CIO Insights

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Time to Catch the Falling Knife?

What Else Is Unknown to the Market?

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Trees Don’t Grow to the Sky

The Sell-off Was Global and Synchronized, Originating in Asia Before Spreading to the US

	Highest (Price)	Highest (Date)	Current Price (7/31)	Correction
Kioxia (285A JP)	108,700	2026/6/22	46,500	-57.2%
SanDisk (SNDK US)	2,335	2026/6/25	1,215	-48.0%
SK Hynix (000660 KR)	2,959,000	2026/6/22	1,718,000	-41.9%
Intel (INTC US)	141	2026/6/22	90	-36.0%
Micron (MU US)	1,214	2026/6/25	823	-32.2%
Samsung Electronics (005930 KR)	363,500	2026/6/18	259,000	-28.7%
South Korea (KOSPI)	**9,115**	**2026/6/22**	**6,595**	**-27.6%**
Philadelphia Semiconductor Index (SOX)	**14,635**	**2026/6/22**	**11,311**	**-22.7%**
AMD (AMD US)	581	2026/6/30	476	-18.0%
Nvidia (NVDA US)	236	2026/5/14	201	-14.8%
Dell Technologies (Dell US)	466	2026/6/1	405	-13.0%
Nasdaq Composite	**27,094**	**2026/6/2**	**25,374**	**-6.3%**

