KGI

CIO Office

Global Markets Weekly Kickstart

The Tug-of-War Between Conflict and Negotiation!

18 May 2026

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CIO Insights | Crisis Breeds Opportunities in Europe

► Geopolitical and Energy Pressures

Europe is navigating a "Multi-Front Challenge" characterized by strained US relations, including 25% tariff threats and a post-war low in diplomacy. Simultaneously, the war in Iran has triggered a "Second Energy Shock" by paralyzing the Strait of Hormuz, spiking industrial costs and inflation expectations. Furthermore, a Russian "Sub-threshold Warfare" pivot targets EU power grids and subsea cables, forcing increased defense spending that burdens already weak fiscal positions.

► The Pivot to Strategic Autonomy

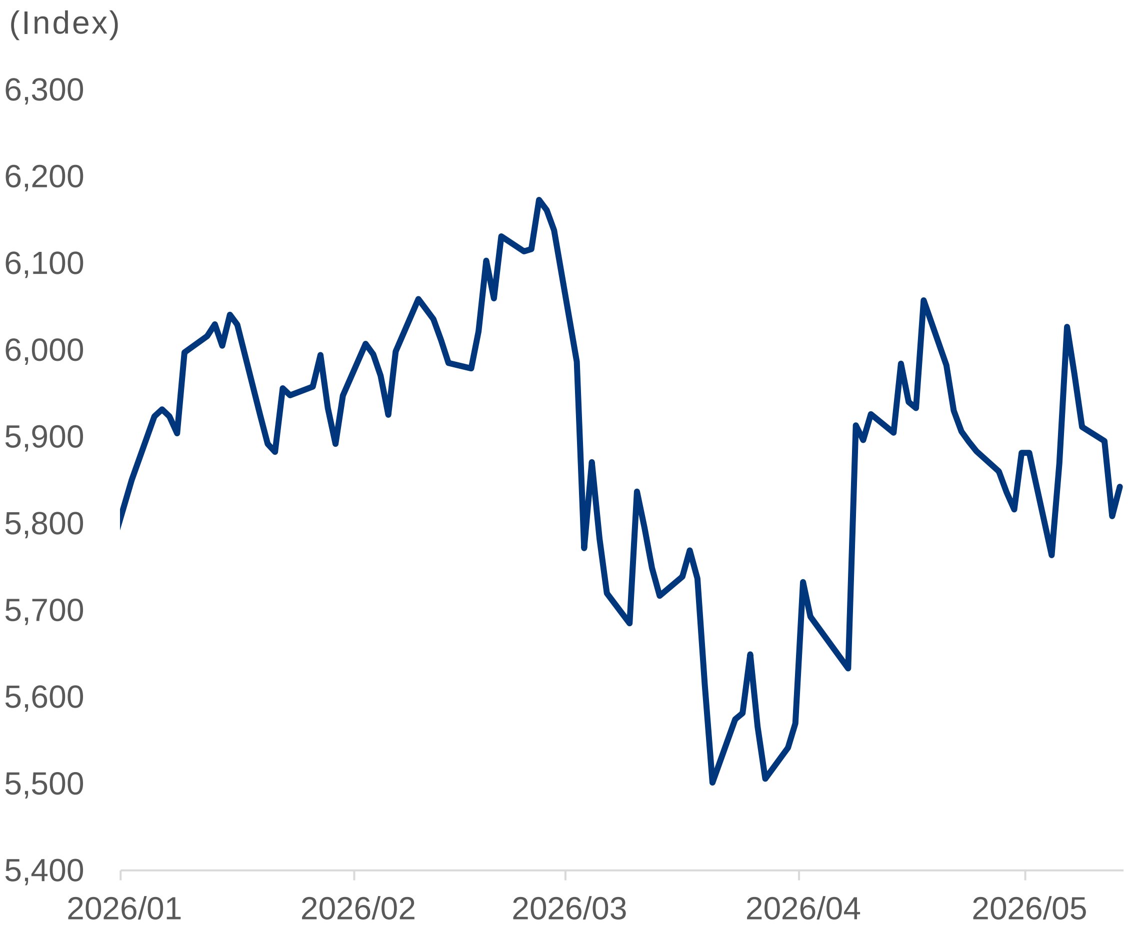
To counter these crises, the EU is pursuing sovereignty through the Savings & Investments Union (SIU), aiming to redirect €33 trillion in household wealth into high-growth sectors like AI and Green Energy. Key initiatives include "Defense & Tech Sovereignty" via unified procurement and the "SMR & Hydrogen Roadmap," which fast-tracks Small Modular Reactors to provide stable, carbon-free power for industrial "AI Valleys".

► Targeted Investment Strategies

Investors are advised to avoid UK Gilts due to high yields and German auto exporters vulnerable to tariffs. Instead, focus on "Sovereign AI" leaders in France, green energy hubs in Spain, and defense giants like Rheinmetall and Saab. Luxury names like LVMH and Hermes, currently trading at deep discounts, offer potential "reopening" plays if Middle Eastern tensions subside.

Euro Stoxx 50

Europe Underperformed Since The War In Iran



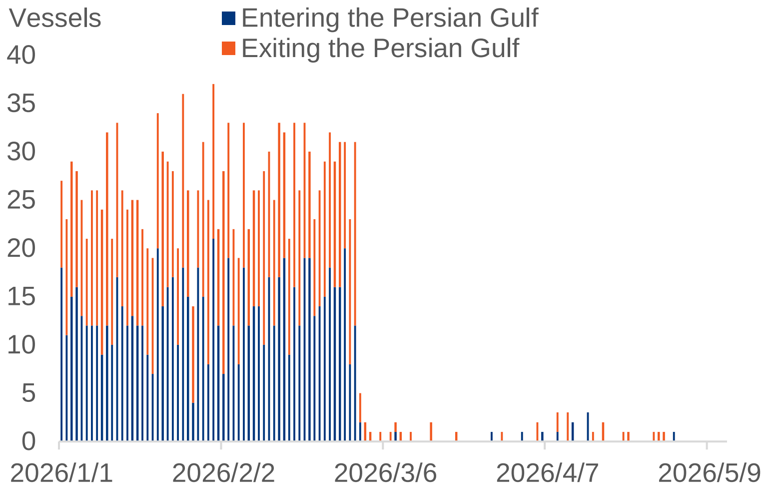
Source: Bloomberg, KGI

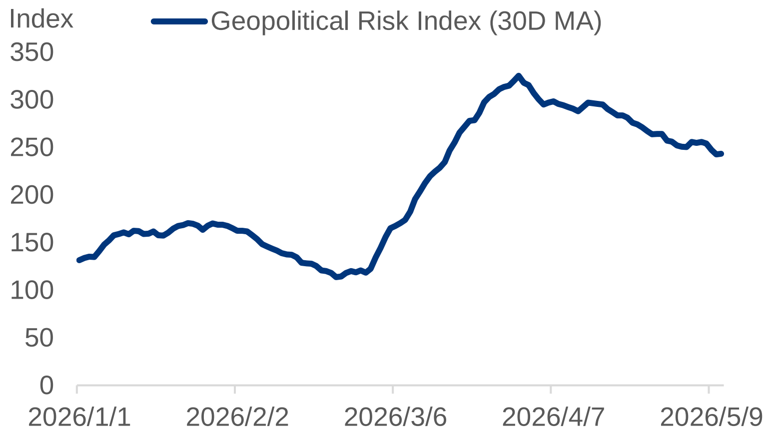
Chart of the Week

U.S.-Iran Negotiations and Conflicts Intertwine; Seize Buying Opportunities on Extended Market Corrections

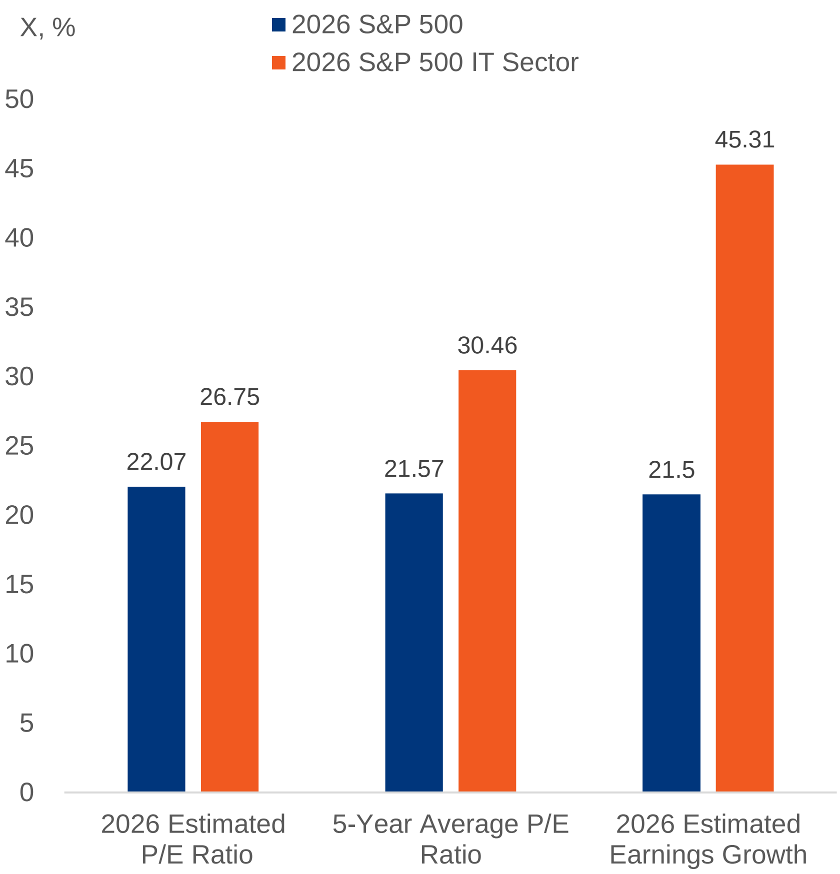
- Despite the ceasefire announcement on April 8, the Strait of Hormuz has yet to return to normal operation. The strait remains heavily obstructed by mutual U.S.-Iran blockades, severely limiting the number of passing oil tankers. Although peace frameworks are actively being discussed, no definitive agreement has been reached, and sporadic skirmishes continue to keep Brent crude hovering above US$100/barrel. Interestingly, tracking the Geopolitical Risk Indicator reveals a gradual, slow decline since the April ceasefire took effect. Even in the face of ongoing rhetoric and minor renewed clashes, this downward trend suggests the market expects both nations to ultimately settle disputes via diplomacy rather than escalating into full-scale conflict. Nonetheless, market volatility will intermittently resurface until the Strait of Hormuz completely reopens.
- While U.S. equities have posted sharp gains recently, current index valuations sit only slightly above their 5-year historical average, and tech sector P/E ratios are tracking below their 5-year average. Backed by relentless AI developments, technology stocks retain strong long-term growth momentum. Should geopolitical uncertainties trigger brief market rollbacks, growth-oriented AI tech leaders will stand out as primary accumulation targets.

Strait of Hormuz Remains Blocked, but Geopolitical Risk Index Shows No Significant Rebound





US Tech Valuations Have Corrected; Market Pullbacks Present Strategic Entry Opportunities



