CIO Office

Global Markets Weekly Kickstart

Decoding the Bond Market Playbook

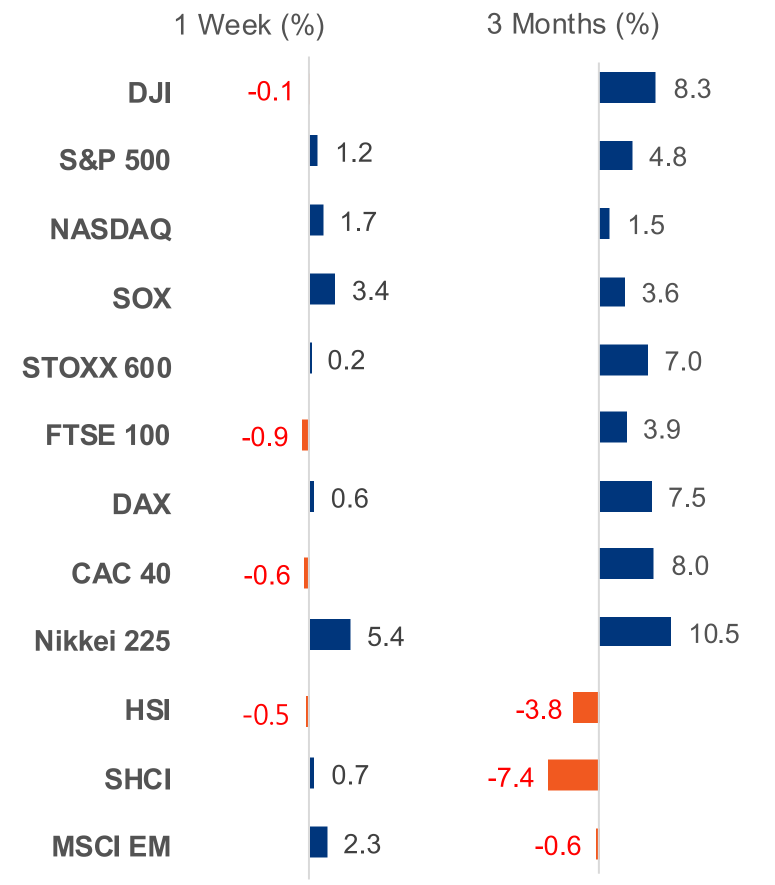
17 August 2026

Market Recap

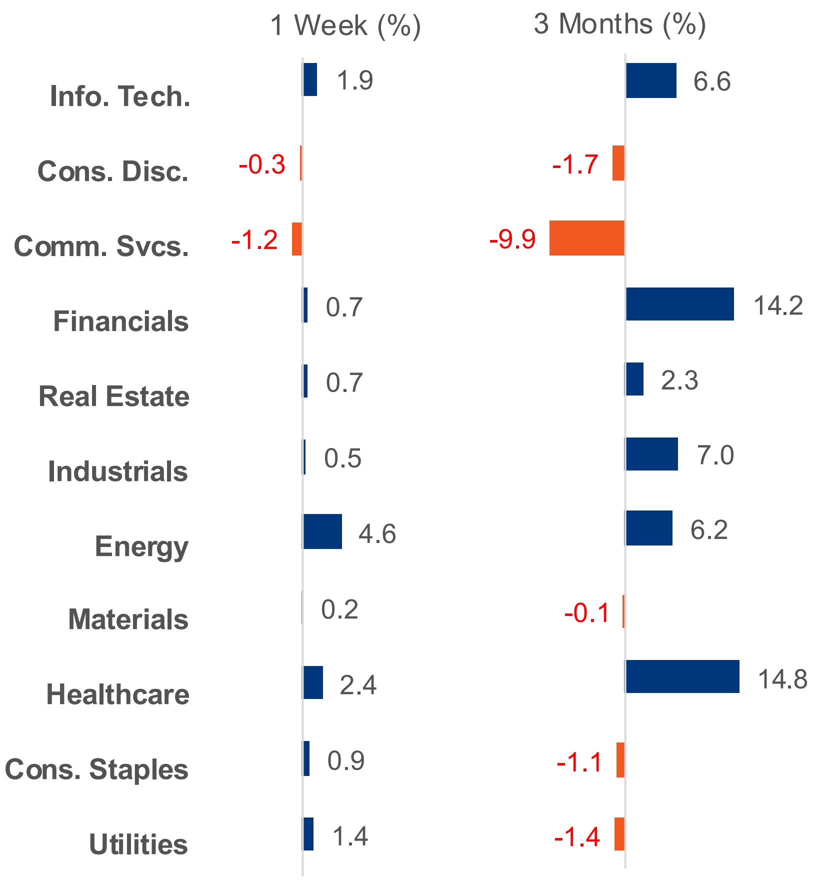
Cooling Inflation and Strong Earnings Lift Tech and Healthcare

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

Regional Index Performance (%)



U.S. Sector Index Performance (%)



