

CIO Office

Global Markets Weekly Kickstart

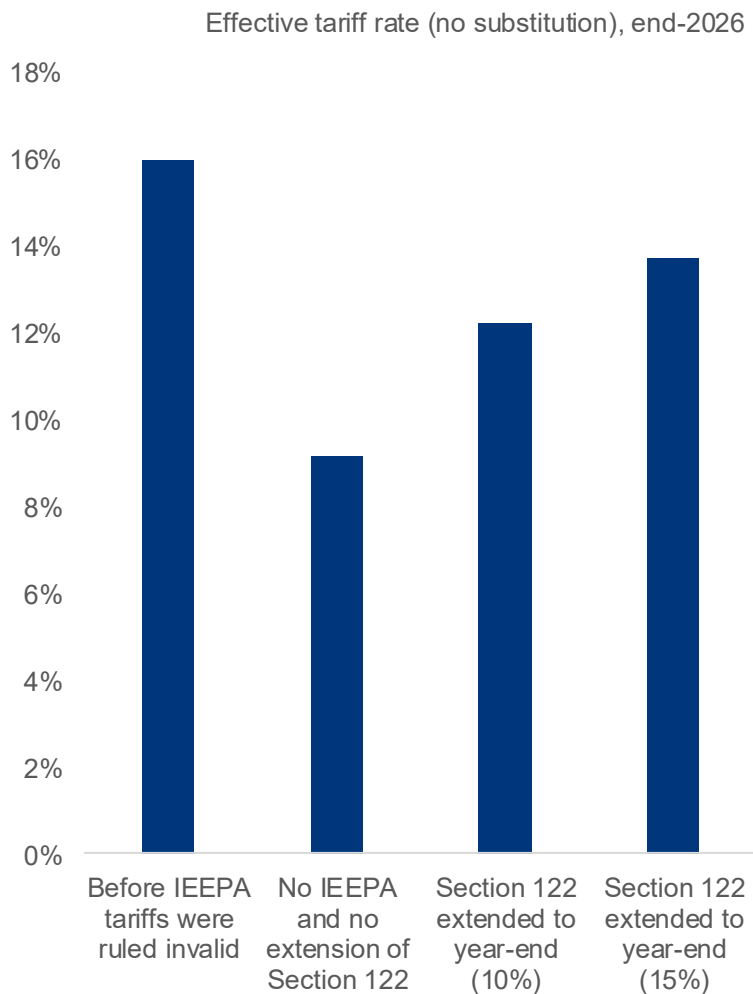
# Sector Rotation

2 March 2026

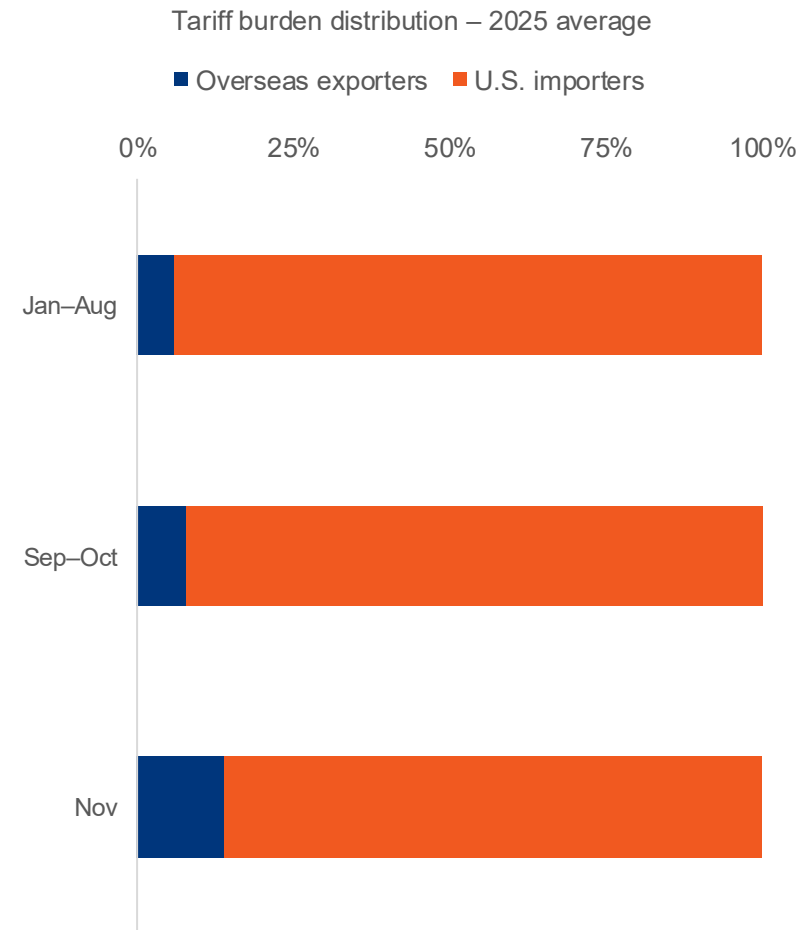
# U.S. IEEPA Tariffs Voided – Effective Rates Fall, Policy Uncertainty Rises

- ▶ According to The Budget Lab, the effective U.S. tariff rate was 16% before the IEEPA ruling. After the decision, it fell to 9.1%. Trump then invoked Section 122, lifting the rate to an estimated 13.7%. As Section 122 tariffs may face legal challenges and expire after 150 days, the effective rate could drop back to 9.1%. For importers, uncertainty remains—such as whether to delay shipments until potential expiry—while some exporters (e.g., the EU) have paused trade talks.
- ▶ A positive development for U.S. importers is that exporters are absorbing more tariff costs. New York Fed estimates show the exporter burden rose from 6% initially to 14% by November 2025.
- ▶ On fiscal impact, tariffs accounted for 4% of U.S. government revenue in 2025, up from 2% in 2024. Given their still modest share, the effect on overall fiscal conditions—and Treasury yields—should be limited.

## IEEPA and Section 122 Tariffs – Potential Impact



## Tariff Burden Mainly Borne by U.S. Importers



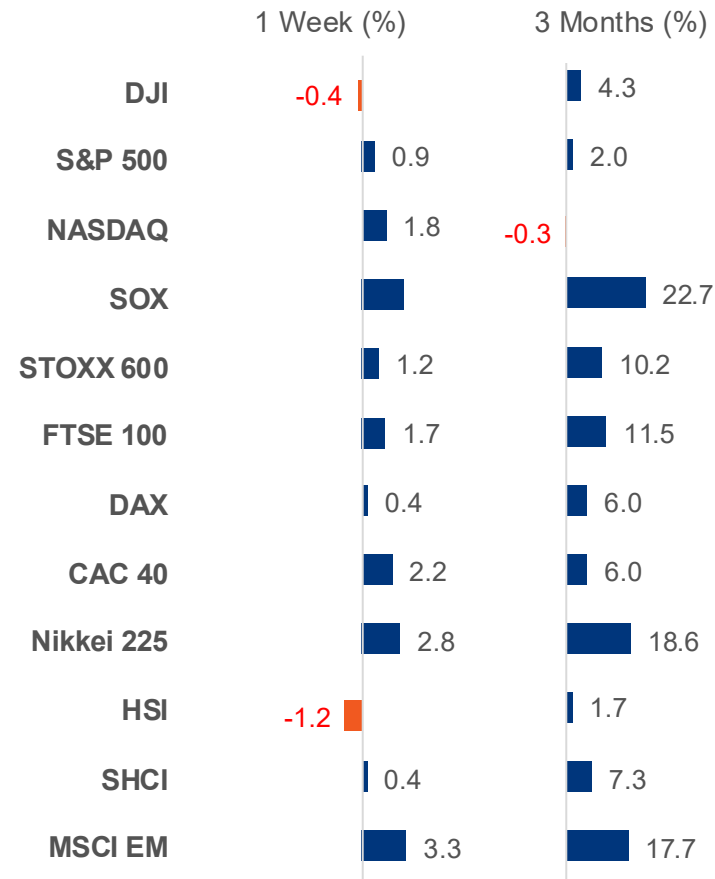
Source: The Budget Lab, Federal Reserve Bank of New York

