中國銀行(香港)
BANK OF CHINA (HONG KONG)

BOCHK
2025 Market Outlook & Investment Strategy

July Version

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July 2025

Core views

- **Global economy |** The US employment situation has deteriorated to a significant extent. In May, 139,000 new non-farm payrolls were added. Although the number "exceeded the market's expectations", the job market continued to weaken. In the first two months, the total number of non-farm payrolls was revised down by 95,000 again, and the unemployment rate rose from 4.187% to 4.244%, increasing for four consecutive months. The current effective tariff rate in the US is over 17%, hitting a 90-year high. Moreover, the effects of uncertain policies imposed by the Trump administration have made it difficult for companies to make long-term decisions, which would dampen economic activity. In May, the ISM manufacturing and service PMIs both fell into the contraction territory. According to the Fed's Beige Book, half of the local Feds reported declines in economic activity. With interest rate futures currently pricing in a rate cut by the Fed until the FOMC meeting in September, the meeting of global central bank governors in August could provide a window of opportunities for the shift of the Fed's policies towards sending dovish signals to the market, assuming no major surprises in economic data. In the Eurozone, the GDP growth in Q1, 2025 was revised upwards to 0.6% quarter-over-quarter, the highest pace since Q3, 2022, mainly driven by fixed asset investment and export growth. The slowdown in headline inflation has laid a solid foundation for the ECB to lower interest rates by another 25 bps at its policy meeting in June. According to the ECB's president, driven by the rate cut, the current cycle of rate reductions is coming to an end. Between supporting economic growth and curbing inflation, the ECB will observe the potential impact imposed by trade talks and embark on a flexible and data-led policy path. The UK economy decreased by 0.3% month-over-month in April, failing to sustain its growth momentum. Driven by the declines in manufacturing output, the industrial sector fell by 0.6% month-over-month. Moreover, the infrastructure and housing repairs were the primary contributors to the 0.9% month-over-month increase in construction. The weakness of the labor market also confirms the fact that the economy is weakening. The uncertainties over the US trade policy continue to impose an impact on the UK economy. On 19 June, the BoE's Monetary Policy Committee (MPC) voted 6-3 in favor of keeping the benchmark interest rate unchanged at 4.25%. According to members of the MPC, the tightening of monetary policy over the past two years has paid off, and the risks of secondary inflation have decreased, whereas inflationary expectations have remained stable. The recent international environment changes have pushed energy prices higher, which has become a contributor to rising inflation. Moving forward, the BoE will remain at a gradual pace of rate cuts. China's economic data in May largely maintained the previous trend. The production side has achieved rather optimal performance, and the exports in the demand side remain resilient. At present, monetary policy easing has been materialized, and closer attention shall be paid to the timing and intensity of the follow-up fiscal policy.

- **Stock market |** US stocks were desensitized to bearish news as supported by the optimistic sentiment, and the stock market remained at an all-time high. In autumn, US stocks are facing greater downward pressure due to softening macro economy and declining corporate earnings. The "One Big Beautiful Bill" has further heightened fiscal pressure, but it could only bolster corporate earnings in the short term. It is expected that US stocks will not be easy to outperform non-US stock markets. In H1, 2025, European stocks outperformed in the market due to expectations of corporate earnings growth and US capital inflows. The final value of Eurozone GDP growth in Q1, 2025 was revised up to double level of the preliminary value , and European equity funds have recorded net inflows every month since early 2025. Furthermore, the forecast P/E ratio of European stocks after the rally is still around the 10-year average, and European stocks are almost one third cheaper than the US stocks. Nevertheless, the strong performance of the EUR and the subsequent evolution of trade talks will limit the performance of export-oriented European stocks to a certain extent. China A-shares are expected to rebound due to the easing of the Sino-US trade situation and the consistent increase in monetary and fiscal policies, which is likely to promote the recovery of domestic demands. Furthermore, the consumer sector is likely to usher in investment opportunities, and consistent investments in the technology sector are likely to support the performance of the sci-tech innovation sector. However, the index is still subject to consistent fluctuations, and closer attention shall be paid to low-valuation growth industries. The rally in Hong Kong, China stocks is expected to continue in July, but volatility may increase accordingly. The Fed's policy game is becoming increasingly intricate. Driven by the Chinese mainland's policy support and consistent optimization of trade partners, both imports and exports are expected to make progress amid oscillations. The advantages of low valuation of Hong Kong, China stocks, with Chinese assets as the core, continue to be highlighted. Overseas funds and buybacks by Japanese companies jointly pushed up the rebound of Japanese stocks, but the increase of uncertainties of international environment triggered a new round of inflation concerns caused by rising crude oil prices, which will impose a certain impact on Japanese stocks. Asian equities benefited from a weaker USD and a broader rally, led by Korean stocks. The market is looking forward to measures of stock market stimulus to attract external funds, and the market value of the Korean stock market has regained the USD 2 trillion mark. At a time when the World Bank is downgrading the forecast of global economic development, economic growth is becoming a fundamental factor for Asian stocks to outperform. Moreover, the relatively stable fundamentals of Asian economies and easing policies of central banks are hedging economic downside risks. Moving forward, closer attention shall be paid to the development of trade policies and the trend of the USD, which may trigger volatility in Asian stocks.

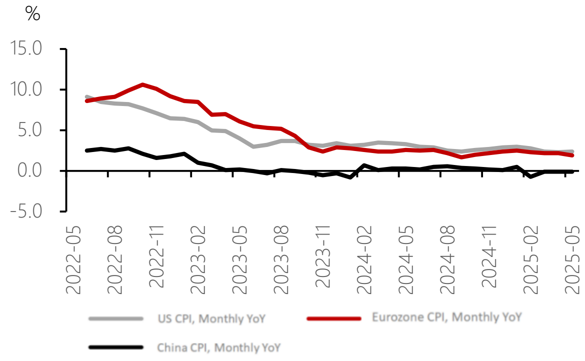
- **Bond market |** The Fed basically kept the interest rate unchanged in June. The market is concerned about the increase in the US debt ceiling and the potential rise in fiscal deficits. Whether the US Department of the Treasury will increase the scale of its bond issuance plan in Q3, 2025 will be the key. It is expected that the downward space of US Treasury yields in July may still be limited, and US Treasury yields are likely to consistently fluctuate at highs. The ECB lowered interest rates by 25 bps at its policy meeting in June as expected by the market. This is the eighth interest rate cut since the start of the cycle of rate reductions in June 2024. Given that there are still uncertainties in the economic outlook of the Eurozone, there is still room for European bond yields to fall after a short-term rebound. At present, China's economic recovery still requires greater efforts of incremental policies. Against the backdrop of low inflation, the major policy orientation remains to be the reduction of nominal interest rates, which will promote further downward breakthroughs in bond yields. The financing environment of Chinese USD bonds are expected to tighten. Moving forward, closer attention shall be paid to changes in macroeconomic policies as well as liquidity supply in July, and investors may properly reduce duration of bonds to cope with the complex and changing market pattern. Funds in emerging bond markets have turned into net inflows and are expected to receive greater support.

