



MARKET INSIGHTS

August 2025

Domestically, China's overall economic activity remained in expansion, with some improvement in manufacturing. By industry, pharmaceuticals and computer, communication and electronic equipment outperformed. Exports surprised on the upside, with growth continuing to accelerate. Overseas, core inflation rose to its highest since February, driven mainly by services. Overall inflation remained moderate. At the Jackson Hole symposium, Fed Chair Powell noted that labor supply and demand are softening together, job market downside risks are increasing, while inflation risks remain to the upside.

Looking ahead, the Fed is widely expected to cut rates in September, which should help improve risk appetite in Hong Kong equities. However, macro conditions still lack strong aggregate logic. We will continue to focus on sectors and companies related to China's drive for technological self-sufficiency, including opportunities in tech hardware, AI, internet, and innovative drugs. We will also pay attention to industries benefiting from reduced "involution" and to high-quality SOEs and central SOEs as dividend plays.

Macroeconomy Data

Domestically, China's Manufacturing PMI in August was 49.4, up 0.1 percentage points from the previous month, indicating that overall economic activity remained in expansion, with some improvement in manufacturing. The production index rose to 50.8, staying in expansion territory for four consecutive months. By industry, pharmaceuticals and computer, communication and electronic equipment outperformed, while textiles and apparel, furniture, and chemical raw materials remained below the threshold. The PMI for large enterprises was 50.8, continuing to expand. The purchasing volume index climbed to 50.4, reflecting stronger restocking intentions. In consumption, July retail sales of consumer goods grew 3.7% YoY, a notable slowdown. Catering revenue rose only 1.1%, while automobile retail sales fell 1.5% YoY. Industrial value-added above designated size grew 5.7% YoY, with automobiles, electronics, and high-end equipment manufacturing leading. In investment, July fixed asset investment declined 5.3% YoY, a further drop from -0.1% in June. A high base effect, subsidy withdrawal, intensified competition ("involution"), and weaker real estate sentiment led to negative YoY growth across infrastructure, manufacturing, and real estate investment, with real estate remaining the main drag. In trade, July exports (USD-denominated) reached USD 321.8bn, up 7.2% YoY, above market expectations of +5.6% and higher than June's +5.8%. Imports stood at USD 223.5bn, up 4.1% YoY, well above market expectations of -1.0% and higher than June's +1.1%. Exports surprised on the upside, with growth continuing to accelerate. Exports to the US fell sharply, but resilience to the EU and strong growth to ASEAN, Africa, and other regions partly offset the decline. On prices, July CPI was flat YoY and rose 0.4% MoM, while core CPI rose 0.8% YoY, up for three consecutive months. PPI fell 3.6% YoY and 0.2% MoM. In employment, the surveyed urban unemployment rate rose 0.2 percentage points to 5.2% in July. In credit, total social financing (TSF) increased by RMB 23.99tn in January–July, up RMB 5.12tn YoY. New TSF in July was RMB 1.16tn, while RMB loans fell by RMB 50bn. The M2–M1 scissors gap narrowed to 3.2 percentage points.

Overseas, US CPI in July rose 0.2% MoM and 2.7% YoY, slightly below the expected 2.8%. Core inflation rose to its highest since February, driven mainly by services. Overall inflation remained moderate. US nonfarm payrolls in July increased by 73,000, well below expectations of 104,000. May and June were revised down significantly by a total of 258,000, to 19,000 and 14,000 respectively, the largest downward revision since 2020. The July payroll report fell well short of expectations, with the scale of downward revisions shocking the market. After the release, rate-cut expectations rose sharply. US Treasury data showed tariff revenue surged to USD 28bn, up more than 270% YoY. The fiscal deficit reached USD 291bn for the month, and USD 1.63tn cumulatively in the first ten months, still at high levels. Q2 real GDP growth was revised to 3.3% from 3.0%. The core PCE price index was revised to 2.5%, in line with expectations. At the Jackson Hole symposium, Fed Chair Powell noted that labor supply and

demand are softening together, job market downside risks are increasing, while inflation risks remain to the upside. The new policy framework removed references to the “average 2% inflation target,” suggesting future monetary policy will be more flexible.