Source: Bloomberg, KGI

No Single Trigger: Five Converging Catalysts

01

Hyperscaler CapEx Funding Gap

$690–800bn AI CapEx outpacing free cash flow

02

Rising Rates and Widening CDS

A hawkish Fed and Oracle credit downgrade push funding costs higher

03

China AI and Semiconductor Competition

Kimi K3 model and domestic DUV lithography production

04

Yen Carry Trade Unwinding

USD/JPY breaks 160 as the BOJ signals further rate hikes

05

Deleveraging and Margin Calls

Record margin loans force liquidation across markets

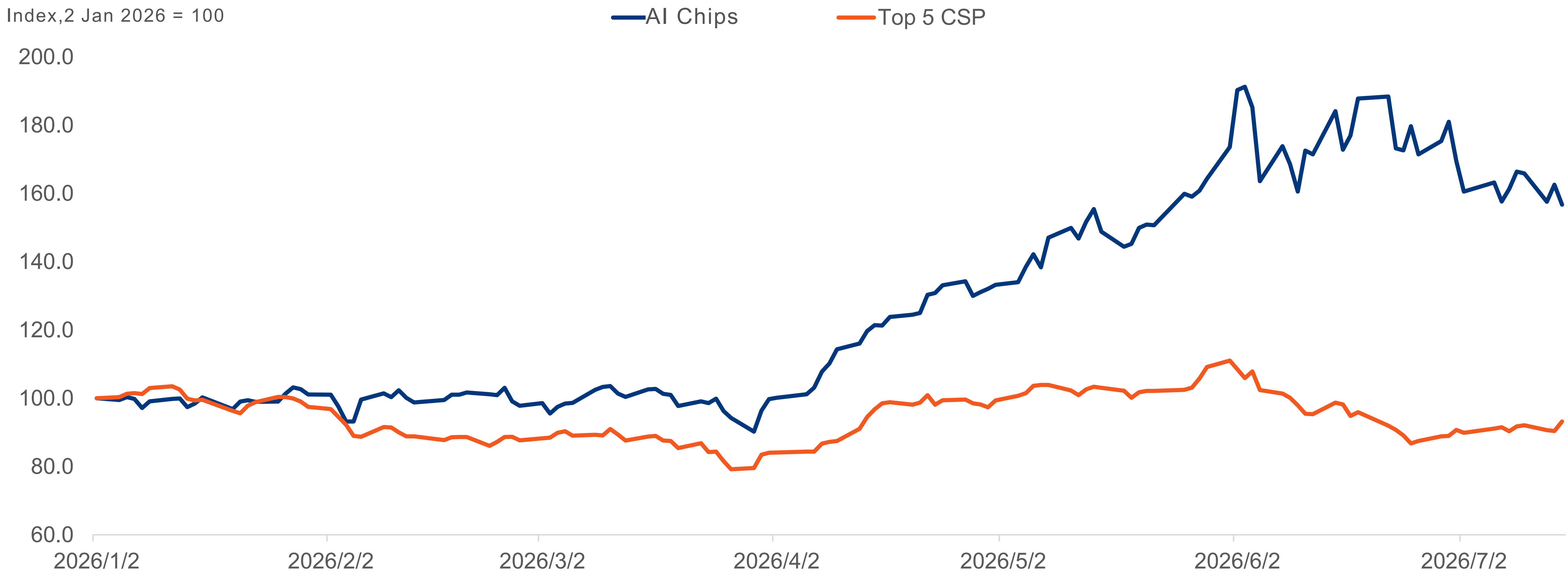
Key Point

