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EQUITIESFIRST® Progressive Capital

2024 GLOBAL MARKETS MID-YEAR REVIEW AND OUTLOOK

EXECUTIVE SUMMARY

The first half of 2024 has been marked by significant economic developments and market movements across various countries and regions. This report summarizes the key developments from the first half of 2024 and provides insights into the outlook for the second half of the year.

2024 FIRST HALF REVIEW

US: The US market demonstrated strong performance, driven by economic growth, effective inflation control and positive investor sentiment.

Japan: Japan's market saw strong gains, supported by a loose monetary policy, a weak Yen and strong export performance.

China: The Chinese stock market underperformed despite numerous government policy support measures, largely due to the sluggish property market and economic slowdown concerns.

Crypto: The crypto experienced transformative events, including the approval of Bitcoin and Ethereum ETFs, significant price movements and Bitcoin halving.

2024 SECOND HALF OUTLOOK

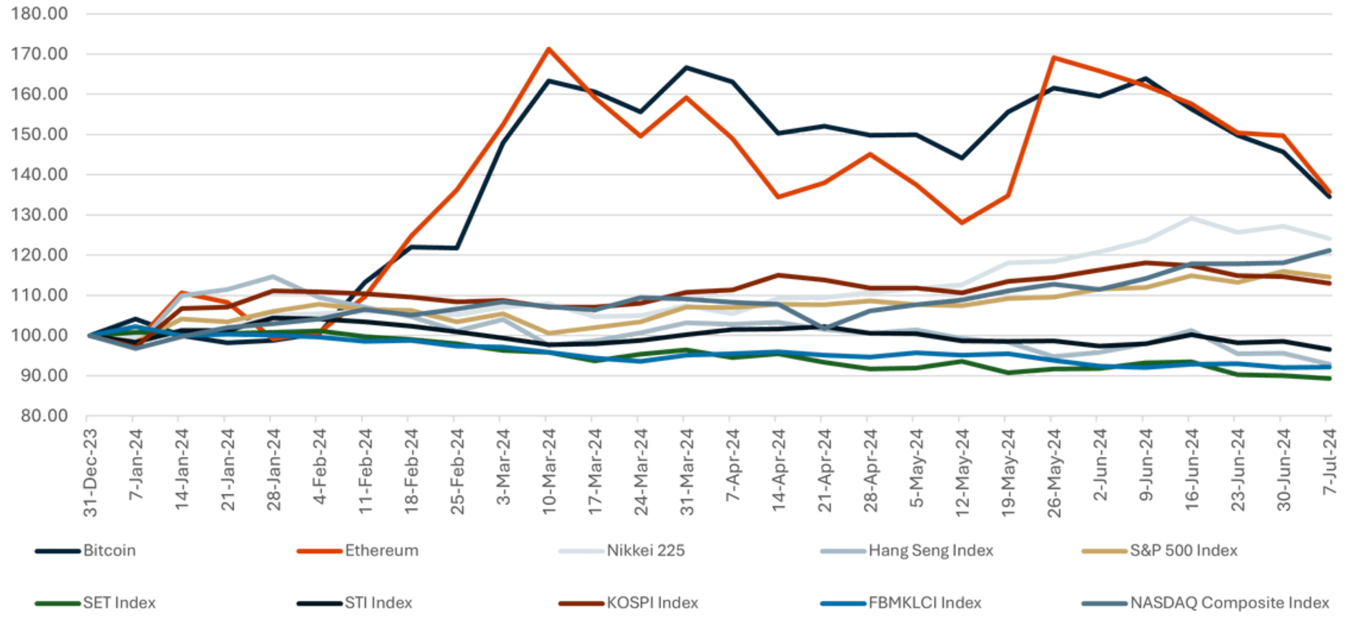
US: The market will be closely watching the upcoming presidential election in November 2024 for its potential impact on interest rates and economic policies.

Japan: Investors are speculating on the timing of potential interest rate hikes and the impact on the Yen's value.

China: The market awaits the effects of China's policy support measures on economic stimulation and the recovery of the property market.

Crypto: The potential listing of Ethereum ETFs and the performance of other layer-1 blockchains, along with other emerging sectors, will be key areas of focus.

