CIO Office

Global Markets Weekly Kickstart

Rebalancing
Japan Equity Investments

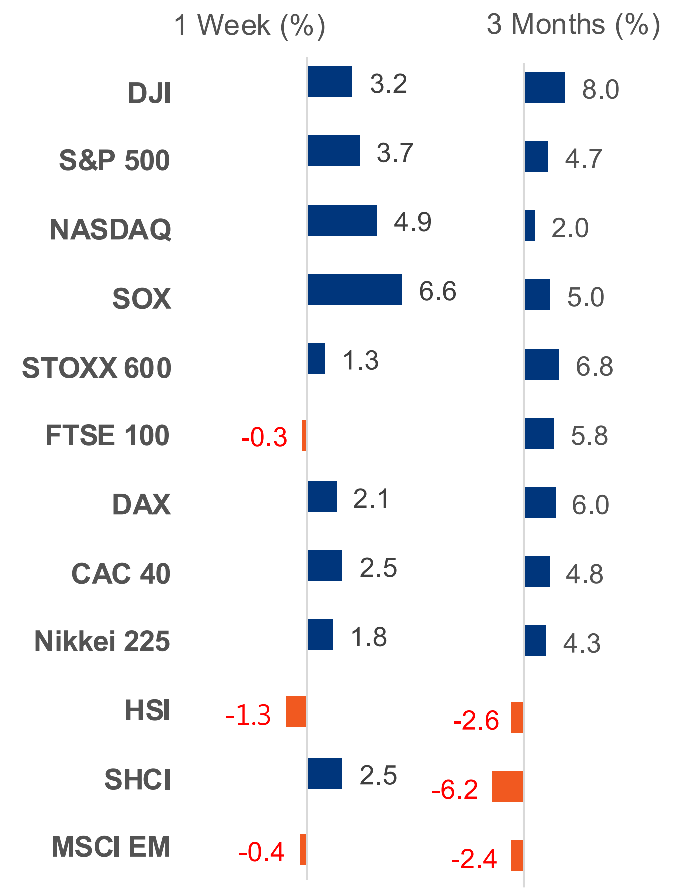
10 August 2026

Market Recap

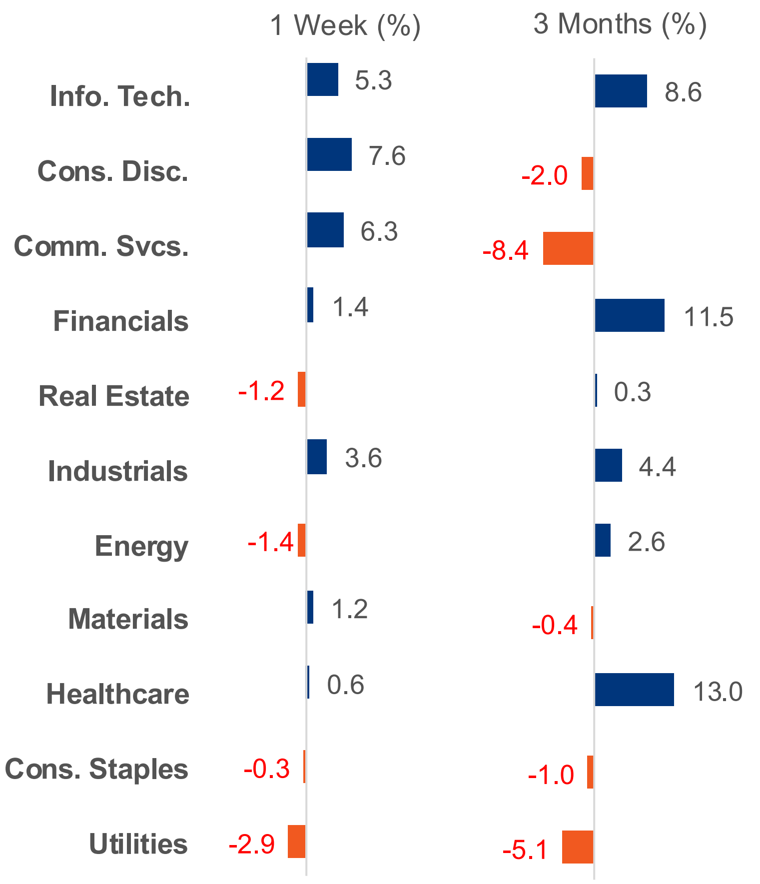
Earnings Revive Optimism, Driving Equity Rebound

- Better-than-expected U.S. earnings drove a strong rebound from recent lows, led by the Nasdaq and Philadelphia Semiconductor Index as optimism toward technology and semiconductors returned. Meanwhile, Trump canceled planned military strikes on Iran, easing market concerns and supporting European equities. However, Europe lagged the U.S. due to its lower technology weighting.
- By sector, despite post-earnings declines in SpaceX and AMD, Palantir's strong results reinforced optimism over AI demand, alongside Amazon's earlier cloud revenue beat. Capital continued to rotate back into growth sectors, driving strong rebounds in technology and consumer discretionary, while defensive sectors such as consumer staples and utilities declined.
- U.S. Treasury Secretary Bessent said the U.S. and Iran could soon reach an agreement to reopen the Strait of Hormuz. Easing geopolitical concerns pushed oil prices lower, weighing on energy stocks.

Regional Index Performance (%)



U.S. Sector Index Performance (%)



