KGI

CIO Office

Global Markets Weekly Kickstart

Multi-Asset Portfolio at the Core

2 February 2026

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CIO Insights

Hong Kong Property – Retail Recovery As The Next Catalyst

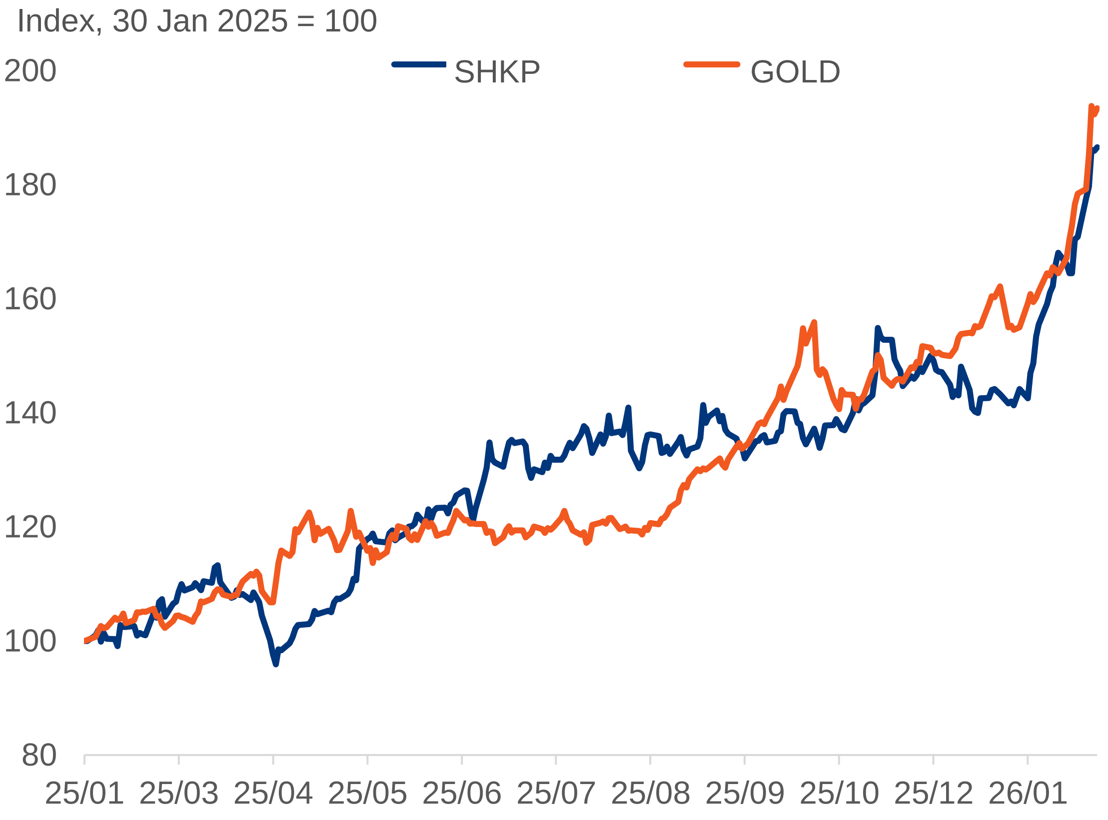
▸ **When The Crowd Is Catching Up, It's Already In The Price**

The market has consensually turned positive on Hong Kong residential and office in 2026 which KGI did in early 2025 and the share prices of leading developer has gone up 78%. It's hard to believe that the positive sentiment is not in the prices. However, typical Hong Kong property companies has three key drivers: residential, office and retail malls. We believe the recovery in the retail sentiment, which the market mostly disagree now, will be the next catalyst for the sector.

▸ **False Impression On Hong Kong Retail**

General impression is that Hong Kong retail environment is challenging in the face of increasing domestic consumption across the border. However, data shows that local spending per capita is in fact increasing. Two factors are in work to drive the continuation of the retail sales improvement: 1) strengthening RMB in wake of the weak US dollar trend will continue to enhance tourist spending power in Hong Kong; 2) positive wealth effect and confidence boost from the improvement in the stock market and residential market.

SHKP VS Gold One Year Performance



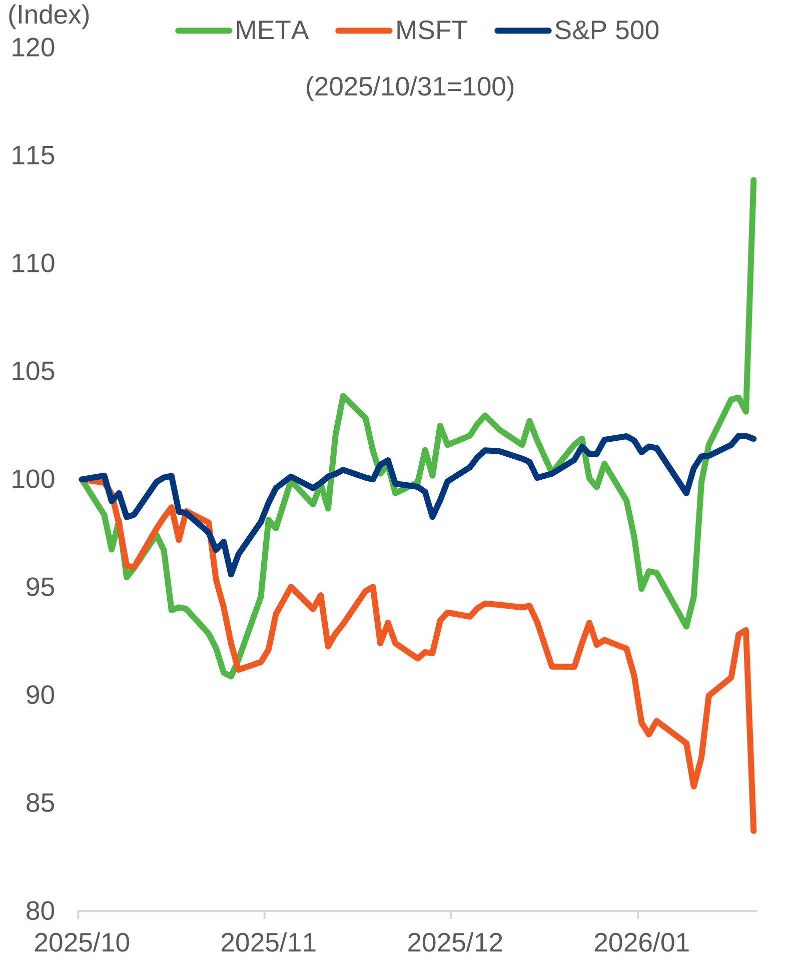
Source: Bloomberg, KGI

Chart of the Week

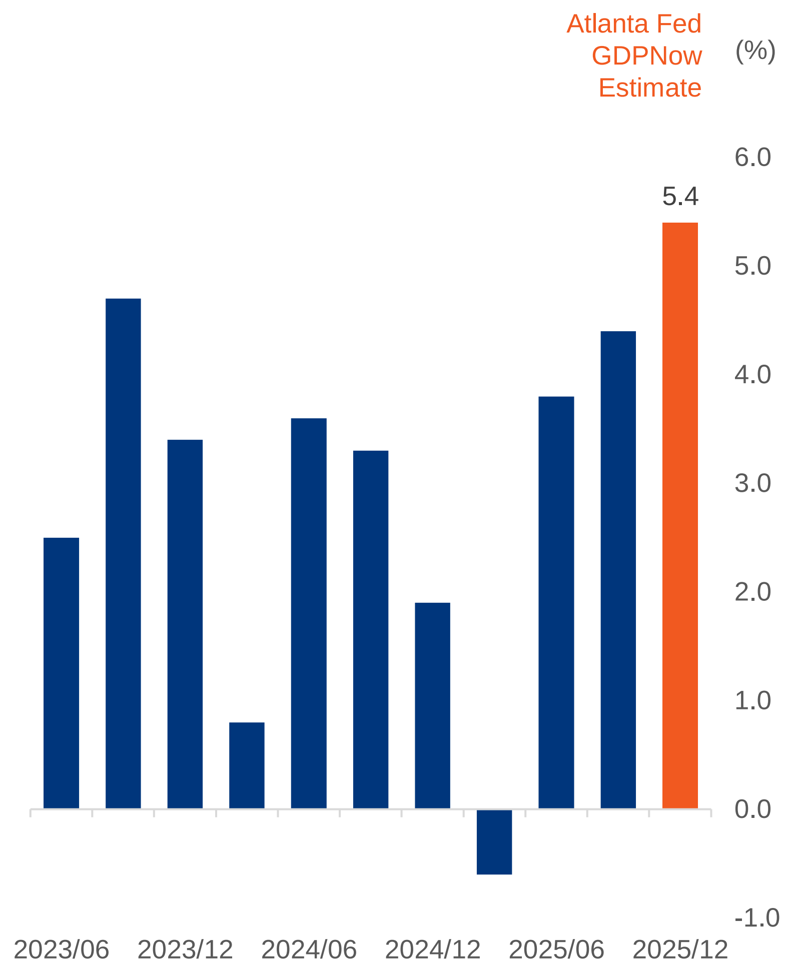
U.S. Corporate Capex Remains Firm as Markets Bet on Economic Resilience

- The U.S. equity market has entered earnings season, with mega-cap tech companies' spending and AI-related revenues once again becoming key focus areas:
- Meta (META) reported 4Q25 results with revenue up 24% YoY, beating expectations by 3%; non-GAAP adjusted EPS rose 11% YoY, beating estimates by 9%. Because 4Q25/1Q26F revenue and guidance were 3%/7% above expectations, the stock rose 8% after hours. Advertising and AI-related revenue also remained strong.
- Microsoft (MSFT) reported F2Q26 results with revenue up 17% YoY, roughly in line with expectations; adjusted EPS rose 60% YoY, exceeding expectations by 38%. However, MSFT's quarterly capital expenditures surged 66%. With cloud growth slowing and earnings only meeting expectations, the stock came under pressure.
- U.S. GDP grew at an annualized 4.4% in 3Q25, driven by the AI boom. The Atlanta Fed estimates that 4Q growth may accelerate to 5.4%. Markets are betting that Trump's tax cuts, deregulation, low interest rates, and the "Big and Beautiful" agenda are gradually showing positive effects. In addition, with this year being a midterm election year, Trump is expected to continue supporting strong economic momentum, which remains favorable for U.S. equities.

Meta and Microsoft Share Prices Diverge Clearly



U.S. Economic Growth Expected to Remain Strong



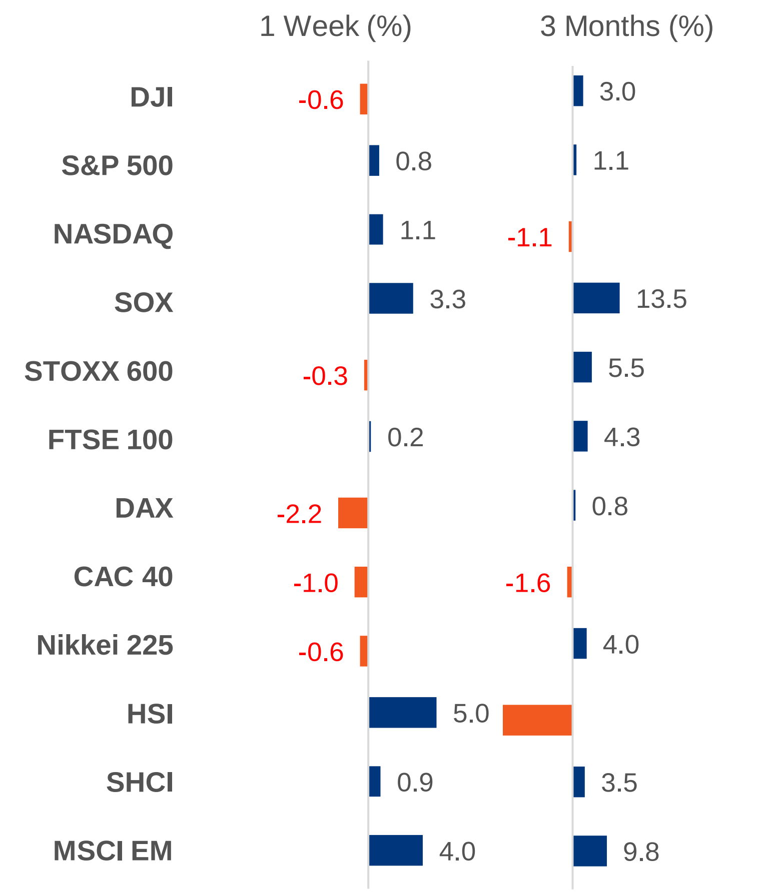
Source: Bloomberg, KGI

Market Recap

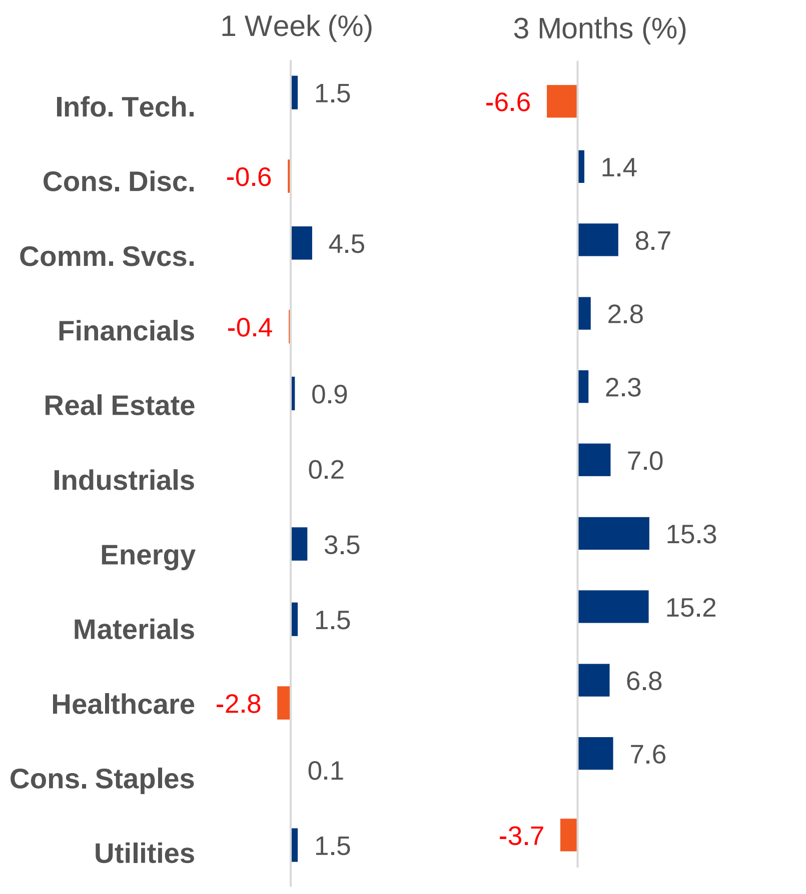
U.S. Equities Trade Firm, but Lower-Than-Expected Medicare Advantage Reimbursement Weighs on the Dow

