INVESTMENT INSIGHT JUL 2023

Investment Services Department

Altruist Financial Group Limited
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1st half of 2023 has passed, what's next for the rest of the year?

KEY MARKET HIGHLIGHTS IN THE 1ST HALF OF 2023

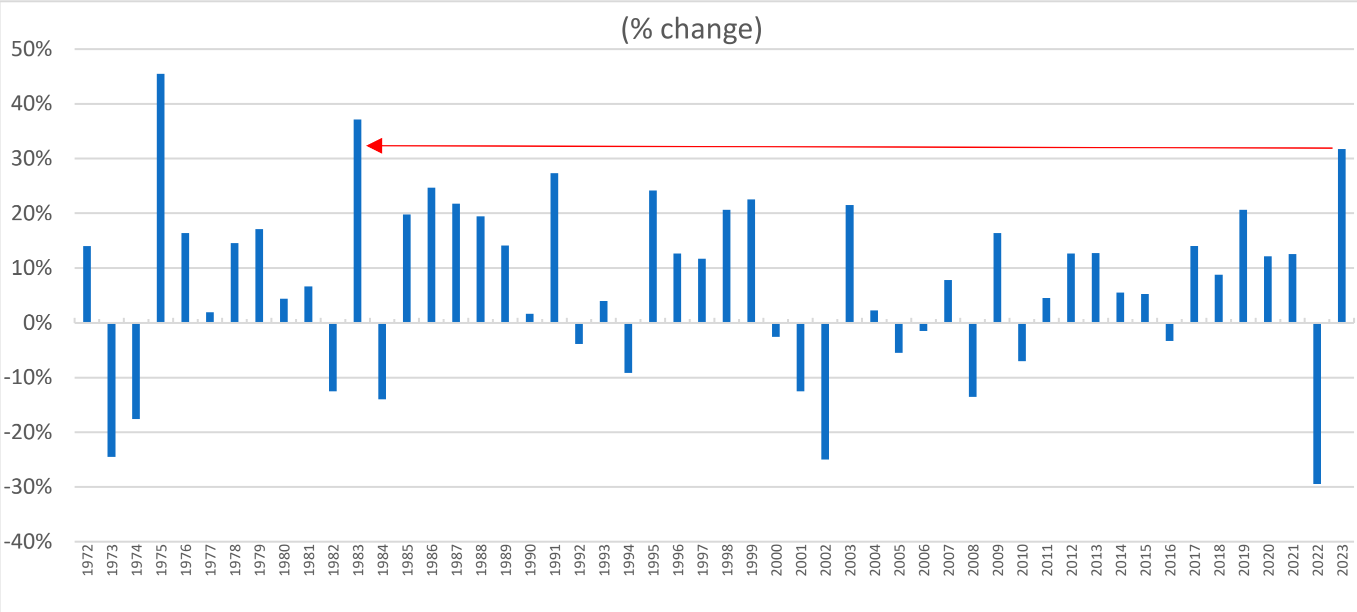
Time flies, we have already entered the second half of 2023. In general, the global investment markets looked calm in the past 6 months and some markets even experienced "exciting" bullish momentum although we still witnessed the prolonged Russia-Ukraine war, banking failures in the U.S. and Europe, U.S. debt ceiling drama, continuous rate hikes by major global central banks and heightening conflicts between the U.S. and China.

Equities

The U.S. technology stocks were the most eye-catching investment sector so far this year. The Nasdaq Composite Index posted 32.32% gain in the 1st half of 2023 which recorded its best first half year return since 1983 after investors flocked to technology stocks due to the growth of artificial intelligence ("AI") application.

