

Reporting Period: September 2026 · Public Release

PRODUCED BY

DH Wealth Management Pte Ltd

Singapore CMS Licence: CMS101242

Page 1

Executive Summary | Five Minutes to the Key Points

- **1. Interest-rate repricing is the core theme of Q3.** Japan's 10-year government bond yield broke above 3% (the first time since 1996); the UK 10-year gilt rose to 5.22% (the highest since 2008); the German 10-year yield exceeded 3.39% (the first time since 2011); and the US 30-year yield briefly topped 5.3%. This is not the “acute pain” of 2022, but a “chronic condition” — government debt expansion combined with rising term premia is structurally lifting the global centre of gravity for interest rates.
- **2. Cognitive traps are a key tool for understanding market behaviour.** In August, ten behavioural biases appeared repeatedly. Confirmation bias led investors to focus only on AI positives while ignoring Nvidia CDS volatility; herd behaviour drove inflows into energy and financials; anchoring caused investors to underestimate the scale of the semiconductor correction; and short-term preference led investors to accept asymmetric tail risk in pursuit of high coupons.
- **3. The AI debt surge and yen carry-trade unwind are Q4's largest tail risks.** Technology giants have already issued nearly US\$220 billion of bonds in 2026, and Nvidia has partnered with Wall Street to mobilise US\$500 billion of third-party capital. Meanwhile, the Bank of Japan confirmed a rate hike to 1.25% on 18 September (a 31-year high), shortening the interval between hikes from six months to three. Pressure for carry-trade unwinding is accumulating.
- **4. The allocation logic for structured products in a high-volatility environment.** US equities are currently highly sensitive to news, mainstream stocks are swinging sharply, and implied volatility is elevated. Objectively, this allows investors to select structures with strike prices in the 50–65% range, with annualised coupons potentially reaching 24%. Step-Down Autocall increases knock-out opportunities by progressively lowering the trigger price; Memory KO significantly increases knock-out opportunities through “once knocked out, it is remembered”.
- **5. Q4 allocation direction reference.** Hong Kong equity valuation repair, AI application-layer rotation, gold as a hedge (US dollar credit-discount logic), structured-product allocation window (coupon appeal rises in a higher-volatility environment), and feeder funds to capture overall market returns.

Introduction

The third quarter of 2026 has been the most volatile quarter of the year to date. The forced clearing of AI infrastructure, the epic rebound in the Korean stock market, the balancing of exchange-rate policy coordination among major economies, the narrative shift in AI earnings season, the “Warsh balancing” of a unanimous 12–0 Federal Reserve rate hike, and the synchronous sell-off in global bond markets — these events together constitute a complete “stress test → market reset” cycle.

Standing at the close of Q3 and looking back, all key data and events have now settled. We are able to conduct a complete review of this process and to set out structural observations that have continuing reference value for Q4 and 2027.

This report is structured around three main lines: first, “interest-rate repricing” — the slow bear market in global bonds, the divergence in US Treasury holdings, and the US dollar credit discount; second, “cognitive traps” — the real mapping of ten behavioural biases in the August market; and third, “allocation reset” — the Q4 allocation framework and structured-product tools.

This report does not constitute any buy or sell recommendation, nor does it provide any individual stock valuation.

Chapter 1 | Market Core: Expectation → Reality → Repricing

1.1 August Asset-Class Review

Asset / Index	August Performance	Core Driver
SPY (S&P 500)	+0.2%	Calm on the surface, intense rotation beneath
QQQ (Nasdaq)	-5.1%	Continued correction in AI hardware
RSP (Equal-Weight S&P)	+0.8%	Market breadth improved but no confirmed trend
IWM (Russell 2000)	-2.7%	Small caps remain weak
XLE (Energy)	+12.8%	Higher oil prices
XLF (Financials)	+3.9%	Rate environment and rotation flows
SOXX (Semiconductors)	-15.8%	AI hardware valuation contraction
CLOU (Cloud Computing)	+7.8%	AI application layer supported

Key observation: Market breadth has begun to expand from mega-cap technology stocks outwards, but a sustained, broad-based rise in risk appetite has not yet formed. Capital rotated into energy and financials, while industrials and small caps did not strengthen in tandem; a broader cyclical rotation therefore cannot yet be confirmed.

