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# 2025 H2 Highlights & Investment Strategies

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As with all investments, your capital is at risk

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As with all investments, your capital is at risk



# CSOP Market Update

Sep 2025

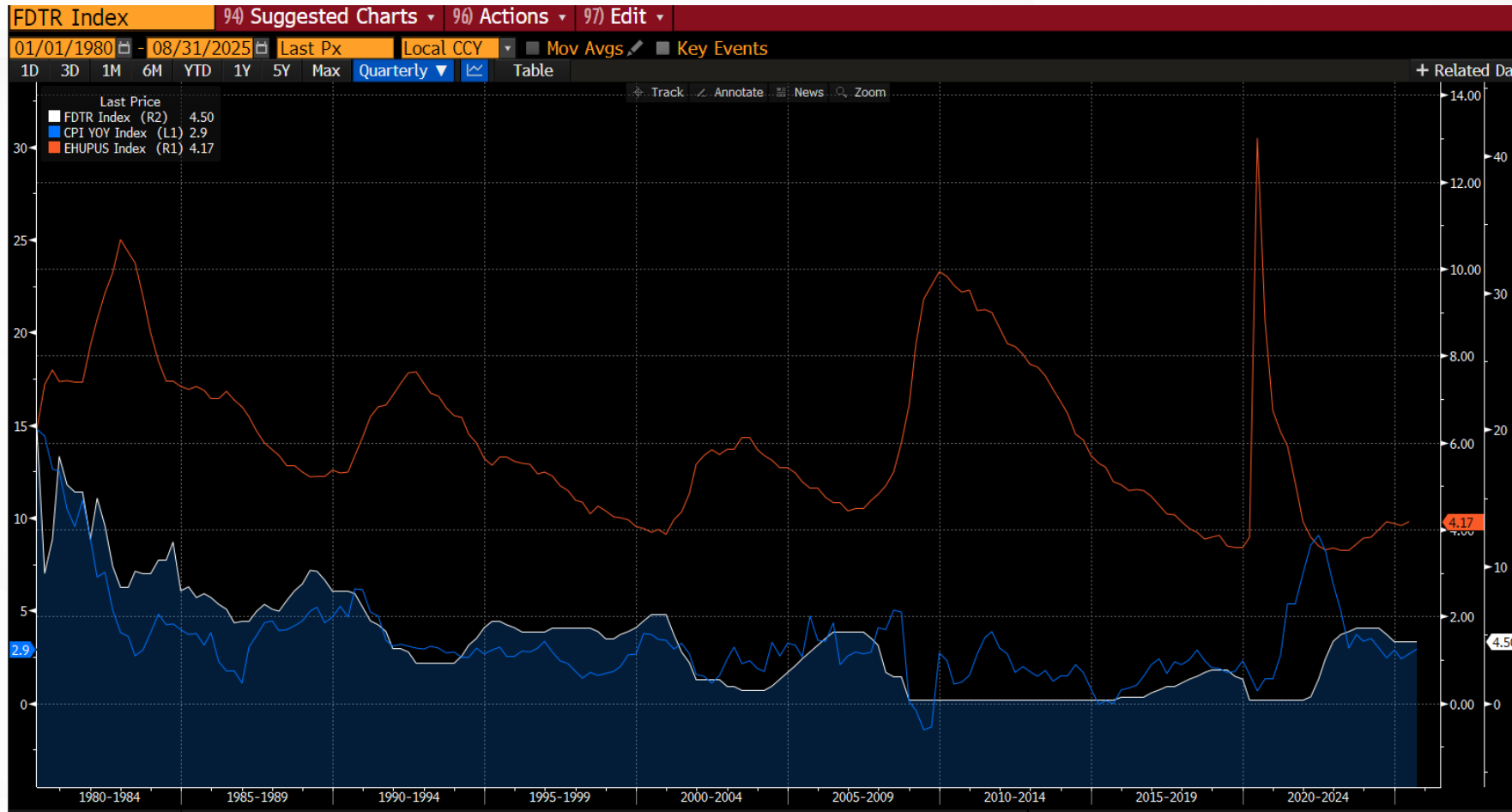
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## US Rate Cut



# Fed Cut: Sep 2025 cut 25bps

- The Fed's current decision-making framework: **data-dependent**, finding a balance between moderate price increases and full labor employment;
- The Fed under Powell may have made history by controlling prices without relying on recession.
- Fed is **NOT** managing expectation, is managed by Economic Data.



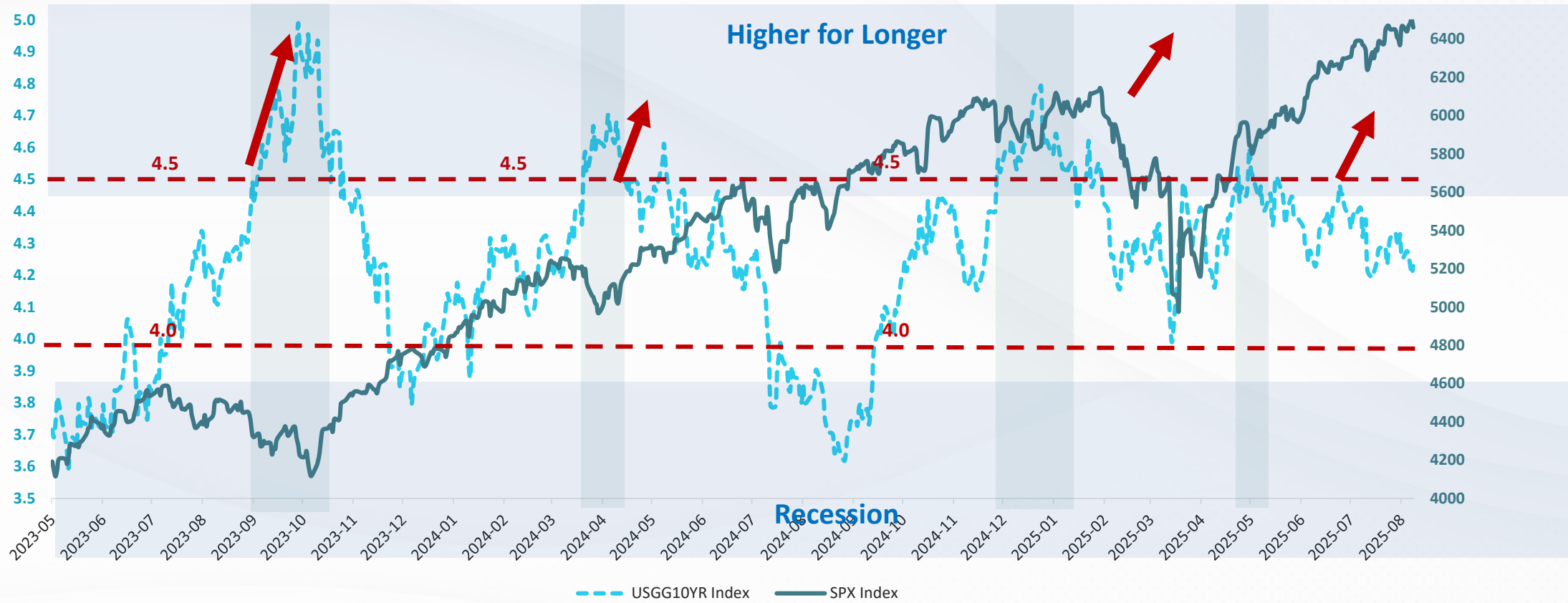
Data Source: Bloomberg

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# The impact of UST10Y on US Equity: Corridor 4%-4.5%

- On the upper end of U.S. Treasuries, 4.5% is the key point of the 10-year U.S. Treasury rate. After the 10-year U.S. Treasury rate hit 4.5%, financial conditions tightened rapidly, which had a certain impact on economic expectations and financial markets, and U.S. stocks also weakened; U.S. stocks continued to rebound after a certain amount of correction, and U.S. Treasury yields continued to fall as they rebounded in anticipation of a "soft landing".
- At the lower end of U.S. bonds, 4.0% is the key point, The 10-year U.S. Treasury yield fell below 4.0% several times for different reasons, mainly driven by rising soft landing expectations before 2025, so U.S. stocks continued to fall unaffected, while after 2025, the possibility of a soft landing scenario decreased, As the likelihood of a recession and slowdown scenario increases, U.S. stocks fall at the same time as U.S. Treasury yields fall rapidly.

