Global Economy

2H25 Outlook: Divergence and Rebalancing

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

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

Global economic growth looks set to slow in 2H25, with narrowing growth differentials between the US and other major economies, yet widening inflation gaps. Monetary policy remains divergent, while fiscal, industrial, and trade policies take center stage to drive economic rebalancing and restructure global supply chains. Sovereign yields are expected to decline modestly across most economies. The US dollar may soften slightly, and global equities may see mild gains, albeit with increasing divergence.

- **The US:** GDP YoY growth is set to moderate from 2.0% in Q1 to 1.0% in Q4, and from 2.8% in 2024 to 1.5% in 2025 and 1.8% in 2026. Unemployment is projected to rise from 4.2% to 4.5% by year-end. PCE inflation might peak at 2.6% in Q3 and fall to 2.4% in Q4 and 2.3% in 2026. Trump policy may improve, shifting from tariffs and federal layoffs toward trade deals, tax cuts, and deregulation. We expect the Fed to cut rates in both September and December, with QT already substantially slowed. 10Y Treasury yield is likely to decline from 4.3% to 4.1% by end-2025 and 3.8% by end-2026. DXY may dip below 95 before rebounding to 96 by year-end. The S&P 500 may gain 3% in 2H and 8.5% for the year, led by IT, banks, industrials, and healthcare.

- **The UK:** GDP growth is expected to slow from 1.3% YoY in Q1 to 0.8% in Q4, falling from 1.1% in 2024 to 1.0% in 2025 and recovering to 1.3% in 2026. CPI inflation could rise from 2.8% in Q1 to 3.5% in Q3, then moderate to 3.2% in Q4 and 2.4% in 2026. Fiscal expansion momentum may weaken, with the deficit ratio declining from 5.2% in 2024 to 4.2% in 2025 and 3.7% in 2026. One rate cut is expected in Q4, followed by two more in 2026 and a sharp slowdown in QT. The 10-year gilt yield may fall from 4.45% to 4.2% by year-end. The FTSE 100 is expected to rise 4% in 2H and 11% for the year, with favorable outlooks for financials, industrials, healthcare, and staples. GBP/USD may strengthen from 1.345 at end-June to 1.36 at year-end.

- **Eurozone:** Growth might slow from 1.5% YoY in Q1 to 0.7% in Q4, but full-year growth could rise from 0.9% in 2024 to 1.0% in 2025 and 1.2% in 2026. CPI growth may decline from 2.3% in Q1 to 1.8% in Q4. Fiscal expansion may accelerate, with the deficit ratio rising from 3.1% in 2024 to 3.3% in 2025 and 3.4% in 2026. The ECB is expected to cut rate once in 2H25 and remain on hold in 2026. The 10-year AAA yield and EUR/USD may rise modestly from 2.65% and 1.17 to 2.75% and 1.19 by year-end, respectively. The FTSE Eurozone Index is projected to rise 2.5% in 2H and 15% for the year, led by financials, utilities, industrials, energy, and consumer discretionary.

- **Japan:** Growth may decelerate from 1.7% YoY in Q1 to 0.3% in Q4 and rise from 0.2% in 2024 to 0.9% in 2025 and 0.8% in 2026. CPI may fall from 3.8% in Q1 to 2.1% in Q4. Fiscal stimulus may strengthen, pushing the deficit ratio from 2.2% in 2024 to 3.5% in 2025 and 3.4% in 2026. Rate hikes may be postponed to January 2026, while QT has slowed. The 10-year JGB yield may rise from 1.4% to 1.6% by year-end. USD/JPY may decline from 144 to 140. The TOPIX is expected to rise 1.5% in 2H and 4% for the year, with upside in utilities, communication services, and real estate.

- **China:** Growth might ease from 5.4% YoY in Q1 to 4.6% in Q4 and from 5.0% in 2024 to 4.9% in 2025 and 4.6% in 2026. Deflation may intensify before easing, with CPI dropping 0.2% in Q3 before rising 1.0% in Q4. China's policies may shift toward economic rebalancing with increased fiscal support. The broad deficit ratio may rise from 6.6% in 2024 to 8.4% in 2025 and 9.0% in 2026, with stronger consumption stimulus and capacity reduction. A 50bp RRR cut and 10bp rate cut are likely in Q4. The 10-year CGB yield may first decline then rebound to 1.7% by year-end. USD/CNY may fall from 7.15 to 7.10. The Hang Seng Index and CSI 300 are expected to rise 3% and 6% in 2H, with full-year gains of 23% and 6%, respectively. We favor industrials, materials, staples, banks, and utilities in HK market.

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The US

Macro Economy

The US economic growth is expected to slow noticeably. Real GDP is projected to decline from 2.0% YoY in Q1 to 1.8%, 1.3%, and 1.0% in Q2-Q4, bringing the full-year growth rate down from 2.8% in 2024 to 1.5% in 2025, before rebounding to 1.8% in 2026. Q1 GDP contracted at a 0.5% seasonally-adjusted annual rate (SAAR), dragged by front-loaded imports and capex due to tariff expectations—net imports and private investment subtracted 4.7ppts and added 3.9ppts to growth, respectively. Personal consumption growth weakened, with goods and services rising at just 0.1% and 0.6% SAARs, while residential investment shrank 1.3% in Q1. Personal consumption and residential investment contributed 0.3ppts and -0.05ppts to GDP growth, respectively; government spending fell, with government consumption and investment falling 0.6% annualized, contributing -0.1ppts of GDP growth. Q2 GDP may grow at an around 2% SAAR as the effect of front-loading imports fades, but YoY growth will likely slow to 1.8%. In 2H, SAAR growth may average just 1%, with YoY growth moderating to 1.2%, amid softening household and government spending. Business investment could weaken sharply following H1 front-loading, and housing activity is expected to stay subdued. Tariffs and policy uncertainty are weighing on corporate and household confidence, likely dampening hiring, capex, and discretionary consumption. That said, recession risks remain contained as the White House may pivot toward tax cuts and deregulation. Household and corporate leverage is at 20-year lows, real incomes are still growing, and AI investment may boost demand for infrastructure and equipment upgrades.

Labor market conditions are expected to ease modestly. The unemployment rate may edge up in 2H as labor supply-demand imbalances normalize and wage growth slows. Nonfarm payrolls averaged 124k/month in H1, down from 159k in 2H24 and 166k pre-COVID in 2019, with federal government jobs declining by 11k/month. Still, the job market remains solid, with unemployment at 4.1% and initial jobless claims and layoff rates at historically low levels. The vacancy-to-unemployment ratio has fallen to 1.0, below 2019 levels, and average hourly earnings growth decelerated to 3.7% YoY in June 2025. With post-pandemic productivity growth rising to 1.8%, wage gains are now broadly aligned with the Fed's 2% inflation target. We expect job creation to slow further in 2H, with monthly gains falling to ~100k and unemployment rising to 4.5% by year-end. Government downsizing and tariff-related shocks may increasingly weigh on labor demand in retail, wholesale, and logistics, where hiring was front-loaded earlier in the year.

Inflation may edge up slightly before gradually easing. Headline and core PCE inflation are expected to climb from 2.3% and 2.7% in Q2 to 2.6% and 3.0% in Q3, and then ease to 2.4% and 2.8% in Q4, ending the year at 2.5% and 2.8%, before falling to 2.3% and 2.5% in 2026. While tariffs have lifted prices of import-heavy categories like furniture, healthcare products, and leisure goods, their impact has been fully offset by falling energy prices, softer demand, and easing rent inflation. Energy PCE fell 12.5% YoY in April-May, and weakening demand and intense competition pushed prices of apparel, autos, hotels, and airfare lower. Rent inflation also continued to ease. Tariff impacts may become more visible in 2H as importers work through earlier inventory builds. The effective tariff rate may rise by 10ppts, pushing headline and core PCE up by 0.8ppts and 0.5ppts, respectively. Conversely, further 10% YoY energy price declines could subtract 0.4ppts and 0.2ppts from headline and core PCE. Slowing rent and wage growth may reduce rent and ex-rent services inflation by 0.2ppts, lowering both headline and core PCE by an additional 0.12ppts and 0.16ppts, respectively.

The housing market may remain sluggish. Through May, high prices and mortgage rates kept sales at low levels—new and existing home sales fell 3.1% and 0.8% YoY, respectively, compared to a 3% gain and 0.8% drop in 2024; housing starts declined 1.4% YoY, builder sentiment dropped to the third-lowest since 2012, and permits fell to the lowest since 2020. While new home inventories rose (months of supply up from 8.2 at end-2024 to 9.8 in May), the large spread between new and existing mortgage rates continued to depress move-up demand, with existing home supply rising only slightly to 4.6 months—still a historically low level. Home price growth has slowed, with median existing home prices up just 1.3% YoY, versus 5.9% in 2024. Looking ahead, sales may remain subdued but could see a modest recovery in Q4 as Fed rate cuts begin to unfreeze demand and supply. Housing starts may remain weak, with inventory absorption improving only gradually and price gains continuing to decelerate.

Policy Outlook

White House policy may turn more market-friendly. The worst phase of US trade, fiscal, and immigration policy disruptions appears to have passed in 1H25. Effective tariff rates peaked at 15.8%, while federal government layoffs exceeded 134,000 (58,000 confirmed, 76,000 via buyouts), with an additional 150,000 planned. Over 60,000 undocumented immigrants were deported. In 2H25, the White House is expected to pivot toward trade agreements, tax cuts, and deregulation—an overall shift to more pro-growth policy.

The US has finalized a trade agreement with the UK, maintaining 10% reciprocal tariffs. Additional deals may be reached with key partners in Q3, reducing current tariff rates as follows: **1) Canada/Mexico:** From 10-20% (0-2.5% on NAFTA-covered goods, 25% otherwise) to 5-10%. **2) The EU:** From 17% (20% reciprocal, 25% on autos and metals, exclusions on semiconductors/pharma) to 10-15%. **3) Japan:** From 24% (25% on autos/metals) to 10-15%. **4) China:** From 51% (25% under Section 301, 10% new tariffs, 20% on fentanyl-related goods) to 30-40%.Trump's objective is to build a US-centric supply chain system—flanked by Canada and Mexico, supported by nearshore partners in the Americas and friendly partners like the UK, Australia, and Japan. A tiered tariff structure is a key instrument, with rates increasing from core allies to peripheral partners to competitors. The closer a country is to the US center, the lower its tariff rate; the less critical or sensitive its industry, the lower the tariff. The final increase in the effective US tariff rate could be around 10ppts, estimated to reduce annual GDP growth by 0.5-0.7ppts.

Immigration policies, through reduced labor supply, consumption, and innovation, may lower annual GDP growth by 0.1-0.2 points. The tax cut proposal ("Big and Beautiful Act") may raise the deficit by nearly $3.3 trillion over 10 years and is estimated to lift annual GDP growth by 0.2-0.4 points. Deregulation may contribute an additional 0.1-0.2 points. Over the medium term, attention should be paid to Trump's economic rebalancing agenda, which includes low oil prices, low interest rates, a weaker US dollar, lower fiscal deficits, government deleveraging, household releveraging, and increased corporate investment.

The Fed is likely to remain on hold in July, followed by rate cuts in September and December, with a pause in October. By year-end, the target range could decline to 3.75-4% (effective ~3.83%). A final cut in 2026 could bring it to 3.5-3.75% (effective ~3.58%). The June dot plot shows a median forecast of two cuts (50bps) in 2H25, but dispersion among Fed officials has widened, signaling internal division. Despite mounting political pressure from Trump, Chair Powell is expected to remain cautious in the near term due to a still-solid labor market and tariff-induced inflation uncertainty. As growth slows, employment cools, and inflation moderates after a brief rebound, the Fed is expected to resume cuts in September and again in December. With high Treasury yields stressing the financial system and public finances, the Fed has already started slowing QT. From June 2024, the monthly cap on Treasury runoff was lowered from $60bn to $25bn, while the $35bn cap on MBS runoff remains unchanged. From April 2025, the Treasury runoff cap will be reduced further to $5B/month, with no change to the MBS cap.

Financial Market

US money market rates may decline slightly. The federal funds rate is expected to fall to 3.75%-4% at year-end. The US dollar remains the dominant international currency, accounting for nearly 50% of global payments in the first five months of this year, and close to 60% of global money market fund assets at the end of last year. Over the next five years, the dollar's share in the global monetary system may decline modestly but will likely retain its dominant role, supported by US leadership in global economy, technology innovation, military capacity, and financial markets as well as stronger rule of law, property rights protection, and policy credibility than in most other countries. Additionally, the dollar benefits from network effects and historical inertia, with no better alternatives in sight.

US Treasury yields may edge lower. The 10-year yield is expected to decline from 4.3% to around 4.1% by the end of 2025, and to about 3.8% by the end of 2026. As the economy slows, the labor market weakens, and inflation first rises then eases, medium- to long-term yields may fall. However, with limited recession risk, inflation remaining above the Fed's target, and Trump not prioritizing fiscal consolidation, the decline in yields may be capped. Structural concerns such as US debt sustainability and inflation driven by supply chain disruptions are likely to keep long-end yields elevated.

DXY may decline before rebounding to around 96. The dollar index reflects US economic strength relative to non-US economies and changes in global risk sentiment. A relatively stronger US economy lifts DXY; a weaker one drags it down. When markets worry about risks in non-US economies, the dollar appreciates; when concerns focus on the US, the dollar depreciates. In the first half of this year, Trump's tariff actions raised concerns about US economic underperformance, weighing on the dollar. Even as tariff escalation paused, policy extremism and weak-dollar expectations prompted foreign investors to underweight dollar assets. Before trade deals are finalized, investors may continue to reduce USD exposure, and DXY could fall below 95. Once agreements are reached and Trump shifts focus to tax cuts and deregulation, the dollar may rebound moderately, ending the year near 96. It remains unclear whether the current decline signals the start of a structural downtrend. Much depends on future US-Europe policy paths and whether they reverse or reinforce the widening transatlantic gap in economy, technology, and military strength.

US equities may post modest gains. The S&P 500 is expected to rise 3% in 2H, with full-year gains of around 8.5%. In 1H, the index rose 5.5%, fully recovering from April's tariff-driven dip. Industrials, communication services, and financials outperformed, while discretionary, healthcare, and energy lagged. Median 2025 EPS growth forecasts for the S&P 500 have been revised down from 14.1% at end-2024 to 9.1% by mid-2025, with notable downgrades in energy, industrials, materials, and real estate, and more resilient expectations for communication services, financials, utilities, and tech. In 2H, corporate earnings may be revised down slightly, while valuations remain elevated. We are relatively constructive on: Technology (fwd P/E: 29x, ROE: 30.3%, expensive but supported by strong pricing power and earnings growth); Banks (fwd P/E: 12.3x, ROE: 11%, reasonably valued, with support from deregulation and a steeper yield curve); Industrials (fwd P/E: 25x, ROE: 23.5%, expensive but supported by solid profitability and favorable policies); and Healthcare (fwd P/E: 16.5x, ROE: 20.2%, undervalued, stable earnings, and defensive characteristics).