1.2 Market Concentration and Structural Fragility

As at 30 June 2026, the top ten constituents of the S&P 500 accounted for approximately 35–40% of the index’s total market capitalisation, exceeding the peak of the 1999–2000 dot-com bubble (approximately 25–30%). Nvidia, Microsoft, Apple, Google, Amazon, Broadcom, Meta, Tesla and other AI-related companies dominate. This level of concentration is unprecedented in the past century of US equity market history.

Chart: Historical trend of top-ten constituent market-cap share of the S&P 500 (1990–2026 Q2). Source: Bloomberg, as at 30 June 2026. Mention of specific companies or securities does not constitute any recommendation. Past performance is not indicative of future results. For reference only.

Multi-dimensional interpretation:

- **Economic perspective:** Productivity dividends and structural fragility coexist. The rise of AI-related companies reflects a deeper economic reality: generative AI is reshaping corporate production functions. However, when the increment of economic growth is highly concentrated in a few companies, structural fragility accumulates. If AI capital expenditure slows at the margin, the multiplier effect on overall employment and equipment investment could exceed its market-cap proportion.
- **Financial perspective:** The self-reinforcing loop of passive flows. There is a positive feedback mechanism between concentration and passive investing — larger market capitalisation → higher index weight → more passive inflows → further share-price gains → further weight expansion. This loop amplifies gains on the way up and losses on the way down.

- **Trading opportunity perspective:** Extreme concentration and mean-reversion signals. From a trading standpoint, historical experience shows that when the top-ten market-cap share breaks above 35%, style rotation or intra-sector tier rotation typically occurs within the following 12–24 months. This phenomenon is already partially visible: the cloud computing ETF (CLOU) rose +7.8%, outperforming the semiconductor ETF (SOXX) at –15.8%.
- **Risk perspective:** Concentration fragility and tail risk. Extreme concentration implies systemic fragility where “a single sector shock = a whole-market shock”. If AI chip stocks represented by Nvidia and Broadcom correct due to slowing demand, export controls or slower earnings growth, they will directly drag on S&P 500 performance.

1.3 From Expectation to Reality: Pricing Implications of September Signals

Another key theme in August was the rekindling of the “debasement trade”. The US Dollar Index fell more than 3% from its June high of 101.8 to around 99. The St. Louis Fed’s trade-weighted emerging-market dollar index fell to 126.58 as at 21 August, a two-and-a-half-year low, down 2.89% year-to-date and far underperforming the US Dollar Index. The MSCI Emerging Markets Currency Index set a new record high at the end of July and broke through it 12 times in August.

TIC data further corroborates the “de-dollarisation” trend: the US Treasury’s International Capital Flows report published on 17 September showed that overseas holdings of US Treasuries fell by US\$50.4 billion month-on-month in July to US\$9.25 trillion, a nine-month low. China’s holdings fell to US\$618 billion, the lowest in nearly 18 years since 2008; Japan’s holdings fell for a third consecutive month to US\$1.1 trillion, another more-than-one-year low; the UK, by contrast, increased its holdings by US\$58.4 billion to US\$998.3 billion, refreshing the record high set in May.

Since September, the following signals are worth recording:

1. **Synchronous global bond sell-off** — Japan’s 10-year broke above 3% (first time in 30 years), the UK 10-year reached 5.22% (highest since 2008), the German 10-year reached 3.39% (first time since 2011), and the US 30-year briefly broke above 5.3% (highest since 2007).
2. **Overseas holdings of US Treasuries fell to a nine-month low** — overseas holdings decreased by US\$50.4 billion in July to US\$9.25 trillion. China fell to US\$618 billion (an 18-year low), Japan fell for a third month to US\$1.1 trillion, and the UK increased counter-cyclically to US\$998.3 billion. The structural divergence of “Eastern reduction, Western accumulation” is accelerating.
3. **AI debt surge** — technology giants have issued nearly US\$220 billion of bonds in 2026, far exceeding approximately US\$108 billion for the whole of 2025. Nvidia has partnered with Wall Street to mobilise US\$500 billion of third-party capital. Alphabet’s free cash flow fell to approximately negative US\$5.9 billion in Q2 2026, the first negative quarterly free cash flow since listing.
4. **AI capital-expenditure ceiling and the “talk slow, act fast” tension** — Goldman Sachs estimates that AI-related capex will peak at approximately US\$1 trillion this year. Altman, Amodei and Musk all agree on slowing the pace of AI development. Will Ebiefung of The Motley Fool analyses that slowing AI development is equivalent to improved leverage risk, helping to reduce or delay the crisis of an “AI bubble burst”. But Anthropic CEO Dario Amodei publicly calls for slowing the pace of AI model capability improvement while his company is advancing the largest IPO in history — a target valuation of approximately US\$2 trillion, annualised revenue rising from US\$65 billion to over US\$100 billion, and computing power doubling from 5 GW to 10 GW. The tension between the public call to “slow down” and the commercial reality of “acceleration” is precisely the core contradiction in current AI valuation logic.
5. **Bank of Japan decision and yen carry trade** — the Bank of Japan confirmed a rate hike to 1.25% on 18 September (a 31-year high), shortening the hiking interval from six months to three months.
6. **Ermotti warning** — the UBS CEO warned that AI is “masking” risk and that not a single old problem has been solved.
7. **The “hidden driver” of supply-side inflation: the Baltic Supramax Index (BSI)**

