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INNOVEST ASSET MANAGEMENT LIMITED

Capital Market
Strategy

October 2nd, 2024

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Content

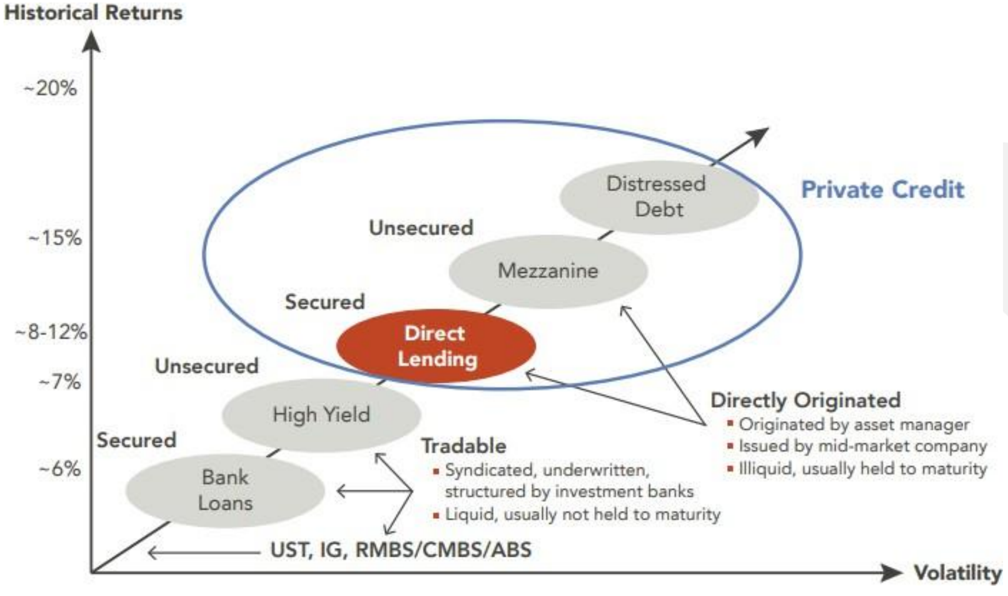
Private Credit

A double edged sword - Use it wisely

What is private Credit?

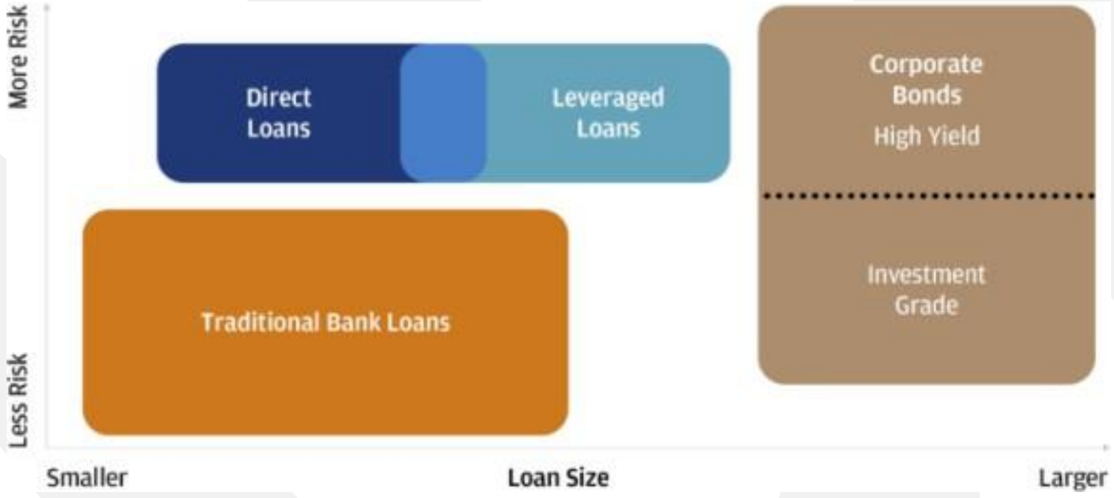
- **Private Credit is a credit investment negotiated outside of the public markets and are typically NOT traded in public markets**
- **Based on historical returns and volatility data compiled by Marquette Associates, the Private Credit asset class generated higher returns than traditional fixed income assets (e.g. high yields, bank loans, investment grade bonds) but also higher volatility**
- **Private Credit covers a wide spectrum – of which *Direct Lending* accounts for over half of the private credit market**

Fixed Income Spectrum (Return vs. Volatility)



Source: Marquette Associates.

Fixed Income Spectrum (Risk vs. Loan Size)



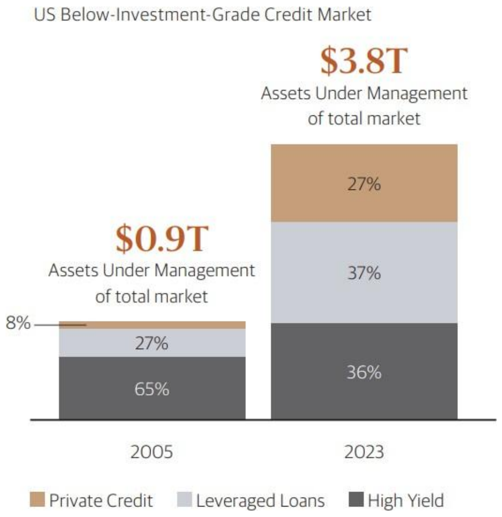
Source: JP Morgan

Spectacular Growth in Market Size

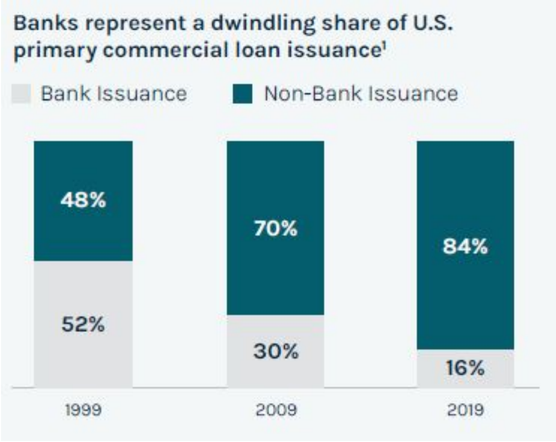
- **US Bank consolidation and increased bank regulations following the Great Financial Crisis in 2008 have led to reduced appetite for illiquid assets from banks**

- **The low interest rate and ample liquidity environment since 2008 has also encouraged affluent and institutional investors to enter the private credit market given the higher yields offered**

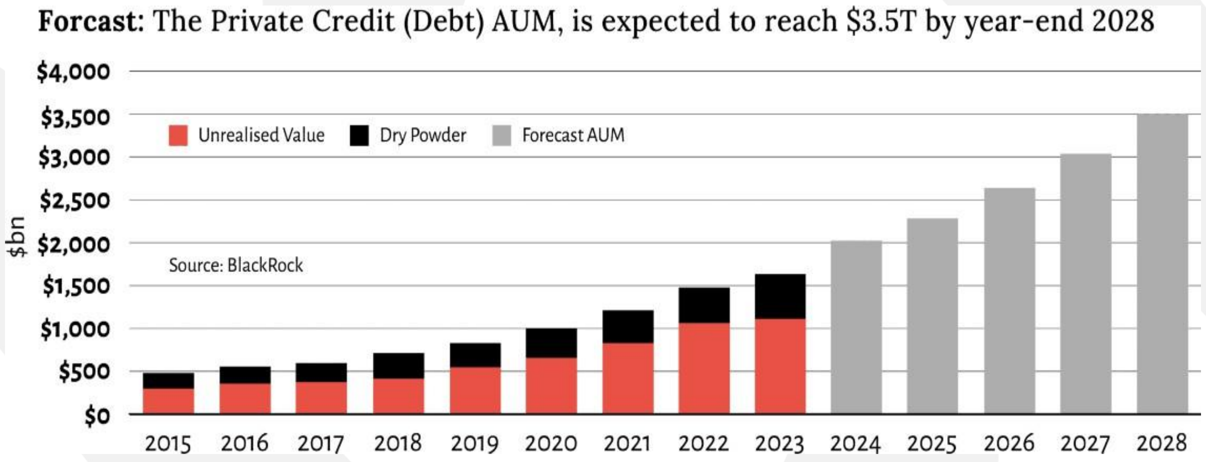
- **Asset managers packaged the asset class to the general public using Business Development Companies (BDCs), some of which are listed and actively traded on NYSE**



Source: Bloomberg, Preqin



Source: Ares, S&P



Source: BlackRock

Comparison of commercial & industrial loan structures

		Direct Lending			
		Unitranche*			
	Bank Loans	First Lien	Second Lien	Mezzanine	High Yield Bonds
Coupon Payments	**Floating** 3.5–4.5% floating over SOFR (~5% today)	**Floating** 5.0–6.0% floating over SOFR (~5% today)	**Floating** 6.0–8.0% floating over SOFR (~5% today)	**Fixed** 12.0–15.0% fixed (may have a PIK component)	**Fixed** 7.0–10.0% fixed (may have a PIK component)
Security	Secured; first lien on assets	Secured; first lien on assets	Secured; second lien on assets	Subordinated	Subordinated
Liquidity	Fairly liquid	Illiquid	Illiquid	Illiquid	Typically liquid
Covenants	Loose or no covenants (depends on what market will bear)	Highly negotiated covenants, 1-2 at the moment, including maintenance/ incurrance covenants	Highly negotiated covenants, including maintenance/incurrance covenants, but takes a back seat to 1L covenants		Typically incurrance covenants only
Stated Maturity	5-6 years	5-7 years	5-7 years	5-7 years	7-10 years
Prepayment Terms	Par	Par - $1.03	Par - $1.03	Often 2-yr non-call, then at premium	Often 3-5-yr non-call
Closing Fees / Discount ("OID")	1-3% goes to banks	1-3%	2-5%	2-5%	1-2%
Equity	No	Not generally	Yes, potential upside through equity co-investments or warrants		No

Source: Ares

Comparison of commercial & industrial loan structures (Cont.)

