Global Equity and Macro Strategy
2023 2Q23 Outlook: Themes, sectors and style

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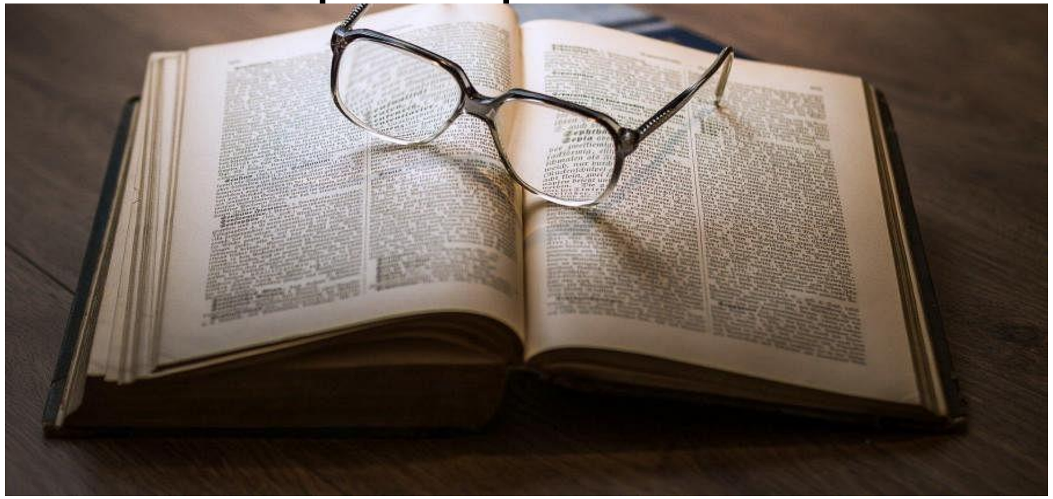
Disclosure and Disclaimer at the back of this report contains important disclosures

Content



Content

2Q23 Outlook Preview- Investment outlook takeaway

1. **We were previously expecting a "soft landing" for the global economy**. However, it is increasingly clear that a "hard landing" may be required for global central banks to bring down the runway inflation and to pivot to easier monetary conditions. We expect a pick up in unemployment rate and deeper but quick drop in GDP in 2H2023. On a positive note, **a Fed pivot may be earlier than expected given the financial turmoil** and this may result in better performance in equities and hands. The **reopening of China will also likely remain a strong positive drivers for Chinese and EM risk assets in 2023**

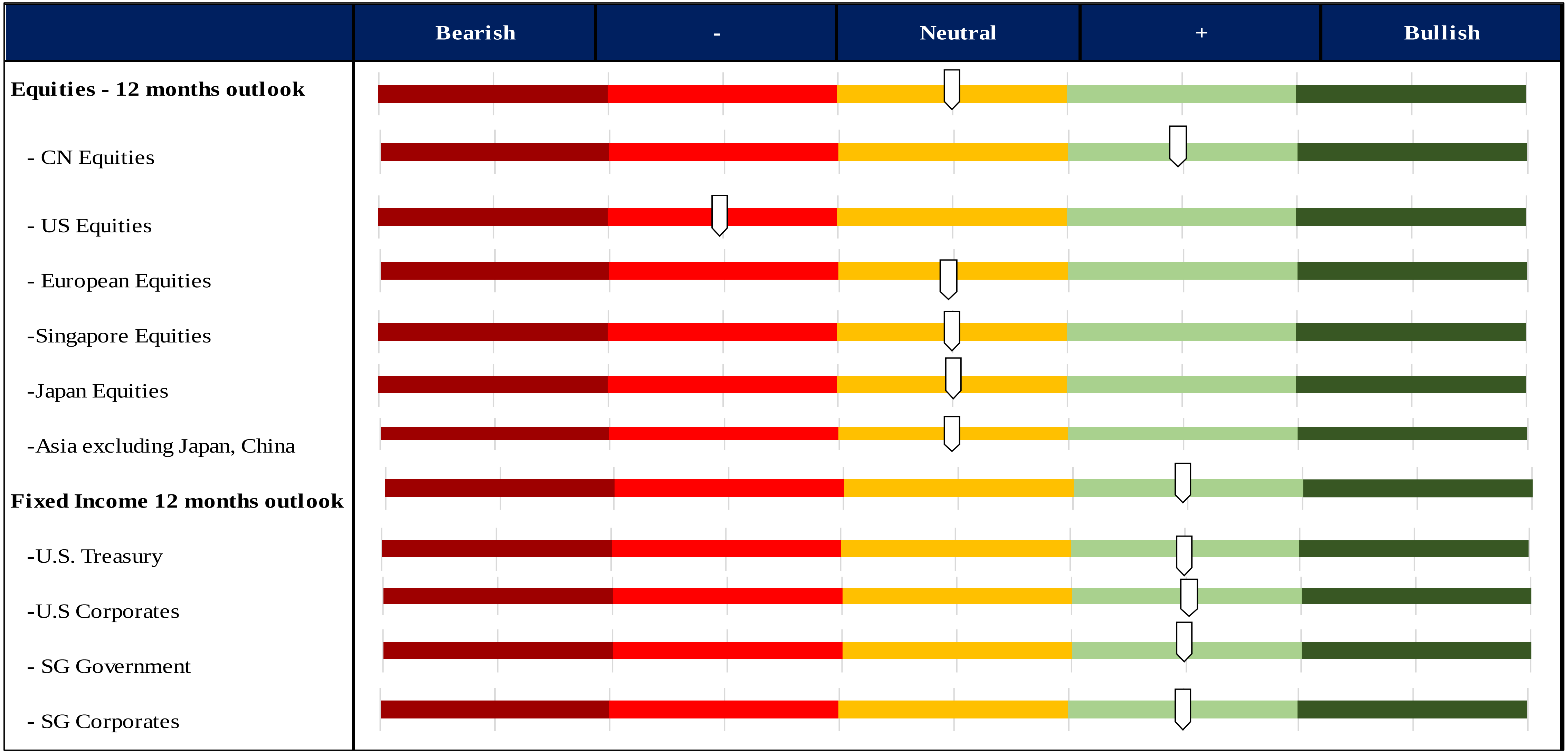
2. **We remain conservative in this current volatile environment**. We continue to advocate the focus on high quality equity and income stock. At the same time, we remain optimistic on Chinese equities and assets, while we are more cautious on U.S. equities given the relative overvaluation of U.S. equities vs the global equities

3. Inflation remains higher than what Fed expects, but with lower commodities prices, and possibility of recession**, we think that inflation may continue to decelerate in 2Q2023 and beyond.** However, it is likely that inflation may reach a new terminal inflation of 3-4%, which is above the target inflation of 2%, which suggest that Fed may need to hold at high interest rate for longer despite the financial turmoil in the banking sector.

4. **We expect US Fed Funds rate to peak at around 5% to 5.25% by 1H 2023 and pause after that.** While it is not our base case scenario, we think that we need to be prepared for a possibility of 1 rate cut by end of 2023. We believe that fixed income **(investment grade corporates and sovereign from U.S., Singapore) continue to look attractive** as the speed of the rate hike will likely slow down and peak rate will plateau in 2Q2023 and beyond

5. **We have turned neutral to negative on USD.** While we expect the Federal Reserve's rate hike path to remain supportive for USD uptrend but incrementally USD may start showing signs of exhaustion in the 2023. We continue to see EM currencies like CNH to more attractive given the improving macro environment of China

Global Asset view-12 months outlook



Source : HLBS, 5 Apr 2023

Global Asset view- 12 Month outlook (Continued)

Source : HLBS, HLBB , 5 Apr 2023

Outline- Equities preference

Equities outlook by countries and regions

Most Preferred	Neutral	Least Preferred
China/ Hong Kong	Japan	United States
Singapore	Eurozone	
Asia ex China ex Japan		

Equities outlook by sectors

Most Preferred	Neutral	Least Preferred
CN Tech	US Tech	US Real Estate
CN Consumers Discretionary	Telecom	
Healthcare and Biotech	Semiconductors	
	Financials	

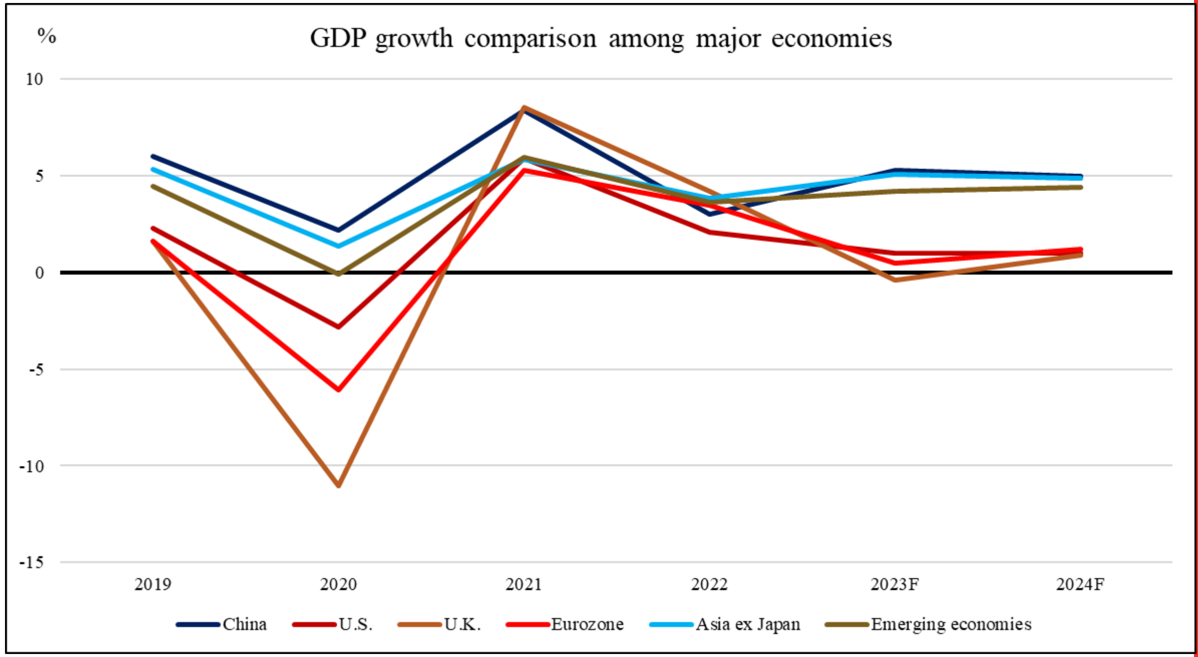
Source: HLBS Research, 11 Apr 2023

Macro and Economic Outlook

1 China PMI is recovering strongly, adding tailwind to the Chinese stock market

- After almost a year of underperformance in 2022, the Chinese PMI has started to expand again in 2023
- Given that Chinese PMI yoy% growth has a correlation with the MSCI China performance, **we believe that the continuation of Chinese PMI recovery will likely add tailwind to the MSCI China performance**

