2025 US Economic Outlook

Bullish Start, Growing Caution

Bingnan YE, Ph.D
(852) 3761 8967
yebingnan@cmbi.com.hk

Frank Liu
(852) 3761 8957
frankliu@cmbi.com.hk

The Trump 2.0 era could prolong the US economic late-cycle, bringing overheating effects in the short term and stagflation in the medium term. The US economy is likely to see a soft landing with the GDP growth slowing from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. Inflation could fall slightly towards the target while Trump's policies could increase inflation uncertainty in medium term. The monetary policy will remain restrictive as the Fed may adopt a gradual approach to cutting rates for three times by 25bps each by end-2025. US dollar might remain strong in 1H25 amid the Trump uncertainty and weaken in 2H25 due to a possible reversal of the overshooting amid a US economic slowdown.

- Trump's tax stimulus will boost demand and inflation, while his deregulation could boost growth and exert a disinflationary effect. Immigrant deportations could reduce both labor supply and consumer demand, which is negative for growth and neutral for inflation. Tariffs could have stagflationary effects by hurting demand and raising supply costs. Trump's possible discretion over monetary policy could undermine the Fed's credibility and threaten inflation stability.
- In the baseline, Trump's moderate policies could add 0.2-0.3ppt to the GDP growth in 2025-2027 and lower the growth after 2027 by 0.1-0.2ppt. His policies might push up the inflation by 0.3-0.5ppt on average in 2025-2028.
- The economy could experience a soft landing, with GDP growth down from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. Slowdown pressures come from late cycle, Trump policy uncertainty and overseas economic weakness.
- The labour market may continue to moderate as the likelihood of a significant deterioration is low. The unemployment rate is expected to rise from 4.2% in 2024 to 4.3% in 2025 and 4.4% in 2026. Real wages will continue to increase.
- Disinflation may continue at a slower pace. PCE and core PCE inflation may slow from 2.4% in 2024 to 2.2% and 2.3% in 2025. Trump's policies could add some uncertainty to the inflation outlook in 2026.
- Consumer demand remains the main driver of growth. Its growth is projected to slow from 2.6% in 2024 to 2.4% in 2025 and 2.2% in 2026. Lower interest rates are positive for consumer durables, and sustained real wage growth will lay the foundation for robust consumer spending, but a cooling labour market and tightening consumer credit could bring mild downward pressure.
- Housing market could improve moderately, with housing sales and inventories expected to rise 5% and 10% in 2025. The main drivers are a resilient economy, lower mortgage rates, continued completion of new houses and a moderate easing of the lock-in effect of existing fixed-rate mortgages. House prices could continue to rise at a slower pace.
- Corporate earnings could pick up in 2025. The market expects EPS growth of S&P 500 companies to rise from 9.6% in 2024 to 15% in 2025. Business investment growth could slow from 3.7% in 2024 to 3.5% in 2025, due to Trump policy uncertainty and a possible overdraft effect on future demand in the Biden era.
- The Fed will take a gradual approach to rate cuts, with the federal funds rate likely to fall from the current 4.5%-4.75% to 4.25%-4.5% by end-2024, 3.75%-4.0% by end-2025 and 3.25%-3.5% by end-2026. The current pace of Treasury bill and bond roll-offs could end by 3Q25, when ample reserves are expected to decline to reasonable levels. 10-year Treasury yields are projected to decline from 4.2% at end-2024 to 4% at end-2025 and 3.75% at end-2026. The US dollar index is expected to fall from 105.5 at end-2024 to 104.5 at end-2025 and 102 at end-2026.

Contents

Figure 1: US Economic Forecast

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	Decade Average	Bloomberg Median			CMBI Forecast		
													2024F	2025F	2026F	2024F	2025F	2026F
Nominal GDP (US$tn)	17.6	18.3	18.8	19.6	20.7	21.5	21.4	23.7	26.0	27.7	29.0	-	29.2	30.4	31.7	29.1	30.5	31.7
GDP per Capita (US$th)	5.5	5.7	5.8	6.0	6.3	6.5	6.4	7.1	7.8	8.3	8.6	-	8.7	9.0	9.3	8.7	9.0	9.3
Real GDP (YoY %)	2.5	3.0	1.8	2.5	3.0	2.6	-2.2	6.2	2.5	2.9	2.9	2.5	2.7	2.1	2.0	2.7	2.3	2.0
Consumer Spending (YoY %)	2.8	3.4	2.5	2.6	2.7	2.1	-2.5	9.0	3.1	2.5	2.6	2.8	2.6	2.3	2.0	2.6	2.4	2.2
Private Investment (YoY %)	6.5	6.3	-0.1	4.4	5.8	3.2	-4.5	9.2	6.2	0.2	4.8	3.7	4.2	2.7	3.0	4.6	3.6	3.0
Residential	4.3	10.6	7.1	4.3	-0.7	-0.9	7.6	11.5	-8.6	-7.8	4.7	2.7	-	-	-	4.5	3.5	2.9
Non-residential	8.1	3.3	1.8	4.6	6.9	3.8	-4.6	6.2	7.0	6.0	4.0	4.3	-	-	-	3.7	3.5	2.7
Exports (YoY %)	3.9	0.3	0.5	4.1	2.9	0.5	-13.1	7.2	7.5	2.8	3.2	1.7	3.3	2.8	3.0	3.4	2.0	0.5
Imports (YoY %)	5.2	5.2	1.5	4.7	4.0	1.2	-8.9	15.4	8.7	-1.2	5.2	3.6	5.5	3.7	2.6	5.2	2.6	1.2
Government spending (YoY %)	-0.9	2.0	2.0	0.6	2.0	3.9	3.4	-0.3	-1.1	3.9	3.5	1.5	3.3	1.7	1.1	3.5	0.8	1.2
Federal Deficit (YoY %)	2.8	2.4	3.1	3.4	3.8	4.6	14.7	12.1	5.4	6.3	6.1	5.9	6.5	6.4	6.4	6.5	6.3	6.3
PCE (YoY %)	1.4	0.2	1.0	1.7	2.0	1.4	1.1	4.1	6.6	3.8	2.5	2.3	2.5	2.1	2.2	2.4	2.2	2.1
Core PCE (YoY %)	1.5	1.2	1.6	1.6	1.9	1.6	1.3	3.6	5.4	4.2	2.8	2.4	2.8	2.3	2.2	2.7	2.3	2.2
Unemployment (YoY %)	5.6	5.0	4.7	4.1	3.9	3.6	6.7	3.9	3.5	3.7	4.2	4.5	4.1	4.3	4.2	4.2	4.3	4.4
Fed Funds Rate (YoY %)	0.1	0.2	0.6	1.3	2.4	1.6	0.1	0.1	4.3	5.3	4.6	1.59	4.55	3.65	3.45	4.50	4.00	3.50
10-Year Note (%)	2.2	2.3	2.5	2.4	2.7	1.9	0.9	1.5	3.9	3.9	4.4	2.41	4.30	4.10	3.97	4.20	4.00	3.75
USD Index	90.3	98.7	102.4	92.3	96.1	96.4	90.0	96.0	103.5	101.4	106.9	96.7	105.8	105.1	101.7	105.5	104.5	102.0

Source: Wind, Bloomberg, CMBIGM estimates

Note: Consumption, investment, exports, imports and government spending are in real-term growth rates.

The Trump 2.0 Era

Following his landslide victory in the presidential election and the Republican Party's control over both the Senate and the House of Representatives—along with arguably a more conservative Supreme Court—Trump is more resolute than ever in advancing his "Make America Great Again" (MAGA) agenda. This will be driven by four core pillars: tax cuts, deregulation, immigration reform and tariffs. Tax cuts may boost demand and inflation, while deregulation could boost growth and lower inflation by improving supply and efficiency. Immigrant deportation will reduce both labor supply and aggregate demand, with a negative impact on growth and neutral influence on inflation. Tariffs would bring stagflationary effects by reducing growth and increasing inflation. Trump's discretion over monetary policy might erode the Fed's credibility and risk inflation stability.

Trump's policies might bring overheating effect in 2-3 years as the supportive effects of tax cuts and deregulation should outweigh the negative impact of immigration policy and tariffs in the short to medium term. However, the balance of the two sides may change in the longer term with combined stagflation effects. The effect of tax cuts will diminish while the tariffs will generate much inefficiency and uncertainty and the immigration policy will bring negative labor supply shock. In the base scenario with moderate policy implementation, Trump's policies could add 0.2-0.3ppt to the average annual GDP growth in 2025-2027 and reduce the annual growth after 2027 by 0.1-0.2ppt. His policies might push up the PCE inflation by 0.3-0.5ppt on average in 2025-2028.

However, the actual impact may deviate noticeably from the estimates as there are still many unknowns like the scope and timing of the policies, the responses of economic entities and the possible offsetting effects of different policies. Trump has an incentive to making progress in the issues that voters are most concerned about in the run-up to the midterm elections in November 2026. Polls show the top three issues voters are most concerned about are inflation, immigration and jobs. Therefore, Trump's priorities should be lowering energy prices (de-regulation to increase energy production, pushing for an end to the Russia-Ukraine war), reducing immigration (deporting illegal immigrants and reforming immigration policy) and creating more jobs (tax cuts and de-regulation). Trade and tariffs are not top of mind for voters, and large-scale tariff increases may conflict with the disinflation goal. So tariffs may not happen until inflation drops to lower levels, or they may be used by Trump as a means of the 'extreme pressure' strategy. The market has already priced in higher interest rates, stronger US dollar and better corporate earnings. Mid-term treasury yields have risen the most, indicating that the policy mix would have the greatest impact on the economy and inflation over the next 2-3 years.

Tax Cuts

On tax cuts, Trump's priority will be the full extension of the 2017 Tax Cuts and Jobs Act (TCJA) beyond 2026. He may also restore the 100% bonus depreciation on capital expenditures, which expired in 2022, to incentivize business investment. Additionally, he has promised to cut the corporate income tax rate from 21% to 15% for domestic manufacturing companies, eliminate individual income taxes on tips and social benefits, and increase/reinstate the cap on state and local tax deductions. The extension of the TCJA is expensive which is estimated to cost US$4.6tn over 10 years, according to the Congressional Budget Office (CBO). We anticipate that many of the campaign pledges are likely to face challenges in being fully implemented as concrete policies. The impact of Trump's tax cuts on US growth and inflation might be mild in 2025 as most of the measures are a perpetuation of existing policies.

On spending cuts, the proposed Department of Government Efficiency has vowed to help reduce some expenditures through efficiency improvements. Spending cuts have tightening effects on the economy. But there's still a lot of uncertainty about how much Trump can actually reduce government spending. Mandatory spending including spending on Social Security, Medicaid, and Medicare amounted to nearly US$3tn, over 40% of total government spending. These programs are expected to grow steadily due to inflation, an aging population, and rising healthcare costs.

We generally determine the fiscal contribution to economic growth by monitoring fiscal deficit ratio. In recent years, fiscal expansion has played a significant role in the strong economic growth in the US. Fiscal deficit to GDP ratio remained elevated at 6.5% in 2023-2024, well above the 4.5% recorded in 2018-2019. We expect the Biden Administration’s Fiscal Year 2025 budget plan will largely remain intact, with structural changes through budget reconciliation process under the new Congress. The fiscal deficit may slightly moderate to 6.4% in 2025 from 6.5% in 2024, as the fiscal tailwinds begins to fade. The full impact of the fiscal policies under the incoming administration may not materialize until the fourth quarter of 2025, when the Fiscal Year 2026 budget takes effect.

Deregulation

Trump's deregulation policies aim to reduce the regulatory burden on businesses and stimulate economic growth. Key areas targeted for deregulation include energy (rolling back environmental regulations), healthcare (expanding access to various insurance plans), and labor (reducing compliance costs for small businesses). Trump may also launch initiatives to extend deregulation efforts to state and local levels, encouraging reforms in occupational licensing and other regulatory frameworks. Deregulation policies could lead to higher economic growth by encouraging entrepreneurship, stimulating investments, increasing efficiency and facilitating competition. Deregulation policies might cause mild downside pressure on inflation by boosting supply and productivity.

Scott Bessent, Trump's nominee for Treasury Secretary, has championed a "3-3-3" economic plan, which aims to reduce the federal budget deficit while stimulating growth and energy production. The plan calls for reducing the budget deficit to 3% of GDP by 2028, boosting GDP growth to 3% annually through deregulation and other pro-growth policies, and increasing US energy production by 3 million barrels per day. Markets have interpreted this nomination as a signal for greater fiscal discipline and pro-growth measures within the administration. However, there is skepticism surrounding the feasibility of his energy agenda, as US energy companies generally require crude oil prices to be at least US$65 per barrel for drilling to be profitable and US$89 per barrel to substantially increase drilling, according to the latest survey by the Kansas City Federal Reserve. Given the weak demand outlook and current subdued oil prices, achieving an additional 3 million barrels per day of US oil production appears highly challenging.

