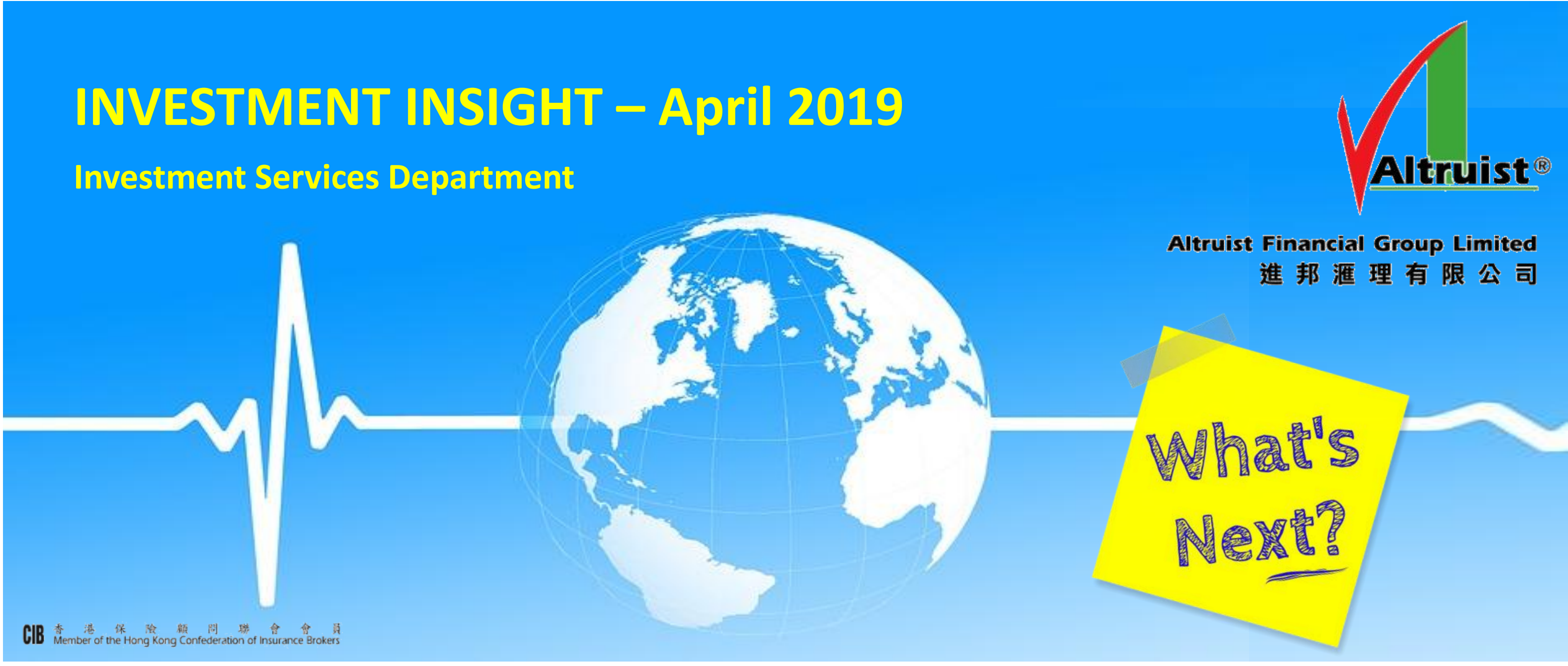
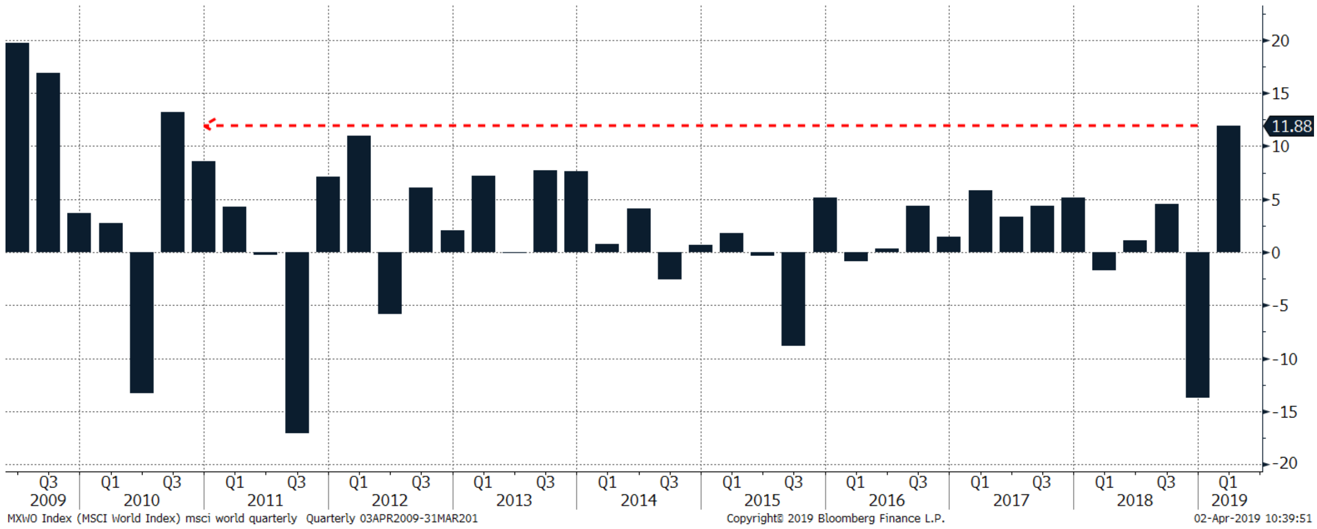


