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CSOP Asset Management
2025 Themes and Trade Ideas

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CSOP 2025 Market Outlook

Embrace for Trump 2.0

March 2025

2025 Outlook

Global Outlook 01

US Still Matters. Strong USD and reflation might be the base scenario.

China Outlook 02

A sustainable recovery both in economy and stock market requires more stimulus.

Asset Views 03

Upbeat about high-quality USD assets including US stocks and US Treasury bonds. Gold and crypto could serve as the hedge to the tail risks.

01

Global Outlook

US Still Matters

Why Should We Care About the US?

The Result of Trump 1.0

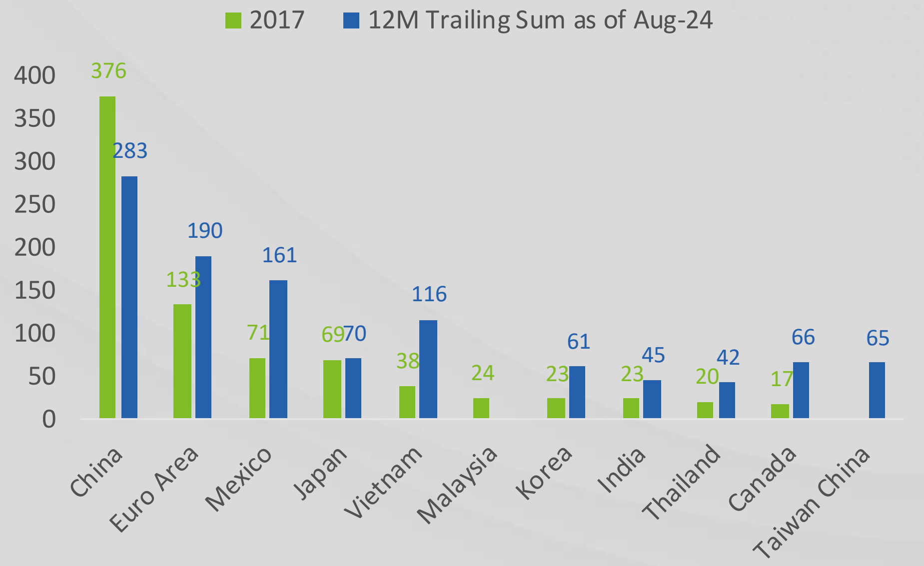
Global beta to US growth has significantly risen after 2018 US-China trade conflict. Due to the US-China trade conflict in 2018, the US has decreasing import from China but turn to importing from other countries, like Europe, Southeast Asia (SEA), Mexico, etc. Therefore, more and more countries are gaining more exposure to the US demand, leading to the rising correlation with US economic growth.

The Rest of World Has been More Correlated with the US After the 2018 Trade War

Beta to US Growth*

Euro Area, Mexico, SEA Gained Trade Shares with US

Trade Surplus with US (US$Bn), 2017 vs. 2024 August^



Source: *Bloomberg, Standard Chartered, as of 2024/8/30. ^ Goldman Sachs Global investment research, Haver Analytics, Citi, "KEY STATISTICS AND TRENDS IN INTERNATIONAL TRADE, 2023," UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD), (2024).

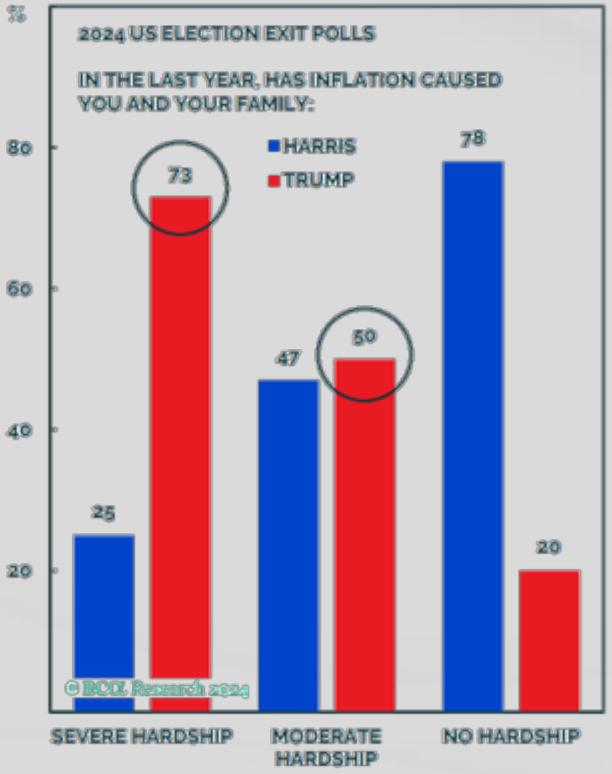
Get Ready For Trump 2.0

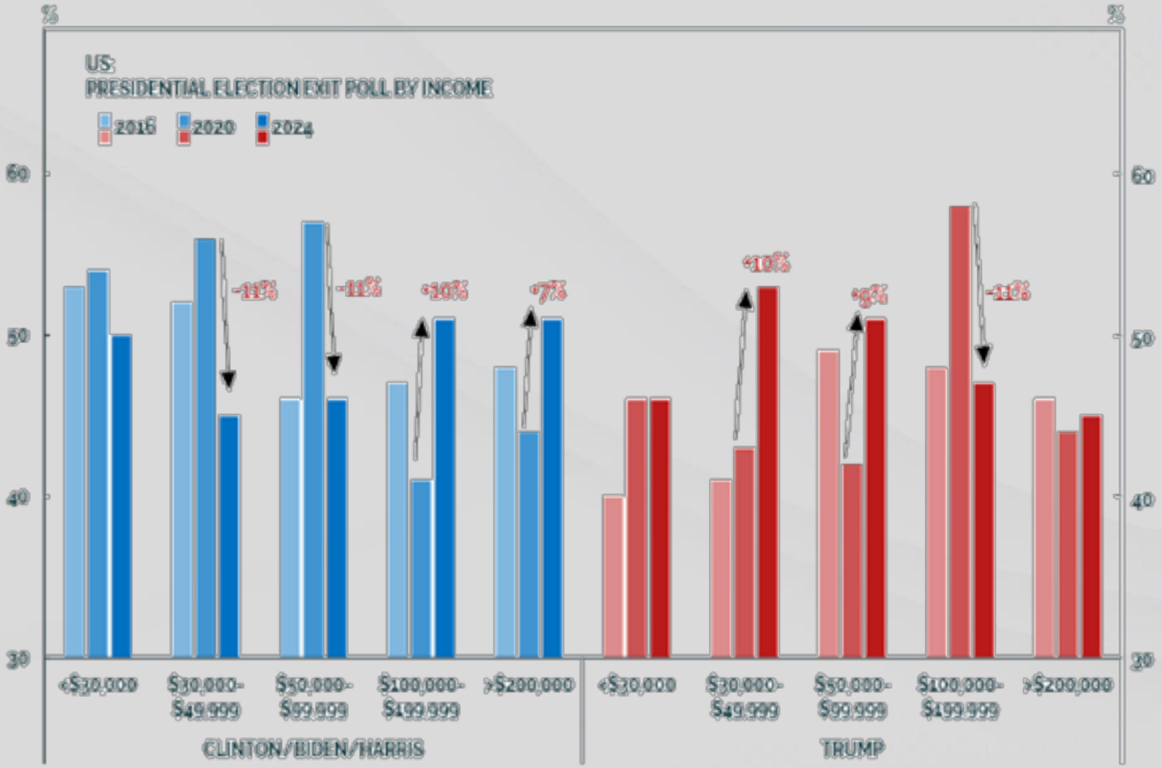
Inflation Crisis will End Soon?

- Donald Trump achieved his second presidency. One of the major reasons for Trump's big win should be **his promise to "end the devastating inflation crisis immediately."**
- Elevated inflation has been the common dilemma in the post-pandemic era, resulting in widening wealth gap and rising social conflicts. Lots of voters seek for a new government to solve inflation, resulting in many losses for incumbents around the world in the past election year of 2024.

The Inflation Nightmare Spreading to the Middle-Income Classes

Trump's support from voters with household incomes below $100,000 has increased significantly compared to 2020





Source: BCA, CNN, Macquarie, Bloomberg, BAML, CSOP

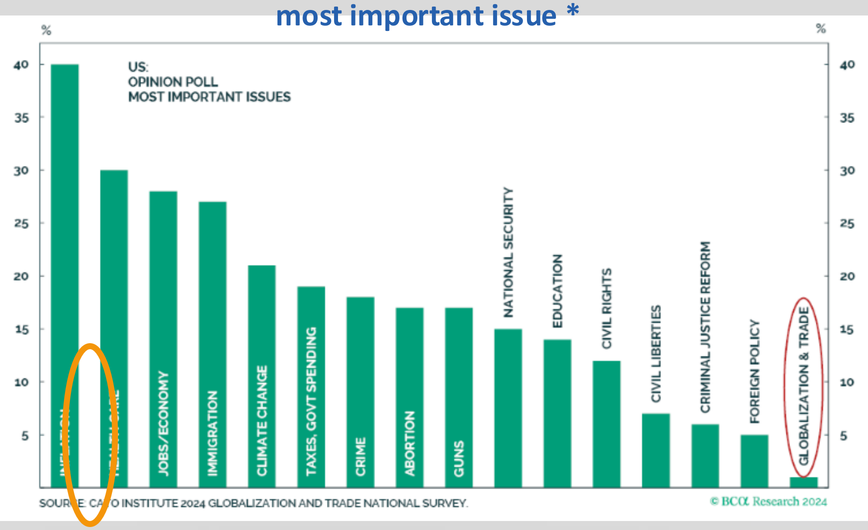
Beware of Reflation

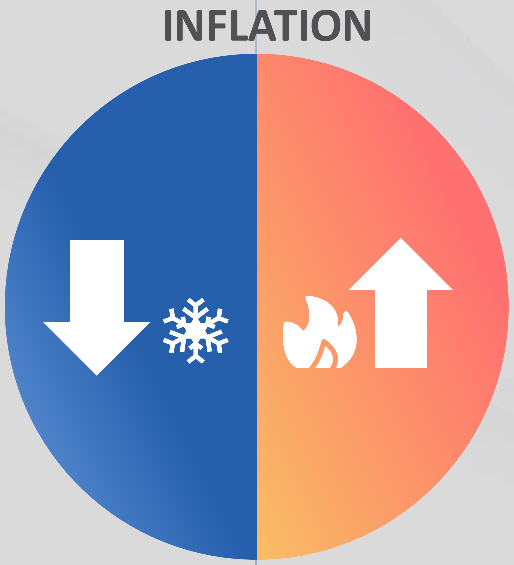
Trump's policy claims seem to conflict with his promise on combating inflation

Inflation should be the Key KPI

Since voters support Trump because they believe he can fight inflation, Trump cannot ignore inflation during his term in 2025-2026, otherwise the Democrats may regain control of the House of Representatives in the midterm elections.

Most Investors believe Inflation should be Trump's most important issue *





But trade and immigration policy claims seem not helpful to the KPI

Trade Tariff Policy

10% tariff hike is estimated to make US inflation rise 1.3pp above baseline in 2025. ^

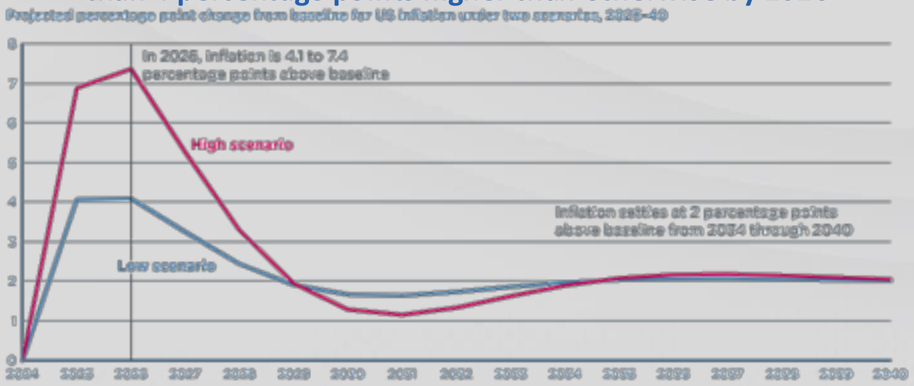
Trade Tariff ↑ → Imports Cost ↑ → Consumer Prices ↑

Immigration Policy

If Trump deports 1 million illegal immigrants, inflation will be increased by 0.3pp in one year. ^

Unauthorized migrants ↓ → Employment ↓ → Service CPI ↑

Under Trump's combined plans, US inflation would climb more than 4 percentage points higher than otherwise by 2026^



Source: *Bloomberg, Standard Chartered, as of 2024/8/30. ^PIIE.

Policy Volatility is Increasing

Policy Duration is a Question Mark

Policies	Details and Analysis	Implementation Probabilities	Economy	Inflation
Trade and tariffs	• A minimum 60% import tariff on China, and an additional 10% tariff above any additional tariffs on China • A 10%-20% universal import tariff on the rest of the world • A 25% tariff on Canada and Mexico	High	**To US**: Weaken the purchasing power of US households and suppress corporate capital expenditure willingness **To China**: Tariffs on intermediate countries such as Mexico will have a greater impact on the China's economy; **To World**: Negative Impact	+
Immigration	• It would look to deport unauthorized migrants, end birthright citizenship and build more of the US-Mexico border wall	High	Slowing net population growth may affect U.S. nonfarm payrolls	+
Tax Cut	• The Tax Cuts & Jobs Act expires at the end of 2025, and the marginal impact of additional tax cuts will decrease, so they will not be implemented until 2026.	High	Benefit the Economic Growth	+
Administration	• Trump's Department of Government Efficiency, led by Elon Musk and Vivek Ramaswamy	High	Limited Effect	N/A
Regulation	• In 2018, some of the Dodd-Frank Act and even some of the most stringent provisions of Basel III were withdrawn, and requirements for loans to small and medium-sized enterprises were relaxed. • Lighter-touch regulation: fewer antitrust cases and less scrutiny on M&A	High		/
Energy	• Although Trump supports traditional energy, US shale oil production is hard to increase significantly in the short term, and the oligarchs have their own financial plans • The 25% steel tariff imposed in 2018 will bring cost pressure to the oil infrastructure.	Uncertain	The attempt to boost the manufacturing industry and lower oil prices by increasing oil production is unlikely to be realized.	-
Diplomacy	• End the Russia-Ukraine war as soon as possible. This will pose pressure on the military spending of NATO countries, and the financial pressure on European countries • Withdraw from the Iran Nuclear Deal, increase sanctions on Iran, and recognize Jerusalem as the capital of Israel	Low and uncertain	If implemented, the geopolitical risks may increase	N/A

Source: CSOP.