Figure 1: US Economic Indicators

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	BBG Forecast		CMBI Forecast	
											2025F	2026F	2025F	2026F
Nominal GDP (tn USD)	18.3	18.8	19.6	20.7	21.5	21.4	23.7	26.0	27.7	29.2	30.4	31.7	30.4	31.7
GDP Per Capita (k USD)	56.8	57.9	60.0	62.8	65.2	64.4	71.2	77.8	82.2	85.8	-	-	88.9	92.0
Nominal GDP Growth	3.9	2.8	4.3	5.3	4.3	(0.9)	10.9	9.8	6.6	5.3	4.3	4.2	4.2	4.2
Real GDP Growth	2.9	1.8	2.5	3.0	2.6	(2.2)	6.1	2.5	2.9	2.8	1.4	1.6	1.5	1.8
PCE	0.2	1.0	1.7	2.0	1.4	1.1	4.1	6.6	3.8	2.5	2.8	2.7	2.5	2.3
Core PCE	1.2	1.6	1.6	1.9	1.6	1.3	3.6	5.4	4.2	2.8	3.0	2.7	2.8	2.5
Unemployment Rate	5.0	4.7	4.1	3.9	3.6	6.7	3.9	3.5	3.8	4.1	4.4	4.4	4.5	4.4
Federal Deficit/GDP	2.4	3.1	3.4	3.8	4.6	14.7	12.1	5.4	6.2	6.4	6.5	6.8	6.4	6.6
Federal Debt/GDP	72.2	76.0	75.7	77.1	78.9	98.6	96.9	95.0	96.0	97.8	99.5	101.9	99.9	101.7
Fed Fund Rate	0.2	0.6	1.3	2.4	1.6	0.1	0.1	4.3	5.3	4.3	4.1	3.5	3.8	3.6
10Y Treasury Yield	2.3	2.5	2.4	2.7	1.9	0.9	1.5	3.9	3.9	4.6	4.3	4.1	4.1	3.8
Dollar Index(year-end)	98.7	102.4	92.3	96.1	96.4	90.0	96.0	103.5	101.4	108.5	97.4	94.5	96.0	95.0
Bank Asset Growth	3.8	3.2	4.8	1.6	4.3	15.5	10.1	1.2	1.8	1.5	-	-	2.5	2.9
Home Price Growth	7.2	4.5	5.7	3.3	7.8	12.6	16.0	2.1	4.1	5.8	-	-	1.5	2.0

Source: Wind, Bloomberg, CMBIGM

The UK

Macro Economy

UK growth may weaken. GDP growth is expected to decelerate from 1.3% YoY in Q1 to 1.1%, 0.9%, and 0.8% in Q2-Q4, with full-year growth easing from 1.1% in 2024 to 1.0% in 2025, before recovering to 1.3% in 2026. The UK experienced a technical recession in 2H23, with two consecutive quarters of negative growth. A clear rebound followed in 2024 as GDP returned to positive sequential growth, lifting annual growth from 0.4% in 2023 to 1.1% in 2024. The recovery extended into Q1 2025, with real GDP rising 0.7% QoQ and 1.3% YoY. Services sectors such as wholesale, retail, transportation, and communication expanded notably, while front-loaded exports—driven by tariff expectations—boosted output in machinery and transport manufacturing. Higher tariffs, elevated labor costs, and improving business sentiment triggered a surge in equipment (e.g., aircraft, IT, machinery) and inventory investment. Labour's housing policies and higher rental yields supported faster housing investment growth. In Q2, growth momentum weakened: April GDP fell 0.3% MoM, more than the 0.1% decline the market had expected, with contractions across both services and manufacturing. Trump's tariff shock dampened global demand, sending UK goods exports sharply lower. April also saw hikes in utility bills, energy charges, and council taxes, weighing on household consumption and services. A temporary increase in stamp duty exemption thresholds front-loaded housing demand into Q1. Employer NI hikes and minimum wage increases softened labor demand—unemployment rose from 4.4% in Q1 to 4.6% in April, job vacancies continued to fall, and average weekly earnings growth dropped from 5.3% in 2024 and 5.6% in Q1 to 4.5% in April. Services PMI rebounded to 50.9 in May, reflecting some improvement in business sentiment following the pause in tariff escalation, but uncertainty and cost pressures remain high.

UK inflation is likely to remain elevated. CPI and core CPI are expected to rise from 2.8% and 3.5% in Q1 to 3.4% and 3.7% in Q2, peak at 3.5% and 3.8% in Q3, then ease to 3.2% and 3.6% in Q4, averaging 3.4% and 3.6% for 2025, and falling to 2.4% and 2.6% in 2026. Inflation rebounded sharply in 2H24, with headline CPI climbing from 1.7% in September to 3.4% in May 2025, and core CPI rising from 3.2% in December to 3.5% in May. Food inflation surged, energy disinflation narrowed, and inflation in services like education, healthcare, and social care rose again. Utility price increases (electricity, water, telecoms, council tax) in April lifted CPI and core CPI to 3.5% and 3.8%, the highest levels since Q2 2024. Inflation may rise further in the near term before gradually easing in 2026. The UK's recent inflation rebound and its divergence from the eurozone reflect: (1) higher pass-through from utility, wage, and tax hikes; (2) persistent labor cost and service inflation; (3) supply chain cost pressures from Brexit and COVID; and (4) tight housing supply and elevated rental inflation from rising immigration. Over the medium term, inflation is likely to ease due to: (1) lower energy inflation as the Middle East conflict abates, OPEC+ increases output, and global growth slows; (2) softer service inflation as economic and labor market conditions weaken; and (3) slower rental inflation from rising unemployment, easing cost pressures, and Labour's housing supply expansion.

UK household consumption may slow slightly. Real retail sales rose 1.8% YoY in the first four months of 2025, with April up 4.9%, well above the 0.4% pace in 2024, supported by improving sentiment and front-loaded buying ahead of tariffs and price hikes. However, May sales began to weaken, falling 1.2% YoY in real terms. Looking forward, real consumption growth may fall from 1.2% in 2H24 and 0.7% in Q1 2025 to 0.6% in Q2 and 0.5% in 2H25. First, real income growth is expected to decline. Wage growth is likely to slow from 5.6% in Q1 to 4.5% in Q2 and 3.5%-4.0% in 2H due to weaker labor demand and the national insurance hike, while inflation remains elevated—real wage growth is set to decline notably. Second, the household saving rate may rise. Greater economic uncertainty, weakening employment and income growth, and persistently high inflation could all lead to higher precautionary savings and lower marginal consumption.

UK housing market may soften modestly, with sales likely to decline before stabilizing. In Q1, UK mortgage applications fell 0.7% YoY as high rates and tight supply continued to suppress demand. The decline deepened to 6.4% in April, driven by weaker confidence due to tariffs and the expiration of temporary stamp duty relief. The first-time buyer stamp duty exemption threshold was lowered from £425k to £300k, and the standard threshold from £250k to £125k—raising transaction costs and dampening demand. Home sales are likely to remain weak in Q3 amid higher uncertainty, softer labor and income conditions, and still-elevated rates. Some stabilization is possible in Q4 as the BoE begins to cut rates and economic expectations become firm. Home price inflation is expected to continue easing. UK house price growth slowed from 3.4% YoY in Dec 2024 to 2.9% in Mar and 2.5% in May 2025, and could fall further to ~2% in 2H. Demand is weakening while supply is improving. Labour has pledged to build 1.5 million new homes over five years (370k/year). Mandatory housing targets and "grey belt" rezoning policies are boosting new starts—England's new housing starts rebounded from -54% YoY in 1H24 to +45.5% in 2H24 and +22.8% in Q1 2025. Zoopla data shows a 13% YoY increase in listed homes as of May.

Policy Outlook

UK fiscal policy aims to balance near-term growth support and medium-term consolidation, with reduced fiscal expansion. The labour government leans center-left, combining increased public spending with selective tax hikes. On spending, it boosts funding for housing, healthcare, education, infrastructure, and green energy. Minimum wage has been raised by 6.7%. On taxation, employer National Insurance Contributions (NICs) has risen from 13.8% to 15%, with the threshold lowered from £9,100 to £5,000. The basic and premium rates of Capital gains tax rates been raised from 10% and 20% to 18% and 24% respectively. Inheritance and personal income tax thresholds are frozen. VAT and business rates are imposed on private schools to support public education. Tax relief on non-domiciled individuals' foreign income and assets is being phased out. Carbon-related taxes are introduced. While the economic slowdown puts upward pressure on the fiscal deficit, high debt levels and the market turmoil following the 2022 "mini-budget" have made the Labour government cautious about fiscal loosening. The fiscal deficit ratio is projected to fall from 5.2% in 2024 to 4.2% in 2025 and 3.7% in 2026, indicating a declining pace of fiscal expansion.

UK monetary policy may turn slightly more dovish. Slowing growth and rebounding inflation created a policy dilemma in Q2. The Bank of England (BoE) paused rate cuts in June, with a 6:3 vote to keep rates unchanged versus easing. Most MPC members cited concerns about resurgent inflation; a minority emphasized weakening growth and labor market conditions. The BoE may hold rates steady again in August, though internal divisions could widen. With global and domestic consumption softening, inflation may begin to decline in Q4, opening the door to one rate cut by year-end, bringing Bank Rate to 4.0%. In 2026, two additional cuts could take it to 3.5% by year-end. Since launching quantitative tightening (QT) in 2022, the BoE has reduced its gilt holdings from a £895B peak in February 2022 to £622.5B by June 11, 2025 (down ~30%), and is expected to reach ~£560B by year-end. Afterward, QT may slow significantly or halt altogether. June meeting minutes showed some concern among members about QT's impact on market liquidity and gilt yields, though most judged the current pace as appropriate. The BoE is likely to continue shrinking its balance sheet by £100B in 2025, then slow or stop QT in 2026. This aligns with global trends: the Fed sharply slowed QT in April following a surge in long-end yields, while the Bank of Canada plans to end QT in Q3 and resume QE.

Financial Market

UK money market rates may decline. Money market rates are largely driven by the Bank of England's policy path. After two rate cuts in H1 2025, the BoE lowered Bank Rate from 4.75% to 4.25%. Current GBP money market yields are around 4.1%. The BoE is likely to hold rates steady in Q3, keeping yields broadly unchanged. A rate cut is possible in Q4, which could bring money market yields down gradually to around 3.85%.

UK gilt yields may edge lower, with a steepening yield curve. Short-term gilt yields are primarily driven by policy rate expectations, while medium- to long-term yields reflect market views on growth, inflation, and fiscal outlook. In H1 2025, the 2-year yield fell 45bps—broadly in line with policy cuts—while the 10-year yield declined only 6bps, as inflation rebound and high debt ratios dampened global demand for long-duration sovereign debt. In H2, the 2-year yield may decline further from 3.85% (June 20) to 3.6% by year-end, and the 10-year yield from 4.45% to 4.2%.

The UK equity market may see moderate gains. The FTSE 100 is expected to rise 4% in the second half, with full-year gains around 11%. Performance is mainly driven by earnings growth and valuation changes. In H1, the FTSE 100 gained nearly 7%, outperforming the S&P 500 but underperforming the FTSE Eurozone Index (outperforming France and the Netherlands, underperforming Germany, Italy, and Spain). Industrials, financials, and utilities led, supported by Europe's fiscal expansion, defense and infrastructure outlook, steeper yield curve, AI-driven power demand, and falling energy prices. Materials, staples, discretionary, healthcare, energy, and real estate lagged due to lower oil prices, inflation rebound, and elevated rates. In H2, FTSE 100 earnings growth may rise from 4% in Q1 to 6.5%. Current forward PE is 12.5x with a 3.9% dividend yield, offering attractive valuation. We are relatively constructive on financials (PE=10x, ROE=11.5%, reasonable valuation, supported by a steeper yield curve, active markets, and European fund flows returning from the US), industrials (PE=26.8x, ROE=25.6%, slightly expensive, supported by energy price decline, European fiscal expansion, defense and infrastructure tailwinds, and stronger transatlantic connectivity), healthcare (PE=13.5x, ROE=15.5%, low valuation, stable earnings, defensive), and staples (PE=13.1x, ROE=15.4%, low valuation, stable earnings, defensive).

GBP may strengthen modestly against USD. GBP/USD is expected to rise from 1.345 (June 20) to 1.36 by year-end, up 8.7% from 1.251 at end-2024. As the world's third-largest reserve currency, sterling stands to benefit from global diversification away from the US dollar and European capital rotation back from dollar assets. Against the backdrop of rising US isolationism and greater transatlantic trade barriers, the UK's role as a bridge between the US and Europe becomes more prominent. The UK can leverage its relatively low tariff regime, financial center status, and soft power to deepen economic ties with both sides. As a close US ally, the UK was the first to secure a trade deal with Washington, lowering policy uncertainty and enhancing US market access. Meanwhile, Trump-era trade shocks are prompting the UK and EU to expedite bilateral trade negotiations, improving UK access to the EU market. As the global hub for offshore USD markets, London can absorb capital diverted from onshore US markets. As Europe's offshore financial center, the UK also stands to benefit from broader EU fiscal expansion and defense autonomy initiatives.

Figure 2: UK Economic Indicators

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	BBG Forecast		CMBI Forecast	
											2025F	2026F	2025F	2026F
Nominal GDP (tn USD)	2.9	2.7	2.7	2.9	2.9	2.7	3.1	3.1	3.4	3.6	4.0	4.3	4.0	4.3
GDP Per Capita (k USD)	45.0	41.0	40.6	43.3	42.8	40.4	46.9	46.1	49.2	52.6	-	-	56.5	61.0
Nominal GDP Growth	2.9	3.9	4.6	3.4	3.8	(5.8)	8.6	10.5	7.3	5.2	5.1	4.0	4.9	4.2
Real GDP Growth	2.2	1.9	2.7	1.4	1.6	(10.3)	8.6	4.8	0.4	1.1	1.1	1.2	1.0	1.3
CPI	0.0	0.7	2.7	2.5	1.8	0.9	2.6	9.1	7.4	2.5	3.2	2.3	3.4	2.4
Core CPI	1.1	1.3	2.4	2.1	1.7	1.4	2.4	5.9	6.2	3.7	-	-	3.6	2.6
Unemployment Rate	5.1	4.7	4.4	4.0	3.7	5.3	4.2	3.9	3.9	4.4	4.6	4.6	4.7	4.6
Central Government Deficit/GDP	4.6	3.3	2.5	2.3	2.5	13.2	7.7	4.7	6.1	5.2	4.1	3.5	4.2	3.7
Central Government Debt/GDP	86.9	86.8	85.6	85.3	84.7	104.8	104.4	99.8	100.5	100.8	-	-	102.0	103.0
Policy Rate	0.5	0.3	0.5	0.8	0.8	0.1	0.3	3.5	5.3	4.8	3.8	3.3	4.0	3.5
10Y Treasury Yield	2.0	1.3	1.3	1.3	0.9	0.3	1.0	3.8	3.6	4.5	4.4	4.2	4.2	4.0
GBP/USD(year-end)	1.5	1.2	1.4	1.3	1.3	1.4	1.3	1.2	1.3	1.3	1.4	1.4	1.4	1.4
M2 Growth	2.5	6.9	2.9	2.9	1.3	14.8	6.0	3.1	(1.5)	2.3	-	-	2.5	3.0
Housing Price Growth	10.1	6.8	0.2	3.0	4.0	5.8	9.1	2.3	1.9	3.4	-	-	2.2	2.5

Source: Wind, Bloomberg, CMBIGM

Eurozone

Macro Economy

Eurozone growth is likely to weaken. Real GDP growth is expected to decline from 1.5% YoY in Q1 to 1.1%, 0.8%, and 0.7% in Q2-Q4. Full-year growth may edge up from 0.9% in 2024 to 1.0% in 2025 and 1.2% in 2026. From late 2024 through Q1 2025, the Eurozone saw a notable recovery, with GDP growth rising from 0.2% YoY in Q4 2023 to 1.5% in Q1 2025. The recovery was driven primarily by household consumption, which accelerated in real terms from 0.6% in 2023 to 1.1% in 2024 and 1.3% in Q1 2025. Improved labor market conditions and rising real wages were key supports: employment growth accelerated from 1.1% at end-2023 to 1.5% in Q1 2025, while the unemployment rate declined from 6.5% to 6.2%. Real wage growth rose from 0.6% in 2023 to 1.6% in 2024, as inflation fell sharply. Lower energy prices, aggressive ECB rate cuts, and global trade recovery also boosted momentum—energy-intensive sectors stabilized, credit growth picked up, housing activity improved, and export demand rebounded. Front-loaded exports ahead of US tariffs lifted trade and growth notably in Q1. Moderate fiscal expansion supported the rebound: government debt rose from 75% of GDP at end-2023 to 75.6% in 2024 and 77.3% by April 2025; real government consumption growth accelerated from 1.5% in 2023 to 2.5% in 2024 and 2.1% in Q1 2025.

