CIO Office

Global Markets Weekly Kickstart

Make Defense Industry Great Again!

26 January 2026

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CIO Insights

Asia Becomes a “Safe Harbor”

▸ **De-escalation does means de-risking**

Donald Trump has now ruled out a military action against Greenland. However, this does not mean the sky became clear and the tension between the US and Europe has subsides. On the contrary, in the process of US “negotiating” with NATO on the final plan of Greenland, there bounds to be a lot of “Ups-and-Downs” just like what we have witnessed during the tariff negotiation process last year.

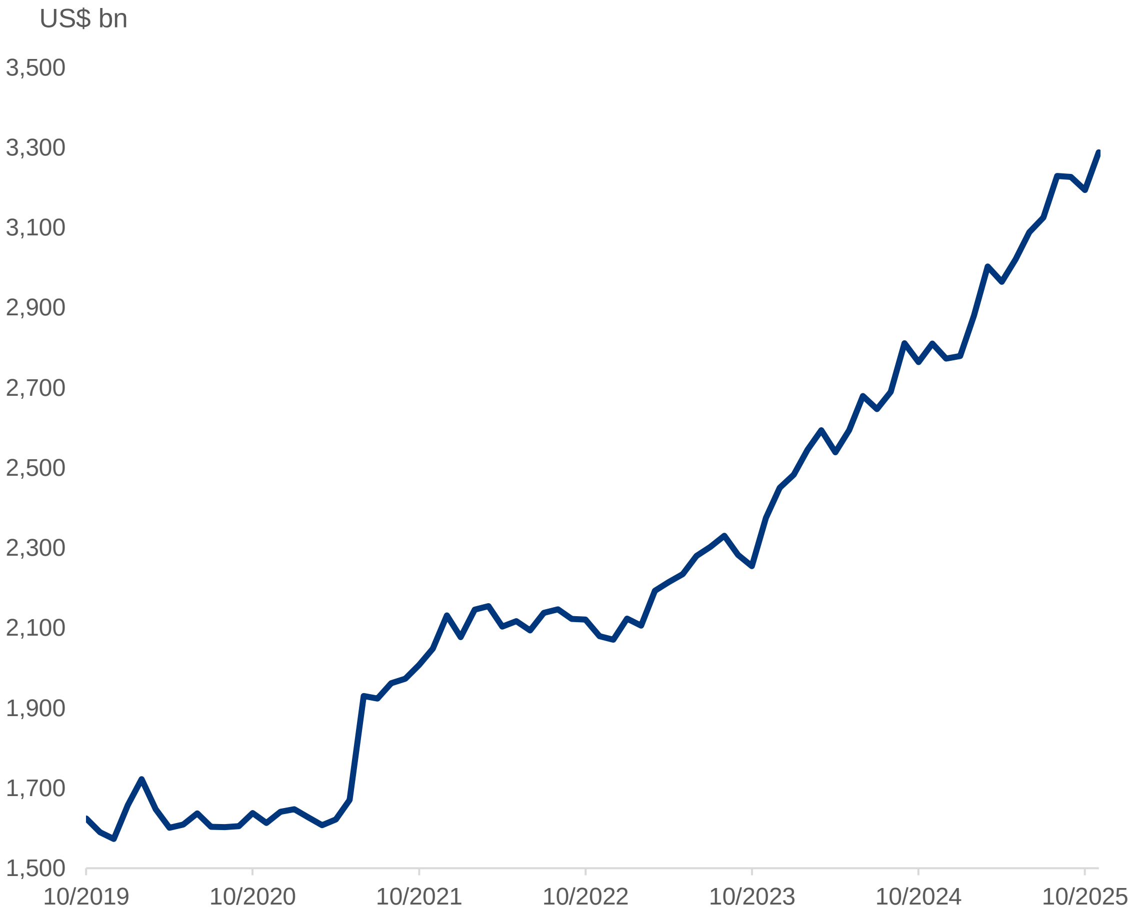
▸ **Investors are likely to focus on Asia**

In view of the expected strong earnings coming out from the US corporates, we believe the reflection of this uncertainty and continued tension will reflect on potential weakness in the US dollar and Euro. On the contrary, Asia will be seen by investors as a relatively “Safe Harbor” for risk diversification.

▸ **Continue to be positive of Gold**

Besides the Asian currencies, we also believe capital flow will continue to divert to Gold which serve as a long term hedge against the loss of confidence in the US dollar.

NATO’s members hold a combined US$3.3trn in US treasuries

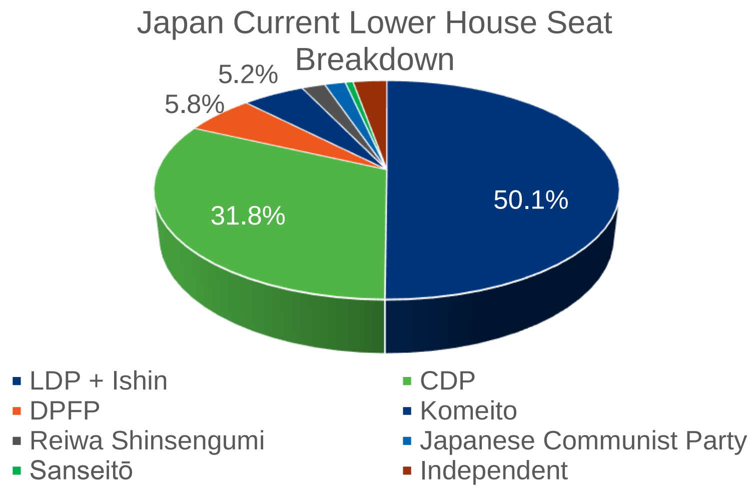


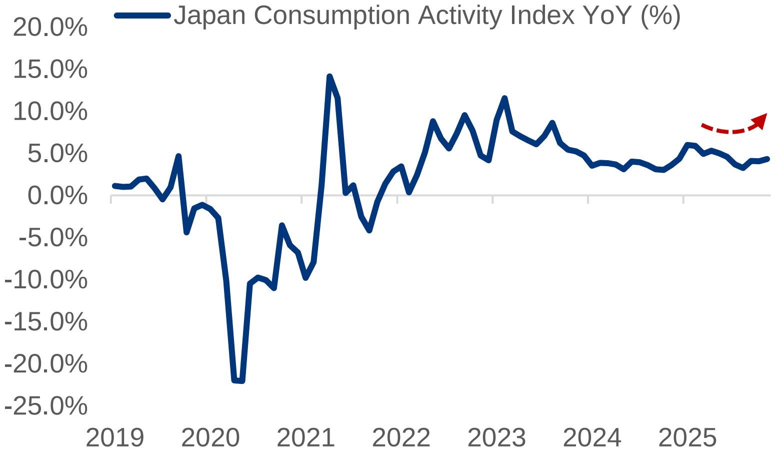
Source: Bloomberg, KGI

Chart of the Week | Takaichi Dissolves Parliament; Japanese Equities Poised to Benefit

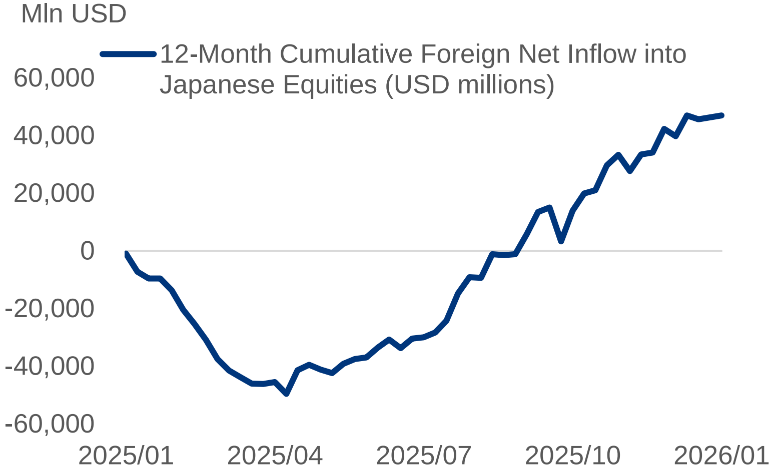
- Japan's Prime Minister Sanae Takaichi announced on January 19 that she will dissolve Parliament on January 23, with voting for the House of Representatives scheduled for February 8. She aims to leverage her cabinet's high approval ratings to move beyond the coalition's current narrow majority and expand seats for the LDP and Japan Innovation Party, thereby reducing potential internal and external resistance to her fiscal expansion agenda.
- While Japan's latest consumer activity has shown improvement, growth momentum still requires further strengthening. In addition to tax cuts and subsidies already included in earlier fiscal stimulus measures, Takaichi is now campaigning on suspending the food consumption tax to ease inflation pressures. Opposition parties are reportedly preparing to adopt similar proposals, indicating that—regardless of the election outcome—boosting consumption has become a political consensus in Japan.
- Although early tensions with China triggered economic restrictions from Beijing and temporarily dragged down market expectations for Japan's 2026 corporate earnings, sentiment has since reversed. Fiscal stimulus, combined with the likelihood of an expanded LDP majority after an early election, has supported a rebound in earnings forecasts. Foreign inflows have also strengthened the backdrop for Japanese equities, suggesting that despite short-term volatility, the market is positioned to benefit after the election.

Takaichi Dissolves Parliament, Campaigns on Scrapping Food Consumption Tax





Fiscal Stimulus Lifts Japan Earnings Outlook; Foreign Investors Continue Buying



Source: Bloomberg, KGI

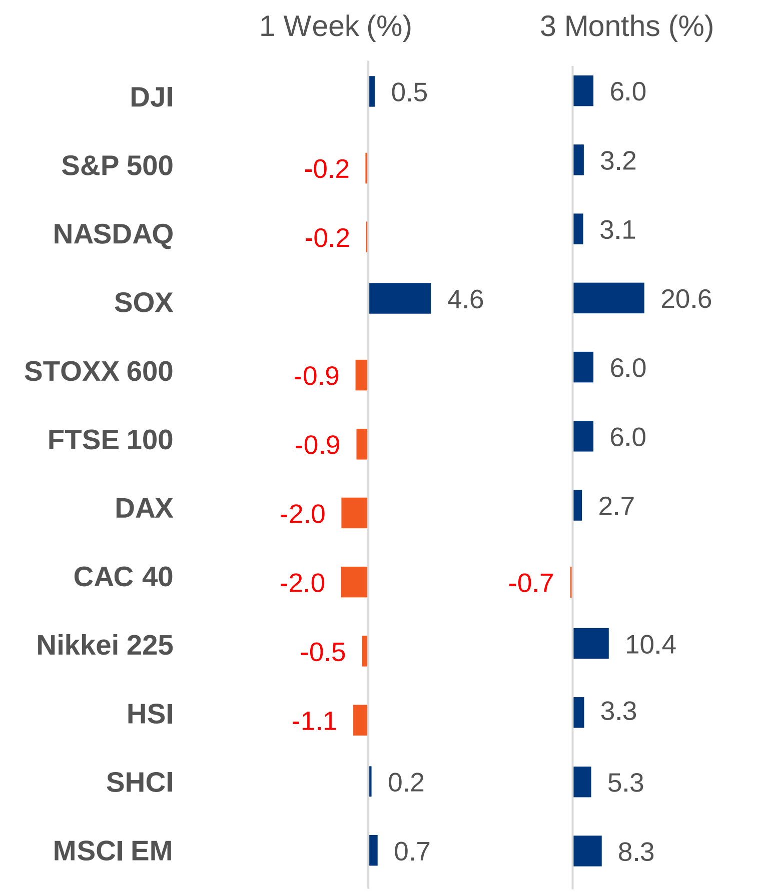
Market Recap

Greenland Tensions Briefly Strained U.S.–Europe Relations and Weighed on Equities; Sector Rotation Signs Emerge

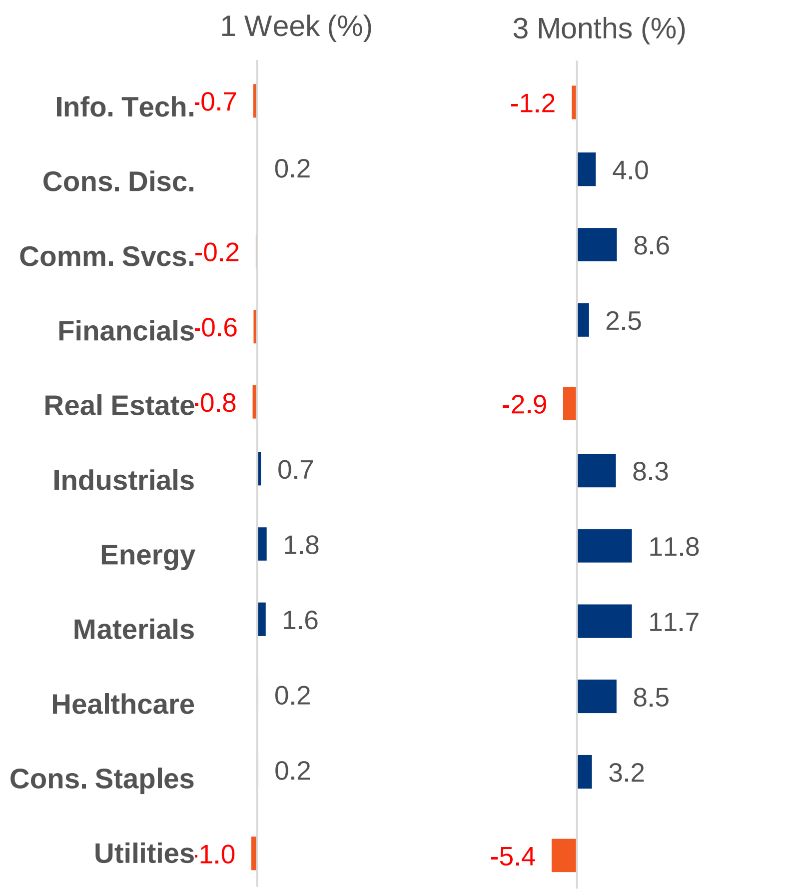
- Trump’s push to acquire Greenland triggered opposition from several European countries. During the dispute, he even announced a plan to impose a 10% tariff on imports from eight opposing European nations starting February 1. In response, the European Parliament moved to suspend approval of the U.S.–EU trade agreement and discussed potential retaliatory measures. The escalating confrontation stirred market fear, driving most global equity markets lower. Fortunately, the U.S. and NATO reached a framework agreement on Greenland during the World Economic Forum in Davos, after which Trump withdrew the tariff threat and ruled out military action. Although markets rebounded as concerns eased, most indices failed to fully recover prior losses, resulting in a weak week-to-date performance.

- Recently, as market concentration rises and AI-related stocks trade near elevated valuation levels, signs of rotation toward value stocks have begun to emerge. The temporary U.S.–Europe confrontation over Greenland heightened volatility, reducing investor appetite for growth sectors such as technology and communications and weighing on related stocks. Memory manufacturers, however, continued to outperform due to tight supply conditions and support from news of Micron’s acquisition of Powerchip’s Tongluo fab in Taiwan, allowing the segment to rise against the broader tech sector pullback.

