



CIO Office

Global Markets Weekly Kickstart

U.S. – China Trade War Again?

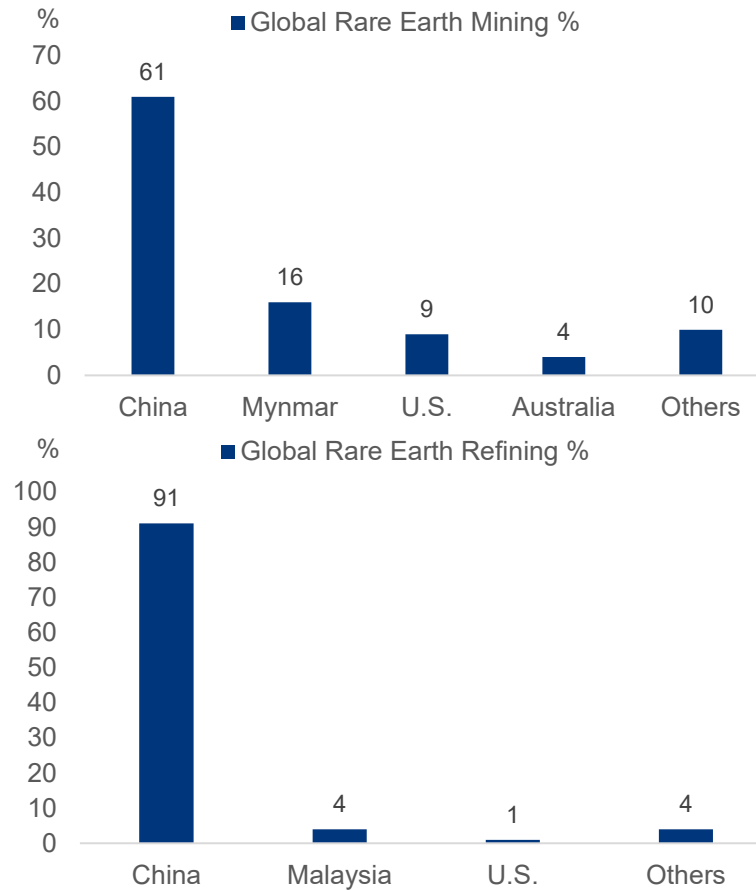
20 October 2025



China Tightens Rare Earth Controls; U.S. Retaliates With 100% Tariffs

- ▶ On Oct 9, China announced expanded restrictions on rare earth exports. Any product containing over 0.1% of Chinese-origin rare earth materials, or produced using Chinese mining or refining technologies, will now be subject to export controls—effectively bringing the entire rare earth supply chain under regulation. In response, the U.S. imposed 100% tariffs on Chinese imports, signaling a renewed escalation in the trade war.
- ▶ IEA data show China accounts for roughly 60% of global rare earth mining and over 90% of refining capacity, underscoring its dominance in supply. The tighter policy could impact industries reliant on rare earths, including electronics, semiconductors, and defense.
- ▶ U.S. imports from China are concentrated in consumer discretionary, tech, and industrial sectors—all exposed to the new export controls. The 100% tariffs take effect in November, while China’s rare earth measures start in December, leaving room for negotiation. In the near term, affected sectors face pressure, but rare earth producers outside China may benefit as supply chain diversification gains momentum.

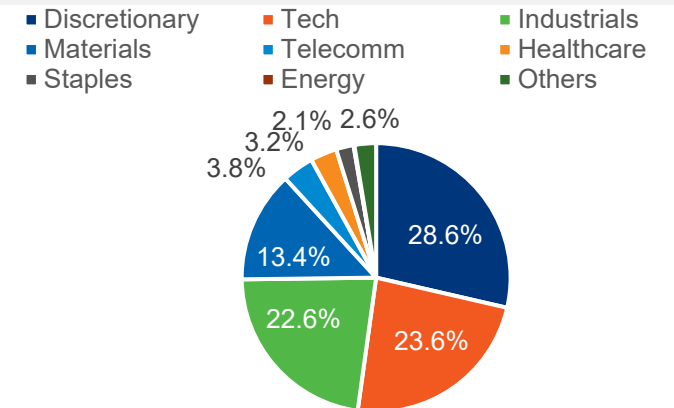
U.S. Imports from China Are Concentrated in Consumer Discretionary, Technology, and Industrial Sectors



Rare Earth Key Materials for Electronics, Semiconductors & Defence



U.S. Imports from China Are Concentrated in Discretionary, Tech, and Industrials



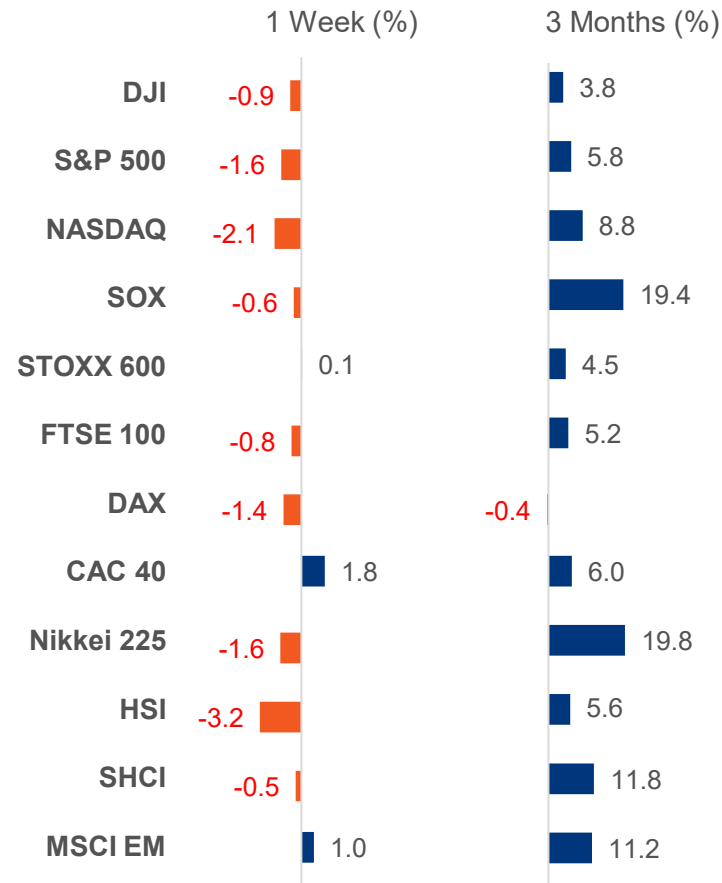
Source: Bloomberg, IEA, Rainbow Rare Earths, USITC

Market Recap

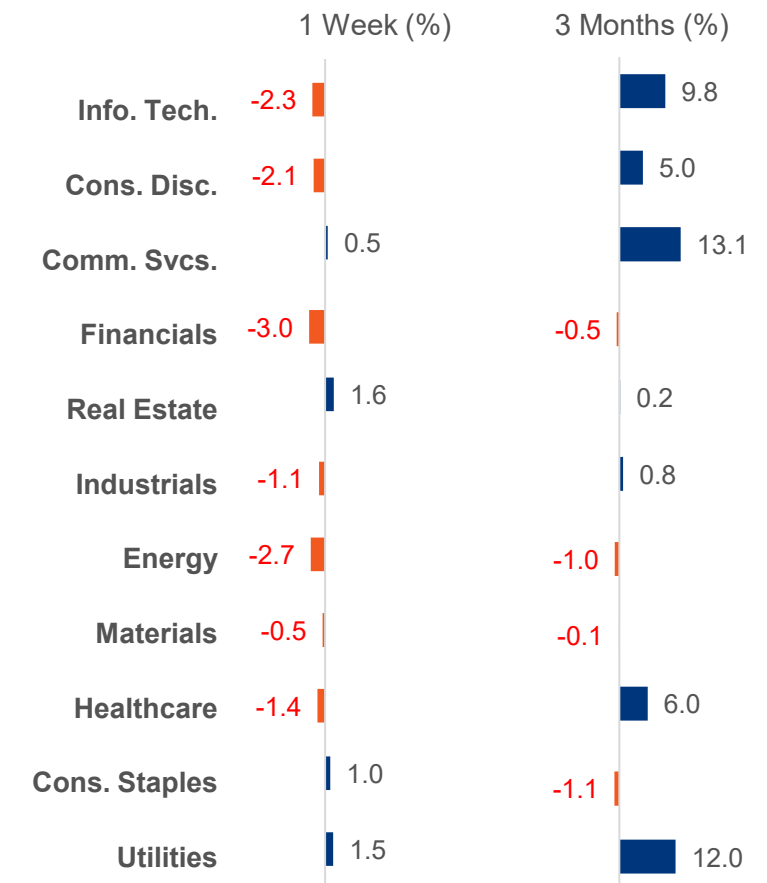
Trade Tensions Weigh on Market Sentiment; Defensive Sectors Outperform