- Last week, President Trump proposed a Medicare Advantage (MA) reimbursement increase that fell well below market expectations, pressuring insurance stocks. Sentiment weakened further after UnitedHealth (UNH) reported first-quarter results and guidance that also missed expectations, extending its share-price decline and dragging the Dow Jones Industrial Average lower.
- Despite this, overall U.S. equity performance was solid for the week: the S&P 500 reached a new record high, and semiconductor stocks were notably strong.
- Following Microsoft's earnings release on Thursday, market reaction was negative, weighing on technology and large-cap stocks. Although Microsoft delivered earnings above expectations, elevated capital expenditures, slowing cloud-growth momentum, and results merely in line with consensus pressured the share price and dampened sentiment across megacaps. However, dip-buying emerged intraday, allowing major indices to stabilize from their lows—reflecting resilient market risk appetite.
- Meanwhile, the U.S. faces renewed government shutdown risk after the Senate failed to advance a procedural vote on the funding bill. If Congress cannot move legislation forward, parts of the government may shut down again this Saturday. Historically, shutdown risks cause only short-term volatility and do not derail the broader U.S. equity uptrend.

Regional Index Performance (%)



U.S. Sector Index Performance (%)

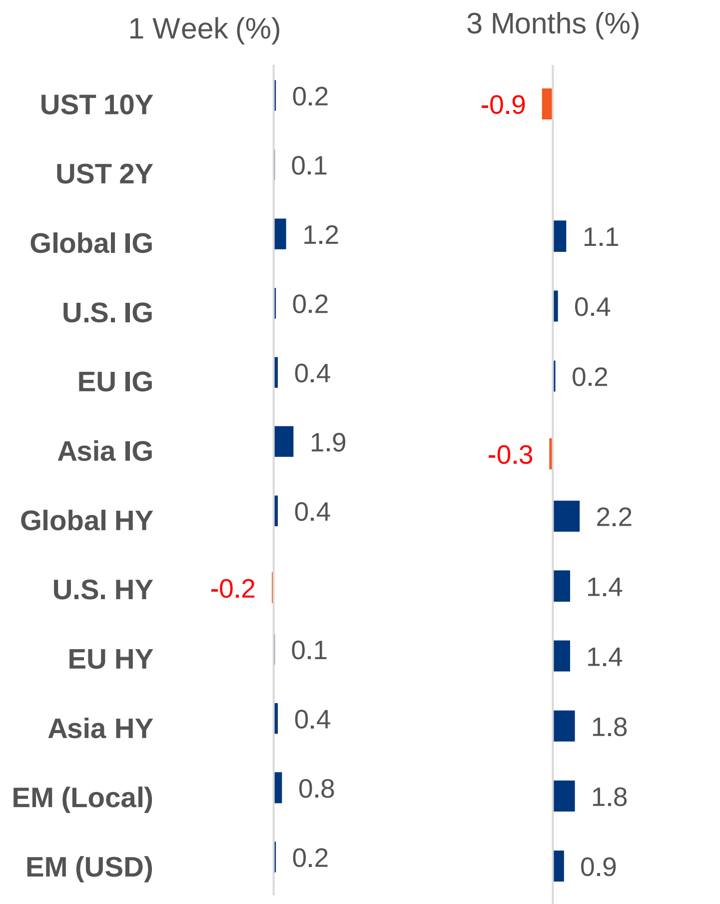


Source: Bloomberg

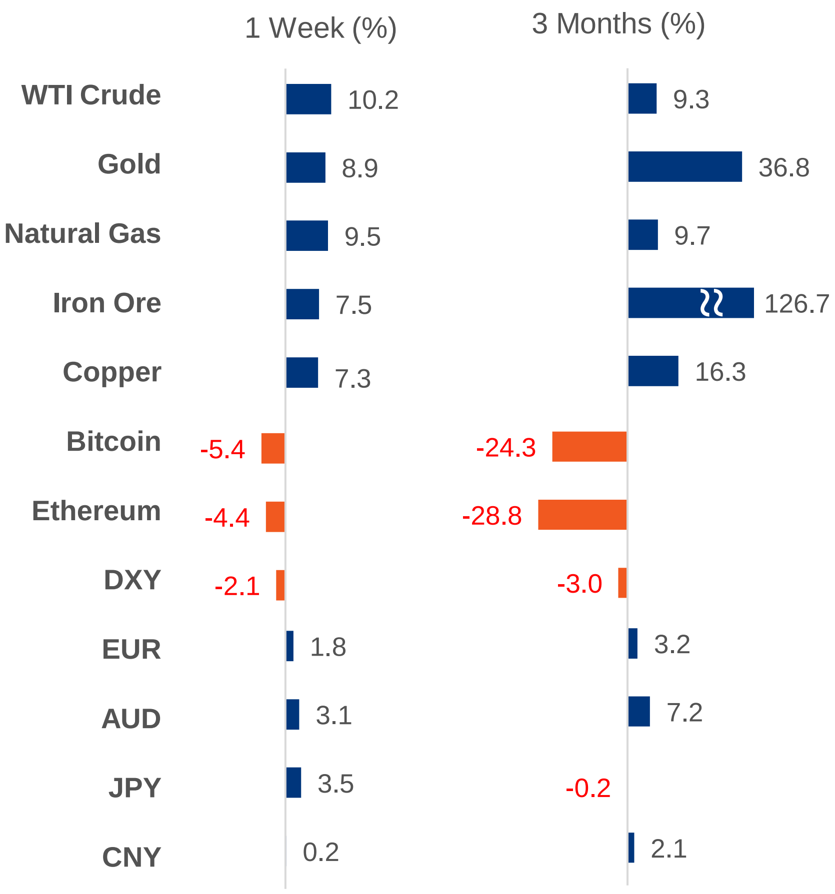
Trump’s Comfort With a Weaker Dollar Pressures USD; Gold Pulls Back After Record High

- Last week, President Trump stated that he feels “comfortable” with a weaker U.S. dollar while criticizing Asian currencies for being excessively weak. His remarks accelerated the dollar’s decline, with the Dollar Index briefly falling below 96 — its lowest level since early 2022. The euro and major Asian currencies (JPY, CNY, TWD) strengthened, and capital outflows alongside a shift away from USD-denominated assets further intensified the dollar’s slide.
- Over the past week, gold prices reached a new historical high but faced selling pressure on Thursday. The sharp pullback coincided with the Nasdaq’s decline following Microsoft’s earnings release, indicating that the volatility was driven by cross-asset reactions rather than changes in gold’s fundamentals. Therefore, we believe the investment case for gold remains intact.
- President Trump also declared that he has a fleet moving “very quickly” toward Iran and warned that Iran’s time is running out. His comments added further momentum to already supported oil prices, which rose nearly 10% for the week.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



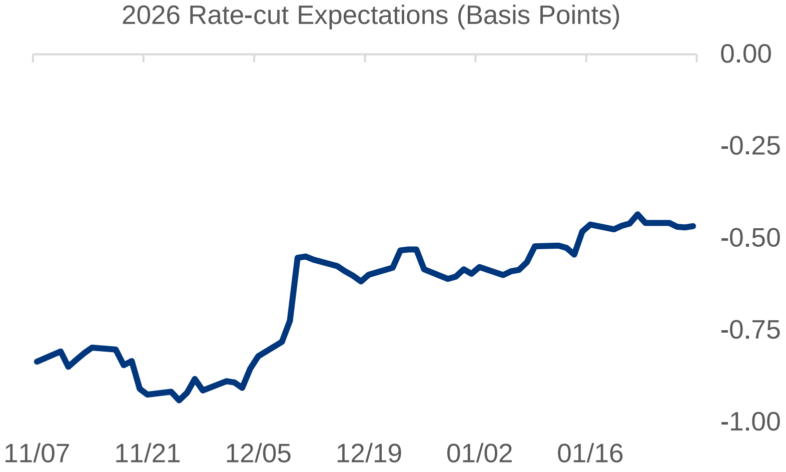
Source: Bloomberg

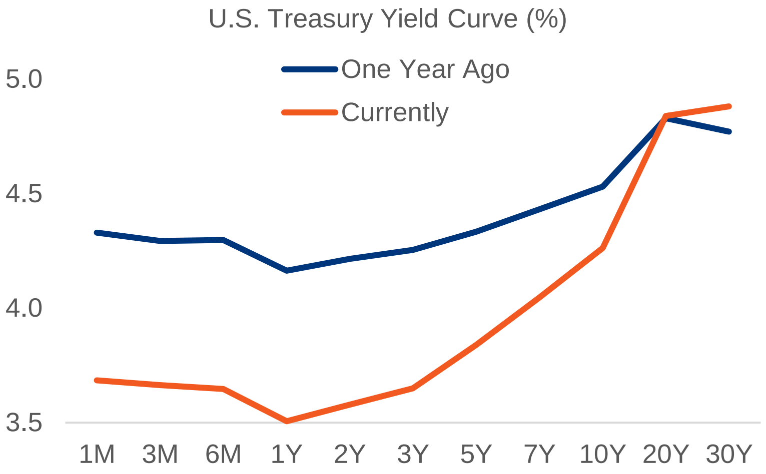
What’s Trending

Fed Holds Rates Steady; Outlook Points to Moderate Economic Growth

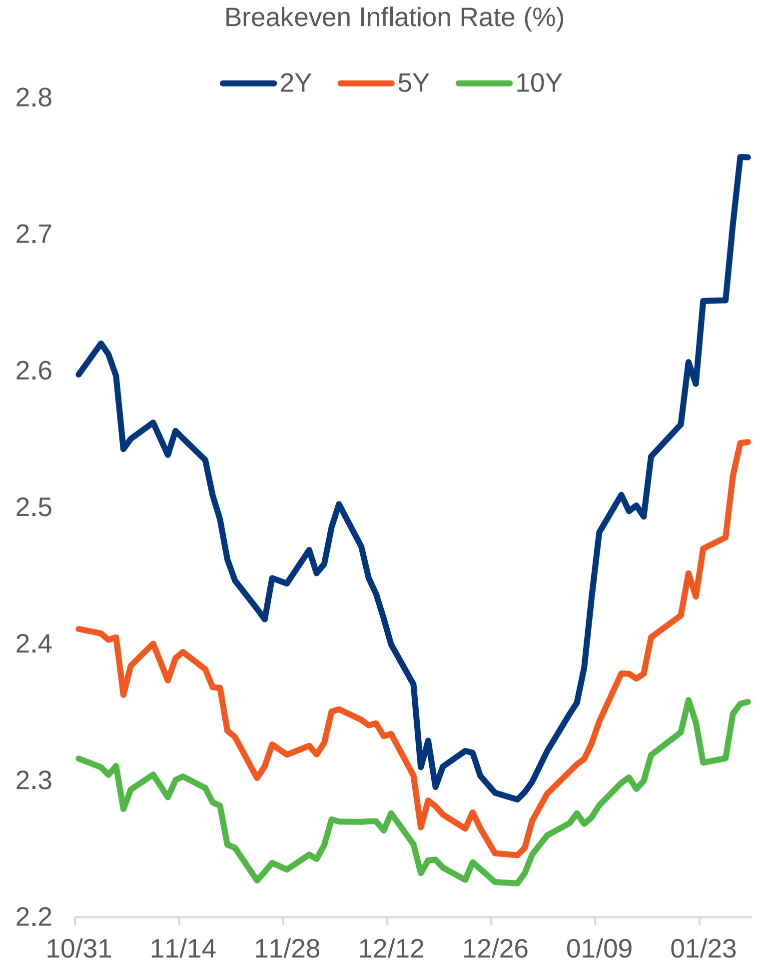
- At its meeting this month, the Federal Reserve kept the policy rate unchanged at 3.50–3.75%, in line with market expectations. Governors Waller and Miran continued to advocate for a 25 bp rate cut, indicating ongoing divisions within the FOMC.
- In the post-meeting statement, the Fed upgraded its description of economic activity from “moderate growth” to “solid growth.” The reference to unemployment was revised from “continued to move up modestly through September” to “the unemployment rate remains low,” and the prior wording that “downside risks to employment have increased in recent months” was removed. On inflation, the Fed deleted the phrase “inflation picked up earlier this year.”
- At the press conference, Chair Powell said that moving into 2026, the U.S. economy remains stable and the Fed’s dual mandate is becoming more balanced. Overall, both the statement and Powell’s remarks suggest the Fed is in no rush to cut rates, and the tone of this meeting leaned slightly hawkish.
- The U.S. remains in a rate-cut cycle, but markets no longer expect near-term easing. Current expectations are for roughly two rate cuts in 2026, with rate cuts potentially ending in 2027.