## Market Recap

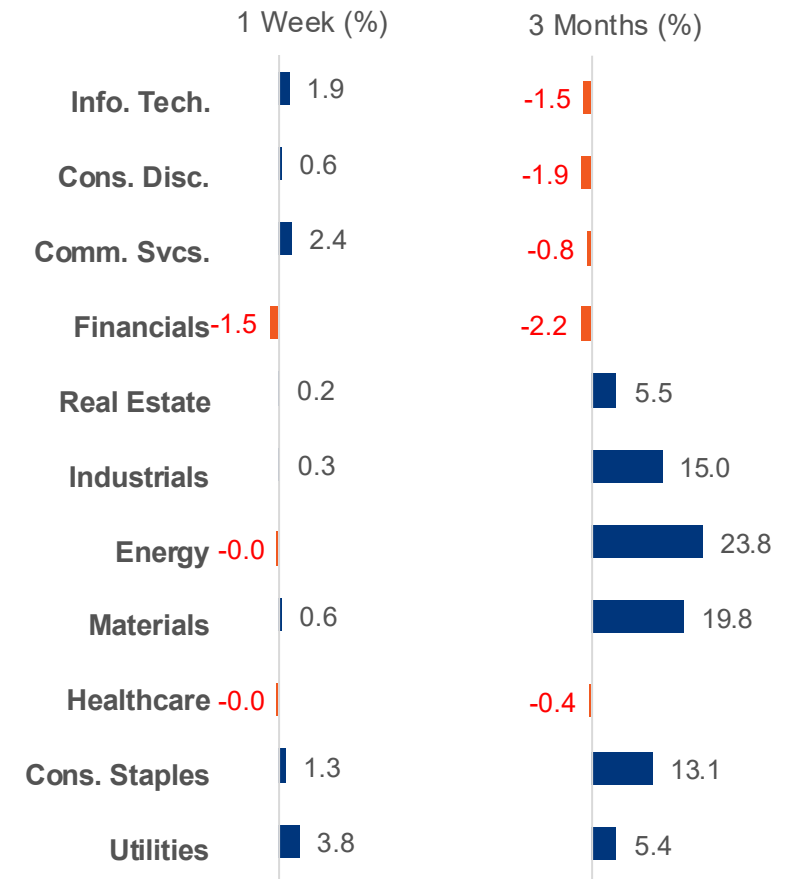
## Tech Giants Deliver Positive Updates; Tech Stocks Stabilize

- ▶ U.S. tech, semiconductor, and software stocks rebounded this week. Anthropic announced new partners for its Claude Cowork platform, easing AI-related concerns.
- ▶ The Conference Board's February consumer confidence index rose to 91.2, above expectations of 87.1, signaling improved sentiment. However, labor market perceptions remained soft: the share of respondents saying jobs are "hard to get" climbed to 20.6%, the highest since February 2021, while those viewing jobs as "plentiful" rose to 28%. Median 12-month inflation expectations held at 4.4%, indicating persistent price concerns.
- ▶ Meta signed a multi-year agreement with AMD to deploy AMD chips in its AI data centers, alongside warrants for up to 160 million AMD shares. AMD surged 8.8% on the news, while Meta gained 0.32%.
- ▶ In Japan, a dovish new BOJ board member delayed rate hike expectations, weighing on the yen and lifting sentiment. Combined with the Takaichi administration's pro-AI stance, Japanese equities performed well this week.

## Regional Index Performance (%)



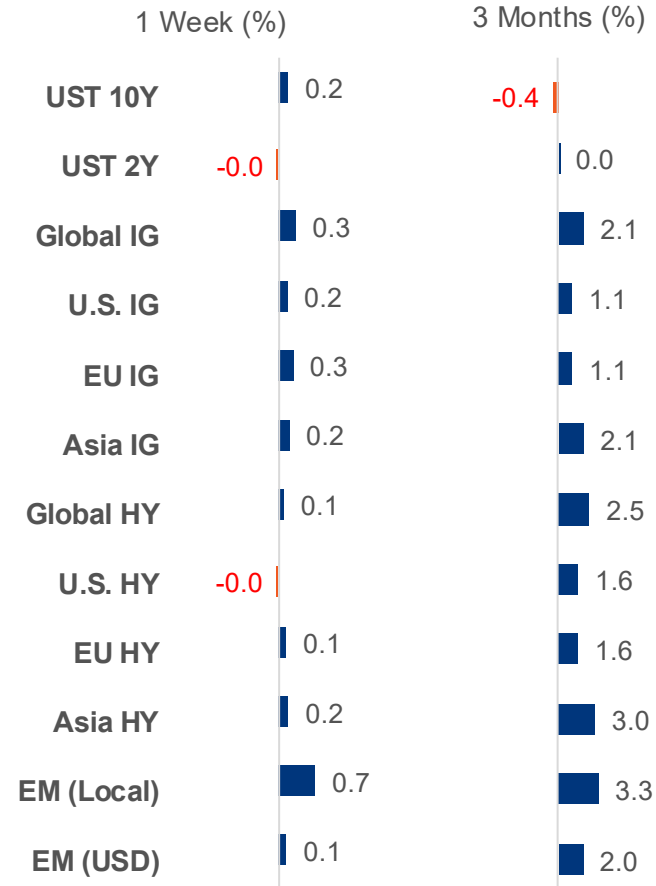
## U.S. Sector Index Performance (%)



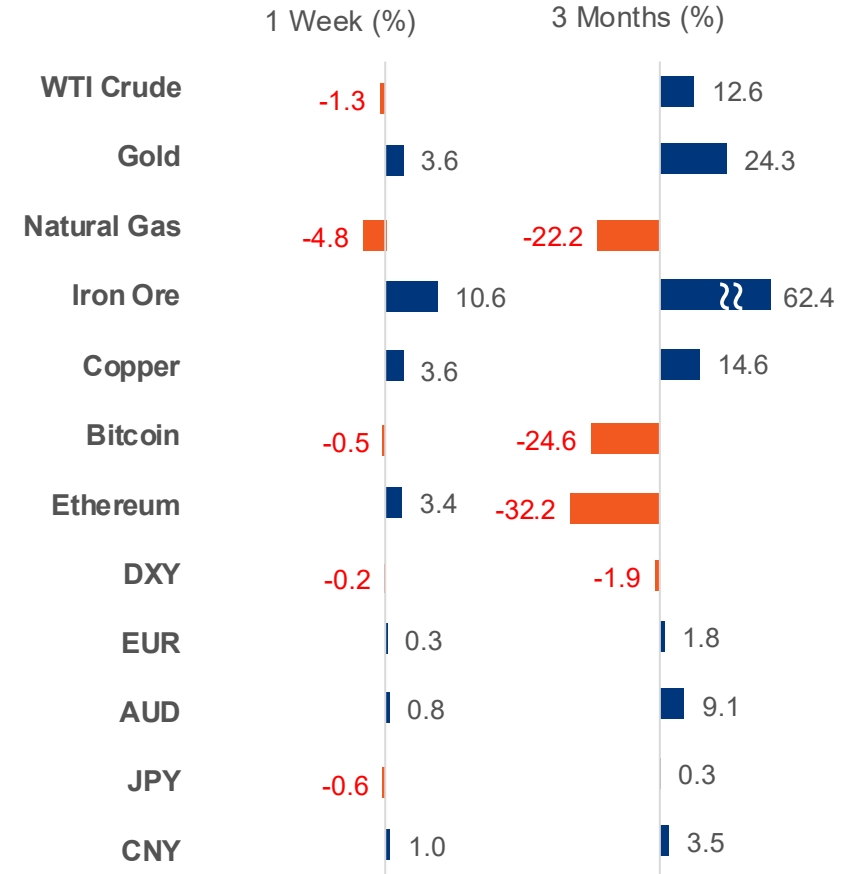
## Limited Impact from Tariffs on U.S. Revenue; BOJ's New Member Leans Dovish

- ▶ This week, the overturning of IEEPA tariffs heightened policy uncertainty. Trump raised global tariffs to 10% under Section 122 and warned of additional levies on countries revisiting trade agreements, adding to uncertainty. However, as tariffs account for only about 4% of U.S. government revenue, the impact on Treasury prices has been limited.
- ▶ Cryptocurrencies stabilized alongside tech stocks. Bitcoin edged lower over the past week, while Ethereum posted gains, though both remain below levels seen three months ago.
- ▶ On January 25, the Bank of Japan announced new policy board appointments. The two new members favor monetary easing and fiscal support, reducing rate hike expectations. The yen weakened against the dollar, supporting Japanese equities.

