

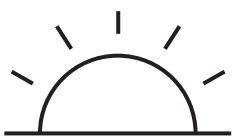


Strategies to Harness 2025 Risks

The economic policies proposed by Donald Trump, who returns to the White House in 2025, center on tax cuts, infrastructure stimulus, and trade protectionism. Large-scale infrastructure projects would require substantial fiscal spending, while reducing reliance on imported goods could drive up domestic product and service prices. Together with tariffs on key trading partners, the current trend of slowing inflation may be changed. It may limit the scope for further rate cuts by the Federal Reserve. As investors would revise their expectations for US monetary policy from time to time, market turbulence may be triggered. Therefore, although we believe global economy would remain resilient in 2025, investment risks should not be neglected amid various variables. Investors should consider adopting diversification strategies to avoid overconcentration in a single region or asset class. Defensive strategies such as low-volatility strategy and high-dividend strategy can also be considered.

Source: Bloomberg

12-Month Outlook



Positive



Global Equity



ESG (Low Carbon)



Neutral



Global Bond



Asian Equity



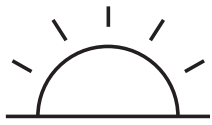
Hong Kong Equity



Negative



Cash



Positive



Global Equity

No Change

- Fundamentally, major economies remain diverged. US is resilient, shown by strong labor and consumer market. Europe and China are sluggish. More rate cuts by ECB are expected, while the stimulus measures from NPC meeting failed to impress the market
- Geopolitical risks have risen over the past months in Middle East and South Korea. Moreover, Trump threatened higher tariffs. We believe his tactics may increase market volatility going forward
- However, on a 12-month outlook perspective, we hold a positive view in global equities as we believe earnings outlook remains healthy. Valuations of ex-US markets are still attractive



ESG (Low Carbon)

No Change

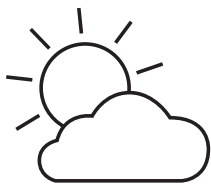
- Global investments in energy transition surpassed USD\$1.7 trillion, marking an annual growth rate of 17% in 2023. COP29 has set the New Collective Quantified Goal from USD100 billion to USD300 billion per year till 2035. But this is only contributed by the governments, there is more from the private sectors. Leading companies around the world incorporate carbon neutral targets into business models
- 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 Bond

Downgrade

- Ongoing geopolitical tensions are likely to cause market concerns. We foresee rates volatility to remain high and will remain patient before adding duration. There is good value in the short to intermediate portion of the US Treasury curve for better carry
- The rate path in 2025 has been more complicated after Trump won the election, given that his policy agenda of tariff and deficit budget, the market is pricing in fewer rate cuts in 2025. There is headwind risk that the Fed may pause rate cut cycle or even turn to rate hike, in "no-landing" scenario
- The change in interest rate expectation has weighed pressure on the outlook for bonds. As a result, we have downgraded our 12-month view on bonds to neutral and will await further guidance from the Federal Reserve on future interest rate trends



Neutral



Hong Kong Equity

Downgrade

- NPC meeting announced RMB 6 trillion local government debt swap to be implemented through 3 years (i.e., RMB 2 trillion each year) and refinance RMB 0.8 trillion local government debt each year during 2024-28 vs. our expectation of a more shocking lump sum if NPC were to deliver a positive message to the market
- Policymakers did not announce approval of an additional central government special bond issuance quota for bank recapitalization or consumption support
- In view of global funds may keep reallocating money from those high valuation regions into China because of the stimulus and the narrowed risk. However, as markets are driven by policies which are not easy to predict, market volatilities may increase. Investors should manage risks well
- We downgrade HK Equity to Neutral given stimulus measures from NPC meeting failed to impress the market



Asian Equity

Downgrade

- We downgraded Asian Equity from Overweight to Neutral
- Trump's tariff is an obvious downside risk for export-driven economies like Asean. In India, we see consensus earnings downgrade lately and fund outflow. In Korea, we are cautious of amidst weak end-user demand. Auto sales into the US has been strong YTD, but it may see tariff hiccups post Trump winning the election
- The market has been pricing in further rate hike amid normalization of monetary policy by BOJ while US has kicked off its rate cutting cycle. With narrowing interest rate differential between US and Japan, we are concerned on yen appreciation and subsequent earnings downward spiral especially for exporters
- Our view for China is neutral for weak fundamentals; however, we don't rule out the possibility of potentially positive policies



Negative



Cash

No Change

- Cash is a residual of our stance in terms of equities and fixed income
- With expectation of market jitters continuing in the near term, cash remains as a defensive asset, helping to lower overall portfolio beta. Meanwhile, as the rate-cutting cycle has yet to conclude, the attractiveness of cash remains relatively limited
- We remain our 12-month cash outlook to negative, as global bonds have relatively more favorable outlook than cash

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