Tariff Hike: Suppress Demand Further

Who will bear the ultimate burden of the tariffs?

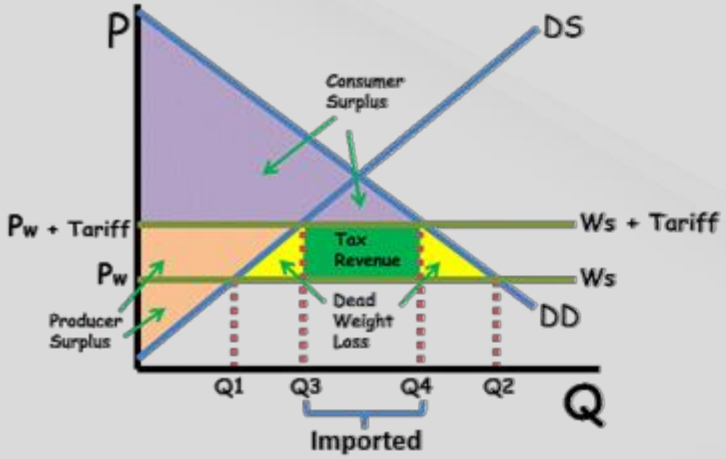
Trump is highly likely to introduce the broad tariffs, and the effects are uncertain and sensitive to key assumptions about the behavior of both US and foreign consumers, businesses, and governments.

According to research by Yale University*, a consistent theoretical and empirical finding in economics is that **domestic consumers and domestic firms bear the burden of a tariff**, not the foreign country.

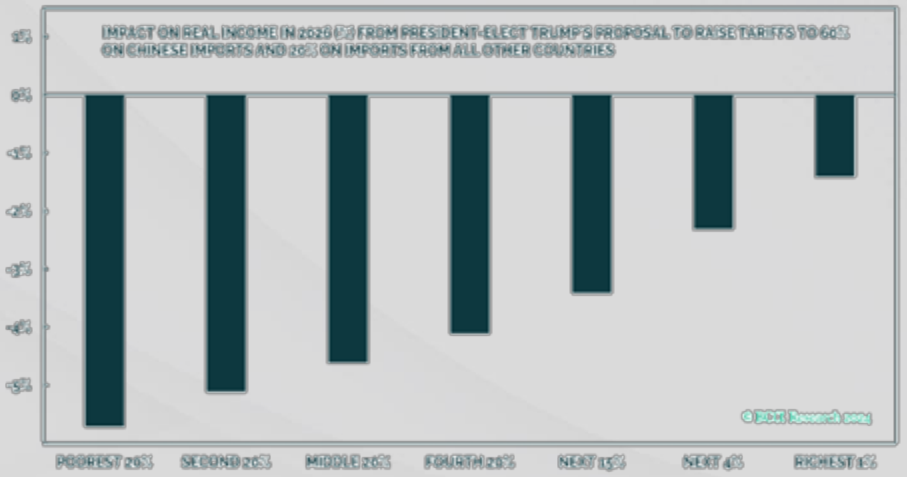
- The level of consumer prices would rise by 1.4 to 5.1% before substitution, between a tenth and a third of the first four years of pandemic inflation.
- This cost is the equivalent of **US$1,900 to US$7,600 per household in 2023 dollars**.

Deadweight Loss is Caused by the Tariff

(If China's tariff increases from 10% to 60%, the estimated deadweight loss will increase 36 times^)



Tariffs are a disguised form of the tax on the poor#



Source: *Yale University, the budget lab, "Fiscal, Macroeconomic, and Price Estimates of Tariffs Under Both Non-Retaliation and Retaliation Scenarios", 16 October 2024. ^CSOP. #BCA.

Tariff Hike: Retaliation may Result in Strong USD

Exporters may Weaken Domestic Currency to Fight US Tariffs

The targeted countries may retaliate against the increasing trade tariffs. Learning from the history, there are two possible retaliations from the perspective of exporters:

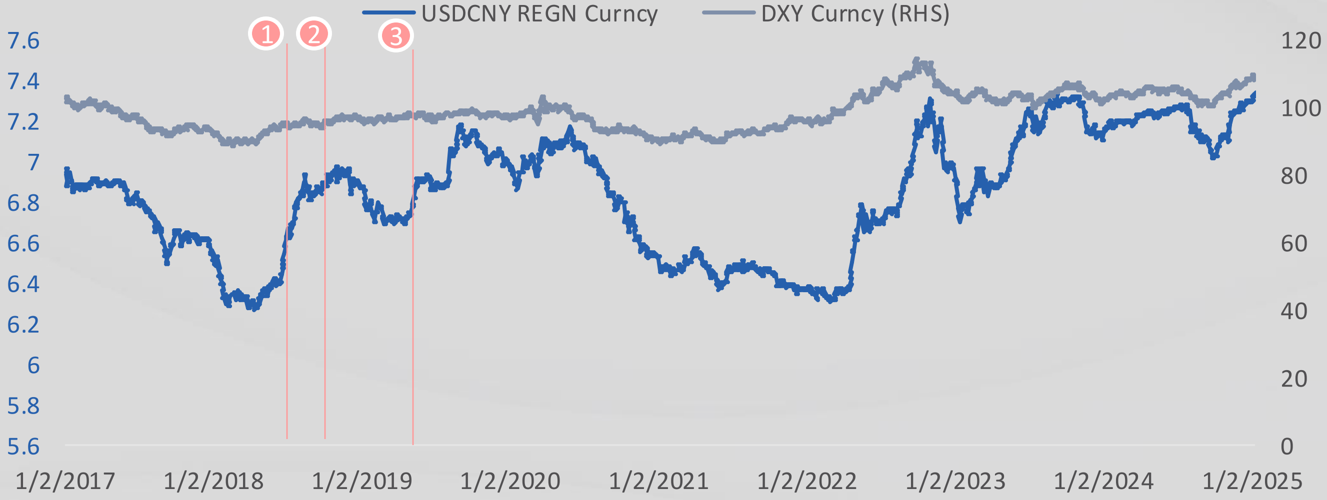
1) **Retaliatory tariffs against the United States**: happened multiple times in history. The effect may be marginal considering the huge trade deficit of the US
2) **Currency depreciation to offset tariffs**: occurred during 2018 US-China trade conflict. More likely this time.

CNY Depreciation in the 2018 Trade War*

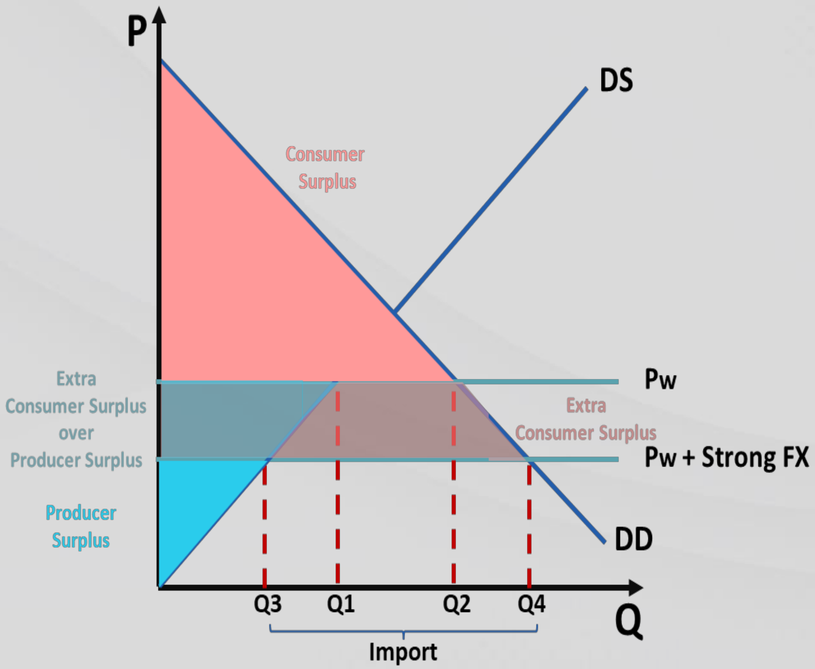
1 **July 2018**
US Customs begin levying **25%** on 818 Chinese imports at American ports of entry.

2 **September 2018**
US imposed **10%** of tariffs on US$200bn worth of Chinese goods

3 **June 2019**
US taxed US$200bn worth of Chinese goods at **25%**, up from 10%.



FX Retaliation May Damage the Domestic Producer Surplus^



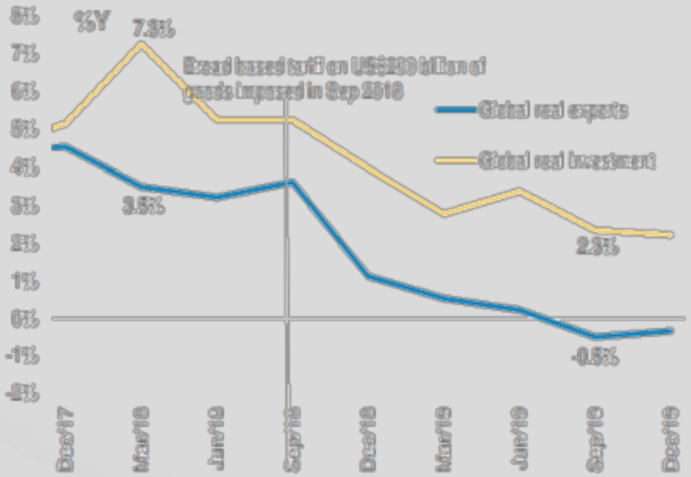
Source: *Bloomberg. 2017/1/2-2025/1/2. ^CSOP.

Uncertainties to Depress Corporate Willingness of Capex Expansion

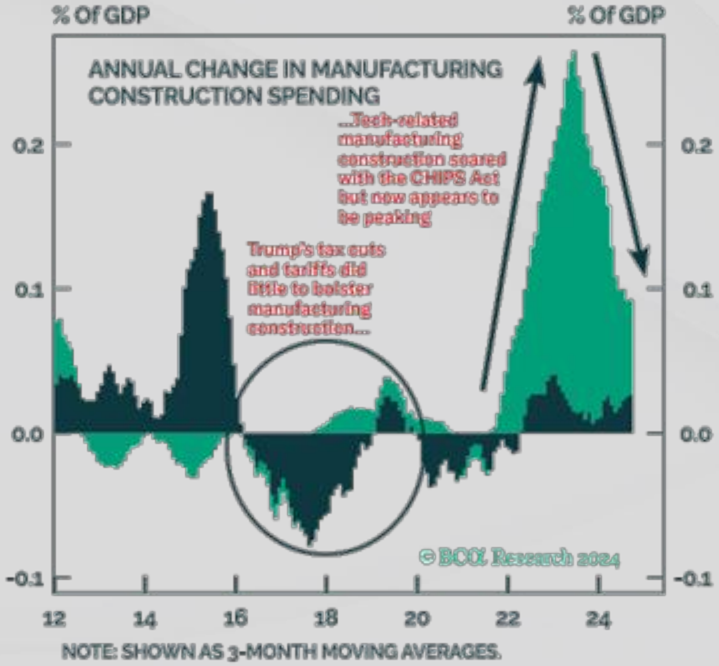
Trump 1.0: low interest rate and tax cuts could not offset the impact of tariffs and policy uncertainty

- The expectation of tariff hike raise the uncertainties in both demand side and policy side, hindering the global trade and capex growth.
- According to Goldman Sachs's estimates, construction spending funded by the CHIPS Act has peaked and will drag down total capital investment by 1% each year in the future; the only growth point is AI-related area

Trump 1.0: Tariff Hike Hindered Global Trade and Investment^

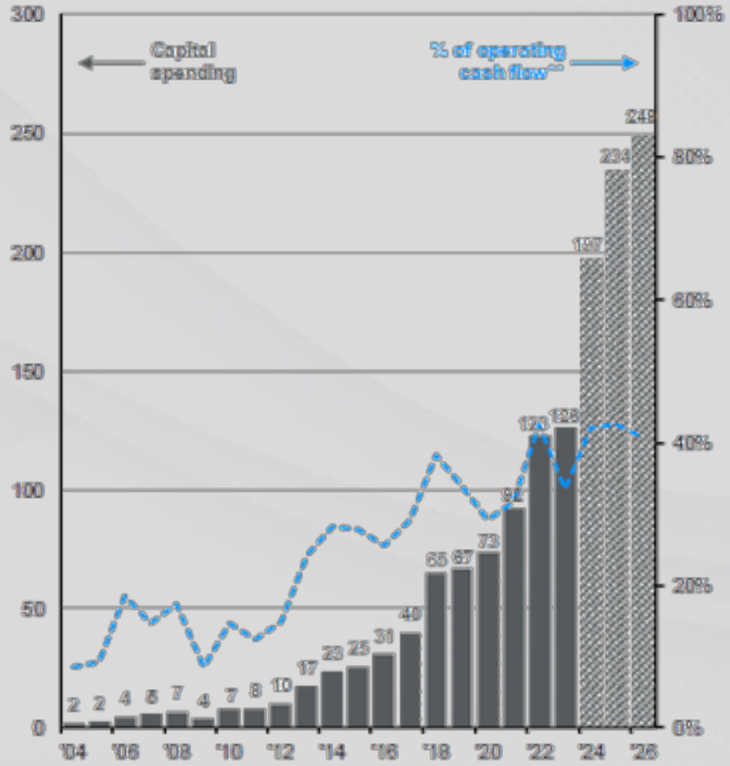


Annual Change in Manufacturing Construction Spending*



AI-driven Capital Spending Could be the Only Growth Point

Capex (USD billions) from the major AI hyperscalers#



Source: *BCA. ^Morgan Stanley. #JP Morgan. Bloomberg. 2024, 2025 and 2026 reflects consensus estimates. Capex shown is company total ,except for Amazon, which reflects an estimate for AWS spend. AI hyperscalers include Alphabet, Amazaon (AWS), Meta, Microsoft, Oracle.

Summary: Trump 2.0 Conjectures and Analysis

Trump 2.0

Policy Uncertainty is High
Trump's policy claims contradict to his KPI of "Ending the Inflation Crisis", bringing up policy volatility

Reflation is Possible
Deporting unauthorized migrants and rising broad tariffs may push up the US CPI.

Retaliation Against Tariffs
The targeted counties can impose retaliatory tariffs and prefer the local currency depreciation.

