



CIO Office

Global Markets Weekly Kickstart

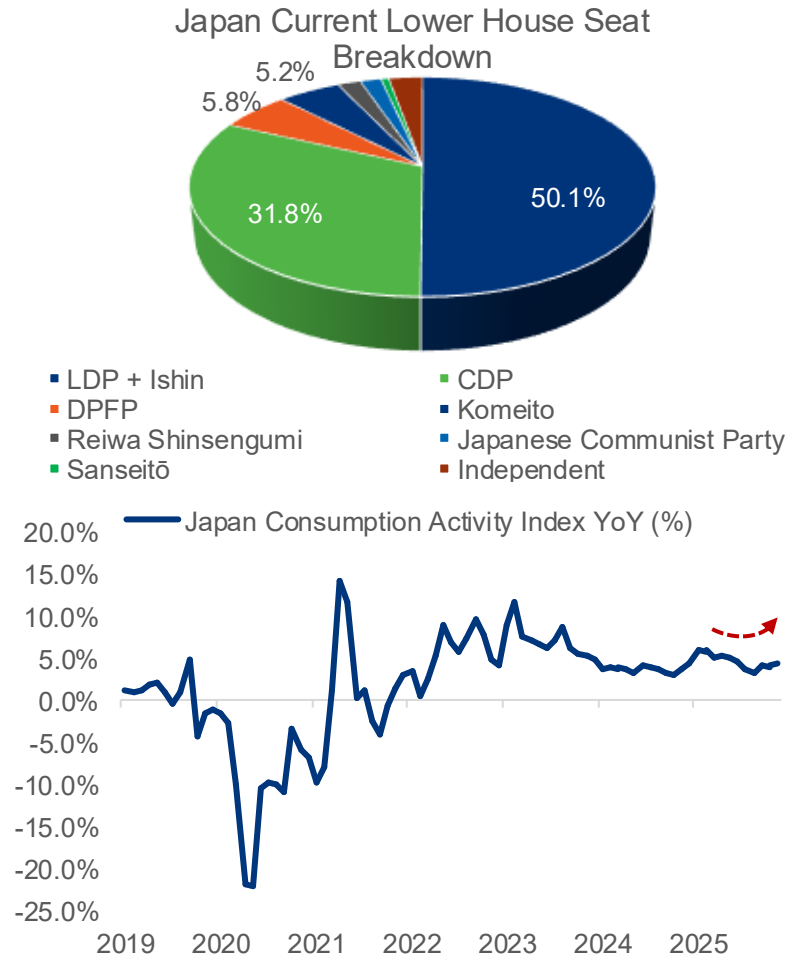
Make Defense Industry Great Again!

26 January 2026

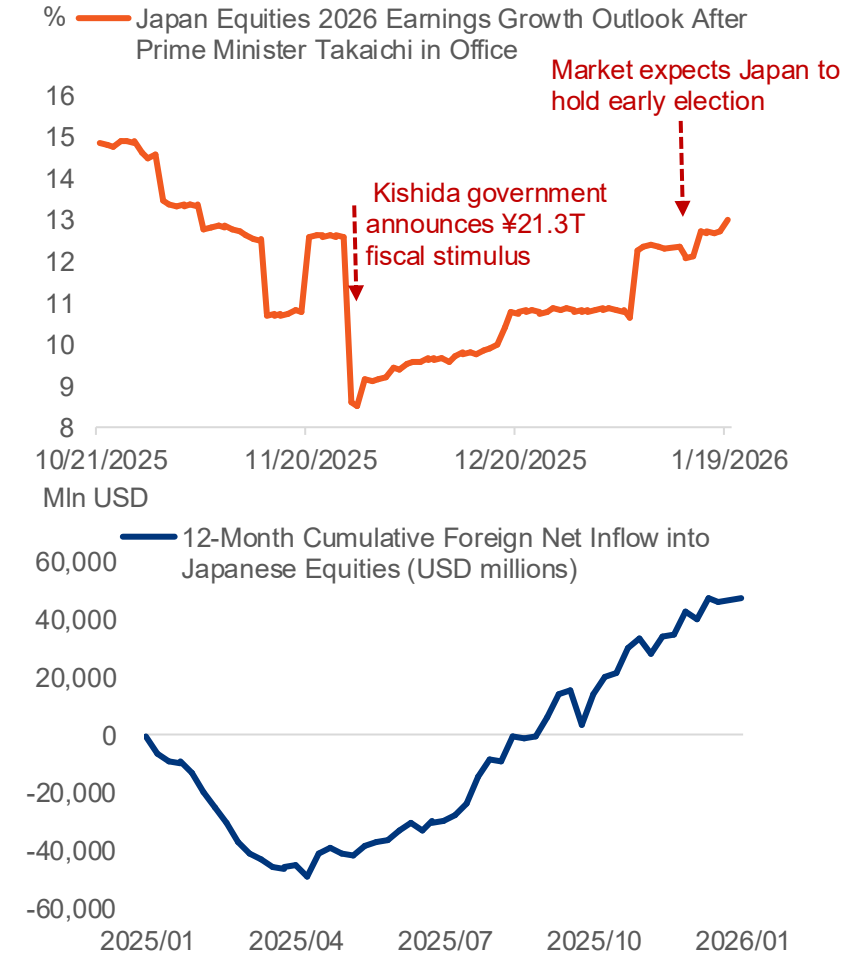
# Takaichi Dissolves Parliament; Japanese Equities Poised to Benefit

- ▶ Japan's Prime Minister Sanae Takaichi announced on January 19 that she will dissolve Parliament on January 23, with voting for the House of Representatives scheduled for February 8. She aims to leverage her cabinet's high approval ratings to move beyond the coalition's current narrow majority and expand seats for the LDP and Japan Innovation Party, thereby reducing potential internal and external resistance to her fiscal expansion agenda.
- ▶ While Japan's latest consumer activity has shown improvement, growth momentum still requires further strengthening. In addition to tax cuts and subsidies already included in earlier fiscal stimulus measures, Takaichi is now campaigning on suspending the food consumption tax to ease inflation pressures. Opposition parties are reportedly preparing to adopt similar proposals, indicating that—regardless of the election outcome—boosting consumption has become a political consensus in Japan.
- ▶ Although early tensions with China triggered economic restrictions from Beijing and temporarily dragged down market expectations for Japan's 2026 corporate earnings, sentiment has since reversed. Fiscal stimulus, combined with the likelihood of an expanded LDP majority after an early election, has supported a rebound in earnings forecasts. Foreign inflows have also strengthened the backdrop for Japanese equities, suggesting that despite short-term volatility, the market is positioned to benefit after the election.

## Takaichi Dissolves Parliament, Campaigns on Scrapping Food Consumption Tax



## Fiscal Stimulus Lifts Japan Earnings Outlook; Foreign Investors Continue Buying



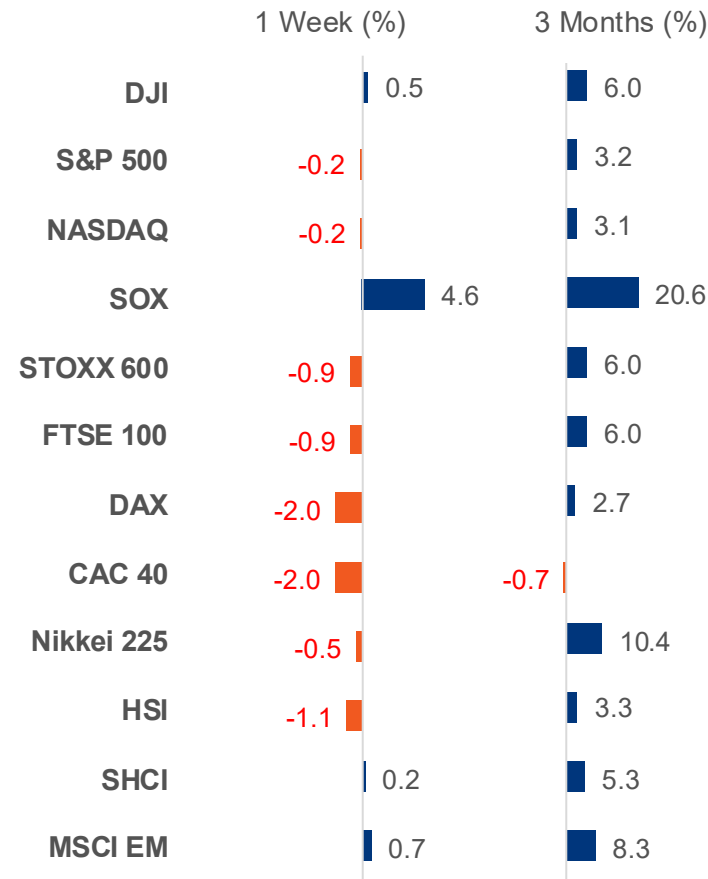
Source: Bloomberg, KGI

## Market Recap

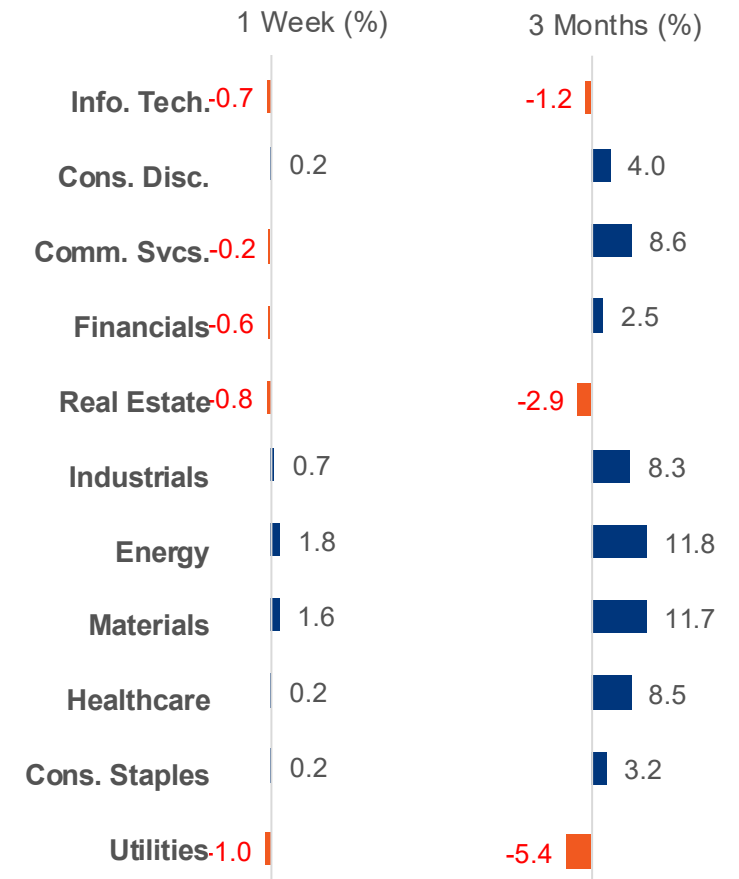
# Greenland Tensions Briefly Strained U.S.–Europe Relations and Weighed on Equities; Sector Rotation Signs Emerge

