KGI

CIO Office

Global Markets Weekly Kickstart

U.S. – China Trade War Again?

20 October 2025


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CIO Insights

Avoiding Irrationality by Portfolio De-risking

▸ **Learn from the history of trade talk: escalate to descalate**

Market volatility surges as the US-China trade war escalates, with tariffs on Chinese imports potentially hitting 130%, pushing average US tariffs above 25%. Without de-escalation in the next one to two months, inflation expectations may rise and may complicate the one-way rate cut expectation. We also think US economic slowdown will persists into Q4 2025.

▸ **We favor Hong Kong/China for its valuation discount**

In equities, we have no strong preference to the US stocks. We overweight Europe with its outperformance potential strengthens via upgraded GDP and earnings forecasts and Japan, especially with exposure in banks and domestic sectors. We favor Hong Kong/China for its valuation discount and liquidity-driven uptrend resumption.

▸ **Avoid the long end of the curve for the time being**

In fixed income, target medium-duration US Treasuries to avoid risk of inflationary expectation pick up until we have more clarity on the US-China trade war tension; We like investment-grade bonds in utilities, banks, insurance, and industrials during downturn.

Michigan University 1-year inflation expectation
When tariff on China was >100% in April, inflation expectation was > 6%

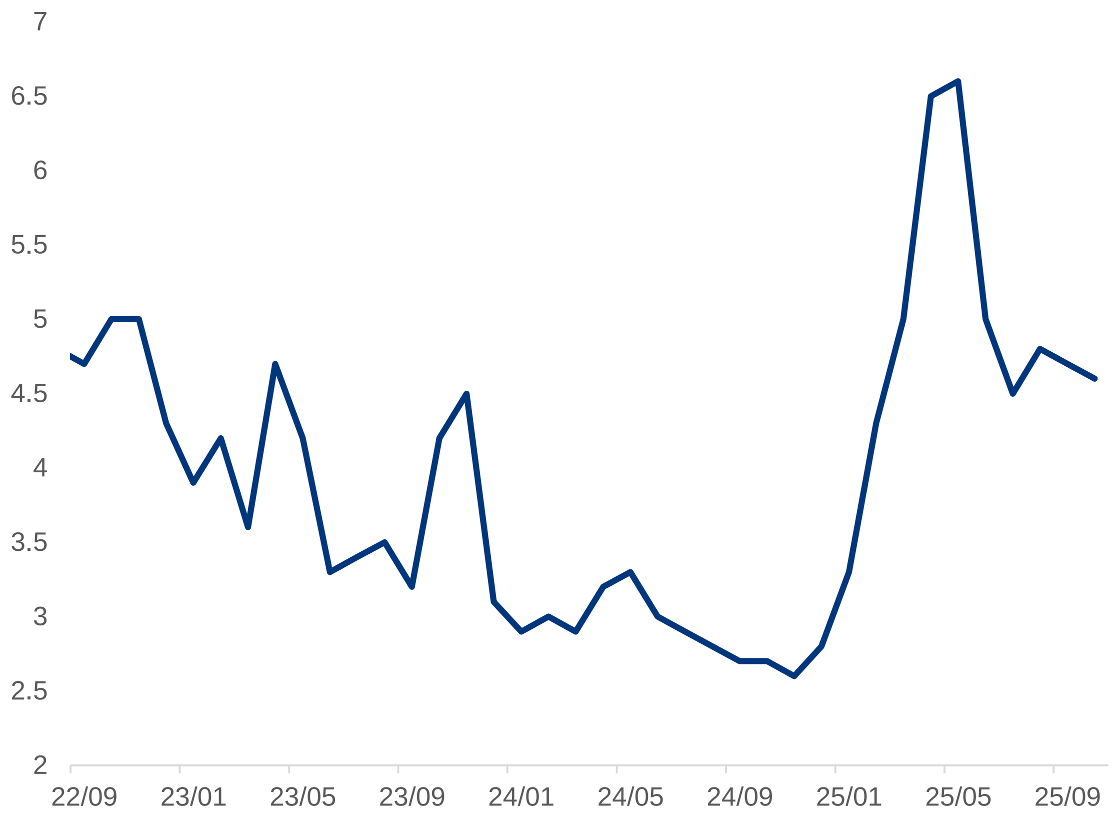
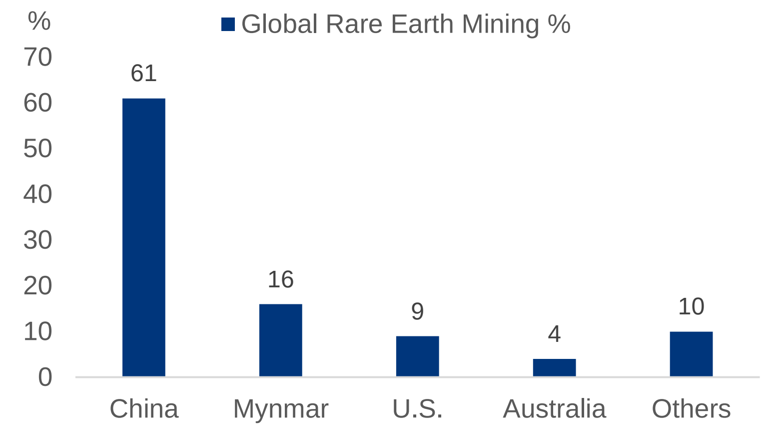


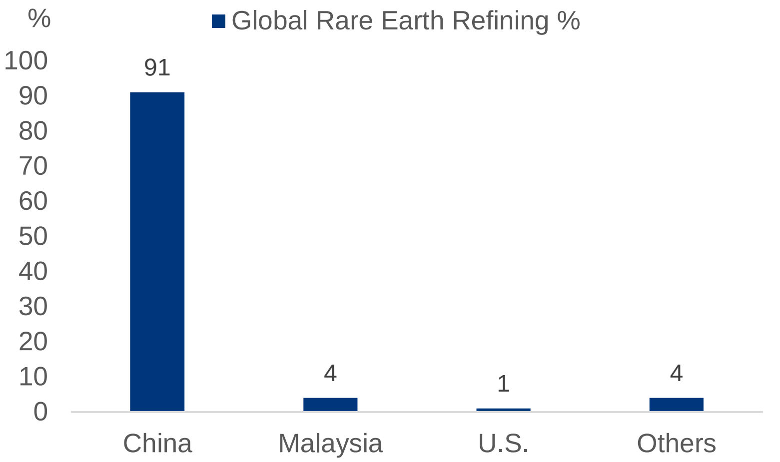
Chart of the Week

China Tightens Rare Earth Controls; U.S. Retaliates With 100% Tariffs

- On Oct 9, China announced expanded restrictions on rare earth exports. Any product containing over 0.1% of Chinese-origin rare earth materials, or produced using Chinese mining or refining technologies, will now be subject to export controls—effectively bringing the entire rare earth supply chain under regulation. In response, the U.S. imposed 100% tariffs on Chinese imports, signaling a renewed escalation in the trade war.
- IEA data show China accounts for roughly 60% of global rare earth mining and over 90% of refining capacity, underscoring its dominance in supply. The tighter policy could impact industries reliant on rare earths, including electronics, semiconductors, and defense.
- U.S. imports from China are concentrated in consumer discretionary, tech, and industrial sectors—all exposed to the new export controls. The 100% tariffs take effect in November, while China's rare earth measures start in December, leaving room for negotiation. In the near term, affected sectors face pressure, but rare earth producers outside China may benefit as supply chain diversification gains momentum.

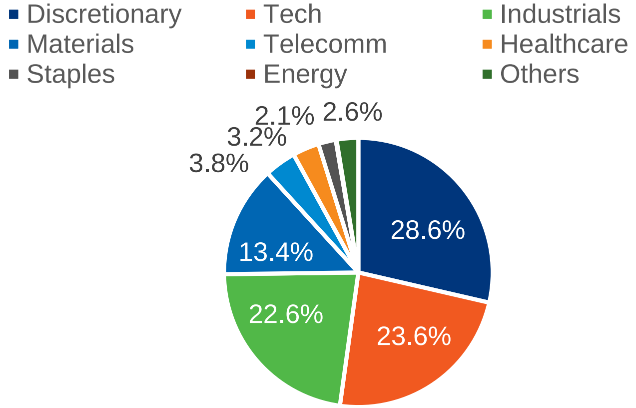
U.S. Imports from China Are Concentrated in Consumer Discretionary, Technology, and Industrial Sectors





Rare Earth Key Materials for Electronics, Semiconductors & Defence

U.S. Imports from China Are Concentrated in Discretionary, Tech, and Industrials



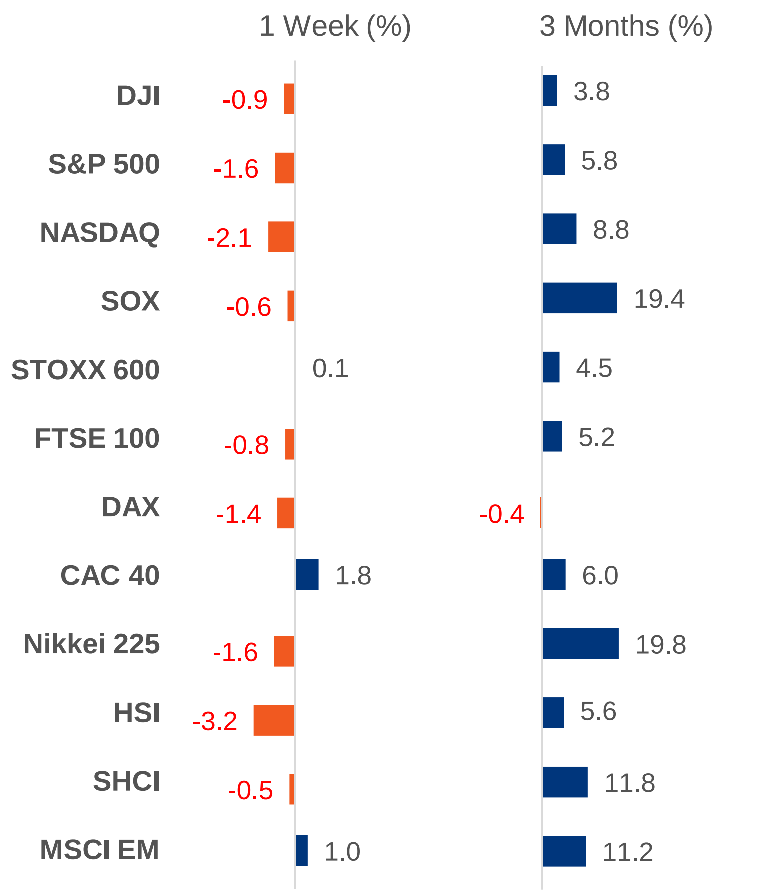
Source: Bloomberg, IEA, Rainbow Rare Earths, USITC

Market Recap

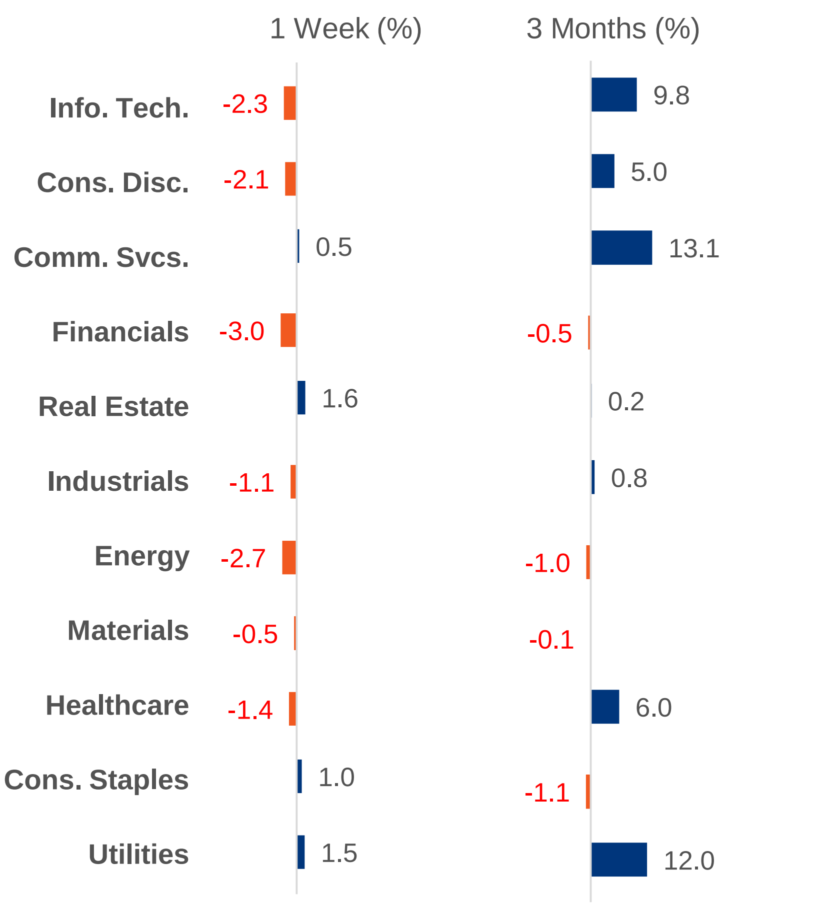
Trade Tensions Weigh on Market Sentiment; Defensive Sectors Outperform

- Renewed U.S.–China trade frictions drove a rebound in the VIX and triggered a sharp pullback in U.S. equities before easing as Trump adopted a softer stance. Meanwhile, the U.S. government shutdown has entered its third week, underscoring the lack of bipartisan agreement on a temporary funding bill. Beyond delayed economic data releases, Trump also announced plans to cut federal staff, adding uncertainty to the economic and market outlook.
- European equities traded choppily as rare earth export controls raised supply-chain concerns, weighing on auto and defense stocks. Additionally, Michelin's downgrade of its full-year outlook on North American weakness further pressured the market.
- By sector, although most financial results last week exceeded expectations, reports of lending losses among regional banks dragged bank shares lower. With both the U.S. and China now imposing reciprocal port fees, trade concerns persist, pressuring tech, consumer discretionary, and industrial stocks. In contrast, defensive sectors such as utilities and consumer staples attracted inflows, reflecting a more cautious near-term market tone.