Regional Index Performance (%)



U.S. Sector Index Performance (%)

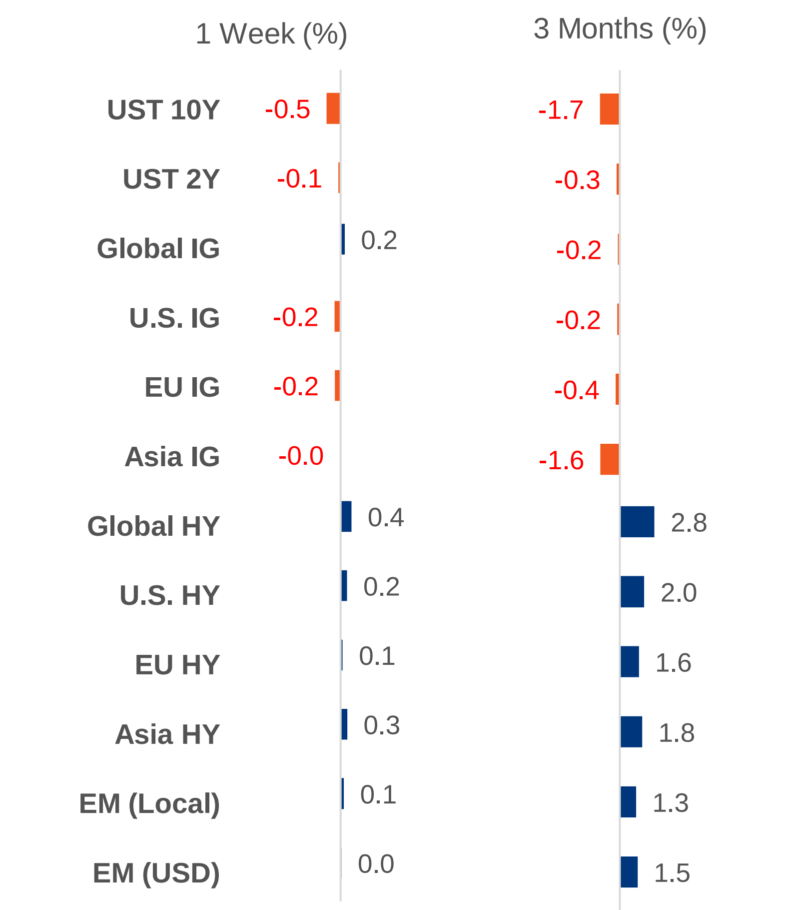


Source: Bloomberg

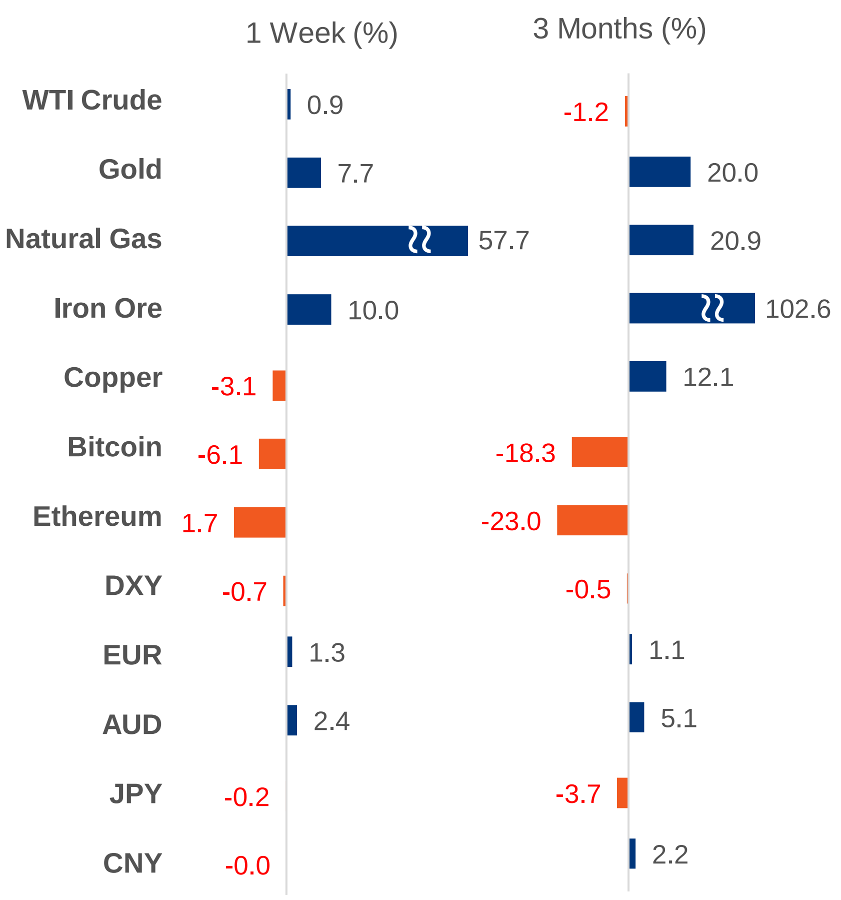
Longer-Term Yields Rebound, Dragging Bond Prices Lower; Gold Prices Continue to Rise

- Japan announced an early general election, and the ruling Liberal Democratic Party is expected to benefit from Prime Minister Sanae Takaichi's strong approval rating, potentially expanding its seats in the House of Representatives and lowering obstacles to implementing fiscal stimulus. Investors, however, worry that Japan's long-term debt burden may intensify, triggering a sell-off in 10-year JGBs. The selling pressure even spilled over into U.S. and European sovereign bond markets. In addition, diverging U.S.–EU positions on the Greenland issue raised concerns about a renewed trade war, further pushing government bond yields higher and weighing on the bond market. Although the U.S. and NATO later reached a framework agreement and yields retreated from their highs, bonds were still mostly down for the week.
- Data from the American Petroleum Institute showed that U.S. commercial crude inventories rose by 3.04 million barrels during the week ending January 16. Although this was below the prior week's 5.3-million-barrel increase, persistent stockpiling limited weekly oil price performance. Meanwhile, instability in the Middle East—combined with heightened U.S.–EU geopolitical and trade tensions—continued to fuel safe-haven demand, driving gold prices higher. At the same time, President Trump's frequent policy actions since the start of the year have eroded market confidence in the U.S. dollar, causing the dollar index to weaken while most non-USD currencies held up relatively well.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



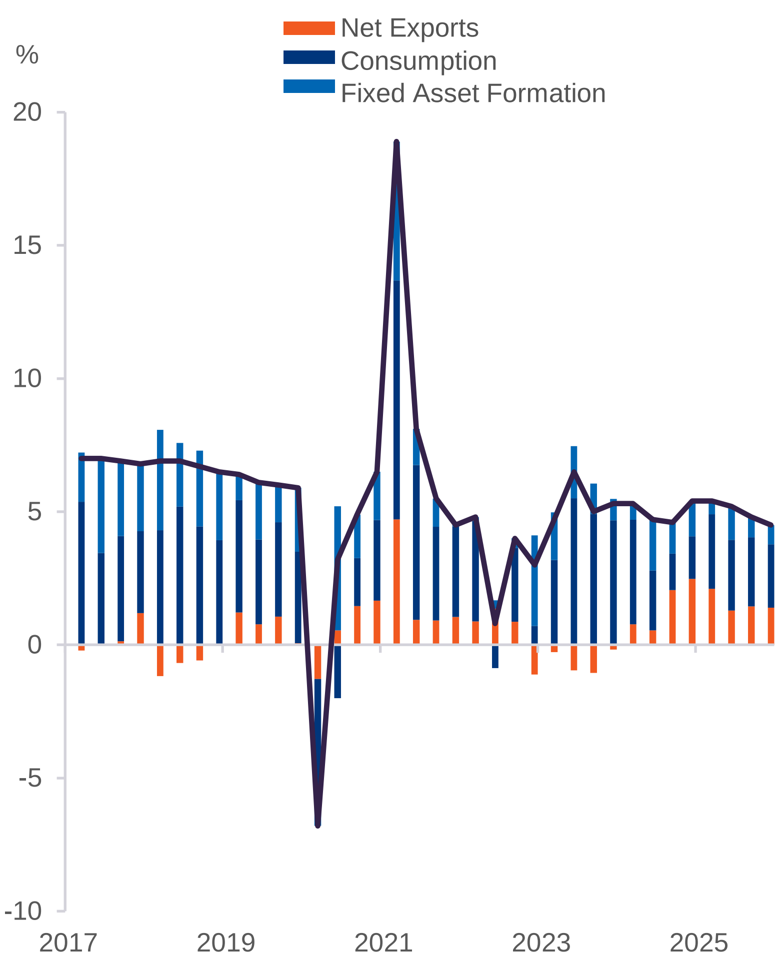
Source: Bloomberg

What's Trending

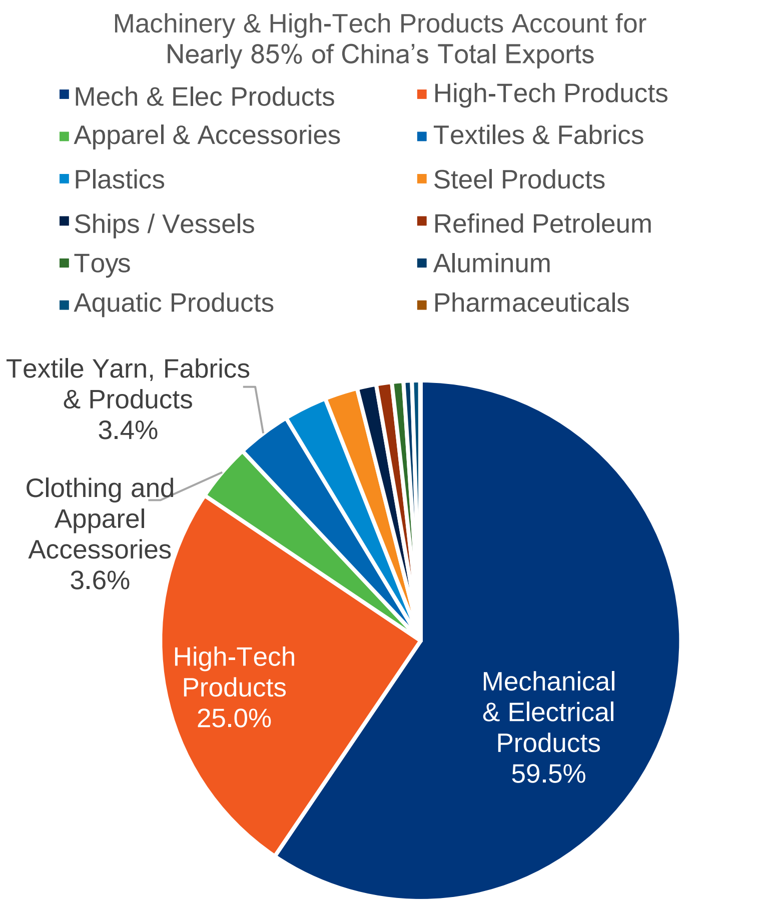
China Meets Economic Targets, High-Tech Expected to Drive Growth This Year

- China's real GDP grew 4.5% year-on-year in the fourth quarter, a slowdown of 0.3 percentage points from the third quarter, but the growth rate was in line with market expectations. Full-year 2025 GDP also achieved the government's 5% target, with the contribution of net exports remaining stable.
- In 2026, China's humanoid robot industry is expected to enter mass production and commercial deployment — its "iPhone moment." Meanwhile, biopharmaceuticals and innovative drugs will form the core industrial clusters that serve as key engines for China's "going global" strategy in homegrown technologies. It is worth noting that these investment themes must be filtered through the lens of supply-chain security. Against the backdrop of intensified de-globalization, only industry leaders that possess sovereign control of core technologies and can achieve "independent and controllable" capabilities will enjoy the highest safety margins and valuation premiums within structural market trends.
- Currently, mechanical & electrical equipment and high-tech products account for nearly 85% of China's exports. As U.S.–China trade frictions stabilize, manufacturers are expected to seize new opportunities in external demand. At the same time, the rise of "Quochao" (domestic consumer trends) will reduce reliance on imported goods and strengthen local supply chains. Enterprises linked to "new quality productive forces" are expected to become key drivers supporting China's subsequent economic growth.

China's Q4 GDP in Line With Expectations; 2025 Target Achieved



Machinery & High-Tech Products Account for Nearly 85% of China's Total Exports

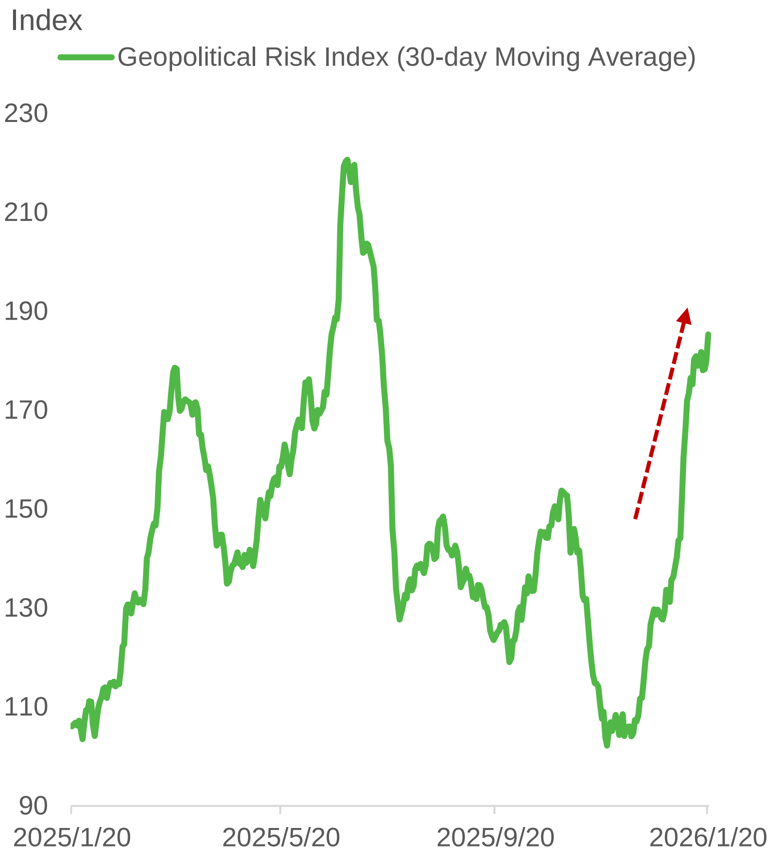


Source: CEIC

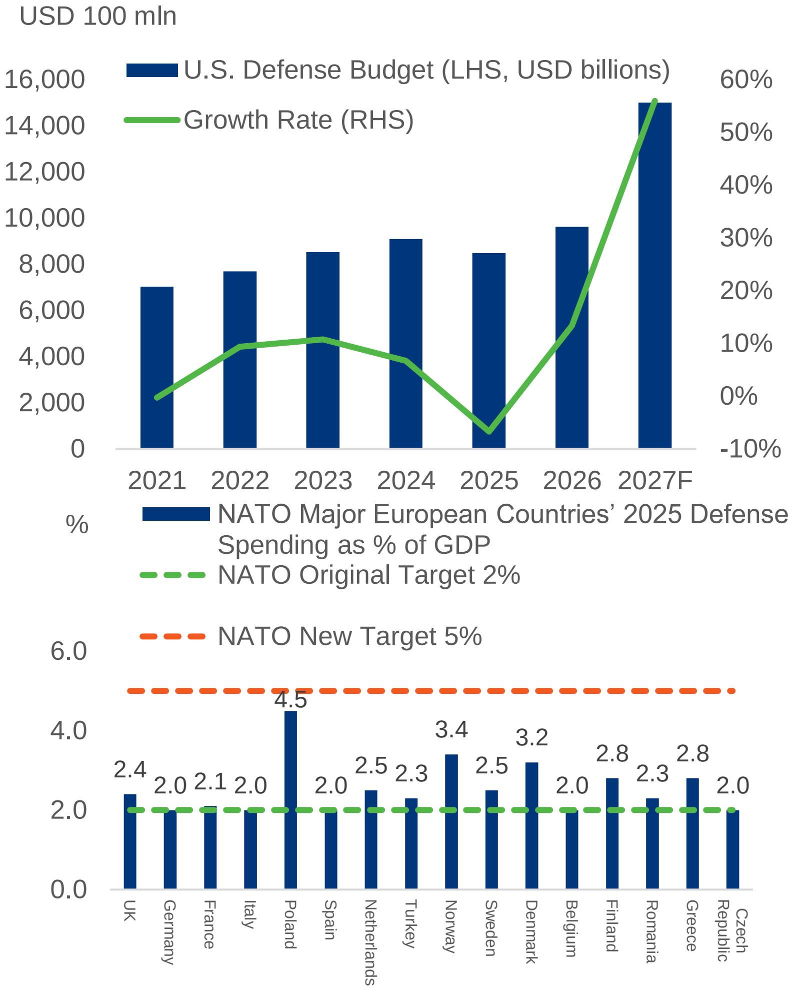
In Focus | Rising Geopolitical Turbulence as Trump Intensifies Actions Early in the Year

