中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Subject: Rate cut ahead? Strategies for asset allocation

Video highlights:

- The U.S. 10-year Treasury yield has gradually declined to 4.3%, signaling rising expectations for Fed rate cuts. The US dollar may have further depreciation potential due to signs of a weakening economy, debt issues, and investors diversifying away from dollar assets. However, after significant declines since the beginning of the year, a consolidation phase could limit the appreciation of non-USD currencies.

- The New Zealand dollar (NZD) is expected to remain stable due to limited interest rate cuts and strong export performance, while the Chinese yuan (CNY) may also be resilient, supported by improved US-China trade relations and domestic consumption growth despite ongoing deflation risks.

- A-shares have underperformed H-shares this year, and their premium over H-shares has narrowed from a five-year average of 42% to about 30%, signaling improving valuation attractiveness.

- Hong Kong's stock market has benefited from sustained southbound fund inflows via the Stock Connect scheme. Despite recent gains, Hong Kong stocks remain attractively valued compared to global markets and historical levels, prompting increased allocations from previously underweight overseas long-term funds, a trend likely to persist.

- A weaker dollar generally supports financial markets, with historical data showing a negative correlation between the DXY Index and major stock and bond indices, particularly the MSCI Asia-Pacific (ex-Japan) Index and Asian investment-grade bond index, with correlations of -0.385 and -0.372, respectively, indicating significant benefits for Asian markets. However, risks such as U.S. tariffs, delayed Fed rate cuts, or weaker-than-expected Chinese recovery necessitate diversified investment portfolios.

- On the other hand, rate cuts favor bonds, but uncertainty about inflation may lead to divergences in global monetary policy, requiring flexible bond strategies with diversified exposure, particularly in more attractive Asian bond markets.

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