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EQUITIESFIRST Progressive Capital

ALTERNATIVE STRATEGY IN A RISING-RATE ENVIRONMENT

BACKDROP AND OUR OBSERVATIONS:

- As the inflation rate keeps climbing, the United States Federal Reserve Board (FED) aims to slow it down by raising interest rates.
    - When interest rates increase, people will put more money in banks to enjoy higher interest rates. This creates less investment and consumption and eventually cool down the economy.
- Based on the Bloomberg estimation, the US, Eurozone, Australia, and New Zealand will likely raise their interest rates by more than 2% within one year.
    - Countries are following the FED's actions and raising their own interest rates because it will stabilize their exchange rate with the US dollar. Lower interest rates will depreciate their currencies by making people buy USD and sell their currencies.

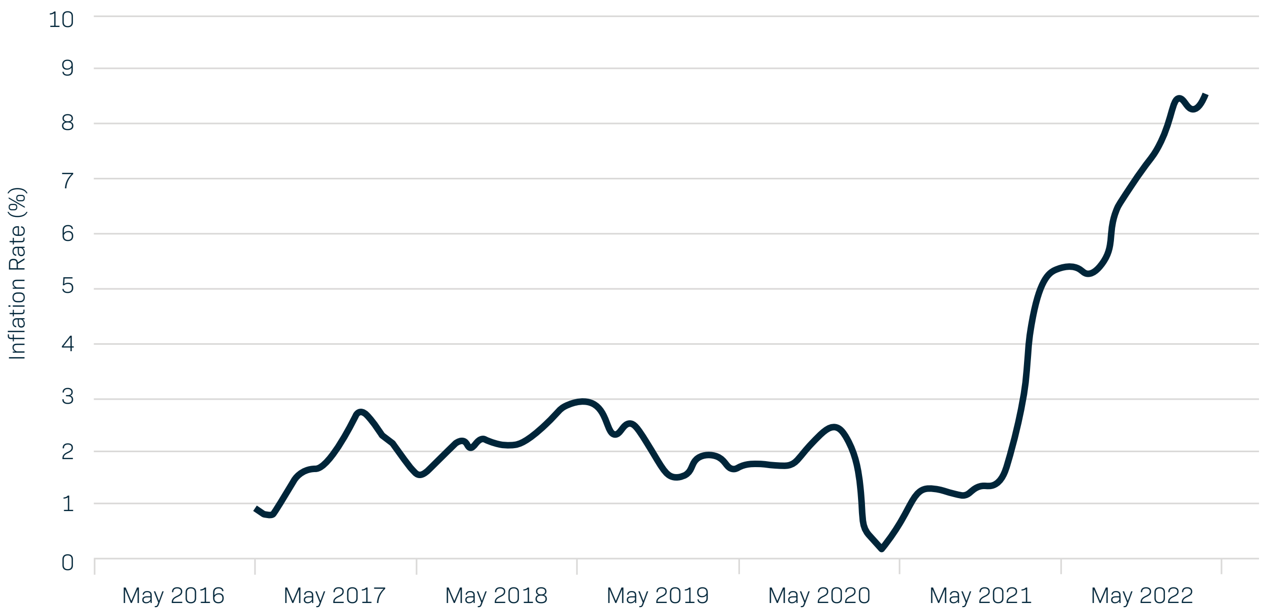
KEY TAKEAWAYS:

- Higher interest rates will impact borrowers in three unfavourable ways:
    1. There will be higher interest payments for previous floating rate borrowings
    2. Companies will need to offer higher rates to raise new funds
    3. There will be added pressure on various assets including shares
- With EquitiesFirst's solution, the borrowers may solve these three issues at the same time

WHY THE INTEREST RATE IS HIKING IN DIFFERENT REGIONS

Inflation rates have been steadily increasing since the end of 2020 due to various reasons including companies rebuilding their supply chain after COVID, the Ukraine war influencing supply, and quantitative easing bringing new money to the market. These together pushed the United States' inflation to a 40-year high, growing the consumer price index by 8.6% YoY in May.

