Strategy

Recent trough could mark the beginning of year-end rally

Key message

1. Historically, October market troughs often mark the beginning of a year-end rally. While Coreweave's (US) debt issues may hurt market confidence, they should be considered an individual corporate credit risk and insufficient to trigger a systemic crisis.
2. The upcoming earnings season could be a major catalyst for a market rally. We stand by our view that the Taiex will climb to 50,000 points by end-2026F before hitting 55,000 in 1H27F.
3. We recommend investors focus on the Rubin Ultra supply chain and sectors benefitting from AI ASIC and agentic AI.

Event

The Taiex has recently pulled back from previous highs, primarily due to rising concerns over AI-related financing risks, inflation and interest rate uncertainty, geopolitical tensions, and intensifying competition across some tech sectors. However, we believe the current environment resembles more a correction within a bull market than the beginning of a new bear cycle. Based on historical experience, credit market signals and corporate earnings outlook, the recent market trough could serve as an important starting point for a year-end rally.

Analysis

October market trough often marks the beginning of a year-end rally. Historically, 4Q has been a relatively favorable investment period for Taiex investors, underpinned by the arrival of peak season for many industries and market liquidity being buoyed by year-end window dressing, institutional performance competition and expectations for next year's economic outlook. As a result, October frequently serves as a consolidation period ahead of a year-end rally, with the market staging a recovery once all potential negatives have been priced in.

Long-term historical data show that the Taiex delivers 4Q returns of 3-6% on average, and we note that a year-end rally has been a highly probable event unless the market experiences systemic shocks such as a global financial crisis or US sovereign credit downgrades. Even when short-term volatility arises because of negative news, the performance of the Taiex tends to re-align with fundamentals as long as corporate earnings continue to grow. The current situation bears many similarities to the past. Recent market concerns have centered on AI-related financing risks and uncertainty surrounding interest rate policies. However, these factors have not yet altered the narrative of corporate earnings growth. With fundamentals continuing to improve, we believe the correction in October is more consistent with a consolidation phase ahead of a year-end rally rather than a signal indicating the end of a bull market.

Coreweave's debt issue should be considered an individual corporate credit risk. Recent market attention has focused on the financing risks surrounding Coreweave (US), with some investors worrying that the situation could escalate into a systemic crisis like the dot-com bubble in 2000 or the global financial crisis in 2008. However, judging from credit market indicators, the current environment appears more comparable to the Silicon Valley Bank event in 2023 than to a systemic financial crisis.

The key factor of an isolated event evolving into a systemic risk is whether the event generates broad contagion effects. In this context, the CCC-rated high-yield credit spread serves as a crucial indicator, as it reflects the market's assessment of default risk among the weakest corporate borrowers. Historical experience suggests that when the spread rises above 15%, the stock market typically comes under greater correction pressure. When the spread exceeds 20%, the economy is often already in recession or experiencing a financial crisis.

Coreweave's credit spread is approaching 10%, but credit spreads for other neocloud operators and major CSPs are stable, suggesting that market concerns are concentrated on a specific firm rather than demand across the broader AI industry. In addition, the CCC-rated high-yield credit spread is around 10%, still well below the 15% warning threshold; thus it does not indicate a substantial rise of systemic risk.

From the perspective of the financial system, the 2008 global financial crisis spread rapidly because of extensive cross-exposure among financial institutions. By contrast, the risks associated with Coreweave are limited to the firm and its investors, and have not triggered a chain reaction involving major financial institutions.

As a result, we see the Coreweave debt issue as a firm-specific credit event, with its implications appearing more comparable to the Silicon Valley Bank event in 2023 than to the 2008 global financial crisis.

Earnings season will be a major catalyst for a market rally. Another important factor supporting future rebounds in the Taiex is corporate earnings. In its latest earnings call, TSMC (2330 TT, NT$2420, OP) once again raised its full-year sales outlook, guiding 44% sales growth from the previous 40%. In other words, AI demand remains well above market expectations. Within the global tech supply chain, TSMC has long played the role of an economic barometer, and so upward revisions to its guidance often signal further earnings upgrades across the broader semiconductor and AI supply chains.

In fact, more than 70% of tech firms have recently reported stronger-than-expected 3Q26 sales, suggesting that corporate fundamentals remain solid. As earnings results are released, market attention is likely to shift away from short-term headwinds and back to corporate earnings growth. AI products boast higher technological barriers and better pricing power for their manufacturers, and thus should not only drive sales growth but also help improve corporate gross margins and profitability. As a result, the current earnings season could extend the earnings upcycle that started in 2023 and create an important catalyst for the next Taiex rally.

We currently forecast that Taiex corporate earnings will grow 53%, 24%, and 23% in 2026-28F, respectively. The primary growth drivers are continued AI capex expansion, ramp-ups of next-generation AI chip platforms and rapid adoption of AI applications by enterprises.

