KGI

Financial Bonds: Stability Through Turmoil

Global Markets Weekly Kickstart

17 March 2025

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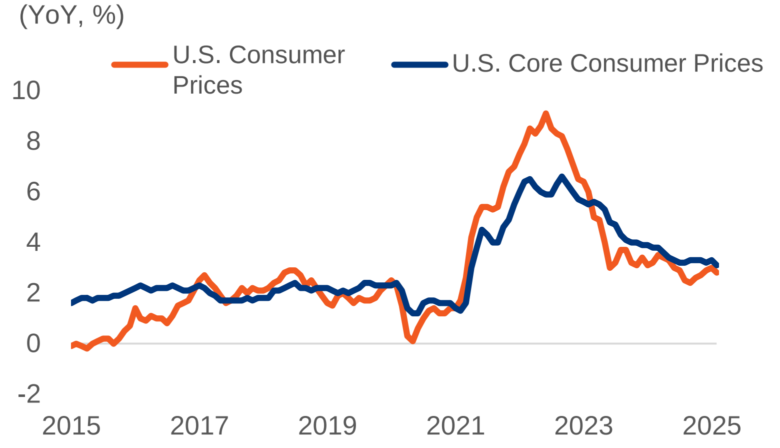
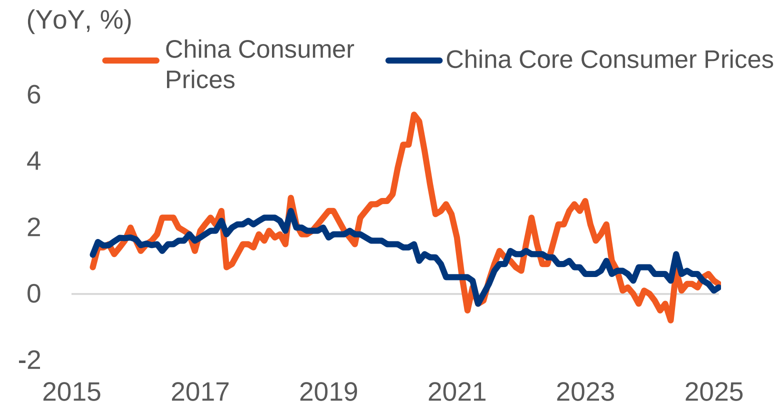
Chart of the Week

Contrasting Inflation Trends in U.S. & China; Economic Stimulus as the Key Focus

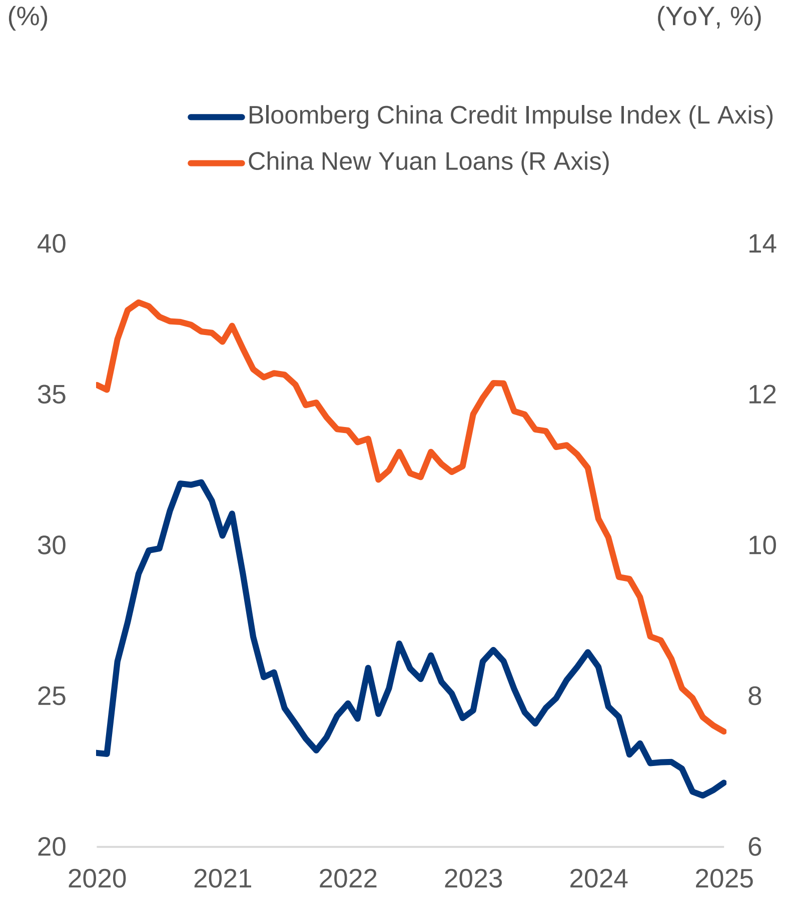
- U.S. February CPI annual growth rate fell from 3.0% to 2.8%, below the market expectation of 2.9%. Core CPI also declined from 3.3% to 3.2%. Additionally, nonfarm payrolls increased by only 151,000, missing the market forecast of 160,000, while the unemployment rate edged up to 4.1%. Overall, the base effect contributed to a significant improvement in inflation, while the labor market, though slowing, remains stable. With inflation easing, the Federal Reserve may cut rates by 25 basis points each in Q2 and Q3. However, the risk of inflation rebounding remains high, limiting further rate cut potential.
- China's February CPI fell by 0.7% year-over-year, marking its second negative growth in 13 months. The continued weakness in new yuan-denominated loans and the credit pulse index reaching post-pandemic lows indicate that loose liquidity is struggling to flow into the real economy, keeping deflationary pressures and economic downturn concerns persistent. Although the PBOC governor reaffirmed plans for reserve requirement and interest rate cuts at an appropriate time, maintaining an accommodative monetary policy, the Ministry of Finance also pledged a more proactive fiscal policy. Premier Li Qiang emphasized strengthening the platform economy, boosting consumption, and supporting technological innovation, including AI, which benefits tech stocks. However, with U.S.-China trade negotiations at an impasse and recent sector gains already significant, caution is advised when chasing highs.

U.S. Consumer Prices Improve, While China Struggles to Rebound





China's Loan and Credit Indicators Continue to Slow

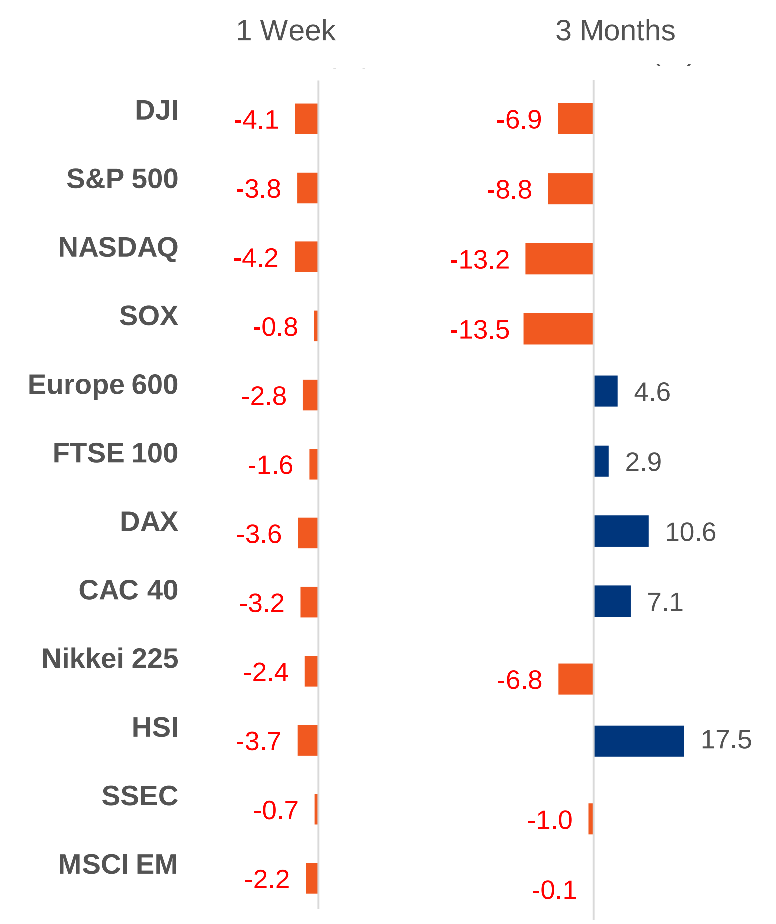


Source: Bloomberg

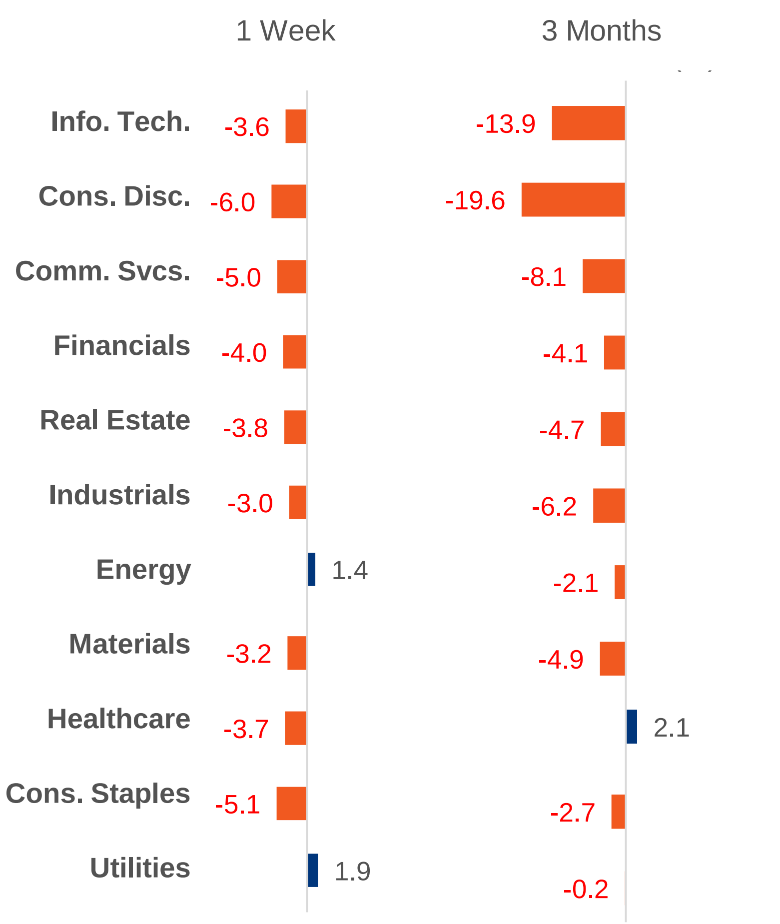
Market Recap | Political & Economic Uncertainty Persists; Market Volatility Continues

- Trump’s trade tariff policies remain unpredictable, as the U.S. officially implements a 25% tariff on steel and aluminum this week. This move triggered backlash from key trade partners like Canada and the EU, prompting retaliatory tariffs. Additionally, Trump threatened a 200% tariff on French and other EU wines, champagne, and alcoholic products in response to EU countermeasures. Ongoing tariff disputes, coupled with slowing U.S. consumer and producer price growth in February, have heightened recession fears. With a potential government shutdown looming, market concerns over an economic downturn intensified, leading to continued declines in U.S. equities and increased volatility across global stock markets.
- U.S. earnings reports were mixed this week. Oracle’s cloud applications and services revenue fell short of expectations, while Adobe provided a lukewarm forecast. Additionally, Apple delayed the release of its new Siri version, raising investor concerns about potential impacts on new iPhone sales. Meanwhile, the Federal Trade Commission (FTC) has launched an antitrust investigation into Microsoft, adding pressure to the tech sector, which continued its decline. With rising concerns over economic slowdown, cyclical sectors such as consumer discretionary stocks faced headwinds. In contrast, investors shifted funds into defensive sectors, with utility stocks showing steady performance.

