

The Way We See It

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Will the bullish thinking and positioning of investors drive U.S. stocks to dizzy new heights, regardless of macro and geopolitical issues?

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

Review of Developments

- Global Economies

The latest projections from the Federal Reserve Bank of Atlanta suggest the U.S. economy is expanding at a robust annualised pace of 3.8% in Q3, a notable acceleration from the 1.3% growth observed in H1. This upswing is driven by resilient consumer spending, a recovery in net exports, and a pronounced increase in capital expenditure, particularly within the technology and AI-related sectors. However, this strength is juxtaposed against softer labour market indicators, with non-farm payrolls remaining subdued through August. The release of updated employment data has been delayed due to the ongoing federal government shutdown, stemming from the unresolved debt ceiling negotiations.

A recent Bloomberg survey of economists indicates no consensus expectation for a U.S. recession within

the next 6–12 months. Nevertheless, respondents assign a 60% probability to continued moderate growth and a 40% likelihood of a mild recession. GOJI's base case remains constructive, favouring a soft-landing scenario underpinned by proactive monetary and fiscal policy measures, alongside substantial infrastructure investment and sustained momentum in artificial intelligence deployment.

Beyond the U.S., economic activity across major developed markets remains lacklustre. While Q3 data is still forthcoming, preliminary indicators from Europe and Japan point to ongoing weakness, particularly in export-oriented sectors. Trade policy uncertainty, notably surrounding the Trump administration's tariff framework, continues to dampen corporate sentiment and expansion plans.

China, previously anticipated to counterbalance global softness, is now exhibiting signs of deceleration. High-frequency indicators suggest a moderation in domestic consumption and fixed asset investment. Private sector forecasts estimate a decline in year-on-year GDP growth from 5.2% in June to approximately 4.5% in Q3, reflecting a more cautious domestic outlook and contributing to the broader narrative of global economic fragility.

Inflationary pressures have broadly receded across OECD economies, with most central banks nearing the conclusion of their rate-cutting cycles. In the U.S., core inflation—as measured by the PCE deflator—has eased to circa 3%, remaining above the Federal Reserve's 2% target. The Fed's decision to cut rates in September, citing labour market softness, raises concerns about the potential underestimation of inflationary risks over a 12-month horizon. GOJI maintains a cautious stance, recognising the delicate balance between supporting growth and containing price pressures.

Market expectations, as reflected in Fed funds futures, currently imply a 94% and 84% probability of a 25bps rate cut at the October and December FOMC meetings, respectively.

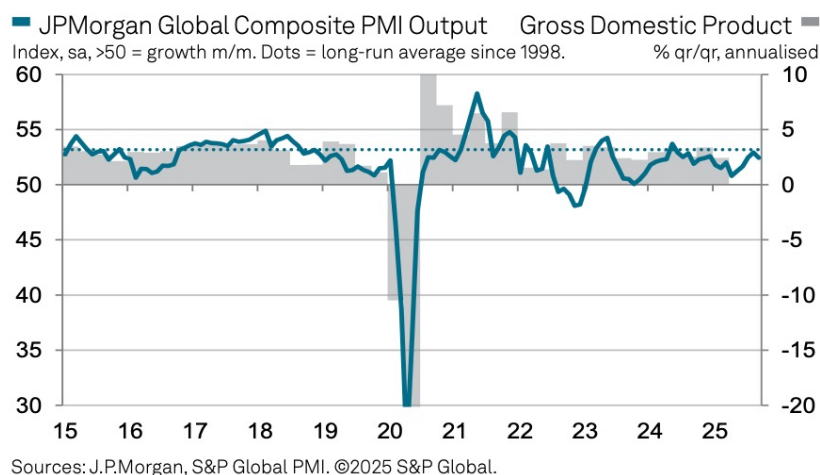
Geopolitical tensions have moderated but remain

elevated. Conflicts in Ukraine and Gaza continue to pose risks to regional stability and global supply chains. These developments reinforce the imperative of incorporating geopolitical risk into strategic asset allocation frameworks.

In conclusion, global growth remains uneven and below long-term potential. GOJI advocates a disciplined investment strategy centred on diversification, tactical agility, and responsiveness to macroeconomic inflection points. While uncertainties persist, selective opportunities exist for investors equipped to navigate a complex and evolving landscape.

