CIO Office

CIO Insights

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From “A Hot War” to “A War of Fear”

My View Changes When the Interest Rate Expectation Change

20 March 2026

Risk Appetites Change When Rates Expectation Changes,

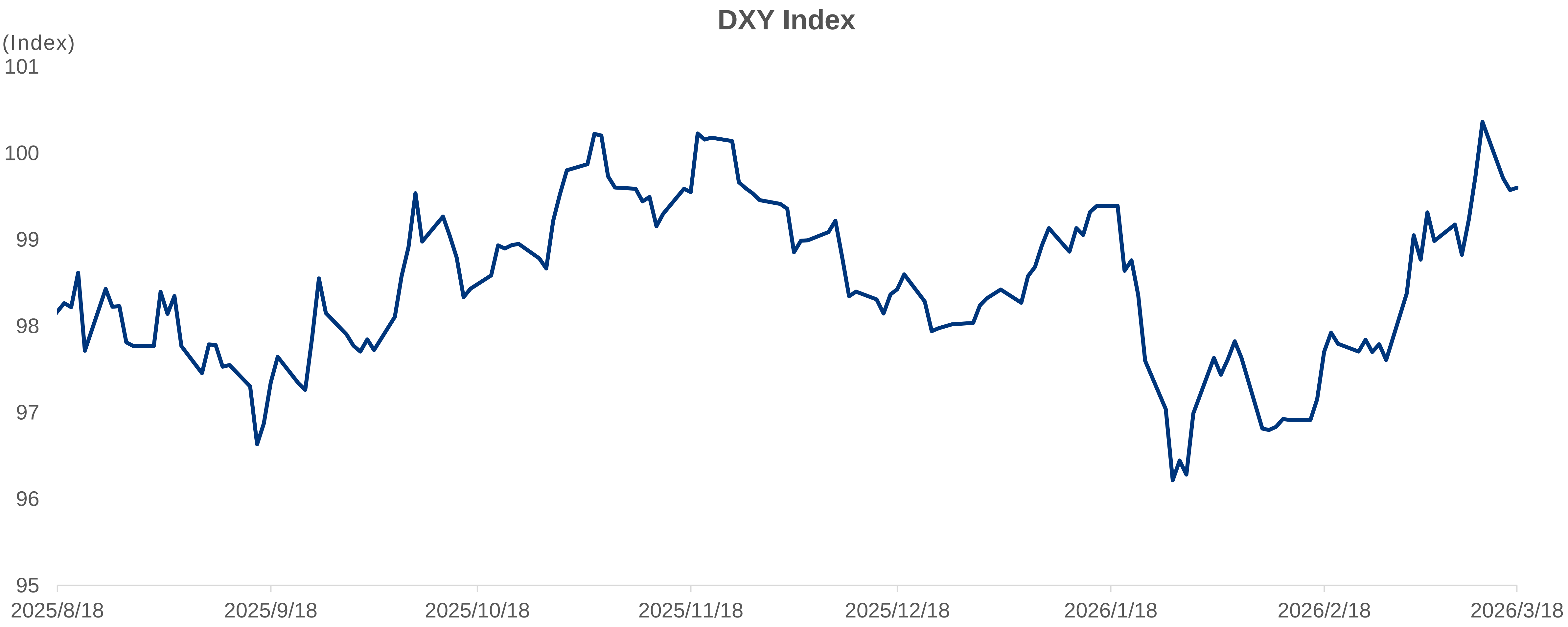
What Will the World Be Without Liquidity Pumping?

	# of Hikes/Cuts		
	3/16/2026	**2/16/2026**	**12/16/2025**
3/18/2026	-0.006	-0.093	-0.573
4/29/2026	-0.048	-0.285	-0.844
6/17/2026	-0.244	-0.859	-1.385
7/29/2026	-0.428	-1.305	-1.684
9/16/2026	-0.619	-1.843	-2.027
10/28/2026	-0.728	-2.165	-2.184
12/9/2026	-0.958	-2.499	-2.359
1/27/2027	-0.998	-2.705	-2.354
3/17/2027	-1.055	-2.674	-2.386

Source: KGI

Last Peak of the US Dollar Priced in 2.4x Rate Cuts by End 2026

With Less Than 1X Rate Cut Priced in Now, the Dollar Is Expected to Strengthen Further

