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HANG SENG BANK

# To Preserve with a Balance

## 4Q Investment Outlook 24 Sep 2025

### Investment Hot Topics:

- The upside potential in RMB & AUD
- Autonomous Vehicle:  
Exploring commercialization and boost monetization and growth



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# 4Q 2025 Asset Allocation Strategies

**Belle Liang**  
Chief Investment Officer, IWS

## To Preserve with a Balance

# Investment # CIO Insights  
# Global Asset Allocation  
#Global Bonds #Global Equities  
#FX Markets #Commodities Markets

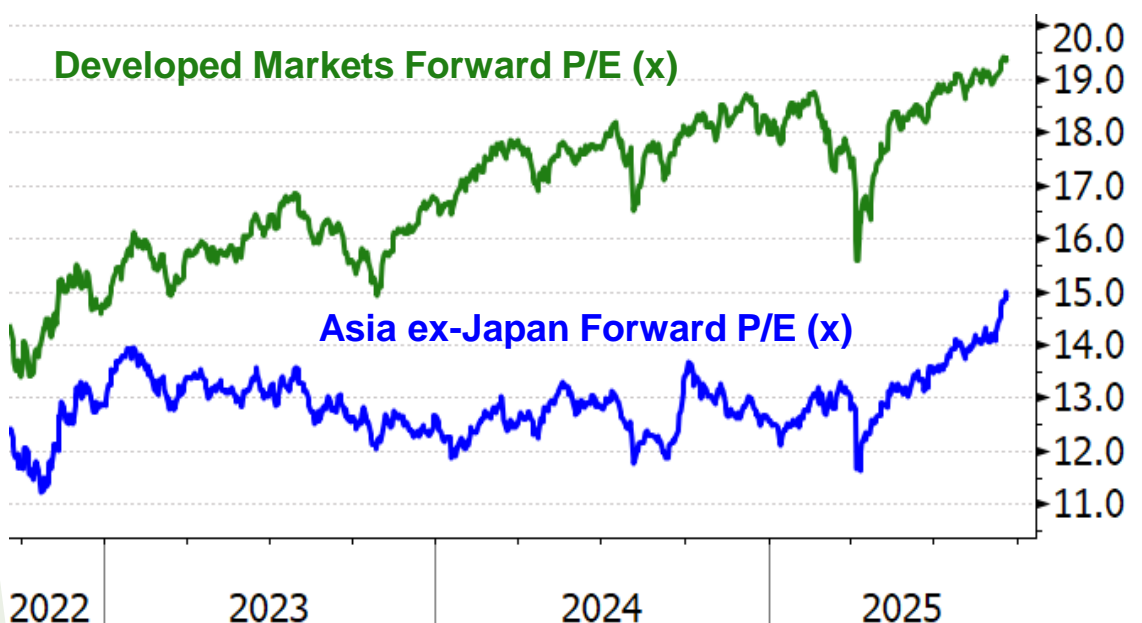
- **The Fed is expected to keep easing into 4Q.** At the September meeting, Powell acknowledged a cooling labour market but stressed that inflation pressures remain. Officials now forecast two more cuts by year-end. With three cuts already in place this year, broadly in line with market expectations, we believe the reaction in equities, bonds, and FX in the coming quarter may be more muted.
- **Equity valuations already reflected optimism about rate cuts.** Portfolio positioning should remain defensive, focusing on capital preservation and risk control. Instead of chasing single-market growth names, we favor high-quality, dividend-stable equities in developed markets and across Asia as core holdings. At the same time, we see opportunities in US small caps—particularly industrials and consumer names—that stand to benefit from lower borrowing costs and easing labour-cost pressures.

- **Focus on bond duration management.** With rate cuts resuming, US inflation trends stay uncertain. Short-term rates may fall quickly, while medium-term US dollar bonds (3–7 years) are likely to benefit from demand for stable returns and interest rate risks. Going forward, the key is to reduce cash and short-term money market instruments and increase medium term bond.
- **There is upside potential in gold and RMB.** Gold remains one of the most effective hedges against volatility across equity and bond markets, with rising investment demand likely to lift prices toward the level of USD3,850-USD4,400. Regarding currencies, the US dollar is likely to consolidate at lower levels as the Fed resumes its rate-cut cycle. We are constructive on the RMB and the Australian dollar, which should benefit from reflationary momentum in mainland China's upstream industries.

## Markets eye more Fed easing into year-end

Global equities and bonds rallied in 3Q on expectations that the Fed would resume cutting rates, with the US and Asia leading the gains. Meanwhile, the drag from Trump's tariff policy has largely faded. Over the past quarter, US inflation data has broadly met expectations, while labour market indicators have slowed sharply in recent months—giving the Fed clear justification to restart rate cuts. Futures markets now price in back-to-back cuts after September, and the latest dot plot shows two more reductions by year-end. In our view, much of this optimism is already priced into equities. Positioning in the coming quarter should focus on capital preservation and risk control, reviewing equity exposure while shifting some cash and money market instruments into mid-duration bonds.

