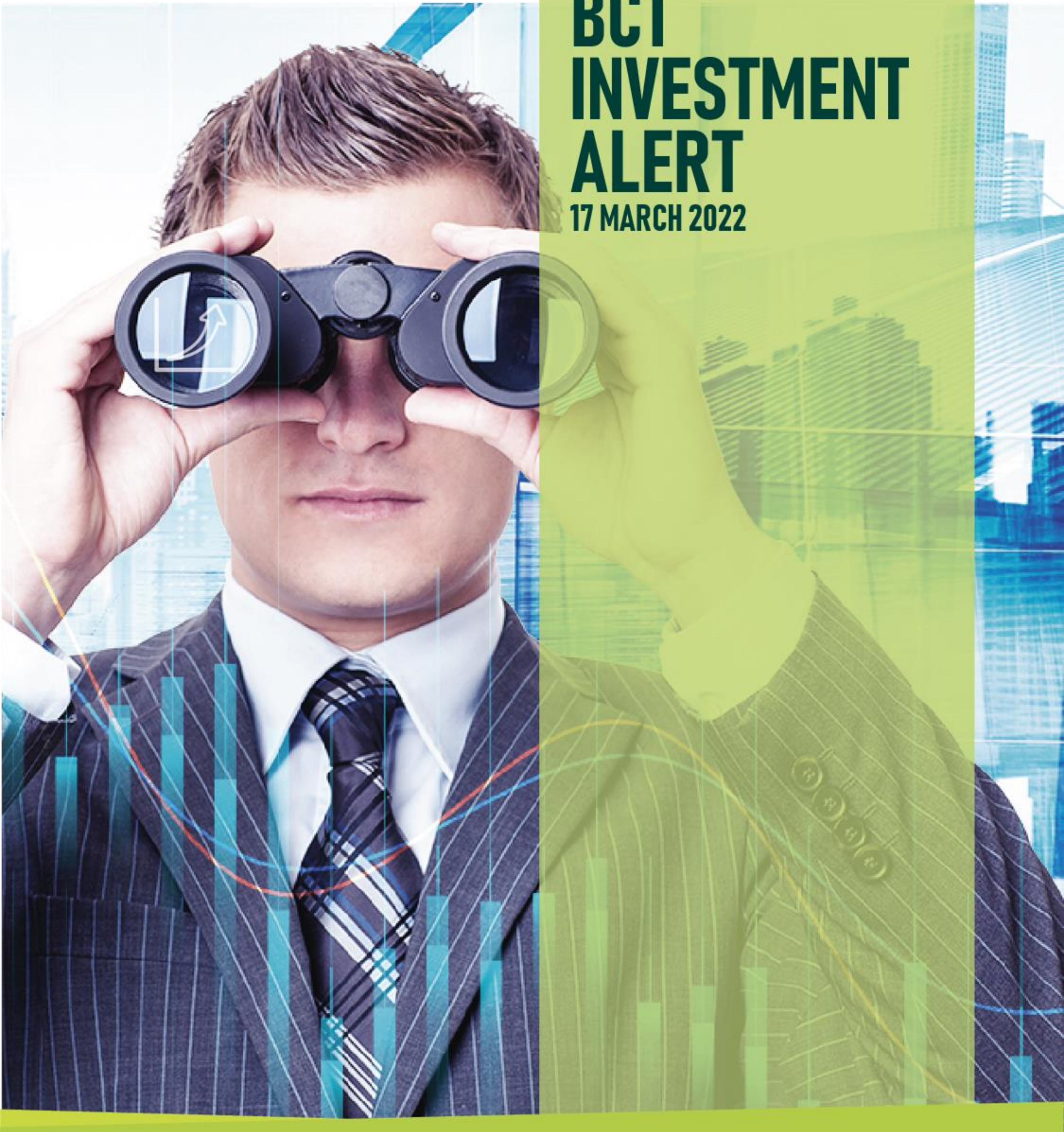
BCT INVESTMENT ALERT

17 MARCH 2022



MARKET TURBULENCE IN HONG KONG AND MAINLAND CHINA

In view of recent market turbulence, our investment managers generally hold following views regarding Hong Kong and mainland China markets.

In January 2022, we were optimistic about market performance due to the reasons below:

- Rotation out of growth stocks (mainly in the U.S.) by investors, triggered by expectation of several Federal Reserve rate hikes in favour of laggard markets with lower valuation, such as Hong Kong and mainland China
- Mainland China's regulatory tightening reaching a peak
- Accelerating monetary easing and fiscal support

Nevertheless, the situation in February and March this year has changed. Such positive perspectives in the market have evaporated for two main reasons:

Domestic COVID-19 outbreak hit post 2020 record high - The market was caught by surprise because it represented a sharp shift moving away from recent announcements of potential re-opening. The market will also have to deal with supply chain issues as Shenzhen is home to major tech companies and important suppliers of big global tech-clients all over the world. However, there is a high probability to see very soon a Reserve Requirement Ratio rate cut or even a policy rate cut.

Regulatory/Geopolitical risks - The market suffered because of renewed concerns of regulatory measure - "crackdown"- at the expense of large e-commerce players. In addition, investors start discounting a confrontation between the U.S. and China due to the Russia-Ukraine conflict. Market is concerned that China could face new sanctions soon. The Securities and Exchange Commission's announcement of the first batch of China ADR in breach of the Holding Foreign Companies Accountable Act could trigger a delisting by March 2024.

The above reasons explain the recent poor performance of the Hong Kong and mainland China markets. Though the market valuation starts appearing attractive, market sentiment is extremely weak in the short run. We have to pay close attention to the aforementioned factors and maintain cautious stance.

Stay cautious, but not overreact
MPF is a long term investment. We suggest members to stay cautious, while not to overreact to market when evaluating market performance. More importantly, please review your investment goals, understand your risk tolerance level and invest according to the appropriate equity content level. BCT will continue to maintain a closed dialogue with fund managers and share investment updates regularly.