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CIO Insights

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Deriving Insights From the Market

Thinking Ahead of the Market

6 November 2026



What the Market Has Been Saying

Prices Reflect Market Thinking

1. **AI spend scepticism versus hardware cash.** Hyperscalers and platforms funding AI capex have underperformed companies that are paid today for GPUs, memory and tools (Oracle −25.8%, Meta −7.2%, Tencent −35.3% versus AMD +170%, SK Hynix +134%). **If the market truly believes in AI, why penalise the firms writing the cheques?**

2. **Cyclical PE on HBM leaders.** Even with demand visibility into 2029, SK Hynix still trades on single-digit multiples – priced as cyclical payback, not a franchise premium. **Why treat SK Hynix as a cyclical if AI is priced as structural?**

3. **Apple's monetisation premium.** Apple has spent the least on AI capex among Mag7 peers yet carries the richest forward valuation. **The markets pay for a franchise that can sell AI into a huge installed base.**

4. **Intolerance for AI and outlook disappointment.** Intel's record one-day plunge on a soft outlook, Meta's free-cash-flow and capex punishment, and Google's AI-spend plus search miss show how high the bar for AI returns is – and how little tolerance there is for any drag. **The market is impatient to see results from the huge capex already spent.**

5. **Treasury yield-curve flattening.** Front-end yields rose faster than the long end; a large stock of Treasuries still matures in 2027-28, and paper due within twelve months is expected to be refinanced with short-term debt. Brent's year-on-year spike will also fade into early 2027 on base effects if prices hold. Labour looks soft; retail and ISM Manufacturing do not show a clean one-way slowdown. **The tape is starting to price a slowing-growth scenario.**