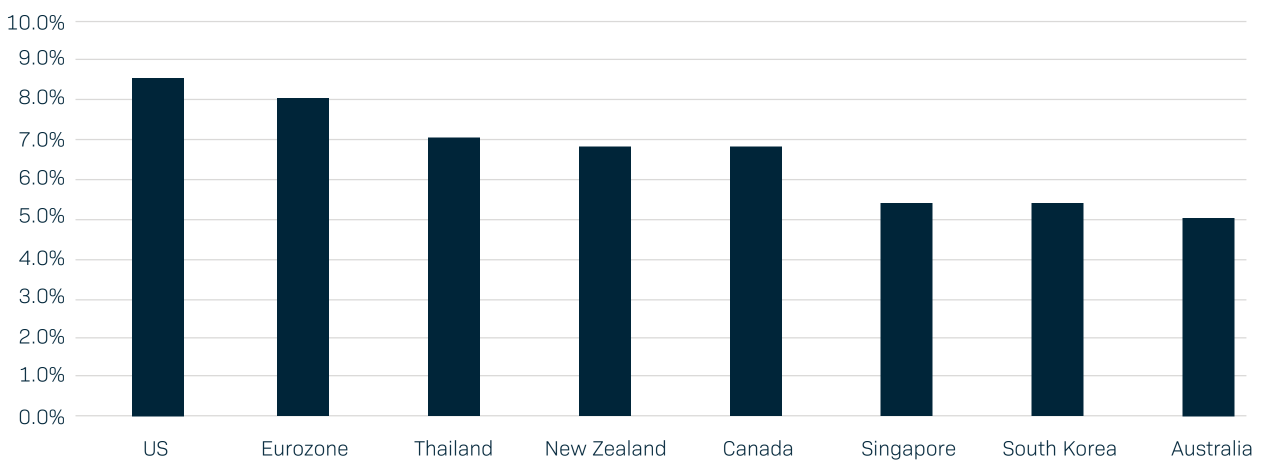
THE US' CONSUMER PRICE INDEX YOY GROWTH RATE (INFLATION RATE)



To slow down inflation, FED started to increase interest rates. When this happens, consumers and businesses will find borrowing to be more expensive and save to generate higher yields. They will therefore spend less and save more. At the same time, As the borrowing costs get higher, there are fewer people borrowing money and the money supply can therefore be controlled.

As well as the U.S., other major economies are facing the same situation recently. For example, the Eurozone's inflation rate was 8.1% in May, Thailand's inflation rate was 7.1% in May, New Zealand's inflation rate was 6.9% in March, Canada's inflation rate was 6.8% in April, Singapore's inflation rate was 5.4% in April, South Korea's inflation rate was 5.4% in May, and Australia's inflation rate was 5.1% in March. Among these countries, most of their central banks are also raising or planning to raise the interest rates to tackle the inflation rates.

