CIO Office

Global Markets Weekly Kickstart

# Don’t Let the Great Yield Slip Away

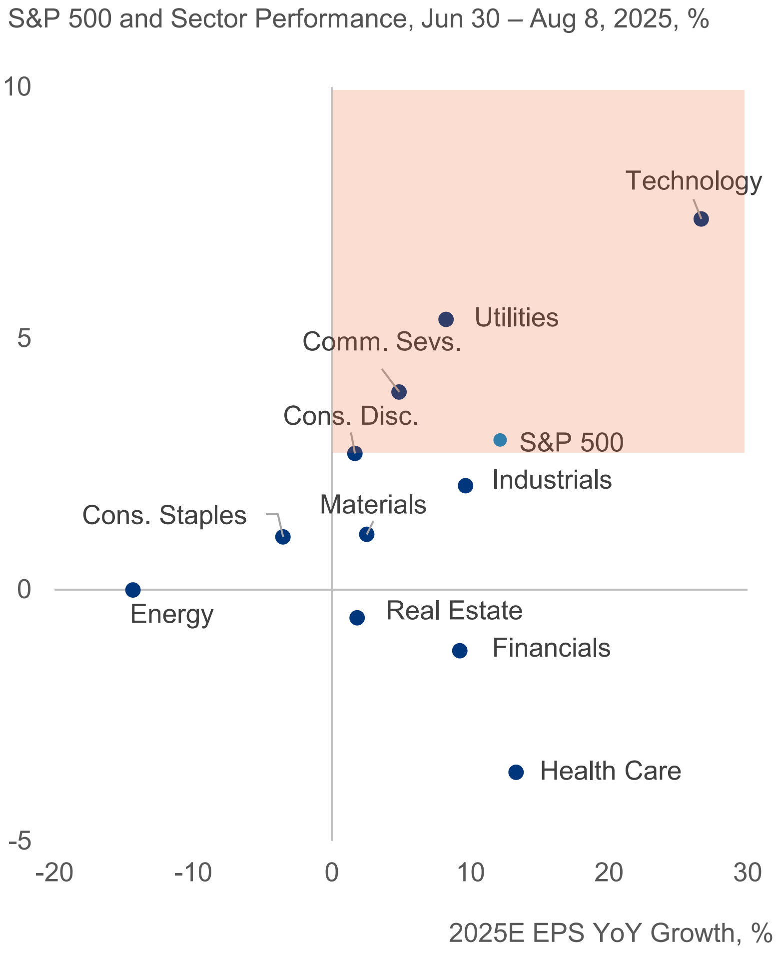
18 August 2025

Chart of the Week

# U.S. Earnings Beat Expectations; Balanced Allocation to Equal-Weight and High-Quality Stocks Advised

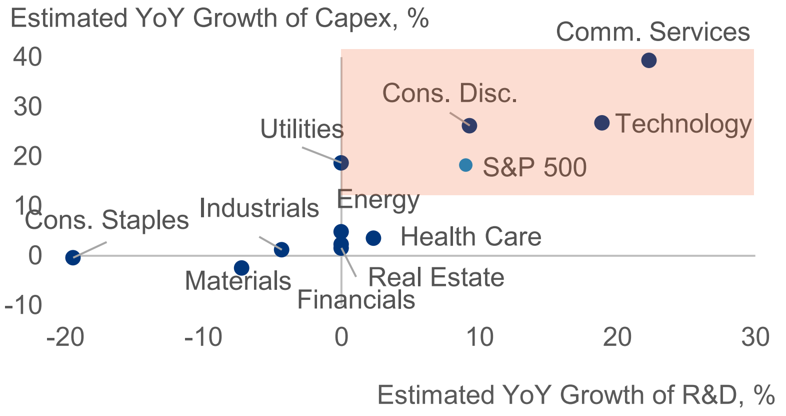
- Over 90% of U.S. corporates have reported 2Q results, with 81% beating earnings forecasts. Overall profit growth rose 11.8% YoY, well above earlier single-digit estimates. Trade negotiations between the U.S. and other nations are showing progress, and the number of companies citing recession risk dropped sharply from 124 in 1Q to 16 in 2Q. Sector-wise, technology outperformed on EPS growth. With easing political and economic uncertainty and solid earnings momentum, U.S. equities have firm downside support.
- The Fed may restart rate cuts as early as September, lowering funding costs for corporates. Some companies also flagged benefits from new tax policies. Large-cap techs continue to expand capex, and once the "Big and Beautiful" Act is passed, tax shields from major investment and R&D spending could further support earnings. However, tariff risks still weigh on the economy. In addition, the top 10 S&P 500 stocks now account for over 40% of market cap, and valuations are well above the 10-year average. Investors are advised to allocate toward equal-weight and high-quality stocks to manage risk.

## 2Q Earnings Beat Expectations, Providing Support for U.S. Equities




## "Big and Beautiful" Tax Act Seen Adding Next Wave of Earnings Tailwind

| Company | Commentary on "Big and Beautiful" Tax Act |
|---|---|
| Meta Platforms (META) | Corporate taxes expected to decline over coming years; no estimate yet on magnitude |
| Texas Instruments (TXN) | Tax rate to fall after 2026; significant reduction in corporate taxes ahead |
| CDW Corporation (CDW) | Commercial clients may benefit, creating a potential tailwind |
| Global Payments (GPN) | Modest improvement in free cash flow, supporting shareholder returns |
| AT&T Inc. (T) | $1.5–2.0bn savings this year; $2.5–3.0bn in 2026–27; $3.5bn reinvestment planned in fiber expansion |
| T-Mobile US (TMUS) | $1.5bn cash tax benefit in 2026 to be strategically deployed via capital allocation |
| Charter Communications (CHTR) | Billions in tax savings over next 5 years to fund network rollout and capital deployment |



