

Been There, Done That

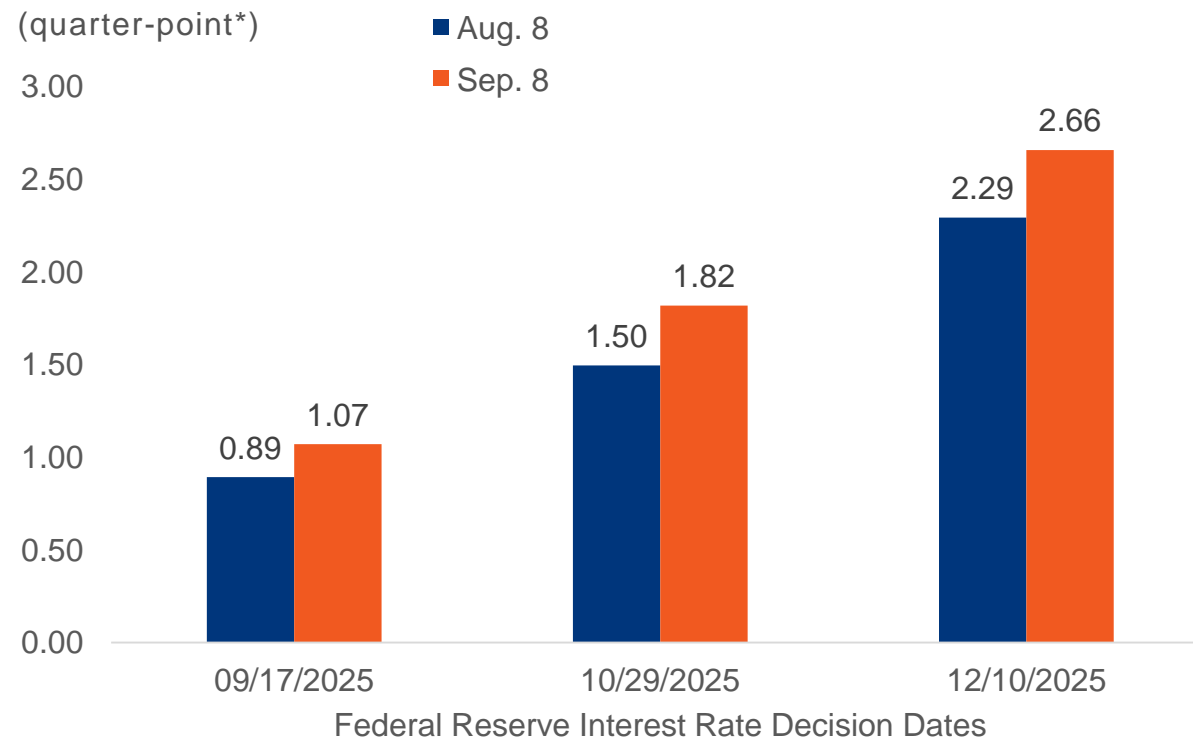
What's Next?

