



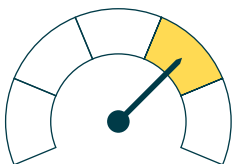
Low-Carbon Investment: Seeking Stability Amid Uncertainty

The Federal Reserve kept interest rates unchanged at its July meeting, reflecting a cautious balance between inflation that remains above target and signs of cooling in the labour market and broader economic momentum. We expect U.S. inflation to ease in the second half of the year, giving the Fed greater room to stay on hold. However, if oil prices rise further, another rate hike cannot be ruled out. With the interest rate outlook still uncertain, market volatility may persist. In uncertain markets, investors may prefer to hold more cash to strengthen downside protection. However, cash is better suited for short-term liquidity management and may not serve well as the core of a long-term portfolio. As interest rates decline, cash returns may fall quickly. Holding too much cash for an extended period could also erode purchasing power through inflation and weaken the effect of compounding. Investors may therefore consider allocating part of their portfolios to lower-volatility, more defensive equity sectors, which can help manage overall portfolio volatility while maintaining exposure to market growth.

A global low-carbon strategy can play this role. By diversifying across developed markets and sectors, while focusing on companies with stronger sustainability profiles, the strategy can help reduce exposure to single-market or sector risks. For example, the FTSE Developed Low Carbon Index recorded volatility of 10.4% over the past year, around 20% lower than traditional global equity strategies. In July, global equity markets experienced notable volatility, with some Asian markets posting double-digit declines, while the global low-carbon strategy still delivered positive returns. Reducing losses during market drawdowns can help preserve capital and support better long-term compounding.

Source: Bloomberg

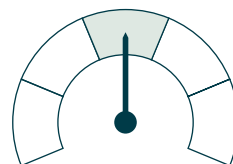
12-Month Outlook



Slightly Positive

US Equity

ESG (Low Carbon)



Neutral

European Equity

Asian Equity

China/HK Equity

Global Bond

Cash

Equities



■ No Change

- The US labor market and economy remain resilient. Although the Federal Reserve has adopted a more hawkish stance, we expect it to keep policy rates unchanged for the rest of this year, subject to inflation developments
- Corporate earnings and capital expenditure—particularly in AI infrastructure—remain strong. The AI theme remains intact, but be cautious to higher bar on outlooks
- Geopolitical tensions in the Middle East have eased. However, unexpected flare-ups could still trigger short-term market volatility



■ No Change

- The European Central Bank raised interest rates by 25 basis points in June. As geopolitical tensions in the Middle East have eased, the outlook for the European economy has improved, supporting further monetary policy tightening by the central bank
- Corporate earnings in the region are improving, but mostly benefited from commodity names



■ No Change

- We view AI as a structural growth theme in Asia. South Korea and Taiwan, in particular, are capitalizing on robust hardware demand, which remains a primary catalyst for short-term earnings growth
- Certain non-fundamental risks (e.g. De-leveraging in Korean market, JPY carry trade unwind) remain, but less worrying in the short near term. Recent correction has made valuations attractive despite ongoing volatility
- The trajectory of the USD is expected to remain a key source of short-term volatility across the region



■ No Change

- China set a GDP growth target of 4.5%-5% in 2026. While recent growth was buoyed by strong exports, domestic consumption remains lagging.
- Market dynamics show a rotation from high-growth technology sectors into undervalued, high-dividend stocks. A "barbell Strategy" can balance structural risks while delivering stable returns. On one side of the barbell, focus should remain on the "AI+" theme, which is poised to become a key engine driving "New Quality Productive Forces" and the commencement of the "15th Five-Year Plan"

Thematic Equities



■ No Change

- The US-Iran conflict has exposed the global dependence on fossil fuels, which accelerates the investment demand for low-carbon transition
- In an increasingly volatile market, low-carbon strategies are demonstrating superior resilience, offering stronger downside protection and more attractive risk-adjusted returns compared to traditional equity strategies

Fixed Income & Cash



■ No Change

- US 10-year yield may stay range-bound, but with high uncertainty given the Iran conflict and the potential "regime changes" under Warsh's Fed
- Corporate credit valuations are rich, though fundamentals are expected to remain benign. We believe allocating to high-quality, investment-grade bonds will enhance portfolio risk management



■ No Change

- With expectation of market jitters continuing in the near term, cash remains as a defensive asset

Disclaimer:

All information contained in this document shall only be used as general reference and general investment knowledge for sharing purposes, which may contain "forward-looking" information, including forecasts, estimates of yields or returns and involve risks and uncertainties. All information contained in this document is not intended to provide any forms of guarantee or investment advice, and does not constitute a solicitation of an offer or offer, and shall not be regarded as the basis for any contract, to sell or to purchase any investment products. Information is provided base on sources believed to be reliable, Sun Life Asset Management (HK) Limited, its associated companies and their directors and employees (collectively "Sun Life") gives no express or implied warranty, guarantee or represent its accuracy, effectiveness, completeness of the same.

Investment involves risk, and past performance figures shown are not indicative of future performance. Value of investment may go up or down, and may become valueless. An investor may not get back the amount originally invested. The information contained in this document has not been reviewed in the light of objectives, financial circumstances or needs of an individual investor. Sun Life is not responsible for any loss or damage caused by reliance on any information or advice made in this document, nor is responsible for the accuracy or completeness of any information or advice.

This document has not been reviewed by the Securities and Futures Commission in Hong Kong or any regulatory authorities.

This document is owned by Sun Life Asset Management (HK) Limited. Modification or change is not allowed without the Sun Life Asset Management (HK) Limited's prior consent.

Issued by Sun Life Asset Management (HK) Limited



Check out the
online version