華夏基金(香港)
ChinaAMC(HK)

MARKET INSIGHTS

September 2025

Economic data for August generally showed further weakness, indicating the domestic economy remains in a bottoming-out phase. Southbound capital flows accelerated, and overseas liquidity conditions improved further following the Fed's September rate cut. While the fundamental backdrop for the overall Hong Kong stock market remains weak, liquidity conditions have seen further improvement. Market sentiment warmed, particularly within the technology sector, driven by China's advancements in AI.

We maintain our focus on sectors and companies associated with the enhancement of China's indigenous technological capabilities. This includes investment opportunities in technology hardware, AI, the internet, innovative drugs, and related industries. We also emphasize sectors characterized by low internal competition ("anti-involution") and select high-quality state-owned enterprises offering dividend yields. We will also pay attention to the U.S. economic downturn exceeding expectations and escalation in Sino-U.S. trade friction.

Macroeconomy Data

Domestically, China's Manufacturing PMI reached 49.8% in September, up 0.4 percentage points month-on-month (MoM), indicating a continued improvement in manufacturing activity. The Production Index rose significantly by 1.1 percentage points to 51.9%, while the New Orders Index edged up to 49.7%. The PMI for large enterprises remained in expansionary territory at 51.0%, but the PMI for small and medium-sized enterprises stayed below the 50-point boom-bust line. By sector, the Business Activity Index for the construction sector was 49.3%, up 0.2 percentage points from the previous month; the Business Activity Index for the services sector was 50.1%, down 0.4 percentage points MoM. Within the services sector, business activity indices for industries such as postal services, telecommunications, radio, television, and satellite transmission services, and monetary financial services all remained in the high expansion range above 60.0%. In contrast, indices for sectors including catering, real estate, and culture, sports & entertainment were below the critical point. Although there were some bright spots in August's domestic inflation data, the overall performance remained weak. The Consumer Price Index (CPI) fell 0.4% year-on-year (YoY), missing market expectations of -0.2% and down from the previous reading of 0.0%. CPI was unchanged (0.0%) MoM, decelerating from the +0.4% increase recorded previously. The core CPI, excluding food and energy, rose 0.9% YoY, showing a continued mild improvement from July's +0.8%; however, the core CPI was flat (0.0%) MoM, down from the +0.4% increase seen last month. The Producer Price Index (PPI) fell 2.9% YoY, a narrower decline compared to the -3.6% drop in July. The consumer market remained generally stable, with total retail sales of consumer goods reaching RMB 3.97 trillion in August, up 3.4% YoY. Both goods consumption and service consumption recorded growth, with new forms of consumption and inbound consumption continuing to expand. Foreign trade demonstrated resilience, with exports denominated in U.S. dollars growing 4.4% YoY and imports rising 1.3% in August, marking the third consecutive month of growth in both. Exports of mechanical and electrical products, integrated circuits, and automobiles were particularly strong. In terms of financial data, M2 money supply grew 8.8% YoY at the end of August, while the outstanding aggregate financing to the real economy (AFRE) also increased by 8.8% YoY.

Overseas, US non-farm payrolls for early September were subject to significant downward revisions. Employment figures for the year through March were revised down by 911,000, implying an average monthly reduction of approximately 76,000 jobs, representing the largest downward revision since 2000. The August CPI rose 2.9% YoY, while the core CPI increased 6.6% YoY, indicating persistent inflationary pressures. Concurrently, initial jobless claims surged to 263,000 (a near four-year high), significantly exceeding market expectations of 235,000. The Federal Reserve implemented its first interest rate cut of the year on September 17, reducing the target range for the federal funds rate by 25 basis points to 4.00%-4.25%. The accompanying statement highlighted increased downside risks to employment while noting that

inflationary pressures persist. U.S. retail sales exceeded expectations in August, growing 0.6% MoM, driven primarily by sales increases at non-store retailers, clothing stores, and food services & drinking places. The September ISM Manufacturing PMI (49.1) remained in contraction territory. Furthermore, at month-end, the White House formally initiated an "orderly shutdown" procedure as funding expired. The European Central Bank maintained interest rates unchanged but lowered its longer-term inflation forecasts.

