<u>Market Commentary – 2023.06.29</u>

Comments on notable macro developments:

- Economic-related:
  - Investment markets are casting more concerns on global economic growth as Germany, being the largest nation in Europe, has recently slipped into technical recession (having recorded two consecutive quarters of QoQ decline in GDP), and also slowing in economic activities in EU and Japan (as depicted by purchasing manager index, *see Chart 1).* However, we deemed the recent slowing is reasonable outcome due to aggressive rate hike by major central banks in the last year as well as seasonal factor (Q2 is typically the slowest quarter for most businesses). We maintain faith that global economy is able to withstanding higher interest rate and will revert to moderate expansion with the aid of growing tourism activities in the second half of the year.
  - As widely expected, the US Federal Reserve has called off rate hike in its June FOMC meeting. Yet, Fed Chair Jerome Powell, as well as other Fed officials, have sternly reminded investors that the decision for a pause is to allow for more time to observe the impact of the series of rapid rate rise to the economy. It remains open to more rate hikes as deemed appropriate based on future state of the economy. However, the latest reading on inflationary front seemed to suggest the stubborn services inflation is finally easing more convincingly *(see Chart 2)*. We are of the view that there's possibility that the US Fed could be done in the current rate hike cycle.
  - Despite broad based concern among investors of global economic growth, several economically sensitive sectors have performed well over the past year *(see Chart 3)*, with technology, industrials and consumer discretionary, being the top performing sectors. As more and more investors abandoning their worst-case scenario assumptions and transiting to a reflationary trade strategy, it is likely that other lagging economic related sectors would play catch up in the second half and beyond.
  - Global tourism continued the path of recovery. In Asia, common destinations such as Japan, South Korea and Singapore are seeing tourist arrivals recovering to over 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.

- Political-related:
  - Top officials from the US and China have resumed in-person contact, with the postponed visit by US Secretary of State Anthony Blinken in Beijing, particularly notable. The visit has also pathed the way for an ultimate meeting later this year between US President Joe Biden and General Secretary of the Chinese Communist Party Xi Jinping possible. Next in line planning a visit to China is US Treasury Secretary Janet Yellen that may take place sometime in July.
  - Recent economic data from China indicate strong need for more supportive policies from both monetary and fiscal wings. In addition to domestic measures, Chinese Premiere Ji Quang had tried to woe international companies in his first visit to Europe. The trip took on a sense of urgency given foreign direct investment into China has seen a gradual and persistent decline in recent years.

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 & China, all data are updated to June).

