<u>Market Commentary – 2022.06.28</u>

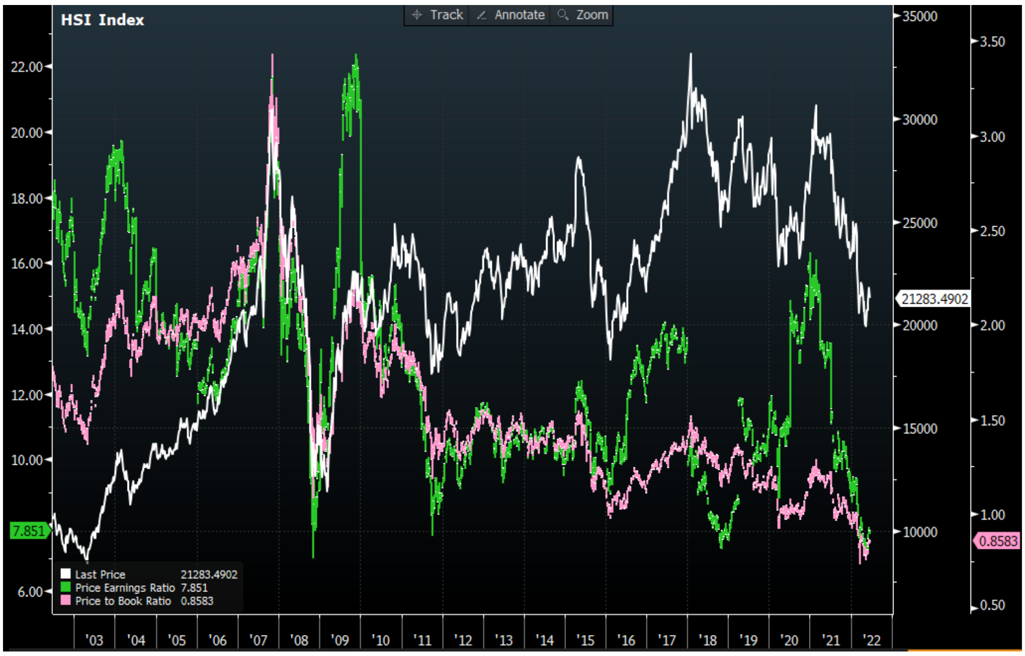
Thoughts on the latest macro developments:

- Market participants are focusing on hawkish actions (monetary tightening) of global central banks
- Consensus is for inflation to stay elevated and global interest rates to ratchet up quickly
- Rising costs of borrow may lead to further asset repricing, especially among companies with weak balance sheets and little to no cash flow
- Risk of recession has increased, with hope that it will be shadow and short-lived
- Stagflation risk is a concern, though by no means inevitable as there are signs of inflation pressure easing, especially on COVID-induced supply chain bottlenecks, shipping/logistics quagmire (transportation costs)
- Deglobalization or trade regionalization may lead to long-term need to strengthen national security/defense, energy self-sufficiency, infrastructure – potentially supporting commodity and basic material prices
- Geopolitical and ideological conflicts could affect European growth in the short term
- Despite falling into a bear market, US equities remain unattractive from a valuation perspective
- Attractive valuations in Hong Kong stocks at multi-year lows after underperforming global peers over the past two years

US: S&P 500 Valuation

The price-to-book ratio (pink line) has only fallen back to 2020 levels. The price-to-earnings ratio (green line) has fallen more, to roughly the average over the past 20 years. However, there is strong chance of slowdown in corporate earnings, which will drive PER back up, making current levels less attractive.

HK: Hang Seng Index Valuation



The price-to-book ratio (pink line) is at its lowest level in the past 20 years. The P/E ratio (green line) is at its lowest level since 2018. Additionally, whenever PER fallen to around current levels in the past, the index tended to be at an inflection point and then to bounce higher.

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