



2026 Global Market Outlook

Beyond Balance: The Next Regime



Macroeconomic

Resilience amid slowdown, with AI and interest rate cuts providing key support

The global economic slowdown, which began in 2022, is expected to continue, with additional pressure from US tariffs since August 7. The US economy will experience a more pronounced downturn in 4Q25, which will extend into 1H26, and this will have a negative impact on consumption, slowing investment activity. Nevertheless, AI-driven productivity gains should provide some support, with US GDP growth in 2026 forecast at 2.2%.

The eurozone will see moderate growth, with Germany benefiting significantly from fiscal expansion and economic improvement. Japan's economy will strengthen on domestic demand, aided by additional fiscal stimulus. China has demonstrated resilience under trade protectionism in 2025.

With inflation risks easing and labor market risks rising, the US Fed cut the interest rates in September 2025, with a total reduction of 75 bps in 2025, followed by an additional 50-75 bps in 2026.

AI reduces costs and increases efficiency, driving profit growth.

Regarding US stocks, AI-driven productivity gains and cost reductions should sustain solid profitability, with S&P 500 earnings projected to grow by 13.55% YoY in 2026. However, higher risk premiums may cap valuation upside, leading us to project a year-end target of 7,650 points. Market performance will reflect risk-driven declines in 1Q26, stabilize and recover in 2Q26, and rally significantly around the midterm elections in 4Q26. By sector, among AI-related themes we favor technology, semiconductors, utilities (on higher power demand), machinery for advanced manufacturing, and industrial REITs. Non-AI beneficiaries include aerospace and defense (on higher military spending), pharmaceuticals (on tariff benefits), and capital market segments (supported by active investment banking).

Prioritize government bonds and high-rated corporate bonds

As for fixed income, US economic weakness and Fed rate cuts will drive Treasury yields lower, with 10-year yields expected to fall to 3.5-3.7% by 2Q26. We recommend allocating to US Treasuries or high-rated investment-grade corporate bonds in 1H26, then rotating into high-yield bonds in 2H26 as policy rates and economic conditions reach a bottom.

China Economy

Last year, the US reached trade agreements with many countries and also achieved a year-long truce with China, reducing global trade risks and preventing the market from significantly raising its global economic growth forecasts. The market expects the Chinese economy to weaken this year, following the global economic downturn, with China's GDP growth projected to slow slightly to 4.6 % in 2026. Potential upward revisions to GDP growth forecasts include: 1) Increased visibility of trade policies, leading manufacturers to seize opportunities for exports while reducing the relocation of production lines overseas; 2) The rise of domestic brands ("Guochao") will reduce demand for imported consumer goods and strengthen the domestic supply chain. Potential downward revisions to GDP growth forecasts include: 1) Reduced central government efforts to promote consumption and a significant reduction in subsidies; 2) The resumption of the US-China trade war, reducing trade risks and lowering export expectations; 3) A sharp rise in energy prices, increasing import and production costs.

Core inflation rose moderately, with consumption becoming the core engine

Last year, China's core inflation largely stabilized and even showed an upward trend, with the year-on-year increase rising to 1.2% in December. Deflation gradually improved from the fourth quarter of last year, with overall inflation rising 0.8% year-on-year in December. However, the closer to raw material production (upstream), the greater the deflationary pressure. The Producer Price Index (PPI) fell 1.9 % year-on-year in December and has been in negative territory for nearly three years, with downward pressure on raw material and mining prices being more significant. Lower upstream costs but higher downstream prices help translate into profit margins for enterprises. In the past, the gap between PPI and CPI has been conducive to moderate growth in industrial profits, and this gap is expected to continue to be a source of corporate profits.

Domestic demand is the core engine of China's economic growth, with consumption consistently contributing over 50% to GDP growth. Currently, prices for necessities such as food and energy remain in deflationary territory. A stock market rally in 2025 is driven by wealth growth, with residents anticipated to spend more on consumption this year. The "trade-in" policy has boosted retail sales, but its effectiveness has waned, and retail sales growth slowed in the second half of 2025. The Chinese economy is not currently overheated, with moderate inflation, and the central government still has room to stimulate the economy. Furthermore, domestic demand is a key development focus of the 15th Five-Year Plan and the Central Economic Work Conference this year. It is anticipated that the central government will introduce policies to support consumption this year. Considering the

expansion of subsidies last year, the range of goods covered is expected to be having a small expansion only this year (e.g., to include sports and cultural products), and the subsidies are also expected to increase slightly.

Increased risk appetite in financial markets

Currently, domestic funds are more inclined to invest in riskier assets. M1 growth is accelerating, and while M1 and M2 are growing in tandem, the gap is narrowing, indicating a market preference for maintaining liquidity and providing potential incremental funds for the capital market. Meanwhile, the yield on China's 10-year government bonds has rebounded from its lows, suggesting funds are leaving relatively conservative fixed-income assets. However, even with a nearly 30 basis point rebound in government bond yields from historical lows, potential returns remain limited. The current 10-year bond yield is 1.86%, while 1-year and 3-month time deposits are approximately 1.5% and 1.1% respectively, which are relatively low in the long term. China's current policy is primarily based on easing, making it difficult to significantly increase returns on low-risk fixed-income assets in the short term. China's income to saving ratio is relatively high compared to global level, which is expected to drive funds to seek higher returns.