The run-up in AI hardware stocks had been "too fierce" through 2025–2026, leaving valuations stretched and the market vulnerable to any combination of negative catalysts. Each factor individually might have caused a modest pullback; together, they triggered a cascading correction that erased trillions in market value within weeks.

Source: KGI

Chipmakers Win; Hyperscalers Bleed

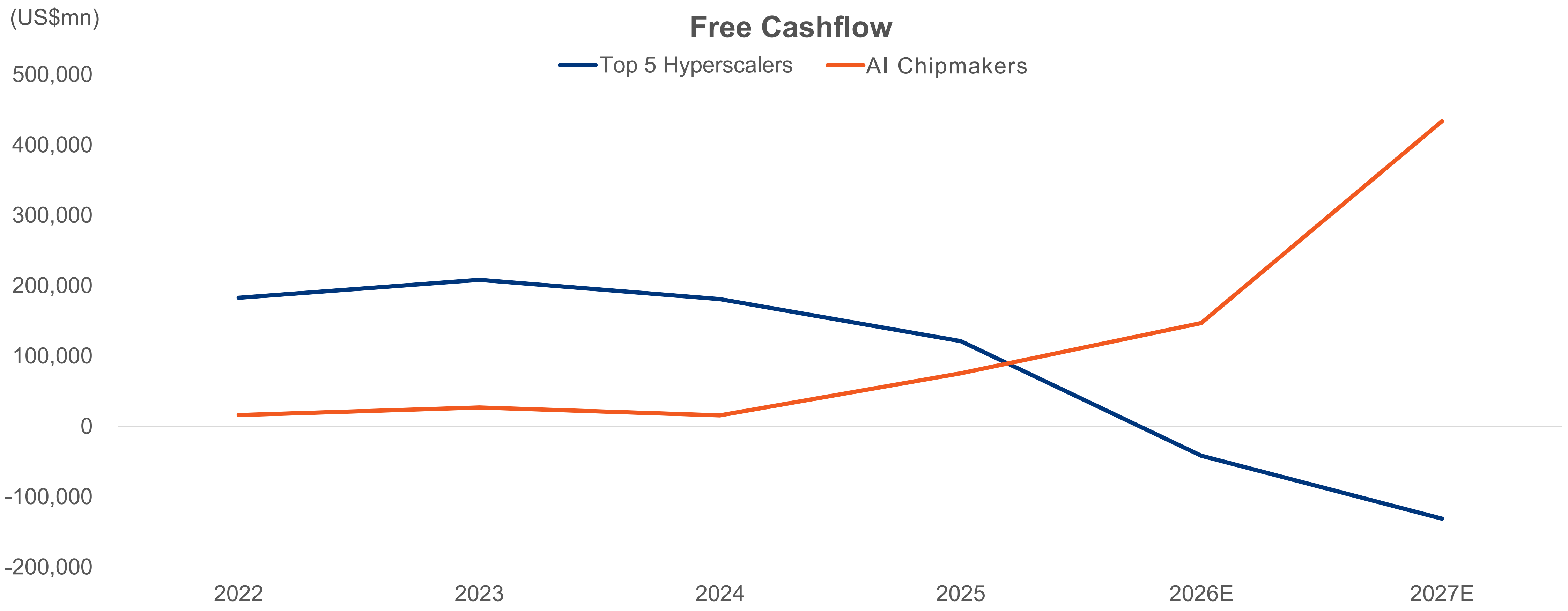
The Market Signal Is Clearer Than Ever: Skepticism Remains Regarding Returns on AI Spending



Source: Bloomberg, KGI, Note: AI Chips includes Nvidia, Micron, Broadcom, Marvell; Top 5 CSP includes Amazon, Alphabet, Meta, Microsoft, Oracle

What if Hyperscalers Decide to Cut Capex?

