ChinaAMC (HK)

2025
Investment Outlook

Contents

China Stock Market 04
- 2024 Market Review
  - Market Review
  - Market Performance Deviating from Historical Trends
  - The Market Today
- 2025 Market Outlook
  - Economic Outlook
  - Market Outlook
  - Asset Allocation Strategies and Investment Themes

Global Bond Market 14
- 2024 Global Bond Markets Review
- 2025 Macro Environment Outlook
- 2025 Global Credit Market Outlook

RMB 18
- 2024 Market Review
- 2025 Market Outlook

Crypto Assets 19
- Crypto Assets Market Review and Outlook

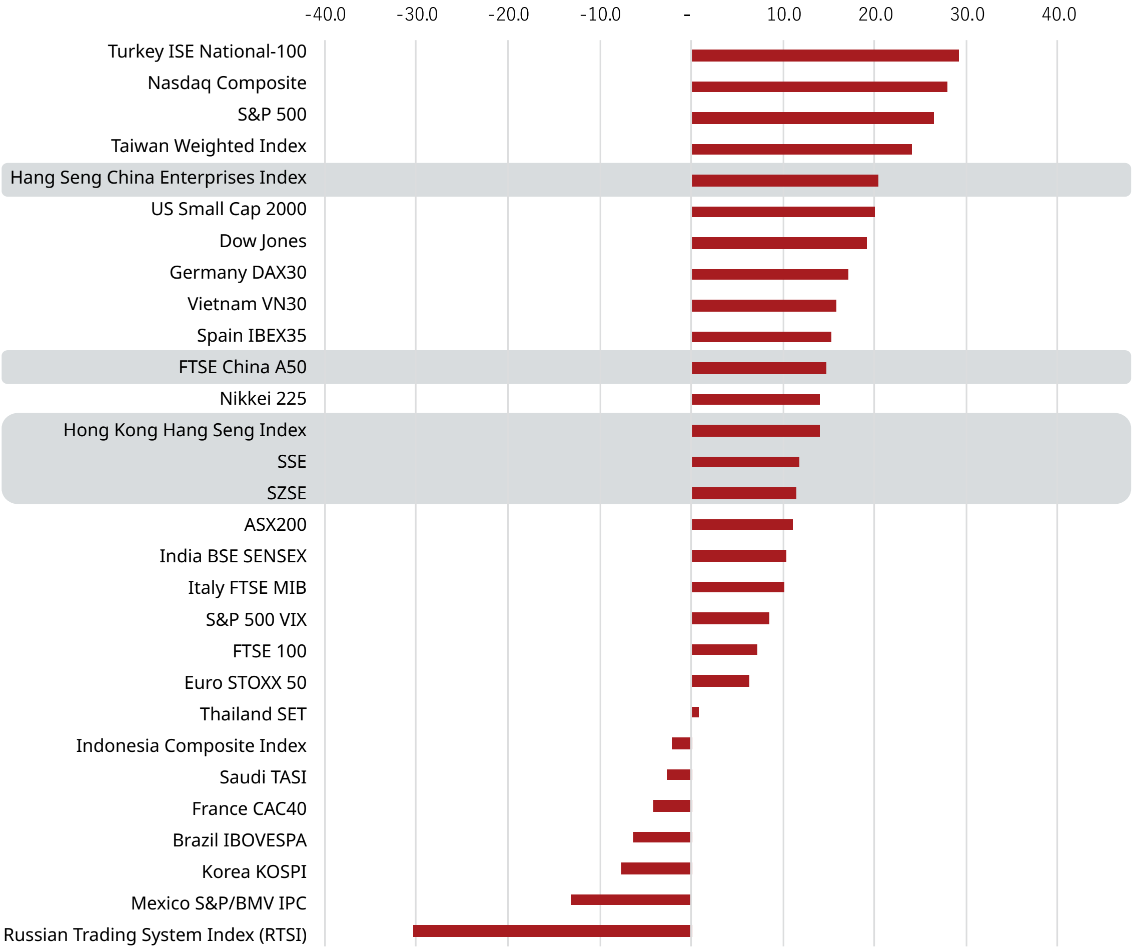
ChinaAMC (HK) 22
- About Us
- Awards
- Follow Us

China Stock Market

2024 Market Review

As of the end of November 2024, China's stock market has significantly outperformed the past three years. The Shanghai Composite Index and the Hang Seng Index recorded gains of 11.8% and 13.9% respectively, placing them in the upper-middle range among major global stock markets.

Chart 1: Global Major Indices Performance in 2024 (YTD)



Source: Bloomberg, as of 30 November 2024.

The Chinese stock market's performance in 2024 responded favorably to the government's policy direction and can be roughly divided into four Phases.

Chart 2: Major Chinese Policies in 2024

Policy	Time	Content
Fiscal Policy	9/26/2024	Central government pledged to deploy "necessary fiscal spending" at the Politburo meeting on 26 September.
	10/12/2024	The Ministry of Finance committed to implementing incremental fiscal measures in four key areas: dissolving local government debts, replenishing bank capital, stabilizing the property market, and enhancing social welfare.
	11/4-8/2024	A bill was passed to raise the local government debt ceiling, allowing for the replacement of existing hidden debts and injecting RMB10 trillion to China's debt relief resources.
Monetary Policy	9/27/2024	The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) by 0.5 percentage points (pps) and the 7-day reverse repo rate by 0.2pps.
	10/18/2024	PBOC Governor Pan Gongsheng hinted a further RRR reduction of 0.25 to 0.5pps, depending on market liquidity levels by the end of the year.
	10/21/2024	The PBOC announced a 25 basis points (bps) cut for both the 1-year and 5-year loan prime rate (LPR).
Property Market Measures	9/24/2024	At a press conference, China's regulators unveiled a stimulus package that includes lowering the mortgage rate on existing home loans, unifying the minimum down payment ratio for both first and second homes, and optimizing the affordable housing re-lending policy.
	9/26/2024	The Political Bureau of the Communist Party of China (CPC) Central Committee adopted a positive narrative on the property sector, pledging to "stabilize the property market and reverse its downturn".
	10/17/2024	The Minister of Housing and Urban-Rural Development announced that the government would increase support for urban village and dilapidated housing renovation projects, adding 1 million units through monetary compensation for residents.
Capital Market Measures	9/24/2024	The China Securities Regulatory Commission (CSRC) issued the "Opinions on Deepening Market Reform in Mergers and Acquisitions of Listed Companies" to stimulate activity in the M&A and restructuring market.
	9/26/2024	The "Guiding Opinions on Promoting the Entry of Medium and Long-term Funds into the Market" was released, aiming to create a new ecosystem that encourages long-term investments.
	10/18/2024	The PBOC launched the Securities, Funds and Insurance Companies Swap Facility (SFISF) and the lending facility for share buybacks and shareholding increases, with an initial quota of RMB300 billion.

Source: Haitong Securities, ChinaAMC (Hong Kong), as of 31 October 2024.

Phase 1 — Volatility (Jan to mid-Apr)

A slew of internal and external factors weakened the market during the fourth quarter of 2023 and early 2024. Domestically, expectations for a rate cut were not met, while China's economy continued to weaken marginally. Meanwhile, the U.S. stock market rose after the Federal Reserve (Fed) ended its rate hikes, leading to further capital outflow from China and a market decline that returned to early-2024 levels. In the first quarter of 2024, unexpected cuts of RRR and interest rates, along with a more positive policy stance from the CSRC, lifted the market before it shifted into a period of consolidation.

Phase 2 — Sharp Rebound (late Apr to mid-May)

A sharp rebound occurred following the introduction of a series of property support measures aimed at adapting to the changing economic environment. These measures include easing purchase restrictions and reclaiming idle land. In addition, the confirmation that the Third Plenary Session would be held in July raised market expectations for medium- and long-term reforms. In the capital market, several policies were introduced to reinforce Hong Kong's position as a leading financial center. These positive helped fuel a strong recovery from April 19 to May 20, attracting a short-term inflow of foreign capital.

Phase 3 — Volatile Downward Phase (late May to mid-Sep)

The controversial remarks by Taiwan's new leader raised investor concerns about the stability of the external environment after 19 May. More critically, China's fiscal shifted back to a contractionary stance, and economic fundamentals weakened further. The ongoing downturn led to a vicious cycle of loss mitigation, position reduction, and falling prices, which deepened pessimistic sentiment. Additionally, China's relatively stringent regulatory approach exacerbated negative sentiment, contributing to a further decline in overall trading volume.

