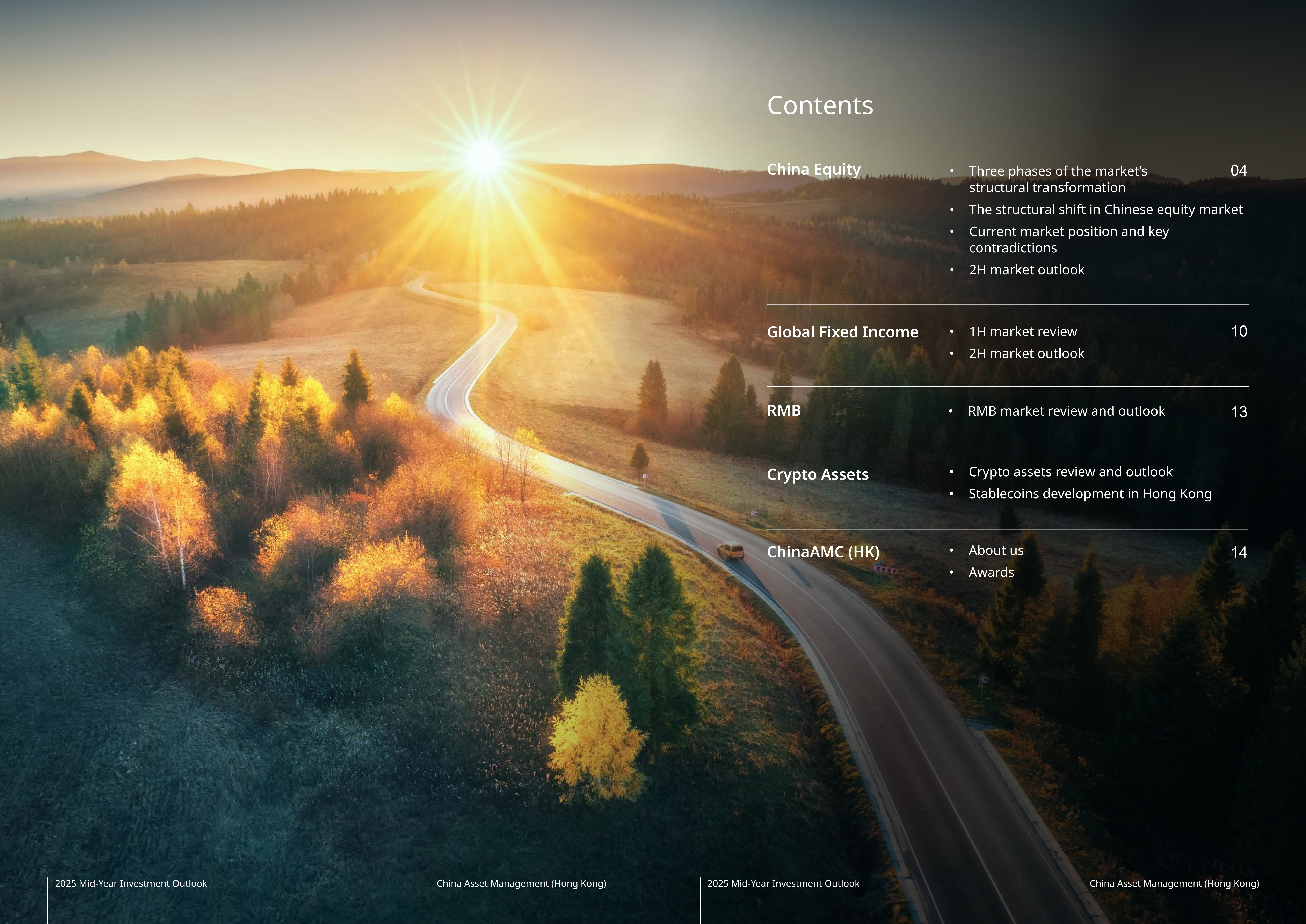
ChinaAMC(HK)

2025

Mid-Year Investment Outlook



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2025 Mid-Year Investment Outlook China Asset Management (Hong Kong)

China Equity

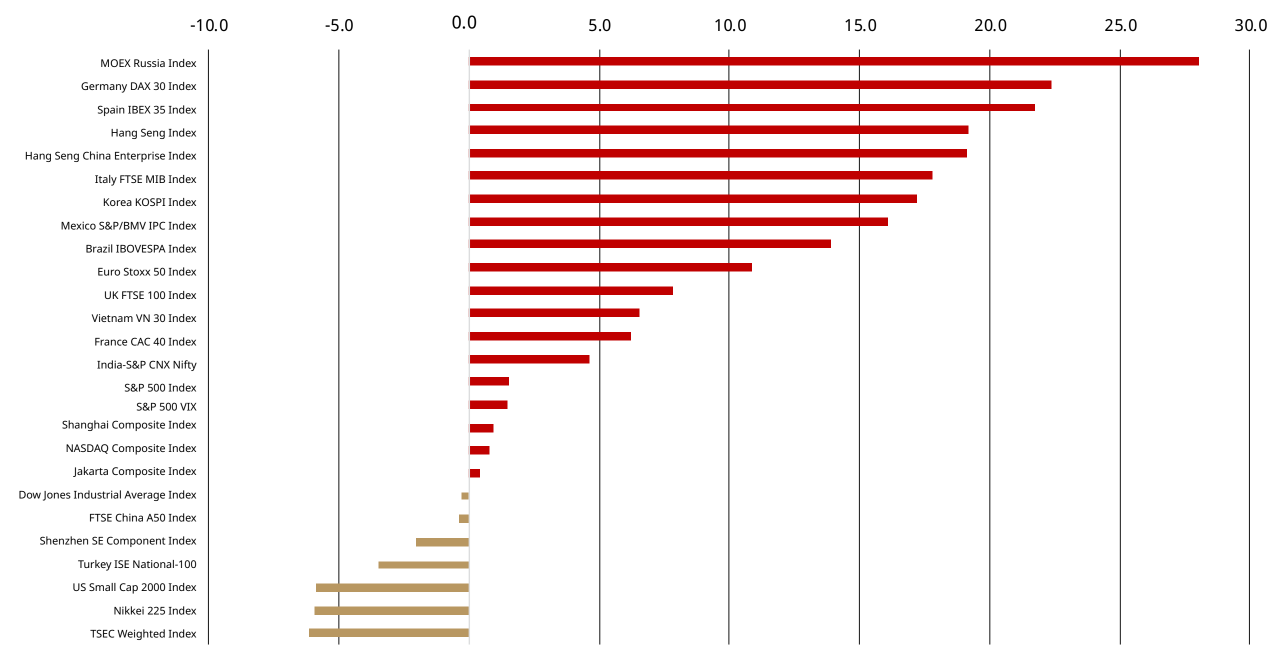
China's equity market underwent an adjustment phase that lasted from 2022 through the third quarter of 2024. During this period, the performance of Chinese equities consistently lagged behind global benchmarks. Entering 2025, as of June 5, China's stock market has shown notable improvement. Hong Kong equities are among the top performers globally, with the Hang Seng Index rising by 19.2%. While A-shares have underperformed relative to Hong Kong stocks, the Shanghai Composite Index has still recorded a modest gain of 1%.

