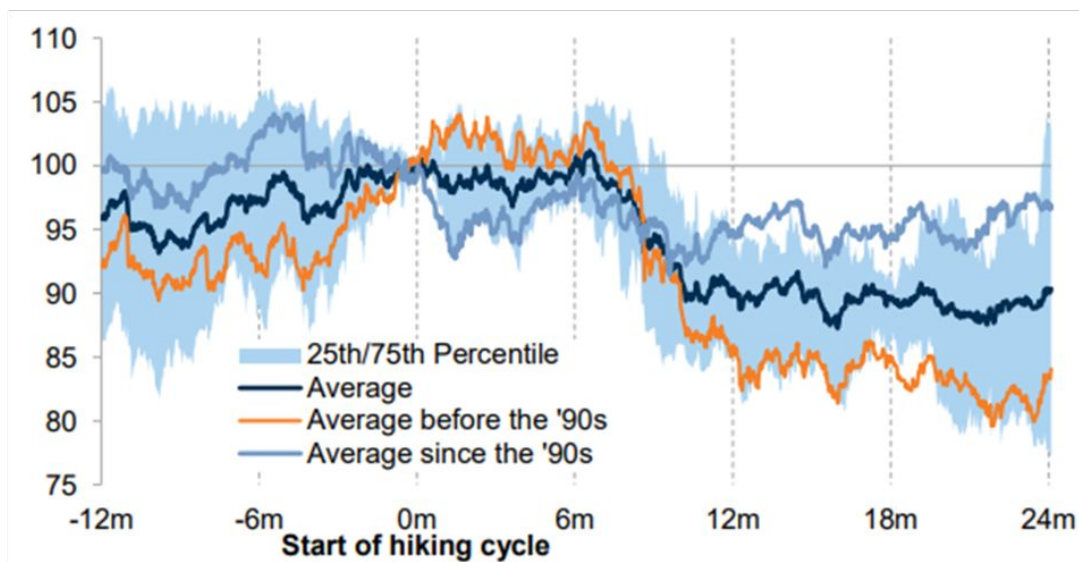


Source: Basis Asset Management, Bloomberg, Goldman Sachs. Data as of 24 May 2024.

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

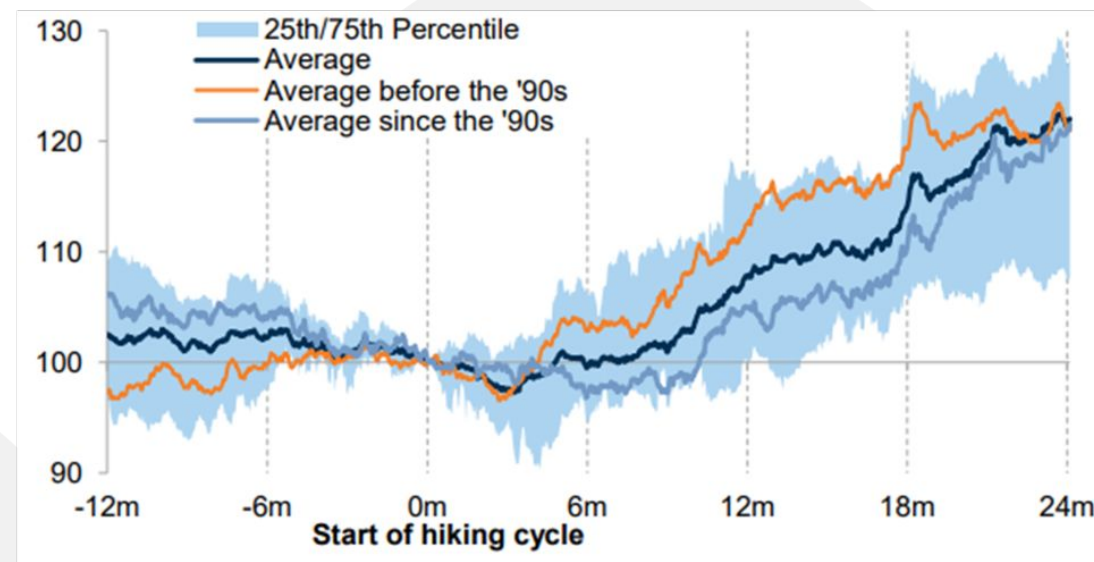
### Equity valuations de-rated on average during Fed rate hike cycles

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





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