- ▶ Trump's push to acquire Greenland triggered opposition from several European countries. During the dispute, he even announced a plan to impose a 10% tariff on imports from eight opposing European nations starting February 1. In response, the European Parliament moved to suspend approval of the U.S.–EU trade agreement and discussed potential retaliatory measures. The escalating confrontation stirred market fear, driving most global equity markets lower. Fortunately, the U.S. and NATO reached a framework agreement on Greenland during the World Economic Forum in Davos, after which Trump withdrew the tariff threat and ruled out military action. Although markets rebounded as concerns eased, most indices failed to fully recover prior losses, resulting in a weak week-to-date performance.
- ▶ Recently, as market concentration rises and AI-related stocks trade near elevated valuation levels, signs of rotation toward value stocks have begun to emerge. The temporary U.S.–Europe confrontation over Greenland heightened volatility, reducing investor appetite for growth sectors such as technology and communications and weighing on related stocks. Memory manufacturers, however, continued to outperform due to tight supply conditions and support from news of Micron's acquisition of Powerchip's Tongluo fab in Taiwan, allowing the segment to rise against the broader tech sector pullback.

## Regional Index Performance (%)

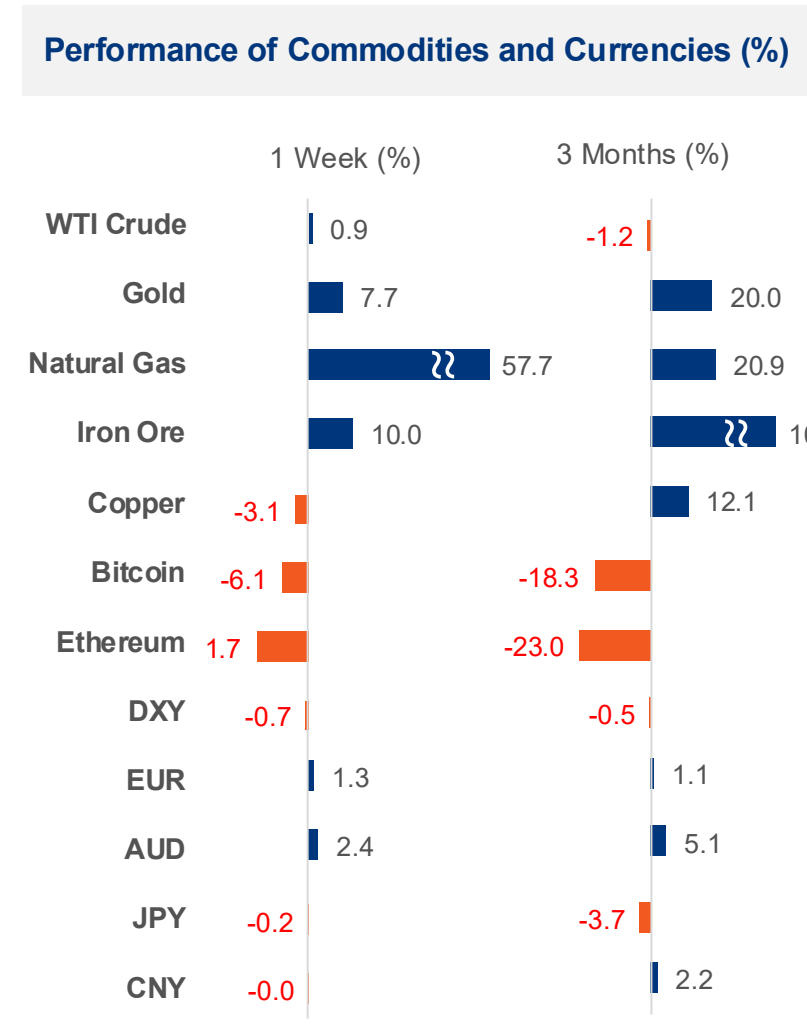
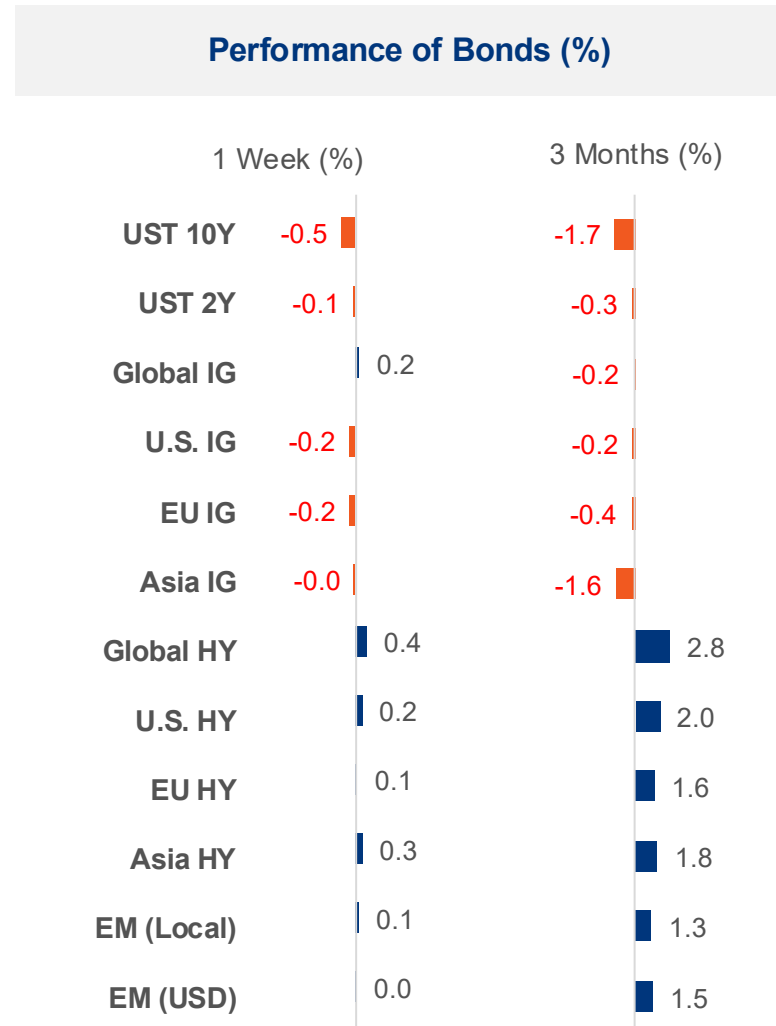


## U.S. Sector Index Performance (%)



# Longer-Term Yields Rebound, Dragging Bond Prices Lower; Gold Prices Continue to Rise

- ▶ Japan announced an early general election, and the ruling Liberal Democratic Party is expected to benefit from Prime Minister Sanae Takaichi's strong approval rating, potentially expanding its seats in the House of Representatives and lowering obstacles to implementing fiscal stimulus. Investors, however, worry that Japan's long-term debt burden may intensify, triggering a sell-off in 10-year JGBs. The selling pressure even spilled over into U.S. and European sovereign bond markets. In addition, diverging U.S.–EU positions on the Greenland issue raised concerns about a renewed trade war, further pushing government bond yields higher and weighing on the bond market. Although the U.S. and NATO later reached a framework agreement and yields retreated from their highs, bonds were still mostly down for the week.
- ▶ Data from the American Petroleum Institute showed that U.S. commercial crude inventories rose by 3.04 million barrels during the week ending January 16. Although this was below the prior week's 5.3-million-barrel increase, persistent stockpiling limited weekly oil price performance. Meanwhile, instability in the Middle East—combined with heightened U.S.–EU geopolitical and trade tensions—continued to fuel safe-haven demand, driving gold prices higher. At the same time, President Trump's frequent policy actions since the start of the year have eroded market confidence in the U.S. dollar, causing the dollar index to weaken while most non-USD currencies held up relatively well.

