



## Higher-for-Longer Rates: Enhancing Portfolio Stability with Quality Bonds

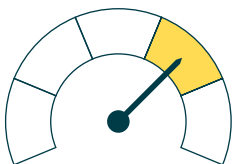
The U.S. economy remains resilient, with a solid labor market. Together with continued uncertainty around inflation, the Federal Reserve may tighten monetary policy again. Interest rates are likely to stay higher for longer. With the policy direction still unclear, market volatility may persist.

In this environment, investors should not simply bet on rate cuts. Instead, they should place greater emphasis on income, quality, and risk management. Longer-duration bonds are more sensitive to interest rate movements. If long-term bond yields remain elevated, their prices may experience greater volatility. In contrast, short-duration bonds or floating-rate notes can provide a more stable source of income, while helping to reduce the impact of interest rate volatility on portfolios. The 2-year U.S. Treasury yield has now rebounded to around 4.4%, one of the higher levels since the Federal Reserve began cutting rates in 2024, making yields more attractive.

Investors may also be concerned about rising government debt pressure. However, the bond market is not limited to government bonds. It also includes a range of choices such as investment-grade corporate bonds, Asian corporate bonds, etc. We prefer investment-grade bonds with stronger credit quality, as these issuers generally have more stable financial positions and relatively stronger debt repayment ability in an environment where financing costs remain high. For general investors, a diversified allocation with a focus on high-quality income sources may help improve portfolio stability amid market uncertainty.

Source: Bloomberg

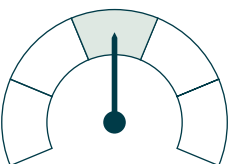
## 12-Month Outlook



Slightly Positive

US Equity

ESG (Low Carbon)



Neutral

European Equity

Asian Equity

China/HK Equity

Global Bond

Cash

## Equities



## ■ No Change

- The U.S. economy remains resilient, supported by a healthy labour market. We expect the Federal Reserve to keep rates broadly unchanged unless inflation reaccelerates
- Corporate earnings remain solid, especially among companies benefiting from AI investment. The AI growth story remains intact, though market expectations are becoming more demanding
- High energy price caused by the ongoing US-Iran conflict is a headwind



## ■ No Change

- Corporate earnings are improving and stronger than expected, but the renewed US-Iran conflict has weighed on the economic outlook
- Higher energy prices have pushed inflation higher. The European Central Bank is expected to remain cautious and maintain a restrictive policy stance



## ■ No Change

- We view AI as a structural growth theme in Asia. South Korea and Taiwan continue to benefit from strong demand for AI-related hardware, supporting earnings growth
- Valuation of Asian equity remains attractive, supported by solid earnings growth. Value, cyclical and defensive sectors can also help diversify portfolios and reduce reliance on the AI theme
- 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
- Focus remains 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". We prefer China A-shares, which offer greater exposure to AI, advanced manufacturing, and capital goods sectors

## 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 &amp; 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

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