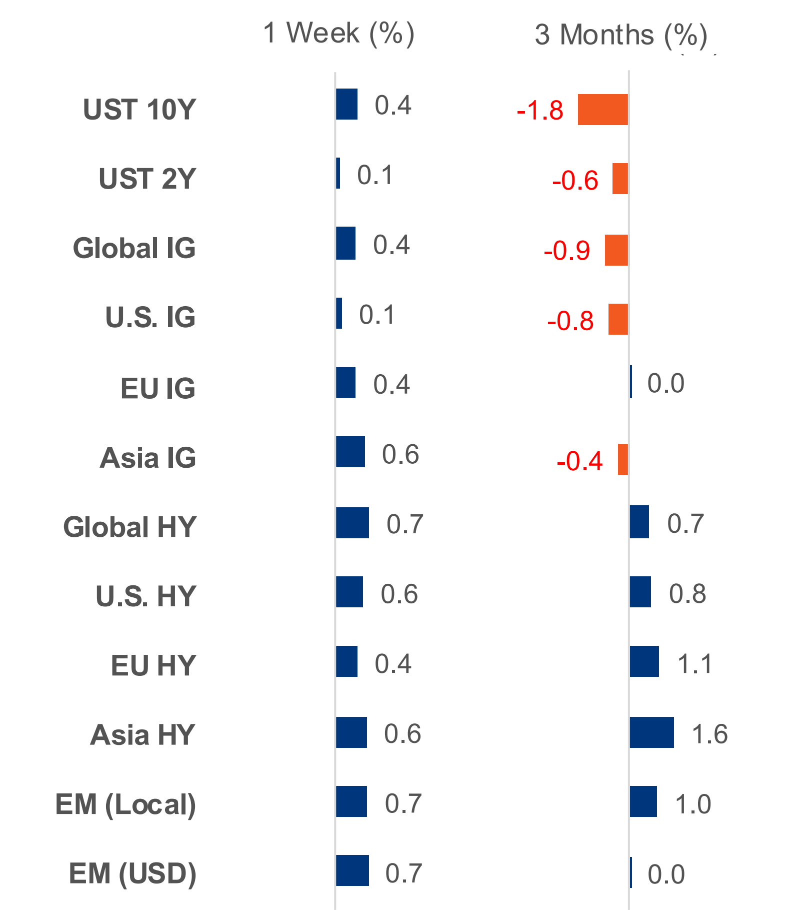
Source: Bloomberg

Market Recap

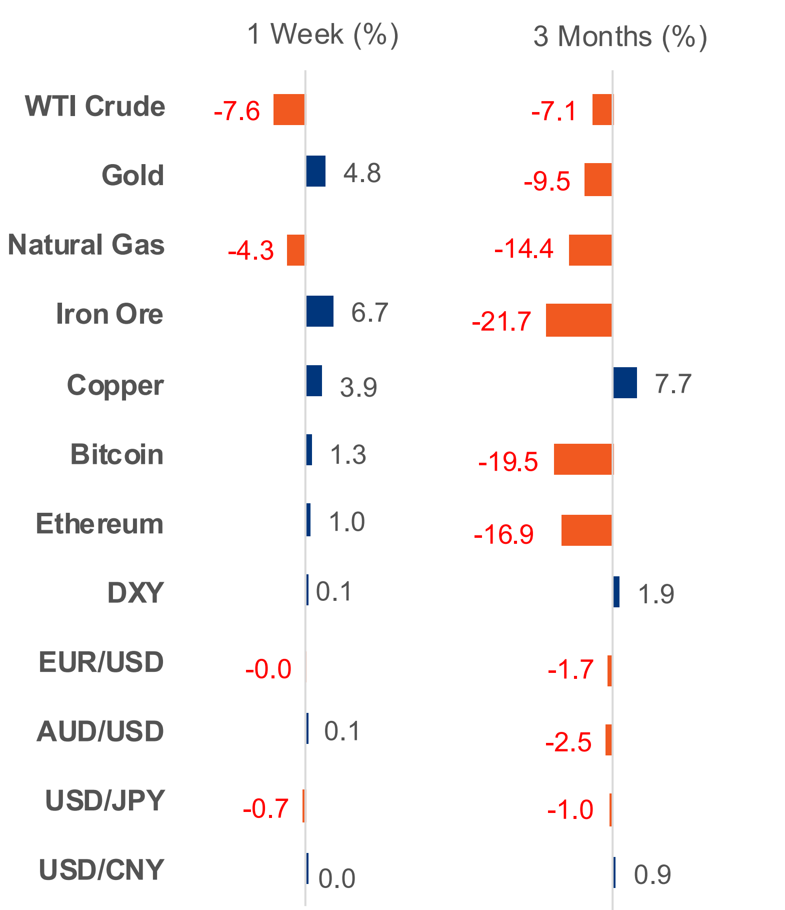
Easing Geopolitical Risks Weigh on Oil and Yields; JPY Intervention in Focus

- Trump canceled planned military strikes on Iran, allowing U.S.-Iran talks to continue and easing Middle East tensions. Lower geopolitical risk pushed Brent briefly below US$80/bbl and pulled Treasury yields off recent highs. The U.S. 10Y yield fell to around 4.65% and the 30Y to 5.20%, lifting bonds across the curve, with long-duration bonds outperforming.
- On Aug. 3, Japan's Finance Minister Satsuki Katayama said Japan and the U.S. had jointly intervened in FX markets to curb excessive JPY weakness. USD/JPY fell sharply, briefly reaching 155. U.S. Treasury Secretary Bessent also said the U.S. is considering expanding the Fed's repo facility in the coming months to provide temporary USD liquidity. This could allow Japan to access dollars without directly selling U.S. Treasuries, easing the funding burden of FX intervention.
- We expect the JPY to remain firm near term, though the durability of intervention remains uncertain given the wide U.S.-Japan rate differential and high energy import costs.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



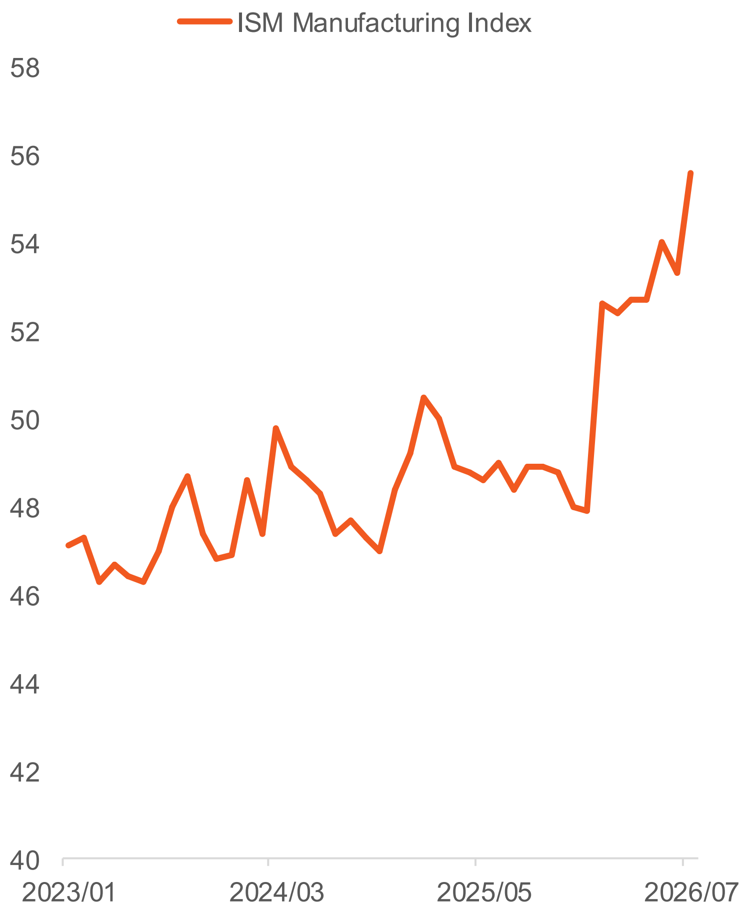
Source: Bloomberg

What's Trending

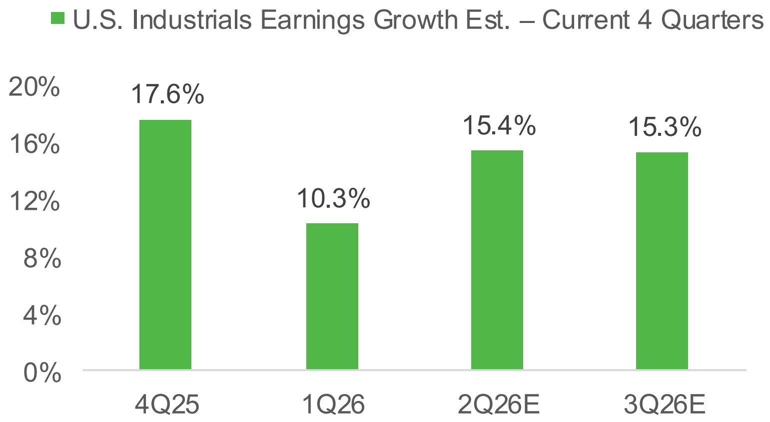
ISM Manufacturing Beats Expectations, Supporting Industrials Fundamentals

- The latest ISM Manufacturing Index rose further, with key sub-indices improving. New orders rebounded, while new export orders returned above 50, signaling solid U.S. manufacturing demand. Production accelerated and employment returned to expansion, consistent with improving labor data. Prices continued to ease from recent highs, though only modestly, suggesting inflation pressures remain.
- The stronger ISM reading signals improving U.S. manufacturing activity and supports industrial stocks. Consensus expects 2026 industrial earnings growth to be revised higher, with double-digit growth sustained over the past four quarters, driven by stronger orders and corporate capex. Rising geopolitical tensions could also boost defense demand. Improving fundamentals should continue to attract flows into industrials.

