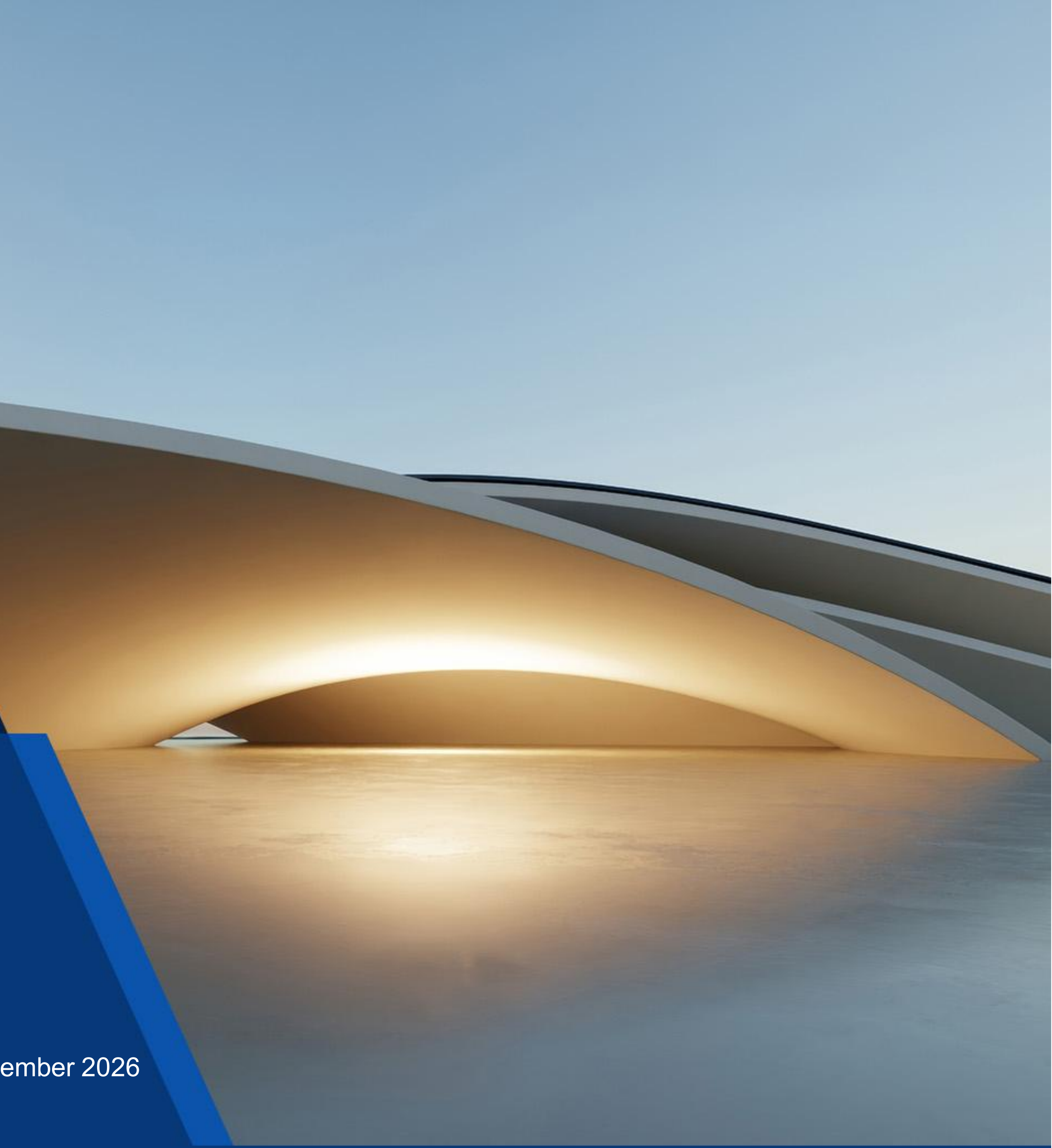
CIO Office

Global Markets Weekly Kickstart

Bond Supply Shock: Where Is the Safe Haven?



14 September 2026

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CIO Insights The Path to a Strong Yen Era

- **Japan's Shift to Higher Rates Is Likely to Strengthen the Yen**

  As the Bank of Japan normalizes policy and the US-Japan interest-rate gap narrows, USD/JPY could move materially lower, undermining the long-standing appeal of borrowing cheaply in yen to buy higher-yielding foreign assets. Direct FX intervention may help temporarily, but durable yen appreciation requires policy expectations and capital flows to align.

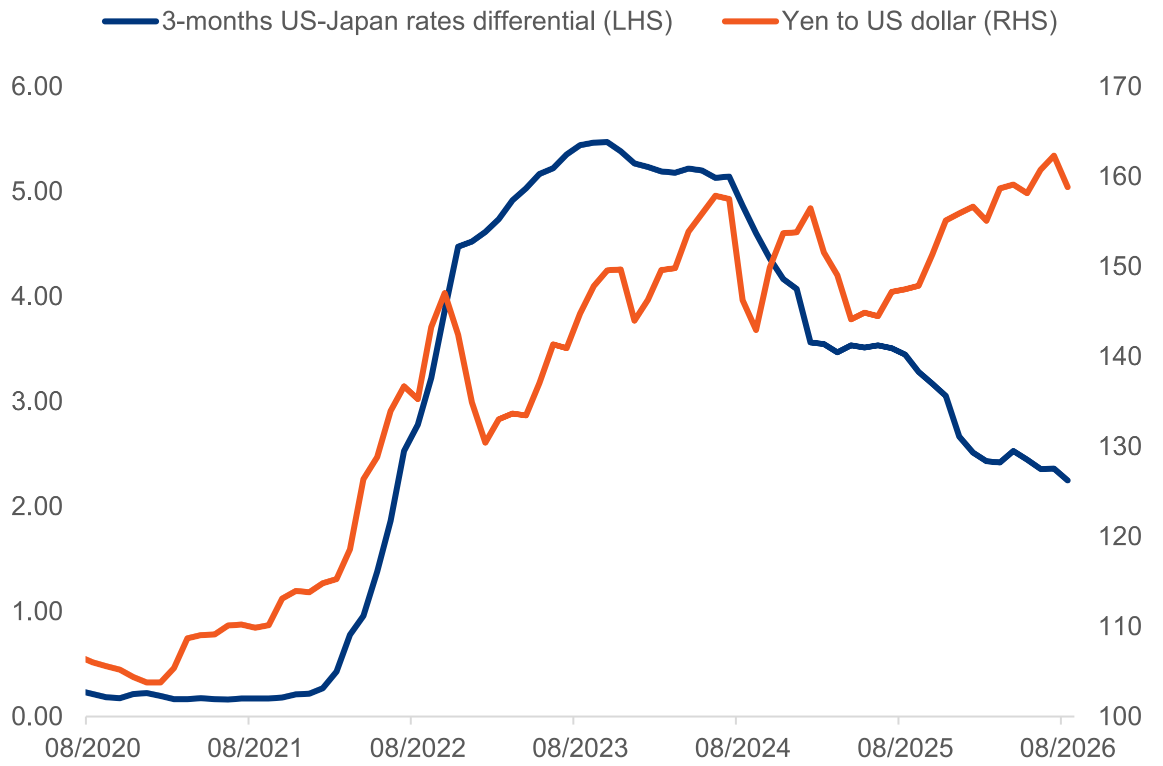
- **An Unwinding of Yen-Funded Carry Trades Could Create an Initial Global Risk-off Shock**

  Leveraged positions may be reduced across liquid risk assets, pressuring Japanese exporters and potentially widening US Treasury term premiums and credit spreads if Japanese demand softens. However, recent Japanese sales of US government debt were overwhelmingly short-dated Treasury bills – not long-duration bonds – so evidence of a broad long-bond liquidation remains limited.

- **Japan's Market Leadership Could Rotate After the Turbulence**

  A stronger yen reduces imported fuel, food, and merchandise costs, supporting household purchasing power and domestic demand. Likely beneficiaries include banks and selected insurers, utilities/city-gas firms, import-led retailers and staples, and domestic telecom/services. Conversely, exporters, automakers, semiconductor equipment makers, trading houses, and inbound-tourism businesses may face foreign-earnings translation headwinds, weaker visitor spending, and de-rating as yen-funded valuation support fades.

FX-Hedged US-Japan Interest Rate Spread Is at a Bare Minimum



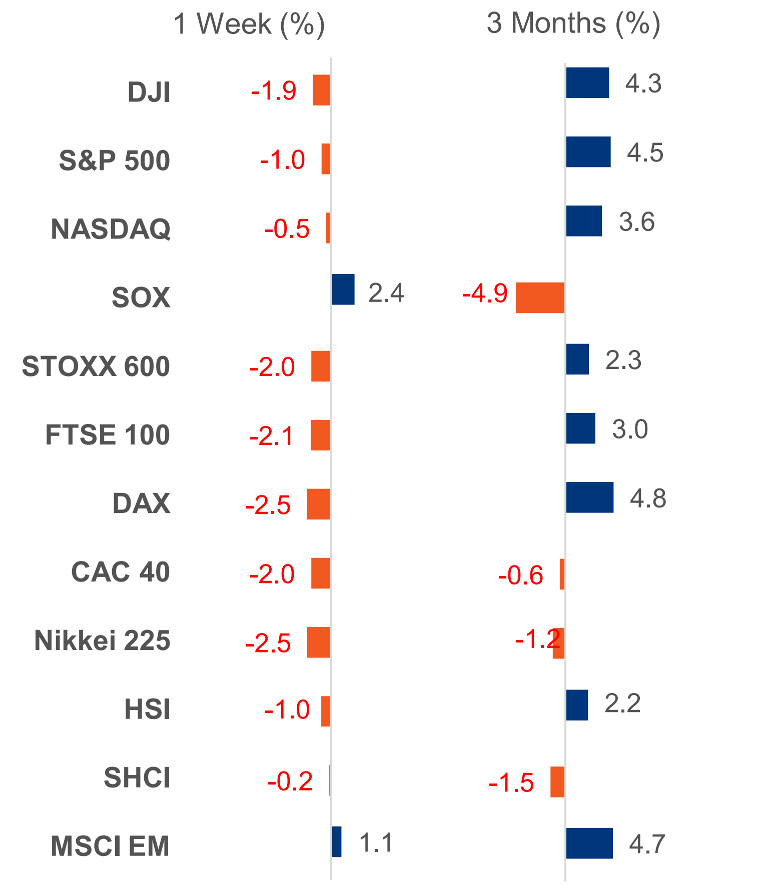
Source: Bloomberg, KGI

Market Recap

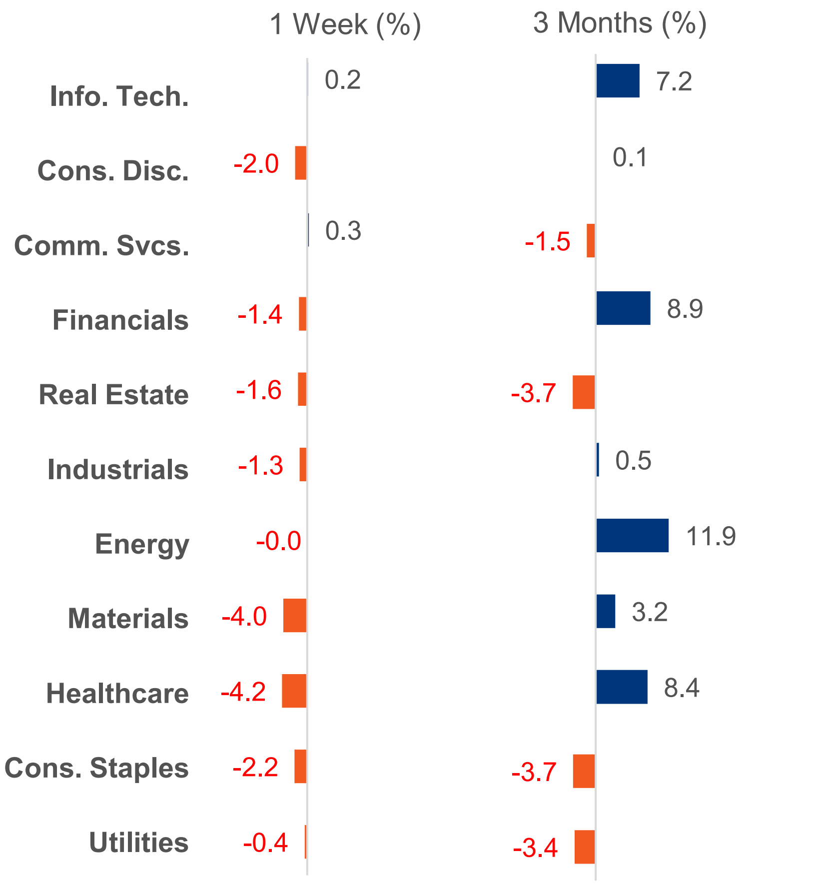
Middle East Tensions and Rate-Hike Expectations Pressure Equities

- Escalating tensions in the Middle East pushed oil prices above US$100/bbl, while producer inflation accelerated from 4.8% to 5.4% YoY, reinforcing near-term inflation concerns. As a result, expectations for a September Fed rate hike rose above 70%, weighing on U.S. equities, although positive company-specific developments helped support semiconductor shares. Meanwhile, persistent inflation concerns kept global markets under pressure. The ECB delivered a rate hike as expected, while the BOJ is increasingly expected to follow next week. Investors will closely watch upcoming U.S. CPI data, which remains a key factor for the Fed's policy path.
- In the technology sector, memory chip prices and continued AI data center investment are driving a larger share of semiconductor industry revenue toward memory, supporting gains in major memory suppliers. Meanwhile, Intel announced a 10% price increase for its CPUs, while Oracle reported better-than-expected earnings and maintained a strong outlook. Meta's new AI assistant, Muse, further strengthened sentiment toward technology and communication services stocks. Ongoing U.S.-Iran tensions reignited oil price gains, helping energy stocks outperform the broader market.

