



Implications of the U.S. Rate Hike in September

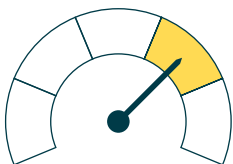
The U.S. Federal Reserve announced a 25-basis-point rate hike in September, raising the federal funds rate to 3.75%-4.00%. The dot plot showed that most officials believed there was still room for further rate increases. As markets expect major central banks to keep interest rates relatively high next year, bond yields have risen.

Investors should be prepared for the low-interest-rate environment to be over, which may require adjustments to asset allocation. For equities, rising interest rates are traditionally seen as reducing the present value of companies' future earnings, making them particularly challenging for growth sectors such as technology. This was clearly evident in 2022. Today, however, artificial intelligence is accelerating corporate earnings growth, which could help offset valuation pressure. If earnings grow faster than interest rates rise, technology stocks may remain competitive. Nevertheless, lower-quality companies will still be constrained by high borrowing costs, and the market may once again favour stronger businesses over weaker ones.

For bonds, rate hikes generally weigh on prices. If the market believes interest rates will remain higher for longer, long-duration bonds may continue to face pressure. However, many investment-grade bonds now offer yields above 5%, meaning investors can obtain relatively attractive cash flow returns without taking excessive risk. We believe short-duration, highly rated corporate bonds offer stronger defensive characteristics.

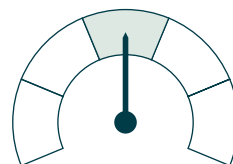
Source: Bloomberg

12-Month Outlook



Slightly Positive

ESG (Low Carbon)



Neutral

US Equity

Asian Equity

Global Bond

European Equity

China/HK Equity

Cash

Equities



▼ Downgrade

- The US economy and job market remain resilient, although the ongoing conflict with Iran is creating more uncertainty.
- Company earnings remain strong, particularly for businesses benefiting from AI investment. The long-term AI growth story remains intact, but investors now expect more from these companies.
- The Federal Reserve raised interest rates by 0.25 percentage points in September 2026, and further increases are possible. Higher long-term bond yields could limit gains in US stocks.



■ 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.
- Strong corporate earnings growth could help ease the pressure of rising bond yields on equity valuations. We are focusing on high-quality technology companies with strong growth potential and stable cash flows.
- 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 & Cash



■ No Change

- A prolonged geopolitical conflict could contribute to persistently higher inflation and bond yields. We expect further policy tightening in the next 12 months.
- 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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