



Hong Kong: back in business

Notes from the road

Phil Langham
Senior Portfolio Manager
& Head of EM Equities

Published June 2025

“Historically, Chinese tourists came to Hong Kong to purchase luxury items that were unavailable locally and to frequent its restaurants and bars. Today, these items are all available in China.”

I will always remember my first trip to Hong Kong some thirty years ago. Following the nerve-wracking landing at the old Kai Tak Airport, the city’s incredible energy and vibrant atmosphere left a lasting impression.

In contrast, the mood on this trip and others in recent years feels noticeably downbeat. Corporate confidence is muted, restaurants and bars that once bustled with activity are now empty, and shopping malls feel eerily quiet.

Hong Kong had a particularly difficult Covid period and the recovery since then has been slow. The challenging pandemic experience was exacerbated by political tensions, with pro-democracy demonstrations culminating in the imposition of a new China security law and an effective PRC takeover in 2020, much earlier than was planned when the UK handed Hong Kong over in 1997.

The combined impact of political shifts, prolonged isolation under Covid and cultural changes in Hong Kong have led to a meaningful decline in the number of expats working in the city. At the same time, Shenzhen’s appeal as a destination to party and shop has dramatically improved and instead of mainland tourists flooding to Hong Kong for the weekend, the opposite is happening. Historically, Chinese tourists came to Hong Kong to purchase luxury items that were unavailable locally and to frequent its restaurants and bars. Today, these items are all available in China. These factors have all weighed on recent economic growth in Hong Kong, which has been muted, and both property prices and tourist arrivals are down approximately 30% from their pre-Covid peaks¹.

¹ Census and Statistics Department Hong Kong.

Despite the negative news, Hong Kong has always excelled at reinventing itself, and beneath the surface there does seem to be a positive story emerging.

The exodus of expats has now stabilised, with many of Hong Kong's comparative advantages still intact. The cost of living and working there is markedly lower than other large financial centres. A key attraction of Hong Kong is its low flat tax system, as well as its light regulatory environment. While other Chinese cities have caught up in terms of bars, restaurants and shopping, Hong Kong still has the best schools, universities, country clubs, nature, marinas, and health system.

At the same time, Hong Kong is becoming Beijing's preferred platform for channeling Chinese capital abroad and foreign investment into China due to a combination of factors:

Gateway between China and the rest of the world:

Driven by its developed financial infrastructure, convertible currency, legal system, and pool of international talent, Hong Kong handles approximately 80% of global offshore renminbi payments².

RMB internationalisation: Hong Kong is the largest offshore RMB hub³, handling clearing, bond issuance, and investment flows via Stock and Bond Connect.

PRC limitations: China operates under capital controls, a less open and regulatory framework and restrictions on foreign financial firms.

“Hong Kong is the largest offshore RMB hub, handling clearing, bond issuance, and investment flows.”



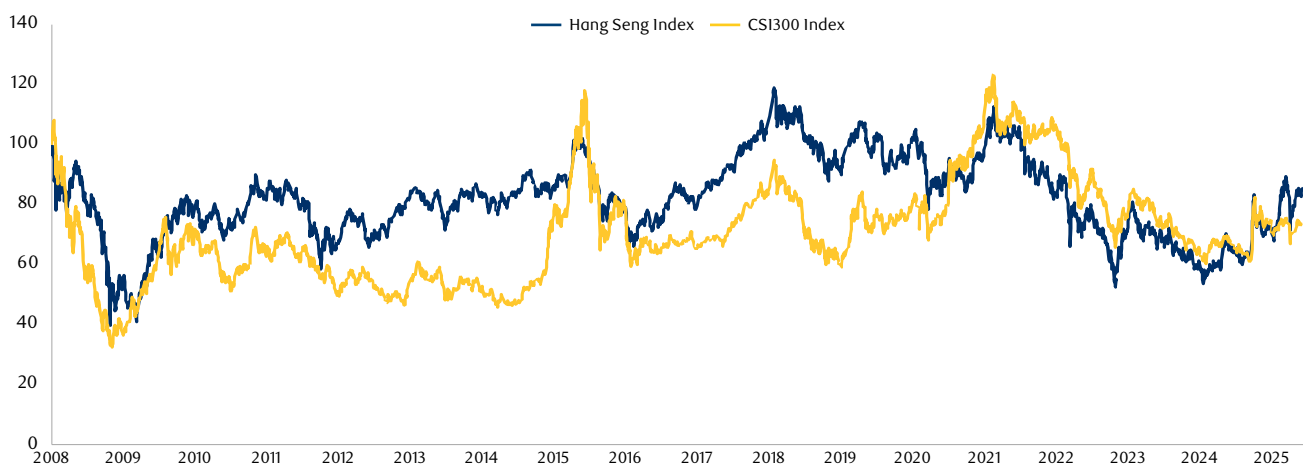
Shenzhen's appeal as a destination to party and shop is on the rise.

