



## Core-Satellite Portfolio Strategy for Enhanced Potential Returns

President Trump has officially signed the “Big and Beautiful Act,” which extends tax reduction policies, increases military spending, and implements social welfare cuts. The legislation is projected to increase the federal deficit by approximately \$3.3 trillion over the next decade. Its emphasis on individual tax relief, combined with constraints on corporate investment, may elevate interest rates and national debt costs. Additionally, President Trump’s extension of tariff negotiation deadlines brought back trade war tensions. Tariffs could trigger inflationary pressures, potentially influencing the Federal Reserve’s monetary policy trajectory. While markets initially anticipated an interest rate cut by September 2025, tariff-induced inflation and an expanding deficit may compel the Federal Reserve to maintain elevated interest rates, introducing uncertainty into the market outlook for the second half of 2025.

Looking ahead to the latter half of 2025, global markets are expected to remain volatile. Tariff negotiations, an expanding deficit, and monetary policy uncertainty constitute three primary risks. For investors managing retirement funds, robust risk management strategies are essential. For those seeking a slightly conservative approach while still capturing potential upside, they may consider a core-satellite portfolio. The core-satellite portfolio offers simplicity, enabling investors to focus on managing its investments. The core component, typically about 70% or 80% of portfolio, is more stable and helps balance the higher risks associated with the satellite portion. The satellite component, on the other hand, provides opportunities to outperform the broader market. However, while the satellite allocation is smaller (about 20% to 30% of portfolio), it carries higher risk. Thus, the core-satellite strategy is suitable for investors with higher risk tolerance and a longer investment horizon.

Source: Bloomberg

## 12-Month Outlook



Positive



Global Bond



ESG (Low Carbon)



Neutral



Global Equity



Asian Equity



Hong Kong Equity



Cash



Positive

Global  
Bond

#### No Change

- Bonds had positive returns in June amid softer US economic data and more dovish rhetoric from certain US Federal Reserve officials. Markets have fully priced in a September-rate cut, while proposed tariff impacts also priced in
- The Fed kept rates steady for the fourth consecutive meeting; however the message lacked clarity on whether inflation – or the labor market – was ascending in relative importance
- The asset class provides attractive carry, recession concerns have eased as the economic data is still strong amid trade tensions
- We kept a cautiously positive view on global bonds and remained quite selective, favoring investment-grade credit and believing the asset class helps strengthening risk management for portfolios

ESG (Low  
Carbon)

#### No Change

- Governments reached a consensus at the meeting 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 environment, low-carbon strategies provide higher downside protection and relatively better returns compared to traditional stock strategies

Global  
Equity

#### No Change

- Global equities saw recent highs in June as trade optimism continued to grow and expectations for Fed rate cuts strengthened. Although there was short-term volatility caused by the war between Israel and Iran, the market impact was short and limited
- Going forward, how the global economy being impacted by tariffs would be in the spotlight, we expect the market is sensitive to the related news and would be volatile
- Valuation of global equity is much higher than the level of the announcement of reciprocal tariffs. Given that the economy is much more resilient than the earlier expectation, we are cautious to sudden market fluctuation triggered by trade negotiations and geopolitical events



Cash

#### No Change

- Cash is a residual (or balance) of our stance in terms of equities and fixed income. We are slightly cautious to equities (neutral) and selectively positive to bonds (positive), cash as a balance was upgraded to neutral
- With expectation of market jitters continuing in the near term, cash remains as a defensive asset to decrease portfolio beta



Neutral

Hong Kong  
Equity

#### No Change

- Following US President Trump's increase in the tariff rate on imports from China, these tariffs are expected to exacerbate the drag on exports, heightened macroeconomic uncertainties, weakening economy outlook
- The Chinese government has held back from deploying aggressive domestic stimulus before tariffs. The chances that the government would enlarge the scope to support consumption more meaningfully increase
- We are closely monitoring the progress of trade negotiations between the US, China, and other nations, as well as the severity of economic impacts from these tariffs

Asian  
Equity

#### No Change

- Trump's tariff is an obvious downside risk for export-driven economies like ASEAN countries
- India relatively insulated from global trade tensions, showing early signs of economic recovery as we see improved GST revenue growth, increased government capital expenditure and growing demand for supply chain shifts
- Korea, we observe a strong recovery in memory exports, primarily driven by DRAM. Increasing spot prices in the memory sector and improved outlook for semiconductor demand
- Taiwan led by solid A.I. demand growth. The demand is expected to accelerate in 2Q due to better than expected US Tech Giant AI capex US, and relatively easier to struck a trade tariff deal

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