Policy Measures

On September 3, a joint meeting of the Ministry of Finance and the People's Bank of China emphasized the need for coordinated fiscal and monetary policies to ensure the effective implementation of macroeconomic policies and promote the stable and healthy development of the bond market. On September 10, while reporting on budget execution, Finance Minister Lan Fo'an indicated that future fiscal policy would focus fully on stabilizing employment and foreign trade, utilizing special bonds and the already issued RMB 761 billion in ultra-long-term special government bonds to further drive policy implementation. On September 22, the Loan Prime Rate (LPR) remained unchanged for the fourth consecutive month. The same day, at a press conference held by the State Council Information Office, officials emphasized efforts to improve the dual-pillar regulatory framework of monetary policy and macroprudential management. They also noted that mortgage policies significantly reduce interest burdens for over 50 million households annually.

Market Performance

Greater China Indices	August Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	4496.76	10.33	14.28	3145.79	4548.89
MSCI China	82.23	4.17	27.07	54.37	84.95
HSI	25077.62	1.23	25.01	16964.28	25918.86
HSCEI	8947.79	0.73	22.74	5928.37	9295.86
Global Indices					
S&P 500	6460.26	1.91	9.84	4835.04	6508.23
Dow Jones Industrial Average	45544.88	3.20	7.05	36611.78	45757.84
Nasdaq Composite	21455.55	1.58	11.11	14784.03	21803.75
FTSE 100	9187.34	0.60	12.41	7544.83	9357.51
DAX 30	23902.21	-0.68	20.06	18208.84	24639.10
Nikkei 225	42718.47	4.01	7.08	30792.74	43876.42

Outlook

Economic data for August generally showed further weakness, indicating the domestic economy remains in a bottoming-out phase. Southbound capital flows accelerated, and overseas liquidity conditions improved further following the Fed's September rate cut. While the fundamental backdrop for the overall Hong Kong stock market remains weak, liquidity conditions have seen further improvement. Market sentiment warmed, particularly within the technology sector, driven by China's advancements in AI. However, recent developments, including China's strengthened controls in the rare earth sector and proposals from the Trump administration to impose 100% tariffs and other enhanced controls on China, are likely to dampen market sentiment in the short term. The interaction between Chinese and U.S. leaders at the upcoming APEC summit in late October warrants close attention. Nonetheless, with the October Politburo meeting and the Fourth Plenary Session of the 20th Central Committee approaching, market expectations for stability persist.

We maintain our focus on sectors and companies associated with the enhancement of China's indigenous technological capabilities. This includes investment opportunities in technology hardware, AI, the internet, innovative drugs, and related industries. We also emphasize sectors characterized by low internal competition ("anti-involution") and select high-quality state-owned enterprises offering dividend yields.

Risk

U.S. economic downturn exceeding expectations. Escalation in Sino-U.S. trade friction.

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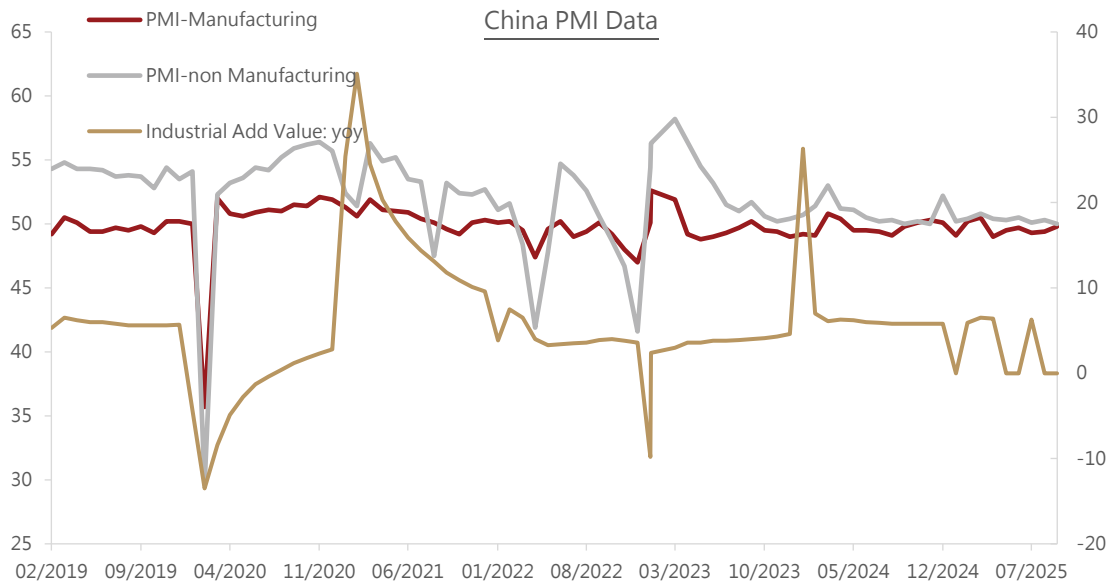