Economic Effects

Corporates may cut Capex
Companies typically prefer to expand their capital expenditures in a stable operating environment, and the unpredictability of Trump's policies could deter corporations from expanding Capex.

Rate cuts pace slow down
Fed officials are worried about the inflation impacts from Trump's policies, and the Fed may move more slowly on interest rate cuts due to the uncertainty

Strong US Dollar
- The high federal fund rates could strengthen the US dollar as well
- If exporting countries choose to devalue their export currencies to offset the negative impact of tariffs, this could inadvertently strengthen the U.S. dollar.

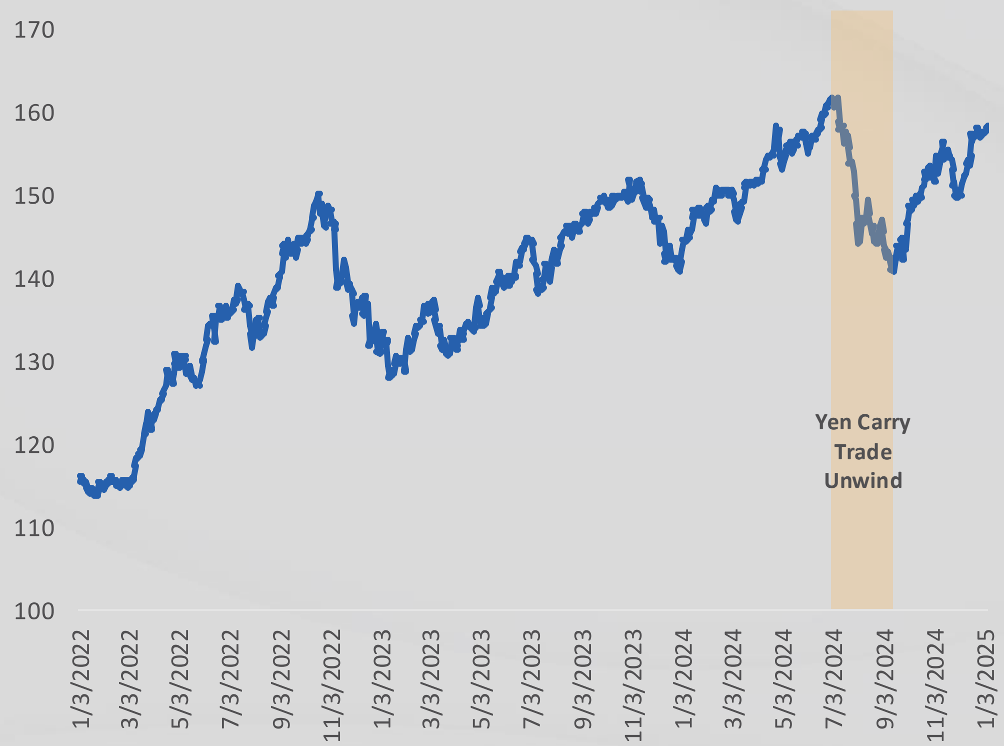
? Strong USD counters to the Trump's intention of US manufacturing revival, adding uncertainties to the Trump's policy duration.
In extreme cases, another Plaza Accord could potentially occur.

Source: CSOP. The image is from Pixabay.

Japan's Equities May be a Ray of Hope in a Strong USD Environment

- Carry trade that used low-yielding currencies like JPY to fund investments in higher yielders will continue.
- In the turbulent external environment, Japanese equities are expected to be the resilient one.

Japanese Yen versus USD ^



Japan's equities may be supported by the below three factors *

Rate Hike

Japan is in a different economic and monetary cycle from the most of the world. BOJ is on the track of rate hiking, which has been supported by Japanese workers' base salaries growing the most in 32 years.

FDI Inflow

Japan is attracting more foreign direct investment (FDI) thanks to:

- **Cost advantage**: Japan has a large group of well-educated and relatively low-cost labor, even competitive compared to other Asian regions.
- **Government subsidy**: Japan will provide support worth 10 trillion yen (US$65 billion) or more by fiscal 2030, as part of efforts to revitalize the country's semiconductor industry

Relatively Low Impact of Tariffs

The trade surplus of Japan to the US is slightly changed before and after trade war 2018. Given the US-Japan Alliance, Japan may not be negatively affected in the upcoming trade war and may undertake more important manufacturing transfers like semiconductor.

Source: ^Bloomberg. 2022/1/3-2025/1/9. *Bloomberg. As of 2024/8/6.
For illustration purpose only, not to be construed as a recommendation to buy/sell in the above-mentioned jurisdictions or sectors.

Back to Now: US “Exceptionalism”

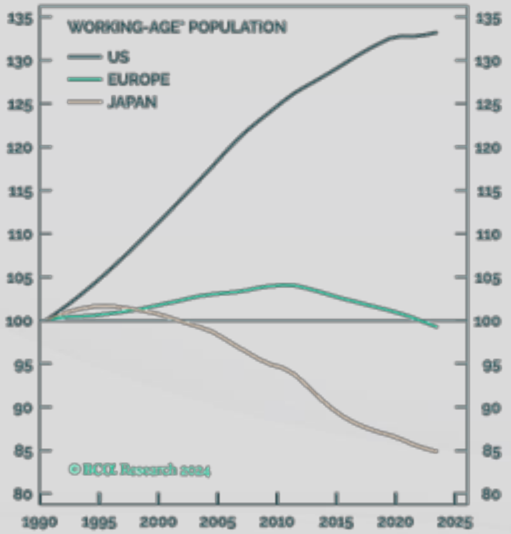
US Post-pandemic GDP Growth is Solid

Healthy Demographic Structure

The US has growing working-age population.

- **High Fertility Rate**: the US (1.665) > EU (1.462) > Japan (1.26) > China (1.18)
- **Influx of Immigrants**: From 2010 to 2019, the average annual net immigration to the US was 900,000. The CBO predicts that from 2024 to 2034, the additional net immigration will bring an additional GDP of US$8.9 trillion to the US.

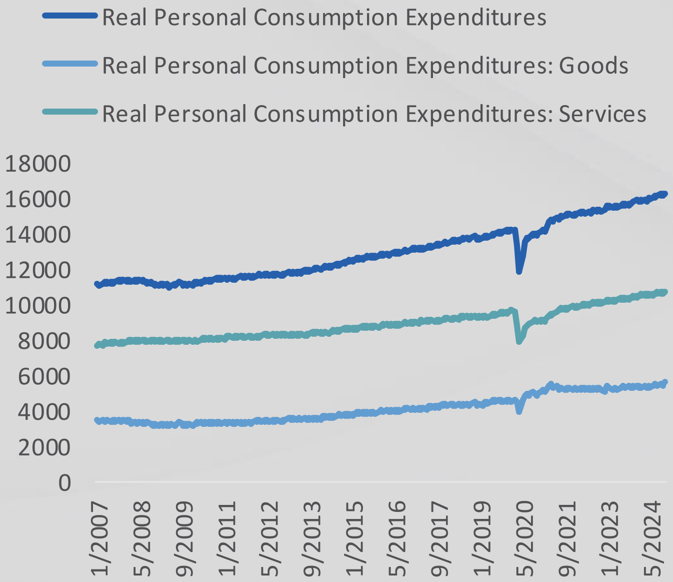
Working-age Population Comparison^



US Consumption Remains Strong *

Strong consumer spending has been a large contributor to US strong GDP growth, powered by the wealth effect brought by rising house prices and bull stock market.

US Consumer Spending (Bn USD)*

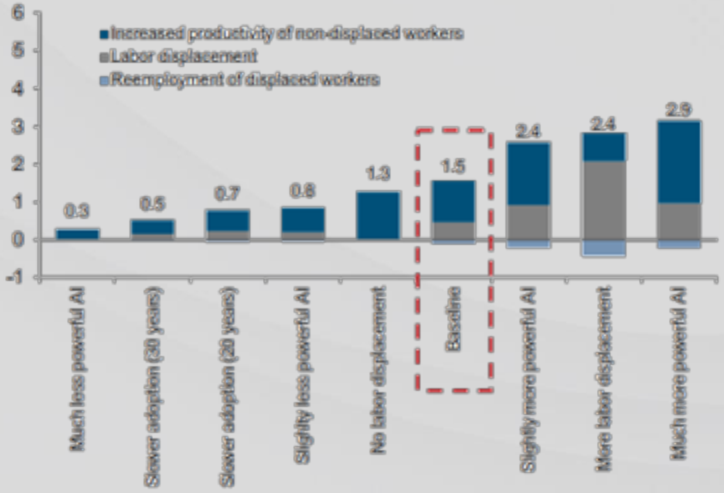


Developed Countries to Benefit More from AI

Automation not only improves production efficiency, but also reduces a lot of costs and brings high economic benefits, especially for developed countries where the labor costs are high.

AI is expected to have large growth potential in the US.

Effect of AI Adoption on Annual US Labor Productivity Growth, 10y Adoption Period (%)^^



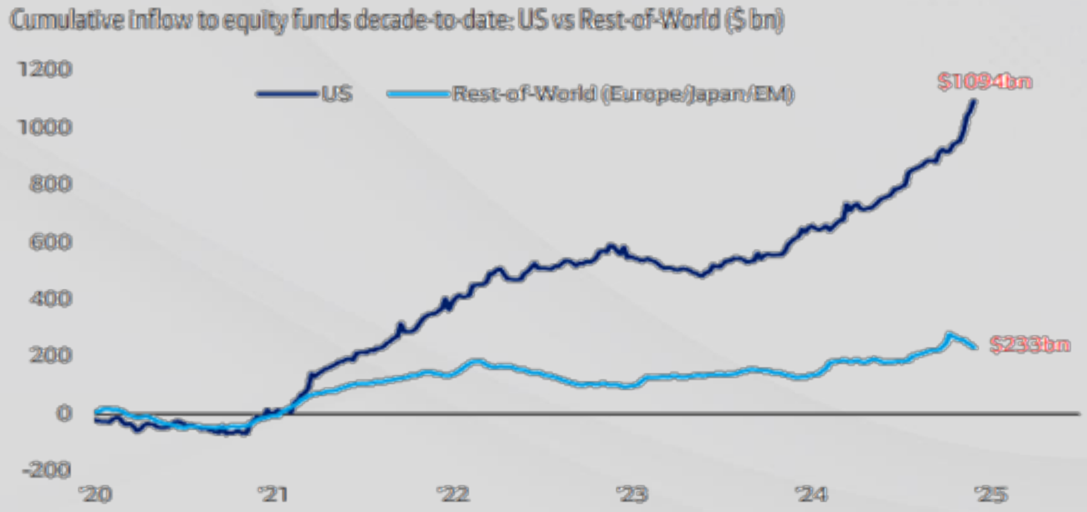
Source: ^Population between 15-and-64 years of age. Indexed to 1990/1/1=100. UN Population Division. BCA. *FRED. 2007-2024. ^^Goldman Sachs Global investment research

US “Exceptionalism” is Attracting Global Fund Influx

The exceptional fundamentals of the U.S. have led to a global capital vote with their feet, pouring into U.S. stocks and creating a historically rare capital structure.

The Ratio of US Equities to Global Equities Reached Historical High

US “Exceptionalism” in the Flows: US$1.1tn Inflow to US Equities Decade-to-Date



Source: BCA, BCA Global Investment Strategy, EPFR, Global Financial Data, Bloomberg.