Policy Measures

On August 5, the PBoC and six other departments issued Guidelines on Financial Support for New Industrialization, targeting by 2027 to basically establish a financial system aligned with high-quality manufacturing development, focusing on financing for key technologies, industrial chain resilience, and digital infrastructure, while stressing prevention of “involutional” competition and tilting toward new productive forces. On August 9, the Ministry of Finance, together with the PBoC and the financial regulator, introduced the Implementation Plan for Fiscal Subsidy on Personal Consumption Loans, granting subsidies on small-scale consumer loans to lower household credit costs. This, combined with subsidies for trade-in programs and service-sector loans, aims to further stimulate domestic demand. On August 18, Premier Li Qiang chaired the State Council’s ninth plenary meeting, emphasizing the need to continue unleashing consumption potential, cultivate new growth areas, expand effective investment, promote private investment, and take strong measures to stabilize the property market.

Market Performance

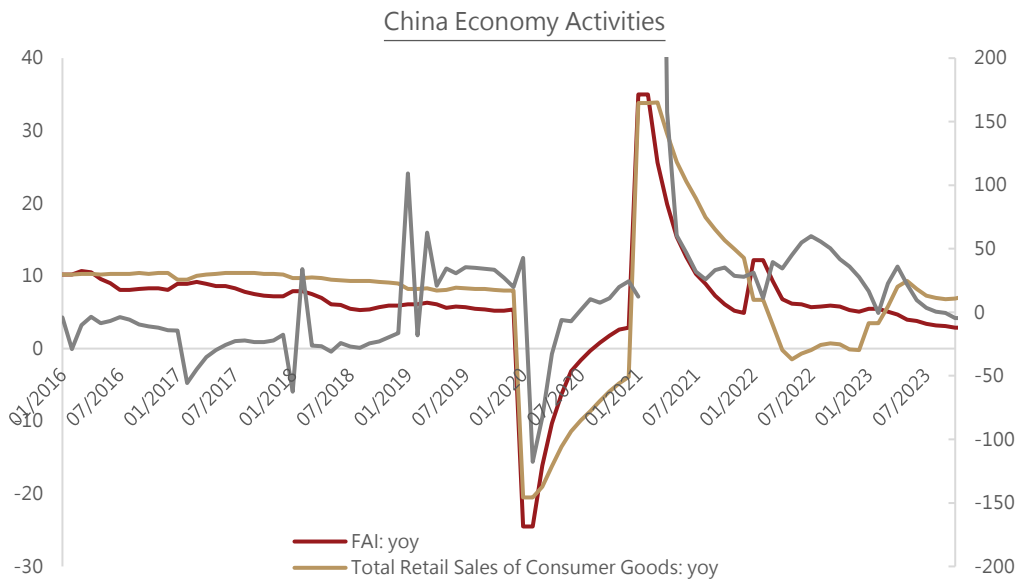
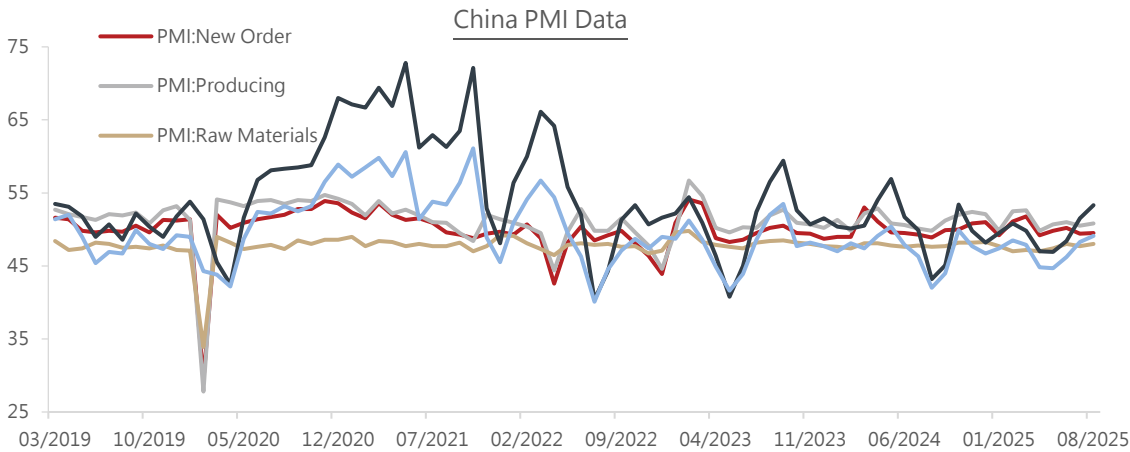
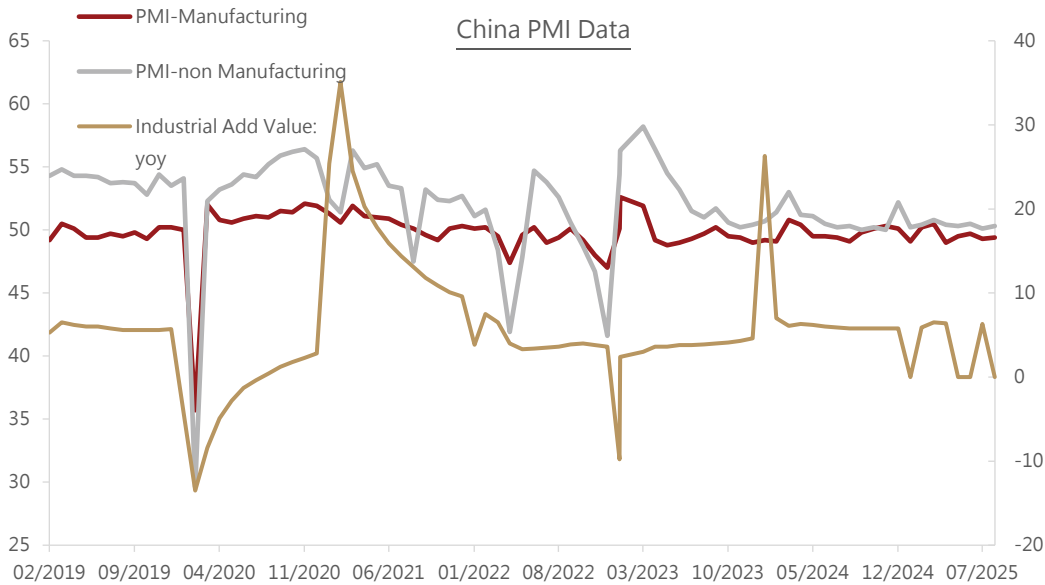
Greater China Indices	August Close	Monthly % Change	YTD %	52 Week Low	52 Week High
CSI 300	4496.76	10.33	14.28	3145.79	4548.89
MSCI China	82.23	4.17	27.07	54.37	84.95
HSI	25077.62	1.23	25.01	16964.28	25918.86
HSCEI	8947.79	0.73	22.74	5928.37	9295.86
Global Indices					
S&P 500	6460.26	1.91	9.84	4835.04	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