Major Stock Indices Performance by Region (%)



US Stock Performance by Sector (%)

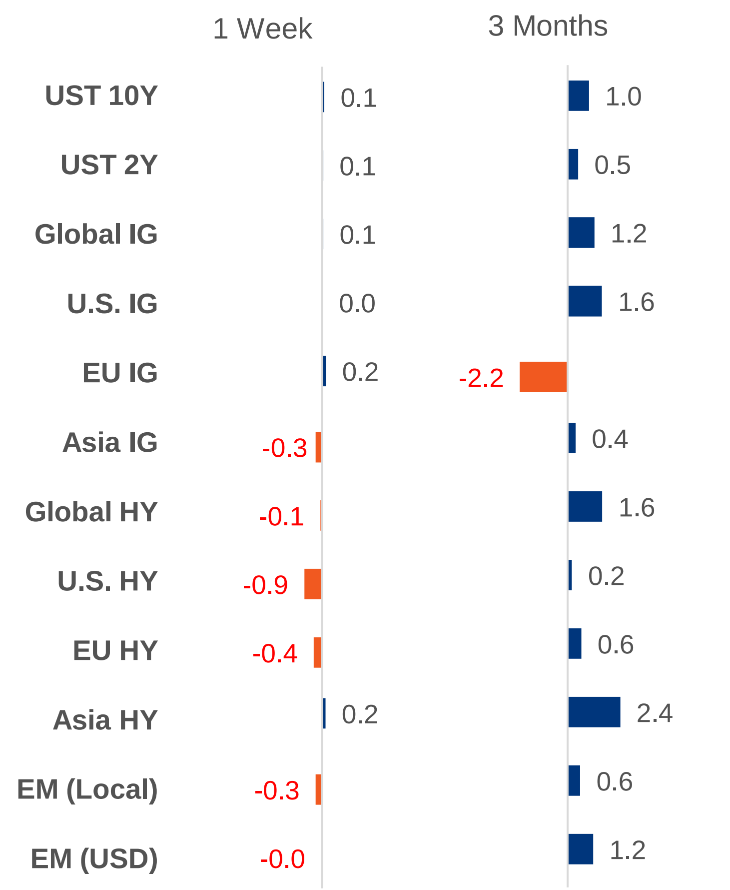


Source: Bloomberg, 14 Mar. 2025

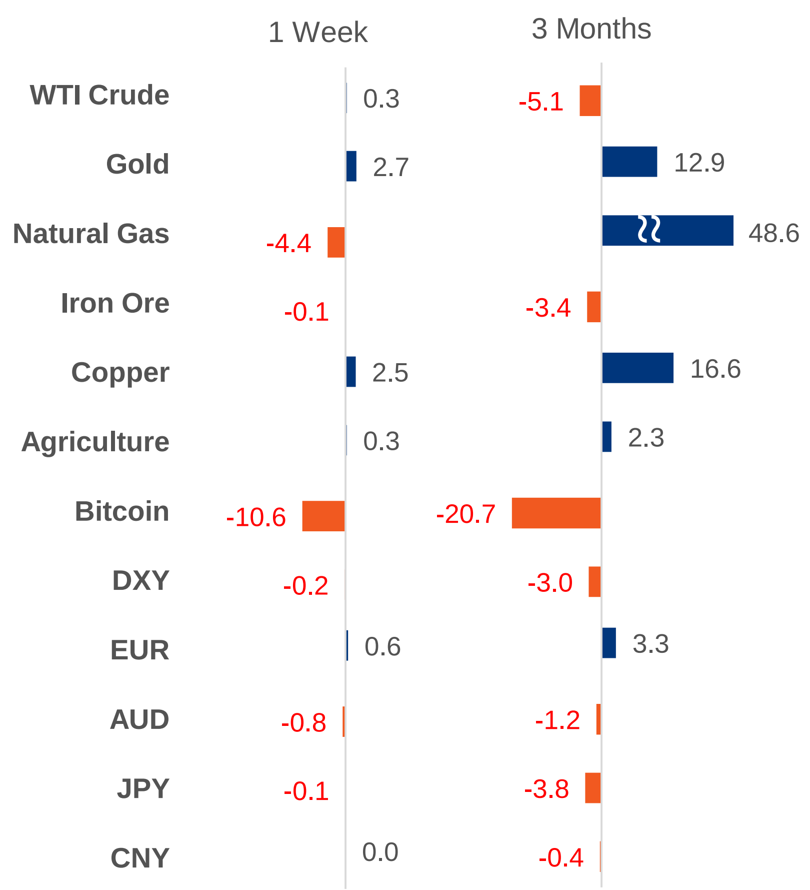
Cooling U.S. Inflation and Economic Slowdown Concerns Drive Safe-Haven Flows into Treasuries; Gold Prices Strengthen

- The U.S. February CPI report showed that both core and headline inflation rose at a slower-than-expected annual pace, with monthly increases also moderating. Meanwhile, PPI remained flat on a monthly basis but decelerated YoY from 3.7% to 3.2%, falling short of market expectations, indicating further easing of inflationary pressures. However, weekly jobless claims came in at 220,000, lower than the previous figure and market forecasts, suggesting continued economic resilience. Investors are closely watching potential negative impacts from aggressive government spending cuts and escalating trade tensions. Rising concerns over economic slowdown have strengthened expectations for Fed rate cuts, prompting safe-haven flows into U.S. Treasuries, pushing yields lower. In contrast, lower-rated high-yield bonds faced increased pressure.
- Trump's steel and aluminum tariffs have fully taken effect, prompting traders to adjust to the new policy by driving metal prices higher, with copper prices rising. Amid growing global economic and political uncertainties and increasing recession fears, safe-haven demand pushed gold prices above the $3,000 per ounce mark during intraday trading. In the currency market, Germany's fiscal expansion policies supported further euro gains. Meanwhile, declining U.S. Treasury yields weakened the dollar, as concerns mounted over a potential escalation of the U.S. tariff trade war, weighing on the Australian dollar.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)

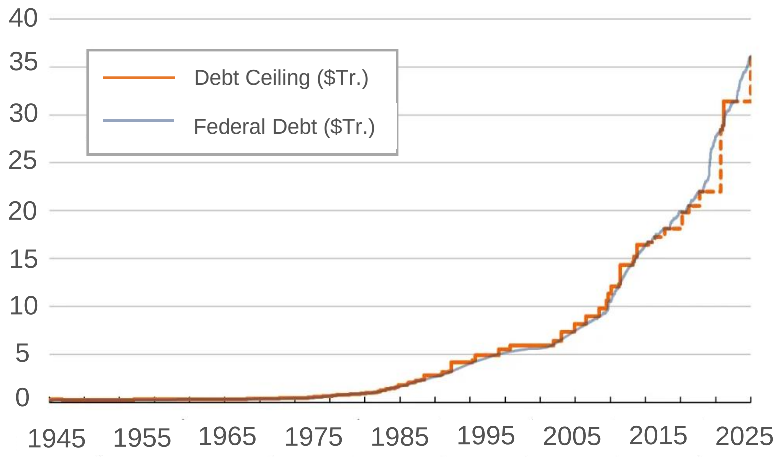


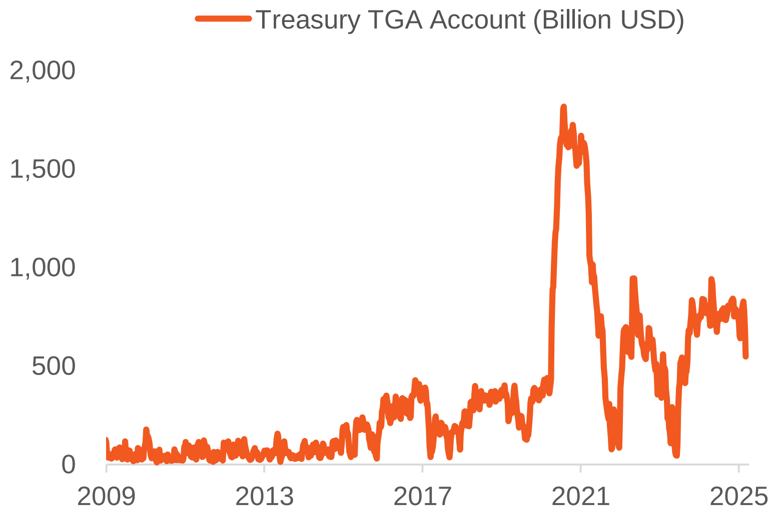
Source: Bloomberg, 14 Mar. 2025

What's Trending U.S. Stopgap Funding Bill Expires; Congress Negotiations in Focus

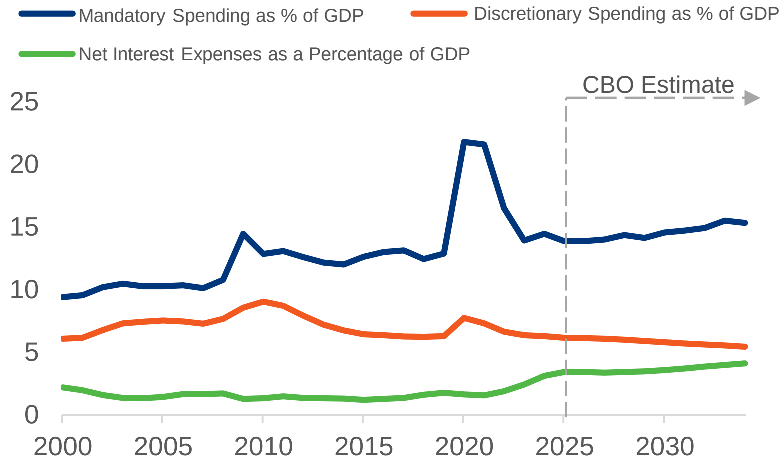
- According to U.S. Treasury estimates, the country reached its debt ceiling in January this year. The continuing resolution agreed upon by both parties in Congress late last year is set to expire on March 14, halting temporary government funding. As a result, markets are closely watching when Congress will pass a new bill to prevent a government shutdown.
- Compared to the 2023 debt ceiling crisis, the U.S. Treasury currently holds a relatively ample cash balance of approximately $550 billion. Additionally, last year's strong economic performance is expected to boost tax revenues this year, potentially pushing the X-date (the day funds are exhausted) beyond June. This gives Congress more time to negotiate a new spending bill or debt ceiling adjustment, making a technical default in the short term unlikely and limiting immediate impacts on the bond market. However, in the long run, U.S. fiscal discipline remains a major concern. According to projections from the Congressional Budget Office (CBO), the fiscal deficit is expected to continue expanding. The growing share of mandatory spending—such as social welfare and healthcare—along with rising net interest payments, will reduce the proportion of discretionary spending. This will make fiscal consolidation more challenging and introduce uncertainty for long-term U.S. Treasury investments.

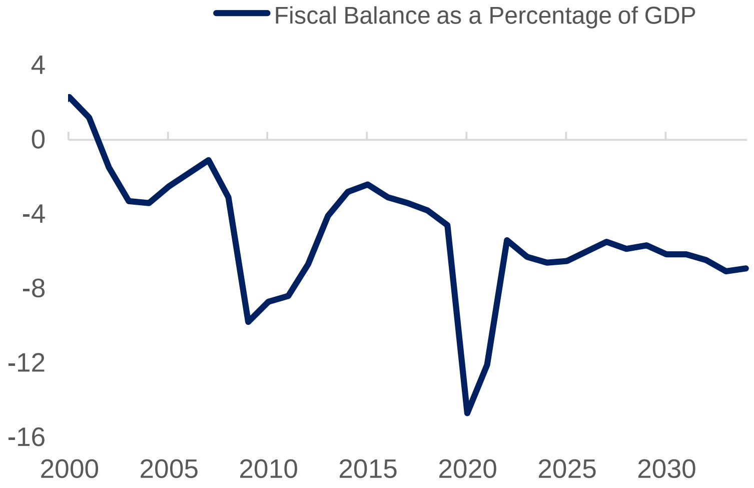
Treasury Holds Ample Cash, Giving Congress More Time for Negotiations





Rising Mandatory Spending May Widen U.S. Fiscal Deficit





Source: Bloomberg, U.S. Congressional Budget Office (CBO), CRFB

In Focus

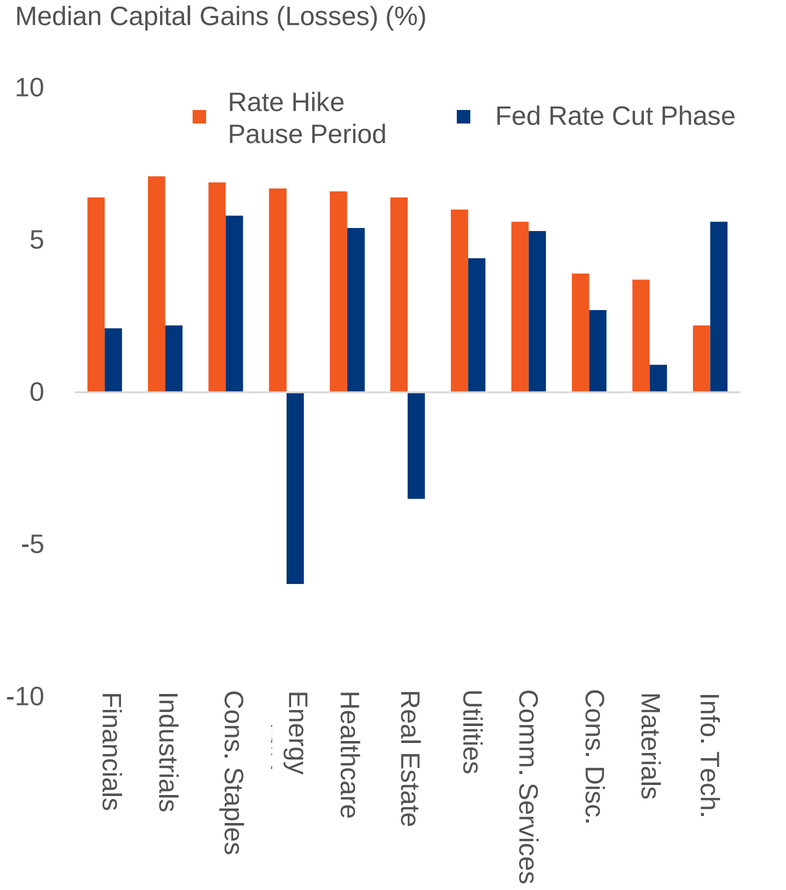
Fed Eases Stress Test Conditions, Boosting Prospects for Capital Release in Financial Sector

- The Federal Reserve recently released its stress test scenarios for the financial sector, outlining assumptions for 2025. The baseline scenario includes a sharp rise in the U.S. unemployment rate from 5.9% to 10%, a 33% decline in housing prices, and a 30% drop in commercial real estate values. Additionally, two exploratory risk scenarios will be analyzed: one assessing how banks respond to credit and liquidity stress in the non-bank financial sector during a severe global recession, and another simulating the collapse of five major hedge funds to evaluate its impact on the largest and most complex banks. Given that the 2025 stress test assumptions are less stringent than last year's, the more relaxed regulatory environment could enable banks to release capital and enhance profitability, offsetting the effects of a potential slowdown in capital requirements.
- With high interest rates persisting, the performance of corporate credit bonds during the post-rate-hike pause is worth monitoring: (1) Reviewing different phases of the interest rate cycle, financial sector bonds tend to perform better during rate pause periods. (2) In a rate-cutting phase, financial bonds still generate positive average capital gains, reflecting the low default risk of financial institutions. Investors may consider allocating funds to financial sector offshore bonds to enhance portfolio resilience.

