MIRAE ASSET
Mutual Fund

Update on Chinese Economy and Hang Seng Tech

December 2024

China economy continues to brawl with a 3D's i.e. debt, deflation and demographics posing macro-economy uncertainties for a while now since re-opening in 2023 from pandemic. At start of the year 2024, china's economy was on way to its recovery with first quarter Gross Domestic Product (GDP) being reported as 5.3% year-on-year (Y-o-Y). To boost the growth and consumption, the government and policy maker announced policy measures easing debacle in the property sector. However, property sector continued to be in downturn along with decline in consumption. Export has been able to sustain somewhat positive momentum since start of the year, however, the drag in consumption and property sector continues to pressure the economy downward. The real estate downturn, slowing consumer spending, and geopolitical tensions led to cut and downgrade of the Chinese economy and equities across globe posing question about Chinese economy's ability to meet official GDP growth estimate of 5% for the year.

Over the last 18 months or so, Chinese government official via various channels and mode have brought in small, frequent and reactive measure, but it wasn't enough to bring confidence of the investor's back to Chinese economy or Chinese equities. Investor's across the globe wanted a prudent and much larger monetary/fiscal stimulus and measure for revival of Chinese economies. In the second quarter, China's GDP grew by 4.7% year-over-year, down from 5.3% in the first quarter, calling for sense of insistence by policy maker in order to avoid missing of annual target of GDP growth of 5%.

Following Fed rate cut in September 2024, People's Bank of China (PBOC) and other regulators announced a series of measures aiming to stimulate economy growth and stabilize property market.

The Latest Measures:

On 23 September, 2024, People's Bank of China (PBOC) lowered 14-day reverse repurchase rate by 10bps to 1.85% and injected more liquidity into the financial system. At the State Council press conference held on September 24, 2024, People's Bank of China (PBOC) announced a comprehensive package of monetary policy stimulus that exceeds market expectation:

- Cut Reverse Repo Ratio (RRR) by 50bps, and guidance on another 25-50bps RRR cut by end of 2024. Cut 7-day reverse repo rate, China's key policy rate, by 20bps to 1.5%
- Down-payments for first and second homes would be unified at 15% (previously 25% for second home)
- lower Interest rates on existing mortgages by 0.5% on average.
- setting up Chinese Renminbi (Rmb) 500bn liquidity provision program for non-bank financial institutions to borrow money directly from the PBOC, and a relending program for banks to support listed companies' share buybacks.

Post announcement, the Chinese equities market responded reflecting sentiment improvement among investors across the globe on the hope of physical reflationary efforts ramp up. It seemed that majority of investor across the globe moved out of their bearish view of Chinese equities amidst announcement of monetary measure and announcement of further more fiscal stimulus. However, retraction happened in 2nd week of October 2024 as The National Development and Reform Commission, China's economic planning agency, on Tuesday 08th October 2024, pledged a bundle of actions to bolster the country's economy, but the commission stopped short of announcing any new major stimulus plans, thereby disappointing the market and investors. This reflects that how fragile investor's hope are and investors are largely betting now first on macro-economic support and revival as opposed to focusing on individual stocks earnings/growth.

Further, China's Ministry of Finance (M.o.F) did not deliver a broad-based fiscal stimulus package at its press conference held on 12th October 2024, instead pledging stronger action to deal with local government debt and the property market – two areas of concern weighing down the country's economic growth. However, the ministry quoted that "The central government has the capacity to issue more bonds and raise the fiscal deficit," twice at the briefing. "There are other policy tools for countercyclical measures that are under study." This could be touted as potential hint for more policy measures in coming months if economic situation warrants.

Since then, after the conclusion of the much - anticipated NPC Standing Committee Meeting on November 8, 2024, Central Government hosted a press conference and announced details of fiscal stimulus. NPC approved RMB 10 Trillion local government debt swap program consisting of

- RMB 6 Trillion increase in local government special debt ceiling, evenly spread over 2024-26; and
- RMB 800bn per year from annual local government special bond issuance quota during 2024-28, totalling RMB 4 Trillion.

Size of the debt swap program was larger than market expectations and this will lower the burdens of implicit debt resolution on local governments. This should provide more financial resources for local government to ensure wage payments and support corporate sector, bringing indirect supports for consumptions.