Regional Index Performance (%)



U.S. Sector Index Performance (%)



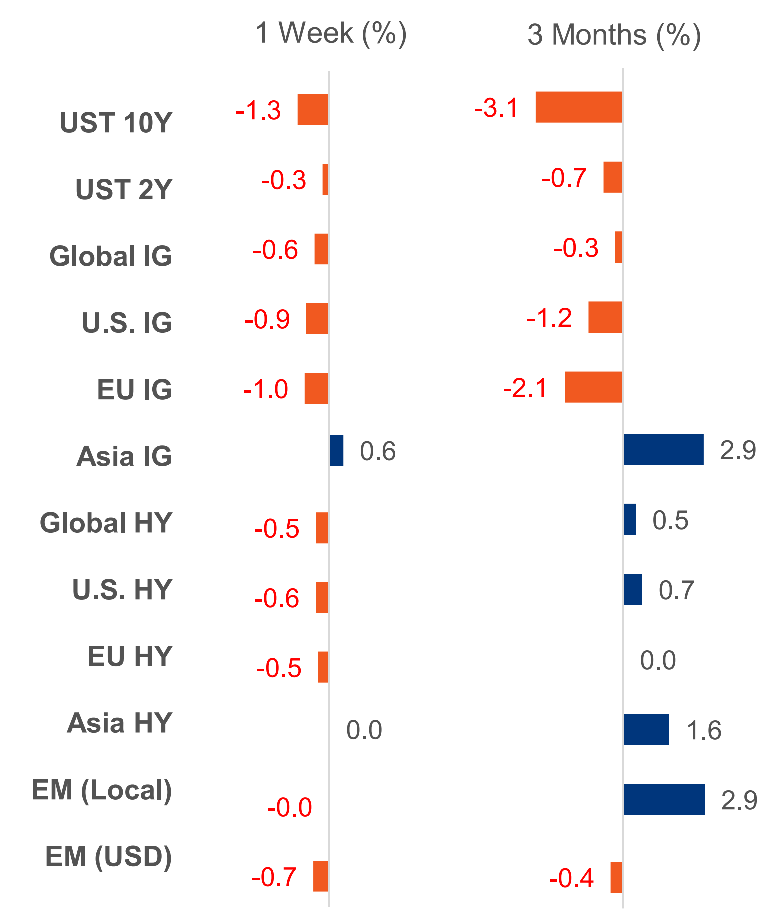
Source: Bloomberg

Market Recap

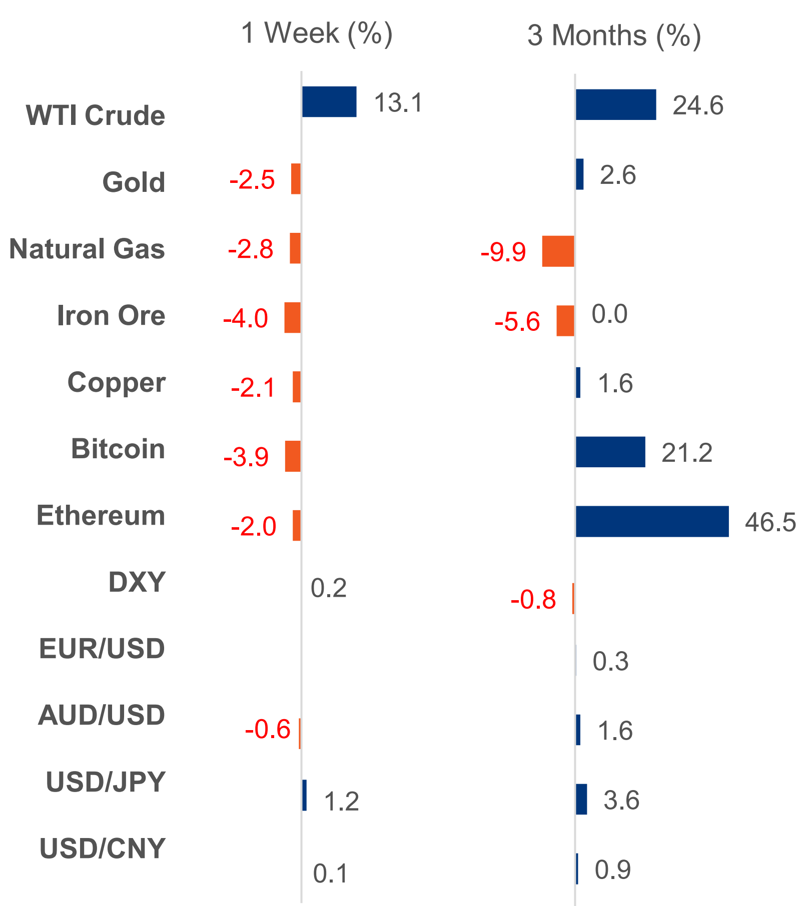
Rate-Hike Expectations and Disappointing Treasury Buybacks Pressure Bonds; Middle East Risks Continue to Support Oil Prices

- Surging oil prices and stronger producer inflation reinforced expectations of a September Fed rate hike. Meanwhile, the U.S. Treasury's planned increase in long-dated bond buybacks fell short of market expectations, pushing Treasury yields higher and flattening the yield curve. Expectations for further policy tightening by the ECB and BOJ also lifted German and Japanese government bond yields to year-to-date highs. Against this backdrop, investors favored higher-yielding and more defensive Asian investment-grade bonds.
- Escalating tensions in the Middle East have increased concerns over potential oil supply disruptions, particularly around key shipping routes. While U.S. President Trump suggested that the U.S.-Iran conflict may soon ease, geopolitical risks remain elevated, supporting oil prices at high levels.
- Rising energy prices have added to inflation concerns and strengthened expectations for further Fed tightening, supporting the U.S. dollar. The ECB raised rates as expected, while hawkish comments from BOJ officials have increased expectations of further policy normalization, lending support to the JPY. Investors should continue to monitor upcoming central bank policy decisions.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



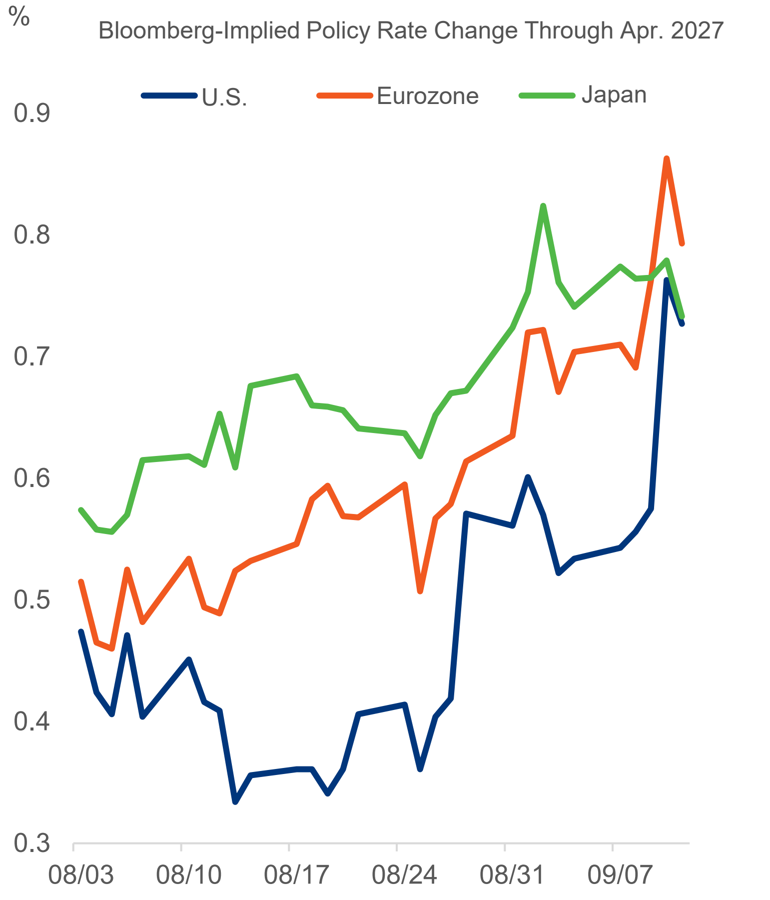
Source: Bloomberg

What's Trending

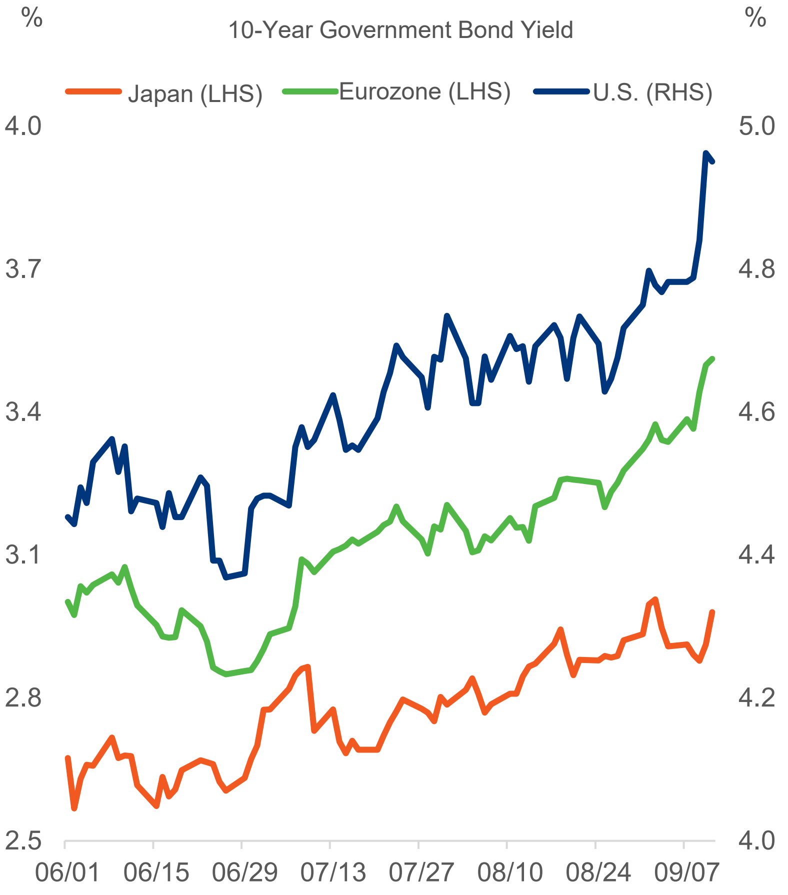
Hawkish ECB and BOJ Signals Support Domestic Demand Outlook

- The ECB raised all three key policy rates by 25bps on September 10, bringing the deposit rate to 2.50% on September 16. While highlighting persistent inflation pressures from ongoing Middle East tensions, the ECB also warned of downside risks to growth. Following the latest hike, markets are now pricing in more than 75bps of additional tightening by April next year.
- The BOJ will meet on September 17-18. BOJ board member Hajime Takata noted that further rate hikes may be warranted if underlying inflation accelerates amid accommodative financial conditions, a weak JPY, and rising energy and food costs. However, he emphasized that inflation remains contained, reducing the need for aggressive tightening.
- Rising energy-driven inflation has prompted major central banks to maintain a hawkish stance. While higher rates may weigh on financing conditions and growth-oriented sectors, further BOJ policy normalization could support the JPY, lift Japanese government bond yields, and accelerate the unwinding of carry trades. A stronger JPY may benefit Japanese banks, selected insurers, utilities, consumer staples retailers, and domestic telecom and service sectors.