Source: Bloomberg, KGI

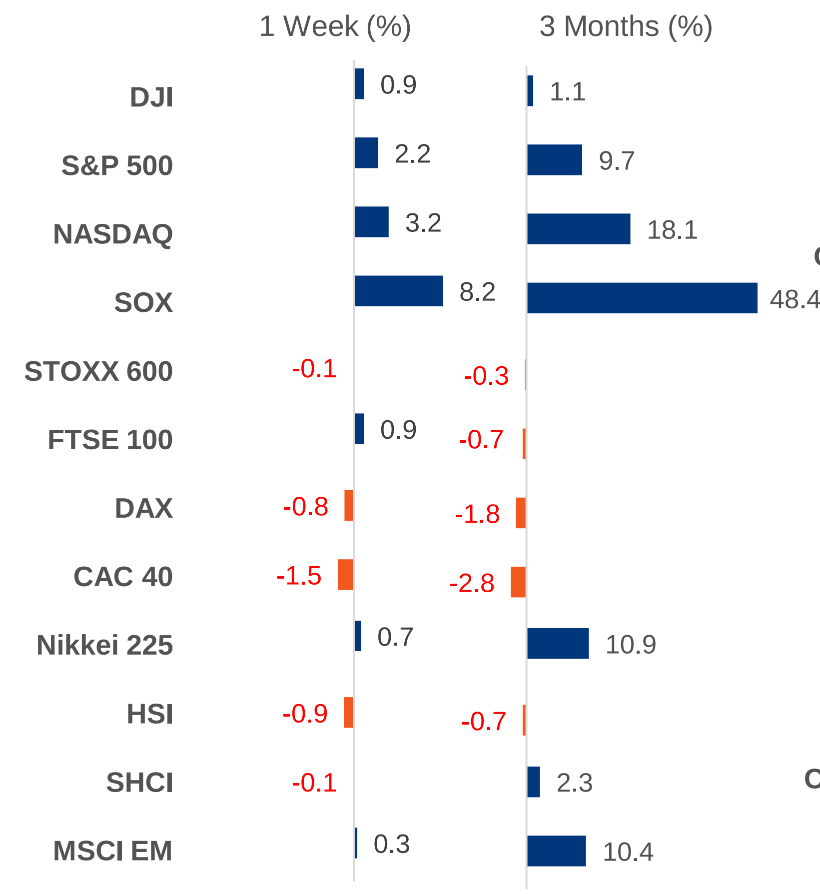
Market Recap

AI Boom & Trump-Xi Summit Hopes Boost US Stocks; Europe Conservative

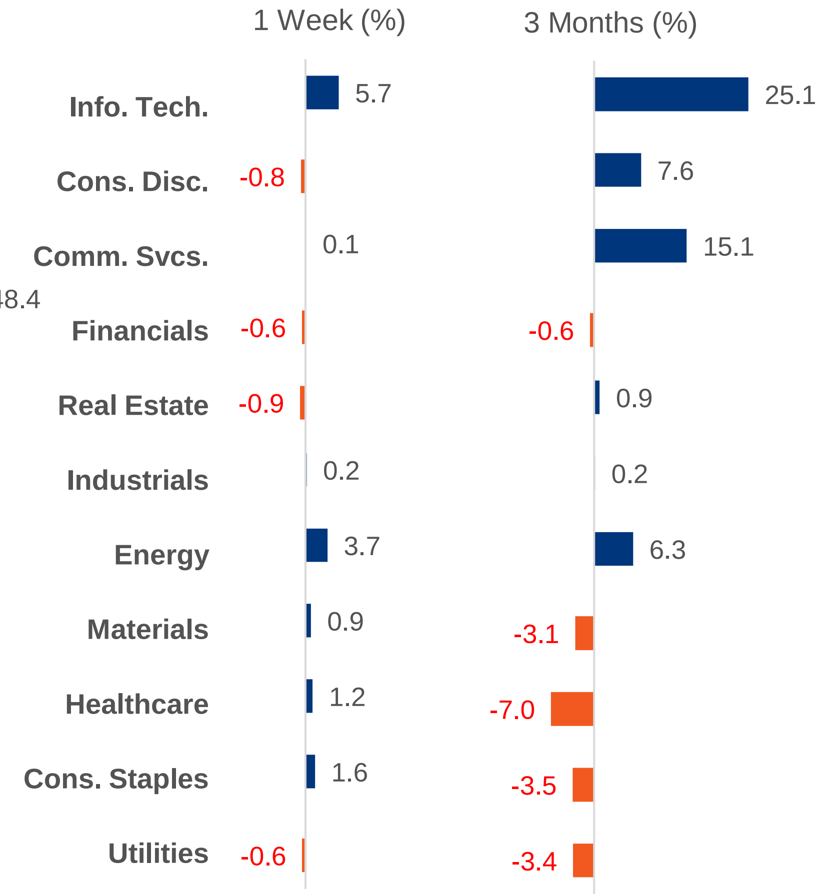
- Despite the continuous rise in the latest US inflation data, optimistic market expectations for the AI technology sector have temporarily overshadowed concerns over rebounding prices. Coupled with positive anticipation ahead of the Trump-Xi summit, these factors jointly propelled a strong performance in US equities. However, this optimistic sentiment failed to replicate across the Atlantic, leaving European markets behind. Reflecting comments made by Trump prior to his visit to China that the US-Iran ceasefire agreement is on shaky ground, Brent crude prices rebounded once again. Concerns that resurgent inflation could prompt the Bank of England and the European Central Bank to resume interest rate hikes have visibly revived risk-averse sentiment among European investors. Consequently, declines in German and French stock markets weighed on overall European equities, while UK stocks demonstrated a relatively resilient, shock-resistant character.
- Driven by news of a preliminary chip foundry agreement between Intel and Apple, investors expressed renewed anticipation for the reshoring of the US semiconductor supply chain. Furthermore, Nvidia CEO Jensen Huang's last-minute boarding of Air Force One to accompany Trump on his visit to China, along with reports that the US has approved 10 Chinese companies to procure H200 chips, fueled a powerful rally in semiconductor stocks and pushed the Philadelphia Semiconductor Index to continuous new highs. On the other hand, the latest data showing a 4.3 million-barrel decrease in US commercial crude oil inventories indicated unexpectedly robust demand for oil. This draw, combined with rising oil prices, collectively lifted the energy sector into an upward trend.

Source: Bloomberg

Regional Index Performance (%)



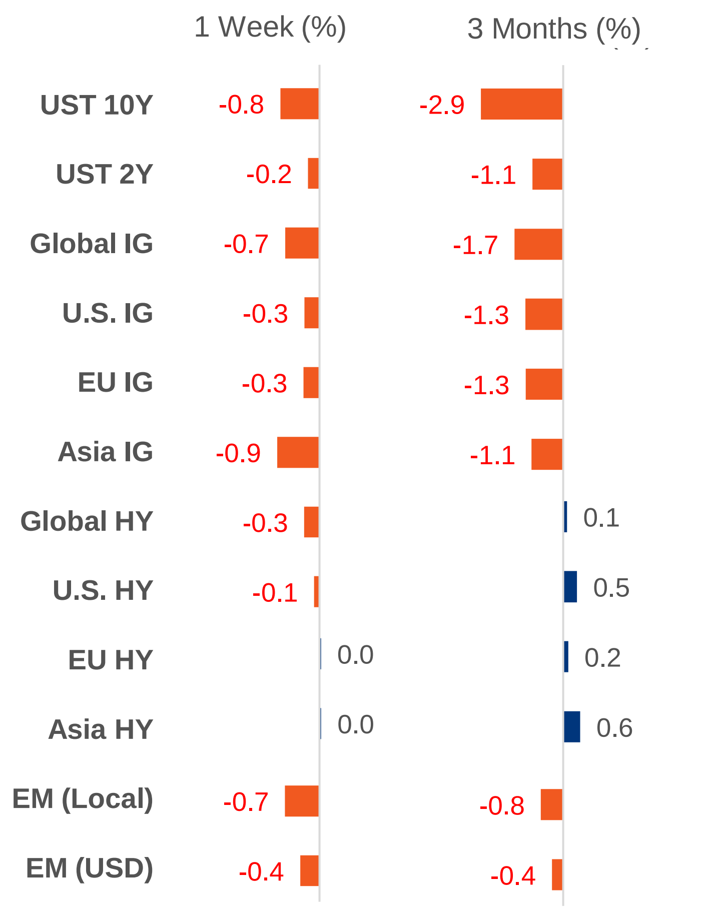
U.S. Sector Index Performance (%)



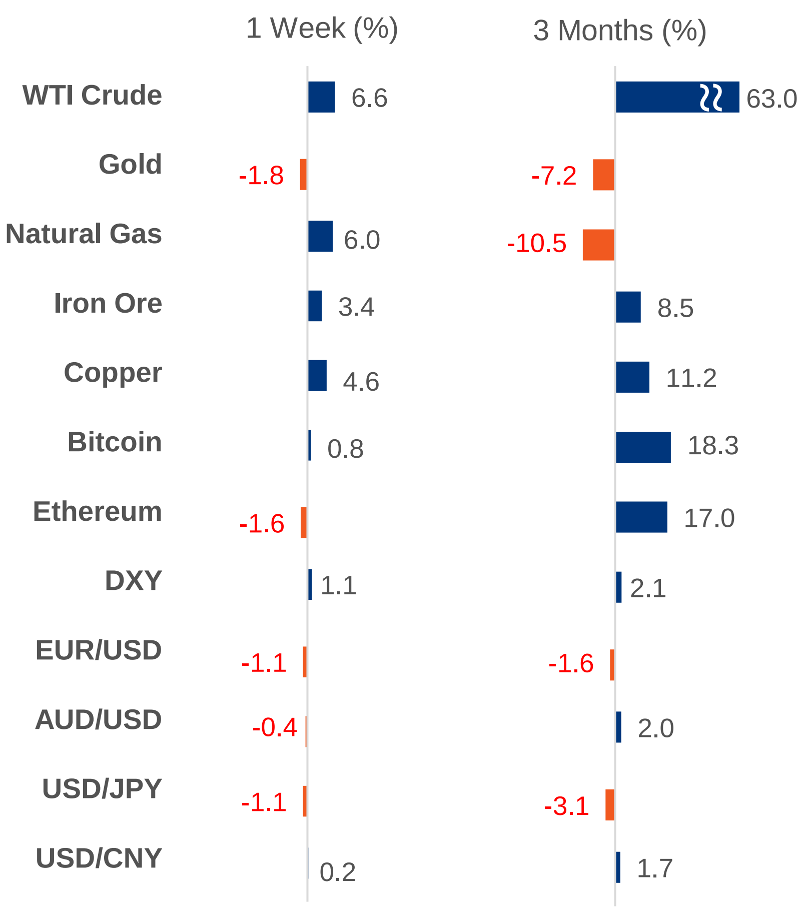
US-Iran Negotiations Deadlocked; Crude Oil Prices and US Treasury Yields Rebound Again

- The consecutively released US CPI and PPI data have continued to trend upward on a month-on-month basis and surpassed market expectations, indicating persistent short-term inflationary pressures. Coupled with a rebound in oil prices that supports inflation expectations, market projections for Federal Reserve rate cuts have continued to narrow. This has driven US Treasury yields higher once again, weighing on bond prices; however, short-duration Treasuries, which carry lower interest rate risk, suffered relatively milder declines. Regarding non-US bonds, market expectations that inflationary pressures could prompt the European Central Bank to raise interest rates as early as June have also put performance under pressure for European investment-grade bonds. Furthermore, Asia—which has the highest proportion of Middle Eastern energy imports—remains the region most vulnerable to the US-Iran conflict. As the blockade of the Strait of Hormuz persists, Asia can hardly escape the risk of rising commodity prices, leaving regional bond prices under downward pressure.
- Impacted by factors such as the deadlock in US-Iran negotiations and the unlikelihood that shipping through the Strait of Hormuz will resume in the short term, Brent and WTI crude oil prices rose yet again, and natural gas prices also moved higher. As uncertainty returned to the market, the US Dollar Index staged a rebound, while non-US currencies such as the Euro and the Japanese Yen depreciated relatively. However, considering US Treasury Secretary Scott Bessent's recent visit to Tokyo to hold talks with Japan's Minister of Finance, the possibility that Japan may increase the intensity of its interventions to support the yen exchange rate in the short term cannot be ruled out.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



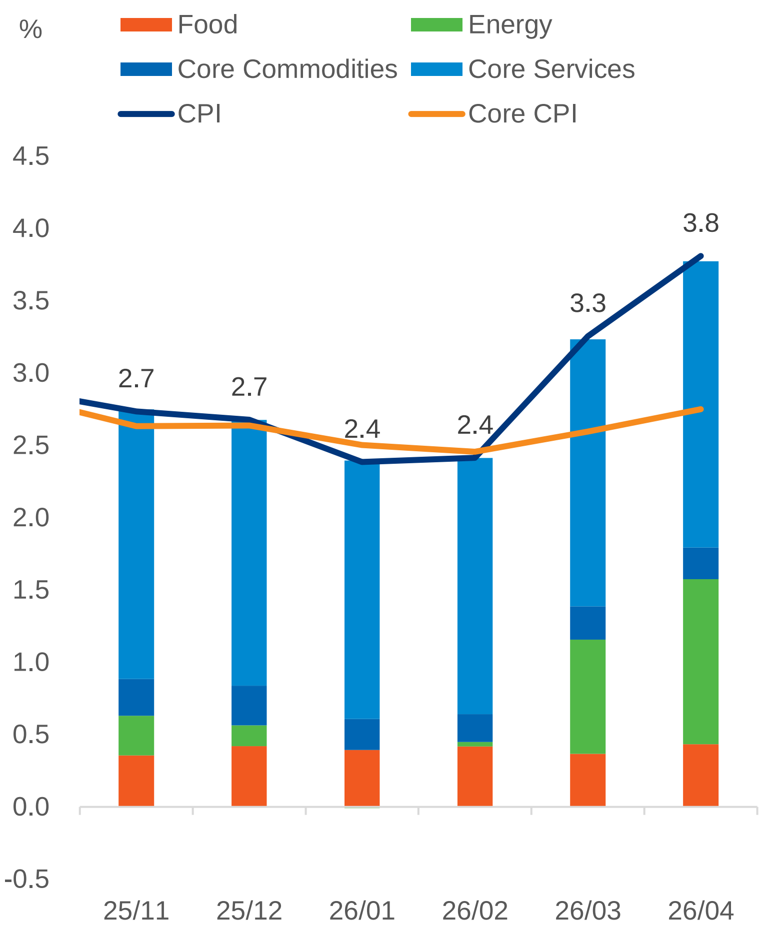
Source: Bloomberg

What’s Trending

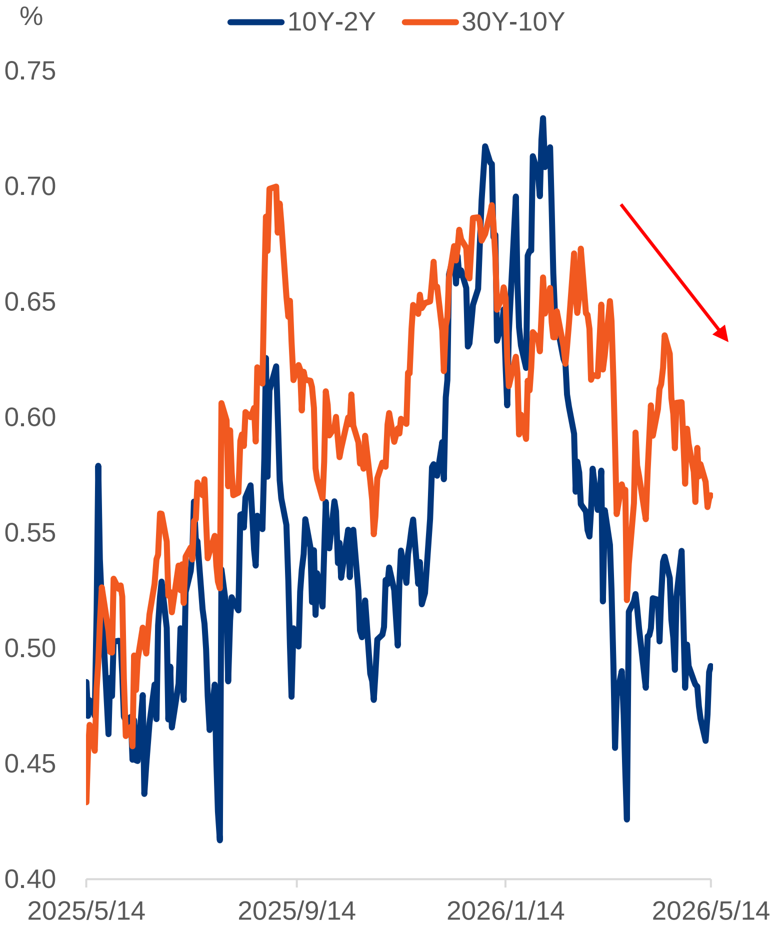
Inflation Rebounds, Warsh Era Faces a Headwind Start

- Inflation data for April showed no signs of slowing down, with the US headline Consumer Price Index (CPI) annual growth rate rebounding to 3.8%. This figure landed above the market expectation of 3.7% and the previous reading of 3.3%. Concurrently, core CPI rose 2.8% year-over-year, also coming in higher than both the projected 2.7% and the prior month's 2.6%. An observation of this expansion indicates that the primary driver remains the stubbornly elevated energy component. If the Middle East conflict continues to drag on, high energy costs could prolong the duration of this inflationary resurgence, potentially leading market expectations for interest rate cuts to narrow once again.
- The Senate has officially confirmed Kevin Warsh to succeed as Chairman of the Federal Reserve. Although his primary policy objectives lean toward rate cuts and balance sheet normalization—specifically targeted at reducing short-term yields and raising long-term yields to steepen the yield curve—Warsh’s operational room for maneuver is expected to be constrained under the current macroeconomic environment. This outlook chiefly reflects three factors: (1) short-term inflationary pressures remain highly sensitive to energy prices, which limits the scope for rate cuts before the end of the year; (2) internal divisions persist within the Federal Reserve, making a sharp pivot toward dovish policies highly unlikely; and (3) reducing the balance sheet too aggressively could trigger liquidity shortages, introducing the risk of a rebound in short-term interest rates. In the short term, the timelines for both rate cuts and balance sheet normalization are unlikely to advance rapidly. Given that the yield curve is currently biased toward flattening, fixed-income strategy should favor medium-duration bonds that carry lower interest rate risk.