Immigrate reform

Immigration has been a central focus of Trump's campaign, where he promised to prioritize immigration reform from day one of his presidency. His proposal includes securing the southern border, mobilizing military resources and declaring a national emergency to fund mass deportations. According to estimates from the Department of Customs and Border Protection, approximately 11 million undocumented immigrants were living in the US as of January 2022. With significant inflows in recent years, we estimate the number could reach 16-18 million by the end of 2024. Of these, 13 million are employed, making up roughly 7.7% of the total US workforce.

While markets are concerned that Trump's proposed mass deportations could reignite inflation and hinder economic growth, the logistical, legal, and political challenges of such an endeavor make it unlikely. We expect that Trump will adopt a more gradual approach to immigration, using a "salami-slicing" strategy to tackle easier tasks first. First, under his executive powers, Trump is likely to focus on reducing undocumented immigration inflows by reversing the current "catch and release" policy and reinstating the "Remain in Mexico" policy. According to the Congressional Budget Office (CBO), the gross increase of undocumented immigrants, who either entered illegally or overstayed their visas, was estimated to be 3.3 million in 2023, with about 2 million entering outside of official posts, including 1.1 million caught and released by CBP officials and 0.86 million who were not encountered. Second, Trump is expected to pursue changes to the legal immigration system, likely shifting it to a more merit-based system and reducing chain migration. However, during his first term, the number of legal immigrants gradually dropped from 1.31 million in 2017 to 0.6 million in 2020, while the number of H1-B visas for high-skilled workers also declined, with the denial rate increasing sharply. Finally, the more complex and far-reaching measure would be the deportation of undocumented immigrants within US borders. Trump is expected to target those with criminal charges or denied asylum applications, estimated to be about 2 million individuals.

Our baseline scenario is that Trump will reduce the net inflow of undocumented immigrants from an average of 2.1 million annually between 2022 and 2024 to just 0.1 to 0.2 million annually from 2025 to 2028. Overall net immigration may also decrease from an average of 3 million annually from 2022-2024 to 0.8 to 1.1 million annually from 2025-2028. A more pessimistic scenario, involving large-scale deportations, could see as many as 1.5 million to 2.2 million individuals deported between 2025 and 2028, compared to 1.2 million deportations during Trump's first term and 1.3 million deported during Operation Wetback in 1954, the largest deportation in US history.

Immigrants have played a vital role in supporting economic growth by contributing to the labor supply and increasing demand especially for food, housing, education and other items. Additionally, undocumented immigrants help alleviate the fiscal deficit, as they contribute to tax revenues through consumption and payroll taxes while having limited access to social benefits. The CBO estimates that the net fiscal impact of undocumented immigrants is expected to be a positive US$261bn from 2025 to 2028, or about 6% of the projected fiscal deficit, excluding interest payments.

Trump's immigration policy would impact both the supply and demand sides of the economy. A sharp decline in the net inflow of immigrants, coupled with increased deportations, would lower the GDP growth by reducing the labor force, diminishing demand for goods and services, pushing up fiscal deficit and increasing precautionary savings among remaining immigrants. Under the baseline scenario, we expect immigration restrictions to drag annual GDP growth by 0.1-0.15ppt in 2025-2028. However, under deportation scenario, the GDP could be 1% to 1.5% lower than its original trend without deportations by 2028.

The immigrant policy has a mixed impact on US inflation as immigrants increase both labor supply and consumer demand. Fed reserve Chairman Powell said in July 2024 that immigration is neutral on inflation in the long run. For the sectors that rely heavily on undocumented workers, such as agriculture (40%), construction (20%), and leisure and hospitality (10%), immigrant deportation might cause labor supply shock and inflation pressure. For the sectors that benefit incremental demand from immigrants, such as housing and education, fewer immigrants may cause mild disinflation effects.

Tariffs

President-elect Trump has described tariffs as “the most beautiful word in the dictionary,” expressing his commitment to bringing manufacturing jobs back to the US and reducing America’s trade deficit through tariff hikes. During his campaign, he proposed imposing a 30% or 60% tariff on all imports from China and a 10% or 20% tariff on imports from the rest of the world. It remains unclear whether Trump is using tariff threat as a negotiation tool, “escalate to de-escalate”, or if he genuinely believes that tariffs are the solution to reducing the US current account deficit and revitalizing American manufacturing. We are inclined to believe the latter, based on his cabinet picks for Secretary of Commerce, Trade Representative, and Treasury Secretary, where the Treasury Secretary was chosen for the loyalty to his tariff proposals after a prolonged consideration. Trump would have the authority to quickly implement tariffs across the board to the rest of the world, using the "International Emergency Economic Powers Act" (IEEPA) by declaring a national emergency. However, this approach is likely to face legal challenges and retaliation from other nations.

Trump’s approach to China will likely differ, as the Section 301 investigations initiated during his first term are already in place. A more practical strategy would involve building on existing tariffs. We anticipate the first round of tariff hikes—ranging from 15% to 25%—on the current lists of tariffs covering Chinese imports (valued at approximately US$320bn or 8.4% of US imports in 2023) might be implemented by 3Q25. Further rounds of 15%-25% broad increases might follow in 2026, contingent on the outcome of negotiations. Given that the Phase 1 trade deal was largely unfulfilled, the upcoming negotiations are expected to be far more contentious, with little room for compromise. The US may also revoke China’s most favored nation trade status. As such, our baseline scenario predicts that the weighted average tariff on Chinese goods will rise from the current 10%-13% to 20%-30% by end-2025, and could reach 30%-50% by end-2026. For the rest of the world (ROW), the weighted average tariff may increase from the current 1% to 2%-3% in 2025, and could either remain at 1%-2% or rise further to 4%-5% in 2026, depending on the success of Trump’s strategy.

Tariffs are expected to exert upward pressure on the CPI, potentially adding 0.2-0.5ppt annualized to inflation starting in 4Q25. In terms of GDP growth, the initial tariff hikes are likely to reduce US growth by 0.1ppt in 2025 and 0.3ppt in 2026. If a full-blown trade war results in retaliatory tariffs from the rest of the world, the impact on GDP could be as large as 0.4-0.8ppt in 2026.

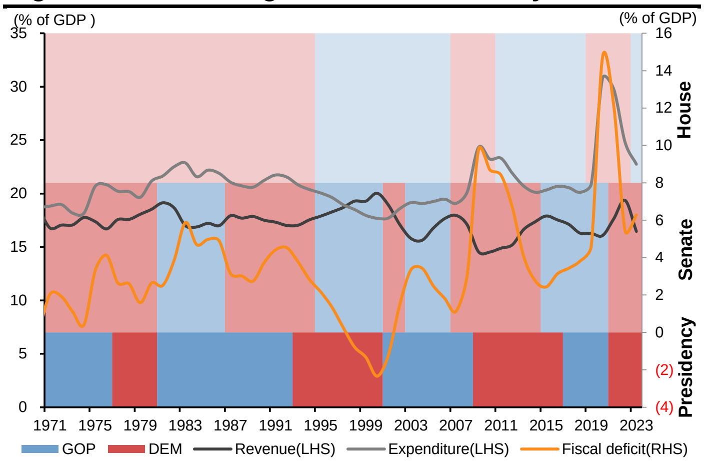
Lower-income households would bear the brunt of the tariff impact, as they spend a disproportionate share of their income on low-cost imported goods such as electronics, footwear, textiles, and clothing. The tariffs would reduce their demand for those goods. Business capex could also be affected, particularly as the first round of tariffs on the ROW may target intermediate goods to minimize the direct inflationary effect on final consumer products. Ironically, tariff policies cannot address the trade imbalance and manufacturing outsourcing. The US trade deficit has remained high because of large savings and investment gaps amid high federal deficits, low household savings rates and strong business investments. The massive outsourcing of manufacturing has been due to the high costs of local manufacturing and the lack of industrial workers in the US.

Figure 2: Trump's Major Policies

POLICY TOPICS	Impact on Real GDP	Impact on Inflation		Likelihood	Presidential Executive Power	Legislative Action Required
Taxes	Mild & Positive before 4Q25;Bigger impact in FY26	Mild & Positive before 4Q25;Bigger impact in FY26	Full Extenstion of 2017 Tax Cut and Job Act	Highly		✓
			Reduce corporate tax rate to 15% from 21% for companies manufacturing their products in the U.S	Medium		✓
			Eliminate income taxes on tips, overtime pay and Social Security benefits.	Less		✓
			Increasae/reinstate deduction cap for local and state income taxes.	Less		✓
Deregulation	Mild, Positive	Mild, Negative	Deregulate oil and gas drilling.	Highly	✓	
			Rolling back environmental regulations and subsidies	Highly	✓	
			Reducing compliance costs for small businesses	Highly	✓	
			Deregulate financial services sector	Highly	✓	
Immigration	-0.1-0.15ppt in baseline; 1-1.5% lower than original trend by 2028 under mass deportation	Slight positive or neutral	Tighten undocumented crossings at southern border	Highly	✓	
			Mass Deportation of 1.5-2.2m in 2025-28	Medium	✓	✓
			Implement more restrictive immigration rules, including avenues for legal work and student visas.	Highly	✓	
Trade	2025:-0.1ppt 2026:-0.3ppt; -0.4-0.8 if retaliation from ROW	0.2-0.5ppt annualized starting in 4Q25	15-25% tariff hikes on current lists of Section 301 investigations on China by 3Q25	Highly	✓	
			Effective tariff to the ROW increase to 2-3% in 2025 from current 1%	Highly	✓	

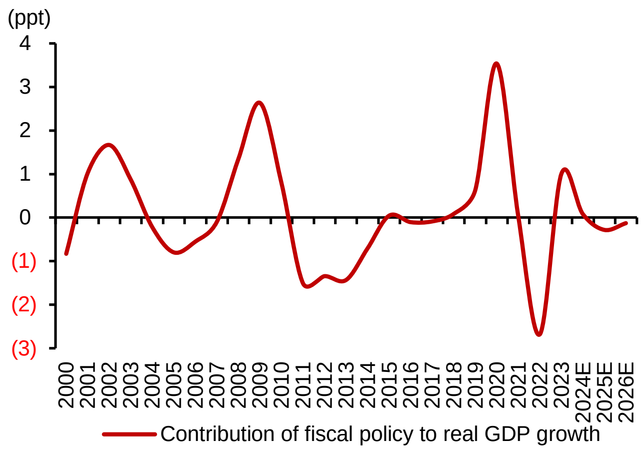
Source: Wind, Bloomberg, CMBIGM estimates