In our view, China's equity market has entered a structural transformation phase since September 2024, with the overall trend now shifting toward a volatile upward trajectory. This transformation has been primarily driven by the following three factors:

1. Around September 2024, China's fiscal policy underwent a directional shift, coordinating with monetary, financial market, and sectoral regulatory measures to provide robust underpinning for the economy and equity markets.
2. Despite facing U.S. technology containment measures, China has made notable advancements in areas such as artificial intelligence, biotechnology, and new energy vehicles, indicating that it has kept pace with global technological progress.
3. During periods of market panic, the Chinese government has intervened with stabilizing capital to prevent the formation of a negative feedback loop driven by pessimistic expectations, thereby effectively bolstering investor sentiment and confidence.

Despite the occurrence of black swan events, such as the recent U.S. "reciprocal tariffs", tariff-related issues and geopolitical events are viewed as temporary catalysts. The three core factors outlined above continue to be the primary drivers of China's equity market performance.

Chart 1: Performance of major global stock indices in 2025 (YTD)



Source: Investing, as of June 5, 2025

Three phases of the market's structural transformation

Phase One — September 2024 – January 2025

On September 24, 2024, the Chinese government announced a series of industry-related policies, including fiscal expansion (increased government leverage), monetary easing (interest rate cuts), real estate regulatory adjustments, and the deployment of market stabilization funds. These policies provided support for the Chinese economy and significantly eased investor concerns. The government further restored investor confidence and triggered a strong rebound in Chinese equities by injecting stabilizing capital into the market, which helped break the negative feedback loop of "decline – pessimism – selling – further decline".

Subsequently, the market entered a consolidation phase, partly because the tangible impact of these policies on the economy remained to be seen. Additionally, with Donald Trump's election victory and the gradual formation of his new administration, concerns emerged over the potential escalation of U.S.–China tensions, such as new trade conflicts or coordinated restrictions on China by the U.S. and its allies.

Phase Two — Mid-January – Early April 2025

Mid-January: Trump invited China's leader to attend his inauguration, raising expectations of a short-term thaw in U.S.–China relations and driving a market rebound.

Late January to Lunar New Year: Two major events boosted sentiment:

1. In late January, the domestic AI foundation model DeepSeek gained global attention and acclaim.
2. During the holiday season, the film Nezha 2 saw both critical and commercial success.

These two events prompted a reassessment of China's capabilities in technological innovation and consumer product development among global investors, thereby triggering a revaluation of Chinese tech assets.

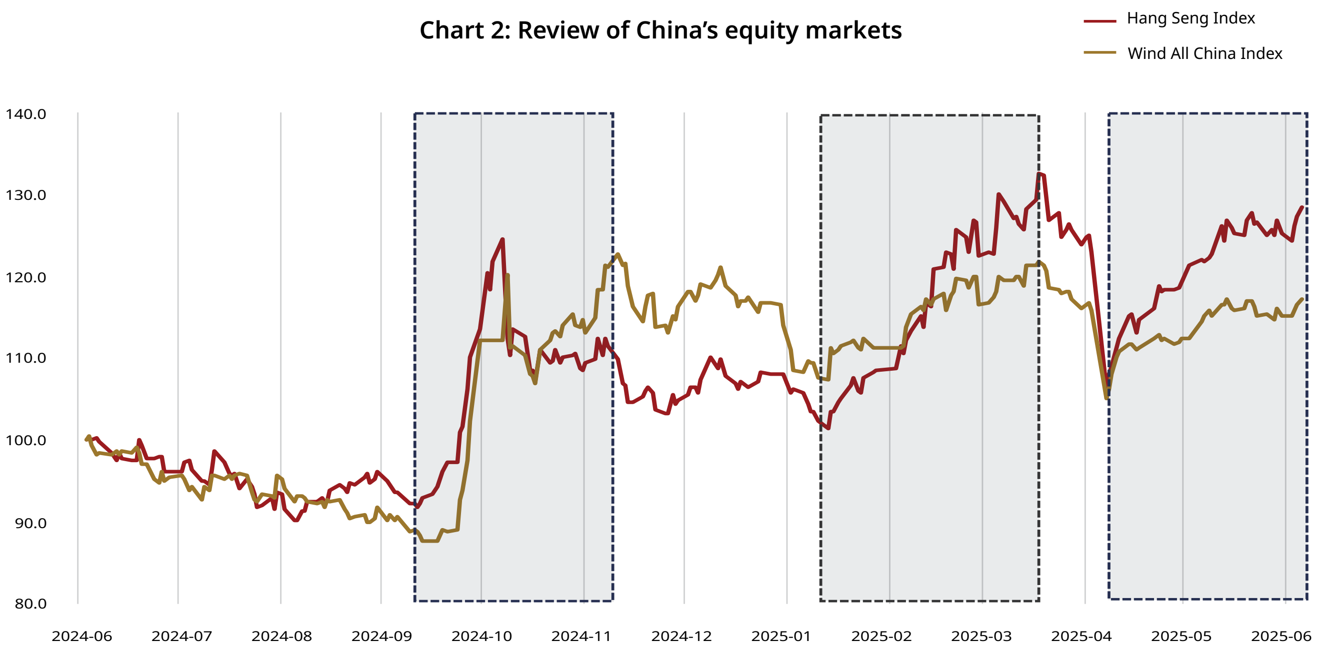
March: The market displayed a "rally followed by correction" pattern:

- Early March: Consumption subsidies and improved economic expectations led to better macro data. Sales growth in subsidized consumer goods accelerated, and second-hand home prices and transactions began recovering month-on-month.
- Late March: Market volatility resumed amid the impact of Trump's proposed "reciprocal tariffs."
- April 2: The actual tariff levels exceeded expectations, prompting a sharp global market sell-off.
- Following this, Trump paused the application of tariffs to countries other than China, while the Chinese government intervened with stabilization capital, helping the market rebound from April 9 onward.

Phase Three — Mid-April to present
(Characterized by a choppy upward trend in China's stock market)

- First, investors have increasingly realized that Trump's policy declarations are inconsistent and unreliable. As a result, the market's sensitivity to "tariff" headlines has diminished. More importantly, global investor confidence in U.S. dollar assets has begun to shift, with capital flowing from U.S. to non-U.S. markets—providing a degree of support to Hong Kong equities.
- Second, Trump has started pursuing trade negotiations with China and other countries, with talks with China commencing in early May. These developments eased fears of an extreme tariff-based trade war and contributed to the market rebound.
- Third, recent data on China's new consumer names and the international licensing of innovative biopharmaceuticals have confirmed the country's progress in global technological advancement and underscored continued strength in consumer product innovation. However, at the same time, the domestic real estate recovery has slowed, inflation remains subdued, and concerns over weak internal economic momentum and deflation persist. As a result, investors have favored high-dividend sectors such as banking, as well as high-prosperity sectors including new consumer and biotechnology. The market has shown a clear preference for thematic investing.

Chart 2: Review of China's equity markets



Source: Wind, China Asset Management (Hong Kong), as of June 5, 2025

A structural shift has occurred in Chinese equity market

Historical experience over the past two decades shows that the most fundamental driver of both A-shares and Hong Kong-listed equities is the overall earnings trend of listed companies. The earnings performance of over 5,000 listed firms effectively mirrors the broader trajectory of China's economy. While the magnitude of market movements may vary between A-shares and H-shares, they tend to move in close alignment at major turning points—further confirming that the marginal trend of China's economic performance remains the decisive factor for both markets.