However, the economy lost steam in Q2 2025. Sentiment weakened, with the composite PMI falling from 50.6 to 50.3 and services PMI entering mild contraction. Consumer confidence declined, and household savings rose. Export momentum softened, with tariffs hitting autos, pharmaceuticals, and other key sectors. Investment weakened as corporate financing demand declined—ECB lending surveys showed slower growth in corporate loan demand, with new loans rising just 0.3% YoY in Q2 versus 0.5% in Q1. Business capex is expected to slow further in H2. The tariff shock is expected to weigh on global demand, impacting the Eurozone via trade, financial, and confidence channels, and directly affecting sectors like autos, metals, and pharma, suppressing both business investment and household consumption. Wage growth decelerated from 4.6% YoY in H1 2024 to 3.4% in H2 and 2.2% in Q1 2025, likely dragging consumption further. With policy rates now near cycle lows, only limited further easing is possible. Nonetheless, continued fiscal expansion and rising defense spending may improve the medium-term growth outlook.

Eurozone inflation may continue to ease. Headline and core CPI are expected to fall from 2.3% and 2.6% in Q1 to 2.0% and 2.5% in Q2, 1.9% and 2.2% in Q3, and 1.8% and 2.1% in Q4—averaging 2.0% and 2.4% for 2025, and falling to 1.9% and 2.0% in 2026. Since early 2023, inflation has trended lower, with headline and core CPI down from 8.0% and 5.5% in Q1 2023 to 2.2% and 2.7% in Q4 2024, and to 1.9% and 2.3% in May 2025. The disinflation was driven by sharp declines in food, energy, and certain services (e.g., transport, entertainment), while rent, education, healthcare, and social benefits-related service inflation remained sticky at 3.0-3.5%.

Mild disinflation is likely to continue in H2. Key drivers are: 1) Further energy price declines: The tariff shock is slowing global growth and weakening energy demand. Meanwhile, supply may increase as Trump pushes for lower US oil prices via deregulation of domestic production and coordination with OPEC+ for expanded output. 2) Weaker external demand and intensified manufacturing competition: Eurozone industrial goods inflation may fall as global demand slows and competition rises, particularly after US tariffs. The Eurozone's goods trade surplus reached 2.5% of GDP in 2024. 3) Slower wage growth: As wage growth declines, inflation in sectors like food service and entertainment may also ease.

Eurozone housing continues to recover, but likely at a slower pace. The housing market rebounded in 2024, with home sales rising ~3% and price indices up 4.2% YoY, though construction output remained negative in most months. In Q1 2025, home sales and prices likely rose 2.5-3% and ~3% YoY, respectively, while construction began to recover. Southern countries like Spain and Portugal saw stronger gains due to tourism-driven demand; Germany and France lagged due to weaker economic momentum and political uncertainty; Dutch prices rose more sharply on improved supply and rising incomes. In Q2 2025, further ECB rate cuts and gradual supply improvement supported sales, but tariff shocks and short-term oil price rebounds dented household confidence, narrowing YoY gains in sales and prices. In H2, moderate rate cuts and better supply should sustain transaction volumes, but slowing economic activity, weakening sentiment, and real income pressure may limit recovery pace. Housing sales and price growth may slow to 1.5-2% and 2.0-2.5% YoY, respectively.

Policy Outlook

Eurozone fiscal expansion is likely to broaden moderately. The outlook reflects a balance between the phaseout of post-COVID subsidies, new fiscal rules requiring high-debt countries to rein in deficits, and rising defense spending pressures. Germany, France, and Italy are expected to withdraw most energy-related subsidies or tax breaks in 2025 (equivalent to 0.2%-0.7% of GDP), trimming the pace of fiscal expansion. Under the EU's new fiscal framework launched in April 2024, member states with debt-to-GDP ratios over 60% or deficits above 3% must ensure that net government expenditure (total spending minus interest and one-offs) grows below nominal GDP over the medium term, and that structural deficits are cut by 0.5ppts per year. However, green transition, digitalization, and defense spending can be exempted. Countries like Italy, France, and Belgium are currently subject to these restrictions. In February 2025, the EU proposed activating the “general escape clause” under the Stability and Growth Pact, allowing member states to raise defense spending to 1.5% of GDP during 2025-2028 without breaching debt and deficit rules. As of April 30, 2025, 16 countries—including Germany, Poland, and Denmark—have applied for this exemption. High-debt countries such as Italy and France have not applied due to fiscal constraints. In March 2025, the European Commission proposed a "Rearming Europe Plan," targeting €800 billion in defense investment over four years. Germany plans a €500 billion off-budget fund to exempt defense outlays from its “debt brake” restrictions. As a result, the Eurozone fiscal deficit ratio is projected to rise from 3.1% in 2024 to 3.3% in 2025 and 3.4% in 2026. Deficits are likely to rise in Germany and the Netherlands, and fall in France, Italy, and Spain.

Eurozone monetary policy may ease slightly. The ECB is expected to cut rates once in 2H25 and hold steady in 2026. Following sharp disinflation in 2024, the ECB cut rates by a cumulative 135bps but continued quantitative tightening (QT), reducing its balance sheet by €578 billion or 8.3% (vs. -7.1% in 2022 and -12.8% in 2023). In H1 2025, inflation moderated further and the ECB cut another 100bps. But rising long-end yields placed stress on financial markets and public finances, prompting the ECB to slow QT: from January to June 13, the balance sheet shrank by only €120 billion (1.9%). In H2, with inflation expected to ease slightly, the ECB may cut rates again, lowering the main refinancing rate from 2.15% to 1.9% by year-end. In 2026, policy rates are likely to remain unchanged. The June ECB meeting signaled a cautious easing stance, citing slowing growth and lingering inflation uncertainty. Key officials suggested the rate-cutting cycle is nearing its end. The ECB estimates the neutral rate at 1.5%-2.0%, meaning rates will enter that range in H2. Excess liquidity in the banking system (excess reserves over minimum requirements) currently stands at €2.7 trillion—above the ~€1.5-2.0 trillion range considered adequate—leaving room for further QT. However, with global central banks facing rising long-term yields, QT has slowed broadly. The Bank of Canada and RBA have halted QT; the BoJ and SNB have maintained or modestly expanded QE. The ECB may slow QT further in late 2025 or early 2026. Following the June meeting, President Lagarde reiterated that QT would proceed at a "predictable" pace to avoid market disruptions, and that the Transmission Protection Instrument (TPI) remains available if needed. TPI allows the ECB to conduct unlimited secondary-market purchases of sovereign debt to counter “non-fundamental” widening of bond spreads between member states. Although it has not been formally activated since its creation, TPI has been effective in containing spreads between countries such as Italy and Spain relative to Germany.

Financial Market

Eurozone money market rates may decline slightly. Money market rates are driven by the ECB's policy rate path. In H1 2025, the ECB cut rates four times, lowering the main refinancing rate from 3.15% at end-2024 to 2.15% in June 2025. Euro-denominated money market funds—primarily invested in T-bills, commercial paper, and bank CDs—currently yield around 2.1%, reflecting short-term rates such as €STR and sovereign yields. With one more cut likely in H2, euro money market yields could decline modestly to ~1.85% by year-end.

Eurozone sovereign yields may be volatile, while the curve is likely to steepen. Short-end yields are mainly driven by policy expectations, while long-end yields reflect market views on growth, inflation, and fiscal trends. Despite a 100bps policy cut in H1, 2-year AAA-rated sovereign yields fell just 18bps—indicating limited further downside. Meanwhile, 10-year AAA yields rose 17bps due to sticky inflation, high debt ratios, weak demand for duration, ongoing ECB QT, and improved long-term economic outlook. In H2, 2-year yields may fluctuate within 1.7%-1.9% (currently 1.8% already pricing in disinflation and one cut), while 10-year yields could rise slightly from 2.65% to 2.75%, supported by moderate fiscal expansion, improving growth prospects, and relatively lower yield levels vs. the US and UK.

Eurozone equities may see modest gains. The FTSE Eurozone Index (EUR terms) is expected to rise 2.5% in H2, bringing full-year gains to ~15%. In H1, it rose 12.4% (EUR terms), and the MSCI Eurozone Index rose 21% (USD terms), with the latter aided by EUR appreciation. Equity gains were primarily valuation-driven: MSCI Eurozone forward P/E rose from 14.1x at end-2024 to 15.4x in May 2025 and is expected to reach 15.9x by year-end. EPS growth is projected at ~3%. ROE over the last four quarters stood at 10.6%, slightly above the 20-year average of 10%. Earnings in EUR terms are projected to grow 6.5% annually over 2025-2026, above the 5.9% annualized rate of the past five years. Valuations remain reasonable, with MSCI Eurozone's forward P/E of 15.4x roughly in line with its 20-year average. We remain constructive on: financials (fwd P/E: 10.5x, ROE: 12.7%, dividend yield: 5.4%, undervalued, supported by fiscal expansion, rising loan demand, curve steepening, and capital rotation from the US); utilities (fwd P/E: 13.9x, ROE: 13.3%, yield: 5.4%, fairly valued, defensive profile, aided by lower energy prices, AI-driven power demand, and renewable investment); industrials (fwd P/E: 20.6x, ROE: 14.6%, expensive but supported by falling energy costs, fiscal expansion, and defense investment); energy (fwd P/E: 7.2x, ROE: 11.9%, yield: 6.3%, undervalued); discretionary (fwd P/E: 14.4x, ROE: 11.7%, yield: 3.5%, undervalued, benefitting from steep rate cuts and housing rebound).

EUR may appreciate modestly against USD. EUR/USD is expected to rise from 1.17 (end-June) to 1.19 by year-end, a 14.5% gain from 1.04 at end-2024. Persistent US policy uncertainty and weak-dollar bias may continue to drive global diversification away from the USD. As the second-largest reserve currency, the euro should benefit materially. Over the past decade, global (including European) investors have significantly over-allocated to US assets; even partial reallocation could provide strong EUR support. IMF data shows US securities' share in outbound portfolios of Irish, Norwegian, and Swedish investors rose from 28.4%, 31.6%, and 26.7% in 2017 to 40.7%, 40.6%, and 37.5% as of June 2024. According to US Treasury data, eurozone holdings of long-term US securities (Treasuries, agencies, and equities) declined from $8.29tn in January to $8.09tn in March, still equivalent to ~25% of eurozone total market cap. Narrowing US-EU growth differentials and diverging fiscal paths could also support the euro.

Figure 3: Eurozone Economic Indicators

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	BBG Forecast 2025F	BBG Forecast 2026F	CMBI Forecast 2025F	CMBI Forecast 2026F
Nominal GDP (tn USD)	11.8	12.1	12.8	13.9	13.6	13.3	14.9	14.5	15.8	16.4	19.0	20.3	17.6	18.7
GDP Per Capita (k USD)	34.5	35.2	37.2	40.1	39.2	38.2	43.0	41.4	45.1	46.8	-	-	50.1	52.9
Nominal GDP Growth	3.5	2.7	3.8	3.3	3.4	(4.3)	8.6	8.8	6.4	3.8	3.5	3.3	3.4	3.2
Real GDP Growth	2.1	1.8	2.6	1.8	1.6	(6.0)	6.3	3.5	0.5	0.9	1.0	1.1	1.0	1.2
CPI	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.5	2.4	2.0	1.9	2.0	1.9
Core CPI	1.1	0.8	1.0	1.0	1.1	0.7	1.5	4.0	5.0	2.9	2.4	2.0	2.4	2.0
Unemployment Rate	10.6	9.8	8.7	7.9	7.5	8.2	7.1	6.8	6.5	6.3	6.3	6.3	6.4	6.4
Government Deficit/GDP	2.0	1.5	1.0	0.4	0.5	7.0	5.1	3.5	3.5	3.1	3.2	3.3	3.3	3.4
Government Debt/GDP	91.0	89.9	87.5	85.6	83.6	96.5	93.9	89.5	87.3	88.1	-	-	89.1	90.2
Policy Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	4.5	3.2	1.9	1.9	1.9	1.9
Germany 10Y Treasury Yield	0.6	0.2	0.4	0.2	(0.2)	(0.6)	(0.2)	2.5	2.0	2.4	2.7	2.7	2.8	2.8
Italy 10Y Treasury Yield	1.6	1.8	2.0	2.8	1.4	0.5	1.2	4.7	3.7	3.5	3.9	4.0	3.6	3.7
EUR/USD(year-end)	1.1	1.1	1.2	1.1	1.1	1.2	1.1	1.1	1.1	1.0	1.2	1.2	1.2	1.2
Bank Loan Growth	2.3	4.6	2.7	2.0	2.3	9.3	5.5	1.9	0.3	1.1	-	-	2.3	2.5
Housing Price Growth	2.6	4.6	4.6	4.7	4.5	5.6	9.5	3.1	(1.3)	4.1	-	-	2.8	2.4

Source: Wind, Bloomberg, CMBIGM

Japan

Macro Economy

Japan's growth likely to slow. Real GDP growth is projected to decline from 1.7% YoY in Q1 to 0.9%, 0.6%, and 0.3% in Q2-Q4. Full-year growth may pick up from 0.2% in 2024 to 0.9% in 2025, before easing to 0.8% in 2026. Japan experienced a contraction from H2 2023 to Q1 2024, with cumulative GDP falling 1.2% YoY. A rebound followed from Q2-Q4 2024, with GDP rising 1.4% sequentially and YoY growth improving from -0.65% in H1 to 0.8% in Q3 and 1.3% in Q4. However, the economy contracted again in Q1 2025 (QoQ -0.2%). On one hand, Trump's "reciprocal tariffs" and auto tariffs disrupted exports and automotive production, while expectations of supply chain disruption and rising costs prompted front-loaded imports, dragging net exports. On the other hand, tariffs dented consumer sentiment and rising food inflation (e.g., rice) weighed on real incomes, resulting in flat personal consumption for a second consecutive quarter. From Q2 through H2 2025, Japan's export and manufacturing activity may weaken further alongside the global slowdown. Real wage growth and consumer confidence could decline, and base effects may contribute to visibly slower YoY GDP growth. In 2026, mild global recovery may support a rebound in exports. Disinflation and labor shortages may lift real wages, allowing personal consumption to recover and the broader economy to improve.

Japan's inflation likely to fall notably. CPI and core CPI are expected to decline from 3.5% and 3.6% in Q2 to 2.1% and 2.2% in Q4, averaging 2.8% and 3.0% in 2025, and falling further to 1.9% and 2.0% in 2026. Since November 2024, inflation has rebounded, with headline and core CPI rising from 2.3% in October 2024 to 3.5% and 3.7% in May 2025. This was driven by sharp gains in goods inflation—CPI for food, energy, and durable goods rose from 3.5%, 2.3%, and 1.8% to 6.5%, 8.1%, and 2.2%, respectively. In H2 2025, inflation is expected to moderate. Key drivers include: 1) falling energy prices: Slower global growth, OPEC+ output increases, and Trump's push for lower US energy prices may drive energy down 5-10%, shaving 0.1-0.2ppts off Japan's CPI. 2) Weakening external demand: Japan's trade surplus-to-GDP ratio stands at 1.4%. A global slowdown may reduce exports and intensify competition, weighing on industrial goods inflation. 3) Yen appreciation: Japan's import dependence on energy, raw materials, and food makes CPI sensitive to FX. A 10% yen appreciation could lower inflation by 0.2ppts within 6-10 months. 4) Slower income growth: Weak economic momentum and wage growth may reduce service inflation, particularly in dining, travel, and entertainment.