ISM Manufacturing Continues to Rise, Signaling Strong Confidence



Industrial Earnings Growth Remains in Double Digits Across Quarters



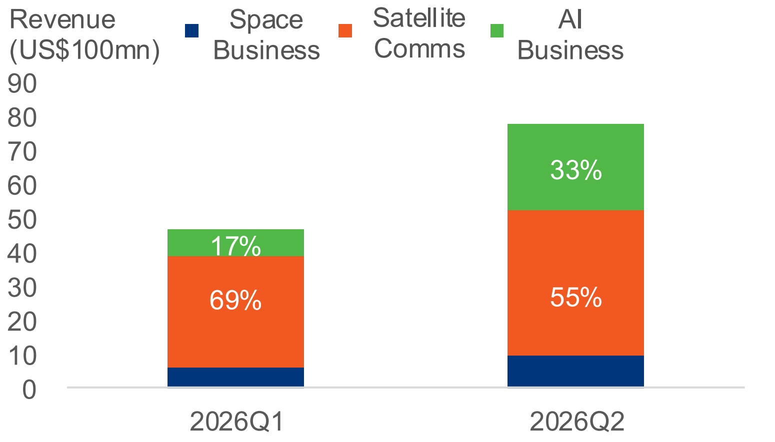
Source: Bloomberg

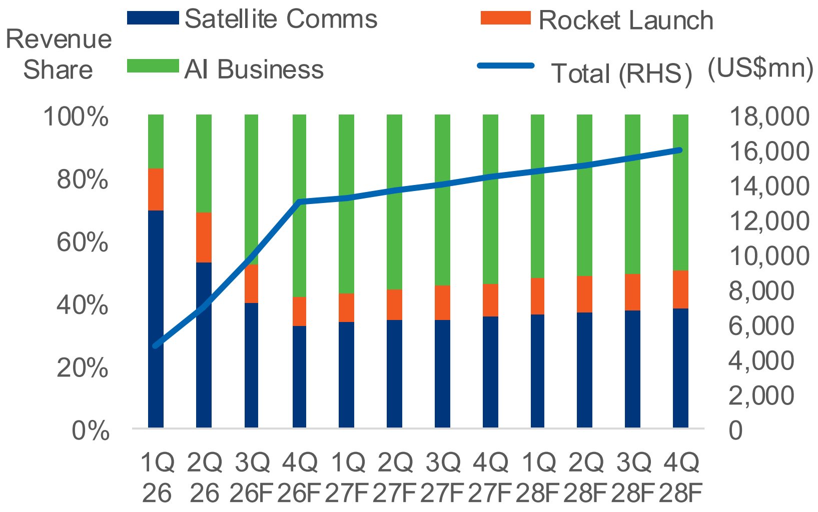
What's Trending

SpaceX Earnings: Focus on Lockup Expiry and AI Monetization

- SpaceX 2Q26 revenue rose 66.5% QoQ to US$7.81bn. AI compute revenue reached US$2.56bn, up 247.5% YoY, as compute leasing contracts with Google, Anthropic and other customers began contributing. Starlink subscriber growth also drove satellite communications revenue up 66% YoY to US$4.29bn.
- 2Q26 capex reached US$18.37bn, up 550% YoY, with US$15.83bn allocated to AI. Beyond compute for Grok training, AI data-center capacity will support inference, orbital computing satellites and compute leasing, reflecting strong compute demand.
- Near term, heavy capex will weigh on FCF and earnings, while insider lockup expiries in 2H26 could increase share-price volatility. Longer term, SpaceX plans to launch Starmind AI satellites from 2027 alongside ground data centers, supporting rapid AI revenue growth. AI capex monetization will remain a key focus.

AI Business Starts Contributing Revenue, Share Set to Rise





Rising Free Float May Weigh on Shares Near Term

Days Post-IPO	Approx. Timing	Unlock %/ Details
Day 70	Mid-Aug	First 7% Unlock
After 2Q26 Earnings	Mid-Aug	20% Unlock
Day 90	Mid-Sep	Second 7% Unlock
Day 105	Late Sep	Third 7% Unlock
Day 120	Mid-Oct	Fourth 7% Unlock
Day 135	Late Oct	Fifth 7% Unlock
After 3Q26 Earnings	Mid-Nov	7% Unlock
Day 180	Early Dec	All remaining shares unlocked
Day 366	Mid-June 2027	Musk's restricted shares fully unlocked

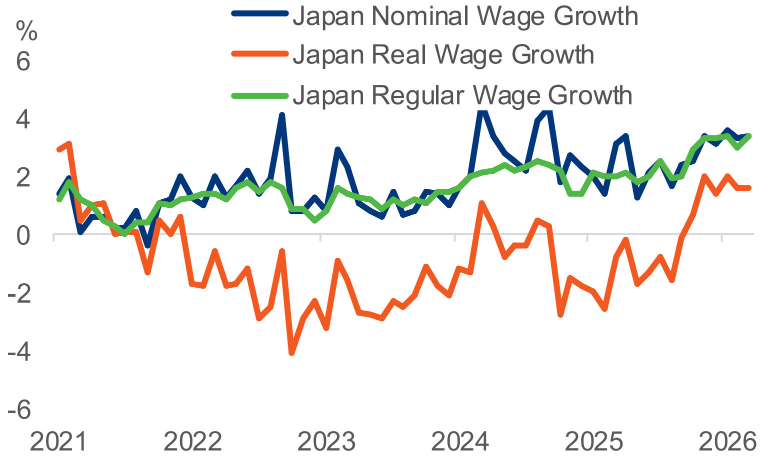
Source: Bloomberg, SpaceX, KGI

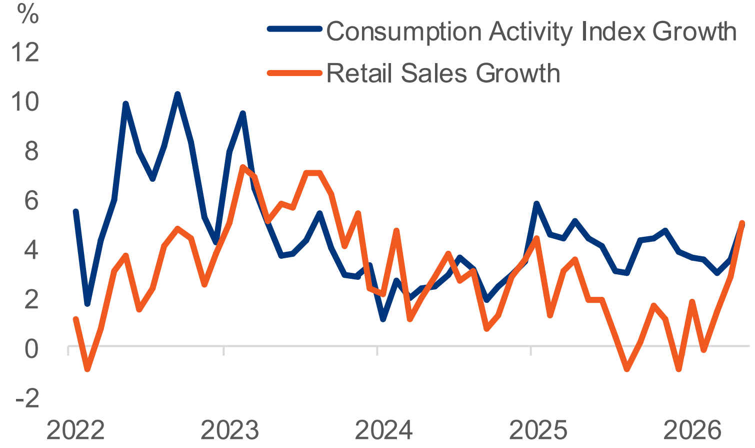
In Focus

Japan Data Improve, Signaling Economic Resilience

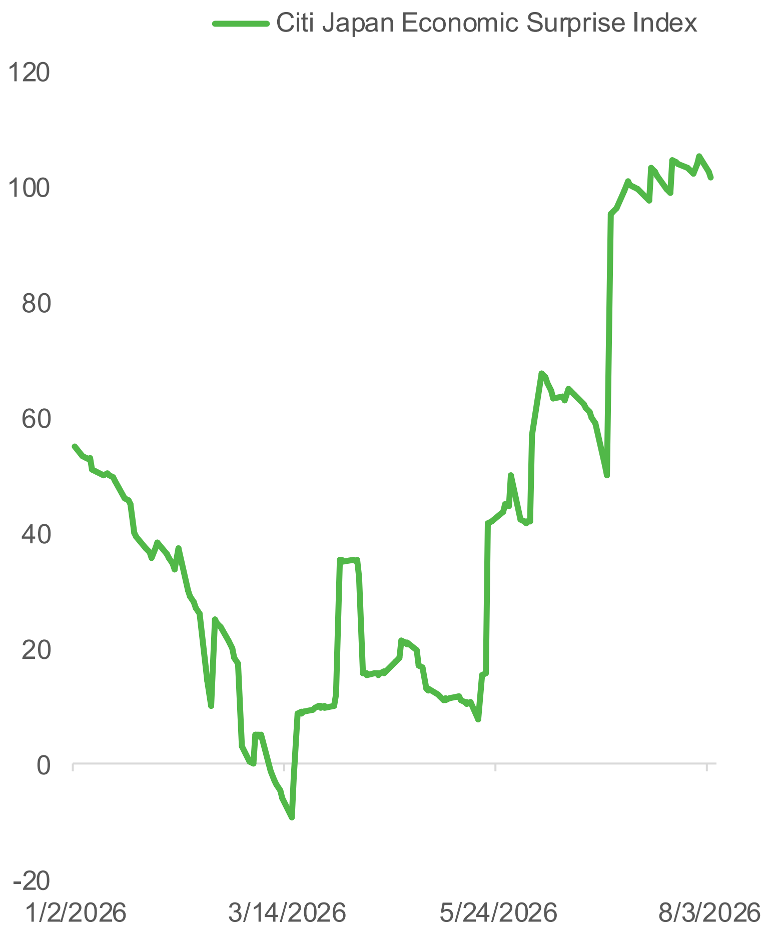
- Japan's nominal wage growth accelerated to 3.4% YoY in June, supporting steady growth in regular wages and reflecting a tight labor market. Real wages rose 1.6% YoY, marking a sixth straight month of growth as wages caught up with inflation and household purchasing power improved. Consumption remained positive, with retail sales rising modestly. Food and essentials demand stayed solid despite weak durable goods spending. Overall, wage growth remains a key support for domestic demand.
- Japan's manufacturing PMI remained above 50, with stronger new orders and output as AI-related external demand boosted production to a record high. Services PMI also remained in expansion, indicating resilient domestic and external demand. Better-than-expected data have pushed the Citi Japan Economic Surprise Index higher, reinforcing confidence in Japan's economic resilience.

