CIO Office

CIO Insights

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The Optimist, Pessimist and Realist

No One Is Really Right

26 September 2025

The Market Views Are Split on the US Economy

Realist: It's Too Early to Make a Commitment

	Half-Full (Optimist)	Half-Empty (Pessimist)	Realist
Economy	All engines of the economy are firing well. Labour market shows short term weakness only	The weakening of the employment market is a precursor to further contraction in the real economy	Given the contradictary economic data, it is too early to define the US economy
Inflation	Tariff-induced price increase is not inflation. By definition, inflation need to be a "sustainable" price increase but not an one-off upward shift in prices	CPI number has been edging up. If tariffs is not responsible for that, It shows very very tough inflation trend at the core of consumption	Tariff induced or not, inflation is on an uptrend. It may not to be concern to the Fed now but it could be later
Monetary policy	As inflation is not a major concern, market is generally pricing in a dovish monetary stance. More rate cuts are expected to come	A too dovish policy could prompt the market to worry about the state of the economy and the independence of the Fed. Ressession fear could drive the market down	The pace of the monetary easing will be still be data-dependent. From now on, any datapoint could change to rate cut expectation
US dollar	US dollar was technically oversold. As the world cannot give up US dollar overnight, there bound to be buying of the dollar	Like any currencies, the movement of the US dollar tie to its real interest rate differential to other countries. If the market is building in faster than ususal pace of rate cut, it is contradictary to a strong dollar hypothesis	Us dollar depends on fund flow and fund flow depends on the availability of Investment incentive. As long as there are reasons to invest in the US or Trump is not launching additional policy to destroy the confidence in the US, the US dollar will mainly be hovering around at the currents level

Source: KGI

US Market Is Making New Highs but Only Mediocre on Performance

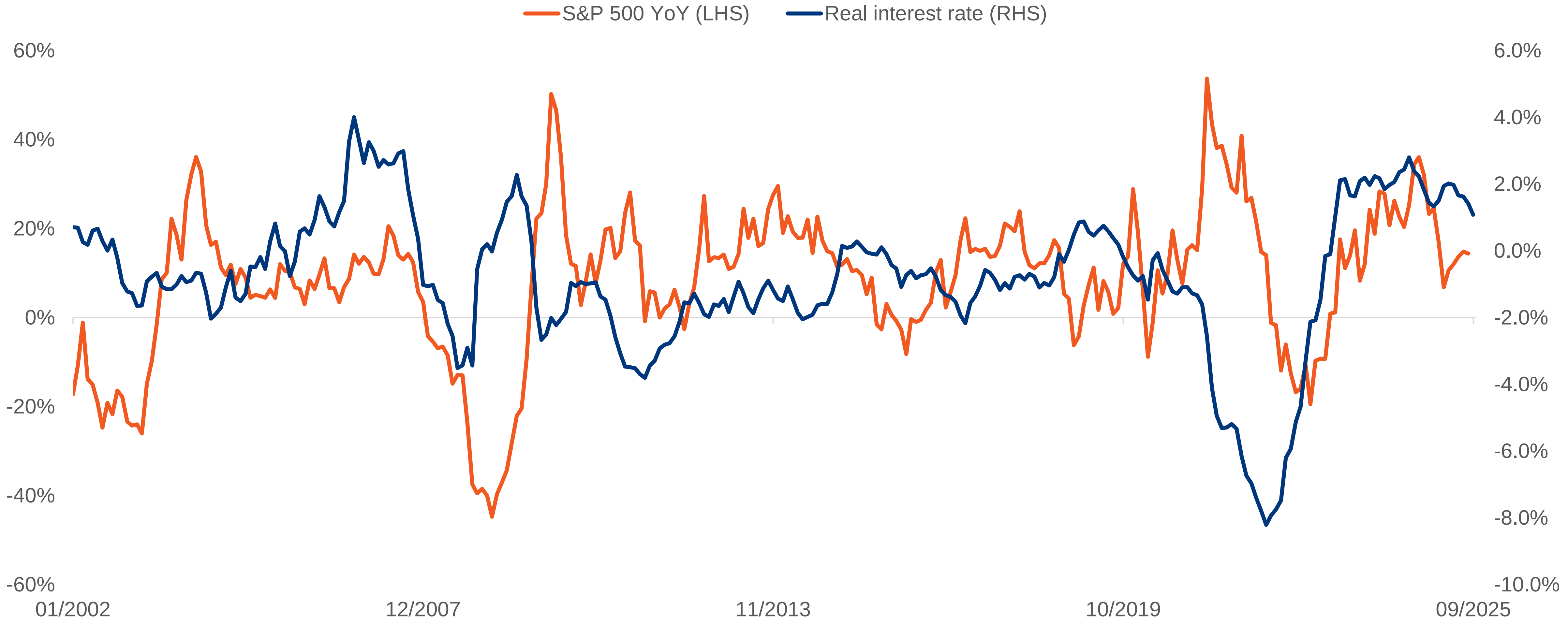
Other Markets Are Benefitting From the Uncertainties in the US

