

**GAA Team**

---

***GLIF***

GLOBAL LEADER IN FINANCE

瑞信集团

# ***Table of Contents***

---

## **1. Market View**

- 1.1. Credit and Liquidity
- 1.2. Inflation and Employment
- 1.3. Productivity and GDP Growth
- 1.4. Asset Allocation Strategies

## **2. Portfolio Composition and Investment Rationale**

- 2.1. Portfolio Performance
- 2.2. Sector Rationale
- 2.3. Investment Rationale-Equities
- 2.4. Investment Rationale- Hedging Oriented Assets

## **3. Major Rebalancing and Portfolio Changes**

- 3.1. Mid Sept: First Portfolio Setting → AI, Technology Focus
- 3.2. Early Oct: Strengthening Defense and Expanding AI
- 3.3. Mid Oct: Risk Management & Defensive Hedge
- 3.4. Early Nov: Reducing Overstretched Tech Exposure & Enhancing Portfolio Stability
- 3.5. Mid Nov: Exiting Speculative AI & Rotating into Resilient Defensive Assets
- 3.6. Late Nov: Portfolio Stabilization

## **4. Future Investment Plans**

- 4.1. Possible Scenarios & Risks – Credit and Liquidity
- 4.2. Possible Scenarios & Risks – Inflation and Employment
- 4.3. Possible Scenarios & Risks – Productivity and GDP Growth

# Introduction

The U.S. economy in 2025 has entered a complex transition. The post-pandemic era of excess liquidity has ended, while the AI-driven growth surge is settling into a more stable phase. Headline activity still looks resilient, but mixed underlying signals are creating an environment that traditional frameworks struggle to explain.

This complexity reflects three structural tensions. A cooling labor market supports the Fed's shift toward pre-emptive easing, yet large fiscal deficits and heavy Treasury issuance keep long-term rates elevated, limiting the impact of easier policy. The AI-induced productivity boom is moving from rapid expansion to an efficiency-focused stage, and although producer and consumer inflation remain broadly steady, services inflation has not fully eased – maintaining pressure on margins and labor costs. These interacting forces have produced a landscape where conventional cyclical indicators offer only partial guidance.

To navigate this backdrop, the report examines the U.S. economy through three lenses. The **credit and liquidity** section analyzes how the financial system is finding a new equilibrium after the liquidity glut and how conditions are setting the stage for a renewed credit cycle. The **inflation and labor** section evaluates how a cooling job market and persistent price pressures shape the Fed's policy path. The **GDP and productivity** section reviews the structural shifts accompanying the AI cycle's maturation and their implications for long-term growth.

In a market where volatility has become routine, single-indicator analysis is no longer sufficient. A broad macro framework – linking financial conditions, qualitative labor-market changes, and structural productivity trends – is essential to understand today's challenges and opportunities and to guide sustainable investment strategy.

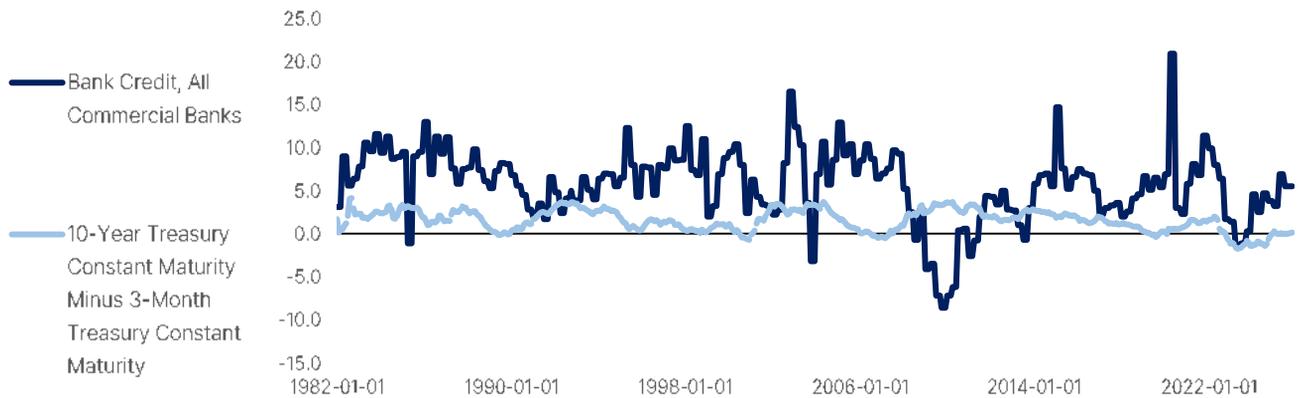
# 01 Credit and Liability

## 1.1.1. The Yield Curve in a New Market Reality

The decline in M2 and the RRP balance indicates that excess liquidity has been largely unwound, but money market funds (MMFs) at record highs point to an ample pool of “dry powder” that can react sensitively to policy changes.

### 1.1.1.1 Term Spread

Exhibit 1. Bank Credit Change (YoY)



Source: FRED, Federal Reserve Bank of St. Louis

Banks operate on a structure of taking short-term deposits and extending long-term loans. When the term spread widens, banks earn a larger net interest margin between funding costs and loan yields, thereby improving profitability. However, when the yield curve inverts and the short-term funding cost rises above long-term lending rates, banks face negative carry, their willingness to extend credit diminishes, and this can lead to a tightening of credit conditions. An inverted yield curve therefore not only signals pressure on bank profitability but also suggests a potential deterioration in market sentiment.

Long-term interest rates reflect expectations for future growth and inflation as well as a term premium, while short-term rates closely track the central bank's policy rate. Accordingly, an inversion of the yield curve implies that the market expects short-term tightening pressure to eventually translate into weaker growth over the longer term.

## Market View

### 01 Credit and Liability

The deep and prolonged yield curve inversion that has persisted since 2022 can be attributed to the Federal Reserve's aggressive rate hikes aimed at containing post-pandemic inflation, which sharply pushed up short-term rates. As short-term yields surged above long-term yields, longer-dated rates became relatively low, and mounting concerns about the economic outlook pulled forward demand for long-term bonds, resulting in one of the longest inversion episodes in history.

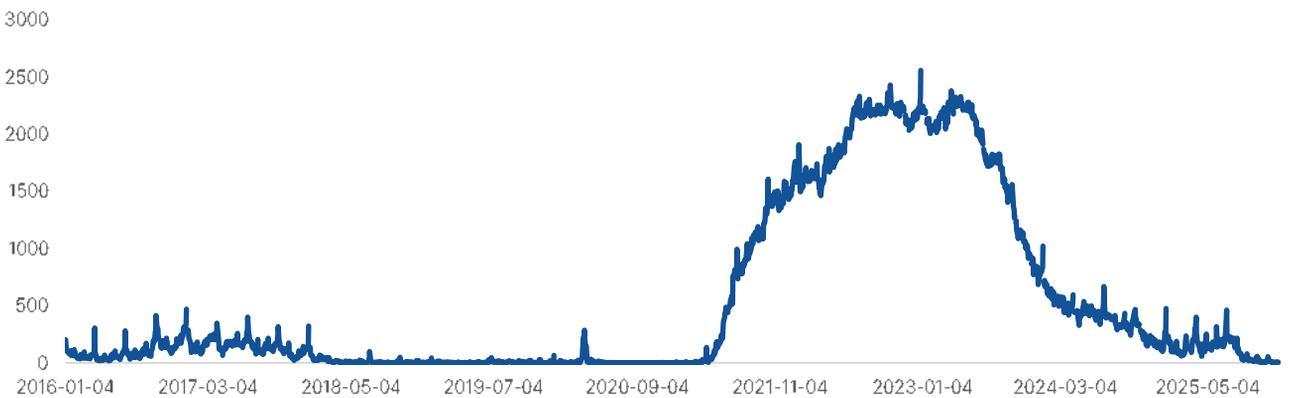
As of December 2025, the yield curve has already exited the inversion phase and is moving more clearly toward normalization. Following the first rate cut in September, short-term rates stabilized rapidly, and the market now assigns a high probability to an additional cut in December.

In this process, the term spread has moved slightly into positive territory from around 0%, easing pressure on banks' net interest margins. This, in turn, suggests improving conditions for credit supply and can be interpreted as an early phase in which the transmission channel that carries funds from the financial system into the real economy is gradually normalizing.

### 1.1.2 The End of Excess Liquidity and Market Sentiment: RRP and MMF

#### 1.1.2.1 Reverse Repo

**Exhibit 2. Fed Overnight Reverse Repo (ON RRP) Balance**



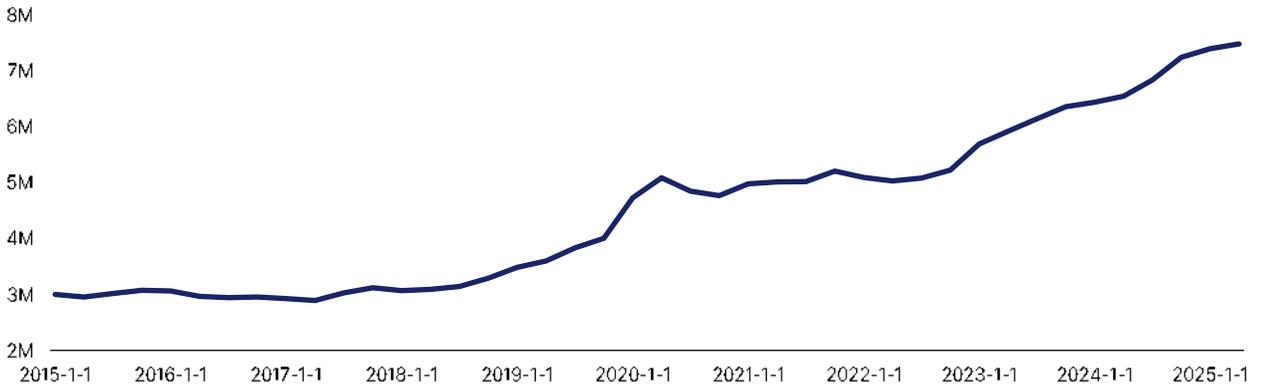
Source: FRED, Federal Reserve Bank of St. Louis

The RRP (overnight reverse repurchase agreement facility) functions as a type of short-term deposit account through which the Fed absorbs excess liquidity from the market. During 2021–22, the RRP balance exceeded 2 trillion dollars, symbolizing an environment of excess liquidity, but it has declined sharply since mid-2023. This reflects a combination of increased Treasury bill issuance by the U.S. Treasury, the Fed's quantitative tightening (QT), and portfolio rebalancing in response to higher market rates.

## Market View

01  
Credit and Liability

The steep decline in the RRP balance suggests that most of the system's excess liquidity has been drawn down. With the balance now at a low level, its role as a buffer has diminished, and in periods of market stress, there is a possibility of temporary inflows returning to the facility.

**1.1.2.2. MMF****Exhibit 3. Money Market Funds; Total Financial Assets, Level**

Source: FRED, Federal Reserve Bank of St. Louis

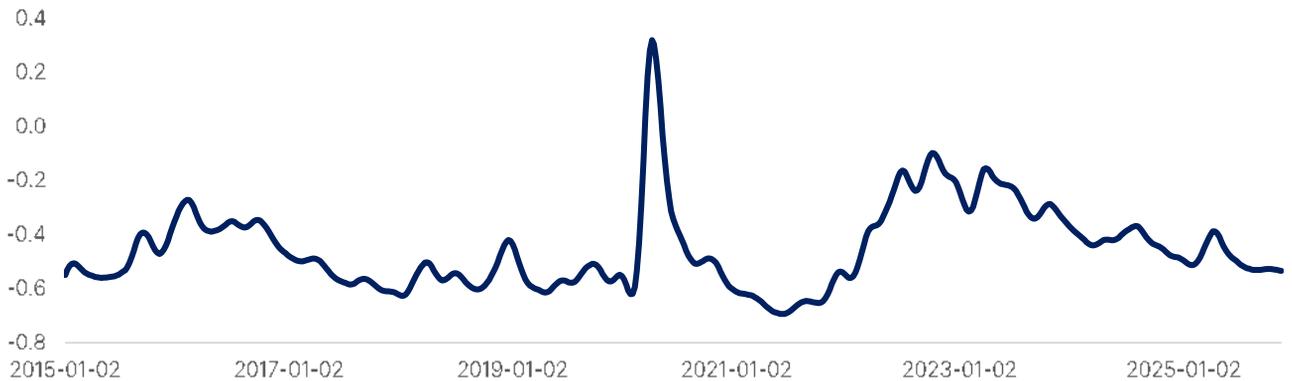
MMFs, which invest primarily in short-term instruments, are a representative vehicle for parking cash in safe assets and have remained at record-high levels throughout 2023–25. The fact that MMF assets have not declined despite the sharp drop in the RRP balance is important. It implies that liquidity has not disappeared but instead has been reallocated into higher-yielding short-term securities and MMFs. In other words, a substantial amount of investable cash is still sitting on the sidelines in the financial system. Taken together, the two indicators show that the RRP balance is lingering near a trough and that its buffering function for the market has effectively disappeared. As rate cuts approach, MMFs are becoming increasingly sensitive to adjustments in yields on short-term instruments such as T-bills. Looking ahead, if short-term rates decline, MMF assets are more likely to migrate into the bond market, where relative returns become more attractive, rather than flowing back into bank deposits. In a falling-rate environment, fixed-income securities tend to emerge as a core investment vehicle, encouraging investors to reallocate funds out of deposits and into bonds.

In sum, excess liquidity has been depleted, but “waiting liquidity” in the form of cash-like assets remains abundant.

## Market View

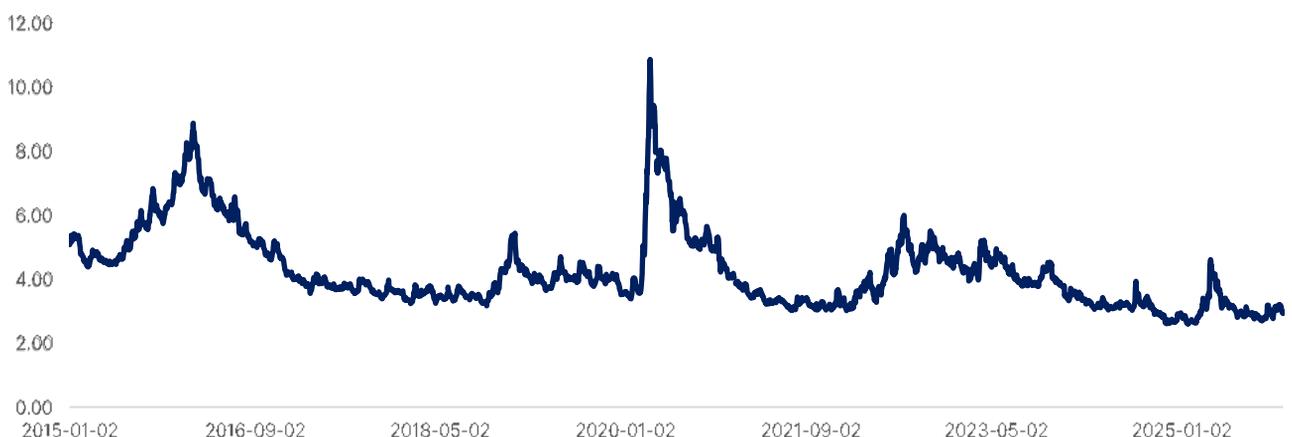
01  
Credit and Liability**1.1.3. Liquidity as Experienced by the market: FCI and Credit Spreads****1.1.3.1. Financial Conditions Index (FCI)**

The Financial Conditions Index (FCI) aggregates multiple financial variables – such as interest rates, equity prices, and exchange rates – into a single measure that summarizes the degree of tightening or easing in financial conditions.

**Exhibit 4. Chicago Fed National Financial Conditions Index**

Source: FRED, Federal Reserve Bank of St. Louis

It serves to quantify how policy rate changes and other events are transmitted to the broader financial environment.

**1.1.3.2 Credit Spreads****Exhibit 5. ICE BofA US High Yield Index Option-Adjusted Spread**

Source: FRED, Federal Reserve Bank of St. Louis

Credit spreads, defined as the yield differential between U.S. Treasuries and corporate bonds, are a key indicator of corporate funding costs and market risk appetite.

During the initial phase of the COVID-19 pandemic in 2020, financial markets experienced severe stress: the FCI spiked into “extreme tightening,” and credit spreads widened sharply.

## Market View

01  
Credit and Liability

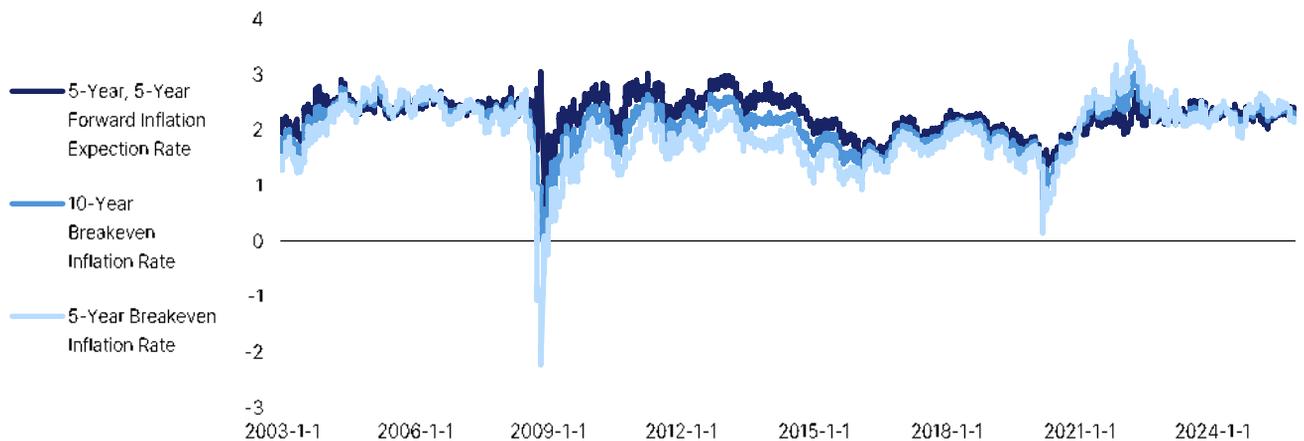
As default risks rose, investors dumped corporate bonds and rushed into the safety of Treasuries. Subsequently, with the Fed and the government implementing large-scale quantitative easing, zero interest rates, and even corporate bond purchase programs, financial conditions rapidly shifted into an accommodative regime and credit spreads narrowed.

In 2022, as policy pivoted back to tightening, both the FCI and credit spreads widened again. However, as of December 2025, financial conditions are clearly moving toward a more accommodative stance. Expectations for additional Fed rate cuts have already been largely priced into assets, and credit spreads have stabilized compared with the previous month, alleviating corporate funding pressures. This signals that market confidence in a soft landing scenario for the economy is strengthening.

### 1.1.4. Long-Term Inflation

#### 1.1.4.1. Inflation Expectations

Exhibit 6. Market Inflation Expectations (5Y, 10Y, 5Y5Y Forward)



Source: FRED, Federal Reserve Bank of St. Louis

Inflation has been the key variable shaping the post-pandemic liquidity cycle. In response to the high inflation of 2022–2023, the Fed implemented aggressive tightening, but as of 2025, headline inflation has moved closer to the 2% range, easing the policy constraints. While core inflation remains in the mid-2% range, long-term inflation expectations – as measured by 5-year and 10-year breakeven inflation rates – have stabilized around 2.2–2.4%, suggesting that concerns over renewed inflation pressures are limited.

This suggests that even with additional Fed rate cuts, market confidence in price stability would likely hold—creating a more supportive environment for liquidity and credit growth.

## Market View

01  
Credit and Liability**1.1.5. Credit Channel Analysis: A Resilient System**

As expectations of rate cuts have become entrenched, banks' willingness to lend has strengthened notably in the fourth quarter. Lending standards have been further eased compared with the previous quarter, and although delinquency rates have risen slightly, they remain at levels that are still manageable. As a result, a "healthy equilibrium" between borrowers and lenders is taking shape.

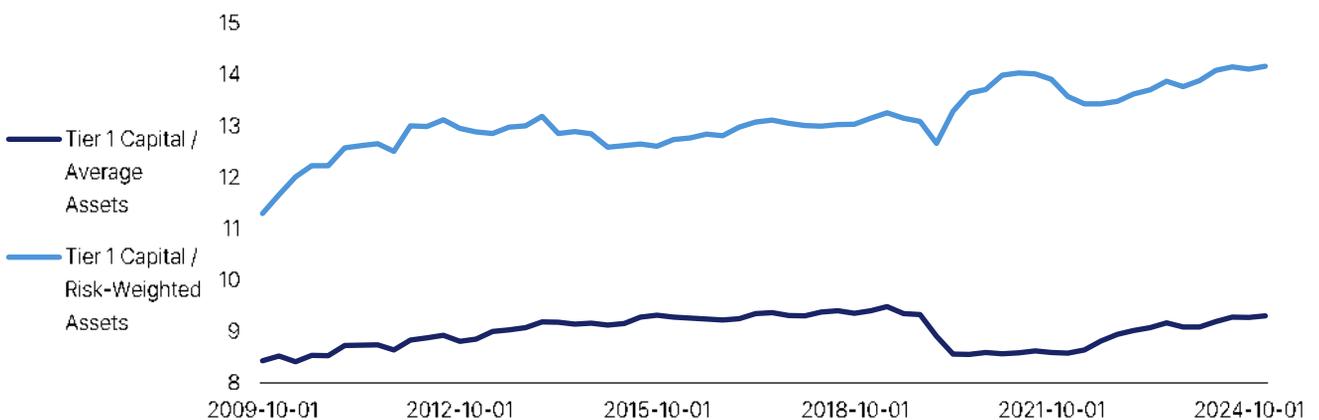
**1.1.5.1. Capacity of Lenders: Banks' Lending Ability and Willingness**

Against the backdrop of the liquidity environment discussed above, the underlying health of the banking sector – the main conduit of actual credit supply – appears to be very solid. Banks' lending capacity can broadly be decomposed into "willingness" and "ability" to lend, and both are sending constructive signals.

