December 23, 2024

2025 Wealth Outlook:
Growth amid discord: Strategies for a "rule-breaking" expansion

- The global economic expansion has defied recessionary signals in recent years. We expect ongoing growth in 2025 and 2026, with potential further gains in global earnings.

The global economy has defied expectations in recent years. Forecasts of recession – backed up by usually reliable indicators – came to nothing. Despite the sharpest and most synchronized interest rate–hiking campaign by global central banks in decades, growth has endured. Corporate profits in the U.S. recently reached new highs, with profits elsewhere closing in on their former peak.

In 2025 and 2026, we expect this "rule-breaking" expansion to continue. We also expect the growth to be accompanied by further geopolitical and political discord. In the U.S., the incoming Trump administration is poised to pursue policies that seek to accelerate activity domestically, but which may increase tensions externally. Some controversial policies may also lead to fractious domestic politics in the U.S. and elsewhere.

In our view, global GDP may rise at 2.9% in 2025 and 2026, compared to 2.6% in 2024. Among advanced economies, we see the U.S. remaining as the main engine of growth. We recently upgraded our U.S. growth forecast for 2025 to 2.4%.

Citi Wealth Investments forecasts for GDP Growth

GDP FORECASTS (%)	2020	2021	2022	2023	2024E	2025E	2026E
U.S.	-2.2	5.8	1.9	2.5	2.7 ↑	2.4 ↑	2.1
China	2.2	8.5	3.0	5.2	4.9 ↓	5.2 ↑	4.8
E.U.	-6.3	6.2	3.4	0.5	0.7	1.2 ↓	1.6
U.K.	-10.3	8.6	4.8	0.3	1.0 ↑	1.1 ↓	1.5
Global	-3.2	6.0	3.3	2.6	2.6	2.9 ↑	2.9

	2020	2021	2022	2023	2024E	2025E	2026E
S&P 500	-13.5	46.9	6.0	0.6	9.2	7.6	7.6
EPS Level	122	209	222	223	244	262	280
P/E	27.6	24.4	17.8	22.8	24.0	22.4	20.9

Source: Citi Wealth Investments, as of Nov 16, 2024.

2025 Wealth Outlook:
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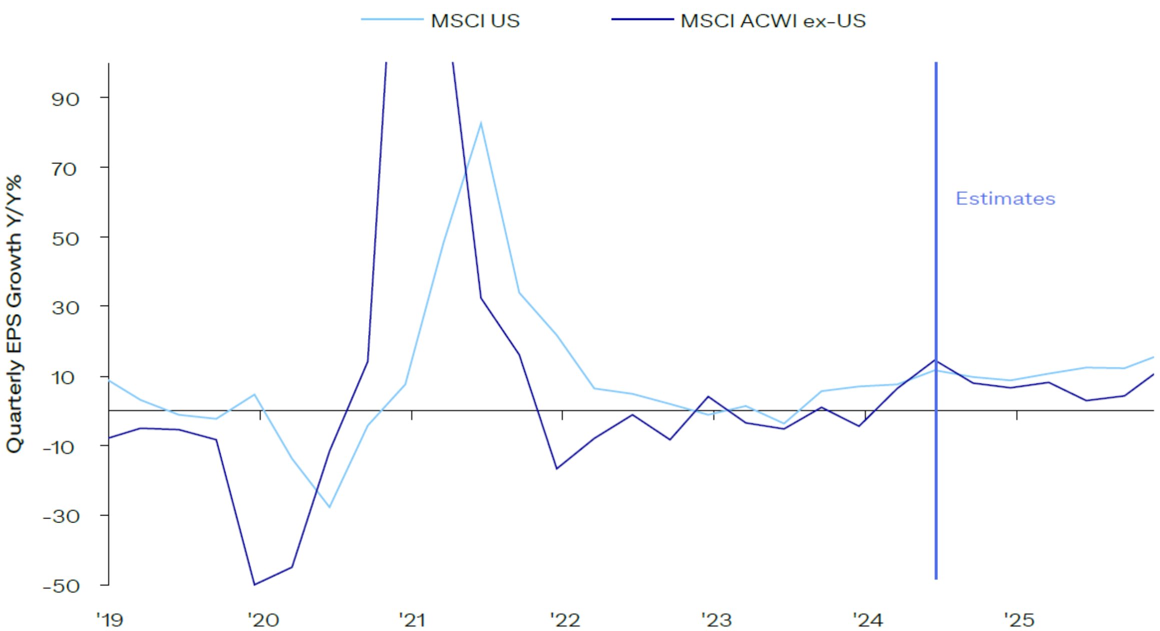
For now, we expect U.S. core inflation to drop to 2% during the first half of next year thanks partly to the strong dollar and cheaper imports. We think the Fed may be able to cut policy rates, if more gradually, through the first half of 2025. The Fed funds target range may bottom around 3.5–4% in 2025.

