PHOENICIAN INTERNATIONAL LIMITED

Investment Outlook 2025

Phoenician
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COMPANY PROFILE

Trusted | Innovative | International

WHO WE ARE

The Group

Phoenician International Limited ("Phoenician") is a publicly listed investment firm headquartered in Hong Kong, dedicated to providing wealth management, investment management and investment banking services to a select group of private, institutional, and corporate clients.

Our Strategy

Phoenician help innovators, entrepreneurs, industry leaders achieve their financial goals by serving as a bridge between China and the West, while connecting leading foreign institutional investors with markets in Asia.

Our Business

From managing wealth for successful individuals and institutions to helping businesses fulfil their ambition, Phoenician's comprehensive suite of solutions empowers our clients to make the most of global opportunities.

Trusted by the Most Demanding Clients

We manage wealth for highly sophisticated, multi-jurisdiction private clients and family offices with global investment interests

We offer a comprehensive suite of bespoken portfolio management solutions combined with high-touch, personalized approach to client needs across products and jurisdictions.

Our discretionary and non-discretionary investment solutions are combined with state-of-the-art market connectivity across 50 markets and over 30 currencies.

As most of our clients are successful entrepreneurs, we also provide best-in-class corporate advisory services to facilitate monetization of their business interests.

Independent Minds Delivering Performance Through “Dual World” Innovative Solutions

We offer our clients a constant stream of high-performance investable ideas actionable across the East/West divide, specifically tailored to their financial circumstances

As an independent investment firm, Phoenician has the ability to work with leading platforms and service providers worldwide in order to offer clients best-in-class advisory services and trading capabilities across asset classes, yielding major benefits from a portfolio diversification perspective.

Our key focus is to address the ever-increasing demand for multi-national cross-border investment flows between China/ASEAN financial markets and the rest of the world.

We leverage on our global network of clients and relationships coupled with our decade long presence in the Greater China region to offer clients global access to exclusive investment opportunities across multiple jurisdictions.

International Footprint Delivering Local Insights

Across our Regional Offices, we have Built a Network of Reputable Local Professionals who Speak the Language, Know the Culture and Have First-Hand Knowledge of Clients' Needs

As a result of our relationship-based approach to private and institutional clients, Phoenician has the ability to scout co-investment opportunities in promising early-stage ventures, especially within the Greater China region, that are generally not available for investment by the general public;

As a result of its deep connection with local communities both globally and within Greater China, over time we have hired and developed outstanding talent to enhance our client service and expand our private, institutional and corporate client network;

Phoenician management team is constantly involved in local communities' activities, with substantial benefits in terms of employee loyalty and client trust.

CONTACT US

KEY PEOPLE

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NSX: PHI

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RETURNS IN Q4 2024

US Equities: US equities, particularly large-cap stocks, were the standout performers in 2024. The S&P 500 index, which tracks the performance of 500 large companies in the US, posted a remarkable 22.2% total return. This marks a second consecutive year of double-digit gains, following a 26.1% rise in 2023. The strong performance was driven by robust corporate earnings, technological advancements, and investor optimism about the US economy.

US Bonds: US bonds had a more modest performance compared to previous years. The total return for US bonds was -11.6%, a significant drop from the 5.7% return seen in 2023, due to rising US yields.

Emerging Market Stocks: Stocks in emerging markets also performed well in 2024, benefiting from global economic growth and increased investor interest. These markets saw gains as investors sought higher returns in developing economies.

Global commodities indices also performed very well, on the back of inflation worries in G7 economics. However, within the commodity space, Gold performed very strongly throughout 2024 and stood above US$2,700/ounce in 4Q2024.

This implies all asset classes performed relatively well, which reinforces a positive correlation trend which we have been observing over the past 12 months. This phenomenon is highly problematic for traditional wealth management strategies that rely on historically low correlation between US Equity and US Bonds.

The underlying economic drivers delivered a few important signals during Q4 2024

China: China's GDP grew by 5.0% year-on-year in Q4 2024. Key sectors such as agriculture, forestry, fishing, and hunting grew by 3.5%, while industrial production surged by 5.1%, bolstered by a 5.0% rise in manufacturing1. The resilience across various sectors contributed to steady economic growth.

United States: The US economy expanded at an annualized rate of 2.8% in Q3 2024. This growth was fueled by a 3.7% rise in consumer spending, the largest increase since early 2023. Exports and federal government expenditures also contributed to the growth.