**1.1.5.1.1. Financial Soundness Indicators**

The ratio of equity to total assets is a conservative measure of leverage. A higher ratio implies that capital constitutes a larger share of total assets. After a modest decline, this ratio is now trending upward again, suggesting that there is room to take on additional leverage.

By contrast, the ratio of capital to risk-weighted assets (RWA) surged in the aftermath of the pandemic and, after a temporary dip, has resumed an upward trend. RWA is a core, internationally recognized indicator of bank soundness that measures how much capital is held relative to risk-adjusted assets.

**Exhibit 7. Bank Capital Adequacy: Tier 1 Capital Ratios**

Source: FRED, Federal Reserve Bank of St. Louis

## Market View

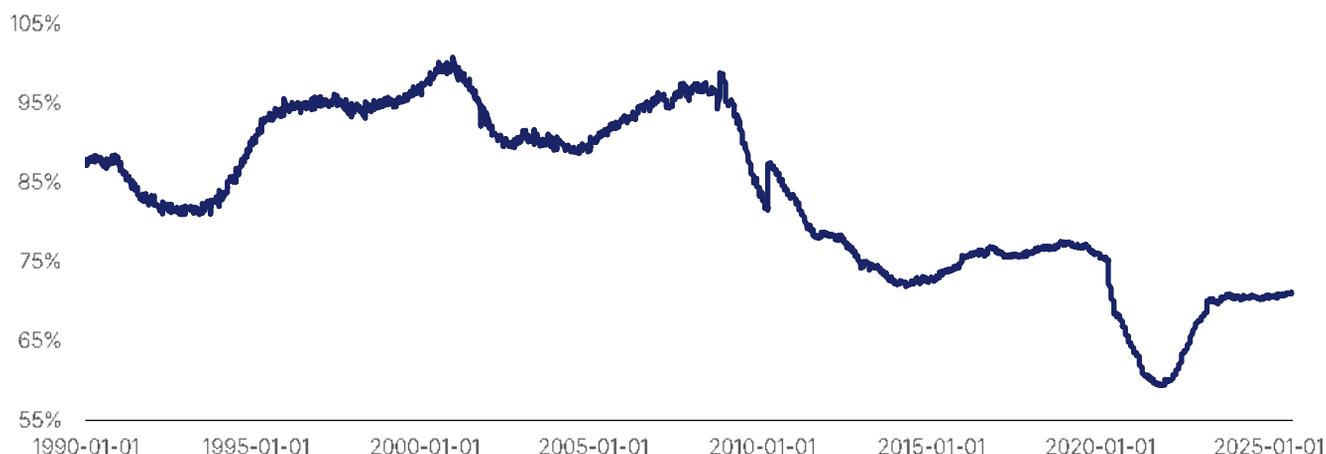
01  
Credit and Liability

This ratio continues to rise and currently stands around 14%, above the 10–12% range typically considered the benchmark for well-capitalized banks. This points to broadly stable capital adequacy and limited short-term risk exposure. Credit spreads have also remained stable without pronounced widening, indicating that banks are not under excessive pressure in terms of profitability or funding conditions.

That said, given that a stronger lending appetite and looser underwriting standards are developing simultaneously, the improvement in soundness indicators and stabilization of liquidity conditions, while positive, also underscores the importance of a balanced strategy in which banks manage their asset-liability structures conservatively to guard against potential risks.

### 1.1.5.1.2 Loan-to-Deposit Ratio (LDR)

**Exhibit 8. US Loan-to-Deposit Ratio**



Source: FRED, Federal Reserve Bank of St. Louis

The loan-to-deposit ratio (LDR) is a representative indicator of how actively banks are converting deposits into loans. A high LDR means that banks are aggressively using their funding base to create credit, which reflects ample liquidity provision and active credit intermediation in the broader economy.

However, an excessively high LDR can elevate liquidity risk and the potential for non-performing loans. In fact, during the dot-com bubble (around 2000) and the global financial crisis (2008), LDRs excess of 100% contributed to heightened systemic stress in the financial system.

## Market View

01  
Credit and Liability

Currently, the LDR stands at roughly 60–75%, a range that is stable relative to historical averages. This indicates that banks still hold sufficient cash-like assets and lending capacity. In other words, systemic risk appears limited, while there is still room for credit expansion – i.e., scope for additional leveraging.

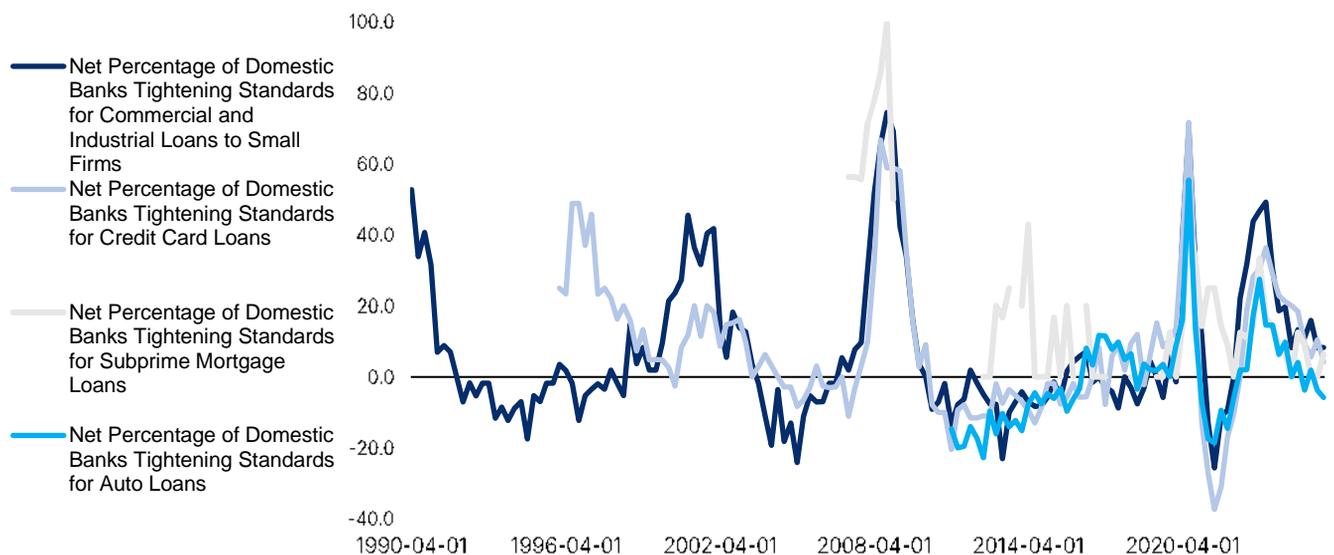
Recent movements in the LDR, however, are closely tied not only to loan demand and banks' underwriting stance, but also to the pace at which "policy-driven liquidity" shifts across sectors. In particular, the U.S. Treasury General Account (TGA) has a direct impact on bank deposits. When the TGA balance increases, the government effectively withdraws funds from the banking system and shifts them into its account at the Fed, reducing deposits and exerting upward pressure on the LDR. Conversely, when the TGA balance declines, government spending injects funds back into the economy, boosting deposits and easing the LDR.

At the same time, the Fed's QT – by shrinking its balance sheet – absorbs bank reserves and, as a result, may constrain banks' ability to expand lending. Thus, recent trends in the LDR can be interpreted as the combined outcome of liquidity absorption effects stemming from TGA dynamics and QT.

The fact that the LDR has remained stably within the 60–75% range through December suggests that underlying liquidity within the banking system is ample. This implies that, even during a transition toward rate cuts, the system retains sufficient capacity for a rapid recovery in credit supply.

## 1.1.5.1.3 Lending Standards

Exhibit 9. US Loan Tightening



## Market View

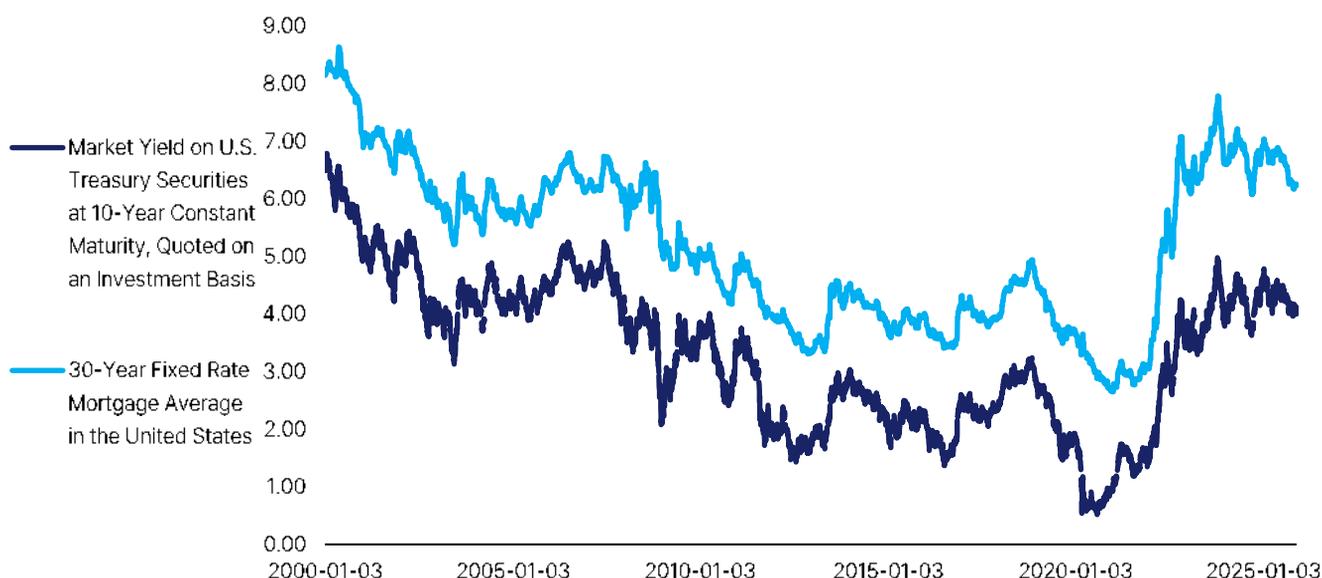
01  
Credit and Liability

Lending standards can be compared with those observed during the early-2000s dot-com bust and the 2008 global financial crisis. In both downturns, banks tightened credit conditions for credit-card loans and corporate lending, with the latter experiencing a more pronounced tightening given its higher risk profile for banks. In 2008, subprime mortgages showed the sharpest increase in tightening. Because this segment is closely linked to housing-market bubbles and systemic financial risks, the rapid deterioration in subprime lending standards played a critical role in deepening the recession.

Following the pandemic, all four major lending categories also experienced a tightening phase, reflecting banks' heightened risk aversion and the associated cooling of economic activity. However, since the second half of 2024, lending standards have gradually shifted toward easing. Compared with the levels seen during the dot-com bust and the global financial crisis, today's credit standards are relatively accommodative, indicating that banks' willingness to extend credit has strengthened.

Among the five categories of loans, subprime mortgages remain the largest and most sensitive segment. Because these loans target borrowers with lower credit scores and carry higher interest rates, they serve as an important leading indicator of banks' risk appetite. As of 2025, lending standards for subprime mortgages remain low, and the most recent quarterly surveys continue to show a mild easing trend. Combined with expectations for rate cuts, this suggests that banks' willingness to lend is being maintained.

**Exhibit 10. US Mortgage Spread**



Source: FRED, Federal Reserve Bank of St. Louis

## Market View

01  
Credit and Liability

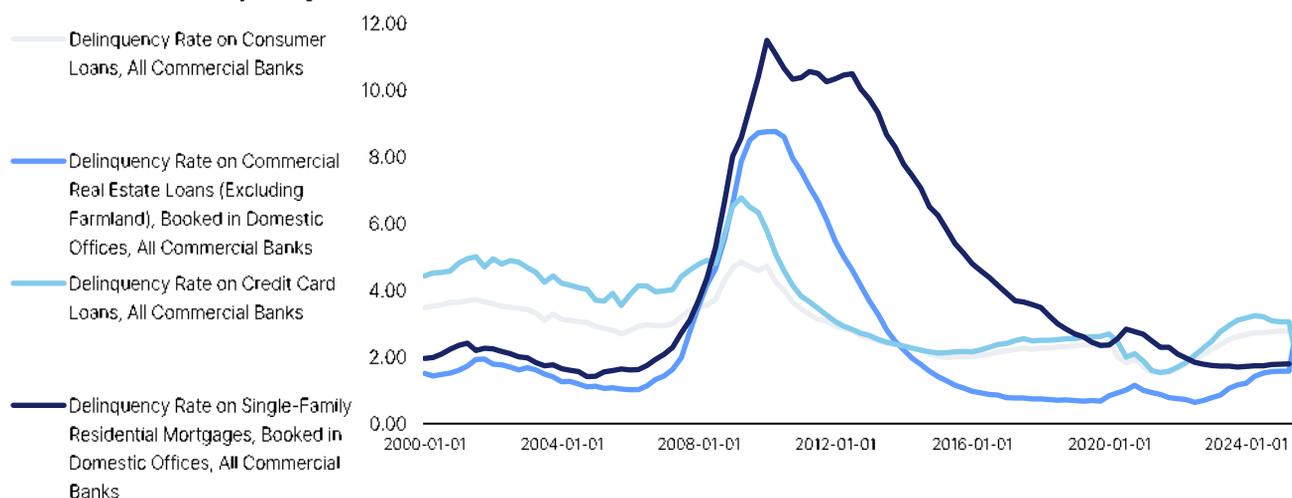
Looking at the mortgage spread – the gap between the 30-year mortgage rate and the 10-year U.S. Treasury yield – provides an additional perspective. As of 26 November 2025 (FRED data), the 30-year mortgage rate stood at 6.23%, while the 10-year Treasury yield was 4.0%, putting the spread at 2.23%. This is slightly above the historical average of around 2.0%, suggesting that some degree of lending risk is being priced in.

Currently, the spread is only modestly above average and is on a gradual narrowing path. This indicates that uncertainty in financial markets is easing, and if spreads compress further, lower borrowing costs could open the door to renewed credit expansion and leveraging opportunities.

### 1.1.5.2 Soundness of Borrowers: Households' Debt-Servicing Capacity

#### 1.1.5.2.1 Delinquency Rates

Exhibit 11. US Delinquency



Source: FRED, Federal Reserve Bank of St. Louis

Overall delinquency rates remain low relative to historical averages. Delinquencies on credit cards and housing- and construction-related loans have stayed on a stable trajectory, underscoring the resilience of borrowers' financial positions. This stability suggests that households' debt-servicing capacity has not been severely impaired, despite the extended period of high interest rates.

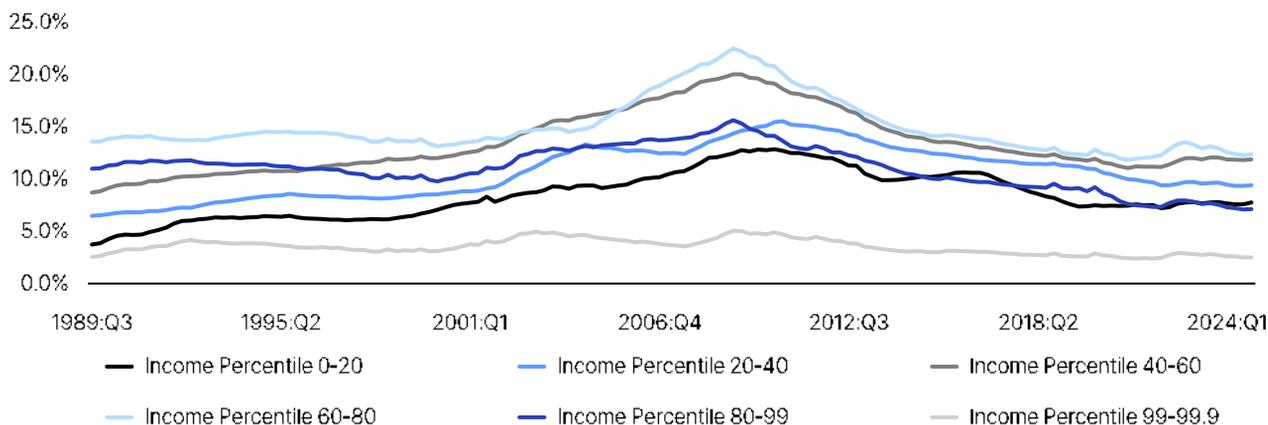
More recently, delinquency rates on auto loans and other consumer-goods financing have ticked up slightly, reflecting the lagged impact of higher borrowing costs and a short-term slowdown in consumption. However, this appears to be more an expression of temporary stress in specific consumption segments than a sign of systemic risk. Overall, banks still retain ample capacity to expand their loan books.

## Market View

01  
Credit and Liability

## 1.1.5.2.2 Debt Ratios by Income Group

Exhibit 12. Liabilities as Percentage of Assets



Source: FRED, Federal Reserve Bank of St. Louis

U.S. household debt-to-asset ratios remain below the levels seen in the 1980s–2000s. This reflects the ongoing deleveraging since the 2008 subprime crisis, which has improved household balance sheets. As a result, households are assessed to have sufficient capacity to sustain consumption and underpin new credit creation. On this foundation, the favorable debt ratios observed for both low-income and high-income groups in the data support solid consumption fundamentals that help mitigate the probability of a deep recession often cited in market narratives.

### 1.1.6. Potential Risk Factors

Beyond the many indicators reviewed above, there are several risk factors that warrant close attention.

First, if inflation fails to stabilize around the 2% target and instead re-accelerates, a renewed bout of sticky inflation could delay the Fed's transition to rate cuts or even revive the possibility of further tightening. In such a scenario, liquidity conditions could deteriorate rapidly.

## Market View

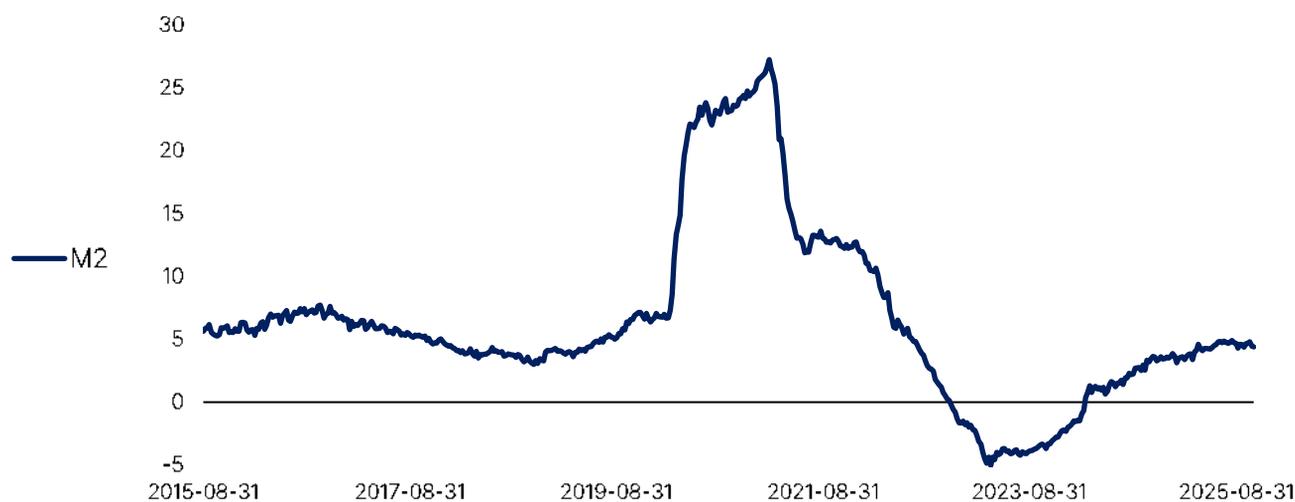
01  
Credit and Liability

Second, uncertainty around the policy mix could emerge if accommodative monetary policy (rate cuts) coincides with expansionary fiscal policy (increased government spending). A more expansionary fiscal-monetary mix could raise concerns about the supply of Treasuries, pushing up long-term yields, impeding the normalization of the yield curve, and lifting corporate funding costs. Finally, if the real economy slows more rapidly than expected and credit risk rises, the system could be pushed into a hard-landing scenario. In that case, households' repayment capacity would weaken, and banks could revert to a more conservative lending stance. These potential risks underscore the need for a balanced assessment of policy and markets that takes these factors into account in an integrated way.

### 1.1.7 Conclusion and Outlook

The current liquidity environment can be viewed as having entered a normalization phase after the unwinding of the pandemic-era excess liquidity.

Exhibit 13. M2



Source: FRED, Federal Reserve Bank of St. Louis

M2, which surged during large-scale fiscal stimulus and QE and then briefly turned negative during QT, has returned to a steady upward trend through 2025. Although the RRP balance has contracted sharply, MMF assets remain at record highs, indicating that excess liquidity has been absorbed but a substantial pool of cash-like funds is still parked in short-term safe assets. While the absolute volume of liquidity has declined, the system's circulation capacity has recovered, suggesting a soft-landing phase rather than a disruptive contraction.

Market View  
01  
Credit and Liability01  
Credit and Liability

The banking sector's strength further supports the restart of the credit cycle. Tier 1 capital ratios remain comfortably above international benchmarks, LDRs are stable, and lending standards continue to ease – signaling banks' improving ability and willingness to lend. Combined with households' healthier debt ratios and still-manageable delinquency levels, this points to a renewed equilibrium between credit suppliers and borrowers and an environment in which additional leveraging can occur without excessive strain.

At the same time, the depletion of the RRP has reshaped financial system dynamics: with reduced buffering capacity, policy rate adjustments now transmit more directly to market liquidity, asset prices, and risk sentiment. As a result, the upcoming rate-cut cycle is likely to boost market liquidity in the short term and act as a catalyst for renewed credit expansion over the medium term.