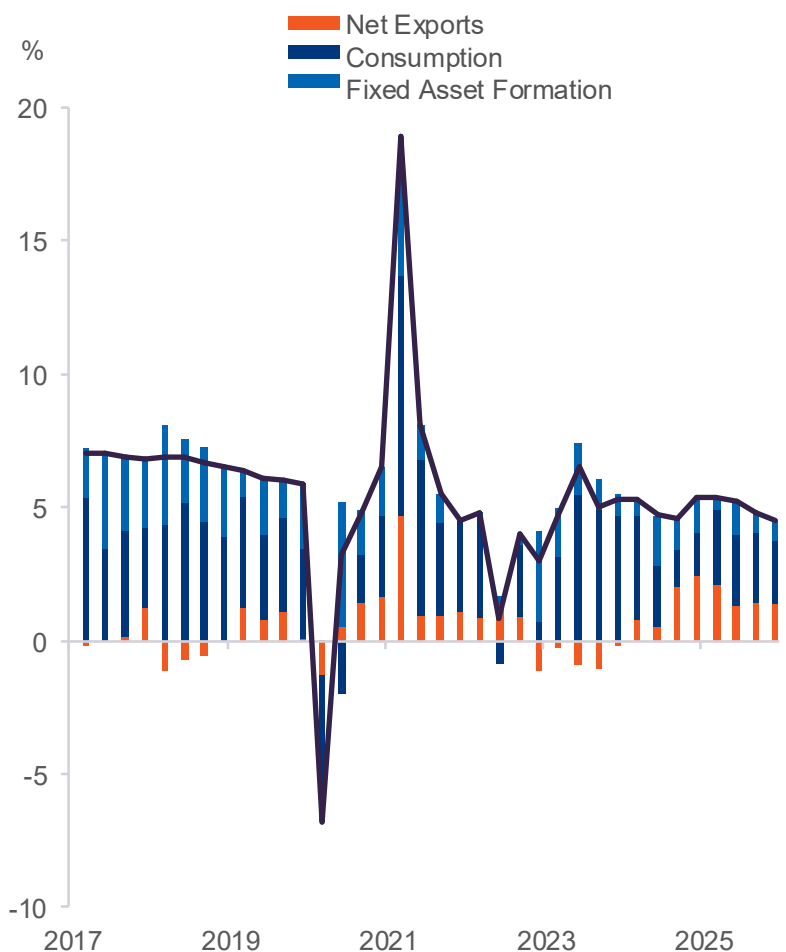


What's Trending

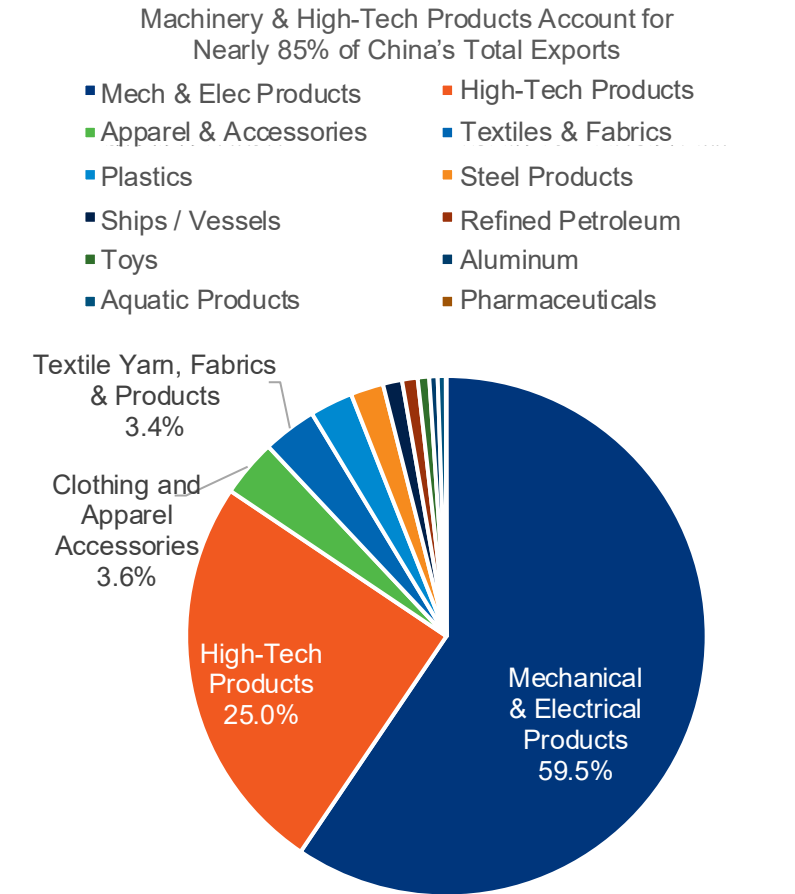
# China Meets Economic Targets, High-Tech Expected to Drive Growth This Year

- ▶ China's real GDP grew 4.5% year-on-year in the fourth quarter, a slowdown of 0.3 percentage points from the third quarter, but the growth rate was in line with market expectations. Full-year 2025 GDP also achieved the government's 5% target, with the contribution of net exports remaining stable.
- ▶ In 2026, China's humanoid robot industry is expected to enter mass production and commercial deployment — its "iPhone moment." Meanwhile, biopharmaceuticals and innovative drugs will form the core industrial clusters that serve as key engines for China's "going global" strategy in homegrown technologies. It is worth noting that these investment themes must be filtered through the lens of supply-chain security. Against the backdrop of intensified de-globalization, only industry leaders that possess sovereign control of core technologies and can achieve "independent and controllable" capabilities will enjoy the highest safety margins and valuation premiums within structural market trends.
- ▶ Currently, mechanical & electrical equipment and high-tech products account for nearly 85% of China's exports. As U.S.–China trade frictions stabilize, manufacturers are expected to seize new opportunities in external demand. At the same time, the rise of "Quochao" (domestic consumer trends) will reduce reliance on imported goods and strengthen local supply chains. Enterprises linked to "new quality productive forces" are expected to become key drivers supporting China's subsequent economic growth.

**China's Q4 GDP in Line With Expectations; 2025 Target Achieved**



**Machinery & High-Tech Products Account for Nearly 85% of China's Total Exports**

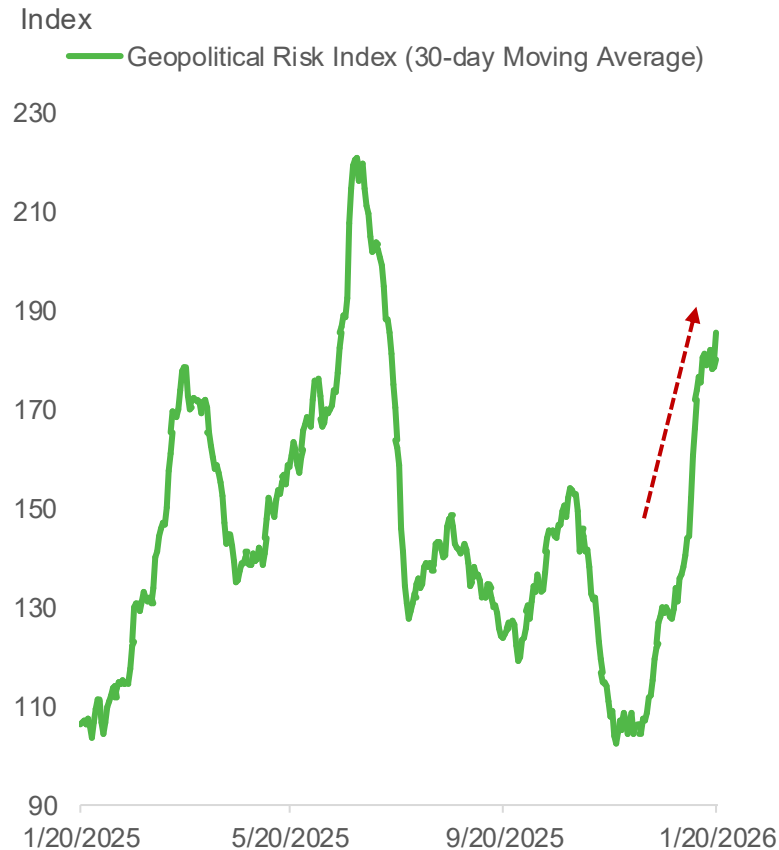


Source: CEIC

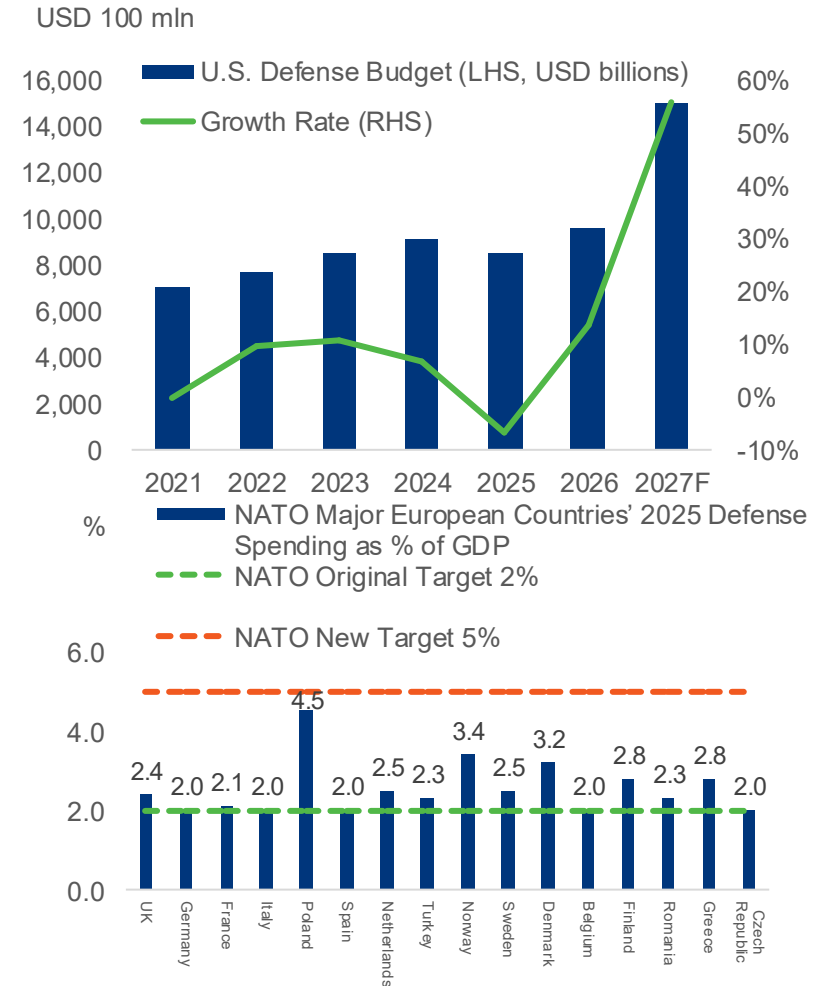
# Rising Geopolitical Turbulence as Trump Intensifies Actions Early in the Year