During the bear market of the past 2–3 years, there were four notable rebound phases (end-2022, April 2024, September 2024, and January 2025). It is worth noting that during these rebounds, China's real economy had not yet shown signs of significant recovery. Yet the market—especially Hong Kong equities—experienced sharp rallies, largely driven by the following factors:

- The relaxation of China's pandemic control policies
- Government initiatives such as real estate purchase programs
- A decisive shift toward expansionary fiscal policy in China
- A sweeping hardline approach by the Trump administration

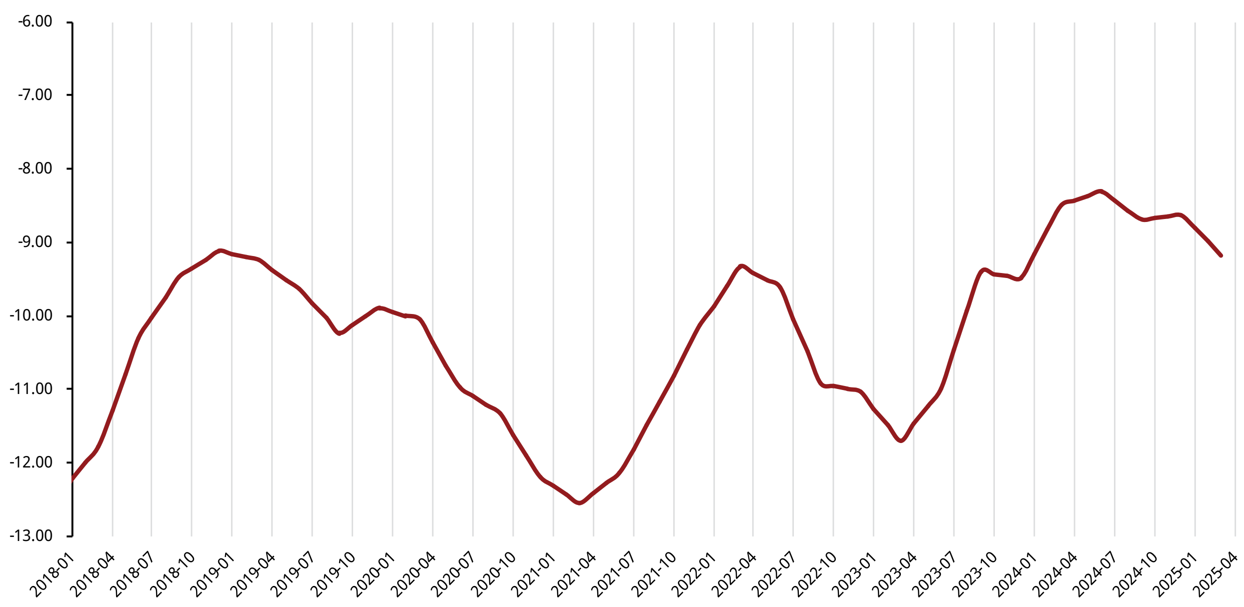
These rebounds highlight that when key investor concerns begin to ease, markets can rally ahead of fundamentals. Sustained uptrends, however, tend to occur only once real improvements in the economy and corporate earnings materialize.

From 2022 through 2024, Chinese equities remained in a prolonged downtrend. On one hand, a lack of economic momentum weighed on markets; on the other, many overseas markets—particularly the U.S.—continued to rise, supported by resilient economic conditions. This contrast exacerbated investor pessimism toward China's economy and stock market. At the core of this divergence was a fundamental difference in fiscal policy between China and other major economies:

- During this period, China's fiscal contribution to economic growth declined. Marginal fiscal tightening weakened the momentum for economic recovery, leading to continued market weakness.
- In contrast, the U.S. maintained a high level of fiscal deficit, which supported both economic activity and corporate earnings, thereby lifting equity market performance.

In September 2024, China initiated a broad-based shift in macroeconomic and sector policies—including fiscal, monetary, capital markets, real estate, and private sector development. The most critical initiative was a shift towards an expansionary fiscal stance that has continued into 2025. This was achieved through increased central government spending and the restructuring of local government debt, transforming short-term, high-interest, opaque local debt into longer-term, lower-cost, and more transparent obligations. These actions have helped stabilize the economy, support corporate earnings, and improve equity market performance.

Chart 3: China's broad deficit ratio (% of gdp, 12-month moving average)



Source: Wind, CITIC Securities, China Asset Management (Hong Kong), as of March 2025

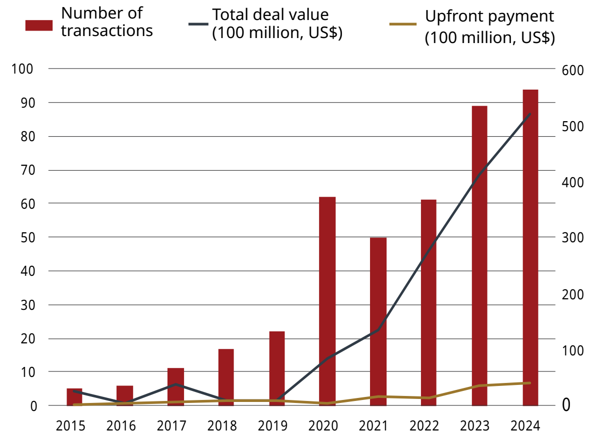
Since September 2024, Chinese financial regulators have established a toolkit of policy tools to provide support during market downturns. On the two most stressed trading days—April 7 and April 8—stabilization funds intervened through ETF purchases totaling at least RMB 70 billion and RMB 100 billion, respectively, accounting for over 4% of total A-share turnover. These actions reflect the regulators' strong commitment to maintaining market stability and preventing a downward spiral driven by investor pessimism.

The development of China's biotechnology sector clearly illustrates the country's progress in keeping pace with global technological advancements. In the field of innovative biopharmaceuticals, three key trends have emerged:

1. The number of R&D pipelines in China is now approaching that of the United States. While there is a higher degree of duplication among Chinese companies' pipelines, this nonetheless underscores China's growing role as a major force in global biotech innovation.
2. Over the past three years, multinational pharmaceutical companies have acquired global rights to hundreds of drug pipelines from Chinese firms for further development.
3. Chinese companies have taken a significant share in emerging treatment areas, including weight-loss drugs and antibody-drug conjugates (ADCs) for precision-based cancer therapy.

In conclusion, China has not fallen behind in recent technological development. On the contrary, it continues to stay abreast of global innovation. Technological advancements across sectors such as biotech, consumer products, and healthcare have helped restore investor confidence in China's long-term economic growth and structural transformation, encouraging a more growth-oriented valuation approach to Chinese equity assets.

Chart 4: Innovative out-license deals of chinese pharmaceutical companies, 2015-2024



Source: PharmCube, China Asset Management (Hong Kong), as of 2024

Current market position and key contradictions

Market valuation

Following the volatile rebound since September 2024, valuations in both A-shares and Hong Kong equities have recovered from historical lows. Large-cap blue-chip stocks have returned to their historical median valuation levels, while growth sectors still trade well below their historical medians. In comparison to U.S. equities, overall valuations in China's stock markets remain at relatively low historical levels. In summary:

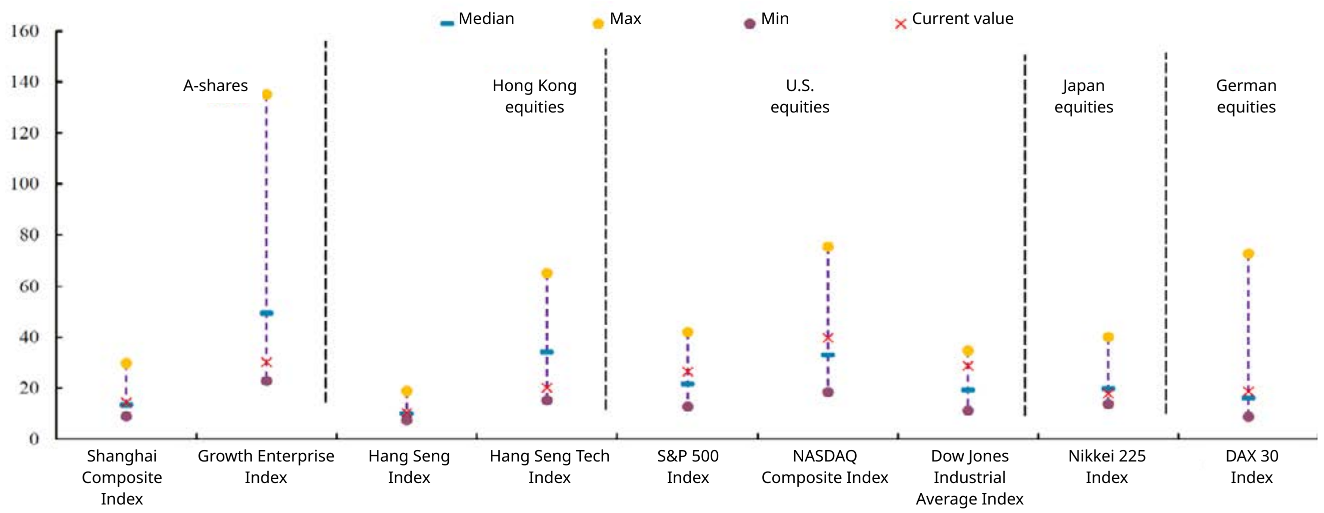
1. Large-cap valuations have rebounded to historical medians. For further valuation expansion, a meaningful recovery in macroeconomic data and sustained improvement in corporate earnings will be required.
2. Investors remain relatively cautious toward growth stocks, whose valuations have yet to return to historical averages.
3. Mainland China and Hong Kong markets maintain relatively ample liquidity. We believe sectors with strong growth potential are well-positioned for future outperformance.

Macroeconomic conditions

High-frequency economic data indicate that Chinese exports began to slow in May after stronger-than-expected stockpiling in April. Overall economic recovery momentum softened in April, with month-on-month declines in real estate prices and continued deflationary pressure—pointing to persistent weakness in domestic economic drivers.

We expect the Chinese government to further accelerate the implementation of existing support measures and to prepare additional policy tools focused on consumption, infrastructure, and livelihoods to bolster economic growth. While the "reciprocal tariff" trade tensions initiated in April may create headwinds for China's external trade, we believe the key determinant of equity market performance remains the strength of domestic policy support for consumption and investment.

Chart 5: Valuations of major global stock indices



Source: Huaxi Securities, as of May 30, 2025

2025 Mid-year Outlook

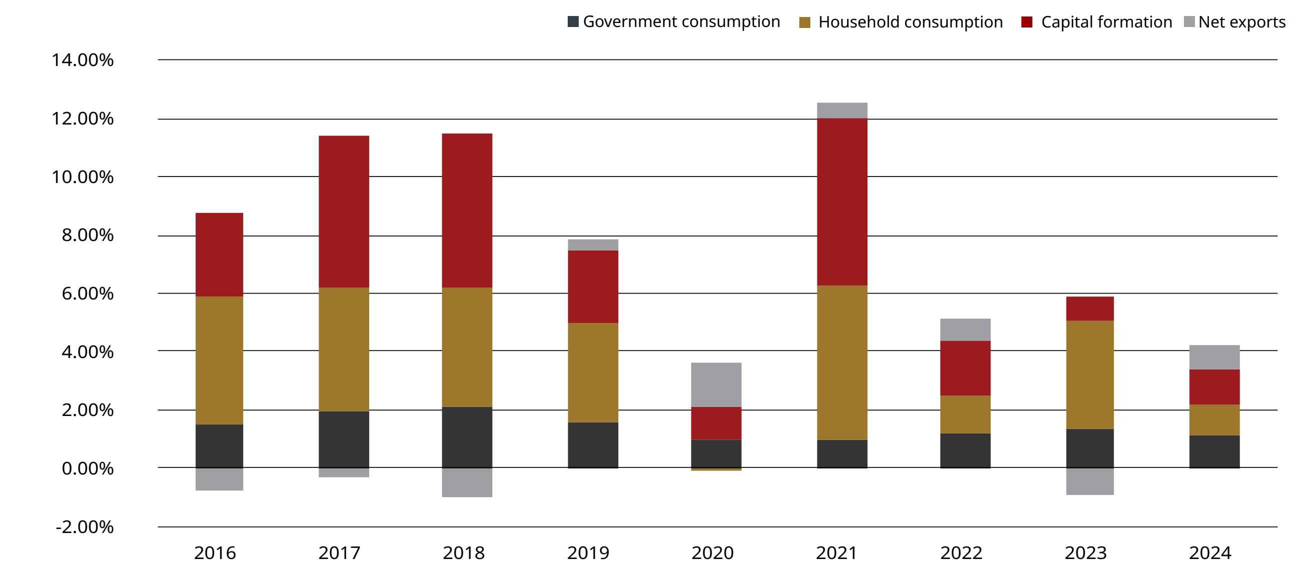
Looking ahead, we continue to view the primary challenge for China's equity market as the recovery of its domestic economy. Geopolitical tensions and shifts in the international monetary environment may have marginal effects but are unlikely to alter the market's overall direction. Should external conditions deteriorate unexpectedly, the Chinese government is expected to intensify its support for domestic demand and deploy policy tools to stabilize the market.

China achieved 5% GDP growth in 2024, and in 2025, the government is likely to implement a series of measures aimed at boosting public expenditure and stabilizing household consumption to offset pressures from a weakening export sector, thereby supporting steady economic growth. Policy signals from top-level meetings in China and the progress of U.S.–China trade negotiations remain key areas to watch.

We maintain our view that the market will remain range-bound through the second quarter and into early Q3. On one hand, evolving trade tensions and negotiations contribute to policy uncertainty, while China's supportive policies are expected to be rolled out gradually in response to internal employment pressures, making it difficult for investors to form strong forward expectations. On the other, government-backed funds ("national team") are likely to intervene when investor sentiment becomes excessively pessimistic, preventing the formation of a negative feedback loop. Under these circumstances, a sharp market decline appears unlikely, and a choppy market pattern is expected to persist.

From an asset allocation perspective, given elevated macroeconomic uncertainties both domestically and globally, high-dividend assets are expected to remain a preferred choice among investors. At the same time, trading activity in high-prosperity growth sectors is likely to stay active, with ongoing sector rotation. Specifically, we are constructive on high-dividend sectors such as banking and telecommunications, which can provide stable returns. In addition, selective opportunities may emerge within technology, healthcare, and consumer-related sectors. Looking into the second half of the year, once there is greater clarity on trade negotiations and domestic demand policies, the market may shift into a gradual upward trend.