2 China, and Emerging markets GDP are expected to outperform Western economies in 2023 and 2024

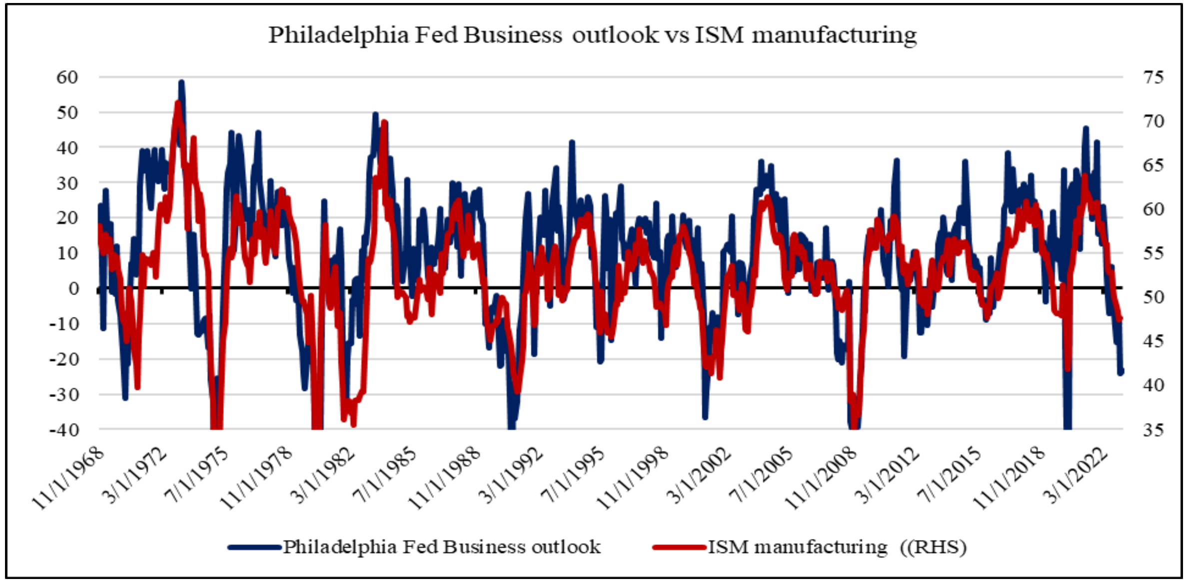


- While the GDP growth for majority of the developed markets, such as United States, U.K and Eurozone are expected to contract in 2023 from 2022, **China and emerging economies' GDP growth are expected to expand in 2023 and 2024**
- With relative cheaper valuation for China and Emerging economies, **we believe that the financial assets for China and EM should outperform in 2023.**

Source: Bloomberg, HLBS 30 Mar 2023

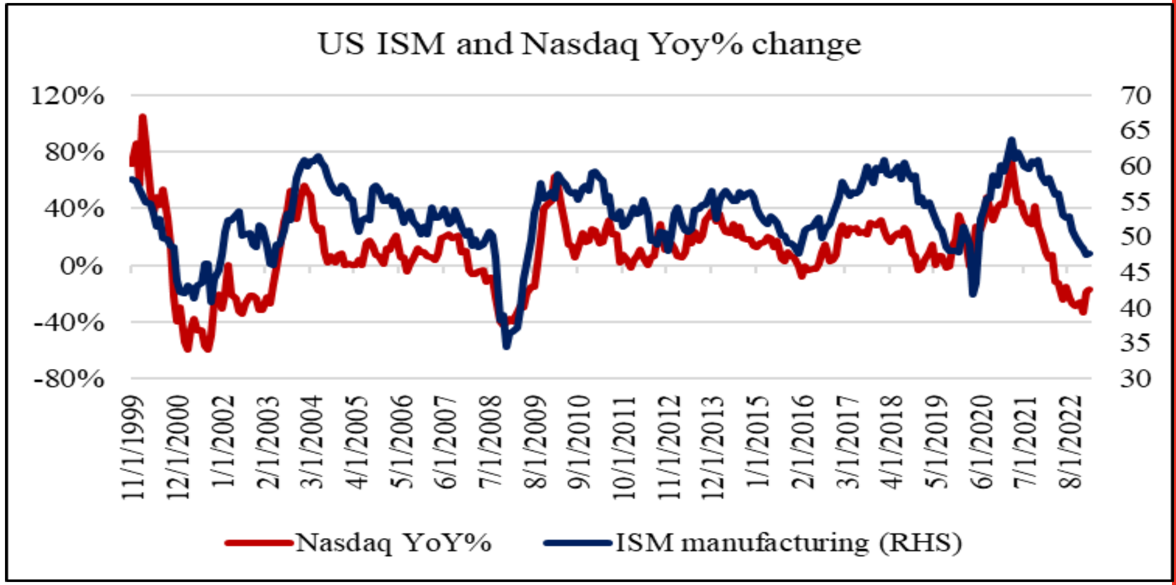
Macro and Economic Outlook

3 Philadelphia Fed Business outlook maybe pointing to further contraction in manufacturing activities



- In the U.S., there are further signs that the economy is likely to head for a recession
- The Philadelphia Fed Business outlook, **which has led and predicted the ISM manufacturing PMI for the past 60 years, is currently heading to the lowest level since 2020 and 2008**
- Based on the current reading of Philadelphia Fed Business outlook, the likely level of **ISM manufacturing PMI would be around 44 to 45, which is in the recessionary territory (recessionary PMI <47)**
- On a brighter note, **should U.S. is likely heading to recession, we may see a Fed pivoting its monetary policies earlier than what we expect**

4 US equities may also be pricing a recession but recent rally may be unsustainable in the short term



- Due to the tight monetary policies and concern of recession, the U.S equity market is still down 14% on a year on year basis.
- This **indicates that the equity market may be pricing in some level of recession in 2023**
- However, with an average of 13-16% rally in the U.S. equities indices in the first 3 months of 2023, we **think that the current rally may be unsustainable for now given that the valuation of the U.S equities market is still trading at 10 year average**

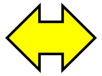
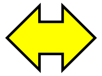
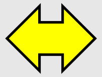
Source: Bloomberg, HLBS 30 Mar 2023

FX outlook

Currencies	Outlook (3- 6 months) – relative to USD	House outlook (12 months) - Relative to USD	Comment
USD	↓	↓	❑ Currently, Federal Reserve is currently has a tough balancing act to **fight inflation and stabilizing the financial system** ❑ However, **our house view thinks that USD may start to lose some of its appeal after 1Q23, given that risk of a recession happening earlier than expected an and Fed may need to pivot earlier if that happens. All these indicates a possible weaker USD** ❑ **Dollar index is still below daily cloud and broken 200 Daily Moving average and weekly support at 100** ❑ **House expect Dollar index to reach 100.97 by end of 2Q2023 and 97.96 by the end of 2023**
SGD	↑	↑	❑ MAS may maintain or readjust the NEER downwards, following the Fed policy, given that MAS expects inflation to stay above 5% in 1Q before moderating in 2H2023 ❑ SGD may continue to strengthen against USD given the Singapore may have less imperative to loosen its monetary policy given that Singapore's financial system may be more resilient compared to US financial system ❑ **USDSGD has broken daily cloud and broken key support and remain under the 200 DMA of 1.37** ❑ **House view now expected the SGD to strengthen against USD to 1.31 in 2Q2023, and may further strengthen further to 1.27 by the end of 2023**
EUR	↑	↑	❑ **The gap between Euro Area and US Monetary policies will likely to narrow rapidly in 2023, giving EUR a possible tailwind in 2023** ❑ **EURUSD has broken the daily cloud but it still remain long term downtrend with broken the 1.04 200MA resistance for the 1st time in 2022** ❑ With the nominal rate at 3% after the latest hike during Mar 2023 meeting, **EUR interest rate is likely still negative given than Euro inflation rate is around 8.5%** ❑ Eurozone unemployment rate remains low and experiencing a higher wage growth, and hence **ECB may stay hawkish longer in 2023** ❑ **House view expects EUR to strengthen against USD to EURUSD 1.10 in 2Q2023, may further strengthen further to 1.12 by the end of 2023**
GBP	↔	↔	❑ Bank of England is on the path of pausing its tightening cycle **as BOE assess that the inflation in UK has peaked** ❑ **Office of Budget responsibility(OBR) predicts that UK inflation to halve by 4Q2023, implying that BOE could have also room to cut rate if necessary** ❑ Overall economic activities such as retail sales and household spending remains weak ❑ **GBPUSD has broken the daily cloud and 100 MA and 200 MA** ❑ **Given that BOE is also on rate pausing cycle, House view expects GBPUSD to trade sideway between 1.24 and 1.25 range by end of 2023**
JPY	↔	↑	❑ With the new central bank governor Kazuo Ueda taking over Kuroda in Apr 2023, **market thinks there is a chance that the new governor may pivot away from its decades long ultra-loose monetary policy** ❑ **However, given the weaker export and economic outlook the probability of BOJ ending its ultra loose monetary policy is lower** ❑ **JPY is likely the most cheapest funding currency for funding right now despite talks of a possible hawkish pivot in March 2023** ❑ **USDJPY remains below the 200DMA and it is getting unlikely for USDJPY to reclaim its above 200 DMA given the weaker dollar** ❑ House **expects USDJPY to trade around 131 by 2Q2023, and JPY may strengthen against USD to 128 towards end of 2023 given that Fed may pivot in 2H2023**