- ▶ The global shock from Trump's lightning capture of Nicolás Maduro and the U.S. takeover of Venezuela's oil transportation has yet to subside, and it was immediately followed by military threats toward Iran. Almost simultaneously, U.S. pressure on Greenland escalated rapidly. Although Trump later ruled out military action and withdrew tariff threats, these events have all driven a significant rise in recent geopolitical risk indicators.
- ▶ Earlier this month, Trump announced plans to raise the U.S. defense budget for fiscal year 2027 to USD 1.5 trillion — more than 50% higher than the 2026 level. If realized, this would mark the largest annual increase in U.S. defense spending in recent years. This move signals that the U.S. intends to allocate more resources to defense to counter challenges from China and Russia and to advance its own geopolitical objectives.
- ▶ The latest data from Europe show that, by 2025, all NATO European member states have achieved defense spending equivalent to 2% of GDP. This indicates that major Western and Southern European countries that were previously below the 2% mark have accelerated their military spending. With the gradual withdrawal of U.S. strategic resources, European nations increasingly recognize the need to expand investment in their defense industries to secure the capabilities necessary for maintaining regional security.

**Trump's Series of Actions Pushes Up Geopolitical Risk Index**



**U.S. and Europe Expected to Continue Increasing Defense Spending**

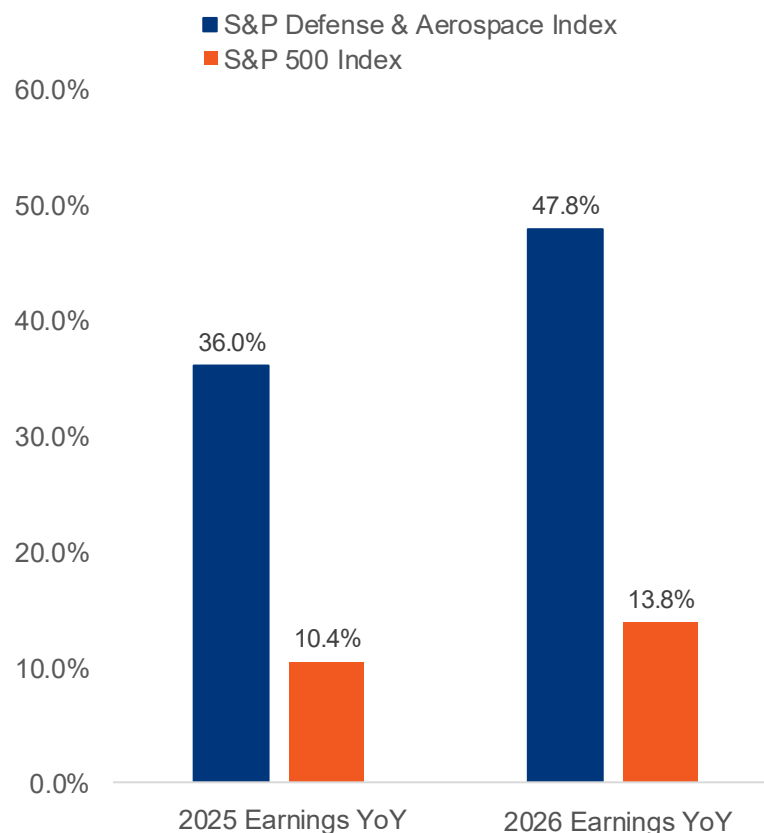


Source: Bloomberg

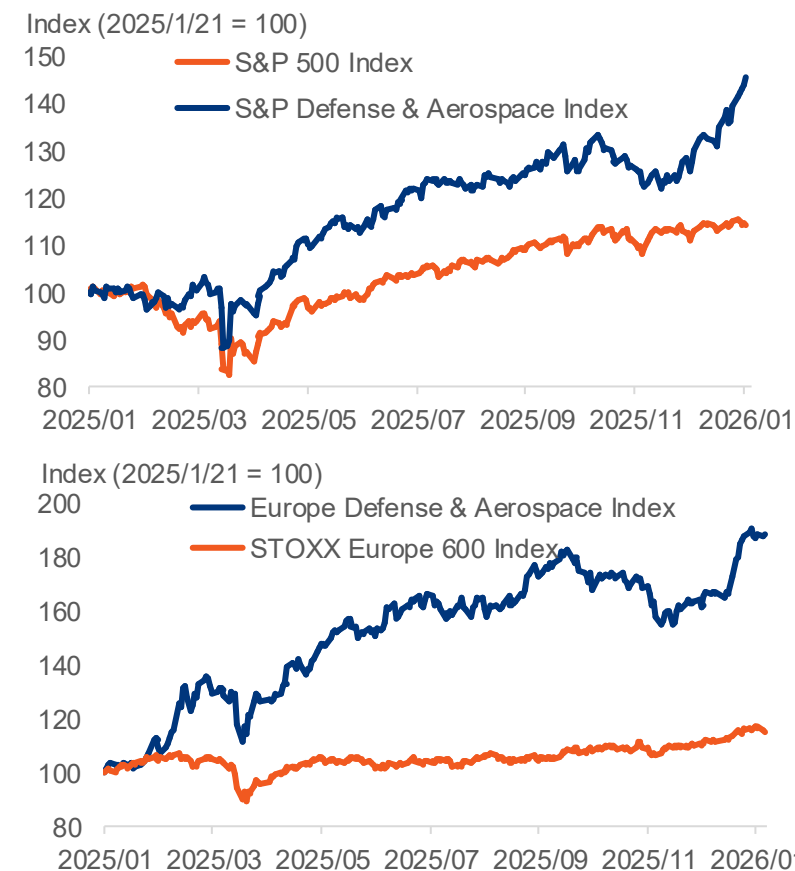
## Defense Industry Profit Growth Remains Strong, Continues to Outperform the Broad Market

- ▶ Since returning to office, President Trump has repeatedly emphasized that U.S. allies — including Europe, Japan, and Taiwan — must take on greater responsibility for their own defense rather than overly relying on U.S. military power, in order to reduce the burden on American forces. Many countries have already begun increasing their defense budgets, which is expected to translate into real demand for the U.S. defense industry going forward.
- ▶ Against the backdrop of rising defense spending in both the U.S. and its allies, the market maintains a positive outlook for the U.S. defense sector. Earnings growth for the S&P Defense Industry is projected to rise from 36.0% in 2025 to 47.8% in 2026 — far above the expected 13.8% earnings growth for the S&P 500 Index in 2026. Meanwhile, Europe's defense industry is also expected to achieve approximately 21.0% earnings growth in 2026, significantly higher than the roughly 10% growth forecast for the broader European equity market. With Europe increasing its investment, growth prospects remain promising.
- ▶ Although U.S. and European defense stocks experienced some pullbacks over the past year, both have continued to outperform their respective broader market indices. In addition to reflecting solid fundamentals, recurring global geopolitical uncertainties, along with Trump's recent actions that have heightened market attention on geopolitical risks, are expected to further support momentum in defense-related stocks.