Japan's housing market likely to remain resilient. In the first four months of 2025, existing condo transactions in Greater Tokyo rose 24.5% YoY, with average prices up 5.1% YoY. Three key drivers supported this trend: 1) urban migration and immigration: Inflow of students, expats, and internal migration boosted housing demand, with Tokyo's population rising 3.1% YoY to 9.9 million in 2024. 2) Negative real rates and reflation expectations: Persistently high inflation and deeply negative real rates fueled expectations of asset price appreciation and drew large foreign capital inflows into property. 3) Supply constraints: Labor shortages and rising construction costs limited new supply. New condo supply in Tokyo rose only 13% YoY in 2024. In H2 2025, the housing market is likely to remain strong, with transaction volumes in Greater Tokyo potentially rising ~20% YoY and prices increasing ~4.5%. Easing from the Fed and PBoC may further support foreign inflows into Japanese real estate.

Policy Outlook

Japan's fiscal expansion likely to accelerate. In response to downside risks from tariffs and potential US pressure to rebalance trade, Japan may increase fiscal stimulus. However, elevated government debt levels (over 250% of GDP) and high 20-year bond yields could constrain policy space. The fiscal deficit is expected to widen from 2.2% of GDP in 2024 to 3.5% in 2025 and 3.4% in 2026. In June, the government released a draft of its Basic Policy on Economic and Fiscal Management and Reform, outlining the Ishiba administration's medium-term agenda. Key priorities include: 1) Wage-led growth and corporate investment: The government prioritizes wage hikes over tax cuts, rejecting opposition calls for consumption tax or other tax reductions. It targets a 1% rise in real wages, supports SME wage increases, and plans to raise the minimum wage to ¥1,500/day to boost consumption. Public-private investments of ¥10 trillion by 2030 will support AI, semiconductors, quantum tech, and green transformation. The proposed "Five-Year Startup Plan" aims to make Japan a regional startup hub. 2) Rural revitalization: The new “Hometown Residency Registration System” will allow dual registration for individuals with ties to rural areas, even if they live elsewhere. The government will review eligibility and voting rights criteria going forward. 3) Inflation-adjusted benefits: A proposal to revise thresholds and benefits in public programs based on inflation could have broad implications for the social security system but may also raise concerns about fiscal sustainability and bond yields. 3) Pragmatic fiscal consolidation: The timeline for achieving a primary balance has been pushed from FY2025 to FY2025-2026.

BOJ may delay further rate hikes. Prior to the tariff shock, markets expected the Bank of Japan to raise rates in July. However, the BOJ now views tariffs as a drag on global trade, corporate profits, and economic growth, and has cut its FY2025 GDP and CPI forecasts by 0.6ppts and 0.2ppts, respectively. It is likely to remain on hold at its July, September, and October meetings. Should the economy stabilize in Q4, a hike may follow in January 2026. A rate cut is unlikely, as monetary policy remains highly accommodative. Labor-intensive services like tourism continue to support labor demand, while structural factors like aging demographics constrain labor supply, driving persistent wage gains and giving firms greater pricing power. Inflation remains above the 2% target. Facing stress from rising long-term bond yields, the BOJ announced a slower pace of QT starting April 2026, halving its quarterly bond purchase reduction from ¥400 billion to ¥200 billion. By Q1 2027, purchases will return to pre-Abenomics levels. Excess reserves in the banking system remain ample.

Financial Market

Yen money market rates may remain low, expected to average around 0.6% over the next six months—favorable for financing but not for investment. Allocating to yen helps diversify currency exposure and mitigates exchange rate volatility on portfolios. As a key safe-haven currency, the yen tends to appreciate during global market turmoil and serves as a flight-to-safety asset. However, due to Japan's government debt far exceeding that of the US and Europe, and lower policy credibility, yen exchange rates are relatively volatile, posing FX risk for foreign holders of yen-denominated assets.

JGB yields may rise modestly, with the 10-year yield expected to increase from the current 1.4% to around 1.6% by year-end. While tariff shocks reduce the likelihood of near-term BOJ rate hikes, medium- to long-term JGB yields remain under upward pressure. Key drivers include: aging population, labor shortages, and booming inbound tourism, which support sustained wage growth and reinforce a reflationary narrative; continued BOJ QT and reduced long-term JGB demand from life insurers; and Japan’s high debt burden, with potential US pressure to raise defense spending as a share of GDP, further lifting government debt levels.

The yen may appreciate slightly, with USD/JPY projected to strengthen from 144 to around 140 by year-end. Uncertainty surrounding Trump-era policies has driven global investors to reduce overweight positions in US dollar assets. Repatriation of Japanese capital from US markets supports the yen. While tariff-induced inflation in the US may be short-lived, persistent labor shortages and strong inbound service demand contribute to Japan’s inflation. The narrowing US-Japan interest rate differential could also benefit the yen.

Japanese equities may edge up, with the TOPIX expected to gain 1.5% in the second half and around 4% for the full year, underperforming the US, Europe, and China. The current TOPIX forward PE is 15.4x with ROE at 9.1%. Corporate earnings are expected to grow at an average annual pace of 4.3% over 2025-2026, below the 5-year average of 9.9%. Japanese equities are more expensive than Chinese and Korean stocks but offer lower profitability. Tariff headwinds and yen appreciation are likely to weigh on corporate earnings, while rising JGB yields may pressure equity valuations. However, capital repatriation from the US may provide some support. We are relatively constructive on: utilities (forward PE =7.6x, ROE=8.9%, low valuation, stable earnings, defensive; supported by AI-driven electricity demand and falling energy prices); communication services (forward PE=16.9x, ROE=10.3%, slightly expensive, stable earnings); real estate (forward PE=14x, ROE=9.5%, relatively cheaper and more profitable vs. in the US and Europe).

Figure 4: Japan Economic Indicators

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	BBG Forecast		CMBI Forecast	
											2025F	2026F	2025F	2026F
Nominal GDP (tn USD)	4.4	5.0	4.9	5.0	5.1	5.1	5.0	4.3	4.2	4.0	4.7	5.0	4.2	4.6
GDP Per Capita (k USD)	35.1	39.4	39.1	39.8	40.4	40.0	40.2	34.5	34.0	32.7	-	-	34.2	37.6
Nominal GDP Growth	3.7	1.2	1.6	0.6	0.2	(3.3)	2.5	1.3	5.5	3.1	3.5	2.7	3.9	2.7
Real GDP Growth	1.6	0.8	1.7	0.6	(0.4)	(4.2)	2.7	0.9	1.4	0.2	0.8	0.8	0.9	0.8
CPI	0.8	(0.1)	0.5	1.0	0.5	(0.0)	(0.3)	2.5	3.3	2.7	2.8	1.8	3.0	1.9
Core CPI	0.6	(0.3)	0.5	0.9	0.6	(0.2)	(0.2)	2.3	3.1	2.6	2.7	1.7	3.0	2.0
Unemployment Rate	3.3	3.0	2.7	2.5	2.2	3.1	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Government Deficit/GDP	3.0	3.0	2.4	1.7	2.4	9.1	5.3	3.3	3.7	2.2	3.5	3.3	3.5	3.4
Government Debt/GDP	194.2	195.9	196.3	197.7	199.1	224.7	220.3	224.3	217.5	216.2	-	-	218.2	219.2
Policy Rate	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	0.3	0.8	0.9	0.5	1.0
10Y Treasury Yield	0.3	0.0	0.0	0.0	(0.0)	0.0	0.1	0.5	0.6	1.1	1.5	1.7	1.6	1.8
USD/JPY(year-end)	120.4	117.1	112.7	110.4	109.2	103.3	115.1	132.1	141.4	157.9	140.0	134.5	140.0	137.0
Bank Asset Growth	3.0	6.8	2.3	1.2	1.1	11.8	5.1	1.9	3.6	3.3	-	-	0.5	0.3
Housing Price Growth	1.3	9.6	4.3	0.9	4.7	4.8	11.5	9.0	7.0	4.4	-	-	3.8	3.3

Source: Wind, Bloomberg, CMBIGM

China

Macro Economy

China's economy may soften. GDP growth YoY is projected to slow from 5.4% in Q1 to 5.1% in Q2, 4.8% in Q3, and 4.6% in Q4, with full-year growth at 4.9%. Tariff shocks have disrupted global supply chains and weakened global demand, dragging on China's goods trade and manufacturing activity. Growth in goods exports and industrial export delivery values declined from 6.4% and 5.1% in the first four months to 4.8% and 0.6% in May, respectively. Manufacturing PMI remains in contraction territory, and industrial output growth slowed from 6.4% in 4M25 to 5.8% in May. Tariffs have eroded business and household confidence. Housing market recovery lost momentum, with new and existing home sales down 6.5% and 7.7% in June. Inventory investment continues to contract (as indicated by the manufacturing PMI inventory index), while manufacturing fixed asset investment (QoQ annualized) dropped from 4.8% in Q1 to 3.2% in April-May. Tariff-driven concerns about future demand and commodity prices have intensified deflationary pressure. May PPI decline widened, and a new round of price wars broke out in the auto sector. Industrial profits shifted from 1.4% growth in the first four months to a 9.1% decline in May. However, retail sales of durable goods accelerated in anticipation of expiring subsidies under the trade-in policy, supporting a rise in headline retail sales growth from 4.6% in Q1 to 5.1% in April and 6.4% in May. Economic weakness may persist in H2. On the external side, demand may slow further. US PMI inventory and import indices are falling, and the post-COVID consumer and corporate restocking boom is fading. European and Japanese growth are also expected to weaken, which could drag on China's exports. On the domestic side, the marginal boost from the trade-in policy may fade. In Q4, durable goods sales could face pressure from a high base, front-loaded demand, and a weaker housing market, weighing on overall retail sales.

Deflationary pressure remains and may worsen before easing. CPI YoY is expected to fall from -0.1% in H1 to -0.2% in Q3 before rebounding to 1.0% in Q4, with full-year inflation at 0.2%, unchanged from 2024. PPI YoY is expected to fall from -2.5% in Q1 and -2.2% in Q2 to -3.0% in Q3, before narrowing to -1.7% in Q4, averaging -2.4% for the year, down from -2.2% in 2024. Tariff shocks and Trump policy uncertainty have dampened global growth expectations, weakening external demand. International energy prices have fallen, while domestic industrial overcapacity has worsened deflationary pressure. PPI decline widened from 2.3% YoY at the start of the year to 3.3% in May, with output prices falling across petroleum, coal, steel, textiles, furniture, paper printing, rubber plastics, and electrical equipment. Tariff escalation and rising China-US tensions have fueled buyer hesitation in the housing market, significantly slowing its recovery. Home price declines have widened modestly. As a leading indicator, real estate weakness suggests future household consumption may decelerate. Prices of autos, home appliances, tourism, and rents are expected to remain under pressure.

Housing sales momentum has weakened, as supply-demand rebalancing continues and prices remain near bottom. Between Q4 2024 and Q1 2025, policy easing triggered a sharp rebound in sales. Secondary market transactions in 12 representative cities[1] and new home sales in 30 major cities rebounded to 149.8% and 63.4% of 2018-2019 levels, respectively, up from 96.6% and 48.5% in the first three quarters of 2024. In Q1 2025, these recovery rates stood at 134.5% and 51.8%. However, since Q2, tariff shocks and fading policy stimulus have weakened the sales recovery. The secondary market and new home sales recovery rates fell to 95.5% and 46.5%, respectively. Sales may remain subdued in H2, with a modest decline in recovery rates. Supply-demand rebalancing continues, with land acquisitions and new starts falling faster than sales. In tier-1 cities, inventory-to-sales ratios are declining and may reach equilibrium in H2, pointing to possible home price stabilization. However, in most other cities, inventory ratios remain elevated, and oversupply persists, keeping home prices under pressure.

[1] Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguang and Foshan.

Policy Outlook

US-China trade negotiations may shape China's policy direction. Under the baseline scenario, the US and China reach consensus on partial trade issues and sign a phase-one agreement. US tariffs on Chinese goods may decline from the current 51% to 30-40%. China would gradually shift policy focus toward economic rebalancing, moderately widening the fiscal deficit. The broad fiscal deficit ratio (defined as official fiscal deficit + local government special bonds + special sovereign bonds) may rise from 8.4% in 2025 to 9.0% in 2026. Spending would increasingly shift from infrastructure and corporate subsidies toward household transfers, social security, and consumption subsidies, with further efforts to reduce industrial overcapacity and support a moderately stronger RMB.

Under the optimistic scenario, the two countries reach broader trade consensus and sign a comprehensive agreement. US tariffs could fall further to 20-30%. China would accelerate rebalancing and adopt more aggressive fiscal stimulus. The broad fiscal deficit may increase to 9.7% in 2026. The government would significantly expand household transfers, social security outlays, and consumption subsidies, while cutting infrastructure investment and corporate support, and would step up capacity cuts in manufacturing. A relatively strong RMB would be favored.

Under the pessimistic scenario, no agreement is reached and US tariffs remain near 51%. China would maintain a gradual easing stance, keeping the broad fiscal deficit at around 8.4%. The government would sustain the scale of household transfers, continue its trade-in subsidy program, implement moderate capacity cuts in select manufacturing sectors, and maintain RMB stability.

Monetary policy is likely to ease moderately. We expect 50 bps in reserve requirement cuts and 10 bps in interest rate cuts in H2. The resilience of China's financial markets to tariff shocks reduces the urgency for immediate monetary easing. The PBoC's Q2 Monetary Policy Committee statement characterized current economic conditions as "improving," removing the earlier reference to "timely RRR or rate cuts." In Q3, during the US-China trade negotiation window, monetary policy is expected to remain stable, with low probability of near-term easing. Market and currency stability continue to be key policy objectives as indicators of economic resilience. The PBoC will maintain ample liquidity, while regulators will support long-term capital inflows into equity markets and encourage dividend payouts from listed firms. In Q4, as retail sales growth slows meaningfully, the PBoC may cut RRR and rates further to support real estate and consumption.

Financial Market

Onshore RMB money market yields may edge lower. In Q3, the PBoC is expected to keep policy rates stable and maintain ample liquidity, with onshore money market fund yields likely to hover around 1.2%. In Q4, the PBoC may cut the reserve requirement ratio by 50bps and reduce policy rates by 10bps, potentially bringing fund yields down to 1.1%. Amid a weaker USD and stronger RMB, Chinese capital is flowing back from US markets to Hong Kong, driving offshore RMB money market yields sharply lower—3M CNH Hibor fell from 2.9% in early 2025 to 1.9% in June. In H2, the RMB is likely to remain relatively firm, keeping offshore RMB money market yields low. The RMB's share in international payments and cross-border settlements may rise modestly. As the world's second-largest economy and largest manufacturing and trading nation, China supports the RMB as a key regional currency, though capital controls and underdeveloped financial internationalization remain constraints.

China's government bond yields may decline first before rebounding. The 10Y government bond yield is projected to end the year around 1.7%. In Q3, during the US-China negotiation window, weakening growth expectations, rising deflationary pressures, and steady monetary/fiscal policy may drive yields from 1.65% to ~1.6%. In Q4, as policy shifts toward rebalancing, with stronger fiscal stimulus and rate cuts, economic expectations may stabilize, pushing yields back to ~1.7%.

RMB may appreciate modestly. USD/CNY is expected to fall from 7.15 to around 7.10 by year-end. During the negotiation window, RMB may see two-way fluctuations. While weak economic outlook, deflation, and corporate earnings deterioration persist, exchange rate stability remains a policy priority, and indirect support is likely to continue. Upon reaching a trade agreement, China may expand fiscal stimulus and boost consumption, supporting a new round of RMB appreciation.