		Direct Lending			
		Unitranche*			
	Bank Loans	First Lien	Second Lien	Mezzanine	High Yield Bonds
Due Diligence (DD)	Intensive DD by lead investors; syndicate access to diligence may be more limited	Intensive, including full access to management, 3rd-party accounting reviews			Public equity-style research designed to identify attractive risk-adjusted returns within the investable universe
Control	Limited to no control over deal structure and terms; risk of large group of investors who may have misaligned interest in downside scenario	Generally sole lender or part of small group of investors, giving lenders more control over structure, terms, documentation, amendments and work-out situations; benefit from position of incumbency for follow-on investments			Limited to no control over deal structure and terms; risk of large group of investors who may have misaligned interest in downside scenario
Board Rights	No	May have board observer seats	May have board observer seats or board seats		No
Information	Variable	Typically access to robust financial packages and frequent contact with management teams			Limited to quarterly public information

*Unitranche is a loan structure that combines senior and subordinated debt into one loan.

Source: Ares

Strong Historical performance vs. Traditional Credit Segments

- **Private credit has outperformed traditional credit segments (e.g. high yield bonds, leveraged loans)**
- **Only 1 year of negative return (-6.5% in 2008) and strong performance vs. traditional credits during 2005-2023, according to Cliffwater data**
- **But note that most private credit debts are illiquid and not always marked to market – which make them more resilient in market downturns**

Annual returns of Fixed Income Key Indices Ranked in Order of Performance (2016-2023)

2016	2017	2018	2019	2020	2021	2022	2023	Total Return Aggregate Performance
17.1% US High Yield	10.4% Global High Yield	8.1% Private Credit	14.3% US High Yield	9.2% Global Investment Grade Bonds	12.8% Private Credit	6.3% Private Credit	14.0% Global High Yield	9.2% Private Credit
14.3% Global High Yield	8.6% Private Credit	0.4% US Leveraged Loans	12.6% Global High Yield	7.5% US Investment Grade Bonds	5.3% US High Yield	-0.8% US Leveraged Loans	13.4% US High Yield	6.1% US High Yield
11.2% Private Credit	7.5% US High Yield	0.0% US Investment Grade Bonds	9.0% Private Credit	7.1% US High Yield	5.2% US Leveraged Loans	-11.2% US High Yield	13.3% US Leveraged Loans	5.4% US Leveraged Loans
10.2% US Leveraged Loans	7.4% Global Investment Grade Bonds	-1.2% Global Investment Grade Bonds	8.7% US Investment Grade Bonds	7.0% Global High Yield	1.0% Global High Yield	-12.7% Global High Yield	12.1% Private Credit	4.9% Global High Yield
2.6% US Investment Grade Bonds	4.1% US Leveraged Loans	-2.1% US High Yield	8.6% US Leveraged Loans	5.5% Private Credit	-1.5% US Investment Grade Bonds	-13.0% US Investment Grade Bonds	5.7% Global Investment Grade Bonds	1.5% US Investment Grade Bonds
2.1% Global Investment Grade Bonds	3.5% US Investment Grade Bonds	-4.1% Global High Yield	6.8% Global Investment Grade Bonds	3.1% US Leveraged Loans	-4.7% Global Investment Grade Bonds	-16.2% Global Investment Grade Bonds	5.5% US Investment Grade Bonds	0.8% Global Investment Grade Bonds

Source: Morningstar, Cliffwater. As of 31 December 2023.

Calendar Year Return Comparison: 2005-2024

Calendar Year	Cliffwater Direct Lending Index (CDLI)	Bloomberg High Yield Bond Index	Morningstar LSTA US Leveraged Loan Index	Bloomberg Aggregate Bond Index
2005	10.1%	2.7%	5.1%	2.4%
2006	13.7%	11.9%	6.7%	4.3%
2007	10.2%	1.9%	2.1%	7.0%
2008	-6.5%	-26.2%	-29.1%	5.2%
2009	13.2%	58.2%	51.6%	5.9%
2010	15.8%	15.1%	10.1%	6.6%
2011	9.8%	5.0%	1.5%	7.9%
2012	14.0%	15.8%	9.7%	4.2%
2013	12.7%	7.5%	5.3%	-2.0%
2014	9.6%	2.5%	1.6%	5.9%
2015	5.5%	-4.5%	-0.7%	0.6%
2016	11.2%	17.1%	10.1%	2.7%
2017	8.6%	7.5%	4.1%	3.6%
2018	8.1%	-2.1%	0.5%	0.0%
2019	9.0%	14.2%	8.7%	8.7%
2020	5.5%	7.1%	3.1%	7.5%
2021	12.8%	5.3%	5.2%	-1.5%
2022	6.3%	-11.2%	-0.8%	-13.0%
2023	12.1%	13.5%	13.3%	5.5%
10 Years	**8.8%**	**4.6%**	**4.4%**	**1.8%**
Inception	**9.5%**	**6.4%**	**4.8%**	**3.1%**

Source: Cliffwater. Blue highlights show the best performing of the four indexes for a given year, while tan highlights are our own and notate negative absolute return years. All returns are gross total returns. Past performance is not an indicator of future returns.

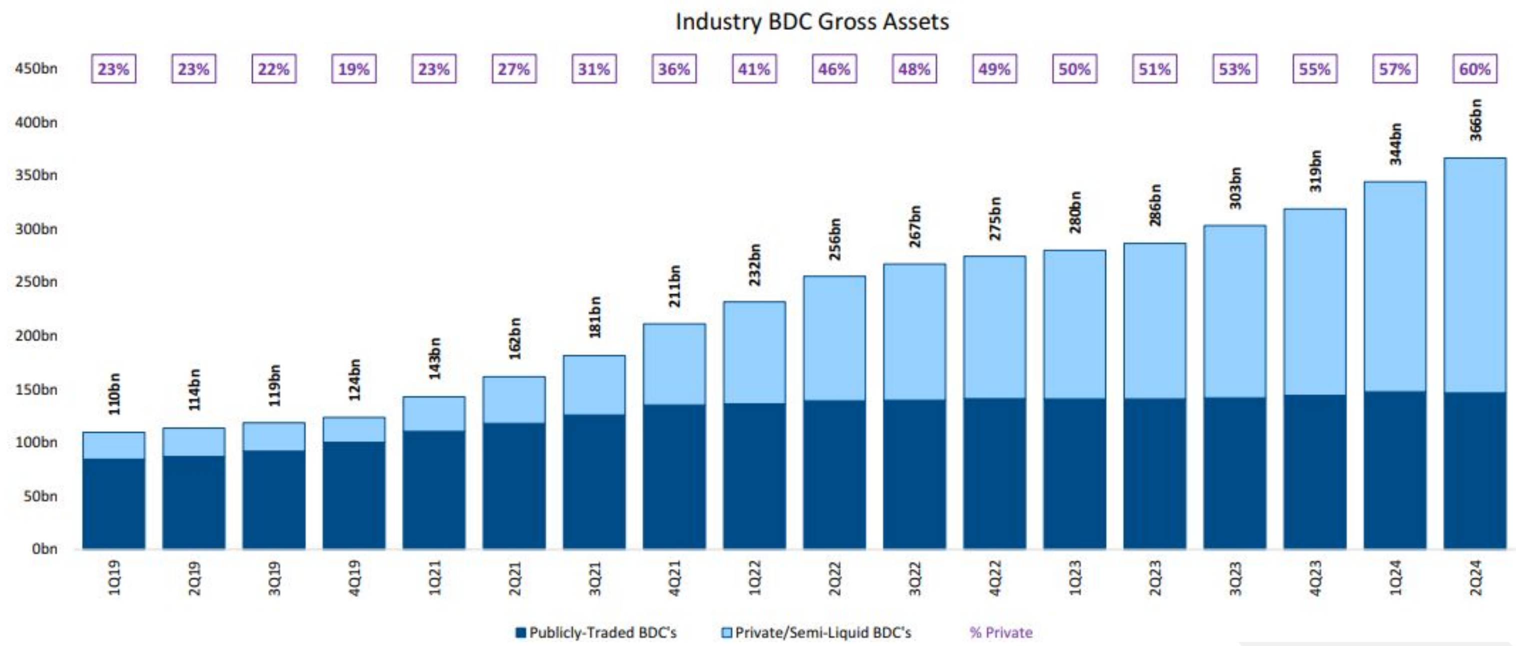
But unlike public credits, it is hard for investors to have direct market access to private credits…