In Asia, it was not strange that the Korean and Taiwanese stock markets outperformed since their market indexes are dominated by technology stocks. However, the strong performance of the Japanese stocks in the second quarter have surprised investors. Strong export due to depreciating Japanese Yen and the speedy recovery of tourism after pandemic has stimulated economic growth. The 1st quarter GDP of Japan expanded at an annualized rate of 2.7%, much higher than the preliminary estimate of a 1.6% growth and economists' median forecast of a 1.9% rise. Apart from the above underlying reasons, the increase of Japanese investment exposure by the most famous professional investor in the world, Warren Buffett, in May additionally boosted the investment sentiment and foreign buying of Japanese stocks continued, the Nikkei 225 rallied to the highest level since 1990. On the other hand, the Hong Kong and Chinese stock markets remained weak because of slower than expected recovery of the Chinese economy and escalating tension between the U.S. and China.

EXIHIBIT 1: The Nasdaq Composite Index posted its best first half year return since 1983



Source: Bloomberg (as at 30/06/2023)

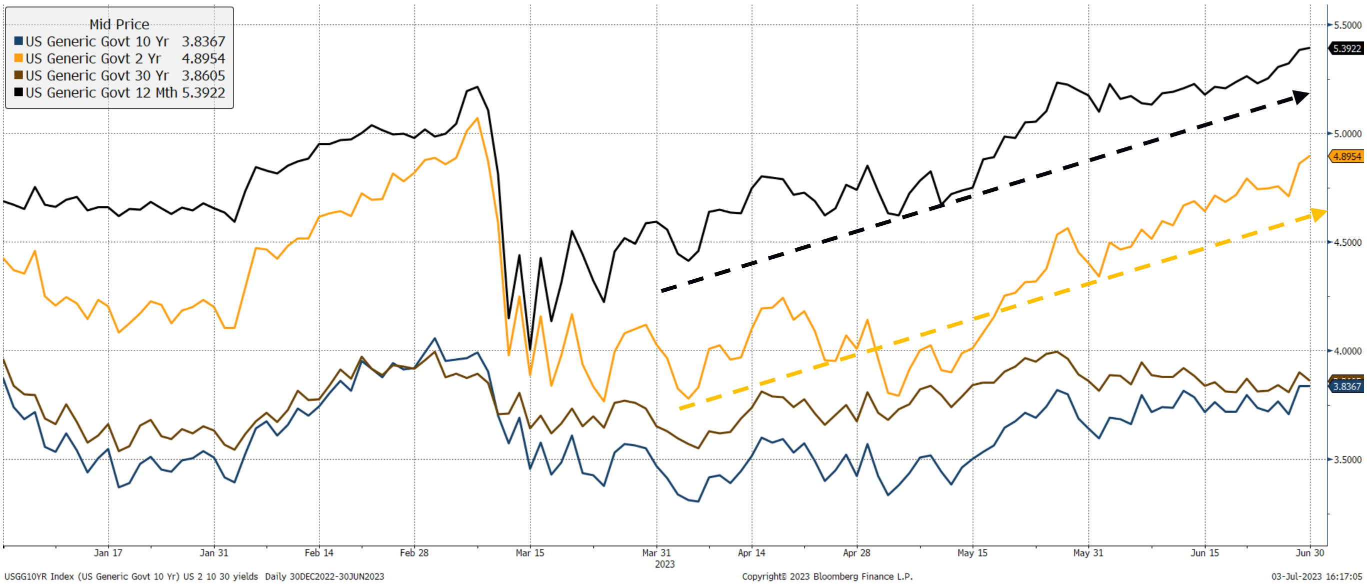
EXHIBIT 2: The Nikkei 225 rallied to the highest level since 1990

Source: Bloomberg (as at 30/06/2023)

Fixed Income

2002 was the worst performing year ever for fixed income due to the unprecedent aggressive rate hikes of the U.S. and European central banks. In the 1st half of 2023, investment grade bonds delivered moderate return and the benchmark, Bloomberg Global Aggregate Index, gained about 1.43%. Since it is anticipated that rate hike will continue in the near term, the price of those short-dated bonds was under pressure while the impact towards medium and long term was insignificant.

EXHIBIT 3: The yields of 1- and 2 -year U.S. treasury bonds have risen sharply while the 10- and 30-year had little change in the 2nd quarter of 2023



Source: Bloomberg (as at 30/06/2023)

High yield bond outperformed in the past 6 months, the Bloomberg Global High Yield Index has risen over 5%. However, the fear of weakening U.S. economy and further central bank monetary tightening may trigger widening yield spread between high yield and investment grade bond which investors should be cautious.