02

China Outlook

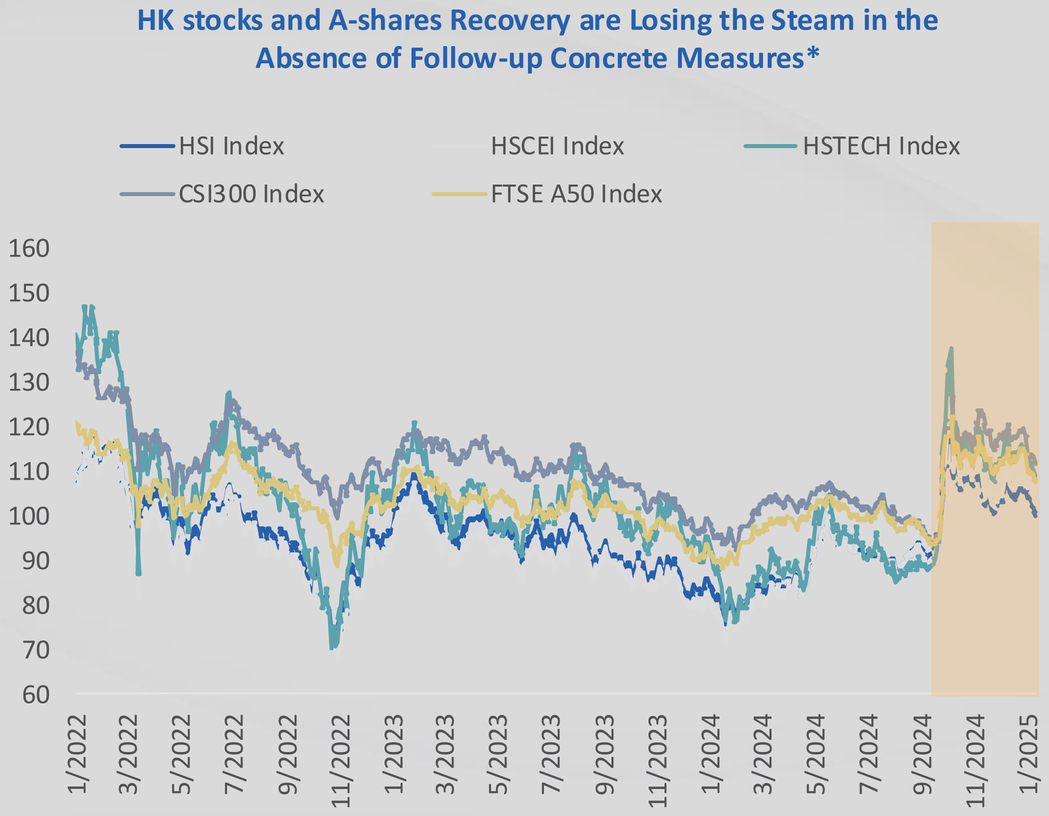
More stimulus needed

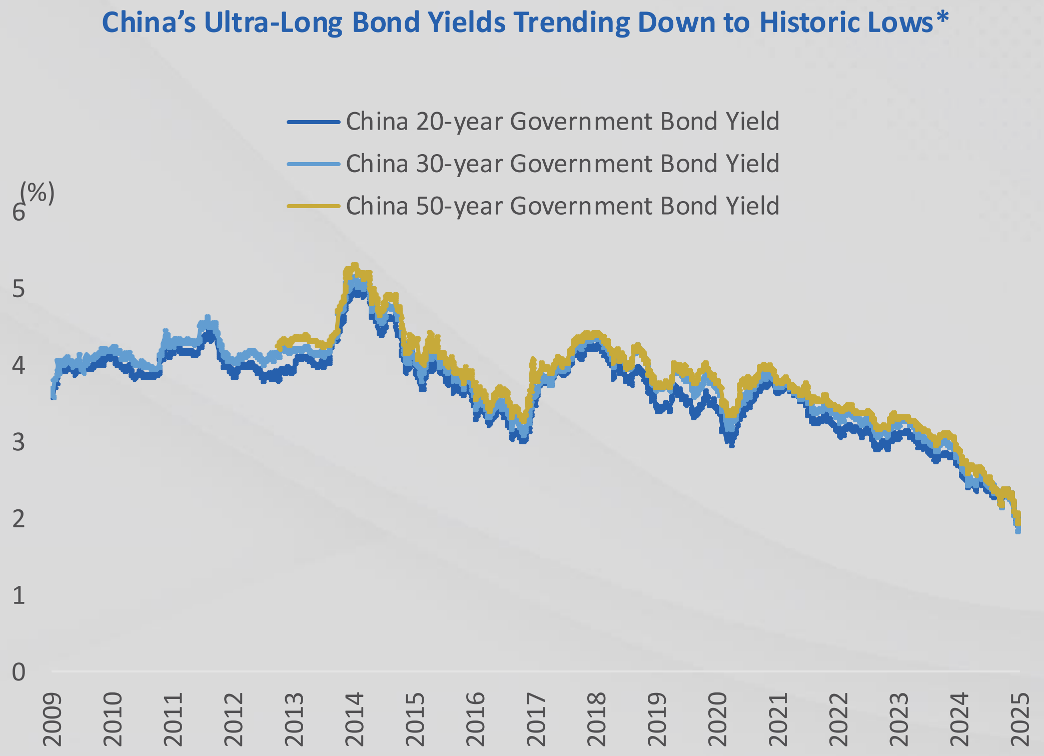
September's Stimulus Bounce Fading Away

More stimulus package is needed

China's equity markets delivered one of the strongest rallies in history, following the September better-than-expected stimulus, but the rebound is not sustainable.

The defensive play is still popular in onshore market, with high-dividend strategy, government bonds attracting large inflows.



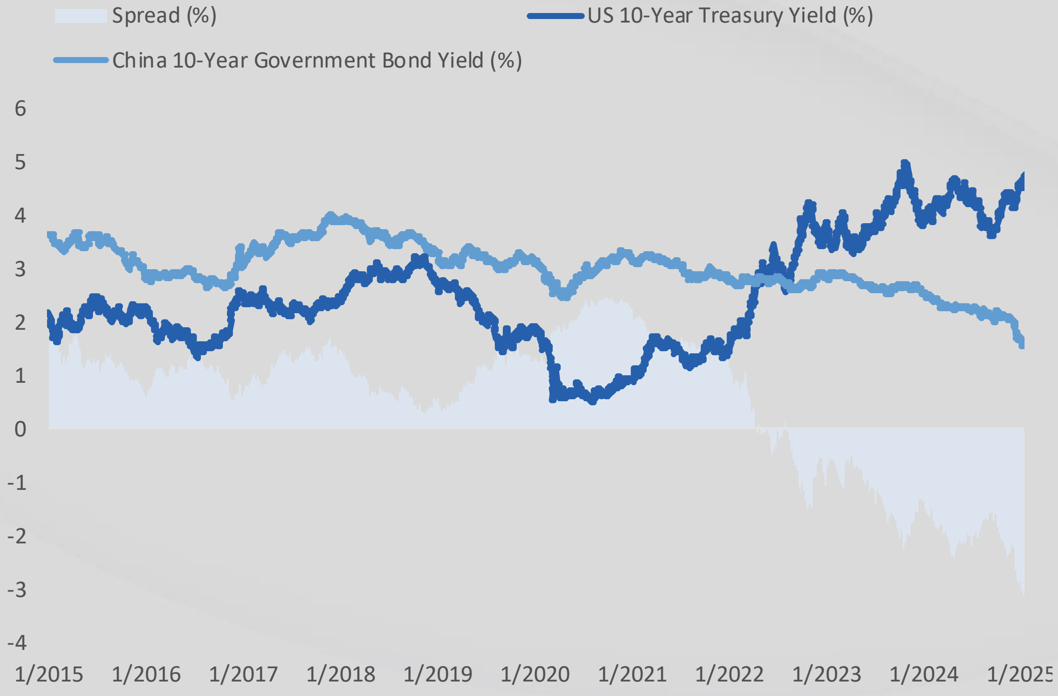


Source: *Bloomberg.

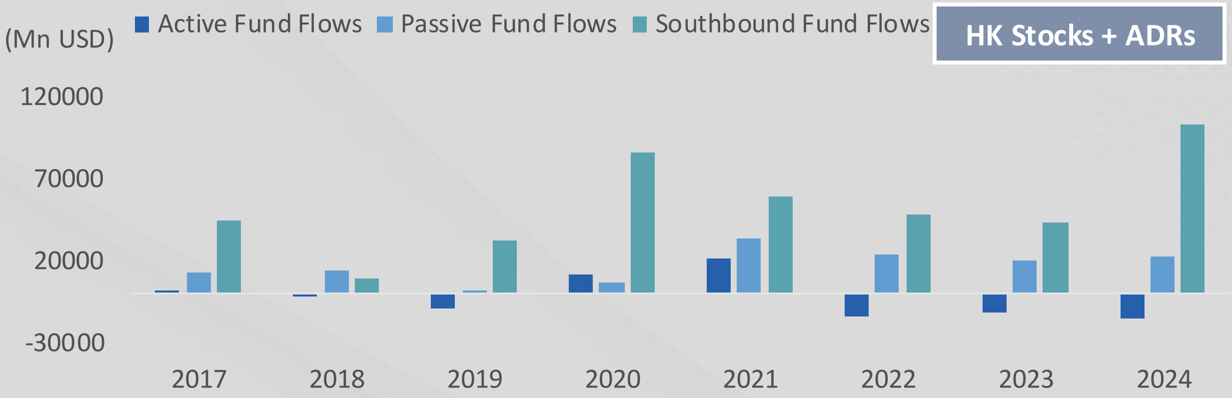
Policy Waiting Game Continues

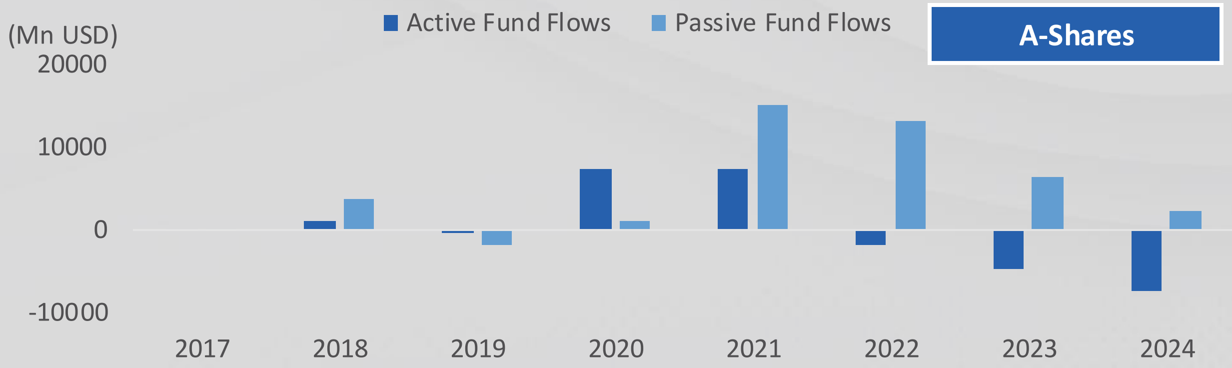
Despite the September surge attracted large inflow, both China onshore and offshore market have suffered large foreign outflows in the lack of fundamental good news. More policy stimulus, especially the fiscal stimulus, is needed to revive the market confidence.

US-China Yield Spread Widened Further in the Beginning of 2025*



Foreign Outflow from China Equities in 2024, While HK Stocks Achieved the Most Southbound Inflow^





Source: *Bloomberg. ^EPFR, Wind, CICC.

The Announced Easing Package

Post the initial market excitement triggered by the policy shifts in late September, the policy cycle has likely transitioned from an expectation phase to a confirmation/implementation stage where policy details are necessary to justify investors' more bullish policy views.

Monetary	Fiscal	Property	Equity Market
50bp RRR cut, providing ~RMB1Tn liquidity (hinted another 25-50bp by year-end)	RMB400bn additional funding from the unspent bond issuance quota accumulated from previous years	**10ppt reduction in minimum downpayment ratio to 15% for 2nd homebuyers**	RMB500bn swap facility for non-bank financial institutions to buy stocks
20bp OMO rate cut	Raising government debt limit by a relatively large amount to facilitate local government debt resolution	**100% funding proportion in the RMB300bn affordable housing relending policy (was 60%)**	Rmb300bn relending program for banks to support listed companies' share buybacks
30bp MLF rate cut	**Subsidized consumer goods trade-in and equipment upgrade program**	**50bp avg. reduction in existing mortgage rates, lowering annual interest exp. By RMB150bn**	Policies on M&A and market value management to enhance quality of listed companies
Follow-up LPR adjustment	**Small subsidies for disadvantaged groups and students**	Allowing banks to support land reserve buybacks by qualified entities	Policies on promoting long term capital/investors participation
	Rmb 10tn local government bond issuance for debt resolution over 2024-28	**Easing purchase restriction in tier-1 cities**	Possible stabilization fund
	Raise salaries for government workers to boost spending (Bloomberg)	**Boost housing demand via policies that support both new urbanization and existing homeowner upgrades**	9 measures guidance on market value management of central SOEs
	*Rmb1tn CGSB for bank recapitalization (Bloomberg)		Half dividend distribution fee to encourage listed company to pay dividend
	***Rmb1tn CGSB for consumption (Reuters)**		

Source: Government websites. Goldman Sachs. *Unconfirmed measures reported by media. Blue highlights demand side stimulus.

Closer Look At December CEWC: Focus on Domestic Demand

The December Politburo meeting and the CEWC are both designated for setting the broad policy stance for next year, rather than offering details on specific policy measures. The meeting focused more on boosting domestic demand and consumption.

Takeaway of December Politburo Meeting and CEWC, policymakers put consumption as the top priority

	Policies

Monetary and Fiscal Policy	• Pledge to "strengthen ***unconventional*** **counter-cyclical** adjustment of fiscal and monetary policies" (超常规逆周期调节) and "***comprehensively*** expand domestic demand" (全方位扩大国内需求)
	• Regulators called for "**moderately loose**" monetary policy (vs. standard 'prudent monetary policy'), and pledged to cut RRR and policy rates in a timely manner
	• To implement **more proactive** fiscal policy (vs. standard 'proactive fiscal policy'):
	  ○ Increase **official fiscal deficit**.
	  ○ Increase the quotas for **special ultra-long-term central government bonds (CGB)** and **special local government bonds (LGB)** effectively.

Demand-side stimulus	• Pledges to "**strongly boost consumption**" (especially household consumption), "improve investment returns", and "comprehensively expand domestic demand"
	  • launch special actions to boost consumption (提振消费专项行动)
	  • expand the consumer goods trade-in and equipment upgrade programs (两新项目)
	  • increase policy support for investment projects related to projects and areas of strategic importance (两重项目)
	  • facilitate income growth for low-income individuals, increase basic pensions and fiscal subsidies for health insurance
	  • Policies to support childcare and elderly care and to encourage new births

High-tech manufacturing	• Pledged to facilitate the integrated development of technological innovation and industrial innovation (推动科技创新和产业创新融合发展) and launch projects to apply AI technology to more industries.
Property	• Prevent the **property market from declining and facilitate its stabilization** (促进房地产市场止跌回稳). • Expand loan extensions for the "white-list" projects, adjusting policies on home purchase restrictions, and lower existing mortgage rates.

The "dual upgrade" plan to boost consumption

Policymakers highlighted that the "dual upgrade" program (两新项目) proved to be effective last year in boosting consumption and investment, and pledged to scale up the funding support and expand the eligible goods categories in 2025. The official guidelines were released in Jan 8 2025.

Quota	• Reiterated the central government special bond (CGSB) issuance quota for the "dual upgrade" program would **increase significantly in 2025** vs. last year. • The full-year quota will be announced during the March "Two Sessions
Funding	• **RMB 81 billion** has been allocated to local governments for subsidies, cover purchases in the near-term. • Extra subsidies through CGSB for interest payments on equipment upgrade loans.
Eligible products	More products eligible for fiscal subsidies: 1) New categories such as mobile phones, tablets, and smart watches will be eligible. 2) Home Appliances: Qualified products will expand from 8 to 12 sub-categories including microwave ovens, dishwashers, water purifiers and rice cookers.

Source: Government Website, Goldman Sachs, 2024/12/13.

Key Upcoming Events As the Next Key Macro Policy Catalyst

Market expect growth target likely will be kept unchanged at around 5%*

The national growth target, as well as other key economic parameters such as fiscal budget plan at the national "Two Sessions" in March.