12 September 2025

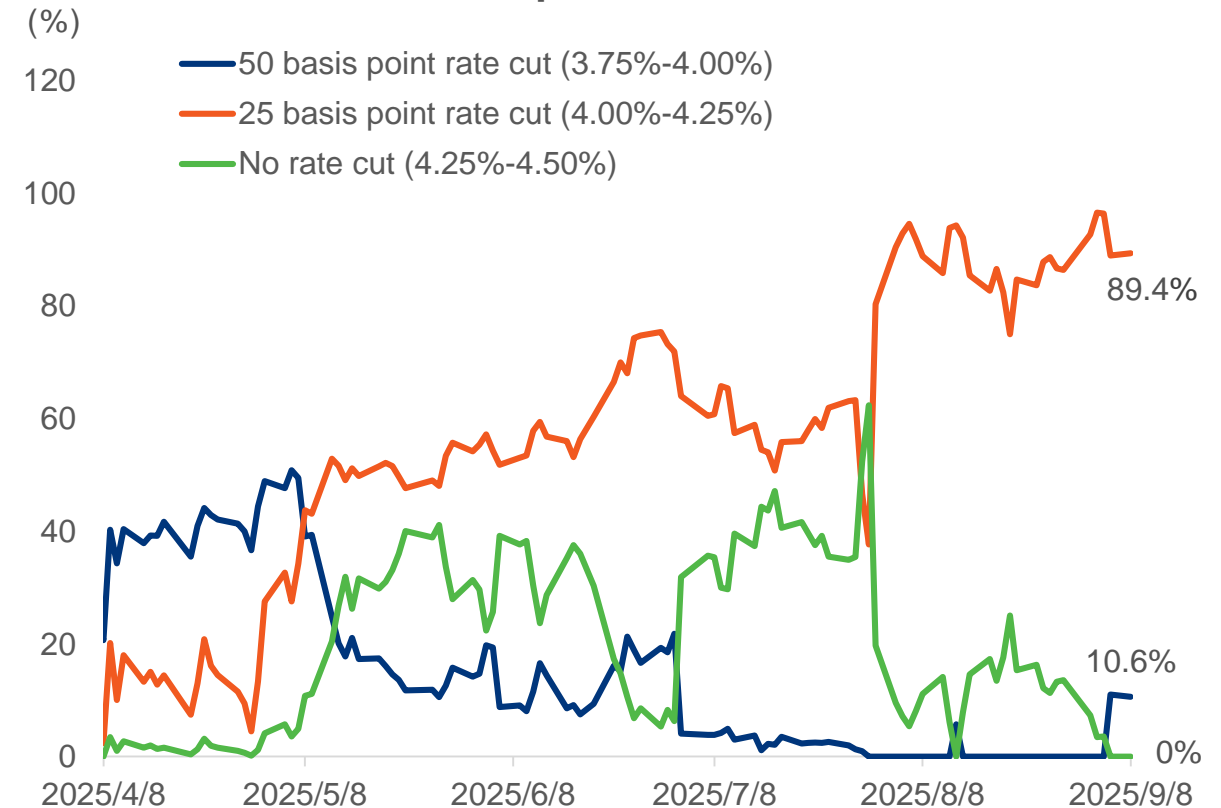
The Stock Market Is Increasing Muted for a September Cut

“A Catalyst” Should Be Unexpected. Fed Rate Move Is One of the World’s Most Transparent “Catalyst”.

Fed Funds Futures' Implied Cumulative Rate Cuts Before Year-End 2025



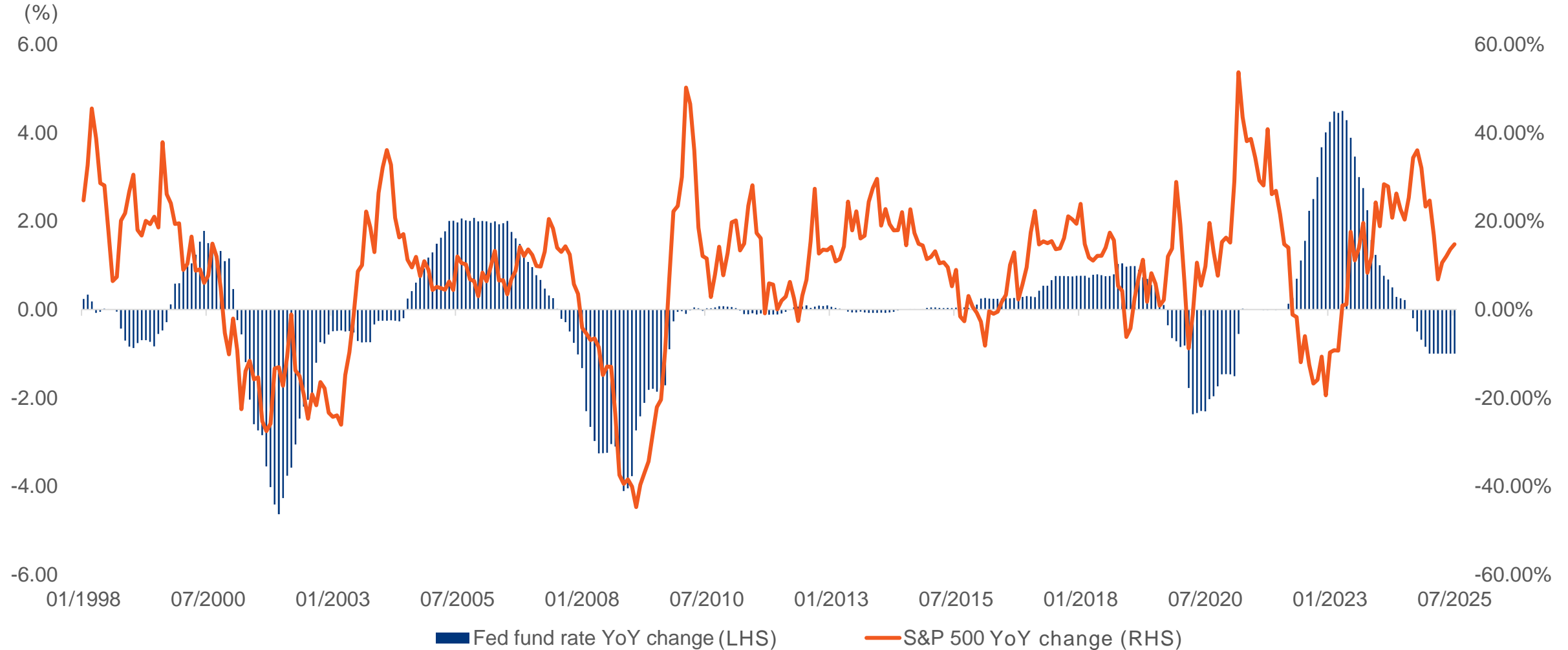
Fed Funds Futures' Implied Probability of the Sep.17 Rate Cut