Japan Real Wages Maintain Positive, Supporting Consumption Momentum





Japan Data Beat Expectations, Showing Economic Resilience

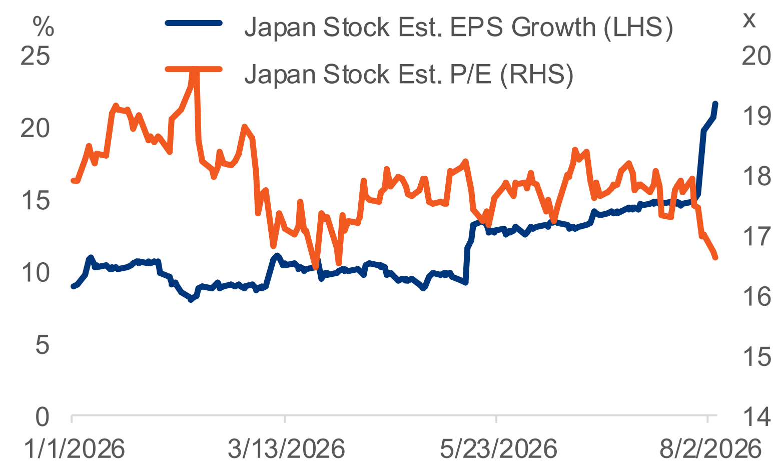


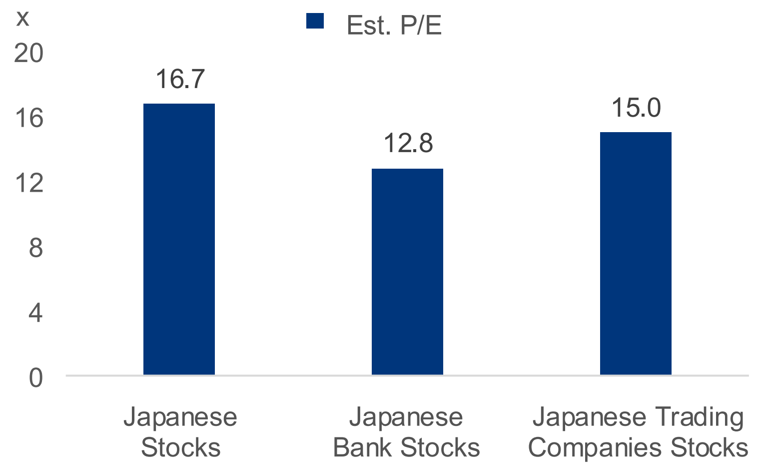
Source: Bloomberg, KGI

Banking and Trading Companies Hold Investment Value, Attracting Funds Amid Recent Market Volatility

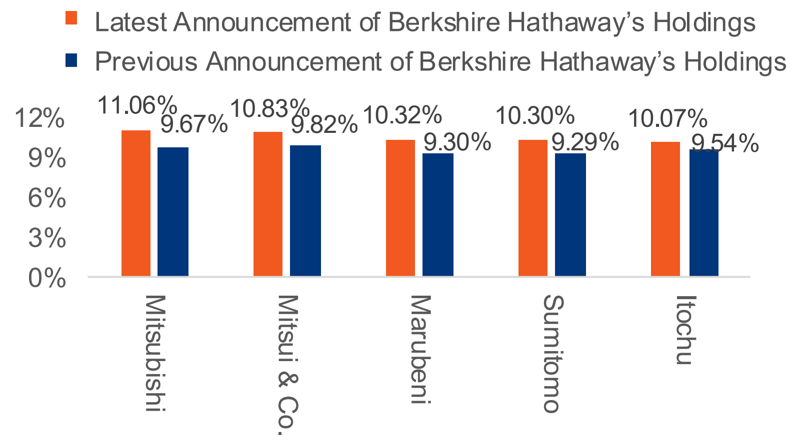
- Japanese stocks have recently pulled back, mainly reflecting valuation corrections in AI-related names after strong gains. Meanwhile, most corporate earnings have beaten expectations, driving continued upgrades to earnings growth forecasts and signaling improving fundamentals.
- As valuations correct, investors are shifting toward cheaper sectors, particularly banks and trading companies, which trade well below the broader market. With the BOJ already in a rate-hike cycle and another 25 bps hike expected by year-end, bank earnings should continue to benefit.
- Trading companies offer diversified business exposure, while their energy and commodities businesses support growth amid commodity price volatility. Recent earnings were also strong, while Berkshire Hathaway has continued raising its stakes to above 10%, underscoring the long-term appeal of Japanese trading companies.

Japan Pullback Reflects Valuation Reset; Banks and Trading Companies Offer Value

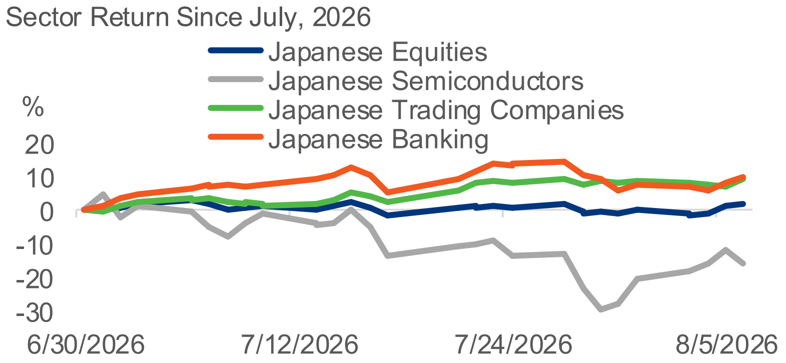




Berkshire Raises Stakes in Five Trading Companies, Signaling Long-Term Confidence



Recent Japan Stock Volatility Favors Banks and Trading Companies



Source: Bloomberg, KGI

Strategic Viewpoint

Watch for Near-Term Pullback After Rapid Equity Rebound

Asset Type	Market View	Preferred Assets
Equities	◆ Corporate earnings remain solid, while strong AI demand at some tech firms has supported a rebound in sentiment. However, markets remain focused on capex returns, raising pullback risk after the rapid rebound. Meanwhile, renewed U.S.-Iran tensions cloud the outlook. Defensive sectors such as healthcare and utilities can reduce volatility, while the long-term tech and AI semiconductor outlook remains positive. Favor buying on dips and diversify across countries and sectors. ◆ Europe and Japan remain key diversification markets. Higher global rates benefit banks, while European and Japanese banks have solid fundamentals. Japanese semiconductors remain attractive on pullbacks, while European defense stocks retain investment appeal.	**Strategy:** Short term: defensive sectors. Medium to long term: AI infrastructures and semiconductors; while favoring cyclical sectors outside AI. **Regions**: Japanese banks, Japanese semiconductor stocks, European defense, European financials
Bonds	◆ U.S. 30Y Treasury yields have eased but remain elevated. Avoid excessive long-duration exposure and favor short- to medium-term bonds. High-quality IG issuers with defensive characteristics remain attractive after risk-adjusted yields, including financials, tech, telecom and utilities. ◆ Non-USD IG bonds, such as EUR- or AUD-denominated bonds, can diversify single-currency risk.	**Types:** Short/ Intermediate term IG bonds, with a preference for financials, technology, communication services, and utilities. **Satellite :** Non-USD IG bonds for diversification.
Forex	◆ The Fed's hawkish stance should provide some support to the USD, but joint U.S.-Japan intervention could pressure the USD near term. ◆ Joint U.S.-Japan FX intervention should keep the JPY relatively strong near term, while the RMB may also appreciate following PBOC intervention.	**USD:** Near-term strength remains supported. Gradual JPY appreciation; modest RMB appreciation.
Commodity	◆ Trump's cancellation of planned military strikes on Iran supports continued U.S.-Iran talks, but uncertainty remains and could increase oil-price volatility. ◆ Lower U.S. yields and a weaker USD support gold near term. Longer term, continued central-bank purchases and portfolio demand remain supportive.	**Gold**: Near-term headwinds from higher U.S. yields and a stronger dollar. **Oil**: Supported by Middle East tensions and tight inventories.