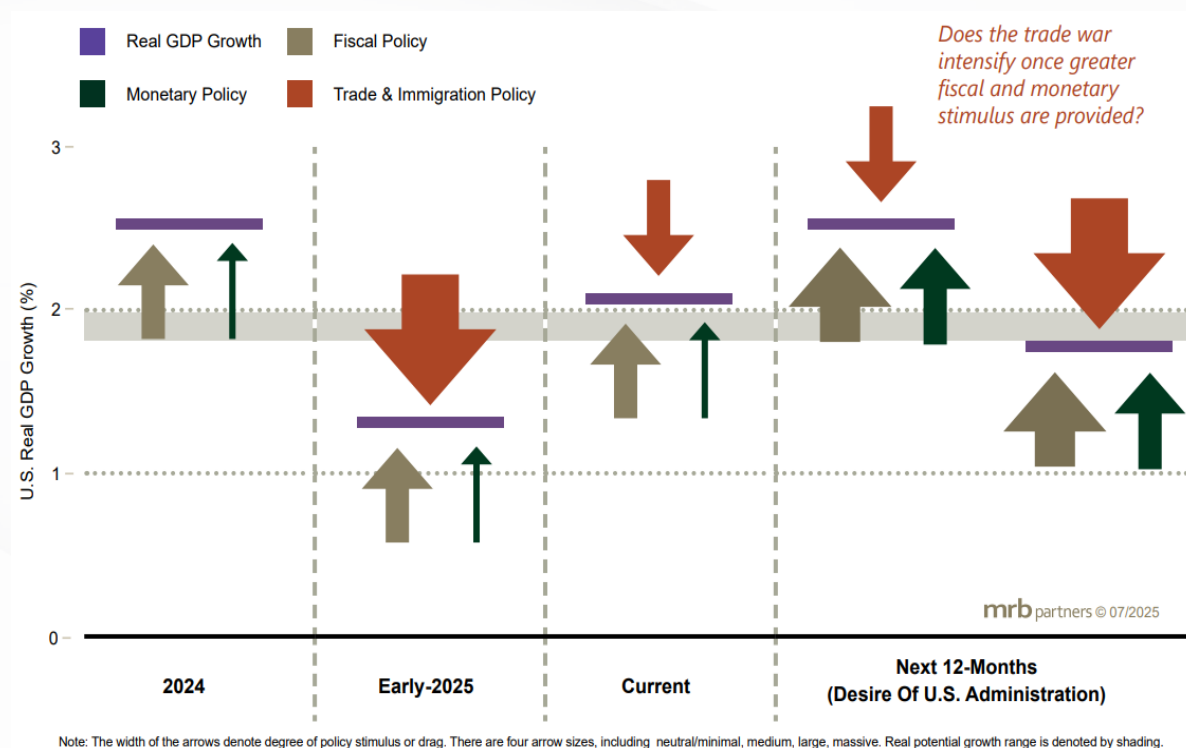


Data Source: Bloomberg as 2025/8/29

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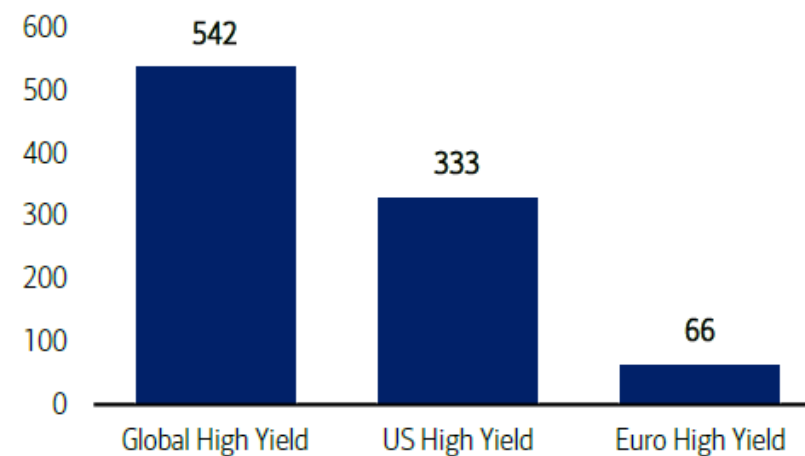
# Fed Cut: Fixed Income inflows

- Hunting for yield drive the market during the rates cutting cycle: Credit is attracting more flows than government bonds
- Worries on **next round of inflation and fiscal sustainability**;
- More fiscal support could benefit the economy but higher inflation expectations, then duration is difficult to bet



## HY flows by fund focus

**Exhibit 17: European domiciled HY fund flows, split by fund focus**  
For European domiciled funds, Global, US and Euro focussed HY funds saw \$542mn, \$333mn, \$66mn respectively.



EPFR Global, BofA Global Research

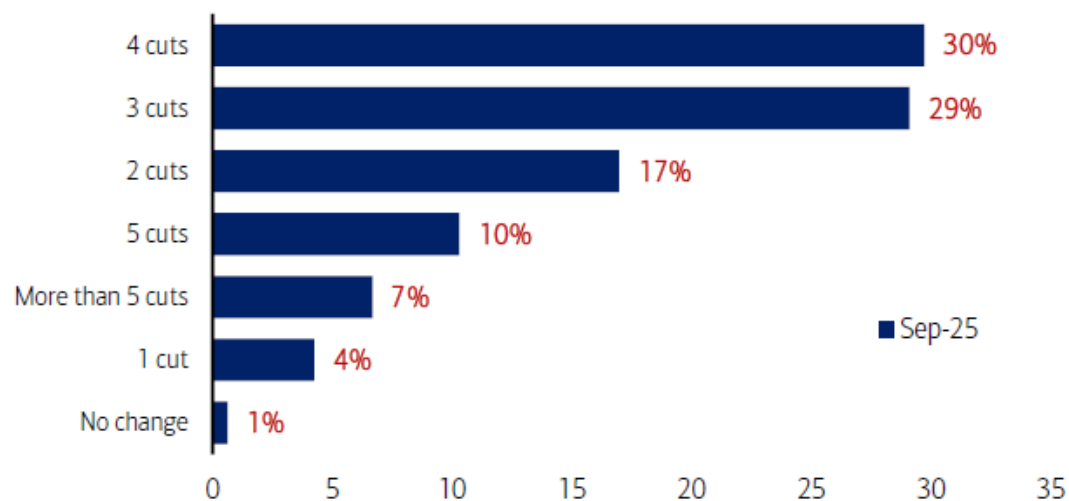
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# Fed Cut: Outlook for cuts

- More cuts are coming for next 12 months
- Softlanding is the current assumption ;**
- The attitude could swing very quickly due to policy changes e.g. Q1 2025

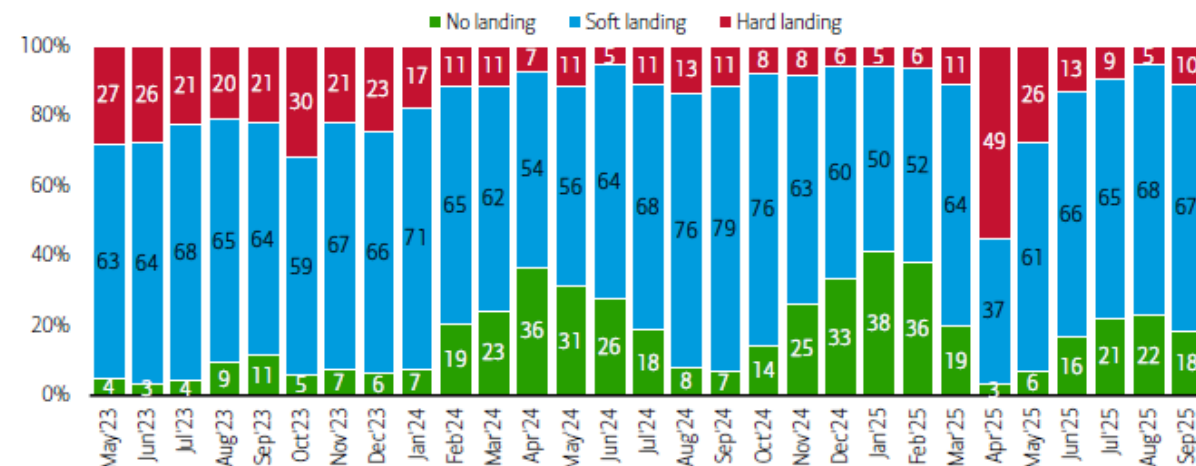
**Chart 1: 47% expect the Fed to deliver 4 or more rate cuts or more in the next 12 months**  
How do you expect the Fed to change the federal funds rate in the next 12 months?



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

**Chart 5: 67% say soft landing, 18% no landing, just 10% hard landing**  
What is the most likely outcome for the global economy in the next 12 months?



Source: BofA Global Fund Manager Survey, Bloomberg

BofA GLOBAL RESEARCH

Source: BoA

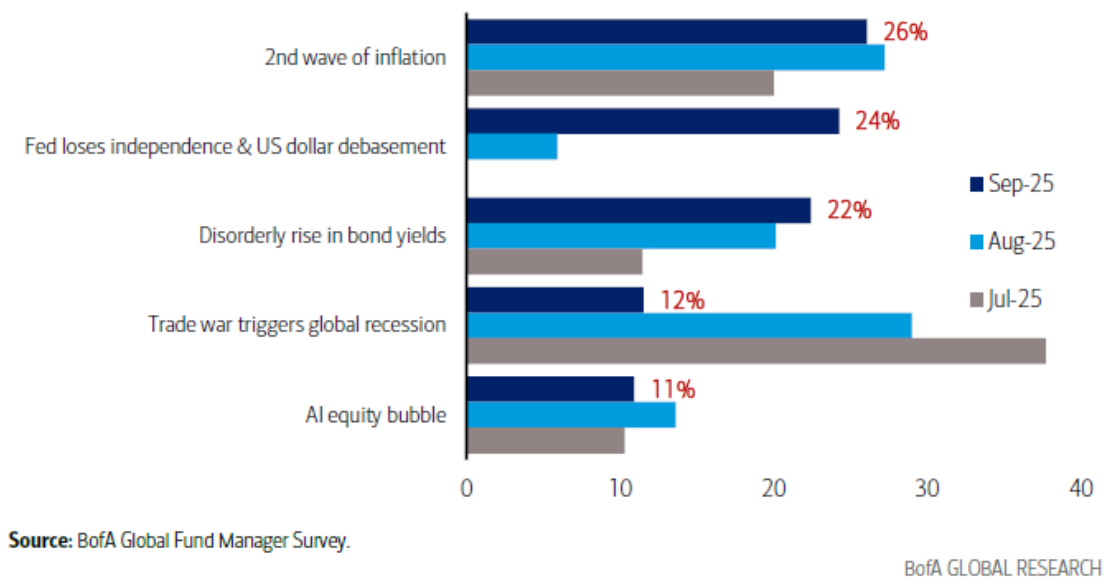
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# Fed Cut: Market views for Sep 2025

- Market worries more on second round of inflation due to current cutting cycle and economic conditions
- **Disorder rise = losing independency of Fed;**
- Animal spirit back to the market to chasing risk-on, e.g. M7 becomes top trading ideas
- Trade war no longer concerned within the market right now, but **be careful**

**Chart 8: 'Second wave of inflation' seen as the biggest 'tail risk'**

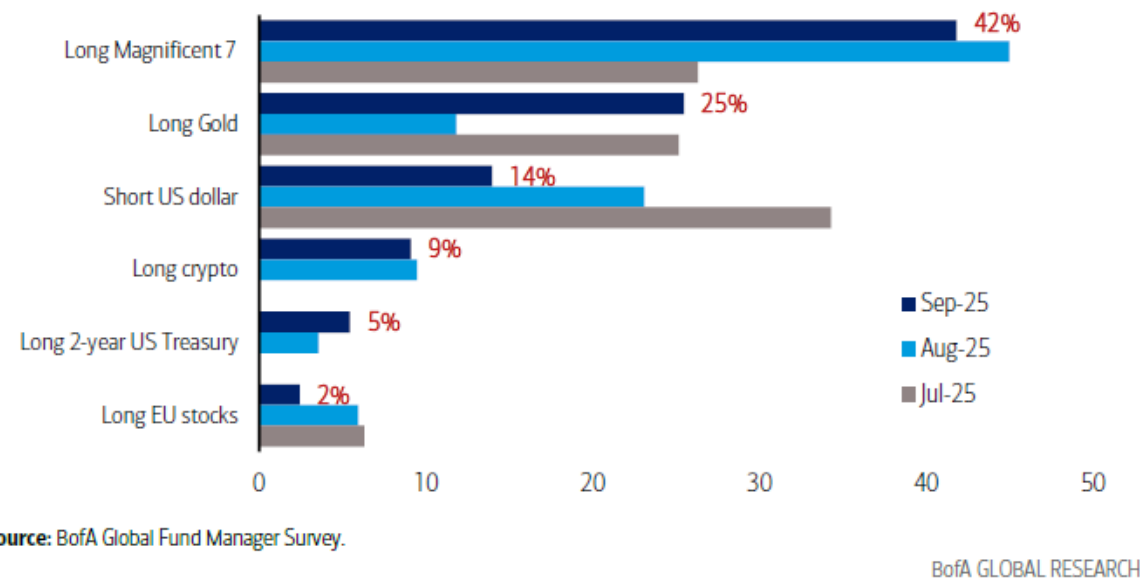
What do you consider the biggest 'tail risk'?