… Which gives rise to investment vehicles called Business Development Companies (BDCs)

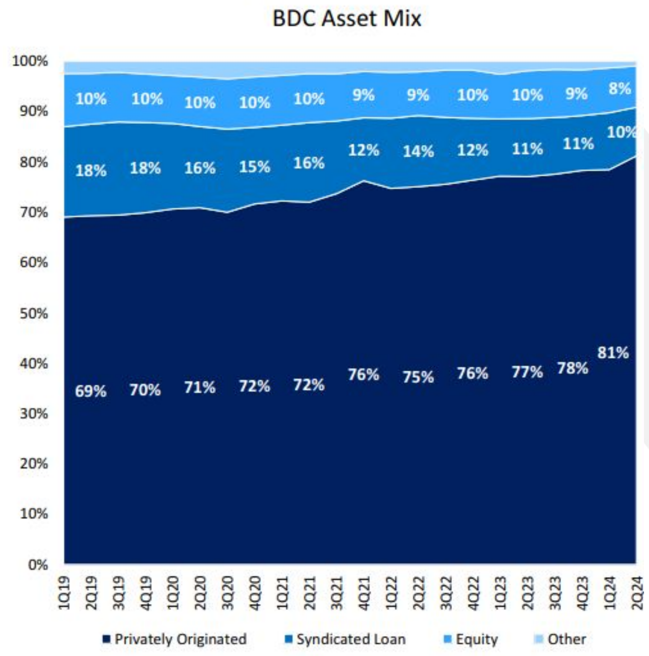
BDCs: Publicly-Listed/ Private Vehicles for Access to Private Credit Assets

- **A Business Development Company (BDC) can be regarded as a wrapper or vehicle for investors to access ownership in a diversified pool of private credit assets**
- **A BDC is a closed-end investment company, created by Congress through an amendment to the Investment Company Act of 1940 under Section 54 called the Small Business Investment Incentive Act of 1980**
- **BDCs can be publicly-listed or private – c.40% of BDCs are publicly-listed by gross assets and debt assets represent >90% of asset allocations**

Publicly listed and private BDC gross assets



Aggregate BDC allocations by asset class



Syndicated loan allocations estimated by loans with available pricing data

Source: LSEG Data and Analytics, BDC Collateral, Goldman Sachs

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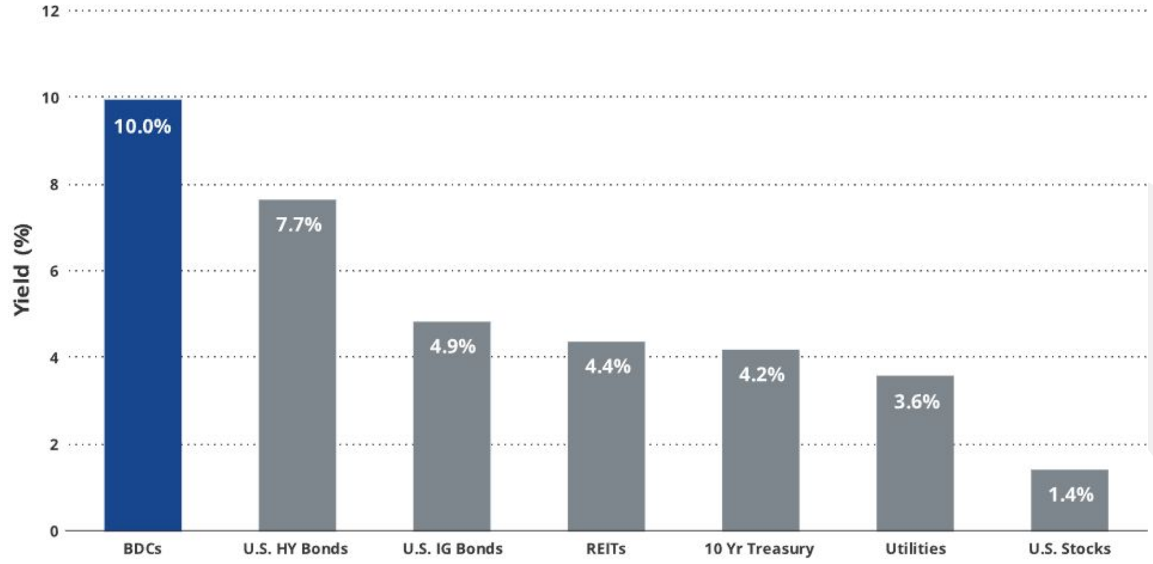
Publicly-listed BDCs: For the Retail Market

- **Publicly-listed Business Development Companies (BDCs) are suitable for investors seeking exposure to the Private Credit market without sacrificing liquidity needs as BDCs are publicly traded securities with decent secondary market liquidity in most cases**

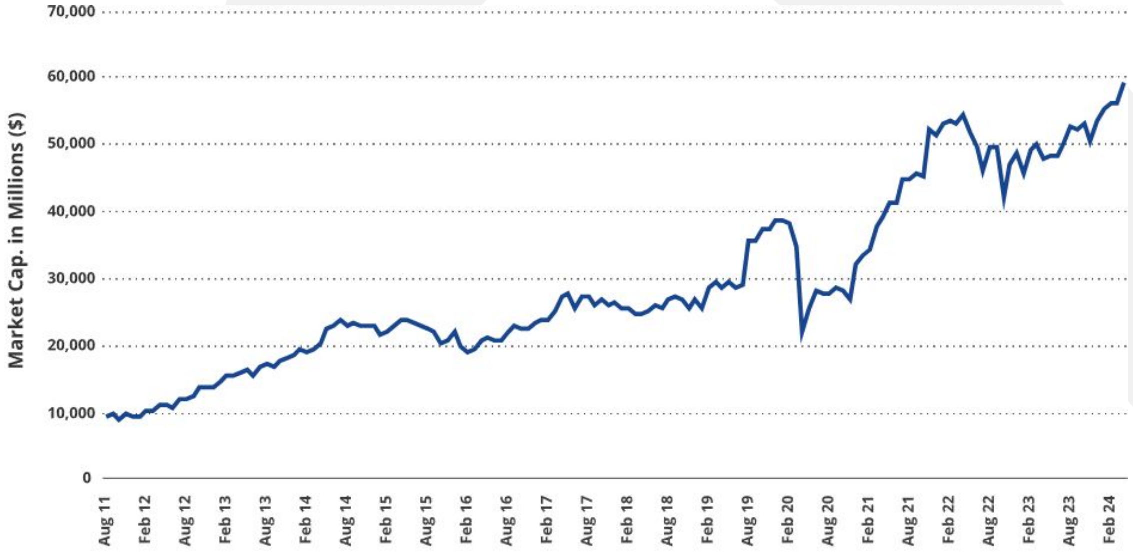
- **Risks: (1) Many BDCs use leverage to boost yields; (2) BDCs may see big declines during major economic downturns (e.g. Covid) (3) Many underlying credit assets are not rated by third parties, unlike public credits which typically have credit ratings from rating agencies (e.g. S&P, Fitch); (4) BDCs may trade at premium/discount to NAVs and are typically more volatile than the underlying private credit assets; (5) Many charges hefty fees (base fee + performance fee);**

BDCs offer higher yields



Source: Factset. Past performance is no guarantee of future results. BDCs represented by MVIS US Business Development Companies Index; U.S. HY Bonds represented by ICE BofA US High Yield Index; REITs represented by FTSE NAREIT Equity REITs Index; Utilities represented by Standard & Poor's 500 Utilities Index; U.S. Stocks represented by Standard & Poor's 500 Index; U.S. IG Bonds represented by Bloomberg Barclays US Aggregate Bond Index; U.S. 10 Yr Treasury represented by ICE BofA Current 10-Year US Treasury Index.

Market capitalization of BDCs



Source: FactSet. BDCs represented by MVIS US Business Development Companies Index (MVBDCTRG); Index data prior to June 19, 2023 reflects that of the MVIS US Business Development Companies Index (MVBIZDTG). From June 19, 2023 forward, the index data reflects that of the MVIS US Business Development Companies Index (MVBDCTRG). Index history which includes periods prior to June 19, 2023 links the performance of MVBIZDTG and MVBDCTRG and is not intended for third party use. Past performance is no guarantee of future results.