2024 ASSET PRICE PERFORMANCE (%) (REBASED)

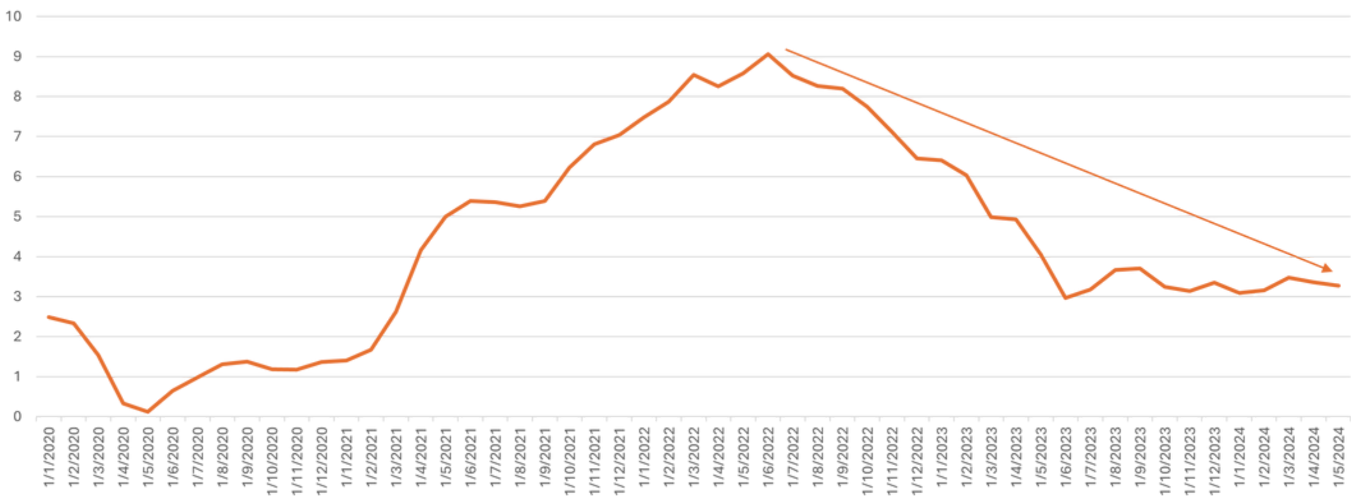


US MARKET

The US market demonstrated robust performance in the first half of 2024, with the S&P 500 Index rallying by 14.5%. This impressive growth can be attributed to several key factors.

Firstly, the U.S. economy continued to expand at a healthy pace, with GDP growing by 1.6% in the first quarter of 2024. This growth reflects strong consumer spending, increased business investments and solid performance in the services sector.

US CPI (YoY%)



Another crucial factor underpinning the market's positive performance has been the effective control of inflation. As of June 2024, the Consumer Price Index (CPI) stood at 3%, approaching the Federal Reserve's target of 2%. This indicates that inflationary pressures have been managed without significant economic disruption.

The Federal Reserve’s strategy of maintaining high interest rates to curb inflation while supporting economic growth has instilled confidence among investors. The market sentiment remains bullish as investors believe that the US can continue to lower inflation without sacrificing economic growth. The Fed's balanced approach has reassured markets about the stability and resilience of the U.S. economy.

Source: Bloomberg

JAPAN MARKET

Japan's market also saw substantial gains in the first half of 2024, with the Nikkei 225 Index rising by 18%. Several factors have driven this rally.

Unlike other major economies, Japan has maintained a loose monetary policy with low interest rates. This approach has been pivotal in supporting economic activity. Japan’s unique position allows it to keep borrowing costs low, stimulating investment and consumption.

Despite a year-on-year GDP contraction of 1.8% in the first quarter of 2024, the Japanese stock market has benefitted from investor confidence in the government's economic policies. The continual monetary easing has provided the necessary liquidity and support for businesses, fostering a favourable environment for stock market growth.

Japan's strong export sector and resilient corporate earnings have also contributed to the market's performance. The country’s key industries, such as automotive and electronics, have shown strong performance, bolstering investor sentiment.