Rate-Hike Expectations Rise Across Major Economies



Long-Term Government Bond Yields Continue to Rise Across Major Economies



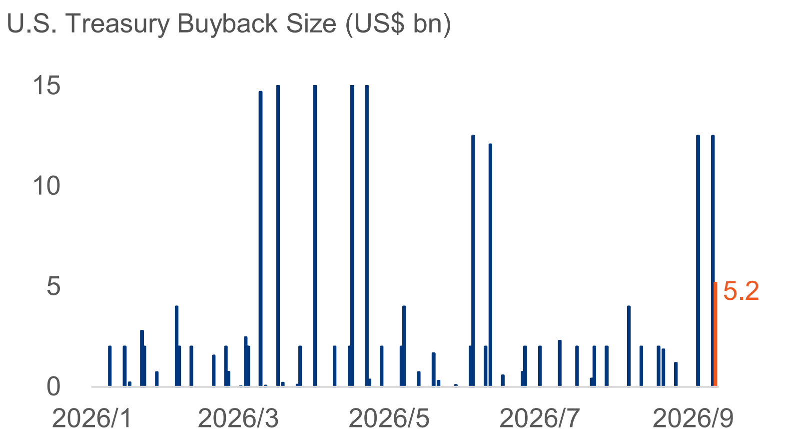
Source: Bloomberg

In Focus

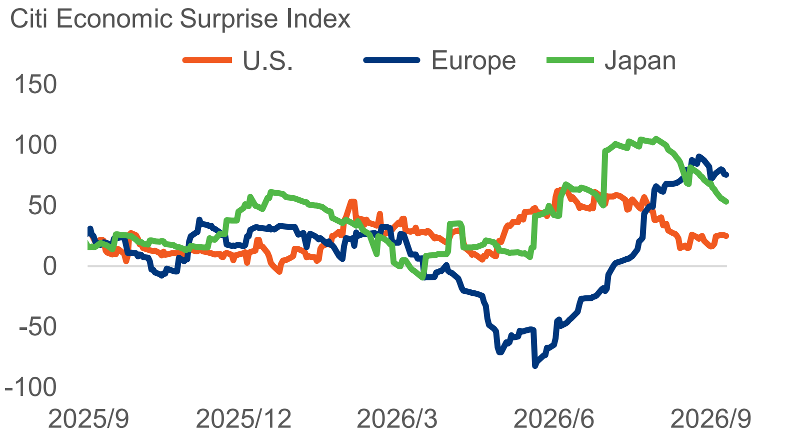
Treasury's Doubled Debt Buybacks Under Expected; Remain Cautious on Government Bonds

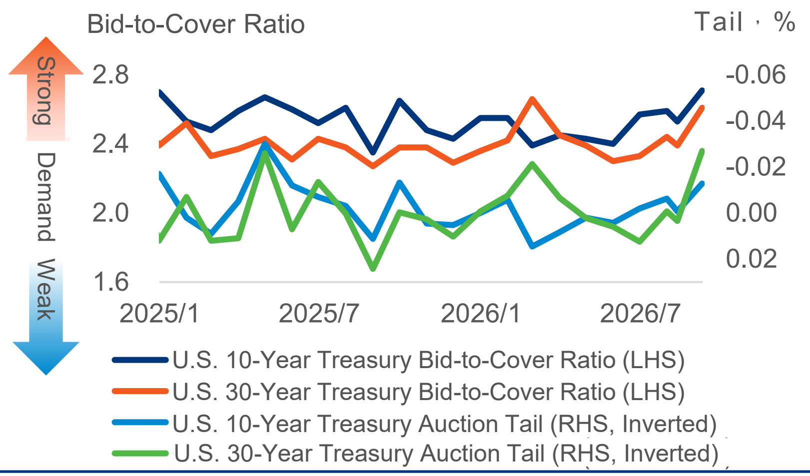
- On September 10, the U.S. Treasury conducted buybacks of 10- and 20-year Treasury securities and increased the program size from US$2bn to US$6bn to support liquidity in older long-dated bonds and help contain rising term premiums. However, actual buybacks totaled only US$5.18bn, below market expectations of US$6-10bn, disappointing investors. While recent 10- and 30-year Treasury auctions indicated that demand for long-dated bonds remains resilient, concerns over rising future government debt issuance continue to weigh on sentiment. Going forward, investor confidence will largely depend on whether the U.S. government can maintain fiscal discipline and stabilize debt supply expectations.
- Stronger-than-expected U.S. nonfarm payrolls highlighted the resilience of the labor market and broader economy. However, persistent inflation pressures have reinforced expectations that the Fed could resume rate hikes as early as September. With much of the expected tightening already reflected in 2-year Treasury yields, and ongoing concerns over fiscal sustainability and higher policy rates, investors should remain cautious on U.S. Treasuries and closely monitor Fed policy signals and economic forecasts.

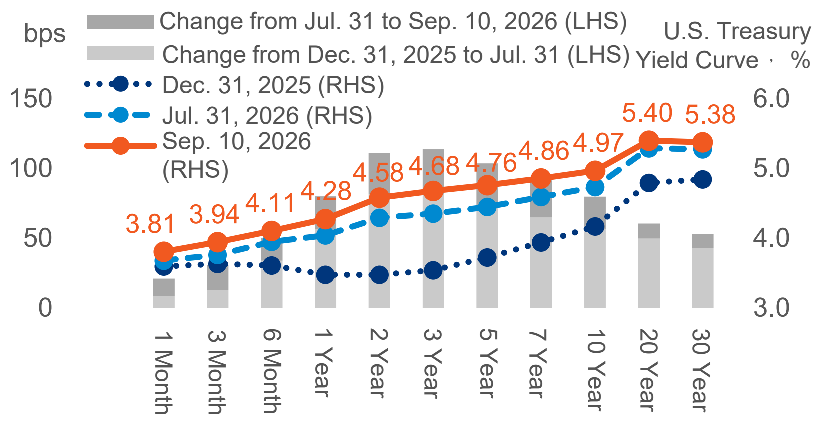
Treasury's Doubled Debt Buybacks Under Expected, While Auction Demand Improves



Resilient U.S. Growth Data Reinforce Rate-Hike Expectations







Source: Bloomberg

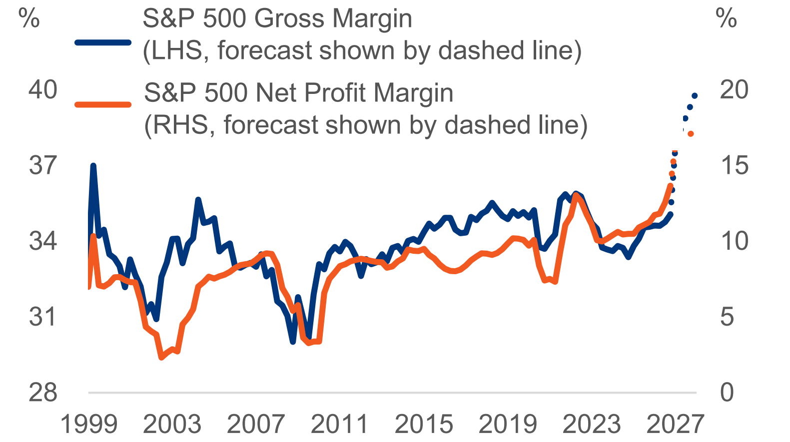
KGI

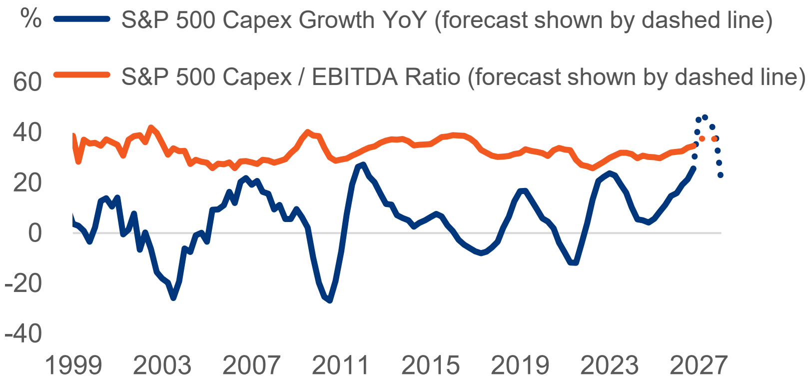
In Focus

Strong Corporate Fundamentals Favor Intermediate-Term Investment-Grade Bonds

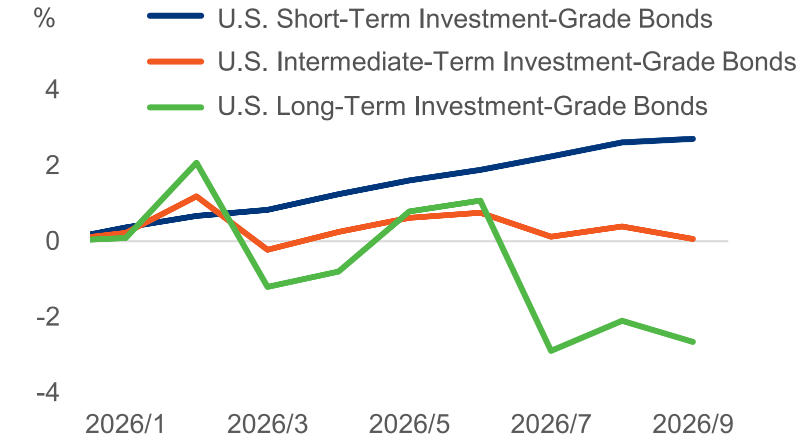
- 2Q26 earnings results show that profit growth among S&P 500 companies has significantly outpaced debt growth. Large-cap companies, which benefit from stronger competitive moats, maintained gross margins near the highest levels since 2022, while net profit margins reached their highest level since 1998. Capital expenditures grew 25% YoY to a record high, with capex-to-EBITDA rising to 35%. We expect large U.S. corporations to continue increasing capital investment to support earnings growth while maintaining sufficient capital efficiency, with profits remaining above capital spending. This should help prevent excessive leverage buildup and preserve credit quality and debt-servicing capacity.
- From January to August 2026, short- and intermediate-duration investment-grade bonds continued to deliver positive total returns. Fiscal concerns and Fed tightening expectations have pushed Treasury yields higher, favoring shorter maturities with lower interest-rate sensitivity. Given ongoing rate risks, investors may consider increasing allocations to short- and intermediate-duration bonds to enhance portfolio resilience.