Ticker	Last Price	1M	3M	YTD	1YR
KOSPI INDEX	3,472.1	9.58%	11.87%	44.70%	32%
HSTECH INDEX	6,331.5	12.11%	19.51%	41.70%	61%
MSCI CHINA INDEX	86.8	4.67%	14.10%	34.08%	42%
HANG SENG INDEX	26,562.9	4.83%	9.87%	32.42%	40%
DAX INDEX	23,586.8	-3.19%	-0.23%	18.47%	24%
NASDAQ COMPOSITE INDEX	22,573.5	5.01%	13.36%	16.90%	25%
BBG World Lrg/Mid Cap PR INDEX	2,281.9	2.75%	8.78%	16.56%	16%
MSCI WORLD INDEX	4,293.7	2.41%	8.49%	15.80%	16%
CSI 300 INDEX	4,566.1	4.30%	16.96%	16.04%	36%
NIKKEI 225 INDEX	45,630.3	7.03%	17.63%	14.38%	20%
S&P 500 INDEX	6,656.9	2.94%	9.27%	13.18%	16%
FTSE 100 INDEX	9,191.3	-1.40%	4.93%	12.45%	11%
TAIWAN TAIEX INDEX	26,196.7	10.23%	18.06%	13.73%	17%
Euro Stoxx 50 PR INDEX	5,467.9	-0.37%	3.21%	11.67%	11%
RUSSELL 2000 INDEX	2,457.5	4.05%	13.71%	10.19%	11%
DOW JONES INDUS. AVG INDEX	117,402.7	1.66%	7.89%	10.22%	12%
Nifty 50 INDEX	25,133.5	1.06%	0.36%	6.30%	-3%
CAC 40 INDEX	7,857.2	-1.41%	3.15%	6.44%	3%

