2026

Investment Outlook

Contents

China Equity Market

2025 Market Review

Overall, China's equity market delivered a solid performance in 2025, ranking among the stronger performers across major global equity markets, particularly as reflected by the Shenzhen Component Index and the Hong Kong Hang Seng Index.

Chart 1: Global Major Indices Performance

	Performance in 2025	Performance over the Past Three Years
Korea KOSPI	69.1%	71.9%
Spain IBEX35	45.9%	108.6%
Vietnam VN30	41.5%	78.9%
Brazil IBOVESPA	31.8%	54.2%
Italy FTSE MIB	28.7%	85.7%
Mexico S&P/BMV IPC	27.7%	27.4%
SZSE	26.9%	17.0%
Hong Kong Hang Seng Index	26.6%	30.6%
Nikkei 225	24.3%	80.2%
Russian Trading System Index (RTSI)	23.3%	6.1%
IDX Composite Index (Indonesia)	22.9%	27.7%
TAIEX	21.0%	91.8%
Germany DAX30	20.9%	73.3%
Nasdaq Composite	19.7%	115.9%
FTSE 100	18.5%	32.1%
MSCI World Index (Developed Markets Only)	18.3%	68.4%
Euro STOXX 50	16.8%	50.3%
S&P 500	15.6%	76.5%
SSE	15.5%	22.2%
Turkey ISE National-100	15.4%	117.7%
Dow Jones	13.1%	46.2%
Russell 2000	13.0%	42.9%
FTSE China A50	12.7%	15.1%
France CAC40	9.8%	25.6%
NIFTY 50 Index (India)	9.1%	41.2%
S&P/ASX200	5.2%	20.1%
CBOE Volatility Index	-5.0%	-27.1%

Source: Investing.com; data as of December 16, 2025.

Phase One Mid-January to Early April in 2025

At the beginning of 2025, President Trump invited Chinese leaders to attend his inauguration, leading investors to improve their short-term expectations regarding China-U.S. relations and triggering a market rebound.

From late January through the period leading up to the Spring Festival, the domestically developed large AI model DeepSeek attracted global attention, while the film Ne Zha 2 achieved both phenomenon-level public acclaim and box office success. These developments alleviated investor concerns over China's technological progress and consumer creativity, and contributed to a re-rating of technology-related assets.

In March, the market initially rose and then entered a phase of volatility. Consumption subsidies and improving economic expectations supported faster growth in consumption, while secondary home sales and housing prices also showed signs of recovery. However, toward the latter part of the month, markets began to express concern over President Trump's proposed "reciprocal tariffs."

On April 2, the United States announced tariffs that exceeded market expectations, leading to a sharp global equity sell-off. Subsequently, President Trump postponed certain tariff measures, while the Chinese government stabilized market liquidity to anchor expectations. After April 9, equity markets stabilized and rebounded.

Phase Two Mid-April to Mid-Year in 2025

During this phase, China's equity market experienced a volatile upward trend. On one hand, investors gradually recognized the variability of Trump's policy stance, and the negative impact of tariffs continued to diminish. At the same time, international capital flowed out of U.S. dollar assets and back into non-U.S. markets, providing support to Hong Kong equities. In early May, the resumption of China-U.S. trade negotiations further eased concerns over an escalation of a "tariff-driven trade war."

On the other hand, sales data for new consumption categories in China improved, while breakthroughs in the licensing-out of innovative biotech drugs once again highlighted China's technological progress and consumer creativity. However, improvements in the domestic real estate sector slowed during this period while inflation data remained subdued. These reflected a weak underlying economic momentum and rising deflationary pressures. After front-loaded export activity in April exceeded expectations, export growth began to decelerate in May. Against this backdrop, investors showed a greater preference for high-dividend sectors such as banks, as well as high-prosperity segments including new consumption and biotechnology.

Phase Three Third Quarter of 2025

Against the backdrop of policy support in China, a weak but ongoing economic recovery, and improving global liquidity, both A-share and Hong Kong equity markets recorded volatile gains. Technology sectors, including biotechnology and the AI industry chain, became the core drivers, with the market exhibiting a growth-oriented style.

In the early part of the third quarter, small- and mid-cap stocks were more active, before large-cap stocks took over as core drivers later in the period. The Fed's 25-basis-point rate cut in September improved external liquidity conditions and encouraged capital inflows into Hong Kong equities. Hong Kong overnight HIBOR has rebounded since August and fluctuated at elevated levels in September, resulting in marginal liquidity tightening while overall conditions remained ample, further contributing to the shift toward large-cap leadership.

Phase Four Fourth Quarter of 2025

During this phase, China's equity market experienced broad-based volatility. In early to mid-October, renewed escalation of China-U.S. trade frictions triggered sharp market fluctuations. The United States imposed additional fees on Chinese shipping vessels and tightened chip-related restrictions, while China responded with rare earth export controls. Subsequently, the U.S. government indicated plans to impose tariffs of up to 100% on Chinese goods, causing the Hang Seng Index and the CSI 300 Index to retreat by 5 to 10 percent at one point.

From late October to November, meetings between Chinese and U.S. leaders resulted in a phased easing of trade tensions, while the Fed implemented its second rate cut of the year, supporting global liquidity. A-share and Hong Kong equity markets rebounded in early November. However, a U.S. government shutdown and indications from the Fed that a December rate cut was not guaranteed limited the strength of the recovery.

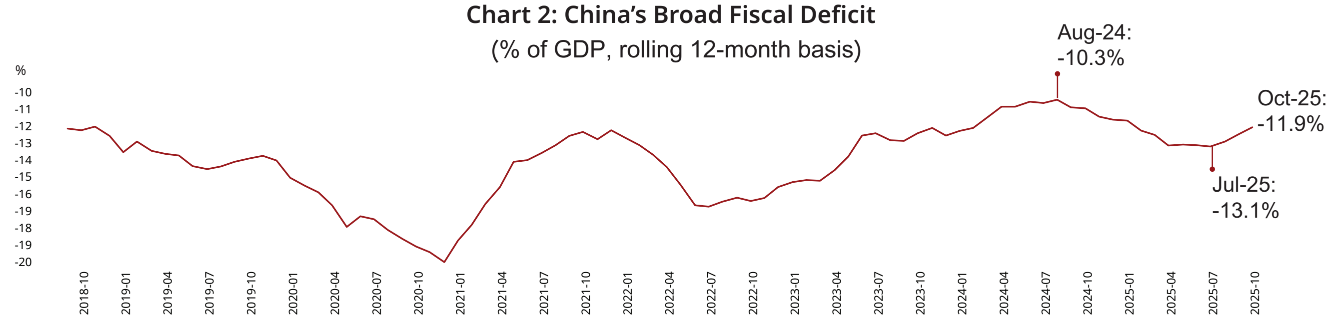
China's economic data in the fourth quarter was notably weak. Growth in retail sales slowed, investment growth declined sharply, and previously resilient export growth began to weaken in November. Secondary home prices also accelerated their decline in October, leading to an overall deterioration in confidence among households and enterprises. From a market structure perspective, sectors such as banking, insurance, AI applications, non-ferrous metals, and oil continued to strengthen during the fourth quarter, while technology, consumer, and healthcare sectors experienced short-term rotation. This reflects that during a weak economic environment, investors have partially returned to high-dividend sectors, commodity-related sectors benefiting from price increases, and AI application segments supported by frequent news catalysts.