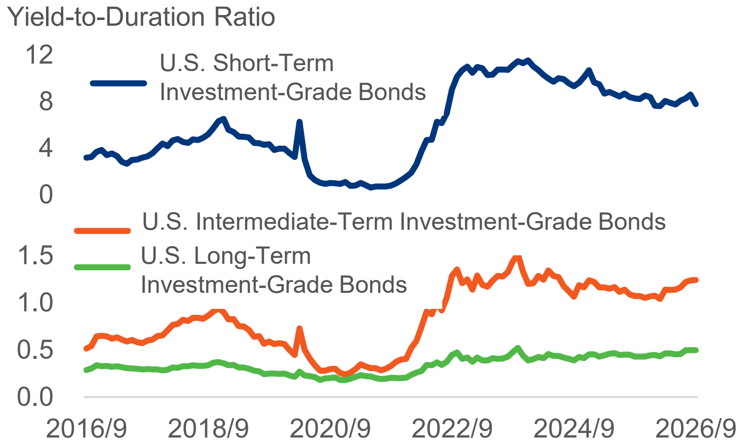
S&P 500 Net Profit Margin Reaches Highest Level Since 1998





Short- and Intermediate-Term Investment-Grade Bonds Show Greater Resilience





Source: Bloomberg

Strategic Viewpoint

Rate Concerns and Debt Supply Drive Volatility, While Fundamentals Create Long-Term Opportunities

Asset Type	Market View	Preferred Assets
Equities	◆ Rising global debt levels and elevated interest rates continue to pose valuation risks for equities, while increased borrowing by technology companies has heightened focus on future earnings and cash flow generation. Amid geopolitical uncertainty, defensive sectors such as Healthcare and Utilities may help reduce portfolio volatility. Meanwhile, the long-term outlook for Technology and AI-related sectors remains supported by solid fundamentals, favoring a buy-on-dips approach and diversified allocations across regions and industries. ◆ European and Japanese equities remain attractive diversification opportunities. Higher interest rates continue to support bank earnings, while Japanese semiconductors and European defense stocks remain preferred investment themes.	**Strategy:** Increase Defensive Exposure in the Near Term; Maintain a Long-Term Preference for AI, Technology, and Semiconductors, while also Favoring Opportunities in Financials and Industrials **Regions**: Japanese Banks, Japanese Semiconductors, European Financials, European Defense
Bonds	◆ Rising Treasury supply and Fed tightening expectations continue to keep U.S. yields elevated. With the 10-year Treasury yield likely to remain within a 4.5%-5.0% range through year-end, investors may use higher yields as opportunities to lock in income through short- and intermediate-duration bonds. Reference remains on high-quality issuers with resilient cash flows and attractive risk-adjusted spreads, particularly in the Financials, Technology, Communications, and Utilities sectors. ◆ Non-USD investment-grade bonds, such as EUR- and AUD-denominated issues, may also help diversify currency risk.	**Types:** Intermediate-Term Investment-Grade Bonds, with a focus on Financials, Technology, Communications, and Utilities **Satellite :** Non-USD Investment-Grade Bonds for Currency Diversification
Forex	◆ Expectations for a September Fed rate hike remain elevated, keeping the USD range-bound at strong levels in the near term. ◆ Hawkish BOJ signals have increased the likelihood of a September rate hike, supporting a gradual recovery in the JPY.	JPY Trends Gradually Higher
Commodity	◆ Persistent Middle East tensions and limited prospects for a full normalization of traffic through the Strait of Hormuz are expected to keep oil markets tight, supporting elevated oil prices. ◆ U.S. fiscal challenges and the long-term de-dollarization trend remain intact. Continued central bank buying should provide a solid medium- to long-term foundation for gold prices.	**Gold**: Range Trading Near Term, Bullish Long Term

US Equities

Japan’s Corporate Reforms and Policy Normalization Drive Investment Opportunities

- In August, the U.S. PPI rose 0.4% m/m, in line with market expectations and higher than the revised prior 0.1%. On a y/y basis, PPI increased 5.4%, above the expected 5.3% and the revised prior 4.8%. Core PPI rose 0.2% m/m, below the expected 0.3% and the revised prior 0.3%. Core PPI increased 4.6% y/y, matching expectations and higher than the revised prior 4.3%.
- In August, the U.S. CPI rose 0.4% m/m, in line with expectations and higher than the prior 0.1%. CPI increased 3.4% y/y, in line with expectations and unchanged from the prior. Core CPI rose 0.3% m/m, above the expected 0.2% and the prior 0.2%. Core CPI increased 2.4% y/y, in line with expectations but lower than the prior 2.5%.
- In September, the U.S. University of Michigan Consumer Sentiment Index came in at 47.8, below the expected 51.0 and the prior 51.7.
- The medium- to long-term appeal of the Japanese equity market stems from corporate governance reforms and improved capital efficiency. Listed companies continue to optimize resource allocation, supporting earnings quality and valuation improvement. The Bank of Japan’s gradual policy normalization benefits financial sector profitability and drives demand for hedging and trading. We believe companies with strong cash flows, proactive shareholder returns, and advantages in financial services warrant attention. However, yen appreciation increases pressure on exporters’ earnings, leading to greater sectoral divergence.

US-Japan 10-Year Government Bond Yield Spread

Source: Bloomberg

KGI

Tokio Marine Holdings, Inc. (8766 JP)

Closing Price JP¥7,970	**Target Price** JP¥8,500

Tokio Marine Holdings, Inc. is one of Japan's leading insurance groups, with operations spanning property and casualty insurance, life insurance, and risk management services. The company drives growth through its global footprint and specialized overseas insurance businesses.

Premium Hikes Support Underwriting Profitability

Japan's insurance sector has raised premiums to offset claims cost inflation. Tokio Marine expects the pricing impact in auto and travel insurance to become more evident from Q2. Overseas performance is mixed: medical stop-loss insurance retains pricing momentum, while the North American specialty market faces intensifying competition. In this environment, insurers with diversified operations and disciplined underwriting stand out.

Partnership with Berkshire Boosts Global Growth Momentum

Berkshire Hathaway's ~2.5% stake and strategic partnership provide Tokio Marine with additional reinsurance capacity and opportunities to jointly pursue overseas acquisitions, supporting business expansion and reducing underwriting volatility. Operationally, overseas net written premiums rose 16.6% y/y in Q1 (+4.8% ex-FX), while the combined ratio held at 88.8%, underscoring resilient underwriting profitability.

Full-Year Profit Target Intact, Dividends Rising

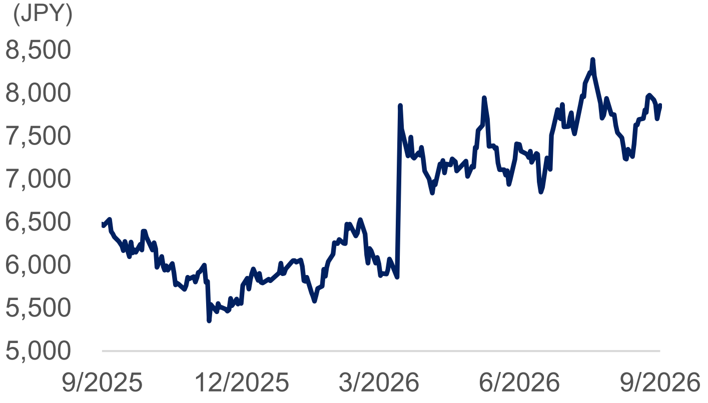
For FY2026 Q1 (April–June), insurance revenue grew 12.3% y/y to JPY 20.5 trillion, while net income attributable to shareholders rose 3.3% y/y to JPY 264.3 billion. Adjusted net income fell 3.6% y/y to JPY 261.4 billion. Management reaffirmed full-year adjusted net income guidance of JPY 950 billion (+7.8% y/y) and adjusted EPS of JPY 514. The annual dividend is expected to rise from JPY 218 to JPY 245 per share, signaling continued shareholder returns despite quarterly profit pressure.

Valuation Consensus

Bloomberg's 12-month consensus target price is JP¥8,765, with a high of JP¥10,500 and a low of JP¥5,842.

Source: Bloomberg, Company

1-Year Price

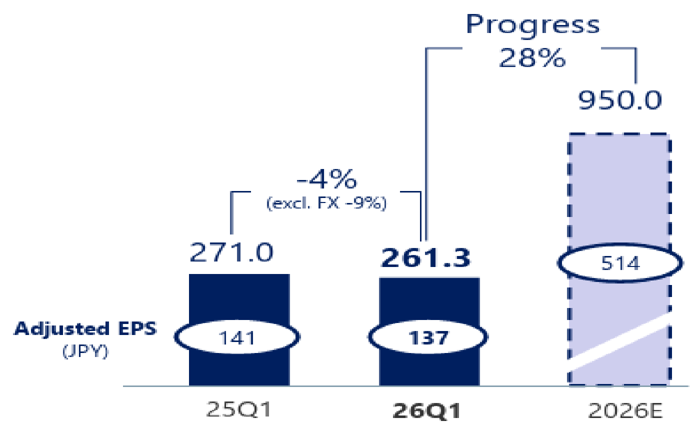


Financials

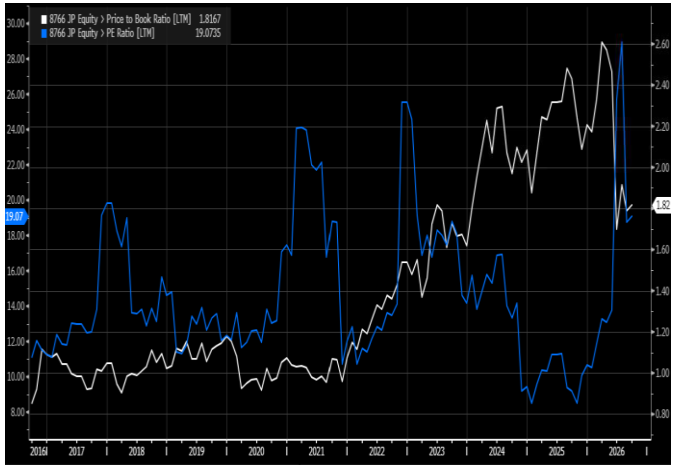
	2024	2025	2026	2027F	2028F
Revenue Growth(%)	14.0	0.6	5.5	15.5	4.1
EBITDA (%)	11.9	8.5	10.1	14.0	13.8
EPS (USD)	356.07	231.69	280.20	508.79	560.63
Net Profit Margin(%)	9.8	6.2	7.0	10.5	10.9

Source: Bloomberg; 2027/28F are market estimates

Adj. Net Income (bn)



P/E & P/B



KGI

Japan Exchange Group, Inc. (8697 JP)

Closing Price	JP¥2,210.5	Target Price	JP¥2,500

Japan Exchange Group, Inc. owns the Tokyo Stock Exchange and the Osaka Exchange, providing equity and derivatives trading, clearing, listing, and market data services. It serves as the core infrastructure of Japan's capital markets.

Policy Normalization Drives Trading and Hedging Demand

The Bank of Japan maintains its rate-hike trajectory, with the yen expected to gain medium-term support from narrowing yield spreads, while JGB yields remain under upward pressure. FX and bond market volatility are likely to boost asset reallocation and hedging demand. Japan Exchange Group can benefit through government bond futures trading, interest rate swap clearing, and collateral-related income. Yen volatility may also indirectly stimulate equity and index derivatives trading; however, a sharp yen appreciation could weigh on equities, offsetting part of the benefit.

Spot Trading Surges, Data and Index Businesses Expand Revenue Sources

In Q1, average daily turnover in the cash equity market reached JPY 12.39 trillion, up 106.2% y/y, driving rapid growth in trading service revenue. Increased use of market data and higher index licensing income lifted information services revenue to JPY 9.31 billion. Collateral-related clearing income also rose, with multiple business lines jointly supporting profit expansion.

Strong Quarterly Earnings, Raised Full-Year Outlook and Dividend

For FY2026 Q1 (April–June), revenue grew 50.8% y/y to JPY 65.52 billion, operating profit rose 73.3% y/y to JPY 43.72 billion, and net income attributable to shareholders increased 73.6% y/y to JPY 29.57 billion. Management raised full-year revenue and net income forecasts to JPY 241.5 billion and JPY 98.5 billion, respectively, and lifted the dividend forecast from JPY 61 to JPY 77 per share. Future growth will depend on whether trading activity remains elevated.

Valuation Consensus

Bloomberg's 12-month average target price is JP¥2,504, with a high of JP¥2,800 and a low of JP¥2,000.