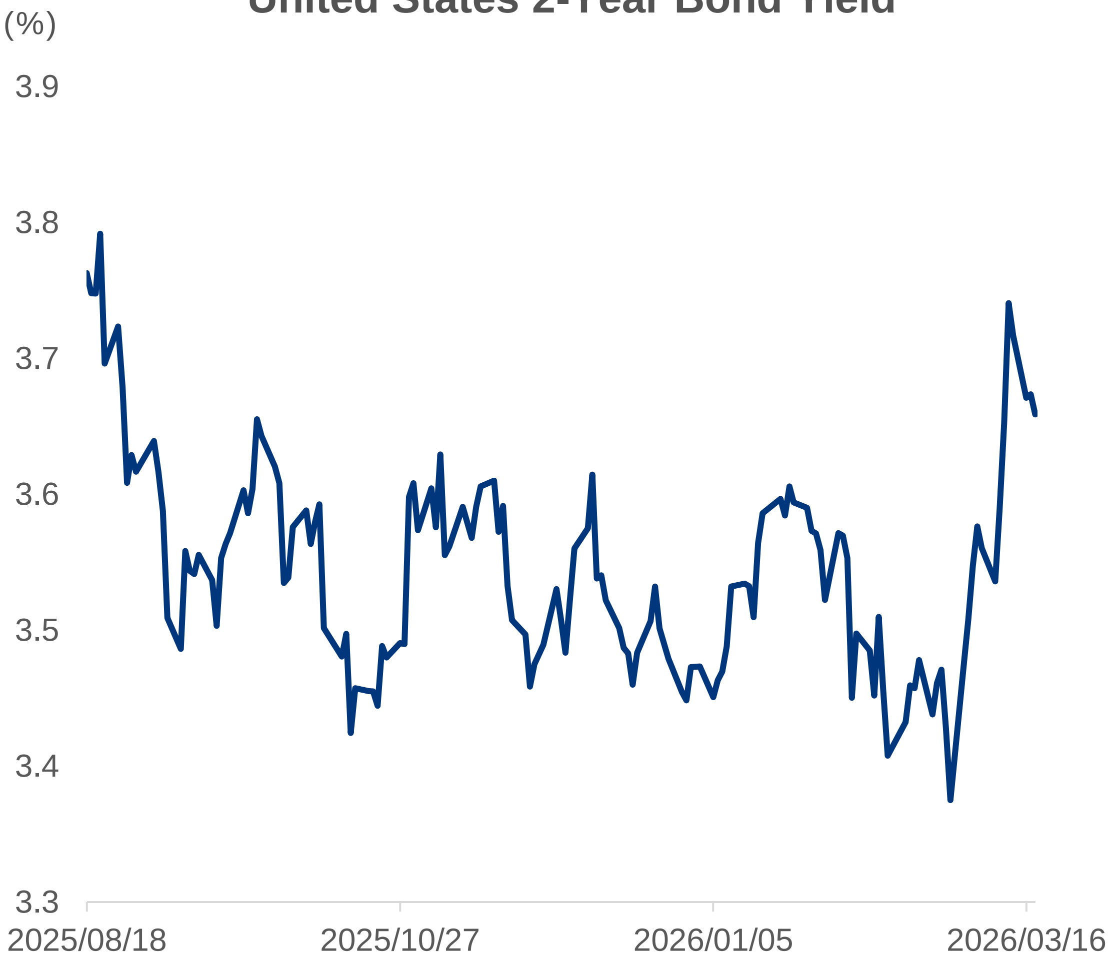


Source: Bloomberg, KGI