- **Commodities |** Looking forward to July, gold is likely to face both adjustment pressure and supportive factors, and the market's sentiment may return to a balanced state. The upward momentum is likely to be limited in the near term, and the risks of corrections have been heightened. Closer attention shall be paid to the Fed's policy statements (dovish signals may boost gold prices), rising uncertainty in the international environment. As gold prices fall back to low levels, investors may arrange asset allocation into gold in batches. Oil prices are affected by the changes of international environment, and the volatility has intensified in the near term. On the demand side, international trade talks continue to advance, whereas the global economy is gradually improving, providing support for crude oil prices. On the supply side, the OPEC+ alliance is currently increasing production and compensatory production cuts in parallel, and the additional production increase is lower than the market's expectations. Nevertheless, uncertainty of international environment have caused oil prices to fluctuate sharply.

- **Foreign exchange |** In June, the currency market remained volatile. The uncertainty in the international environment increases, and the market's risk aversion sentiment re-emerged. Looking forward to July, the market's focus is still placed on the trade talks between the US and other countries as well as major economic data. With respect to specific currencies, US dollar: USD is experiencing a rising trend amid potentially increasing inflation, and the Fed maintains a cautious attitude towards interest rate cuts. As the data released shows that the US economy is resilient, it is expected to support a short-term rebound in the USD. Given that the rise of the USD Index will be limited when the economic outlook is unclear, it is expected to hover in a low range. Euro: EUR is likely to rise amid oscillations at highs against the backdrop of stable economic fundamentals and normalization of monetary policies in the Eurozone. British pound: GBP is exposed to near term underperformance. Japanese Yen: JPY is influenced by the unchanged pace of monetary tightening by the BoJ, and closer attention shall be paid to the subsequent US-Japan trade talks. With respect to commodity currencies, Canadian dollar: CAD is likely to fluctuate within the range, and closer attention shall be paid to supportive factors. Australian dollar: AUD is likely to consolidate amid oscillations, and may face pressure amid upward movements. Renminbi: RMB is expected to consistently operate within a reasonable range against the backdrop of manageable external pressure and rather stable imports and exports.

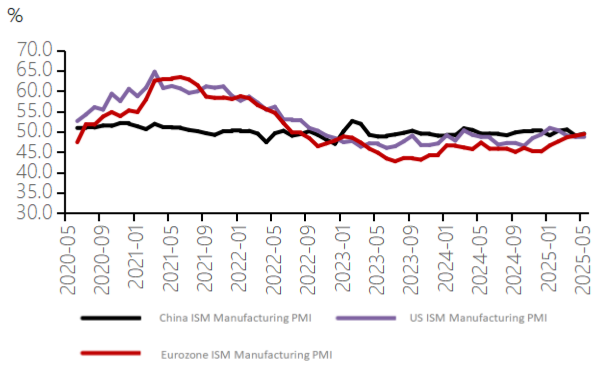
Global Economy

Fig. 1: Monthly CPI YoY (As of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center

Fig. 2Monthly Manufacturing PMI YoY (As of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center

US: Employment has been weaken, and yet the Fed still persists in keeping interest rates unchanged

In May, the US non-farm payrolls increased by 139,000. Although the figure was "beyond expectations", it was still evident that the US job market continued to weaken. The figure in the first two months was revised down by 95,000 again, and the employment according to household surveys decreased by 696,000, whereas the unemployment rate rose from 4.187% to 4.244%, rising for four consecutive months. In addition, high-frequency data confirmed the weakening of the job market. In particular, the number of continuous jobless claims announced weekly exceeded the threshold of 1.9 million, hitting a new high since 2021, and it is becoming increasingly intricate to find a job after becoming unemployed. Although the current pace of rising unemployment is still slow, the changes in unemployment rate are nonlinear. Instead, the unemployment rate often accelerates after crossing the critical point. At present, the effective tariff rate in the US exceeds 17%, hitting a 90-year high. The widespread effects of uncertain policies of the Trump administration make it difficult for companies to make long-term decisions, which will suppress economic activity. In May, the ISM manufacturing and services PMIs both fell into the contraction range. According to the Fed's Beige Book, half of the local Feds reported declines in economic activity. The US unemployment rate is expected to consistently rise in the coming quarters.

Inflation has cooled down across the board. In May, data including the nominal CPI, core CPI and PPI were only +0.1% month-over-month, and closer to the 2% target year-over-year. Furthermore, the consumer inflation expectations fell across the board. The "tariff-driven inflation" that economists and the Fed were concerned about has yet to emerge. Judging from the perspective of economic data, the Fed's reasoning for not cutting interest rates is getting weaker, but the Fed's obsession with tariff-driven inflation is not expected to change soon. Moreover, as Trump imposes greater pressures on rate cuts, the Fed may have greater momentum to hold on to not cut interest rates so as to show its "independence". Interest rate futures pricing shows that the Fed will not cut interest rates until the FOMC meeting in September. Hence, assuming that there are no major surprises in economic data, the meeting of global central bank governors in August could provide a window of opportunities for the shift of the Fed's policies towards sending dovish signals to the market.

Eurozone: After the eighth rate cut by the ECB, the policy path is becoming increasingly cautious

The quarterly GDP growth of the Eurozone in Q1, 2025 was revised up to 0.6%, the highest growth rate since Q3, 2022, mainly benefiting from the growth of fixed asset investment and exports. As the main economy in the Eurozone, the German economy grew by 0.4% quarter-over-quarter in Q1, 2025, breaking away from the contraction in Q4, 2024. However, despite the improvement in the economy in Q1, 2025, the market generally expects that the momentum of economic growth in the Eurozone will slow down in Q2 and Q3, reflecting the uncertainties of the economic outlook. With respect to the inflation, both overall inflation and core inflation in the Eurozone have slowed down. In May, overall inflation fell to 1.9% year-over-year, which is lower than the ECB's 2% target again since September 2024. During the same period, core inflation fell from 2.3%, hitting a record low since January 2022. In addition, the slowdown in services inflation, on which the ECB placed its focus, is particularly critical. It fell from 4.0% to 3.2% in May, indicating that the short-term increase of inflation in April due to the Easter holiday effect has subsided, and the resilience of service prices is weakening.

The slowdown in overall inflation provided sufficient reasons for the ECB to lower interest rates by another 25 bps in June. However, after the eighth rate cut, its policy stance became more cautious. According to the President of the ECB, as driven by the rate cut, the cycle of rate reductions is coming to an end, but she stressed that risks of financial stability would still exist. The ECB's stance has led to a decline in the market's expectations for rate cuts in the Eurozone. Currently, the market expects only one rate cut prior to the end of 2025, with the deposit rate falling to 1.75%. Overall, the Eurozone economy is in a stage of moderate recovery and easing inflationary pressure. Between supporting economic growth and curbing inflation, the ECB will observe the potential impact imposed by trade talks and embark on a flexible and data-led policy path.

