

De-Risking the Portfolio

Avoid the Irrationality

17 October 2025

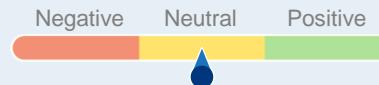
KGI View

Equity: Rate Cuts Are Not a Panacea for Stock Markets

Economic Outlook

- US economic slowdown to continue in 4Q25F; market attention shifting to the impact of US-China tariffs war

US



- Monetary policy may turn out to be less accommodative than expected in the face of potential rising China tariffs. After recent volatility, US equities now face correction risks in 4Q25.

Europe



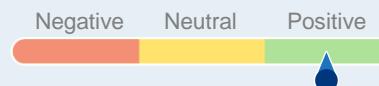
- Signs of improvement in structural factors have emerged, and index pullbacks are viewed as opportunities for positioning

Japan



- Monitor the outcome of the PM leadership; maintain a long-term core allocation in bank stocks and domestically driven sectors

Hong Kong/ China

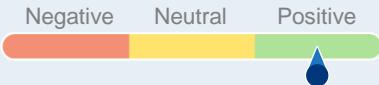


- The market entered a consolidation phase after a significant rally but the uptrend is expected to resume driven by the loose liquidity in China and a significant discount of valuation as compared to the US

KGI View

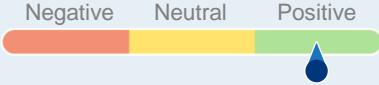
Fixed Income: Focus On Defensiveness

US Treasuries



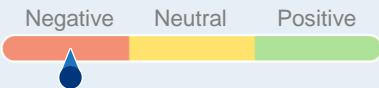
- Allocate to medium duration US Treasuries. US-China tariff war, if happens, may reignite inflationary expectation which would negatively impact the short and long end of the yield curve.

Investment-grade bonds



- We prefer IG in economic downturn – focus on utilities, banks, insurance and industrials