Regional Index Performance (%)



U.S. Sector Index Performance (%)

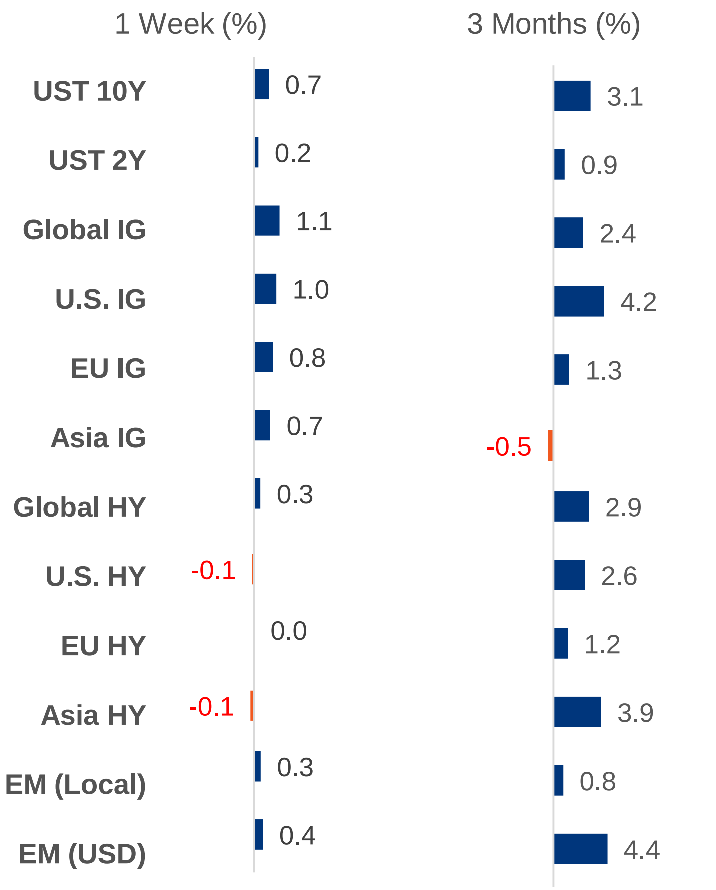


Source: Bloomberg, 17 Oct 2025

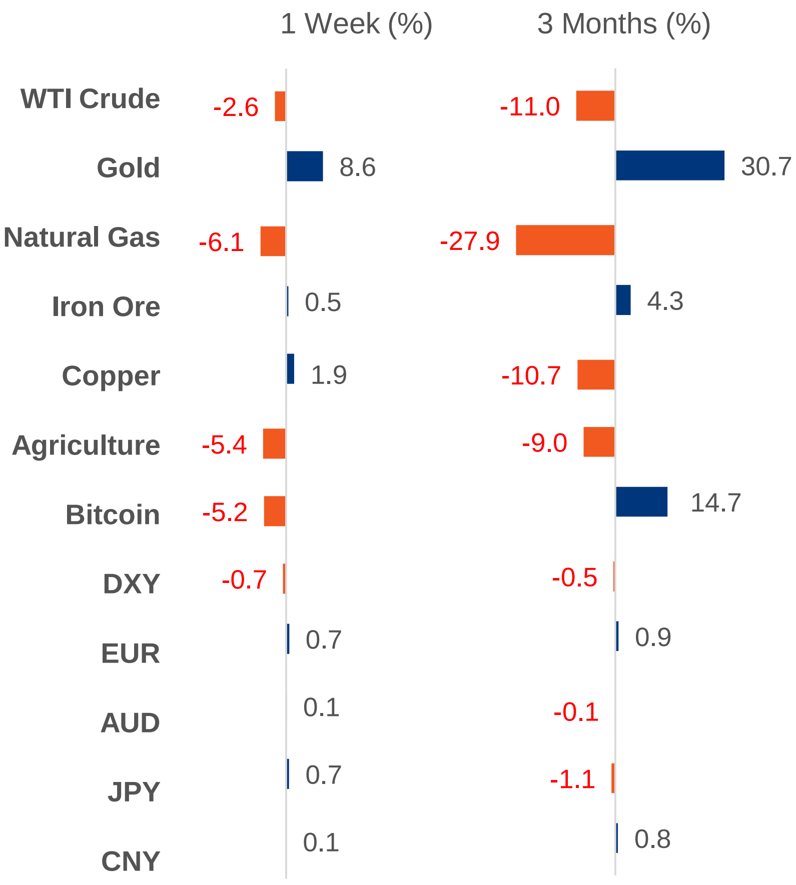
Bond Yields Decline as Gold Extends Gains; Euro and Yen Strengthen

- Trade tensions have driven a flight to safety, boosting demand for government and investment-grade bonds and pushing yields lower, with prices rebounding. In contrast, sentiment toward high-yield debt remains cautious amid signs of global economic slowdown.
- The IEA's latest report projects a potential oil surplus of up to 4 million barrels per day in 2026—well above previous estimates—due to higher OPEC+ output and weak demand, triggering a sharp drop in oil prices. Meanwhile, renewed U.S.–China trade uncertainty and the Fed's Beige Book indicating softer growth have fueled expectations for an October rate cut, supporting gold's continued rally.
- The U.S. dollar remains weak amid the prolonged government shutdown and trade tensions. The euro gained support after France's prime minister eased pension reform tensions and survived a no-confidence vote. In Japan, the breakup of the LDP–Komeito coalition has added political uncertainty, but expectations of policy continuity under Takai have strengthened the yen.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



Source: Bloomberg, 17 Oct 2025

What's Trending

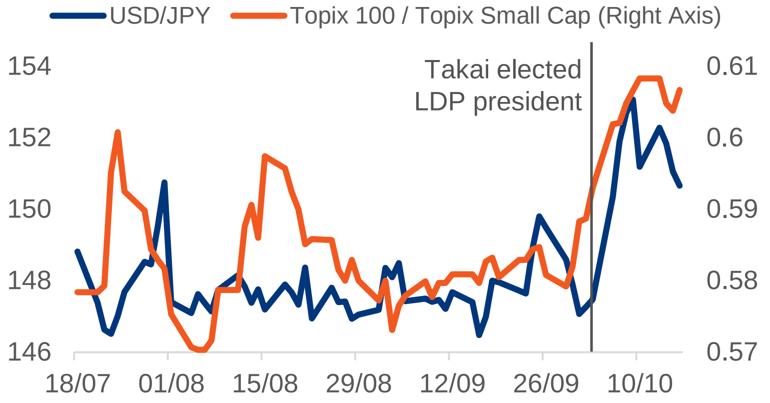
End of LDP–Komeito Alliance Clouds Takai's Stimulus Agenda

- Japan's ruling coalition between the LDP and Komeito has ended after 26 years. Markets had anticipated that Sanae Takai would pursue aggressive monetary easing, reversing Shigeru Ishiba's hawkish stance and boosting equities. However, renewed U.S.–China trade tensions and domestic political uncertainty erased part of the gains, unwinding the "Takai trade."
- The coalition had already lost its lower-house majority in last October's election, and the LDP again failed to secure a majority in the upper house this August. The breakup weakens the LDP's influence, and uncertainty remains over whether Takai can assume the premiership. Her ability to implement large-scale easing measures now faces greater obstacles. Although opposition parties generally favor accommodative policy, consensus-building across parties will be required, making a neutral stance more realistic.
- Since Takai's election as LDP leader on Oct 4, expectations of monetary easing drove large-cap stocks higher and weakened the yen, with currency volatility remaining below that of equities. Given the political uncertainty surrounding her ultra-loose stance, the recent outperformance of large caps over small caps may not persist. We continue to prefer small- and mid-cap names with higher domestic exposure.

Most Parties Favor Easing; Takai's Ultra-Dovish Shift Faces Obstacles

Party	Monetary Policy Stance
Ruling Coalition (Dissolved)	
LDP	Maintain easing, avoid abrupt tightening; Takai more dovish than Ishiba
Komeito	Support gradual normalization and BOJ independence; avoid market shocks
Opposition Parties	
Constitutional Democratic Party	Moderate easing, maintain low rates, gradually exit ultra-easy policy
Japan Innovation Party	Support gradual exit from ultra-easy stance
Democratic Party for the People	Prefer mild easing, maintain low rates
Conservative Party	Maintain low rates and accommodative policy
National Democratic Party	Support fiscal stimulus through easing
Communist Party	Strongly pro-easing; advocate lower rates and BOJ bond purchases
Sanseito	Strongly oppose easing
Reiwa Shinsengumi	Ultra-easing; support zero or negative rates

"Takai Trade" Faces Challenges



Cross-Party Consensus Needed; Extreme Dovish Policies Unrealistic

Party	House of Representatives (Majority: 233)	House of Councilors (Majority: 125)
Ruling Coalition (Dissolved)		
Liberal Democratic Party	196	101
Komeito	24	21
Opposition		
Constitutional Democratic Party	148	42
Japan Innovation Party	35	19
Democratic Party for the People	27	25
Others	35	40

Source: Bloomberg, Japan House of Representatives & House of Councilors

In Focus

European Banks' Stronger Balance Sheets Drive Outperformance

- European banks have strengthened their fundamentals through several internal optimizations:

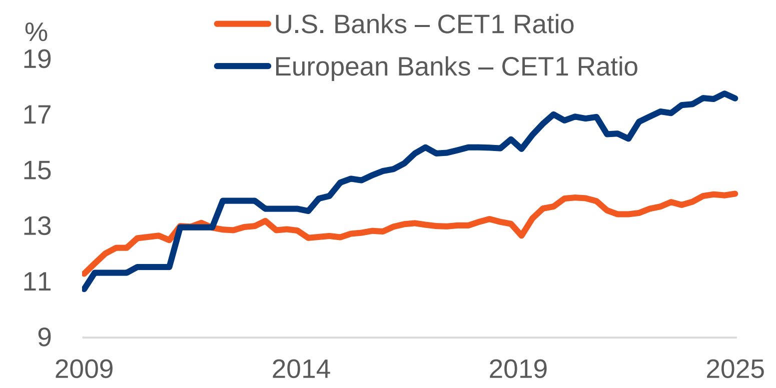
(1) Cost control – Major banks have reduced operating expenses via digital transformation and branch closures, allowing revenue growth to outpace costs and lowering the cost-to-income ratio.

(2) Revenue diversification – Beyond net interest income, banks have expanded fee-based businesses such as wealth and asset management, providing stable revenue streams when markets perform well and investor demand rises.

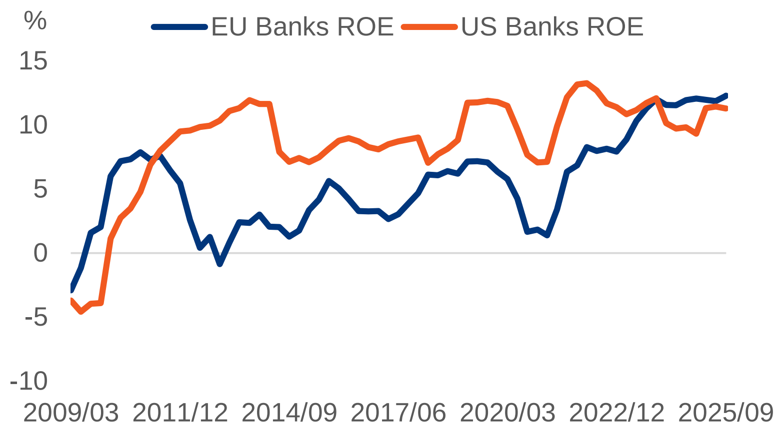
(3) Higher capital adequacy – The European banking system now holds stronger capital buffers than U.S. peers, with the gap widening further. This not only enhances resilience to economic shocks but also supports dividend payouts and share buybacks, boosting shareholder returns.

- Although ROE in the sector was once constrained by the ECB's negative-rate policy, normalization of policy rates and these strategic adjustments have significantly improved profitability. European banks' ROE has now surpassed that of U.S. banks, supporting continued outperformance of European bank stocks, which remain attractive on a valuation basis.

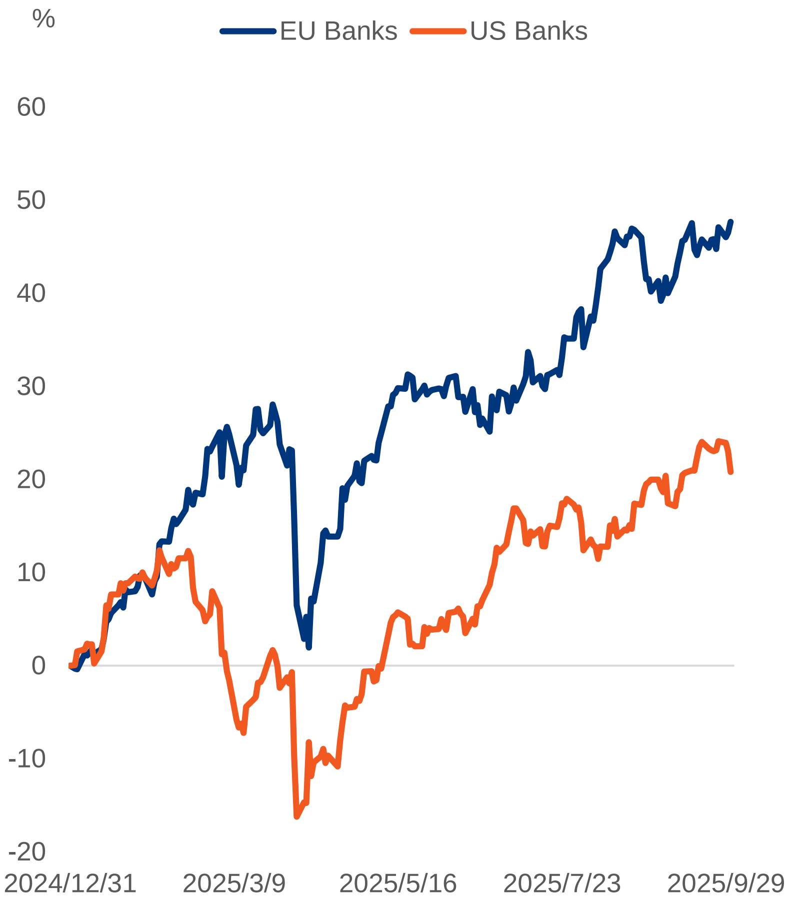
Capital Adequacy Gap Between European and U.S. Banks Continues to Widen