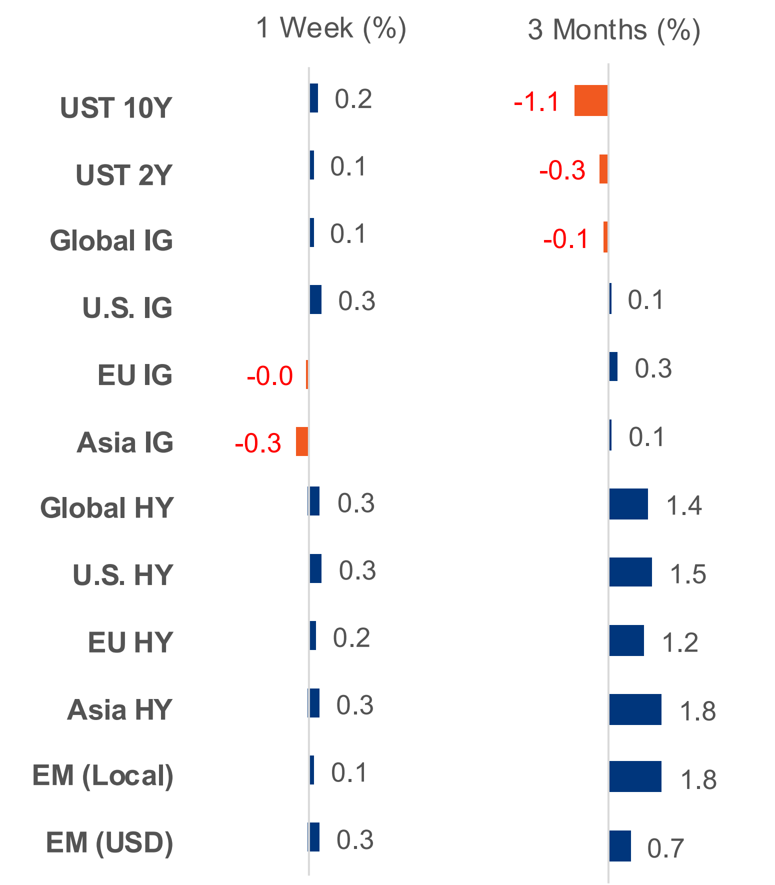
Source: Bloomberg

Market Recap

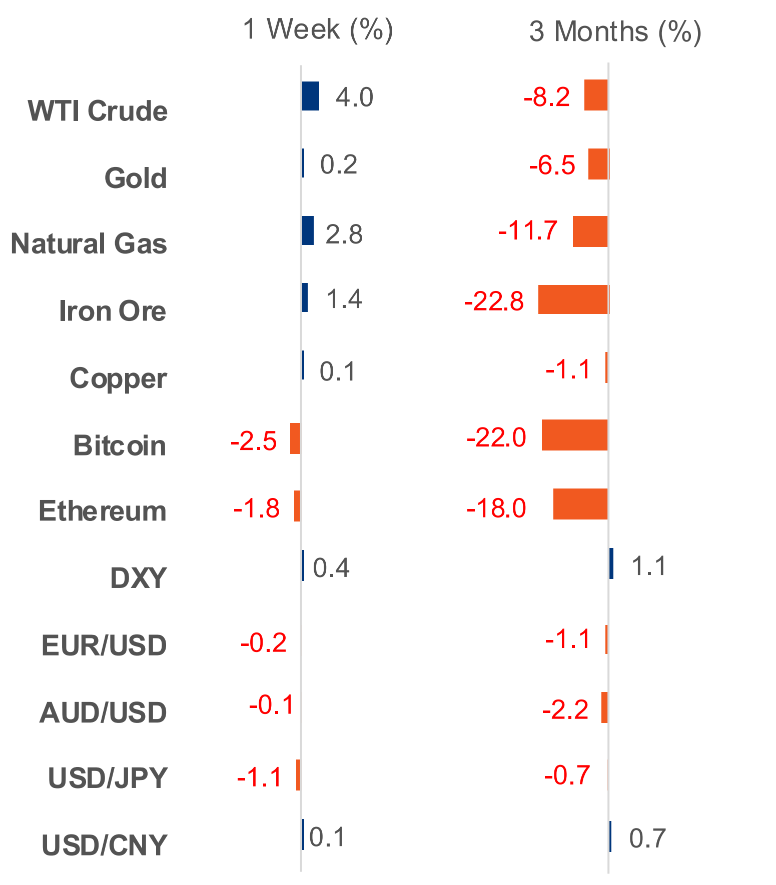
Fed Hike Expectations Ease; Geopolitical Risks Lift Oil Prices

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

Performance of Bonds (%)



Performance of Commodities and Currencies (%)

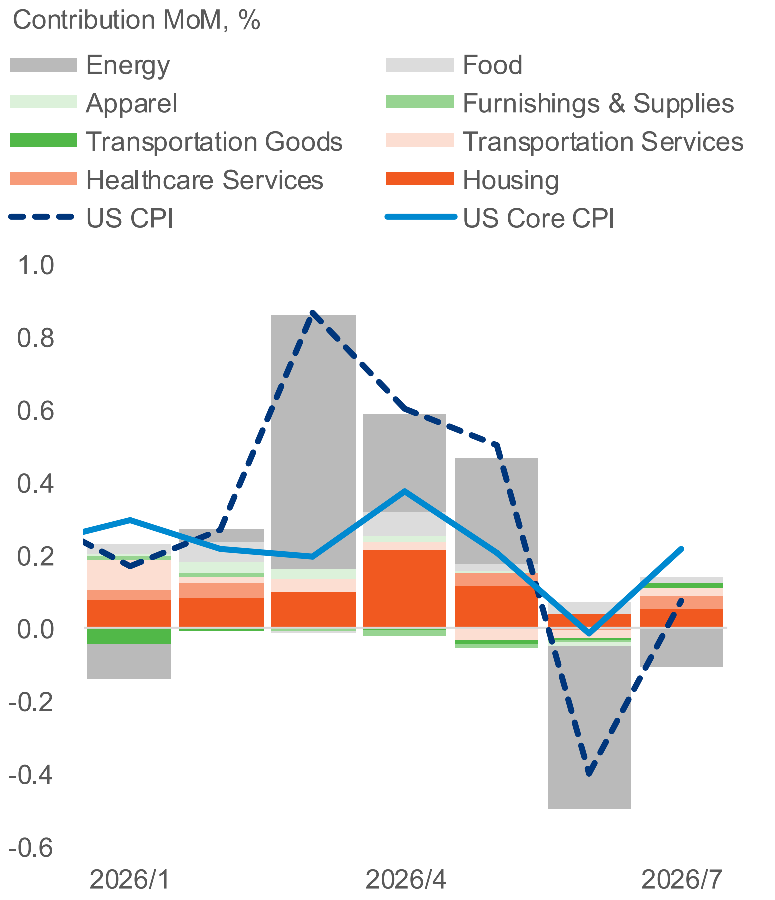


Source: Bloomberg

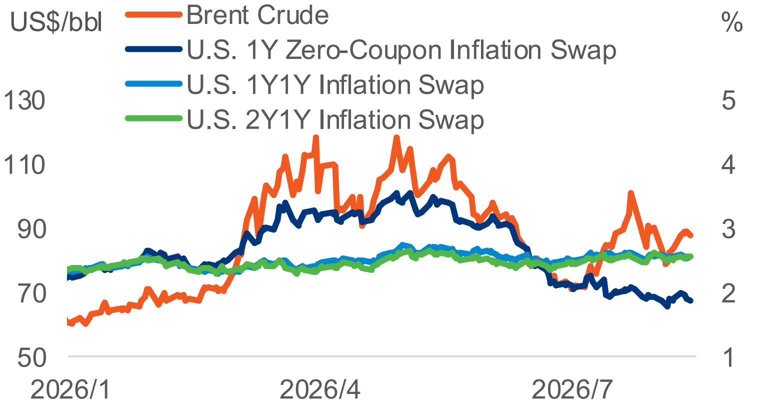
What's Trending Cooling U.S. CPI Pushes Back Fed Hike Expectations

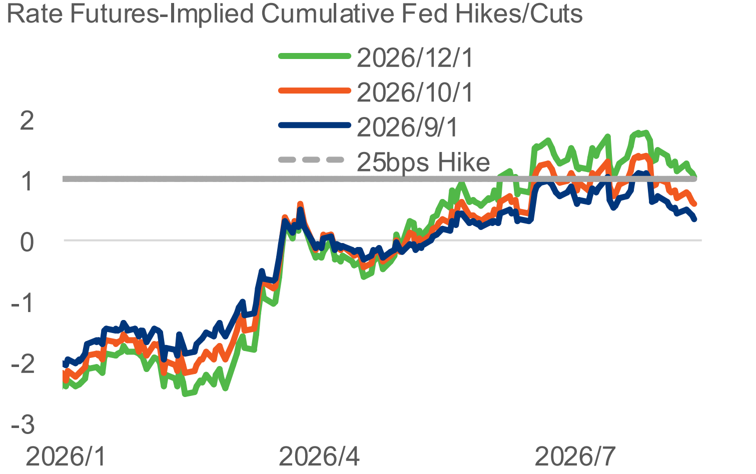
- Lower energy prices drove July CPI inflation down to 3.4% YoY from 3.5%, while CPI rose just 0.1% MoM, easing expectations for a September Fed hike. Core CPI slowed to 2.5% YoY and 0.2% MoM, signaling moderating inflation. However, healthcare, education and communication services prices remained firm.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

