



CIO Insights

Cusson Leung, Chief Investment Officer

When Elevated Risk Premium Becomes Norm

Repositioning a Consolidated US Investment Portfolio

17 April 2026



Peace...Escalate...Peace...Escalate...

No Point Of Chasing The Whipsaw

Feature	8 Apr 2026: “The Peace Rally”	13 Apr 2026: “The Blockade Shock”
Dominant Theme	Diplomatic Optimism: Markets were buoyed by the announcement of ceasefire and the start of face-to-face talks in Islamabad	Escalation Crisis: Narrative shifted to “failed diplomacy” and threat of full-scale naval blockade
The “Trump Put”	Active: Investors believed the President was using “TACO” behavior - leveraging threats to secure a “historic deal”	Expired/Tested: Collapse of talks signaled that the “pivot” to peace had failed, leading to a hunt for a new “floor”
Oil Prices	Retreating: Brent fell toward \$90/bbl as traders priced in a permanent reopening of the Strait	Surging: Brent jumped 8.6% to \$103.16/bbl on news of US naval blockade
Equity Sentiment	Risk-On: S&P 500 climbed 3.6% during the week as “war hedges” were unwound	Risk-Off: S&P 500 futures fell 1.2% ; Asian markets dropped as inflation shock returned
Safe Havens	Selling Off: Gold and Dollar softened as “war premium” evaporated	Splitting: The Dollar strengthened; Gold fell (counter-intuitively) on high interest rate expectations

This Will Probably Be Another Case Of TACO

Break An Enemy Blockade By Blockading Their Blockade

Pros (Strategic Goals)	Details	Cons (Strategic Risks)	Details
Economic Asphyxiation	Designed to cut 100% of Iran's oil revenue, forcing a total economic collapse and regime surrender	Energy Price Shock	Brent crude jumped to \$103/bbl today; analysts fear a spike to \$170/bbl if blockade is challenged
De-mining Authority	Allow the US Navy to unilaterally clear "phantom mines" and secure the waterway under Western control	Conflict with Asia	80% of oil on the Strait goes to Asia. Interdicting Chinese or Indian tankers creates a high risks secondary global conflict
Breaking the "Racket"	Seizing ships that paid Iranian tolls sends a clear message: paying Tehran for passage is no longer a viable option	Asymmetric Strikes	The IRGC possesses mobile "kill chains" (missiles, suicide drones) capable of targeting US destroyers
		Insurance Paralysis	Regardless of US naval presence, shipping insurers (like Lloyd's) may keep premiums so high that commercial traffic remains frozen.

Despite All The Talks And Anxiety In The Market.....

The Market Is Surprisingly Calm: Is It Market Complacency Or The Expectation Of A “Trump Put”?

The "Trump Put" is a theory and trading strategy that suggests the stock market has an unofficial "floor" because the President will intervene with policy shifts or rhetoric to prevent a significant crash.

The term is a play on the "Fed Put" (the idea that the Federal Reserve will lower interest rates to save the market). With the "Trump Put," investors bet that if the market drops too far, the administration will perform a "TACO" maneuver—softening a tariff threat, postponing a conflict, or tweeting positive economic news—to spark a rebound.

