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Wealth Management Chief Investment Office
21 October 2022

Market Watch

Market implications of HK policy address

Summary

- Hong Kong Chief Executive John Lee delivered his Policy Address on 19 October.
- The Hang Seng Index fell 2.4% on the day, and has continued to trail regional markets, down another 1.4% on 20 October.
- The policy measures delivered on the fronts of talent attraction, infrastructure development, as well as supportive measures to the financial markets.
- The lack of relaxation of property market curbs and COVID quarantine measures suggests we have yet to see catalysts to improve sentiment and drive a re-rating from current low valuations, in our opinion. Across HK/China equities, we favour onshore A-shares.

The Hang Seng Index is trading below both its 50-day and 10-day moving averages

HSI Index

Source: Bloomberg, Standard Chartered

Why did the market view this negatively?

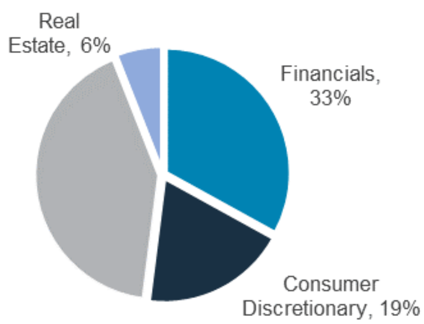
We believe this was more than a "sell on news" phenomenon, as sentiment appears to be that it failed to deliver any major positive catalysts. For instance, there was no further easing of COVID quarantine measures, nor any general housing market measures.

Also, market participants may be sceptical about how the talent attraction measures (detailed on the next page) will be enough to offset the talent drain facing the city (an estimated 140,000 skilled labour lost due to emigration). All this has a bearing on the retail and financial sectors.

Finally, the planned acceleration of public housing supply dampens the house price outlook, weighing on the property sector, which had done well going into the Policy Address.

Financials, consumer discretionary and real estate are key sectors in the Hang Seng Index

Hang Seng Index sector weighting (by market capitalisation)



Source: Bloomberg, Standard Chartered

Our view on HK equities

The valuation of HK equities is not expensive at all. The forward P/E of the Hang Seng Index sits at around 8x, around historical lows and just a notch above the crisis-like valuation of 7x back in 2008. Therefore, markets have clearly priced in a lot of bad news. However, a low forward P/E is, at least partially, reflective of the potential downside risks to earnings.

Current market expectations are for earnings to grow over 10% in 2023, which seems aggressive with no evident easing in policy stance. As a result, across HK and China equities, we favour China onshore A shares at this juncture.

Policy Address highlights

Attract businesses and talent

- Financial Secretary to lead Office for Attracting Strategic Enterprise (OASES)
- Establish the HKD 30 billion "Co-Investment Fund" to attract enterprises to set up operations in HK
- Launch the "Top Talent Pass Scheme" to attract graduates from the world's top 100 universities who earn annually HKD 2.5 million or more
- Allow eligible talent to apply for permanent residency and get a refund of the 15% stamp duty on residential property purchases

Reinforce traditional advantages and develop emerging industries

- Attract 100 high-potential Innovation & Tech (I&T) enterprises to set up operations in Hong Kong in the next five years, including at least 20 top-notch I&T enterprises
- Bring forward infrastructure development, including 6 major transport projects to foster a highly inter-connected road and rail network not only within HK, but also with Shenzhen China. Those projects include Northern Metropolis Highway, Shatin Bypass, TKO-Yau Tong Tunnel, HK-Shenzhen Western Rail Link, Central Rail Link, and TKO Line Southern Extension

Enhance quantity and quality of housing delivery

- Introduce new Light Public Housing (LPH), and build 30 000 such units in the next five years
- Increase significantly overall public housing production by 50% to 158k units in the next five years
- Lower the compulsory sale application threshold to facilitate urban renewal of old areas

Enhance the ecosystem of the investment market

- HKEx will facilitate fundraising of frontier companies. HKEx plans to loosen IPO rules for five frontier industries, namely, tech, advanced hardware, advanced materials, Greentech, as well as new food and agricultural technologies. Thresholds include a minimum revenue requirement that will be halved to HKD 250 million from current levels
- Promote the launch of more RMB-denominated investment tools and to enhance market infrastructure
- Explore enhancements to the Southbound Trading of Bond Connect to facilitate "dim sum" bond issuances.
- Develop Hong Kong into an international carbon market.

— **Raymond Cheng,** *Chief Investment Officer, North Asia*

— **Michelle Kam,** *Investment Strategist*

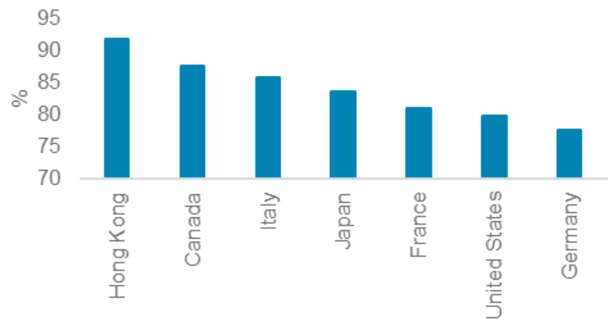
Hang Seng Index is challenging its trough P/E multiple from previous economic crisis

12m forward P/E for HSI

Source: Bloomberg, Standard Chartered

Hong Kong has a relatively higher Covid-19 vaccination rate across key economics

Vaccination rate: 1 dose or more, percentage of population



Source: Our World in Data, Standard Chartered

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