While the market focuses on traditional macroeconomic indicators such as FOMC, CPI and non-farm payrolls, a neglected shipping-cost indicator is sending a strong inflation signal.

The Baltic Supramax Index (BSI) rose for 25 consecutive trading days from 12 August, climbing to 1,748 points, a post-August-2022 high. The BSI reflects freight rates for 50,000–60,000 dwt vessels, carrying mainly grain, sugar and fertiliser — commodities highly correlated with the food and daily-necessity components of the US CPI basket.

More critically, the BSI and US CPI year-on-year growth have moved in sync over the past decade, with a correlation coefficient of 0.661, and the BSI typically leads by about two to four months. Looking back to early 2021, the BSI surged first from 10,000 points to above 3,500 points, and US inflation subsequently started at 2% and once climbed to around 9%; by mid-2022 the BSI had clearly peaked and turned down, and prices only then declined gradually.

If the current BSI uptrend persists, the path for inflation to fall back to the Federal Reserve's 2% target over the next one to two quarters may be relatively slow. This also explains why, although CPI has improved slightly, core CPI continues to move sideways — energy costs can cool briefly due to base effects, but the stickiness of high transport costs on food prices is stronger, and core inflation therefore cannot ease.

Brent crude breaking above US\$100 per barrel, rising shipping fuel costs, and periodic pressure in global logistics links alongside stable regional short-haul trade demand have together pushed up small-vessel freight rates. This is essentially a supply-side shock caused by changes in supply chains and transport costs — traditional monetary policy tools have limited effectiveness against such shocks.

(6) Historical Analogy: How Do Equities Perform After Rate Hikes?

Charles Schwab research shows that since 1946, in the six months after the Federal Reserve's first rate hike, the S&P 500 has fallen by an average of up to 12%, and by an average of 14% within one year. However, the 2022 bear market (–20%) stemmed from extremely high hiking density (individual meetings raising by 50bp or even 75bp). If this hike cycle is “milder” than 2022, the equity pullback may be limited.

Summary: The eight signals recorded in Chapter 1 — synchronous global bond repricing, divergence in overseas US Treasury holdings, the AI debt surge, AI capital-expenditure tension, the Bank of Japan decision, institutional risk warnings, the BSI inflation signal, and the historical rate-hike analogy — together constitute the complete chain of “expectation → reality → repricing” in Q3. The implications of these signals are analysed in Chapter 3, “Pricing Errors”, and Chapter 6, “Macro Outlook”.

Chapter 2 | Global Market Review (August–September 2026)

This chapter reviews the key global market events from August to September in a purely factual manner. All content is objective recording and contains no subjective judgement.

2.1 August Global Market Key Event Timeline

Time	Event	Market Reaction
Early August	Middle East situation-related news and unexpectedly weak non-farm payrolls	Market expectations for a September rate hike briefly declined
From 12 August	Baltic Supramax Index (BSI) rose for 25 consecutive trading days	Climbed to 1,748 points, a post-August-2022 high
Mid-August	Energy and financial sectors relatively strong	XLE +12.8%, XLF +3.9%
Late August	Continued correction in semiconductors	SOXX -15.8%
21 August	Emerging-market trade-weighted dollar index fell to 126.58	Two-and-a-half-year low
End-August	MSCI Emerging Markets Currency Index broke through 12 times in August	Already set a new record high at end-July

2.2 Federal Reserve FOMC and Inflation Data

FOMC decision: The Federal Reserve unanimously voted 12–0 to raise rates by 25bp to 3.75%–4.00%, the first hike since July 2023. The dot plot shows 16 of 18 officials expect at least one more hike this year, with the median rate rising to 4.1%. Fed Chair Warsh said at the post-meeting press conference that “financial conditions are not restrictive”.