Chart 6: Breakdown of China's real GDP (%)



Source: Morgan Stanley Research Report, as of June 2025

Chart 7: Global important macro events timeline in 2H2025

Events	Country/Region	Time
Presidential election	South Korea	June 3, 2025
ECB policy meeting	Europe	June 5, 2025
Fed policy meeting	United States	June 17-18, 2025
G7 Leaders' Summit	Global	June 15, 2025
North Atlantic Treaty Organization (NATO) Summit	Global	June 24-25, 2025
Politburo meeting	China	July 2025, to be determined
Independence Day / "OBBBA" Expected Passage Date	United States	July 4, 2025
Expiration of the suspension period of reciprocal tariffs between the U.S. and multiple countries	Global	July 9, 2025
ECB policy meeting	Europe	July 24, 2025
Japanese House of Councillors Election	Japan	July 2025, to be determined
Fed policy meeting	United States	July 29-30, 2025
Pivotal time for adjustments in reciprocal tariffs between China and the U.S.	Global	August 12, 2025
Jackson Hall Conference	United States	August 21-23, 2025
Military parade to mark the 80th anniversary of the Chinese People's War of Resistance Against Japan	China	September 3, 2025
ECB policy meeting	Europe	September 11, 2025
Fed policy meeting	United States	September 16-17, 2025
Politburo meeting	China	September-October 2025, to be determined
Chief Executive's Policy Address	Hong Kong SAR	October 2025, to be determined
Fed policy meeting	United States	October 28-29, 2025
ECB policy meeting	Europe	October 30, 2025
G20 Summit	Global	November 22-23, 2025
Fed policy meeting	United States	December 9-10, 2025
ECB policy meeting	Europe	December 18, 2025
Politburo meeting	China	December 2025, to be determined
Central Economic Work Conference	China	December 2025, to be determined

Source: CCB International Research Report, as of June 3, 2025

Global Fixed Income

In the first half of 2025, policy shifts under the Trump administration have become a major source of market uncertainty. The "U.S. exceptionalism" trade, which had dominated over the past two years, has reversed, with non-U.S. assets outperforming U.S. markets. Gold emerged as the top-performing asset class, while crude oil lagged. Equities in Hong Kong and Europe posted relatively strong gains. In bond markets, U.S. Treasury yield curves steepened notably. Short-duration bonds continued to outperform long-term maturities, and high-yield credit outpaced investment-grade. As of 17 June 2025, the Bloomberg Global Investment Grade Bond Index rose 0.46%, while the J.P. Morgan Asia Credit Core Index advanced 7.14%.

Chart 8: Performance of global bond markets in the first half of 2025

Index	2021	2022	2023	2024	2025 YTD	Since April 2025
Gold	-3.60%	-0.30%	13.10%	26.30%	26.20%	5.30%
Hong Kong Hang Seng Index	-14.10%	-15.50%	-13.80%	17.60%	16.20%	0.70%
Eurozone stock index	21.00%	-11.70%	19.20%	7.70%	10.20%	2.30%
Emerging market stocks	-4.60%	-22.40%	7.00%	5.30%	7.30%	5.10%
Global high yield bond total return USD hedged	2.50%	-11.00%	13.70%	10.70%	2.90%	1.70%
Global investment grade bond total return USD hedged	-1.40%	-11.20%	7.10%	3.40%	1.80%	0.70%
Industrial metals	29.60%	-7.60%	-4.50%	3.70%	1.60%	-2.60%
US S&P's stocks	28.70%	-18.10%	26.30%	25.50%	0.60%	5.60%
CSI 300	-5.20%	-21.60%	-11.40%	16.60%	-0.40%	0.10%
Nasdaq	21.40%	-33.10%	43.40%	29.80%	-1.90%	10.50%
Agricultural products	24.70%	12.10%	-8.30%	-0.60%	-2.10%	-1.80%
Nikkei index	0.50%	-5.30%	28.20%	19.20%	-4.80%	6.60%
Russell index	13.70%	-21.60%	15.10%	9.90%	-7.20%	2.70%
US dollar index	6.40%	8.20%	-2.10%	6.70%	-8.10%	-4.70%
WTI crude oil	55.00%	6.70%	-10.70%	-0.90%	-14.40%	-15.00%

Source: Bloomberg, Wind, as of June 17, 2025

The global market experienced significant volatility during the first half of 2025. The rise of China's AI sector in Q1, coupled with the implementation of Europe's fiscal stimulus plan, has drawn global investors' attention to non-US market opportunities. However, sentiment turned sharply on April 2, when Trump announced reciprocal tariffs. Markets were further rattled by the broader-than-expected U.S. fiscal plan, prompting investors to quickly shift from a risk-off mode to concerns over the dollar's credit profile, which led to a sharp sell-off in long-term Treasuries. While investor anxiety around Trump's policy trajectory eased somewhat after April 8—allowing assets like U.S. equities to rebound—the U.S. dollar remained weak, signaling a possible structural rebalancing in global capital. The resilience of the U.S. economy and remaining room for monetary easing provide some cushion, but uncertainty is expected to persist into the second half. We believe this marks the beginning of a medium- to long-term structural transition, rather than a temporary dislocation.

2025 Mid-year outlook

Looking ahead, we recommend monitoring three key areas of uncertainty. First, uncertain trade policies. Although reciprocal tariffs have been suspended for three months and some bilateral agreements have been reached, risks remain as the U.S. loses negotiating leverage and countries like China and Europe take a firmer stance. This could challenge the likelihood of a soft landing. Second is the uncertainty surrounding U.S. government debt. Should the 'Big Beautiful' bill pass smoothly in the Senate, the U.S. fiscal deficit could deteriorate further. Proposals under the "Mar-a-Lago Accord," including debt restructuring and potential taxation on foreign investment in U.S. assets are not unfounded. The safe-haven status of long-term Treasuries may come under pressure. Third, internal and external risks faced by non-US economies. Global markets remain heavily focused on U.S. policy, while other key risks, such as the Russia-Ukraine conflict and ideological shifts in Europe have been underappreciated. Moreover, crude oil and commodities may be approaching a turning point. A black swan event cannot be ruled out.

While U.S. GDP growth contracted in Q1 due to a front-loaded import surge, household consumption and business investment remained solid. Despite subdued PMIs, consumer confidence and housing data, employment trends are stable and inflation indicators such as PCE remain anchored. This suggests a still-resilient economy. We expect tariff negotiations to be a key driver for H2. If agreements are reached, the U.S. may achieve a soft landing, and the Fed could maintain rates steady. If not, rising tariffs could pressure consumer demand, increase recession risks, and prompt a return to full monetary easing. We remain cautious on U.S. fiscal dynamics; given the current revenue-expenditure structure, reducing the deficit without economic or market disruption appears unlikely. In the near term, neither the dollar's credit perception nor investor sentiment is expected to improve meaningfully.

From the perspective of non-US economies and global capital flows, most emerging and developed markets currently maintain more accommodative monetary policies compared to the Fed, while their government leverage ratios have also risen less sharply than the U.S. over the past five years. With the "long U.S. dollar, long U.S. assets" trade becoming increasingly crowded over the past two years, we expect continued global portfolio rebalancing. As non-U.S. markets demonstrate steady growth and relative political stability both domestically and internationally, we see further scope for de-dollarization and stronger performance from non-U.S. economies on both macro and market fronts.