- The global shock from Trump's lightning capture of Nicolás Maduro and the U.S. takeover of Venezuela's oil transportation has yet to subside, and it was immediately followed by military threats toward Iran. Almost simultaneously, U.S. pressure on Greenland escalated rapidly. Although Trump later ruled out military action and withdrew tariff threats, these events have all driven a significant rise in recent geopolitical risk indicators.
- Earlier this month, Trump announced plans to raise the U.S. defense budget for fiscal year 2027 to USD 1.5 trillion — more than 50% higher than the 2026 level. If realized, this would mark the largest annual increase in U.S. defense spending in recent years. This move signals that the U.S. intends to allocate more resources to defense to counter challenges from China and Russia and to advance its own geopolitical objectives.
- The latest data from Europe show that, by 2025, all NATO European member states have achieved defense spending equivalent to 2% of GDP. This indicates that major Western and Southern European countries that were previously below the 2% mark have accelerated their military spending. With the gradual withdrawal of U.S. strategic resources, European nations increasingly recognize the need to expand investment in their defense industries to secure the capabilities necessary for maintaining regional security.

Trump's Series of Actions Pushes Up Geopolitical Risk Index



U.S. and Europe Expected to Continue Increasing Defense Spending

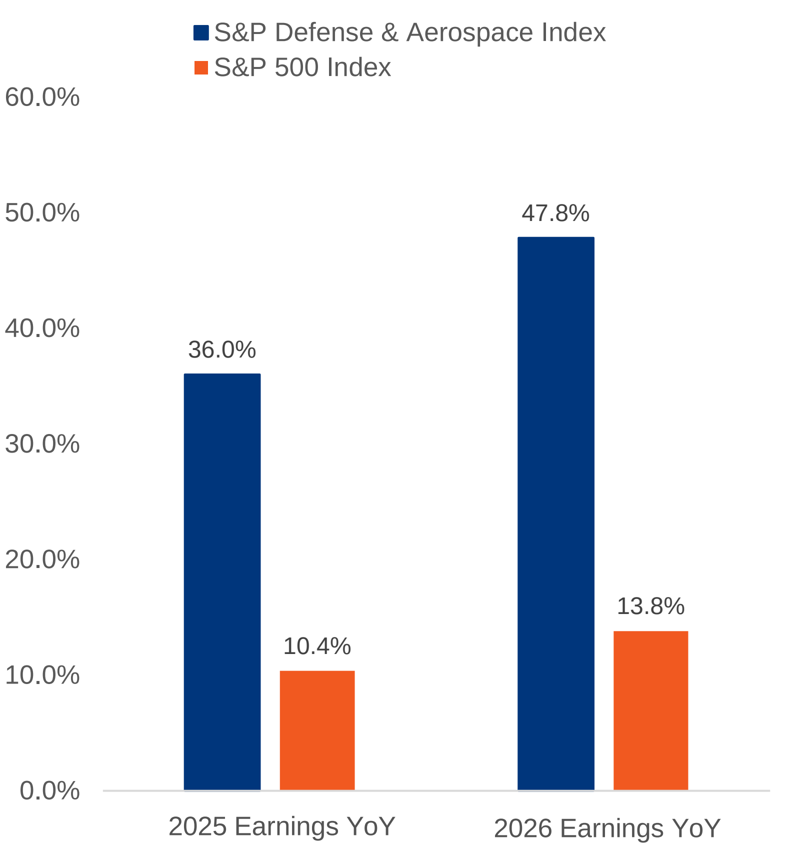


Source: Bloomberg

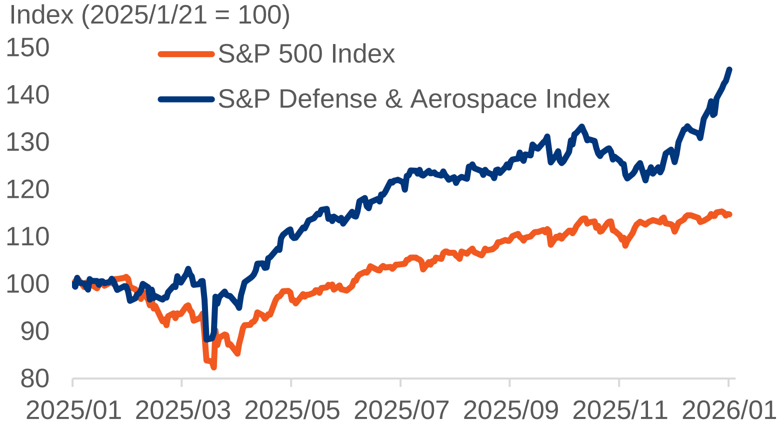
Defense Industry Profit Growth Remains Strong, Continues to Outperform the Broad Market

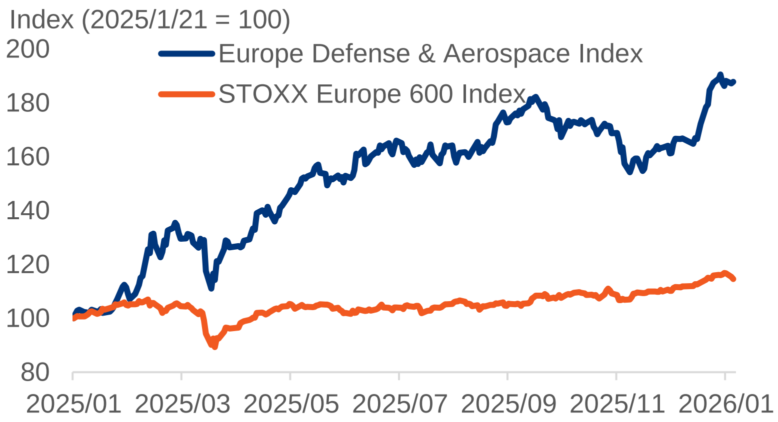
- Since returning to office, President Trump has repeatedly emphasized that U.S. allies — including Europe, Japan, and Taiwan — must take on greater responsibility for their own defense rather than overly relying on U.S. military power, in order to reduce the burden on American forces. Many countries have already begun increasing their defense budgets, which is expected to translate into real demand for the U.S. defense industry going forward.
- Against the backdrop of rising defense spending in both the U.S. and its allies, the market maintains a positive outlook for the U.S. defense sector. Earnings growth for the S&P Defense Industry is projected to rise from 36.0% in 2025 to 47.8% in 2026 — far above the expected 13.8% earnings growth for the S&P 500 Index in 2026. Meanwhile, Europe's defense industry is also expected to achieve approximately 21.0% earnings growth in 2026, significantly higher than the roughly 10% growth forecast for the broader European equity market. With Europe increasing its investment, growth prospects remain promising.
- Although U.S. and European defense stocks experienced some pullbacks over the past year, both have continued to outperform their respective broader market indices. In addition to reflecting solid fundamentals, recurring global geopolitical uncertainties, along with Trump's recent actions that have heightened market attention on geopolitical risks, are expected to further support momentum in defense-related stocks.

Market Expects U.S. Defense Sector Profit Growth to Continue Rising in 2026



U.S. and European Defense Sector Has Continued to Outperform the Broad Market Over the Past Year





Source: Bloomberg

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	◆ As market concentration increases and AI-themed stocks are trading at relatively elevated valuation levels, capital rotation signals have emerged in the short term. However, considering that AI still possesses long-term growth momentum, and given that equity markets have reached new highs, investors may participate through staggered or phased allocation. For 2026, investment strategies may be positioned through the four frameworks of L (Liquidity Shift), E (Earnings Focused), A (Adding Credit), and D (Diversified Asset) to achieve the goals of diversified allocation and stable returns. ◆ European equities can serve as diversification targets. Preferred countries include Germany, which is supported by fiscal stimulus and clearly improving economic growth, and Spain, which has strong fundamentals and a high weighting of financial stocks. Preferred sectors include financials with improving balance sheets and defense-related industries supported by policy. For Japan, focus is on domestic demand, banks, and semiconductor stocks.	**Strategy:** Under the AI theme, core beneficiary groups include technology, semiconductors, utilities, and machinery; outside the AI theme, we favor aerospace, defense, and pharmaceuticals **Regions**: Germany, Spain, Japan banks, Japan semiconductors
Bonds	◆ The steepening of the yield curve allows investors to lock in yields through government bonds and investment-grade bonds. Among industries, those with higher risk-adjusted spreads include financials, utilities, and industrials. ◆ There are concerns about long-term U.S. dollar depreciation; therefore, allocating to non-USD denominated bonds—such as euro- and AUD-denominated investment-grade bonds—can help diversify risk. As emerging-market fundamentals improve, high-yielding EM bonds may also be used to lock in yields.	**Duration:** Government bonds and high-rated bonds to lock in yield; favored industries include financials, industrials, and utilities **Types:** Non-USD currency bonds to diversify risk
Forex	◆ The Federal Reserve's independence continues to be questioned, which is unfavorable for the long-term U.S. dollar trend. However, recent U.S. data has been stronger than market expectations, causing the Fed to turn more cautious in the short term. The U.S. dollar is expected to weaken, but the downside is limited. ◆ The ECB is nearing the end of its rate-cut cycle, and the rebound in German bond yields supports a stronger euro. Japan's Prime Minister Sanae Takaichi announced the early dissolution of the House of Representatives, and markets worry that Japan's fiscal deterioration may weaken the yen in the short term. However, verbal intervention by BOJ officials limits the room for further sharp depreciation.	**USD:** Mild downside, limited weakness **JPY:** Volatile with an upward bias **EUR:** Short-term weakness
Commodity	◆ The Federal Reserve is expected to maintain an accommodative stance, and rising geopolitical risks support a favorable medium-to-long-term outlook for gold. Demand for silver is surging due to technology and semiconductor applications, and with Trump intending to raise import tariffs on minerals, manufacturers are stocking up early. Silver is expected to remain strong in the near term.	**Gold**: Bullish in the medium to long term **Silver:** Remains strong in the near term.

Product Spotlight | HK Equities

New Quality Productive Forces to Drive Robotics Development in 2026

Deep Restructuring of Economic Growth Logic

As 2026 approaches, China's economic growth engine is undergoing a profound shift. The influence of property and traditional infrastructure—once the core pillars—is gradually fading. Taking their place is a growth model centered on *"new quality productive forces,"* which is set to become the key narrative driving capital inflows and economic expansion.

Technological Innovation Reaches Commercialization Threshold

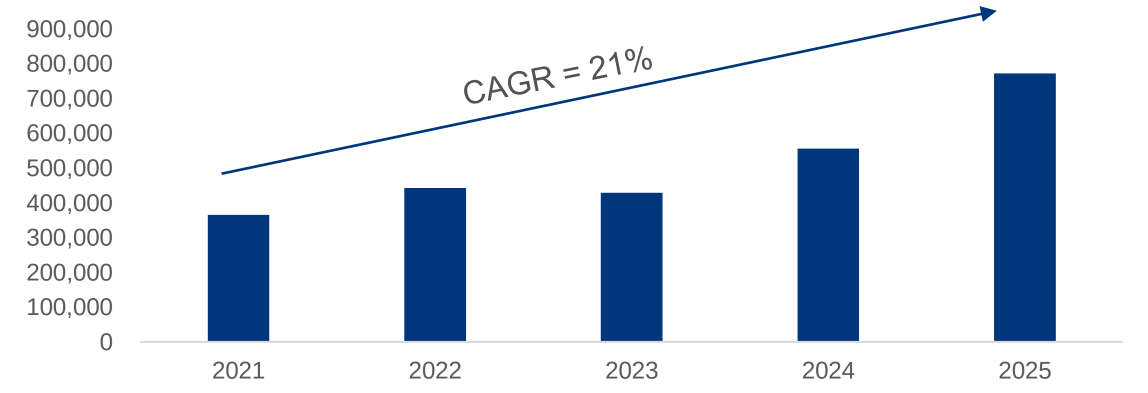
With the humanoid robot industry entering the mass-production stage, 2026 is expected to witness a transformative "iPhone moment" in this field—marking a leap from technical maturity to large-scale commercial application. This breakthrough is supported by the digital infrastructure that forms the physical foundation, which not only accelerates AI algorithm iteration but also provides essential computing power for the explosive growth of embodied intelligence.

Policy-Driven Intelligent Transformation

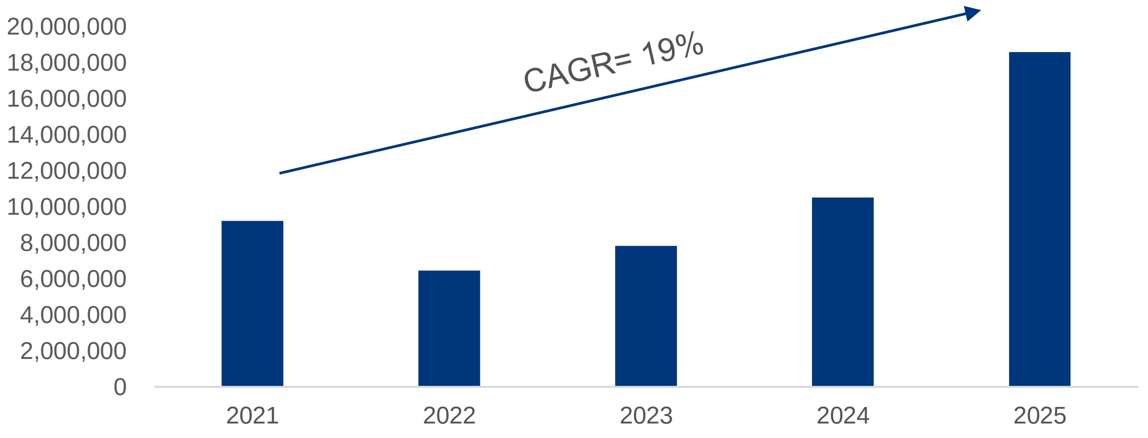
From the policy perspective, the government's release of humanoid robotics and embodied intelligence standardization guidelines is accelerating the shift from laboratory research to regulated industrial deployment. Using this sector as a strategic entry point, national funds are directing support toward key underlying technologies such as training chips, heterogeneous computing power, and integrated robotic joints.