European Banks' ROE Has Surpassed U.S. Peers



European Bank Stocks Outperform U.S. Bank Stocks

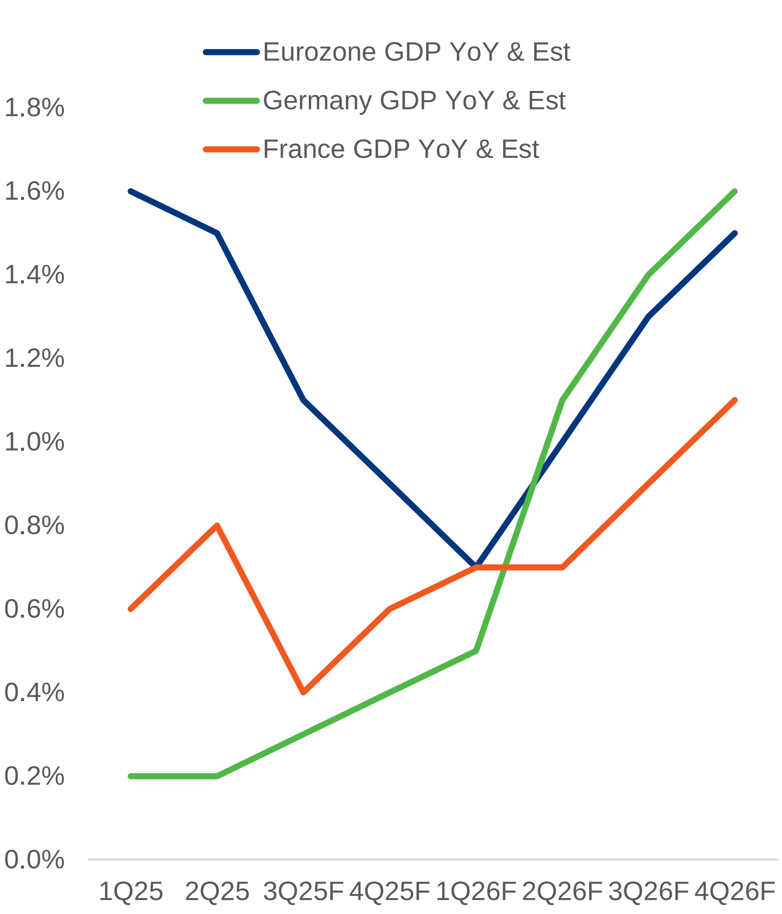


Source: Bloomberg

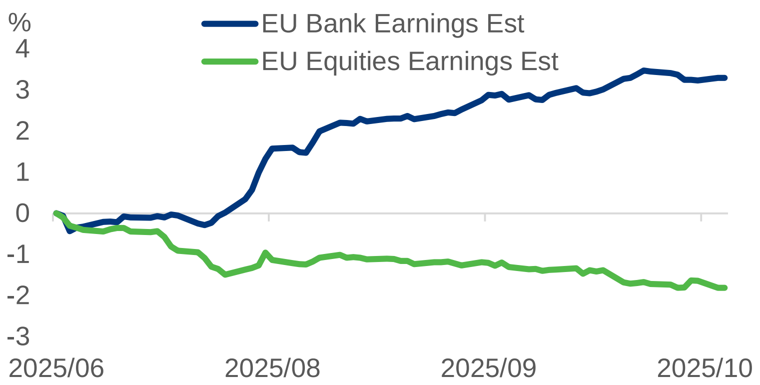
Economic Recovery and Low Policy Rates Support European Bank Earnings and Valuations

- Market expectations for Europe's economic outlook have improved notably, reflecting reduced uncertainty after tariff negotiations and healthier fiscal conditions across major economies. Germany is set to lead the shift from fiscal tightening to expansion, providing strong support for future growth momentum.
- While the ECB's rate-cut cycle is nearing its end, the central bank projects inflation to remain near its 2% target through 2025–2027. This suggests limited pressure for rate hikes even after cuts pause. In this environment, short-term rates are likely to stay low for an extended period, while stronger growth should gradually lift long-term yields. A steeper yield curve would in turn bolster banking sector profitability.
- With structural balance sheet improvements internally and a favorable rate environment externally, European bank stocks are outperforming the broader European market in both earnings and price performance. Should equities correct, European banks may serve as a long-term cyclical play benefiting from continued economic recovery.

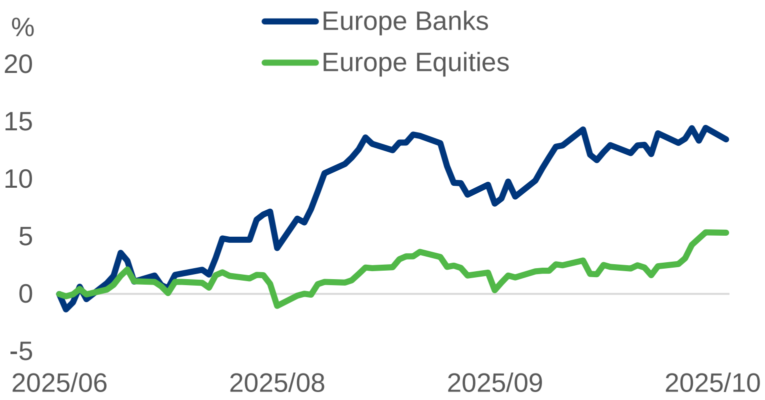
European Economic Outlook Shows Signs of Recovery



European Bank Earnings Momentum Outpaces Broader Market



European Bank Stocks Continue to Outperform European Equities



Source: Bloomberg

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	◆ China announced expanded rare earth export controls, prompting Trump to retaliate with 100% tariffs on Chinese imports. Meanwhile, the prolonged U.S. government shutdown reflects continued partisan gridlock, adding to recurring market uncertainty. We suggest maintaining balanced equity exposure across sectors and keeping portfolio flexibility to navigate volatility. Investors may consider adding high-quality stocks, while long-term investors can accumulate AI-related and tech names on pullbacks. ◆ Eurozone fundamentals are improving, and valuations remain more attractive than U.S. equities, with the U.K. and Germany less exposed to trade disruptions. In Japan, uncertainties remain over Sanae Takai's path to the premiership, but her potential policy impact is viewed as neutral. Supported by steady wage growth and finalized tariff agreements, we remain positive on domestic-demand and bank stocks.	**Strategy**High-quality equities for volatility resilience; accumulate AI and tech stocks on dips **Regions**: European equities, U.K. equities, Japanese domestic-demand and bank stocks
Bonds	◆ The Fed's Beige Book indicated signs of economic weakness, while Trump's threat to cut federal staff during the government shutdown added uncertainty to the growth outlook and strengthened expectations for an October rate cut. With the yield curve still steep, weakening labor data, and persistent inflation, investors are advised to focus on locking in yields through Treasuries and investment-grade bonds. A-rated or higher issuers are preferred, with attractive risk-adjusted spreads seen in the financial, industrial, energy, utility, and communication sectors. ◆ The U.S. dollar remains weak, supporting diversification into non-USD investment-grade bonds denominated in currencies such as the euro and Singapore dollar.	**Duration:** Lock in yields with high-rated bonds in financials, industrials, energy, utilities, and communications **Sector:** Financials, industrials, energy, utilities, communications
Forex	◆ The U.S. labor market continues to cool, prompting the Fed to begin its rate-cut cycle in September. The U.S. dollar index has weakened and is expected to remain soft over the medium term. ◆ Non-USD currencies, including the euro, yen, and pound, are likely to trade with an upward bias.	**USD:** Weak, consolidating **EUR, JPY, GBP:** Gradual upside with swings
Commodity	◆ The U.S. dollar is expected to weaken over the medium term as rate cuts drive yields lower. Inflation risks, widening fiscal deficits, and continued gold purchases by central banks and institutional investors all support a favorable long-term outlook for gold. Given the recent sharp rally, short-term corrections are possible, offering opportunities to accumulate on pullbacks.	**Gold**: Bullish

Product Spotlight | HK Equities

Telecom Stocks Offer Growth and High Dividend Appeal

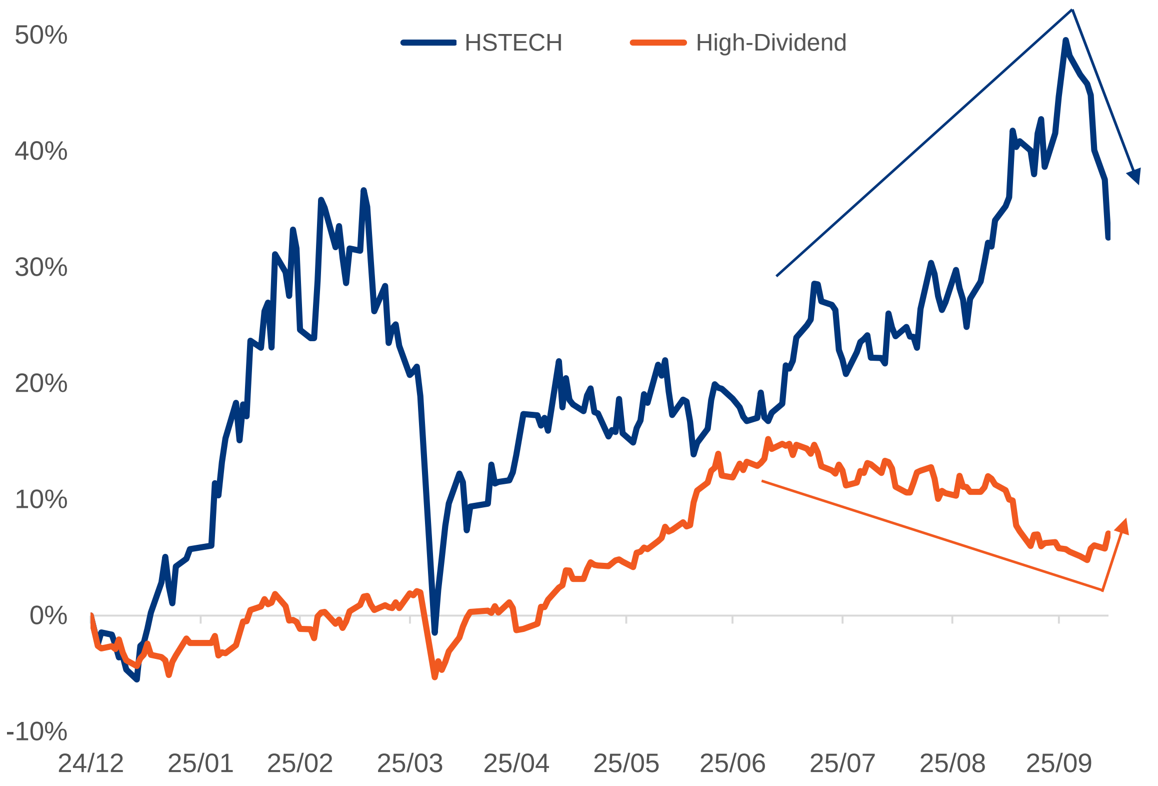
Value Revival Signals a New Re-Rating Cycle

Our early-year stock picks saw only modest drawdowns of just over 20% from their peaks. Since August, value stocks have clearly diverged from tech indices—a sign of sector rotation. This trend is now reversing: tech has weakened while value stocks are rebounding. We expect this rotation to persist for some time, with "catch-up" trades likely to continue through early November.

Chinese Telecoms: Defensive with Growth Potential

Ample liquidity and attractive valuations continue to support a "slow bull" in China and Hong Kong equities. During the current consolidation phase, we see Chinese telecoms as portfolio stabilizers, combining defensive resilience with structural growth. The three major operators are leveraging their dominant telecom base to expand into cloud computing and AI—key national priorities—creating a second growth engine. Meanwhile, the sector's low cyclicality ensures steady cash flows and sustainable, appealing dividend yields.

Performance of High-Dividend Stocks vs. Hang Seng Tech Index (YTD)



Source: Bloomberg, Note: High-dividend basket includes China Mobile, China Unicom, China Telecom, CNOOC, PetroChina, Sinopec, Bank of China, CCB, ICBC, and BoCom

China Telecom (0728)

Closing Price	HK $5.8	Target Price	HK $6.7

Provides telecom services, internet access, and value-added offerings such as cloud computing across its operating regions.

State-Owned Advantage, AI-Driven Growth

China Telecom's key strength lies in its state-owned background, securing a stable base of government and SOE clients. We view AI applications and state-sector digitalization as core growth drivers. Higher utilization of AI data cabinets should directly support mid-single-digit growth in digital services. The company continues to allocate capital toward high-growth areas such as data centers to sustain cloud revenue expansion.

Stable Cash Flow, Attractive Dividend Growth

With low cyclicality in its telecom business, China Telecom generates steady cash flows, providing reliable shareholder returns. Market consensus expects annual dividend growth of 7–8% in the coming years.

Attractive Valuation with Re-Rating Potential

The stock has pulled back from its highs, with a forward P/B near 1.0x, offering meaningful revaluation potential. Given AI's national strategic importance, we expect P/B to rise to around 1.2x, implying a target price of HKD 6.7. Including a 6% dividend yield, the total potential return is estimated at approximately 22%.