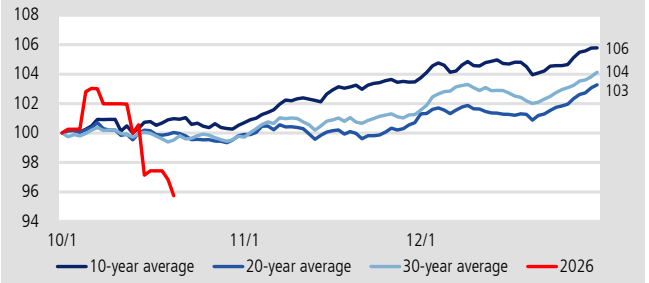
Conclusion & top picks

The Taiex has recently pulled back from previous highs, primarily reflecting short-term headwinds including rising AI-related financing risks, concerns over inflation and interest rates, geopolitical tensions and intensifying competition across some tech sectors. However, we believe the current situation is more of a technical correction within an ongoing bull market than the beginning of a new bear cycle. From the perspectives of historical experience, credit market signals, and corporate earnings outlook, the recent pullback should be viewed as a starting point for a year-end rally.

We stand by our view that the Taiex will climb to 50,000 points by year-end before advancing further to 55,000 in 1H27F. An index reading of 55,000 implies a 2027-28F average PE of 20x, which we see as reasonable. In light of continued AI capex growth, the ramp-up of next-generation computing platforms and accelerating adoption of AI applications across industries, we expect Taiex constituents to enjoy sustainable earnings growth, and thus argue that recent volatility is actually a good entry point for medium- and long-term investors. For investment recommendations, we suggest investors focus on the Rubin Ultra supply chain, AI ASIC, agentic AI and beneficiaries of AI infrastructure build-out and proliferation of AI applications.

Figure 1: October Taiex market troughs often mark the beginning of a year-end rally

Average Taiex performance from October to year-end (October 1 level as the base of 100), points



Source: TEJ; KGI Research

Figure 2: Coreweave's credit spread is approaching 10%, but credit spreads of other neocloud operators & major CSPs are stable

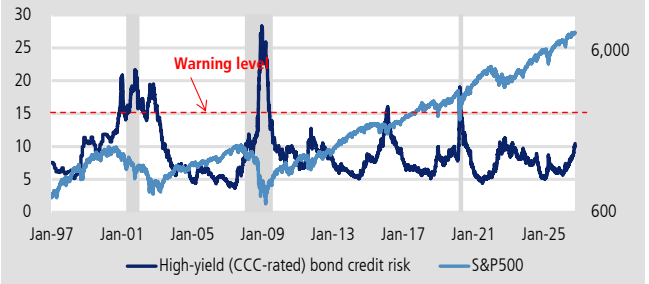
Overview of bond yields & yield spreads of AI infrastructure firms, Big Four US CSPs & GPU firms

Company	Yield to maturity (%)	Yield spread vs US 10-year Treasuries (%)	Credit risk
CoreWeave	14.90	**9.90**	Extremely high
Oracle	7.80	**2.80**	Medium to high
Nebius Group	6.00	**1.00**	Medium to low
Amazon	6.00	**1.00**	Extremely low
Alphabet	6.00	**1.00**	Extremely low
Meta	5.90	**0.90**	Extremely low
Microsoft	5.40	**0.40**	Extremely low
Nvidia	4.50	**-0.50**	Extremely low

Source: Bloomberg; KGI Research

Figure 3: High-yield credit spread around 10%, still well below the 15% warning threshold

High-yield (CCC-rated) bond credit spread, percent (LHS); S&P 500 index, points (RHS)



Source: Bloomberg; KGI Research

Note: Credit spread of high-yield (CCC-rated) bonds = CCC-rated bond yield minus US 10-year Treasury yield

Note: Shaded areas indicate periods of US economic recession

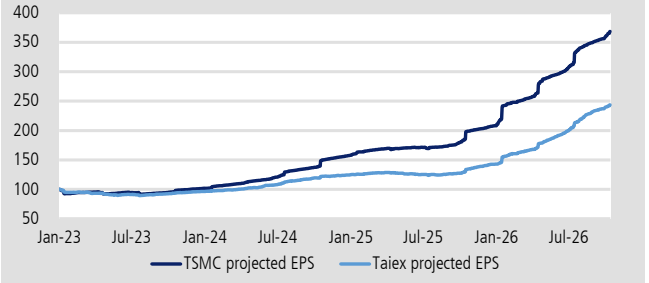
Figure 4: Should high-yield credit spread rise above 15%, investors need to beware of looming credit risks