Drivers Behind the Shift in the China's Equity Market

Since September 2024, China's equity market has reversed the prolonged weakness following three consecutive years of bearish performance. We believe four key factors have driven this shift: China's broad fiscal deficit moving from contraction to expansion; renewed recognition and reassessment of China's technological progress; the effectiveness of multiple government measures aimed at stabilizing capital markets; and relatively accommodative domestic and external monetary conditions. Together, these factors have supported a partial recovery in market valuations.

Chart 2: China's Broad Fiscal Deficit

(% of GDP, rolling 12-month basis)



Source: Morgan Stanley internal reference; data as of October 2025.

External factors, including evolutions in U.S. trade policy, progress and news flow in the AI industry, and changes in expectations for Fed rate cuts, together with internal factors such as economic growth and inflation data, fiscal and industrial policies, as well as market-driven rotation resulting from sector overperformance and underperformance, jointly influenced market pace and structure.

- Review
  - 24/09/2024 Drivers behind the shift in China's equity market
    - China's broad fiscal deficit has shifted to expansion
    - Capital markets stabilization mechanism
    - Keeping pace with global technological progress
    - Accommodative domestic and external liquidity conditions
  - Current phase of China's equity market
    - Markets have recovered from pessimistic expectations, and valuations have entered an earnings-driven phase
    - Fiscal policy is the core stabilizer of the economy, and upgrading is the core driver to unlocking a long-term valuation breakthrough
    - External geopolitical environment improves and current market expectations are neutral to mildly optimistic
    - External liquidity conditions fluctuate

Current Phase of the China Equity Market

First, valuations have recovered to levels above historical averages, although the degree of deviation and absolute valuation levels remain below those of major global equity indices;

Second, domestic demand remains insufficient. In the short to medium term, fiscal policy remains the core stabilizing force for the economy. After eleven months of expansion, fiscal activity has begun to show signs of contraction;

Third, the marginal impact of external geopolitical factors on equity markets has declined, although uncertainty remains elevated. Current market expectations are neutral to mildly optimistic;

Fourth, the domestic liquidity environment is expected to remain accommodative. The U.S. dollar has entered a rate-cutting cycle, although the degree of monetary easing remains uncertain.

2026 Market Outlook

Looking ahead to 2026, we expect China's economy to remain broadly stable. However, constrained by insufficient domestic demand, the economy has yet to gain strong momentum. Economic growth will continue to require fiscal policy support, particularly measures aimed at stabilizing the real estate market, as continued declines in secondary home prices would place pressure on the balance sheets of households and banks.

Producer and consumer price indices are expected to remain at low levels, although CPI may turn mildly positive in 2026. Export growth is likely to slow due to a high base effect, while GDP growth is expected to remain in the range between 4.0 and 4.5 percent, contingent on policy support for consumption and investment. Overall, economic growth may remain subdued but retains a degree of resilience.

Within the economic structure, certain sectors are expected to maintain relatively high levels of activity, including the AI industry chain, globally oriented advanced manufacturing, and biotechnology.

We expect U.S. policy toward China to remain broadly stable through the middle of next year. However, with the transition of the Fed Chair and the approach of U.S. midterm elections, China-U.S. relations may once again become more strained. Nonetheless, we believe the marginal impact of U.S. government actions on global investor sentiment will gradually decline.

Outside of AI-related investment, the U.S. economy remains relatively weak. Although the near-term probability of rate cuts has declined, we expect the rate-cutting path over the coming year to remain relatively smooth, and the likelihood of a significant appreciation in the U.S. dollar index appears low. Liquidity conditions in the Hong Kong equity market are unlikely to tighten materially and should continue to provide support.

If China's policy focus remains on stabilizing economic growth and equity markets, we expect the market to trade in a volatile range. But there will still be opportunities to generate potential returns through sector rotation and stock selection within high-prosperity segments. Should the government introduce clear policies to support household consumption, such as social security reforms, the market could move higher overall, with traditional consumption sectors potentially experiencing valuation recovery.

Asset Allocation Strategies for 2026

In the first half of 2026, we recommend maintaining a relatively proactive allocation stance, with a focus on non-ferrous metals, internet platforms, robotics, innovative pharmaceuticals, insurance, and consumption-related sectors. From a style perspective, a balance between growth and value is preferred, with positioning in areas would benefit from the long-term AI trend and marginal improvements in domestic demand.

In the second half of the year, close attention should be paid to whether President Trump, following the transition of the Fed Chair, may reintroduce restrictive measures toward China in response to midterm election pressures. Should external geopolitical conditions facing China deteriorate, we would favor more defensive, high-dividend sectors.

Potential Risk Factors and Events

First, the risk of a reversal in Fed policy. Fed's stance may shift if commodity inflation goes out of control, particularly when sharp increases in oil and agricultural prices drive broader inflation beyond expectations. And if market consensus around multiple rate cuts shifts toward a more hawkish stance, there may be significant headwinds for China's offshore markets.

Second, renewed deterioration in China-U.S. relations. While markets generally expect a period of relative easing, the 2026 U.S. midterm elections could reverse the current trajectory, leading to a sharp deterioration in sentiment and heightened downside risks.

Third, the bursting of an AI investment "bubble." The AI sector currently exhibits high activity, concentrated positioning, and elevated expectations, and serves as a key thematic support for global equity markets. If investment fails to translate into sustained demand growth, a phase of deteriorating cash flows and reduced investment could trigger market adjustments.

Unless otherwise stated, data is sourced from Bloomberg, ChinaAMC(HK), as of December 24, 2025.

Global Bond Markets

2025 Global Bond Market Review

In 2025, the global macroeconomic environment advanced amid what can be described as a "fractured prosperity." On one hand, technological breakthroughs in artificial intelligence generated strong growth momentum and created a veneer of prosperity in certain asset prices. On the other hand, the economic fundamentals of the United States and many other countries were significantly eroded by trade frictions, rising debt risks, and heightened policy uncertainty. Early in the year, the "DeepSeek moment" in the AI sector, together with U.S. President Trump's larger-than-expected reciprocal tariff policy announced on April 2, placed pressure on risk asset prices and intensified demand for de-dollarization. Subsequently, as the United States reached trade agreements with multiple countries and major technology companies accelerated the release and investment of AI models, risk assets recovered rapidly over the following six months.