### Valuations in developed and Asian equity market reach three-year highs



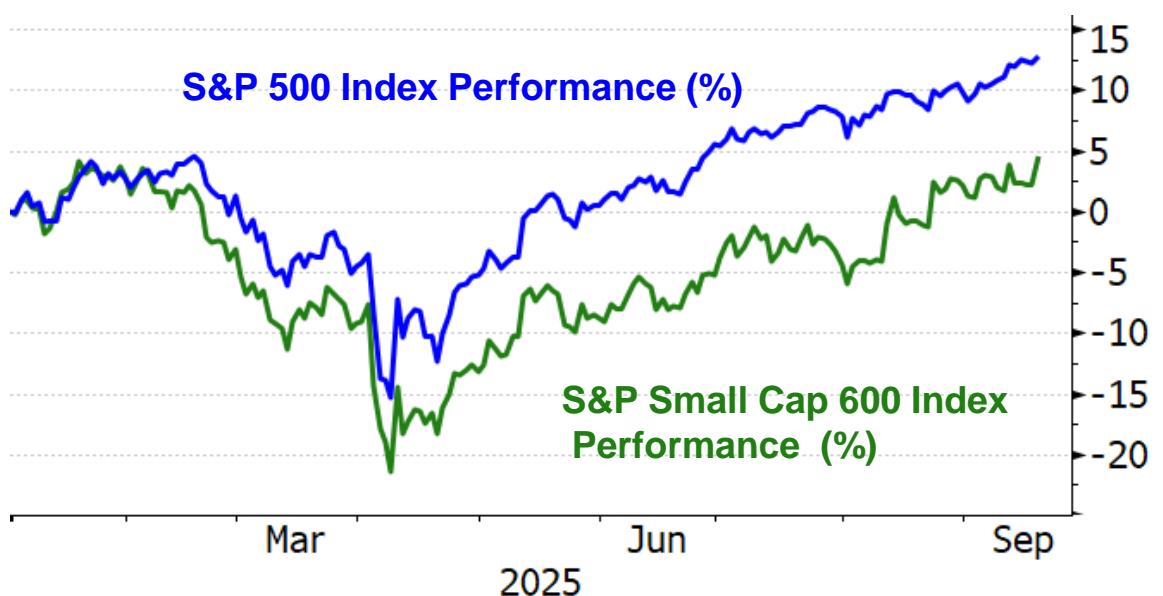
Source: Bloomberg, data as of 18 Sep 2025  
Developed Markets – Bloomberg World Large & Mid Cap Index;  
Asia ex-Japan – Bloomberg Asia ex-Japan Large & Mid Cap Index



## Recession risks recede; we favor US small caps

The probability of a US recession has fallen markedly, paving the way for gains to broaden beyond mega-caps. We see room for small caps to catch up. In recent years, these domestically focused SMEs have borne the brunt of high inflation, tight labour markets, and elevated rates, leaving both their share prices and earnings growth lagging behind large-cap peers. Since labour costs account for 20–30% of revenues in small-cap industrials and consumer stocks, versus about 10% for S&P 500 companies, cooling wage pressures and lower financing costs mean margin improvement will be more significant for smaller firms.

### US small caps are catching up year to date



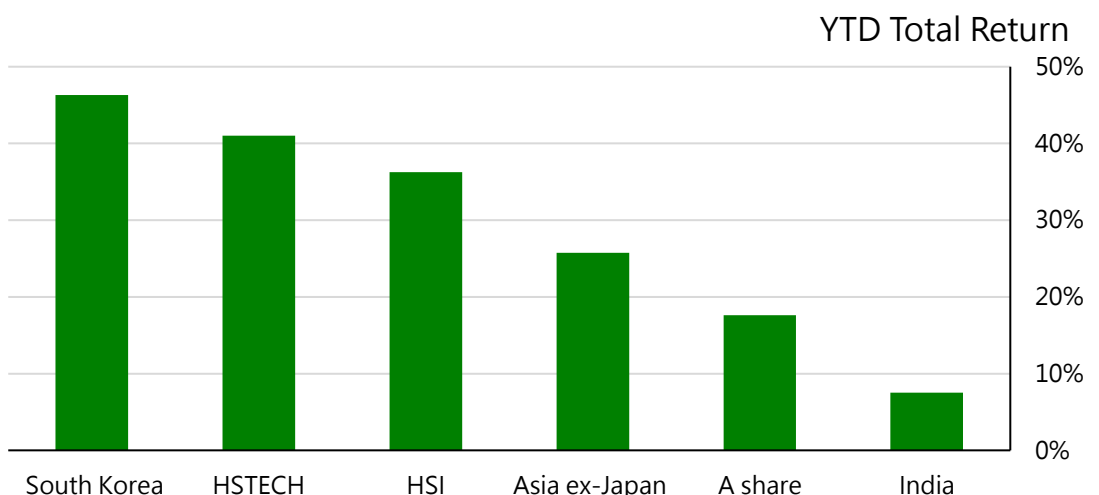
Source: Bloomberg, data as of 18 Sep 2025