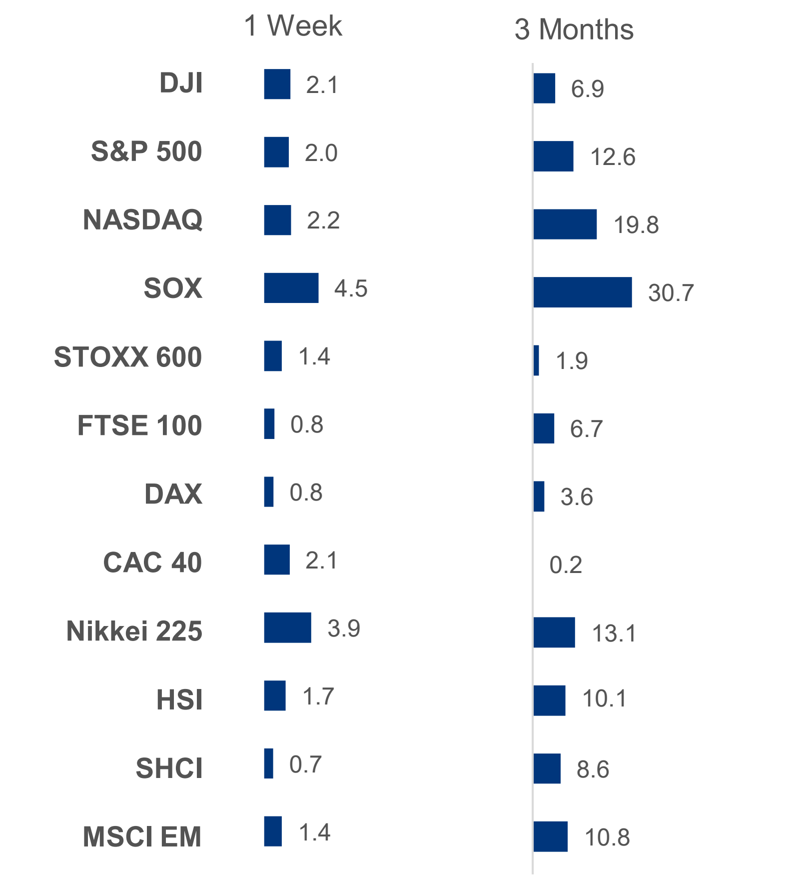

Source: Bloomberg

**Market Recap**

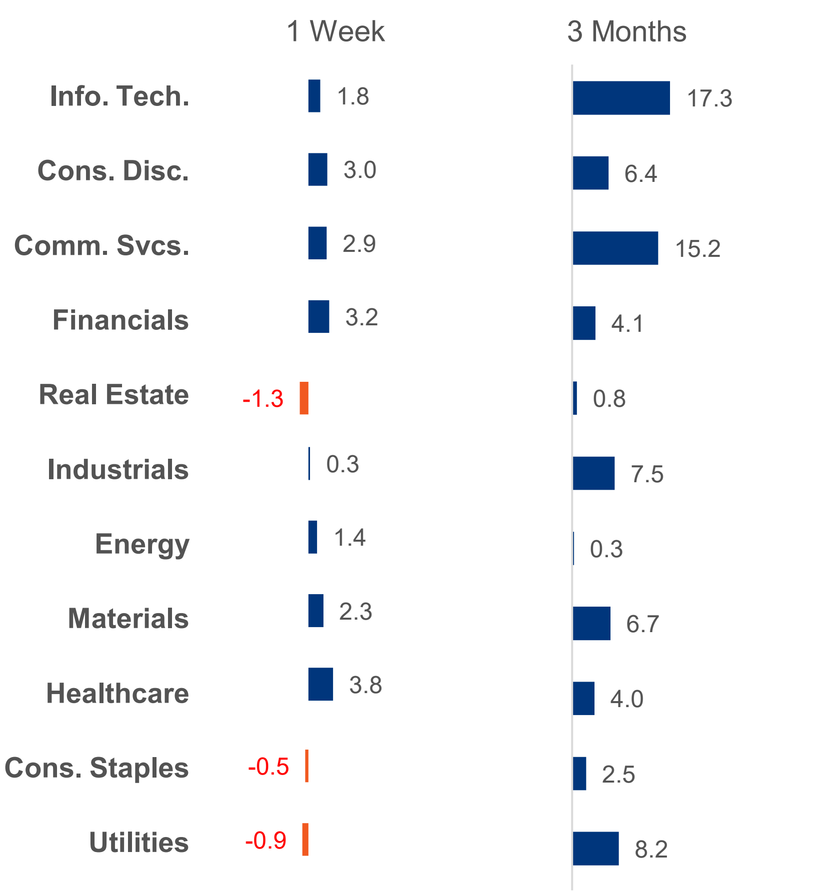
# Mixed U.S. Inflation Data Lifts Rate-Cut Bets; Equities Extend Gains with Volatility at Lows

- U.S. CPI came in below expectations, with investors downplaying tariff impacts on inflation. Treasury Secretary Bessent noted weak labor data, suggesting a possible 50 bps cut, boosting odds of a Fed rate cut in September. Equities advanced with volatility near historic lows, while earnings grew double digits, led by tech and semiconductors.
- UK 2Q GDP rose 0.3%, above the BOE's 0.1% forecast. LSEG data show 54% of European companies beat earnings expectations, highlighting profit resilience. Markets were upbeat on Friday's Trump-Putin talks, with a ceasefire proposal including territorial exchanges fueling optimism for a faster end to the war, lifting European equities, particularly healthcare, financials, and defense.
- Japan's chief trade negotiator confirmed the U.S. will not impose "stacked" tariffs and will cut auto duties as pledged. Rising Fed cut expectations also spurred fund flows into Japan, with financials and tech leading recent gains.

## Regional Index Performance (%)




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

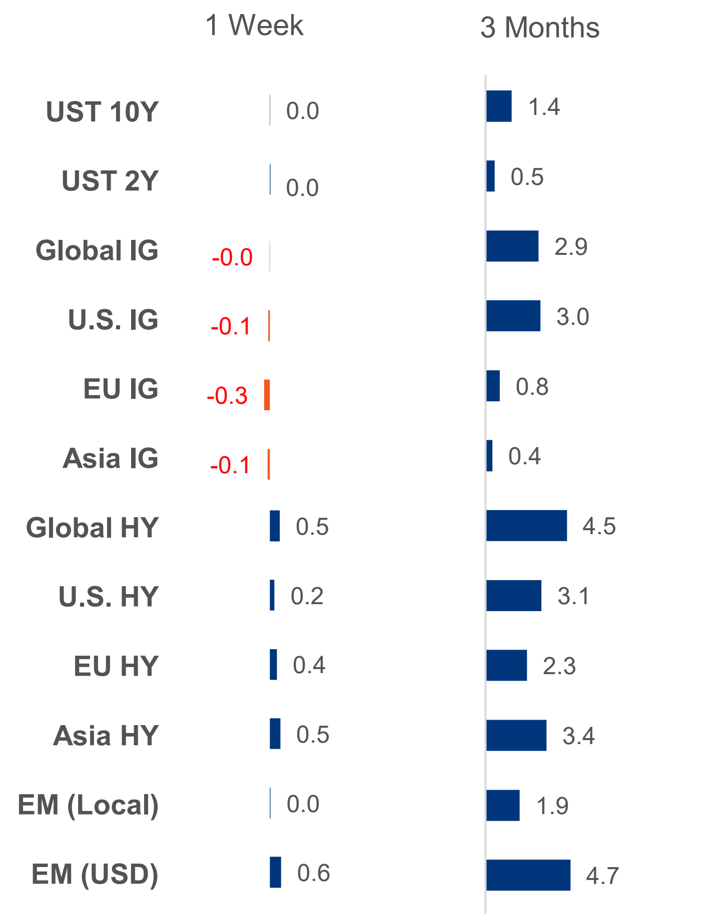



Source: Bloomberg, 15 August 2025

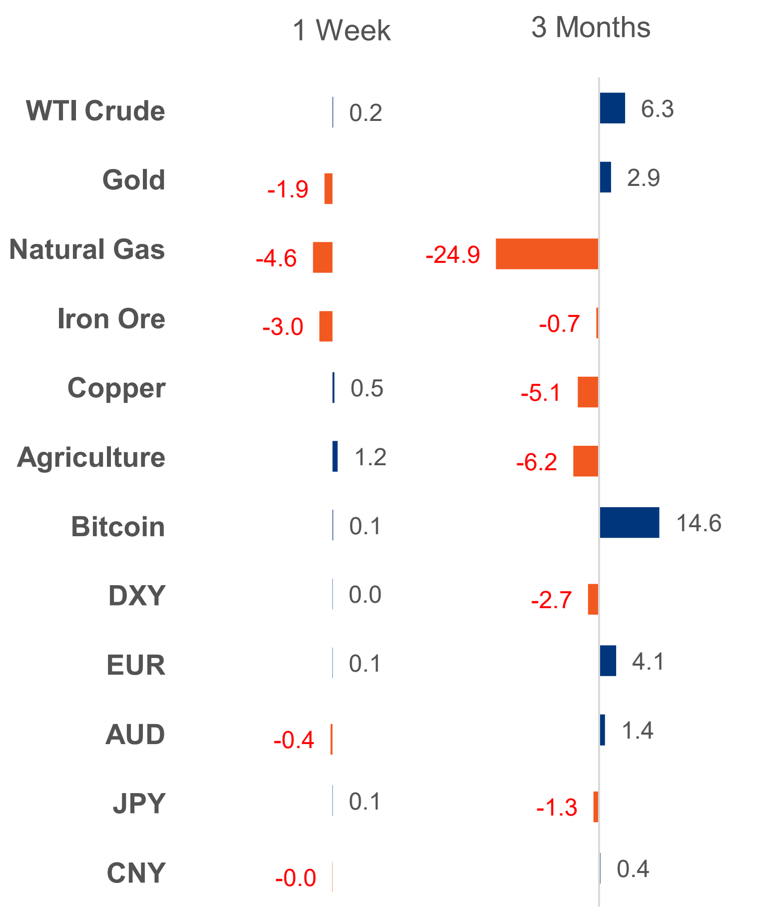
# Trump Executive Order and Rising Odds of September Fed Cut Support Crypto and Yen

- U.S. inflation data was mixed: July CPI rose 2.7% YoY, unchanged from June, while July PPI jumped to 3.3% YoY vs. 2.4% prior and 2.5% consensus. Despite soft CPI, surging PPI trimmed market expectations for a 50 bps September cut to 25 bps. In credit, shorter-duration and high-yield bonds outperformed on rate-cut bets.
- Trump signed an executive order expanding 401(k) investment options to crypto and other alternatives, lifting Bitcoin on inflow expectations. PBOC data showed gold reserves rose by 1.87 tons in July to 2,300 tons, the ninth consecutive monthly increase. However, Trump stated the U.S. will not impose tariffs on imported gold, leaving prices softer last week.
- Fed cut odds boosted FX volatility: DXY fell before rebounding. Markets expect narrowing U.S.–Japan rate differentials, with Treasury Secretary Bessent's rare comments on BOJ policy fueling speculation of a Japan rate hike, nudging the yen higher.