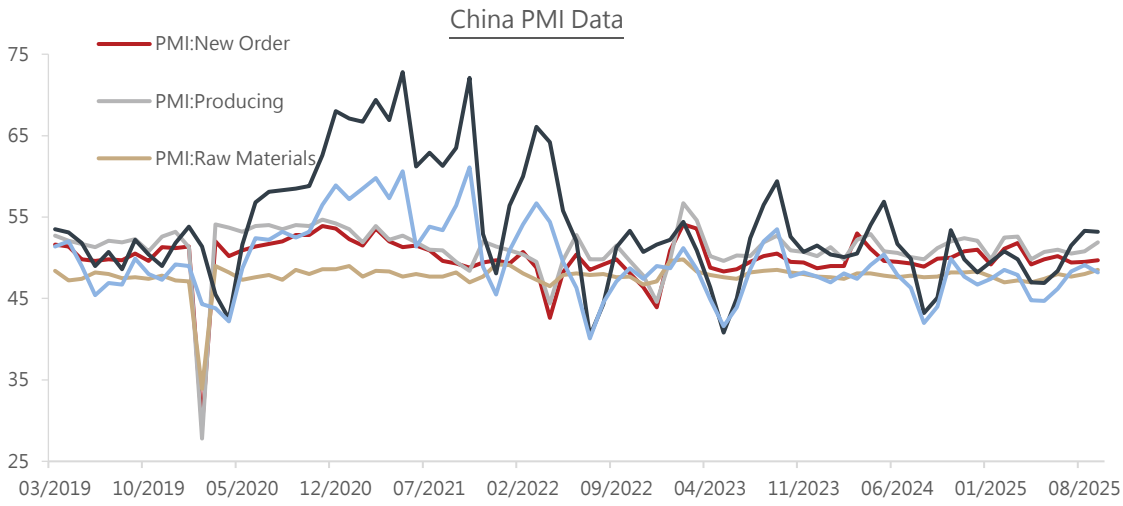

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A significant divergence has emerged between the performance of the real economy and asset prices. Against a backdrop of slowing employment, falling real rates, and a surging gold price, equities have hit record highs and credit spreads have continued to compress. Positive factors, such as the AI revolution and the rate-cut trade, are currently outweighing risks like geopolitical conflicts and economic softening. While we do not anticipate a rapid deterioration in the U.S. economy, caution is warranted in the short term regarding a potential reversal in risk appetite triggered by a U.S. equity correction. Furthermore, the evolution of events such as a potential government shutdown, U.S.-China relations, and domestic political situations in Japan and Europe could significantly impact markets. The strength in gold and Bitcoin indicates that investors continue to seek safe-haven assets beyond the U.S. dollar and Treasuries. We maintain a neutral overall stance on interest rate duration. Regarding credit bonds, we are more cautious. Current valuation levels are near historical extremes. We prefer to upgrade ratings, sacrificing some coupon income to guard against a broad widening of credit spreads. We are currently focusing more on the identification of specific credit opportunities and the exploration of other valuable fixed-income assets to diversify portfolio risk.

Market Performance

Market sentiment remained robust in September, buoyed by rate-cut expectations. In response to weakening employment data, the Federal Reserve cut rates by 25 basis points as expected. Chairman Powell's commentary continued the employment-focused rhetoric from the Jackson Hole symposium, and the dot plot projected two additional rate cuts within the year. Driven by easing expectations, long-end U.S. Treasury yields fell sharply at the beginning of the month. Regarding major asset classes, U.S. equities continued to reach new highs, propelled by the AI wave. Gold prices rose rapidly, supported by falling real yields and enhanced investment appeal. Chinese, Japanese, and European stock markets also performed well, despite lingering international policy risks.

