2026 Global Macro Outlook

Rising Volatility, Fading Tide

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In 2025, restocking demand, AI boom, policy rate cuts and fiscal stimulus helped the global economy recover from the tariff shock. In 1H26, political pressures from US midterm elections, European and Japanese defense revitalization agenda, and China's growth-stabilization efforts are likely to keep policies accommodative. However, with interest rates near neutral levels, inflation still above target, government debt ratios rising high and demand front-loaded by prior easing, effective policy space and marginal efficacy are diminishing; while the AI boom has boosted productivity and stock valuations, it has also intensified job market weakness and K-shaped economic divergence. In 2H26, the combination of ample global liquidity, a weaker US dollar, and China's anti-involution push may lift inflation, while inflection point of liquidity expectations could unsettle overvalued assets.

- US GDP growth may slow from 1.9% in 2025 to 1.8% in 2026. Growth might rebound in 1H26 as tariff headwinds fade and fiscal tax cuts and monetary easing provide support, before decelerating in 2H26 amid diminishing policy impulse and a rebound in inflation. Unemployment ratio will moderately rise to 4.5%. Consumption growth is expected to slow with deepening K-shaped divide. AI investment should remain robust. Home sales might pick up while prices will be flat. Inflation may first dip and then rebound. Fed may remain dovish in 1H26 before a cautious shift in 2H26, with possible two rate cuts in next 12 months. Treasury yields may mildly fall with a steepening curve. The dollar index may fall in 1H26 before rebounding in 2H26. US equities may rise first before falling later in the year.

- Eurozone GDP growth may slow from 1.4% in 2025 to 1.2% in 2026. Global trade slowdown and tighter financial conditions would weigh on growth, but low interest rates, resilient labor markets, healthy private-sector balance sheets, and fiscal support should offset risks. Housing market will continue to recover. Inflation would trend toward 2%. ECB may cut rates once while industrial policy would focus on green transition, digitalization and supply chain security. Government bond yields are likely to rise and EUR might first appreciate before weakening. Equity markets might gain mildly.

- Japan's GDP growth may slow from 1.3% in 2025 to 0.6% in 2026 as low-base effect fades, global trade slows and rates rise. Wage growth should support consumption and housing market would remain hot with lower gains. Higher export prices will lift nominal export growth, while volumes soften. Inflation might fall to 2.1%. BOJ may hike rates twice to 1% by year-end. Fiscal deficit ratio might rise to 3.4%, focusing on social, tech and defense. 10Y bond yields may hit 2%. Yen might first strengthen and then depreciate to 152 at end-2026. Equity gains will narrow.

- China's GDP growth may slow from 5% in 2025 to 4.8% in 2026. New policy stimulus might be launched in 1Q26 after GDP growth remains below 5% in 2H25. 2026 may see slowing exports growth, narrowing property declines, flat consumption growth and moderating infrastructure investment. Broad fiscal deficit ratio might reach 8.5% in 2026. Monetary policy will remain accommodative with RRR cuts by 50bps and LPR cuts by 20bps. Treasury bond yields might mildly rise. USD/CNY may rise to 7.02 at end-2026. The bull market are in the latter stage of a bull cycle and may rise initially before correcting, with A-share market possibly outperforming HK.

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The US

The US economic growth is projected to slow modestly in 2026. In 2025, tariff impacts, government spending cuts, and a decline in residential investment led to a significant slowdown in US economic growth. In 1H26, QoQ economic growth is expected to rebound temporarily, driven by a low base effect, tax cuts, monetary easing, and a moderation in the drag from net imports. In the second half, growth may fall back again with diminishing policy effects, the emergence of demand exhaustion, and inflation bottoming out and starting to rise. The labor market may continue to cool down, with the unemployment rate edging up to 4.5%. AI-driven substitution for entry-level positions may noticeably push up youth unemployment rate. Consumption growth may decline, with K-shaped divergence becoming more pronounced. The housing market is expected to see higher transaction volume but broadly flat prices, and corporate AI investment may remain strong, though its growth rate may moderate. Inflation may moderately decline, exhibiting a “down-then-up” pattern over the year. Fiscal expansion may intensify, while monetary policy may ease initially and then stabilize, pushing money-market rates roughly 50 bps lower. Treasury yields may drift down, also showing a “down-then-up” trajectory, and the yield curve may steepen. The US Dollar Index may first depreciate and then appreciate. US equities may first rise and then fall, with cooling inflation and expectations of monetary easing boosting the stock market in the first half, while a rebound in inflation and expectations of liquidity tightening triggering a correction in the second half.

Economic Outlook

US economic growth is projected to slow modestly. We expect US GDP growth to decrease from 1.9% in 2025 to 1.8% in 2026. In 2025, US economic growth showed a noticeable slowdown, with GDP growth falling from 2.4% in 4Q24 to an estimated 1.7% in 4Q25. This was primarily due to tariff impacts, federal government spending cuts, and weakening residential investment. Tariff impacts hit exports but stimulated pre-emptive imports, expanding the drag of net imports on GDP growth from 0.5ppt in 2024 to an estimated 0.8ppt in 2025. Federal government layoffs and temporary shutdowns curbed government spending, reducing its contribution to GDP growth from 0.6ppt in 2024 to an estimated 0.3ppt in 2025. Due to rising housing inventory, declining immigrant labor, and increasing material costs, residential investment weakened, with its contribution to GDP growth falling from 0.1ppt in 2024 to an estimated -0.1ppt in 2025. Personal consumption growth remained largely flat; while goods consumption growth rebounded due to tariff expectations and the expiration of EV subsidies overdrawing future demand, services consumption growth declined due to slower income growth and weaker consumer confidence. Business investment growth is expected to rise, with AI capital expenditure continuing its explosive growth. The contribution of non-residential investment to GDP growth is expected to rise from 0.4ppt in 2024 to an estimated 0.6ppt in 2025.

Economic growth is expected to rebound in 1H26. Firstly, the temporary federal government shutdown in 4Q25 created a low base effect and delayed spending. Secondly, tax cuts under the White House's "Big and Beautiful Act" may boost consumption, adding 0.3ppt to GDP growth. Thirdly, the drag from net imports on economic growth may narrow. Finally, declining rental inflation and oil prices may offset the impact of tariffs on consumer goods inflation, and further Fed interest rate cuts may boost the stock market and real estate, leading to continued growth in personal consumption and AI capital expenditure. In the second half, economic growth may gradually slow down as the low base effect and tax cut policy effects begin to wane. The overdraft of future demand by 2025 tariff expectations and the expiration of EV subsidy policies may bring downward pressure on personal consumption growth, while the inflationary pressures from earlier tariff increases and monetary easing may materialize. Expectations of marginal monetary policy tightening may rise, short-term Treasury yields may rebound, stock prices may see a significant correction, and corporate capital expenditure may slow.

The US labor market is expected to cool modestly, with both labor demand and supply slowing down. The unemployment rate is projected to rise from 4.4% at end-2025 to 4.5% at end-2026. Since 2H25, the labor market has softened significantly. Average monthly non-farm payroll additions decreased from 168,000 in 2024 and 123,000 in January-April 2025 to 39,000 in May-September. The unemployment rate rose from 4.1% in December 2024 to 4.4% in September 2025. The ratio of job-openings-to-unemployment fell from 1.1 in December 2024 to 1.0 in August 2025, already below the pre-pandemic 2018-2019 level of 1.2.

On the demand side, new hiring demand has decreased, with the hiring ratio and job openings falling from 3.4% and 7.5 million respectively in December 2024 to 3.2% and 7.2 million in August 2025. On the supply side, new labor inflows declined sharply, with net immigration expected to plummet from 2.8 million in 2024 to 400,000 in 2025. Currently, the decline in new labor demand is reflected in companies being more cautious about new hires, but it has not yet evolved into large-scale layoffs. Therefore, the job search period for the unemployed has lengthened, and the number of continuous unemployment claims has increased, while the layoff rate and initial unemployment claims remain low. At the same time, the reduction in new labor supply partially offset the decline in new labor demand, keeping the unemployment rate at a historically low level. Wage growth only moderately declined, from 3.8% in 4Q24 to 3.6% in 3Q25, which is close to the 3.5% wage growth consistent with the 2% inflation target (assuming 1.5% labor productivity). AI applications have a certain negative impact on labor demand. A recent MIT study shows that AI can already replace 11.7% of jobs in the US labor market. However, the overall AI adoption rate nationwide in the US is still only 10%. A New York Fed survey indicates that companies currently limit AI applications to information gathering and marketing, with limited use in workflow restructuring or automation. Our analysis of AI adoption rates across industries and non-farm employment growth for 2024-2025 found no statistically significant correlation. Currently, AI's impact on labor demand is concentrated in entry-level positions that absorb recent graduates. The unemployment rate for workers aged 20-24 in the US has risen from 7.5% in December 2024 to 9.2% in September 2025, significantly exceeding the overall unemployment rate increase. In 2026, due to economic uncertainty and broader AI adoption, new labor demand may continue to decline, while the impact of immigration policies on new labor supply may gradually diminish. The unemployment rate may further rise, and wage growth may further decline.

US personal consumption growth may decline. Real personal consumption growth is projected to decrease from 2.6% in 2025 to 2.1% in 2026. In 2025, personal consumption growth exceeded our expectations but declined quarter-over-quarter. Goods consumption growth at constant prices increased from 2.8% in 2024 to an estimated 3.9% in 2025, while services consumption growth at constant prices decreased from 3% in 2024 to an estimated 2.1% in 2025. Due to expectations about tariff hikes and the expiration of EV purchase subsidies at the end of September, real-term consumption growth for motor vehicles and parts rose from -0.3% in 2024 to an estimated 4% in 2025. Tariffs and price hike expectations also boosted consumption of goods like food and apparel. However, consumption growth exhibits a K-shaped pattern. High-income households maintain relatively fast consumption growth, benefiting from wealth effects from rising home and stock prices. In contrast, consumption growth for low-income households is declining, as high living costs and slowing wage growth increase financial pressure, pushing consumer loan delinquency rates to historically high levels. Major retailers serving middle-to-low-income consumers, such as Home Depot (HD US) and Chipotle (CMG US), reported in their latest earnings that personal consumption growth is slowing, particularly among the 25-35 age group.

In 2026, we expect personal consumption growth to fall to around 2.1%. Firstly, the cooling labor market and slowing wage growth may exert downward pressure on personal consumption growth. Due to factors such as declining new labor demand and AI's substitution for entry-level positions, the unemployment rate for young people, who have the highest marginal propensity to consume, may significantly rise. Furthermore, the full resumption of federal student loan repayments in October 2025 will increase financial pressure on young people. Secondly, the demand overdraft effect from 2025 tariff expectations and the expiration of EV purchase subsidies, which boosted 2025 personal consumption growth, could reduce 2026 personal consumption growth. Finally, while the "Big and Beautiful Act" tax cuts and further Fed interest rate cuts will provide some boost to personal consumption in 2026, they will not fully offset the negative impacts of the first two factors on personal consumption.

The US housing market will see increased volume but flat prices. Existing home and new home sales are projected to grow by 10% and 5% respectively in 2026, leading to a more balanced housing supply and demand and largely stable home prices. In 2025, new mortgage rates fell to 6.2%-7% but remained relatively high. Home prices, after four years of increases, were at elevated levels, and household housing affordability was low, resulting in near-zero growth in home sales. However, inventory of existing and new homes continued to rise, leading to a more balanced housing supply and demand and a slowdown in home price appreciation. The median existing home sale price increased by 2.1% year-over-year in the first 10 months of 2025, a significant deceleration from the 4.5% increase in 2024. In 2026, new mortgage rates may fall to 5.5%-6%, which will, on one hand, boost home sales by improving household housing affordability, and on the other hand, unfreeze the lock-up of second-hand housing market by narrowing the interest rate differential between new and old mortgages, thereby increasing both supply and demand. As housing inventory growth outpaces sales growth, housing supply and demand may become more balanced, and home price appreciation may approach zero. Weakening home prices and reduced immigrant labor will curb housing starts, and residential investment may slightly decline.

US corporate investment growth will slow modestly. We project non-residential investment growth at constant prices to decrease from 4% in 2025 to 3% in 2026. AI-related capital expenditure has become the core driver of corporate investment growth. Benefiting from the industrialization and expanded application of AI, private sector investment in information processing equipment is expected to grow by over 20% in 2025, significantly higher than the 7.3% in 2024. Private sector investment in industrial equipment is projected to rise from 3.7% in 2024 to an estimated 5.5% in 2025. However, corporate commercial and industrial construction investment remains weak. Due to the high base effect and demand overdraft from the CHIPS Act and Inflation Reduction Act, manufacturing construction investment growth is expected to fall from 64.1% in 2023 and 16.9% in 2024 to an estimated -3% in 2025. The commercial real estate market continues to face pressure, with commercial and healthcare construction investment declining by 6.4% in 2024 and projected to fall further by 6.7% in 2025. In 2026, AI-related investment demand will remain strong; CreditSights forecasts that AI-related capital expenditure by the five major tech giants will grow by 36% in 2026, a slowdown compared to 2025 but still rapid. The "Big and Beautiful Act" includes provisions for 100% accelerated depreciation, expensing of R&D

costs, and incentives for eligible production facilities, which will provide some stimulus to corporate investment. However, due to the high base effect, corporate investment growth may slow down in 2026.

US inflation may moderately decline. We project PCE inflation and core PCE inflation to decrease from 2.5% and 2.8% respectively in 2025 to 2.3% and 2.5% in 2026. Monthly PCE price growth may decline in 4Q25 and 1H26, then rise again in 2H26. Since 2H24, disinflation has shown signs of stalls, with monthly PCE price growth flattening after a decline. YoY growth rates of PCE and core PCE prices rose from 2.4% and 2.8% respectively in 3Q24 to 2.7% and 2.9% in 3Q25. In 4Q25 and 1H26, growth of home prices and rent may continue to moderate, oil prices may further decline, and weakening wage growth may lead to a modest decrease in services inflation excluding rent and energy. After earlier pre-emptive imports and stockpiling, a short-term destocking cycle could follow, and monthly PCE price growth may fall. The impact of rising tariffs on inflation is lower than market expectations because tariff exemptions resulted in a lower actual increase in tariff rates than anticipated, imported consumer goods only account for 21.6% of US retail goods, and retailers are hesitant to raise prices easily amidst weakening consumer demand and the White House's threat of price scrutiny. Assuming a 60% pass-through rate of tariffs to downstream retail prices, a 10ppt increase in tariff rates would push inflation up by about 0.3ppt, but a 10% drop in oil prices would completely offset the impact of a 10ppt increase in tariff rates. In 1H26, oil prices may fall further, and rents in the CPI still have significant room for further decline compared to market rents. These factors could fully offset the pass-through of tariffs to inflation, driving down monthly PCE price increases. In 2H26, the lagged effects of tax cuts and loose dollar liquidity on prices will become apparent, monthly PCE price growth may rise, and with a lower YoY base for oil prices, PCE inflation may bottom out and rebound. The impact of reduced immigration on inflation is complex: on one hand, it can lower inflation by reducing demand for food, housing, education, etc.; on the other hand, it can create cost-push pressure in labor-intensive industries like construction, wholesale, and retail by reducing labor supply. The long-term impact on inflation may be close to neutral.

Macro Policies

US fiscal expansion may intensify. The US fiscal deficit rate is projected to rise from 6% in 2025 to 6.4% in 2026. In 2025, the pace of fiscal expansion slowed, with the federal government experiencing layoffs, spending cuts, and a temporary shutdown. Federal government revenue growth increased from 8.2% in 2024 to 10.1% in the first ten months of 2025, while federal government spending growth simultaneously decreased from 9.6% to 3.6%. The federal government deficit for the first ten months was US$1.35 trillion, down 13.8% YoY. Fiscal deficit ratio is expected to fall from 6.4% in 2024 to 6% in 2025. In 2026, fiscal expansion may intensify as the White House implements tax cut policies to consolidate the Republican advantage in Congress during the November midterm elections. We estimate that the "Big and Beautiful Act" could lead to tax cuts of approximately US$160 billion in 2026 (equivalent to 0.5% of GDP). These cuts include raising the cap on state and local tax deductions for individuals, tax exemptions for consumption and overtime pay, child tax credits, special deductions for seniors, and auto loan interest deductions. For businesses, the Act proposes permanent full expensing of equipment, immediate full deduction of R&D expenses, and making permanent the corporate tax rate reduction from 35% to 21% from the 2017 Tax Cuts and Jobs Act. Concurrently, the White House may strengthen immigration enforcement, which is expected to increase related expenditures and reduce tax revenues from immigrant economic activities, potentially expanding the 2026 fiscal deficit by US$100 billion. The White House may also temporarily ease the trade war to boost the economy and employment, and improve the situation for groups affected by the trade war, such as farmers. There is a 75% probability that the Supreme Court will rule reciprocal tariffs unconstitutional under the International Emergency Economic Powers Act, meaning the White House might be forced to refund tariffs. However, the White House could still invoke other statutory authorities to re-impose tariffs, including Section 122 (serious balance of payments deficits), Section 232 (national security), and Section 301 (unfair trade practices), though these tools are temporary or industry-specific.

US monetary policy may first ease and then stabilize. We expect the Federal Reserve to cut rates twice by a total of 50bps in December 2025 and June 2026, and to cease Quantitative Tightening (QT) from December 2025. In 2025-2026, the Fed is expected to cut rates four times by a total of 100bps, bringing the federal funds rate target down from 4.25%-4.5% at end-2024 to 3.25%-3.5% at end-2026. Currently, there is significant disagreement within the Fed regarding a December 2025 rate cut, primarily due to differing assessments of inflation trends, employment risks, and the neutral rate. Dovish officials believe inflation will continue to decline and gradually approach the target with the slowing labor market and restrictive monetary policy and it is necessary to launch risk-management rate cuts to prevent a sharp rise in unemployment. Hawkish officials, however, note the slight rebound in inflation over the past few months, fearing a stall or reversal of disinflation, and argue that rates are already very close to the neutral level, implying further cuts risk reigniting inflation. They advocate for maintaining current rates for some time. Due to the federal government shutdown, October non-farm payroll and CPI data are permanently unavailable, and the release of November non-farm payroll and CPI data has been delayed until after the Fed's December FOMC meeting. This lack of hard data will complicate the Fed's decision-making at the December meeting, making it more cautious on additional rate cuts. Given the expected significant rebound in economic growth in 1Q26, the Fed may keep rates unchanged in March and April 2026. The Fed Chair replacement in May 2026 could see candidates competing on dovish stances to show their loyalty to Trump, making expectations for monetary easing strongest in December 2025 and 1Q26. After the transition, the new Chair, with a secured tenure, may become more political neutral as he has to build his credibility. With inflation potentially rebounding in 2H26, expectations for an end of Fed easing will significantly increase.

The Fed decided at its October 2025 meeting to stop its QT policy starting in December, ending the 29-month balance sheet reduction cycle that began in June 2022. The Fed's total assets decreased from a peak of nearly US$9 trillion to US$6.6 trillion, still above the pre-pandemic level of US$4.1 trillion, but now at a reasonably ample level. Money market liquidity has marginally tightened, with the overnight reverse repurchase agreement balance falling from a high of US$460 billion to less than US$6 billion, and bank reserve ratio dropping to 12.2%, close to the critical level during the mini liquidity crunch in 2019. Given the White House's view that current Treasury yields are too high and its continuous pressure on the Fed to resume its responsibility of maintaining appropriate long-term interest rates, the market is highly attentive to whether the Fed will restart QE in 2026 to artificially suppress long-term Treasury yields. However, as inflation is still above target in 2026, we believe the conditions for restarting QE may not yet be met.

Financial Markets

US money market rates may decline while treasury yields may first fall before rebounding with a steepening yield curve. The Fed is likely to cut rates twice in December 2025 and June 2026, leading to a 50 basis point decline in money market rates. Money market fund yields are expected to fall to around 3.5% by end-2026. Short-term

Treasury yields will reflect market expectations for policy rates, gradually decreasing with the rate-cutting cycle. Long-term Treasury yields reflect market expectations for future inflation, economic growth and fiscal policy. Under an adaptive expectations model, they are influenced by short-term inflation, growth and fiscal policy trends. In 1H26, inflation may decline, but fiscal expansion may intensify, potentially leading to a modest decline in long-term Treasury yields. In the second half, inflation may bottom out and rebound, and long-term Treasury yields may rebound. We project 2-year and 10-year Treasury yields to fall from 3.5% and 4.1% respectively at end-2025 to 3% and 3.9% at end-2026.

The US Dollar Index will see fluctuations with a moderate decline. We project the US dollar index to fall from 98 at end-2025 to 92 by end-1H26, then rise to 95 by year-end. The Dollar Index primarily reflects changes in the relative strength of US nominal economic growth compared to Europe and Japan. When the US economy strengthens relative to non-US economies, the Dollar Index tends to rise; when it weakens, the Dollar Index tends to fall. Since interest rates reflect changes in nominal economic growth, interest rate differentials and exchange rate movements are generally consistent. The Euro/USD exchange rate accounts for nearly 60% of the Dollar Index, and the USD/JPY exchange rate is the second largest component with significant volatility. Therefore, changes in the relative strength of the US economy compared to Europe and Japan determine the Dollar Index's trend. Since 2025, US nominal GDP growth has slowed significantly, and the labor market has weakened, while nominal GDP growth in the Eurozone and Japan has exceeded market expectations, and their labor markets have been relatively stable. Both the US-Euro and US-Japan interest rate differentials have narrowed, leading to a depreciation of the Dollar Index. In 1H26, despite a rebound in US economic growth, inflation may continue to decline. Trump's threat to the Fed's independence and the highly dovish stance of the next Fed Chair candidates will weigh on the Dollar Index. In the second half, inflation might rebound after bottoming out, and the new Fed Chair's policy stance may be more based on economic fundamentals, potentially leading to a rebound in the Dollar Index.