**Performance of Bonds (%)**




**Performance of Commodities and Currencies (%)**



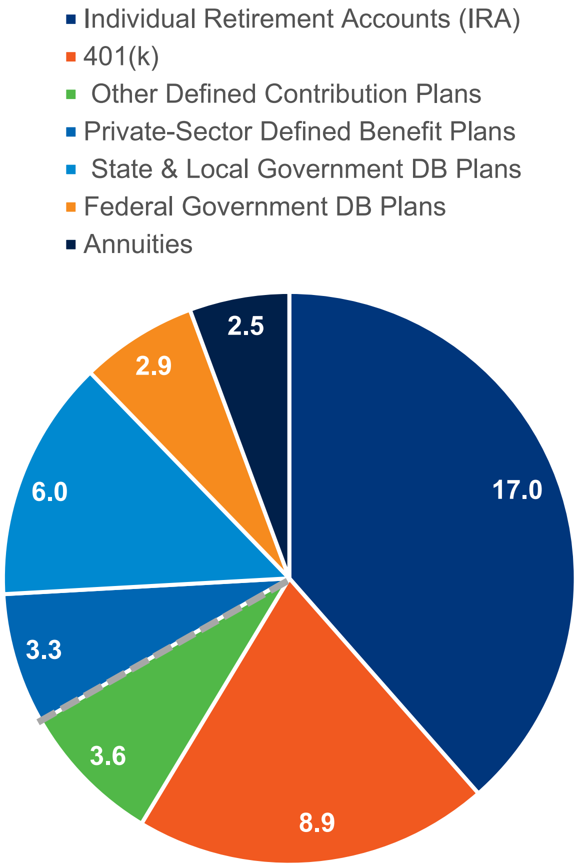

Source: Bloomberg, 15 August 2025

# What's Trending | Trump Executive Order Opens Door for Alternative Assets via Retirement Funds

- Trump recently signed an executive order directing the Labor Department to review 401(k) and similar plans to expand investment access into private equity, crypto, and other alternative assets. Plans offering a "Brokerage Window" already allow participants to invest beyond core options—including equities, bonds, ETFs, and crypto-related products—though available assets differ across platforms. Currently, only 2% of funds flow through this channel, with crypto allocations still minimal.
- U.S. retirement assets are vast, estimated at $44tn, about 11x the size of the total crypto market (with Bitcoin accounting for nearly 60%). The executive order covers 401(k) and other defined-contribution plans totaling nearly $12tn. A 1.5% allocation into U.S. spot Bitcoin and Ether ETFs would be enough to double their AUM.
- With rising awareness, broader access, and reduced regulatory uncertainty, crypto is gaining acceptance. This could lift market cap and dampen volatility. Despite Bitcoin hitting record highs, volatility has declined, making it increasingly attractive for traditionally conservative retirement capital.

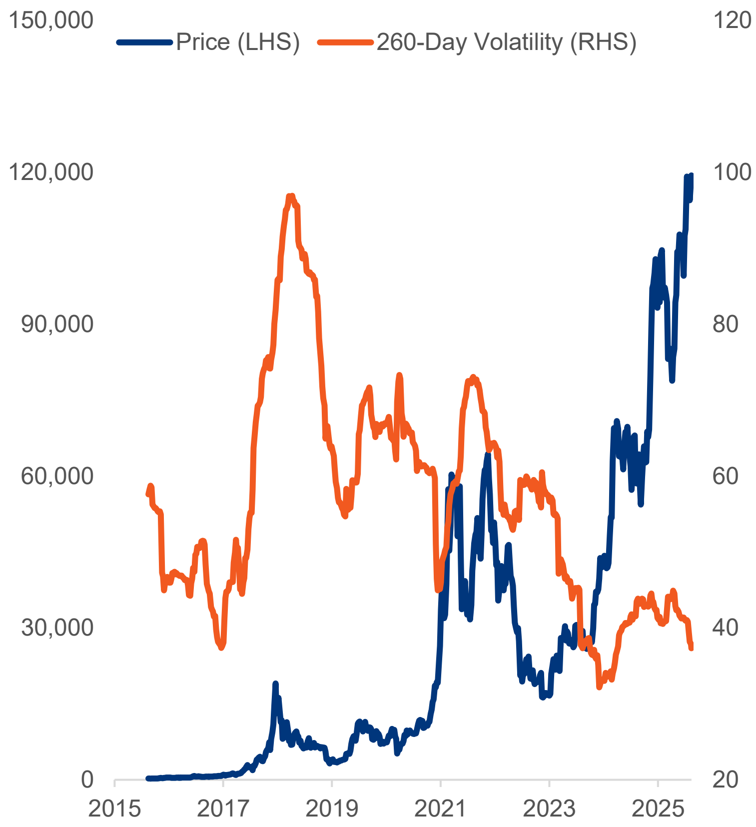
## U.S. Retirement Assets Are Vast

U.S. Retirement Market (USD tn)