Phase 4 — Post-pivot Turbulent Phase (late Sep to now)

The policy shift starting on 24th September provided the market with a significant boost. A series of consumption-supporting policies, along with measures to stabilize the property market and the capital market, led to record trading volumes and a sharp stock market rebound. Following the National Day holiday in October, China's stock markets, particularly A-shares, remained highly active, with investors maintaining high expectations for upcoming policies. Yet it will take time for these policies to yield positive economic results. During this period, concerns about Sino-US relations following the US presidential election fueled market volatility. The current market environment is characterized by rapid sector rotation and thematic hype.

Market Performance Deviating from Historical Trends

China's stock markets have been relatively sluggish since the second half of 2021, with overall stock prices continuing to decline. The trend has been especially unusual since the fourth quarter of 2023. Methodologies that were previously effective in identifying market bottoms have become less reliable over the past three years. For instance, certain market indicators (Chart 3) have shown relatively stable low points, and historically, rebounds were typically expected when these lows were reached between 2010 to 2022. However, these indicators have become ineffective in the past two years.

Chart 3: Market Bottom Indicators

(Wind All A Index Price-to-Earnings (PE) * the reciprocal of 10-year China Development Bank bond yields)

Source: Wind, ChinaAMC (Hong Kong), as of 19 November 2024.

Since mid-2023, stock markets in China and the U.S. have deviated from historical patterns. Before October 2023, the CSI 300 index, in line with typical emerging equity markets, delivered long-term compound returns comparable to those of the S&P 500, though with greater volatility. However, the gap between the two indices has widened from October 2023 to late September 2024.

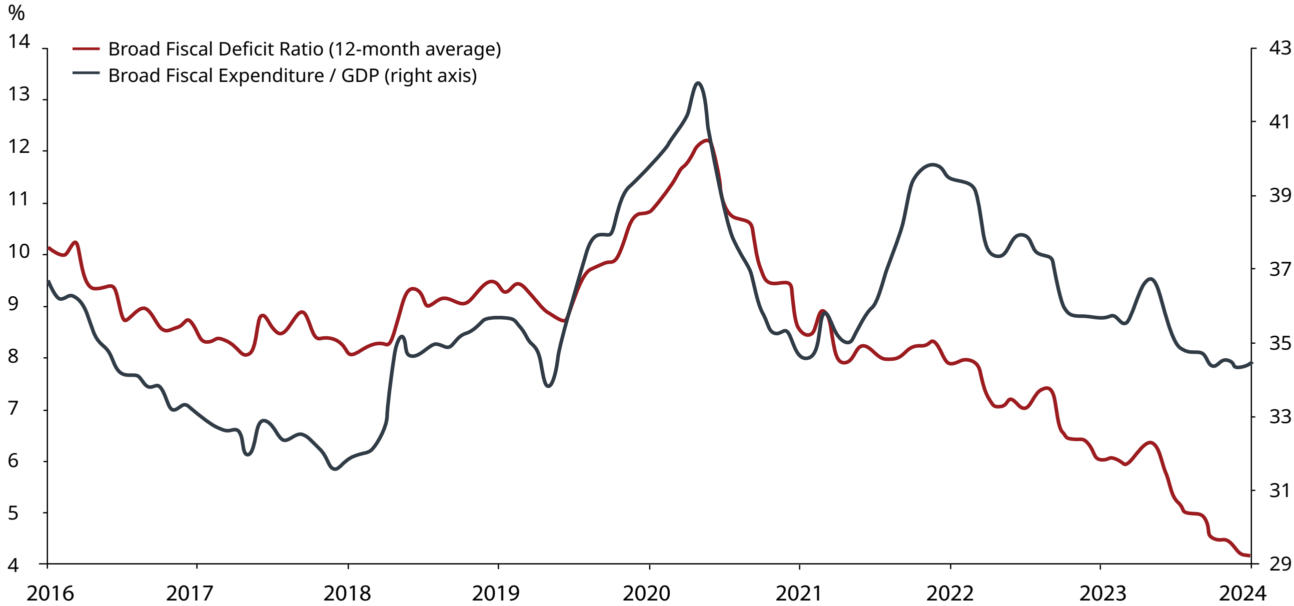
The sluggish domestic market and growing divergence from international stock markets have led to increasing pessimisms among investors. Opinions differ on the primary factors at play. While some believe that the outflow of foreign capital is the key factor, others point to the short- to mid-term challenges, such as mounting local government and property sector debts. China's stricter regulatory stance and the inability to implement necessary policies are also cited as major factors.

The two rallies – one from late Apr to mid-May and the other from late September to early October 2024 – have significantly boosted China's stock market performance, allowing it to outperform other major global stock markets. Notably, the continuous outflow of foreign capital during these periods had little impact on the market. This suggests that sentiment among international investors is not a decisive factor in the current environment.

The primary driver behind these rallies was a decline in "risk premiums". In April and September, Beijing announced a series of policies targeting the property sector, finance, capital markets, and social welfare. These measures demonstrated the government's awareness of current economic challenges and its readiness to address them, helping to alleviate investor concerns about future growth and supporting the market. The lack of fiscal support was a key reason for the market dip in May.

We believe that the contractionary fiscal stance adopted since the second half of 2022 is the main force behind the deviation of China's stock markets from their historical trajectory. On one hand, the Chinese government prioritized long-term structural challenges, placing significant emphasis on "high quality" and "security", while also addressing the scale of local government and property sector debts. On the other hand, external rate hikes constrained China's domestic policy options. The situation shifted in mid-September 2024, when overseas economies began entering rate-cut cycles, sparking a market rally as the Chinese government introduced a series of supportive measures.

Chart 4: China's Broad Fiscal Position



Source: Haitong International, as of September 2024.

The Market Today

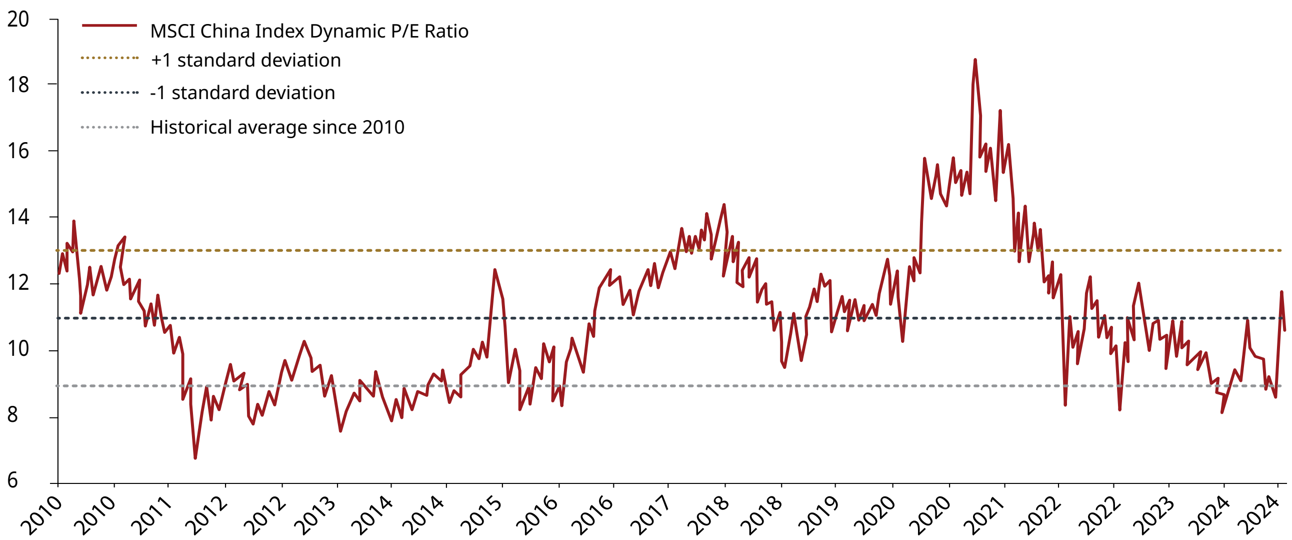
Currently, the price-to-earnings (PE) ratio of China's stock markets (including both A-shares and Hong Kong stocks) is slightly below the historical average since 2010. Stock markets have consistently exceeded this average over certain periods, notably in 2010, from 2016 to 2018, and 2019 to 2021. During these phases, the Chinese economy saw gradual improvements, supported by relatively positive fiscal policies.

Despite the changes in China's policy stance, we have not yet seen a significant influx of foreign capital into the country's stock markets.

However, international investors are increasingly focusing on China. We expect a shift from underweight to overweight positions in Chinese assets among global investors as China's economic indicators improve the external pressures ease.

Following the correction in November, the Hang Seng Index and the CSI 300 Index have returned to their levels from September 26 and September 30, respectively. Additionally, the overly optimistic expectations that built up during the National Day holiday have now been fully absorbed.