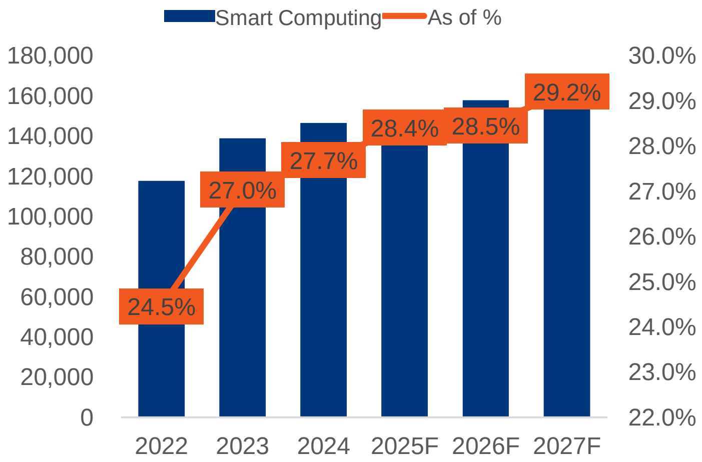
Source: Bloomberg

Financials

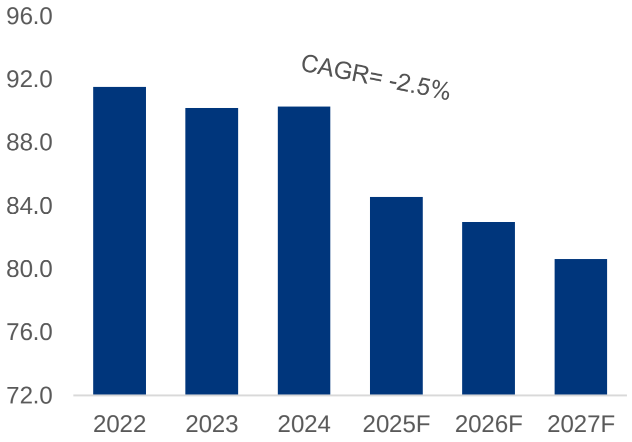
	2022	2023	2024	2025F	2026F
Revenue (CNY Billion)	481.4	513.6	529.4	539.6	554.8
Revenue YoY	9.5	6.7	3.1	1.9	2.8
EPS (CNY)	0.3	0.33	0.36	0.38	0.41
EPS YoY	(3.2)	10.0	9.1	5.6	7.9
ROE(%)	6.4	7.0	7.4	7.6	7.9

PEG

Smart Computing Renvenue %



CapEx (CNY bln)



China Mobile (0941 HK)

Closing Price	HK $85.7	Target Price	HK $98

Provides telecom and information services across 31 provinces in mainland China and Hong Kong.

Key Role in National AI Development

China Mobile is aligning with national AI strategies, announcing two major initiatives at its Global Partner Conference:(1) Doubling total investment to build China's largest intelligent computing infrastructure by 2028.

(2) Forming alliances to co-develop and share data and algorithm resources, accelerating AI adoption across industries. Under the "15th Five-Year Plan," China Mobile is expected to play the roles of *provider, integrator,* and *operator* in AI infrastructure.

Solid Core Business and Strong Shareholder Returns

Its telecom services generate stable cash flow supported by a vast subscriber base, providing strong defensiveness. The company raised its dividend payout ratio to over 75%, offering attractive yields for income-focused investors. With stable fundamentals and a clear shareholder-return policy, China Mobile remains a core holding for defensive portfolios.

High Dividend and AI Growth Potential

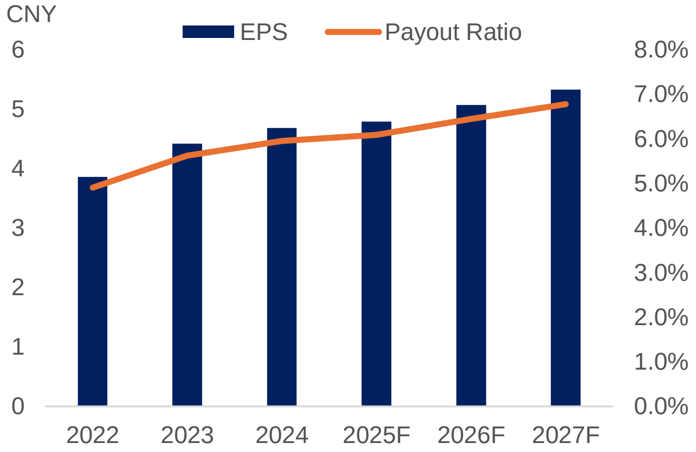
Combining yield stability with AI-driven growth, we reiterate our HKD 98 target price. Including a 6% dividend yield, the total potential return is around 20%.

Financials

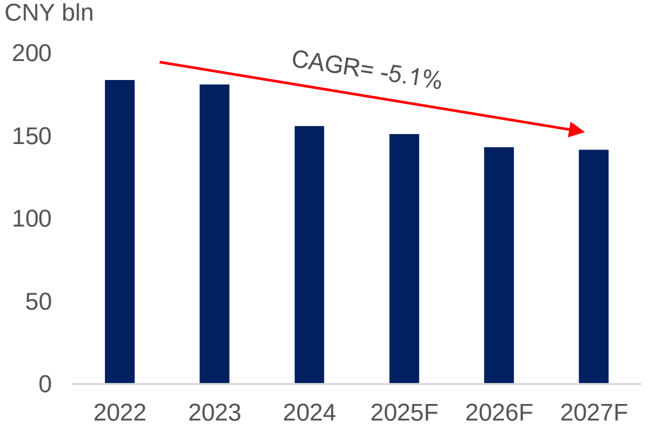
	2022	2023	2024	2025F	2026F
Revenue (100 M CNY)	937	1,009	1,040	1,057	1,083
Revenue YoY	10.5	7.7	3.1	1.6	2.4
EPS (CNY)	5.9	6.2	6.5	6.7	7.1
EPS YoY	6.8	4.8	4.7	4.5	4.6
Cash & Equiv (100M CNY)	10	10	10.1	10.3	10.5

Estimated P/B

EPS & Payout Ratio



CapEx



Source: Bloomberg

US Equities

European Financial Sector Shows Resilience Amid Rate-Cut Cycle

- At the National Association for Business Economics conference, Fed Chair Powell said the Fed is in no rush to cut or hike rates, with future moves depending on data. He noted signs of a cooling labor market, persistent inflation risks, and stretched valuations in certain assets, while suggesting balance sheet reduction may be nearing completion.
- Europe's financial sector remains broadly resilient but faces challenges from slowing growth and tighter regulation. The ECB has kept its policy rate unchanged at 2.15% for the past three months—now back to November 2022 levels. Markets expect limited room for further rate cuts as the ECB prioritizes euro stability. Meanwhile, the EU is advancing reforms such as the Capital Markets Union and a unified European exchange to deepen financial integration, while tightening oversight of shadow banking and private credit to mitigate systemic risks. BBVA's failed bid for Sabadell and Italy's windfall tax on banks highlight political and regulatory constraints. Overall, the European financial system remains sound but must balance lower rates, slower growth, and stricter supervision ahead.

Bloomberg Eurozone Financial Conditions Index

Source: Bloomberg. The index measures financial stress across eurozone FX, bond, and equity markets. Positive = looser; negative = tighter conditions.

Source: Bloomberg

Deutsche Bank (DB)

Closing Price US $33.59 | **Target Price** US $40

A global financial services provider offering commercial, investment, private, and retail banking, as well as asset management and corporate advisory services.

AI-Driven Infrastructure Boom to Boost Financing Activity

Europe aims to double or triple data center capacity by 2030, supported by major investments from Amazon, Microsoft, and Google. This will fuel project financing, real estate, and advisory demand. Deutsche Bank's strengths in fixed income, FX, and asset management position it well to capture rising energy and infrastructure financing opportunities. The ECB's 2.15% rate environment has revived trading and market sentiment, supporting growth across its four core divisions.

Defense Spending to Drive Corporate and Capital Market Growth

EU defense spending is projected to reach a record EUR 381B in 2025, alongside EUR 150B in SAFE loans and NATO's 5%-of-GDP pledge, boosting capital needs in defense and cybersecurity. As Europe's largest investment bank, Deutsche Bank is well placed to benefit from increased sovereign and corporate issuance, underwriting, and M&A activity amid stronger fiscal and industrial momentum.

Strong 1H FY25 Results

Total revenue rose 6% YoY to EUR 16.3B, with EUR 41B in net inflows to private banking and asset management. Net profit climbed to EUR 3.7B from EUR 1.5B a year earlier, with double-digit profit growth across all divisions. Diluted EPS jumped to EUR 1.46 (vs. EUR 0.42 YoY). For FY25, the bank targets EUR 32B in revenue, RoTE above 10%, and a cost/income ratio below 65%.

Valuation Consensus

Bloomberg 12M average target price: USD 35.11 (high: USD 40.85; low: USD 11.95).

Source: Bloomberg

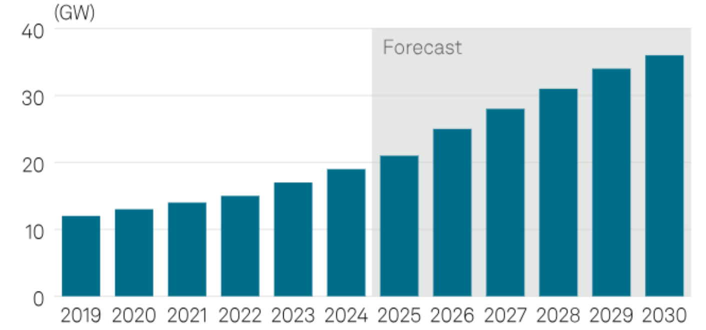
1-Year Price

Financials

	2022	2023	2024	2025F	2026F
Revenue Growth(%)	5.8	5.5	4.6	-3.8	2.5
EBITDA(%)	20.0	22.0	24.0	34.2	34.8
EPS (USD)	2.53	2.39	2.20	2.91	3.26
Net Profit Margin(%)	62	-5.7	-8.1	32.4	12.0

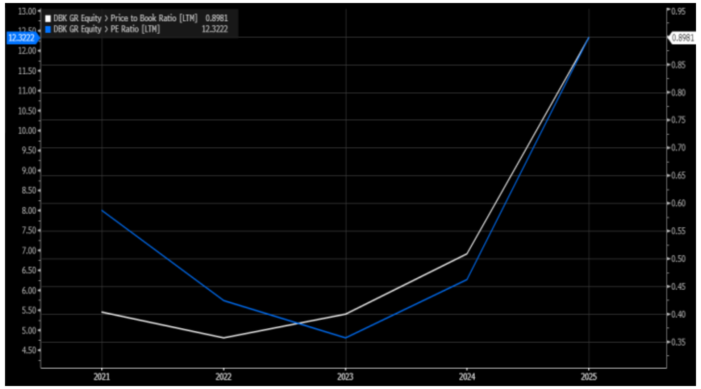
Source: Bloomberg; 2025/26F are market estimates

Europe Data Center Power Consumption



Analysis includes EU27, EFTA and UK. Shows net utilized uninterruptible power supply to datacenters, including cooling demand.

P/E & P/B



UBS Group (UBS)

Closing Price US $38.49	Target Price US $42

UBS provides financial services to private, corporate, and institutional clients worldwide, offering investment banking, retail and corporate banking, wealth management, and asset management, along with securities and fund administration services.

Positioned for Structural Growth in Digital and Energy Infrastructure

The EU's push to expand data centers and power grids—particularly in Northern and Southern Europe—is driving cross-border investment opportunities. UBS's wealth management platform recorded USD 54.8B in net inflows in 1H25, supported by institutional and private clients seeking exposure to Europe's accelerating AI, infrastructure, and renewable energy transitions.

Defense and Infrastructure Financing to Strengthen Deal Pipeline

With NATO's new commitment pushing European defense spending above EUR 630B annually, UBS's global markets and advisory units are well positioned to benefit from rising capital formation and financing demand. Growth in European M&A, structured finance, and sovereign issuance should help offset margin pressure from lower net interest income.

Expanding Middle East Wealth Management Footprint

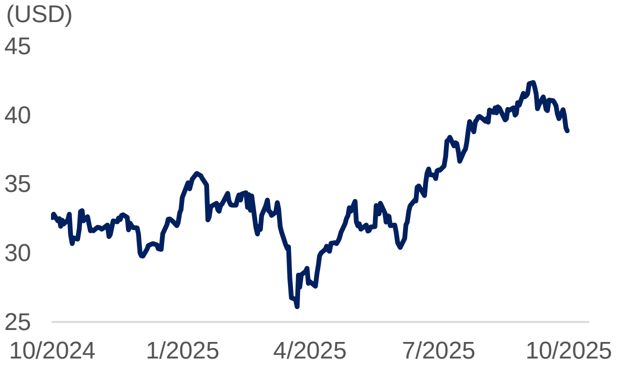
UBS has enhanced its regional presence by opening a new advisory office in Abu Dhabi Global Market, complementing its Dubai operations. The branch will provide onshore advisory while booking assets in Switzerland, capturing opportunities from the region's USD 5.7T in personal wealth growth potential.

2Q25 Results Show YoY Improvement

2Q25 revenue reached USD 12.11B, up 2% YoY, while net profit rose 111% to USD 2.40B. CET1 ratio stood at 13.5%. UBS remains on track to complete its Swiss booking-center migration by 1Q26 and achieve USD 13B in annualized cost savings by end-2026. For 3Q, management expects global wealth management and Swiss NII to stay broadly stable, translating into low single-digit USD growth QoQ.