As China advances toward steady industrial growth in 2026, the push for technological autonomy and the establishment of safety and protection systems will jointly form a dual moat for investment. Companies with combined "AI + manufacturing" capabilities and ownership of critical core technologies are expected to demonstrate stronger valuation re-rating potential in a structurally rising market.

Industrial Robot Output (units)



Service Robot Output (units)



Source: NBS

UBTECH Robotics (9880)

Closing Price	HK $141.4	Target Price	HK $178

Mainly engaged in the research, design, production, and sales of robots, as well as providing related supporting services.

Production Surging and Technology Rapidly Iterating

UBTECH's accelerated commercialization path is becoming clearer. This year's production target is ten times last year's delivery volume, expected to reach 10,000 humanoid robots, fully reflecting strong demand for industrial-grade humanoids and the maturity of application scenarios. In R&D, management maintains a cycle of updating one generation every eight months, with the next upgrade scheduled for March to April. This "rapid iteration + large-scale production" dual-engine strategy will significantly enhance industrial applicability and market penetration.

Industry Chain Integration

UBTECH has also been actively engaging in vertical integration through acquisitions, recently acquiring Fenglong Co. to become its controlling shareholder. The target company possesses precision machining capabilities crucial for humanoid robots, which will help overcome technical bottlenecks and further reduce hardware costs. This supports greater flexibility in pricing, broadens application scenarios, and accelerates the company's path to profitability.

Active Collaboration with Overseas Enterprises

Beyond domestic partnerships, the company is actively collaborating with overseas players. UBTECH recently reached a strategic cooperation agreement with global semiconductor leader Texas Instruments, and signed a humanoid robot service agreement with European aerospace giant Airbus. These developments demonstrate that UBTECH's industrial application of humanoid robots is expanding beyond China into global markets.

Reaffirm Buy Rating

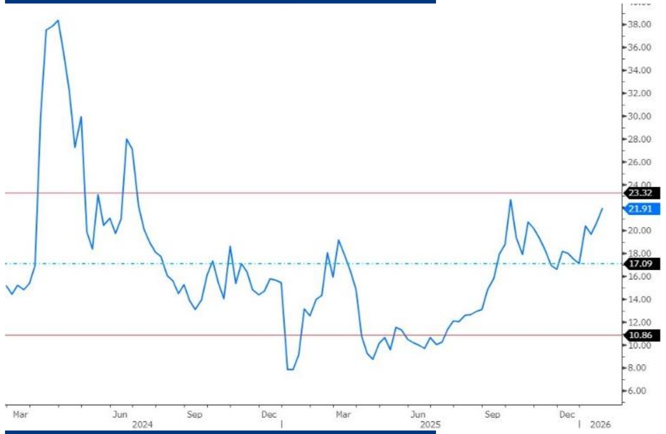
Given accelerating production capacity, expanding applications beyond domestic markets, and partnerships with well-known international companies likely boosting demand, we reaffirm our Buy rating and maintain the target price of HKD 178.

Source: Bloomberg

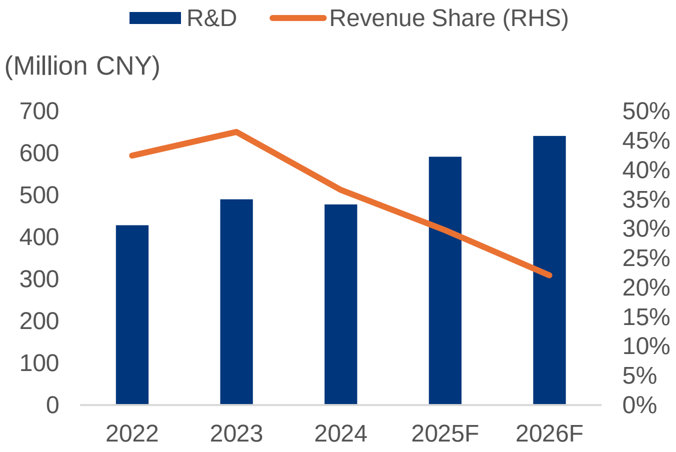
Financials

	2022	2023	2024	2025F	2026F
Revenue (CNY m)	1,008	1,055	1,305	1,987	2,901
Revenue YoY	23.4	4.7	23.6	52.2	46.0
EPS (CNY)	-2.5	-3.05	-2.67	-2.07	-1.38
EPS YoY	-3.7	-22	12.5	22.6	33.1
ROE(%)	-113.7	-84.5	-55.2	-55.6	-72.3

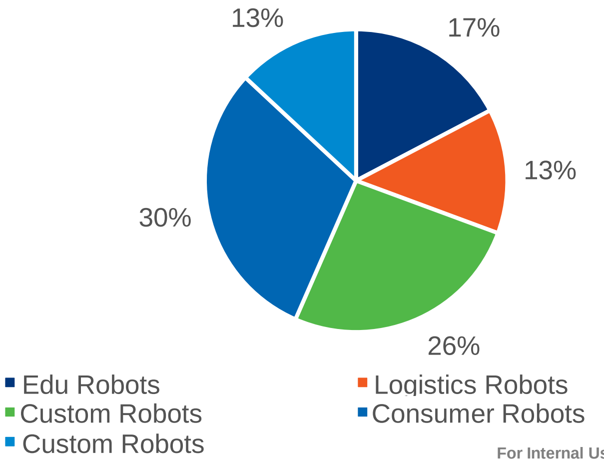
Forward P/E Ratio



R&D Expenditure



Revenue Share by Segment



KGI

XPeng Motors (9868)

Closing Price	HK $79.3	Target Price	HK $98

XPeng Motors is a Chinese intelligent EV company engaged in the design, development, manufacturing, and marketing of smart electric vehicles.

Embodied Intelligence Unlocks New Valuation Upside

XPeng is transforming from a pure EV maker into an AI-driven technology conglomerate. The valuation of its humanoid robot IRON has not yet been priced in by the market. At XPeng AI Tech Day 2025, IRON demonstrated highly human-like control enabled by 82 full-body joints and the company's self-developed Turing chip. XPeng plans to begin mass production in 2026 and has already launched industrial inspection cooperation with Baosteel. Shipment volume is expected to reach 10,000 units in 2027. Assuming a unit price of RMB 450,000, this could contribute nearly RMB 44 billion in additional valuation for XPeng.

Vertical Integration in Autonomous Driving Builds a Long-Term Cost Moat

XPeng aims to deliver L4-capable vehicles by the end of 2026, initially targeting high-end personal users before expanding into the Robotaxi market. Vertical integration through in-house Turing chips substantially enhances autonomous driving performance ceilings while creating long-term cost advantages. The model of synchronizing chip and algorithm development forms a crucial competitive moat that supports XPeng's margin leadership as autonomous driving reaches mass adoption.

Policy Tailwinds and Product Cycle Drive Scale Expansion

Supported by China's ongoing "trade-in" subsidies, pricing conditions are expected to stabilize, aiding margin recovery. XPeng is entering a strong new product cycle, with seven new models planned for launch this year and simultaneous expansion into overseas markets. These will significantly boost global delivery scale.

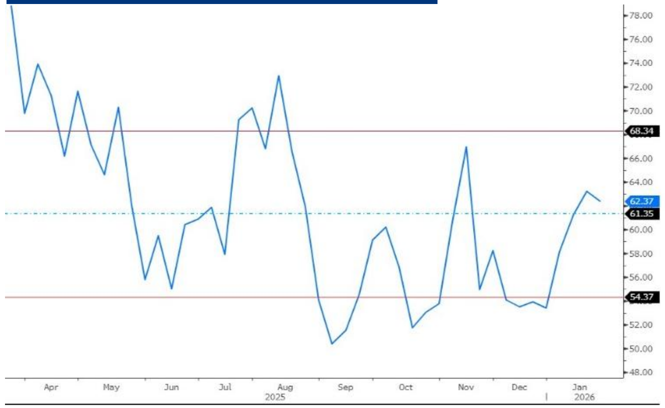
Target Price Maintained at HKD 98

On valuation, based on 2027 expected earnings, the current share price implies a P/E of roughly 30x. Considering strong growth from AI commercialization and XPeng's transition toward an integrated hardware-software business model, upside remains. We maintain the target price of HKD 98, implying 36x P/E.

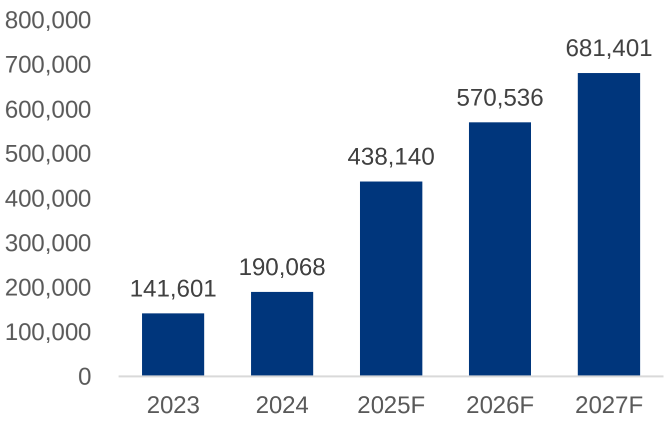
Financials

	2022	2023	2024	2025F	2026F
Revenue (CNY b)	30.7	40.9	75.5	111.7	135.7
Revenue YoY	14.2	33.2	84.7	48.0	21.5
EPS (CNY)	-5.42	-2.93	-0.64	1.1	2.39
EPS YoY	NA	NA	-78.2	-271.9	117.3
ROE(%)	NA	NA	NA	5.74	12.44

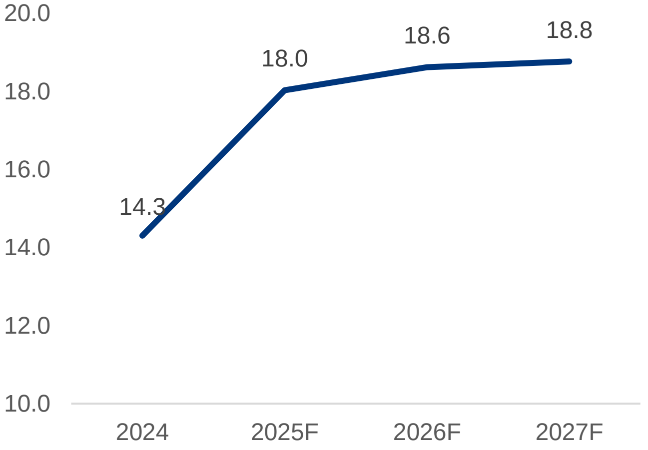
Forward P/E Ratio



Vehicle Deliveries



Gross Margin (%)

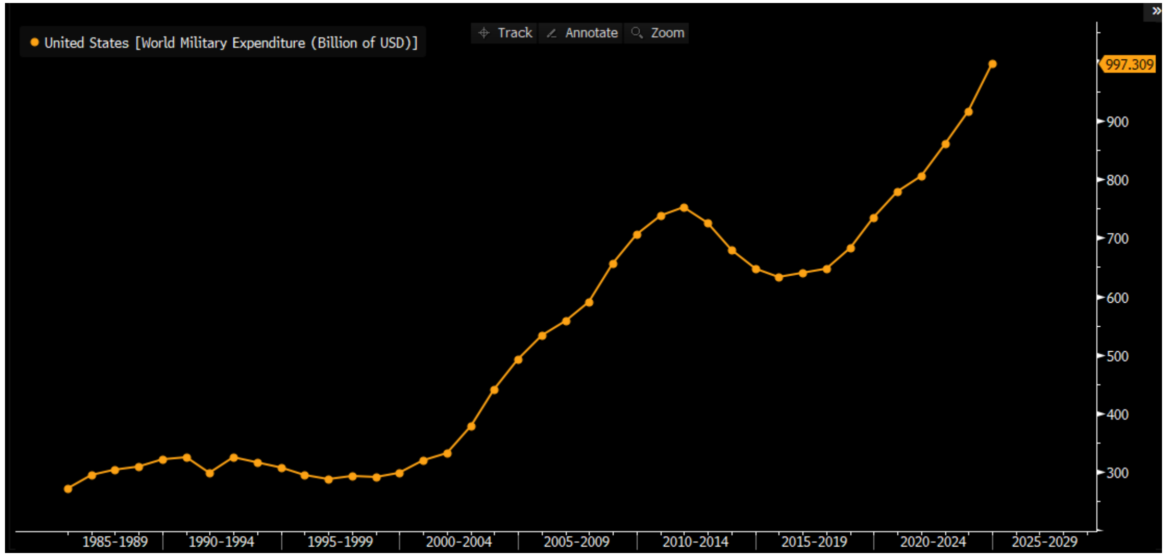


Source: Bloomberg

US Equities International Geopolitical Tensions Intensify, Sustaining the Rally in Defense Stocks

- In Q3 2025, U.S. GDP final growth came in at 4.4% year-on-year, higher than the preliminary estimate of 4.3% and above market expectations of 4.3%.
- Core PCE rose 0.2% month-on-month in November, unchanged from October's 0.2% increase and in line with consensus.
- The University of Michigan Consumer Sentiment Index final reading for January was 56.4, above both the preliminary figure of 54.0 and market expectations of 54.0.
- At the beginning of January, President Trump proposed a 50% increase in the U.S. defense budget for 2027, raising it to USD 1.5 trillion, roughly 5% of GDP. Recently, tensions between the U.S. and the EU over Greenland have heightened geopolitical risks. The defense and military sector has seen sustained capital inflows. Based on recent years of international military conflicts and the latest U.S. military operations in Venezuela, the key development focus for defense industries lies in drones, artificial intelligence, and space satellites. Consequently, related equities show strong growth prospects.

U.S. Military Spending Trend



Source: EIA

Ondas Holdings (ONDS)

Closing Price	US $12.27	Target Price	US $20

Ondas Inc. is a holding company that provides a portfolio of intelligent autonomous aerial systems and private wireless communication solutions through its subsidiaries, enhancing safety, operational efficiency, and data-driven decision-making in critical industries.

Rising Security Orders Reflect Accelerating Defense Demand for Resilient Autonomous Systems

Escalating geopolitical tensions and structurally increasing defense budgets are accelerating demand for anti-jam communications and autonomous unmanned systems that can operate in contested environments. Ondas is increasingly winning contracts for integrated security platforms that combine counter-UAS, surveillance drones, and robotic ground vehicles into a unified system rather than selling standalone hardware. Recent new orders of USD 10M and a USD 16.4M opportunity award illustrate urgent government and critical-infrastructure demand for resilient systems, positioning Ondas as a key beneficiary of the structural uptrend in military autonomy and defense expenditure.

AI-Driven Autonomy Unlocks New Growth in Demining and Infrastructure Protection

Ondas is expanding beyond traditional defense into demining, border security, and infrastructure protection, integrating drones, robotics, and AI into a single autonomous platform. In a recent Middle East pilot, the system identified roughly 150 hazardous items—about 60 confirmed mines—across a 22-acre test field, demonstrating faster and safer detection versus manual methods. With geopolitical risks driving higher defense and reconstruction spending, Ondas' AI-enabled capabilities position the company to capture wider long-term demand across military, humanitarian, and national-security missions.