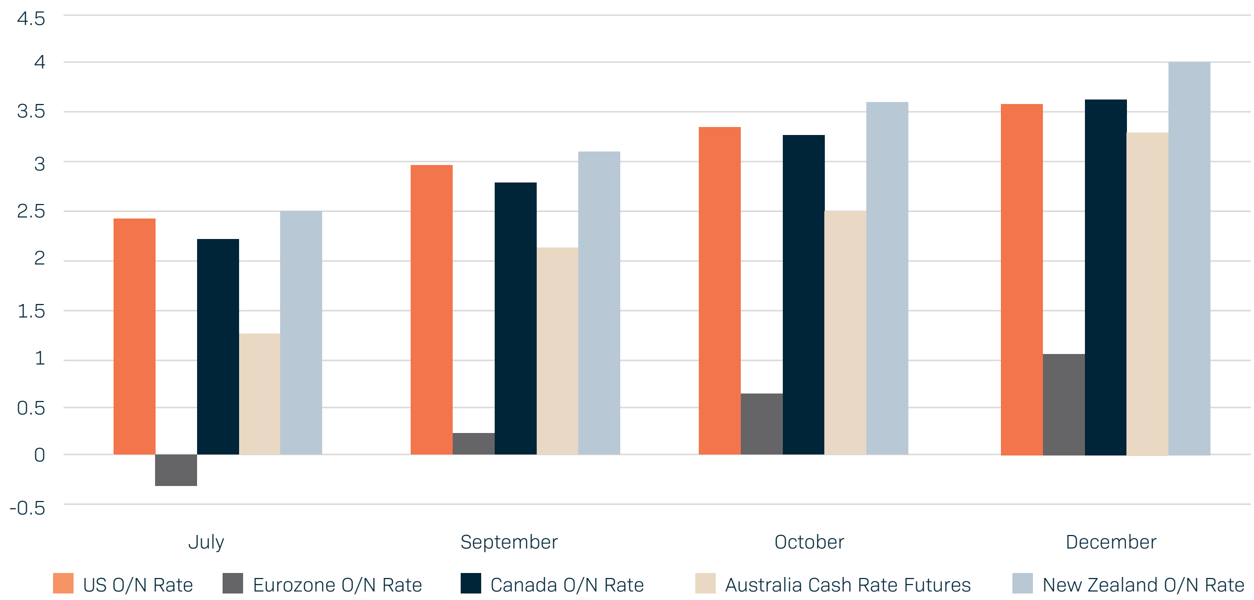
RECENT INFLATION RATE OF COUNTRIES



Source: Bloomberg

Countries may also raise interest rates to stabilize the exchange rates with the USD. When interest rates in the US are higher than theirs, investors tend to buy USD and sell their currencies for higher return and lower risks. To mitigate this, countries then increase their interest rates for the exchange rate.