If AI Spending Slows, This Would Represent Downside Risk to the Free Cash Flow of Chipmakers



Source: JP Morgan, UBS, KGI, Note: AI Chips includes Nvidia, Micron, Broadcom, Marvell; Top 5 CSP includes Amazon, Alphabet, Meta, Microsoft, Oracle

Warsh Is an Inflation Fighter, Not a Dove

Market Expectations Collapsed at the June 17, 2026 FOMC Press Conference

- Markets had priced in Warsh as a Trump-aligned dove who would cut rates — a view that collapsed at his first FOMC press conference on June 17, 2026.
- Warsh repeatedly invoked 'price stability', formally removed the easing bias from the policy statement, and launched internal task forces on inflation frameworks — a significant symbolic and practical shift.
- The June SEP raised the 2026 PCE forecast to 3.6% and the 2026 fed funds rate median to 3.8% — the most hawkish revision in three years.
- CME FedWatch now prices a 67% probability of a September 2026 rate hike; market-implied long-term rates suggest rates will remain elevated well into 2027.

TAKEAWAY

The Warsh Fed has established a clear inflation-fighting mandate. Rate cuts are off the table; rate hikes are increasingly probable in the second half of 2026.

Source: KGI

How to Fund the AI CapEx Megatrend?

An Increasing Supply in the Corporate Debt Market Is Likely

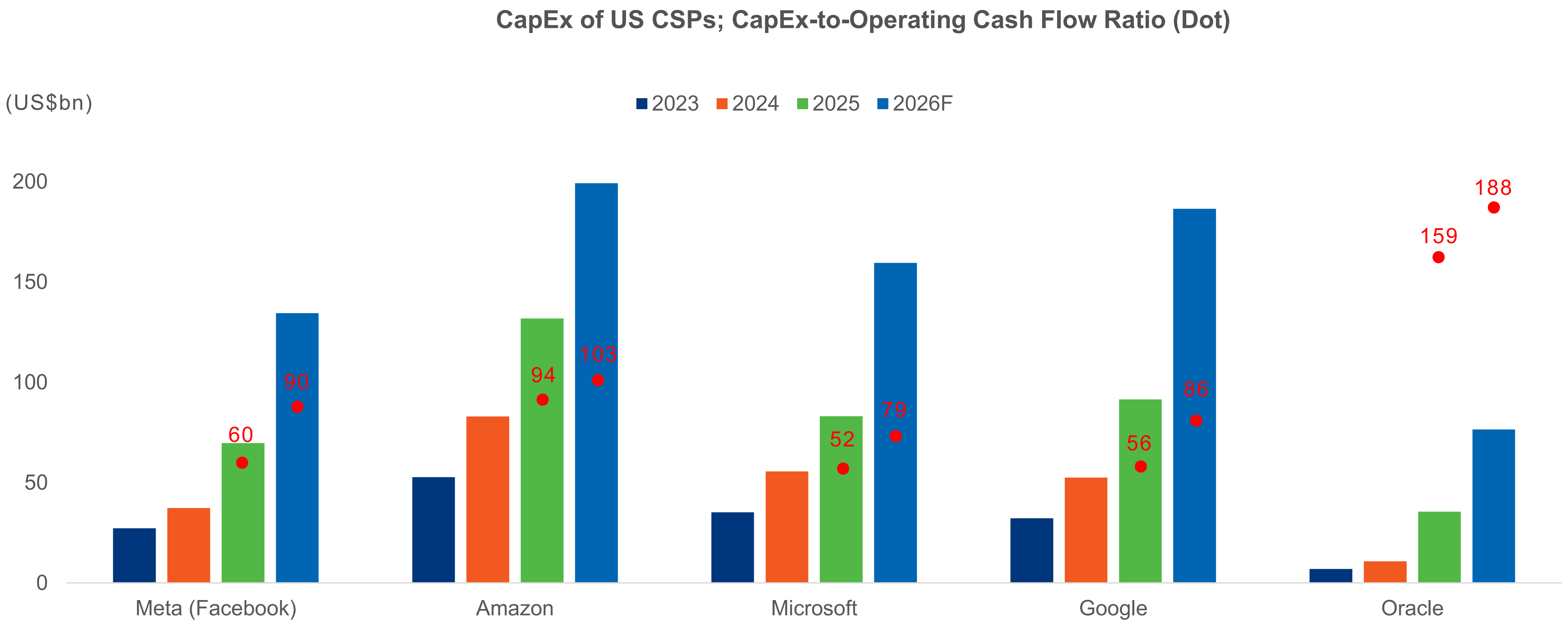
- The five largest hyperscalers are expected to invest more than $1 trillion from 2025 to end-2026, according to the BIS. Annual AI-related CapEx at these companies is expected to exceed $744bn in 2026 (+80% YoY).
- Amazon's CapEx alone is projected at $199bn in 2026, against FCF of ~$95bn — a 2.1x CapEx-to-FCF ratio. Companies are already deploying 80–90% of FCF toward CapEx, leaving minimal buffer.
- The aggregate FCF gap across hyperscalers is estimated at $150bn+ in 2026, requiring external financing at precisely the moment when the cost of capital is rising.
- The Three Funding Levers: (1) Free Cash Flow — largely exhausted at 80–90% deployment; (2) Debt — available but increasingly expensive; (3) Equity — theoretically cheaper given elevated P/E multiples, but corporates are eyeing further upside and therefore reluctant to issue more shares.