Against this backdrop, we look for further growth in corporate profits both in the U.S. and the rest of the world. Once more, this “breaks the rules.” Interest rate cutting cycles have typically occurred at times of falling rather than rising profits.

We look for EPS gains beyond the U.S.



Source: Bloomberg, as of Oct 31, 2024. Citi Wealth forecasts are based on historic national accounts and IMF-forward data.

Much of the bull market in risk assets since late 2022 has occurred amid heightened geopolitical tensions, including the wars in the Middle East and Ukraine. Such events have not historically changed the direction of the global economy or markets, as we have often pointed out. Geopolitical tensions and flashpoints look set to persist in the years ahead – leaving market volatility in their wake.

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With equity upside likely to continue in 2025, we think more sectors and countries can help drive markets. We explore potential opportunities and risks in U.S. small- and mid-cap equities, banks, the enablers of manufacturing reshoring, and national markets including Brazil, Japan and India.

In fixed income, we seek yield from credit – i.e., bonds issued by companies. Indeed, we believe that intermediate maturity, investment grade corporate bonds could serve as a core fixed income holding. Suitable investors might also consider differentiated holdings, including structured credit, bank loans and preferred securities. Likewise, suitable and qualified investors might seek diversification in private equity, private credit and real estate – complementing core portfolios with private asset classes.

In the face of geopolitical discord, we look to global diversification to help address risks. We believe such allocations are likely to withstand volatility better than portfolios concentrated in a region where a significant geopolitical flashpoint occurs. We also see value in exposure to investments relating to "economic security" – vital aspects of global supply chains and national security. These include supplies of traditional energy, technology such as semiconductors, defense and cybersecurity. Many of these are tied to our unstoppable trends, the powerful, long-term forces that may reshape the world around us.

Among our unstoppable trends, are the advance of artificial intelligence (AI). We expect AI to enhance human output in coming years, while creating new social and cybersecurity risks. If so, AI could enable the "speed limit" of the global economy's growth to rise over time. In the meantime, we see the benefits of this game-changing technology spreading to more industries.

2025 Wealth Outlook:
Equities: Shifting leadership in an ongoing bull market

- We look for the bull market in equities to continue in 2025. Some U.S. sectors may do better as its economy faces inwards, such as small-and mid-cap and various large-cap segments.
- India, east Asian AI-exposed markets, Japan and Brazil may offer attractions

Given our forecast of ongoing economic growth, we believe corporate earnings can keep rising over the coming year. More sectors saw earnings progress in 2024 than in 2023, with further potential in 2025. If so, we may see broader participation in the bull market, extending further beyond the U.S. technology giants that have led for much of it.

STRATEGIES FOR A MORE INWARD-FACING U.S.

A return to an "America First" agenda in the U.S. is likely to influence equity market leadership over the next four years. Republicans controlling Washington are set to prioritize deregulation, extending tax cuts and greater use of tariffs. All of this could attract inflows into U.S. dollar assets for a time. However, potential upside may not be evenly spread. These include domestically oriented U.S. large caps, such as banks, industrial real estate, robotics and automation specialists, and defense contractors.

Select Equity Market Earnings and Valuations

Market	Forward PE	Forecast EPS growth 2025 %	Forecast EPS growth 2026 %
S&P 400 Growth	22.3	10.4	14
S&P 600 Growth	20.9	12.6	16
U.S. Banks	13.3	4.8	12.8
MSCI India	25	16.5	16.1
MSCI China	10.9	9.4	11.9
MSCI Japan	15.2	8.3	9.3
MSCI Brazil	9.3	15.0	10.3
MSCI EM Asia	14.3	14.2	12.9

Source: Bloomberg, FactSet, as of Nov 14, 2024.

2025 Wealth Outlook:
Equities: Shifting leadership in an ongoing bull market

HOW DEREGULATION AND DEMAND COULD BOOST BANKS

Positive forces may be converging for the banking sector. Short-term interest rates have been falling, while longer-term yields have been rising. This means banks can borrow more cheaply and lend out at higher rates. And with loan activity picking up, they seem well placed to do so.

Possible Trump administration deregulation could enable banks to do business more easily and take risks using their balance sheets. An acceleration in mergers & acquisitions and initial public offerings may also follow. This could boost fees for investment banks, which have suffered in recent years from weak deal flow. Meanwhile, should risk asset markets keep rising, banks' wealth management revenues may grow alongside their assets under management.

MAKE AMERICA MANUFACTURE AGAIN: THE ENABLERS

A further push to bring manufacturing activity back to the U.S. seems likely, especially in key sectors such as technology. This onshoring is likely to see much activity carried out via robotic technology in state-of-the-art facilities rather than by human workers.