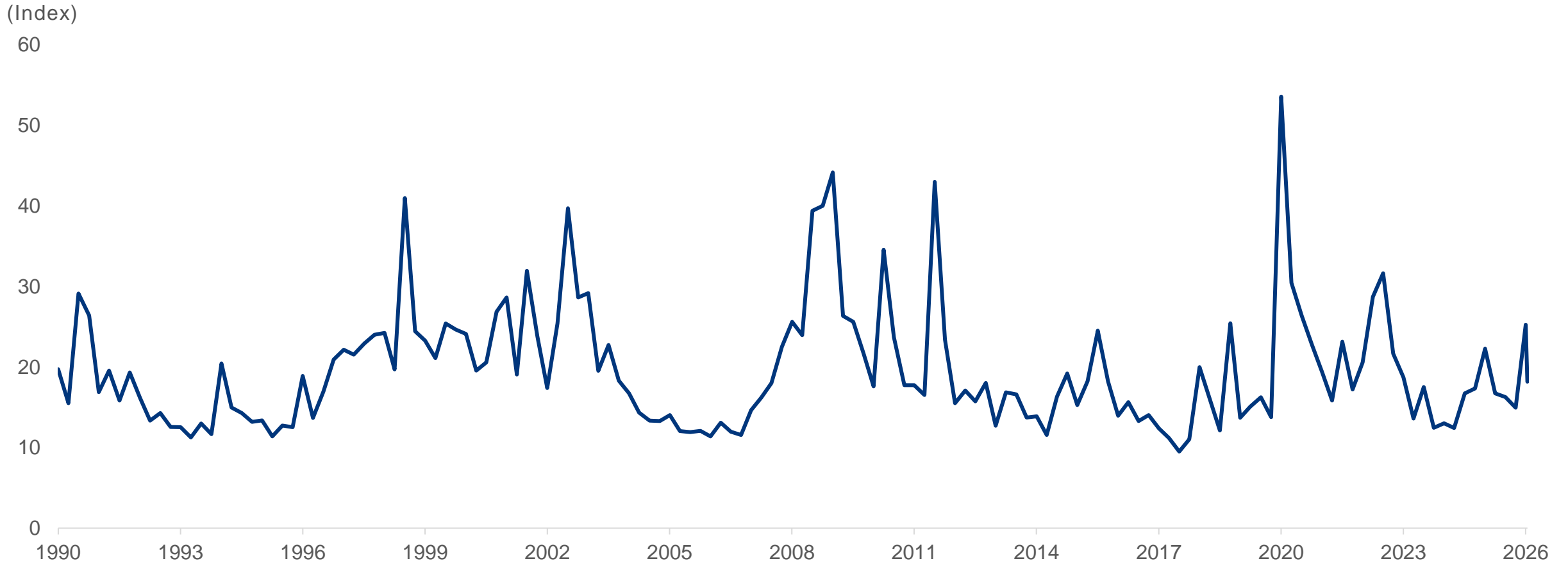
Key Index	Last Price (04/10/2026)	Since 02/28/2026
DOW JONES INDUS. AVG	47,916.57	-2.2%
S&P 500 INDEX	6,816.89	-0.9%
NASDAQ COMPOSITE	22,902.89	1.0%
RUSSELL 2000 INDEX	2,630.59	-0.1%
Euro Stoxx 50 Pr	5,926.11	-3.5%
FTSE 100 INDEX	10,600.53	-2.8%
CAC 40 INDEX	8,259.60	-1.6%
DAX INDEX	23,803.95	-3.4%
HANG SENG INDEX	25,893.54	-2.8%
HSTECH	4,860.26	-5.4%
CSI 300 INDEX	4,636.57	-1.6%
TAIWAN TAIEX INDEX	35,417.83	0.0%
KOSPI INDEX	5,858.87	-6.2%
NIKKEI 225	56,924.06	-3.3%
Nifty 50	24,050.60	-4.5%
BBG World Lrg/Mid Cap PR	23,96.59	-2.0%
MSCI CHINA	79.37	-3.5%
MSCI WORLD	4,473.96	-1.8%

Source: KGI

CBOE VIX Index – Every Presidents Has His Moment

Donald Trump Does Not Drive Excessive Market Volatility

CBOE VIX Index



Source: Bloomberg, KGI

Trump's TACO Moments

However, Reduced Volatility Does Not Mean Market Will Go Up

Event	Initial Threat / Action	The "TACO" Moment (Pivot)	Market / Economic Trigger
"Liberation Day" Tariffs (May 2025)	25% "reciprocal" tariffs on all global trading partners	Announced a "temporary pause" just one week later	Dow Jones fell ~1,000 points in one session
Mexico Border Standoff (Aug 2025)	Total trade shutdown if border demands weren't met in 90 days	Postponed the deadline for another 90 days citing "progress"	Fear of supply chain collapse fears for US auto/ag sectors
Fed Chair Standoff (Late 2025)	Repeatedly threatened to "fire" Jerome Powell via social media	Claimed he had the right to fire him but was "choosing not to"	Treasury yields spiked; legal experts cited lack of authority
Greenland Annexation (Jan 2026)	Threatened tariffs on NATO allies who opposed the "purchase"	Reclassified it as a "long-term aspiration" and dropped tariffs	Cool reception from EU leaders and dip in European stocks
Iran War "Pivot" (Mar/Apr 2026)	Warned of "total destruction" and "living in Hell" for Iran	Declared a two-week ceasefire and "Golden Age" of peace	Global oil prices surged past \$100/barrel

Source: KGI

Rise In Risk Premium = Valuation De-rating

The Earnings Growth For S&P 500 Was 13% In 1Q26 And It Was Down 2%

$$\text{Share Price} = \frac{\Sigma \text{ All future cashflow (earnings)}}{\text{Discount Rate (Opportunity Cost + Risk Premium)}}$$

$$\Delta \text{ in Share Price} = \frac{\Delta \text{ in } \Sigma \text{ All future cashflow (earnings)}}{\Delta \text{ in Discount Rate Expectation}}$$