US stock market might rise and then fall with increased volatility. In the first half of 2026, with declining inflation, strong expectations for rate cuts, and ample dollar liquidity, the US stock market may rise. In the second half, as inflation rebounds and expectations for tighter dollar liquidity emerge, the US stock market may decline. Leading US companies demonstrate strong profitability and earnings growth, with the MSCI USA Index's latest ROE at 18.9%, exceeding the 10-year average of 15.4%. The median forecast for the MSCI USA Index's annual EPS growth for 2025-2026 is 13.4%, also significantly higher than the 10-year average of 7%. However, US stock valuations are high, with the MSCI USA Index's 2025 forward PE at 24.4x, significantly exceeding the 10-year average of 21.1x. The S&P 500 Shiller PE ratio is close to 40x, approaching the peak levels of the dot-com bubble in 2000. The US stock market has seen astonishing gains over the past five years, with the S&P 500's annualized compound return reaching 15.4%, far surpassing its 30-year historical average, suggesting a risk of mean reversion. Based on monthly Shiller PE and future 10-year annualized returns for the S&P 500 since 1990, when the Shiller PE reaches 40x, the index's future 10-year returns are zero or even negative. As the Shiller PE uses a 10-year average of earnings to reduce the impact of economic cycles, the explosive earnings growth of leading US tech companies over the past few years due to increased monopolization might lead to an underestimation of current earnings and thus inflate the Shiller PE. However, the historical pattern of higher current valuations leading to lower future returns will not change. We advise investors to reduce their allocation to high-valuation tech stocks and increase allocation to defensive and undervalued sectors to achieve a more balanced portfolio. We are relatively optimistic about Information

Technology (2025 forward PE 32.5x, latest ROE 29.3%), Financials (2025 forward PE 16.8x, latest ROE 13.5%), Industrials (2025 forward PE 26.8x, latest ROE 24.3%), Healthcare (2025 forward PE 23.5x, latest ROE 24.1%), and Consumer Staples (2025 forward PE 22.2x, latest ROE 23.6%).

Figure 1: US Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US$trn)	18.3	18.8	19.6	20.7	21.5	21.4	23.7	26.1	27.8	29.3	30.7	32.1	33.4	30.6	31.9	33.3
GDP per Capita(US$th)	56.8	57.9	60.0	62.8	65.2	64.4	71.4	77.9	82.5	86.1	-	-	-	89.6	92.8	96.0
Nominal GDP (YoY %)	3.9	2.8	4.3	5.3	4.3	(0.8)	11.0	9.8	6.7	5.3	4.7	4.6	4.1	4.6	4.2	4.1
Real GDP (YoY %)	2.9	1.8	2.5	3.0	2.6	(2.1)	6.2	2.5	2.9	2.8	1.9	1.9	2.0	1.9	1.8	1.9
PCE(YoY %)	0.2	1.0	1.7	2.0	1.4	1.1	4.1	6.5	3.8	2.6	2.6	2.6	2.2	2.5	2.3	2.1
Core PCE(YoY %)	1.2	1.6	1.6	1.9	1.6	1.4	3.5	5.3	4.2	2.9	2.9	2.8	2.2	2.8	2.5	2.3
Unemployment(%)	5.0	4.7	4.1	3.9	3.6	6.7	3.9	3.5	3.8	4.1	4.3	4.4	4.3	4.4	4.5	4.6
Federal Deficit(%)	2.4	3.1	3.4	3.8	4.6	14.7	12.1	5.4	6.2	6.4	6.1	6.4	6.5	6.0	6.4	6.3
Government Debt/GDP(%)	72.2	76.0	75.7	77.1	78.9	98.6	96.9	95.0	96.0	97.8	101.3	102.4	104.5	99.9	102.0	104.0
Fed Funds Rate(%)	0.20	0.55	1.33	2.40	1.55	0.09	0.07	4.33	5.33	4.33	3.83	3.26	3.17	3.58	3.33	3.33
10-Year Bond(%)	2.3	2.5	2.4	2.7	1.9	0.9	1.5	3.9	3.9	4.6	4.09	4.06	3.99	4.10	3.90	3.80
US$ Index(year-end)	98.7	102.4	92.3	96.1	96.4	90.0	96.0	103.5	101.4	108.5	98.3	95.5	94.7	99.0	102.0	98.0
Bank Asset(YoY %)	3.8	3.2	4.8	1.6	4.3	15.6	10.2	1.2	1.8	1.3	-	-	-	3.6	4.2	3.3
Housing Price(YoY %)	7.2	4.5	5.7	3.3	7.8	12.6	16.0	2.1	4.1	5.8	-	-	-	1.5	0.0	(0.7)

Source: Bloomberg, Wind, CMBIGM estimates

Eurozone

The GDP growth in Eurozone exceeded market expectations in 2025, driven by a successful disinflation, rapid interest rate cuts by the ECB, accelerated corporate investment, and low base effects. In 2026, we project Eurozone economic growth to slightly moderate due to slowing global trade, a modest tightening of financial conditions, and diminishing low base effects. Nevertheless, supported by a low-interest-rate environment, a robust labor market, healthy private sector balance sheets, a more active fiscal policy, and a potentially improving situation in the Ukraine crisis, the Eurozone economy is expected to remain resilient, with its growth rate staying close to its potential. Household consumption should continue to be the core driver of economic growth; the real estate market could see a continued mild recovery; while the growth rates of international trade and corporate investment are expected to slow. Inflation may gradually return to the ECB's target level, creating favorable conditions for stable economic operation. The ECB is expected to cautiously conclude its easing cycle after one more rate cut. Fiscal policy will become more proactive, increasing investment in defense, infrastructure, and strategic industries. Industrial policy will focus on green transition, digital applications, and supply chain security, aiming to enhance the Eurozone's strategic autonomy and global competitiveness. Money market rates are expected to decline slightly, government bond yields to rise moderately, the EUR/USD exchange rate to first appreciate then depreciate, and the stock market to experience moderate gains.

Economic Outlook

Eurozone economic growth may moderate slightly. We project GDP growth to decrease from 1.4% in 2025 to 1.2% in 2026. In 2025, Eurozone economic growth beat market expectations, with a YoY GDP growth of 1.5% in the first three quarters, higher than its potential rate. Eurozone was the first large developed economy to see its inflation fall to the target, prompting the ECB to implement more substantial interest rate cuts than peers. Low interest rates boosted real estate, durable goods consumption, and corporate investment. Due to low base effects, anticipated tariff increases, and the AI revolution, goods exports and corporate investment grew rapidly. Household consumption growth was resilient as the labor market remained robust, with declining unemployment and stable wage growth. In 2026, we expect Eurozone economic growth to moderate slightly due to base effects, weakening foreign trade, and moderately tightening financial condition. As GDP growth increased from 0.4% in 2023 and 0.9% in 2024 to 1.4% in 2025, the year-on-year base for 2026 will be higher. Rising global tariffs and strengthened export controls will lead to cooling demand and supply chain disruptions, causing Eurozone foreign trade to weaken and negatively impacting economic growth. With the ECB's rate-cutting cycle nearing its end and countries like Germany expanding fiscal stimulus, Eurozone government bond yields may rise moderately, leading to a slight tightening of financing conditions. However, Eurozone interest rates remain low, the labor market and private sector balance sheets are healthy, fiscal expansion is increasing, and the Ukraine crisis may improve, all of which could support Eurozone economic growth to come close to its potential rate.

Household consumption should remain the main driver of economic growth. we project household consumption at constant price to grow by 1.3% in 2026, contributing over 60% to GDP growth. The labor market is expected to remain robust, with the unemployment rate projected to fall from 6.3% at end-2025 to 6.2% at end-2026, and wages continuing to grow steadily. Recent PMI data indicate a continuous contraction in manufacturing, but the services sector, which absorbs the most employment, continues to expand, with the services employment index remaining stable. Oil prices are expected to decline further, and inflation may moderate slightly, leading to continued increases in real-term income. Low interest rates are conducive to the expansion of consumer credit, thereby supporting sustained consumption growth. A downside risk for consumption is the gradual rise in the household savings rate, which may reflect consumer concerns about future economic uncertainty and the instability caused by social security reforms in some member countries.

The housing market is expected to continue its recovery, though at a slower pace. We forecast Eurozone housing sales and price growth to decrease from 7% and 4.5% in 2025 to 5% and 3.5% in 2026, respectively. As the ECB's rate-cutting cycle nears its end and the Eurozone collectively increases fiscal expansion, government bond yields will rise moderately, leading to a slight rebound in mortgage rates. Coupled with continuously rising home prices, household housing affordability may slightly decline, slowing the growth of housing sales. Concurrently, high inflation over the past three years, reduced immigrant labor, and green environmental regulations have suppressed new housing starts and construction, resulting in slow housing supply growth. This will also hinder the pace of housing sales but will provide support for house prices.

Merchandise trade growth is likely to decline. Eurozone goods trade volume growth is projected to decrease from 3% in 2025 to 2% in 2026. Slower global growth and inflation, together with rising trade barriers and tighter export controls, will slow global goods trade. The Eurozone's export competitiveness continues to weaken, and its share in global exports may further decline. If a peace agreement is reached between Russia and Ukraine, trade between the Eurozone and Russia could potentially resume in phases, becoming a future growth highlight, but this would not alter the overall trend of Eurozone trade growth.

Corporate investment growth is expected to slow significantly. The growth rate of fixed capital formation at constant price in the Eurozone is projected to decrease from 3.3% in 2025 to 1.3% in 2026. The low base effect that supported corporate investment growth is diminishing. Following the Russia-Ukraine war, capital formation at constant price in the Eurozone declined by over 2% for two consecutive years in 2023-2024, creating a low base effect. In the first half of 2025, year-on-year growth turned positive, reaching 5.2%, with a full-year growth possibly at 3.3%. This low base effect will recede in 2026. While slowing trade growth will have a negative impact on corporate investment, sustained economic expansion, profit growth, a low-interest-rate environment, and more expansionary fiscal policies will positively influence corporate investment. The increasing importance of supply chain security should also provide a boost to corporate investment.

Inflation may decline slightly. We forecast Eurozone CPI and core CPI growth rates to decrease from 2.1% and 2.4% in 2025 to 1.9% and 2.1% in 2026, respectively. Energy prices may continue to fall, first at an accelerating pace, then at a slower pace, due to increased crude oil production from OPEC+ and the US, and global electrification replacing oil demand. The year-on-year growth of Eurozone CPI for electricity, gas, and other fuels decreased from 2.5% in 1Q25 to 0.4% in 2Q, -0.6% in 3Q, and -1.2% in October. It is projected to fall to -1.5% in 1H26 and then rise to -0.5% in 2H26. Food inflation may moderate slightly, with Eurozone food and beverage CPI growth rising from 1.85% in 2H24 to 2.5% in 1H25 and 2.8% in October, before potentially falling to 2.4% in 2026. The widespread application of AI may partially substitute elementary labor, potentially reducing employment demand and lowering wage growth, which could contribute to a decline in services inflation.

Macro Policies

Eurozone fiscal expansion is likely to intensify. The Eurozone's fiscal deficit rate is likely to increase from 3.2% in 2025 to 3.4% in 2026, and the government debt ratio may rise from 89.4% in 2025 to 91.3% in 2026. The increase in the fiscal deficit rate is primarily due to increased defense spending, rising interest expenditures, and widening fiscal revenue gaps in some member states. With Trump's "America First" policy potentially reducing US defense commitments to Europe, Europe is compelled to strengthen its autonomous defense capabilities, leading to a significant increase in defense spending. The EU plans to raise defense spending as a percentage of GDP from 1.9% in 2024 to 3.5% by 2035, with Germany's 2026 defense budget seeing a substantial 32% increase to €83.7 billion. Due to rising government bond yields, fiscal interest expenditures are growing rapidly, further pushing up the fiscal deficit. From 2022 to 2024, the growth rate of fiscal interest expenditures consistently exceeded 10%, with the fiscal interest expenditure-to-GDP ratio rising from 1.45% in 2021 to 1.9% in 2024. In 2025, some member states, such as France, underwent fiscal tightening, leading to a significant reduction in their fiscal deficit rates. The EU's Recovery and Resilience Facility (RRF) provides funding to member states for green transition, digitalization, and infrastructure, partially offsetting the negative impact of fiscal tightening on economic growth. Payment requests for the RRF are due by the end of August 2026, requiring member states to accelerate their spending to avoid the risk of funds being reclaimed. Furthermore, the EU's 2026 budget proposal includes the Next Generation EU plan, which will provide an additional €105.33 billion to foster strategic emerging industries, transform traditional manufacturing, and promote digital development. These funds, as a supplement to fiscal policy, should boost Eurozone economic growth.

ECB rate-cutting cycle is nearing its end. The ECB is likely to implement one more rate cut in 2026, bringing the main refinancing rate down from 2.15% at the end of 2025 to 1.9% at the end of 2026. Since 4Q23, Eurozone inflation has significantly decreased, reaching 2% in 2Q25 ahead of other major developed economies. The ECB was thus able to initiate substantial rate cuts, with the main refinancing rate falling to 2.15% by June 2025, approaching the neutral rate level. In 1H25, Eurozone economic growth outperformed market expectations, and inflation saw a slight rebound, leading the ECB to pause rate cuts at three consecutive meetings. In 2026, with Eurozone GDP growth slightly moderating but remaining near its potential, and inflation slightly receding but still around the target level, the ECB may implement one further rate cut, bringing the main refinancing rate to 1.9%. The ECB is managing its Pandemic Emergency Purchase Programme (PEPP) and Asset Purchase Programme (APP) through a phased and gradual natural maturity approach, though the pace of Quantitative Tightening (QT) has significantly slowed. The reduction in the ECB's asset holdings decreased from €1 trillion in 2023 to €578.2 billion in 2024 and €200 billion in the first 11 months of 2025. Currently, the ECB's asset size stands at €6.16 trillion, which is €1.47 trillion higher than at the end of 2019.

Eurozone industrial policy to focus on green transition, digitalization, and supply chain security. The Net-Zero Industry Act requires EU member states to penalize companies that fail to meet CO2 capture obligations starting from June 2026. The EU will prioritize the application of AI in 14 strategic sectors, including advanced manufacturing, aerospace, agriculture, finance, and public services, and accelerate the construction of AI factories and computing infrastructure. The EU will abolish the tariff exemption for small imported parcels under €150, meaning all goods entering the EU, regardless of value, will be subject to tariffs by law. The EU aims to attract net-zero technology projects to Europe and incentivize local manufacturing through simplified approvals, fiscal support, and limiting the proportion of single-source supply. For example, if a single third country accounts for over 50% of the supply of a specific technology or critical component, the participation ratio of products from that country will be restricted. These industrial policies should accelerate the development of green industries in the Eurozone, such as renewable energy, electric vehicles, heat pumps, and hydrogen, promote the widespread application of AI technology in sectors like automotive, healthcare, and energy, attract companies from countries like China to establish production bases in Europe, and help countries such as Germany, Poland, and Hungary become new clusters for green technology industries.

Financial Markets

Money market rates may decline slightly while government bond yields might continue to rise moderately with a steepening yield curve. We project the 1-week Euribor to decrease from 1.92% at end-2025 to 1.7% at end-2026. Money market rates move in tandem with policy rates, and the ECB may implement a further 25bps cut in 2026, leading to a corresponding decline in the 1-week Euribor. German and French 10-year government bond yields are expected to rise from 2.7% and 3.5% respectively at end-2025 to 2.85% and 3.6% at end-2026. Long-term government bond yields reflect market expectations for future fiscal policy, economic growth, and inflation prospects. In 2026, Germany will intensify its fiscal expansion, with the fiscal deficit rate projected to increase from 3.3% in 2025 to 3.7% in 2026. This will both increase the supply of government bonds and elevate future growth and inflation prospects, thereby pushing up government bond yields. The German economy has emerged from recession and is entering a recovery phase, with GDP growth projected to rise from 0.3% in 1Q26 to 1.4% in 4Q26. German inflation may gradually stabilize, with CPI growth projected to fall from 2.2% in 4Q25 to 2% in 1Q26, then stabilizing around 2% in Q2 and Q3. France has maintained a high fiscal deficit ratio for many years and is required by the EU to reduce it to 3% by 2029, facing pressure for fiscal consolidation. The fiscal deficit rate is projected to decrease from 5.4% in 2025 to 4.8% in 2026. However, French fiscal tightening could trigger public opposition and government changes, increasing political instability and bond yield volatility. French economic growth may flatten, and inflation could see a slight rebound, which would exert some upward pressure on government bond yields.

EUR/USD exchange rate is likely to appreciate first, then depreciate. The EUR/USD exchange rate may rise from 1.16 at end-2025 to 1.21 by the end of June 2026, then fall back to 1.18 by the end of the year. In the first half of the year, US economic growth and inflation are expected to decline faster than in the Eurozone, and the Federal Reserve's rate cuts will likely exceed those of the ECB, leading to a narrowing of the US-Eurozone interest rate differential. Concurrently, continued interference from Trump with the Fed's independence and the potential nomination of a very dovish individual as the next Fed Chair could fuel market expectations for the Fed to restart balance sheet expansion, putting downward pressure on the US dollar. In the second half of the year, US inflation may rebound, US bond yields could recover, and the US-Eurozone forward interest rate differential might widen, leading to a slight rebound in the Dollar Index. Uncertainty surrounding the US midterm elections could also heighten market risk aversion, which tends to be favorable for the dollar.

Eurozone stock market may continue to rise, but with significantly reduced gains. The MSCI Eurozone Index is projected to increase by approximately 8% in 2026. Currently, Eurozone equity valuations are reasonable; the MSCI Eurozone Index's 2025 forward PE is about 16.2x, slightly above its 10-year average of 15.7x. However, corporate profitability is also better than the historical average, with the latest ROE for the MSCI Eurozone Index at approximately 11.5%, significantly exceeding the 10-year average of 9.7%. According to Bloomberg consensus, the average annual EPS growth for the MSCI Eurozone Index is expected to be 7.9% for 2025-2026, surpassing the 10-year compound annual growth rate of 4.2%. In 1H25, the appreciation of the Euro against the US dollar led Eurozone equities to significantly outperform US stocks. However, in 2H25, as the Euro depreciated against the US dollar, Eurozone equities began to lag behind US stocks, primarily due to rising political uncertainty in France, an escalation of the Russia-Ukraine conflict, and intensified US-China trade frictions. Eurozone equities, with a higher proportion of industrial, raw materials, and financial sectors, were more vulnerable to trade and geopolitical tensions. In 2026, the Eurozone economy is expected to continue its stable growth, with increased fiscal expansion and a robust labor market, suggesting moderate gains for Eurozone equities. We are relatively optimistic about Financials (2025 forward PE 10.8x, latest ROE 12.9%, benefiting from a steepening yield curve), Industrials (2025 forward PE 21.7x, latest ROE 17.4%, benefiting from more expansionary fiscal policies and the re-industrialization of Europe), Consumer Staples (2025 forward PE 17.9x, latest ROE 11.4%, benefiting from falling energy prices and a stable labor market), and Utilities (2025 forward PE 15.2x, latest ROE 12.5%, benefiting from the energy transition).

Figure 2: Eurozone Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US$trn)	11.8	12.1	12.8	13.9	13.6	13.3	14.9	14.5	15.9	16.5	19.2	20.5	21.0	17.6	19.3	20.2
GDP per Capita(US$th)	34.5	35.2	37.2	40.1	39.2	38.2	43.0	41.4	45.1	46.9	-	-	-	49.7	54.4	56.7
Nominal GDP (YoY %)	3.5	2.7	3.8	3.3	3.3	(4.3)	8.6	9.0	6.6	3.9	3.5	2.9	3.4	3.8	3.3	3.2
Real GDP (YoY %)	2.1	1.8	2.6	1.8	1.6	(6.0)	6.4	3.6	0.4	0.9	1.4	1.1	1.4	1.4	1.2	1.2
CPI(YoY %)	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.5	2.4	2.1	1.8	2.0	2.1	1.9	2.0
Core CPI(YoY %)	1.1	0.8	1.0	1.0	1.1	0.7	1.5	4.0	5.0	2.9	2.4	2.1	2.0	2.4	2.1	2.0
Unemployment(%)	10.6	9.8	8.7	7.9	7.5	8.2	7.1	6.7	6.5	6.3	6.3	6.3	6.1	6.3	6.2	6.1
Government Deficit(%)	2.0	1.5	1.0	0.4	0.5	7.0	5.1	3.4	3.5	3.1	3.3	3.4	3.3	3.2	3.4	3.5
Government Debt/GDP(%)	91.0	89.9	87.5	85.5	83.6	96.5	93.8	89.3	87.0	88.1	-	-	-	89.4	91.3	93.4
Policy Rate(%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.50	4.50	3.15	1.99	1.97	2.05	2.15	1.90	1.90
Germany 10-Year Bond(%)	0.64	0.19	0.42	0.23	(0.21)	(0.56)	(0.21)	2.51	2.02	2.39	-	-	-	2.70	2.85	2.90
France 10-Year Bond(%)	1.00	0.68	0.79	0.71	0.12	(0.34)	0.19	3.11	2.56	3.19	-	-	-	3.50	3.60	3.65
EUR/USD (year-end)	1.09	1.05	1.20	1.15	1.12	1.23	1.13	1.07	1.11	1.04	1.17	1.21	1.20	1.16	1.18	1.19
Bank credit(YoY %)	2.3	4.6	2.7	2.0	2.3	9.3	5.5	2.0	0.2	1.1	-	-	-	2.2	2.0	2.0
Housing Price(YoY %)	2.6	4.6	4.6	4.7	4.5	5.6	9.5	3.1	(1.3)	4.1	-	-	-	5.0	3.5	2.5

Source: Bloomberg, Wind, CMBIGM estimates

Japan

We project Japan's economic growth to slow significantly in 2026, with GDP growth expected to decrease from 1.3% in 2025 to 0.6%. This slowdown is attributed to the fading of boosting effects such as low base effects, front-loaded exports, and corporate inventory accumulation. Benefiting from labor shortages and rising wages, household consumption may continue to grow, but its growth rate may decline to 0.7% due to high base effects and inflation eroding purchasing power. Real estate prices may continue to rise but with narrower gains, as demand in core cities remains strong, while new housing starts are still constrained by land and labor shortages and rising construction material costs. Goods export growth could see a slight rebound, primarily supported by a recovery in export prices, with volume growth remaining weak. Corporate equipment investment may moderate slightly. Inflation is expected to fall significantly, with CPI growth projected to decrease from 3.2% in 2025 to 2.1% in 2026, though services inflation could remain sticky. We expect the Bank of Japan (BOJ) to raise interest rates twice in the next 12 months, bringing the policy rate to 1%, and Quantitative Tightening (QT) may proceed slowly. Fiscal expansion may intensify, with the fiscal deficit rate rising to 3.4%. The Japanese government's fiscal stimulus, focusing on public welfare, technology, and defense, may exacerbate concerns about debt sustainability. Money market rates may continue to rise, and the 10-year government bond yield may reach 2%. The Japanese Yen (JPY) against the US Dollar (USD) is expected to first appreciate then depreciate, reaching 152 by year-end. The stock market may continue to rise but with reduced gains, narrowing to 8%. Given elevated valuations, attention is advised for undervalued sectors with high ROE such as industrials, financials, and utilities.