Fed's 2025 Stress Test: Extreme Scenarios Less Severe Than Last Year

Stress Test Scenarios	2024	2025	Changes Compared to 2024	Difference
U.S.				
DJI	Down 55%	Down 50%	Down 5% Less	Less
Real GDP Growth Rate	Fall 13.1%	Fall 11.2%	Decline Reduced by 1.9%	Less
Unemployment Rate	Rise 6.3%	Rise 5.9%	Increase Reduced by 0.4%	Less
10-Year Treasury Yield	Down 370 bps	Drop 330 bps	Decline Reduced by 40 bps	Closer
Mortgage Rate	0 bp	0 bp	No Change	Closer
VIX	Soar 223%	Soar 136%	Increase Reduced by 87%	Less
Commercial Real Estate Price Index	Down 40%	Down 30%	Decline Reduced by 10%	Less
HPI	Down 36%	Down 34%	Decline Reduced by 2.5%	Less
BBB Corporate Bond Yield	Rise 40 bps	Rise 60 bps	Increase Expanded by 20 bps	Closer
Outside the U.S.				
Euro Area Real GDP Growth Rate	Down 4.7%	Down 5.7%	Decline Increased by 1%	Heavier
EUR/USD	Depreciate 9%	Depreciate 10%	Depreciation Increased by 0.9%	Heavier
Asia Developing Country Real GDP Growth Rate	Fall 7%	Fall 5.8%	Decline Reduced by 1.2%	Less
Japan Real GDP Growth Rate	Fall 8.4%	Fall 10.1%	Decline Increased by 1.7%	Heavier
USD/JPY	Depreciate 2%	Depreciate 3%	Depreciation Increased by 0.7%	Closer
UK Real GDP Growth Rate	Down 5.3%	Down 5.5%	Decline Increased by 0.2%	Closer
GBP/USD	Depreciate 9%	Depreciate 10%	Depreciation Increased by 0.9%	Heavier

Historically, After Rate Hike Pauses, Median Capital Gains on Financial Bonds Are Mostly Positive

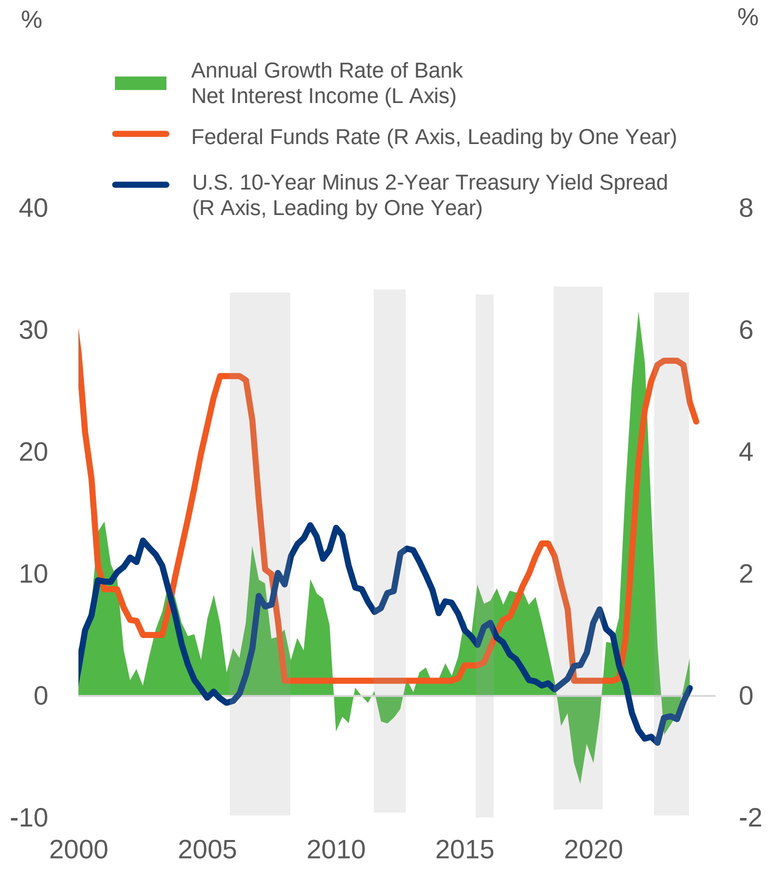


Source: Bloomberg. Note: Return statistics from 1998 to December 2023

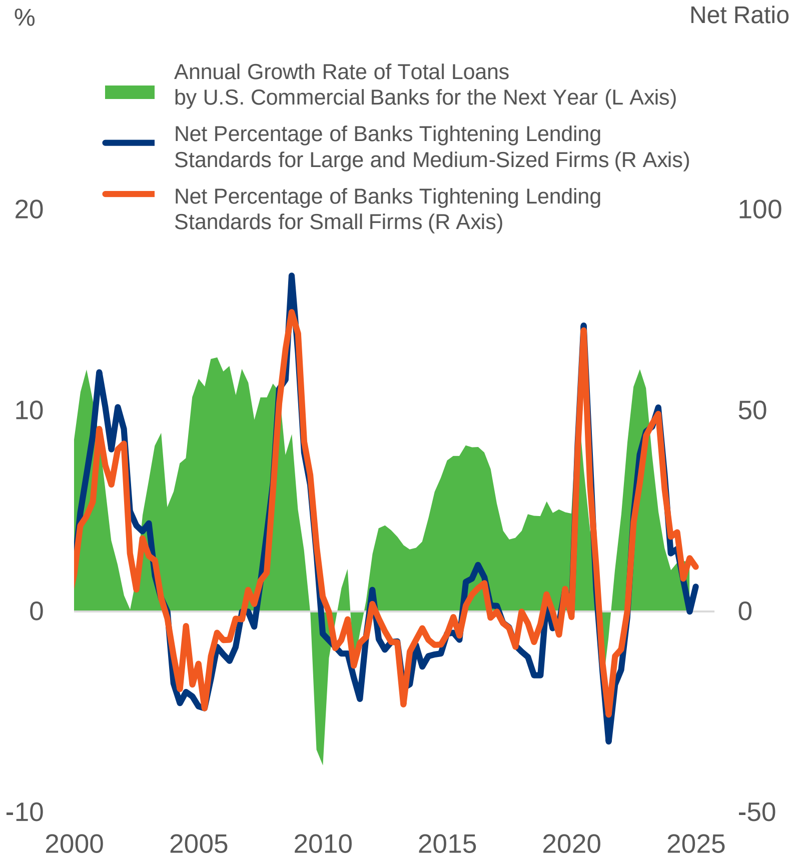
Steepening Yield Curve Supports Improvement in Bank Credit Quality

- In the second half of last year, the European Central Bank led the way in cutting interest rates, followed by the U.S. While major central banks continue to ease, their pace remains uneven. Additionally, since Q3 last year, the 10-year minus 2-year yield spreads in France, the UK, the U.S., and Germany have turned positive, reflecting the impact of rate cuts lowering short-term yields and supporting market liquidity and economic growth. Historically, outside of recession periods, a positive yield spread has often coincided with net interest income growth for banks. With the current yield curve maintaining a positive slope, financial sector profitability is expected to remain supported.
- Reviewing historical changes in U.S. commercial bank loan growth over the following year, data shows that when the Fed's lending standards are no longer tight—and the economy is not in a recession—loan volumes tend to expand further. However, during recessions, lending can decline sharply. Given the current soft landing scenario, if banks stop tightening lending standards, it could support moderate loan growth, contributing to sustained profitability and strengthening capital conditions.

The yield curve spread is one of the key factors affecting banks' net interest income.



Historically, during non-recession periods, looser lending standards have supported loan growth.



Source: Bloomberg. Note: Left chart shaded areas indicate periods of rising yield curve spreads

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	◆ Monitor the developments of Trump's tariff policies and potential countermeasures from trade partners, as well as shifts in U.S. employment, consumer spending, corporate earnings, and outlooks—all of which will influence the stock market. A defensive approach is recommended, favoring sectors such as consumer staples, utilities, and healthcare. Financials, industrials, and defense stocks remain attractive due to policy tailwinds, while the long-term bullish trend in tech and AI remains intact. ◆ Tariff-related risks between the U.S. and Europe persist, making it prudent to be cautious after the recent sharp rally in European stocks. In Japan, rising wages are fueling a positive consumption cycle, supporting a bullish outlook for domestic demand stocks. Meanwhile, China and Hong Kong tech stocks have already posted significant short-term gains, suggesting potential consolidation ahead, warranting a neutral stance.	**Strategy**: In the short term, consumer staples, utilities, and healthcare sectors offer stability, while financials, industrials, and defense stocks remain supported by policy themes. For the long term, gradually accumulating AI and tech stocks on pullbacks remains a favored approach. **Regions**: U.S., Japan
Bonds	◆ U.S. inflation remains under control, but employment and consumer spending require further observation. Pay attention to the Fed's potential pause in balance sheet reduction and its rate cut trajectory this year. It is advisable to lock in yields on medium- to short-term Treasuries and investment-grade bonds during periods of rising U.S. Treasury yields. ◆ Long-term Treasuries carry higher risks related to fiscal discipline and inflation uncertainty, making them more volatile. If investors observe a significant slowdown in employment data or clear signs of U.S. economic deterioration, gradually increasing exposure to medium- to long-term bonds may be prudent.	**Duration**: Lock in yields with medium- to short-term bonds. **Types**: Prioritize U.S. Treasuries and investment-grade corporate bonds, focusing on large enterprises. Financial sector bonds with potential tailwinds are also favored.
Forex	◆ The Fed's rate cut pace is slowing, while Trump's remarks have dampened the dollar's strength. Although the dollar remains supported at high levels, its momentum is weakening. ◆ Japan's economic improvement and the possibility of a faster rate hike by the Bank of Japan, combined with Trump's comments boosting the yen, suggest a short-term bullish outlook for the yen.	**USD**: Supported at high levels but weakening momentum. **JPY**: Expected to appreciate in the short term.
Commodity	◆ Trump's tariff and trade uncertainties, economic slowdown and inflation risks, fiscal deficit pressures, and continued central bank gold purchases all support gold's upside momentum.	**Gold**: Buy on dips; medium- to long-term bullish.

Product Spotlight | HK Equities

China's "Two Sessions" Conclude

Boosting Consumption, Driving Income Growth

- China's "Two Sessions" officially concluded on Tuesday (11th). This year, boosting consumption was ranked as the top priority among 2025's ten key tasks, up from third place in 2024, reaffirming the country's focus on consumption-driven economic growth. Beyond doubling subsidies for trade-in programs on consumer goods to RMB 300 billion, policymakers emphasized shifting economic policies toward improving livelihoods and directing more financial resources into "investing in people," aiming to increase household income and reduce burdens. More job-supporting measures are expected ahead, as stabilizing income expectations is key to sustaining consumer confidence and driving economic growth.