Currency

While the U.S. and Europe continued to have rate hikes in the 1st half of 2023, Bank of Japan still maintained its ultra-loose monetary policy and People's Bank of China ("PBOC") also had key interest rate cuts. Due to interest rate differential, both Japanese Yen and Renminbi depreciated in the past 6 months. The Yen has fallen below 140 per U.S. Dollar again and the Renminbi has also weakened to the same level as in late 2022 when China imposed stringent Covid restrictions at that time. Looking ahead, the outlook of both Japanese Yen and Renminbi may still be bearish as the "East-West" divergence in monetary policy may deepen further in the near term.

EXHIBIT 4: Renminbi weakened to the same level as in late 2022

Source: Bloomberg (as at 30/06/2023)

Commodities

After the "roller coaster" year of 2022, the ongoing slowdown of global economy continued to put downside pressure on commodities prices in the 1st half of 2023 and the benchmark, Bloomberg Commodity Spot Index, has dropped over 10%. Among all commodities, the price of natural gas recorded the largest loss. It has plunged 50% and was back to the level before the Russia-Ukraine war because of milder than expected winter in Europe and a surge in imports of liquefied natural gas.

Gold was one of the few commodities that recorded positive return in the past 6 months. During the period of U.S. and European banking crisis and worries of U.S. Government default in April and May, gold price has broken the "USD2,000" mark and traded at record high. However, the bullish sentiment was short-lived and the yellow metal retreated when the crisis events were over.

Looking ahead, the weakness of commodities is likely to continue in the 2nd half of the 2023 due to the expectation of slower global economic growth. However, the intensifying geopolitical tensions, a stronger-than-anticipated recovery of Chinese industrial sector and adverse weather events would be the wild cards.

TABLE 1: Global Stock Markets Performance (% In local currency)

Index	2023 Q2	2023 YTD
S&P 500	8.74	16.88
Nasdaq Composite	13.05	32.32
STOXX Europe 600	2.69	11.50
DAX	3.32	15.98
CAC 40	3.54	17.41
Nikkei 225	18.48	28.65
Hong Kong Hang Seng	-6.06	-2.76
Hang Seng China Enterprises	-6.72	-3.04
Shanghai Stock Exchange Composite	-1.08	4.80
Shanghai Shenzhen CSI 300	-4.03	0.45
Singapore Straits Times	0.37	1.16
Korea KOSPI	3.54	14.90
Taiwan TWSE	8.14	21.67
India SENSEX	10.41	7.24
Indonesia JCI	-0.07	0.67
Thailand SET	-5.70	-8.25
Russia RTS	2.22	5.25
Brazil IBOV	15.91	7.61
S&P Pan Arab Composite	5.89	5.39
MSCI World	6.99	15.44

Source: Bloomberg (as at 30/06/2023)

TABLE 2: Major Currencies Performance (% Change In terms of USD)

Currency	2023 Q2	2023 YTD
Euro	0.65	1.91
British Pound	2.97	5.13
Japanese Yen	-7.93	-9.14
Hong Kong Dollar	0.17	-0.45
Chinese Renminbi (CNY)	-5.24	-4.90
Australian Dollar	-0.31	-2.19
New Zealand Dollar	-2.13	-3.54
Singapore Dollar	-1.59	-0.95
South Korean Won	-1.21	-3.97
Taiwanese Dollar	-2.21	-1.36
Indian Rupee	0.17	0.85
Indonesian Rupiah	0.01	3.94
Thai Baht	-3.55	-2.40
Russian Ruble	-12.98	-16.94
Brazilian Real	5.80	10.34