GOJI: diversification & tactical agility are keys to navigate this complex environment.

J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global Market Intelligence

- Global Markets – review of September

Global financial markets in September exhibited a delicate equilibrium between constructive momentum and underlying caution. The V-shaped recovery in U.S. equities, which accelerated through Q2 and into Q3, was underpinned by sustained investor appetite for mega-cap technology stocks—particularly those linked to artificial intelligence, semiconductors, and the so-called “Magnificent Seven”. This rally has been driven by growing conviction in AI’s transformative potential across sectors, coupled with expectations of two further 25bps rate cuts by the Federal Reserve before year-end.

Equity markets outside the United States also delivered positive returns, supported by a weaker U.S. dollar and resilient investor sentiment. Despite the imposition of new U.S. tariffs on select imports, global markets have largely absorbed the impact, with limited disruption to capital flows and risk appetite.

The prevailing narrative of AI-led growth and monetary easing continues to support upward revisions to global economic and corporate earnings forecasts. There is increasing consensus that monetary policy across the U.S. and other OECD economies will remain broadly accommodative. Simultaneously, fiscal support—both domestically and internationally—is expected to persist. In response to U.S. trade measures, Europe and China have enacted expansionary monetary and fiscal policies aimed at cushioning the economic impact, which may contribute to stabilising broader macroeconomic conditions.

Nonetheless, questions regarding the sustainability of the equity rally are beginning to emerge. Particular scrutiny has been directed at the “vendor financing” dynamics and circular capital flows underpinning recent mega-deals involving NVIDIA, OpenAI, and other AI infrastructure players. Moreover, a significant portion of the Nasdaq and S&P 500’s rebound from the April trough to recent record highs appears to be driven by retail momentum, short-covering activity, and FOMO-led buying from hedge funds and algorithmic trend-following strategies. The relatively muted participation from institutional investors raises concerns about elevated valuations in the AI segment and the durability of the rally, especially against a backdrop of persistent stagflationary risks in the U.S. and subdued global growth.

From a performance standpoint, global equities (in USD terms) advanced by 3.3% in September. U.S. equities rose by 3.7%, while developed markets ex-U.S. posted more modest gains of 2.2%. Emerging markets outperformed, delivering a robust 7.2% return, led by China’s 9.8% surge.

Fixed income markets also registered positive returns. U.S. Treasuries appreciated by 0.9%, while global

Sustainability of market rally is in question.

bonds rose by 0.4%, reflecting stable demand amid easing inflationary pressures.

Commodities presented a mixed picture. Crude oil came under pressure due to increased Saudi production amid tepid demand conditions. Conversely, gold continued its upward trajectory, reaching new all-time highs on an almost daily basis, supported by safe-haven flows and expectations of further monetary easing.

Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	3.67%	3.25%	2.17%
3 months	8.12%	7.36%	5.41%
YTD	14.97%	17.83%	25.93%
FY 2024	25.08%	19.19%	5.26%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	1.50%	0.85%	1.09%
3 months	2.60%	1.51%	2.03%
YTD	6.88%	5.36%	6.13%
FY 2024	2.13%	0.58%	1.25%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	GEM Equities MSCI EM
1 month	0.42%	0.65%	7.18%
3 months	-0.23%	0.60%	10.95%
YTD	7.29%	7.91%	28.22%
FY 2024	-3.58%	-1.69%	8.05%

Asset Class Index	Asia ex Japan Equities MSCI AC AxJ	China A MSCI China A Onshore	China Offshore MSCI China
1 month	6.84%	4.37%	9.77%
3 months	11.07%	22.89%	20.76%
YTD	27.50%	27.32%	41.85%
FY 2024	12.51%	11.91%	19.67%

Asset Class Index	Global Commodities CBR	Gold Spot Price	USD Norm. Broad USD Index
1 month	-0.58%	11.94%	-0.03%
3 months	1.12%	17.49%	0.61%
YTD	1.31%	48.03%	-6.89%
FY 2024	12.47%	26.49%	9.03%

Source: GOJI, MSCI, Bloomberg; data as of 30/9/2025

In summary, while market sentiment remains broadly constructive, investors should remain vigilant to valuation risks and macroeconomic inflection points. GOJI continues to advocate a disciplined, diversified approach to portfolio construction, with a focus on tactical agility and risk-aware positioning.