USD/JPY EXCHANGE RATE

Japan's continued use of an expansionary monetary policy, featuring extremely low interest rates, stands in stark contrast to the significantly higher rates seen in the United States. This stark difference in monetary policy has profoundly impacted the exchange rate and the Japanese economy.

The persistent low-interest rates in Japan have resulted in a significant depreciation of the Japanese Yen. At one point, the Yen dropped to nearly 160 JPY per USD, approaching a 34-year record low. The primary driver of this devaluation is the interest rate differential, where Japan's lower rates make the Yen less attractive to investors seeking higher returns available in other currencies like the U.S. Dollar. Additionally, Japan's aggressive monetary easing, including measures such as quantitative easing, has increased the money supply, further devaluing the Yen.

NIKKEI 225 INDEX

Source: Bloomberg

The weakening Yen has stimulated the Japanese stock market, with the Nikkei 225 Index experiencing significant gains. The index reached levels not seen since 1990, driven by several factors. A weaker Yen has made Japanese exports more competitive globally, benefiting companies with substantial overseas business. These exporters have reported strong earnings in Yen terms due to favourable exchange rates. The devaluation has also boosted Japan's tourism industry by making the country a more attractive destination for international visitors, leading to increased revenue in sectors like retail, hospitality and transportation.

The combination of a weak Yen and supportive economic policies has propelled the Nikkei 225 Index to new heights, marking the first time in 34 years that the index has surged to such levels. This growth reflects the positive impact of Japan's monetary policy on both domestic and international fronts, driving investor confidence and economic activity.

CHINA MARKET

HANG SENG INDEX

The Chinese stock market, proxied by the Hang Seng Index, has continued to underperform relative to other major markets. In the first half of 2024, the Hang Seng Index recorded a modest increase of just 4%. This performance highlights the ongoing challenges faced by the Chinese market despite various government supportive policies.

In April and May, the Hang Seng Index experienced a notable rally, reflecting a brief period of investor optimism. However, this upward momentum was short-lived, as the index subsequently corrected, erasing some of the gains achieved during that rally.

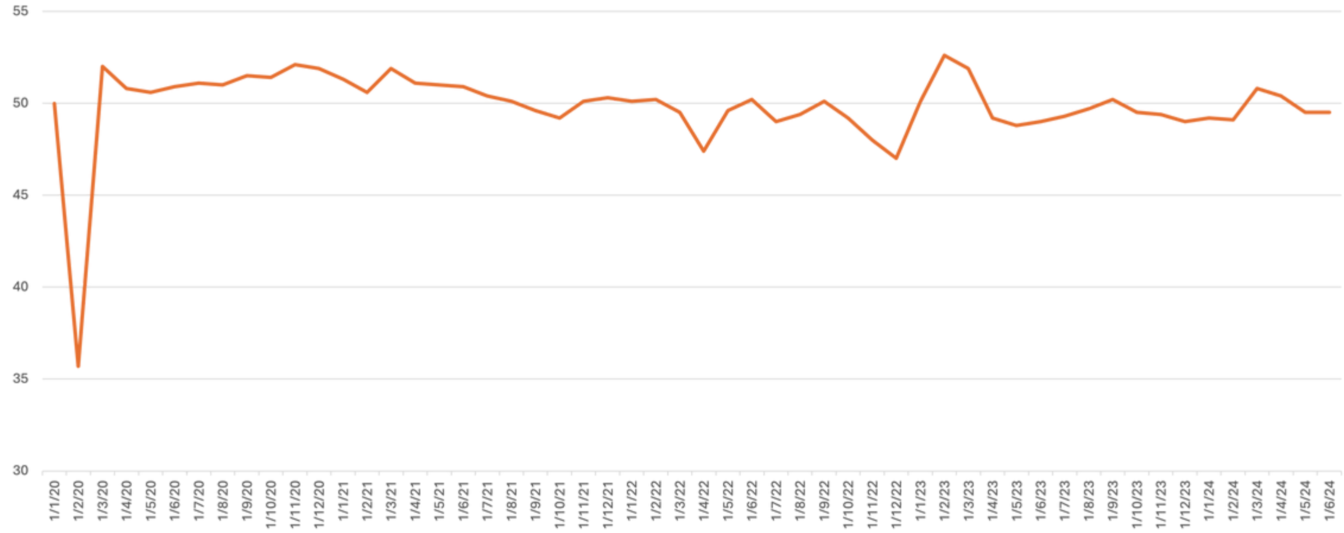
Despite the Chinese government's announcements of numerous policy support measures aimed at stabilizing and stimulating the economy, we have already shared these measures in detail in our earlier FirstNews reports (https://equitiesfirst.com/hk/firstnews-vol/navigating-through-change-hong-kongs-capital-market-developments/), their full execution and impact have yet to materialize. This has left the market in a state of cautious anticipation, as investors await the tangible effects of these policies.