Source: Bloomberg, Company

1-Year Price

Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	14.1	6.1	22.5	23.0	0.4
EBITDA (%)	68.7	67.4	67.1	65.9	60.7
EPS (USD)	59.12	60.47	77.07	97.23	94.30
Net Profit Margin(%)	40.2	38.8	40.0	40.7	39.0

Source: Bloomberg; 2027/28F are market estimates

FY2026 Guidance Raised

	FY2026 (Forecast)		
	(Initial)	Revised on July 28	Change from Initial
Operating Revenue (JPY mil.)	205,000	241,500	+17.8%
Operating Expenses (JPY mil.)	91,000	97,500	+7.1%
Operating Income (JPY mil.)	115,000	145,500	+26.5%
Net Income (JPY mil.) (Attributable to owners of the parent compan	77,500	98,500	+27.1%
Earnings Per Share	JPY 75.85	JPY 96.40	-
Dividend Per Share	JPY 61	JPY 77	+26.2%
Dividend Payout Ratio	Approx. 80%	Approx. 80%	-

P/E & P/B

TW Equities Taiwan Equities Steadily Rising, Apple's New Product Launch Benefits Supply Chain

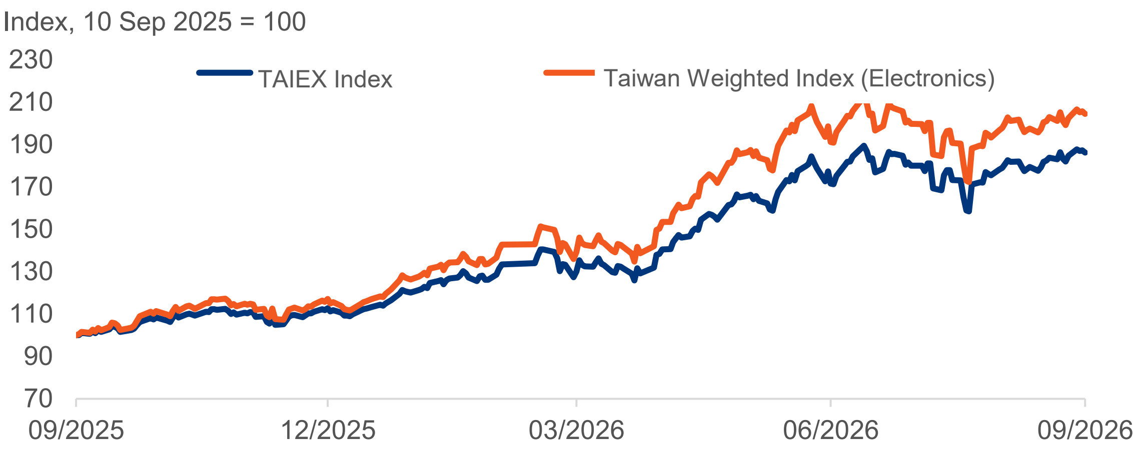
Index Gaps Higher to New Swing High, Testing July Peak Resistance

Taiwan equities briefly surpassed 47,000 last week, marking a new high since the late-July rebound. Moving averages remain in bullish alignment, and as long as the gap at 46,620 holds, the index can track short-term averages toward the July 6 peak of 47,395. Sector-wise, major tech stocks rebounded together, driving the index upward. Within electronics, focus remains on pricing-power plays such as memory, MLCC, PCBs, silicon wafers, and suppliers benefiting from recent foldable smartphone launches.

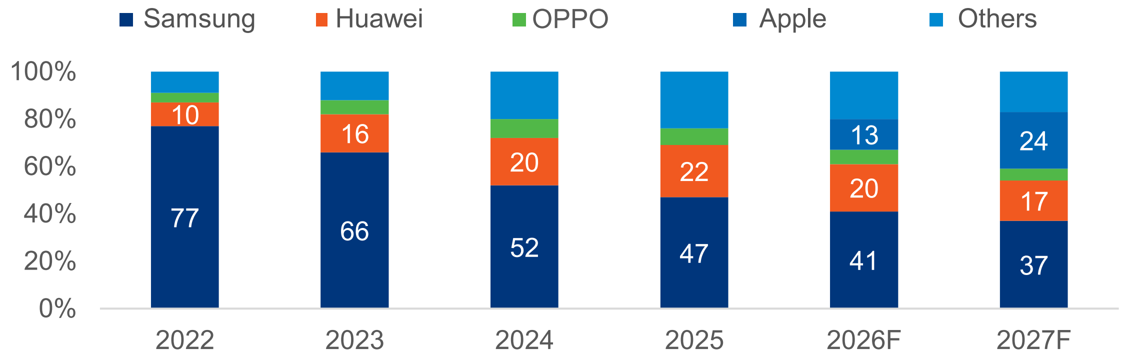
Foldable iPhone Highlights Apple Launch, Taiwan Supply Chain in Focus

Global smartphone demand remains weak, with 2Q26 shipments down 8% y/y. Memory costs surged to 30-40% of BOM in 1H26, far above ~10% in 2025, forcing brands to raise prices and suppress demand. Entry-level and feature phones saw shipments fall over 20% y/y, while high-end models rose 8%. However, Apple focused on the premium segment, achieved 17% shipment growth, outperforming peers. In September, Apple unveiled the foldable iPhone Duo, powered by TSMC's 2nm A20 Pro chip, delivering industry-leading performance. We forecast shipments of 6 million units in 2026 and 14 million in 2027, with market share reaching 24% by 2027, ranking second globally among foldables. Taiwan suppliers, particularly hinge component makers, are expected to benefit alongside Apple's foldable momentum.

TAIEX Index and Taiwan Electronics Sector Trends



Global Foldable Smartphone Shipments Market Share



Source: Bloomberg

SHIN ZU SHING CO., LTD. (3376 TT)

Shin Zu Shing has remained the world's largest laptop hinge manufacturer since 1999. The company currently operates an R&D center in Taipei, with production bases located across Taiwan, Suzhou, Shenzhen, and Sichuan.

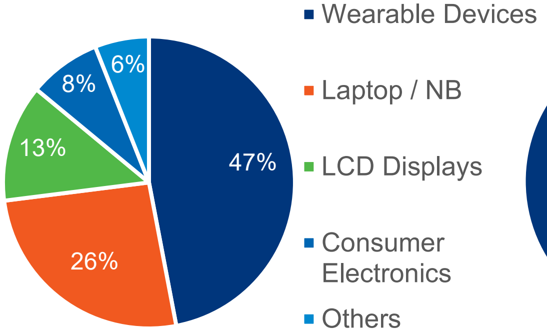
Foldable iPhone Drives 2026-2027 Earnings

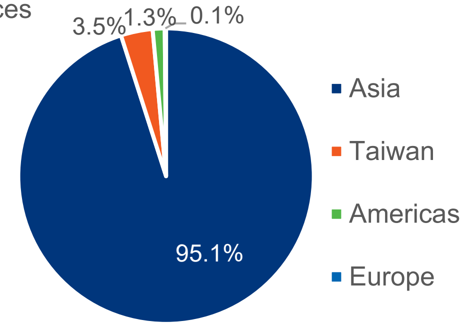
Apple launched its foldable iPhone in 3Q26. We forecast shipments of 6 million units in 2026 and 13–15 million units in 2027. Shin Zu Shing, as the primary supplier (order share >50%), is expected to see overall revenue in 2H26 surge 176% versus 1H26, with 2027 revenue rising 49% y/y. Foldable hinge revenue share is projected at 45% in 2026 and 58% in 2027, lifting EPS to NT$13.58 in 2027, a 112% y/y increase.

Diversified Revenue Drivers in 2027

Beyond hinge business, the company has begun shipping mechanical components to bicycle and machine tool customers. It has also entered manifold and quick coupler segments, with small shipments expected in 2H26 and volume expansion in 2027, providing upside to revenue and earnings. We incorporate 2027 earnings into our valuation, raising the target price to NT$272 based on 20x 2027E EPS, and maintain an "OP" rating.

Revenue Sources and Regions





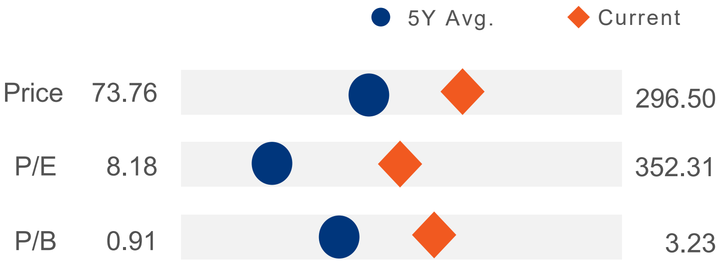
Source: Bloomberg

Financials

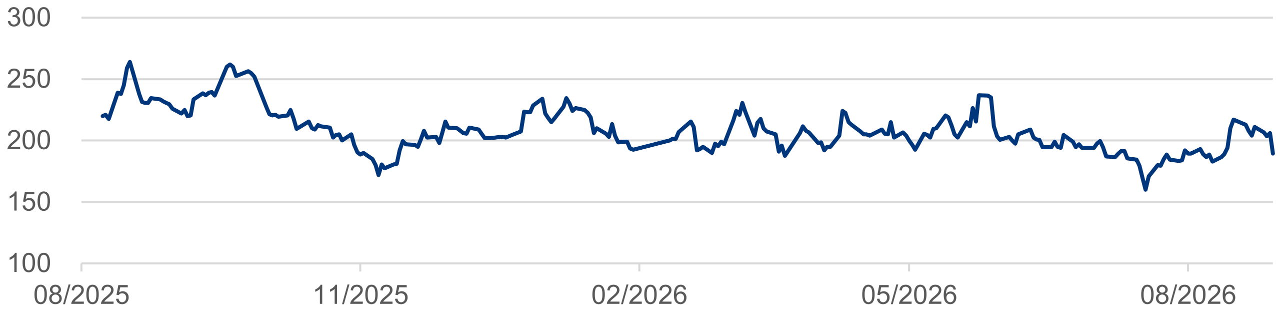
	2023	2024	2025	2026F	2027F
EPS (NTD)	4.30	7.15	1.63	6.42	13.25
EPS Growth (%)	-50.5	66.4	-77.3	295.1	111.5
P/E Ratio	47.3	28.4	125.2	31.7	15.0
ROE (%)	5.1	8.1	1.8	7.3	15.0

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 10 September 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	-7.11	3.27	-9.41	-2.99	-5.39	-16.88

KGI

Hon Hai Precision Industry Co., Ltd. (2317 TT)

Hon Hai Precision Industry Co., Ltd. provides electronic manufacturing services for computer, communication, and consumer electronics products. The company engages in desktop and notebook computer assembly, PCB assembly, mobile phone manufacturing, and other consumer electronic device production.

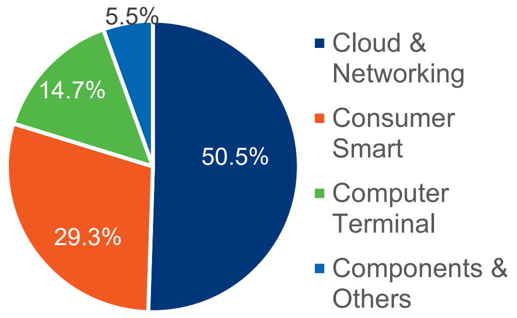
3Q26 and 2026 Revenue Outlook Remains Strong

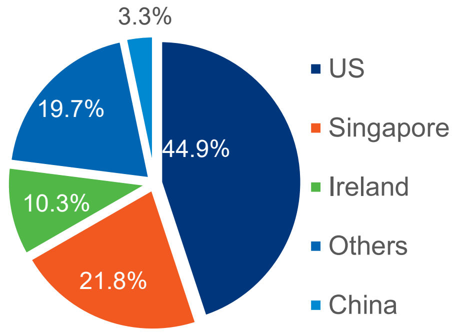
Hon Hai expects 3Q26 revenue to grow more than 15% y/y, driven by AI server cabinet shipments rising over 30% and new iPhone launches boosting CE business by 5–14% q/q. Component revenue is flat q/q but higher y/y, while computing products decline q/q due to earlier pull-ins yet still grow y/y. The company maintains its 2026 revenue growth target above 15%, with 4Q26 revenue likely to reach the annual peak.

AI Servers Drive Long-Term Profitability

Hon Hai's vertical integration in the AI server supply chain spans from L1 components to L12 superpods, creating significant competitive advantage. GPU cabinets are upgrading from GB300 to VR200, with stronger shipment momentum in 4Q26 and VR models becoming mainstream by 2027. The company has also entered Google TPU L11 cabinet assembly, increasing the share of ASIC servers. Management targets an operating margin above 3.2% in 2026, with EPS projected at NT$18.67 in 2026 and NT$22.64 in 2027, representing 38% and 21% growth respectively, underscoring sustained AI-driven earnings expansion.