High yield bonds



- Maintain Underweight in non-IG bonds; avoid bonds rated CCC/Caa & below

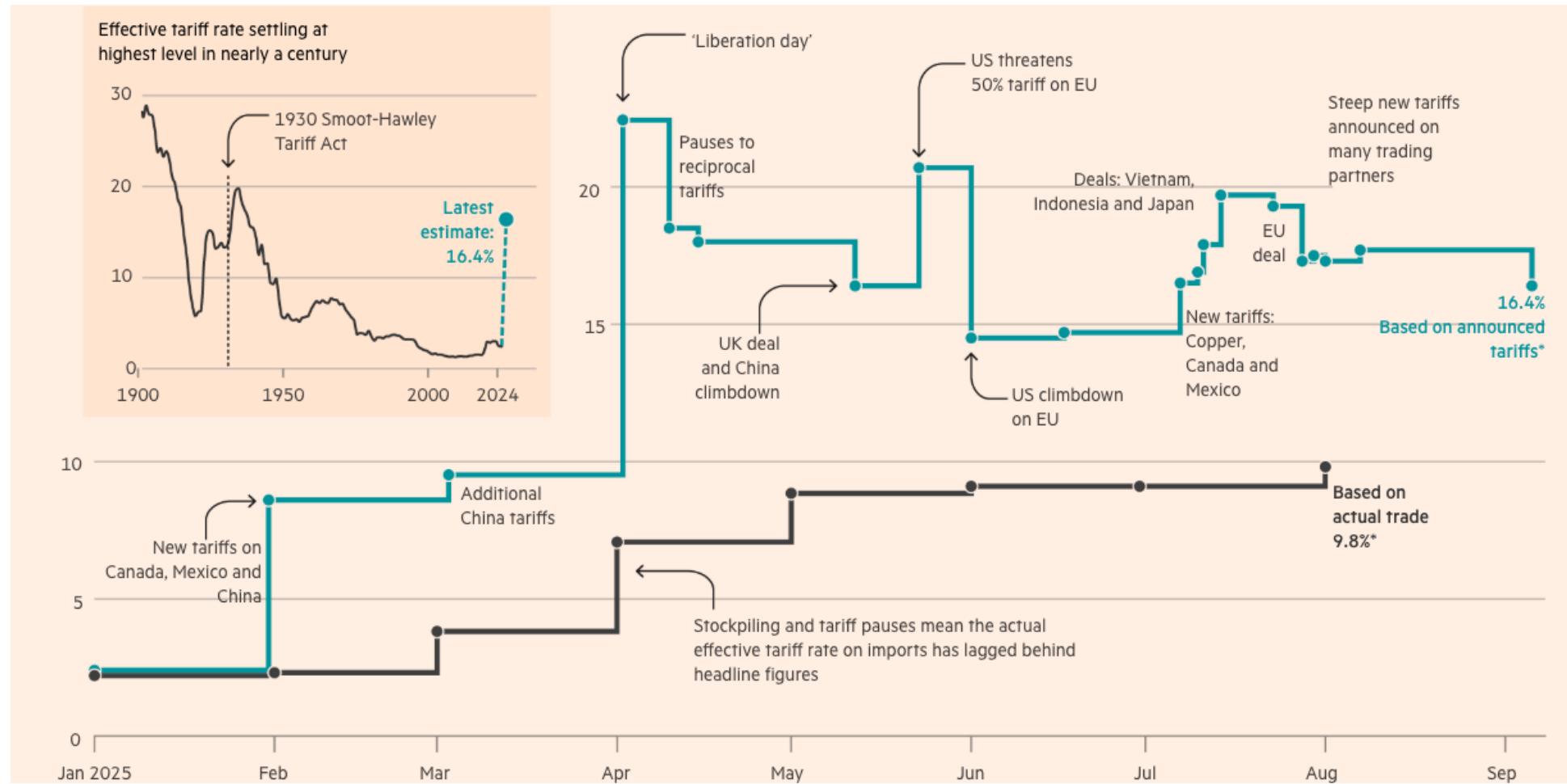
Emerging market bonds



- Weak US dollar supports EM bonds, favor sovereign debt in India, Indonesia and the Philippines.

If Tariff on China Imports Reach 130%, Average Tariff in the US >25%

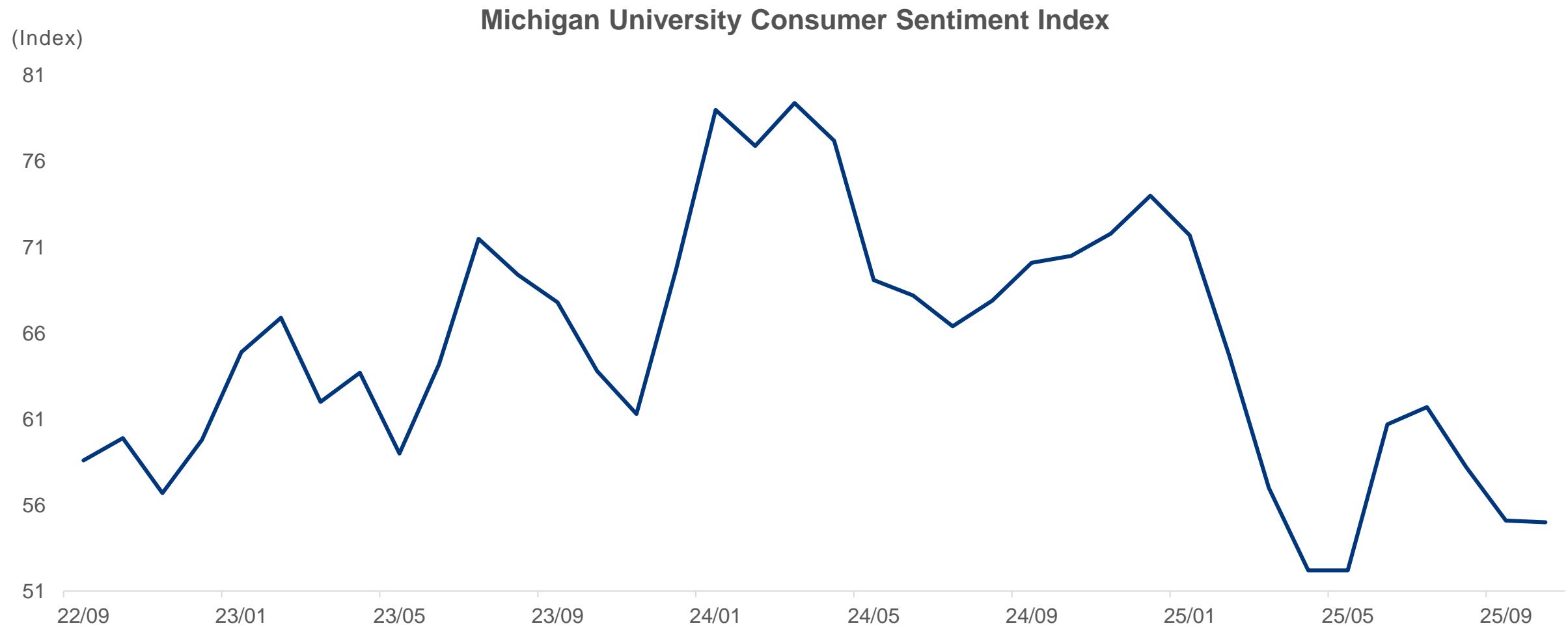
If No De-Escalation in One or Two Months, This Will Accelerate Inflation Expectation in the US