## Asia: steady high-dividend plays, A-shares and India attract flows

Global EM funds remain underweight in Mainland China and India, leaving room for inflows as the dollar weakens and capital rotates. US stocks are super crowded around a single AI story. By contrast, Asia's rally this year has been underpinned by a more diversified set of themes—not only AI hardware and software, but also high-dividend

strategies, consumption and brand innovation, rising materials prices, government-led infrastructure spending, and manufacturing upgrades with advanced robotics. In fact, high-dividend strategies have delivered better risk-adjusted returns than broad equity indices in Asia. In recent years, corporate governance reforms in China, Japan, and South Korea have increasingly focused on boosting shareholder returns through higher dividend payouts. At the same time, with most Asian central banks having done consecutive rate cuts, local institutions and retail investors are showing demand for dividend income. Within high-dividend strategies, we are particularly constructive on Asia REITs.

### Potential rotation flows into A-shares and Indian equities



Source: Bloomberg, data as of 18 Sep 2025

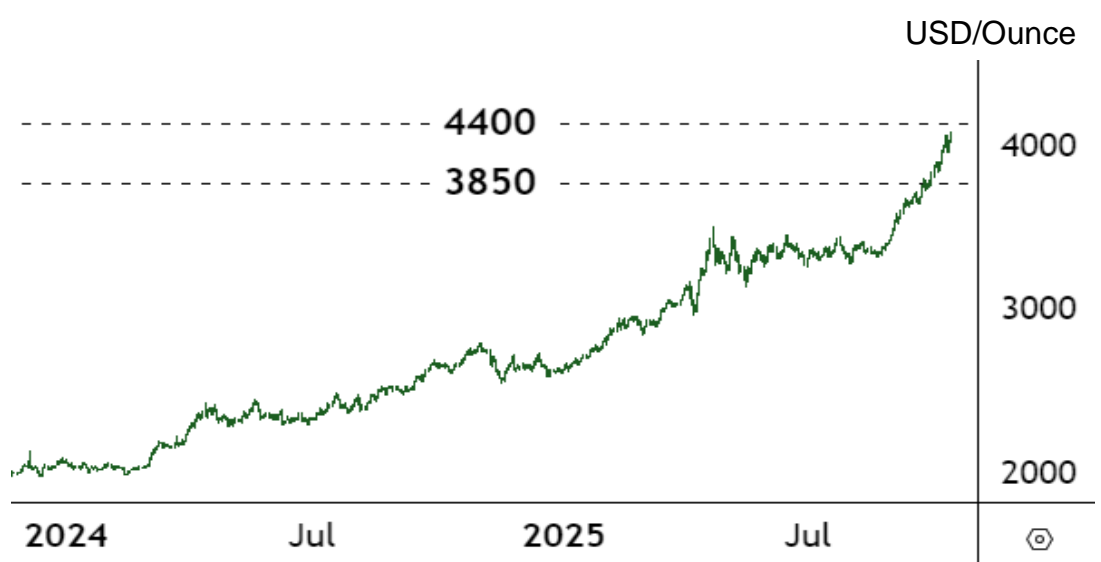
A-Shares – CSI 300 Index; India – Sensex Index; South Korea – Kospi Index; Asia ex-Japan – Bloomberg Asia ex-Japan Large & Mid Cap Index

### Focus on bond duration management

Global bonds have stabilised this year after sharp swings in 2023 pushed investors into money markets. With the Fed back in easing mode, inflation remains the key variable to watch. Short-term yields may fall faster, but we expect mid-duration USD bonds (3–7 years) to benefit most from demand for stable carry and risk balancing. Going forward, the key is to reduce cash and short-term

money market instruments and increase medium-term bonds exposure. In Asia High Yield, easier policy and firmer US growth expectations could attract fresh inflows. During the last rate cycle, volatility drove flows into collateralized loan obligations (CLOs) and other floating-rate products. As cuts resume, the relative appeal of these assets will fade, favouring a rotation back into traditional high-yield bonds.

### Gold price expected to rise to the level of USD3850-4400



Source: Bloomberg, data as of 13 Oct 2025

## FX and Gold: Upside in gold, RMB and AUD

In 3Q, the dollar held in a narrow 97–100 range, but gold broke higher to fresh records. With equities and bonds moving in tandem more often over the past year, gold has become the preferred hedge for portfolio diversification. Rising demand could drive it to the level of USD3,850-4,400. In terms of FX, Trump-driven trade frictions and inflation concerns have already pushed the dollar index down 10% this year. We expect the Fed’s easing cycle to keep the dollar consolidating near the lows. Meanwhile, the RMB and AUD should benefit from reflationary momentum across upstream industries in Mainland China.