In terms of specific sectors, the banking and insurance industries are showing signs of bottoming out and rebounding. The net interest margin (NIM) of the banking sector has rebounded year-on-year, and the non-performing loan ratio has also declined. Bank lending is clearly shifting from real estate development to industrial development to support the upgrading of the real economy. The profit growth of the six major state-owned banks has benefited from the boost in service fee income, and their overall fundamentals are becoming more robust. In the insurance industry, the new business value of major mainland life insurance companies has rebounded for two consecutive years since 2022, which we believe confirms a bottoming out and rebound.

Anti-involution faces greater challenges

During 2012 - 2016, China's Producer Price Index (PPI) remained negative. At that time, the government proposed "supply-side" reforms to address overcapacity and raise prices. The PPI has remained weak for nearly three years, "overcapacity" and "anti-involution" policies continue to be the focus of the market.

Because combating involution involves consolidating enterprises and eliminating inefficient companies, the central government faces greater challenges in resolving the "overcapacity" problem compared to 2015: 1) The current PPI deflation problem involves more mid- and downstream private enterprises, while in 2015, PPI deflation was mainly concentrated in upstream (raw material) state-owned enterprises, and the central government's influence on downstream enterprises was not as direct as that on upstream state-owned enterprises; 2) China's labor market is currently weaker, with the unemployment rate about one percentage point higher than before, making "stabilizing employment" significantly more important, and the central government needs to strike a balance between "stabilizing employment" and "combating involution".

Besides potentially impacting employment, the anti-involution measures and the increase in ex-factory prices will put pressure on corporate profits. The central government's implementation of anti-involution measures will require trade-offs in various aspects. We expect this round of industry consolidation would take a long time, and the pressure on profits and the economy will be manageable.

New quality productive forces

Looking ahead to 2026, the core narrative of China's macro investment will be established on the substitution effect of "new quality productive forces" on real estate and infrastructure, making it a new driving force for economic growth and attract funds.

In terms of specific pathways, digital infrastructure will form the physical foundation of the new economy. This will not only support the iteration of AI algorithms but also provide crucial computing power for the embodied intelligence. We anticipate that the humanoid robot industry will usher in its "iPhone moment" of mass production and commercialization in 2026. Simultaneously, industrial clusters centered on biopharmaceuticals and innovative drugs will constitute a significant engine for the "going global" of domestically developed technologies. It is worth noting that all of the above investment logic must be coupled with the filter of supply chain security. Against the backdrop of escalating anti-globalization competition, we believe that only industry leaders who possess core technological sovereignty and can achieve "independent control" can enjoy the highest safety margin and valuation premium.

Hang Seng Index Outlook for 2026

2026 Hang Seng index target price: 30,000 points

Historically, a negative correlation between the performance of Chinese and Hong Kong stock markets and the US dollar. We anticipate that the Federal Reserve's interest rate cuts will weaken the US dollar and drive capital inflows into non-US stock markets, which will benefit the performance of Chinese and Hong Kong stock markets. Furthermore, the returns of Chinese and Hong Kong stock markets have a low correlation with those of other mature global markets, which helps to diversify portfolio risk.

We anticipate that in early 2026, the market may continue the consolidation trend seen in the fourth quarter of 2025, shifting towards value investing. Conversely, we expect the market to shift towards risk-on investing once it stabilizes, confidence recovers, and policy support may be introduced during the Two Sessions. Therefore, we expect the Hang Seng Index to show a bullish trend. Based on an upward revision of the expected P/E ratio to 13.5x and an 8% earnings growth rate, we set a target price of 30,000 points for the Hang Seng Index by the end of 2026, implying a 14% upside potential as of the closing price on Jan 9, 2026. We expect overall revenue to grow by 6.4 % YoY, approximately 1.4 times our projected China GDP growth rate of 4.6 %. We believe that artificial intelligence / technological advancements, anti-involution reforms, and consumer spending will continue to drive key developments in the Chinese economy, which will help support overall revenue growth. Furthermore, driven by the government's anti-involution reforms, the Producer Price Index (PPI) is expected to improve further, and we predict that profit margins will gradually recover, with net profit increasing by about 8% annually.

Graph 1: Hang Seng Index



Source: Bloomberg, KGI, 9 January 2026

Sector Commentary

Sector	Weight	Commentary
Industrial	Overweight	<ul style="list-style-type: none"> China's 15th Five-Year Plan (2026-2030) prioritizes technological self-reliance and industrial modernization. In the semiconductor sector of advanced manufacturing, China's AI chip production capacity is expected to increase exponentially by 2026, but it will still be concentrated on mature processes, and its global share will continue to rise. China has listed "embodied intelligence" as a future industry in its 15th Five-Year Plan, providing the industry with five years of highly certain policy support. We expect the first batch of mass production in 2026 to be prioritized for industrial manufacturing and warehousing logistics. Industrial robots are becoming smaller, more intelligent, and working more closely with humans. Improvements in robot dexterity, computer vision, and human-computer interaction are making application scenarios more attractive.