Figure 3: Fiscal Budgets in the Political Cycle



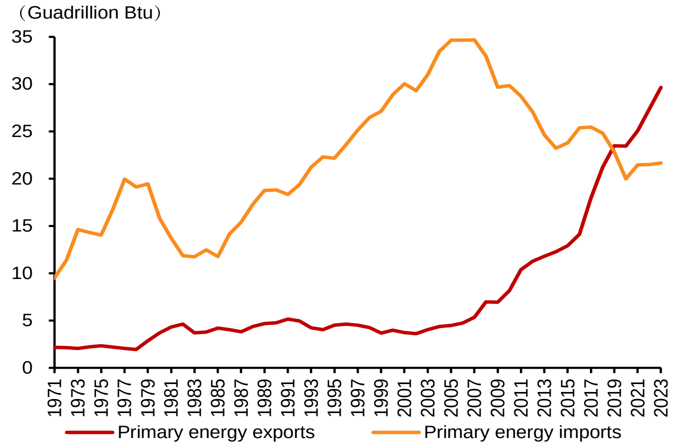
Source: Wind, Bloomberg, CMBIGM

Figure 4: Fiscal Impulse on Real GDP Growth



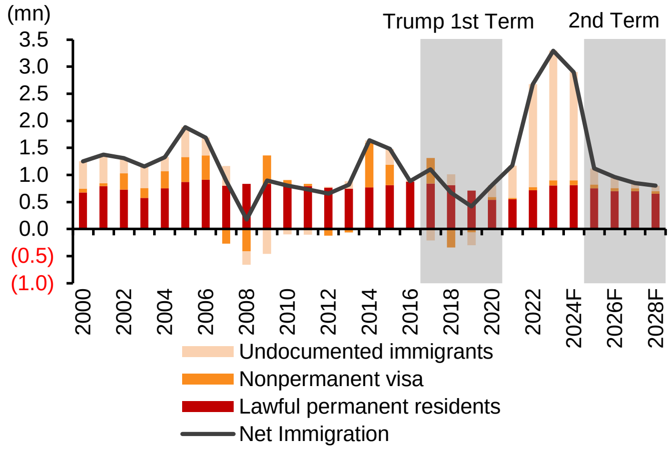
Source: Brookings, CMBIGM

Figure 5: Primary Energy Exports & Imports



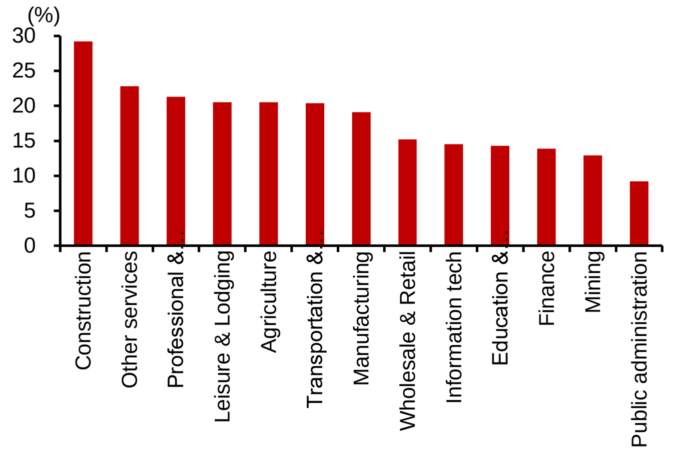
Source: Wind, Bloomberg, CMBIGM

Figure 6: Net Immigration Inflow



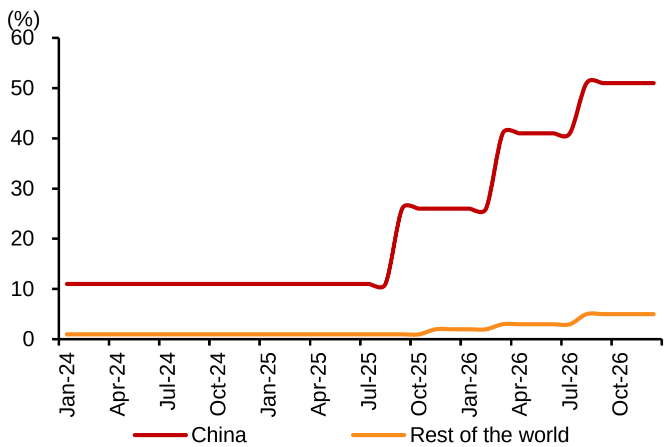
Source: Brookings, CMBIGM estimates

Figure 7: % of Foreign-Born Employees by Sector



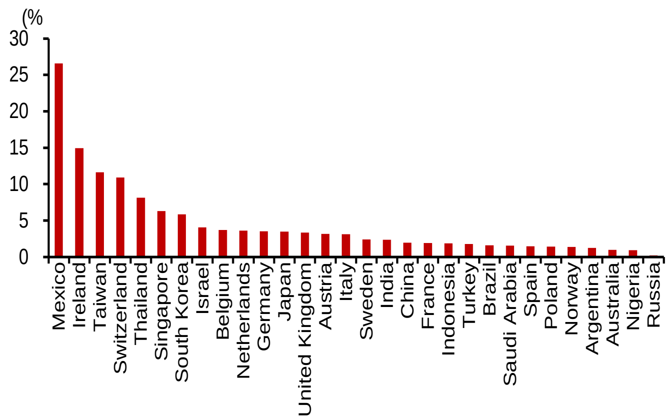
Source: Wind, Bloomberg, CMBIGM

Figure 8: Expected Effective Tariff Rates on Imports



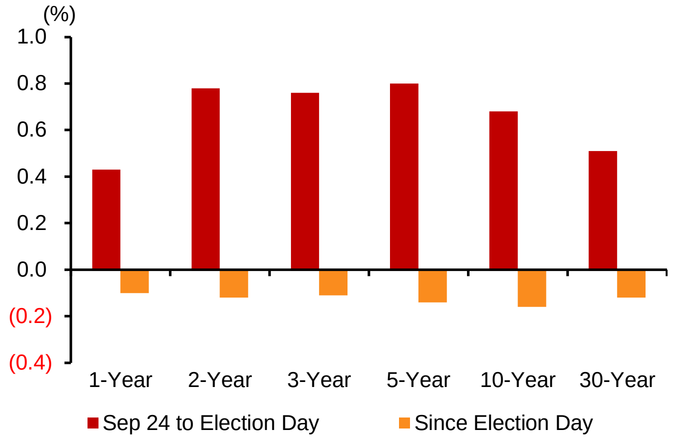
Source: Brookings, CMBIGM estimates

Figure 9: Merchandise Exports to US as % of GDP in 2023



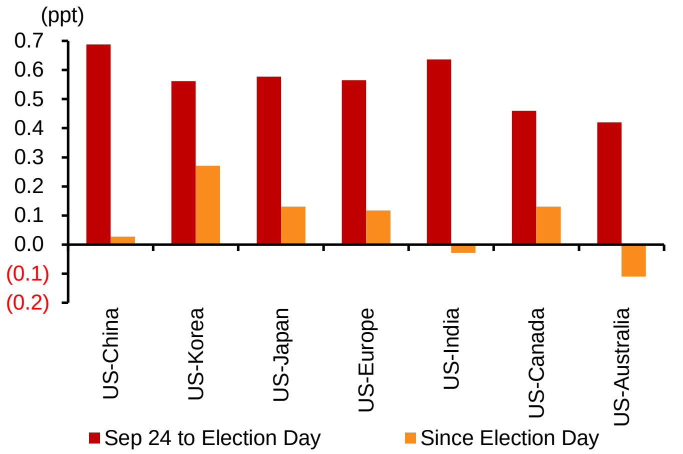
Source: Wind, Bloomberg, CMBIGM

Figure 10: T-bond Yield Changes around the Election



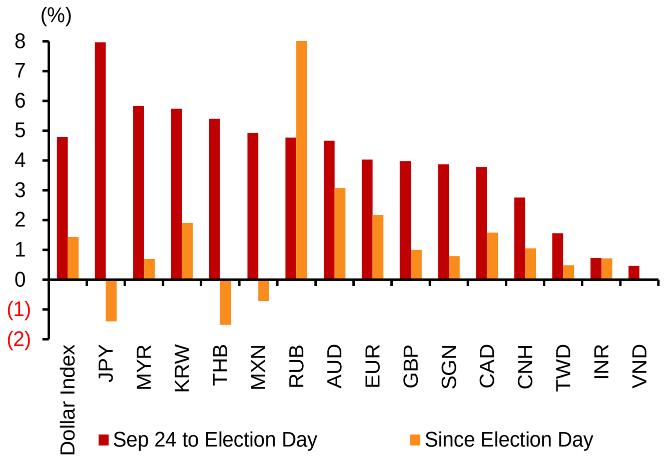
Source: Brookings, CMBIGM

Figure 11: Changes of T-bond Yield Differentials around the Election



Source: Wind, Bloomberg, CMBIGM

Figure 12: Changes of US Dollar against Other Currencies around the Election



Source: Brookings, CMBIGM

Growth

US economic growth has remained strong in 2024. We project the GDP growth to reach 2.7% in 2024, down from 2.9% in 2023. Despite a slowdown, the GDP growth is expected to remain higher than the 2014-2023 average of 2.5% and the estimated potential growth of 2.2%. The PCE inflation has been higher than the target while the unemployment rate has remained low. The above trends indicate the economy has mildly cooled down yet remained resilient.

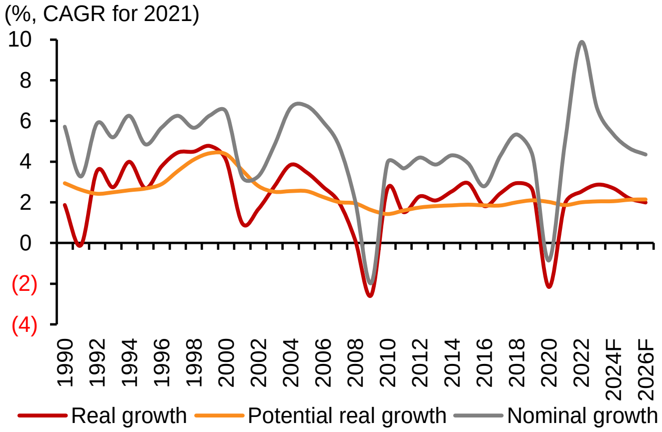
Consumer spending, business investment, government spending and exports have been major contributors to the strong growth in 2024. Household consumption at constant price is expected to grow 2.6% and contribute 1.7ppt to GDP growth in 2024, compared to the annual average levels of 2.8% and 1.8ppt in 2014-2023. The consumption growth has been supported by a resilient job market, solid wage gains, strong wealth effects and low debt burden amid the lock-in effect of fixed-rate mortgages. Non-residential investment at constant price is projected to rise 3.7% in 2024, compared to the 2014-2023 average of 4.3%. Strong earnings, AI innovation and positive economic outlook expectations have supported business investment, while high interest rates have had some negative impacts. Government spending at constant price might increase 3.5% in 2024 as the Biden administration has kept fiscal deficit high. Exports of goods and services at constant price is estimated to increase 3.4% in 2024 as both overseas demand and supply chain have improved.

Looking forward, US economic growth may gradually slow in 2025-2026. We expect the GDP growth to decelerate from 2.7% in 2024 to 2.3% in 2025 and 2% in 2026. We expect the growth rates of household consumption, non-residential investment, government spending and exports at constant prices to respectively soften from 2.6%, 3.7%, 3.5% and 3.4% in 2024 to 2.4%, 3.5%, 0.8% and 2% in 2025.

Downward pressure on the economic growth will come from three sources. First, as the economy enters a post-cycle, the impact of the high base and the lagged effects of high interest rates may further emerge. Second, policy uncertainty and global economic connections may finally increase US economic risks. Trump's policies may cause slower disinflation, less interest rate cuts and stronger US dollar, likely to prolong the effects of the restrictive monetary policy. His proposed tariffs and immigrant deportations would hurt consumer demand, business confidence and labor supply. Third, the economic weakness in non-US regions might finally affect the US economy especially if Trump launches the Trade War 2.0.

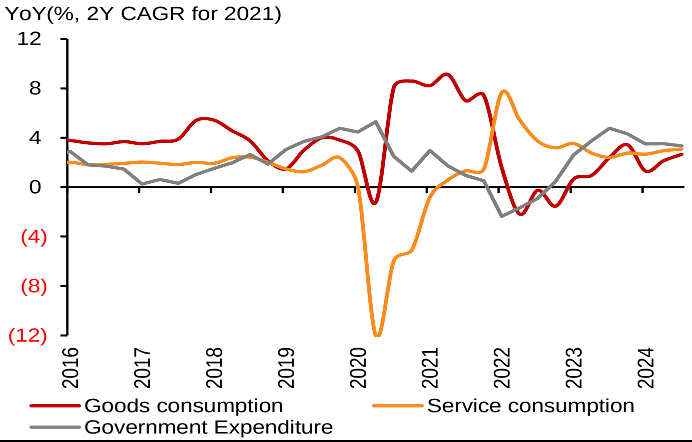
But the economy is expected to achieve a soft landing in 2025-2026. First, business cycles in different sectors have been out of sync as they have experienced rolling downturns, lowering the possibility of economic recession. In 2020-2021, the home economy was hot with housing demand and durable consumption in a super-boom cycle while service consumption in a recession. In 2022-2023, abrupt interest rate hikes sent housing and durables into a contractionary cycle, but service consumption continued to recover after the economic reopening. Second, household balance sheets have been strong as the housing and stock markets have boomed and fixed-rate mortgages have reduced the impact of interest rate hikes on household debt service burden. Third, firms have built up large cash reserves over the past few years thanks to fiscal handouts, a buoyant home economy and a revival in the service sector, reducing the squeeze effect of interest rate hikes on their capital expenditure. Last, fiscal deficits have remained high with continued expansion in government spending, making an important contribution to economic growth.