Markets Rebounded, What's next?

If we describe the investment markets being performed horribly in 2018, it is thought that they were fabulous in the first quarter of 2019. Last year, almost all asset classes delivered negative returns. However, as mentioned in the previous "Investment Insight", the valuation of many major stock markets had significant discount from the historical average at the end of 2018 and demonstrated an attractive risk-to-reward ratio. Almost all major stock markets started to rebound in early January and the MSCI World index finally advanced 11.88% in the first 3 months of 2019 which was its best performing quarter since 2010. Among all major stock markets, the performance of the Chinese A-shares was the most eye-catching. After 23% decline in 2018, the CSI 300 Index surged 28% in the 1st quarter of 2019.

EXHIBIT 1: The MSCI World Index rebounded almost 12% in the 1st quarter of 2019



Source: Bloomberg (as at 29/03/2019)

As there were more signs of global economic slowdown, most of the central banks in the world have taken dovish turns and the performance of fixed income also advanced in response. As of 29 March 2019, the Bloomberg Barclays Global Aggregate Index and the Bloomberg Barclays Global High Yield Index have risen 2.2% and 6.33% respectively this year. The first 3 months of 2019 was also the best performing quarter for global high yield bond since the 1st quarter of 2012.

Apart from this, the commodity markets also followed the rally as well. The Bloomberg commodity Index gained 5.7% in the first quarter and crude oil paced the advance. After plummeting about 40% in last year end, oil price has rebounded nearly 30% this year, capping its best quarter since 2009. Russia and other OPEC countries have squeezed production in response to a growing oversupply. At the same time, the U.S. sanctions against Venezuela and Iran also tightened the oil supply.

The investment markets were extraordinary in the first quarter of 2019 since almost all major investment classes were rising. However, it seems that the market rally was not supported by economic fundamental as signs of economic slowdown have started to appear in various parts of the world recently. According to the latest forecast from the International Monetary Fund("IMF"), 70% of the global economy was projected to decline in growth in 2019, and the global economic growth forecast this year was cut to 3.3%, the lowest level since the financial crisis and it was IMF's third downward revision in 6 months.

Instead, it is thought that the recent bullish sentiment is more likely driven by market liquidity. The central banks and governments of those major global economies have recently provided several different kinds of economic supportive measures. It appeared that those countries will not have monetary tightening in the near term and abundant of cash is available in the market. Besides, different major investment asset classes have experienced sharp corrections in the last quarter of 2018 and their valuations were attractive again and caused a significant rebound in the first three months of 2019.