Each province will release their own growth targets at provincial-level "Two Sessions"

Market Speculation on "*unconventional*" measures*

- Budget fiscal deficit will exceed the implicit **3% ceiling and reach 3.6-3.8% of GDP**
- Total amount of government bond issuance will reach a new record high of **RMB 12.2-13.16 trillion** in 2025.
    - Central Government special bond (CGSB) quota of **RMB 2-2.5 trillion**
    - Local government special bond (LGSB) issuance quota to **RMB 4-4.7tn**

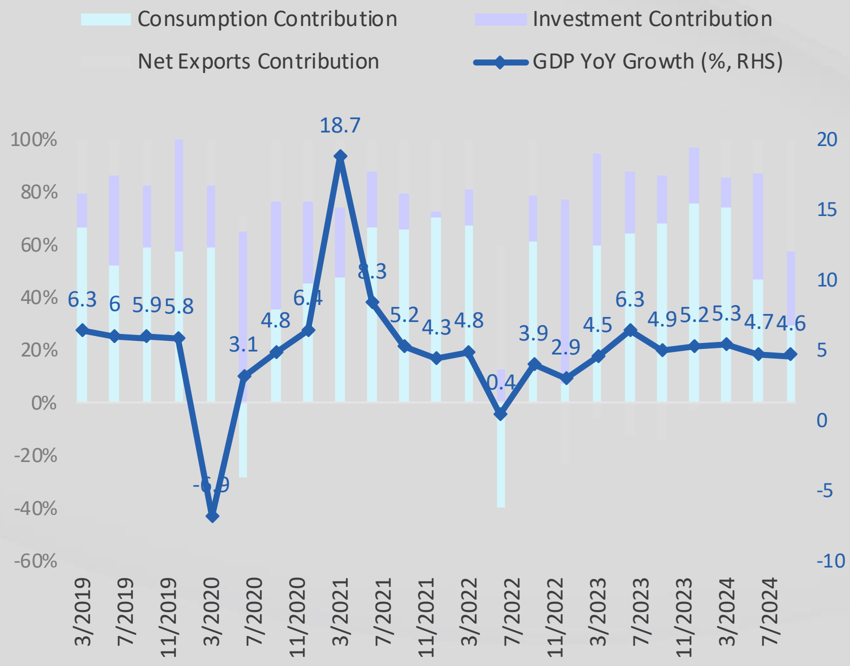
- Mid-Jan 2025: Q4 and full year 2024 GDP released
- 20 Jan 2025: US presidential inauguration
- Jan-Feb 2025: 2025 provincial-level "Two Sessions"
- Early-to-mid Mar 2025: 2025"Two Sessions"
- Mid-Apr 2025: 2025Q1 GDP release
- Late Apr 2025: Politburo meeting on economic policies
- Mid-Jul 2025: 2025Q2 GDP release
- End-Jul 2025: Politburo meeting on economic policies

Source:*Goldman Saches, JP Morgan.

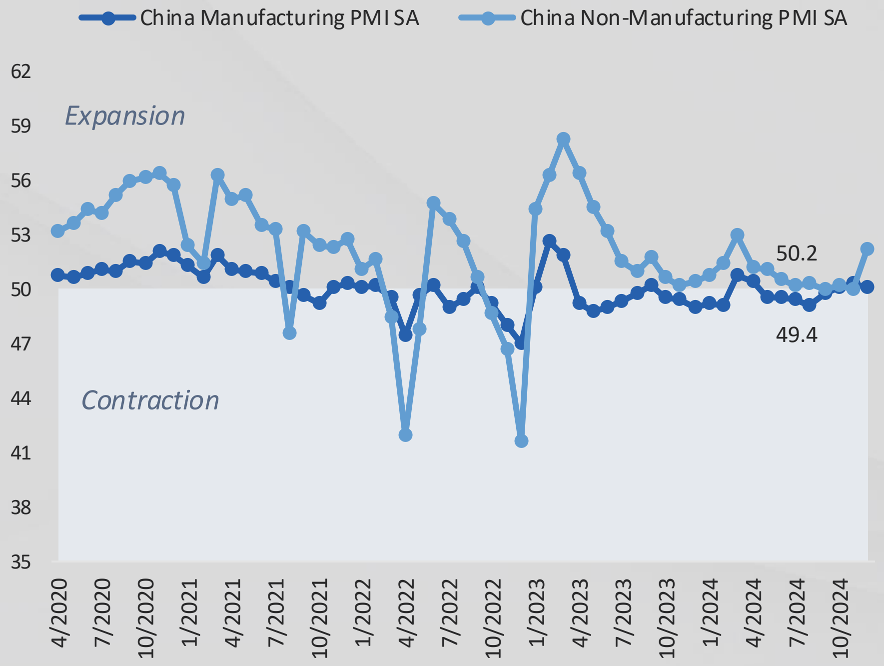
Growth Pressure Looms

The negative effect of deleveraging in property sector and local government sector still weigh the economic growth, but the aggressive fiscal stimulus has not been seen yet. The volatile external environment in 2025 and uncertainties in Trump's policies will add more downward pressure to the growth.

Drivers of China GDP Growth *



Manufacturing PMI Softened, but Non-manufacturing PMI Picker Up*



Source: *Bloomberg.

US Tariff To Be the Largest External Shock in 2025

If no fiscal policy offset, 20% additional tariff rate may cause 5% of EPS growth drag^

Estimated tariff impacts to 2025E MSCI China earnings (in HKD)

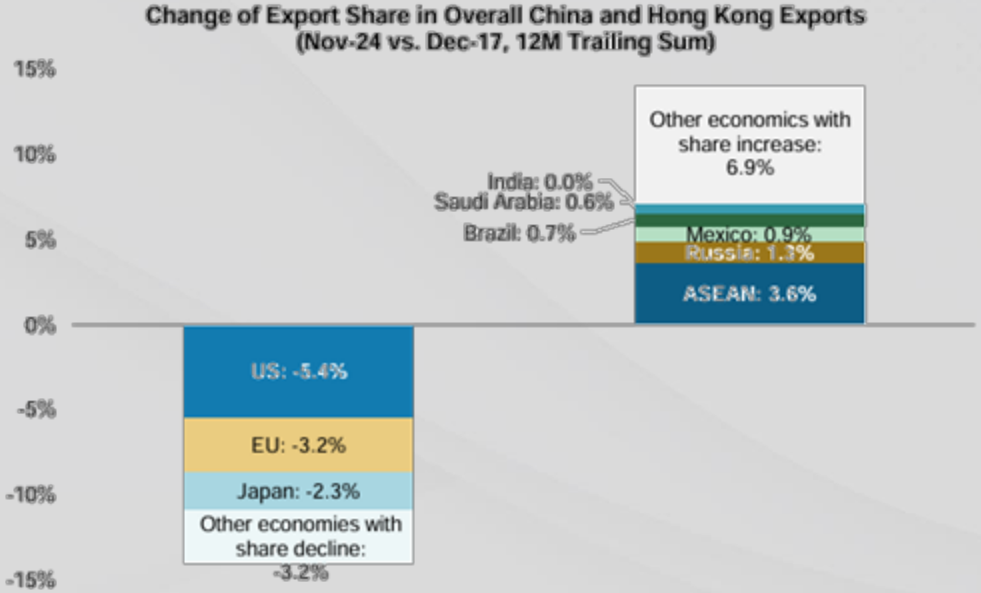
	Effective US tariffs on Chinese goods				
USDCNY	70%	40%	30%	20%	10%
6.90	-18.3%	-8.5%	-5.2%	-1.9%	1.4%
7.10	-19.7%	-9.7%	-6.3%	-3.0%	0%
7.30	-20.9%	-10.8%	-7.4%	-4.0%	-0.6%
7.50	-22.1%	-11.8%	-8.4%	-5.0%	-1.5%
7.70	-23.2%	-12.8%	-9.3%	-5.9%	-2.4%
7.90	-24.2%	-13.7%	-10.2%	-6.7%	-3.2%

Current

60% tariff increase;
No tariff passthrough;
CNY depreciates to 7.7

20% tariff increase;
50% tariff passthrough;
CNY depreciates to 7.5

Supply Chain Diversification to Cushion the Tariff Shock*

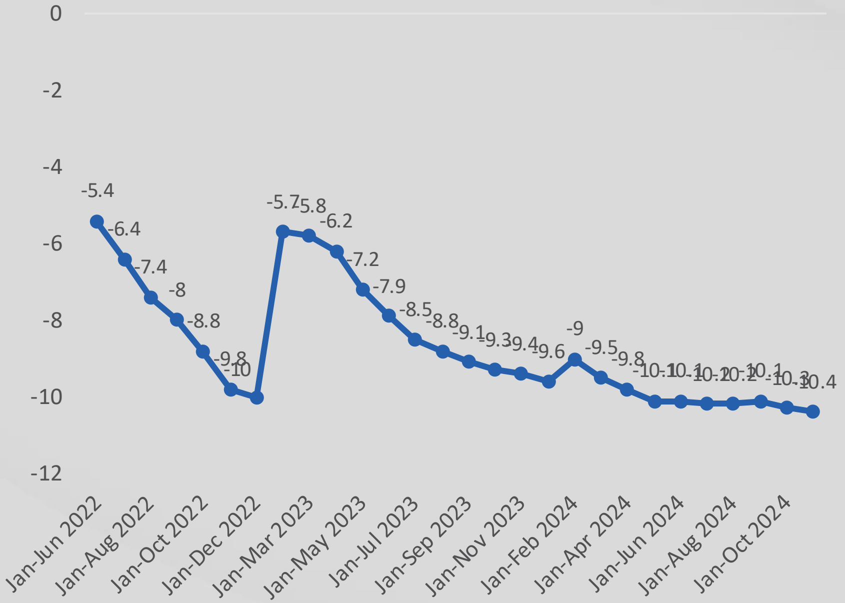


Source: ^Goldman Sachs. 1) US aggregate tariffs on Chinese goods rise from ~10% now; 2) Tariffs partially pass to customers by raising selling prices while volume remains unchanged; 3) US revenue and tariffs valued in dollar terms, while other revenue and costs valued in CNY; 4) Other companies excluding exporters to the US are indirectly impacted by GDP growth slowdown; and, 5) USDHKD exchange rate remains stable. *CEIC. Morgan Stanley.

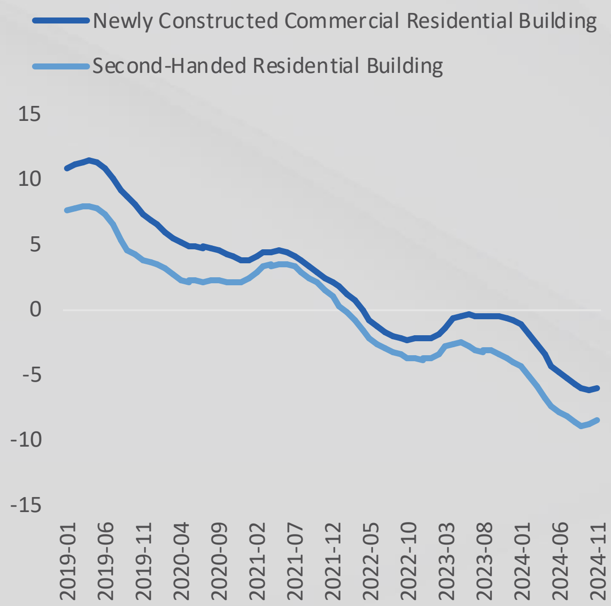
Property Still a Drag

Lack of encouraging and big stimulus in property market, the downward pressure in property investment, prices and inventory has deepened. Vulnerable property sector implies that the structural headwinds to China's growth outlook is difficult to go away soon.

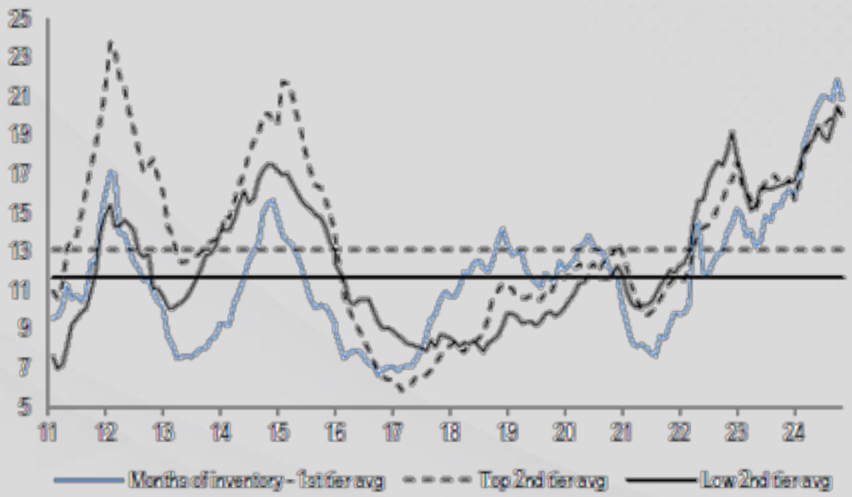
Property Investment Growth (%) Stay Sluggish^



70-City Property Price YoY Change (%)^



China's Property Inventory Still Elevated*



Source: ^NBS, CSOP. *JP Morgan.

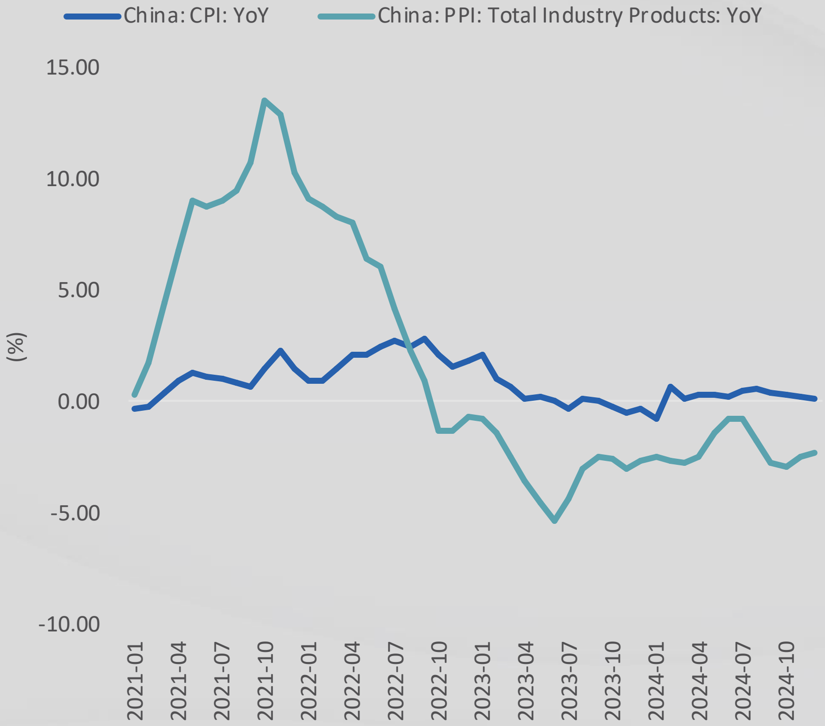
Note: *On May 17, the People's Bank of China, the State Administration of Financial Supervision and other departments issued a series of measures to support real estate ("517 Property Market New Deal"), including clearly canceling the lower limit of the national-level mortgage interest rate policy and lowering the down payment ratio of mortgage loans. and provident fund loan interest rates, establishment of affordable housing refinancing and many other aspects.