Chart 5: MSCI China Index Dynamic PE Ratio



Source: CICC, ChinaAMC (Hong Kong), as of October 2024.

Economic outlook

According to the International Monetary Fund (IMF), China's GDP growth in 2025 is expected to reach 4.5%, slightly above the average level for all developing countries. Morgan Stanley, UBS and Goldman Sachs have made similar forecasts, with growth projections ranging from 4% to 4.5%, and deflationary pressure expected to ease slightly. These investment banks also agree that the tariffs imposed by U.S. President Trump will exert pressure on China's exports, offsetting the impact of domestic policies. As a result, the RMB could depreciate to 7.6 (or 5%).

Chart 6: Global Economic Growth Forecast

		Projections	
Region	**2023**	**2024**	**2025**
World Output	3.3	3.2	3.2
Advanced Economies	1.7	1.8	1.8
United States	2.9	2.8	2.2
Euro Area	0.4	0.8	1.2
Japan	1.7	0.3	1.1
United Kingdom	0.3	1.1	1.5
Emerging Market and Developing Economies	4.4	4.2	4.2
China	**5.2**	**4.8**	**4.5**
India	8.2	7.0	6.5
Russia	3.6	3.6	1.3
Brazil	2.9	3.0	2.2
Mexico	3.2	1.5	1.3
Nigeria	2.9	2.9	3.2
South Africa	0.7	1.1	1.5

Source: IMF, as of October 2024.

Chart 7: Analysis and Forecasts on China's Economy by Investment Banks

	Morgan Stanley	UBS	Goldman Sachs
GDP growth	4%	4%	4.5%
Inflation	GDP Deflator<0 / Core CPI >0	CPI, 0.1%	CPI reaches 0.8%
Exchange Rate	RMB depreciates to 7.6	RMB depreciates to 7.6	
Economic Forecasts	Insufficient domestic demand with export pressure	Fiscal support stabilizes the economy, but export pressures rise	Real estate continues deleveraging; U.S. tariffs cause a sharp slowdown in exports; China's consumption contribution is expected to increase
Domestic Policies	• The government is expected to implement a mild fiscal stimulus of RMB3 trillion, which will provide only 1/3 of the support needed. • An accommodative monetary policy is expected, with liquidity tools in place to support the market	• The broad fiscal deficit ratio is expected to increase by 2 percentage points; Fiscal measures support local governments and infrastructures and help stabilize the property market. • PBOC is expected to cut interest rates by 30-40 basis points	• The fiscal deficit is expected to widen to 1.8% of GDP. If the government can invest RMB8 trillion to reclaim idle lands, the high-end property market may stabilize. • PBOC is expected to cut its policy rate by 40 basis points
External Environment	The U.S. imposes more tariffs	The U.S. starts to impose tariffs in September 2025	U.S. imposes tariffs
Market Trend Forecasting in 2025	The CSI 300 Index can reach 4200, an upside potential of 7.2% from the current level		The CSI 300 index can reach 4600, an upside potential of 17.4% from the current level
Sector Performance	• Outperform: Defensive Sectors (Telecoms, Utilities), Banking, Healthcare • Underperform: Consumer, Real Estate		Outperform: Consumption, Healthcare, Technology, New Infrastructure

Source: Morgan Stanley, UBS, Goldman Sachs, As of November 2024.

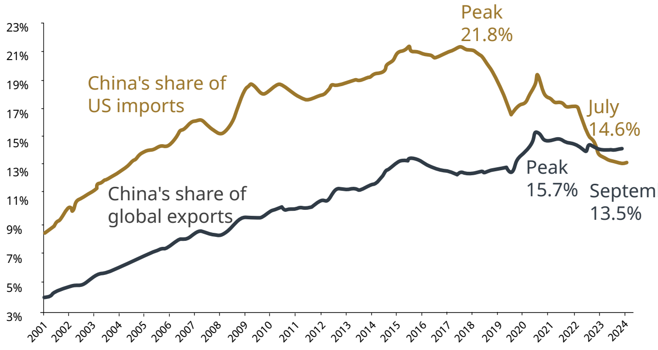
Investors hold differing views on the internal pressure affecting China's economy growth. Some believe that addressing local government debts will not reduce their scale and provides limited support for the economy. Others criticize the lack of fiscal measures aimed at boosting consumption, arguing that this has had little impact on stimulating the consumer sector. Additionally, some investors feel that the incremental improvement in China's property sales is not contributing effectively to the destocking process, which could hinder new investments and threaten economic stabilization.

First, the U.S. tariffs have undeniably had a negative impact on China's economy. Since 2018, China's share of U.S. imports has fallen from a peak of 21.8% to 13.5%. However, China's share of global exports has remained stable. The short- and medium-term impact of tariffs should be manageable until the full transfer of industrial chains is completed.

Furthermore, the dissolution of debt in China can be interpreted as the "restructuring" of local government debt, aimed at converting implicit debts into "explicit", "long-term" and "low-interest" obligations. The slowdown in consumption growth in China is partly due to lower household income expectations, but the dip in government consumption growth – driven by local government debt pressure – also plays a crucial role. Once local governments successfully resolve their debts, they will have more resources to invest in infrastructure.

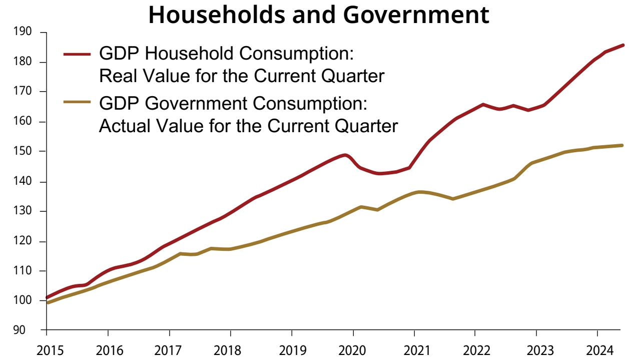
Thirdly, trade-ins of consumer goods have already helped stimulate domestic consumption. According to CICC, fiscal subsidies are expected to reach RMB150 billion in 2024. The government has also revealed that fiscal subsidies will increase further and cover more categories in 2025, which is anticipated to boost retail sales growth by at least 1 percent.

Chart 8: China's Share of Global Exports



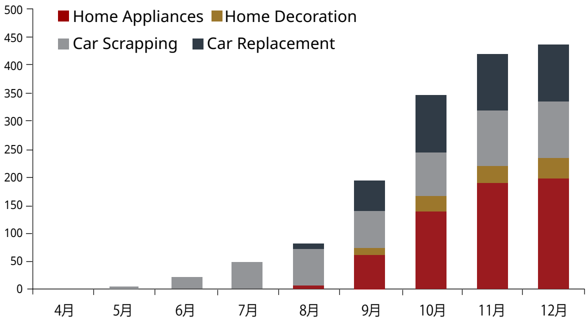
Source: Morgan Stanley, as of September 2024.

Chart 9: Trends in real consumption of Chinese Households and Government



Source: CICC, as of September 2024.

Chart 10: Trade-in subsidy for consumer goods



Source: CICC, as of November 2024.

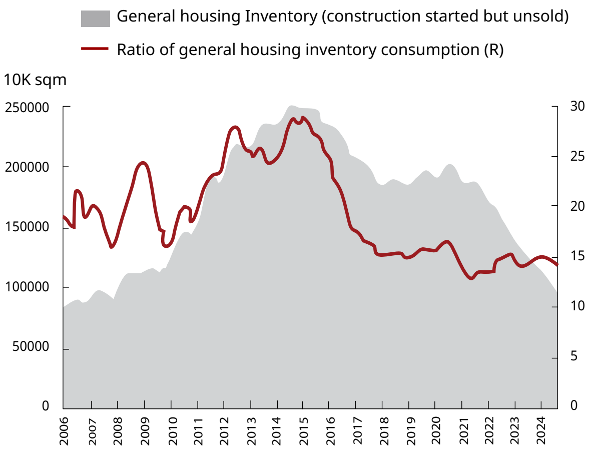
Chart 11: The impact of fiscal subsidies on retail sales

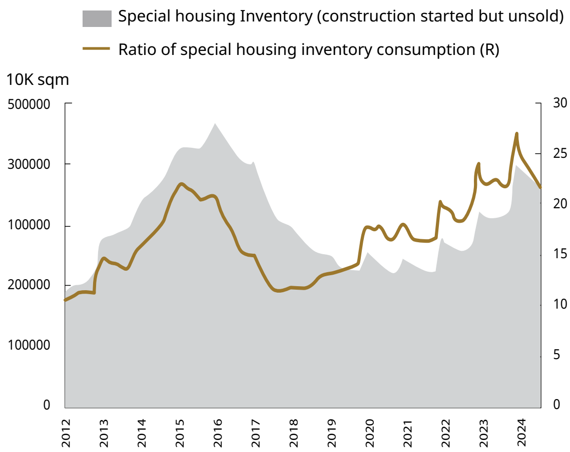
2025 subsidy scale	Retail Sales boosts	Social retail growth rate boosts
Billion	Billion	%
1500	3901	0.8
2000	5201	1.1
2500	6502	1.3
3000	7802	1.6
4000	10403	2.1
5000	13003	2.7

Source: CICC, as of November 2024.