# Equities Market Views

Markets	Analysis <sup>*</sup>	Change <sup>^</sup>	Comments
US	●●		<ul style="list-style-type: none"> <li>Resilient consumer demand and a softer labour market have prompted the Fed to resume rate cuts. Easing rates may support corporate earnings, with small and mid-cap companies likely to benefit more</li> </ul>
Europe	●●		<ul style="list-style-type: none"> <li>Stronger-than-expected earnings have supported European equities. However, lingering political uncertainties and a likely pause to the rate cut cycle mean limited upside catalysts for the market</li> </ul>
Asia	●●●		<ul style="list-style-type: none"> <li>With the US resuming rate cuts, many Asian economies have more room to deploy stimulus. Asian equities, outperforming the West this year, may continue to benefit</li> </ul>
Latin America & EMEA	●●		<ul style="list-style-type: none"> <li>A weaker US dollar is driving flows into EM equities, despite high political risks. Commodity exporters may also face pressure from rising OPEC+ production</li> </ul>
Mainland & HK	●●	↓	<ul style="list-style-type: none"> <li>Both A-shares and HK equities posted solid gains in Q3, alongside improved market liquidity. However, valuations are now less compelling, with investors awaiting further confirmation from property and retail sales data</li> </ul>

Source: HSIS

<sup>^</sup> Compared with last quarter

**\*Symbol representation :**

●●●

Positive - Expect that the particular asset class potentially may perform well relative to the relevant major global benchmark(s) in the long run

●●

Neutral - Expect that the particular asset class potentially may perform in line relative to the relevant major global benchmark(s) in the long run

●

Cautious - Expect that the particular asset class potentially may not perform well or in line relative to the relevant major global benchmark(s) in the long run



# Fixed Income Market Views

Markets	Analysis*	Change^	Comments
DM Sovereign Debt	●●	↓	<ul style="list-style-type: none"> <li>Rising debt concerns in the eurozone have pushed long-end yields higher. Market volatility is expected to remain elevated in the near term</li> </ul>
EU & US IG Corp	●●		<ul style="list-style-type: none"> <li>Fed rate cuts have driven US IG bonds to multi-year highs, with narrow spreads. Further upside may be limited, and the market may stabilize going forward</li> </ul>
Asia IG Corp	●●●		<ul style="list-style-type: none"> <li>Improved fundamentals and India's sovereign rating upgrade have supported sentiment, potentially lowering funding costs and attracting foreign inflows</li> </ul>
EU & US High Yield	●●		<ul style="list-style-type: none"> <li>Valuation of US HY is not cheap, but rate cuts and fiscal policy supporting economy help to keep the default rate stable</li> </ul>
Asia High Yield	●●●		<ul style="list-style-type: none"> <li>Valuations are attractive compared to global peers. China and India HY bonds may benefit from supportive policies and maintain momentum</li> </ul>
EM Debt	●●●	↑	<ul style="list-style-type: none"> <li>Fed rate cuts and a weaker USD are driving flows into EM debt, as investors seek higher yields in a low-rate environment</li> </ul>

Source: HSIS

^ Compared with last quarter

**\*Symbol representation :**

- Positive - Expect that the particular asset class potentially may perform well relative to the relevant major global benchmark(s) in the long run
- Neutral - Expect that the particular asset class potentially may perform in line relative to the relevant major global benchmark(s) in the long run
- Cautious - Expect that the particular asset class potentially may not perform well or in line relative to the relevant major global benchmark(s) in the long run

# The upside potential in RMB & AUD

# FX Markets

# USD

# RMB

# AUD

## Weak US dollar likely to remain the theme in 4Q

As the 4Q begins, the US “One Big Beautiful Bill” has pushed Treasury issuance higher, while the Federal Reserve remains on an easing path. Against this backdrop, a weak US dollar is expected to remain the dominant market theme, with the DXY index potentially testing 95. Investors are advised to diversify currency exposure, with the RMB and the Australian dollar seen as having strong catch-up potential.