Overall, current financial conditions are better characterized as the early expansion stage of a normalized leverage cycle rather than a period of elevated leverage risk. Strong banking fundamentals, resilient household balance sheets, and a qualitative shift in liquidity composition together provide a durable foundation for credit cycle re-acceleration. Even amid uncertainties surrounding the fiscal-monetary mix, the system's core fundamentals appear sufficient to sustain credit growth. Accordingly, 2026 is poised to be a year in which the resilience of liquidity and credit is tested against the backdrop of a shifting policy environment.

# 02 Inflation and Employment

## 1.2.1 Employment

As of late November 2025, with the official Non-Farm Payroll (NFP) report blacked out due to the prolonged federal government shutdown, the market is focusing on the reversal shown in October's private data. Unlike the recession fears that struck the market in September, October ADP private employment recorded +143,000, completely recovering from the previous month's shock (-32,000). This confirms that the labor market did not contract but was merely distorted by temporary factors (such as hurricanes and strikes).

The recovery on the demand side is even more distinct. The ISM Services PMI, which had been interpreted as a recession signal, surged to 56.0 in October, breaking out of the previous month's contraction territory (49.9) and switching to a strong expansionary phase. In particular, among the sub-indices, new orders and employment rose together, and above all, the prices paid index rose, suggesting that service-driven inflationary pressure remains solid. This is direct evidence that companies are increasing hiring again, confident in demand recovery even amidst cost pressures.

Although the overheating has cooled, the floor of the labor market was firmer than expected. The issue of the JOLTS job openings ratio falling below 1.0 in August remains, but the recently released Q3 Employment Cost Index (ECI) rose 1.1% QoQ, beating market expectations. This implies that while wage growth is slowing, it is not cooling as fast as the Fed would find reassuring. Coupled with the September CPI rebounding to the 3.0% range, the robust labor market is serving as a support pillar that entrenches inflation in the 3% range.

## Market View

02  
Inflation and  
Employment

In conclusion, if September's data pointed to recession risks, October's latest data warns of a "No Landing" and prolonged inflation. As private indicators unanimously point to economic expansion and rising prices amidst the information asymmetry caused by the shutdown, the Fed is losing the justification for further rate cuts. The background behind the recent hawkish remarks poured out by Fed officials, including Bostic, lies precisely in this unexpectedly strong resurgence of employment and consumer sentiment.

Exhibit 14. US Nonfarm Payrolls

Date	Actual	Forecast	Previous
2025.11.20	119K	53K	-4K
2025.09.05	22K	75K	79K
2025.08.01	73K	106K	-13K
2025.07.03	147K	111K	19K
2025.06.06	139K	126K	158K
2025.05.02	177K	138K	120K
2025.04.04	228K	137K	102K

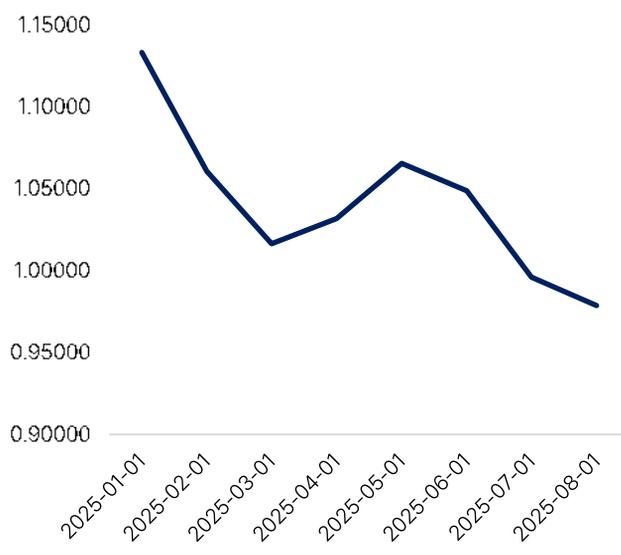
Exhibit 15. Unemployment Rate

Date	Actual	Forecast	Previous
2025.11.20	4.40%	4.30%	4.30%
2025.09.05	4.30%	4.30%	4.20%
2025.08.01	4.20%	4.20%	4.10%
2025.07.03	4.10%	4.30%	4.20%
2025.06.06	4.20%	4.20%	4.20%
2025.05.02	4.20%	4.20%	4.20%
2025.04.04	4.20%	4.10%	4.10%

Exhibit 16. ADP Nonfarm Employment Change

Date	Actual	Forecast	Previous
2025.11.05	42K	32K	-29K
2025.10.01	-32K	52K	-3K
2025.09.04	54K	73K	106K
2025.07.30	104K	77K	-23K
2025.07.02	-33K	99K	29K
2025.06.04	37K	111K	60K
2025.04.30	62K	114K	147K

Exhibit 17. Total Nonfarm/Unemployment Level



Source: FRED, Federal Reserve Bank of St. Louis

### 1.2.2 Fed and Inflation Expectations

Following September, the Fed cut the benchmark rate by an additional 25bp at the October 2025 FOMC, reaffirming that the policy weight had completely shifted to defending employment. Through his speech, Chairman Powell emphasized a response at the level of "Risk Management," but recently in November, the atmosphere within the Fed has rapidly turned towards a hawkish cautiousness.

The core basis for this shift to a hawkish tone is the sign of "De-anchoring" in the expected inflation viewed by the market. Chairman Powell evaluated inflation expectations as stable based on the University of Michigan survey, but indicators in the bond market, where actual money moves, are sounding an alarm. The 10-year Breakeven Inflation Rate (BEI) reflected in TIPS (Treasury Inflation-Protected Securities) surged from 2.34% in early October to 2.48% in late November. This shows that market participants are betting that the Fed will fail to achieve its target (2.0%), or at least that it will be impossible within the next few years. The fear that the September CPI (3.0%) rebound was not a temporary phenomenon but the beginning of structural inflation is being reflected in prices.

In fact, the consecutive cuts in September and October had a strong character of preemptive response to the sudden deterioration of employment data. After the Jackson Hole meeting, Chairman Powell expressed concerns about the labor market, and indeed, as indicators were adjusted downward since May, he lowered rates judging that the risk of employment collapse was greater than the inflation risk. The pivot was executed precisely due to this logic of defending employment, even though the inflation forecast for next year was slightly raised at the time.

However, the situation has now reversed. As October employment indicators showed unexpected strength and consumer sentiment revived, the "employment crash scenario" the Fed worried about lost its force. On the other hand, the risk of an inflation rebound has materialized. Consequently, the Fed has fallen into a dilemma ahead of the December FOMC. As concerns grow that the rate cuts started to save employment could now become a boomerang that re-stimulates prices, the market is seriously considering the possibility that the Fed will freeze rates in December.

Currently, the Fed has shifted its center of gravity to defend employment, but the inflation path has become much rougher than initially expected. This is because, following the high August Core PCE (2.91%), the recent September CPI also rebounded to 3.0%, making the fear of inflation entrenchment a reality. At the last

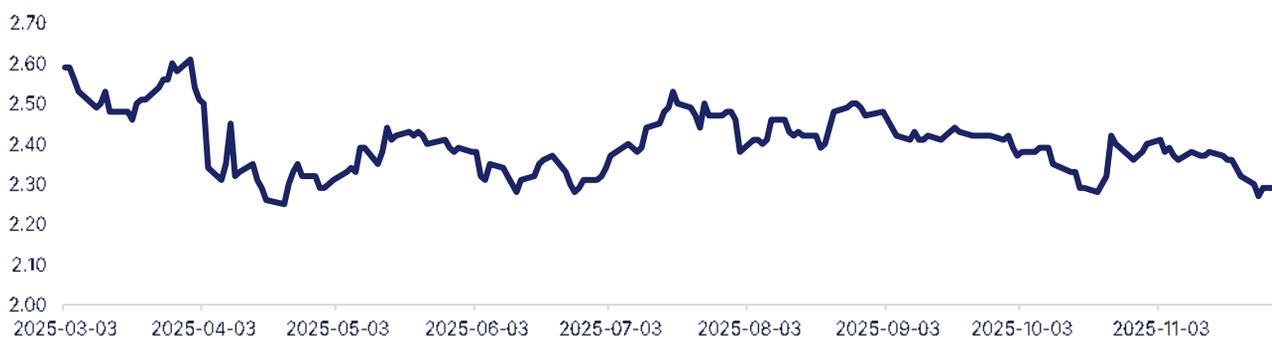
## Market View

02  
Inflation and  
Employment

FOMC, the Fed forecasted that inflation would come down slowly (achieving the target after 2026), but recent data show the possibility that the downward trend in inflation has stopped. This suggests the inflation path itself has shifted upward, effectively forcing an admission that the return to the 2% target will be delayed further than expected.

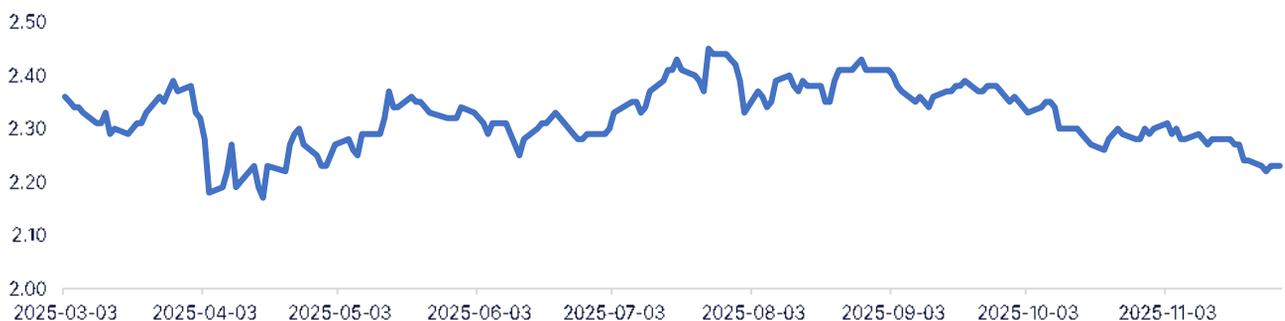
The scenario of a total of 3 rate cuts within the year, initially signaled by the September FOMC, seemed to be sailing smoothly with the additional 25bp cut in October; however, the brakes were slammed hard entering November. The October cut was carried out as per market expectations (97.4%), but the strong private indicators and inflation rebound released immediately after reversed the situation. The principle of data-dependent decisions that Chairman Powell has emphasized is currently weakening the justification for additional cuts. As inflation indicators rebound and "No Landing" signals of economic reheating overlap, the market is withdrawing dovish expectations and starting to reflect the possibility of a December freeze in prices, leading to expanded volatility.

**Exhibit 18. 5-Year Breakeven Inflation Rate**



Source: FRED, Federal Reserve Bank of St. Louis

**Exhibit 19. 10-Year Breakeven Inflation Rate**



Source: FRED, Federal Reserve Bank of St. Louis

### 1.2.3 US Treasury Yields: Fiscal Risk and the Term Premium

US long-term Treasury yields continue their high-flying trajectory despite the Federal Reserve's policy pivot. As of December 1st, the 10-year US Treasury yield recorded 4.10%, failing to drop below the 4% range despite two consecutive rate cuts by the Fed. Under normal circumstances, short-term rate cuts and the end of QT should lead to a decline in long-term rates; however, the current market is ignoring these tailwinds and reacting solely to structural fiscal risks.

The most notable change is in the supply-demand environment. The Fed recently declared that it would officially end Quantitative Tightening (QT) starting in December to prevent a liquidity crunch and support a soft landing. This means the Fed, previously the largest seller in the Treasury market, will stop selling, which is a powerful positive factor on the supply side.

However, the market is more concerned about the "fiscal quagmire" than welcoming this news. This is due to the judgment that even if QT ends, the private sector will struggle to digest the projected \$5 trillion deficit over the next 10 years under the Trump administration's OBBBA Act, as well as the flood of Treasury issuance expected after the shutdown ends. In other words, the fear that the government is printing massive volumes of debt that cannot be covered merely by the Fed stopping its sales is weighing down bond prices.

Furthermore, the recent rebound in September CPI (3.0%) has instilled a conviction in bond investors that fiscal deficits will restimulate inflation. Consequently, investors are demanding a term premium – compensation for future uncertainty – at the highest level in 10 years (exceeding 0.6%).

In this situation, medium-term bonds (5–7 years) have emerged as a rapid investment alternative. The current yield curve is showing a "Bear Steepening" shape, where long-term rates rise faster than short-term rates. Looking at the data as of December 1st, the 5-year Treasury yield is 3.60% and the 7-year is 3.80%; these offer significantly lower duration risk compared to the 10-year, while providing stable interest income in the mid-to-high 3% range. Notably, if long-term rates spike further due to future fiscal inflation concerns, ultra-long-term bonds (over 20 years) could suffer massive valuation losses. In contrast, medium-term bonds offer relatively superior defensive capabilities.

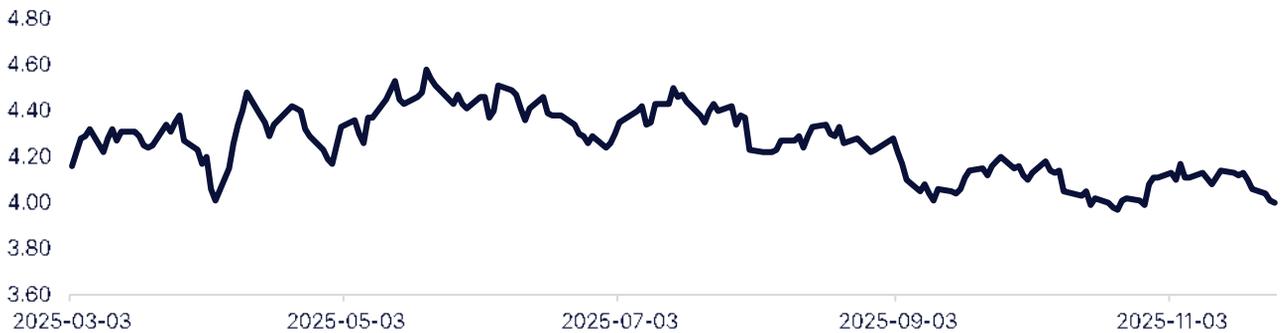
In conclusion, the current Treasury market is in a state where the positive news of the QT end is completely buried by the negative news of the fiscal runaway, creating a situation where one must

## Market View

02  
Inflation and  
Employment

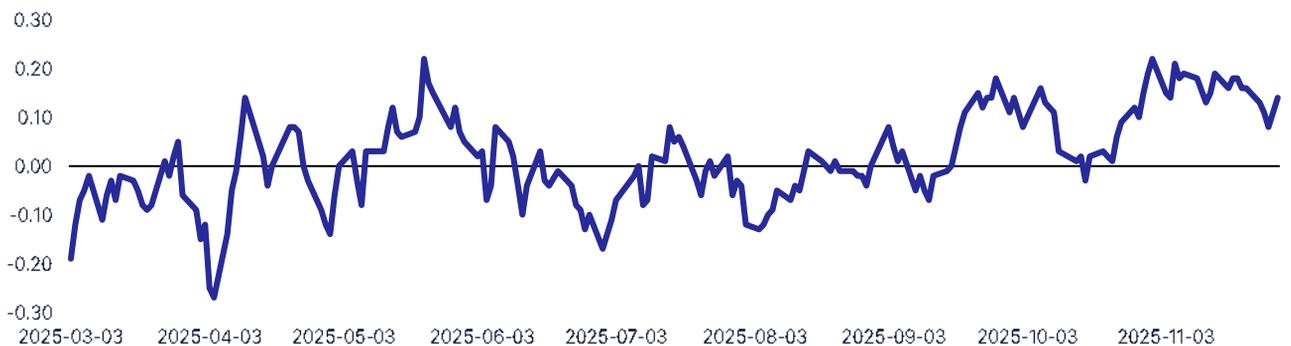
focus on the "belly" (middle section) of the curve. The phenomenon where long-term rates do not fall even though the Fed has stopped tightening its purse strings suggests that market leadership has now passed from monetary policy to fiscal policy. Therefore, rather than vaguely hoping for rate declines due to the end of QT, investors must drastically reduce exposure to uncertain long-term bonds (20 years+) and adopt a "Barbell Reduction Strategy" that expands the weight of 5–7 year medium-term bonds, which can secure returns above deposit rates while avoiding the direct hit of term premiums. This will be the most realistic shield to protect the portfolio even in scenarios where the Fed freezes rates or inflation becomes entrenched in the 3% range.

**Exhibit 20. Market Yield on U.S. Treasury Securities at 10-Years**



Source: FRED, Federal Reserve Bank of St. Louis

**Exhibit 21. 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity**



Source: FRED, Federal Reserve Bank of St. Louis

## Market View

02  
Inflation and  
Employment**1.2.4 CPI & PPI**

The deflation expectations that comforted the market until August 2025 have completely collapsed as of November. While government data has halted due to the shutdown, the latest verifiable price indicators are unanimously pointing to a recurrence of Cost-Push Inflation.

The most decisive catalyst was producer prices. The market initially expected the September Producer Price Index (PPI) to remain flat, but the actual figure released recorded a 0.3% rise MoM, significantly beating expectations. This proves that the decline in August (-0.1%) was temporary, while simultaneously serving as a clear signal that the cost burden on companies is increasing again across energy, raw materials, and services in general.

This pressure at the producer stage is being transferred to consumer prices with a time lag. The September Consumer Price Index (CPI) has already rebounded to 3.0% YoY, shattering expectations that it would settle in the 2% range. On top of this, even the ISM Services Prices Paid Index released in October surged to 58.1, confirming that companies are responding by raising prices rather than absorbing the increased costs themselves.

Ultimately, the data shows that the vicious cycle of inflation – PPI rise (+0.3%) → Corporate cost increase → Price transfer (ISM Prices index 58.1) → CPI rebound (Entrenchment in 3.0% range) – has been completed. Contrary to concerns that employment would collapse, the fact that companies can raise prices implies that demand is robust. Therefore, from the Fed's perspective, the justification to cut rates to defend the economy has disappeared, while the justification to freeze rates in December to extinguish the re-ignited inflation has become certain.

**Exhibit 22. CPI (YoY)**

Date	Actual	Forecast	Previous
2025.10.24	<b>3.00%</b>	3.10%	2.90%
2025.09.11	<b>2.90%</b>	2.90%	2.70%
2025.08.12	<b>2.70%</b>	2.80%	2.70%
2025.07.15	<b>2.70%</b>	2.60%	2.40%
2025.06.11	<b>2.40%</b>	2.50%	2.30%
2025.05.13	<b>2.30%</b>	2.40%	2.40%

**Exhibit 23. PPI (YoY)**

Date	Actual	Forecast	Previous
2025.11.25	<b>2.70%</b>	2.70%	2.70%
2025.09.10	<b>2.60%</b>	3.30%	3.10%
2025.08.14	<b>3.30%</b>	2.50%	2.40%
2025.07.16	<b>2.30%</b>	2.50%	2.70%
2025.06.12	<b>2.60%</b>	2.60%	2.50%
2025.05.15	<b>2.40%</b>	2.50%	3.40%

Market View02  
Inflation and  
Employment

### 1.2.5 Conclusion

In late November 2025, the US macroeconomic environment became maximally complex as the "Revenge of Inflation" entered the space where recession fears had vanished. Amidst the chaos where official employment data was blacked out due to the federal government shutdown, October private indicators unanimously pointed to economic expansion. ADP private payrolls (+143,000), which recovered from the September shock, and the ISM Services PMI (56.0), which returned to expansion territory, proved that the US economy is reheating rather than cooling. This overturns existing forecasts that worried about demand contraction, suggesting entry into a "Reflation" phase where companies resolve cost pressures through price transfers.

The Fed stepped in to defend employment by executing an additional 25bp cut at the October FOMC, but recent conditions are making this look like a hasty decision. This is because inflationary pressures have re-ignited, with the September CPI rebounding to 3.0% and the ISM Prices Paid Index surging to 58.1. Accordingly, Fed officials like Bostic have turned to a hawkish stance, concerned about the stagnation of inflation deceleration, and the market has withdrawn expectations for additional easing within the year and started to seriously consider the possibility of a freeze. In other words, the Fed's top priority has urgently returned from employment defense to inflation control.

The bond market is reflecting this policy mismatch and fiscal risk most sensitively. Despite the Fed declaring the end of Quantitative Tightening (QT) as of December, the 10-year Treasury yield remains immovable above 4%. This is because, in addition to concerns about the Trump administration's OBBBA fiscal deficit, the recent inflation rebound has stimulated fears of "Fiscal Inflation." The situation is such that even the supply-side tailwind of the QT end cannot overcome the headwinds of structural fiscal deficits and rising term premiums.

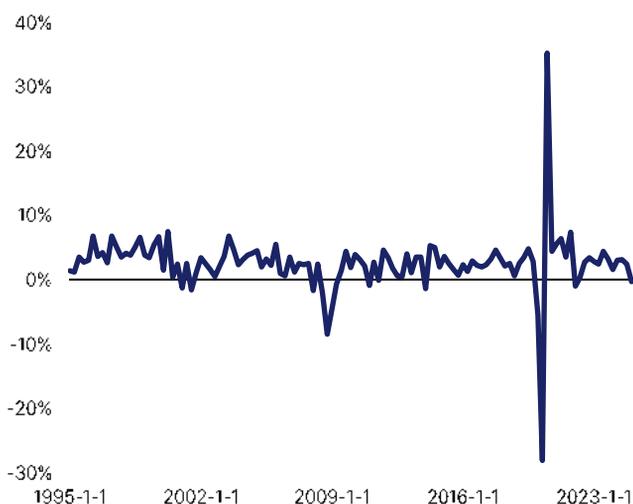
In conclusion, the current US economy has transitioned to a phase where the influence of monetary policy weakens and "Fiscal Dominance" and "No Landing" dominate. Strong demand and employment erased recession risks, but in exchange, they increased the risk of "High for Longer" interest rates. Therefore, investors must recognize the burden of Treasury issuance volume after the shutdown is resolved and the danger of inflation entrenchment, and reduce exposure to long-term bonds (20 years+). Instead, a conservative approach is essential: expanding the weight of medium-term bonds (5–7 years), which are advantageous for defending against volatility, and focusing on securing interest income rather than expecting rate cuts.

