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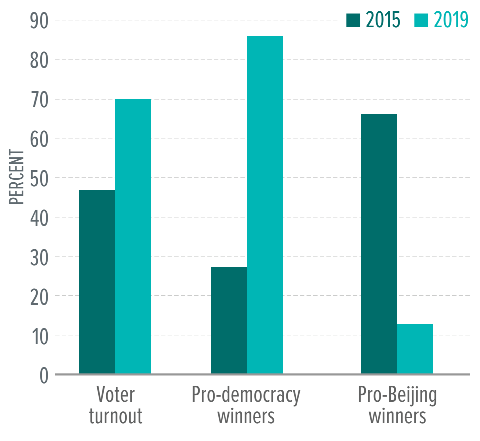
# Implications of Hong Kong Unrest?

**NOVEMBER 2019**

### Snapshot

- We have been monitoring developments in Hong Kong, where pro-democracy protests have escalated in recent months.
- At this point, the dominant risks appear largely political in our view; any potential economic and investment consequences seem mostly localized.
- SEI's Funds have made no meaningful positioning changes in response to these events.

**Hong Kong Local Council Elections**




Source: New York Times, SEI

At SEI, we have been closely monitoring developments in Hong Kong, where clashes between demonstrators and police have escalated in recent months. Although the Beijing-friendly extradition bill that triggered the unrest is now withdrawn indefinitely, protestors remain fearful that China will continue to chip away at Hong Kong's legal autonomy well in advance of the "Basic Law" commitment from China expiring in 2047. These anxieties were apparent in the results of Hong Kong's recent local elections. Participation more than doubled from 2015 levels, with pro-democracy candidates capturing more than 80% of available seats (up from 27%) and Beijing-allied politicians dropping from 66% to under 20% of all seats[1].

Whether or not Hong Kong manages to hang on to its independent, democratic system, there will likely be long-term implications for China's relationship with Western countries (which is already strained by U.S. tariffs and China's geopolitical ambitions). We view the dominant risks as largely political—and see any potential economic and investment consequences as mostly localized.

## Localized implications?

Hong Kong's economy looks to be in recession as a result of the standoff. There is a chance that these developments will undermine the island's role as a global financial hub. That would potentially create opportunities for other Chinese cities (such as Shenzhen and Shanghai) or countries (such as Singapore) to fill any resulting void within Asian financial markets. However, China will probably remain fairly dependent on Hong Kong as long as China continues to restrict free capital flows and manage the exchange rate of its currency.

For now, it remains unclear whether the ongoing turmoil poses a meaningful economic or investment risk to the rest of Asia. Hong Kong-listed equities have held up reasonably well in 2019, all things considered, with a maximum drawdown (peak-to-trough decline) of less than 20% year to date (through November 22, 2019, in local-currency terms, as measured by the Hang Seng Index). This is likely due to the global nature of many publicly-traded companies in the region.

[1] https://www.nytimes.com/2019/11/24/world/asia/hong-kong-election-results.html

## Broader implications?

The primary focus of investors has been the Hong Kong dollar given that its currency-board arrangement (which responds automatically to keep its exchange rate versus the U.S. dollar within a narrow, pre-specified range) could come under pressure. The currency has actually been under pressure for some time, due to already-existing worries about Hong Kong's economy and slower growth in China and Asia more broadly. Hong Kong nevertheless maintains ample U.S. dollar reserves, and its currency has actually strengthened slightly amid the intensifying conflicts between protestors and police.

## SEI Fund implications?

What does all of this mean for SEI's Funds? Not much.

As of October 31, 2019, our fixed-income funds did not have exposure to Hong Kong. Within equities, our Emerging Markets Equity and International Equity Funds had positions (off-benchmark and an underweight, respectively) in Hong Kong consumer and technology companies that are expected to benefit from secular growth trends in broader Asia. Our Global Managed Volatility Fund was underweight Hong Kong; its positioning is typically driven by volatility-reduction rather than country-specific considerations. Positioning for these Funds has not changed meaningfully in response to recent events in Hong Kong.

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