United Kingdom: The UK's GDP grew by 0.1% quarter-on-quarter in Q3 2024, a significant slowdown from Q2's 0.5% growth. The sluggish growth was due to stagnant services, a 1% contraction in manufacturing, and a slight rise in construction1.

India: India's GDP grew by 5.4% year-on-year in Q3 2024, falling short of expectations. The main reasons for the decline were weaknesses in manufacturing, electricity and natural gas production, and a contracting mining industry:

Outside the US, China Government Bonds and China Corporate Bonds performed well, in a context of declining inflation and low monetary rates.

Despite the global economic turbulence, Asia Pacific markets collectively had an outstanding year of growth. MSCI AC Asia index spiked by 11.47% in 2023.

PERFORMANCE BY ASSET CLASS

	4Q 2024 % Return	1Y % Return
US Equity (Vanguard Total Stock Market ETF)	2.35%	22.17%
US Treasury Bonds (iShares 20+ Year T-Bonds)	-10.98%	-11.68%
US IG Debt (MSCI USD Investment Grade Corp Bond Index)	1.18%	4.54%
US HY Debt (MSCI USD High Yield Corporate Bond Index)	0.10%	8.28%

	4Q 2024 % Return	1Y % Return
China Equity (MSCI China A Index USD)	-7.82%	15.66%
China Treasury Bonds (FTSE Chinese Gov Bond Index) [1]	2.97%	7.80%
China IG Debt (FTSE Chinese USD Broad Inv Grade Index)[1]	-4.78%ft	4.36%
China HY Debt (FTSE Chinese USD Broad High Yield Index)[1]	N/A	N/A

China

	4Q 2024 % Return	1Y % Return
EU Equity (MSCI European Union Index USD)	-3.01%	5.75%
EU Treasury Bonds (S&P Eurozone Gov Bond Index USD)	-0.22%	1.85%
EU IG Debt (MSCI EUR Inv Grade Corporate Bond Index)[2]	-6.47%	-1.88%
EU HY Debt (MSCI EUR High Yield Corporate Bond Index)[2]	-5.57%	0.70%

	4Q 2023 % Return	1Y % Return
Global Equity (MSCI ACWI Index USD)	-1.23%	15.73%
Gold (SPDR Gold Trust ETF USD)	-0.38%	26.66%
Broad Commodities (S&P GSCI USD Index)	3.15%	2.61%

1. Expressed in Hedged USD
2. Expressed in EUR

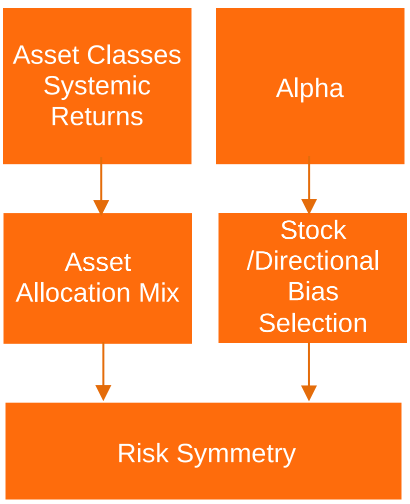
PHOENICIAN PORTFOLIO PERFORMANCE

Our Approach to Portfolio Design

We approach portfolio design with risk/return efficiency as our main concern, both for asset class allocation and in the pursuit of alpha.

We have developed a proprietary methodology underpinning both our asset mix allocation and our stock/financial instrument selection, which rest on the principle of *risk symmetry*.

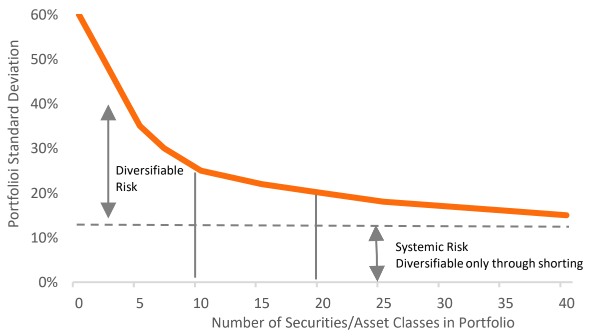
Phoenician Risk Symmetry Framework



Risk symmetry enables us to take full advantage of diversification (both asset class diversification and financial instruments diversification) to build risk balanced portfolios that maximize return for a given level of risk.