Finally, the sales area of commercial housing in tier-1 cities has increased remarkably following the policy shift. However, the destocking of completed but unsold residential housing is expected to take another 20 months. This has led some investors to lose confidence in China's property market. That said, we believe the unsold inventory of residential housing, where construction has already begun, has decreased substantially due to a slowdown in property investment over the past three years. It remains to be seen whether the recovery in property sales is sustainable and whether it will translate into new construction projects. Based on the experience of Japan and the U.S., the number of new construction projects in China is nearing its bottom. Therefore, we expect a sharp decline in inventory in the future, provided that fiscal support and other forms of assistance continue, along with improvements in economic fundamentals.

Chart 12: Inventory and Sales of China's Residential Housing





Source: Wind, Everbright Securities, as of September 2024.

In short, we believe that fiscal policies can provide support to consumption and property sectors, which are currently areas of concern for investors. As the government rolls out additional stimulus measures, we expect China's economic fundamentals will continue improving.

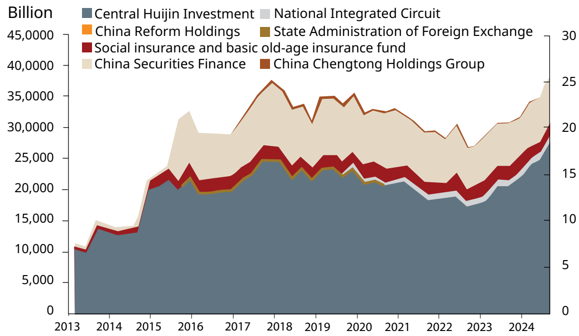
Market outlook

We remain largely optimistic about China's stock markets, including A-shares and Hong Kong stocks. The overall trend seems upward, marked by fluctuations and limited downward potential. The pace of any future rebound will depend on the introduction of supportive policies, changes in the external environment, and the speed of fundamental improvements take place.

First, we expect there is limited downside risk for China's stock markets, particularly A-shares. National stability funds, such as Central Huijin, entered the market at relatively low levels, and their holdings are now approaching RMB4 trillion. These funds, along with stabilizing policy tools introduced by financial regulators, can provide sufficient capital support during short-term downturns. This also explains why A-shares have proven more resilient than Hong Kong stocks.

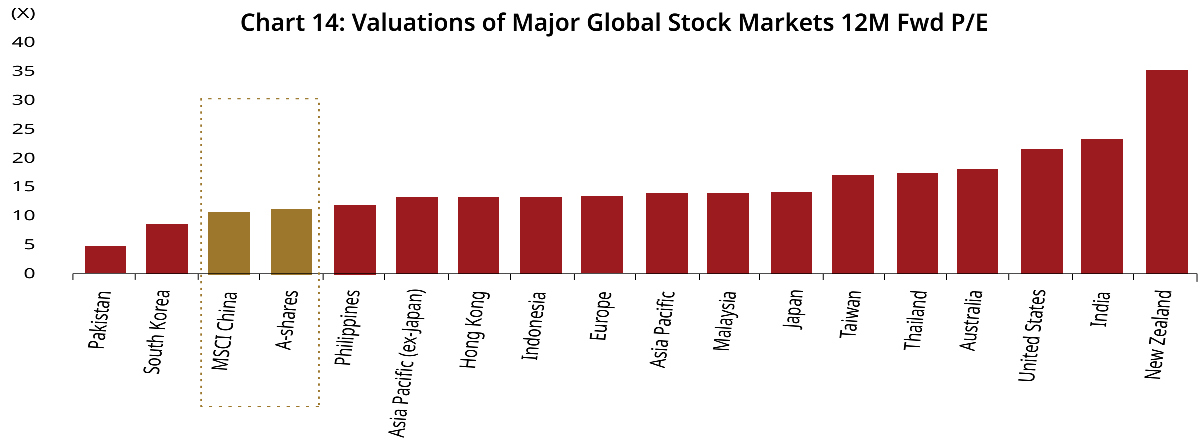
Secondly, valuations of A-shares and Hong Kong stocks remain lower than those of major global stock markets. Low valuations present a compelling buying opportunity, especially given expectations of economic recovery. While the average valuation of Chinese stocks is in line with the past decade’s average, China’s risk-free rate has fallen significantly. As a result, equity valuations and dividend yields remain at historical lows compared to risk-free yields. This suggests that the current low valuation of Chinese stocks will present attractive investment opportunities, provided that economic fundamentals improve.

Chart 13: Holdings of China’s “National team”



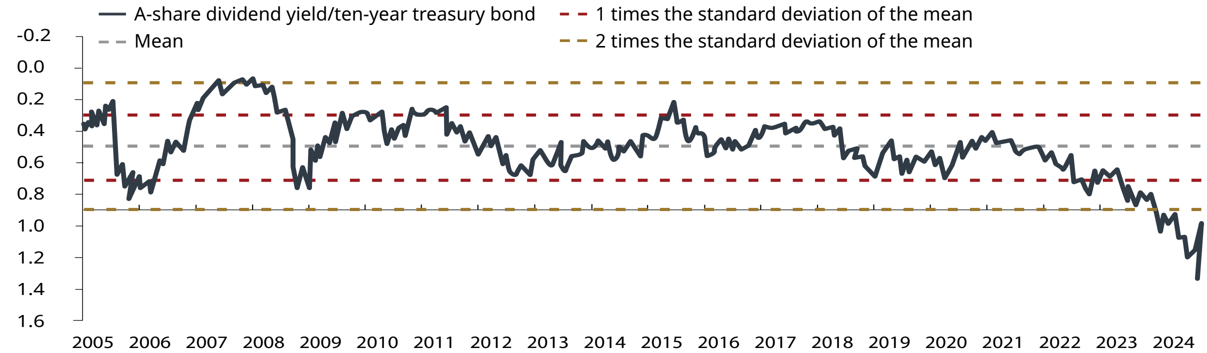
Source: BOC Securities, as of October 2024.

Chart 14: Valuations of Major Global Stock Markets 12M Fwd P/E



Source: FactSet, CICC, as of 6 November 2024.

Chart 15: A-share Dividend Yield



Source: Haitong Securities, as of November 2024.

Lastly, 2025 will be a year filled with both domestic and international political events. U.S. President Donald Trump’s policies, geopolitical developments, and China's domestic policies are all likely to influence the trajectory of China’s stock markets. We recommend that investors closely monitor key political and government meetings in China.

Chart 16: Major Global Political Events (Q4 2024 and 2025)