TABLE 1: Recent fiscal and monetary supportive measures in the U.S., Eurozone and China

U.S.	• The Fed expected rates to remain at current levels at least until the end of this year, compared to last December's projection of 2 rate hikes. • The Fed decided to stop unwinding its balance sheet at the end of September 2019, a further step back from monetary tightening.
Eurozone	• In order to encourage bank lending, the European Central bank ("ECB") will launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. • The ECB also expected the rate to remain at present level at least until the end of 2019 and reaffirmed it would keep reinvesting cash from maturing bonds for an extended period of time.

China	• The People Bank of China has cut the reserve required ratio by 1% in January this year. • A reduction of value-added tax rate applied to manufacturing, construction & transport and services sectors, effective from 1st April 2019. • A reduction of social insurance cost for employers, effective from 1st May 2019. • Will invest RMB 577.6 billion (US$86.12 billion) in infrastructure in 2019, an increase of RMB 40 billion (US$5.96 billion) compared to last year. • Raised the local governments' special bond issuance quota from RMB 1.35 trillion (US$201.3 billion) to RMB 2.15 trillion (US$320.8 billion).

Source: Bloomberg (as at 29/03/2019)

After the rebound, the valuation of many stock markets has "reversed to mean". They are not cheap but still not very expensive. As mentioned, the market currently is full of liquidity; it is believed that sharp market correction, like the one in the last quarter of 2018, is unlikely to happen in the near term although geographical concerns, including Brexit, China-U.S. trade negotiation, the 2020 presidential election cycle in the U.S. may still cause market volatility.

TABLE 2: The current valuation of major global stock indexes is close to average

	Price-to-Earnings Ratio				
Index	**Current**	**End of 2018**	**5-year Average**	**Highest**	**Lowest**
Hang Seng Index	11.33	10.05	11.50	14.18 (8 June 2017)	8.94 (2 Dec 2016)
CSI 300 Index	14.61	11.33	14.31	22.48 (15 June 2015)	9.47 (16 May 2014)
S&P 500 Index	18.69	16.49	19.41	23.39 (26 Jan 2018)	15.41 (24 Dec 2018)
MSCI Asia (Ex Japan) Index	13.60	12.12	13.25	20.26 (18 Dec 2017)	10.44 (24 Aug 2015)

Source: Bloomberg (as at 29/03/2019)

Whether the market uptrend will continue, it should come back to the fundamental factors. There is no doubt that the global economy is slowing down, but it is believed that the risk of recession is still low and can be avoided as the governments and central banks of those global major economies have realized the risk and adopted accommodating fiscal and monetary policies. From the recent economic data released in China, it seems that the second largest economy in the world has shown signs of recovery and it is the good news to the globe. We are cautiously optimistic about the overall investment outlook in the coming quarter. It is anticipated the investment markets could maintain moderate growth after they experienced both sharp corrections and rebounds in the past 2 quarters.

TABLE 3: Global Stock Markets Performance

	2019 Q1 Return		2018 Full Year Return	
Indexes	**Local Currency**	**USD**	**Local Currency**	**USD**
Dow Jones Industrial Average	11.81%	11.81%	-3.48%	-3.48%
Euro STOXX 50	12.29%	10.03%	-11.78%	-16.05%
Euro STOXX 600	13.27%	10.99%	-10.65%	-14.96%
DAX	9.16%	7.06%	-18.26%	-22.21%
CAC 40	13.39%	11.10%	-9.15%	-13.54%
Nikkei 225	6.81%	6.46%	-10.39%	-8.63%
Hong Kong Hang Seng	12.84%	12.58%	-6.73%	-6.81%
Hang Seng China Enterprises	12.40%	12.14%	-8.09%	-8.17%
Shanghai Stock Exchange Composite	23.94%	27.01%	-22.74%	-26.91%
Shanghai Shenzhen CSI 300	28.66%	31.84%	-23.64%	-27.76%
Singapore FSSTI	5.10%	5.71%	-6.47%	-8.28%
Korea KOSPI	4.88%	2.81%	-16.78%	-20.07%
Taiwan TWSE	9.39%	8.24%	-4.95%	-7.66%
India SENSEX	6.70%	8.00%	7.23%	-1.76%
Indonesia JCI	4.45%	6.40%	-0.28%	-6.69%
Thailand SET	5.79%	8.38%	-8.09%	-8.01%
Russia RTS	12.71%	12.71%	-2.11%	-2.11%
Brazil IBOV	8.56%	7.79%	15.03%	-1.79%
S&P Pan Arab Composite	9.79%	9.79%	10.41%	10.41%
MSCI World	12.65%	12.65%	-8.19%	-8.19%