Infrastructure and legal system: Hong Kong offers a strong regulatory regime, a top tier stock exchange, and a thriving IPO market, as well as strong property rights and an independent judiciary.

All these factors have helped the Hong Kong Stock Exchange become the leading exchange globally for listings by volume in the last 12 months and the local Hang Seng Index has rallied strongly from its early 2024 lows, outpacing the leading China A share index (CSI300) (Exhibit 1).

Exhibit 1: Hang Seng strong year-to-date versus CSI300

Normalised index price indexed to 1 January 2008



Source: Hang Seng Indexes Company Ltd, as at June 2025.

² brandhk.gov.hk/default-source/factsheets-library/hong-kong-themes/2024-04-05/international-financial-centre_en_apr-2024.pdf

³ hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-international-financial-centre/dominant-gateway-to-china

I met with Bonnie Chan, the very impressive CEO of Hong Kong Exchanges, to get a fuller picture. Hong Kong Exchanges has been seeing strong demand from mainland Chinese companies seeking a listing in Hong Kong to raise capital for their global expansions. These are increasingly high-quality businesses with strong balance sheets, some of whom I met during my trip. A good example is China's leading electric vehicle giant, CATL, which raised HKD5.3 billion last month⁴. In addition to local Chinese companies looking to tap the Hong Kong market, Chan is increasingly focusing on other global companies that have outgrown their domestic market, as well as potential US listed Chinese companies considering relisting in a more friendly environment.

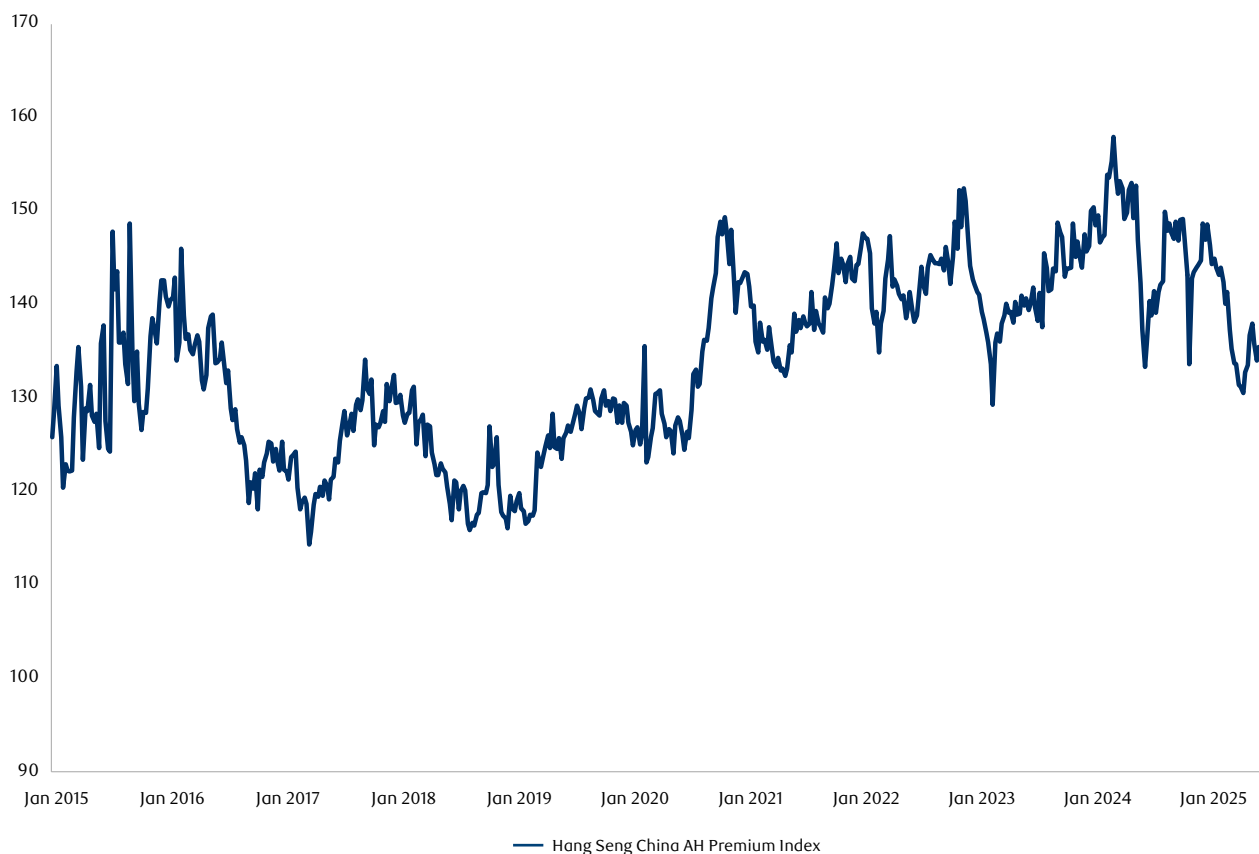
Given these developments, it is interesting to observe the development of the A/H share premium in recent years (Exhibit 2). The premium tracks the price of the China A listing relative to the Hong Kong H listing for the same company, and can be impacted by a range of factors including size, liquidity, profitability, sector, and currency. Exhibit 2 shows that, after expanding between 2019 and 2024, the A/H share premium for the overall market has declined in the last 18 months. Indeed, the recent CATL Hong Kong listing is trading at a premium to the A share.