- ▶ Renewed U.S.–China trade frictions drove a rebound in the VIX and triggered a sharp pullback in U.S. equities before easing as Trump adopted a softer stance. Meanwhile, the U.S. government shutdown has entered its third week, underscoring the lack of bipartisan agreement on a temporary funding bill. Beyond delayed economic data releases, Trump also announced plans to cut federal staff, adding uncertainty to the economic and market outlook.
- ▶ European equities traded choppily as rare earth export controls raised supply-chain concerns, weighing on auto and defense stocks. Additionally, Michelin's downgrade of its full-year outlook on North American weakness further pressured the market.
- ▶ By sector, although most financial results last week exceeded expectations, reports of lending losses among regional banks dragged bank shares lower. With both the U.S. and China now imposing reciprocal port fees, trade concerns persist, pressuring tech, consumer discretionary, and industrial stocks. In contrast, defensive sectors such as utilities and consumer staples attracted inflows, reflecting a more cautious near-term market tone.

Regional Index Performance (%)

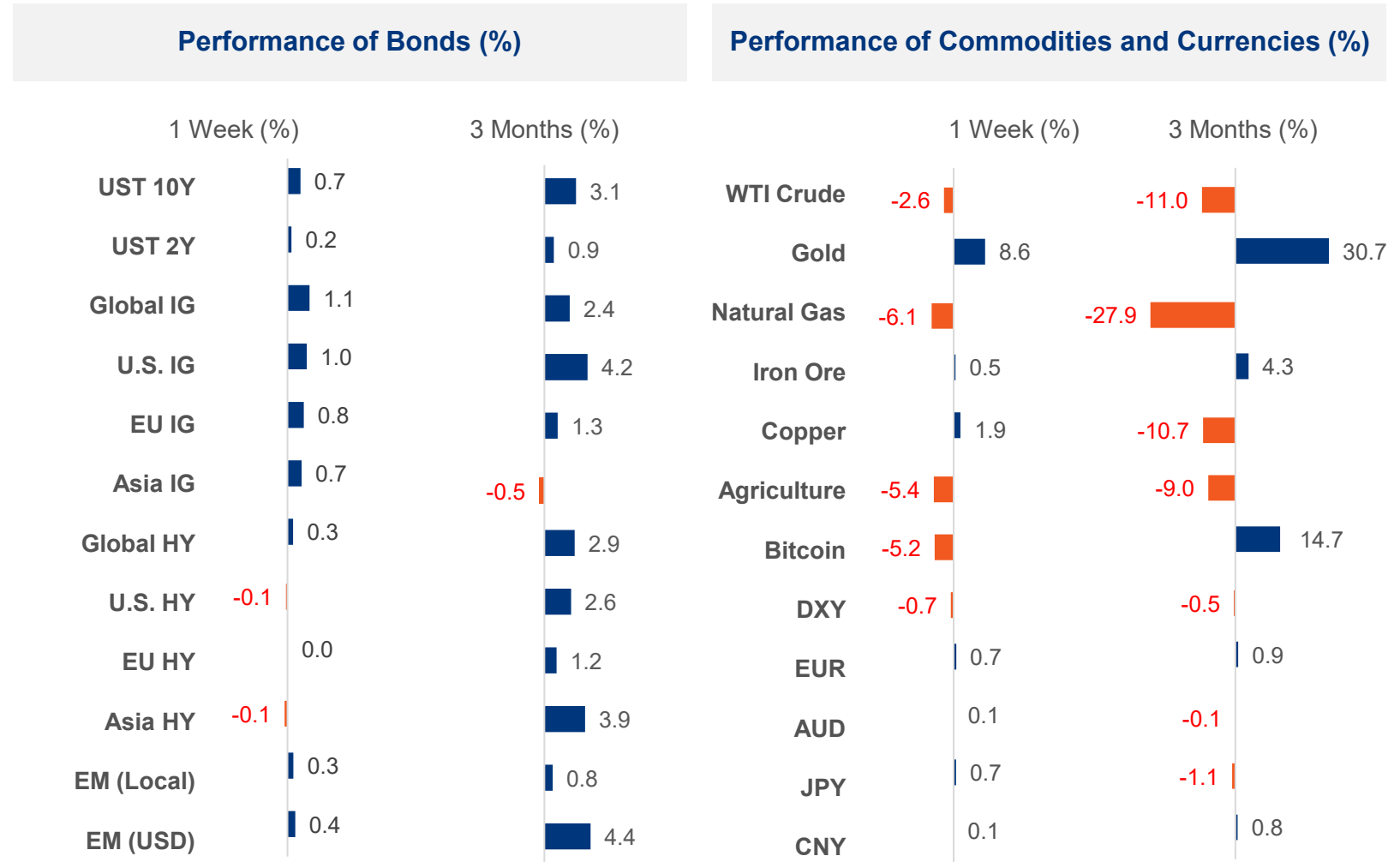


U.S. Sector Index Performance (%)



Bond Yields Decline as Gold Extends Gains; Euro and Yen Strengthen

- ▶ Trade tensions have driven a flight to safety, boosting demand for government and investment-grade bonds and pushing yields lower, with prices rebounding. In contrast, sentiment toward high-yield debt remains cautious amid signs of global economic slowdown.
- ▶ The IEA's latest report projects a potential oil surplus of up to 4 million barrels per day in 2026—well above previous estimates—due to higher OPEC+ output and weak demand, triggering a sharp drop in oil prices. Meanwhile, renewed U.S.–China trade uncertainty and the Fed's Beige Book indicating softer growth have fueled expectations for an October rate cut, supporting gold's continued rally.
- ▶ The U.S. dollar remains weak amid the prolonged government shutdown and trade tensions. The euro gained support after France's prime minister eased pension reform tensions and survived a no-confidence vote. In Japan, the breakup of the LDP–Komeito coalition has added political uncertainty, but expectations of policy continuity under Takai have strengthened the yen.



Source: Bloomberg, 17 Oct 2025

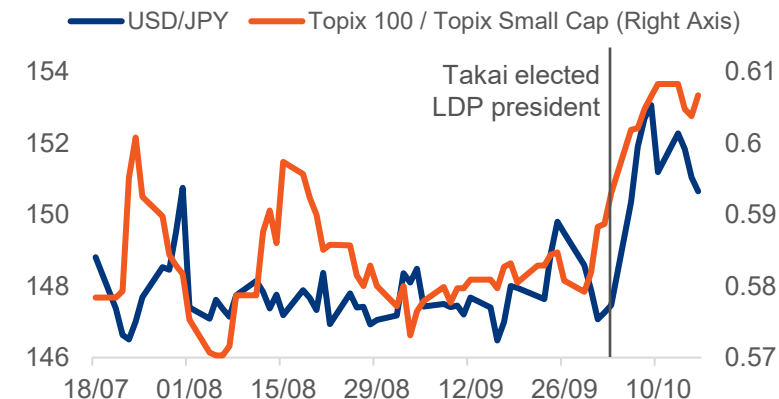
End of LDP–Komeito Alliance Clouds Takai’s Stimulus Agenda

- ▶ Japan’s ruling coalition between the LDP and Komeito has ended after 26 years. Markets had anticipated that Sanae Takai would pursue aggressive monetary easing, reversing Shigeru Ishiba’s hawkish stance and boosting equities. However, renewed U.S.–China trade tensions and domestic political uncertainty erased part of the gains, unwinding the “Takai trade.”
- ▶ The coalition had already lost its lower-house majority in last October’s election, and the LDP again failed to secure a majority in the upper house this August. The breakup weakens the LDP’s influence, and uncertainty remains over whether Takai can assume the premiership. Her ability to implement large-scale easing measures now faces greater obstacles. Although opposition parties generally favor accommodative policy, consensus-building across parties will be required, making a neutral stance more realistic.
- ▶ Since Takai’s election as LDP leader on Oct 4, expectations of monetary easing drove large-cap stocks higher and weakened the yen, with currency volatility remaining below that of equities. Given the political uncertainty surrounding her ultra-loose stance, the recent outperformance of large caps over small caps may not persist. We continue to prefer small- and mid-cap names with higher domestic exposure.