Stuck in Low Inflation

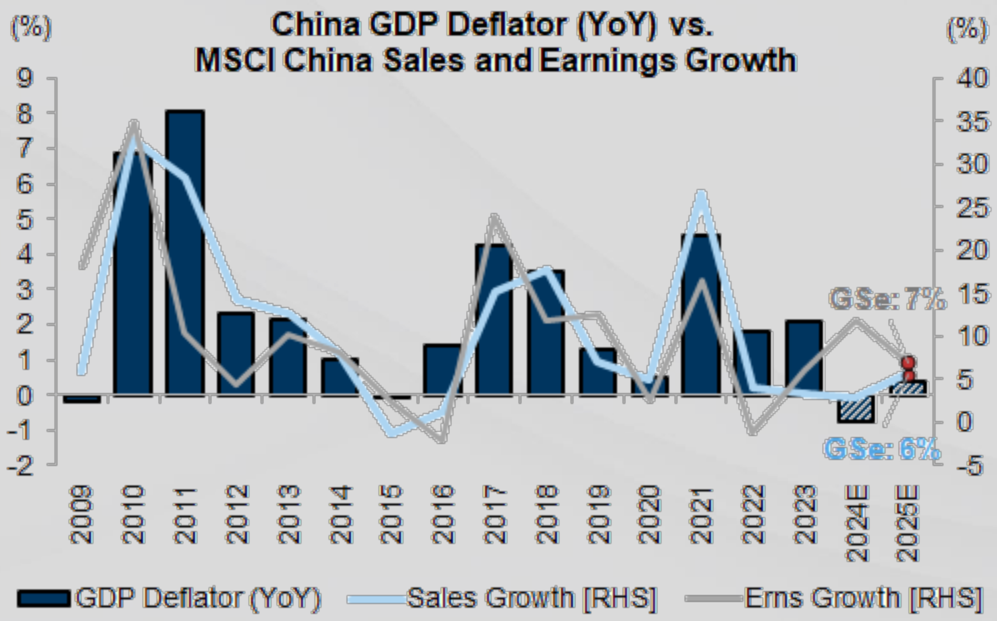
Unlike in most DM and EM economies, inflationary pressures were subdued in China in 2024 where headline CPI and PPI most likely be at around 0% or in negative territory.

- Low inflation was perhaps a key contributing factor to the 3% revenue growth for listed Chinese companies in 2024, the 4th lowest on record, according to Goldman Sachs calculations.
- China is exporting the low inflation to the world, with the export prices down 18% from their post-Covid peak compared with a 5% decline globally.

YoY Growth Rate of Total Retail Sales of Consumer Goods^



Inflation Has Been Positively Correlated with Fundamentals*



Source: ^Wind, CSOP. *FactSet, Haver Analytics, MSCI, Goldman Sachs. 2024/25E GDP deflator numbers are proxied by average of CPI and PPI; Historical data from Haver Analytics.

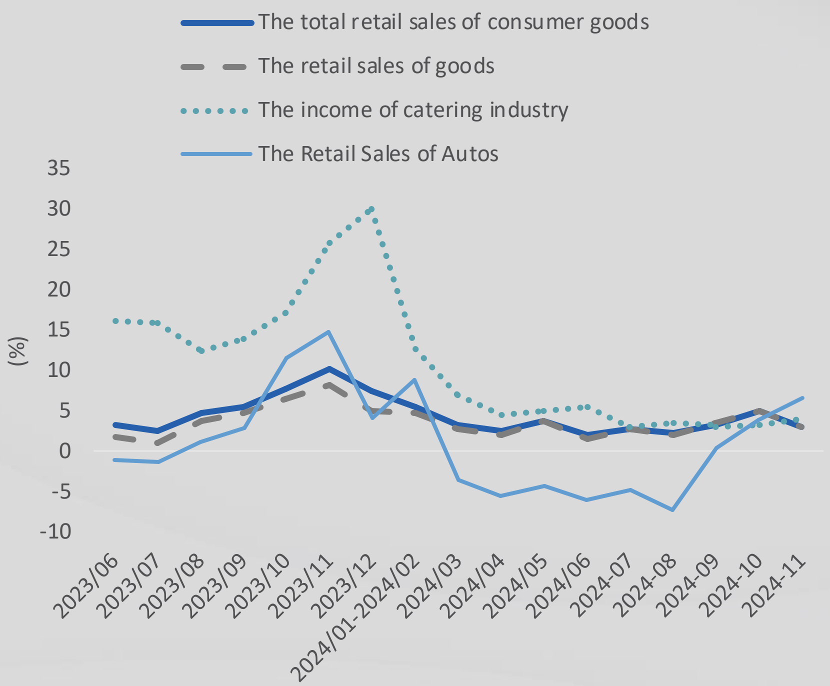
Consumption Growth Requires More Fiscal Policy

With the release of the 300 billion yuan ultra-long-term special government bond to support the “dual upgrade” policy (两新政策) in late July 2024, the progress of the old-for-new policy for consumer goods has accelerated significantly since August.

The trade-in policies and subsidies have positive pullover on consumption. The growth rate of retail sales of consumer goods with trade-in policy support has increased from June to August, while the growth rate of non-trade-in retail sales fell from 3.6% to 3.2% during the same period.

The Total Retail Sales Growth Rate is Flattening

YoY Growth Rate of Total Retail Sales of Consumer Goods^



YoY Growth of Total Retail Sales of Consumer Goods*

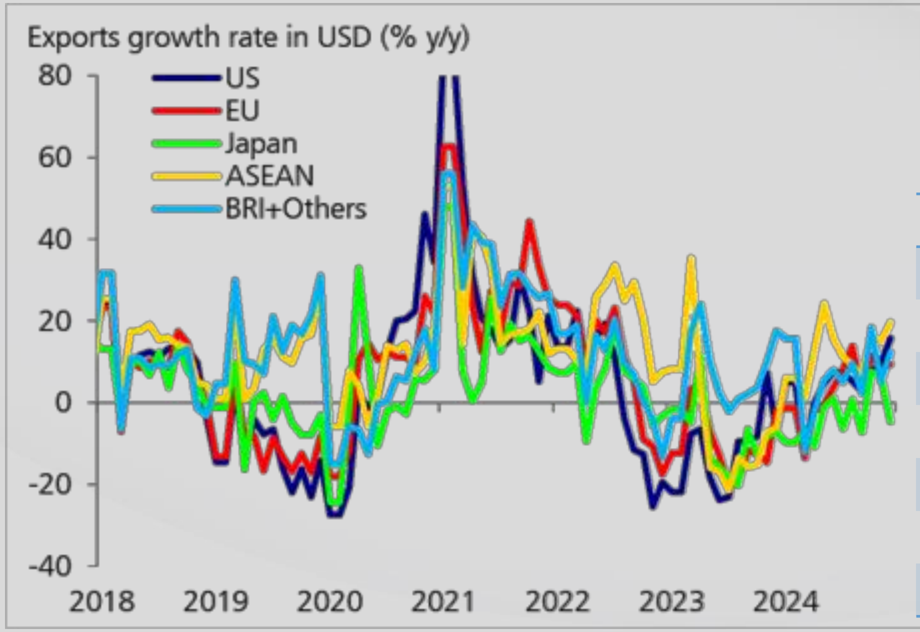
Source: ^NBS, CSOP. *Syntun, Morgan Stanley.

Resilient Exports but High Growth May Not Sustain

Export growth has been the solid and important growth contributor last year. Led by stronger front-loading shipments to the US, the export growth accelerated in the December of 2024. For full year 2024, exports grew by 5.8%y/y vs. the 4.7% contraction registered in 2023.

However, substantial tariff uncertainties and external demand moving to a weaker growth phase may weigh on the 2025 export growth. The front-loadings may support the export growth further, but the overall export growth may moderate ahead in the coming quarters.

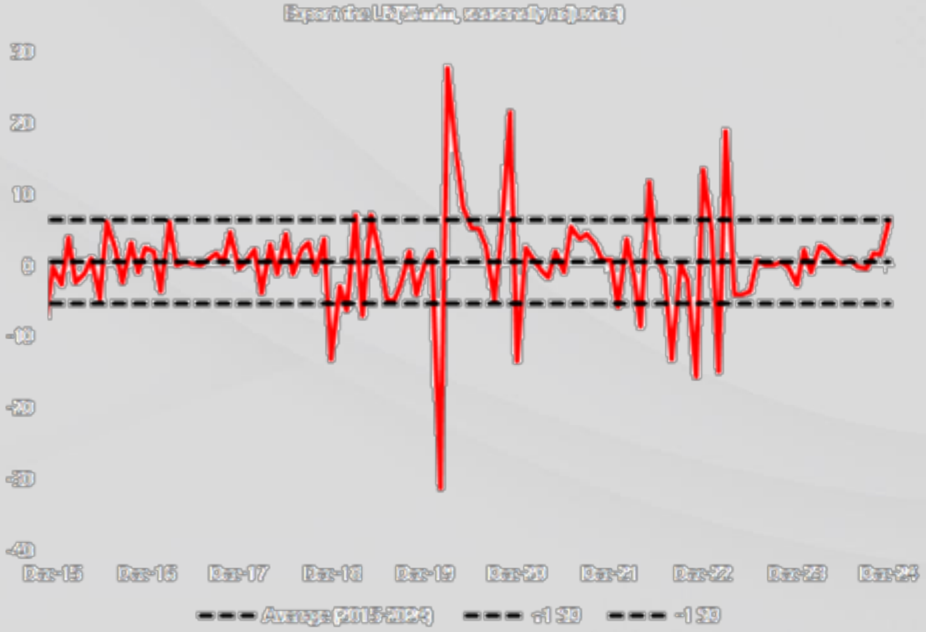
Export Growth Picked Up for Most of the Destinations Across DM and EM^



Export YoY Growth by Economies

	12/2024
G3	**+10.3%**
USA	+15.7%
EU	+9.5%
Japan	-4.6%
ASEAN	**+19.6%**
BRI	**+3.5%**
Others	**+15.2%**

Higher than usual sequential export growth to the US could be a sign to monitor for front-loading ahead of potential tariff escalation*



Source: ^CEIC, UBS. *China Customs, WTO, JP Morgan. Yellow=decrease, Green=increase.

Potential Surprise Indicators

China's assets could be uplifted if any of the below surprise indicators occur:

Large Fiscal Stimulus

The ups and downs of China's equity market in 2024Q4 are largely driven by the stimulus policy news, especially on the demand side. In the current confirmation/implementation stage, policy details are necessary to justify investors' more bullish policy views and boost market sentiment.

1

US-China Relations Easing

The US tariffs could be the largest external shock for China. If the tariff announcement is not as severe as expected and there is easing signals of US-China relations easing, the China's assets could be uplifted.

2

Reflation

Robust supply side recovery and sluggish consumer demand lead to the low inflation dilemma. Once demand recovery supported by the big stimulus, the economic recovery could gain momentum with inflation coming back.

3

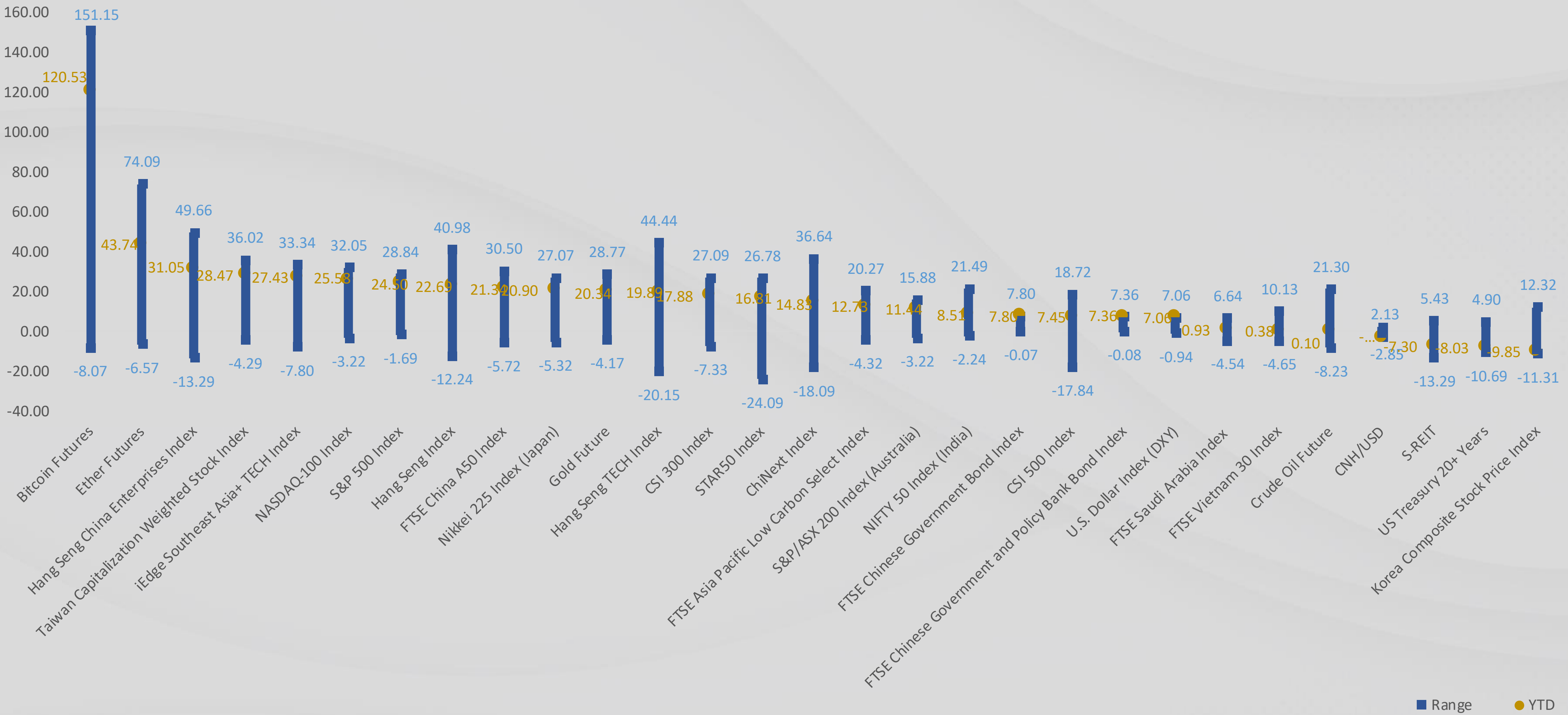
03

Asset Views

Risk compensation is not attractive

Market Review – Total Returns

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations, or an invitation or inducement to trade a particular financial instrument or to engage in an investment activity. There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.