### Performance of Bonds (%)



### Performance of Commodities and Currencies (%)

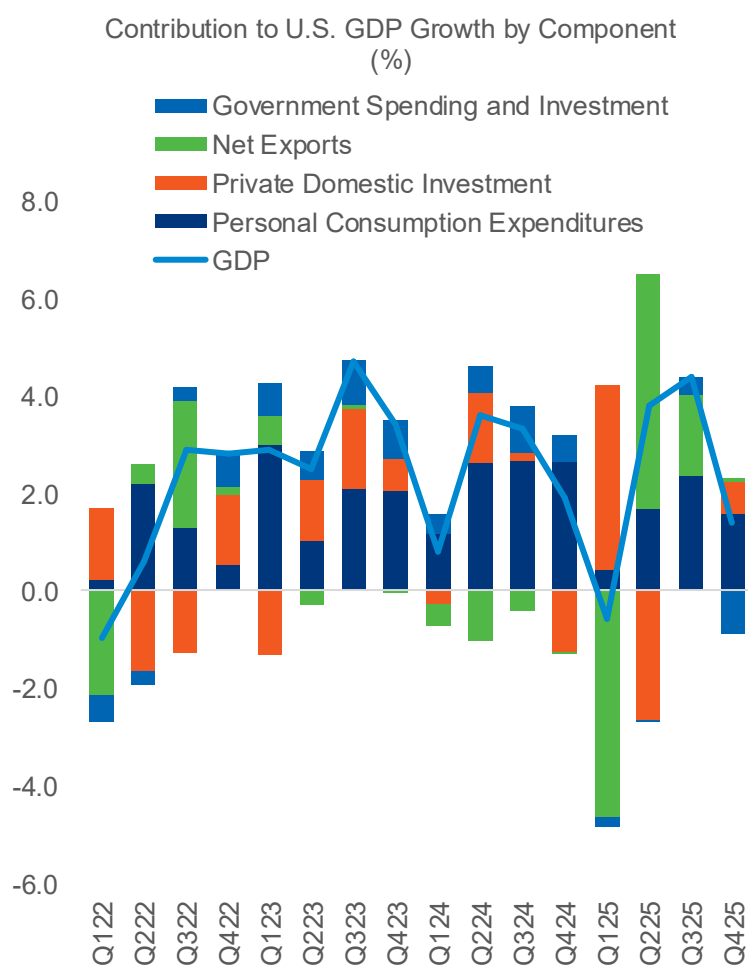


What's Trending

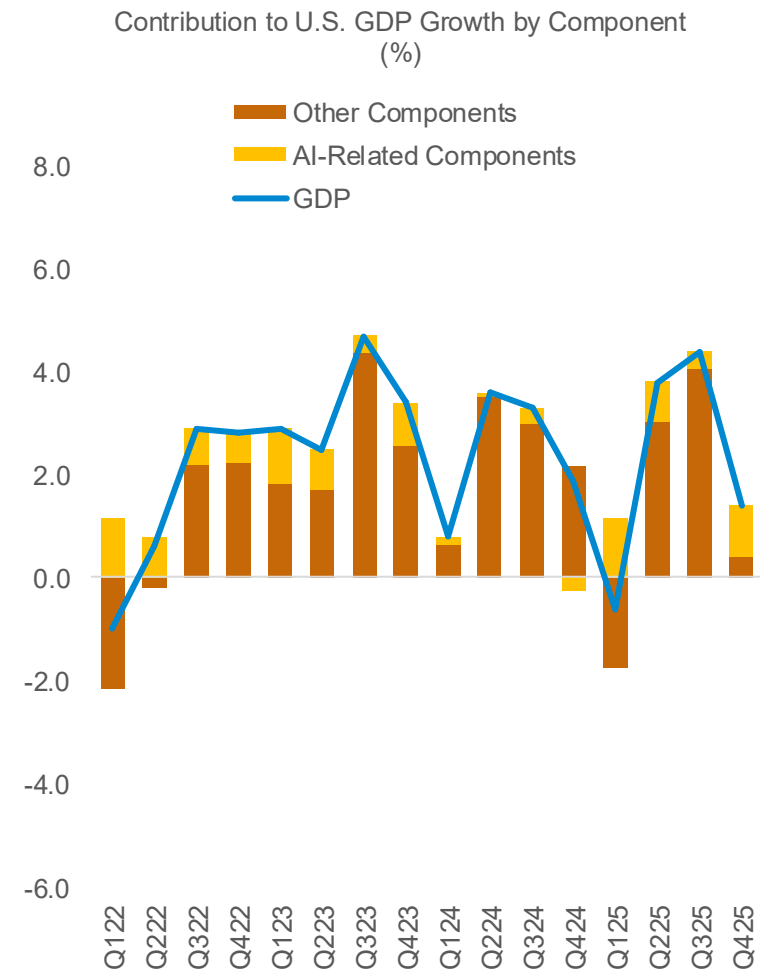
# U.S. Government Shutdown Weighs on Growth; AI Not the Sole Driver

- ▶ U.S. Q4 GDP grew at an annualized 1.4%, down from 4.4% in Q3 and below the 3% forecast. Slower goods consumption contributed, but the main drag came from government spending and investment, which fell 5.1% after rising 2.2% in Q3, subtracting 0.9 percentage points from GDP due to the shutdown.
- ▶ AI-related investment remains significant but not dominant. In Q4, non-residential structures, IT equipment, software, and R&D together contributed 1.0 percentage point to GDP growth, while personal consumption added 1.6 points. For the full year, AI-related items contributed 0.5 points, versus 1.7 points from consumption, with total GDP growth at 2.2%. AI is important, but consumer spending remains the larger driver.
- ▶ Growth is steady, and inflation remains resilient. Core PCE rose to 3% in February, the highest since February 2025, suggesting limited room for Fed rate cuts.

## Government Shutdown Drags on Economic Growth



## AI-Related Share Is Significant, but Not the Sole Growth Driver

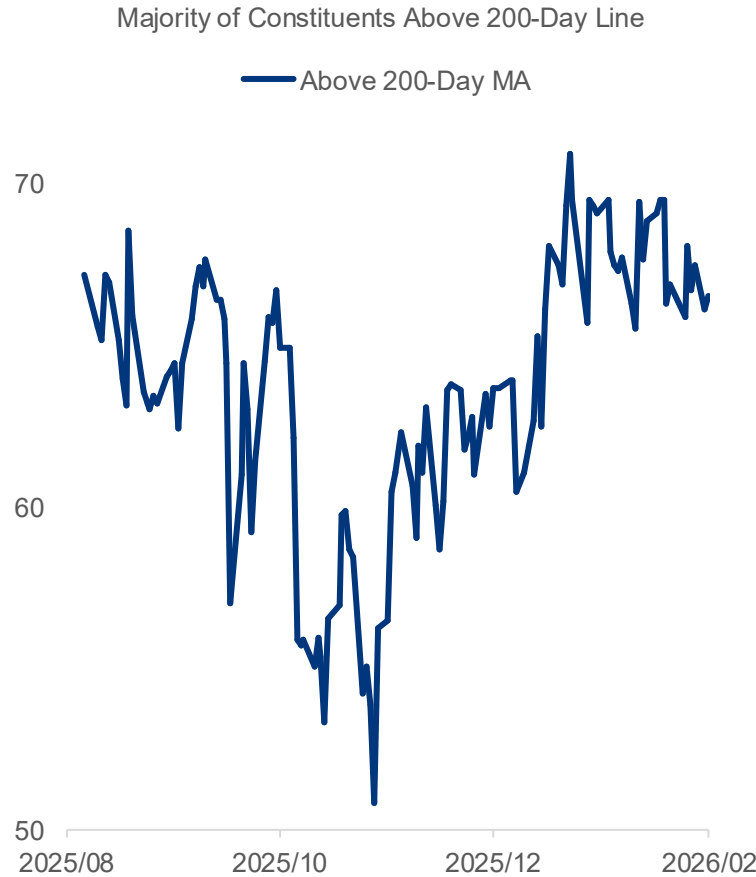


Source: BEA

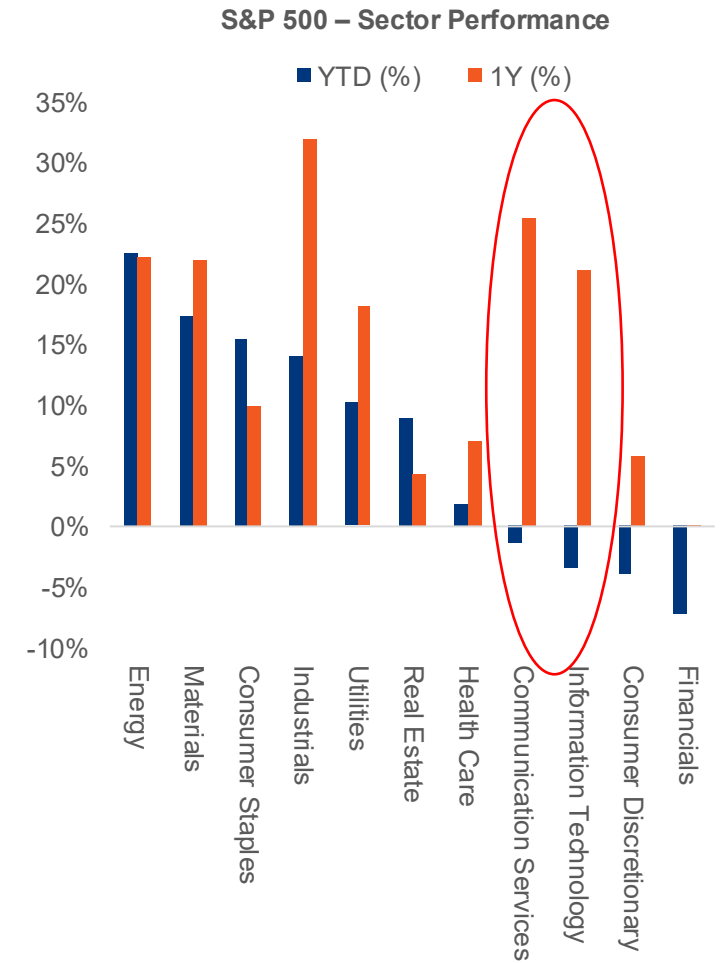
# Rotation in Leadership – Last Year’s Tech and Communication Winners Lag This Year

- ▶ Over the past year, technology and communication services led the market, but both sectors have underperformed this year. Rising capital expenditure and elevated valuations are key reasons. Consumer discretionary and financials have also lagged, while energy, materials, and even consumer staples are among the top performers year to date.
- ▶ Major cloud providers—such as Microsoft, Meta, Amazon, Google, and Oracle—are aggressively investing in data centers. Market estimates suggest their combined 2026 capex will rise 64% year over year. As spending increases, these firms are shifting from asset-light tech models toward capital-intensive businesses focused on AI chips and servers, resembling traditional resource companies.
- ▶ Meanwhile, traditional sectors appear more attractive, particularly energy and materials, which supply critical inputs such as power, copper, and steel for data centers. This dynamic has driven sector rotation. Currently, about 65% of S&P 500 constituents trade above their 200-day moving average, indicating gains are not yet broad-based.