Source: BoA

**Chart 11: "Long Magnificent 7" remains the most crowded trade**

What do you think is currently the most crowded trade?

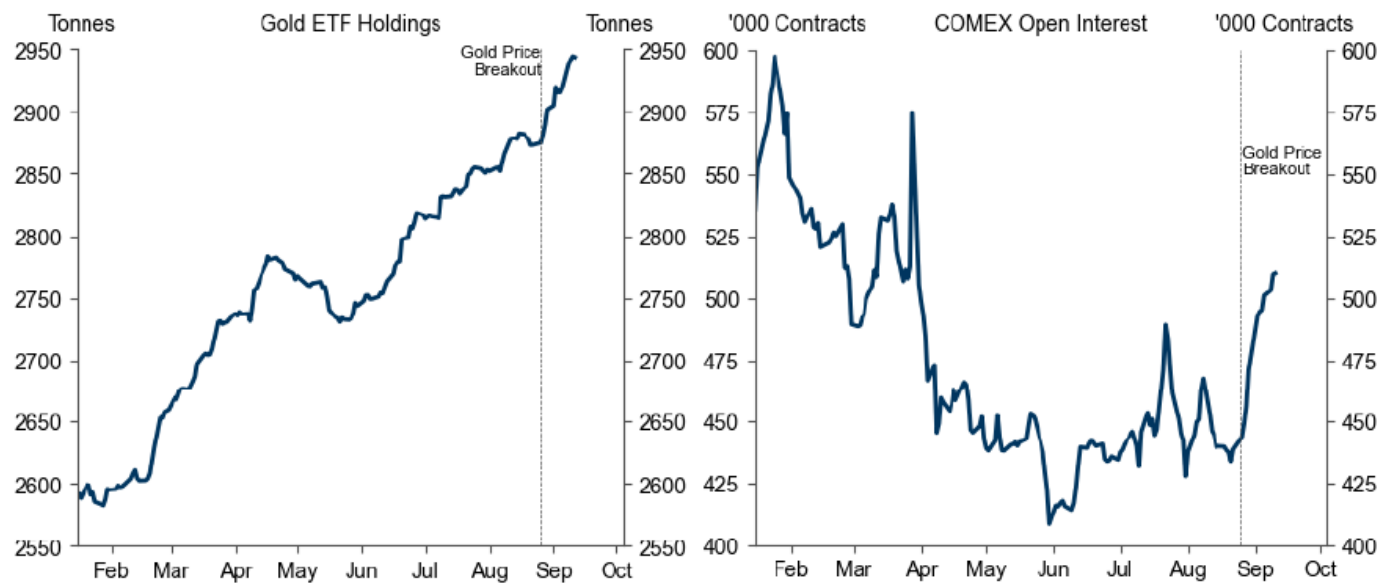


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# Fed Cut: Gold

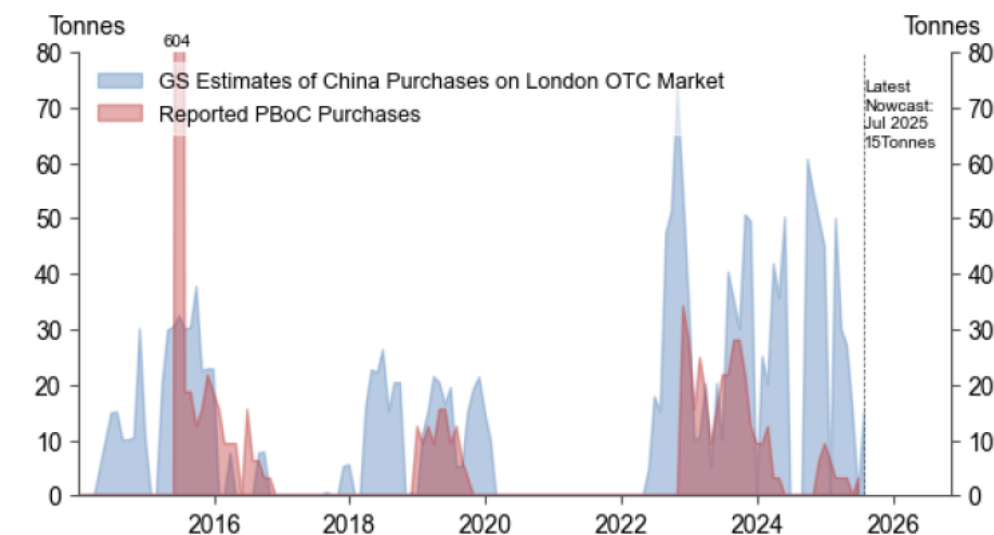
- China back to the market to buy and may via OTC market, as well
- **Retail via ETF push gold price higher and open interest from COMEX is back**
- Rate cutting + Inflation expectation is theoretically better for gold, but recent years, it is more driven **by supply and demand due to global uncertainty.**

**Exhibit 1: Both Gold ETF Holdings and Speculative Flows Have Risen**



Source: Bloomberg, CFTC, Goldman Sachs Global Investment Research

**Exhibit 4: China Added 15 Tonnes in July**



We refer to the gray box 'Our GS Nowcast of Central Bank Gold Purchases (Reported and Unreported)' in our Precious Analyst: Gold Market Primer for an overview of how we construct the nowcast.

Source: Goldman Sachs Global Investment Research

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# China Market

# HK Equity Market Outperformed in 1H 2025

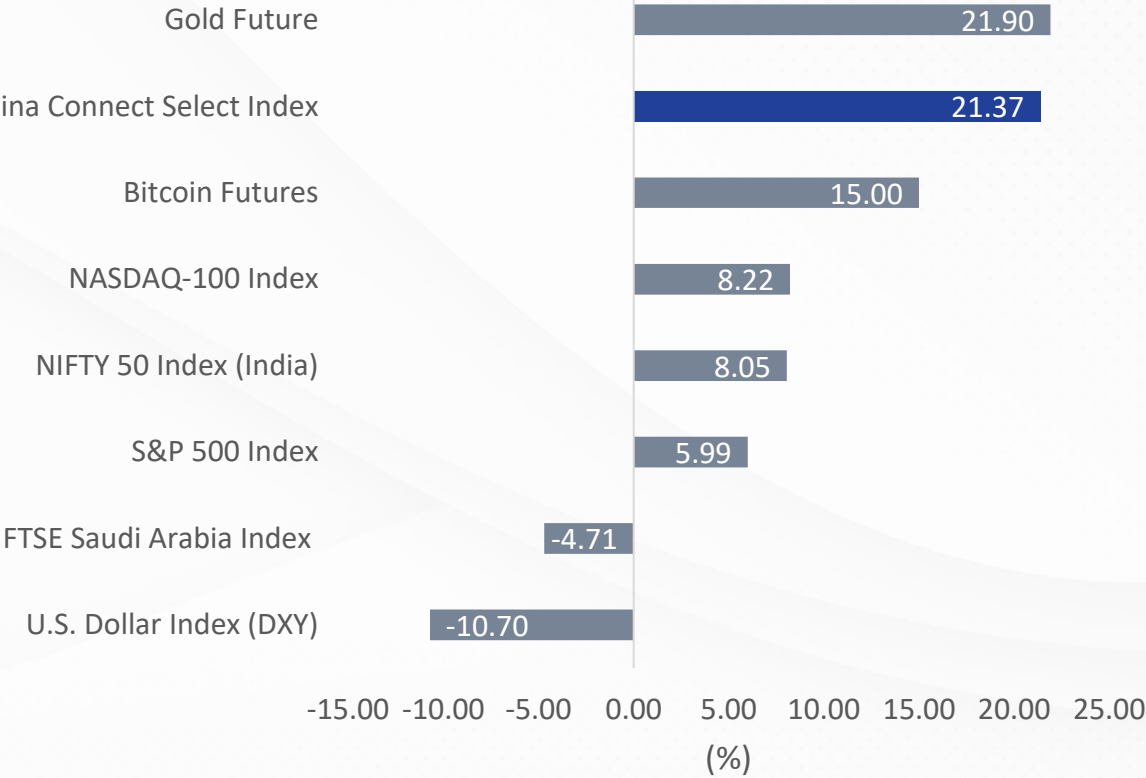
Hong Kong Reigns as Top Global IPO Market in 1H25^