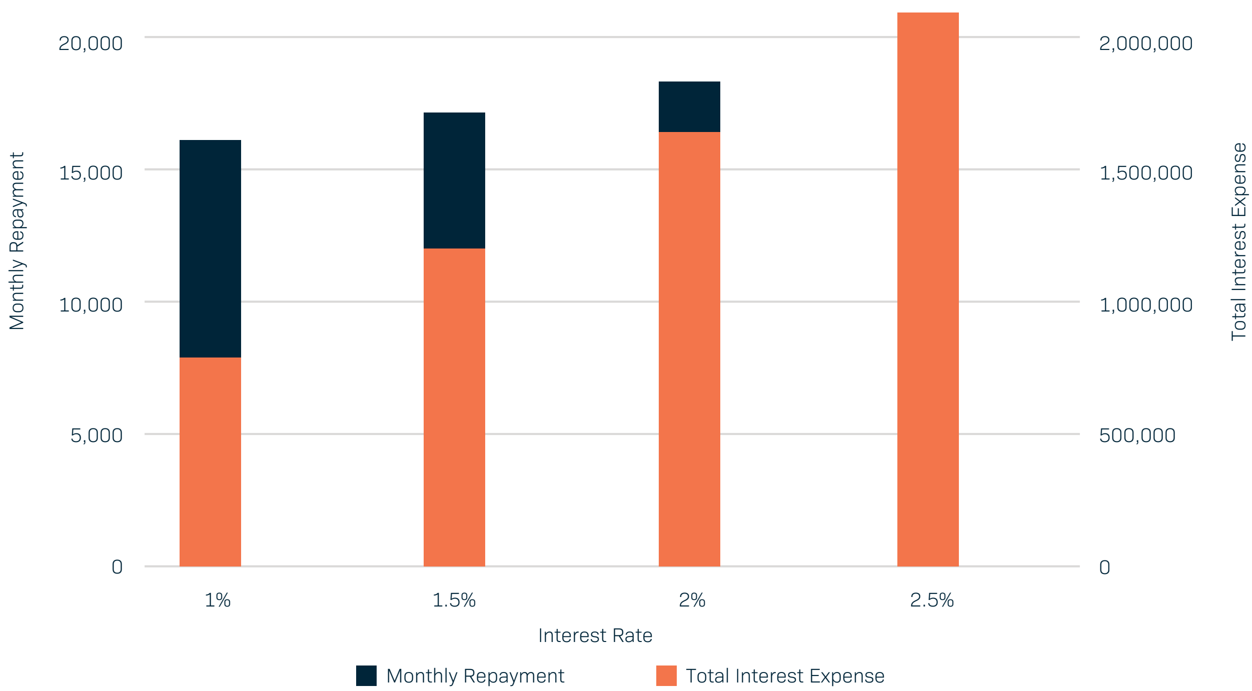
INTEREST RATE ESTIMATION FOR 2022



A HIGHER INTEREST RATE CAUSES A HIGHER COST OF EXISTING BORROWING

Interest rates influence everyone's daily life, especially borrowers. When interest rates increase, people with existing borrowing will face higher pressure from the interest they need to pay. For example, if a borrower gets an HKD 5 million mortgage with a 30-year loan tenor, its monthly payment will rise around 22% from around HKD 16,000 to HKD 20,000 when the interest rate rises from 1% to 2.5%. The total interest expense will rise from less than HKD 800,000 to around HKD 2.1 million. The floating rate may make the borrower meet liquidity issues and it will be difficult for the borrower to repay the increased amount of money.

MONTHLY REPAYMENT AND TOTAL INTEREST EXPENSE OF MORTGAGE

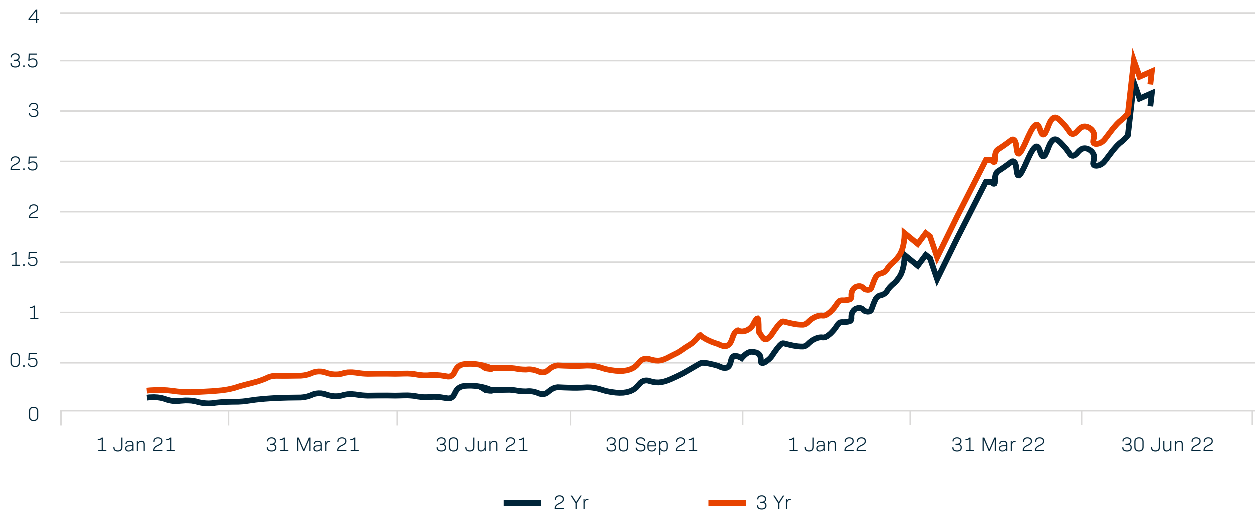


Source: Bloomberg

A HIGHER INTEREST RATE MAKES CAPITAL HARDER TO ACCESS

For companies, a higher interest rate makes it harder to access capital. Given the higher interest rate from government bonds, companies will need to provide higher coupon rates to investors or sell bonds at lower prices when issuing bonds. When they try to borrow from the banks, they will find that interest rates are higher and banks may limit the credit given due to higher default risks. Furthermore, small and medium enterprises (SMEs) will suffer the most due to their high credit risks and lower bargaining power against banks.