Assuming Δ in Σ All future cashflow (earnings) to be constant;

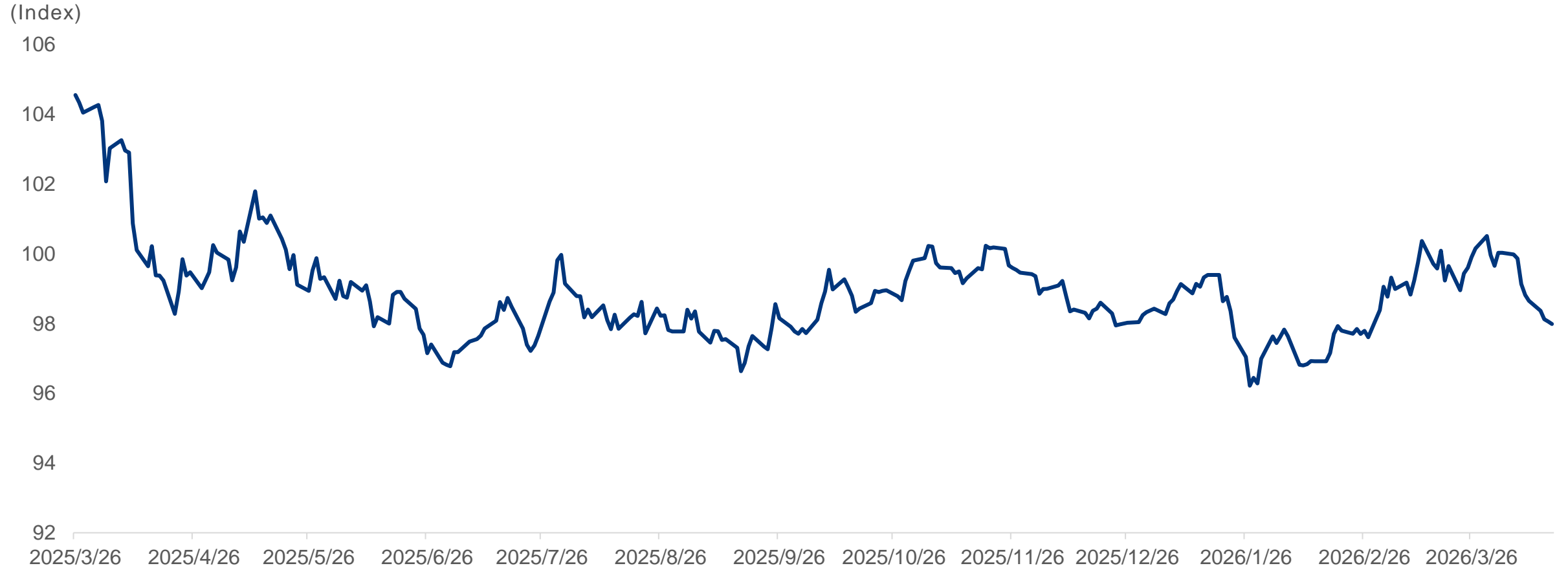
$$\frac{\Delta \text{ in Share Price}}{\Sigma \text{ All future cashflow (earnings)}} = \frac{1}{\Delta \text{ in Discount Rate Expectation}}$$

$$\Delta \text{ in PE} = \frac{1}{\Delta \text{ in Discount Rate Expectation}} = \text{Inverse relationship with the change in Risk Premium}$$

The US Dollar Cannot Be “De-dollarized” Overnight

Consolidates The Investments In The US Rather Than Focusing On Finding The Next Destination

DXY Index



Source: Bloomberg, KGI

Consolidating And Repositioning The US Equity Holdings

The Heydays Of Purely Focusing On “Topline Growth” And Story Regardless Of Valuation Is Over

- Everyone wants a piece of the Best companies’ share but the question is what price are you paying for this? When risk premium is on the rise and funding cost remains elevated, this is the best cocktail for PE contraction, i.e. for the same type of growth profile, it can be achieved through a 25x PE investment right now rather than 35x.
- We prefer value stock, i.e. Growth At Reasonable Price (GARP), rather than distressed stocks with a distressed operations. A distressed operation will be particularly vulnerable to a slowing economy. Value stocks tend to be in cyclical and unexciting sectors. Cash cow operations with discretionary capex commitment will also be preferred in an elevated funding cost environment.
- Sector preferences: recommend focusing on high-quality stocks in defensive sectors, such as consumer staples, healthcare, utilities (excluding electric utilities), and telecommunications, as well as companies with high ROE, stable earnings, low leverage, and consistent cash flow.
- Barbell positioning: We will not be completely underweighting the M7 and AI/Tech sectors. We recommend trimming the positions in M7 and AI/Tech sectors while diversifying into other US high-quality stocks at reasonable valuation with strong cash flow generating capabilities.