### Market Expects U.S. Defense Sector Profit Growth to Continue Rising in 2026



### U.S. and European Defense Sector Has Continued to Outperform the Broad Market Over the Past Year



Source: Bloomberg

# Asset Strategy

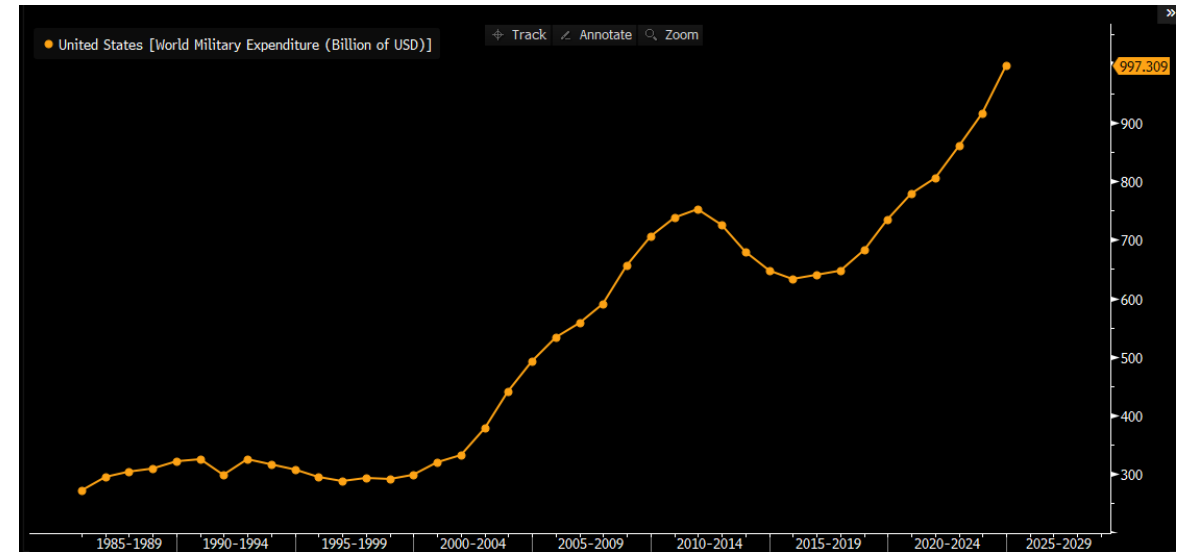
Asset Type	Market View	Preferred Assets
<b>Equities</b>	<ul style="list-style-type: none"> <li>◆ As market concentration increases and AI-themed stocks are trading at relatively elevated valuation levels, capital rotation signals have emerged in the short term. However, considering that AI still possesses long-term growth momentum, and given that equity markets have reached new highs, investors may participate through staggered or phased allocation. For 2026, investment strategies may be positioned through the four frameworks of L (Liquidity Shift), E (Earnings Focused), A (Adding Credit), and D (Diversified Asset) to achieve the goals of diversified allocation and stable returns.</li> <li>◆ European equities can serve as diversification targets. Preferred countries include Germany, which is supported by fiscal stimulus and clearly improving economic growth, and Spain, which has strong fundamentals and a high weighting of financial stocks. Preferred sectors include financials with improving balance sheets and defense-related industries supported by policy. For Japan, focus is on domestic demand, banks, and semiconductor stocks.</li> </ul>	<p><b>Strategy:</b> Under the AI theme, core beneficiary groups include technology, semiconductors, utilities, and machinery; outside the AI theme, we favor aerospace, defense, and pharmaceuticals</p> <p><b>Regions:</b> Germany, Spain, Japan banks, Japan semiconductors</p>
<b>Bonds</b>	<ul style="list-style-type: none"> <li>◆ The steepening of the yield curve allows investors to lock in yields through government bonds and investment-grade bonds. Among industries, those with higher risk-adjusted spreads include financials, utilities, and industrials.</li> <li>◆ There are concerns about long-term U.S. dollar depreciation; therefore, allocating to non-USD denominated bonds—such as euro- and AUD-denominated investment-grade bonds—can help diversify risk. As emerging-market fundamentals improve, high-yielding EM bonds may also be used to lock in yields.</li> </ul>	<p><b>Duration:</b> Government bonds and high-rated bonds to lock in yield; favored industries include financials, industrials, and utilities</p> <p><b>Types:</b> Non-USD currency bonds to diversify risk</p>
<b>Forex</b>	<ul style="list-style-type: none"> <li>◆ The Federal Reserve's independence continues to be questioned, which is unfavorable for the long-term U.S. dollar trend. However, recent U.S. data has been stronger than market expectations, causing the Fed to turn more cautious in the short term. The U.S. dollar is expected to weaken, but the downside is limited.</li> <li>◆ The ECB is nearing the end of its rate-cut cycle, and the rebound in German bond yields supports a stronger euro. Japan's Prime Minister Sanae Takaichi announced the early dissolution of the House of Representatives, and markets worry that Japan's fiscal deterioration may weaken the yen in the short term. However, verbal intervention by BOJ officials limits the room for further sharp depreciation.</li> </ul>	<p><b>USD:</b> Mild downside, limited weakness</p> <p><b>JPY:</b> Volatile with an upward bias</p> <p><b>EUR:</b> Short-term weakness</p>
<b>Commodity</b>	<ul style="list-style-type: none"> <li>◆ The Federal Reserve is expected to maintain an accommodative stance, and rising geopolitical risks support a favorable medium-to-long-term outlook for gold. Demand for silver is surging due to technology and semiconductor applications, and with Trump intending to raise import tariffs on minerals, manufacturers are stocking up early. Silver is expected to remain strong in the near term.</li> </ul>	<p><b>Gold:</b> Bullish in the medium to long term</p> <p><b>Silver:</b> Remains strong in the near term.</p>



# International Geopolitical Tensions Intensify, Sustaining the Rally in Defense Stocks

- ▶ In Q3 2025, U.S. GDP final growth came in at 4.4% year-on-year, higher than the preliminary estimate of 4.3% and above market expectations of 4.3%.
- ▶ Core PCE rose 0.2% month-on-month in November, unchanged from October's 0.2% increase and in line with consensus.
- ▶ The University of Michigan Consumer Sentiment Index final reading for January was 56.4, above both the preliminary figure of 54.0 and market expectations of 54.0.
- ▶ At the beginning of January, President Trump proposed a 50% increase in the U.S. defense budget for 2027, raising it to USD 1.5 trillion, roughly 5% of GDP. Recently, tensions between the U.S. and the EU over Greenland have heightened geopolitical risks. The defense and military sector has seen sustained capital inflows. Based on recent years of international military conflicts and the latest U.S. military operations in Venezuela, the key development focus for defense industries lies in drones, artificial intelligence, and space satellites. Consequently, related equities show strong growth prospects.

## U.S. Military Spending Trend



# Ondas Holdings (ONDS)

**Closing Price** US \$12.27

**Target Price** US \$20

Ondas Inc. is a holding company that provides a portfolio of intelligent autonomous aerial systems and private wireless communication solutions through its subsidiaries, enhancing safety, operational efficiency, and data-driven decision-making in critical industries.

## Rising Security Orders Reflect Accelerating Defense Demand for Resilient Autonomous Systems

Escalating geopolitical tensions and structurally increasing defense budgets are accelerating demand for anti-jam communications and autonomous unmanned systems that can operate in contested environments. Ondas is increasingly winning contracts for integrated security platforms that combine counter-UAS, surveillance drones, and robotic ground vehicles into a unified system rather than selling standalone hardware. Recent new orders of USD 10M and a USD 16.4M opportunity award illustrate urgent government and critical-infrastructure demand for resilient systems, positioning Ondas as a key beneficiary of the structural uptrend in military autonomy and defense expenditure.

## AI-Driven Autonomy Unlocks New Growth in Demining and Infrastructure Protection

Ondas is expanding beyond traditional defense into demining, border security, and infrastructure protection, integrating drones, robotics, and AI into a single autonomous platform. In a recent Middle East pilot, the system identified roughly 150 hazardous items—about 60 confirmed mines—across a 22-acre test field, demonstrating faster and safer detection versus manual methods. With geopolitical risks driving higher defense and reconstruction spending, Ondas' AI-enabled capabilities position the company to capture wider long-term demand across military, humanitarian, and national-security missions.

## FY25 Q4 Results Expected to Exceed Prior Guidance

For FY25 Q4, the company expects revenue of USD 27–29M, 51% above its earlier target. For FY25 full-year revenue, management forecasts USD 47.6–49.6M, up 23% versus prior guidance. Preliminary data also shows a substantial increase in backlog, reaching USD 65.3M as of Dec 31, compared to USD 23.3M on Nov 13—an increase of 180%. Ondas raised its FY26 revenue target to USD 170–180M, 25% higher than the previous USD 140M forecast, which includes approximately USD 30M from Roboteam.

## Valuation Consensus

Bloomberg's 12-month average target price is USD 18.38, with a high estimate of USD 25 and a low of USD 16.

Source: Bloomberg

## 1-Year Price

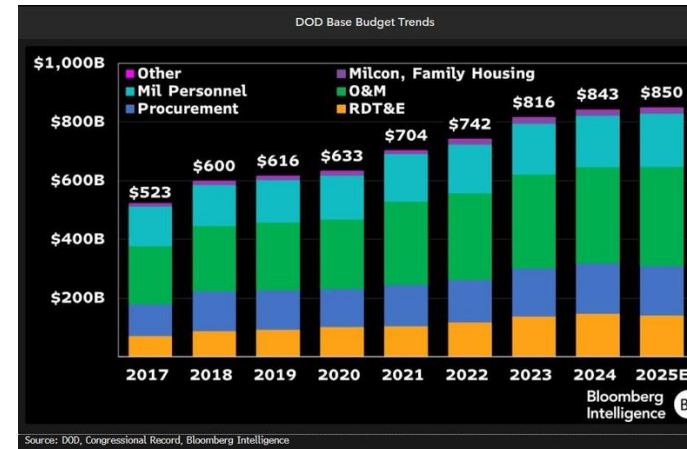


## Financials

	2022	2023	2024	2025F	2026F
Revenue Growth(%)	-26.9	638.1	-54.2	572.0	265.9
EBITDA (%)	-2090.7	-213.1	-399.8	-62.7	-12.9
EPS(USD)	-1.27	-0.86	-0.61	-0.25	-0.12
Net Profit Margin(%)	-187.9	32.38	28.81	58.68	54.37

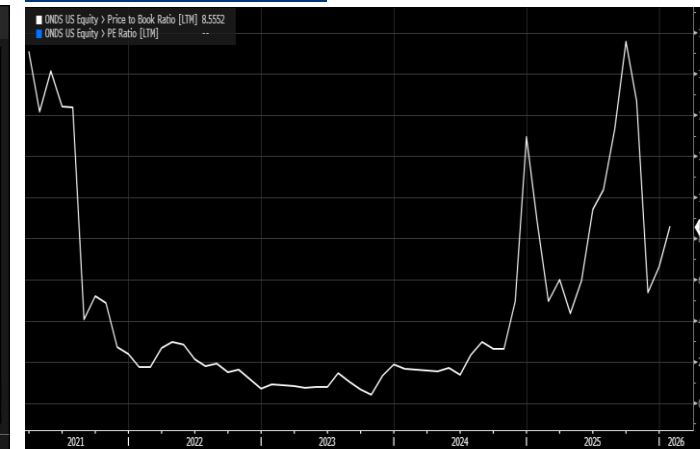
Source: Bloomberg; 2025/26F are market estimates

## DOD Base Budget Trends



Source: DOD, Congressional Record, Bloomberg Intelligence

## P/E & P/B



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# AeroVironment, Inc. (AVAV)

**Closing Price** US \$307.75

**Target Price** US \$380

AeroVironment, Inc. designs, develops, and produces small unmanned aircraft systems (UAS) and fast-charging systems for electric industrial vehicles. The company also provides remote tracking antennas, sensors, and missile systems, with most sales generated in the U.S. market.