At the same time, U.S. labor market data weakened noticeably. Since September, the Federal Reserve (Fed) implemented three consecutive interest rate cuts of 25 basis points and restarted a technical expansion of its balance sheet. Concerns surrounding sovereign credit, private credit, and the long-term returns of AI investment persisted throughout the year. However, supported by accommodative macro liquidity conditions and the continued advancement of artificial intelligence, global asset prices maintained an upward trend, with equity markets in both developed and emerging economies recording gains.

In fixed income markets, government bond yield curves in most developed economies steepened, with U.S. Treasuries delivering relatively strong performance among developed markets. Across other asset classes, the U.S. dollar weakened significantly, while precious metals such as gold rose more than 60 percent in 2025 amid concerns over monetary credibility. Most commodities, excluding crude oil, also performed well.

Within bond markets, coupon income remained the primary source of returns. As of December 19, the Bloomberg Global Aggregate Index (unhedged) rose by 7.66 percent, with the majority of subsectors delivering full-year returns exceeding 6 percent. Among all subsectors, global credit bonds outperformed government bonds for the third consecutive year. U.S. high yield bonds and investment grade bonds recorded similar returns, while emerging markets outperformed developed markets. Chinese-issued investment-grade U.S. dollar (USD) bonds achieved positive monthly returns in each of the first eleven months of the year. In addition, bonds with intermediate duration delivered the strongest performance.

Chart 3: 2025 Global Bond Market Performance

Index	2021	2022	2023	2024	2025
European high-yield bonds	-1.6%	-18.3%	16.4%	3.6%	16.2%
Emerging market sovereign bonds	-3.6%	-18.8%	10.9%	4.4%	14%
Asian high-yield bonds	-17.5%	-21.8%	4.8%	16.4%	10%
Emerging market corporate bonds	-1.9%	-14.8%	7.9%	6%	9.6%
US high-yield bonds	5.4%	-11.2%	13.4%	8.2%	8.5%
Asian USD bonds	-3.1%	-12.6%	7.2%	4.9%	8.1%
US investment-grade corporate bonds	-1.0%	-15.4%	8.4%	2.8%	7.8%
Chinese-issued investment-grade USD bonds	-0.2%	-9.9%	6.8%	5%	7.7%
Developed market sovereign bonds	-6.9%	-18%	3.6%	-4.2%	6.4%
US treasury bonds	-2.4%	-12.9%	3.9%	0.5%	6.2%
European investment-grade corporate bonds	-0.8%	-16.4%	8.3%	4.4%	2.2%
Chinese-issued high-yield USD bonds	-33.3%	-33.3%	-20.5%	19.3%	-0.5%

Source: Bloomberg, as of December 31, 2025

Entering 2026, global macro markets are set to open amid multiple conflicts and competing forces:

- Robust expansion in the U.S. AI sector versus weakness in traditional industries;
- A Fed facing slowing employment growth versus resilient economic activity and renewed inflation pressures;
- The need for fiscal expansion in developed economies versus rising medium- to long-term debt burdens;
- Recovery in domestic demand across emerging markets, such as China versus persistent trade and geopolitical uncertainty;
- Relatively solid corporate fundamentals versus elevated asset valuations.

We expect that the U.S. economy, as the foundation of AI development and global liquidity, will remain the primary driver of global asset performance in 2026. At the same time, attention should be paid to whether China and Europe can achieve economic reacceleration, as well as to developments in U.S.-China relations, geopolitical dynamics in the Middle East and the Russia-Ukraine conflict, and shifts in far-right political ideologies.

2026 Global Bond Market Outlook

U.S. Macro and Interest Rate

Despite tariff disruptions and a gradually weakening labour market in 2025, the U.S. economy continued to deliver solid growth, supported by AI-driven investments.

Looking ahead to 2026, under our base case scenario, we expect the U.S. economy is likely to achieve a soft landing. Growth may remain flat or slow relative to 2025, with downside risks exceeding upside surprises. Fiscal stimulus is expected to become more visible following the implementation of the One Big Beautiful Bill, while household wealth effects are likely to persist, providing baseline support to economic activities.

Looking closer, leading indicators suggest that real estate investment is likely to remain relatively subdued. Industrial investment is currently highly concentrated in AI-related sectors and may face a moderation in growth in 2026. Weakening employment conditions, widening income inequality, and the pass-through of tariff costs to consumers are all possible factors to exert pressure on household consumption.

We believe that rising commodity prices alone would unlikely generate significant renewed inflationary pressure, although the path back to the 2 percent inflation target remains long. Structural changes driven by immigration dynamics and the AI revolution are key contributors to labour market weakness, suggesting that employment conditions may remain under pressure in 2026, particularly in the first half of the year. At the same time, improvements in productivity may influence the Fed's policy decisions.

We expect the risk of disruptions to Fed independence under the new Chair to remain manageable. Beyond rate cuts determined by economic data and asset market performance, the Fed may further refine its monetary policy toolkit to address increasing volatility in money market liquidity as bank reserve conditions transition from "ample" to "adequate." In summary, the Fed currently retains sufficient policy tools to respond to potential risks.

From a broader perspective, the U.S. fiscal deficit ratio in 2026 is expected to rise relative to 2025, with Treasury issuance expected to continue its increasing trend. However, guidance from the Congressional Budget Office indicates that overall conditions remain relatively manageable, and market expectations are largely well prepared. Incremental supply and demand are expected to pile up in short-duration bonds. As the Fed halts balance-sheet runoff, activates the Reserve Management Purchase, and clarifies its objective to shorten the maturity profile of its System Open Market Account holdings, part of the increased pressure from additional short-term Treasury-bill supply is expected to be absorbed directly.

For long-term USD bonds, we are more concerned about demand-side risks amid rising global long-term yields than about supply increases. As pressures related to U.S. dollar credibility ease, we expect the correlation between U.S. equities and bonds to return to a more typical negative relationship. Accordingly, we expect long-term U.S. Treasury yields in 2026 to exhibit a range-bound pattern, characterized by gradual upward movement for most of the year and periodic sharp pullbacks, with the ten-year yield fluctuating would remain at around 4.2 percent.

Fiscal expansion cycles across developed markets are likely to generate resonance effects. However, as the U.S. midterm elections approach, President Trump's external policy stance may experience periodic reversals, contributing to heightened volatility.

For Europe, we expected that improved efficiency in fiscal policy implementation and endogenous growth momentum may support regional economic performance in 2026. For Japan, we expect the new Prime Minister's policy focus to remain domestically oriented, while easing inflation would delay further interest rate hikes by the Bank of Japan. For emerging markets, following stronger-than-expected equity and currency performance in 2025 amid U.S. dollar depreciation, overall growth momentum in 2026 may soften marginally, with increased regional divergence.

U.S. Dollar Credit Markets

Global credit spreads widened briefly in mid-April, but over the full course of 2025, credit spreads in Europe and the United States compressed further to historical lows. As a result, we maintain a relatively cautious view on the performance of developed market credit bonds in 2026.