UK: Economic momentum is declining, and the room for interest rate cuts is opening up

The UK economy fell by 0.3% month-over-month in April, failing to maintain its economic growth momentum. In particular, the service industry fell by 0.4% month-over-month, becoming the main drag. Since early April, the increase in real estate stamp duty caused a sharp decline in real estate transactions and weakened related service activities. Due to the declines in manufacturing output, the industrial sector fell by 0.6% month-over-month. The infrastructure and house repairs were the main contributors to the 0.9% month-over-month increase in the construction industry. The weak labor market also confirmed the fact that the economy was weakening. Furthermore, the unemployment rate rose by 0.2 percentage points to 4.6% from February to April compared with the previous three months. The increase in the minimum wage and the rise in insurance premiums paid by employers weakened the willingness of companies to recruit, and the number of job vacancies decreased.

The uncertainties of the US trade policy continued to impose an impact on the UK economy. UK traders rushed to import and proactively increased inventory before the trade policy came into effect. As such, it may take some time for the market to absorb the above increase of inventory. On the other hand, the UK exports of goods fell by 8.8% month-over-month in April, with exports of goods to the EU and non-EU countries falling by 4.3% and 12.6% respectively. Although the UK and the US have reached a trade agreement, the agreement could only offset some of the negative impact of trade policy. On June 19, the BoE's Monetary Policy Committee (MPC) voted 6-3 to keep the base rate unchanged at 4.25%. In particular, three members supported a 25-bp rate cut. According to members of the MPC, the tight monetary policy over the past two years has been effective, and the risks of secondary inflation have declined, whereas inflationary expectations have remained stable. The inflation rate in May reached 3.4%, slightly lower than 3.5% in April, which is consistent with the BoE's expectations. The weakening of economic output, labor market and inflation has opened up space for subsequent interest rate cuts, and the market's expectations for a rate cut in August have increased. Moving forward, the BoE will continue to pay attention to changes in the external situation and the policy impact on inflation. The changes in the international environment over the recent period have pushed up energy prices and become a contributor to the rising inflation. In addition, the BoE is expected to maintain a gradual pace of interest rate cuts.

China: Economic growth rate in Q2 may still be above 5%, and the nominal growth rate still needs to be bolstered

China's economic data in May maintained the previous pattern in general, with strong external demands. Based on the economic data in April and May, the economic growth in Q2 may still reach above 5%, but the nominal growth rate is likely to be lower than the real growth rate. In China, the industrial value-added increased by 5.8% year-over-year in May (previous value was 6.1%), and the service industry production index increased by 6.2% year-over-year in May (previous value was 6.0%). Based on the production data in April and May, the GDP growth rate in Q2 may still be above 5%.

From the demand side, the total retail sales of social consumer goods in May increased by 6.4% year-over-year (previous value was 5.1%). Driven by the consumer goods trade-in program and e-commerce promotions in May, consumption is still recovering. The retail data above designated size showed that the retail sales of home appliances in May rose by 53% year-over-year, highlighting the effects imposed by the policy of trade-in of old consumer goods.

Fixed asset investment from January to May increased by 3.7% year-over-year (previous value was 4.0%). In particular, the manufacturing investment went up by 8.5% year-over-year (previous value was 8.8%), broad infrastructure investment rose by 10.4% year-over-year (previous value was 10.9%), and real estate development investment decreased by 10.7% year-over-year (previous value was a decline of 10.3%). Investments continued to diverge. Driven by the intensified fiscal policies, the growth rate of infrastructure investment increased to a significant extent, whereas the real estate investment remained weak.

In May, exports increased by 4.8% year-over-year (previous value was 8.1%), and imports decreased by 3.4% year-over-year (previous value was a decline of 0.2%). We maintain our previous view that the rush for trade will continue in Q2 and Q3, and there is no need to be overly concern about exports throughout the year. In addition, the import growth rate continued to be weak, indicating that domestic demands still need to be boosted.

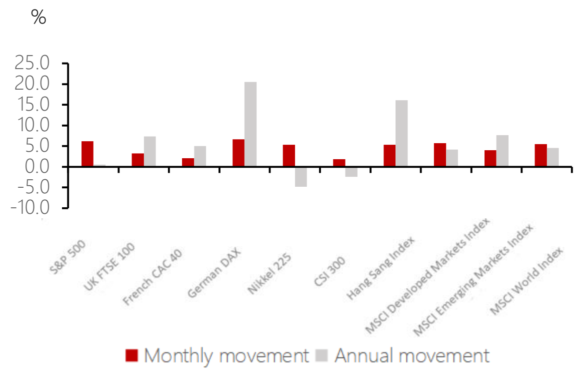
In May, the CPI dropped by 0.1% year-over-year (previous value was a decline of 0.1%) and fell by 0.2% month-over-month (previous value was an increase of 0.1%); in May, the core CPI rose by 0.6% year-over-year (previous value was an increase of 0.5%) and remained unchanged month-over-month (previous value was an increase of 0.2%). In May, PPI went down by 3.3% year-over-year (previous value was a decrease of 2.7%) and 0.4% month-over-month (previous value was a decrease of 0.4%). Overall, although the core CPI continued to rebound month-over-month, prices remained low overall, and the GDP deflator is likely to be consistently negative in Q2.

In May, the aggregate financing to the real economy (AFRE) increased by RMB 2.287 trillion, and the stock of AFRE increased by 8.7% year-over-year (previous value was 8.7%), but the stock of AFRE after excluding government bonds only increased by 6% year-over-year, still at a low level. In May, new credit reached RMB 620 billion, of which RMB 54 billion was added to household credit and RMB 530 billion was added to corporate credit. Overall, endogenous financing demands remained insufficient.

In a nutshell, the economic data in May basically maintained the previous trend. The production side was relatively good, and exports on the demand side remained resilient. At present, monetary policy easing has taken effects, and closer attention shall be paid to the timing and intensity of the subsequent fiscal policy.

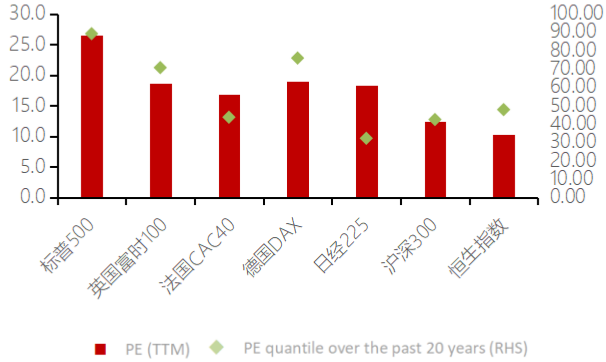
Stock Market

Fig. 3: Stock Index Movements (as of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center

Fig. 4: Stock Index Valuation (as of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center

US: The optimistic sentiment supports the rally, and the market is faced with greater pressure for a correction in autumn

Despite multiple disturbances such as the weakening of the macroeconomy and the changing international environment , the major US stock indices are supported by the optimistic sentiment. As such, the US stock market has become desensitized to various negative news, and remains near historical highs. As Wall Street keeps an optimistic sentiment in the market, it believes that Trump will not sacrifice the financial stability of the US, and thus will not adopt radical policies in reality.