The Hong Kong interim reporting season has concluded. Overall earnings growth was slightly below expectations. Aside from a few tech names posting strong results, most companies missed and provided little positive guidance. Fundamentally, while there are some domestic economic highlights, the overall picture remains weak, with limited top-down drivers. Recently, HIBOR rebounded sharply, and short-term liquidity tightened at the margin, adding pressure to the market. Looking ahead, the Fed is widely expected to cut rates in September, which should help improve risk appetite in Hong Kong equities. However, macro conditions still lack strong aggregate logic. The October Politburo meeting and the Fourth Plenary Session of the 20th Central Committee will be key windows to watch for policy direction and potential stimulus measures. We will continue to focus on sectors and companies related to China’s drive for technological self-sufficiency, including opportunities in tech hardware, AI, internet, and innovative drugs. We will also pay attention to industries benefiting from reduced “involution” and to high-quality SOEs and central SOEs as dividend plays.

Risk

- Sharper-than-expected slowdown in the US economy.
- Contraction in market trading volumes.



Market sentiment improved in August amid rising expectations for interest rate cuts, with non-USD assets broadly outperforming. The Fed faced heightened political pressure, contributing to internal divisions and a surprisingly dovish shift from Powell, which drove short-term rates lower. Most asset classes ended the month higher, led by equity markets in China, Europe, and the U.S., though crude oil lagged. Economic data revealed concerns in the U.S. labor market following downward revisions to employment figures, placing greater emphasis on the upcoming non-farm payrolls report. Inflation remained contained despite tariff impacts, while Japan's inflation surprised to the upside and Europe maintained steady growth.

Looking ahead, the overall market was relatively quiet during the summer, with US stocks repeatedly hitting new highs and a large number of asset valuations at historical highs. The risk of a short-term market correction is increasing. Against the backdrop of de-dollarization, the overall investment opportunities in fixed-income assets in non-USD currencies such as the renminbi, euro, and Australian dollar are worthy of attention.