## Approximately 65% of Constituents Above 200-Day Moving Average



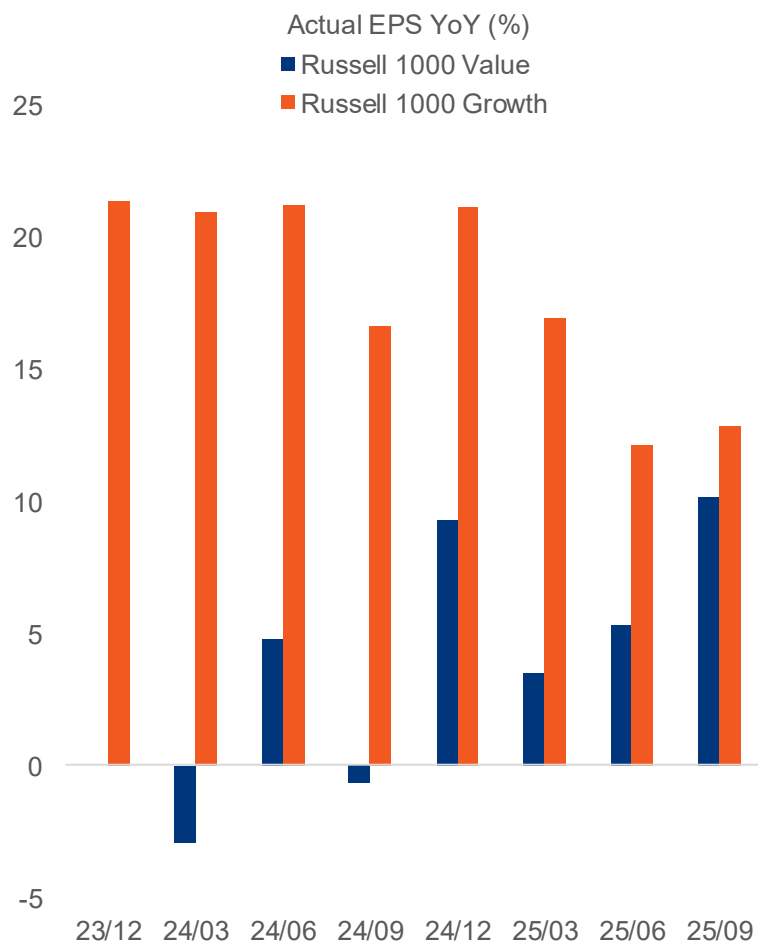
## Tech and Communication Stocks Falter After Strong 2024



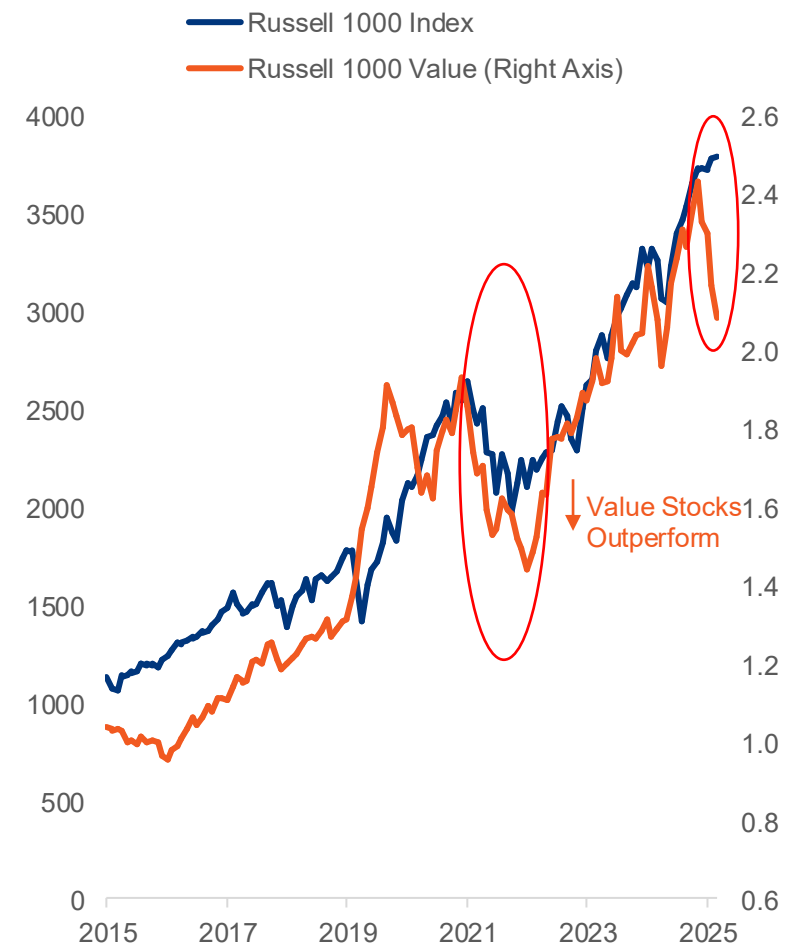
## Narrowing Earnings Gap Suggests Sector Rotation Not Purely Defensive

- ▶ Value stocks, typically traditional sectors, tend to feature lower valuations (P/E, P/B), lower beta, and more mature, stable businesses.
- ▶ In market pullbacks, their steadier earnings often attract flows. Since last October, Russell 1000 value has outperformed growth. Unlike past risk-off episodes—such as Liberation Day or the pandemic—markets have not shown broad panic, and indices have reached new highs. Recent consolidation at elevated levels has seen value stocks contribute more meaningfully.
- ▶ This rotation is not purely a defensive shift. Since 3Q last year, value earnings growth has been catching up with growth stocks, narrowing the gap while valuations remain lower. Value indices also have less exposure to the “M7” and face fewer concerns over heavy capex. Strategically, investors may consider rotating part of U.S. equity exposure into value or adopting equal-weight strategies.

### Value Stock Earnings Growth Has Caught Up With Growth Stocks



### the Advantage of Value Stocks and Equal-Weight Indices Has Emerged In Past Three Months



Source: Bloomberg

# Asset Strategy

Asset Type	Market View	Preferred Assets
<b>Equities</b>	<ul style="list-style-type: none"> <li>◆ Major cloud providers are shifting from asset-light tech models to capital-intensive businesses as capex rises, prompting closer scrutiny of profitability and semiconductor supply chain opportunities.</li> <li>◆ Europe and Japan continue expansionary fiscal paths, supporting non-U.S. equities. In Europe, we favor Germany (fiscal stimulus and improving growth), the U.K. (attractive valuations and rate-cut tailwinds), and Spain (strong fundamentals, high financial weight). Preferred sectors include financials with stronger balance sheets and defense supported by policy. In Japan, we favor domestic demand, banks, and semiconductors.</li> </ul>	<p><b>Strategy:</b> Core allocation to large-cap quality names. Long-term positioning in AI themes (technology, semiconductors, utilities, machinery). Outside AI, aerospace, defense, and value stocks are preferred.</p> <p><b>Regions:</b> Germany, Spain, Japanese banks, Japanese semiconductors.</p>
<b>Bonds</b>	<ul style="list-style-type: none"> <li>◆ Tariff revenue uncertainty has had limited impact on bonds, as tariffs account for a small share of government revenue. Corporate fundamentals remain stable, though spreads have edged wider, more notably in high yield. We favor locking in yields via Treasuries and investment-grade bonds with solid cash flow. Preferred sectors include financials, utilities, and industrials.</li> <li>◆ Given long-term USD depreciation risks, investors may diversify into non-USD bonds, such as euro- or AUD-denominated investment-grade debt. Improving EM fundamentals also support selective high-yield EM exposure.</li> </ul>	<p><b>Duration:</b> Treasuries and high-quality IG; preferred sectors are financials, industrials, utilities.</p> <p><b>Types:</b> Non-USD bonds for diversification</p>
<b>Forex</b>	<ul style="list-style-type: none"> <li>◆ Fed policy divisions suggest a near-term pause. The USD has limited downside short term but a mild depreciation bias longer term.</li> <li>◆ With ECB easing nearing an end, the euro is likely range-bound. A dovish new BOJ member has delayed rate hike expectations, keeping the yen soft.</li> </ul>	<p><b>USD:</b> Mild depreciation bias</p> <p><b>JPY:</b> Short-term weakness</p> <p><b>EUR:</b> Range-bound</p>
<b>Commodity</b>	<ul style="list-style-type: none"> <li>◆ Gold shows signs of bottoming. Geopolitical risks, strategic resource competition, and tariff uncertainty support its allocation value. Silver remains more speculative; the gold-silver ratio should mean-revert over time.</li> </ul>	<p><b>Gold:</b> Constructive medium to long term</p> <p><b>Silver:</b> High volatility</p>