One significant area of concern remains the sluggish property market, which has shown little sign of recovery. The lack of progress in this sector has dampened overall market sentiment, contributing to the Hang Seng Index's underwhelming performance.

Additionally, fears of deflation have emerged, exacerbated by weak manufacturing PMI and CPI data. The PMI has remained below expectations, indicating continued challenges in the manufacturing sector and raising concerns about the broader economic outlook.

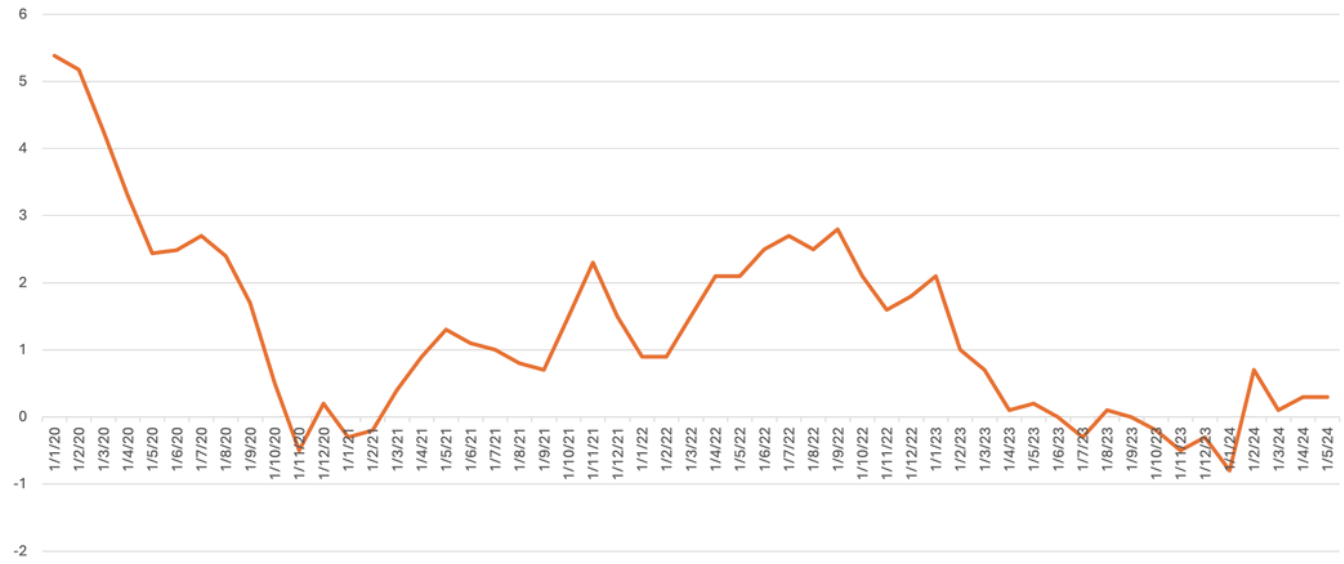
Source: Bloomberg

CHINA MANUFACTURING PMI



China's manufacturing PMI has remained weak, suggesting that manufacturing activities are still struggling. Most of the time, the PMI has been below 50, a critical threshold that distinguishes between expansion and contraction, with readings below 50 signalling a subtraction. This persistently weak data indicates that overall demand in China remains subdued despite the economic reopening in 2023.

CHINA CPI (YOY%)



On the other hand, the macroeconomic environment in China differs from that of the US. The CPI in China once fell below zero, even after the economy reopened. The market is now concerned about potential deflation, which could dampen both consumer demand and investment. Deflation tends to lead to decreases in retail prices or price competition within the consumer industry, ultimately dragging down the profits of consumer stocks. Overall, this scenario is detrimental to the economy.