Figure 13: Real & Nominal GDP Growth



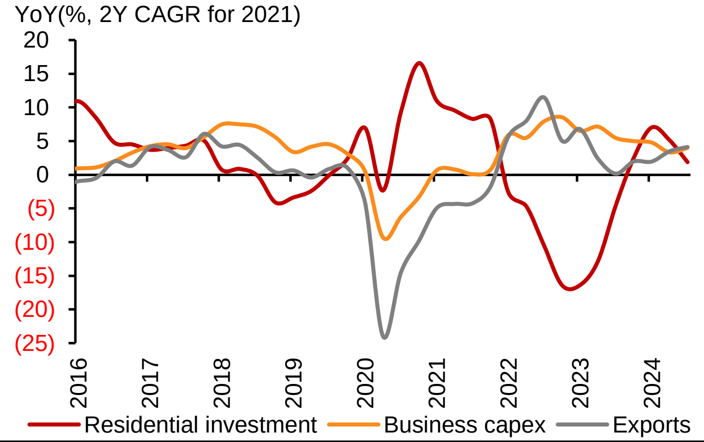
Source: Bloomberg, Wind, CMBIGM estimates

Figure 14: Consumer & Government Spending Growth



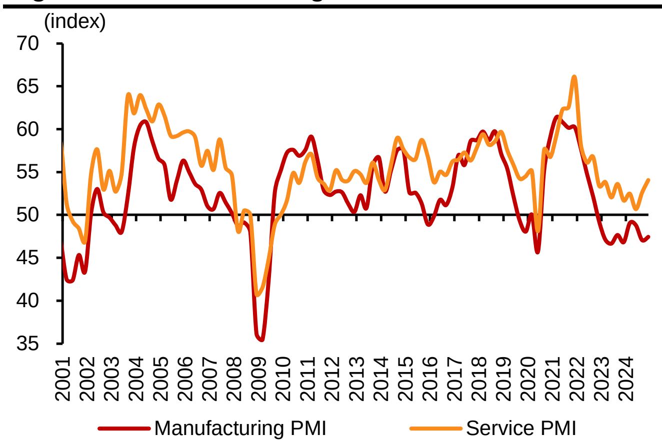
Source: Bloomberg, Wind, CMBIGM estimates

Figure 15: Growth of Investments & Exports



Source: Bloomberg, Wind, CMBIGM estimates

Figure 16: Manufacturing & Service PMI



Source: Bloomberg, Wind, CMBIGM estimates

Employment

The labor market has gradually cooled down yet remained resilient in 2024. Both hiring and layoffs remain relatively low. Average monthly incremental non-farm payrolls declined to 180k in 11M24, down from 251k in 2023. The unemployment rate rose slightly from 3.7% in December 2023 to 4.2% in Nov 2024, still within a historically low range. The ratio of job vacancies to unemployment declined from 1.4 in December 2023 to 1.1 in October 2024, slightly below the pre-pandemic level of 1.2. The employment cost index grew 3.9% in 3Q24, down from 4.6% in 2023. Its growth was gradually approaching the target wage growth of 3.5%, which aligns with the 2% inflation target with 1.5% labor productivity growth. As the labor market has cooled down, wage growth has been no longer a significant driver of inflationary pressure.

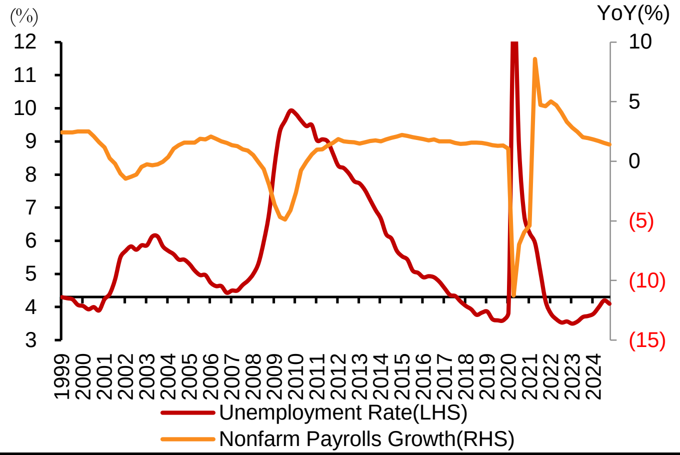
Other metrics, such as declines in job vacancies, quit rates, and turnover rates, also suggest a gradual easing of labor demand. Initial claims for unemployment benefits have trended down following a surge caused by labor strikes and extreme weather, while continuing claims have slowly increased. The time it takes for unemployed individuals to find new jobs has also lengthened. The job growth has been concentrated in healthcare, leisure & hospitality, and government. The three sectors together accounted for over 75%

of total non-farm payroll growth in 2024. As the employment catch-up effect from the pandemic fades with fewer immigrants potentially filling positions in these sectors, non-farm payroll growth might continue to slow.

The quarterly revisions in Aug 2024 of Quarterly Census of Employment and Wages (QCEW) have raised concerns about whether the employment data has been overly optimistic. The increase in the unemployment rate triggered the Sahm Rule in August. The Sahm Rule signals the start of a recession when the three-month moving average of the unemployment rate rises by 0.5ppt or more relative to the minimum of the three-month averages from the previous 12 months. However, our analysis suggests that this situation differs from previous ones. The rise in unemployment was largely due to the influx of immigrants expanding the labor force, while the number of employed individuals continued to grow steadily and the level of layoffs remained low.

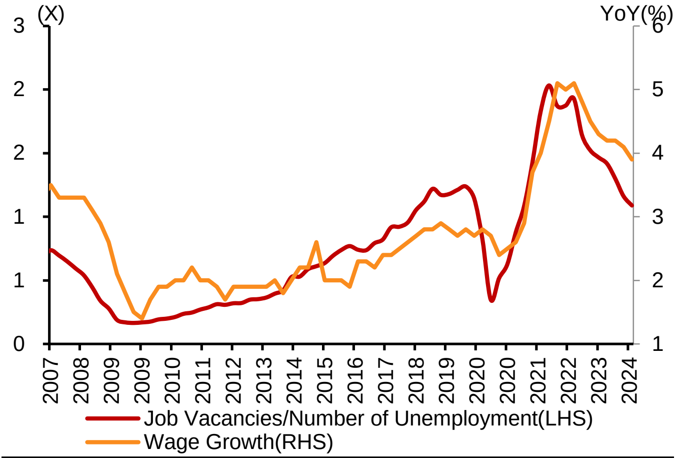
Labor market may continue to moderate in 2025, with the likelihood of a significant deterioration remaining low. A sharp decline in labor market conditions would require substantial weakness in key components of aggregate demand, such as consumption, investment, and government spending—none of which we foresee at this time. We expect non-farm payrolls may decline to around 125k per month and the unemployment rate is likely to rise to 4.3% in 2025 as the economy continues to slow. Wage growth is expected to decelerate mildly but should still outpace inflation. Real wages will continue to rise, supporting household consumption growth.

Figure 17: Unemployment Rate & NFP Growth



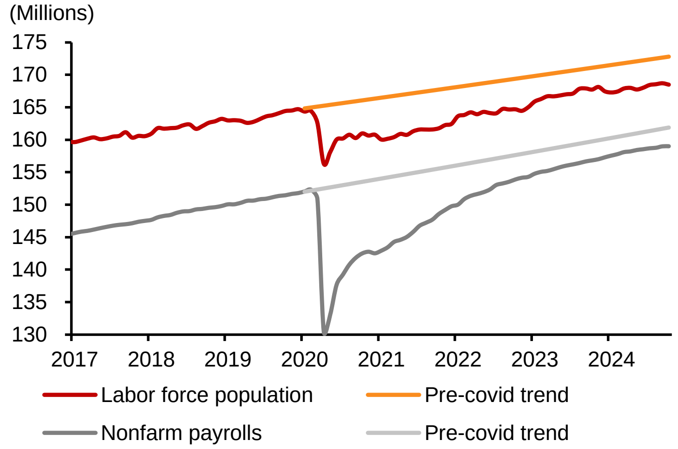
Source: Bloomberg, Wind, CMBIGM

Figure 18: The Job Openings-to-Unemployment Ratio



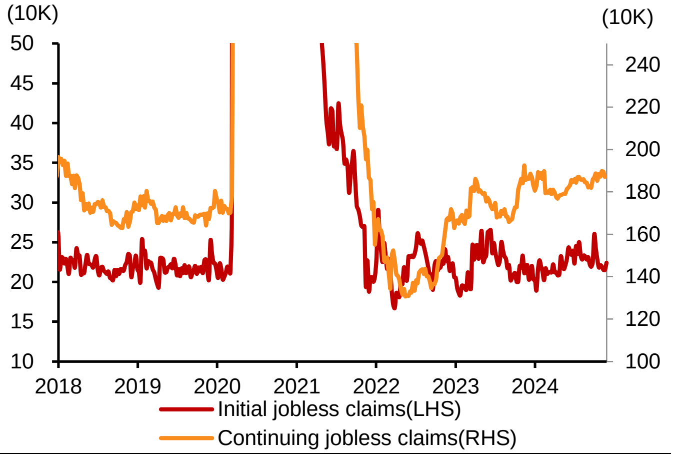
Source: Bloomberg, Wind, CMBIGM

Figure 19: Labor Force and Nonfarm Payrolls Trend



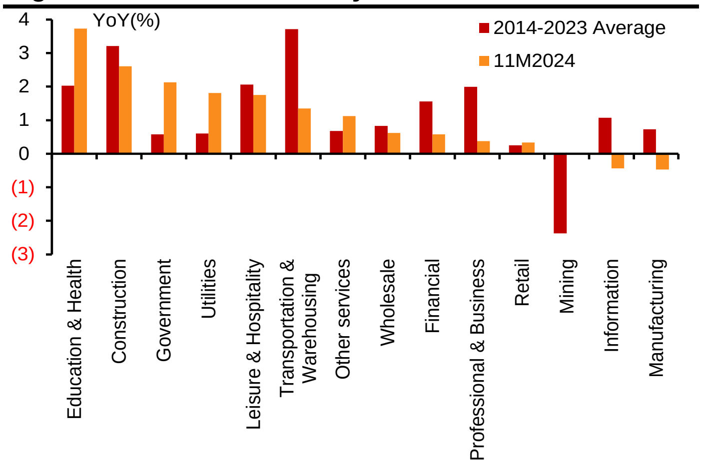
Source: Bloomberg, Wind, CMBIGM

Figure 20: Initial & Continuing Jobless Claims



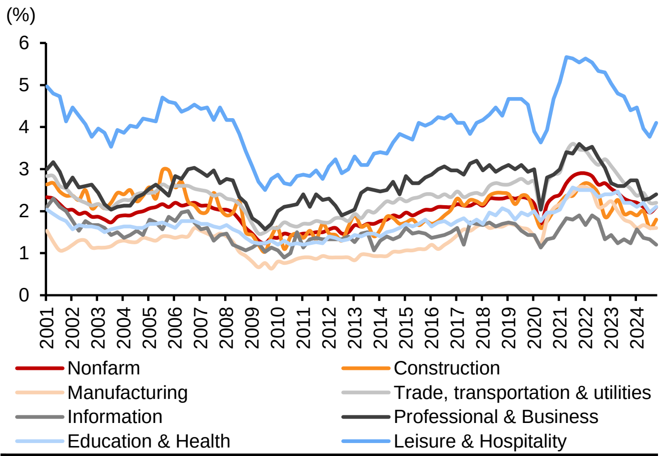
Source: Bloomberg, Wind, CMBIGM

Figure 21: Growth of NFP by Sector



Source: Bloomberg, Wind, CMBIGM

Figure 22: Quit Rate by Sector



Source: Bloomberg, Wind, CMBIGM

Inflation

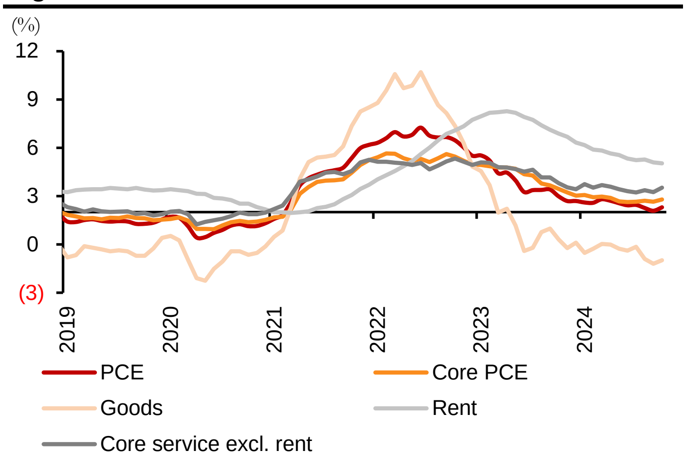
Inflation has significantly moderated in 2024. Prices in consumer goods especially in food, energy and durables have decreased notably due to supply chain resumption, manufacturing overcapacity and consumer demand shift from goods to services. But service disinflation has been much slower because of the stickiness of adjustments in rent and wage contract prices. The 3-month moving average (3MMA) of PCE inflation declined from its peak of 7% in mid-2022 to 2.8% in December 2023 and 2.2% in October 2024. The 3MMA of core PCE inflation dropped from the peak of 5.6% in March 2022 to 3.2% in December 2023 and 2.7% in October 2024. Rent inflation has eased from its peak of 8.3% in March 2023 and 6.2% in December 2023 to 4.9% in October 2024.

Rent disinflation has been much slower than other items because there has been a lag in rent changes in the CPI. The CPI rent component divides its survey sample into six groups, with data collected every six months. Since US rental agreements are typically renewed annually, new leases make up a small portion of the sample, which delays the reflection of the latest rental market prices in the CPI. The All Tenant Regressed Rent Index (ATRR) and New Tenant Rent Index (NTR), which capture both existing and new tenants' rental price changes, respectively fell from their peaks of 7.7% and 12.9% to 3.9% and 1% in 3Q24. Since the beginning of 2024, single-family rent has had a higher weight in the CPI survey samples and a lower proportion of new lease agreements in the sample, increasing the lag of the rent disinflation. For rent inflation, the situation is that the destination is clear, the pace at which it reaches that point remains uncertain.