Energy Component Continues to Drive Inflation



Yield Curve Continues to Flatten



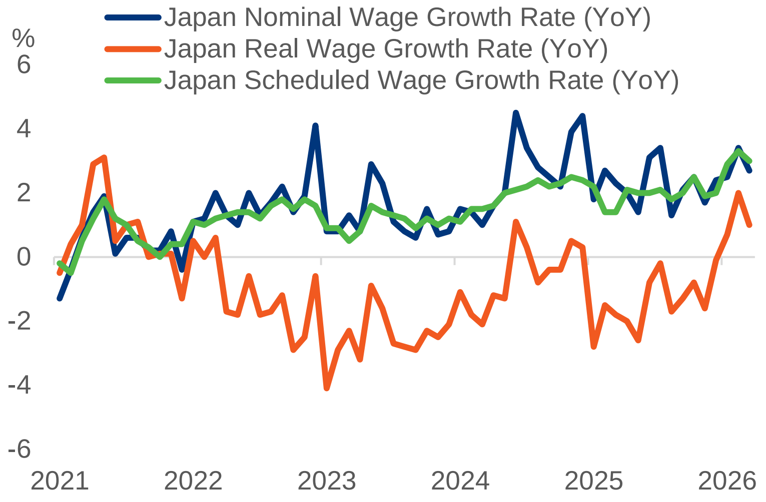
Source: Bloomberg, CEIC, KGI

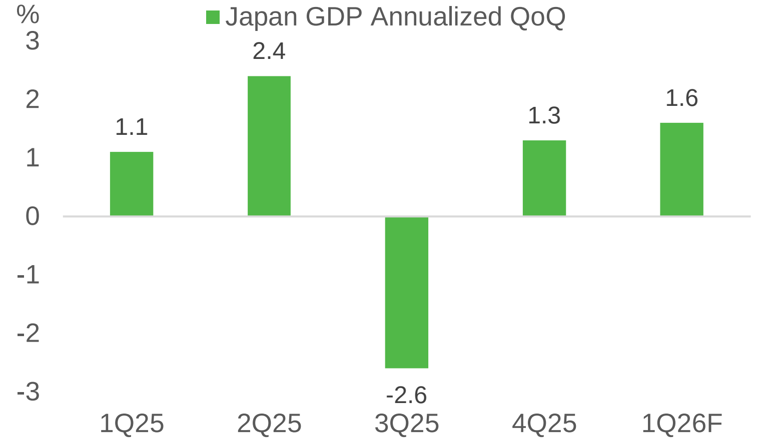
In Focus

Wage Growth Strengthens Economic Cycles; BoJ Rate Hike Looms in June

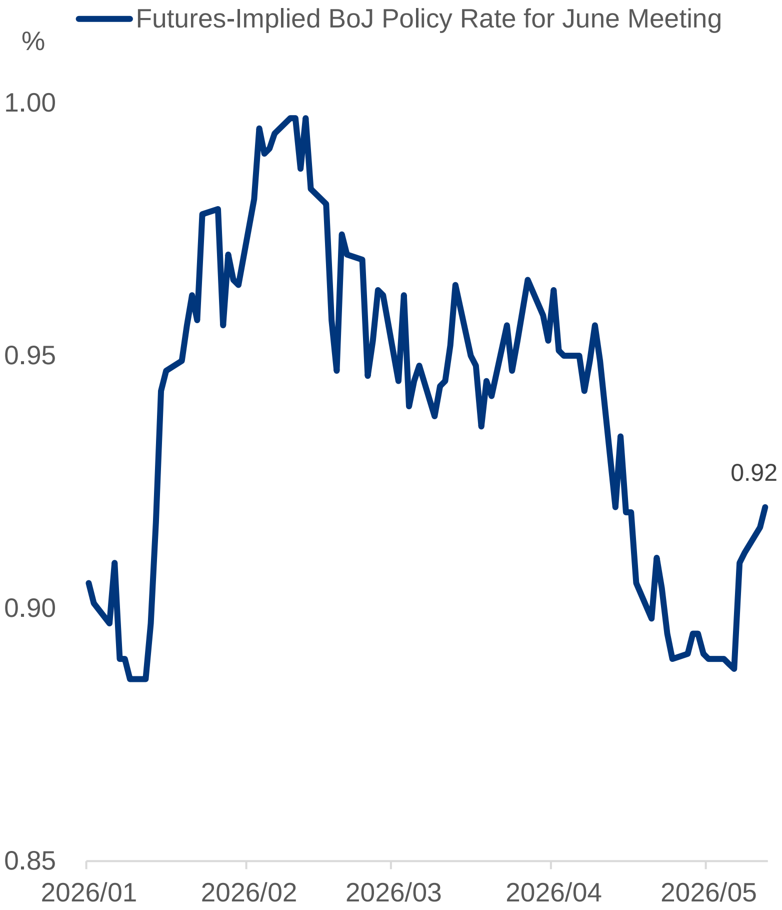
- The latest economic data reveals that although nominal and real wage growth slowed slightly in March, real wages have achieved three consecutive months of positive growth. This indicates that wage increases are beginning to outpace inflation, reflecting an ongoing recovery in Japan's domestic demand momentum. Consequently, the positive economic cycle—where wage increases drive consumption, and consumption elevates prices to support overall economic growth—is poised to strengthen.
- Japan is scheduled to release its Q1 2026 GDP data shortly. The latest market forecast projects that the annualized quarter-on-quarter growth rate will rebound to 1.6%, up from the 1.3% recorded in Q4 2025. This acceleration suggests that after turning positive in the final quarter of last year, Japan's economic momentum is highly likely to remain firmly on a recovery trajectory.
- At its April monetary policy meeting, the Bank of Japan (BoJ) kept its benchmark interest rate unchanged at 0.75%, as widely anticipated. However, the number of board members voting to support an immediate rate hike increased from one to three, signaling that calls for monetary tightening are intensifying. Although Governor Kazuo Ueda noted at the post-meeting press conference that there is no urgent need for an immediate hike, he emphasized that the real interest rate remains well below neutral levels. He underscored that the central bank will raise rates if upside risks to prices emerge or if downside risks to the economy are confirmed to be limited. Driven by this broadening economic improvement, the market increasingly expects the BoJ to announce a 25-basis-point rate hike as early as June.

Three-Month Rise in Japan's Real Wages Signals Stronger Economic Momentum





Market Expects BoJ Rate Hike as Early as June

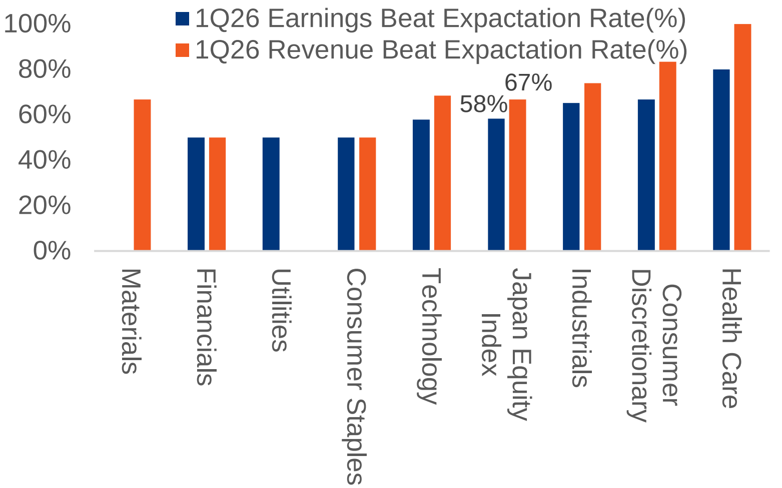


Source: Bloomberg, KGI

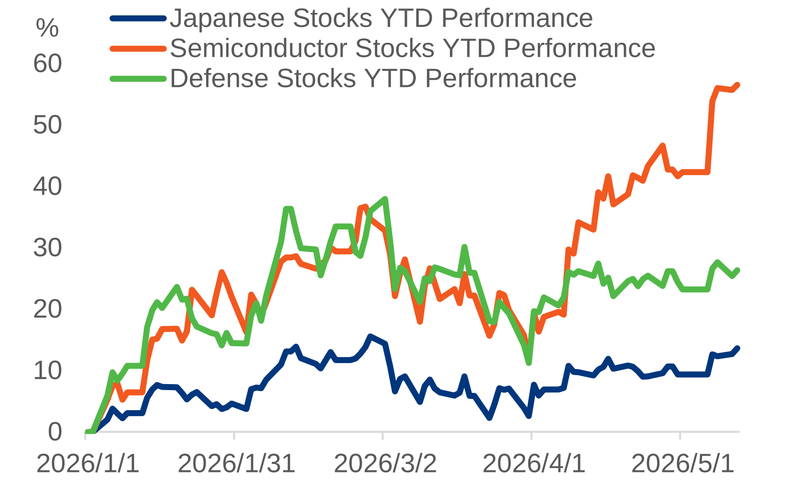
Strong 1Q26 Earnings Draw Foreign Capital, Policy Backs Semiconductors and Defense

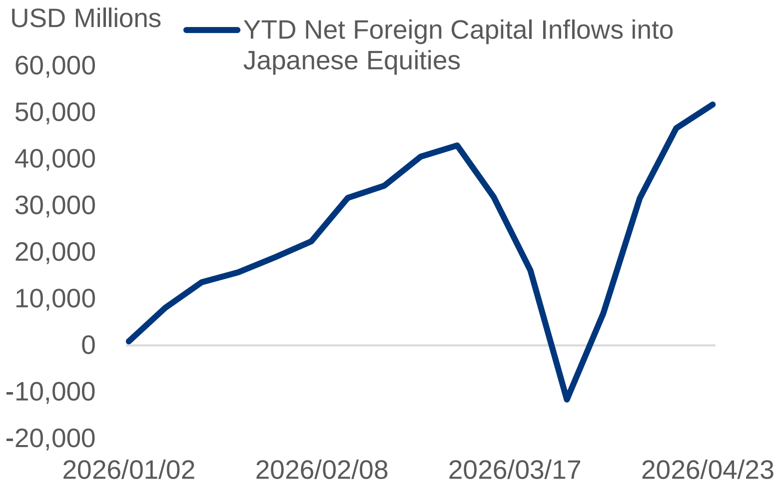
- Japanese equities staged a prominent rally following the conclusion of the Golden Week holidays. Largely benefiting from the stellar earnings reports released by US technology heavyweights, the Nikkei 225 Index, spearheaded by the semiconductor sector, briefly broke through the 62,000-point threshold to chart a new historic high. Furthermore, with one-third of the Nikkei constituents having reported their earnings, approximately 58% of these companies delivered profits and 67% reported revenues that beat market expectations. Wall Street consensus has even revised next-quarter earnings guidance upward by around 7% for Japanese tech firms. These outstanding financial performances and forward-looking forecasts have continuously drawn foreign capital into the market, which is expected to accelerate the upward momentum of Japanese stocks.
- The Japanese government has officially determined that it will strengthen its support for industrial development through expanded fiscal spending policies. On the defense front, in addition to the annual defense budget hitting a record high of 9 trillion yen, Japan will construct a coastal defense network composed of drones and sensors, while simultaneously developing counterstrike capabilities built upon missiles and air defense systems. Regarding AI semiconductors, policy initiatives will enhance the autonomy of Japan's domestic semiconductor supply chain, subsidizing Rapidus for the mass production of AI chips and the establishment of domestic AI computing centers. Under intensive policy promotion, both sectors have progressively attracted capital inflows, consistently converting into upward momentum for Japanese equities.

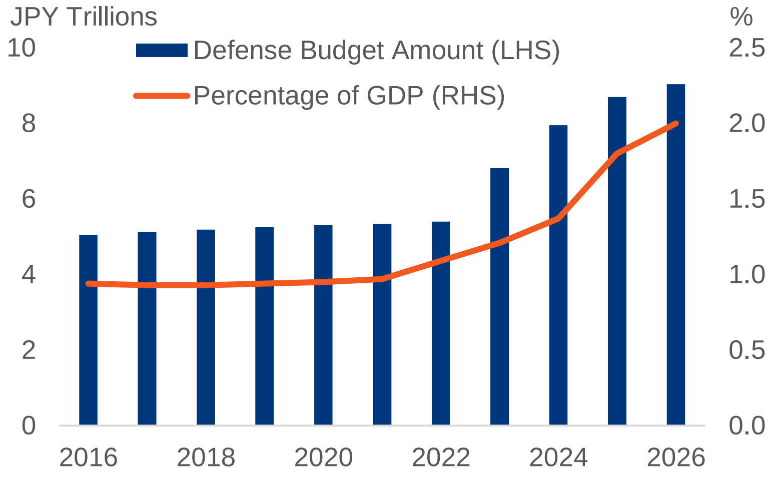
Robust 1Q26 Japanese Corporate Earnings Attract Continuous Foreign Capital Inflows



