



CIO Office

Global Markets Weekly Kickstart

AI Development: Health Check

1 June 2026

Chart of the Week

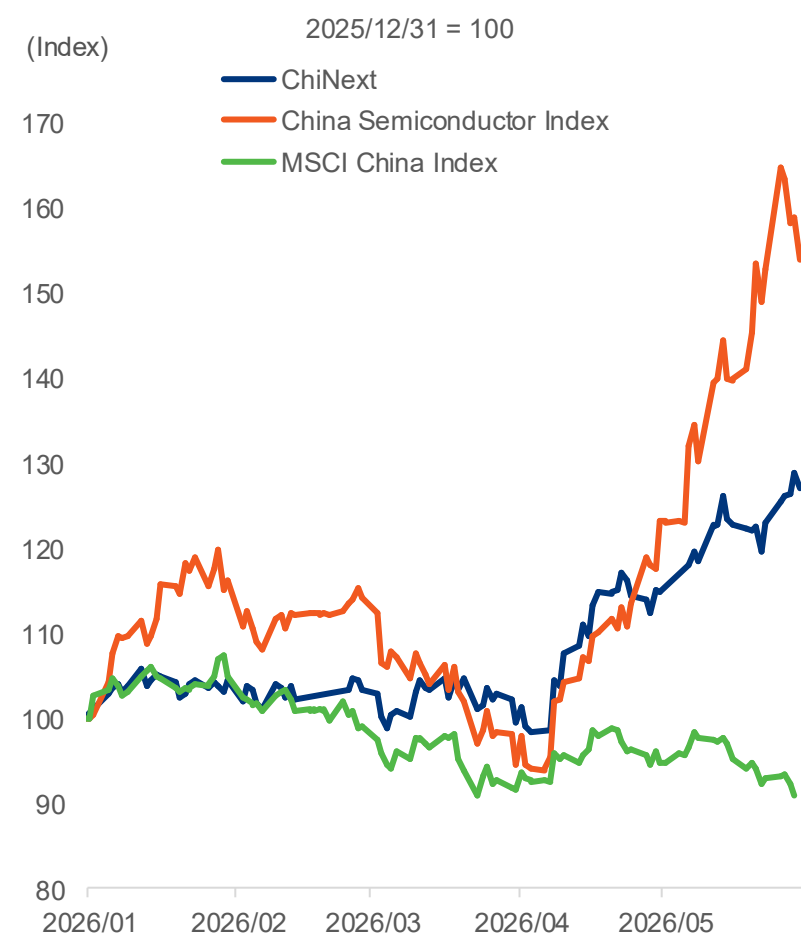
ChiNext Seeks China Hardware Opportunities

- ▶ Global demand for technology hardware is rising, with China’s high-tech exports increasing 40% year-on-year – the highest level since the post-COVID recovery. Over the past 25 years, the fastest growth period was in 2004. Despite China’s participation in high-tech exports, traditional large-cap indices such as the Hang Seng Index and MSCI China Index remain relatively underweight in hardware suppliers, while internet giants dominate – a situation similar to the U.S. Currently, technology-related companies account for a significant share of the S&P 500, with four major cloud service providers (CSPs) representing about 17%.
- ▶ More hardware opportunities are now found in A-shares: the ChiNext board features more growth-oriented technology themes, such as AI data center infrastructure and semiconductors/electronic components. In Hong Kong, nearly half of this year’s IPOs are in the technology sector, while additional tech hardware firms in both mainland China and Hong Kong are preparing to list. Furthermore, the Chinese government is promoting domestic substitution of imported chips, providing support to local semiconductor companies.

The Chinext Index in A-Shares Holds a Significant Number of AI-Related Stocks

Company	Major Business	Industry	(%)
CATL	EV and energy-storage lithium battery manufacturer	Industrial	15.7
Zhongji Innolight	Optical communication module manufacturer	Telecom	15.1
Eoptolink	High-speed optical communication modules (400G/800G/1.6T) for data centers & AI	Telecom	9.4
Sungrow Power	PV inverters, energy storage systems, new energy power equipment	Industrial	4.2
East Money	Financial information platform	Finance	3.6
Shenghong Technology	High-frequency PCBs (AI servers, high-performance computing boards)	IT	3.4
TFC Optical Communication	Fiber-optic connectors and optical sub-assemblies	Telecom	2.9
San’an Group	Electronic ceramics (MFCC, ceramic substrates, fiber-optic ferrules, etc.)	IT	2.4
Inovance Technology	Industrial automation control, servo systems, NEV electronic controls	Industrial	2.2
Changchuan Technology	Semiconductor testing equipment	IT	1.4