## AI Shock: Value Takes the Lead

- ▶ U.S. January PPI rose 0.5% MoM, above the 0.3% forecast and December's revised 0.4%. Headline PPI increased 2.9% YoY, above expectations of 2.6% but slightly below the prior 3.0%. Core PPI climbed 0.8% MoM, well above the 0.3% forecast and December's revised 0.6%, while core PPI rose 3.6% YoY, exceeding both expectations (3.0%) and the prior 3.3%.
- ▶ Year to date, AI-related sectors have diverged. Software stocks have seen sharp sell-offs, while hardware and infrastructure names remain elevated, with some reaching record highs. Amid uncertainty over AI's broader economic impact, investors have adopted a "sell first, assess later" approach. Ongoing caution has driven flows into traditional and value sectors with lower AI exposure. The Dow Jones Industrial Average reached a record high, briefly surpassing 50,000, while the Nasdaq traded sideways. Industrials outperformed, supported by order growth and AI-driven efficiency gains, with benefits outweighing substitution concerns.

### S&P 500 Growth vs. Value Index Comparison



# General Electric Company (GE)

**Closing Price** US \$342.26

**Target Price** US \$400

Operating under the name GE Aerospace, the company is a leading supplier of aircraft engines. It manufactures jet and turbine engines, Colibrium additives, and propellers, while providing integrated systems for commercial, military, business, and general aviation aircraft. GE Aerospace serves customers worldwide.

## \$190 Billion Backlog and Narrowbody Engine Dominance Support Multi-Year Growth

GE enters fiscal year 2026 with a backlog of approximately USD 190 billion, following FY2025 revenue growth of 21%, EPS growth of 38%, and free cash flow conversion exceeding 100%. Its dominance in the narrowbody engine market—through the CFM platform powering Boeing and Airbus fleets—positions the company to capture high-margin aftermarket service revenue as global flight hours normalize and airlines prioritize fleet renewal. Accelerated equipment deliveries combined with long-term service contracts create robust cash generation and strong earnings visibility into FY2026 and beyond.

## U.S. Defense Contracts and Next-Generation Propulsion Expand Growth Runway

GE is strengthening its defense portfolio through digitalized maintenance and next-generation propulsion systems. Its AI-driven TrueChoice Defense contract for the J85 engine (supporting the U.S. Air Force T-38 fleet) integrates data from over 6,000 engine parts to enhance readiness and optimize supply. Additionally, GE and Kratos secured a USD 12.4 million U.S. Air Force contract to design the GEK1500 engine for Collaborative Combat Aircraft (CCA), building on GEK800 testing progress. As the U.S. prioritizes affordable autonomous combat systems and logistics modernization, GE is well-positioned to benefit from structurally higher defense spending and digital fleet management demand.

## Q4 FY2025 Results Beat Expectations

Non-GAAP EPS came in at USD 1.57, beating estimates by USD 0.14; revenue reached USD 11.9 billion, up 20.4% year-over-year. Total orders surged to USD 27 billion, a 74% increase. Looking ahead to FY2026, management guides for low double-digit revenue growth, broadly in line with consensus at 11.3%. Adjusted EPS is expected in the range of USD 7.10–7.40, consistent with the consensus midpoint of USD 7.12.

## Valuation Consensus

Bloomberg's 12-month average target price stands at USD 352.24, with a high of USD 425 and a low of USD 255.

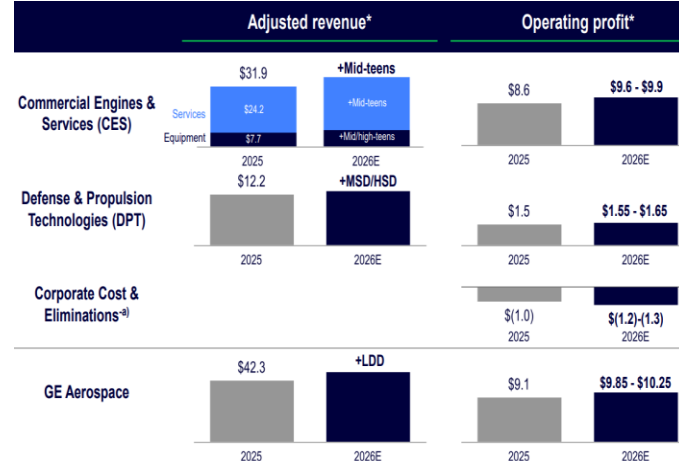
Source: Bloomberg

### 1-Year Price

(USD)



### 2026 Guidance

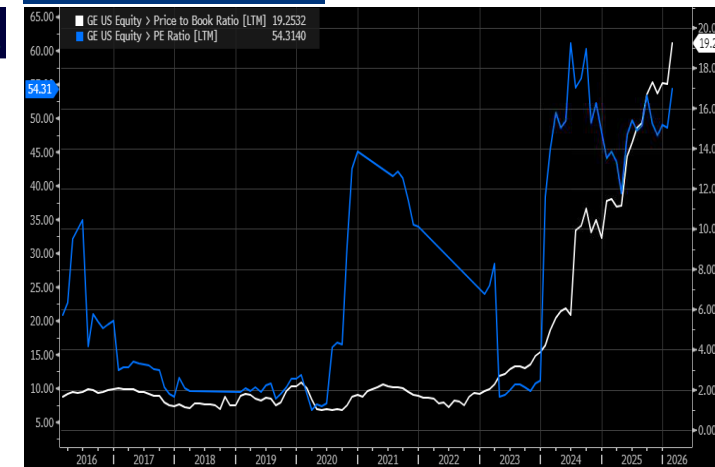


### Financials

	2023	2024	2025	2026F	2027F
<b>Revenue Growth(%)</b>	-53.8	9.5	18.5	5.1	9.7
<b>EBITDA (%)</b>	19.6	18.2	20.1	24.0	24.7
<b>EPS(USD)</b>	3.35	4.60	6.31	7.41	8.50
<b>Net Profit Margin(%)</b>	10.6	13.0	14.7	16.1	16.6

Source: Bloomberg; 2026/27F are market estimates

### P/E & P/B



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# Caterpillar (CAT)

**Closing Price** US \$742.83

**Target Price** US \$850

Manufactures construction and mining equipment, engines, turbines, and power systems, serving customers globally.

## \$51.2bn Backlog Supports Revenue Visibility

Caterpillar ended 4Q25 with a record \$51.2bn backlog, after posting record full-year sales and \$19.1bn in quarterly revenue. Mining capex—driven by electrification, infrastructure, and energy transition—continues to support its Resource Industries segment. The strong backlog provides solid 2026 visibility and buffers macro volatility.

## AI, Autonomy, and Software Drive Transformation

CAT is accelerating digital and autonomous solutions, investing \$30bn in R&D over two decades and planning to further scale tech spending by 2030. Its AI assistant, NVIDIA integration, and autonomous mining fleet (over 11bn tonnes moved) strengthen its tech edge. The RPMGlobal acquisition enhances its mining software ecosystem, supporting margins and long-term competitiveness.

## 4Q25 Beat; Positive 2026 Outlook

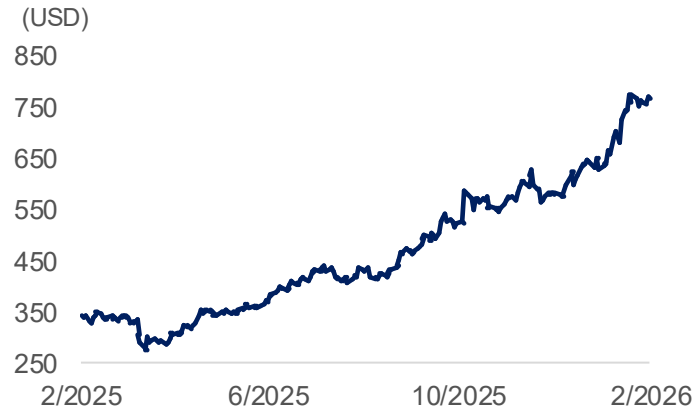
4Q25 adjusted EPS was \$5.16 (+\$0.45 beat) on revenue of \$19.1bn (+17.9% YoY). FY25 revenue reached \$67.6bn (+4%), with EPS at \$18.81. For 2026, management expects sales growth near the upper end of its 5–7% target range, supported by the record backlog.

## Valuation Consensus

Bloomberg 12-month average target: \$701.05 (high \$878; low \$425).