Source: Bloomberg, KGI

US Real Interest Rate Doesn't Help Much in Predicting the Market

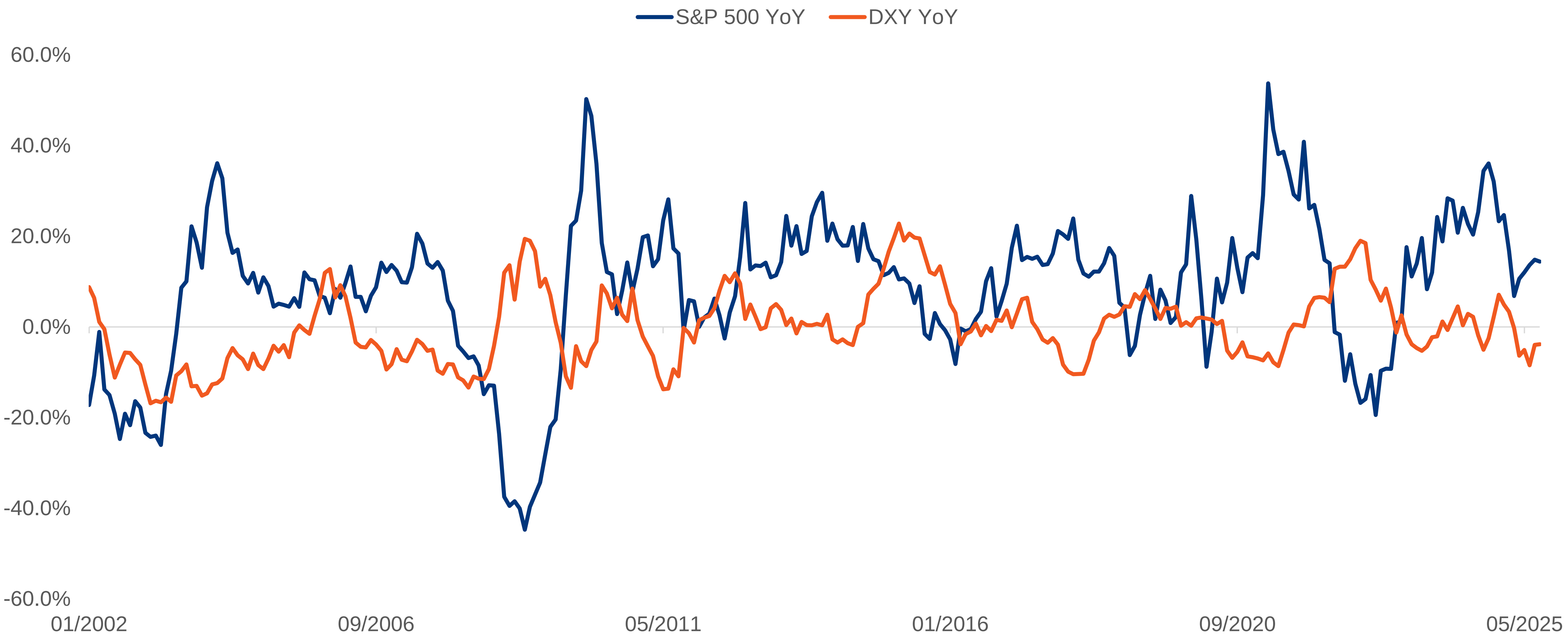
Real Rates Falling Due to Rise in Tariff-Induced Inflation Cannot Be Associated With Strong Demand



Source: CEIC Data, KGI

The Fluctuation in the DXY Does Not Shed Much Insight Either

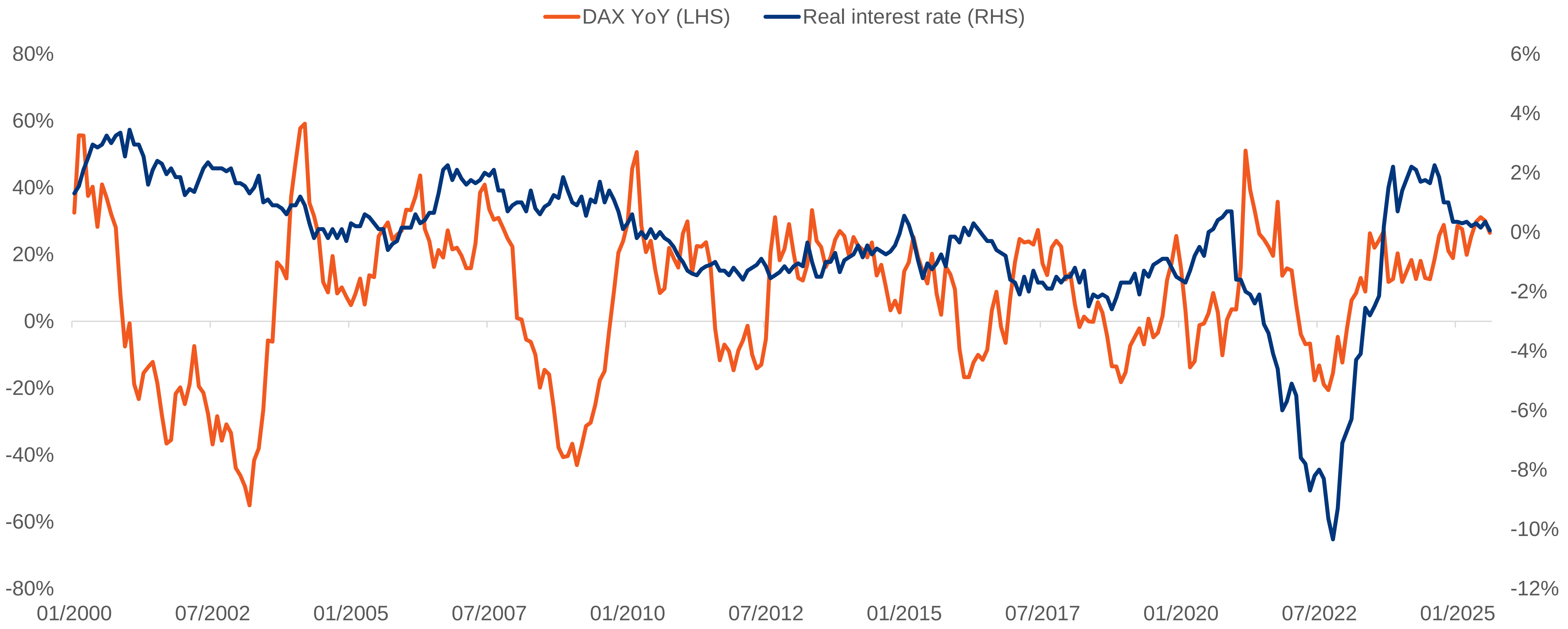
However, the Falling DXY Are More Important to the Rest of the Global Market



