

Remarks by Mr Eddie Yue,
Chief Executive of the Hong Kong Monetary Authority
on 27 January 2022
at the announcement of
Exchange Fund's investment results for 2021

(Translation)

Review of the Investment Environment and Performance of the Exchange Fund in 2021

The global financial markets embarked on a recovery track in 2021. Although the global economy has remained volatile due to the evolving pandemic situation, a number of factors including increasing vaccination rate, as well as accommodative monetary policies and fiscal measures around the world have contributed to notable recovery in the global economy and financial markets. Against this background, a number of overseas equity markets made record highs during the year, and the Exchange Fund's overall equity holdings were able to achieve a decent return despite the sluggish performance in Hong Kong equities. For the bond markets, rising inflation expectations and tapering of asset purchases by the US Fed have led to a rise in US Treasury yields and falling bond prices during the year. Nevertheless, taking into account coupons received, the Exchange Fund's bond holdings still recorded a positive return.

2. For the year as a whole, the Exchange Fund recorded an investment income of HK\$170.5 billion in 2021. Specifically, our bond holdings recorded an investment income of HK\$12.4 billion, while our equity holdings recorded an investment income of HK\$47.4 billion, including gains of HK\$68.4 billion from foreign equities, and losses of HK\$21 billion from Hong Kong equities. On foreign exchange, as the US dollar strengthened against the Hong Kong dollar during the year, the Exchange Fund recorded a positive currency translation effect of HK\$16.8 billion on its non-Hong Kong dollar assets.

3. As for other investments, the Long-Term Growth Portfolio (LTGP) recorded an investment income of HK\$93.9 billion up to end-September last year. The market value of investment and undrawn commitment of the LTGP totalled HK\$496.2 billion and HK\$229.6 billion respectively. The annualised internal rate of return of the LTGP from 2009 to the end of September 2021 was 15.3%.

4. The Exchange Fund recorded an overall investment return of 3.6% in 2021. Specifically, the Investment Portfolio achieved a rate of return of 3.7%, while the Backing Portfolio gained 0.4%. According to the sharing arrangement between the Government and the Exchange Fund, fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK\$34.4 billion and HK\$16.8 billion respectively in 2021. These figures do not include the fee payable to the Future Fund in 2021. The amount will be announced in the HKMA Annual Report 2021 to be published later this year when the composite rate for 2021 is available.

Outlook for 2022

5. Looking ahead in 2022, rising inflation pressure and the path of monetary normalisation will be critical issues for the global economy and financial markets. Major central banks have begun gradual withdrawal of accommodative monetary policies. In particular, the US Fed has already announced that it would accelerate the pace of tapering, aiming to complete its asset purchases in early March. Interest rate tightening cycle will likely start thereafter. Should inflation prove to be more persistent, central banks may need to accelerate the pace of interest rate hikes, which may lead to greater volatility and corrections in asset markets.

6. It is worth noting that global equity markets have risen sharply over the past three years with elevated valuations. As global economic recovery moderates with slowing growth momentum of corporate earnings and lingering concerns over new virus variants and geopolitical tensions, the investment environment will remain uncertain. In case market sentiment takes a turn, global equity markets may undergo major adjustments. If bond yields also surge at the same time due to mounting inflation

and policy shifts, there will be significant challenges to the investments of the Exchange Fund.

7. Despite the complicated and challenging investment environment, the HKMA will continue to manage the Exchange Fund prudently. We will remain flexible, implement defensive measures as appropriate, and maintain a high degree of liquidity. We will continue to diversify investments to strive for higher long-term returns for the Exchange Fund. We will also monitor market developments closely to ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability in Hong Kong in an effective manner.