HK Equity Market is Outperforming the Major Markets in 1H25\*



MSCI HK China Connect Select Index



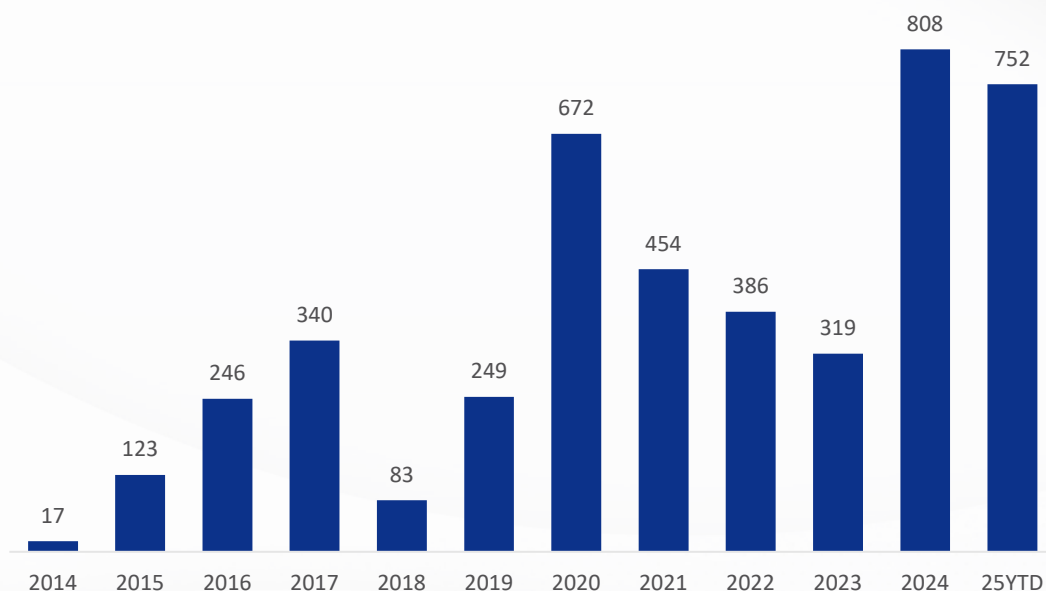
Source: ^KPMG. As of 2025/6/30. The exchange rate for USD/HKD is 7.75. \*Bloomberg. As of 2025/6/30.

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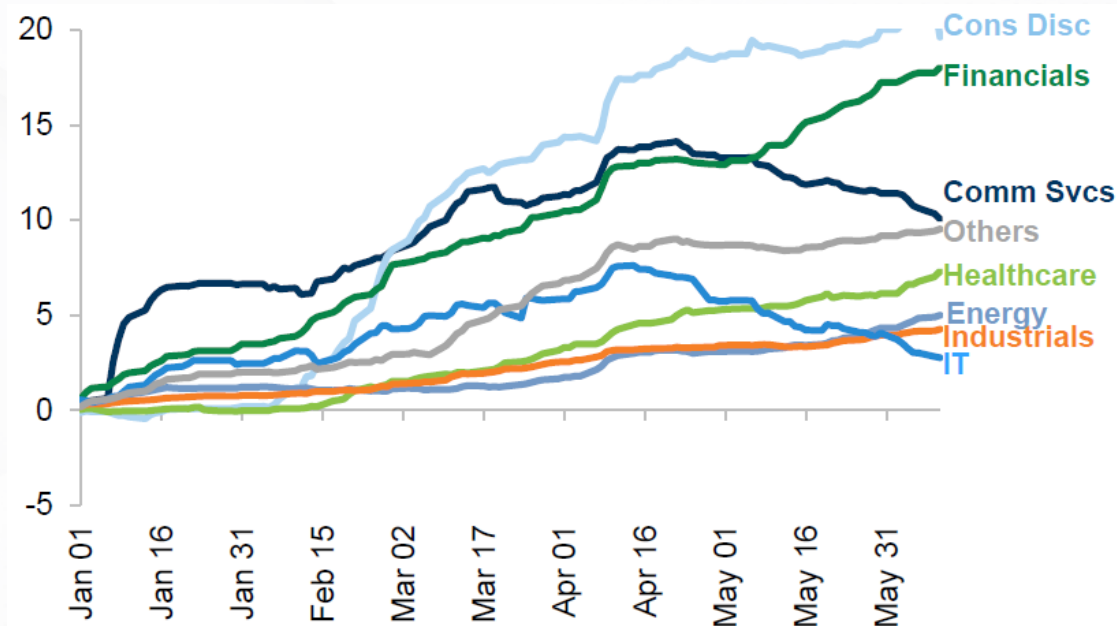
# HK Equities: Dividend Raises the Floor, TECH Determines the Ceiling

- Compared to the bearish cycle since 2021, the "investability" of HK stocks has significantly improved. As a marginal area influenced by the US dollar tides, HK stocks have attracted capital driven by the trends of "de-dollarization" and the weakening narrative of "American exceptionalism". Evidence of this includes the emergence of the A-H share discount and increased inflows from overseas investors outside the US;
- A key driver behind the market's re-rating is the advancement of artificial intelligence. Breakthroughs in AI applications have continued despite macroeconomic headwinds. The market may reach new milestones driven by the launch of key AI LLMs and globalization;
- From Q1 & Q2 earnings and company guidance, businesses with a strong "lipstick effect" component in their core operations demonstrate robust earnings resilience. The export chain can bypass the tariffs to some extent. Based on actual outcomes, the negative impact of tariffs is less severe than initially feared.

Southbound Inflow Is Accelerating (HKD Bn)



2025 YTD Southbound Net Inflow Breakdown by Sector



Source: WIND, EPFR, as of July 7, 2025.

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# 2H25 Outlook: Macro Data is Improving

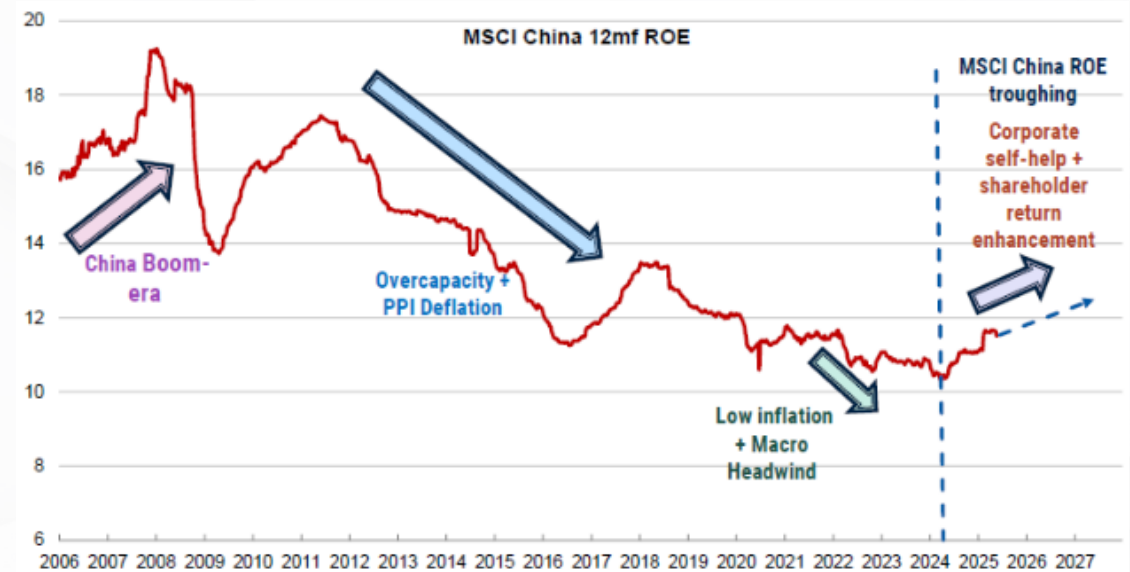
- China's overall macro data is better than feared. We expect 3Q25 to have some back and forth due to base effect, but expectations are already very low.
- MSCI China's ROE has bottomed out in 2H24 and is expected to bounce back to a 12-15% range, indicating a decent expected annualized return.

Citi Economic Surprise Index - China, 2020-2025



Source: Citi Research, Morgan Stanley Research. As of 2025/6/30.

MSCI China's ROE Bottomed Out in 2H24

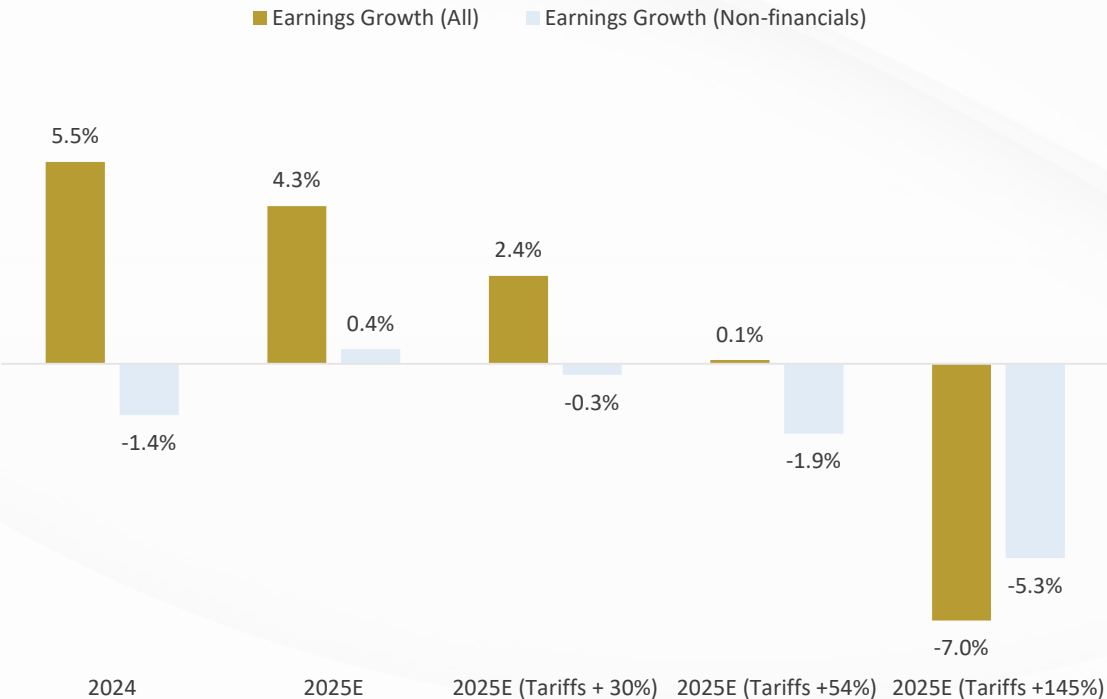


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# 2H25 Outlook: Tariff Impact is More Visible

- For 2H25 outlook, we expect tariffs to have -2~-5% earnings impact, but China’s stimulus policy could hedge 2%~3% of it.

