



Long-Term Strategic Allocation to Technology Sector

Recent significant downward revisions to US non-farm payroll data has heightened market concerns about an economic slowdown. US President Donald Trump criticized Federal Reserve Chairman Jerome Powell for a delayed response, urging immediate interest rate cuts to stimulate the economy. The potential economic impacts and inflation risks caused by trade disputes may gradually emerge in the second half of year. Also, the Federal Reserve's interest rate cut path is unclear. Investors continue to face a lot of uncertainties.

Despite this, as the tariff threat receded, the stock market continued its upward trend, with US stocks reaching new highs. Investors may be concerned about the heightened valuation of US technology stocks, but we believe they are supported by strong earnings growth. Over the past decade, global technology sector earnings per share have grown approximately twofold, significantly outpacing the earnings growth of global equities (Source: Bloomberg). Therefore, we still favor the tech sector as a long-term investment, and expect that growth in R&D and capital expenditure to continue to support the long-term value of technology stocks. Hong Kong-listed Chinese and Hong Kong technology stocks are mostly concentrated in e-commerce, gaming, and fintech. The sector coverage differs from that of the US with overall lower valuation and thus offers diversification to a certain extent.

Source: Bloomberg

12-Month Outlook



Positive



ESG (Low Carbon)



Neutral



Global Equity



Global Bond



Asian Equity



Cash



Hong Kong Equity



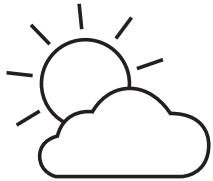
No Change

- Global equities saw recent highs as trade optimism continued to grow and expectations for Fed rate cuts strengthened. Although there was short-term volatility caused by the war between Israel and Iran, the market impact was short and limited
- Going forward, how the global economy being impacted by tariffs would be in the spotlight, we expect the market is sensitive to the related news and would be volatile
- Valuation of global equity is much higher than the level of the announcement of reciprocal tariffs. Given that the economy is much more resilient than the earlier expectation, we are cautious to sudden market fluctuation triggered by trade negotiations and geopolitical events



Downgrade

- Bonds had positive returns in July amid softer US economic data and more dovish rhetoric from certain US Federal Reserve officials
- The Fed kept rates steady for the fifth consecutive meeting; however the message lacked clarity on whether inflation – or the labor market – was ascending in relative importance
- The asset class provides attractive carry, recession concerns have eased as the economic data is still strong amid trade tensions
- We kept an cautious view on global bonds and remained quite selective, favoring investment-grade credit and believing the asset class helps strengthening risk management for portfolios



Neutral



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



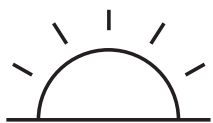
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- We see strengthening macro data. China 2Q GDP at 5.2%, above market expectations; Marco economy data point toward continued economic stabilization
- China tech stocks continue to trade at a substantial discount compared to their US counterparts. This presents a significant opportunity for capital appreciation
- Sustained southbound inflows from mainland investors targeting high-dividend yield equities. This trend provides support to the market
- 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



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, avorable policy environment, including proposed dividend tax cuts proposed by the new president-elect. Renewed focus on "Value up" initiatives for shareholders. DRAM price maintains healthy upward trend
- Taiwan espically Taiwan's technology sector due to accelerating AI infrastructure spending and growing capital expenditure in the AI space



Positive



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

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