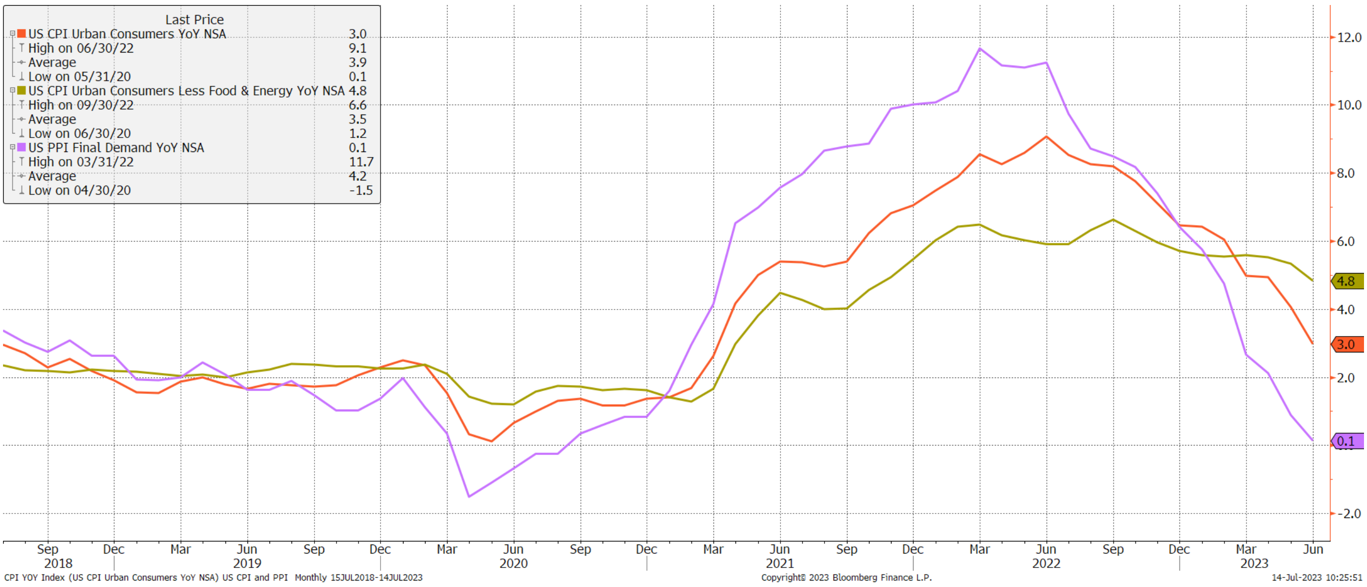
Source: Bloomberg (as at 30/06/2023)

WHAT ARE THE KEY ISSUES IN THE 2ND HALF OF 2023?

When will the interest rate cycle come to the end?

The U.S. inflation peaked in June last year when the Consumer Price Index ("CPI") was at 9.1% and after 10 consecutive rate hikes since March 2022 with a total increase of 5%, the inflation in the U.S. now is on the falling trend. The Federal Reserve has paused rate increase in the last meeting in May even though 2 more rate hikes are expected this year and it is believed that the fastest Fed tightening cycle in 40 years was near the end.

<u>EXHIBIT 5: The inflation in the U.S. now is on the falling trend</u>



Source: Bloomberg (as at 30/06/2023)

Meanwhile, the situation in Europe and U.K. may have a big difference as inflation pressure remains high. While the latest UK and Eurozone CPI still stood at 8.7% and 5.5% respectively, their core CPIs also kept on rising. In U.K., its core CPI which excluded energy, food, alcohol and tobacco was even at the highest level since March 1992. Under such scenario, the hawkish stance of European Central Bank "ECB" and Bank of England "BOE" would go on.

Will the U.S. go to recession this year?

The U.S. economy remained resilient. The first quarter U.S. GDP was revised up to an annualized rate of 2% from the previous estimate of 1.3%. The household spending, the engine of the U.S. economy, rose at 4.2% which was the strongest in nearly 2 years. In addition, the U.S. labor market was robust, the unemployment rate was at 3.6% which was near historic low and substantial job gains were also seen every month this year. Although many economists still expect recession will come in the second half of this year due to high borrowing cost and persistent inverted yield curve, it will be "short and shallow" if it happens based on the economic data that was recently released.