Source: Bloomberg, CME Group, KGI, Note: One unit ("quarter-point") equals 25 bps

Is Interest Rate Cut Positive for Stock Market Every Time?

The Correlation Between the Stock Market and Fed Fund Rate Is Positive 30% When It Should Be Negative.

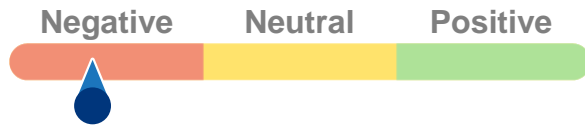


Source: Bloomberg, KGI

Three Types of Interest Rate Cuts

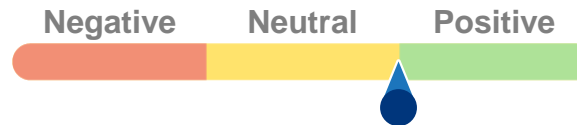
“Others” Are the Worst Kind of Reasons for Rate Changes

Crisis Mode



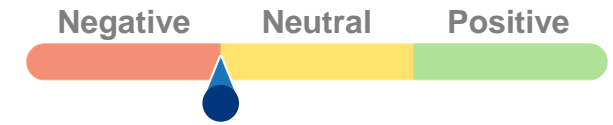
1. This normally happened during the middle of a crisis, e.g. Bursting of the internet bubble, Global Financial Crisis, COVID
2. When demand suddenly collapse or liquidity dried up, the Fed will sharply cut interest rate to inject excess liquidity.
3. Market reaction is normally negative during a crisis
4. Interest rate/stock market correlation tend to be positive.

Pre-Emptive



1. Before the economy goes into recession, the Fed pre-emptively cuts interest rate to prevent the stalling of the economy.
2. This should be seen as a positive move by the market.
3. However, if the Fed is acting too fast, the market will start to concern:
1) is the economy stalling too fast?
2) will the interest rate fuel inflation expectation; 3) 1) & 2) together will become concern about stagflation.

Others



1. Fed was perceived to be independent because it only considers the first two scenarios when making decision on rate changes.
2. If the Fed is under political pressure to make rate changes decision, this is going to be bad for both stock and bond market doesn't matter whether interest rates are going down or up.

What Are the Next Driver for Us Stocks?

Buy on Rumor Sell on Fact? Sell on Actual Interest Rate Cut?

- **Stronger than expected corporate earnings – 50/50 chance**

Stronger than expected 2Q earnings was known to the market. Any surprises would to come from the 3Q earnings

- **Stronger than expected capex plan – Unlikely except for AI investments**

Except for AI related capex which may surprise on the upside, capex plan for other businesses are unlikely to surprise given the business uncertainty under the global tariff regime,

- **Interest rate cut – known by the market**

This is well known to the market, unless there are deeper and faster cut. However this might run the risk of market concern about recession.