Disinflation will continue with a slower pace in 2025. We expect PCE and core PCE inflation rates to edge down from 2.4% and 2.7% in 2024 to 2.2% and 2.3% in 2025. On the energy front, weaker global demand and an expansion of supply from Trump's energy policy, coupled with OPEC halting production cuts, should keep energy inflation under control, although its contribution to the overall disinflation will diminish. Core goods inflation may continue to decline in 2025 as business pricing power wanes and consumers become increasingly price-sensitive. The PPI has been in negative year-over-year territory for the past three months, with minimal month-over-month growth in October. Import prices have also remained subdued compared to pre-pandemic levels. Rent inflation might further decline as it lags behind the disinflation trend of new rental contract prices. Non-rent service inflation is closely related to labor cost growth. As labor market gradually cools and wage growth moderates, non-rent service inflation should generally trend downward.

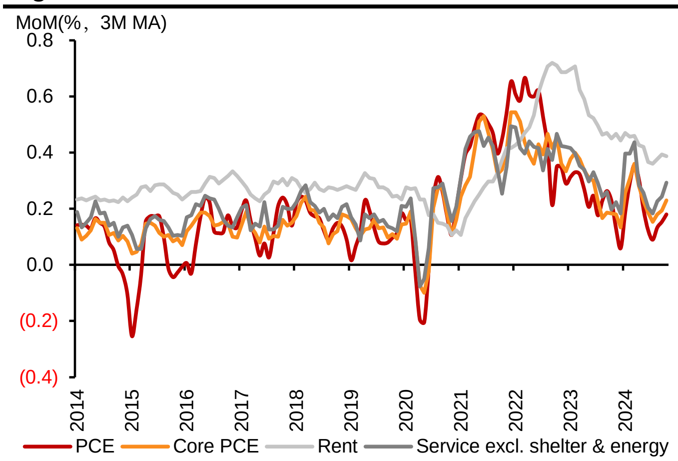
Trump's policies might bring some uncertainty for the inflation outlook in 2026 or later. His tariffs and tax cuts would moderately increase inflation pressure in 2026. A 10% tariff on all imports with 30% tariffs on the imports from China by end-2025 are projected to push up US PCE inflation in 2026 by 0.6ppt after taking into account the pass-through effect of the dollar appreciation on import prices and the dampening effect of higher prices on demand. The impact of his immigrant policy on the inflation might be neutral as the demand-channel effects offset the labor supply shock.

Figure 23: PCE Inflation in Term of YoY Growth



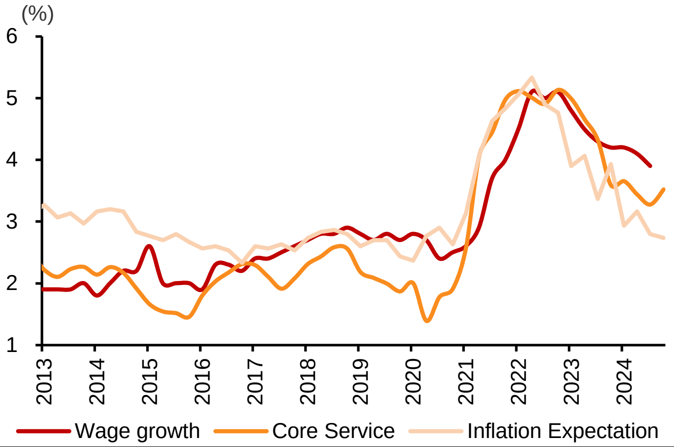
Source: Bloomberg, Wind, CMBIGM

Figure 24: PCE Inflation in Term of MoM Growth



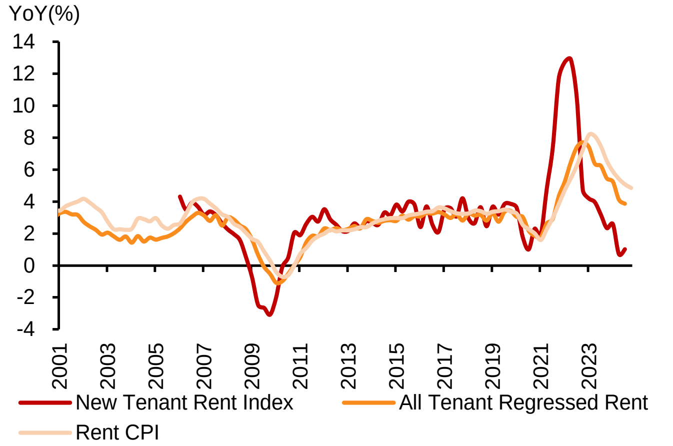
Source: Bloomberg, Wind, CMBIGM

Figure 25: Wage Growth & Core Service Inflation



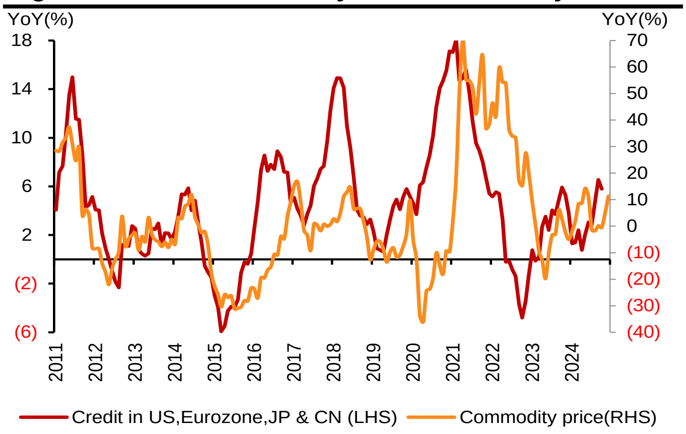
Source: Bloomberg, Wind, CMBIGM

Figure 26: NTR & ATRR Index & Rent CPI



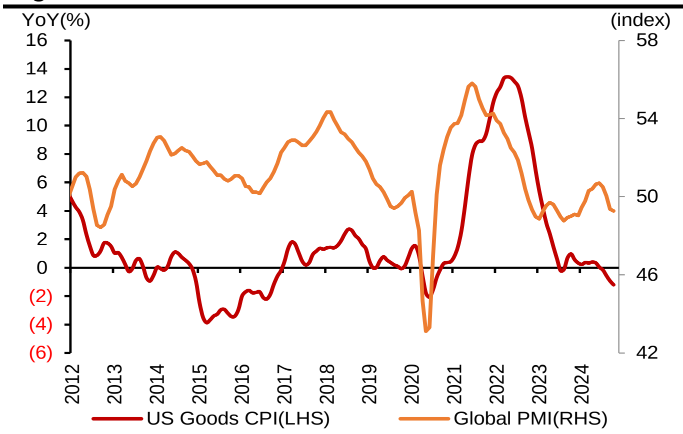
Source: Bloomberg, Wind, CMBIGM

Figure 27: Global Credit Cycle & Commodity Price



Source: Bloomberg, Wind, CMBIGM

Figure 28: US Goods Inflation & Global PMI



Source: Bloomberg, Wind, CMBIGM

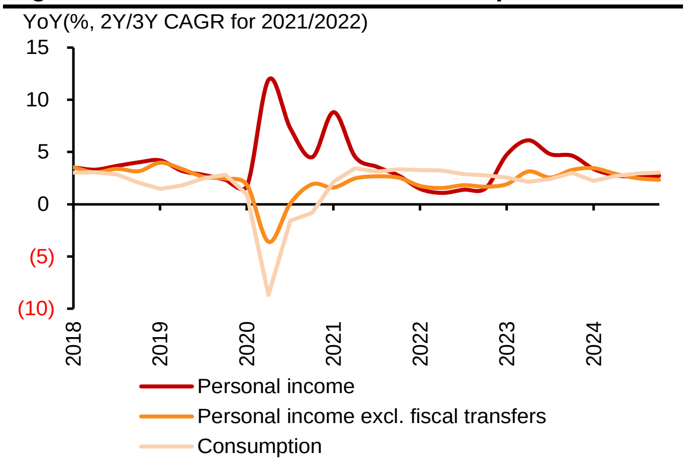
Consumption

Household consumption has remained strong especially in services as a key driver for economic resilience in 2024. Consumer spending at constant price rose 2.7% YoY in 10M24 and might reach 2.6% in the full year, compared to 2.5% in 2023. The consumption growth continued to outpace the pre-pandemic trend. Goods consumption grew 2.2% in 10M24, following a 1.9% increase in 2023, with non-durable goods rebounding to 1.9% from 0.8% in the previous year, while durable goods slowed to 2.7% from 3.9% in 2023. Food and apparel consumption increased by 1.3% and 1.5%, respectively, while spending on energy products fell by 0.4%. Auto consumption declined by 2.2% in 10M24, down from 3.1% in 2023, due to elevated real interest rates, while purchases of furniture and home appliances rebounded by 4.3%, up from 1.8% in the previous year. Service consumption rose by 2.91% in 10M24, slightly higher than the 2.86% increase in 2023. Consumption in health care, recreational services, food and accommodation, and financial services showed moderate deceleration, while transportation services saw a notable surge.

Several key drivers have supported strong household consumption in 2024. First is the strong fixed investment and robust labor market. We estimate private investment at constant price to grow 4.6% in 2024, higher than the 2014-2023 average of 3.7%. Strong capex expansion has continued to support labor demand. Unemployment rate has slightly increased yet remained low. Non-farm payrolls have maintained growth rates slightly higher than the 2015-2019 average. Wage income growth has remained strong. Second is the increased consumer confidence and declined savings ratio. Consumer confidence has improved with a lower savings ratio in 2024, translating into a willingness to spend on both essential and discretionary items. Third is the wealth effect from booming asset prices. Continued increases in equity and home prices have bolstered household balance sheets. We estimate the boost to consumer spending from asset booming might reach 0.3ppt in 2024. Last is continued support from government spending initiatives. Government spending has supported household consumption by transferring funds, creating jobs and enhancing public services. We project government spending at constant price to increase 3.5% in 2024, likely to contribute 0.5ppt to the US GDP growth.

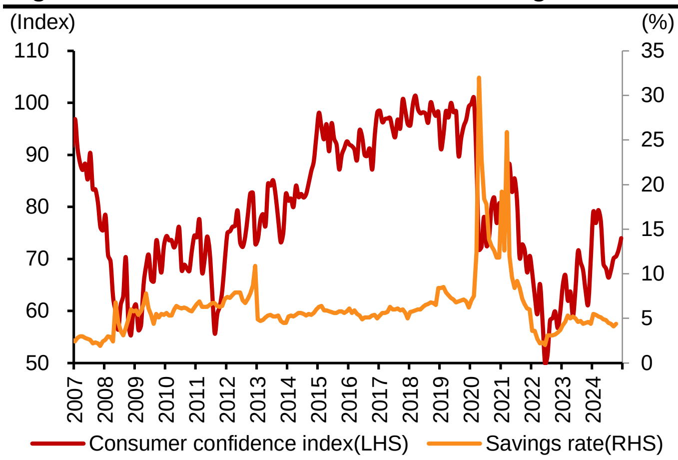
Household consumption growth might remain resilient yet at a lower rate in 2025. Consumer spending at constant price is projected to grow 2.4% in 2025, down from 2.6% in 2025. Overall outlook will remain positive, but a few risks might emerge to slow the consumption growth. Lower interest rates should be positive for home and consumer durables demand, but Trump's policies will reduce the Fed's room to cut rates. Labor market might further mildly cool down with a slight increase of unemployment rate and a mild decline of wage growth. Home equity might continue to rise yet with a slower pace with the continued rebalancing of home supply and demand. Corporate earnings and equity market momentum might remain strong, but over-optimism and over-valuation mean the market could be headed for volatility. Consumer confidence might remain high, but rising consumer delinquency rates and tightening credit condition might bring some downside pressure on consumer demand.