## Rising Global Defense Budgets Drive Sustained Demand for Autonomous and Counter-UAS Systems

Defense spending continues to rise across the U.S., Europe, Japan, and Taiwan, accelerating procurement of unmanned systems, loitering munitions, and counter-drone technologies. This supports AeroVironment's expanding backlog and strengthens multi-year revenue visibility. Recent deliveries of JLTV-mounted LOCUST laser weapon systems under the U.S. Army's AMP-HEL program — along with ongoing operational deployments — highlight AVAV's position as a key provider of cost-effective, scalable solutions against modern drone threats.

## Expansion into Maritime and Multi-Domain Autonomy Strengthens Long-Term Growth Platform

AeroVironment is broadening its autonomous ecosystem into maritime and subsea robotics, supported by a USD 480,000 contract from the U.S. Coast Guard and the launch of the Ghost underwater unmanned vehicle. This expansion extends AVAV's presence across air, land, and sea autonomy, positioning the company to benefit from rising demand for robotic systems in maritime security, disaster response, and critical-infrastructure protection.

## FY26 Q2 Results Beat Expectations

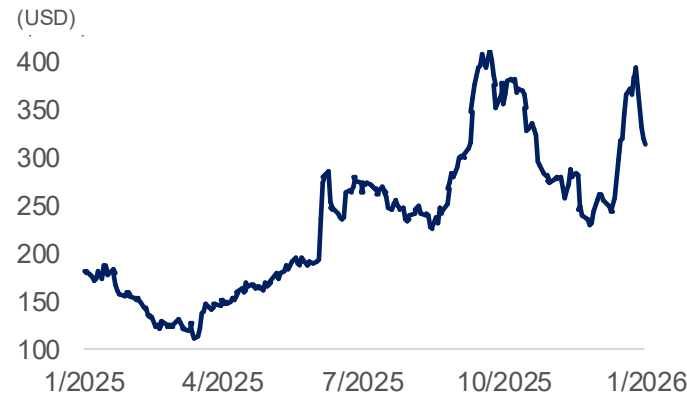
Revenue reached USD 472.5M, up 151% from USD 188.5M in FY25 Q2. The increase was driven by USD 173.8M in product sales and USD 110.2M in service revenue. The acquisition of BlueHalo (completed May 1, 2025) contributed USD 134.4M to product revenue and USD 110.7M to service revenue during the quarter.

## Valuation Consensus

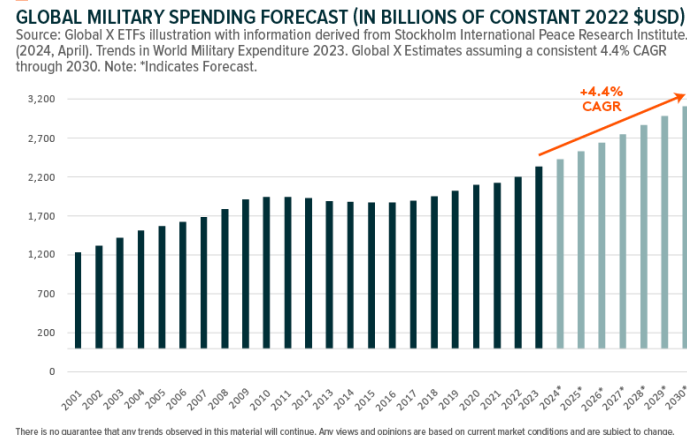
Bloomberg 12-month average target price: USD 384.5/Estimate: USD 450/315

Source: Bloomberg

### 1-Year Price



### Global Military Spending Forecast



There is no guarantee that any trends observed in this material will continue. Any views and opinions are based on current market conditions and are subject to change.

### Financials

	2023	2024	2025	2026F	2027F
Revenue Growth(%)	21.3	32.6	14.5	142.5	17.0
EBITDA (%)	22.7	16.8	15.8	15.4	16.9
EPS(USD)	0.44	2.42	2.61	3.46	4.51
Net Profit Margin(%)	182.10	448.51	7.82	32.62	30.28

Source: Bloomberg; 2025/26F are market estimates

### P/E & P/B



## Appendix

## Key Economic Data / Events

## ► JAN 2026

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Monday

- Japan Nov Core Machinery Orders MoM (Act:-11.0% Est:-5.2% Prev:7.0%)
- Eurozone Dec Final CPI YoY (Act:1.9% Prev:2.1%)
- China 4Q GDP YoY (Act:4.5% Est:4.5% Prev:4.8%)
- China Dec Retail Sales YoY (Act:0.9% Est:1.0% Prev:1.3%)
- China Dec Industrial Production YoY (Act:5.2% Est:5.0% Prev:4.8%)

20

Tuesday

- Taiwan Dec Export Orders YoY (Act:43.8% Est:35.5% Prev:39.5%)

21

Wednesday

22

Thursday

- U.S. Weekly Initial Jobless Claims (Act:200k Est:209k Prev:199k)
- U.S. 3Q Final GDP QoQ (AR) (Act:4.4% Est:4.3% Prev:3.8%)
- U.S. Nov PCE YoY (Act:2.8% Est:2.8% Prev:2.7%)
- U.S. Nov Core PCE YoY (Act:2.8% Est:2.8% Prev:2.7%)
- Japan Dec Exports YoY (Act:5.1% Est:6.1% Prev:6.1%)

23

Friday

- U.S. Jan S&P Global Mfg. PMI (Prelim) (Est:52.0 Prev:51.8)
- U.S. Jan Final Michigan Consumer Sentiment (Est:54.0 Prev:52.9)
- Japan Jan S&P Global Mfg. PMI (Prelim) (Act:51.5 Prev:50.0)
- Japan Dec Nationwide CPI YoY (Act:2.1% Est:2.2% Prev:2.9%)
- BoJ Uncollateralized Overnight Call Rate (Act:0.75% Est:0.75% Prev:0.75%)

26

Monday

- U.S. Nov Durables MoM (Prelim) (Est:3.0% Prev:-2.2%)

27

Tuesday

- U.S. Jan Conference Board Consumer Confidence (Est:90.0 Prev:89.1)
- Japan Dec Machine Tool Orders YoY (Final) (Prev:14.8)
- UNH, RTX, BA, UNP Earnings

28

Wednesday

- TXN, APH, T, DHR, GEV Earnings

29

Thursday

- U.S. Weekly Initial Jobless Claims (Prev:200k)
- U.S. Jan FOMC Fed Funds Rate (Est:3.75% Prev:3.75%)
- U.S. Nov Durables MoM (Final) (Prev:-2.2%)
- IBM, LRCX, MSFT, NOW, TSLA, META, CAT, PGR, LMT Earnings

30

Friday

- U.S. Dec PPI YoY (Prev:3.0%)
- Japan Jan Tokyo CPI YoY (Est:1.8% Prev:2.0%)
- Japan Dec Unemployment Rate (Est:2.6% Prev:2.6%)
- Japan Dec Retail Sales MoM (Est:-0.4% Prev:0.7%)
- AAPL, MA, V, CVX, XOM, AXP Earnings

Source: Bloomberg

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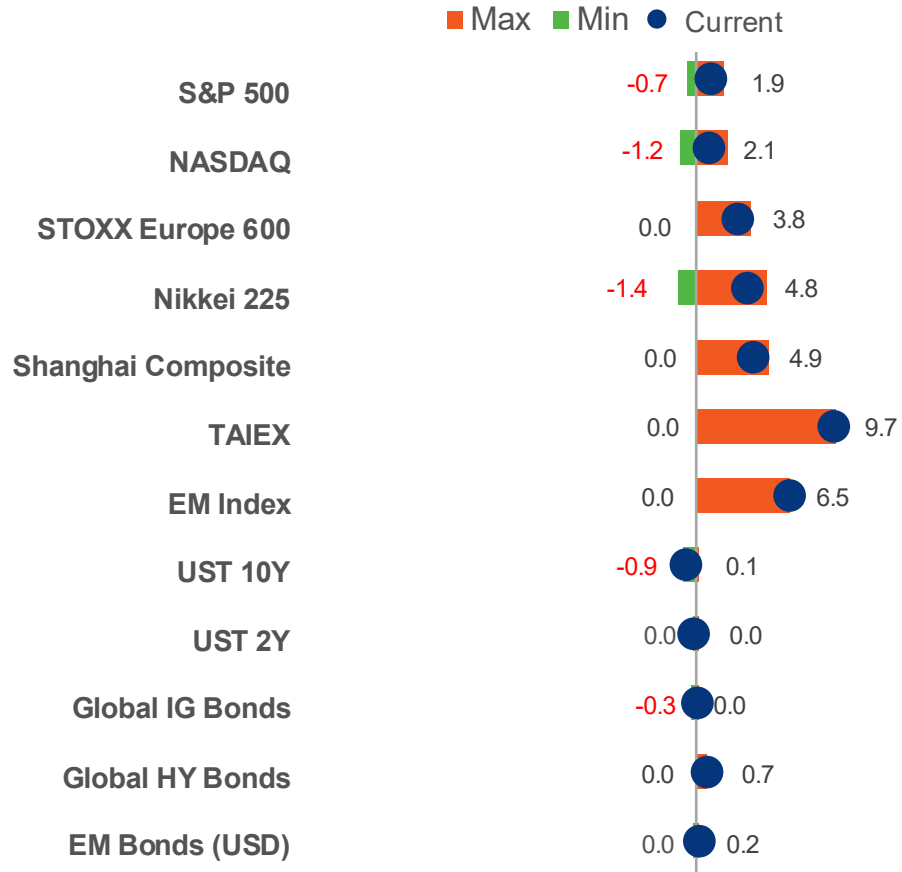
# Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2026/1/21	Interactive Brokers Group (IBKR)	1.61B	1.64B	0.59	0.65	V	V
2026/1/21	Netflix (NFLX)	11.97B	12.05B	0.55	0.56	V	V
2026/1/21	Johnson & Johnson (JNJ)	24.15B	24.60B	2.46	2.46	V	
2026/1/21	Prologis (PLD)	2.09B	2.10B	0.70	1.49	V	V
2026/1/21	Charles Schwab (SCHW)	6.34B	6.34B	1.39	1.39		
2026/1/22	Procter & Gamble (PG)	22.34B	22.20B	1.86	1.88		V
2026/1/22	General Electric (GE)	11.20B	11.87B	1.43	1.57	V	V
2026/1/22	Abbott Laboratories (ABT)	11.80B	11.46B	1.50	1.50		
2026/1/23	Capital One Financial (COF)	15.47B	15.60B	4.17	3.86	V	
2026/1/23	Intuitive Surgical (ISRG)	2.75B	2.87B	2.26	2.53	V	V
2026/1/23	Intel (INTC)	13.41B	13.70B	0.08	0.15	V	V