## 03

# Productivity and GDP Growth

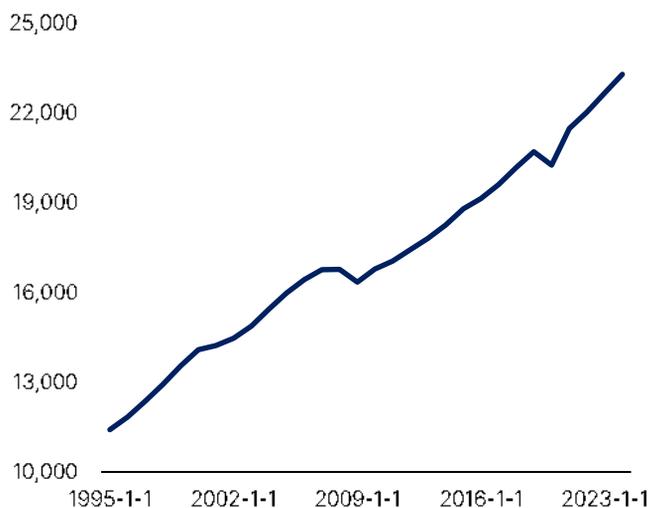
## 1.3.1.1. Real GDP Overview: From Expansion to Stabilization

Exhibit 24. Real GDP Growth (QoQ, SAAR)



Source: FRED, Federal Reserve Bank of St. Louis

Exhibit 25. Real GDP Level (Seasonally Adjusted)



Source: FRED, Federal Reserve Bank of St. Louis

U.S. real GDP has maintained a long-term upward trend and, after a rapid post-pandemic recovery, is showing signs of a gradual soft landing going into 2025. While growth momentum in certain quarters has been uneven, overall economic activity has remained resilient. In 2025 Q1, real GDP contracted at an annualized rate of -0.6%, but rebounded to +3.8% in Q2. This is interpreted as the combined result of base effects from the previous quarter's decline, inventory adjustments, and a recovery in consumer spending.

The IMF expects the U.S. economy to grow 1.9% this year, while the OECD forecasts 1.6%, indicating that the growth cycle is gradually cooling. Although this is lower than the 2.8% growth recorded in 2024, it is viewed not as the end of an expansion cycle but as a shift toward more efficient, AI-driven growth. AI investment remains a key driver, but the economy appears to be entering a phase where efficiency, rather than raw expansion, becomes central to growth.

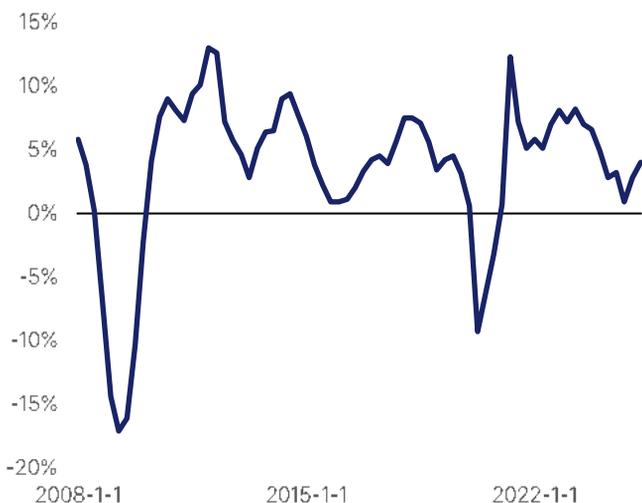
Therefore, the U.S. economy in 2025 is assessed to have entered the Productivity Plateau Phase following the AI-driven expansion. This report analyzes this structural transition in detail.

## Market View

03  
Productivity and  
GDP Growth**1.3.1.1. GDP Growth Trends**

In 2025, U.S. real GDP stabilized through the first half of the year, with growth rebounding in the second quarter following an adjustment in tech-related investment in Q1. After contracting at an annualized rate of  $-0.6\%$  in Q1, GDP recovered to  $+3.8\%$  in Q2, and leading indicators and model estimates suggest that moderate growth continued into the second half of the year.

As shown in Exhibit 26, nonresidential fixed investment slowed as the AI-related infrastructure build-out and semiconductor capacity expansion that drove investment through 2024 began to normalize. However, investment has shifted toward the operational phase – AI efficiency, data center operations, and energy management – indicating a transition from a rapid build-out cycle to a more stable contribution phase.

**Exhibit 26. Real Private Nonresidential Fixed Investment**

Source: FRED, Federal Reserve Bank of St. Louis

**Exhibit 27. Personal Consumption Expenditures**

Source: FRED, Federal Reserve Bank of St. Louis

Meanwhile, Exhibit 27 shows that personal consumption expenditures (PCE) remained resilient, supported by a steady labor market and rising real wages. Service spending continued to outpace goods spending, providing an important cushion for overall growth. With solid demand in housing, healthcare, leisure, and other domestic service categories, the main driver of economic activity has gradually shifted from investment toward consumption.

In sum, as growth volatility moderates and the composition of aggregate demand becomes more balanced, the U.S. economy is moving toward a more stable, efficiency-driven growth phase in the second half of 2025.

## Market View

03  
Productivity and  
GDP Growth**1.3.1.2. Investment Transition: From Expansion to Profit Optimization**

In the second half of 2025, U.S. capital expenditures (CapEx) are shifting from quantitative expansion toward an efficiency-focused recalibration phase. The intense investment seen during the AI infrastructure boom of 2023–2024 has gradually moderated since early 2025, with firms reallocating capital toward operational efficiency, profitability, and energy management.

Although official figures for Q3 2025 nonresidential fixed investment (NFI) have not yet been released, model-based estimates (such as GDPNow) point to modest annualized growth in the low-2% range. This suggests not an economic downturn but a structural transition toward investment that enhances capital productivity. Across industries, investment in data centers, semiconductors, and energy infrastructure remains significant, but the emphasis is shifting from new build-outs to efficiency upgrades and operating-cost optimization. Manufacturing is also prioritizing productivity-enhancing CapEx – automation, energy reduction – rather than capacity expansion.

Therefore, investment is being reoriented away from quantitative metrics that merely lift short-term growth and toward qualitative drivers such as productivity, ROIC, and improvements in cost structures.

Moreover, the moderation in CapEx growth in 2025 reflects not an economic slowdown, but a structural shift from capital-intensive expansion to capital-efficient growth.

**Exhibit 28. Comparison of Investment and Growth Phases**

Category	Dotcom Bubble (1995-2001)	AI Cycle (2022-2024)	AI Efficiency Phase (2025–present)
CapEx Increasing Factors	Demand for Network Expansion, Introduction of Initial Systems	Advanced Generative AI, Need for Large Computational Resources	Shift to optimization, model fine-tuning, energy-efficiency investment
Impact on GDP	Short-term GDP high growth (up to 7% quarterly growth)	Maintaining a modest rise (around 2.8% per year)	Stable growth near 2%, led by service-sector productivity
Time to realize return on investment	Technology instability delays realization	Incremental feasibility with platform monetization	Gradual productivity payoff, capital discipline reinforced
Risk factor	Excessive Expectations, High Value, Bubble Collapse	Inflationary pressure, technology focus risk, economic stimulus concerns	Efficiency plateau, regulatory adjustment, fiscal restraint

Market View

03

Productivity and  
GDP Growth

### 1.3.1.3. Policy Linkages and Outlook

In 2025, the U.S. economy is maintaining a stable growth trajectory under a mild easing environment following the end of the tightening cycle. The Fed delivered its first rate cut in the second half of 2025 after confirming clear signs of cooling inflation and a steady labor market – largely in line with market expectations for the policy pivot. This adjustment has eased corporate financing pressures, reducing downside risks to CapEx and consumption, and has been particularly supportive for investment sentiment in capital-intensive industries. Fiscal policy is also shifting toward an “efficiency-focused rather than expansion-focused” framework. The 2025 budget raises the share of productivity-enhancing capital spending – such as infrastructure, energy transition projects, and data-center efficiency upgrades – while prioritizing tax credits, regulatory flexibility, and technology-investment incentives over direct subsidies. With federal debt levels still elevated, the government is adhering to selective spending that builds a sustainable growth base rather than pursuing broad fiscal expansion.

This monetary–fiscal mix is helping to reduce short-term growth volatility and stabilize the medium-term productivity path. Markets increasingly expect AI-driven efficiency gains to push potential growth higher – from the previous estimate of 1.8% to roughly 2.0–2.2%. Still, structural risks such as energy costs, data-infrastructure bottlenecks, and regulatory pacing remain constraints on the upper bound of growth momentum.

In summary, the 2025 policy environment aligns with the broader transition from a “high-growth phase” to an “efficiency-centered stability phase.” The Fed’s easing pivot and the government’s efficiency-oriented spending strategy together support a more sustainable medium-term growth path. As the U.S. economy enters an AI-driven productivity plateau, policy priorities have shifted from chasing rapid momentum toward securing a steady, durable growth pattern.

### 1.3.2. Productivity Plateau Phase

During 2023–2024, U.S. productivity indicators showed the strongest post-pandemic rebound. Nonfarm business labor productivity rose an average of 2.7% in 2023 and increased another 1.6% in 2024, surpassing the long-term trend of 1.4%. Total Factor Productivity (TFP) in the private nonfarm sector also grew roughly 1.3% in 2024, reflecting efficiency gains driven by technology diffusion and increased automation investment.

In 2025, however, productivity growth appears to have entered a

## Market View

03  
Productivity and  
GDP Growth

normalization phase characterized by short-term volatility. In Q1, final BLS revisions show a  $-1.5\%$  annualized decline, signaling a temporary dip, but productivity rebounded sharply in Q2 with a  $3.3\%$  annualized increase. Despite these quarterly swings, the year-over-year increase for Q2 2025 stands at  $1.5\%$ , indicating a gradual moderation from the sharp gains seen in 2023 ( $2.7\%$ ).

These developments suggest that the initial boost from large-scale AI and digital transformation investments is shifting toward an “efficiency optimization and sustainable growth” phase.

The short-term fluctuations largely reflect labor-market adjustments and firms’ realignment of production activities, while the longer-term trend points to growth driven less by new capacity expansion and more by capital efficiency, operational optimization, and qualitative productivity improvement. The Cleveland Fed also notes in a recent report that “AI diffusion is likely to have a positive impact on medium-term productivity, though short-term growth may show volatility.”

### 1.3.2.1. Readjustment of Productivity Power

As shown in Exhibit 29, nonfarm business labor productivity remains at an elevated level following its sharp post-pandemic surge. However, the pace of further improvement has slowed, with the growth driver shifting from input expansion toward operational efficiency and optimized capital utilization.

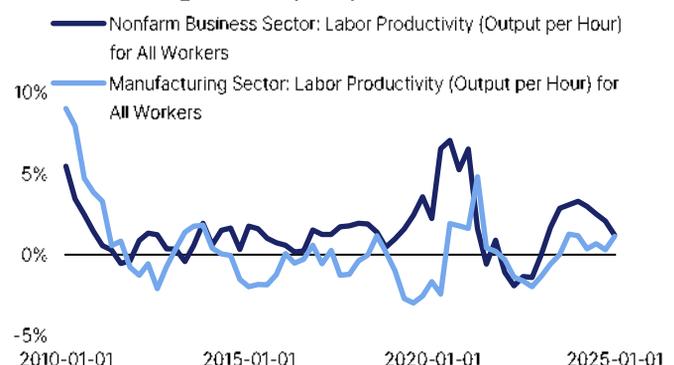
Exhibit 30 highlights the clear divergence in productivity growth across industries. While manufacturing has maintained a modest upward trend, its improvement has been limited relative to the nonfarm business average. In contrast, service sectors such as information technology, finance, and healthcare continue to exhibit strong productivity gains. This reflects a structural imbalance in which AI-driven productivity benefits are concentrated in digitally intensive industries rather than being evenly distributed across the broader economy.

**Exhibit 29. Nonfarm Labor Productivity (Output per Hour)**



Source: FRED, Federal Reserve Bank of St. Louis

**Exhibit 30. Productivity Comparison – Nonfarm vs. Manufacturing Sector (YoY)**



Source: FRED, Federal Reserve Bank of St. Louis

## Market View

03  
Productivity and  
GDP Growth

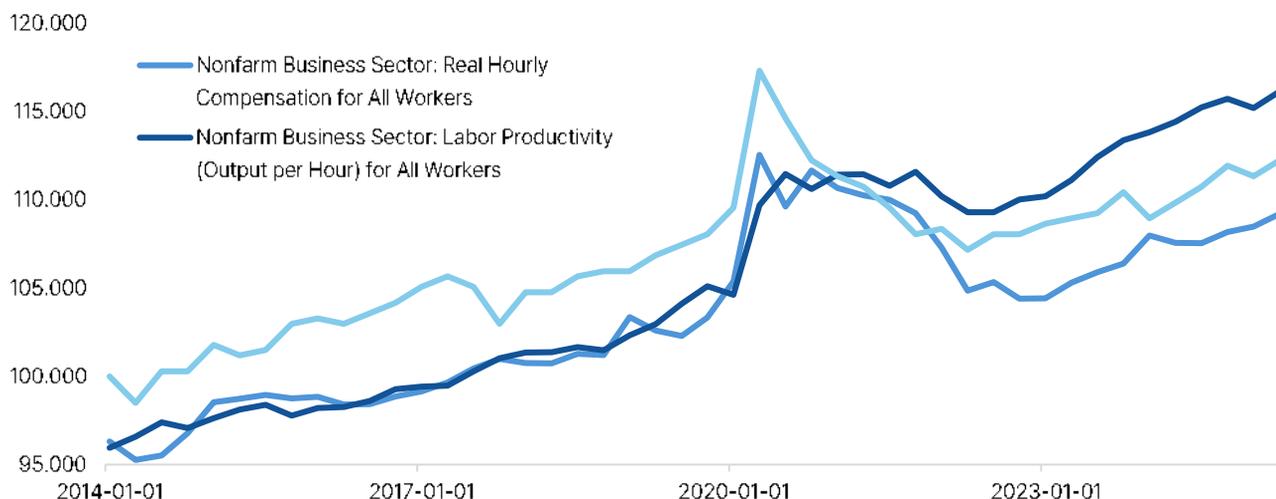
In summary, the productivity landscape in 2025 can be characterized as an efficiency realignment phase following the expansion cycle. These shifts are likely to shape future industry-level productivity gaps and define the structural growth pattern of the U.S. economy going forward.

### 1.3.2.2. Trends in Labor Productivity and Unit Labor Costs

In 2025, U.S. productivity trends are shifting toward a phase of slower gains and broader cost restructuring. As the sharp post-pandemic surge in productivity stabilizes, firms are increasingly focused on cost efficiency and managing wage pressures. Output per hour across both manufacturing and services is growing only modestly, and with much of the initial impact of AI and automation already realized, maintaining productivity levels with the existing workforce has become a central challenge.

Exhibit 31 highlights the widening gap between labor productivity and average compensation. While both indicators followed a similar upward path immediately after the pandemic, wage growth has consistently outpaced productivity gains. This reflects rising labor costs in service-driven industries and increasing burdens related to workforce retention. Fierce competition for skilled workers has intensified wage pressures across the labor market. Meanwhile, productivity growth has moderated as the marginal efficiency gains from technology adoption diminish, adding strain to corporate cost structures.

**Exhibit 31. Productivity-Wage Dynamics: Output per Hour, Compensation, and Earnings**



Source: FRED, Federal Reserve Bank of St. Louis

This divergence between productivity growth and wage increases has resulted in rising Unit Labor Costs (ULC). According to BLS data, ULC has continued to grow at around 2% since 2024, while

## Market View

03  
Productivity and  
GDP Growth

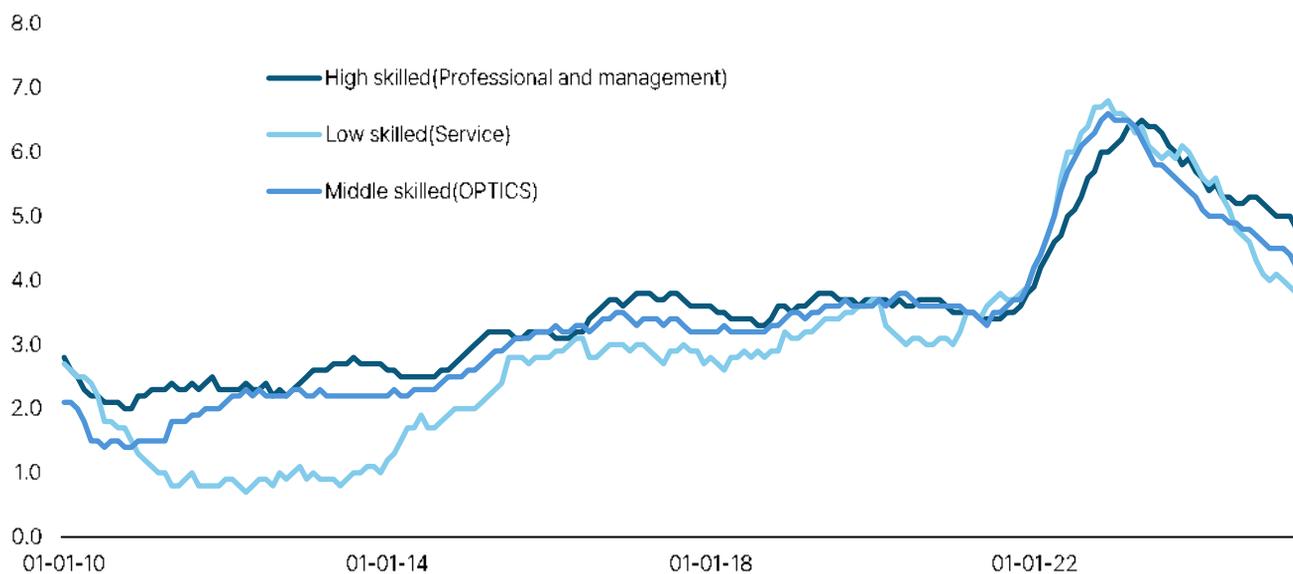
labor productivity has remained near 1.5%. This indicates that labor costs per unit of output have increased, with the strongest pressures observed in industries heavily reliant on high-skilled workers – such as finance, healthcare, education, and information technology.

In summary, recent productivity dynamics can be characterized as a cost-rebalancing phase following the high-growth cycle.

In summary, recent productivity dynamics can be characterized as a cost-rebalancing phase following the high-growth cycle. Firms are prioritizing cost control and capital-efficiency improvements rather than short-term output expansion, shaping the current structural pattern in which productivity gains are slowing while unit labor costs rise gradually.

### 1.3.2.3. Unit Labor Costs and Total Factor Productivity (TFP)

Exhibit 32. Wage Growth by Skill Level (YoY)



Source: Federal Reserve Bank of Atlanta, Wage Growth Tracker

Total Factor Productivity (TFP) entered a moderate adjustment phase in 2025 after surging during the AI expansion cycle of 2023–2024. In the early stage, large-scale AI model development, semiconductor capacity expansion, and data center infrastructure investment drove broad-based productivity gains. However, as the limits of investment-led growth became more apparent, the economy began shifting toward an efficiency-focused stabilization phase, leading to a gradual slowdown in TFP growth.

Exhibit 35 illustrates the asymmetric nature of technological diffusion through wage growth by skill level. High-skilled workers – particularly those in AI, data, and automation-related industries –

Market View03  
Productivity and  
GDP Growth

experienced strong wage increases, while wages for middle- and lower-skilled workers rose only modestly. This indicates that the efficiency gains from technology adoption remain concentrated in specific sectors, with slower spillover into the broader economy. Such uneven diffusion has been a key factor behind the moderation in average productivity growth.

Signs of diminishing returns following the wave of large model investments are also becoming evident. Although AI compute efficiency continues to improve, the contribution to overall economic productivity has plateaued. This suggests that even as technological progress advances, the marginal impact on aggregate productivity is gradually declining. As a result, the 2025 TFP trend signals a transition from the “expansion phase” into a “technology saturation phase,” highlighting that effective utilization of AI – rather than sheer investment scale – will likely become the next major driver of productivity growth.

#### 1.3.2.4. Policy and Institutional Implications

By 2025, productivity enhancement in the United States has entered a high-cost phase, prompting a shift in policy priorities toward sustaining efficiency gains from technological diffusion and strengthening labor re-skilling. After absorbing the initial high-growth effects from AI and automation adoption, the government has set sustainable efficiency management and mitigation of productivity divergence as key policy objectives.

The OECD emphasizes that “the most critical task in navigating the AI-driven productivity supercycle is aligning labor mobility and skill acquisition with the pace of technological diffusion,” highlighting the need for structural adaptability in the labor market. In response, the U.S. government is expanding tax incentives for digital investment, easing regulations related to data infrastructure, and increasing energy-efficiency subsidies to alleviate disparities in industrial innovation capacity.

Policy support aiming to offset the employment disruptions caused by uneven productivity gains from AI adoption has also strengthened. The IMF (2025) identifies the “productivity–wage decoupling” phenomenon – driven by slower productivity growth in the service sector and automation of routine, middle-skill roles – as a major risk factor. To address this, the Department of Labor is offering targeted retraining for SMEs and public-sector workers through AI-related job transition programs such as the Reskilling and Adaptation Initiative (RAI).

These policy directions are expected to help narrow short-term productivity gaps while supporting the long-term qualitative

Market View

03

Productivity and  
GDP Growth

stabilization of Total Factor Productivity (TFP). However, challenges remain - including uneven access to AI technologies, rising energy costs, and data infrastructure bottlenecks - which may slow the consolidation of efficiency gains. Effective governance and stronger coordination between industries will be essential to fully institutionalize the efficiency-oriented framework.

