



# Industrial M&A Boosts Profits

Global Markets Weekly Kickstart

23 December 2024



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Super Central Bank Week: Fed's Hawkish Rate Cut, BOJ Holds Policy



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Markets React to Slower U.S. Rate Cuts with Stock and Bond Sell-Off



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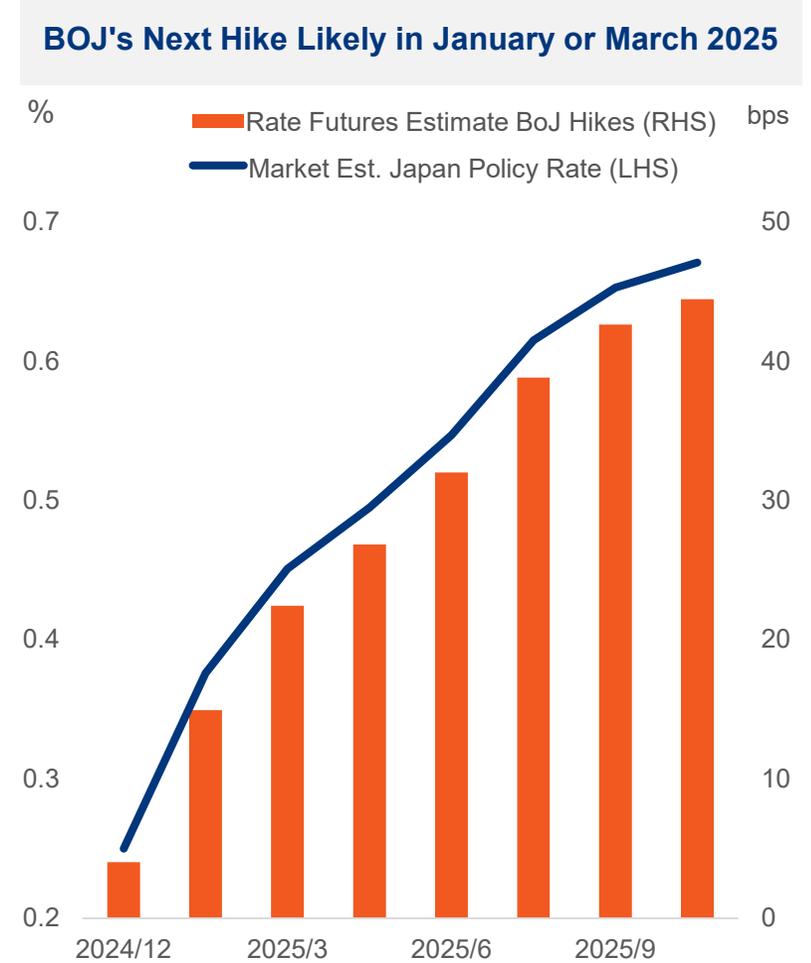
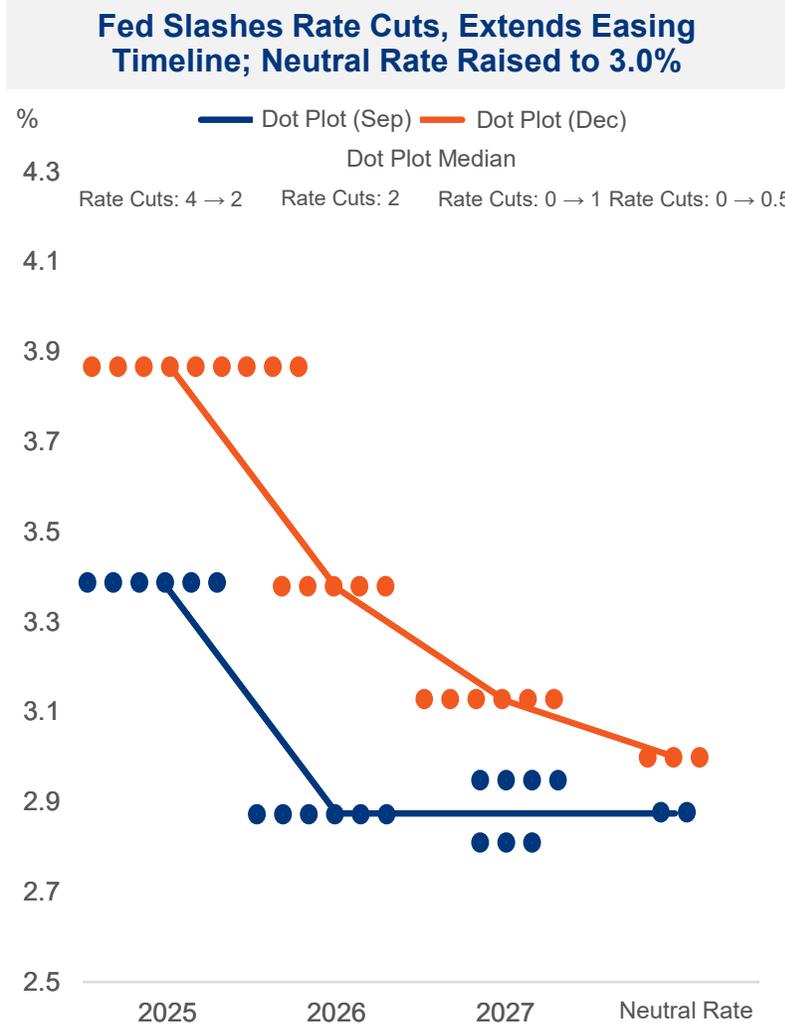
Selection of HK, U.S., Taiwan Equities, Bonds and Funds/ETFs



# Fed's Hawkish Rate Cut Signals Slower Easing; BOJ Delays Hike, Yen Weakens

- ▶ The Fed's December decision to cut rates by 25 bps aligned with expectations, but dissenting votes and post-meeting statements hinted at a slower pace of easing. The 2025 dot plot reduced expected rate cuts from 4 to 2, extending the easing timeline to 2027. These adjustments dampened bullish sentiment, causing market volatility and a dip in major indices. Investors are advised to wait for market stabilization before reallocating to U.S. equities. Risks remain, particularly regarding inflation resurgence under Trump's new policies.
- ▶ The anticipated slowdown in rate cuts increases Treasury yield fluctuations. Investors may consider reentering short-duration Treasuries and investment-grade bonds at higher yields, while exercising caution with longer-dated bonds due to elevated volatility.
- ▶ The Bank of Japan (BOJ) maintained its rates, forecasting moderate economic and inflation recovery. With global uncertainties, particularly U.S. and Chinese policy impacts, BOJ has opted for flexibility. The first hike may be delayed to January or March 2025. In the near term, the yen is expected to weaken but remains on a long-term appreciation trajectory.

Source: Bloomberg

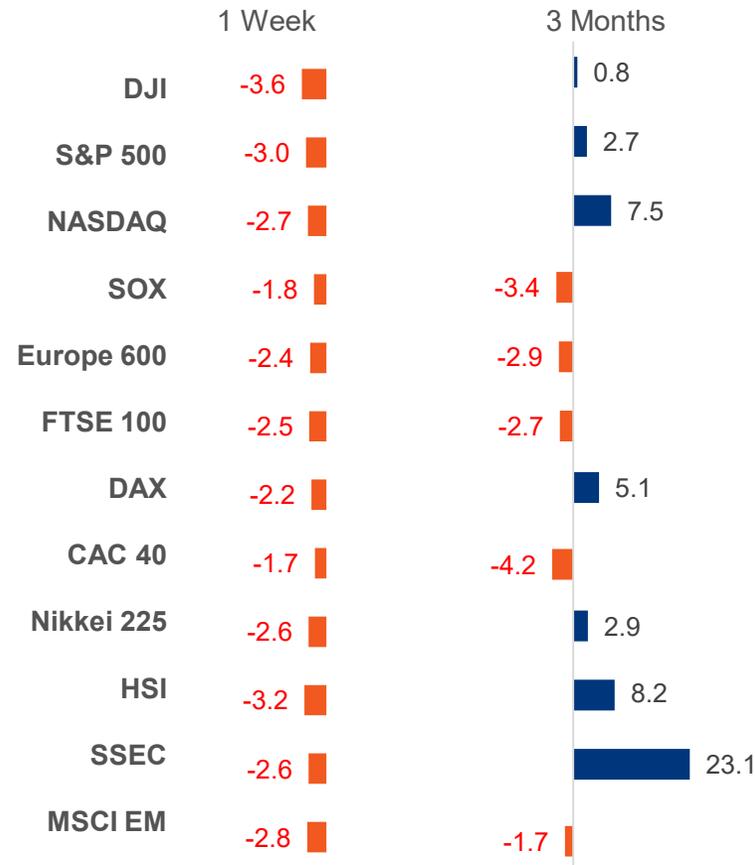


## Market Recap

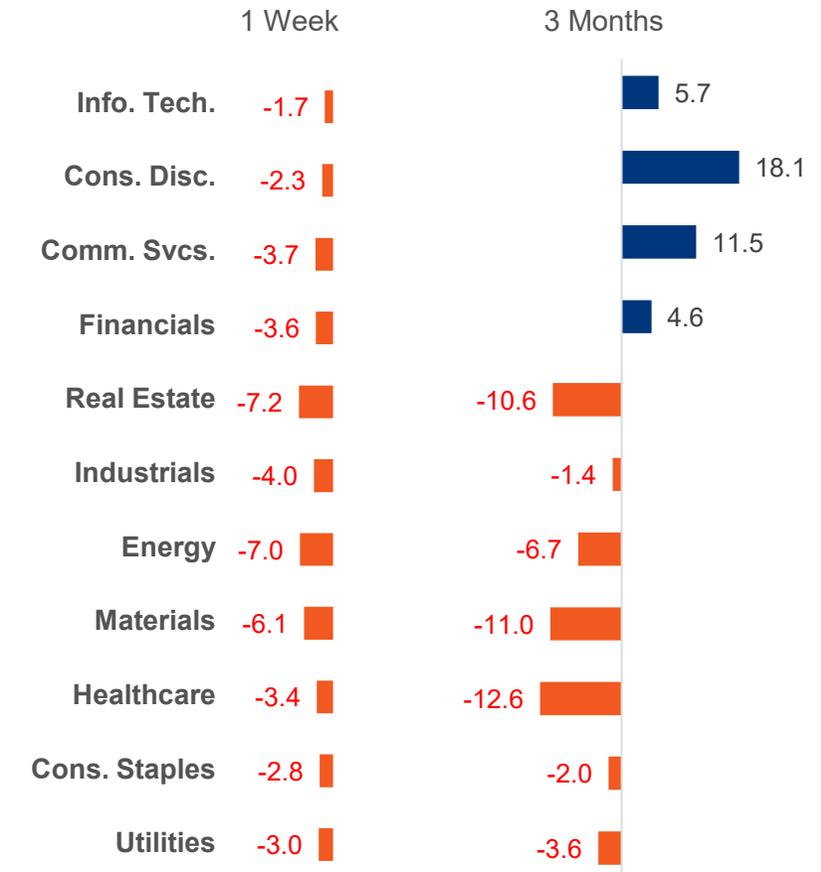
## Hawkish Rate Cut Sinks Markets, Dow Returns to Pre-Trump Surge Levels

- ▶ The Fed's hawkish rate cut led to significant declines across U.S. indices, with the Dow Jones Industrial Average plummeting 3.6% over the past week, nearly erasing gains since Trump's election rally in early November. Sector-wise, real estate, burdened by high rates, recorded the steepest losses, while tech stocks demonstrated resilience, with information technology shedding only 1.7%.
- ▶ European markets also struggled under the Fed's reduced rate cut expectations. The Bank of England maintained rates and hinted at continued easing next year, with more dovish votes than expected. Concerns over the UK's economic outlook and inflation further weighed on sentiment, making the UK equity market the weakest performer in Europe.
- ▶ Japanese equities, initially pressured by the Fed's decision, rebounded after the Bank of Japan held rates steady. The yen's depreciation provided additional support to Japanese stocks as the market shifted focus back to corporate earnings fundamentals.