1.From a fundamental perspective: While credit conditions across most sectors remain at favourable levels relative to the past two decades, we expect marginal deterioration in fundamentals in 2026 as corporate investment demand increases. Credit rating downgrades are likely to exceed upgrades, and we remain cautious toward sectors such as energy and chemicals, automotive, and business development companies.

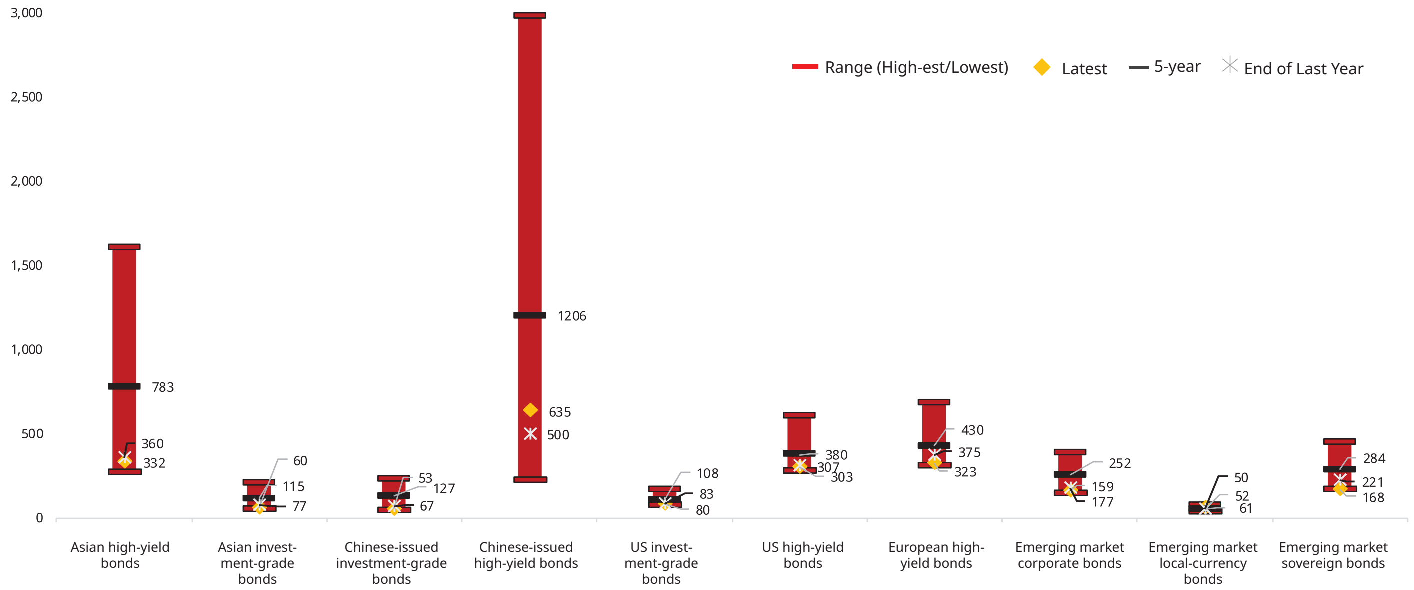
2.From a supply and demand perspective: Declining interest rates are expected to drive a resurgence in corporate mergers and acquisitions as well as increased financing demand from hyperscale cloud service providers. We expect the net supply of U.S. dollar credit bonds across most markets to rise meaningfully in 2026 relative to 2025. Specifically, the Technology, Media and Telecommunications sector may continue the elevated issuance pace observed since September 2025. In the meantime, issuance from the financial sector may remain relatively contained due to regulatory easing. Insurance companies and overseas investors were the primary sources of incremental demand in 2025, but both groups may face constraints on additional demand growth in 2026.

3.From a valuation perspective: Investment-grade credit spreads in developed markets currently sit within the most expensive 5 percent range of the past decade, with the credit spread of the U.S. investment-grade credit bond index accounting for less than one-sixth of its yield to maturity. Overall yield levels have declined by more than 50 basis points since the beginning of the year, leaving valuation attractiveness limited for investors focused on either spread or absolute yield.

Emerging Market U.S. Dollar Bonds

Global investors are expected to have limited capacity to further increase allocations in 2026. Incremental demand is likely to rely more heavily on local investor participation, making domestic currency performance and local bond market conditions increasingly important. Market divergence is expected to intensify.

Chart 4: An analysis of the performance and valuation of major credit markets



Source: Bloomberg, as of December 22, 2025

2026 Bond Allocation Strategy

Based on our market outlook, we believe that portfolio positioning should focus on overall duration management and the identification and diversification of asset classes.

On one hand, current credit spreads offer limited potential for incremental yield enhancement. The probability and payoff of generating excess returns from credit migration are relatively low. As a result, a more proactive and disciplined active management framework will be increasingly important in 2026, with duration management becoming a key driver of portfolio performance.

Significant divergence exists in market expectations regarding the future interest rate path. This environment of two-way risk calls for a prudent and flexible approach to duration positioning, avoiding excessive exposure to one-directional rate bets. Bonds with maturities around five years are expected to serve as the bedrock of portfolio returns through coupon income and valuation appreciation driven by declining duration. For long-term bonds, we believe the current credit spread curves are overly flat, with meaningful steepening potential in 2026. Allocation strategies should therefore focus on capturing tactical trading opportunities in long-duration rate bonds.

On the other hand, we suggest continuing to diversify allocations across sectors and countries. Meanwhile, attractive tactical allocation value and investment opportunities may emerge as the supply of Chinese-issued USD bonds declines and valuations of traditional credit bonds climb, as follows:

1.Offshore renminbi bonds: Policy initiatives, expanding market size, onshore-offshore valuation differentials, and low correlation with developed market bonds;

2.Mortgage-backed securities (MBS): Minimal credit risk, attractive relative valuation versus credit bonds, and relatively high coupon income;

3.Chinese-issued convertible bonds: Supplement the shrinking Chinese-issued high-yield USD bond market and provide additional return potential;

4.Bonds denominated in currencies such as the Australian dollar: Favourable primary-secondary market price spread, higher post-swap yields, and opportunities amid de-dollarization.

In summary, we aim to achieve long-term stable investment returns through solid credit risk control, active duration management and diversified allocation.

Risk Factor: The bursting of an AI bubble, unexpected shifts in monetary or fiscal policy, and the escalation of geopolitical conflicts.

Source: Bloomberg, ChinaAMC(HK), as of December 22, 2025.

RMB Market

The spot exchange rate of offshore renminbi (RMB) against the U.S. dollar (USDCNH) declined from 7.336 to 7.03, representing a 4% appreciation of the RMB, in line with our prior assessment that the RMB would appreciate steadily in 2025.

RMB appreciation was primarily driven by de-dollarization trends, U.S. dollar weakness under Fed rate cuts, and strength in A-share markets supported by economic recovery and valuation repair.