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Publicly-listed BDCs: Decent LT Returns But Poor Performance in Economic Downturns

- **Publicly-listed BDCs generated c.8% total return (annualized) over the past 10 years – but the path was very bumpy with c.40-50% corrections during major economic downturns (2008 GFC, 2020 Covid lockdown)**

- **Gearing at BDCs and lack of liquidity for underlying private credit assets amplified BDCs' price declines during market downturns**

BDCs' total returns vs. traditional credits (10 years)

Source: Bloomberg

BDCs performed badly in economic downturns

Source: Bloomberg

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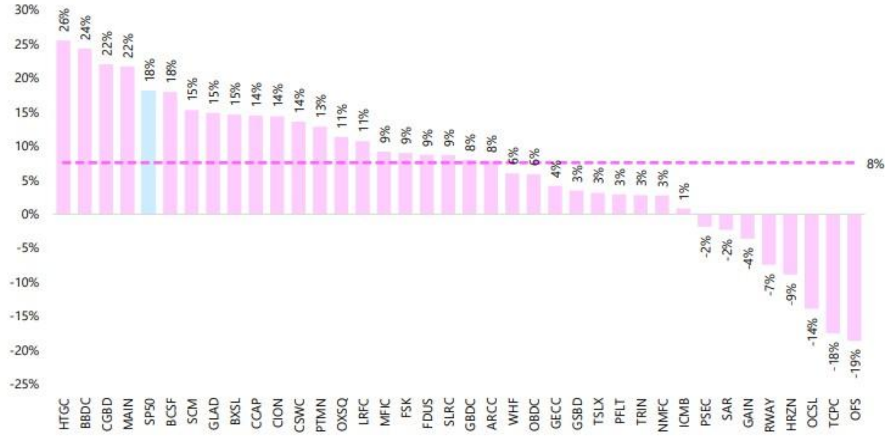
KPI of selected Publically-Listed BDCs

Exhibit 2 - Year to Date Total Returns

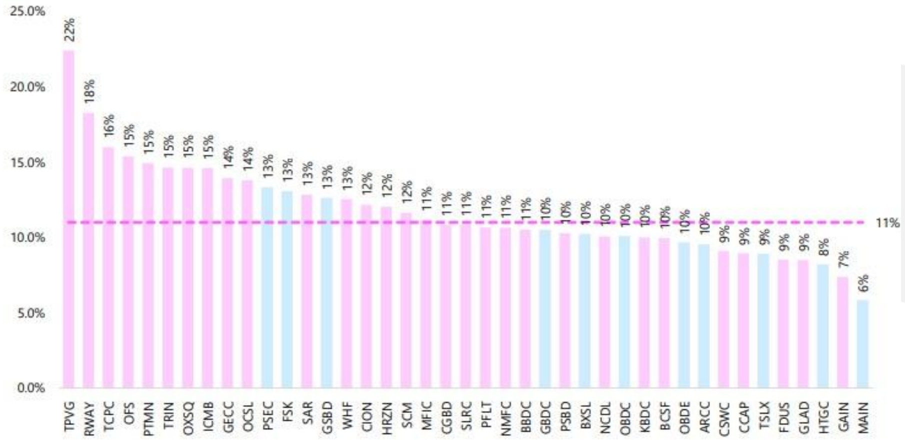
S&P500 in blue. Dotted line is BDC average.



Source: Jefferies, FactSet

Exhibit 3 - Dividend Yields (Annualized MRQ Base Dividend)

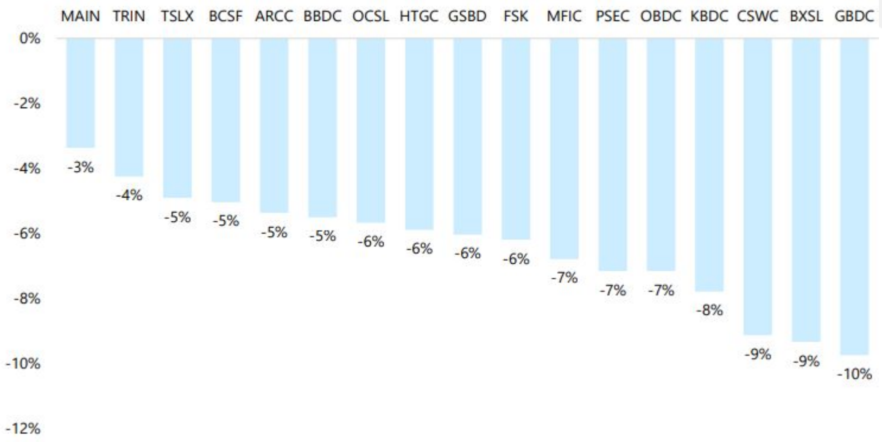
Blue represents companies with >$1.5B market cap.



Source: Jefferies, FactSet, company data

Exhibit 5 - Annual Earnings Impact of Each 100bps Rate Cut

Adjusted for incentive fee reductions.



Source: Jefferies, company data

Exhibit 6 - Annual Base Management Fee, % of Non-Cash Assets

Source: Jefferies, company data

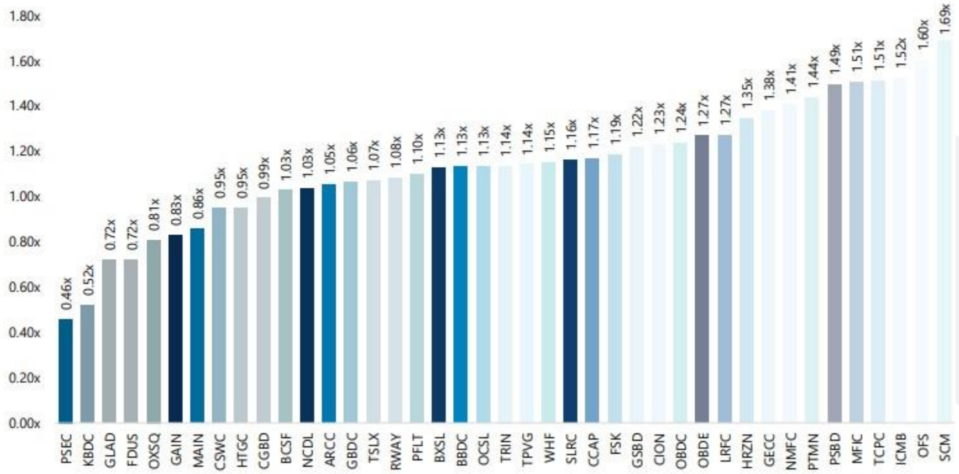
KPI of selected Publically-Listed BDCs (Cont.)

Exhibit 7 - Annualized Incentive Fee Hurdle Rate

Represents the annualized hurdle rate of return after which management earns incentive fees (usually a 100% catch-up amount until the second hurdle rate is reached)

Source: Jefferies, company data

Exhibit 10 - Debt to Equity Comparison



Source: Jefferies, FactSet

Exhibit 9 - Annualized Incentive Fee Rates

Source: Jefferies, company data

Tracking the two E's

Economy: Recession or soft landing
Election: Harris or Trump

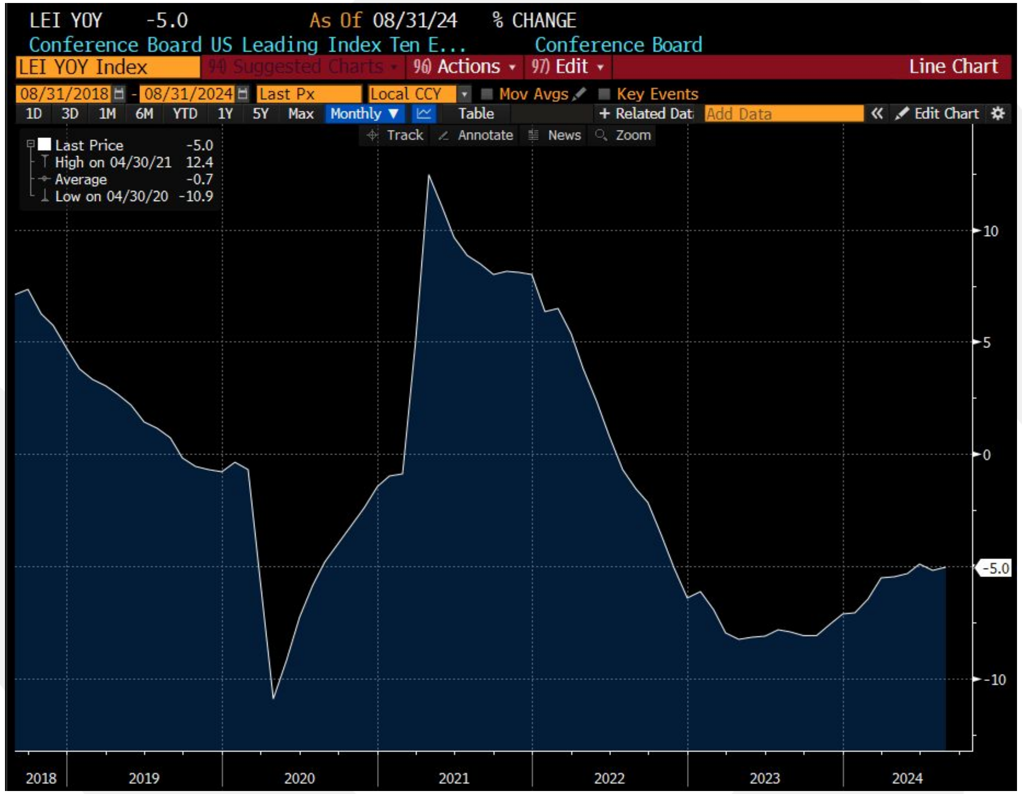
US Economic Conditions

- **Betting odds suggest a rather meaningful lead by Harris over Trump – 7.7% higher chance of winning**
- **In terms of poll results, Harris continues to maintain her lead over Trump – currently leads by 2.2%**

Citi Economic Surprise Index – United States

Source: Bloomberg. As of 23 Sep 2024.