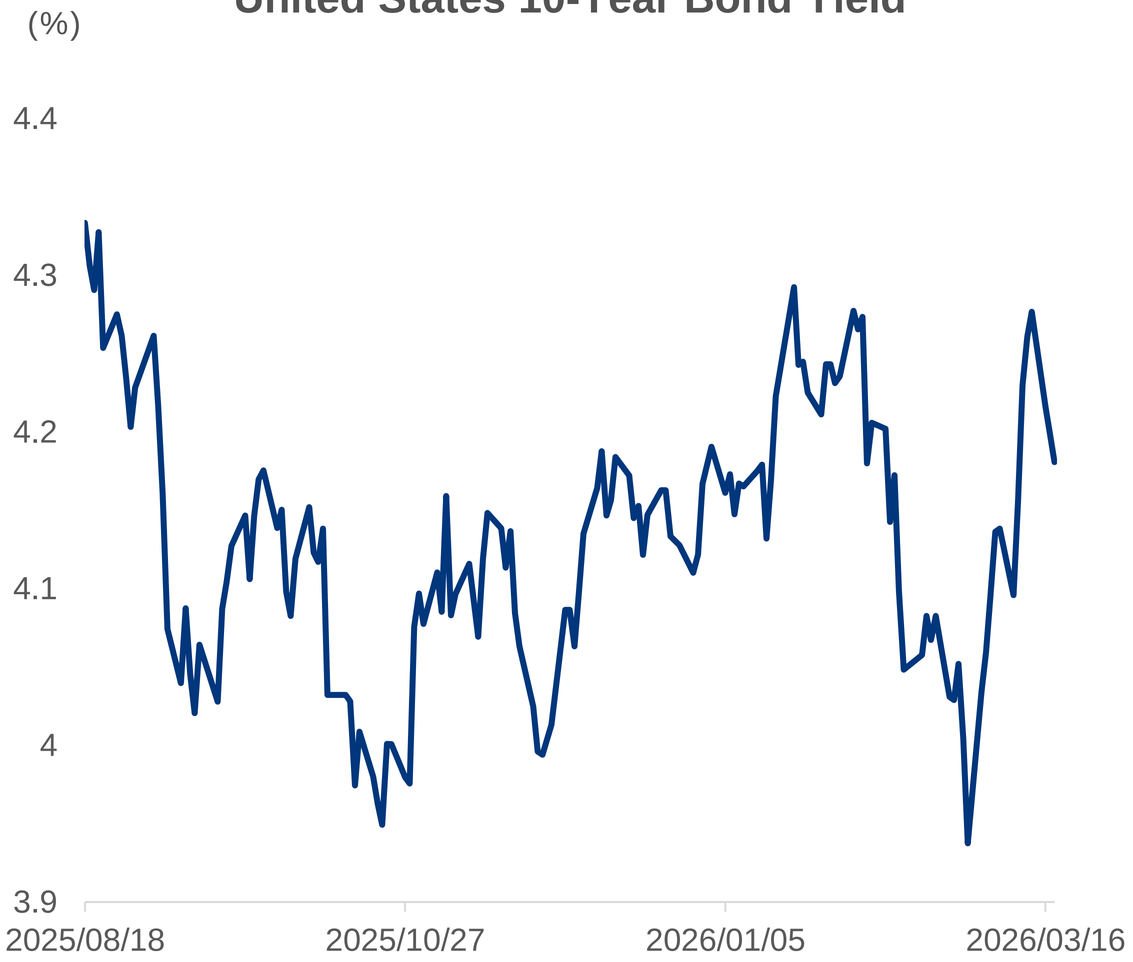
Upshift in the US Yield Curve to Reflect Inflation Expectation