However, compared with the roughly 10% depreciation of the U.S. dollar and the stronger appreciation seen in other Asian and emerging market currencies, the RMB's gains were relatively modest. This indicates that the RMB index remains highly correlated with the U.S. dollar index, while RMB volatility remains comparatively low.

Against expectations of two to three Fed rate cuts in 2026 and a pause in rate cuts and reserve requirement reductions by the PBOC, **we expect the offshore RMB exchange rate against the U.S. dollar would remain stable with a mild appreciation bias, with a primary target range of 6.85 to 7.1**.

Looking back at 2025, the USDCNH swap curve exhibited a pattern of initial decline followed by a rebound. From the beginning of the year 2025 through May, swap rates declined, before rebounding thereafter. Currently, swap costs for one-month, three-month, six-month, nine-month, and twelve-month tenors stand at 2.3%, 2.2%, 2.1%, 2.0%, and 1.9%, respectively. Within this, three-month swaps have traded in a range of 0.8 to 3.2 percent, six-month swaps in a range of 1.3 to 3.0 percent, and one-year swaps in a range of 1.8 to 2.7 percent.

In contrast, the onshore USDCNY swap curve trended upward throughout the year, fully reflecting the narrowing China-U.S. interest rate differential. The decline in USDCNH swaps during the first quarter was primarily driven by accommodative offshore RMB liquidity conditions, forward settlement demand, and spot market movements. Looking ahead to 2026, we expect the primary driver of swap pricing would remain the China-U.S. interest rate differential, particularly the Fed's monetary policy. If monetary policy divergence narrows as expected, swap spreads are likely to continue to compress in a stable manner.

In the domestic market, compared with rate cuts of 20 to 30 basis points (bps) and reserve requirement reductions of 50 bps in the past two years, monetary easing in 2025 was limited to a 10-basis-point rate cut and a 50-basis-point reserve requirement reduction in May 2025. This was due to stronger equity market performance and reduced demand for liquidity easing. It is expected that only one further rate cut and reserve requirement reduction would take place in 2026.

Yields on two-year, three-year, five-year, ten-year, and thirty-year Chinese government bonds rose by 30 bps, 20 bps, 20 bps, 15 bps, and 30 bps, respectively. This was primarily due to front-end monetary easing falling short of expectations, and a recovery in risk sentiment at the long end driven by a "see-saw" effect between equities and bonds, which prompted partial position unwinding or stop-loss activity among long-duration bond holders.

Yields on offshore dim sum bonds followed a pattern of initial decline followed by a rebound, broadly consistent with offshore FX swap trends. The earlier decline was driven by accommodative offshore RMB liquidity conditions, increased bond allocation demand under the Southbound Connect, and excessive buying. The rebound from mid-2025 onward reflected a normalization of onshore interest rates and increased bond issuance supply.

Source:Bloomberg, ChinaAMC(HK), as of December 18, 2025.

Crypto Assets

2025 Market Review

Bitcoin

In 2025, Bitcoin declined by 5.66% on a year-on-year basis. Despite the establishment of a U.S. strategic reserve, the fully opening of institutional access and robust fundamentals, asset prices experienced a phase of adjustment due to liquidity pressure triggered by the liquidation of approximately USD 20 billion in leveraged positions on October 25.

Ether

Ethereum underwent a significant performance upgrade toward the end of 2025. On December 3, the Fusaka upgrade was completed, materially enhancing Layer-2 data capacity and scalability efficiency through PeerDAS technology, while improving the protocol's long-term economic sustainability. However, Ether declined by 11.12% in 2025, indicating a higher volatility profile relative to Bitcoin and a larger drawdown during periods of market adjustment.

Solana

Solana recorded active on-chain data performance during the year, with monthly active users reaching 98 million, and was incorporated into Kazakhstan's national blockchain strategy as a core component for advancing digital asset reserve development. However, due to its smaller market capitalization and higher volatility, Solana still recorded a significant decline of 34.80% in 2025 during the market downturn.

Major Events in 2025

March	**Trump signs executive order establishing a Bitcoin strategic reserve**	• On March 6, President Trump signed an executive order establishing a Bitcoin strategic reserve, mandating unified management of Bitcoin assets by the Treasury with no sales permitted. The order also created a reserve pool for non-Bitcoin digital assets and required comprehensive position disclosures by government agencies.
April	**Global tariff policies trigger a decline in risk appetite**	• On April 3, the United States declared a state of economic emergency and imposed tariffs globally, leading to a deterioration in market risk appetite. Bitcoin prices briefly retreated to approximately USD 75,000.
May	**JPMorgan's market entry drives prices to a new cyclical high**	• JPMorgan CEO Jamie Dimon shifted his stance and announced that clients would be allowed to purchase and pledge crypto assets, driving Bitcoin prices to approximately USD 110,000, marking a new high since President Trump took office.
September	**Harvard endowment allocation and rate-cut expectations push prices to a historical high**	• An increase in Bitcoin ETF holdings by the Harvard endowment, together with market expectations for two rate cuts in 2026, propelled Bitcoin prices to a historical high of approximately USD 125,400 in early October.
October	**China-related tariffs and tightening liquidity trigger a sharp market sell-off**	• President Trump announced additional tariffs on China, triggering risk-off sentiment and driving Bitcoin prices down to approximately USD 105,000, which in turn led to large-scale forced liquidations. At the same time, Treasury liquidity withdrawals significantly tightened market liquidity.
November	**Continued deleveraging pressure drives prices lower**	• Under sustained pressure from ongoing liquidation of leveraged futures positions since October, Bitcoin prices declined further to approximately USD 80,500.
December	**Institutional buying and accommodative policies support a rebound**	• Multiple positive factors, including sovereign fund dip-buying, a shift toward monetary easing by the Fed (halt to balance-sheet runoff, rate cuts, and a restart of asset purchases), fiscal liquidity returning to the market, pilot Bitcoin purchases by Texas, and the opening of investment channels by institutions such as Vanguard, collectively drove Bitcoin prices back up to approximately USD 92,100.

Crypto Market Catalysts in 2026

We remain optimistic about the medium- to long-term outlook for the crypto market, supported by the following key catalysts:

1.Potential quantitative easing policies

As the December policy meeting approaches, market attention has shifted from rate cuts to the possibility of a renewed large-scale asset purchase program by the Fed. Former New York Fed specialist Cabana forecasts that the Fed may initiate monthly Treasury purchases of approximately USD 45 billion in 2026 to alleviate reserve shortages and rising repo rates. This would imply a potential resumption of balance-sheet expansion, setting the tone for monetary policy in 2026. At the same time, with Chair Powell's term nearing its end, speculation regarding his successor is intensifying.

2.Policy influence of dovish officials

Dovish official Kevin Hassett maintains close ties with the crypto industry, having served as an advisor to a digital asset fund since 2021 before later becoming an advisor to Coinbase, while holding crypto-related equities valued at several million U.S. dollars. He currently coordinates the White House Digital Asset Market Working Group and is viewed as one of the key drivers of U.S. crypto policy.