Sector	Weight	Commentary
Internet	Overweight	<ul style="list-style-type: none"> Following DeepSeek's meteoric rise in 2025 with its extreme cost advantage, China's AI industry has entered a phase of accelerated global expansion of open-source models. Domestically developed large-scale models are achieving inference performance approaching or even surpassing some overseas closed-source flagship models, while their training and inference costs are only 10-20% of the latter. Furthermore, through fully open-source weights and permissive licensing, they are rapidly penetrating the global developer and enterprise application ecosystem. China's AI industry chain is rapidly improving. The upstream includes computing infrastructure (chips, data centers), algorithm frameworks, and data resources; the midstream focuses on large-scale model research and training; and the downstream covers diverse application scenarios such as gaming, office work, media and film, healthcare, finance, e-commerce, and industry.
Materials	Overweight	<ul style="list-style-type: none"> The worst period for the lithium industry in 2026 is over, with prices rebounding significantly from their lows. Demand will be driven by strong growth in energy storage systems. Although the restart of supply may limit upside potential, the ongoing destocking trend indicates an improved supply-demand structure, and the industry is returning to a demand-driven recovery trajectory. Polysilicon prices are expected to continue to stabilize in 2026. After two years of capacity adjustments, coupled with the government's "anti-involution" policy, polysilicon supply has also decreased. In 2026, photovoltaic glass will enter a bottoming-out period after the capacity clearing. The price of photovoltaic glass will benefit from the government's strict restrictions on new capacity, further raising industry barriers and making oligopoly concentration more obvious. Despite weak demand in the housing construction sector, energy transition sectors such as electric vehicles and the power grid have shown strong resilience. The market is already pricing in expectations of structural shortages after 2027. In addition, the production capacity ceiling and supply discipline brought about by the "15th Five-Year Plan" Aluminum prices are expected to continue to rise steadily.
Financial	Overweight	<ul style="list-style-type: none"> Entering 2026, most Chinese banks expect new loan amounts to remain roughly the same as in 2025, with the high base leading to a decline in year-on-year growth. The six major state-owned banks generally anticipate a slowdown in year-on-year loan growth in 2026. While the overall non-performing loan ratio is stabilizing, with the mainland property market yet to rebound, non-performing loan ratios for real estate developers and non-mortgage retail loans still face upward pressure. Following the most dramatic quarterly contraction in the third quarter of 2023, we observed that the extreme downward pressure on the net interest margin (NIM) of the six major state-owned banks appears to have eased. Although NIM continues to face a narrowing trend in 2025, the subsequent major contractions have gradually weakened, indicating that the worst quarterly shocks may have passed. Chinese life insurance companies are expected to continue enjoying rapid insurance sales momentum in 2026, driven by ongoing structural opportunities arising from the reallocation of household wealth. With current deposit interest rates at extremely low levels and the market undergoing a period of asset revaluation in China, participating insurance policies are gaining popularity amid low interest rates and a gradually improving capital market.

Sector	Weight	Commentary
Healthcare	Overweight	<ul style="list-style-type: none"> Innovative drugs: Possessing development potential both domestically and internationally. Domestically, the central government supports policies promoting the commercialization of innovative drugs, including their inclusion in commercial insurance, thereby increasing market consumption and boosting pharmaceutical companies' investment intentions. Internationally, the export of new drugs is driven by continuous efforts to promote licensing to overseas companies and collaborative R&D with foreign enterprises. This sector belongs to one of China's high-tech export sector. CXO: The revised Biosafety Act, which has now been passed by the Senate, no longer names specific companies and establishes a grace period of several years, and is regarded by the market as a simplified version of the Biosafety Act. Overall, the US legislation on Biosafety Act has reduced its power, and China continues to lead the world in biotechnology. The recent pullback in related stocks will provide a good entry opportunity in 2026.
Utilities	Neutral	<ul style="list-style-type: none"> Thermal power: After four years of price correction, thermal coal prices were rebound in mid-2025. Although thermal power continues to be the "ballast" during peak electricity demand, power generation costs are expected to remain at a relatively low level or rise slightly, and profit growth may slow down. Renewable Energy: The central government has again included carbon reduction in the 15th Five-Year Plan and fully implemented "dual control of carbon emissions," using carbon emissions as the binding indicator instead of energy consumption as the previous one. This will be beneficial to the consumption of new energy sources and will help strengthen confidence in investing in new energy, such as offshore wind power.
Telecommunications	Neutral	<ul style="list-style-type: none"> The growth rate of new mobile phone and broadband access users in China has reached a stable low single-digit growth rate, reflecting the maturity of the communications equipment market and its evolution into a necessity with extremely high user stickiness, which can bring stable cash flow to telecom operators. Regarding cloud services, China's public cloud services continue to grow rapidly. IDC expects that the main growth driver for IaaS in China will be generative AI IaaS services. The growth momentum of cloud business is still worth noting, but its short-term impact on the three major telecom operators is limited. This could attract investors who focus on cash flow and dividends; however, for more aggressive investors, the limited short-term incentive effect of AI on telecom operators may lead to underperformance.
Consumption	Neutral	<ul style="list-style-type: none"> As housing prices and the economy in China stabilize, the spending power of high-income groups will be released, which will benefit the recovery of consumption of high-end luxury goods. However, on the other hand, industries that benefited from consumption subsidies in the past year need to consider the issue of a high base in 2026. The central government has placed promoting domestic demand as the third most important aspect of the 15th Five-Year Plan. However, we believe that even if consumption subsidies continue to be issued in 2026, the increase in the amount of subsidies is expected to be milder than that planned for 2025, resulting in limited positive incentive effects year by year. As for the consumer confidence index, although the index is expected to have bottomed out, the recovery process is slow, and the performance of consumer stocks are expected to become more differentiated in 2026.