ChiNext and Large-Cap Indices Show Clear Divergence



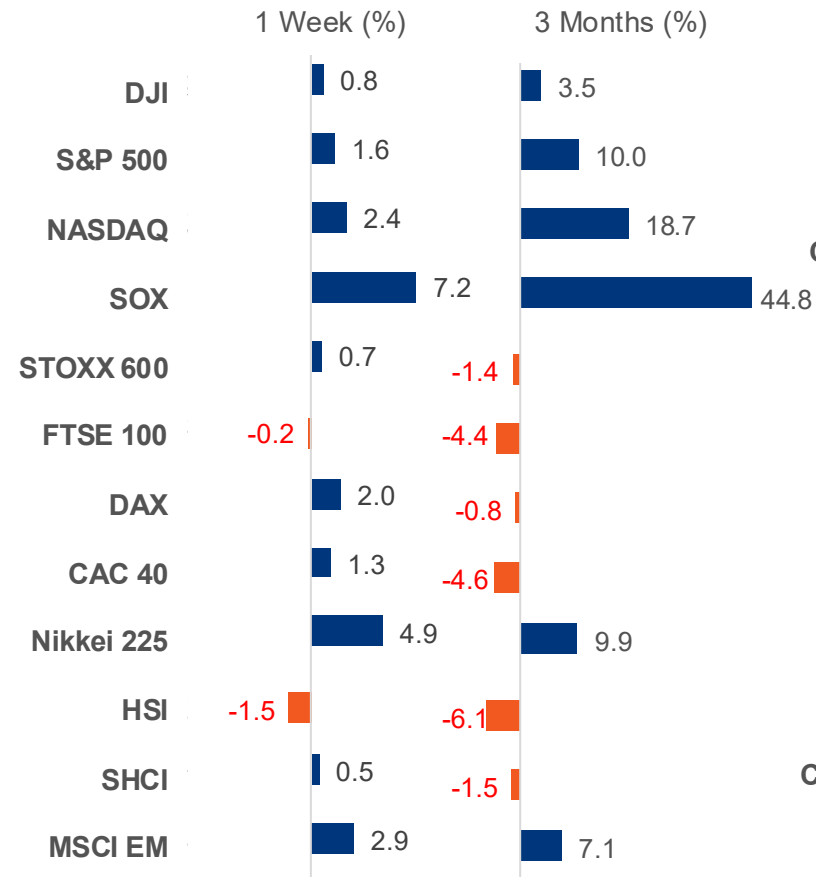
Source: Bloomberg, KGI

Market Recap

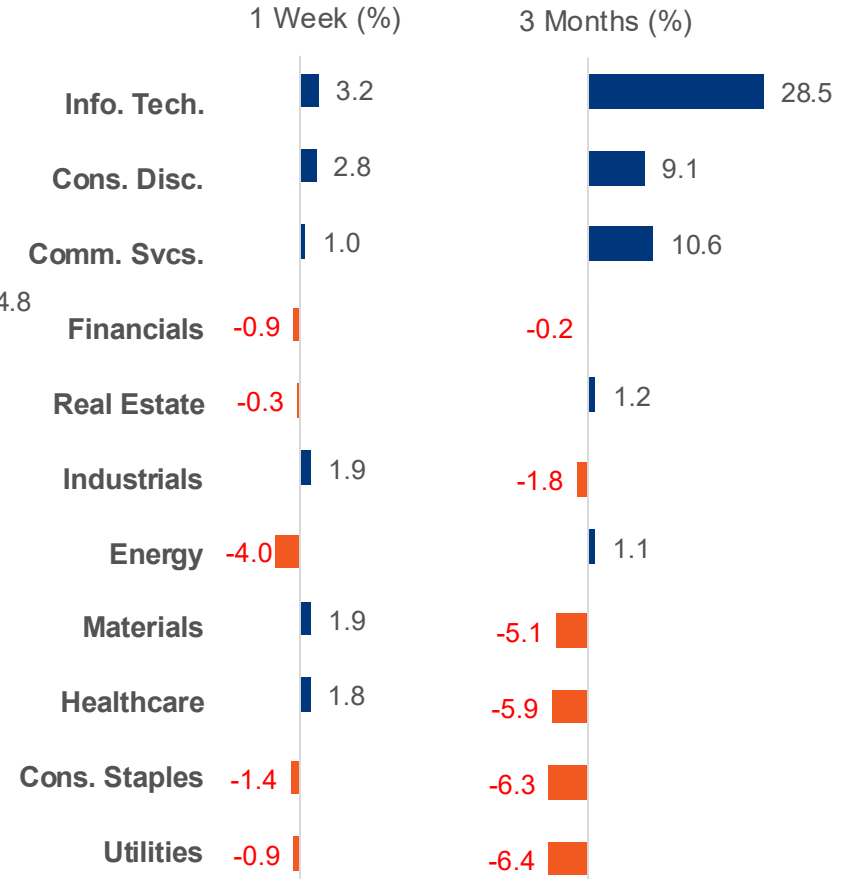
Ceasefire and Nuclear Memorandum Support, Tech Rally Drives Market Performance

- ▶ On Thursday (May 29), the U.S. and Iran reached a preliminary consensus on a 60-day ceasefire and nuclear negotiation memorandum, supporting overall risk assets, with semiconductor indices posting the strongest gains. Meanwhile, oil prices and U.S. Treasury yields fell in tandem, easing market concerns over inflation and high interest rates, and bolstering small-cap and cyclical stocks.
- ▶ Micron rose, with its market capitalization surpassing USD 1 trillion for the first time, as long-term supply agreements were signed, securing part of shipment volumes and pricing. UBS sharply raised its target price and expressed optimism about memory demand prospects, driving related industry stocks higher. Lenovo's earnings beat market expectations, fueling a broad rally in PC-related shares. The market also believes Section 232 measures in the U.S. could provide support for the solar sector, lifting related stocks, though gains remain news-driven at this stage.

Regional Index Performance (%)



U.S. Sector Index Performance (%)



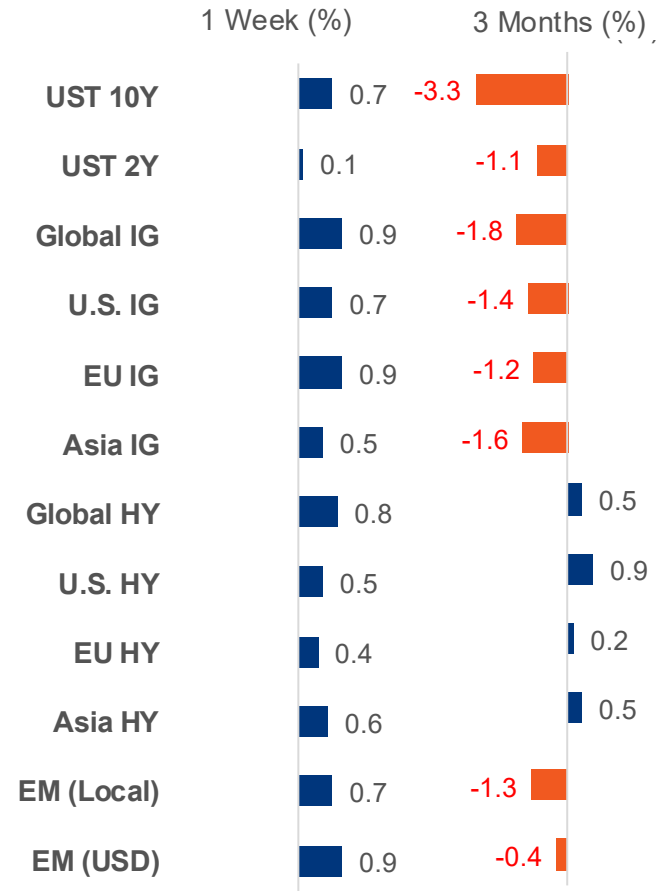
Source: Bloomberg

Preliminary Ceasefire and Nuclear Talks Consensus, Bond Prices Rise, Oil Prices Fall

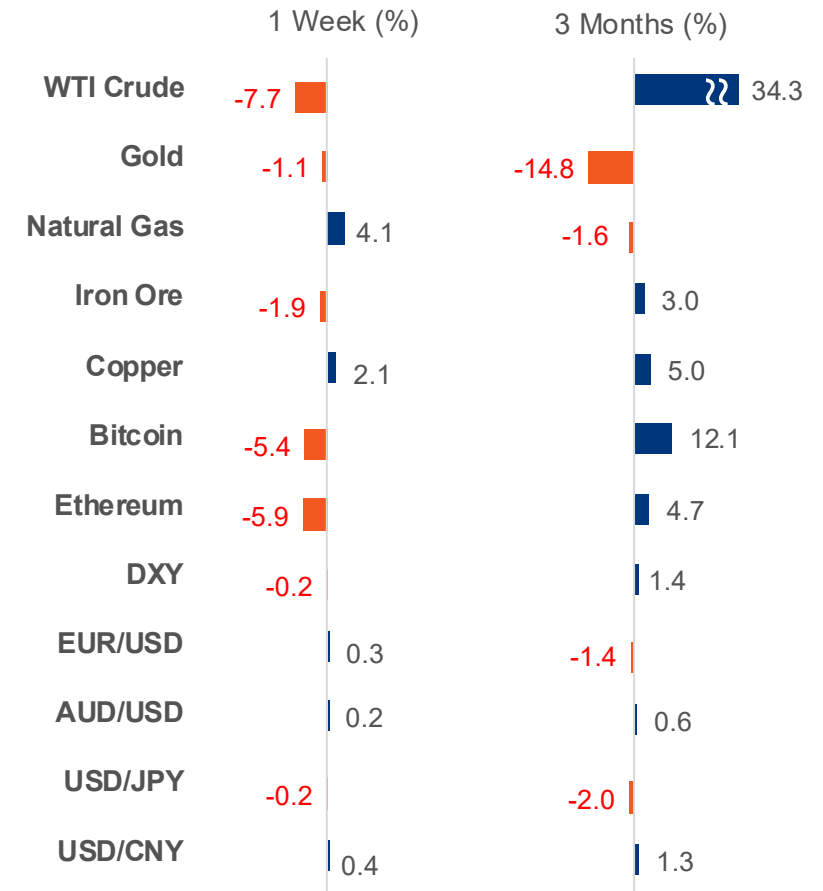
- ▶ U.S. April PCE data showed a YoY increase of 3.8%, in line with market expectations. Core PCE rose 3.3% YoY, also matching forecasts. Driven by higher energy prices during the Iran war, April inflation recorded the fastest pace in nearly three years. Ahead of the release, markets had already priced in expectations of inflation staying elevated, with no further rate cuts anticipated this year. The probability of a 25bp hike by year-end remained at 37.5%. Two-year yields were little changed, while longer-term yields fell on ceasefire hopes.
- ▶ Meanwhile, the 30-year fixed mortgage rate climbed to 6.65%, the highest since August 2025, further worsening housing affordability. The high-rate environment also dampened housing demand, with mortgage applications falling 8.5% last week, bringing overall applications to the lowest level since last summer. As inflation spreads from energy into broader goods and services, more Federal Reserve officials have begun to worry that inflation may prove more persistent, ultimately weighing on consumer spending power.