Sources: Yale Budget Lab; US Census Bureau.* 'Actual trade' rate is customs duty revenue as a % of value of goods imported.'Based on announced tariffs' is the estimate of the long-run effective tariff rate based on current announced policy, after accounting for consumption shifts.FT graphic: Alan Smith

Michigan University Consumer Sentiment Index

Worst-Case Scenario: When Tariff on China Was >100%, Consumer Sentiment Index Was at 52



Source: Bloomberg, KGI

Michigan University 1 Year Inflation Expectation

Worst-Case Scenario: When Tariff on China Was >100%, Inflation Expectation Was > 6%



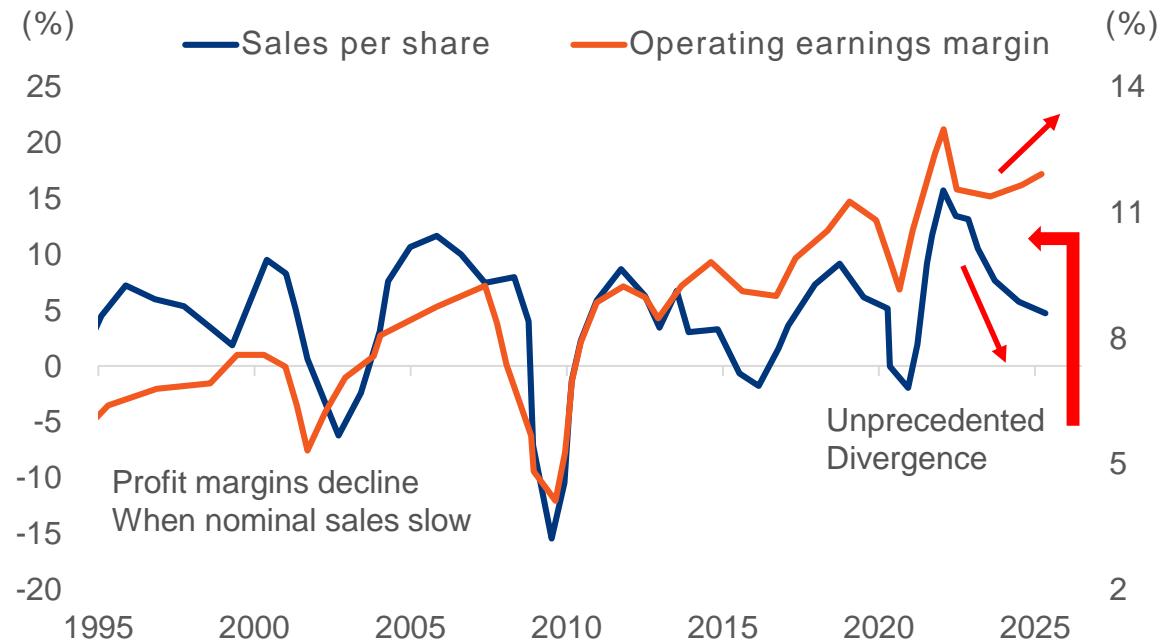
Source: Bloomberg, KGI

2Q25 Earnings Backed by Cost Reductions

US-China Trade War or Not, Corporate Sector Is Starting to Feel the Impact of Weaker Economy