Sector	Weight	Commentary
Real Estate	Neutral	<ul style="list-style-type: none"> In Hong Kong, we are bullish on residential property which signaled a bottoming-out in 2025 where both price and transaction volume increased. Rental growth more than 20% in past two years, coupled with strong rental yield and potential widening positive carry due to the rate cut cycle, we expect both investment demand and end-user demand to further improve in 2026 for Hong Kong residential market. Commercial real estate (CRE) overhang is easing with turn in confidence and fundamental in office and retail market. We prefer Hong Kong developers with strong balance sheets and offer stable dividend yield such as Sino Land. China's residential market has begun stabilizing in H2 2025. However, we don't expect property price increases significantly or meaningful upside for residential developers, as wealth effect and consumer confidence are still on recovery. We believe property management companies like MIXC are among the best ways to invest in China's commercial real estate sector due to their asset-light business model advantages. Additionally, MIXC's large shopping center portfolio provides further operational efficiency improvement opportunities.
Energy	Neutral	<ul style="list-style-type: none"> Crude oil outlook remained mixed in 2026 where a looser balance in 2026 driven by supply growth which offsets strong demand growth. IEA expects market to be oversupplied by 4.1Mb/d in 2026E vs. 2.4Mb/d in 2025E. We expect oil price to remain stable in 2026. Upside risks primarily stem from geopolitical factors and supply disruptions from Russia/Iran; Downside potential risks as OPEC+ production curb compliance. Chinese refining margins are expected to remain stable to moderately positive, supported by resilient demand, export, and petrochemical demand growth. Petrochemical demand gradually recovers but overall capacity utilization remains low with spreads difficult to recover near-term. Upside risks as on progress of capacity reduction. Abundant coal supply will continue suppressing coal prices through 2026, affecting producer profits.
Technology/ Hardware	Neutral	<ul style="list-style-type: none"> China tech hardware's key growth driver remains AI, with increasing demand for cloud server, and memory hardware. US export controls also affecting chips supply, we see China government supports on chips supply chain, with advancing in technology. Government targets a 7% growth goal for industrial output from large scale manufacturers of computers, communications equipment and other electronic devices. iPhone supply chain may benefit from spec upgrades, especially potential new iPhone upgrade cycle, and foldable phone spec. Apple demand may be more resilient with clear upgrade roadmaps for coming years. In Communication Equipment, camera modules will benefit from AI-on-device technology requiring high-spec camera modules, plus rising demand in autonomous driving. Semiconductor Equipment remains to be a focus industry with US chips export curb. However, overdemanding valuation in the sector prevent us from being more positive.

Sector	Weight	Commentary
Transportation	Underweight	<ul style="list-style-type: none"> ● Express delivery: Anti-involution measures could help to improve the ecosystem, while it could take time to resolve. Changes in consumer spending patterns help drive express delivery demand supported by online shopping demand. Logistic companies are shifting strategy with premiumization on product mix to lift ASP and improve margin. ● Aviation: the sector is facing challenges with fare pressure and fuel costs. Also, valuation is not as appealing after a good performance in H2 2025. However, Chinese airlines are expected to improve profitability modestly in 2026 with traveling demand to improve. ● Shipping: Short-term benefits from major U.S. tariff cuts driving exports and freight rates higher, but long-term trade negotiations remain uncertain. Dry-bulk freight cost in 2026 could have a high base impact as rates are currently at a one-year high. Data shows seaport foreign trade volume growth continues slowdown year-over-year.