Source: Bloomberg (as at 29/03/2019)

TABLE 4: Major Currencies Performance (In terms of USD)

	Change in 2019 Q1	Change in 2018
Currencies	**In terms of USD**	
Euro	-2.17%	-4.48%
British Pound	2.20%	-5.62%
Japanese Yen	-1.06%	2.73%
Hong Kong Dollar	-0.23%	-0.23%
Chinese Renminbi (CNY)	2.48%	-5.41%

Australian Dollar	0.67%	-9.73%
New Zealand Dollar	1.27%	-5.34%
Singapore Dollar	0.53%	-1.97%
Korean Won	-1.70%	-4.05%
Taiwanese Dollar	-0.36%	-2.97%
Indian Rupee	0.90%	-8.46%
Indonesian Rupiah	1.05%	-5.71%
Thai Baht	2.55%	0.10%
Russian Ruble	6.22%	-17.34%
Brazilian Real	-1.17%	-14.61%

Source: Bloomberg (as at 29/03/2019)

Review Highlights and outlook around the globe:

U.S.

- The U.S. economy cooled more than expected in the final quarter of 2018, it grew at 2.2% annualized rate, well below the initial estimate of 2.6% and 3.4% growth in the previous quarter. Personal consumption expenditure and nonresidential fixed investment rose less than expected while public spending declined. Considering the full year of 2018, the economy advanced 2.9%, the most since 2015, and above 2.2% in 2017.

- Although the ISM Manufacturing PMI rose to 55.3 in March, recovering from a 2-year low in February, the expansion of service sector in the U.S. cooled off in March and was the weakest since August 2017. The ISM Non-Manufacturing PMI index slumped to 56.1 in March from 59.7 in February, below the market expectations of 58.

- The March non-farm payrolls in the U.S. showed 196,000 job increment, recovered from only 33,000 jobs gain in February. However, wage growth slowed to 3.2% from 3.4%, and the manufacturing sector surprisingly lost 6,000 jobs in March, the first decline in factory payrolls since July 2017.

- Due to the declining mortgage rate, the new home sales in the U.S. rebounded to the best pace in almost a year and exceeded estimates in February. According to the data from the Commerce Department, the Single-family home sales rose 4.7% to a seasonally adjusted annual rate of 667,000 units in February, the highest level since March 2018. January's sales pace was also revised up to

636,000 units from the previously reported 607,000 units. New home sales in the South, which accounts for the bulk of transactions, rose 1.8% in February to their highest level since July 2007. Sales surged 26.9% in the Northeast and jumped 28.3% in the Midwest while there was no change in the West.

- The Federal Reserve held the target range for the federal funds rate at 2.25-2.5% during its March meeting and lowered its forecast for US economic growth. The policymakers lowered its 2019 growth forecast to 2.1%, compared to the previous estimation of 2.3%; and that for 2020 was also cut to 1.9%, compared to 2% while the 2021 growth forecast remained unchanged at 1.8%. In addition, the Fed officials also decided to slow the drawdown of the U.S. central bank's bond holdings starting in May, and then end them in September. The interest rate now is expected to remain at current level at least until the end of the year, compared to December's projection of two rate hikes.

- The S&P 500 index tumbled 14% during the last 3 months of 2018, and then rallied 13% during the 1st quarter of 2019 and was only around 3% away from the historical high. Looking ahead, the result of the trade negotiation between the U.S. and China may still impact the market. However, it is thought that the economic data and corporate earnings released in the coming months will be more influential to determine the medium-to-long term outlook of the U.S. stock market. So far, the U.S. economy is the most robust among those developed countries as it still maintains strong economic growth with the lowest unemployment rate in almost 50 years. For this reason, we are still positive towards the investment outlook of the U.S. stock market.