Policy-Supported Semiconductor and Defense Sectors Outperform the Broader Market







Source: Bloomberg, KGI

Asset Strategy

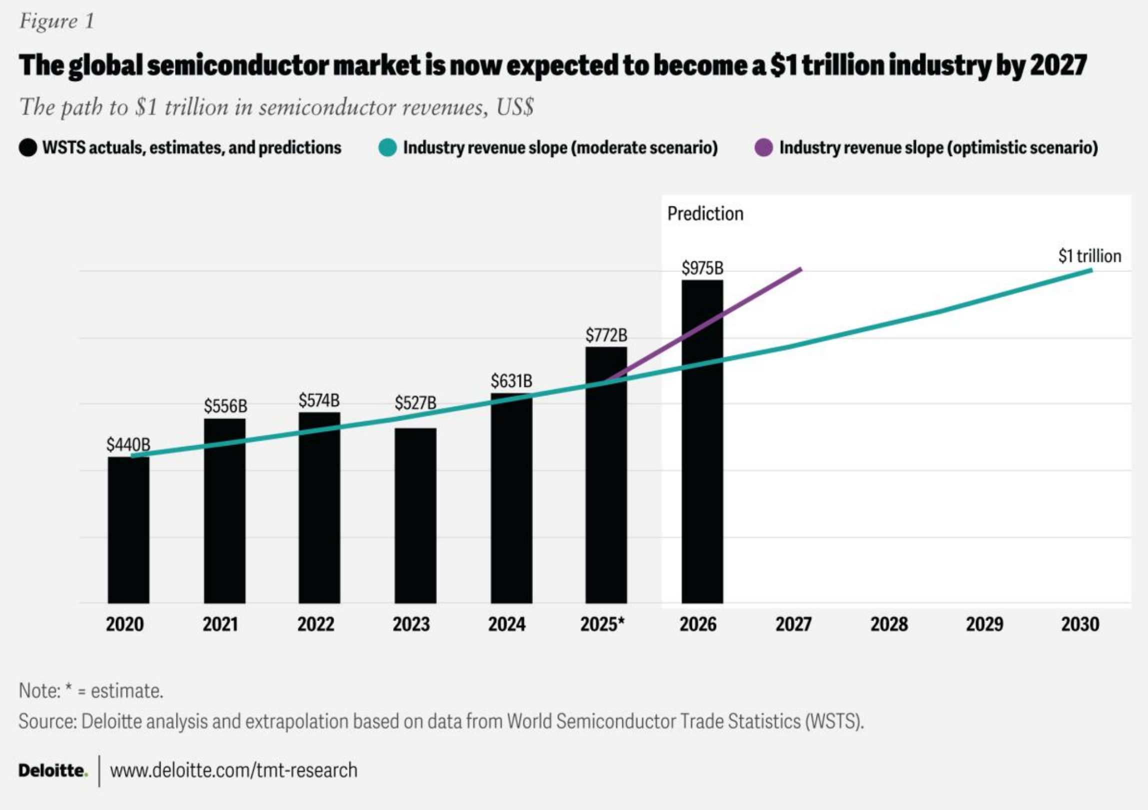
Asset Type	Market View	Preferred Assets
Equities	◆ The stalling of US-Iran peace negotiations has prompted a slight rebound in oil prices. However, US employment data continues to exhibit resilience, and corporate earnings remain robust. It is anticipated that under the pressure of the upcoming midterm elections, Trump will have strong incentives to drive oil prices down; thus, the resurgence in inflation is expected to be a short-term phenomenon that will not impose further pressure on interest rates and equity valuations. Market pullbacks following extended rallies present ideal opportunities to build positions in growth stocks driven by AI themes, while maintaining diversified asset allocations across countries and sectors. ◆ European and Japanese equities serve as key pillars for portfolio diversification, with Japanese stocks demonstrating greater upside potential than their European counterparts. The upward bounce in Japanese government bond (JGB) yields bodes well for the performance of banking stocks. In the Eurozone, the defense and aerospace sectors remain the primary pillars of support, with a tactical preference for UK equities due to their defensive characteristics.	**Strategy:** AI Themes (e.g., Technology, Semiconductors); Non-AI sectors favor Aerospace and Defense **Regions**: Japanese Equities (Banking, Semiconductor and Defense), UK Equities, European Defense
Bonds	◆ As oil prices fluctuate at elevated levels, US Treasury yields carry the potential to trend upward. Investors can utilize spikes in interest rates to build positions in medium-duration bonds. High-credit-rating corporate bonds with superior credit quality offer relatively strong defensive capabilities. Focus can be placed on sectors with attractive risk-adjusted spreads, including financials, communications, utilities, and energy. ◆ The US dollar remains relatively strong in the short term but faces depreciation concerns over the long term. Risk can be diversified by increasing exposure to non-USD-denominated bonds, such as investment-grade bonds denominated in Euros or Australian Dollars.	**Types:** Lock in yields with medium-duration, high-credit-rating bonds. Sectors favor financials, communications, utilities, energy, etc. **Satellite :** Diversify risk with non-USD currency bonds
Forex	◆ Monetary policies across major economies have recently remained in a wait-and-see stance. The US dollar is consolidating within a range, with expectations leaning weak in the medium to long term. ◆ The European Central Bank may raise interest rates faster than the Bank of Japan; the Euro is stronger than the Japanese Yen, while the CNY tilts toward appreciation.	**USD:** Range-bound consolidation; expected to lean weak in the medium to long term. **Others:** Euro is stronger than the Yen; CNY tilts toward appreciation.
Commodity	◆ Energy prices are fluctuating at high levels in the short term, accompanied by severe volatility. ◆ A relatively strong US dollar and elevated US Treasury yields are putting short-term pressure on gold prices. However, given the expansion of major sovereign debts and the medium- to long-term weakening of the US dollar, gold maintains its allocation value with upside potential in the medium to long term. It is advisable to build positions in batches during pullbacks.	**Gold:** Has upside potential in the medium to long term; buy in batches during pullbacks.

US Equities

Japan's Semiconductor Materials: Deep Moat, Growth to Persist

- US Core CPI rose 0.4% month-on-month in April, marking its largest increase in over a year. This reading came in above the market expectation of 0.3% and the previous month's figure of 0.2%.
- US Core PPI jumped 1.0% month-on-month in April, substantially exceeding the market consensus of 0.3%. This represents the sharpest advance since March 2022, following an upward revision to 0.2% for the March data.
- US Retail Sales grew 0.5% month-on-month in April, matching market expectations. The growth rate for March was revised downward to 1.6%.
- US Existing Home Sales ticked up 0.2% month-on-month to an annualized rate of 4.02 million units in April. The reading fell short of the market expectation of 2.0% but improved from the upwardly revised -2.9% recorded in the prior month.
- Japan's semiconductor industry is entering a definitive phase of recovery and structural upgrades. The sector is heavily capitalizing on government initiatives to localize the semiconductor supply chain, TSMC's expansion at its Kumamoto plant, Rapidus's 2nm advanced node project, and the resurgence in wafer and advanced process demand fueled by AI/HPC. Within this ecosystem, Japan's most globally competitive segment remains concentrated in semiconductor materials, spanning silicon wafers, photoresists, CMP materials, advanced packaging materials, substrates, and ultra-high-purity chemicals. Looking ahead, as demand for AI data centers, advanced logic chips, and High Bandwidth Memory (HBM) expands continuously, process shrinking and the escalating complexity of advanced packaging will drive up unit values and raise technical barriers. This environment favors Japanese materials suppliers in maintaining their critical positions within global supply chains. However, near-term monitoring is still required for wafer inventory adjustments, the recovery speed of mature nodes, Yen volatility, and pricing pressures on select materials such as silicon wafers. Overall, Japan's semiconductor materials ecosystem holds profound strategic value and will continue to benefit from AI semiconductor capital expenditure, advanced packaging upgrades, and global supply chain diversification trends.

Global Semiconductor Market Growth Trajectory



Source: Bloomberg , Deloitte

Shin-Etsu Chemical (4063)

Closing Price ¥7,105	Target Price ¥8,000

Shin-Etsu Chemical manufactures and markets synthetic resins and other chemical products, such as fertilizers. The company also produces electronic materials, including semiconductor silicon, synthetic quartz, and rare-earth magnets. Shin-Etsu Chemical operates its business both in Japan and overseas.

Comprehensive Portfolio of Critical Semiconductor Materials

Shin-Etsu Chemical is well-positioned as it supplies a wide array of critical semiconductor materials, including silicon wafers, photoresists, and photomask blanks. Its Electronic Materials business segment remained a major highlight in FY2026, with sales increasing 9% year-over-year to JPY 1,015.7 billion and operating profit growing 6% year-over-year to JPY 344.5 billion, primarily driven by sustained robust demand for AI-related semiconductors. The company is also expanding its photolithography materials capacity, with its new Isesaki Campus having already commenced operations.

AI Capital Expenditure Propels Demand for Advanced Materials

The primary industry driver is the expansion of capital expenditure in AI semiconductors, particularly for advanced logic, HBM, and high-performance computing (HPC) chips. These applications require higher-quality wafers and more advanced photolithography materials. The Semiconductor Industry Association (SIA) noted that global semiconductor sales reached USD 298.5 billion in Q1 2026, representing a 25% increase compared to Q4 2025. Additionally, SEMI indicated that wafer shipments grew by 5.8% in 2025, supported by demand for advanced epitaxial wafers and polished wafers used in HBM, both driven by AI applications. Shin-Etsu Chemical also stated that data center and server demand broadly related to AI now accounts for more than 20% of total 300mm wafer demand, supporting the medium-term growth of its materials business.

Stable Revenue in FY2026, but Weakness in Non-Electronic Business Weighs on Earnings

For FY2026, net sales stood at JPY 2,574.0 billion, up 0.5% year-over-year. However, earnings per share (EPS) declined to JPY 252.69, down approximately 6% compared to the previous year. Operating profit decreased by 14.4% year-over-year to JPY 635.2 billion, and net income attributable to owners of the parent fell 11.2% year-over-year to JPY 474.5 billion. This contraction was primarily due to weakness in the Infrastructure Materials business segment, which offset the continuous growth achieved by the Electronic Materials segment under the impetus of AI-related demand.

Valuation Consensus

The Bloomberg 12-month average consensus target price is ¥7,329.12, with the highest target price at ¥8,600 and the lowest at ¥5,200.

Source: Bloomberg, Semi.org

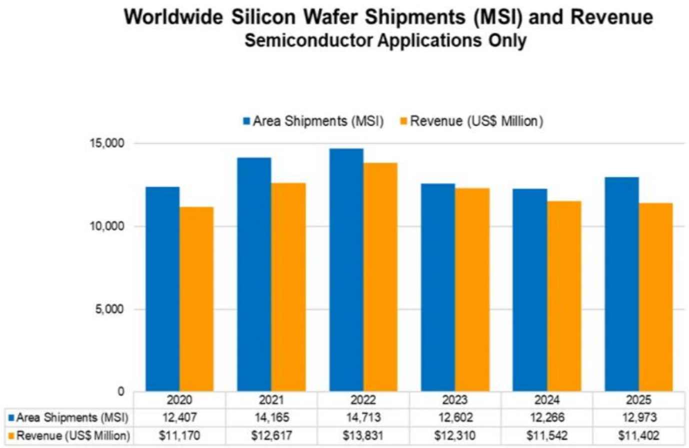
1-Year Price

Financials

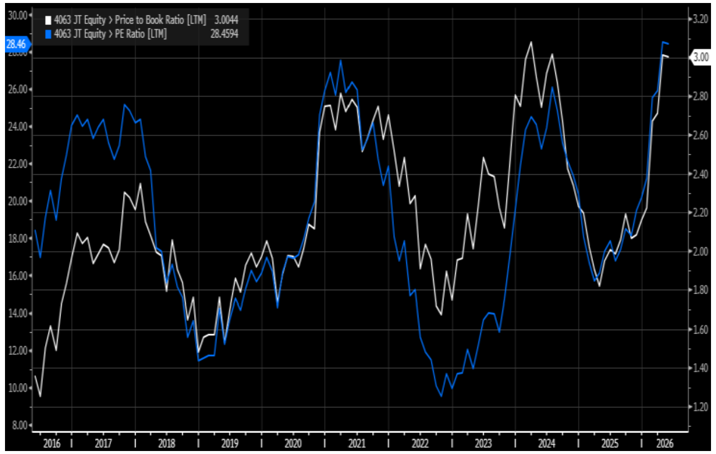
	2024	2025	2026	2027F	2028F
Revenue Growth(%)	-14.0	6.1	0.5	8.0	6.2
EBITDA (%)	38.5	38.3	34.1	37.2	38.4
EPS(JPY)	260.83	267.37	253.84	299.51	338.52
Net Profit Margin(%)	21.7	20.7	18.5	19.8	20.8

Source: Bloomberg; 2027/28F are market estimates

Global Silicon Wafer Shipments



P/E & P/B



Ajinomoto (2802)

Closing Price	¥5,269	Target Price	¥6,000

Ajinomoto Co., Inc. manufactures and markets a diverse range of food products, including seasonings, edible oils, processed foods, beverages, and dairy products. The company also researches, develops, and produces pharmaceuticals, amino acids, and specialty chemicals.

ABF Grants Ajinomoto Unique Positioning in AI Semiconductor Materials

Ajinomoto's primary investment highlight regarding AI stems from Ajinomoto Build-up Film (ABF), an interlayer insulating material used in the advanced packaging of CPUs, GPUs, and AI accelerators. The company's Healthcare and Other Expenditures business segment achieved a 4.0% year-over-year growth in sales to JPY 341.5 billion for FY2026, while its operating profit surged by 45.1% year-over-year to JPY 66.2 billion, primarily driven by robust sales of electronic materials. To expand its long-term supply capacity, Ajinomoto acquired land for a new plant in Gifu Prefecture for approximately JPY 1.2 billion, with construction slated to begin in 2028 and production expected to commence in 2032.

AI Advanced Packaging Demand Drives Tightening ABF Supply

The industry driver comes from the escalating complexity of AI chip designs, expanding package sizes, and increasing layer counts, all of which propel the demand for ABF substrates. This trend is already reflected in Ajinomoto's pricing power; the company has reportedly raised the price of its ABF buildup film by 30% starting from Q3 FY2026, highlighting a gradual tightening across the IC substrate supply chain. This is further underpinned by the broader AI semiconductor cycle, with the global semiconductor market projected to surpass USD 1.5 trillion by 2030, fueled primarily by AI and high-performance computing (HPC).

