



## Adopting Flexible Strategies in Uncertain Market

In the first half of this year, markets experienced significant volatility, with investors navigating a “tariff rollercoaster.” Looking ahead to the second half, uncertainty persists. In mid-May, Moody’s downgraded the U.S. sovereign credit rating from its highest level to “Aa1,” though its asset status remains largely unrivaled. However, over the past decade, U.S. asset prices have surged, leading to elevated valuations and an overconcentration in U.S. assets. Amid signs of an economic slowdown, U.S. equity markets may face increased volatility in the coming months. Consequently, reallocating a portion of U.S. assets to other regions appears prudent.

Many Asian economies, heavily export-oriented, face potential headwinds from tariff uncertainties. Nevertheless, Asian stock markets have rebounded following tariff suspensions. While tariff negotiations are likely to continue for some time, their impact on markets appears to be waning. Additionally, controlled inflation in Asia in recent years, coupled with strengthening Asian currencies, provides Asian central banks with room to implement rate cuts to support economic growth, potentially bolstering Asian equity markets.

We believe that prioritizing risk management in investment portfolios remains a sound strategy. Given the uncertainties surrounding tariffs, investors should exercise caution and build balanced portfolios by diversifying into equities and investment-grade bonds. This approach enables flexible adjustments to investment strategies, helping to mitigate potential market volatility while capitalizing on emerging opportunities.

Source: Bloomberg

## 12-Month Outlook



Positive



Global Bond



ESG (Low Carbon)



Neutral



Global Equity



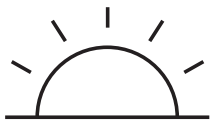
Asian Equity



Hong Kong Equity



Cash



Positive

Global  
Bond

#### No Change

- 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
- 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

#### No Change

- Global equities had fully recovered its loss since the "Liberation Day" on 2 April as the "reciprocal" tariffs were suspended for 90 days for most countries while negotiations take place
- Uncertainties over tariffs, trade negotiations and the impact on economies remain high, we expect the market is sensitive to the related news and will be volatile
- Geopolitical risks have risen over the past few months and may increase market volatility going forward



Cash

#### No Change

- 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

- Following US President Trump's increase in the tariff rate on imports from China, these tariffs are expected to exacerbate the drag on exports, heightened macroeconomic uncertainties, weakening economy outlook
- 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

Asian  
Equity

#### No Change

- Trump's tariff is an obvious downside risk for export-driven economies like ASEAN countries
- India relatively insulated from global trade tensions, showing early signs of economic recovery as we see improved GST revenue growth, increased government capital expenditure and growing demand for supply chain shifts
- Korea, we observe a strong recovery in memory exports, primarily driven by DRAM. Increasing spot prices in the memory sector and improved outlook for semiconductor demand
- Taiwan led by solid A.I. demand growth. The demand is expected to accelerate in 2Q due to better than expected US Tech Giant AI capex US, and relatively easier to struck a trade tariff deal

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