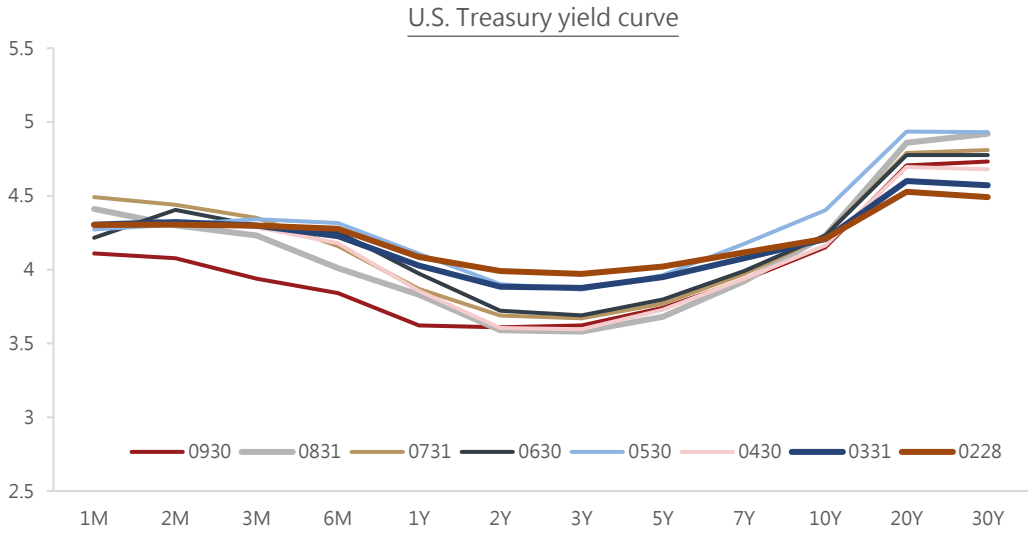
low_52wee HIGH_52WEEK

United States	20250930 Last Price%	20250829 1M chg bp	20241231 YTD chg bps	52W low%	52W high%
2Y	3.61	-1	-63	3.54	4.98
5Y	3.74	4	-64	3.40	4.65
7Y	3.93	0	-55	3.50	4.70
10Y	4.15	-8	-42	3.62	4.79
30Y	4.73	-20	-5	3.93	4.97

China	20250930 Last Price%	20250829 1M chg bp	20241231 YTD chg bps	52W low%	52W high%
3Y	1.44	2	24	1.10	1.99
5Y	1.61	-3	20	1.33	2.15
7Y	1.77	2	20	1.50	2.30
10Y	1.87	9	20	1.60	2.32
30Y	2.26	18	32	1.81	2.58

Japan	Last Price%	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.94	7	34	0.28	0.89
5Y	1.23	8	49	0.42	1.19
7Y	1.47	10	62	0.52	1.34
10Y	1.65	5	55	0.79	1.59
30Y	3.15	-4	85	1.94	2.83

Germany	Last Price%	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	2.02	8	-6	1.66	3.10
5Y	2.31	5	16	1.87	2.72
7Y	2.45	2	30	1.86	2.67
10Y	2.71	-1	34	2.03	2.90
30Y	3.28	-6	68	2.27	3.20



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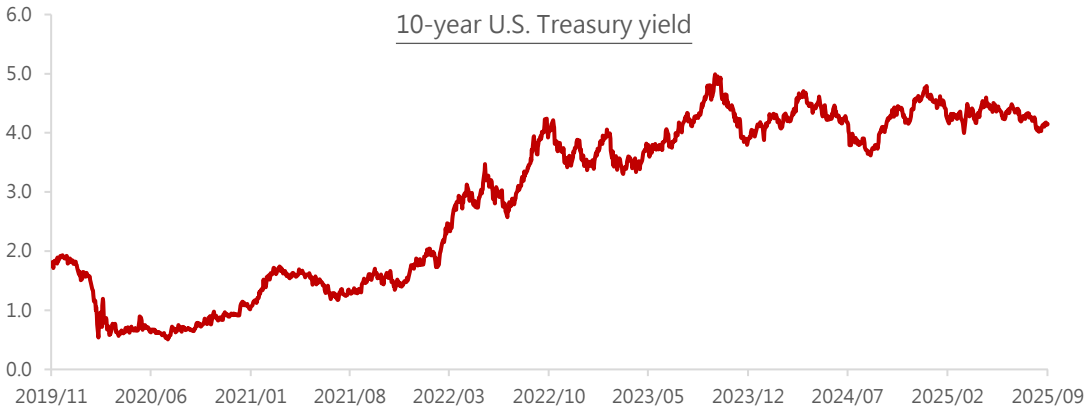

Economic Data

U.S. economic data in September showed mixed signals. On the employment front, although the unemployment rate did not increase significantly, indicators like non-farm payroll additions and job openings pointed to a noticeable slowdown in the U.S. labor market. Regarding inflation, the August U.S. CPI reading was in line with expectations year-on-year, but slightly exceeded expectations month-on-month, primarily due to rising food and energy costs. Conversely, the PPI was significantly lower than expected, suggesting limited short-term inflation concerns and a muted impact from tariffs on goods inflation. U.S. consumption data remained strong, with Q2 GDP consumption revised upwards, PCE consumption growing MoM beyond expectations, and retail sales exceeding forecasts. Supported by the wealth effect, consumption continues to underpin the economy.

