CIO Insights

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# Leveraging Market Recovery For Diversification

*Turning Market Momentum Into Asset Spread*

21 Aug 2026

# No Single Trigger: Five Converging Catalysts

## Mid-Term Structural Market Drivers Remain Unchanged

### 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**

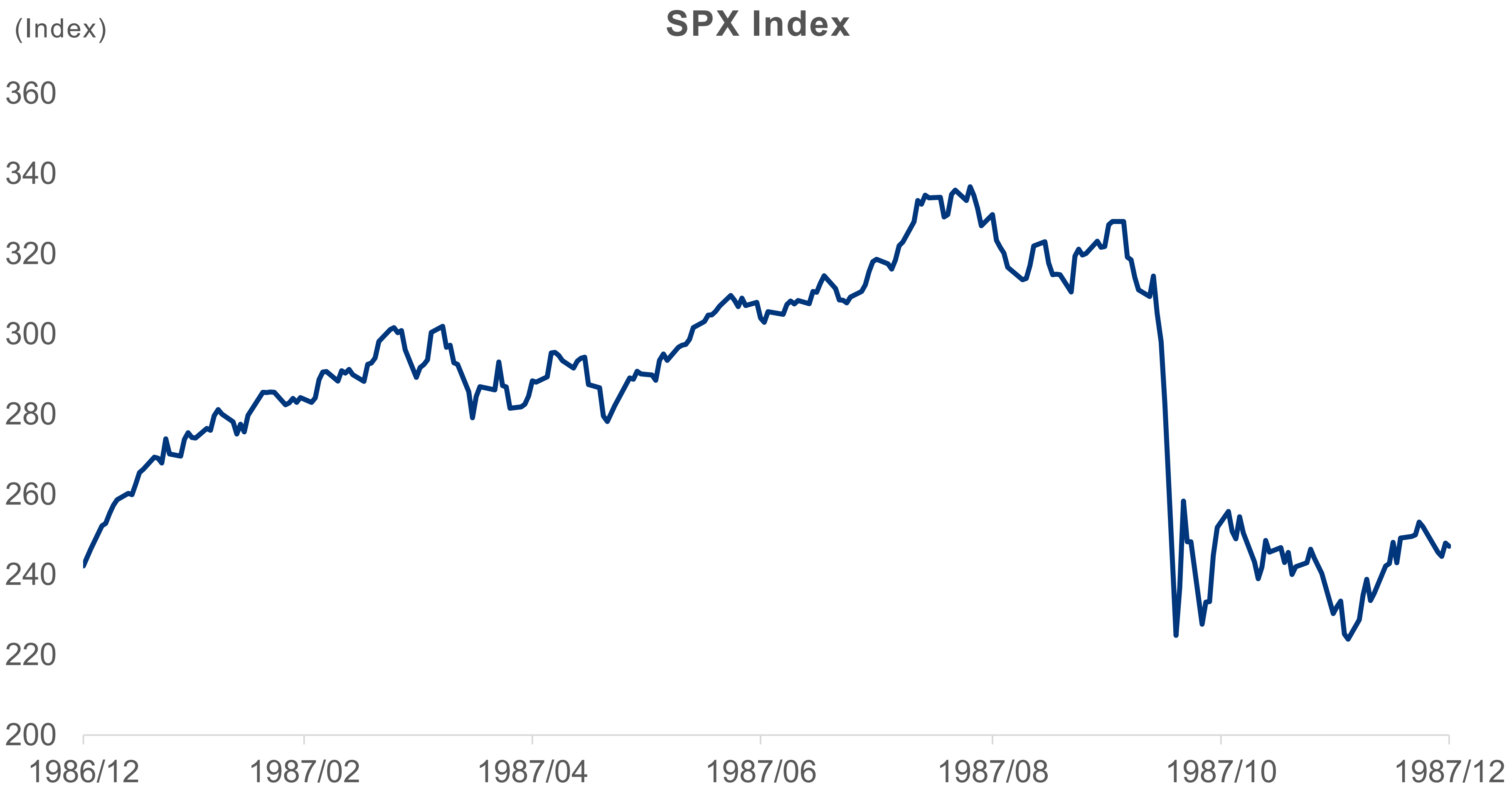
**The run-up in AI hardware stocks had been "too fierce" through 2025–2026, leaving valuations stretched and the market vulnerable to any combination of negative catalysts. Each factor individually might have caused a modest pullback; together, they triggered a cascading correction that erased trillions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