The comprehensive policy measures implemented by the Chinese government in the first half of 2024 have been pivotal in stabilizing the financial markets and supporting economic recovery. These efforts reflect the government's proactive stance in addressing economic challenges and fostering a resilient market environment. The success of these policies will depend on continued effective implementation and adaptation.

Source: Bloomberg

CRYPTO MARKET

Bitcoin has shown significant volatility in the first half of 2024, beginning the year just below $45,000 and reaching an all-time high of $73,157 by March 13. This dramatic rise was driven by several factors, including increased institutional adoption and regulatory developments. The approval of over ten spot Bitcoin ETFs by the US SEC in January was a crucial event, leading to substantial capital inflows and further integrating Bitcoin into mainstream financial markets. Additionally, the scheduled halving event in April, which reduced the block reward from 6.25 BTC to 3.125 BTC, spurred buying activity and speculation, contributing to the overall price surge.

Ethereum also experienced significant developments during this period. In March, the Dencun upgrade was completed, introducing several Ethereum Improvement Proposals (EIPs) aimed at improving network scalability and efficiency, such as EIP-4844, which reduces gas fees and increases transaction throughput. Despite still being about 16% below its all-time high set in 2021, Ethereum's steady recovery and technological advancements have created a cautiously optimistic outlook among investors.

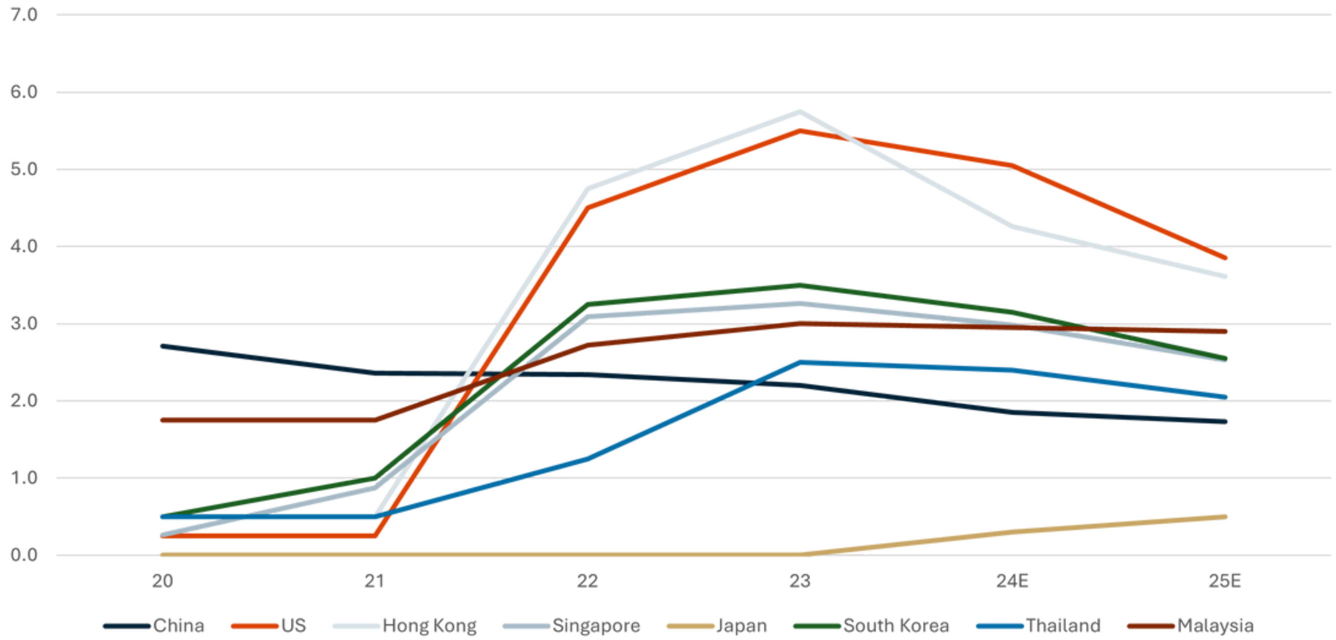
In a landmark decision, the SEC approved the applications from Nasdaq, CBOE and NYSE to list ETFs which tied to the price of Ether on May 23, 2024. This approval allows asset managers to proceed with launching Ethereum ETFs. However, it is important to clarify that while these ETFs have been approved for future listing, they are not yet listed on any exchanges. The asset managers must complete additional regulatory filings. The actual launch of these ETFs will depend on the completion of these filings and subsequent regulatory approvals, making the timeline for their listing uncertain.

