CIO Office

Global Markets Weekly Kickstart

Decoding the Bond Market Playbook

17 August 2026

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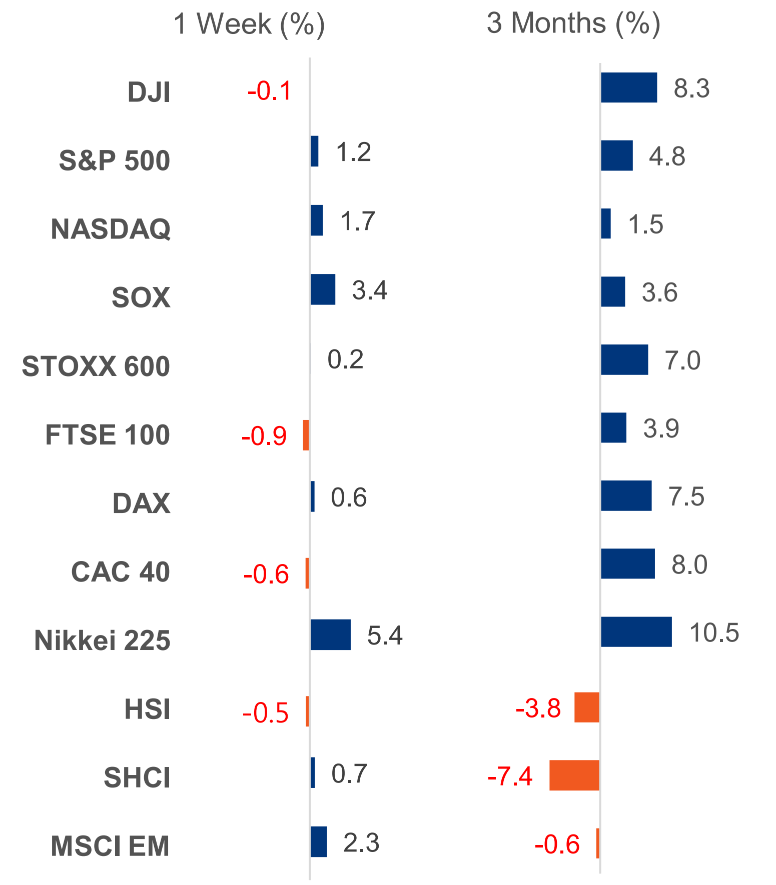
Market Recap

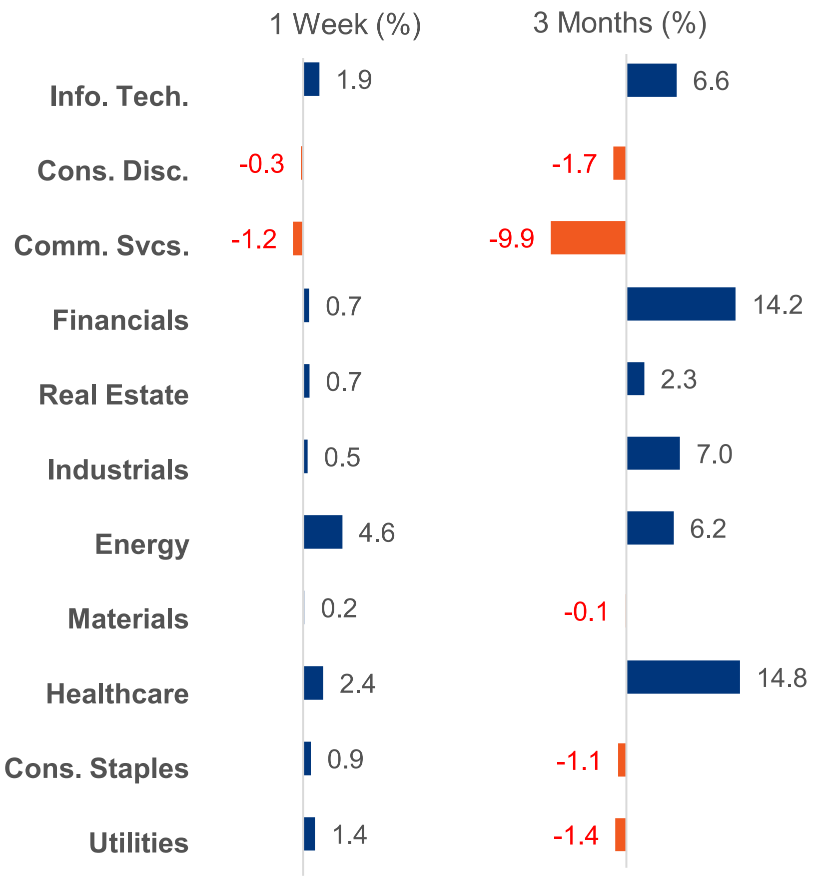
Cooling Inflation and Strong Earnings Lift Tech and Healthcare

- U.S. consumer inflation continued to ease, reducing concerns over a September Fed hike. Lower Treasury yields supported valuations, lifting high-valuation tech and growth stocks, including the Philadelphia Semiconductor Index and Nasdaq. In Asia, sustained AI and semiconductor buying drove strong gains in Japan. Geopolitical risks remain: Pakistan's defense minister said U.S.-Iran talks over the Strait of Hormuz were progressing positively, but Iran said restrictions remain. Only six ships per day on average have passed through the strait since August, highlighting continued uncertainty.
- By sector, persistent U.S.-Iran tensions and near-term oil supply bottlenecks kept energy among the top performers over the past week. Delayed Fed hike expectations and stronger risk appetite supported continued inflows into tech. Meanwhile, better-than-expected earnings from major pharma and biotech firms attracted flows into healthcare on improving earnings outlooks. Healthcare also offers diversification amid rising AI and tech volatility, while continued market swings should sustain sector rotation.

Regional Index Performance (%)



U.S. Sector Index Performance (%)



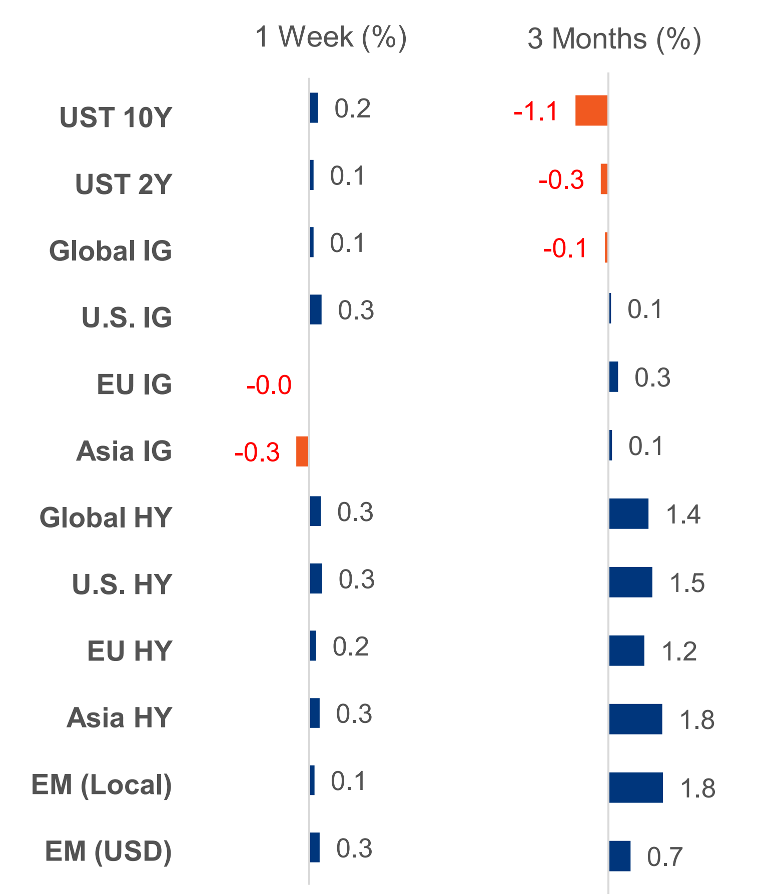
Source: Bloomberg

Market Recap

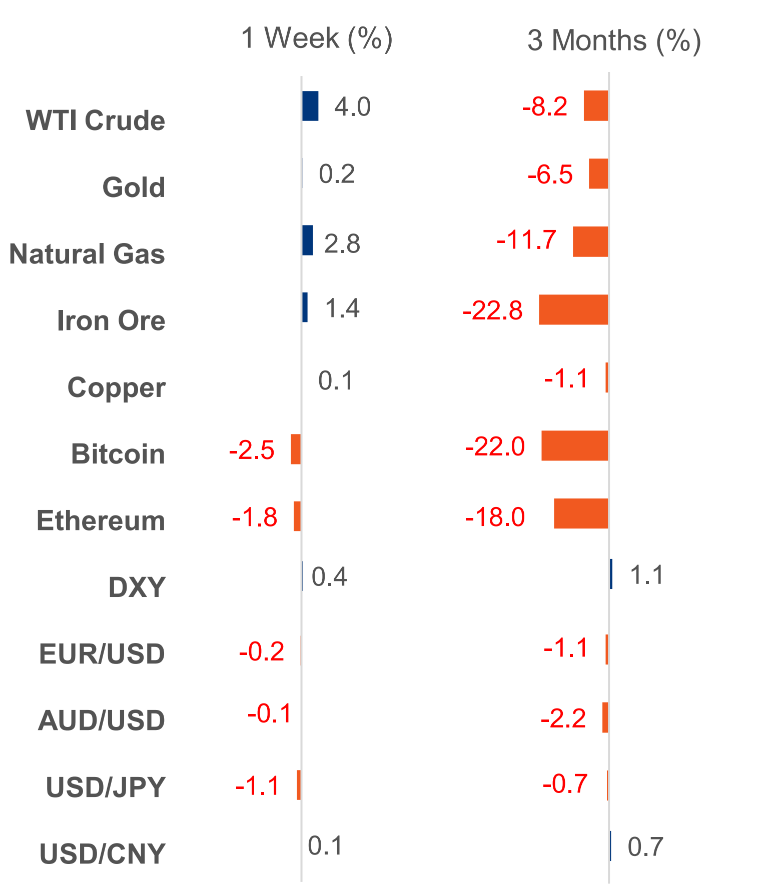
Fed Hike Expectations Ease; Geopolitical Risks Lift Oil Prices

- U.S. CPI continued to cool, pushing back Fed hike expectations and driving Treasury yields lower, with the curve steepening over the past week. Nvidia plans to monetize its computing assets and raise over US$500bn with six major Wall Street asset managers. U.S. IG bond issuance reached about US$51.2bn over the week, briefly widening credit spreads. However, lower rates and improving risk appetite supported an IG bond rebound, alongside gains in HY and EM bonds.
- Oil rose on geopolitical tensions, though OPEC cut its 2026 global oil demand growth forecast from 0.78mn to 0.58mn bpd. Saudi July output rose 1.1mn bpd MoM to 8.2mn bpd, while U.S. crude inventories increased by 17.4mn barrels, above expectations. The timing of any resolution to Middle East tensions remains key.
- China added nearly 20 tonnes to its gold reserves in July, the largest monthly purchase since Oct 2023, supporting gold prices. Despite easing U.S. inflation and Fed hike expectations, geopolitical tensions strengthened the USD and pressured other currencies. Japan's prime minister voiced support for rate hikes, putting the BOJ's next move in focus.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



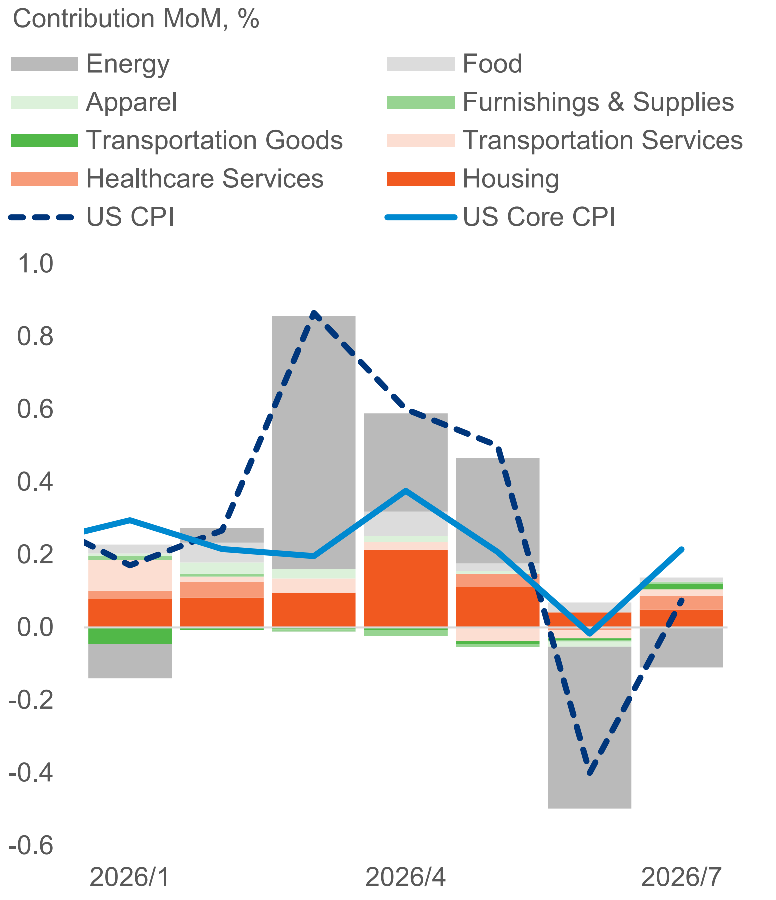
Source: Bloomberg

What's Trending

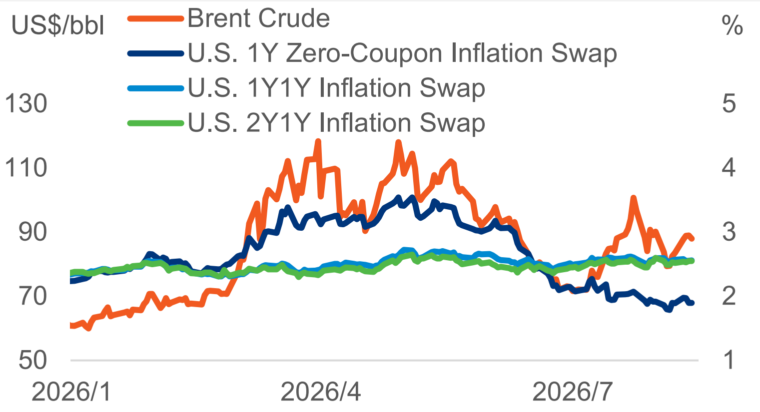
Cooling U.S. CPI Pushes Back Fed Hike Expectations