CCC yield spread (OAS)	Market implication	Stock market impact
< 8%	Healthy credit environment	Positive
8%~10%	Emergence of risk awareness	Limited
10%~12%	Rising credit risk	Increasing volatility
12%~15%	Market concerns over default	Correction pressure
> 15%	Credit crisis (often comes with economic recession)	High probability of stock market meltdown (often entailing a bear market)

Source: KGI Research

Figure 5: TSMC has again raised its full-year sales outlook, which bodes well for further Taiex earnings upgrades

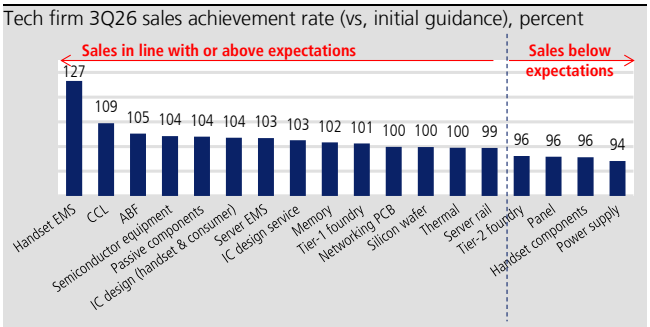
Projected TSMC & Taiex EPS (estimates as of January 1, 2023 as base of 100)



Source: FactSet; KGI Research

Figure 6: AI beneficiaries have delivered upbeat 3Q26 sales, which we believe will fuel more earnings upgrades in upcoming earnings season

Tech firm 3Q26 sales achievement rate (vs, initial guidance), percent



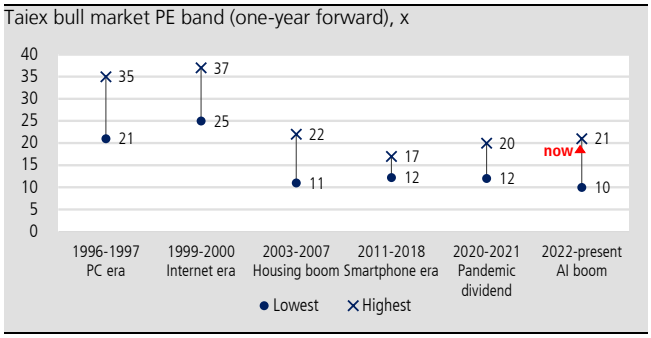
Source: TEJ; KGI Research

Figure 7: Earnings & valuations of Taiex constituents

Earning (NT$bn)	2021	2022	2023	2024	2025	2026F	2027F
Taiex	3,917	3,771	2,682	3,780	4,344	6,659	8,240
Taiex excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,749	4,472
Tech	1,914	2,147	1,698	2,249	3,101	4,891	6,412
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	1,980	2,644
TSMC	597	1,017	838	1,173	1,718	2,911	3,768
EPS growth (%)							
Taiex	78.1	(3.7)	(28.9)	40.9	14.9	53.3	23.7
Taiex excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	42.8	19.3
Tech	51.7	12.2	(20.9)	32.4	37.9	57.7	31.1
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	43.1	33.5
TSMC	15.2	70.4	(17.5)	39.9	46.4	69.4	29.4
P/E (x)							
Taiex	39.2	40.7	57.3	40.6	35.3	23.1	18.6
Taiex excl. TSMC	27.3	33.0	49.2	34.8	34.6	24.2	20.3
Tech	63.8	56.9	71.9	54.3	39.4	25.0	19.0
Tech excl. TSMC	45.1	52.5	69.0	55.2	42.9	30.0	22.4
TSMC	105.2	61.7	74.8	53.5	36.5	21.6	16.7

Source: KGI Research

Figure 8: Spurred by the AI boom, Taiex had reached a recent high of 21x PE; current valuation is 19-20x, which we see as reasonable for a bull market



Source: TEJ; KGI Research

Figure 9: Taiex levels & corresponding valuations

2026F PE (x)	Equivalent index level (points)	2027F PE (x)	Equivalent index level (points)	2028F PE (x)	Equivalent index level (points)
15	30,503	15	37,743	15	46,574
16	32,536	16	40,259	16	49,679
18	36,603	18	45,291	18	55,889
20	40,670	20	50,324	20	62,099
21	42,704	21	52,840	21	65,204
22	44,737	22	55,356	22	68,309
23	46,771	23	57,872	23	71,414