Est. CapEx (2026–27) of US CSPs and Neo-Cloud Players

US$bn	2024	2025	2026F	2027F
Amazon	83	132	199	228
Google	53	91	187	242
Microsoft	56	83	158	192
Meta	37	70	135	162
Oracle	11	35	66	77
Top-5 US CSP	239	412	744	902
YoY (%)	60	72	81	21
China CSP	21	32	38	41
YoY (%)	135	49	19	7
Neocloud & Enterprise	24	37	77	89
YoY (%)	30	50	111	15

Source: Bloomberg, KGI

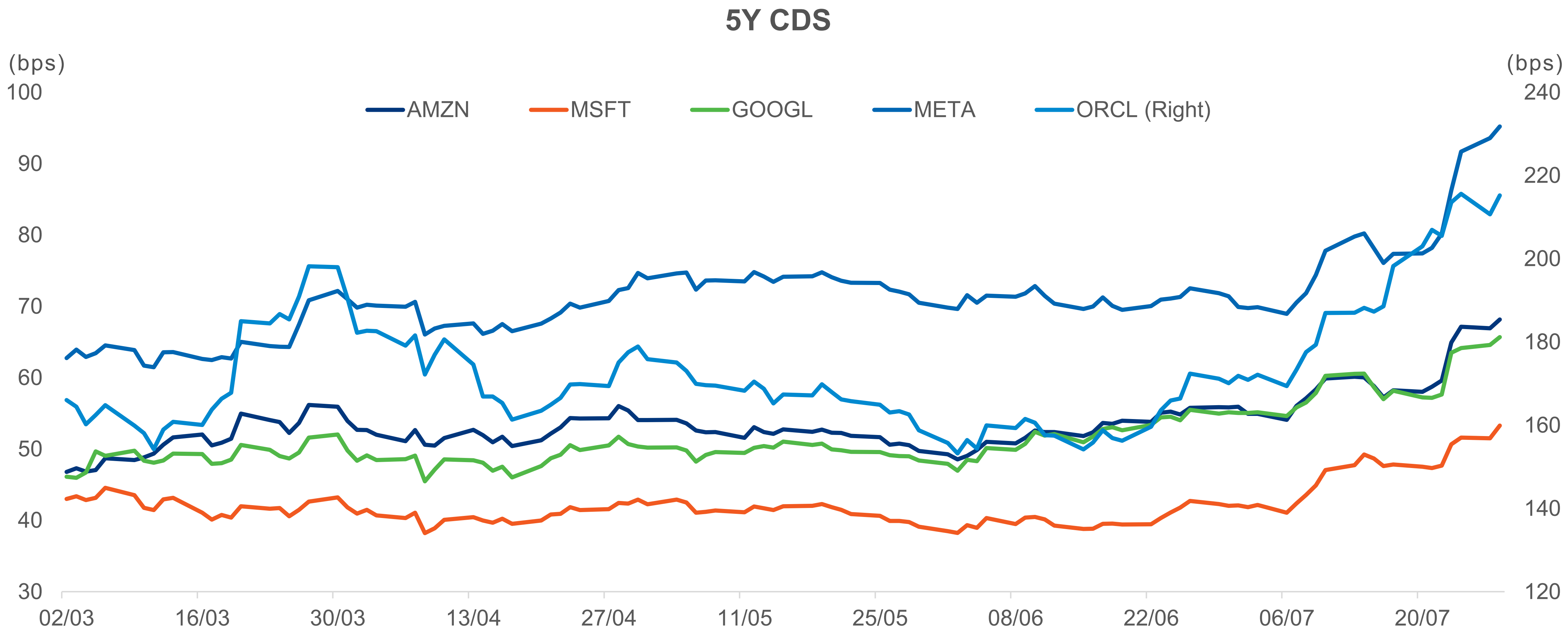
Demand for Funding Is Higher Than Ever



Source: Bloomberg, KGI

Growing Concerns Over Rising AI Funding Costs

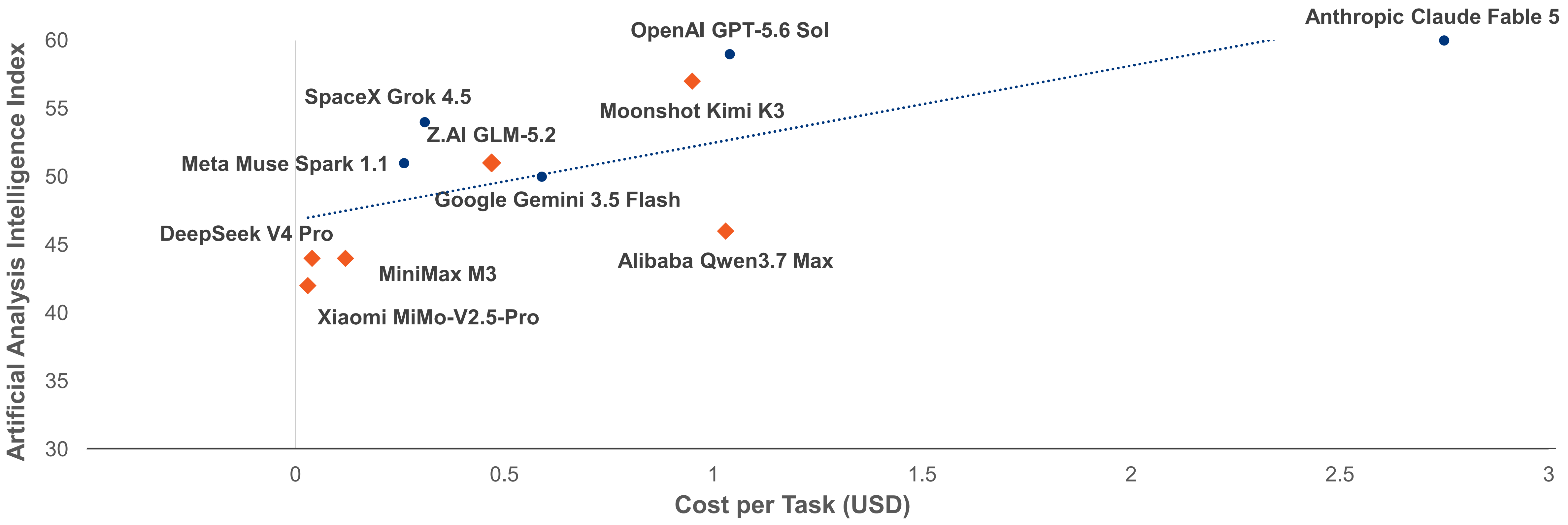
Why the Concern if AI Returns Are So Promising?