The US stock market is about to enter into the summer trading period of light trading. The optimistic sentiment may still support the high volatility of the US stock market, but the US stock market is expected to face greater downward pressure in autumn. First, the development of the trade situation and it is over optimistic sentiment for related parties to reach an agreement with the US, and the complacency of the stock market is more vulnerable to unexpected shocks. Second, the macroeconomy is weakening and corporate profits are under pressure. The average effective tariff currently implemented by the US exceeds 17%, which is five times that of the same period in 2024 and the highest level in nearly 90 years. The reductions in trade activities and the multiplier effects have led to unexpected downward pressure on the economy. Third, the "One Big Beautiful Bill" may impose greater negative effects on the stock market than positive ones. The bill proposes to adopt tax cuts before spending cuts, thus further exacerbating the US fiscal deficit. Fourth, judging from the current declines in the USD index , global capital rebalancing is still continuing. Driven by such pattern, it is intricate for US stocks will not be easy to outperform non-US stocks.

Europe: Both bullish and bearish factors dominate the trend of European stocks

European stocks performed well among major mature markets in H1, 2025. The Stoxx Europe 600 Index rose by more than 7%. Among the three major stock markets in Britain, France and Germany, the German DAX Index rose by nearly 20%, mainly due to the new German cabinet's approval of EUR 46 billion worth of corporate tax cuts. Although the expected impact of the policy on the economy may become more evident in 2026 or later, the market has priced in the expectations of corporate earnings growth in German stocks. The booming market sentiment has driven the performance of German stocks, while bolstering the overall performance of European stocks.

In addition to being supported by the German fiscal policy, European stocks were also supported by numerous positive factors. First, the growth of European economy. Driven by the export momentum of Ireland and Germany, the final value of Eurozone GDP in Q1, 2025 was revised up to 0.6% quarter-over-quarter, twice the preliminary value . In addition, capital expenditures have increased, indicating that corporate investment confidence has been bolstered while reflecting the resilience of the Eurozone economy. Second, capital inflows. According to data on fund flows, European equity funds have recorded net inflows every month since January 2025. This reflects to some extent the attractiveness of the earnings ratio of European stocks. The current earnings ratio of the Stoxx Europe 600 index is 6.4%, which is higher than the US S&P 500 index of about 4%. Third, the valuation is reasonable. Although European stocks have risen sharply over the recent period, the predicted P/E ratio is still at the level of the 10-year average, and there is still a discount of about 35% compared with US stocks. Although the aforementioned factors of varying nature support the performance of European stocks, the strong EUR and the subsequent development expectations of the postponement of the trade policy in July could pose constraints to the performance of European stocks, especially those export-oriented companies both in Europe and the US.

China: A-shares may continue to consolidate amid oscillations, and the Hong Kong, China stock market is expected to consistently rise with increasing volatility

In July, the China A-share market is expected to be bolstered by the improvement of the external environment and policy support. With respect to the external environment, the uncertainties of the global economy have been reduced, which may be conducive to the performance of the technology sector and export-oriented industries. The Chinese mainland consistent efforts made in monetary and fiscal policies, especially the implementation of the policy of reducing reserve requirement ratio and interest rates will further promote domestic demands, promote the recovery of consumer confidence, and thus stimulate the performance of the consumer sector. The sci-tech innovation sector will maintain a long-term positive trend with consistent investments in new energy, semiconductors, 5G, AI and other fields, and is expected to become the core focus of the market in July.

Although the market's sentiment is relatively optimistic, China A-shares may still maintain a pattern of consolidation amid oscillations in the short term. Moving forward, closer attention shall be paid to industries with low valuations and growth potential, including energy metals, agriculture and environmental protection. These sectors are currently undervalued and have a high cost-effectiveness, and may usher in opportunities for catch-up growth. In the meantime, the consumer sector is expected to constantly benefit from the growth of domestic demands, and medical health, home appliances, food and beverage and other fields could usher in greater investment opportunities. Nevertheless, in July, risk factors cannot be ignored in the China A-share market. External economic fluctuations and rising US bond yields may bring pressure. Closer attention shall be paid to the policy implementation and market dynamics, and investors may adjust the investment portfolio in a timely manner.

Overseas, the US inflation data in May was weaker than expected, indicating that the impact of policy was not evident for the time being. The labor market and consumption growth slowed down, and real estate demands remained weak. Changing international environment pushed up the risk aversion sentiment while did lead to sharp increases of crude oil and gold prices. Expectations of a rate cut by the Fed have increased, US bond yields have fallen, and the USD has weakened. In the near term, the stock market may continue to be affected by the risk aversion sentiment. Volatility has increased, and attention shall be paid to the risk transmission of external markets. Nevertheless, several risk factors exist, policy uncertainties, changing international environment , and uncertainties in the external economic environment. In May, global stock markets rose in tandem, and the Hong Kong, China stocks, Hang Seng Index and the Hang Seng TECH Index both rose to a certain extent. With respect to the industrial performance, the energy, finance and telecommunications industries ranked first in terms of growth. In June, Hong Kong, China stocks continued to achieve robust growth.

Looking forward to July, the Hong Kong, China stock market is expected to consistently rise, but volatility may increase. On the one hand, the new non-farm payrolls data in the US in May was slightly better than the general market expectations. Coupled with the recent changing international environment , which pushed up oil prices, the game between the US inflationary pressure and the Fed's policy space will also become more complicated. Against such backdrop, despite the consistent pressure from the US President, the Fed's monetary policy may remain "cautious" in the near term. On the other hand, driven by the optimization of China's trade structure and the diversification of trading partners, coupled with relevant policies committed to expanding domestic demands, both imports and exports are expected to maintain stable growth amid fluctuations. The low valuation advantages of Hong Kong, China stocks with Chinese assets as the core may continue to stand out. With respect to risk factors, there are still risks in the global economic uncertainties at present, efficiency of monetary policy transmission, fluctuations in the financial market, adjustments in the real estate market, implementation and coordination of policies, and management of the market's confidence. At present, there is increasing of uncertainties of global environment. Closer attention shall be paid to the above risk factors that may impose an impact on the overall trend of the Hong Kong, China stock market.