Including uncorrelated asset classes in an allocation mix or uncorrelated financial instruments in an actively managed portfolio is highly beneficial in terms of risk management.

Portfolio Standard Deviation vs Number of Securities/Asset Classes

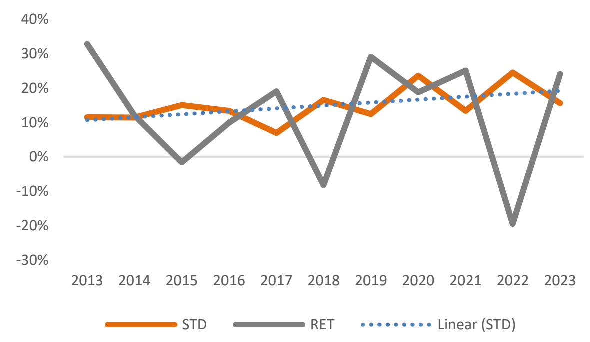


As an example, for asset classes with correlation below 0.5, having 6 asset classes in the allocation mix can reduce the risk measured as standard deviation of the portfolio by more than 50%.

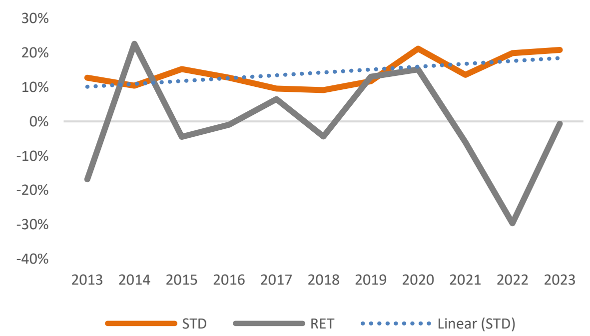
This in turn reduces dramatically the probability for the portfolio to lose money in a given year, with obvious benefits for the investors.

The reason why the most efficient portfolios have to be built around a thorough understanding of risk, rather than around asset class return predictions, is that risk is certainly more predictable than returns within the various asset classes, as displayed below by the performance of benchmarks for US Equity and US Bonds over the past 10 years, with standard deviation for both asset classes behaving in a much more predictable and consistent manner than the actual returns of the same asset classes over the same period of time.

Vanguard US Equity (Ret vs Std)



iShares 20+ Years US Bonds



The pursuit of a risk-balanced portfolio inevitably delivers a highly efficient low-risk low-return portfolio, which might not be suitable for investors with a high-risk tolerance.

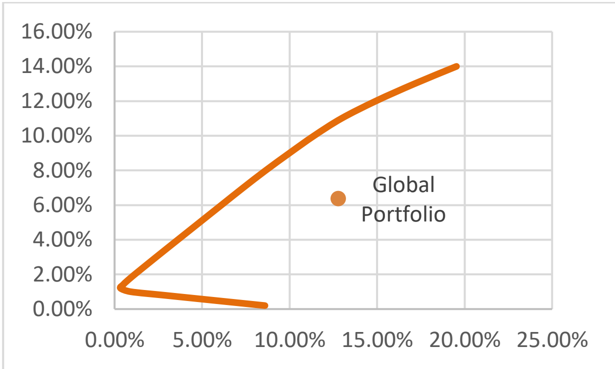
However, with the judicious use of leverage, risk efficient portfolio can be enhanced and transformed into risk efficient medium-risk medium-return portfolio on the efficient frontier line, and clearly superior to single asset classes or 60/40 equity/debt portfolio in terms of risk adjusted returns.

Here at Phoenician We also mapped out the Global Portfolio by gathering global investments in all investable asset classes. The methodology behind the construction of the portfolio focuses on data collection, segmentation, and the use of ETFs as performance proxies. The process began by gathering data from Bloomberg to ensure comprehensive and accurate coverage across asset classes. Portfolio weights were determined based on the relative sizes of each segment within the respective categories, and Exchange-Traded Funds (ETFs) were used to represent the performance of these segments effectively.