Time	Event	Topic	Focus
Q4 2024			
Mid to late Nov	Monetary Policy Report Q3 2024	PBOC	Monitor the implementation outcomes of the three newly added monetary instruments
12/19/2024	The Fed, the Bank of Japan, and the Bank of England are scheduled to meet	Central banks	Monitor closely if central banks continue to cut interest rate
Mid to early Dec	**2024 Central Economic Work Conference**	**Political Bureau of the CPC Central Committee**	**Monitor the narrative used to describe the current economic conditions**
Dec	**Meeting of the Political Bureau of the CPC Central Committee**	**Political Bureau of the CPC Central Committee**	**Monitor closely the continuity and innovation of economic policies**
Late Dec	2024 National Financial Work Conference	Minister of Finance	Monitor the progress and strength of debt dissolution
2025			
Jan	Issuance of China's No. 1 Central Document for 2025	CPC Central Committee and the State Council	Monitor issues related to agriculture, rural areas, and farmers
Jan	**Local government level Two Sessions**	**Local People's Congresses and Political Consultative Conferences**	**Monitor the directions of key local policies**
Mid-Jan	World Economic Forum 2025 (Davos)	WEF	Monitor speeches by key global leaders
1/20/2025	**The inauguration day of the 47th President of the United States**	**-**	**Monitor geopolitics, tariffs, and industrial policies**
1/28/2025	Federal Open Market Committee (FOMC) meeting	Fed	Monitor the sustainability of interest rate cuts
Feb	Monetary Policy Report Q4 2024	PBOC	Monitor the implementation of previous monetary policy cycle subsequent deployment
Around Mar	**Report on the Implementation of China's Fiscal Policy in 2024**	**Minister of Finance**	**Monitor the progress and strength of debt dissolution**
Around Mar	**The National Two Sessions**	**National People's Congress and National Committee of the Chinese People's Political Consultative Conference**	**Monitor the review of the "14th Five-Year Plan" and the planning of the "15th Five-Year Plan".**
3/18/2025	FOMC meeting	Fed	Monitor the sustainability of interest rate cuts
3/25/2025	Boao Forum for Asia 2025	-	Monitor speeches by leaders
5/6/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
May	Monetary Policy Report for Q1 2025	PBOC	Monitor the implementation of previous monetary policy cycle subsequent deployment
6/17/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
7/29/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
August	Monetary Policy Report for Q2 2025	PBOC	Monitor the implementation of previous monetary policy cycle subsequent deployment
9/16/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
10/28/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
November	Monetary Policy Report for Q3 2025	PBOC	Monitor the implementation of previous monetary policy cycle subsequent deployment
November	G20 Summit (South Africa)	-	Monitor the agenda of the summit meetings and related industries
12/9/2025	FOMC meeting	Fed	Monitor the impact on the global liquidity environment
End of 2025	Hainan: Island-wide closure operation	General Administration of Customs	Monitor trade policies, household consumption, and cross-strait relations

Source: CICC, as of November 2024.

Asset Allocation Strategies and Investment Themes

Growth stocks typically outperform value stocks during periods of incremental economic improvement and abundant liquidity. However, as discussed, we expect the market to experience sector and investment rotations as domestic policies are implemented gradually, amidst a highly uncertain external environment. In addition, the effects of these policies will take time to be felt in the consumption and property sectors. Growth stocks, thematic investment, and high-dividend value stocks may also deliver returns.

To manage market volatilities and capture diversified opportunities, we will adopt a relatively balanced allocation strategy:

- Overall, we will increase our exposure to growth stocks, particularly in technology sectors such as semiconductors, consumer electronics, and new energy.
- Biopharmaceuticals offer further opportunities for individual stock investments, where we will focus on generating alpha.
- Market expectations for the consumer sector are currently very low. However, we expect this sector will experience a recovery in the second half of the year as the economy improves.
- For the high-dividend value sector, we will continue to seek investment opportunities in companies that have addressed overcapacity issues, improved cash flow (as competition subsidizes), and prioritized shareholder returns.

At the same time, we are closely monitoring potential headwinds, such as the shorter-than-expected sustainability of China's policies and the deterioration of Sino-U.S. relations.

Global bond markets

2024 Market Review

Global fixed income markets have maintained relatively positive momentum despite volatility in 2024. With a stronger-than-expected U.S. economy, the beginning of a Fed rate-cutting cycle, and Donald Trump's return to power, equities have generally outperformed bonds and commodities.

U.S. Treasury yields have fluctuated at elevated levels, while credit spreads have narrowed to their lowest levels in the past decade. As of the end of November, the Bloomberg Global Investment Grade Bond Index and the J.P. Morgan Asia Credit Core Index have increased by 0.46% and 7.14%, respectively.

Chart 17: Performance of Global Bond Markets

Index	2020	2021	2022	2023	2024 1H	Since November 2024	2024 YTD
Chinese USD High Yield	9.4%	-33.3%	-33.3%	-20.5%	0.0%	20.2%	18.6%
Asian High Yield Bonds	6.2%	-17.5%	-21.8%	4.8%	0.5%	16.7%	15.7%
US High Yield Bonds	6.2%	5.4%	-11.2%	13.4%	1.6%	9.2%	8.7%
European Investment Grade Bonds	7.8%	-1.9%	-14.8%	7.9%	0.7%	7.2%	4.9%
Chinese USD Investment Grade	6.9%	-3.6%	-18.8%	10.9%	1.2%	6.7%	6.0%
Emerging Market Corporate Bonds	7.1%	-3.1%	-12.6%	7.2%	0.6%	5.9%	7.0%
Asian USD Bonds	6.6%	-0.2%	-9.9%	6.8%	0.6%	5.9%	5.9%
European High Yield Bonds	2.8%	-0.8%	-16.4%	8.3%	2.3%	5.4%	4.7%
Emerging Market Sovereign Bonds	9.5%	-1.6%	-18.3%	16.4%	-1.2%	4.9%	6.2%
US Investment Grade Corporate Bonds	9.8%	-1.0%	-15.4%	8.4%	1.2%	4.6%	4.6%
US Treasury Bonds	8.2%	-2.4%	-12.9%	3.9%	0.5%	1.9%	2.2%
Developed Market Sovereign Bonds	9.3%	-6.9%	-18.0%	3.6%	-0.2%	-2.0%	-1.4%

Source: Bloomberg, as of December 2024.

Looking back at 2024, macroeconomic developments have largely exceeded investor expectations set at the beginning of the year. U.S. GDP growth once again surpassed 2.5%. The Fed postponed its first rate cut, which had been expected in March, until September. Trump and the Republicans won the U.S. election in a landslide.

Among developed markets, most central banks followed the Fed in cutting interest rates, except for the Bank of Japan. However, unexpected political and fiscal uncertainties have held back economic growth in Europe.

Emerging economies have generally shown strong growth momentum, with election results in many countries aligning with expectations. However, the anticipated recovery of China's economy has yet to materialize. On the positive side, declining global inflation and the onset of rate-cutting cycles have convinced most investors that the U.S. and the world may navigate the current economic cycle with a soft landing or even no landing at all. However, the changes the world is going through make it difficult for the macro environment to be smooth next year.

2025 Market Outlook

Looking ahead, both macro economies and financial markets are facing heightened uncertainties in 2025. A new wave of tariffs imposed by the Trump administration is expected to pose increasing challenges to global inflation and economic growth. In the meantime, ideological shifts in Europe and the U.S. are presenting greater political risks. Additionally, China's economy may face intensified pressures both domestically and internationally in the coming year. As we navigate the path of deglobalization, we should expect increased market volatility and heightened tail risks.

U.S. Economy and Policies

Enhanced productivity and resilient consumption fueled stronger-than-expected economic growth in the U.S. in 2024. Over the next two quarters, the U.S. economy is expected to remain robust, driven by a surge in labor hoarding and inventory stockpiling in response to Trump's immigration and trade policies.

Overall, we expect U.S. economic growth to slow to 1-2% in 2025. The Trump administration's plans to ease regulations and lower taxes may partially offset the negative impacts of stricter immigration policies and higher trade tariffs. Investment growth is also expected to decelerate.

In the labor market, we foresee a gradual increase in the unemployment rate, though the chances of a short-term collapse remain slim, given the low levels of layoffs and recruitment.

Our base case outlook expects the U.S. to begin imposing 40%-60% planned tariffs on China by mid-2025, which may create supply shocks and lead to recurrent reflation trades.

On U.S. policies, we expect the Fed to maintain its independence while closely monitoring employment and financial market performance. In our base scenario, the Fed is likely to gradually slow its pace of rate cuts, bringing the interest rate down to approximately 3.74~4% by the end of 2025. Given signs of tightening in short-end liquidity at the end of Q3 2024, we expect the Fed to halt its balance sheet reduction by Q2 2025.

We expect the fiscal deficit will remain manageable in 2025, especially considering the background of the new Secretary of the Treasury and the expiration of the Tax Cuts and Jobs Act (TCJA). Consequently, we expect the supply of Treasuries to remain stable over short term.

Chart 18: Global Interest Rate Policies

Index	Mexico	Chile	Hungary	Poland	South Korea	India	Indonesia	Thailand	Brazil
Current police stance	Cutting	Cutting	Cutting	Cutting	Cutting	On hold	Cutting	Cutting	Hiking
Current policy rate(%)	10.25	5.25	6.5	5.75	3.25	6.5	6	2.25	12.25
number of cuts	4	10	11	2	1	0	1	1	3
highest policy rate during this cycle	11.25	11.25	13	6.75	3.5	6.5	6.25	2.5	10.5
YE policy rate (%)	10	5	6.25	5.75	3.25	6.5	5.8	2.25	12.25
Remaining cuts this year (bp)	25	25	25	0	0	0	20	0	0
2024 Forecasted Real GDP (YoY%)	1.5	2.4	0.7	2.8	2.2	6.8	5	2.6	3.1

Index	Canada	Eurozone	UK	Australia	US	Japan
Current police stance	Cutting	Cutting	Cutting	On hold	Cutting	Hiking
Current policy rate(%)	3.75	3.4	4.75	4.35	4.75	0.25
number of cuts	5	3	2	0	2	2
highest policy rate during this cycle	5	4.5	5.25	4.35	5.5	-0.1
YE policy rate (%)	3.5	3.15	4.75	4.3	4.5	0.4
Remaining cuts this year (bp)	25	25	0	5	25	-15
2024 Forecasted Real GDP (YoY%)	1.1	0.8	1	1.2	2.6	0

Source: Bloomberg, as of December 2024.