Neither the Short nor the Long End of the Curve Are Safe

United States 2-Year Bond Yield



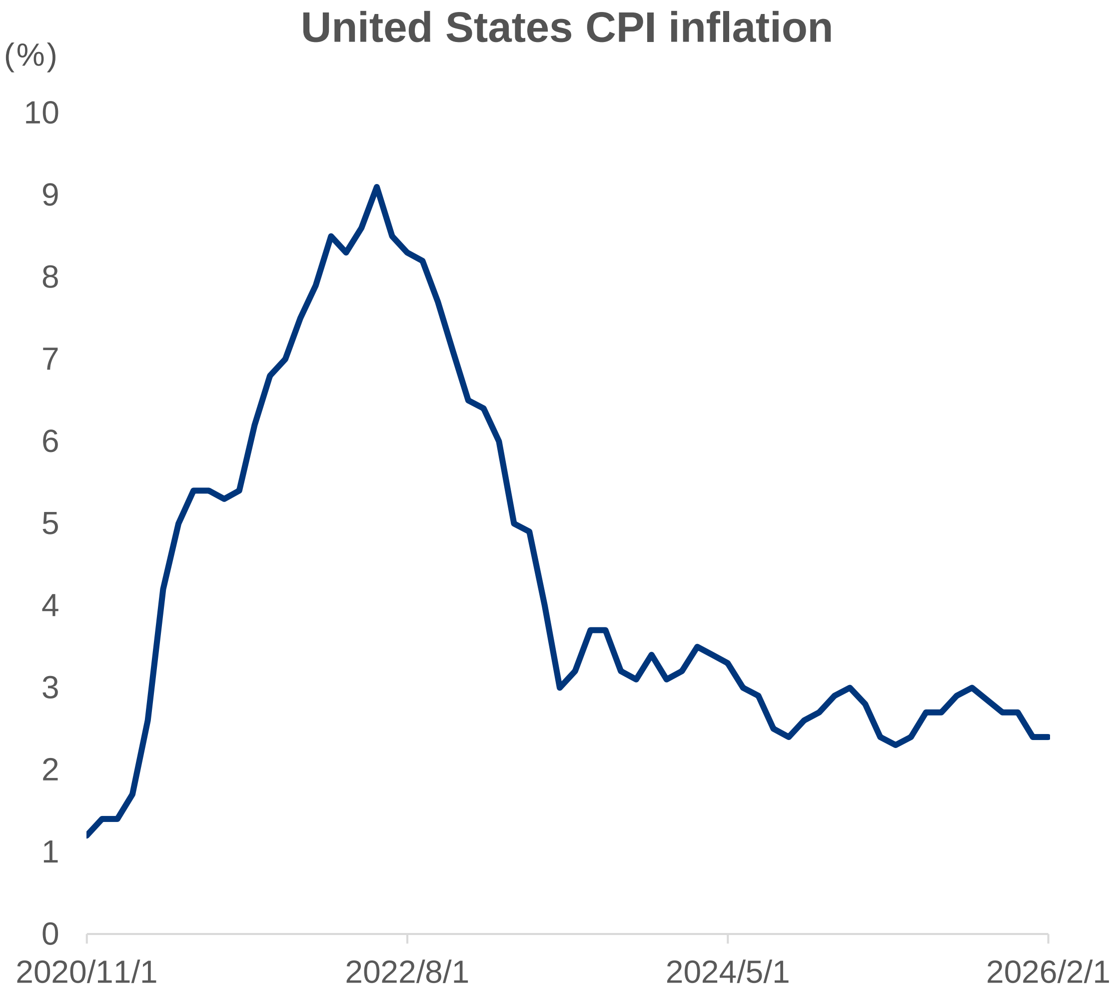
United States 10-Year Bond Yield

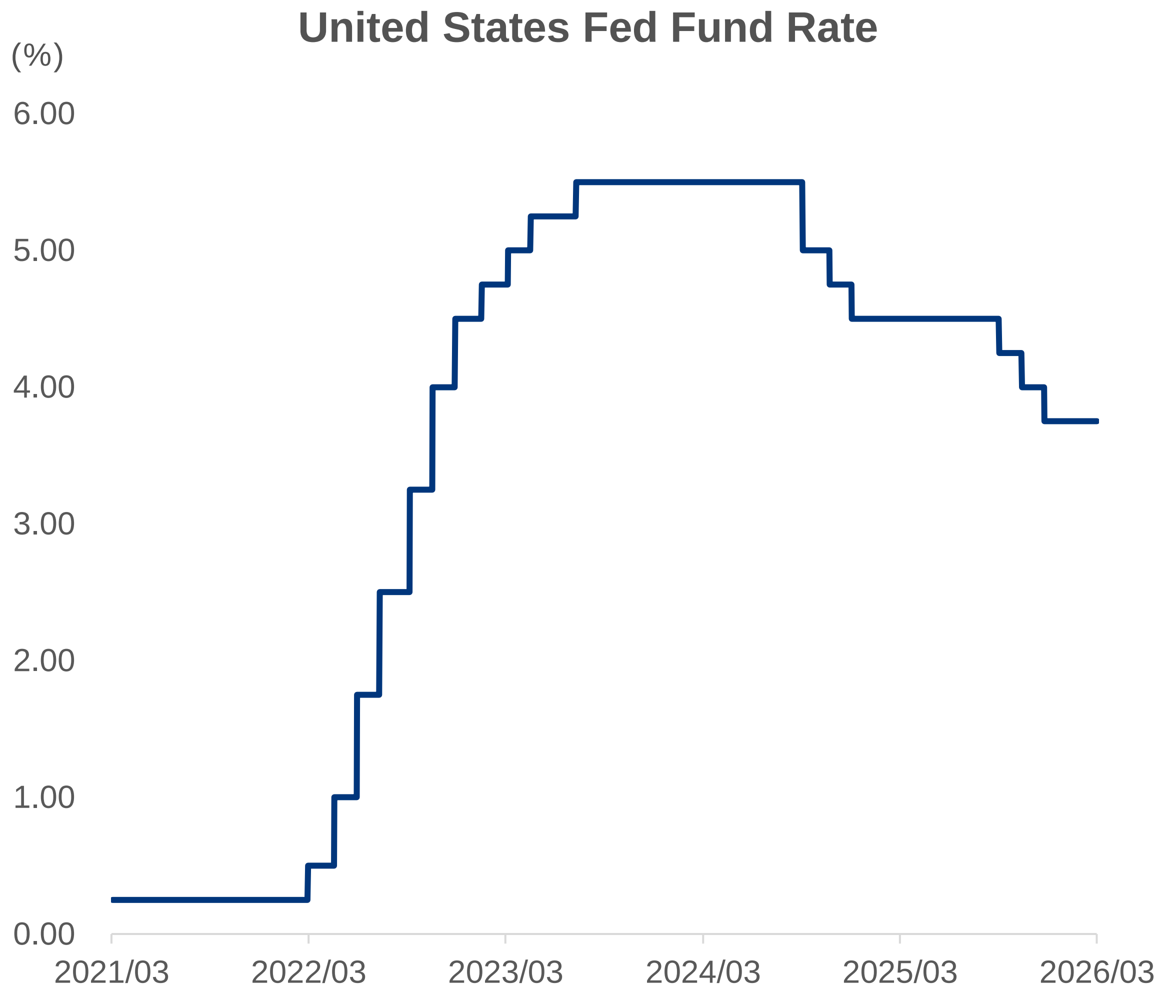


Source: Bloomberg, KGI