Ultimately, the productivity policy framework in 2025 reflects a transition from high-growth dynamics toward a stable efficiency-management regime. This marks the beginning of a structural effort to establish the institutional foundation necessary for sustaining AI-driven productivity gains over the medium to long term.

**Conclusion**

The U.S. economy in 2025 is transitioning from an AI-driven expansion phase to a more sustainable, efficiency-centered growth regime. The rapid productivity gains of 2023–2024 – powered by large-scale AI infrastructure investment, automation, and digital adoption – have moderated into a normalization phase marked by short-term volatility but a stable medium-term upward trend. Productivity levels remain elevated, yet incremental improvements now depend more on operational optimization, capital efficiency, and targeted deployment of technology rather than additional capacity expansion.

Capital expenditures also reflect this structural shift. After two years of intensive infrastructure build-out, firms are reallocating investment toward profitability, energy efficiency, and cost optimization. This moderation does not signal economic weakness; instead, it marks a recalibration toward higher return on invested capital (ROIC) and productivity-enhancing CapEx. Policy support – from the Fed’s easing pivot to the government’s efficiency-oriented fiscal framework – further reinforces stable growth conditions by reducing financing burdens and promoting technology diffusion.

At the same time, uneven productivity gains across industries, rising unit labor costs, and widening skill-based wage gaps highlight the challenges of the current phase. Sustaining long-term productivity growth will require institutional measures that strengthen workforce adaptability, expand access to digital infrastructure, and mitigate structural bottlenecks in energy and data capacity.

Overall, 2025 represents the beginning of a structural efficiency realignment: a shift from quantity-driven expansion to quality-driven productivity growth. This phase sets the foundation for a more durable, AI-enabled growth trajectory over the medium to long term.

# 04 Asset Allocation Strategies

## 1.4.1 The New Cycle: Credit, Re-acceleration, and Reflation

In late 2025, the U.S. financial system moved beyond the post-pandemic liquidity overhang into a normalization phase. Yet, the real economy has entered an unexpected "Re-acceleration" rather than a slowdown. While the Federal Reserve's official end to Quantitative Tightening (QT) in December has signaled liquidity support, the "No Landing" narrative has taken center stage. Ample dry powder in Money Market Funds (MMFs) and restored banking sector health provide a foundation for credit expansion. Still, the market is now grappling with the resurgence of inflation and the rise of fiscal dominance. The late 2025 landscape is no longer about surviving a recession, but about navigating a high-pressure economy.

Against this backdrop, the macro environment is defined by the collision of a "Resilient Labor Market" and "Sticky Inflation." The sharp rebound in 10-month ADP private payrolls (+143,000) and the return to expansion in ISM Services PMI (56.0) have dispelled recession fears. However, the simultaneous rise in September CPI (3.0%) and PPI (+0.3%) signals the return of cost-push inflation. Consequently, while the Fed initiated cuts to defend employment, the focus has abruptly shifted back to price stability, raising the probability of a policy "Pause" in December. Structurally, fiscal expansion risks (OBBBA) and a rising term premium are keeping long-term Treasury yields elevated (>4.10%), limiting the transmission of monetary easing to the real economy.

Simultaneously, the U.S. economy is pivoting from the rapid AI expansion phase to a stage of "Proven Efficiency." The massive CapEx by hyperscalers is now translating into tangible monetization and productivity gains, particularly in software and finance. While structural disparities with traditional manufacturing persist, this technology-driven productivity is supporting a high-pressure economy, underpinning potential growth rates around 2% even in a high-cost environment. The cycle has shifted from "AI Hype" to "Profit Realization," distinguishing winners from losers.

Market View04  
Asset Allocation  
Strategies**1.4.2 Asset Allocation: The Barbell Strategy**

In this complex environment of "Higher for Longer" rates and fiscal risks, asset allocation must prioritize defense against volatility while capturing selective growth. The traditional "Fed Put" is weakened by inflation; thus, we advocate a "Growth-Defense Barbell Strategy."

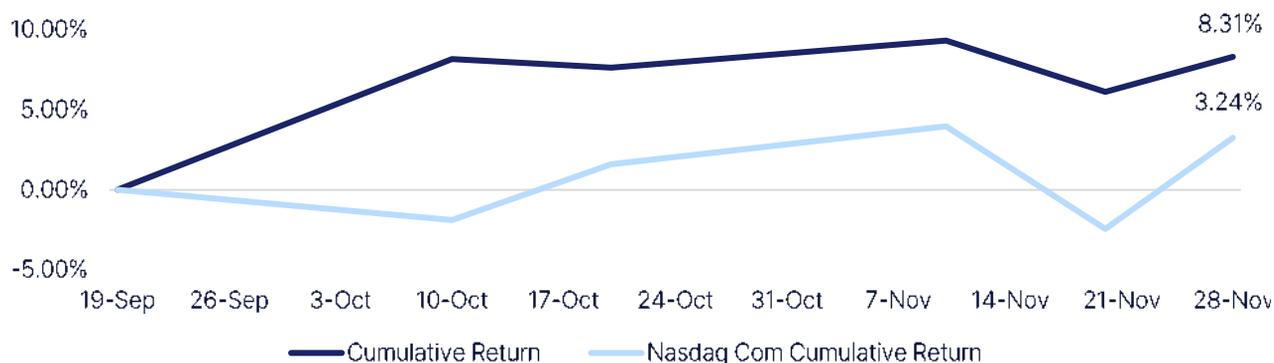
Given the "Bear Steepening" of the yield curve driven by fiscal deficits, investors should reduce exposure to long-term Treasuries (20Y+) susceptible to term premiums. Instead, increasing allocation to intermediate-term bonds (5–7Y) offers a sweet spot for securing stable carry with lower duration risk. Liquidity should be managed dynamically, moving from cash to high-quality credit as opportunities arise.

In equities, the focus must shift from speculative beta to "Quality Growth" (e.g., Alphabet), characterized by robust cash flows and pricing power to pass on higher costs (PPI +0.3%). Concurrently, increasing exposure to Energy (XLE) and Gold (IAU) serves as a critical hedge against the reflationary, fiscal-dominant regime. Ultimately, late 2025 demands a shift from broad aggression to disciplined selection to maximize portfolio resilience against the dual headwinds of rates and inflation.

## Portfolio Composition and Investment Rationale

## Portfolio Overview

# Portfolio Performance



Ticker	Average Price	Current Price	Market Value	Rate of Return	Portfolio Weight
<b>Stock</b>					
SMH	\$305.25	\$359.43	\$6,469.74	17.75%	5.97%
IGV	\$110.52	\$105.49	\$17,194.87	-4.55%	0%
XOVR	\$20.81	\$19.77	\$4,883.19	-4.99%	4.51%
EWJV	\$38.98	\$40.19	\$5,827.55	3.10%	5.38%
TSLA	\$347.8	\$442.23	\$3,095.61	27.15%	0%
APP	\$582	\$580.7	\$2,322.80	-0.22%	0%
PLTR	\$170.52	\$170.69	\$7,339.67	0.10%	6.78%
NVDA	\$170.75	\$181.46	\$5,443.80	6.27%	5.03%
RDDT	\$198.55	\$193.31	\$1,739.79	-2.64%	0%
PANW	\$202.08	\$218.26	\$1,964.34	8.01%	0%
RBLX	\$126.43	\$102.28	\$306.84	-19.10%	0%
IBM	\$291.54	\$301.78	\$4,526.70	3.51%	4.18%
XLE	\$85.46	\$90.14	\$3,876.02	5.48%	3.58%
WM	\$208.67	\$214.54	\$4,290.80	2.82%	3.96%
GOOG	\$275.44	\$316.02	\$9,796.62	14.73%	9.05%
PM	\$153.35	\$153.35	\$4,174.74	0.83%	3.85%
JNJ	\$199.58	\$205.42	\$4,313.82	2.93%	3.98%
<b>Hedging Oriented Assets</b>					
SHV	\$110.28	\$110.14	\$4,405.60	-0.13%	4.07%
TLT	\$89.46	\$88.81	\$6,216.70	-0.72%	5.74%
IAU	\$68.53	\$79.29	\$4,202.37	15.70%	3.88%
<b>Cash</b>					
			\$ 32,540.67		30.04%

Top 5 Best Performers		Bottom 5 Worst Performers	
Ticker	Rate of Return (%)	Ticker	Rate of Return (%)
TSLA	27.15%	RBLX	-19.10%
SMH	17.75%	XOVR	-4.99%
IAU	15.70%	IGV	-4.55%
GOOG	14.73%	RDDT	-2.64%
PANW	8.1%	TLT	-0.72%

## Portfolio Overview

## Portfolio Composition and Investment Rationale

# Portfolio Performance

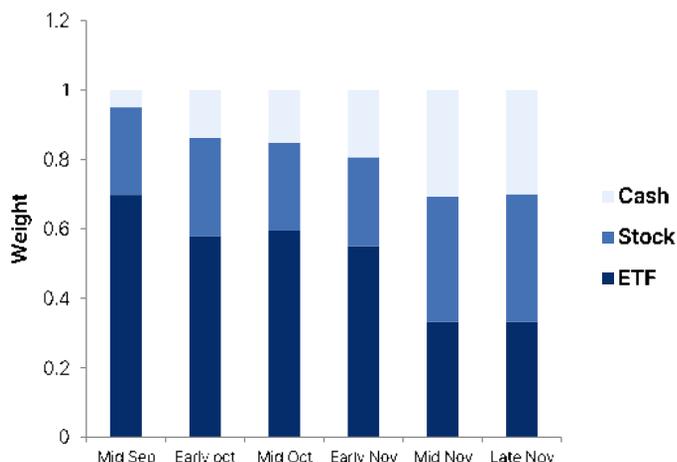
## Trade Activity Summary

Date	Asset Sold	Assets Bought	Key Objective
Mid Sep	<i>Initial Allocation</i>	<i>Initial Allocation</i>	First Portfolio Setting → AI, Technology Focus
Early Oct	FXI, SMH, IGV, SHV, APP, IAU, NVDA, PLTR, TSLA	XOVR, EWJV, TLT, XLE, RBLX, RDDT, IBM, PANW, WM	Strengthening Defense and Expanding AI
Mid Oct	RBLX, RDDT	XLE, TLT	Risk Management & Defensive Hedge
Early Nov	SMH, PANW, TSLA, XOVR	TLT, GOOG, IBM	-
Mid Nov	IGV, SMH, RDDT, APP, RBLX, IAU, NVDA, XOVR	PM, GOOG, JNJ, WM	-
Late Nov	<i>Hold</i>	<i>Hold</i>	-

## Asset Type Mix by Step

Step	ETF	Stock	Cash
Mid Sep	0.697388	0.253326	0.049286
Early oct	0.57934	0.282749	0.137911
Mid Oct	0.595312	0.253296	0.151392
Early Nov	0.549835	0.256359	0.193806
Mid Nov	0.331225	0.362126	0.306648
Late Nov	0.331288	0.368266	0.300446

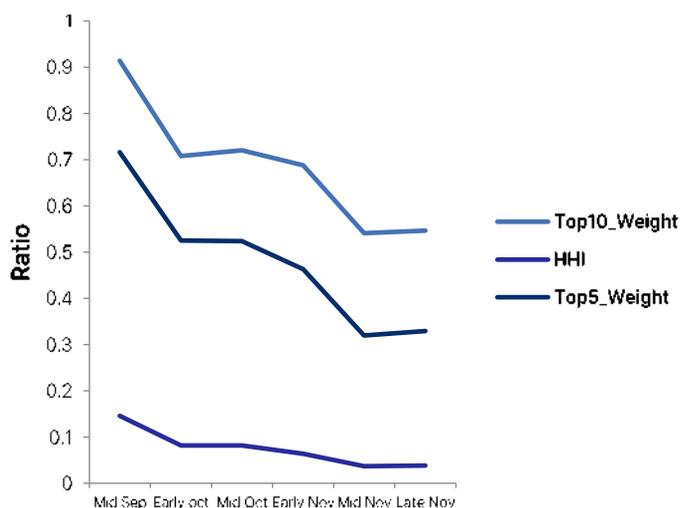
## Asset Type Mix by Step (Cash-Inclusive Weights)



## Concentration &amp; Cash Weight

Step	Num_ Holdings	Top3_ Weight	Top5_ Weight	Top10_ Weight	HHI	Cash_ Weight
Mid Sep	12	0.570329	0.716039	0.913857	0.145585	0.049286
Early oct	17	0.420088	0.525363	0.708081	0.081695	0.137911
Mid Oct	17	0.419335	0.524008	0.720047	0.081459	0.151392
Early Nov	16	0.350171	0.463405	0.687836	0.063793	0.193806
Mid Nov	14	0.209078	0.319764	0.54117	0.036658	0.306648
Late Nov	14	0.217953	0.329157	0.546805	0.03792	0.300446

## Concentration (HHI / Top5) &amp; Cash Weight



## Sector Report.

## Sector Rationale

# AI Industry

Hyper-growth tech ecosystem that uses data, compute, and intelligent models to automate and elevate human cognitive work across every sector

## Representative Companies

Ticker	Current Price
AI	14.37
PLTR	170.69
BBAI	5.79
SOUN	11.22
VERI	5.04

## Why AI is a Long-Term Compounder

AI is a long-duration, high-barrier industry with ~19% global CAGR and strong consolidation around U.S. hyperscalers, which control 70%+ of global financing. Data moats, compute intensity, and rapid model upgrades make the sector structurally defensible.

Competition is shifting from “model scale” to “vertical deployment,” while governments (U.S./EU/China) are accelerating AI adoption through national strategies and infrastructure investments. This alignment of tech, capital, and policy forms a multi-decade AI uptrend.

## Forces Accelerating AI Adoption

The LLMs are moving into a reasoning-first phase, improving speed and complex task accuracy. AIGC mass adoption – evidenced by China’s jump from 7% to 27% penetration – pushes AI deeper into consumer and enterprise workflows. Edge/Fog computing grows as real-time and privacy demands rise.

Investment and datacenter spending are rebounding, led by Google, Microsoft, and NVIDIA. Strong demand across healthcare, energy, and construction validates AI’s cross-industry impact, supported by policy and digital-transformation pressures.

## Where the AI Curve Is Heading Next

AI becomes more agentic, multi-modal, and embedded in physical industries like healthcare diagnostics, ESS optimization, and smart construction. Privacy and governance solutions emerge as essential layers.

The U.S. extends its lead through compute dominance; China scales AIGC adoption; Southeast Asia becomes a fast-growth AI region via hyperscaler infrastructure builds. Rising compute costs shift focus toward efficient, smaller, specialized models, reinforcing long-term industry momentum.

## Sector Report.

## Sector Rationale

# Semiconductor

Scaling HBM and advanced node capacity to integrate the value chain, capturing the structural AI super cycle and securing premium margins

## AI Structural Growth & CAPEX Premium

The semiconductor market is decoupled from traditional cycles due to the structural demand of the AI Super Cycle, which mandates multi-trillion-dollar investments in data center infrastructure. Geopolitical efforts (e.g., CHIPS Act, China's self-sufficiency) impose a Geopolitical Premium by forcing manufacturing capacity dispersion, thus sustaining high CAPEX spending despite elevated costs.

## HBM Scarcity & Advanced Node Pricing Power

The market is currently defined by structural scarcity in high-value components, notably High Bandwidth Memory (HBM), which is fully booked through 2025 and into 2026. This capacity shift is causing severe price surges in conventional memory (Server DRAM up 70% QoQ). Foundry revenue is concentrated in advanced nodes (e.g., TSMC's 74% revenue from 7nm and below), demonstrating robust pricing power driven by AI/HPC demand.

## Packaging Bottlenecks & Tech Roadmap

The next critical constraint on AI chip output is Advanced Packaging capacity (e.g., TSMC CoWoS). Future growth hinges on the transition to next-generation technologies like High NA EUV and the GAA (Gate-All-Around) transistor structure (Samsung's 2nm GAA target 2026). Equipment spending (WFE) is projected to expand by 10.2% in 2026, confirming sustained, long-term CAPEX driven by this advanced technology roadmap.

### Representative Companies

Ticker	Current Price
NVDA	181.46
AMD	219.76
INTC	40.01
MU	240.46
TSM	287.68

## Sector Report.

## Sector Rationale

# Cloud Infrastructure

Introduction of an unprecedented phase of excess demand as the convergence of migration demand from traditional on-premises environments and the exponential expansion of generative AI workloads

## Representative Companies

Ticker	Current Price
AMZN	233.88
MSFT	486.74
AMZN	233.88
ORCL	200.94
DOCN	44.38

## Two Pillars of Explosive Growth: Cloud Migration and AI Demand

The cloud infrastructure industry is currently experiencing an unprecedented boom. This explosive revenue growth is driven by two major factors: the combination of 'traditional migration demand' – where companies move their previously self-managed IT systems to the cloud – and the recently surging 'new demand from AI development companies'. First, looking at traditional demand, many companies are still moving away from the on-premise model of managing their own IT systems. on-premise approach of managing their own IT systems and instead utilize infrastructure from specialized cloud companies.

## The advent of the AI era and the surge in data processing volume

Market growth is accelerating as new AI demand joins traditional cloud demand. As proof, Big Tech's data processing volumes are growing exponentially. Google's monthly token processing volume surged 100-fold compared to April, reaching 980 trillion tokens, while Microsoft also surpassed 500 trillion tokens, a 7-fold increase. The consistently high volume of API calls demonstrates that AI infrastructure demand is not a temporary phenomenon but a structural trend.

## Supply Shortages and Infrastructure Companies' Responses

With these two powerful forces converging, the cloud infrastructure industry now faces a situation where supply cannot keep pace with demand. The fact that major companies consistently mention delays in resolving capacity constraints during their earnings announcements paradoxically underscores just how immense current demand truly is. Consequently, companies are increasing their capital expenditures (CapEx) to handle the surge in inference workloads and are enhancing their competitiveness by emphasizing full-stack capabilities spanning hardware to software.

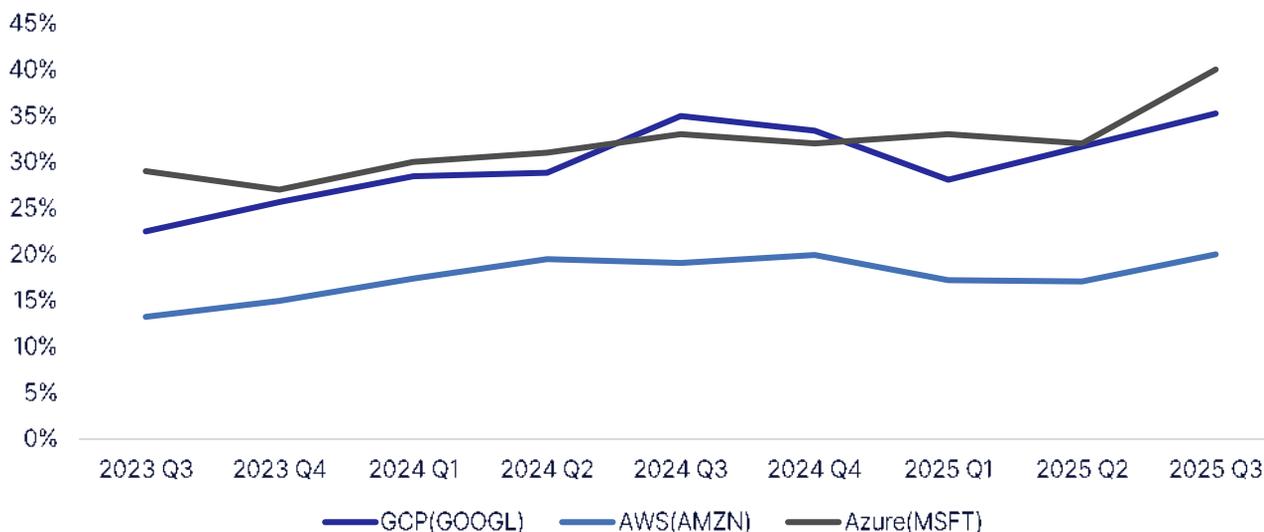
## Sector Report.

## Sector Rationale

# Cloud Infrastructure

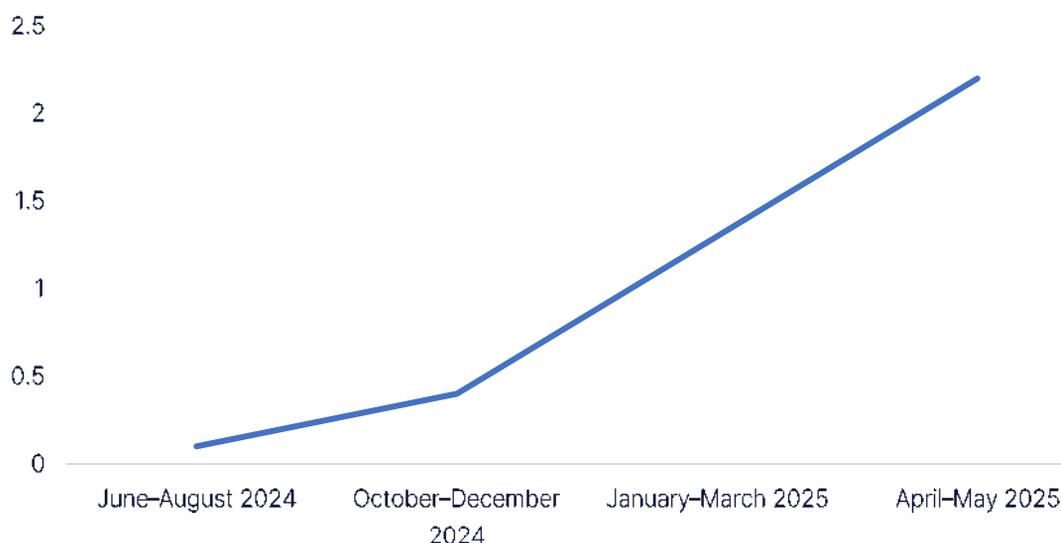
Introduction of an unprecedented phase of excess demand as the convergence of migration demand from traditional on-premises environments and the exponential expansion of generative AI workloads

**Exhibit 33. Cloud Revenue Growth (YoY)**



Source: Securities and Exchange Commission

**Exhibit 34. Weekly API call volume**



Source: OpenRouter

## Sector Report.

## Sector Rationale

# Software

Covers the global software sector, focusing on enterprise applications, cloud-based platforms, and AI driven solutions that support digital transformation across industries

## Representative Companies

Ticker	Current Price
CRM	234.71
NOW	824.38
ADBE	322.81
WDAY	213.06
INTU	635.63

### AI-Driven Transformation

AI adoption is reshaping software across analytics, automation, and enterprise workflows. Generative and predictive models are becoming standard features, enabling applications to process unstructured data, automate decisions, and improve productivity. Vendors increasingly differentiate through AI-native capabilities – automated insights, adaptive workflows, and integrated copilots – which now sit at the center of product strategy.