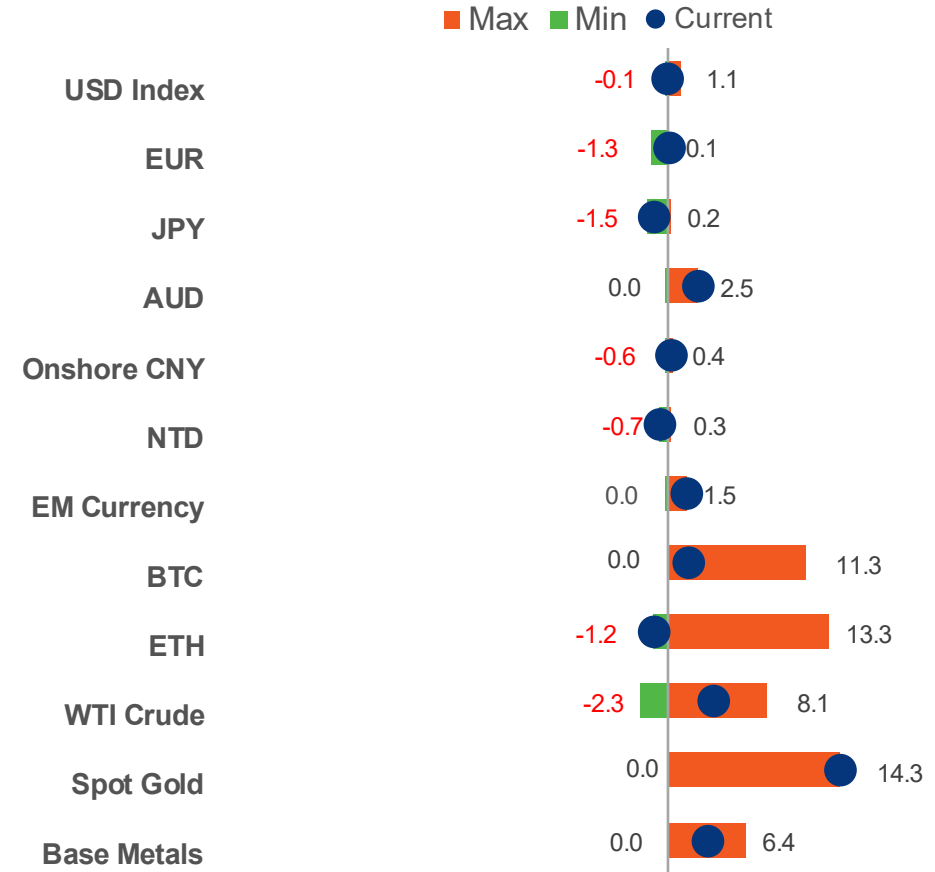
Source: Investing.com

# Major Market / Asset YTD Performance

## Equities & Bond Markets 2025 Performance (%)

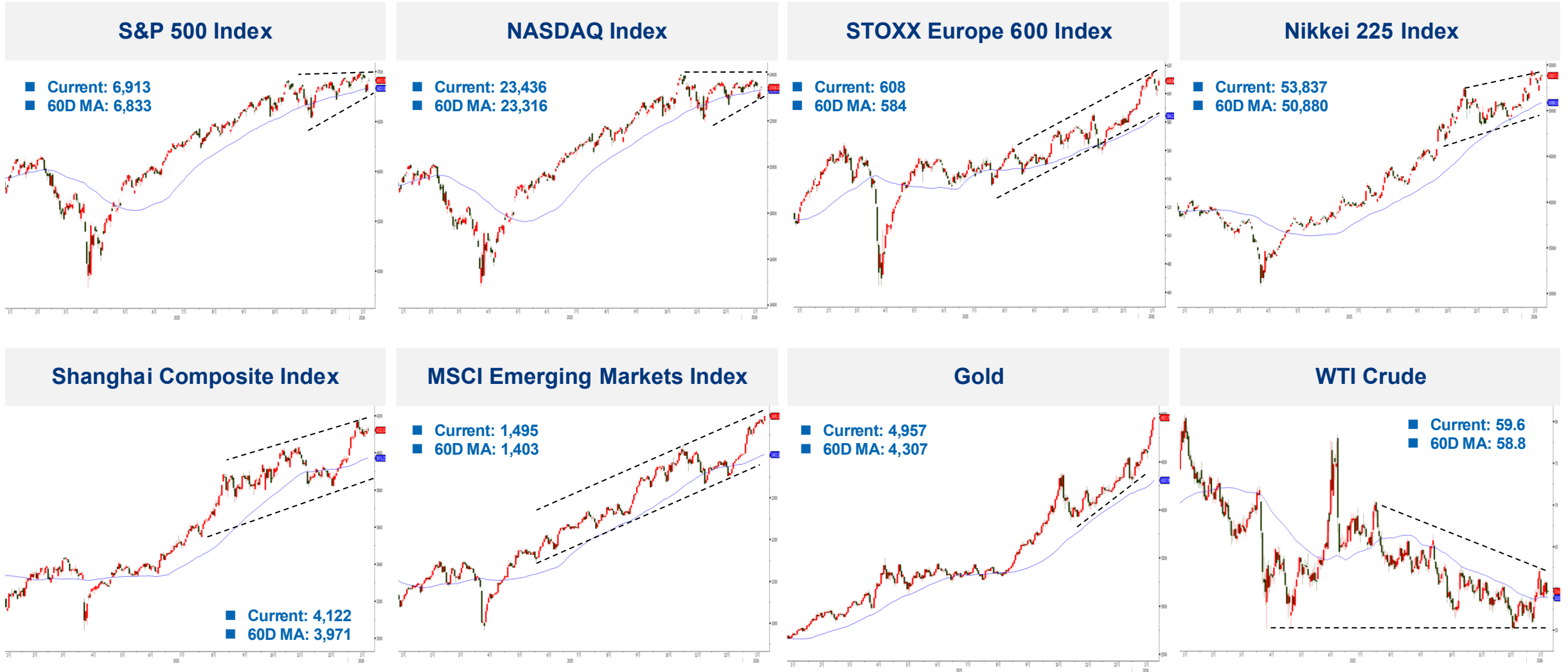


## Currencies and Commodities Market 2025 Performance (%)



Source: Bloomberg, 23 Jan 2026

# Technical Analysis



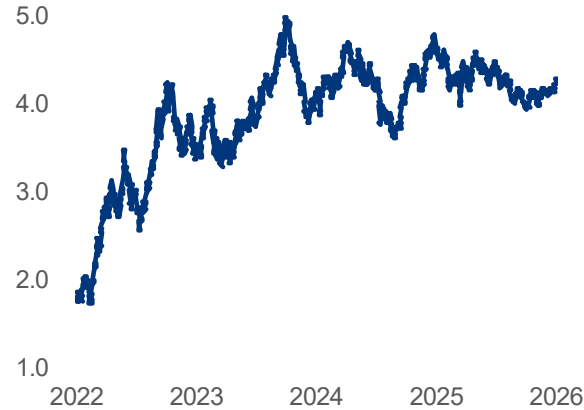
Source: Bloomberg, 23 Jan 2026

# Market Monitor

U.S. CPI YoY (%)



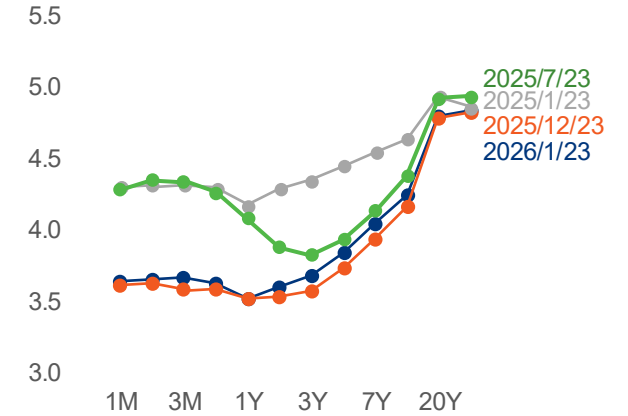
U.S. 10-Year Treasury Yield (%)