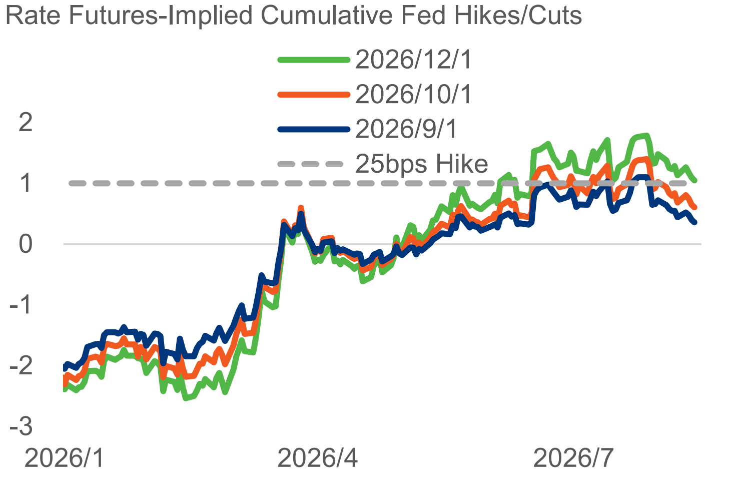
- Lower energy prices drove July CPI inflation down to 3.4% YoY from 3.5%, while CPI rose just 0.1% MoM, easing expectations for a September Fed hike. Core CPI slowed to 2.5% YoY and 0.2% MoM, signaling moderating inflation. However, healthcare, education and communication services prices remained firm. With U.S.-Iran uncertainty and oil prices rising gradually since August, inflation swaps show limited declines in expectations beyond one year, supporting a hawkish stance among some Fed officials.
- U.S. employment is slowing amid weaker job openings, leaving the labor market in a low-hiring, low-layoff environment. However, sticky core inflation and hawkish Fed comments suggest a 25 bps hike remains possible by year-end, largely priced in by markets. Treasury yields should remain range-bound at elevated levels. Key factors ahead include core inflation, employment and wage growth, and any further hawkish shifts among Fed officials.

Lower Energy Prices Keep U.S. Consumer Inflation Improving



U.S. Near-Term Inflation Expectations Stable; One Fed Hike Still Expected by Year-End





Source: Bloomberg

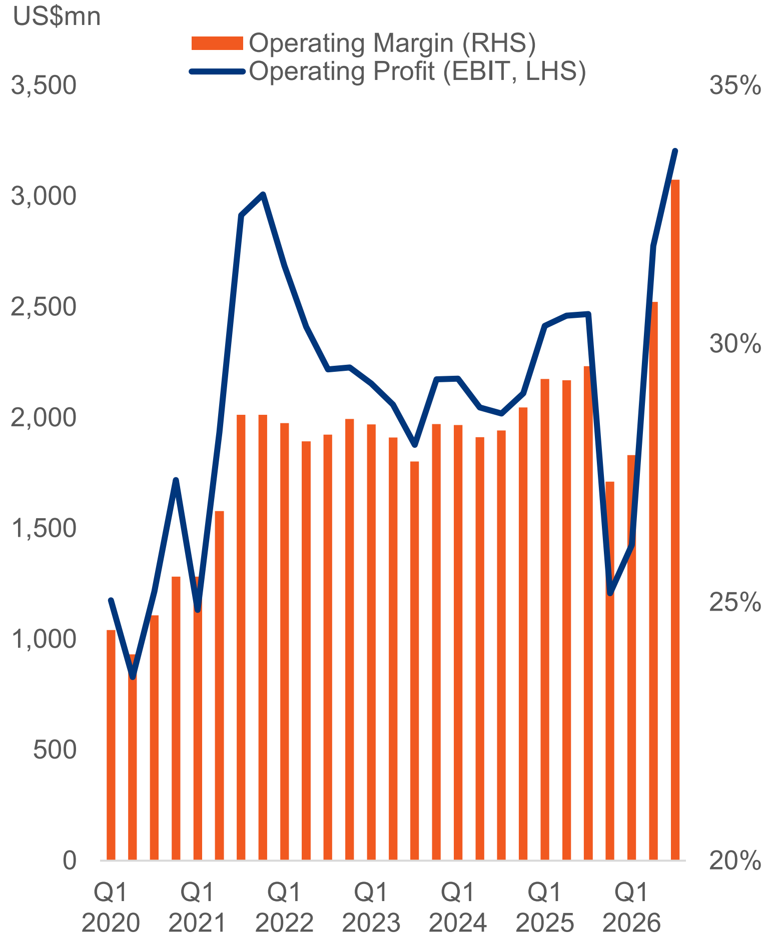
KGI

What's Trending

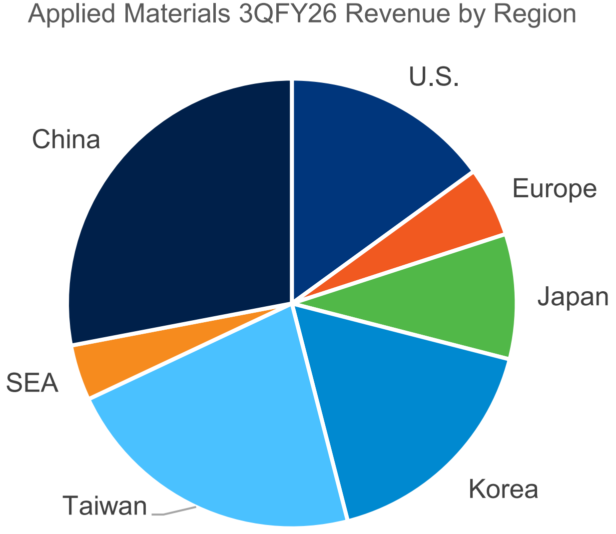
Applied Materials Earnings: Shedding Lights on Semiconductor Outlook

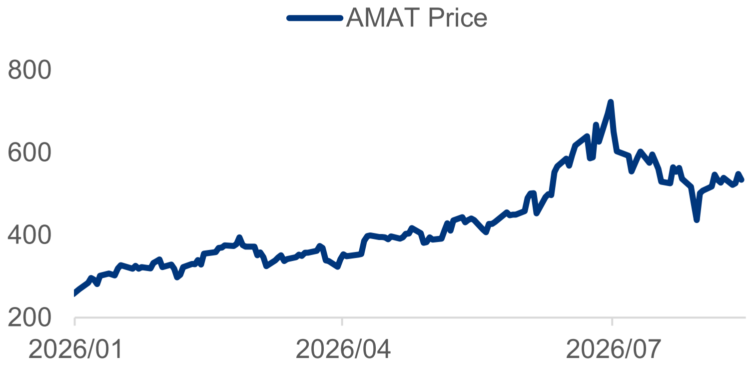
- Applied Materials (AMAT) reported strong FY3Q26 results, with net revenue of US$9.12bn, up 25% YoY and above expectations and guidance. Adjusted EPS of US$3.50 also beat consensus of US$3.42. Management attributed strong demand to AI infrastructure, advanced foundry and logic, DRAM, advanced packaging, and services. Customers have also raised capacity plans, with management expecting another strong growth year in 2027.
- Despite the earnings beat, AMAT fell 4.67% after hours, likely reflecting profit-taking. Strong results suggest the AI hardware cycle remains intact.
- As a major semiconductor equipment supplier, AMAT serves customers including Intel, TSMC, SK Hynix, Micron, Samsung, and Broadcom. Management highlighted intense competition from both global peers and Chinese domestic equipment makers, while U.S. export controls remain a key policy risk.

Applied Materials Profitability Continues to Improve



Applied Materials Results Show Chinese Equipment Makers Emerging as Challengers





Source: Bloomberg

In Focus

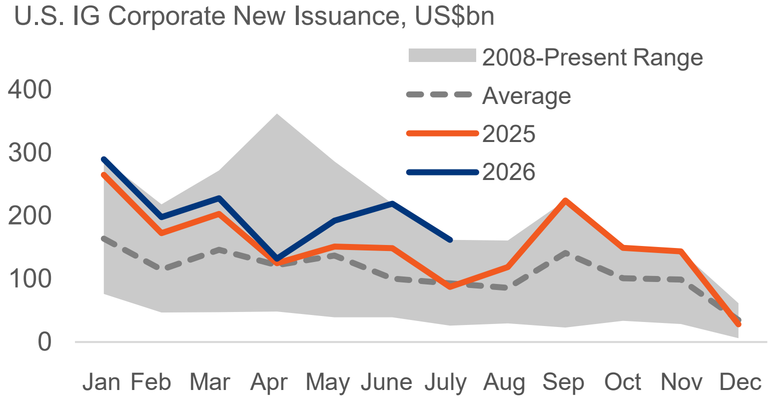
Treasury Issuance Plans Set; Corporate Bond Supply Falls in July

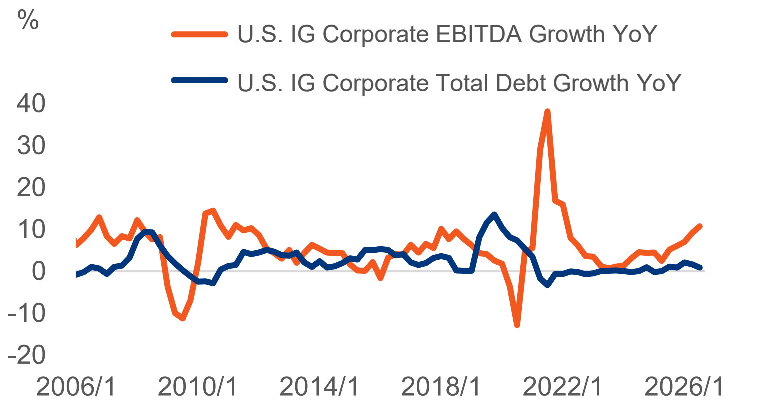
- The U.S. Treasury's quarterly refunding plan indicates issuance will remain stable over the coming quarters despite rising funding needs. Although the financing gap is expected to widen from US$525bn in FY2026 to US$775bn in FY2027, the Treasury may increase short-term issuance while keeping 20Y+ supply unchanged. Buybacks also remain concentrated in 10Y+ maturities, helping limit supply-demand imbalances in the Treasury market.
- Major tech firms continue to issue debt, but AI-related tech issuance fell to US$35bn in July from US$54bn in June, in line with the broader decline in U.S. corporate issuance. Supply could normalize further in August as year-end approaches, AI funding demand moderates, M&A slows, and seasonal factors take effect.
- With the U.S. economy remaining resilient and the Fed maintaining restrictive rates, large corporates' earnings are growing faster than debt issuance while leverage improves. High-quality IG bonds therefore remain our preferred allocation.

