



### Low-carbon strategy: A defensive tool for highly volatile markets in 2026

Entering 2026, the global financial markets did not follow the expected path of interest rate cuts, instead continuing the turbulent trend of last year. The S&P 500 failed to break its historical high, and Hong Kong stocks also experienced volatile performance. Meanwhile, the precious metals market witnessed a rollercoaster ride, with gold and silver hitting record highs at the beginning of the year followed by their largest single-day drops ever. Although they subsequently stabilized, the sharp fluctuations set a high-volatility tone for the investment environment throughout the year.

This year's significantly increased market volatility is primarily due to investors questioning whether the high capital investments of technology companies can translate into actual profits as expected, leading to valuation correction pressures in the technology sector. Secondly, market concerns about a potential hawkish stance from incoming Federal Reserve Chairman Kevin Warsh have led to speculation about whether his confirmation hearings will provide insights into future monetary policy. Geopolitically, in addition to continued tensions in the Middle East, the territorial dispute over Greenland and the renewed escalation of US-Iran relations at the beginning of the year have further fueled risk aversion. Amidst multiple uncertainties, investors need to focus on low-volatility strategies that offer resilience and stable returns. The track record of the Global Low-Carbon Equity strategy, which focuses on the long-term energy transition theme, shows a downside capture ratio of only about 94.6%, meaning that when the market falls, the strategy's decline is only about 94.6% of the market's, demonstrating superior defensive characteristics. In terms of returns, as of the end of January, the cumulative 3-year return of the relevant strategy exceeded 60%, showing its long-term growth capability.

Source: Bloomberg

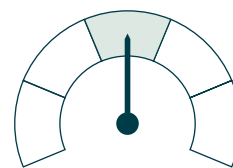
### 12-Month Outlook



Slightly Positive



ESG (Low Carbon)



Neutral



Global Equity



Asian Equity



Hong Kong Equity



Global Bond



Cash



Global Equity

No Change

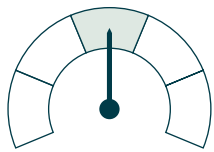
- US economic outlook improved and unemployment rate stabilized. Kevin Warsh has been nominated as the new Fed chair, who has a hawkish background but his recent public statements suggest his economic views are consistent with loosening monetary policy, at least in the short term. Market expects the next rate cut will happen in 2H26
- US corporates have solid earnings and profit margin, and there are signs of small/mid-cap earnings catching up, favoring the sector rotation from growth-tilt technology stocks to cyclical sectors like industrial. We see the strong profitability and growth are supported by fiscals and CapEx
- Europe maintains a stable macro outlook because of steady rates, easing inflation and expanded government earnings. Economic growth is expected to continue at a modest pace.
- Valuations of global equity is rich, any setback in risk sentiment can spike up market volatility



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, but Korea may take the lead due to the bigger re-rating potential on memory industry (HBM and prolonged DRAM shortage), more favorable capital market, political environment and cheaper valuation. However, volatility may follow a significant surge
- India has reached a trade deal with the US, however it is onerous compared with what rivals in Southeast Asia. Besides, earnings revision breadth has lost momentum, we are cautious on Indian stocks



Neutral



Hong Kong Equity

No Change

- China's GDP grew 1.2% QoQ in Q4 2025, beating market expectations of 1.0% and following a 1.1% increase in Q3 and logging the fastest expansion in three quarters. The latest reading reflected sustained policy support from the Central government alongside efforts to curb excess industrial capacity and rein in aggressive price competition
- The market is focused on China's "Two Sessions" in March, which are expected to set this year's economic growth target and more policy support. The key themes are high-level technological self-reliance and the development of new-quality productivity. We favor the technology, healthcare, and non-ferrous metals sectors
- We see there is a sector rotation from Chinese technology names to high dividend stocks with cheaper valuation, a "barbell" strategy can be used to balance risks and returns
- China's trade truce with the US dials down geopolitical risk, and the easing monetary policy by PBoC played a positive role. However, the sluggish real estate sector and weak consumer confidence remain dragging factors



Global Bond

No Change

- US core inflation has eased but could remain sticky, rate cut cycle is paused in the shorter term. Warsh's confirmation hearing will be the spotlight as his testimony will provide market participants with an opportunity to garner insight into his potential policy priorities and how his approach may differ from that of Powell's
- US rates may stay range bounded, and yield curve may steepen further if without a disciplinary fiscal deficit. We prefer short-to-medium duration bonds
- Corporate bond valuations are high. However, demand remains strong as new issue is well subscribed, and credit supply is still limited. Given to the attractive carry, we believe investment-grade bonds with higher credit quality help enhancing 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



Slightly 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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