Lower Energy Prices Keep U.S. Consumer Inflation Improving



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



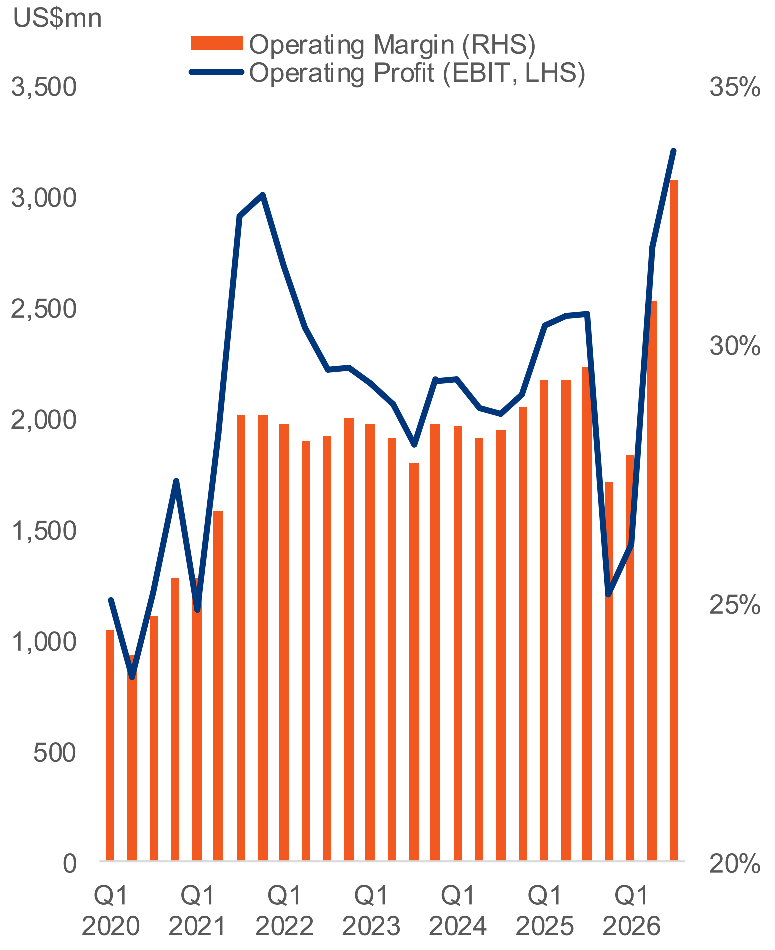


Source: Bloomberg

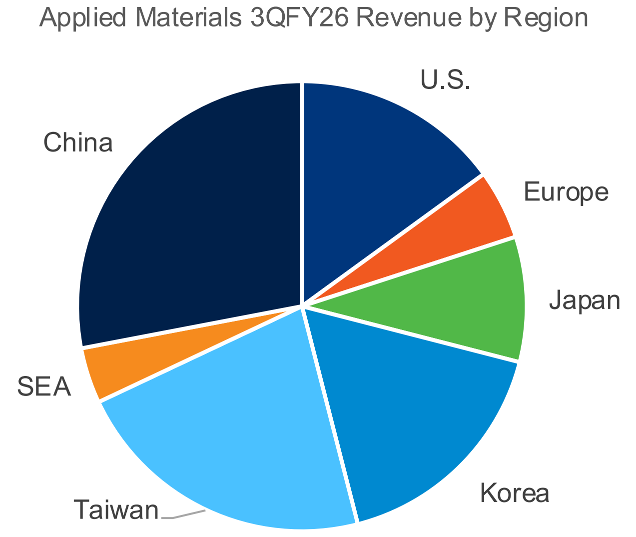
What's Trending | Applied Materials Earnings: Shedding Lights on Semiconductor Outlook

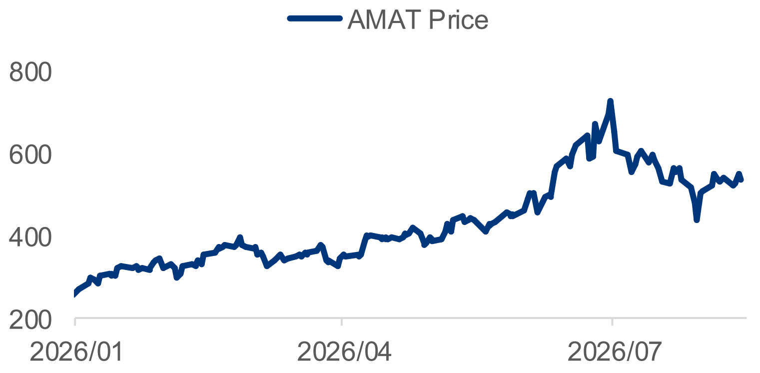
- Applied Materials (AMAT) reported strong FY3Q26 results, with net revenue of US$9.12bn, up 25% YoY and above expectations and guidance. Adjusted EPS of US$3.50 also beat consensus of US$3.42. Management attributed strong demand to AI infrastructure, advanced foundry and logic, DRAM, advanced packaging,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

Applied Materials Profitability Continues to Improve



Applied Materials Results Show Chinese Equipment Makers Emerging as Challengers





Source: Bloomberg

In Focus

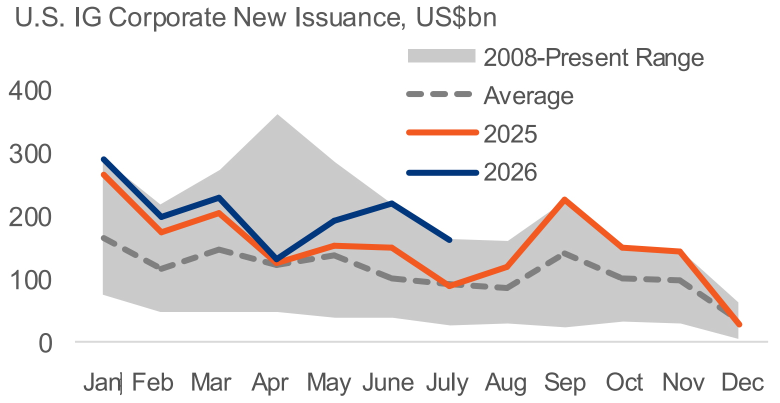
Treasury Issuance Plans Set; Corporate Bond Supply Falls in July