In this event, sectors that support cutting-edge manufacturing may see growth. These could include the makers of robotics and automation technology, constructors specialized in creating warehousing and factories, and the companies that produce heavy machinery needed to build new facilities.

A MATTER OF SIZE

We also see potential in smaller- and mid-capitalization (SMID) equities. If the Trump administration relaxes regulation and cuts taxes, SMID firms may benefit more, as keeping compliant with regulations is especially burdensome for them. Also, SMID companies' businesses are typically more domestically focused. As such, they may be less vulnerable if the new administration's policies trigger a global trade war. We are attracted, for example, to mid-cap technology, which has lower valuations than large-cap technology, despite higher potential growth and greater likelihood of mergers & acquisitions activity. The S&P 400 Growth Index and S&P 600 Growth Index are forecast to deliver 10% and 13% earnings growth in 2025. Quality SMID firms that are not over-leveraged are our preference.

2025 Wealth Outlook:
Equities: Shifting leadership in an ongoing bull market

INDIA: MORE GROWTH, LESS CURRENCY VOLATILITY

India is the fastest growing major economy globally. We expect its real GDP to rise 7% in 2025, with 4–5% inflation. High growth may continue over the next five years, mostly driven by domestic demand. India is industrializing and urbanizing, while becoming more business-friendly. The stock market is well supported by domestic investors, while the central bank's large foreign exchange reserves have brought greater stability to the Indian rupee. In 2025 and 2026, consensus forecasts point to 16.5% and 16.1% in earnings growth for the MSCI India Index.

AI BENEFICIARIES IN EAST ASIA

The artificial intelligence (AI) revolution remains in its early stages. As the rollout continues across industries, we expect further demand growth for key inputs such as semiconductors. Taiwan and South Korea host the largest semiconductor and fabrication companies. We believe they are well placed to address current infrastructure needs and future upgrade cycles. We believe this may provide momentum to these markets over time.

Korea's equities continue to trade at a discount to other emerging markets on 7.6 times forecast earnings. The authorities have sought to encourage better practices around dividends and corporate governance, albeit with limited success so far. Taiwanese equities, by contrast, trade on a much higher multiple of 16.3, reflecting their stronger performance in recent times.

JAPAN: STILL REFLATING AND REFORMING

Japan's efforts to reflate its long stagnant economy are paying off. In 2025, nominal GDP may rise 3.5%, making a third straight year of well-above-trend growth. Tax cuts may help boost consumer spending, while unions are preparing to press for another 5% pay rise in 2025. Against this backdrop, Japanese equities look attractively valued on 15 times 2025's forecast earnings.

2025 Wealth Outlook:
Fixed income: Credit at the core

- As U.S. rates fall, we favor making investment grade (IG) credit a core portfolio holding. We see potential in certain lower rated IG bonds and sub-IG bonds.
- Differentiated credit includes structured credit, bank loans and preferred securities (a hybrid of debt and equity).

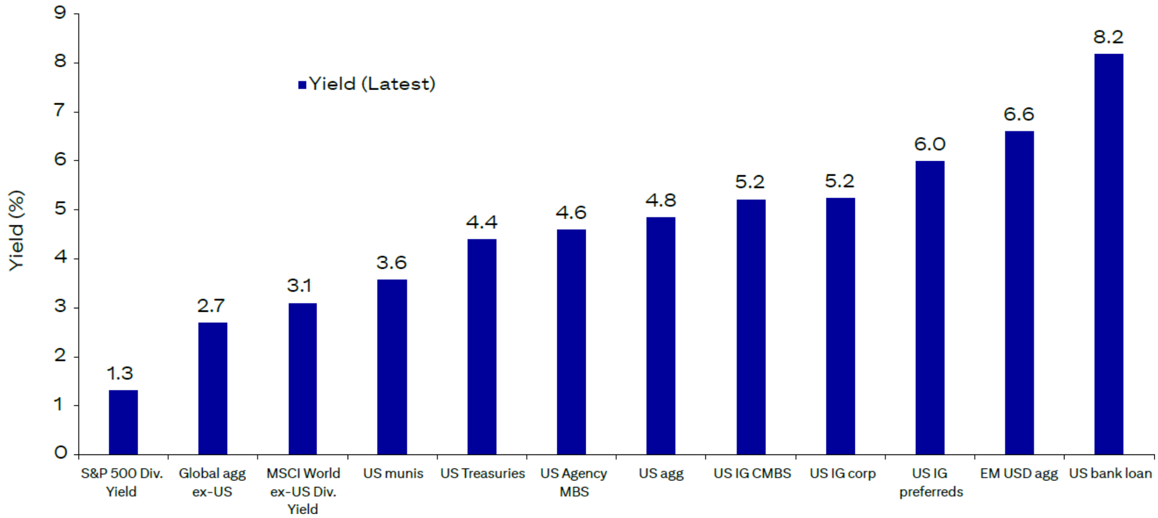
The U.S. Federal Reserve looks set to continue cutting overnight interest rates cautiously in 2025. The Fed Funds rate could fall from its current 4.75% to about 3.75% by year-end 2025. These declines may be enabled by a slowly declining inflation rate and a weakening yet positive employment picture. The U.S. central bank has repeatedly said that it will keep reducing rates based on improving inflation data, and that it will cut even more aggressively if the labor market unexpectedly weakens.