Source: Bloomberg; HLBS, HLBB Global Markets Research,6 Apr 2023

FX outlook (Continued)

Currencies	Outlook (3- 6 months) – relative to USD	House outlook (12 months) - Relative to USD	Comment
CNH			❑ As PBOC is looking to support the economic recovery in China, **PBOC is expected to be dovish in order to support the economy**. ❑ **Chinese economic indicators such as PMI and services PMI are picking very strongly since the reopening of China, with further room to recover in 2Q2023 and beyond** ❑ **Given that Chinese economic recovery accelerating, we think that CNH and Chinese assets will become more attractive in 2023** ❑ **USDCNH has broken 200MA support of 6.90 and CNH likely continue to remain attractive although CNH has strengthened 2% against USD YTD** ❑ House view expect CNH to strengthen against USD to reach USDCNH level of 6.84 in 2Q 2023, **before further strengthening against USD to 6.70 by end of 2023**
AUD			❑ Given that AUD is a commodity currency, AUD dollar outlook will be influenced by commodity price movement ❑ And also, as China is Australia's major trading partner, **China's policies such as Covid-Zero will affect AUD outlook as it will affect the outlook of Australian's commodity exports** ❑ AUD is likely to hold steady against USD despite RBA has already pause its rate hike cycle, **given that Australia will likely benefit from the strong recovery of Chinese economy** ❑ **AUDUSD has remained in the range of 0.66 to 0.70 since January 2023** ❑ **House view expect AUDUSD to hold steady at 0.68 in 2Q 2023 and trade at 0.69 by end of 2023**
MYR			❑ Malaysia economic outlook remain balanced given that **higher tourism activity from the reopening of the Chinese border continue to support the domestic demand** ❑ Inflation is showing sign s of peaking in Malaysia, and this implies Bank of Negara may pause its OPR hike ❑ **USDMYR has broken its 200MA support of 4.47 and remains under 200DMA support** ❑ With the economic picture in Malaysia turn rosier, the House expects the USDMYR to hold steady at 4.39 in 2Q2023, before MYR continue to strengthen against USD to 4.31 by end of 2023

Source: Bloomberg; HLBS, HLBB Global Markets Research,6 Apr 2023

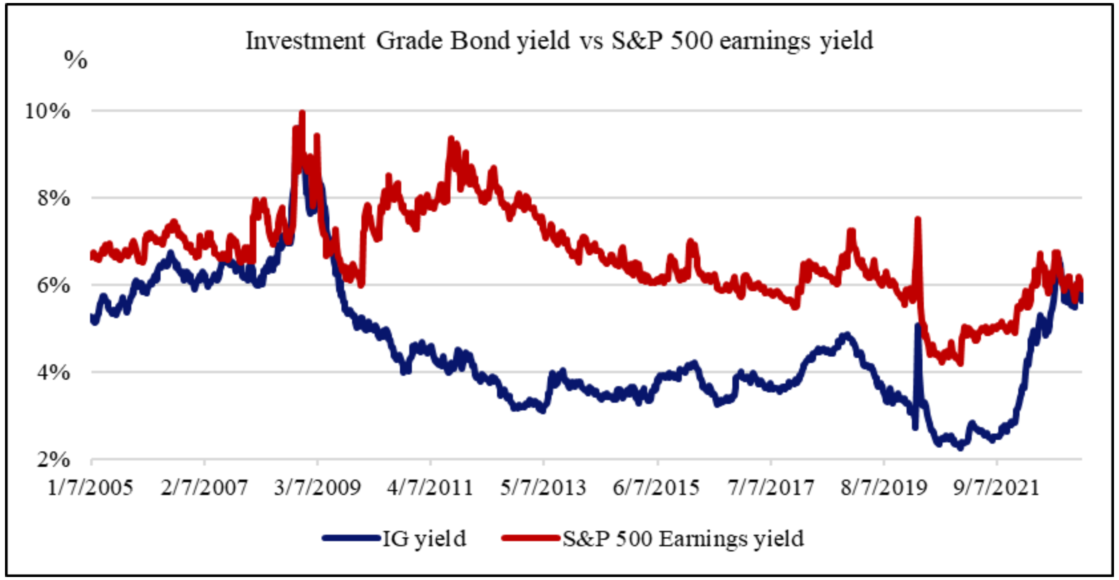
FX Forecasts

	31-Mar	Q2-23	Q3-23	Q4-23	Q1-24
DXY	102.51	100.97	99.96	97.96	96.98
USD/CAD	1.35	1.34	1.32	1.31	1.30
EUR/USD	1.08	1.10	1.11	1.12	1.13
GBP/USD	1.23	1.24	1.25	1.24	1.24
USD/CHF	0.92	0.91	0.91	0.90	0.90
AUD/USD	0.67	0.68	0.68	0.69	0.70
NZD/USD	0.63	0.63	0.64	0.64	0.65
USD/JPY	133	131	130	128	128
USD/MYR	4.42	4.39	4.35	4.31	4.28
USD/SGD	1.33	1.31	1.30	1.27	1.26
USD/CNY	6.87	6.84	6.77	6.70	6.64

Source: HLBB Global Markets Research,6 Apr 2023

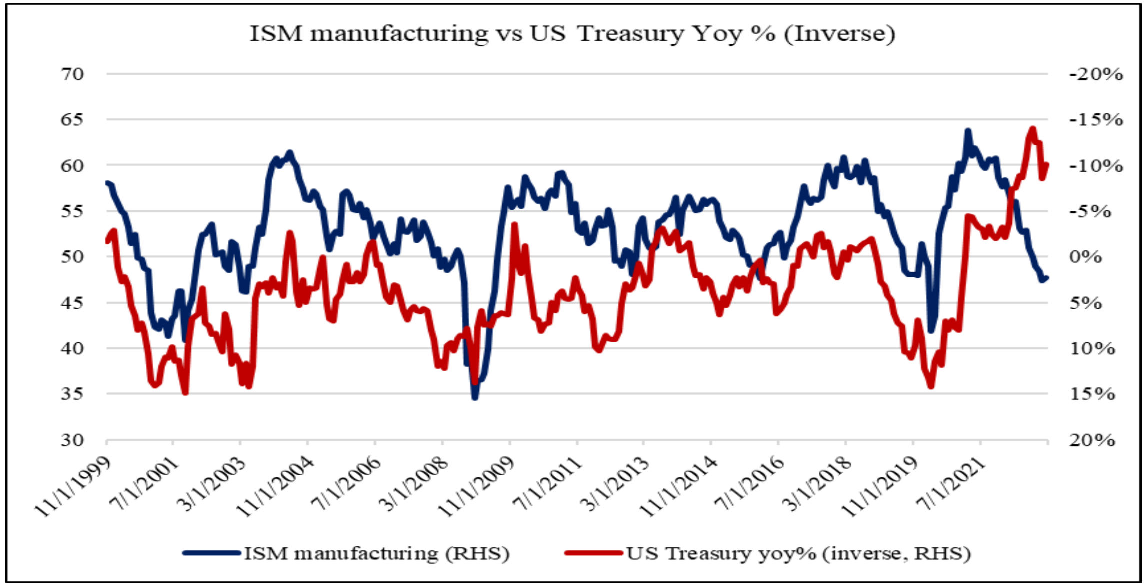
Fixed income outlook

1 Investment Grade bonds remained attractive relative to Equities



- As we were experiencing the highest inflation in 40 years, and unprecedented speed in rate hike across the world in 2022, **bonds and equities both are down -18% and -12% in 2022 respectively.**
- There are still huge value in Investment Grade (IG) bond as the **yield of IG bond now is 5.3% vs the S&P 500 earnings yield of 5.4%**

2 Treasury may begin to outperform as the economy is likely to head towards recessions



- As some of the U.S. economic indicators such as ISM manufacturing is pointing towards a likely recession, some of asset classes like U.S. equities are already pointing to a recession as well
- On the other hand, U.S. Treasury may not have priced in a possible US recession yet, **given that the US Treasury performance is still down 10% yoy.**
- Given that the market still has concern regarding the stability of the banking sectors, **we think that the US Treasury may outperform in 2Q2023 and beyond**

Source: Bloomberg, HLBS as 31 Mar 2023

2Q23 Outlook Preview- Fixed income outlook (Continued)

3 Fixed income has been more correlated to Equities than usual due to rapid monetary tightening, but the relationship should diverge

	1Y	3Y	5Y	7Y	10Y	15Y	20Y	25Y	30Y	35Y	40Y
Small Cap US Equities	0.65	0.42	(0.04)	(0.08)	(0.11)	(0.21)	(0.21)	(0.25)	(0.20)	(0.14)	(0.11)
Large Cap US Equities	0.73	0.54	0.09	0.07	0.01	(0.12)	(0.14)	(0.21)	(0.12)	(0.04)	0.01
EM Equities	0.84	0.61	0.12	0.14	0.10	(0.08)	(0.08)	(0.17)	(0.13)	(0.11)	(0.10)
US IG Fixed income	0.98	0.91	0.65	0.67	0.68	0.54	0.60	0.61	0.67	0.70	0.75
US HY Fixed Income	0.72	0.63	0.15	0.15	0.13	(0.10)	(0.07)	(0.10)	(0.04)	(0.00)	0.08
Commodities	0.36	0.04	(0.29)	(0.25)	(0.24)	(0.25)	(0.18)	(0.13)	(0.12)	(0.13)	(0.16)
Dollar	(0.78)	(0.63)	(0.40)	(0.37)	(0.21)	(0.12)	(0.18)	(0.20)	(0.14)	(0.17)	(0.18)

Source: Bloomberg, HLBS as 31 Mar 2023, The above correlation is the various assets correlations together with US Treasuries

- It is **unusual for Equities, Corporate bonds, and US Treasuries to be positively correlated as history has shown that Equities and bond have been traditionally negatively correlated.**
- As the Fed is likely to pause their rate hike in 2023, **we think that Fixed income, especially Investment grade and government securities should outperform given that Fixed income and Equities should resume their previous correlation.**