3.The CLARITY Act expected to be signed in the first quarter of 2026

The Digital Asset Market Clarity (CLARITY) Act, a key piece of digital asset legislation, was passed by the House of Representatives on July 17, 2025, and is expected to be signed into law in the first quarter of 2026. The bill aims to provide long-missing regulatory certainty and a clear legal framework for digital assets in the United States, addressing overlapping jurisdictional authority among regulators.

4.The BITCOIN Act may be passed ahead of the 2026 midterm elections

Under existing proposals, Bitcoin may be designated as a strategic reserve asset, allowing government purchases of up to 5% of total Bitcoin supply.

5.Impact of the One Big Beautiful Bill Act and the GENIUS Act

The One Big Beautiful Bill Act, signed in July 2025, is an expansionary fiscal package encompassing tax cuts, spending adjustments, and reforms across multiple sectors, aimed at supporting economic growth and energy independence. It may provide support for risk asset prices, including crypto assets.

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), signed during the same period, represents the first comprehensive U.S. regulatory framework for payment-focused stablecoins. It imposes bank-like capital, liquidity, and compliance requirements on issuers and brings them under the Bank Secrecy Act. The legislation is expected to facilitate the expansion of the stablecoin market and inject additional liquidity into the broader crypto ecosystem.

6."Gold volatility parity" model points to a Bitcoin target price of USD 170,000

JPMorgan research[1] indicates that under the "gold volatility parity" model, maintaining risk-return parity between gold and Bitcoin implies a target Bitcoin price of approximately USD 170,000.

7.Divergence between global money supply and Bitcoin prices

In the medium to long term, global money supply (M2) and Bitcoin prices exhibit a positive correlation. While a temporary divergence has emerged following recent price adjustments, continued growth in global M2 would highlight Bitcoin's long-term allocation value in an environment of currency depreciation.

8.Continued accumulation of Bitcoin reserves by Digital Asset Treasury companies

The top ten publicly listed companies holding Bitcoin currently hold a combined total of 903,111 Bitcoins[2].

9.Expanding U.S. spot Bitcoin ETF scale reflects strong market demand

Stronger demand in the U.S. market relative to Asia has resulted in price premiums on Coinbase compared with platforms such as Binance. This premium reflects capital inflows and indicates that underlying market demand remains robust.

Medium- to Long-Term Catalysts

1.Stablecoin issuers as incremental demand for U.S. Treasuries

U.S. Treasury Secretary Bessent expects stablecoins to generate up to USD 3 trillion in incremental demand for U.S. Treasuries and the U.S. dollar by 2030. Liquidity generated through stablecoin market expansion may further support Bitcoin and the broader crypto market.

2.Hedging against inflation and currency depreciation

In an environment of fiat currency depreciation, Bitcoin may serve as one of the hedging tools for aggressive investors, alongside gold, inflation-linked bonds, and real assets, forming part of a defensive allocation framework.

3.Proposal for a U.S. Bitcoin strategic reserve

Senator Cynthia Lummis has advanced legislation to incorporate Bitcoin into the national strategic reserve, proposing the purchase of one million Bitcoins over five years to support U.S. dollar credibility, reduce debt, and promote financial innovation.

4.Gradual accumulation by institutional investors

From sovereign funds and family offices to pension funds and university endowments, a broad range of institutions are expected to gradually establish or expand Bitcoin allocations, indicating an accelerating trend toward institutionalization.

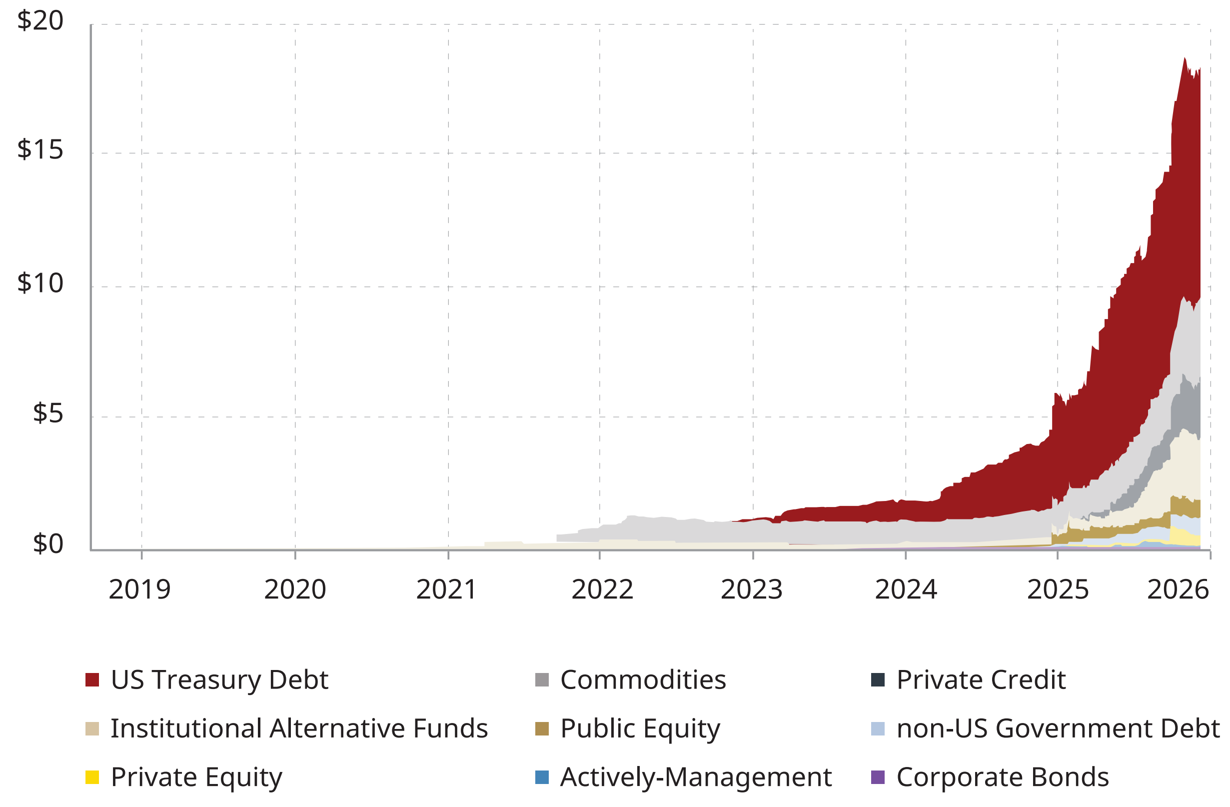
[1] Source: Morgan Stanley, as of October 1, 2025.
[2] Source: Bitcoin Treasuries Net, ChinaAMC(HK), as of December 14, 2025.
Unless otherwise stated, data is sourced from Bloomberg, ChinaAMC(HK), as of December 18, 2025.