Source: Bloomberg

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



Diversified Portfolio Mitigates Concentration Risk

- ▶ Market sensitivity to Middle East conflicts has gradually declined, while strong AI demand continues to support related concept stocks, driving notable gains. From a portfolio perspective, allocations may increasingly tilt toward AI-related equities, raising concentration risk. However, global liquidity remains abundant and recession risks are relatively low. We believe investors should stay invested, with a long-term positive view on technology, AI semiconductors, and related themes.
- ▶ Multi-asset portfolios that hold both equities and bonds often adopt volatility-reduction strategies to balance returns and risk. Bonds, as fixed-income assets, provide stable income. Flexible multi-asset strategies allow dynamic adjustments between “growth” and “income,” turning allocation views into executable, monitorable portfolios.
- ▶ The range of multi-asset portfolio choices is broad. From a global allocation perspective, investors with portfolios heavily weighted toward U.S. technology stocks may consider Asia equity-bond hybrid funds. Conversely, portfolios with significant exposure to Asian hardware stocks can be paired with multi-asset strategies focused on developed markets.

Multi-Asset Portfolios Offer Better Return-to-Volatility Ratio

Annualized Return		Annual Return Volatility	
15Y	30Y	15年	30年
Global Stocks 10.4%	Global Stocks 8.4%	China 22.2%	China 36.0%
Global Small Cap 8.9%	Global Small Cap 7.7%	EM Stocks 18.2%	EM Stocks 29.5%
EAFE Stocks 7.3%	Global HY 7.4%	EAFE Stocks 15.1%	Global Small Cap 20.1%
Diversified Portfolio 6.8%	Diversified Portfolio 6.6%	Global Small Cap 14.9%	EAFE Stocks 18.9%
Global HY 5.7%	EM Stocks 6.5%	Commodities 14.2%	Commodities 18.1%
EM Stocks 4.2%	EAFE Stocks 6.3%	Global Stocks 14.2%	Global Stocks 18.1%
China 2.6%	Global IG 3.4%	Diversified Portfolio 10.2%	Global HY 14.5%
Cash 1.5%	Commodities 2.5%	Global HY 8.6%	Diversified Portfolio 11.9%
Global IG 1.1%	Cash 2.4%	Global IG 6.7%	Global IG 6.7%
Commodities -1.1%	China 2.2%	Cash 1.9%	Cash 2.2%

Higher Returns



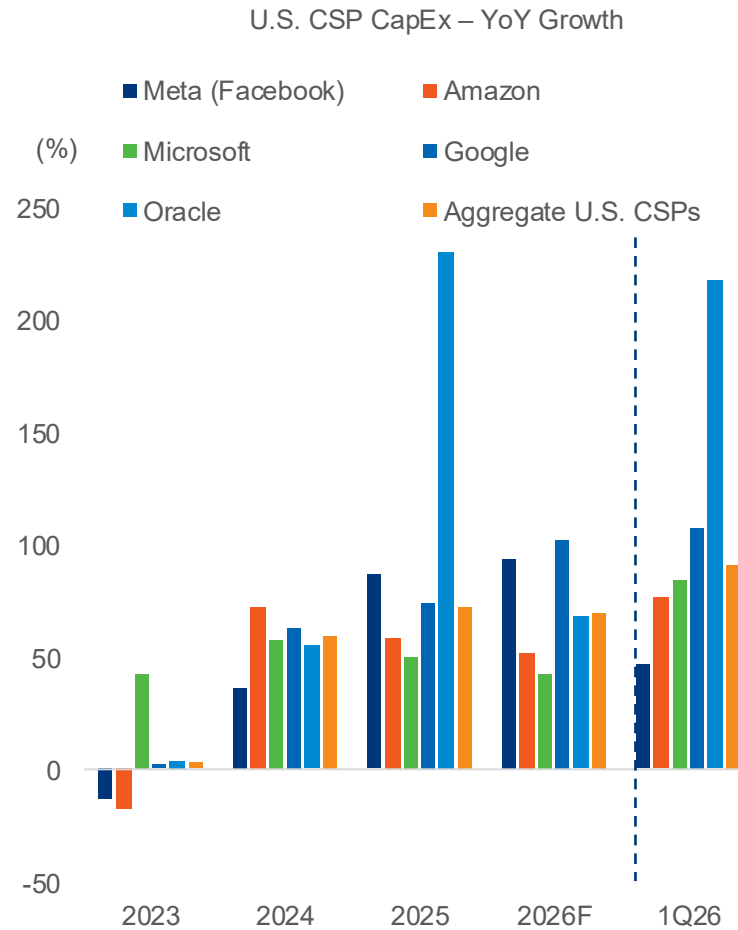
Lower Volatility



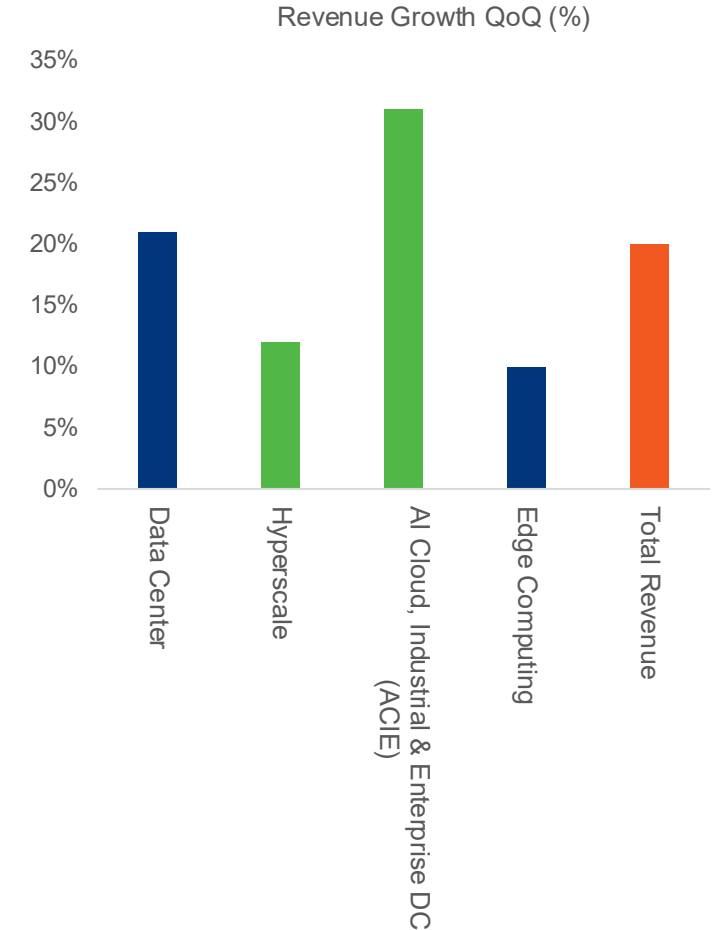
AI Health Check: Components Drive CSP CapEx; NVIDIA's Client Broaden