Source: CEIC Data, KGI

Real Rates Has Limited Predictability in Germany

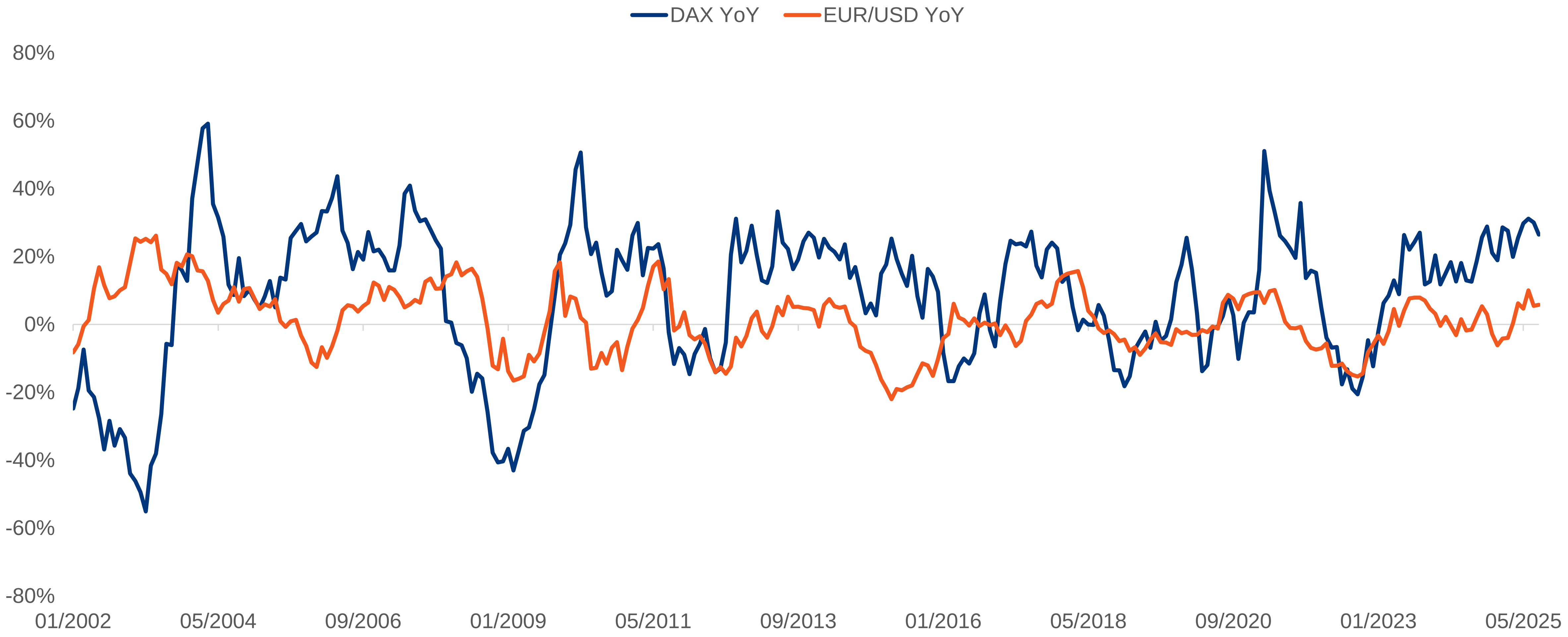
In Anything, Real Rates Seem to Have a Positive Correlation to the Stock Market