Source: Bloomberg

## 1-Year Price



## 2030 Targets

ENTERPRISE	2025 ACTUALS	2030 TARGETS <sup>1</sup>
Sales & Revenues	4%	5-7% CAGR <sup>2</sup> Through 2030
Adjusted Operating Profit Margin <sup>3</sup>	17.2% Within the Target Range	15-19% to 21-25% at \$60B at \$100B
Services Revenues <sup>4</sup>	\$24B	\$30B
MP&E Free Cash Flow <sup>5</sup>	\$9.5B	\$6B to \$15B
Shareholder Return	84%	Substantially all MP&E FCF <sup>5</sup> over time
Dividend Increases	7%	High single-digit percent

## Financials

	2023	2024	2025	2026F	2027F
Revenue Growth(%)	12.8	-3.4	4.3	4.2	9.6
EBITDA (%)	24.0	24.3	20.8	22.2	23.7
EPS(USD)	21.20	21.89	19.11	22.67	27.38
Net Profit Margin(%)	16.2	16.5	13.4	15.0	16.2

Source: Bloomberg; 2026/27F are market estimates

## P/E & P/B



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## Appendix

## Key Economic Data / Events

## ► FEB 2026

23

Monday

- U.S. Dec Durable Goods Orders MoM (Act:-1.4% Est:-1.4% Prev:5.4%)

24

Tuesday

- U.S. Feb Conference Board Consumer Confidence (Act:91.2 Est:87.1 Prev:89.0)

25

Wednesday

- Eurozone Jan CPI YoY (Act:1.7% Est:1.7% Prev:2.0%)

26

Thursday

- U.S. Weekly Initial Jobless Claims (Act:212k Est:216k Prev:208k)
- Japan Jan Machine Tool Orders YoY (Act:25.3% Prev:10.9%)

27

Friday

- U.S. Jan PPI YoY (Act:2.9% Est:2.6% Prev:3.0%)
- Japan Feb Tokyo CPI YoY (Act:1.6% Est:1.4% Prev:1.5%)
- Japan Jan Industrial Production MoM (Act:2.2% Est:5.5% Prev:-0.1%)
- Japan Jan Retail Sales MoM (Act:4.1% Est:1.5% Prev:-2.0%)

## ► MAR 2026

2

Monday

- U.S. Feb ISM Manufacturing PMI (Est:51.8 Prev:52.6)
- U.S. Feb S&P Global Manufacturing PMI (Prev:52.4)
- Japan Feb S&P Global Manufacturing PMI (Prev:51.5)
- Eurozone Feb HCOB Manufacturing PMI (Prev:49.5)

3

Tuesday

- Japan Jan Unemployment Rate (Est:2.6% Prev:2.6%)
- Japan Jobs-to-Applicants Ratio (Est:1.20 Prev:1.19)

4

Wednesday

- U.S. Feb ADP Employment Change (Est:43k Prev:22k)
- U.S. Feb ISM Services PMI (Est:53.9 Prev:53.8)
- Eurozone Jan Unemployment Rate (Prev:6.2%)
- Taiwan Jan Export Orders YoY (Prev:43.8%)
- China Feb Mfg PMI (Est:49.1 Prev:49.3)
- China Feb Services PMI (Est:49.6 Prev:49.4)
- Chinese People's Political Consultative Conference (CPPCC)

5

Thursday

- U.S. Weekly Initial Jobless Claims (Prev:212k)
- National People's Congress (NPC)

6

Friday

- U.S. Feb Nonfarm Payrolls (Est:60k Prev:130k)
- U.S. Feb Unemployment Rate (Est:4.4% Prev:4.3%)
- U.S. Jan Retail Sales MoM (Prev:0.0%)
- Eurozone Q4 GDP YoY (Prev:1.4%)
- COST, AVGO Earnings

Source: Bloomberg

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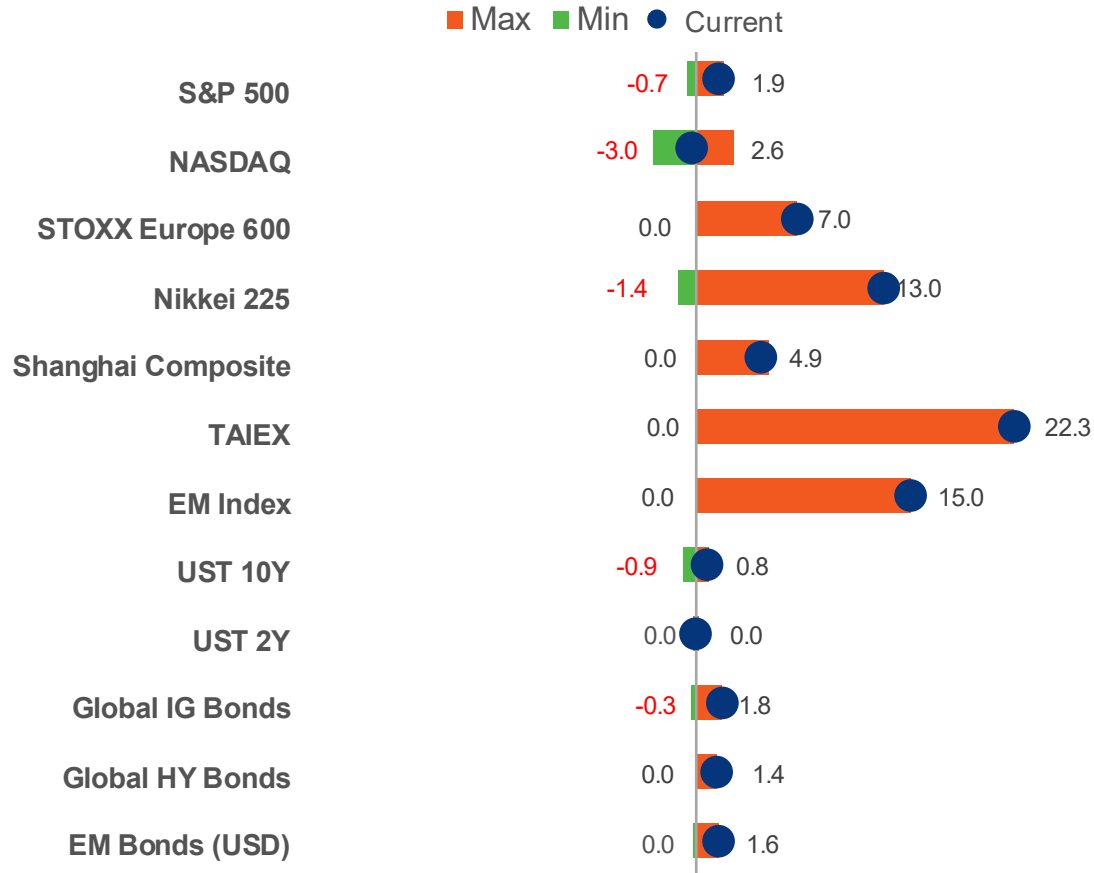
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# Key Earnings Releases

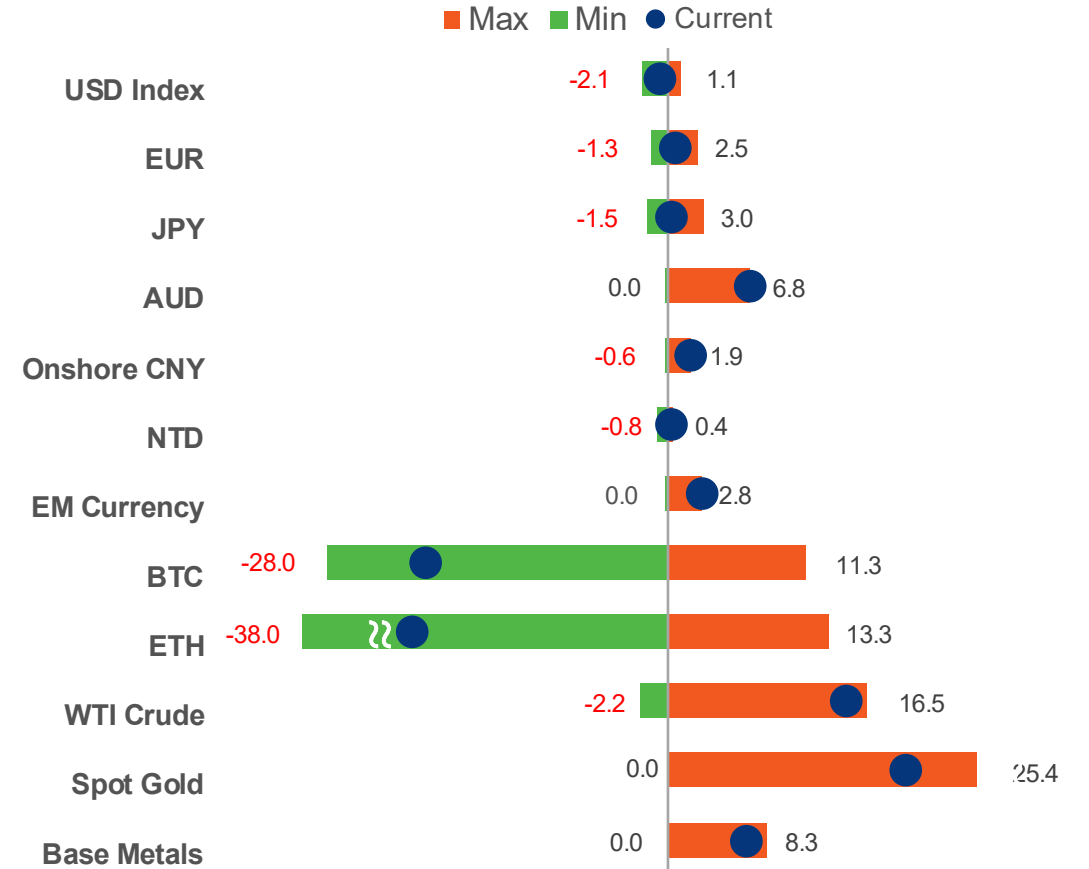
Date	Name	Revenue (F) (USD)	Actual Revenue (USD)	EPS (F) (USD)	Actual EPS (USD)	Exceed Expectation Revenue	Exceed Expectation EPS
2026/2/24	The Home Depot, Inc (HD)	38.14B	38.20B	2.54	2.72	V	V
2026/2/26	NVIDIA Corp (NVDA)	65.56B	68.10B	1.52	1.62	V	V
2026/2/26	Salesforce, Inc. (CRM)	11.18B	11.20B	3.05	3.81	V	V

