

SCA REPORT

3Q 2026

Markets

<i>Asian Markets (local currency)</i>	<i>3Q 2026 % Chg</i>	<i>YTD 2026 % Chg</i>	<i>Other Markets</i>	<i>3Q 2026 % Chg</i>	<i>YTD 2026 % Chg</i>
Taiwan	3.9%	65.5%	Brazil	8.3%	15.6%
Korea	-19.3%	62.3%	Nasdaq	2.5%	15.6%
Thailand	-2.0%	23.8%	MSCI World Index	1.3%	11.8%
Singapore	9.8%	22.2%	S&P 500	2.0%	11.8%
MSCI Asia ex Jap	-0.8%	21.8%	Russell 3000	1.1%	11.5%
MSCI Asia Pacific	0.9%	21.4%	EuroStoxx 50	-0.9%	8.2%
Japan Topix	2.9%	20.5%	MSCI Europe	-1.3%	7.4%
Australia	0.1%	0.9%	FTSE	1.0%	6.8%
Vietnam	-4.9%	-0.9%	Dow Jones	-2.7%	5.9%
Malaysia	-0.8%	-1.7%	DAX	0.8%	2.9%
Hong Kong	7.6%	-4.0%	Gold	3.7%	-3.7%
CSI 300 (A-shrs)	-12.5%	-5.9%	Bitcoin	42.6%	-4.6%
Philippines	-5.9%	-6.2%			
MSCI China	3.0%	-12.7%			
India (Nifty)	-5.2%	-13.4%			
Indonesia	7.6%	-29.8%			

Commentary

High oil prices, central bank rate hikes, and 10-year Treasuries above 5% dominated headlines. Yet, the global GDP is still on pace to grow 3% by year end, largely driven by sectors like tech, AI, energy, and varying by region: U.S. GDP +2.5%, Eurozone +1.1%, China +4.5%.

Within Asia, markets with high exposure to the AI super cycle dramatically outperformed. Taiwan (GDP +11%) and Korea (GDP +3%) continue to leverage their near-monopolistic positioning in high-end semiconductor fabrication and memory production. Trade-focused economies like Vietnam (GDP +8%) and Malaysia (GDP +5%) are booming due to sustained "China+1" supply chain diversification. Conversely, domestic consumption-heavy markets like Thailand and the Philippines are lagging, burdened by sticky inflation and elevated energy costs.

China's manufacturing and exports remain strong, with PMI in Sep coming in at 50.1. China has 62% of the world's EV market, 72% of the global clean tech market (solar, wind, batteries), and 58% of electronics hardware (computers, smartphones, PCBs, displays, semiconductors). The rise of AI has injected excitement back into the private and public markets, with solid capital inflows. HKEX is #2 in IPOs so far this year behind Nasdaq (HKEX would be #1 if exclude SpaceX).

Chinese domestic consumption remains weak due to prolonged real estate overhang. Retail sales of goods remain sluggish, growing at just 1.1% over the first eight months of the year. Beijing announced aggressive measures consolidating hundreds of rural banks to consolidate bad loans. The Trump-Xi meeting in Sep was similar to May, mostly show with little substance. Only announcement of note was \$60B of reciprocal reductions in tariffs.

Japan's economy continues to expand in 3Q, supported by exports, household spend, and wage gains. The constraint is high energy costs -- Japan imports almost all of its energy from abroad. BOJ raised rates by 25 bps to 1.25% in Sep, to the highest level since 1995. The Yen fell to a low of 163 to USD in late July before recovering to the 156-158 range.

The coordinated financial maneuver between U.S. Treasury Secretary Bessent and the Bank of Japan (BOJ) was astute. The partnership stabilized a weakening yen while insulating the Treasury market from major

disruptions. When Yen collapsed toward historic 40-year lows, Japanese authorities faced immense pressure to defend their currency. Normally, to buy Yen and prop up its value, BOJ must sell its foreign reserves -- primarily Treasuries. In the joint multi-billion-dollar intervention executed by the U.S. and Japan, they explicitly did not sell USD to buy Yen. Instead, Bessent deployed the U.S. Exchange Stabilization Fund (ESF) to sell euros from U.S. reserves and use those proceeds to help Japan purchase Yen. The solution seems to be working for now. A good article to read on Bessent's recent efforts to manipulate currency and debt markets is an WSJ op-ed "Let the Bond Market Speak" by his former hedge fund boss Stan Drunkenmiller. <https://www.wsj.com/opinion/let-the-bond-market-speak-81529d74>

Korean markets dropped 19% in 3Q after gaining +100% in first half of the year. The Kospi is still up 65% year-to-date, along with Taiwan seeing similar gains. Samsung Electronics has become the most profitable company in the world in terms of dollar amount profit, forecasting over \$200B in 2026. Number two player SK Hynix is not far behind at \$160B.

Portfolio

Nine months into the year, our global equity portfolio is up approximately +13%, Asia portfolios +36%, and China portfolio +10%. The alpha continues to come from AI related stocks, and we have also dipped in and out of defense, financial, and life science names. We remain negative on retail and domestic consumption.

On the private side, like many endowments or family offices, we have direct or indirect positions in the big AI names in U.S. and China. Some US university endowments announced extremely high gains for academic year 2026 (June to June) on these unrealized positions – North Carolina 37%, Stanford 31%, Penn 27%, Boston College 20%. While it is difficult for anyone to talk intelligently about trillion-dollar market caps, the concern is any wobble in these valuations could reprice the entire AI supply chain.

Most of our readers are familiar with China vs US, open vs close models, applications vs general intelligence. We don't subscribe to Trump's notion of winning or losing, there will be multiple winners on either side of the pond. In terms of valuations, China's Deepseek fundraised at \$75B and Moonshot at \$50B. China's largest private co, Bytedance, was seen trading at \$400B valuation about six months ago, and currently looking at bid/asks of \$550B (we even heard rumor of a trade above \$600B recently). With approximate 2025 revenues at \$200B and net profit \$42B, it is larger than Alibaba or Tencent, with attractive multiples compared to a Meta or Alphabet, even after factoring in a China discount.

Miscellaneous

Sep saw the passing of C.H. Tung (1927-2026), the first Chief Executive of Hong Kong (1997-2005). A former shipping CEO turned politician, he led Hong Kong's transition from British colony to "special administrative region". With extensive global network of friends in politics and business, Mr. Tung was a natural diplomat balancing east/west expectations. He left his mark overseeing a peaceful handover, promoting Hong Kong to be the most important gateway to and from the Mainland. His timing was a bit unlucky, the Asia financial crisis in 1997, dotcom bust in 2001, and SARS in 2003 all handcuffed some of his initiatives. With hindsight, his plans for housing, national security, Greater Bay Area integration were all strategically correct. Some say he failed "one country two systems" which I feel unfair. Critics tend to focus on wanting "two systems" unwilling to compromise on "one country", when it was one country which generated so much of the wealth-creation. Post chief executive, he was vice chairman of the CPPCC for three terms (2005-2023), often serving as key diplomat on numerous foreign policy issues. He also started Our Hong Kong Foundation and China-US Exchange Foundation. If you speak with those who knew or worked with him, he had a wonderful human touch, often finding time from his busy schedule and to speak or meet when you least expected it. During the week of his funeral, lines formed all over Hong Kong at locations setup for people to write messages of condolence. He was genuinely a good man with good intentions, and will be missed.