Have the U.S. technology stocks been peaked?

After the disappointing 2022, the tech-heavy Nasdaq Composite Index rallied more than 30% in the first 6 months of 2023 and the market value of APPLE has even breached USD 3 trillion at the end of June 2023 which was more than the market value of Hang Seng Index.

EXHIBIT 6: The market value of APPLE has breached USD 3 trillion at the end of June 2023

Source: Bloomberg (as at 30/06/2023)

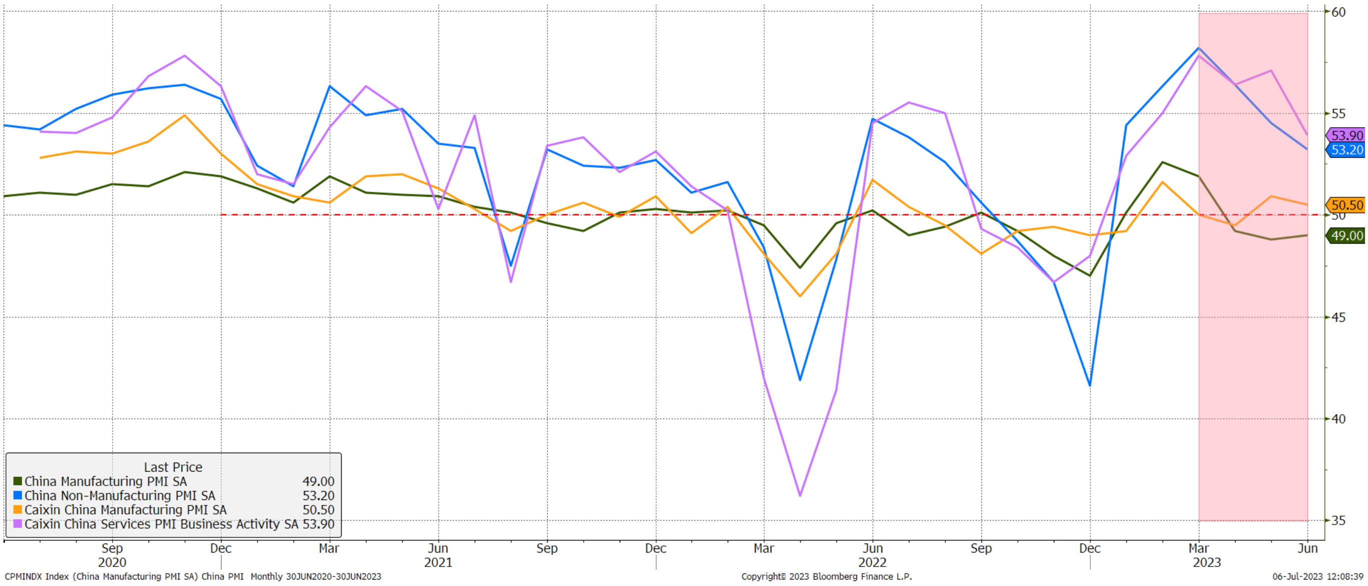
The strong performance of technology stocks partially can be explained by "low base effect", the Nasdaq Composite Index plunged about 32% in 2022, and even though it rebounded more than 30% this year, it was still about 10% below the year-end level of 2021. Apart from this, while the market expected the Fed's tightening cycle will come to the end soon, risk appetite of investors returned as the performance of growth stock always moves inversely with the interest rate direction. Besides, the breakthrough of AI has also encouraged investors to increase exposure in technology stocks.

Even though the current sentiment of technology stock may be a bit overheated, the long-term investment outlook still looks bright as it is believed that the application of AI would be increasing, which is a growing and irreversible trend that will generate opportunity for those high-tech related companies in the coming future.

Can China achieve economic growth target this year?