Economic Outlook

Japan's economic growth is expected to slow significantly. We project GDP growth to decrease from 1.3% in 2025 to 0.6% in 2026. Japan's better-than-expected economic growth in 2025 was primarily due to low base effects, sustained wage increases supporting consumption growth, front-loaded exports and corporate inventory accumulation driven by tariff expectations, strong corporate equipment investment, and a recovering real estate market. Japan's GDP decline of 0.2% in 2024 created a low base effect, and private real consumption year-on-year growth rose from -0.3% in 2024 to 1.3% in the first three quarters of 2025, contributing 44% to GDP growth. Benefiting from low base effects and front-loaded exports due to tariff expectations, real net exports year-on-year growth increased from -10.1% in 2024 to 12% in the first three quarters of 2025, with real export growth rising from 0.7% to 4.4%. Companies increased inventory accumulation, with private real inventory changes growing by 233.4% year-on-year in the first three quarters of 2025, contributing 20% to GDP growth. Supported by improved profitability, the repatriation of Japanese companies, and increased AI capital expenditures, corporate real equipment investment grew by 2.8% year-on-year in the first three quarters of 2025, contributing 28.7% to GDP growth. Private residential investment saw a narrowing decline due to the recovery of real estate in core cities like Tokyo. In 2026, the low base effect on economic growth will diminish. Front-loaded exports and corporate inventory accumulation will create high base effects and demand overdraft, leading to a significant slowdown in export and corporate inventory investment growth. Rising inflation, housing prices, and interest rates may also somewhat curb consumption. Consequently, Japan's GDP growth may decline significantly.

We believe four factors will support Japan's economic growth in 2026: First, household consumption may continue to grow. Structural labor shortages due to an aging population, and growth in services like tourism, education, and healthcare, may sustain expanding labor demand, keeping unemployment low and wages growing steadily. Second, corporate equipment investment will maintain growth. Supporting factors include: rising US-China conflict risks and demand for supply chain autonomy and security driving Japanese companies to invest back home; the AI technology revolution stimulating increased capital expenditure by tech companies; and government mechanisms like industrial funds and fiscal policies encouraging corporate investment. Third, rising housing sales and prices will boost real estate project returns, potentially stimulating residential investment. Fourth, the Sanae Takaichi government plans to implement a JPY21.3 trillion fiscal stimulus, which may lead to a rebound in government spending growth, providing some support to economic growth. Quarterly trends suggest that GDP growth may be lower in the first half and higher in the second half, with a significant decline in the first half followed by stabilization and recovery in the second half.

Private consumption could remain the main driver of economic growth in 2026. We project real private consumption growth to decrease from 1.2% in 2025 to 0.7% in 2026. Wage growth is the core factor supporting private consumption. Japan's labor market faces a structural imbalance of supply and demand, with the job-offer-to-applicant ratio consistently above 1.2 and the new job-offer-to-applicant ratio consistently above 1.8 in recent years, and the unemployment rate stable at a low 2.5%. On one hand, extreme population aging leads to shrinking labor supply, with the working-age population decreasing from 75.09 million in 2020 to 73.73 million in 2024, and to fall to 59.50 million by 2030, based on our estimates. On the other hand, the industrialization of information technology, real estate market recovery, population aging, and booming inbound tourism and international education support expanding labor demand in sectors such as information and communication, real estate, healthcare services, living and personal services, and education services. Since 2020, employment in these sectors has cumulatively grown by 26.6%, 11.4%, 11.3%, 5.1%, and 4.7% respectively. In 2025, Japan's "Shunto" (spring wage negotiations) achieved an average wage increase of 5.25%, exceeding 5% for the third consecutive year and marking the highest record since 1991, definitively breaking the long-term wage stagnation of the "lost three decades." As Japanese corporate confidence remains high and structural labor shortages persist, Japanese wages are likely to maintain rapid growth in 2026, supporting continued expansion of private consumption. A recent Reuters survey showed that 72% of Japanese companies surveyed believe wage increases in 2026 will be roughly similar to 2025; a November survey by the Japan Center for Economic Research indicated that economists' median forecast for average corporate wage increases in Japan in 2026 is 4.88%. However, due to base effects and inflation eroding real wages, private consumption growth could significantly decline in 2026. In terms of consumption structure, service consumption will grow faster than goods consumption, with tourism, dining, accommodation, personal living services, and education consumption maintaining relatively rapid growth.

Japan's real estate market may continue its upturn cycle yet gains may moderate. In 2025, Japan's real estate gains accelerated. In the first three quarters, year-on-year transaction volumes for second-hand condominiums in the Tokyo metropolitan area and the Kinki region grew by 31.3% and 22.3% respectively, significantly exceeding the full-year growth rates of 3.5% and 4.5% in 2024. The average transaction prices for second-hand condominiums in the Tokyo metropolitan area and the Kinki region grew by 7.9% and 4.5% year-on-year in the first three quarters, while the full-year year-on-year growth in 2024 was 6.8% for both. However, new housing starts accelerated their decline, with the number of new housing starts falling by 8% year-on-year in the first three quarters, exceeding the declines in 2024 (-3.3%) and 2023 (-4.6%). In 2026, Japan's housing sales may continue to grow but at a significantly slower pace, new housing starts may continue to shrink, and housing prices may continue to rise but with a slight moderation in gains. Reasons for continued growth in housing sales: Population continues to concentrate in core urban areas, supporting growth in housing demand in core cities; per capita wages are growing rapidly and gradually exceeding inflation, and female labor force participation has significantly increased, leading to continued positive growth in household real income; the central bank's interest rate hike process lags behind the inflation cycle, and real interest rates remain deeply negative, supporting housing and credit demand; with easing USD liquidity, the JPY depreciating to historical lows, and Japan's economic re-inflation, overseas investors' demand for real estate in core areas of core cities like Tokyo is heating up, with foreign buyers maintaining around 30% of transactions. Reasons for a significant slowdown in housing sales growth: High base effects; as housing prices and government bond yields rise, Japanese household housing affordability may decline; rising housing prices and rents are causing social pressure, and the Japanese government may tighten policies on foreign real estate purchases. Reasons for continued contraction in new housing starts: Land supply shortages, as Japan's urbanization rate exceeds 90%, and core areas of core cities lack undeveloped land, while rising land prices exacerbate difficulties for developers to acquire land; labor supply shortages, as the average age of Japanese construction workers exceeds 50, and young people are reluctant to enter the industry, leading to labor shortages; rising construction costs, with the estimated cost of new residential construction reaching JPY263,000/sqm in August 2025, a cumulative increase of 28% compared to five years ago, and expected to continue rising in 2026.

Merchandise export growth may see a slight rebound. We expect Japan's goods export value growth in JPY terms to increase from 2.7% in 2025 to 3% in 2026, primarily because the average price of goods exports may shift from a 0.7% decline in 2025 to a 0.5% increase in 2026, while the growth rate of goods export volume (excluding price effects) mqy moderate. In 2025, Japan's goods export value growth significantly declined, largely dragged down by export prices shifting from growth to decline. After the US implemented "reciprocal tariffs" in April, Japanese exporters bore part of the tariff burden, and Japan's export price index year-on-year growth plummeted from 1.9% in Q1 to -6% in Q2. After the US-Japan trade agreement reduced tariffs, Japan's export price index year-on-year growth gradually recovered, with the full-year growth expected to fall sharply from 7.1% in 2024 to -0.7% in 2025. In 2026, global economic and trade growth may slow, and Japan's goods export volume growth may also decline. However, benefiting from diminishing tariff impacts, rising commodity prices, and improving deflationary pressures in China, Japan's goods export price growth may increase, supporting a slight rebound in Japan's goods export value growth. In terms of export product structure, the proportion of automobiles, chemicals, and traditional machinery may decrease, while high-end automation equipment, robots, intelligent transportation equipment, and semiconductor materials and equipment may increase. In terms of export destination structure, the proportion of emerging markets such as ASEAN, India, and the Middle East may rise, while the proportion of the US, Europe, and China may decrease.

Corporate equipment investment growth may decline. We expect the growth rate of corporate equipment investment at constant prices to decrease from 2.8% in 2025 to 2% in 2026. Factors supporting continued growth in corporate equipment investment include: continued rising demand for supply chain autonomy and security, leading Japanese companies to increase domestic production capacity and supply chain investment; continued reflation in Japan, with stable expansion of corporate revenue and profits supporting increased corporate investment; persistent labor supply-demand imbalance and labor shortages, forcing companies to increase equipment investment to replace manual labor and improve labor productivity; expanding AI applications and growth in related product exports, promoting equipment investment in AI infrastructure, semiconductors, and other fields; strong demand for corporate digital transformation, boosting investment in software and IT equipment; and accelerated green transition under carbon neutrality targets, increasing corporate environmental equipment investment. Reasons for the decline in corporate equipment investment growth: rising base effects; and declining consumption and export growth.

Inflation is expected to decline. Japan's CPI and core CPI growth rates are projected to decrease from 3.2% and 3.1% in 2025 to 2.1% and 2.2% in 2026, respectively. Since 2024, Japan's inflation has continuously risen, accelerating in the first half of 2025. Firstly, a severe drought in the summer of 2024 led to reduced rice production, a Nankai Trough-earthquake warning triggered panic buying by consumers, high tariffs and import quotas locked down rice imports, and agricultural cooperatives controlled over 90% of distribution channels, monopolizing pricing, causing a surge in rice prices and pushing up food inflation. Secondly, labor shortages led to continuous wage increases, causing a significant rise in inflation for labor-cost-sensitive services like dining and household services. Finally, the Japanese government suspended electricity and natural gas subsidies in Q2 2024, leading to utility price hikes, which were later reinstated, but the utility price increases had already begun to transmit through the economy. In 2026, Japan's inflation will significantly decline but will still exceed the 2% target. Due to base effects, food and utility inflation will decrease significantly. However, the decline in services inflation may be relatively smaller. On one hand, tight supply and demand in the rental market and rising prices may continue. On the other hand, labor shortages will support continuous wage increases, and the "Shunto" (spring wage negotiations) wage increase in 2026 may exceed 4%, with wage increases and service price increases mutually reinforcing each other.

Macro Policies

Japan's fiscal expansion may intensify. The fiscal deficit rate is projected to increase from 3.2% in 2025 to 3.4% in 2026. In November 2025, Japan's new Prime Minister approved a JPY 21.3 trillion (equivalent to 3.4% of 2025 GDP) fiscal stimulus package, of which JPY 17.7 trillion (equivalent to 2.8% of 2025 GDP) is allocated for the supplementary budget for fiscal year 2025 (April 2025 to March 2026). However, higher-than-expected fiscal revenue and unused funds from previous fiscal budgets may partially offset the impact of the stimulus package on the 2025 and 2026 fiscal deficits. Japan's fiscal stimulus package has three main priorities: First, approximately JPY 11.7 trillion (55% of the total) to support households and regional livelihoods, including JPY 500 billion for household energy subsidies, JPY 400 billion for child cash benefits, an increase of JPY 1.2 trillion in income tax exemptions, temporary abolition or reduction of gasoline tax by JPY 1 trillion, and JPY 2 trillion in grants to local governments to support regional livelihoods. Second, approximately JPY 7.2 trillion (33.8% of the total) to support strategic industries, supply chain security, and economic growth, focusing on investment in emerging technologies such as artificial intelligence, semiconductors, and chips to promote industrial upgrading, establishing a 10-year special fund for the shipbuilding industry, and enhancing energy security and supply chain resilience. Third, approximately JPY 1.7 trillion (8% of the total) for defense capability building, increasing the defense expenditure-to-GDP ratio, and strengthening defense capabilities in the southwestern islands. Japan's fiscal stimulus plan exacerbates market concerns about the high level of Japanese government debt. Currently, Japan's government debt ratio is as high as around 230%, posing significant challenges to debt sustainability and putting further upward pressure on government bond yields.

BOJ may continue to slowly push forward policy rate hikes and QT. BOJ employs a multi-objective approach, striving for a balance between inflation control, fiscal prudence, exchange rate stability and economic growth. With continued economic growth, rising housing prices and inflation consistently exceeding the target, the BOJ will continue to raise interest rates. However, after experiencing "two lost decades" and prolonged deflation, the BOJ is very cautious about monetary policy tightening, with rate hikes proceeding very slowly. We expect BOJ to raise rates once in December 2025 or January 2026, and again in June or July 2026, bringing the policy rate from the current 0.5% to 1% by the end of 2026. Japan's monetary policy remains very loose; based on the Taylor Rule, the appropriate policy rate for the next year is 1.5%-2%. Currently, real interest rates are still deeply negative, stimulating credit expansion, housing price increases, and high inflation. The QT cycle may continue but at a slower pace. The BOJ's Monetary Policy Meeting in June 2025 decided to slow down the pace of QT starting in 2Q26, reducing bond purchases by JPY 200 billion per quarter, compared to JPY 400 billion per quarter from August 2024 to March 2026. The June 2026 Monetary Policy Meeting will conduct a mid-term review of the QT plan and decide whether to make further adjustments based on market conditions. The BOJ's government bond holdings are likely to decrease to JPY 550 trillion by the end of 2025 and JPY 510 trillion by the end of 2026. The BOJ plans to sell JPY 330 billion worth of stock ETFs annually but will seek to minimize the market impact. Japanese financial institutions are important investors in international bond markets, and the JPY has long been a key funding currency for international carry trades. Changes in the BOJ's monetary policy have significant implications for global markets. BOJ rate hikes and rising Japanese government bond yields are negative for global bonds and stocks.

Financial Markets

Money market rates will likely gradually rise in the policy rate hike cycle. We expect the 7-day TIBOR to increase from the current 0.5% to 1% by the end of 2026. Japan's money market rates are determined by the central bank's policy rates. Currently, Japan's real interest rates are deeply negative, credit growth is picking up again, stock market valuations are high, housing price increases in core cities are expanding, and wage growth and inflation are elevated, indicating risks of asset bubbles and economic overheating. The BOJ will continue to raise interest rates. However, having experienced long-term deflation, the BOJ is very slow in raising rates. It may raise rates twice before the end of 2026, and the 7-day Tibor will follow the policy rate from the current 0.5% to 1% by the end of 2026.

Treasury bond yields may continue to rise. The 10-year Japanese government bond (JGB) yield may increase from 1.85% at end-2025 to 2% at end-2026. Japan's monetary policy remains very loose, supporting continued increases in credit, the stock market, and the housing market. Economic growth continues to exceed its potential, and inflation remains high. In this macroeconomic environment, Japanese government bond yields may continue to rise. The government bond yield curve may steepen because the BOJ's slow pace of rate hikes, on one hand, limits the rise in short-term government bond yields, and on the other hand, allows economic overheating to push up long-term government bond yields. The slower the BOJ raises rates, the larger the increase in long-term government bond yields. The continuous rise in Japan's long-term government bond yields will increase government financing costs, posing a challenge to government debt sustainability and triggering financial-market volatility risks. As Japanese financial institutions are important investors in US and European bond markets, a continuous rise in Japan's long-term government bond yields and term premiums will have spillover effects on US and European bond markets.

JPY may first appreciate and then depreciate against US dollar. The USD/JPY exchange rate is likely to decrease from 155 at the end of 2025 to 145 by the end of June 2026, then rise to 152 by the end of 2026. In the first half of 2026, USD liquidity will be looser, the Federal Reserve may further cut interest rates and restart balance sheet expansion, and the next Fed Chair candidate may exaggerate dovish stances to demonstrate loyalty, leading to a significant weakening of the US dollar. Meanwhile, Japan's economic growth continues to exceed its potential, and inflation remains above target. The BOJ may further raise interest rates and continue to reduce asset purchases, potentially narrowing the US-Japan interest rate differential, and the JPY may rebound against the USD. In the second half of 2026, due to loose USD liquidity and further economic stimulus from the White House before the midterm elections, US economic growth and inflation may rebound. After the new Fed Chair takes office, to establish credibility and influence, they may adopt a more politically neutral stance compared to the candidate phase, and monetary policy may reach an inflection point, leading to a rebound in the US dollar index and a weakening of the JPY against the USD.

Japan's stock market may continue to rise yet with significantly reduced gains. We expect the Nikkei 225 index growth to decrease from 21% in 2025 to approximately 8% in 2026. Currently, the Nikkei 225 index's 2025 forward PE is about 17.9x, higher than its 10-year average PE (17.1x). The average annual compound EPS growth for the Nikkei 225 index is projected to be 6.4% for 2025-2026. Positive factors supporting the rise in the Japanese stock market include: the global AI bubble cycle; the repatriation of Japanese capital from the US during a period of USD depreciation; and the new Japanese cabinet's fiscal stimulus boosting earnings expectations and optimism. Negative factors that may significantly narrow the gains in the Japanese stock market include: three consecutive years of significant gains from 2023-2025, leading to excessive market optimism; and risks of economic overheating and high inflation. We are relatively optimistic about Industrials (2025 forward PE 18.5x, latest ROE 11%), Real Estate (2025 forward PE 15.8x, latest ROE 9.9%), Financials (2025 forward PE 12.1x, latest ROE 9.7%), Communication Services (2025 forward PE 14.4x, latest ROE 16.7%), and Utilities (2025 forward PE 9.1x, latest ROE 10.7%).

Figure 3: Japan Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US$trn)	4.4	5.0	4.9	5.0	5.1	5.1	5.0	4.3	4.2	4.0	4.4	4.8	5.2	4.0	4.2	4.3
GDP per Capita(US$th)	35.1	39.4	39.1	39.8	40.4	40.0	40.2	34.5	34.0	32.7	-	-	-	32.7	34.1	34.7
Nominal GDP (YoY %)	3.7	1.2	1.6	0.6	0.2	(3.3)	2.5	1.4	5.4	2.9	4.4	2.5	2.8	4.5	2.7	2.6
Real GDP (YoY %)	1.6	0.8	1.7	0.6	(0.4)	(4.2)	2.7	1.0	1.2	(0.2)	1.3	0.7	0.8	1.3	0.6	0.7
CPI(YoY %)	0.8	(0.1)	0.5	1.0	0.5	(0.0)	(0.3)	2.5	3.3	2.7	3.1	1.8	2.0	3.2	2.1	1.9
Core CPI(YoY %)	0.6	(0.3)	0.5	0.9	0.6	(0.2)	(0.2)	2.3	3.1	2.6	3.0	1.7	1.8	3.1	2.2	2.0
Unemployment(%)	3.3	3.0	2.7	2.5	2.2	3.1	2.7	2.5	2.5	2.5	2.5	2.5	2.4	2.6	2.6	2.5
Government Deficit(%)	3.0	3.0	2.4	1.7	2.4	9.1	5.3	3.3	2.3	2.0	3.1	3.1	2.8	3.2	3.4	3.1
Government Debt/GDP(%)	194.2	195.9	196.3	197.7	199.1	224.7	220.3	224.2	217.8	216.8	-	-	-	230.0	228.0	227.0
Policy Rate(%)	0.00	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	0.25	0.75	0.94	1.75	0.75	1.00	1.25
10-Year Bond(%)	0.27	0.04	0.05	0.04	(0.02)	0.04	0.09	0.45	0.65	1.11	1.69	1.87	1.98	1.85	2.00	2.05
USD/JPY (year-end)	120.4	117.1	112.7	110.4	109.2	103.3	115.1	132.1	141.4	157.9	149.0	142.0	135.0	155.0	152.0	150.0
Bank Asset(YoY %)	3.0	6.8	2.3	1.2	1.1	11.8	5.1	1.9	3.6	3.3	-	-	-	3.1	2.5	2.2
Housing Price(YoY %)	1.3	9.6	4.3	0.9	4.7	4.8	11.5	9.0	7.0	4.4	-	-	-	12.0	7.5	5.0

Source: Bloomberg, Wind, CMBIGM estimates

China

China's economic growth may experience a decline before a subsequent rise in 2026. The economic growth rate significantly slowed in the second half of 2025, remaining below 5%, due to high base effects and demand overdraft resulting from the "Sep 24th" policy stimulus and front-loaded exports driven by tariff expectations. The GDP growth target for 2026 is likely to remain around 5%. Pressure to stabilize growth is expected to trigger a new round of stimulus policies in the first quarter, supporting a modest rebound in economic growth starting from the second quarter. As global economic slowdown and high tariffs curb global trade, China's goods export growth may decrease. The decline in the real estate market may narrow, with prices in first-tier cities gradually stabilizing. Household consumption growth may flatten; goods consumption growth may decline after the initial stimulus from subsidy policies, while service consumption growth may see a modest rebound. Due to anti-involution policies, manufacturing investment growth may slow; infrastructure investment growth may also decelerate as policy guidance shifts from investing in physical assets to investing in people. The broad fiscal deficit ratio in 2026, at 8.5%, may be largely consistent with 2025, with a focus on supporting new quality productive forces, social welfare, and security. Monetary policy may remain accommodative, with a projected 50 bps cut in RRR and a 20 bps cut in interest rates. Money market rates may slightly decrease, bond yields may marginally rise, and the RMB may gently appreciate against the USD to 7.02. The stock market has entered the latter half of a bull market and may peak in 2026,potentially rising initially before peaking. A-shares are expected to outperform Hong Kong stocks.