Solana has seen a significant resurgence, with its price increasing markedly from the lows of 2022. This growth has been driven by successful network upgrades and expanding adoption in decentralized applications and decentralized finance. Solana's high throughput and low transaction costs have made it a competitive player in the blockchain space, attracting increased interest and investment.

The first half of 2024 has been transformative for the crypto market, characterized by significant price movements, technological advancements and increased institutional participation. The approval of Bitcoin and Ethereum ETFs and major upgrades to Ethereum have been particularly influential, setting the stage for continued growth and integration of crypto into the broader financial ecosystem. Despite inherent volatility, the overall trend has been positive, with crypto demonstrating resilience and potential for future advancements. These developments highlight the increasing maturity and mainstream acceptance of digital assets.

2024 SECOND HALF EQUITY OUTLOOK

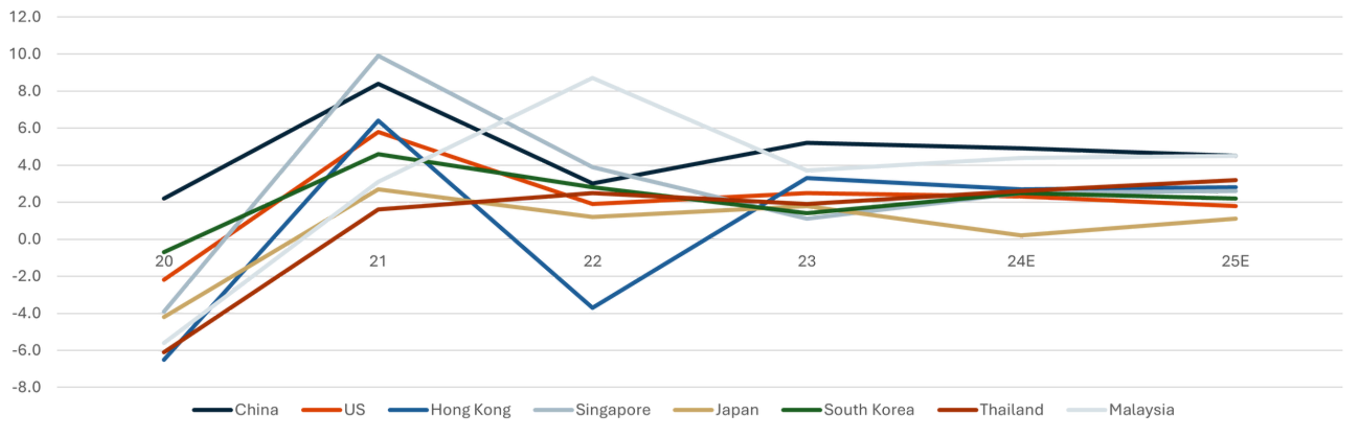
INTEREST RATES (%)



The financial markets are anticipating that most major economies, including the US, will begin to lower interest rates in 2024. In the US, diminished inflationary pressures have provided the Federal Reserve with the flexibility to reduce rates.

It is important to highlight that Japan stands as an exception among major economies, with expectations leaning towards an increase in interest rates. This potential policy shift is driven by the depreciation of the Japanese Yen and a gradual rise in inflation, prompting considerations to adjust interest rates upwards.

GDP (YOY%)



Regarding economic growth prospects, the general expectation is that most major economies will reduce interest rates, which should help sustain stable economic growth, particularly in the US.