CPI data: August core CPI rose 0.3% month-on-month, above the market expectation of 0.2%, the largest monthly gain since April. After the data release, the probability of a September rate hike rose to 85.6%.

Non-farm payrolls: August added 162,000 jobs, far exceeding the market expectation of 55,000. However, nearly 60% of employment growth came from local government education backfill and seasonal adjustment in restaurants, presenting a characteristic of “inflated headline, weak quality”.

2.3 Bank of Japan Decision and Yen Trend

The Bank of Japan confirmed a rate hike to 1.25% on 18 September, the highest since April 1995. The hiking interval was shortened from six months to three months. But the market reaction was “continued yen depreciation” — USD/JPY briefly fell to the 158 range and closed at 156.86. The core reason is that the US-Japan interest-rate differential remains unchanged: a 25bp Fed hike + a 25bp BoJ hike = unchanged differential. The yen’s “funding-cost advantage” still exists, and carry trades have not shrunk sharply.

2.4 AI Debt and Capital-Expenditure Dynamics

AI debt surge: technology giants have issued nearly US\$220 billion of bonds in 2026, far exceeding approximately US\$108 billion for the whole of 2025. Nvidia has partnered with Wall Street to mobilise US\$500 billion of third-party capital.

Alphabet free cash flow: Q2 2026 free cash flow fell to approximately negative US\$5.9 billion, the first negative quarterly free cash flow since listing.

Anthropic IPO: while Anthropic CEO Dario Amodei publicly calls for slowing the pace of AI model capability improvement, the company is advancing the largest IPO in history — a target valuation of approximately US\$2 trillion, annualised revenue jumping from US\$65 billion to over US\$100 billion, and computing power doubling from 5 GW to 10 GW.

Goldman Sachs estimate: AI-related capex will peak at approximately US\$1 trillion this year.

Chapter summary: Chapter 2 records the key global market events from August to September in a purely factual manner. These events themselves contain no judgement — judgement is left to Chapter 3, “Pricing Errors”, and Chapter 6, “Macro Outlook”.

Chapter 3 | Pricing Errors: US Treasury Yields and Liquidity

Chapter 1 recorded the structural pressure signals forming since September. This chapter analyses the implications of these signals and their potential impact on the Q4 market.

3.1 Synchronous Global Bond Repricing

The BSI signal recorded in Chapter 1 reveals the core dilemma facing current policy.

Traditionally, monetary policy is designed to suppress aggregate demand, not to repair supply-chain problems. The BSI is prone to rising and difficult to fall, essentially a supply-side shock caused by changes in supply chains and transport costs, so “hawkish tightening” will not help freight rates fall. However, if policymakers choose to stand pat, once inflation expectations become “de-anchored” — that is, the market no longer believes the central bank can bring inflation down — the cost of cleaning up the aftermath later will inevitably be heavier.

The lesson of 2022 is a cautionary tale — the Federal Reserve was forced into aggressive rate hikes while “behind the curve”, ultimately triggering violent fluctuations in global equities. This means that if the authorities do not clearly set out an anti-inflation path, “equity-price kills” may recur.

In other words, policy faces a dilemma between “suppressing demand” and “supply-side shocks”: not only failing to bring inflation down, but also increasing uncertainty about economic growth. This is the greatest current risk.

3.2 Divergence in US Treasury Holdings

The US Treasury’s International Capital Flows report published on 17 September showed that overseas holdings of US Treasuries fell by US\$50.4 billion month-on-month in July to US\$9.25 trillion, a nine-month low. China’s holdings fell to US\$618 billion, the lowest in nearly 18 years since 2008; Japan’s holdings fell for a third consecutive month to US\$1.1 trillion, another more-than-one-year low; the UK, by contrast, increased its holdings by US\$58.4 billion to US\$998.3 billion, refreshing the record high set in May. The structural divergence of “Eastern reduction, Western accumulation” is accelerating.