U.S. Remains In A Rate-cutting Cycle





The Market Expects Future Inflation May Rise Again



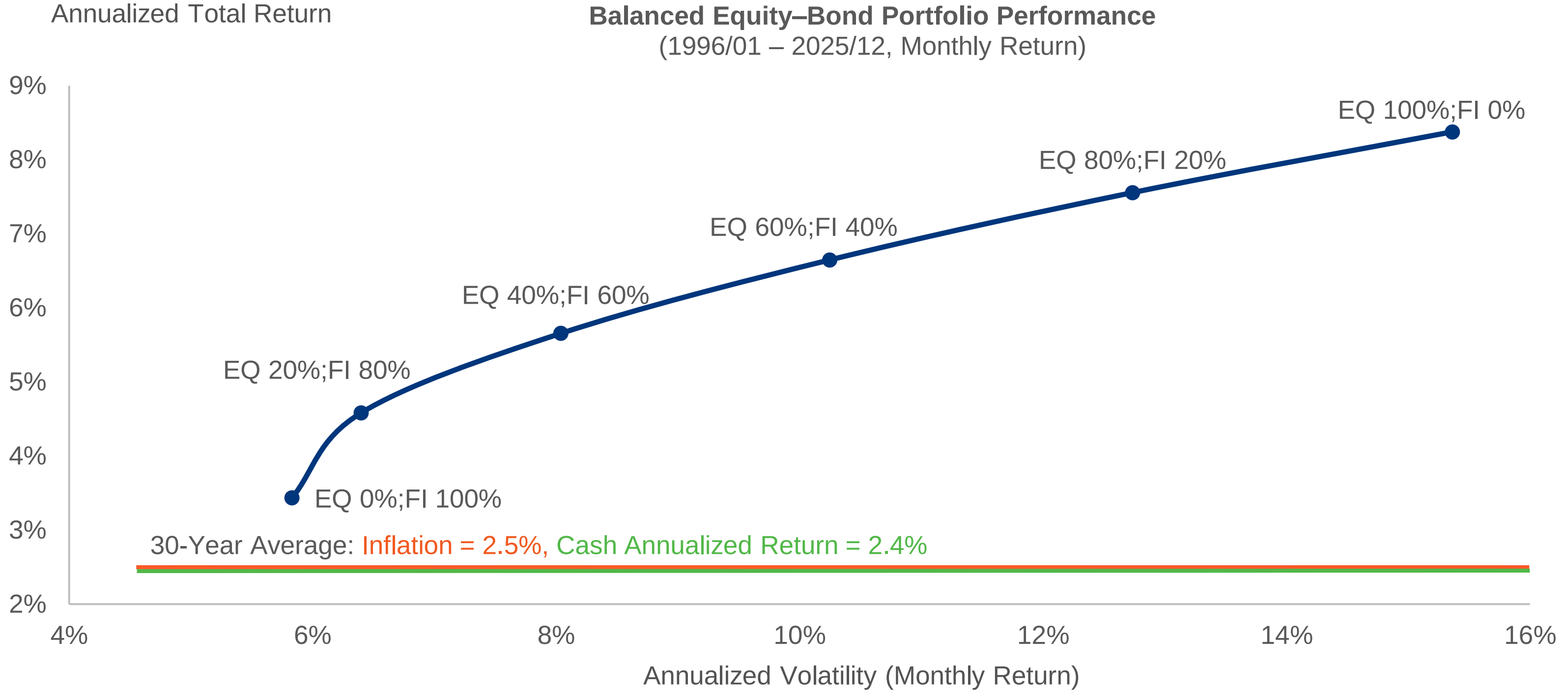
Source: CEIC

In Focus

Multi-Asset Portfolios Show Strong Resilience and Can Serve as Core Allocation

- Traditional equities and bonds differ fundamentally in nature: Equities represent ownership in a company, offering uncapped potential returns but carrying higher risk. Dividends are discretionary, and equity investors typically seek capital growth. Bonds, by contrast, provide predefined interest and principal payments, making them a more conservative investment focused on stable income. The goal of a mixed equity–bond portfolio is to strike a balance between these two characteristics.
- A diversified multi-asset portfolio seeks to balance growth and income objectives. Its return and volatility typically fall between those of an all-equity and an all-bond portfolio. However, multi-asset returns are not merely the weighted average of equity and bond returns.
- High-quality bonds tend to deliver more stable performance and also exhibit low correlation with equities (30-year return correlation: 0.34). This not only provides downside protection during periods of market stress but also creates opportunities to increase equity exposure at lower prices — a dynamic particularly evident during the dot-com bust and the global financial crisis. Low return correlation enhances opportunities for dynamic allocation and rebalancing, which can, over time, help improve the overall return of a multi-asset portfolio.

Balanced Equity–Bond Portfolio: Achieving Better Return and Volatility Ratio



Balanced Equity–Bond Portfolio Performance (30 Years)

Global Equity (EQ)	0%	20%	40%	60%	80%	100%
Global Bonds (FI)	100%	80%	60%	40%	20%	0%
Annualized Return	3.4%	4.6%	5.7%	6.6%	7.6%	8.4%
Annualized Volatility	5.8%	6.4%	8.0%	10.2%	12.7%	15.4%

Correlation (30 Years, Monthly Return)

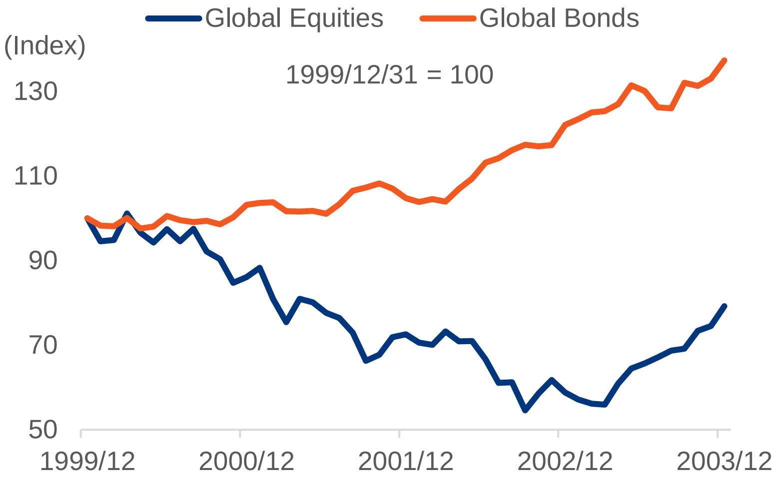
	Global Equity (EQ)
Global Bonds (FI)	0.34

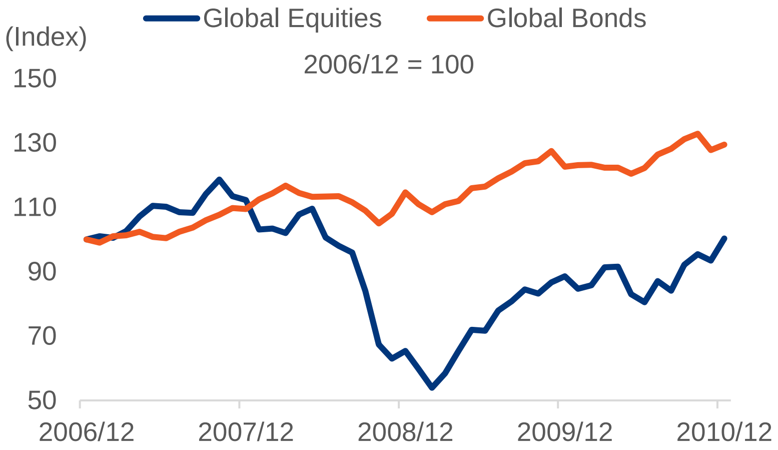
Source: Bloomberg, KGI

"L.E.A.D." to Become the Driving Force Behind Multi-Asset Portfolios in 2026

- We expect the 2026 investment framework, "L.E.A.D.", to become a major driver of multi-asset portfolio performance. As mentioned previously, on the Liquidity front, the U.S. remains in a rate-cutting cycle, and the Fed has halted QT, resulting in ample liquidity. Since multi-asset portfolios contain risk assets, they stand to benefit from a liquidity-rich market environment. On the Earnings front, U.S. companies have entered earnings season, and the market continues to price in a resilient U.S. economy. For Adding Credit, we believe multi-asset portfolios emphasizing investment-grade bonds are more suitable, as they allow exposure to credit with controlled risk.
- Finally, multi-asset portfolios are inherently built on Diversified Asset allocation, offering natural risk-spreading benefits. When constructing a broader investment strategy, investors may consider using a multi-asset portfolio as the core, then layering additional exposures across regions, sectors, styles, or credit ratings depending on market conditions and individual risk tolerance.
- As mentioned last week, investors may also increase exposure to alternative assets — such as gold or cryptocurrencies — depending on risk appetite. These can help capture return drivers beyond traditional equities and bonds, while further enhancing overall diversification.

Bonds Provide Downside Protection During Periods of Market Panic





Multi-Asset Portfolios Exhibit Diversification Benefits

Annualized Return		Annual Return Volatility	
15Y	30Y	15Y	30Y
Global Equities 10.4%	Global Equities 8.4%	China 22.2%	China 36.0%
Global Small Cap Equities 8.9%	Global Small Cap 7.7%	EM Equities 18.2%	EM Equities 29.5%
EU-AU-FE Equities 7.3%	Global HY 7.4%	EU-AU-FE Equities 15.1%	Global Small Cap Equities 20.1%
Equity–bond Allocation 6.8%	Equity–bond allocation 6.6%	Global Small Cap Equities 14.9%	EU-AU-FE Equities 18.9%
Global HY 5.7%	EM Equities 6.5%	Commodities 14.2%	Commodities 18.1%
EM Equities4.2%	EU-AU-FE Equities 6.3%	Global Equities 14.2%	Global Equities 18.1%
China 2.6%	Global IG 3.4%	Equity–bond allocation 10.2%	Global HY 14.5%
Cash 1.5%	Commodities 2.5%	Global HY 8.6%	Equity–bond allocation 11.9%
Global IG 1.1%	Cash 2.4%	Global IG 6.7%	Global IG 6.7%
Commodities -1.1%	China 2.2%	Cash 1.9%	Cash 2.2%

Source: Bloomberg, KGI

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	◆ As market concentration rises and AI-related stocks trade at relatively elevated valuations, short-term sector rotation has emerged. However, given that AI still carries long-term growth momentum, investors may choose a staggered, phased-in approach when adding exposure, especially with equity indices at record highs. For 2026, equity allocation can follow the four-pillar L.E.A.D. framework — Liquidity Shift, Earnings Focused, Adding Credit, Diversified Asset — to achieve balanced diversification and stable returns. ◆ European equities can serve as diversification. Germany is preferred due to fiscal stimulus and improving economic growth, while Spain benefits from strong fundamentals and a high weighting of financials. Sector preference includes financials (improving balance sheets) and defense (policy support). In Japan, the focus remains on domestic demand, banks, and semiconductors.	**Strategy:** Under the AI theme, key beneficiaries include technology, semiconductors, utilities, and machinery. Outside of AI, we favor aerospace, defense, and pharmaceuticals. **Regions**: Germany, Spain, Japan banks, Japan semiconductors
Bonds	◆ With the yield curve steepening, investors may lock in yields via government bonds and investment-grade corporates, especially in sectors offering attractive risk-adjusted spreads such as financials, utilities, and industrials. ◆ Given long-term depreciation concerns for the U.S. dollar, investors may diversify using non-USD investment-grade bonds, such as EUR- and AUD-denominated issues. Improving fundamentals in emerging markets also make high-yielding EM bonds a viable yield-capture option.	**Duration:** Government bonds, high-grade corporates; sector preference for financials, industrials, and utilities **Types:** Non-USD currency bonds for risk diversification
Forex	◆ Doubts over the Federal Reserve's long-term independence are a headwind for the U.S. dollar. However, stronger-than-expected U.S. economic data has temporarily delayed Fed rate cuts, implying mild USD depreciation, but limited in scale. ◆ The ECB is nearing the end of its rate-cut cycle, and rising German yields support a firmer Euro. Japan's dissolution of parliament initially pressured the yen amid fears of fiscal deterioration, but subsequent expectations of joint U.S.–Japan FX intervention triggered a sharp yen rebound.	**USD:** Mild downside, limited weakness **JPY:** Limited further depreciation **EUR:** Bias upward
Commodity	◆ With continued monetary easing from the Fed and rising geopolitical risks, gold's medium- to long-term outlook remains positive. Silver demand is rising sharply due to technology and semiconductor applications, and with Trump considering higher import tariffs on minerals, manufacturers have been front-loading procurement — supporting near-term silver strength. However, silver's volatility is high, and investors should assess risk carefully.	**Gold**: Medium- to long-term bullish **Silver:** Short-term strong but volatile

Product Spotlight | HK Equities

Retail Recovery Set to Become the Next Driver of Asset Re-rating

Residential and Office Markets Have Stabilized and Re-entered an Uptrend

Hong Kong home prices remain about 22% below their 2022 peak, yet the market has already turned upward. The recovery is supported by fundamentals such as improving rental yields and enhanced affordability. Low banking-system leverage (overall mortgage LTV only 22%) and ample liquidity provide further stability. With resumed immigration driving population growth and land supply expected to decline from 2027 onward, these structural factors support a sustained long-term rebound in home prices.