Market Outlook of Q4 2025

GOJI's outlook for the fourth quarter of 2025 remains modestly constructive, albeit more measured than the prevailing market consensus, which increasingly points to a potential "melt-up" phase. While thematic tailwinds—namely artificial intelligence, technology leadership, anticipated Federal Reserve easing, and seasonally strong Q4 dynamics—support a positive bias, the broader investment landscape continues to be shaped by macroeconomic fragility, policy uncertainty, and elevated valuation pressures.

Our investment framework remains anchored in a multi-dimensional assessment of macroeconomic indicators, corporate earnings trajectories, asset valuations, investor sentiment, capital flows, and technical chart dynamics. This integrated approach informs our strategic asset allocation and risk-adjusted positioning across global markets.

Outside the United States, the macroeconomic environment is expected to remain broadly supportive, contingent on the absence of further escalation in U.S. trade policy—particularly in the form of additional tariffs. Both Europe and China have implemented expansionary fiscal and monetary measures aimed at stabilising growth and offsetting the adverse impact of U.S. trade actions. These interventions may help sustain economic momentum, although structural challenges persist, particularly in export-reliant sectors.

Within the U.S., investor concerns are intensifying around the prospect of stagflation, characterised by decelerating growth and persistent inflation. This outlook is underpinned by several factors: the lingering effects of tariff disputes, labour market disruptions linked to the DOGE initiative, stricter immigration enforcement, and emerging signs of weakness in private sector employment. While sentiment has improved following the finalisation of President Trump's tariff framework and the passage of the "One Big Beautiful Bill"—a modestly growth-supportive fiscal package—inflationary pressures appear increasingly entrenched.

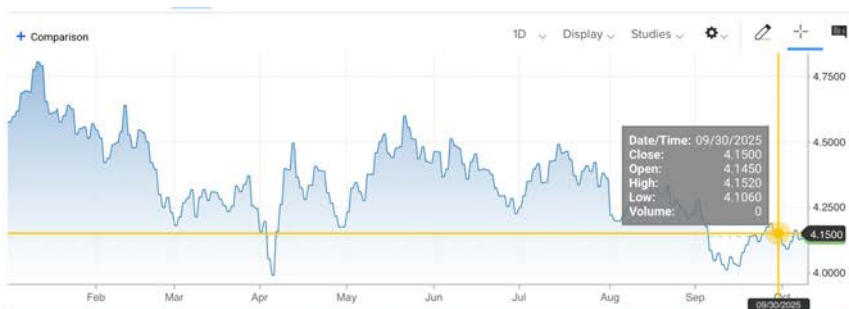
GOJI: remain modestly constructive for the rest of the year.

A key consideration for markets is whether the Federal Reserve risks a policy misstep by proceeding with rate cuts in both October and December, despite rising inflation. The central bank's decisions will be closely scrutinised, with significant implications for both fixed income and equity markets.

Global GDP growth is projected to remain below its long-term trend, weighed down by persistent trade tensions and uneven recovery trajectories across major economies. Europe's monetary easing cycle appears to be nearing its conclusion, while China maintains an accommodative stance. In the U.S., further monetary easing remains plausible should economic data deteriorate, potentially supporting liquidity conditions and investor confidence.

Corporate earnings, led by AI, technology, and financials, are expected to remain resilient. However, valuation pressures may intensify if long-duration yields rise amid heightened inflation. U.S. equities continue to trade at elevated levels, with the S&P 500's forward P/E ratio hovering between 22x and 23x—well above historical averages. Sustaining these valuations will require continued strength from high-growth technology leaders and a stable 10-year Treasury yield below 4.50%.