Source: Bloomberg, KGI

Chinese Open-Source AI Models Are Gaining Global Market Share

This Casts Further Doubt on the Potential for Achieving Reasonable AI Returns

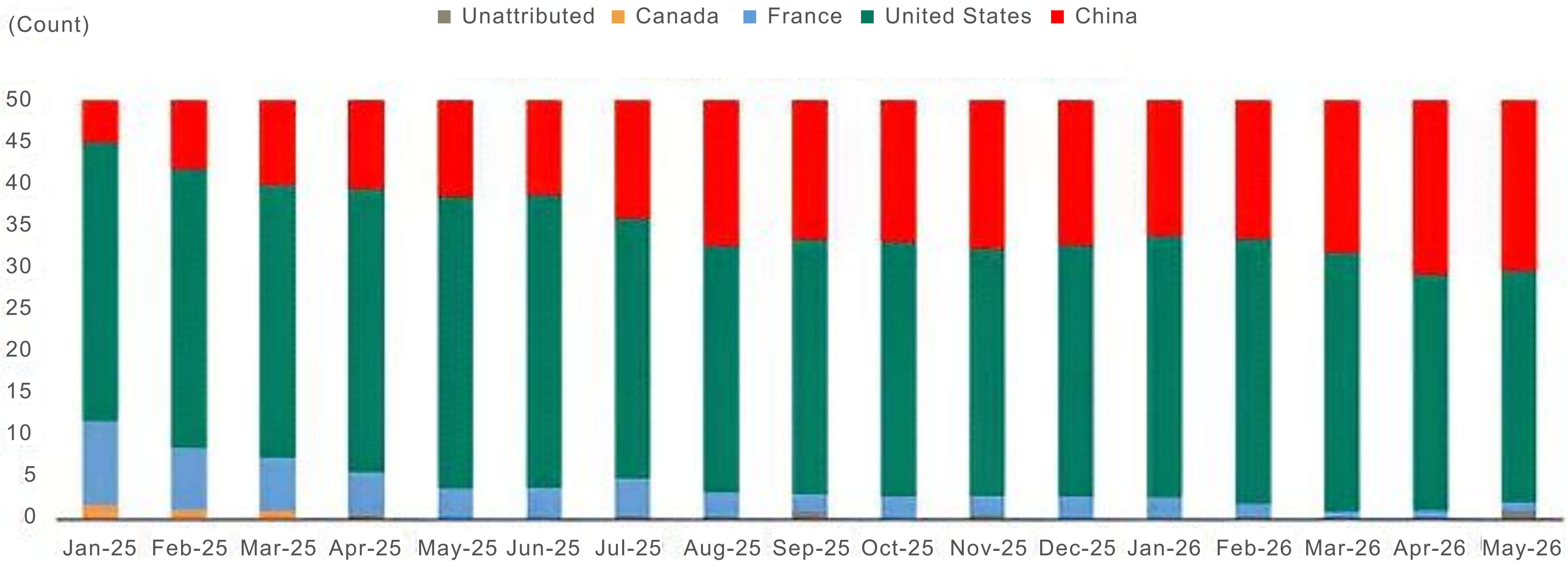


Source: KGI

Potential US Sanctions on Chinese AI Models

Sanctions May Slow Chinese Models in the US, but the US Cost Disadvantage Relative to the Rest of the World Will Widen

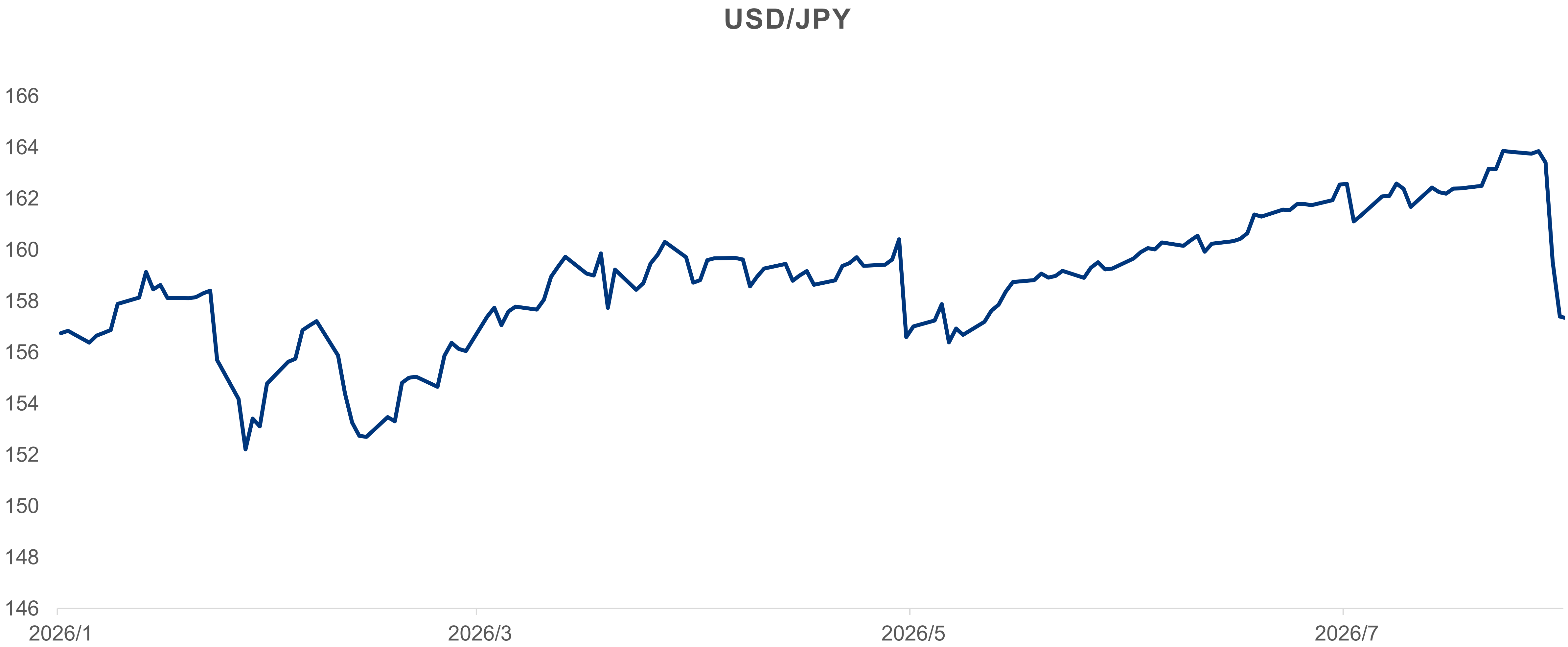
Origin of the World's 50 Most-Used AI Models



