Remarks by Mr Eddie Yue,

Chief Executive of the Hong Kong Monetary Authority

on 27 January 2025

at the announcement of

Exchange Fund's investment results for 2024

Review of the Investment Environment and Performance of the Exchange Fund in 2024

Global financial markets performed broadly well in 2024. Major economies recorded stable growth, while inflation eased closer to policy targets. Major central banks progressively lowered their policy rates. This was positive to the investment environment.

2. Major equity markets rose notably in 2024, with US equities making strong gains in the first three quarters on the back of a generally positive economic and inflationary fundamentals, and the fervor around the artificial intelligence industry. However, markets became more volatile in the fourth quarter and retreated from their highs as investors turned more cautious amidst concerns over rising inflation and bond yields. In the Mainland and Hong Kong, investor confidence improved, following the Central Government's announcements of a series of policy measures in the third quarter to stimulate the economy and equity market. Nevertheless, the two equity markets softened in the fourth quarter as market participants remained somewhat uncertain about the real economic growth. Meanwhile, global bond markets experienced higher volatility. Although major central banks have affirmed their general policy direction of lowering interest rates, the pace and magnitude of rate cuts have changed a few times

during the year. Entering the fourth quarter, as markets began to focus on the US fiscal policy in the coming year, US Treasury yields rose sharply and weighed on bond prices. Furthermore, the US dollar strengthened against other major currencies in 2024, particularly in the fourth quarter, as a result of the interest rate movements and the relatively strong performance of the US economy. In view of these two factors, the Exchange Fund as a whole recorded some investment loss in the fourth quarter of 2024.

3. For 2024 as a whole, the Exchange Fund recorded an investment income of HK$219 billion. Specifically, bond holdings recorded an investment income of HK$135.6 billion, mainly due to substantial interest income as a results of persistently high bond yields. Equity holdings recorded an investment income of HK$90.5 billion, comprising gains of HK$68.7 billion from foreign equities and HK$21.8 billion from Hong Kong equities. On foreign exchange, as I mentioned just now, the US dollar strengthened against other major currencies, leading to a negative currency translation effect of HK$35.6 billion on our non-Hong Kong dollar assets.

4. As for other investments, the Long-Term Growth Portfolio (LTGP) recorded an investment income of HK$28.5 billion up to end-September last year. The annualised internal rate of return of the LTGP from 2009 to the end of September 2024 was 11.5%.

5. In 2024, the Exchange Fund recorded an investment return of 5.3%. Specifically, the Investment Portfolio achieved a rate of return of 7.2% and the Backing Portfolio gained 4.1%. In keeping with the established fee arrangement between the Government and the Exchange Fund, fees on Fiscal Reserves placements amounted to

HK$13.2 billion in 2024, and fees on placements by Government funds and statutory bodies were HK$15.7 billion. These figures do not include the fee payable to the Future Fund in 2024. The amount will be determined when the composite rate for 2024 is available, and will be disclosed in the HKMA Annual Report 2024 to be published later this year.

Outlook for 2025

6. Looking ahead to 2025, the global financial markets remain uncertain. Interest rate policies will continue to be the focus of the markets. According to the latest projections in December, the US Fed forecasted half a percentage point of rate cut in total in 2025. This is smaller than the previous projection of one percentage point, and reflects the Fed's more cautious stance towards inflation. Meanwhile, the new US administration's policies on the economy, tax and trade could add uncertainties to the inflation path. This in turn affects how much room the Fed has in adjusting monetary policy. Furthermore, any escalation in trade frictions among major economies or geopolitical situation could impact real economic activities, and may also trigger volatility in the financial markets.

7. Given these challenges we face, the HKMA will, as always, 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 to diversify our investments to strive for higher long-term returns, ensuring

that the Exchange Fund remains effective in achieving its purpose of maintaining monetary and financial stability of Hong Kong.