Asset Tokenization Market

2025 Global Asset Tokenization Market Overview

2025 marked a pivotal year for the global asset tokenization market, as the sector moved beyond early-stage conceptual narratives and entered a phase of scalable growth dominated by mainstream financial institutions. The total market capitalization of tokenized real-world assets (RWAs) expanded from approximately USD 5.65 billion to USD 18.39 billion, representing a cumulative increase of 325%. This growth rate exceeded the 291% expansion recorded over the same period in 2024, indicating that asset tokenization in 2025 not only sustained its prior momentum but also showed signs of accelerating market penetration. The pace of expansion suggests steadily strengthening allocation demand for tokenized products among both markets and investors.

Chart 5: RWA Market Capitalization



Source: rwa.xyz, as of December 17, 2025.

Market Structure: Coexistence of Defensive Yield Assets and Diversification

From an asset-class perspective, the current tokenization market exhibits a clear dual structure, characterized by a "stable core" alongside "expanding diversification across asset types":

On-chain fixed-income assets in public markets remain dominant

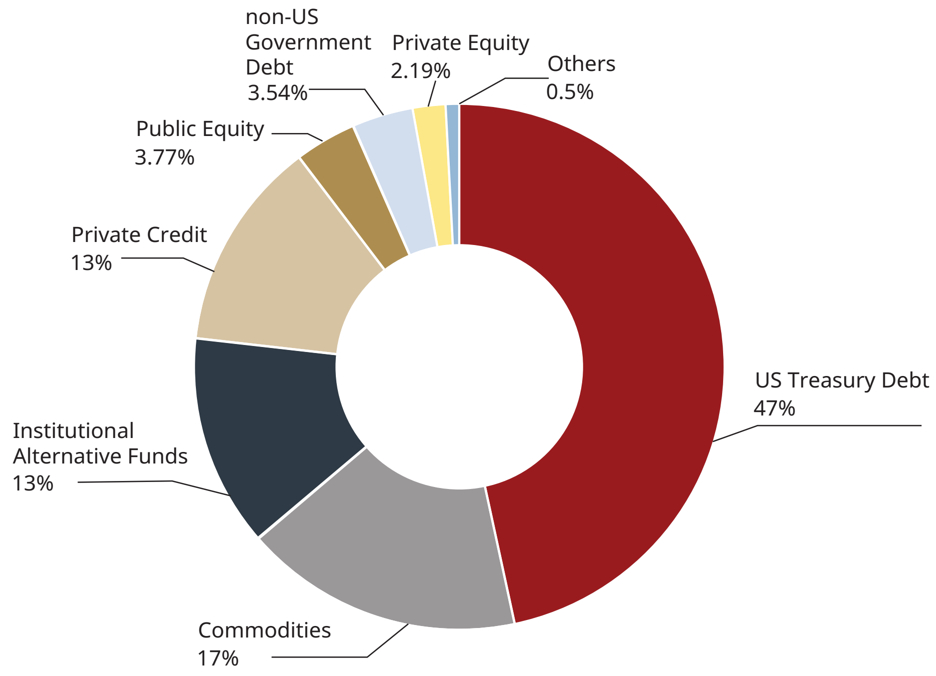
Tokenized products backed by bonds and cash management assets have reached a total market size of approximately USD 9.4 billion, accounting for around 50% of the overall tokenized asset market. Against a backdrop of continued global macroeconomic uncertainty, these compliant, transparent, and stability-oriented on-chain cash management instruments have become a primary allocation focus for both institutional and individual investors.

Within this category, market concentration is pronounced, with the top ten funds accounting for approximately 87.5% of total assets. U.S.-issued products dominate the segment, including offerings launched by BlackRock, Circle, Ondo, and Franklin Templeton. In the Asia-Pacific region, the market is led by China Asset Management (Hong Kong) whose U.S. dollar, Hong Kong dollar, and renminbi tokenized money market funds have reached a combined scale of USD 678 million, representing the largest public tokenized fund series in Asia.

Commodities and alternative assets continue to expand

Tokenized commodities—primarily gold—have reached a market size of approximately USD 3.2 billion, accounting for around 17% of the total market. Tokenized institutional alternative investment funds and private credit have each reached approximately USD 2.4 billion, representing about 13% each. As the underlying tokenization technology infrastructure and global regulatory frameworks gradually mature, institutional applications of tokenization are extending beyond low-risk segments (such as money market funds) into a broader range of assets with higher return potential, reflecting growing demand for diversified allocation strategies.

Chart 6: RWA Market Size by Asset Class



Source: rwa.xyz; data from January 4, 2024 to December 15, 2025.

Enhancement of the Regulatory Framework in 2025

In 2025, the global regulatory framework for Web3 developed significantly, particularly with respect to tokenized real-world assets. Regulators shifted from a "wait-and-see " approach toward a model centered on "asset classification, licensing, and joint infrastructure development," laying the foundation for future institutional-scale adoption. The United States, the European Union (EU), and China's Hong Kong Special Administrative Region (Hong Kong) emerged as three core jurisdictions, each advancing the integration of tokenized RWAs into the traditional financial system through clearer asset classification, more defined licensing pathways, settlement mechanisms, and risk management requirements.

Hong Kong: ASPIRe Roadmap and Project Ensemble Put "Same Business, Same Risks, Same Rules" into Practice

In 2025, Hong Kong clearly articulated its strategic development path combining financial technology and digital assets, continuing to implement the principle of "same business, same risks, same rules" by progressively incorporating tokenized RWAs into existing securities and banking regulatory frameworks.

Under Project Ensemble Sandbox, jointly launched by the Hong Kong Monetary Authority (HKMA) and the Hong Kong SAR Government in its new phase, China Asset Management (Hong Kong), together with multiple partners, completed an end-to-end transaction process spanning tokenized deposits and tokenized real-world assets. The project also successfully facilitated subscription to China Asset Management (Hong Kong)'s tokenized money market fund, the largest of its kind in Asia. This demonstrated the transition of on-chain trading and settlement from proof of concept to real-world application.

In addition, the Securities and Futures Commission of Hong Kong (SFC) released the "A-S-P-I-Re" (ASPIRe) regulatory roadmap in early 2025, outlining five core pillars: Access, Safeguards, Products, Infrastructure, and Relationships. The roadmap expands the scope of distributable tokenized products to include tokenized securities and tokenized funds. Through a joint circular with the HKMA, the SFC further clarified requirements for intermediaries distributing tokenized products beyond securities, including suitability assessments, risk disclosures, and cold-wallet custody arrangements.

United States: Dual Engines of CLARITY and GENIUS Clarify the Path for Tokenized Real-World Assets

In 2025, U.S. digital asset regulation showed a clear transition from an enforcement-driven approach toward the parallel development of asset classification and regulatory frameworks. Among the key legislative initiatives, the CLARITY Act seeks to establish a more consistent digital asset classification regime by explicitly distinguishing tokenized RWAs as either "securities-type" or "commodity-type." This framework advances discussions between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) regarding regulatory boundaries and provides a foundation for treating tokenized RWAs as digitized securities or commodities.