The economic recovery in China after the relaxing of Covid curbs seems choppy and is under previous expectation. Although the 1st quarter GDP grew 4.5% year-on-year which was the strongest pace of expansion since Q1 of 2022 and better than market estimation, the growth momentum faded notably into the second quarter. Both manufacturing and services activities were declining, and the official Manufacturing PMI was even in the contraction zone since April and the export shrank 7.5% in May which was much larger than the forecast of 0.4% fall. Unlike the western world, China now is facing deflation pressure, the CPI in May was only 0.2% while the Production Price Index ("PPI") even fell to -4.6%. Besides, the youth-unemployment rate hit a new record high of 20.8% in May as well.

<u>EXHIBIT 7: The manufacturing and services activities were declining in China</u>



Source: Bloomberg (as at 30/06/2023)

The Chinese economy faces with weak demand and weak confidence among consumers and private entrepreneurs. In respond to that, the PBOC has already cut several key policy rates including 7-day reverse repo and 1-year medium-term lending facility (MLF) rate, 5-year loan prime rate (LPR) etc. However, it seems that the support is not enough and whether the Government provides additional fiscal stimulus would be crucial for the country to achieve "around 5%" full year GDP growth target. Looking ahead, the coming Politburo meeting held in late July may give investors more hints on that.

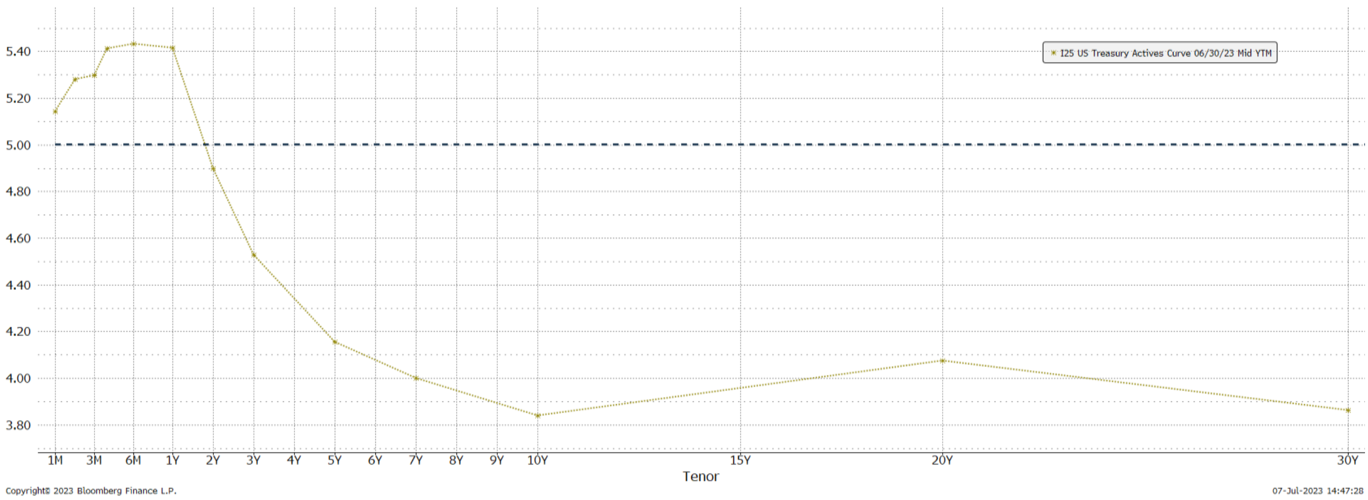
Others

There are still many other issues that we need to be aware, like the prolonged war between Russia and Ukraine as well as the ongoing and elevated conflicts between U.S. and China. However, those items are hard to find a way to settle in the near future. Probably, we have to co-exist with them and view them as "new normal".

Short dated U.S. treasury bonds and other fixed income investments

Uncertainty is always the biggest challenge to most of the investors. However, under the current volatile and unpredictable investment markets, some investment vehicles can still provide a promising and highly foreseeable return. One of them is short dated U.S. treasury bonds. Currently, the yields of U.S. treasury bonds with maturity within 2 years are over 5%. Since the U.S. short dated treasury bond are usually regarded as a risk-free investment, the chance of U.S. Government default is low. For this reason, they are very attractive to low risk investors.

