China CITIC Bank International
Economic and investment outlook Q4 2024

US rate cuts favourable to RMB and Hong Kong property prices in the long run

Balanced allocation of equities and bonds for minimising volatility

(Hong Kong: 21 October 2024) China CITIC Bank International Limited ("CNCBI") today released its Q4 2024 economic and investment market outlook, highlighting that the US Federal Reserve's (the "US Fed") rate cut cycle will lead market movements and support asset prices globally. Meanwhile, mainland China's stimulus measures launched at the end of September have driven the stock markets on both sides of the Chinese border and are expected to add fuel to economic recovery, bringing support to the stock markets in the medium and long term.

Macroeconomy: US Fed rate-cut cycle expected to last through 2026

Mr Tristan Zhuo, Chief Economist, China CITIC Bank International, noted that, "In view of the US inflation, its labor market, financial stability, and public finances, the US Fed rate-cut cycle is likely to last through 2026, while the federal funds rate may settle at between 1% and 2% or even lower."

Mr Zhuo remarked that the US Fed's large rate cut assets such influence on the global asset markets. In mainland China and Hong Kong, for instance, the RMB exchange rate and the private residential property prices in Hong Kong are likely to reap the benefits.

RMB eases on narrowing yield differential	• The monetary policies of mainland China and the US have started to move in the same direction with the former in an accommodative cycle spiced up by simulative measures targeting the economy, property sector and the financial market. Compared to the US Fed, the People's Bank of China's rate adjustments are relatively moderate. As the Federal funds rate stands at an elevated 5%, room for adjustments is considerable for US yields, which will remain the dominant driver of China-US yield differential. • RMB exchange rates will remain volatile in the short run, but as the US Fed rate-cut cycle continues, the China-US yield differential will be further compressed, easing the RMB against the USD.
Hong Kong's residential property prices likely to bottom out	• From early 2022 to August 2024, Hong Kong's private residential property prices tumbled whereas rents logged a cumulative rise of 8.1%. Demand for housing remained robust. In view of the US Fed's rate-cut cycle, housing prices are expected to bounce back in a gradual pace. • Pressure on retail sales led shop prices and rents to plummet as office prices and rents continued to face challenges of deep adjustments despite increased supply.

Investment Insights: Stocks-bonds investment mix advisable for increased stability

Mr Ivan Cheung, Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, said, "The US Fed has kicked off its rate cuts. The mainland Chinese government has also launched a series of economic stimulus. These are favorable to the performance of global and Hong Kong stock markets. However, as of 7 October, the Hang Seng Index has surged more than 30% over a one-month span, leading investors to be cautious about whether these measures can sustain the stock market's medium to long-term upward trajectory. Additionally, the US presidential election in coming November may introduce uncertainties regarding future policies and inflation outlooks. As such, maintaining a diversified investment strategy while spreading exposure to Asian equities and bonds, can help keep volatility at bay."

Stocks	• A number of previous economic stimulus from mainland China have boosted Hong Kong stock market. Such rallies may not last while pullbacks are possible. Asset diversification is therefore advisable. • The latest round of economic stimulus from mainland China is substantial. Since the Hong Kong equity market has consistently been trading at significant discounts, such stimulus may help bolster the support levels for the Hang Seng Index. • With the US Fed commencing rate cuts, future uncertainties are increasing, suggesting that the pace of these cuts will proceed cautiously. • In the US rate cut cycle, there will be increased capital flows into Asian equities. Among these, high-dividend and technology stocks can provide dividends and price momentum for investors, enhancing potential returns.
Bonds	• Government and investment-grade bonds have long been investors' favourites. Moderate economic growth in the US and the rate cuts are likely to increase investors' risk appetite, leading a capital inflow into higher-yielding assets such as high-yield and emerging-market bonds. In the meantime, refinancing costs are expected to fall, improving companies' cash flow and debt-servicing capabilities, thereby reducing default risks. Nevertheless, as the risk of economic recession remains, maintaining a diversified bond portfolio is advisable.
FX	• The USD has already retreated from its recent highs ahead of the US Fed's rate cuts but the market still harbours certain expectations regarding future rate cuts. Overall, USD trends are influenced by geopolitical situations and the pace of rate reductions. • As for non-US currencies, their outlook will depend on whether the US Fed undertakes significant additional rate cuts. • Australia's economy may benefit from the economic stimulus of its trade partner mainland China. As the Reserve Bank of Australia's hawkish stance remains unchanged, the Australian dollar is expected to have a comparative advantage.

For more insights from CNCBI into the macroeconomy and investment markets, please visit https://www.cncbinternational.com/personal/investments/market-information/en/index.html.

Photo

Mr Tristan Zhuo (left), Chief Economist, and Mr Ivan Cheung (right), Head of Investment Advisory, Personal & Business Banking Group, China CITIC Bank International, provide insights into the economy and investment markets and point out that the rate cut cycle may last until 2026 and that stocks-bonds investment mix is advisable for minimising volatility

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