Source: KGI CIO Insights synthesis of the preceding slides

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Investment Strategies

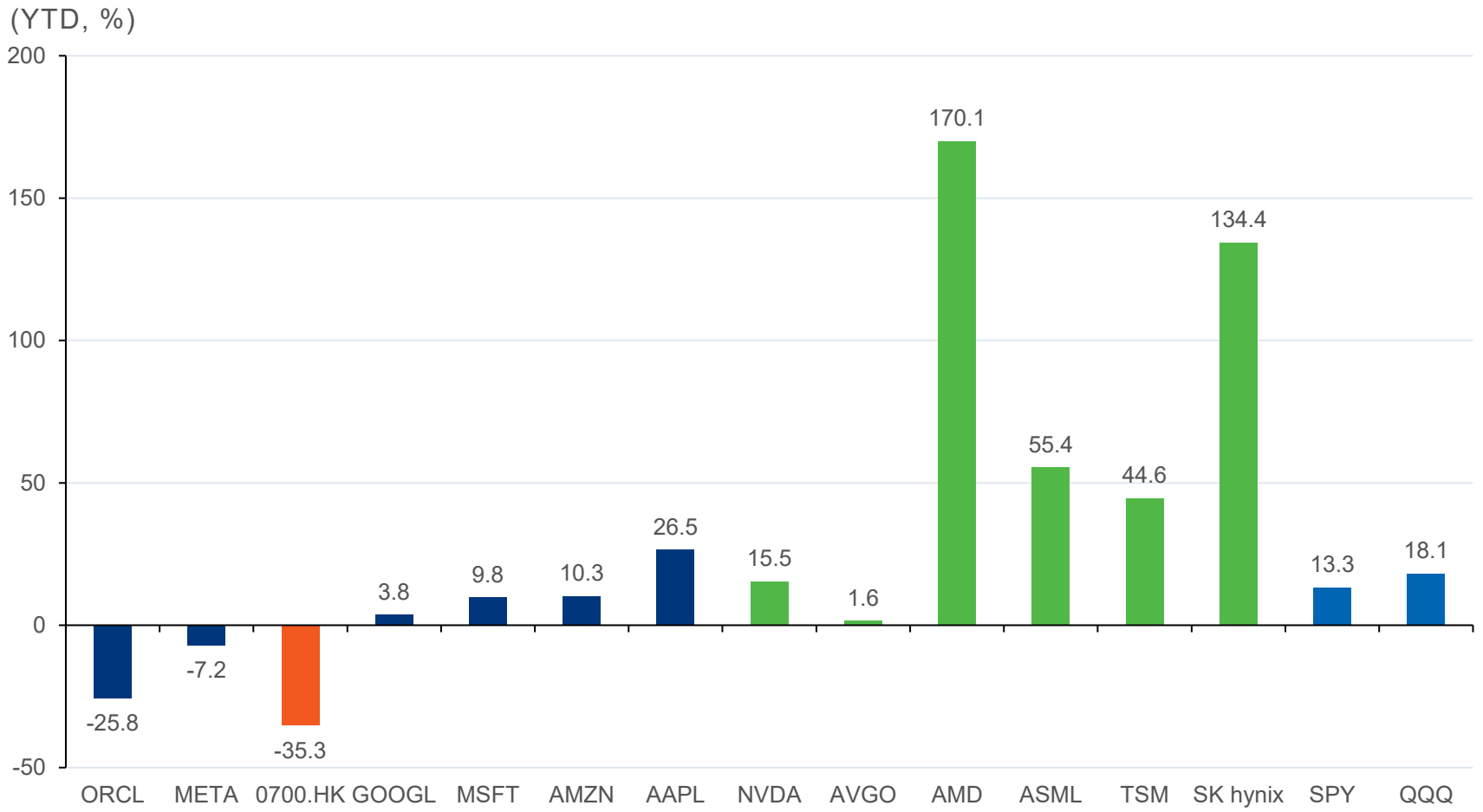
Thinking Ahead of the Market

- **When the cost of money rises, market scrutiny hardens.** The turn toward tighter scrutiny began after the mini-crash in July this year, when expectations for short-term funding costs turned more hawkish and attention shifted to rising long-term bond yields across developed markets – a headwind for AI valuations and for the funding cost of long-dated capex commitments.
- To break the current deadlock, either the return prospects of AI must gather momentum, or funding costs must be seen to ease. We believe proof of AI-capex returns will take time, and physical limits – energy, political and social acceptance – will cap the near-term return profile. **The good news is that the cost of money (long-duration borrowing rates) is falling faster than the market expected as growth momentum slows.** We believe that can revive today's negative sentiment.
- For equity investors, we would use any rebound **ahead of a liquidity revival to consolidate AI holdings and diversify further into quality defensive sectors such as healthcare, renewable energy, defence and consumer staples.** For bond investors, we see opportunity in the present dislocation. Weaker neo-clouds are not expected to spill over into Big Tech. We expect continued rotation into traditional investment-grade corporates and longer-duration Treasuries.

