

[For immediate release]

EBSHK expects continued world economic growth in H2

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**The U.S. may outperform while China and India grow steadily
Politics and USD strength may fuel asset price volatility**

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HSI target at 34,000

**Three major themes: China's consumption upgrade; rising interest rates;
booming education industry**

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USD continues to stand out Limited upside for RMB

Overview:

- ▲ EBSHK expects the world's major economies to deliver synchronized growth with GDP growth broadly stronger than 2017
- ▲ The U.S. may outperform; the Fed may raise interest rates three more times by year-end
- ▲ China may see steady growth while India's GDP growth is likely to accelerate further
- ▲ Trade tensions, geopolitical risks, and USD strength may fuel asset price volatility
- ▲ Investors should maintain a well-diversified portfolio; three major strategies: (1) "European stocks are catching up amid low valuations"; (2) "Focus on A-shares' upside potential"; (3) "Add financial stocks to the portfolio to lessen rate hike impact"
- ▲ The HSI target is set at 34,000; the HSCEI and Shanghai Composite Index targets are 13,500 and 3,450 respectively
- ▲ Hong Kong equities' investment themes: (1) China's consumption upgrade; (2) rising interest rates; (3) the booming education industry
- ▲ FX: USD may continue to stand out; RMB may see limited upside potential

Hong Kong, June 6, 2018 – Everbright Sun Hung Kai Company Limited ("Everbright Sun Hung Kai", "EBSHK" or the "Company") expects the global economy to improve in Q3 2018. The world's major economies are likely to deliver synchronized growth again this year (similar to 2017's trend) with GDP growth broadly stronger than 2017. The U.S. may outperform and its GDP growth may accelerate to 2.5% or higher in H2 2018; the Federal Reserve (Fed) may raise interest rates three more times by the end of the year. China may see steady growth while India's GDP growth is likely to speed up further. While the global economy continues to expand, trade tensions and geopolitical risks, together with USD strength, may fuel market uncertainty, which may lead to asset price volatility in global markets.

EBSHK Wealth Management Strategist Kenny Wen says, "In the short term, market sentiment may improve on the back of easing trade tensions (between China and the U.S.) and geopolitical risks (including those from North Korea). However, higher Treasury yields and USD strength may fuel market uncertainty. Based on our views for the medium-term (six-month) horizon, we believe the global economic expansion and the expected double-digit earnings growth could be key supportive factors for equities. Investors should maintain a well-diversified portfolio adhering to careful

analysis on the basis of fundamentals (including macroeconomic trends and policies), and this may help them explore investment opportunities with strong growth potential in markets.”

Kenny recommends three major strategies for portfolio positioning: (1) “European stocks are catching up amid low valuations”; (2) “Focus on A-shares’ upside potential”; and (3) “Add financial stocks to the portfolio to lessen rate hike impact”. The portfolio may have better potential returns in the medium term.

Strategy One: “European stocks are catching up amid low valuations”

European stocks: Positive economic growth with attractive valuation

The Eurozone is expected to see sustainable economic growth and, according to a report published in April by the International Monetary Fund (IMF), the Eurozone’s 2018 GDP growth forecast was lifted to 2.4%. Some economic indicators showed the Eurozone economy improved, among which the regional unemployment rate fell to 8.5% in April, the lowest since December 2008, while the debt ratio also dropped to 87%, the lowest level in recent years. Such data hints that the Eurozone’s economic expansion is sustainable. The Euro Stoxx 50 is currently trading at a trailing P/E of 15.9x, below its ten-year average of 16.8x. The valuation of European stocks seems to be relatively attractive compared with the U.S. peers’ 20.9x. European stocks are expected to “play a catch-up” in the medium/long term after lagging behind U.S. stocks in the past year. Investors who are optimistic about the outlook for Eurozone stocks may consider hedging the Euro’s downside risk so as to mitigate the impact of currency volatility on investment returns.