Treasury Refunding Plan Unchanged; Buybacks Skew Long-Term

		U.S. Treasury Buybacks (US$bn)	New Treasury Issuance (US$bn)	Buybacks as % of New Issuance
US Treasuries	1M – 2Y	4	207	2%
	2Y – 3Y	4	174	2%
	3Y – 5Y	4	210	2%
	5Y – 7Y	4	132	3%
	7Y – 10Y	4	120	3%
	10Y – 20Y	8	42	19%
	20Y – 30Y	8	69	12%
US TIPS	1Y – 10Y	1.5	45	3%
	10Y – 30Y	0.5	8	6%

U.S. Large-Cap Issuance Fell MoM in Jul





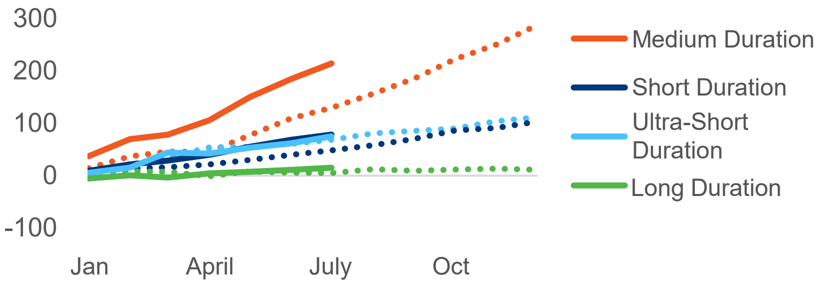
Source: Bloomberg, KGI

Flows Favor Short- to Medium-Term High-Quality Bonds

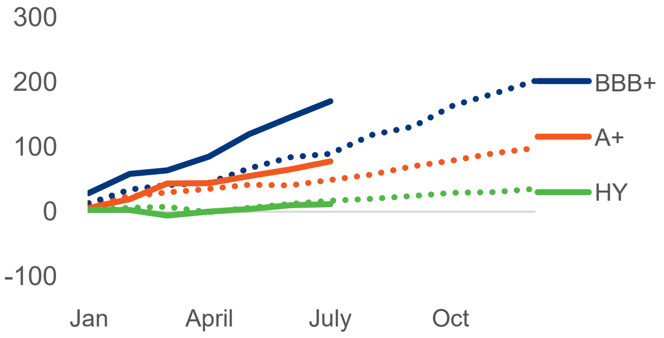
- Bond ETF flows from January to July show two clear trends. First, amid U.S.-Iran tensions, higher oil prices, and Fed hike expectations, investors favored short- to medium-duration bonds to reduce rate risk. Second, despite periodic spread widening, credit spreads remain near historical lows, driving flows toward BBB or higher IG bonds. HY inflows have lagged last year, reflecting continued U.S. policy uncertainty and investor preference for high-quality income and stable cash flow.
- YTD U.S. IG corporate bond returns reflect this trend. Shorter-duration real estate and financial bonds have outperformed, alongside higher-yielding energy and materials bonds. As economic growth moderates, we favor sectors with attractive yield-to-duration ratios, such as financials, as well as technology, communications, and utilities, where ratios remain attractive versus history. Investors should also prioritize issuers with positive credit outlooks to reduce downside risk.

Flows Continue to Favor Short/Medium Duration and High-Quality Bonds

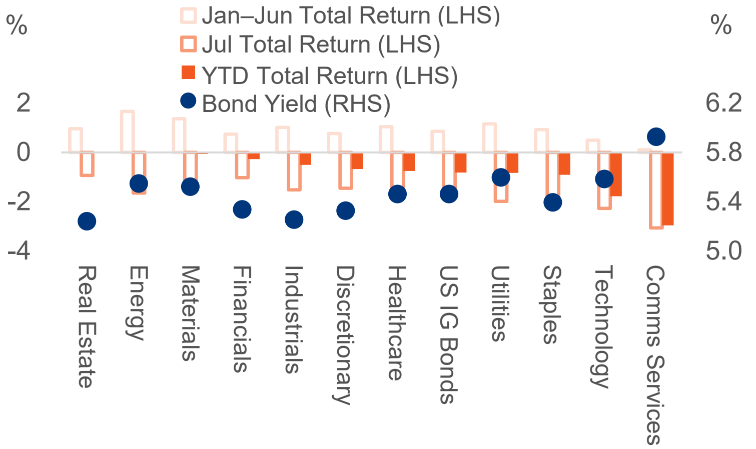
Bond ETF Net Flows, US$bn (Solid: 2026; Dotted: 2025)

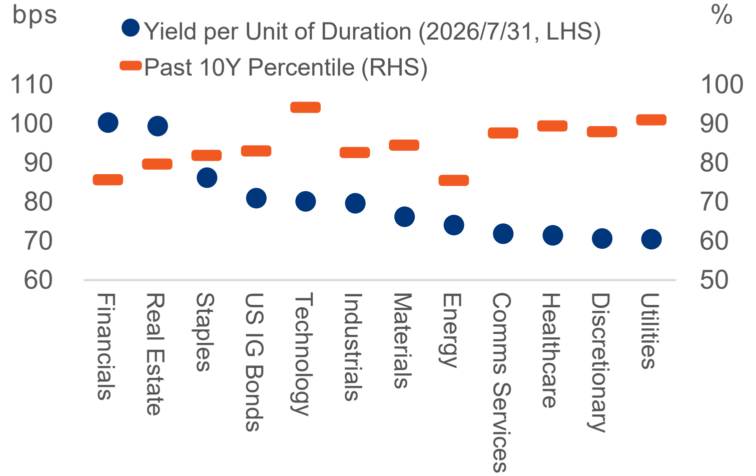


Bond ETF Net Flows, US$bn (Solid: 2026; Dotted: 2025)



Short-Duration Bonds Lead; Favor Higher Yield per Unit of Duration





Source: Bloomberg, KGI

Strategic Viewpoint

Watch for a Near-Term Pullback; Exercise Caution When Chasing the Rally

Asset Type	Market View	Preferred Assets
Equities	◆ Corporate earnings beat expectations, while some tech results confirm strong AI demand, supporting a rebound in sentiment. However, concerns over capex returns remain high; watch for a near-term pullback after the rapid rebound and avoid chasing. U.S.-Iran tensions have eased but remain uncertain. Healthcare and utilities can help reduce volatility, while tech, semis and AI remain favorable longer term. Favor buy-on-dips and diversified country/sector exposure. ◆ Europe and Japan offer diversification. Rising global rates favor banks, with solid fundamentals in European and Japanese banks. Japanese semis offer steadier buy-on-dip opportunities, while European defense remains attractive.	**Strategy:** Defensive near term; favor AI-related tech and semis medium/long term; cyclicals outside AI also attractive **Regions**: Japan banks, Japan semis, European financials, defense
Bonds	◆ Slower U.S. inflation has pushed back Fed hike expectations, while Treasury yields remain elevated. With no clear economic weakness, avoid long-duration bonds; favor short/medium-duration bonds for carry. High-quality IG corporates offer relatively strong downside protection, with financials, tech, communications and utilities attractive after risk-adjusted yield considerations. ◆ Diversify single-currency risk with non-USD IG bonds, such as EUR- or AUD-denominated bonds.	**Types:** Short/medium-duration high-quality bonds; sectors including financials, tech, communications and utilities **Satellite :** Non-USD bonds for diversification.
Forex	◆ The Fed remains hawkish, which should provide some USD support, but U.S.-Japan joint intervention could trigger a near-term USD pullback. ◆ Joint U.S.-Japan FX intervention supports the JPY, keeping it firm near term. The RMB should also remain supported by PBOC intervention.Preferred:	**USD:** Near-term strength remains supported. Gradual JPY appreciation; modest RMB appreciation.
Commodity	◆ Uncertainty over U.S.-Iran talks keeps near-term energy supply constrained and could amplify oil-price volatility. ◆ Lower geopolitical risk and U.S. Treasury yields support gold near term. Continued central-bank buying and portfolio demand provide medium/long-term support.	**Gold**: Lower U.S. yields support prices near term. **Oil**: Middle East tensions may keep volatility high

Product Spotlight | HK Equities

Tencent : Resilience, Multi-Dimensional Monetization & Tech Upgrade

► Social & Ecosystem Moat

In a global economy entering slower growth and structural adjustment, platform enterprises with digital infrastructure attributes show resilience beyond traditional industries. With messaging, social interaction, digital payments, and lifestyle services deeply embedded in daily life, these platforms evolve into foundational economic networks. Strong network effects reduce transaction and acquisition costs, while providing defensive strength and natural traffic flows during downturns.

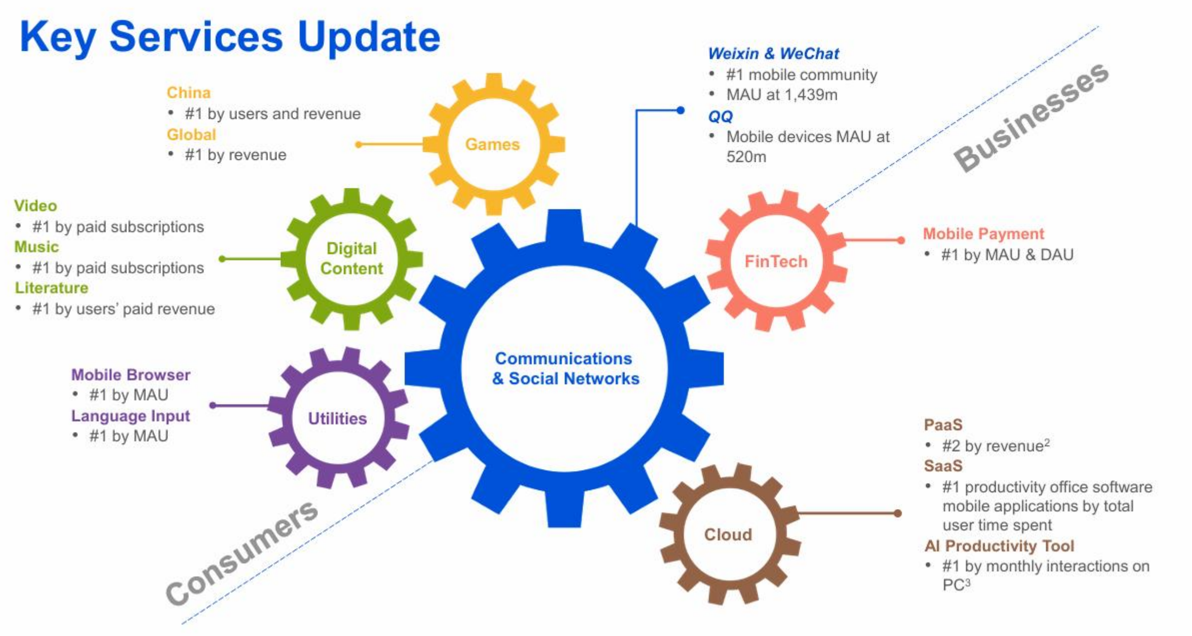
► Diversified Cash Flow & Global Entertainment

Top tech giants stand out for monetization across cycles. Integrated models spanning online gaming, digital content, advertising, and fintech generate robust free cash flow. In digital entertainment, local depth combined with global expansion diversifies risk and amplifies IP value through R&D strength. Solid profitability ensures ample reserves for market shifts and strategic pivots.

► Tech Empowerment & Expansion

Rapid advances in frontier technologies enable leading platforms to integrate new capabilities into existing ecosystems. By embedding generative AI into cloud, content, and enterprise applications, firms enhance efficiency, optimize costs, and accelerate product iteration. This fusion of capital strength and innovation fuels high-quality growth and expansion into new business scenarios and global markets.

Tencent Main Services



Source: Tencent's Q2 Earnings Briefing

Tencent Holdings Ltd (700 HK)

Closing Price HK $441 **Target Price** HK $700

Tencent is a global leader in technology and the internet. It owns major social platforms such as WeChat and QQ, while also building strong positions in digital entertainment, cloud computing, and fintech. Guided by its principle of "Tech for Good," Tencent delivers services.

Strong Core Profitability Secures AI R&D and Capex Cushion

Tencent's 2Q results were solid, with revenue and adjusted operating profit slightly above expectations. Excluding new AI project spending, core adjusted operating profit rose 19% YoY, well above the 9% consolidated gain, showing strong earnings power absorbing early AI R&D and capex. Domestic gaming accelerated on evergreen titles and new launches, offsetting international pressure; ads maintained momentum from tech upgrades; fintech and enterprise services stayed steady, with cloud growth and margin gains providing real financial buffer for AI infrastructure.

CapEx Surge Driven by Compute Procurement

To support AI, Tencent's 2Q capex jumped, with RMB 51.4B spent on compute (86% of total), pushing free cash flow negative (–RMB 13.8B). While investors worry about buyback capacity, AI efficiency and commercialization (e.g., WorkBuddy) are emerging. Management stressed capex will remain return-linked, not blind investment.

Accelerating AI Deployment & Commercialization Potential

Tencent AI is shifting from R&D to product rollout. The "Hunyuan 4" model is due this year; WeChat's AI agent "Xiaowei" is in testing, leveraging massive traffic and ecosystem for strong monetization potential. WorkBuddy shows robust user growth and margins, signaling early paid adoption. Though near-term spending weighs on profit, Tencent Cloud can rent excess compute to boost utilization and provide downside protection.

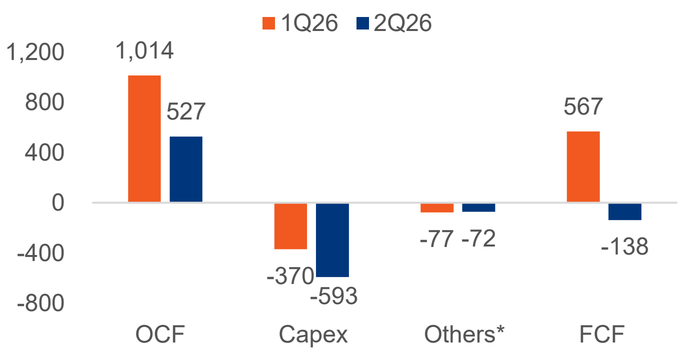
Overall, Free cash flow turned negative, raising concerns over buyback space and short-term stock pressure. Yet Tencent's core growth remains resilient, and AI investment is steadily showing returns both internally and commercially, supporting continued portfolio inclusion.