Source: KGI

Hyperscalers and Platforms Underperformed AI Hardware

The Market Does Not Believe the Long-Term AI Promise; Cash Is King



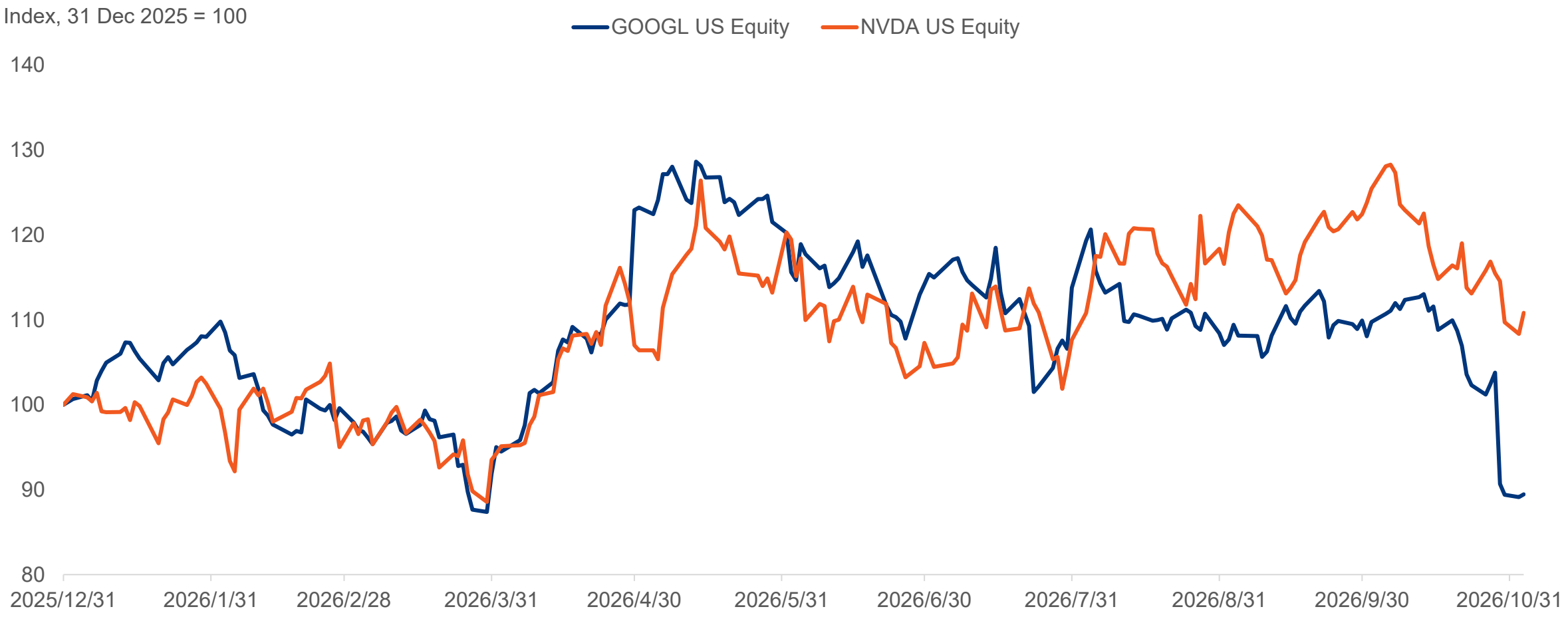
- Hyperscaler
- China platform
- AI hardware
- Index

- Cash recipients lead the tape: AMD +170%, SK hynix +134%, ASML +55%, TSM +45% – hardware that invoices today.
- Writers of the cheques lag: Oracle, Meta and Tencent are negative; Microsoft and Amazon trail the S&P 500 and Nasdaq-100 ETFs.
- Next question: if AI funding tightens, do vendors stretch customers – and does cash catch up with reported earnings?

Source: Yahoo Finance YTD through 28-29 October 2026. 0700.HK in HKD; 000660.KS (SK hynix) in KRW; others USD, KGI

Market Perception Turned in July After the Mini-Crash

Nvidia Underperformed Other Hardware Names as Its Sheer Size Took a Toll



Source: Bloomberg, KGI

SK Hynix Trades at Single-Digit PE Despite Strong Orders

The Market Is Pricing a Cyclical Company, Not Structural Growth

6.71×

Trailing P/E

Price ÷ last-twelve-months earnings – about seven years of today's profit to "pay back" the share price.

2.99×

Forward P/E

Price ÷ next-year earnings forecast – under 3× says the market still treats memory as a cycle, not a franchise.

+134%

YTD 2026 (KRW)

A strong local-currency move – yet the multiple stays single-digit. Performance alone has not re-rated the cycle view.

P/E as a payback proxy (plain language). A multiple is roughly how many years of today′ s earnings the share price is paying for. Single-digit multiples embed limited visibility beyond the current upcycle.

What would re-rate the stock. HBM demand into 2029 is widely discussed and largely already in forecasts. A durable step-up in the multiple needs a stronger outlook beyond 2029. Until then, single-digit P/Es say memory is still priced as cyclical.