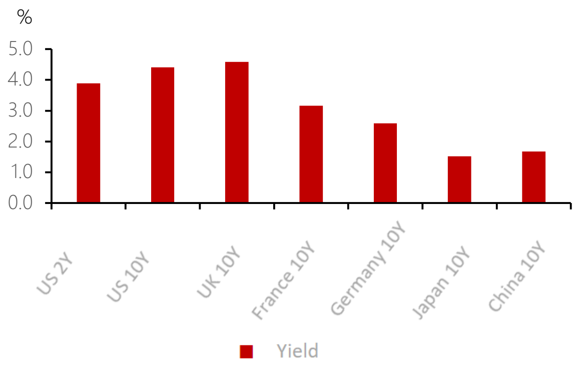
Asia ex-China: Japanese stocks were bolstered by overseas funds and Japanese corporate buybacks, and Korean stocks have led the gains in Asian stocks

The weak bidding for Japan's 40-year government bonds at the end of May once led to global market turmoil, and Japanese stocks also saw a brief sell-off. Nevertheless, the Nikkei 225 Index subsequently rebounded to a new high since late February. Japanese stocks were pushed up by overseas investors and corporate buyback funds. Since April, overseas investors have accumulated net purchases of Japanese stocks worth of JPY 3.87 trillion for 10 consecutive weeks, thus becoming the largest buyer of Japanese stocks. Against the backdrop of a sharp appreciation of the JPY/USD, the dollar-denominated Nikkei 225 Index has also performed better than the S&P 500 Index in 2025. In addition, the stock buybacks of Japanese companies from January to May reached JPY 12 trillion, an increase of more than 20% over the same period in 2024, with nearly JPY 4 trillion repurchased in April alone. Furthermore, Japanese companies' buybacks were not affected by the 7% declines in total net profit forecast for FY2025. The focus of Japanese enterprises on improving shareholder returns has attracted greater attention from overseas investors. The Japan-US summit in June failed to reach an agreement on trade policies, and the two sides still have major discrepancies. Changing international environment causes the rising of crude oil prices. In case that oil prices continue to remain high, it could lead to a new round of import-driven inflation, thus bring shocks to consumption. Trade talks and changing international environment may still impose a certain impact on Japanese stocks.

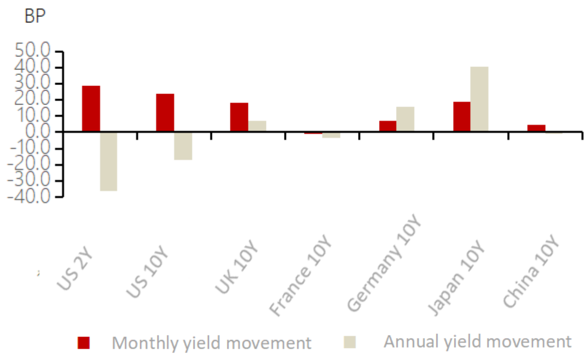
Driven by the consistent weakening of the USD and the improvement of the market's sentiment, the MSCI Asia (ex Japan) Index hit a new high since February 2022 in June, with the Korean stock market leading the gains in Asia. The KOSPI Index has risen by more than 9% so far in June. After the Korean presidential election, the market is looking forward to a series of equity boosting measures to bring positive support to the stock market, thus attracting capital inflows. Moreover, the market value of the Korean KOSPI Index has returned to the level of USD 2 trillion three years ago. As of the time of writing, the market is waiting to see whether the Korean stock market could be included in the watch list of the MSCI Developed Markets Index. In addition, economic growth is the fundamental driving factor of Asian stock markets. In its June report, the World Bank lowered its forecasts for global and US economic growth in 2025 by 0.4% and 0.9%, respectively, but only lowered its forecast for emerging Asian economies by 0.1%, reflecting the relatively sound fundamentals of Asian economies and the buffering effect of the central banks' maintenance of loose policies, which have increased the attractiveness of the Asian markets against the backdrop of divergence of global economic growth. However, closer attention shall be paid to the subsequent development of trade policies and the trend of the USD, which could bring volatility to the Asian region that relies more on exports. Hence, it is necessary to diversify regional asset allocation to disperse the risks of individual regions.

Bond Market

Fig. 5 and Fig. 6: Government Bond Yields as of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

Developed markets: US bond yields remain volatile at highs, while European bond yields still have room for declines

US bonds: The FOMC meeting in June basically kept the interest rate unchanged, consisting with the market's expectations. The latest interest rate dot plot maintained the previous forecast, namely, two 25-bp interest rate cuts in 2025, the number of members who supported no interest rate cuts within the year has increased from 4 to 7, indicating that certain members have become more conservative, and there are discrepancies in views among members. The Fed lowered its forecast for the US economic growth in 2025, while raising its inflation and unemployment forecasts. Judging from the data forecast and voting direction, it can be seen that the Fed is still cautious about further interest rate cuts. According to the Fed's Chairman Jerome Powell, in a highly uncertain environment, it is appropriate to maintain interest rates at the current moderately restrictive level and continue to observe. Subsequent to the announcement of the monetary policy meeting results, the market's expectations for interest rate cuts in 2025 have not changed much. On the supply side, the bond issuance of the US Department o the Treasury has remained stable in recent months, but in case that Trump's tax reform bill is passed, the market is expected to focus on the increase in the US debt ceiling and the potential rise in fiscal deficits. Whether the Treasury will increase the scale of its bond issuance plan in Q3, 2025 will become the key, and the increase in bond supply may bring upward pressure on bond yields. Overall, it is expected that the downward space of US Treasury yields in July may still be limited, and bond yields will continue to fluctuate at highs. At the same time, bond yields may fluctuate due to the dynamic changes of numerous uncertain factors. Therefore, it is still appropriate to use shorter-term US Treasury bonds to reduce the impact imposed by price fluctuations.

European bonds: The ECB cut interest rates by 0.25% at its policy meeting in June as expected by the market. This is the eighth interest rate cut since the cycle of rate reductions started in June 2024. The ECB also announced its latest annual inflation forecast, which was lowered to 2%, indicating that the central bank has increased confidence in inflation falling back to the 2% target level, whereas the economic growth forecast remained unchanged at 0.9%. After the meeting, the president of the ECB said that subsequent actions would be determined by data, and it is not ruled out that the central bank could be close to the end of the cycle of rate cuts, which have cooled the market's expectations for the ECB to lower interest rates. As of the time of writing, the German 2-year and 10-year bond yields rebounded from the June lows of 1.759% and 2.421% to 1.885% and 2.587%, respectively. However, according to the Global Economic Prospects Report published in June, the World Bank lowered the Eurozone economic growth forecast for the year 2025 from 1% to 0.7%, reflecting the uncertainties of the Eurozone economic outlook. In case that the Eurozone economic data is lower than expected by the market, the expectations for the ECB to cut interest rates may rebound. The market generally expects the ECB to cut interest rates once more in 2025. Therefore, there is still room for European bond yields to fall. At present, the lowest yields of Bloomberg Barclays pan-European composite sovereign bonds and pan-European investment-grade bonds are 3.1% and 3.08% respectively, higher than the average lowest yields of 1.4% and 1.3% over the past decade. As European bonds rebound, investors may consider timely allocation into European bonds in July so as to capture potential opportunities.