At the same time, the GENIUS Act, which has already been enacted, imposes stringent requirements on stablecoins, particularly those linked to tokenized RWAs such as bonds and cash instruments. These requirements include full 100% reserve backing and regular audits, enhanced redemption rights and strengthened transparency standards. From an operational and investor protection perspective, such stablecoin products exhibit partial functional convergence with traditional money market funds.

Overall, the U.S. has not created a new asset class specifically for tokenized real-world assets. Instead, it has clarified the applicability of existing regulatory regimes, providing institutions and related products with a predictable but license-driven and high-threshold compliance pathway.

European Union: Full Implementation of MiCA and Expansion of DLT Pilot Regime Integrate Tokenized Assets into a Unified Market Framework

In 2025, the Markets in Crypto-Assets Act (MiCA) in the European Union moved from its transitional phase into full-scale implementation, bringing crypto assets under a two-tier classification: stablecoins and other crypto assets. Stablecoins are further categorized as Asset-Referenced Tokens (ARTs) and E-Money Tokens (EMTs), with mandatory requirements including full reserve backing, asset segregation, regular audits, and whitepaper disclosures. This framework establishes a unified regulatory standard for stablecoins backed by different types of real-world assets.

In addition, a passporting licensing regime has been established for crypto-asset service providers (CASPs), enabling institutions to operate in all 27 member states under a single license. This unifies the EU's regulatory framework and reduces cross-border compliance costs.

At the same time, amendments proposed in 2025 expanded the scope of the distributed ledger technology (DLT) Pilot Regime, allowing the issuance and settlement of tokenized RWAs such as on-chain bonds and funds within the Markets in Financial Instruments Directive (MiFID) II framework. This development marks a deeper integration of tokenized RWAs into the EU's financial market infrastructure.

Global Asset Tokenization Market Outlook

Looking ahead, as global regulatory frameworks continue to gain clarity, acceptance of tokenization among traditional financial institutions increases, and key financial market infrastructure accelerates integration efforts, we maintain a comparatively positive medium to long term outlook on tokenized assets. We expect a broader range of product structures to be introduced, offering investors more flexible asset allocation options and enhanced investment experiences. At the same time, tokenized assets are expected to become progressively embedded into the core processes of the global financial system. We will focus on the following three key trends.

1. Integration of Blockchain into Key Financial Market Infrastructure

In 2025, the accelerated integration of blockchain technology into global key financial market infrastructure (FMI) represents a critical inflection point in the development of asset tokenization.

- In the United States, the Securities and Exchange Commission approved a pilot program allowing the Depository Trust and Clearing Corporation to conduct on-chain settlement trials for U.S. Treasuries and ETFs, supporting a transition from the traditional T+2 settlement cycle toward near real-time clearing.
- In Hong Kong, the Hong Kong Monetary Authority, through Project Ensemble, tested settlement mechanisms for tokenized money market funds through central bank digital currency, while also exploring multi-asset and cross-institution clearing models within its regulatory sandbox.
- In Europe, the SIX Swiss Exchange and Deutsche Börse Xetra both launched platforms supporting the native issuance and settlement of digital securities.
- In Singapore, the Monetary Authority of Singapore, in collaboration with institutions including JPMorgan, advanced Project Guardian, enabling atomic on-chain exchange of government bonds.

These developments indicate that regulators are shifting from a primarily observational role toward active participation and facilitation, working alongside financial institutions to build a compliant, interoperable, and efficient tokenized market structure. Blockchain integration into financial market structure is increasingly moving from isolated pilot projects toward more systematic deployments.

2. Functional Evolution of Tokenized Assets and Institutional Financial Integration

Over the next one to three years, the practical utility of tokenized assets is expected to increase significantly on a global basis, with continued improvement in acceptance within regulated financial systems.

- An increasing number of regulated financial institutions are evaluating the inclusion of tokenized bonds, money market funds, and selected credit instruments within collateral management frameworks, supporting use cases such as financing, over-the-counter derivatives margining, and liquidity management.
- This development reflects a transition of tokenized products from purely "investable assets" toward "functional financial instruments".

At the same time, blockchain native features are expected to further enhance efficiency and flexibility within traditional financial operations, including:

- On-chain interest distribution
- Dynamic pricing
- Bundled collateral
- Programmable settlement, among others

As more regulatory policies roll out and supporting services such as auditing and custody mature, tokenized products are expected to integrate more deeply into financial infrastructure and participate in a wider range of financing and trading structures.

3. Dynamic Convergence of Traditional Finance and Decentralized Finance

The interaction between traditional finance and decentralized finance (DeFi) is expected to enter a new phase of dynamic collaboration.

- As global institutional participation and innovation continue to gain momentum, multiple jurisdictions are focusing on the development of forward-looking regulatory and technological frameworks. The primary emphasis is on establishing secure, reliable, and trustworthy environments for digital asset interactions.
- At the same time, the convergence of traditional assets with innovative mechanisms is becoming increasingly evident. Institutional investors are actively exploring opportunities to incorporate yield sources from the next-generation digital financial ecosystem into their diversified strategic asset allocation frameworks.

Over the next three years, a dual-track system combining traditional finance and DeFi is expected to take shape.

- On one hand, traditional financial institutions may leverage blockchain technology to enable near real-time settlement and automated portfolio management.
- On the other hand, DeFi protocols are building trust with institutions and regulators by strengthening audit, custody, and compliance standards.

This convergence has the potential to reshape the underlying operational mechanism of global financial markets, driving continued improvements in capital flow efficiency and the automation of asset management processes.

Source: ChinaAMC(HK), Bloomberg and rwa.xyz, as of December 31, 2025.

About China Asset Management (Hong Kong) Limited

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 449.5 billion assets under management as of September 30, 2025.

ChinaAMC (HK) has amassed an impressive performance history in both active and passive investments over the past 17 years. Boasting robust expertise in a variety of asset classes, covering equities, fixed income, ETF, L&I products, digital assets, as well as mandates and investment advisory services. 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 space, exploring new investment opportunities in digital finance. All efforts align with their vision of being "Beyond China Expert".

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Global Multi Asset	**Tokenized Fund**	
• Global Multi Income Fund	• HKD Digital Money Market Fund • RMB Digital Money Market Fund • USD Digital Money Market Fund	

Global ETF Suite		
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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	• Bitcoin ETF (Spot) • Ether ETF (Spot) • Solana ETF (Spot)

Source: Bloomberg, Wind, ChinaAMC(HK), as of December 31, 2025.

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Source: China Securities Journal, The Asset, Fund Selector Asia, Insights and Mandate, Benchmark,Asia Asset Management, as of December 31, 2025.

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