U.S. Treasury Market

We anticipate that U.S. Treasuries will remain volatile in 2025. With the "Trump Trade" prevailing, Treasuries have sufficiently priced in a Trump victory. Yields on Treasuries, however, are likely to fall in the short term as market expectations materialize. In the medium to long term, as the Federal Reserve begins to cut interest rates, yields on the 2-year Treasury are expected to drop below 4%, limiting further upward potential. However, the current market share of U.S. Treasury bonds held by the Federal Reserve, large banks and foreign government agencies has fallen to the lowest level since 1997, and the investor structure has gradually shifted to price-sensitive investors. This trend is expected to continue in 2025. Given the market's heightened expectations for long-term inflation, we may see steep yield curves and higher yields on medium- and long-term U.S. Treasuries.

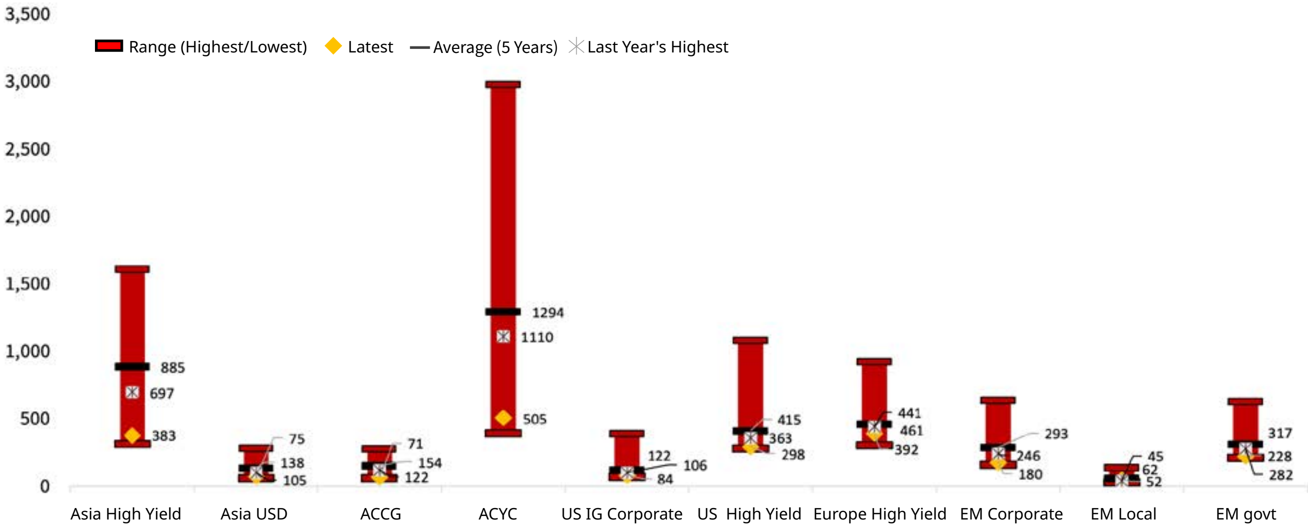
Trump's "America First" policies will expose non-U.S. economies to significant challenges in 2025. Most developed and emerging economies have already entered their rate-cutting cycles ahead of the U.S., yet a strong dollar may limit their scope for further rate cuts. Fiscal deficits and high government debt remain major headwinds for emerging markets. Europe is expected to face substantial internal and external challenges next year. European countries may be forced to increase military spending due to U.S. tariff pressures, which could undermine fiscal consolidation plans and widen sovereign credit spreads. While the odds of another financial crisis are low, we expect the European Central Bank to cautiously maintain a fast pace of rate cuts. Additionally, the rise of right-wing governments could add more uncertainties to EU political stability and cooperation.

Corporate bonds

Corporate bonds continued to outperform treasuries in 2024, with credit spreads narrowing significantly across most sectors and valuations approaching the highest levels seen in the past 10 years. However, yields on corporate bonds remain attractive, which has been a primary driver behind the narrowing spreads.

Despite a surge in new bond issuance in 2024, the massive supply was fully absorbed due to robust capital inflows and increased holdings by overseas investors. We expect this trend to continue in 2025, although net supply may decrease as more bonds mature. The reduction in net supply could trigger a recovery in the yield curve, attracting more inflows into credit. While credit spreads may remain volatile at low levels in the short term, we expect a potential increase in the medium term. Once long-term interest rates rise further rapidly, a tightening of financial and credit conditions, or any black swan events may lead to a sharp drop in interest rates, a substantial widening of credit spreads (especially in the high-beta sector) and ultimately a decline in bond prices.

Chart 19: Valuations of Overseas Bonds



Source: Bloomberg, as of December 2024.

Country allocation: While the current valuation of investment-grade Chinese USD bonds is relatively high, it enjoys sufficient technical support and low correlations with other sectors. We expect increasing exposure to Chinese issued-USD bonds amidst high macroeconomic risks would be a good strategy for lowering overall portfolio risks in 2025.

U.S. investment-grade issuers have maintained healthy leverage ratios while achieving steady profit growth. However, we take a neutral stance on their bonds and remain cautious about potential risks related to mergers and acquisitions and growing leverage in certain cyclical industries.

We favor a neutral to underweight position on European bank bonds, as their valuation has dropped relative to U.S. bank bonds, coupled with relatively weak economic fundamentals in European countries.

Emerging markets performed well in 2024 but face strong headwinds in 2025. If global trade tensions and geopolitical conflicts intensify, emerging markets could become more vulnerable to external shocks, but there are large differences in resource endowments and domestic demand among different countries. We are cautious towards emerging markets (excluding China), with the exception of certain Middle East and Latin America countries that are well-positioned to benefit from the transformation of commodity supply chains.

Industry allocation: The fundamentals of the financial sector have improved as global regulations tightened, and current valuations still offer price advantages to non-financial sectors. With investor expectations that regulations will ease if Trump returns to office, we expect the financial sector to deliver stable and attractive returns in 2025. At the same time, we advise caution when it comes to interest-rate-sensitive bonds, such as reset bonds with low coupon rates and long-term AT1s, which tend to be more volatile in response to rising interest rates. Among non-financial sectors, we favor defensive sectors like utilities, infrastructure projects, and domestic energy.

In general, with less than a 20% contribution to static yield from macro risks and current credit spreads, we are not betting on excess capital returns generated by narrowing credit spreads or lower credit profiles. Instead, we are focusing on certain short-duration high-yield bonds to enhance overall portfolio returns.

We are neutral towards bond duration. We may extend duration if the yield on 10-year A-grade bonds rise above 5.5%, or shorten duration if the yield dips below 4.7%, capturing range-bound trading opportunities.

We expect bond coupons will remain the key driver of investment returns in 2025. As we aim to ensure adequate liquidity and high diversification in our portfolio, we will seek to potential investment opportunities as interest rates fluctuate and sectors rotate.

Risk warning: intensified geopolitical conflicts, reflation risks in the U.S., and faster-than-expectation deglobalization.

RMB markets

2024 Market Review

In 2024, RMB yields entered a "bullish steepening" phase, marked by a downward steepening of both Chinese government bonds yields and swap rates. Unlike the bull flattener observed in 2023, the short end of the yield curve declined more gradually, while the long end was influenced by the PBOC's direct interventions and its market guidance to rural and urban commercial banks. The key drivers behind the yield curve in 2024 were accommodative monetary policy and weak economic fundamentals, with limited negative impact from the increase in fiscal bond supply.

The PBOC continued to cut the RRR and interest rates in a measured manner in 2024. Compared with the previous year, short-term repo rates remained largely flat, while medium- and long-term rates -- including medium-term lending facility (MLF) and LPR -- were significantly lowered, partly to align more closely with market rates. On a macro level, deflationary pressure continued to threaten economic growth. Although inflation stabilized and both imports and exports showed modest improvements, a clear turning point has yet to materialize, and there has been little meaningful impact on the market so far.

2025 Outlook

Monetary policy is expected to remain accommodative in 2025. With the possibility of even large cuts if necessary. Benchmark rates and market liquidity are likely to replace the MLF as the anchor of the new yield curve.

