

Subject: Global Capital Flow Towards Asia?

Video highlights:

- Unemployment rate in the U.S. rose to 4.3%. Non-farm payrolls increased by only 22,000, significantly below the expected 75,000. Continuous decline in non-farm payrolls may negatively impact local consumption and the economy.
- Following the economic data, the probability of the Fed cutting rates by 0.25% in September rose to 100%. U.S. Treasury yields (both short and long-term) decreased, indicating rising bond prices. However, upcoming CPI and PPI data for August could further influence interest rate expectations. It is better to manage the bond portfolio duration, say between 3 to 5 years.
- The U.S. dollar index shows a weakening trend in light of a declining economic outlook and rising rate cut expectations. Typically, Asian bond markets perform well when the U.S. dollar weakens.
- Q2 earnings for U.S. companies generally exceeded expectations, with 80% of S&P 500 companies reporting better-than-expected profits. Despite strong performance, U.S. stock valuations are currently high. Some previously rapid-growth AI stocks are experiencing corrections, raising concerns about risk-reward ratios. Ongoing inflation and tariff impacts on local prices remain uncertain, with potential for stock market adjustments if no positive catalysts emerge.
- Anticipation of Fed rate cuts may redirect capital towards markets with higher dividend yields, particularly Asian markets. Asian stock markets not only offer attractive valuations but also have higher dividend yields compared to major global markets.
- Additionally, Asia's technology sector is gaining support from government initiatives, boosting potential earnings. The technology sector accounts for approximately 25% of the MSCI Asia Pacific (excluding Japan) index. In contrast, technology's share of the S&P 500 has surpassed 33%. As artificial intelligence develops, Asian tech companies are expected to play a critical role in the global supply chain, with potential to replicate growth trends seen in U.S. tech stocks.

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