Equity themes and outlooks

- Key themes: a) China economic recovery likely accelerate and with a relative cheaper valuation in Chinese and Asian equities, we continue to advocate the focus on the Chinese and Asian equities b) Remain focused on quality and income stocks with the view of a possible earlier than expected Fed pivot
- Most Preferred sectors: We are positive that the Asian banking sectors, especially Chinese banking sectors will be more insulated from the fallout of U.S. and European financial sectors.
- Turning positive: We remain positive on Chinese Tech and semiconductors, given the re-focus on the tech sector post the National People Congress (NPC) in Mar 2023. We remain positive on the Chinese consumers sectors given that there are still upside in the Chinese economic recovery despite the challenges in global economy
- Neutral: We remain neutral on U.S. Tech and semiconductor given that the rally in the first 3 months of 2023 has seen the U.S. tech sector trading at a more fair valuation and lesser upside for now. We are also neutral on European and U.S. financial sectors, given that there may be some lingering concerns on the stability of banking sectors even though the valuation for the European and U.S financial sectors looks attractive
- Least Preferred Sectors: We are least optimistic on the US Real Estate sector, given that the housing activities have dropped significantly and the full-fledged impact of the high interest will likely be felt in 2023
- Style preference: Prefer to look at “Quality” stocks at reasonable valuation and “Income” stocks that pays above real interest rate. We also advocate allocating to “Growth” style equities in China and EM

Country Heatmap- Valuation, earnings revision strength and scoring

Country	Price performance			Consensus EPS growth			Trend and Cycle in EPS			Consensus EPS momentum strength			Valuation			Scoring
	1M%	6M%	YTD	2022 vs 2021	2023 vs 2022	2024 vs 2023	Estimated Trend Growth	Current EPS vs Trend	Estimated 1 yr chg in Fwd EPS	Revision vs Benchmark	EPS Revision Strength	Estimated Valuation Re-rating	Current Fwd P/E	Trend Fwd P/E	Trend Fwd P/E (xSD)	
HK	2%	19%	2%	(10%)	12%	12%	10%	2%	(32%)	4.0	4.0	39%	9.9	12.0	(1.5)	1.18
TW	2%	18%	12%	12%	(23%)	16%	(4%)	(20%)	198%	2.0	2.0	7%	15.1	15.0	0.0	0.89
UK	(3%)	12%	3%	81%	(0%)	2%	4%	(4%)	21%	0.0	0.0	36%	10.4	13.4	(1.0)	0.63
PH	2%	17%	2%	37%	13%	10%	9%	3%	2%	(2.0)	(2.0)	23%	12.6	16.9	(1.3)	0.32
SK	2%	16%	10%	(7%)	(21%)	43%	3%	(24%)	(10%)	(4.0)	(4.0)	16%	13.6	11.9	0.5	0.09
Indo	1%	(1%)	1%	86%	5%	7%	28%	(19%)	43%	(4.0)	(4.0)	11%	14.5	16.1	(0.5)	0.04
MY	(1%)	6%	(2%)	9%	4%	8%	1%	3%	(1%)	(4.0)	(4.0)	17%	13.6	16.3	(1.5)	0.03
SG	3%	9%	6%	38%	0%	7%	2%	(2%)	5%	(4.0)	(4.0)	21%	12.8	14.5	(0.8)	0.02
Aust	(1%)	13%	3%	48%	0%	1%	3%	(3%)	13%	(4.0)	(4.0)	14%	14.0	15.7	(0.7)	(0.02)
CH	3%	17%	4%	(18%)	10%	22%	1%	8%	(8%)	(4.0)	(4.0)	14%	14.0	12.9	0.3	(0.07)
VN	4%	(5%)	6%	14%	17%	20%	6%	10%	(22%)	(6.0)	(6.0)	38%	10.1	13.1	(1.1)	(0.16)
India	(1%)	(3%)	(7%)	27%	21%	19%	4%	15%	(11%)	(4.0)	(4.0)	(18%)	19.2	19.0	0.0	(0.23)
JP	0%	9%	6%	14%	0%	7%	7%	(7%)	34%	(6.0)	(6.0)	19%	13.2	19.7	(0.4)	(0.24)
EU	(2%)	17%	7%	30%	(0%)	6%	3%	(3%)	14%	(6.0)	(6.0)	21%	12.8	14.4	(0.6)	(0.24)
TH	(1%)	2%	(3%)	24%	13%	10%	4%	9%	0%	(6.0)	(6.0)	4%	15.6	14.6	0.3	(0.40)
US	1%	13%	6%	22%	0%	11%	7%	(7%)	4%	(6.0)	(6.0)	(13%)	18.4	17.1	0.4	(0.44)

Source: Bloomberg, HLBS Research, updated as of 30 Mar 2023

- **Bullish:** We remain bullish on the **Hong Kong and China market** given that China having a more benign inflation, likely faster economic growth compared to other regions and relative cheaper valuation

- **Positive:** We remain positive on the **Asian markets such as Singapore, given that** Asian market should be more insulted from the banking chaos in Europe and U.S. and the general recovery of Chinese economy helps with the economy of Asian economies.

- **Neutral:** We are turning **neutral from bearish for the Eurozone market** given that relative valuation of European market.

- **Bearish:** We turn **bearish from neutral for the U.S. market given the relative** high valuation of U.S market compared to other markets, **and concerns of spillover effect of the collapse of Silicon Valley Bank**

Note: Trend and Cycle in EPS: 1. Estimated Trend Growth- CAGR growth over 14 years adjusted by cyclicality of growth for past 14 years, Current EPS vs Trend: Current consensus EPS vs EPS estimated by trend growth, Revision vs benchmark: the consensus EPS revision vs the MSCI world revision, EPS revision strength: the rate of change of the EPS revision over past 1 year, Trend Fwd P/E- Average Fwd P/E over the past 20 years adjusted for cyclicality, **Scoring: we take the following metrics to score: 1) 2023 vs 2022 growth, 2) Current EPS vs Trend, 3) Estimated 1 yr chg in Fwd EPS, 4) Revision vs Benchmark, 5) EPS Revision Strength, 6) Estimated valuation re-rating, 7) Current Fwd P/E, and 8) Trend P/E (xSD). The scoring is arrive by Comparing the individual metric to max and min in comparison range and we get average of individual Scoring to get the final scoring**

US sector Heatmap- Valuation, earnings revision strength and scoring

Country	Price performance			Consensus EPS growth			Trend and Cycle in EPS			Consensus EPS momentum strength			Valuation			Scoring
	1M%	6M%	YTD	2022 vs 2021	2023 vs 2022	2024 vs 2023	Estimated Trend Growth	Current EPS vs Trend	Estimated 1 yr chg in Fwd EPS	Revision vs Benchmark	EPS Revision Strength	Estimated Valuation Re-rating	Current Fwd P/E	Trend Fwd P/E	Trend Fwd P/E (xSD)	
Telecom Services	(0%)	11%	1%	91%	4%	4%	(6%)	11%	(9%)	1.7	4.0	50%	9.2	13.9	(1.8)	0.80
Diversified Fin	(5%)	11%	(2%)	(42%)	9%	7%	14%	(4%)	36%	1.7	4.0	5%	17.4	15.6	0.2	0.77
Banks	(19%)	(2%)	(12%)	(13%)	4%	6%	(0%)	4%	(6%)	1.3	2.0	54%	8.4	13.8	(0.8)	0.75
Healthcare Equipment & Services	(1%)	5%	(6%)	44%	10%	11%	11%	(1%)	(0%)	1.7	4.0	3%	17.9	17.5	0.1	0.72
Retailing	1%	(2%)	5%	(13%)	20%	18%	12%	7%	(0%)	1.7	4.0	(33%)	24.4	22.8	0.3	0.67
Biotech & Life Science	2%	7%	(6%)	51%	8%	8%	8%	0%	2%	1.3	2.0	9%	16.6	15.3	0.5	0.65
Transportation	(2%)	15%	3%	116%	13%	12%	14%	(1%)	70%	0.3	(4.0)	22%	14.3	42.8	(0.1)	0.64
Energy	(1%)	16%	(6%)	449%	(5%)	(5%)	4%	(8%)	71%	0.3	(4.0)	45%	10.1	20.6	(0.4)	0.64
Consumer Durables	1%	34%	5%	(16%)	12%	11%	10%	2%	(1%)	1.0	0.0	8%	17.0	18.5	(0.2)	0.63
Software Services	7%	19%	12%	26%	15%	14%	11%	3%	(1%)	1.7	4.0	(45%)	26.6	22.0	0.8	0.62
Materials	(3%)	17%	2%	(1%)	6%	7%	4%	1%	7%	1.0	0.0	7%	17.2	18.3	(0.2)	0.62
Utilities	4%	4%	(4%)	60%	8%	7%	3%	5%	(2%)	1.3	2.0	3%	17.8	16.2	0.6	0.61
Media	9%	17%	21%	2%	19%	15%	9%	9%	(1%)	0.3	(4.0)	1%	18.2	19.4	(0.2)	0.51
Insurance	(7%)	10%	(6%)	(1%)	12%	9%	2%	10%	22%	0.0	(6.0)	32%	12.5	12.2	0.2	0.49
Food & Staple	2%	8%	4%	90%	10%	7%	7%	3%	2%	0.7	(2.0)	(16%)	21.2	18.7	0.7	0.48
Real Estate	(5%)	2%	(1%)	(7%)	9%	8%	(3%)	13%	(10%)	1.3	2.0	(94%)	35.6	40.4	(0.6)	0.47
Semiconductors & Equipment	10%	50%	33%	6%	32%	20%	13%	17%	(28%)	1.0	0.0	(47%)	27.1	19.3	0.9	0.46
Consumer services	1%	26%	10%	2496%	23%	13%	16%	6%	3%	0.3	(4.0)	(39%)	25.5	27.8	(0.1)	0.44
F&B and Tobacco	3%	12%	(1%)	32%	6%	6%	6%	(0%)	5%	0.0	(6.0)	(0%)	18.4	17.6	0.3	0.42
Hardware and Equipment	8%	18%	20%	22%	9%	7%	13%	(4%)	13%	0.0	(6.0)	(27%)	23.4	18.1	0.9	0.38
Capital Goods	(1%)	25%	1%	53%	12%	7%	4%	8%	(1%)	0.0	(6.0)	(7%)	19.6	17.5	0.6	0.37
Household & Personal Product	5%	17%	(2%)	4%	9%	7%	3%	6%	(2%)	0.3	(4.0)	(34%)	24.6	19.9	1.4	0.36
Communication Services	3%	9%	2%	40%	11%	13%	3%	8%	(8%)	0.0	(6.0)	(45%)	26.7	20.4	1.1	0.31
Auto	(5%)	(20%)	44%	47%	22%	17%	(7%)	31%	(21%)	0.0	(6.0)	(25%)	22.9	17.7	0.3	0.31