The asset allocation was based on specific segmentation criteria. Equities were allocated according to the market capitalization of all listed equities globally, divided into US equities, developed market equities (excluding the US), and emerging market equities. Government debt was segmented based on the total debt outstanding in USD and categorized by maturity for US bonds—super short-term (less than a year), short-term (1-3 years), mid-term, and long-term (20+ years)—as well as by region for non-US bonds, including developed countries and emerging markets. Corporate debt exposure was allocated based on outstanding debt figures and segmented into investment-grade global corporate credit and high-yield global corporate credit for both developed and emerging markets. Commodities exposure was determined using the notional value of outstanding futures contracts, ensuring representative coverage of the asset class.

This segmentation framework provided a diversified global portfolio that reflects the real-world distribution of key asset classes. By using ETFs as proxies and carefully structuring the portfolio, the methodology ensured broad market exposure while maintaining a systematic approach to asset allocation. The specific details of the segmentation for each asset class are summarized in the accompanying table.

Portfolio Risk Return Profile Comparison



Beside looking for uncorrelated assets/financial instruments, asset and instrument weighting is the most critical decision.

At Phoenician we have mapped over time asset classes with consensus expectation shifts that mostly determine price movements on those same assets.

Risk Symmetry Framework

	Real Growth	Inflation	Cash Rates
↑	Global Equity Commodities US Credit	Inf Linked Bonds Commodities US Credit	ST Bills
Consensus Forecast			
↓	Global Bonds Inf Linked Bonds	Global Equities Global Bonds	Global Equities Gold

	Real Growth	Inflation	Cash Rates
↑	RISK (A)	RISK (B)	RISK (C)
Consensus Forecast			
↓	RISK (A)	RISK (B)	RISK (C)

A good portfolio weighting should enable a fair offsetting between each asset class price movement, whenever a shift in market expectations related to real growth, inflation or cash rates determines market movements.

To achieve this, the risk symmetry approach prescribes that the level of risk in the various quadrants should be symmetrical.

Our approached differs from earlier methodologies based on “risk parity” because it does not prescribe the same level of risk in each quadrant, but simply prescribe the risk allocated to the quadrants above the consensus line should mirror the risk allocated to the quadrants below the consensus line.

In addition, shifts in expectation on cash rates (i.e. expectations on monetary policy decisions) are considered in their own merit as market moving events, separate from shifts in inflation expectations.

Phoenician Portfolio Performance

Leveraging on our extensive research on market moving shifts in expectations and their impact across asset classes, and applying the *risk symmetry* methodology described earlier, Phoenician has designed its flagship *Phoenician 7 Seas USD Portfolio*, which intends to provide USD denominated low-risk medium-return performance and is intended to perform in risk efficient manner under all type of market conditions, with the potential to enhance returns through leverage. For clients with base currencies different from USD, we tailor the 7 Seas Portfolio to their own base currencies.

Phoenician 7 Seas is risk-efficient, multi asset class, balanced portfolio developed by leveraging on our proprietary risk symmetry approach.

2024 has been the perfect testing ground for the 7 Seas Portfolio, and the portfolio mix has performed very well relative to other defensive portfolios under very challenging conditions. In 2024, Phoenician 7 Seas has achieved a strong performance with an annualized return of 10.47% and a standard deviation of 10.52%.

Phoenician 7 Seas vs GFAP, Dec 2024

Asset Class	Weights of Phoenician 7 Seas	Weights of GFAP
US Equity	35.00%	24.56%
Developed Markets Equity	0.00%	13.28%
Emerging Markets Equity	5.00%	11.05%
Super Short Us GOV debt	0.00%	4.01%
ST US Gov Debt	0.00%	2.38%
Mid US Gov Debt	35.00%	4.15%
Long US Gov Debt	0.00%	1.23%
Gov Bond Developed	0.00%	11.04%
Gov Bond Emerging	10.00%	6.42%
IG Global Corp Credit Developed	0.00%	7.93%
IG Global Corp Credit Emerging	0.00%	2.78%
HY Global Corp Bond Developed	0.00%	0.97%
HY Global Corp Bond Emerging	0.00%	0.18%
Commodities	15.00%	10.02%
Total	**100.00%**	**100.00%**