Market Performance

With expectations of rate cuts warming up in August, the overall market sentiment was positive, and non-USD assets once again outperformed USD assets. A series of actions by Trump raised market concerns about the independence of the Federal Reserve. Internal divisions within the Fed widened, and Powell unexpectedly turned dovish at the Jackson Hole meeting, leading to a rapid decline in short-term interest rates. Positive developments in tariff and geopolitical negotiations also supported market sentiment. For the full month, most assets closed higher. US stocks rose first and then fell, while Chinese and European stock markets led the gains. Crude oil performance was relatively weak.

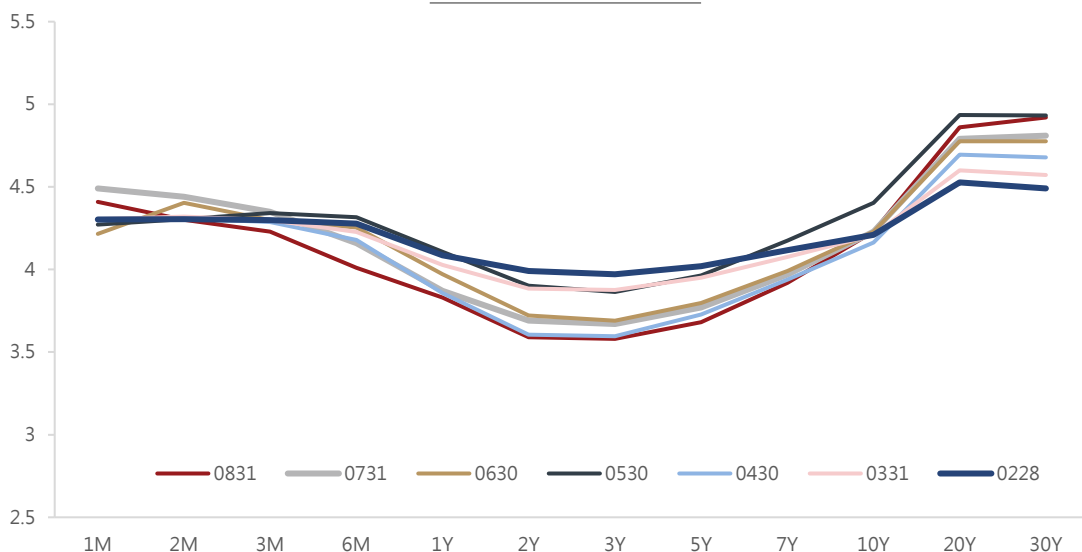
United States	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	3.62	-34	-63	3.43	4.42
5Y	3.70	-28	-66	3.38	4.62
7Y	3.93	-23	-52	3.48	4.72
10Y	4.23	-15	-30	3.60	4.81
30Y	4.93	3	18	3.89	5.15

China	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
3Y	1.42	-3	23	1.09	1.70
5Y	1.64	5	22	1.33	1.91
7Y	1.75	6	14	1.49	2.19
10Y	1.79	7	7	1.59	2.25
30Y	2.08	13	13	1.80	2.45

Japan	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	0.87	5	27	0.32	0.89
5Y	1.15	5	40	0.44	1.19
7Y	1.37	6	52	0.53	1.42
10Y	1.60	5	50	0.80	1.65
30Y	3.19	10	89	1.97	3.31

Germany	Last Price %	1M chg bp	YTD chg bps	52W low%	52W high%
2Y	1.94	-2	-14	1.62	2.44
5Y	2.26	-4	10	1.84	2.61
7Y	2.43	-1	28	1.83	2.71
10Y	2.72	3	36	2.01	2.94
30Y	3.34	16	74	2.26	3.43

U.S. Treasury yield curve





Economic Data

The unexpected downward revision of US employment data for May and June triggered market concerns about the labor market. The September non-farm payrolls and the upcoming annual non-farm payroll adjustments may become the most important factors influencing the Fed's monetary policy direction in September. In terms of inflation, the impact of tariffs has gradually been reflected in the data, but it appears to be manageable at present. Monthly data on consumption, investment, and business sentiment were largely within expectations. In other countries, the European economy continued to maintain a steady upward trend, while Japan's inflation once again exceeded expectations, causing some market concern.