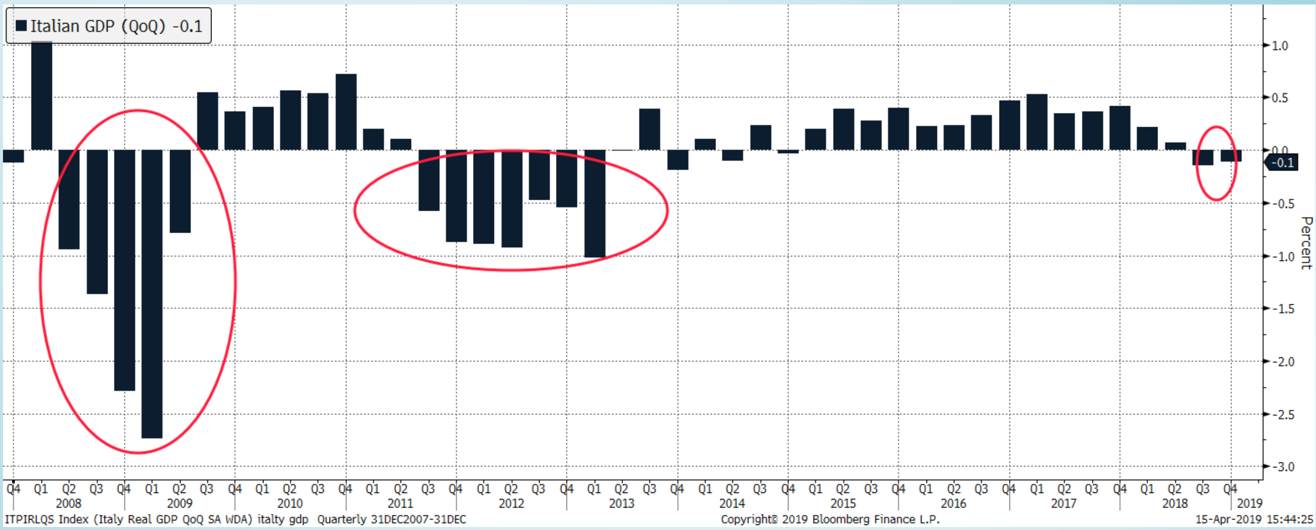
EXHIBIT 2: After the rebound, S&P 500 was only around 3% away from historical high

Source: Bloomberg (as at 29/03/2019)

Europe

- Eurozone's economy was slowing. In the 4th quarter of 2018, the region's economic growth was 0.2%, the lowest since the 2nd quarter of 2014 and slightly higher than the previous period of 0.1%. Among the bloc's largest economies, the Italian economy contracted 0.1% and it was the second straight quarter of GDP decline, throwing the country into recession for the third time in a decade. For the full year of 2018, the GDP of the Eurozone rose 1.8%, compared to 2.4% in 2017.

EXHIBIT 3: The Italian economy fell into recession for the 3rd time in a decade



Source: Bloomberg (as at 29/03/2019)

- Due to the rising concerns over trade wars and political uncertainty, manufacturing operating conditions in the Eurozone deteriorated to the greatest degree for nearly 6 years in March, the IHS Markit Eurozone Manufacturing PMI posted a level of 47.5, down from 49.3 in February and its lowest level since April 2013. March marked a second successive month that the PMI has posted below the 50 no-change mark. Looking at the data by country, the region’s three biggest economies, Germany, France and Italy, all were in the contraction zone during March. On the other hand, the service sector still maintained moderate growth as March’s IHS Markit Eurozone PMI Services Business Activity Index rose to 53.3, from 52.8 in February.

- During the meeting in March, the European Central Bank (“ECB”) held its benchmark refinancing rate at 0% and expected to remain at their present levels at least through the end of 2019. Besides, the ECB decided to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations aim at providing incentives for banks to increase lending to businesses and consumers, so as to boast economic activities.