Economic Outlook

China's economic growth is likely to decelerate before rebounding. We project GDP growth to decrease from 4.8% in 3Q25 to 4.5% in 4Q25 and 4.6% in 1Q26, before gradually rising to 4.9% in 4Q26. The full-year GDP growth rate is expected to decline from 5% in 2025 to 4.8% in 2026. As the 5.3% GDP growth in the first half of 2025 significantly exceeded the target, and despite a slowdown starting in Q3, achieving the full-year target of around 5% is not difficult, in our view. Policymakers are currently more focused on the China-US rivalry and the development of new quality productive forces, leading to insufficient motivation from policy departments and local governments to stabilize growth, as they aim to reserve more policy space for 2026. Due to the high base effects and overdraft of demand from the "Sep 24th" stimulus in 2024 and front-loaded exports in the first half of 2025, there may be significant downward pressure on year-on-year GDP growth in 4Q25 and the first half of 2026. Based on the long-term goal of achieving the per capita GDP level of moderately developed countries by 2035 (doubling real per capita GDP compared to 2020), an average annual GDP growth rate of around 4.2% is required for 2026-2035 (during the "15th Five-Year Plan" and "16th Five-Year Plan" periods). As 2026 marks the beginning of the 15th Five-Year Plan period the GDP growth target is very likely to remain near 5%. Similar to the context of the September 24th policy stimulus in 2024, with GDP growth falling below 5% for two consecutive quarters in the second half of 2025, the probability of a new round of policy stimulus being introduced in 1Q26 significantly increases, which should drive a modest recovery in GDP growth.

China's goods export growth may decline. Goods export may decrease from 5.2% in 2025 to 3.5% in 2026 while imports may rebound from -0.5% to 2%. Global demand growth and inflation levels are declining; the IMF forecasts global GDP growth to decrease from 3.2% in 2025 to 3.1% in 2026, and CPI growth from 4.2% in 2025 to 3.7% in 2026. Global tariff impacts led to front-loaded imports and inventory accumulation, creating high base effects and demand overdraft. Global goods exports grew by over 5% in the first half of 2025 but have significantly slowed since the second half. By product, in 2026, China's exports of medical supplies, electrical equipment, automobiles, ships, aviation equipment, and AI-related products (semiconductors, servers, communication equipment, etc.) may maintain rapid growth, while traditional products such as clothing, toys, home appliances, and furniture may continue to be weak. By destination, in 2026, China's goods exports to Southeast Asia, South Asia, the Middle East, Africa, Latin America, and Eastern Europe may maintain rapid growth, with modest growth to Western Europe, Australia, and East Asia, and a continued decline to the US.

China's property sales decline may gradually narrow. The year-on-year declines in commodity housing sales area and property development investment are likely to narrow from 9% and 16% in 2025 to 5% and 9% in 2026, respectively. The impact of "reciprocal tariffs" in April increased economic uncertainty and geopolitical risks, weakening household confidence and interrupting property sector recovery. The year-on-year decline in commodity housing sales area expanded from 2.8% in the first four months to 6.8% in the first ten months of 2025, and the recovery rate compared to the 2018-2019 average decreased from 70.6% to 54%. Due to the high base effects and demand overdraft from the "Sep 24th" stimulus in 2024, the year-on-year decline in commodity housing sales area may expand in 4Q25 and 1Q26, dragging down GDP growth. Policymakers may introduce a new round of real estate boosting policies in 1Q26. Potential measures include interest rate cuts, tax reductions, interest subsidies, and inventory acquisition. Due to changes in base effects and a new round of policy stimulus, the year-on-year decline in property indicators may begin to narrow in 2Q26. In the medium to long term, housing demand faces the dual effects of cyclical recovery and structural decline. Due to decreasing birth rates and slowing urbanization, the peak of new urban population and new housing demand occurred in 2016 and has since declined. However, due to policy stimuli such as monetary resettlement for shantytown renovation, drove residential sales well above incremental demand during 2017-2021, overdrawing future demand and accumulating second-hand housing supply. The impact of the pandemic in 2021-2022 led to a sharp drop in new urban population and a significant decline in new housing demand, coupled with aggressive deleveraging, resulting in a sharp contraction in new home sales. In 2023-2024, with economic reopening, the new urban population cyclically rebounded, new housing demand recovered, and policies turned accommodative. However, due to previous demand overdraft and the release of second-hand housing supply, new home sales and housing prices continued to fall. In the medium term, new housing demand may continue its cyclical recovery, while new housing supply contracts more sharply than demand, leading to ongoing supply-demand rebalancing. Declines of housing prices in core locations of first-tier and strong second-tier cities may slow and gradually stabilize. In the long term, due to population decline and slowing urbanization, urban population growth and new housing demand may continue to decline.

China's household consumption growth may remain largely flat. Retail sales of consumer goods are likely to slow from 4% in 2025 to 3.7% in 2026. Within this, retail sales growth of home appliances, mobile phones, furniture, and cultural and office supplies may significantly decline, while food and beverages, clothing, educational, sports, and entertainment goods, and cosmetics may maintain steady and relatively fast growth. Services retail sales growth is projected to increase from 5.2% in 2025 to 5.4% in 2026, with a slight increase in catering revenue growth, and relatively faster growth in transportation services, tourism consulting and leasing services, cultural and sports leisure services, and elderly care services. Positive factors include a rising stock market, narrowing decline in the housing market, improving deflation, and increased fiscal transfers to households. Negative factors include high base effects and demand overdraft from previous "trade-in" policies, and the impact of economic and employment uncertainty on consumer confidence. A rising stock market boosts consumption through wealth effects and confidence channels. The A-share market entered a bull market in late September 2024, but Chinese household assets are primarily real estate and savings, with equity assets accounting for 5%-10%, so the boosting effect of the stock market on consumption is relatively weak. A narrowing decline in the housing market boosts consumption through wealth effects, confidence channels, and associated consumption. Real estate accounts for over 60% of Chinese household assets, so the housing market has a relatively stronger impact on consumption. Improving deflation boosts consumption through price effects, reducing debt burdens, and changing delayed consumption. Deflation means falling prices may directly drag down consumption growth, and deflation pushing up real interest rates means an increase in the real debt burden for borrowers. Deflation also makes consumers anticipate further price declines, leading to delayed purchases. Increased fiscal transfers to households may boost household disposable income, thereby stimulating consumption. In 2026, fiscal policy may involve increasing transfers to newly married couples, families with children, unemployed individuals, and low-income households. These groups and households have a relatively higher marginal propensity to consume, and a higher proportion of transfer income for consumption. The "trade-in" subsidy policies created high base effects and demand overdraft. In the first 10 months of 2025, retail sales growth for above-quota enterprises in home appliances, cultural and office supplies, furniture, and communication equipment reached 20.1%, 19.1%, 19.9%, and 20.9% respectively, but growth may significantly decline in 2026. Due to declining export growth, continued weakness in the housing market, and the substitution of labor by AI and other technologies, economic and employment uncertainty remains high, and consumer confidence may continue to be suppressed.

China's non-real estate investment growth may slow down. Fixed asset investment growth excluding real estate development investment is likely to decrease from 1.5% in 2025 to 1% in 2026. Negative factors include high base effects and demand overdraft from previous equipment upgrade policies, tariff impacts, deflation and anti-involution, and the resolution of local government implicit debt. Positive factors include the "15th Five-Year Plan" kick-off effect, further interest rate reductions, and intensified fiscal expansion. Previous equipment upgrade policies created high base effects and demand overdraft. Investment in equipment and tools grew by 15.7% in 2024 and 13% in the first 10 months of 2025, but may slow to 5% in 2026. Tariff impacts, deflationary pressure, and anti-involution have a dampening effect on manufacturing investment. Manufacturing investment growth decreased from 7.5% in the first half of 2025 to 2.7% in the first 10 months, with investments in chemical raw materials and products, pharmaceutical manufacturing, non-ferrous metals, specialized equipment, electrical machinery and apparatus, and computers, communications, and electronic equipment all turning negative. Manufacturing investment growth is likely to fall to 2% in 2025 and 1.5% in 2026. Due to the overdrawing effect of equipment upgrade policies and the resolution of local government implicit debt, infrastructure investment growth significantly declined, plummeting from 8.9% in the first half of 2025 to 1.5% in the first 10 months. In 1Q26, macroeconomic policies may be reinforced, interest rates may further decrease, fiscal expansion may intensify, and "15th Five-Year Plan" project investments may accelerate. Infrastructure investment growth may bottom out and stabilize, with full-year growth increasing from 1% in 2025 to 1.5% in 2026.

China's deflation may improve, but reflation momentum may remain weak. We project CPI and PPI growth rates to increase from -0.1% and -2.6% in 2025 to 0.7% and -0.5% in

2026, respectively. Food prices may see a significant rebound. The average month-on-month growth of food CPI increased from -0.2% in January-July 2025 to 0.5% in August-October. The year-on-year decline in food CPI narrowed from 4.3% in August to 2.9% in October. Food CPI growth is projected to increase from -2% in 2025 to 1% in 2026. The decline in energy prices may gradually narrow. The year-on-year decline in fuel prices for transportation narrowed from 11.3% in 2Q25 to 5.4% in October. The full-year decline is likely to narrow from 6.6% in 2025 to 2% in 2026. Services inflation may moderately rise. Core CPI growth is projected to increase from 0.8% in 2025 to 1.2% in 2026, as services consumption continues its slow improvement. Month-on-month PPI may shift from decline to increase and may see a modest rise in the future. This is because the Federal Reserve may further cut interest rates and restart QE, Trump may initiate new stimulus policies, Europe and Japan may increase fiscal expansion, and China may intensify policies to stabilize the property sector, promote consumption, and combat involution.

Macro Policies

China's fiscal expansion may remain stable with probable changes in spending structure. The broad fiscal deficit (including general deficit, special treasury bonds, and local government special purpose bonds) as a percentage of GDP could reach 8.5% in 2026, largely consistent with 2025. Within this, the general fiscal deficit ratio may remain stable at 4%, the special treasury bond quota as a percentage of GDP may decrease from 1.3% in 2025 to 1% in 2026, and the local government special purpose bond quota as a percentage of GDP may increase from 3.1% in 2025 to 3.5% in 2026. The general fiscal deficit is mainly used to cover the government's recurring revenue-expenditure gaps. In 2026, fiscal spending may be tilted towards three main directions: First, modern industrial systems and new quality productive forces, including accelerating the high-end, digital, and green transformation and upgrading of traditional industries, cultivating and expanding emerging pillar industries such as new energy, new materials, aerospace, and low-altitude economy, accelerating the development of future industries such as quantum technology, bio-manufacturing, hydrogen and nuclear fusion energy, brain-computer interfaces, embodied AI, and 6G, and building and improving new quality productive force infrastructure such as computing power. Second, public services and social welfare, shifting investment from physical assets to people, increasing investment in childbirth and parenting, education, healthcare, social security, vocational training, inclusive elderly care, culture, and sports, and increasing transfer payments to newly married couples, families with children, unemployed individuals, and low-income households. Third, infrastructure, urban renewal, rural revitalization, ecological and environmental protection, food and energy security, and supply chain security. In 2025, special treasury bond funds were mainly used to support the implementation of major strategies and the construction of security capabilities in key areas (RMB800 billion), equipment upgrades and consumer goods trade-in (RMB500 billion), and supplementing the capital of state-owned banks (RMB500 billion). In 2026, special treasury bond funds are expected to continue to be used to support the implementation of major strategies and the construction of security capabilities in key areas (RMB1 trillion) and equipment upgrades and consumer goods trade-in (RMB500 billion).

China's monetary policy may remain moderately accommodative. The central bank may to cut the RRR by 50bps and the LPRs by 10bps in 1Q26 and further cut the LPRs by 10bps in 3Q26. To mitigate the negative impact of LPR cuts on banks' net interest margins, money market rates and deposit rates may be lowered first. Due to price deflation, real interest rates remain high, and credit demand is still weak. The average interbank bill rediscount rate for state-owned major banks and joint-stock banks fell to 0.62% in October-

November, lower than 0.8% in 4Q24, indicating a trend of credit supply exceeding demand. Monetary policy may focus on stabilizing expectations, preventing risks, and coordinating with other policies. Amid potentially intensifying China-US rivalry, monetary policymakers may take discretionary actions to stabilize market confidence and send signals of economic stability to society. Given the continued weakness in real estate and employment, monetary policy may aim to maintain ample liquidity, promote reasonable credit growth, reduce real estate financial risks, and support a stable job market. Monetary policy may also involve strengthening coordination with fiscal policy, maintaining ample liquidity to support government bond issuance, as well as innovating more structural tools to increase targeted support for technological innovation, green transition, service industry development, and investment in people.

China's real estate policies may remain accommodative. Potential policy tools for 2026 include interest rate cuts, tax reductions and interest subsidies, and government acquisition of properties. Interest rate cuts, by lowering new mortgage rates through LPR reductions, can boost housing demand but may squeeze banks' net interest margins. LPR is likely to be cut twice in 2026, with efforts to offset the pressure on banks' net interest margins by lowering money market rates and deposit rates. However, due to the longer duration of deposits and slower repricing compared to mortgages, lowering money market rates and deposit rates may not fully offset the negative impact of LPR cuts on banks' net interest margins. Tax reductions, including reducing transaction taxes and fees on home purchases and increasing the special additional deduction for mortgage interest on individual income tax (currently RMB1,000/month), can reduce the burden on homebuyers and boost housing demand. Interest subsidies involve fiscal subsidies for interest on new mortgages, reducing the actual borrowing cost for homebuyers without directly affecting banks' net interest margins. Government acquisition of properties involves government or policy-backed institutions purchasing idle land or properties from the market, converting them into long-term affordable housing. In the short term, this can alleviate oversupply and downward price pressure in the housing market. We believe the probability ranking of these four policies is: interest rate cuts > tax reductions > interest subsidies > government acquisition.

Financial Markets

China's money market liquidity may be more accommodative with slight decreases in money market product yields. The 1-week Shibor is projected to decrease from 1.4% at the end of 2025 to 1.2% at the end of 2026. On one hand, due to economic downturn and deflationary pressure, the central bank may increase money market liquidity supply, further lowering the reserve requirement ratio, reverse repo rates, and LPR. On the other hand, due to weak credit demand, money market liquidity demand may remain subdued. Hong Kong offshore RMB money market rates may first decline and then flatten. In the first half of 2026, with lower onshore RMB interest rates and a weaker USD, the 1-week RMB Hibor is projected to decrease from 1.7% at the end of 2025 to 1.5% at the end of June 2026. In the second half of 2026, onshore RMB interest rates may continue to fall, but the USD may rebound, so the 1-week RMB Hibor is expected to fluctuate but remain around 1.5% by year-end.

China's treasury bond yields may marginally rise. We project the 10-year government bond yield to increase from 1.85% at the end of 2025 to around 1.9% at the end of 2026. Factors contributing to higher government bond yields include: first, improving deflation, as government bond yields are closely related to the trend of future core CPI growth; second, proactive fiscal policy maintaining its expansionary strength, leading to high government bond issuance volumes; third, the stock market bull run entering its latter half, with market risk appetite potentially further recovering. Factors lowering government bond yields include: first, continued weakness in real estate and consumption, weak credit demand, increased credit supply, and continuous declines in credit and deposit rates; second, further global inflation and interest rate declines.

RMB may moderately strengthen against the US dollar. The USD/RMB exchange rate may decrease from 7.07 at the end of 2025 to 7.02 at the end of 2026. In 2026, the USD index may first weaken and then strengthen, as monetary policy easing precedes fiscal policy expansion. In the first half of the year, US economic growth and inflation may decline, the Federal Reserve may continue to cut interest rates and restart balance sheet expansion, increasing USD supply. At the same time, White House intervention and preference for a weaker USD are negative for the USD, potentially leading to a decline in the USD index. In the second half of the year, under the influence of accommodative monetary policy and expansionary fiscal policy, US economic growth may rebound, and inflation may stabilize, potentially leading to a rebound in the USD index. In the first half of 2026, China may intensify fiscal expansion, implement a new round of policies to stabilize real estate and promote consumption, and accelerate the implementation of anti-involution policies, potentially leading to a stronger RMB against the USD. In the second half of the year, as the USD index strengthens and the scope for further domestic fiscal easing diminishes, the RMB may weaken against the USD.

China's stock market has entered the latter half of a bull market. This bull market may peak in 2026, with the stock market experiencing a "first rise, then fall" pattern. A-shares are expected to outperform Hong Kong stocks, with full-year growth forecasts of 15% for the Hang Seng Index and 20% for the CSI 300 Index, compared to 25% and 13% respectively in 2025. The bull market may spread from pan-technology sectors to raw materials and industrials, and then to consumer sectors. Factors supporting the continuation of the bull market for a period include: continued accommodative liquidity, with the Federal Reserve potentially further cutting interest rates and increasing USD liquidity supply, while the People's Bank of China may further cut RRR and interest rates, leading to more accommodative RMB liquidity; China may intensify policies to stabilize real estate, promote consumption, and combat involution, which may alleviate deflation and improve corporate earnings prospects; Chinese stock valuations are still not expensive, with the 2025 forward P/E ratios for the Hang Seng Index and CSI 300 Index being 12.1x and 15.7x respectively, slightly higher than their 10-year averages of 11.4x and 14.5x. We are relatively optimistic about Hong Kong listed Information Technology (2025 forward P/E 22.8x, latest ROE 14.2%), Financials (2025 forward P/E 8x, latest ROE 11.1%), Consumer Staples (2025 forward P/E 14x, latest ROE 11.5%), Utilities (2025 forward P/E 11.6x, latest ROE 8.8%), Telecommunications (2025 forward P/E 12.8x, latest ROE 9.1%), and Energy (2025 forward P/E 8.9x, latest ROE 11.3%). For A-shares, we favor Consumer Staples (2025 forward P/E 18.9x, latest ROE 23.3%), Healthcare (2025 forward P/E 25.3x, latest ROE 11.9%), and Utilities (2025 forward P/E 16.4x, latest ROE 11.5%).