## Major Stock Indices Performance by Region (%)



## US Stock Performance by Sector (%)

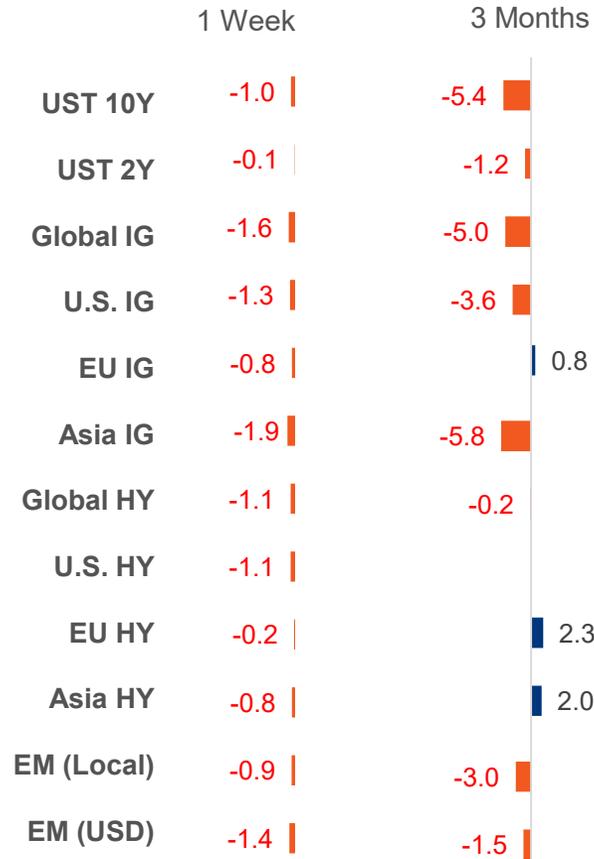


Source: Bloomberg, 20 Dec. 2024

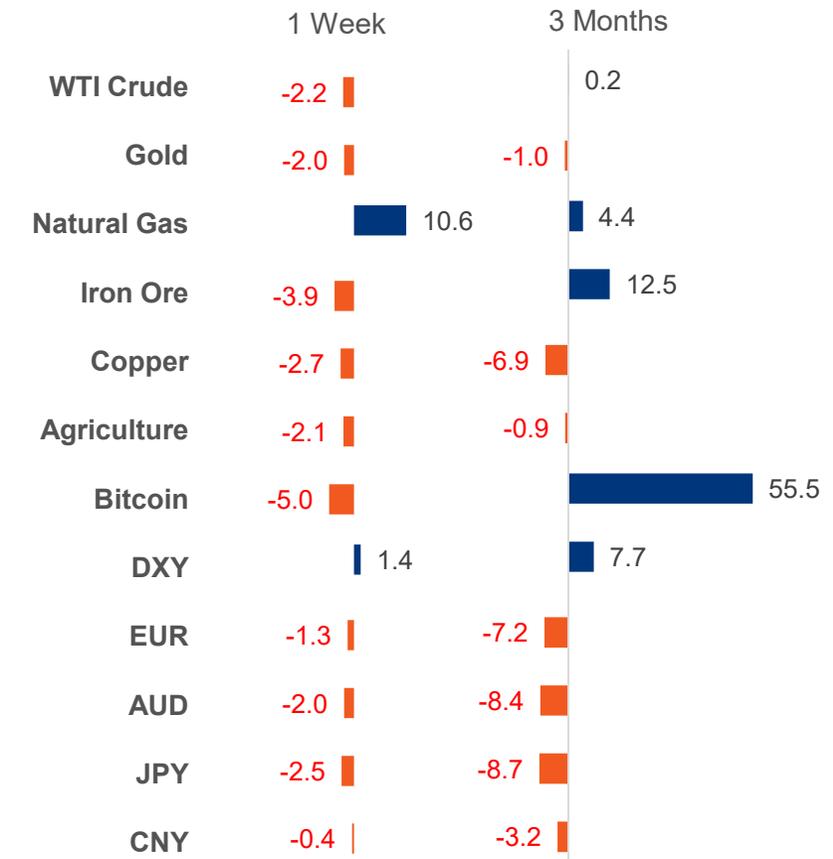
# Fed Lowers Rate Cut Forecast, Yields Rise Pressuring Bonds; BOJ Holds Steady

- ▶ The Fed cut rates by 25 bps but significantly lowered its forecast for total rate reductions in 2025, from 4 to 2, while extending the easing timeline and raising terminal rates. Bond markets reacted with yields climbing, leading to declines in government, corporate, and emerging market bonds. Long-duration bonds suffered the most, while non-investment-grade debt outperformed due to steady credit spreads and a stable economic outlook.
- ▶ On the commodities front, a stronger dollar, which breached the 108 level, pressured metals and crude prices. The Australian dollar, heavily tied to commodity exports, also fell sharply. Meanwhile, the yen weakened further as the BOJ maintained its monetary policy stance, pushing USD/JPY above its November high of 156. Natural gas prices surged over 10% amid a cold snap in the U.S., bolstering winter heating demand, with forecasts indicating continued strong household usage in the near term.

## Performance of Bonds (%)



## Performance of Commodities and Currencies (%)

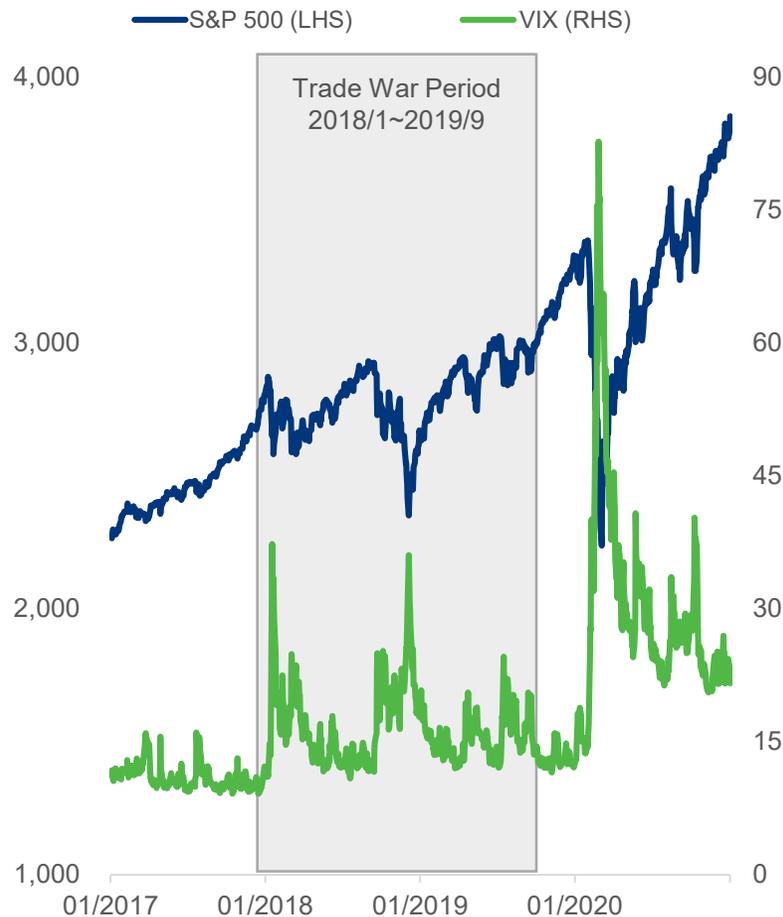


Source: Bloomberg, 20 Dec. 2024

# Trade War Sparks VIX Spike; Lessons from Trump 1.0

- ▶ Trump is set to assume office on January 20, with expected policies on immigration and trade aiming to secure favorable deals for the U.S. These actions may not significantly impact the broader economy but could introduce market volatility. While Trump's first year in office (2017) was relatively calm with subdued S&P 500 volatility, he is unlikely to delay policy action this time.
- ▶ During his prior term, the onset of the 2018 trade war briefly spiked the VIX (fear index), which averaged 16.6 for the year—still below its long-term average. Historically, a sharp rise in the VIX often coincides with stock market pullbacks, presenting potential buying opportunities for U.S. large-cap ETFs, funds, or individual stocks. Data suggests buying when the VIX exceeds 20 can yield higher 60-day returns compared to random entry points. Returns improve further if the VIX surpasses 25, though such instances are rarer, occurring only once in 2019. Investors should align their strategies with their trading frequency.

## Trade War Fuels VIX Spike, Amplifying Market Volatility



## Elevated VIX Levels Could Signal Buying Opportunities

	S&P500	Avg. VIX	Times Occurred		60 Day Avg. S&P 500 Return (%)		
			VIX 20+	VIX 25+	Any Point	VIX 20+	VIX 25+
2017	19.4	11.0	0	0	4.0	/	/
2018	-6.2	16.6	59	16	0.1	3.8	8.2
2019	28.9	15.4	15	1	3.1	10.0	17.1
2020	16.3	29.3	218	154	6.3	9.9	11.6
20年		19.1	1,674	849	2.2	3.1	4.9
10年		18.3	769	358	2.8	4.8	6.8