Figure 29: Personal Income & Consumption Growth



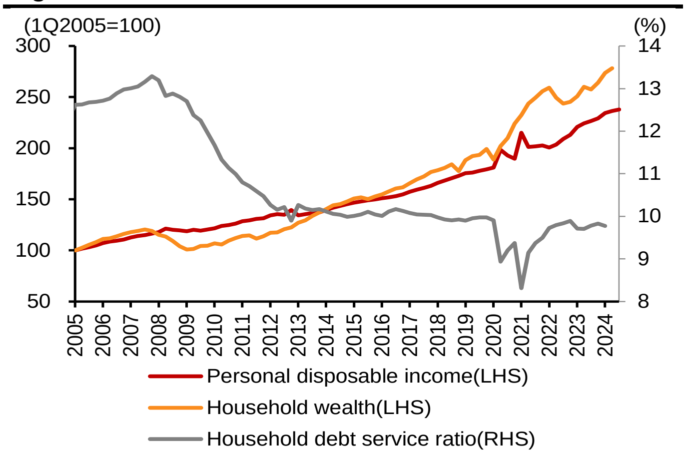
Source: Bloomberg, Wind, CMBIGM

Figure 30: Consumer Confidence & Savings Rate



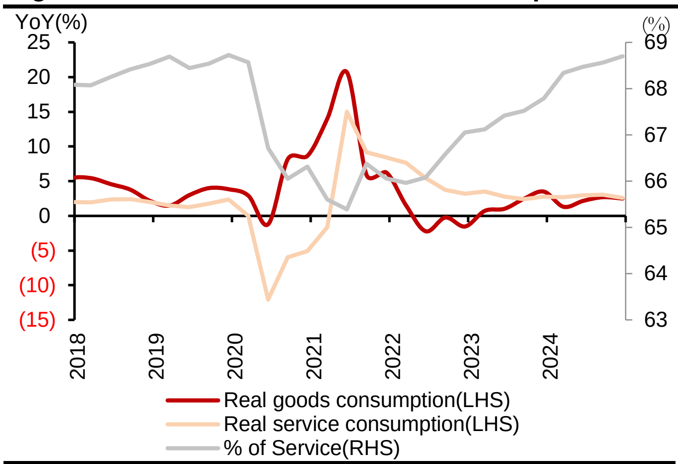
Source: Bloomberg, Wind, CMBIGM

Figure 31: Household Wealth & Debt Service Ratio



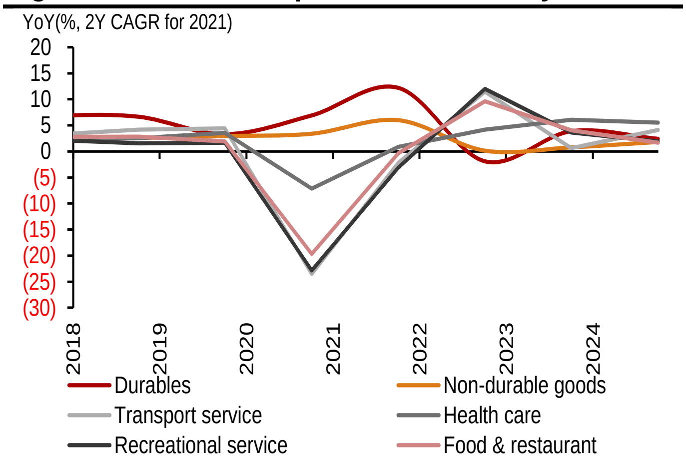
Source: Bloomberg, Wind, CMBIGM

Figure 32: Real Goods & Service Consumption



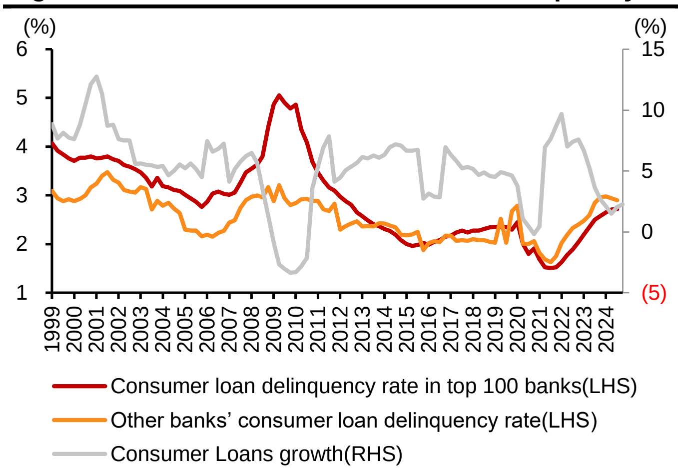
Source: Bloomberg, Wind, CMBIGM

Figure 33: Personal Expenditure Growth by Item



Source: Bloomberg, Wind, CMBIGM

Figure 34: Consumer Loan Growth & Delinquency



Source: Bloomberg, Wind, CMBIGM

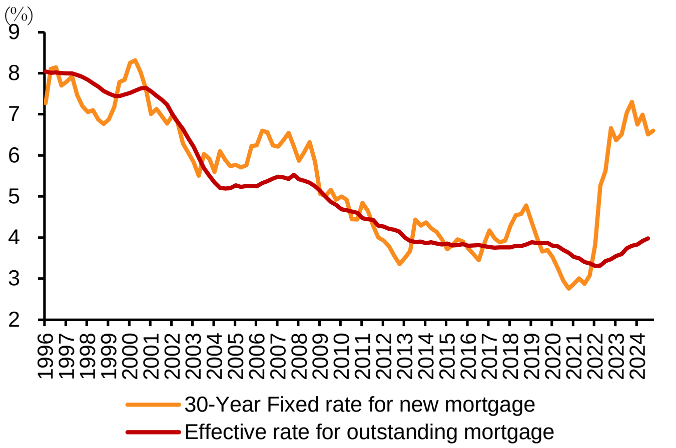
Housing Market

Housing market has been in a stagflation-like state in 2024. Housing sales have been subdued with total home sales down 1% in 10M24. Affordability has been stretched as home prices jumped by over 40% in the past four years and mortgage rates remained high. New home sales increased by 1.4% in 10M24 after rising 4.5% in 2023. After the recent rebound of mortgage rates amid the Trump trade, new home sales notably dropped by 9.4% YoY. Existing home sales narrowed their declines from -19.3% in 2023 to -2.5% in 10M24, but continued to suffer from high mortgage rates and the lock-in effect. The mortgage rate "lock-in" effect has caused a tight supply of existing homes with their months of supply down to historical lows. New housing supply has improved as completions increased especially in multifamily housing thanks to its robust starts in 2020-2021. Multifamily housing starts continued to decline while single-family starts recovered from their pandemic trough. House price has continued to rise, yet at a slower pace.

Commercial real estate market has continued to face tough challenges with slight improvement in 2024. Office vacancies remained elevated at 20% in 3Q24, compared to 19.6% at end-2023. Meanwhile, apartment vacancies rose from 5.6% to 5.9%. Vacancy rates in industrial, retail, and storage sectors remained below long-term averages. Cap rates demonstrated resilience and steady growth across most CRE segments, including apartments, retail, and office, while rates for hotels and industrial properties saw slight declines. Higher construction costs and increased required return led to a slowdown in new construction starts, particularly in the industrial and multifamily sectors, which should support near-term rent growth.

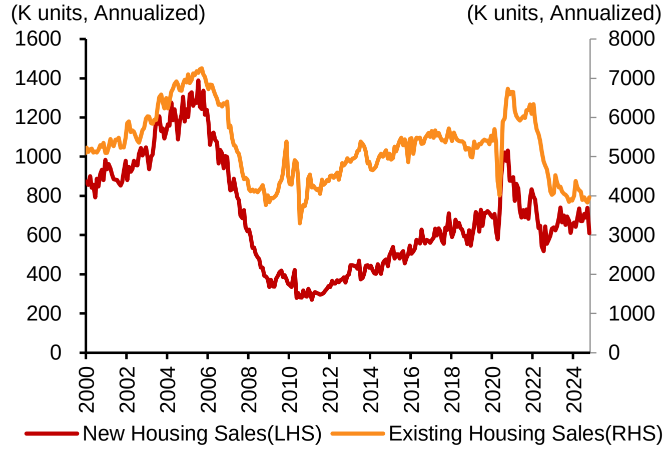
Housing market might see moderate improvements in 2025. We estimate total sales to increase by 5%, with new and existing homes to rise 7% and 4.5% respectively in 2025 thanks to resilient economic growth, lower mortgage rates, and increasing housing inventory. Economic growth is expected to slow yet remain resilient. Mortgage rates might moderately decline with the 30-year fixed mortgage rate possibly down from 6.7% at end-2024 to 6.2% at end-2025. Housing inventory is expected to increase by 10% in 2025 thanks to continued completions of new housing projects and a moderate alleviation in the lock-in effect of fixed-rate mortgages. Housing prices might continue to grow at a slower pace thanks to a rebalancing of supply and demand. We project rental prices to grow at a steady 3% with the mixed effects from reduced immigration and declining multifamily completions, particularly in the second half of 2025.