Source: KGI

# Lessons From the Past Rebounds

## The 1987 Stock Market Crash

| 1987 | |
|---|---|
| Rally to the Peak | 39% |
| First Correction | -8% |
| First Rebound | 6% |
| Second Correction | -32% |

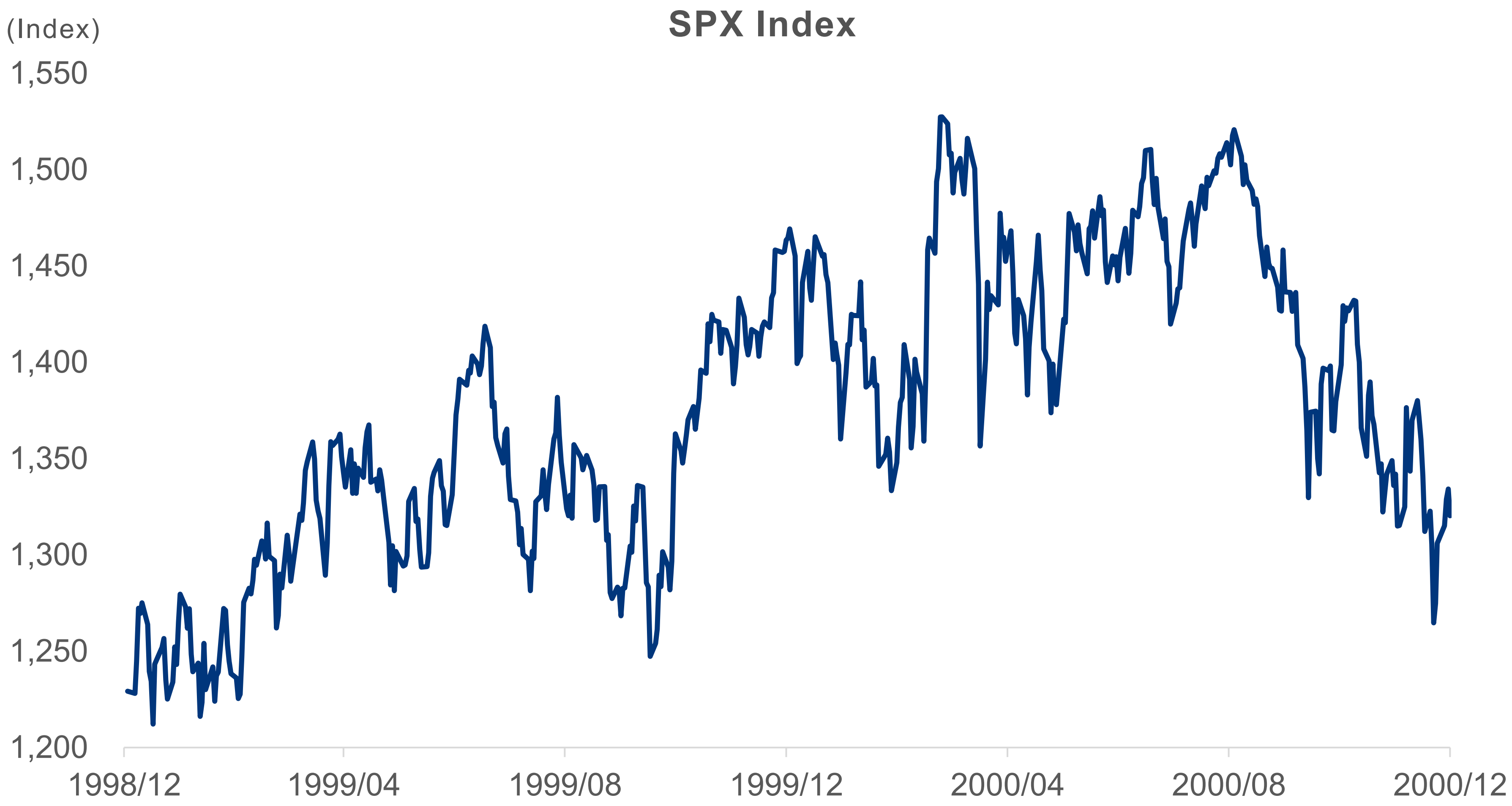



Source: Bloomberg, KGI

# Lessons From the Past Rebounds

## The 1999–2000 Dot-Com Crash

| 1999-2000 | |
|---|---|
| Rally to the Peak | 27% |
| First Correction | -11% |
| First Rebound | 10% |
| Second Correction | -17% |