Conviction List

Stock	TP	Commentary
Industrial		
XPeng (9868)	HK\$ 98	<ul style="list-style-type: none"> ● XPeng plans to launch seven new models in 2026, leveraging the introduction of range-extended models to expand its market in northern and inland China. With the launch of at least three new models in overseas markets, global deliveries are expected to increase significantly. ● The company's self-developed VLA 2.0 architecture and chips have been adopted by Volkswagen, resulting in a significant increase in technology licensing revenue, which is expected to continue to expand. ● The robot is expected to enter mass production by the end of 2026, leveraging the advantages of AI data from vehicles to explore commercial applications such as tour guides and retail.
Internet		
Tencent (700)	HK\$ 700	<ul style="list-style-type: none"> ● We favor Tencent ecosystem that helps to capture the significance of China's mobile internet growth, and monetize in tech opportunities and advancement. The company could leverage on its sticky and integrated social mobile network platform in its core business gaming (VAS), advertising (Online Ad), and fintech payment (FBS). ● Looking ahead, we see strong pipeline in gaming as its deferred revenue shown strong revenue visibility in 2026E. Advertising segment has shown reacceleration with improved user engagement with AIM+ ad campaign, which 3Q25 saw 21% yoy in Online Ad revenue. FBS segment should grow moderately with improvement in commercial payment and loans, plus minishop volume. ● AI capability enhancement in across platforms will yield notable profit return and AI agent development could also integrate with content ecosystems which create synergies for users.

Stock	TP	Commentary
Alibaba (9988)	HK\$ 180	<ul style="list-style-type: none"> Strong demand for cloud intelligence services, with external clients increasingly adopting AI. Management indicates the current "supply shortage" will continue for 2-3 years, and the company will continue to increase investment spending. Regarding the Chinese e-commerce business, the instant retail strategy will shift towards "efficiency optimization," which will help mitigate the drag on profitability.
Materials		
China Hongqiao (1378)	HK\$ 40	<ul style="list-style-type: none"> The State Council's plan to promote high-end applications of aluminum and eliminate outdated production capacity has provided a policy catalyst for the industry. Tightening supply coupled with declining inventories could help create upward revisions to the aluminum industry's profitability. Hongqiao's product structure is closely aligned with high-growth sectors such as new energy vehicles, and its green transformation is more in line with national policies, which is expected to directly benefit from the increase in the average selling price (ASP) of aluminum alloys.
AIA (1299)		
AIA (1299)	HK\$ 102	<ul style="list-style-type: none"> AIA has proactively lowered its long-term return assumptions for Chinese assets, particularly by significantly reducing its long-term yield assumption for 10-year government bonds from 3.5% to 2.7%. This conservative assumption was not adjusted in its interim results for 2025, highlighting its overly conservative stance. This assumption is considered too low, failing to reflect the economic recovery in China and the revaluation of Hong Kong and mainland China stocks in 2025. The conservative forecast creates a low base for new business value (NBV) growth in 2026. The current market consensus forecast of only 9.4% growth in NBV for the Chinese market is clearly too low, leaving room for upward revision in the future.
PingAn (2318)		
PingAn (2318)	HK \$ 80	<ul style="list-style-type: none"> Ping An Insurance actively invests in the stock market compared to its peers, it is expected to be among the first to benefit from the market revaluation of Chinese assets. The company continues to promote multi-channel development, and the bancassurance channel is expected to remain the main driver of growth. Meanwhile, the new business value margin continues to rise, reflecting improvements in both "quality" and "quantity."
CMB (3968)		
CMB (3968)	HK \$ 56.5	<ul style="list-style-type: none"> The Central Economic Work Conference (CEPC) has prioritized "domestic demand-driven growth," focusing on boosting consumption and removing related restrictions. Consumer finance is expected to be a core growth driver this year. As the "King of Retail Banking," China Merchants Bank, with its high-quality customer base and leading digital operations, is best positioned to capitalize on policy dividends and drive breakthroughs in its retail lending business. The RMB is expected to continue strengthening against the US dollar this year, which will benefit capital inflows and optimize monetary policy space. As the impact of previous interest rate cuts gradually dissipates, coupled with improved costs on the bank's liability side, China Merchants Bank's net interest margin (NIM) decline is expected to narrow, shifting its profit outlook from pressure to recovery and enhancing its investment attractiveness.
Healthcare		
AKESO (9926)	HK\$ 178	<ul style="list-style-type: none"> The company continues to promote the licensing of its pharmaceutical intellectual property rights. Its Ivonescimab, AK112, has shown superior efficacy compared to the world's best-selling immunotherapy drugs. Due to its bispecificity, the market is optimistic about its sales prospects. Akeso has over 50 independently developed innovative drug candidates, and to date, 24 of its products are undergoing clinical trials globally. The market may focus on the Phase III clinical data of Ligufalimab, AK117 (CD47 monoclonal antibody), which is expected to overcome the market's challenge in targeting the CD47.

Stock	TP	Commentary
Consumer		
Pop Mart (9992)	HK\$ 292	<ul style="list-style-type: none"> ● The share price was pressured primarily due to market concerns about a drop in LABUBU's resale price. We believe the market has overreacted: the price correction is a healthy adjustment resulting from official restocking and forcing speculators to exit the market. Primary sales remain strong; LABUBU's production increased tenfold yet still sold out quickly, demonstrating that genuine demand is absorbing speculative demand. ● The market is also concerned about revenue concentration. However, data shows that The Monster series accounts for approximately 35%, while the remaining seven IPs each account for an average of 10%. More importantly, these IP combinations all demonstrate strong growth momentum. ● Sony Pictures has acquired the film rights to LABUBU and plans to make a movie about it, which is expected to help boost the global awareness of the LABUBU IP.
Utilities		
Sino Land (83)	HK\$ 13	<ul style="list-style-type: none"> ● Benefit from 1) HK residential market rejuvenation with strong project pipelines ahead; 2) Inflow of China OFDI (Overseas Foreign Direct Investment). ● Prudent management strategy helped company to achieve strong balance sheet with significant net cash. Hence, potentially to enhance shareholders return or the company can choose to acquire land bank at current undemanding valuation. ● Net cash position of HK\$45.5bn which is similar to minority shareholders shares of market cap size.