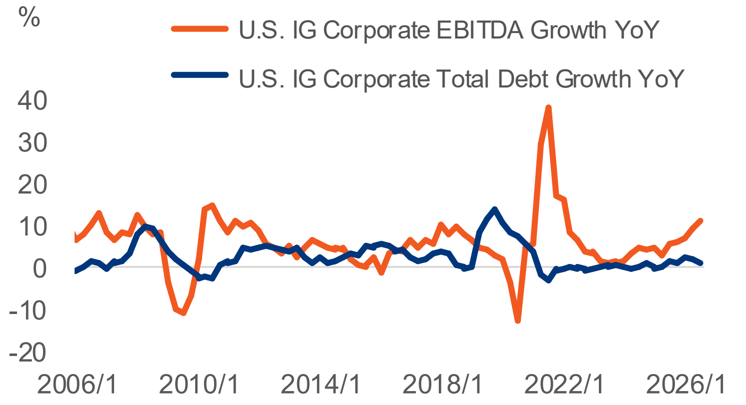
- The U.S. Treasury's quarterly refunding plan indicates issuance will remain stable over the coming quarters despite rising funding needs. Although the financing gap is expected to widen from US$525bn in FY2026 to US$775bn in FY2027, the Treasury may increase short-term issuance while keeping 20Y+ supply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

Treasury Refunding Plan Unchanged; Buybacks Skew Long-Term

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

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



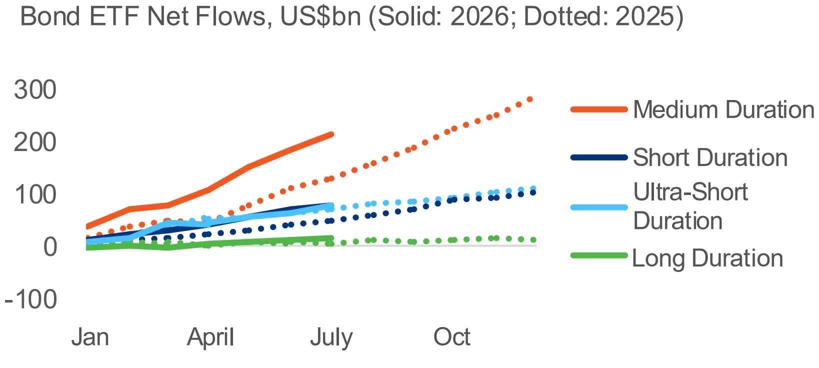


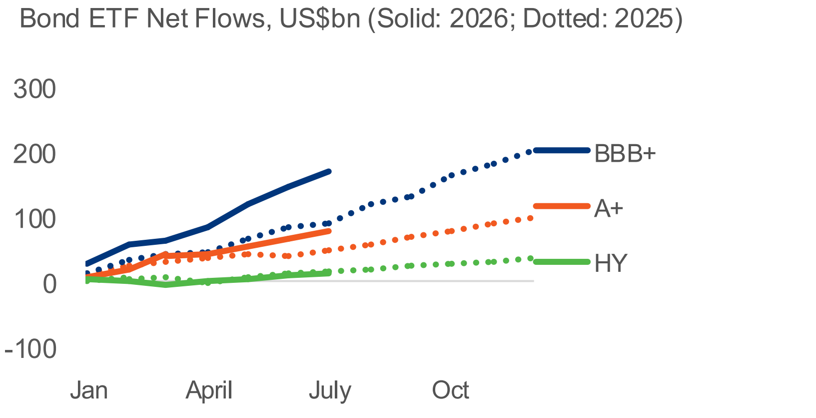
Source: Bloomberg, KGI

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

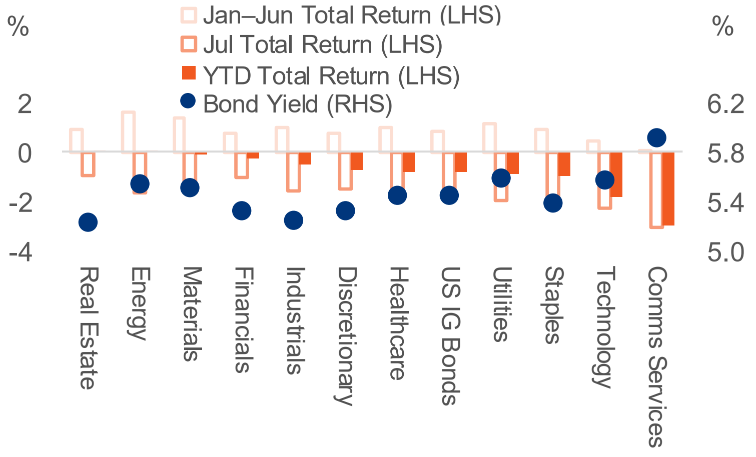
- Bond ETF flows from January to July show two clear trends. First, amid U.S.-Iran tensions, higher oil prices, and Fed hike expectations, investors favored short- to medium-duration bonds to reduce rate risk. Second, despite periodic spread widening, credit spreads remain near historical lows, driving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

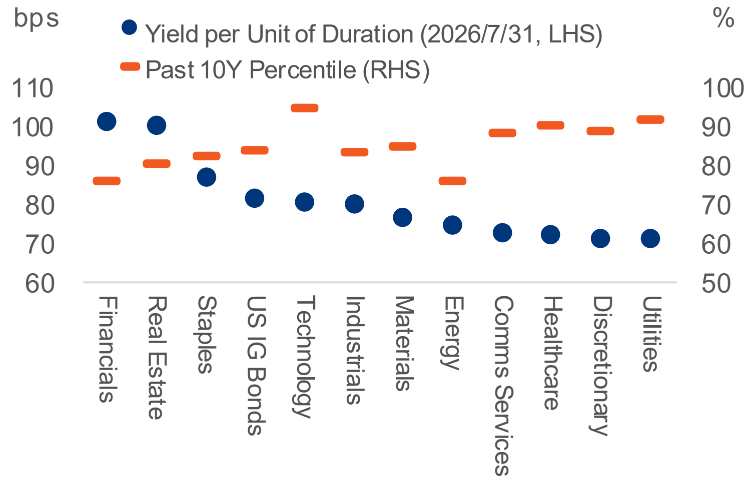
Flows Continue to Favor Short/Medium Duration and High-Quality Bonds