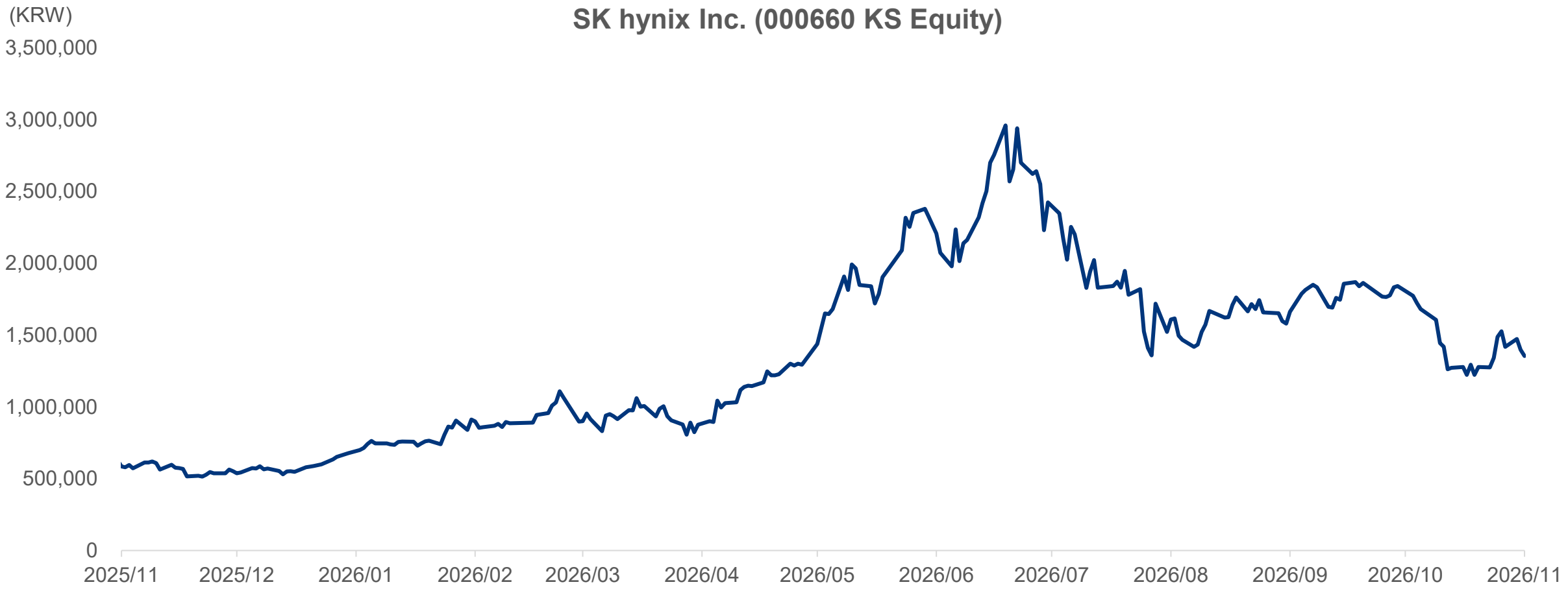
YTD strength has not rewritten the multiple. Local-currency shares are up +134% year-to-date, yet trailing 6.71× and forward 2.99× still read as cycle payback – not a franchise premium. **The best time to buy a cyclical is when its valuation is most expensive (trough of the earnings cycle). The best time to sell is when its valuation is cheapest (peak of the earnings cycle).**

Source: stockanalysis / S&P Global Market Intelligence multiples as of 28 October 2026; Yahoo Finance YTD (local KRW), KGI

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Part of the Correction Was Due to Deleveraging