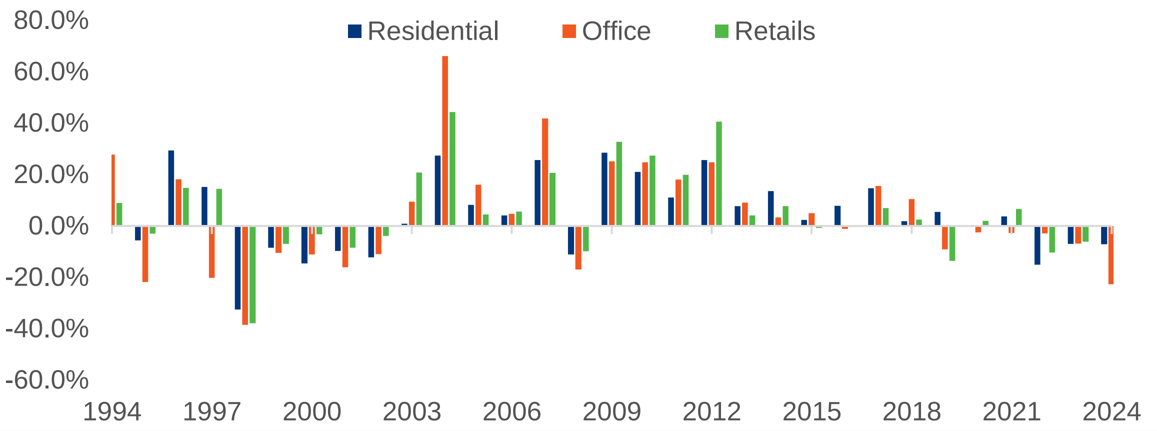
Office Rents Bottom Out as Demand Recovers

Sentiment in commercial real estate has stabilized and is no longer a drag on developers. Demand from financial institutions and mainland enterprises is returning, and adjusted rental levels are attracting tenants to upgrade into premium locations. The pace of negative rental reversions is expected to narrow and stabilize by late 2026. A positive absorption rate signals that office demand is recovering in tandem with the residential market.

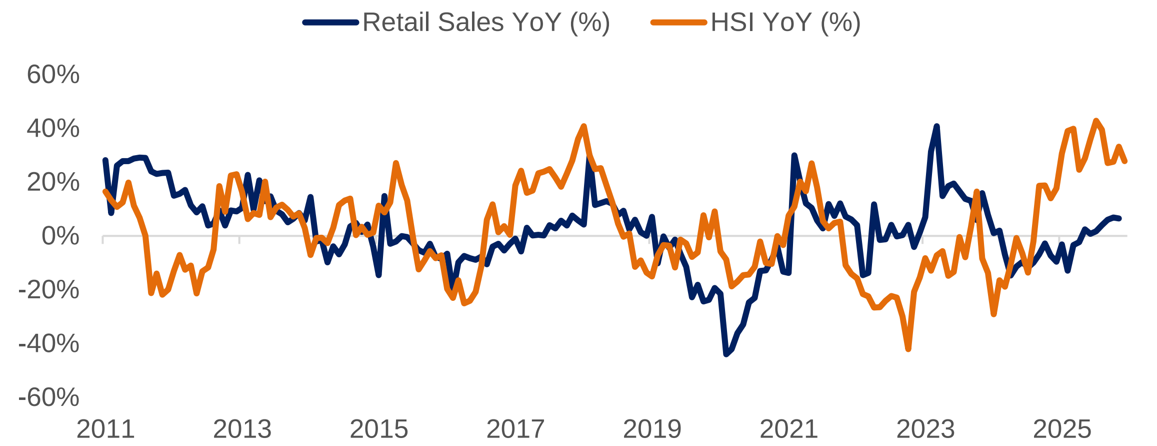
Retail Recovery to Become the Next Catalyst for Asset Re-rating

Retail is viewed as the “catalyst” for valuation re-rating. Although sales are still only 78% of 2018 levels, the outlook is improving as RMB appreciation boosts tourist spending and stock-market wealth effects lift local consumer sentiment. Historically, the three major property segments—residential, office, retail—tend to move in close synchrony. With housing and office markets stabilizing, retail is well-positioned to become the next major engine driving the market higher.

Residential, Office, And Retail Prices Generally Move In Tandem



Hong Kong Retail Growth And Hang Seng Index YoY (%)



Source: Bloomberg

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Wharf REIC (1997)

Closing Price	HK $27.78	Target Price	HK $34

Wharf Real Estate Investment Company primarily develops, owns, and operates investment properties and hotels in Hong Kong.

Prime Assets in Core Tourist Districts

Wharf REIC is regarded as a key beneficiary of Hong Kong's high-end retail recovery. Its flagship assets, Harbour City in Tsim Sha Tsui and Times Square in Causeway Bay, occupy the most premium retail locations in the city and are must-visit destinations for inbound tourists, generating exceptionally strong foot traffic. Retail sales in Hong Kong have shown clear improvement, turning positive since the second half of last year, indicating the retail sector has bottomed out. Both malls are heavily geared toward discretionary consumption, where luxury boutiques are once again experiencing queues—signifying recovering confidence among high-spending visitors. With the rebound in inbound tourism and resilient high-end demand, retail rental income is expected to stabilize and be further supported by turnover rent.

Stronger Financial Position vs. Peers

The company maintains a healthier balance sheet than most peers and is well-positioned to benefit from the rate-cut cycle. Wharf REIC has made strong progress in deleveraging, with its net gearing expected to decline from 17% in 2025 to 14% in 2027. Importantly, around 80% of its debt is floating-rate, making the company a direct beneficiary of falling interest rates. As the Fed begins its rate-cut cycle and HIBOR declines, interest expenses will drop meaningfully. Based on sensitivity analysis, a 50 bps rate cut this year would release an estimated HKD 100 million in profit—equivalent to roughly 6% earnings growth.

Significant Upside as a Beneficiary of Hong Kong Retail Recovery

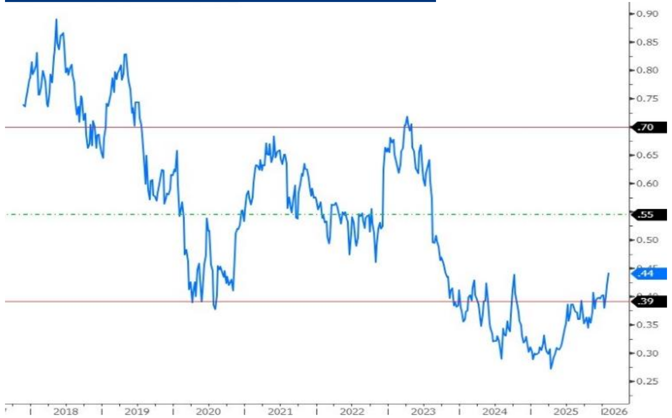
Wharf REIC stands out as an early beneficiary of the city's retail revival. Its historical average price-to-book (P/B) ratio since listing is 0.55x, whereas current forward P/B is only around 0.44x—close to one standard deviation below average. The implied cap rate is a high 9%, suggesting market pricing remains overly pessimistic. Given the improving fundamentals and tailwinds from falling interest rates, we assign a target price of HKD 34.

Source: Bloomberg

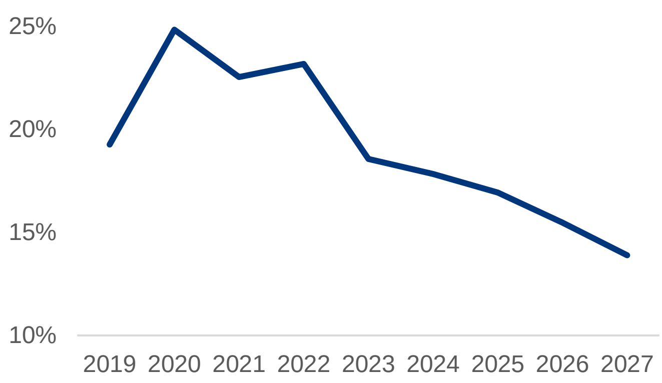
Financials

	2022	2023	2024	2025F	2026F
Revenue (CNY b)	12.4	13.3	12.9	12.4	12.5
Revenue YoY	-22.3	6.8	-2.9	-3.5	0.4
EPS (CNY)	2.03	1.98	2.02	2.05	2.14
EPS YoY	-5.7	-2.5	2.0	1.3	4.5
ROE(%)	-4.5	2.5	0.5	3.4	3.4

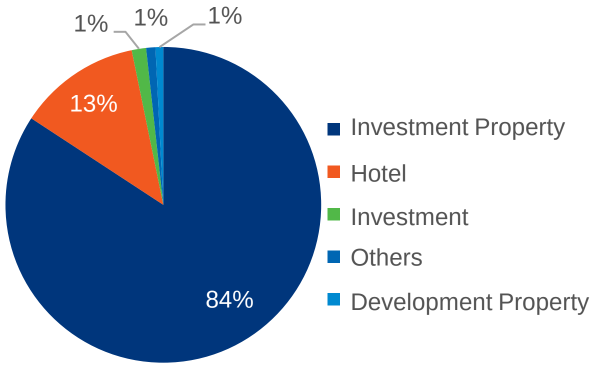
Forward P/E Ratio



Net Debt-To-Equity Ratio



Revenue share



Chow Tai Fook (1929)

Closing Price HK $15.4 **Target Price** HK $19

The company is primarily engaged in the manufacturing and sale of jewelry products, as well as the distribution of various branded watches.

Correlation Divergence Creates a Mean-Reversion Opportunity

Chow Tai Fook's share price has recently shown significant divergence from gold prices. The long-term correlation coefficient between the two has dropped sharply from the historical average of 0.6 to the current 0.2, indicating that the stock has severely lagged behind the rally in gold and carries strong potential for mean reversion and catch-up performance. Earlier share-price weakness was mainly due to approximately HKD 5 billion in gold-lending hedging losses recorded in the first half. Although this loss exceeded previous guidance, it is essentially a non-cash accounting adjustment and has already been largely priced in during earlier corrections.

Fixed-Price Gold Products Drive Structural Margin Expansion

According to the latest 3Q operating data, the group's product-mix optimization has delivered clear results. Same-store sales of fixed-price gold products—which carry higher margins—grew 53%, far outperforming traditional weighted-gold products at 13%. This performance gap reflects the group's strong design and R&D capabilities, successfully elevating gold products into the "premiumized" and "branded" category. By increasing value-added features, Chow Tai Fook is effectively reducing dependence on gold-price fluctuations and shifting toward a margin-expansion model driven by design premiums, improving the quality and sustainability of long-term profitability.

Scale Advantages Translate Into Efficient Asset Turnover

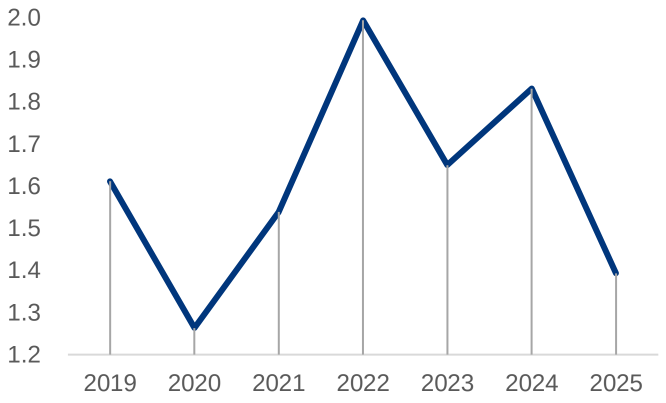
Chow Tai Fook's inventory turnover reached 1.4x, significantly higher than traditional competitor Luk Fook's 0.9x. The faster turnover demonstrates greater efficiency in merchandise flow and inventory management, reflecting stronger supply-chain forecasting and optimization capabilities that shorten the inventory-to-cash cycle. Although turnover appears lower than that of high-end competitor Lao Feng Xiang (3.0x), the comparison must account for Chow Tai Fook's extensive retail network of more than 7,000 points of sale and a more diversified product mix that includes slower-moving diamonds and premium jewelry. Maintaining a 1.4x turnover under such operational complexity highlights the effectiveness of its omnichannel distribution and digitalized inventory-management systems. Target price: HKD 19, implying 19x FY2027 (March 2027) earnings.