- ▶ The five major cloud service providers (CSPs), as key AI application players, continue to support the hardware sector through capital expenditure. Recent data show a positive trend, with 1Q26 CapEx by the top five CSPs rising 91% YoY and 14% QoQ to USD 148.4 billion, exceeding market consensus. However, free cash flow has continued to decline sequentially. One driver of the CapEx revision is higher component costs, particularly memory prices.
- ▶ NVIDIA's business is closely tied to AI infrastructure and impacts the hardware supply chain. A key focus for the company is revenue sources. In its latest earnings release, NVIDIA disclosed revenue under a new architecture, splitting data center revenue into: (1) Hyperscalers (e.g., the CSPs above), contributing about USD 38 billion, roughly half of data center revenue; and (2) AI Cloud, Industrial, and Enterprise Data Centers (ACIE), reaching USD 37 billion, up 31% QoQ — a faster pace than Hyperscalers and Edge Computing. This indicates NVIDIA's client base is expanding, mitigating risks from CSPs' ongoing free cash flow declines.

CSP CapEx Increase Driven by Hardware Costs



NVIDIA Clients Broaden, CSP Risk Mitigated

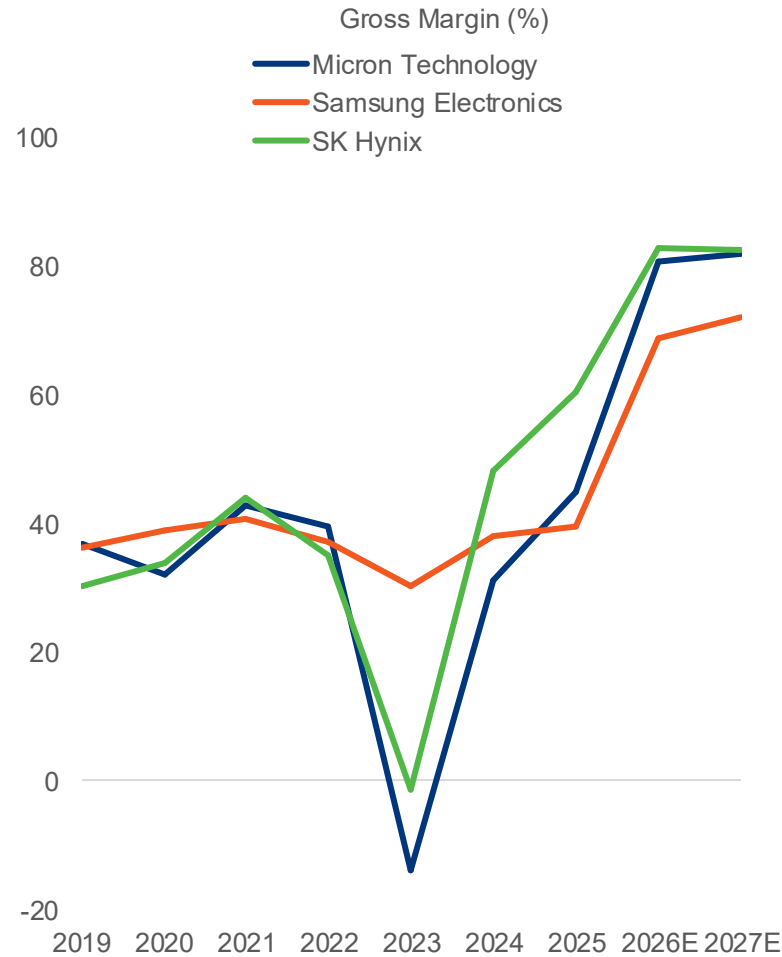


Source: Bloomberg, KGI

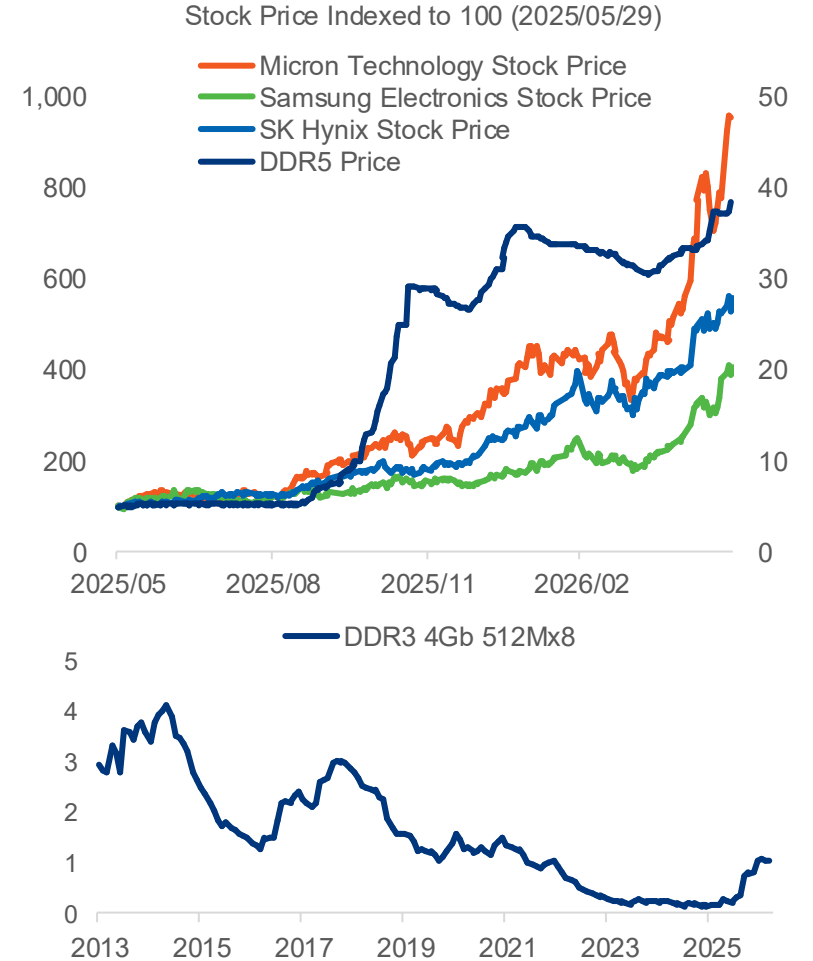
Long-Term Memory Contracts Enhance Future Revenue Visibility

- ▶ On the other hand, tight memory supply and sharp price increases have strengthened memory producers' pricing power. Last week, Micron's share price rose, driven by the signing of long-term supply agreements across the industry, which lock in part of shipment volumes and prices. UBS expects such agreements to cover an increasing share of DRAM capacity. These contracts include both fixed and floating prices as well as volume commitments, reflecting buyers' expectations of rising memory prices and persistent supply shortages.
- ▶ However, the higher the proportion of long-term contracts adopted in the memory industry, the more limited the upside for revenue and margins during price-up cycles. Conversely, in down cycles, long-term agreements help support profitability. Current market expectations place corporate gross margins at 70–80% over the next two years.
- ▶ Long-term supply agreements are likely to reduce margin volatility for Micron and other memory companies, while enhancing investors' visibility into future revenue and supporting higher valuations. Given the outlook for tight memory supply, profitability is expected to remain strong.