Source: TEJ; KGI Research

Figure 10: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT$)	Mkt cap (US$mn)	Share price (NT$)	Change +/- (%)	EPS (NT$) 2026F	EPS (NT$) 2027F	EPS YoY (%) 2026F	EPS YoY (%) 2027F	PE (x) 2026F	PE (x) 2027F	PEG (x) 2026F	PEG (x) 2027F	P/B (x) 2026F	P/B (x) 2027F	ROE (%) 2026F	ROE (%) 2027F	Cash yield (%) 2026F	Cash yield (%) 2027F
Semiconductor	TSMC	2330 TT	Outperform	3,650	1,935,132	2,420.0	50.8	112.24	145.29	69.4	29.4	21.6	16.7	0.3	0.6	8.1	5.9	44.3	40.9	1.2	1.4
	MediaTek	2454 TT	Outperform	5,500	204,888	4,140.0	32.9	70.06	115.04	5.9	64.2	59.1	36.0	9.9	0.6	15.2	13.0	26.6	38.7	1.6	1.7
	Alchip	3661 TT	Outperform	6,180	9,878	3,710.0	66.6	130.60	171.62	89.8	31.4	28.4	21.6	0.3	0.7	6.1	5.2	23.5	25.9	1.8	2.3
	GUC	3443 TT	Outperform	5,870	33,059	8,000.0	(26.6)	50.99	130.40	81.3	155.7	156.9	61.3	1.9	0.4	54.3	33.1	41.8	67.0	0.5	1.2
	Chipbond	6147 TT	Outperform	365	4,902	213.5	71.0	5.84	9.22	56.3	57.8	36.5	23.2	0.6	0.4	2.3	2.2	8.0	10.8	2.1	3.2
	HON	7769 TT	Outperform	9,000	28,463	5,130.0	75.4	129.97	226.71	89.2	74.4	39.5	22.6	0.4	0.3	13.2	9.8	36.6	49.7	1.8	3.1
	MPI	6223 TT	Outperform	10,000	15,122	5,005.0	99.8	76.08	137.53	134.7	80.8	65.8	36.4	0.5	0.5	28.9	23.0	47.3	70.3	0.9	1.6
AI server	AVC	3017 TT	Outperform	4,340	39,351	3,235.0	34.2	107.68	173.61	119.9	61.4	30.0	18.6	0.3	0.3	18.8	12.0	74.5	77.3	1.4	2.3
	Jentech	3653 TT	Outperform	10,000	29,663	6,535.0	53.0	68.78	196.23	91.2	185.3	95.0	33.3	1.0	0.2	35.7	25.1	40.6	88.5	0.6	1.8
	DELTA	2308 TT	Outperform	2,505	130,158	1,625.0	54.2	40.57	66.29	75.3	63.4	40.1	24.5	0.5	0.4	11.9	8.9	33.9	41.7	1.2	2.0
	Fositek	6805 TT	Outperform	2,685	5,063	2,395.0	12.1	63.66	103.26	105.3	62.2	37.6	23.2	0.4	0.4	17.1	12.2	52.0	61.3	1.2	1.9
	EMC	2383 TT	Outperform	7,625	55,135	4,990.0	52.8	108.84	190.64	166.2	75.2	45.8	26.2	0.3	0.3	24.4	15.1	63.1	71.4	1.3	2.3
	Unimicron	3037 TT	Outperform	1,175	55,759	1,100.0	6.8	16.10	32.71	283.4	103.1	68.3	33.6	0.2	0.3	13.4	10.2	22.6	35.8	0.7	1.3
	ZDT	4958 TT	Outperform	775	20,201	578.0	34.1	14.98	29.80	144.7	98.9	38.6	19.4	0.3	0.2	3.8	3.3	11.6	19.1	1.3	2.6
	GCE	2368 TT	Outperform	2,000	19,620	1,195.0	67.4	41.49	71.44	123.3	72.2	28.8	16.7	0.2	0.2	11.1	7.6	48.5	54.8	1.9	3.3
	Kaori	8996 TT	Outperform	2,270	4,793	1,660.0	36.7	23.08	42.75	157.7	85.2	71.9	38.8	0.5	0.5	26.7	17.8	43.1	55.1	0.7	1.3
	Accton	2345 TT	Outperform	3,100	31,404	1,815.0	70.8	85.78	124.87	82.4	45.8	21.2	14.5	0.3	0.3	9.1	6.1	56.7	50.2	1.5	2.2
Others	NTC	2408 TT	Outperform	800	46,439	436.5	83.3	80.53	148.08	4025.5	85.7	5.4	2.9	0.0	0.0	3.0	1.6	88.9	77.0	5.5	10.2
	Holy Stone	3026 TT	Outperform	1,000	4,169	815.0	22.7	14.85	39.73	125.6	167.6	54.9	20.5	0.4	0.1	11.6	8.2	22.6	46.9	1.3	2.5
	GWC	6488 TT	Outperform	1,500	14,331	880.0	70.5	16.69	59.99	9.2	259.4	52.7	14.7	5.8	0.1	4.4	3.7	8.5	27.5	0.9	3.4
	CTBC Holding	2891 TT		74	45,383	74.8	(1.1)	4.24	4.70	3.4	10.9	17.7	15.9	5.2	1.5	1.8	1.6	12.9	10.7	3.7	4.1

Source: KGI Research

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