Financials

	2024	2025	2026F	2027F	2028F
Revenue (CNY b)	660	751	826	904	991
Revenue YoY	8.4	13.8	9.9	9.5	9.6
EPS (CNY)	23.5	27.9	29.7	32.0	35.3
EPS YoY	44.0	18.6	6.4	7.9	10.1
RoE (%)	21.8	21.1	19.0	17.9	17.3

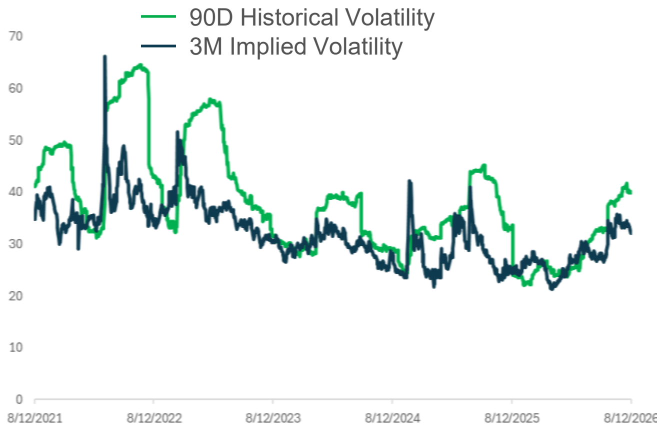
Estimate P/E

2Q26 Cash Flow Overview



Operating Cash Flow – Capex – Other = Free Cash Flow

Historical Volatility



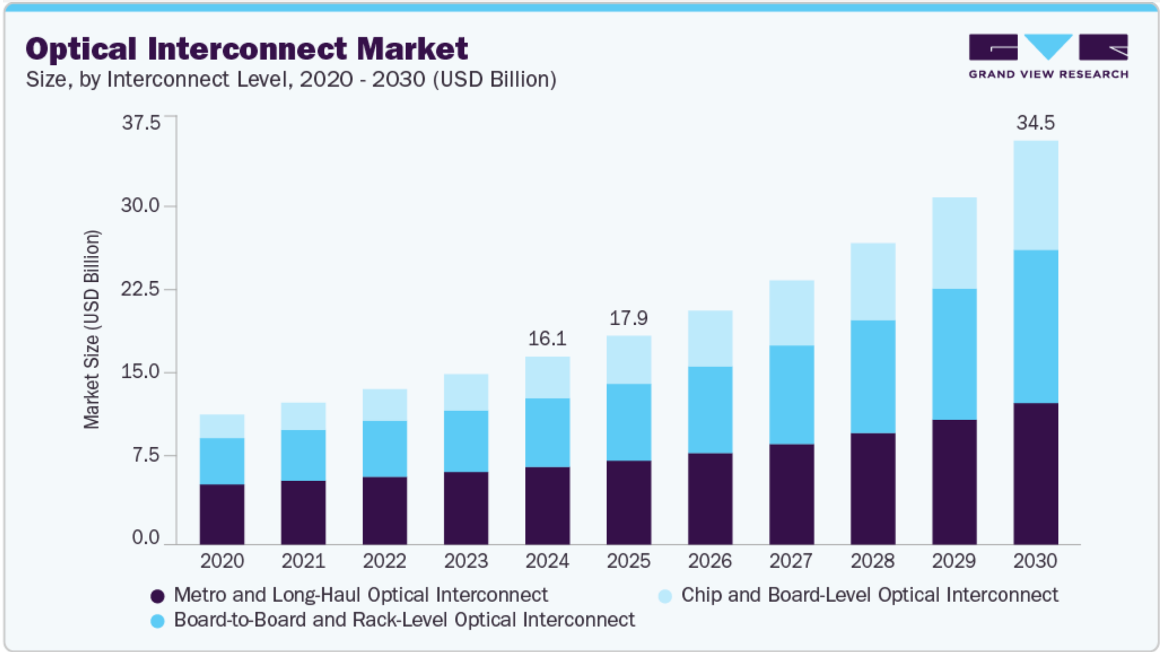
Source: Bloomberg, Note: Other items in 2Q26 cash flow include (media content payments + lease liability payments).

US Equities

Semiconductors Recover, Optical Communication Poised Ahead

- July U.S. core CPI rose 0.2% MoM, in line with expectations, above the prior 0%; YoY at 2.5%, slightly below 2.6%. Headline CPI rose 0.1% MoM, beating –0.4% prior; YoY at 3.4%, down from 3.5%.
- Core PPI rose 0.2% MoM, below 0.3% consensus and 0.4% prior; YoY at 4.2%, above 4.1% forecast but below 4.7%. Headline PPI flat MoM, YoY at 4.7%.
- July U.S. Retail Sales: Fell –0.6% MoM, missing consensus of +0.1% growth and below prior +0.2%.
- August U.S. Michigan Consumer Sentiment (Prelim.): Dropped to 51.0, weaker than 55.0 expected and 55.2 prior.
- AI data centers are upgrading from 800G to 1.6T, accelerating adoption of CPO, NPO, and denser optical interconnects. NVIDIA's Vera Rubin platform is scaling, with Rubin Ultra set to expand GPU clusters and cross-rack demand. This shift extends optical use cases from scale-out networks to scale-up core interconnect, lifting per-GPU optical value. Recent results and guidance from Lumentum and Coherent highlight accelerating demand for 1.6T, CPO lasers, and high-speed optical engines. AI compute upgrades are diffusing from chips into networking and optical layers. Rubin to Rubin Ultra upgrades will drive demand for silicon photonics, CPO, ELS lasers, and high-speed optical engines. Optical communication remains one of the most certain growth directions in AI infrastructure over the next 1-2 years.

Optical Interconnect Market



Source: Bloomberg, Grand View Research

Lumentum (LITE US)

Closing Price	US$926.14	Target Price	US$1,100

Lumentum is a global supplier of optical and photonic technologies. It provides high-performance lasers, modules, and optical subsystems that support AI data centers, cloud connectivity, telecom networks, industrial manufacturing, and sensing applications. Headquartered in San Jose, California, the company operates R&D, manufacturing, and sales facilities worldwide.

AI/Cloud Data Center Photonics Platform

Lumentum supplies optical interconnect products from chips and components to full systems: InP EML lasers, photodetectors, VCSEL arrays, pump and narrow-linewidth lasers, plus 400G/800G/1.6T pluggable transceivers, coherent modules, and optical circuit switches. This “component + system” layout covers vertical, horizontal, and cross-data-center expansion, addressing bandwidth, power, and density bottlenecks with 200G/400G per channel and CPO. Rapid product transitions require R&D investment aligned with customer roadmaps.

Cloud Light Integration Expands Breadth

Following the November 2023 acquisition of Cloud Light, Lumentum combined its high-speed module design, packaging, testing, and volume production with its own InP lasers, PICs, coherent components, and customer relationships. Cloud Light derived over 90% of revenue from 400G+ products pre-deal, with more than half of transceiver revenue from 800G in the latest quarter. The acquisition extends Lumentum from key component supplier to full module and interconnect solutions provider. FY25 cloud and networking revenue is guided to grow 30% YoY, partly from full-year consolidation, though integration benefits and synergies remain to be validated.

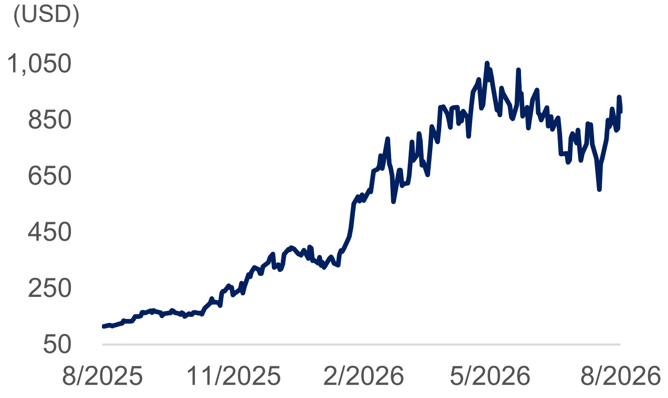
264Q Record Revenue, FY27 Strong Guidance

FY26 Q4 revenue hit a record $1.006B, up 109% YoY, with non-GAAP EPS at $3.23 and gross margin at 50.4%. FY27 Q1 revenue guidance rises further to $1.225–1.275B, reflecting continued demand for 1.6T modules, CPO, OCS, and high-power lasers. Outlook remains positive.

Valuation Consensus

Bloomberg 12-month average target price: US$1,127.69, with a high of US$1,400 and low of US$600.

1-Year Price



Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	-23.1	21.0	83.2	104.3	53.1
EBITDA (%)	2.5	6.2	27.7	43.8	47.1
EPS (USD)	-6.37	0.44	6.26	21.11	33.03
Net Profit Margin(%)	-31.5	1.9	15.5	34.9	36.7

FY2027 Q1 Guidance

$ in millions, except for EPS	Q1 FY27 *Guidance*(1)
Revenue	**$1,225 – $1,275**
Operating Margin	**39.5% – 40.5%**
Diluted EPS	**$4.05 – $4.35**
Diluted Shares – M	**102.0**

P/E & P/B

Source: Bloomberg, Company

KGI

Coherent (COHR US)

Closing Price	US$325.83	Target Price	US$400

Coherent is a global photonics supplier, offering indium phosphide materials (InP), lasers, optical components, and transceiver modules. Its solutions serve AI data centers, telecommunications, and industrial markets. Operating in 20+ countries, the company leverages full vertical integration from materials and wafers to modules and systems, enabling scale and efficiency across diverse applications.

AI Data Center Optical Interconnect Platform

Coherent enters AI/ML clusters with 800G and 1.6T transceivers, spanning in-rack short-reach to full data-center interconnect. Solutions include VCSEL, InP, silicon photonics, ZR/ZR+, and optical circuit switches. In August 2026, the firm identified 1.6T/3.2T/6.4T as growth engines, with CPO/NPO, thermal management, and multi-track transmission as new platforms. 400G single-channel boosts bandwidth and simplifies architecture, while multi-track aims to quadruple fiber capacity. As AI centers shift from copper to optics, Coherent can participate across distances and topologies, though revenue depends on certification, ramp-up, and customer deployment pace.

Vertical Integration & Materials Strength

Coherent's differentiation lies in full chain integration: engineering materials, lasers, detectors, PICs, passive optics, transceivers, and systems. It offers GaAs VCSEL, InP DML/EML/CW lasers, silicon photonics, and CPO. The company runs GaAs VCSEL and InP fabs in the U.S. and Europe, advancing InP to 6-inch wafers. Vertical integration accelerates co-design, controls costs, and matches laser platforms to distance needs. However, wafer yield, material purity, and line transitions directly affect capacity, margins, and delivery stability.

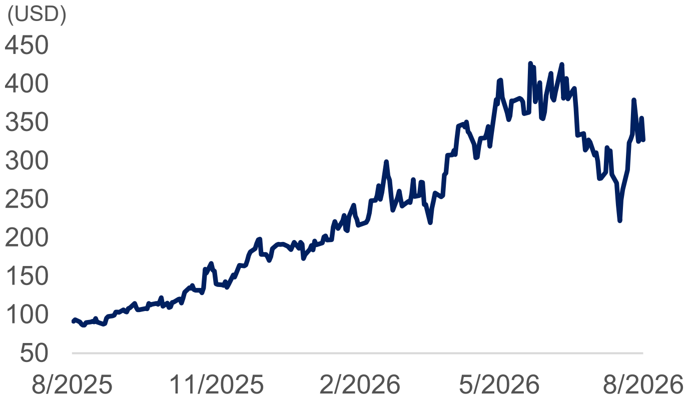
FY26 Record Results, FY27 Strong Guidance

FY26 Q4 revenue reached $2.05B (+34% YoY), non-GAAP EPS $1.74, and gross margin 40.2%, driven by AI data-center optical demand. FY27 Q1 guidance: $2.2–2.4B revenue, non-GAAP EPS $1.85–2.05, reflecting continued strength in 1.6T modules, CPO, OCS, and high-power lasers.

Valuation Consensus

Bloomberg 12-month average target price: US$404.78, with a high of US$448 and low of US$279.