On the fiscal front, we suggest closely monitoring developments around special government bonds and consumption stimulus measures during high-level meetings, such as the Political Bureau of the CPC Central Committee and the Central Economic Work Conference in December 2024, as well as the Two Sessions in March 2025.

We expect that next year will still be a bullish year for bonds, and the interest rate curve will be steeper. There may be increased uncertainties and volatilities in the first quarter of 2025 before Trump assumes office and the Two Sessions kick off. Trade tariffs and the strategic competition between China and the U.S. -- including the pace of the Fed's rate cuts and China's fiscal policy implementation -- will be key trading themes for 2025.

Interest rates in China are likely to continue trending downward, especially over the next five years. We forecast the 10-year government bond yield to fall within the range of 1.7% to 1.9% by the end of 2025, reflecting a decline roughly in line with anticipated rate cuts. However, more forceful fiscal stimulus in the first half of 2025 and improved economic fundamentals in the second half could push interest rates higher, creating potential buying opportunities in China's government bonds.

The long-end yield on offshore Dim Sum bonds has aligned with onshore bonds, but offshore bonds offer an average yield that is 30-40bps higher. This makes offshore Dim Sum bonds more attractive in a rate-cutting cycle in 2025, as they tend to perform better during market rebounds. This provides a better opportunity to add to the position.

In 2024, the USD/CNH swap rate curve tracked the spot rate closely, and both remained highly volatile. The 1-year hedging cost fluctuated between 1.7% and 2.7%, with a volatility rate of around 1%, while the 3-month hedging cost ranged from 1% to 3.8%, with a slightly lower volatility rate of around 3%. The main reason is that the central bank has tightened liquidity to prevent arbitrage, and the market, especially hedge funds, have already deployed spot and swap upward positions in advance through spot and options in the past two years. Compared to August and September 2023, spot volatility became the main driver of the swap rate in 2024, while the impact of U.S-China interest rate differential diminished, even occasionally moving in the opposite direction.

The USD/CNH spot rate saw significant fluctuations in 2024, rising from 7.1260 at the start of the year to a peak of 7.3070, before falling back to 6.9730, representing a change of up to 3350 percentage in points (pips). Similar to 2023, the RMB appreciated against a basket of currencies. In some cases, the RMB even appreciated alongside the U.S. dollar index. These trends suggest that the market was primarily driven by the U.S. dollar in most cases. The Chinese stock market rallies in September and October had little impact on the exchange rate; instead, the US dollar index and interest rates were more influential during this period. Among Asian currencies, the RMB has shown more resilience than Japanese yen, South Korean won and the Taiwan dollar.

The China-U.S. power competition will be the central theme of 2025. Uncertainties in China's economy include the issuance of special government bonds, the release of consumption stimulus, central government's special refinancing bonds, and the outcomes of supportive economic policies. In the U.S., the Fed's rate-cutting pace, Trump's China policy, and potential geopolitical risks are critical uncertainties that investors should monitor closely.

International financial institutions are generally more pessimistic about the CNH, with many forecasting a spot exchange rate of 7.5, citing tariffs as the major risk. In contrast, we remain relatively optimistic and expect the spot rate to reach 7.15, based on the assumption that China may introduce responsive policies as the U.S. enters its rate-cutting cycle.

We also expect the USD/CNH swap rate to fluctuate in line with the spot rate. As both China and the U.S. enter their rate-cutting cycles, the interest rate differential will no longer be the main driver of the swap rate. Even with consideration of the interest rate differential, the volatility of the USD/CNH swap rate is expected to remain around 30bps, or less than 300 pips over the course of one year, which is less impactful than liquidity conditions.

2025 Digital Asset Outlook: Development Opportunities for Hong Kong Virtual Asset ETFs and RWA Tokenization

The year 2025 will mark a significant chapter in the evolution of digital assets. Hong Kong, renowned for its dynamic financial ecosystem and progressive regulatory framework, is uniquely positioned to lead in two transformative areas: virtual asset exchange-traded funds (ETFs) and the tokenization of Real World Assets (RWAs). With Bitcoin achieving the status of the 8th largest global asset and tokenization redefining traditional finance, Hong Kong stands at the crossroads of opportunity and innovation. This report explores how these developments can shape Hong Kong's financial future, emphasizing opportunities, challenges, and practical applications.

Bitcoin as a Global Asset and Market Leader

Bitcoin's evolution into a global financial asset highlights its growing mainstream acceptance and maturity. As shown in Figure 1, Bitcoin ranks 8th in market capitalization, surpassing traditional commodities like silver with a market capitalization of HK$1.76 trillion. This rise highlights Bitcoin's evolution from a speculative asset to a widely accepted digital store of value.

Chart 20: Top Assets by Market Cap

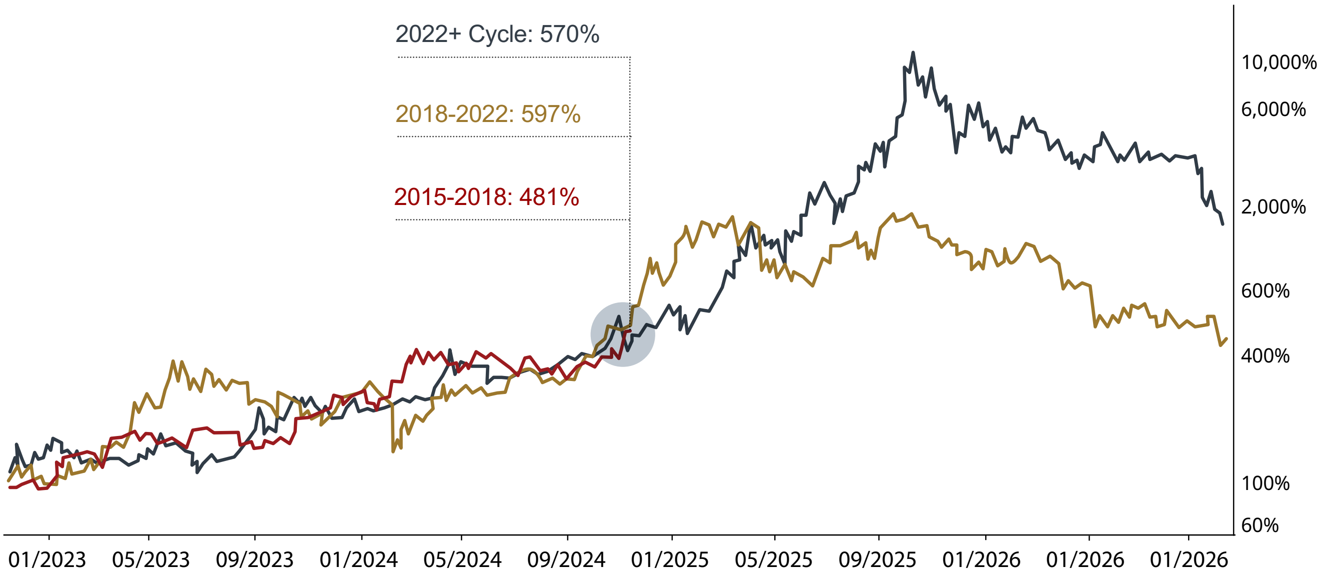
	Name	Market Cap	Price	Today	Country
1	Gold	HK$17.530T	HK$2.610	-0.28%	
2	NVIDIA	HK$3.563T	HK$145.26	-1.61%	USA
3	APPLE	HK$3.389T	HK$224.23	-1.20%	USA
4	MICROSOFT	HK$3.107T	HK$418.01	-1.07%	USA
5	Alphabet (Google)	HK$2.216T	HK$181.97	1.17%	USA
6	Amazon	HK$2.174T	HK$206.84	-0.64%	USA
7	Saudi Aramco	HK$1.797T	HK$7.43	-0.53%	S. Arabia
8	**Bitcoin**	**HK$1.760T**	**HK$88.901**	**9.61%**	
9	Silver	HK$1.716T	HK$30.50	-0.3%	

Source: Companies Market Cap, as of November 2024

1) Cyclical Performance

Bitcoin prices have the market characteristics of cyclical fluctuations. According to past historical experience, Bitcoin has a four-year cycle, with the largest increases of 481% and 597% recorded in 2015-2018 and 2018-2022 respectively and is currently in a new cycle. With the stabilization of the macroeconomic environment and the increasing allocation to Bitcoin, historical experience supports the potential for Bitcoin's growth in 2025.

Chart 21: Bitcoin: Proce Performance Since Cycle Low



Source: Glassnode›as of December 2024.

