



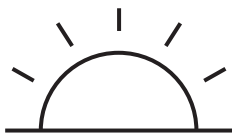
Diversification Strategy Mitigates Tariff Risks

US President Trump announced the details of “reciprocal tariffs”, which were more extreme than the market had originally expected, triggering violent fluctuations in global equity markets. In the short term, we believe that global equities would remain highly volatile, including how the US will react after China implemented retaliatory tariffs, the progress of trade negotiations between the US and other countries, whether the US would exempt or further increase tariffs on certain goods, and the impact on the economy, which would be unfavorable to the investment sentiment.

We expect the Chinese government to intensify support for domestic demand and other growth-stimulating measures. As the world’s largest exporter, China faces immense pressure from the tariff. Tariffs could shrink China’s export volume with sectors such as electronics and machinery equipment being hardest hit. As a result, we maintain our neutral outlook on Chinese and Hong Kong stocks for the next 12 months. We note that the negotiation process between the US and other countries may trigger further volatility. Strengthening risk management in investment portfolios remains a more appropriate investment strategy. We upgraded our view on investment-grade bonds. In light of the uncertainties introduced by tariffs, investors should reassess their asset allocations. By diversifying across regions and asset classes, investors can build more resilient portfolios to navigate future opportunities and uncertainties.

Source: Bloomberg

12-Month Outlook



Positive



Global Bond



ESG (Low Carbon)



Neutral



Global Equity



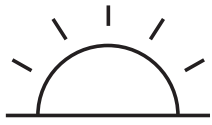
Asian Equity



Hong Kong Equity



Cash

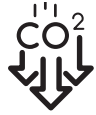


Positive

Global
Bond

▲ Upgrade

- Recent market uncertainties, triggered by the tariff news, remain high in the short-to-medium term, supporting yields to drop (yields move inversely to prices) as investors allocated to less riskier assets, such as US Treasury
- ECB is expected to further cut interest rate given declining inflation, slow progress in economic recovery and anticipation of escalating trade tensions
- Credit continues to provide attractive carry
- We upgraded our overall view to global bonds to cautiously positive and remained quite selective, favoring investment-grade credit and believing the asset class helps strengthening risk management for portfolios

ESG (Low
Carbon)

■ No Change

- Governments reached a consensus at the meeting and pledged to significantly increase investment in clean energy and a low-carbon economy. According to the International Energy Agency (IEA), the total global investment in energy transformation in the future is expected to be calculated in tens of trillions dollars, which will greatly promote the development of industries such as renewable energy, energy storage technology and electric vehicles
- Investors are increasingly prioritizing Environmental, Social, and Governance (ESG) factors. Companies that emphasize ESG and carbon emission considerations tend to exhibit more resilient financial performance
- With increasing volatility in the investment environment, low-carbon strategies provide higher downside protection and relatively better returns compared to traditional stock strategies

Global
Equity

▼ Downgrade

- On April 2, US President Trump announced the details of "reciprocal tariffs", which were more extreme than the market had originally expected, triggering violent fluctuations in global equity markets
- Negotiations and back-offs were yet to be seen, markets are still very sensitive to tariff-related news and are mindful of possible higher inflation should high tariffs sustain
- Geopolitical risks have risen over the past few months and may increase market volatility going forward
- US company earnings expectation face downward pressure amid higher uncertainty of trade policies and economic outlook. Therefore, we downgrade our view on global equity



Cash

▲ Upgrade

- Cash is a residual (or balance) of our stance in terms of equities and fixed income. We are slightly cautious to equities (neutral) and selectively positive to bonds (positive), cash as a balance was upgraded to neutral
- With expectation of market jitters continuing in the near term, cash remains as a defensive asset to decrease portfolio beta



Neutral

Hong Kong
Equity

■ No Change

- As the world's largest exporter, China faces immense pressure from the tariff. Tariffs could shrink China's export volume with sectors such as electronics and machinery equipment being hardest hit
- The Chinese government has held back from deploying aggressive domestic stimulus before tariffs. The chances that the government would enlarge the scope to support consumption more meaningfully increase
- We are closely monitoring the progress of trade negotiations between the US, China, and other nations, as well as the severity of economic impacts from these tariffs. We maintain a neutral outlook on Hong Kong and Chinese stock markets for the next 12-month, pending further developments in the situation

Asian
Equity

■ No Change

- Trump's tariff is an obvious downside risk for export-driven economies like ASEAN countries
- India market is constrained by its economy and corporate profits. GDP growth rate that Indian government forecast is at four-year low. There is a gap between corporate earnings and market expectations, we see consensus earnings downgrade lately and fund outflow
- In Korea, 2025 and 2026 consensus earnings forecasts have continued to be downgraded, particularly due to ongoing downturns in exports and in the memory sector
- In Taiwan, global tech performance was weaker than market expectations. This puts Taiwan's tech sector, and thereby its broader economy, at risk of underperformance in the near term

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