- **Fund flows – negative**

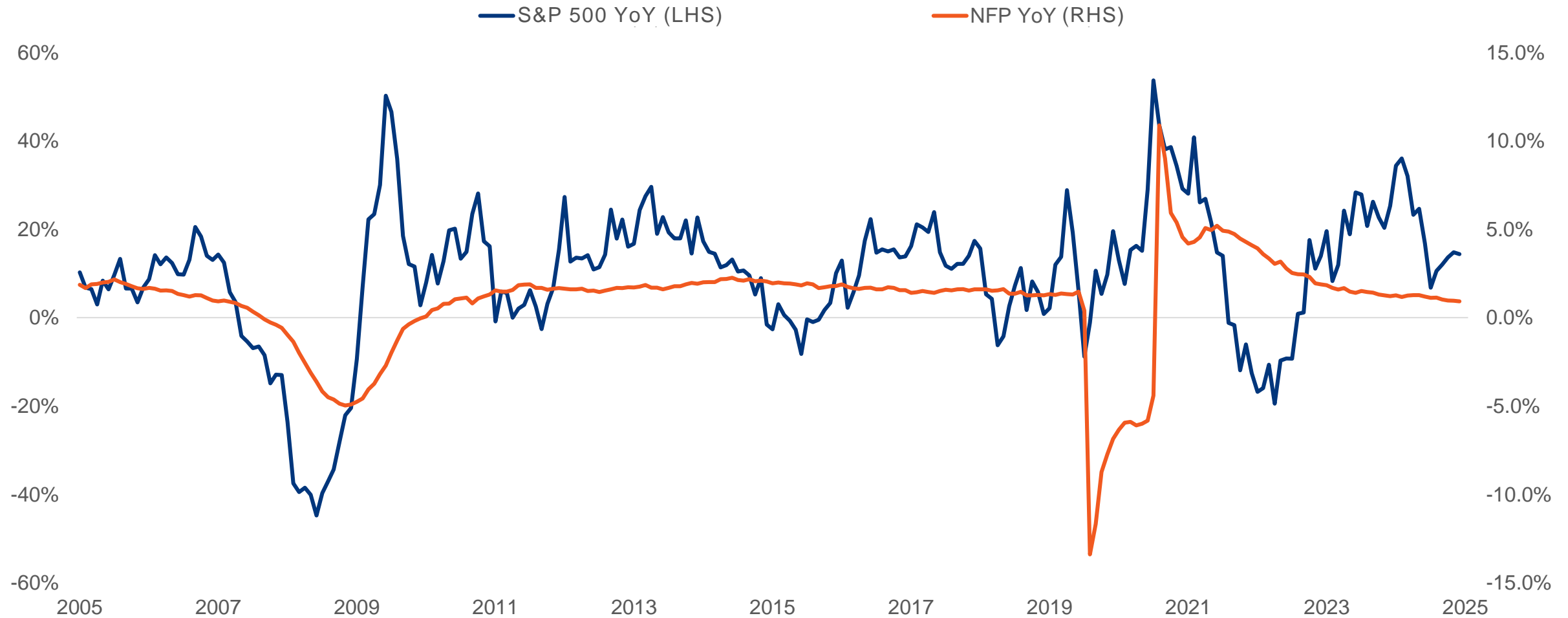
Weak US dollar and the concern about inflation is unlikely to attract capital inflow

- **Valuation – can't say it's cheap**

It is hard to attract “value” investors to the US stock market on back of its current valuation.