Memory Sector Margins Seen Peaking Over Next Two Years



Memory Industry Price Cycles



Source: Bloomberg, KGI

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	<ul style="list-style-type: none"> ◆ Peace talks between the U.S. and Iran show renewed hope, driving oil prices lower from elevated levels. Strong U.S. corporate earnings and NVIDIA's forecast of substantial production growth in the coming years have fueled a market rebound. Equity gains are expected to shift toward being supported by real corporate profitability. Long-term outlook remains positive for technology and AI semiconductors. Strategically, investors may consider accumulating growth stocks on pullbacks, while diversifying across countries and industries. ◆ Europe and Japan remain attractive diversification markets. Japan offers greater upside through technology exposure, while rising JGB yields support bank stocks. In Europe, defense remains a key theme, with preference for defensive UK equities. 	<p>Strategy: AI themes including technology and semiconductors; outside AI, favor aerospace and defense.</p> <p>Regions: Japanese Equities (Banking, Semiconductor and Defense), UK Equities, European Defense</p>
Bonds	<ul style="list-style-type: none"> ◆ Oil prices remain elevated and volatile, while the U.S. 30Y Treasury yield has moved above 5%, keeping rates high. Investors should avoid excessive duration risk and focus on intermediate-duration bonds for income. High-quality corporate bonds offer better defensiveness, with attractive risk-adjusted spreads in financials, communications, utilities and energy. ◆ A stronger USD also supports diversification into non-USD investment-grade bonds, including EUR- and AUD-denominated debt. 	<p>Types: Intermediate-duration, high-quality bonds; favor financials, communications, utilities and energy.</p> <p>Satellite : Non-USD bonds for diversification.</p>
Forex	<ul style="list-style-type: none"> ◆ With Waller expected to lead the Fed and inflation pressures limiting rate-cut room, the USD should remain supported near term. ◆ Most non-USD currencies remain weak against the dollar, while the RMB has shown relative strength due to PBOC support. 	<p>USD: Near-term strength remains supported.</p> <p>Others: Broad weakness; RMB relatively firm.</p>
Commodity	<ul style="list-style-type: none"> ◆ Energy prices may remain elevated and volatile near term. ◆ Higher Treasury yields and a stronger USD may pressure gold in the short run. However, expanding global debt and continued central bank demand should support long-term upside, making pullbacks buying opportunities. 	<p>Gold: Positive long-term outlook; accumulate on dips.</p>

Key Economic Data / Events

► MAY 2026

25

Monday

26

Tuesday

- U.S. May 2026 Consumer Confidence Index (Act:93.1 Est:92.0 Prev:93.8)

27

Wednesday

28

Thursday

- U.S. initial jobless claims (Act:215k Est:211k Prev:210k)
- U.S. Apr PCE YoY (Act:3.8% Est:3.8% Prev:3.5%)
- U.S. Apr Core PCE YoY (Act:3.3% Est:3.3% Prev:3.2%)
- U.S. Q1 GDP Annualized QoQ Revised (Act:1.6% Est:2.0% Prev:0.5%)

29

Friday

- Japan Apr Unemployment Rate (Act:2.5% Est:2.7% Prev:2.7%)
- Japan Apr Retail Sales MoM (Act:1.3% Est:0.4% Prev:1.0%)

1

Monday

- U.S. May S&P Global Manufacturing PMI Final (Est:55.3 Prev:54.5)
- U.S. May ISM Manufacturing Index (Est:53.2 Prev:52.7)
- Japan May S&P Global Manufacturing PMI Final (Prev:55.1)
- Eurozone May S&P Global Manufacturing PMI Final (Est:51.4 Prev:52.2)

2

Tuesday

- U.S. Apr JOLTS Job Openings (Est:6,890k Prev:6,866k)
- COMPUTEX Taipei (2~5 Jun.)

3

Wednesday

- U.S. May ADP Employment Change (Est:120k Prev:109k)
- U.S. May S&P Global Services PMI Final (Prev:51.0)
- U.S. May ISM Services PMI (Est:53.7 Prev:53.6)
- Japan May S&P Global Services PMI Final (Prev:51.0)
- Eurozone Apr PPI YoY (Prev:2.1%)

4

Thursday

- U.S. initial jobless claims (Prev:215k)
- Eurozone Apr Retail Sales MoM (Prev:-0.1%)

5

Friday

- U.S. May Nonfarm Payrolls (Est:93k Prev:115k)
- U.S. May Unemployment Rate (Est:4.3% Prev:4.3%)
- Eurozone Q1 GDP YoY Final (Est:0.8% Prev:1.2%)
- Earnings: AVGO