Source: Bloomberg, KGI

# Lessons From the Past Rebounds

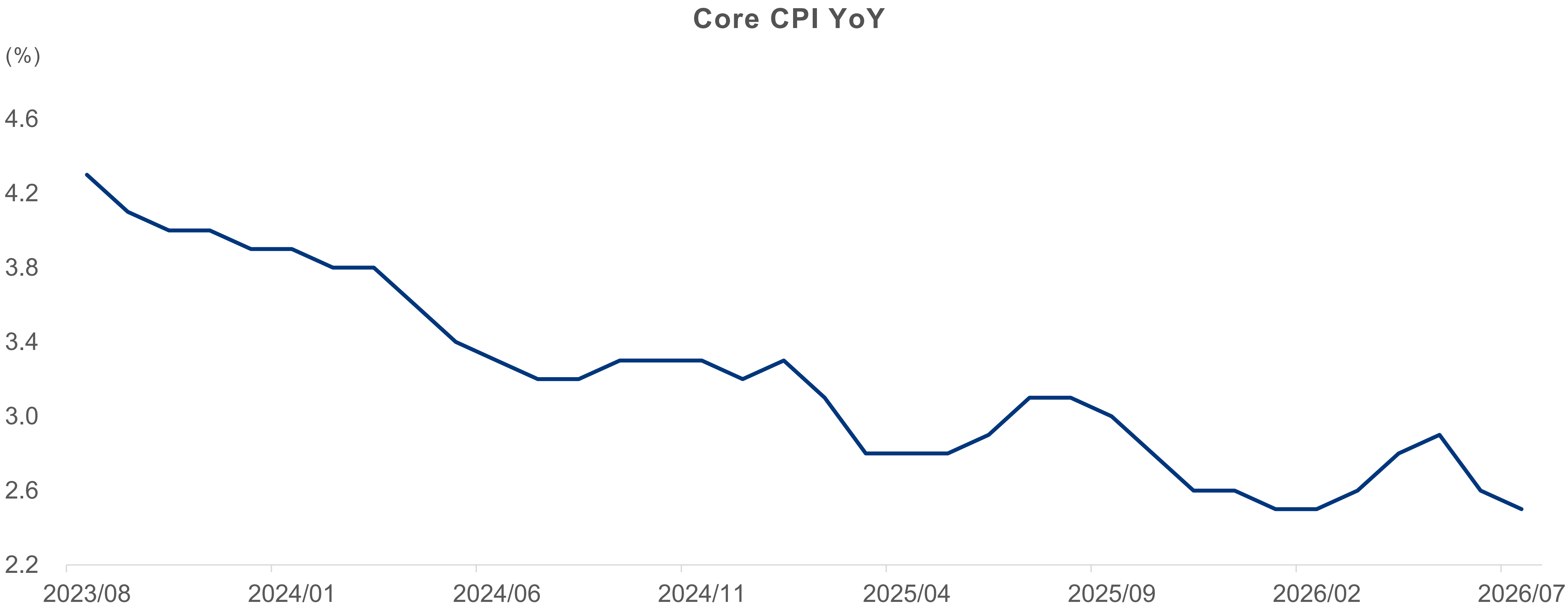
## The 2008 Global Financial Crisis

| 2005-2008 | |
|---|---|
| Rally to the Peak | 34% |
| First Correction | -19% |
| First Rebound | 12% |
| Second Correction | -48% |


Source: Bloomberg, KGI

# Benign July Core Inflation Sparks a Risk-on Window

## A Data-Dependent View on Rates Implies Limited Visibility Into the Long-Term Outlook




Source: Bloomberg, KGI

# Chase the Rally – Or Not?

## The Best Response Is Broader Factor Exposure – Not Indiscriminate Growth Beta

01

### Fed Repricing

September hike odds fell from about 55% to 31% after the latest data.

02

### Rates Constraint

The front end eased, but the 10-year yield stayed firm – limiting the duration all-clear.

03

### Lesson From the July Correction

Energy, financials, value, and low-volatility styles outperformed technology during the correction. These are sensible choices for a broader portfolios.

04

### Live Risks

AI economics, capex returns, Iran/Hormuz and November policy uncertainty remain material.