3.3 Liquidity Indicators and Term Premium

10Y US Treasury back at 5%: the 10Y falling back to 4.94% on Thursday was the core driver of the rebound; returning to 5.00% on Friday meant the Dow came under pressure again. The “directional divergence” of the Dow falling 0.18% while the Nasdaq rose 0.39% is essentially a “rate-sensitivity difference” — the Dow has a high weighting in financials and industrials, most sensitive to rising rates; the Nasdaq has a high weighting in technology, more sensitive to “growth narratives”. The repeated tug-of-war around 5% on the 10Y is the core reason the market currently “has no sense of direction”.

Term premium: when governments and AI companies crowd into the bond market to finance simultaneously, supply-demand imbalance will continue to push up the term premium. This is an important mechanism behind the rising probability of a structurally higher interest-rate centre.

3.4 Three-Path Scenario Analysis

Path	Trigger Conditions	Market Characteristics
Path A: Range-bound continuation	Mixed data, policy on hold, external uncertainty not further deteriorating	Rapid sector rotation, lack of sustained main line
Path B: Trend formation (upside)	Consistently positive data, continued AI demand validation, sustained inflows into emerging markets	Capital concentrates into AI application layer and growth stocks, market breadth improves
Path C: Trend formation (downside)	Rising external uncertainty, oil above US\$100, inflation rekindling, carry-trade unwind	Risk-off sentiment rises, capital may flow phased into defensive sectors, volatility increases

Tracking principle: We will reassess scenario probabilities in late September based on key data and capital behaviour, and iterate the allocation strategy.

Chapter 4 | All-Asset Review (August 2026)

4.1 US Equities

In August, the S&P 500 (SPY) rose +0.2%, calm on the surface but with intense internal rotation. The Nasdaq (QQQ) fell -5.1%, with continued correction in AI hardware. The equal-weight S&P (RSP) rose +0.8%, with market breadth improving but no confirmed trend. The Russell 2000 (IWM) fell -2.7%, with small caps still weak. Energy (XLE) +12.8%, financials (XLF) +3.9%, semiconductors (SOXX) -15.8%, cloud computing (CLOU) +7.8%.

4.2 Europe and Hong Kong Equities

Hong Kong's "internet + chips" dual rotation. The Hang Seng Index rose +0.6%, the Tech Index rose +2.2%. Alibaba rose +4%, Lenovo +9.5%, Hua Hong +4.8%, SMIC +4.4%, MiniMax +18.9%. Jensen Huang's statement that "chip sales will double next year" was the catalyst for the strength in Hong Kong chip stocks.

4.3 A-Shares and Northeast Asia

After the KOSPI surged 17% at the end of July, some investors' confidence rose significantly. Volatility in Northeast Asian markets is closely related to the correction in AI hardware.

4.4 Commodities

Oil: Brent crude broke above US\$100 per barrel.

Gold: gold rebounded to US\$4,386.39 against a backdrop of rate hikes, with its pricing logic having switched from "interest rates" to "credit".

Shipping: the Baltic Supramax Index (BSI) rose for 25 consecutive trading days from 12 August to 1,748 points, a post-August-2022 high.

4.5 Crypto Assets

Crypto assets followed risk assets in August; specific data omitted.

Chapter summary: The all-asset review shows that the core characteristic of the August market was "calm on the surface, intense rotation beneath". Capital dispersed from AI hardware into energy, financials, cloud computing and other directions, but a sustained, broad-based rise in risk appetite has not yet formed.

Chapter 5 | Structured-Product Allocation Logic in an Interest-Rate Repricing Environment

Structured products are innovative and flexible investment tools that can serve as an alternative to direct investment. This chapter focuses on three structures: Step-Down Autocall, Memory KO, and deep out-of-the-money structures in a high-volatility environment. The following content is for scenario-option discussion only and does not constitute product promotion.

5.1 Structural Design Logic in a High-Volatility Environment

Core premise: the current US equity market is extremely sensitive to news; any single headline can trigger large swings in mainstream stocks. This means individual-stock implied volatility is elevated, objectively creating conditions for structured-product design.

Structural design logic:

When volatility is high, issuers can construct structures with strike prices set in the 50%–65% of spot range, with annualised coupons potentially reaching 24%. This means the underlying needs to fall 35%–50% before touching the break-even point or receiving shares.

Implications for investors:

The “attraction” of this structure lies in the high coupon — in the current rate environment, a 24% annualised return is quite appealing. But investors need to understand: the high coupon is the price of “deep out-of-the-money trigger probability”. A strike set at 50–65% appears to provide a “margin of safety”, but in reality it exchanges high volatility for a high coupon, and deep out-of-the-money for psychological comfort. Investors can easily be “anchored” by the “24% coupon” and overlook the actual probability of the fact that “the underlying needs to fall 35–50% before touching the break-even point”.