Interest Rate Cannot Curb Rising Oil Prices……

But It Can Tame Demand in Other Sectors Thus Controlling Overall Price Level

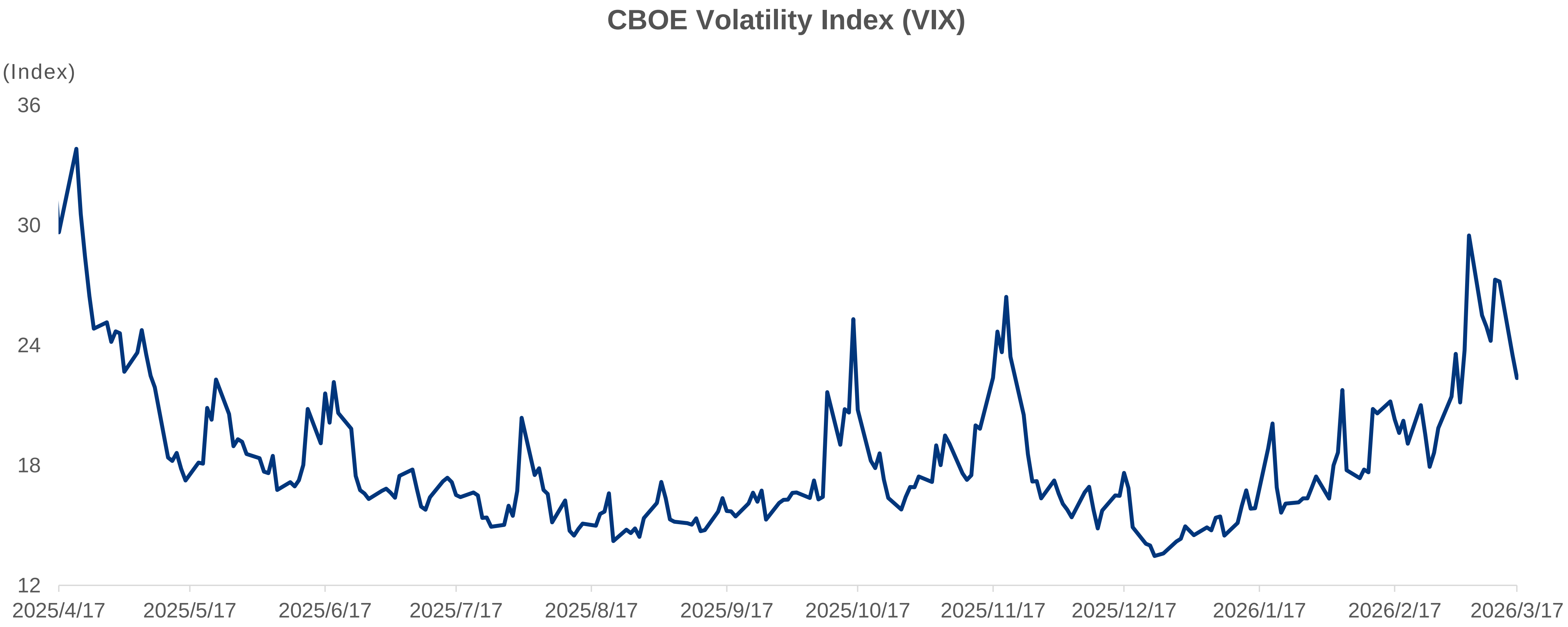




Source: Bloomberg, KGI

Asymmetric Warfare Drives “A War of Fear”