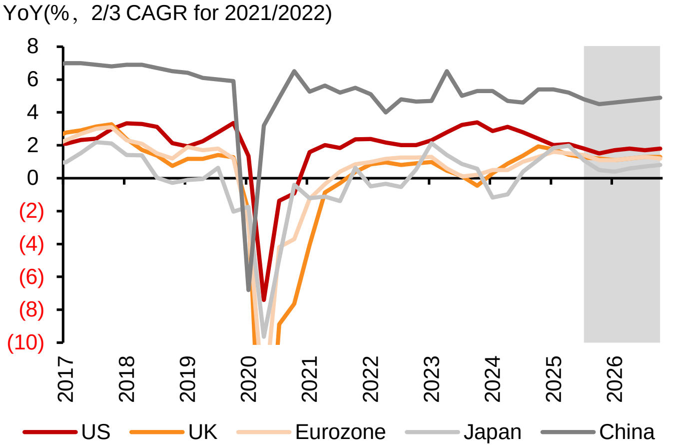
Figure 4: China Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Bloomberg Median			CMBI Forecast		
											2025F	2026F	2027F	2025F	2026F	2027F
Nominal GDP(US$trn)	11.1	11.4	12.6	14.1	14.5	15.0	18.2	18.3	18.3	18.7	19.5	20.9	22.3	19.6	21.0	22.2
GDP per Capita(US$th)	8.1	8.2	9.0	10.1	10.3	10.6	12.9	13.0	12.9	13.3	-	-	-	13.9	15.0	15.8
Nominal GDP (YoY %)	7.1	8.4	11.3	10.5	7.5	2.9	13.4	5.1	4.9	4.2	4.1	4.7	5.2	4.1	5.2	5.3
Real GDP (YoY %)	7.0	6.8	6.9	6.8	6.1	2.3	8.6	3.1	5.4	5.0	4.9	4.4	4.2	5.0	4.8	4.5
CPI(YoY %)	1.4	2.0	1.6	2.1	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.8	1.1	(0.1)	0.7	0.9
Core CPI(YoY %)	(5.2)	0.3	6.3	3.5	(0.3)	(1.8)	8.1	4.1	(3.0)	(2.2)	(2.6)	(1.0)	0.5	(2.6)	(0.5)	0.5
Unemployment(%)	0.0	0.0	0.0	4.9	5.2	5.2	5.1	5.5	5.1	5.1	5.2	5.1	5.1	5.2	5.1	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	4.0	3.5
(General Deficit+Special-purpose Bond+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	8.5	8.0
Government Debt/GDP	36.2	35.8	35.3	35.6	37.9	45.0	45.8	49.4	54.7	60.8	-	-	-	67.8	73.0	77.3
DR007	2.32	2.59	3.09	3.04	2.65	2.46	2.29	2.36	1.91	1.98	1.73	1.67	2.67	1.55	1.45	1.40
1-Year LPR	4.30	4.30	4.30	4.31	4.15	3.85	3.80	3.65	3.45	3.10	2.95	2.77	2.64	3.00	2.80	2.70
10-Year Bond(%)	2.83	3.02	3.88	3.24	3.14	3.14	2.77	2.84	2.56	1.67	1.76	1.66	1.71	1.85	1.90	1.80
USD/RMB (year-end)	6.57	6.97	6.51	6.87	6.96	6.50	6.36	6.92	7.12	7.34	7.10	7.00	6.92	7.07	7.02	7.05
Bank Asset(YoY %)	15.7	15.7	8.4	6.8	8.4	10.3	7.5	9.8	9.7	6.3	-	-	-	7.5	7.2	7.0
Tier-1 Cities Housing Price(YoY %)	26.4	32.3	10.6	(2.4)	1.3	10.5	10.4	(4.2)	(12.2)	(12.7)	-	-	-	(10.0)	(5.0)	0.0

Source: Bloomberg, Wind, CMBIGM estimates

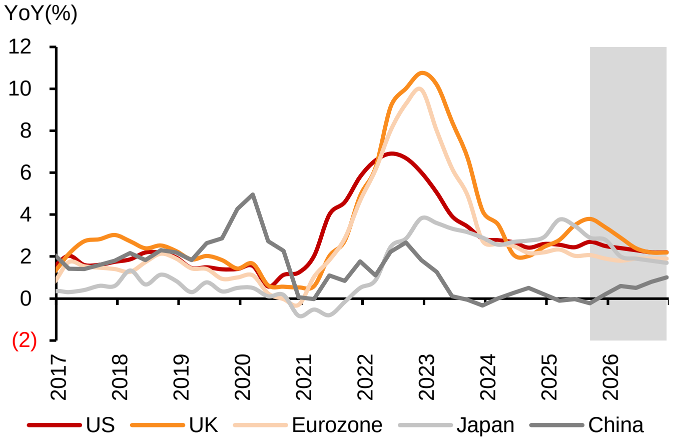
Appendices

Figure 5: Growth of GDP



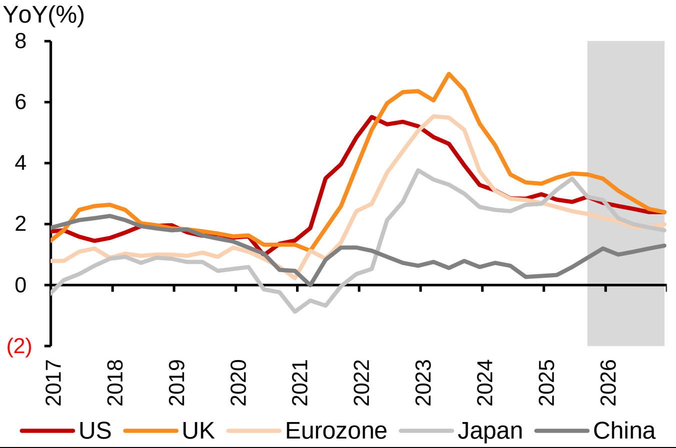
Source: Bloomberg, Wind, CMBIGM estimates

Figure 6: Inflation



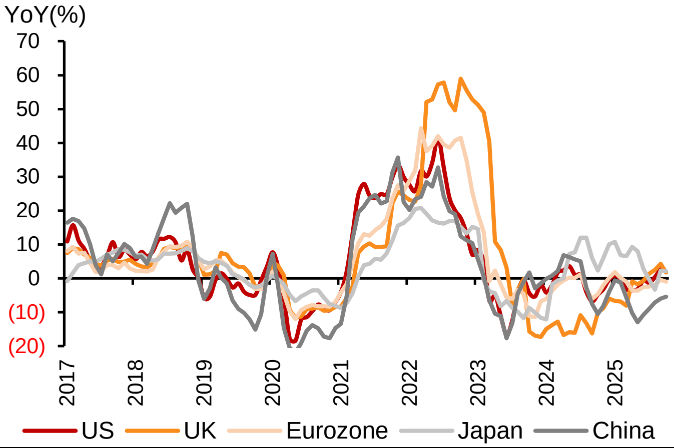
Source: Bloomberg, Wind, CMBIGM estimates

Figure 7: Core inflation



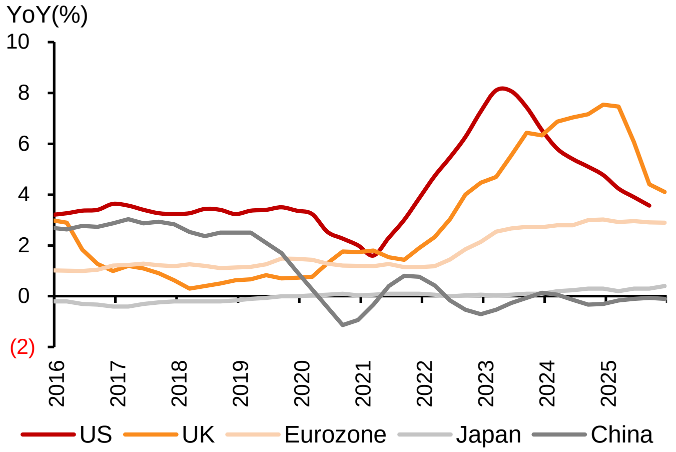
Source: Bloomberg, Wind, CMBIGM estimates

Figure 8: Growth of energy CPI



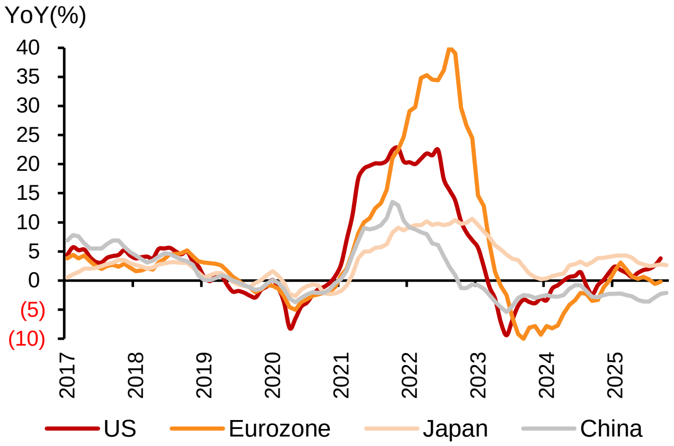
Source: Bloomberg, Wind, CMBIGM estimates

Figure 9: Growth of rent CPI



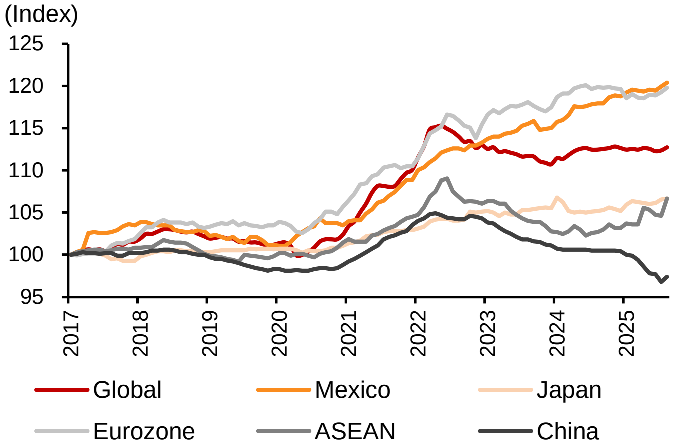
Source: Bloomberg, Wind, CMBIGM

Figure 10: Growth of PPI



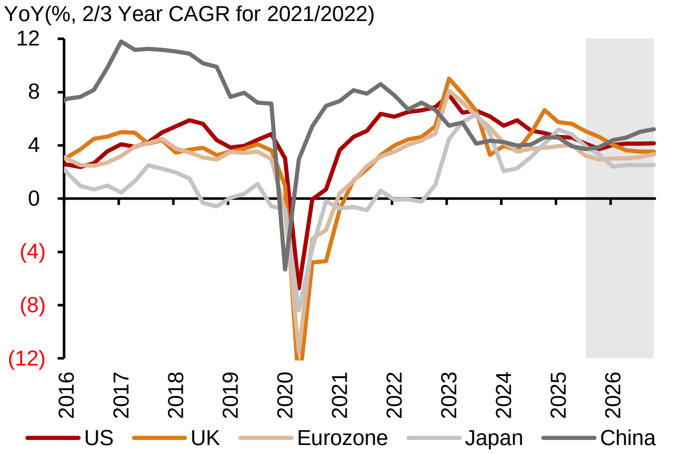
Source: Bloomberg, Wind, CMBIGM

Figure 11:US import price index by country of origin



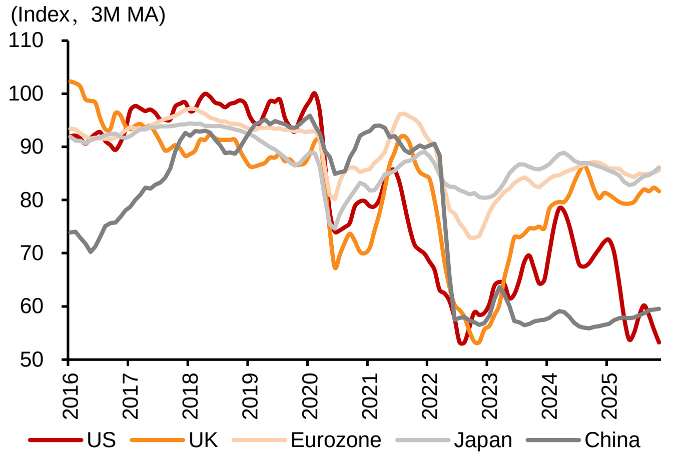
Source: Bloomberg, Wind, CMBIGM

Figure 12: Growth of nominal GDP



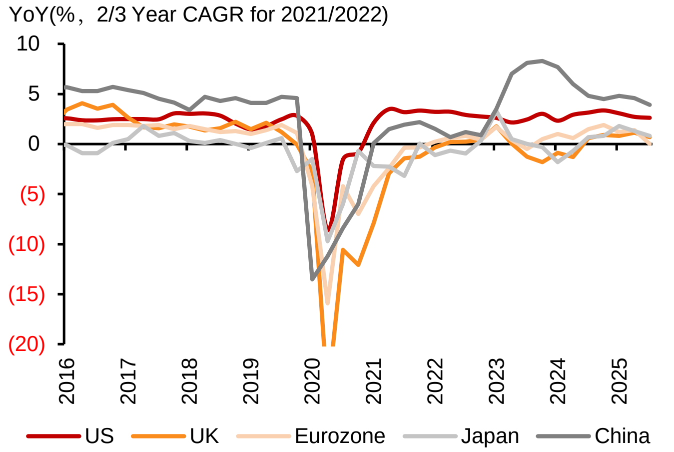
Source: Bloomberg, Wind, CMBIGM estimates

Figure 13: Consumer confidence index



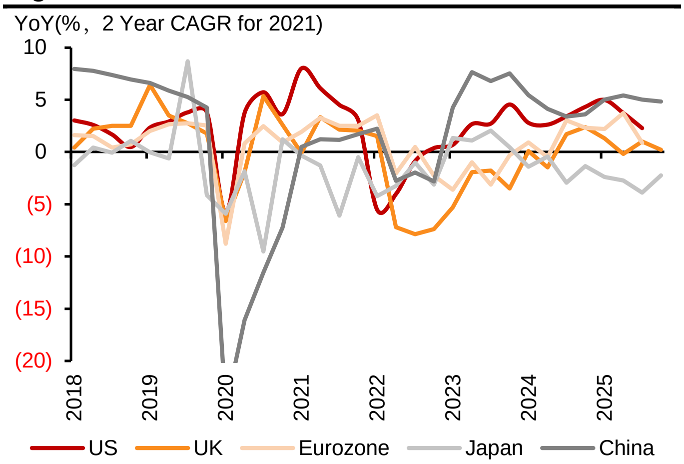
Source: Bloomberg, Wind, CMBIGM estimates

Figure 14: Growth of real consumption



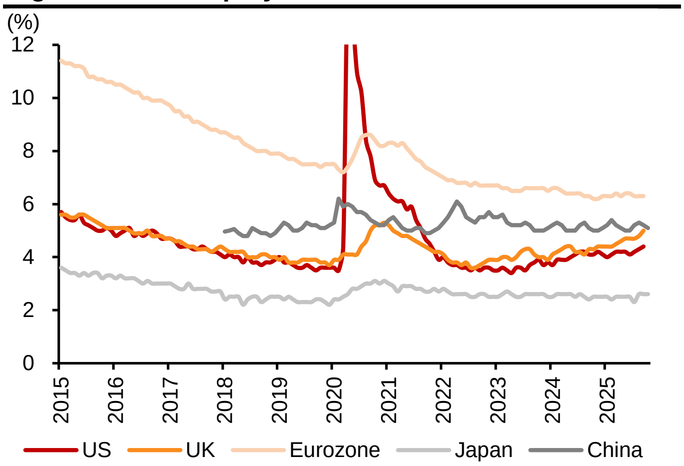
Source: Bloomberg, Wind, CMBIGM estimates

Figure 15: Growth of real retail sales



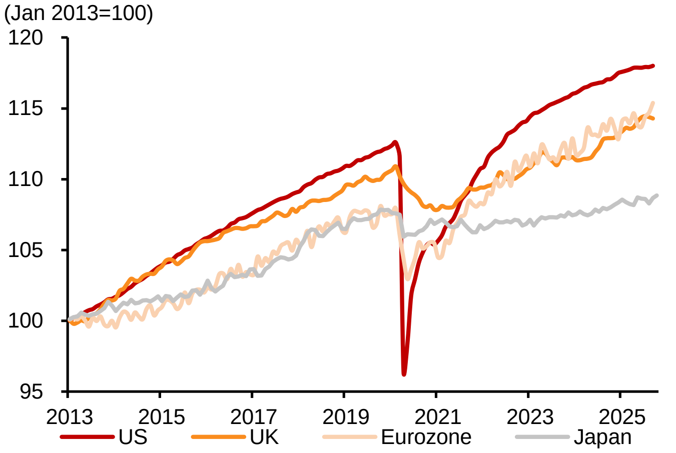
Source: Bloomberg, Wind, CMBIGM

Figure 16: Unemployment rates



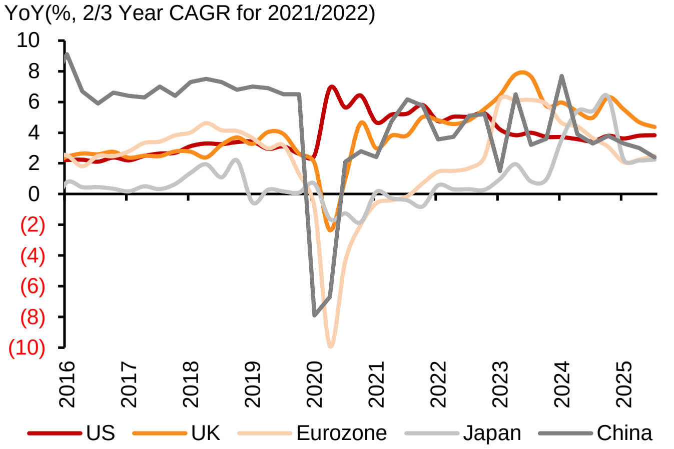
Source: Bloomberg, Wind, CMBIGM

Figure 17: Total number of employed persons



Source: Bloomberg, Wind, CMBIGM

Figure 18: Growth of wages



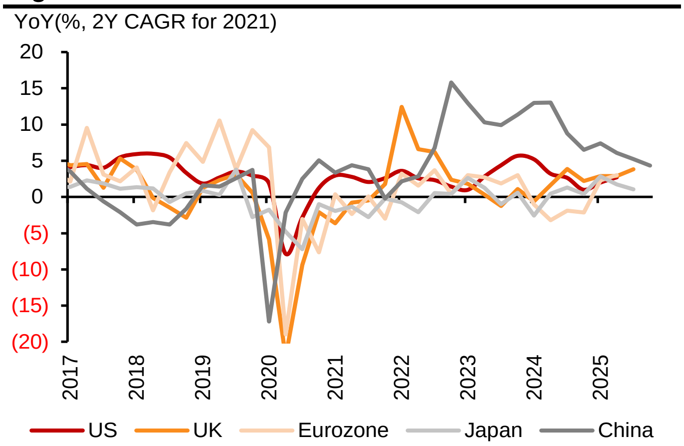
Source: Bloomberg, Wind, CMBIGM

Figure 19: Bloomberg consensus of EPS expectations among major stock markets

CAGR(%)	2012-2016	2017-2019	2020-2024	2025E	2026E	2025-2026E
US S&P 500	3.9	10.9	7.7	14.3	13.2	13.7
US Nasdaq Composite	7.3	11.5	11.4	22.3	25.7	24.0
UK FTSE 100	(6.3)	14.9	4.0	1.6	8.6	5.0
DE Dax Index	7.0	0.4	9.6	2.2	15.8	8.8
FR CAC Index	(3.7)	7.3	7.0	(11.5)	15.7	1.1
JP Nikkei 225	9.7	16.1	9.6	15.7	(2.6)	6.2
HK Hang Seng Index	0.0	10.3	(3.0)	(0.5)	10.4	4.8
HK Hang Seng Tech	0.0	0.0	3.5	(7.4)	37.8	13.0
CN CSI 300	3.3	9.9	(3.4)	14.3	14.7	14.5
CN ChiNext Index	15.3	(8.6)	14.7	39.0	31.8	35.3
CA TSX Index	(2.6)	13.1	6.1	13.0	14.9	14.0
AU S&P/ASX 200	(1.5)	7.3	3.7	0.1	9.8	4.8
IN NIFTY Index	10.5	1.5	13.6	15.6	5.8	10.6
BR IBOV Index	(8.2)	27.8	16.4	5.5	8.9	7.2
ID JCI Index	(1.5)	12.9	7.5	26.5	21.5	24.0
KR KOSPI Index	(3.2)	(2.9)	9.3	37.6	37.2	37.4
TW TWSE Index	4.7	2.8	11.8	24.9	23.2	24.0
ZA TOP40 Index	0.4	12.8	13.3	34.2	27.5	30.8