Earnings Growth in Different Tariff Scenarios



China Equity Scorecard, Jun VS Apr 2025

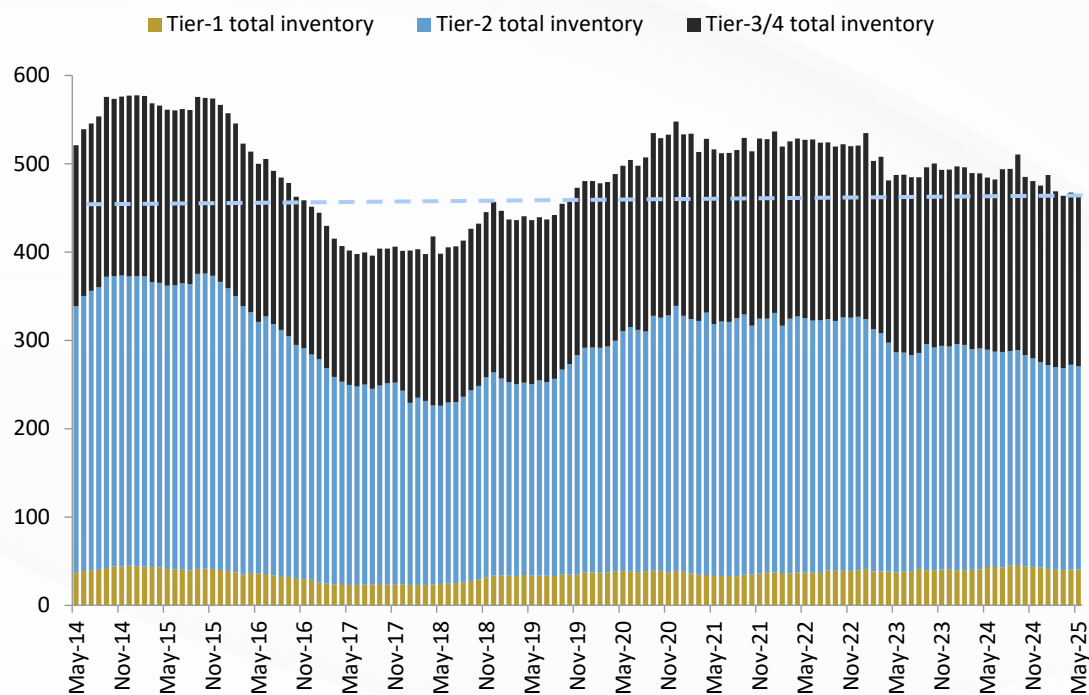
	Apr-25	Jun-25	Revision
Economic/Earnings Revision	- -	/	Up
Valuation	-	/	Up
Liquidity	+	+	Flat
Policy Impact	+ +	+	Down
FX	-	/	Up

Source: Bloomberg

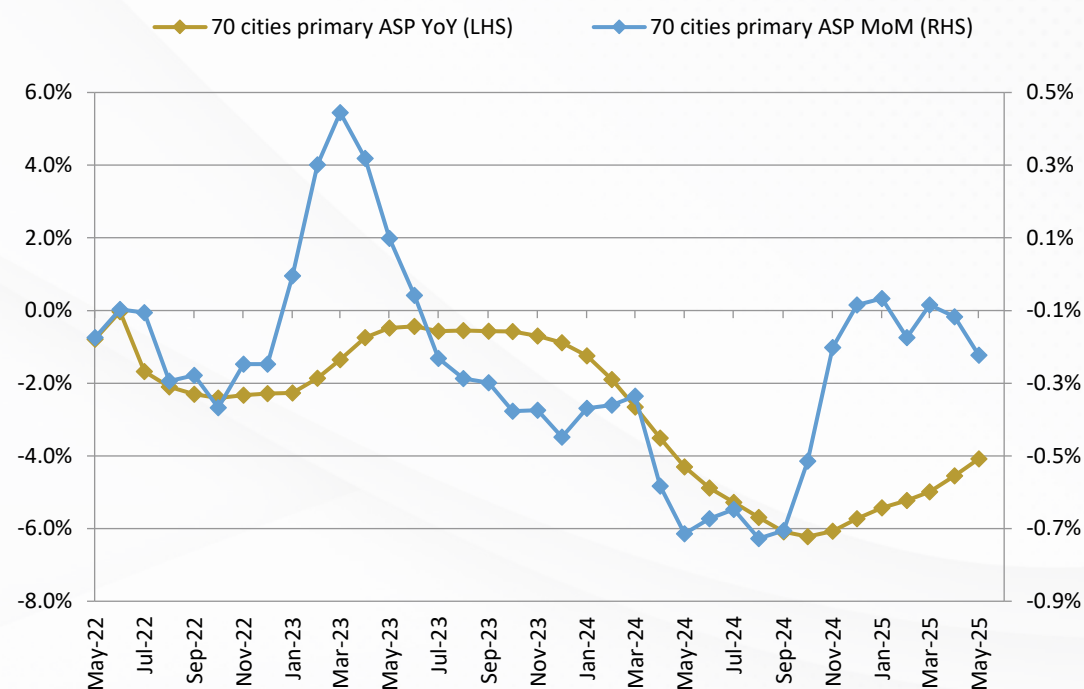
# Property Market: Price and Inventory Are Stabilizing

- After years of slump and rebalancing, China's housing prices are showing signs of stabilization, and inventory levels have fallen back into a healthier range.

## Inventory has Declined back to a Healthy Range



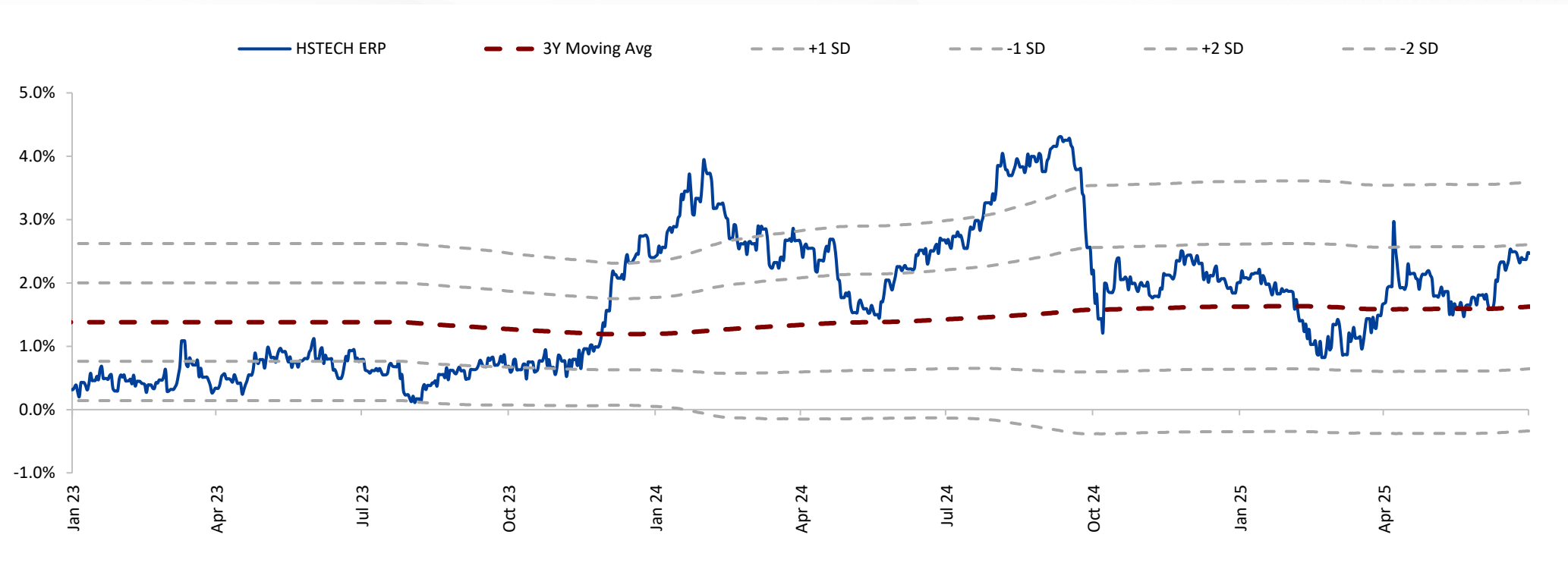
## Primary Market Housing Prices is Stabilizing



# Valuation: P/E is still at Reasonable Level

- Hang Seng Tech Index's equity risk premium sill 1x std higher than 3-year average, indicating a favorable risk reward.

Hang Sang Tech Index Equity Risk Premium



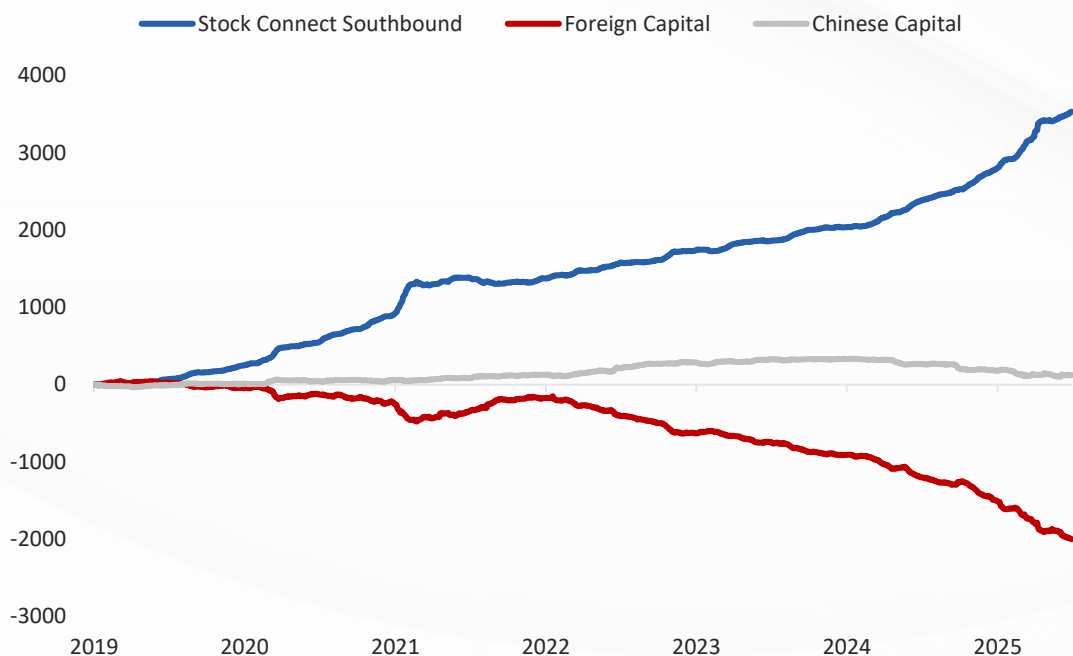
Source: CSOP, Bloomberg; data as of Jun 30, 2025