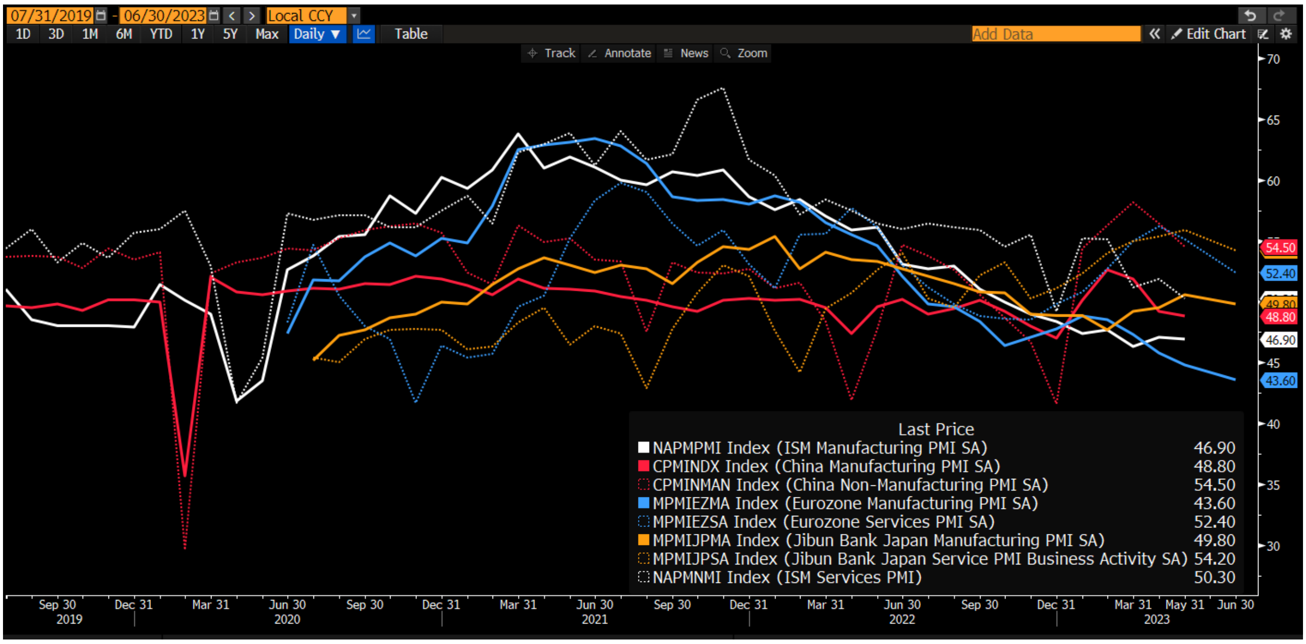


Chart 2 – Inflation measures for US are showing consumer prices have been on a downward trend since mid-2022, albeit not as fast as the Fed would like to see. Having said that, there are signs that the stubborn services inflation is showing stronger hint of easing as depicted by the Supercore CPI measure (light blue line in the chart).

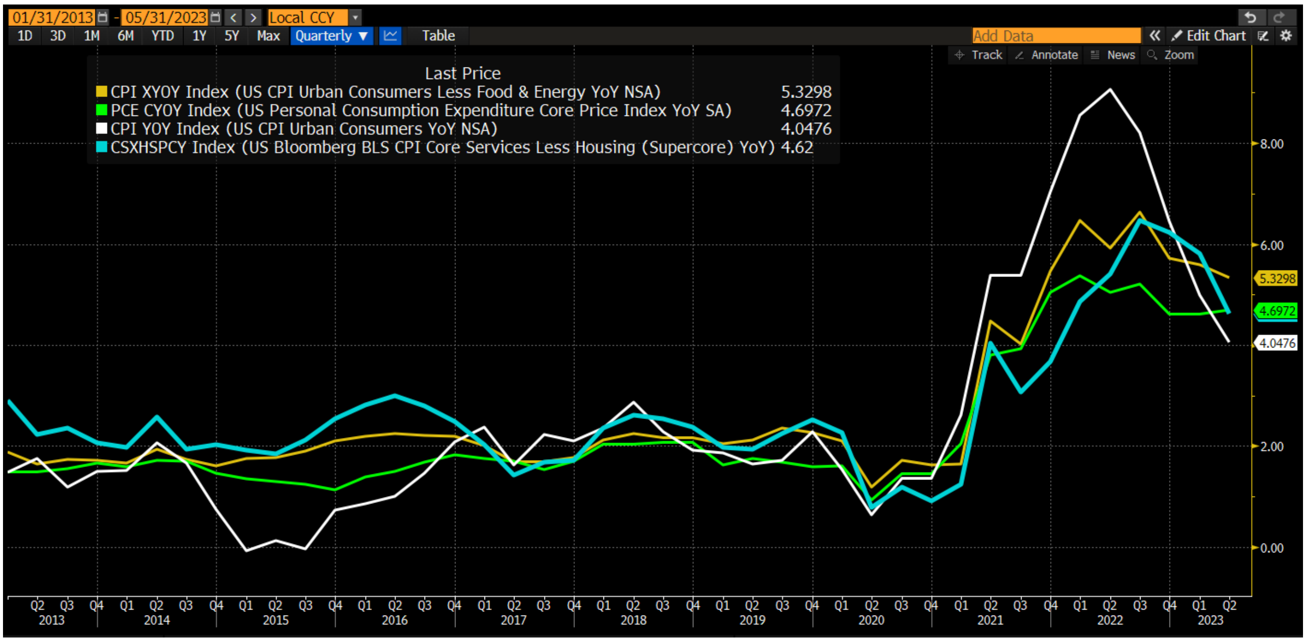


Chart 3 – Major sector sub-index ETFs over the past year showed economically sensitive sectors, notably global technology, industrials and consumer discretionary, have performed well