Source: Bloomberg, HLBS Research, updated as of 30 Mar 2023

- **Positive:** We remain **positive on defensive sectors like the Telecom Services** as they continue to pay high **dividend yield of 6%-7%**. We turn **positive on the Healthcare and Biotech given that the sector** may offer some hedge against recession. We are also cautiously optimistic on the **Retail sectors as we believe that there is still some tailwind on the Chinese consumption recovery**

- **Neutral:** We **turn neutral on the Food & Staple, F&B tobacco, and Energy** given that the relative outperformance in 2022, **and the easing concern on inflation**. We **remain neutral on the Tech and semiconductor** as the possibilities of Fed pivot will benefit tech and semiconductor stocks, **but we are concerned on the Tech and semiconductor's valuation at this point.** We also downgraded the **Financial sectors to neutral, given that the recent SVB saga may result in short-term overhang on the Financial sectors, but the Banks' valuation remain attractive.**

- **Bearish:** We **are bearish on the Real Estate sector given that the effect of high mortgage rate will likely be** fully transmitted into the financial performance in 2023

China sector Heatmap- Valuation, earnings revision strength and scoring

	Price performance			Consensus EPS growth			Trend and Cycle in EPS			Consensus EPS momentum strength			Valuation			
Country	**1M%**	**6M%**	**YTD**	**2022 vs 2021**	**2023 vs 2022**	**2024 vs 2023**	**Estimated Trend Growth**	**Current EPS vs Trend**	**Estimated 1 yr chg in Fwd EPS**	**Revision vs Benchmark**	**EPS Revision Strength**	**Estimated Valuation Re-rating**	**Current Fwd P/E**	**Trend Fwd P/E**	**Trend Fwd P/E (xSD)**	**Scoring**
Financial	(4%)	3%	(3%)	8%	8%	13%	8%	1%	1%	2.7	10.0	54%	6.4	9.5	(0.9)	1.02
Materials	(6%)	4%	5%	11%	17%	11%	5%	12%	11%	2.3	8.0	14%	12.1	24.1	(0.4)	0.87
Consumer Discretionary	(5%)	1%	(1%)	18%	18%	17%	8%	9%	(1%)	2.3	8.0	(17%)	16.4	17.1	(0.1)	0.82
Energy	3%	(6%)	8%	55%	(9%)	0%	3%	(11%)	40%	0.3	(4.0)	50%	7.0	15.5	(1.2)	0.72
IT	11%	29%	21%	(34%)	34%	30%	5%	28%	0%	2.3	8.0	(167%)	37.3	32.6	0.4	0.62
Healthcare	(4%)	7%	(1%)	(13%)	23%	22%	(1%)	24%	(14%)	2.3	8.0	(133%)	32.6	29.7	0.3	0.61
Utilities	0%	(2%)	2%	4%	46%	10%	8%	35%	4%	1.7	4.0	(43%)	20.1	17.9	0.2	0.58
Industrial	(3%)	0%	1%	(9%)	17%	18%	(0%)	18%	(7%)	1.0	0.0	(21%)	17.0	16.5	0.1	0.55
Telecom	6%	50%	28%	23%	20%	16%	8%	12%	40%	0.3	(4.0)	(72%)	24.0	29.1	(0.3)	0.53
Consumer Staple	(3%)	(1%)	3%	53%	36%	10%	16%	17%	20%	0.3	(4.0)	(128%)	31.9	26.0	0.7	0.31

Source: Bloomberg, HLBS Research, updated as of 30 Mar 2023

- **Bullish:** We **remain positive for Chinese Financials as the valuation and dividend remain attractive** due to the reopening of Chinese economy may result in higher loan growth, and we believe that the Chinese Financials remain **relatively insulated from the instability from the U.S and European financial institution**

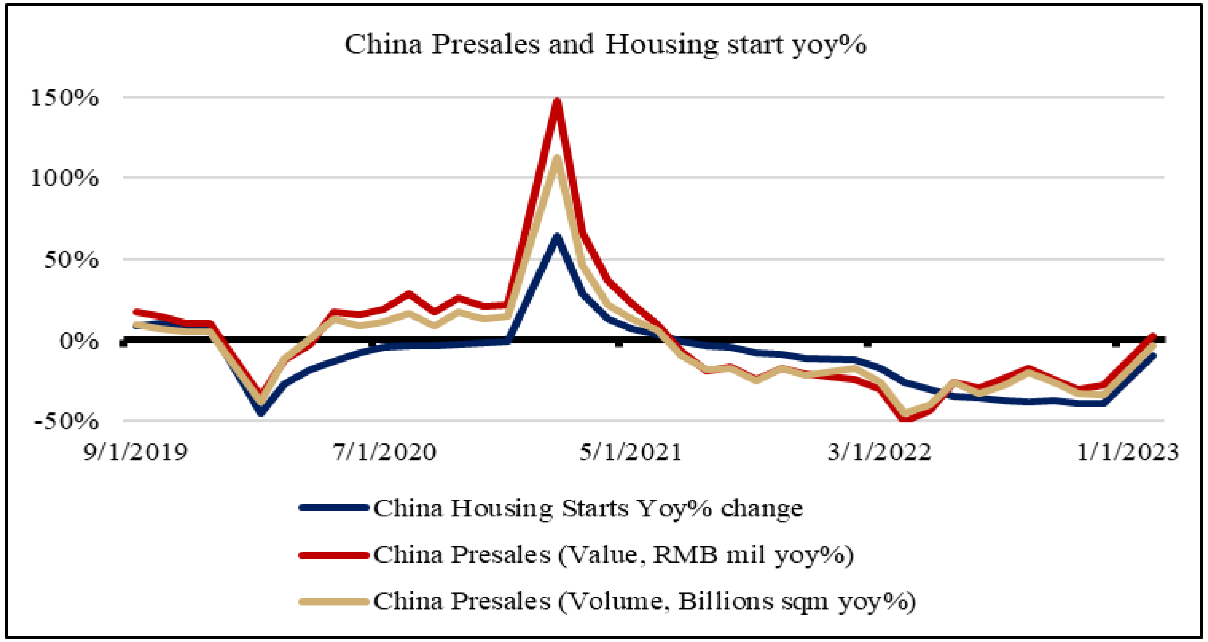
- **Positive:** We **remained constructive on the IT sector as clarity on** regulation likely add further upside to earnings and valuations. We have also **remained positive on the Consumer Discretionary given that there will likely be tailwinds on the Chinese consumption recovery.**

- **Neutral:** We **remained neutral on the defensive sectors like** Telecom as although Telecom sector offers high and sustainable dividend yield for investors to ride out the volatility in the markets, market may turn their focus to reopening sectors and away from defensive sectors. In addition, the rally of the Chinese Telecom sectors has made the valuation less attractive. We **remained neutral on the China material sector as we await further sign of property recovery**

Key Investment Themes

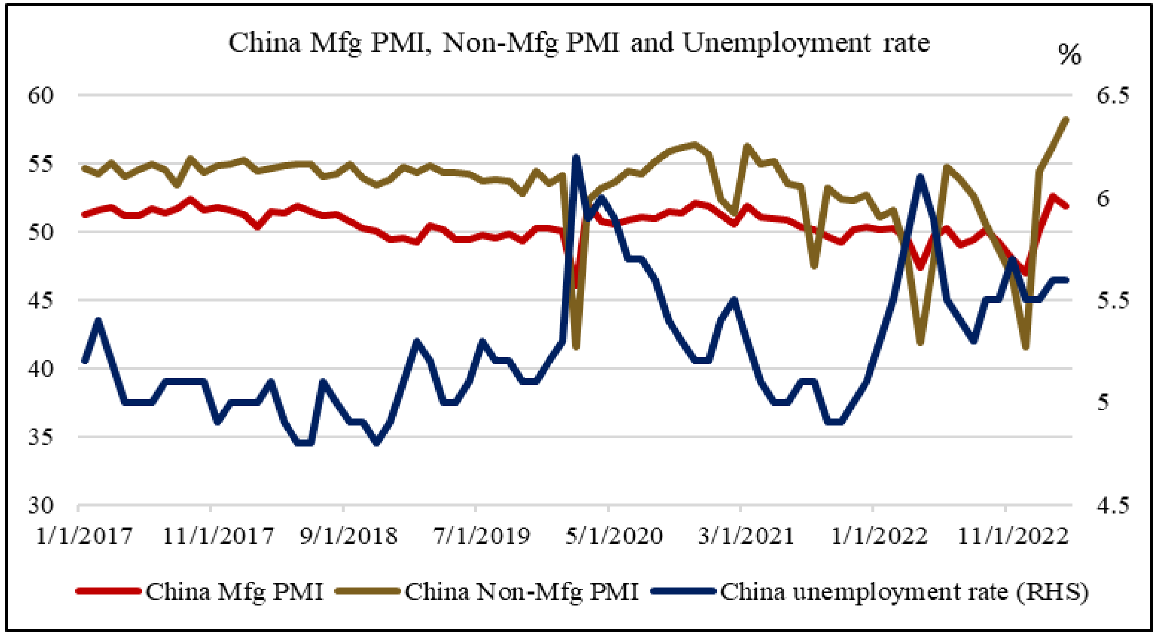
Key Themes - China and Asia remain bright spot amidst banking sector concerns

1 Recovery in Housing market in China has started to pick up in 2023



- With China start to reopen fully its economy in 2023, the Chinese property sales have started to bottom and recover
- Based on the most recent data released on 28 Feb 2023, **the Chinese presales has grown 2% year on year, the 1st year on year growth since Jul 2021**
- **We believe that the recovery in housing sales and asset prices will be important as it will likely help in boosting the confidence of consumer due to wealth effect**