Source: Bloomberg, as of 2024/12/31. The two ends of the blue bars show the lowest and highest returns at any point this year to date, and the gold dots represent current year-to-date returns. Gold future refers to the excess return index of Solactive Gold 1-Day Rolling Futures Index. Crude oil future refers to the excess return index of Solactive WTI 1-Day Rolling Futures Index. ChiNext Index, FTSE Chinese Government Bond Index, Bloomberg Barclays China Treasury + Policy Bank Index are the total return indexes. Bitcoin futures and ether futures are both the price levels of CME futures active contracts. The remaining are net total return indexes.

The above information is for reference only, and should not be regarded as an investment advice of, or an offer, solicitation, or recommendation to buy or sell any securities, funds, or investment products. Investment involves risk. Past performance is not indicative of future performance.

Credit Spread at Historical Low

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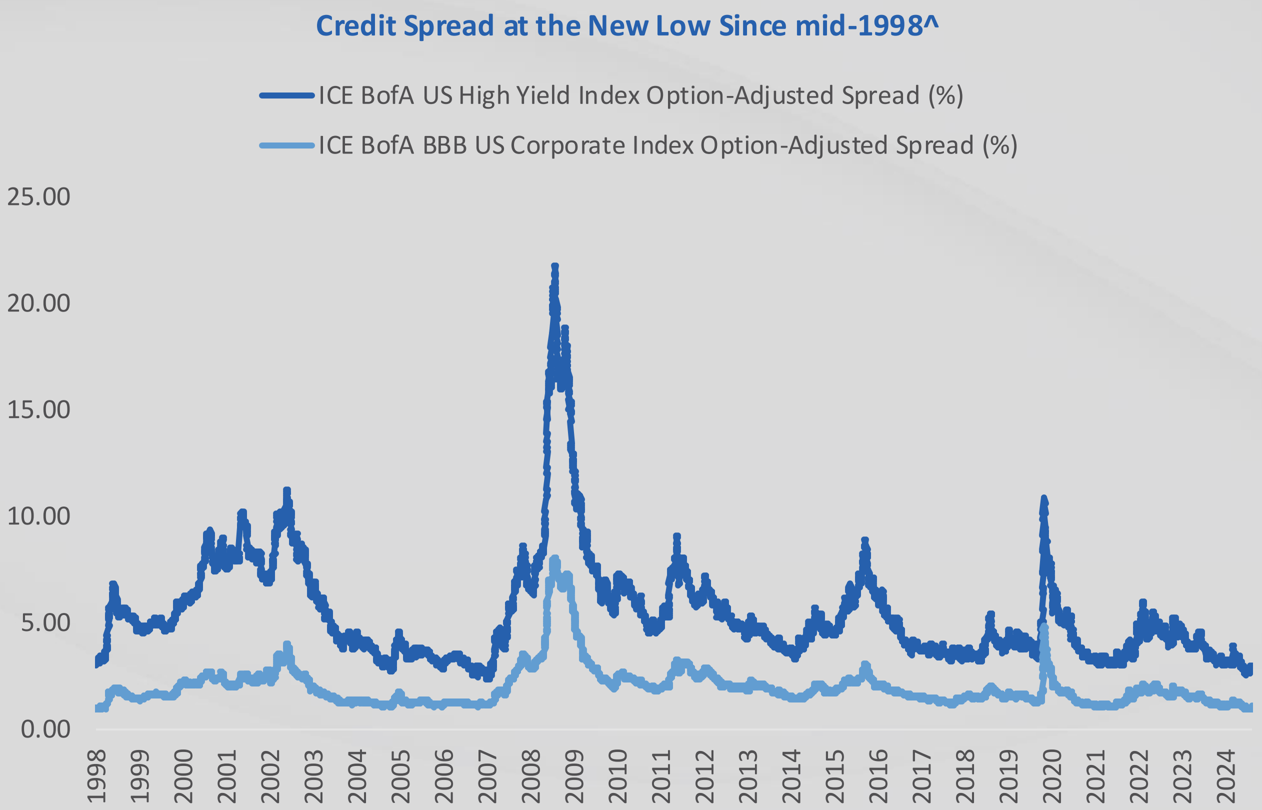
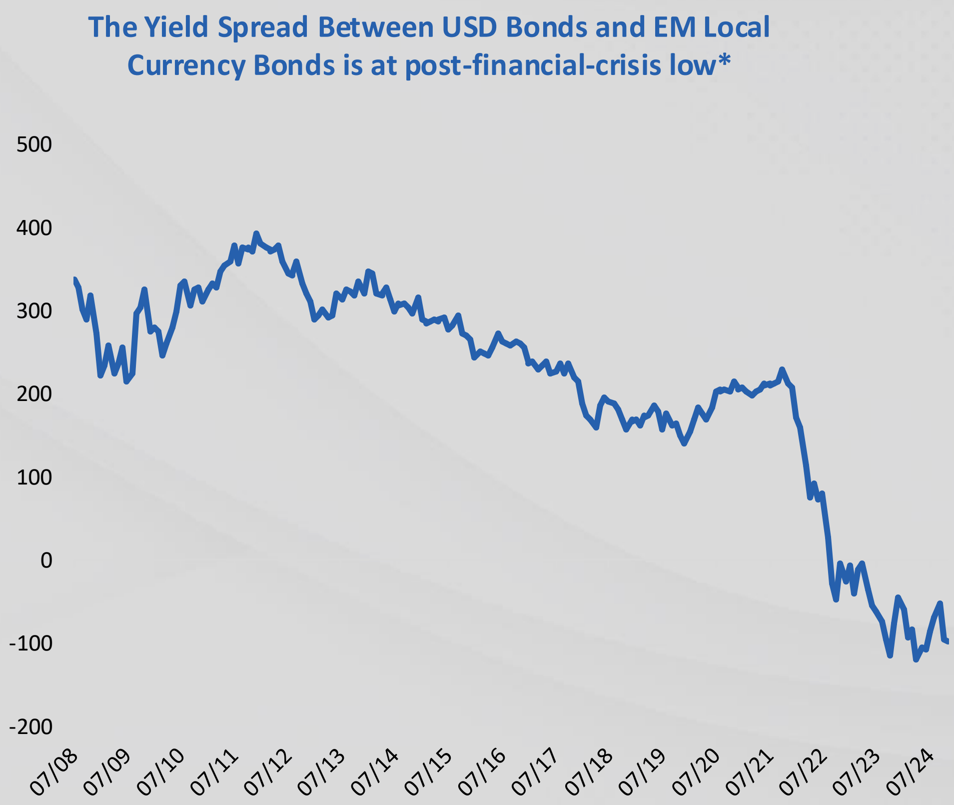
The credit spread of US BBB corporate bonds has reached the narrowest since mid-1998;

The credit spread of US high-yield corporate bonds has also reached the second narrowest position in the past 26 years, second only to the period before the financial crisis.



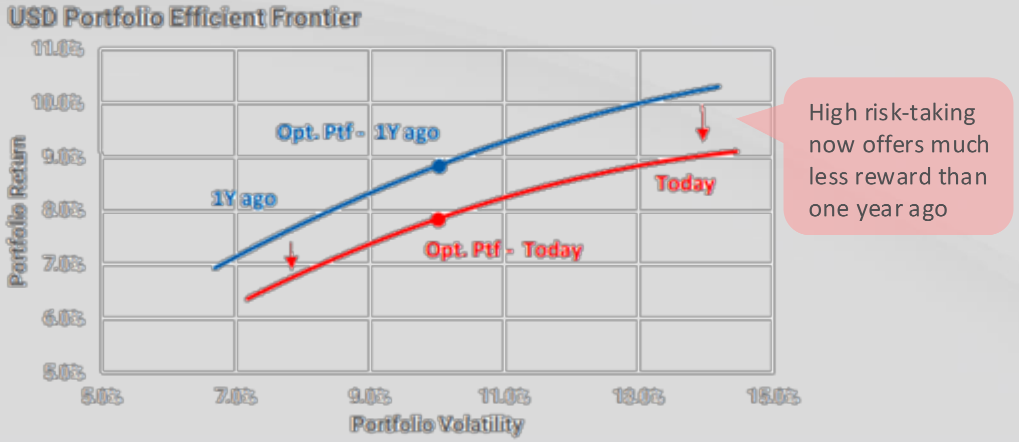


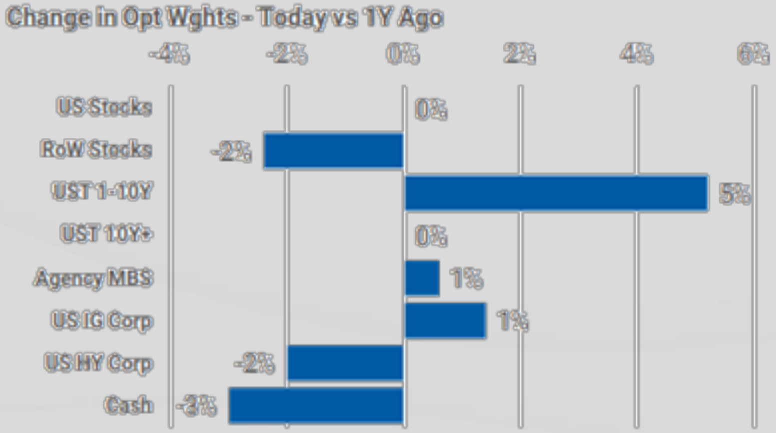
Source: ^FRED, 1998/5/18-2025/1/10. *Bloomberg. As of 2024/11/29. USD Bond is represented by Bloomberg US Agg Index (LBUSTRUU Index); EM Local Currency Bond is represented by Bloomberg EM Local Currency Government TR Index

Risk Compensation Not Attractive Enough

The willingness of taking risk is decreasing. The efficient frontier of US dollar assets shows a flattening downward trend in 2024, suggesting that less weight is allocated in high-risk assets in the US dollar asset portfolios.

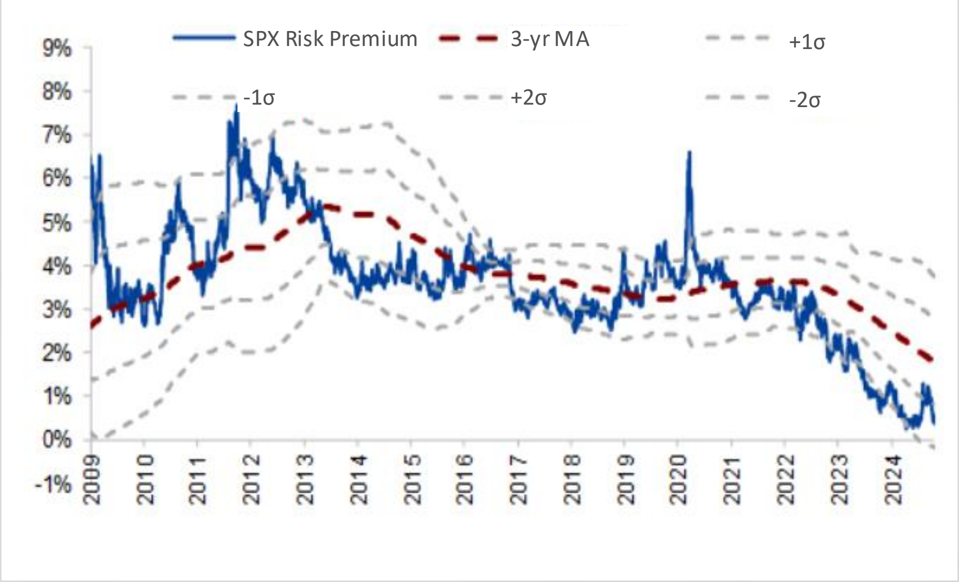
Efficient Frontier is Flattening Shifting Down^





Equity Risk Premium is Shrinking

The Risk Premium of S&P 500 Index^



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Source: ^Morgan Stanley. "Efficient Frontier" is the set of optimal portfolios that offer the highest expected return for a defined level of risk or the lowest risk for a given level of expected return. *Morgan Stanley.

Magnificent 7 Remains Outstanding

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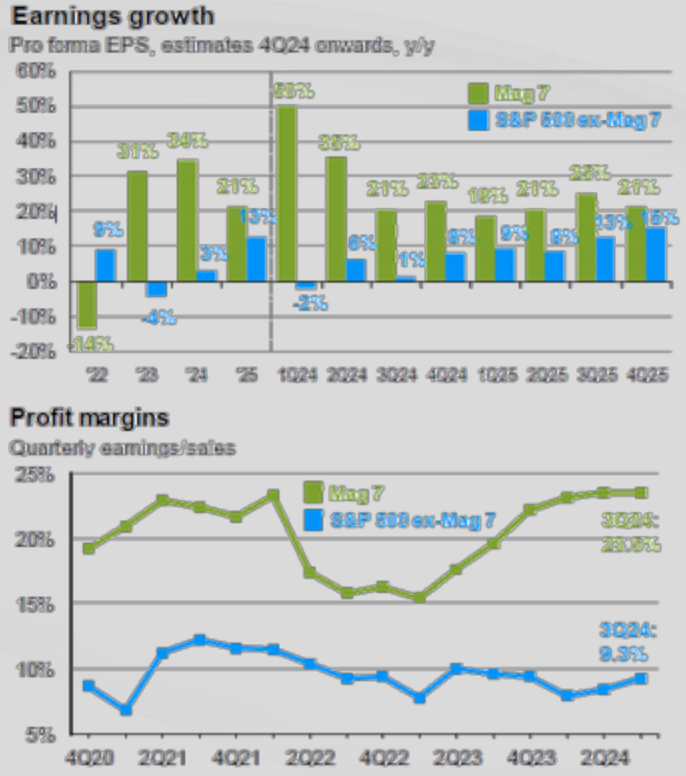
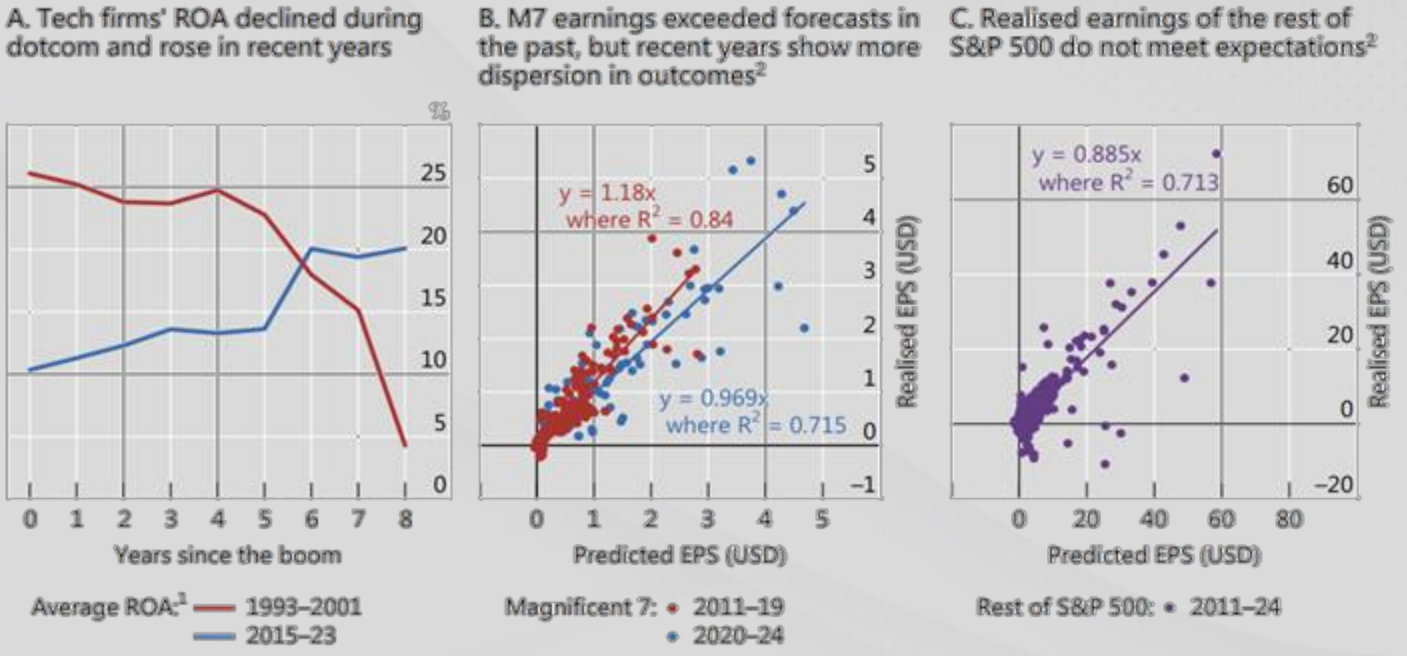
But beating estimates is harder and harder