U.S. 10 Year Treasury



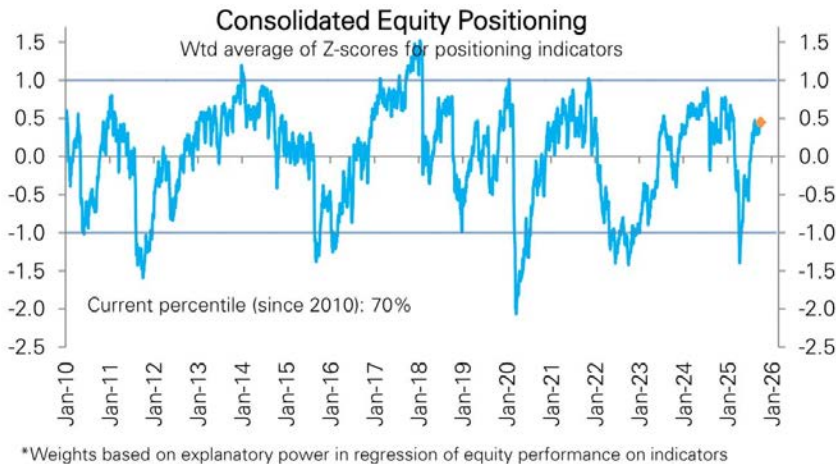
Source: CNBC.com

The U.S. bond market remains unsettled, influenced by both technical and structural factors. GOJI advocates a selective approach to U.S. fixed income, favouring entry points when the 10-year Treasury yield exceeds 4.50% per annum. Conversely, non-U.S. bond markets have experienced significant yield compression, limiting upside potential unless recessionary risks intensify. Duration exposure should

Selective approach to U.S. fixed income.

be managed judiciously in light of the current valuation landscape and evolving rate dynamics.

Consolidated Equity Positioning

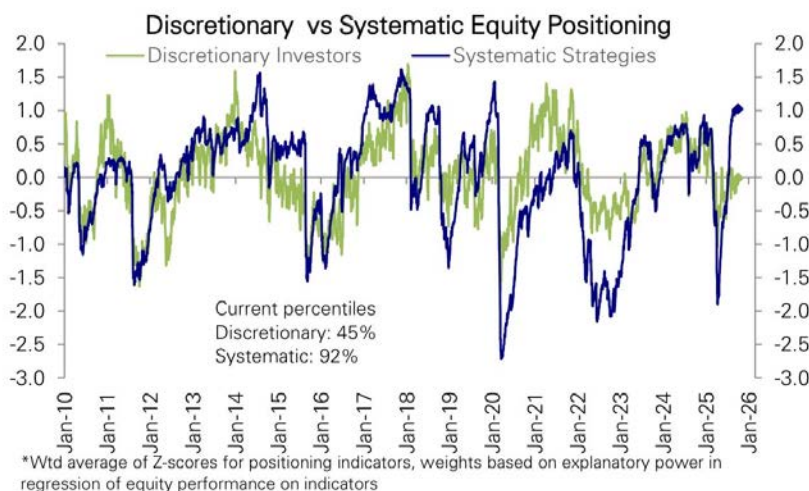


Source: Deutsche Bank Asset Allocation

Recent positioning data as of early October reveals a divergence in investor behaviour. Systematic strategies have continued to show a fully-invested position in equities, with positioning nearing maximum overweight levels (although they have recently slightly reduced their exposure). From a fully invested position, should there be any unexpected bad news, these strategies—driven by price momentum and volatility signals—could be a significant seller of stocks.

Systematic vs Discretionary - equity positioning remains diverged.

Discretionary vs Systematic Equity Positioning



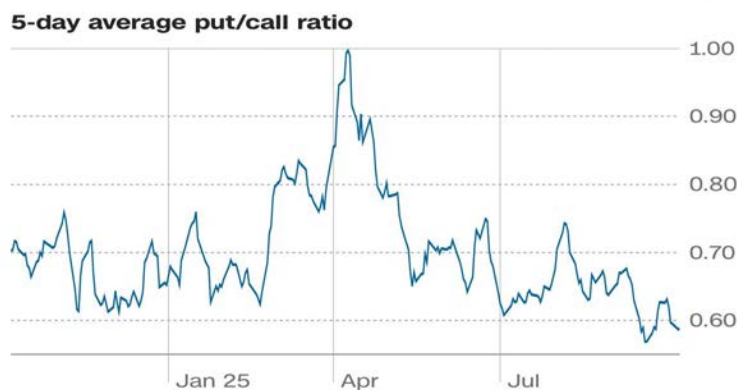
Source: Deutsche Bank Asset Allocation

Discretionary managers have been adopting a relatively more cautious stance amid elevated equity valuations, the U.S. Federal Reserve's possible policy mistake, and uncertainty over tariff impacts on margins. Consequently, these investors' positioning has been hovering around the neutral zone.