Substantial Profit Growth in FY2026; Positive Revenue Growth Forecasted for FY2027

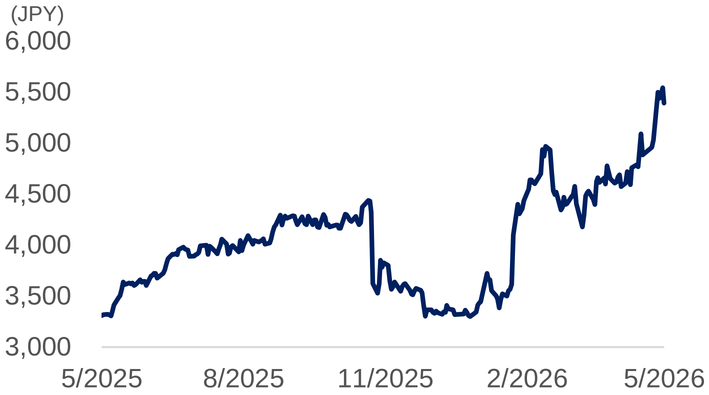
For FY2026, revenue reached JPY 1,583.7 billion, up 3.5% year-over-year, while basic earnings per share (EPS) increased to JPY 138.36, representing a year-over-year growth of approximately 98%. Profit attributable to owners of the parent surged 91.6% year-over-year to JPY 134.7 billion, largely supported by robust business profit expansion and gains from the disposal of non-current assets. Management forecasts FY2027 revenue at JPY 1,723.0 billion (+8.8% YoY), business profit at JPY 197.0 billion (+8.7% YoY), and basic EPS at JPY 126.16, which is lower than FY2026 due to profit normalization following the exclusion of one-time gains.

Valuation Consensus

The Bloomberg 12-month average consensus target price is ¥5,178.57, with the highest target price at ¥6,200 and the lowest at ¥3,900.

Source: Bloomberg, Company

1-Year Price



Financials

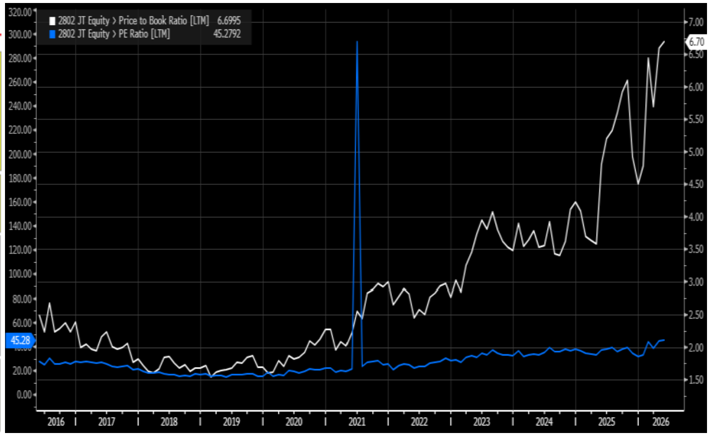
	2024	2025	2026	2027F	2028F
Revenue Growth(%)	5.9	6.3	3.5	7.0	6.0
EBITDA (%)	14.9	15.3	16.0	17.6	18.4
EPS(JPY)	79.76	102.54	118.99	141.16	165.69
Net Profit Margin(%)	5.8	6.7	7.3	8.0	8.7

Source: Bloomberg; 2027/28F are market estimates

2026 Segment Market Growth

Segment		Organic growth (Vs. prev. year) FY24 actual	Organic growth FY25 actual	Organic growth FY26 forecast	Business profit (Vs. prev. year) FY24 actual	Business profit FY25 actual	Business profit FY26 forecast	ROIC FY24 actual	ROIC FY25 actual	ROIC FY26 forecast	ROIC WACC	EBITDA margin FY24 actual	EBITDA margin FY25 actual	EBITDA margin FY26 forecast
Seasonings and Foods	Sauce & Seasonings; Quick Nourishment; Solution & Ingredients	4.1%	3.4%	Approx. 7%	5.2%	6.6%	2.0%	20.9%	20.8%	Approx. 19%	WACC 7%⇒8%	19.4%	19.8%	Approx. 19%
Frozen Foods	Frozen Foods	-0.9%	0.4%	Approx. 7%	¥13.0 billion	(BP) ¥8.4 billion	¥12.1 billion	4.7%	0.1% Excluding temporary factors 5.3%	Approx. 5%	WACC 5%	9.4%	7.9%	Approx. 8%
Healthcare and Others	Bio-Pharma Services & Ingredients; Functional Materials (electronic materials and others); Others	6.8%	8.3%	Approx. 16%	25.2%	45.1%	20.8%	2.0%	12.0%	Approx. 14%	WACC 8%	21.5%	26.5%	Approx. 27%
Total		3.7%	3.7%	Approx. 9%	7.9%	13.7%	8.7%	6.7%	11.8%	Approx. 11%	WACC 7%	16.1%	17.1%	Approx. 17%

P/E & P/B



KGI

TW Equities 40,000 Is Not the End of TAIEX Bull Market, but the Start of the Next Rally

Taiwan Stocks Consolidate at High Levels; Rebound Strength Watched

The broader market pulled back after strong gains, entering a consolidation phase. Mega-cap tech stocks diverged, but TSMC's recovery above its 5-day MA supports the index. Memory stocks surged on Samsung's strike and solid Q1 results, while passive components became the strongest cluster, driven by Japanese peers. Strategy: trim weak April/Q1 names breaking below the 50-day MA; avoid small/mid-cap tech until stabilizing at the 20-day MA before re-entry.

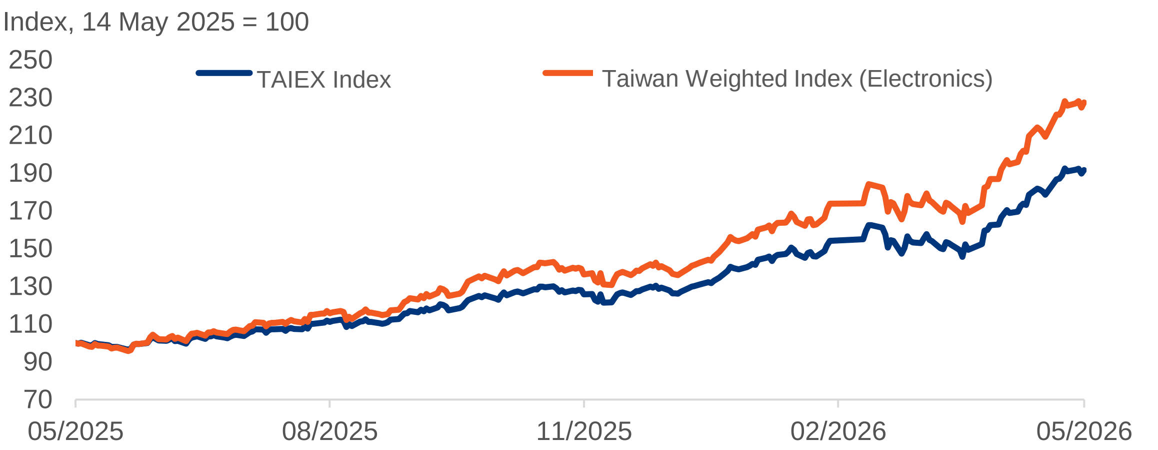
AI Arms Race Continues; Supply Chain Earnings Outlook Upgraded

Global cloud giants' CapEx is projected to reach USD 720B in 2026 (+70% YoY), with ~20% growth in 2027. Investment in AI infrastructure shows no cooling despite valuation or geopolitical concerns. Spending lifts order visibility and earnings across the AI supply chain. Taiwan earnings forecasts revised up: 2026 growth ~40% (vs. 33% pre-season), 2027 growth 25% (vs. 21%). The upgrade cycle remains intact.

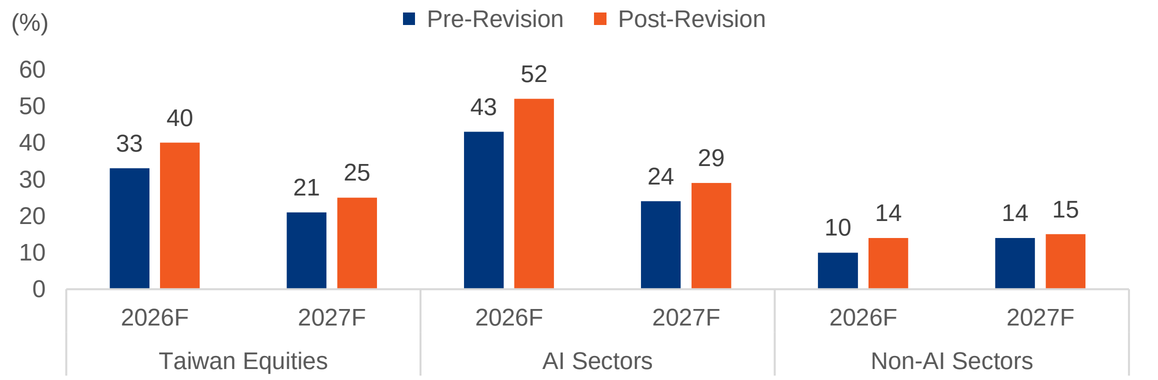
TAIEX 40,000 Is Not the Endpoint, but the Start of the Next Rally

TAIEX trades at ~17x forward P/E based on 2027 earnings, below historic bull market peaks of ~21x, leaving room for upside. KGI raised its high target from 39,000 to 50,000. Strategy: maintain a bullish bias, accumulate on pullbacks, and focus on AI supply chains (advanced packaging, CoWoS, HPC, AI servers) and the LEO satellite supply chain as core allocations.

TAIEX Index and Taiwan Electronics Sector Trends



Taiwan Equities and Sector Earnings Growth Rates (YoY)



Source: Bloomberg

KGI

King Slide Works Co., Ltd. (2059 TT)

King Slide Works Co., Ltd. manufactures and markets ball bearing slides, roller slides, and concealed hinges with soft-closing mechanisms.

Key Features

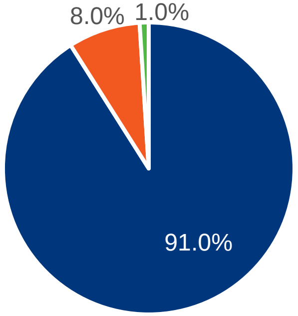
Highly Competitive, Positive Outlook Intact

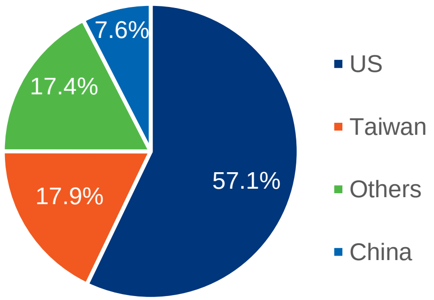
April revenue rose 35% MoM to NT$2.596B, reflecting strong demand from new AI models and general-purpose servers. Despite this growth, capacity utilization remains below 80%, with further improvement expected as CSP capital expenditure expands. The company supplies GB, VR, MI, and ASIC server rails to a diversified client base, while maintaining leadership in CPU, storage, networking, and power chassis design.

Unshakable Leadership in Server Rails

The company commands over 80% market share in GB series and ASIC AI server rails, with even higher share in customized standalone cabinets. With AI demand continuing to rise, profitability is set for strong growth. KGI has raised its 2026 EPS forecast to NT$182.79 (+77% YoY) and expects steady expansion to NT$240.55 in 2027 (+32% YoY).

Revenue Sources and Regions





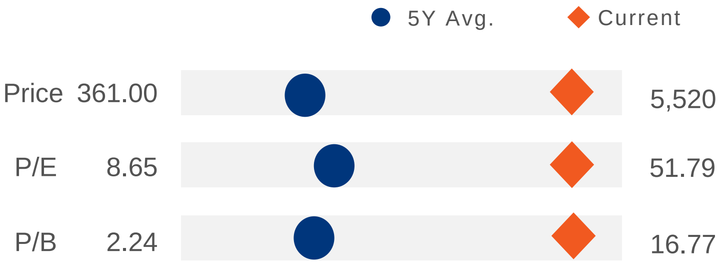
Source: Bloomberg

Financials

	2023	2024	2025F	2026F	2027F
EPS (NTD)	28.38	64.59	103.23	182.79	240.55
EPS Growth (%)	-33.3	127.6	59.8	77.1	31.6
P/E Ratio	170.6	74.9	46.9	26.5	20.1
ROE (%)	16.9	32.6	39.9	53.4	53.1

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price

As of 14 May 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	3.51	45.43	65.35	34.86	33.60	158.25

Pegatron Corporation (4938 TT)

Pegatron Corporation operates as a design, manufacturing, and service company. The company produces motherboards, desktop PCs, notebook PCs, broadband products, wireless systems, game consoles, networking products, multimedia products, LCD TVs, and more.

Key Features

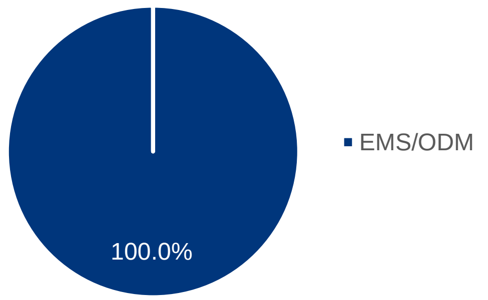
1Q26 EPS Miss, but Margins Outperform; Positive 2Q26 Outlook

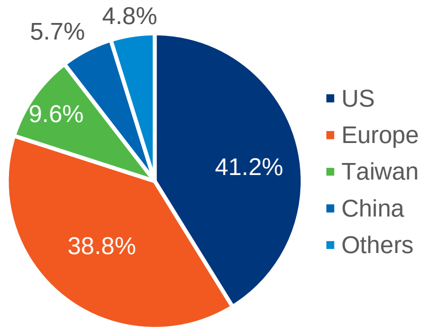
1Q26 EPS came in at NT$0.58, below KGI's estimate due to weaker non-operating income, though margins exceeded expectations. Outlook for 2Q26 and full-year 2026 remains positive, with servers and gaming consoles driving growth. All three major business segments are expected to post sequential revenue increases, led by computing, supported by the launch of GB200/300 server projects.

Server Revenue to Grow 8–10x in 2026

Server revenue is projected to expand 8–10x YoY in 2026, driven by shipments of high-ASP GB cabinets to tier-2/3 CSPs and neocloud starting in 2Q26, and VR contributions beginning in 4Q26. Server revenue share is expected to exceed 10%, improving margins. Management also anticipates CE revenue growth from new product launches and additional gaming/IoT customers. KGI expects Pegatron's product mix to become more favorable long term, with automotive electronics revenue resuming steady growth in 2027.