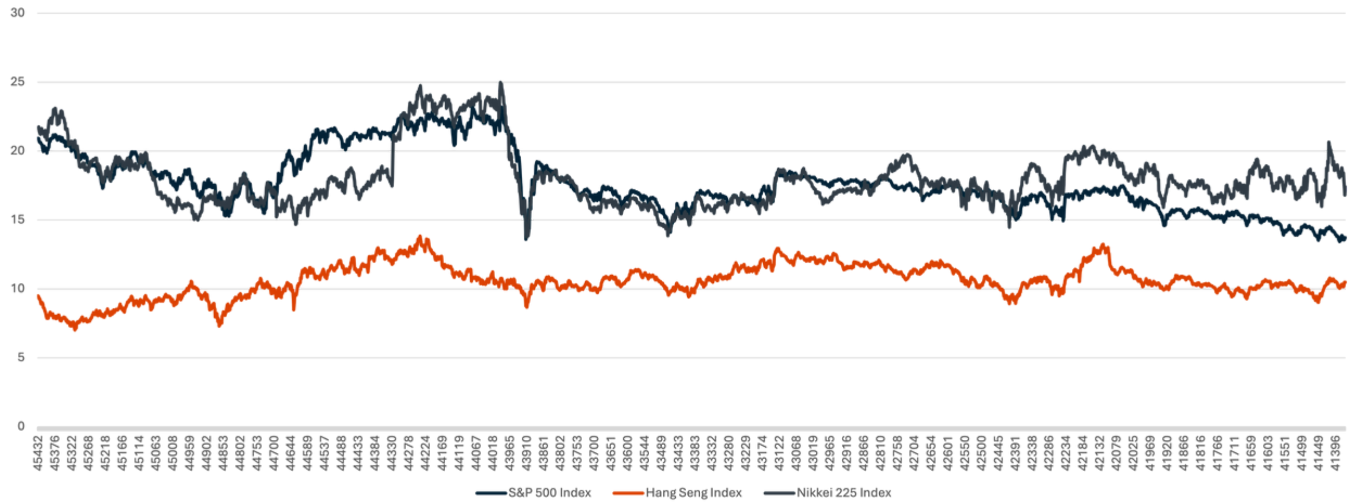
As the US approaches its presidential election in November 2024, market participants are increasingly focused on the potential outcomes and their implications for economic and geopolitical policies. Investors are particularly concerned with how the election results might influence interest rate movements. Different administrations may prioritize various economic policies, which could lead to shifts in fiscal strategies and adjustments in the approach to interest rates. Additionally, geopolitical stances taken by the new administration could impact international trade relations and overall market stability, further influencing investor sentiment and market behaviour.

Source: Bloomberg

In Japan, the market is speculating on the timing of potential interest rate hikes as the country considers ending its long-standing expansionary monetary policy. With Japan maintaining one of the lowest interest rates among major economies, any indication of an upcoming increase could have significant impacts on the Yen's value and overall market dynamics. Investors are closely monitoring signals from the Bank of Japan regarding changes in monetary policy, as these decisions will play a crucial role in shaping economic conditions and investment strategies. The support level of the Yen is also a focal point, with any fluctuations likely to affect export competitiveness and market confidence.

In China, the market is eagerly awaiting tangible results from the government’s policy support measures aimed at stimulating the economy and revitalizing the property market. Despite numerous announcements of supportive policies, investors remain cautious, looking for concrete evidence of economic recovery and improvements in the property sector. The effectiveness of these policies in boosting economic activity and restoring confidence in the property market will be critical for China's overall market performance. The market's response will depend significantly on the speed and impact of these measures, as well as on broader economic indicators showing signs of recovery.

HANG SENG INDEX, S&P 500 INDEX AND NIKKEI 225 INDEX FORWARD 12-MONTH P/E (X)