Figure 35: "Lock-in" Effect of Existing Mortgages



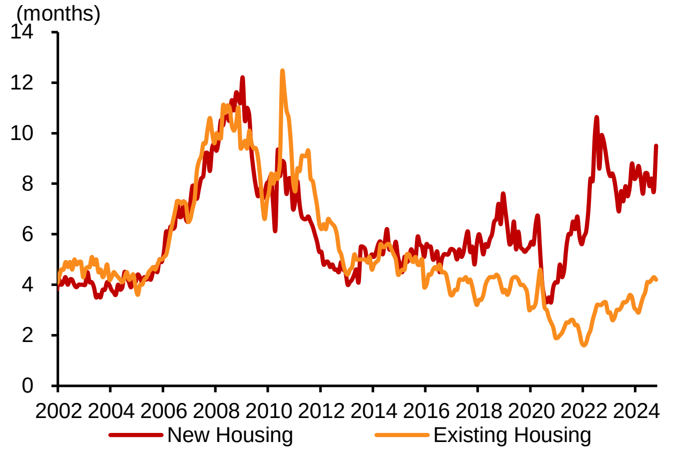
Source: Bloomberg, Wind, CMBIGM

Figure 36: New & Existing Home Sales



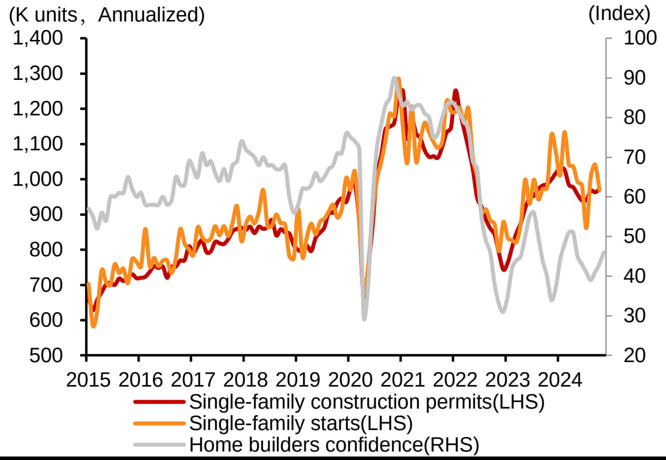
Source: Bloomberg, Wind, CMBIGM

Figure 37: New & Existing Home Supply in Months



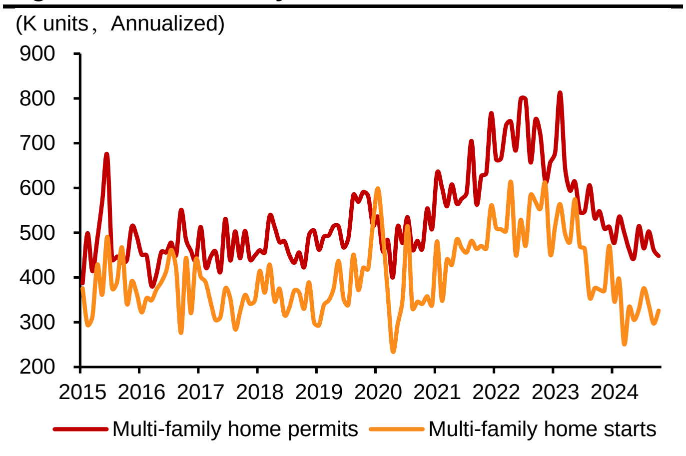
Source: Bloomberg, Wind, CMBIGM

Figure 38: Single-family Housing Permits & Starts



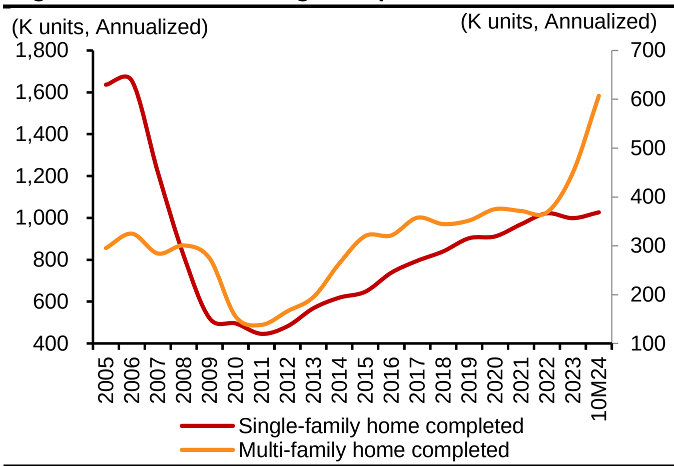
Source: Bloomberg, Wind, CMBIGM

Figure 39: Multi-family Home Permits & Starts



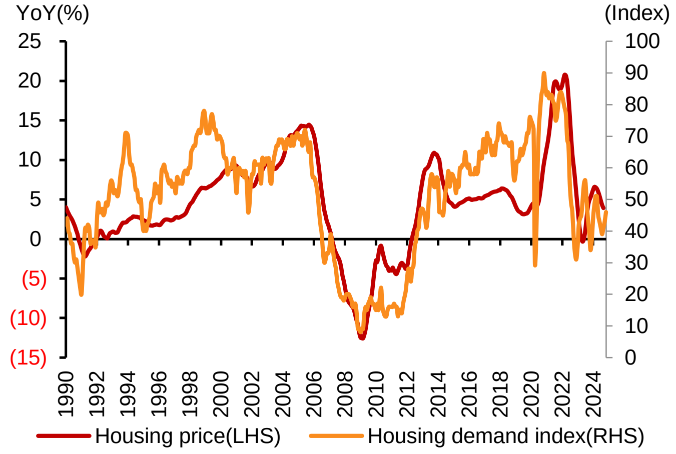
Source: Bloomberg, Wind, CMBIGM

Figure 40: New Housing Completions



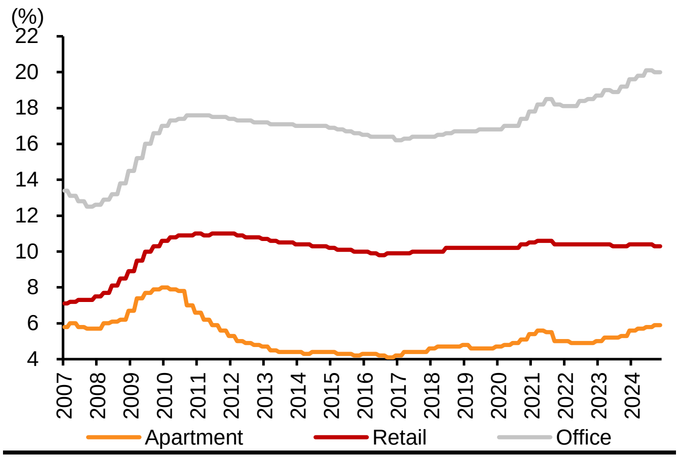
Source: Bloomberg, Wind, CMBIGM

Figure 41: Housing Price & Demand



Source: Bloomberg, Wind, CMBIGM

Figure 42: Vacancy Rates of Commercial Real Estate



Source: Bloomberg, Wind, CMBIGM

Corporate Earnings & Investment

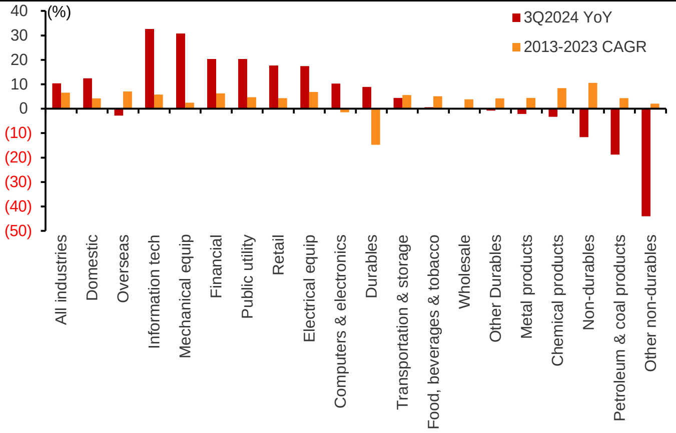
Corporate earnings have been strong with divergence by sector in 2024. US corporate profits grew 10.5% YoY in 9M24, compared to the CAGR of 5.2% in 2013-2023. Profits from the domestic market rose 12.5% while those from the overseas market dropped 2.6% in the first three quarters. Information service, machinery equipment, financials, public utilities, retail trade and electrical equipment registered strong profit growth rates above 17%, while energy, non-durable consumer goods, chemical products and metal products saw YoY declines of their profits. The current market consensus on the 2024 EPS growth of S&P 500 index components is 9.6%, with expected earnings growth rates in communication service, information technology, financials and consumer discretionary all higher than 14% and those in industrials, materials and energy all negative.

Business investment growth has slowed yet remained strong in 2024. Non-residential investment has slowed from 6% in 2023 to 4% in 9M24. Structures investment growth decelerated from 10.8% in 2023 to 4.4% in 9M24, while equipment investment growth slightly rose from 3.5% to 3.6%. Intellectual property investment maintained a relatively stable growth at 4.3% in 9M24, compared to 5.8% in 2023. The Inflation Reduction Act and the CHIPS & Science Act significantly stimulated investments in manufacturing, technology and renewable energy sectors in 2022-2023. The policy effects gradually diminished due to a high base and overdraft on future demand. But business investment growth was not low as consumer spending remained strong and large companies leveraged substantial cash reserves accumulated during the post-pandemic recovery to support their capex especially in AI and other technologies.

Corporate earnings growth might slightly pick up in 2025. The current market consensus on the 2025 EPS growth of S&P 500 index components is 15%, up from the expected growth of 9.6% in 2024. The EPS growth in information tech, health care, industrials and materials are expected to be relatively higher, all above 15%, while the growth in real estate, consumer staples and energy might be relatively lower, all below 6.5%. The optimistic outlook for earnings growth is contingent on resilient economic growth, lower cost pressure and Trump's pro-growth policies in 2025. But downside risk might appear if Trump's tariffs and immigrant policy cause stagflation effects.

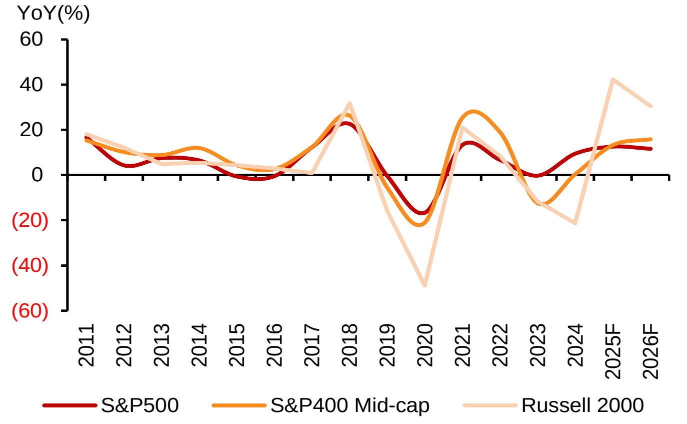
Business investment growth might further slow down in 2025. Non-residential investment may rise 3.5% in 2025, down from 3.7% in 2024. The construction investment especially in semiconductors and renewable energy might decelerate noticeably due to the overdraft on future demand in the past three years. Investment in traditional energy and information tech would maintain stable growth rates thanks to Trump's deregulation policies and AI innovation. However, uncertainty over trade policies and tax reforms might hinder business investment. Policy uncertainty typically leads to a "wait and see" approach among firms, delaying investment decisions for several quarters. This mirrors the experience of 2018-2019, when business investment in equipment and manufacturing output shrank following the introduction of tariffs on China.

Figure 43: Corporate Profit Growth by Sector



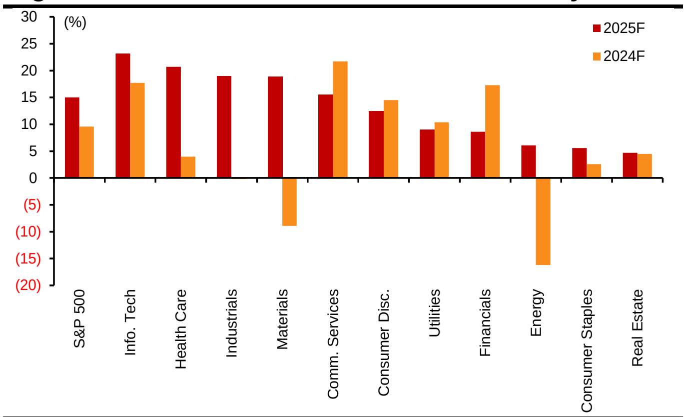
Source: Bloomberg, Wind, CMBIGM

Figure 44: BBG Consensus of EPS Growth by Index



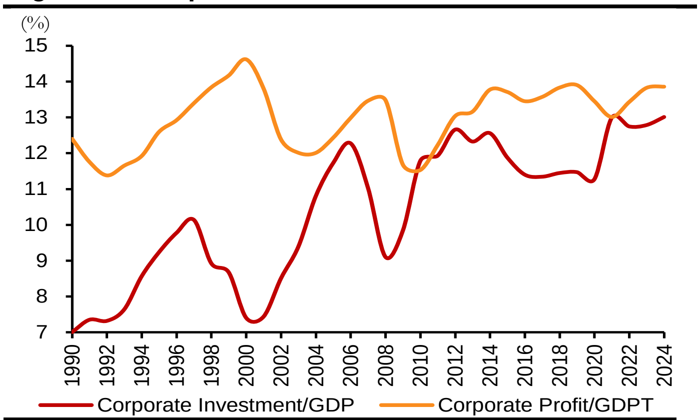
Source: Bloomberg, Wind, CMBIGM

Figure 45: BBG Consensus of EPS Growth by Sector



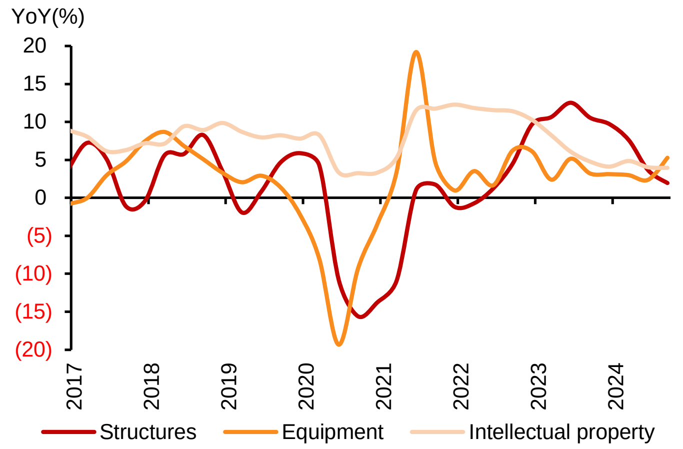
Source: Bloomberg, Wind, CMBIGM

Figure 46: Corporate Investment & Profit



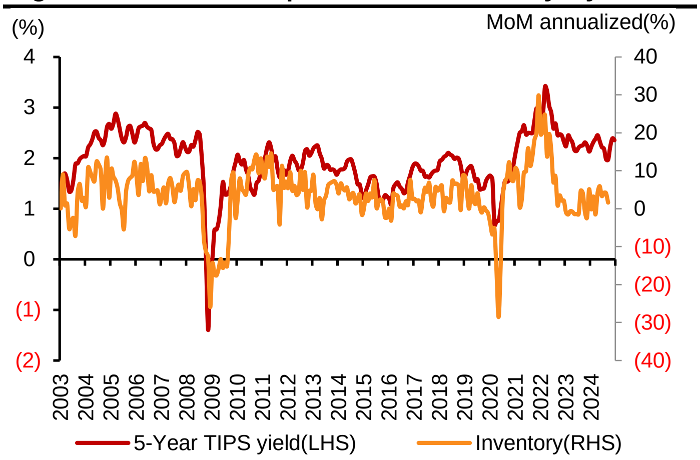
Source: Bloomberg, Wind, CMBIGM

Figure 47: Private Investment Growth



Source: Bloomberg, Wind, CMBIGM

Figure 48: Inflation Expectation & Inventory Cycle



Source: Bloomberg, Wind, CMBIGM

Monetary Policy

Monetary policy should remain restrictive in 2025. The Fed may adopt a gradual approach to cutting rates. The federal funds rate is likely to decline from the current 4.5%-4.75% range to 4.25%-4.5% at end-2024, 3.75%-4.0% at end-2025 and 3.25%-3.5% at end-2026. In the baseline scenario, we expect the Fed to cut the rate by 25bps each time this December, next March and September. We expect the current pace of Treasury note and bond roll-offs—approximately US$25bn per month—to end by 3Q25, as ample reserves continue to decrease to more cautious levels. Additionally, with approximately US$6.7tn in Treasury notes maturing in 2025 that will require refinancing, the Fed will need to maintain sufficient liquidity to prevent disruptions in the monetary markets.

The current monetary policy remains restrictive with the policy rate far above the neutral rate. Nominal GDP growth, as an anchor for the appropriate policy rate level, is set to moderately decline next year. Inflation may continue to trend downward toward the 2% target and the labor market might moderate in a steady manner. Therefore, the Fed is likely to further cut the policy rate. However, as the economy may remain resilient and Trump's policies might increase inflation uncertainty, the Fed will adopt a gradual approach to cutting rates. The Fed has emphasized that its decisions will be highly data-dependent, assessing economic indicators such as inflation and employment before determining the pace and magnitude of rate cuts. This means that while cuts are expected, the timing and frequency may vary based on incoming economic data.