Source: Bloomberg

1-Year Price

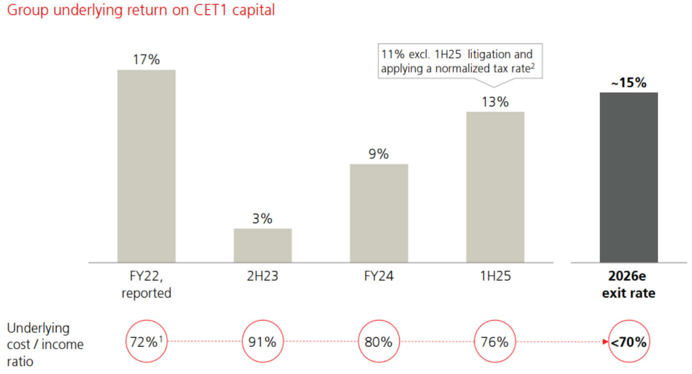


Financials

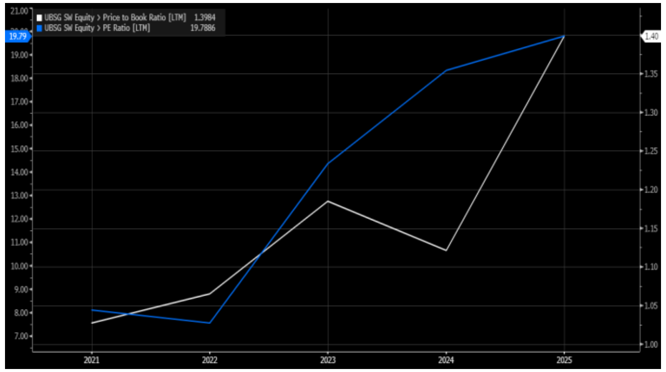
	2023	2024	2025	2026F	2027F
Revenue Growth(%)	-5.0	21.5	18.8	-5.8	3.1
EBITDA(%)	25.8	6.3	14.8	15.0	21.7
EPS (USD)	2.13	1.99	1.70	2.23	3.08
Net Profit Margin(%)	-6.6	-6.9	-14.2	30.5	38.5

Source: Bloomberg; 2025/26F are market estimates

2026FY Guidance



P/E & P/B



KGI

TW Equities

Electronics Lead TAIEX to Record Highs; Upward Earnings Revisions Reinforce Bullish Outlook

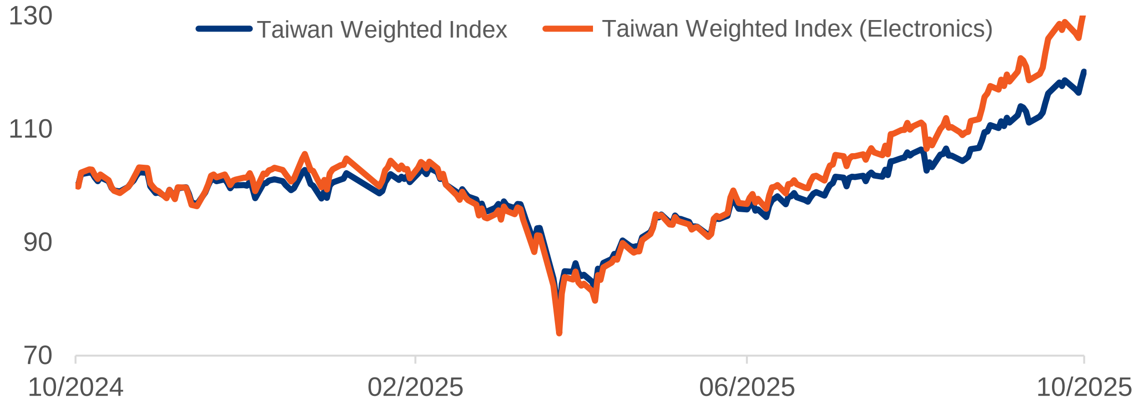
Electronics Drive Market Gains, TAIEX Hits New Record

Taiwan equities surged last week with rising prices and volumes, breaking to fresh record highs. The KD indicator formed a golden cross, moving averages turned bullish, and trading volume exceeded the 20-day average—confirming strong momentum. Near-term support stands at the gap low of 27,275. Market leadership remains concentrated in electronics, with strength in memory, IC substrates, testing and packaging, and power equipment. Despite continued record highs, volatility has increased, and stock performance is diverging based on September revenue results. We recommend focusing on companies showing both strong revenue growth and technical breakouts above resistance levels.

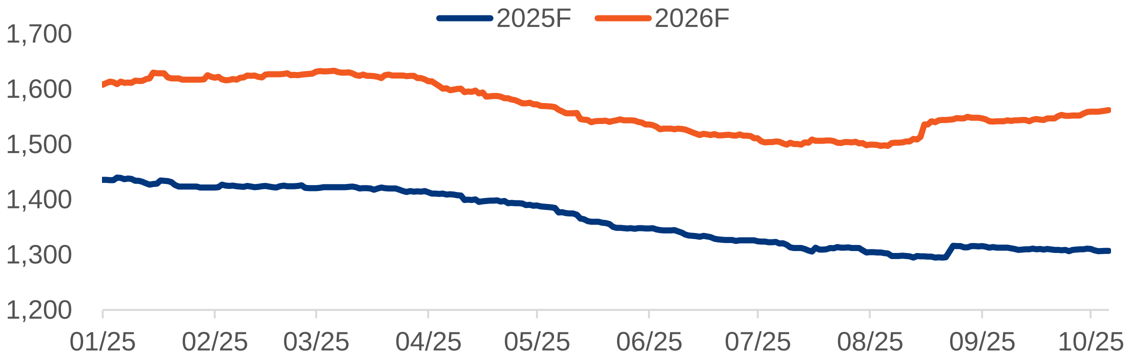
Earnings Revisions and Growth Acceleration Strengthen Market Fundamentals

After a brief earnings lull in April due to reciprocal tariffs and NT dollar appreciation, Taiwan's market outlook is turning upward again. AI-related companies now contribute over 60% of total market earnings, and their upward revisions are driving overall earnings growth. Supported by AI momentum, Taiwan's earnings outlook for 2025 has been revised up from +10% to +11%, and 2026 from +11% to +17%, according to our estimates. This acceleration highlights the robust upcycle in Taiwan's tech sector, providing a strong fundamental base for continued market strength.

Taiwan Weighted Index and Taiwan Electronics Sector Trends & Est. P/E



August Export Orders



Source: Bloomberg

KGI

Wistron (3231 TT)

Provides ODM services mainly for notebooks, desktops, tablets, servers, and AI-related hardware.

Key Features

3Q25 Revenue Up Despite Lower GB Server Shipments

3Q25 revenue grew mildly QoQ as Dell's GB200/300 AI servers transitioned models. Subsidiary Wiwynn saw strong AWS ASIC AI server demand, driving overall growth.

Optimistic 2026 Outlook

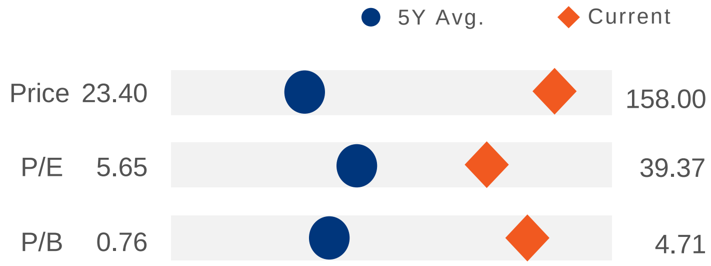
We expect GB300 cabinet shipments to rise to 11–12k in 2026 (from 5–6k this year), with Wistron as the sole L10 supplier. Demand from xAI and CoreWeave should support momentum. Including new Oracle L10 orders (assembled by Wiwynn), 2026 L10 revenue is projected to grow 130–150% YoY.

Financials

	2022	2023	2024	2025F	2026F
EPS (NTD)	4.01	4.08	6.11	8.27	11.59
EPS Growth (%)	6.6	1.7	49.8	35.3	40.1
P/E Ratio	37.5	36.9	24.6	18.2	13.0
ROE (%)	12.8	11.4	14.7	15.7	18.2

Source: Company data, estimates of KGI analyst

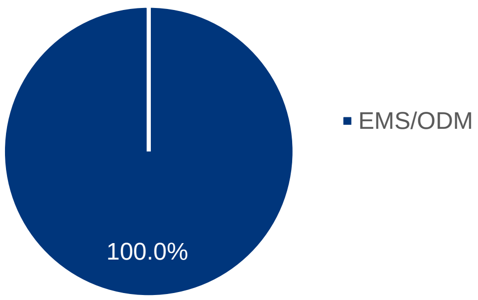
Valuations

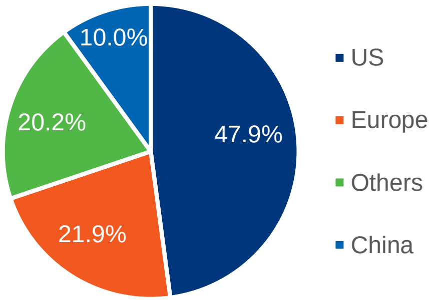


1-Year Price

As of 16 Oct 2025	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-7.31	18.22	18.22	39.92	34.13	27.40

Revenue Sources and Regions





Source: Bloomberg

Largan Precision (3008 TT)

Designs and manufactures optical lenses used in digital cameras, scanners, and projectors.

Key Features

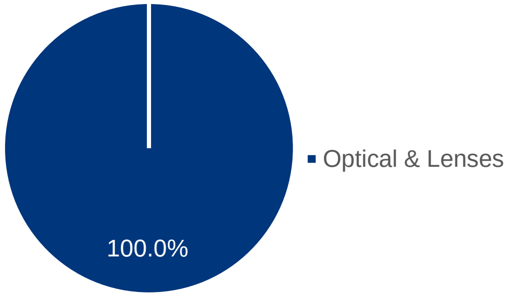
October Shipments Steady; Capacity Fully Loaded in 4Q25

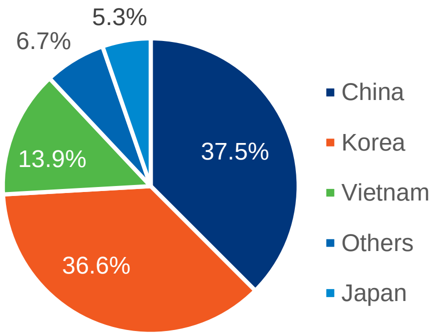
Management expects 2H25 shipments to stay in line with 2H24, with October pull-in demand similar to September. New product yields are improving, while complex processes are keeping production lines fully utilized in 4Q25.

2026 Upgrade Driven by Variable Aperture Lenses

AI glasses and other new products are under joint development with clients, but 2026 lens upgrades will mainly come from variable aperture designs. Largan handles only lens delivery, so supply risk is limited, though early mass production yields warrant monitoring. We revise revenue forecasts to NT$60.8B for 2025 and NT$62.7B for 2026, with EPS estimates of NT$158 and NT$186, respectively.

Revenue Sources and Regions





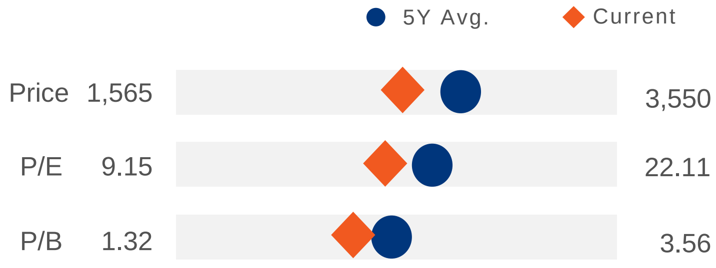
Source: Bloomberg

Financials

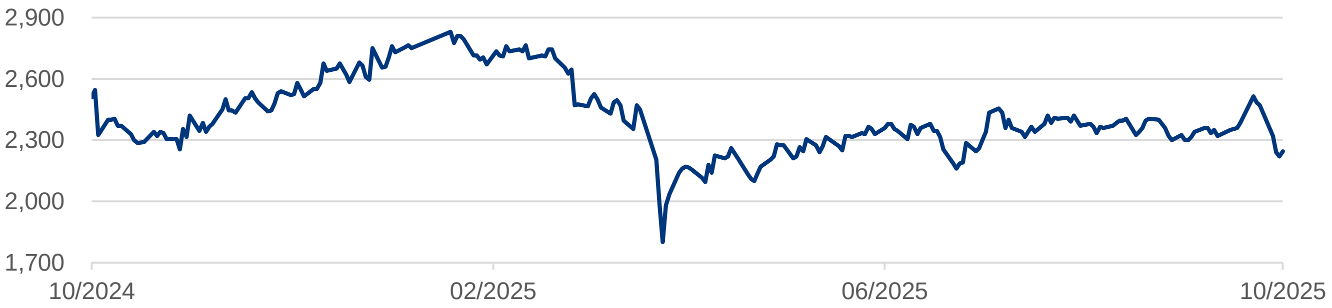
	2022	2023	2024	2025F	2026F
EPS (NTD)	169.52	134.13	194.17	157.66	185.95
EPS Growth (%)	21.7	-20.9	44.8	-18.8	17.9
P/E Ratio	14.6	18.4	12.7	15.7	13.3
ROE (%)	15.2	11.2	14.8	11.0	12.0

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 16 Oct 2025	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-9.66	-2.39	-2.39	3.46	-16.07	-10.56

Mutual Funds/ ETFs

Rising U.S.–China Trade Tensions Favor Diversification into European & Japanese Markets

► BlackRock Global Funds – Euro-Markets Fund

- nvests primarily in equities of companies domiciled in EU member states within the Economic and Monetary Union, aiming to maximize total returns.
- With over 25 years of history, the fund focuses on large-cap leaders across Germany, France, and the Netherlands.
- Holds 43 stocks, with the top 10 accounting for over 40% of the portfolio .

► DSBI Japan Equity Small Cap Absolute Value

- Adopts an active, value-biased strategy targeting undervalued Japanese small and micro-cap companies with sustainable growth potential. From a universe of ~2,400 stocks, the fund selects around 300 holdings for long-term total return.
- One of the few funds dedicated to small-cap investments in Japan.
- Managed by Tataro Nigauri, a veteran portfolio manager with nearly 30 years of experience in small-cap research and over 20 years in portfolio management, currently overseeing USD 1.2B in AUM.
- Top-quartile Morningstar performance in both 1-year and 3-year returns, with a 5-star rating.

Product	BlackRock Global Funds – Euro-Markets Fund		DSBI Japan Equity Small Cap Absolute Value	
Features	■ With over 25 years of history, the fund focuses on large-cap leaders across Germany, France, and the Netherlands.		■ Adopts an active, value-biased strategy targeting undervalued Japanese small and micro-cap companies with sustainable growth potential.	
AUM	EUR 1.565 bn		USD 162.05 mn	
Currency	EUR		JPY	
Holdings	43		301	
3M/YTD Return	1.52% / 12.61%		6.19% / 20.44%	
Sectors (%)	Industrials Financials Tech Discretionary Healthcare	34.63 26.88 14.58 6.36 6.31	Industrials Discretionary Tech Materials Healthcare	33.43 23.53 12.83 9.73 6.27
Regions (%)	Germany France Netherlands Italy Belgium	34.77 25.38 10.13 7.60 6.35	Japan	100
Holdings (%)	SAP UniCredit Safran Siemens Schneider Electric	5.96 5.16 4.96 4.59 4.54	KONOIKE Transport Mikuni Corp Aisan Industry Inada Industries Belle Platform	2.81 2.79 2.57 2.32 2.27

Source: Bloomberg

BlackRock Global Funds – Euro-Markets Fund

Profile

Invests at least 70% of total assets in equities of companies domiciled in EU member states participating in the Economic and Monetary Union (EMU).