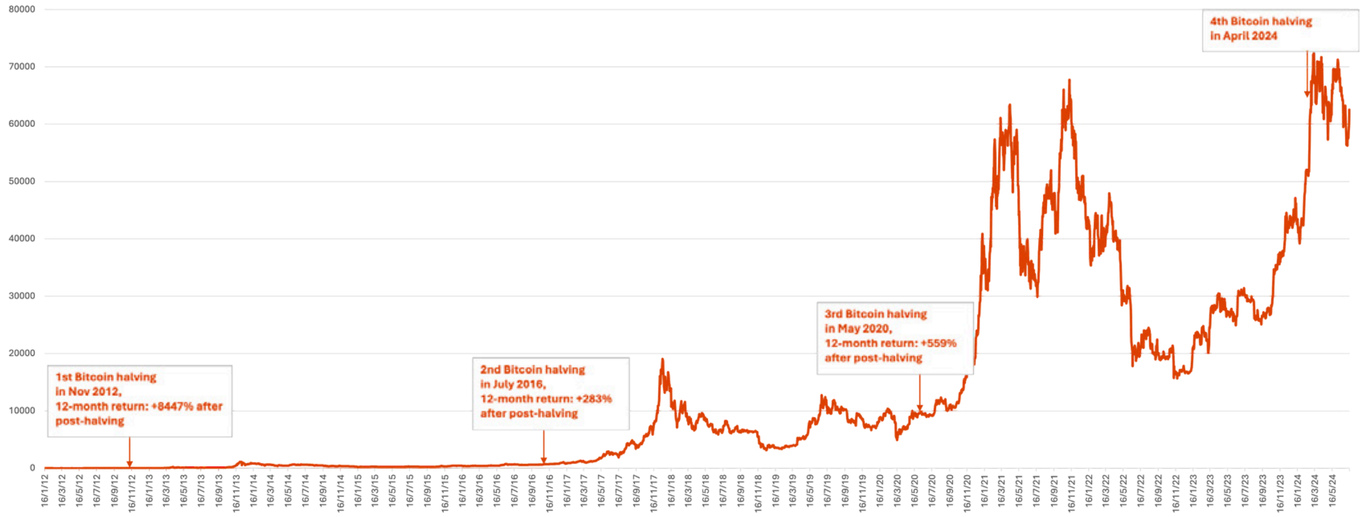


In terms of market valuation, the Chinese stock market continues to trade at a substantial discount compared to the US and Japanese markets, a trend that has persisted for several years. The Hang Seng Index is currently valued at 8.7x 2024 projected earnings, while the S&P 500 is trading at 22x. A key question remains whether this valuation gap will narrow in the latter half of the year. The answer largely depends on how effectively the Chinese government implements its supportive policies, particularly those aimed at revitalizing the property market, which is crucial for sustaining economic growth

Source: Bloomberg

2024 SECOND HALF CRYPTO OUTLOOK

BITCOIN HISTORICAL PRICE (USD)



In recent years, the crypto market has seen Bitcoin surpass several significant milestones, notably the approval and listing of a Bitcoin ETF in the US and the Bitcoin halving events that have periodically recalibrated supply and demand dynamics. These developments have not only enhanced Bitcoin's mainstream appeal but also solidified its status as a pivotal asset within the broader financial landscape.

Currently, expectations are high for the potential listing of an Ethereum ETF in the US. This development is anticipated to catalyse substantial capital inflows, potentially boosting Ethereum's market valuation and reinforcing its utility.

Beyond Ethereum, the crypto market is keenly observing other layer-1 blockchains such as Solana, Avalanche, Cardano, etc. The industry is eager to see whether these platforms can sustain their momentum, continue to innovate and execute their strategic roadmaps effectively. There are growing speculations about whether these blockchains can maintain or even increase their market shares and possibly challenge Ethereum’s leadership in the layer-1 space.

Additionally, emerging sectors within the crypto landscape, including meme coins, decentralized finance, gaming finance and non-fungible tokens, are also generating interest. Similar to the trends observed following the Bitcoin halving in 2020, these segments might experience growth, driven by both speculative interest and genuine utility.

Furthermore, the anticipated gradual reduction of interest rates in the latter half of 2024 and into 2025 might further bolster the crypto market. Lower interest rates typically encourage higher risk investments in alternative assets like crypto, potentially enhancing their attractiveness and supporting market growth.

The first half of 2024 has set the stage for continued growth and transformation across global financial markets and the crypto sector. The US and Japan have shown strong economic resilience, while China faces ongoing challenges. In the crypto market, the approval of Bitcoin and Ethereum ETFs and major technological advancements highlight the increasing maturity and mainstream acceptance of crypto assets. The second half of 2024 will likely see further developments as markets adapt to these evolving dynamics.

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Source: Bloomberg

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