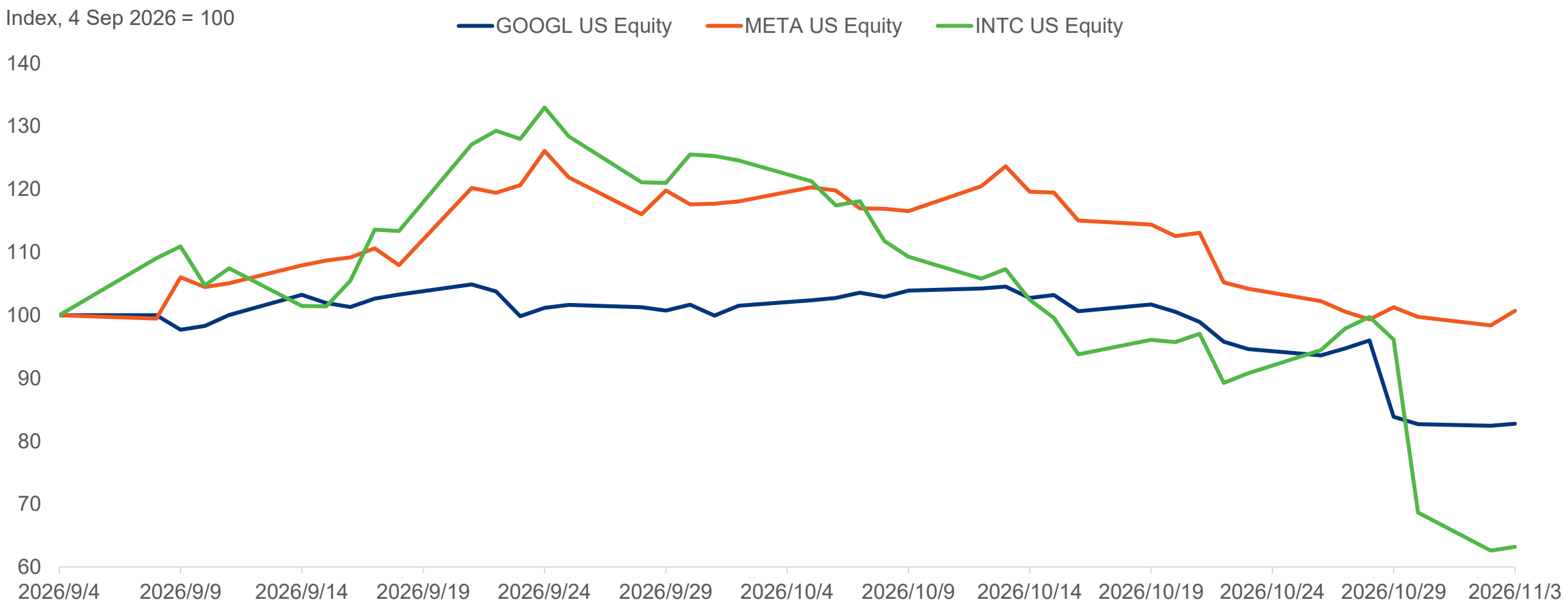
The Question Is: What Developments Will Take the Share Price Above Today's Level



Source: Bloomberg, KGI

The Market Keeps Raising The Bar

Judgement Day Is Looming – Growth Narrative Alone No Longer Buys Patience



Source: Bloomberg, KGI

An Impatient Market Waiting For Strong AI Results

Intel – High Expectations, No Tolerance For A Soft Outlook

−28.58%

One-day move on 30 Oct 2026 (Yahoo closes 92.07 → 65.76). News/broadcast ~−29% – worst day since the 1970s / 1974.

+312.9%

Prior ~2 years into the print (22.30 on 30 Oct 2024 → 92.07 on 29 Oct 2026). YTD after the plunge still +78.2% (versus +149.5% into earnings).

The print versus the reaction

Q3 beat the Street (adj. EPS $0.52 versus $0.40; revenue $16.51bn roughly in line). The selloff was the outlook: Q4 revenue $15–16bn versus ~$17.1bn expected; adj. EPS $0.25 versus ~$0.43 (LSEG via CNBC).

Cited driver: PC sluggishness

The company pointed to a weak PC TAM path (~−12% in 2026 / ~−10% in 2027) and memory-cost pressure; the Israel fab hit ~$600m of revenue over two quarters. Peer DELL fell −10.8% the same day.

The market's intolerance

When the bar is high, a soft outlook is punished violently. A multi-year / YTD re-rating did not buy forgiveness – roughly −29% in one session shows how little room the tape leaves for disappointment.

Source: Yahoo Finance; CNBC / Intel outlook; Bloomberg close broadcast as cited in CASE_STUDIES.md, KGI

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An Impatient Market Waiting For Strong AI Results

Meta And Google – The Market's Thin Skin On AI Spend

	Meta (META)	Alphabet (GOOGL)
Earnings / reaction	21 Oct AH → 22 Oct session	28 Oct AH → 29 Oct session
Day-1 move	-6.98%	-12.64% (~-13% news)
Follow-through	5-session: -12.19%	~$500bn mkt-cap loss; day-5 N/A
AI capex headline	FY26 $135-145bn (floor raised)	FY26 $195-205bn; rising a lot in 2027
Cash / FCF	Q3 FCF: -$2.12bn	Q3 FCF: -$9.07bn
What hurt	Cash burn despite revenue beat	Search miss + AI Mode / cannibalisation fears