Announcements other than debt swap program somewhat fell short of market expectations, as no approval or details on bank recapitalization and consumption stimulus were mentioned in the conference. However, Ministry of Finance gave directional forward guidance that policymakers are expediting the plan to issue Special Treasury Bonds to recapitalize big banks and they are working on policies for using Local Government Special Bonds for housing inventory and idle land purchases. Tax related incentives for property will be rolled out soon to further stabilize property market.

On the back of the substantial shift in central government policy stance since September 2024, we expect policymakers will continue to roll out policies to support economic growth amid domestic and external challenges.

Latest Economic Indicators:

In 2024, , China reported mixed economic data, where in October Retail sales grew by 4.8% year-on-year, above the 3.8% forecasted, and a pickup from 3.2% growth in September, but November retail sales disappointed with 3% growth missing forecast of 4.6%. Industrial production rose by 5.3% in October and 5.4% in November from a year ago, missing October expectations of but marginally beating November expectations. Growth and fixed asset investment, reported on a year-to-date basis, rose by 3.3% from a year ago till November, slower than the 3.4% forecast. Investment in real estate for the January to November period fell by 10.4% from a year ago, steeper than the 10.1% drop seen in the January to September period. Further China's industrial profits dropped by 10% in October from a year ago, in another sign that Beijing's stimulus measures have yet to reverse a slump in corporate earnings.

In the first ten months of 2024, profits at China's industrial firms decreased by 4.3% from a year ago. On the positive side, Meanwhile, infrastructure and manufacturing investments picked up slightly in the year-to-date period as of October, versus that of September and urban unemployment remain unchanged at 5% m-o-m in October when it reduced marginally by 10 bps m-o-m, and unemployment rate for young people (aged 16-24) had ticked down to 17.1% in October from a high of 18.8% in August.

The 2024 data shows that China's consumer inflation fell to a five-month low in November and missed expectations, climbing 0.2% from a year ago. China's producer price index declined for the 26th month. Producer inflation fell by 2.5% year on year in November, less than the estimated 2.8% decline as per the Reuters poll. The Accumulated inventories of manufacturing inputs and finished goods are sizeable, and growing by the month. This mismatch between supply and demand has been depressing prices. The persistent near-zero retail inflation shows that China is still grappling with sluggish domestic demand while wholesale prices remain in deflationary territory. This is in spite of Beijing's slate of stimulus efforts since September which has included interest rate cuts, support for the stock and property markets as well as efforts to boost bank lending.

In recent committee meeting in December, China's central bank on 18th Dec 2024 kept major benchmark lending rates unchanged, as Beijing assesses the effects of its recent stimulus measures. The People's Bank of China said it would keep the 1-year loan prime rate at 3.1%, and the 5-year LPR at 3.6%. The rate decision came after a cut of 25 basis points to both the 1-year and 5-year LPRs last month

The Q3 GDP came at 4.6%, slight decrease from Q2 at 4.7%. While GDP in Q4 is expected to come higher, the street expects China to miss out on its yearly target of 5% for CY 2024. Recently, on December 9th, China's leaders on Monday pledged "more proactive" fiscal measures and "moderately" looser monetary policy next year to boost domestic consumption with measures to stabilize property and stock market.

While the Government authorities and market participants are keenly watching how these stimulus impact the various segments of the economy and will keenly watch upcoming monthly and quarterly numbers, there are persistent headwinds domestically and abroad, especially impact of trump polices (read higher tariff) on Chinese economy and policy response by China. Some large brokerage houses have reduced the growth projection for 2025 in this light.

Performance:

Chinese market have been a big disappointment in recent years but especially since reopening of the economy post COVID, when investors expected market to bounce back based on rise in domestic consumption, but plethora of reasons have plagued the chines markets. Recent policy measures since September 2024 onwards, have been welcomed, though they have disappointed in their size gradually, but has been able to provide some positive impetus to the markets which has risen up by 20.1% in last 3 month. Though, with trump coming back and trade war 2.0 looming, Chinese market can't catch a break from bad news or headwinds.

In terms of valuation despite the recent run up, the valuation doesn't seem to be stretched for instance Hang Seng TECH Index was trading at 19.4x 12 month Blended Forward Price to Earning (P/E) Ratio as on 20th Dec 2024. It's still below 5 year long-term average of 31.3x 12M Blended Forward Price to Earning (P/E). More broad and inclusive index such as MSCI China Index is trading at 11.75x 12M Blended Forward Price to Earning (P/E) Ratio as on 20th December 2024, up from 9.27x as on 20th December 2023, but still below 5 Yr. long term average 13.10x.