Conference Board US Leading Index (% YoY)



Source: Conference Board

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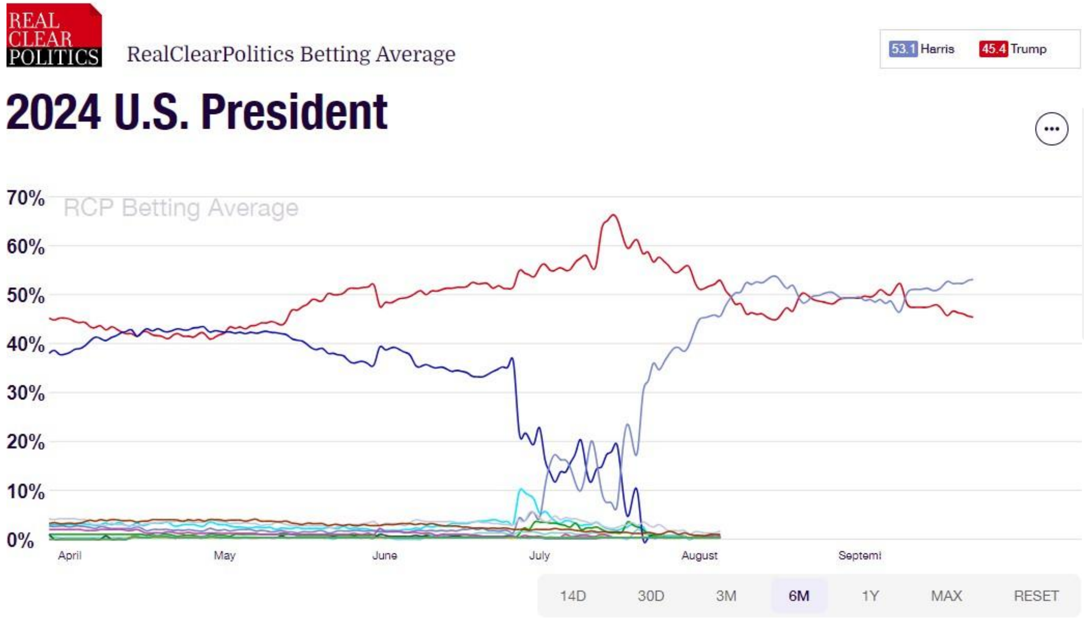
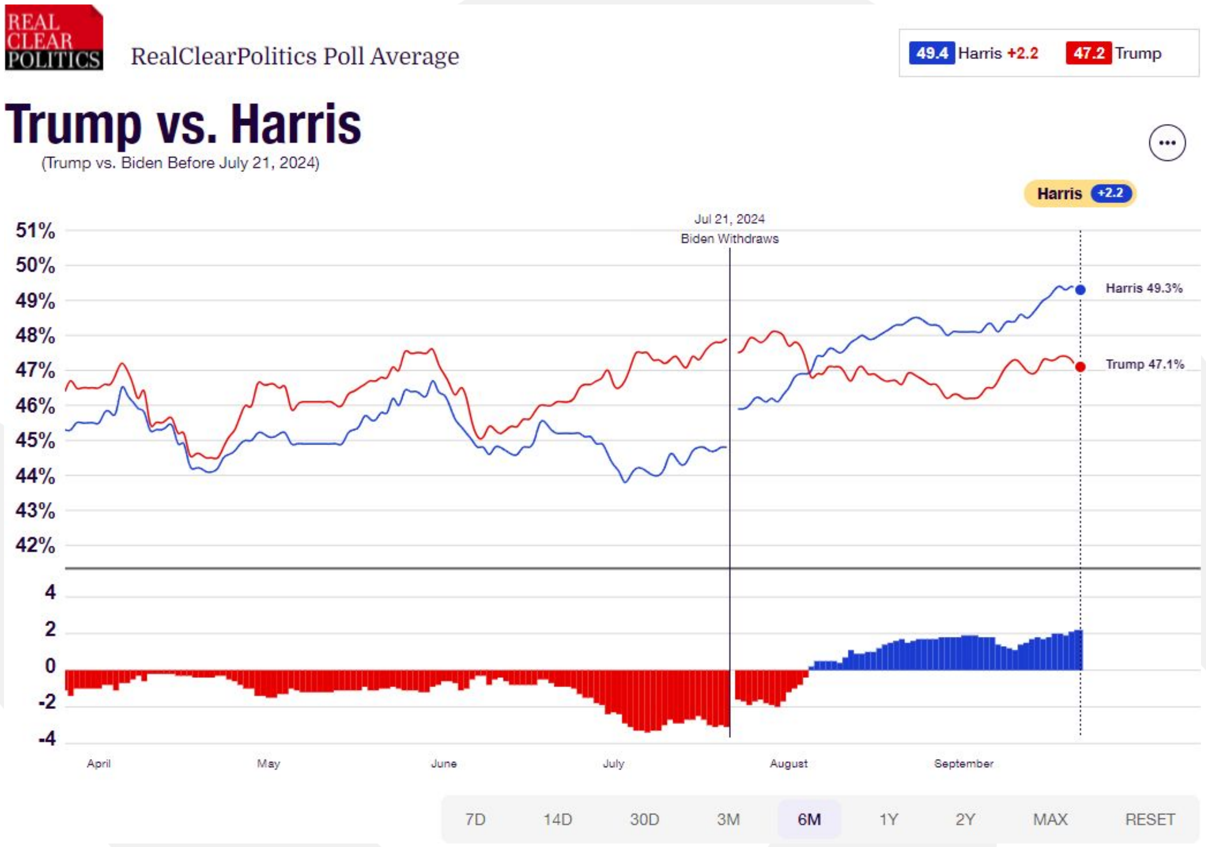
US Presidential Election

- **Citi US Economic Surprise Index rebounded in recent weeks (but still in negative territory), which signals slowdown likely continued at a moderate pace**
- **Conference Board US Leading Index marginally improved (but still in negative territory), which suggests slowdown likely continued at a moderate pace**

BETTING ODDS	HARRIS	TRUMP
RCP Average	53.1	45.4
Betfair	52	43
Betsson	54	48
Bovada	55	46
Bwin	54	48
Points Bet	55	46
Polymarket	50	45
Smarkets	52	42





Source: Real Clear Politics. As of 23 Sep 2024.

Content

October: Policy Combo + Earnings Improvement = A Solid Floor is Set

Recap of previous month:

For September, Hang Seng Index (HSI) staged a spectacular V-shaped rebound and broke through the 21,000 level. The c.18% monthly gain is the strongest monthly return since November 2022, when China reopened after a prolonged Covid lockdown. The rally was driven by the bigger-than- expected US policy rate cut of 50bps and a package of policy stimulus measures announced by China.

Our view for the coming month:

Fundamentally: As we highlighted in our previous monthly report, HSI earnings have clearly improved, driven largely by internet, hardware, commodities companies. With the "policy put" in place and less hostile industry regulation environment, overall earnings is expected to remain at least stable in the near term, in our view.

Technically: We believe the sensitive timing (quarter-end) and very crowded trade status (Short/UW China is a very consensus trade) have amplified the FOMO sentiment and short-squeeze. Coupled with improved fundamentals and policy strength, HSI has reached an extremely overbought level with RSI = 88, which is pretty much a 3-4 sigma tail event.

Conclusion: We believe a solid floor for HSI has been established given the stronger-than-expected policy combo and earnings improvement since 2Q results. We believe the near-term resistance level for HSI in this round of rally is around 20,848 (9.50 x 2,194), which is c.1% below current index level. 9.5x is the 12-month forward P/E reached in May 2024. And 2,194 is the 12-month forward consensus EPS. Given the extremely overbought situation, we believe some near-term correction is likely, which will give opportunities for selective dip-buying in high-quality names.

Can we go higher? The post-reopening peak P/E was 12.06x, which implies a target level of 26,449 based simply on valuation multiple expansion without EPS upgrades. But to get there, we need to see incoming high-frequency data to show improvement in coming weeks. This is pretty much the blue-case scenario and firm improvement is needed.

Other key events to watch for in the coming month: (1) Consumption/Retail/New Home sales performance during the week-long National Day Holiday;
(2) 3Q results and 4Q guidance from Chinese companies; (3) Announcement on size of special sovereign bonds issuance this year (market expectation is 2 trillion yuan)

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October: Policy Combo + Earnings Improvement = A Solid Floor is Set (Cont.)