Source: CEIC Data, KGI

The Fluctuation of the Euro Has a Higher Explanatory Power

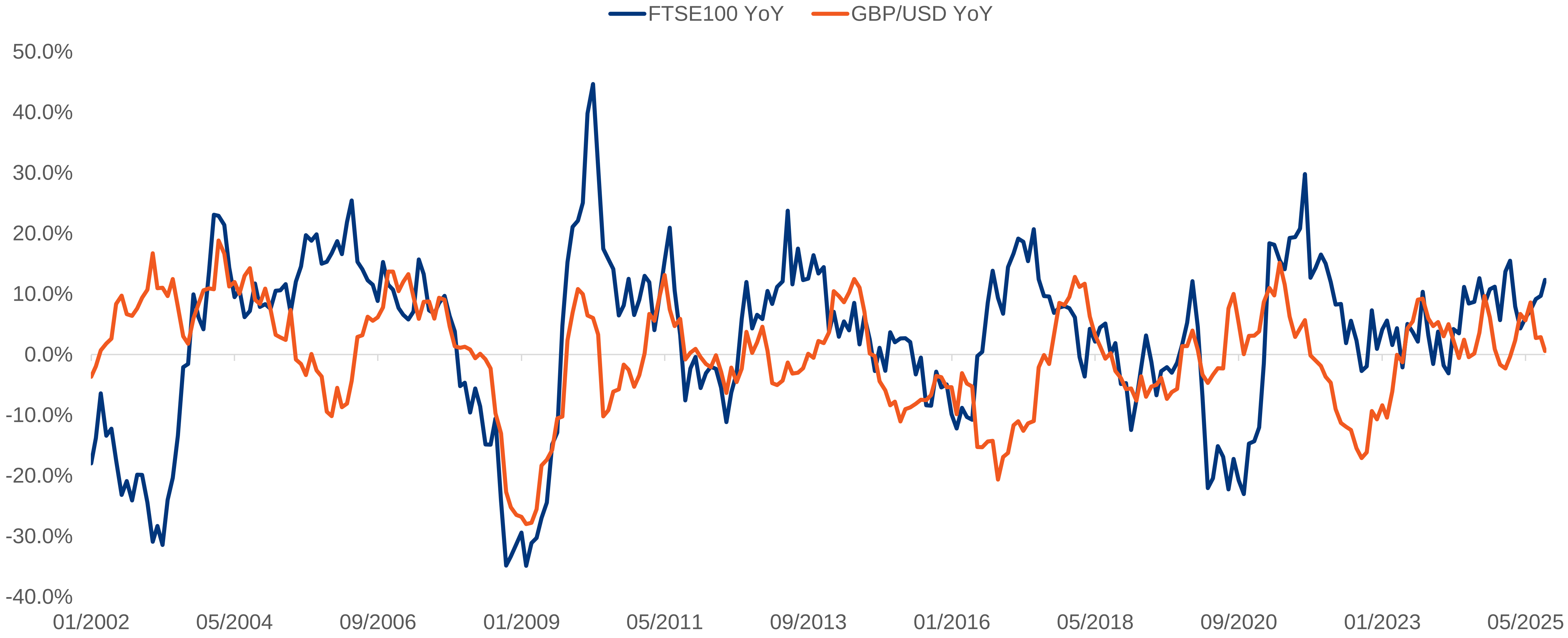
The Weak DXY Is Powerful in Predicting the Strength in Other Currencies and Its Stock Markets