# Major Market / Asset YTD Performance

## Equities & Bond Markets 2025 Performance (%)

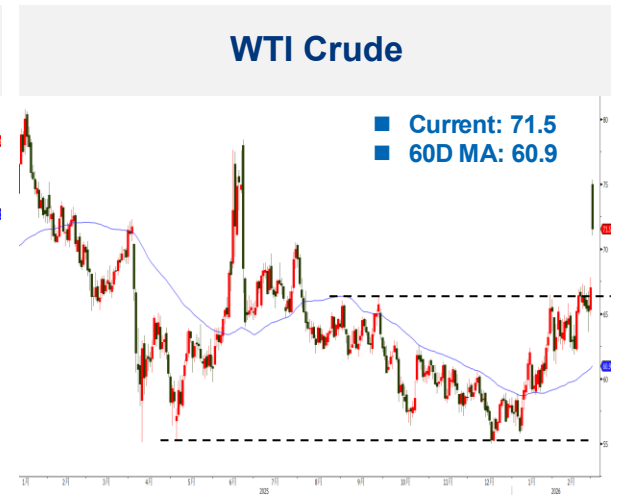
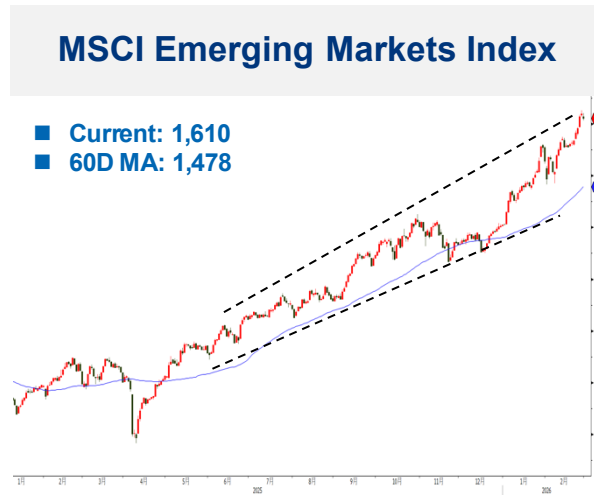
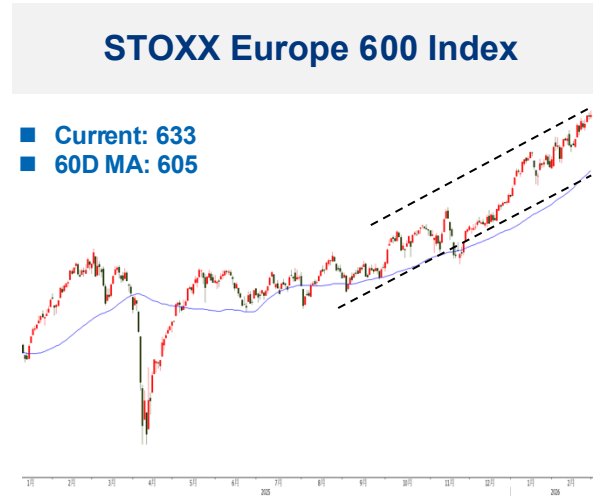
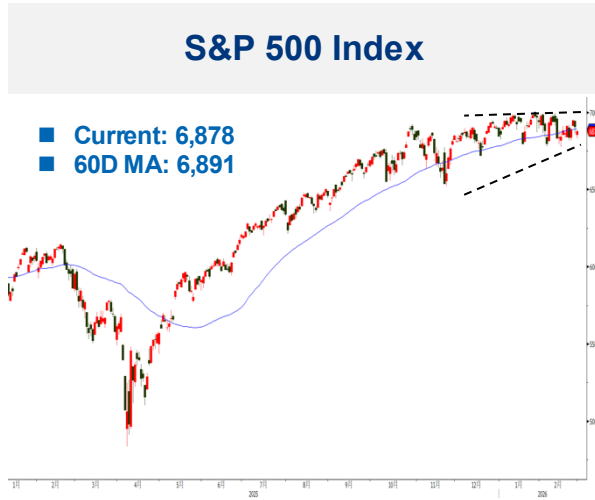


## Currencies and Commodities Market 2025 Performance (%)



Source: Bloomberg

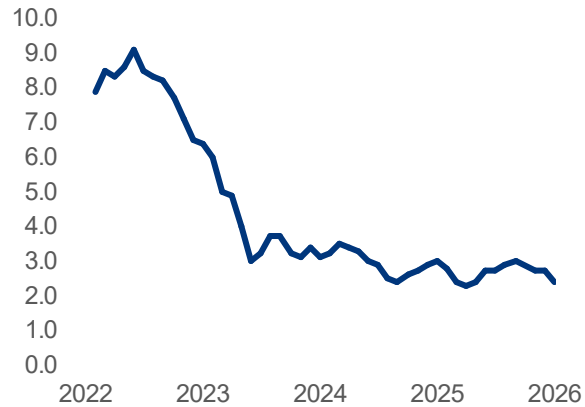
# Technical Analysis



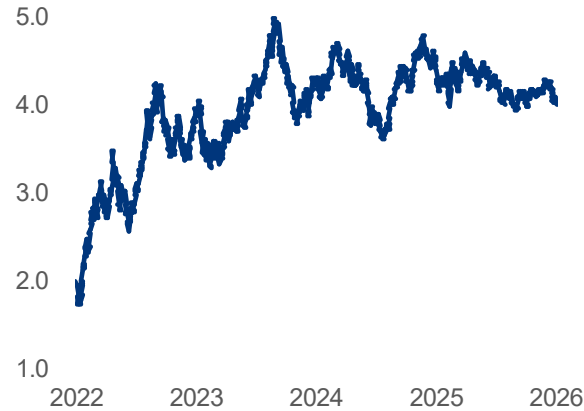
Source: Bloomberg

# Market Monitor

U.S. CPI YoY (%)



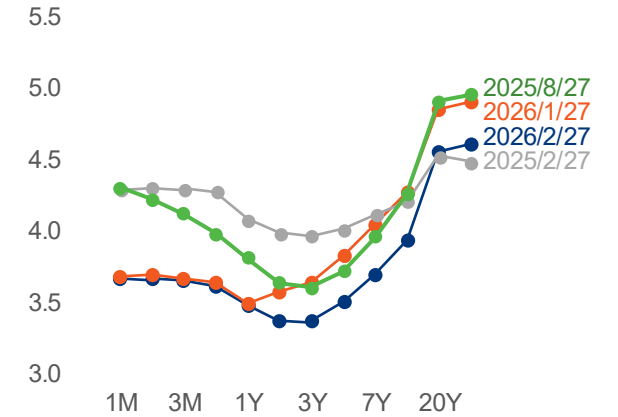
U.S. 10-Year Treasury Yield (%)



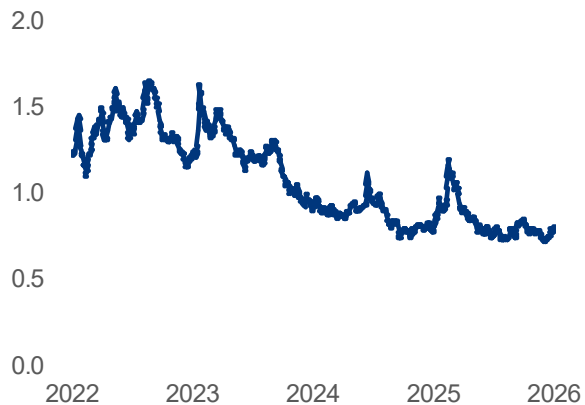
U.S. Treasury Yield Spread (bps)