Rate cuts typically boost bond prices. But we believe that U.S. Treasury yields already priced in most of the expected rate cuts and are now pricing in the possibility of higher government deficits and therefore an increasing supply of bonds. Likewise, we believe the 10-year yield may rise slightly from its current 4.42% to about 4.75% by end-2025. It is likely that only data indicating an increasing possibility of a recession or a geopolitical shock might push yields much lower. In those cases, we could see investors flock to U.S. Treasuries, pushing prices up.

We see greater income potential in credit, i.e., fixed income securities issued by companies. Currently, intermediate U.S. investment grade credit has a yield of 5.04%, compared to 4.29% on equivalent Treasuries. Investors might therefore consider adding intermediate maturity (four-year) investment grade (IG) corporate bonds to their core fixed income holding. Admittedly, credit's additional yield – or its "spread" over Treasuries – isn't large by past standards. Spreads are about 68 basis points (bps), versus about 150 bps a year ago. But we think the potential additional income makes them worthwhile.

2025 Wealth Outlook:
Fixed income: Credit at the core

Yields on various fixed income and equity assets



Source: Bloomberg, as of Nov 20, 2024. Indices cited are: S&P 500 Index, Bloomberg Global Aggregate Fixed Income ex USD Index, MSCI All Country World ex USD, US Munis: Bloomberg US Muni Index, Bloomberg US Treasury Index, Bloomberg US MBS Index, Bloomberg US Agg index, Bloomberg US Investment Grade CMBS Index, Bloomberg U.S. Investment Grade Corporate Index, Ice BofA Investment Grade Institutional Capital Securities Index, Bloomberg Emerging Markets USD Aggregate Index, Morningstar LTSA US Leverage Loan 100 Index.

BBB-rated corporate bonds have the lowest rating, still qualifying as "investment grade" or "higher quality." And BB-rated corporate bonds are categorized below this as "high yield." Lower-rated bonds come with greater risks, including issuers not meeting coupon payments or repaying what they borrowed. However, for investors who understand and are comfortable with those risks, there may be potential to earn additional spread.

Also for suitable investors who understand and are comfortable with the risks, we see further higher-yielding possibilities among differentiated credit. Investment grade–rated preferred securities' ("preferreds") average yield is around 6.0%. Blending features of equity and debt, preferreds rank below bonds for repayment if the company is liquidated.

Structured credit includes new Agency AA-rated mortgage-backed securities (MBS). Diversified structured credit funds often own lots of MBS in their portfolios, alongside other types of structured credit.

2025 Wealth Outlook:
Beyond core portfolios: Opportunistic Investing

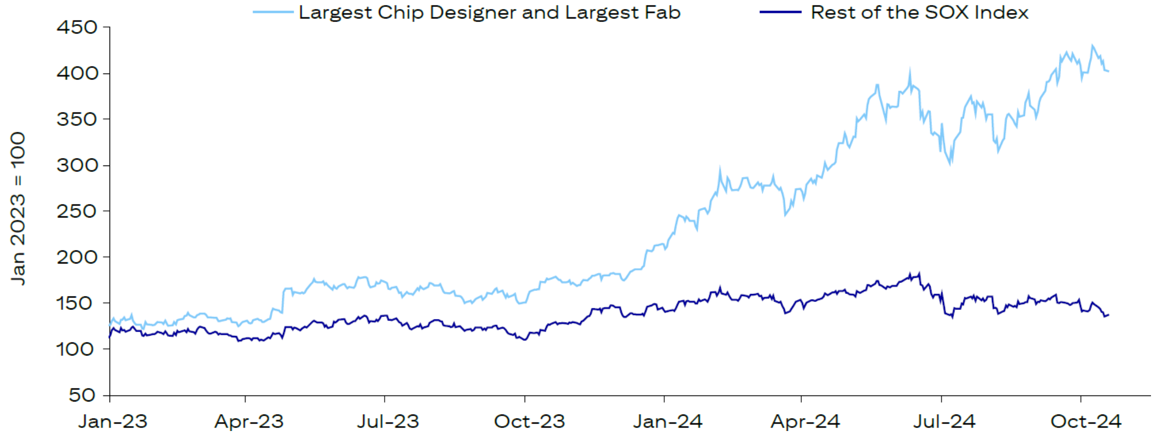
- Despite semiconductors returning 34.4% since we identified its opportunistic potential last year, we see more scope for upside in 2025.
- Having rallied in 2024 – albeit by less than U.S. equities overall – medical equipment may have further to go, our view.
- Having rallied for much of 2024, we believe that biotech equities may offer outperformance potential.