Source: CEIC Data, KGI

UK's Is Not Much Better Than the US's Economy

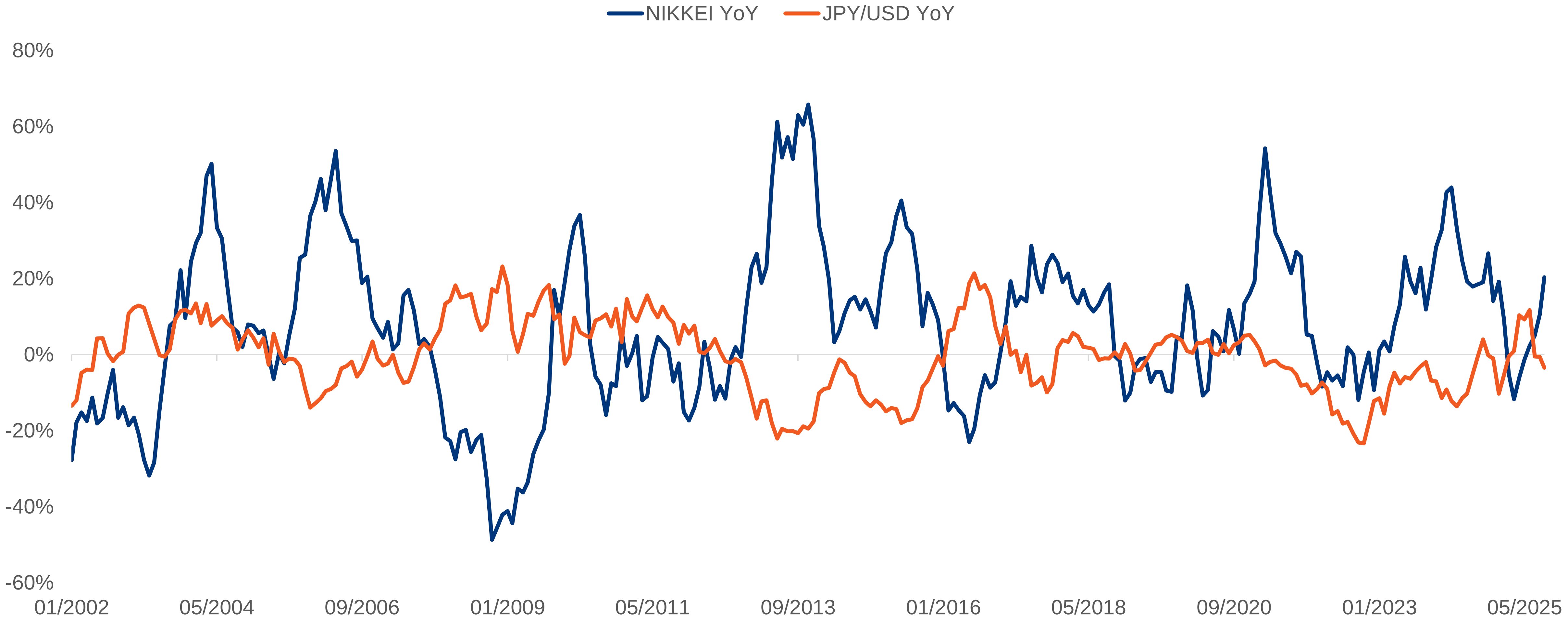
But the Strength in the GBP (Due to the US Dollar Weakness) Is the Propeller for the Stock Market