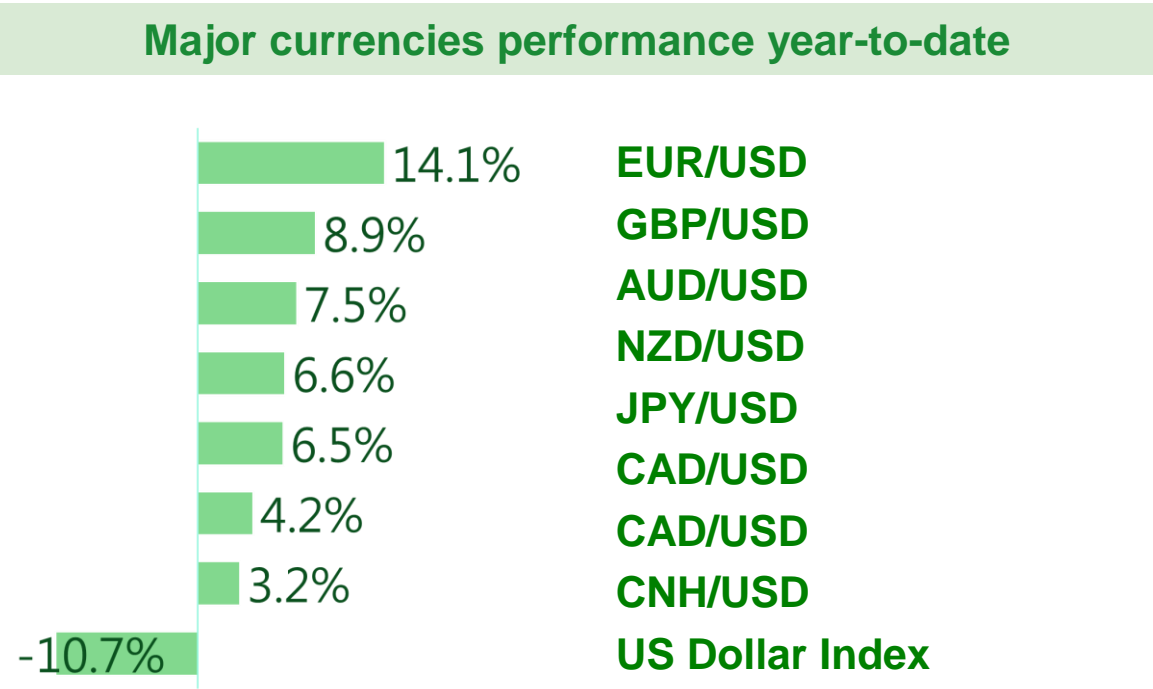
The Fed cut rates by 25bps in September, with its latest dot plot signaling two more quarter-point cuts by year-end and another in 2026. Fed funds futures are pricing close to an 80% chance of two more cuts this year. Chair Jerome Powell framed the move as “risk management,” suggesting the Fed is not embarking on an extended easing cycle. That helped the US dollar briefly stabilize near 97.5 level, but the lack of a fresh catalyst still leaves little room for a sustained rebound.



## RMB and AUD poised for gains

Notably, newly nominated Fed governor Milan opposed the September 25bp cut, arguing instead for a 50bp move. His stance, alongside Powell’s scheduled departure in May 2026, has fueled concerns of a more dovish tilt within the Fed and potential political pressure from Trump. Markets worry that such interference could undermine the Fed’s independence and credibility, adding downward pressure on the US dollar. At the same time, widening fiscal deficits, rising federal debt issuance, looming government shutdown risks, and persistent geopolitical uncertainty all point to further US dollar weakness, with the DXY index possibly sliding toward 95.

Confidence in the US dollar has already ebbed. Non-US currencies such as the euro and pound have rallied year-to-date, while gold has hit fresh records, underscoring the market’s search for diversification. Against this backdrop, the RMB and the Australian dollar stand out as currencies with room to strengthen in 4Q.



Source: Reuters, data as of 18 Sep 2025

## RMB could approach 7.0/US dollar

US dollar weakness typically supports the RMB. In September, following the Fed's rate cut, the offshore RMB briefly broke through 7.10 per US dollar for the first time since last November, with the onshore RMB also hitting a one-year high.

Optimism over China-US trade talks since May, along with signs of China's economic recovery, improving prospects for its technology and innovation sectors, and the gradual impact of stimulus policies all point to a firmer RMB outlook.

Meanwhile, fiscal strains in many Western economies, combined with high inflation, have eroded investor appetite for their long-dated bonds. 30-year bond yields in several G7 markets have climbed to the highest level in over a decade, diverting flows toward alternative markets. With its relative currency stability and policy support, China has become an increasingly attractive destination for global capital. Rising RMB use in global trade settlements and a growing network of currency swap agreements should also provide structural support. Offshore RMB could approach the symbolic 7.0 per US dollar level this quarter.

## AUD seen testing 0.68 US dollar

Australia's economy, closely tied to China, has shown resilience despite global headwinds. Manufacturing and services PMIs posted their strongest readings in nearly three years in August. The Australian dollar has climbed steadily year-to-date, despite fluctuations. With the Fed resuming rate cuts, risk assets have received a strong boost, and the AUD, often viewed as a barometer of risk sentiment, is set to benefit. It is expected to remain firm in 4Q, with upside toward 0.68 US dollar.

# Autonomous Vehicle: Exploring commercialization and boost monetization and growth

# US Equities

# Hong Kong Equities

#Tech Sector

#Consumer Sector

## Autonomous Vehicle: Sector with higher valuation

Thanks to the improvement in computing power, the development of Advanced Driver Assistance System (ADAS), increasing penetration of electric vehicles (EVs), and advancements in cloud computing and artificial intelligence (AI), the application of Autonomous Vehicle (AV) and commercialization of Robotaxi have become possible. Bloomberg estimates the total addressable market (TAM) of smart car will reach US\$742bn in 2030. Auto and auto parts makers, semiconductor companies, ride-hailing platform and technology stocks are expected to benefit. That said, history, technology and regulations will create differences in AV development across regions, with the US and China expected to be leaders.