An opportunistic portfolio is an additional, much smaller portfolio for pursuing investments that may fall outside the scope of a suitable investor's long-term plan. The investments held may be shorter-term and have little or no track record of risks and returns. An opportunistic portfolio is often concentrated. It may also be held in cash until a potential opportunity arises, enabling a quick response in what may be a brief window.

SEMICONDUCTOR EQUIPMENT MAKERS

The AI buildout has created massive demand for semiconductors, even while demand for chips from cyclical industries such as autos has disappointed. Against this backdrop, U.S.-led restrictions on exports of advanced chips and equipment to China have hit some semiconductor equipment maker equities. This is despite the U.S. government and others offering subsidies to producers to reshore the Taiwan-centered semiconductor supply chain.

Semiconductor leadership has been concentrated



Source: Haver Analytics, as of Nov 14, 2024.

2025 Wealth Outlook:
Beyond core portfolios: Opportunistic Investing

Many semiconductor companies have delivered only modest performance since the start of 2023, even as the equities in the leading firms have climbed sharply. Ultimately, the penetration of semiconductors in everyday products, innovation and obsolescence drive industry growth. Global semiconductor market revenue could grow from $607.4 billion in 2024 to $980.8 billion by 2029.2 Despite semiconductors returning 34.4% since we identified its opportunistic potential last year, we see more scope for upside in 2025.

MEDICAL EQUIPMENT: IMPROVING VITAL SIGNS

In a rapidly aging world and with wealth levels rising, we see healthcare as a long-term focus for core portfolios. We also see ongoing opportunistic potential among one of its subsectors: the companies that conceive and create innovative diagnostics and instruments, such as laboratory testing equipment, imaging systems, surgical tools, and wearable or implanted devices for those with chronic conditions. AI may increasingly augment some of the sector's products and services.

Having rallied in 2024 – albeit by less than U.S. equities overall – medical equipment may have further to go, our view. in Forecast earnings per share may increase 9.5% in 2025, giving a forward price/earnings multiple of 20.4.

DEFENSE CONTRACTORS IN AN UNSETTLED WORLD

As nations focus on bolstering their strategic and defensive needs, we see potential opportunities for some sectors. Among them are the providers of weaponry, aircraft, advanced defense technologies and the like. In 2024, some 23 NATO members are likely to meet their commitment to spend 2% or more on GDP on defense, up from just six members in 2021. Even if the Ukraine and Middle East conflicts are resolved swiftly, we would expect continued spending in Europe and elsewhere, especially given reduced certainty over U.S. intervention in future conflicts.

2025 Wealth Outlook:
Beyond core portfolios: Opportunistic Investing

BIOTECHNOLOGY: HEALTHCARE'S CUTTING EDGE

When it comes to healthcare innovation, the biotechnology sector is at the cutting edge. Firms in this space have made important progress in recent years in the likes of therapies that seek to disrupt the environment that tumors need to grow, personalized treatments based on genetics, weaponizing the body's immune system to fight disease, and advanced vaccines that address cancer and rare conditions. We believe the AI revolution could accelerate biotech innovation on various levels, from drug discovery and development to advanced diagnostics to enhanced manufacturing.

Having rallied for much of 2024, we believe that biotech equities may offer outperformance potential. Decent valuations and lower interest rates could encourage renewed mergers & acquisitions activity, involving both private equity and large pharmaceutical firms seeking to replenish their product pipelines.

DEREGULATION POTENTIAL: U.S. BANKS

An overall tightening of rules since the financial crisis of 2007–09 has made for tougher operating conditions for the sector. But having eased some rules during his first term, Trump may go further this time, especially following his campaign commitment to overseeing the "largest regulatory reduction in the history of this country."

Possible deregulation measures include looser rules on how much capital banks must hold and a more permissive mergers & acquisitions regime. This could see consolidation among smaller and midsized banks, as well as more dealmaking activity among companies in general, feeding through into more fees for bigger banks. If Trump's pro-growth agenda succeeds, this could also generate a better business environment for the sector.