Composition of GFAP Portfolio, Dec 2024

Asset Class	Instruments	Amount (USD trillion)	Weight (%)
US Equity	Vanguard Total Stock Market ETF (VTI)	61.68	24.56%
Developed Markets Equity	Vanguard FTSE Developed Markets ETF (VEA)	33.34	13.28%
Emerging Markets Equity	Vanguard FTSE Emerging Markets ETF (VWO)	27.75	11.05%
Super Short Us GOV debt	iShares Short Treasury Bond ETF (SHV)	10.23	4.01%
ST US Gov Debt	iShares 1-3 Year Treasury ETF (SHY)	5.83	2.38%
Mid US Gov Debt	iShares 5-7 Year Treasury Bond ETF (IEF)	10.22	4.15%
Long US Gov Debt	iShares 20+ Year Treasury Bond ETF (TLT)	3.08	1.23%
Gov Bond Developed	SPDR Bloomberg International Treasury Bond ETF (BWX)	27.53	11.04%
Gov Bond Emerging	iShares JPM Emerging Makets USD Bond ETF (EMB)	15.84	6.42%
IG Global Corp Credit Developed	iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD)	20.09	7.93%
IG Global Corp Credit Emerging	iShares J.P. Morgan EM Corporate Bond ETF (CEMB)	6.98	2.78%
HY Global Corp Bond Developed	iShares iBoxx $ High Yield Corporate Bond ETF (HYG)	2.44	0.97%
HY Global Corp Bond Emerging	VanEck Emerging Markets High Yield Bond ETF (HYEM)	0.47	0.18%
Commodities	iShares S&P GSCI Commodity-Indexed Trust (GSG)	25.03	10.02%
Total		**254.06**	**100%**

Due to its multi-asset, balanced structure, we have identified the Global Financial Asset Portfolio (GFAP) as the most relevant benchmark to Phoenician 7 Seas Portfolio. This benchmark portfolio is built using financial instruments available and investable globally with each individual asset class represented by a broad-based index. It intends to capture the performance of the “aggregate global household” at the end of a given financial period and with weights derived from the total amount of financial instruments outstanding in each asset class.

The weights of the GFAP are based on all financial instruments issued and investable in each asset class, for a total of USD 205.7 trillion, as per State Street data and Phoenician research.

In terms of risk return profile over the past 10 years, Phoenician 7 Seas stands out as highly risk-efficient when compared to the GFAP due to lower volatility compared to GFAP. In 2023, Phoenician 7 Seas has returned a M^2 adjusted return of 12.69%, which represents a 1.28% excess return when compared to GFAP’s return in the same period.

Phoenician 7 Seas Asset Allocation & Return

Asset Class	Weights	Return
Vanguard Total Stock Market ETF	35.00%	23.81%
iShares 3-7 Year Treasury Bond ETF	35.00%	-0.64%
iShares S&P GSCI Commodity-Indexed Trust	15.00%	8.52%
iShares MSCI All Country Asia ex Japan ETF	5.00%	10.58%
SPDR Bloomberg Emerging Markets Local Bond UCITS ETF	10.00%	5.54%
Total	**100.00%**	**10.47%***

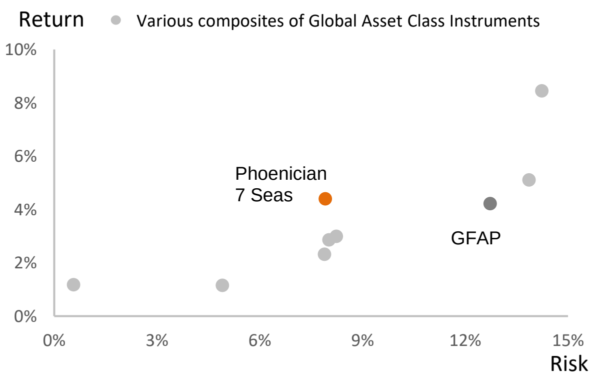
Note: The M^2 adjusted return of the portfolio is12.81%.

Most of the outperformance can be attributed to gold, which is overallocated in the Phoenician 7 Seas portfolio and performed very strongly in 2024.

Phoenician 7 Seas Attribution of Return Compare to GFAP

Asset Class	Allocation	Allocation Selection	Interaction	Total
Global Equity	0.24%	0.27%	0.01%	0.52%
Non-US Gov Bond	-0.86%	1.77%	-1.11%	-0.20%
IG Global Corp Credit	-1.04%	0.00%	0.00%	-1.04%
ST US Gov Debt	-0.09%	0.00%	0.00%	-0.09%
Mid-LT US Gov Debt	0.85%	-0.04%	-0.06%	0.75%
HY Global Corp Bond	-0.48%	0.00%	0.00%	-0.48%
Commodity	-0.03%	-0.06%	-0.01%	-0.09%
Gold	1.60%	0.05%	0.27%	1.91%
Total	0.19%	1.99%	-0.89%	1.28%

Risk Return Analysis of Phoenician 7 Seas vs GFAP, 2014-2024



On the long term, returns and standard deviation table for Phoenician 7 Seas show a superior risk-return profile when compared to less diversified asset allocation strategies such as 60 US Equity / 40 US Debt.