Revenue Sources and Regions





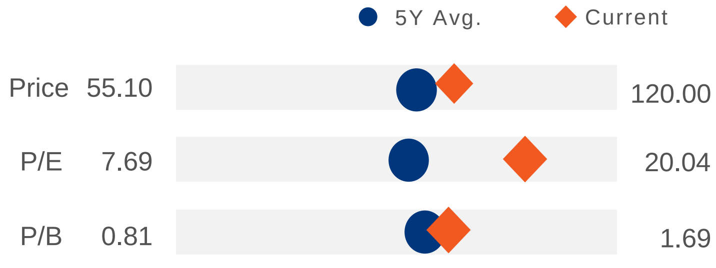
Source: Bloomberg

Financials

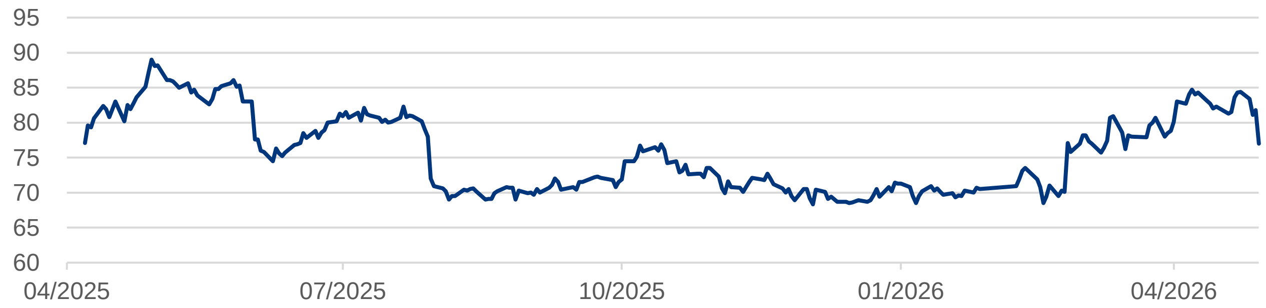
	2023	2024	2025	2026F	2027F
EPS (NTD)	5.90	6.34	5.39	5.95	6.72
EPS Growth (%)	4.2	7.4	-14.9	10.4	13.0
P/E Ratio	13.9	12.9	15.2	13.7	12.2
ROE (%)	8.4	8.5	7.0	7.6	8.3

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 14 May 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-8.66	-1.91	9.22	4.76	12.24	-13.48

Mutual Funds/ ETFs

Fundamentals and Policy Support Steer Japanese Equities' Performance

► JPMorgan Funds - Japan Equity Fund

- Primarily invests in six leading Japanese sectors, including consumption, technology, automation, renewable energy, and defense.
- The investment team has been rooted in Japan for more than 50 years, making it the most seasoned foreign asset management firm locally. With team members averaging 18 years of industry experience, the JPMorgan Japan investment team delivers comprehensive coverage across all sectors in Japan to capture potential investment opportunities.
- Established in 1969, the fund stands as the longest-running strategy within the Morningstar Japan Large-Cap Equity category.

Product	JPMorgan Funds - Japan Equity Fund	
Features	■ Established in 1969, the fund boasts a rich history of over 50 years. ■ Sector allocation maintains flexibility in response to market dynamics while utilizing leverage operations agilely; investments are distributed across large, mid, and small-cap stocks to uncover opportunities in internet, consumer, and retail sectors.	
AUM	USD 465 million	
Functional Currency	JPY	
3M/YTD Return	-2.26% / 9.45%	
Top 5 Industry Allocation (%)	Electrical Appliances Banks Machinery Other Products Retail Trade	14.5 11.1 9.2 6.9 6.0
Top 5 Holdings (%)	Mitsubishi UFJ Financial Group Mitsubishi Electric Advantest IHI Corporation Asics	8.5 5.7 4.9 4.7 4.5

Source: Bloomberg

JPMorgan Funds - Japan Equity Fund

Profile

Provides investors with long-term capital growth primarily by investing at least 70% of its total net asset value in Japanese equity securities and other equity securities whose investment performance is closely related to the performance of the Japanese economy.

Long History, Navigating Bull and Bear Markets

Established in 1969, the fund boasts a rich history of over 50 years. This long-standing track record means it has navigated multiple global economic crises and full bull-and-bear cycles in the Japanese market, accumulating extensive experience in market adaptation.

Flexible Stock Selection, Agile Operations

Sector allocation maintains flexibility in response to market dynamics while utilizing leverage operations agilely. Investments are distributed across large, mid, and small-cap stocks to uncover unique opportunities in internet, consumer, and retail sectors.

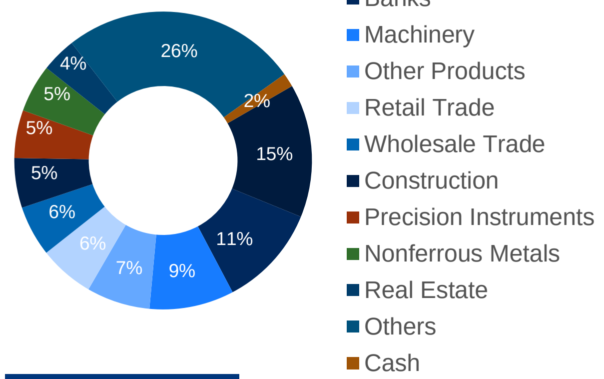
Professional Team, Rich Experience

The current principal fund managers possess over 20 years of investment experience in the Japanese market. Their prudent investment style and rigorous focus on detail serve as the cornerstone of this fund's long-term performance.

Inception	1969/8/6	**AUM**	USD 465 mln
Morningstar Category	Japan Equities	**Fund Type**	Equities
Morningstar Rating	★★★★	**3Y SD (Ann.)**	16.18%

Source: Morningstar

Sectors



Top-5 Holdings (%)

Mitsubishi UFJ Financial Group	8.5
Mitsubishi Electric	5.7
Advantest	4.9
IHI Corporation	4.7
Asics	4.5

Asset

As of 11 May 2026	1M	3M	YTD	1Y	2Y	3Y
Cumulative Return(%)	2.47	-2.26	9.45	36.18	56.94	93.92
Ranking	4	4	4	2	1	1

Mutual Funds/ ETFs

Fundamentals and Policy Support Steer Japanese Equities' Performance

► Global X Japan Semiconductor ETF (2644 JP)

- Seeks to track the performance of the FactSet Japan Semiconductor Index.
- The portfolio is broadly diversified across upstream, midstream, downstream, and ancillary segments of the semiconductor industry.
- Holdings are highly concentrated, with the top 10 holdings accounting for approximately 76% of the portfolio. Core constituents of the ETF include Disco (a semiconductor precision processing equipment manufacturer), Advantest (a semiconductor automated test equipment supplier), and Lasertec (a semiconductor optical inspection equipment manufacturer).
- Focuses investment on leading companies within fields such as Japanese semiconductor manufacturing equipment, materials, and design.

► Global X Japan Defense Tech ETF (513A JP)

- Seeks to track the performance of the Mirae Asset Japan Defense Tech Index.
- Focuses on investing in Japan's defense, aerospace, cybersecurity, and related high-tech industries.
- Features a high concentration of holdings, with the top 10 positions representing over 96% of the portfolio, and the top 2 holdings accounting for over 20% and 18% of the investment mix, respectively.

Product	Global X Japan Semiconductor ETF (2644 JP)		Global X Japan Defense Tech ETF (513A JP)	
Features	■ Index Tracks Japan Semiconductor Stocks ■ Assets ¥500B+, High Liquidity		■ Japan's First Defense Industry ETF ■ Includes Defense Tech Firms Beyond Traditional Players	
AUM	JPY 72.191 billion		JPY 18.538 billion	
Tracking Index	FactSet Japan Semiconductor Index		Mirae Asset Japan Defense Tech Index	
Exchange	Tokyo Stock Exchange		Tokyo Stock Exchange	
Currency	JPY		JPY	
Holdings	38		13	
Expense Ratio	0.649%		0.649%	
3M/YTD Reutrn	21.75% / 54.77%		- / -	
Top Sector Allocations (%)	Semiconductors Electrical Equipment Hardware Machinery Industrials	88.95 5.76 4.28 0.55 0.22	Diversified Industrials Electrical Equipment Machinery IT Services Entertainment	45.80 18.23 12.09 8.08 8.07
Holdings (%)	Renesas Electronics Corp Lasertec Corp Advantest Tokyo Electron Ltd Disco Corp	10.48 9.76 9.74 9.45 9.24	Kawasaki Heavy Industries Mitsubishi Electric Mitsubishi Heavy Industries IHI Corporation Japan Steel Works	20.02 18.23 13.39 12.39 8.13

Source: Bloomberg

Global X Japan Semiconductor ETF (2644.JP)

Profile

This ETF tracks the FactSet Japan Semiconductor Index, aiming to replicate the investment performance of its constituent stocks.

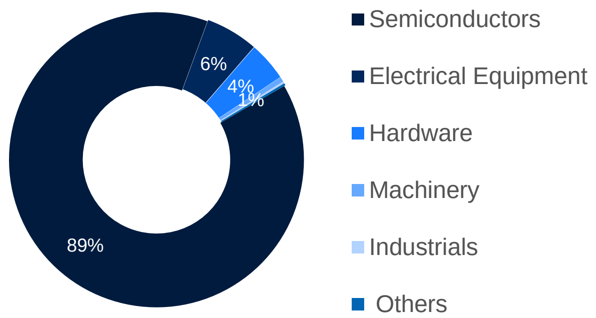
■ High Growth Potential
The Global X Japan Semiconductor ETF enables investors to capture high growth potential by investing in Japanese companies whose primary operations reside across the semiconductor industry value chain.

■ Unconstrained Approach
The composition of the ETF's underlying index transcends traditional sector and industry classifications, tracking an emerging thematic trend.

■ ETF Efficiency
Through a single transaction, the Global X Japan Semiconductor ETF provides immediate exposure to dozens of Japanese corporations heavily anchored in the semiconductor industry.

Inception	2021/9/24	**AUM**	JPY 72.191 bln
ETF Category	Equities	**Holdings**	38
Expense Ratio	0.649%	**3Y SD (Ann.)**	40.86%

Sectors

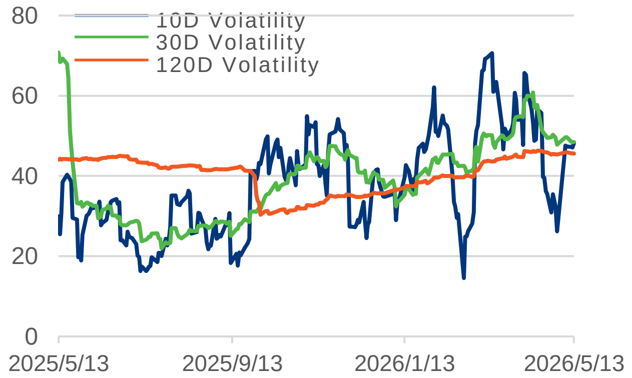


Top-5 Holdings (%)

Renesas Electronics Corp	10.48
Lasertec Corp	9.76
Advantest	9.74
Tokyo Electron Ltd	9.45
Disco Corp	9.24

Price Trend (Past 1 Year)

Volatility (Past 1 Year)



As of 13 May 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	15.95	21.75	54.77	141.88	221.02	-

Source: Bloomberg

Global X Japan Defense Tech ETF (513A JP)

Profile

This ETF tracks the Mirae Asset Japan Defense Tech Index, aiming to replicate the investment performance of its constituent stocks.

■ Focus on Japan's Defense Technology Industry

The Global X Japan Defense Tech ETF stands as Japan's first ETF focused on the domestic defense industry. The underlying index is compiled using modified market-capitalization weighting, imposing a 15% cap on individual large-cap companies and a cumulative 20% cap on emerging enterprises.

■ Coverage of Defense Tech Applications

The index construction goes beyond traditional defense manufacturing to incorporate companies applying advanced technology to the defense sector, including artificial intelligence (AI), the Internet of Things (IoT), big data, and 3D radar.

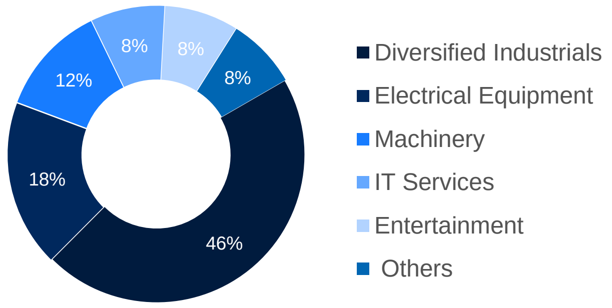
■ Potential to Benefit from Policy Dividends

Japan has actively developed its domestic defense industry in recent years. With the passage of its highest-ever defense budget in April 2026, the Japanese defense industry is well-positioned to benefit from substantial policy dividends.