1-Year Price



FY2027 Q1 Guidance

REVENUE	$2.2 billion to $2.4 billion
NON-GAAP GROSS MARGIN	39.5% to 41.5%
NON-GAAP OPERATING EXPENSES	$400 million to $420 million
NON-GAAP TAX RATE	18% to 20%
NON-GAAP EARNINGS PER SHARE	$1.85 to $2.05

Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	-8.8	23.4	22.5	47.1	35.0
EBITDA (%)	19.3	20.4	0.0	26.8	29.1
EPS (USD)	-0.79	1.03	4.15	9.28	13.74
Net Profit Margin(%)	-2.5	2.7	10.9	18.1	20.0

Source: Bloomberg; 2027/28F are market estimates

P/E & P/B

Source: Bloomberg, Company

TW Equities — Taiwan Stocks Face Pressure After Rally, Focus on AI Server Upgrades

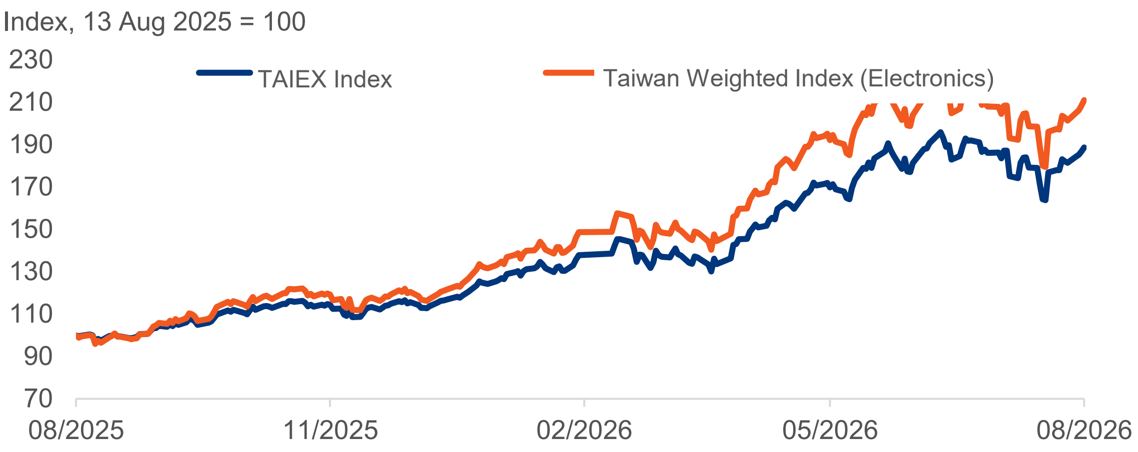
Tech Leaders Stay Firm, Index Rebound Faces Pullback Risk

Taiwan equities climbed steadily along short-term moving averages, led by electronics. Rotation remains healthy, with strength in passive components, silicon wafers, and July revenue/Q2 earnings leaders such as memory, thermal solutions, rails, power supplies, AI servers, design IP, and semiconductor equipment. Since the July 22 rebound, the index has gained over 17%; short-term deviation is stretched, so volatility risk is elevated. As long as pullbacks hold above 45,323, the bull trend may continue.

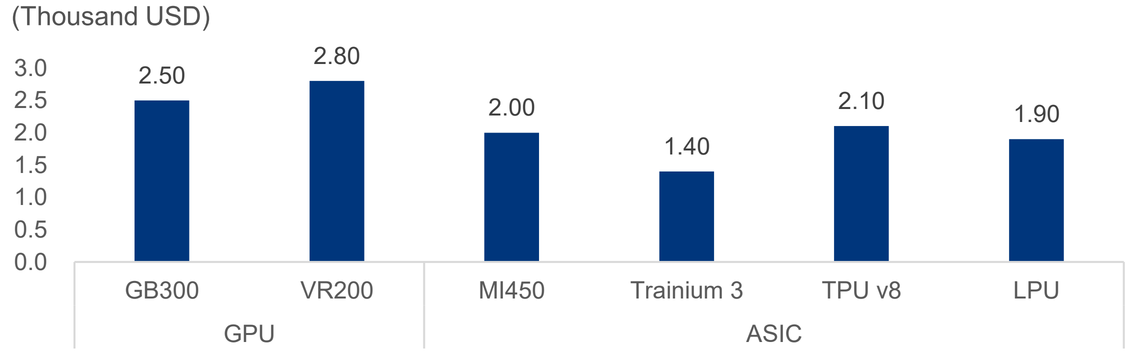
AI Server Platforms Ramp, Mechanical Components Benefit from Upgrade Wave

U.S. CSP capex is being revised higher, with 2026 growth at 77% and 2027 at 33%, underscoring robust AI demand. Cloud service revenue and backlog are expanding, though near-term free cash flow is pressured by infrastructure spending. From 2H26, new AI server platforms, Nvidia GB300, VR NVL72, AWS Trainium 3, Google TPU v8, and AMD Helios are ramping, boosting GPU and ASIC shipments. Heavier, more complex cabinet designs raise mechanical component value, with rails and chassis ASPs trending higher, reflecting liquid-cooling integration and high load requirements.

TAIEX Index and Taiwan Electronics Sector Trends



New-Generation AI Server Rail Value



Source: Bloomberg

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

King Slide Works Co., Ltd. manufactures and sells ball bearing slides, roller slides, and soft-closing hinges.

2H26–2027 Positive Demand Outlook

July revenue reached NT$6.41B, up 44% MoM and 356% YoY, well above expectations. Management highlighted strong AI server demand from CSPs, enterprises, and emerging cloud providers, with slide-rail supply chain share expanding beyond 90%. As new platforms — Nvidia VR, AWS Trainium 3, and AMD Helios — roll out, King Slide's design edge positions revenue momentum to accelerate from 2H26.

Capacity Utilization Rising, Expansion Accelerates

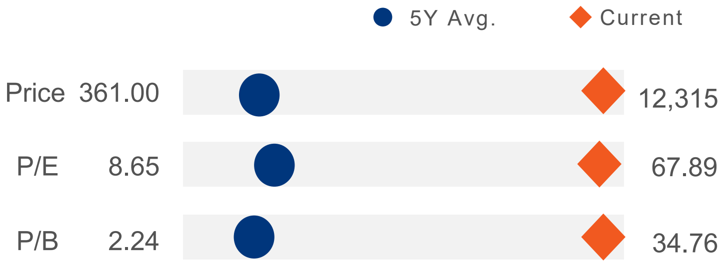
With U.S. CSP capex upgrades, order visibility remains strong. King Slide is advancing expansion of Taiwan's Chuan Yi Phase III & V plants, 1.5–2 years ahead of schedule, while the Houston plant will begin mass production in September–October, adding incremental support. Server slide-rail revenue share is expected to reach 95–97% in 2026–2027, outpacing other businesses.

Financials

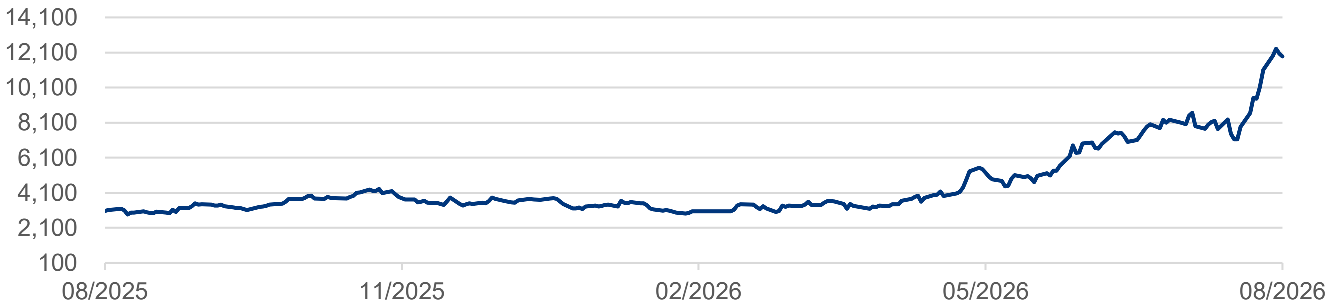
	2023	2024	2025	2026F	2027F
EPS (NTD)	28.38	64.59	103.23	336.97	500.02
EPS Growth (%)	-33.3	127.6	59.8	226.4	48.4
P/E Ratio	391.5	172.0	107.6	33.0	22.2
ROE (%)	16.9	32.6	39.9	88.8	84.7

Source: Company data, estimates of KGI analyst

Valuations

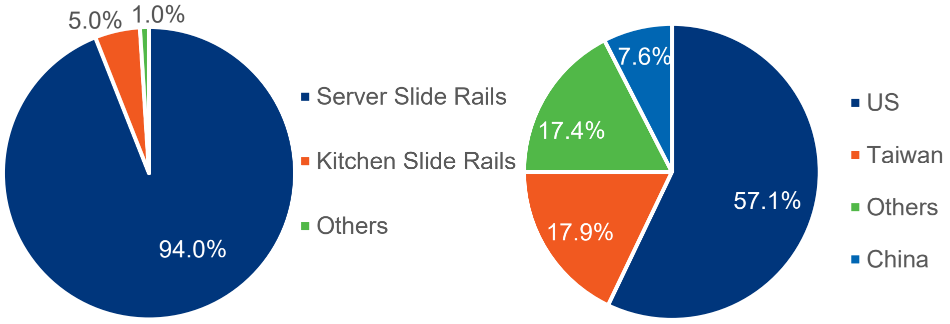


1-Year Price



As of 13 August 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	17.62	47.03	126.29	292.08	216.80	288.87

Revenue Sources and Regions



Source: Bloomberg

Wiwynn Corporation (6669 TT)

Wiwynn Corporation manufactures computer data storage devices. The company develops and sells servers, storage systems, networking equipment, and data center infrastructure products.

2H26 AI Momentum Building

Wiwynn began shipments of AWS Trainium 3 AI ASIC servers in June. 3Q26 air-cooled cabinets ramped with ASPs 15–20% above prior generation, lifting AI server revenue share above 50% and expanding further in 4Q26. Growth drivers include Oracle VR200 and Meta Helios MI455 shipments. T3 shipments also include general UBB boards, supporting margins above company average.

Focus on Custom AI Servers, Expanding ASIC Opportunities

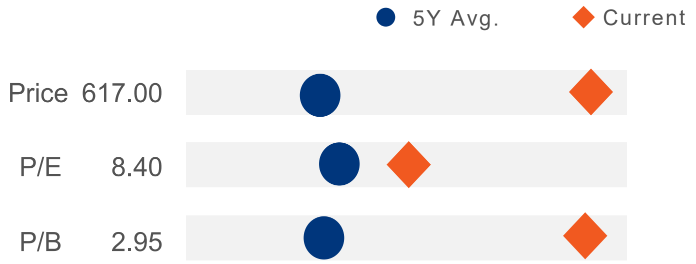
For 2027, Trainium chip shipments are expected to grow 30–40% YoY, with T3 Max liquid-cooled cabinets scaling and AWS remaining the largest customer. Meta Helios cabinet shipments may reach 4,000–5,000 units at US$5–5.5M each, significantly boosting revenue. VR series server shipments will also expand. We raised 2027 EPS forecast to NT$566.42, 53% YoY.

Financials

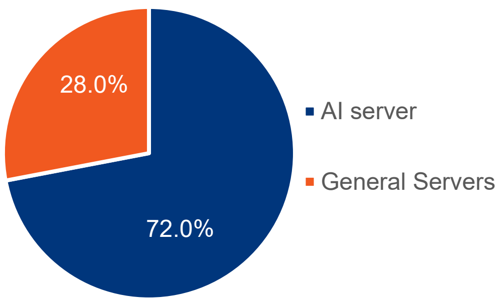
	2023	2024	2025	2026F	2027F
EPS (NTD)	68.88	126.57	275.06	370.69	566.42
EPS Growth (%)	-15.0	83.7	117.3	34.8	52.8
P/E Ratio	77.2	42.0	19.3	14.3	9.4
ROE (%)	29.7	34.9	48.0	49.2	58.7

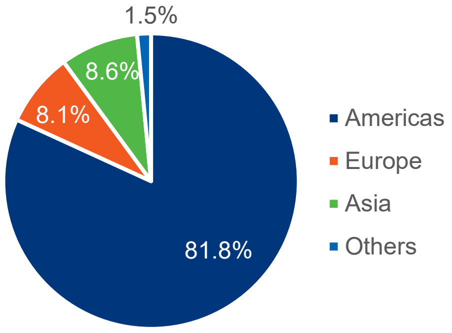
Source: Company data, estimates of KGI analyst

Valuations



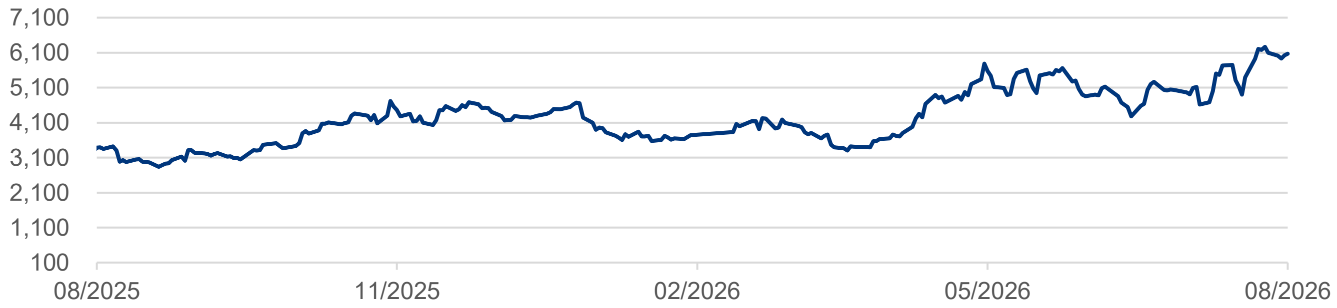
Revenue Sources and Regions





Source: Bloomberg

1-Year Price



As of 13 August 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-3.19	22.28	8.69	62.17	35.23	79.17

Mutual Funds/ ETFs

Market Fund Flows Clear, Mid-Short Term Quality Bonds Favored

► PIMCO GIS Income Fund

- One of the world's largest actively managed funds.
- Despite multiple market swings, it has consistently captured opportunities after shocks—for instance, a decline of 8.79% in 2020 was followed by a rebound of 10.63% within six months.
- Attractive Yield Advantage Estimated yield-to-maturity of 7% offers a competitive edge.
- The fund flexibly manages duration (generally 0–8 years) to navigate economic uncertainty. Recent tactical positioning favors U.S. rates, focusing on short- and medium-term bonds with compelling opportunities.
- Proven Long-Term Performance – Winner of the Lipper Fund Awards Hong Kong 2023 – Best Global Bond USD Fund (10 Years).
- Experienced Management Team – Led by Group CIO Dan Ivascyn, alongside Alfred Murata and Josh Anderson, with nearly 30 years of average investment experience. Supported by a global credit research team of 80+ analysts.
- Duration: 6.31 years; Estimated Yield to Maturity: 6.83%; Average credit rating: AA-
- Latest annualized distribution yield: 6.25% (Class E-USD)

Product	PIMCO GIS Income Fund	
Features	■ Global Diversified Allocation Helps Mitigate Risk and Capture Income Opportunities ■ Fund size is substantial, with an average credit rating of AA- and a Morningstar 4-Star rating.	
AUM	USD 124.7 billion	
3M/YTD Return	-0.11% / 0.17%	
Allocation(%)	Mortgage-Backed Securities (MBS)	54.00
	Corporate Bonds	18.35
	Government Treasuries	19.90
	Cash and Others	7.77
Maturity(%)	Under 3 years	0.10
	3–5 years	36.10
	5–10 years	47.50
	10–20 years	11.00
	Over 20 years	5.30
Holdings (%)	FNMA TBA 6.5% JUN 30YR	4.9
	FNMA TBA 6.0% JUN 30YR	4.3
	FNMA TBA 5.0% MAY 30YR	2.8
	FNMA TBA 6.0% JUL 30YR	2.3
	FNMA TBA 5.5% MAY 30YR	1.8

Source: Bloomberg, KGI

PIMCO GIS Income Fund

Profile

Primarily invests in fixed income instruments across varying maturities, aiming to deliver high and stable income without compromising long-term capital appreciation.