2) Institutional Adoption

The introduction of Bitcoin spot ETFs has solidified its position in traditional finance in Hong Kong. These products provide a regulated and efficient way for institutional investors to gain exposure to Bitcoin, enhancing its liquidity and bolstering confidence in its role as a hedge against macroeconomic uncertainties.

3) Opportunities for Hong Kong

Hong Kong's proactive regulatory framework positions it as a leader in virtual asset ETFs. With clear guidelines from the SFC, issuers such as ChinaAMC (HK) can capitalize on Bitcoin's market potential by offering institutional-grade products that appeal to both retail and institutional investors.

Real-World Asset Tokenization: A Transformative Opportunity

Tokenization of RWAs is emerging as a groundbreaking innovation, allowing physical assets such as real estate, green bonds, and private equity to be represented digitally on blockchains, unlocking new levels of liquidity and accessibility.

1) Background and Global Trends

The global trend toward tokenizing RWAs is driven by advancements in blockchain technology and increasing demand from institutional investors. In 2023, Hong Kong issued the world's first tokenized green bond, showcasing the potential for blockchain to streamline settlement processes, reduce costs, and improve transparency. Regulatory support from entities like the SFC and MAS is further legitimizing tokenized assets.

2) Benefits for Hong Kong's Financial Ecosyste

- **Liquidity**: Tokenization allows assets to be divided into smaller, tradable units, making high-quality investments more accessible. This is particularly beneficial for pension funds and retail investors.
- **Transparency**: Blockchain's immutable records provide investors with greater visibility into asset performance and risk, fostering trust and reducing uncertainties.
- **Portfolio Diversification**: Fractional ownership allows investors to diversify across multiple asset classes, including alternative investments previously reserved for institutional players.

The Institutionalization of Digital Assets

The increasing adoption of Bitcoin and Ether spot ETFs and the emergence of tokenized RWAs are bringing digital assets into the financial mainstream.

1) Growing Asset Flows

Virtual assets spot ETFs have lowered barriers for institutional and retail participation, boosting liquidity and enhancing market stability. Similarly, tokenized RWAs provide a gateway for institutional investors to explore alternative assets while benefiting from blockchain's efficiency.

2) Mainstream Financial Integration

Prominent exchanges and custodians in Hong Kong, including SFC-licensed platforms, are embedding digital assets within traditional financial systems. This integration fosters cross-border collaborations, positioning Hong Kong as a critical player in the global digital asset ecosystem.

3) US Landscape

US President-elect Donald Trump proposed to establish Bitcoin reserves, where 200,000 BTC would be purchased annually for the next five years, funded by selling gold from the Federal Reserve. With an annual Bitcoin supply of around 164,425 BTC (calculated as 450 BTC per day multiplied by 365), this plan could absorb the entire new supply each year. This would likely create a favorable price trend for Bitcoin in both the medium and long term due to the reduced supply available in the market.

Technological Innovations Driving Growth

Technological advancements are addressing key challenges in scalability, interoperability, and user experience, ensuring the digital asset ecosystem evolves in tandem with market demands.

1) Ethereum and Blockchain Scaling

Ethereum's Layer-2 scaling solutions, such as Arbitrum, are reducing transaction costs and increasing transaction speeds, critical for expanding decentralized finance (DeFi) applications. These improvements also facilitate the tokenization of RWAs, reinforcing Ethereum's foundational role in blockchain innovation.

2) Cross-Chain Interoperability

Interoperability solutions enable seamless movement of tokenized assets across different blockchain networks. Ethereum's widespread adoption of standards like ERC-20 ensures compatibility with other chains, fostering collaboration and innovation.

3) Real-Time Settlement

Blockchain's ability to enable real-time settlement reduces counterparty risks and enhances efficiency, particularly in tokenized RWA markets. This capability is attractive to institutional investors, providing them with greater control and transparency.

The Challenges on the Horizon

The road ahead is not without challenges, and addressing these is critical for sustained growth.

1) Market Volatility

Bitcoin's price volatility remains a barrier for some investors. Diversifying into tokenized RWAs with stable income streams can mitigate these concerns and attract a wider audience.

2) Regulatory Uncertainty

Fragmented regulations globally can hinder cross-border adoption of digital assets. Hong Kong's leadership in establishing clear guidelines can set a benchmark for other markets to follow.

3) Sustainability Concerns

Bitcoin's Proof-of-Work (PoW) mechanism has drawn criticism for its environmental impact. Greater adoption of renewable energy and innovation in consensus algorithms are essential for long-term viability.

Opportunities in 2025

As the digital asset ecosystem matures, several key opportunities emerge for Hong Kong:

- **Hybrid Product Development:** Combining tokenized RWAs with virtual asset ETFs creates innovative products catering to diverse investor needs.
- **Institutional Growth:** The increasing adoption of Bitcoin ETFs and RWAs bridges the gap between traditional finance and blockchain-based systems.
- **Regional Leadership:** Hong Kong's infrastructure, coupled with forward-thinking policies, positions it as a leader in the Asia-Pacific region for digital asset innovation.

Conclusion

The integration of virtual asset ETFs and RWA tokenization provides Hong Kong with an opportunity to strengthen its role in digital finance. With its established regulatory framework, robust financial infrastructure, and market expertise, Hong Kong is well-positioned to attract institutional investment and foster innovation. These developments can establish the city as a leading center for growth in digital assets. Looking ahead to 2025, this convergence has the potential to reshape the financial ecosystem, making it more accessible and efficient for a wide range of investors.

About ChinaAMC (HK)

Established in 2008, China Asset Management (Hong Kong) Limited ("ChinaAMC (HK)") is a leading Chinese asset manager in Hong Kong. The company is a wholly owned subsidiary of China Asset Management Co. Limited, one of the trusted asset managers and largest ETF provider in Mainland China with over USD 340 billion in assets under management as of September 30, 2024.

ChinaAMC (HK) has amassed an impressive performance history in both active and passive investments over the past 16 years. Boasting robust expertise in a variety of asset classes, such as Greater China equities, Asian and global fixed income, and global ETF suite, ChinaAMC (HK) adopts a global outlook to build a versatile platform catering to institutional and retail investors in the region and worldwide. Committed to innovation and growth in the financial sector, ChinaAMC (HK) is actively expanding into the Web 3.0 space, change this whole to all while envisioning "Beyond China Expert".

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Active Strategies		
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Global Multi Asset		
• Global Multi Income Fund		

Global ETF Suite		
Greater China Equity	**Asia Equity**	**Global Equity**
• CSI 300 ETF • MSCI China A50 Connect ETF • HSI ESG ETF • Hang Seng Tech ETF • Hang Seng Hong Kong Biotech Index ETF	• MSCI India ETF • Japan Hedged to USD ETF • Asia High Dividend ETF • Asia USD Investment Grade Bond ETF	• NASDAQ 100 ETF • Europe Quality Hedged to USD ETF
Fixed Income & Money Market	**Leveraged & Inverse**	**Crypto Asset**
• 20+ Year US Treasury Bond ETF • Asia USD Investment Grade Bond ETF • RMB Money Market ETF	• NASDAQ 100 Daily (2x) Leveraged • NASDAQ 100 Daily (-2x) Inverse	• Spot Bitcoin ETF • Spot Ether ETF

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- Best China Fund House - Hong Kong
- Global Aggregate Bonds (3 years)

Insights&Mandate
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- Performance Awards - Asian Bond (3 Years)
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China Securities Journal
8th Overseas Golden Bull Fund Awards
- One Year China Fixed Income Fund

Fund Selector Asia
Fund Awards Hong Kong 2024
- ETF House of the Year
- Greater China/China Equity- Platinum

Bloomberg Businessweek
Top Fund 2023
- Fixed Income (1 year)- RMB Bond - Outstanding Performer
- Equity (5 years) - China - Best Performer
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BENCHMARK
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- Top Fund - Mutual Fund - Global Fixed Income - Best-in-Class

Source: China Securities Journal, 8th Overseas Golden Bull Fund Awards, as of December 5, 2024; The Asset Triple A Sustainable Investing Awards 2024: The Asset, data as of May 2, 2024; LSEG Lipper Fund Awards 2024: LSEG, data as of May 10, 2024; Insights&Mandate Professional Investment Awards 2024: Insights&Mandate, data as of March 1, 2024; Asia Asset Management Best of the Best Awards 2024: Asia-Pacific Media Limited, data as of January 30, 2024; Fund Selector Asia Fund Awards Hong Kong 2024: Fund Selector Asia, data as of January 30, 2024;Bloomberg Businessweek Top Fund 2023: Bloomberg Businessweek, data as of March 27; BENCHMARK Fund of the Year Awards 2023: BlueOnion, data as of January 20.

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