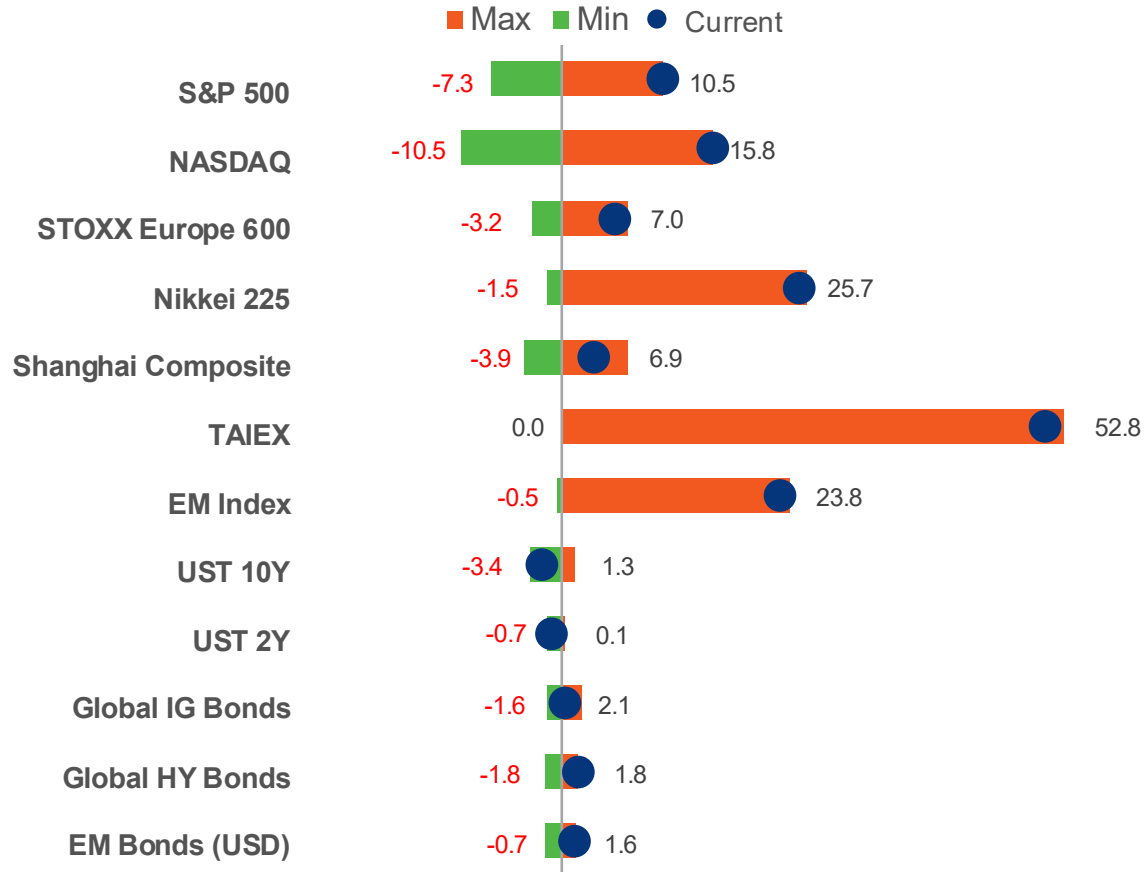
Source: Bloomberg

Key Earnings Releases

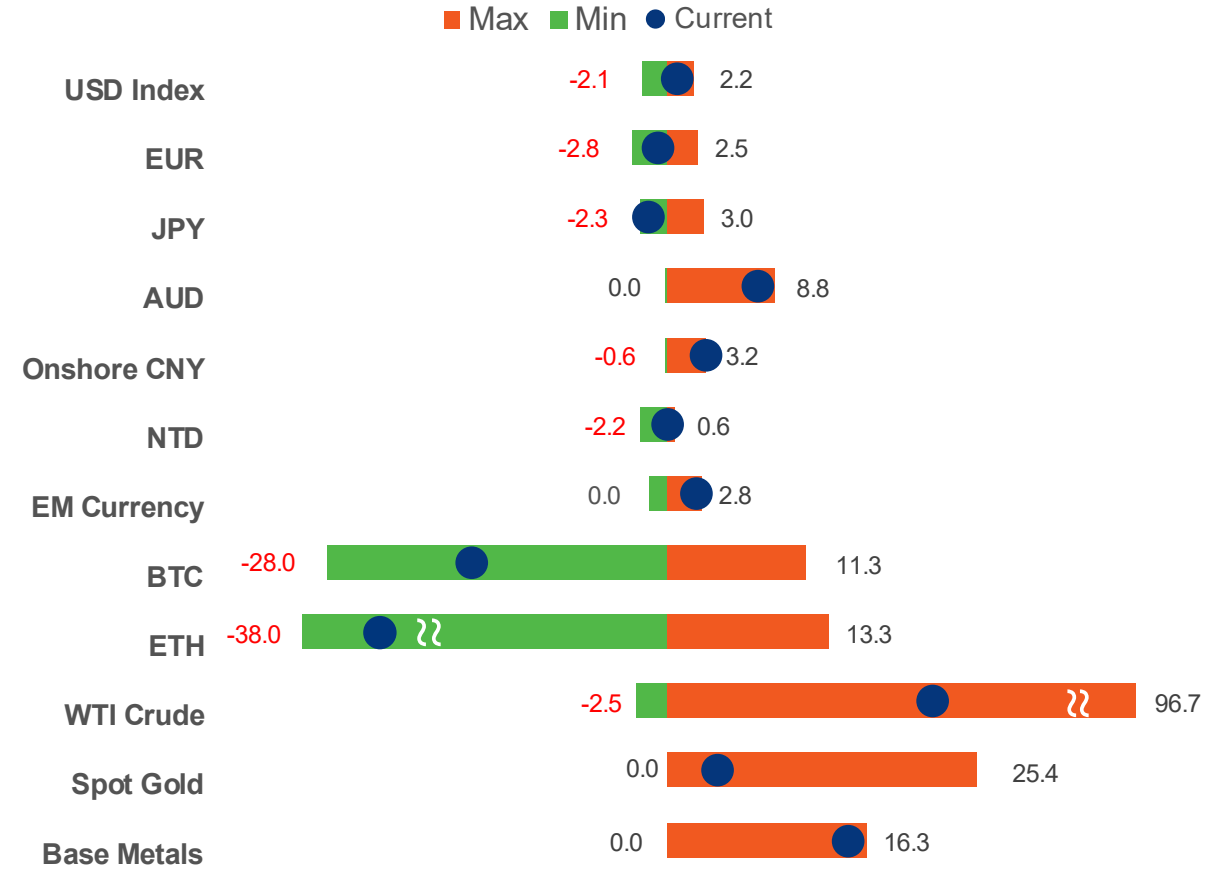
Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2026/5/28	Costco (COST)	69.73B	70.53B	4.93	4.93	V	
2026/5/28	Salesforce (CRM)	11.05B	11.13B	3.13	3.88	V	V
2026/5/29	Dell (DELL)	35.52B	43.84B	2.99	4.86	V	V

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)

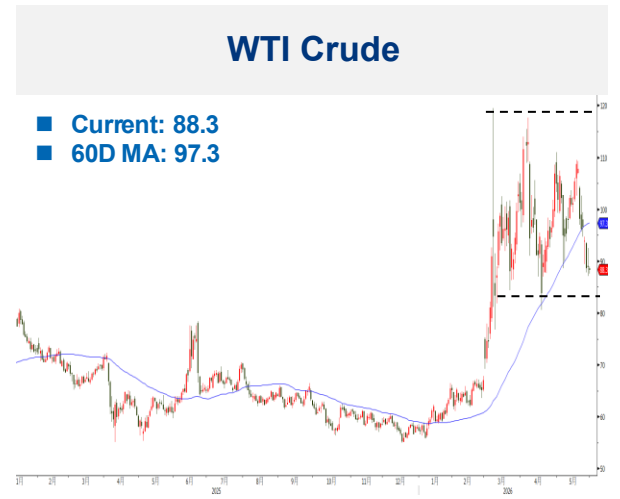
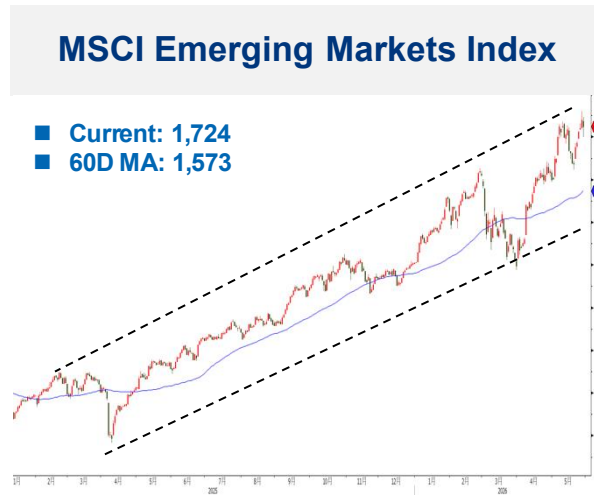
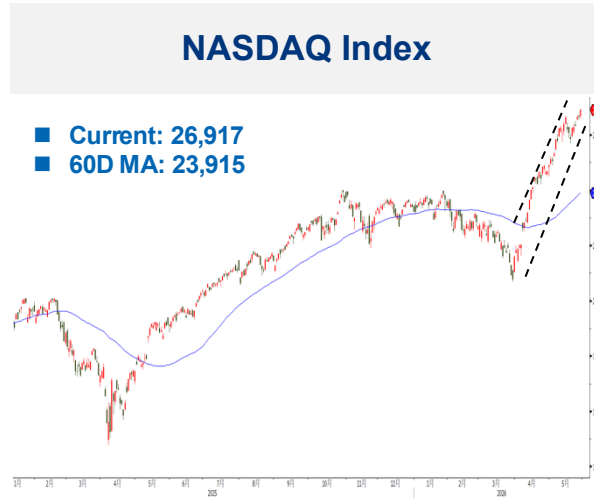
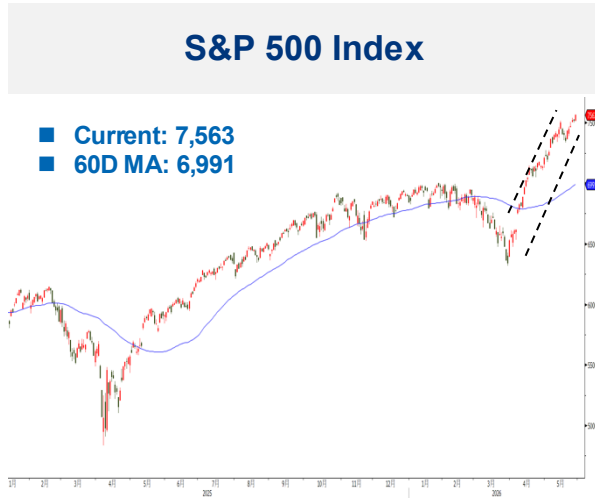


Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg

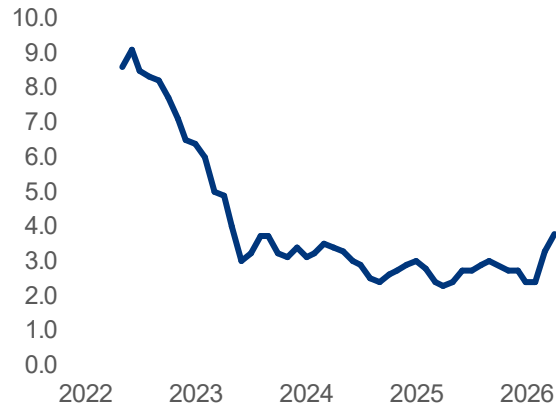
Technical Analysis



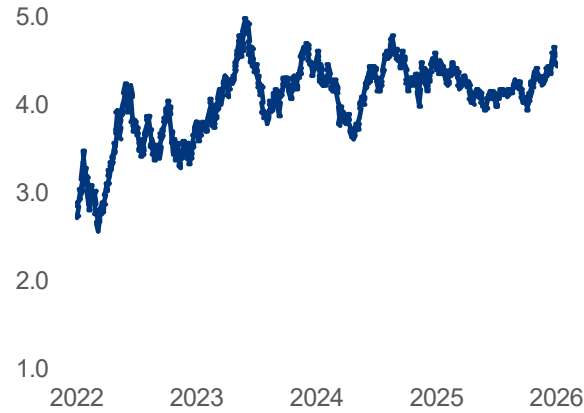
Source: Bloomberg

Market Monitor

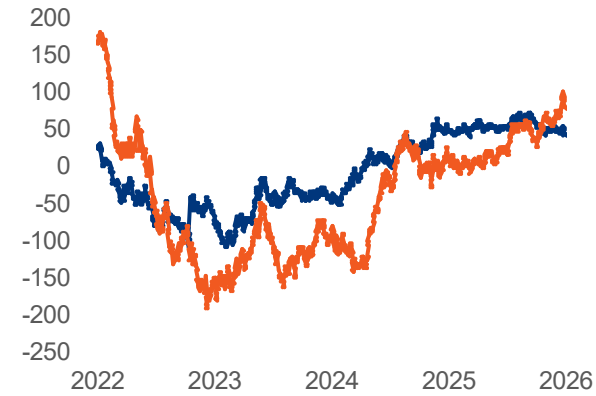
U.S. CPI YoY (%)



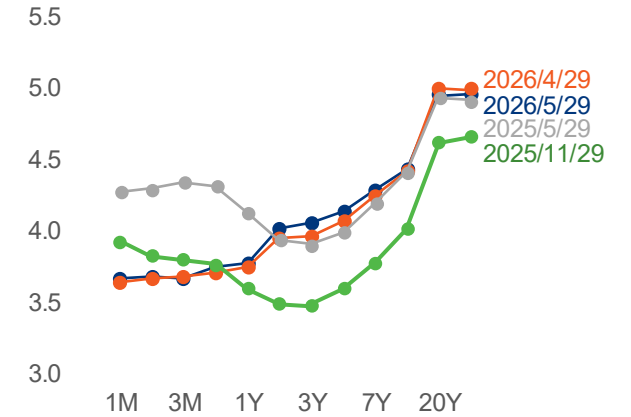
U.S. 10-Year Treasury Yield (%)



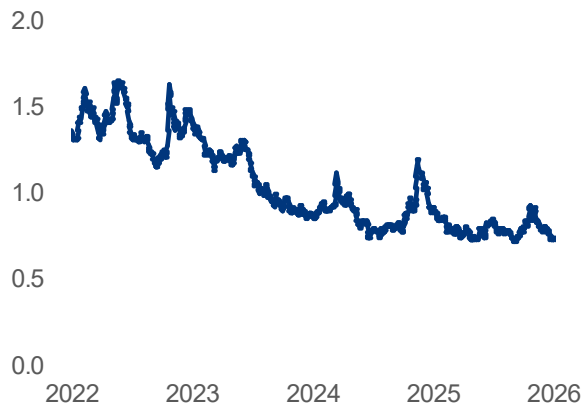
U.S. Treasury Yield Spread (bps)



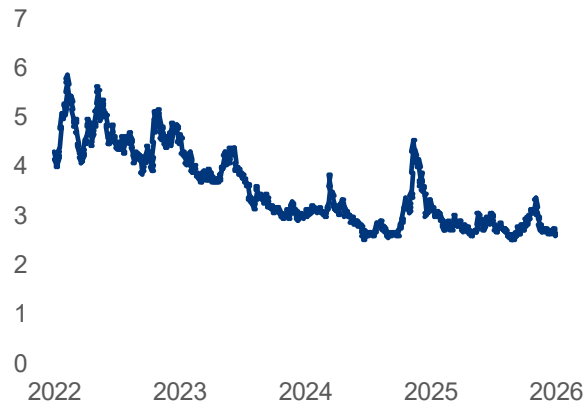
U.S. Treasury Yield Curve (%)



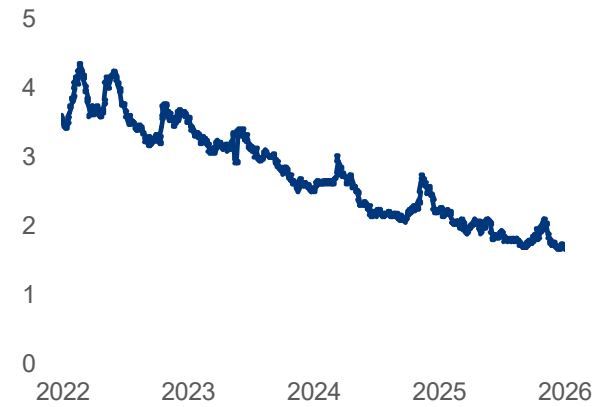
USD IG Credit Spread (%)