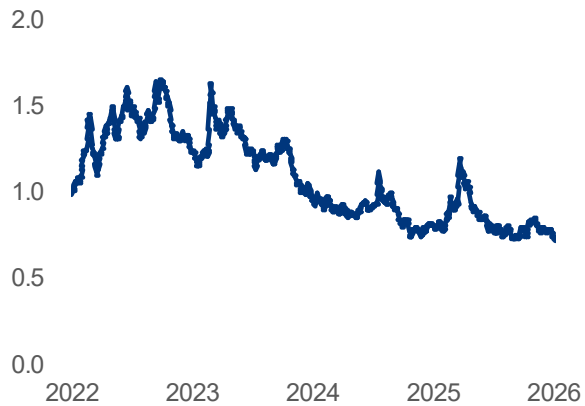
U.S. Treasury Yield Spread (bps)



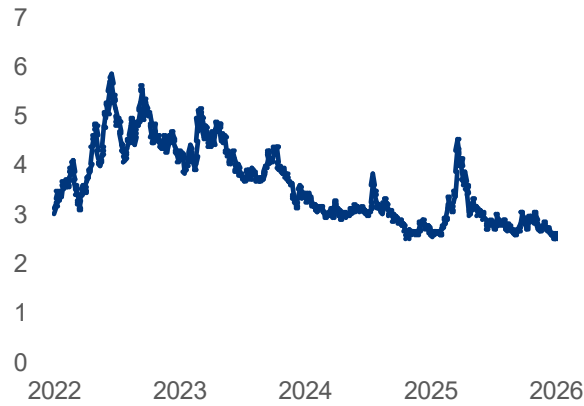
U.S. Treasury Yield Curve (%)



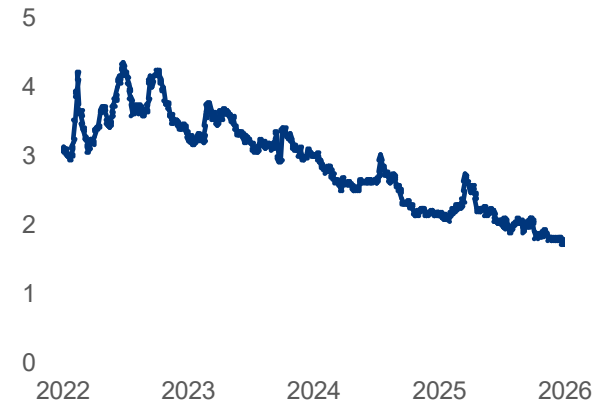
USD IG Credit Spread (%)



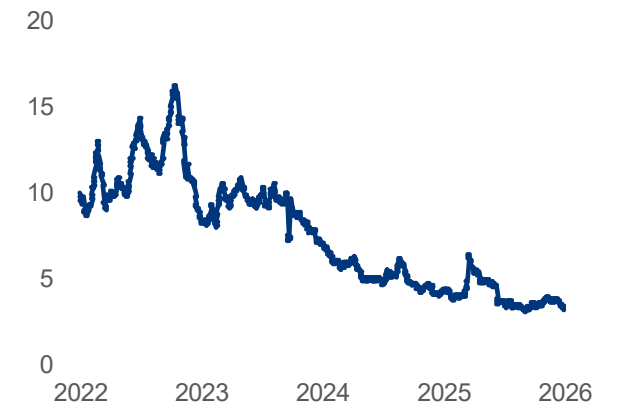
USD HY Credit Spread (%)



USD EM Credit Spread (%)



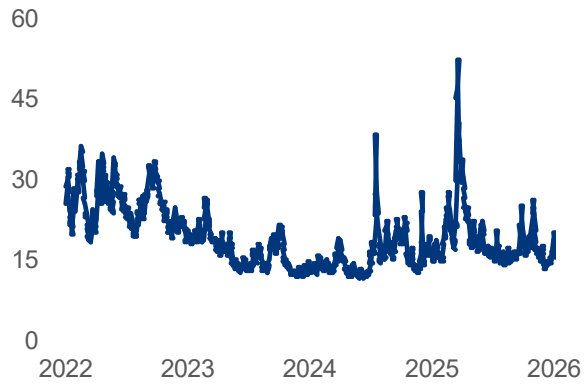
USD Asia Credit Spread (%)



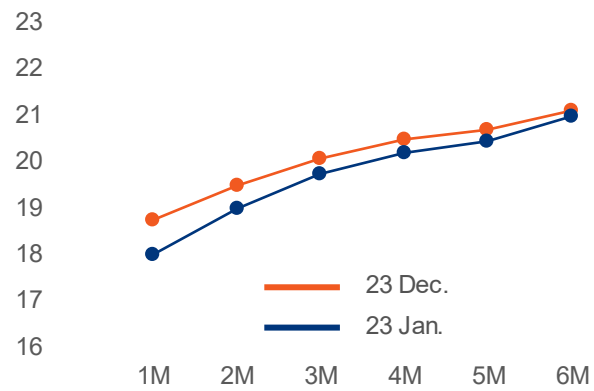
Source: Bloomberg, 23 Jan 2026

# Market Monitor

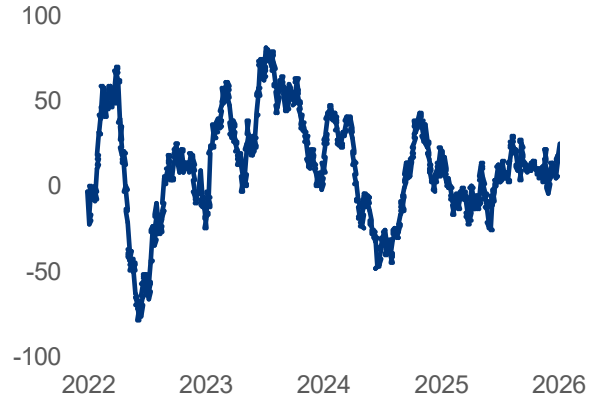
**VIX Index**



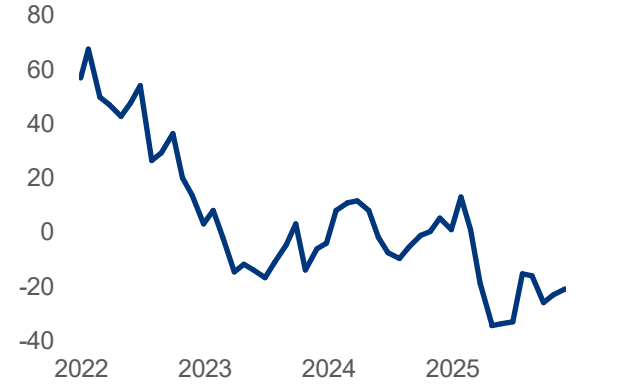
**VIX Term Structure**



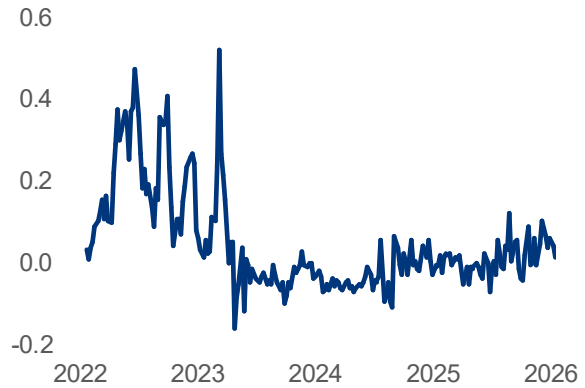
**U.S. Citi Economic Surprise Index\***



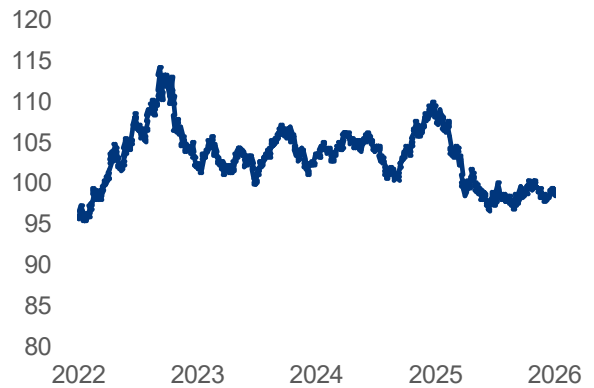
**U.S. Citi Inflation Surprise Index\***



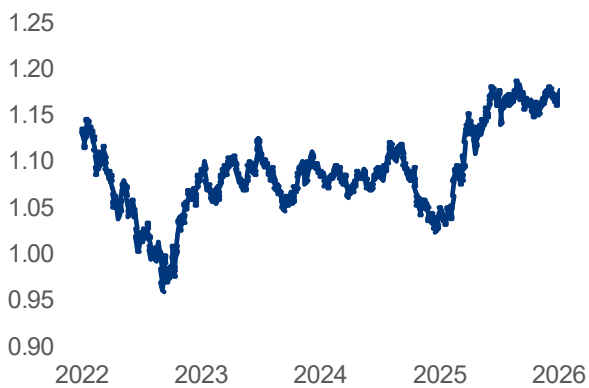
**TED Spread (bps)**



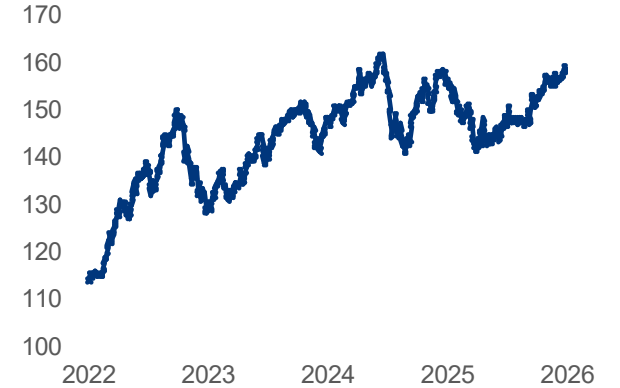
**U.S. Dollar Index**



**EUR to USD**



**USD to JPY**



Source: Bloomberg, 23 Jan 2026 \*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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