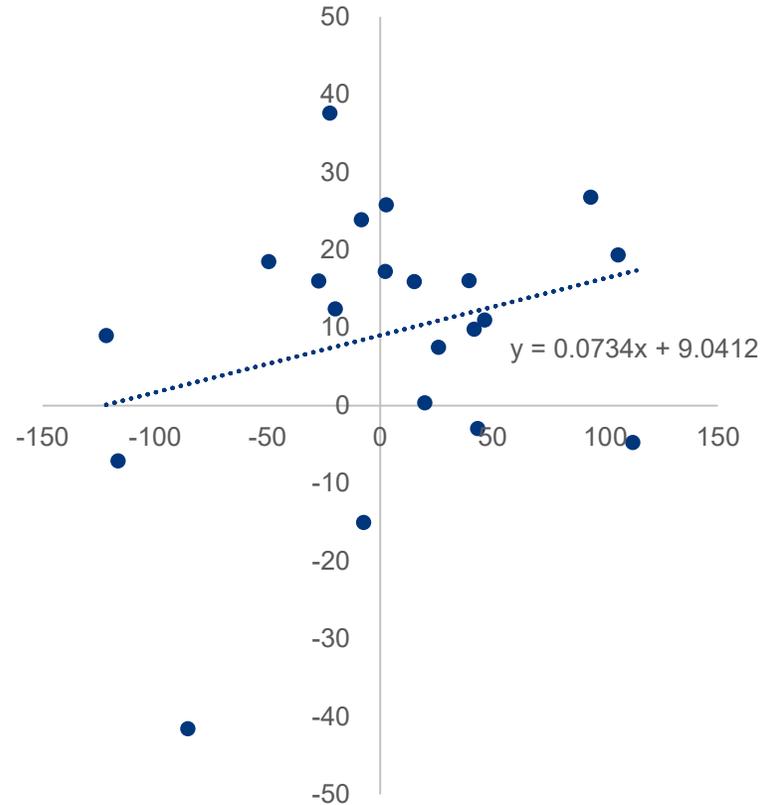
Source: Bloomberg, 20 Dec 2024

# Industrial M&A Revival Boosts Sector Outlook; 2025 Recovery Expected

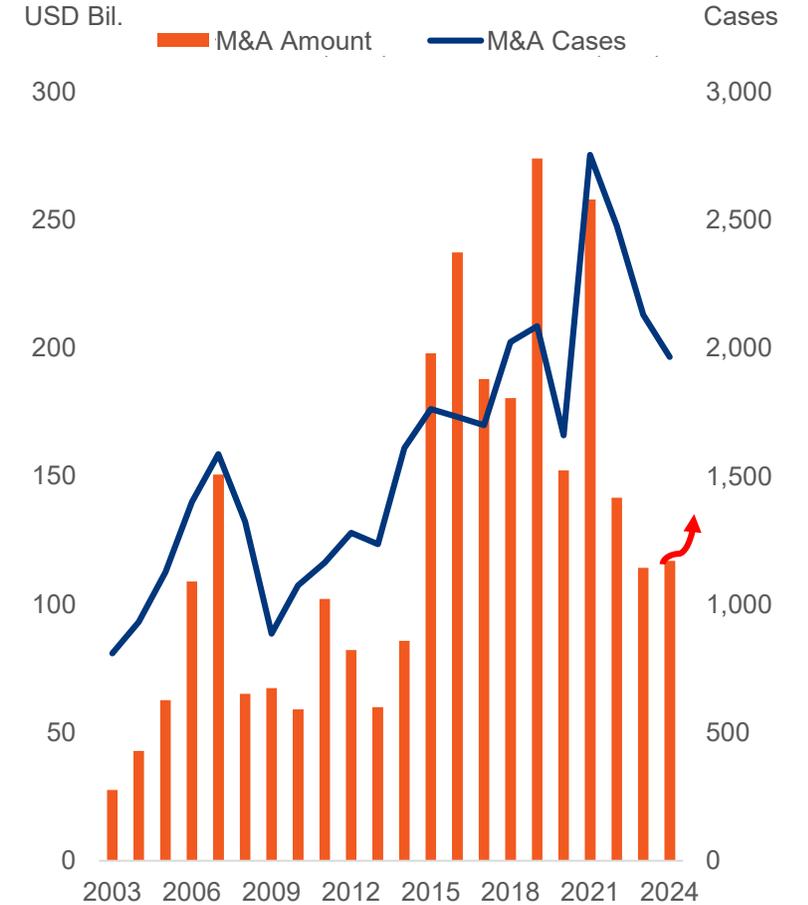
- ▶ Industrial stocks span diverse sectors, including manufacturing, infrastructure, aerospace and defense, transportation, and engineering services. With high fixed costs, industrial firms often diversify operations to mitigate risks and leverage M&A for acquiring new technologies, avoiding the high costs of developing new industries or product lines, and rapidly expanding market share. Historical data shows years with increasing or stable U.S. industrial M&A volumes tend to correspond with positive sector returns, with larger M&A increases slightly enhancing performance.
- ▶ After a sharp drop in M&A activity due to rising funding costs from rate hikes, U.S. industrial M&A volume hit a low of \$114.4 billion in 2023. However, with the U.S. returning to a rate-cutting path in 2024, conditions have improved. As of December 15, 2024, annual M&A volume reached \$117.1 billion, signaling a recovery in industrial sector M&A momentum from its trough.

## North American Industrial M&A Volume Trends Support Sector Performance

X Axis : NA Industrial M&A Volume Change (USD Billion)  
 Y Axis : S&P Industrial Index Annual Return Since 2003 (%)



## U.S. Industrial M&A Volume Rebounds from Lows

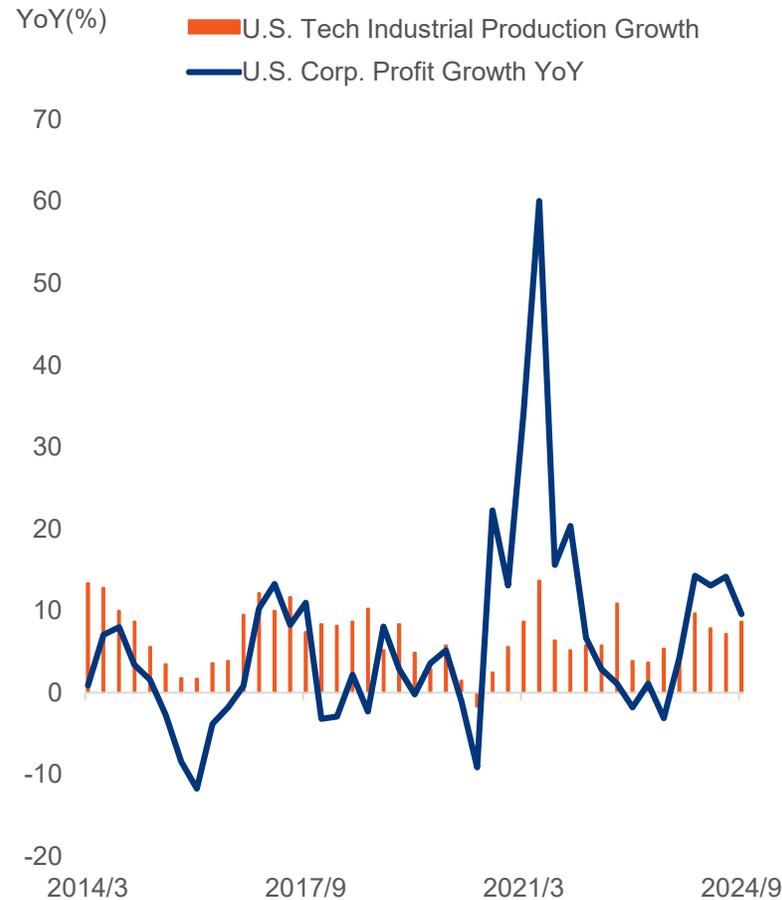


Source: Bloomberg, 15 Dec 2024

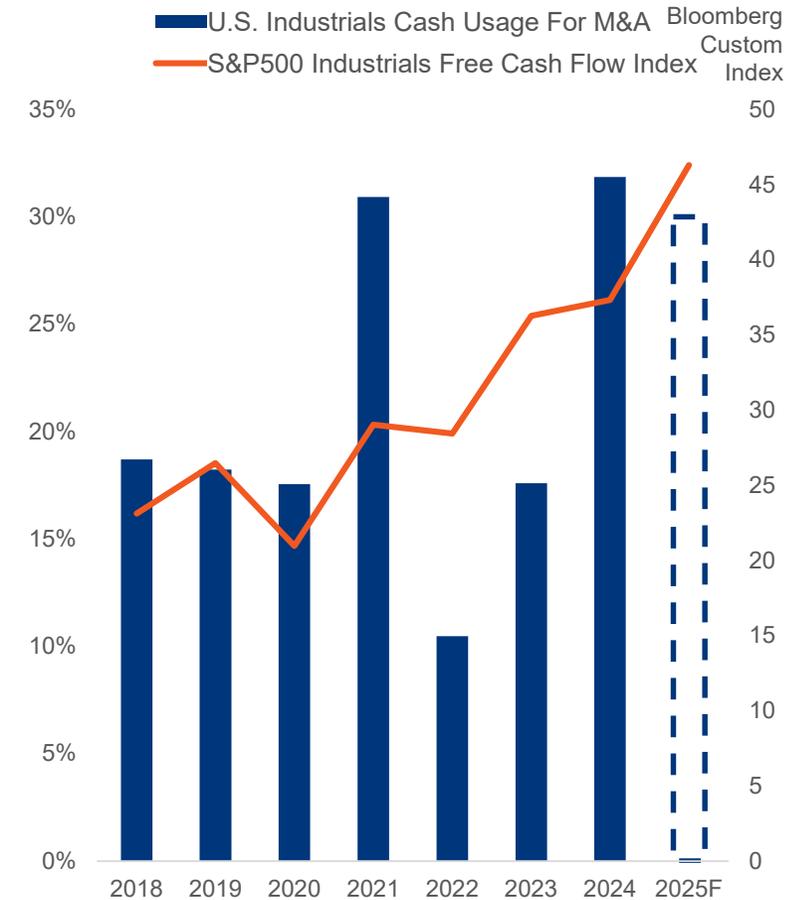
# Industrial Production, Earnings, and Free Cash Flow Support Robust M&A Outlook for 2025

- ▶ Expanding M&A volumes have historically benefited industrial sectors, making the 2025 outlook for M&A activity a key focus. U.S. corporate earnings have steadily improved, with YoY growth rising from low single digits in 2023 to 13%, 14%, and 10% in the first three quarters of 2024, respectively. Despite a slight dip in Q3 due to base effects, near-double-digit growth reflects economic resilience. Additionally, industrial production in high-tech sectors, a key growth driver, rebounded strongly, with YoY growth climbing from 7.2% in June 2024 to a high of 8.7% in September.
- ▶ Bloomberg estimates project continued growth in free cash flow among S&P 500 industrial stocks, with a 24% YoY increase in 2025. Furthermore, the cash allocation for M&A among North American large-cap industrials has risen steadily since 2022 and is expected to exceed 30% in 2024. With falling funding costs, rising free cash flow, and an increasing share of cash directed toward acquisitions, industrial M&A activity is expected to remain strong in 2025, further supporting sector performance.

**U.S. High-Tech Industrial Production Accelerates; Earnings Growth Remains Strong**



**Rising Free Cash Flow Allocations to M&A Bolster Industrial Sector Momentum**



Source: Bloomberg, U.S. Corporate Earnings Index excludes inventory write-downs and capital consumption allowances, showing YoY growth in post-tax earnings.

# Asset Strategy

Asset Type	Market View	Preferred Assets
<b>Equities</b>	<ul style="list-style-type: none"> <li>◆ Trump's four key policies—anti-immigration, deregulation, tax cuts, and high tariffs—are expected to impact economic conditions. Analysts forecast a soft landing for the U.S. economy, with strong consumer performance and tax cuts boosting corporate earnings, particularly benefiting financial, industrial, and defense sectors. Long-term growth prospects for AI remain positive, supporting the upward trend in tech stocks.</li> <li>◆ Higher tariffs are expected to suppress China's external demand momentum, while Europe's weak economic performance, trade policy uncertainties, and increased NATO spending lead to a neutral outlook for European equities. Conversely, sustained wage growth and recovering consumer demand create a positive bias for Japanese equities.</li> </ul>	<p><b>Style:</b> Mid-to-large-cap stocks; financials, industrials, defense, AI, and tech.</p> <p><b>Regions:</b> U.S., Japan, India</p>
<b>Bonds</b>	<ul style="list-style-type: none"> <li>◆ The appointment of a new U.S. Treasury Secretary is expected to stabilize bond markets. However, rising inflation indicators such as CPI and PPI have increased U.S. Treasury yield volatility. Given fiscal and monetary policy uncertainties, investors are advised to focus on short-term Treasuries and investment-grade bonds for stable returns.</li> <li>◆ Mid-to-long-term bonds carry higher volatility. Investors should assess risk tolerance before allocating to this segment. A shift to longer-dated bonds may be considered if the economy trends toward a hard landing, signaled by weaker employment data.</li> </ul>	<p><b>Duration:</b> Favor short-term bonds for stable returns; mid-to-long-term bonds require cautious allocation.</p> <p><b>Types:</b> Prioritize government and investment-grade corporate bonds, with a focus on financial bonds benefiting from policy tailwinds.</p>
<b>Forex</b>	<ul style="list-style-type: none"> <li>◆ Trump's Republican-controlled government is expected to fuel inflation expectations, potentially driving U.S. Treasury yields higher. The Fed's slower rate cuts keep the dollar strong in the short term, with this strength likely extending into early 2025 before moderating amid continued rate cuts and a soft-landing economic scenario.</li> <li>◆ Trade tariffs could harm non-U.S. economies, widening rate-cut disparities and increasing rate differentials, leading to short-term depreciation of non-U.S. currencies. The yen faces pressure from unchanged Bank of Japan policies, with the USD/JPY surpassing November highs. Speculation around Japan's rate hikes will influence yen fluctuations in the near term.</li> </ul>	<p>Dollar Strength Supported</p> <p>Yen expected to weaken short-term but gradually trending upward</p>

# Extended "Double 11" Event Impacts Retail Data Comparability

## Extended "Double 11" Event Affects Retail Data Comparability; Policy-Supported Products Continue Growth

- ▶ Retail sales grew 3% YoY, below expectations of 5.0% and the prior 4.8%. The slowdown was mainly due to a 2.8% YoY increase in retail goods. Online sales typically peak in November, but with the "Double 11" event moving earlier, October's share has risen above 30%. This year's event started 10 days earlier, possibly affecting data comparability. Average growth for October and November was 3.9% YoY.
- ▶ Home appliances and furniture saw solid growth, with furniture rising 10.5% YoY. The consumption recovery trend remains intact, supporting economic growth in 2025.