Focused on the European Market

Targets leading companies across Germany, France, the Netherlands, Italy, and Belgium, with the top three markets accounting for about 70% of the portfolio.

Large-Cap Leaders in Mature Economies

With over 25 years of history, the fund invests in established blue-chip names and holds around 43 stocks, including SAP, UniCredit, Safran, Schneider Electric, and Siemens, with individual holdings capped below 10%.

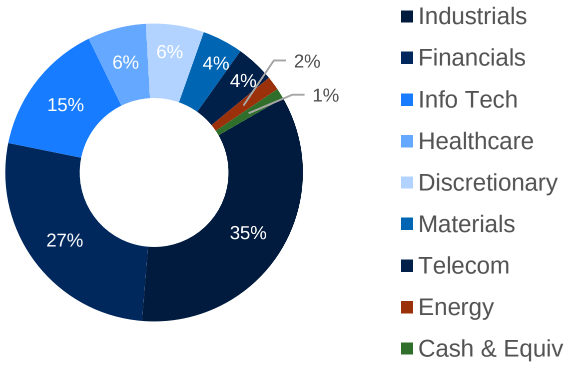
Multiple Currency Options

Available in USD, EUR, GBP, HKD, SGD, and CHF share classes.

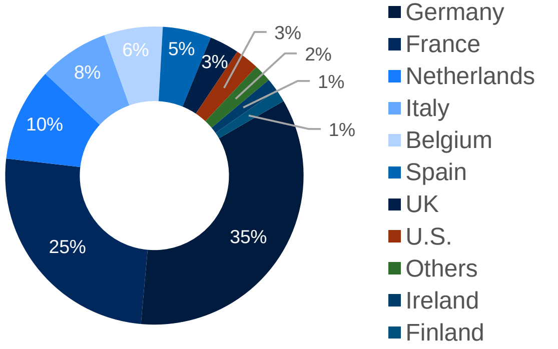
Inception Date	1999/1/4	**AUM**	EUR 1.565 bln
Morningstar Category	Europe Large Cap Equities	**Fund Category**	Equities
Morningstar Rating	★★★	**3Y Stand. Dev. (Ann.)**	20.28%

Source: BlackRock

Sectors



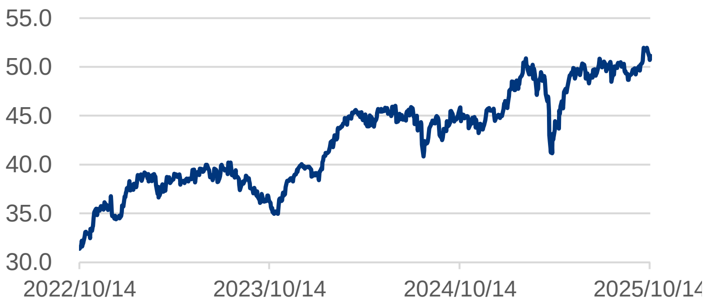
Regions



Top-5 Holdings (%)

SAP	5.96
UniCredit	5.16
Safran	4.96
Siemens	4.59
Schneider Electric	4.54

3Y NAV



As of 14 Oct 2025	1M	3M	YTD	1Y	3Y	5Y
USD Cumulative Return (%)	2.09	1.52	12.61	10.69	39.72	61.63
Quartile Ranking Within Category	3	4	4	3	2	3

DSBI Japan Equity Small Cap Absolute Value

Profile

Adopts an active, value-oriented strategy targeting undervalued Japanese small and micro-cap companies with sustainable growth potential, aiming for long-term total return.

Disciplined Value Investing

Selects around 300 stocks from a universe of ~2,400, focusing on overlooked small caps with solid fundamentals and upside potential, offering attractive long-term return opportunities.

Unlocking Japan's Small-Cap Growth

Targets the bottom 15% of listed companies by market cap—often under-researched but with strong structural growth potential.

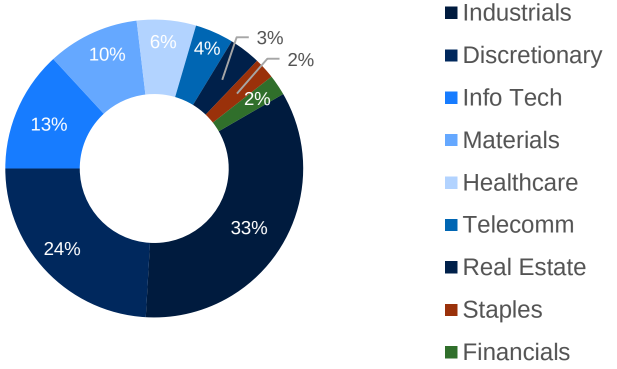
Experienced Management

Led by Tataro Nigauri, a veteran with nearly 30 years of small-cap research and over 20 years of portfolio management experience. A pioneer in Japan's small-cap investing space, the fund holds a 5-star Morningstar rating.

Inception Date	2021/4/20	**AUM**	USD 162.05 mln
Morningstar Category	Japan Mid-Small Cap	**Fund Category**	Equities
Morningstar Rating	★★★★★	**3Y Stand. Dev. (Ann.)**	20.73%

Source: DS Asset Management

Ratings



Top-5 Holdings (%)

KONOIKE Transport	2.81
Mikuni Corp	2.79
Aisan Industry	2.57
Inada Industries	2.32
Belle Platform	2.27

3Y NAV

As of 14 Oct 2025	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**
USD Cumulative Return (%)	-3.63	6.19	20.44	26.22	50.01	99.13
Quartile Ranking Within Category	2	2	2	1	1	1

Mutual Funds/ ETFs

Balance Sheet Strength and Steeper Yield Curve Support European Bank Stocks

► iShares MSCI Europe Financials ETF (EUFN.US)

- Tracks the performance of the MSCI Europe Financials Index, focusing on European financial sectors including banking, insurance, and financial services.
- Key holdings include major institutions such as HSBC, Allianz, and UBS.

► iShares STOXX Europe 600 UCITS ETF(SX7PEX.GR)

- Replicates the STOXX® Europe 600 Banks Index, investing solely in European banks across commercial and investment segments.
- Top holdings include HSBC, BNP Paribas, and Barclays.

Product	iShares MSCI Europe Financials ETF (EUFN.US)	iShares STOXX Europe 600 UCITS ETF(SX7PEX.GR)
Features	■ Tracks the performance of the MSCI Europe Financials Index, focusing on European financial sectors including banking, insurance, and financial services.	■ Replicates the STOXX® Europe 600 Banks Index, investing solely in European banks across commercial and investment segments.
AUM	USD 4.41 bln	EUR 2.912 bln
Tracking Index	MSCI Europe Financials Index	STOXX® Europe 600 Banks
Exchange	USD	EUR
Currency	NASDAQ	Xetra
Holdings	84	53
Expense Ratio	0.48%	0.47%
3M/YTD Return	7.32% / 48.40%	11.29% / 51.08%
Sectors (%)	Bank 52.87 Insurance 27.01 Financial Services 19.66 Cash and/or Equiv. 0.46	Bank 99.29 Cash and/or Equiv. 0.71
Holdings (%)	HSBC Holdings 7.63 Allianz Group 5.44 Banco Santander 4.86 UBS Group 4.12 BBVA 3.50	HSBC Holdings 12.74 Banco Santander 8.16 UniCredit 6.31 BBVA 5.88 BNP Paribas 5.30

Source: Bloomberg

iShares MSCI Europe Financials ETF (EUFN.US)

Profile

Tracks the STOXX Europe 600 Banks Index, aiming to replicate its performance.

Pure Exposure to European Banks

Provides focused exposure to leading European banks—ideal for investors with a clear sector view seeking targeted industry positioning compared with broader financial ETFs.

Established, Large-Scale ETF

Launched in 2001, it is one of the largest ETFs tracking European bank performance, with AUM of around EUR 2.9B and strong liquidity. The portfolio holds about 53 stocks, including HSBC, Santander, UniCredit, BBVA, and BNP Paribas, with the top 10 holdings representing roughly 59% of assets.

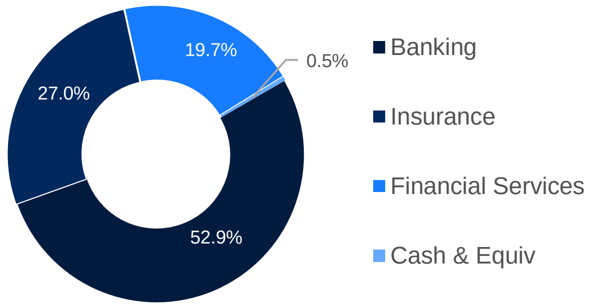
Well-Developed and Diversified Capital Markets

Europe's financial system benefits from mature market infrastructure, strong regulation, and leadership in green and digital transformation. Its cross-border integration and innovation continue to enhance the long-term investment appeal of the European banking sector.

Inception Date	2010/1/20	**AUM**	USD 4.41 bln
ETF Category	Equities	**Holdings**	84
Expense Ratio	0.48%	**3Y Stand. Dev. (Ann.)**	18.19%

Source: Bloomberg

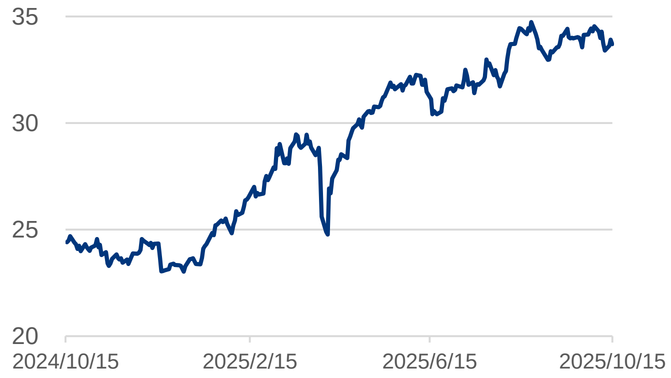
Sectors



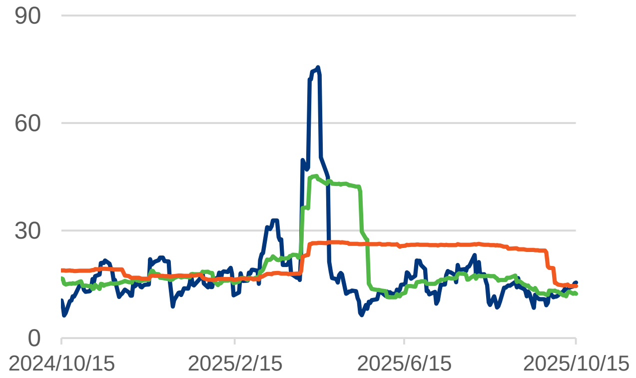
Top-5 Holdings (%)

HSBC Holdings	7.63
Allianz Group	5.44
Banco Santander	4.86
UBS Group	4.12
BBVA	3.50

1Y Price



1Y Volatility



As of 15 Oct 2025	1M	3M	YTD	1Y	3Y	5Y
Return(%)	-2.12	7.32	48.40	44.97	175.73	205.83

iShares STOXX Europe 600 UCITS ETF (SX7PEX.GR)

Profile

Tracks the MSCI Europe Financials Index, aiming to mirror the index's performance.

Focused Exposure to European Financials

Provides concentrated access to Europe's financial sector—ideal for investors seeking targeted exposure to banks, insurers, asset managers, and fintech firms across the region.

Attractive Valuations and Diversification

European financial institutions operate across multiple countries and industries, enhancing risk diversification and resilience. Sector valuations remain below U.S. peers, making European financial assets relatively attractive in global portfolios.

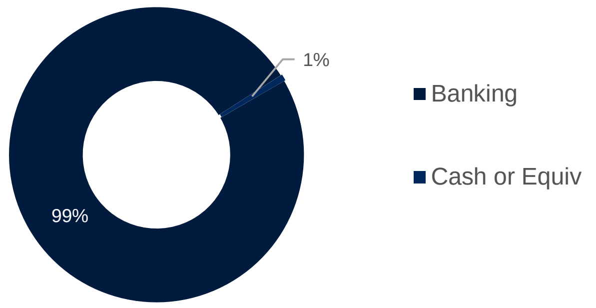
Benefiting from ECB Easing

With U.S. policy uncertainty rising, Europe's easing inflation and lower policy rates are reducing funding costs for corporates—supporting renewed investor interest in European financials.

Inception Date	2001/4/25	**AUM**	EUR 2.912 bln
ETF Category	Equities	**Holdings**	53
Expense Ratio	0.47%	**3Y Stand. Dev. (Ann.)**	19.14%

Source: Bloomberg

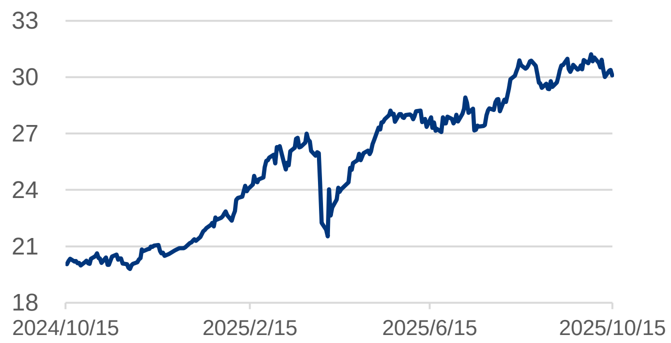
Sectors



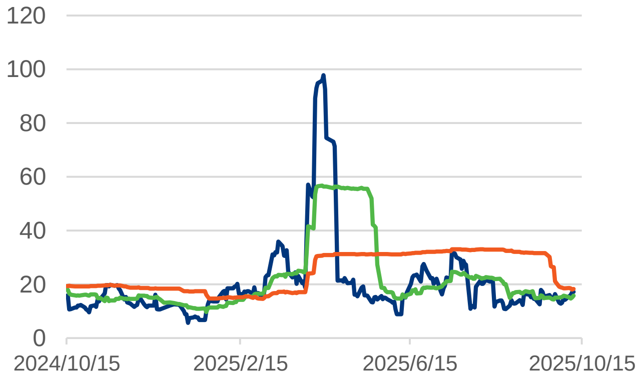
Top-5 Holdings (%)

HSBC Holdings	12.74
Banco Santander	8.16
UniCredit	6.31
BBVA	5.88
BNP Paribas	5.30

1Y Price



1Y Volatility



As of 15 Oct 2025	1M	3M	YTD	1Y	3Y	5Y
Return(%)	-2.43	11.29	51.08	58.80	196.78	366.53

Bonds

Renewed U.S.–China Tariff Tensions May Reignite Inflation; Focus on Mid-Term Defensive Corporate Bonds

► GS 4.369 10/21/31 (Goldman Sachs Group, Inc) (USD)

- Goldman Sachs is one of the world’s leading trading and investment banking institutions, with strong positions in equities, FICC, M&A advisory, and equity underwriting. Around 40% of its revenue comes from outside the Americas, benefiting from broad product and geographic diversification.
- Since 2020, the group has made significant progress in expanding its Global Banking & Markets and Asset & Wealth Management divisions, as well as growing its deposit base.
- In 2Q25, results beat expectations with EPS of USD 10.91 (vs. consensus USD 9.77) and revenue up 15% YoY—driven by a 26% rise in investment banking fees, 23% growth in trading, and a 2% gain in platform solutions.
- Goldman maintains strong capital and liquidity. Its CET1 ratio stood at 14.5% in 2Q25, among the highest of U.S. G-SIBs, while the liquidity coverage ratio remained stable at 128%.