Revenue Sources and Regions





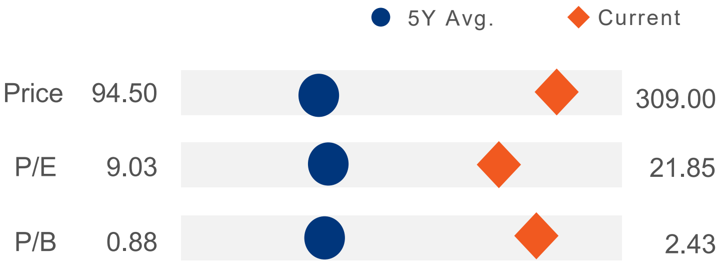
Source: Bloomberg

Financials

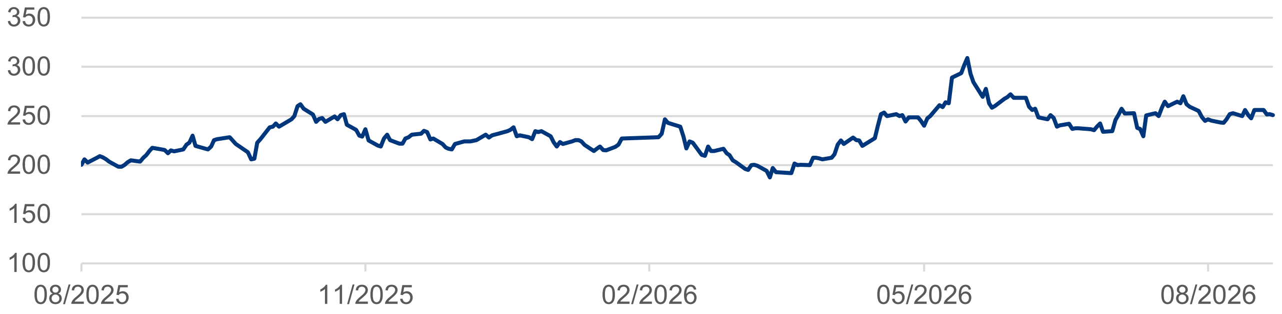
	2023	2024	2025	2026F	2027F
EPS (NTD)	10.25	11.01	13.61	18.67	22.64
EPS Growth (%)	0.4	7.4	23.7	37.2	21.3
P/E Ratio	26.3	24.5	19.8	14.5	11.9
ROE (%)	9.7	9.7	11.1	14.2	16.1

Source: Company data, estimates of KGI analyst

Valuations



1-Year Price



As of 10 September 2026	1Wk	1M	3M	6M	YTD	1Y
Return (%)	1.41	-5.10	-4.56	19.81	8.89	19.52

KGI

Mutual Funds/ ETFs

BOJ Hawkish Action, Domestic Demand Expected to Benefit

► Eastspring Investments – Japan Dynamic Fund

- Flexibly allocate across large-, mid-, and small-cap positions, seeking excess growth opportunities in mid- and small-cap stocks, which currently account for nearly 50% of the portfolio.
- Around 50% of holdings derive income from domestic sources, a relatively high proportion, expected to benefit from yen appreciation.
- Active management with a focus on company value, concentrated in 30-50 stocks.
- Strong performance, consistently outperforming industry averages across short-, medium-, and long-term horizons.

Product	Eastspring Investments – Japan Dynamic Fund	
Features	■ Focus on identifying severely undervalued quality companies ■ Adopt a core "Dynamic" investment strategy, concentrating on 30–50 carefully selected stocks	
AUM	JPY 540.8 billion	
3M/YTD Return	3.49% / 30.02%	
Top 5 Sector Allocation(%)	Banks Capital Markets Consumer Finance Financial Services Insurance	25.30 15.60 15.40 12.70 9.80
Top 5 Holdings (%)	Sumitomo Mitsui Financial Group Inc Mizuho Financial Group Inc Resona Holdings Inc Olympus Corp Seven & I Holdings Co Ltd	4.6 4.5 4.3 4.2 3.7

Source: Bloomberg, KGI

Eastspring Investments – Japan Dynamic Fund

Profile

The fund invests in stocks and equity-related securities of companies established in Japan or whose primary activities are based in the region. It adopts a flexible allocation strategy with the objective of maximizing long-term capital growth.

■ Exclusive Screening Strategy for Undervalued Quality Companies

The fund adopts a value investing strategy, avoiding chasing highs or blindly following market trends. Through in-depth analysis and systematic screening of industries and stocks, the research team identifies undervalued companies with growth potential. Flexible allocation across Japanese companies of different sizes enhances opportunities for excess returns.

■ Dynamic and Flexible Investment Strategy

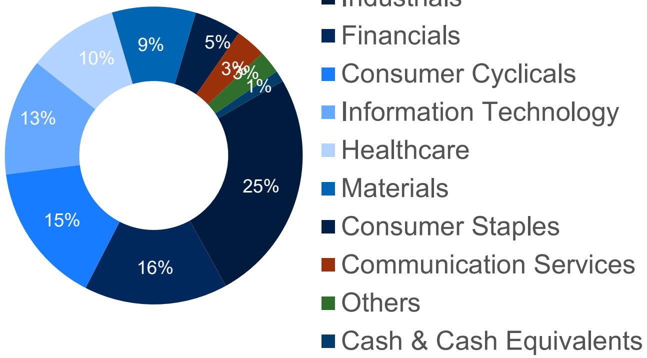
The fund employs a core "Dynamic" investment approach, unconstrained by market capitalization, benchmarks, or thematic preferences. The portfolio concentrates on 30–50 carefully selected stocks to capture growth and market opportunities, avoiding passive market tracking.

■ Domestic Exposure Benefits from Yen Appreciation

Approximately 50% of the fund's holdings derive revenue from the domestic market. As the yen enters an appreciation cycle, the fund's domestic allocation is positioned to benefit compared with Japanese companies reliant on exports.

Inception	2006/7/5	**AUM**	JPY 540.8 bn
Morningstar Category	Japan Large-cap Equities	**Fund Type**	Equities
Morningstar Rating	★★	**3Y SD (Ann.)**	15.71%

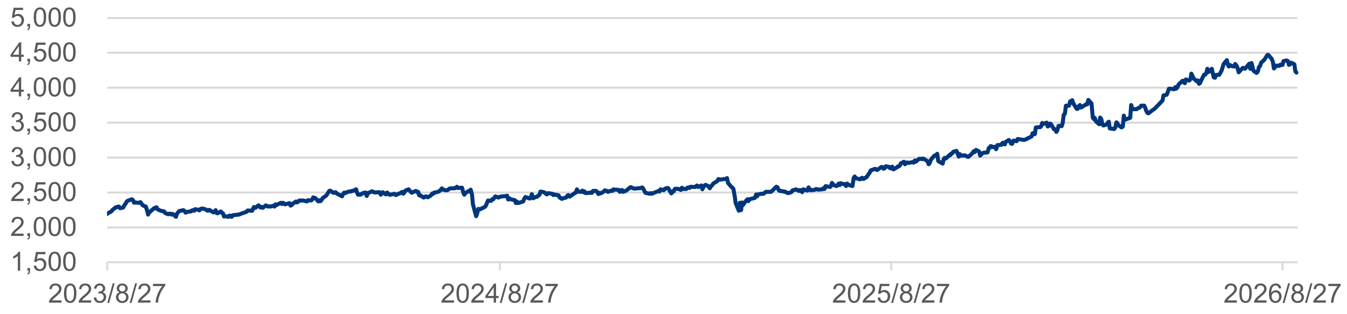
Sectors



Top-5 Holdings (%)

Sumitomo Mitsui Financial Group Inc	4.6
Mizuho Financial Group Inc	4.5
Resona Holdings Inc	4.3
Olympus Corp	4.2
Seven & I Holdings Co Ltd	3.7

3Y NAV



As of 8 September 2026	**1M**	**3M**	**YTD**	**1Y**	**2Y**	**3Y**
Cumulative Return(%)	-2.89	3.49	30.02	43.98	76.21	86.21
Ranking	3	2	2	1	1	1

Sources: Fund Monthly Report, Morningstar. Performance data as of September 8, 2026; monthly report as of July 31, 2026. Data share class: Aj JPY.

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

► LLY 4.85 05/20/36 (Eli Lilly & Co.) (USD)

- Eli Lilly & Co develops, manufactures, and markets human medicines globally. Its business is concentrated in insulin, incretins, and other diabetes/metabolic products (about 74% of last year's revenue), while also focusing on oncology, immunology, and neuroscience. Flagship drugs Zepbound (obesity) and Mounjaro (type 2 diabetes) hold leading market positions.
- Eli Lilly's Q2 2026 results showed revenue of USD 23B (+48% YoY), driven by Mounjaro (USD 9.9B, +91%) and Zepbound (USD 4.9B, +46%). Full-year 2026 guidance was raised to USD 85–87B. Despite potential M&A, revenue and cash flow growth are expected to support further deleveraging. Strong demand for Zepbound/Mounjaro is projected to sustain industry-leading growth over the next 3–5 years. S&P forecasts total revenue surpassing USD 100B by 2028 (vs. USD 45B in 2024 and USD 65.2B in 2025).
- S&P projects free operating cash flow (FOCF) at USD 17B in 2026 and nearly USD 27B in 2027, expanding through 2030. With capacity expansion driving capex to peak at USD 10–11B in 2026, cash flow growth is expected to gradually outpace capex, supporting long-term deleveraging.
- Rising competition may add pricing pressure, especially for injectables, but volume growth is expected to outweigh price declines. Lower product costs should increase employer coverage adoption, while more attractive out-of-pocket pricing is likely to expand patient uptake, further driving demand.
- In April, S&P upgraded Eli Lilly's issuer rating to AA- (from A+) 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 4.85 05/20/36 (Eli Lilly & Co.) (USD)
ISIN	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	2036/5/20
Next Call Date	2036/2/20
Coupon(%)	Fixed/4.85/Semi-annual
Currency	USD
Years to Maturity	9.69
Credit Rating (Moody's/Fitch/S&P)	Aa3/-/AA-
Seniority	Senior Unsecured
YTM/YTC (%)	5.32/5.32

Source: Bloomberg

LLY 4.85 05/20/36 (Eli Lilly & Co.) (USD)

Eli Lilly & Co develops, manufactures, and markets human medicines globally. Its business is concentrated in insulin, incretins, and other diabetes/metabolic products, while also focusing on oncology, immunology, and neuroscience.

- Eli Lilly's Q2 2026 results showed revenue of USD 23B (+48% YoY), driven by Mounjaro (USD 9.9B, +91%) and Zepbound (USD 4.9B, +46%). Full-year 2026 guidance was raised to USD 85–87B. Despite potential M&A, revenue and cash flow growth are expected to support further deleveraging. Strong demand for Zepbound/Mounjaro is projected to sustain industry-leading growth over the next 3–5 years. S&P forecasts total revenue surpassing USD 100B by 2028 (vs. USD 45B in 2024 and USD 65.2B in 2025).
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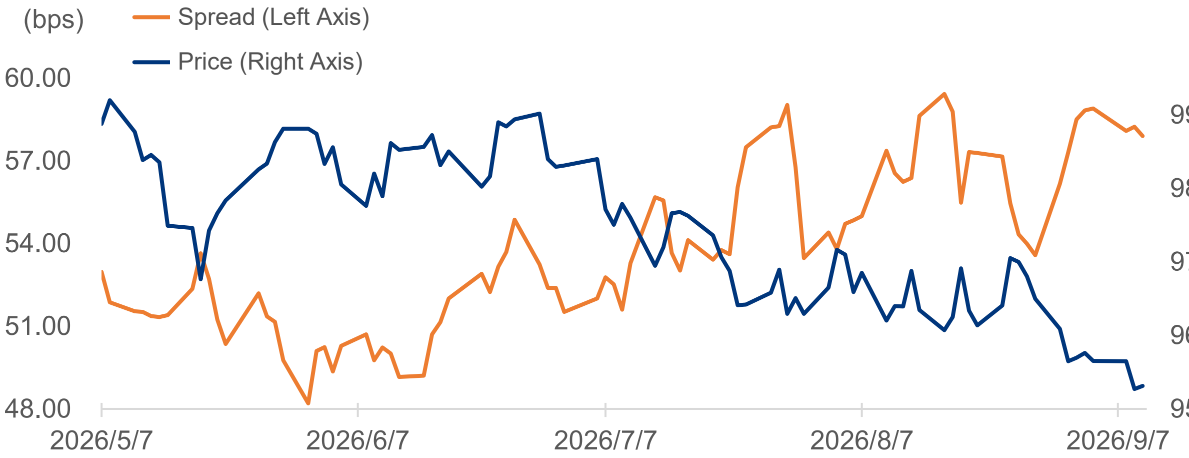
Financials	2023	2024	2025
Free Cash Flow (100m USD)	7.93	37.60	89.72
EBITDA Margin (%)	23.40	32.56	43.42
Interest Coverage Ratio	16.43	18.78	31.62