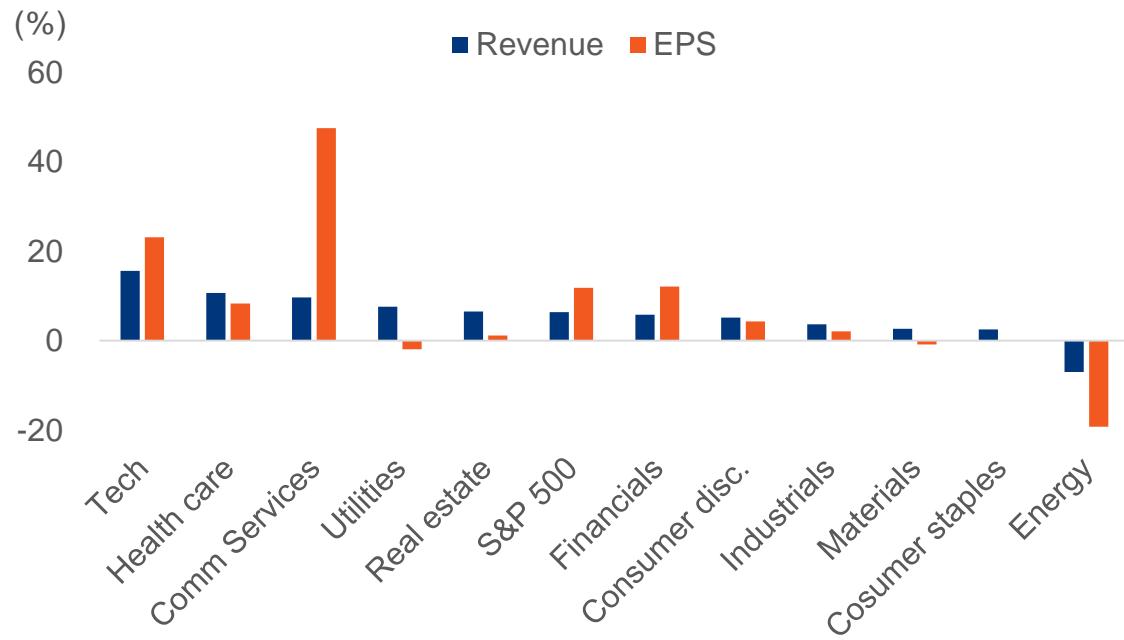
Operating margin growth had been driven by cost reductions, not sales growth

S&P 500 sales per share YoY, percent (LHS);
Operating earnings margin, percent (RHS)



The fact that most sectors saw earnings growth outpace sales growth in 2Q25 further validates this view

