Market Commentary – 2023.04.28

Comments on notable macro developments:

- Economic-related:
  - Despite concerns and warnings from various investment gurus, global economy continues to hum along with major economic blocs reporting expansion of demand, especially on services related activities *(see Chart 1).* While manufacturing activities remain mired in contraction territory, there are clear signs of improvement.
  - In the US, many of the big tech companies are trimming head count, a belated rectification of over aggressive expansion during the pandemic years. But the economy has been more than able to absorb any spare workers as the near record low unemployment rate indicates. A robust labor market continued to boost personal income and spending.
  - Inflationary pressure across major economies has been on the mend, albeit at different pace. However, it would likely take an extended period of time before inflation reaches the desired levels as set by various major central banks *(see Chart 2)*.
  - After last year's rapid interest rate hike (the quickest pace since the early-80s), most central banks have trimmed the magnitude of rate hikes lately. Expectations are for interest rates to peak out some time this year *(see Chart 3).*
  - Global tourism is firmly recovering. In Asia, common destinations such as Japan and South Korea are seeing tourist arrivals reaching about 70 percent of levels at end-2017 *(see Chart 4).* The number of tourist arrivals could be higher but is restricted by limited passenger capacity as airline operators are having difficulty to quickly return idled airplanes to operation. The situation is expected to improve towards the important summer months and the peak holiday season at year end.
  - Since early-March, three small and medium sized banks have failed in the US and one of the largest banks in Switzerland, namely Credit Suisse, has been bought by a larger rival. The events have caused much anxiety and concerns that more bank failures might follow. However, we have examined the reasons behind such failures and believe these are company-specific incidents rather than signs of systemic risks that could trigger a domino effect across the global banking sector. This can be seen in the different behavior of share prices of various banks (see Chart 5), whereby the large and systemically important banks are little affected.

- Political-related:
    - Treasury Secretary Janet Yellen warned that the US government could become unable to finance itself as soon as early-June if Congress does not pass new legislation to raise the country’s debt ceiling. This is the latest warning from among the highest-level US government officials of the precarious state of public financial situation. The situation warrants careful monitoring though unlikely to cause anything catastrophic.
    - The last thing when the US Congress came close to not extending the debt ceiling in 2011, Standard & Poor reduced the US’s credit rating from the pristine AAA to AA, and as a consequence Treasury Department needed to pay higher interest rates to borrow that amounted to US$1.3 billion, which in the grand scheme of things was a paltry amount compare to the country’s outstanding debt.

Chart 1 – Purchasing manager indexes for the world’s Big-4 economies (namely, US, EU, China & Japan, which together accounted for about 70 percent of global GDP) showed continued rebound of business activities especially for services (except for US services, all data are updated to month of April).