FY25 Q4 Results Expected to Exceed Prior Guidance

For FY25 Q4, the company expects revenue of USD 27–29M, 51% above its earlier target. For FY25 full-year revenue, management forecasts USD 47.6–49.6M, up 23% versus prior guidance. Preliminary data also shows a substantial increase in backlog, reaching USD 65.3M as of Dec 31, compared to USD 23.3M on Nov 13—an increase of 180%. Ondas raised its FY26 revenue target to USD 170–180M, 25% higher than the previous USD 140M forecast, which includes approximately USD 30M from Roboteam.

Valuation Consensus

Bloomberg's 12-month average target price is USD 18.38, with a high estimate of USD 25 and a low of USD 16.

Source: Bloomberg

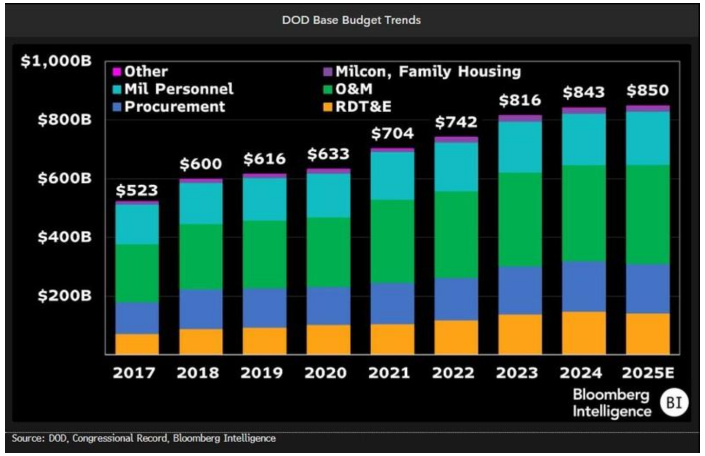
1-Year Price

Financials

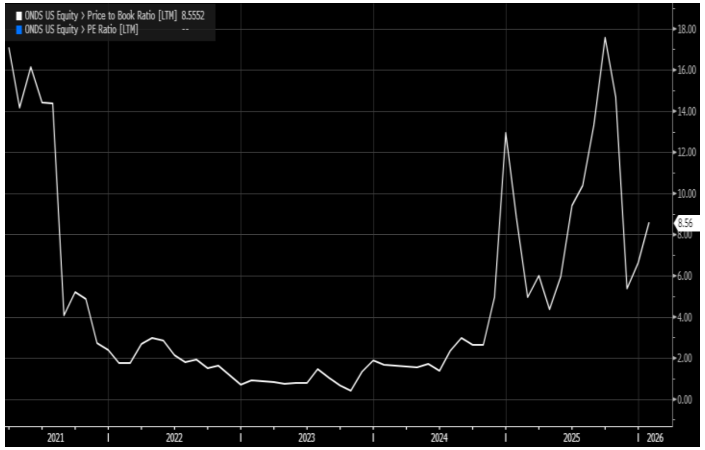
	2022	2023	2024	2025F	2026F
Revenue Growth(%)	-26.9	638.1	-54.2	572.0	265.9
EBITDA (%)	-2090.7	-213.1	-399.8	-62.7	-12.9
EPS(USD)	-1.27	-0.86	-0.61	-0.25	-0.12
Net Profit Margin(%)	-187.9	32.38	28.81	58.68	54.37

Source: Bloomberg; 2025/26F are market estimates

DOD Base Budget Trends



P/E & P/B



AeroVironment, Inc. (AVAV)

Closing Price US $307.75 **Target Price** US $380

AeroVironment, Inc. designs, develops, and produces small unmanned aircraft systems (UAS) and fast-charging systems for electric industrial vehicles. The company also provides remote tracking antennas, sensors, and missile systems, with most sales generated in the U.S. market.

Rising Global Defense Budgets Drive Sustained Demand for Autonomous and Counter-UAS Systems

Defense spending continues to rise across the U.S., Europe, Japan, and Taiwan, accelerating procurement of unmanned systems, loitering munitions, and counter-drone technologies. This supports AeroVironment's expanding backlog and strengthens multi-year revenue visibility. Recent deliveries of JLTV-mounted LOCUST laser weapon systems under the U.S. Army's AMP-HEL program — along with ongoing operational deployments — highlight AVAV's position as a key provider of cost-effective, scalable solutions against modern drone threats.

Expansion into Maritime and Multi-Domain Autonomy Strengthens Long-Term Growth Platform

AeroVironment is broadening its autonomous ecosystem into maritime and subsea robotics, supported by a USD 480,000 contract from the U.S. Coast Guard and the launch of the Ghost underwater unmanned vehicle. This expansion extends AVAV's presence across air, land, and sea autonomy, positioning the company to benefit from rising demand for robotic systems in maritime security, disaster response, and critical-infrastructure protection.

FY26 Q2 Results Beat Expectations

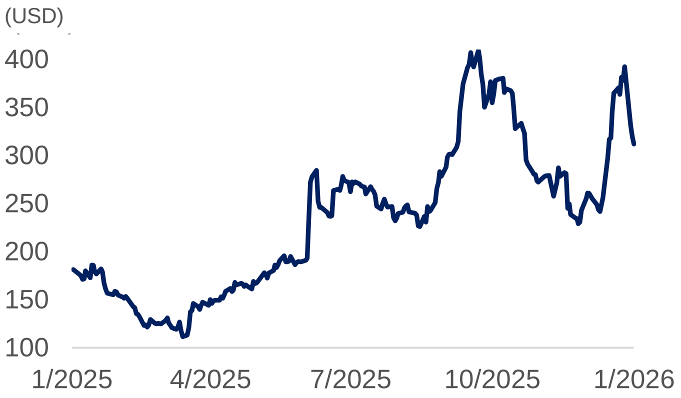
Revenue reached USD 472.5M, up 151% from USD 188.5M in FY25 Q2. The increase was driven by USD 173.8M in product sales and USD 110.2M in service revenue. The acquisition of BlueHalo (completed May 1, 2025) contributed USD 134.4M to product revenue and USD 110.7M to service revenue during the quarter.

Valuation Consensus

Bloomberg 12-month average target price: USD 384.5/Estimate: USD 450/315

Source: Bloomberg

1-Year Price

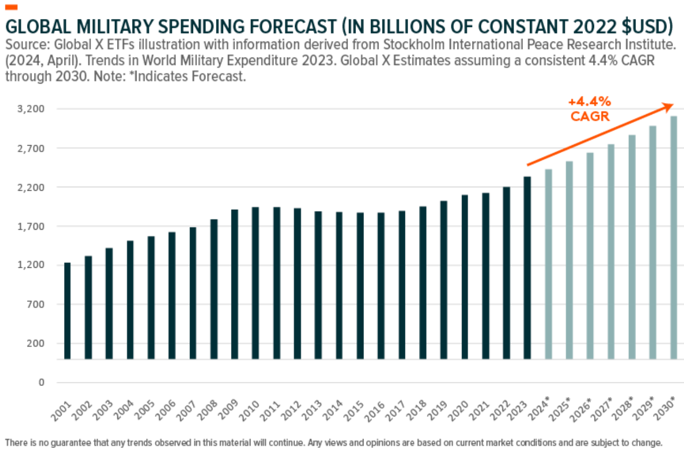


Financials

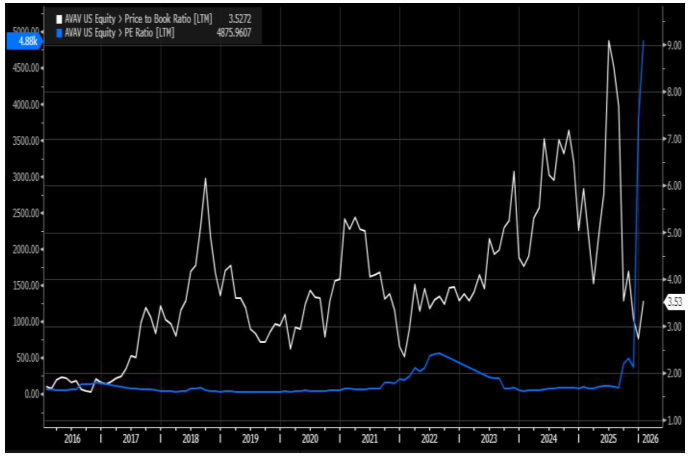
	2023	2024	2025	2026F	2027F
Revenue Growth(%)	21.3	32.6	14.5	142.5	17.0
EBITDA (%)	22.7	16.8	15.8	15.4	16.9
EPS(USD)	0.44	2.42	2.61	3.46	4.51
Net Profit Margin(%)	182.10	448.51	7.82	32.62	30.28

Source: Bloomberg; 2025/26F are market estimates

Global Military Spending Forecast



P/E & P/B



KGI

TW Equities Record-High Momentum Continues, AI Orders Drive Export Orders Above Expectations

Taiwan Equities Maintain Record-High Momentum; Healthy Sector Rotation Supports Ongoing Uptrend

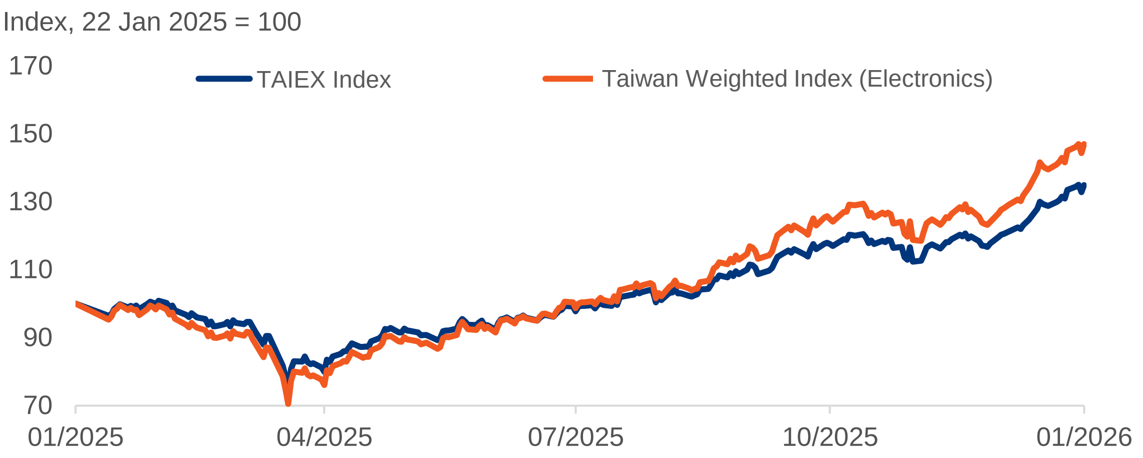
Taiwan equities opened higher and continued rising last week, extending their record-high trend. Some previously weaker sectors also rebounded, forming a healthy rotation pattern that favors continuation of the medium-term uptrend. However, as the index approaches the 32,000 mark, short-term profit-taking and heavy turnover may lead to heightened volatility. As long as the market holds above last Thursday's low of 31,371, the short-term uptrend remains intact. Investors should focus on sectors supported by institutional buying—including AI and semiconductor supply chains, memory, passive components, upstream PCB, low-earth-orbit satellite, and power-equipment names.

Strong AI Demand Drives Export Orders Above Expectations; ICT and Electronics Lead Growth

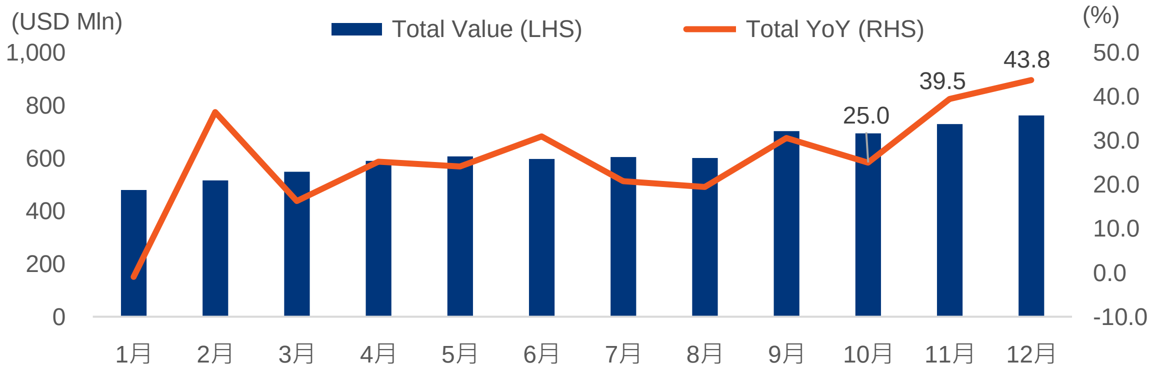
Export orders for December 2025 reached USD 76.2bn, up 43.8% YoY and beating Bloomberg's median estimate of 39.5%. Strong AI and cloud demand boosted orders for servers, networking, and GPUs, making information & communication products the strongest category at USD 28.68bn (+88.4% YoY). Electronics orders reached USD 27.87bn (+39.9% YoY), lifted by AI, HPC, and emerging-tech demand, driving broad-based growth across IC manufacturing, chip distribution, IC design, PCB, packaging/testing, and memory.

Looking ahead to January, continued AI-related demand and a low base suggest export orders could rise around 50% YoY. Markets will also watch whether non-tech categories show a more noticeable recovery.

TAIEX Index and Taiwan Electronics Sector Trends



Export Orders Value & YoY



Source: Bloomberg

Unimicron (3037 TT)

Unimicron specializes in the manufacturing of printed circuit boards (PCBs) and IC substrates. The company has increased its market share through multiple acquisitions over the years, and after completing the merger with First Hi-Tech in 2009, it briefly became the world's largest PCB supplier.

Key Features

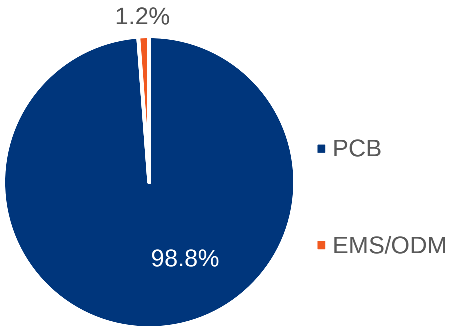
4Q25 Gross Margin Rebounded

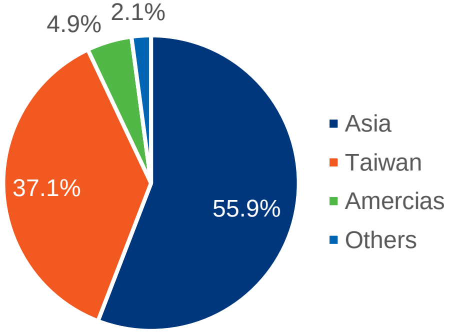
Fourth-quarter revenue reached NT$34.69bn, up 2% QoQ and 18% YoY. Benefiting from ABF substrate utilization rising to 90% and BT substrate utilization holding at 80–85%, along with pricing adjustments and a 3.7% depreciation of the NT dollar against the U.S. dollar, gross margin improved significantly.