Source: KGI

# The Data Changed September Pricing

## July's Stream of Negative News Met Surprisingly Encouraging Economic Data in August

| Release | Latest result | Market implication |
|---|---|---|
| **July CPI** | Broadly in line with expectations | Reduced the immediate inflation-surprise risk. |
| **July PPI** | Headline: 0.0% m/m; core: 0.4% m/m | Mixed signal: benign headline, but no clean inflation all-clear. |
| **July retail sales** | **-0.6% m/m** | Softer consumption strengthened the case for a hold. |

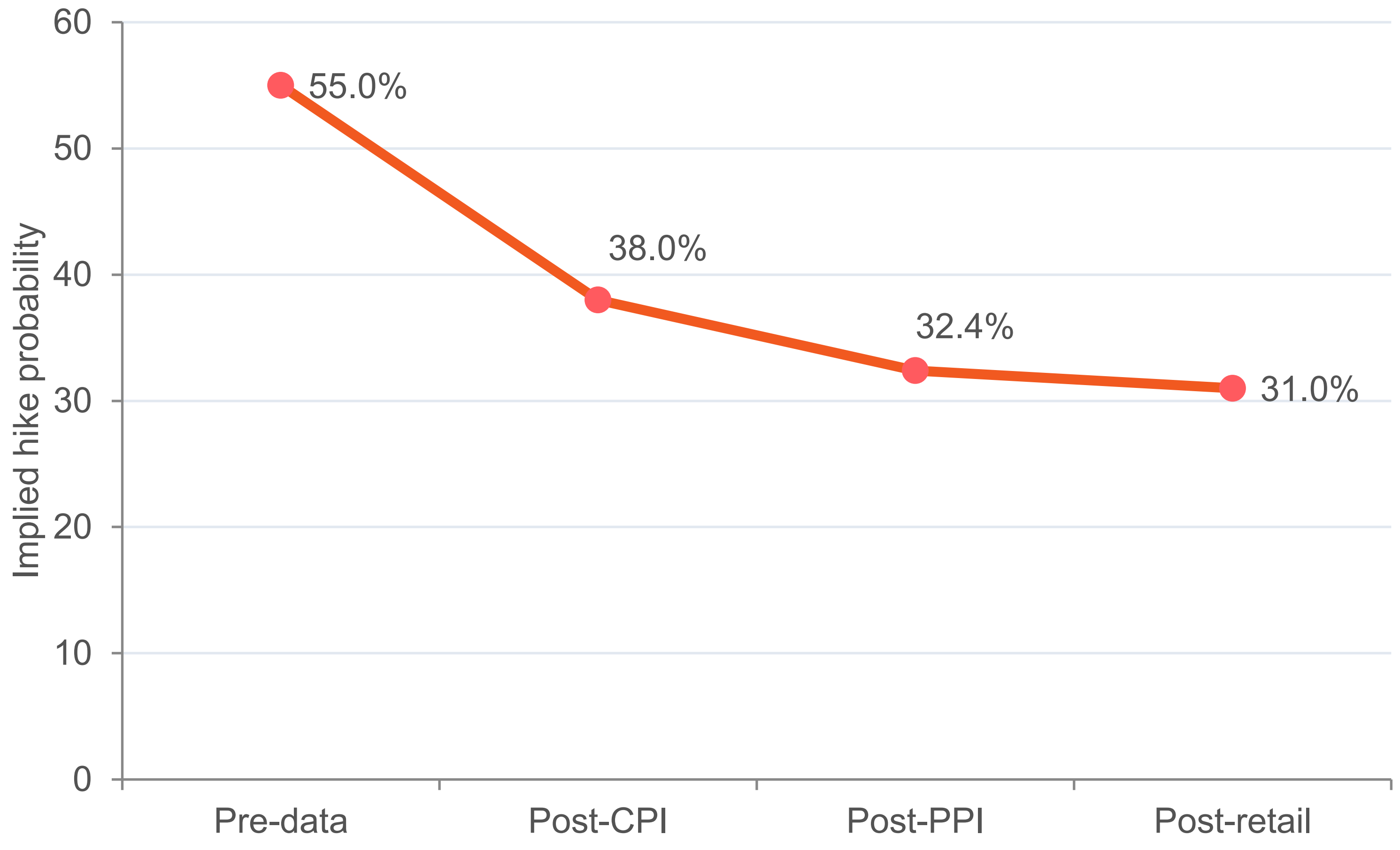
**Read-through:** the data week shifted the debate from another near-term hike to a hold.