■ Global Diversification

Invests across IG, HY, EM debt, and MBS, enabling diversification and capturing income opportunities across markets, providing stable and diversified return sources.

■ Professional Management

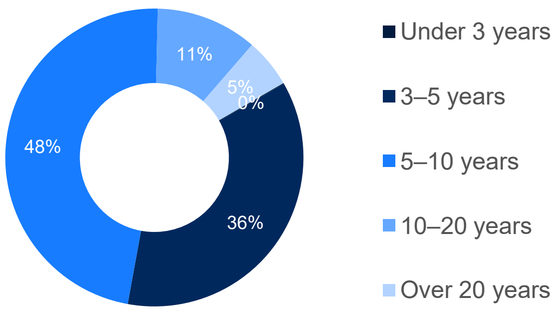
Actively managed by PIMCO, with flexible asset allocation to adapt to market conditions, delivering relatively stable long-term performance.

■ Morningstar Rating

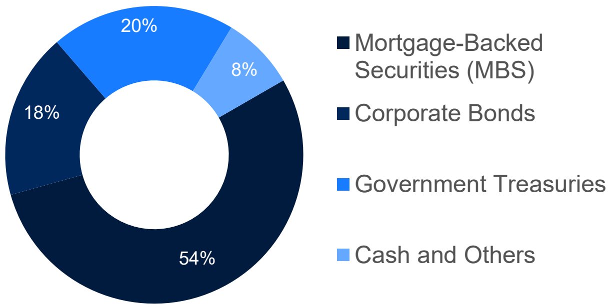
Large fund size, average credit rating AA-, rated 4 stars by Morningstar.

Inception	2012/11/30	**AUM**	USD 124.7 bn
Morningstar Category	Global Bonds	**Fund Type**	Fixed Income
Morningstar Rating	★★★★	**3Y SD (Ann.)**	4.61%

Sectors



Asset



Top-5 Holdings (%)

FNMA TBA 6.5% JUN 30YR	4.9
FNMA TBA 6.0% JUN 30YR	4.3
FNMA TBA 5.0% MAY 30YR	2.8
FNMA TBA 6.0% JUL 30YR	2.3
FNMA TBA 5.5% MAY 30YR	1.8

1Y NAV

As of 11 August 2026	1M	3M	YTD	1Y	2Y	3Y
Cumulative Return(%)	-0.39	-0.11	0.17	3.72	10.75	19.74
Ranking	4	4	4	2	2	2

Sources: PIMCO Asset Management Fund Monthly Report, Morningstar, Bloomberg; monthly report as of June 30, 2026; data class used: Class E USD Accumulation

Mutual Funds/ ETFs

Market Fund Flows Clear, Mid-Short Term Quality Bonds Favored

► Vanguard Intermediate-Term Corporate Bond ETF (VCIT.US)

- Tracks the performance of the Bloomberg U.S. 5–10 Year Corporate Bond Index.
- Invests primarily in U.S. dollar-denominated, investment-grade, fixed-rate bonds issued by U.S. and non-U.S. industrial, utility, and financial companies, with an average duration of about 6 years.
- The portfolio is highly diversified, holding over 2,200 bonds, with the top 10 positions accounting for only 2.7%.
- Its expense ratio is 0.03%, relatively low.

Product	Vanguard Intermediate-Term Corporate Bond ETF (VCIT.US)	
Features	■ Focus on medium-term corporate bonds rated BBB or above ■ Holding over 2,200 bonds	
AUM	USD 67.74 billion	
Tracking Index	Bloomberg U.S. 5-10 Year Corporate Bond Index	
Exchange	NASDAQ	
Currency	USD	
Expense Ratio	-0.34% / -0.29%	
Credit Ratings (%)	A BBB AA BB AAA	45.72 45.68 6.30 1.86 0.32
Holdings (%)	AMZN 4 ⅞ 03/13/36 BA 6.528 05/01/34 BAC 5.015 07/22/33 SPCX 5.65 07/15/33 META 4 ⅞ 11/15/35	0.31 0.28 0.27 0.27 0.27

Source: Bloomberg

Vanguard Intermediate-Term Corporate Bond ETF (VCIT.US)

Profile

This ETF tracks the Bloomberg U.S. 5–10 Year Corporate Bond Index, seeking to replicate the performance of its constituent securities.

■ Focus on High-Quality Intermediate Corporate Bonds

The index mainly invests in USD-denominated corporate bonds with an average duration of about six years. Sector exposure is concentrated in financials and industrials, with most holdings rated BBB or higher, providing moderate interest rate and credit risk.

■ Diversified Portfolio

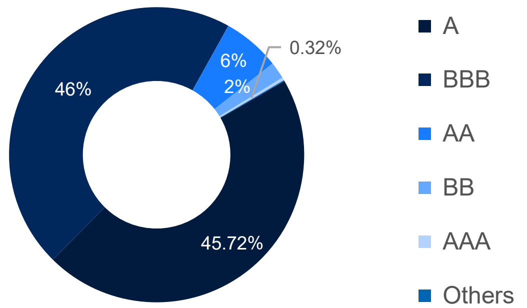
The ETF holds more than 2,200 bonds, with the top 10 positions accounting for only about 2.7% of the portfolio, helping reduce concentration risk.

■ Low Expense Ratio

The fund’s expense ratio is 0.03%, relatively low among comparable ETFs, offering strong cost efficiency for investors.

Inception	2009/11/19	**AUM**	USD 67.74 bn
ETF Category	Bonds	**Holdings**	2,345
Expense Ratio	0.03%	**3Y SD (Ann.)**	6.16%

Sectors

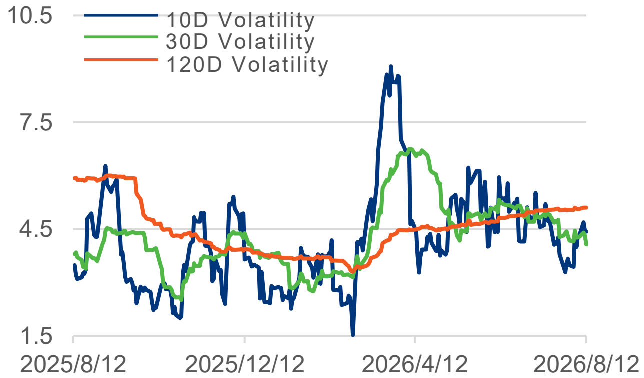


Top-5 Holdings (%)

AMZN 4 ⅞ 03/13/36	0.31
BA 6.528 05/01/34	0.28
BAC 5.015 07/22/33	0.28
SPCX 5.65 07/15/33	0.27
META 4 ⅞ 11/15/35	0.27

Price Trend (Past 1 Year)

Volatility (Past 1 Year)



As of 12 August 2026	1M	3M	YTD	1Y	3Y	5Y
Cumulative Return(%)	-0.33	-0.34	-0.29	2.58	6.15	0.86

Source: Bloomberg

Bonds Flagship Drive Industry-Leading Growth, CF Supports Deleveraging and Rating Upgrade Outlook

- **LLY 4.375 05/20/31 (Eli Lilly & Co.) (USD)**
- **LLY 4.85 05/20/36 (Eli Lilly & Co.) (USD)**
  - Eli Lilly & Co. develops, manufactures, and markets human medicines globally, with business concentrated in insulin, incretins, and other diabetes and metabolic products, accounting for about 74% of last year's revenue. The company also focuses on oncology, immunology, and neuroscience. Flagship drugs Zepbound for obesity and Mounjaro for type 2 diabetes hold leading market positions.
  - In Q2 2026, revenue reached USD 23B (+48% YoY), driven by Mounjaro (USD 9.9B, +91%) and Zepbound (USD 4.9B, +46%). Full-year guidance was raised to USD 85–87B. Strong demand for these flagship products is expected to drive industry-leading growth over the next three to five years, with S&P projecting revenue to surpass USD 100B by 2028, compared with USD 45B in 2024 and USD 65.2B in 2025.
  - Free operating cash flow is forecast at USD 17B in 2026 and nearly USD 27B in 2027, expanding through 2030. Capital expenditure peaked at USD 10–11B in 2026 to secure manufacturing capacity, then is expected to stabilize around USD 8B annually. Cash flow growth should outpace capex, supporting sustained deleveraging.
  - Competition may pressure pricing, especially for injectables, but volume growth is expected to outweigh price declines. Lower product costs and broader employer coverage adoption should improve accessibility, further supporting demand.
  - S&P upgraded Eli Lilly's issuer rating to AA- in April with a positive outlook, reflecting leverage potentially falling below 1x within two years. Moody's currently rates the company Aa3, also with a positive outlook.

Bond	LLY 4.375 05/20/31 (Eli Lilly & Co.) (USD)	LLY 4.85 05/20/36 (Eli Lilly & Co.) (USD)
ISIN	US532457DL93	US532457DR63
Features	S&P raised Eli Lilly's issuer credit rating from A+ to AA- in April, maintaining a positive outlook that reflects the increased likelihood of leverage falling below 1x within the next two years. At the same time, Moody's currently assigns the company an Aa3 rating, also with a positive outlook.	
Maturity	2031/5/20	2036/5/20
Next Call Date	2031/4/20	2036/2/20
Coupon(%)	Fixed/4.375/Semi-Annual	Fixed/4.85/Semi-Annual
Currency	USD	USD
Years to Maturity	4.77	9.78
Credit Rating (Moody's/ Fitch/S&P)	Aa3/-/AA-	Aa3/-/AA-
Seniority	Senior Unsecured	Senior Unsecured
YTM/YTC (%)	4.60/4.60	5.15/5.15

Source: Bloomberg

LLY 4.375 05/20/31 (Eli Lilly & Co.) (USD)

Eli Lilly & Co. develops, manufactures, and markets human medicines worldwide. The company's business is concentrated in insulin, incretins, and other diabetes and metabolic disease therapies, while also focusing on oncology, immunology, and neuroscience.

- Eli Lilly & Co. reported Q2 2026 revenue of USD 23B, primarily driven by strong demand for Mounjaro and Zepbound. Full-year 2026 guidance was raised to USD 85–87B. Demand for these flagship products is expected to sustain industry-leading growth over the next three to five years, with S&P projecting total revenue to surpass USD 100B by 2028, compared with USD 45B in 2024 and USD 65.2B in 2025.
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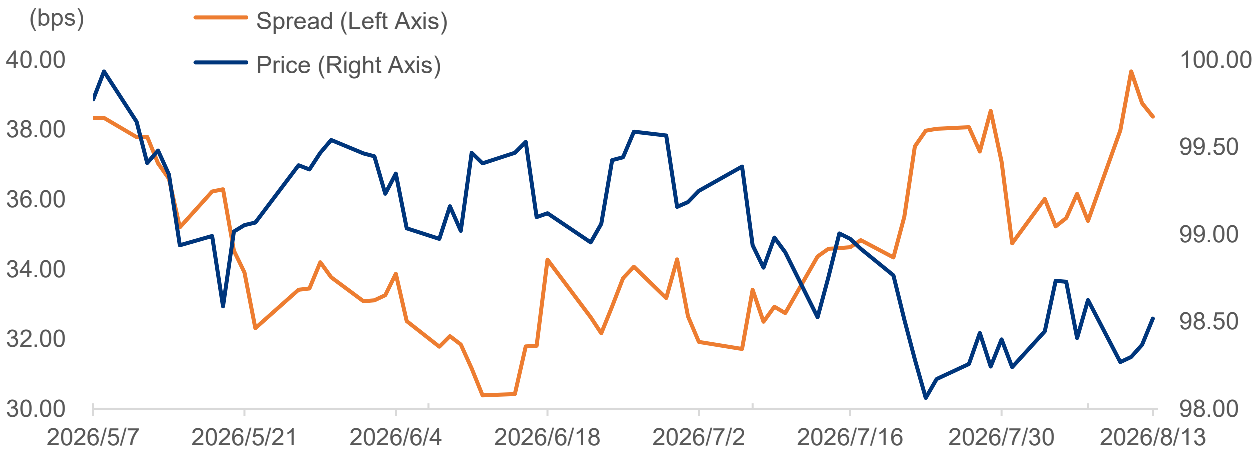
- S&P upgraded Eli Lilly's issuer credit rating from A+ to AA-, maintaining a positive outlook that reflects leverage potentially falling below 1x within two years. Moody's currently assigns the company an Aa3 rating, also with a positive outlook.