ABF Capacity Expansion to Drive Growth

Looking into 2026, total ABF capacity is expected to increase by 15%. At the Guangfu plant, 60% of capacity has been activated due to AI-GPU customer demand, leaving roughly 40% expansion potential. The Yangmei plant rapidly ramped to near full utilization in 4Q25, supporting high-end CSP products with further expansion potential. Combined, Guangfu and Yangmei's high-end ABF capacity now accounts for 35–40%.(+29% YoY).

Revenue Sources and Regions





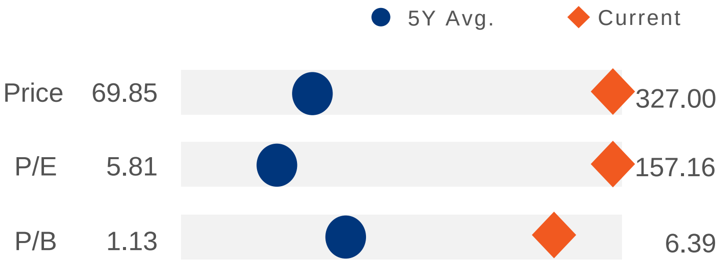
Source: Bloomberg

Financials

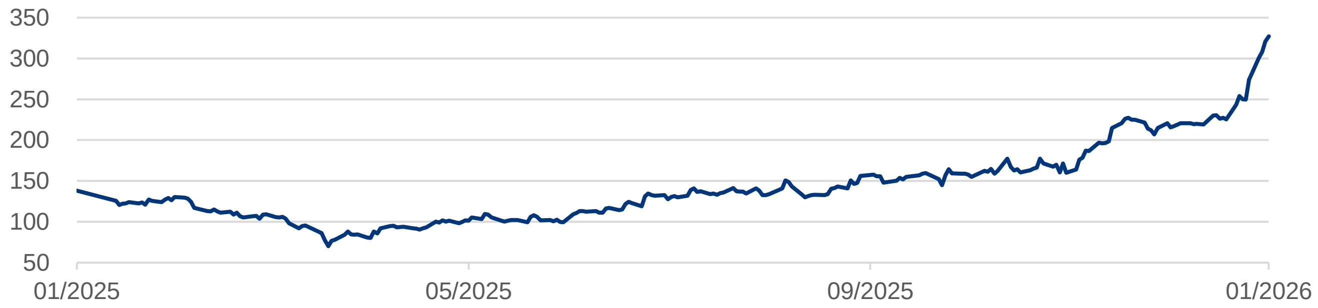
	2022	2023	2024	2025F	2026F
EPS (NTD)	10.21	10.25	11.01	14.68	18.90
EPS Growth (%)	1.6	0.4	7.4	33.4	28.8
P/E Ratio	23.2	23.1	21.5	16.1	12.5
ROE (%)	10.0	9.7	9.7	12.0	14.6

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 22 Jan 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	31.06	48.30	107.26	156.46	48.64	137.08

Nanya PCB (8046 TT)

Nanya Printed Circuit Board Co., Ltd. manufactures and sells printed circuit boards (PCBs) and integrated circuit (IC) substrates. The company produces high-density interconnect (HDI) boards and multilayer boards, serving customers across the U.S., Asia, Europe, and other regions.

Key Features

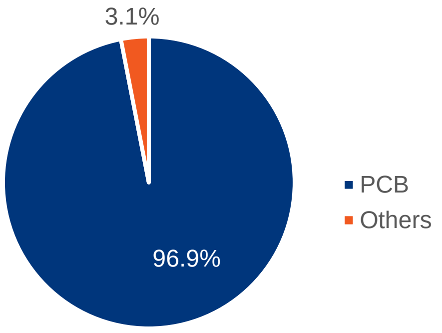
4Q25 Gross Margin Recovery

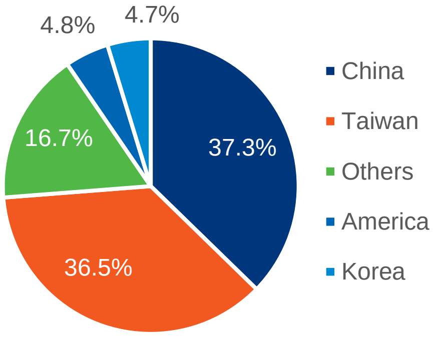
In 4Q25, revenue reached NT$11.17 billion, up 42% YoY. ABF and BT substrates both recorded low single-digit growth, supported by demand for high-end switches, yield improvements, and steady memory demand. Benefiting from a 3.7% depreciation of the NT dollar against the U.S. dollar, low single-digit ABF price increases, and ~15% price hikes in BT (T-glass related), gross margin rebounded significantly.

High-end Products & Capacity Expansion Drive Growth

Looking ahead to 1Q26, revenue is expected to decline slightly QoQ, but ongoing substrate price increases, product mix optimization, and ASP improvements will drive momentum, particularly in high-end switches and memory. In 2026, the share of high-end products will continue to rise, with more than half of ABF capacity already capable of supporting large body sizes, further boosting operational growth.

Revenue Sources and Regions





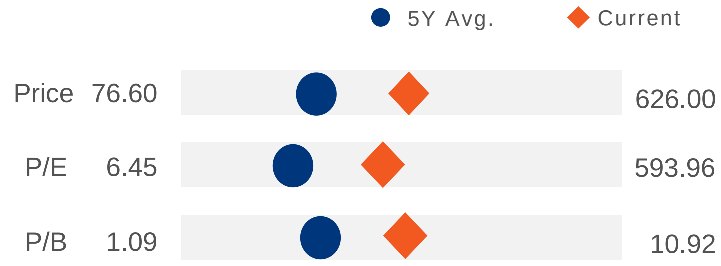
Source: Bloomberg

Financials

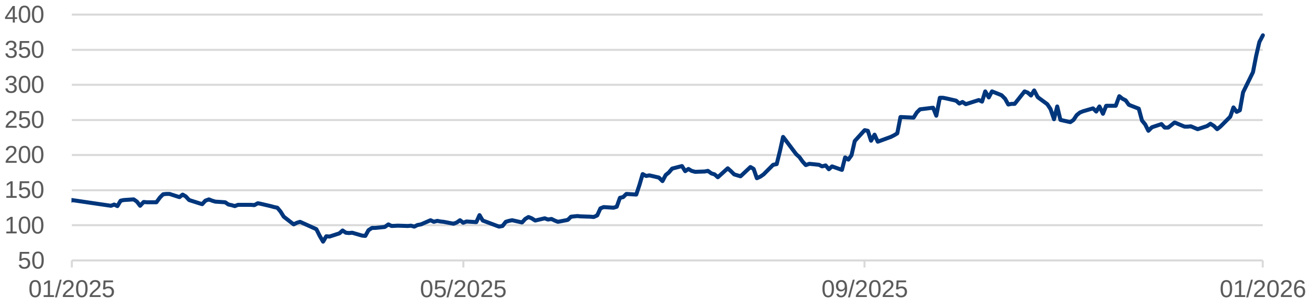
	2023	2024	2025	2026F	2027F
EPS (NTD)	9.00	0.32	3.25	13.57	22.87
EPS Growth (%)	-70.0	-96.5	931.8	317.6	68.4
P/E Ratio	40.1	1,145	111.0	26.6	15.8
ROE (%)	11.4	0.4	4.6	17.8	25.4

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 22 Jan 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	40.61	51.84	34.48	127.30	53.73	172.43

Mutual Funds/ ETFs

Geopolitical Risks Resurface, Defense Industry Moves Into Focus

► iShares U.S. Aerospace & Defense ETF (ITA)

- Tracks the performance of the Dow Jones U.S. Select Aerospace & Defense Index.
- One of the largest U.S. defense-sector ETFs in the market.
- Highly concentrated holdings — the top two holdings, GE Aerospace and RTX, account for about 35% of the portfolio.

► Global X Defense Tech ETF (SHLD)

- Tracks the Global X Defense Tech Index.
- Targets companies focused on cybersecurity, advanced weapons systems, and security-related AI technologies.
- Investment scope is not limited to U.S. companies — among the top 10 holdings are Germany's largest defense company Rheinmetall and the U.K.'s largest defense company BAE Systems.

► Select STOXX Europe Aerospace & Defense ETF (EUAD)

- Tracks the STOXX Europe Total Market Aerospace & Defense Index.
- European countries continue expanding military deployment amid rising geopolitical tensions, driving strong demand across the defense supply chain — including aerospace, defense equipment, and weapons R&D — which helped this ETF gain 74.7% last year.
- Highly concentrated portfolio, holding only 13 companies, with the top 10 holdings accounting for over 66%.

Product	iShares U.S. Aerospace & Defense ETF (ITA)		Global X Defense Tech ETF (SHLD)		Select STOXX Europe Aerospace & Defense ETF (EUAD)	
Features	■ U.S. Core Defense & Aerospace ■ Large Scale, High Liquidity		■ Global Expansion ■ Focus on Defense Technology		■ Europe: Aerospace & Defense ■ Dual Engines: Military + Civil Aviation	
Aum	USD 15.037 billion		USD 6.91 billion		USD 1.361 billion	
Track Index	Dow Jones U.S. Select Aerospace & Defense Index		Global X Defense Tech Index		STOXX Europe Total Market Aerospace & Defense Index	
Currency	USD		USD		USD	
Holdings	41		49		13	
Management Fee	0.38%		0.50%		0.50%	
3M/YTD Return	14.12% / 11.91%		15.55% / 18.64%		6.12% / 11.80%	
Top 5 Industry (%)	Defense Machinery Electronics Heavy Machinery Steel	87.78 5.49 1.67 1.59 1.39	Defense Software Computers Heavy Machinery Shipbuilding	78.71 7.06 5.81 2.82 2.51	Aerospace / Defense Commercial Services & Others	67.51 32.49
Top 5 Holdings (%)	General Electric Raytheon Boeing Lockheed L3Harris	19.89 15.68 8.45 4.80 4.66	Lockheed Rheinmetall Raytheon Gen Dynamics Palantir	8.04 7.49 7.45 6.98 6.68	Rolls-Royce Airbus Safran Rheinmetall BAE Systems	17.96 17.74 16.94 12.18 10.31

Source: Bloomberg

iShares U.S. Aerospace & Defense ETF (ITA.US)

Profile

This ETF tracks the Dow Jones U.S. Select Aerospace & Defense Index, aiming to replicate the index's holdings and performance.

Focused on "U.S. Aerospace + Defense"

The index consists of U.S.-based aerospace and defense contractors, all of which hold significant market presence and influence. These companies reflect trends in U.S. defense spending and the broader defense-industry cycle. The ETF is highly concentrated — the top two holdings, GE and Raytheon Technologies, account for about 35% of the portfolio.

Large scale and high liquidity

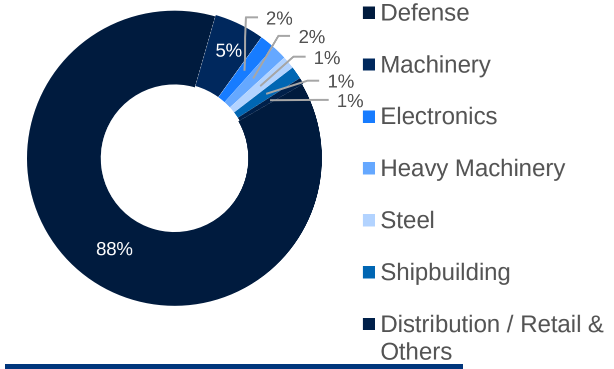
With nearly 20 years of history and over USD 15 billion in assets under management, the ETF offers strong liquidity, tight bid-ask spreads, high transparency, and ease of trading.

Competitive expense ratio

The ETF's expense ratio is 0.38%, which is relatively low among peers. A lower fee structure helps long-term investors reduce costs and improve net returns.

Inception	2006/5/1	**AUM**	USD 15.037 bln
ETF Category	Stocks	**Holdings**	41
Expense Ratio	0.38%	**3Y SD (Ann.)**	16.60%

Sectors

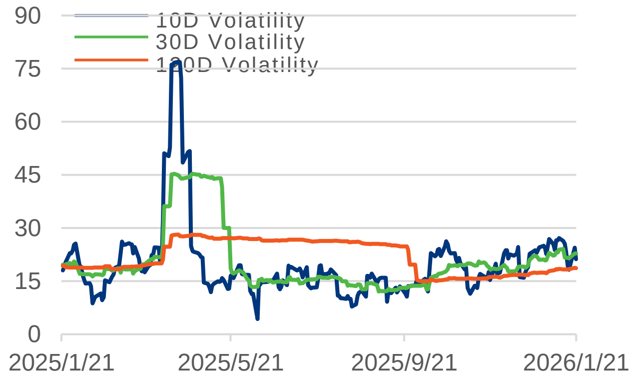


Top-5 Holdings (%)

General Electric	19.89
Raytheon	15.68
Boeing	8.45
Lockheed	4.80
L3Harris	4.66

Price (Past 1 Year)

Volatility (Past 1 Year)



As of 21 Jan 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	9.53	14.12	11.91	55.41	125.35	167.18

Source: Bloomberg

KGI

Global X Defense Tech ETF (SHLD.US)

Profile

This ETF tracks the Global X Defense Tech Index, aiming to replicate the index constituents and corresponding investment performance.

■ Focused on "Defense Technology"

The index invests mainly in companies that build and manage cybersecurity systems, apply AI and big data, and develop advanced military systems and hardware such as robotics, fuel systems, and defense aircraft. This ETF is suitable for investors who already hold broad-market or traditional defense ETFs and want additional exposure to the upgrade cycle in defense technology.

■ Global Diversification

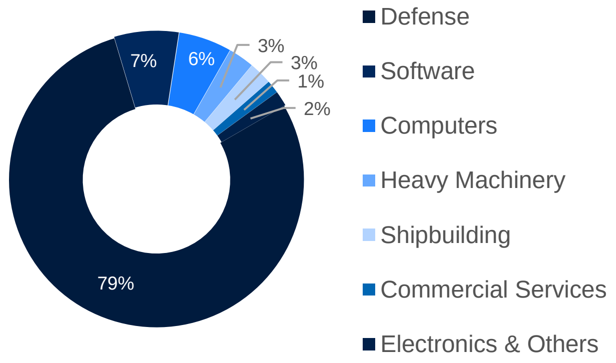
The index covers multiple countries — including the U.S., Germany, South Korea, the U.K., and others — helping reduce geopolitical and single-country concentration risk while providing internationally diversified exposure.

■ Differentiated Exposure

Defense-related revenue is driven by strategic military priorities rather than economic cycles, providing thematic independence. This characteristic supports portfolio allocation by improving diversification benefits.

Inception	2023/9/11	**AUM**	USD 6.91 billion
ETF Category	Stocks	**Holdings**	49
Expense Ratio	0.50%	**3Y SD (Ann.)**	-

Sectors

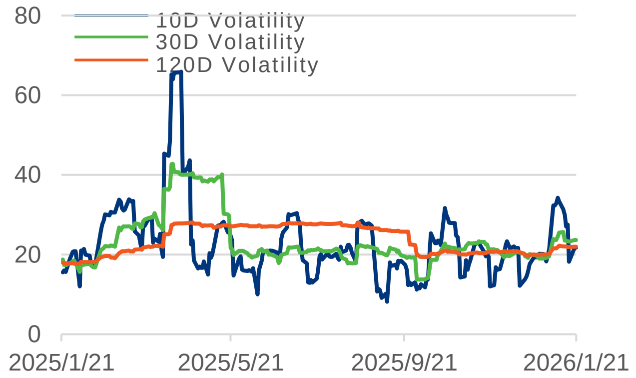


Top-5 Holdings (%)

Lockheed	8.04
Rheinmetall	7.49
Raytheon	7.45
Gen Dynamics	6.98
Palantir	6.68

Price (Past 1 Year)

Volatility (Past 1 Year)



As of 21 Jan 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	16.58	15.55	18.64	92.20	-	-

Source: Bloomberg

Select STOXX Europe Aerospace & Defense ETF (EUAD.US)

Profile

This ETF tracks the STOXX Europe Total Market Aerospace & Defense Index, aiming to replicate the index constituents and corresponding investment performance.