Retail investor's sentiment remained very bullish throughout September, buoyed by large mega-deals between NVIDIA, OpenAI and other leading AI-related infrastructure companies, as well as the prevailing belief that the Fed Board will likely continue to cut rates twice from now until Christmas. The stock call options market has been clearly very actively sought after by retail punters and fast money funds.

The chase for upside calls and the lack of interest of buying insurance puts (thus the very low put/call ratio) means that the market is susceptible to a large fall should unexpected news occur.

Put and Call Options – Extreme Greed



Last updated Oct 6 at 54:43:28 PM EDT

Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business

Last update October 1 at 8:00:00 PM ET

The CNN Fear & Greed Index (on overpage) currently resides in the “Greedy” zone.

Short-term Technical Analysis

U.S. equity indices—including the Dow Jones, Nasdaq, and S&P 500—continue to exhibit strong long-term momentum, trading well above their 50- and 200-day moving averages. This bullish trend, initiated by Golden Cross formations in late 2023, has propelled the S&P 500 and Nasdaq to multiple record highs, supported by robust corporate buybacks and steady inflows from retail and systematic strategies.

S&P 500 Stock Price Index



Source: MarketWatch.com

While technical conditions remain favourable and corporate earnings broadly resilient, the path forward is likely to be upwards. Navigating this environment of high price momentum and exuberant retail investor's sentiment, in contrast with fundamental fears of an AI Bubble, will require agility, discipline and a willingness to adapt to shifting market dynamics.

The Way We See It

- Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

Long-Term Risk-Neutral Strategy Rationale

Despite ongoing uncertainty surrounding U.S. trade policy under Trump's second term, we believe that

both fundamental and quantitative investors have largely priced in tariff-related risks. Markets appear to be operating under a best-case scenario assumption, favouring pro-growth, pro-equity, and pro-digital asset policies. In this context, our long-term stance remains risk-neutral. We recommend a modest underweight in high-beta growth assets, given elevated valuations and volatility. Instead, we favour an overweight allocation to cash and high-quality, stable assets to preserve capital and maintain flexibility amid policy unpredictability.

Tactical positioning turns opportunistically bullish but nimble in Q4

GOJI's tactical asset allocation (TAA) view for Q4 turned opportunistically bullish because the Fed has thrown caution into the wind and preferred to cut rates as they focus on a slowing employment landscape, at the expense of rising inflation. In addition, corporate sales and earnings of leading growth sector in the U.S. (AI, technology, financials) is expected to remain strong. Moreover, Discretionary investors may be forced into the market as they appear to be Neutral at present. Retail investors, having made lots of money since picking the bottom in April, are likely to be encouraged to continue to pour money in stocks. The latter may even leverage themselves even more.

Having said that, financial markets have priced in substantial optimism, leaving little room for error; any disappointment could trigger repricing across equities and bonds. Valuations in corporate credit, equities, and crypto are elevated, and investor positioning is already skewed towards expensive asset classes, particularly via algorithmic strategies. Technical indicators suggest overbought conditions, and sentiment remains bullish, supported by Q4's traditionally favourable seasonality. However, GOJI's stance is more nuanced than consensus. We believe that while upside remains possible, downside risks—such as a surprise recession or credit event—are underappreciated. As such, we advocate to be very nimble and to continue to implement active risk management, and readiness to pivot should market conditions deteriorate.

GOJI: opportunistically bullish in Q4.

Postscript

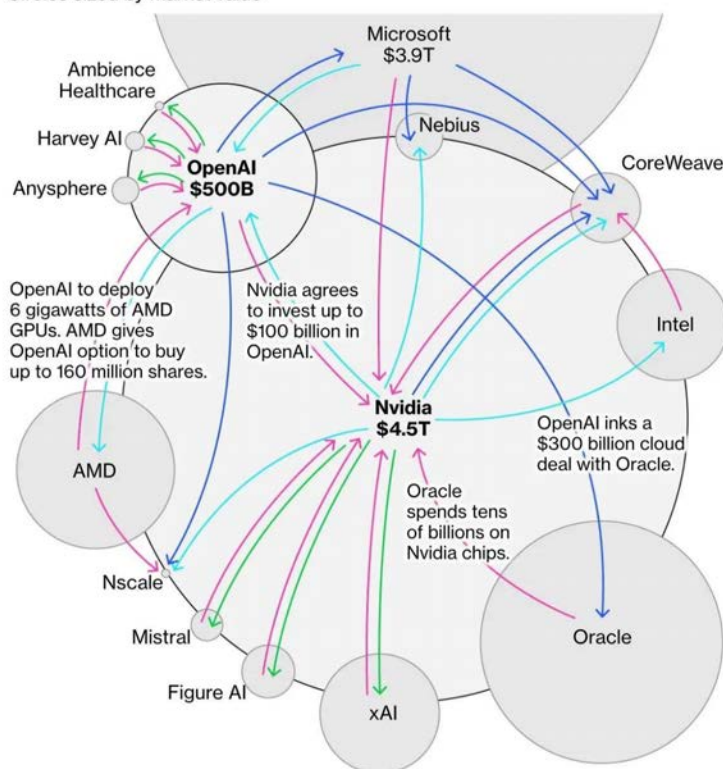
- Is "Vendor Financing" in the hot AI sector a legitimate form of doing business, or does it suggest signs of bubble?