Emerging markets: China's bond market remains supported, and attention shall be paid to liquidity changes in the Chinese USD bonds, whereas emerging market bonds may be supported

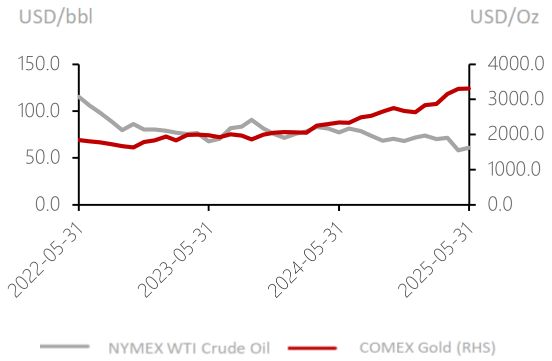
China's bond market: Given that the current demands is recovering, and coupled with the PBOC's consistent measures for liquidity supply, it is expected that the bond market will still have strong support in July. Economic data in May showed divergent performance. Consumption rebounded to 6.4% year-over-year, but fixed investment was relatively low. Inflation has been negative for the fourth consecutive month. The year-over-year growth rate of RMB loan balance in May further dropped from 7.2% in the previous month to 7.1%. Both corporate and household demand were recovering, and the overall fundamentals supported the bond market. From the perspective of funding expectations, the central bank conducted buy-back reverse repurchase operations twice in one month in June for the first time, thus releasing policy signals of consistent monetary policy efforts. These efforts would help maintain ample liquidity in the banking system now that government bonds continue to be issued, and that the recent maturity of bank interbank certificates of deposit. At the same time, the transparency of monetary policy operations has increased, and the buy-back reverse repurchase operations have been announced in advance instead of disclosed at the end of the month, which could also more effectively guide and stabilize the market's expectations. In a nutshell, Chinese mainland's economic recovery at present still needs greater incremental policy efforts. Against the backdrop of low inflation, lowering nominal interest rates is still a vital policy direction, which will promote further downward breakthroughs in bond yields. In July, the 10-year Treasury yield may have a trading opportunity to fall again to around 1.5%.

Chinese USD bond market: As of June 19, the Markit iBoxx Asian Chinese USD Bond Index reached 242.9552, up 0.13% from the previous week. The return rate of Chinese USD bonds since early 2025 to date has increased by 36.0 bps month-over-month to 3.13%. The performance of investment-grade and high-yield bonds is comparable, among which the return rate of investment-grade bonds has increased by 37.0 bps to 4.8%, and the return rate of high-yield bonds has increased by 34.0 bps to 4.7%. From the perspective of industry, the highest return rate of real estate reached 5.51%, up 15.0 bps month-over-month. However, it is also crucial to note that the oversupply of US bonds may lead to liquidity shocks, and the financing environment of Chinese USD bonds will also tighten. Moving forward, closer attention shall be paid to changes in macroeconomic policies and liquidity in July, and appropriately reduce duration to cope with the complex and changing market structure.

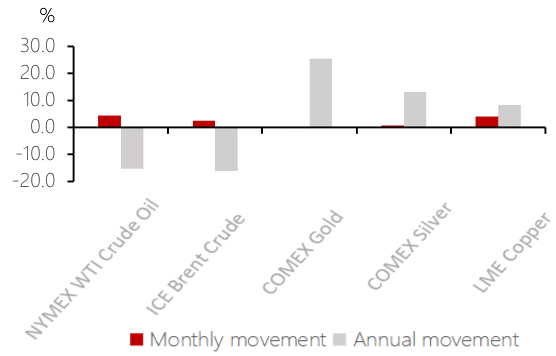
Global emerging bond markets: The USD index has fallen by 1.34% since early June, hitting the level of 97.62, a record low since March 2022, and the performance of emerging market bonds has been supported. According to the latest data from EPFR Global as of June 11, emerging market bonds have recorded a net inflow of approximately USD 9.2 billion in 2025, reversing the earlier trend of outflows. In case that the market's risk aversion sentiment continues to decline and the USD index continues to hover at a low level in the short term, the performance of emerging market bonds is likely to be further supported. At present, the lowest yield of Bloomberg Barclays emerging market investment-grade bonds is 5.35%, which is at the level of plus one standard deviation of the 10-year average, and thus the valuation remains attractive. Therefore, investors may consider increasing the allocation into emerging market bonds at opportune moments in July.

Commodities

Fig. 7 and Fig. 8: Commodity Prices (as of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

Gold: Adjustment pressure and supportive factors coexist in the near term, and the trend of upward movements remains unchanged in the long term

In June, the gold market fluctuated at highs. In early June, gold prices were bolstered by factors such as the changes in the international environment. As such, the rising risk aversion sentiment pushed up gold prices. Nevertheless, the US non-farm payrolls report was generally stable. Accordingly, gold prices fell under pressure, almost giving up all the gains. Subsequently, the escalation of the uncertainties of international environment, the lower-than-expected growth rates of the US CPI and PPI in May, and the high initial claims data strengthened the market's expectations for the Fed's two rate cuts in 2025. Gold prices continued to rise, and the price of gold encountered resistance and fell around the level of USD 3,450 per ounce.

Looking forward to July, adjustment pressure and supportive factors coexist, and the market's sentiment may return to a balanced state in July. The upward momentum is insufficient in the near term, and the risk of a correction is increasing. Subsequent movements of gold prices are expected to be driven by key events. In terms of the demands led by the risk aversion sentiment, the escalation of the uncertainties of international environment will push up gold prices. In addition, the Fed's policy is a key variable. The FOMC meeting in June kept the interest rate unchanged. Nevertheless, the Fed's expectations of a rate cut (a neutral time point could be around September), the expansion of the US government's fiscal deficit, and the development of US debt issues will become key driving factors. Moving forward, closer attention shall be paid to the Fed's policy statements (hawkish signals may suppress gold prices). Moreover, investors may consider arranging asset allocation into gold in batches when prices are at lows. The upward trend of gold is stable in the mid-to long-term. After Trump took office, global competition intensified. Assets related to national credit, such as stocks, bonds, and fiat currencies, all face uncertainties about whether there is an order premium or an order discount, thus enhancing the demands for gold as a safe-haven asset. The gold purchases by central banks and the Fed's expectation of a rate cut provide support for gold prices.