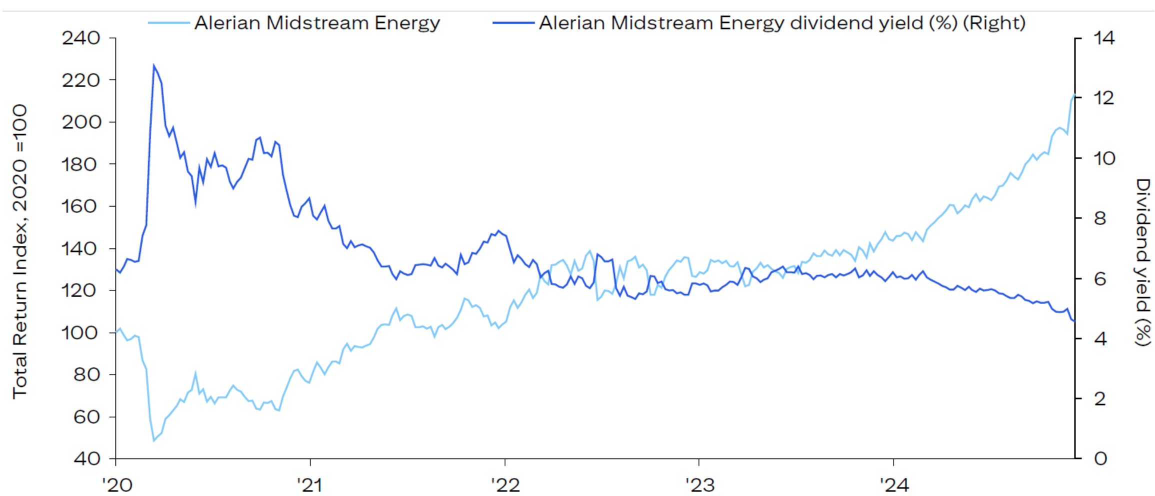
2025 Wealth Outlook:
Beyond core portfolios: Opportunistic Investing

GOING WITH THE FLOW: MIDSTREAM ENERGY TRANSPORTATION

The incoming U.S. administration is a friend of traditional energy sources. Even as U.S. oil output reaches record levels, potentially sinking prices and profits for the industry worldwide, Trump has vowed to boost production further. With easing regulations, rising demand and more gas export, we are attracted to master limited partnerships and corporations owning the pipelines, storage facilities and processing plants that make up the "midstream" between production and consumption.

Master limited partnerships seek to pay out more of their cash flows to investors. The Alerian Midstream Energy Index recently had a dividend yield of 4.5%. Its total return since 2020 has exceeded that of the S&P 500 Index and we believe its momentum may persist for now.

Midstream's recent performance



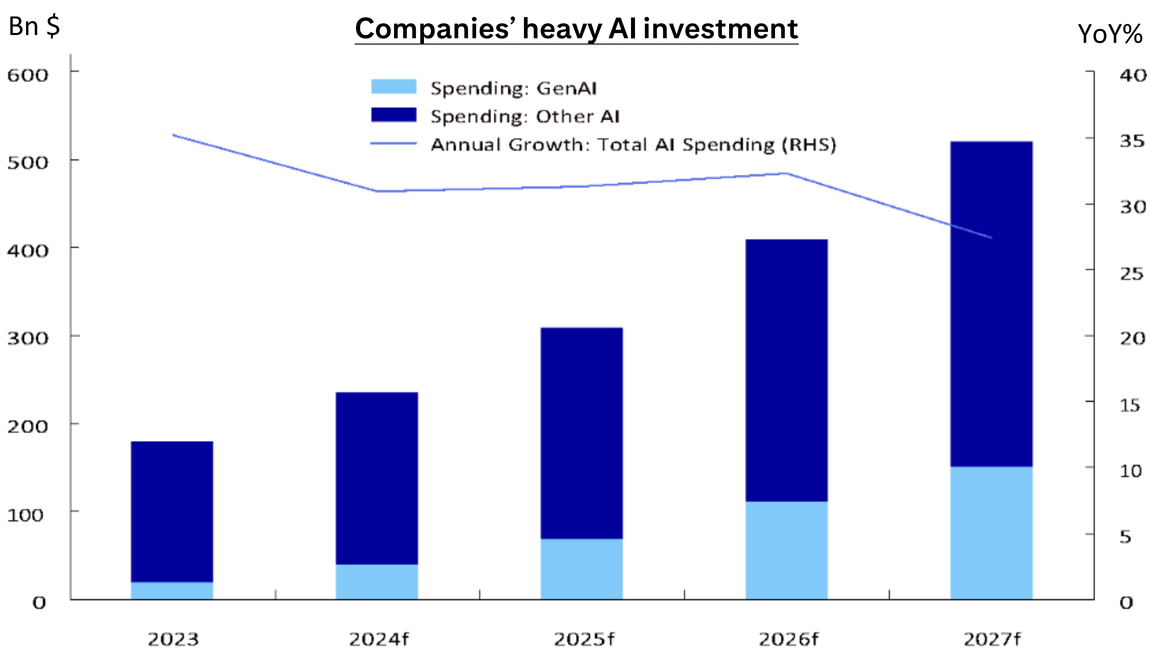
Source: Haver Analytics, as of Nov 14, 2024.

2025 Wealth Outlook: AI getting more real

- We expect AI's potential business benefits and investment performance to spread out.
- We see healthcare, finance, robotics, education and agriculture as potential beneficiaries of AI adoption.