Financials

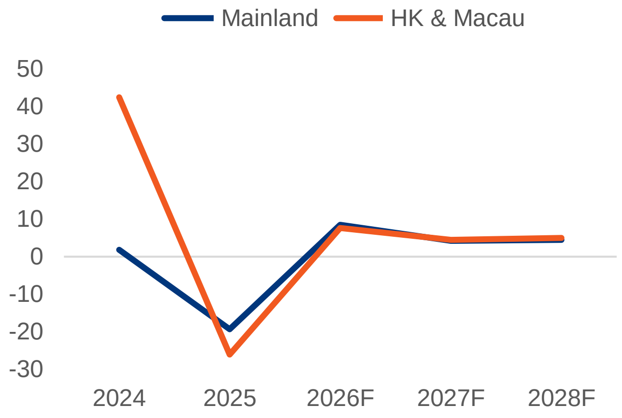
	2023	2024	2025F	2026F	2027F
Revenue (HKD b)	94.7	108.7	89.7	93.3	97.3
Revenue YoY	-4.3	14.8	-17.5	4.1	4.3
EPS (HKD)	0.5	0.7	0.6	0.9	1.0
EPS YoY	-19.5	20.4	-9.2	45.8	14.0
ROE(%)	16.3	22.4	22.7	30.3	31.5

Forward P/E Ratio

Inventory Turnover Ratio



Same-Store Sales (YoY%)



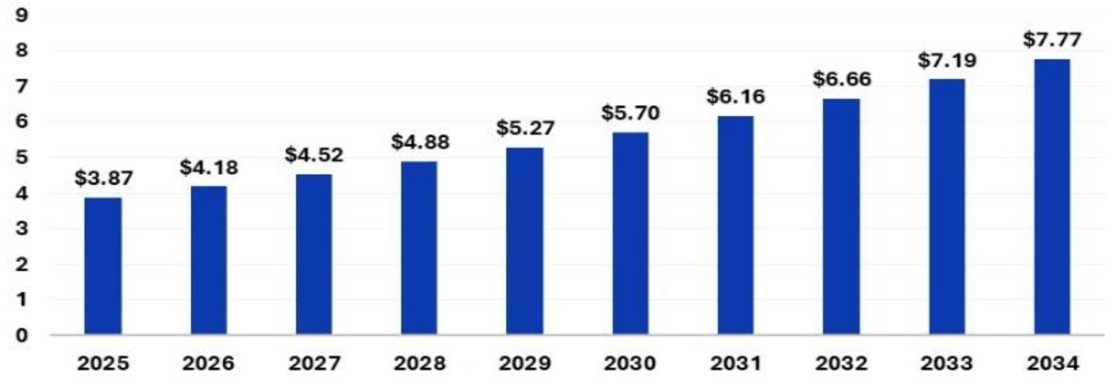
Source: Bloomberg

US Equities AI Capital Expenditure Remains on a Rapid Growth Trajectory

- The Federal Reserve early Thursday morning announced that it would keep the federal funds rate target range unchanged at 3.50%–3.75%, in line with market expectations. The Fed statement noted that current indicators show U.S. economic activity continues to expand at a solid pace, job growth remains soft, unemployment has stabilized, and inflation remains slightly elevated. It reiterated that its long-term goals remain achieving maximum employment and bringing inflation back to 2%. The Fed also stated that in assessing whether future adjustments are warranted, it will carefully evaluate incoming data, the economic outlook, and the balance of risks. The tone of the statement was broadly neutral, maintaining a data-dependent stance without signaling the next rate move. In this meeting, two committee members—Miran and Waller—voted against the decision, arguing that rates should be lowered by 25 basis points.
- U.S. core PPI for December rose 3.3% YoY, above the revised prior reading of 3.1% and above expectations of 2.9%. On a MoM basis, core PPI increased 0.7%, higher than both the prior reading of 0.0% and the expected 0.2%.
- Earnings from major tech companies and leading semiconductor-equipment firms continue to indicate that AI-related capital expenditure will maintain strong growth through 2026. Shortages in storage chips and memory components are expected to persist in the near to medium term, supporting further price increases. In addition, demand for next-generation advanced AI chips remains robust, driving strong growth in optical modules, fiber-optic components, and other transmission parts. Prices for optical components also have room to rise, supporting optimistic growth expectations for related companies.

Global Optical Semiconductor Market Size

USD Bln



Source: Precedence Research

Lumentum (LITE)

Closing Price	US $391.84	Target Price	US $420

Lumentum Holdings Inc. is a holding company whose subsidiaries supply optical and photonic products to customers worldwide.

Optical Bottlenecks & Hyperscale Network Build-outs Drive Demand Growth

According to JLL forecasts, nearly 100 GW of new data-center capacity will be added between 2026 and 2030, with the global data-center industry growing at an annual rate of 14%. Optics has become the next major infrastructure bottleneck after compute—especially in AI training expansion and inference workloads. Meta's multi-year US$6 billion fiber-optic contract with Corning further reinforces the industry trend toward massive fiber and transceiver deployment. As hyperscale operators race to interconnect tens of thousands of AI nodes using high-bandwidth optical solutions, Lumentum's high-speed 1.6T transceivers, EML lasers, and optical-switching technologies are positioned to benefit from both volume expansion and pricing strength.

Strong Execution And Next-generation Optical Components Support Revenue And Margin Expansion

Lumentum's most recent quarterly revenue rose 58.4% YoY, with non-GAAP gross margin expanding by more than 15%. This reflects early strength in data-center optics and signals broader growth opportunities in optical circuit switching and co-packaged optics—both expected to support over 20% revenue growth. As global data-center capacity accelerates, Lumentum's broad optical-component portfolio enables the company to capture near-term demand and long-term growth tied to the global AI-infrastructure super-cycle.

FY2026 Q1 results exceeded expectations

For FY2026 Q1 (fiscal year ending in June), Lumentum reported revenue of US$533.8 million, up 58.4% YoY and beating expectations by US$7.34 million. Non-GAAP EPS came in at US$1.10, beating estimates by US$0.07. The company forecasts Q2 net revenue of US$630–670 million, non-GAAP operating margin of 20.0%–22.0%, and non-GAAP diluted EPS of US$1.30–1.50.

Valuation Consensus

Bloomberg's 12-month average target price is US$357.14, with a high estimate of US$500 and a low estimate of US$147.

Source: Bloomberg, JLL

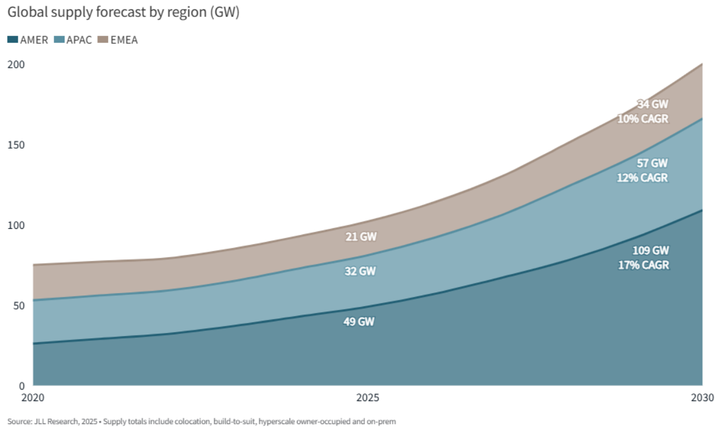
1-Year Price

Financials

	2022	2023	2024	2025F	2026F
Revenue Growth(%)	3.2	-23.1	21.0	60.6	39.1
EBITDA (%)	17.7	2.5	6.2	27.2	29.2
EPS(USD)	0.31	-6.37	0.44	5.90	9.20
Net Profit Margin(%)	1.2	-31.5	1.9	18.2	20.9

Source: Bloomberg; 2025/26F are market estimates

Global Data Center Supply



P/E & P/B

Coherent (COHR)

Closing Price	US $212.18	Target Price	US $260

Coherent designs engineered materials and optoelectronic components. Its products serve industrial, optical communications, military, life sciences, semiconductor equipment, and consumer markets. The company also manufactures semiconductor lasers and optical components used in high-power industrial lasers, optical communication systems, data-center interconnects, and 3D sensing.

Component-Level Strengths Critical for Scaling Data-Center Optical Demand

AI workloads are expected to drive a surge in optical interconnect and sensing demand. As a leading supplier of laser chips, EMLs, VCSEL arrays, and advanced photonic materials, Coherent benefits regardless of which module makers gain market share. In Q1, data-center and communications revenue grew 26% YoY, highlighting Coherent's ability to capture demand at the component level—where substitution risk is lowest and pricing power is highest during periods of tight supply.

Strategic Focus & Technology Leadership Align Expanding Optical Trends

The divestiture of its aerospace and defense division allows Coherent to concentrate on high-growth AI data-center and communications markets, improving margins and EPS. Coupled with award-winning next-generation 400G/1.6T optical technologies and expanded manufacturing capacity, Coherent is well positioned to monetize the AI infrastructure super-cycle, as hyperscalers are expected to deploy nearly 100 GW of new data-center capacity by 2030.

FY2026 Q1 Results Exceeded Expectations

For FY2026 Q1 (fiscal year ending June), Coherent reported revenue of US$1.58 billion, up 17% YoY. Non-GAAP EPS was US$1.16, beating estimates by US$40 million and US$0.12 per share. For Q2, the company expects revenue between US$1.56–1.70 billion and non-GAAP EPS of US$1.10–1.30. Gross margin is forecast to be between 38% and 40%.

Valuation Consensus

Bloomberg's 12-month average target price is US$199.38, with a high estimate of US$300 and a low estimate of US$64.

Source: Bloomberg, JLL

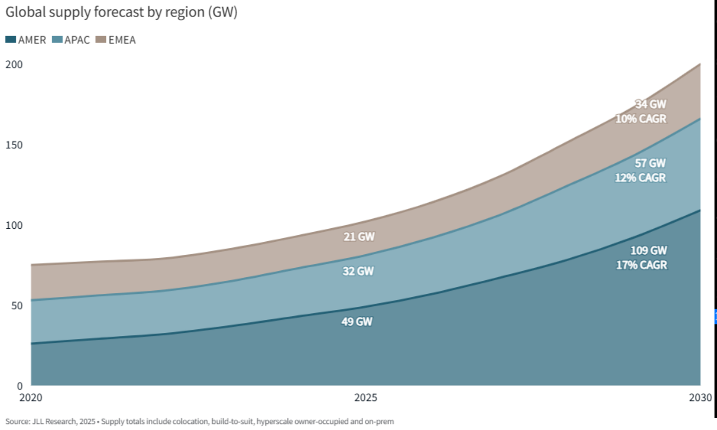
1-Year Price

Financials

	2023	2024	2025	2026F	2027F
Revenue Growth(%)	55.6	-8.8	23.4	15.3	14.7
EBITDA (%)	19.7	19.3	20.4	24.5	26.0
EPS(USD)	-1.12	-0.79	1.03	5.23	6.43
Net Profit Margin(%)	-3.0	-2.5	2.7	15.2	16.8

Source: Bloomberg; 2025/26F are market estimates

Global Data Center Supply



P/E & P/B

KGI

TW Equities Taiwan Bull Trend Holds; 1.6TbE Optical Modules in Focus

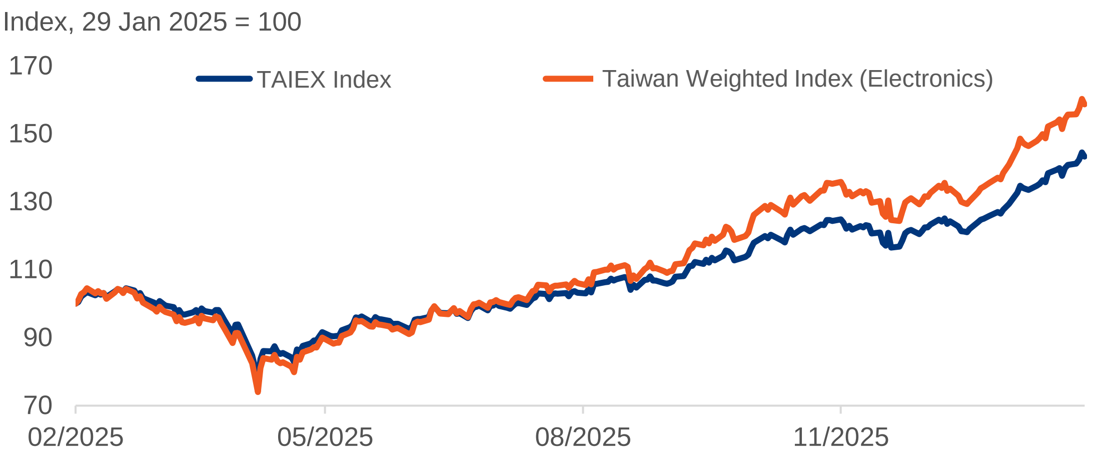
Taiwan Stocks See Volume–Price Expansion, Strong Dip-Buying Provides Support

Looking at last week's market structure, sectors with large prior gains began to experience volatility, with the OTC market particularly weak. Within electronics, only optical communications, server management chips, and low-earth-orbit satellite segments performed relatively well. Although short-term consolidation may continue, market liquidity again hit record highs, clearly showing strong dip-buying interest. As the medium-to-long-term volume trend has reached a new milestone, the upward trend should remain intact. Even if short-term pullbacks occur, the broader bias stays bullish, and investors should treat dips as buying opportunities.