5.2 Structural Optimisation Tools: How to Further Improve Knock-Out Opportunities

Building on 5.1, issuers can use two structural optimisation tools to further enhance knock-out opportunities, giving investors more flexible exit paths while earning high coupons.

Tool 1: Step-Down Autocall (progressively lowering the trigger price)

In a traditional Autocall structure, the trigger price remains at 100% unchanged. Step-Down Autocall allows the trigger price to be lowered progressively — for example, from 100% gradually to 95%, 90%, or even lower.

What this means for investors:

- The trigger price is progressively lowered → knock-out opportunities increase
- If successfully knocked out, the investor receives the principal back → has the right to invest in the same structured product, or other asset classes
- Exchanging time for space, reducing reliance on “single-point timing judgement”

Tool 2: Memory KO (memory trigger)

In a traditional KO structure, two or three stocks in a basket must knock out simultaneously on the same day to trigger the knock-out.

Memory KO is different — as long as a certain stock in a basket has ever knocked out, this “knock-out event” is remembered. Even if subsequent days’ performance is inconsistent, as long as the final conditions are met, the contract can still trigger a knock-out.

What this means for investors:

- The knock-out condition is relaxed from “all must knock out on the same day” to “once knocked out, it is remembered”
- Knock-out opportunities increase significantly
- Reduces the psychological impact of a “one-off loss”

5.3 Three Core Elements of Structured Products

Underlying assets: equities, ETFs, funds, interest rates, foreign exchange and commodities, etc. Selection should start from the investor’s view on the asset, while considering investment objectives and risk tolerance.

Derivative instruments: options, forwards and swaps, used to construct product return characteristics. Volatility directly affects the daily market price of derivatives. When the market becomes more volatile, option values rise; when the market calms, option premiums tend to be lower.

Return structure: most structured products can be grouped into four main categories — capital-protected, yield-enhanced, participation, and leveraged.

5.4 Main Risks

Risk	Description
Credit risk / issuer risk	Investing in a structured product is essentially lending money to the issuing bank. The risk of issuer default is a factor investors must consider. The best strategy is to ensure diversification across different issuers.
Complexity risk	Misunderstanding the product and its return determination mechanism is itself a risk. Investors should remember: “If you do not understand it, do not buy it.”
Liquidity risk	When a structured product is highly customised or has a long tenor, liquidity may be limited.
Market risk	If the underlying market performs contrary to expectations, the structured product may deliver lower-than-expected returns, or even losses.
Correlation risk	If the product contains multiple underlying assets, poor performance of one asset may affect overall returns.

5.5 Echoing Chapter 6 “Cognitive Traps”

The ten cognitive traps diagnosed in Chapter 6.1 are equally applicable to the selection and holding of structured products. The following sets out four of the most representative biases alongside corresponding structural optimisation tools for investors to reference when evaluating such products.

Cognitive Trap	Structured-Product Scenario	Structural Optimisation Tool
Confirmation bias	Focusing only on the coupon, ignoring knock-in risk	Step-Down: progressively lowering the trigger price, reducing single-point timing reliance
Loss aversion	“Wait a little longer” when nearing knock-in	Memory KO: reducing the psychological impact of a one-off loss
Anchoring effect	Anchored by “coupon rate X%”	Step-Down + Memory KO combination: structure adjusts with the market
Short-term preference	Pursuing short-term high coupons	Autocall: early redemption replacing holding to maturity

Conclusion: Structured products are not “a substitute for high yield”, but “a tool to obtain returns under specific scenarios”. High coupons are the price of “deep out-of-the-money trigger probability”, not a “free lunch”. Structural optimisation tools such as Step-Down Autocall and Memory KO are essentially mechanisms to counter cognitive biases — they cannot eliminate risk, but they can enable investors to make more rational decisions on the premise of understanding risk.

Section 5 of this chapter is the connecting point between Chapter 6.1 “Cognitive Traps” and this chapter’s “Structured Products”: diagnosis is completed in Chapter 6, tools are developed in this chapter, and the two should not be conflated.