S&P 500 revenue & EPS growth by sector in 2Q25, percent



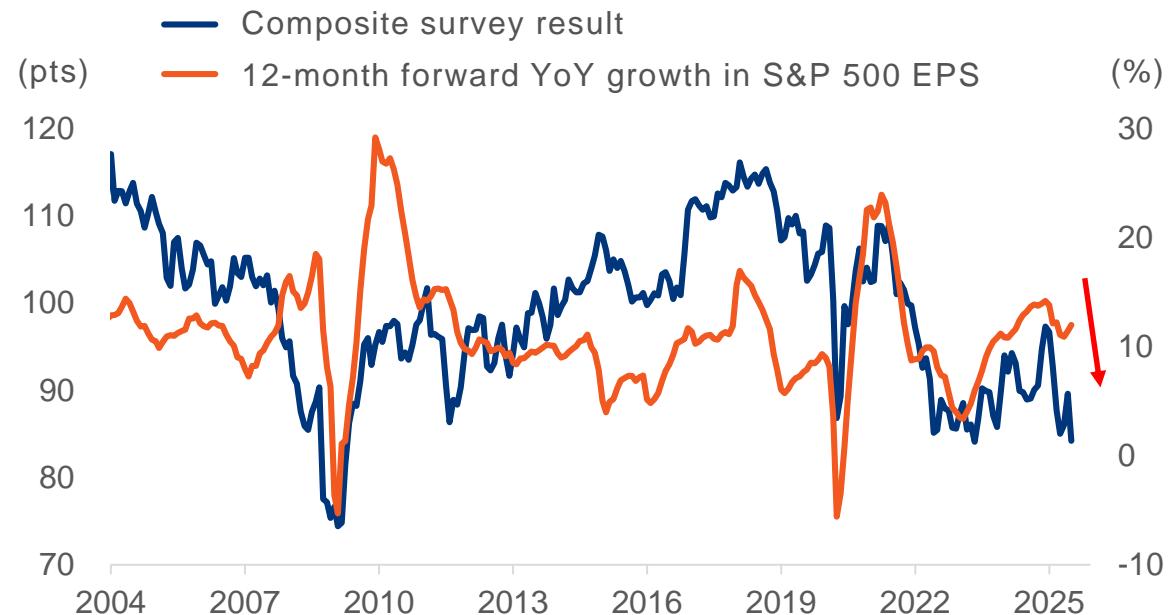
Source: Bloomberg, KGI

Expect Further Downward Revisions to Earnings Growth

Macro Uncertainties and High Ratio of Net Consensus Downgrades

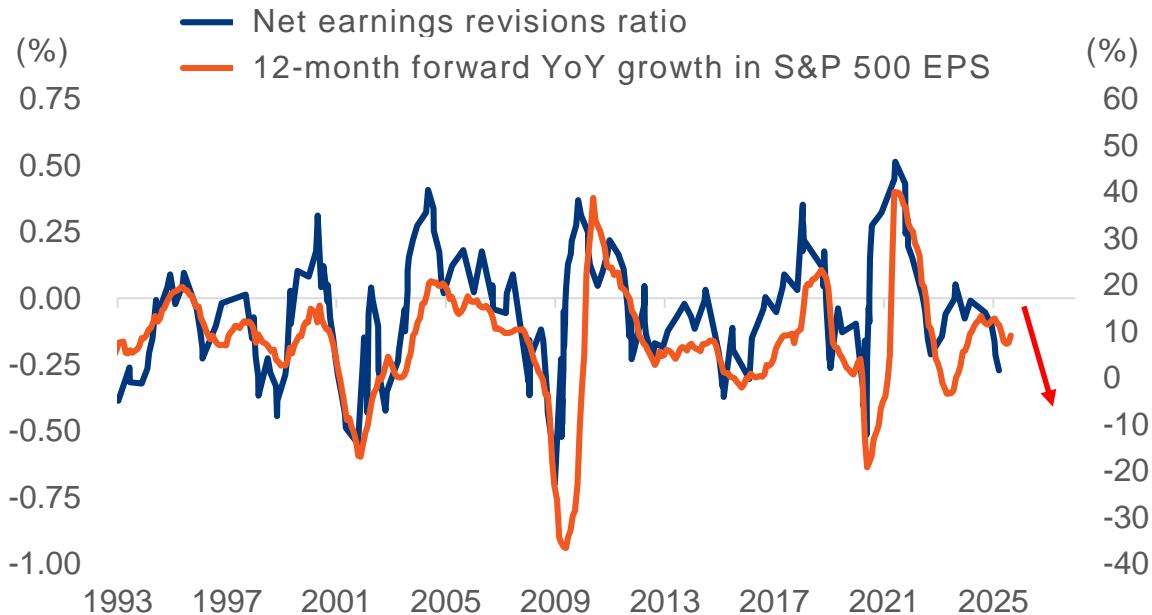
Survey data indicates clear downtrend, warranting further earnings downgrades for US stocks

Composite survey results (soft data), points (LHS); 12-month forward YoY growth in S&P 500 EPS, percent (RHS)



Overall EPS growth to edge down on sharper earnings downgrades

Net earnings revisions ratio, percent (LHS); 12-month forward EPS growth YoY, percent (RHS)