Source: Bloomberg

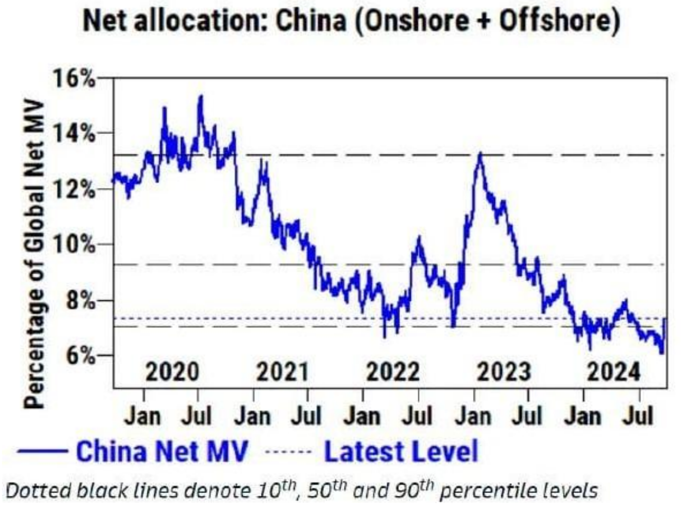
Policies announced by the government so far could raise GDP by 40bp

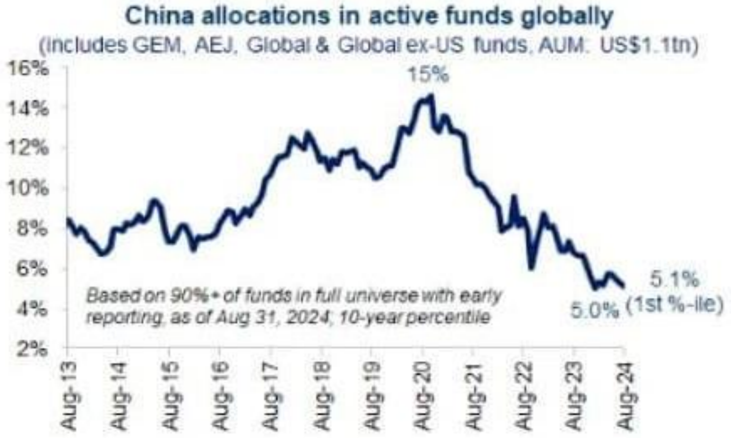
	Easing measures	GDP impact (bp)
Announced by the PBOC on Sep 24	50bp RRR cut (and another 25bp by year-end)	16
	20bp policy rate cut	4
	50bp mortgage rate cut for existing borrowers	10
	10pp cut to second-home buyer downpayments	5
	RMB800bn to support equity market	5
Sub-total		40
Reported (but unconfirmed) in the media	RMB1tn CGSB for bank recapitalization	unclear
	RMB1tn CGSB for consumption	40
	RMB1tn local government refinancing bonds	2

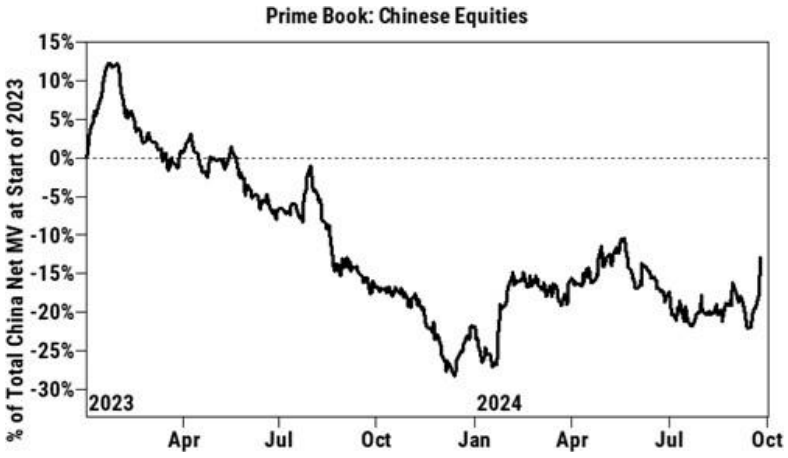
Note: We assume a fiscal multiplier or 0.5 for central government spending. Impact of bank recapitalization is unclear because it depends on whether it boosts new lending.

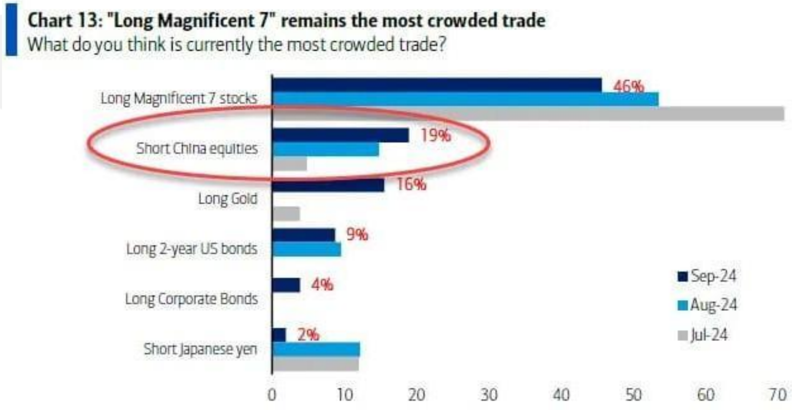
Source: Goldman Sachs

October: Policy Combo + Earnings Improvement = A Solid Floor is Set (Cont.)









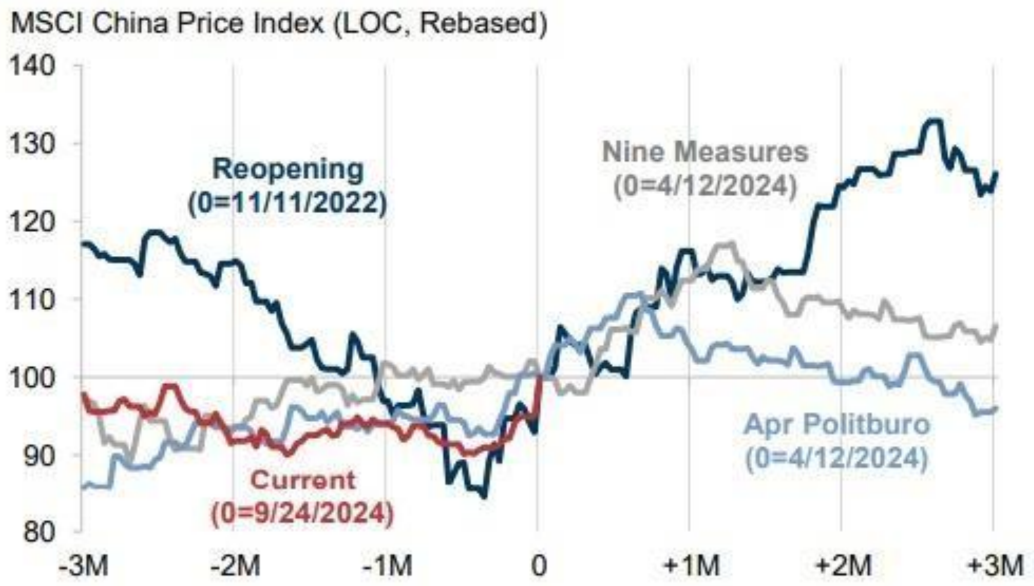
Source: Goldman Sachs

Source: Goldman Sachs, BofAML

October: Policy Combo + Earnings Improvement = A Solid Floor is Set (Cont.)

- In the past 3 policy-driven rallies since 2022, MSCI China Index rebounded 4 to 16% in the next month and -5 to 23% in the next three months
- The initial market response is typically positive in the first month due to knee-jerk effect and then the market will carefully judge the effectiveness of policies before deciding the next major direction – pulled back two times out of three

Exhibit 2: Chinese equities responded positively to the policy news



	Reopening Nov 11, 2022		Nine Measures Apr 12, 2024		Apr Politburo Apr 30, 2024		Latest Sep 24, 2024	
	MXCN	CSI300	MXCN	CSI300	MXCN	CSI300	MXCN	CSI300
-3M	-20%	-12%	5%	7%	16%	12%	-2%	-8%
-1M	-4%	-1%	0%	-3%	7%	2%	1%	-3%
-7D	-2%	-2%	2%	-2%	5%	3%	3%	2%
t=0	8%	3%	-2%	-1%	-1%	-1%	4%	4%
+7D	4%	0%	-2%	2%	4%	2%		
+1M	16%	6%	12%	5%	4%	0%		
+3M	23%	8%	9%	0%	-5%	-7%		

Note (1): MXCN = MSCI China Index
Note (2): Performance prior to the event excludes t=0 day return

Source: FactSet, MSCI, Wind, Data compiled by Goldman Sachs Global Investment Research

Summary of Upcoming major events

Date	Events
3 October	**US – PMI and ISM data** • Meaningful slowdown will re-ignite recession fear
4 October	**US – Job data** • Unemployment rate is the key – Any surprises?
10 October	**US – CPI** • Will the downtick in core CPI continue?
17 October	**US – Retail Sales** • Is consumption still robust?
30 September	**CH – PMI** Will the divergence between official/Caixin PMI continue? Any further deterioration in the official PMI?
14 October	**CH – Export Data** Any slowdown?
21 October	**CH – Loan Prime Rate (LPR)** Any rate cuts to stimulate the economy?