Financials	2023	2024	2025
Free Cash Flow (100mn)	7.93	37.60	89.72
EBITDA Margin (%)	23.40	32.56	43.42
Interest Coverage Ratio (%)	16.43	18.78	31.62

Overview

Name	LLY 4.375 05/20/31	ISIN	US532457DL93
Maturity Date	2031/5/20	Remaining Maturity	4.77
Coupon(%)	Fixed/4.375/Semi-Annual	YTM/YTC(%)	4.60/4.60
Currency	USD	Min. Subscription /Increment	2,000/1,000
Ratings (Moody's/Fitch/S&P)	Aa3/-/AA-	Seniority	Senior Unsecured

Price



Source: Bloomberg

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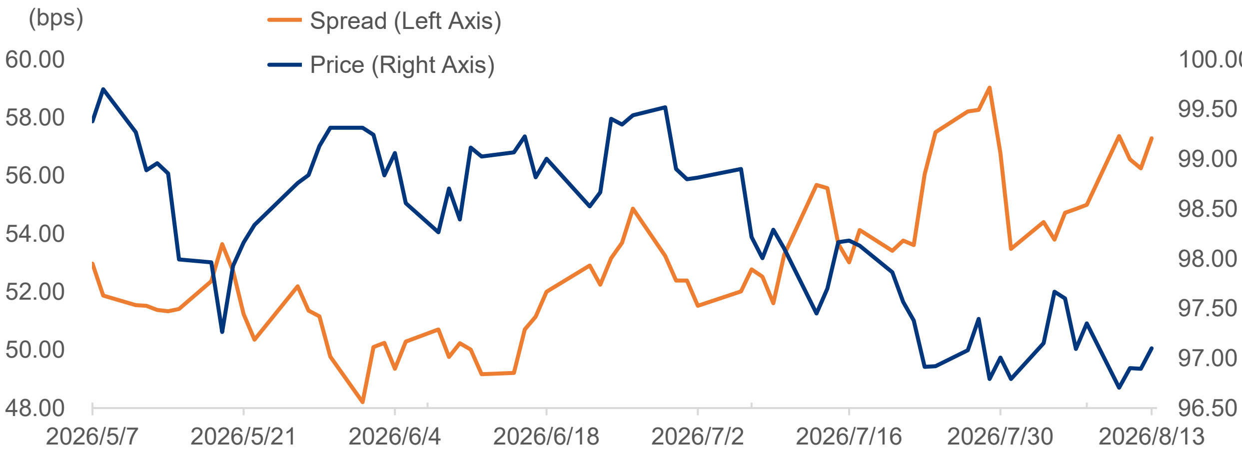
Interest Coverage Ratio (%)	16.43	18.78	31.62

Overview

Name	LLY 4.85 05/20/36	ISIN	US532457DR63
Maturity Date	2036/5/20	Remaining Maturity	9.78
Coupon(%)	Fixed/4.85/Semi-Annual	YTM/YTC(%)	5.15/5.15
Currency	USD	Min. Subscription /Increment	2,000/1,000
Ratings (Moody's/Fitch/S&P)	Aa3/-/AA-	Seniority	Senior Unsecured

Price



Source: Bloomberg

Appendix Key Economic Data / Events

▶ AUG 2026

10 Monday
- Eurozone Aug Sentix Investor Confidence (Act:0.9 Est:-0.5 Prev:3.1)

11 Tuesday
- U.S. Jul Existing Home Sales (Act:4.06m Est:4.05m Prev:4.13m)

12 Wednesday
- U.S. Jul CPI YoY (Act:3.4% Est:3.4% Prev:3.5%)
- U.S. Jul Core CPI YoY (Act:2.5% Est:2.5% Prev:2.6%)

13 Thursday
- U.S. Weekly Initial Jobless Claims (Act:209k Est:202k Prev:200k)
- U.S. Jul PPI YoY (Act:4.7% Est:4.9% Prev:5.5%)
- Japan Jul PPI YoY (Act:7.2% Est:7.4% Prev:7.3%)

14 Friday
- U.S. Jul Retail Sales MoM (Est:0.1% Prev:0.2%)
- U.S. Aug Univ. of Michigan Consumer Sentiment Index (Prelim) (Est:55.0 Prev:55.2)
- Eurozone Q2 GDP YoY (Revised) (Est1.0% Prev:0.5%)

17 Monday
- Japan Q2 GDP QoQ Annualized (Prelim) (Est:2.1% Prev:1.8%)
- Japan Jun Industrial Production MoM (Final) (Prev:0.1%)
- China Jul Retail Sales YoY (Est:1.5% Prev:1.0%)
- China Jul Industrial Production YoY (Est:4.9% Prev:5.3%)

18 Tuesday
- U.S. Jul Industrial Production MoM (Est:0.3% Prev:0.1%)
- Earnings: HD US

19 Wednesday
- Japan Jun Core Machinery Orders MoM (Est:7.8% Prev:-12.4%)
- Eurozone Jul CPI YoY (Final) (Est:2.9% Prev:2.8%)
- Earnings: LOW US, ADI US, TJX US

20 Thursday
- U.S. Weekly Initial Jobless Claims (Est:210k Prev:209k)
- U.S. Jul FOMC Minutes
- Taiwan Jul Export Orders YoY (Prev:59.4%)
- Earnings: DE US, WMT US

21 Friday
- U.S. Aug S&P Global Manufacturing PMI (Prelim) (Est:53.7 Prev:53.9)
- Japan Aug S&P Global Manufacturing PMI (Prelim) (Prev:54.5)
- Japan Jul CPI YoY (Est:1.9% Prev:1.6%)
- Eurozone Aug S&P Global Manufacturing PMI (Prelim) (Est:51.6 Prev:51.9)

Source: Bloomberg

KGI

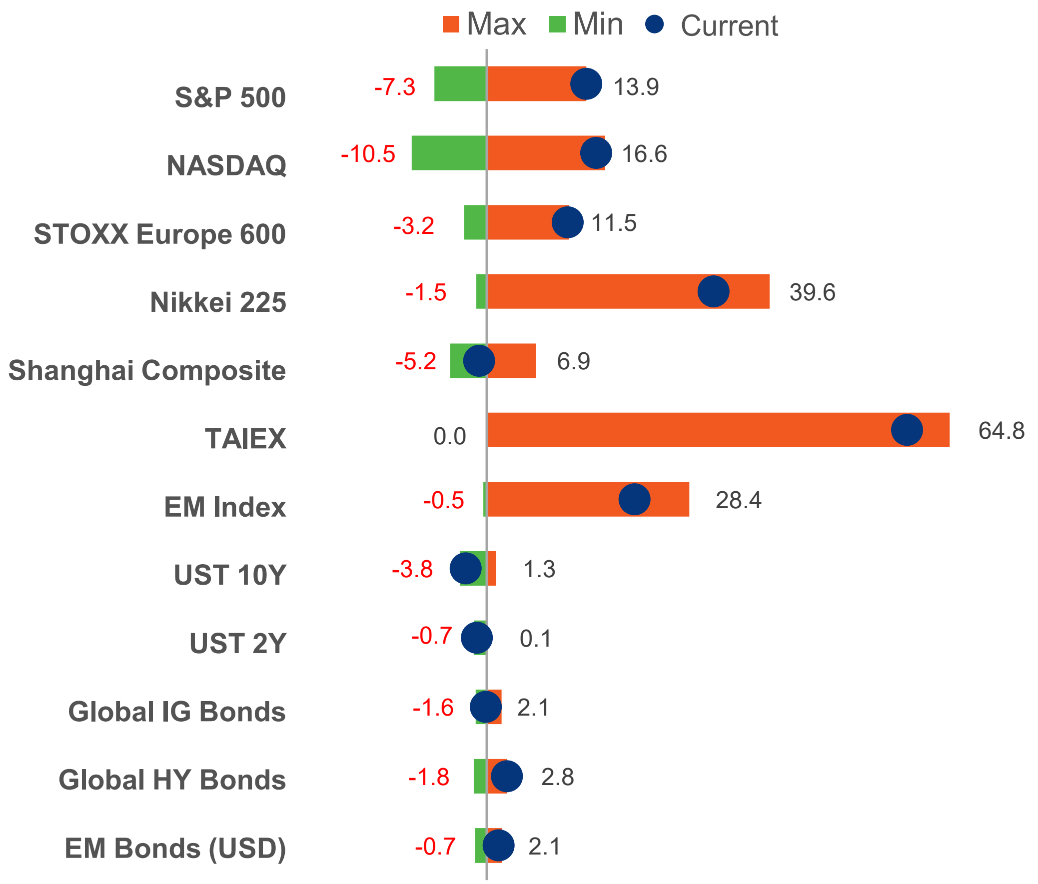
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2026/8/12	Lumentum Holdings Inc. (LITE US)	0.99B	1.01B	2.97	3.23	V	V
2026/8/12	Super Micro Computer Inc. (SMCI US)	11.26B	11.12B	1.59	1.70		V
2026/8/13	Coherent Corp. (COHR US)	1.99B	2.05B	1.62	1.74	V	V
2026/8/13	Cisco Systems Inc. (CSCO US)	16.85B	17.25B	1.17	1.22	V	V
2026/8/14	Applied Materials Inc. (AMAT US)	9.02B	9.12B	3.42	3.50	V	V