### Cloud-Native Expansion

Software growth remains anchored in cloud architectures and subscription-based models. Enterprises continue migrating from on-premise systems to public and hybrid cloud platforms, gaining scalability, easier deployment, and stable recurring revenue. Rising AI workloads are lifting demand for cloud compute and storage, reinforcing cloud infrastructure as the backbone of SaaS and accelerating long-term cloud penetration.

### Data-Centric Enterprise Platforms

Modern software functions as core digital infrastructure, integrating fragmented data and supporting mission-critical operations. Organizations are adopting platforms that unify data pipelines, deliver real-time analytics, and strengthen security and governance. As data-driven decision-making expands, demand for reliable and interoperable enterprise platforms continues to rise.

## Company Report.

## Portfolio Composition and Investment Rationale - Equity

# NVIDIA (NVDA)

Powering AI innovation through advanced GPUs that accelerate data centers, autonomous systems, and high-performance computing

Current Price (\$)	181.46
--------------------	--------

Average Price (\$)	170.75
--------------------	--------

Rate of Return (%)	6.27
--------------------	------

## ► KEY VALUATIONS

P/E	53.50
EV/EBITDA	45.6
OPM (%)	58.8
PEG	1.1

## ► STOCK PRICE



## AI Infrastructure's Core Supplier with Unmatched Leadership

NVIDIA is the only commercial chip supplier that has demonstrated full-stack, rack-scale execution capabilities in large AI clusters, securing a uniquely dominant position in the AI infrastructure market. Within the industry, its full-stack strategy – spanning GPUs, software, and a comprehensive ecosystem – continues to provide a durable competitive advantage. In addition, early demand signals for its next-generation product, Vera Rubin, are exceptionally strong, reinforcing confidence in the company's long-term technology roadmap. From a valuation perspective, NVDA remains attractive, trading at 27x/21x PE on CY26/27 estimates.

## Shifting Tech Trends and Decelerating Software Momentum

NVIDIA delivered a notably strong performance in its recent 3Q earnings release, exceeding its guidance by \$3 billion and coming in \$700 million above Buyside Bars. In addition, revenue guidance was set \$3.5 billion above consensus, while margin guidance also exceeded expectations by 40bp, underscoring the company's superior profitability. Despite already elevated market expectations, NVIDIA significantly outperformed across key metrics, providing strong reassurance to investors. Furthermore, continued growth in datacenter revenue, incremental upside from networking, GB200-based systems, and software, along with rising momentum in AI PCs and expanding opportunities in the automotive segment, highlight the company's diversified growth drivers.

## Maximizing Capital Efficiency and Strategic Sector Rotation

Although NVIDIA's elevated valuation has created some confusion among investors, AI is expected to contribute to productivity gains and price stability over the long term. Following its 3Q earnings announcement, NVIDIA stated during the conference call that AI demand continues to grow explosively and that it does not agree with claims of an "AI bubble." Jensen Huang emphasized that three major platform transitions – accelerated computing, generative AI, and agentic AI – are unfolding simultaneously. In addition, the company's 4Q revenue outlook was revised up to \$63.1 billion.

## Company Report.

Portfolio Composition and Investment Rationale - Equity

# AppLovin (APP)

Connects mobile apps with users and monetize through advertising and marketing solutions

Current Price (\$)	580.7
--------------------	-------

Average Price (\$)	582
--------------------	-----

Rate of Return (%)	-0.22
--------------------	-------

## ► KEY VALUATIONS

P/E	48.9
EV/EBITDA	45.4
OPM (%)	76.8
PEG	3.35

## ► STOCK PRICE



## SEC investigation pressure + strong e-commerce growth fundamentals

AppLovin's long-term growth story is exceptionally robust, underpinned by outstanding performance with 68% revenue growth and 92% net profit growth. The expansion of e-commerce advertising, enhanced AI performance based on AXON 2.0, and increased shareholder returns demonstrate the company's strength and scalability. However, the current stock price is trading at a high valuation of 86 times P/E. Concurrent risks to confidence, including an SEC investigation, increased insider selling, and reduced institutional holdings, limit its short-term investment appeal.

## Technical Indicators: Year-End Adjustment Phase

The near-to-medium term outlook is highly bearish, and this phase is assessed as requiring a cautious approach for short-term investors. However, considering the analysts' 12-month average target price of \$718.71 (approximately 29% upside potential), BofA's \$860 target price, and the structural growth potential of e-commerce sales, the medium-to-long-term growth outlook remains valid. Therefore, a phased, incremental buying strategy is more rational than short-term investing, and the near-term bottom is likely to form in the \$500–550 range.

## Investment Strategy

AppLovin has a very solid long-term growth story, but from a short-term investment perspective, several risks remain prominent. In particular, the progress of the SEC investigation is a key variable determining stock price volatility. Given the possibility of a sharp decline depending on the outcome, a conservative approach is necessary. Therefore, even if considering a purchase, a strategy of entering in stages when the price has sufficiently adjusted to \$500 is judged to be a relatively safer and more rational choice.

## Company Report.

Portfolio Composition and Investment Rationale - Equity

# Tesla Inc. (TSLA)

Designs and manufactures electric vehicles, energy storage systems, and solar products

Current Price (\$)	442.23
--------------------	--------

Average Price (\$)	347.8
--------------------	-------

Rate of Return (%)	27.15
--------------------	-------

## ► KEY VALUATIONS

P/E	208.50
EV/EBITDA	112
OPM (%)	5.0
PEG	14.6

## ► STOCK PRICE



## Scaling Volume Through Mass-Market EVs

To defend Tesla's market share and expand into more price-sensitive segments, Tesla is targeting broader volume growth with a lower-cost version of the ModelY, codenamed E41. The production which is expected to reduce production costs by 20%, is set to start at its Shanghai gigafactory in 2026 with some capacity for Europe and North America, while the U.S. launch may be delayed to late 2025 or early 2026.

## Autonomous Software Leverage

The Full Self-Driving (FSD) software is transforming to a strategic monetization lever. While the one-time purchase price remains \$8,000 (formerly \$12,000), the US monthly subscription model has made its cut in price from \$199 to \$99. The challenge remains in solving the regulatory scrutiny around its safety and marketing especially as the current FSD model still requires active driver supervision. Despite the technical issues the revolve around trustworthiness of the software, the reduction in subscription model is expected to help Tesla expand its user base and collect more real-world driving data.

## Diversified Energy-Mobility Platform

Tesla now operates as a dual business: a leading EV automaker and a fast-growing energy company. In 2024, Tesla deployed 31.4 GWh of battery storage, more than double YoY, and generated \$10.09 billion in its energy segment. The gross margin of energy division jumped to approximately 26.2% in 2024 from 18.9% in 2023, aided by cost reductions, IRA tax credits, and a favorable product mix. It has surpassed 30% in recent quarters, making it Tesla's most profitable segment and accounting for roughly 23% of total profits on 13% of revenue. On the automotive side, Tesla is navigating price pressure and softening demand while driving volume via lower-cost EVs, vertical integration, and expanded charging infrastructure.

## Company Report.

Portfolio Composition and Investment Rationale - Equity

# Palantir Technologies (PLTR)

Provides a data-integration and analytics platform to detect patterns and aid decision-making across commercial and government clients

Current Price (\$)	170.52
--------------------	--------

Average Price (\$)	170.69
--------------------	--------

Rate of Return (%)	0.10
--------------------	------

## ► KEY VALUATIONS

P/E	1,442.98
EV/EBITDA	416.77
OPM (%)	21.81
PEG	4.51

## ► STOCK PRICE



## Expansion of AI-Driven Data Integration & Analysis Platform

Palantir is scaling its AI-driven platforms – AIP, Foundry, and Gotham – to integrate fragmented data and embed real-time analytics into operations. AIP adoption is accelerating as enterprises shift from pilot projects to full-scale deployment. This positions the company to capture rising demand for AI-enabled decision systems and strengthens its competitive moat.

## Dual Growth Engines Across Commercial and Government Segments

Palantir's growth is supported by two distinct but complementary engines: its rapidly expanding commercial business and its stable government segment. U.S. commercial revenue continues to accelerate as AIP adoption spreads across industries, driving larger and more frequent enterprise deployments. Meanwhile, long-term government and defense contracts provide recurring, predictable revenue that stabilizes cash flow through economic cycles. This dual structure reduces volatility, broadens Palantir's addressable market, and strengthens the company's ability to scale its AI platforms globally.

## High Valuation & Risk-Reward Profile

Palantir commands a premium valuation that reflects strong investor expectations for sustained AI-driven growth and improving profitability. While rapid AIP adoption and expanding commercial traction support the bull case, current multiples already price in aggressive assumptions for future execution. This creates an asymmetric risk-reward setup: significant long-term upside exists if Palantir maintains momentum, but the stock remains sensitive to any slowdown in enterprise demand or contract timing. Ultimately, investors must balance the company's strong fundamentals with the valuation risks embedded in the current share price.

## Company Report.

Portfolio Composition and Investment Rationale - Equity

# International Business Machines (IBM)

Innovates and integrates advanced technologies to practically solve the most complex business and societal challenges globally

Current Price (\$)	301.78
--------------------	--------

Average Price (\$)	291.54
--------------------	--------

Rate of Return (%)	3.51
--------------------	------

## ► KEY VALUATIONS

P/E	53.50
EV/EBITDA	45.6
OPM (%)	14.30
PEG	1.82

## ► STOCK PRICE



## High-Margin Software Transition & FCF-Based Stability

IBM's core investment thesis rests on its successful, ongoing structural pivot toward high-margin software and services, driven by its leadership in Hybrid Cloud and AI. This strategy is improving structural gross margins (57.3% in Q3) and is financially secured by its consistently strong Free Cash Flow (FCF) generation. This FCF provides the capital for innovation, strategic acquisitions, and maintains the company's status as a stable dividend-paying stock.

## \$9.5 Billion AI Bookings and IBM Z Mainframe Cycle Effect

The primary Q3 2025 growth momentum was derived from two distinct areas: the accelerating enterprise adoption of generative AI, evidenced by the AI 'Book of Business' exceeding \$9.5 billion ; and the powerful cyclical effect of the IBM Z mainframe, which drove the Infrastructure segment revenue up 17% (with IBM Z revenue alone soaring 61%). Additionally, the high-margin Automation software segment reported strong growth of 22% to 24%, reflecting robust workflow demand.

## \$14 Billion FCF Guidance Increase and Expected Red Hat Growth Recovery

IBM significantly raised its full-year Free Cash Flow (FCF) guidance to approximately \$14 billion, reflecting record year-to-date FCF of \$7.2 billion and expected strong execution. The company also raised its full-year revenue growth outlook to above 5% (constant currency). However, the critical metric for long-term outlook is the management's forecast that the Hybrid Cloud unit (Red Hat), despite a recent slowdown to 14% growth , is expected to recover its high-margin mid-teen growth levels by early 2026.

## Company Report.

## Portfolio Composition and Investment Rationale - Equity

**GOOGLE** (GOOG)

Operates search, advertising, cloud computing and AI platforms

Current Price (\$)	316.02
--------------------	--------

Average Price (\$)	275.44
--------------------	--------

Rate of Return (%)	14.73
--------------------	-------

## ► KEY VALUATIONS

P/E	28.3
EV/EBITDA	25.6
OPM (%)	32.7
PEG	1.82

## ► STOCK PRICE

**Strategic Advantage and Rationale**

Alphabet possesses a wide economic moat built upon its near-monopoly in global search and the massive user base of YouTube, generating immense data and powerful network effects. This dominant position provides a robust, high-margin cash flow engine that the company strategically reinvests into emerging, high-growth areas. AI leadership, which is used to defend its core businesses and accelerate growth in new ventures, ensures it remains at the forefront of technological change and secures long-term valuation expansion.

**Profit Drivers: AI Monetization and Cloud Expansion**

The company's growth is fundamentally driven by the successful monetization of AI infrastructure and services, specifically the combined strength of Google Cloud (GCP) profitability and AI-driven innovation across its core Google Services. GCP has evolved into a key profit engine, with accelerating revenue and expanding operating margins driven by strong enterprise demand for its AI capabilities. Simultaneously, the integration of advanced models like Gemini across Search, Ads, and YouTube enhances user engagement, increases the efficiency of ad targeting, and creates new revenue streams, thus propelling sustained revenue growth across the entire ecosystem.

**Future Prospects and Risk Factors**

The outlook remains positive, heavily weighted on the successful execution of its AI strategy. The company delivered its first-ever \$100 billion quarterly revenue in Q3 2025, demonstrating robust growth across all major segments. While the massive CapEx is expected to pressure short-term margin growth, management is focused on continued efficiencies in the expense base to balance investment with profitability. The success of large-scale AI monetization and navigation of a shifting regulatory landscape are the primary factors influencing future performance.

# VanEck Semiconductor ETF (SMH)

Tracks the largest US-listed semiconductor and chip-equipment manufacturers driving AI, cloud, and high-performance computing growth

Current Price (\$) 359.43

Average Price (\$) 305.25

Rate of Return (%) 17.75

## ► KEY VALUATIONS

P/E 32.5  
P/B 7.8  
LT Growth 25~30

## ► STOCK PRICE



## AI Infrastructure Spending and Semiconductor Positioning

The ongoing expansion of AI data centers and high-performance computing continues to direct capital toward semiconductor manufacturers and equipment suppliers. In this phase of the AI investment cycle, spending is concentrated on hardware such as GPUs, advanced fabrication, and related process technologies. SMH's portfolio, centered on the largest and most influential semiconductor firms, is well-positioned to benefit from these infrastructure-driven capex trends. As investment remains focused on computational capacity, semiconductor companies are capturing a disproportionate share of near-term AI spending. This dynamic reinforces SMH's role as a vehicle directly exposed to the earliest and most tangible stage of the AI build-out cycle.

## Solid Industry Fundamentals with Valuation Sensitivity

Across the semiconductor sector, Revenue growth has been supported by demand for advanced chips used in AI training, cloud computing, and networking infrastructure. Margins and profitability remain healthy for many large industry participants, reflecting years of structural demand for higher-performance compute. However, given the strong equity performance of the sector over the past several years, valuations within the semiconductor segment are elevated relative to long-term averages, increasing the ETF's sensitivity to changes in growth expectations or macro conditions.

## Concentration Dynamics and Risk Profile

SMH's construction results in a high concentration of assets in a small group of large-cap semiconductor companies. This concentration allows the ETF to closely track the performance of industry leaders but also increases exposure to firm-specific developments. Regulatory shifts, supply-chain constraints, geopolitical tensions, or earnings volatility in any of these major holdings can have an outsized impact on the ETF's performance. As a result, SMH remains a high-beta instrument that tends to exhibit greater volatility than broader market benchmarks.

## Major Holdings

Ticker	Weight
NVDA	16.94%
TSM	9.5%
AVGO	9.25%
MU	6.45%
INTC	5.9%
AMAT	5.89%
AMD	5.79%
ASML	5.67%
LRCX	5.55%
KLAC	4.77%

# iShares Expanded Tech-Software Sector ETF (IGV)

Delivers focused software-sector ETF exposure to leading North American innovators across cloud, SaaS, and interactive media

Current Price (\$)	105.49
--------------------	--------

Average Price (\$)	110.52
--------------------	--------

Rate of Return (%)	-4.55
--------------------	-------

## ► KEY VALUATIONS

P/E	38.4
P/B	8.5
LT Growth	18~22

## ► STOCK PRICE



## Infrastructure Focus and Software Time-Lag

Our initial investment thesis for IGV was predicated on the structural growth of the cloud computing industry. We anticipated that this momentum would generate a trickle-down effect across the broader software ecosystem. However, current capital flows indicate a distinct 'time-lag,' where the expansion of cloud infrastructure does not immediately translate into an explosive earnings surge for SaaS companies. Consequently, rather than awaiting the eventual trickle-down effect in software, it is more prudent to concentrate capital on the infrastructure sector, where explosive momentum is currently manifesting.

## Earnings Outperformance and Datacenter-Driven Growth

An analysis of recent earnings and industry trends reveals that the rapid proliferation of the AI industry is paradoxically exerting short-term 'budget pressure' on incumbent software companies. Core IGV constituents such as Adobe and Salesforce (application software) face challenges in translating the integration of AI features into immediate pricing power or revenue expansion. As the 'AI Gold Rush' investment intensifies the crowding-out effect diverting capital toward hardware and infrastructure build-outs rather than software procurement the short-term earnings momentum of IGV holdings is relatively decelerating.

## Mid- to Long-Term Growth Momentum

We forecast that the software industry will remain stable over the mid-to-long term. However, considering the investment time horizon, we identify the current environment as the initial phase of a cycle where infrastructure build-out precedes application proliferation. We have determined that retaining capital in the software sector (IGV) during this period incurs a high opportunity cost relative to the hardware sector (semiconductors, power, and data centers). Accordingly, we have decided to fully liquidate our position in IGV.

## Major Holdings

Ticker	Weight
PLTR	9.07%
MSFT	8.90%
CRM	7.40%
ORCL	6.28%
INTU	6.17%
NOW	5.77%
PANW	4.59%
APP	4.52%
CRWD	4.46%
ADBE	4.40%

## ETF Report.

Portfolio Composition and Investment Rationale - Equity

# ERShares Private-Public Crossover ETF (XOVR)

Provides not only access to private equity firms (SpaceX, Klarna, Anduril) but also extreme lack of transparency and tight regulatory constraints

Current Price (\$)	19.77
--------------------	-------

Average Price (\$)	20.81
--------------------	-------

Rate of Return (%)	-4.99
--------------------	-------

## ► KEY VALUATIONS

P/E	42.1
P/B	9.2
LT Growth	30+

## ► STOCK PRICE



## Pre-IPO Access With High Valuation Risk

First-to-market pre-IPO equity exposure ETF combining ER30TR index (Nasdaq-100 growth equivalent) with 15% private equity allocation (SpaceX 8%, Anduril, Klarna), enabling retail access to venture-stage assets; however, severe valuation opacity on SpaceX (\$35M position marked 37% higher in one week), regulatory fragility under SEC 1940 Act 15% illiquid asset limit, and extreme P/E 45x create execution risk that outweighs innovation premium.

## AI-Concentrated Exposure Amid Sector Volatility

Portfolio anchored by 11.5% Nvidia (AI chips), 6.6% Meta (AI platforms), 4.2% Oracle (cloud), and concentrated top-10 holdings of 48%; recent 3% Nov 20 decline reflects sector-wide AI bubble fears and Fed hawkish signals, with Robinhood -10%, Coinbase -7.4%, and Nvidia -3.2% driving technicals rather than XOVR-specific weakness – Q4 catalysts include potential Klarna/Anduril private exits and capital markets activity reshuffling \$400M+ AUM allocations.

## Major Holdings

Ticker	Weight
NVDA	10.63%
SPV	8.82%
META	5.34%
CART	4.11%
AFRM	3.62%
MEDP	3.61%
EXEL	3.47%
TOST	3.4%
VEEV	3.34%
PATH	3.11%

## Governance-Dependent Upside With Significant Valuation Downside Risk

15% from current \$19.86) contingent on: (1) ERShares publishing real-time NAV and SpaceX transparent valuation methodology, (2) maintaining sub-\$500M AUM to avoid SEC 15% rule breach, and (3) avoiding additional Mark-to-Market corrections in high-growth tech holdings – downside scenario (\$16.27 floor) if tech rotation deepens or SpaceX marks down 20%+; recommend 1-3% XOVR allocation only pending governance transparency improvements.

## Hedging Oriented Assets Report.

Portfolio Composition and Investment Rationale - Hedging Oriented Assets

# iShares Short Treasury Bond ETF (SHV)

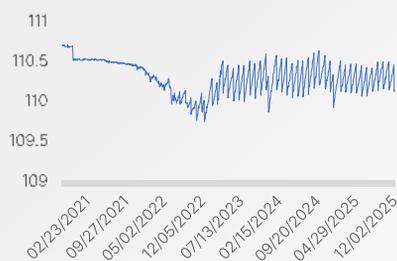
Introduces a line of Hedging Oriented Assets: Preserve capital and reduce portfolio volatility with highly liquid short-term Treasuries

Current Price (\$) 110.14

Average Price (\$) 110.28

Rate of Return (%) -0.13

### STOCK PRICE



### Investment Thesis

The iShares Short Treasury Bond ETF (SHV) invests in U.S. Treasury securities with maturities of one year or less. Due to its low price volatility against interest rate fluctuations, it is widely recognized as a safe asset and a cash-equivalent portfolio component. It is also highly liquid, as it flexibly responds to interest rate changes and maintains ample trading volume, ensuring smooth buy and sell execution. Even amid heightened economic uncertainty, SHV can preserve liquidity while generating steady interest income, allowing investors to simultaneously pursue liquidity, stability, and income compared to holding idle cash. Thanks to these attributes, SHV is considered a hedging-oriented asset well suited for investors seeking short-term capital management and stable portfolio operation.