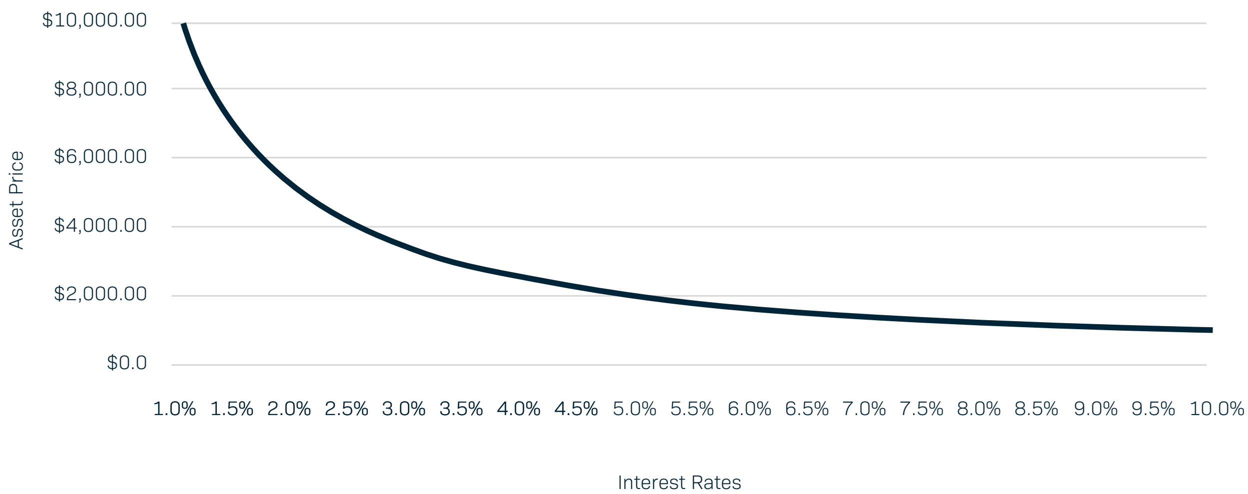
THE US YIELD RATE SINCE 2021



HIGHER INTEREST RATES CAUSE REPRICING OF ASSETS

Lastly, when interest rates get higher, all assets need to be repriced based on the new risk-free rate. For example, if an asset is priced at USD 10,000 based on the Gordon growth model (GGM) when the interest rate is 1%, the asset price will drop to lower than USD 3,500 when the interest rate hikes to 3%. The investors will find that their assets are less valuable and are likely to be less liquid.

ASSET PRICE BASED ON DIFFERENT INTEREST RATES



Source: U.S. DEPARTMENT OF THE TREASURY, EquitiesFirst

HOW EFH SOLUTIONS HELP

EquitiesFirst can help people who are facing these three issues:

01

EFH loans can be used to repay mortgages (Non purpose)

As we provide fixed-rate loans with 3-year loan terms. Borrowers don't need to worry about changes in interest rates and they can take time to arrange repayment. Further, there is no restriction for the purpose of an EquitiesFirst loan, which means that borrowers can repay their other outstanding loans using the loan proceeds from us.

02

EFH loans can easily be accessed (low requirement)

For companies facing difficulties in getting funds, EquitiesFirst provides a high LTV and low fixed interest rates with low requirements for the Collateral Shares. As we are not concerned about the fundamentals of shares but only liquidity of shares, borrowers usually find it easy to get funds from us.

EquitiesFirst Collateral Shares Criteria:
Average Trading Volume: more than USD 100,000
Share Price: higher than USD 0.01

03

EFH loans provide a great chance to buy at low & hedge

For investors holding shares that are currently underwater, they can pledge the stocks with us instead of selling at a lower price in the market. They may use our loan to then buy undervalued stocks and earn from both the pledged stocks and the new investments. Moreover, EquitiesFirst provides a hedge for borrowers against the lower share price. As our loan is non-recourse, they can simply walk away with the funds if they find that the collateral share price is too low. On the other hand, if they believe the share price will bounce back, they can top up and keep the rights of buying back the shares.

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