Strategy Two: “Focus on A-shares’ upside potential”

Mainland and HK equities: Positive outlook with MSCI’s A-share inclusion

The Mainland economy delivered stable performance with a Q1 GDP growth rate of 6.8% YoY. Simultaneously, the Chinese government continues to push forward structural reforms and is gradually opening up the capital markets. Following the MSCI inclusion of A-shares in June, EBSHK estimates around US\$16bn of funds tracking the MSCI may flow into the A-share market. Both Mainland and Hong Kong equities have pulled back sharply from levels at the start of 2018 despite their strong rally in 2017, suggesting that their valuations are now more attractive compared with global peers. For example, the Shanghai Composite (SHCOMP) has an over 10% potential upside from its peak in 2018, and EBSHK expects the SHCOMP to hit 3,400 to 3,450 in H2 2018.

Strategy Three: “Add financial stocks to the portfolio to lessen rate-hike impact”

U.S. financial sector: Four key support factors for strategic positioning

The U.S. House of Representatives voted to ease Dodd-Frank Act requirements. As a result, small and medium-sized banks in the U.S. will face fewer restrictions when expanding services and business. That may help them enhance operational efficiency, boost loan business and create jobs in the banking sector. Meanwhile, minutes of the Fed’s May meeting pointed to a forthcoming rate hike if the U.S. economy stayed on track, and the Fed officials hinted a temporary period with inflation rate above 2% could be tolerated. The financial sector is one of the key beneficiaries from tax cuts. Positive factors including rising interest rates and widening net interest margins, among others, may also support the industry. The valuation of financial stocks looks favorable compared with the historic level or that of other sectors. Strategic positioning of financial stocks may strengthen the potential value growth of the portfolio.

HK equities: HSI targets at 34,000 with three key themes

Based on the internal valuation model of EBSHK, together with considerations of various factors including global monetary policy developments, capital flows, and valuation volatility in financial markets, the 2018 target for the Hang Seng Index is set at 34,000. The target for the HSCEI is maintained at 13,500 and that for the Shanghai Composite Index is 3,450. The investment themes

for Hong Kong stocks in 2018 are: (1) China's consumption upgrade; (2) rising interest rates; and (3) the booming education industry. We believe investors may find opportunities in related sectors (with better industry prospects) that are ready to benefit from the macro environment.

Clarity in China-U.S. trade disputes supports global sentiment

The U.S.-China trade dispute has been one of the main factors affecting global equities in H1 2018, bringing uncertainties to the stable growth in China and the U.S., as well as the global economy. Nevertheless, a full-blown trade war seems highly unlikely and more clarity of China-U.S. trade relations in H2 2018 is expected; therefore, global market sentiment may be uplifted, buoying up equities. With regard to fundamentals, the Mainland economy expanded steadily with its GDP rising at 6.8% in Q1 2018, in line with market estimates. For the first five months of 2018, China's manufacturing and non-manufacturing PMIs remained in the expansionary territory, while CPI achieved mild growth, signaling positive fundamentals in the economy. Moreover, with the MSCI inclusion of China A-shares, both Mainland and Hong Kong equities are poised to benefit.

In terms of risk factors, the U.S. rate hike cycle is forecast to go on in H2 2018. Hong Kong interest rates may follow the changes in U.S. rates. Such trends are largely anticipated by markets. Accordingly, we should apply different analysis on different portfolio classes. The three key investment themes in H2 2018 are: (1) China's consumption upgrade; (2) rising interest rates; and (3) the booming education industry. The related industries are relatively more resilient to rate hike impact and market volatility triggered by trade war news.

Forex: USD may continue to stand out

Bruce Yam, Forex Strategist of EBSHK, says, "The Dollar rebound may continue to cause market impacts in H2 2018 as the USD began to fall from January 2017, and it bottomed out and bounced back in February 2018. The Dollar rebound could last until October 2018. It may resume the downtrend in March next year."