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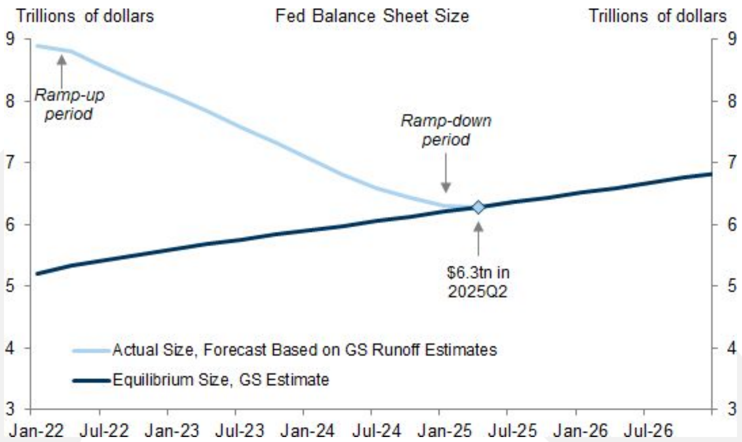
US Market Views: Slower QT ahead of US Election an Intentional Pivot

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

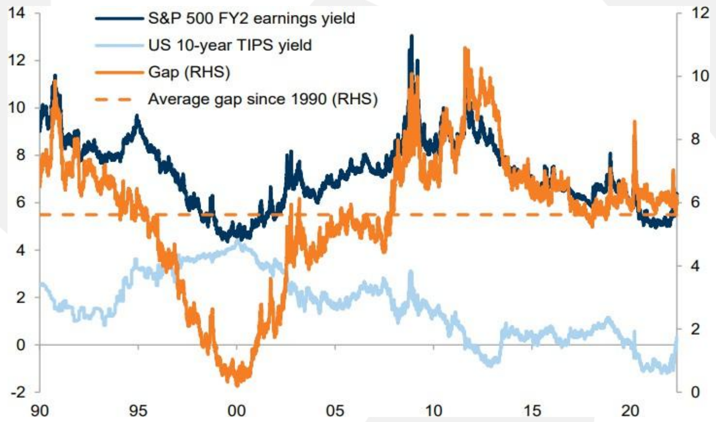
- Fed entered phase 1 (Jun-Aug 2022) of this round of tapering cycle by shrinking its balance sheet by a cap of $47.5bn per month and we are now in phase 2 (since Sep 2022), with the amount increased to $95bn per month; but then in the May FOMC, the Fed announced to slow QT size to $60bn per month starting 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

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

- 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

Major changes vs previous views are highlighted in RED

Putting US/ China Economic Cycles 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; <u>US corporate earnings momentum will weaken further in coming months as impact from the rapid</u> <u>interest rate hikes to ripple through the economy</u>; expect US HY default risks to rise**

- **Our Recommendations:**

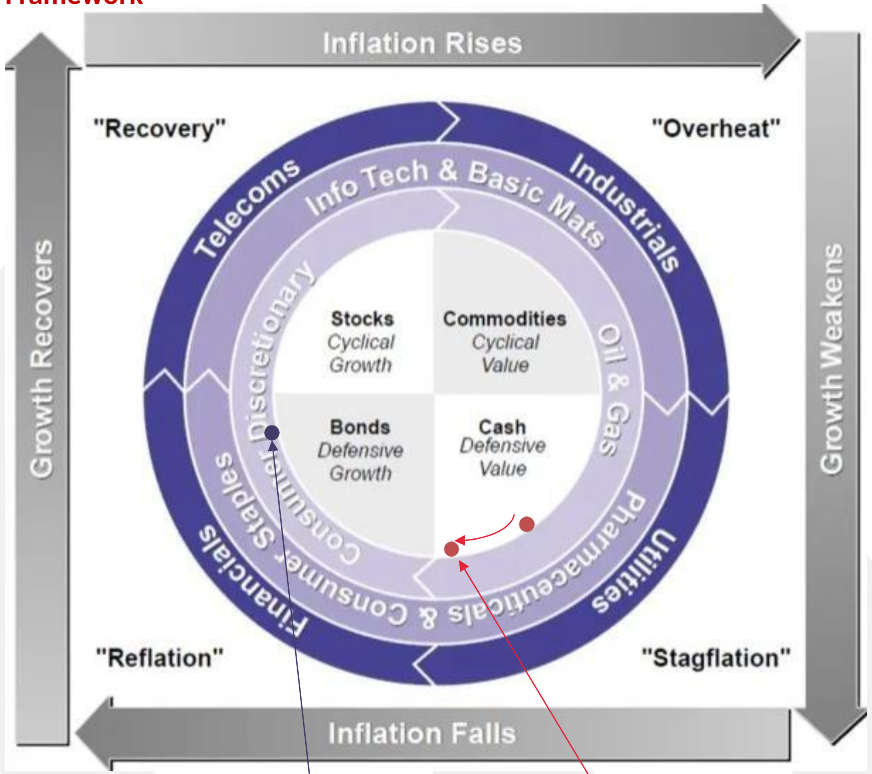
  - **Equity:** **Stay very cautious on loss-making companies with poor cashflow/balance sheet as global interest rate remains elevated**

  - **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

<u>US</u> has moved further to the very-late stage in "stagflation", in our view

<u>China</u> is likely at this point; however it can be heavily swung by China policies

Major Events in 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**

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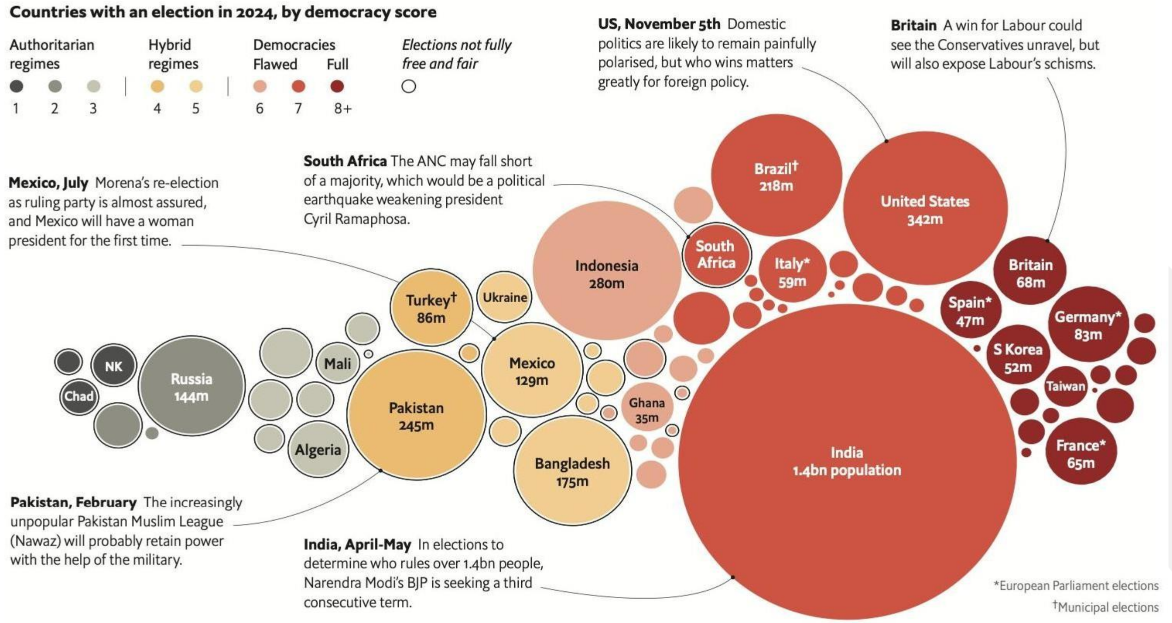
Election calendar for 2024

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
13th **Taiwan** (Presidency, Legislative Yuan)	8th **Pakistan** (National Assembly) 14th **Indonesia** (Presidency, Reg Rep. Council, House of Rep.)	15th-17th **Russia** (Presidency) 31st **Ukraine** (Presidency – may not occur due to martial law)	10th **S. Korea** (National Assembly)	TBC April/May **India** (House of The People)	6th-9th **EU** (Parliament)			16th & 25th **USA** Presidential Debates	1st & 9th **USA** Presidential Debates	5th **USA Election** (Presidency, Senate and House of Rep.)		By Jan 28, 2025 **UK** (House of Commons)



Source: The Economist, JP Morgan

Number of Countries

40 (21% of Global)

Population

3.2bn (41% of Global)

GDP

$44.2bn (42% of Global)