When it comes to AV commercialization, consensus offers higher valuation. Recently, the Bloomberg Autonomous Vehicle Index



Index has been increasing and, year to date, has outperformed Bloomberg World Tech Index.

The core technology of AV comes from ADAS, which is software designed to improve the driver safety. Light Detection and Ranging (LiDAR), radar and cameras are used to stimulate traffic and environment for signals and warnings. According to Society of Automotive Engineers, ADAS can be defined from Level 0 to Level 5 based on automation and functionality:

**The level and function of  
Advanced Driver Assistance System (ADAS)**

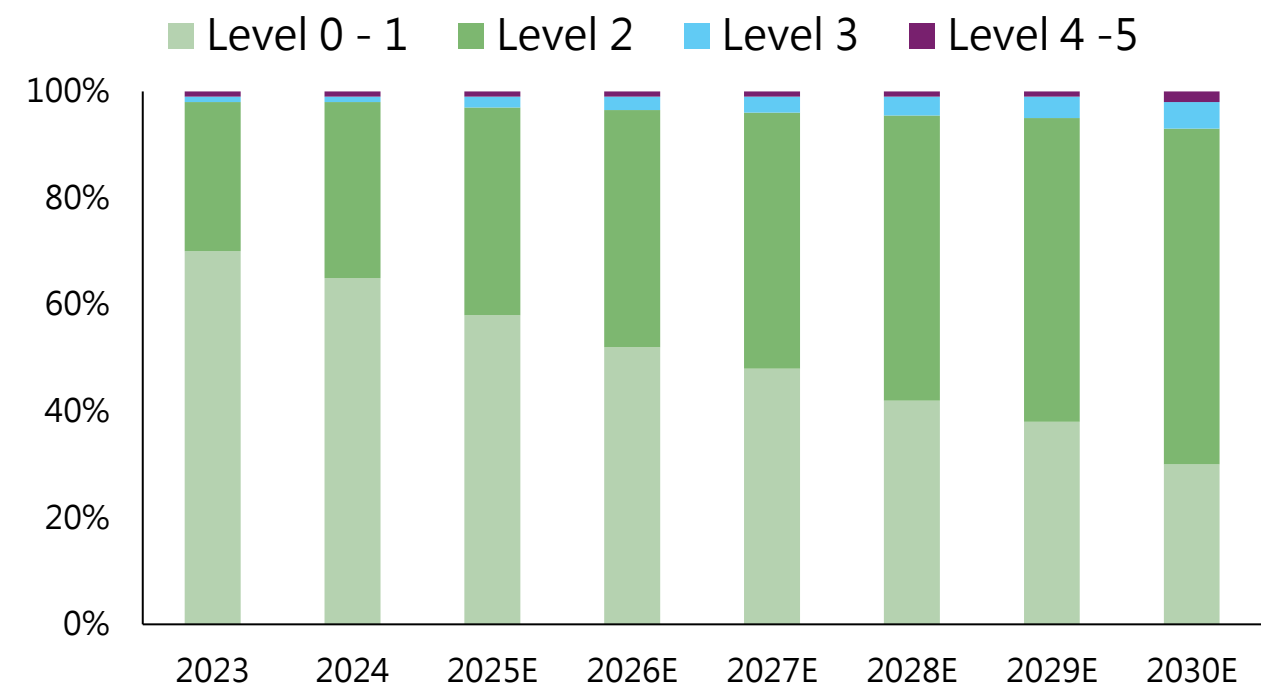
Level	Functions
Level 0 (No Driving Autonomous)	Manually controlled without any automation
Level 1 (Driving Assistance)	Single automated system for driving assistance like adaptive cruise control (ACC), driver needs to monitor
Level 2 (Partial Driving Automation)	System performs two or more functions like adaptive cruise control (ACC) and Lane Keeping Assist (LKA), driver still need to take control at any time
Level 3 (Conditional Driving Automation)	System performs most driving tasks like environment detection, accelerating, decelerating, steering and breaking, but driver overrides still require
Level 4 (High Driving Automation)	System can do self-driving mode in limited area, like city or closed community without the intervention of driver. Yet, in some area still need driver overrides
Level 5 (Full Driving Automation)	Vehicle can go anywhere without human intervention in all circumstance. System can deal with difficult traffic environment like city, rural area, highway and extreme weather conditions

Source: Society of Automotive Engineers International

## Auto makers: Boost Level 2 penetration for recurring subscription revenue

ADAS transforms products from a one-time sale to a subscription model for recurring revenue. Despite some auto makers claiming their products have reached Level 5 testing, factors such as price, costs, computing power and data make Level 2 products predominant worldwide. Bloomberg forecasts that the Level 2 penetration rate will increase from current 30% to 60% by 2030, resulting in stronger cashflow and recurring income for auto makers. Consensus expects annual self-driving subscription revenue to reach US\$253bn in coming decade. More importantly, the subscription model will help auto makers continuously and seamlessly collect drivers’ data, which will aid in improving vehicle connectivity and computation for higher safety. Thus, customer loyalty will be enhanced in the long-term.