Chart 9: Monetary policies and economic expectations in emerging and developed economies

	Mexico	Chile	Hungary	Poland	South Korea	India	Indonesia	Thailand	Brazil
Current police stance	Cutting	Cutting	Cutting	Cutting	Cutting	Cutting	Cutting	Cutting	Cutting
Current policy rate(%)	8.5	5	6.5	5.25	2.5	5.5	5.5	1.75	14.75
number of cuts	7	11	11	3	3	3	3	3	4
highest policy rate during this cycle	11.25	11.25	13	6.75	3.5	6.5	6.25	2.5	15
YE policy rate (%)	7.5	4.6	6	4.7	2.1	5.5	5.15	1.4	14.75
Remaining cuts this year (bp)	100	40	50	55	40	0	35	35	0
2025 Forecasted Real GDP (YoY%)	0	2.2	1.4	3.3	1	6.3	4.8	2	2.1
2024 Debt to GDP	58%	42%	73%	55%	53%	81%	40%	63%	87%

	Canada	Eurozone	UK	Australia	US	Japan
Current police stance	Cutting	Cutting	Cutting	Cutting	Cutting	Hiking
Current policy rate(%)	2.75	2.15	4.25	3.85	4.5	0.5
number of cuts	7	8	4	2	3	3
highest policy rate during this cycle	5	4.5	5.25	4.35	5.5	-0.1
YE policy rate (%)	2.25	1.9	3.75	3.6	4.05	0.7
Remaining cuts this year (bp)	50	25	50	25	45	40
2025 Forecasted Real GDP (YoY%)	1.2	0.9	1.1	1.8	1.4	0.8
2024 Debt to GDP	111%	63%	101%	50%	121%	237%

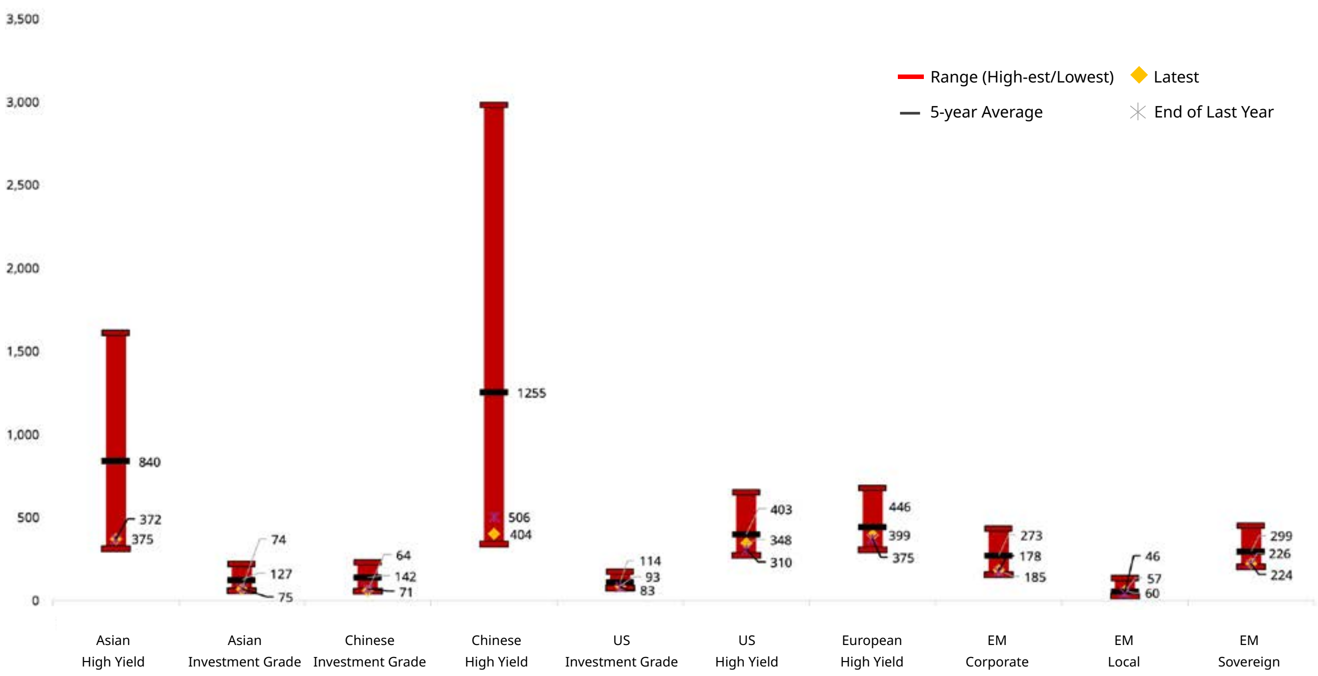
Source: Bloomberg, as of June 17, 2025

We expect U.S. Treasury yields to remain volatile. Short-term yields are expected to be relatively stable, as markets see limited upside for further rate hikes and anticipate eventual policy easing. However, long-term Treasuries continue to face selling pressure amid unresolved fiscal and sovereign credit concerns. In the near term, a sharp rise in yields similar to the spike seen in early April cannot be ruled out. That said, we continue to view 10-year yields approaching 5% as an attractive entry point for investors.

Despite increased volatility, credit markets remained broadly healthy in the first half of the year, with European and emerging market credit outperforming the U.S. Credit spreads have widened to levels not seen in a decade based on traditional valuation metrics. However, relative to risk-free benchmarks like swap rates, spreads remain within a reasonable range, given that U.S. Treasury yields, which serve as benchmark rates, have risen due to growing concerns over the dollar's credit profile. Importantly, U.S. corporate balance sheets remain in far better shape than federal finances. Should sovereign risks escalate further, we may even see periods where top-rated corporate bond yields trade below Treasury yields.

On the supply side, gross issuance in the first half of 2025 has remained in line with last year. However, net supply is expected to decline year-on-year, supported by increasing maturities and more favorable funding conditions in other currencies, such as the euro. From a demand perspective, domestic flows are likely to remain stable despite policy uncertainty, while overseas inflow may slow down as foreign investors expect a weaker U.S. dollar.

Chart 10: An analysis of the performance and valuation of major credit markets



Source: Bloomberg, as of June 17, 2025

From an asset allocation and sector strategy perspective, we maintain a relatively cautious stance on rate duration exposure, while retaining constructive views on credit duration. If the U.S. economy achieves a soft landing, we expect further narrowing of spreads between BBB- and A-rated bonds.

In sovereign allocation, we maintain overweight positions in China and Europe for risk diversification, while selectively capturing opportunities in high-quality EM credit issuers across Latin America and the Middle East. A structurally weaker U.S. dollar should support emerging market currencies and improve the outlook for sovereign bonds in these regions.

From a sector allocation perspective, we maintain a relatively cautious stance on energy and select cyclical industries. while moderately overweighting sectors less affected by tariff policies, such as banking and insurance.

In general, we favor a flexible approach that combines stable coupon payments from short- and medium-term bonds with investment gains from long-term positions. Given the macro and policy uncertainties ahead, we are not positioning heavily in any single sector. Instead, we emphasize diversification as a key tool to manage volatility. In addition to diversifying risks across countries, sectors, and currencies, we are actively exploring opportunities in non-USD-denominated bonds.

Key risks to monitor:

- **Escalation in tariff disputes**
- **Deterioration of the U.S. fiscal outlook**
- **Faster-than-expected pace of deglobalization**

RMB

In the first half of 2025, yields on Chinese government bonds initially moved higher before declining, with the yield curve of 2-year and 30-year maturities flattening. Short-term rates edged upward, while medium- and long-term yields declined. Yields peaked in mid-March and have since trended lower, driven largely by market sentiment. Bond and equity market movements remained closely correlated throughout the period. The People's Bank of China (PBOC) maintained its prudent policy approach—consistent with the past two years—by fine-tuning liquidity through reductions in both the reserve requirement ratio (RRR) and interest rates. In May, the PBOC cut the 7-day reverse repo rate by 10 basis points (bps) to 1.4%, lowered the 1-year and 5-year loan prime rates (LPRs) by 10bps to 3.0% and 3.5%, respectively, and reduced the RRR by 50bps to 9.5%.