Income Picks

Stock	TP	Commentary
Telecom		
China Mobile (941)	HK\$ 98	<ul style="list-style-type: none"> ● China Mobile's telecom services generate stable cash flow supported by a vast subscriber base, providing strong defensiveness. The company's >75% dividend payout ratio offering attractive yields for income-focused investors. With stable fundamentals and a clear shareholder-return policy, China Mobile remains a core holding for defensive portfolios. ● The company's strategy is aligning with national AI strategies: (1) Doubling total investment to build China's largest intelligent computing infrastructure by 2028. (2) Forming alliances to co-develop and share data and algorithm resources, accelerating AI adoption across industries. Under the "15th Five-Year Plan," China Mobile is expected to play the roles of provider, integrator, and operator in AI infrastructure.
China Telecom (728)	HK\$ 7	<ul style="list-style-type: none"> ● With low cyclical in its telecom business, China Telecom generates steady cash flows, providing reliable shareholder returns. We expect annual dividend growth of 7-8% in the coming years. ● AI applications and public-sector digitalization as core growth drivers, and the company's SOE background would help securing state governments and SOE clients. Higher utilization of AI data cabinets should directly support secular growth in digital services. ● The company continues to allocate capital toward high-growth areas such as data centers to sustain cloud revenue expansion.

Stock	TP	Commentary
Utilities		
CR Power (836)	HK\$ 22	<ul style="list-style-type: none"> ● We see two near term drivers for CR Power, 1) Strong cashflow from coal power spread; 2) new energy installed capacity is expected to grow nearly 30%, significantly faster than peers, boosting return on invested capital (ROIC). ● China power demand in a longer term could potentially shift up from electrification, AI data centers and infrastructures, and raising export volume. ● Strong profit growth and cashflow supports dividend yield (c.5.6%) and valuation. Key risks are on upside potential of coal prices which is at a low base.
CLP (2)	HK\$ 74	<ul style="list-style-type: none"> ● CLP's core Hong Kong business is a defensive play with strong cash flow operation. Under the Scheme of Control Agreement with the government, CLP earns an 8% return on its regulated asset base. This framework locks in core earnings and shields it from intense market competition. CLP enjoys robust operating cash flow, supporting its long-standing progressive dividend policy—quarterly distributions with no historical dividend cuts. ● The company is pursuing two long-term growth strategies—regional diversification and energy transition. Beyond Hong Kong, its portfolio spans Australia, Mainland China, India, and Southeast Asia, helping mitigate concentration risk while capturing rising energy demand across the Asia-Pacific. Crucially, the global energy transition toward decarbonization provides structural opportunities, with Mainland China and Australia positioned as key growth drivers.

Taiwan Market

The AI supply chain maintains rapid growth

Compared to the dot-com era bull run in 2000, which lasted almost five years, the current AI frenzy has been around for about three years, suggesting that the uptrend is still in its middle phase and could extend through 2026. While the surge in AI investment appears rapid, we note that aggregate capex during previous major technological innovations, such as railroads, automobiles, electricity, and information technology, peaked at 2-3% of global GDP. By contrast, the current spending on generative AI accounts for just 0.8% of GDP. In other words, this growth cycle is still in its early stage.

Although AI plays are trading at high PEs, such valuations are backed by strong fundamentals. In fact, the PEG ratio of Taiwan's AI supply chain has yet to surpass 1x. We estimate that aggregate earnings of AI plays will grow by 21% YoY in 2026, following impressive upticks of 35% in 2024 and 43% in 2025. AI stocks now account for more than 60% of TAIEX earnings, and with the ongoing AI arms race, overall TAIEX earnings growth is projected to accelerate from 14% in 2025F to 20% in 2026. While AI infrastructure spending is dominated by large CSPs, increasing participation from neo-cloud firms and sovereign AI initiatives is diversifying and stabilizing order flows.

Although the AI frenzy should keep the bull market intact, volatility will rise in tandem due to: (1) substantial cumulative gains, and the fact that valuations are approaching historic highs; (2) policy and political uncertainty surrounding the US midterm elections; and (3) potential changes in the US Fed's rate-cut pace. We expect the TAIEX index to repeat a "smile-curve" pattern, featuring continued strength in 1Q26F, followed by healthy corrections in 2Q-3Q26 before closing the year with a renewed upswing.