2 China Non-Manufacturing PMI continues to expand

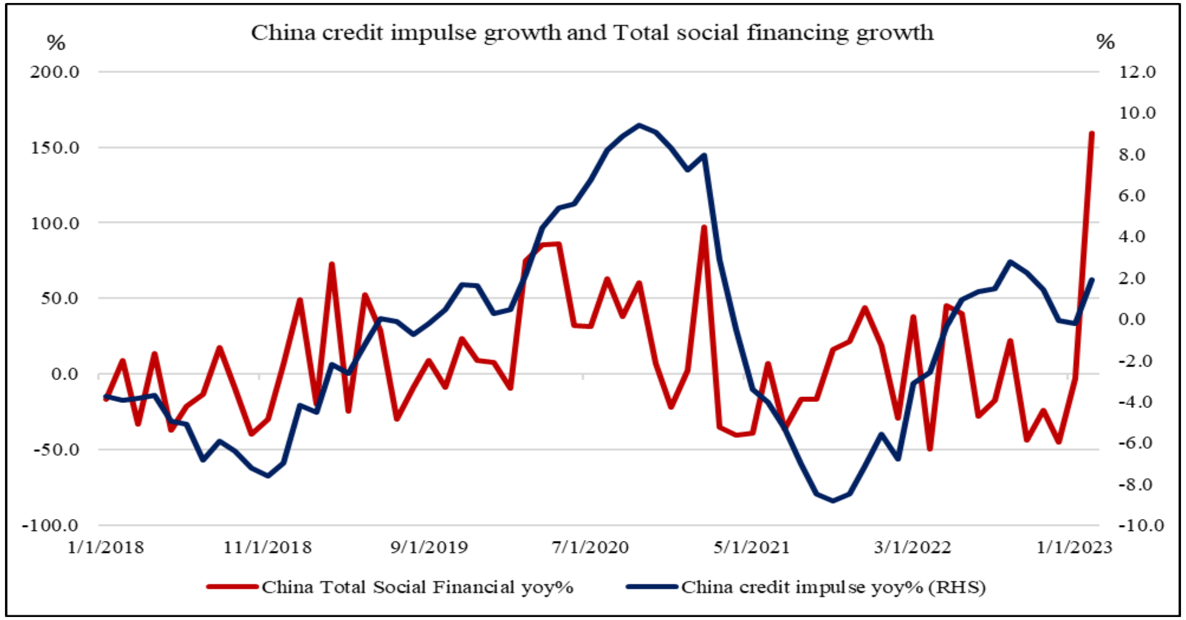


- As China consumption and economy continue to recovery, China services and manufacturing PMI continues to recover
- Based on the latest data released on 31 Mar 2023**, the Chinese Non-Manufacturing PMI has reached 58.2, the highest level in 6 years**
- **This indicates that the consumption in China will likely to continue to recover steadily, and we would expect the consumption in China continues to grow**

Source: Bloomberg, HLBS as 2 Apr 2023

Key Themes - China and Asia remain bright spot amidst banking sector concerns

3 China credit growth has begun to pick up



- ❑ With China economic activity has begun to pick up, the Chinese credit growth has also begun to pick up
- ❑ The China credit impulse and the Chinese total social financing has shown strong year on year growth in the most recent data released on 28 Feb
- ❑ **With the Chinese credit growth likely to continue, we can expect the Chinese economy continue to expand in 2023**

4 Chinese equity market is attractive due to its relative value compared to global market

- ❑ With favorable economic data, we continue to advocate the focus on Chinese equity
- ❑ **In addition, MSCI China is still trading at 10x PE or -1SD of its 10 year average, making the Chinese equities even more attractive relative to developed markets**

Source: Bloomberg, HLBS as 2 Apr 2023

Key Themes - China and Asia remain bright spot amidst banking sector concerns

5 Potential ideas from Quality screen

Focus List													
Ticker	Name	Industry	Price	1 yr Target Price	% Upside	Market cap (US$ mil)	YTD	Fwd 2023 PE (x)	2023 Net income (mil)	2023 growth	PB (x)	Div yield	ESG Score
Greater China/Hong Kong													
1398 HK Equity	ICBC	Banks	4.15	6.60	59%	223,481	3%	3	395,758	6%	0.4	8.3%	A
3988 HK Equity	Bank of China	Banks	3.04	4.00	32%	137,811	7%	3	240,959	7%	0.4	8.5%	A
700 HK Equity	Tencent	Media & Entertainment	384.00	428.00	11%	468,336	21%	19	168,941	18%	4.5	0.4%	BBB
9618 HK Equity	JD.com	Retailing	158.70	467.00	194%	63,871	(27%)	12	38,934	25%		4.6%	BBB
9988 HK Equity	Alibaba	Retailing	97.60	150.00	54%	257,369	13%	11	157,134	11%			BBB
2628 HK Equity	China Life	Insurance	12.90	18.00	40%	113,018	(4%)	6	56,344	15%	0.7	5.9%	BBB
2318 HK Equity	Ping An	Insurance	50.90	84.00	65%	119,300	(1%)	5	152,041	15%	0.9	5.5%	A
9888 HK Equity	Baidu	Media & Entertainment	142.30	159.10	12%	50,699	27%	13	26,249	18%			BBB
1772 HK Equity	Ganfeng Lithium	**EV - Lithium producer**	45.25	90.00	99%	17,403	(22%)	5	15,024	(12%)	1.8	0.6%	BBB
941 HK Equity	China Mobile	Telecom	65.80	71.50	9%	184,269	27%	8	145,741	8%	1.0	7.0%	N.S.
1928 HK Equity	Sands China	Gaming	28.70	32.60	14%	29,641	11%	18	1,767	290%			A
883 HK Equity	CNOOC	Oil & Gas	12.22	14.00	15%	77,119	22%	4	120,641	(4%)	0.9	15.4%	N.S.
TSM US Equity	TSMC	Semiconductor	90.20	105.00	16%	467,822	22%	13	1,060,347	N.A.		2.0%	AAA

Source: Bloomberg, HLBS as 6 Apr 2023

Key Themes – Remained focus on quality and income, with eyes on possible earlier Fed pivot

1 Equity will likely post strong return after underperforming other asset classes leading up to a recession

							R							R	R													
						B	B	B					B	B			B							B		B		B
	T				T	T				T	T	T									T	T	T	T				T
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
Equity	34.1%	20.3%	31.0%	26.7%	19.5%	(10.1%)	(13.0%)	(23.4%)	26.4%	9.0%	3.0%	13.6%	3.5%	(38.5%)	23.5%	12.8%	(0.0%)	13.4%	29.1%	11.4%	(0.7%)	9.5%	19.4%	(6.2%)	28.9%	16.3%	26.9%	(24.8%)
Bonds	18.5%	3.6%	9.7%	8.7%	(0.8%)	11.6%	8.4%	10.3%	4.1%	4.3%	2.4%	4.3%	7.0%	5.2%	5.9%	6.5%	7.8%	4.2%	(1.9%)	6.0%	0.5%	2.6%	3.5%	0.0%	8.7%	7.5%	(1.5%)	(14.6%)
Commodity	11.4%	29.6%	(6.9%)	(30.7%)	25.7%	24.3%	(24.5%)	31.4%	22.9%	16.6%	19.1%	(7.4%)	16.7%	(36.0%)	23.5%	17.4%	(8.3%)	(3.4%)	(4.2%)	(17.9%)	(23.4%)	9.3%	0.7%	(12.4%)	9.4%	(9.7%)	38.5%	15.5%
Real Estate										16.0%	11.9%	35.3%	(16.5%)	(37.0%)	30.1%	28.4%	8.6%	17.6%	2.9%	30.4%	2.4%	8.6%	4.9%	(6.0%)	28.9%	(4.6%)	40.5%	(29.3%)

- ❑ Looking back at the past few recessions in 30 years (R: 2000, 2008), Equities have underperformed other asset classes in the years prior or during the start of recession period.
- ❑ **However, Equities was the strongest performer among the different asset classes 1-2 year after the start of recession (2003 – 2 years after start of recession, 2009 – 1 year after start of recession).**
- ❑ Hence, as Equities have corrected -26.4% this year as market is pricing a potential recession in 2023 and unprecedented monetary tightening, **we think that there is high probability for equities to outperform going into 2H2023.**

Source: Bloomberg, HLBS as 30 Mar 2023

Legend

R : Recession defined by The National Bureau of Economic Research of U.S. (NBER)

T : Monetary Tightening or Quantitative Tightening by the Federal Reserve

B : Equity market bear market, note 2020 is defined as bear market as equity was down -7% in 1H2020 due to Covid pandemic and rally in 2H2020

*** 2022 1 year return is measured from 1 Oct 2021 till 1 Oct 2022**

Equity: MSCI World Index

Bonds: Bloomberg US Aggregate Investment Grade Bond Index

Commodities: CRB Index

Real Estate: Vanguard Real Estate ETF

Key Themes – Remained focus on quality and income, with eyes on possible earlier Fed pivot