## Bitcoin Volatility Gradually Declining

Bitcoin vs. USD



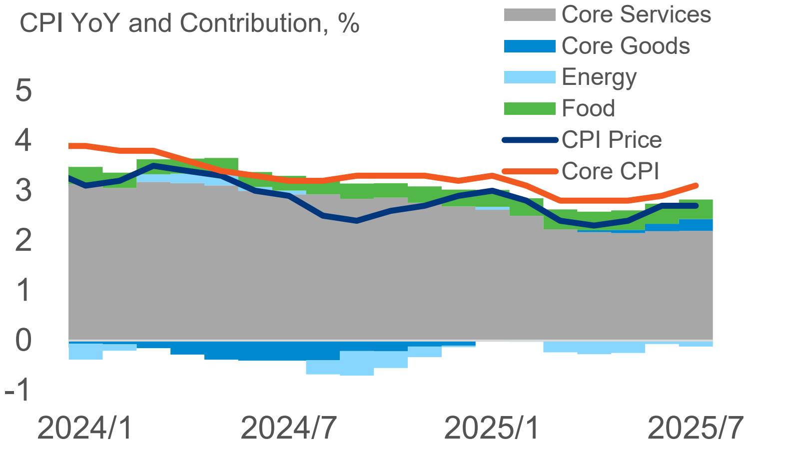

Source: Investment Company Institute, Bloomberg

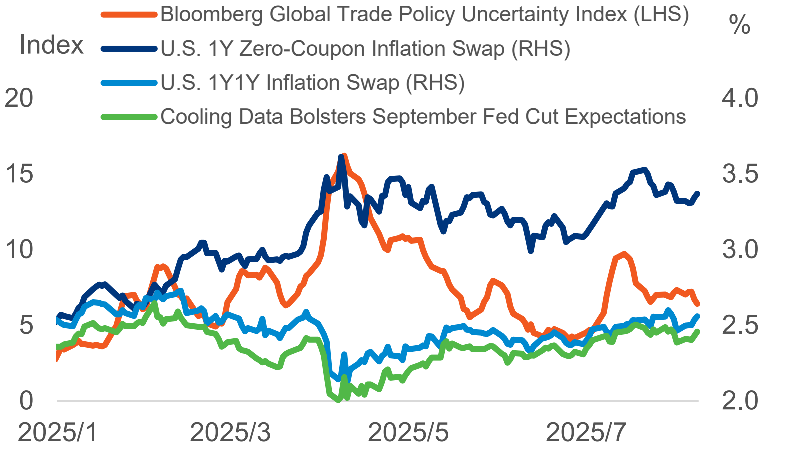
# In Focus

# Slowing Growth Lifts Rate-Cut Odds; High-Quality Bonds Offer Yield-Locking Window

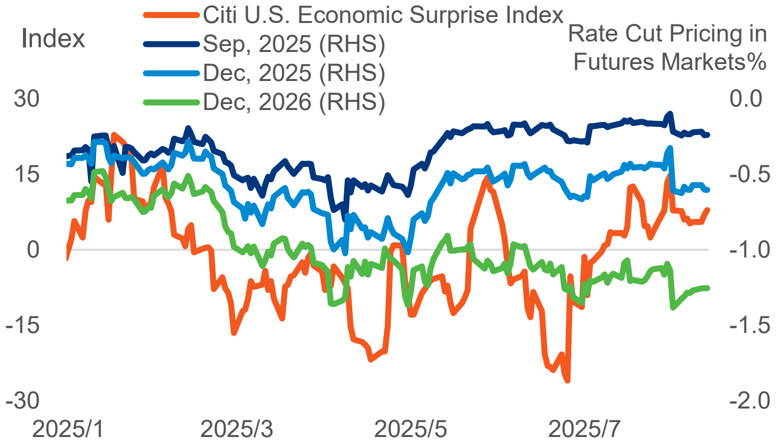
- U.S. July CPI rose 2.7% YoY, flat vs. June and below expectations. Housing inflation eased, the main driver of disinflation, while used cars and household goods lifted core goods prices. Medical care, airfares, auto insurance, and leisure pushed core services higher, driving core CPI up from 2.9% to 3.1% YoY. With tariff negotiations progressing and labor markets softening, consumption momentum may weaken in 2H, limiting inflation pressures a year out.
- Cooling labor data highlights downside risks to growth, reinforcing September Fed rate-cut expectations. We see room for two cuts by year-end and a further 3–4 cuts in 2026. Historically, after Fed cuts, real yields (3M T-bill minus core PCE inflation) tend to compress, reducing bonds' inflation-hedge effect. If U.S. nonfarm payrolls continue to weaken, the Fed could restart cuts as early as September. Investors should seize current high yields in Treasuries and investment-grade bonds ahead of the easing cycle.

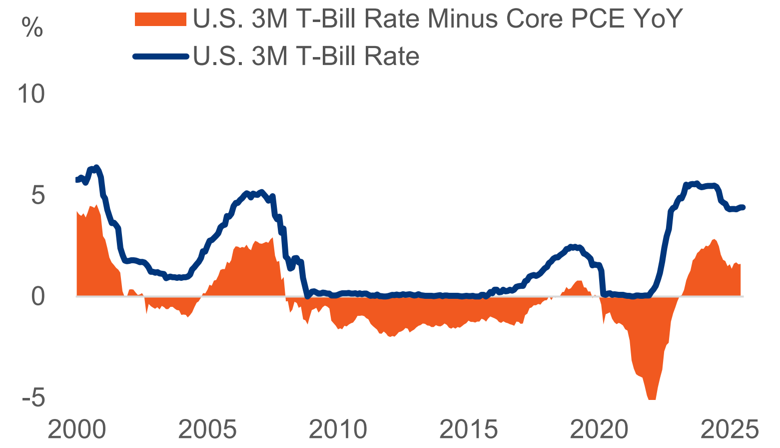
## U.S. CPI Consolidates at Highs, Inflation Expectations Ease with Lower Uncertainty




## Cooling Data Bolsters September Fed Cut Expectations




Source: Bloomberg

# Attractive Yields Provide Steady Income; Focus on Sectors with Positive Credit Outlook

- From January to July, U.S. investment-grade corporate bond returns were shaped by three key factors:

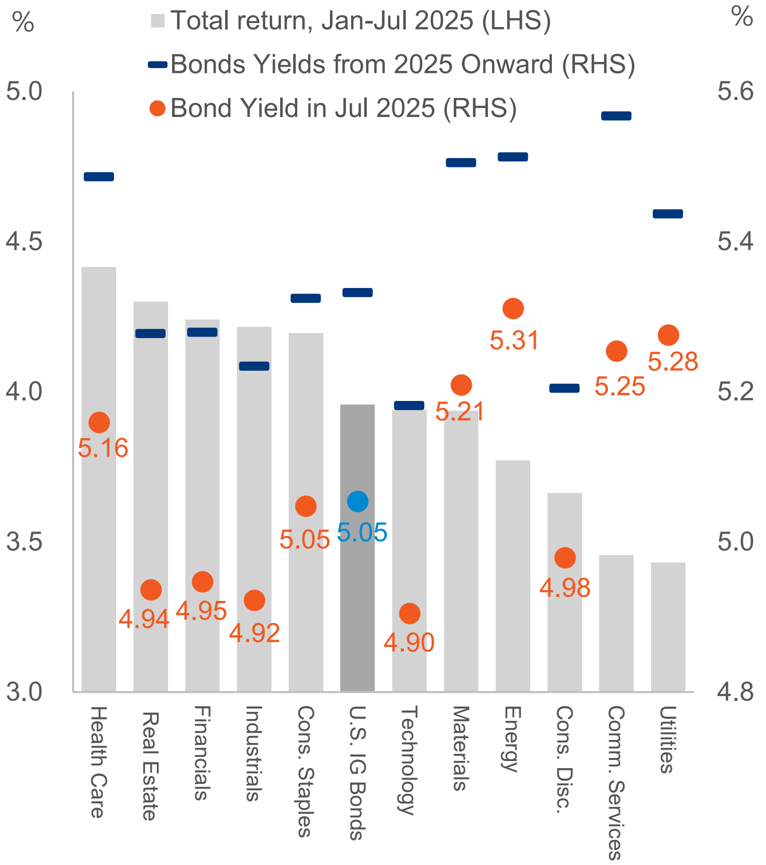
1. With the Fed pausing rate cuts, mid- to short-duration bonds outperformed.

2. Despite tariff-driven spread widening in April, spreads mostly hovered near historical lows, with BBB-rated bonds offering relative yield advantages.

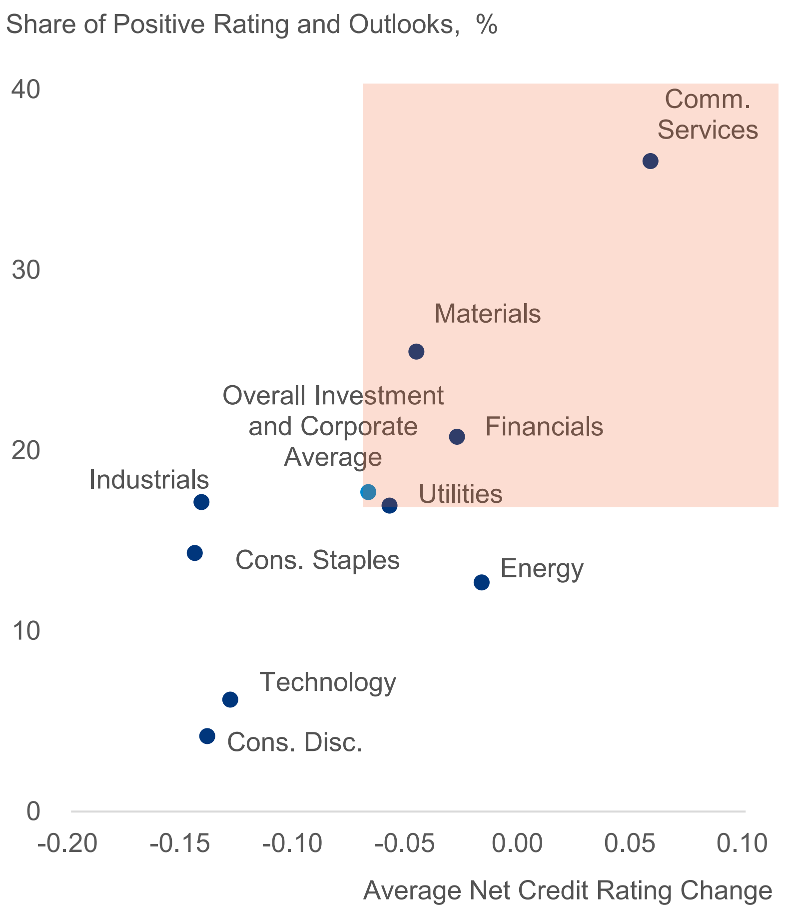
3. Passage of the "Big and Beautiful" Act and debt-ceiling resolution supported fiscal expansion and a steeper yield curve, driving notable spread compression in policy-benefiting sectors such as financials and industrials. Looking ahead, bonds in financials, telecom, and utilities offer attractive levels amid an economic slowdown.

- Bloomberg data show that about 18% of U.S. investment-grade bonds carry a net positive credit-rating outlook, with telecom services, materials, financials, and utilities outperforming the broader market. As growth slows in 2H, investors can both lock in favorable yields ahead of Fed cuts and focus on sectors with positive credit outlooks to mitigate market volatility.