We think investors need to pay attention to two major themes. The first is a broad-based product spec upgrade trend across the AI supply chain, which will drive the industry into a new growth phase, with beneficiaries including foundries, GPU and ASIC designers, advanced packaging (such as CoWoS), and ODMs, as well as testing interfaces, memory, thermal solutions, CCL, ABF substrates, PCBs, switches, and power component suppliers amid strong AI computing demand and ongoing GPU platform upgrades. The second is diversification and defensive asset allocation. Innovations in consumer electronics, such as foldable iPhones and smart wearables, will provide growth opportunities, while companies with resilient domestic demand and stable high dividend yields offer a balanced strategy combining growth and income. Overall, investors should strike a balance between growth and resilience against volatility in their portfolios, in the face of market fluctuations.

Singapore Market

Multiple tailwinds ahead in 2026

In 9M25, the overall Singapore's economy performance is better than expected as the global trade tensions eased after the US pivots its reciprocal tariff and reached deals with its major trading partners. The manufacturing, wholesale trade and finance & insurance sectors remain the growth pillars of the Singapore economy, and each sector delivered decent growth. In particular, manufacturing's growth is robust, driven by the electronics, transport engineering and biomedical manufacturing clusters. The full year outlook is upbeat, as the growth momentum shall continue till the end of the year.

Looking ahead, the global economic outlook for 2026 suggests slower GDP growth for most of Singapore's key trading partners, including China and the Eurozone, largely due to the impact of US tariffs, which will temper demand for Southeast Asian exports, though US growth is expected to remain resilient from AI investment. Consequently, Singapore's outward-oriented sectors, particularly manufacturing and trade-related services, are projected to expand at a slower pace than in 2025, although the electronics and related sectors will benefit from AI demand, while some precision engineering and biomedical output may moderate domestically, the construction sector is set to grow, but consumer-facing sectors are likely to remain subdued. However, the relatively low interest rate and continuous government support shall buffer the impact of the slowdown, and the capital market will still benefit from the upward re-rating catalysts.

Economy overview

GDP: In the third quarter of 2025, Singapore's GDP grew by 4.2% YoY, surpassing advance estimates of 2.9% and exceeding market expectations, while extending the 4.7% growth in Q2. On a QoQ seasonally adjusted basis, GDP grew 2.4%, up from 1.7% in the previous quarter. The stronger performance was driven primarily by the manufacturing sector, which expanded 5.0% on the back of surging global demand for AI-related semiconductors, servers, and high-value biomedical products. Wholesale trade rose 3.9%, supported by robust electronics-related volumes in machinery, equipment and supplies. Finance and insurance grew 4.6%, lifted by stronger banking activity, higher net fees and commissions, and increased payment transaction volumes across the region. In contrast, construction grew 3.6%, moderating from 6.2% previously, while some trade-related services saw slower momentum compared to earlier front-loading driven by tariff uncertainty. Nonetheless, outward-oriented services such as information & communications and professional services continued to benefit from global AI-driven investment and stronger regional trade flows. The Ministry of Trade and Industry (MTI) has revised Singapore's 2025 growth forecast upward to around 4%, from 1.5% to 2.5% previously, citing better-than-expected resilience of the global economic conditions. The export growth in China and Vietnam remained robust, and the AI-related semiconductor exports from the region was strong during 3Q25. MTI also projects 1%-3% GDP growth for 2026 as U.S. tariff effects become more pronounced in 2026.

CPI: In October, Singapore's core inflation rose sharply to 1.2% YoY, up from 0.4% in September, marking the highest reading so far in 2025. The Monetary Authority of Singapore (MAS) and MTI attributed this increase to higher prices for health insurance, healthcare services, food, and retail goods, alongside a smaller decline in electricity and gas prices. Services inflation jumped to 1.8%, reflecting faster increases in healthcare-related costs and holiday expenses, while food inflation edged up to 1.2%. Private transport inflation rose to 3.8% amid steeper car price increases, whereas accommodation inflation eased slightly to 0.3%. On a month-on-month basis, core CPI increased by 0.5%, while headline CPI-All Items was unchanged. MAS and MTI noted that Singapore's imported costs should continue to decline, though more gradually in the coming months, as global crude oil prices are projected to fall at a slower pace in 2026 and regional inflation begins to pick up after this year's weakness. Domestically, administrative factors that had temporarily dampened inflation are expected to continue tapering, while unit labour cost growth is set to rise as productivity normalises. Private consumption demand is also likely to remain steady. Reflecting these dynamics, MAS projects core inflation to average around 0.5% in 2025, before rising to 0.5%-1.5% in 2026, with CPI-All Items also expected to average 0.5%-1.0% in 2025 and 0.5%-1.5% in 2026. MAS highlighted that the inflation outlook remains uncertain; global supply shocks and geopolitical tensions could lift imported costs abruptly, whereas a sharper-than-expected weakening in global demand could suppress inflation more quickly. MAS, therefore, maintained its modest, gradual appreciation path for the S\$NEER, emphasising a balanced but cautious policy stance.