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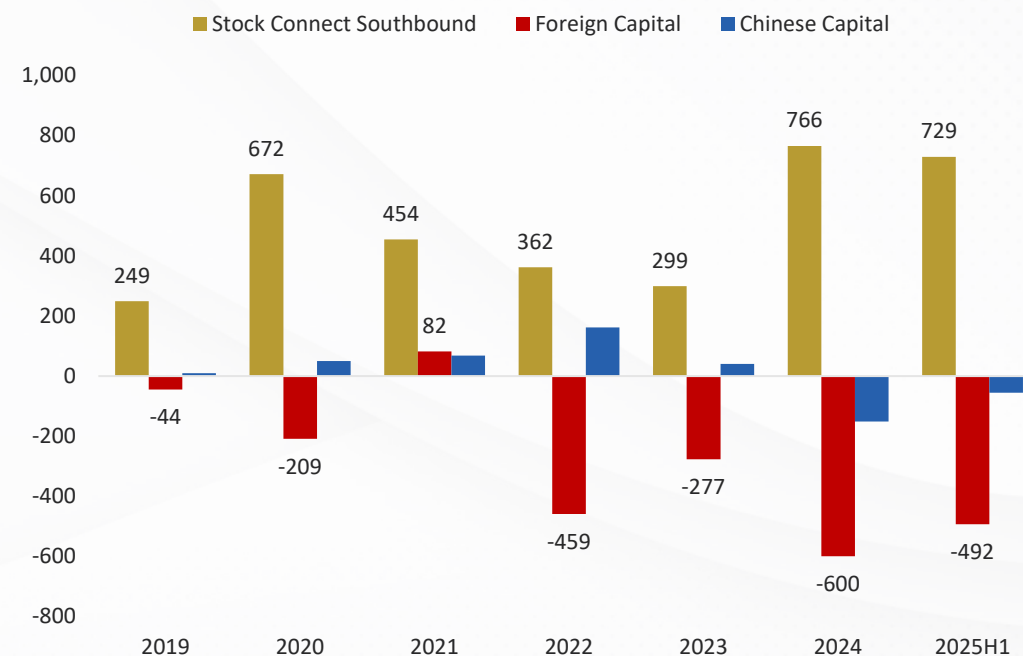
# Capital Flow: Southbound Stock Connect Influence Significantly Enhanced

- As of July 7, China's southbound 2025 YTD net inflow through the Stock Connect has exceeded **92% of the total in previous year**. Southbound capital is accelerating its inflow and has **surpassed the speed of foreign capital outflows**;
- The year 2024 marked a turning point when net southbound inflows fully surpassed foreign capital outflows.

Southbound Net Inflows Has Surpassed Foreign Capital Outflows (HKD Bn)



Southbound Capital vs. Foreign Capital Net Inflow per annum (HKD Bn)



Source: WIND, HKEX, as of July 7, 2025.

# Capital Cycle Enters A New Phase: MSCI China vs. MSCI EM Index

- MSCI China has turned positive again compared to MSCI Emerging Markets.
- It is expected to attract capital flows back into China, as investor has been significantly underweighted.

MSCI China vs. MSCI Emerging Market, 2011-2025

Index Performance

Excess Return



Source: Bloomberg

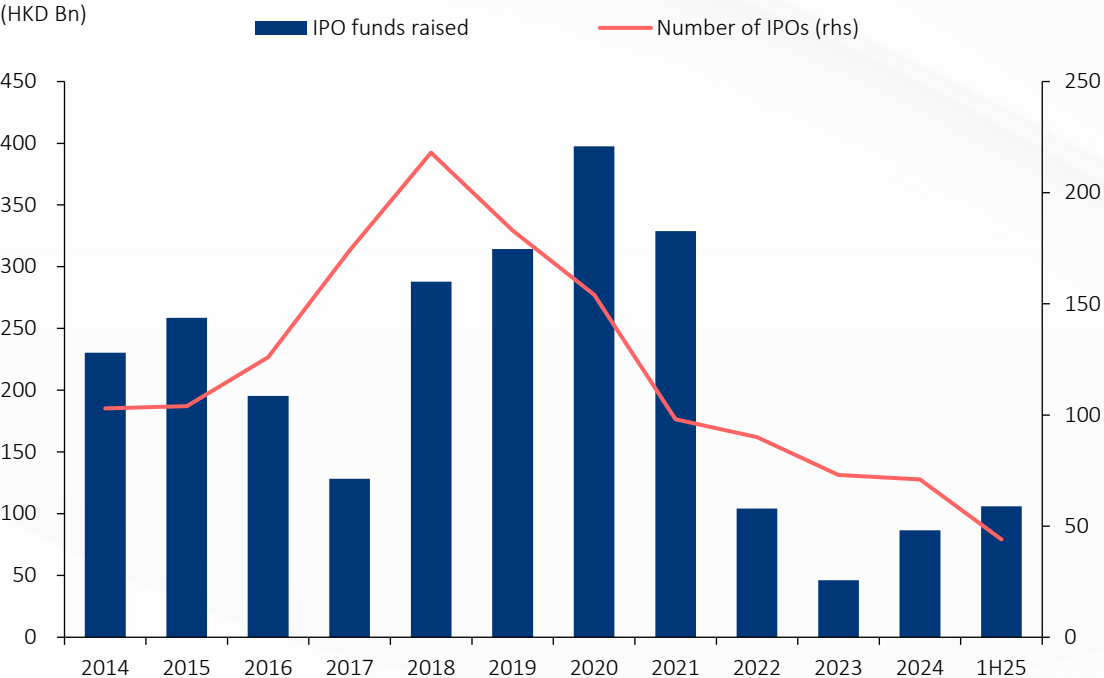
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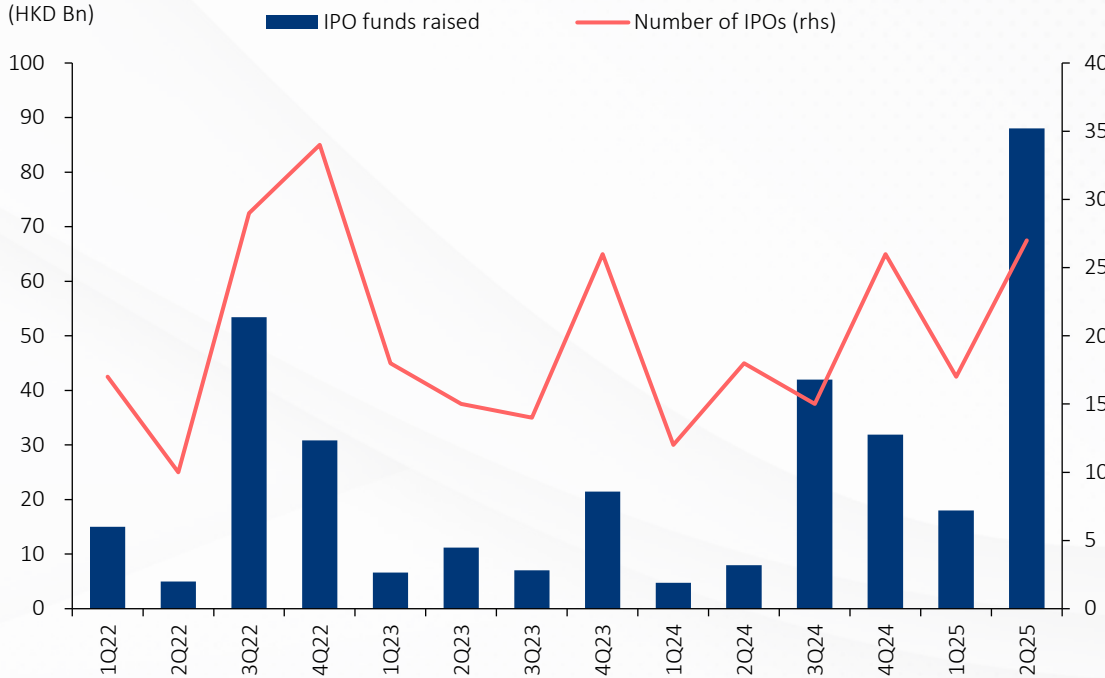
# Capital Cycle Enters A New Phase: IPOs are picking up

- The Hong Kong capital market is restarting its [financing functions](#) and, to some extent, has taken on the financing demand from the A-share market

Annual Scale and Number of Hong Kong IPOs



Quarterly Scale and Number of Hong Kong IPOs



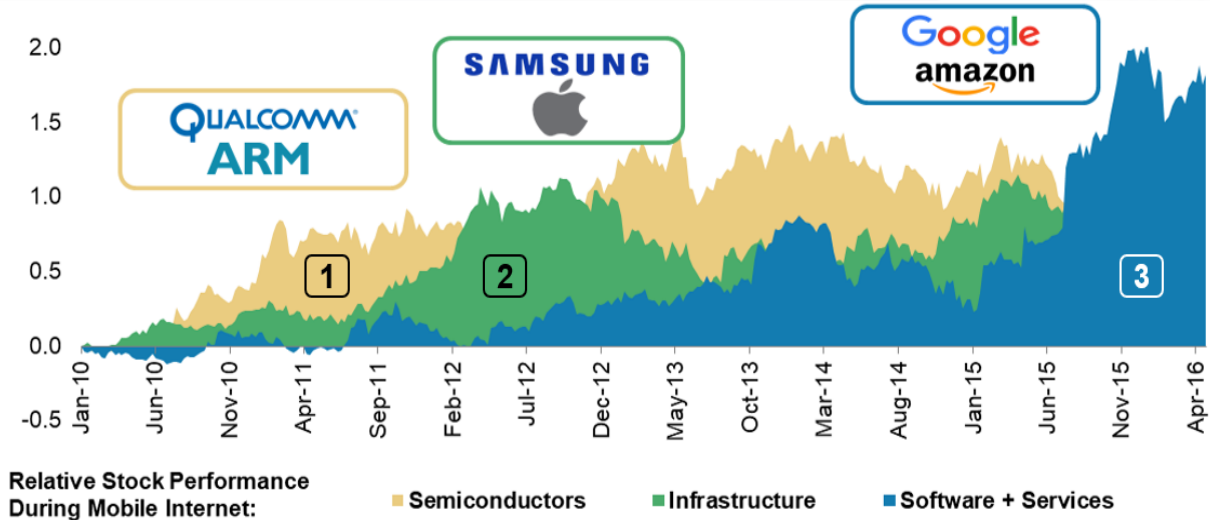
Source: CSOP, HKEX, as of June 30, 2025.