Demand for 1.6TbE Optical Transceivers in 2026 Revised Sharply Higher, Benefiting Taiwan Suppliers

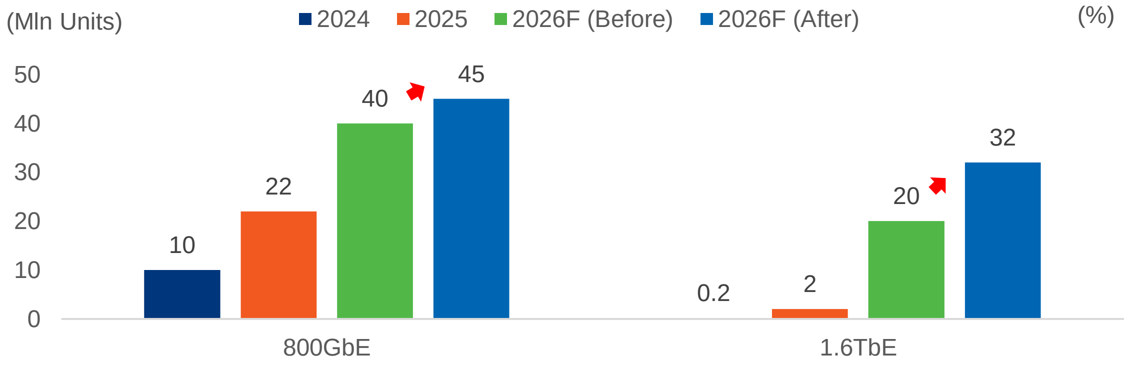
As CSPs continue expanding AI compute capacity, demand for optical transceivers is rising rapidly. Demand for 800GbE modules in 2026 remains above 40 million units, while 1.6TbE demand has been revised from the previous 20 million units to over 30 million units. Key beneficiaries include EML (electro-absorption modulated lasers) suppliers on the transmit side and PD (photodiode) suppliers on the receive side. With CSPs increasingly developing in-house AI models, compute infrastructure may diverge into GPU and ASIC ecosystems, but network transmission speed requirements remain aligned. As a result, 1.6TbE and next-generation 3.2TbE optical modules and switches will become critical strategic battlegrounds for leading industry players.

TAIEX Index and Taiwan Electronics Sector Trends



Source: Bloomberg

Optical Transceiver Module Shipments



KGI Investment Advisory Estimate

KGI

Accton Technology (2345 TT)

Accton specializes in telecom-grade and enterprise-grade networking products, providing a wide range of solutions for high-end networking, IT, and telecommunications customers.

Key Features

800GbE Switches to Become 2026 Mainstream; Early Move Into 1.6TbE

Global manufacturers broadly expect strong growth in 800GbE optical-module demand in 2026, accelerating the shift of data-center switches from 400GbE to 800GbE as the new mainstream. Meanwhile, 1.6TbE switches are set to begin entering the market. With AI/ML workloads driving sustained bandwidth expansion, upgrade cycles for switching equipment are expected to accelerate. Accton has already invested in 1.6TbE development, positioning the company to maintain its technological lead as the industry transitions from 800GbE to 1.6TbE.

Industry Position Continues to Strengthen

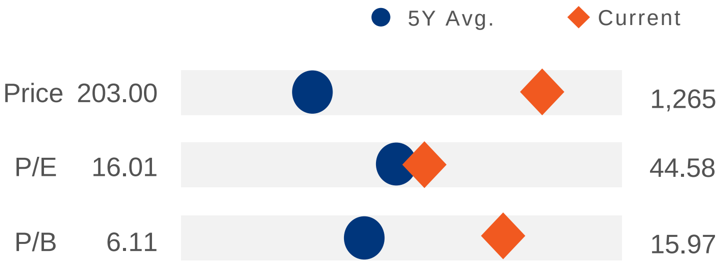
Accton's rack systems are expected to enter pilot production and field testing in 2026. Given the higher ASP relative to switches, successful shipment could unlock a new growth driver. At the same time, its Taoyuan capacity expansion remains on track, and the company is actively investing in CPO (Co-Packaged Optics) R&D. Accton stands to benefit from rising demand for high-end switches and AI accelerator cards, while racks and CPO represent important future growth engines.

Financials

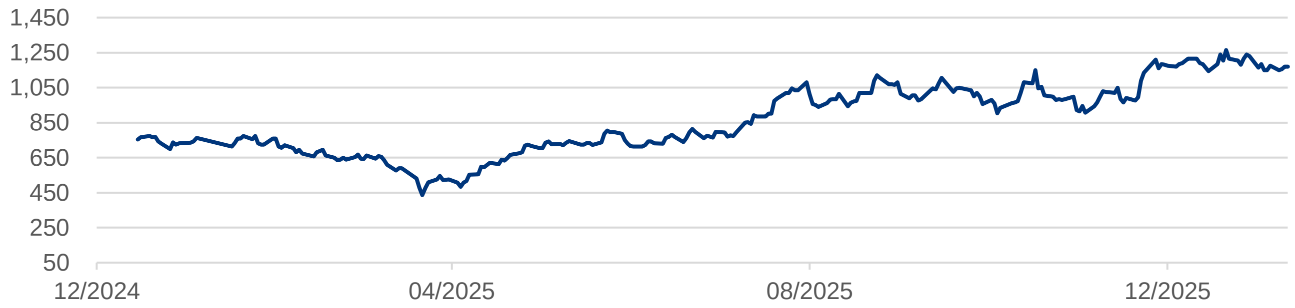
	2022	2023	2024	2025F	2026F
EPS (NTD)	14.64	15.99	21.49	46.08	55.83
EPS Growth (%)	73.4	9.2	34.4	114.5	21.1
P/E Ratio	64.6	59.1	44.0	20.5	16.9
ROE (%)	45.4	39.1	39.0	61.9	58.7

Source: Company data, estimates of KGI analyst

Valuations

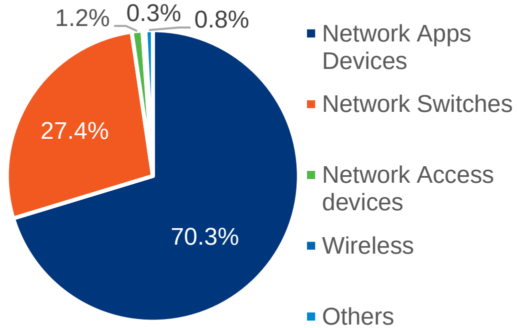


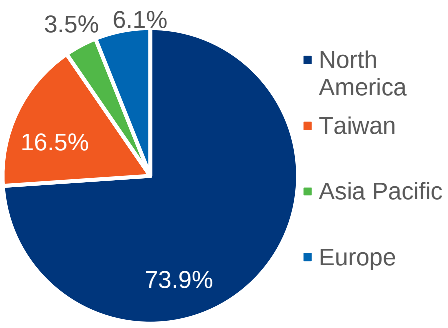
1-Year Price



As of 29 Jan 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	1.74	-1.68	14.71	38.79	-1.27	53.34

Revenue Sources and Regions





Source: Bloomberg

Advanced Fiber Resources (4979 TT)

Advanced Fiber Resources (AFR) specializes in manufacturing active optical-communication components, including TO-CAN/OSA sub-modules, optical-chip dies, and contract manufacturing for optical transceiver modules.

Key Features

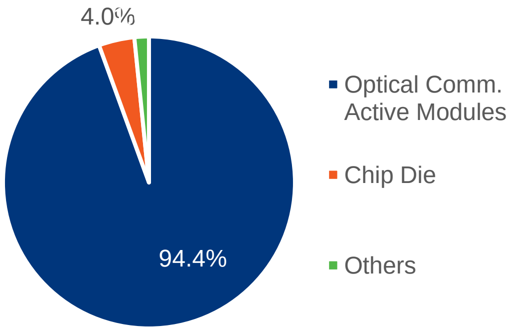
Capacity Expansion to Accelerate in 2026

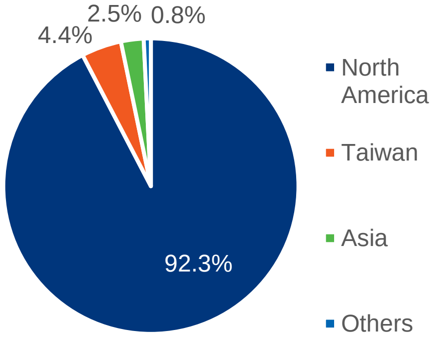
We expect AFR to further expand chip and contract-manufacturing capacity in 2026 to meet strengthening customer demand. As more AI-related companies enter the supply chain, business momentum continues to improve. We forecast 2026 revenue at NT$7.33 billion (+60.9% YoY) and EPS at NT$9.94 (+84.2% YoY). With both rising optical-communication demand and capacity expansion, AFR should remain a key beneficiary in the fast-growing AI and optical-module markets.

Technology Upgrades Reinforce Market Leadership

We expect AFR to continue scaling CW-laser capacity, with monthly output surpassing 6 million units by 2027, alongside completion of its 4-inch wafer line in 4Q26. With more than 50% market share in ZR/ZR+ contract manufacturing and successful penetration into three or more CSP accounts, AFR is strengthening its leadership position. Its 800G products have already passed major customer qualification, with shipments expected to begin in 1Q26. As the market transitions toward 800G, growth visibility remains solid, and we maintain an “OW” stance.

Revenue Sources and Regions





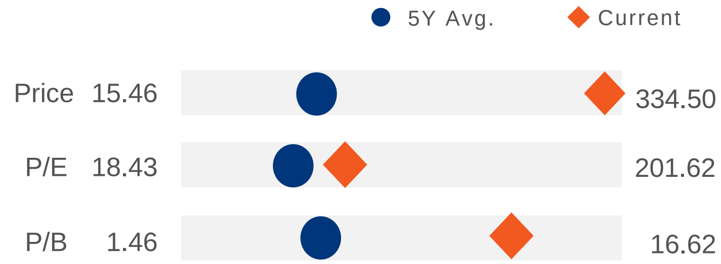
Source: Bloomberg

Financials

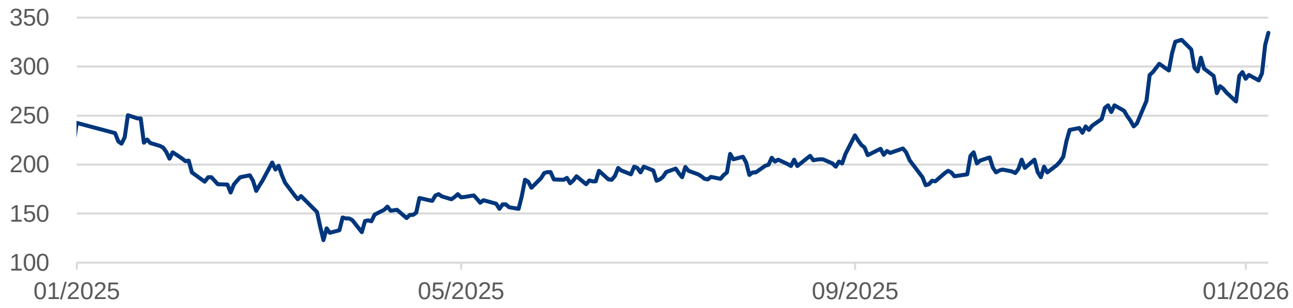
	2023	2024	2025	2026F	2027F
EPS (NTD)	2.05	3.34	3.79	5.40	9.94
EPS Growth (%)	0.0	63.0	13.4	42.6	84.2
P/E Ratio	98.1	60.2	53.1	37.2	20.2
ROE (%)	19.7	19.9	16.6	20.1	28.8

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 29 Jan 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	16.35	6.70	66.42	78.88	2.76	37.94

Bonds Japan's Major Financial Institutions Remain Fundamentally Strong, Suitable for Income Lock-In

► **MUFG 4.505 01/14/32 (Mitsubishi UFJ Financial Group) (USD)**

- Mitsubishi UFJ Financial Group (MUFG) is the largest of Japan's three megabanks, with total assets of approximately USD 3.3 trillion. The group provides comprehensive financial services—including commercial banking, trust banking, and securities—while also offering leasing, credit card, and consumer finance services through its subsidiaries. In recent years, MUFG has actively expanded into growth areas such as digital services, enhancing resilience amid a shifting business environment. Supported by its massive customer base and dominant position as Japan's largest banking group, these advantages are expected to remain intact.
- Its extensive nationwide retail branch network provides a stable and low-cost funding base. With highly diversified personal deposits and corporate deposits anchored by long-term client relationships, MUFG enjoys solid liquidity protection. As of September 30, 2025, its loan-to-deposit ratio remained low at 55%.
- In FY2026 Q2 (ending September 30, 2025), net interest income rose 9% YoY (+¥63.9B), fee income grew 17% YoY (+¥82.9B), and net trading and other non-interest income increased 28% YoY. Although sales and trading revenue in the markets division declined 7% YoY, strong growth across other business segments more than offset the weakness, resulting in overall revenue expansion.
- Given the Japanese government's strong support for major private banks and MUFG's status as a systemically important institution within Japan's financial system, the group is considered highly likely to receive exceptional government support should the need arise.

Product	MUFG 4.505 01/14/32 (Mitsubishi UFJ Financial Group) (USD)
ISIN	US606822DS05
Features	the largest of Japan's three megabanks, with total assets of approximately USD 3.3 trillion. The group provides comprehensive financial services
Maturity Date	2032/1/14
Next Call Date	2031/1/14
Coupon (%)	Float/4.505/Semi-annual
Currency	USD
Years to Maturity	5.96
Credit Rating (Moody's/Fitch/S&P)	A1/A-/A-
Seniority	Senior Unsecured
YTM/YTC (%)	4.32/4.32

Source: Bloomberg

MUFG 4.505 01/14/32 (Mitsubishi UFJ Financial Group)

The group provides comprehensive financial services—including commercial banking, trust banking, and securities—while also offering leasing, credit card, and consumer finance services through its subsidiaries. In recent years, MUFG has actively expanded into growth areas such as digital services, enhancing resilience amid a shifting business environment. Supported by its massive customer base and dominant position as Japan’s largest banking group, these advantages are expected to remain intact.