- European Union ("EU") leaders have granted the UK a six-month extension to Brexit and the new deadline will be on 31 October 2019. So far, the UK parliament has rejected the withdrawal agreement that Prime Minister Theresa May reached with other European leaders last year and they have voted against leaving the EU without a deal. At the same time, the EU has also ruled out any renegotiation of the withdrawal agreement. It seems that the delay relieves the immediate pressure but the deadlock is still hard to be broken.

- The Euro STOXX 600 rallied over 13% in the first quarter of 2019 and almost recovered all the loss in 2018. However, with low economic growth, low inflation, zero interest rate and negative bond yield in the region, it seems that the European economy is gradually approaching to "japanization" and the medium-to-long term outlook of European stock markets may tend to be less attractive.

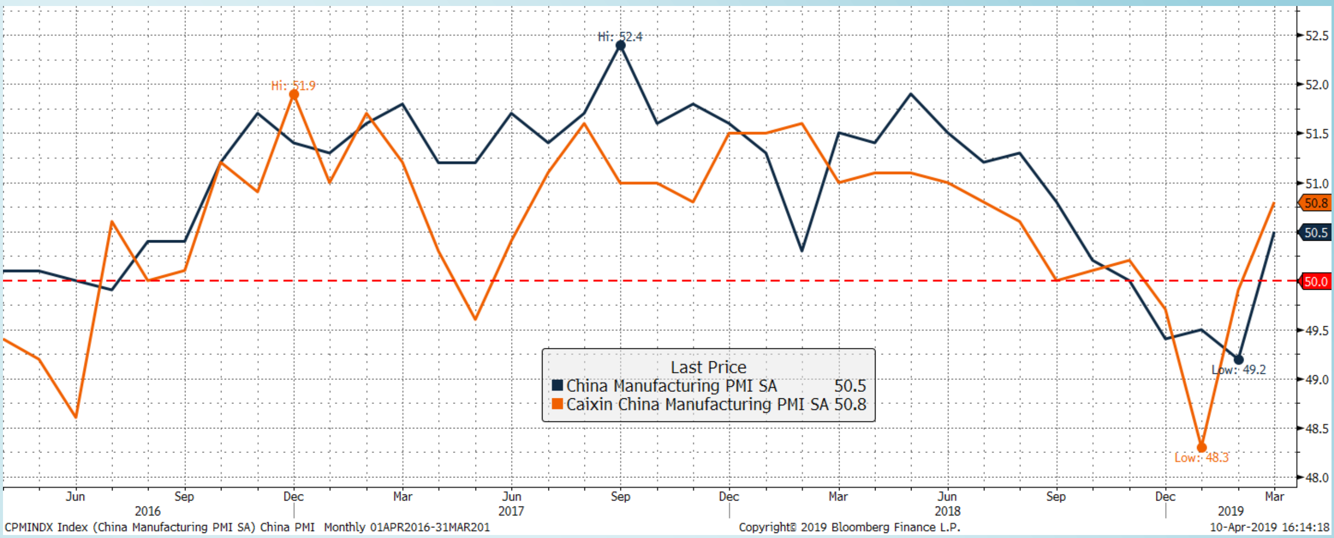
Asia

- The Chinese economy advanced 6.4% year-on-year in the last quarter of 2018 and matched market expectations. It was the lowest growth rate since the global financial crisis. For the full year of 2018, the economy expanded 6.6% which was the weakest pace since 1990.

- During the Two Sessions meetings, Chinese Premier Li Keqiang delivered the Work Report which outlined the country's policy priorities for the coming year. As widely expected, Premier Li announced the target GDP growth rate of China will be lowered from "around 6.5%" last year to "6-6.5%" in 2019. In the face of sliding confidence in the economy and international trade tensions, various business cost cutting and economic stimulus measures were also introduced. (For the details, please refer to Table 2.)