Most Parties Favor Easing; Takai’s Ultra-Dovish Shift Faces Obstacles

Party	Monetary Policy Stance
Ruling Coalition (Dissolved)	
LDP	Maintain easing, avoid abrupt tightening; Takai more dovish than Ishiba
Komeito	Support gradual normalization and BOJ independence; avoid market shocks
Opposition Parties	
Constitutional Democratic Party	Moderate easing, maintain low rates, gradually exit ultra-easy policy
Japan Innovation Party	Support gradual exit from ultra-easy stance
Democratic Party for the People	Prefer mild easing, maintain low rates
Conservative Party	Maintain low rates and accommodative policy
National Democratic Party	Support fiscal stimulus through easing
Communist Party	Strongly pro-easing; advocate lower rates and BOJ bond purchases
Sanseito	Strongly oppose easing
Reiwa Shinsengumi	Ultra-easing; support zero or negative rates

“Takai Trade” Faces Challenges



Cross-Party Consensus Needed; Extreme Dovish Policies Unrealistic

Party	House of Representatives (Majority: 233)	House of Councilors (Majority: 125)
Ruling Coalition (Dissolved)		
Liberal Democratic Party	196	101
Komeito	24	21
Opposition		
Constitutional Democratic Party	148	42
Japan Innovation Party	35	19
Democratic Party for the People	27	25
Others	35	40

Source: Bloomberg, Japan House of Representatives & House of Councilors

European Banks' Stronger Balance Sheets Drive Outperformance

► European banks have strengthened their fundamentals through several internal optimizations:

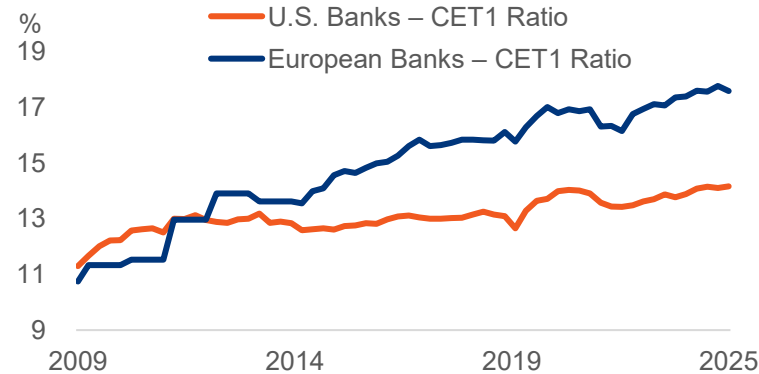
(1) Cost control – Major banks have reduced operating expenses via digital transformation and branch closures, allowing revenue growth to outpace costs and lowering the cost-to-income ratio.

(2) Revenue diversification – Beyond net interest income, banks have expanded fee-based businesses such as wealth and asset management, providing stable revenue streams when markets perform well and investor demand rises.

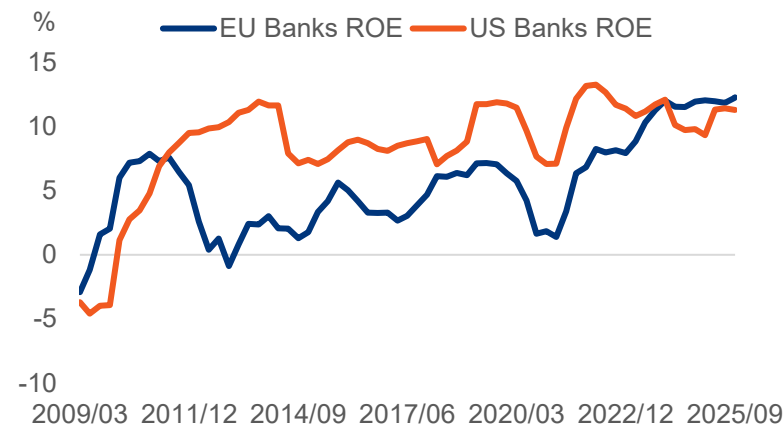
(3) Higher capital adequacy – The European banking system now holds stronger capital buffers than U.S. peers, with the gap widening further. This not only enhances resilience to economic shocks but also supports dividend payouts and share buybacks, boosting shareholder returns.

► Although ROE in the sector was once constrained by the ECB's negative-rate policy, normalization of policy rates and these strategic adjustments have significantly improved profitability. European banks' ROE has now surpassed that of U.S. banks, supporting continued outperformance of European bank stocks, which remain attractive on a valuation basis.

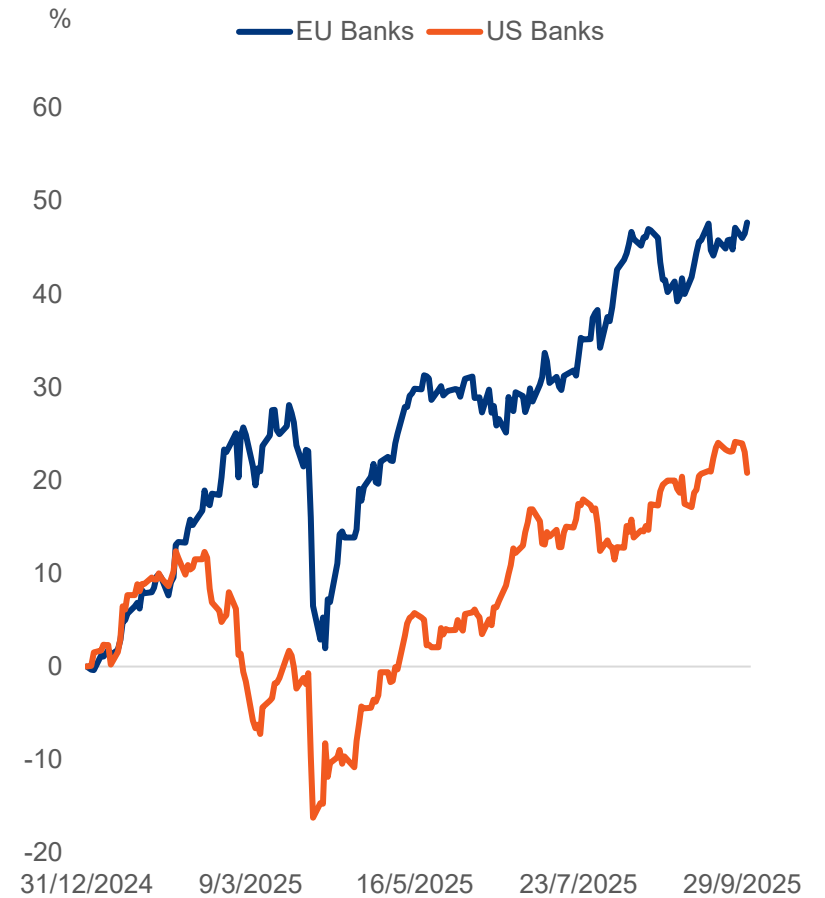
Capital Adequacy Gap Between European and U.S. Banks Continues to Widen