Sources: OurWorldinData.org, Apollo Chief Economist, KGI

Yen Breaking 160 in June Sparks Concerns Over Rising Rates

BOJ Rate Hikes and a Sharply Rebounding Yen Will Drive Unwinding of the Carry Trade



Source: Bloomberg, KGI

US-Japan Joint FX Intervention

Historically, Government Intervention Seldom Works in the Long Term

- **Inflation Dynamics and Exchange Rate Pressures:** Japan's inflation has remained below the Bank of Japan's (BOJ) 2% target so far this year. A lack of urgency to raise interest rates pushed the yen past the key 160 mark against the US dollar in June, heightening market expectations that the BOJ will be forced to raise rates to defend the currency. Additionally, reignited geopolitical tensions in Iran have driven crude oil prices higher for longer, posing a key upside risk to Japan's inflation outlook.

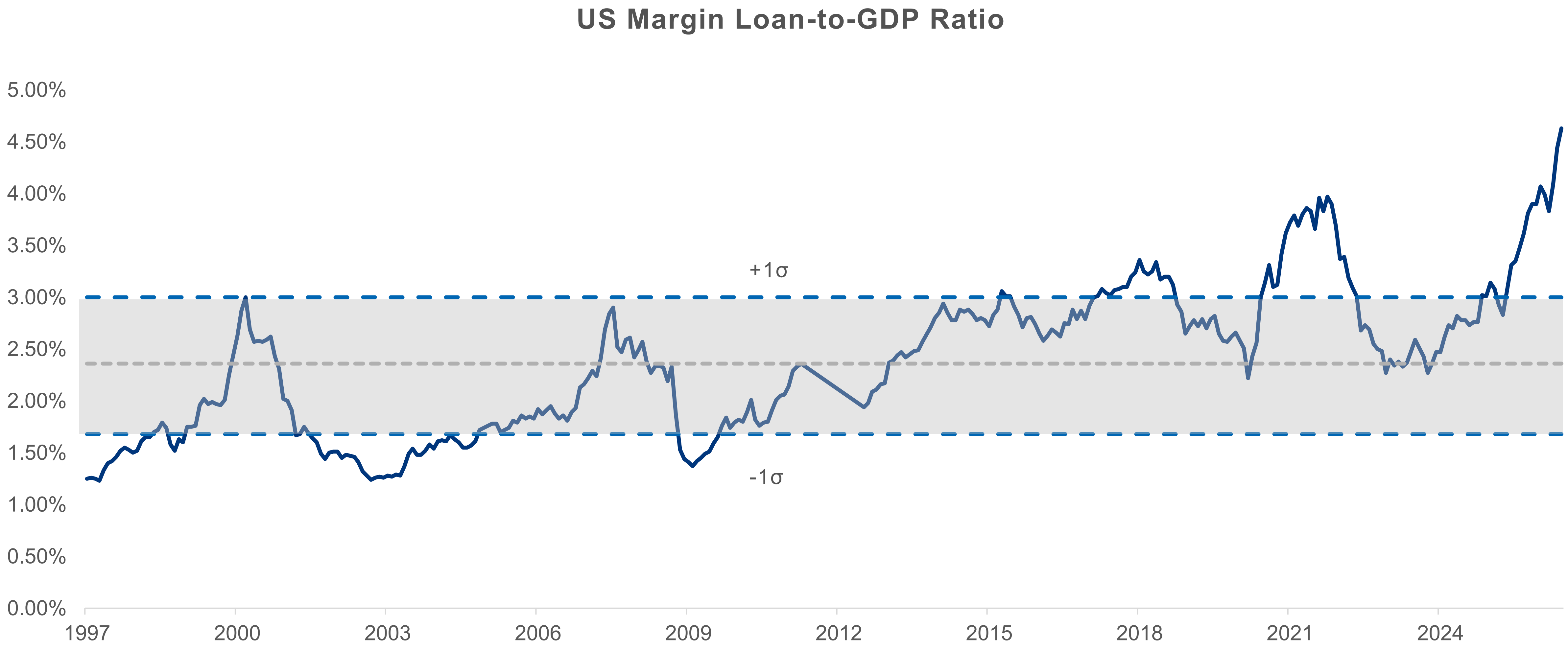
- **Carry Trade Liquidation and Joint Intervention:** Rapid or aggressive BOJ rate hikes create severe financial stability risks by triggering an abrupt unwinding of the massive yen carry trade. Because a sudden unwinding forces global investors to liquidate foreign positions to cover JPY-denominated liabilities, Japanese and US monetary authorities face heightened pressure to deploy joint FX interventions to smooth extreme currency moves without destabilizing the financial system.