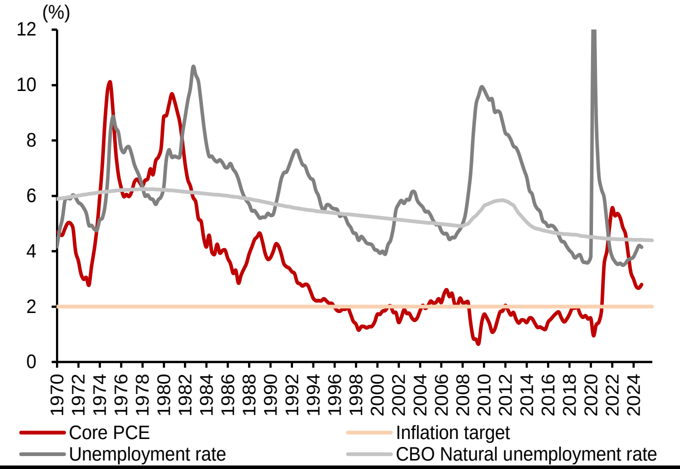
The terminal level of the policy rate depends on the state of the economy and the neutral interest rate level. In a lukewarm state of the economy, the policy rate should be near the neutral rate. The neutral rate depends on potential growth and inflation pivot. As both potential growth and inflation pivot increases, the neutral rate might be higher now than in the past. The CBO estimates that the potential GDP growth would rise from an average of 1.85% in 2015-2017 to 2.1% in 2024-2026. Major contributors are rising labor force participation, stronger business investment and technological revolutions such as AI. Inflation pivot also increases as the annual average PCE and core PCE inflation is expected to respectively increase from 1.3% and 1.6% in 2014-2019 to 2.2% and 2.4% in 2024-2026. We estimate the neutral interest rate might reach 3%-3.5%, higher than the Fed's estimate of 2.5%-3% before the pandemic.

The economy has been overheating in recent years with the annual average GDP growth reaching 2.5% over the past decade. The economic overheating was mainly due to high fiscal deficit rate, low household savings rate as well as strong housing & business investments. Both supply-demand gap and savings-investment gap widened with an increase of trade account deficit, causing upward pressure on interest rates to attract more capital inflows to finance the gaps. To lower inflation and interest rates, the US economy needs to rebalance its aggregate demand and supply with lower fiscal deficit rate, higher household savings rate or weaker business capex. But all of these requirements imply a contraction in US demand, which would pose downside risks to the global economy.

Treasury yields might mildly decrease in 2025. 10Y Treasury yields are projected to decrease from 4.2% at end-2024 to 4% at end-2025 and 3.75% at end-2026. Long-term treasury yields reflect the market's expectations of economic growth and inflation dynamics in the future. Since nominal GDP growth incorporates both economic growth and inflation dynamics, long-term treasury yields are closely related to the moving trend of nominal GDP growth. We expect nominal GDP growth to decelerate from 5.1% in 2024 to 4.5% in 2025 and 4.1% in 2026. Therefore, long-term treasury yields might mildly decline in the next two years.

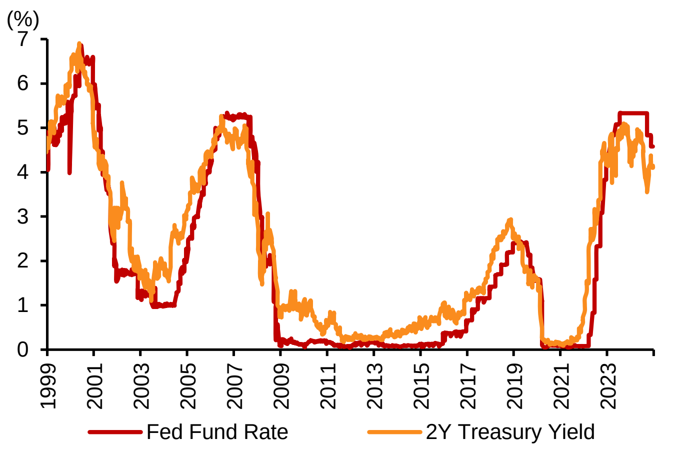
US dollar index may slightly decline in 2025 due to the current overshooting and possible weakening of US economy in 2H25. US dollar index may decline from 105.5 at end-2024 to 104.5 at end-2025 and 102 at end-2026. The dollar Index is mainly influenced by changes in the relative strength of the US economy and market risk sentiment. With a weight of nearly 60% in the dollar index, the EUR/USD exchange rate plays a decisive role in the movement of the index. Trump's policies tends to strengthen the US economy while hurting Eurozone economy as the US-Eurozone interest rate differentials have increased in the past two months amid Trump trade in the global market. The Trump 2.0 shock may continue to dampen Euro and support US dollar in 1H25. However, the dollar index might slide in 2H25 because of a weakening of US economy and possible reversal of the overshooting. The US-Eurozone GDP growth differential is expected to mildly narrow in 2025. Additionally, the narrowing interest rate differential between the US and Japan, amid further rate hikes by the Bank of Japan, is likely to weigh on the dollar. However, uncertainties surrounding Trump's trade policies and his strong commitment to maintaining the dollar's status as the world's leading reserve currency could partially offset the currency's anticipated weakness.

Figure 49: Fed's Dual Mandate



Source: Bloomberg, Wind, CMBIGM

Figure 50: Fed Funds Rate & 2Y T-bond Yields



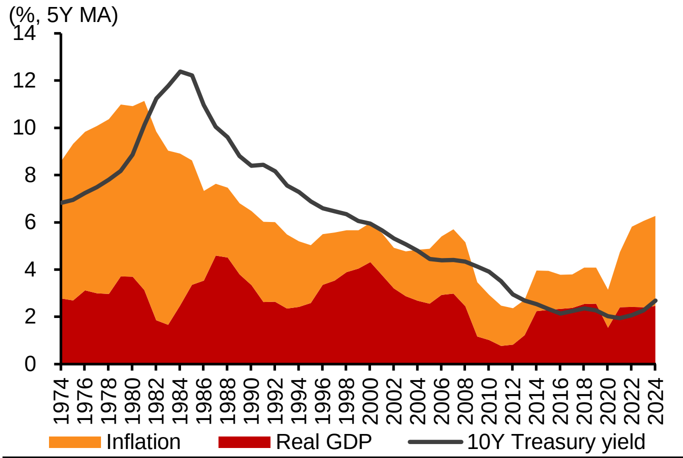
Source: Bloomberg, Wind, CMBIGM

Figure 51: Appropriate Policy Rate Implied by the Taylor Rule

(%)	Neutral rate of interest	Natural unemployment rate	Baseline Scenario			Optimistic Scenario			Pessimistic Scenario		
			Core Inflation	Unemployment Rate	Policy Rate	Core Inflation	Unemployment Rate	Policy Rate	Core Inflation	Unemployment Rate	Policy Rate
4Q23	1.50	4.20	3.20	3.70	5.80	3.20	3.70	5.80	3.20	3.70	5.80
1H24	1.50	4.20	2.80	3.90	5.00	2.80	3.90	5.00	2.80	3.90	5.00
2H24	1.50	4.20	2.60	4.20	4.40	2.70	4.00	4.75	2.50	4.40	4.05
2025	1.50	4.20	2.30	4.30	3.85	2.40	4.10	4.20	2.20	4.50	3.50

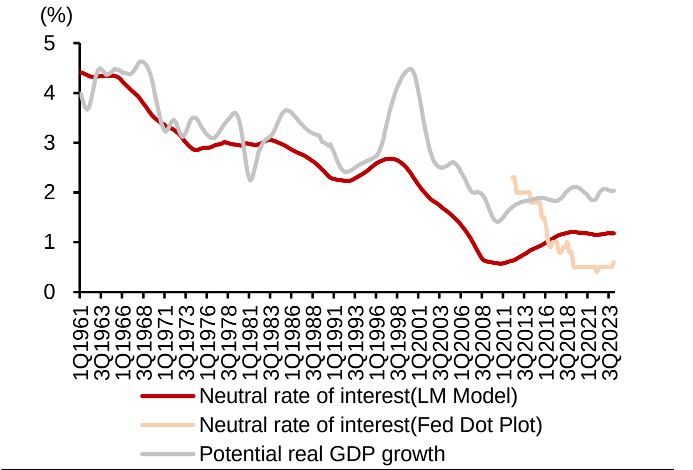
Source: Wind, Bloomberg, CMBIGM estimates

Figure 52: Inflation, Real GDP & 10Y Treasury Yields



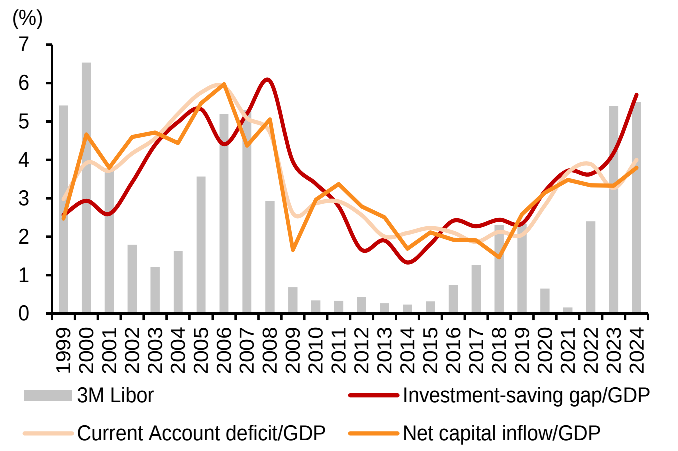
Source: Bloomberg, Wind, CMBIGM estimates

Figure 53: Estimation of Neutral Interest Rate (R*)



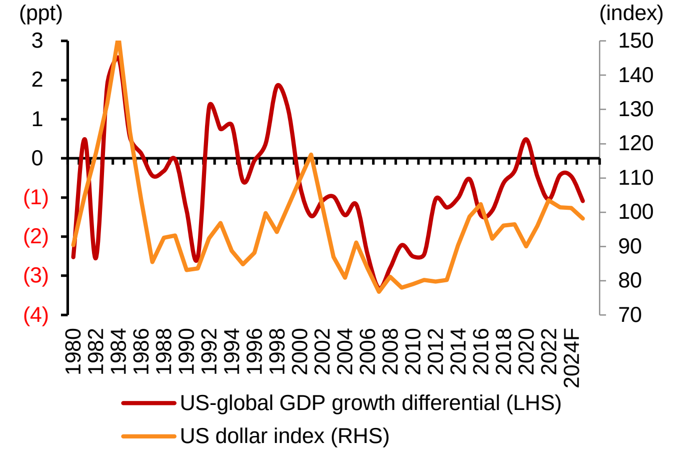
Source: Bloomberg, Wind, CMBIGM estimates

Figure 54: Investment-savings Gap, Current Account Deficit & Net Capital Inflows



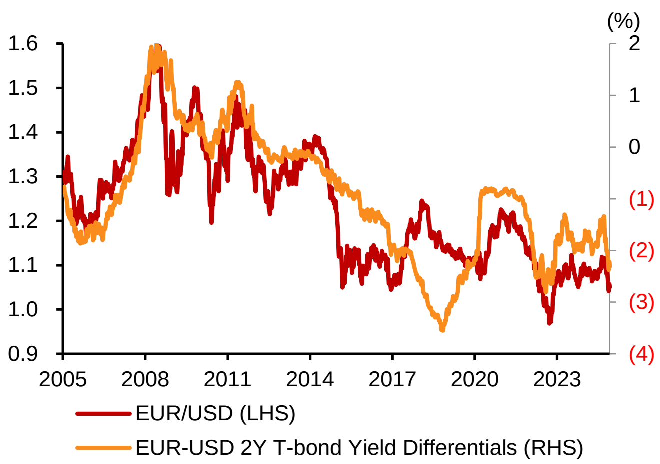
Source: Bloomberg, Wind, CMBIGM

Figure 55: US-global GDP Growth Differential and Dollar Index



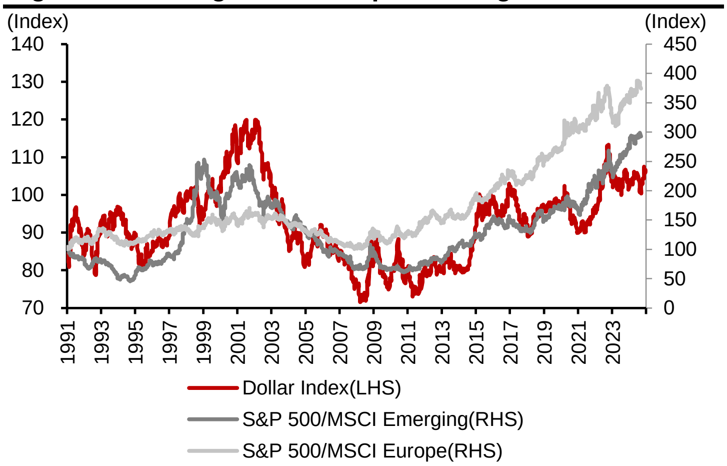
Source: Bloomberg, Wind, CMBIGM estimates

Figure 56: EUR/USD Rates & Yield Differentials



Source: Bloomberg, Wind, CMBIGM

Figure 57: Strong USD & Outperforming US Stocks



Source: Bloomberg, Wind, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.