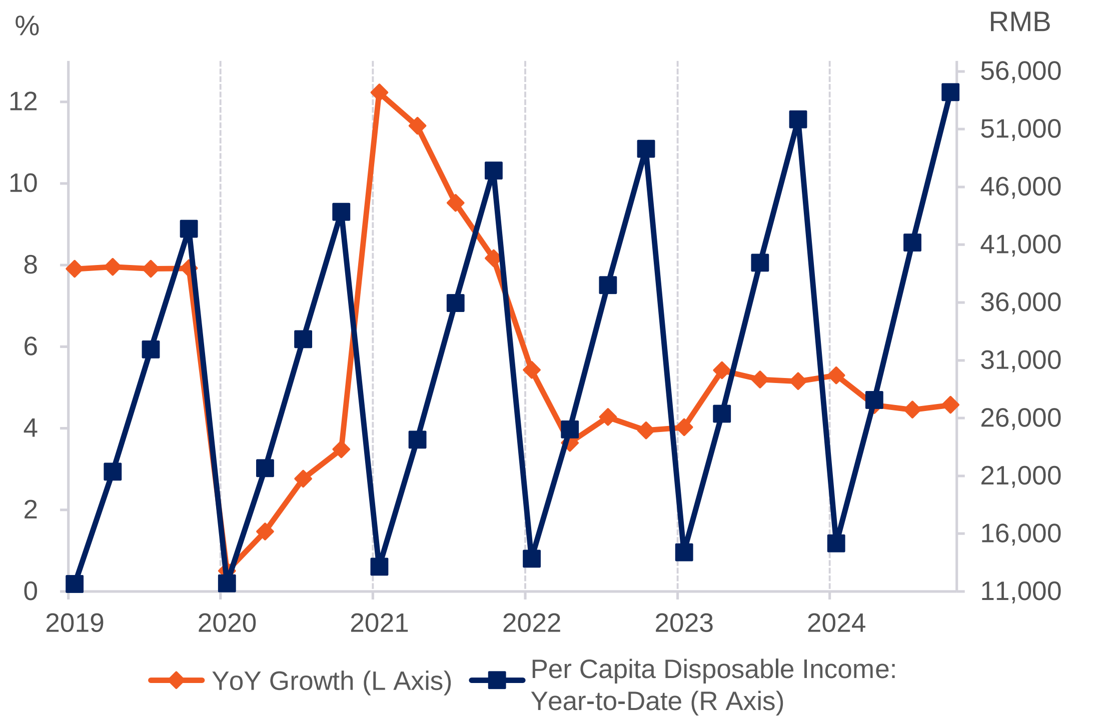
"AI+" Initiative: Integrating Digital Technology and Products

- Another key focus this year is technology. In recent months, the launch of DeepSeek has fueled market enthusiasm for China's AI development, highlighting its potential. This has led to a valuation reassessment of AI-related stocks, becoming a major driver of the Hang Seng Index in recent months. During the "Two Sessions," advancing "new productive forces" was identified as the second priority among 2025's ten key tasks, with a strong push for the "AI+" initiative. This includes accelerating the development of AI-powered smartphones and computers, integrating digital technology with products to expand AI applications beyond large enterprises and into everyday life.

The Year of "Consumption + AI"

- AI's ability to analyze massive datasets can facilitate market-wide data integration, potentially driving new consumption trends and boosting consumer demand. Overall, this year's investment theme in China and Hong Kong is likely to center around "Consumption + AI."

Per Capita Disposable Income



Source: CEIC

Lenovo Group Ltd. (992)

Closing Price HK $11.6	**Target Price** HK $14.3

Lenovo Group Limited develops, manufactures, and distributes intelligent devices. The Company provides laptops, desktops, tablet PCs, accessories, and data center equipment such as servers and storage, as well as offers infrastructure solutions and software services.

- **Data Center Demand to Shift Toward Enterprise-Driven Growth**

  TrendForce estimates global AI server shipments will grow nearly 28% YoY in 2025, with AI data centers expanding in both scale and number. The emergence of DeepSeek and smaller, more efficient AI models is lowering entry barriers for AI adoption, enabling more enterprises to invest in AI infrastructure. Lenovo projects its Infrastructure Solutions Group (ISG) revenue to grow 18% YoY in fiscal 2026.

- **China Poised for a PC Upgrade Cycle**

  According to IDC, China's PC market is expected to enter a notable upgrade cycle in 2H25. Lenovo's integration of DeepSeek technology will enhance its domestic AI PC competitiveness, enabling users to access AI services without downloads. Its Intelligent Devices Group (IDG) revenue is projected to grow around 10% in fiscal 2026. Additionally, subsidies for consumer trade-ins will double from RMB 150 billion last year to RMB 300 billion, benefiting Lenovo through increased consumer spending.

- **Valuation Yet to Reflect DeepSeek Impact**

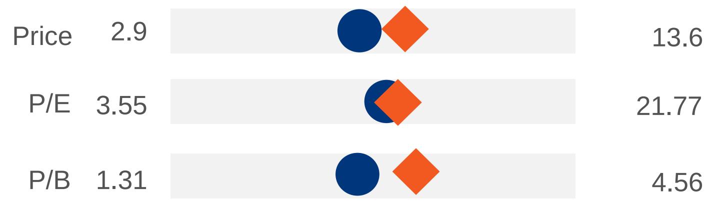
  Lenovo's current forward P/E stands at 10.3x, with FY26 EPS expected to grow 36% YoY. Its valuation remains at mid-2024 levels—before DeepSeek's emergence—suggesting that the market has yet to price in the tech sector's revaluation potential.

Financials

	2021	2022	2023	2024F	2025F
Net Income (100M HKD)	19.5	14.5	9.8	14.8	16.4
NI YoY(%)	97	-26	-32	51	11
EPS(CNY)	0.15	0.12	0.08	0.12	0.16
DPS(CNY)	0.05	0.05	0.05	0.05	0.05
P/E	10.0	12.6	18.8	12.6	9.4
Dividend Yield(%)	3.3	3.3	3.3	3.3	3.3

Source: Bloomberg; 2024/25F are market estimates

Valuations



1-Year Price

As of 13 Mar. 2025	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**
Return (%)	-9.1	22.7	15.5	21.4	48.7	168.8

Source: Bloomberg

Uni-President China Holdings Ltd. (220)

Closing Price	Target Price
HK $9.1	HK $10.0

Uni-President China Holdings Ltd. processes food.

- ### High Dividend and Business Model Position Uni-President as a Defensive Stock

  With a projected 5.7% dividend yield in 2025 and a low economic volatility food business, Uni-President has maintained a 100% payout ratio since 2019, reinforcing its defensive appeal. For 2025, management expects earnings growth to outpace revenue, with market forecasts projecting YoY revenue and profit growth of 7.7% and 15.5%, respectively.

- ### Lower-Tier Markets Driving Revenue Growth

  Uni-President China's pricing strategy focuses on maintaining unit prices to gain market share—a strategy that appears to be working. According to management, the company achieved double-digit sales growth in beverages and instant noodles from January to February 2025, outperforming peers. Additionally, Uni-President is aggressively expanding its distribution network, controlling over 1 million retail refrigerators by the end of 2024, with plans to add another 150,000 units (+15%) in 2025.

- ### Beverage Segment Drives Profit Margin Expansion

  Accounting for 63% of revenue in 2024, Uni-President China's beverage segment shows strong profit growth potential in 2025, benefiting from economies of scale, stable production costs, and lower distributor commissions. With input costs continuing to decline, the company expects its gross margin to improve from 32.5% to 33.0% in 2025.

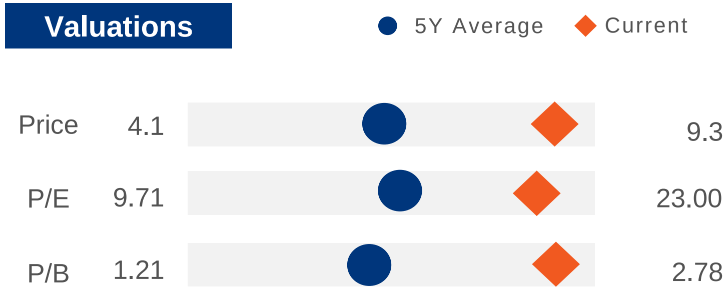
Source: Bloomberg

Financials

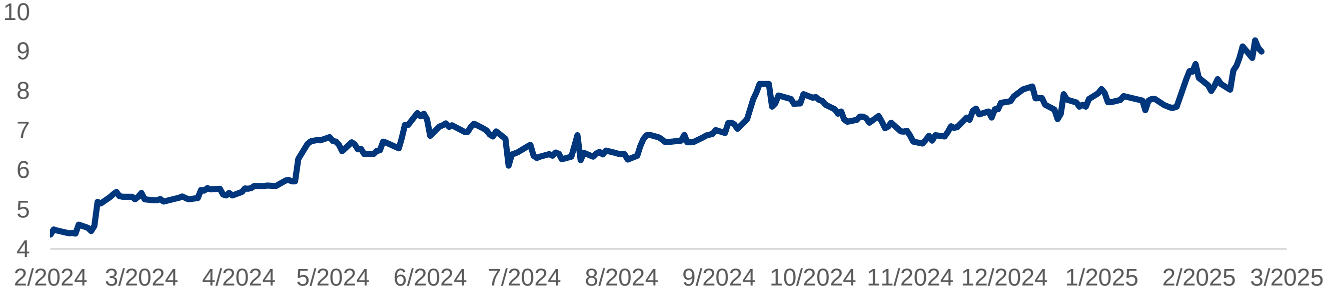
	2021	2022	2023	2024F	2025F
Net Income (100M USD)	14.4	11.8	13.6	18.5	20.9
NI YoY(%)	-7	-18	15	36	13
EPS(CNY)	0.33	0.27	0.32	0.43	0.48
DPS(CNY)	0.42	0.34	0.42	0.43	0.49
P/E	25.7	31.5	26.5	19.8	17.7
Dividend Yield(%)	4.9	4.0	4.9	5.1	5.8

Source: Bloomberg; 2025/26F are market estimates

Valuations



1-Year Price



As of 13 Mar. 2025	1M	3M	YTD	1Y	3Y	5Y
Return (%)	19.9	20.4	16.4	57.5	37.3	13.8

US Equities Policy Uncertainty Persists, High-Valuation Stocks Sold Off

- The preliminary U.S. Michigan Consumer Sentiment Index for March fell to 57.9, the lowest since November 2022, significantly below February's 64.7 and the market forecast of 63.0.
- U.S. CPI rose 2.8% YoY in February, down from 3.0% previously and below the 2.9% market forecast. MoM, CPI increased 0.2%, lower than the prior 0.5% and the expected 0.3%. Core CPI grew 3.1% YoY, easing from 3.3% and missing the 3.2% forecast. MoM, it rose 0.2%, below the prior 0.4% and the expected 0.3%.
- U.S. PPI rose 3.2% YoY in February, below the revised 3.7% and the 3.3% market forecast. MoM, PPI was flat (0.0%), missing the revised 0.6% and the expected 0.3%. Core PPI increased 3.4% YoY, down from the revised 3.8% and below the 3.5% forecast. MoM, it declined 0.1%, compared to the previous 0.5% increase and the expected 0.3% gain.
- Despite positive U.S. macroeconomic data, Trump's tariff policies and potential retaliatory measures have weakened market rebounds, sustaining the downward trend. The cyclically adjusted P/E ratio for the S&P 500 suggests valuations remain elevated. Given the uncertain macro outlook, investors are turning away from high-valuation stocks, while defensive and value stocks show resilience due to their lower valuations.

S&P 500 Cyclically Adjusted P/E Ratio

Source: Bloomberg

Allstate Corp (ALL)

Closing Price	US $207.49	Target Price	US $222

Allstate Corporation provides property-liability insurance solutions. It sells private passenger automobile and homeowners insurance through independent and specialized brokers, as well as life insurance, annuity, and group pension products.

- **Tariffs Benefit Auto Insurance Business**
  Higher rates drove a 9.1% YoY increase in earned premiums, while the auto combined ratio improved to 93.5 in 4Q24, reflecting higher premiums and better loss performance. Trump's steel and aluminum tariffs could further benefit Allstate by raising vehicle prices, which in turn increases insured values and premiums. Additionally, as consumers hold onto older cars longer, insurers may adjust rates to cover rising repair costs, further enhancing profitability in auto insurance.
- **Unlocking Value**
  Continues to optimize its portfolio by divesting non-core businesses and adjusting insurance pricing. It reported an estimated $1.08 billion in catastrophe losses for Jan., primarily due to California wildfires. To streamline operations, the company agreed to sell its group health business to Nationwide for $1.25 billion, marking another step in its non-core exit strategy. Combined with the earlier sale of its employer voluntary benefits unit, total expected proceeds from these divestitures will reach $3.25 billion, generating approximately $1 billion in accounting gains for 2025. Meanwhile, the company is actively adjusting insurance pricing to reduce risk exposure and enhance profitability. In California, homeowners' insurance rates rose by an average of 34% in Nov., with apartment insurance set to increase by another 30% in April. Similarly, Illinois homeowners saw premiums rise by about 14% in Feb. These rate adjustments will help strengthen the company's financial position while addressing rising claims costs.
- **Profitability Outperforms Peers**
  New return on equity (ROE) stands at 27.14%, significantly above the industry average of 15.7%.
- **Valuation Consensus**
  Bloomberg's 12-month average target price is $222.8, with a high of $253 and a low of $138.