2 History suggest that "Income" and "Quality" style of equity investing should outperform during economic downturn

							R							R	R													
						B	B	B					B	B			B							B		B		B
	T				T	T				T	T	T									T	T	T	T				T
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022***
Income	28.8%	24.5%	30.4%	16.3%	(15.1%)	20.3%	9.2%	(7.5%)	30.5%	11.3%	4.3%	21.5%	(2.0%)	(34.0%)	31.8%	10.1%	9.0%	8.7%	5.5%	19.3%	(6.0%)	7.0%	26.7%	(10.1%)	20.9%	(3.7%)	9.4%	(12.4%)
Quality	39.2%	22.0%	33.4%	27.1%	18.7%	2.2%	(11.6%)	(15.0%)	24.7%	14.6%	6.4%	20.0%	15.2%	(32.6%)	24.4%	11.8%	(3.7%)	13.2%	19.9%	11.1%	2.5%	4.3%	23.6%	(10.7%)	23.9%	15.7%	15.8%	(22.5%)
Growth	46.4%	37.5%	39.9%	34.6%	9.7%	8.8%	(10.3%)	(17.6%)	15.6%	19.3%	9.2%	22.7%	12.0%	(31.0%)	20.8%	10.0%	0.1%	15.1%	23.7%	7.9%	(0.2%)	6.1%	25.7%	(6.7%)	30.5%	21.5%	21.4%	(21.7%)
Value	39.7%	22.8%	33.5%	32.2%	17.9%	(10.4%)	(17.0%)	(20.3%)	36.6%	19.0%	2.8%	13.8%	23.4%	(42.0%)	2.4%	13.7%	(2.9%)	12.2%	31.8%	7.9%	4.8%	2.7%	22.3%	(7.6%)	38.9%	32.6%	21.9%	(21.8%)
Size	35.5%	22.4%	27.8%	15.8%	26.1%	4.5%	(13.3%)	(12.2%)	52.9%	22.5%	31.5%	(3.1%)	(6.0%)	(19.7%)	18.2%	18.6%	(2.0%)	10.9%	20.4%	5.9%	10.3%	6.8%	34.7%	(17.5%)	21.1%	6.0%	3.0%	(21.5%)
Momentum	(6.0%)	(12.4%)	(14.2%)	21.7%	67.9%	(32.8%)	(23.7%)	(0.0%)	52.8%	28.8%	37.7%	(14.3%)	29.2%	(48.6%)	(6.8%)	20.8%	(9.4%)	10.0%	33.3%	2.3%	8.6%	(1.8%)	38.2%	(19.9%)	18.1%	23.8%	4.9%	(25.6%)
Low Volatility	(3.3%)	(15.8%)	(42.9%)	14.8%	57.2%	(11.2%)	(13.1%)	(1.3%)	48.6%	31.6%	32.4%	(10.6%)	(2.1%)	(18.6%)	17.9%	18.0%	(2.8%)	9.1%	25.6%	6.6%	16.5%	3.6%	35.5%	(15.5%)	19.8%	7.7%	(3.3%)	(22.4%)
MSCI World	**21.3%**	**14.1%**	**16.3%**	**24.8%**	**25.6%**	**(12.9%)**	**(16.5%)**	**(19.5%)**	**33.8%**	**15.3%**	**10.1%**	**20.7%**	**9.7%**	**(40.3%)**	**30.9%**	**12.4%**	**(5.0%)**	**16.6%**	**27.4%**	**5.6%**	**(0.3%)**	**8.2%**	**23.1%**	**(8.2%)**	**28.4%**	**16.5%**	**22.4%**	**(19.0%)**
Inflation	**2.5%**	**3.3%**	**1.7%**	**1.6%**	**2.7%**	**3.4%**	**1.6%**	**2.4%**	**1.9%**	**3.3%**	**3.4%**	**2.5%**	**4.1%**	**0.1%**	**2.7%**	**1.5%**	**3.0%**	**1.7%**	**1.5%**	**0.8%**	**0.7%**	**2.1%**	**2.1%**	**1.9%**	**2.3%**	**1.4%**	**7.0%**	**8.3%**

- ❑ In the previous downturn (2001 and 2009), **Income and Quality investing have outperformed the rest of investing styles for equities. Income investing also has beaten the benchmark, MSCI World Index.**
- ❑ As this year is an unprecedented period due to highest inflation in 40 years and unprecedented speed of rate hikes, market sold off all risk assets including equities and bonds. **Despite of the sell-off, Income stock is only down -12.4% in 1 year vs the benchmark of -19%.**
- ❑ Should we face with the economic downturn in 2Q2023 and beyond, and should the history is of any guide, **Income and Quality stocks should outperform next year.**

Source: Bloomberg, HLBS as of 30 Mar 2023

Legend

R : Recession defined by The National Bureau of Economic Research of U.S. (NBER)

T : Monetary Tightening or Quantitative Tightening by the Federal Reserve

B : Equity market bear market, note 2020 is defined as bear market as equity was down -7% in 1H2020 due to Covid pandemic and rally in 2H2020

Note and definitions:

All factor investing style model are developed by HLBS based on MSCI and Bloomberg Methodologies.

Income: Stocks (excl REITS) with dividend yield higher than its country dividend yield, consistent dividend payment (at least 7 years out past 10 years) and sustainable dividend payout ratio between 20% to 70% of income

Quality: Stocks with ROE in top percentile of its country, low debt to equity ratio relative to country, high consistency in core earnings

Growth: Stocks with proven quality, high 3-5 years forward growth, and proven historical record of earnings growth

Value: Stocks (excl Financials & Real Estate) that have low P/E, PB, EV to cash flow to historical average

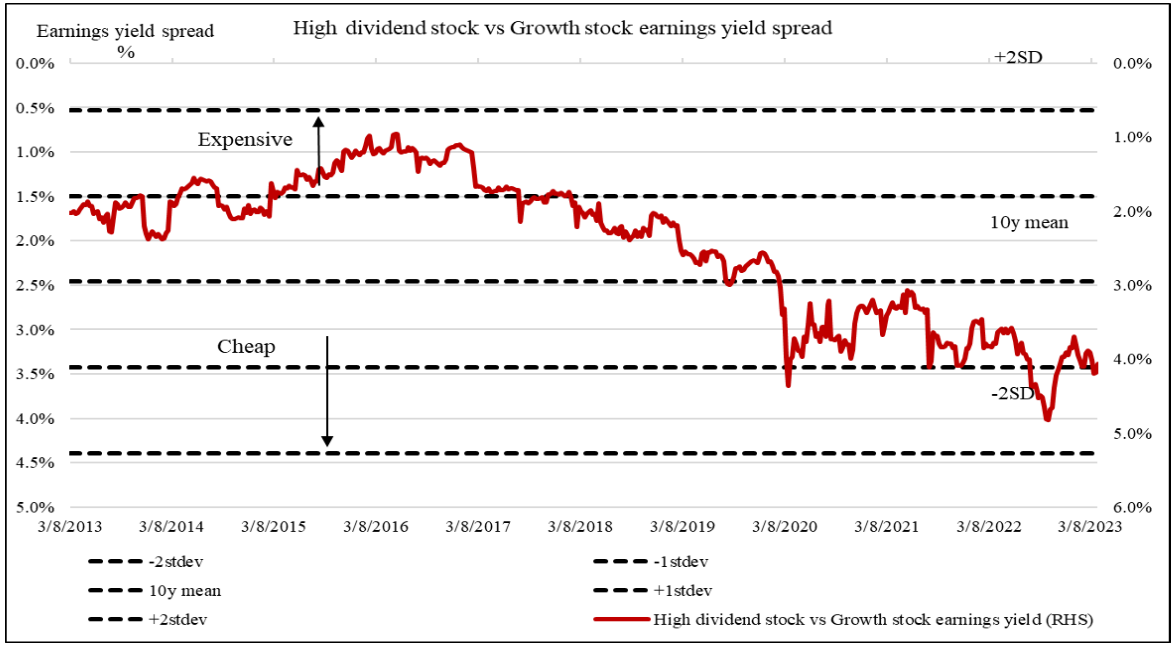
Size: Stocks that are relative rank by market cap, sales and assets, and stocks that are small- mid cap are chosen

Momentum: Stocks that display momentum vs market in 6 months to 12 months time frame

Low Volatility: Stocks that display a low 5y Beta vs the market

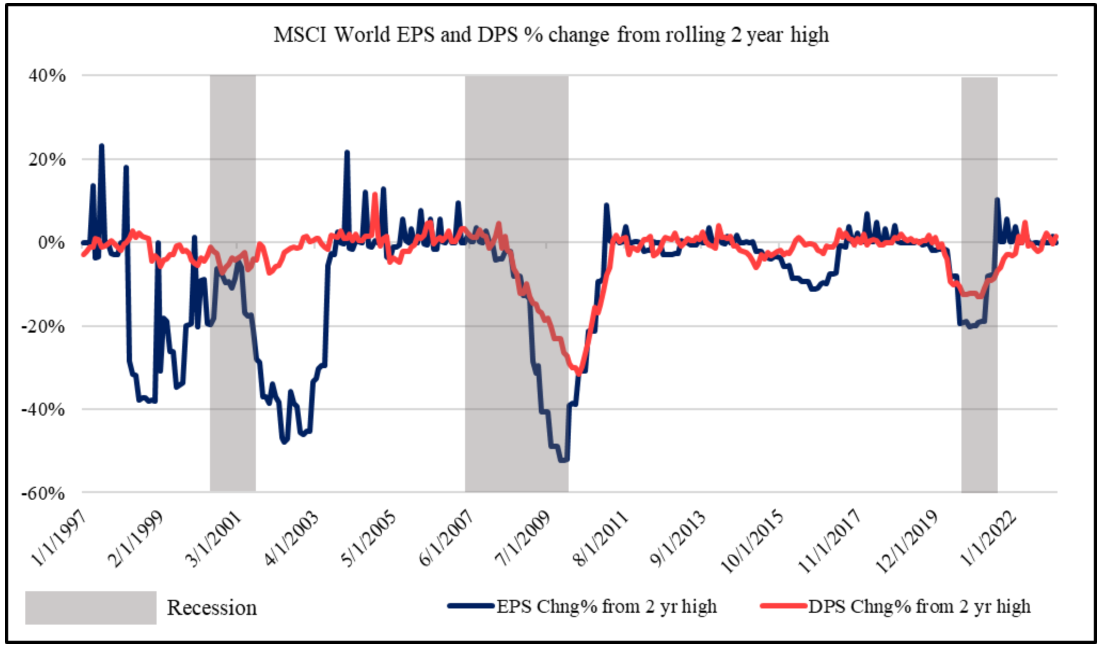
Key Themes – Remained focus on quality and income, with eyes on possible earlier Fed pivot

3 Income stock are still cheap by historical standard



- Over the past 6 years when the QE was still in force, stocks that are in the "Growth" investing style outperformed stocks in the "Income" investing style
- Despite the volatility in 2022, **the "Income" stock still remain attractive vs the "Growth" stock and we think that it is still wise to remain focused on Quality stocks that pay decently high dividend yield amid a potential recession in 2023**