Source: Bloomberg, KGI

Interest Rate Hikes Are Not Scary After All

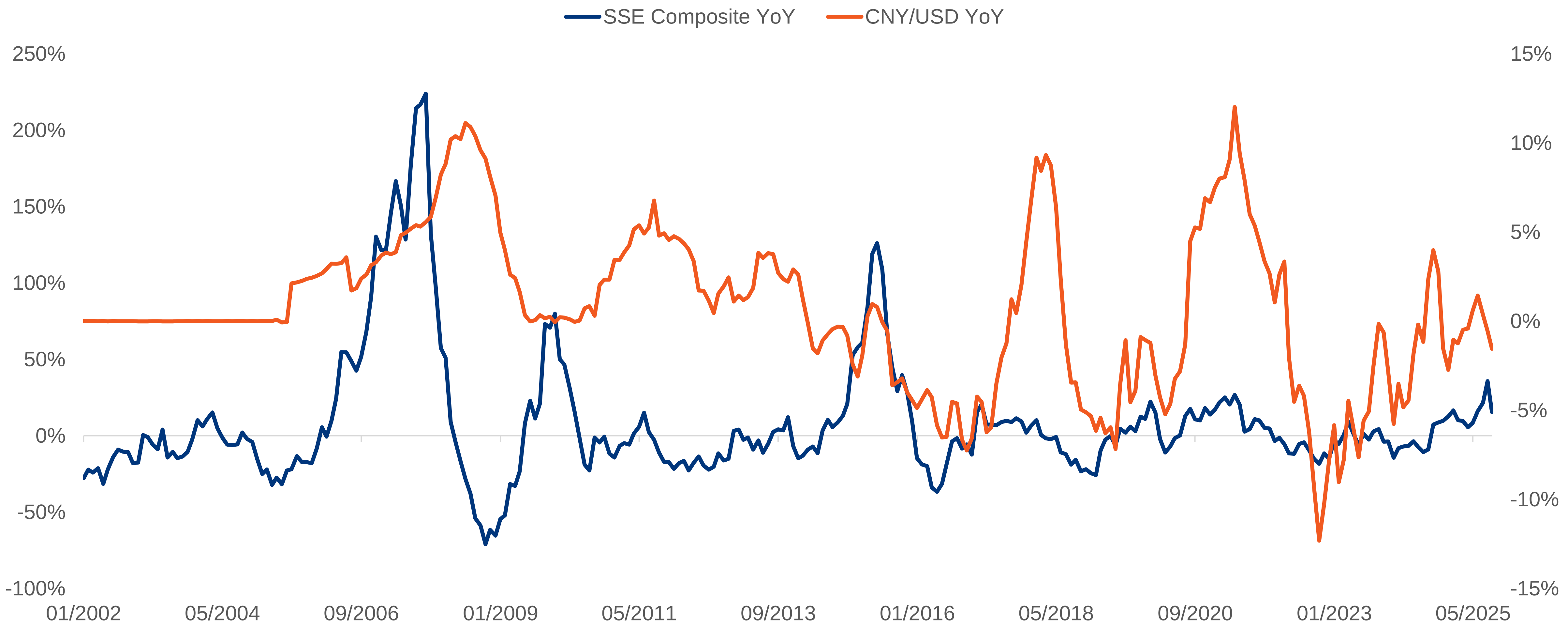
The Market Welcome Inflation = Rate Hike = Stronger Yen = Capital Inflow Into Japan



Source: Bloomberg, KGI

Who Could Have Expected RMB to Appreciate Against the USD?

Strengthening RMB Is Like Deepseek = It Is a a Moment of Confidence Returning



Source: Bloomberg, KGI

Investment Strategies

Diversification, Quality and Avoid Long Term Commitment

Equities

- Consolidate the US equities into a few good names. We expect increasingly polarized performance between the Good and the Average
- In the meantime, we continue to diversify into markets which are positively boosted by the weakening of the USD, e.g. Germany, Japan and Hong Kong/China.
- Make use of the short duration structured product to express views on the underlying equities.

Fixed Income

- Shift from US IG corporate names into the 7-10 years treasury as relative value has emerged. As US interest rate at the beginning of a downcycle, we recommend the Asia lifers.

Funds

- Market neutral hedge funds to exploit the performance differential between good and average companies while neutralizing the beta risk.

Source: KGI

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