Too Much Hope on Rate Cuts

Rate Cuts Are Not a Panacea for Stock Markets; Background of Rate Cuts Matters

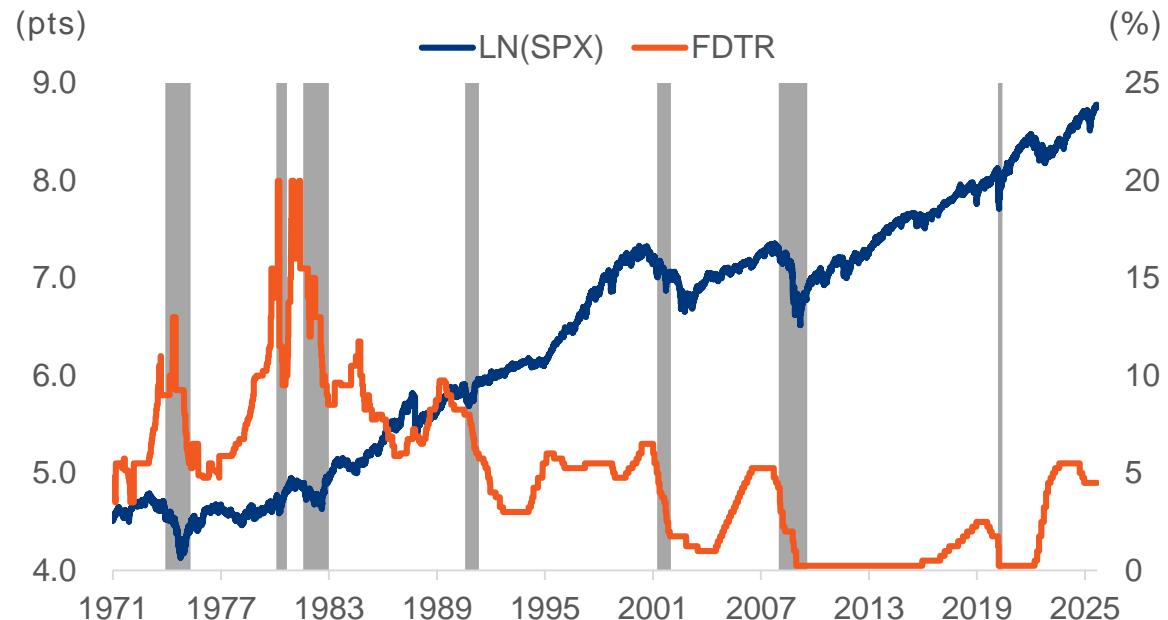
Risk premium of stock market tends to rise during a rate cut cycle

S&P 500 risk premium, point (LHS); Fed discount rate, percent (RHS)



Rate cuts in light of an economic downturn cannot shore up stock markets in most cases

S&P 500 index (in logarithm), point (LHS); Fed funds rate, percent (RHS)



Source: Bloomberg, KGI

European Equity – Signs of Improvement in Structural Factors

We Maintain Outperform on European Equities, Mainly Due To:

1. Deeper eurozone integration, reflected in stronger identification with the euro and the EU, as well as greater financial market consolidation
2. Improved fiscal health among the peripheral economies—excluding France, most major European countries have healthier debt service ratio than the US, and Germany has shifted its fiscal stance from tightening to expansion
3. Significantly improved bank balance sheets, with capital adequacy ratios surpassing those of US banks and the gap widening further, non-performing loan ratios declining sharply, and bank ROEs now exceeding those in the US

