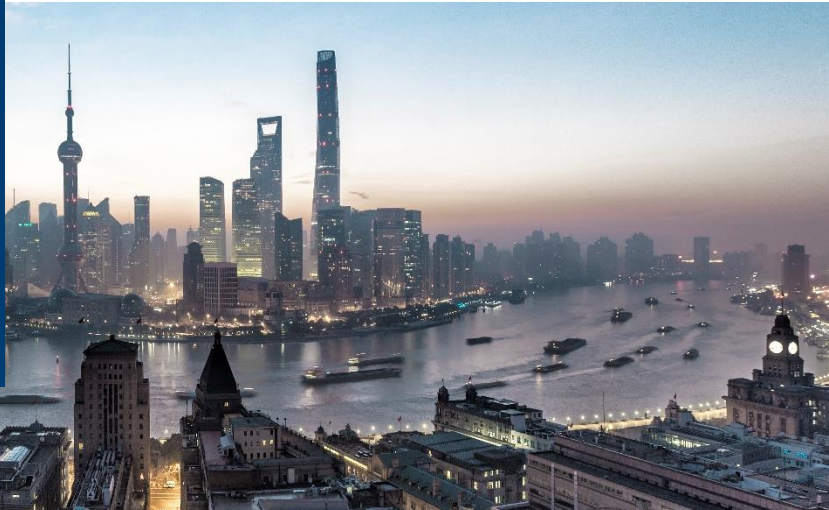




FUNDAMENTAL FLASH

Dissecting China and Hong Kong's Sell-Down

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Prepared by Affin Hwang Asset Management

What happened?

Both A-shares and H-shares markets saw a massive sell-off in the past week, exacerbating the already weak market sentiment since the military invasion of Ukraine by Russia.

It is difficult to pin down a single reason that caused the weakness, but we see several factors in play, piling the pressure on China and Hong Kong's equity prices:

- Growing concerns on potential secondary sanctions being imposed on China due to its relationship with Russia.
- Risk of US-listed Chinese ADRs being forcefully delisted started to sink-in post the naming of five Chinese companies that are not Holding Foreign Companies Accountable Act (HFCAA) compliant.
- Norway's sovereign wealth fund, Norges' explicit view and disposal of Li Ning shares due to ESG concerns reignited social issues like Xinjiang forced labour that could lead to further sell-downs among foreign shareholders.

Flashpoints

- China and Hong Kong's equity market sold-down fiercely in the past week, exacerbating already weak sentiment due to the Russia-Ukraine conflict.
- Several factors could be attributed to the sell-down including delisting fears of Chinese ADRs and renewed lockdowns concerns in China.
- Markets could remain volatile in the near-term amidst fund outflows.
- However, expected easing measures in the 2Q'2022 could provide support to markets.

- COVID-19 new confirmed cases soaring in key Chinese regions, including Guangdong and Shenzhen, leading to large-scale lockdowns that could further deteriorate the already weak economy.
- The general view among investors is that China is at risk of missing its GDP growth target for the first time, given few concrete supportive measures being introduced despite the ambitious target of 5.5% GDP growth in 2022. Key weakness lies with the property sector.

Market Outlook

We expect markets to remain volatile in the near-term, amidst ongoing fund outflows and domestic economic challenges. We are hopeful to see increasing supportive and easing measures from the Chinese government in the 2Q'22.

We believe markets are trading at very low valuation levels currently. Short term rebounds could happen time to time.

A sustainable rebound would require both:-

- Convincing investors that government has the measures to support growth in the economy; and
- Resumption of fund inflows to markets.

Portfolio Positioning

Affin Hwang AM's unit trust funds have generally underweighted in Chinese stocks since the start of 2022.

That said, the funds are not entirely spared from this recent sell-down. The funds are mainly positioned in companies that are China domestic-focused, reliant on local consumption, and benefiting from favourable policies that are in-line with the nation's agenda.

The funds do have positions in Chinese Internet names, with a collective weight of less than 10% in respective portfolios.



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