Inception	2026/2/24	**AUM**	JPY 18.538 bln
ETF Category	Equities	**Holdings**	13
Expense Ratio	0.649%	**3Y SD (Ann.)**	-

Source: Bloomberg

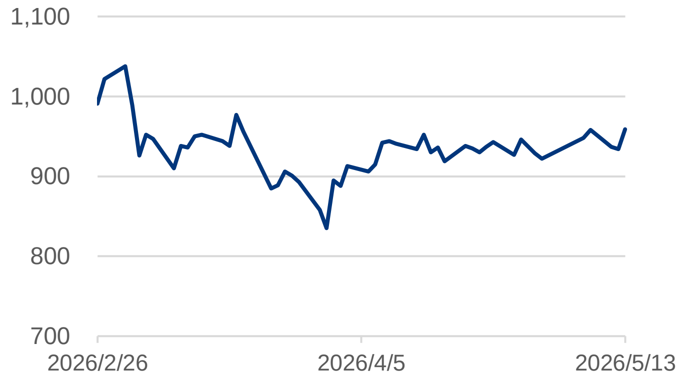
Sectors



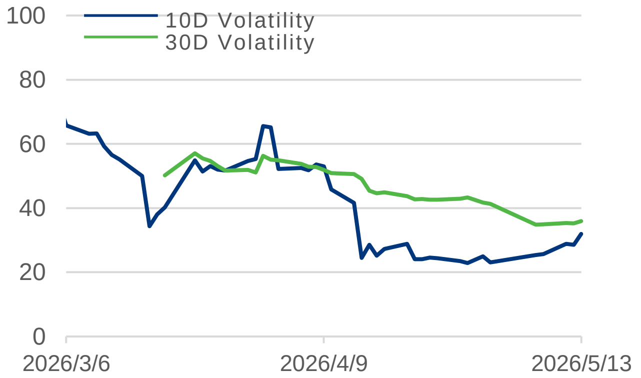
Top-5 Holdings (%)

Kawasaki Heavy Industries	20.02
Mitsubishi Electric	18.23
Mitsubishi Heavy Industries	13.39
IHI Corporation	12.39
Japan Steel Works	8.13

Price Trend (Past 1 Year)



Volatility (Past 1 Year)



As of 13 May 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	2.68	-	-	-	-	-

Bonds Centering on Health and Wellness: Reinterpreting the Social Value of a Global Beverage Giant

► SUNTOR 5.124 06/11/29 (Suntory Holdings Limited) (USD)

- As a leading global diversified beverage and spirits giant, Suntory Holdings has successfully transitioned from a traditional alcoholic beverage manufacturer into a comprehensive health and beverage group. The group drives high-quality value growth through brand premiumization, global footprint expansion, and cross-sector mergers and acquisitions.
- For the 2025 fiscal year, Suntory Holdings' consolidated revenue (including liquor tax) reached JPY 3.4325 trillion (approximately USD 21.8 billion, up 0.4% YoY). The Beverages & Food segment delivered a solid performance with revenue reaching JPY 1.7220 trillion (approximately USD 10.9 billion, up 2.0% YoY), capitalizing on robust demand for core brands in Europe and Japan.
- Outlook for 2026: The group forecasts revenue to reach JPY 3.5800 trillion (approximately USD 22.7 billion, up 4.3% YoY) and operating profit to hit JPY 280 billion (approximately USD 1.77 billion, up 26.6% YoY, with net profit rising 32.8% YoY). This performance reflects the emerging efficacy of cost controls under the new management framework, brand investments entering their harvest period, and a gradual recovery across global consumer markets.
- In April 2026, Suntory announced it would acquire Daiichi Sankyo Healthcare in phases for approximately JPY 246.5 billion (approximately USD 1.56 billion), with completion expected by 2029. This strategic move expands its footprint into the over-the-counter (OTC) medicines and skincare segments, strengthening business synergies with its non-alcoholic beverage and "health and wellness" operations, and is expected to significantly enhance the group's gross margin.
- Global demand for Japanese whiskies (such as Yamazaki and Hibiki) continues to outpace supply. The group targets premium consumer segments through production capacity expansion and digital marketing via a Direct-to-Consumer (D2C) model. The Ready-to-Drink (RTD) category has become a primary growth engine in Asia-Pacific, European, and American markets due to its convenience and premiumization.
- International credit rating agencies have highly commended Suntory's financial discipline: Moody’s assigns a Baa1 (Stable) rating, noting that the group possesses diversified cash flow sources and that the acquisition helps mitigate cyclical risks; S&P rates it BBB+ (Stable), affirming its powerful brand premium capabilities and noting that its leverage ratio remains at a low level (below 2.0x). Cash and cash equivalents at the end of the 2025 fiscal year stood at JPY 270.46 billion.

Products	SUNTOR 5.124 06/11/29 (Suntory Holdings Limited) (USD)
ISIN	USJ7823FDM52
Features	Successfully transformed from a traditional distiller into a comprehensive health and beverage group, driving high-quality growth through premiumization, global expansion, and cross-sector M&A.
Maturity Date	2029/6/11
Next Call Date	2029/5/11
Coupon (%)	Fixed/5.124/Semi-Annual
Currency	USD
Years to Maturity	3.08
Credit Rating (Moody’s/Fitch/S&P)	Baa1/-/BBB+
Seniority	Senior Unsecured
YTM/YTC (%)	4.33/4.31

Source: Bloomberg

SUNTOR 5.124 06/11/29 (Suntory Holdings Limited) (USD)

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- For the 2025 fiscal year, Suntory Holdings' consolidated revenue (including liquor tax) reached JPY 3.4325 trillion (approximately USD 21.8 billion, up 0.4% YoY). The Beverages & Food segment delivered a solid performance with revenue reaching JPY 1.7220 trillion (approximately USD 10.9 billion, up 2.0% YoY), capitalizing on robust demand for core brands in Europe and Japan.
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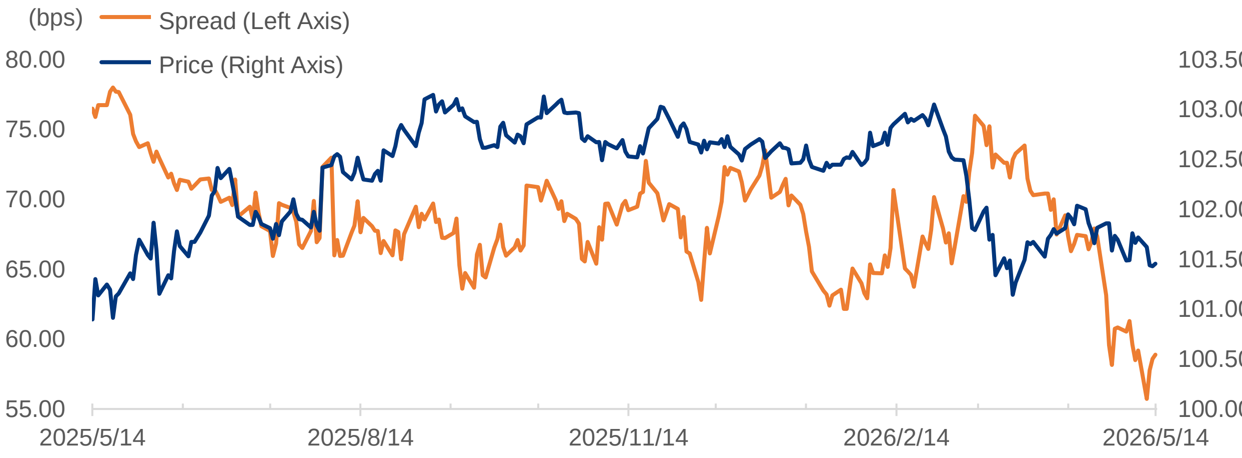
Financials	2023	2024	2025
Free Cash Flow (JPY Billions)	94.0	82.7	86.2
EBITDA Margin (%)	14.86	14.92	11.96
Interest Coverage Ratio (x)	20.91	18.85	15.64

Overview

Name	SUNTOR 5.124 06/11/29	ISIN	USJ7823FDM52
Maturity Date	2029/6/11	Remaining Maturity	3.08
Coupon(%)	Fixed/5.124/Semi-Annual	YTM/YTC(%)	4.33/4.31
Currency	USD	Min. Subscription/ Increment	200,000/1,000
Ratings (Moody's/Fitch/S&P)	Baa1/-/BBB+	Seniority	Senior Unsecured

Price



Source: Bloomberg

Appendix — Key Economic Data / Events

▶ MAY 2026

11 Monday	12 Tuesday	13 Wednesday	14 Thursday	15 Friday
• US Apr Existing Home Sales (Act:4.02m Est:4.05m Prev:4.01m) • China Apr CPI YoY (Act:1.2% Est:0.9% Prev:1.0%) • China Apr PPI YoY (Act:2.8% Est:1.8% Prev:0.5%)	• US Apr CPI YoY (Act:3.8% Est:3.7% Prev:3.3%) • US Apr Core CPI YoY (Act:2.8% Est:2.7% Prev:2.6%)	• US Apr PPI YoY (Act:6.0% Est:4.8% Prev:4.3%) • Eurozone Q1 GDP YoY (Revised) (Act:0.8% Est:0.8% Prev:1.2%)	• US Weekly Initial Jobless Claims (Act:211k Est:205k Prev:199k) • US Apr Retail Sales MoM (Act:0.5% Est:0.5% Prev:1.6%) • Trump-Xi Meeting (May 14–15)	• US Apr Industrial Production MoM (Est:0.3% Prev:-0.5%) • Japan Apr PPI YoY (Act:4.9% Est:3.0% Prev:2.9%)

18 Monday	19 Tuesday	20 Wednesday	21 Thursday	22 Friday
• China Apr Retail Sales YoY (Est:1.9% Prev:1.7%) • China Apr Industrial Production YoY (Est:6.0% Prev:5.7%)	• Japan Q1 GDP QoQ (Est:1.6% Prev:1.3%) • Japan Mar Industrial Production MoM (Final) (Prev:-2.0) • Earnings: HD	• Eurozone Apr CPI YoY (Final) (Prev:2.6%) • Taiwan Apr Export Orders YoY (Prev:65.9%) • Earnings: TJX, PANW	• US Weekly Initial Jobless Claims (Prev:211k) • US Apr FOMC Meeting Minutes • US May S&P Global Manufacturing PMI (Prelim) (Est:53.6 Prev:54.5) • Japan May S&P Global Manufacturing PMI (Prelim) (Prev:55.1) • Eurozone May S&P Global Manufacturing PMI (Prelim) (Est:51.5 Prev:52.2) • Earnings: NVDA, WMT, DE	• US May University of Michigan Consumer Sentiment Index (Final) (Est:48.2 Prev:49.8) • Japan Apr National CPI YoY (Est:1.6% Prev:1.5%) • Earnings: ADI

Source: Bloomberg

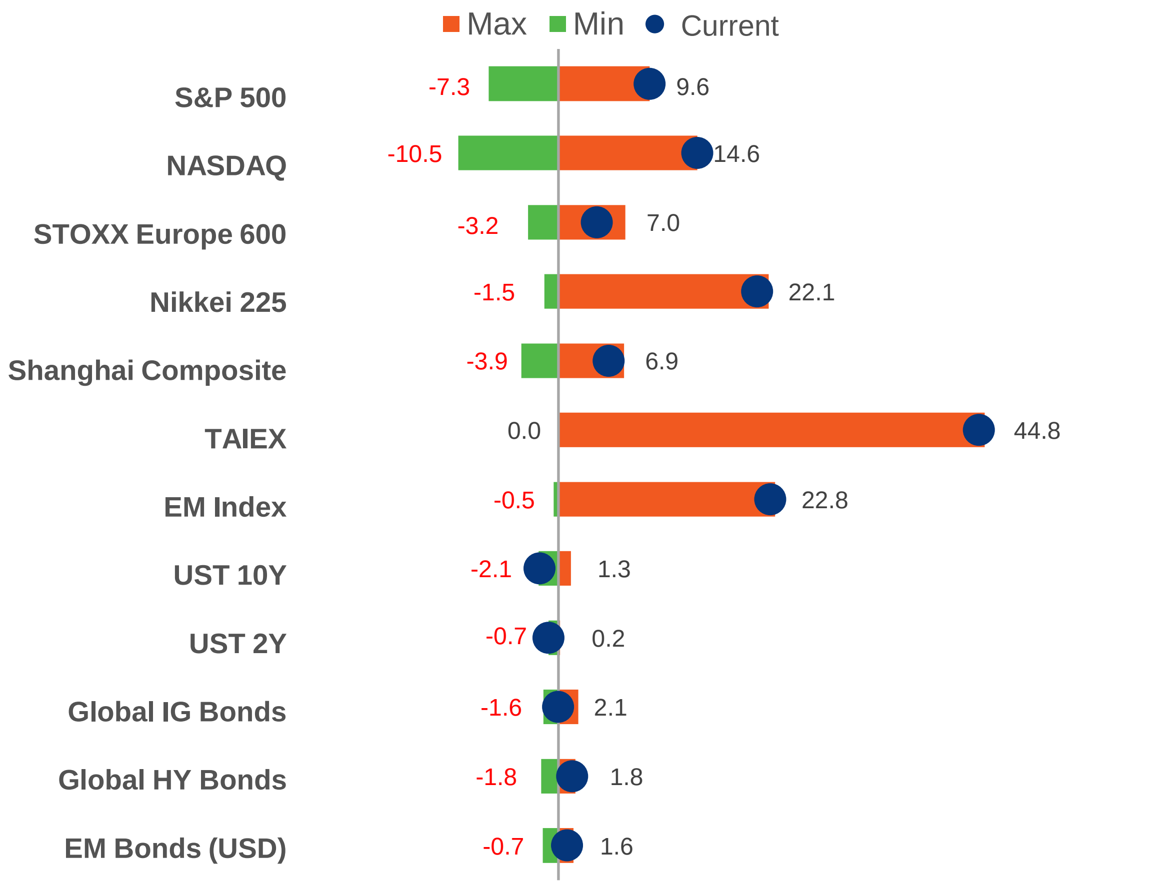
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation	
						Revenue	EPS
2026/5/14	Cisco Systems (CSCO)	15.57B	15.84B	1.04	1.06	V	V
2026/5/15	Applied Materials (AMAT)	7.67B	7.91B	2.68	2.86	V	V