EXHIBIT 8: The latest yield curve of U.S. Treasury



Source: Bloomberg (as at 30/06/2023)

After 10 times of rate hikes with a total increase of 5%, it is widely expected that the U.S. interest rate hike cycle will come to the end soon and some economists even predict the Fed may cut interest rate as soon as in the end of this year. Since bond price moves inversely with interest rate, if interest rate is at peak, fixed investment may bring remarkable return in the coming 1 to 2 years according to the previous experience.

EXHIBIT 9: Performance of Bloomberg U.S. Aggregate Bond Index when the Fed Fund Rate at peak

The month that the Fed Fund Rate at peak	Performance in 1 year (%)	Performance in 2 year (%)	Performance in 3 year (%)
31/8/1984	24.15	51.73	53.91
28/2/1989	12.74	26.52	42.72
28/2/1995	12.51	18.25	30.51
31/5/2000	13.12	22.28	36.44
30/6/2006	6.12	13.68	20.55
31/12/2018	8.72	16.88	15.08
Average:	**12.89**	**24.89**	**33.2**

Source: Investment Services Department of Altruist Financial Group and Bloomberg (as at 30/06/2023)

Healthcare related investments

Since the beginning of 2023, technology stocks outperformed and as mentioned before, the tech-heavy Nasdaq Composite Index posted the best first half year return since 1983. Even though the long-term outlook of technology sector is still positive, it may be overheated in the near term after the recent rally. If investors are looking for an investment sector with a long-term opportunity but underperformed this year, it is believed that global healthcare related equities may be a good choice. First of all, as most of the developed countries in the world are facing aging population problem, the demand for health care related products and services is in the rising trend. Besides, in the past 3, 5 and 10 years, the global healthcare equities sector generally has around 8-10% annualized return while the performance this year, so far, is flat. In medium-to-long term, it may be a good entry point to invest in global healthcare related equities now.

EXHIBIT 10: Performance of MSCI World Health Care Index (%)

	Year-to-date	3-year	5-year	10-year
Total return	0.78	27.84	61.34	167.34
Annualized return	-	8.53	10.03	10.32

Source: Investment Services Department of Altruist Financial Group and Bloomberg (as at 30/06/2023)

H.K. and China stock markets

There will be little objection if we describe the Hong Kong and China equity markets as the most disappointing investment sector this year. After about 8,000 points rally from the lowest level in recent year on 31 Oct 2022, the Heng Seng Index peaked in January this year and retreated more than 16% to below 19,000 level at the end of June. In term of valuation, the Hang Seng Index is relatively low as the current Price-to-book (P/B) and Price-to-earning (P/E) are below 1 and 10 times respectively. However, due to the poorer than expected economic recovery of China and also the worsening relationship between the U.S. and China, the daily turnover amount of Hong Kong Stock Exchange is decreasing as there is lack of foreign inflow and the funds from the local and Mainland China are also under pressure.