A-shares may remain range-bound before rebounding, while Hong Kong equities could outperform. In Q3, weak macro and earnings fundamentals combined with steady policy may keep the market range-bound, although authorities will maintain efforts to stabilize equities. In Q4, stronger fiscal and consumption support policies may lift equities. Hang Seng Index and CSI 300 are projected to rise 3% and 6% in H2, with full-year gains of 23% and 6%, respectively. Hong Kong stocks are likely to outperform A-shares due to: 1) stronger fundamentals: Hang Seng ROE improved from 9.4% in 2022 to 10.7% in 2023 and 11% in 2024-25; 2025E P/E is 9.8x. CSI 300 ROE fell from 12.6% in 2022 to 11.7% in 2023 and 10.8% in 2024-25; 2025E P/E is 12.1x. 2) Higher capital inflows: Net southbound inflows per month averaged HKD150bn in the first four months of 2025. 3) Attractive dividend yields: Supported by low RMB interest rates and demand from mainland insurers. 4) Risk aversion: Rising US policy uncertainty is driving Chinese capital back to Hong Kong.

In the Hong Kong market, we are constructive on industrials (fwd PE=10x, ROE=8.7%, dividend yield=4%, low valuation, sector leaders benefit from capacity reduction policies), materials (fwd PE=9.8x, ROE=11.2%, low valuation, sector leaders benefit from capacity reduction), staples (fwd PE=12.7x, ROE=12.2%, dividend yield=5.2%, supported by economic rebalancing), and utilities (fwd PE=10.9x, ROE=9.5%, dividend yield=5.2%, strong AI-driven electricity demand and falling costs).

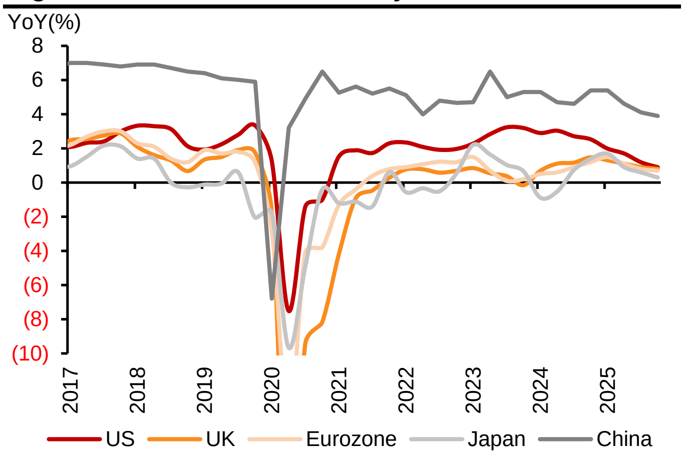
In the A-share market, we favor banks (fwd PE=6.5x, ROE=10.3%, dividend yield=4.9%, low valuation, high dividend, supported by low RMB interest rates), staples (fwd PE=17.9x, ROE=25%, low valuation, strong profitability, supported by economic rebalancing), discretionary (fwd PE=14.9x, ROE=15.3%, low valuation, supported by economic rebalancing), industrials (fwd PE=15.5x, ROE=9.1%, sector leaders benefit from capacity reduction), and materials (fwd PE=13.9x, ROE=10.2%, sector leaders benefit from capacity reduction).

Figure 5: China Economic Indicators

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	BBG Forecast		CMBI Forecast	
											2025F	2026F	2025F	2026F
Nominal GDP (tn USD)	11.1	11.4	12.6	14.1	14.5	15.0	18.2	18.3	18.3	18.7	19.3	20.6	19.6	21.0
GDP Per Capita (k USD)	8.1	8.2	9.0	10.1	10.3	10.6	12.9	13.0	12.9	13.3	-	-	13.9	15.0
Nominal GDP Growth	7.1	8.4	11.3	10.5	7.5	2.9	13.4	5.1	4.9	4.2	3.9	4.8	4.3	5.4
Real GDP Growth	7.0	22.3	6.9	6.8	6.1	2.3	20.9	3.1	5.4	5.0	4.5	4.2	4.9	4.6
CPI	1.4	2.0	1.6	2.1	2.9	2.5	0.9	2.0	0.2	0.2	0.2	1.0	0.2	0.9
PPI	(5.2)	(1.4)	6.3	3.5	(0.3)	(1.8)	8.1	4.1	(3.0)	(2.2)	(2.4)	(0.4)	(2.4)	0.5
Unemployment Rate	-	-	-	4.9	5.2	5.2	5.1	5.5	5.1	5.1	5.1	5.1	5.2	5.1
General Deficit/GDP	2.3	3.0	3.0	2.6	2.8	3.6	3.2	2.8	3.0	3.0	-	-	4.0	3.5
(General deficit+Special-purpose Bonds+Special Treasury)/GDP	2.3	3.5	3.9	4.0	4.9	8.2	6.3	5.8	6.8	6.6	-	-	8.4	9.0
Central Government Debt/GDP	36.2	35.8	35.3	35.6	37.9	45.0	45.8	49.4	54.7	60.8	-	-	66.7	72.3
DR007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.3)	1.7	1.6
1Y LPR	4.3	4.3	4.3	4.3	4.2	3.9	3.8	3.7	3.5	3.1	2.9	2.7	2.9	2.8
10Y Treasury Yield	2.8	3.0	3.9	3.2	3.1	3.1	2.8	2.8	2.6	1.7	1.6	1.6	1.7	1.6
USD/RMB(year-end)	6.6	7.0	6.5	6.9	7.0	6.5	6.4	6.9	7.1	7.3	7.2	7.1	7.1	7.1
Bank Asset Growth	15.7	15.7	8.4	6.8	8.4	10.3	7.5	9.8	9.7	6.3	-	-	7.5	7.1
Tier-1 Cities Housing Price Growth	26.4	32.3	10.6	(2.4)	1.3	10.5	10.4	(4.2)	(12.2)	(12.7)	-	-	(5.0)	0.2