4 Dividend tend to be more resilient compared to earnings in a recessionary period

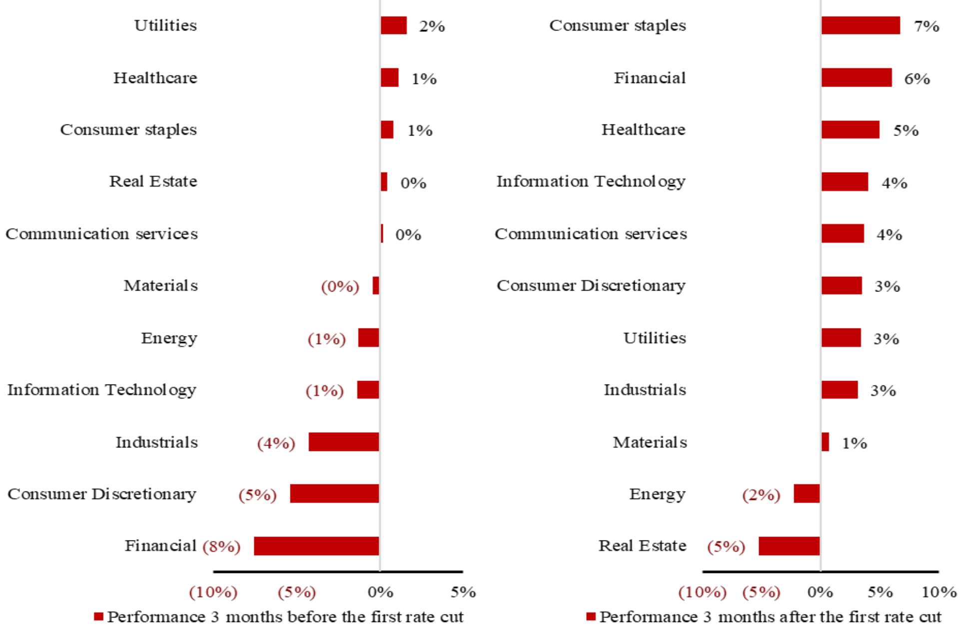


- In a recessionary environment, **earnings would de-rate much more than dividend given that earnings are subjected to the volatility in consumer demand and increased cost.**
- On the other hand, dividend drop less than earnings during recession is likely because **most companies that pays dividend have clear dividend policies and management would generally avoid dividend cut given that a dividend cut is a negative signaling of company's future prospects to investors.**

Source: Bloomberg, HLBS as 5 Apr 2023

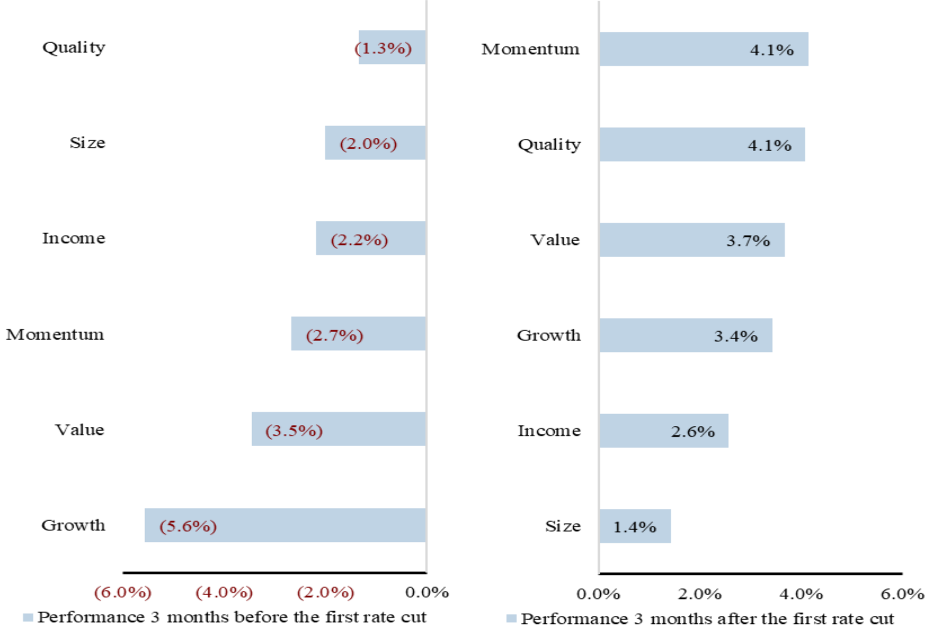
Key Themes – Remained focus on quality and income, with eyes on possible earlier Fed pivot

5 Consumer staples, Financial, Healthcare and Technology are likely winners after 3 months of the 1st rate cut



- As the probability of a recession increased for the U.S. due to increased in job cuts, contractionary PMI, and etc, **the likelihood of an earlier rate cut has increased for Fed.**
- Looking back at the past 1st rate cut in the past 30 years, **Consumer staples, Financial, Healthcare, and Technology are likely the winners after 3 months of the 1st rate cut from the Federal Reserve**

6 Quality stocks are likely the outperformers 3 months before and after the rate cut



- Historically, prior to a 1st Fed rate cut, **usually the economic conditions had been in some form of slowdown and asset prices like equities are generally down prior to a 1st Fed rate cut**
- "Quality" style investing **will likely be the outperformer regardless of whether it is before or after the 1st rate cut**
- Prior to the 1st rate cut, **"Size (focus on blue chip)" and "Income" style investing are likely the outperformer given the likely focus on safety due economic uncertainty prior to 1st rate cut**
- Post the 1st rate cut, "**Momentum", "Quality" and "Growth" are likely the outperformers.**

Source: Bloomberg, HLBS as 5 Apr 2023

Key Themes – Remained focus on quality and income, with eyes on possible earlier Fed pivot

7 Potential ideas from Quality screen

Ticker	Name	Industry	Price	1 yr Target Price	% Upside	Market cap (US$ mil)	YTD	Fwd 2023 PE (x)	2023 Net income (mil)	2023 growth	PB (x)	Div yield	ESG Score	Quality score
China/Hong Kong														
700 HK Equity	TENCENT	Tech	384.00	428.00	11%	468,336	21%	19	168,941	18%	4.5	0.4%	BBB	1.3
2382 HK Equity	SUNNY OPTICAL	Tech- Hardware	92.20	110.00	19%	12,883	(1%)	21	4,161	N.A.	4.1	1.2%	A	1.1
3988 HK Equity	BANK OF CHINA-H	Financial	3.04	4.00	32%	137,811	7%	3	240,959	7%	0.4	8.5%	A	1.4
2628 HK Equity	CHINA LIFE-H	Financial	12.90	18.00	40%	113,018	(4%)	6	56,344	15%	0.7	5.9%	BBB	1.0
2318 HK Equity	PING AN-H	Financial	50.90	84.00	65%	119,300	(1%)	5	152,041	15%	0.9	5.5%	A	1.5
1658 HK Equity	POSTAL SAVINGS-H	Financial	4.74	6.13	29%	66,189	(2%)	4	104,205	13%	0.6	6.1%	A	1.1
981 HK Equity	SMIC	Semiconductor	22.25	26.00	17%	33,746	33%	25	940	36%	1.2		N.S.	1.3
2020 HK Equity	ANTA SPORTS PROD	Consumer discretionary	110.20	132.00	20%	38,060	8%	23	11,527	21%	7.6	1.2%	B	1.0
1211 HK Equity	BYD CO LTD-H	EV	226.60	341.43	51%	97,608	18%	18	33,335	42%	5.2	0.1%	AA	1.4
United States														
MSFT US Equity	MICROSOFT CORP	Tech	284.34	306.00	8%	2,116,571	19%	26	80,139	15%	11.6	0.9%	AAA	1.5
GOOGL US Equit	ALPHABET INC-A	Tech	104.47	123.00	18%	1,341,024	18%	16	82,616	18%	5.2		BBB	0.8
V US Equity	VISA INC-CLASS A	Financial	228.17	273.00	20%	481,020	10%	24	19,665	12%	12.3	0.7%	A	1.1
JPM US Equity	JPMORGAN CHASE	Financial	127.61	153.10	20%	374,084	(3%)	10	37,959	1%	1.4	3.1%	A	1.5
BABA US Equity	ALIBABA GRP-ADR	Tech	98.55	150.00	52%	254,998	12%	11	157,134	11%	1.8		BBB	1.4
NKE US Equity	NIKE INC -CL B	Consumer discretionary	120.90	139.00	15%	187,463	4%	30	6,235	23%	12.8	1.1%	BBB	1.1
SPGI US Equity	S&P GLOBAL INC	Financial	344.60	396.29	15%	113,011	3%	24	4,357	9%	3.1	1.0%	AA	1.9
AMAT US Equity	APPLIED MATERIAL	Semiconductor	117.32	134.90	15%	99,149	21%	17	5,553	(6%)	7.4	0.9%	AA	1.4
BLK US Equity	BLACKROCK INC	Financial	656.04	756.90	15%	99,195	(7%)	17	5,870	14%	2.6	3.0%	A	0.7
PYPL US Equity	PAYPAL HOLDINGS	Financial	73.61	134.00	82%	83,280	3%	13	6,173	13%	4.1		A	0.9
ZTS US Equity	ZOETIS INC	Consumer - Pet	167.65	201.00	20%	77,613	15%	28	2,787	12%	17.7	0.8%	AA	1.4
BIDU US Equity	BAIDU INC-SP ADR	Tech	144.54	161.00	11%	50,531	26%	13	26,249	18%	1.5		BBB	1.4
Singapore														
SGX SP Equity	SINGAPORE EXCH	Financials	9.54	10.50	10%	7,665	8%	20	509	N.A.	6.8	3.4%	AA	0.7
MLT SP Equity	MAPLETREE LOG TR	Logistic REITs	1.74	2.00	15%	6,304	12%	22	377	(11%)	1.2	4.6%	BBB	1.2
CLAR SP Equity	CAPITALAND ASCEN	Industrial REITS	2.89	3.30	14%	9,140	8%	18	664	N.A.	1.2	5.3%	A	1.0
THBEV SP Equity	THAI BEVERAGE	Consumer Staples	0.66	0.78	18%	12,475	(1%)	13	31,891	8%	2.1	3.6%	N.S.	1.2
WIL SP Equity	WILMAR INTERNATI	Consumer Staples	4.16	5.00	20%	19,537	(0%)	9	2,073	6%	1.0	4.0%	A	0.9
SATS SP Equity	SATS LTD	Travel	2.75	4.95	80%	3,077	2%	23	160	5320%	2.1		N.S.	0.72*

Source: Bloomberg, HLBS as 6 Apr 2023

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