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





Source: Bloomberg, KGI

Strategic Viewpoint

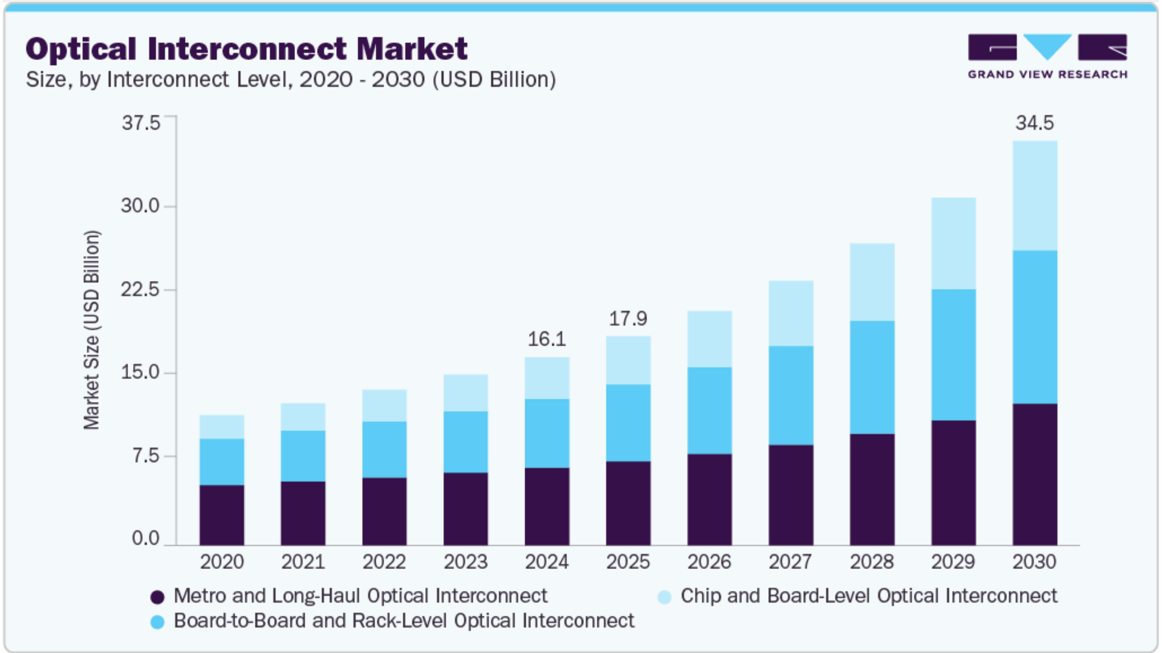
Watch for a Near-Term Pullback; Exercise Caution When Chasing the Rally

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

US Equities Semiconductors Recover, Optical Communication Poised Ahead

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

Optical Interconnect Market



Source: Bloomberg, Grand View Research

Lumentum (LITE US)

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

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

AI/Cloud Data Center Photonics Platform

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

Cloud Light Integration Expands Breadth

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

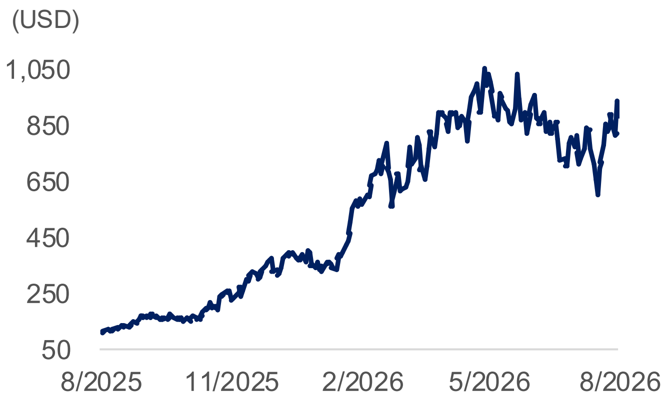
264Q Record Revenue, FY27 Strong Guidance

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

Valuation Consensus

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

1-Year Price



Financials

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

FY2027 Q1 Guidance

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

P/E & P/B

Source: Bloomberg, Company

Coherent (COHR US)

Closing Price	US$325.83	Target Price	US$400

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

AI Data Center Optical Interconnect Platform

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

Vertical Integration & Materials Strength

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

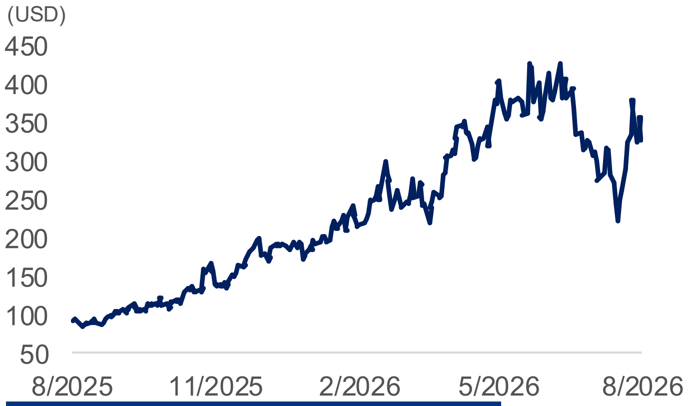
FY26 Record Results, FY27 Strong Guidance

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

Valuation Consensus

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

1-Year Price



Financials

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

Source: Bloomberg; 2027/28F are market estimates

FY2027 Q1 Guidance

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

P/E & P/B

Source: Bloomberg, Company

Appendix

Key Economic Data / Events

▶ AUG 2026

10 Monday	11 Tuesday	12 Wednesday	13 Thursday	14 Friday
• Eurozone Aug Sentix Investor Confidence (Act:0.9 Est:-0.5 Prev:3.1)	• U.S. Jul Existing Home Sales (Act:4.06m Est:4.05m Prev:4.13m)	• U.S. Jul CPI YoY (Act:3.4% Est:3.4% Prev:3.5%) • U.S. Jul Core CPI YoY (Act:2.5% Est:2.5% Prev:2.6%)	• U.S. Weekly Initial Jobless Claims (Act:209k Est:202k Prev:200k) • U.S. Jul PPI YoY (Act:4.7% Est:4.9% Prev:5.5%) • Japan Jul PPI YoY (Act:7.2% Est:7.4% Prev:7.3%)	• U.S. Jul Retail Sales MoM (Est:0.1% Prev:0.2%) • U.S. Aug Univ. of Michigan Consumer Sentiment Index (Prelim) (Est:55.0 Prev:55.2) • Eurozone Q2 GDP YoY (Revised) (Est1.0% Prev:0.5%)

17 Monday	18 Tuesday	19 Wednesday	20 Thursday	21 Friday
• Japan Q2 GDP QoQ Annualized (Prelim) (Est:2.1% Prev:1.8%) • Japan Jun Industrial Production MoM (Final) (Prev:0.1%) • China Jul Retail Sales YoY (Est:1.5% Prev:1.0%) • China Jul Industrial Production YoY (Est:4.9% Prev:5.3%)	• U.S. Jul Industrial Production MoM (Est:0.3% Prev:0.1%) • Earnings: HD US	• Japan Jun Core Machinery Orders MoM (Est:7.8% Prev:-12.4%) • Eurozone Jul CPI YoY (Final) (Est:2.9% Prev:2.8%) • Earnings: LOW US, ADI US, TJX US	• U.S. Weekly Initial Jobless Claims (Est:210k Prev:209k) • U.S. Jul FOMC Minutes • Taiwan Jul Export Orders YoY (Prev:59.4%) • Earnings: DE US, WMT US	• U.S. Aug S&P Global Manufacturing PMI (Prelim) (Est:53.7 Prev:53.9) • Japan Aug S&P Global Manufacturing PMI (Prelim) (Prev:54.5) • Japan Jul CPI YoY (Est:1.9% Prev:1.6%) • Eurozone Aug S&P Global Manufacturing PMI (Prelim) (Est:51.6 Prev:51.9)