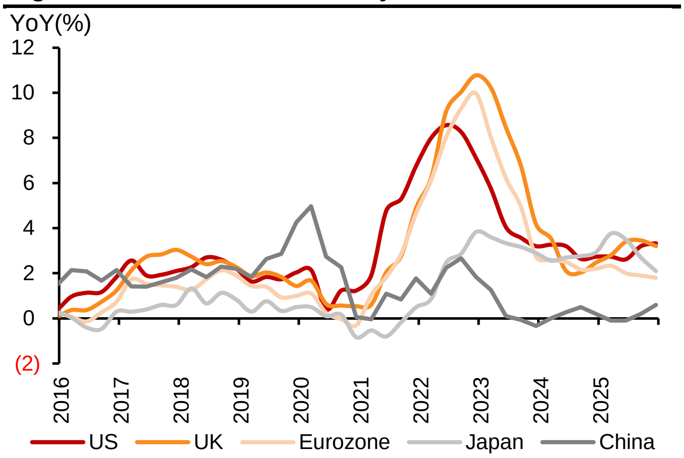
Source: Wind, Bloomberg, CMBIGM

Figure 6: Growth of GDP in major economies



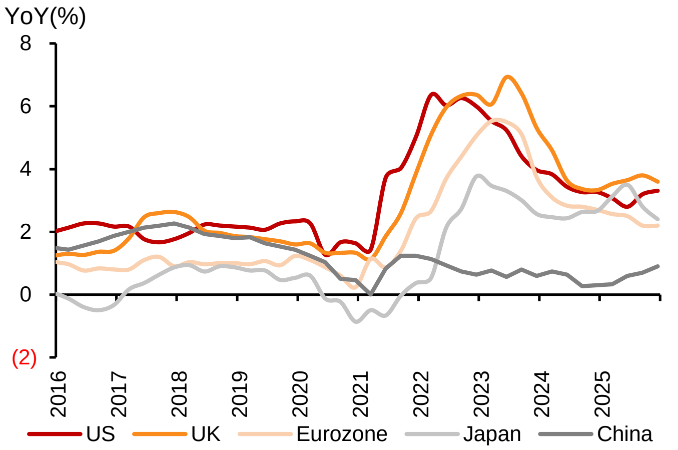
Source: Wind, Bloomberg, CMBIGM

Figure 7: Growth of CPI in major economies



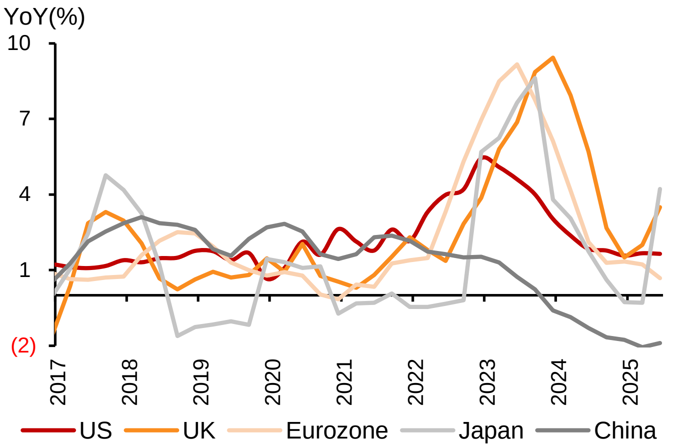
Source: Wind, Bloomberg, CMBIGM

Figure 8: Growth of core CPI in major economies



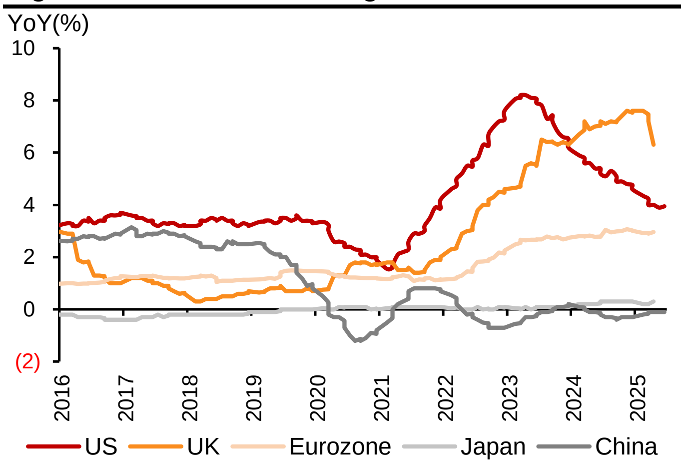
Source: Wind, Bloomberg, CMBIGM

Figure 9: Growth of alcoholic beverage CPI



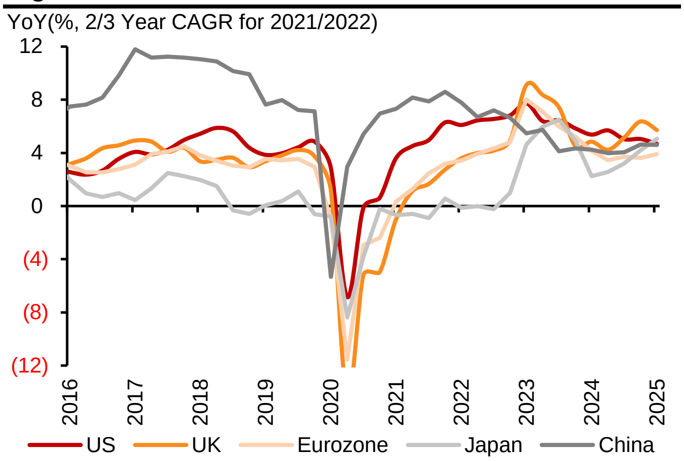
Source: Wind, Bloomberg, CMBIGM

Figure 10: Growth of housing rent



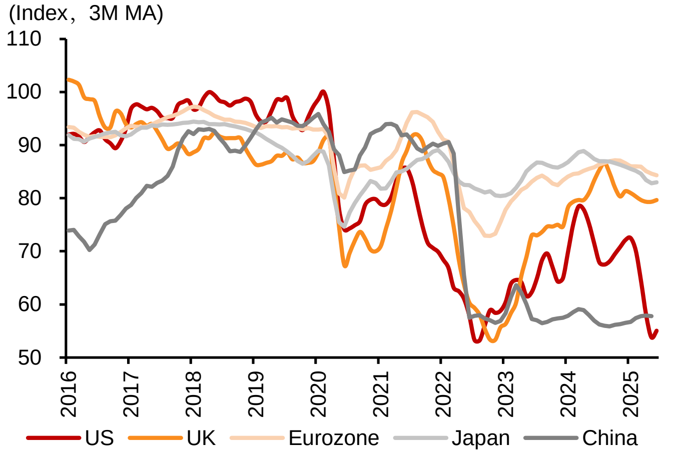
Source: Wind, Bloomberg, CMBIGM

Figure 11: Growth of nominal GDP



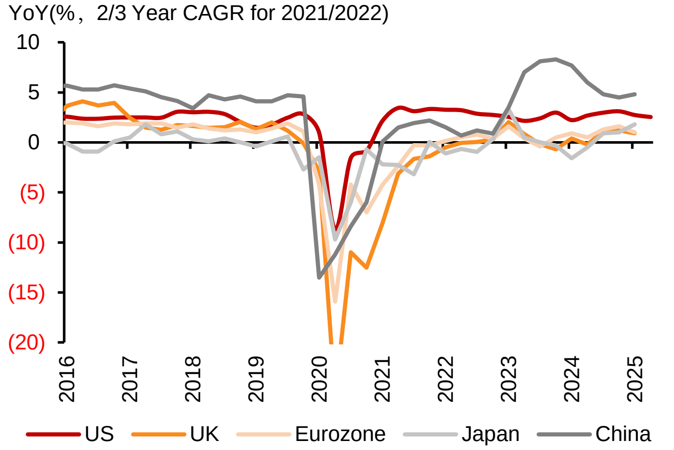
Source: Wind, Bloomberg, CMBIGM

Figure 12: Consumer confidence index



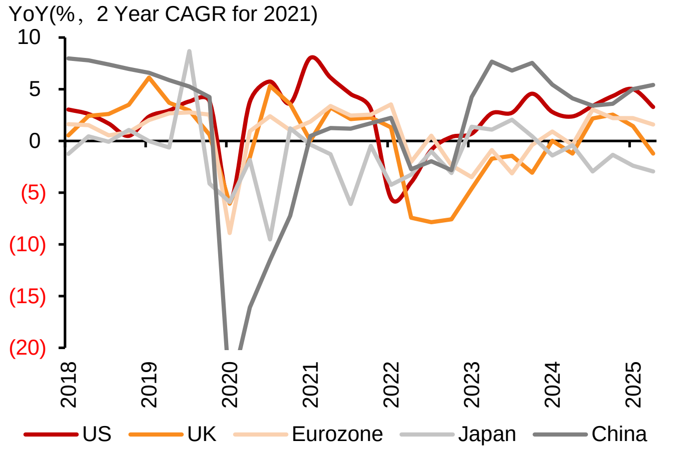
Source: Wind, Bloomberg, CMBIGM

Figure 13: Growth of real consumption



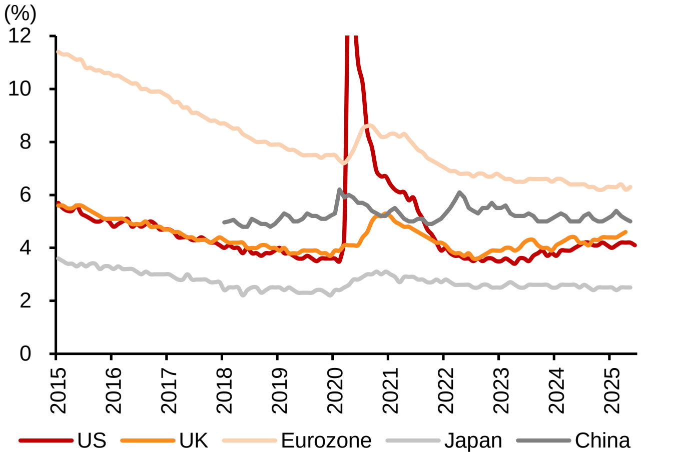
Source: Wind, Bloomberg, CMBIGM

Figure 14: Growth of real retail sales



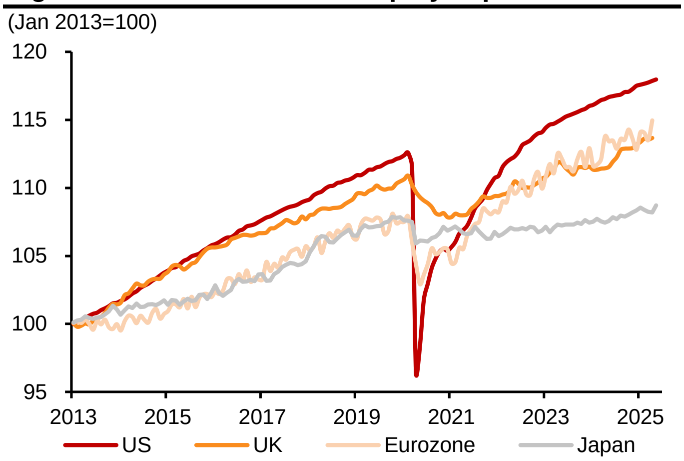
Source: Wind, Bloomberg, CMBIGM

Figure 15: Unemployment rates in major economies



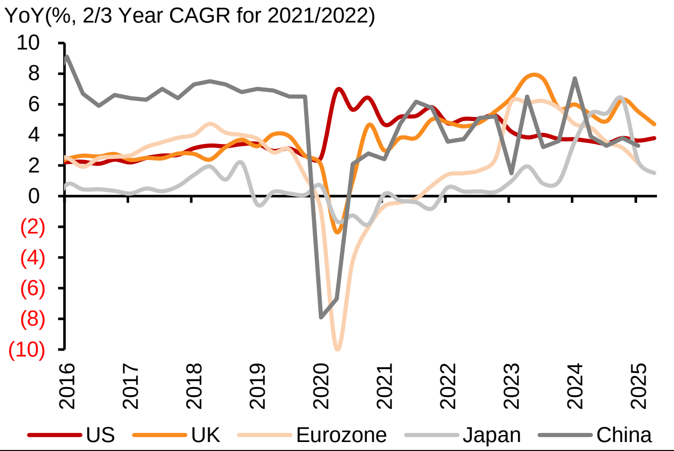
Source: Wind, Bloomberg, CMBIGM

Figure 16: Total number of employed persons



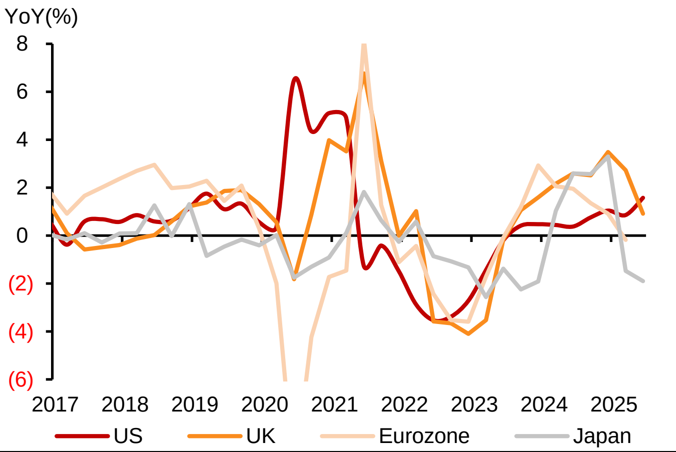
Source: Wind, Bloomberg, CMBIGM

Figure 17: Growth of wages in major economies



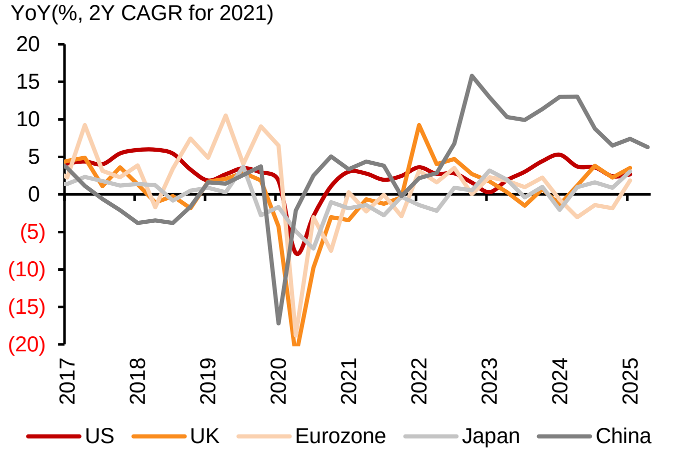
Source: Wind, Bloomberg, CMBIGM

Figure 18: Growth of real income



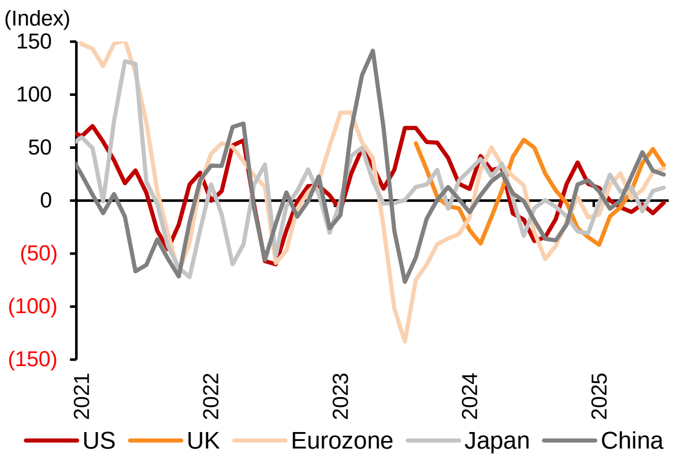
Source: Wind, Bloomberg, CMBIGM

Figure 19: Growth of real fixed investment



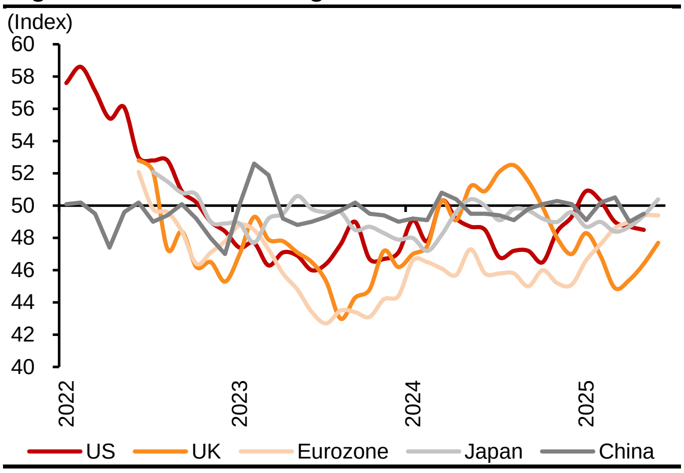
Source: Wind, Bloomberg, CMBIGM

Figure 20: Economic surprise index



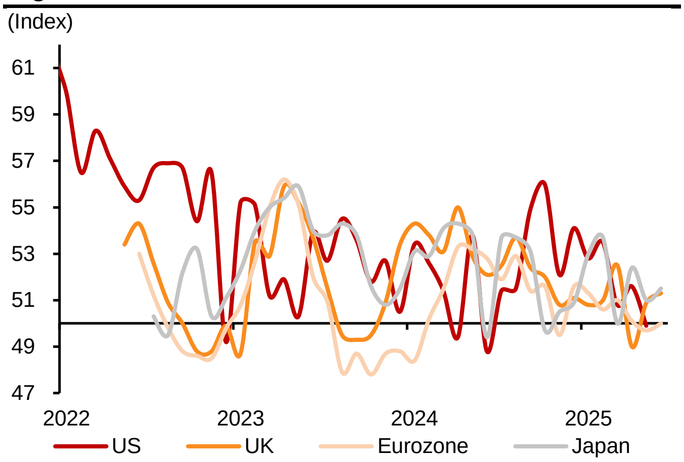
Source: Wind, Bloomberg, CMBIGM

Figure 21: Manufacturing PMI



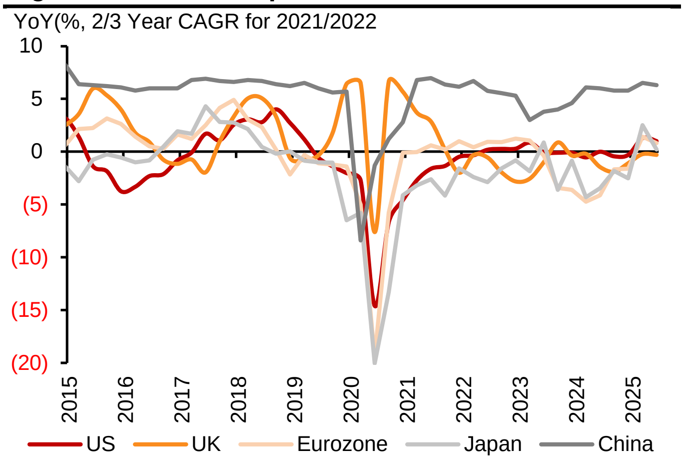
Source: Wind, Bloomberg, CMBIGM

Figure 22: Services PMI



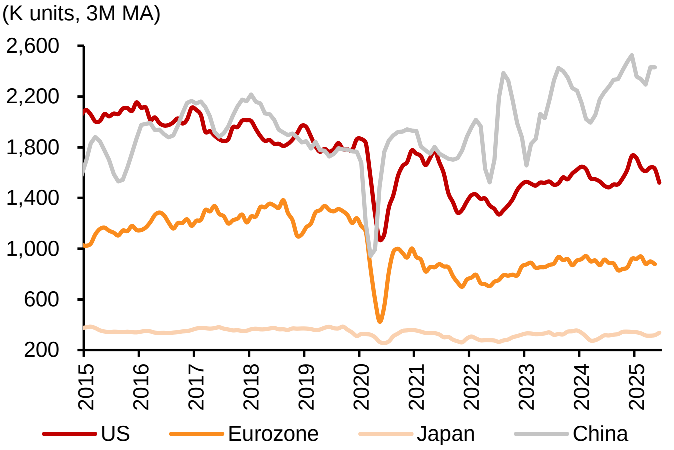
Source: Wind, Bloomberg, CMBIGM

Figure 23: Industrial production index



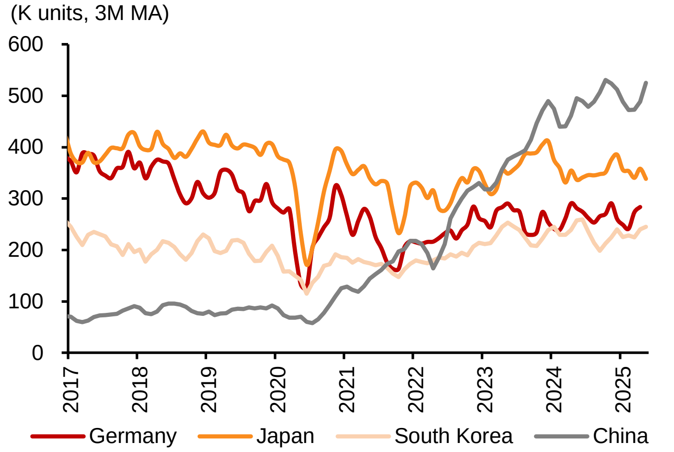
Source: Wind, Bloomberg, CMBIGM