US Equities

Japan's Five Major Trading Companies: Divergent Investment Amid Yen Policy Shift

- July U.S. nonfarm payrolls fell by 23K, far below expectations of 80K, with May and June revised down by 103K. Unemployment rate stood at 4.1%, lower than consensus and prior 4.2%. Average hourly earnings rose 0.1% m/m, below the 0.3% forecast and prior.
- July U.S. ADP employment added 44K jobs, missing expectations of 65K and below the revised prior 95K.July U.S.
- ISM Manufacturing PMI came in at 55.6, above consensus 53.9 and prior 53.3.July U.S.
- ISM Services PMI registered 54.1, slightly below consensus 54.5 but above prior 54.0.
- On July 31, the Bank of Japan held its policy rate at 1.0% but reiterated gradual hikes as inflation nears 2%. Some members advocated raising to 1.25%, signaling normalization bias. Japan and the U.S. jointly intervened to buy yen, aiming to curb excessive depreciation and disorderly volatility. For the five major trading companies , yen appreciation and rising financing costs may compress overseas USD earnings, with higher sensitivity for resource-heavy Mitsubishi Corp, Mitsui & Co, and Marubeni. Conversely, a stronger yen lowers import costs for energy, food, and raw materials, improving household purchasing power and benefiting Itochu and Sumitomo with greater exposure to non-resource, consumer, and domestic demand businesses. Given FX intervention cannot alone reverse U.S.–Japan yield differentials, the yen is likely to trade with two-way volatility. Investment outlook remains neutral-to-positive but increasingly divergent: near-term preference for Itochu with stable non-resource income, cash flow, and shareholder returns; medium-to-long term focus on Mitsubishi, Mitsui, and Marubeni for earnings elasticity in energy, metals, power infrastructure, and AI-related investments.

U.S.–Japan 10Y Bond Yield Spread & FX Comparison

White Line: U.S.–Japan 10Y Bond Yield Spread
Blue Line: U.S.–Japan Exchange Rate

Source: Bloomberg, BloombergNEF

Mitsubishi Corporation (8058 JP)

Closing Price	¥4,868	Target Price	¥5,800

Mitsubishi Corporation has a broad business portfolio spanning multiple industries, coordinated through eight specialized divisions: Environment & Energy, Material Solutions, Mineral Resources, Urban Development & Infrastructure, Mobility, Food Industry, Smart Living Creation, and Power Solutions. The company's operations extend worldwide.

Resource Earnings and LNG Expansion Enhance Cash Generation

Mitsubishi Corporation's diversified portfolio across coking coal, copper, natural gas, automotive, and food provides multiple profit drivers. In 1Q FY2026, net income rose 47% yoy to JPY 298.5B, with operating cash flow at JPY 341.2B. Strong commodity prices and rising output from the Canada LNG project supported short-term earnings, and management is considering raising full-year guidance.

AI Data Centers Boost Copper, Power, and Gas Demand

AI infrastructure and broader electrification trends are driving demand for grid capacity, power generation, and conductive metals. Mitsubishi's positioning in copper, LNG, and power infrastructure is reinforced, while direct development of AI-ready data centers in Japan highlights future electricity demand sources, securing exposure across both resources and infrastructure.

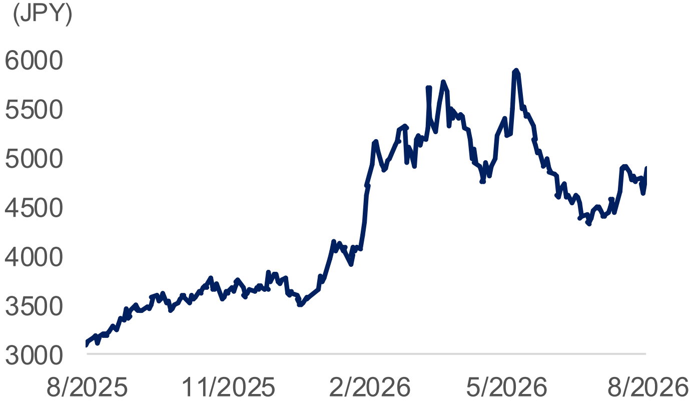
FY2026 Q1 Results Beat Expectations, Outlook Positive

In Q1 FY2026 (fiscal year ending March), operating cash flow rose JPY 90.8B to JPY 341.2B, and consolidated net income increased JPY 95.4B to JPY 298.5B. For the full year, the company projects operating cash flow of JPY 1.25T, net income of JPY 1.1T, and dividend per share of JPY 125.

Valuation Consensus

Bloomberg's 12-month average target price is JPY 5,821.31, with a high of JPY 7,000 and a low of JPY 3,280.74.

1-Year Price



Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	-9.3	-4.9	1.6	10.7	4.3
EBITDA (%)	5.8	5.0	4.6	5.6	5.5
EPS(JPY)	183.21	160.69	205.21	308.38	309.80
Net Profit Margin(%)	4.1	3.5	4.1	5.3	5.1

FY2026 Guidance

(¥ bn, except per share amounts)	FY2026 Forecast
Underlying operating CF[1]	1,250.0
Consolidated net income[2]	1,100.0
Adjusted consolidated net income	820.0
Capital recycling gains / losses	160.0
One-time items	120.0

P/E & P/B

Source: Bloomberg, Company

Marubeni Corporation (8002 JP)

Closing Price	¥5,024	Target Price	¥6,200

Marubeni Corporation is a comprehensive trading company with operations spanning steel, information technology, utilities and infrastructure, energy, food, metals and mineral resources, development and construction, industrial machinery, and chemicals. Through a global network of sales offices and representative branches, the company distributes its products worldwide.

Stronger Cash Flow Supports Higher Investment and Shareholder Returns

Marubeni's earnings structure is increasingly supported by operating businesses in North American agriculture, power infrastructure, chemicals, and aerospace, reducing reliance on commodity prices. Following 1Q FY2026 net income growth of 21% to JPY 186.4B, the company raised its three-year investment allocation by JPY 250B to JPY 1.35T and lifted planned shareholder returns by JPY 200B to JPY 900B, reflecting stronger cash generation and confidence in its project pipeline.

U.S. Infrastructure, Power, and Food Demand Drive Long-Term Growth

With established platforms in power, food, and distribution, Marubeni is well positioned to benefit from rising U.S. electricity demand, infrastructure investment, and agricultural consumption. Management expects a significant portion of new investments to target the U.S. market, while structural copper demand from AI and semiconductor infrastructure provides further upside through its metals portfolio.

FY2026 Q1 Results Beat Expectations, Full-Year Forecast Raised

In Q1 FY2026 (fiscal year ending March), net income reached JPY 186.4B (+JPY 32.0B yoy), adjusted net income was JPY 177.0B (+JPY 49.0B yoy), and core operating cash flow rose to JPY 249.9B (+JPY 96.0B yoy). For the full year, the company projects net income of JPY 580.0B, adjusted cash flow of JPY 540.0B, and annual dividend per share of JPY 115. Additionally, investment plans were raised by JPY 250B to JPY 1.35T, and shareholder return targets increased by JPY 200B to JPY 900B.

Valuation Consensus

Bloomberg's 12-month average target price is JPY 6,214.62, with a high of JPY 7,180 and a low of JPY 5,100.

1-Year Price

FY2026 Guidance

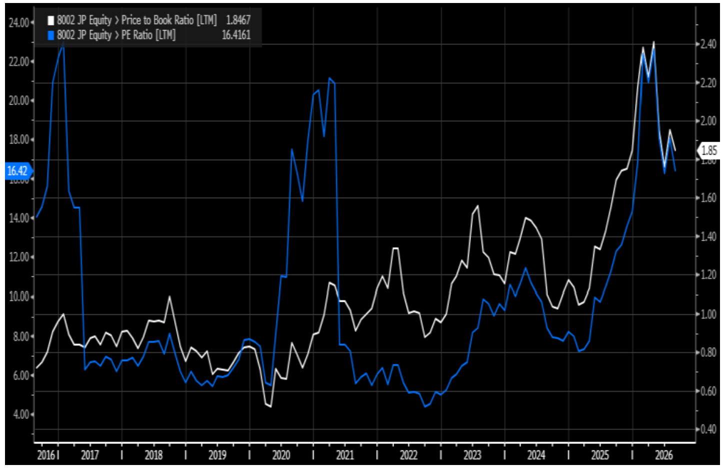
(billion yen)	FY2026 Forecast (announced on May 1, 2026)
Net profit	**580.0**
Adjusted net profit	**540.0**
Non-resources	382.0
Resources	161.0
Core operating cash flow	**+660.0**

Financials

	2024	2025	2026	2027F	2028F
Revenue Growth(%)	-21.1	7.4	6.1	5.3	3.2
Operating Margin(%)	6.9	7.4	5.8	6.4	5.8
EPS(JPY)	293.31	294.64	288.01	373.81	390.19
Net Profit Margin(%)	6.8	6.3	5.7	7.0	7.0