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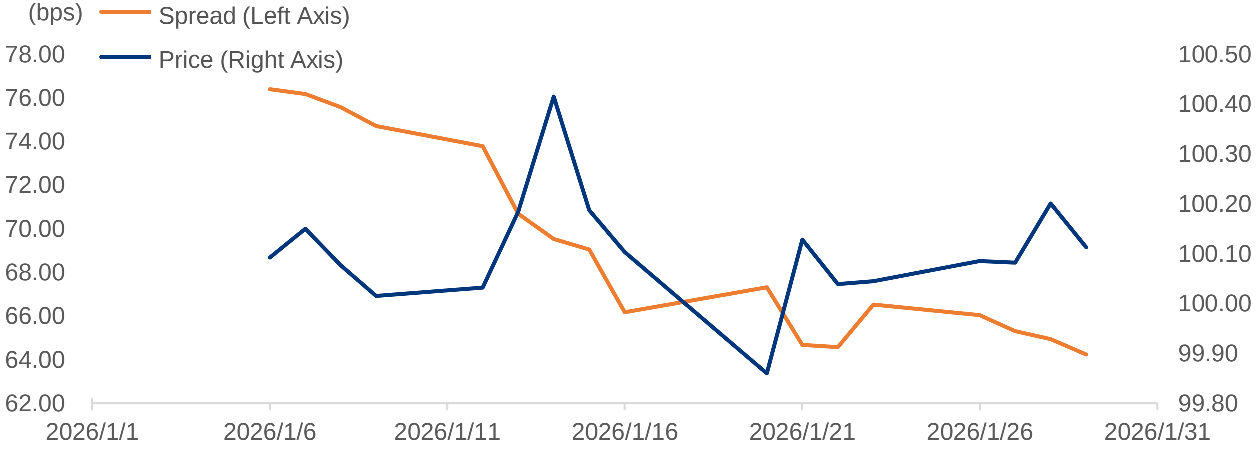
- Given the Japanese government's strong support for major private banks and MUFG’s status as a systemically important institution within Japan’s financial system, the group is considered highly likely to receive exceptional government support should the need arise.

Financials	2025Q4	2026Q1	2026Q2
CET1 Ratio	14.18	13.95	14.08
Liquidity Coverage Ratio (%)	163.80	161.80	160.80
Profit Margin (%)	9.58	30.85	34.71

Overview

Name	MUFG 4.505 01/14/32	ISIN	US606822DS05
Maturity Date	2032/1/14	Remaining Maturity	5.96
Coupon(%)	Float/4.505/Semi-annual	YTM/YTC(%)	4.32/4.32
Currency	USD	Min. Subscription/ Increment	200,000/1,000
Ratings (Moody's/Fitch/S&P)	A1/A-/A-	Seniority	Senior Unsecured

Price (New Issued Bond)



Source: Bloomberg, Jan 29, 2026

Appendix

Key Economic Data / Events

► JAN 2026

26 Monday	27 Tuesday	28 Wednesday	29 Thursday	30 Friday
• U.S. Nov Durables MoM (Prelim) (Act:5.3% Est:4.0% Prev:-2.1%)	• U.S. Jan Conference Board Consumer Confidence (Act:84.5 Est:91.0 Prev:94.2) • Japan Dec Machine Tool Orders YoY (Final) (Act:10.9% Prev:14.8)		• U.S. Weekly Initial Jobless Claims (Act:209k Est:205k Prev:210k) • U.S. Jan FOMC Fed Funds Rate (Act:3.75% Est:3.75% Prev:3.75%) • U.S. Nov Durables MoM (Final) (Act:5.3% Prev:-2.1%)	• U.S. Dec PPI YoY (Est:2.8% Prev:3.0%) • Japan Jan Tokyo CPI YoY (Act:1.5% Est:1.7% Prev:2.0%) • Japan Dec Unemployment Rate (Act:2.6% Est:2.6% Prev:2.6%) • Japan Dec Retail Sales MoM (Act:-2.0% Est:-0.5% Prev:0.7%)

► FEB 2026

2 Monday	3 Tuesday	4 Wednesday	5 Thursday	6 Friday
• U.S. Jan S&P Global Mfg PMI (Final) (Prev:51.8%) • U.S. Jan ISM Mfg PMI (Est:48.3 Prev:47.9) • Japan Jan S&P Global Mfg PMI (Final) (Prev:50.0) • Eurozone Jan HCOB Mfg PMI (Final) (Prev:48.8) • China Jan Caixin Mfg PMI (Est:50.0 Prev:50.1)	• U.S. Dec JOLTS Job Openings (Est:7,100k Prev:7,146k) • PLTR, MRK, PEP, PFE Earnings	• U.S. Jan ADP Employment Change (Est:48k Prev:41k) • U.S. Jan ISM Services PMI (Est:53.5 Prev:53.8) • Eurozone Jan CPI YoY (Flash) (Prev:1.9%) • AMD, CB, AMGN, T, LLY, ABBV, BSX Earnings	• U.S. Weekly Initial Jobless Claims (Prev:209k) • Eurozone Feb ECB Main Refinancing Rate (Prev:2.15%) • U.K. Feb BoE Bank Rate (Est:3.75% Prev:3.75%) • GOOGL, QCOM, DIS, UBER, KKR, LIN Earnings	• U.S. Jan Nonfarm Payrolls (Est:78k Prev:50k) • U.S. Jan Unemployment Rate (Est:4.4% Prev:4.4%) • U.S. Feb U. Michigan Consumer Sentiment (Prelim) (Est:55.5 Prev:56.4) • AMZN Earnings

Source: Bloomberg

Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation	
						Revenue	EPS
2026/1/27	UnitedHealth Group (UNH)	113.73B	113.2B	2.11	2.11		
2026/1/27	RTX Corporation (RTX)	22.69B	24.2B	1.47	1.55	V	V
2026/1/27	Boeing (BA)	22.4B	23.9B	-0.45	9.92	V	V
2026/1/27	Union Pacific (UNP)	6.12B	6.1B	2.87	2.86		
2026/1/28	Texas Instruments (TXN)	4.45B	4.42B	1.29	1.27		
2026/1/28	Amphenol (APH)	6.15B	6.4B	0.92	0.97	V	V
2026/1/28	AT&T (T)	32.87B	33.5B	0.46	0.52	V	V
2026/1/28	Danaher (DHR)	6.79B	6.84B	2.14	2.23	V	V
2026/1/28	GE Vernova (GEV)	10.23B	11B	3.22	13.39	V	V
2026/1/29	IBM (IBM)	19.22B	19.7B	4.29	4.52	V	V
2026/1/29	Lam Research (LRCX)	5.21B	5.34B	1.16	1.27	V	V
2026/1/29	Microsoft (MSFT)	80.23B	81.27B	3.93	4.14	V	V
2026/1/29	ServiceNow (NOW)	3.53B	3.57B	0.89	0.92	V	V
2026/1/29	Tesla (TSLA)	24.78B	24.9B	0.45	0.5	V	V
2026/1/29	Meta Platforms (META)	58.35B	59.89B	8.19	8.88	V	V

Source: Investing.com

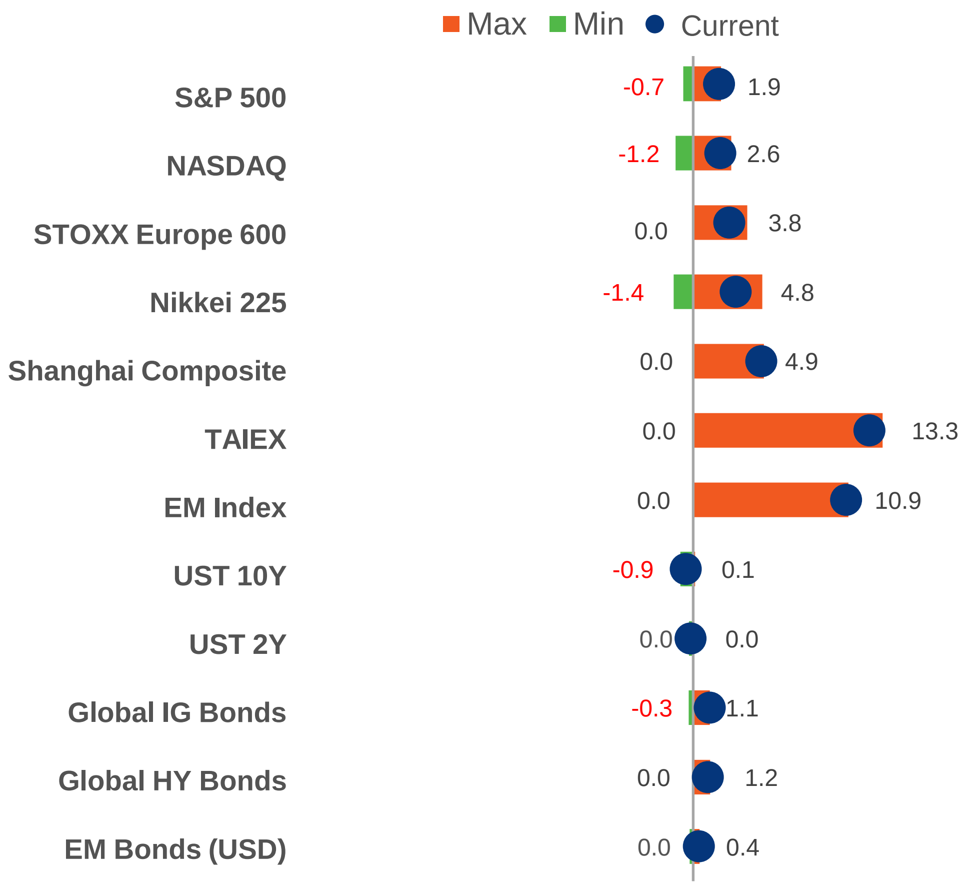
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation	
						Revenue	EPS
2026/1/29	Caterpillar (CAT)	17.85B	19.1B	4.7	5.16	V	V
2026/1/29	Progressive (PGR)	20.31B	19.51B	4.43	5.02		V
2026/1/29	Lockheed Martin (LMT)	19.85B	20.3B	5.75	5.8	V	V
2026/1/29	Blackstone (BX)	3.68B	4.36B	1.53	1.75	V	V
2026/1/29	Thermo Fisher Scientific (TMO)	11.89B	12.21B	6.45	6.57	V	V
2026/1/29	Honeywell International (HON)	10.02B	10.1B	2.54	2.59	V	V
2026/1/30	Stryker (SYK)	7.12B	7.2B	4.39	4.47	V	V
2026/1/30	Apple (AAPL)	137.47B	143.8B	2.67	2.84	V	V
2026/1/30	KLA Corporation (KLAC)	3.25B	3.3B	8.8	8.85	V	V
2026/1/30	Mastercard (MA)	8.78B	8.8B	4.25	4.76	V	V
2026/1/30	Visa (V)	10.68B	10.9B	3.14	3.17	V	V

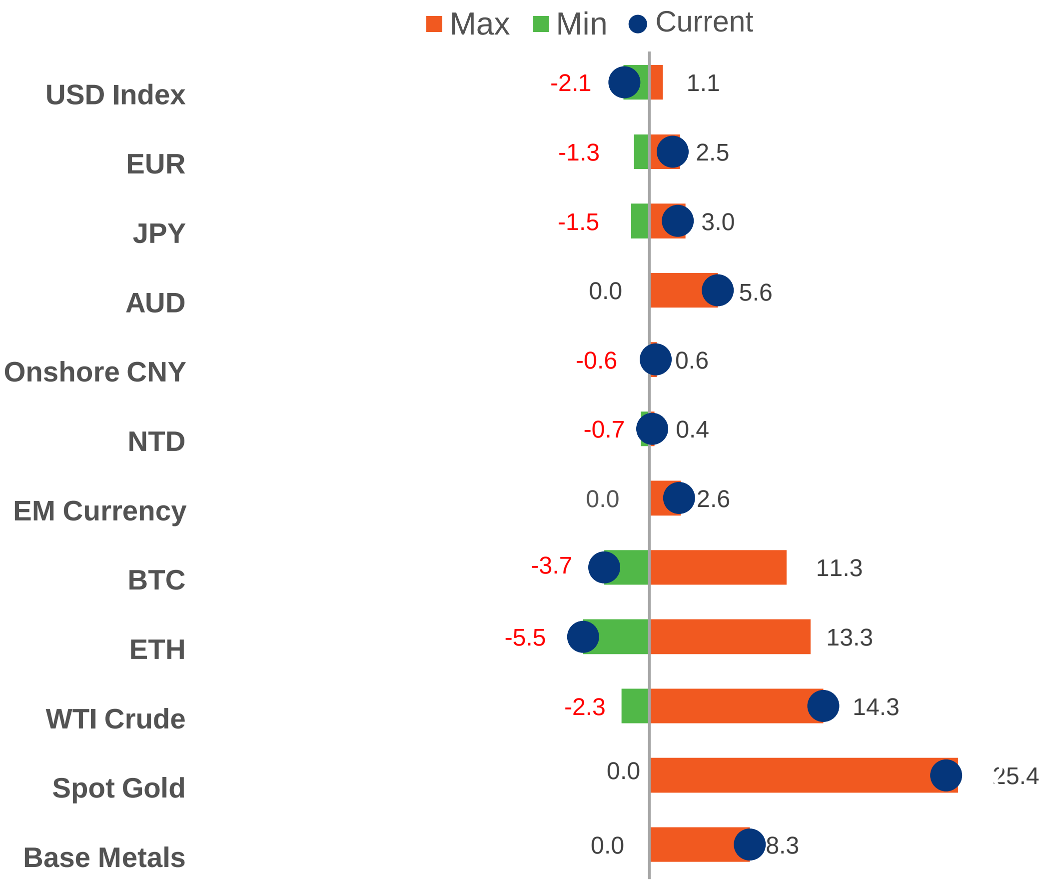
Source: Investing.com

Major Market / Asset YTD Performance

Equities & Bond Markets 2025 Performance (%)



