

**Remarks by Mr Eddie Yue,
Chief Executive of the Hong Kong Monetary Authority
on 26 January 2024
at the announcement of
Exchange Fund's investment results for 2023**

Review of the Investment Environment and Performance of the Exchange Fund in
2023

The investment environment in 2023 was extremely volatile and challenging. Although banks in the US and Europe experienced liquidity issues at the beginning of the year, the associated risks have not spread across the financial markets. While the levels of inflation in major developed economies have declined from their peak last year, they remained above the targets set by major central banks. Following an aggressive rate hike cycle, the US Fed has paused hiking rate since the third quarter, and recently indicated that the policy rate was likely at or near its peak. Coupled with a resilient US economy, investor sentiment has turned more optimistic in general. However, ongoing geopolitical tensions, such as the Russia-Ukraine war and the outbreak of conflict in the Middle East during the year, added turbulence and uncertainties to the investment market.

2. Global equities were generally on an upward trend in 2023. The S&P 500 Index rose by 24% during the year, especially in the fourth quarter as market began to anticipate sooner-than-expected rate cuts. In the bond markets, yields remained high, with the 10-year US Treasury yield surged above 5% at one point and reaching its highest level since 2007. Nonetheless, as market expectations on central banks'

monetary policies shifted, bond yields retreated towards year end, alongside the gradual increase in bond prices.

3. In this complicated and dynamic investment environment, the investment performance of the Exchange Fund experienced some ups and downs. Having said that, we managed to achieve a decent overall return. For the year as a whole, the Exchange Fund recorded an investment income of HK\$212.7 billion in 2023. Specifically, bond holdings recorded an investment income of HK\$144.0 billion, which set a new record, mainly due to the high bond yields that brought significant interest income to our bond holdings. Equity holdings recorded an investment income of HK\$57.7 billion, comprising gains of HK\$73.2 billion from foreign equities and losses of HK\$15.5 billion from Hong Kong equities owing to the decline in the Hong Kong equity market. On foreign exchange, the Exchange Fund recorded a negative currency translation effect of HK\$0.5 billion on its non-US dollar assets.

4. As for other investments, the Long-Term Growth Portfolio (LTGP) recorded an investment income of HK\$11.5 billion up to end-September last year. The market value of investment and undrawn commitment of the LTGP totalled HK\$503.1 billion and HK\$297.3 billion respectively. The annualised internal rate of return of the LTGP from 2009 to the end of September 2023 was 11.8%.

5. In 2023, the Exchange Fund recorded an investment return of 5.2%. Specifically, the Investment Portfolio achieved a rate of return of 6.4%. The Backing Portfolio gained 5.0%, a post-2009 record high level of return, as a result of higher interest income on the short-term bonds alongside rising bond yields. In accordance

with the sharing arrangement between the Government and the Exchange Fund, in 2023, fees on placements by the Fiscal Reserves and placements by HKSAR Government funds and statutory bodies were HK\$17.5 billion and HK\$16.5 billion respectively. These figures do not include the fee payable to the Future Fund in 2023. The amount will be announced in the HKMA Annual Report 2023 to be published later this year when the composite rate for 2023 is available.

Outlook for 2024

6. Looking ahead in 2024, global financial markets will continue to face numerous challenges. Markets in general expect that the interest rate hike cycle is almost over. However, the time required for inflation to return to the target levels set by major central banks remains uncertain. Should the timing and pace of interest rate cuts fall short of market expectations, it may trigger heightened volatility and corrections in asset prices. In addition, the impact of rate hikes on the global real economy has become more visible. Corporate earnings and macroeconomic growth may start to slow down. These factors will bring material uncertainties to global asset markets.

7. Furthermore, the biggest unknown factor remains geopolitical risks. Escalation of tensions in situations such as the Russia-Ukraine war and conflicts in the Middle East and the Red Sea could have substantial impact on the global economy and the financial markets. 2024 is also a key election year as many major elections are scheduled to be held. The outcome of these elections will further increase market uncertainties and pose challenges to the investments of the Exchange Fund.

8. Despite the complex investment environment, the HKMA will continue to adhere to the principle of capital preservation first while maintaining long-term growth. We will continue to manage the Exchange Fund with prudence and flexibility, implement appropriate defensive measures, and maintain a high degree of liquidity. We will also continue our investment diversification to strive for higher long-term investment returns, and to ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability of Hong Kong in an effective manner.