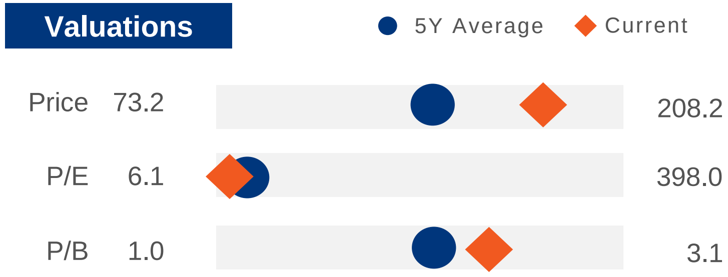
Source: Bloomberg

Financials

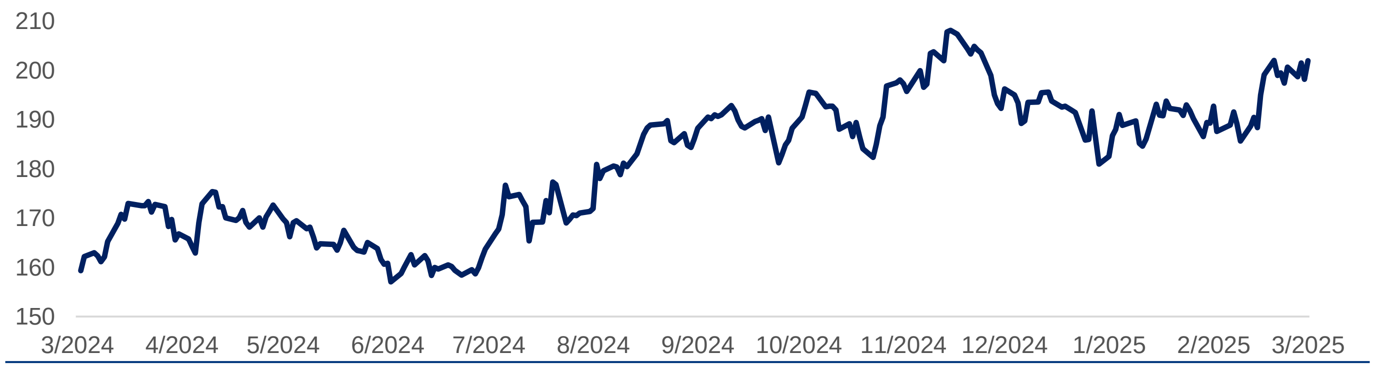
	2022	2023	2024	2025F	2026F
Revenue Growth(%)	6.0	9.4	12.1	2.9	6.8
EBITDA (%)	-0.9	1.0	10.0	7.6	8.5
EPS	-2.11	0.46	17.78	17.77	21.22
Net Profit Margin(%)	-1.1	0.2	7.2	7.2	8.0

Source: Bloomberg; 2025/26F are market estimates

Valuations



1-Year Price



As of 13 Mar. 2025	1M	3M	YTD	1Y	3Y	5Y
Return (%)	7.7	2.9	4.8	26.7	20.0	21.8

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Marsh & McLennan Cos (MMC)

Closing Price US $231.53 **Target Price** US $242

Profile

Marsh & McLennan Companies, Inc. is a professional services firm providing advice and solutions in the areas of risk, strategy, and human capital.

- **Rising Demand for Insurance and Risk Planning**

  Amid a new wave of global trade tensions, rising trade costs are driving businesses to optimize insurance spending, particularly to mitigate risks from tariff changes and supply chain disruptions. At the same time, demand for risk control—especially geopolitical risk assessments—is increasing, benefiting the company's insurance brokerage and risk management services. The global insurance brokerage market was valued at $259.7 billion in 2022 and is projected to grow to $628.3 billion by 2032, with a CAGR of 9.3%.

- **Driving Synergies**

  The company acquired insurance brokerage and risk management provider McGriff for $7.75 billion, expecting significant positive synergies. With McGriff generating approximately $1.2 billion in annual revenue, the integration will expand Marsh's customer base and create cross-selling opportunities. Leveraging McGriff's extensive client network and expertise, the company anticipates a 3–5% overall revenue increase in the first year post-acquisition. Excluding amortization, McGriff's earnings should fully offset additional interest costs, ensuring a neutral cash flow impact. Furthermore, operational efficiencies and revenue growth from the acquisition are expected to drive annual earnings accretion of 2–3% over the long term.

- **Valuation Consensus**

  Bloomberg's 12-month average target price is $236.42, with a high of $258 and a low of $192.

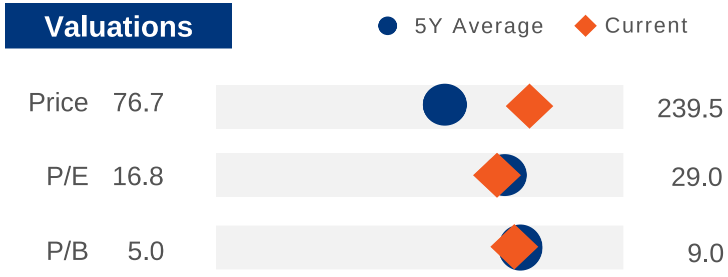
Source: Bloomberg

Financials

	2022	2023	2024	2025F	2026F
Revenue Growth(%)	4.5	9.7	7.6	10.1	5.9
EBITDA (%)	28.0	29.0	29.6	28.6	29.0
EPS (USD)	6.84	7.99	8.76	9.57	10.49
Net Profit Margin(%)	16.7	17.5	17.8	17.5	18.1

Source: Bloomberg; 2025/26F are market estimates

Valuations



1-Year Price

As of 13 Mar. 2025	1M	3M	YTD	1Y	3Y	5Y
Return (%)	0.5	6.9	8.3	10.7	17	21.6

KGI

TW Equities

Taiwan Stocks Consolidate; Short-Term Rebound Faces Resistance; Focus on Strong Stocks Above Key Moving Averages

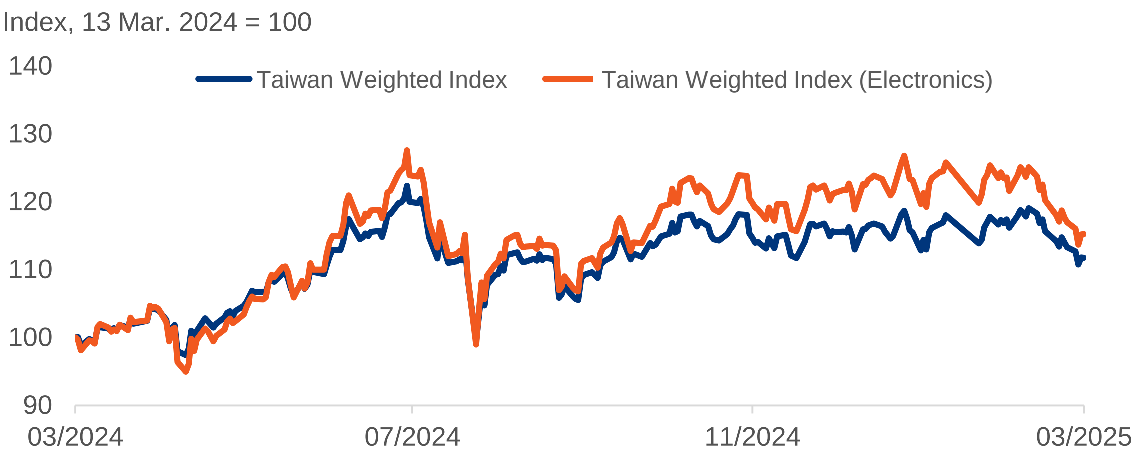
► Taiwan Stocks Rebound from Sharp Decline, but Short-Term Upside May Be Limited

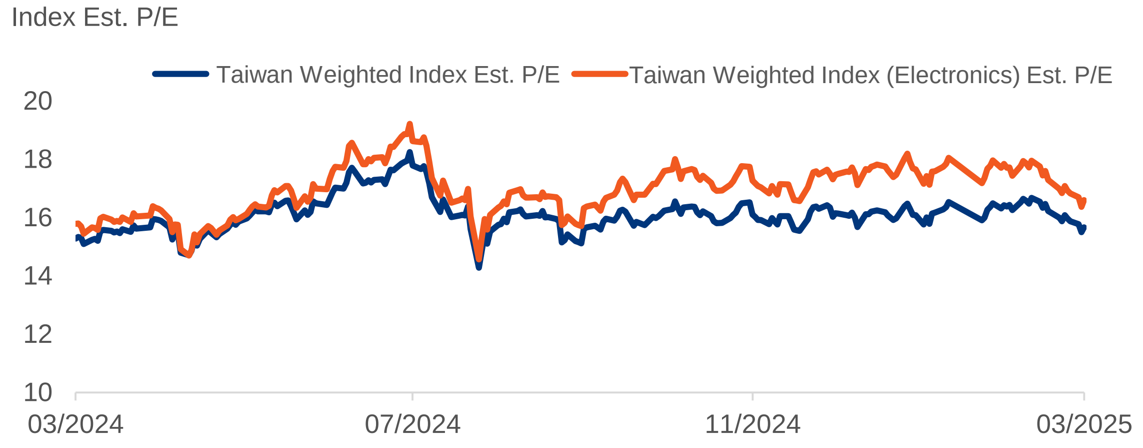
Impacted by last week's sharp sell-off in U.S. markets, Taiwan stocks plunged 690 points to 21,769 on Tuesday before paring losses. Technically, Wednesday's rebound peaked at 22,391, nearing the 22,407 resistance level from Tuesday's bearish gap and the 5-day moving average, capping further gains. On the downside, 21,769 serves as a key short-term support. As long as this level holds, the market may find support near the annual moving average. Traders can consider selective short-term entries.

► Tariff Uncertainty Continues to Weigh on Markets; Heavy Selling in Large-Cap Tech

Taiwan's stock market saw weakness in large-cap tech stocks, with only telecoms—considered defensive plays—maintaining strength. Key sector themes included memory chips, security surveillance, mature-node foundry, and design IP stocks. Among small- and mid-cap stocks, many opened lower but rebounded intraday, with some surging on strong revenue catalysts. As the market consolidates, high-dividend plays may remain in focus. With U.S. markets turning weaker, large-cap stocks are likely to stay under pressure in the short term. Traders should focus on fundamentally strong small- and mid-cap stocks showing positive momentum and reclaiming key short-term moving averages.

Taiwan Weighted Index and Taiwan Electronics Sector Trends & Est. P/E





Source: Bloomberg

Lotes Co Ltd. (3533 TT)

LOTES Co., Ltd specialize in design and manufacture of connectors, CPU Socket, Coolers and Antenna for Notebook Computer, Personal Computer, Mobile electronic device and Ditial Video.

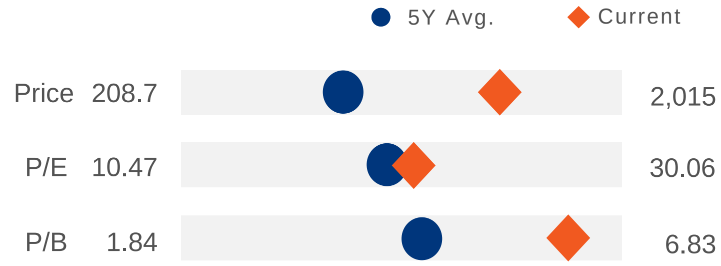
- **4Q24 EPS Beats Estimates on Higher Non-Operating Gains.**
  4Q24 EPS reached NT$25.84 (+41% QoQ), exceeding our forecast, driven by over NT$600 million in forex gains. Full-year 2024 EPS was NT$82.77 (+63% YoY), with gross and operating margins rising 5–6ppts to 52.4% and 34%, respectively, reflecting an improved product mix. Server revenue share increased to 34.1%, with sales up 56% YoY. The company announced a cash dividend of NT$41.5 per share, maintaining a 50% payout ratio.
- **1Q25 Revenue to Bottom Out, Uptrend Expected in Coming Quarters**
  1Q25 revenue is expected to decline 5–10% QoQ, with a modest single-digit rebound in 2Q25. Gross and operating margins should remain stable. Servers will drive growth, with their revenue share rising to 38–40% in 2025. New GB300 SO CAMM, GPU slots, and quick disconnect (QD) connectors will fuel revenue and EPS growth in 2H25–26.

Financials

	2021	2022	2023	2024F	2025F
EPS (NTD)	33.32	58.70	50.65	82.77	92.91
EPS Growth (%)	26.2	76.2	-13.7	63.4	12.3
P/E Ratio	46.5	26.4	30.6	18.7	16.7
ROE (%)	22.9	31.5	22.1	30.8	29.9

Source: Company data, estimates of KGI analyst

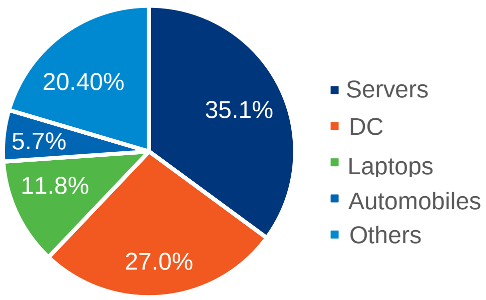
Valuations

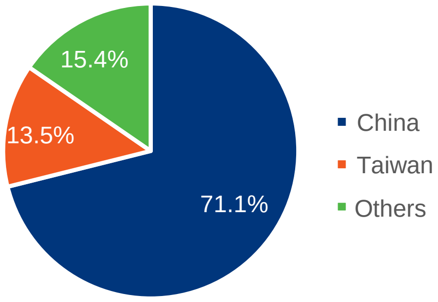


1-Year Price

As of 13 Mar 2025	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-3.7	-13.8	-19.2	11.0	-20.2	24.8

Revenue Sources and Regions





Source: Bloomberg

WinWay Technology Co Ltd. (6515 TT)

WinWay Technology designs, manufactures, and distributes semiconductor products. The Company produces high performance heat sink lids, high performance test sockets, changeover kits, direct dock probe cards, contact elements, and other products.