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APPENDIX

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Weaker Global Growth and Tighter Financial Conditions in Most Major Economies

Economics

GDP growth (%)	2024 GS (Q4/Q4)	2024 Cons. (Q4/Q4)	2024 GS (CY)	2024 Cons. (CY)	2025 GS (CY)	2025 Cons. (CY)
Global	2.8	--	2.7	2.6	2.7	2.6
US	2.4	1.6	2.8	2.4	2.2	1.8
China	4.7	4.7	5.0	4.9	4.2	4.5
Euro area	1.4	1.2	0.8	0.7	1.4	1.4

Policy rates (%)	2024 GS	2024 Mkt.	2025 GS	2025 Mkt.
US	4.88	4.91	3.88	4.36
Euro area	3.25	3.26	2.25	2.83
China	1.70	1.85	1.70	--
Japan	0.13	0.36	0.63	0.52

Markets

Interest rates 10Yr (%)	Last	E2024	E2025
US	4.43	4.25	4.10
Germany	2.49	2.25	2.00
Japan	1.00	1.25	1.80
UK	4.17	3.75	3.75

Commodities	Last	3m	12m
Crude Oil, Brent ($/bbl)	82	87	82
Nat Gas, NYMEX ($/mmBtu)	2.84	2.70	4.00
Nat Gas, TTF (EUR/MWh)	34.64	30	32
Copper ($/mt)	10,295	10,500	13,000
Gold ($/troy oz)	2,408	2,600	2,700

FX	Last	3m	12m
EUR/$	1.08	1.05	1.08
GBP/$	1.27	1.24	1.28
$/JPY	156	155	150
$/CNY	7.22	7.30	7.20

Credit (bp)		Last	1H24	2H24
USD	IG	87	89	90
	HY	300	297	291
EUR	IG	121	121	120
	HY	328	341	336

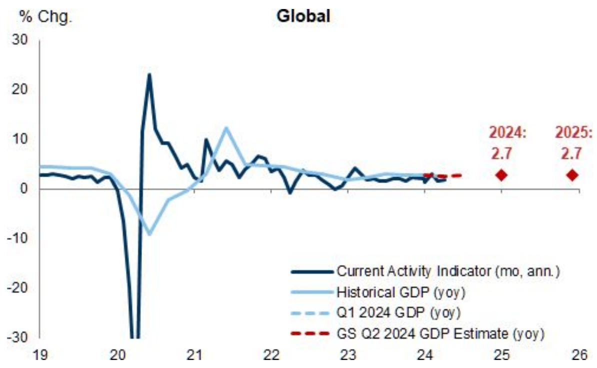
Equities

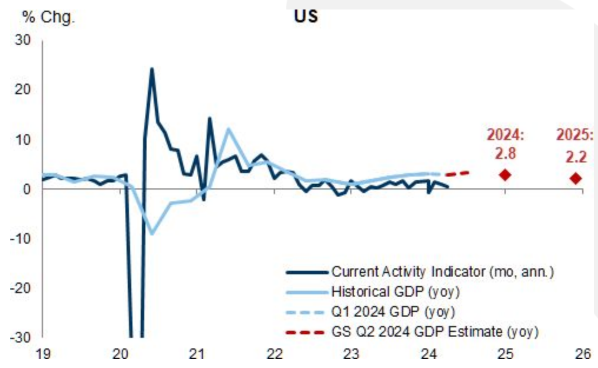
S&P 500	E2024 GS	E2024 Cons.	E2025 GS	E2025 Cons.
Price	5,200	--	--	--
EPS	$241	$244	$256	$278
Growth	8%	10%	6%	14%

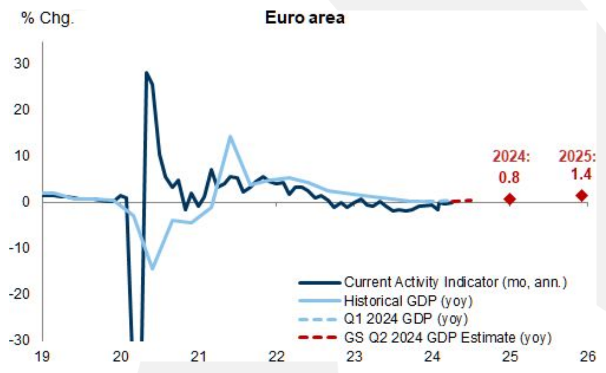
Returns (%)	12m	YTD	E2024 P/E
S&P 500	-2	11.3	22.2x
MXAPJ	2	7.5	14.7x
Topix	6	15.7	16.1x
STOXX 600	4	8.8	14.3x

Consumer	2024 CPI (%, yoy)	2024 Unemp. Rate	2025 CPI (%, yoy)	2025 Unemp. Rate
US	3.3	3.8	2.7	3.7
Euro area	2.4	6.7	2.1	6.7
China	0.4	--	1.5	--

Wage Tracker 2024 (%)	Q1	Q2	Q3	Q4
US	4.3	--	--	--
Euro area	--	--	--	--
China	--	--	--	--





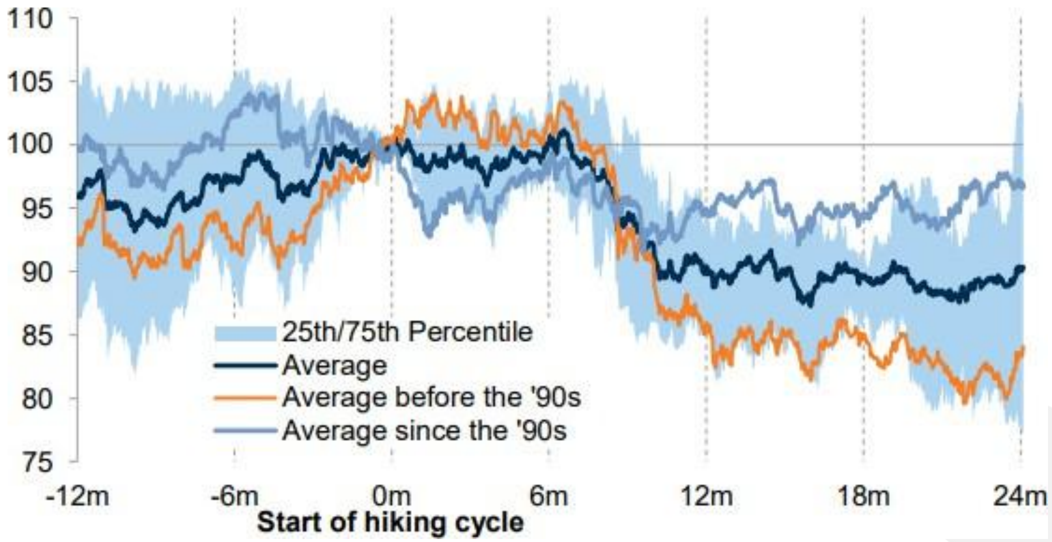


Source: Basis Asset Management, Bloomberg, Goldman Sachs. Data as of 24 May 2024.

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

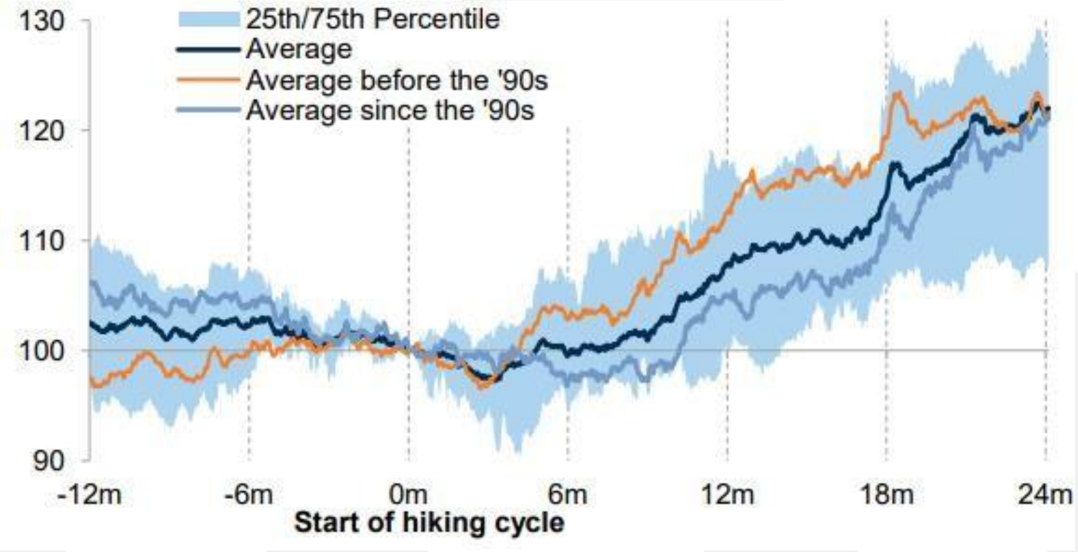
Equity valuations de-rated on average during Fed rate hike cycles

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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Knowledge

格致

Integrity

誠信

Professional

專業