Chasing The Tight Spread In US IG Corporate Credit

Prefer US IG Corporate Credit To US Government Bonds And Private Credit

- The unraveling of the credit events and the increasing difficulty in redemption of the private credit fund is expected to push stronger demand for US IG Corporate Credit.
- The US IG corporates are standing with a much stronger financial position than the US government. If not for the assumed “Going Concern” of the US government, from a pure cashflow perspective, the US IG corporates should be trading at a discount to the US treasury instead.
- The “risk-free” status of the US treasury has been slowly worn down by the administration’s worsening fiscal status, random foreign and domestic policy. The independence of the Federal Reserve has also been called into questions several times just over the last 18 months.
- We avoid expensive valuation in equities but we recommend chasing “narrow spread” high-quality credits in the US because this is a symbol of safety.

What About Outside The US?

Diversification Continues

- 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.

Disclaimer and Important Notice

Hong Kong: The information contained in the document herein is confidential and is not intended for general public distribution or for use by any person or entity located or residing in any jurisdiction which restricts the distribution of such information by KGI Asia Limited ("KGI") or any affiliate of KGI. Re-distribution of the document herein and any part thereof by any means is strictly prohibited. Such information shall not be regarded as an offer, invitation, solicitation or recommendation to invest in or sell any securities or investment products to any person or entity in any jurisdiction. The above information (including but not limited to general financial and market information, news services, market analysis and product information) is for general information and reference purpose only and may not be reproduced or published (in whole or in part) for any purpose without the prior written consent of KGI Asia Ltd. Such information is not intended to provide investment advice and should not be relied upon in that regard. You are advised to exercise caution, and if you are in any doubt about such information, you should seek independent professional advice.

You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

No representation or warranty is given, whether express or implied, on the accuracy, adequacy or completeness of information provided herein. In all cases, anyone proposing to rely on or use the information contained herein should independently verify and check the accuracy, completeness, reliability and suitability of the information. Simulations, past and projected performance may not necessarily be indicative of future results. Information including the figures stated herein may not necessarily have been independently verified, and such information should not be relied upon in making investment decisions. None of KGI, its affiliates or their respective directors, officers, employees and representatives will be liable for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind) suffered or incurred by any person or entity due to any omission, error, inaccuracy, incompleteness or otherwise, or any reliance on such information. Furthermore, none of KGI, its affiliates or their respective directors, officers, employees and representatives shall be liable for the content of information provided by or quoted from third parties.

Complex Products refers to an investment product whose terms, features and risks are not reasonably likely to be understood by a retail investor because of its complex structure. Investors should exercise caution in relation to complex products. Investors may lose the entire amount or more than the invested amount. For complex products with offering documents or information not reviewed by the Hong Kong Securities and Futures Commission (SFC), investors should exercise caution regarding the offer. For complex products described as SFC-approved, such approval does not imply official endorsement, and SFC recognition does not equate to a recommendation or assurance of the product's commercial viability or performance. Past performance data, if provided, is not indicative of future performance. Some complex products are only available to professional investors. Before making any investment decisions, investors should review the offering documents and other relevant information to understand the key nature, features, and risks of the complex products. Independent professional advice should be sought, and investors should have sufficient net assets to bear the potential risks and losses associated with the product. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers, employees and representatives may from time to time have a position in any securities mentioned herein.

Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme. Bondholders are exposed to a variety of risks, including but not limited to: (i) Credit risk - The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer; (ii) Liquidity risk - some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity; (iii) Interest rate risk – When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price. Do not invest in bond unless you fully understand and are willing to assume the risks associated with it. Please seek independent advice if you are unsure.

All investments involve risks. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Prices of securities and fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should read the relevant fund's offering documents (including the full text of the risk factors stated therein (in particular those associated with investments in emerging markets for funds investing in emerging markets)) in detail before making any investment decision. You are advised to exercise caution and undertake your own independent review, and you should seek independent professional advice before making any investment decision. You should carefully consider whether investment is suitable in light of your own risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge.

Singapore: This document is provided for general information and circulation only, and is not an offer or a solicitation to deal in any securities or to enter into any legal relations, nor an advice or a recommendation with respect to any financial products mentioned herein. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should ensure that you understand the risk(s) involved and should independently evaluate particular investments and consult an independent financial adviser before making any investment decisions. All information and opinions contained herein is based on certain assumptions, information and conditions available as at the date of this document and may be subject to change at any time without notice.