U.S. Treasury yields partially reversed their August trends, with the curve experiencing a bull flattening over the month. As rate-cut expectations became more fully priced in, short-end rates stabilized, while long-end yields declined slightly against a backdrop of recession concerns. In credit markets, primary market issuance increased year-on-year with strong order demand. Sustained fund inflows led global credit spreads to compress further in the first half of the month, hitting new yearly lows. The credit spreads of Chinese USD bonds compressed further, while Dim Sum bond performance showed some divergence from onshore bonds.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	52	1	2	47	81
HY CDX	321	(0)	10	289	476
EM CDX	148	3	(4)	150	230
Bond Index					
ICE Asian Dollar Corporate	504	0.9%	7.1%	446	485
ICE China Issuers Dollar IG Corprate	236	1.0%	6.8%	210	228
ICE China Issuers Dollar HY Corprate	198	0.1%	8.3%	163	192
ICE US Corprate	3560	1.4%	7.0%	3171	3441
ICE US High Yield	1842	0.8%	7.1%	1600	1756
ICE Emerging Markets Corporate	498	1.0%	8.4%	433	473
Bloomberg Global-Aggregate	500	0.7%	7.9%	450	490
Bloomberg Global-Aggregate 1-3 Year	188	0.3%	7.8%	170	184

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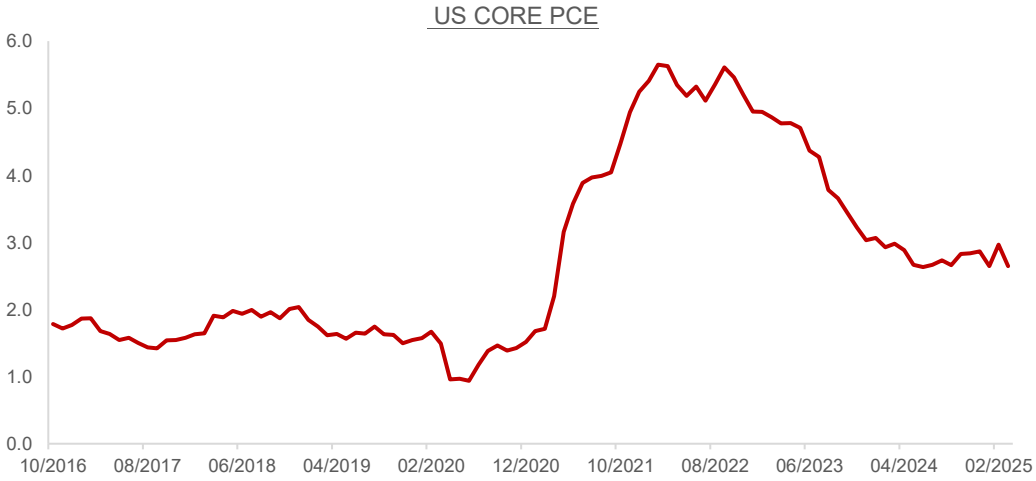
Outlook

A significant divergence has emerged between the performance of the real economy and asset prices. Against a backdrop of slowing employment, falling real rates, and a surging gold price, equities have hit record highs and credit spreads have continued to compress. Positive factors, such as the AI revolution and the rate-cut trade, are currently outweighing risks like geopolitical conflicts and economic softening. While we do not anticipate a rapid deterioration in the U.S. economy, caution is warranted in the short term regarding a potential reversal in risk appetite triggered by a U.S. equity correction. Furthermore, the evolution of events such as a potential government shutdown, U.S.-China relations, and domestic political situations in Japan and Europe could significantly impact markets.

The strength in gold and Bitcoin indicates that investors continue to seek safe-haven assets beyond the U.S. dollar and Treasuries. Although the trading range for long-end U.S. Treasury yields has shifted downward since September, the probability and potential payoff of further betting on a rapid decline in U.S. Treasury yields are limited, influenced by fiscal pressures in several developed markets and the reflexive nature of rate cuts. We maintain a neutral overall stance on interest rate duration. Regarding credit bonds, we are more cautious. Current valuation levels are near historical extremes. We prefer to upgrade ratings, sacrificing some coupon income to guard against a broad widening of credit spreads. We are currently focusing more on the identification of specific credit opportunities and the exploration of other valuable fixed-income assets to diversify portfolio risk.