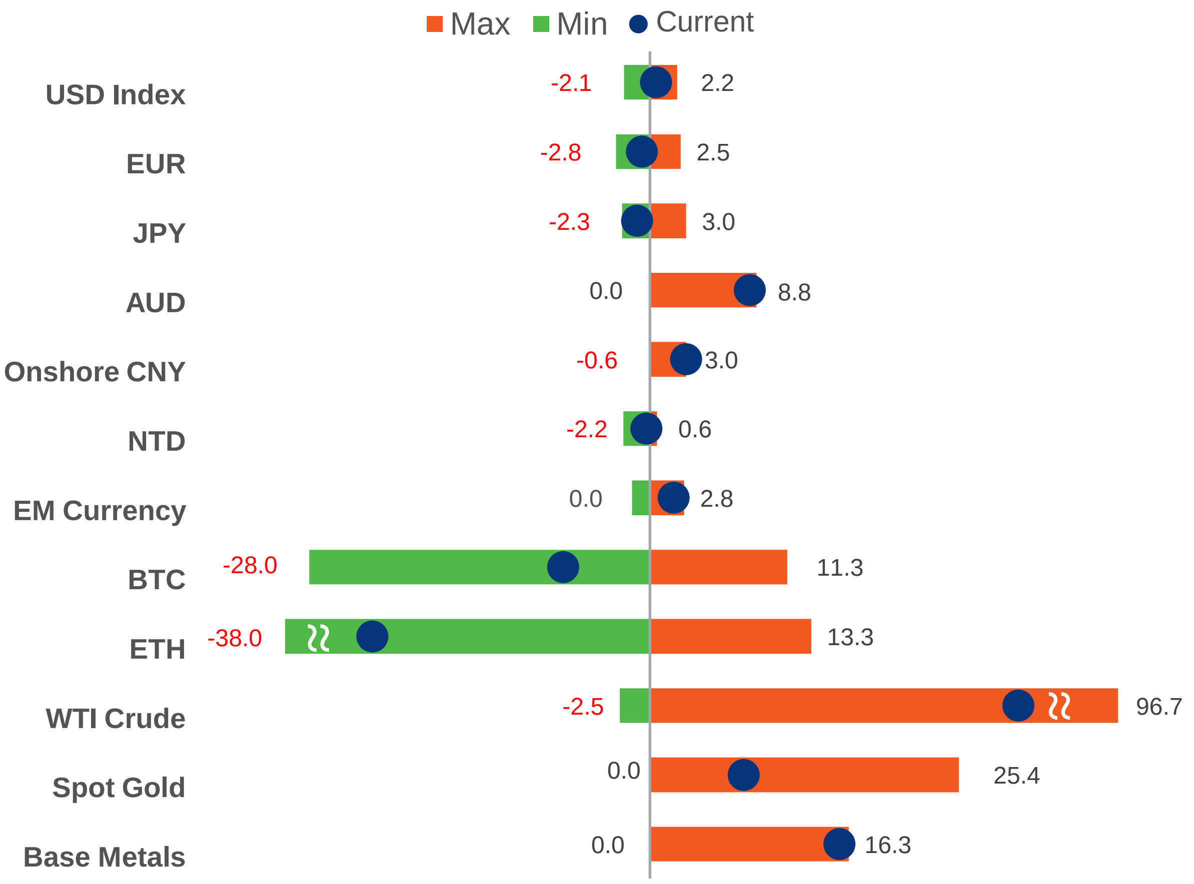
Source: Investing.com

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg

Technical Analysis

S&P 500 Index

- Current: 7,501
- 60D MA: 6,904

NASDAQ Index

- Current: 26,635
- 60D MA: 23,377

STOXX Europe 600 Index

- Current: 616
- 60D MA: 608

Nikkei 225 Index

- Current: 62,533
- 60D MA: 56,822

Shanghai Composite Index

- Current: 4,177
- 60D MA: 4,063

MSCI Emerging Markets Index

- Current: 1,716
- 60D MA: 1,553

Gold

- Current: 4,612
- 60D MA: 4,804

WTI Crude

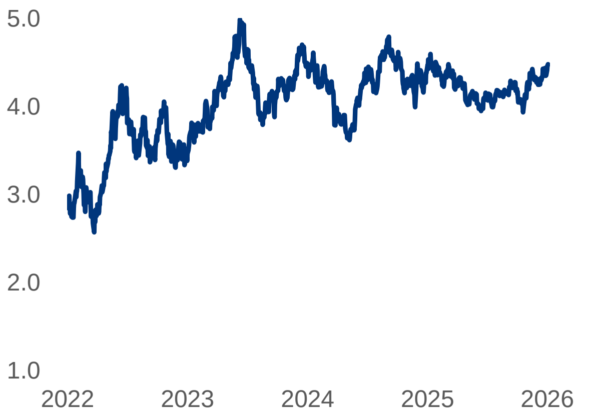
- Current: 101.9
- 60D MA: 93.38

Source: Bloomberg

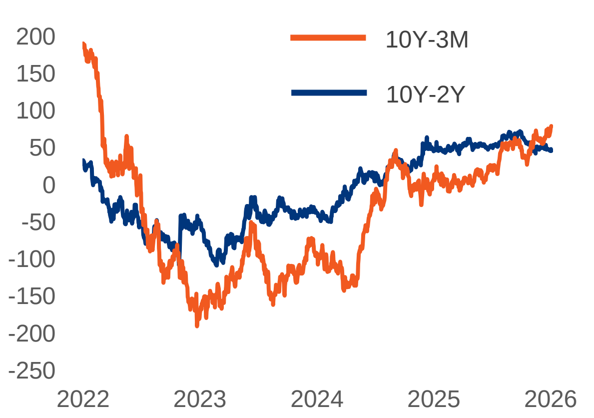
Market Monitor

U.S. CPI YoY (%)

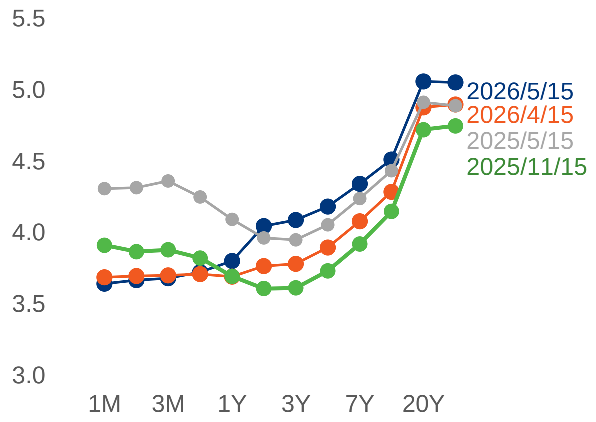
U.S. 10-Year Treasury Yield (%)



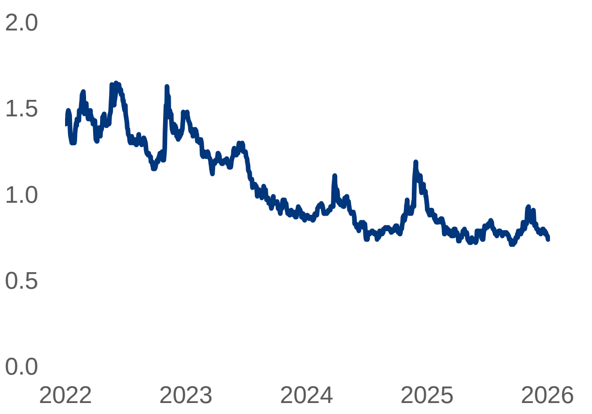
U.S. Treasury Yield Spread (bps)



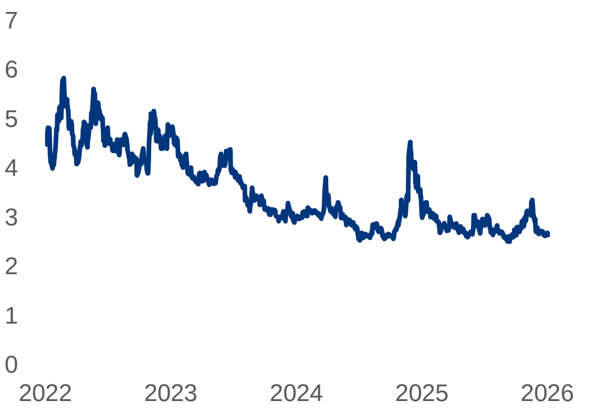
U.S. Treasury Yield Curve (%)



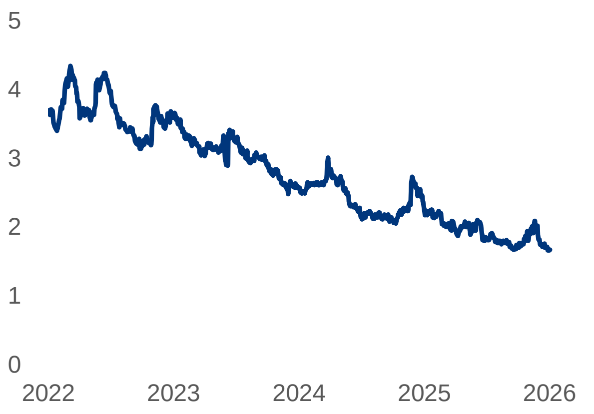
USD IG Credit Spread (%)



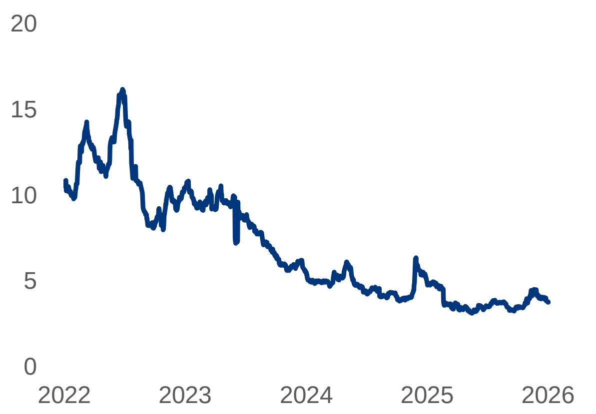
USD HY Credit Spread (%)



USD EM Credit Spread (%)



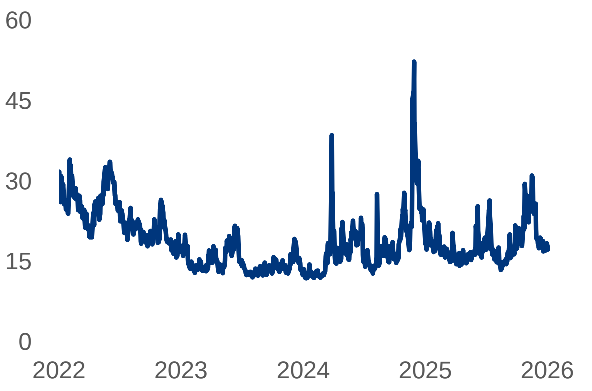
USD Asia Credit Spread (%)



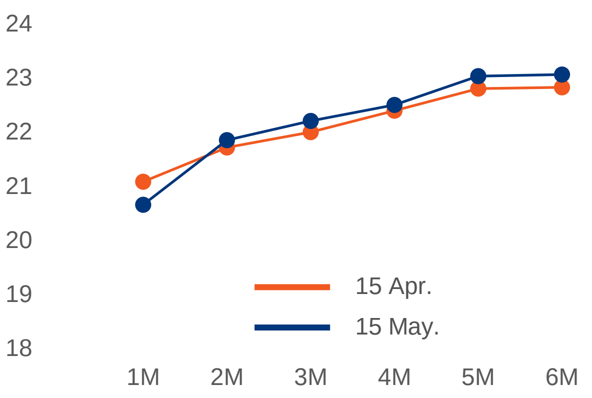
Source: Bloomberg

Market Monitor

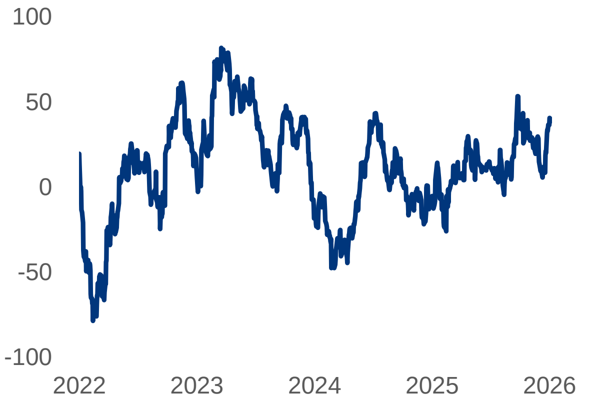
VIX Index



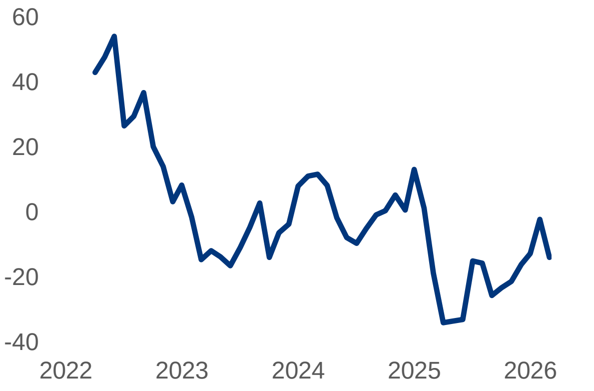
VIX Term Structure



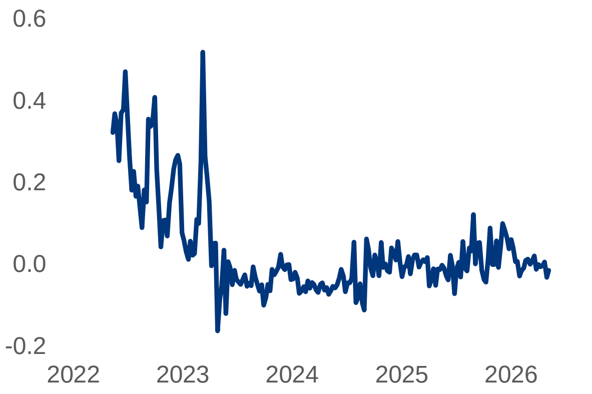
U.S. Citi Economic Surprise Index*



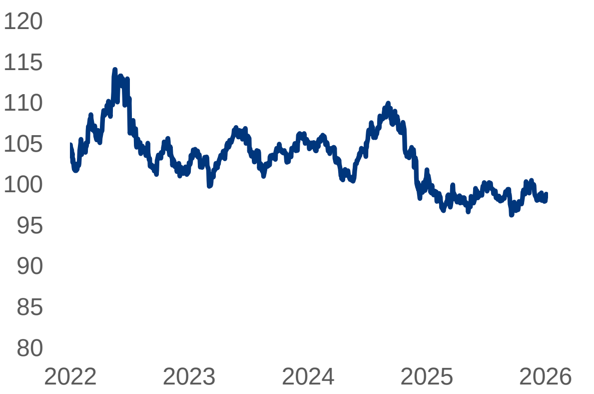
U.S. Citi Inflation Surprise Index*



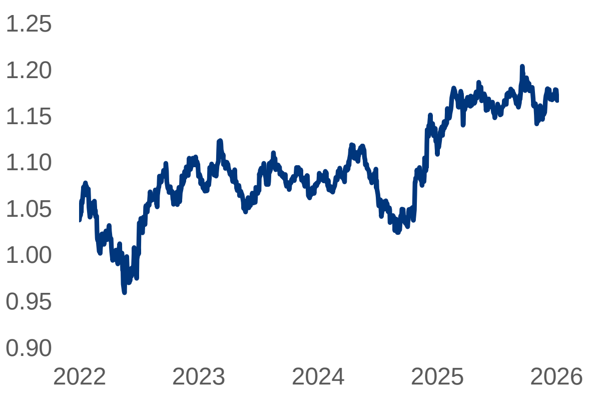
TED Spread (bps)



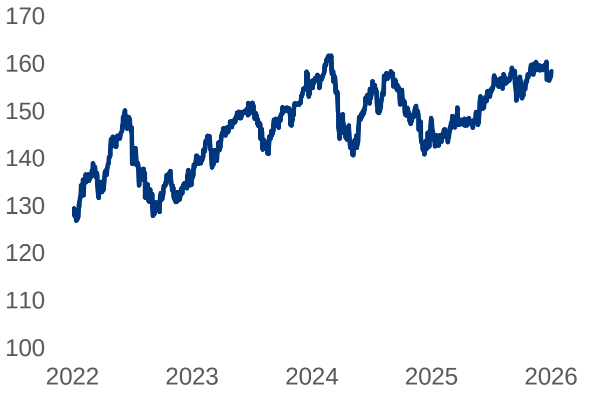
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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