European Banks' ROE Has Surpassed U.S. Peers



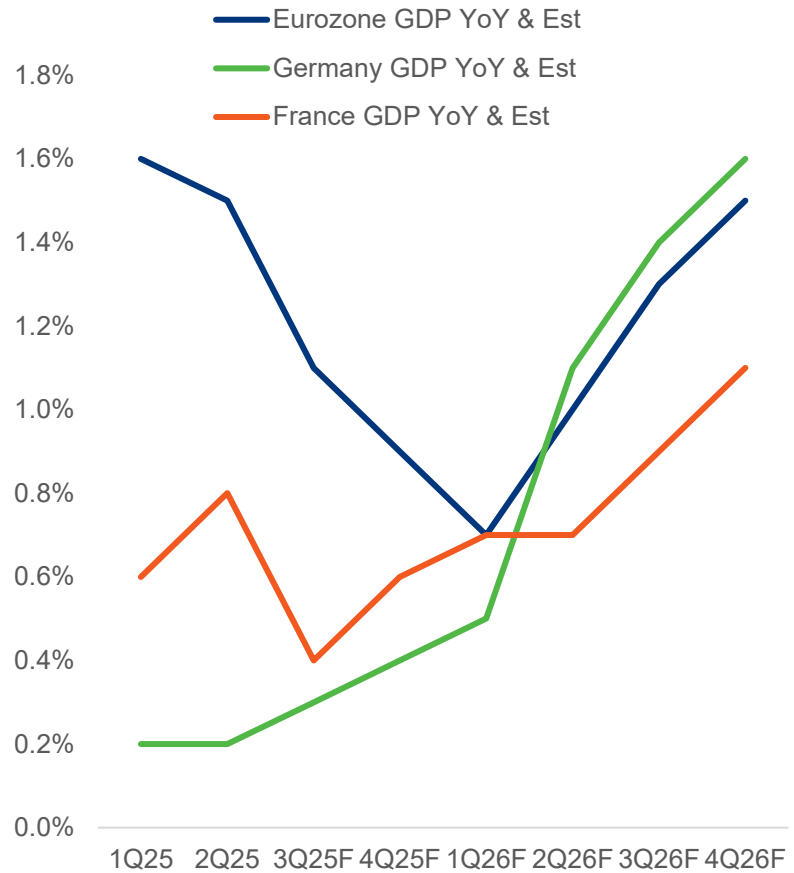
European Bank Stocks Outperform U.S. Bank Stocks



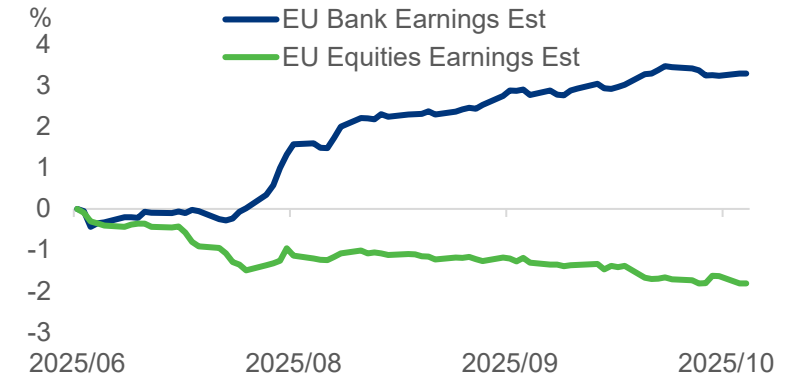
Economic Recovery and Low Policy Rates Support European Bank Earnings and Valuations

- ▶ Market expectations for Europe’s economic outlook have improved notably, reflecting reduced uncertainty after tariff negotiations and healthier fiscal conditions across major economies. Germany is set to lead the shift from fiscal tightening to expansion, providing strong support for future growth momentum.
- ▶ While the ECB’s rate-cut cycle is nearing its end, the central bank projects inflation to remain near its 2% target through 2025–2027. This suggests limited pressure for rate hikes even after cuts pause. In this environment, short-term rates are likely to stay low for an extended period, while stronger growth should gradually lift long-term yields. A steeper yield curve would in turn bolster banking sector profitability.
- ▶ With structural balance sheet improvements internally and a favorable rate environment externally, European bank stocks are outperforming the broader European market in both earnings and price performance. Should equities correct, European banks may serve as a long-term cyclical play benefiting from continued economic recovery.

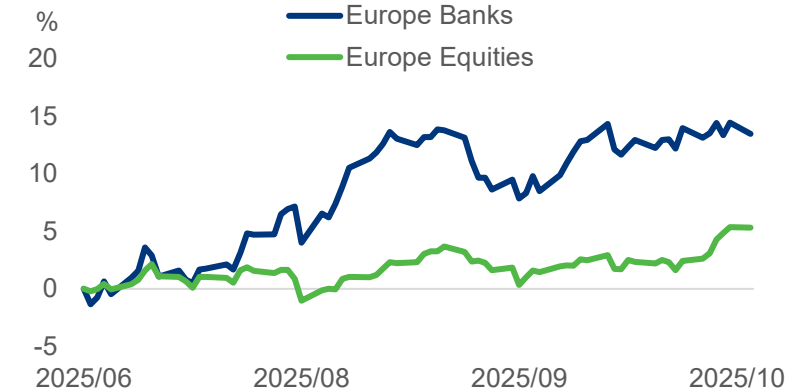
European Economic Outlook Shows Signs of Recovery



European Bank Earnings Momentum Outpaces Broader Market



European Bank Stocks Continue to Outperform European Equities



Source: Bloomberg

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	<ul style="list-style-type: none"> ◆ China announced expanded rare earth export controls, prompting Trump to retaliate with 100% tariffs on Chinese imports. Meanwhile, the prolonged U.S. government shutdown reflects continued partisan gridlock, adding to recurring market uncertainty. We suggest maintaining balanced equity exposure across sectors and keeping portfolio flexibility to navigate volatility. Investors may consider adding high-quality stocks, while long-term investors can accumulate AI-related and tech names on pullbacks. ◆ Eurozone fundamentals are improving, and valuations remain more attractive than U.S. equities, with the U.K. and Germany less exposed to trade disruptions. In Japan, uncertainties remain over Sanae Takai's path to the premiership, but her potential policy impact is viewed as neutral. Supported by steady wage growth and finalized tariff agreements, we remain positive on domestic-demand and bank stocks. 	<p>Strategy High-quality equities for volatility resilience; accumulate AI and tech stocks on dips</p> <p>Regions: European equities, U.K. equities, Japanese domestic-demand and bank stocks</p>
Bonds	<ul style="list-style-type: none"> ◆ The Fed's Beige Book indicated signs of economic weakness, while Trump's threat to cut federal staff during the government shutdown added uncertainty to the growth outlook and strengthened expectations for an October rate cut. With the yield curve still steep, weakening labor data, and persistent inflation, investors are advised to focus on locking in yields through Treasuries and investment-grade bonds. A-rated or higher issuers are preferred, with attractive risk-adjusted spreads seen in the financial, industrial, energy, utility, and communication sectors. ◆ The U.S. dollar remains weak, supporting diversification into non-USD investment-grade bonds denominated in currencies such as the euro and Singapore dollar. 	<p>Duration: Lock in yields with high-rated bonds in financials, industrials, energy, utilities, and communications</p> <p>Sector: Financials, industrials, energy, utilities, communications</p>
Forex	<ul style="list-style-type: none"> ◆ The U.S. labor market continues to cool, prompting the Fed to begin its rate-cut cycle in September. The U.S. dollar index has weakened and is expected to remain soft over the medium term. ◆ Non-USD currencies, including the euro, yen, and pound, are likely to trade with an upward bias. 	<p>USD: Weak, consolidating</p> <p>EUR, JPY, GBP: Gradual upside with swings</p>
Commodity	<ul style="list-style-type: none"> ◆ The U.S. dollar is expected to weaken over the medium term as rate cuts drive yields lower. Inflation risks, widening fiscal deficits, and continued gold purchases by central banks and institutional investors all support a favorable long-term outlook for gold. Given the recent sharp rally, short-term corrections are possible, offering opportunities to accumulate on pullbacks. 	<p>Gold: Bullish</p>