Crude oil: Oil prices are affected by the changes of international environment, and volatility has intensified in the short term

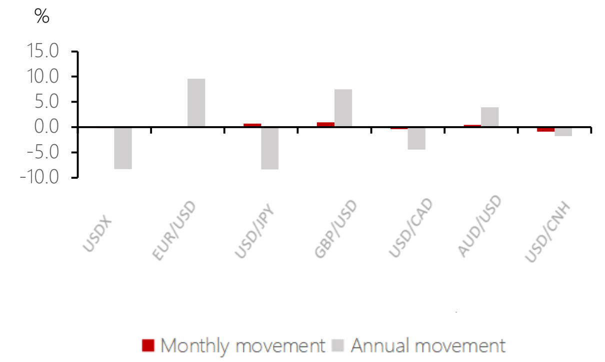
In June, crude oil prices stabilized amid a gradual rebound. First, the international trade policy has eased, and the three major institutions have adjusted their expectations for crude oil demands again. Overall, the market's expectations have improved. As trade talks continue to advance in subsequent periods, it is expected that the expectations for oil demands may continue to rise, providing bottom support for oil prices. Second, the changes in the international environment raising the market's concerns about crude oil supply and bolstering oil prices.

Looking forward to July, oil prices are affected by the changes in the international environment, and volatility has intensified in the short term. From the perspective of crude oil demands, energy demand expectations increased. The year-over-year growth rate of the US core CPI slowed to 2.8% in May, lower than the market's expectations. After the data was released, Trump publicly called for a 100-bp rate cut in 2025 to stimulate the economy. The market generally expects that the Fed may start cutting interest rates in September, thus further promoting the valuation repair of risky assets. From the perspective of crude oil supply, although the OPEC+ alliance plans to increase production by 411,000 bpd in June, the actual increase is far from the target. In May, the eight member countries of the OPEC+ bloc only completed 18% of the planned increase in production. The overall production of the OPEC+ alliance has remained stable at around 26.98 million bpd for the third consecutive month, and the actual supply increase is limited. Moreover, the supply disturbances of non-OPEC+ countries have increased. Due to trade policy, the maintenance costs of shale oil drilling in the US have increased, and the number of active drilling rigs has dropped to 462, a year-over-year decrease of 50. In addition, uncertainties in the international environment has caused the market's concerns about the interruption of crude oil exports. If the uncertainty in the international environment increased, the gap in crude oil supply is expected to reach 1.5 million bpd. Judging from the current trend, the uncertainty in the international environment shows no signs of easing. However, there are great uncertainties as to whether it will have a greater impact on crude oil supply. If it is only the impact of the market's sentiment and does not threaten the actual supply or key routes, it will be hard for oil prices to form a trend of rises, but could intensify oil price fluctuations.

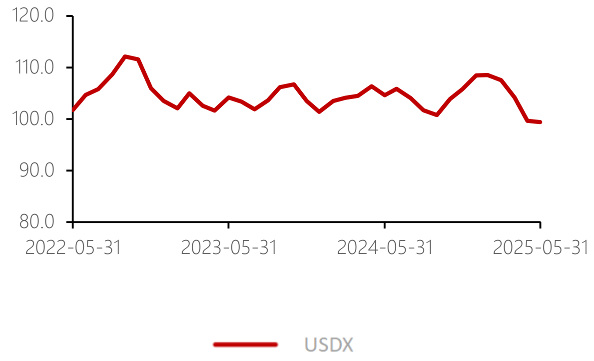
Overall, the shift from "pessimism about demands" to "dominance of changing of the international environment" has led to a short-term rally for oil prices. However, the repetitive nature of trade policies and changing of the international environment indicates that volatility may rise, and oil price fluctuations are expected to intensify in the near term.

Foreign Exchange

Fig. 9 and Fig. 10: Foreign Exchange Prices (as of May 31, 2025)



Source: Wind, BOC Investment Strategy Research Center



Source: Wind, BOC Investment Strategy Research Center

U.S. dollar: USD is likely to hover at lows within the range amid hidden concerns about economic prospects

In H1, 2025, the USD index experienced downward movements overall. At the beginning of the year, the market had reduced its expectations of rate cuts to merely one time in 2025 due to concerns about rising inflation, which once supported the USD index to break through the level of 110. After breaking through the high point of the year, the USD index formed a downward trend with the emergence of trade news, especially when the news that exceeded the market's expectations emerged in mid-April, the market's concerns about the US economic recession increased. Furthermore, the expectations of interest rate cuts rose to four times in 2025, causing the USD index to fall below the level of 98. As different data from the US showed that the economy was still resilient, the market's sentiment improved, and the expectations of interest rate cuts cooled, thus driving the USD index to rebound to varying extents. Nevertheless, it was still limited to the level of 102. The latest interest rate dot plots in June showed that the median interest rate at the end of the year remained at 3.9%, the same as in March. Nevertheless, it is still necessary to pay closer attention to the evident changes in the views of officials. In particular, 7 out of 19 officials believed that there would be no need to cut interest rates in 2025, which was an increase from merely 4 in March. The other two officials expected merely one interest rate cut in 2025, indicating that officials are cautious about the expectations of interest rate cuts in H2, 2025. Judging from the trend of the USD index in H1, 2025, compared with other central banks' consistent interest rate cuts, the interest rate advantages have yet to bring evident support to the USD index. With potential inflation heating up, the Fed maintains a cautious stance towards interest rate cuts. As the released data revealed that the US economy was still resilient, it could support a short-term rebound in the USD. Considering that the rise of the USD index will be limited when the economic outlook is unclear, it is expected to hover at lows within the range.

Euro: EUR is likely to rise amid oscillations at highs against the backdrop of stable economic fundamentals and normalization of monetary policies

In contrast to the USD's movements, the EUR showed an upward trend in H1, 2025. In mid-June, the EUR broke through the high level achieved in 2024 again and reached 1.16 against the USD, which is the highest level since October 2021. Although the ECB has cut interest rates four times in 2025, and the deposit rate has dropped by 1% to 2%, the Eurozone GDP growth in Q1, 2025 hit the highest growth rate since Q3, 2022, as driven by the declines in financing costs. It is expected that after the new German government approves EUR 46 billion worth of corporate tax cuts, Germany, as one of the growth engines in Europe, will drive economic growth in the Eurozone. Under the prospects of economic growth, the latest trader position report released by the Commodity Futures Trading Commission of the US CFTC shows that the net position of non-commercial EUR continued to rise in 2025, which reflected the market's confidence in the prospects of the EUR. Although the uncertainties of future trade development still needs to be observed, considering that the President of the ECB said after the policy meeting in June, the cycle of interest rate cuts is about to end, the market currently expects only one interest rate cut before the end of 2025. Looking forward to H2, 2025. given that the Eurozone monetary policy tends to normalize and coupled with favorable factors in economic growth fundamentals, EUR is likely to rise amid oscillations .