## Private Investment Declines Widen; Housing Market Still Undergoing Inventory Reduction, Real Estate Investment Struggles to Rebound

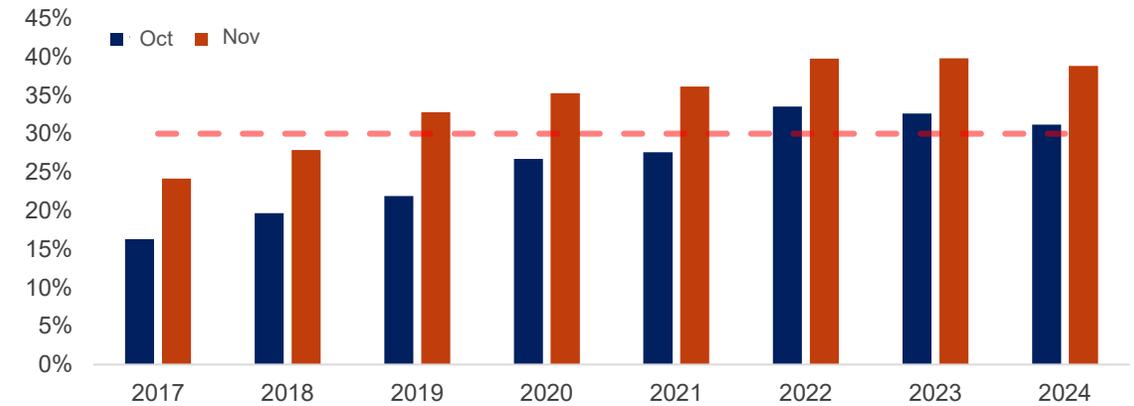
- ▶ Fixed asset investment continues to decline, with YoY growth dropping to 3.3% for the first 11 months, down 0.1 percentage point. Private investment has been negative for four months, falling to -0.4%. The service sector remains the only industry in decline.
- ▶ Certain manufacturing sectors, like transportation equipment and power supply, maintain strong growth. In real estate, while housing sales have rebounded, the market is still reducing inventory, limiting growth in real estate development investment in the near term.

## Industrial Value-Added Growth Stabilizes; Manufacturing Provides Support

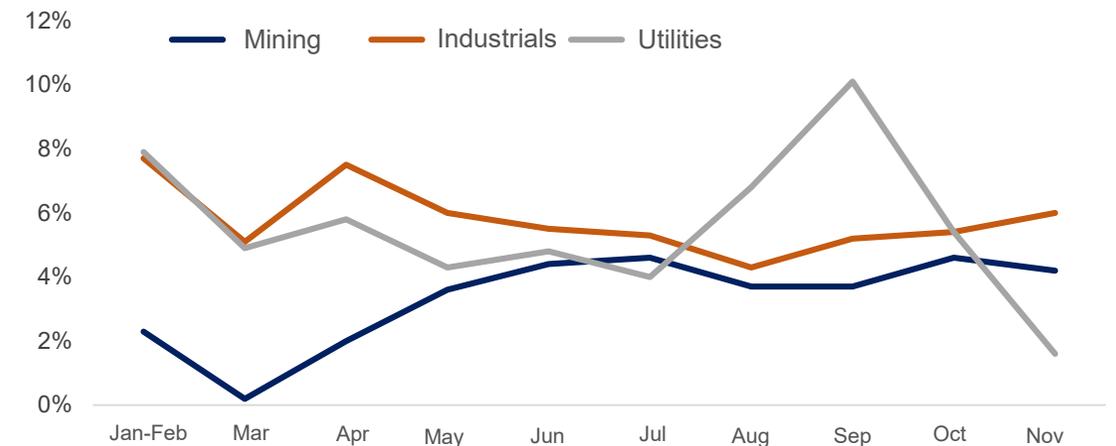
- ▶ Industrial value-added growth for November increased 5.4% YoY, in line with market expectations and 0.1 percentage point higher than the previous period. Notably, manufacturing sector value-added growth has risen for three consecutive months, reaching 6% YoY, which helped offset the slowdown in procurement and utility sectors.

Source: Bloomberg

**Proportion of Online Retail Sales in Total Goods Revenue**



**YoY Growth in Industrial Value Added – Three Main Categories**



# Tongcheng Travel Holdings Limited (780)

**Closing Price** HK \$19.9

**Target Price** HK \$22.8

## Profile

Tongcheng Travel Holdings Limited operates as an online travel agency. The Company provides transportation ticketing, accommodation reservation, value added travel products sales, and other services.

## Highlights

### ■ Stock Price Has Lagged Peers Since Border Reopening, Valuation Shows Upside Potential

Since the border reopening, Trip.com's stock has risen 107% while Tongcheng gained 2.5%. The firm focuses on third- and fourth-tier cities, benefiting from China's push for domestic consumption. Its EPS is expected to grow 19-20% in 2025-2026, outpacing Trip.com's 11%. We expect the stock to catch up.

### ■ Policy Focus for Next Year Will Be on Boosting Consumption Recovery

The Politburo's December 9 meeting indicated policies to boost consumption, including national consumption vouchers. Data shows strong interest in snow tourism (up 3x) and hot springs (up 178% MoM) since November. With over 87% of its users from non-first-tier cities, Tongcheng stands to benefit as these areas drive outbound travel spending.

### ■ International Business Becoming Another Growth Driver

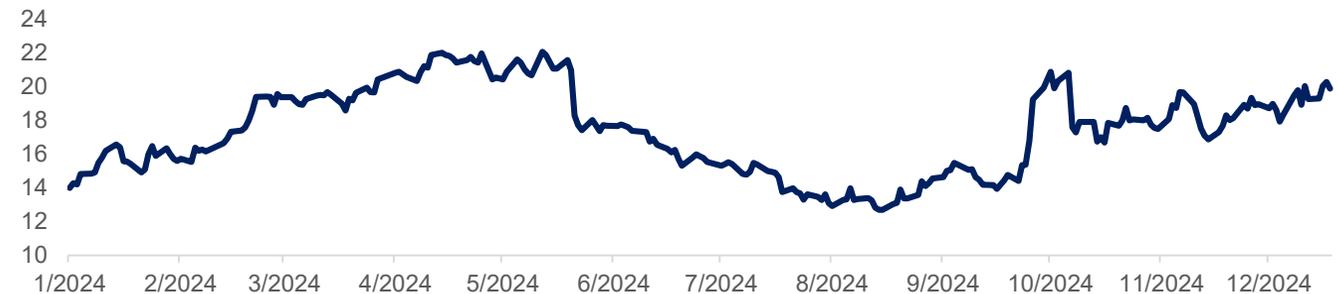
In Q3, Tongcheng's international flights grew 110% YoY, with overnight stays up 130%. HopeGoo, its new platform, now serves over a million users and will integrate with Hong Kong's Octopus card for train bookings this Christmas.

## Financials

	2021	2022	2023	2024F	2025F
Net Income (100M CNY)	1296	646	2199	2726	3140
NI YoY(%)	35.9	-50.1	240.3	23.9	15.2
EPS(CNY)	0.33	0.29	0.98	1.09	1.30
DPS(CNY)	0.00	0.00	0.00	0.11	0.13
P/E	56.7	64.5	19.1	17.1	14.4
Dividend Yield(%)	0.0%	0.0%	0.0%	0.6%	0.6%

Source: Bloomberg; 2024/25F are market estimates

## YTD Performance



As of 19 Dec. 2024	1M	3M	YTD	1Y	3Y	5Y
Return (%)	10.31	37.62	39.12	39.31	37.41	57.19

## Valuations

● 5Y Average ◆ Current

Price	8.85				22.09
P/E	15.96				283.90
P/B	1.09				2.62

Source: Bloomberg

# China Mobile Limited (941)

**Closing Price** HK \$75.5

**Target Price** HK \$80.9

## Profile

China Mobile Limited provides telecommunication services. The Company offers wireline voice, broadband, roaming, and other related services. China Mobile serves customers throughout the mainland of China and in Hong Kong.

## Highlights

### ■ Attractive High-Dividend Stocks in Low-Interest Environment

China's private pension plan, launched on December 15, coincides with a low-interest-rate environment. To meet return expectations, insurance and pension funds are likely to focus on high-dividend, stable-return investments like Chinese telecom stocks. While China Mobile's dividend growth is slower than its peers, its strong free cash flow supports steady dividends. With stable capital expenditure and improved receivables, China Mobile's cash flow advantage is expected to continue.

### ■ SASAC Mandates SOEs to Integrate Market Value Management into Long-Term Strategy

SASAC's new guidelines urge central enterprises to set clear market value goals and integrate them into long-term strategy. This has boosted investor interest in high-dividend state-owned enterprises.

### ■ Digital Business Outperforms Peers in YoY Growth

Telecommunications services in mainland China are a mature market with limited revenue growth potential. Digital businesses, including cloud computing and data centers, have become key drivers of revenue growth. China Mobile's digital business continued to lead its peers in YoY growth during the first half of 2024, with faster division growth pushing its share of total revenue above that of China Telecom.

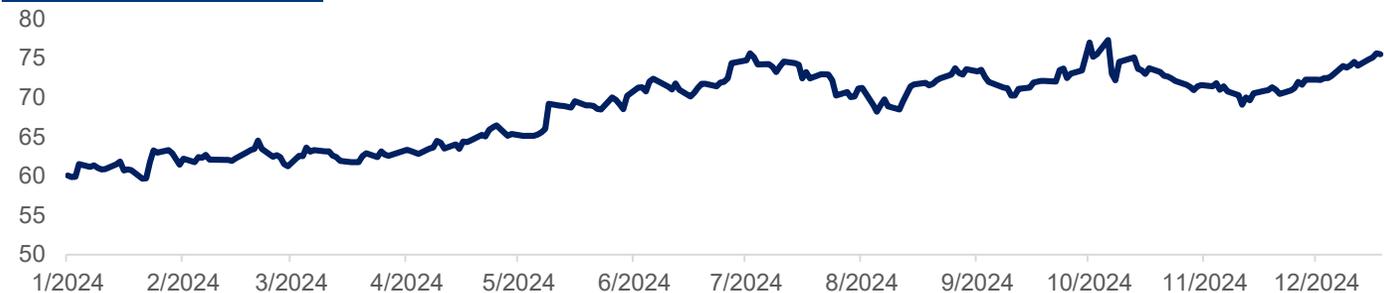
Source: Bloomberg

## Financials

	2021	2022	2023	2024F	2025F
<b>Net Income (10B CNY)</b>	11.61	12.54	13.17	13.86	14.66
<b>NI YoY(%)</b>	7.7	8.02	5.03	5.2	5.79
<b>EPS(CNY)</b>	5.67	5.88	6.16	6.48	6.8
<b>DPS(CNY)</b>	3.34	3.86	4.42	4.01	4.32
<b>P/E</b>	12.5	12.1	11.5	10.9	10.4
<b>Dividend Yield(%)</b>	4.71	5.44	6.23	5.65	6.09

Source: Bloomberg; 2024/25F are market estimates

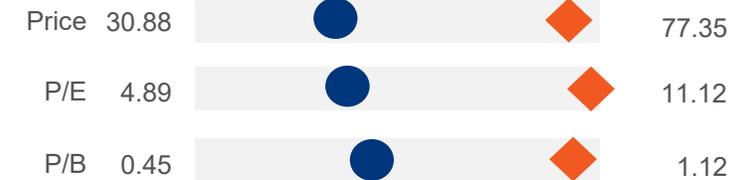
## YTD Performance



As of 19 Dec. 2024	1M	3M	YTD	1Y	3Y	5Y
<b>Return (%)</b>	6.33	4.71	24.57	31.15	104.66	68.67

## Valuations

● 5Y Average    ◆ Current





# Fed's Hawkish Rate Cut May Weigh On Taiwan Stocks; Averages Provide Support

## ► Fed Cuts Rates By 25bps; Taiwan Market Awaits Breakout Amid Low Volume

The Fed's hawkish rate cut caused a 3.56% drop in the Nasdaq, pressuring Taiwan's market last Thursday. The 23,387 resistance remains intact, requiring volume and price growth to break through. Without this, the market risks consolidation.

Last Thursday, the index tested the monthly and quarterly moving averages. The upward crossover of these averages is expected to offer strong support, capping downside risks.

## ► AI Stocks Show Weakness; Focus Shifts To Sectors With Positive Catalysts

News of NVIDIA GB200 shipment delays has pressured AI-related sectors, including servers, cooling, chassis, and connectors. AI stocks' ability to stabilize and rebound will be key to Taiwan's market trend.

In electronics, focus shifts to robotics, satellites, design IP, and testing interfaces. Financials remain strong despite consolidation, while non-tech sectors, including plastics and steel, show short-term rebounds. Machinery stocks at lower levels also warrant attention.

Tourism and hospitality stocks face uncertainty over Chinese tour groups. Focus on stocks with strong catalysts that have consolidated and reclaimed key moving averages.