Market expects global Level 2 penetration rate to reach 60%



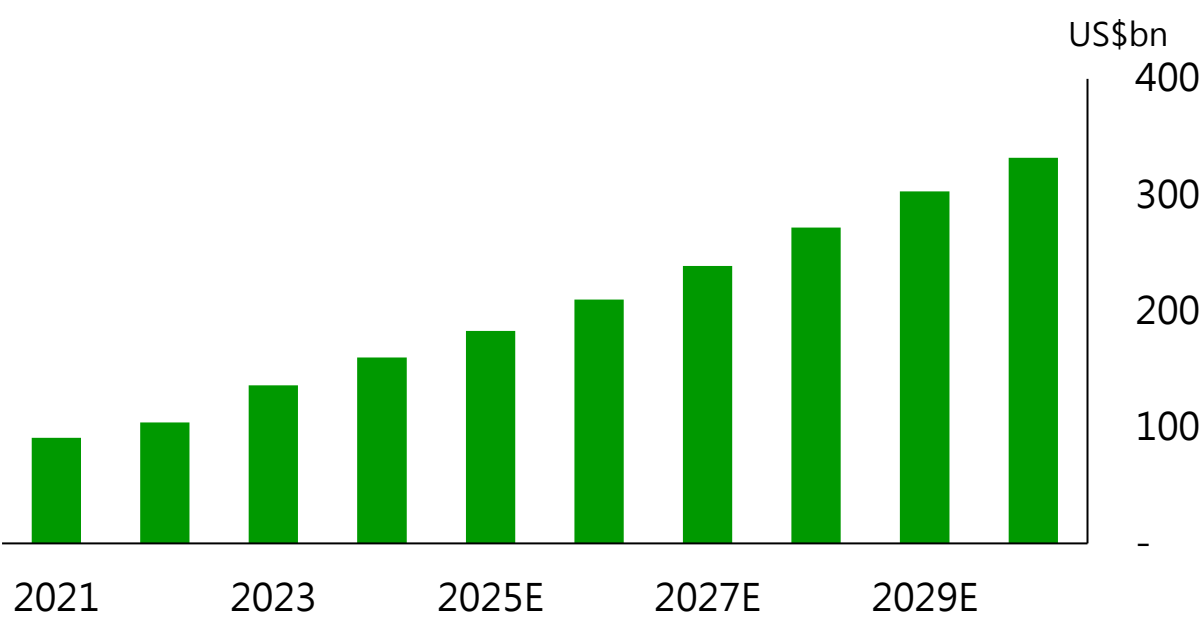
Source: Bloomberg, as of 7 Aug 2025

## Equipment Manufacturer: ADAS builds a new supply chain and ecosystem

ADAS ecosystem includes Perception, Computation, and Actuation. Currently, auto makers and Robotaxi operators rely on this network and multi-layer ecosystem to seamlessly integrate hardware and software, where sensors, algorithms, and computing power use 3D stimulators to replicate real traffic environments.

As autonomous driving requires significant computing power, semiconductor manufacturers will benefit. Currently, there is a strong demand for auto chips but hardware is becoming increasingly homogenized. Going forward, the competition among companies will depend on the design of the operating systems. Over 90% of the global supply of microcontrollers is from US and European manufacturers. Meanwhile, it is estimated that 90% of auto chips in China are imported. Currently, Chinese auto makers are developing their own auto chips, and some semiconductor companies will benefit from government support policies aimed at boosting the penetration rate of domestic chips.

Global gross booking of ride-hailing forecast



Source: Bloomberg, as of 23 Jun 2025



On the other hand, thanks to the launch of Solid-State LiDAR and the higher bargaining power of auto makers, the cost of LiDAR has decreased from US\$100k in 2015 to US\$1,000 in 2023, which will boost AV popularity. Benefiting from low production costs and economies of scale, Chinese brands' market share has climbed to 84%, and their average selling price is just half that of US and European products. As such, Chinese LiDAR manufacturers are competitive. At present, consensus expects that the launch of Level 3 Avs by Chinese auto makers will be another catalyst.

### **Robotaxi: Accelerate gross bookings for ride-hailing**

Bloomberg expects that Robotaxi will boost global ride-hailing gross bookings by US\$15bn to US\$20bn, increasing global ride-hailing gross bookings from US\$183bn in 2025 to US\$332bn, with a compound annual growth rate (CAGR) of 12.6%. Given well-established charging facilities and infrastructure, the market expects China and US to be the leader in Robotaxi.

### **Robotaxi services launched in major US cities**

US ride-hailing platforms are building alliances with auto makers. In 2024, US ride-hailing platforms handled 4.5bn trips, with the top five cities accounting for 23% - 25%. Therefore, it is believed that Robotaxi will launch in large cities.