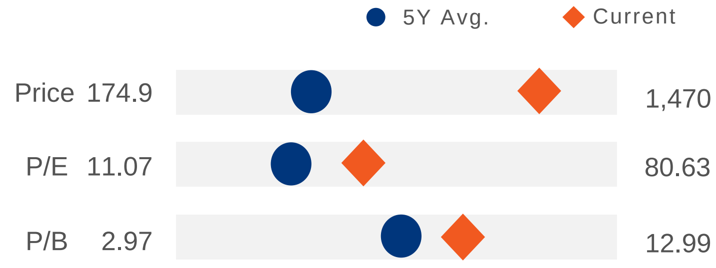
- **Strong Gaming GPU Demand to Drive 1H25 Revenue**
  We note that WinWay began shipping gaming GPU probe cards and test sockets in 4Q24, with shipments continuing into 1Q25. Probe cards have the highest gross margin among the company's products, leading KGI to raise its 2025 gross margin forecast to 46.6%, driven by stronger demand for gaming GPU testing interfaces.
- **Structural Growth Trends Intact**
  WinWay is set to benefit from multiple structural trends over the next 3–5 years, including: (1) Increasing AI/HPC chip complexity extending test times, boosting demand for IC test sockets. (2) Growing AI chip packaging sizes driving higher pin counts and intrinsic value of IC test sockets. (3) AI GPU product cycles shortening from 2–3 years to 1–1.5 years. We expect WinWay to remain a key beneficiary of rising AI GPU and ASIC demand.

Financials

	2021	2022	2023	2024F	2025F
EPS (NTD)	14.46	32.22	13.52	34.31	51.38
EPS Growth (%)	-17.0	122.9	-58.0	153.7	49.8
P/E Ratio	92.0	41.3	98.3	38.8	25.9
ROE (%)	20.7	33.2	12.9	28.5	31.4

Source: Company data, estimates of KGI analyst

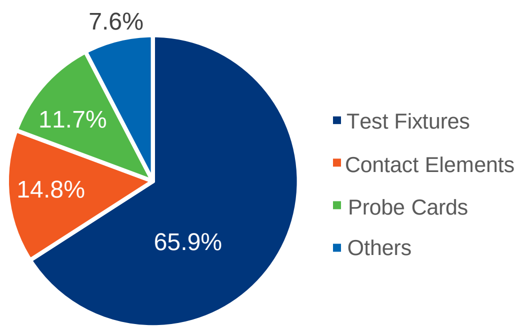
Valuations

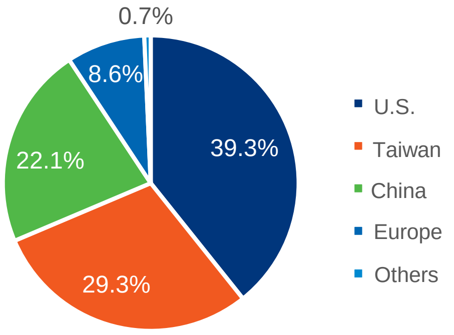


1-Year Price

As of 13 Mar 2025	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-10.2	9.5	16.8	-1.5	15.3	87.2

Revenue Sources and Regions





Source: Bloomberg

Mutual Funds/ ETFs

Financial Bonds May Benefit from Regulatory Easing

► Vanguard Intermediate-Term Corporate Bond ETF (VCIT)

- Designed to track the Bloomberg U.S. 5-10 Year Corporate Bond Index.
- Established in 2009, with holdings primarily rated BBB or higher, focusing on the financial and industrial sectors.
- Well-diversified portfolio with over 2,000 bonds.
- Low expense ratio, currently at 0.03%.

Product	Vanguard Intermediate-Term Corporate Bond ETF (VCIT)	
Features	■ The index tracks U.S. investment-grade corporate bonds with maturities of 5–10 years (BBB rating or higher), offering balanced interest rate and credit risk exposure. ■ The fund holds over 2,000 high-quality mid-term corporate bonds, with the top 10 holdings accounting for approximately 2.56%. ■ With a 0.03% expense ratio, it is among the lower-cost ETFs in its category, providing cost-effective exposure.	
AUM	USD 50.16 B	
Tracking Index	Bloomberg U.S. 5-10 Year Corporate Bond Index	
Holdings	2,238	
Expense Ratio	0.03%	
3M/YTD Returns	0.66% / 1.59%	
Credit Ratings	AAA AA A BBB	0.30 5.10 41.80 52.80
Top-5 Sectors (%)	Financials Industrials Utilities	38.00 53.20 8.80
Top-5 Holdings (%)	MKTLIQ 12/31/2049 TMUS 3 ⅞ 04/15/30 BAC 5.468 01/23/35 BAC 5.015 07/22/33 PFE 4 ¾ 05/19/33	0.46 0.32 0.27 0.27 0.26

Source: Bloomberg, 25 Feb. 2025

Vanguard Intermediate-Term Corporate Bond ETF (VCIT)

Profile

This ETF Tracks the Bloomberg U.S. 5-10 Year Corporate Bond Index, Aiming to Replicate Its Performance.

Focus on High-Quality Mid-Term Corporate Bonds

The index tracks U.S. corporate bonds with 5–10 year maturities, primarily in the financial and industrial sectors. Holdings are predominantly investment-grade (BBB or higher), offering balanced interest rate and credit risk exposure.

Diversified Portfolio

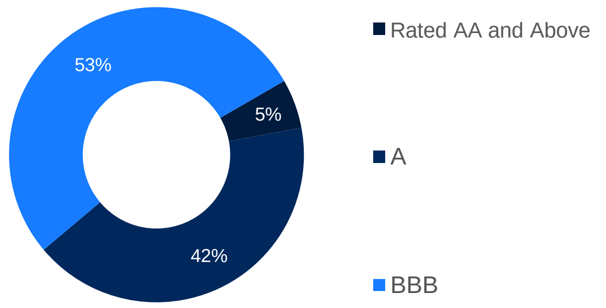
The ETF holds over 2,000 investment-grade corporate bonds (BBB or higher), with the top 10 holdings accounting for approximately 2.56%.

Low Expense Ratio

With a 0.03% expense ratio, this ETF is among the lowest in its category, offering cost-effective exposure and helping investors reduce costs.

Inception Date	19 Nov 2009	**AUM**	USD 50.16 B
ETF Category	Fixed Income	**Holdings**	2,238
Expense Ratio	0.03%	**3Y Stand. Dev. (Ann.)**	9.49%

Ratings

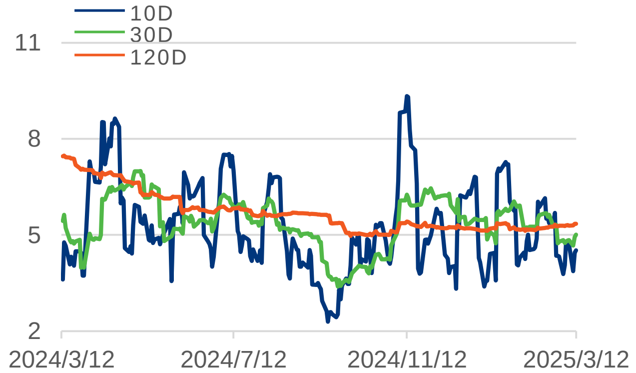


Top-5 Holdings (%)

MKTLIQ 12/31/2049	0.46
TMUS 3 ⅞ 04/15/30	0.32
BAC 5.468 01/23/35	0.27
BAC 5.015 07/22/33	0.27
PFE 4 ¾ 05/19/33	0.26

1-Year Price

1-Year Volatility



As of 12 Mar 2025	1M	3M	YTD	1Y	3Y	5Y
Return (%)	0.69	0.66	1.59	5.46	4.92	8.09

Source: Bloomberg, 12 Mar. 2025

Bonds

Germany's Fiscal Expansion Improves European Growth Outlook; Steeper Yield Curve Benefits Banks

► HSBC 6.875 PERP (HSBC Holdings PLC)

- HSBC boasts a strong capital position, unmatched among European banks. As of year-end 2024, the group reported a CET1 capital ratio of 14.9%, well above the 13.5% peer median. HSBC's capital management strategy ensures subsidiaries and subgroups remain self-sufficient in capital.
- HSBC benefits from a high proportion of corporate deposits and ample liquidity. Its large and diversified deposit base supports a stronger funding profile compared to global peers. As of year-end 2024, its loan-to-deposit ratio stood at 56%, significantly lower than domestic and global industry averages.
- The group maintains solid asset quality with a well-diversified credit portfolio, including substantial corporate loans and residential mortgages, with geographic exposure primarily in Hong Kong and the UK. HSBC's risk appetite is generally lower than its local competitors in each market.

► SOCGEN 6.1 04/13/33 (Société Générale)

- SocGen's profitability has rebounded since last year, with fundamentals improving. The bank faced challenges in recent years, particularly weaker profitability. However, these headwinds have gradually eased since 2H24, signaling a recovery in its fundamentals.
- SocGen maintains strong asset quality and capitalization. Its credit exposure is approximately 50% in the domestic French market and 30% in Europe, while exposure to North America and Asia primarily stems from global banking services for sovereign and institutional clients, which carry lower risk.
- SocGen is actively restructuring and optimizing capital, focusing on core markets while divesting non-core assets. In 2023, it announced the sale of stakes in certain African subsidiaries, refocusing its African operations on more stable West African markets. This restructuring is expected to further enhance profitability.

Products	HSBC 6.875 PERP (HSBC Holdings PLC)	SOCGEN 6.1 04/13/33 (Société Générale)
ISIN	US404280EH85	US83368TCG13
Highlight	HSBC boasts a strong capital position, unmatched among European banks	SocGen's profitability is recovering, with solid asset quality and capitalization
Maturity Date	Perpetual	13 Apr 2033
Next Redemption Day	9 Nov 2029	13 Apr 2032
Coupon (%)	Float/6.875/Semi-annual	Float/6.1/Semi-annual
Currency	USD	USD
Years to Maturity	-	8.09
Rating (Moody's/ Fitch/S&P)	Baa3/BBB/-	Baa2/A-/BBB
Seniority	Subordinated	Senior Non-Preferred
YTM/YTC (%)	7.05/6.69	5.77/5.73

Source: Bloomberg

HSBC 6.875 PERP (HSBC Holdings PLC)

Profile

HSBC boasts a strong capital position, unmatched among European banks. As of year-end 2024, the group reported a CET1 capital ratio of 14.9%, well above the 13.5% peer median. Its capital management strategy ensures subsidiaries and subgroups remain self-sufficient in capital. Additionally, HSBC's profitability significantly outperforms the European banking sector average, with a 2024 return on tangible equity (ROTE) of 14.85%.

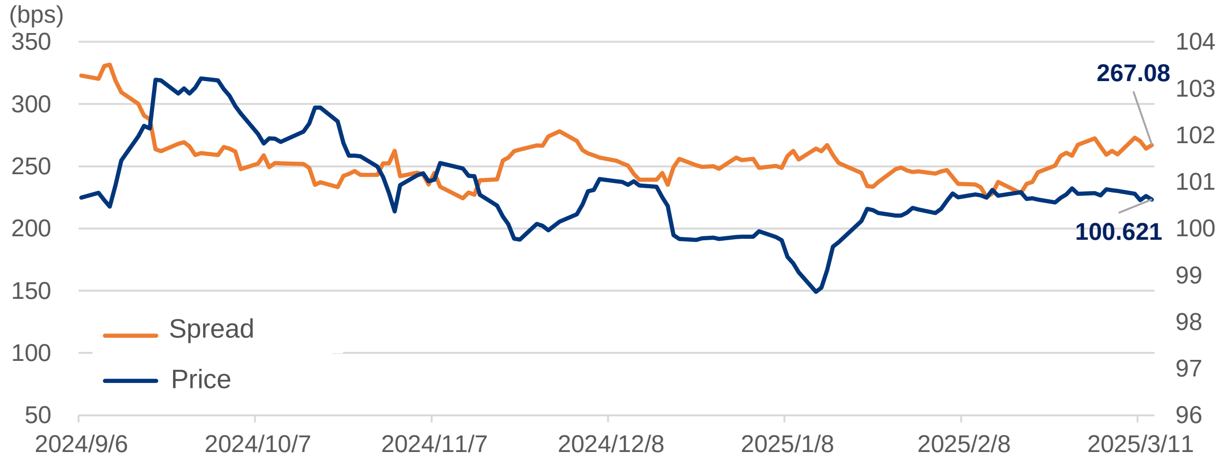
- HSBC maintains a high proportion of corporate deposits and strong liquidity. As of year-end 2024, its loan-to-deposit ratio stood at 56%, significantly lower than domestic and global peers. The bank reported a liquidity coverage ratio (LCR) of approximately 138%. HSBC's long-term policy ensures that operating subsidiaries remain self-sufficient in funding, with deposits exceeding loans.
- It maintains solid asset quality with a well-diversified credit portfolio, including a significant share of corporate loans and residential mortgages, primarily in Hong Kong and the UK. Its credit performance remains strong, with sufficient provisions already set aside for its China CRE exposure, limiting future credit loss expenses in that market. In recent years, It has exited under performing and non-core Western markets to enhance profitability. The bank aims to achieve $1.5 billion in cost savings by 2026.
- With the Fed beginning its rate-cut cycle, investors can lock in yields on high-quality bonds. Assessing issuers with low credit risk remains key, while adding quality bonds can help mitigate volatility as rates rebound.