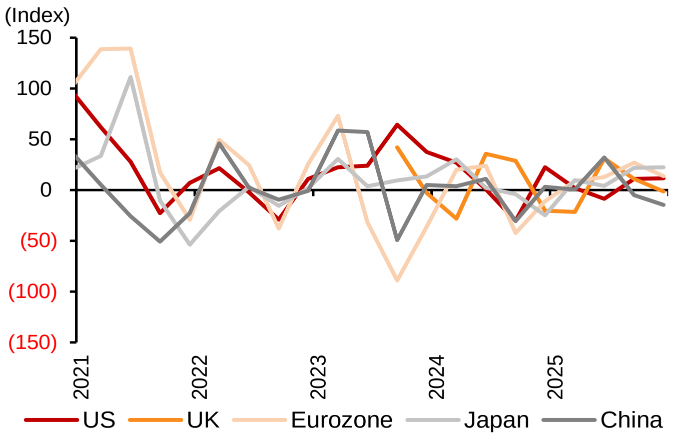
Source: Bloomberg, Wind, CMBIGM

Figure 20: Growth of real fixed investment



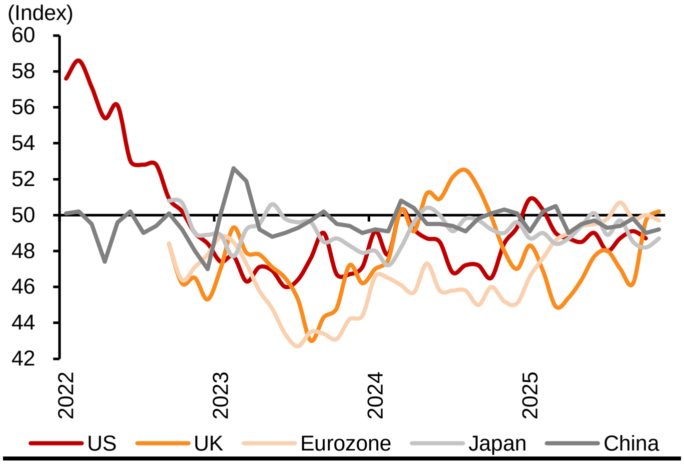
Source: Bloomberg, Wind, CMBIGM

Figure 21: Economic surprise index



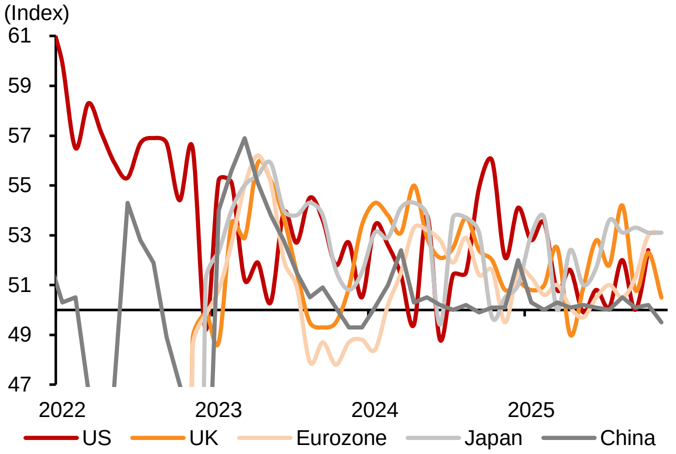
Source: Bloomberg, Wind, CMBIGM

Figure 22: Manufacturing PMI



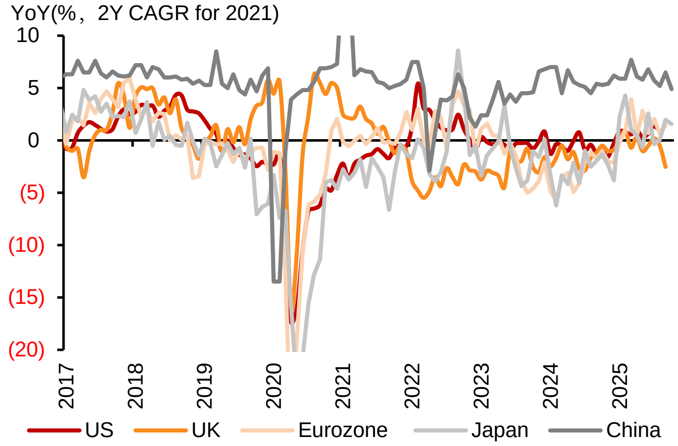
Source: Bloomberg, Wind, CMBIGM

Figure 23: Services PMI



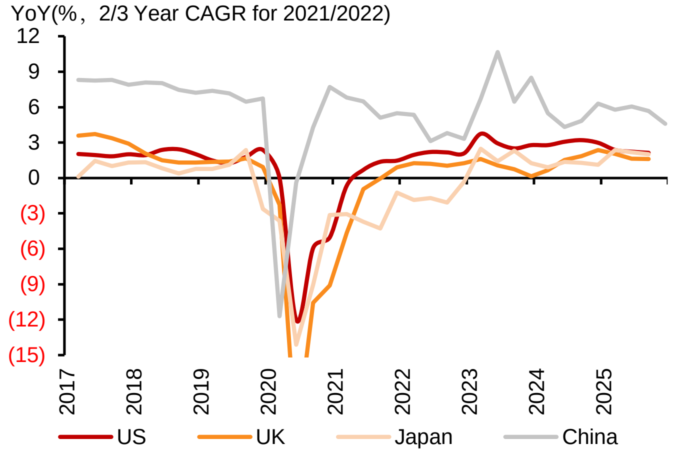
Source: Bloomberg, Wind, CMBIGM

Figure 24: Industrial production index



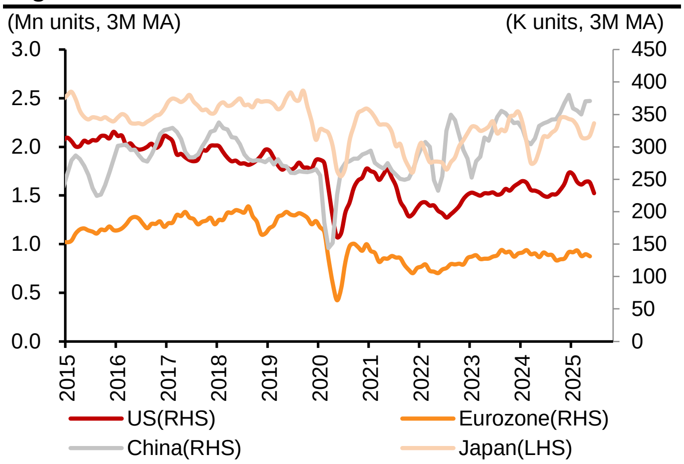
Source: Bloomberg, Wind, CMBIGM

Figure 25: Services output index



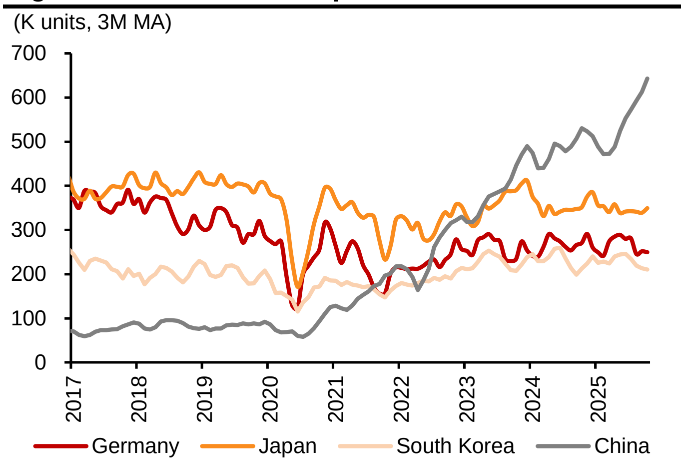
Source: Bloomberg, Wind, CMBIGM estimates

Figure 26: Automobile sales volume



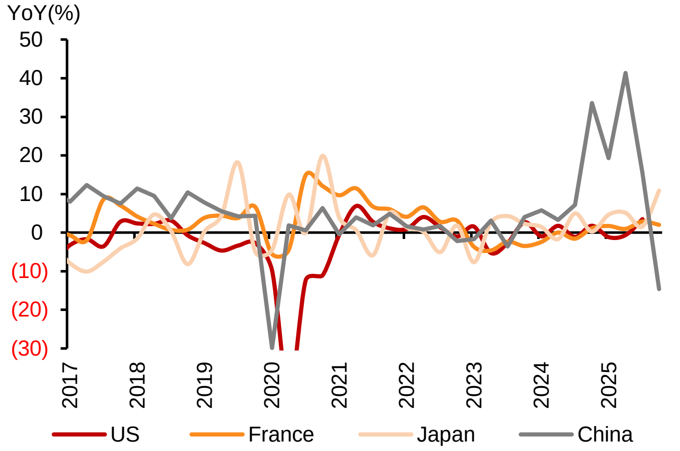
Source: Bloomberg, Wind, CMBIGM

Figure 27: Automobile exports volume



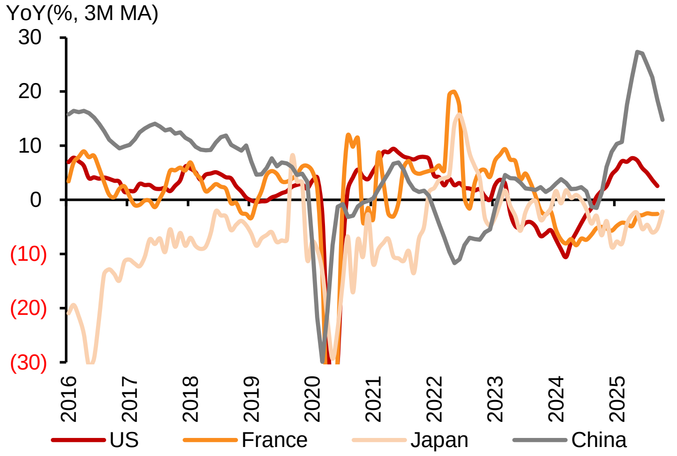
Source: Bloomberg, Wind, CMBIGM

Figure 28: Growth of home appliance retail sales



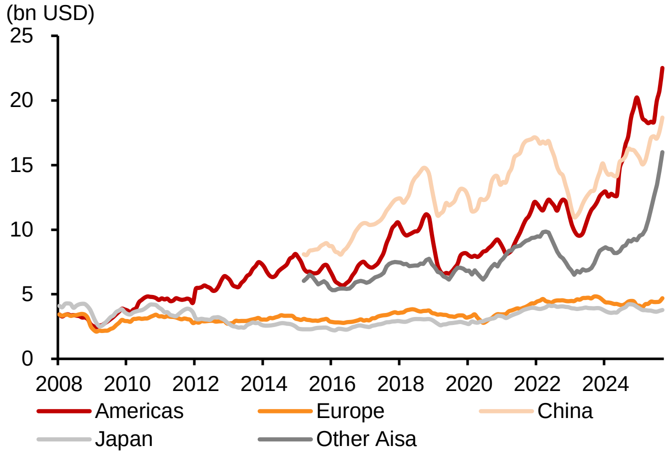
Source: Bloomberg, Wind, CMBIGM

Figure 29: Growth of furniture retail sales



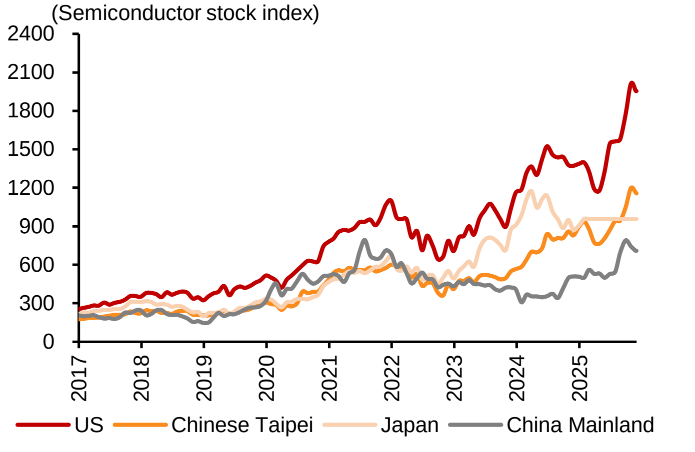
Source: Bloomberg, Wind, CMBIGM

Figure 30: Semiconductor retail sales



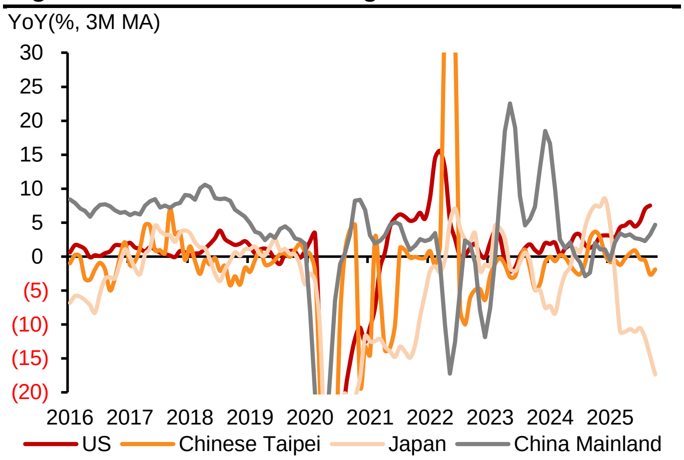
Source: Bloomberg, Wind, CMBIGM

Figure 31: Semiconductor sector stock prices



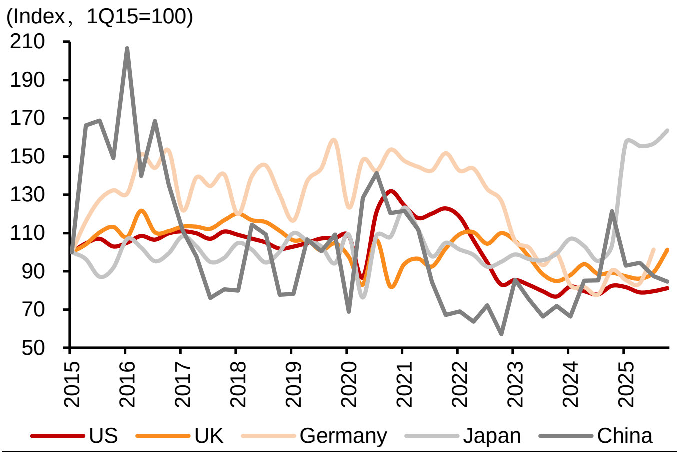
Source: Bloomberg, Wind, CMBIGM

Figure 32: Growth of clothing retail sales



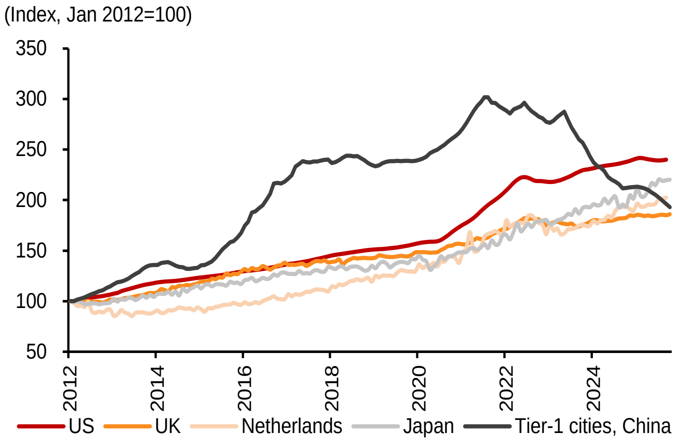
Source: Bloomberg, Wind, CMBIGM

Figure 33: Housing sales



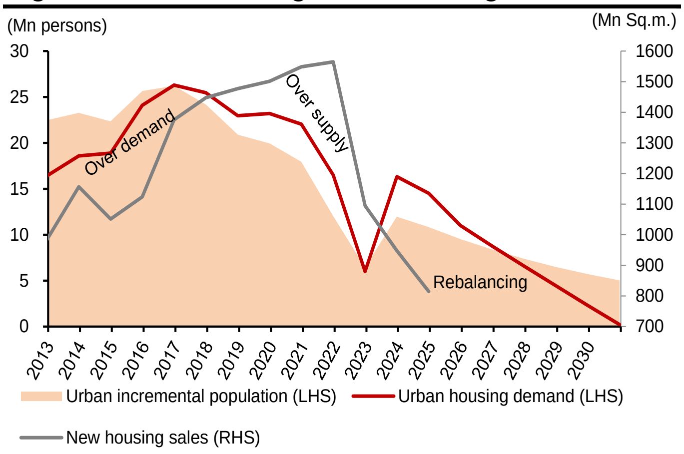
Source: Bloomberg, Wind, CMBIGM

Figure 34: Housing prices index



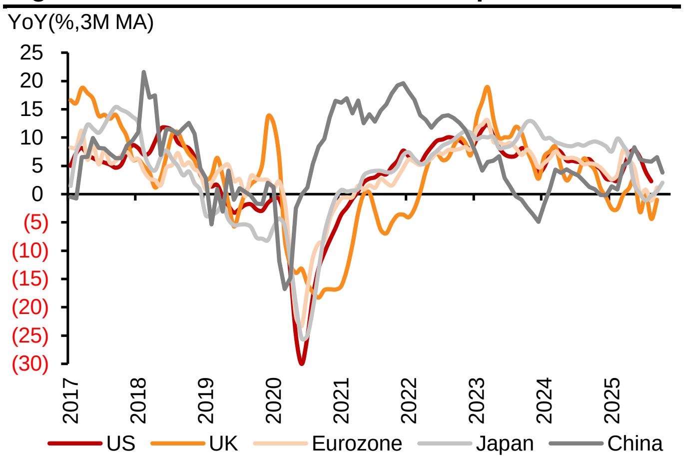
Source: Bloomberg, Wind, CMBIGM

Figure 35: Rebalancing China housing market



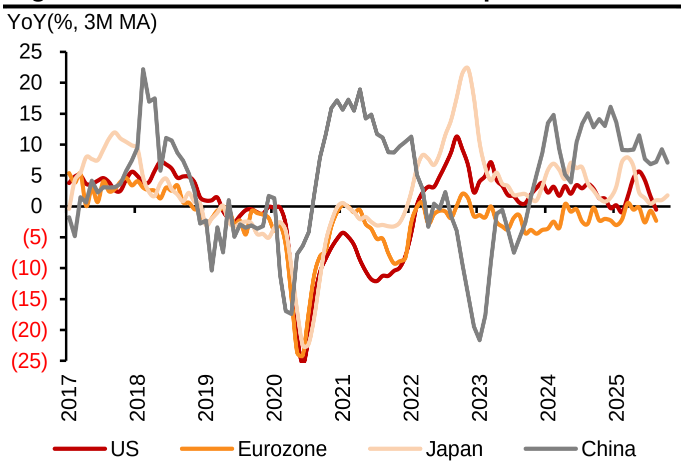
Source: Bloomberg, Wind, CMBIGM

Figure 36: Growth of merchandise export value



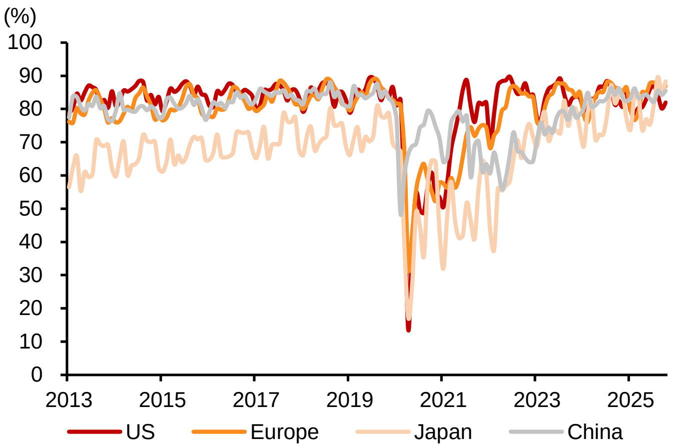
Source: Bloomberg, Wind, CMBIGM

Figure 37: Growth of merchandise export volume



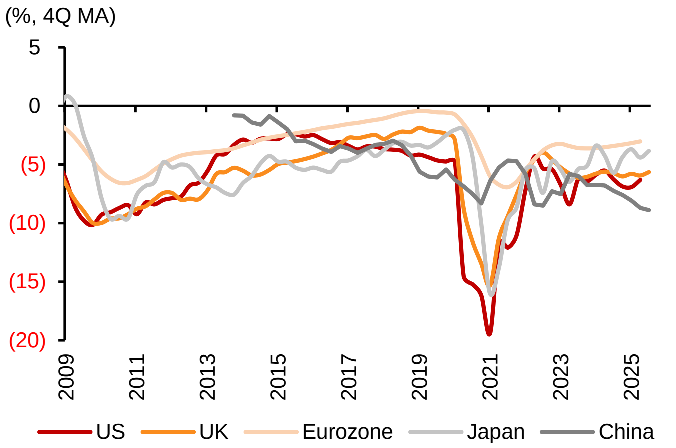
Source: Bloomberg, Wind, CMBIGM

Figure 38: Airline passenger load factors



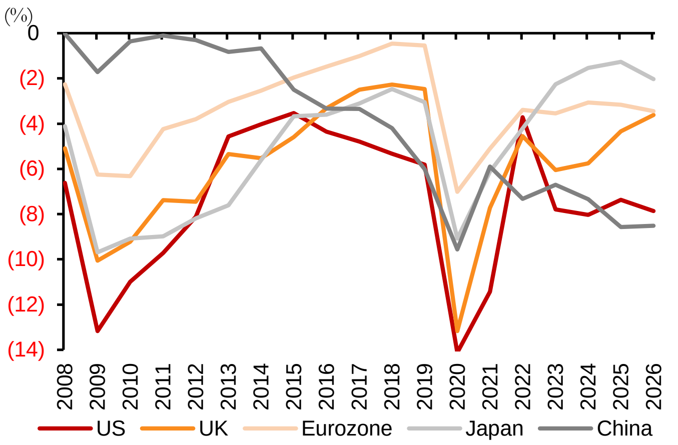
Source: Bloomberg, Wind, CMBIGM

Figure 39: Quarterly fiscal deficit rattios



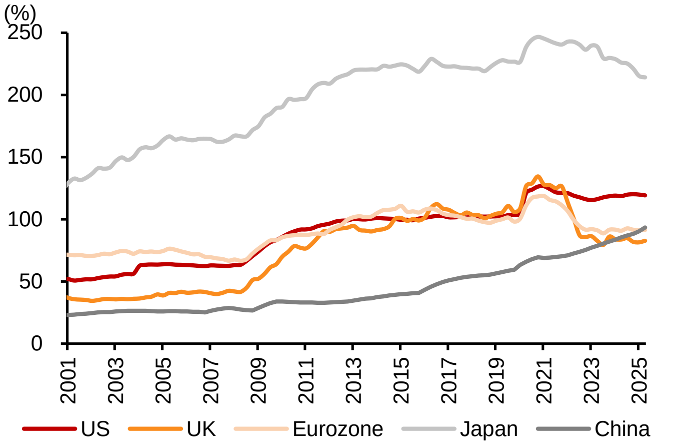
Source: Bloomberg, Wind, CMBIGM

Figure 40: Annual fiscal deficit ratios



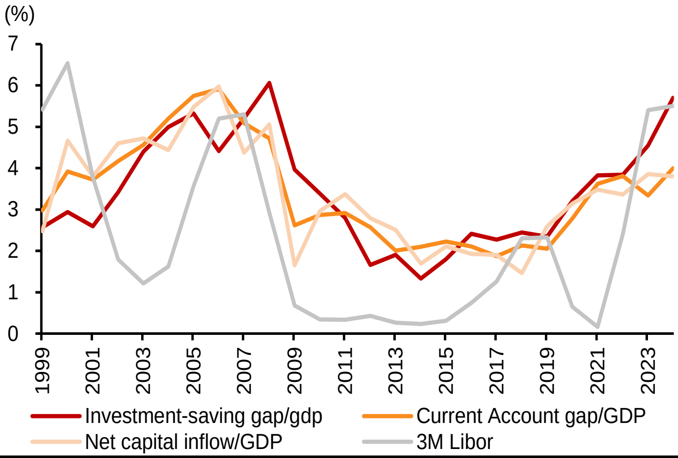
Source: IMF estimates, Wind, CMBIGM

Figure 41: Government debt ratios



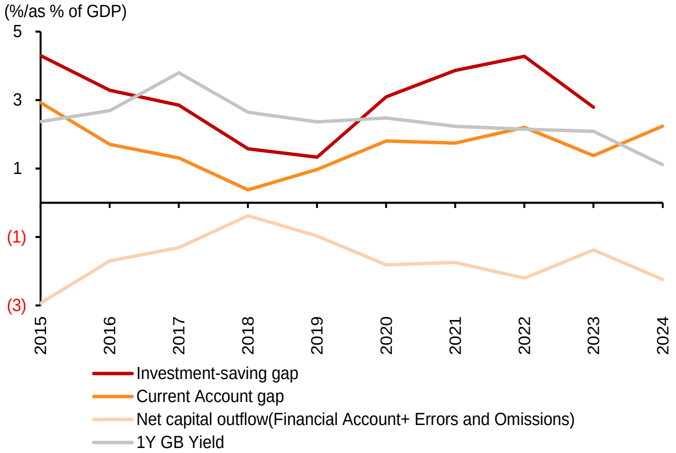
Source: IMF, Wind, CMBIGM

Figure 42: US economic imbalance



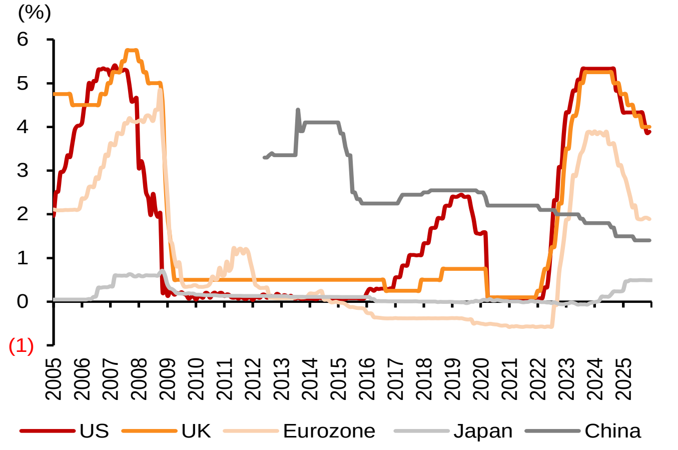
Source: Bloomberg, Wind, CMBIGM

Figure 43: China economic imbalance



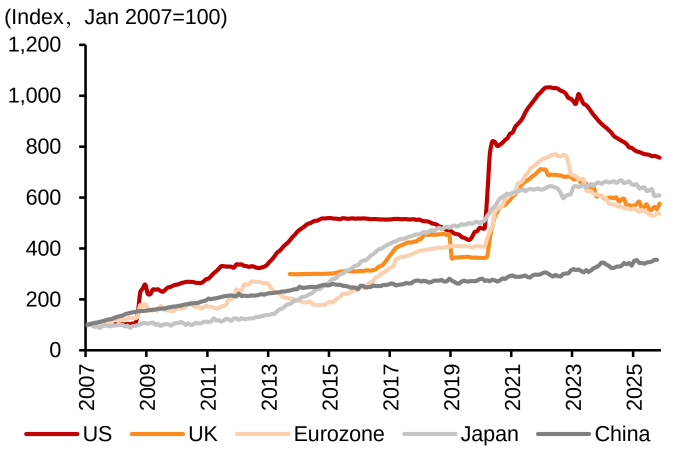
Source: Bloomberg, Wind, CMBIGM

Figure 44: Policy rates (money market rates)