Product	GS 4.369 10/21/31 (Goldman Sachs Group, Inc) (USD)
ISIN	US38141GD355
Features	Since 2020, the group has made significant progress in expanding its Global Banking & Markets and Asset & Wealth Management divisions, as well as growing its deposit base.
Maturity Date	2031/10/21
Next Call Date	2030/10/21
Coupon (%)	Float/4.369/Semi-annual
Currency	USD
Years to Maturity	6.01
Credit Rating (Moody’s/Fitch/S&P)	-/A/BBB+
Seniority	Senior Unsecured
YTM/YTC (%)	4.42/4.37

Source: Bloomberg

GS 4.369 10/21/31 (Goldman Sachs Group, Inc) (USD)

Profile

Goldman Sachs is a leading global investment bank with strong franchises in equities, FICC, M&A advisory, and equity underwriting. About 40% of its revenue is generated outside the Americas, supported by broad product and geographic diversification.

- Since 2020, the firm has made solid progress expanding its Global Banking & Markets and Asset & Wealth Management divisions while strengthening its deposit base.
- 2Q25 results exceeded expectations, with EPS at USD 10.91 (vs. USD 9.77 consensus) and revenue up 15% YoY—driven by 26% growth in investment banking fees, 23% in trading, and 2% in platform solutions.
- Goldman maintains robust capital and liquidity, with a CET1 ratio of 14.5% in 2Q25—among the highest of U.S. G-SIBs—and an average liquidity coverage ratio of 128%.

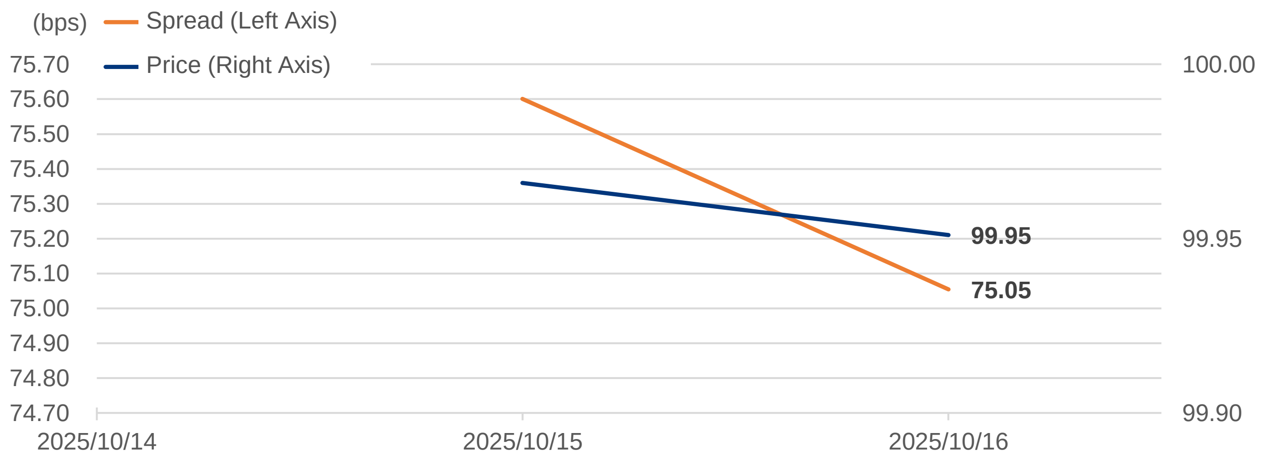
Financials	2024Q4	2025Q1	2025Q2
ROA (%)	0.86	0.86	0.91
Liquidity Coverage Ratio (%)	126.00	130.00	128.00
CET1 Capital Ratio	15.00	14.80	14.50

Source: Bloomberg

Overview

Name	GS 4.369 10/21/31	**ISIN**	US38141GD355
Maturity Date	2031/10/21	**Remaining Maturity**	6.01
Coupon(%)	Float/4.369/Semi-annual	**YTM/YTC(%)**	4.42/4.37
Currency	USD	**Min. Subscription/ Increment**	1,000/1,000
Ratings (Moody's/Fitch/S&P)	-/A/BBB+	**Seniority**	Senior Unsecured

Price (New Issued Bond)



Appendix — Key Economic Data / Events

OCT 2025

13 Monday	14 Tuesday	15 Wednesday	16 Thursday	17 Friday
• China Sep Export YoY (Act:8.3% Est:6.6% Prev:4.4%)		• Japan Aug Industrial Production MoM (Final) (Act:-1.5% Prev:-1.2%) • China Sep CPI YoY(Act:-0.3%Est: -0.2% Prev:-0.4%) • China Sep PPI YoY (Act:-2.3% Est: -2.3% Prev:-2.9%)	• U.S. Weekly Initial Jobless Claims (Act:N/A Prev:N/A) • U.S. Sep PPI YoY (Act:N/APrev:2.6%) • U.S. Sep Retail Sales MoM (Act:N/A Est:0.4% Prev:0.6%) • Japan Aug Core Machinery Orders MoM (Act:-0.9% Est:0.5% Prev:-4.6%)	• U.S. Sep Industrial Production MoM (Est:0.0% Prev:0.1%) • U.S. Sep Building Permits (Est:1,343k Prev:1,330k) • U.S. Sep Housing Starts (Est:1,320k Prev:1,307k) • Eurozone Sep CPI YoY (Final) (Est:2.2% Prev:2.0%)

20 Monday	21 Tuesday	22 Wednesday	23 Thursday	24 Friday
• China 3Q GDP YoY (Est:4.7% Prev:5.2%) • China Sep Retail Sales YoY (Est:3% Prev:3.4%) • China Sep Industrial Production YoY (Est:5.0% Prev:5.2%)	• Japan Sep Machine Tool Orders YoY (Final) (Prev:8.5%) • Taiwan Sep Export Orders YoY (Est:17.5% Prev:19.5%) • Earnings: RTX, LMT,DHR,KO,PM,GE	• Japan Sep Export YoY (Est:4.4% Prev:-0.1%) • Earnings: NFLX, COF, TXN, CB, ISRG, T, BSX, TMO, APH	• U.S. Weekly Initial Jobless Claims (Prev:N/A) • U.S. Sep Existing Home Sales (Est:4.06m Prev:4.00m) • Eurozone Oct Consumer Confidence (Prel.) (Est:-14.5 Prev:-14.9) • Earnings: TSLA, LRCX, IBM, GEV, NEE, TMUS, BX, UNP	• U.S. Sep CPI YoY (Est:3.1% Prev:2.9%) • U.S. Sep Core CPI YoY (Est:3.1% Prev:3.1%) • U.S. Oct S&P Global Manufacturing PMI (Prel.) (Est:51.8% Prev:52.0) • U.S. Oct Michigan Consumer Sentiment (Final) (Est:55.0 Prev:55.1) • Japan Sep Nationwide CPI YoY (Est:2.9% Prev:2.7%) • Earnings: INTC, PG

Source: Bloomberg

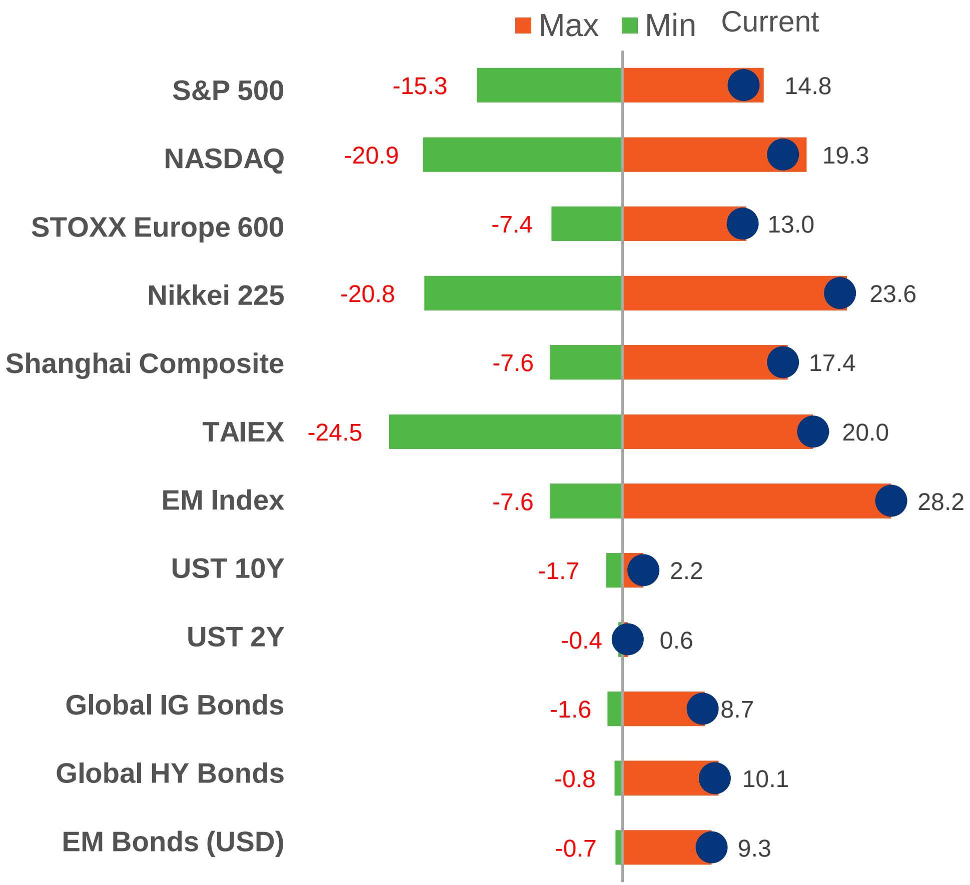
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2025/10/14	BlackRock (BLK)	6.29B	6.51B	11.31	11.55	V	V
2025/10/14	Johnson & Johnson (JNJ)	23.76B	23.99B	2.76	2.8	V	V
2025/10/14	Wells Fargo (WFC)	21.14B	21.43B	1.55	1.66	V	V
2025/10/14	JPMorgan Chase (JPM)	45.25B	46.43B	4.84	5.07	V	V
2025/10/14	Goldman Sachs (GS)	14.13B	15.18B	11.02	12.25	V	V
2025/10/14	Citigroup (C)	21.05B	22.09B	1.75	2.24	V	V
2025/10/15	Abbott Laboratories (ABT)	11.4B	11.37B	1.3	1.3		
2025/10/15	Bank of America (BAC)	27.48B	28.09B	0.95	1.06	V	V
2025/10/15	Progressive (PGR)Progressive (PGR)	21.8B	21.38B	5.05	4.45		
2025/10/15	Morgan Stanley (MS)	16.66B	18.22B	2.09	2.8	V	V
2025/10/16	Charles Schwab (SCHW)	5.97B	6.14B	1.23	1.31	V	V
2025/10/17	Interactive Brokers (IBKR)	1.52B	1.66B	0.53	0.57	V	V

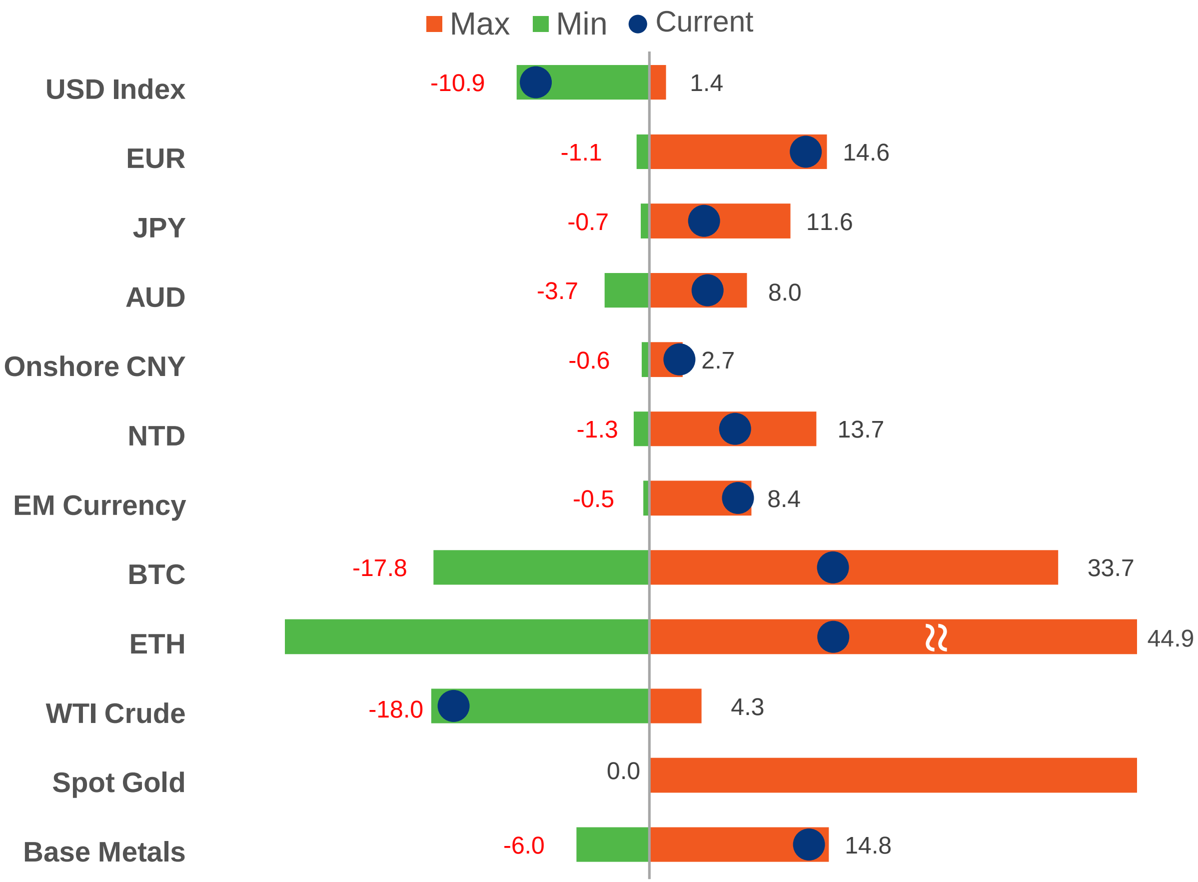
Source: Investing.com

YTD Major Market / Asset Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg, 17 Oct 2025