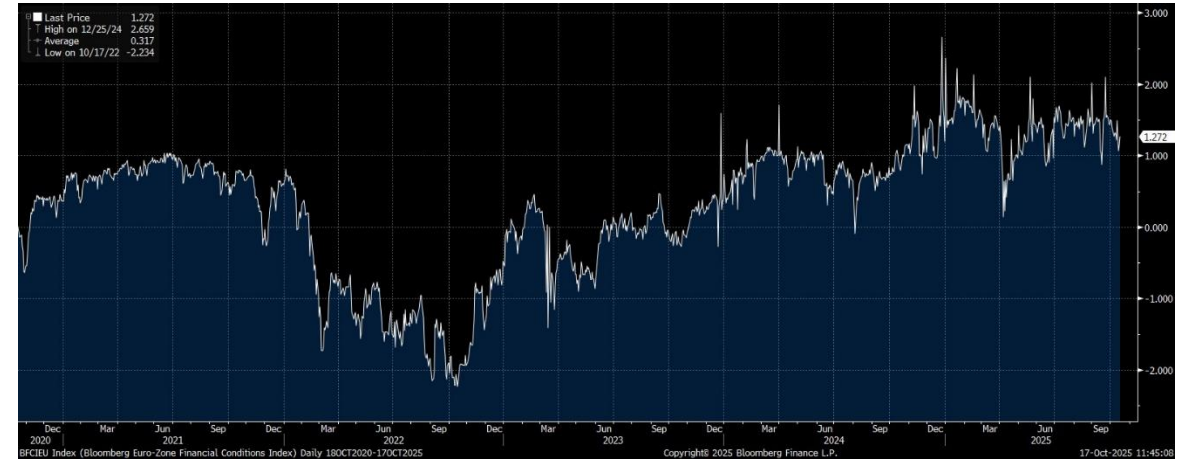


European Financial Sector Shows Resilience Amid Rate-Cut Cycle

- ▶ At the National Association for Business Economics conference, Fed Chair Powell said the Fed is in no rush to cut or hike rates, with future moves depending on data. He noted signs of a cooling labor market, persistent inflation risks, and stretched valuations in certain assets, while suggesting balance sheet reduction may be nearing completion.
- ▶ Europe's financial sector remains broadly resilient but faces challenges from slowing growth and tighter regulation. The ECB has kept its policy rate unchanged at 2.15% for the past three months—now back to November 2022 levels. Markets expect limited room for further rate cuts as the ECB prioritizes euro stability. Meanwhile, the EU is advancing reforms such as the Capital Markets Union and a unified European exchange to deepen financial integration, while tightening oversight of shadow banking and private credit to mitigate systemic risks. BBVA's failed bid for Sabadell and Italy's windfall tax on banks highlight political and regulatory constraints. Overall, the European financial system remains sound but must balance lower rates, slower growth, and stricter supervision ahead.

Source: Bloomberg

Bloomberg Eurozone Financial Conditions Index



Deutsche Bank (DB)

Closing Price US \$33.59

Target Price US \$40

A global financial services provider offering commercial, investment, private, and retail banking, as well as asset management and corporate advisory services.

AI-Driven Infrastructure Boom to Boost Financing Activity

Europe aims to double or triple data center capacity by 2030, supported by major investments from Amazon, Microsoft, and Google. This will fuel project financing, real estate, and advisory demand. Deutsche Bank's strengths in fixed income, FX, and asset management position it well to capture rising energy and infrastructure financing opportunities. The ECB's 2.15% rate environment has revived trading and market sentiment, supporting growth across its four core divisions.

Defense Spending to Drive Corporate and Capital Market Growth

EU defense spending is projected to reach a record EUR 381B in 2025, alongside EUR 150B in SAFE loans and NATO's 5%-of-GDP pledge, boosting capital needs in defense and cybersecurity. As Europe's largest investment bank, Deutsche Bank is well placed to benefit from increased sovereign and corporate issuance, underwriting, and M&A activity amid stronger fiscal and industrial momentum.

Strong 1H FY25 Results

Total revenue rose 6% YoY to EUR 16.3B, with EUR 41B in net inflows to private banking and asset management. Net profit climbed to EUR 3.7B from EUR 1.5B a year earlier, with double-digit profit growth across all divisions. Diluted EPS jumped to EUR 1.46 (vs. EUR 0.42 YoY). For FY25, the bank targets EUR 32B in revenue, RoTE above 10%, and a cost/income ratio below 65%.

Valuation Consensus

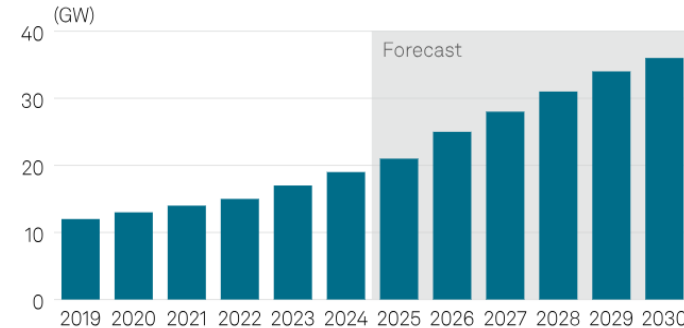
Bloomberg 12M average target price: USD 35.11 (high: USD 40.85; low: USD 11.95).

Source: Bloomberg

1-Year Price



Europe Data Center Power Consumption



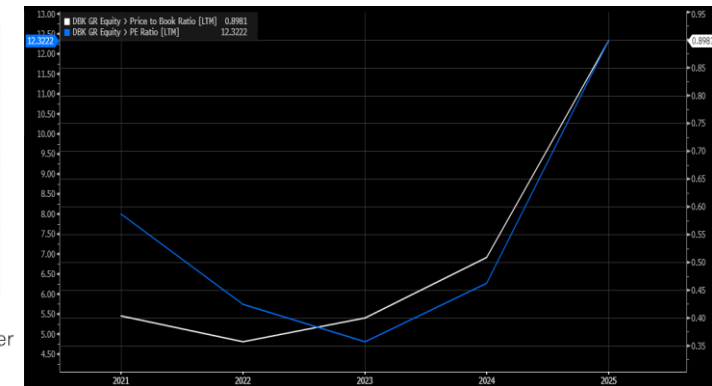
Analysis includes EU27, EFTA and UK. Shows net utilized uninterruptible power supply to datacenters, including cooling demand.

Financials

	2022	2023	2024	2025F	2026F
Revenue Growth(%)	5.8	5.5	4.6	-3.8	2.5
EBITDA(%)	20.0	22.0	24.0	34.2	34.8
EPS (USD)	2.53	2.39	2.20	2.91	3.26
Net Profit Margin(%)	62	-5.7	-8.1	32.4	12.0

Source: Bloomberg; 2025/26F are market estimates

P/E & P/B



UBS Group (UBS)

Closing Price US \$38.49

Target Price US \$42

UBS provides financial services to private, corporate, and institutional clients worldwide, offering investment banking, retail and corporate banking, wealth management, and asset management, along with securities and fund administration services.

Positioned for Structural Growth in Digital and Energy Infrastructure

The EU's push to expand data centers and power grids—particularly in Northern and Southern Europe—is driving cross-border investment opportunities. UBS's wealth management platform recorded USD 54.8B in net inflows in 1H25, supported by institutional and private clients seeking exposure to Europe's accelerating AI, infrastructure, and renewable energy transitions.

Defense and Infrastructure Financing to Strengthen Deal Pipeline

With NATO's new commitment pushing European defense spending above EUR 630B annually, UBS's global markets and advisory units are well positioned to benefit from rising capital formation and financing demand. Growth in European M&A, structured finance, and sovereign issuance should help offset margin pressure from lower net interest income.

Expanding Middle East Wealth Management Footprint

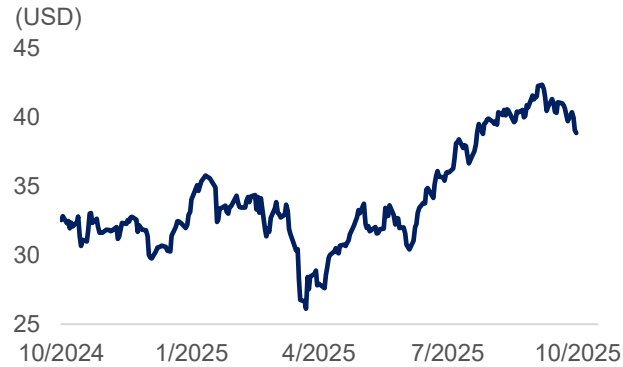
UBS has enhanced its regional presence by opening a new advisory office in Abu Dhabi Global Market, complementing its Dubai operations. The branch will provide onshore advisory while booking assets in Switzerland, capturing opportunities from the region's USD 5.7T in personal wealth growth potential.

2Q25 Results Show YoY Improvement

2Q25 revenue reached USD 12.11B, up 2% YoY, while net profit rose 111% to USD 2.40B. CET1 ratio stood at 13.5%. UBS remains on track to complete its Swiss booking-center migration by 1Q26 and achieve USD 13B in annualized cost savings by end-2026. For 3Q, management expects global wealth management and Swiss NII to stay broadly stable, translating into low single-digit USD growth QoQ.