Figure 24: Automobile sales



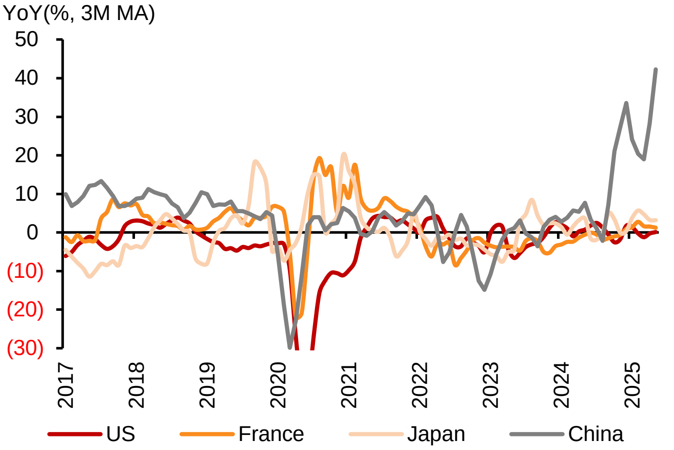
Source: Wind, Bloomberg, CMBIGM

Figure 25: Automobile exports



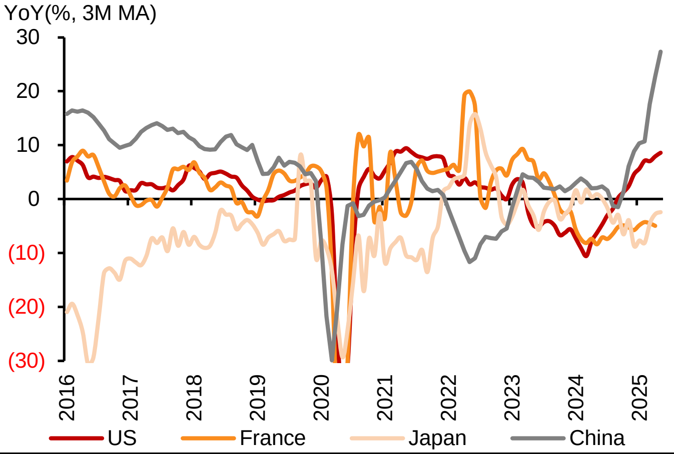
Source: Wind, Bloomberg, CMBIGM

Figure 26: Growth of home appliance retail sales



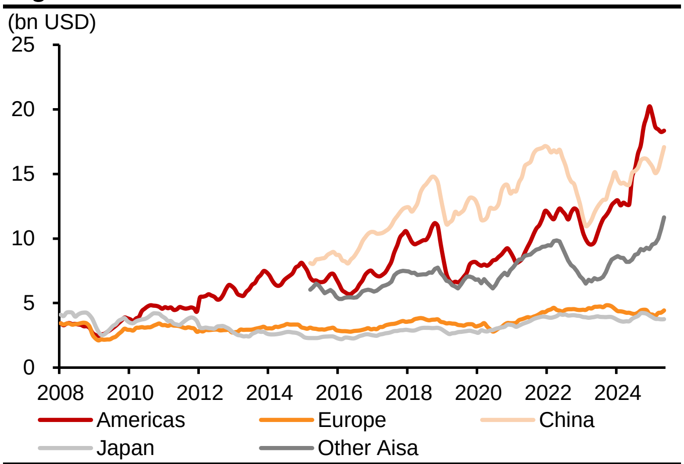
Source: Wind, Bloomberg, CMBIGM

Figure 27: Growth of furniture retail sales



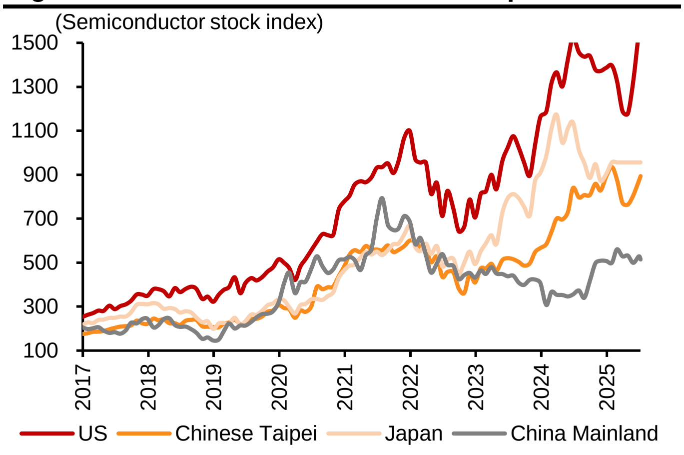
Source: Wind, Bloomberg, CMBIGM

Figure 28: Semiconductor retail sales



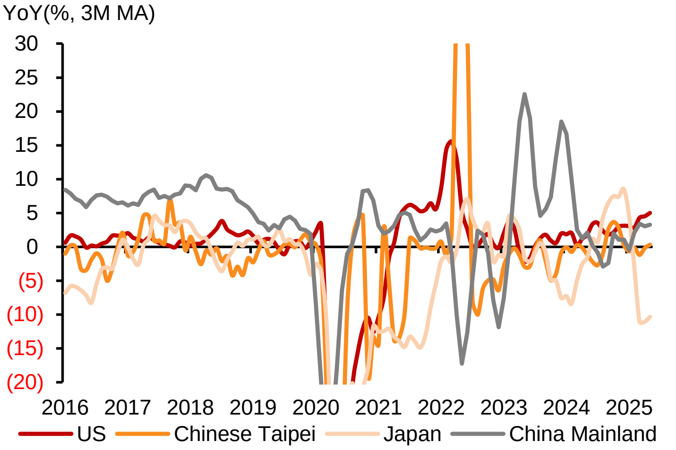
Source: Wind, Bloomberg, CMBIGM

Figure 29: Semiconductor sector stock prices



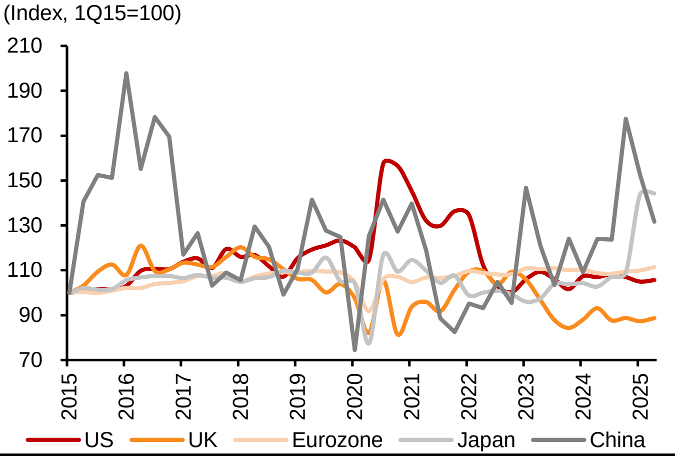
Source: Wind, Bloomberg, CMBIGM

Figure 30: Growth of clothing retail sales



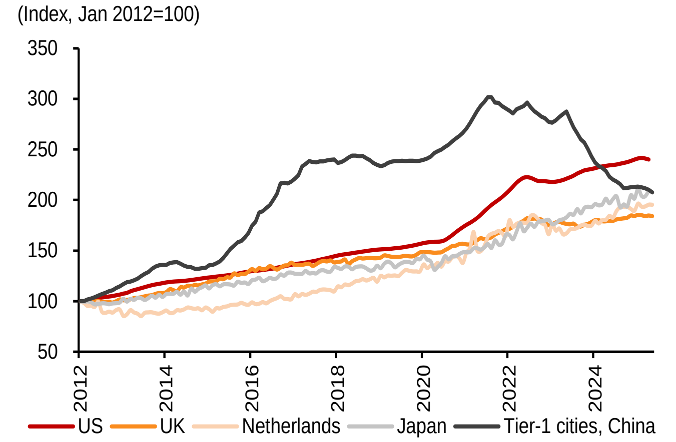
Source: Wind, Bloomberg, CMBIGM

Figure 31: Housing sales in major economies



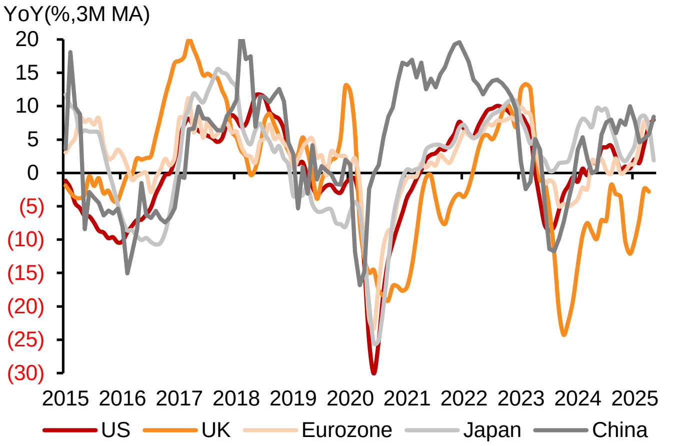
Source: Wind, Bloomberg, CMBIGM

Figure 32: Growth of housing prices



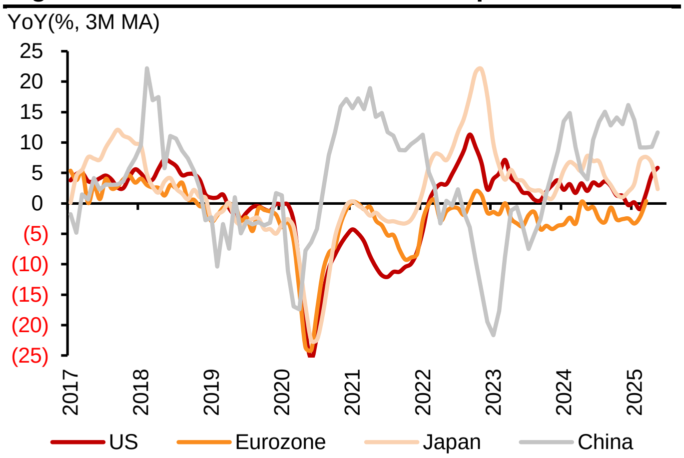
Source: Wind, Bloomberg, CMBIGM

Figure 33: Growth of merchandise export value



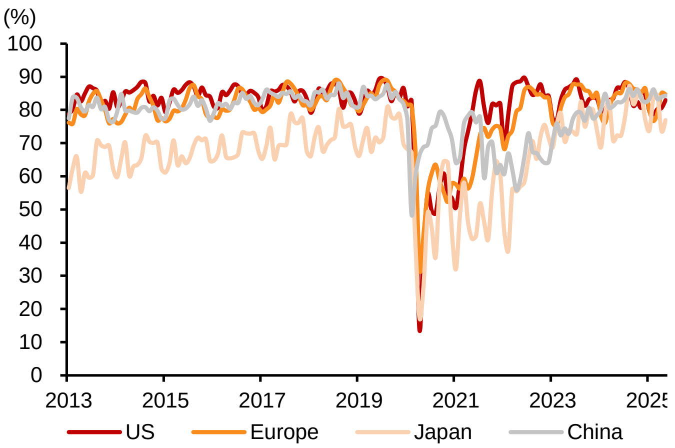
Source: Wind, Bloomberg, CMBIGM

Figure 34: Growth of merchandise export volume



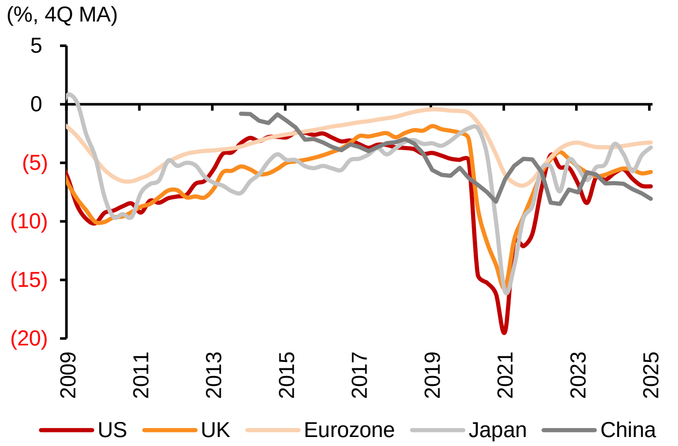
Source: Wind, Bloomberg, CMBIGM

Figure 35: Airline load factors



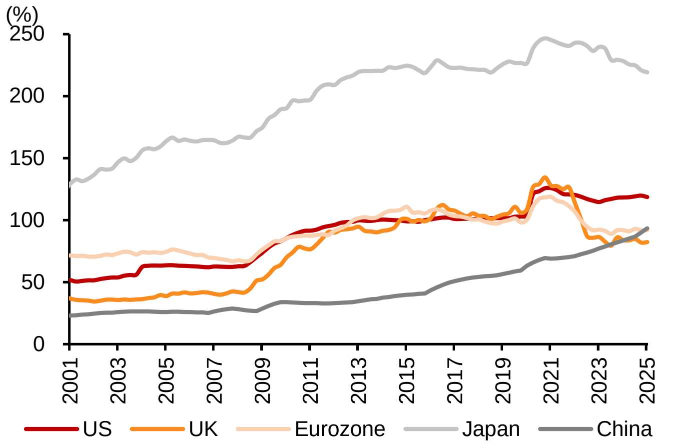
Source: Wind, Bloomberg, CMBIGM

Figure 36: Fiscal deficit rates



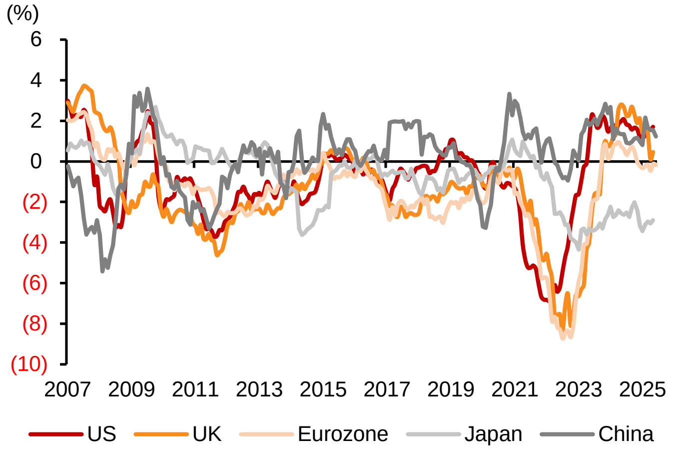
Source: Wind, Bloomberg, CMBIGM

Figure 37: Government debt ratios



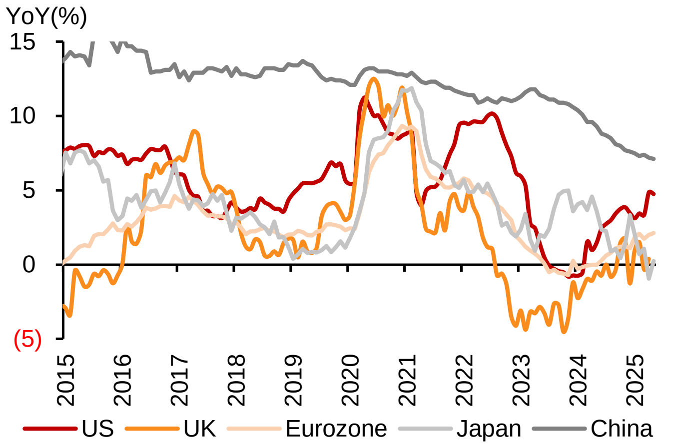
Source: Wind, Bloomberg, CMBIGM

Figure 38: Real interest rates (3M rates-CPI growth)



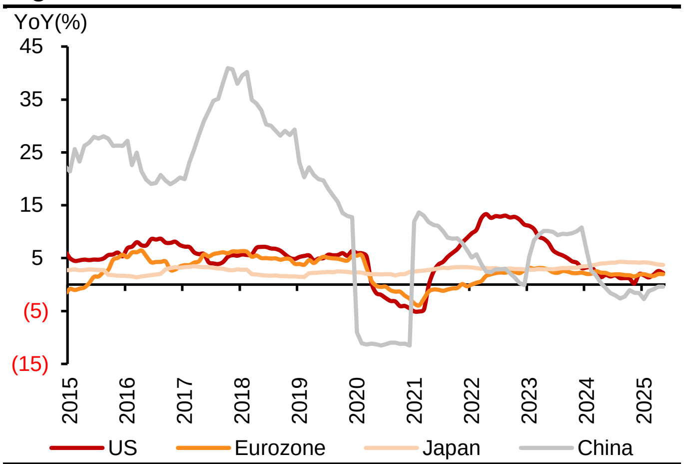
Source: Wind, Bloomberg, CMBIGM

Figure 39: Growth of loans in major economies



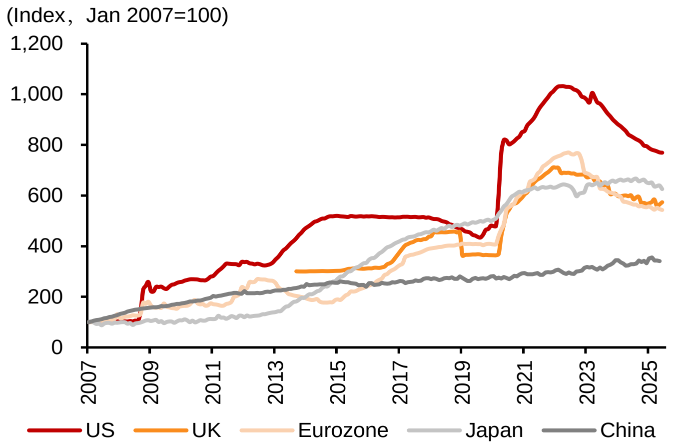
Source: Wind, Bloomberg, CMBIGM

Figure 40: Growth of consumer credit



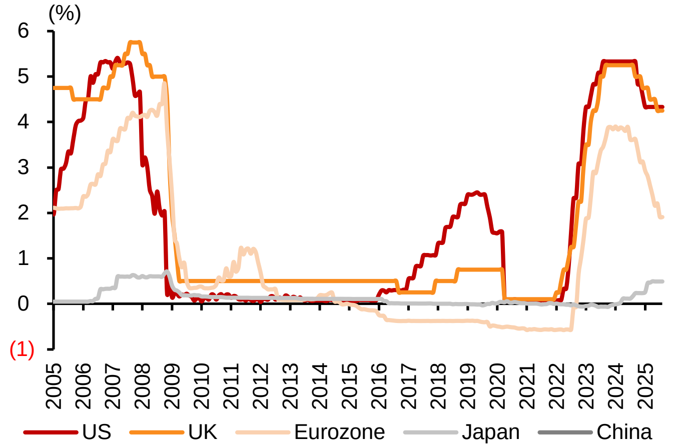
Source: Wind, Bloomberg, CMBIGM

Figure 41: Central bank balance sheets



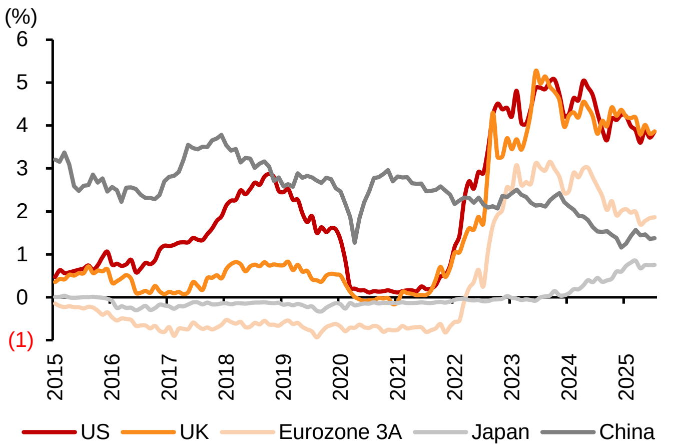
Source: Wind, Bloomberg, CMBIGM

Figure 42: Policy rates (money market rates)