Non-Farm Payroll Is More a Fed Rate Barometer

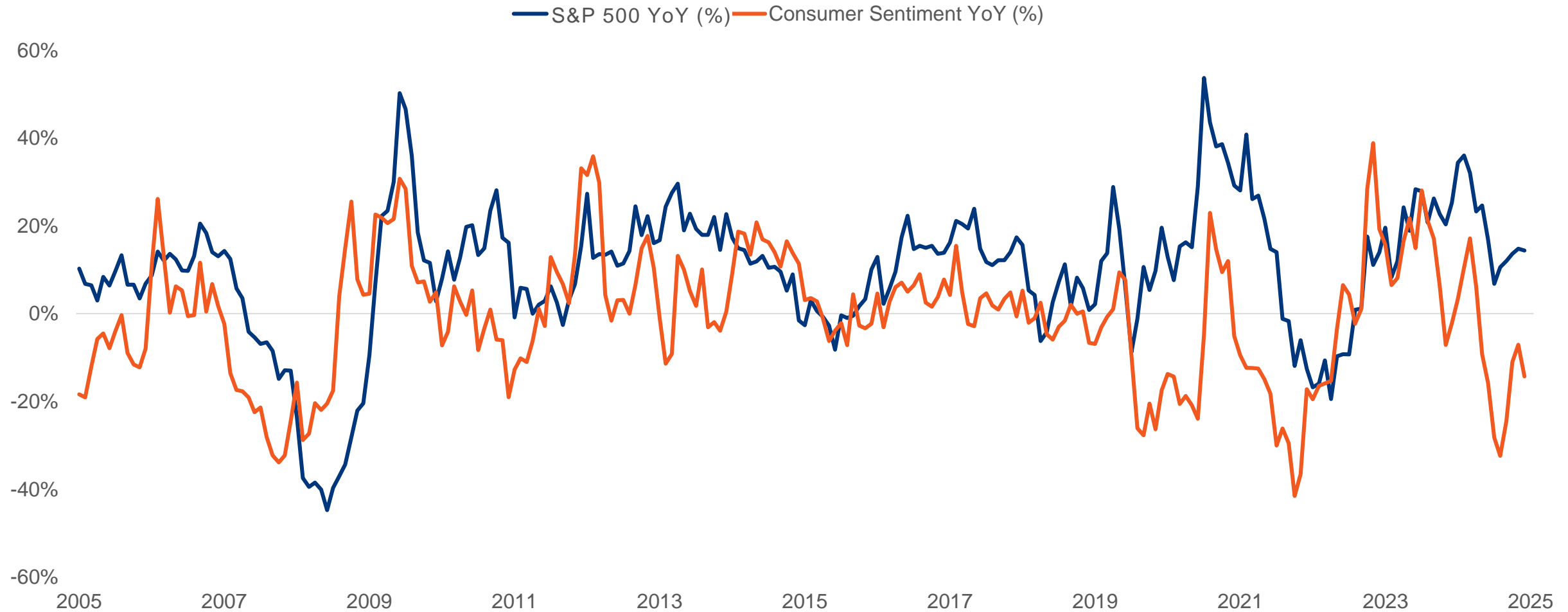
However, It Is Not a Useful Predictor of the Stock Market