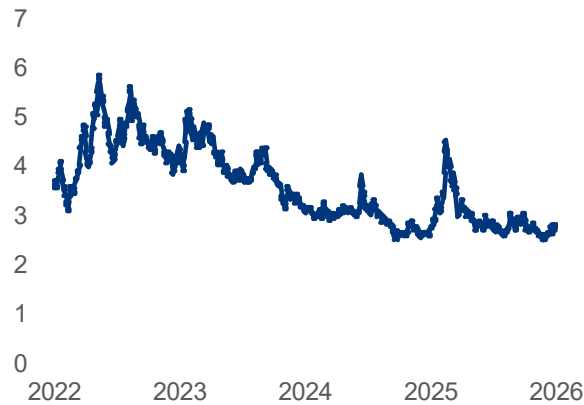
U.S. Treasury Yield Curve (%)



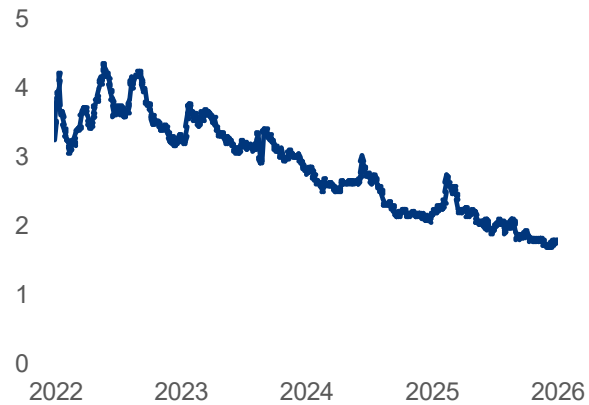
USD IG Credit Spread (%)



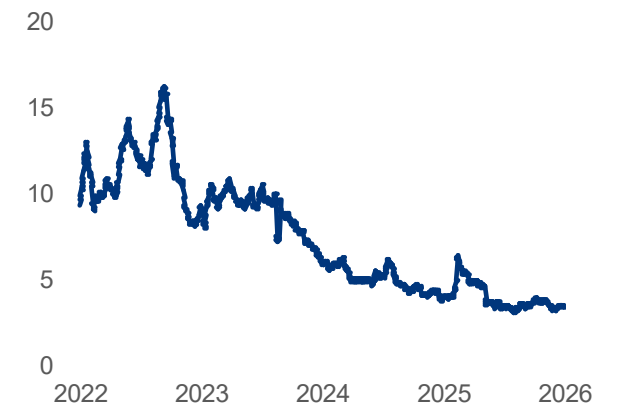
USD HY Credit Spread (%)



USD EM Credit Spread (%)



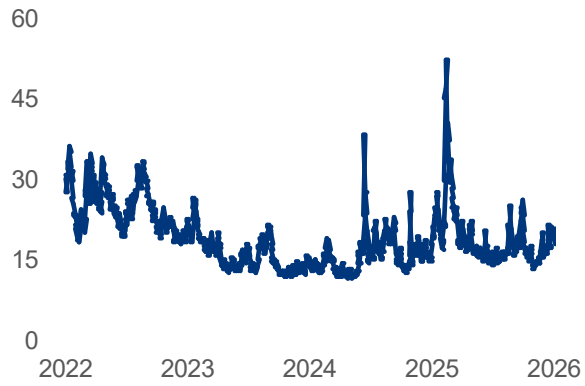
USD Asia Credit Spread (%)



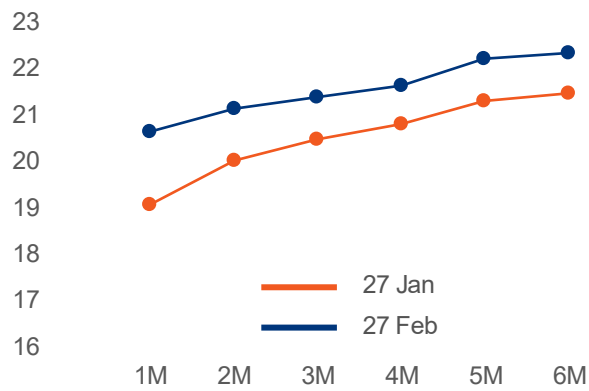
Source: Bloomberg

# Market Monitor

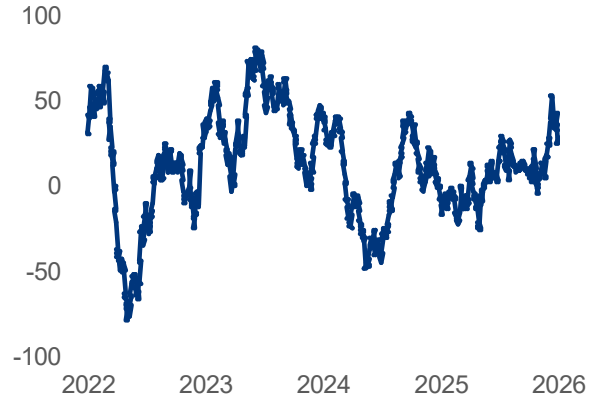
**VIX Index**



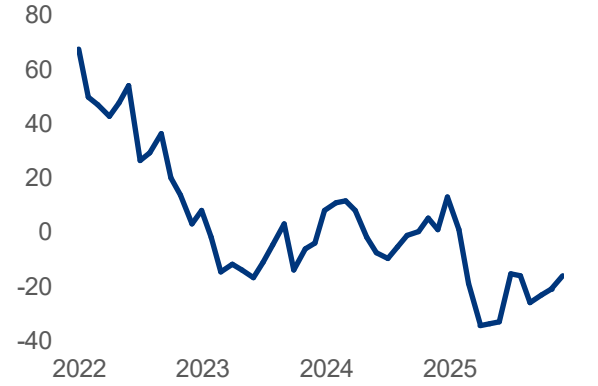
**VIX Term Structure**



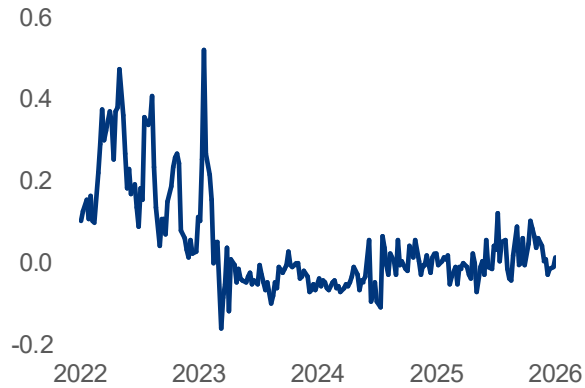
**U.S. Citi Economic Surprise Index\***



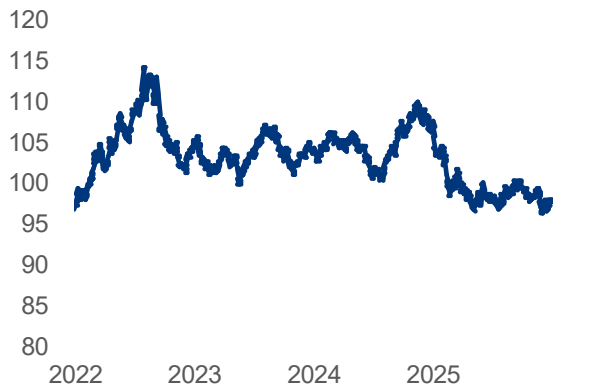
**U.S. Citi Inflation Surprise Index\***



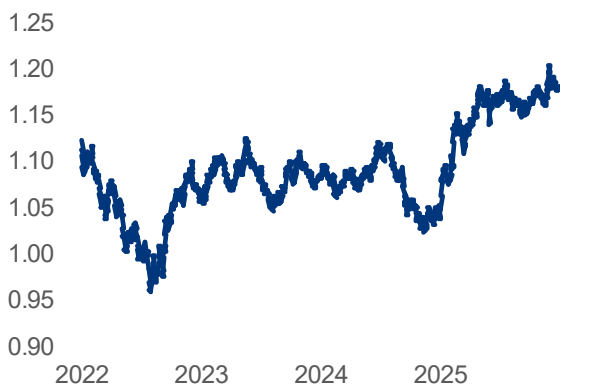
**TED Spread (bps)**



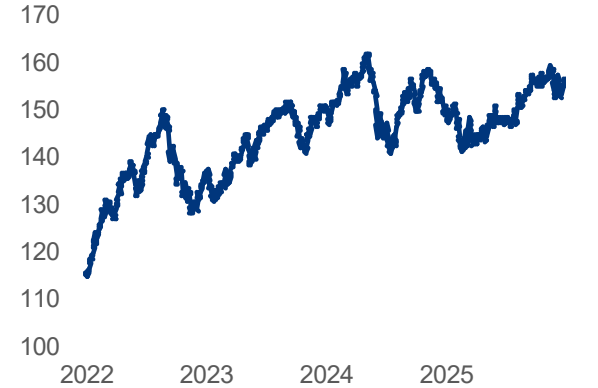
**U.S. Dollar Index**



**EUR to USD**



**USD to JPY**



Source: Bloomberg, \*The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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