Source: Bloomberg; 2027/28F are market estimates

P/E & P/B



Source: Bloomberg, Company

KGI

Appendix

Key Economic Data / Events

▶ AUG 2026

3 Monday
- U.S. July S&P Global Manufacturing PMI Final (Act:53.9 Est:53.8 Prev:53.9)
- U.S. Jul ISM Manufacturing PMI (Act:55.6 Est:53.9 Prev:53.3)
- Japan Jul S&P Global Manufacturing PMI (Final) (Act:54.5 Prev:54.8)
- Eurozone Jul S&P Global Manufacturing PMI (Final) (Act:51.9 Est:52.0 Prev:51.4)

4 Tuesday
- U.S. Jun JOLTS Job Openings (Act:7,359k Est:7,454k Prev:7,537k)
- U.S. Jun Durable Goods Orders MoM (Final) (Act:0.5% Est:0.3% Prev:-4.0%)

5 Wednesday
- U.S. Jul ADP Employment Change (Act:44k Est:65k Prev:95k)
- U.S. Jul S&P Global Services PMI (Final) (Act:54.6 Est:53.6 Prev:51.2)
- U.S. Jul ISM Services PMI (Act:54.1 Est:54.5 Prev:54.0)

6 Thursday
- U.S. Weekly Initial Jobless Claims (Act:199k Est:205k Prev:198k)
- Eurozone Jun Retail Sales MoM (Act:-0.3% Est:0.1% Prev:0.4%)

7 Friday
- U.S. Jul Nonfarm Payrolls Change (Est:80k Prev:57k)
- U.S. Jul Unemployment Rate (Est:4.2% Prev:4.2%)
- China Jul Export YoY (Act:23.9% Est:23.0% Prev:27.0%)

10 Monday
- Eurozone Aug Sentix Investor Confidence (Est:-2.9 Prev:3.1)

11 Tuesday
- U.S. Jul Existing Home Sales (Est:4.05m Prev:4.09m)

12 Wednesday
- U.S. Jul CPI YoY (Est:3.4% Prev:3.5%)
- U.S. Jul Core CPI YoY (Est:2.5% Prev:2.6%)
- Earnings: LITE US, SMCI US

13 Thursday
- U.S. Weekly Initial Jobless Claims (Est:203k Prev:199k)
- U.S. Jul PPI YoY (Est:4.8% Prev:5.5%)
- Japan Jul PPI YoY (Est:7.5% Prev:7.1%)
- Earnings: CSCO US, COHR US

14 Friday
- U.S. Jul Retail Sales MoM (Est:0.2% Prev:0.2%)
- U.S. Aug Univ. of Michigan Consumer Sentiment (Prelim.) (Est:54.1 Prev:55.2)
- Eurozone Q2 GDP YoY (Revised) (Est1.0% Prev:0.5%)
- Earnings: AMAT US

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
2026/8/4	Palantir Technologies (PLTR US)	1.81B	1.94B	0.35	0.41	V	V
2026/8/4	Merck (MRK US)	16.35B	16.61B	-0.23	-0.13	V	V
2026/8/4	Caterpillar (CAT US)	18.13B	19.58B	6.17	8.17	V	V
2026/8/4	Pfizer (PFE US)	14.41B	15.03B	0.68	0.77	V	V
2026/8/4	McDonald's (MCD US)	7.12B	7.1B	3.33	3.38		V
2026/8/5	Booking Holdings (BKNG US)	7.18B	7.35B	2.43	2.54	V	V
2026/8/5	Amgen (AMGN US)	9.44B	10.05B	5.62	6.29	V	V
2026/8/5	Gilead Sciences (GILD US)	7.4B	7.8B	-7.15	-6.75	V	V
2026/8/5	Arista Networks (ANET US)	2.83B	3.04B	0.89	1.02	V	V
2026/8/5	Advanced Micro Devices (AMD US)	11.31B	11.54B	1.62	1.66	V	V
2026/8/5	Walt Disney (DIS US)	25.39B	25.25B	1.86	2.06		V
2026/8/5	Eli Lilly (LLY US)	20.59B	22.97B	6.01	8.38	V	V
2026/8/5	Uber Technologies (UBER US)	14.24B	14.19B	0.84	1.17		V
2026/8/6	Western Digital (WDC US)	3.68B	3.75B	3.31	3.56	V	V
2026/8/6	AppLovin (APP US)	1.94B	1.92B	3.75	3.76		V

Source: Investing.com

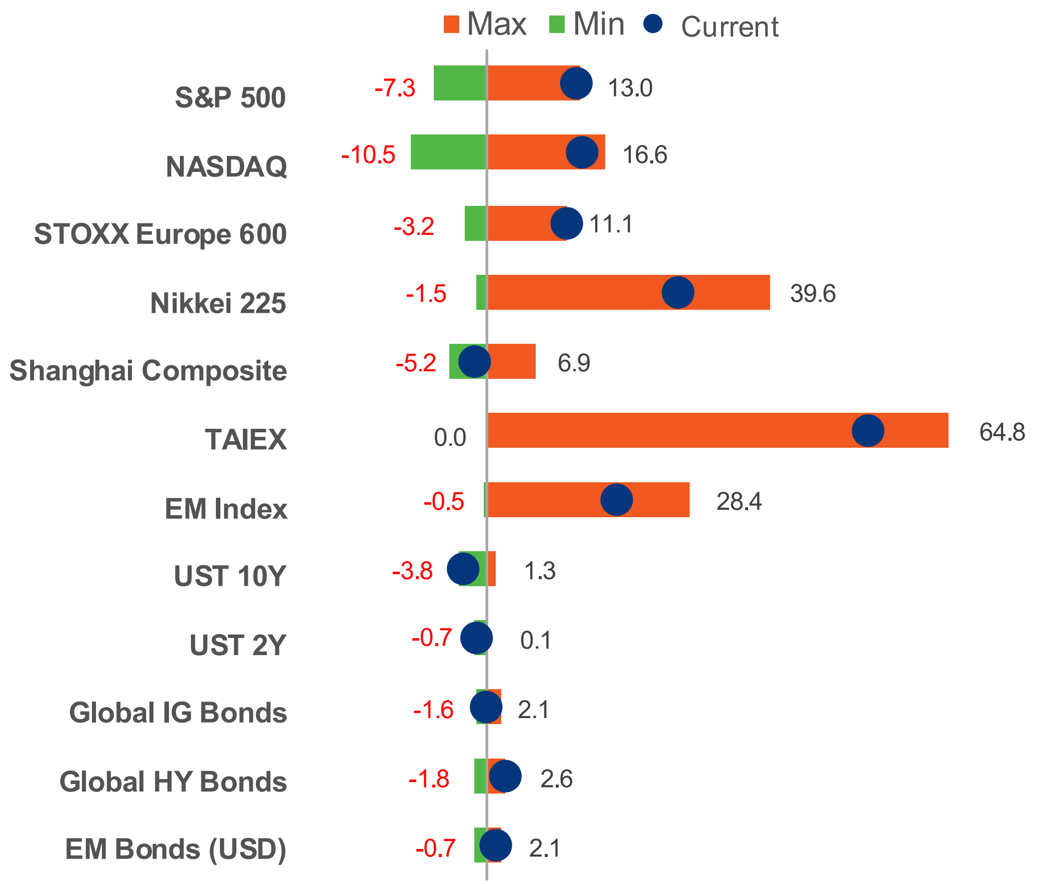
Key Earnings Releases

Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation	
						Revenue	EPS
2026/8/6	SanDisk Corporation (Delaware) (SNDK US)	20.07B	20.25B	67.06	70.88	V	V
2026/8/6	ConocoPhillips (COP US)	18.3B	19.52B	2.90	3.24	V	V
2026/8/6	Parker-Hannifin Corporation (PH US)	5.58B	5.76B	8.21	9.27	V	V