Technical Analysis

S&P 500 Index

NASDAQ Index

STOXX Europe 600 Index

Nikkei 225 Index

Shanghai Composite Index

MSCI Emerging Markets Index

Gold

WTI Crude

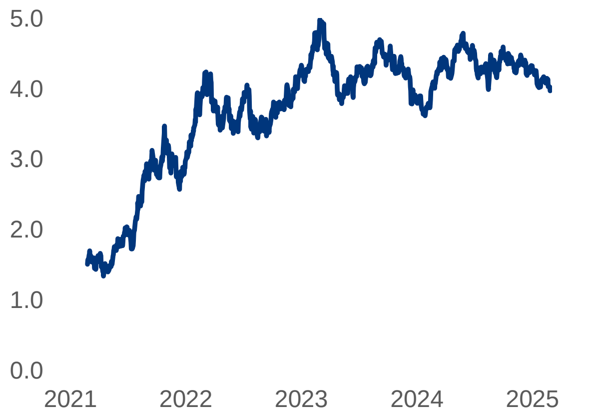
Source: Bloomberg, 17 Oct 2025

KGI

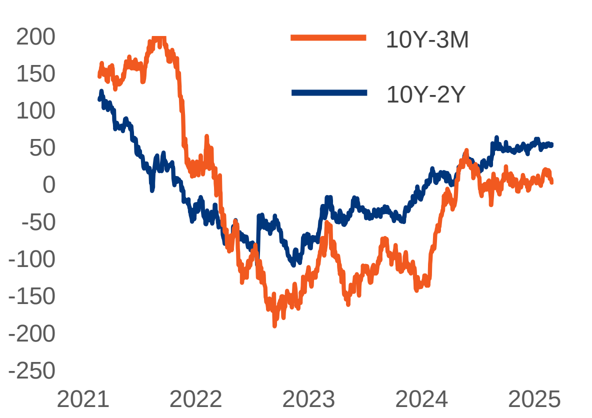
Market Monitor

U.S. CPI YoY (%)

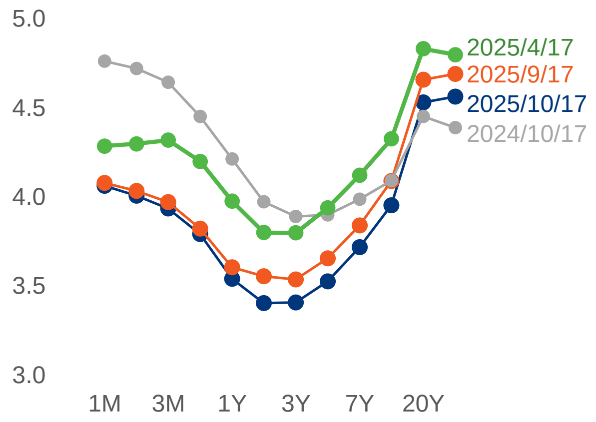
U.S. 10-Year Treasury Yield (%)



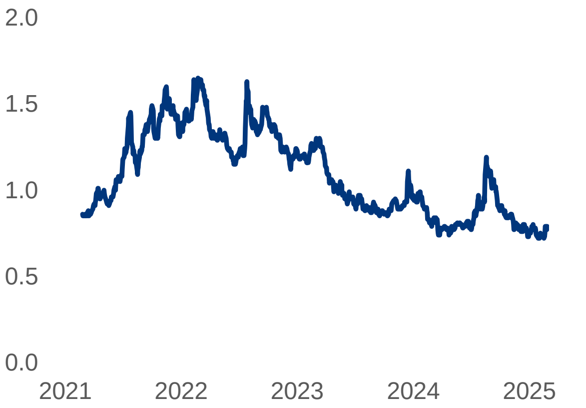
U.S. Treasury Yield Spread (bps)



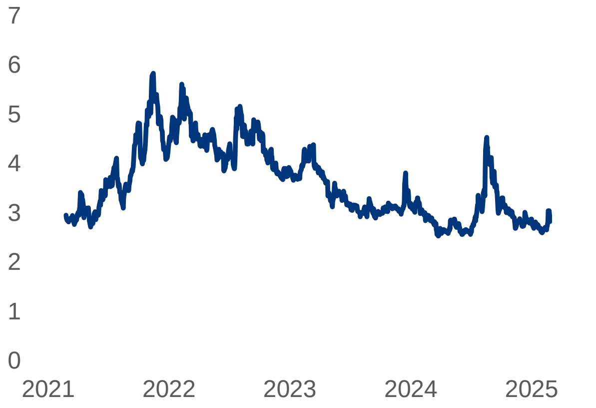
U.S. Treasury Yield Curve (%)



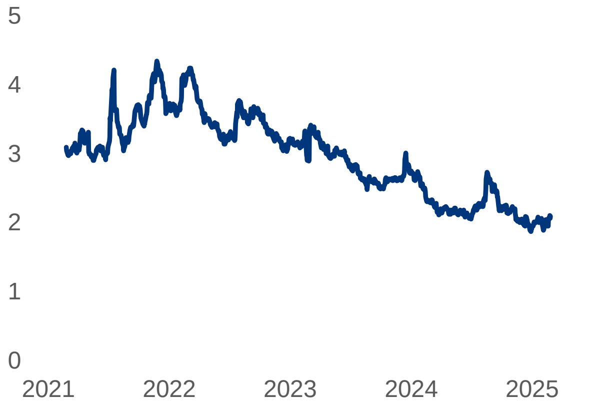
USD IG Credit Spread (%)



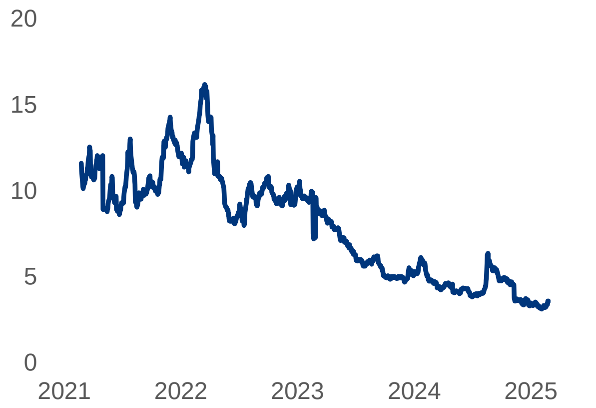
USD HY Credit Spread (%)



USD EM Credit Spread (%)



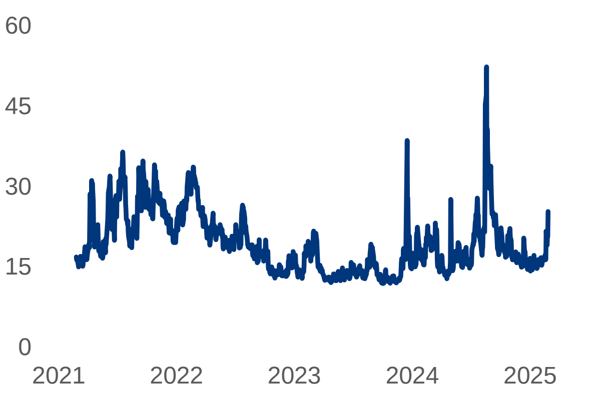
USD Asia Credit Spread (%)



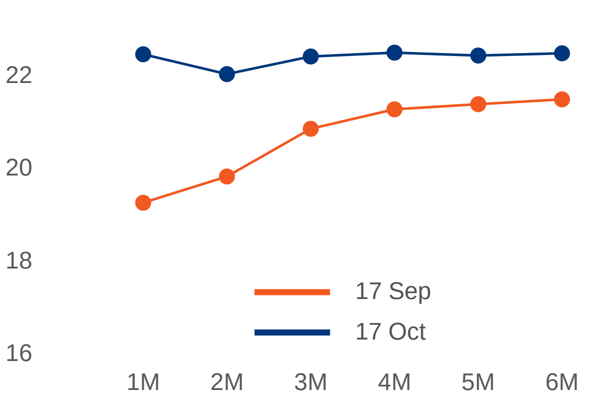
Source: Bloomberg, 17 Oct 2025

Market Monitor

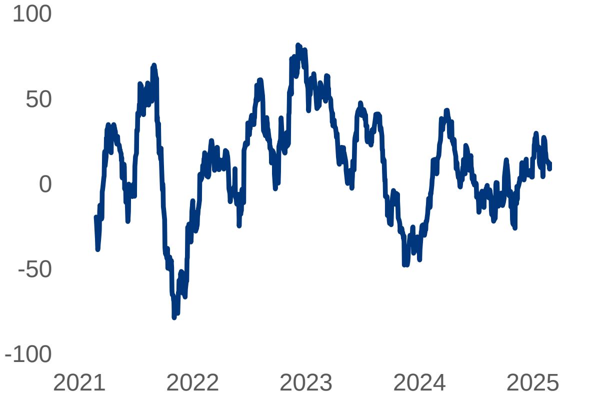
VIX Index



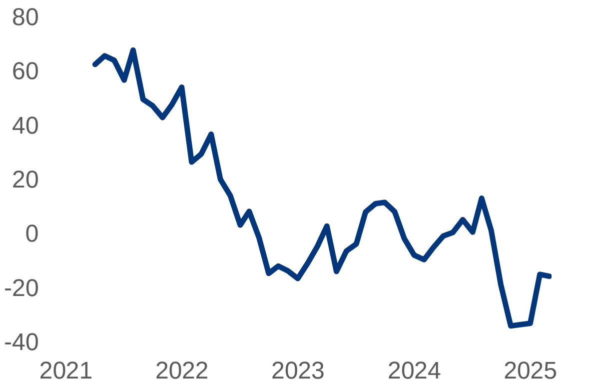
VIX Term Structure



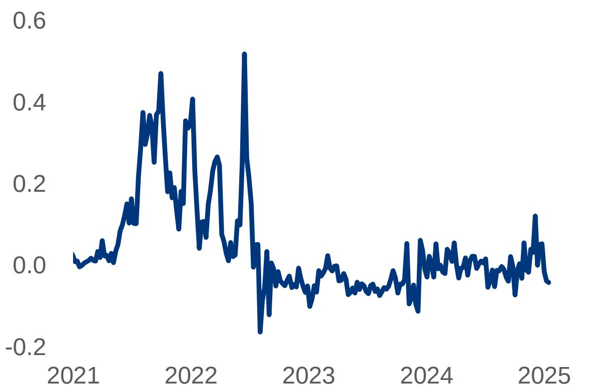
U.S. Citi Economic Surprise Index*



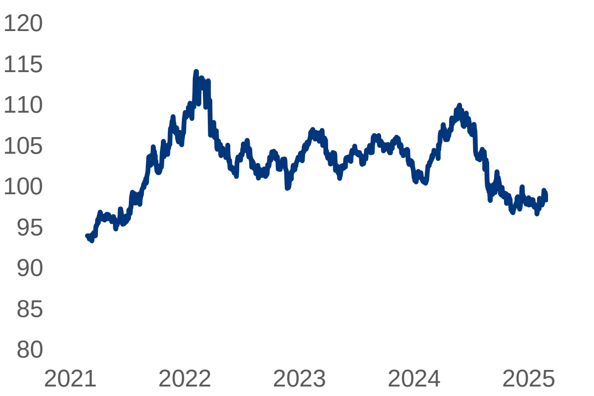
U.S. Citi Inflation Surprise Index*



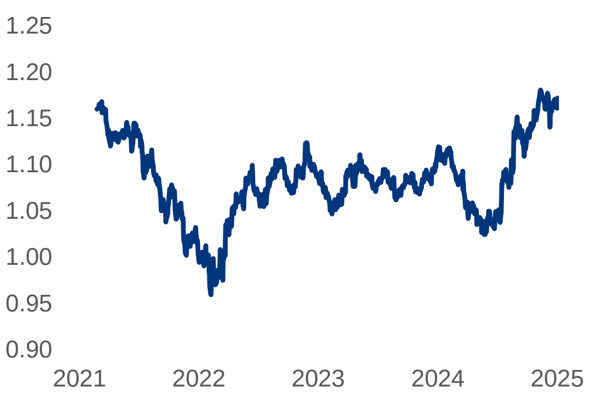
TED Spread (bps)



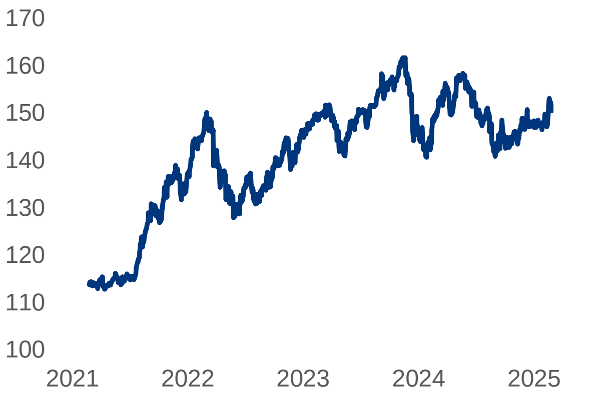
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, 17 Oct 2025 *The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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