Index Name	5 Years	3 Years	1 Year	YTD 2024	6 Months	3 Months	1 Month
Hang Seng TECH Index (HKD)	-0.2%	-6.1%	20.5%	19.3%	18.4%	20.1%	1.2%
NASDAQ - 100 Index (USD)	20.6%	11.8%	29.6%	27.5%	8.2%	7.8%	3.0%
S&P 500 Index (USD)	14.8%	10.8%	28.0%	26.0%	9.1%	4.3%	0.4%
Hang Seng TECH Index (INR)	3.5%	-2.4%	23.7%	22.5%	20.8%	22.4%	2.0%
NASDAQ - 100 Index (INR)	25.0%	16.1%	32.6%	30.6%	10.4%	9.8%	3.8%
S&P 500 Index (INR)	19.0%	15.1%	31.0%	29.0%	11.3%	6.3%	1.2%
Nifty 50 Index	15.3%	13.7%	12.8%	9.8%	0.6%	-8.4%	0.3%
HKD/INR	3.7%	4.0%	2.7%	2.7%	2.1%	2.0%	0.9%
USD/INR	3.6%	3.8%	2.3%	2.4%	1.9%	1.9%	0.8%

Name	Weight	3 Months	1 Year	1 Year Revenue Growth (%)	3 Year Revenue Growth (%)	Bloomberg Est. P/E Ratio
Xiaomi Corp	8.6%	59%	96%	-8%	-24%	30.9
Tencent Holdings Ltd	8.4%	10%	37%	4%	0%	15.9
Meituan	7.6%	17%	101%	19%	42%	17.7
Alibaba Group Holding Ltd	7.5%	-8%	13%	3%	25%	9.4
JD.com Inc	7.5%	22%	33%	-2%	5%	8.5
Kuaishou Technology	6.1%	3%	-21%	14%	28%	8.8
Li Auto Inc	6.1%	9%	-31%	160%	321%	15.6
SMIC	5.6%	75%	38%	-13%	17%	31.3
NetEase Inc	4.7%	16%	-10%	2%	8%	12.1
Trip.com Group Ltd	4.5%	45%	109%	111%	104%	20.3
XPeng Inc	3.7%	28%	-14%	8%	34%	x
Lenovo Group Ltd	3.6%	2%	-5%	-8%	-6%	10.1
Haier Smart Home Co Ltd	3.1%	4%	34%	2%	6%	11.0
Baidu Inc	2.7%	-4%	-26%	3%	-1%	10.0
Sunny Optical	2.6%	57%	1%	-9%	-22%	28.1
Bilibili Inc	2.1%	20%	67%	-2%	7%	31.6
SenseTime Group Inc	1.8%	28%	30%	-15%	-33%	x
Midea Group Co Ltd	1.7%	17%	X	3%	0%	x
Kingsoft Corp Ltd	1.5%	48%	40%	6%	23%	26.3
JD Health International Inc	1.5%	11%	-24%	9%	60%	18.1
BYD Electronic International	1.5%	46%	21%	15%	34%	13.9
Kingdee International	1.3%	49%	-13%	11%	25%	x
Tongcheng Travel Holdings Ltd	1.3%	32%	36%	71%	45%	13.5
ASMPT Ltd	1.2%	-5%	1%	-24%	-33%	25.2
Alibaba Health Information Technology	1.0%	9%	-17%	-4%	66%	23.9
Hua Hong Semiconductor Ltd	0.7%	32%	20%	-8%	41%	29.6
China Literature Ltd	0.6%	8%	-5%	-13%	-26%	19.0
NIO Inc	0.6%	-16%	-48%	7%	41%	x
ZhongAn Online P&C Insurance	0.5%	19%	-32%	22%	25%	22.1
East Buy Holding Ltd	0.4%	29%	-44%	61%	875%	36.5

Source: Bloomberg data as on December 20, 2024; Past performance may or may not sustain in future. the data shown above pertains to the individual stocks and does not in manner indicate performance of any scheme of the Fund. The mentioned stocks form part of the portfolio of Hang Seng TECH Index. The sector (s)/stock(s)/issuer (mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sector (s)/stock(s)/issuer. The revenue growth highlighted in the above table has been calculated on absolute basis.