Currencies and Commodities Market 2025 Performance (%)



Source: Bloomberg, 30 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

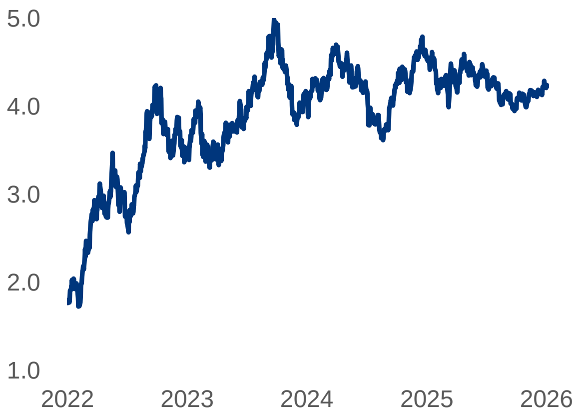
WTI Crude

Source: Bloomberg, 30 Jan 2026

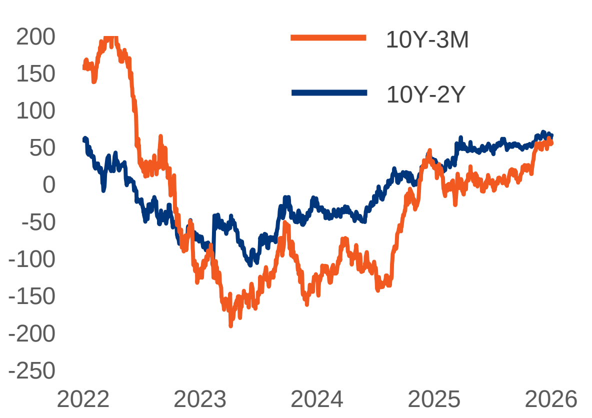
Market Monitor

U.S. CPI YoY (%)

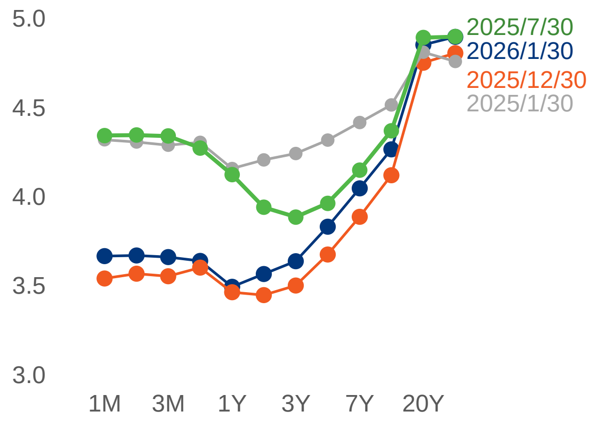
U.S. 10-Year Treasury Yield (%)



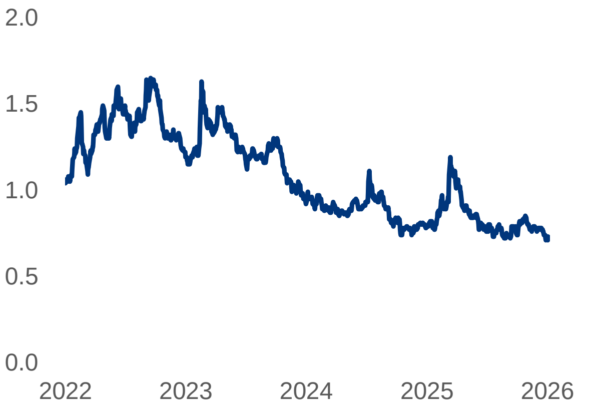
U.S. Treasury Yield Spread (bps)



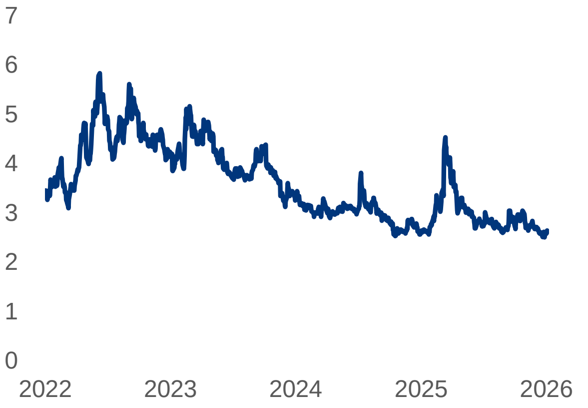
U.S. Treasury Yield Curve (%)



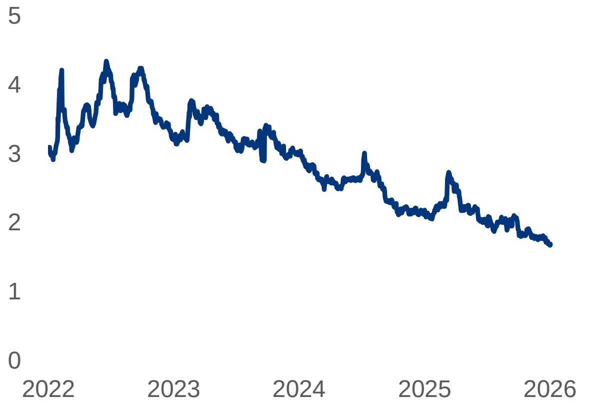
USD IG Credit Spread (%)



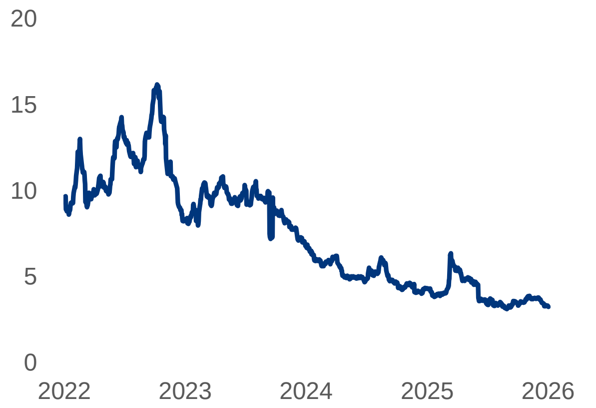
USD HY Credit Spread (%)



USD EM Credit Spread (%)



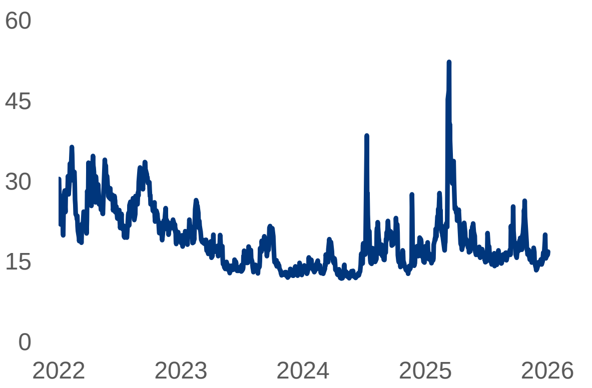
USD Asia Credit Spread (%)



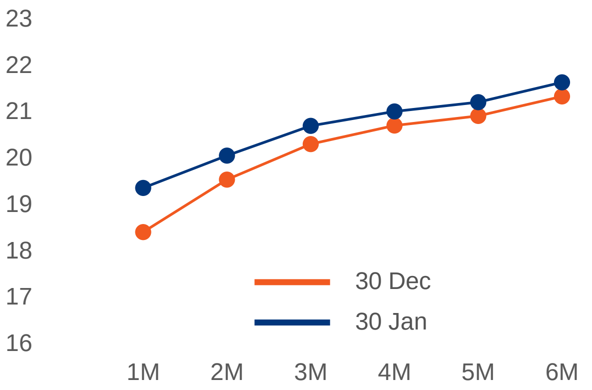
Source: Bloomberg, 30 Jan 2026

Market Monitor

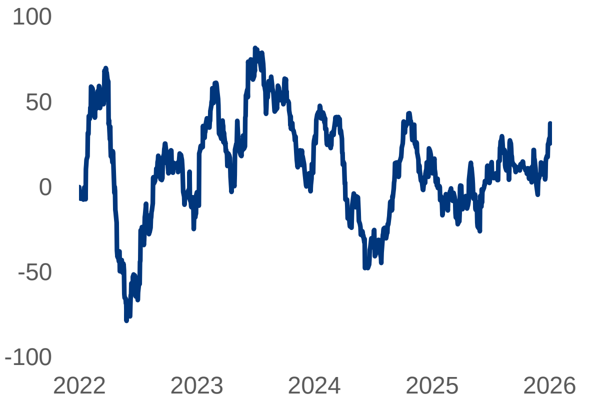
VIX Index



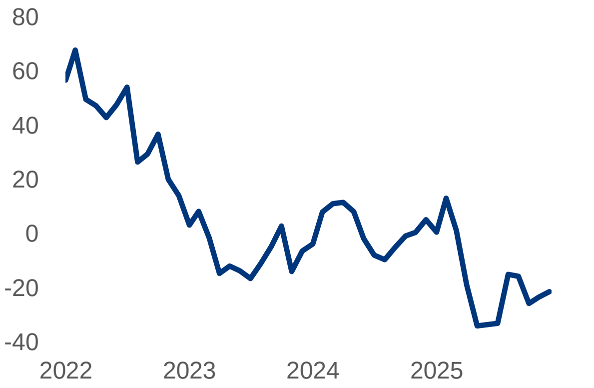
VIX Term Structure



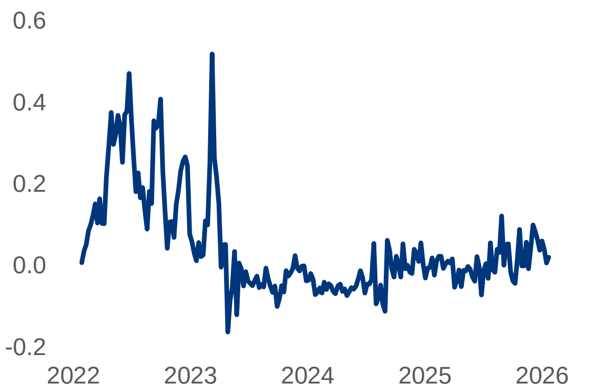
U.S. Citi Economic Surprise Index*



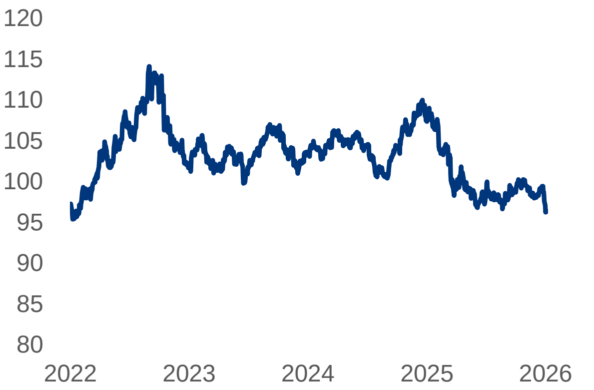
U.S. Citi Inflation Surprise Index*



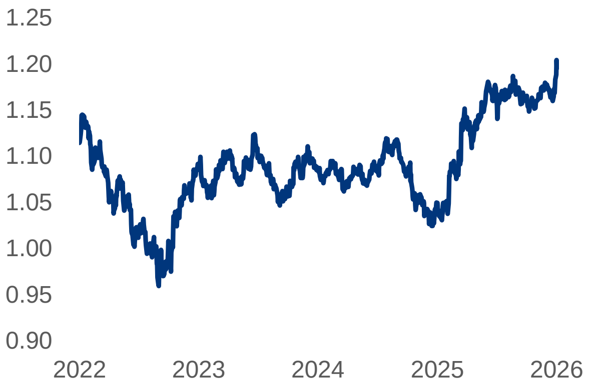
TED Spread (bps)



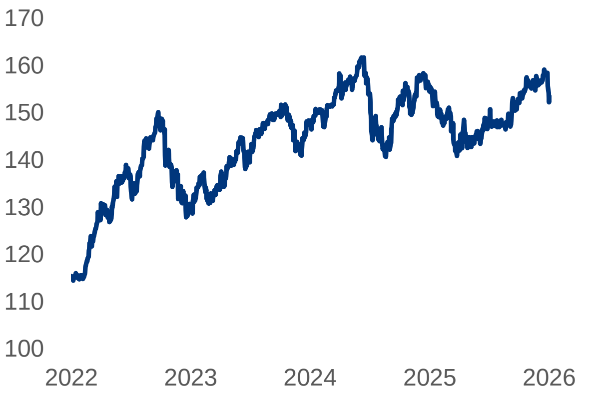
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, 30 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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