With a 10bps rate cut and the anticipated 50bps RRR reduction now in place, we expect the PBOC may implement another 10–20bps in rate cuts in the second half of the year, contingent on economic conditions and available policy space. Overall, we expect rates to trend downward in the second half, and suggest investors position ahead of a potential third-quarter rally in domestic equities and peak bond issuance. Currently, yields on 5-year government bonds range from 1.48% to 1.65%, 10-year yields from 1.63% to 1.73%, and 30-year yields between 1.86% and 1.94%. Yields on 10-year government bonds are modestly below the 2.0% Medium-Term Lending Facility (MLF) rate, and 1-year interbank NCDs, which currently yields between 1.70% and 1.75%. Historically, 10-year government bonds have typically yielded near the MLF rate and above the 1-year NCD.

Offshore RMB-denominated government bonds (dim sum bonds) followed a different trajectory from onshore government bonds in the first half of the year. These bonds may deliver higher capital gains due to more pronounced yield declines. As of early June, dim sum bond yields declined by 68bps for 1-year tenors, 34bps for 2-year, 42bps for 5-year, 59bps for 7-year, 28bps for 10-year, and 27bps for 20-year bonds. At present, dim sum bonds still offer a 15–30bps yield premium over onshore counterparts. As China and the U.S. both remain in easing cycles, we see greater attractiveness in dim sum bonds. Credit spreads have tightened by 20–30bps year to date, reflecting solid performance in the first half. In addition, offshore issuance and investment flows have also continued to rise.

USD/CNH spot and swap rates largely moved in sync, except for a temporary dislocation in early April. The widening pressure on RMB was largely driven by declining offshore RMB interest rates, while divergence between onshore and offshore swap curves was fueled by differing rate paths and cross-border arbitrage activities. As of early June, CNH swaps hedging costs stood at 2.9% for 1-month tenors, 2.85% for 3-month, 2.8% for 6-month, 2.75% for 9-month, and 2.65% for 1-year.

Offshore RMB interest rates remained the primary driver of credit spreads, while U.S. dollar interest rates exerted relatively limited influence. The CNH spot rate appreciated against the USD and exhibited greater volatility during the same period. After beginning the year at 7.3361, USD/CNH spiked to 7.4257 before retracing to 7.1726, reflecting a swing of 2,531 pips. The most recent level of 7.18 is closely aligned with year-end 2024 market forecast of 7.15. Among Asian currencies, the RMB's performance has been relatively neutral, posting a modest depreciation against a broader basket. As observed in the past two years, the RMB remains highly correlated with the U.S. Dollar Index (DXY). In 2025, this dynamic has been further reinforced by the influence of U.S.-China trade tensions, with market sentiment and equity performance in China closely tracking USD/CNH movements.

At the end of last year, foreign institutions held a bearish view on the USD/CNH spot rate, with a consensus forecast around 7.50. In contrast, we maintained a more constructive outlook, projecting a level closer to 7.15. As of now, we maintain this view and expect USD/CNH 3-month hedging costs to remain in the 2–3% range, while 1-year hedging costs are likely to stay between 2.0% and 2.7%.

Over the next six months, we will closely monitor developments in China–U.S. relations, alongside broader shifts in the global macro landscape. In China, key domestic uncertainties include the timing and magnitude of further monetary easing, and the actual economic response to recently implemented support measures. In the U.S., domestic uncertainties will include the Federal Reserve's rate path, incoming data on inflation and employment, and the evolving geopolitical environment risk.

Crypto Assets

1) Significant market volatility

In the first four months of 2025, the cryptocurrency market experienced significant volatility. Bitcoin's price declined sharply from mid-February to mid-April, accompanied by substantial outflows from Bitcoin ETFs. Most capital were redirected towards traditional safe-haven assets such as gold, indicating a temporary decline in retail investor confidence.

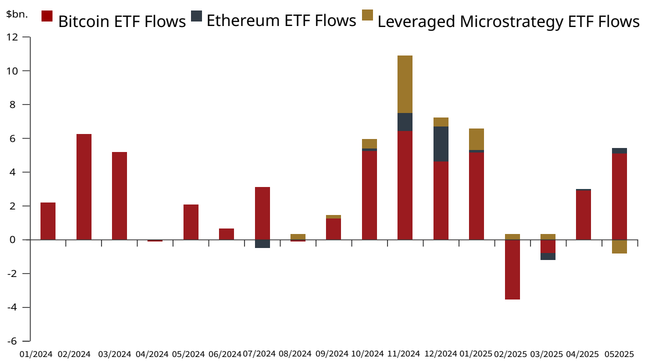
2) Market sentiment recovery

Market sentiment began to recover noticeably in late April. MicroStrategy announced an additional $42 billion investment in Bitcoin, building upon its previous "21/21" acquisition plan, totaling $84 billion. This move not only boosted market confidence but also served as a strong corporate endorsement of Bitcoin as an asset class. Simultaneously, New Hampshire became the first U.S. state to pass legislation allowing state funds to be allocated to Bitcoin, with a maximum allocation of 5%. These developments collectively supported Bitcoin's rapid return to an upward trajectory in May.

3) Bitcoin's role in anti-depreciation strategies

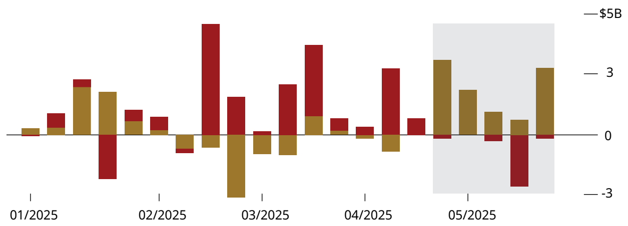
The "anti-depreciation trade" has emerged as a central theme driving asset allocation decisions. Factors such as geopolitical risks, expanding fiscal deficits, and long-term inflation expectations have led market participants to seek assets that hedge against fiat currency depreciation. Both gold and Bitcoin have become primary beneficiaries of this trend. Since May, there has been a noticeable shift in capital flows from gold ETFs to Bitcoin ETFs, indicating a growing recognition of Bitcoin's value as a new inflation hedge. Institutional investors are increasingly adopting a long-term asset allocation approach, moving beyond short-term speculative interests.

Chart 11: Bitcoin ETF net flows



Source: Bloomberg, JPMorgan; as of May 2025.

Chart 12: Weekly net flows of bitcoin vs. gold ETFs



Source: Bloomberg, as of May 2025.

4) Potential upside for bitcoin prices

Historical data suggests that when Bitcoin's Market-Value-to-Realized-Value (MVRV) ratio reaches 4, Bitcoin's price often peaks. Based on this historical pattern, the theoretical peak for Bitcoin in the current cycle could be around $178,000, indicating potential for further price appreciation.

Chart 13: Bitcoin MVRV ratio

Source: Bloomberg, as of May 2025.