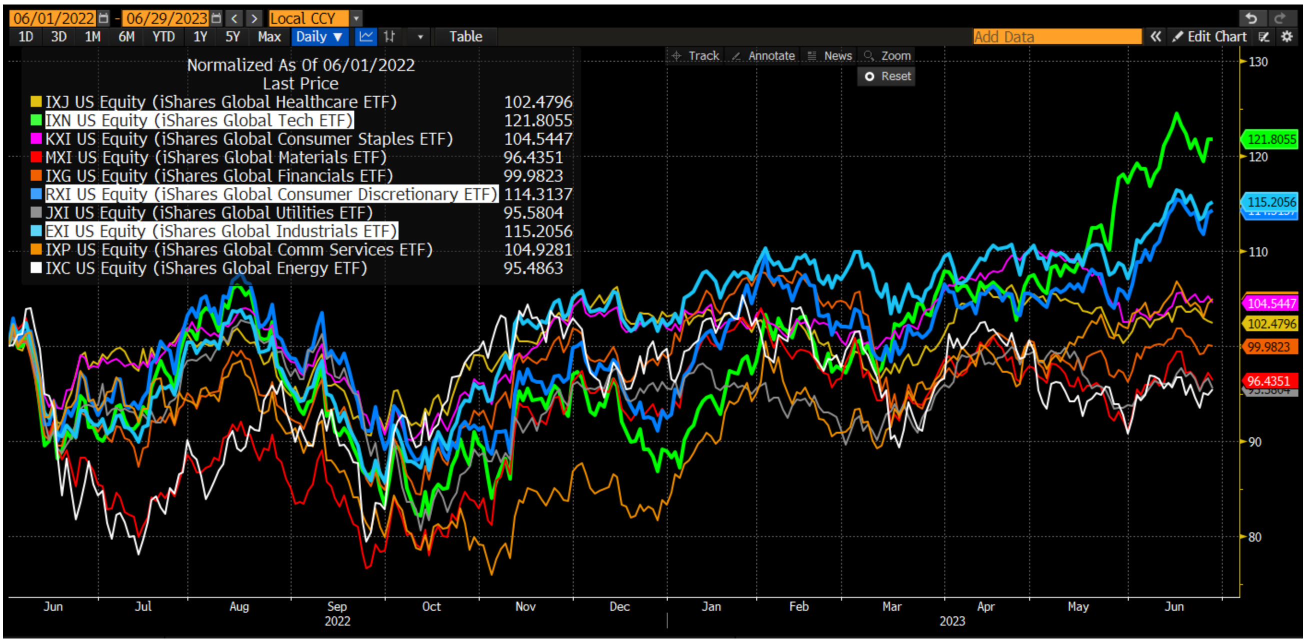
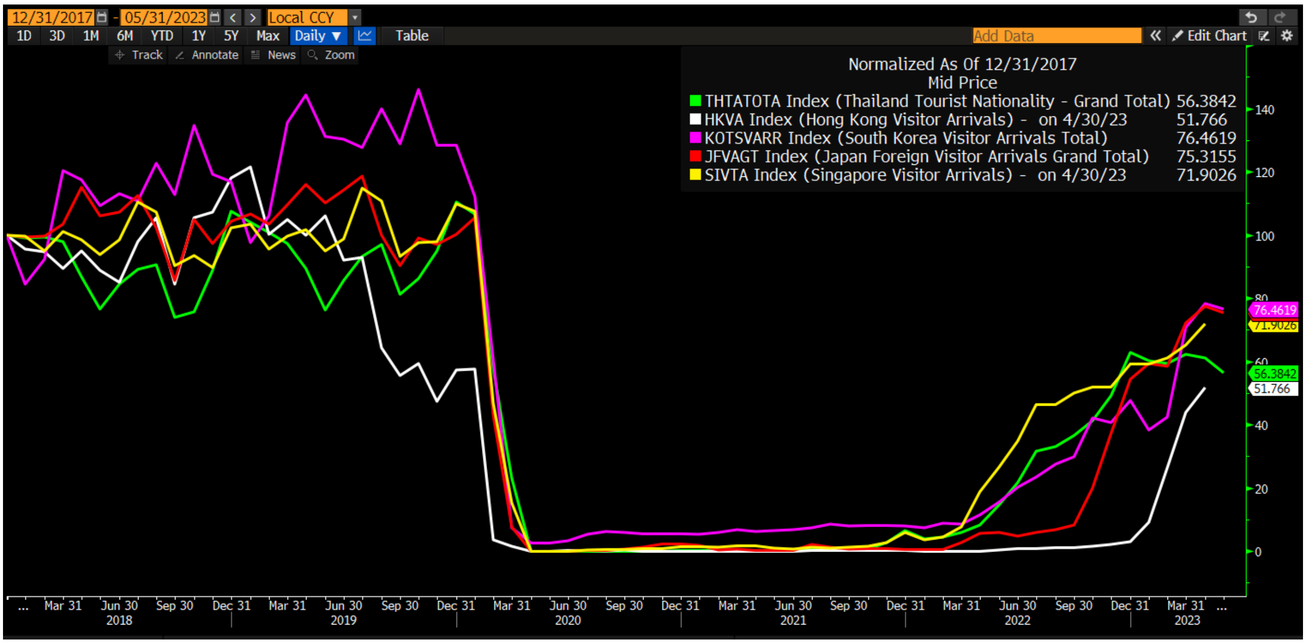


Chart 4 – Tourists arrivals for popular Asian destinations continued rebounding, with Japan, South Korea and Singapore all seeing tourist arrivals rebounded to over 70 percent of levels at end-2017. While tourist arrivals for the month of May have dropped a bit, this is highly normal as Q2 is usually a bit soft due to seasonality factor. With more and more carriers ramping up passenger capacity, the rebound should climb further during the summer months and year-end peak seasons.



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