Financials	2022	2023	2024
Return on Tangible Equity (ROTE)	9.50	14.87	14.85
Liquidity Coverage Ratio (LCR)	132.00	136.00	138.00
Common Equity Tier 1 (CET1)	14.20	14.80	14.90

Overview

Name	HSBC 6.875 PERP	**ISIN**	US404280EH85
Maturity Date	Perpetual	**Remaining Maturity**	-
Coupon(%)	Float/6.875/Semi-annual	**YTM/YTC(%)**	7.05/6.69
Currency	USD	**Min. Subscription/ Increment**	200,000/1,000
Ratings (Moody's/Fitch/S&P)	Baa3/BBB/-	**Seniority**	Subordinated

Price Since Issuance



Source: Bloomberg, 13 Mar 2025. Note: Coupon reset date is Nov 3, 2030, with semi-annual interest payments. The applicable annual rate is based on the U.S. 5Y Treasury yield, reset rate set at the bond yield on the settlement date plus 3.298%

SOCGEN 6.1 04/13/33 (Société Générale)

Profile

SocGen has been recovering profitability since last year, with fundamentals gradually improving. The bank has exceeded market expectations for 2 consecutive quarters, achieving a 2024 return on tangible equity (ROTE) of 5.84%, up significantly from 2.9% in 2023 and 2.0% in 2022. Management targets ROTE to exceed 8% in 2025 and reach 9–10% by 2026.

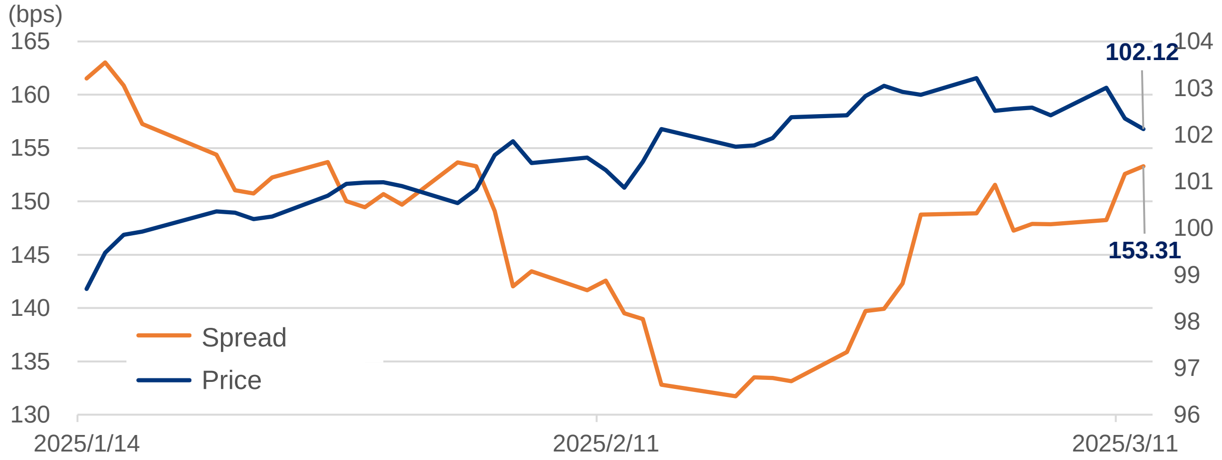
- SocGen maintains strong asset quality and capitalization. As of year-end 2024, its CET1 ratio stood at 13.3%, with a non-performing loan (NPL) ratio of 3.19% and a cost of risk at 26 bps, reflecting stable risk management. In terms of credit exposure, around 50% is in the domestic French market, 30% in Europe, and its exposure to North America and Asia primarily stems from global banking services for sovereign and institutional clients, which carry lower risk.
- In recent years, SocGen has actively pursued business restructuring and capital optimization, focusing on core markets while divesting non-core assets. In 2023, the bank announced the sale of stakes in certain African subsidiaries, concentrating its African operations in more stable West African markets. This restructuring is expected to further enhance profitability.
- With the Fed beginning its rate-cut cycle, investors can seize opportunities to lock in yields on high-quality bonds. Assessing issuers with low credit risk remains key, while adding quality bonds can help mitigate volatility as rates rebound.

Financials	2022	2023	2024
Return on Tangible Equity (ROTE)	2.02	2.95	5.84
Non-performing Loan Ratio	3.13	3.31	3.19
Common Equity Tier 1 (CET1)	13.50	13.10	13.30

Overview

Name	SOCGEN 6.1 04/13/33	**ISIN**	US83368TCG13
Maturity Date	13 Apr 2033	**Remaining Maturity**	8.09
Coupon(%)	Float/6.1/Semi-annual	**YTM/YTC(%)**	5.77/5.73
Currency	USD	**Min. Subscription/ Increment**	200,000/1,000
Ratings (Moody's/Fitch/S&P)	Baa2/A-/BBB	**Seniority**	Senior Non-Preferred

Price Since Issuance



Source: Bloomberg, 13 Mar 2025. Note: Coupon reset date is April 13, 2032, with semi-annual interest payments. The applicable annual rate is based on the U.S. 1Y Treasury yield, reset rate set at the bond yield on the settlement date plus 1.60%

Appendix Key Economic Data / Events

MAR 2025

10 Monday
- Eurzone Mar. Sentix Investor Confidence (Actual:-2.9 Est:-9.3 Prev:-12.7)

11 Tuesday
- U.S. Jan. JOLTS Job Openings (Actual:7,740k Est:7,600k Prev:7,508k)
- Japan Q4 GDP QoQ Final Value (Actual:0.6% Est:0.7% Prev:0.7%)
- Japan Feb. Machine Tool Orders YoY Initial Value (Actual:4.0% Prev:4.7%)

12 Wednesday
- U.S. Feb. CPI YoY (Actual:2.8% Est:2.9% Prev:3.0%)
- U.S. Feb. Core CPI YoY (Actual:3.1% Est:3.2% Prev:3.3%)
- Japan Feb. PPI YoY (Actual:4.0% Est:4.0% Prev:4.2%)

13 Thursday
- U.S. Last Week's Initial Jobless Claims (Actual:220k Est:225k Prev:222k)
- U.S. Feb. PPI YoY (Actual:3.2% Est:3.3% Prev:3.7%)
- Eurzone Jan. Industrial Production YoY (Actual:0.0% Est:-0.8% Prev:-1.5%)

14 Friday
- U.S. Mar. U. of Mich. Sentiment Initial Value (Est:63.0 Prev:64.7)

17 Monday
- U.S. Feb. Retail Sales MoM (Est:0.7 Prev:-0.9)
- China Feb. Retail Sales YoY (Est:3.8%)
- China Feb. Industrial Production YoY (Est:5.3%)

18 Tuesday
- U.S. Feb. Industrial Production MoM (Est:0.2% Prev:0.5%)
- U.S. Feb. Housing Starts (Est:1,380k Prev:1,366k)
- U.S. Feb. Building Permits Initial Value (Est:1,450k Prev:1,473k)

19 Wednesday
- Eurzone Feb CPI YoY Final Value (Prev:2.4%)
- Japan Mar. BoJ Target Rate (Est:0.5% Prev:0.5%)
- Japan Feb. Machine Tool Orders YoY Final Value (Prev:3.5%)
- Japan Jan. Core Machine Orders MoM (Est:0.0% Prev:-1.2%)
- Japan Jan. Industrial Production MoM Final Value (Prev:-1.1%)

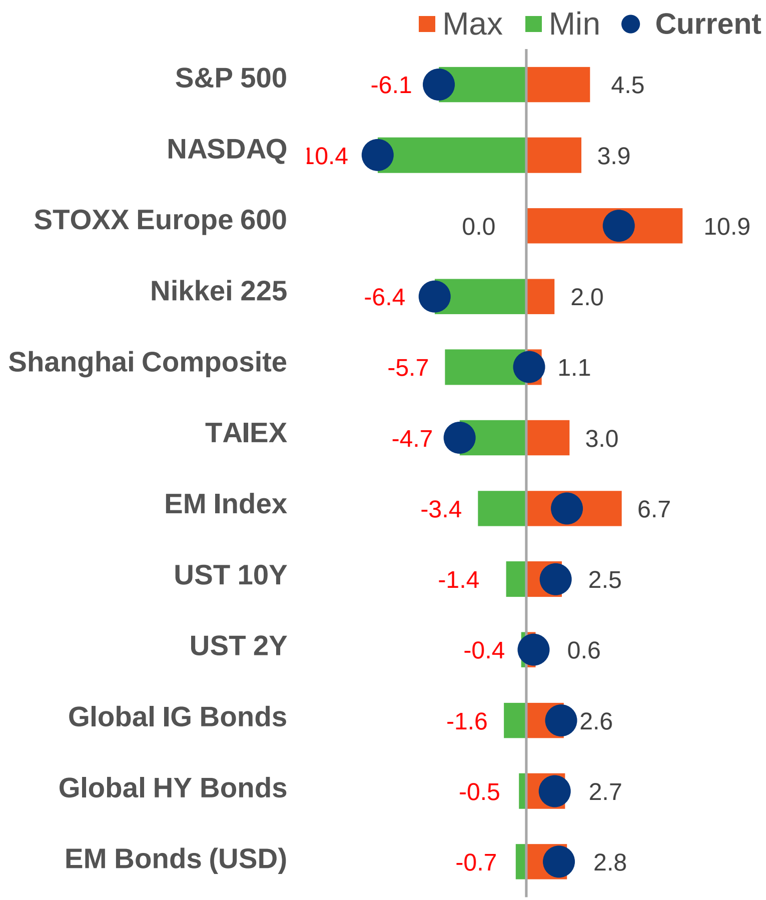
20 Thursday
- U.S. Last Week's Initial Jobless Claims (Prev:220k)
- U.S. Mar. FOMC Rate Decision (Est:4.50% Prev:4.50%)
- U.S. Feb. Existing Home Sales (Est:3.93m Prev:4.08m)
- U.K. Mar. Bank of England Bank Rate (Prev:4.50%)
- Taiwan Mar. CBC Benchmark Interest Rate (Est:2.00% Prev:2.00%)

21 Friday
- Eurzone Mar. Consumer Confidence Initial Value (Prev:-13.6)
- Japan Feb. Natl CPI YoY (Est:3.6% Prev:4.0%)

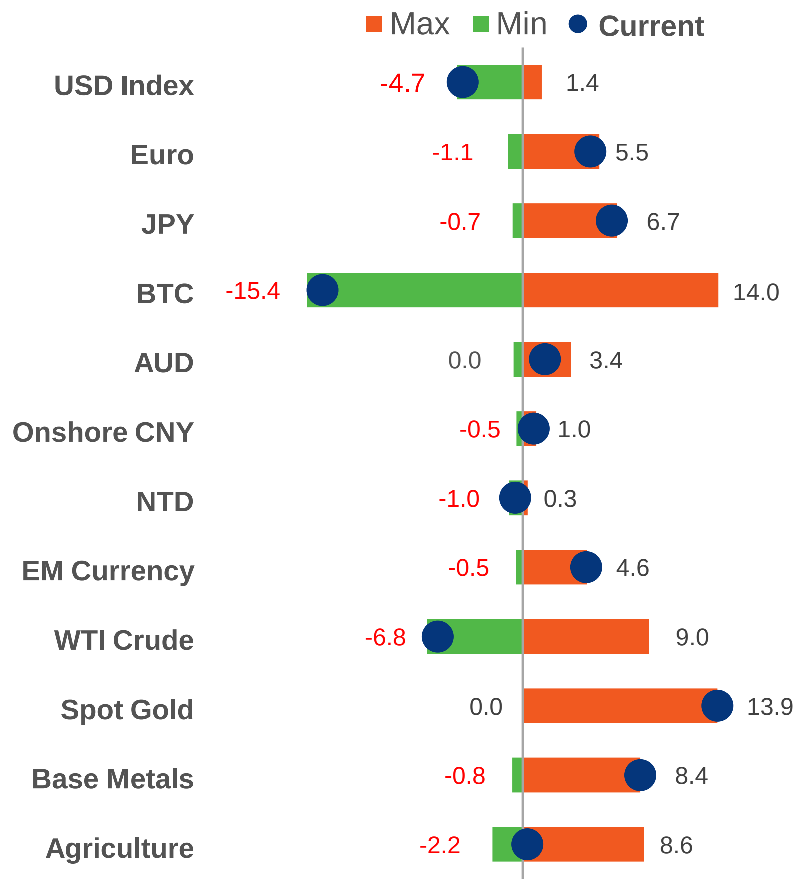
Source: Bloomberg

YTD Major Market / Asset Performance

Stock and Bond Market YTD Performance (%)



Currencies and Futures Market YTD Performance (%)