Artificial intelligence (AI) infrastructure leaped ahead in 2024. Billions of dollars have been invested in related technology, which is set to continue. The International Data Corporation forecasts AI-related spending on hardware, software and services to rise from $232 billion in 2023 to over $500 billion by 2027. This has boosted profits and the share prices of those that design and make AI chips, servers and related equipment. In 2025 and thereafter, we see AI adoption spreading. We highlight six areas in tech and beyond where AI may create investment potential.

Companies' heavy AI investment



Source: Citi Analysts and Gartner, as of Aug 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

2025 Wealth Outlook: AI getting more real

REINVENTING SOFTWARE: While chips and hardware are the engines that power AI, software companies are at the forefront of building programs and services that integrate AI with legacy applications. AI-assisted coding has helped dramatically reduce the cost of developing applications. Lately, though, many software customers have allocated limited technology budgets to building AI capabilities, often at the expense of traditional software. We see a risk that some leading software as a service (SaaS) firms may be displaced by public AI cloud services. Tough competition and rapid obsolescence also need to be taken into account. Nevertheless, we believe other software companies that can effectively integrate AI to improve outcomes for their customers are poised to outperform.

SMARTER HEALTHCARE: New possibilities for diagnostics, treatment planning and patient care are emerging. In many cases, AI analyzes X-rays, MRIs and CT scans faster and more accurately than humans. Predictive analytics are identifying patients at greatest risk of chronic conditions, enabling preventative interventions, and thus reducing hospitalizations. By analyzing large genetic, medical and lifestyle datasets, AI can help create even better personalized treatments.
Chatbots and virtual assistants are making healthcare access cheaper and more efficient, providing support in routine inquiries, appointment scheduling and medication reminders.

FINANCIAL SERVICES' NEW FRONTIERS: Financial institutions are using AI to improve operations, data analytics and customer care. For example, machine learning models are identifying fraudulent customer transactions and cyberattacks against banks. Data-entry and back-office tasks are steadily being automated, along with compliance monitoring and data collection. And complex dataset monitoring is helping banks to monitor lending and other risks. On the investment side, trading activities are being refined by processing market data at scale, enabling better execution techniques. Robo-advisors are offering affordable, data-driven financial advice to a broader audience. Asset managers are relying more and more on AI to summarize market trends, corporate announcements and macroeconomic data to inform decisions.

RISE OF ROBOTICS: Thanks to AI, robots across many industries are performing more complex tasks. AI-enhanced robots can increasingly adapt to new environments without human intervention. In manufacturing, for example, they are performing high precision work such as assembling microelectronics.

2025 Wealth Outlook: AI getting more real

Robots are also assisting in surgeries, physical therapy and elderly care. AI-powered robotic arms provide increased precision and dexterity during surgical procedures, reducing recovery time for patients. The integration of AI with robotics has the potential to improve productivity, safety and quality of work across many sectors.

EMPOWERING EDUCATION: Language translation tools and AI tutoring systems are boosting education access. Students in remote areas, for example, can now learn more easily in their native languages. Virtual classrooms offer adaptive learning experiences, tailored to individual needs. Meanwhile, reduced administration will enable teachers to focus on student engagement.

ENHANCED AGRICULTURE: AI is making agriculture more sustainable and efficient. Precision agriculture uses real-time data from sensors, drones and satellites to monitor crop health, soil and weather. This informs decisions about irrigation, fertilization and pest control, ultimately optimizing resource usage and minimizing waste.

Another key use is predicting crop yields and potential issues such as disease outbreaks, enabling proactive intervention. Automated machinery, such as self-driving tractors and harvesters, is further helping to streamline labor-intensive processes. By enhancing productivity and reducing environmental impact, AI can help bolster food security.

We believe the AI revolution has far to go, creating ongoing demand for many of the chips and other AI infrastructure and services. Leading chipmakers and cloud providers may still thus have scope to grow sales and profit margins. In software, we would focus on specialty companies with distinct advantages over rivals.

At the same time, we anticipate both the potential business benefits and investment performance of AI to spread out. AI may make healthcare, industrials (including suppliers of AI-enhanced agriculture) and financial services firms more productive, boosting earnings over the medium term. We also see potential in education technology and robotics makers.

2025 Wealth Outlook:
Unstoppable Trends: Healthcare's Prescription for Longevity

- Given the intersection of the forces of aging and innovation, we regard longevity-driven healthcare demand as an unstoppable trend. We therefore favor long-term portfolio exposure to this sector, with its potential to deliver ongoing earnings growth and withstand economic downturns.

According to the National Council on Aging, nearly 80% of adults of 60 and older have two or more chronic conditions.5 The prevalence of dementia may almost triple in China and Brazil between 2021 and 2050, with substantial increases across much of the developed world.