Taiwan Indices Performance and Estimated P/E Ratios



Source: Bloomberg

# MediaTek Inc. (2454 TT)

## Profile

MediaTek Inc. operates as a fabless semiconductor company for wireless communications and digital multimedia solutions. It provides (systems-on-chip) system solutions for wireless communications, high-definition TV and so on.

## Highlights

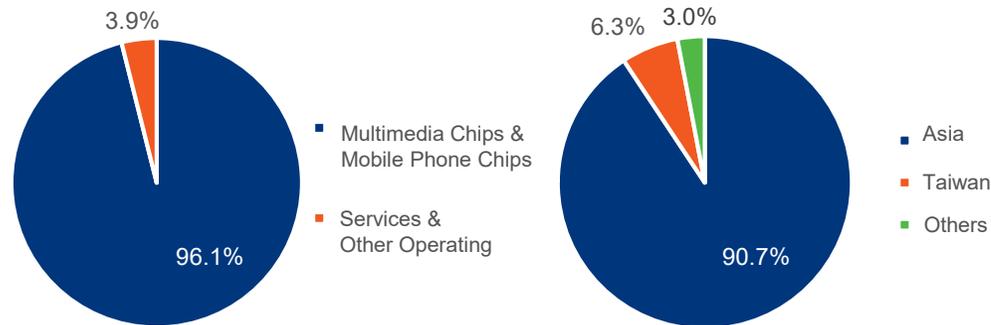
### ■ Apple Plans To Diversify Modem Suppliers For Apple Watch

Apple is reportedly considering MediaTek as a modem chip supplier for the next-generation Apple Watch, aiming to reduce reliance on Intel, which previously developed Mac processors and modem chips for Apple. This marks Apple's first collaboration with MediaTek on critical components.

### ■ Apple Watch Modem Orders To Contribute 1.5-2% Of 2025 Revenue

In 2023, Apple Watch shipments totaled 41 million units, with 34% being Ultra models. However, without new product updates, the Ultra's share of shipments is expected to drop to 20% in 2024. Assuming an average annual shipment of 10 million units for the 4G Apple Watch Ultra, KGI Securities forecasts this order will contribute 1.5% to MediaTek's 2025 revenue. If upgraded to 5G, the modem revenue contribution could rise to 2%.

## Revenue Sources and Regions



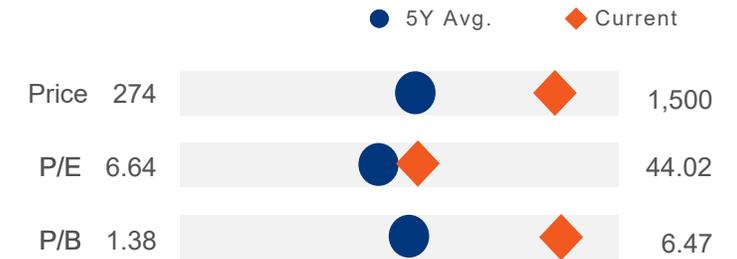
Source: Bloomberg

## Financials

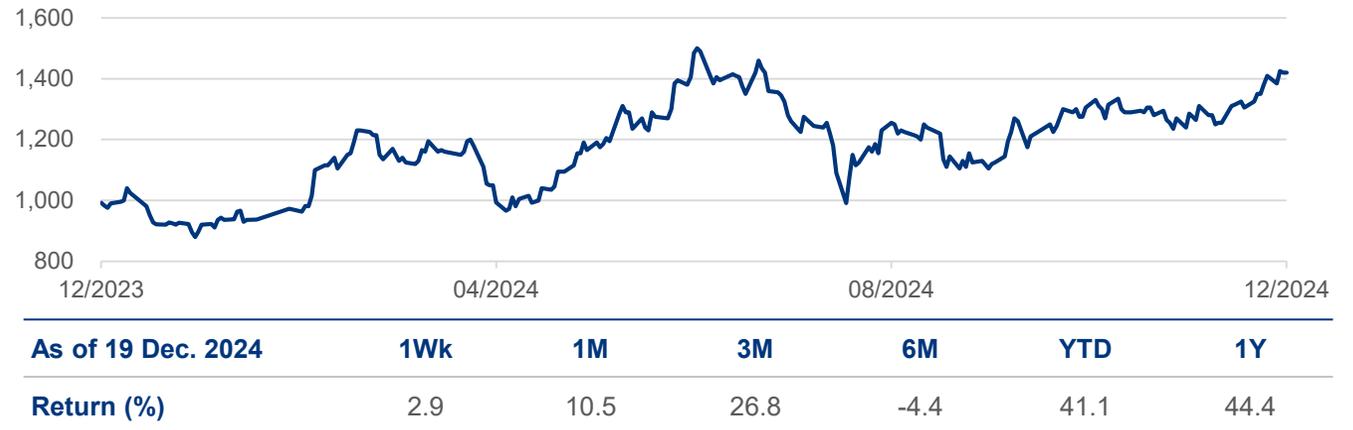
	2021	2022	2023	2024F	2025F
EPS (NTD)	74.59	48.51	67.16	70.24	85.08
EPS Growth (%)	5.7	-35.0	38.4	4.6	21.1
P/E Ratio	18.9	29.1	21.0	20.1	16.6
ROE (%)	27.1	19.0	27.8	27.1	30.6

Source: Company data, estimates of KGI analyst

## Valuations



## 1-Year Performance



# Kaori Heat Treatment Co., Ltd. (8996 TT)

## Profile

Kaori Heat Treatment Co., Ltd. provides services and equipment for steel and braze heat treatment.

## Highlights

### ■ Liquid Cooling Customer Base Poised for Expansion

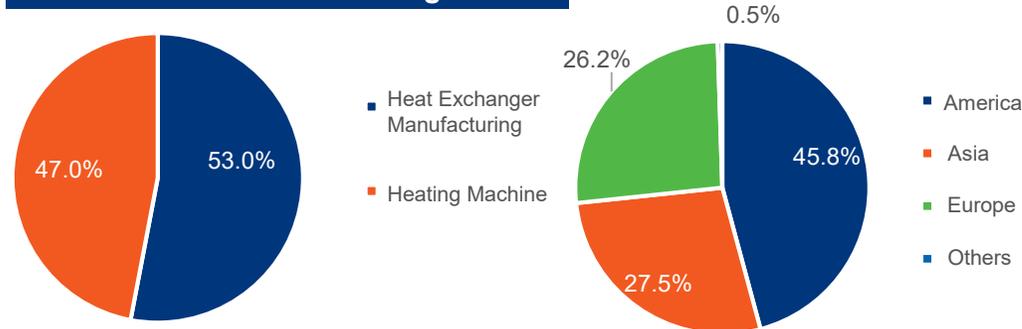
Kaori continues to progress with ongoing projects, with shipments of manifolds and In-row CDUs expected to increase in 1Q25. The company believes its technical advantage in manifold production will help it penetrate the ODM B-series GPU server supply chain and secure additional projects beyond Sidecar radiators. KGI Securities forecasts liquid cooling revenue will rise from 18% of total revenue in 2024 to 47% in 2025.

### ■ AI Surge Drives Data Center Power Demand, Boosting BE Business

#### Outlook

Bloom Energy (BE) recently signed a 1GW supply contract with American Electric Power. Kaori's revenue is expected to benefit from Bloom Energy's optimistic outlook, driven by the surge in AI power demand. Additionally, demand for plate heat exchangers is forecasted to recover in 2025.

## Revenue Sources and Regions



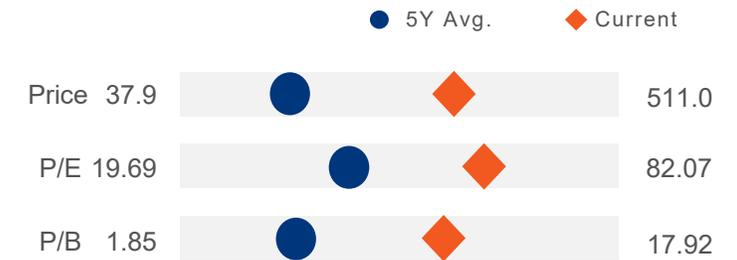
Source: Bloomberg

## Financials

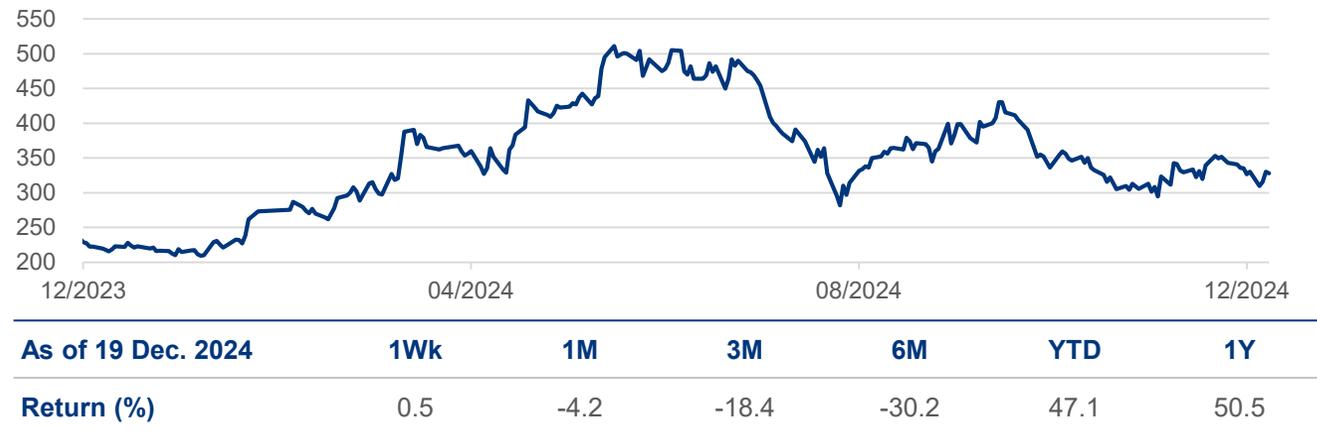
	2021	2022	2023	2024F	2025F
EPS (NTD)	3.37	6.45	7.01	14.08	18.52
EPS Growth (%)	101.8	91.5	8.7	100.7	31.6
P/E Ratio	98.0	51.2	47.1	23.4	17.8
ROE (%)	15.3	24.2	20.7	33.2	35.0

Source: Company data, estimates of KGI analyst

## Valuations



## 1-Year Performance



# Economic Soft Landing and Low Base Effects May Aid Housing and Construction

## ► First Trust RBA American IND (AIRR.US)

- Tracks the performance of the Richard Bernstein Advisors American Industrial Renaissance Index, which selects small- and mid-cap companies from the Russell 2000 Index focusing on industrials and financials, avoiding firms unrelated to manufacturing and infrastructure. Eligible companies must derive over 75% of revenue from the U.S. and have positive 12-month profit expectations.
- The portfolio is concentrated, typically holding 30-60 stocks with balanced weightings. The largest position accounts for less than 4% of the portfolio. While primarily focused on industrials, it includes some financial sector exposure.
- Rated 5 stars by Morningstar.

## ► Vanguard Industrials ETF (VIS.US)

- Aims to track the performance of the MSCI US Investable Market Industrials 25/50 Index.
- Invests in large-, mid-, and small-cap U.S. industrial companies with a well-diversified portfolio of 399 holdings.
- The highest sector allocation is in aerospace and defense, followed by transportation.