Source: Bloomberg

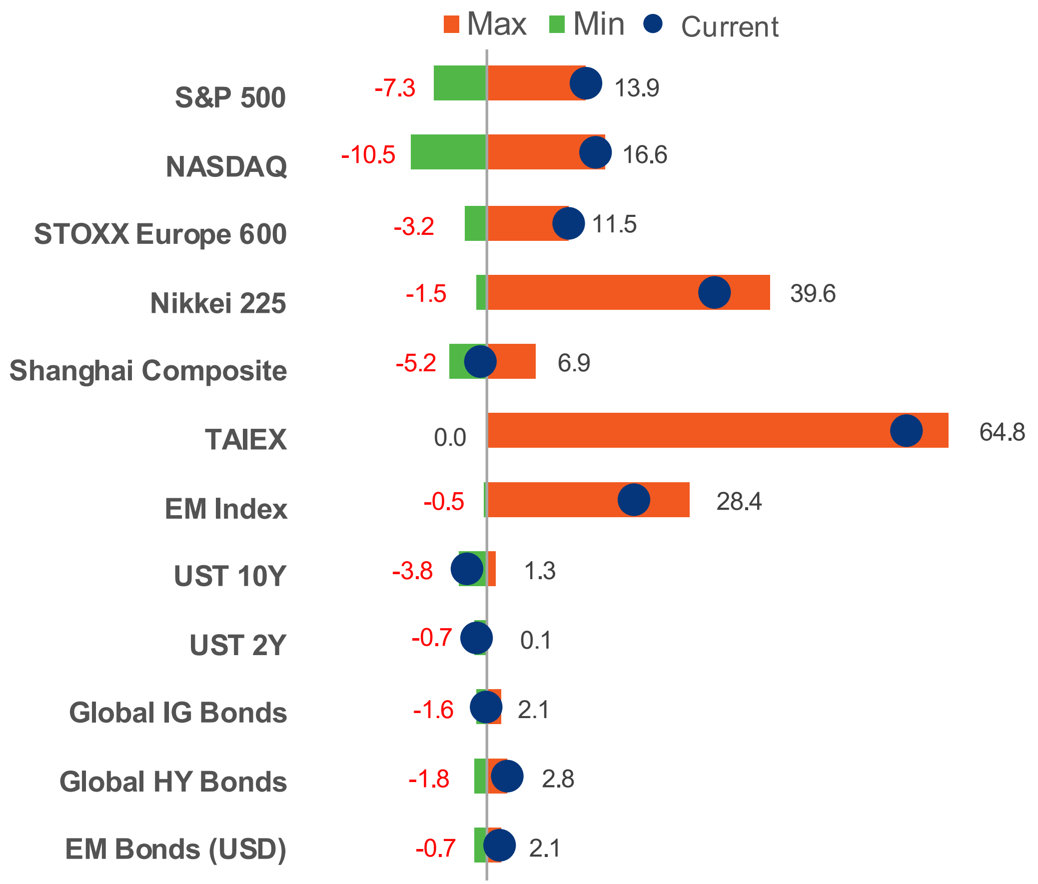
Key Earnings Releases

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

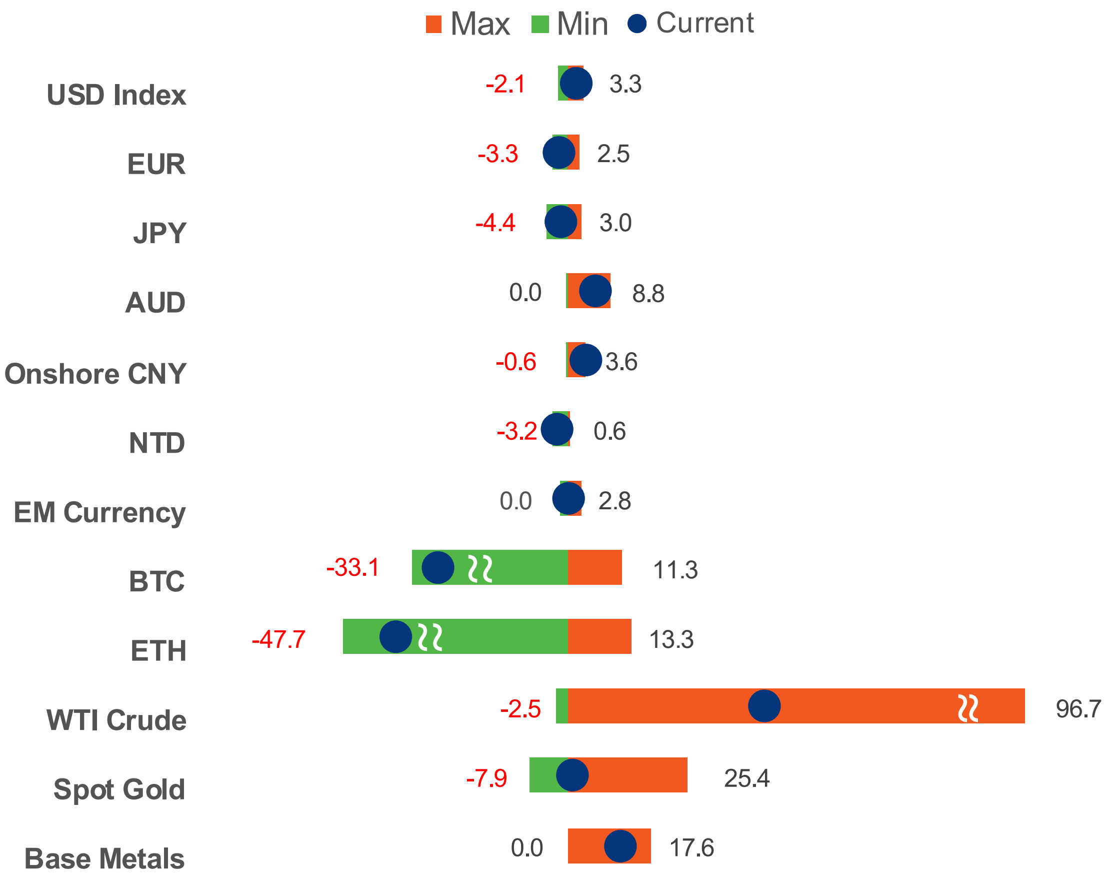
Source: Investing.com

Major Market / Asset YTD Performance

Equities & Bond Markets YTD Performance (%)



Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg

Technical Analysis

60D MA

S&P 500 Index

- Current: 7,798
- 60D MA: 7,508

NASDAQ Index

- Current: 26,803
- 60D MA: 26,027

STOXX Europe 600 Index

- Current: 659
- 60D MA: 639

Nikkei 225 Index

- Current: 68,969
- 60D MA: 66,914

Shanghai Composite Index

- Current: 3,922
- 60D MA: 3,985

MSCI Emerging Markets Index

- Current: 1,695
- 60D MA: 1,695

Gold

- Current: 4,318
- 60D MA: 4,200

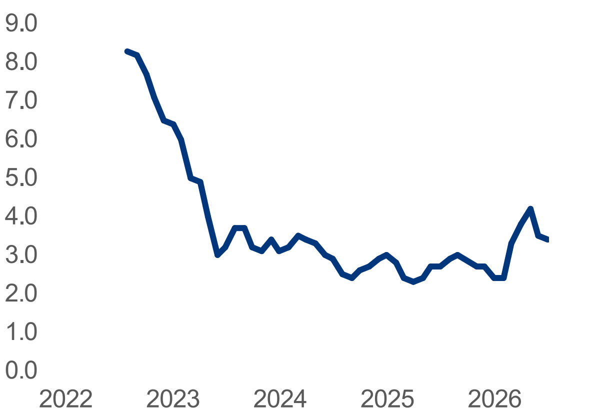
WTI Crude

- Current: 80.9
- 60D MA: 81.6

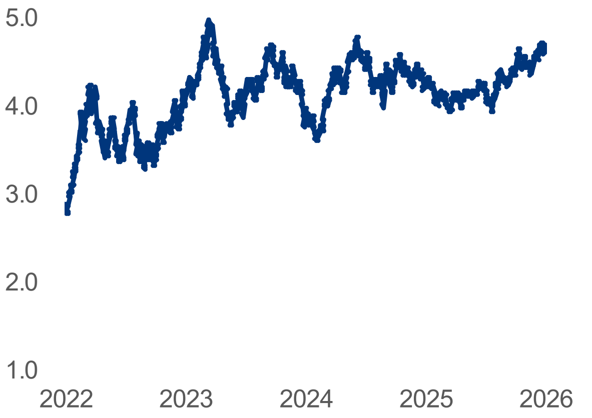
Source: Bloomberg

Market Monitor

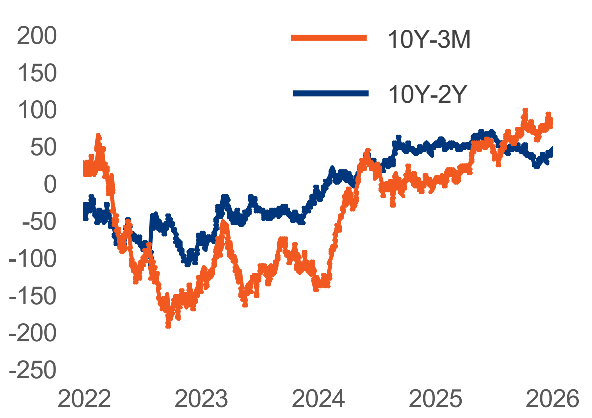
U.S. CPI YoY (%)



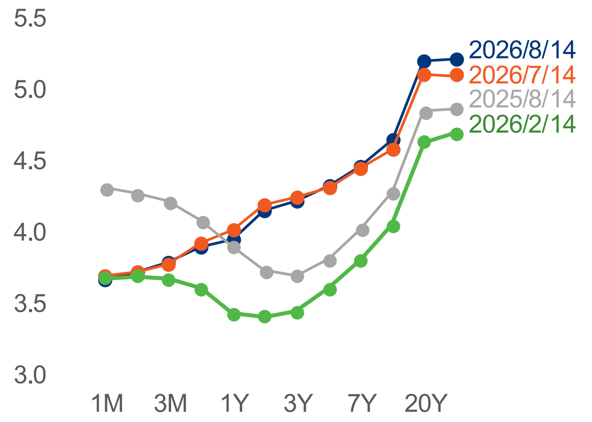
U.S. 10-Year Treasury Yield (%)



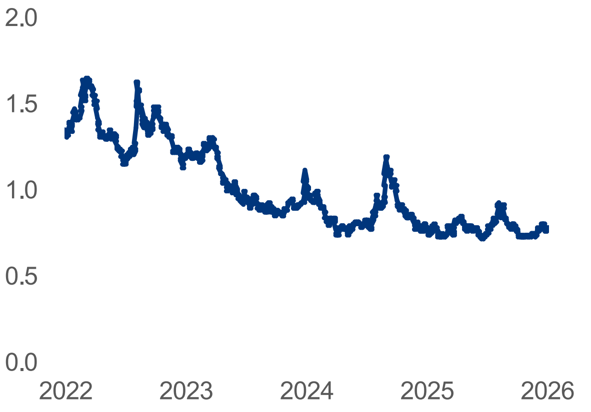
U.S. Treasury Yield Spread (bps)



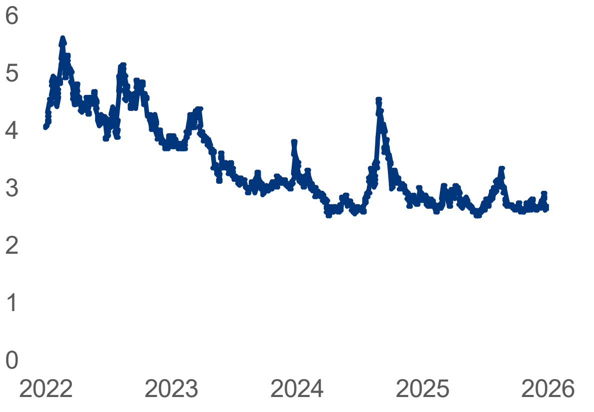
U.S. Treasury Yield Curve (%)



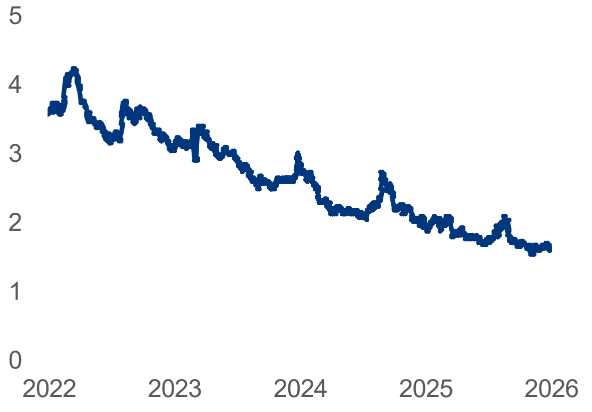
USD IG Credit Spread (%)



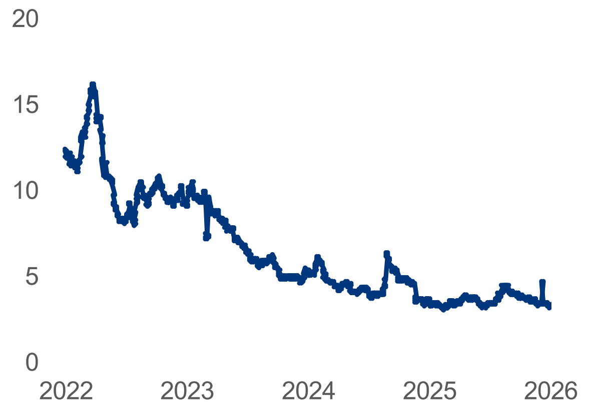
USD HY Credit Spread (%)