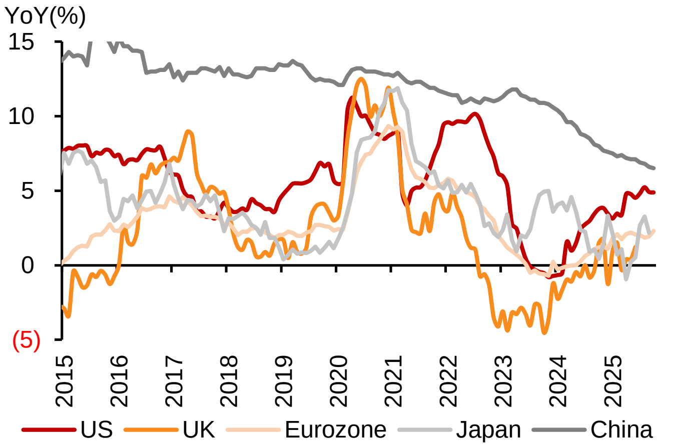
Source: Bloomberg, Wind, CMBIGM

Figure 45: Central bank balance sheets



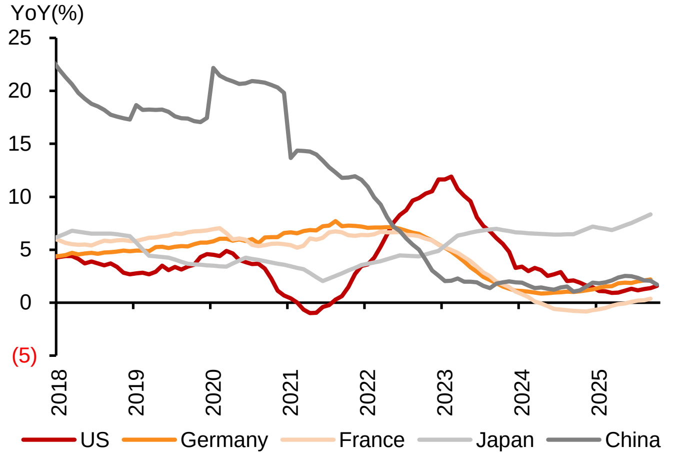
Source: Bloomberg, Wind, CMBIGM

Figure 46: Growth of outstanding loans



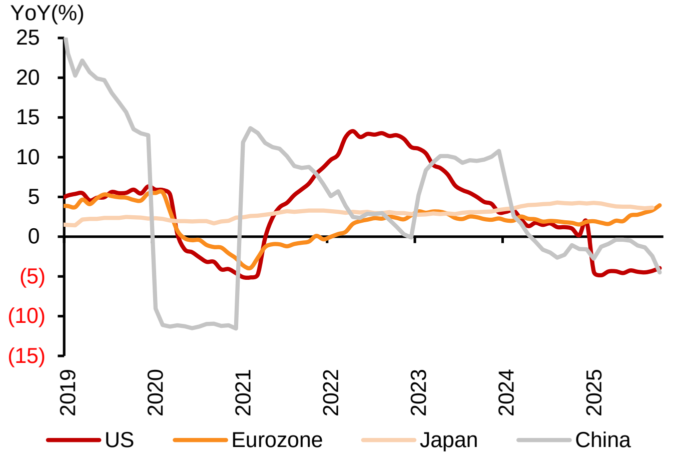
Source: Bloomberg, Wind, CMBIGM

Figure 47: Growth of outstanding mortgage loans



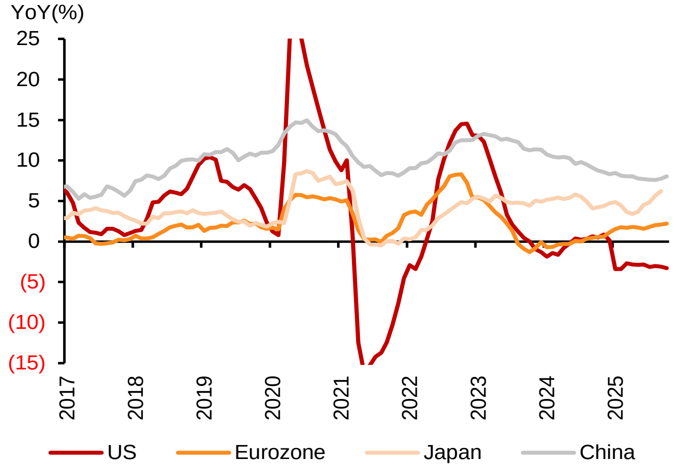
Source: Bloomberg, Wind, CMBIGM

Figure 48: Growth of outstanding consumer credit



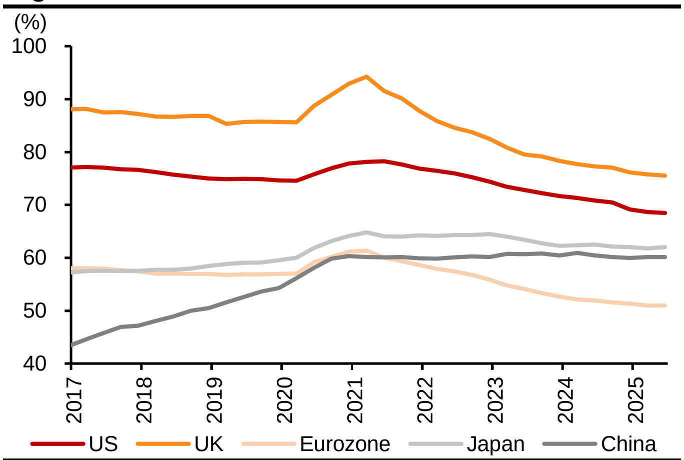
Source: Bloomberg, Wind, CMBIGM

Figure 49: Growth of outstanding corporate loans



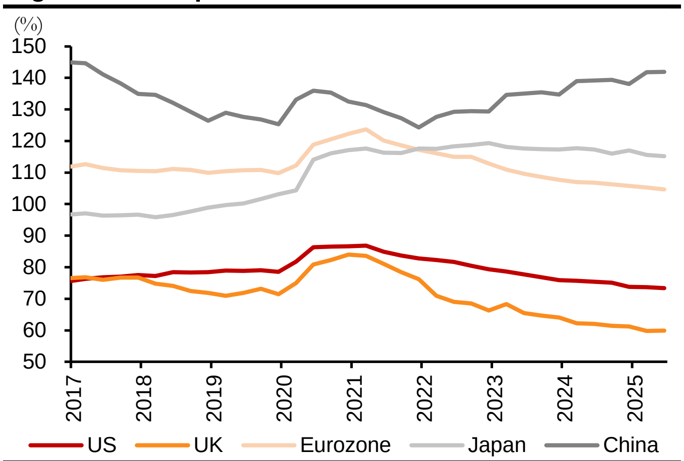
Source: Bloomberg, Wind, CMBIGM

Figure 50: Household debt to GDP ratios



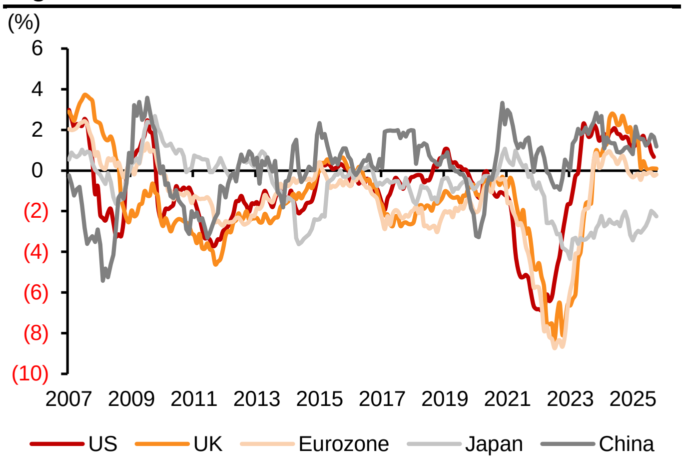
Source: Bloomberg, Wind, CMBIGM

Figure 51: Corporate debt to GDP ratios



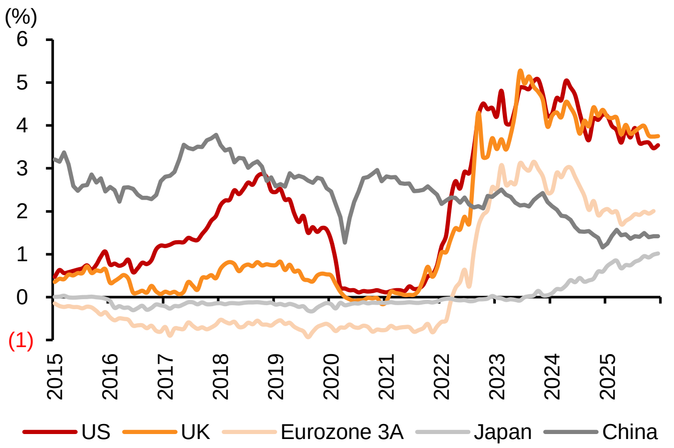
Source: Bloomberg, Wind, CMBIGM

Figure 52: Real-term interest rates



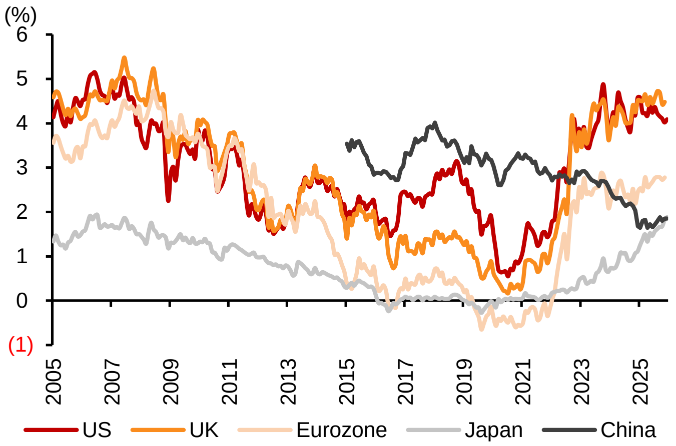
Source: Bloomberg, Wind, CMBIGM

Figure 53: 2-Year government bond yields



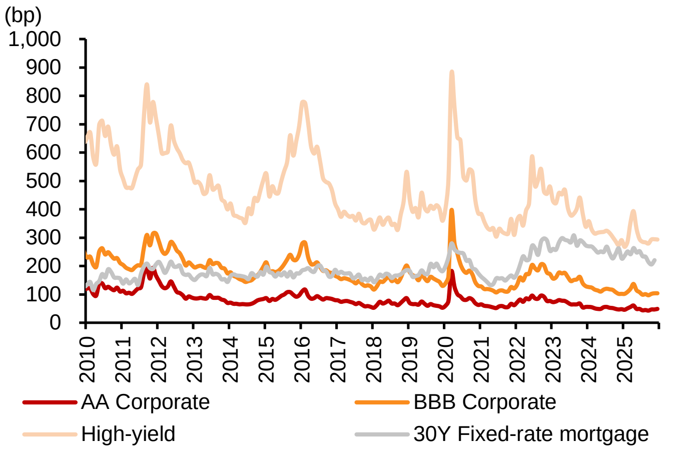
Source: Bloomberg, Wind, CMBIGM

Figure 54: 10-Year government bond yields



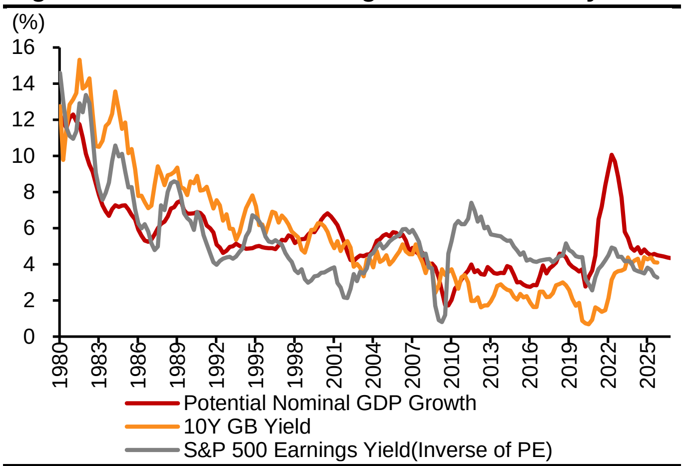
Source: Bloomberg, Wind, CMBIGM

Figure 55: Credit spreads of bonds and loans



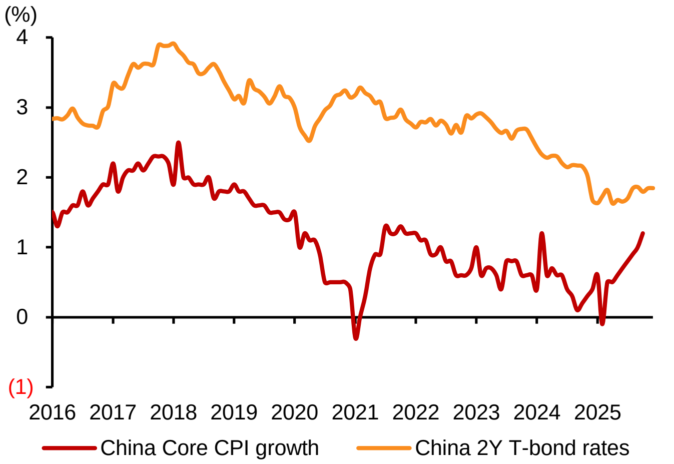
Source: Bloomberg, Wind, CMBIGM

Figure 56: US nominal GDP growth & 10Y GB yields



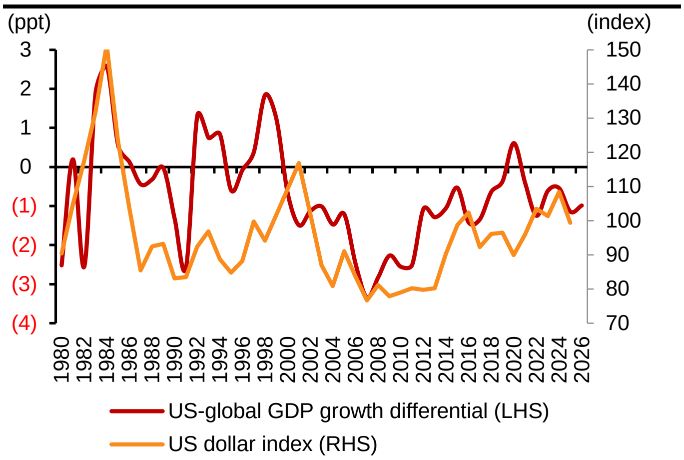
Source: Bloomberg, Wind, CMBIGM

Figure 57: China core inflation & 10Y GB yields



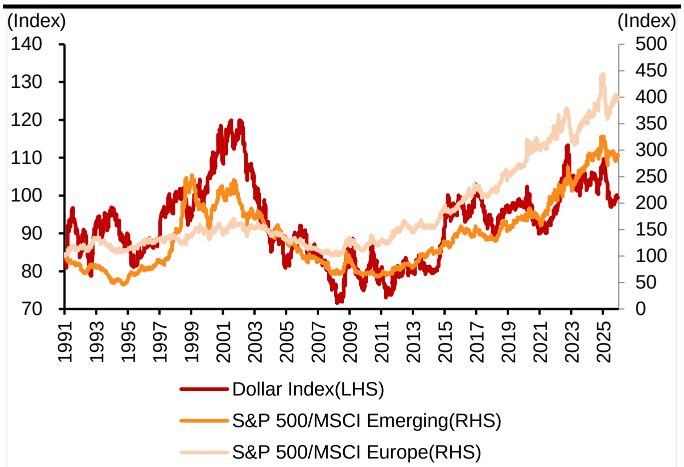
Source: Bloomberg, Wind, CMBIGM

Figure 58: Relative strength of US economy and dollar index



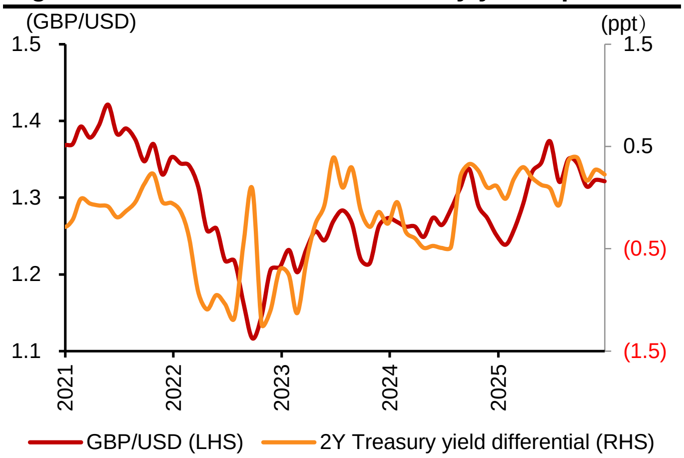
Source: Bloomberg, Wind, CMBIGM

Figure 59: Relative strength of US stock market and dollar index



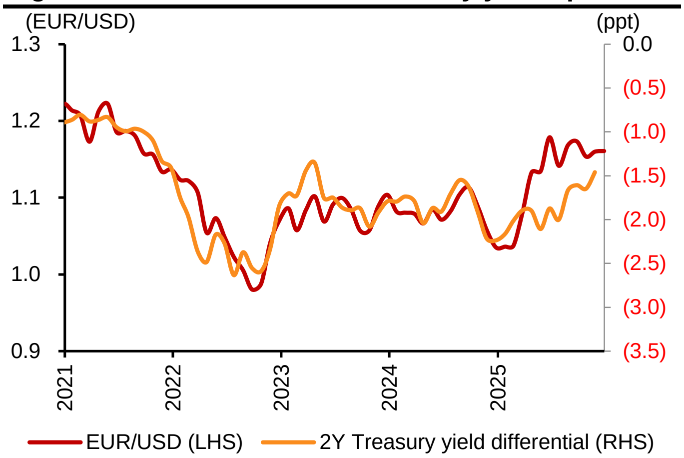
Source: Bloomberg, Wind, CMBIGM

Figure 60: GBP/USD and 2Y treasury yield spreads



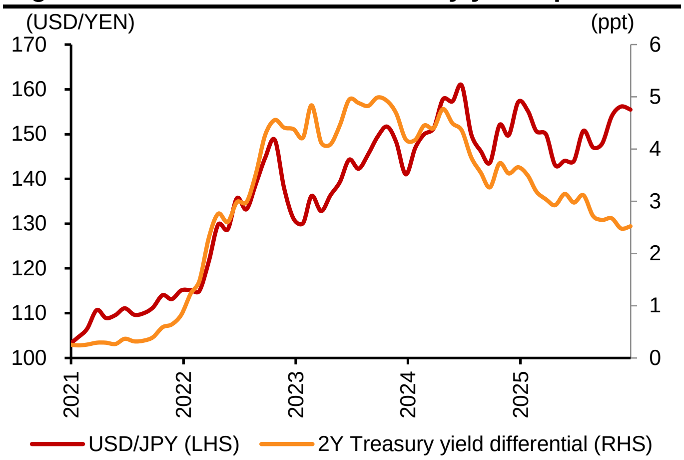
Source: Bloomberg, Wind, CMBIGM

Figure 61: EUR/USD and 2Y treasury yield spreads



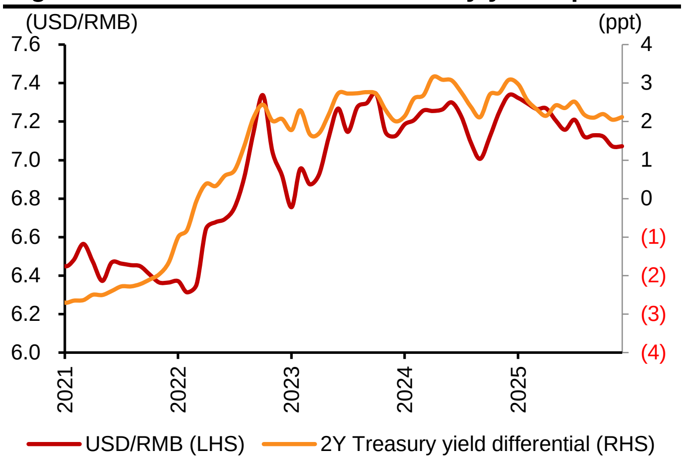
Source: Bloomberg, Wind, CMBIGM

Figure 62: USD/JPY and 2Y treasury yield spreads



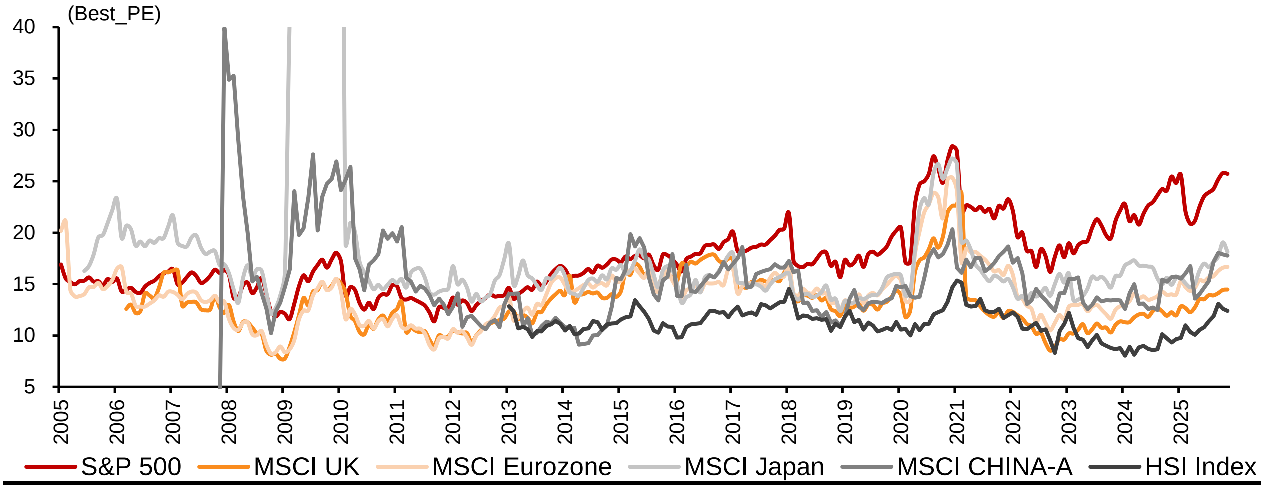
Source: Bloomberg, Wind, CMBIGM

Figure 63: USD/RMB and 2Y treasury yield spreads



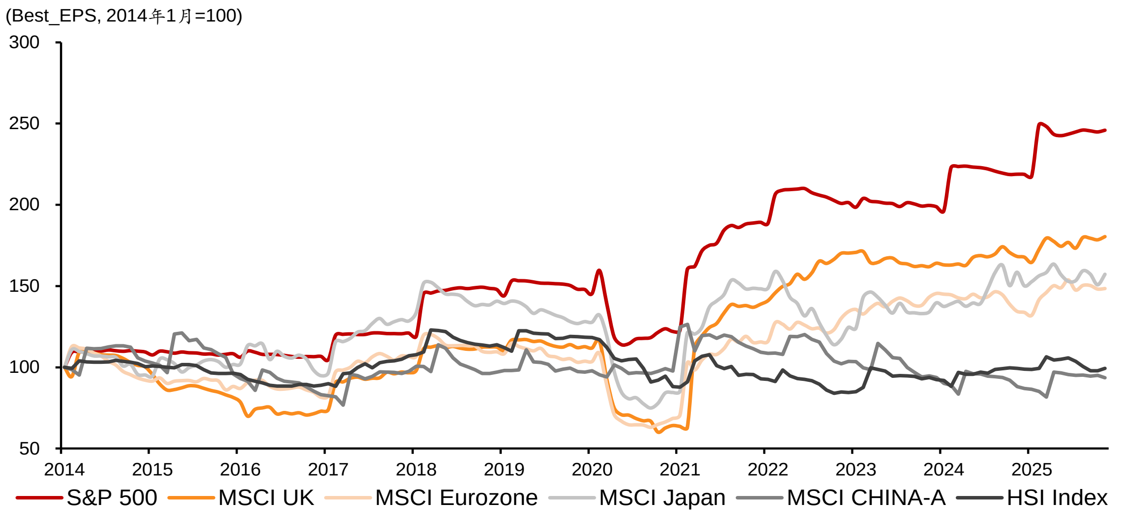
Source: Bloomberg, Wind, CMBIGM

Figure 64: Bloomberg consensus P/E forecasts for major equity indices



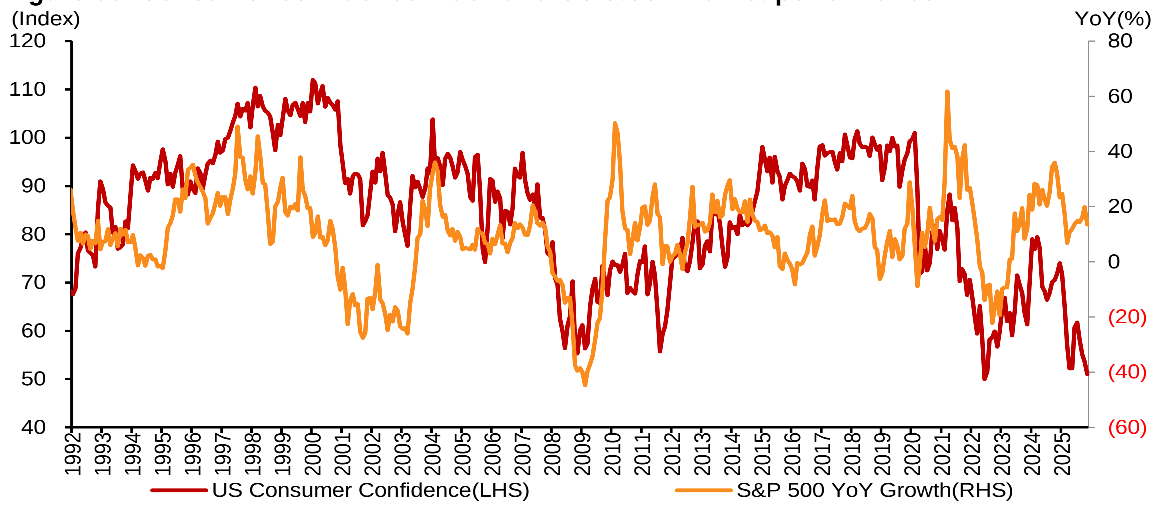
Source: Bloomberg, Wind, CMBIGM estimates

Figure 65: Bloomberg consensus EPS forecasts for major equity indices



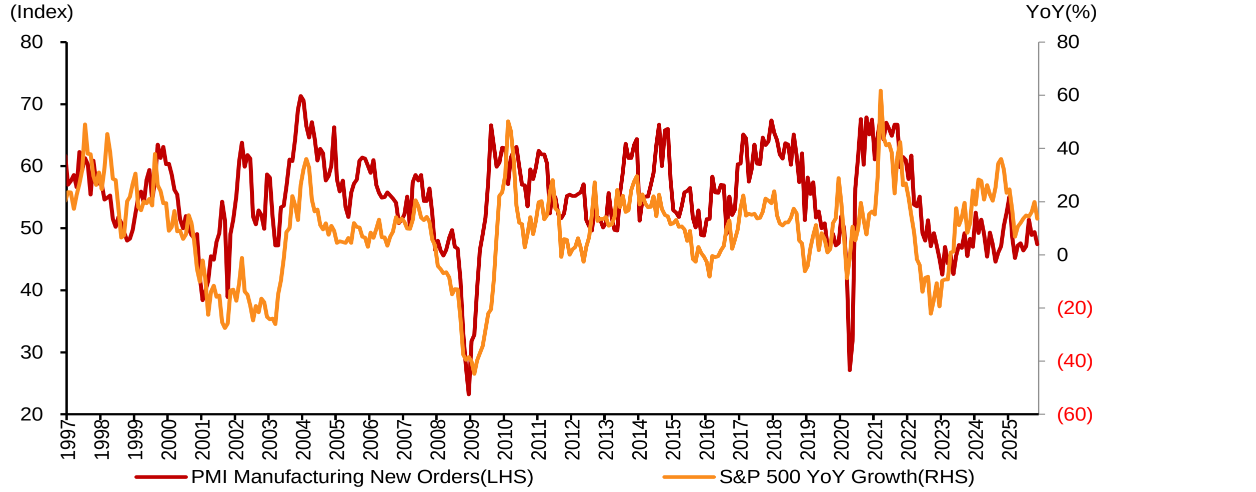
Source: Bloomberg, Wind, CMBIGM

Figure 66: Consumer confidence index and US stock market performance



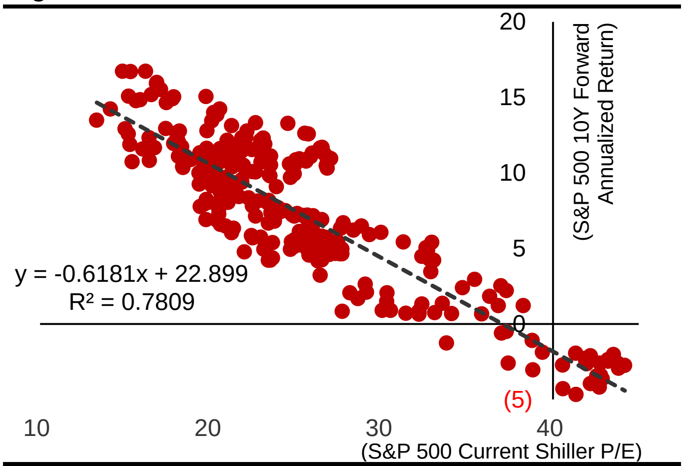
Source: Bloomberg, Wind, CMBIGM

Figure 67: Manufacturing PMI new order index and US stock market performance



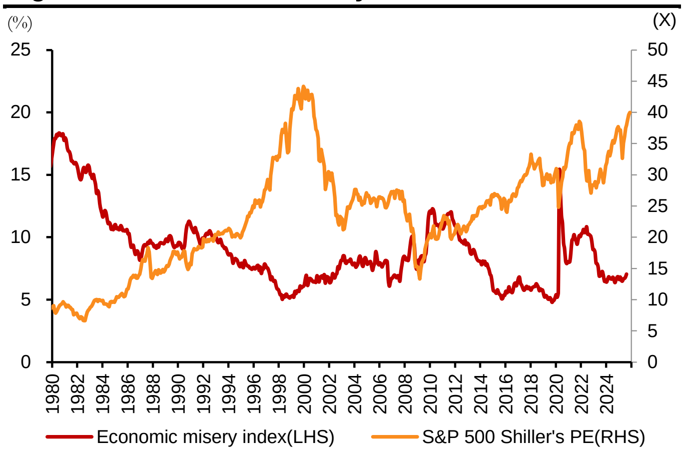
Source: Bloomberg, Wind, CMBIGM

Figure 68: S&P 500 Shiller P/E & 10Y forward return



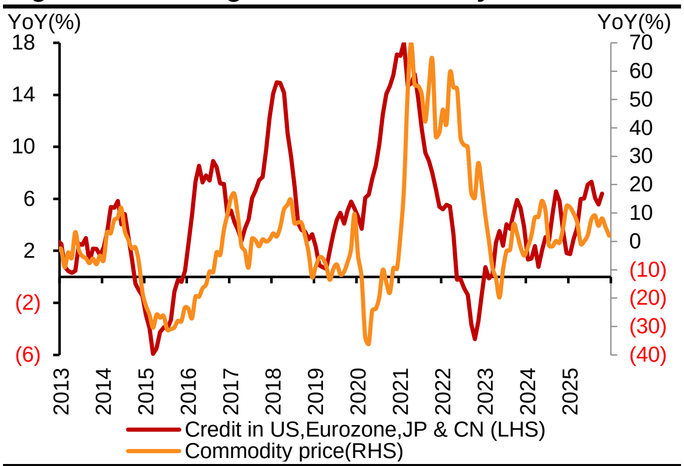
Source: Bloomberg, Wind, CMBIGM

Figure 69: Economic misery index and Shiller P/E



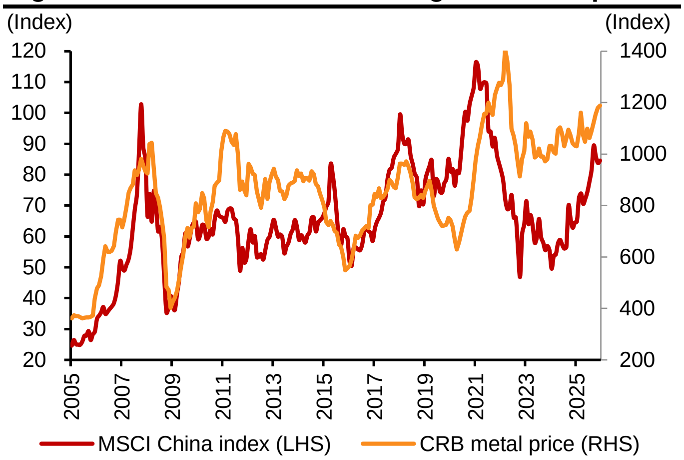
Source: Bloomberg, Wind, CMBIGM

Figure 70: Credit growth & commodity inflation



Source: Bloomberg, Wind, CMBIGM

Figure 71: China stock market & global metal price



Source: Bloomberg, Wind, CMBIGM

Figure 72: Sector comparison for major equity indices

	10Y Annualized Return(%)	Current Foward P/E	10Y Average P/E	Current ROE(%)	10Y Average ROE(%)	2025-2026 EPS CAGR(%)	10Y EPS CAGR(%)		10Y Annualized Return(%)	Current Foward P/E	10Y Average P/E	Current ROE(%)	10Y Average ROE(%)	2025-2026 EPS CAGR(%)	10Y EPS CAGR(%)