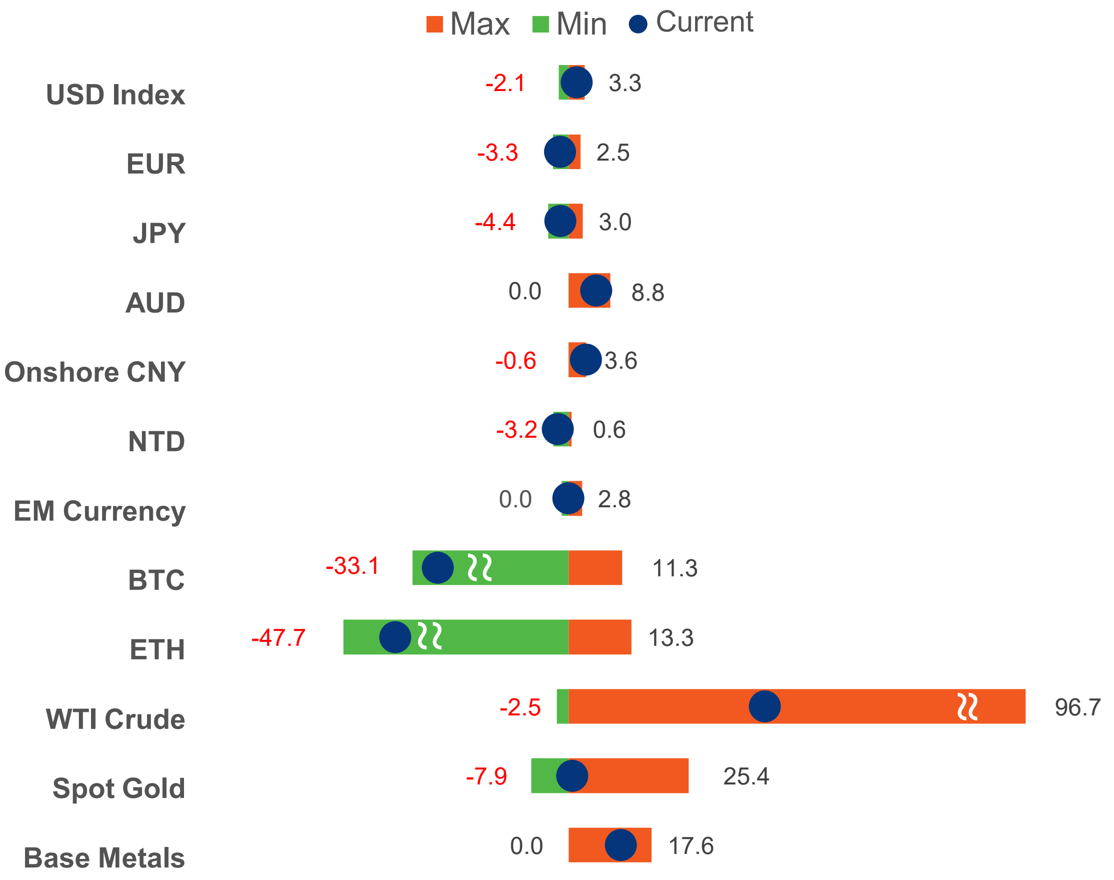
Source: Investing.com

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg

Technical Analysis

60D MA

S&P 500 Index

NASDAQ Index

STOXX Europe 600 Index

Nikkei 225 Index

Shanghai Composite Index

MSCI Emerging Markets Index

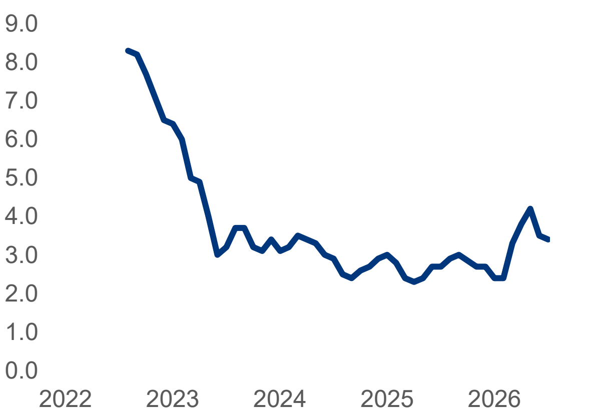
Gold

WTI Crude

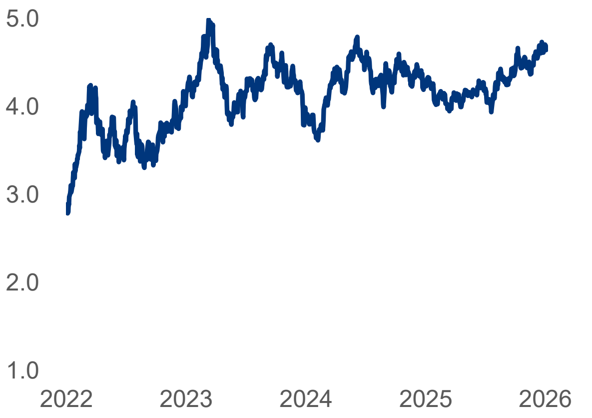
Source: Bloomberg

Market Monitor

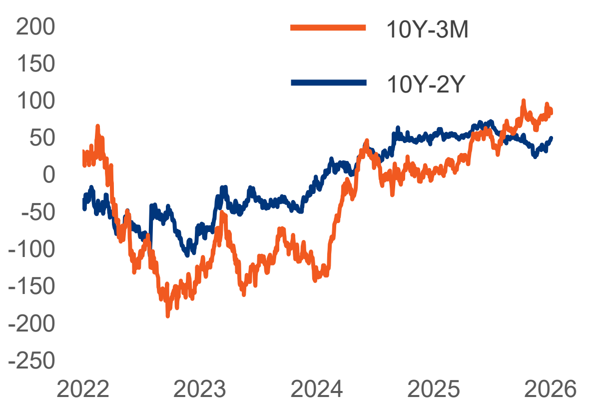
U.S. CPI YoY (%)



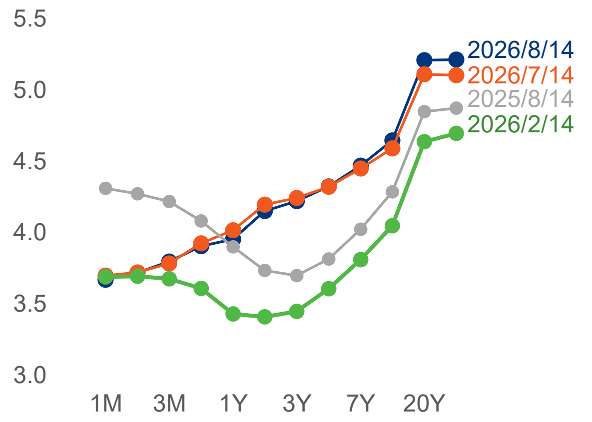
U.S. 10-Year Treasury Yield (%)



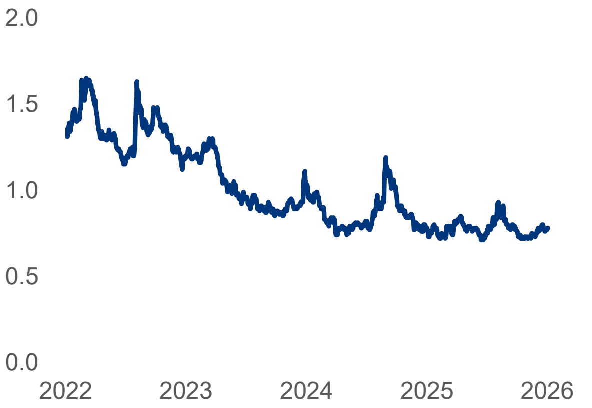
U.S. Treasury Yield Spread (bps)



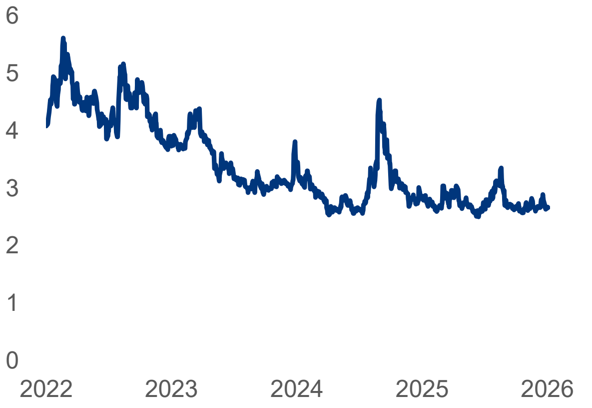
U.S. Treasury Yield Curve (%)



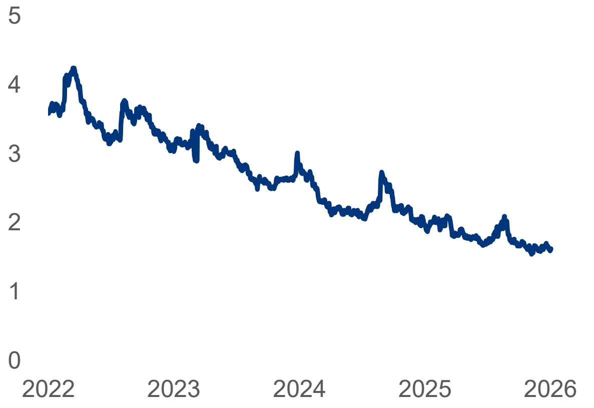
USD IG Credit Spread (%)



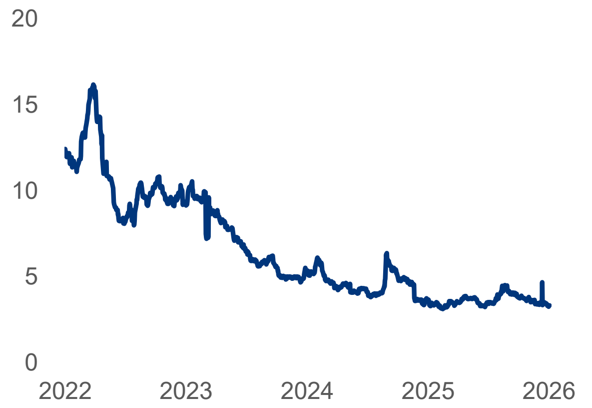
USD HY Credit Spread (%)



USD EM Credit Spread (%)



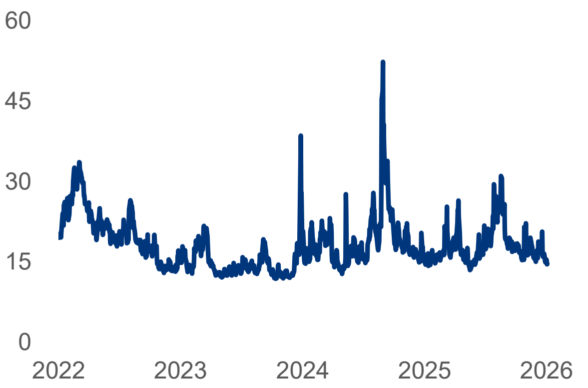
USD Asia Credit Spread (%)



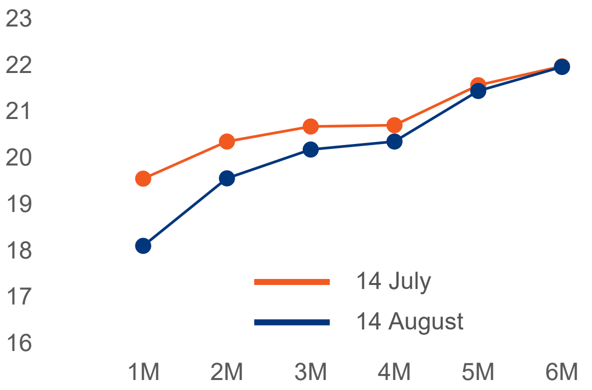
Source: Bloomberg

Market Monitor

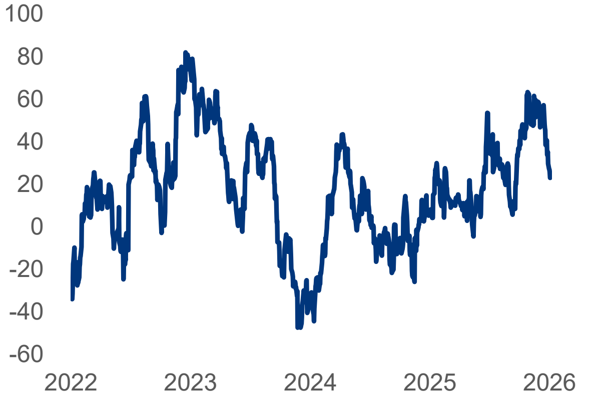
VIX Index



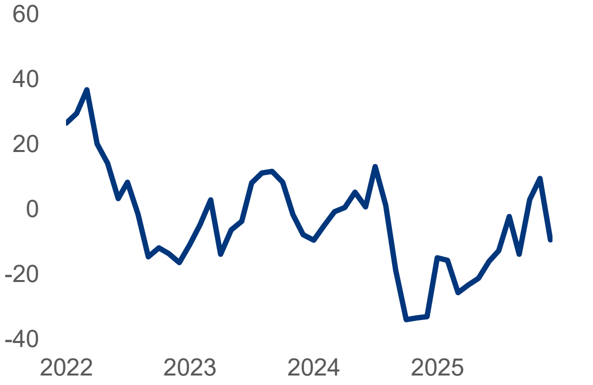
VIX Term Structure



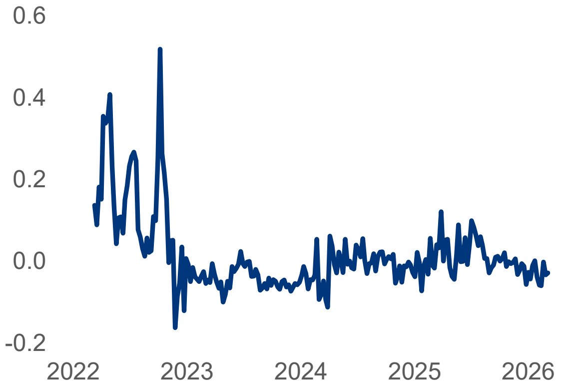
U.S. Citi Economic Surprise Index*



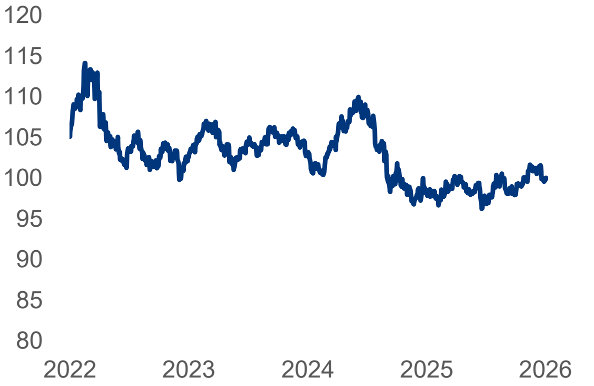
U.S. Citi Inflation Surprise Index*



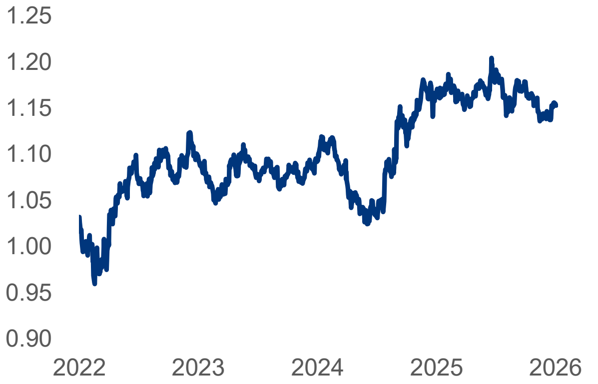
TED Spread (bps)



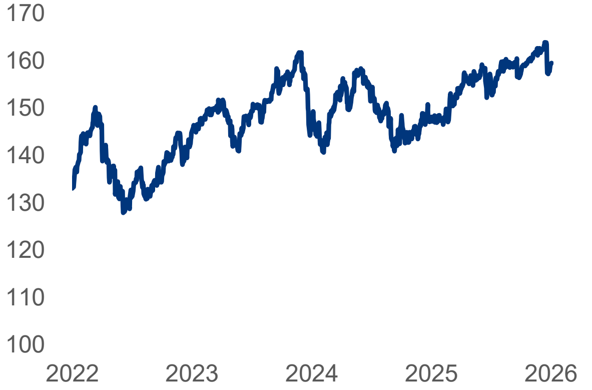
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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