## U.S. Investment-Grade Bonds Outperform in Policy-Supported Sectors This Year




## Positive Credit Outlook Concentrated in Telecom, Materials, Financials, and Utilities




Source: Bloomberg. Note: The average net credit rating change score is calculated by Bloomberg based on the ratings and outlooks from the three major credit rating agencies for each issuer.

# Asset Strategy

| Asset Type | Market View | Preferred Assets |
|---|---|---|
| **Equities** | ◆ With Trump's tariff negotiations gradually unfolding, political and economic uncertainty is easing. As U.S. equities trade at elevated levels with stretched valuations, softer growth in 2H could add correction risks. We recommend maintaining balanced sector allocation and investment flexibility. Near term, investors may increase exposure to low-volatility, high-quality stocks. For long-term positioning, AI remains a key theme, with software and cybersecurity favored within tech, offering opportunities for phased accumulation on pullbacks.<br>◆ In the eurozone, fundamentals are improving and valuations are cheaper than U.S. equities. U.K. and German markets, less vulnerable to trade shocks, are preferred. Japan's economy continues to strengthen with tariff agreements secured; domestic demand and banking stocks can be accumulated on dips. | **Strategy**: Increase allocation to low-volatility, high-quality stocks. For long-term positioning, focus on AI themes, with preference for software and cybersecurity stocks; consider phased buying on pullbacks<br>**Regions**: European equities, UK equities, Japanese domestic demand and banking stocks |
| **Bonds** | ◆ With the economy weakening and September Fed rate-cut odds rising, bonds look increasingly attractive. Investors should lock in yields on Treasuries and investment-grade bonds ahead of easing. Within IG, A-rated or higher blue-chip issuers are preferred, while sectors offering relatively favorable risk-adjusted spreads include financials, industrials, energy, utilities, and telecom.<br>◆ The U.S. dollar remains weak, supporting diversification into non-USD bonds such as investment-grade issues denominated in EUR and SGD. | **Duration:** High-grade corporate bonds and U.S. Treasuries for yield-locking opportunities<br>**Type:** Financials, industrials, energy, utilities, and communications |
| **Forex** | ◆ Trump's preference for a weaker dollar, combined with rising odds of a Fed rate cut in September and nearing end of easing cycles by the ECB and BOE, suggests the DXY will find near-term support but remain structurally weak over the medium term.<br>◆ Non-USD currencies such as the euro, yen, and sterling are expected to trend higher with moderate volatility. | **USD:** Consolidating with Downward Bias<br>**EUR, JPY, GBP:** Fluctuating with upward bias |
| **Commodity** | ◆ The U.S. dollar is set to weaken over the medium term as rate cuts drive yields lower, while inflation risks and fiscal deficit pressures persist. With both central banks and market funds continuing to accumulate gold, upside potential remains. Investors can gradually build positions on pullbacks. | **Gold**: Bullish bias |

Product Spotlight | HK Equities

# Online Entertainment Opportunities Across Cycles

### ► "Self-Indulgence" Consumption as Structural Growth Driver

China's online entertainment industry is benefiting from a structural consumption trend — resilient demand centered on "self-indulgence" spending. ARPU in segments such as online gaming and music continues to rise, with Tencent Music (1698) posting strong quarterly results underscoring robust spending power. This trend appears insulated from macroeconomic swings, with such discretionary consumption increasingly viewed as an essential pursuit of personal fulfillment. This supports a stable user base and sustained monetization growth for industry leaders.

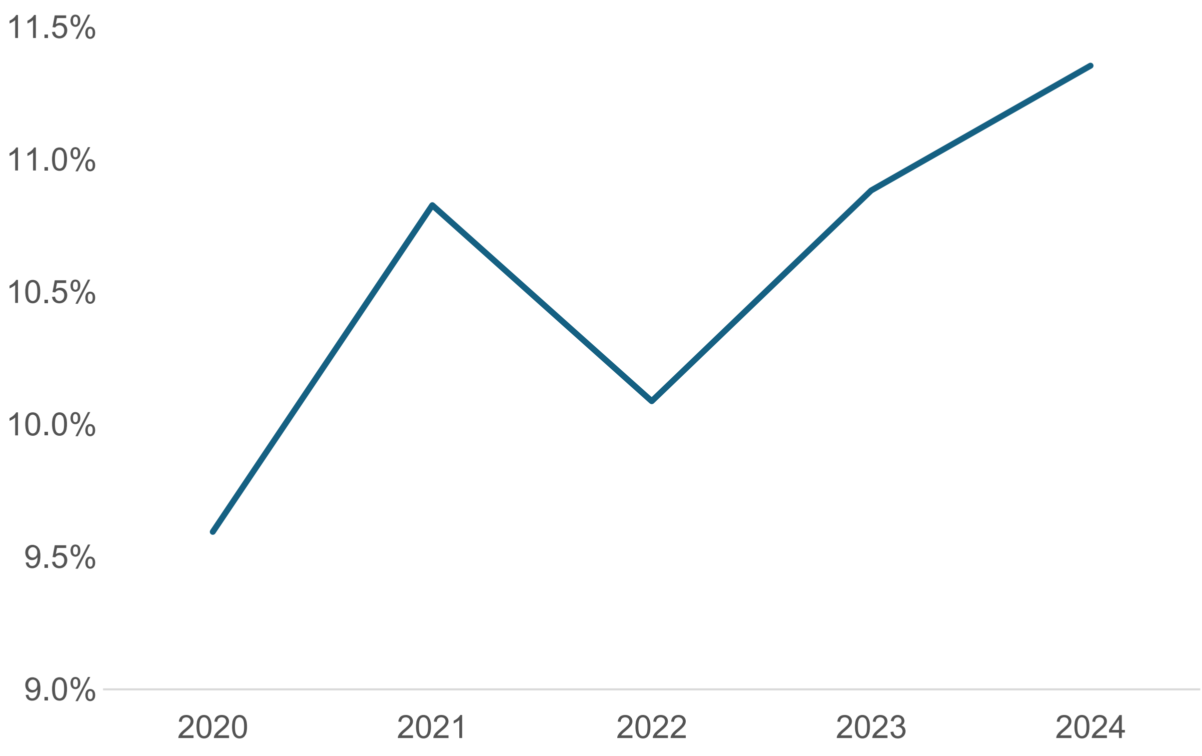
### ► Dual Growth Engines: Content Ecosystem and Monetization Efficiency

Growth momentum also comes from ongoing supply-side optimization and innovation. In gaming, major players extend product life cycles through refined IP operations and frequent content updates, while new releases expand supply. In online music and other segments, diversified value-added services and membership programs drive higher user conversion and ARPU. Rapid AI development is further catalyzing content creation and distribution efficiency, enhancing user experience and opening new monetization channels.

### ► Large Market Potential Offers Margin of Safety

Despite notable YTD outperformance in online entertainment stocks, investor positioning remains far from crowded, offering an attractive risk-reward profile. Some investors may rotate into the sector as a "safe haven" amid intensifying competition elsewhere.

**Share of Per Capita Spending on Education, Culture & Entertainment**



# Appendix Key Economic Data / Events

## AUGUST 2025

### 11 Monday

### 12 Tuesday

- US Jul Core CPI YoY (Act:3.1% Est:3.0% Prev:2.9%)
- US Jul CPI YoY (Act:2.7% Est:2.8% Prev:2.7%)
- US Jul CPI MoM (Act:0.2% Est:0.2% Prev:0.3%)

### 13 Wednesday

- Japan Jul PPI YoY (Act:2.6% Est:2.5% Prev:2.9%)
- Japan Jul Machine Tool Orders YoY Prelim (Act:3.6% Prev:-0.5%)

### 14 Thursday

- US Jul PPI YoY (Act:3.3% Est:2.5% Prev:2.4%)
- US Weekly Initial Jobless Claims (Act:224k Est:225k Prev:227k)
- Eurozone Q2 GDP YoY (Act:1.4% Est:1.4% Prev:1.4%)
- Eurozone Jun Industrial Production YoY (Act:0.2% Est:1.5% Prev:3.1%)

### 15 Friday

- US Jul Retail Sales MoM (Est:0.6% Prev:0.6%)
- US Jul Industrial Production (Est:0.0% Prev:0.3%)
- US Aug U. of Mich. Consumer Sentiment Prelim (Est:62.0 Prev:61.7)
- Japan Q2 GDP QoQ Prelim (Act:0.3% Est:0.1% Prev:0.1%)
- Japan Jun Industrial Production (Prev:-0.1%)
- Taiwan Q2 GDP YoY (Est:8.00% Prev:7.96%)