- China's manufacturing returned to growth in March. Both the official and Caixin manufacturing PMI picked up in March, fueling hopes that China's downturn may be bottoming out. The official Purchasing Managers' Index rose to 50.5 in March from February's three-year low of 49.2, marking the first expansion in four months. Besides, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) expanded at the strongest pace in eight months in March, rising to 50.8 from 49.9 in February. At the same time, China's services sector also accelerated in March. The official non-manufacturing purchasing managers' index, which covers the services and construction sectors, rose 0.5 points from February to 54.8 while the Caixin China services purchasing managers index rose to 54.4 from February's 51.1, which was the fastest growth since January 2018.

EXHIBIT 4: Both the official and Caixin Manufacturing PMI was picking up in March

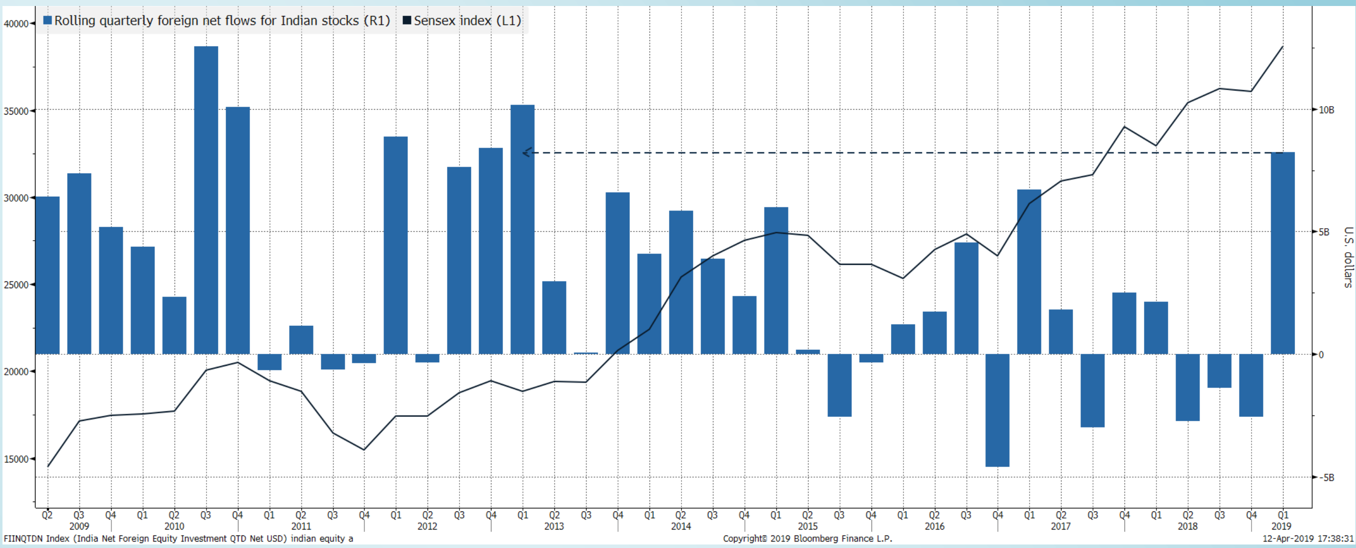


Source: Bloomberg (as at 29/03/2019)

- One of the most important political events in Asia this quarter would be the 2019 Indian general election. It is scheduled to be held in 7 phases from 11 April to 19 May 2019 to constitute the 17th Lok Sabha. The counting of votes will be conducted on 23 May, and on the same day the results will be declared. There are 543 seats to be contested, with 272 being the majority needed to form a government. 900 million eligible voters will decide whether Prime Minister Narendra Modi and his Bharatiya Janata Party continue another 5 years in power or the opposition Indian National Congress, which governed the country for decades after independence, stages a comeback.

- At this point, we do not know who will be the winner of the coming election. However, overseas investors have pumped in more than US$6.5 billion net inflow in Indian stock market so far this year, among the highest in Asia except China, on bets of a revival in corporate earnings and on the prospect of the current government's continuous governance after the election. It was the biggest quarterly foreign net inflow in 6 years and the Sensex Index hit record high again at the end of March.