Overview

Name	LLY 4.85 05/20/36	ISIN	US532457DR63
Maturity Date	2036/5/20	Remaining Maturity	9.69
Coupon(%)	Fixed/4.85/Semi-annual	YTM/YTC(%)	5.32/5.32
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

► SEP 2026

7 Monday
- Eurozone Q2 GDP Growth QoQ (final) (Act:0.6% Est:0.4% Prev:0.0%)

8 Tuesday
- Japan Q2 GDP Growth QoQ (final) (Act:1.4% Est:1.8% Prev:1.9%)
- China Aug Exports YoY (Act:25.0% Est:25.9% Prev:23.9%)

9 Wednesday
- Japan Aug Machine Tool Orders YoY (prelim) (Act:64.7% Prev:50.4%)
- China Aug CPI YoY (Act:0.8% Est:0.8% Prev:0.5%)
- China Aug PPI YoY (Act:3.8% Est:3.6% Prev:3.5%)

10 Thursday
- U.S. Weekly Initial Jobless Claims (Act:206k Est:205k Prev:206k)
- U.S. Aug PPI YoY (Act:5.4% Est:5.2% Prev:4.7%)
- Eurozone Sep ECB Main Refinancing Rate (Act:2.65% Est:2.65% Prev:2.40%)

11 Friday
- U.S. Aug CPI YoY (Est:3.4% Prev:3.4%)
- U.S. Aug Core CPI YoY (Est:2.4% Prev:2.5%)
- U.S. Sep U. of Mich. Sentiment (prelim) (Est:51.0 Prev:51.7)
- Japan Aug PPI YoY (Act:7.6% Est:7.4% Prev:7.2%)

14 Monday
- Japan Jul Industrial Production MoM (final) (Prev:1.9%)

15 Tuesday
- China Aug Retail Sales YoY (Est:0.8% Prev:0.6%)
- China Aug Industrial Production YoY (Est:4.8% Prev:4.5%)

16 Wednesday
- U.S. Aug Retail Sales MoM (Est:0.9% Prev:-0.6%)
- Japan Jul Core Machine Orders MoM (Est:-4.8% Prev:9.7%)

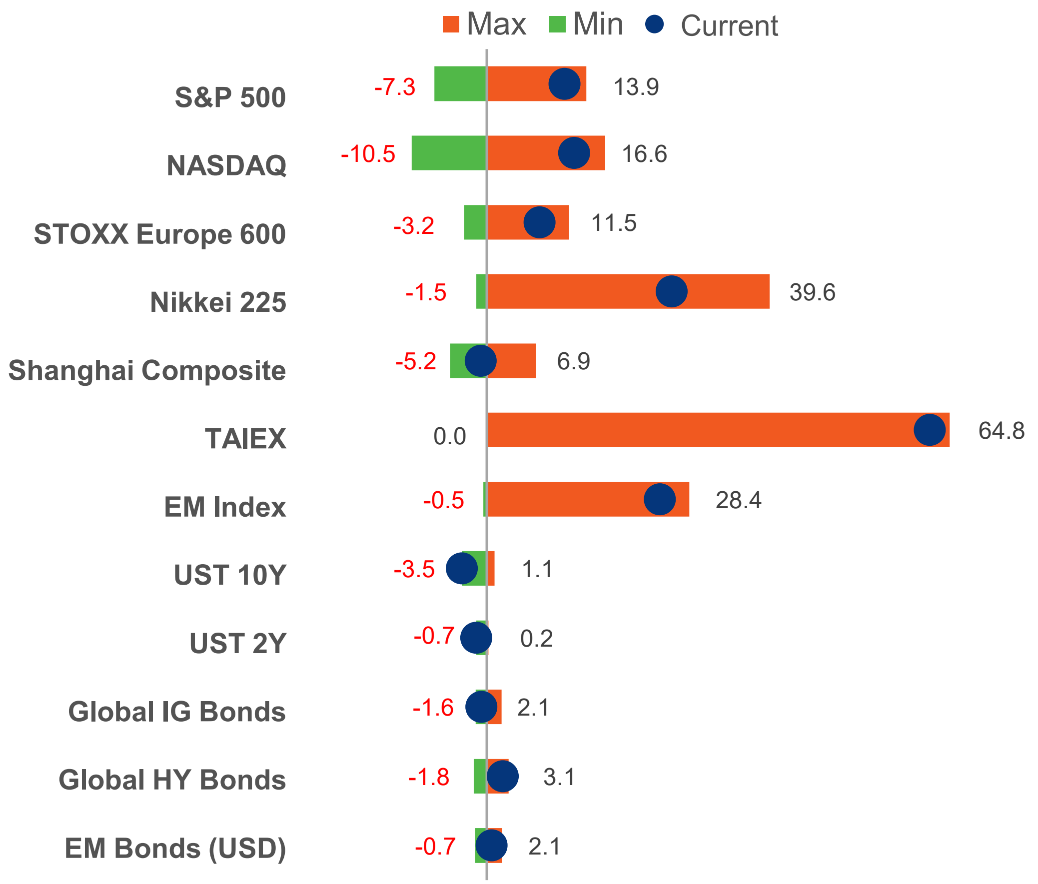
17 Thursday
- U.S. Weekly Initial Jobless Claims (Prev:206k)
- U.S. Sep Federal Funds Rate (Est:3.75% Prev:3.75%)
- Eurozone Aug CPI YoY (final) (Prev:2.9%)
- U.K. Sep BoE Bank Rate (Est:3.75% Prev:3.75%)

18 Friday
- U.S. Aug Industrial Production MoM (Est:0.3% Prev:0.2%)
- Japan Aug CPI YoY (Est:2.0% Prev:1.9%)
- Japan Sep BoJ Uncollateralized
- Overnight Call Rate (Est:1.25% Prev:1.00%)

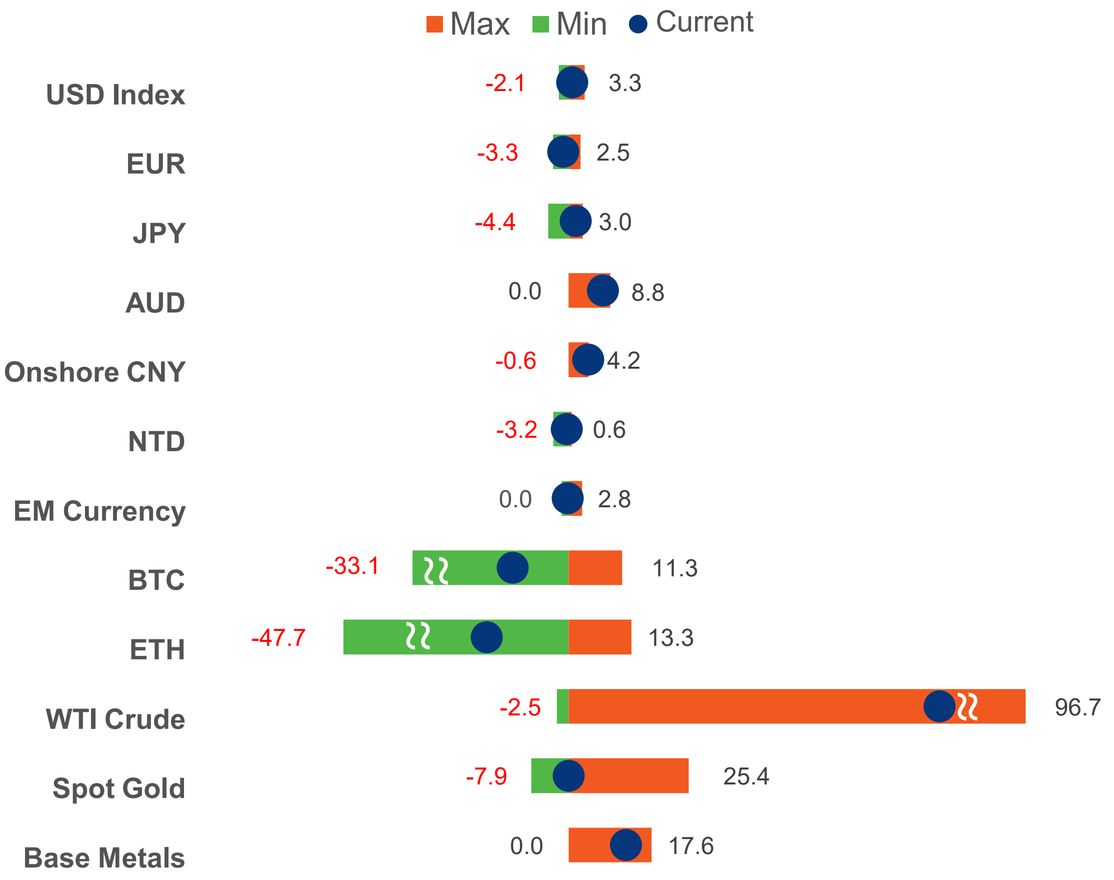
Source：Bloomberg

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)

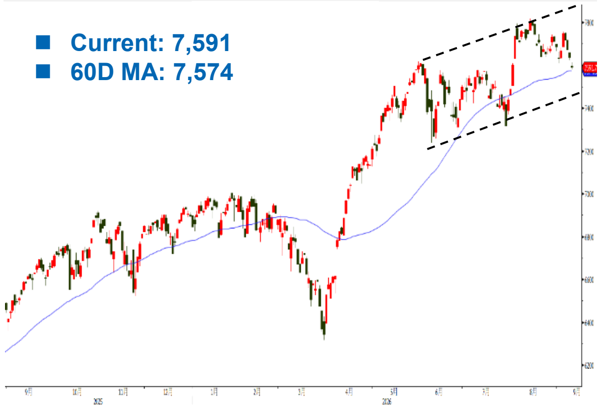


Source: Bloomberg, Sep. 11, 2026

Technical Analysis

60D MA

S&P 500 Index

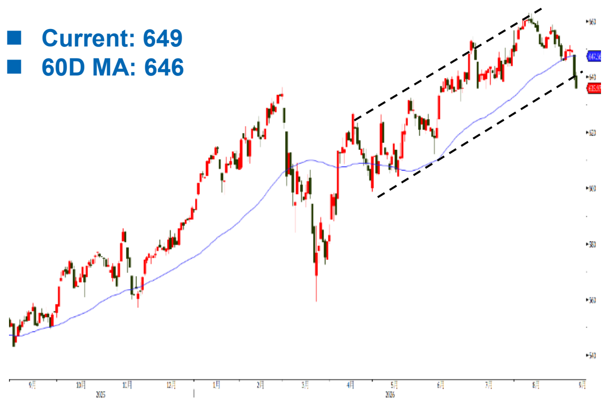


- Current: 7,591
- 60D MA: 7,574

NASDAQ Index

- Current: 26,081
- 60D MA: 26,014

STOXX Europe 600 Index



- Current: 649
- 60D MA: 646

Nikkei 225 Index

- Current: 63,492
- 60D MA: 66,848

Shanghai Composite Index

- Current: 3,868
- 60D MA: 3,941

MSCI Emerging Markets Index

- Current: 1,744
- 60D MA: 1,690

Gold

- Current: 4,318
- 60D MA: 4,236

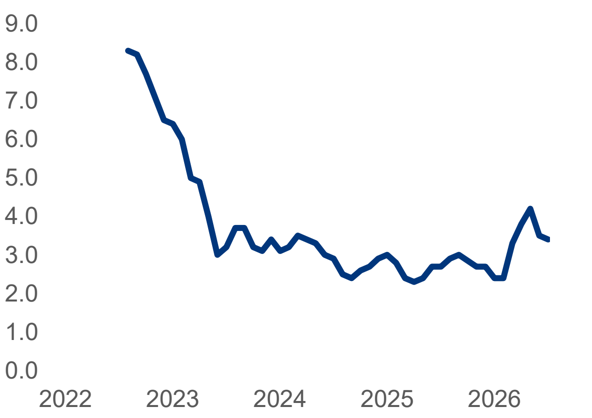
WTI Crude

- Current: 102.66
- 60D MA: 81.43

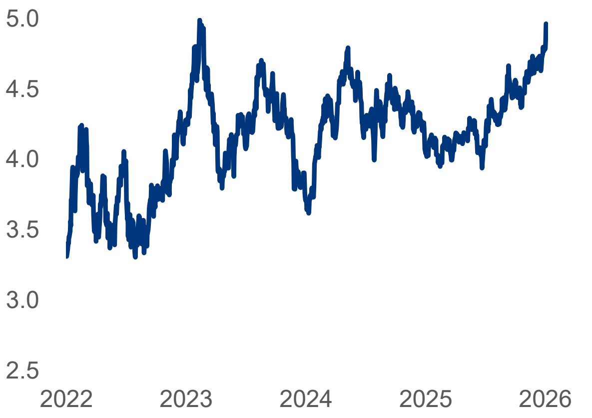
Source: Bloomberg, Sep. 11, 2026

Market Monitor

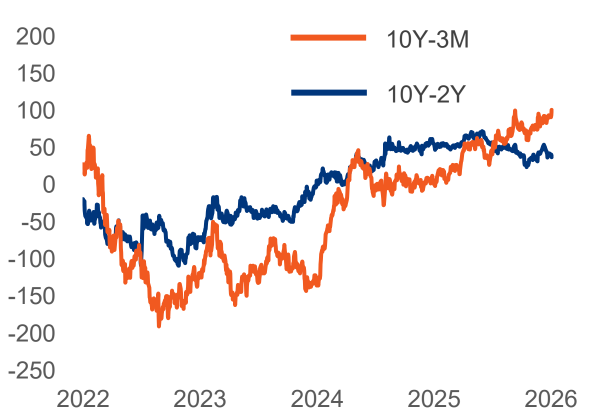
U.S. CPI YoY (%)



