Market Outlook

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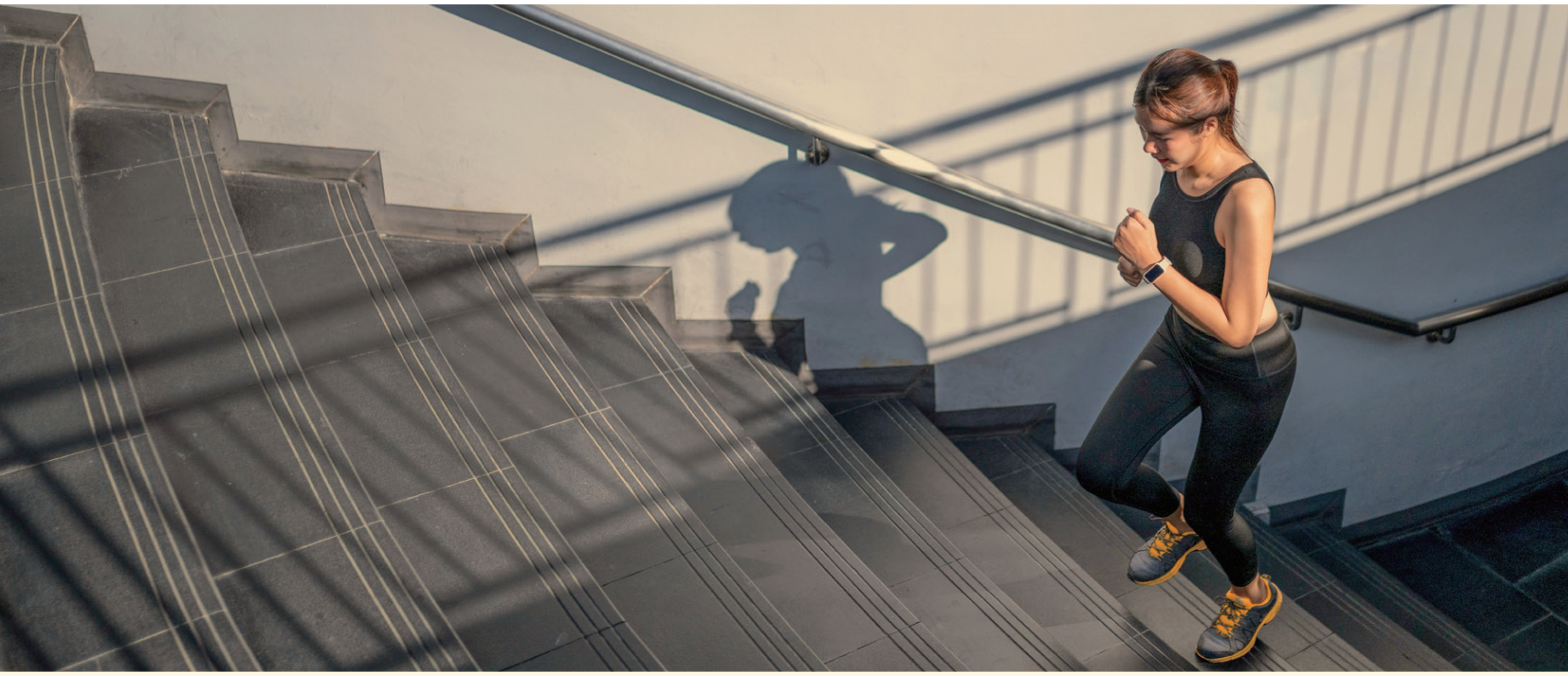

3 Main Investment Themes in 2026

2025 was a banner year for the investment market. Despite significant volatility triggered by tariff issues, the market recovered quickly, with global equities and bonds recording returns of approximately 23% and 8% respectively for the year. Looking ahead to 2026, we believe three key themes warrant investor attention:

First, the ongoing US interest rate cut cycle is beneficial for bonds. While US inflation is sticky, the impact of tariffs on prices has largely been priced in at current levels. With the one-year anniversary of last year's tariffs approaching, we believe inflation will moderately decline later. Furthermore, recent weakness in the US labor market increases the likelihood of further interest rate cuts by the Federal Reserve; we anticipate 2-3 rate cuts this year. Second, the investment boom in artificial intelligence will continue, generating positive spillover effects on other sectors. Driven by rising computing power, demand for electricity, non-ferrous metals, and other sectors is increasing, prompting the market to seek winners beyond tech stocks who can benefit from AI development. Third, geopolitical risks persist, and investors may manage the risks by diversification. The start of 2026 has already brought the events in Venezuela and instability in Iran, potentially leading to market volatility. Apart from traditional equity-bond portfolio strategies, investors may also consider adding a small portion of alternative assets, such as gold, to hedge against short-term increases in risk aversion.

Source: Bloomberg

12-Month Outlook

Positive

- ESG (Low Carbon)

Neutral

- Global Equity
- Global Bond
- Asian Equity
- Cash
- Hong Kong Equity

Neutral

Global Equity

No Change

- US interest rate cuts will boost investor sentiment. Fundamentally, market forecasts for double-digit earnings growth in global stocks over the next 12 months. The US is about to enter its new quarterly earnings season, the stock market may reach new highs if the earnings are solid
- We believe the investment boom in artificial intelligence (AI) will continue and is not currently in a bubble, as the AI-related industry chain is benefiting from positive spillover effects. Furthermore, the global technology sector is maintaining robust growth in earnings per share and free cash flow, with leading companies possessing strong monetization capabilities and healthy balance sheets, which we favor
- The global economy has shown far greater resilience than previously expected, and we believe the risk of a recession is decreasing. However, geopolitical events are expected to continue to cause market volatility, especially in highly valued markets. Investors may seek opportunities in markets outside the US

Global Bond

No Change

- The Federal Reserve further cut interest rates, leading to a decline in short-term rates. On the other hand, investor concerns about US government debt are causing the long end of the yield curve to steepen. In this context, bonds still offer attractive yields, and we prefer short-to-medium duration bonds
- Weakening macroeconomic data suggests that Fed may further cut its rate, but there is limited room for further rate cuts in Europe and Australia, while Japan may raise rates. We remain cautious and selective in our overall view on global bonds
- Corporate bond valuations are high. We prefer investment-grade bonds with higher credit quality, as these issuers typically have stable businesses and sufficient repayment capacity, and we believe the bonds help enhance portfolio risk management

Cash

No Change

- Cash is a residual (or balance) 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 to decrease portfolio beta

Hong Kong Equity

No Change

- The market is focused on China's "Two Sessions" in March, which are expected to set this year's economic growth target. 2026 marks the first year of the 15th Five-Year Plan, with economic work focusing on high-level technological self-reliance and leading the development of new-quality productivity. The government is committed to accelerating the application of artificial intelligence in the economic and social fields. We favor the technology, healthcare, and non-ferrous metals sectors
- Earnings revision breadth continues to improve in Tech sectors. China's semiconductor industry benefits from Capex driven by AI demand and is supported by rising domestic substitution demand
- China's trade truce with the US dials down geopolitical risk, and liquidity injection also played a positive role. Liquidity injection positive. However, the sluggish real estate sector and weak consumer confidence remain dragging factors

Asian Equity

No Change

- We believe AI will be a structural growth theme in Asia. Companies with significant AI exposure in Asian markets (excluding Japan) currently account for about 30% of the index composition, a key driver of short-term earnings growth. However, the path of USD may cause short-term volatility in the region
- South Korea and Taiwan are both benefiting from strong hardware demand driven by AI, particularly for high-bandwidth memory (HBM) and semiconductors, leading to a revaluation of their equity markets. We remain bullish on technology stocks in the region
- The Indian government is preparing to implement direct and indirect tax cuts through its budget, and a large number of infrastructure projects are expected to be completed in the coming quarters, which could have a multiplier effect on economic growth. However we are cautious on rich valuations of Indian stocks

Positive

ESG (Low Carbon)

No Change

- Governments reached a consensus at COP30 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 market, low-carbon strategies provide higher downside protection and relatively better returns compared to traditional equity strategies

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