中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

Video subject: Higher for Longer Environment Continues: The latest Strategy for Bond and Equity market

Video highlights:

- The Fed Chairman Kevin Warsh reiterated the 2% US PCE inflation target, signaling potential interest rate hikes in the Jackson Hole Meeting. The hawkish stance drove the US 2-year Treasury yield up by 11 basis points in a single day, marking the largest post-meeting single-day increase in the past 20 years.
- The US Treasury Department announced an increase in long-term treasury buybacks, with reports indicating Treasury General Account (TGA) funds might be deployed to alleviate upside pressure on long-term yields.
- While this improves short-term liquidity, US federal debt has surpassed $40 trillion, and the fiscal year 2026 deficit reached $1.8 trillion for the first 10 months. Massive government and corporate bond issuance continue to uplift long-term treasury supply.
- For fixed-income portfolios, investors should avoid blindly increasing ultra-long bond positions to chase coupon rates. Instead, focus on duration management by considering short-to-medium-term and floating-rate bonds. In addition, diversification is also important and investor could consider Asian and Chinese bond markets.
- In equity markets, US and European indices held near historical highs in Aug, on strong Q2 earnings. However, fund flow rotated from high-growth, high-valuation stocks into defensive or value sectors. Concerns over US fiscal expansion also fueled USD depreciation trades, boosting gold and silver as well.
- September brings multiple uncertainties, including treasury yield trends, central bank policies, geopolitics and the upcoming midterm elections. Though S&P 500 Q2 earnings beat expectations with +51.9% growth yoy, multi-year high yields are repricing stock valuations.
- Investors could consider to diversify into non-tech sectors: Energy and Materials benefit from rising commodity prices but are volatile; Financials gain from reviving capital market activities at attractive valuations; and Healthcare offers defensive, innovation-driven growth.
- European stock valuations trade at a discount to the US due to structural differences, being dominated by financials and industrials rather than IT. While long-term growth views remain conservative, Europe offers distinct returns and is shifting fiscal focus toward defense, energy security, and grid upgrades. Resilient earnings could narrow this valuation discount, making industrials, utilities, financials, and healthcare worth noting.
- For Chinese equity markets, stimulus expectations provide policy support. The potential upcoming Hang Seng Tech Index reform will include more advanced hardware, AI, and robotics stocks, This could help enhance the index representativeness and attract inflows to the relevant stocks. Additionally, state-owned banks, telecom, and energy sectors offer stable cash flows and dividend yields, benefiting from continuous Southbound inflow demand.

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