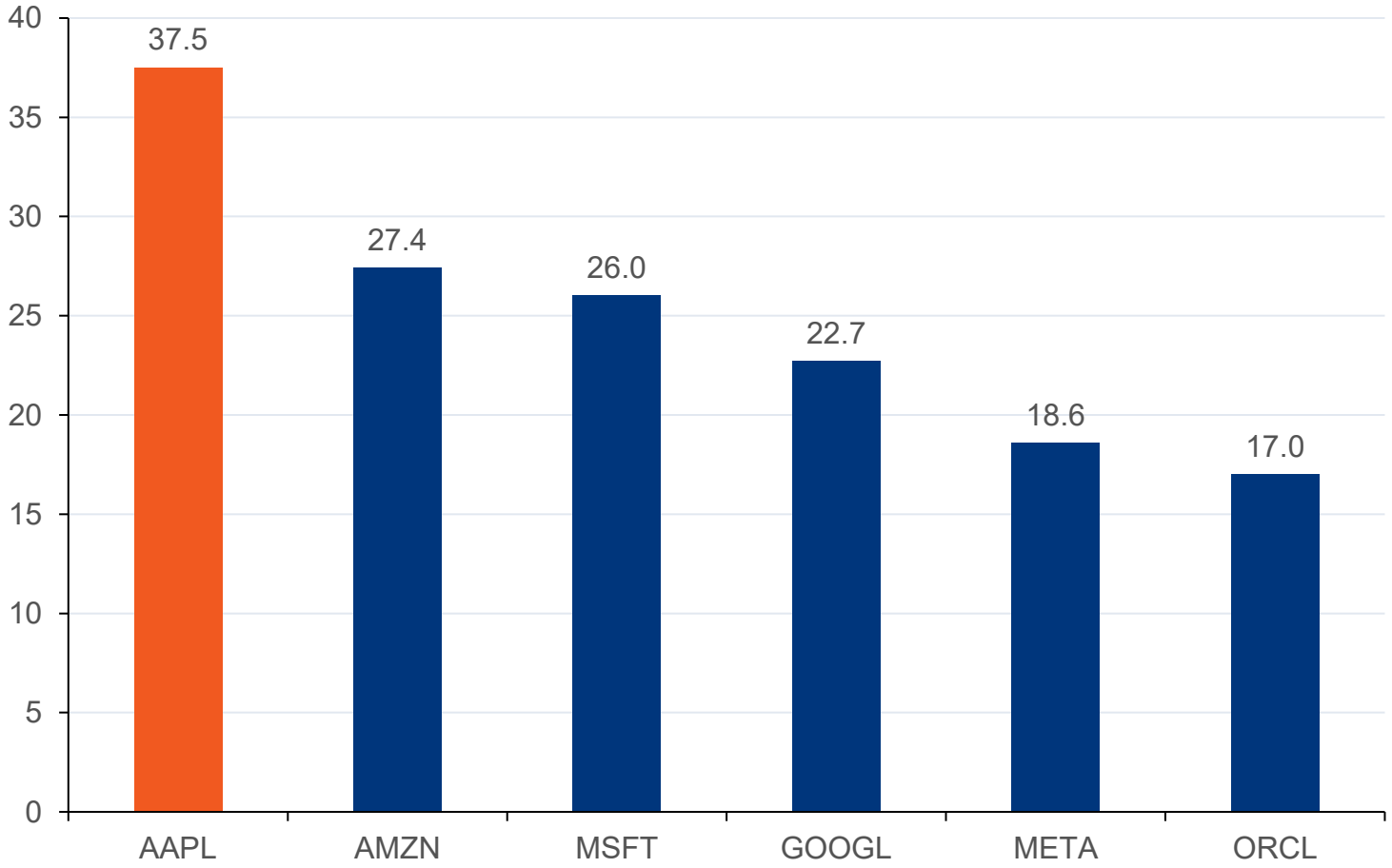
Theme. Expectations for AI monetisation are high; tolerance is low when spend guidance rises and free cash flow disappoints. Meta was punished for negative free cash flow and a higher capex floor even after a revenue beat; Google's worst post-IPO day fused heavy AI cash burn with a soft core-ad print and fears that AI Mode cannibalises search.