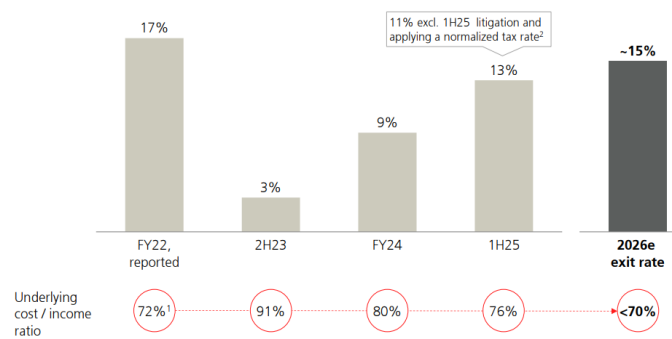
Source: Bloomberg

1-Year Price



2026FY Guidance

Group underlying return on CET1 capital

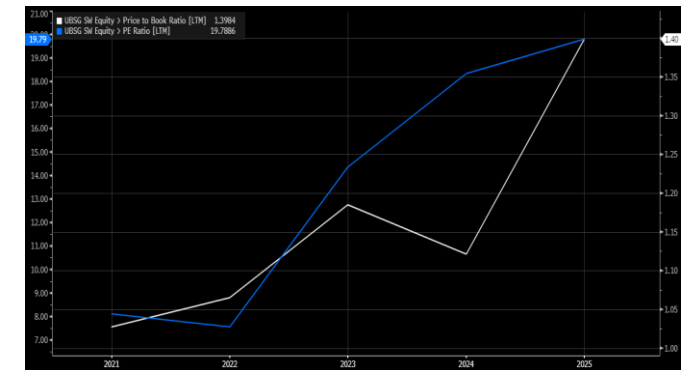


Financials

	2023	2024	2025	2026F	2027F
Revenue Growth(%)	-5.0	21.5	18.8	-5.8	3.1
EBITDA(%)	25.8	6.3	14.8	15.0	21.7
EPS (USD)	2.13	1.99	1.70	2.23	3.08
Net Profit Margin(%)	-6.6	-6.9	-14.2	30.5	38.5

Source: Bloomberg; 2025/26F are market estimates

P/E & P/B



Appendix

Key Economic Data / Events

► OCT 2025

13

Monday

- China Sep Export YoY (Act:8.3% Est:6.6% Prev:4.4%)

14

Tuesday

15

Wednesday

- Japan Aug Industrial Production MoM (Final) (Act:-1.5% Prev:-1.2%)
- China Sep CPI YoY(Act:-0.3%Est: -0.2% Prev:-0.4%)
- China Sep PPI YoY (Act:-2.3% Est: -2.3% Prev:-2.9%)

16

Thursday

- U.S. Weekly Initial Jobless Claims (Act:N/A Prev:N/A)
- U.S. Sep PPI YoY (Act:N/APrev:2.6%)
- U.S. Sep Retail Sales MoM (Act:N/A Est:0.4% Prev:0.6%)
- Japan Aug Core Machinery Orders MoM (Act:-0.9% Est:0.5% Prev:-4.6%)

17

Friday

- U.S. Sep Industrial Production MoM (Est:0.0% Prev:0.1%)
- U.S. Sep Building Permits (Est:1,343k Prev:1,330k)
- U.S. Sep Housing Starts (Est:1,320k Prev:1,307k)
- Eurozone Sep CPI YoY (Final) (Est:2.2% Prev:2.0%)

20

Monday

- China 3Q GDP YoY (Est:4.7% Prev:5.2%)
- China Sep Retail Sales YoY (Est:3% Prev:3.4%)
- China Sep Industrial Production YoY (Est:5.0% Prev:5.2%)

21

Tuesday

- Japan Sep Machine Tool Orders YoY (Final) (Prev:8.5%)
- Taiwan Sep Export Orders YoY (Est:17.5% Prev:19.5%)
- Earnings: RTX, LMT,DHR,KO,PM,GE

22

Wednesday

- Japan Sep Export YoY (Est:4.4% Prev:-0.1%)
- Earnings: NFLX, COF, TXN, CB, ISRG, T, BSX, TMO, APH

23

Thursday

- U.S. Weekly Initial Jobless Claims (Prev:N/A)
- U.S. Sep Existing Home Sales (Est:4.06m Prev:4.00m)
- Eurozone Oct Consumer Confidence (Prel.) (Est:-14.5 Prev:-14.9)
- Earnings: TSLA, LRCX, IBM, GEV, NEE, TMUS, BX, UNP

24

Friday

- U.S. Sep CPI YoY (Est:3.1% Prev:2.9%)
- U.S. Sep Core CPI YoY (Est:3.1% Prev:3.1%)
- U.S. Oct S&P Global Manufacturing PMI (Prel.) (Est:51.8% Prev:52.0)
- U.S. Oct Michigan Consumer Sentiment (Final) (Est:55.0 Prev:55.1)
- Japan Sep Nationwide CPI YoY (Est:2.9% Prev:2.7%)
- Earnings: INTC, PG

Source: Bloomberg

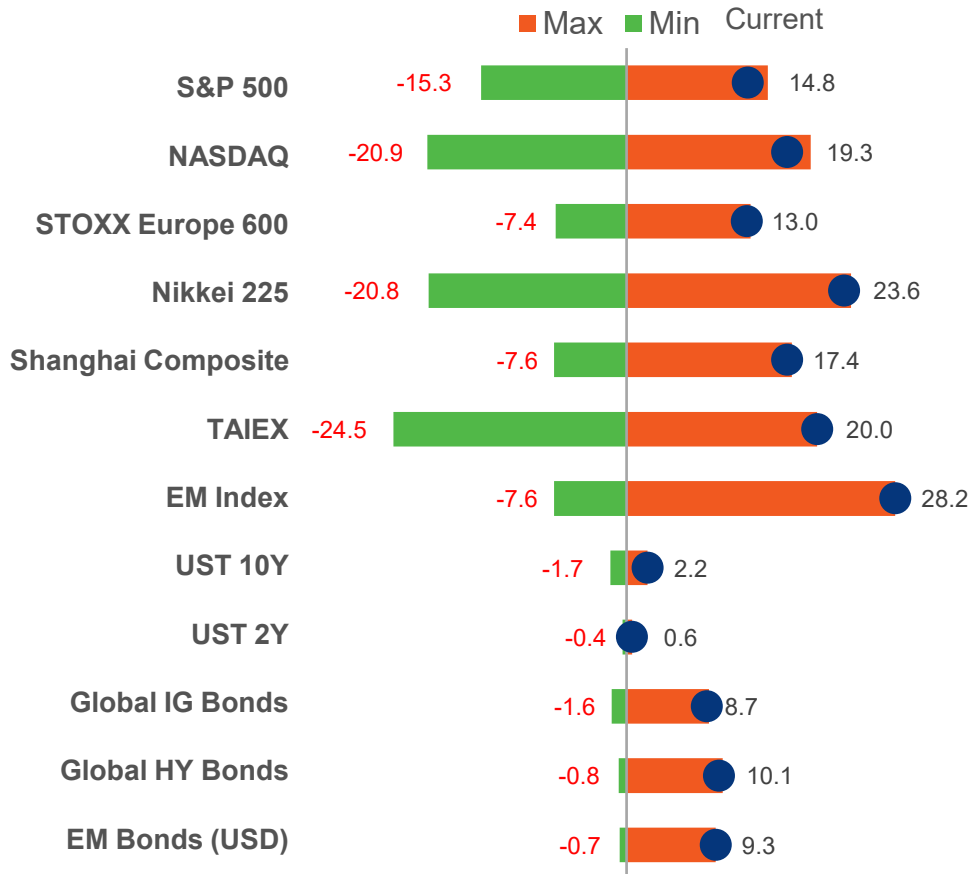
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2025/10/14	BlackRock (BLK)	6.29B	6.51B	11.31	11.55	V	V
2025/10/14	Johnson & Johnson (JNJ)	23.76B	23.99B	2.76	2.8	V	V
2025/10/14	Wells Fargo (WFC)	21.14B	21.43B	1.55	1.66	V	V
2025/10/14	JPMorgan Chase (JPM)	45.25B	46.43B	4.84	5.07	V	V
2025/10/14	Goldman Sachs (GS)	14.13B	15.18B	11.02	12.25	V	V
2025/10/14	Citigroup (C)	21.05B	22.09B	1.75	2.24	V	V
2025/10/15	Abbott Laboratories (ABT)	11.4B	11.37B	1.3	1.3		
2025/10/15	Bank of America (BAC)	27.48B	28.09B	0.95	1.06	V	V
2025/10/15	Progressive (PGR)Progressive (PGR)	21.8B	21.38B	5.05	4.45		
2025/10/15	Morgan Stanley (MS)	16.66B	18.22B	2.09	2.8	V	V
2025/10/16	Charles Schwab (SCHW)	5.97B	6.14B	1.23	1.31	V	V
2025/10/17	Interactive Brokers (IBKR)	1.52B	1.66B	0.53	0.57	V	V