The latest mega-deals between NVIDIA, OpenAI, AMD, Oracle and many other Cloud Infrastructure companies have surprised and baffled many technology analysts. And, interestingly, according to the most recent interview of Sam Altman (CEO of OpenAI), this whole new way of doing business is only just starting.

The chart below from Bloomberg captures the recent corporate developments within the AI sector well.

How Nvidia and OpenAI Fuel the AI Money Machine

Hardware or Software Investment Services Venture Capital
Circles sized by market value



Source: Bloomberg News reporting

One inescapable observation is that NVIDIA and Open AI are the key players in this new episode of the increased buildout of the AI Infrastructure architecture, particularly data centres and associated industries.

The financial size of corporate deals between NVIDIA and Open AI and AMD is very large, facilitated by the interconnected trading relationships between them, which renders the whole new episode of the AI infrastructure buildout all the more incestuous and prone to accident.

Essentially little upfront cash is being exchanged when the corporate deals are announced.

Net providers of capital are hoping that the share price of their clients or technological partners, in which they invest in, will continue to rise strongly forever, so that when they need to sell, they can do so at a profit, or at least, recoup their initial investments.

Indicative details of some of the new deals recently announced include:

- NVIDIA is investing \$100bn in OpenAI but no upfront whole-sum cash is exchanged. Payments will be made by NVIDIA on a gradual basis to OpenAI. The latter will use this money to buy NVIDIA chips and others, and to fund its own data centres, amongst many other expenses and future projects. OpenAI, valued at around \$500bn, has not made a profit and is bleeding cash on a massive scale a daily basis.
- OpenAI invests up to 10% in AMD (AI chips designer, like NVIDIA) . Again, no cash is exchanged. Payments by OpenAI to AMD to buy its cloud infrastructure chips will be based on certain strict performance product delivery criteria.

This type of vendor financing or circular chips-shares swap appears all very well when their share prices and valuations are not questioned by momentum-driven punters and investors. This BUY-NOW-PAY-LATER financing approach appears fine in good times.

However, should a major player in the AI hub get into serious financial or cash flow trouble, the chain/link effect could be dramatic.

We had seen many episodes similar to this in the past.

Based on a summary of events reported in a number of AI platforms, we highlight the following episodes which most closely reflect what is going on the current hot AI and Technology sectors:

- In the 1999-2001 TMT bubble and burst, North American telecom equipment makers (Lucent, Nortel, Cisco, etc.) extended vendor financing to their customers — giving them credit or even equity swaps to buy routers, switches, and optical gear.
- During the 2000-2001 period, it was reported that Cisco used its overvalued stock as currency to buy smaller companies (over 70 acquisitions from 1998–2001). Many of those startups used Cisco's products or services — a loop of share issuance $\leftrightarrow$ product integration $\leftrightarrow$ valuation expansion.
- When this party ended in 2000-2001, many of these companies either went bankrupt or saw their stock prices fall by 80% or so.

In brief, there are plenty of historical episodes which show that when the complacent and exuberant good times end, they tend to end very badly.



“Vendor Financing” is a two-edged sword: great in euphoric times, but a disaster in difficult times.

In conclusion, there are definite signs of exuberance and potentially risky interconnected transactions, based of expensive valuations of AI-related stocks. While the AI revolution is real and is developing, one needs to invest in it prudently and wisely.

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