Labour market: Total employment rose by 24,800 in 3Q25, up from 10,400 in 2Q25 and 22,300 in 3Q24. Resident unemployment rate for the quarter was 2.8%, while the overall unemployment rate held steady at 2.0% in September. Employment gains were led by non-resident employment growth in the manufacturing and construction sectors, marking the largest quarterly additions since 2H22. Retrenchments declined marginally from the previous quarter from 3,540 to 3,500. The Ministry of Manpower anticipates employment growth to stay positive but uneven across sectors, supported by continued expansion in construction and domestic-oriented services. However, outward-facing industries are likely to experience softer hiring sentiment amid trade policy uncertainty and weaker external demand. Wage growth is projected to moderate as firms remain cautious, while the proportion of employers planning to raise wages has declined, particularly in financial and information services.

Fixed asset investment: In 2024, Singapore secured S\$13.5 billion in Fixed Asset Investment commitments, a 6.3% YoY increase from the S\$12.7 billion in 2023 and achieved a Total Business Expenditure per annum of S\$8.4 billion. These investments are expected to create 18,700 jobs and add S\$23.5 billion in Value-Added annually over the next five years. While 2023 saw investments across chemicals, electronics, and R&D, the majority of 2024's investments came from the electronics sector. The Economic Development Board (EDB) acknowledges that global protectionist policies and tariffs pose risks to the investment climate. Nonetheless, it plans to leverage Asia's expanding share of global GDP, expected to rise from about 50% today to 60% by 2030, to attract investments in key sectors and emerging growth areas. The EDB will focus on AI, digitalisation, and climate technologies to bolster Singapore's position as a global innovation hub, supported by initiatives such as the Johor-Singapore Special Economic Zone.

International trade: In October 2025, Singapore's total trade rose 23.2% YoY, following a 14.6% rise in September 2025, with exports up by 25.2% and imports up by 21.0%. Non-oil domestic exports (NODX) grew by 22.2%, after the 7.0% increase in September 2025. Electronics and non-electronics exports both saw gains, with electronic NODX expanding by 33.2% in October, and non-electronic NODX growing by 18.8%. NODX to Hong Kong, Taiwan, and Thailand also saw significant growth, while NODX to Japan and US contracted. Non-oil re-exports (NORX) grew 51.8%, driven by a sharp increase of electronic NORX such as PCs (+395.3%), ICs (+19.6%) and telecommunications equipment (+125.7%). Non-electronic re-exports also saw growth of 6.3%. NORX to Thailand, Hong Kong, and US registered significant growth in October 2025. Electronics are doing the heavy lifting again, which aligns with the up-cycle in AI-related semiconductors. The market mix shows resilience into North Asia but softness into the US, consistent with tariff uncertainty and a higher base. We treat the September rebound and carrying on to October as cyclical rather than structural until we see a few more prints confirming breadth beyond electronics.

Personal disposable income and savings: Personal disposable income grew by 2.8% YoY in 3Q25, lower than the 3.6% increase in the previous quarter. Growth for the quarter was also supported by the compensation of employees. Personal savings grew by 0.4% YoY in 3Q25, moderating from the 2.6% increase in the previous quarter of 2025. Personal income growth in 2025 is likely to remain subdued as companies cut jobs and freeze hiring amid economic uncertainties such as trade wars. Household cash flow momentum has cooled. A lower saving rate suggests less buffer for discretionary spending in the near term. Consumption growth should be steady rather than strong unless labour demand firms materially. For equity screens, prefer staples and services with pricing power over highly discretionary names until income growth re-accelerates.

Housing and rental prices: In 3Q25, private housing prices rose by 0.9%, staying consistent on a 1.0% increase in 2Q25. Meanwhile, private residential rentals also rose by 1.2% in 3Q25 after increasing 0.8% in the preceding quarter. Rentals for non-landed properties increased by 1.1%, while landed property rentals increased by 1.4%, reflecting a moderation in rental market. Excluding Executive Condominium (ECs), take-up rose by 2671 units QoQ and remain elevated on a YoY basis. Accordingly, pipeline supply fell by 3.0% to 36814. The supply gap inched higher YoY, with higher take-ups and fall in pipeline supply, indicating a moderation in 3Q25 compared to 2Q25. ECs present a bright spot within the property market, with 600 EC units launched for sale, and 570 EC units sold in 3Q25. Going forward, with a progressive ramp up in overall private housing supply through the Government Land Sales (GLS) programme in recent years, a higher pipeline and easing vacancy point to continued moderation in price and rental inflation into 2026, barring a demand shock.

Government capital support

On 21 July 2025 MAS named the first batch of managers under the S\$5 billion Equity Market Development Programme (EQPD) and allocated an initial S\$1.1 billion to be invested via strategies with meaningful Singapore equity exposure. On 19 November 2025, MAS appointed the second batch of six asset managers to place S\$2.85 billion under the EQPD. The remaining S\$1.05 billion fund is expected to be released in 2H26. Structural policy support should improve liquidity and research coverage over time, which can lift valuation multiples for quality mid-caps. The impact will be incremental rather than immediate. Watch for the second batch of manager appointments and actual fund deployment pace as the next catalysts for SGX turnover and depth.

Favourable sectors

Small and mid-cap companies: Lower interest rate and supportive government initiatives favour the overall business operations. The improvement in the profitability is expected to lift the valuations.

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