CDX Index	Current Value	1M chg bp	YTD chg bps	52W low%	52W high%
IG CDX	51	(0)	1	46	86
HY CDX	322	(1)	8	286	498
EM CDX	145	(9)	(7)	143	242
Bond index					
ICE Asian Dollar Corporate	500	1.3%	6.2%	469	500
ICE China Issuers Dollar IG Corporate	233	1.2%	5.8%	219	234
ICE China Issuers Dollar HY Corporate	198	0.9%	8.0%	173	198
ICE US Corporate	3510	1.0%	5.3%	3290	3518
ICE US High Yield	1828	1.2%	6.3%	1688	1829
ICE Emerging Markets Corporate	493	1.4%	7.4%	456	493
Bloomberg Global-Aggregate	497	1.5%	7.1%	456	498
Bloomberg Global-Aggregate 1-3 Year	188	1.5%	7.4%	173	188



US Treasury

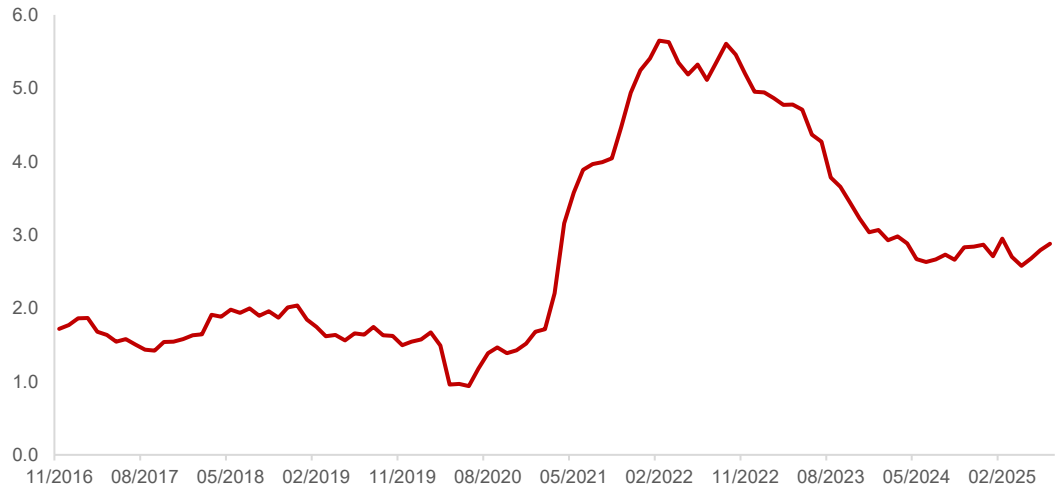
The US Treasury yield curve steepened significantly. At the end of the month, the market priced in a probability of over 90% for a 25bp rate cut in September, with the total rate cut for the year exceeding 50bp, a significant increase from the beginning of the month. Long-term US Treasury bonds fluctuated within a range, with market concerns about inflation and global fiscal pressure suppressing the performance of long-term US Treasuries and other developed market long-term bonds. In the corporate bond market, the overall primary issuance was relatively quiet. Credit spreads showed a V-shaped trend throughout the month, tightening first and then widening, technically still reflecting the struggle between spread investors and yield investors. In terms of Chinese bonds, US dollar bonds continued to perform well, following the equity market, while Dim Sum bonds weakened somewhat with the rise of the RMB benchmark interest rate.