### 18 Monday

- Earnings: PANW

### 19 Tuesday

- US Jul Housing Starts (Est:1,290k Prev:1,321k)
- US Jul Building Permits Prelim (Est:1,390k Prev:1,393k)
- HK Jul Unemployment Rate (Prev:3.5%)
- Earnings: HD, MDT

### 20 Wednesday

- Eurozone Jul CPI YoY Final (Prev:2.0%)
- Japan Jul Exports YoY (Est:-1.8% Prev:-0.5%)
- Japan Jun Core Machinery Orders MoM (Est:-1.0% Prev:-0.6%)
- Taiwan Jul Export Orders YoY (Prev:24.6%)
- Earnings: TJX, LOW, ADI

### 21 Thursday

- US Weekly Initial Jobless Claims (Prev:224k)
- US Aug S&P Global Mfg PMI (Prev:49.8)
- Eurozone Aug HCOB Mfg PMI (Prev:49.8)
- Eurozone Aug Consumer Confidence Prelim (Prev:-14.7)
- Japan Aug S&P Global Mfg PMI (Prev:48.9)
- Jackson Hole Economic Policy Symposium(-8/23)
- Earnings: WMT, INTU

### 22 Friday

- Japan Jul Nationwide CPI YoY (Est:3.1% Prev:3.3%)
- Taiwan Jul Unemployment Rate (Prev:3.34%)

Source: Bloomberg

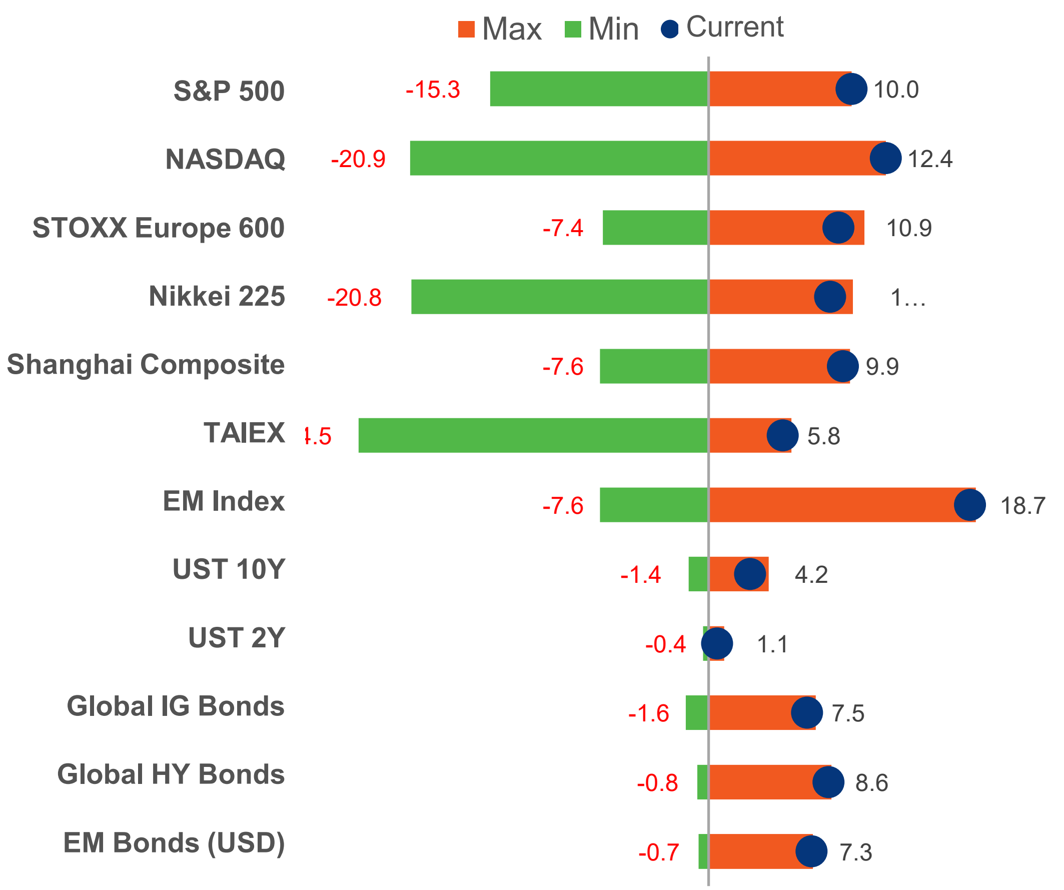
# Key Earnings Releases

| Date | Name | Revenue (F) (USD) | Actual Revenue (USD) | EPS (F) (USD) | Actual EPS (USD) | Exceed Expectation | |
|---|---|---|---|---|---|---|---|
| | | | | | | Revenue | EPS |
| 2025/8/13 | Cisco Systems, Inc (CSCO) | 14.62B | 14.67B | 0.98 | 0.99 | V | V |
| 2025/8/14 | Applied Materials, Inc. (AMAT) | 7.22B | 7.30B | 2.36 | 2.48 | V | V |
| 2025/8/14 | Deere & Company (DE) | 10.35B | 10.6B | 4.58 | 4.75 | V | V |