EXHIBIT 11: Average daily turnover amount (HKD) of the Hong Kong Stock Exchange

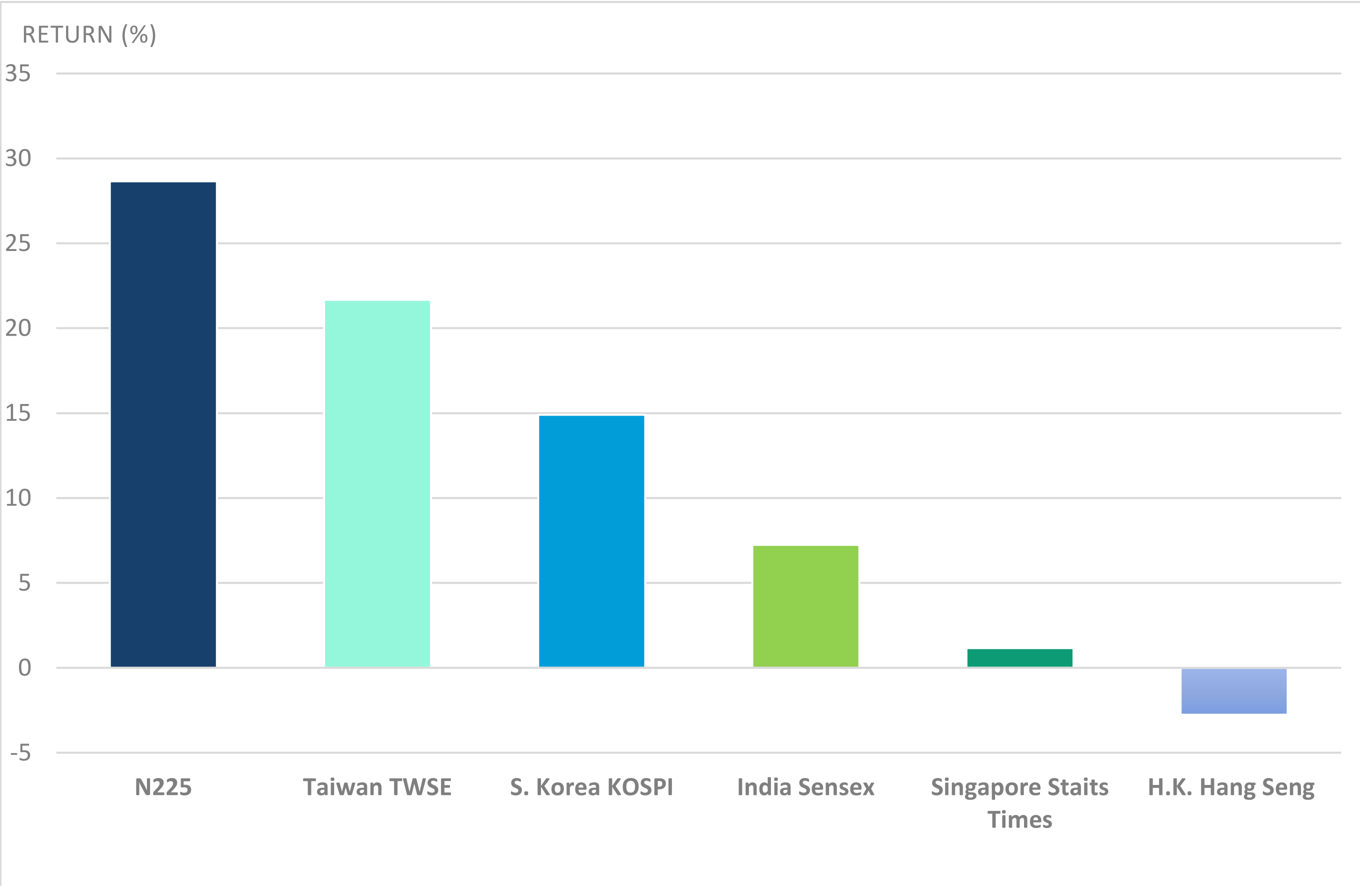
	Jun-23	2023(YTD)	2022	2021	2020
Amount	99,591,718,808	115,385,101,991	124,740,622,072	166,341,545,232	129,128,152,352

Source: Investment Services Department of Altruist Financial Group and Hong Kong Exchange (as at 30/06/2023)

In the near future, the unfavorable factors of Hong Kong and Chinese stock markets seem hard to remove. Unless its valuation falls to a deep discount or other new positive factors appear, otherwise, the bearish outlook may continue.

On the other hand, other Asia markets may benefit from the weakness of Hong Kong and Chinese stock markets. Global investment managers always seek opportunity in Asia or emerging markets to diversify their investment portfolio and enhance potential return. In the past, Hong Kong and Chinese equities were their favorite picks, but now they may consider reallocating part of their investment exposure to other Asian stock markets as an alternative and the recent rally of Japanese, Taiwanese and Korean stock markets may explain such phenomenon.

EXHIBIT 12: Hang Seng Index underperformed among other major Asian stock markets



Source: Bloomberg (as at 30/06/2023)

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