High-quality Chinese companies are increasingly interested in listing in Hong Kong.

“Hong Kong Exchanges has been seeing strong demand from mainland Chinese companies seeking a listing in Hong Kong to raise capital for their global expansions.”

Exhibit 2: A/H share premium rose from 2019-2024 but is now declining



Source: Hang Seng Indexes Company Ltd, as at June 2025.

⁴ [straitstimes.com/business/catl-shares-clouded-by-bleak-outlook-after-mega-hong-kong-debut](https://www.straitstimes.com/business/catl-shares-clouded-by-bleak-outlook-after-mega-hong-kong-debut)

One consequence of these strong capital flows into Hong Kong, as well as increasing signs that Asian currencies have commenced an era of sustained appreciation, is that we have begun to see upward pressure on the Hong Kong dollar which is pegged to the US dollar. Based on the territory's currency board system, upward pressure on the currency leads to a decline in local interest rates. Exhibit 3 shows how the gap between local interest rates (Hibor) and US Fed Funds rate has moved to the highest level in recent decades. In this system, if the currency cannot appreciate, the upward pressure filters to local asset prices.

The narrative in Hong Kong has certainly evolved in the last 30 years and particularly in the last five years, as Hong Kong emerges with a new identity. While the city may have lost some of its once extraordinary energy, its role as a leading Chinese city and as China's premier international financial centre is still in the early stages. And although landing at Chek Lap Kok lacks the "thrill" of the old Kai Tak Airport, crossing the Hong Kong-Zhuhai-Macau Bridge from the airport to the City, representing the world's longest sea crossing, is itself an unforgettable experience.

“While the city may have lost some of its once extraordinary energy, its role as a leading Chinese city and as China’s premier international financial centre is still in its early stages.”

Exhibit 3: Largest gap in recent decades between Hibor and US Fed Funds rate



Source: Federal Reserve Bank of New York, as at June 2025.

Author

Phil Langham

Senior Portfolio Manager & Head of Emerging Markets Equities



Phil is a senior portfolio manager and head of the RBC Emerging Markets Equity team at RBC GAM. He joined the firm in November 2009 from the asset management division of a large European bank, where he was head of global emerging markets. Phil was previously based at another global financial services firm in Zurich for four years as director and head of emerging markets and Asia in their multi asset class division. Prior to that, he managed global emerging markets, Asian, Latin American and U.S. portfolios for nine years at a sovereign wealth fund. Phil started his career in the investment industry in 1992.

This document was prepared by RBC Global Asset Management (UK) Limited (RBC GAM UK), authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC).

In the United States, this document may also be provided by RBC Global Asset Management (U.S.) Inc. ("RBC GAM-US"), a SEC registered investment adviser. The entities noted above are collectively referred to as "RBC BlueBay" within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities.

With respect to the investment performance presented, **past performance is not indicative of future performance**. Actual account performance may or will vary from the performance shown because of differences in market conditions; client-imposed investment restrictions; the time of client investments and withdrawals; tax considerations; economies of scale; portfolio turnover; the number, type, availability, and diversity of securities that can be purchased at a given time; differences in the underlying currency of the assets in the account, and other factors. Client assets managed using these strategies in separate accounts or different vehicles may be subject to restrictions, fees or expenses that are materially different than those found in the non-US funds.

This document is confidential and, without RBC BlueBay's consent, may not be (i) copied, photocopied or duplicated in any form by any means or (ii) distributed to any person that is not an employee, officer, director or authorized agent of the recipient.

Information herein is believed to be reliable but RBC BlueBay does not warrant its completeness or accuracy. This document contains information collected from independent third-party sources. For purposes of providing these materials to you, neither RBC BlueBay nor any of its affiliates, subsidiaries, directors, officers, or employees, has independently verified the accuracy or completeness of the third-party information contained herein.

The information contained herein does not constitute investment, tax, accounting or legal advice. Recipients are strongly advised to make an independent review with their own advisors and reach their own conclusions regarding the investment merits and risks, legal, credit, tax and accounting aspects of all transactions. Any risk management processes discussed refer to efforts to monitor and manage risk but should not be confused with and do not imply no or low risk. No chart, graph, or other figure provided should be used to determine which strategies to implement or which securities to buy or sell.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

Copyright 2025 © RBC BlueBay. RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK) and RBC Global Asset Management (Asia) Limited (RBC GAM-Asia), which are separate, but affiliated subsidiaries of RBC. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

For Institutional Use Only - Not For Public Distribution.

Published June 2025

RE/0250/06/25



Global Asset
Management