Outlook:

For 2025, two issues are critical for China, 1) the risk of tariff war escalation after Trump's win, and 2) China's policy stance. If tariff hikes are implemented, China's growth may be severely impacted with hit on Chinese exports, indirect hit on consumption and investment in export-related sectors and broader hit on business sentiment. China most likely may take policy reactions in response to the external shock. Market expects CNY depreciation along with additional fiscal support and monetary policy support. Overall, because of these factors GDP forecast for China have been reduced by market in the range of 3.9% to 4.5%, with latest revisions being downward and below the expected GDP of 4.8% in 2024 for China.

China's economic challenges are not only cyclical, but also structural. Key issues on the domestic front include local government hidden debt resolution, housing stabilization, consumption support and tacking deflation. While policy shift since late September is real, it is not a policy U-turn and that the announced measures by far are mainly a stabilization package, less about additional stimulus. Chinese government may increase budget fiscal deficit and the quota for special (central and local) government bonds. Market might keenly observe what impact the latest measure have had in efforts to revive domestic consumption and stabilize housing market. In the housing market, despite remarkable demand-side policy easing, the housing drag on the economy likely may continue into 2025 in the absence of rapid progress in housing de-stocking.

In light of the above, we aim to remain cautious on China exposure. We expect China's equity market volatility to stay elevated throughout 2025, driven by ongoing domestic and external challenges. The outlook for tech companies look foggy due to the impact of trump policies. If government policies end up reviving domestic consumption, that might provide sign of relief to domestic centric and domestic consumer centric companies. Market may keenly watch for economic indicators out of china in next few months, trump policies and its impact and subsequent measures by Chinese government. Clearly, there are lot of moving parts and it's still a very much evolving story from here onwards. Thus, we advise investor to exercise cautious and while valuation may look tempting, only invest in Chinese equities if you are willing to take significant drawdowns.

Sources: Bloomberg, Bloomberg News, Bloomberg Research, Bloomberg Economics, NSE, Hang Seng Indices, JP Morgan China Market Outlook, South China Morning Post, Bernstein China Market Outlook. The views, facts and figures in this document are as of November 30,2024, unless stated otherwise. Past performance may or may not sustain in future.

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Please consult your financial advisor before investing

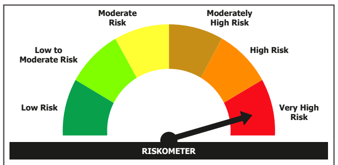
PRODUCT LABELLING

Mirae Asset Hang Seng TECH ETF (An open-ended scheme replicating/tracking Hang Seng TECH Total Return Index (INR))
is suitable for investors who are seeking*

- Returns that are commensurate with the performance of Hang Seng TECH Total Return Index, subject to tracking error and foreign exchange movement
- Investments in equity securities covered by Hang Seng TECH Total Return Index

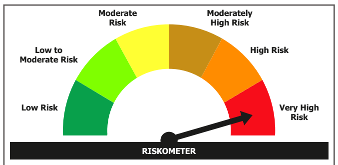
*Investors should consult their financial advisors if they are not clear about the suitability of the product.

Scheme Riskometer



The risk of the scheme is Very High

Scheme Benchmark: Hang Seng TECH (TRI) Benchmark Riskometer



The risk of the benchmark is Very High

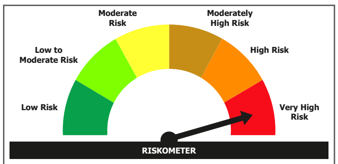
PRODUCT LABELLING

Mirae Asset Hang Seng TECH ETF Fund of Fund (An open-ended fund of fund scheme predominantly investing in Mirae Asset Hang Seng TECH ETF)
is suitable for investors who are seeking*

- To generate long term capital appreciation/income
- Investments predominantly in units of Mirae Asset Hang Seng TECH ETF

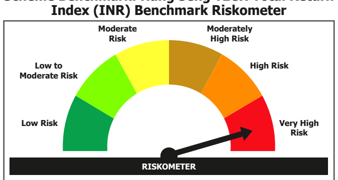
*Investors should consult their financial advisors if they are not clear about the suitability of the product.

Scheme Riskometer



The risk of the scheme is Very High

Scheme Benchmark: Hang Seng TECH Total Return Index (INR) Benchmark Riskometer



The risk of the benchmark is Very High

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