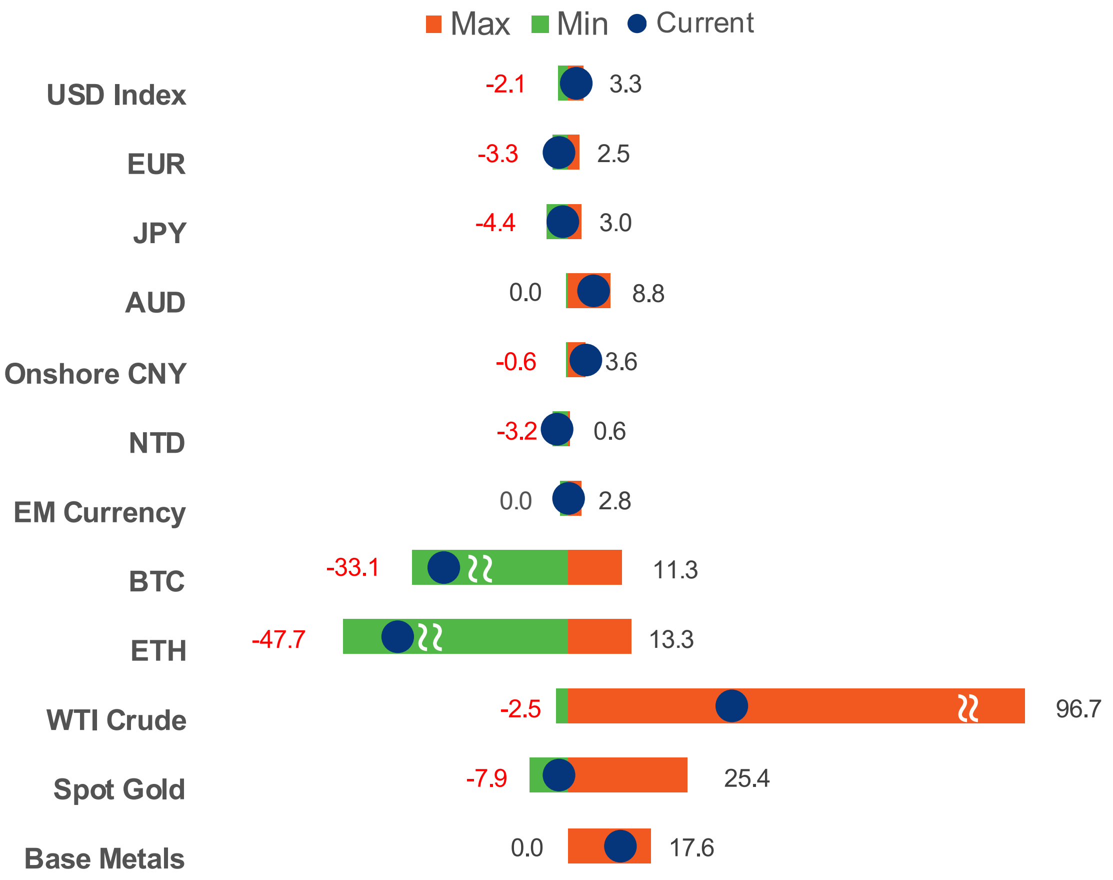
Source: Investing.com

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

- Current: 7,709
- 60D MA: 7,480

NASDAQ Index

- Current: 26,348
- 60D MA: 25,999

STOXX Europe 600 Index

- Current: 658
- 60D MA: 635

Nikkei 225 Index

- Current: 64,740
- 60D MA: 66,413

Shanghai Composite Index

- Current: 3,899
- 60D MA: 4,001

MSCI Emerging Markets Index

- Current: 1,658
- 60D MA: 1,694

Gold

- Current: 4,256
- 60D MA: 4,213

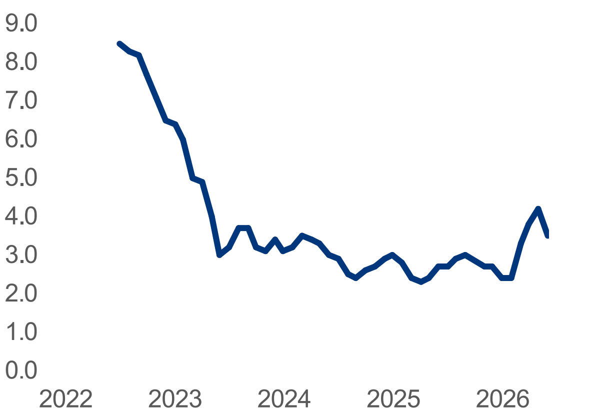
WTI Crude

- Current: 77.9
- 60D MA: 83.6

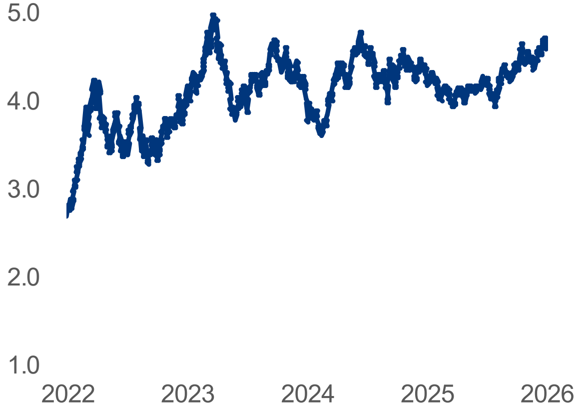
Source: Bloomberg

Market Monitor

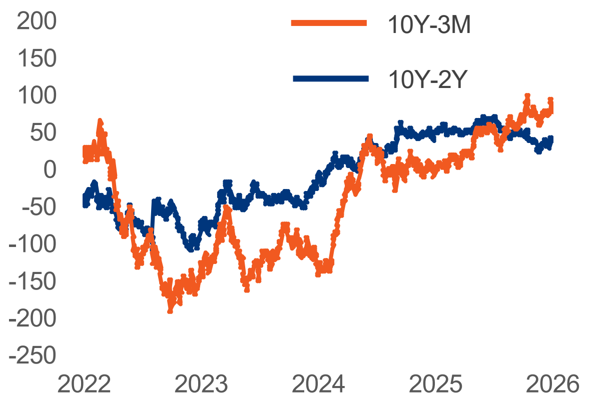
U.S. CPI YoY (%)



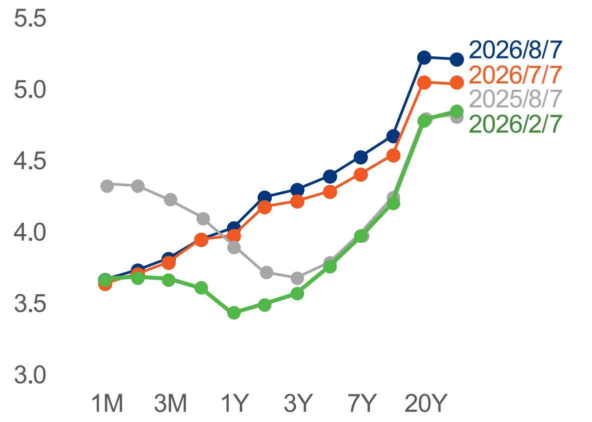
U.S. 10-Year Treasury Yield (%)



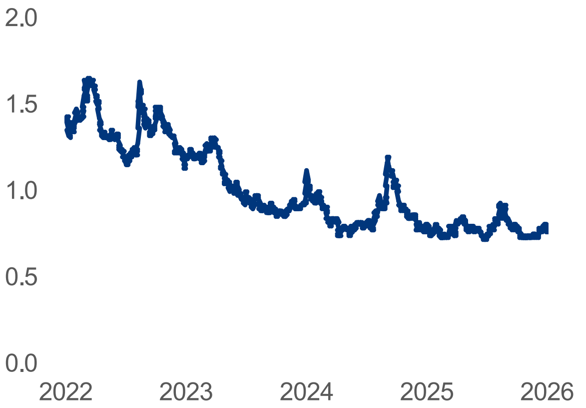
U.S. Treasury Yield Spread (bps)



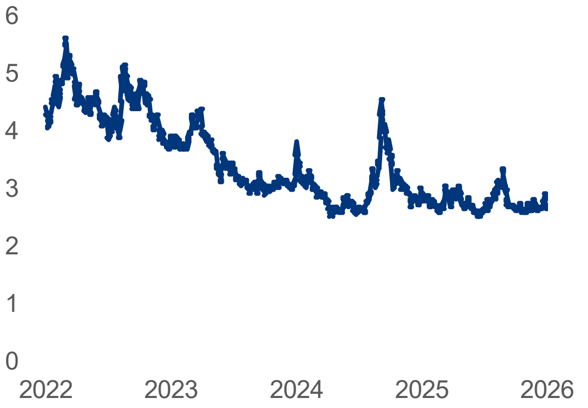
U.S. Treasury Yield Curve (%)