Phoenician 7 Seas vs 60/40 US Equity US Debt, Dec 2024

	Phoenician 7 Seas USD		60/40 US Equity US Debt	
	Return	Standard Deviation	Return	Standard Deviation
1 Y	10.91%	8.50%	11.41%	10.05%
3 Y	-0.71%	10.05%	-0.51%	13.23%
5 Y	6.23%	9.67%	4.66%	15.34%
10 Y	4.39%	7.92%	4.21%	12.73%

Note: Portfolios back tested prior to.2015. 60/40 Portfolio includes US market equity and long-term US Debt (+20 years)

Our strategy to make short term adjustment to our client asset allocation model with heavier weight on broader commodity and gold also paid off significantly in 2023.

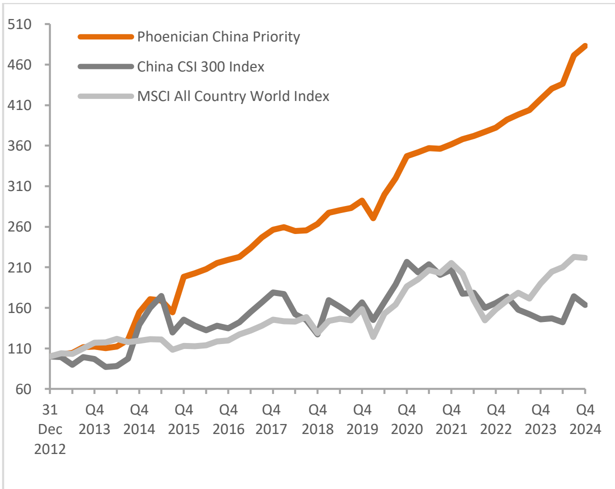
When it comes to the pursuit of alpha, Phoenician is running two actively managed strategies, Phoenician China Priority USD Strategy and Phoenician Managed Futures USD Strategy, and both performed extremely well in 2023.

Phoenician Actively Managed Strategies Performance, 31 Dec 2024

	China Priority USD Strategy	Managed Futures Strategy
	Returns	*Returns*
1 Y	15.77%	7.35%
3 Y	9.28%	6.08%
5 Y	10.32%	7.36%
10 Y	13.86%	7.41%

The Phoenician China Priority Strategy employs a long/short approach, with the goal of capturing above-market capital growth from investing in prudently selected publicly-listed Chinese companies. In order to enhance performance as well as for hedging purposes, this portfolio also invests in futures and other hedging instruments, which differentiates this portfolio from most China focused equity portfolios.

Phoenician China Priority Strategy Performance Over Time



To achieve our investment goals, we identify companies, which are undervalued and demonstrate significant growth potential or very likely benefit enormously from the structural changes in their own operations or within the industries they participate by establishing long positions in those high-quality companies. Conversely, the China Priority Strategy can also make profit by selling short overvalued companies whose market positions are deteriorating.

Phoenician China Priority Performance Over Peers/Benchmark

Net Returns in US$	China Priority	CSI 300 Index	Peer Group*	Percentile
Since 01/01/2013	14.02%	4.72%	0.23%	100
5 years	10.32%	4.24%	-0.99%	100
3 years	9.28%	-13.59%	-18.47%	100
2024	15.77%	12.14%	9.60%	71
2023	9.14%	-12.14%	-17.87%	100
2022	5.67%	-30.79%	-27.61%	35
2021	4.25%	-4.43%	-10.55%	89
2020	19.18%	36.99%	38.83%	17
2019	10.80%	38.96%	28.80%	6
2018	2.80%	-28.83%	-24.48%	100
2017	16.90%	32.99%	42.27%	1
2016	10.60%	-7.38%	-3.26%	98
2015	28.20%	1.15%	-9.28%	93
2014	37.80%	52.27%	13.14%	82
2013	12.20%	-2.65%	-0.23%	93
Q1 2024	3.15%	0.81%	-1.30%	86
Q2 2024	1.35%	-3.19%	5.00%	26
Q3 2024	8.10%	22.34%	18.65%	8
Q4 2024	2.44%	-6.10%	-7.47%	100

*Note: *Peer Group is Bloomberg open-end equity funds with focus on China, with country of domicile in Hong Kong. Around 100 funds were used for the comparison analysis.*

The China portfolio is also designed to capitalize on market volatility, so we also invest in futures and other hedging instruments to potentially profit from both rising and falling markets as well as reducing risk.