Source: Bloomberg, 14 Mar. 2025

Technical Analysis

60D MA

S&P 500 Index

NASDAQ Index

STOXX Europe 600 Index

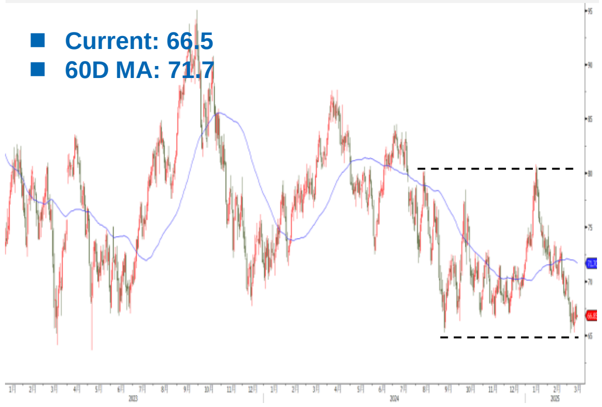
Nikkei 225 Index

Shanghai Composite Index

MSCI Emerging Markets Index

Gold

WTI Crude

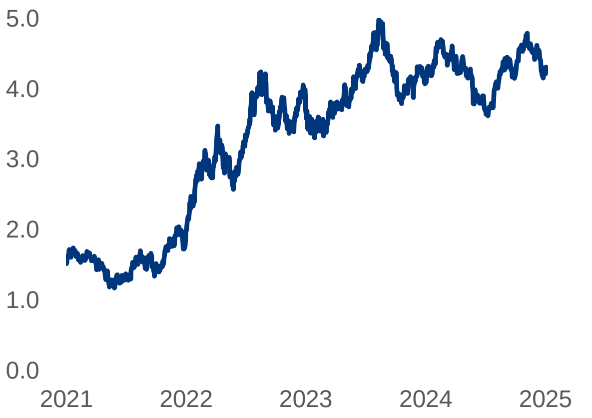


Source: Bloomberg, 14 Mar. 2025

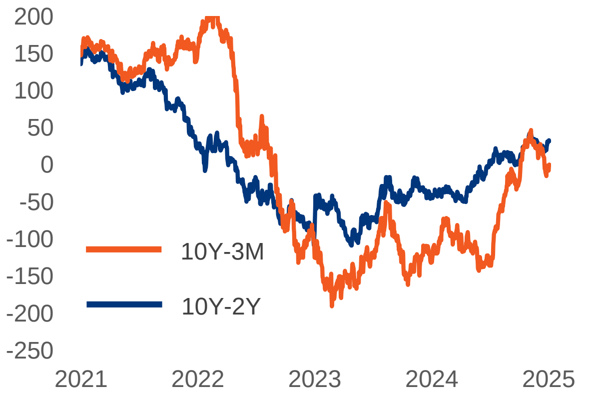
Market Monitor

U.S. CPI YoY (%)

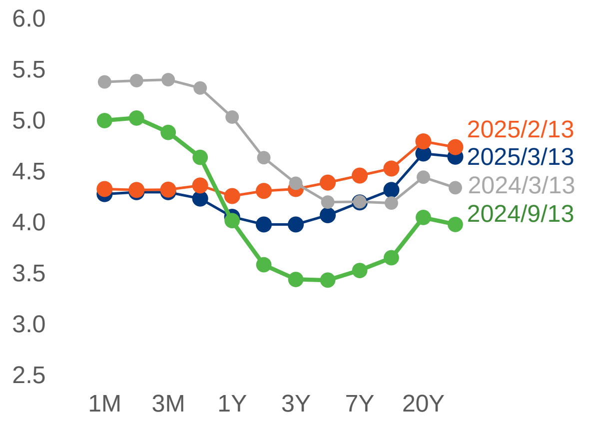
U.S. 10-Year Treasury Yield (%)



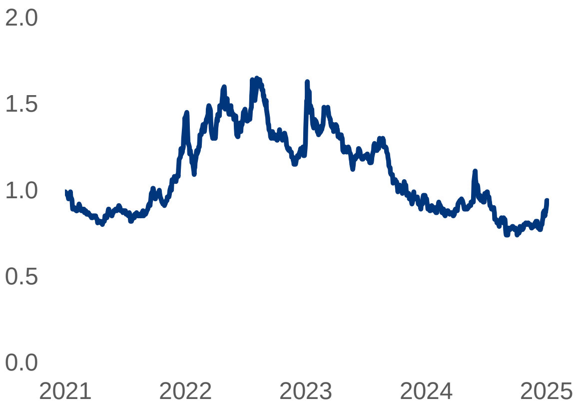
U.S. Treasury Yield Spread (bps)



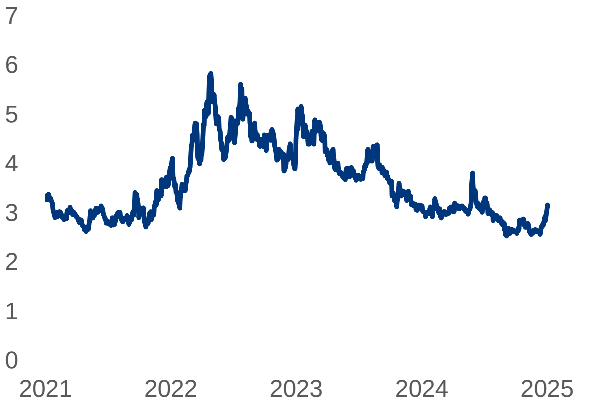
U.S. Treasury Yield Curve (%)



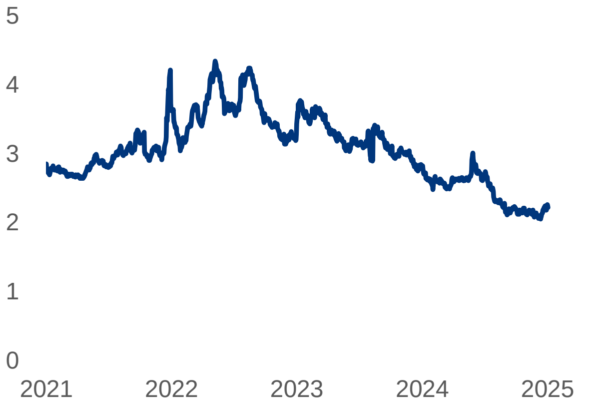
USD IG Credit Spread (%)



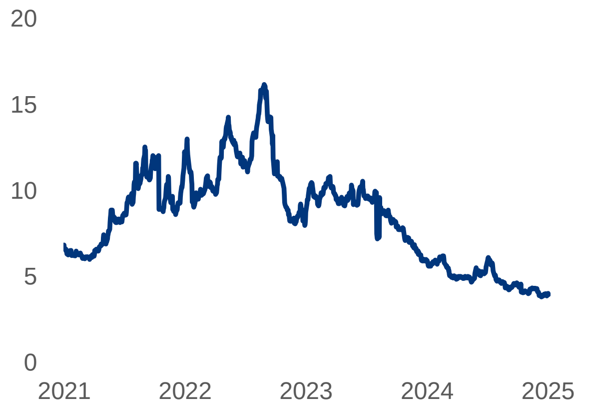
USD HY Credit Spread (%)



USD EM Credit Spread (%)



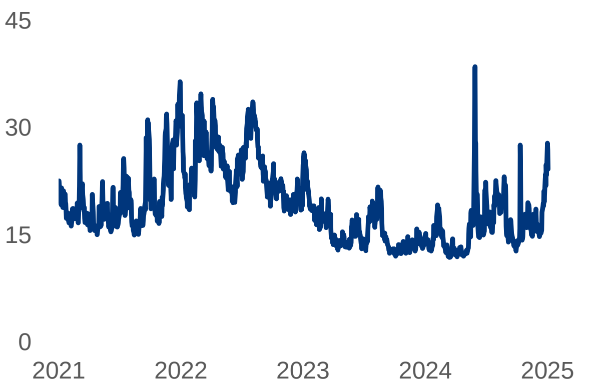
USD Asia Credit Spread (%)



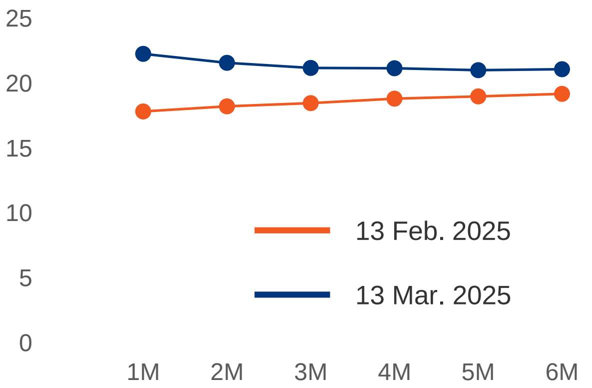
Source: Bloomberg, 13 Mar. 2025

Market Monitor

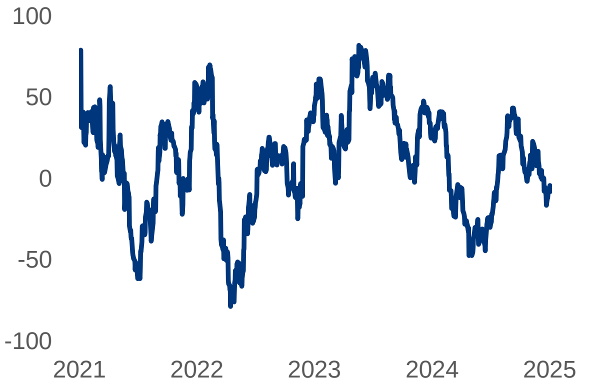
VIX Index



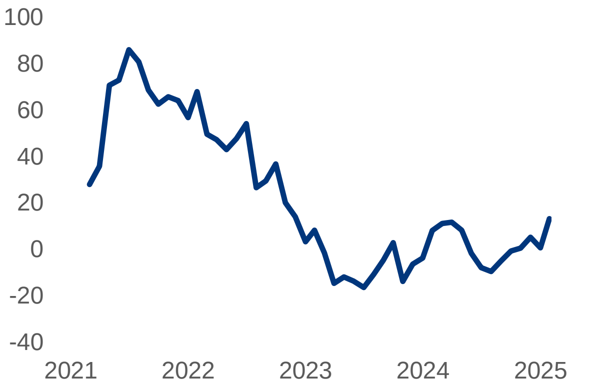
VIX Term Structure



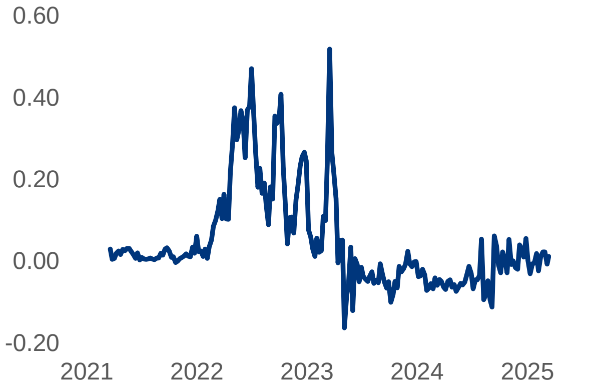
U.S. Citi Economic Surprise Index*



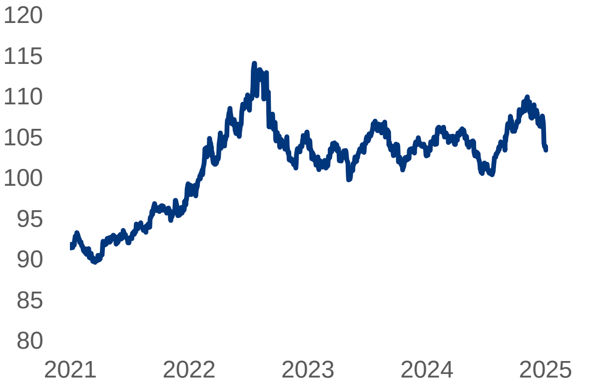
U.S. Citi Inflation Surprise Index*



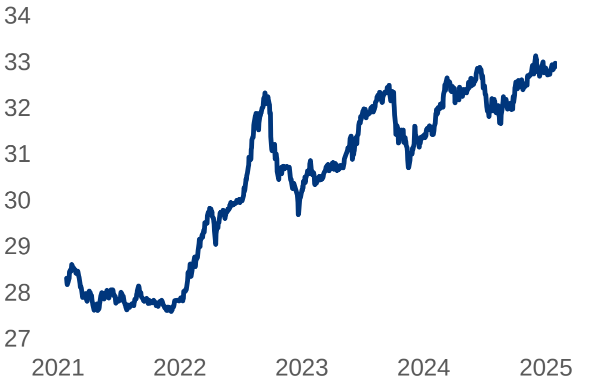
TED Spread (bps)



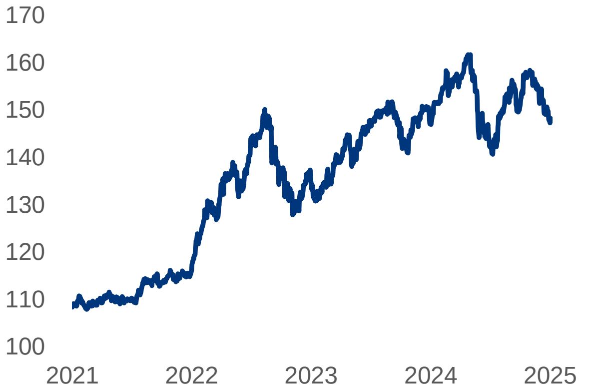
U.S. Dollar Index



USD to TWD



USD to JPY



Source: Bloomberg, 13 Mar. 2025; *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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