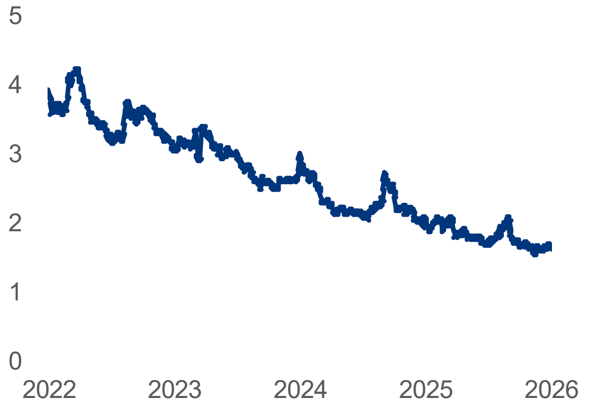
USD IG Credit Spread (%)



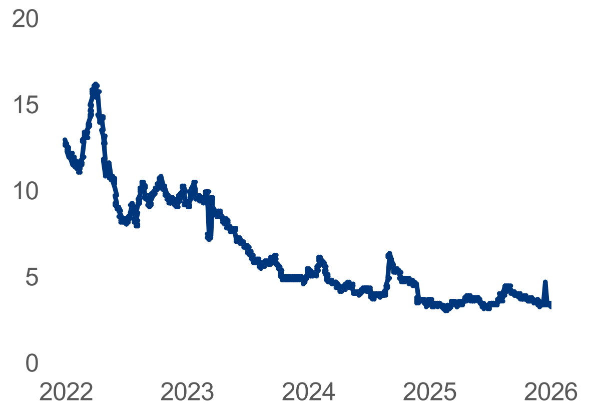
USD HY Credit Spread (%)



USD EM Credit Spread (%)



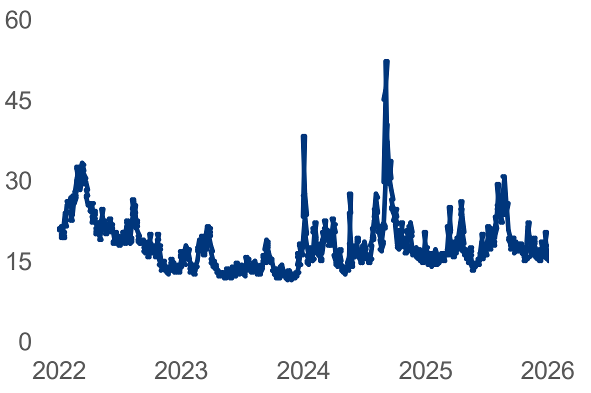
USD Asia Credit Spread (%)



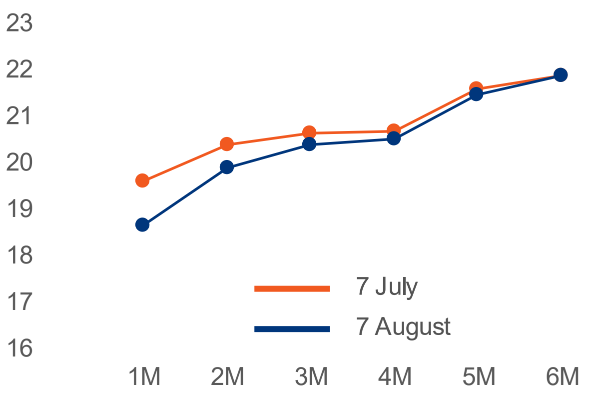
Source: Bloomberg

Market Monitor

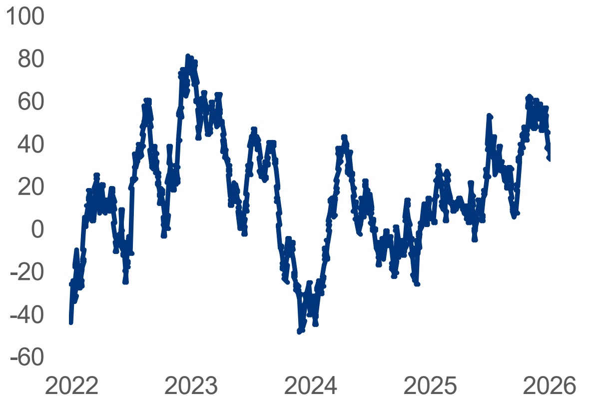
VIX Index



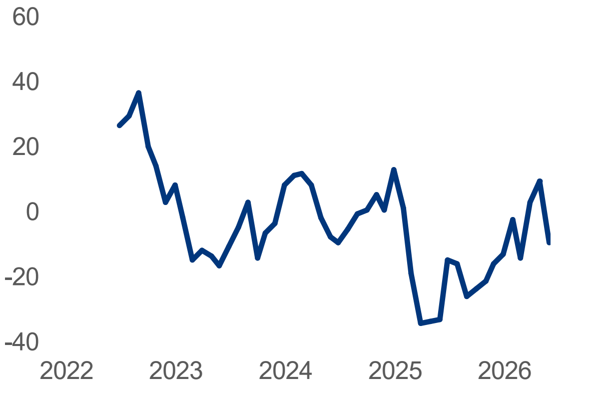
VIX Term Structure



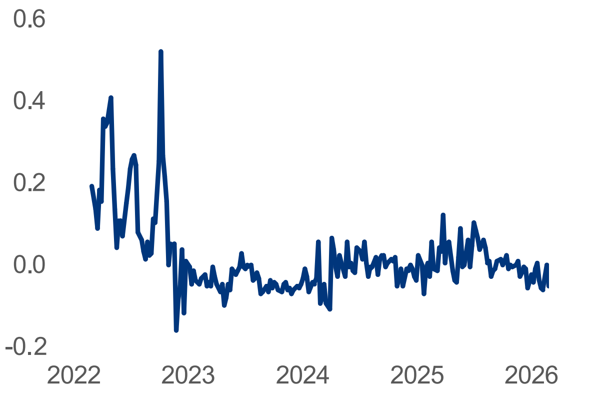
U.S. Citi Economic Surprise Index*



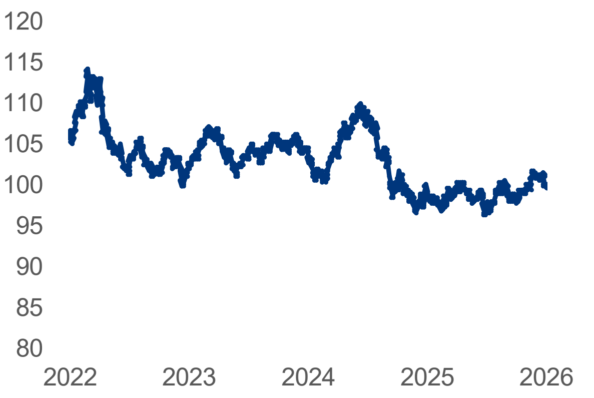
U.S. Citi Inflation Surprise Index*



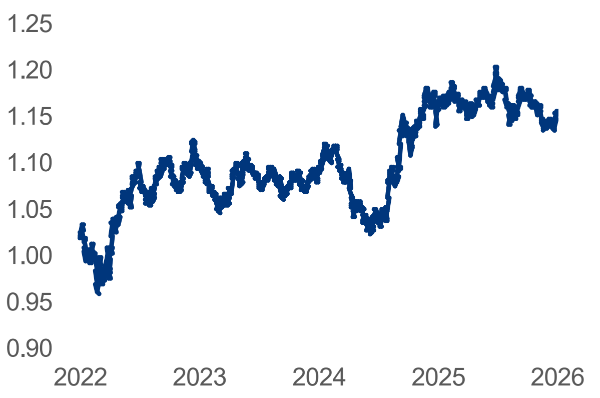
TED Spread (bps)



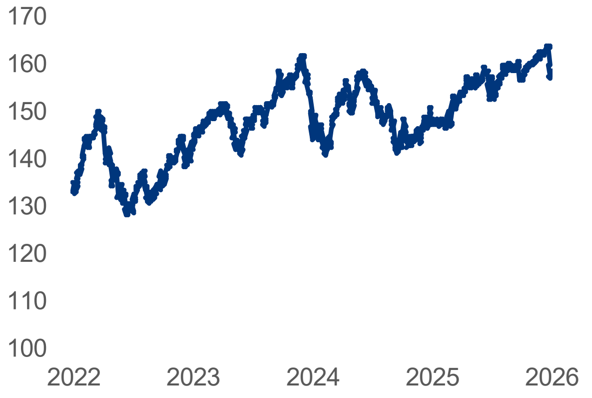
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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