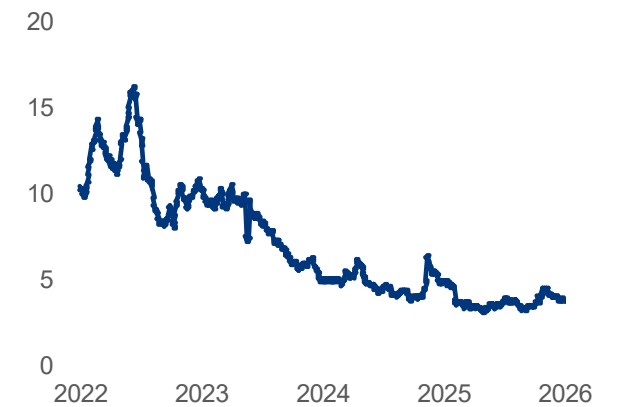
USD HY Credit Spread (%)



USD EM Credit Spread (%)



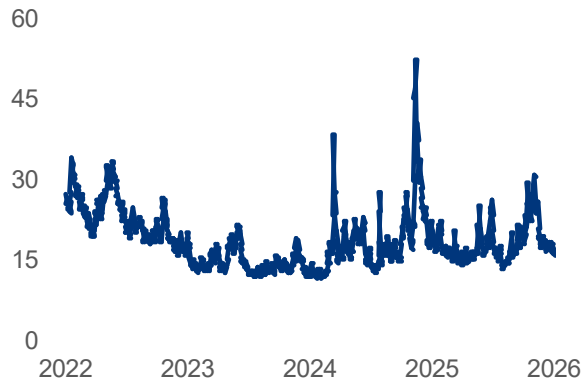
USD Asia Credit Spread (%)



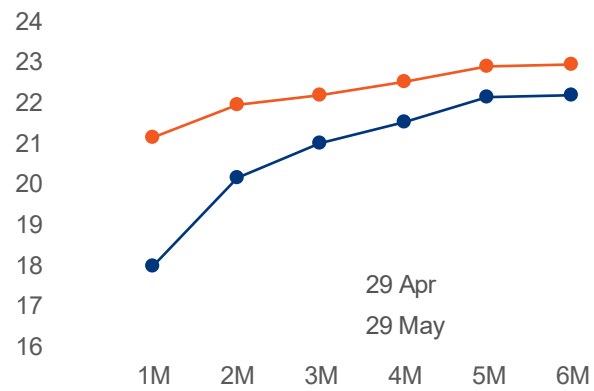
Source: Bloomberg

Market Monitor

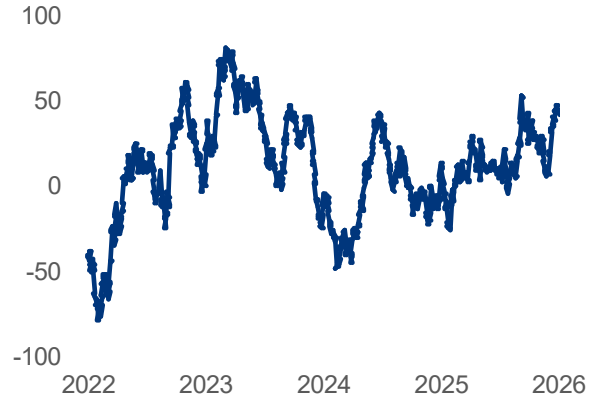
VIX Index



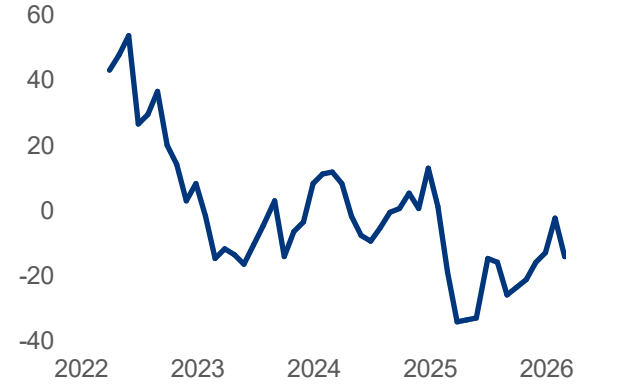
VIX Term Structure



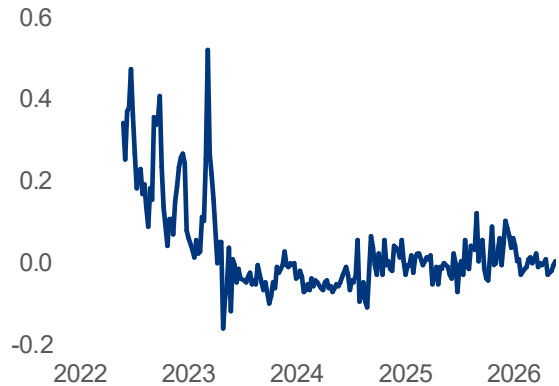
U.S. Citi Economic Surprise Index*



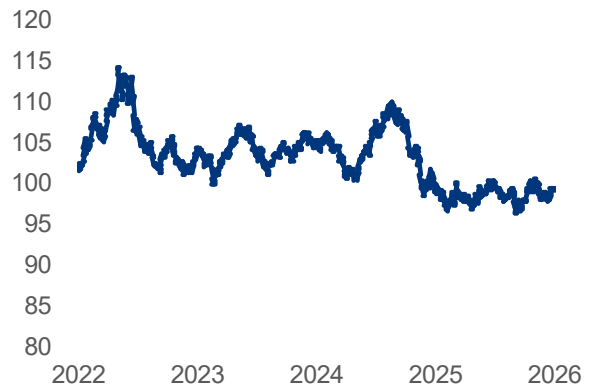
U.S. Citi Inflation Surprise Index*



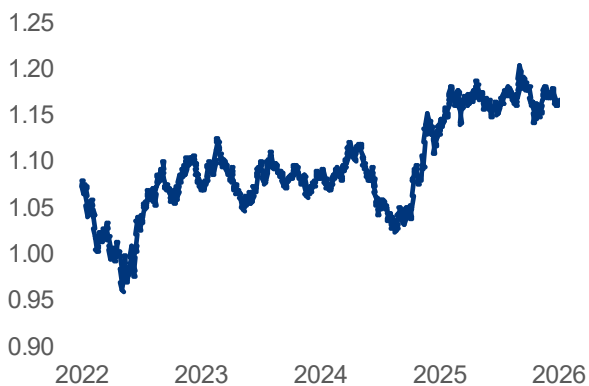
TED Spread (bps)



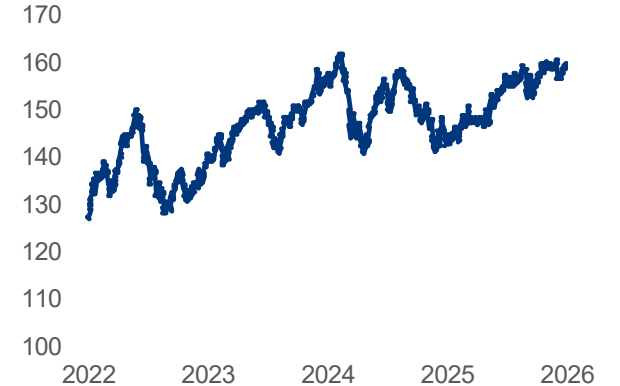
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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