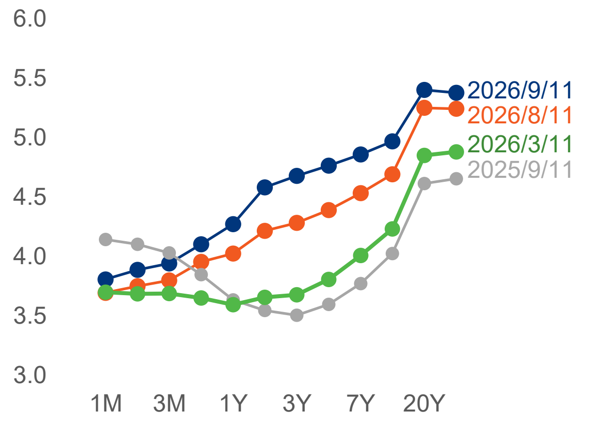
U.S. 10-Year Treasury Yield (%)



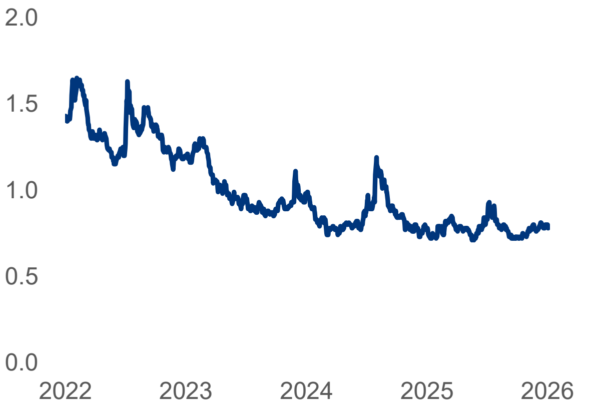
U.S. Treasury Yield Spread (bps)



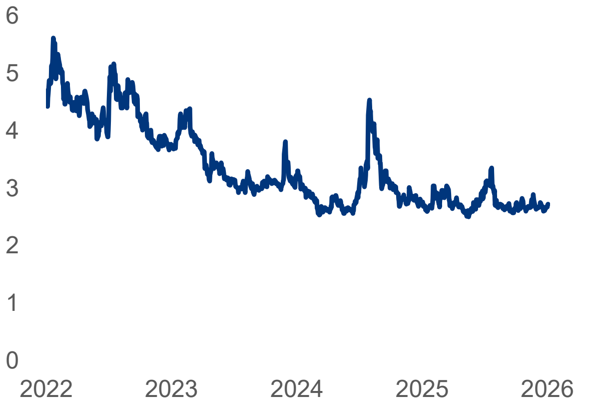
U.S. Treasury Yield Curve (%)



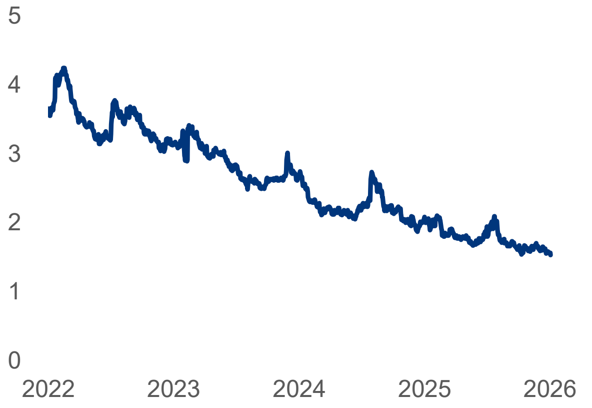
USD IG Credit Spread (%)



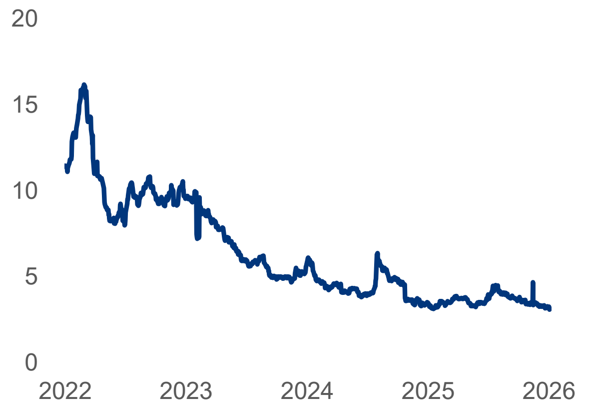
USD HY Credit Spread (%)



USD EM Credit Spread (%)



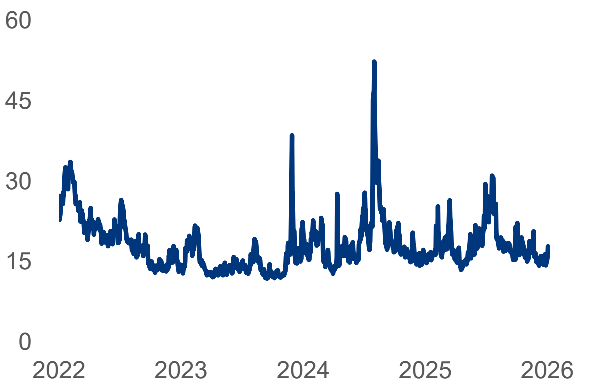
USD Asia Credit Spread (%)



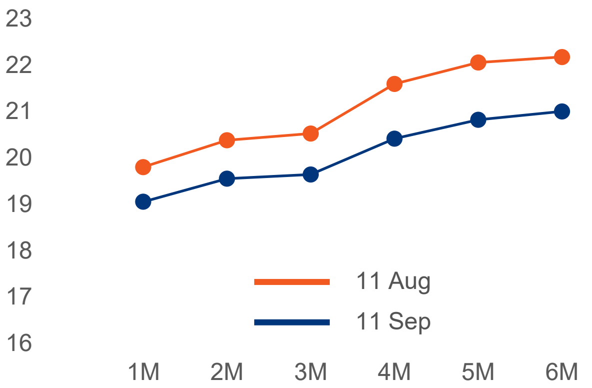
Source: Bloomberg, Sep. 11, 2026

Market Monitor

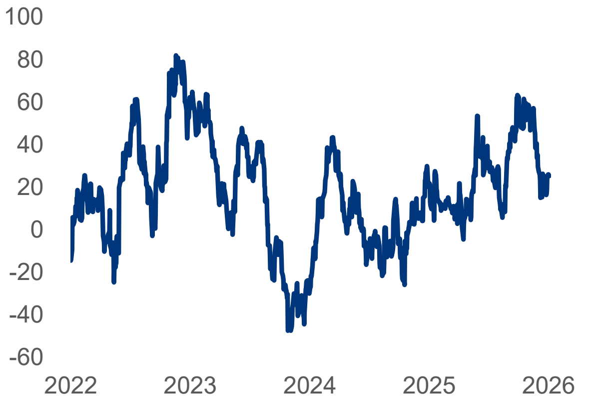
VIX Index



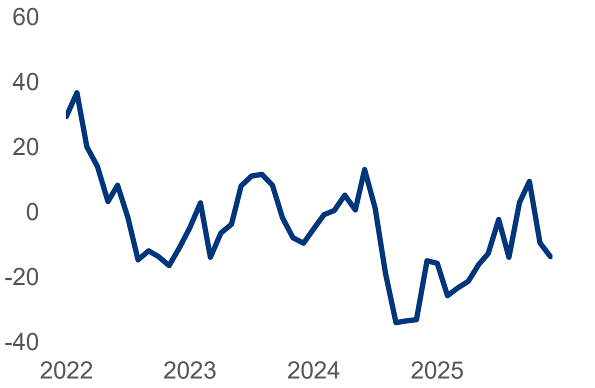
VIX Term Structure



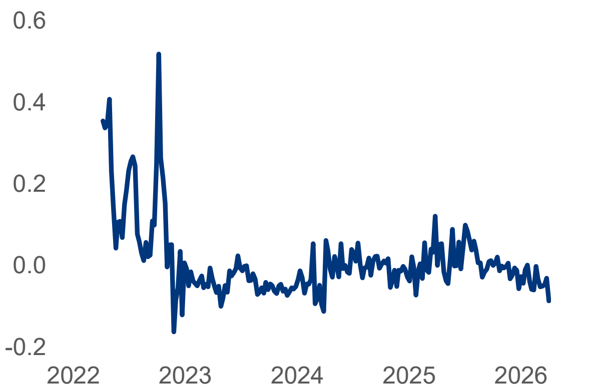
U.S. Citi Economic Surprise Index*



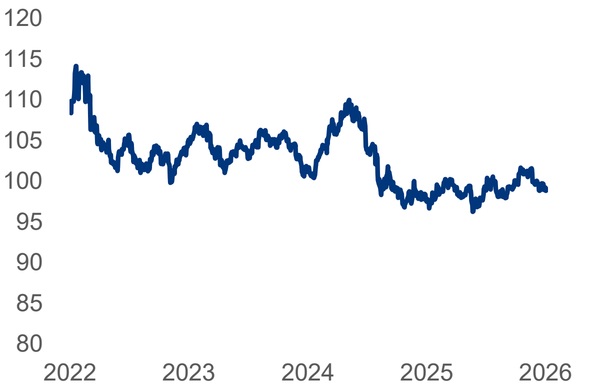
U.S. Citi Inflation Surprise Index*



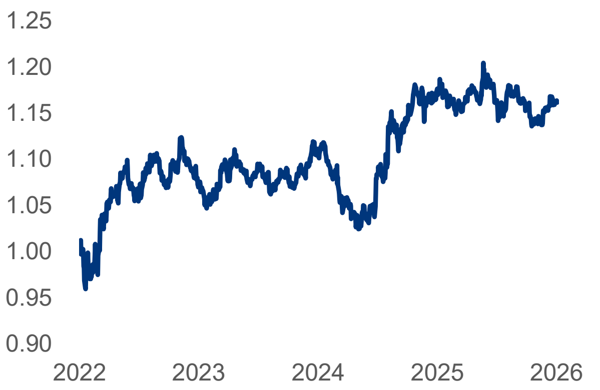
TED Spread (bps)



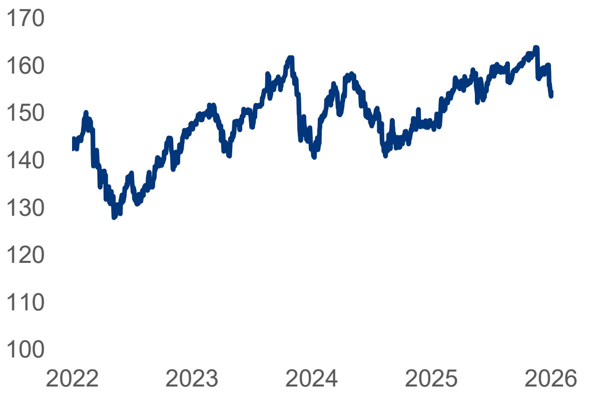
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, Sep. 11, 2026

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