Source: Yahoo Finance; Meta PR / CNBC; CNBC / Reuters for Alphabet, KGI

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Apple’s Premium Is On Applications Not For Owning AI

Mag7 (Ex-tesla) Forward Earnings Multiples



Least build-out, richest multiple

Apple’s AI infrastructure spend is a fraction of the hyperscalers’. Nine-month FY26 payments for PPE were about $6.8bn – against Big-4 quarterly capex still in the tens of billions.

What the premium prices.

Forward ~37.5× – highest Mag7 ex-Tesla – pays for the franchise that can integrate AI into products and monetise a vast installed user base, not for owning the pipes.

Read-across: when AI return paths look uncertain, markets still bid for monetisation certainty.

Source: Forward P/E from stockanalysis as of 28 October 2026; Apple PPE from SEC 10-Q / KGI ai_capex_snapshot, KGI

Crowded: Buy Short Duration; Fact: Short Rates Rose Fast

Curve Flatten Since Late July – And The 2027–28 Refinancing Calendar

Tenor	31 Jul 2026	28 Oct 2026	Change
2Y	4.28%	4.67%	+39 bp
10Y	4.75%	5.05%	+30 bp
2s10s	0.47%	0.38%	Flatten

What the flatten says. From 31 July to 28 October the 2-year rose +39 bp while the 10-year rose +30 bp, so 2s10s narrowed from 0.47 to 0.38. The front end – not the long bond alone – did more of the work.

The refinancing wall. About $5.43T of marketable debt matures in 2027 and $3.74T in 2028. Roughly $10.64T comes due within 12 months. That stock of short-dated paper must be rolled at whatever rate the front end prints.

Plain-language price read. When short yields rise, prices of short-maturity bonds and bills fall. A larger wall of near-term maturities means more of the Treasury float is re-priced at those higher short rates – until the front end eases again.

$5.43T
Maturing in calendar 2027

$3.74T
Maturing in calendar 2028

$10.64T
Due within 12 months

Source: Treasury.gov daily par yields (31 Jul & 28 Oct 2026); Treasury Fiscal Data / MSPD maturity calendar as of 30 Sep 2026, KGI

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A Flattening Yield Curve Reflects Slowing Economy

Oil's Year-on-year Fade – And Growth That Is Mixed, Not One-way Soft

Oil / macro print	Figure	Read
Brent (28 Oct 2026)	**~$115.32**	Current level
Brent YoY	**~+77–79%**	vs late Oct 2025 (~$64-65)
SCENARIO_FLAT mid-Mar 2027 YoY	**~2.8%**	Price held flat vs mid-Mar 2026 weekly – near 0% / low single digits
NFP (Sep 2026)	**+29k**	Weak jobs print
Unemployment (Sep)	**4.2%**	Up from 4.1%
Michigan sentiment (Oct)	**48.0 vs 53.6**	Soft vs year-ago
Retail sales (Sep mom)	**+0.8%**	Not weak
ISM Manufacturing (Sep)	**54.5**	Still expanding

Oil base-effect calendar. Brent was about $115.32 on 28 Oct 2026 – roughly +77-79% year-on-year (daily YoY +79.1% versus $64.40 a year earlier; weekly-path check ~+77%). That spike enters the year-ago comparison for CPI energy.

SCENARIO_FLAT (illustration). If the price were held flat near $115 into mid-March 2027, YoY would roll off toward low single digits (~2.8% versus the mid-March 2026 weekly base) – labeled SCENARIO_FLAT, not a forecast.

Growth is mixed, not one-way soft. Labour looks soft (Sep NFP +29k; unemployment 4.2%; Michigan sentiment 48.0 versus 53.6 a year earlier). But September retail sales rose +0.8% month-on-month and ISM Manufacturing was 54.5 – still in expansion. The dashboard does not say "everything has rolled over."

Source: brent_yoy_path.csv (Yahoo BZ=F); macro_slowdown.csv (BLS/CNBC, UMich, ISM, retail advance), KGI

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