- **The Ideal US Scenario (Orderly Yen Appreciation):** For the US, a yen appreciation driven by moderate market rebalancing — rather than aggressive, disruptive BOJ rate hikes — represents the optimal outcome. A controlled strengthening of the yen mitigates the risk of forced fire sales of US Treasuries and equities by Japanese institutions needing to repatriate capital or cover leveraged positions, protecting US liquidity while stabilizing foreign exchange markets.

Source: KGI

The US Margin Loan-to-GDP Ratio Exceeds the Dot-Com Peak

Current Leverage Is More Than 2 Standard Deviations Above the Mean



Source: FINRA, KGI

Korea's Margin Loans Reached an All-Time High Before July

A Sharp Fall in Leverage Is Unlikely to Be Immediately Followed by Re-Leveraging

- Korea's outstanding margin loan balance peaked near KRW 38.6 trillion in late June 2026 before dropping to approximately KRW 32.7–33.2 trillion by late July, driven by a sharp correction in the technology and semiconductor sectors and heavy retail deleveraging.

- Retail investors aggressively utilize leveraged exchange-traded funds (ETFs) to gain exposure. Using standard brokerage accounts rather than traditional margin loans, they access embedded financial derivatives — such as futures and total return swaps — within these funds to scale leverage and maximize short-term capital gains.

South Korea – KOSPI Index – Margin Loan Balance

Source: Korea Financial Investment Association, KGI

The Gov't Is Keeping a Close Eye on Excessive Speculation

- Holding Caps for Individuals: Individual retail investors are capped at allocating no more than 20% of their total financial investment assets into single-stock leveraged ETFs, reducing high-concentration speculative positions.
- Higher Margin Requirements: The minimum initial deposit required to trade single-stock leveraged ETFs was tripled from KRW 10 million to KRW 30 million (~USD 21,600).
- Trading Restrictions: Minimum trading units were increased from 1 share to 20 shares, and the listing and marketing of new single-stock leveraged ETF products were suspended.
- Investor Qualification and Safety Checks: Mandatory simulated trading systems and stricter pre-investment education requirements were introduced; regulators are further reviewing whether to restrict new purchases to professional investors only.

Source: KGI

Investment Strategies

- **Macro Headwinds Persist: Key structural pressures** — a massive AI CapEx funding gap, an elevated interest rate environment with expanding CDS spreads, and intensifying competition from China — are unlikely to dissipate soon. While a short-term yen rebound may ease immediate market overhang, the long-term effectiveness of joint-government FX intervention remains uncertain. Furthermore, while margin debt in both the US and South Korea (a conservative proxy for total leverage) has likely moderated, an immediate re-leveraging cycle is unlikely to drive upside momentum.

- **Semiconductor Outlook: What will drive semiconductor stocks higher?** While core AI fundamentals remain unchanged over the past two months, equities are unlikely to reclaim record highs without sustained, blowout earnings upgrades to offset macro headwinds. Although strong retail participation could trigger technical rebounds, we advise investors to utilize the Decumulator strategy to monetize these rallies.

- **Sector Rotation and Risks:** The recent correction has driven capital rotation away from crowded AI trades into cash-flow-generative sectors such as Energy, Defense, and Healthcare. While Financials have outperformed year-to-date, current valuations appear to have priced in a blue-sky scenario. We remain cautious, as ongoing capital market deleveraging could eventually weigh on financial institutions' balance sheets.

Source: KGI

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