VIX Appears Peaked but “Unexpected” Events Can Occur Anytime



Source: Bloomberg, KGI

The Fear of Being Attacked = The Fear of the Market's Fall

The Volume Will Dry Up

- Despite the US's claims that the Iranian military capabilities have been decimated, the US are trying to drag the European countries, Japan and China to form an international coalition to make the strait of Hormuz safe again.
- The call for action by the US is an indirect proof that the remaining military capabilities of Iran is not 100% eliminated and will continue to post a threat to the strait of Hormuz.
- **The UK, France, Germany, Italy and Japan has expressed reservations in deploying forces to the middle East before the war ends**.
- The International Energy Agency (IEA) coordinated a historic release of 400 million barrels from the emergency reserves of its 32 member countries. **This accounts for about 30% of the total strategic reserves.**
- Yet, this does not help to suppress the oil price. On the contrary, the historic scale of the release of strategic reserve indicates the severity of the oil supply disruption. **The more desperate measures will trigger more market reactions.**
- The oil price shock could be short-lived or prolonged. There is no reasonable justification to either side. **The odds are close to throwing a dice. Risk-off is the only sensible investment decision.**

Source: KGI

KGI

The Global Market Has Not Been Expecting a Worst-Case

The Poor Performance of HK/China and India Reflected the Strength of the US Dollar

World markets	Last Price	%YTD	Since 01/30/2026
DOW JONES INDUS. AVG	46,558.47	-3.13%	-4.77%
S&P 500 INDEX	6,632.19	-3.12%	-4.42%
NASDAQ COMPOSITE	24,380.73	-3.44%	-4.59%
RUSSELL 2000 INDEX	2,480.05	-0.07%	-5.11%
Euro Stoxx 50 Pr	5,708.89	-1.43%	-3.89%
FTSE 100 INDEX	10,294.79	3.66%	0.37%
CAC 40 INDEX	7,908.28	-2.97%	-2.65%
DAX INDEX	23,432.70	-4.32%	-4.45%
HANG SENG INDEX	25,834.02	0.79%	-7.02%
HSTECH	5,111.78	-7.33%	-12.94%
CSI 300 INDEX	4,671.56	0.90%	-0.79%
TAIWAN TAIEX INDEX	33,342.51	15.12%	4.17%
KOSPI INDEX	5,549.85	31.69%	5.03%
NIKKEI 225	53,751.15	6.78%	0.93%
Nifty 50	23,107.95	-11.58%	-8.57%
BBG World Lrg/Mid Cap PR	2,317.87	-1.62%	-4.31%
MSCI CHINA	80.19	-3.42%	-8.03%
MSCI WORLD	4,329.54	-2.28%	-4.37%

Source: KGI

There Is a Perceived "Growth" in Gold From De-Dollarization

Gold Price Will Also Be Subject to the Same Investment Rules, e.g., Funding Costs, Leverage Etc…

Source: Bloomberg, KGI

Investment Strategies

Prefer cheap to expensive valuation stocks.	Expensive valuation stocks often can be justified by its above-average earnings growth momentum. However, this is a luxury when the market is filled with abundant liquidity. When interest rates are believed to be not cutting by as many times, we expect valued and defensive sector will Outperform.
Prefer IG bonds to government bonds and private credit.	The higher-than-expected interest rates are expected to aggravate the fiscal burden to the US government while the IG corporate balance sheets are significantly stronger. The risk-off phenomenon is likely to drive further narrowing of the IG bond spread. The higher-than-expected interest rates will also worsen the quality of the lower-credit corporate sectors.
Prefer Asia/China tech to US tech.	The US tech is usually the leaders in their field while Asia tech is mainly focusing on the supply chain and applications. However, given the discounted valuation of Asia/China tech, we believe they will become the preferred choices when investors are rationing their capital.
Prefer Asia to the US.	The US is in the Centre of focus under the current rise in geopolitics tension and the high valuation of the market will make it relatively more vulnerable. Asia is still trading at a substantial discount to the US.
Prefer China to Japan.	Oil's share in Japan's total primary energy supply (TPES) was at 37% in 2024 versus 18% in China. Oil accounts for less than 5% of China's electricity generation. The lower oil dependency will make China more resilient than other Asian countries if oil price is sustained at high level for a prolonged time frame.

Source: KGI

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