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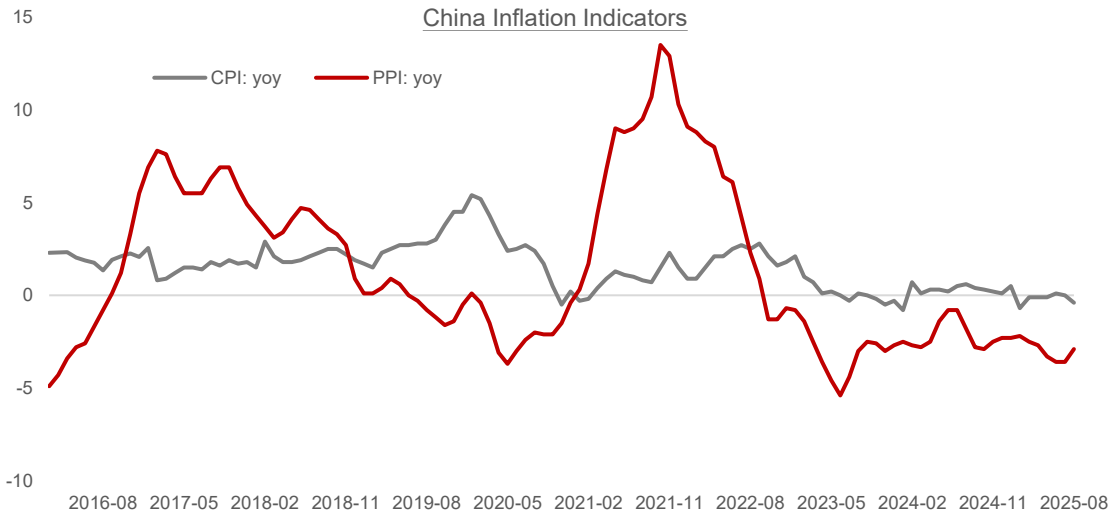

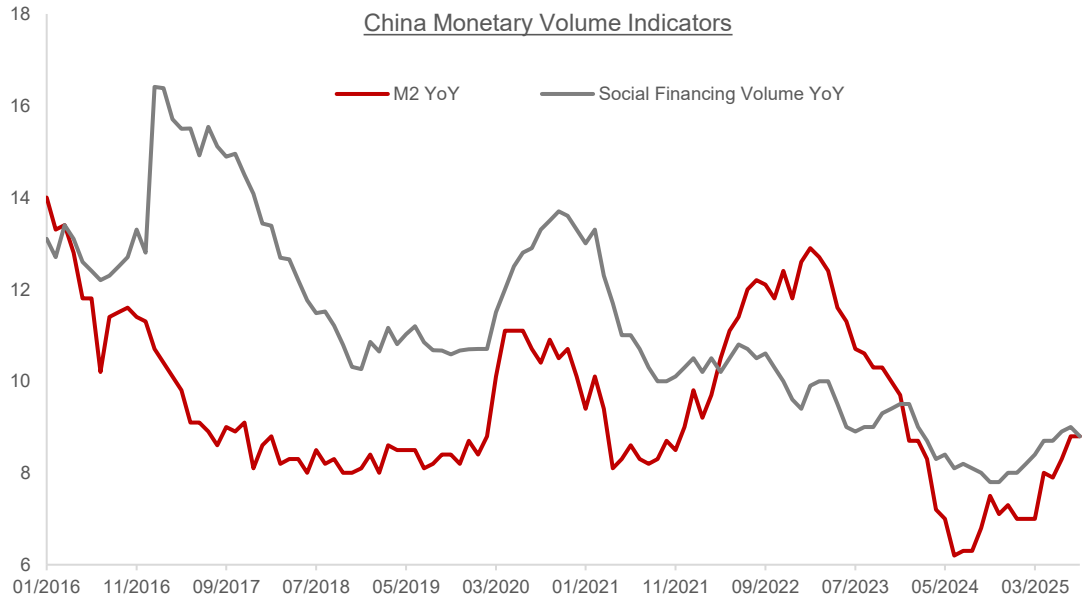

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