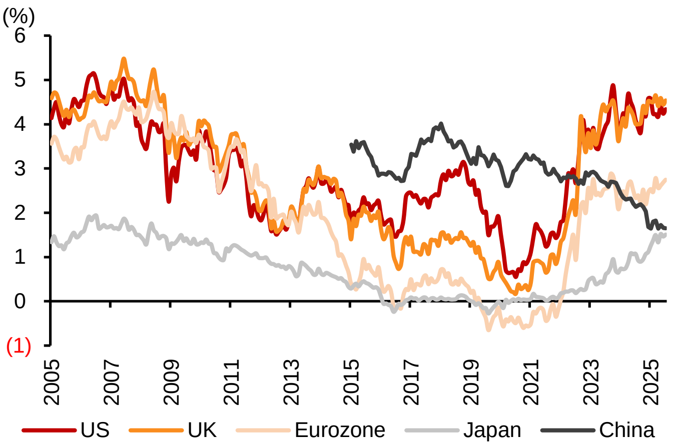
Source: Wind, Bloomberg, CMBIGM

Figure 43: 2-year government bond yields



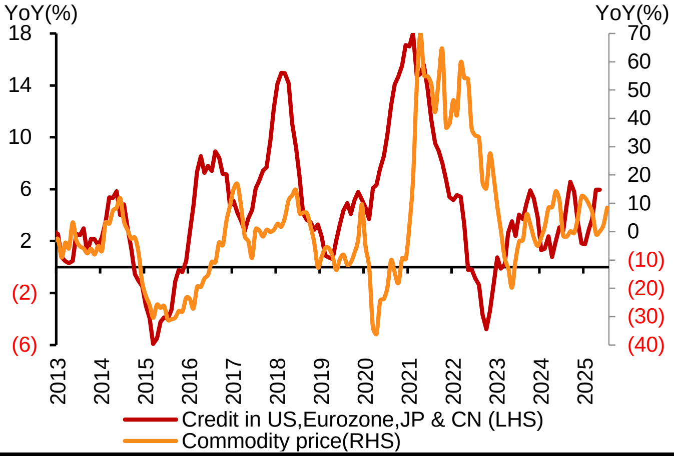
Source: Wind, Bloomberg, CMBIGM

Figure 44: 10-Year government bond yields



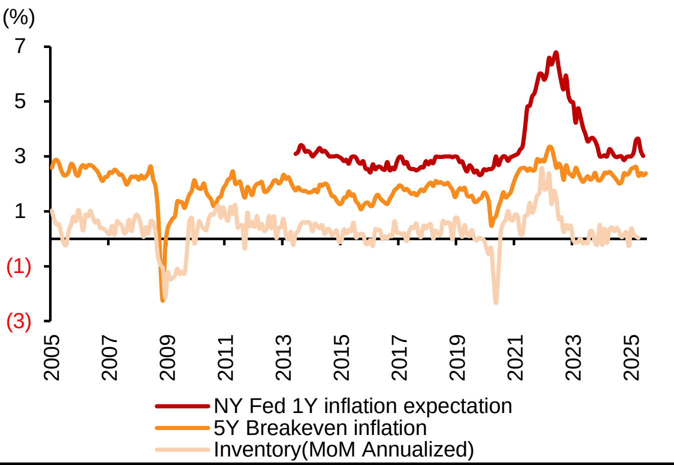
Source: Wind, Bloomberg, CMBIGM

Figure 45: Credit growth & commodity inflation



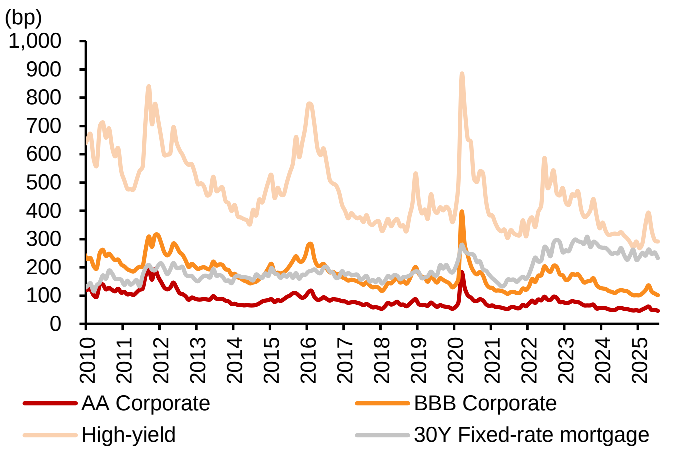
Source: Wind, Bloomberg, CMBIGM

Figure 46: US inflation expectations



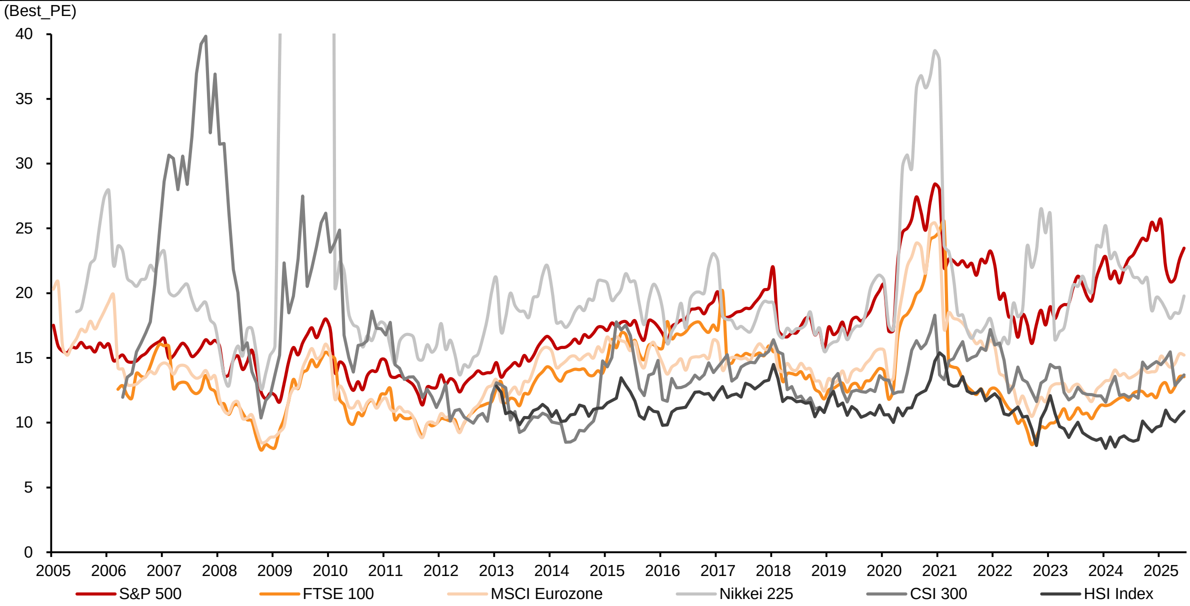
Source: Wind, Bloomberg, CMBIGM

Figure 47: Spreads over 10Y Treasury yields



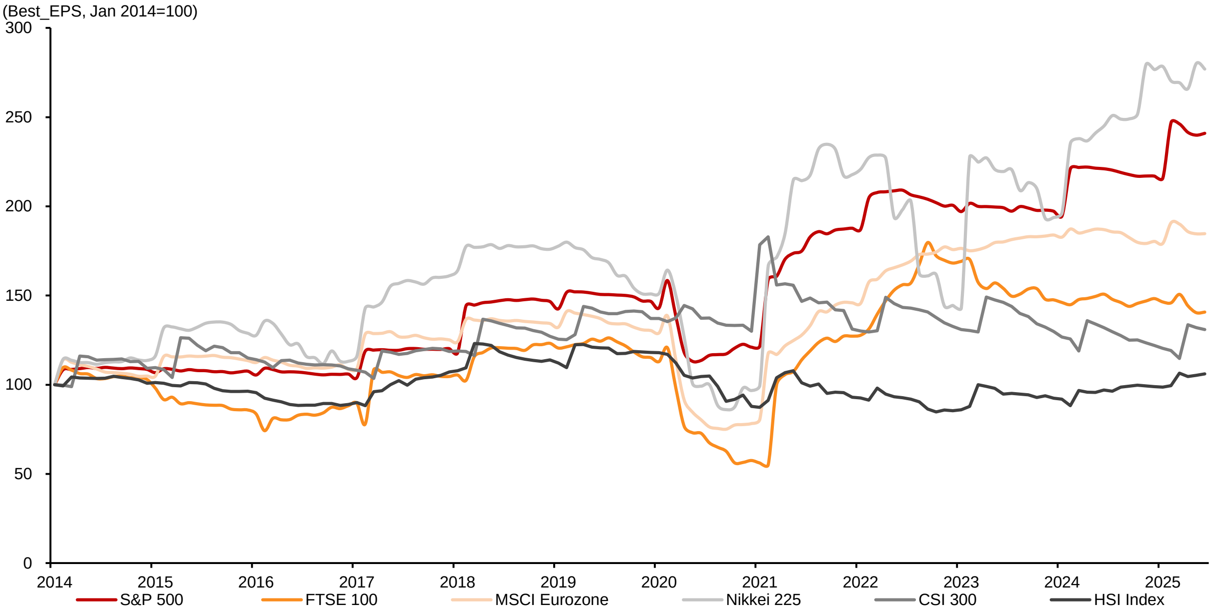
Source: Wind, Bloomberg, CMBIGM

Figure 48: Bloomberg estimated P/E for major equity indices



Source: Wind, Bloomberg, CMBIGM

Figure 49: Bloomberg estimated EPS for major equity indices



Source: Wind, Bloomberg, CMBIGM

Figure 50: Sector comparison for major equity indices

	10Y Annualized Return(%)	10Y Average P/E	10Y EPS CAGR(%)	10Y Average ROE(%)	2025 Foward P/E	2025-2026 EPS CAGR(%)	2025 ROE
S&P 500	11.1	20.5	7.0	15.4	23.8	11.9	18.4
Consumer Discretionary	12.3	27.8	7.9	26.3	27.9	8.3	30.0
Consumer Staples	5.5	21.4	4.6	24.4	22.8	3.5	23.7
Health Care	7.3	17.9	7.3	17.1	17.2	13.4	17.8
Industrials	8.7	22.4	5.2	20.0	26.3	11.1	24.3
Information Technology	20.9	25.3	12.6	27.7	32.9	21.4	30.4
Materials	5.7	19.6	4.3	11.8	22.8	7.6	9.3
Real Estate	3.1	21.0	3.3	9.3	39.5	3.8	5.8
Communication Services	8.4	18.6	3.4	15.9	19.2	15.0	21.4
Utilities	4.8	18.8	4.3	8.6	18.7	8.3	11.1
Financials	9.2	15.0	6.2	10.7	18.5	9.6	13.5
Energy	1.1	35.9	0.5	6.0	16.6	(1.9)	12.0
MSCI UK(USD)	(0.3)	13.9	3.8	9.4	13.6	2.2	10.0
Consumer Discretionary	1.7	17.9	0.1	14.6	19.8	12.1	9.8
Consumer Staples	1.1	16.5	2.9	17.8	13.8	3.3	15.6
Health Care	3.4	16.3	4.9	23.4	13.5	9.1	16.6
Industrials	6.8	22.4	2.0	15.8	26.5	10.7	25.0
Information Technology	7.7	30.4	8.1	15.8	30.9	11.0	23.9
Materials	4.0	11.9	4.0	12.4	14.5	(10.7)	4.7
Real Estate	(4.5)	21.6	(1.9)	1.7	15.3	6.5	6.0
Communication Services	(7.2)	14.6	1.5	2.7	14.5	(0.8)	(1.8)
Utilities	(0.8)	15.5	(0.8)	17.0	13.8	16.0	10.2
Financials	1.7	10.1	4.1	7.3	9.9	8.0	10.9
Energy	1.3	21.2	1.3	5.0	11.6	(15.8)	5.2
MSCI Eurozone(USD)	2.9	15.4	4.0	9.5	15.2	9.7	10.8
Consumer Discretionary	3.9	19.9	4.3	12.5	16.2	3.5	7.1
Consumer Staples	0.5	21.8	2.4	12.8	18.6	11.9	10.2
Health Care	(1.4)	15.8	(0.3)	8.8	14.6	15.8	4.4
Industrials	7.0	21.0	5.1	13.2	20.6	23.8	14.3
Information Technology	10.6	27.8	6.0	14.1	30.9	26.9	14.6
Materials	1.5	37.2	(0.1)	10.3	18.2	26.7	4.8
Real Estate	(8.3)	16.7	(2.0)	5.3	NA	12.2	2.2
Communication Services	(1.5)	15.4	0.9	10.8	18.6	12.8	11.3
Utilities	2.1	14.3	4.4	8.0	14.0	9.9	13.6
Financials	1.5	10.0	6.1	7.7	10.3	13.8	12.3
Energy	0.1	11.7	1.9	7.0	8.3	(6.4)	8.9

	10Y Annualized Return(%)	10Y Average P/E	10Y EPS CAGR(%)	10Y Average ROE(%)	2025 Foward P/E	2025-2026 EPS CAGR(%)	2025 ROE
MSCI Japan(USD)	4.2	17.2	7.7	8.5	16.6	3.2	9.6
Consumer Discretionary	3.5	16.5	7.7	9.4	18.3	(4.5)	9.8
Consumer Staples	1.1	26.6	3.4	8.9	22.1	14.1	6.4
Health Care	4.6	24.6	10.4	8.6	16.5	16.4	8.4
Industrials	5.0	20.3	8.1	9.1	16.5	4.9	11.2
Information Technology	7.9	23.7	8.5	9.6	24.1	13.1	10.6
Materials	1.0	13.3	6.1	7.8	14.2	6.3	6.9
Real Estate	(2.8)	16.0	6.4	8.2	13.3	11.3	9.5
Communication Services	6.3	34.2	9.6	12.4	19.0	(18.8)	10.3
Utilities	(1.1)	10.7	15.2	7.0	8.2	(3.2)	8.9
Financials	5.4	11.1	9.0	6.5	12.2	6.0	9.1
Energy	2.8	10.0	11.5	4.3	13.9	(2.6)	8.0
CSI 300	1.1	15.1	0.9	12.2	13.9	13.0	10.1
Consumer Discretionary	3.8	19.3	3.8	15.3	14.1	14.8	14.5
Consumer Staples	13.8	31.7	14.3	20.8	16.7	12.2	24.8
Health Care	2.7	36.7	3.4	14.5	24.0	15.5	12.4
Industrials	(2.1)	19.5	(1.2)	10.3	15.8	22.5	8.0
Information Technology	4.2	45.2	2.1	10.5	31.9	40.8	8.2
Materials	0.9	42.8	10.0	10.6	14.3	28.2	10.2
Real Estate	(7.6)	10.5	NA	13.6	NA	NA	(9.6)
Communication Services	2.2	35.7	4.7	7.5	20.3	13.7	10.7
Utilities	2.1	17.7	1.4	10.7	17.0	3.9	12.2
Financials	(0.5)	8.6	2.4	12.2	8.9	6.0	9.0
Energy	0.9	17.9	4.5	9.4	11.4	(1.9)	11.5
HSI Index	(1.6)	11.1	0.2	10.6	10.7	5.7	10.9
Consumer Discretionary	(1.3)	35.9	0.7	6.8	13.4	23.3	13.8
Consumer Staples	(3.6)	19.9	(0.3)	13.3	13.0	14.6	12.1
Health Care	(4.2)	52.2	(18.6)	6.0	30.2	54.1	8.1
Industrials	(2.4)	14.6	4.4	10.7	10.9	17.5	9.1
Information Technology	9.4	30.8	14.0	13.4	20.8	21.2	13.6
Materials	1.7	19.4	14.5	8.0	11.0	39.5	13.1
Real Estate	(7.0)	13.3	(17.6)	7.6	11.3	81.7	1.3
Communication Services	(1.9)	11.8	0.3	8.9	12.6	7.0	8.8
Utilities	(3.2)	13.5	(4.2)	10.0	10.9	5.7	9.4
Financials	(0.3)	8.1	3.7	10.6	7.8	3.1	11.0
Energy	1.3	13.3	14.7	9.2	7.2	(4.6)	12.2

Source: Wind, Bloomberg, CMBIGM
*CAGR based on available years if full 10-year data is unavailable.

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