U.S. Treasury yields tend to rise rather than fall against the backdrop of President Trump's tax reform package, the Fed's tapering and rate hikes, as well as the fact that 69% of Treasury debts will mature within five years (29% with maturity terms within 12 months; 40% maturing in one to five years). Given the rising Treasury yield and geopolitical uncertainty, U.S. Treasuries look more attractive as the U.S. bond market is registering stronger fund inflows. Shale oil technology is more developed and the U.S. is now the largest oil producer. U.S. trade deficit may eventually narrow given rising crude prices. The withdrawal from the Paris climate accord (a global agreement on climate change), embassy relocation to Jerusalem, and suspension of Tesla's subsidies by the Department of Energy could be U.S. initiatives to support oil prices, slowing down alternative energy development and boosting exports. The Dollar Index may test higher at 95 to 97 before the next trend reversal.

The Eurozone has been facing challenges from a rise of populism following the Brexit referendum. Populist parties have come to power in Austria, the Czech Republic, and Italy, and even in Germany, whose Alternative for Germany (AfD) party won seats in the parliament. Amid this spread of populism, the European Union reform may become more difficult amid the spread of populism in Europe. Since vast amounts of Eurozone sovereign bonds will mature in 2019 and the European Central Bank (ECB) continues to buy the bonds at maturity, an ECB rate hike is not anticipated until 2019. In view of all this, the Euro is likely to weaken this year and EUR/USD may test lower at 1.1450 to 1.1180 with upper resistance at 1.1950.

The biggest threat to the GBP comes from Brexit. Britain is being troubled by both internal and external issues. The British government has managed to secure 75% of Brexit deals; the toughest challenge, however, comes from the remaining 25%. Britain is thus proposing an extension of the

transition period to 2023. The upper house of parliament voted against Prime Minister Theresa May's stance, making it even more difficult for legislation. Brexit uncertainties are gradually taking toll on the U.K. financial industry and overall economy. The Bank of England (BOE) may only raise interest rates twice in five years; the spread may adversely affect the Pound, which may test lower at 1.3, or even 1.25, with upper-range resistance at about 1.38.

For the Japanese Yen, the unwinding of all net short positions in the first half implies that new positioning by institutional investors may be needed to drive the Yen lower. The chance of the Bank of Japan (BOJ) stepping up bond purchases is limited and the current market sentiment is different from that in the late 2017 (when the market expected the BOJ to keep its bond-buying decision). Japan, indeed, is considering withdrawal of quantitative easing. The Yen is in range-bound trading without a clear direction with possibility to move in 102 to 113.

China-U.S. trade negotiations are facing uncertainties. Still, it is probable that China will buy more U.S. exports, which may further restrain the potential growth of China's foreign exchange reserves. With the upcoming peak period for corporate bond, the RMB may have limited upside potential, and USD/RMB may encounter lower-range resistance at 6.2; the pair may also test higher at 6.5.

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About Everbright Sun Hung Kai Company Limited

Everbright Sun Hung Kai Company Limited (“EBSHKCL”) is a leading financial institution with four core businesses, Wealth Management and Brokerage, Corporate Finance and Capital Markets, Asset Management, Investment and Structured Financing. Operating under the Everbright Sun Hung Kai brand (“EBSHK”) as well as the EBSHK Direct and EBSHK Private sub-brands, EBSHKCL is a subsidiary of Everbright Securities Company Limited (“Everbright Securities”, SSE: 601788, HKEX: 6178), with Sun Hung Kai & Co. Limited (HKEX: 86) as its substantial shareholder, serving individual, corporate and institutional clients in Hong Kong, Macau, Mainland China and the U.K.

Backed by Everbright Securities and China Everbright Group member companies, coupled with its heritage in the financial industry beginning in 1969, EBSHK has emerged to be a full-fledged financial platform providing excellent cross-border and global financial services with Moody's “Baa3” long-term issuer and “Prime-3” short-term issuer credit ratings. EBSHKCL, through its subsidiaries, currently has over HK\$138 billion* in assets under management, custody, and/or advice. For more information, please visit www.ebshk.com.

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