Product	First Trust RBA American IND (AIRR.US)	Vanguard Industrials ETF (VIS.US)
<b>Features</b>	<ul style="list-style-type: none"> <li>■ This ETF, rated 5 stars by Morningstar, primarily invests in small- and mid-cap industrial and financial companies.</li> <li>■ Each stock is relatively evenly weighted, with a minimum allocation of 0.5% per holding and a maximum of 4%.</li> </ul>	<ul style="list-style-type: none"> <li>■ Primarily invests in U.S. industrial sectors, including defense, transportation, and business services.</li> <li>■ With a low expense ratio of 0.1%, it offers cost efficiency, helping investors reduce overall investment costs.</li> </ul>
<b>AUM</b>	USD 2.94B	USD 5.6B
<b>Tracking Index</b>	Richard Bernstein Advisors American Industrial Renaissance Index	MSCI US Investable Market Industrials 25/50 Index
<b>Holdings</b>	56	399
<b>Fee</b>	0.7%	0.1%
<b>3M/YTD Returns</b>	3.16% / 34.21%	-0.47% / 17.15%
<b>Top-5 Sectors (%)</b>	Engineering & Construction 24.30 Metal Fabricate/Hardware 10.57 Banks 10.31 Machinery-Diversified 7.89 Building Materials 5.77	Aerospace/Defense 16.75 Transportation 10.72 Commercial Services 9.73 Machinery-Diversified 8.58 Building Materials 6.46
<b>Top-5 Holdings (%)</b>	Core & Main Inc Class A 3.27 AAON Inc 3.25 RBC Bearings Inc 3.22 Granite Construction Inc 3.22 Mueller Industries Inc 3.18	General Electric Co 3.37 Caterpillar Inc 3.36 RTX Corp 2.77 Honeywell International Inc 2.59 Eaton Corp PLC 2.55

Source: Bloomberg

# First Trust RBA American IND (AIRR.US)

## Profile

First Trust RBA American IND is an ETF incorporated in the USA. It seeks investment results that correspond to an index called the Richard Bernstein Advisors American Industrial Renaissance Index.

### Focused on the U.S. Domestic Market

Many companies are reshoring manufacturing to the U.S., bringing benefits such as better product quality, faster delivery, reduced inventory, advanced technology, and improved responsiveness to customer needs.

### Morningstar 5-Star Rating

Rated 5 stars by Morningstar, this ETF invests in small- and mid-cap industrial and financial companies, avoiding firms outside manufacturing and infrastructure. Eligible companies must have over 75% of revenue from the U.S. and positive 12-month profit expectations.

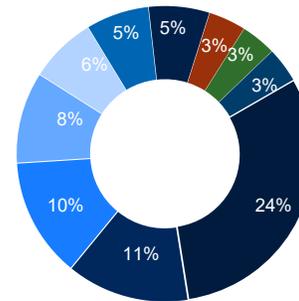
### Concentrated Holdings

The tracked index typically holds 30-60 stocks, with each stock relatively balanced. Each component stock has a minimum allocation of 0.5% and a maximum of 4%.

<b>Inception Date</b>	10 Mar 2014	<b>AUM</b>	USD 2.94B
<b>ETF Category</b>	Equities	<b>Holdings</b>	56
<b>Expense Ratio</b>	0.7%	<b>3Y Stand. Dev. (Ann.)</b>	28.05%

Source: Bloomberg, 19 Dec. 2024

## Sectors



- Engineering & Construction
- Metal Fabricate/Hardware
- Banks
- Machinery-Diversified
- Building Materials
- Transportation
- Distribution/Wholesale
- Aerospace/Defense
- Commercial Services
- Gas

## 1-Year Performance



As of 19 Dec. 2024

	1M	3M	YTD	1Y	3Y	5Y
<b>Return (%)</b>	-6.79	3.16	34.21	33.99	78.44	79.95

## Top-5 Holdings (%)

<b>Core &amp; Main Inc Class A</b>	3.27
<b>AAON Inc</b>	3.25
<b>RBC Bearings Inc</b>	3.22
<b>Granite Construction Inc</b>	3.22
<b>Mueller Industries Inc</b>	3.18

## 1-Year Volatility



# Vanguard Industrials ETF (VIS.US)

## Profile

Vanguard Industrials ETF is an exchange-traded fund incorporated in the USA. The Fund seeks to track the performance of the MSCI US Investable Market Industrials Index.

### Low Expense Ratio

This ETF has an expense ratio of 0.1%, making it cost-effective and helping investors reduce investment costs.

### Diverse Investment Strategy

This ETF tracks the MSCI US Investable Market Industrials 25/50 Index, investing in large-, mid-, and small-cap U.S. industrial companies. It holds 399 stocks, with the top 10 making up 25.66%.

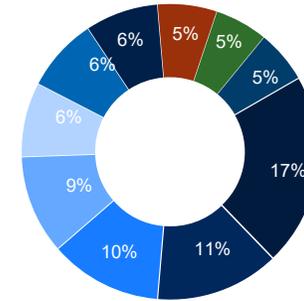
### Covers Industries within the Industrial Sector

Primarily invests in U.S. industrial sectors, including aerospace/defense, transportation, business services, and machinery manufacturers. This ETF is suitable for investors looking to target specific industries without directly selecting individual stocks.

<b>Inception Date</b>	23 Sep 2004	<b>AUM</b>	USD 5.6B
<b>ETF Category</b>	Equities	<b>Holdings</b>	399
<b>Expense Ratio</b>	0.1%	<b>3Y Stand. Dev. (Ann.)</b>	20.33%

Source: Bloomberg, 19 Dec. 2024

## Sectors



- Aerospace/Defense
- Transportation
- Commercial Services
- Machinery-Diversified
- Building Materials
- Miscellaneous Manufactur
- Machinery-Constr & Mining
- Electrical Compo & Equip
- Environmental Control
- Electronics

## 1-Year Performance



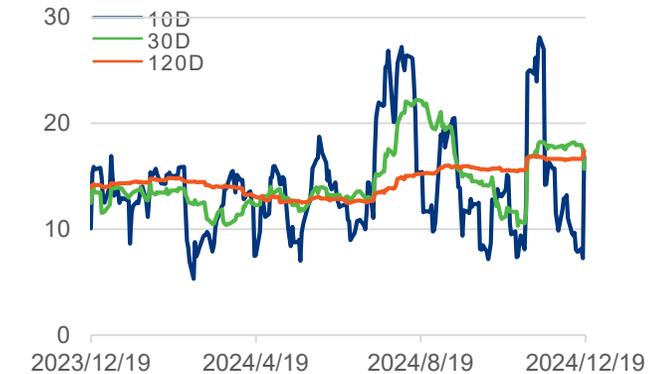
As of 19 Dec. 2024

	1M	3M	YTD	1Y	3Y	5Y
<b>Return (%)</b>	-4.85	-0.47	17.15	17.85	44.92	36.17

## Top-5 Holdings (%)

<b>General Electric Co</b>	3.37
<b>Caterpillar Inc</b>	3.36
<b>RTX Corp</b>	2.77
<b>Honeywell International Inc</b>	2.59
<b>Eaton Corp PLC</b>	2.55

## 1-Year Volatility



# Hybrid Subordinated Bonds Add Minimum Coupon Clause To Mitigate Non-Call Risks

## ► D 6.875 02/01/55 (Dominion Energy Inc)

- Dominion is a U.S. utility holding company serving approximately 3.6 million electric customers and 400,000 natural gas customers in Virginia and South Carolina. By the end of 2023, its consolidated capital base was about \$46 billion. Around 90% of Dominion's business comes from utilities, which generate stable cash flow, providing predictable revenue.
- The company's financial policies and risk management have improved. In early 2024, Dominion strengthened its financial strategy, planning to issue approximately \$700 million in equity annually from 2025 to 2029 to enhance credit metrics and significantly reduce holding company-level debt. This is expected to lower the debt ratio from over 40% in 2022 to around 30% by the end of 2024, supporting cash flow ratios and overall financial stability.
- A supportive legislative and regulatory environment bolsters Dominion's credit. In particular, Virginia's regulatory framework provides significant credit support, with forward-looking electricity rates and state laws ensuring visibility for the recovery of investments and related additional costs, including capital base, financing costs, taxes, and operating expenses tied to its offshore wind projects.

Products	D 6.875 02/01/55 (Dominion Energy Inc)
ISIN	US25746UDT34
Highlight	Dominion's main business comes from utilities, which generate stable cash flow. Additionally, a supportive legislative and regulatory environment strengthens Dominion's credit profile.
Maturity Date	1 Feb 2055
Coupon (%)	Float/6.875/Semi-Annual
Currency	USD
Years to Maturity	30.13
Rating (Moody's/ Fitch/S&P)	Baa3/BBB-/BBB-
Seniority	Subordinated
YTM/YTC (%)	6.76/5.82

Source: Bloomberg

## D 6.875 02/01/55 (Dominion Energy Inc)

### Profile

Dominion Energy, Inc. produces and transports energy products. The Company offers natural gas and electric energy transmission, gathering, and storage solutions. Dominion Energy serves customers in the United States.

### Highlights

- Dominion strengthened its financial strategy in 2024, planning to issue \$700 million in equity annually from 2025 to 2029 to reduce debt and improve credit metrics. This will enhance cash flow ratios and financial stability.
- The supportive regulatory environment, especially in Virginia, ensures transparency in rate-setting and cost recovery for investments and offshore wind projects.
- With the Fed starting a rate-cut cycle, there is an opportunity to lock in high-quality bonds and mitigate volatility by focusing on low-credit-risk issuers.

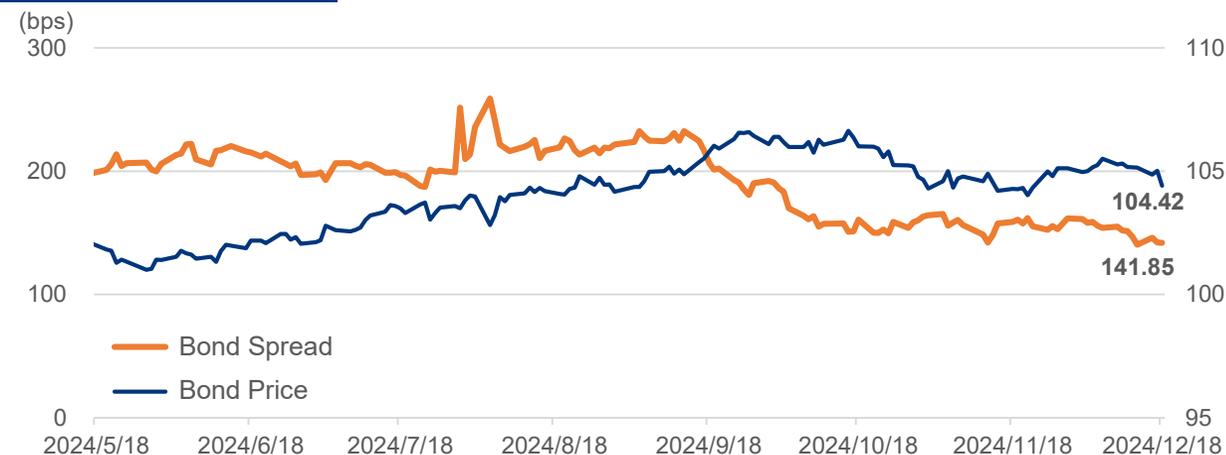
Financials	2021	2022	2023
ROA(%)	3.36	1.29	1.87
Free Cash Flow (100M USD)	-20.24	-40.58	-36.63
Interest Coverage Ratio	2.23	1.43	2.04

Source: Bloomberg, 19 Dec 2024

### Overview

<b>Name</b>	D 6.875 02/01/55	<b>ISIN</b>	US25746UDT34
<b>Maturity Date</b>	1 Feb 2055	<b>Remaining Maturity</b>	30.13
<b>Coupon (%)</b>	Float/6.875/Semi-Annual	<b>YTM/YTC(%)</b>	6.76/5.82
<b>Currency</b>	USD	<b>Min. Subscription/Increment</b>	2,000/1,000
<b>Ratings (Moody's/Fitch/S&amp;P)</b>	Baa3/BBB-/BBB-	<b>Seniority</b>	Subordinated

### Price Since Issuance



## Appendix

## Key Economic Data / Events

## ▶ DEC 2024

16

Monday

- U.S. Dec. S&P Global US Manufacturing PMI Initial Value (Actual:48.3 Est:49.5 Prev:49.7)
- Eurzone Dec. HCOB Eurozone Manufacturing PMI initial Value (Actual:45.2 Est:45.3 Prev:45.2)
- China Nov. Industrial Production YoY (Actual:5.4% Est:5.4% Prev:5.3%)
- China Nov. Retail Sales YoY (Actual:3.0% Est:5.0% Prev:4.8%)

17

Tuesday

- U.S. Nov. Retail Sales Advance MoM (Actual:0.7% Est:0.6% Prev:0.5%)
- U.S. Nov. Industrial Production MoM (Actual:-0.1% Est:0.3% Prev:-0.4%)