# AI: A Megatrend Raising Substantial Demand

The Roadmap to Monetizing Tech Cycles... Applications Win at Last

China Tech Companies are Strong Application Players

Mobile Internet Cycle Stock Performance Indexed Relative to S&P 500



AI Cycle Performance Median Returns Since Launch of ChatGPT

Semiconductors (+324%)

NVIDIA AMD

Infrastructure Platforms (+90%)

Google Amazon Microsoft

Software + Services (+117%)

OpenAI Microsoft Meta Amazon Google

Non-Tech Adopters

- Healthcare Travel Industrials
- Advertising Retail Customer Support
- Freight Media
- Energy Financials

E-Comm

Food Delivery

美团 饿了么 滴滴

Ad

快手 百度 腾讯广告 阿里巴巴集团

Cloud

阿里云 腾讯云 百度智能云

Games

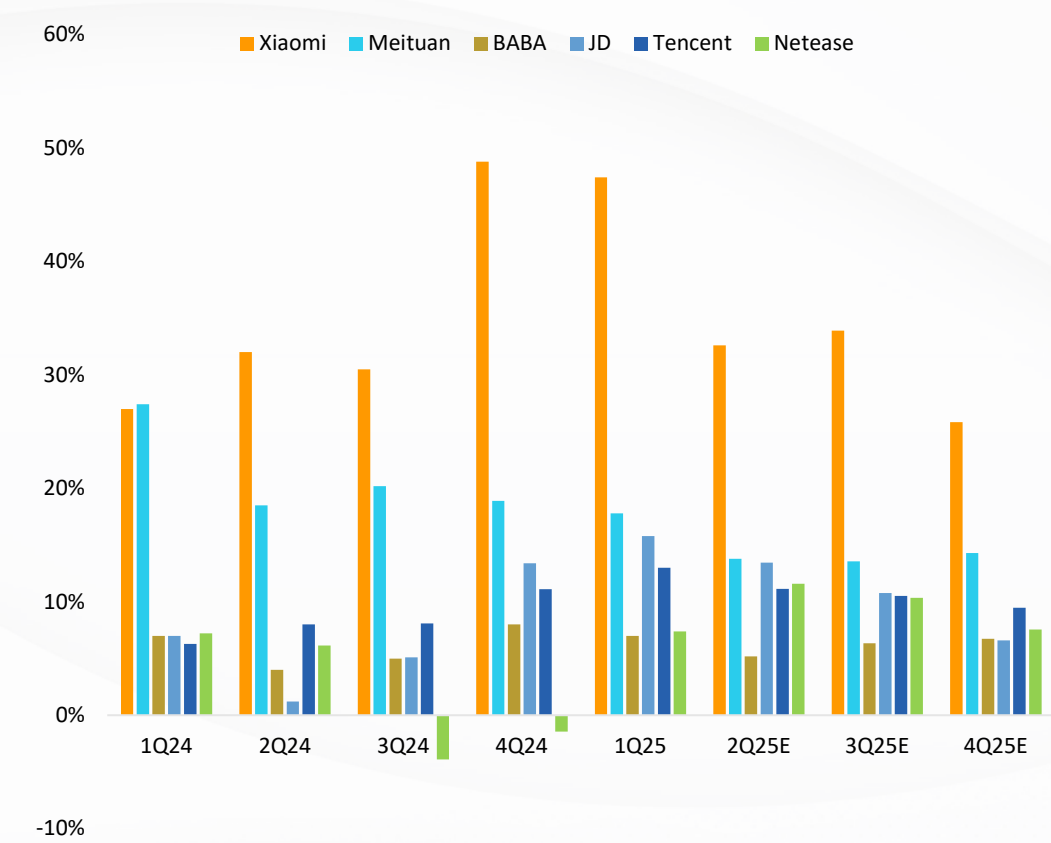
腾讯游戏 网易游戏 bilibili

Source: CSOP, MRBpartners Research, Morgan Stanley.

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# AI: Tech Companies Growth Accelerates with AI

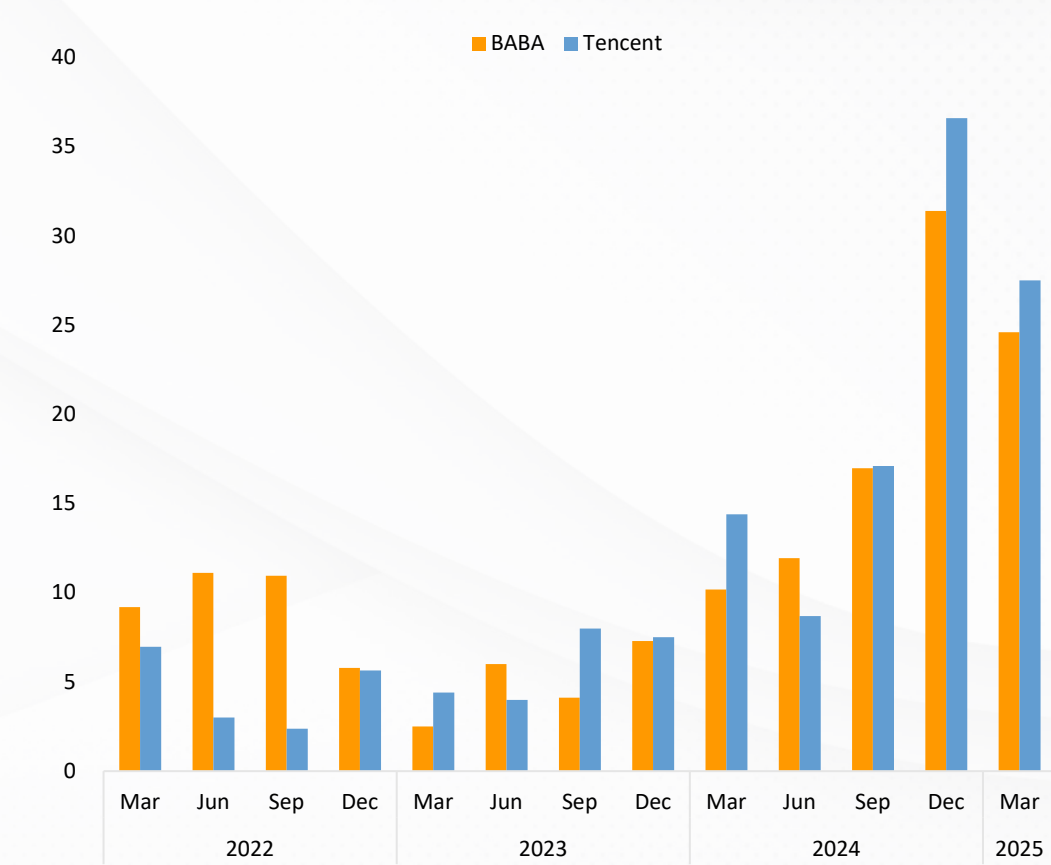
The Growth of Core Tech Companies' Revenue are Accelerating



Source: CSOP, Company reports.

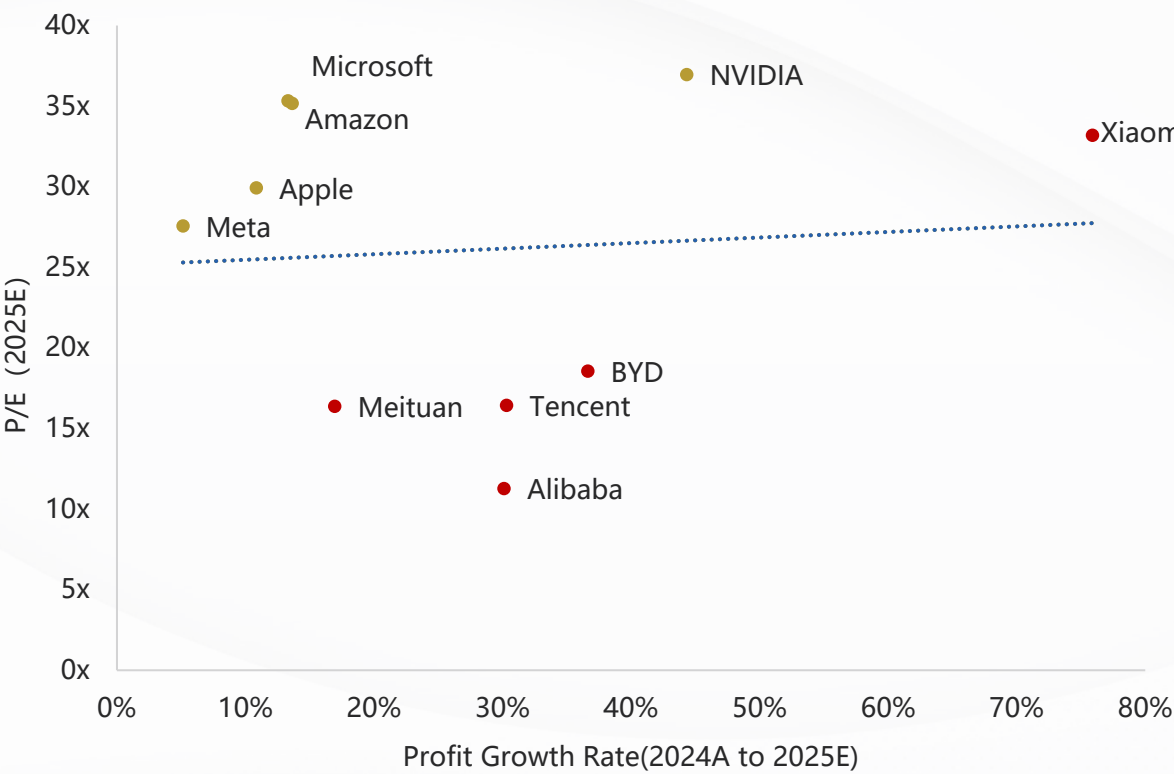
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AI Boosts New Capex Cycle (Bn CNY)