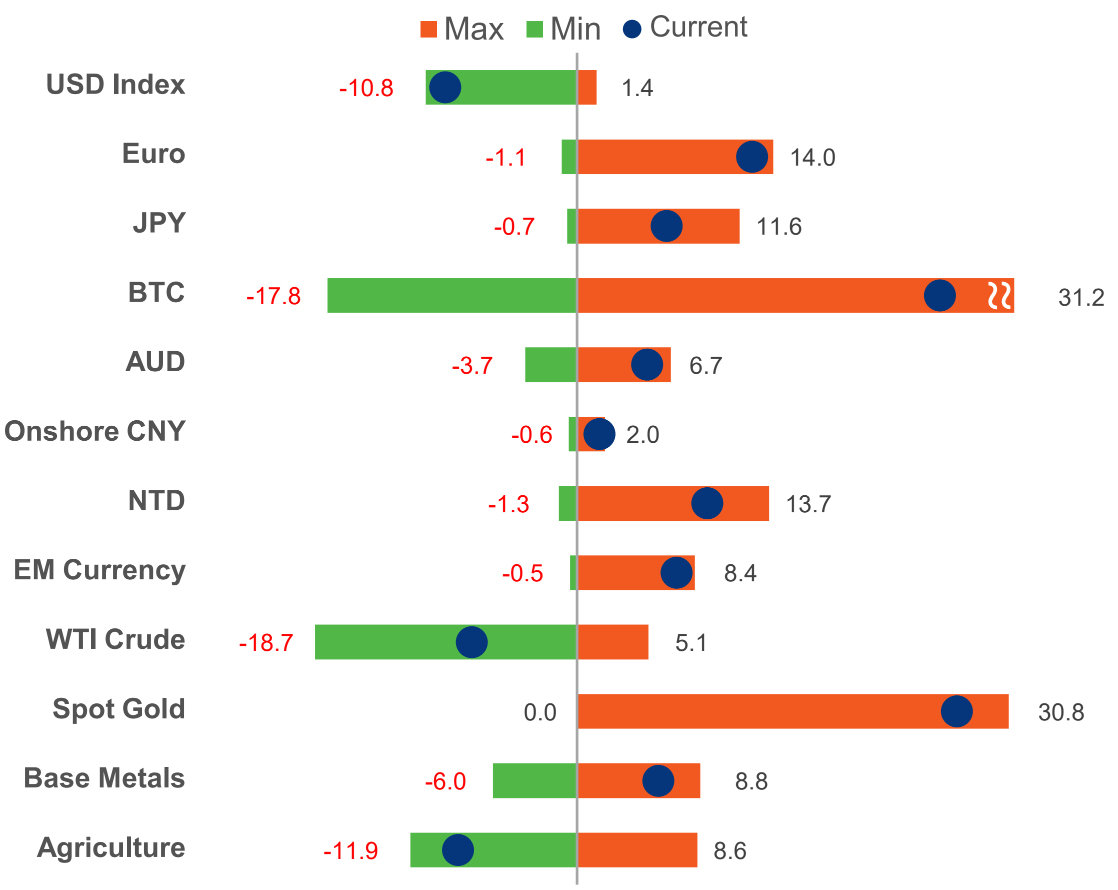
Source: Investing.com

# YTD Major Market / Asset Performance

## Equities & Bond Markets YTD Performance (%)




## Currencies and Commodities Market YTD Performance (%)




Source: Bloomberg, 15 Aug 2025

# Technical Analysis

### S&P 500 Index


### NASDAQ Index


### STOXX Europe 600 Index

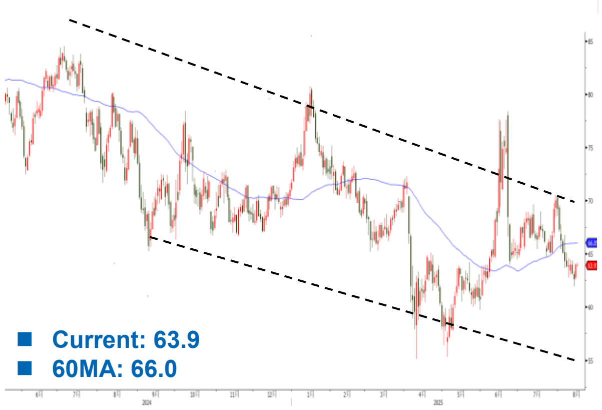

### Nikkei 225 Index


### Shanghai Composite Index


### MSCI Emerging Markets Index


### Gold


### WTI Crude

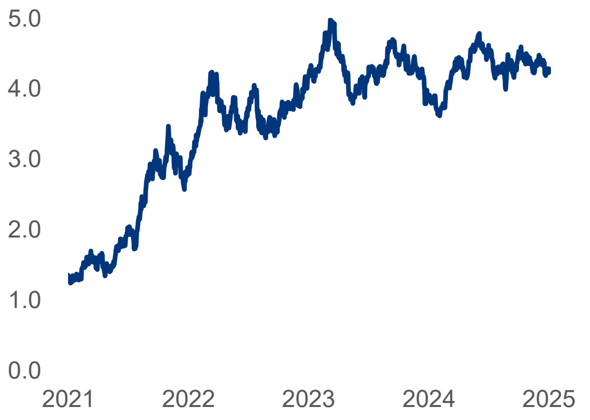



Source: Bloomberg, 15 Aug 2025

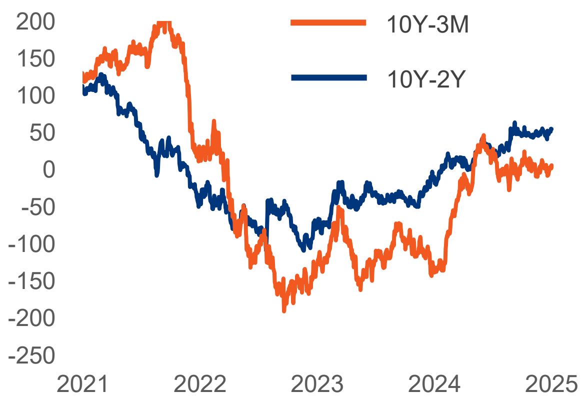
# Market Monitor

## U.S. CPI YoY (%)

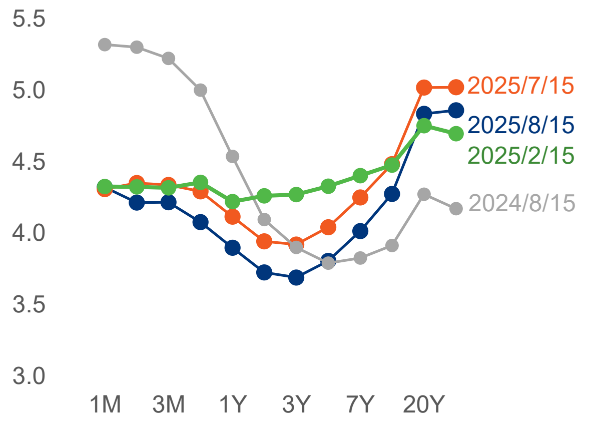

## U.S. 10-Year Treasury Yield (%)



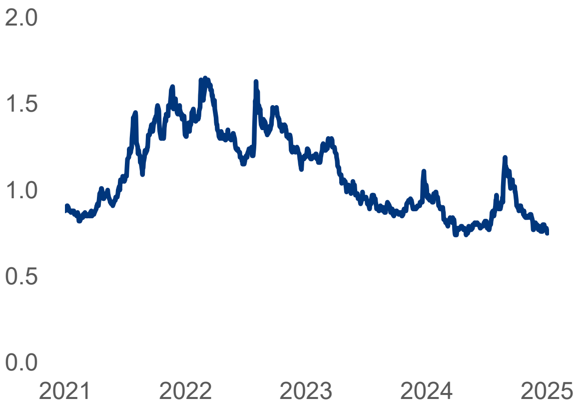

## U.S. Treasury Yield Spread (bps)



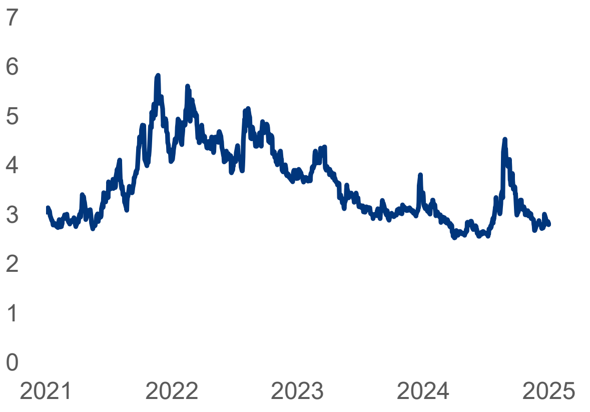

## U.S. Treasury Yield Curve (%)



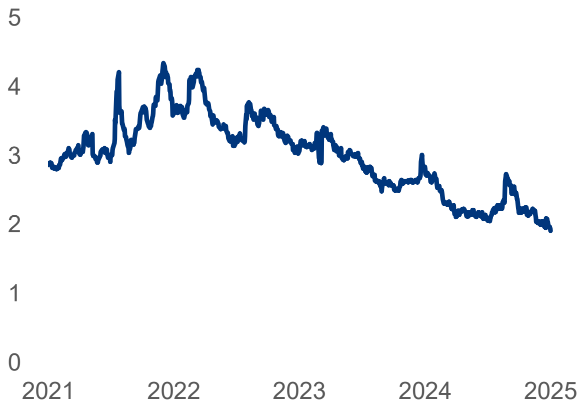

## USD IG Credit Spread (%)



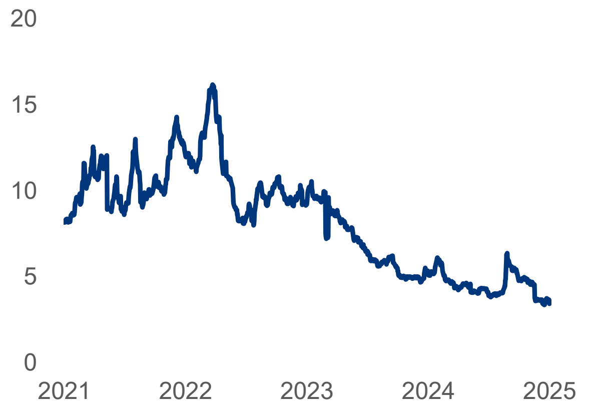

## USD HY Credit Spread (%)




## USD EM Credit Spread (%)



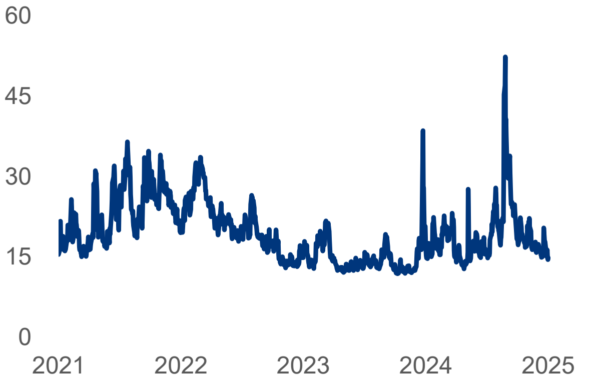

## USD Asia Credit Spread (%)



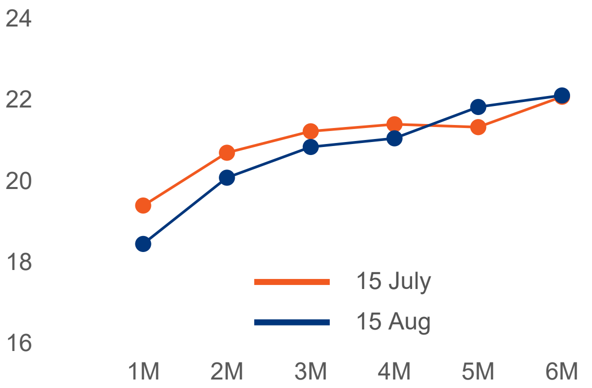

Source: Bloomberg, 15 Aug 2025

# Market Monitor

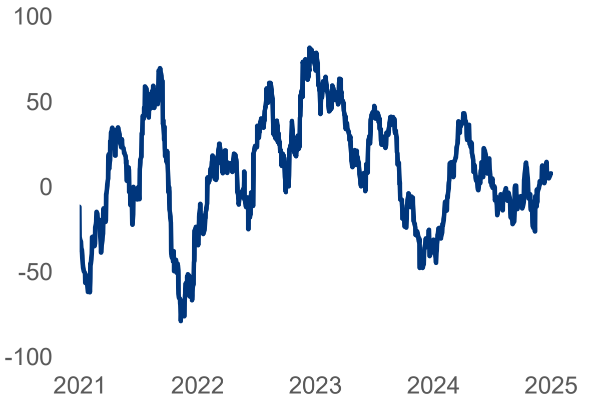
## VIX Index



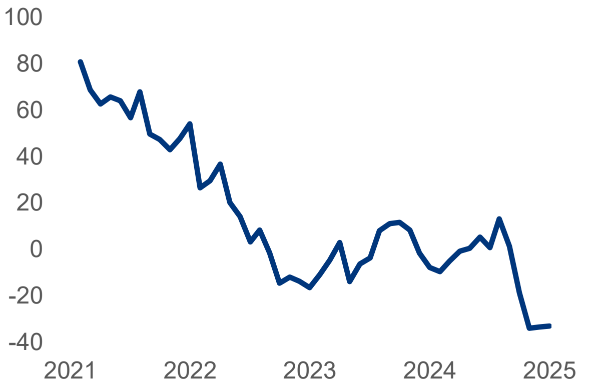

## VIX Term Structure



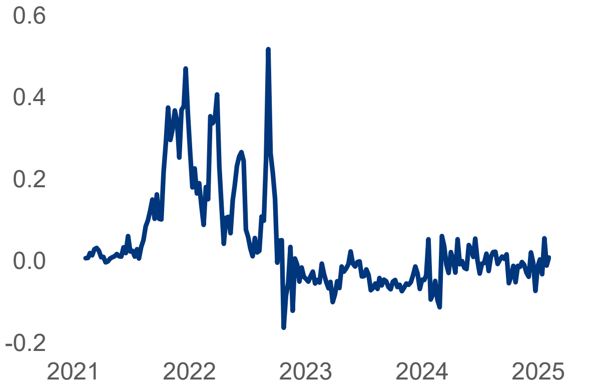

## U.S. Citi Economic Surprise Index*



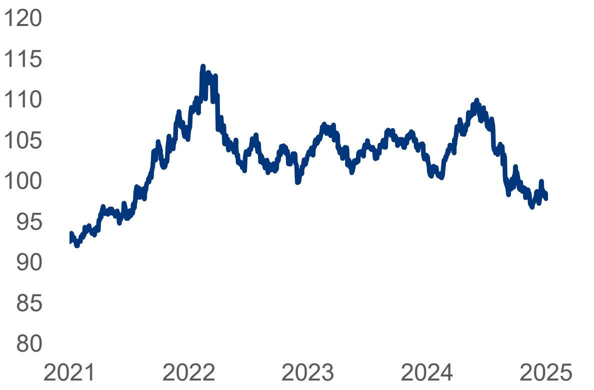

## U.S. Citi Inflation Surprise Index*



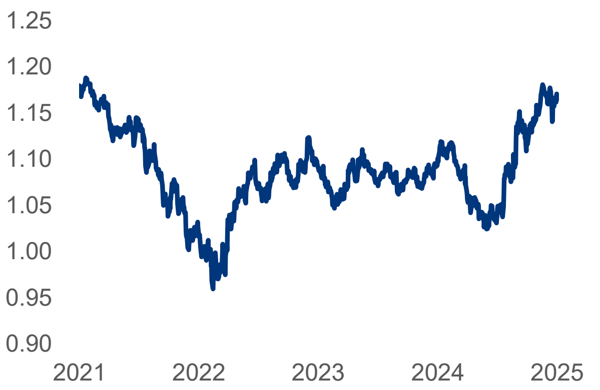

## TED Spread (bps)



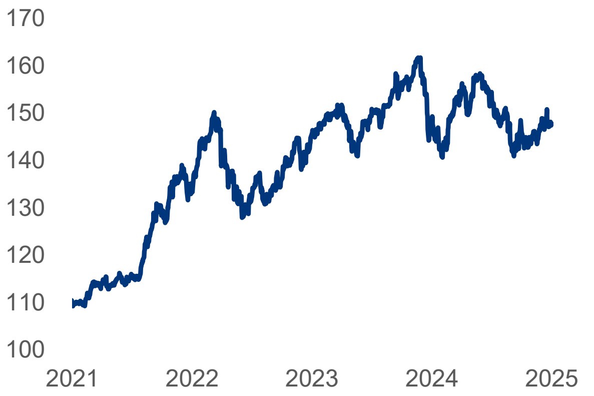

## U.S. Dollar Index




## EUR to USD




## USD to JPY




Source: Bloomberg, 15 Aug 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.

# Disclaimer and Important Notice

The information contained in the document herein is confidential and is not intended for general public distribution or for use by any person or entity located or residing in any jurisdiction which restricts the distribution of such information by KGI Asia Limited ("KGI") or any affiliate of KGI. Re-distribution of the document herein and any part thereof by any means is strictly prohibited. Such information shall not be regarded as an offer, invitation, solicitation or recommendation to invest in or sell any securities or investment products to any person or entity in any jurisdiction. The above information (including but not limited to general financial and market information, news services, market analysis and product information) is for general information and reference purpose only and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd. Such information is not intended to provide investment advice and should not be relied upon in that regard. You are advised to exercise caution, and if you are in any doubt about such information, you should seek independent professional advice.