■ Focused on European Aerospace & Defense

The index consists of European companies whose primary businesses include manufacturing, servicing, supplying, and distributing civil and military aerospace equipment, systems, and technologies, as well as civil and military defense and protection equipment, technologies, systems, and services.

■ Benefiting From Europe’s Expanding Defense Budgets

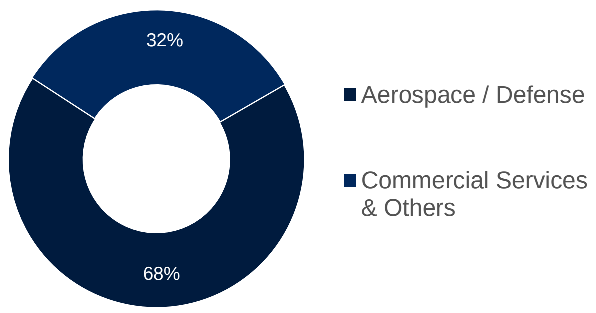
With European countries significantly increasing defense spending and accelerating defense autonomy, this ETF provides direct exposure to Europe’s growing defense budget. It offers unique thematic value and regional diversification benefits within defense investing.

■ Concentrated Holdings

The ETF holds only about 13 European aerospace and defense companies, keeping the theme highly pure and the portfolio concentrated.

Inception	2024/10/22	**AUM**	USD 1.361 bln
ETF Category	Stocks	**Holdings**	13
Expense Ratio	0.50%	**3Y SD (Ann.)**	-

Sectors

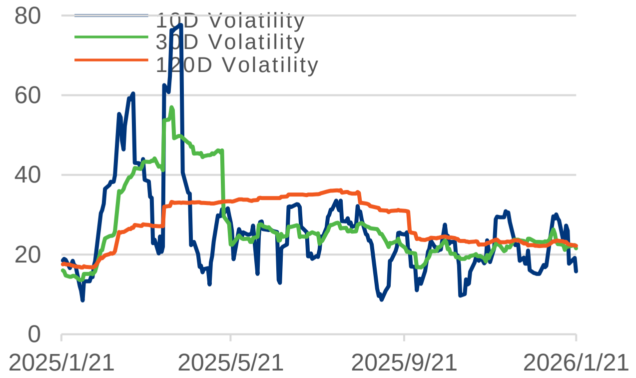


Top-5 Holdings (%)

Rolls-Royce	17.96
Airbus	17.74
Safran	16.94
Rheinmetall	12.18
BAE Systems	10.31

Price (Past 1 Year)

Volatility (Past 1 Year)



As of 21 Jan 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	11.77	6.12	11.80	79.05	-	-

Source: Bloomberg

Bonds

Japan's Leading Trading House Offers Business Strength & Diversification; Bond Allocation Helps Lock In Yield

► MITCO 4.125 09/09/30 (Mitsubishi Corporation) (USD)

- Mitsubishi Corporation is one of Japan's largest general trading and investment companies, and one of the country's "Big Five sōgō shōsha," with total assets exceeding JPY 20 trillion. Its business spans eight major groups, including energy, metals, machinery, chemicals, automotive, food & consumer industry, power solutions, and urban development & infrastructure. The company also plays a significant role in retail through subsidiaries and affiliates, holding a 50% stake (shared with KDDI) in Lawson, one of Japan's largest convenience-store chains.
- The company's assets and revenue sources are geographically diversified across Japan, Australia, Asia, Europe, North America, and South America.
- Mitsubishi Corporation's highly diversified and stable business portfolio helps provide a resilient earnings base and partially offsets risks such as U.S. tariffs, global recession, and geopolitical tensions. Its broad involvement across value chains — from upstream to downstream — enhances profitability stability, particularly in retail (including convenience stores), food operations (such as salmon and trout farming), and industrial infrastructure. Long-standing customer relationships and its integrated value chain also help protect margins.
- The company maintains solid liquidity. S&P expects liquidity sources over the next 12 months to cover uses by at least 1.1×, supported by Mitsubishi Corporation's position as a core Mitsubishi Group member and its long-standing banking relationships with Japan's major financial institutions.
- Since 2016, the company has held high credit ratings of A2 from Moody's and A from S&P, both with stable outlooks.

Product	MITCO 4.125 09/09/30 (Mitsubishi Corporation) (USD)
ISIN	USJ43830FQ64
Features	The company is one of Japan's five major trading houses, with a diversified and stable business portfolio providing a solid earnings base; it also maintains ample liquidity and strong financial resilience.
Maturity Date	2030/9/9
Next Call Date	2030/8/9日
Coupon (%)	Fixed/4.125/Semi-Annual
Currency	USD
Years to Maturity	4.63
Credit Rating (Moody's/Fitch/S&P)	A2/-/A
Seniority	Senior Unsecured
YTM/YTC (%)	4.13/4.13

Source: Bloomberg

MITCO 4.125 09/09/30 (Mitsubishi Corporation)

Mitsubishi Corporation is one of Japan's largest general trading and investment companies, and one of the country's "Big Five sōgō shōsha," with total assets exceeding JPY 20 trillion. Its business spans eight major groups, including energy, metals, machinery, chemicals, automotive, food & consumer industry, power solutions, and urban development & infrastructure. The company also plays a significant role in retail through subsidiaries and affiliates, holding a 50% stake (shared with KDDI) in Lawson, one of Japan's largest convenience-store chains.

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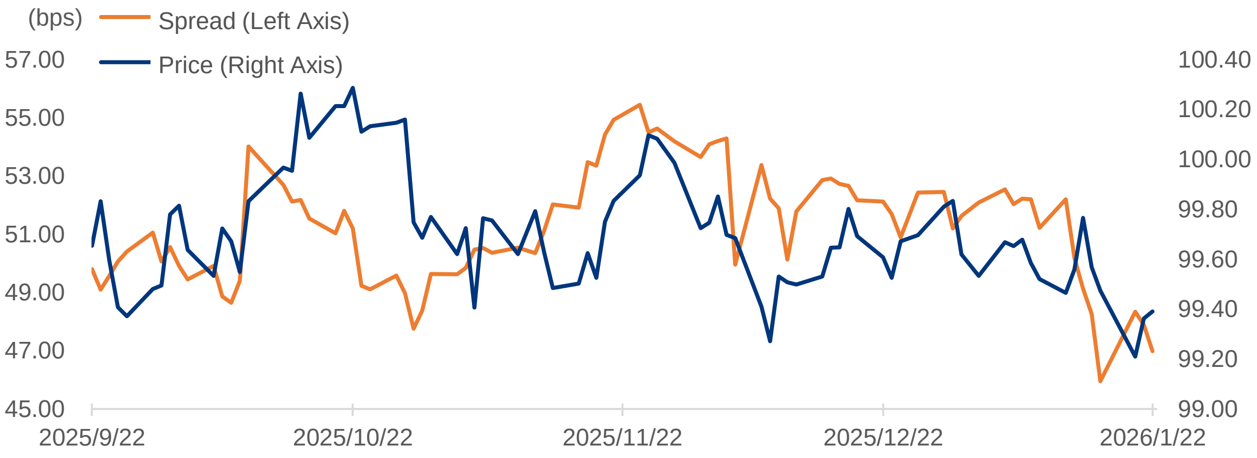
Financials	2023	2024	2025
FCF (100Mln USD)	109.11	57.26	83.64
EBITDA Margin (%)	6.97	5.84	5.67
EBITDA / Interest Expense (x)	11.05	5.30	6.19

Overview

Name	MITCO 4.125 09/09/30	ISIN	USJ43830FQ64
Maturity Date	2030/9/9	Remaining Maturity	4.63
Coupon(%)	Fixed/4.125/Semi-Annual	YTM/YTC(%)	4.13/4.13
Currency	USD	Min. Subscription/ Increment	200,000/1,000
Ratings (Moody's/Fitch/S&P)	A2/-/A	Seniority	Senior Unsecured

Price (New Issued Bond)



Source: Bloomberg, January 15, 2026

Appendix

Key Economic Data / Events

► JAN 2026

19 Monday	20 Tuesday	21 Wednesday	22 Thursday	23 Friday
• Japan Nov Core Machinery Orders MoM (Act:-11.0% Est:-5.2% Prev:7.0%) • Eurozone Dec Final CPI YoY (Act:1.9% Prev:2.1%) • China 4Q GDP YoY (Act:4.5% Est:4.5% Prev:4.8%) • China Dec Retail Sales YoY (Act:0.9% Est:1.0% Prev:1.3%) • China Dec Industrial Production YoY (Act:5.2% Est:5.0% Prev:4.8%)	• Taiwan Dec Export Orders YoY (Act:43.8% Est:35.5% Prev:39.5%)		• U.S. Weekly Initial Jobless Claims (Act:200k Est:209k Prev:199k) • U.S. 3Q Final GDP QoQ (AR) (Act:4.4% Est:4.3% Prev:3.8%) • U.S. Nov PCE YoY (Act:2.8% Est:2.8% Prev:2.7%) • U.S. Nov Core PCE YoY (Act:2.8% Est:2.8% Prev:2.7%) • Japan Dec Exports YoY (Act:5.1% Est:6.1% Prev:6.1%)	• U.S. Jan S&P Global Mfg. PMI (Prelim) (Est:52.0 Prev:51.8) • U.S. Jan Final Michigan Consumer Sentiment (Est:54.0 Prev:52.9) • Japan Jan S&P Global Mfg. PMI (Prelim) (Act:51.5 Prev:50.0) • Japan Dec Nationwide CPI YoY (Act:2.1% Est:2.2% Prev:2.9%) • BoJ Uncollateralized Overnight Call Rate (Act:0.75% Est:0.75% Prev:0.75%)

26 Monday	27 Tuesday	28 Wednesday	29 Thursday	30 Friday
• U.S. Nov Durables MoM (Prelim) (Est:3.0% Prev:-2.2%)	• U.S. Jan Conference Board Consumer Confidence (Est:90.0 Prev:89.1) • Japan Dec Machine Tool Orders YoY (Final) (Prev:14.8) • UNH, RTX, BA, UNP Earnings	• TXN, APH, T, DHR, GEV Earnings	• U.S. Weekly Initial Jobless Claims (Prev:200k) • U.S. Jan FOMC Fed Funds Rate (Est:3.75% Prev:3.75%) • U.S. Nov Durables MoM (Final) (Prev:-2.2%) • IBM, LRCX, MSFT, NOW, TSLA, META, CAT, PGR, LMT Earnings	• U.S. Dec PPI YoY (Prev:3.0%) • Japan Jan Tokyo CPI YoY (Est:1.8% Prev:2.0%) • Japan Dec Unemployment Rate (Est:2.6% Prev:2.6%) • Japan Dec Retail Sales MoM (Est:-0.4% Prev:0.7%) • AAPL, MA, V, CVX, XOM, AXP Earnings

Source: Bloomberg

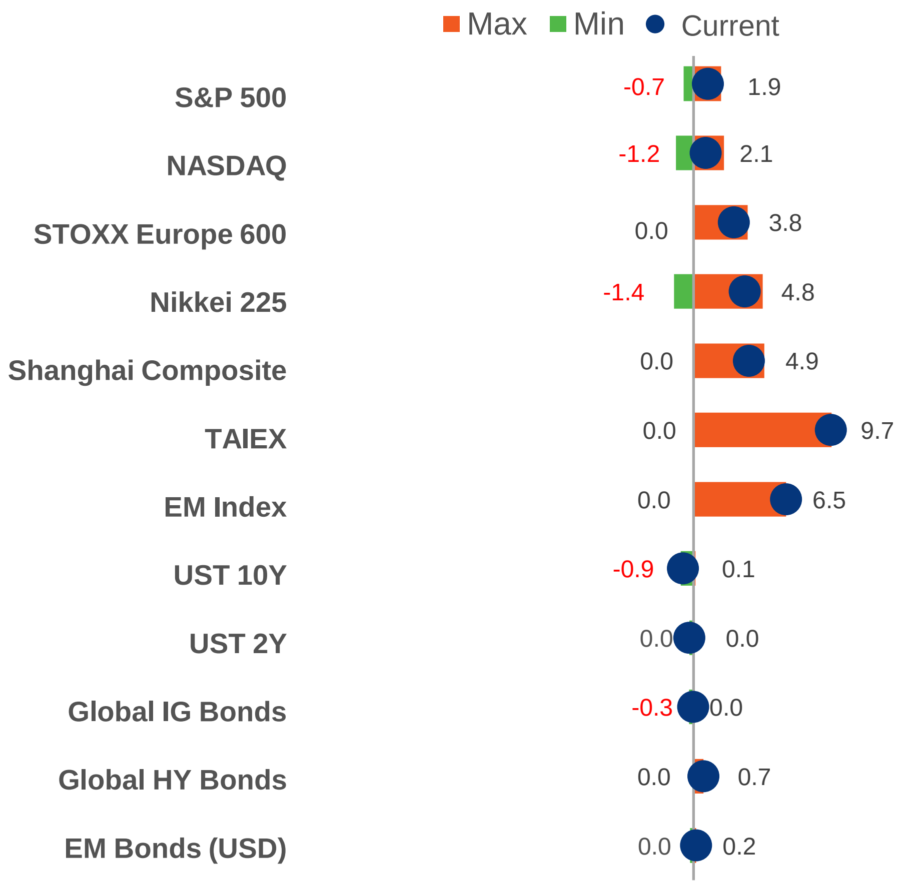
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2026/1/21	Interactive Brokers Group (IBKR)	1.61B	1.64B	0.59	0.65	V	V
2026/1/21	Netflix (NFLX)	11.97B	12.05B	0.55	0.56	V	V
2026/1/21	Johnson & `Johnson (JNJ)	24.15B	24.60B	2.46	2.46	V	
2026/1/21	Prologis (PLD)	2.09B	2.10B	0.70	1.49	V	V
2026/1/21	Charles Schwab (SCHW)	6.34B	6.34B	1.39	1.39		
2026/1/22	Procter & Gamble (PG)	22.34B	22.20B	1.86	1.88		V
2026/1/22	General Electric (GE)	11.20B	11.87B	1.43	1.57	V	V
2026/1/22	Abbott Laboratories (ABT)	11.80B	11.46B	1.50	1.50		
2026/1/23	Capital One Financial (COF)	15.47B	15.60B	4.17	3.86	V	
2026/1/23	Intuitive Surgical (ISRG)	2.75B	2.87B	2.26	2.53	V	V
2026/1/23	Intel (INTC)	13.41B	13.70B	0.08	0.15	V	V