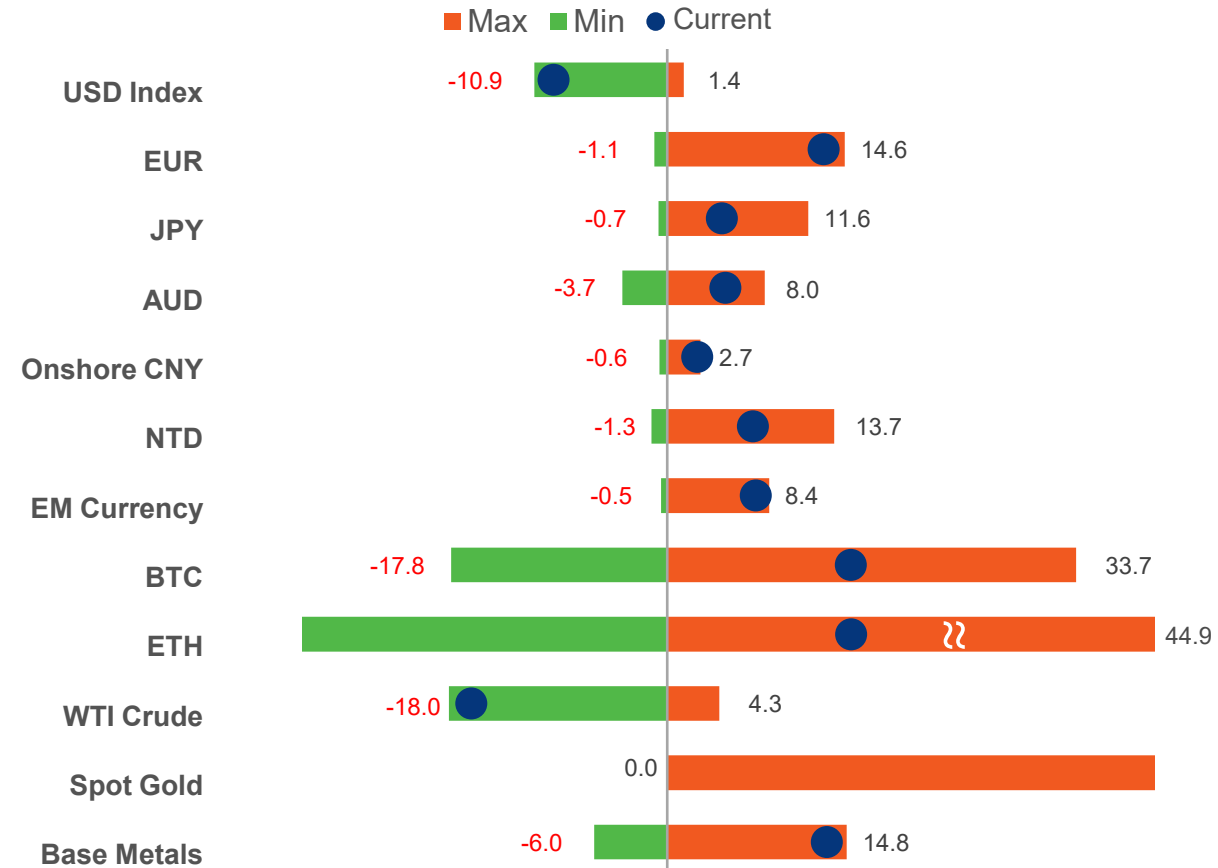
Source: Investing.com

YTD Major Market / Asset Performance

Equities & Bond Markets YTD Performance (%)

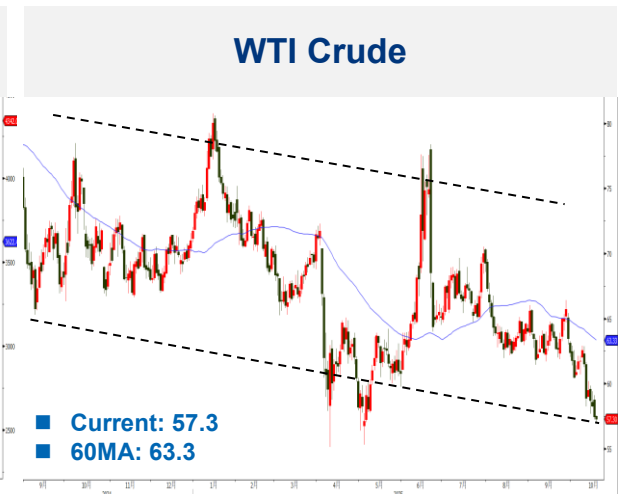


Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg, 17 Oct 2025

Technical Analysis



Source: Bloomberg, 17 Oct 2025

Market Monitor

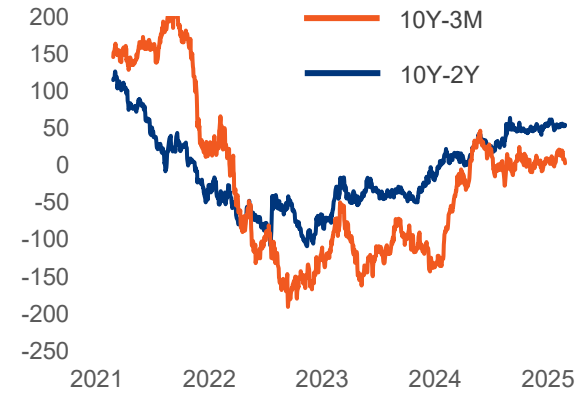
U.S. CPI YoY (%)



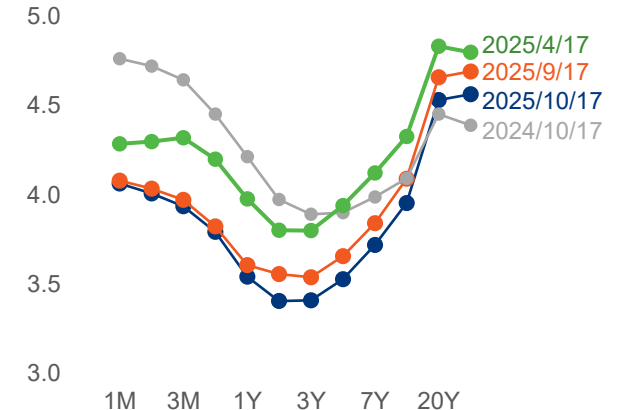
U.S. 10-Year Treasury Yield (%)



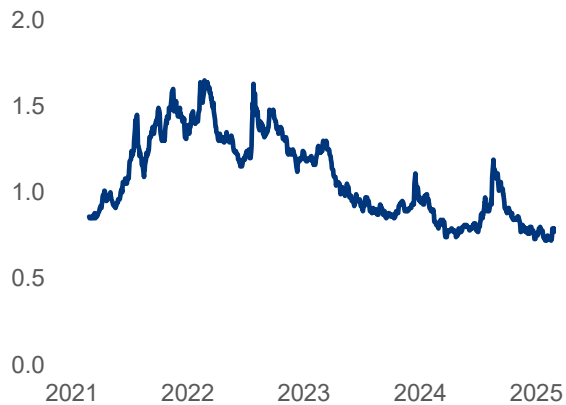
U.S. Treasury Yield Spread (bps)



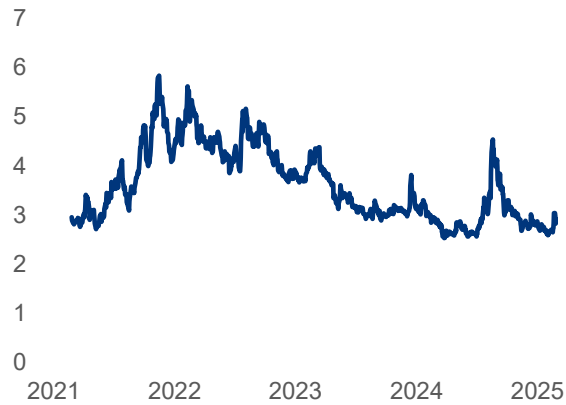
U.S. Treasury Yield Curve (%)