# AI: Attractive Risk Reward in China

HK tech leaders' P/E ratios are lower than US tech leaders



HK tech leaders' average profit growth rate exceeds US tech leaders

Company	Ticker	Market Cap (Million USD)	P/E (2025E)	P/E (2026E)	Profit Growth Rate (2024A to 2025E)
HK					
Alibaba Group Holding Limited	SEHK:9988	246,789.1	11.3x	9.6x	30.1%
Tencent Holdings Limited	SEHK:700	578,890.9	16.4x	14.8x	30.3%
Meituan	SEHK:3690	95,504.4	16.4x	12.4x	17.0%
Xiaomi Corporation	SEHK:1810	192,277.9	33.2x	25.7x	75.9%
BYD Company Limited	SEHK:1211	142,079.3	18.5x	14.8x	36.6%
Average			19.2x	15.4x	38.0%
US					
NVIDIA Corporation	NASDAQGS: NVDA	3,887,896.0	37.0x	28.0x	44.3%
Microsoft Corporation	NASDAQGS: MSFT	3,707,650.2	35.2x	31.1x	13.6%
Apple Inc.	NASDAQGS: AAPL	3,189,545.6	29.9x	28.6x	10.8%
Meta Platforms, Inc.	NASDAQGS: META	1,807,826.4	27.6x	24.8x	5.1%
Amazon.com, Inc.	NASDAQGS: AMZN	2,371,799.3	35.3x	29.8x	13.3%
Average			33.0x	28.5x	17.4%

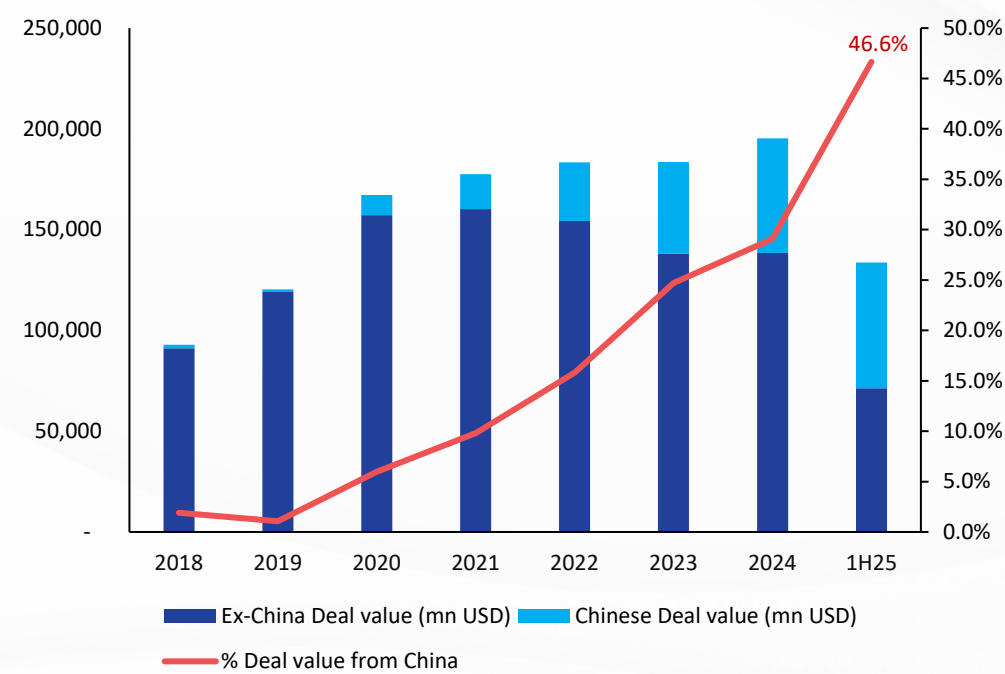
Source: Capital IQ, as of July 3, 2025.

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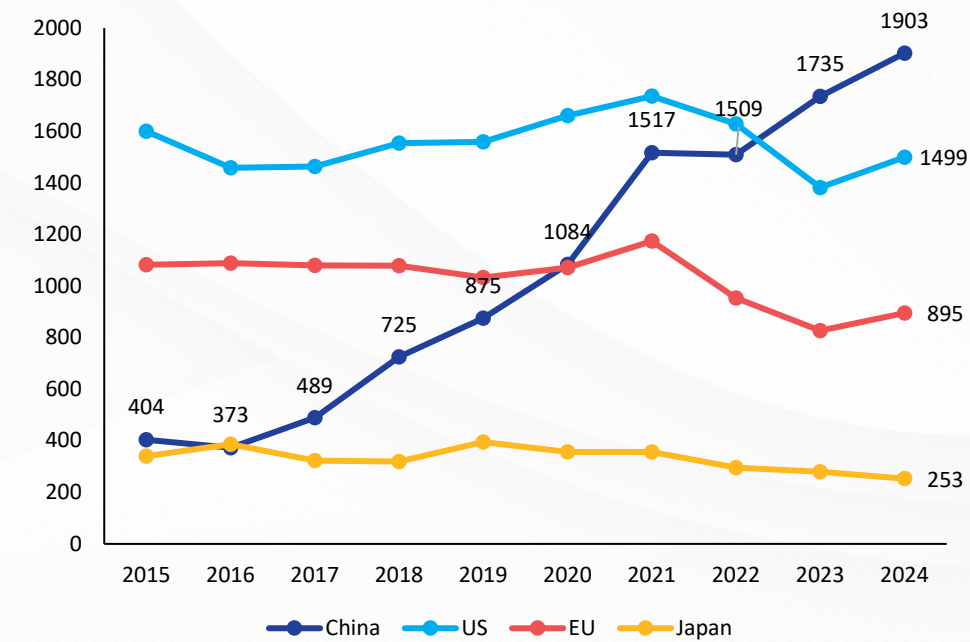
# Healthcare: Re-rating of Chinese Innovative Medicines on Strong BD performance

- The 6bn USD deal between 3SBio and Pfizer in May 2025 hallmarked the quality of Chinese innovative drugs;
- Many Chinese biotech companies announced outstanding clinical data of innovative medicines;
- Together these have driven the re-rating of the innovative drugs sector in 2025, ending a 4-year consecutive share price downturn of the sector.

Close to 50% Global Licensing Deals Are from China by 2025



Number of Clinical Trials Sponsored by Chinese Companies Surpassed US, EU and Japan Since 2023

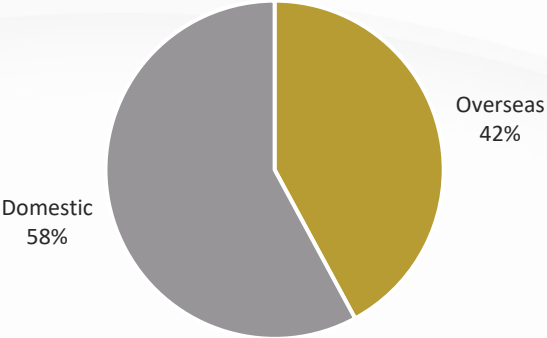


Source: Pharmacube , CSOP

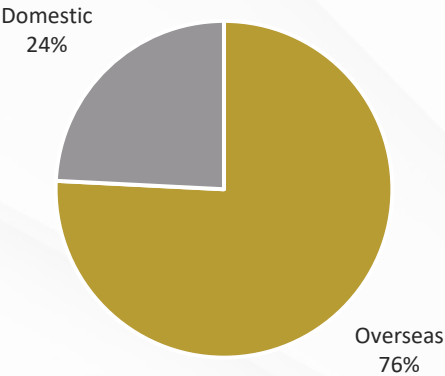
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# Globalization: Growth Potential in Overseas Revenue

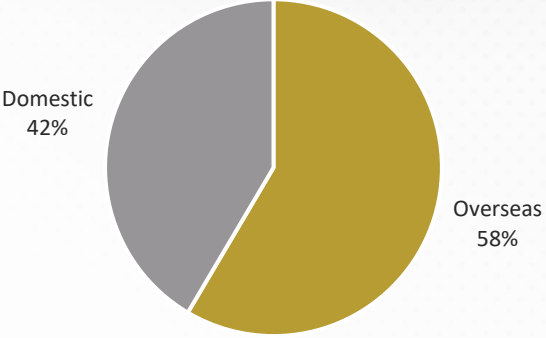
US: S&P 500 Index



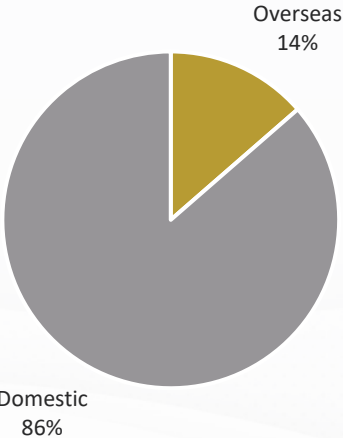
EU: Stoxx 600 Index



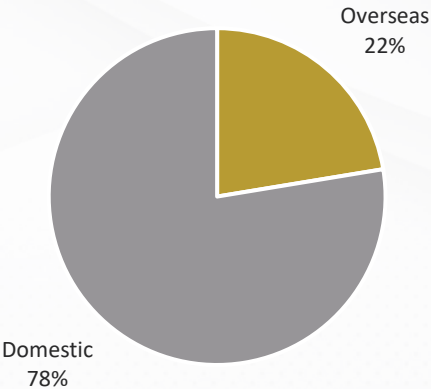
JP: Nikkei 225 Index



CN: CSI 300 Index



HK: HSTECH Index



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Source: Bloomberg, data as of FY2024, due to data availability, around 90% of index weight is calculated.



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