EXHIBIT 5: Strong foreign inflow, the Sensex Index hit record high again



Source: Bloomberg (as at 29/03/2019)

- Could you imagine that the best performing major equity index in the 1st quarter of 2019 was the worst one in 2018? The CSI 300 index rallied 28% in the first 3 months of 2019 while it lost 23% in 2018. The strong performance was mainly due to the low market valuation of Chinese A-shares, the increase of the weighting of Chinese A-shares in MSCI indexes, Chinese Government's economic stimulus and the expectation of the trade deal between China and the U.S. After the recent rally, the price-to-earnings ratio of the CSI 300 index was still traded at 14.62 at the end of March. It was just at the 5-year average level and far below the figure in the previous bull markets in 2015 and 2017. It seems that the current Chinese A-shares may still have good investment opportunity and aggressive investors may pay more attention.

EXHIBIT 6: The current valuation of CSI 300 was at 5-year average

Source: Bloomberg (as at 29/03/2019)

Fixed Income

- As the concern on global economic slowdown was heightening, the central banks of most of the major economies were becoming more dovish and sovereign debt around the world rallied in the first quarter of 2019. During the meeting in March, the Federal Reserve surprised the markets by cutting its interest rate forecast to zero hike this year and just one in 2020. The ECB not only held its benchmark interest rate unchanged but will introduce new series of quarterly targeted longer-term refinancing operations later this year. The Bank of Japan also continued its almost never-ending near zero interest rate policy.

- The U.S. 10-year Treasury yields fell to 2.406% from 2.684% from the year end of 2018. In the meantime, both the Japan and Germany 10-year government bond yield dropped below zero again since 2016.

EXHIBIT 7: The Japan and Germany 10-year government bond yield dropped below zero again since 2016

Source: Bloomberg (as at 29/03/2019)

- The high yield bond sector was also benefited from the dovish turn of global major central bank, the yield spread between the U.S. treasury and U.S. Corporate high yield bond narrowed from 5.27% to 4.03% during the first quarter of 2019 and the Bloomberg Barclays Global High Yield Index surged over 6%.

- There are still a lot of market uncertainties, like the global trade dispute, the outcome of Brexit, etc. However, it is thought that the central banks of global major economies will continue their dovish stance for a longer period of time so as to avoid further economic slowdown and the market will maintain abundant of liquidity in the near term. In that case, fixed income investment will be benefited and we believe that high yield bond will continue to outperform as the credit spread between the high yield bond and U.S. treasury may tighten further in such "market-friendly monetary policy" environment.

EXHIBIT 8: The credit spread between the high yield bond and U.S. treasury may tighten further

Source: Bloomberg (as at 29/03/2019)

Commodities

- Contributed by the oil supply-cut agreement between OPEC and its alliance, oil price rallied around 30% in the first 3 months of 2019 and it was the best performing quarter since 2009. OPEC oil supply sank to a 4-year low in March as top exporter Saudi Arabia cut the production more than the pact while Venezuelan and Iran output fell further due to the sanctions by the U.S.

EXHIBIT 9: OPEC oil supply sank to a 4-year low in March

Source: Bloomberg (as at 29/03/2019)

- The OPEC-led oil supply-cut agreement will expire in June and OPEC and its alliance countries will meet again in late June in Vienna. It is expected that the decision in the meeting will affect the future direction of oil price. Meanwhile, Russia has already signaled that the country would like to raise oil output because of improving market conditions and falling stockpiles.

- Despite a strong rally at the beginning of 2019, it seems that gold has struggled to find the rising momentum and it only recorded a modest gain of 1.3% in the first quarter. In the past few years, gold price has not been traded above the current resistant level which is at around USD 1,370 per ounce. Unless there is any unexpected negative events happened in the market, otherwise, it is believed that the yellow metal may be difficult to have further breakthrough.

EXHIBIT 10: Gold price has not exceeded the resistance level in recent years

Source: Bloomberg (as at 29/03/2019)

Disclaimer

The information contained is for general information only, without warranty of any kind. The information contained should not be regarded as an offer to sell, to subscribe to, or to provide any investment recommendation. Investment involves risks, past performance is not indicative of future performance. Reader should consult their professional financial consultant before making any investment decision.