USD EM Credit Spread (%)



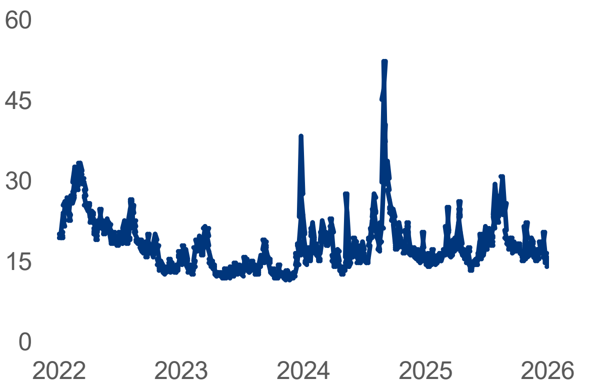
USD Asia Credit Spread (%)



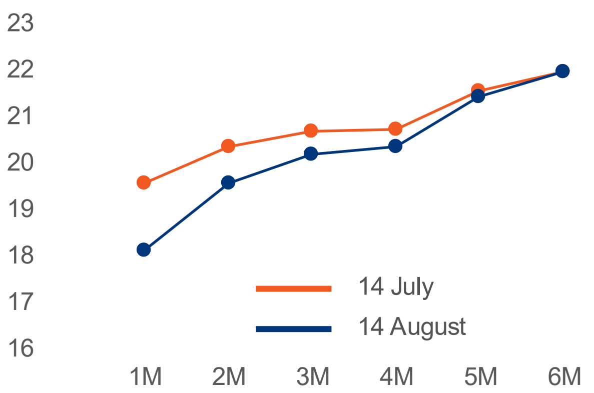
Source: Bloomberg

Market Monitor

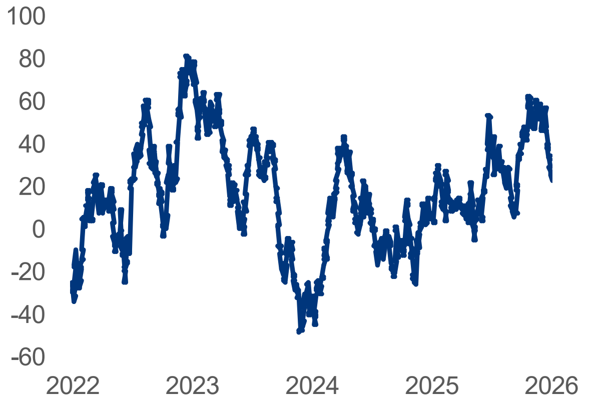
VIX Index



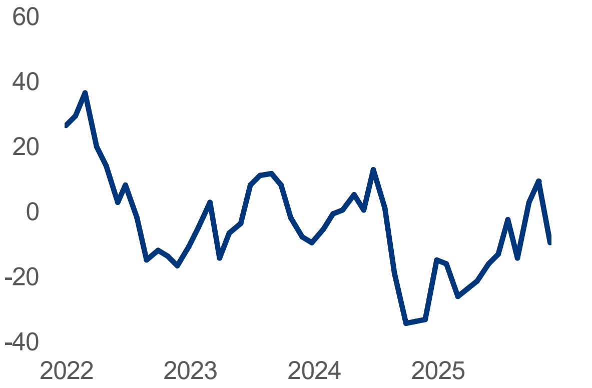
VIX Term Structure



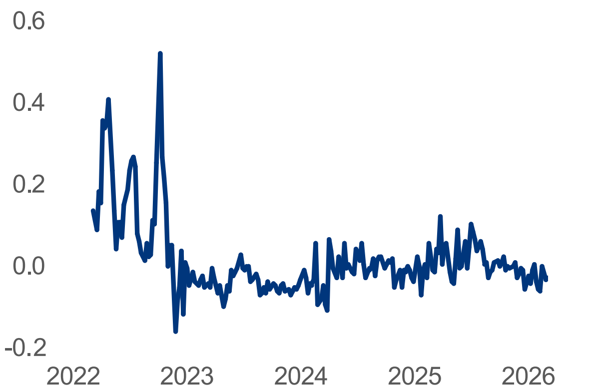
U.S. Citi Economic Surprise Index*



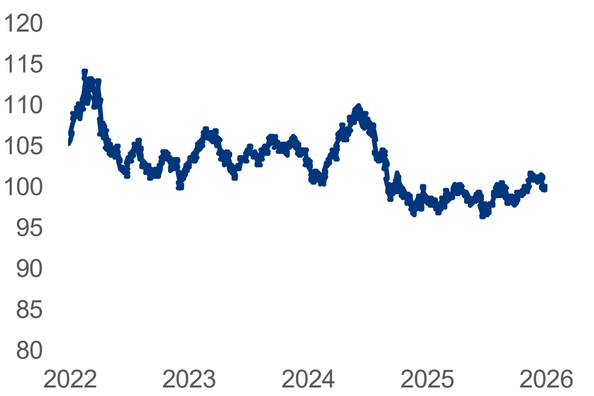
U.S. Citi Inflation Surprise Index*



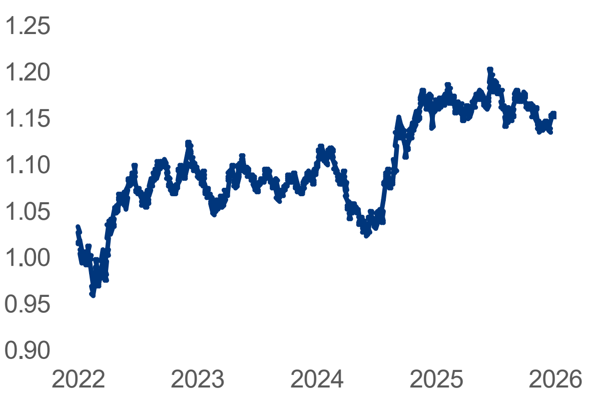
TED Spread (bps)



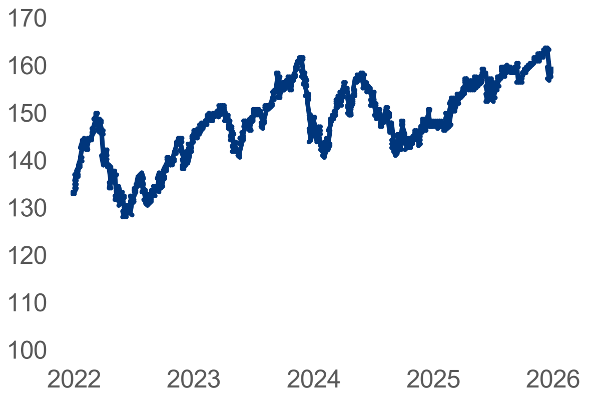
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg

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