Earnings Dynamics of Mag7^



Mag7 Earnings Exceeding Forecasts Not As Easy As Past*



[1] Market capitalisation weighted average of selected firms. For 1993–2001, Adobe, Amazon, Apple, Cisco, Micro, Microsoft and Qualcomm; for 2015–23, Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). [2] Predicted EPS is eight-quarters-ahead average forecasts of earnings per share (EPS) and realised EPS is the realised outcome.

Source: ^Morgan Asset Management. *Bank for international settlement; LSEG datastream; LSEG workspace.

Virtual Assets: Another Popular Trump Trade

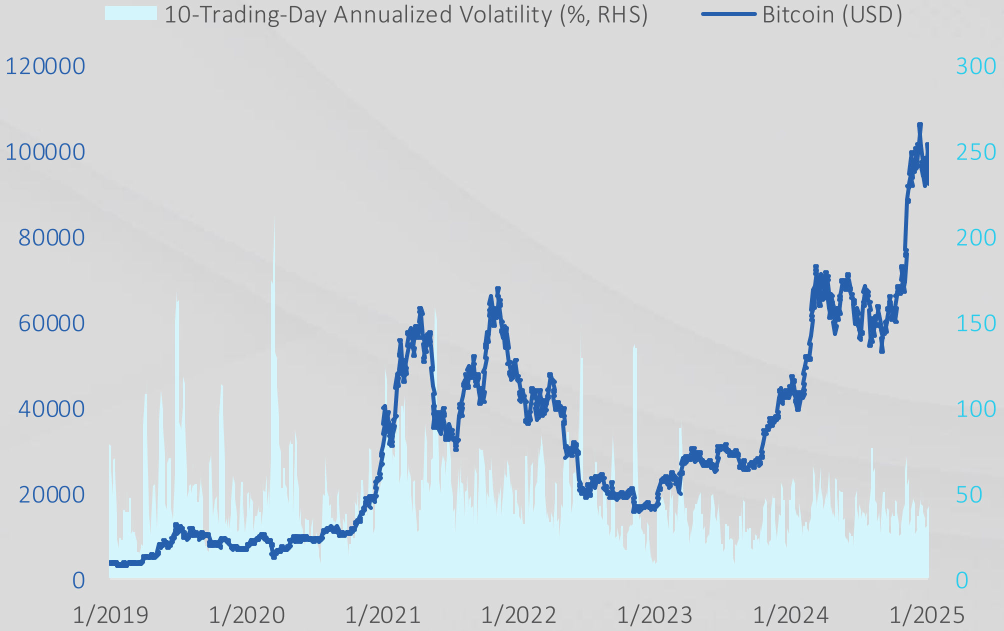
Bitcoin repeatedly refreshed its new highs in December as investors bet on crypto-friendly Trump policies.
The volatility remains high. Bitcoin does not have any intrinsic value. Its price mainly relies on investor confidence and market demand & supply which are sensitive to market news and rumors.^ The drawdown of bitcoin could be extremely high.

Trump's Crypto Promises#

Make the US the world's cryptocurrency capital
Fire SEC Chair Gary Gensler
Establish a strategic Bitcoin reserve
All future bitcoins mined in the US
Prevent the US from selling its bitcoin holdings
Recommend using cryptocurrency to address US debt issues
Propose a comprehensive cryptocurrency policy
End the US government's unlawful crackdown on the crypto industry

Bitcoin Prices, Volatilities and Maximum Drawdown*

Year	2019	2020	2021	2022	2023	2024
Max. Drawdown	-48.04%	-52.79%	-52.90%	-67.41%	-20.07%	-27.75%

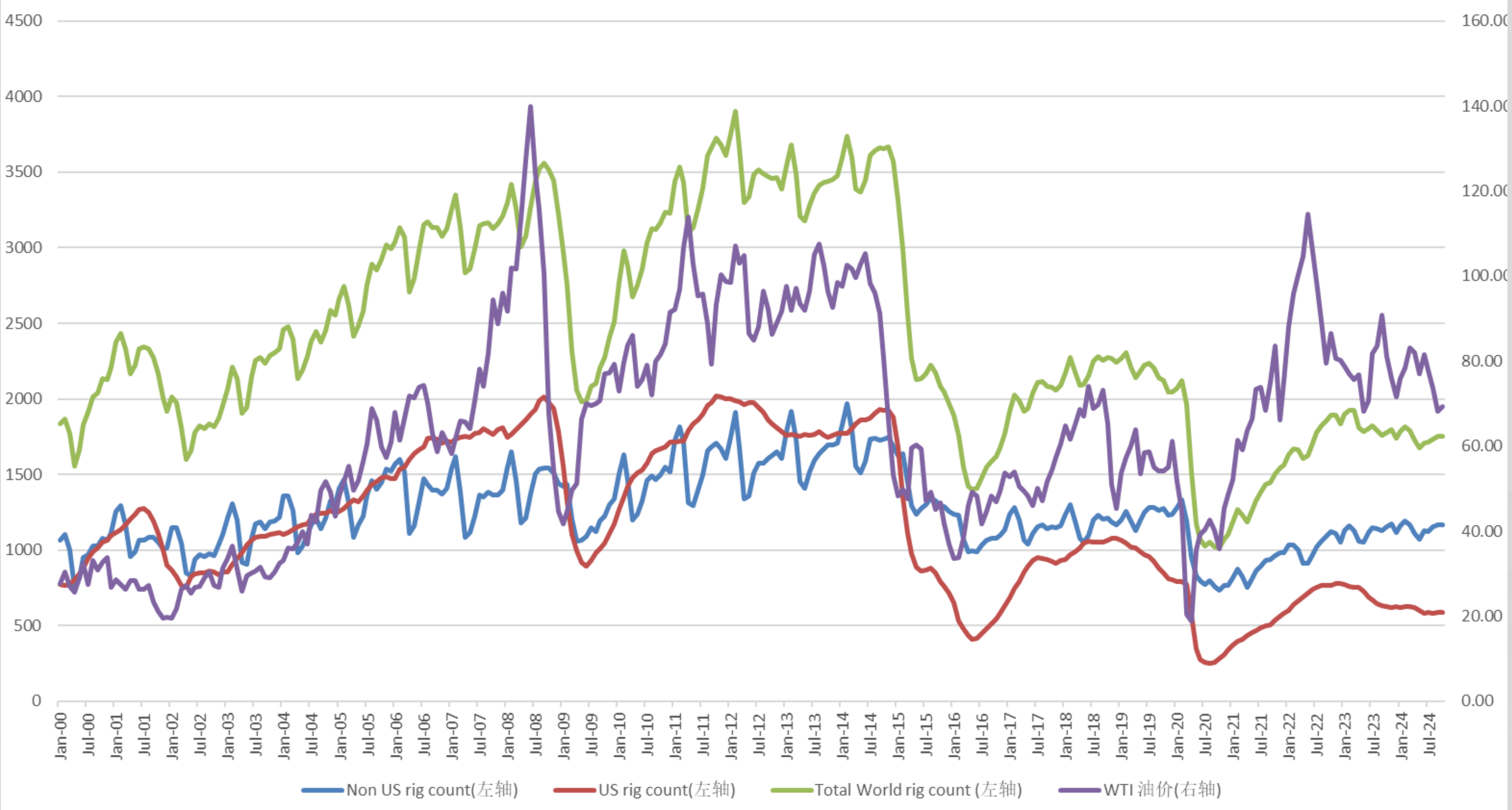


Source: ^IFEC. #Coindesk, CNBC. *Bloomberg, CSOP, As of 2025/1/10.
For illustration purpose only, not to be construed as a recommendation to buy/sell in the above-mentioned jurisdictions or sectors.

Oil: Not See Much Upward Pressure

Oil price is expected to be stabilized and less likely to be the new inflator given no surprise in supply and demand side.
If China stimulus works and economy starts to recover further, the oil prices will be pushed up on demand side.

Global Crude Oil Rig Count and WTI Oil Prices



Source: Bloomberg, CSOP

Investment Themes in 2025

Four Investment Themes

1. **Trump 2.0 brings volatility**
   - ***Investment implication***: *Turn to safe-haven assets and L&I products.*

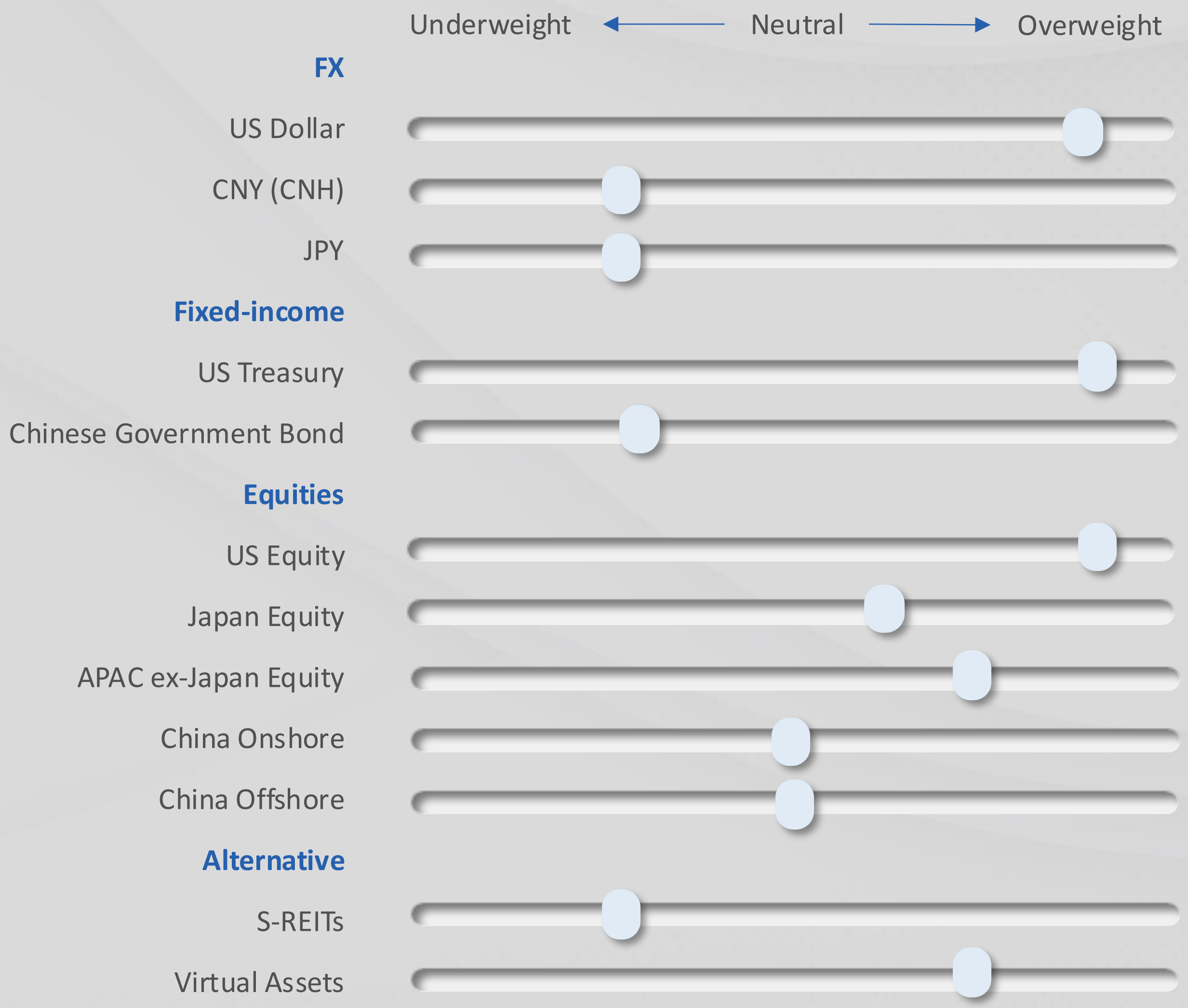
2. **US "Exceptionalism" attracts fund flow**
   - ***Investment implication***: *We favor USD assets.*

3. **Risk compensations are decreasing**
   - ***Investment implication***: *High-quality assets like US large-cap stocks and US Treasuries are preferred.*

4. **China's assets may have upside surprise**
   - ***Investment implication***: *Keep the exposure to China's assets to bet the potential upside*

Key Risks: 1) US Recession; 2) Giants shrink AI spending; 3) Geopolitical conflicts upgrade

Relative Asset Allocation Positioning



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