Source: Bloomberg, KGI

Consumer Sentiment Being Early Proxy of the Economy

It's Correlation With the Stock Market Is Much Higher



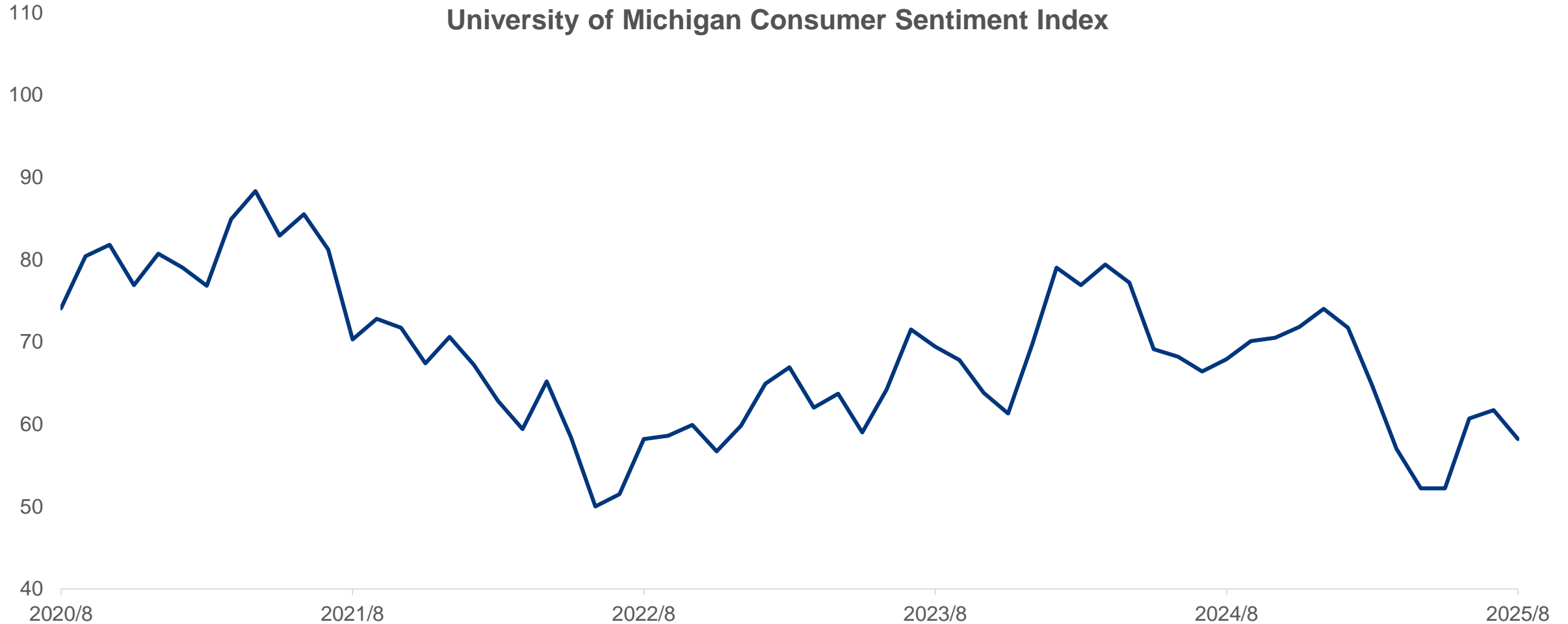
Source: Bloomberg, KGI

Consumer Sentiment in the US Now Is Turning Lower

The Tail Might Wag the Stock Market – If Employment Is Not Good, How Can Consumer Sentiment Be?

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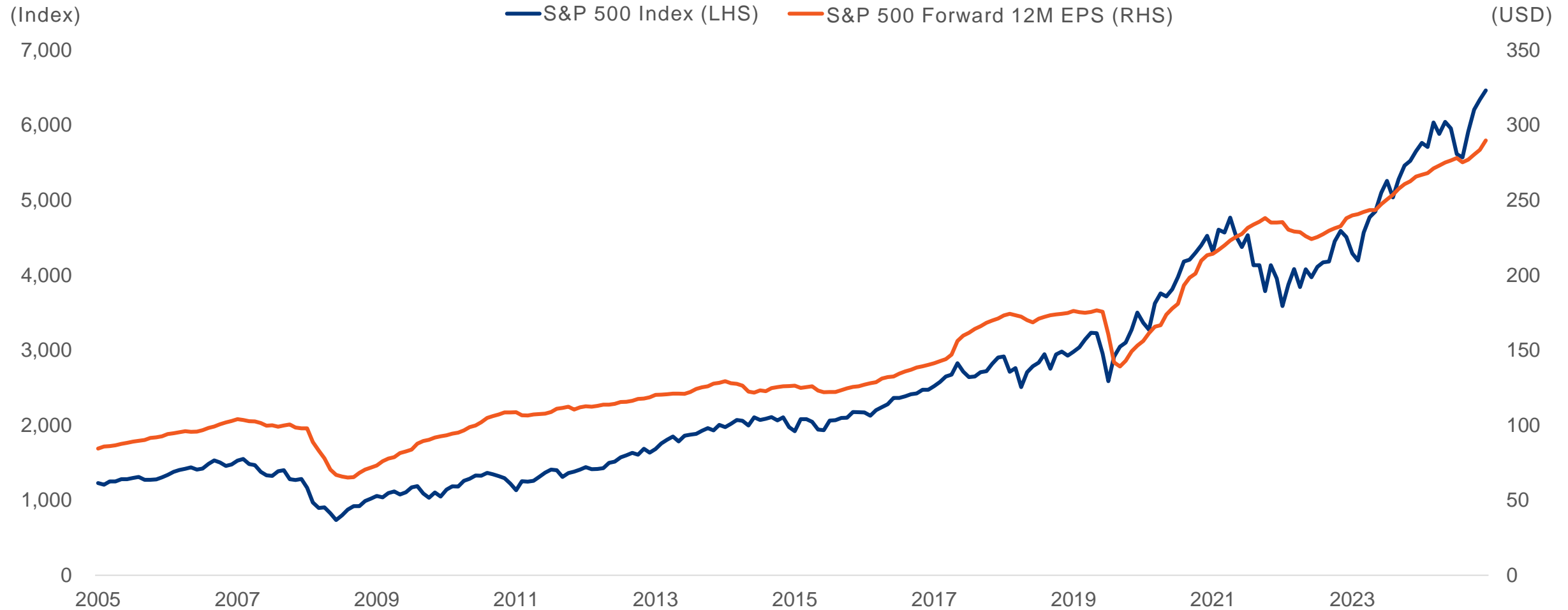
University of Michigan Consumer Sentiment Index