On the other hand, the Phoenician Managed Futures Strategy utilizes a long/short approach with the goal of achieving consistent, above-market returns from investing in a combination of commodity, currency and financial futures.

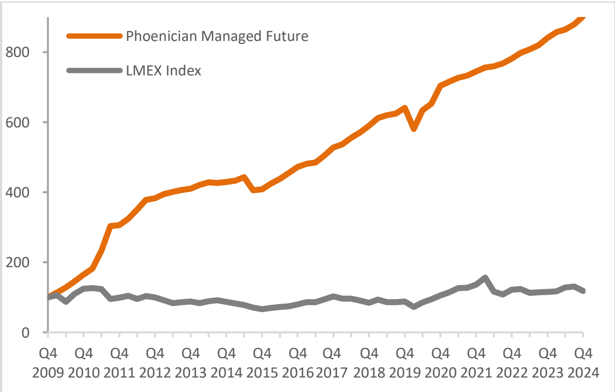
Phoenician Managed Future Performance Over Peers/Benchmark

Net Returns in US$	Managed Futures	LME Commodity Index	Peer Group*	Percentile
Since 01/01/2010	15.80%	0.92%	1.24%	98
5 years	7.10%	6.55%	5.94%	55
3 years	6.61%	-4.63%	4.15%	54
2024	7.35%	2.35%	10.01%	45
2023	7.60%	-5.28%	1.49%	63
2022	4.89%	-10.37%	-6.56%	96
2021	5.77%	28.78%	-5.04%	75
2020	9.96%	19.42%	23.87%	29
2019	8.66%	5.05%	18.38%	15
2018	11.65%	-18.20%	-9.29%	91
2017	11.72%	28.56%	10.57%	61
2016	15.87%	20.91%	7.91%	78
2015	-4.93%	-24.01%	-15.92%	94
2014	4.55%	-0.84%	-11.54%	91
2013	7.09%	-12.06%	-22.29%	87
2012	25.03%	1.05%	6.31%	100
2011	86.55%	-20.69%	-1.18%	100
2010	64.27%	24.62%	25.61%	80
Q1 2024	1.97%	1.31%	2.16%	38
Q2 2024	0.86%	9.26%	3.46%	28
Q3 2024	1.71%	2.60%	5.82%	46
Q4 2024	2.62%	-9.92%	-4.27%	88

*Note: *Peer Group is global commodity ETFs. Around 170 funds were used for the comparison analysis*

Designed to capitalize on market volatility and inefficiencies, managed futures are an important and major alternative asset class that not only provides the necessary hedge but also potentially makes profit in both rising and falling markets. Increased diversity is also achieved through international exposure that is facilitated by trading access to global markets 24 hours a day.

Phoenician Managed Future Performance Over Time



WHAT'S NEXT

We look at consensus estimate in order to detail where our prediction is out of line with market expectations so that we can then determine which asset classes will be impacted if market expectation on a given indicator would shift in the manner we have predicted.

	2024	2025	2026
USA			
Real GDP (YoY%)	2.7	2.1	2.0
CPI %	3	2.5	2.5
Unemployment %	4	4.3	4.1
Budget %	-6.9	-6.4	-6.4
Curr. Acc. %	-3.5	-3.6	-3.5
Bank Rate %	4.5	3.8	3.55
USD Index	108.5	107	103.5
China			
Real GDP (YoY%)	5.0	4.5	4.2
CPI %	0.2	0.9	1.2
Unemployment %	5.1	5.1	5.1
Budget %	-5	-5.5	-5.6
Curr. Acc. %	1.5	1.3	1
Bank Rate %	3.1	2.7	2.63
USD/CNY	7.3	7.4	7.3
EU			
Real GDP (YoY%)	0.9	1.3	1.5
CPI %	2.5	2.1	2
Unemployment %	6.6	6.7	6.5
Budget %	-3.2	-3	-2.8
Curr. Acc. %	3.4	3.1	3
Bank Rate %	3.36	2.15	2.15
EUR/USD	1.04	1.05	1.08