It did not establish a September cut as the market base case.

Source: KGI

# September Hike Odds Fell From 55% to 31%

## From Hike to Hold




-24 pp

**Hold is the base case for the September meeting.**

The shift is from a hike to a hold – not to a September cut.

Source: Bloomberg, KGI

# Front-End Policy Pressure Eased; The Long End Stayed Firm

## The Setup Is Hardly Supportive of Growth

| Maturity | 7–14 Aug. move | Interpretation |
|---|---|---|
| 2-year Treasury | -2 bp | Less near-term tightening pressure. |
| 10-year Treasury | +3 bp | Long-end duration risk remains. |

Less Fed pressure – but no clear duration all-clear

The setup can support a risk-on impulse, but rate-sensitive growth multiples remain exposed if long-end yields resume rising.

Source: KGI

# Geopolitical Relief Is Partial – Not a Clean Ceasefire

## De-Escalation Signals a Lower Near-Term Risk Impulse, Not a Resolved Conflict

### 01 What improved

A U.S. pivot toward financial pressure on Iran reduced immediate focus on incremental kinetic escalation.

### 02 What remains unresolved

A comprehensive military pause is not independently confirmed. Shipping disruption and the Hormuz constraint remain material.

### 03 Market translation

De-escalation can support risk appetite, while energy and inflation tail risks remain sources of volatility.

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Risk-on may gain a window; it does not gain a geopolitical free pass.

Source: KGI

# AI Competition Raises ROI Scrutiny

## Expect More News Flow on This Front

### PRICE COMPETITION

Chinese open-weight releases intensified performance-per-dollar competition.

Reported inference prices fell from **above $2.00** to **$1.20 per million tokens** between early June and early August.

### ADOPTION VS MARGINS

One reported U.S. provider response included an **80% developer-price discount** on a lightweight model.

Lower prices can accelerate adoption while also challenging model-layer margins.

### CORE QUESTION

Can lower model prices generate enough volume and enterprise adoption to offset pressure on AI infrastructure returns?

Source: KGI

# The Midterms Add a Policy-Volatility Layer

## Uncertainty Stems From How the Incumbent Is Responding to Potential Change

| Poll signal | Latest |
|---|---|
| **Voters feeling worse off under Trump** | **53%** |
| **Overall Trump disapproval** | **55%** |
| **Disapproval on inflation/living costs** | **64%** |
| **Likely November support** | Dem 44%<br>Rep 39% |

### MARKET TRANSMISSION

**Not an election forecast.**

A potential change in congressional control could increase uncertainty around the policy path.

**Transmission channels:**

Tax and fiscal policy; tariffs and trade; sector regulation; energy and defence spending.

Treat November as a third layer of uncertainty alongside inflation/yields and Iran/Hormuz – not as a stand-alone directional equity call.

Source: KGI

# Investment Strategies

## Add Breadth, Retain Quality Control

| Objective | Exposure lens | Risk control |
|---|---|---|
| **Participate in macro relief** | Financials, materials, and selected cyclicals | Do not assume long-term yields will fall further. |
| **Preserve resilience** | Health care, consumer staples, quality, and low volatility | Maintain diversification across economic regimes. |
| **Keep AI upside selective** | Visible monetisation, recurring cash flow, and capex discipline | Demand evidence of ROI; avoid extrapolating token economics. |
| **Keep geopolitical optionality** | Energy as a hedge, not a one-way risk-on call | Hormuz and oil-driven inflation can reverse the macro signal. |

**PORTFOLIO PRINCIPLE**

Reduce concentration in a single technology/momentum factor. Broaden exposure while maintaining valuation and cash-flow discipline.

Source: KGI

# Value and Resilience Beat Momentum

## Lesson From the July Correction: Style Leadership

| Style proxy | July return | Relative to XLK |
|---|---|---|
| **Large-cap value (IWD)** | **+3.87%** | **+11.84 pp** |
| **Low volatility (SPLV)** | **+1.96%** | **+9.93 pp** |
| **Quality (QUAL)** | -0.23% | +7.73 pp |
| **Small-cap (IWM)** | -3.08% | +4.88 pp |
| **Momentum (MTUM)** | **-12.85%** | **-4.89 pp** |

> **Correction lesson: Avoid concentration in a single growth/momentum factor.**
>
> Value, low volatility, and cash-flow resilience were better shock absorbers in July.

Source: KGI

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