### Key Drivers

Amid prolonged trade tensions between the U.S. and China that have persisted from the first half of the year to the present, volatility in the global financial markets has increased, leading U.S. ultra-short-term Treasury bonds, which are less sensitive to interest rate fluctuations and easily convertible to cash, to emerge as a new alternative safe asset for investors. Under such conditions, short-term bond ETFs have gained attractiveness as hedging-oriented assets, supported by their higher yields compared to deposits and ease of liquidity management

### Outlook

The outlook for this ETF is closely linked to the monetary policy of the U.S. Federal Reserve (Fed). The Fed entered a monetary easing cycle at its last meeting in October, implementing its second rate cut of 2025. SHV still fulfills its role as a cash-equivalent asset. Therefore, a strategy should be established to maintain its position and allocation as a core cash-holding vehicle in the portfolio, while also preparing for changes in yield in accordance with the future pace of rate cuts.

### Major Holdings

Security Name	Weight
TREASURY BILL	8.80%
	4.15%
	4.13%
	4.04%
	3.78%
	3.27%
	3.14%
	3.14%
	3.04%
2.92%	

## Hedging Oriented Assets Report.

Portfolio Composition and Investment Rationale - Hedging Oriented Assets

# iShares 20+ Year Treasury Bond ETF (TLT)

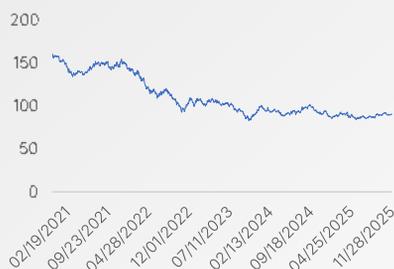
Captures long-term interest-rate exposure with a portfolio of 20+ year U.S. Treasury bonds

Current Price (\$) 88.81

Average Price (\$) 89.46

Rate of Return (%) -0.72

### STOCK PRICE



### Investment Thesis

This is a long-duration asset that targets substantial capital gains and monthly dividends simultaneously by investing in U.S. Treasury bonds with maturities exceeding 20 years during periods of falling interest rates and economic slowdown. It also strongly emphasizes incorporating a hedge into the portfolio with low correlation to equity and credit assets, leveraging the credit characteristics of safe assets (U.S. Treasuries) and high-interest rate sensitivity.

### Key Drivers

The recent decline in TLT stems from the convergence of rising long-term interest rates and the burden of Treasury supply. Despite the Fed's benchmark rate cut, the market is pushing long-term rates higher, reflecting expectations of a soft economic landing and the possibility of inflation reigniting. Particularly, concerns over an oversupply of Treasury bonds due to the widening U.S. fiscal deficit are structurally limiting rate declines. Consequently, the "rate cut = bond price rise" formula is not working, and curve steepening (a relative rise in long-term rates) is intensifying, putting pressure on TLT price.

### Outlook

For investors with a high proportion of risky assets in their current portfolio, incorporating defensive assets and hedging instruments is an effective strategy. However, given that this asset class tends to react sensitively to changes in the Fed's interest rate policy, and considering the low likelihood of a rate cut at the December FOMC meeting, a wait-and-see approach appears more appropriate than aggressively increasing allocations.

### Major Holdings

Security Name	Weight
TREASURY BOND	5.08%
	4.75%
	4.66%
	4.53%
	4.43%
	4.33%
	4.10%
	4.10%
3.88%	
TREASURY BOND (2OLD)	4.49%

## Hedging Oriented Assets Report.

### Portfolio Composition and Investment Rationale - Hedging Oriented Assets

## iShares:Gold Trust (IAU)

Offers investors efficient exposure to gold price movements by tracking spot performance through an ETF format, eliminating the need to hold physical gold

Current Price (\$)	68.53
--------------------	-------

Average Price (\$)	79.29
--------------------	-------

Rate of Return (%)	15.7
--------------------	------

#### STOCK PRICE



### Investment Thesis

The iShares Gold Trust (IAU) is structured as an exchange-traded fund (ETF) that tracks the performance of gold prices, allowing investors to gain exposure to gold price movements without the logistical burdens of storing, transporting, or insuring physical metal. Gold typically exhibits a low correlation with traditional asset classes such as equities and bonds, making it an effective portfolio diversifier that helps mitigate overall risk. Listed on major stock exchanges, IAU offers high liquidity and accessibility, enhancing its appeal to a wide range of investors.

### Key Drivers

The structural and cost characteristics of the ETF can also influence IAU's overall performance. With a low expense ratio of 0.25%, IAU remains attractive to investors, though this cost is likely to have only a limited impact on long-term returns. Conversely, factors such as liquidity, premiums or discounts to net asset value, and trading volume may affect the fund's short-term price fluctuations. Recently, the ETF has shown strong performance amid a liquidity-driven market environment, Fed's accommodative monetary policy stance serves as a key driver enhancing the investment appeal of risk and growth assets, from which gold ETFs like IAU have also benefited.

### Outlook

The fund has recently broken above its 50-day moving average (approximately the 10-week line), indicating a generally bullish trend and supporting a "Hold" stance at present. However, as the Federal Reserve's rate-cut events have been largely absorbed by the market, short-term momentum appears to have entered a neutral phase. Positively, the fund has not yet reached its previous peak, suggesting further upside potential remains. However, it should be noted that if inflation indices rise unexpectedly, the fund's somewhat elevated valuation could become a burden, potentially triggering a price correction. Accordingly, the current position continues to follow the 'Buy-and-Hold' strategy established during the initial portfolio setup.

#### Major Holdings

Security Name	Weight
GOLD	100.00%



## Major Rebalancing and Portfolio Changes

# 01 Mid Sept.

### 3.1 Mid Sept: First Portfolio Setting → AI, Technology Focus

#### Tactical Rebalancing:

This tactical allocation is engineered to align with the Fed's resumption of monetary easing and the structural capital rotation into AI software. Validated by Oracle's earnings surprise, we strategically shifted our focus from hardware concentration to high-conviction software assets by aggressively overweighting IGV, APP, and PLTR to capture the sector's valuation re-rating. To counterbalance this aggressive growth exposure against the economic slowdown risks implied by the Fed's 25bp cut, we constructed a 'Growth-Defense Barbell Strategy.' By integrating TLT for duration exposure alongside SHV for liquidity stability, and adding IAU and FXY as macro hedges, we secure an asymmetric risk profile that maximizes participation in the software rally while providing downside protection against volatility.

#### Event Connection & Rebalancing Implications:

##### Observation 1. The Return of Easing Cycle

- Event: Fed Cuts Rates by 25bps
- Market Impact: The pivot to easing pressured the U.S. dollar and lowered treasury yields, fueling a risk-on sentiment for equities while simultaneously boosting the appeal of non-yielding assets like gold.
- Portfolio Implication: Initiated positions in TLT to capture capital appreciation from falling yields, and added IAU and FXY as macro hedges against potential dollar weakness and economic deceleration.

##### Observation 2. The "Oracle Shock" & Software Rotation

- Event: Oracle (ORCL) Surges +36% on Earnings
- Market Impact: Catalyzed a rotation from AI hardware to earnings-proven software and infrastructure.
- Portfolio Implication: Diversified beyond SMH into IGV and APP to capture the software-led rally.

##### Observation 3. Palantir's Valuation Re-rating

- Event: Broadening AI Rally & B2B Momentum
- Market Impact: Capital concentration intensified in 'high-conviction' software stocks that demonstrate actual AI monetization, differentiating them from speculative plays.
- Portfolio Implication: Assigned an aggressive overweight rating to PLTR, identifying it as the highest-alpha generator within the software ecosystem due to its unrivaled momentum and institutional support.

# Major Rebalancing and Portfolio Changes

Mid Sept.

## Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	84.72%	100%
Fixed Income	15.28%	0%
Dollar (Cash)	4.93%	0%

## Charts:

Exhibit 35. Post-Rebalancing Portfolio Weights

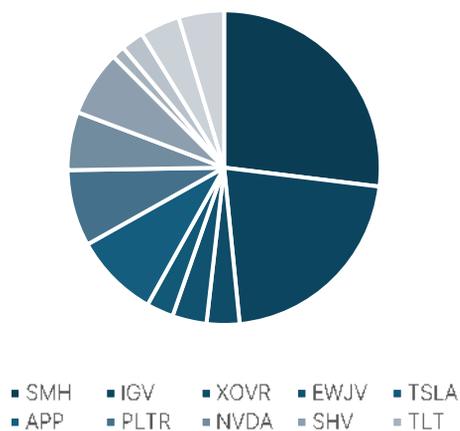
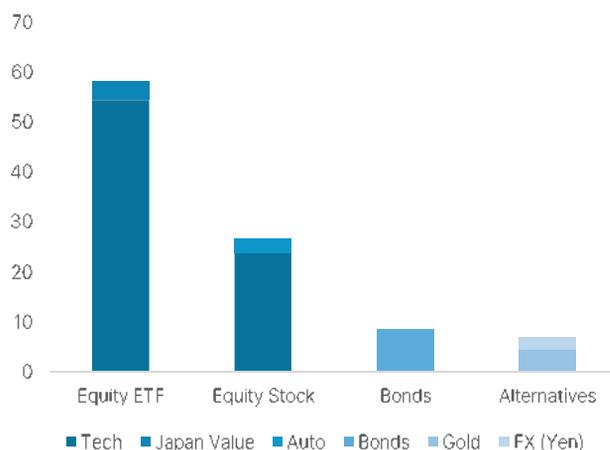


Exhibit 36. Portfolio Allocation by Group & Sector



## Final Recommendation

### Current Context

The Fed's 25bps cut in September marks the official return to monetary easing amidst labor market cooling. Concurrently, Oracle's earnings surprise has triggered a structural rotation in the AI theme, shifting leadership from hardware to software and infrastructure.

### Recommendation

We adopt an aggressive stance on AI software by overweighting IGV, APP, and PLTR to ride the sector momentum. This is balanced by a 'Growth-Defense Barbell Strategy' that incorporates TLT (Bonds), IAU (Gold), and FXY (Yen) to mitigate macro volatility.

### Rationale / Expected Outcome

This strategy aims to generate alpha by capitalizing on the software sector's re-rating while ensuring portfolio stability through rate-sensitive hedges. The strategic combination of TLT, SHV, and FXY provides an asymmetric risk profile, offering robust downside protection against potential economic deceleration.

## Major Rebalancing and Portfolio Changes

# 02 Early Oct.

Major Rebalancing	
Ticker	Weight Change
SMH	-8.21%p
IGV	-2.28%p
SHV	-2.33%p
FXY	-2.47%p
XLE	3.02%p
WM	1.84%p
RDDT	2.98%p
IBM	2.98%p
PANW	1.95%p
RBLX	2.03%p
TLT	1.93%p

### 3.1 Early Oct: Strengthening Defense and Expanding AI

#### Tactical Rebalancing:

This rebalancing for early October 2025 focuses on two strategic pillars: managing macro/geopolitical risks and upgrading the fundamental quality of our AI portfolio. First, we executed a preemptive response to macro and geopolitical risks. Acknowledging the entrenched weakness of the Yen following the BOJ's rate freeze, we sold our entire FXY position to eliminate FX risk. In parallel, to hedge against the supply shock risks from intensifying Russia-Europe tensions, we initiated a position in XLE, securing both a geopolitical hedge and a 3.5% dividend yield. We further fortified the portfolio's defensive layer by adding WM to leverage its structural growth amidst volatility. Second, we shifted toward a 'Qualitative Deepening' of the AI theme. We took profits in SMH and rotated capital into the next phase of AI leadership: Security and Data. The addition of IBM further diversifies our tech exposure, ensuring future growth visibility based on tangible numbers rather than just expectations.

#### Event Connection & Rebalancing Implications:

##### Observation 1. Macro Divergence & FX Policy

- Event: BOJ's Rate Freeze & Persistent Dollar Strength
- Market Impact: Wide US-JP rate gap keeps Yen weak; capital flows to high-yield US assets.
- Portfolio Implication: Exited FXY to cut FX risk; redeployed into US AI & Defensive sectors.

##### Observation 2. Geopolitical Escalation & Defensive Rotation

- Event: Russia-Europe Tensions & Supply Chain Risks
- Market Impact: The energy sector has re-emerged as a critical geopolitical hedge. Concurrently, investor preference is shifting toward defensive stocks with stable cash flows to weather market volatility.
- Portfolio Implication: Bought XLE (hedge/3.5% yield) & WM for defensive growth.

##### Observation 3. AI Fundamentals Deepening: Security & Data

- Event: PANW Earnings Surprise & Data Monetization Boom
- Market Impact: AI theme shifting (Hardware → Security/Data), re-rating firms with data moats.
- Portfolio Implication: Trimmed SMH to add earnings-proven leaders (PANW, RDDT, IBM, RBLX).

## Major Rebalancing and Portfolio Changes

Early Oct.

### Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	75.63%	100%
Fixed Income	10.58%	0%
Dollar (Cash)	13.79%	0%

### Charts:

Exhibit 37. Post-Rebalancing Portfolio Weights

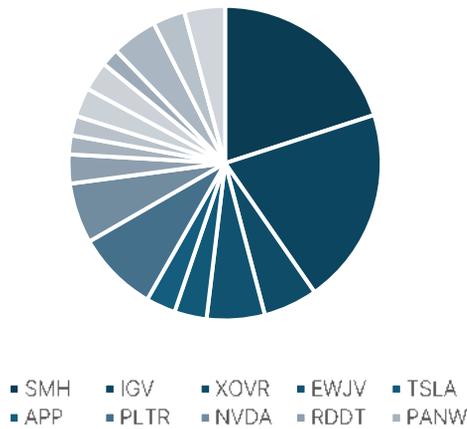
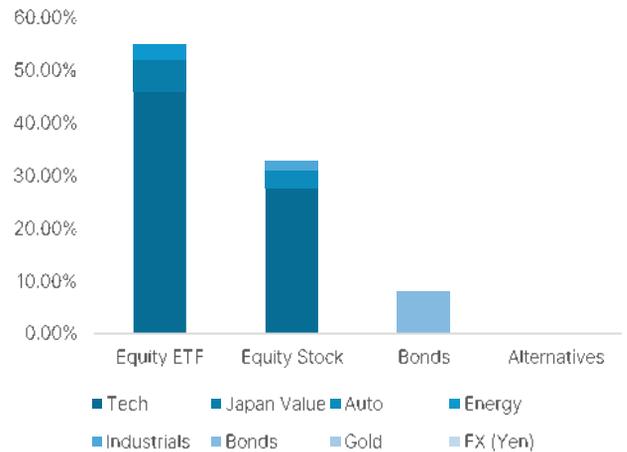


Exhibit 38. Portfolio Allocation by Group & Sector



### Final Recommendation

#### Current Context

The market appears to navigate two currents: macro uncertainty and a qualitative AI shift. Externally, the Yen's weakness seems set to persist post-BOJ rate freeze, while Russia-Europe tensions re-ignite supply chain risks. In AI, investor interest appears to be shifting toward revenue-generating 'Security' and 'Data' layers.

#### Recommendation

To strengthen risk management and AI fundamentals, we suggest clearing the Yen (FX) position and adding Energy (XLE) and Waste Management (WM) as geopolitical hedges. In tech, we recommend trimming semiconductor (SMH) exposure and rotating into companies with robust fundamentals like PANW, RDDT, and IBM.

#### Rationale / Expected Outcome

By prioritizing "tangible numbers," the inclusion of hedge assets and defensive stocks should provide downside support amidst volatility. Moreover, realigning the AI portfolio toward companies with verified metrics – such as 16% growth and 30% margins – appears to offer a more stable foundation for future performance.

## Major Rebalancing and Portfolio Changes

# 03 Mid Oct.

Major Rebalancing	
Ticker	Weight Change
RDDT	-0.85%p
RBLX	-1.37%p
XLE	0.83%p
TLT	0.50%p

### 3.1 Mid Oct: Risk Management & Defensive Hedge

#### Tactical Rebalancing:

Our strategy for mid-October focused on preemptive profit-taking amidst volatility and strengthening macro hedges. As market uncertainty increased due to concerns over high tech valuations ahead of the Q3 earnings season and escalating geopolitical risks, we reduced exposure to RBLX and RDDT, which had surged in the short term and outperformed the market, to realize profits and secure cash liquidity. Conversely, we additionally purchased TLT (Long-Term Treasuries), which showed strength driven by safe-haven sentiment, to capture capital gains from falling interest rates and secure portfolio defense, while simultaneously increasing our allocation to Energy (XLE) to hedge against commodity price volatility caused by supply chain issues. This significantly reinforced the portfolio's downside protection against potential stock market corrections.

#### Event Connection & Rebalancing Implications:

##### Observation 1. Tech Sector Divergence: Profit Taking in Chaos

- Event: Q3 Earnings Jitters & AI Capex ROI Doubts
- Market Impact: During the second week of October, ahead of Big Tech earnings releases, AppLovin plummeted 15.4% amid valuation concerns, triggering a broader sell-off in the tech sector. However, Roblox surged 9.6% following the release of solid user metrics, creating a differentiated market environment.
- Portfolio Implication: Judging that the market has entered a phase of earnings-based selection, we sold the surged RBLX and RDDT holdings to realize profits.

##### Observation 2. Macro Regime Change: Risk-Off & Hedging

- Event: Escalation in Middle East Tension & Safe Haven Bid
- Market Impact: Driven by news of geopolitical tensions reported around October 10th, risk aversion reached its peak, leading to a concentration of capital into defensive assets. Gold, a safe-haven asset, surged 6.5%, and TLT rose 2.2% due to falling treasury yields.
- Portfolio Implication: To secure the portfolio's downside protection, we purchased an additional 5 shares of TLT (US Treasuries) and 10 shares of XLE (Energy), establishing a hedge position to offset the shock of stock market declines with gains in bonds and commodities.

# Major Rebalancing and Portfolio Changes

Mid Oct.

## Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	73.51%	100%
Fixed Income	11.35%	0%
Dollar (Cash)	4.93%	0%

## Charts:

Exhibit 39. Post-Rebalancing Portfolio Weights

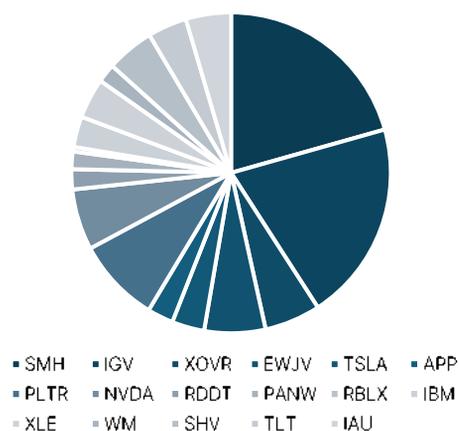
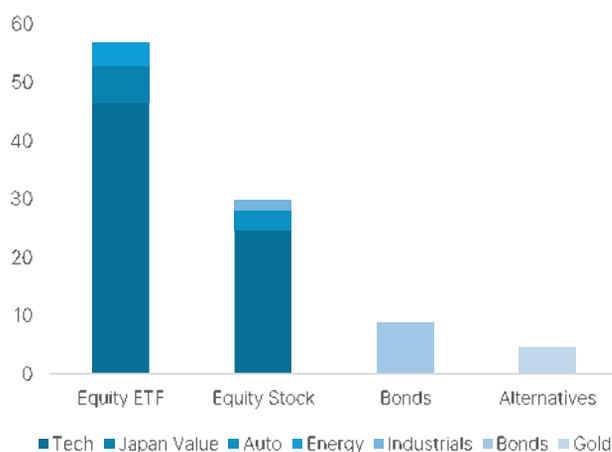


Exhibit 40. Portfolio Allocation by Group & Sector



## Final Recommendation

### Current Context

This week, market uncertainty reached its peak as geopolitical risks coincided with deepening caution ahead of the Q3 earnings season. The mixed landscape, characterized by sharp declines in high-valuation growth stocks like APP and isolated surges, suggests that the market is reacting very sensitively to fundamentals. Simultaneously, the concentration of capital into Gold and TLT clearly demonstrates that investor sentiment has shifted rapidly toward 'risk aversion.'

### Recommendation

We strongly recommend a 'Defensive Hedge' strategy accompanied by securing cash in response to the uncertain macro environment. We should aggressively sell RBLX, RDDT, etc., which have shown signs of short-term overheating, to lock in profits, and allocate a portion of the secured cash to increasing exposure to TLT and XLE.

### Rationale / Expected Outcome

Constructing a portfolio that reduces equity exposure while expanding safe assets and the energy sector will effectively defend against maximum drawdowns in the event of a sharp market decline. Even if further corrections in tech stocks occur, price gains in bonds and gold will offset them, and the increased cash proportion will provide flexible responsiveness when the market stabilizes in the future.

## Major Rebalancing and Portfolio Changes

# 04 Early Nov.

Major Rebalancing	
Ticker	Weight Change
TSLA	-3.29%p
SMH	-5.95%p
PANW	-1.7%p
TLT	3.19%p
IBM	2.34%p
GOOG	3.09%p

### 3.1 Mid Nov: Reducing Overstretched Tech Exposure & Enhancing Portfolio Stability

#### Tactical Rebalancing:

Early November's setup called for reducing exposure to overstretched tech and AI segments, prompting trims in SMH, TSLA, and a full exit from PANW as valuation risk and volatility picked up. The drop in Treasury yields supported a tactical shift toward stability, leading to a targeted increase in TLT. At the same time, the market's rotation toward profitable, high-quality tech justified moving out of IGV and reallocating into GOOG and IBM to reinforce earnings durability. Overall, the portfolio was repositioned toward greater defensiveness and quality while cutting back on overheated growth risk.

#### Event Connection & Rebalancing Implications:

##### Observation 1. Rising Concerns About Overvaluation in Tech & AI

- Event: concerns about overvaluation in mega-cap tech and AI-related stocks
- Market Impact: High-beta tech and semiconductor names faced increased volatility as investors rotated out of stretched growth sectors. Sentiment weakened around AI platforms and chipmakers amid bubble risks.
- Portfolio Implication: Trimmed exposure to SMH, TSLA, PANW to reduce valuation-driven downside risk and rebalance away from overheated tech segments.