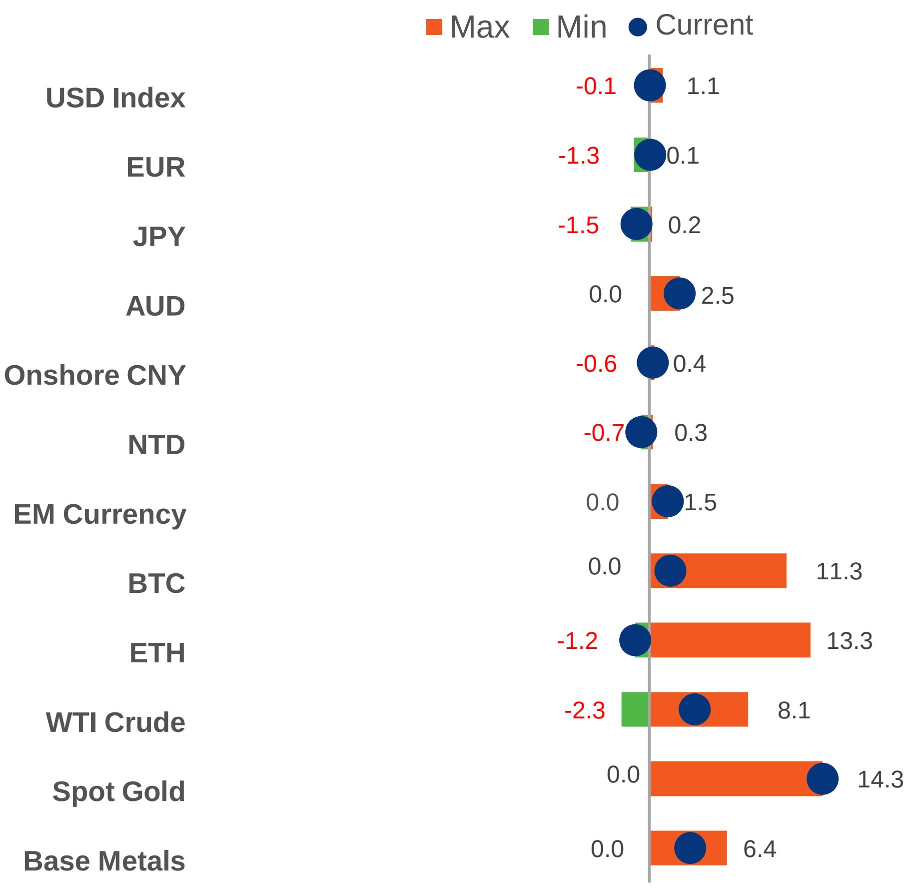
Source: Investing.com

Major Market / Asset YTD Performance

Equities & Bond Markets 2025 Performance (%)



Currencies and Commodities Market 2025 Performance (%)



Source: Bloomberg, 23 Jan 2026

Technical Analysis

S&P 500 Index

NASDAQ Index

STOXX Europe 600 Index

Nikkei 225 Index

Shanghai Composite Index

MSCI Emerging Markets Index

Gold

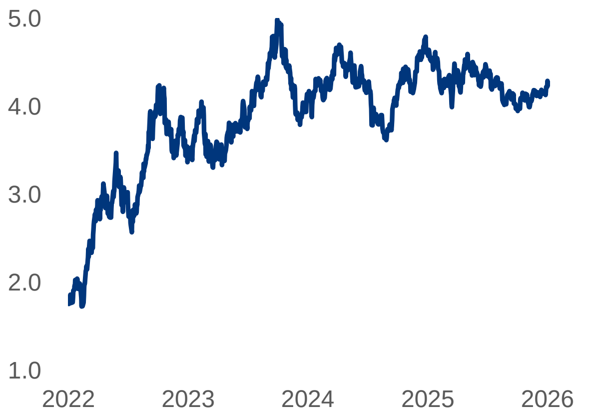
WTI Crude

Source: Bloomberg, 23 Jan 2026

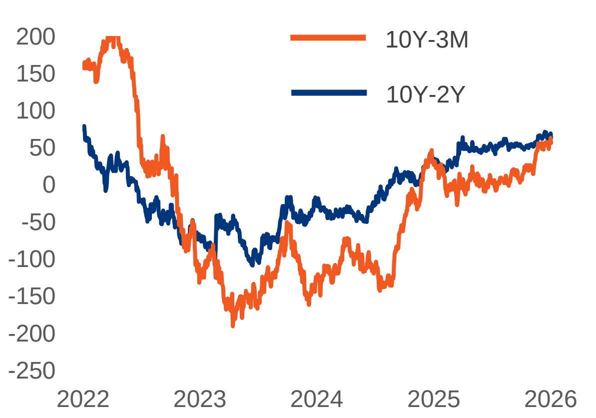
Market Monitor

U.S. CPI YoY (%)

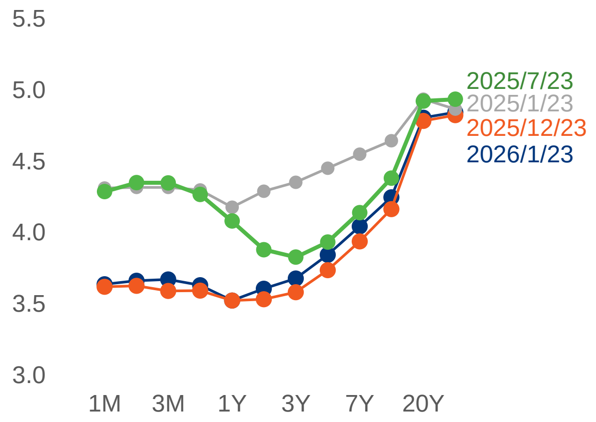
U.S. 10-Year Treasury Yield (%)



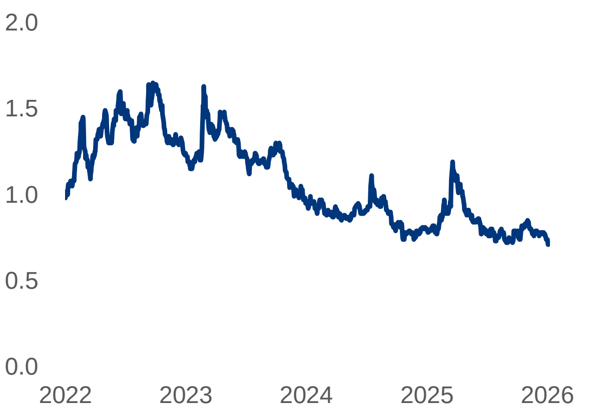
U.S. Treasury Yield Spread (bps)



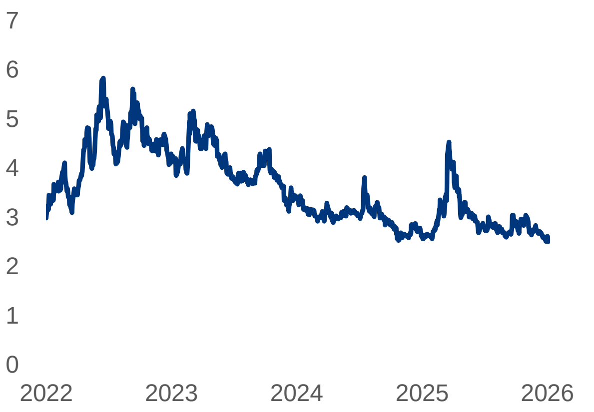
U.S. Treasury Yield Curve (%)



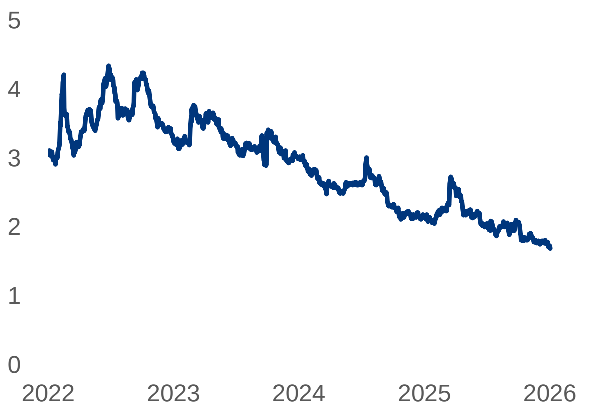
USD IG Credit Spread (%)



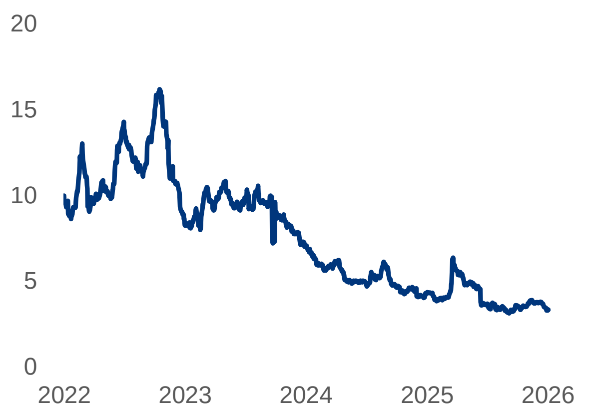
USD HY Credit Spread (%)



USD EM Credit Spread (%)



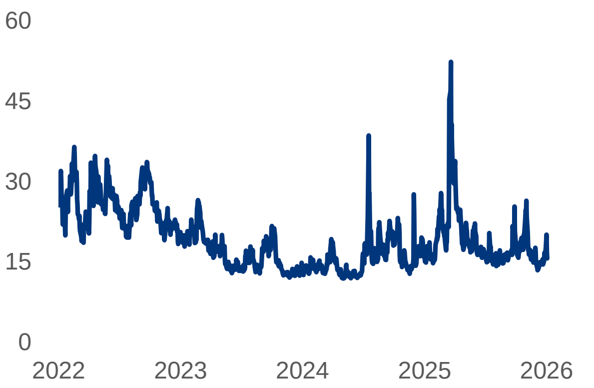
USD Asia Credit Spread (%)



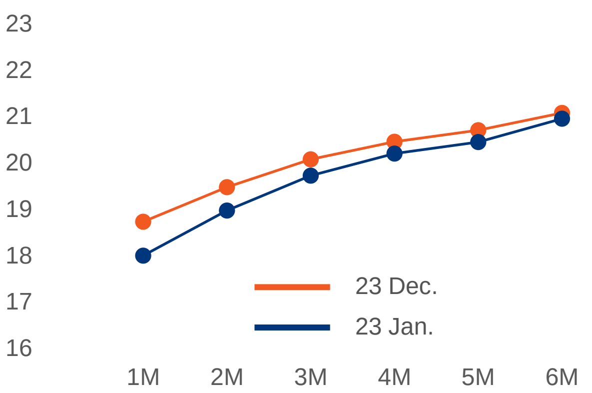
Source: Bloomberg, 23 Jan 2026

Market Monitor

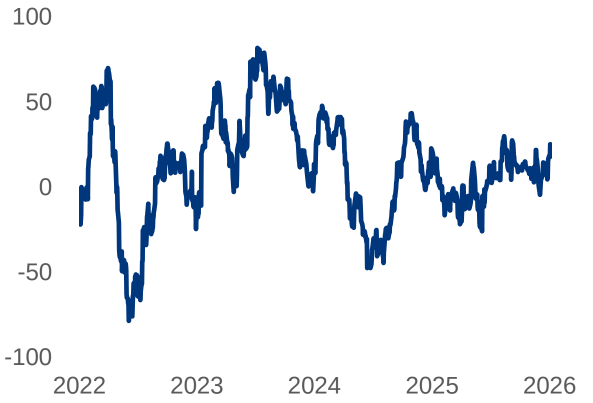
VIX Index



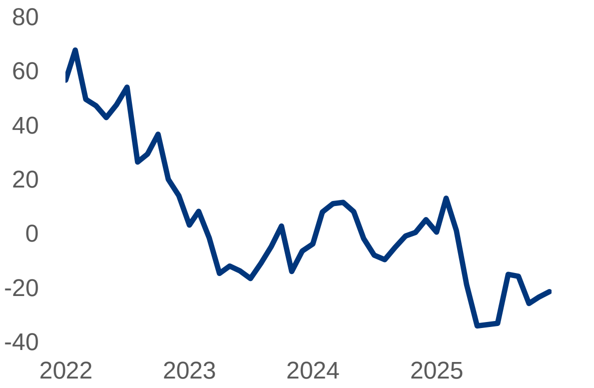
VIX Term Structure



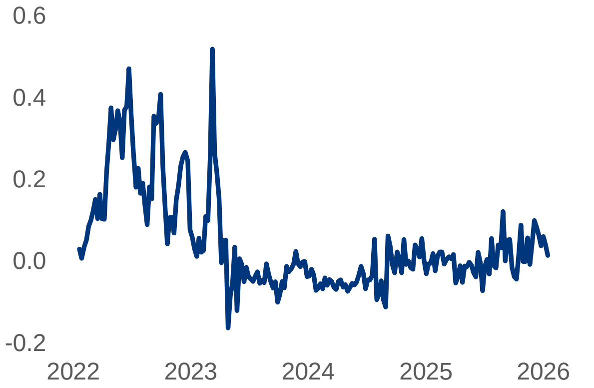
U.S. Citi Economic Surprise Index*



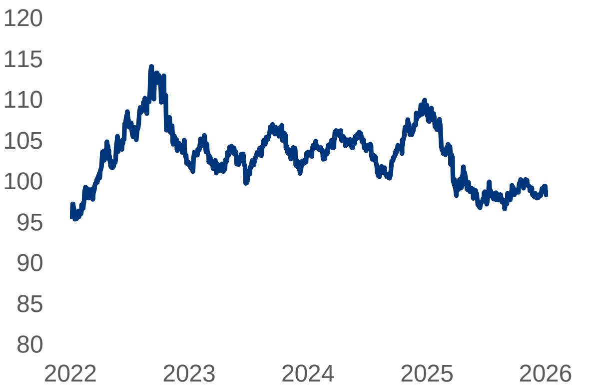
U.S. Citi Inflation Surprise Index*



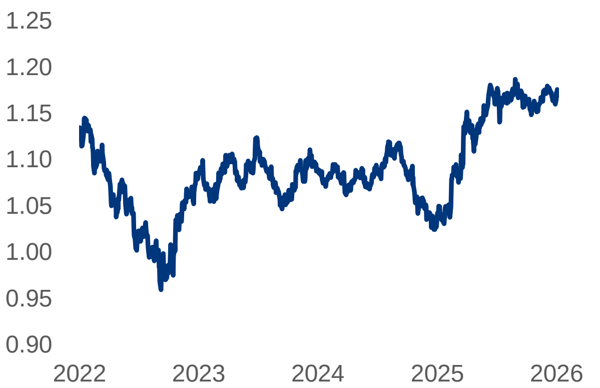
TED Spread (bps)



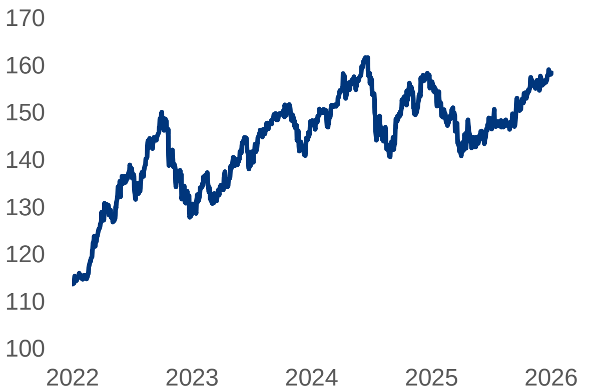
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, 23 Jan 2026 *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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