Note: In bold indicators where our forecast are not in line with consensus expectations

SECTORIAL FOCUS

Artificial Intelligence (AI) Stocks: Companies like Nvidia, Palantir Technologies, and Broadcom are at the forefront of AI innovation. AI is transforming industries such as healthcare, finance, and retail by enhancing data analysis, automating processes, and improving customer experiences. Investing in AI-focused companies can potentially yield high returns as the technology becomes more integrated into everyday life.

Renewable Energy: With the world increasingly prioritizing sustainability, renewable energy sources like solar, wind, and hydroelectric power are set to grow. Companies involved in the production and distribution of renewable energy, such as NextEra Energy and Vestas Wind Systems, are well-positioned to benefit. Government incentives and public demand for cleaner energy will continue to drive growth in this sector.

Pharmaceutical Stocks: An aging global population and the ongoing need for medical advancements present opportunities for pharmaceutical companies. Firms like Pfizer, Johnson & Johnson, and Moderna are continuously developing new treatments and vaccines. The demand for healthcare solutions, combined with advancements in biotechnology, makes this sector promising for investors.

Energy Stocks: The energy sector is undergoing a transformation with a shift towards cleaner energy sources. Traditional oil companies like Exxon and Chevron are adapting to this change by investing in liquefied natural gas (LNG) and renewable energy infrastructure. Additionally, companies focused on renewable energy, such as Orsted and Enphase Energy, offer growth potential as the world transitions to sustainable energy solutions.

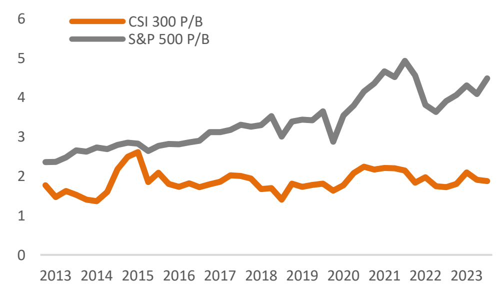
Fixed-Income Investments: With Treasury yields stabilizing around historical norms of 4%–5%, a barbell strategy combining floating rate and yield-enhanced funds can help investors balance rate volatility and credit exposure. This approach provides a mix of stability and potential for higher returns.

US EQUITY PREMIUM CONTINUES TO WIDEN

US Equity has traded over time at a high premium to Emerging Market Equity and in particular to Chinese Equity, despite recent opening up of Chinese Equity to offshore investors, in the form of the various Hong Kong Connect systems.

At times of economic recession, we believe P/E ratios are not reflecting true valuation multiples, as earnings forecasts tend to be overstated. Therefore, we prefer to look at P/B ratio, which measure the market capitalization of the index against the last reported net asset value of the underlying equity components. Net asset values are not subject to earnings expectations, although they do not capture the company future cash flow outlook.

China CSI 300 PB ratio vs S&P 500 PB ratio



We observe that US Equity Premium has reached a substantial level in 2023, with a ratio of 4.5x for S&P 500, against a ratio of 1.9x for CSI 300.

Historically, the reason for the high equity premiums has been justified with lower inflation and lower US bond yields, making US Equity cash flows less risky than other equity markets, and leading to USD appreciation against emerging market currencies. This is no longer relevant and applicable as bank rates and Government Bond Yield are now consistently lower in China than in the US and US equity premium over emerging market equity, especially China, are no longer sustainable from either a risk or growth perspective.

U.S. Corporate Earnings vs S&P 500

In particular, the US market has been in a substantially uninterrupted bull run since 2008. As bull runs to start require low P/E, the S&P 500 is trading at 22X P/E ratio, well above-average valuations on a price-to-earnings basis, the 12-month forward P/E ratio of US large cap at 19X and that for US tech at 24X, both significantly above its respective interquartile range for the past 25 years.

In addition, as US companies earning forecast have plateaued in the past 2 years, the recent equity bull run appears to prove short lived.

Therefore, US Equity may no longer be offering superior return over China Equity in the long run and the reversal could happen as early as 2025.