Hamon Investment

Quarterly Review

4Q 2022

Market Review

After the previous quarters of sell off, the fourth quarter rebounded after a tumultuous year. The Asian markets were boosted by China's relaxation of its zero-Covid policy, while European and US shares rallied on the slower growth of inflation and potential slowdown on rate hikes. The World Developed Market Index ended the quarter up 9.42%, while the MSCI Asia ex-Japan Index gained 10.98%.

Over the quarter, major central banks continued to signal further tightening of monetary policy, despite signs of inflation peaking. The US Fed and European Central Bank (ECB) raised rates over the period, ending with a 50bps hike in December to 4.5%, slower than the previous 75 bps hikes. The Fed indicated that while the pace of policy tightening should slow, the policy rate is expected to continue to climb in 2023. ECB President Christine Lagarde warned that the central bank was "not done" with increasing interest rates. The ECB also confirmed plans to stop replacing maturing bonds. The Bank of England also announced two rate hikes, bringing the UK interest rate to 3.5% at the end of Q4, while the Bank of Japan announced a modification to its yield curve control policy.

Annualised Q3 GDP for the US was at 3.2% in December, which was stronger than the second estimate of 2.9%. Unemployment remains at 3.7%, as 263,000 jobs were added in November, the lowest number since April 2021. The latest CPI figure for November showed inflation slowed to 0.1% MoM versus October. Inflation remains elevated however, at 7.1% YoY. Most sectors rose over the quarter, with the energy sector seeing the strongest gains as Exxon and Chevron posted record profits in the quarter. Consumer discretionary did not perform as well, with Tesla's decline dragging on the sector.

The Eurozone recovered strongly in the fourth quarter, mainly due to signs that inflation may be peaking, and warmer than expected weather for much of the period helped alleviate cost pressures on energy and heating bills, as gas prices fell. Annual inflation fell to 10.1% in November, from 10.6% in October. The economy in 3Q grew 0.3% QoQ, slowing from the 0.8% growth in 2Q. Nevertheless, PMI for December was at 48.8, up from 47.8 in November, indicating that the rate of decline is moderating.

The HK/China markets were sharply sold off in October, suffering the worst month in over 20 years, but rallied in November and December after the announcement of supportive measures by regulatory bodies and loosening of the Covid policy. The Hang Seng Index gained 15.57% over the quarter, while the MSCI China index was up 13.52%. As China changed their stance on Covid, both domestic supply and demand were hit by Covid outbreaks upon the sudden reopening and the change in policy. The December NBS manufacturing PMI weakened further to 47, from 48 in November, led by supply-side bottlenecks amid surging Covid cases upon reopening. Non-manufacturing PMI also dropped meaningfully to 41.6 in December versus 46.7 in the previous month. Despite ongoing Covid outbreaks in China, large New Year's Eve crowds in major cities imply a release of pent-up consumer demand. We expect the economy will recover sooner than originally expected and the negative impact from rapid reopening may have peaked, especially as we come to the Chinese New Year holiday in late January.

The Taiwan market was volatile over the quarter. The equity market saw a large inflow in November and buying of TSMC by Berkshire Hathaway. However, US sanctions on Chinese semiconductor equipment affected DRAM companies, and ongoing geopolitical tensions, higher US interest rates and lower demand for electronic goods, one of Taiwan's biggest exports, weakened investor sentiment. While in South Korea, the market ended the quarter in positive territory after the country's central bank raised interest rates, although weaker export data and cooler demand from China dragged on market sentiment. The Taiwan TWSE gained 8.82% in the fourth quarter, while the Korean Kospi rose 18.09%.

The ASEAN region saw the Philippine, Thai, Malaysian and Singaporean also ending the period in positive territory, up 20.63%, 14.62%, 12.88%, and 11.35% respectively on record inflows during the period. The previously outperforming market of Indonesia saw profit taking, and fell 4.35% over the fourth quarter.

Hamon Investment
1001, 10th floor, Standard Chartered Bank Building
4-4A Des Voeux Road Central, Hong Kong
Tel: (852) 2526 4268 • Fax: (852) 2526 7277
Website: www.hamon.com.hk • Email: enquiry@hamon.com.hk

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Market Review (cont'd)

On the bond side, the Bank of Japan also relaxed its yield curve control policy in December to lift the 10 year bond yield cap from 0.25% to 0.5%. The surprise move shocked the market and triggered the global IG bond market selloff. The market believes Japan should announce a tightening policy soon due to increasing pressure from inflation.

The US 10-year yield rose from 3.83% to 3.88%, with the two-year rising from 4.28% to 4.42%. Germany's 10-year yield increased from 2.11% to 2.57%. The UK 10-year yield decreased from 4.15% to 3.67% and 2-year eased from 3.92% to 3.56%, after the country's new prime minister reversed most of his predecessor's 'mini budget' proposals, which had been very poorly received by the markets. Asian dollar high yield bond rebounded significantly and was up 12.35% over the quarter due to the Covid policy change in China and supportive measures on the Chinese property sector, which boosted market sentiment.

Outlook & Strategy

Going into 2023, we remain positive towards China, and have built an overweight position in the market. We believe China will outperform other markets as it is currently undervalued and the relaxing of China's Covid-zero policy should boost the economy. Policy support by the government for the property sector will also restore buyer confidence and we believe sales and liquidity will improve. We believe the outperformers in 2022, such as the Indonesia and India markets, will not perform as well due to their higher valuations. Risks of a global recession may also be an overhang for the Asia ex-Japan region.

We focus the following key areas in our portfolios:

(i) Hardware technology companies with strong pricing power and which will benefit from the cyclical bottom;
(ii) Beneficiaries of policy tailwinds, especially EV and renewable energy related names in China and Korea, and the property sector in China;
(iii) Core sustainability themes with structural growth opportunities in the areas of: digitization & technology, de-carbonization, green energy, sustainable finance, sustainable production, environmental protection, and health & society;
(iv) Long duration and high quality IG bond, and Asian High Yield bonds;
(v) Global recession beneficiaries, such as gold-related stocks.

Our core tech positions are in consumer internet and AI-related stocks, such as Tencent and Meituan; financials, such as AIA, DBS Holdings, and Berkshire Hathaway; renewable energy-related companies, such as Hanwha Solutions; dividend yield play companies, such as CNOOC; and hardware technology stocks, such as TSMC and Samsung

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