As the world's senior cohort continues expanding, the strain on healthcare systems, government finances and individual resources is likely to intensify. In the next five years alone, global spending per capita on healthcare may increase by some 18.4%.

The next challenge for humanity is to enable people to remain healthier for more of their extended years. We believe healthcare innovation can help. Indeed, advances in therapeutics and treatments, devices and diagnostics, and long-term care will be essential. Rather than simply treating people who have fallen ill, the focus needs to shift to preventing illness before it even strikes. The goal is better health outcomes at lower cost of care.

To encourage a shift toward prevention and early intervention, we see an increasing role for value-based care (VBC). Whereas traditional healthcare has tended to reward providers based on activity – such as how many scans and procedures they perform – VBC incentivizes providers to seek better outcomes for patients. Better monitoring of elderly people's condition – for example, via smart wearable devices – more home and community-based care, and a more proactive approach to managing chronic disease form part of this approach.

2025 Wealth Outlook:
Unstoppable Trends: Healthcare's Prescription for Longevity

We look for artificial intelligence (AI) to shape almost every aspect of healthcare innovation in the years ahead. Within value-based care, for example, AI could increasingly assist in prevention by identifying older people most at risk of illnesses, developing personalized treatment plans, enabling remote monitoring and enhancing providers' administration. Likewise, AI is already enhancing drug development, helping in the search for new treatments. Significant technical challenges and the need to study therapies in human clinical studies, along with data protection, algorithmic biases and regulatory compliance, are among the hurdles faced.

Given the intersection of the forces of aging and innovation, we regard longevity-driven healthcare demand as an unstoppable trend. We therefore favor long-term portfolio exposure to this sector, with its potential to deliver ongoing earnings growth and withstand economic downturns. Naturally, the businesses involved are typically complex. Clinical trial outcomes, regulatory intervention and drug price negotiations pose ongoing risks for investors. For these reasons, we prefer exposure via specialist active managers with an established record. Having lagged in recent times, we also believe the sector could potentially outperform in 2025.

Citi Wealth Management

Investment & FX Insight

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Important Disclosure on High Yield Bonds

Unrated or non investment grade Debt Securities typically offer a higher yield than investment grade Debt Securities, but also present greater risks with respect to liquidity, volatility, and non-payment of principal and interest. As a result of being classified as non investment grade Debt Securities, these Debt Securities present a greater degree of credit risk relative to many other fixed income Debt Securities.
Higher Credit Risk – Unrated or non investment grade Debt Securities generally have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. There is greater risk of non-payment of interest and loss of principal. Many issuers of these Debt Securities have experienced substantial difficulties in servicing their debt obligations, which has led to default and restructurings. The issuers of these Debt Securities generally have to pay a higher rate of interest than investment grade Debt Securities.
Higher Liquidity and Secondary Market Risk – The markets in which unrated or non investment grade Debt Securities are traded are generally more limited than those in which investment grade Debt Securities are traded. This lack of liquidity may make it more difficult to resell these Debt Securities and obtain market quotations.
Downgrade Risk – Downgrades in the credit rating of unrated or non investment grade Debt Securities by rating agencies are generally accompanied by declines in the market value of these Debt Securities. In some circumstances, investors in the unrated or non investment grade Debt Securities market may anticipate such downgrades as a result of these credits being placed on "credit watch" by rating agencies, causing volatility and speculation of further credit deterioration.
Higher Vulnerability to economic cycles - During economic downturns, unrated or non investment grade Debt Securities are typically more susceptible to price volatility and fall more in value than investment grade Debt Securities as i) investors may reevaluate holdings in lower-quality bonds in favor of investment-grade corporate Debt Securities; ii) investors become more risk averse; and iii) default risk rises. This is often referred to a "flight to quality".
Event Risk – This includes any of a variety of events that can adversely affect the issuer of unrated or non investment grade Debt Securities, and therefore the issuer's ability to meet debt service obligations to repay principal and interest to Debt Securities holders. Event risk may pertain to the issuer specifically, the industry or business sector of the issuer, or generally upon the overall economy. It could have a direct or indirect impact on the issuer and their outstanding debts.

Important Disclosure on RMB

Risk relating to RMB – If you choose RMB as the base currency or the alternate currency, you should also note the following:
RMB is currently not freely convertible through banks in Hong Kong. Due to exchange controls and/or restrictions imposed on the convertibility, utilization or transferability of RMB (if any) which in turn is affected by, amongst other things, the PRC government's control, there is no guarantee that disruption in the transferability, convertibility or liquidity of RMB will not occur. There is thus a likelihood that you may not be able to convert RMB received into other freely convertible currencies.
CNH exchange rates and CNY exchange rates are currently quoted in different markets with different exchange rates, whereby their exchange rate movements may not be in the same direction or magnitude. Therefore, the CNH exchange rate may be different from the CNY exchange rate.