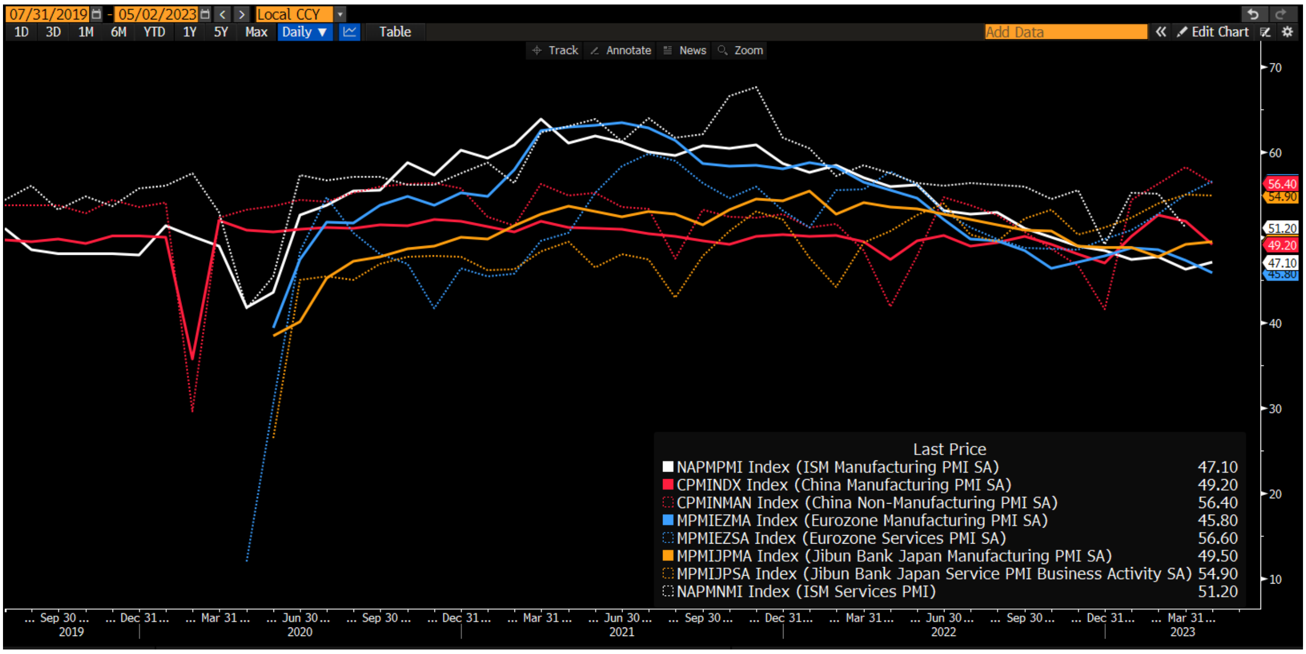

Chart 2 – Inflation (as represented by Consumer Price Index, CPI) among major economies have all began to trend lower, with the UK (green line) seeing the most stubborn inflation. With business activities among major economies humming along, and indeed showing signs of pick up, inflation may ease further but not likely to fall to low levels seen during the past decade

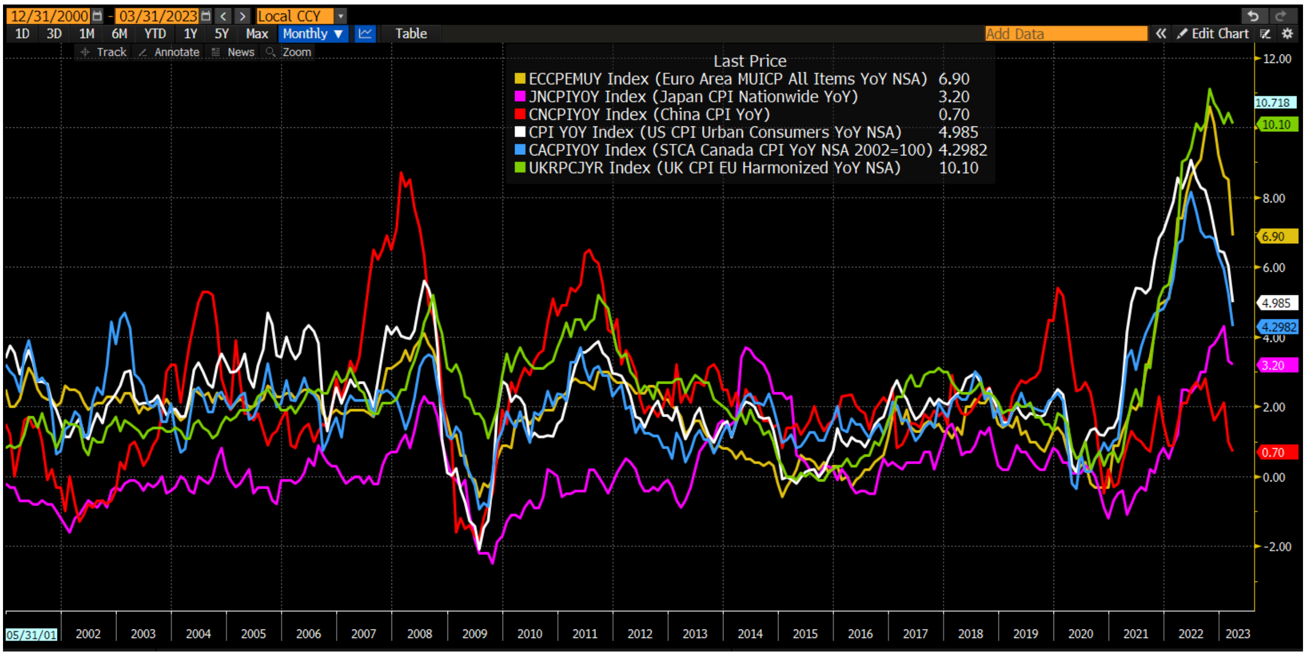

Chart 3 – After the most aggressive rate hike cycle for most central banks of major economies, it is widely expected peak-rate could be reached some time within this year