##### Observation 2. Increasing Demand for Defensive Duration and High-Quality Large Caps

- Event: Bond yields pulled back as recession risks and policy uncertainty resurfaced in early November.
- Market Impact: Demand shifted toward duration, with investors adding long-term Treasuries and defensive factors. Fixed income regained attractiveness as a stabilizer amid equity volatility.
- Portfolio Implication: Increased allocation to TLT (+3%) to strengthen portfolio defensiveness and stabilize overall volatility.

##### Observation 3. Selective Re-allocation Toward Profitable, Scalable Tech (GOOG)

- Event: Markets rotated from speculative software toward profitable, high-quality tech names.
- Market Impact: Software ETFs like IGV weakened while large-cap leaders such as GOOG strengthened.
- Portfolio Implication: Added GOOG and IBM, while trimming IGV, to emphasize quality and earnings durability.

# Major Rebalancing and Portfolio Changes

Early Nov.

## Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	84.72%	100%
Fixed Income	15.28%	0%
Dollar (Cash)	4.93%	0%

## Charts:

Exhibit 41. Post-Rebalancing Portfolio Weights

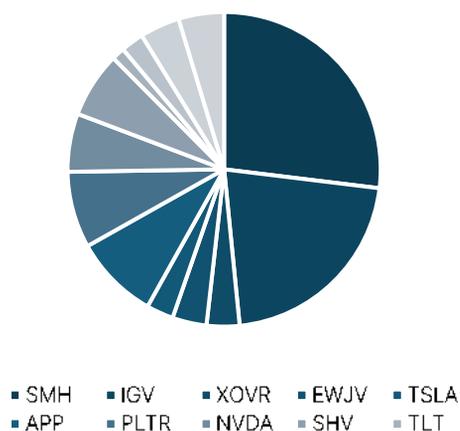
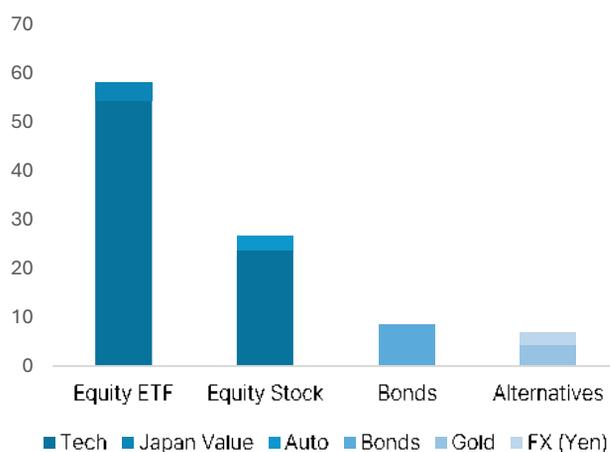


Exhibit 42. Portfolio Allocation by Group & Sector



## Final Recommendation

### Current Context

Early November saw renewed caution around mega-cap tech and AI valuations, increased volatility in semiconductor and software names, and a parallel retreat in Treasury yields as recession risks resurfaced. At the same time, market flows began rotating toward profitable, high-quality tech while speculative growth segments lost momentum.

### Recommendation

We reposition toward defensiveness and quality by reducing exposure to SMH, TSLA, and PANW while selectively adding TLT for duration support. Within tech, we rotate out of IGV and increase allocation to GOOG and IBM to capture stable earnings visibility and improve risk-adjusted growth exposure.

### Rationale / Expected Outcome

This allocation aims to mitigate valuation-driven downside risk while enhancing portfolio resilience through duration and quality factors. The combination of TLT's stabilizing effect and the shift toward profitable tech leaders is expected to deliver a more balanced risk profile, preserve capital amid volatility, and sustain long-term growth participation through higher-visibility names like GOOG and IBM.

## Major Rebalancing and Portfolio Changes

# 05 Mid Nov.

Major Rebalancing	
Ticker	Weight Change
SMH	-6.39%p
IGV	-19.44%p
RDDT	-2.14%p
RBLX	-0.36%p
APP	-2.74%p
GOOG	8.58%p
PM	5.63%p
JNJ	5.7%p
WM	3.7%p

### 3.1 Mid Nov: Exiting Speculative AI & Rotating into Resilient Defensive Assets

#### Tactical Rebalancing:

During mid-November, rising concerns around an overstretched AI rally, shifting Fed rate-cut expectations, and a broad rotation toward defensive quality shaped a clear tactical direction. Increased volatility in speculative AI names and valuation fatigue prompted the full exit of APP, RDDT, and RBLX, while partial profit-taking in SMH reduced concentration risk in overheated semiconductor exposure. At the same time, strengthening odds of a December rate cut supported reallocating toward high-quality, cash-flow-generating names, leading to increased positions in GOOG, PM, JNJ, and WM. Overall, the portfolio shifted away from high-beta, low-profitability growth and toward resilient, lower-volatility assets aligned with the macro environment of uncertainty, tightening valuation discipline, and preference for stable earnings.

#### Event Connection & Rebalancing Implications:

##### Observation 1. AI Bubble Debate

- Event: discussion around whether AI equities are entering "bubble territory"
- Market Impact: Volatility in AI stocks rises, while interest concentrates on infra/service AI companies rather than speculative plays.
- Portfolio Implication: You fully exited APP, RDDT, and RBLX to remove high-volatility, low-profitability AI-adjacent exposure as valuation risk became more evident. This trimmed speculative risk and strengthened the overall quality of the portfolio ahead of potential AI-sector re-pricing.

##### Observation 2. Rate-cut Expectations Strengthen

- Event: markets priced in a strong probability of a December Fed rate cut
- Market Impact: U.S. equities recovered into month-end and Treasury yields drifted lower, improving risk sentiment.
- Portfolio Implication: We trimmed SMH to lock in gains and rotated into GOOG, capturing quality-growth exposure better aligned with a moderating-rates environment.

##### Observation 3. Defensive & Quality Rotation Accelerates

- Event: Markets rotated into defensive and quality assets as investors hedged against AI valuation risks and macro uncertainty.
- Market Impact: High-beta tech lagged while low-volatility, stable-earnings sectors gained momentum.
- Portfolio Implication: We added WM, PM, and JNJ to boost defensive, cash-flow-stable exposure while maintaining selective AI upside through GOOG.

# Major Rebalancing and Portfolio Changes

Mid Nov.

## Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	55.50%	100%
Fixed Income	13.84%	0%
Dollar (Cash)	30.66%	0%

## Charts:

Exhibit 43. Post-Rebalancing Portfolio Weights

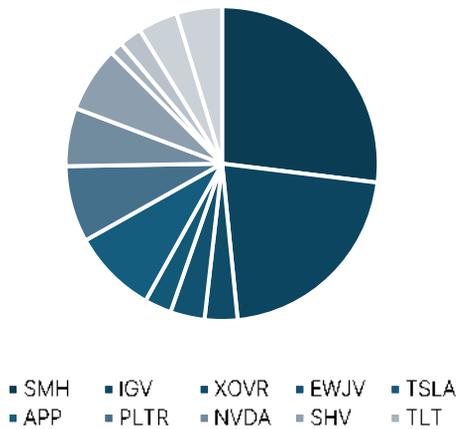
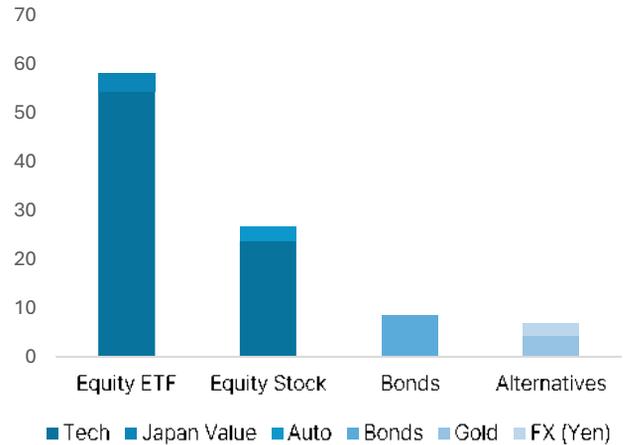


Exhibit 44. Portfolio Allocation by Group & Sector



## Final Recommendation

### Current Context

By mid-November, the AI rally showed signs of valuation strain while market conviction in a December Fed rate cut increased. As volatility rose in speculative AI names, institutional flows shifted noticeably toward quality and defensive assets.

### Recommendation

We recommend reducing exposure to high-beta, low-profitability AI names and reinforcing the portfolio with quality growth and defensive holdings. Selective AI exposure is maintained through GOOG, while PM, JNJ, and WM strengthen stability and balance overall risk.

### Rationale / Expected Outcome

This repositioning aims to mitigate drawdown risk from an AI re-pricing while enhancing resilience through dependable cash-flow generators. The updated allocation preserves long-term AI upside but establishes a more durable, lower-volatility portfolio structure.



## Major Rebalancing and Portfolio Changes

# 06 Late Nov.

### 3.1 Late Nov: Portfolio Stabilization

#### Tactical Rebalancing:

By late November, the portfolio transitioned into a strategic maintenance phase following the comprehensive rebalancing executed mid-month. Having already fully exited speculative high-beta names and anchored the portfolio with GOOGL and defensive leaders, we saw no need for further intervention. The earlier tactical shift proved timely; the removal of unprofitable growth assets shielded the portfolio from month-end volatility driven by the intensifying "rate freeze" narrative. Meanwhile, GOOG began to validate our conviction in its deep valuation appeal – distinct from broader tech weakness – while the defensive tranche provided necessary stability. Consequently, we maintained a static position, allowing the newly calibrated "Barbell Structure" to navigate the macro ambiguity without incurring additional transaction costs.

#### Event Connection & Rebalancing Implications:

##### Observation 1. The Resurgence of Alphabet (GOOG)

- Event: Diminished DOJ antitrust risks and clearer monetization pathways for Gemini improved sentiment.
- Market Impact: Capital rotated from high-flying hardware names to the relatively undervalued Alphabet, driving a divergence within the Magnificent 7.
- Portfolio Implication: We maintained our overweight conviction in GOOG. Google's outperformance validates our decision to rotate capital from hardware (SMH) to software. By holding this position, we successfully captured the alpha from this sector rotation without needing further adjustments.

##### Observation 2. "Rate Freeze" Anxiety

- Event: Resilient economic data and sticky inflation raised the probability of a Fed rate pause in December.
- Market Impact: Rising yields pressured high-duration assets, driving volatility higher for unprofitable growth stocks.
- Portfolio Implication: The preemptive complete exit of APP, RDDT, and RBLX successfully eliminated duration risk, shielding the portfolio from macro-driven downside volatility.

##### Observation 3. Acceleration of Value Rotation

- Event: As concerns over extended tech valuations mounted, market flows accelerated toward defensive sectors. Investors sought shelter in assets with stable cash flows to hedge against macro uncertainty.
- Market Impact: Defensive sectors (Consumer Staples, Utilities, Healthcare) outperformed the Nasdaq. The market preference shifted significantly from growth to quality & low volatility.
- Portfolio Implication: We added WM, PM, and JNJ to establish a Barbell Structure. This lowered the overall portfolio's beta and provided a necessary hedge against tech-sector corrections.

## Major Rebalancing and Portfolio Changes

Late Nov.

### Current Portfolio Status

Asset Class	Portfolio Weight	Benchmark (Nasdaq)
Equities	56.27%	100%
Fixed Income	13.69%	0%
Dollar (Cash)	30.04%	0%

### Charts:

Exhibit 45. Post-Rebalancing Portfolio Weights

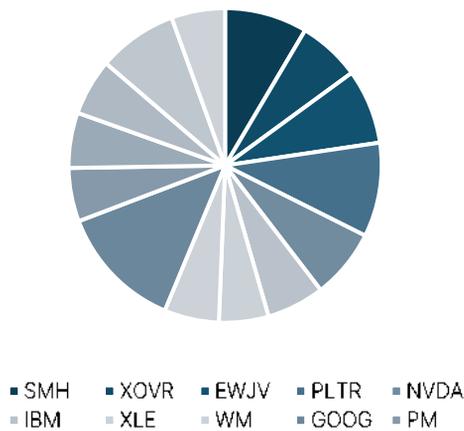
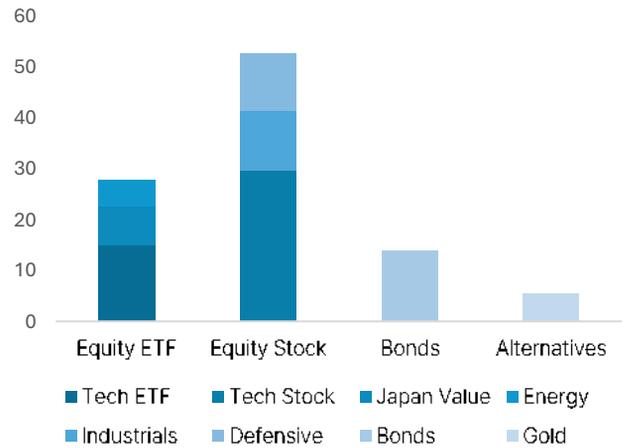


Exhibit 46. Portfolio Allocation by Group & Sector



### Final Recommendation

#### Current Context

By last November, the "rate freeze" narrative gained traction as economic resilience challenged the certainty of a December Fed cut. While speculative tech faced valuation fatigue, capital flows began rotating toward idiosyncratic value plays and defensive assets to hedge against rising yields.

#### Recommendation

We recommend maintaining a strict Barbell Strategy. This involves avoiding high-beta, unprofitable growth exposures while concentrating technology allocation into GOOG to exploit its specific valuation gap. Simultaneously, exposure to PM, JNJ, and WM should be retained to anchor portfolio stability.

#### Rationale / Expected Outcome

This structure minimizes duration risk in a higher-for-longer rate environment while capturing alpha from Google's mean-reversion potential. The defensive tranche provides a necessary volatility buffer, ensuring the portfolio remains resilient against macro headwinds without sacrificing selective upside.

# 01

## Credit and Liquidity

### 4.1. Possible Scenarios & Risks – Credit and Liquidity

As of late 2025, markets broadly expect the Federal Reserve to deliver another rate cut in December amid cooling labor markets and softer consumption. Recent Beige Book signals and FOMC commentary support the view that policy is shifting toward a gradual easing cycle. Yet this assumption of a smooth transition constitutes a key vulnerability: any deviation from the expected easing path could lead to renewed tightening in liquidity and a potential re-acceleration of credit stress.

A primary risk is a renewed inflation impulse driven by trade policy. Although the Trump administration temporarily eased tensions with limited tariff reductions, the new tariff measures introduced earlier in 2025 have already generated over \$100 billion in additional revenue. Any further deterioration in US–China or US–EU relations – or a reversal of recent tariff relief – could re-ignite goods inflation and put upward pressure on core CPI. This would likely force the Fed to slow or pause its cutting cycle and possibly consider re-tightening despite softening labor data, undermining current expectations for a prolonged easing phase.

A second risk arises from fiscal dynamics and upward pressure on long-term yields. With the federal deficit near 6% of GDP and issuance structurally elevated, the term premium has drifted higher. Additional fiscal expansion through new spending or tax cuts would push Treasury supply even further. In such a case, long-term yields could remain elevated – or rise – regardless of Fed cuts, creating an unusual steepening of the curve, tightening financial conditions, and widening credit spreads.

## Risk Scenario

### 01 Credit and Liability

The third risk stems from liquidity volatility linked to the record-high \$7-8 trillion in money market fund (MMF) assets. With the RRP facility largely depleted, a key liquidity buffer is gone. Shifts in rate expectations or Treasury market volatility could trigger rapid reallocations between MMFs, bills, repo markets, and deposits. Absolute liquidity is ample, but the volatility of flows could amplify market swings if expectations become less anchored.

Collectively, these factors outline an alternative scenario in which the anticipated 'soft landing with gradual easing' instead becomes a 'policy-mix failure leading to re-tightening and renewed credit stress.' A pause – or even a perceived hawkish turn – could push both short- and long-term rates higher, pressure bank margins, tighten lending standards, and widen credit spreads. As financing costs rise and investment slows, consumption – already moderating – would weaken further, shifting the liquidity cycle toward one characterized by policy uncertainty, rate volatility, and credit tightening heading into 2026.

#### Investment Plans

US Short-term treasuries	Less sensitive to long-term rate volatility; strong hedge if the Fed slows easing
Gold	Performs well when tariffs or fiscal risks lift inflation expectations
Defensive Equities	More resilient when credit spreads widen and long yields rise
Energy/Commodities	Supported when supply shocks, tariffs, or fiscal expansion push input prices up
Put Options on Overvalued Growth / Mega-cap Tech	Sensitive to rate-path and policy shocks; puts offer efficient downside protection when IV is low.

# 02 Inflation and Employment

## Past Cycle

Bond Massacre	1994
Taper Tantrum	2013

## 4.2. Possible Scenarios & Risks – Inflation and Employment

Contrary to the consensus view of a cooling labor market, recent data indicate a resurgence in economic activity, challenging the Fed's easing narrative. The sharp rebound in ADP private payrolls and the resilience of the service sector suggest that the economy is re-accelerating rather than contracting ("No Landing"). This economic strength, compounded by the fiscal expansion from the OBBBA, risks reigniting inflationary pressures, particularly in the sticky service sector. Consequently, the Federal Reserve may be forced to halt its rate-cutting cycle or even pivot back to a hawkish stance to contain renewed inflation risks. This "Reflationary" environment would trigger a violent repricing in the bond market. As inflation expectations unanchor and the "term premium" widens amid concerns about the fiscal deficit, long-term Treasury yields could surge above 4.5%, causing severe capital losses in duration-heavy portfolios. The correlation between stocks and bonds may turn positive again, removing the diversification benefit of Treasuries. In this scenario, the curve flattens, and assets sensitive to duration (e.g., Tech, Real Estate) face valuation compression. At the same time, capital rotates into sectors that benefit from nominal growth and higher rates.

## Investment Plans

T-Bills & FRNs	'Cash is King.' In a rising-rate environment, minimizing duration risk is paramount. T-Bills and Floating Rate Notes (FRNs) offer protection against capital loss while capturing high short-term yields (Carry) that track the Fed's higher-for-longer policy rate.
Financials	Beneficiary of 'No Landing.' The financial sector serves as a key hedge against rising yields. Higher long-term rates improve Net Interest Margins (NIM), while the resilient economy supports loan growth and credit quality, allowing the sector to outperform in a deflationary bear market.

# 03

## Productivity and GDP Growth

### 4.3. Possible Scenarios & Risks – GDP & Productivity

GDP (%)	3Q24	4Q24	1Q25	2Q25
Q/Q	3.3	1.9	-0.6	3.8
Y/Y	2.8	2.4	2	2.1

The U.S. economy has now entered a phase where investment is driving growth. Analysis of second-quarter nominal GDP shows that investment excluding housing accounts for 13% of the total, exerting a massive influence by contributing a full 1 percentage point to the overall 3.5% growth rate for the quarter. This data indicates that investment is becoming more active and is emerging as the core driver of actual GDP growth.

The primary drivers of this growth are the 'Major AI Hyperscalers'. The five major Big Tech companies – Alphabet (Google), Amazon (AWS), Meta, Microsoft, and Oracle – are leading AI-related capital expenditures (Capex). Their capital spending is projected to surge sharply through 2026, driving the entire investment market. Ultimately, the sustainability of future tech stock investments hinges on the success of these companies' investments.

Our team currently assesses that the probability of success for Big Tech companies' AI investments outweighs the probability of failure. The primary reason is that the current AI market is in a state where supply cannot keep pace with demand. A prime example is Microsoft, which is currently renting data centers from its competitor Oracle to provide services to OpenAI due to its own insufficient data center infrastructure.

This means that as companies expand their supply capacity through investment, they can secure greater market share and generate profits. Therefore, aggressive investment by these companies will directly translate into increased supply capacity and improved performance. Consequently, a strategy of continuously holding these big tech companies in the portfolio and increasing their weighting is highly effective.

## Risk Scenario

### 03 Productivity and GDP Growth

However, we must also prepare for the scenario where investments are deemed unsuccessful. Market skepticism may grow regarding whether Big Tech investments, which constitute a major driver of GDP growth, are truly delivering efficient returns. If these investments prove inefficient and GDP shifts into a downward trend, this could signal an economic downturn. Furthermore, even if the investments prove successful, the risk of a price correction always exists due to excessive expectations already priced into stock valuations.

#### Investment Plans

iShares 0-3 Month Treasury Bond ETF	Has minimal price volatility and ensures capital preservation and liquidity.
Schwab US Dividend Equity ETF	Effectively diversifies portfolio risk through low correlation with AI technology stocks, while securing downside resilience and consistent cash flow through proven dividend growth companies.
Long-Term US Treasuries ETF	Acts as a structural safety net for the portfolio, providing stability against market downturns.

#### Components of real GDP

Component	Percentage
Housing	3.90%
Investment ex-housing	13.70%
State & local gov't spending	10.80%
Federal gov't spending	6.40%
Consumption	68.20%
Net exports	-3.00%
Total	100.00%

Source: JP Morgan

## Risk Scenario

03

Productivity and  
GDP Growth

## Components of real GDP Growth

Category	00-'24 avg.	2Q25
Consumption	1.70%	1.70%
Bus. fixed investment	0.50%	1.00%
Gov't spending	0.30%	0.00%
Residential	0.00%	-0.20%
Final sales to domestic purch.	2.40%	2.40%
Net exports	-0.10%	4.80%
Chg. in private inventories	0.00%	-3.40%
Real GDP	2.30%	3.80%

Source: JP Morgan

# GAA Team

---

A nighttime photograph of a city skyline, featuring several prominent skyscrapers with illuminated windows and spires against a dark blue sky. The buildings are densely packed, and the lights create a vibrant contrast with the twilight background.

# ***GLIF***

GLOBAL LEADER IN FINANCE