18

Wednesday

- U.S. Nov. Housing Starts MoM (Actual:-1.8% Est:2.6% Prev:-3.2%)
- Japan Export YoY (Actual:3.8% Est:2.5% Prev:3.1%)
- Eurzone Nov. CPI YoY (Actual:2.2% Est:2.3% Prev:2.0%)

19

Thursday

- U.S. Q3 GDP Annualized Final Value (Actual:3.1% Est:2.8% Prev:2.8%)
- U.S. Dec. FOMC Rate Decision (Actual:4.50% Est:4.50% Prev:4.75%)
- Japan Dec. BOJ Target Rate (Actual:0.25% Est:0.25% Prev:0.25%)
- England Dec. BOE Target Rate (Actual:4.750% Est:4.750% Prev:4.750%)

20

Friday

- U.S. Nov. PCE YoY (Est:2.5% Prev:2.3%)
- U.S. Nov. Core PCE YoY (Est:2.9% Prev:2.8%)
- U.S. Dec. U. of Mich. Sentiment Final Value (Est:74.2 Prev:74.0)
- Japan Natl CPI YoY (Actual:2.9% Est:2.9% Prev:2.3%)
- Eurzone Dec. Consumer Confidence initial Value (Est:-14.0 Prev:-13.7)

23

Monday

- U.S. Dec. Conf. Board Consumer Confidence (Est:113.0 Prev:111.7%)

24

Tuesday

- U.S. Nov. Durable Goods Orders MoM Primary Value (Est:-0.3% Prev:0.3%)
- U.S. Nov. New Home Sales MoM (Est:0.2% Prev:-0.3%)

25

Wednesday

- Japan Nov. Machine Tool Orders YoY Final Value (Prev:3.0%)

26

Thursday

- U.S. Last Week's Initial Jobless Claims (Prev:220k)

27

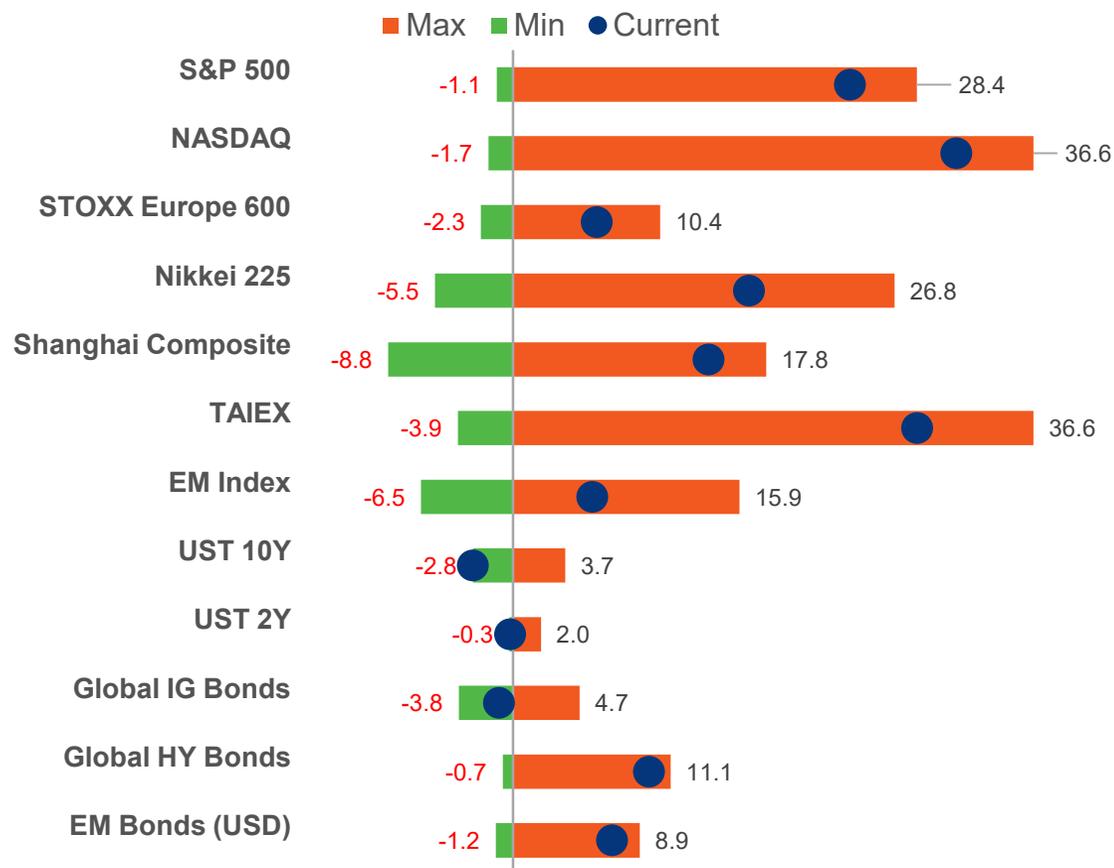
Friday

- Japan Nov. Jobless Rate (Est:2.5% Prev:2.5%)
- Japan Nov. Tokyo CPI YoY (Est:2.9% Prev:2.5%)
- Japan Nov. Retail Sales MoM (Est:0.6% Prev:-0.2%)
- Japan Nov. Industrial Production MoM (Est:-3.5% Prev:2.8%)

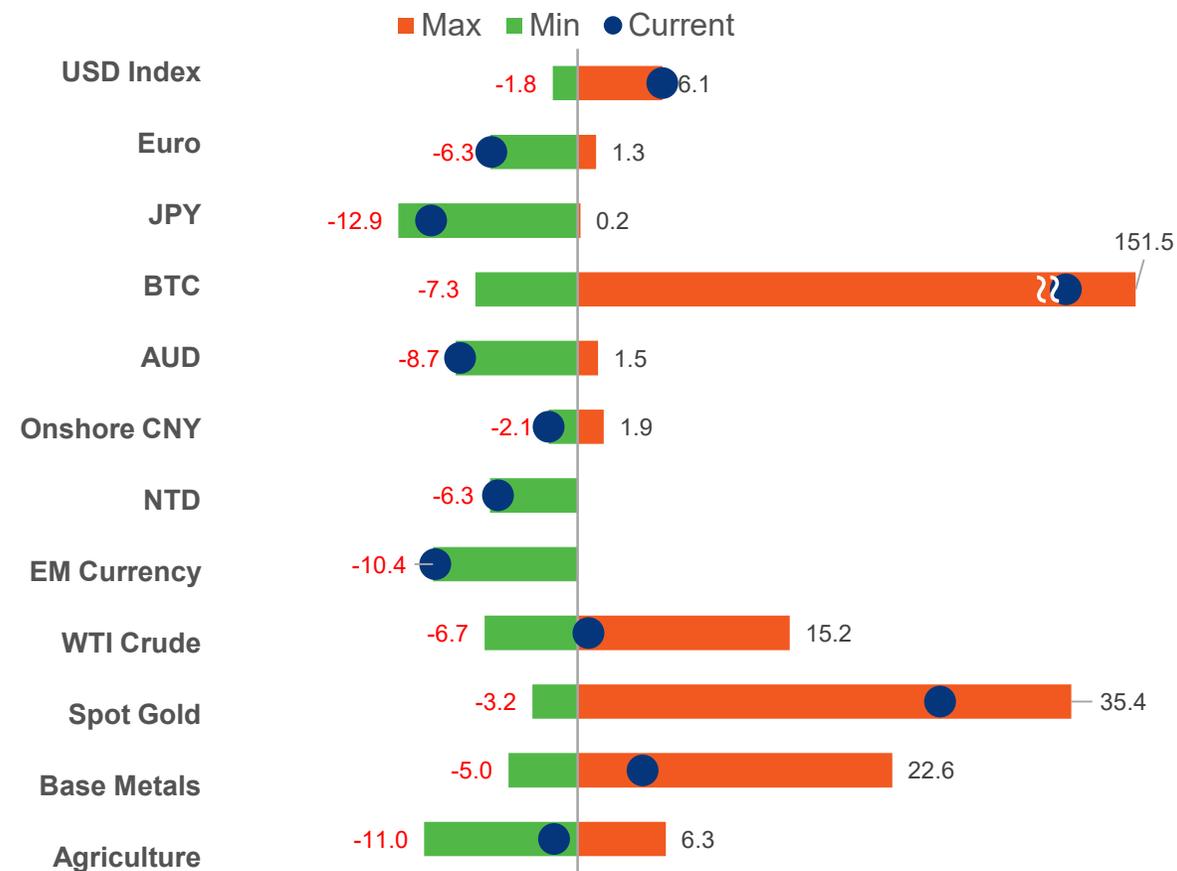
Source: Bloomberg

# YTD Major Market / Asset Performance

## Stock and Bond Market YTD Performance (%)



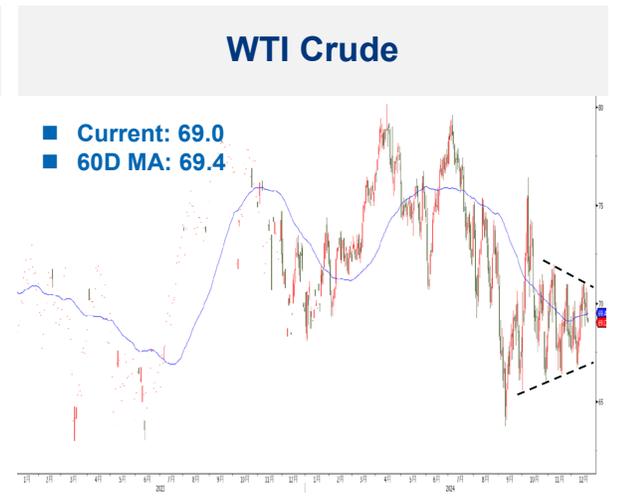
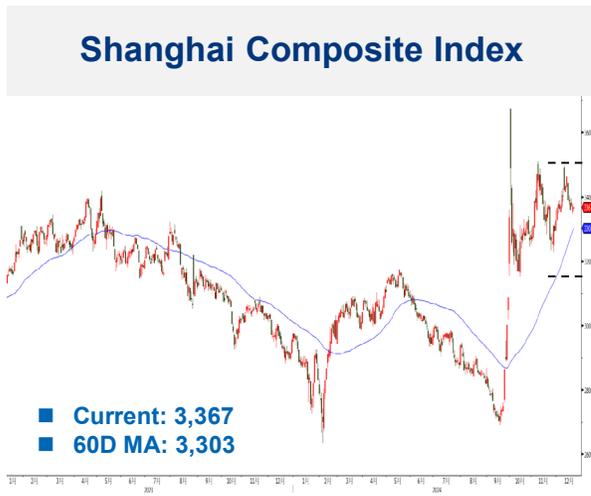
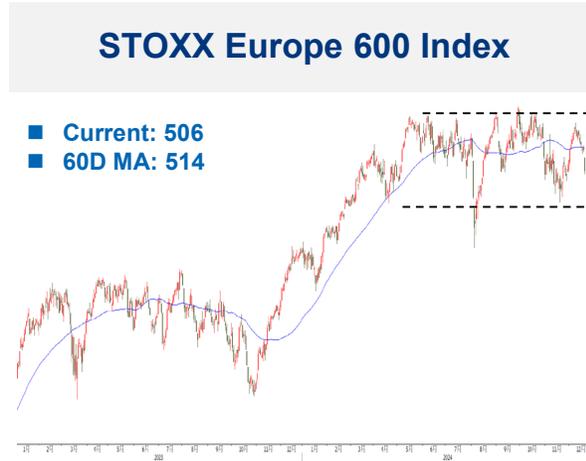
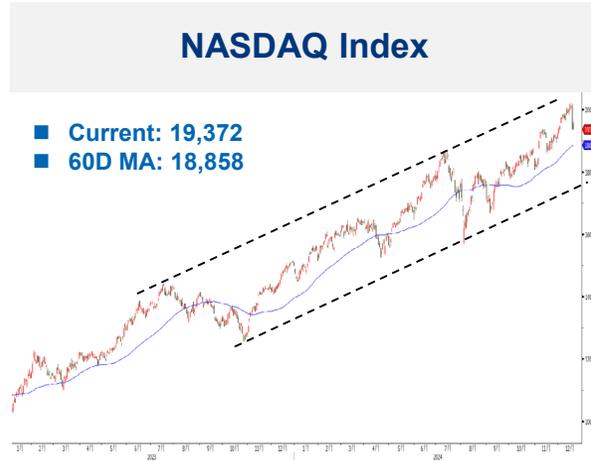
## Currencies and Futures Market YTD Performance (%)



