中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Key Takeaways for Investment Insights (Monthly) – April 2025

Equity Market

- The U.S. stock market is currently experiencing a decline, primarily driven by investor caution towards overvalued stocks. This shift has prompted a rotation away from technology sectors into non-tech areas, with 7 of the 11 sectors in the S&P 500 reporting gains year-to-date. The energy sector has outperformed due to rising oil prices, while defensive sectors like healthcare, utilities, and consumer staples have also gained traction as investors seek safer investments.

- Despite some declines, the technology sector remains overvalued, and as this sector is significant contributor to the S&P 500, any further adjustments could lead to continued market pressures. Additionally, concerns over stagflation due to increased tariffs have led analysts to lower profit forecasts. Nevertheless, the market expects a double-digit profit growth of 10.5% for the S&P 500 by 2025, driven mainly by healthcare, technology, industrials, and communication services.

- Investors are advised to diversify their portfolios across various sectors and include bonds, as the current high valuations in tech pose a significant risk. Since the start of the year, non-tech sectors have outperformed, highlighting the benefits of diversification. Furthermore, the Federal Reserve's clear path toward interest rate cuts is expected to support the bond market, enhancing overall portfolio potential returns.

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- Since early this year, the Hong Kong stock market has outperformed other global markets, largely due to breakthroughs in artificial intelligence. However, the recent rally has mainly driven by valuation expansion. Future performance will depend more on improving profitability.

- The recent sector performance in Hang Seng Composite Index shows a clear shift in investment patterns, with funds moving away from technology stocks toward more defensive sectors. This rotation has led to a broader market breadth and suggests a growing investor preference for stability.

- China’s National People’s Congress has signaled fiscal expansion, with a focus on stabilizing the economy through increased fiscal resources. This includes investments in artificial intelligence, technology, infrastructure, and other sectors. While the outlook for Hong Kong stocks appears positive amid these expansionary policies, uncertainties surrounding U.S. tariffs may introduce volatility.

- Strategically, investors are encouraged to diversify into sectors aligned with national policies and those with higher dividend yields. The broader Asian market also offers high-yield opportunities, especially following recent market adjustments that provide better entry points for investors.

Equity Market (Continue)

- In summary, cautious strategies that involve diversification across sectors and asset classes are recommended for navigating the current market challenges in both the U.S. and Hong Kong.

Bond Market

- With the U.S. planning to implement reciprocal tariffs, the market anticipates a potential rise in inflation, coupled with declining consumer confidence, raising concerns about stagflation. Nevertheless, the Federal Reserve's path for interest rate cuts remains relatively clear as it balances inflation with economic outlooks.

- In the context of rising recession risks and expectations for rate cuts, the bond market has become an important choice for investors. Since the beginning of the year, most bonds across different regions and types have shown stable performance. High-yield bonds, with their higher yields, have delivered relatively strong total returns. Given the current stability of the global economy, allocating some investment to high-yield bonds can enhance potential returns, though investors should avoid excessive concentration due to the associated risks.

- Additionally, many Asian countries continue to exhibit resilient economic growth, and government and corporate bonds from high-rated countries in the region have demonstrated relative stability. Diversifying into Asian bonds can reduce dependence on the U.S. economy, and U.S. tariffs may even strengthen intra-Asian trade agreements, attracting capital flows into Asia in search of yields.

- Regarding the European bond market, significant differences in economic outlooks among European countries, along with diminishing rate cut potential from the ECB, are expected to lead to relatively weak performance in European bonds.

- Generally, rate cuts stimulate an increase in bond prices; however, the Fed's slow pace of rate cuts, coupled with rising inflation expectations, constrains the upward movement of government bond prices. Moreover, credit spreads for both investment-grade and high-yield bonds have narrowed to historical lows, reflecting similar constraints on credit bond prices.

- Given the relatively high interest rates, the current focus in the bond market is on capturing potential yields, as yields across various global bond markets remain attractive. Diversifying funds into different income-generating instruments not only helps enhance potential returns but also lowers overall portfolio risk, especially in the face of economic slowdown and uncertainty. Such a diversification strategy can effectively balance risk and return, creating a more resilient investment portfolio for investors.

FX Market

- The U.S. dollar index trend is anticipated to be driven by Trump's policies and recession fears. The dollar's rise will be limited if economic uncertainty increases, but on the other hand, recent "reciprocal tariffs" may support the dollar by raising inflation expectations and safe-haven demand.

- The EUR's performance is shaped by ECB policies, U.S. tariffs, and dollar trends. While a rate cut from the ECB is likely, improving inflation near 2% may lead to a pause in cuts that would give support to EUR. However, Germany's significant defense spending plan raises fiscal concerns, and uncertainties from U.S. tariffs could restrain EUR gains.

- The UK economy faces challenges, with weak industrial data and an unexpected GDP contraction. However, improving employment figures and stable wage growth led the BOE to maintain rates. The GBP may perform well against non-dollar currencies, supported by favorable interest rates and potential tariff negotiations with the U.S.

- The CAD benefits from rising oil prices but faces risks from U.S. tariffs impacting key export sectors. The BOC maintained rates in March but acknowledged potential economic weakness due to tariffs. Economic data deterioration could pressure the CAD, though less severe tariff impacts might allow for a rebound.

- Japan's inflation remains above target, with significant wage increases posing inflation risks. The BOJ may raise rates in May, supporting the JPY. However, low yields and a stronger JPY could ease inflation pressures, limiting future rate hikes.

- China's fiscal expansion signals support for growth, despite deflation concerns from a negative CPI. PBoC comments suggest potential rate cuts, but rising bond yields indicate growing confidence in recovery, stabilizing the RMB.

- The AUD faces pressure from a lower CPI and potential rate cuts. Increased global trade uncertainties also add volatility to the AUD. However, the free trade agreement between China and Australia could support Australian exports and provide some stability to the AUD.

- The resignation of the RBNZ Governor raises policy uncertainty, but a tourism recovery and a new visa program may help support New Zealand's economic growth and NZD.

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When investing in high-yield or unrated bonds or related products, investors face higher default risk, credit risk or liquidity risk, and are more susceptible to the impact of economic cycles. During economic downturns, their value typically declines more as (i) investors become more risk-averse and (ii) default risk increases. Foreign currency investments are subject to exchange rate risk which may result in gain or loss. The fluctuation in the exchange rate of foreign currency may result in losses in the event that customer converts the foreign currency into HKD or other foreign currencies. Renminbi is not freely convertible at present. The actual conversion arrangement will depend on the restrictions prevailing at the relevant time.

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