Outlook

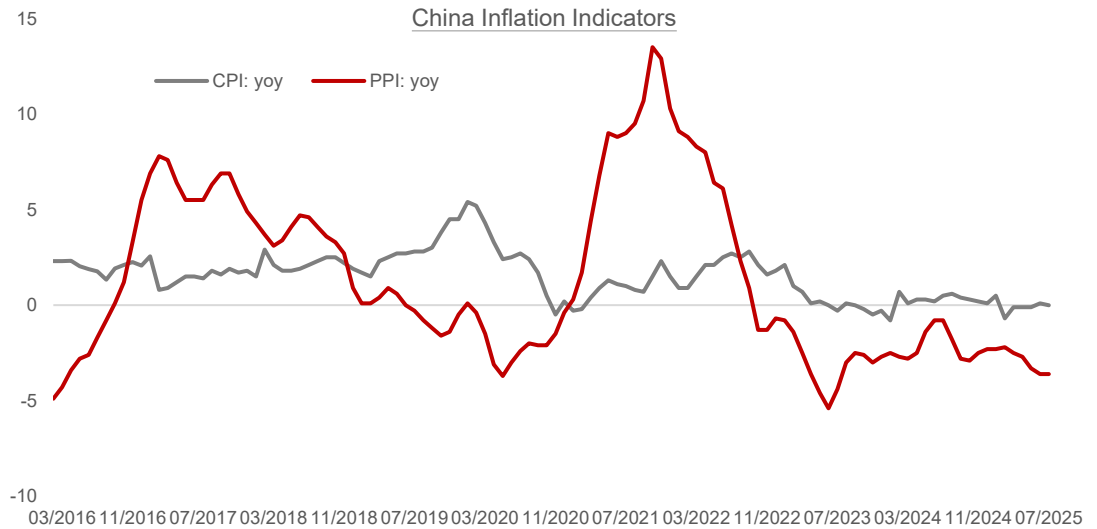
The overall market was relatively quiet during the summer, with US stocks repeatedly hitting new highs and a large number of asset valuations at historical highs. Trump's constant pressure on Powell and his determination to dismiss hawkish committee member Cook have raised market concerns about the independence of the Federal Reserve. Currently, it seems that the two factions within the Fed are at a standstill. Considering the possible "triple kill" of stocks, bonds, and currency if the Fed loses its independence, and Trump's supportive attitude towards the market, especially US stocks, his nomination for the next Fed chair may be relatively moderate. Market concerns about trade and geopolitical conflicts have further subsided, but it is now more important to pay attention to the risk of a reversal of overly optimistic expectations and domestic political risks represented by countries such as France and Indonesia. The risk of a short-term market correction is increasing.

The US dollar weakened again in August, and de-dollarization trades have made a comeback and may become a medium- to long-term trading trend. For US Treasuries, we are currently relatively neutral. The short-end market has priced in the rate cuts quite fully, and the demand from foreign investors for long-term US Treasuries is still unclear, but they still have good medium-term allocation and short-term trading value. In the corporate bond market, there may be some adjustments in the short term against the backdrop of a supply wave and extremely expensive valuations. However, unless there is a sharp decline in US stocks or a black swan event, technical support will still make every market correction an opportunity to add to positions. In addition, against the backdrop of de-dollarization, the overall investment opportunities in fixed-income assets in non-USD currencies such as the renminbi, euro, and Australian dollar are worthy of attention.

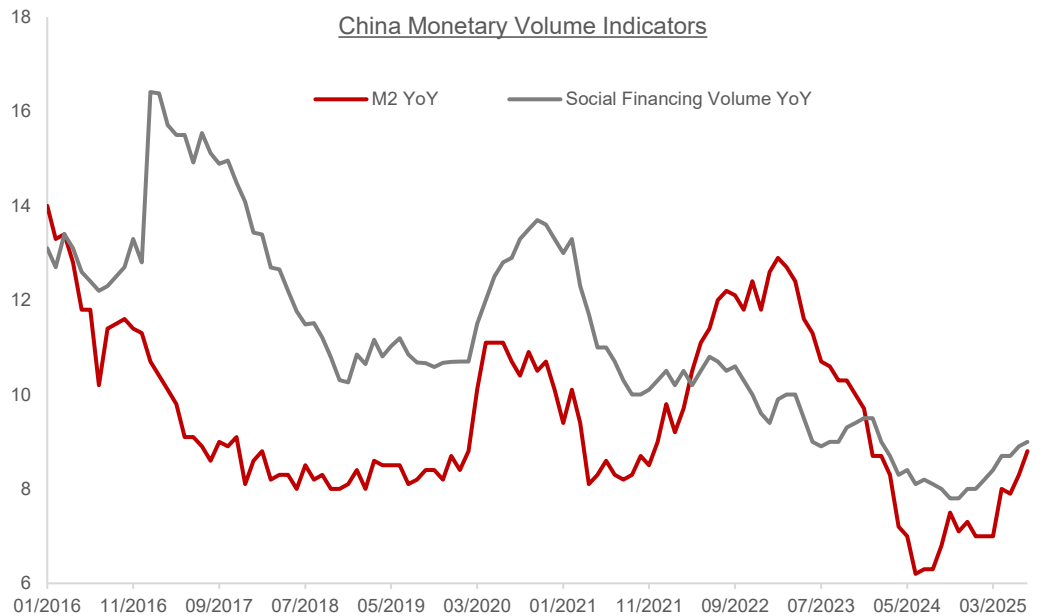
US CORE PCE



China Inflation Indicators



China Monetary Volume Indicators



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