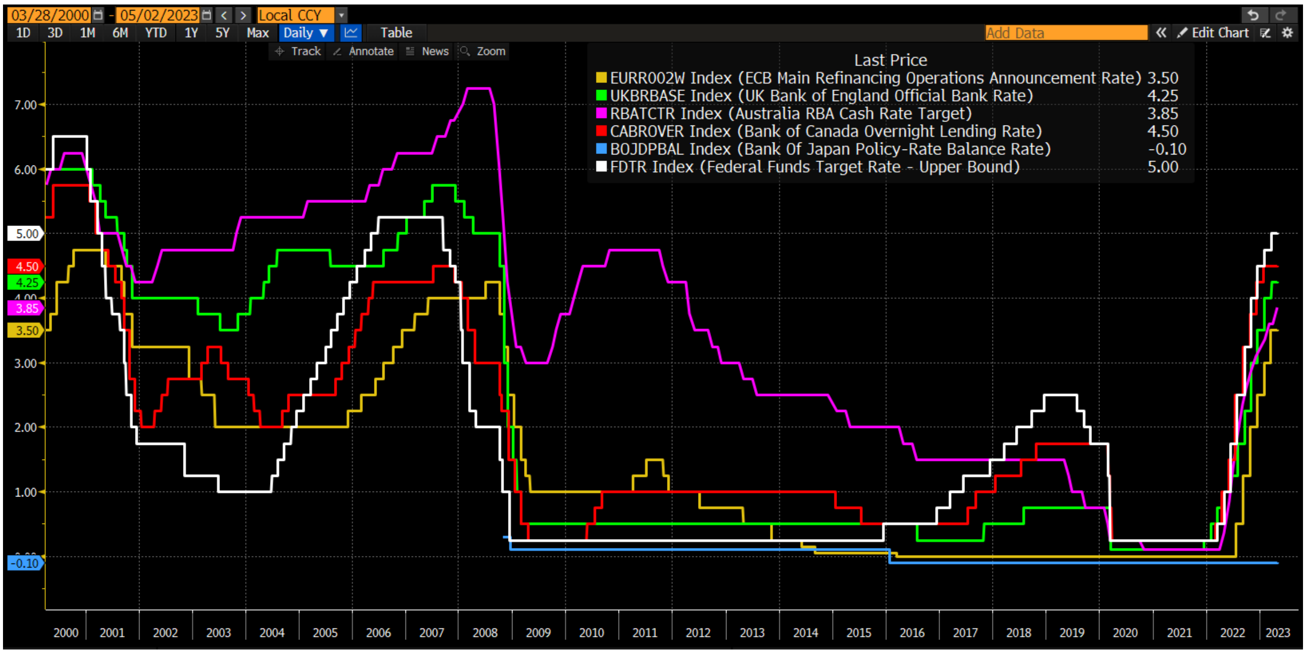

Chart 4 – Tourists arrivals for popular Asian destinations continued rebounding after travelling resumed, with Japan and South Korea leading. For both countries, tourist arrivals have rebounded to over 70 percent of levels at end-2017. With more and more carriers ramping up passenger capacity, the rebound should climb further during the summer months and also year-end peak season

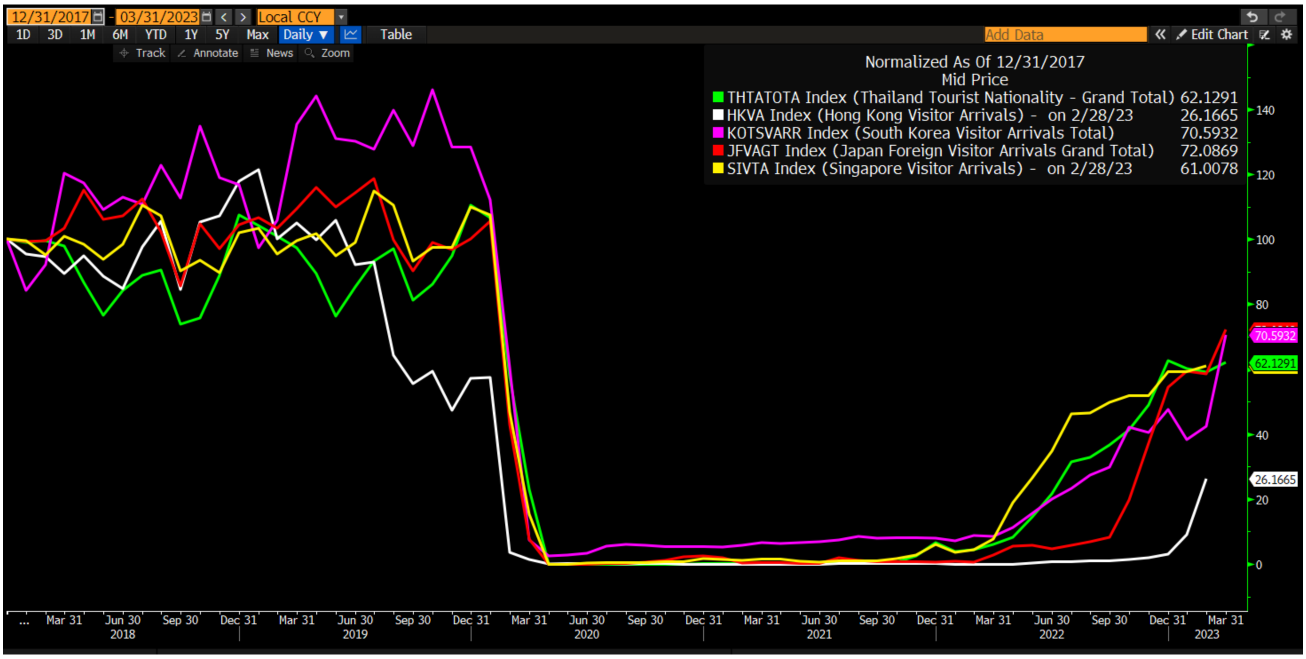

Chart 5 – Comparison of bank shares (year-to-date) shows that market has made a clear distinction between failed banks (including Silvergate Bank, Silicon Valley Bank and First Republic Bank) and solid banks (including JP Morgan, UBS and Deutsche Bank)

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