5) Potential catalysts for bitcoin

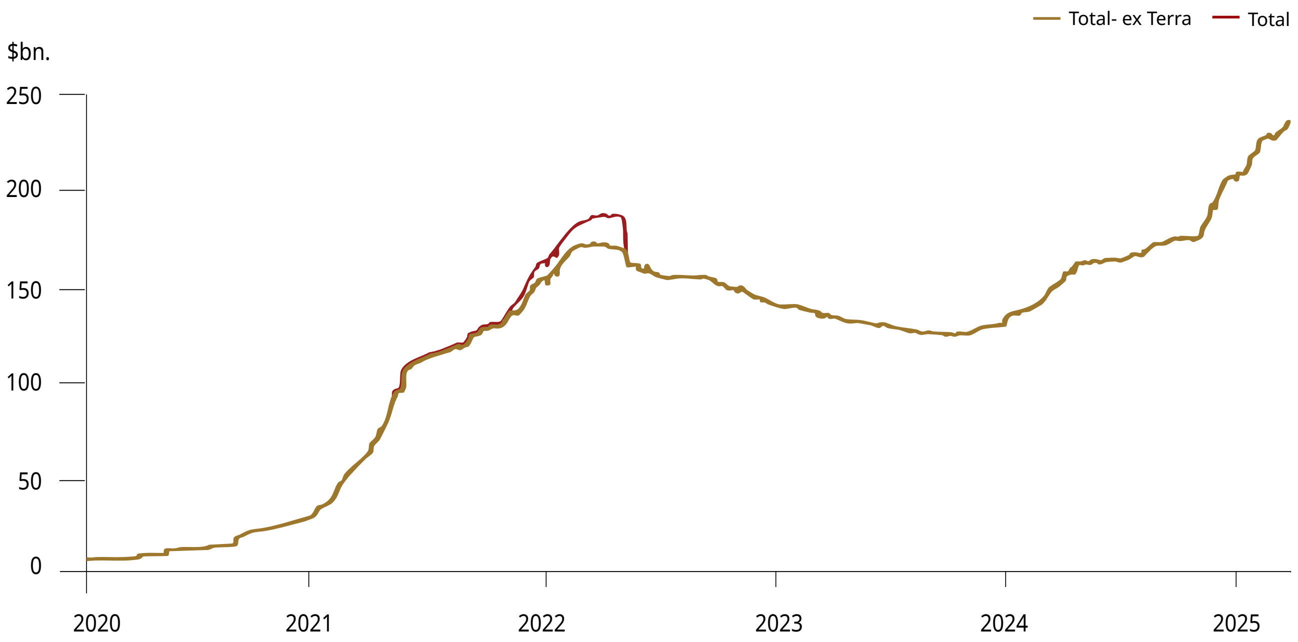
i. Increased Corporate Participation	• Tech giant Nvidia is considering adding Bitcoin to its balance sheet. • A Bitcoin-focused investment firm, Twenty One Capital, co-founded by Tether, Cantor Fitzgerald, and SoftBank, has announced a $458 million Bitcoin purchase.
ii. U.S. Policy Support	• The Trump administration signed an executive order in March directing the establishment of a Bitcoin strategic reserve program, with several states making tangible progress.
iii. Global Liquidity Expansion	• Global M2 money supply continues to grow due to a weakening U.S. dollar. • Approximately $5 trillion U.S. Treasury bonds are set to mature in June 2025, potentially prompting the Fed to release liquidity to facilitate debt refinancing. • The PBOC announced a 0.5 percentage point reduction in the RRR on May 7, 2025, expected to release about ¥1 trillion in long-term liquidity, along with a 0.1 percentage point cut in policy interest rates.
iv. Asset Allocation Advantages	• Bitcoin's low correlation with mainstream financial markets makes it an effective tool for diversifying investment portfolios. Meanwhile, as Bitcoin gains wider acceptance and institutional investors incorporate it into their portfolios, its higher risk profile is expected to contribute to better portfolio performance.
v. Futures Market Signals	• Bitcoin's two-month futures contracts have consistently traded at a premium, indicating that market participants are willing to pay a premium for future higher returns, often viewed as a bullish signal.

Stablecoins

1) Stablecoin market capitalization reaches new heights; position strengthens

Stablecoins are widely used in transaction matchmaking, decentralized finance (DeFi) collateralization, asset pegging, and cross-border payments, serving as the foundation for on-chain financial activities. As of May 2025, the total market capitalization of stablecoins has surpassed $244 billion, setting a new historical high. This growth reflects not only the overall expansion of the cryptocurrency market but also underscores the strengthening position of stablecoins as a "critical component" within the crypto asset ecosystem.

Chart 14: Stablecoin market capitalization trends



Source: Defilama, JP Morgan, As of May 2025.

2) Rise of yield-bearing stablecoins

In a high-interest-rate environment, users are shifting from traditional non-yielding stablecoins to newer products offering yields, such as BUIDL and YLDS. These products often utilize tokenized government bonds as underlying assets, featuring high transparency, traceability, and security. Yield-bearing stablecoins provide potential returns by avoiding additional trading or lending risks, making them increasingly popular. Data indicates that the market size of yield-bearing stablecoins has grown from $4 billion at the end of 2024 to over $13 billion by May 2025, accounting for 6% of the total stablecoin market. Additionally, they are widely accepted as collateral on major platforms like FalconX and Deribit, enhancing their practical utility and user confidence.

3) Growing regulatory clarity for stablecoins

In May 2025, Hong Kong passed the Stablecoin Bill, establishing a comprehensive regulatory framework centered on a licensing regime and full 1:1 backing with high-liquidity assets. The bill also initiated exploratory efforts to include the RMB as an eligible currency, positioning Hong Kong as a cross-border stablecoin hub compatible with the Hong Kong dollar, RMB, and U.S. dollar.

At the same time, the U.S. GENIUS Act advanced the introduction of a “licensed issuer” model, formally classifying fiat-backed stablecoins outside the scope of securities regulation. As regulatory paths become clearer, the global legalization of stablecoins is now firmly underway.

4) Two key growth drivers for stablecoins

The future growth of stablecoins hinges on two critical factors: the first is the **integration into payment systems**. The extent of stablecoin adoption in payment systems, such as daily transactions and cross-border settlements, will determine their penetration and sustainability. The other is the **expansion of the crypto ecosystem**. The continued development of DeFi, non-fungible tokens (NFTs), and decentralized autonomous organizations (DAOs) will drive demand for on-chain stablecoins, thereby expanding the market size.

5) Traditional institutions enter and ecosystems converge

With regulatory frameworks taking shape, traditional banks and payment giants are accelerating their entry into the stablecoin space. For example, Bank of America has announced plans to issue its own stablecoin, while Stripe is expanding into stablecoin settlements through its acquisition of Bridge.

These high-profile moves offer valuable reference points for the Hong Kong market. As the Stablecoin Bill comes into effect, Hong Kong’s domestic stablecoin ecosystem is expected to rapidly develop, driven by both regulatory tailwinds and global best practices. This marks a pivotal step toward a new era of compliant and integrated on-chain finance.

Summary

In the second half of 2025, the cryptocurrency market is poised to continue its trend of institutionalization and structural expansion. Core assets like Bitcoin and Ethereum are gradually becoming mainstream investment choices, while stablecoins and RWA tokens are reconstructing on-chain financial infrastructure.

Looking ahead to the next 12 months, cryptocurrency ETFs, stablecoins, and RWAs are expected to form the "three pillars" of the crypto asset domain, collectively driving the Web 3.0 financial system toward a more mature and stable developmental stage.

- **Cryptocurrency ETFs: Providing compliant and flexible investment tools for crypto assets.**
- **RWAs: Linking traditional assets with the crypto ecosystem.**
- **Stablecoins: Building the foundation for on-chain liquidity.**

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• Global Multi Income Fund	• HKD Digital Money Market Fund	

Global ETF Suite		
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Source: Bloomberg, Wind, ChinaAMC(HK) as of May 31, 2025

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Source: China Securties journal, The LSE. Insighis&Mandate, Asia Asset Management, Fund Selector Asia, Bloomberg Business WEEK, HKEX data as of June 2025.

Disclaimer

Unless otherwise stated, the reference date of the source information from Bloomberg, ChinaAMC(HK) is June 18, 2025.

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