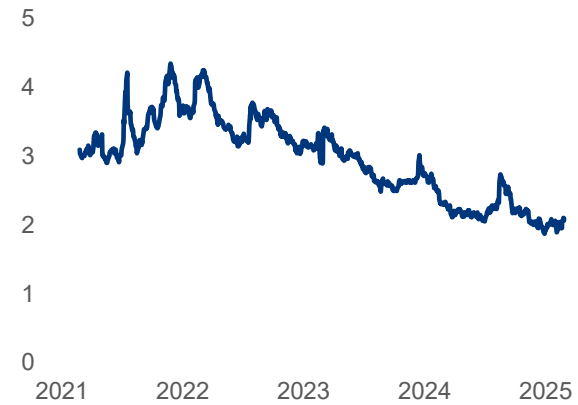
USD IG Credit Spread (%)



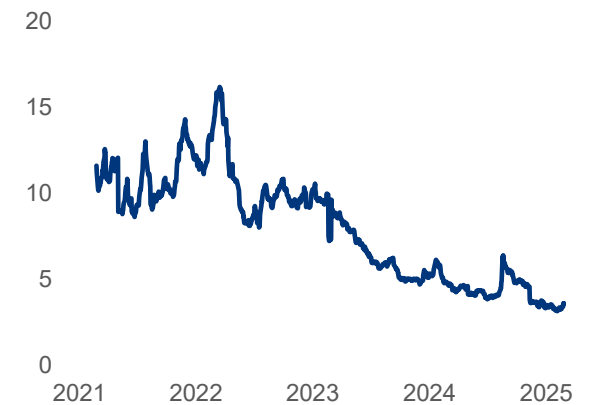
USD HY Credit Spread (%)



USD EM Credit Spread (%)



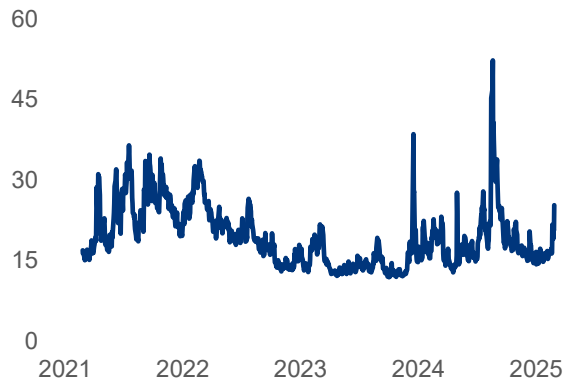
USD Asia Credit Spread (%)



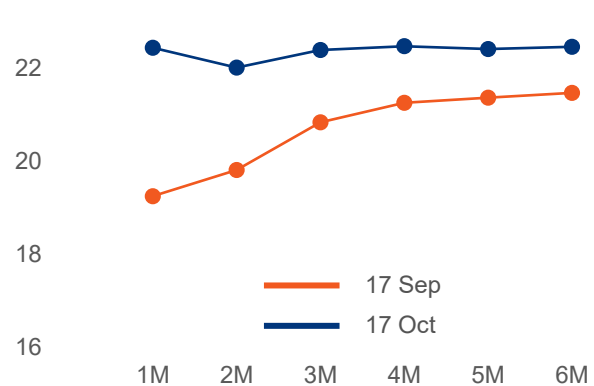
Source: Bloomberg, 17 Oct 2025

Market Monitor

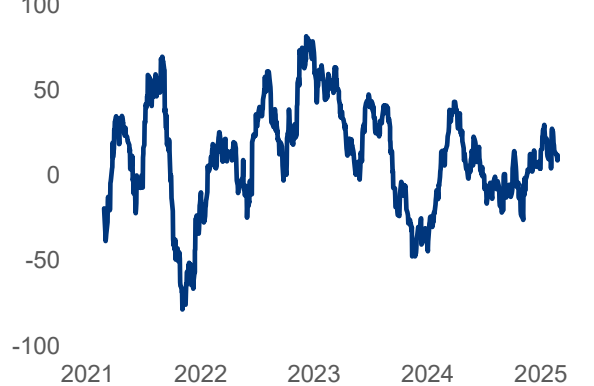
VIX Index



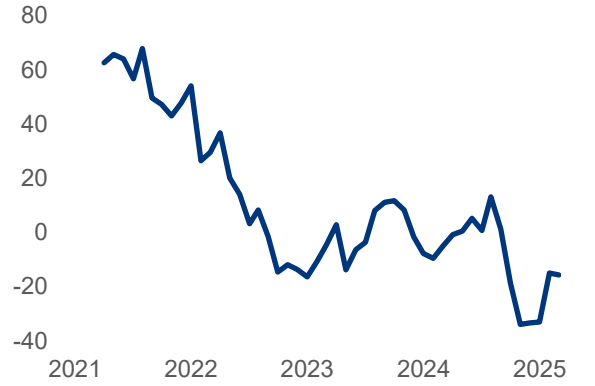
VIX Term Structure



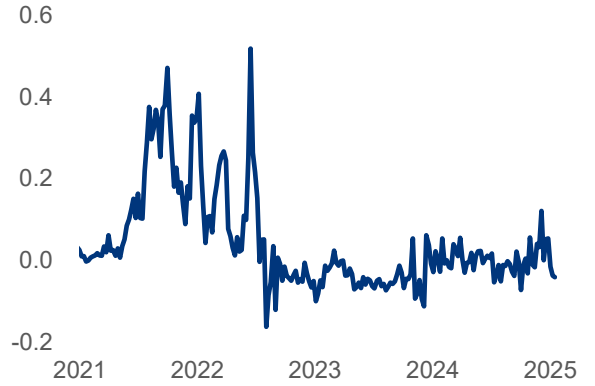
U.S. Citi Economic Surprise Index*



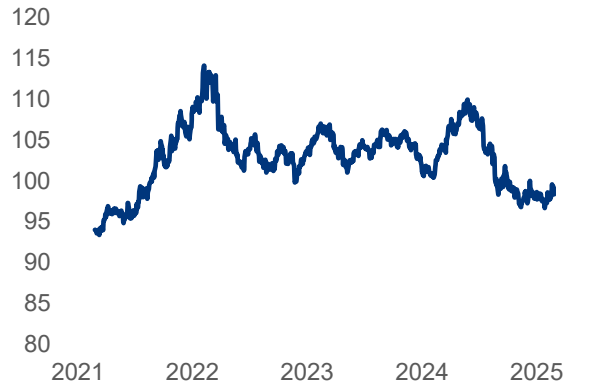
U.S. Citi Inflation Surprise Index*



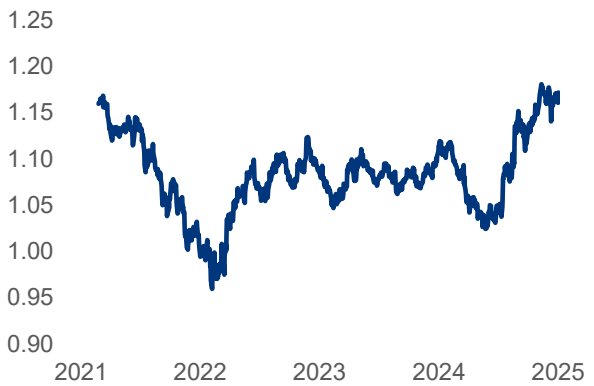
TED Spread (bps)



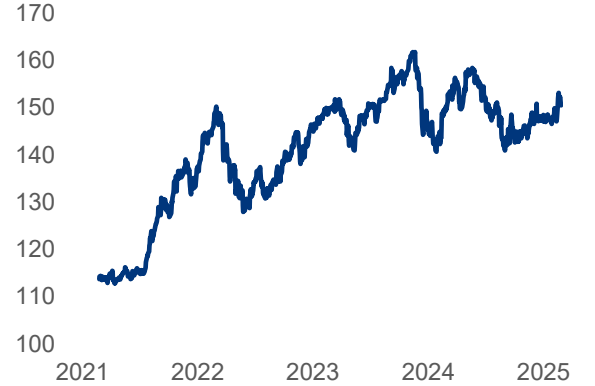
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, 17 Oct 2025 *The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.



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