British pound: GBP is exposed to near term underperformance

Since the previous update, we started focusing on the less constructive elements on GBP. Term premium concerns can resurface. Gilts remain vulnerable to spillover risks, despite modest relief from the UK Debt Management Office cutting longer-dated issuance. While sticky inflation should keep the Bank of England cautious, market pricing now looks hawkish (c.23bps priced over the next 3 meetings) and private sector payroll gains have looked increasingly weak. As a result, near-term outlook remains tilted towards GBP underperformance. Risk to this view are that fiscal concerns are pushed out and risk assets continue to rally. Longer out, medium-term cross-currents widen the range of outcomes for GBP. Positive reform momentum – evidenced by renewed cooperation with the EU – could help reverse structural underinvestment in UK assets post-Brexit. UK access to EU defense funds, for example, could support inflows into UK equities. But the UK remains in a difficult fiscal position. Expects elevated fiscal uncertainty to persist into the autumn budget, given lack of fiscal space and difficulties of cutting spending even further. Limited scope to support UK consumption opens the door for a dovish pivot from the Bank of England.

Japanese yen: JPY is influenced by the unchanged pace of monetary tightening by the BoJ, and closer attention shall be paid to the subsequent US-Japan trade talks

The BoJ maintained its benchmark interest rate unchanged at its policy meeting in June, and decided to reduce bond purchases at a slower pace in 2026, indicating that it remains cautious after the market volatility intensified. Under the latest plan, the central bank will scale back its debt buying by 200 billion yen ($1.4 billion) per quarter from April 2026, down from the current level of JPY 400 billion. According to the BoJ, the inflation rate has risen moderately, but the future orientation of global trade policy is still uncertain. Moreover, the overall pace of monetary tightening has yet to change. The US-Japan trade talks have yet to be concluded, and the USD/JPY is faced with strong support at the level of 140. In the near term, it will generally fluctuate within the range.

Commodity currencies:

Canadian dollar: CAD is likely to fluctuate within the range, and closer attention shall be paid to supportive factors

In Canada, due to weak domestic demands, rising unemployment rate, and insufficient economic growth momentum, the market has raised its expectations for the Bank of Canada to lower interest rates in July. Coupled with the threat of the new US policy, the CAD is under pressure. With respect to the crude oil, uncertainty in the international environment escalated in June and oil prices soared, which is favorable for the CAD, but the limited increase in Canadian crude oil and weak global demands may pose constraints to the upward movements of oil prices.

Australian dollar: AUD is likely to consolidate amid oscillations, and may face pressure amid upward movements

The high inflation in Australia has posed constraints to the room of interest rate cuts. Due to the hawkish signals released by the RBA, and coupled with the firm iron ore and copper prices, the AUD is further supported. Closer attention shall be paid to the Australian employment data in July and the resolution of the FOMC meeting.

Renminbi: RMB is expected to consistently operate within a reasonable range

As of June 19, the CFETS USD/RMB exchange rate closed at 7.1729, maintaining the trend of slight rally from the previous month. As of June 13, the RMB exchange rate index closed at 95.49, a slight drop from the previous month. The US CPI rose by 2.4% year-over-year in May, staying below 3% for four consecutive months. The Fed continued to keep interest rates unchanged at the FOMC meeting. Although Chinese mainland's exports in May were slightly lower than expected, the US continued to run a large trade deficit with China. Overall, the current external pressure on the exchange rate is limited, and both imports and exports are relatively stable. Moving forward, the RMB exchange rate is expected to consistently operate in a reasonable range.

Asset Allocation

Fig. 11: Overview of Global Asset Allocation Perspectives for 2025

Stocks	Underweight		Standard Allocation	Overweight	
	Bearish	Conservative	Neutral Allocation	Recommended	Bullish
US (S&P 500)		●	🔴		
Europe (DAX, CAC)		●	🔴		
UK (FTSE 100)		●			
Japan (Nikkel 225)			●		
China A-shares (CSI A500)				●	
China Hong Kong Stocks (Hang Seng Index)				●	
Bonds	**Bearish**	**Conservative**	**Neutral Allocation**	**Recommended**	**Bullish**
US Treasuries			🔴	●	
Chinese USD Bonds				●	
China: Money Market			●		
China: Rate Securities			●		
China: Credit Bonds			●		
China: Convertible Bonds				●	
Commodities	**Bearish**	**Conservative**	**Neutral Allocation**	**Recommended**	**Bullish**
Gold				●	
Silver				●	
Crude Oil		●			
Copper		●	🔴		
Aluminum			●		
Foreign Exchange	**Bearish**	**Conservative**	**Neutral Allocation**	**Recommended**	**Bullish**
US Dollar (USD)			🔴	●	
Euro (EUR)		●	🔴		
British Pound (GBP)			●		
Canadian Dollar (CAD)		●			
Australian Dollar (AUD)			●		
Japanese Yen (JPY)		●	🔴		
Malaysian Ringgit (MYR)			●		
Indonesian Rupiah (IDR)			●		
Renminbi (RMB)			●		

Source: BOC Investment Strategy Research Center
Notes: *The black dots represent annual opinions, and the red dots represent revised opinions for Q2.*

Opportunities and risks of investors' asset allocation in Q2.

In general, Q2 is likely to be a period of multi-party development. Global trade development, economic growth and sustainable development will be subject to multi impact, and the impact is expected to reach the maximum extent in Q2, 2025. The direct consequence of rising uncertainties within the market is the increase in global asset volatility. Except for gold, which has a strong function of hedging volatility, the timing of the conversion between risks and opportunities of other asset categories may be difficult to grasp.

With respect to opportunities, every cloud has a silver lining. First, gold is the most certain opportunity among major asset categories. This is the common belief of global funds for "establishing the new before abolishing the old" international economic order. Second, at a certain moment, risk assets are mixed with turbulence, and there is an opportunity for mean reversion brought about by overreaction. It is foreseeable that the fluctuation in US stocks will be transmitted to Internet stocks of Chinese concept shares, and then drag down the irrational and sharp declines of the Hang Seng TECH Index. We tend to focus on the opportunities brought by the oversold Chinese equity assets, including the STAR board and the Hang Seng TECH Index, as well as the opportunities of asset allocation into the oversold US stocks. Third, closer attention shall be paid to the opportunities brought by the development of US policies and the adjustments of the Fed's policies. Furthermore, it may be too early for opportunities of "establishing the new before abolishing the old" international economic order to arise in Q2, but once the trend is initiated, the capital market will definitely react in advance, thus providing opportunities of investments.

With respect to risks, closer attention shall be paid to the risks after substantial adjustments. The market atmosphere in Q2 must be filled with the coexistence of bad news and good news of policy hedging. The mix of information, requires investors to have a vision in investment and maintain composure. It is recommended to adhere to the principles of asset allocation, while adapting to changes by remaining unchanged. Moreover, investors shall refrain from massive selling after a big drop. The risks that need to pay attention to do not mean they will inevitably occur, but responsive measures shall be taken in the portfolios of asset allocation.

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(Only applicable to Corporate Customers) RMB is currently not fully freely convertible. Corporate customers that intend to conduct conversion of RMB through banks may occasionally not be able to do so fully or immediately, for which it is subject to the RMB position of the banks and their commercial decisions at that moment. Customers should consider and understand the possible impact on their liquidity of RMB funds in advance.

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