Many states in US, like California and Nevada, allow autonomous vehicle. Recently, an international ride-hailing platform has cooperated with an electric vehicle maker to deploy 20,000 Robotaxis for the US market in coming years. Currently, there is ride-hailing platform providing Robotaxi services in Austin and Atlanta with over 1,500 vehicles. US ride-hailing platforms are known for their light-asset model and strategic cooperation with auto makers and technology companies for risks diversification.

## Chinese Robotaxi may breakeven by 2030

The Chinese Robotaxi market is fragmented and is being built by auto makers, hardware manufacturers, ride-hailing platform, and Level 4 solutions providers. More than 10 Robotaxi operators are conducting business in China, and some startups even provide services with Level 4 technology.

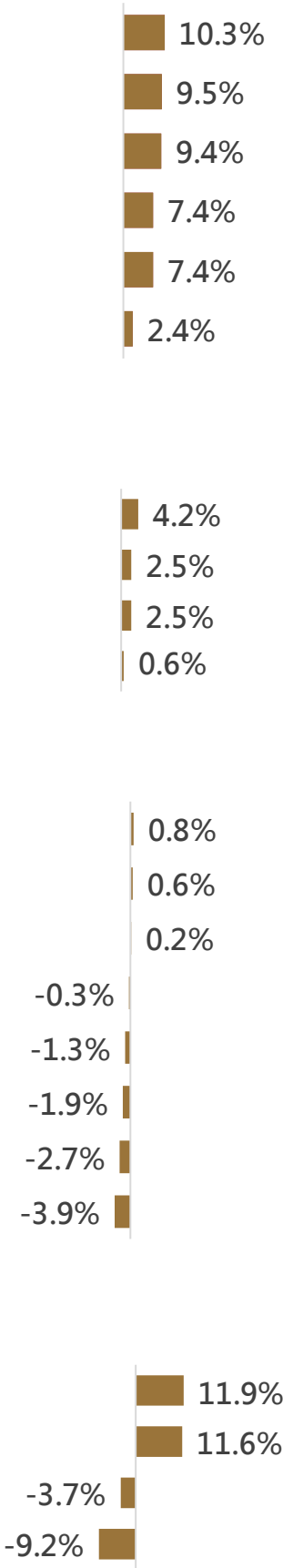
Given regulation and cost issues, consensus believes large scale commercialization of Robotaxi should occur 2030 or afterward. The market expects the industry players to breakeven after 2030. Auto makers are concerned about costs, technology and safety issues, and thus Level 2 should be prioritized. Most prefer equity investment in startups for Robotaxi business, given current intensifying competition.

## Conclusion

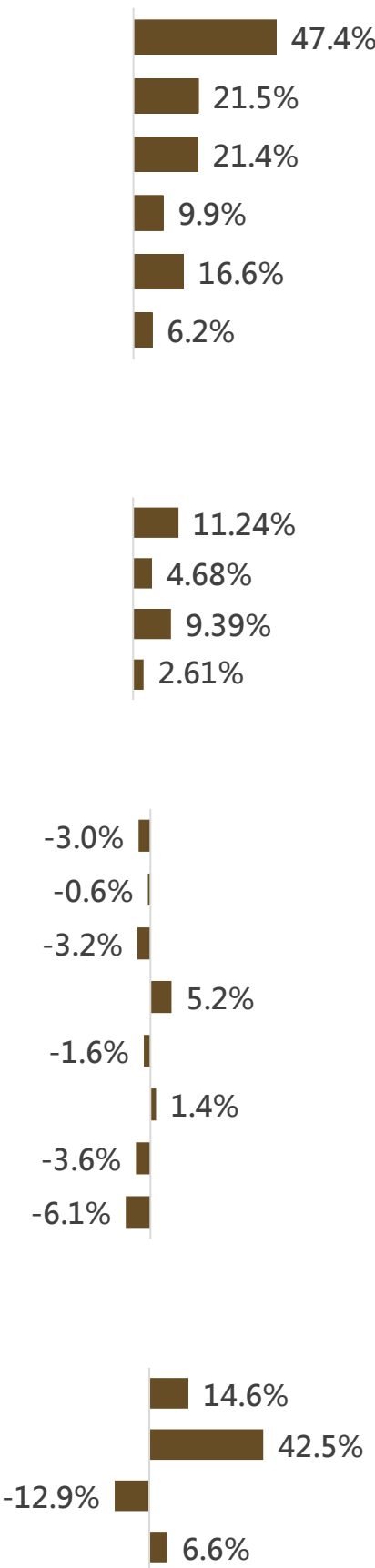
AV will bring opportunities and challenges to auto makers, equipment manufacturers, technology companies and ride-hailing platforms. The short-term earnings visibility of AVs for auto makers and equipment manufacturers is higher, especially as auto makers can expand subscription models. Robotaxi is still in the preparation stage, with challenges from costs and regulations being imminent, though the potential growth rate is not negligible.

# Market Performance Review

## 3-month Performance



## 12-month Performance



Source: Bloomberg, last updated on 19 September 2025



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