You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided herein. In all cases, anyone proposing to rely on or use the information contained herein should independently verify and check the accuracy, completeness, reliability and suitability of the information. Simulations, past and projected performance may not necessarily be indicative of future results. Information including the figures stated herein may not necessarily have been independently verified, and such information should not be relied upon in making investment decisions. None of KGI, its affiliates or their respective directors, officers, employees and representatives will be liable for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind) suffered or incurred by any person or entity due to any omission, error, inaccuracy, incompleteness or otherwise, or any reliance on such information. Furthermore, none of KGI, its affiliates or their respective directors, officers, employees and representatives shall be liable for the content of information provided by or quoted from third parties.

Complex Products refers to an investment product whose terms, features and risks are not reasonably likely to be understood by a retail investor because of its complex structure. Investors should exercise caution in relation to complex products. Investors may lose the entire amount or more than the invested amount. For complex products with offering documents or information not reviewed by the Hong Kong Securities and Futures Commission (SFC), investors should exercise caution regarding the offer. For complex products described as SFC-approved, such approval does not imply official endorsement, and SFC recognition does not equate to a recommendation or assurance of the product’s commercial viability or performance. Past performance data, if provided, is not indicative of future performance. Some complex products are only available to professional investors. Before making any investment decisions, investors should review the offering documents and other relevant information to understand the key nature, features, and risks of the complex products. Independent professional advice should be sought, and investors should have sufficient net assets to bear the potential risks and losses associated with the product. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers, employees and representatives may from time to time have a position in any securities mentioned herein.

Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme. Bondholders are exposed to a variety of risks, including but not limited to: (i) Credit risk - The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer; (ii) Liquidity risk - some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity; (iii) Interest rate risk – When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price. Do not invest in bond unless you fully understand and are willing to assume the risks associated with it. Please seek independent advice if you are unsure.

All investments involve risks. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Prices of securities and fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein (in particular those associated with investments in emerging markets for funds investing in emerging markets)) in detail before making any investment decision. You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.