Source: Bloomberg, KGI

Us Stock Performance Has Overshot Their Earnings Trend

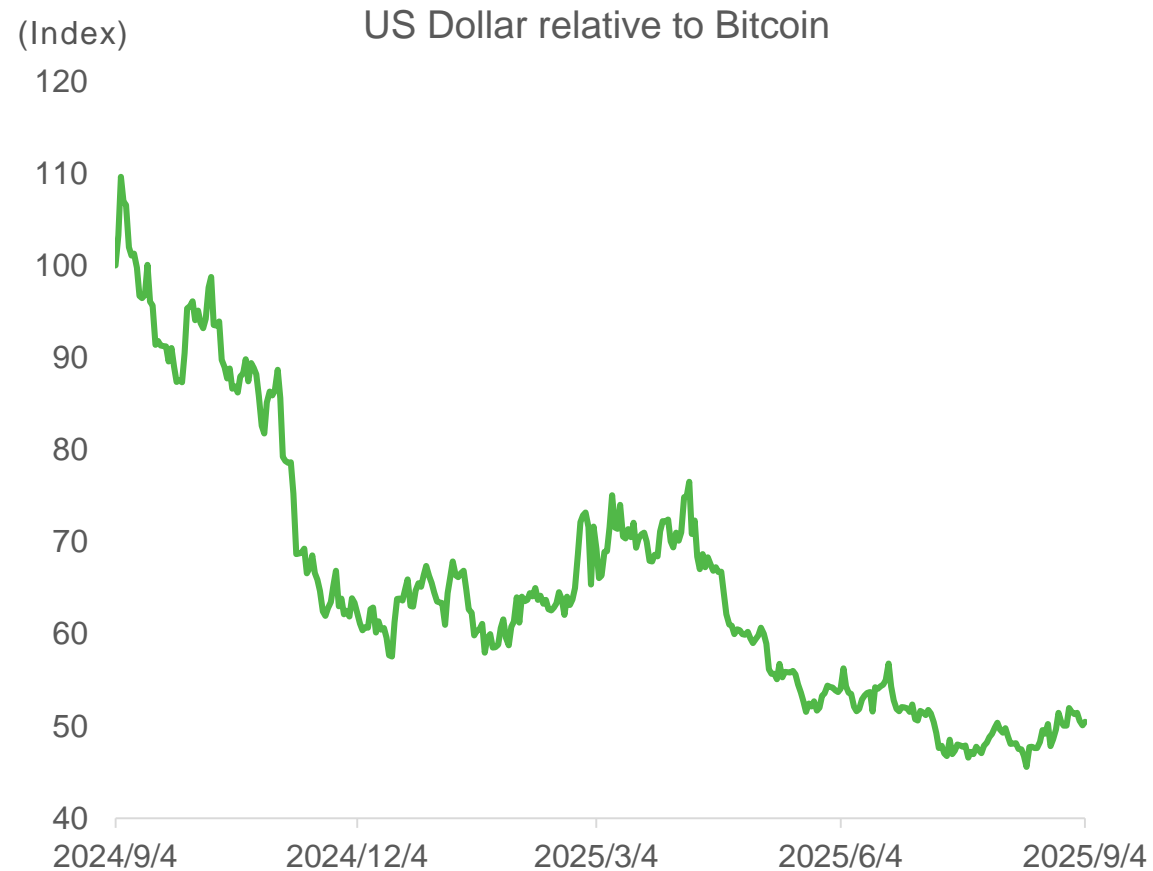
Valuation Cannot Serve as the Last Line of Defense



Source: Bloomberg, KGI

Alternative Assets Are Excellent Hedge

Against Diminishing Purchasing Power



Source: Bloomberg, KGI

Investment Strategy



Equities

- Like we advise previously, focused on selected quality names in the US. Diversify into Japan(domestic consumption and small-mid cap) and Hong Kong/China (healthcare, AI, Internet, EV, non-discretionary spending).



Fixed Income

- Diversify the US equity portfolio to fixed income. Within fixed income, we advise to add more weight to the 7-10years treasuries.



Alternative Assets

- The USD has depreciated 50% and 31% against Bitcoin and Gold over the last year respectively. Cryptocurrencies will remain an alpha generator for one's portfolio (5-8%). The long-term de-dollarization trend is gradually playing out.

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