S&P 500	11.1	25.7	20.5	18.8	15.3	13.7	6.8	**MSCI Japan(USD)**	4.2	18.1	17.2	10.0	8.5	6.3	7.7
Consumer Discretionary	12.3	28.7	27.8	26.3	26.3	8.9	7.9	Consumer Discretionary	3.5	21.6	16.5	9.2	9.5	(0.4)	7.7
Consumer Staples	5.5	22.8	21.4	22.0	24.4	2.8	4.6	Consumer Staples	1.1	26.0	26.6	6.4	8.9	14.8	3.4
Health Care	7.3	20.6	17.9	17.9	17.1	11.3	7.3	Health Care	4.6	22.1	24.6	8.4	8.6	15.5	10.4
Industrials	8.7	27.1	22.4	24.2	20.0	11.2	5.2	Industrials	5.0	19.3	20.3	11.0	9.1	8.4	7.6
Information Technology	20.9	36.6	25.3	30.8	27.7	29.7	12.6	Information Technology	7.9	29.0	23.7	11.7	9.6	13.8	8.3
Materials	5.7	23.3	19.6	8.4	11.8	8.5	4.3	Materials	1.0	16.5	14.3	5.4	7.8	3.2	6.1
Real Estate	3.1	39.5	21.0	6.3	9.3	3.3	3.3	Real Estate	(2.8)	17.5	16.1	9.9	8.1	11.7	6.4
Communication Services	8.4	23.7	18.6	24.2	15.9	17.3	3.4	Communication Services	6.3	13.6	34.2	16.7	12.4	(15.1)	9.6
Utilities	4.8	20.6	18.8	11.1	8.6	8.8	4.3	Utilities	(1.1)	9.6	10.7	10.7	7.0	(1.9)	15.2
Financials	9.2	17.4	15.0	13.3	10.7	11.4	6.2	Financials	5.4	12.1	11.1	9.7	6.5	10.7	9.0
Energy	1.1	17.1	35.9	10.9	6.0	(5.9)	0.5	Energy	2.8	14.8	10.2	7.5	4.3	3.9	12.6
MSCI UK(USD)	(0.3)	14.4	13.9	10.3	9.4	4.4	3.8	**CSI 300**	1.1	15.9	15.2	10.2	12.1	14.5	0.9
Consumer Discretionary	1.7	19.4	18.0	11.6	14.6	14.5	0.1	Consumer Discretionary	3.8	15.9	19.5	14.2	15.1	10.6	3.6
Consumer Staples	1.1	14.5	16.5	15.5	17.7	4.9	2.9	Consumer Staples	13.8	18.9	31.6	23.3	20.8	7.7	14.3
Health Care	3.4	16.7	16.2	20.5	23.4	9.9	4.9	Health Care	2.7	25.6	36.9	11.9	14.5	13.6	3.4
Industrials	6.8	24.6	22.4	32.9	15.8	12.6	2.0	Industrials	(2.1)	20.1	19.9	8.1	10.2	22.5	(1.2)
Information Technology	7.7	30.3	30.4	26.5	15.8	14.8	8.1	Information Technology	4.2	44.3	44.3	9.4	10.5	45.6	1.7
Materials	4.0	18.0	11.8	2.1	12.2	(1.8)	4.0	Materials	0.9	18.8	37.7	11.4	10.6	36.3	8.9
Real Estate	(4.5)	16.9	21.6	5.1	1.7	5.8	(1.9)	Real Estate	(7.6)	NA	10.5	(12.4)	13.6	NA	NA
Communication Services	(7.2)	20.7	14.7	(3.0)	2.6	(2.5)	0.6	Communication Services	2.2	30.9	39.0	11.8	7.1	30.5	5.4
Utilities	(0.8)	16.0	15.0	8.4	18.8	9.2	(0.8)	Utilities	2.1	16.3	17.7	11.5	10.6	3.0	1.5
Financials	1.7	10.6	10.0	11.3	7.3	15.2	3.6	Financials	(0.5)	8.3	8.7	9.3	12.3	8.2	2.4
Energy	1.3	11.3	21.1	6.9	5.0	(14.8)	1.3	Energy	0.9	13.2	17.7	10.3	9.4	(3.8)	4.6
MSCI Eurozone(USD)	2.9	16.7	15.4	11.4	9.5	7.8	4.2	**HSI Index**	(1.6)	12.4	11.2	10.5	10.5	4.8	(0.1)
Consumer Discretionary	3.9	22.8	20.0	3.7	12.3	(0.8)	5.0	Consumer Discretionary	(1.3)	22.4	38.5	12.0	6.8	11.4	0.8
Consumer Staples	0.5	18.0	21.8	11.5	12.7	11.3	2.3	Consumer Staples	(3.6)	14.0	19.8	11.5	13.2	13.9	(0.3)
Health Care	(1.4)	17.0	15.8	8.2	8.7	14.3	(0.3)	Health Care	(4.2)	31.2	52.1	9.8	6.0	52.6	(18.4)
Industrials	7.0	22.6	21.1	17.2	13.2	19.9	5.0	Industrials	(2.4)	12.6	14.4	8.3	10.7	16.1	3.4
Information Technology	10.6	33.3	27.5	16.3	14.1	20.2	6.0	Information Technology	9.4	23.0	31.4	14.2	13.4	21.0	14.3
Materials	1.5	19.3	35.5	5.1	10.3	20.6	(0.1)	Materials	1.7	15.2	19.4	14.2	8.0	53.2	14.5
Real Estate	(8.3)	NA	16.7	11.6	5.2	12.0	(2.1)	Real Estate	(7.0)	16.0	14.2	0.3	7.5	86.3	(20.1)
Communication Services	(1.5)	17.0	15.7	12.2	10.8	11.5	0.8	Communication Services	(1.9)	12.9	11.8	9.1	9.1	7.3	(0.1)
Utilities	2.1	15.2	14.3	12.6	8.0	9.0	4.5	Utilities	(3.2)	11.8	13.6	8.7	10.1	4.7	(4.3)
Financials	1.5	11.1	10.0	12.9	7.6	14.6	6.5	Financials	(0.3)	8.1	8.2	11.1	10.5	6.1	3.7
Energy	0.1	8.7	11.7	9.8	7.1	(5.8)	1.9	Energy	1.3	8.8	13.4	11.3	9.2	(5.1)	13.5

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

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