Economic growth & earnings forecasts in the Eurozone have been revised up

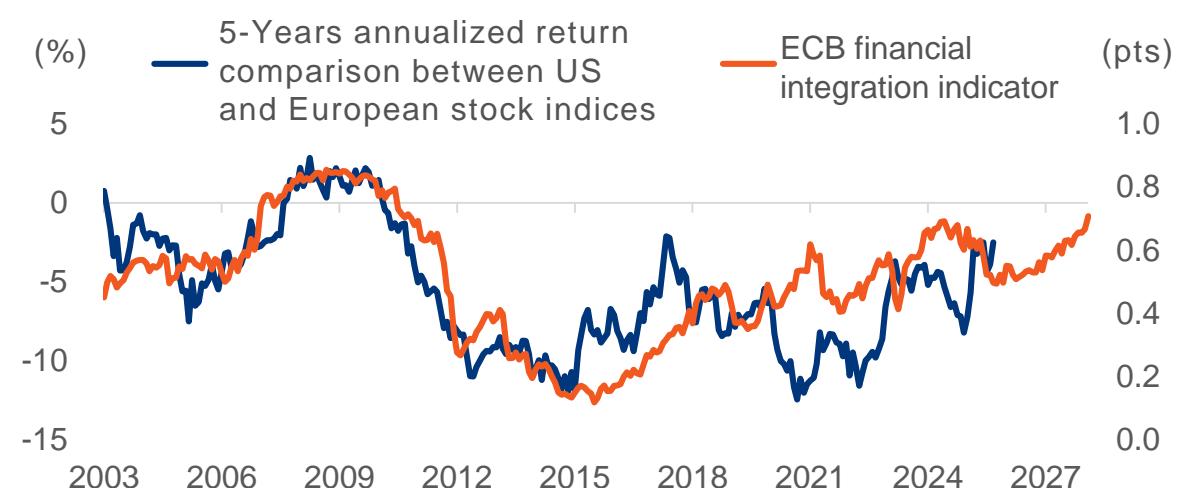
Eurozone 2025 GDP YoY growth forecast, percent (LHS); STOXX 600 12-month forward EPS growth forecast, percent (RHS)



Source: Bloomberg, LSEG, ECB, KGI

Greater financial market integration helps narrow return gap between European and US equity indices

EURO STOXX 50 Index – S&P 500 Index 5-year annualized return spread, percent (LHS); ECB financial integration indicator (3-year lead), points (RHS)



Japan Equity

Maintain a Long-Term Core Allocation in Bank Stocks and Domestically Driven Sectors

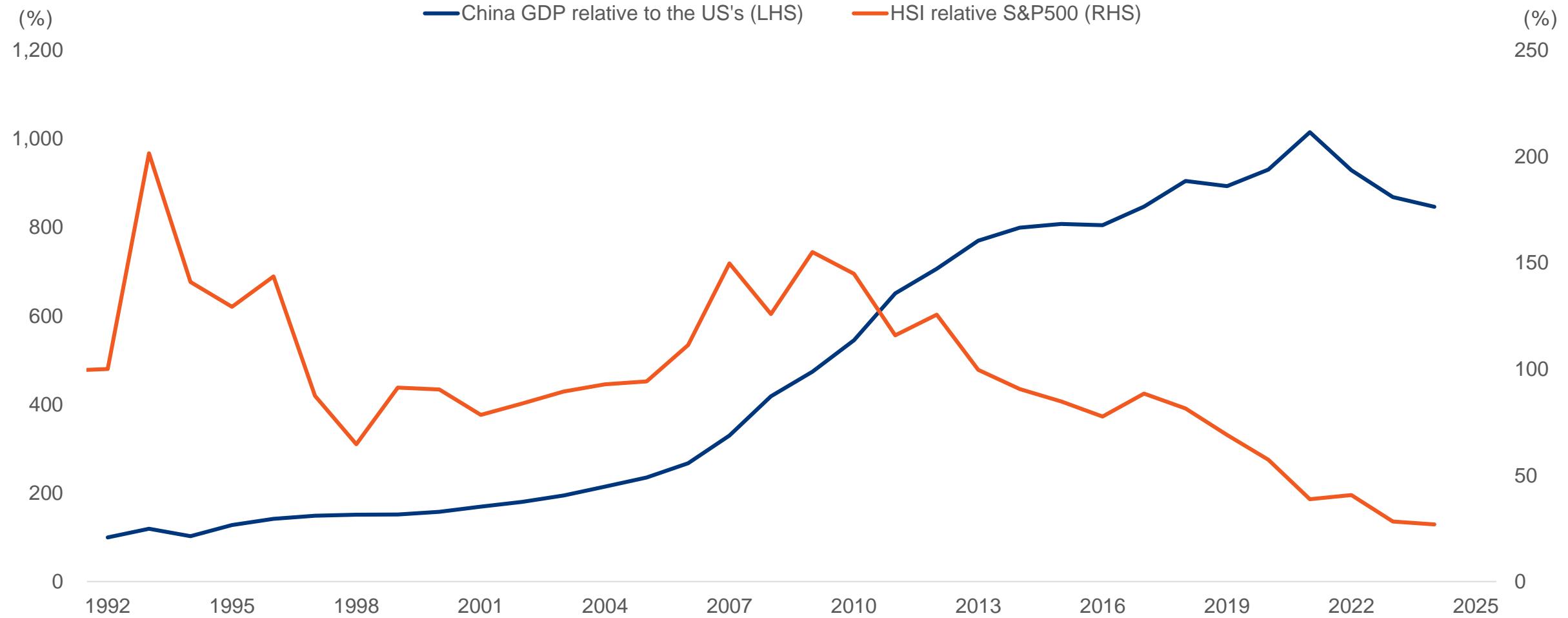
1. Despite the short-term leadership uncertainty, we continue to believe in the reflationary trade in Japan
2. Banks and domestic consumption should benefit from a continued reflationary environment