Source: Bloomberg, 20 Dec. 2024

# Technical Analysis

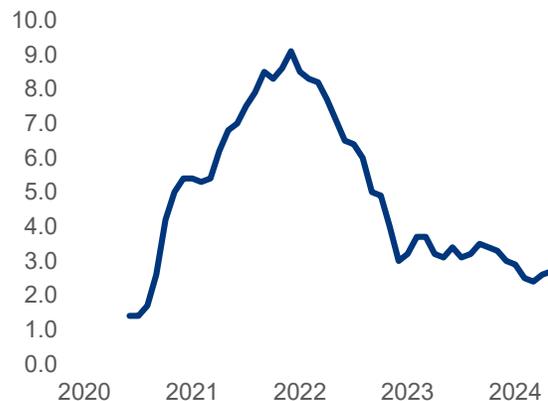
— 60D MA



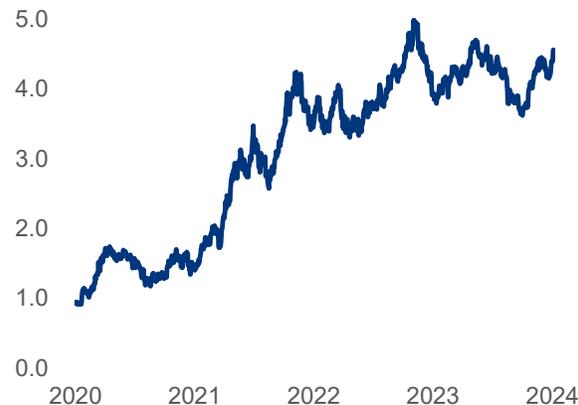
Source: Bloomberg, 20 Dec. 2024

# Market Monitor

**U.S. CPI YoY Growth Rate (%)**



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



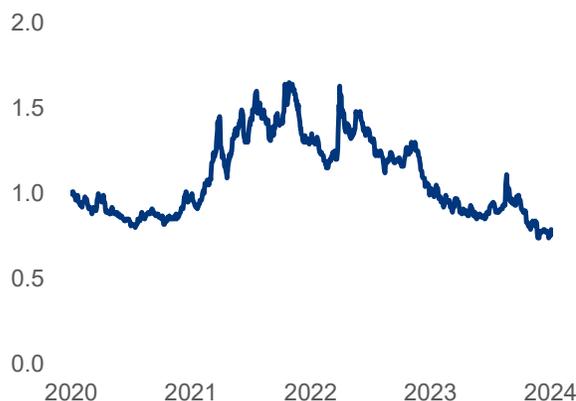
**U.S. Treasury Yield Spread (bps)**



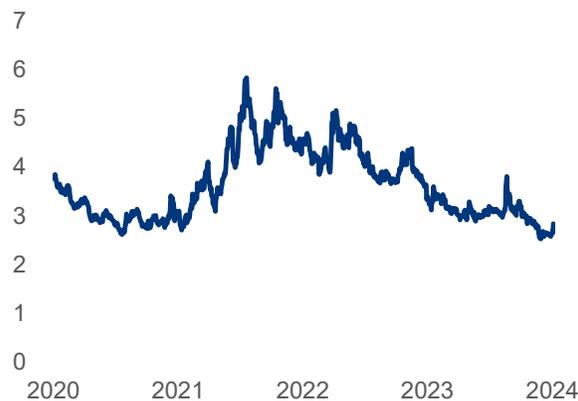
**U.S. Treasury Yield Curve (%)**



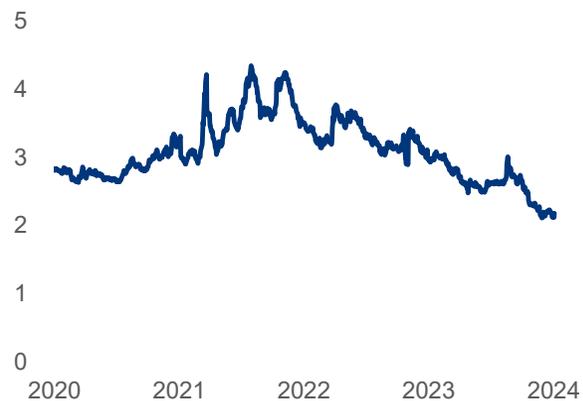
**USD IG Credit Spread (%)**



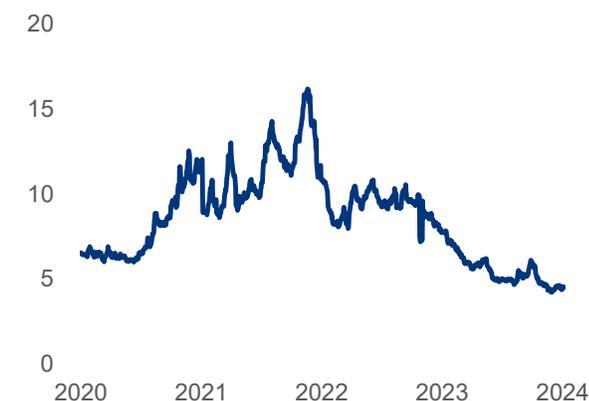
**USD HY Credit Spread (%)**



**USD EM Credit Spread (%)**



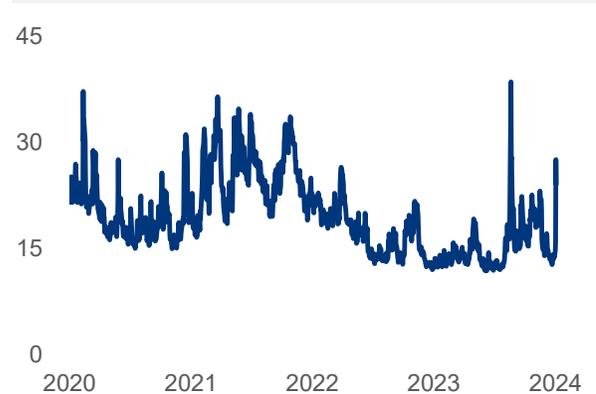
**USD Asia Credit Spread (%)**



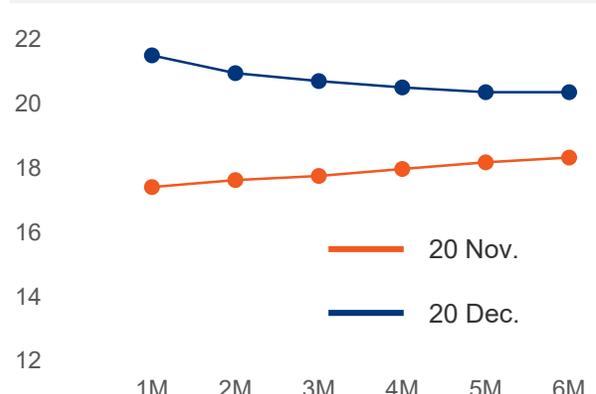
Source: Bloomberg, 20 Dec. 2024

# Market Monitor

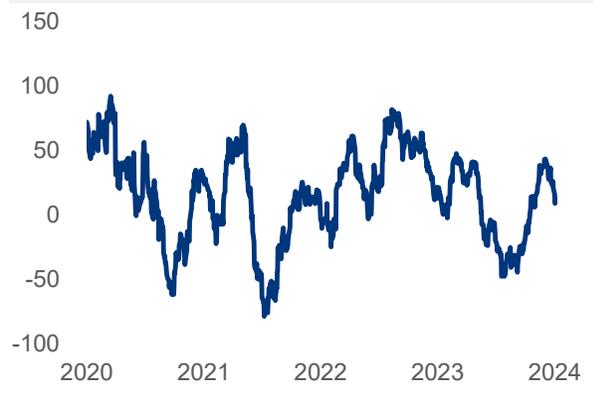
### VIX Index



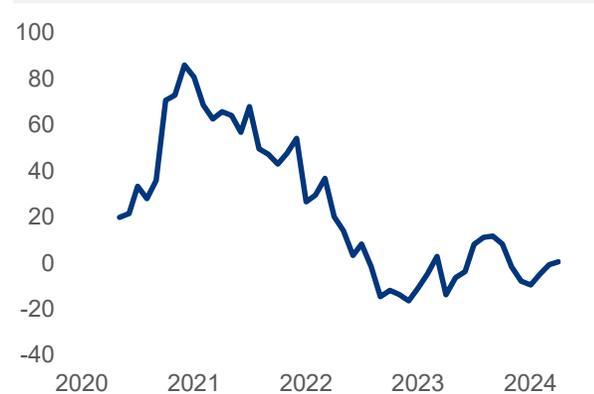
### VIX Term Structure



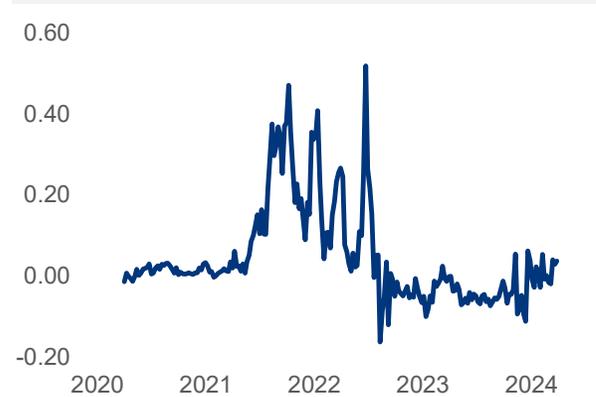
### U.S. Citi Economic Surprise Index\*



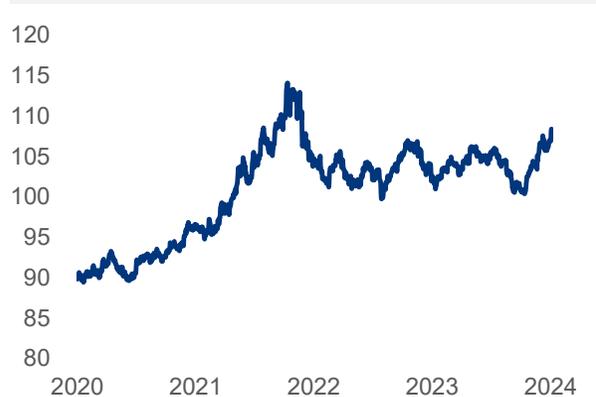
### U.S. Citi Inflation Surprise Index\*



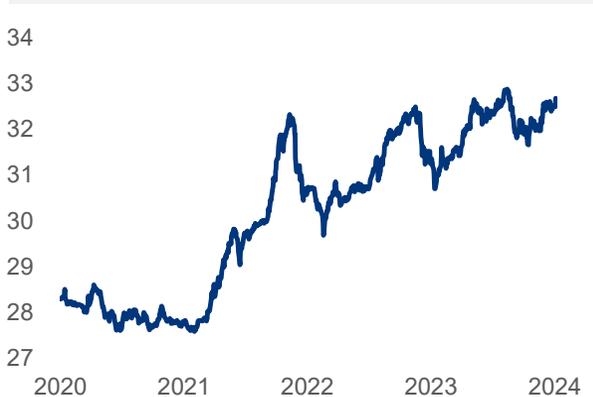
### TED Spread (bps)



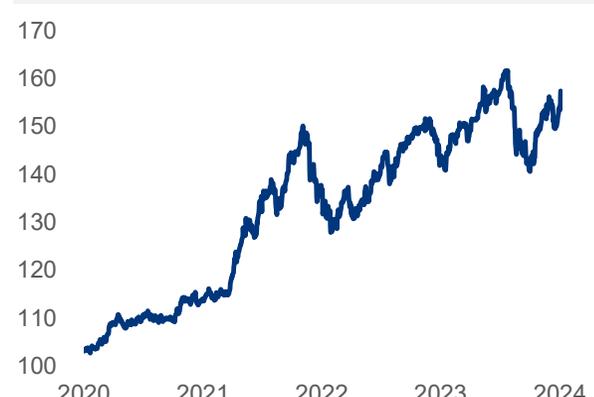
### U.S. Dollar Index



### USD to TWD



### USD to JPY



Source: Bloomberg, 20 Dec. 2024; \*The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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