Source: Bloomberg, KGI

Hong Kong/China Equity

Despite the Economic Strength, HSI Has Underperformed by 60%



Source: Bloomberg, KGI

Disclaimer and Important Notice

Hong Kong: The information contained in the document herein is confidential and is not intended for general public distribution or for use by any person or entity located or residing in any jurisdiction which restricts the distribution of such information by KGI Asia Limited ("KGI") or any affiliate of KGI. Re-distribution of the document herein and any part thereof by any means is strictly prohibited. Such information shall not be regarded as an offer, invitation, solicitation or recommendation to invest in or sell any securities or investment products to any person or entity in any jurisdiction. The above information (including but not limited to general financial and market information, news services, market analysis and product information) is for general information and reference purpose only and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd. Such information is not intended to provide investment advice and should not be relied upon in that regard. You are advised to exercise caution, and if you are in any doubt about such information, you should seek independent professional advice.

You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided herein. In all cases, anyone proposing to rely on or use the information contained herein should independently verify and check the accuracy, completeness, reliability and suitability of the information. Simulations, past and projected performance may not necessarily be indicative of future results. Information including the figures stated herein may not necessarily have been independently verified, and such information should not be relied upon in making investment decisions. None of KGI, its affiliates or their respective directors, officers, employees and representatives will be liable for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind) suffered or incurred by any person or entity due to any omission, error, inaccuracy, incompleteness or otherwise, or any reliance on such information. Furthermore, none of KGI, its affiliates or their respective directors, officers, employees and representatives shall be liable for the content of information provided by or quoted from third parties.

Complex Products refers to an investment product whose terms, features and risks are not reasonably likely to be understood by a retail investor because of its complex structure. Investors should exercise caution in relation to complex products. Investors may lose the entire amount or more than the invested amount. For complex products with offering documents or information not reviewed by the Hong Kong Securities and Futures Commission (SFC), investors should exercise caution regarding the offer. For complex products described as SFC-approved, such approval does not imply official endorsement, and SFC recognition does not equate to a recommendation or assurance of the product's commercial viability or performance. Past performance data, if provided, is not indicative of future performance. Some complex products are only available to professional investors. Before making any investment decisions, investors should review the offering documents and other relevant information to understand the key nature, features, and risks of the complex products. Independent professional advice should be sought, and investors should have sufficient net assets to bear the potential risks and losses associated with the product. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers, employees and representatives may from time to time have a position in any securities mentioned herein.

Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme. Bondholders are exposed to a variety of risks, including but not limited to: (i) Credit risk - The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer; (ii) Liquidity risk - some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity; (iii) Interest rate risk – When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price. Do not invest in bond unless you fully understand and are willing to assume the risks associated with it. Please seek independent advice if you are unsure.

All investments involve risks. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Prices of securities and fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein (in particular those associated with investments in emerging markets for funds investing in emerging markets)) in detail before making any investment decision. You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

Singapore: This document is provided for general information and circulation only, and is not an offer or a solicitation to deal in any securities or to enter into any legal relations, nor an advice or a recommendation with respect to any financial products mentioned herein. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should ensure that you understand the risk(s) involved and should independently evaluate particular investments and consult an independent financial adviser before making any investment decisions. All information and opinions contained herein is based on certain assumptions, information and conditions available as at the date of this document and may be subject to change at any time without notice.