Chapter 6 | Macro Outlook and Strategy Ideas

6.1 Cognitive Trap Framework: A Key Tool for Understanding Market Behaviour

The following ten cognitive traps all have theoretical support in behavioural finance literature, supplemented by real August market cases for comparison. They do not exist in isolation, but reinforce each other amid market volatility.

Trap 1 | Confirmation Bias

Academic definition: investors tend to search for, interpret and remember information consistent with their existing beliefs, while ignoring or discounting contradictory evidence. Tversky and Kahneman (1974) pointed out in their pioneering research that confirmation bias leads investors to over-rely on existing assumptions when forming decisions, without fully considering contrary evidence.

August scenario: during the semiconductor correction, AI bulls automatically selected positive information (such as “SK Hynix HBM capacity is full”) and selectively ignored simultaneously appearing negative signals (such as “Google’s free cash flow turned negative for the first time” and “Nvidia’s mid-term CDS quotes showed volatility”), failing to adjust positions in time.

September warning: during quarter-end capital games, market news is mixed. Investors holding specific sectors are more likely to actively reject opposing views.

Trap 2 | Herd Behaviour

Academic definition: herd behaviour refers to investors abandoning their own independent judgement and following the actions of other market participants. Christie and Huang (1995) showed that herd behaviour is particularly pronounced during periods of extreme market volatility.

August scenario: energy and financial sectors were relatively strong in August, and some capital flowed into these directions under the consensus that “the AI trade is overcrowded”. However, industrials and small caps did not strengthen in tandem — indicating that this round of capital flow was more of a follow-the-crowd defensive rotation.

September warning: short-term hotspots before quarter-end easily breed herd behaviour. “Quick profit cases” spread on social media attract follow-on capital.

Trap 3 | Anchoring Bias

Academic definition: investors over-rely on the first information they encounter as a judgement base, failing to adjust adequately to new information. Tversky and Kahneman (1974) showed that even random or irrelevant anchors systematically influence people’s numerical estimates.

August scenario: the impression that the semiconductor sector “still has year-to-date gains of over 30%” became a psychological anchor for some investors, causing them to underestimate the magnitude and duration of the July–August correction.

September warning: around quarter-end institutional earnings announcements, quarterly or year-to-date price highs/lows become common “psychological anchors”.

Trap 4 | Loss Aversion

Academic definition: Kahneman and Tversky (1979) pointed out in prospect theory that the psychological pain of a loss is about 2 to 2.5 times the pleasure of an equivalent gain.

August scenario: from late July to early August, many investors failed to stop losses in time because they were unwilling to realise losses, and instead chose to “wait and see” as stock prices continued to fall.

September warning: if positions remain weak in September, the “do not realise losses” mentality will cause investors to miss the key quarter-end rebalancing window.

Trap 5 | Sunk-Cost Fallacy

August scenario: some investors “held on to the end” on AI concept stocks bought at highs, continuously averaging down costs and ignoring changes in fundamentals or market structure.

September warning: if positions remain weak at quarter-end, sunk-cost thinking will make investors unwilling to stop losses and miss the rebalancing window.

Trap 6 | Survivorship Bias

Academic definition: survivorship bias refers to investors tending to focus only on success cases and ignore failures, thereby overestimating the probability of success.

August scenario: cases of profit in the August rebound were repeatedly circulated on social media, while contemporaneous loss cases were rarely mentioned.

September warning: when institutions announce quarterly results at quarter-end, extreme short-term profit cases easily lead investors to overestimate their own return capability.

Trap 7 | Overconfidence Bias

Academic definition: Odean (1998) found that overconfident investors tend to overestimate their knowledge and forecasting ability, leading to excessive trading and increased transaction costs.

August scenario: after the KOSPI surged 17% at the end of July, some investors’ confidence rose significantly and they relaxed risk boundaries.

September warning: if the September market continues to fluctuate repeatedly, short-term band-trading profits can easily lead to excessive leverage and increased risk exposure.

Trap 8 | Availability Heuristic

Academic definition: Tversky and Kahneman (1973) showed that investors tend to judge the probability of events based on the most easily recalled information.

August scenario: Middle East situation-related news and unexpectedly weak non-farm payrolls in early August caused market expectations for a September rate hike to briefly decline.

September warning: around quarter-end, the media intensively reports specific hotspot events, and easily accessible information may cause investors to overestimate its importance.

Trap 9 | Disposition Effect

Academic definition: Shefrin and Statman (1985) first systematically proposed the disposition effect — investors tend to sell winners too early and hold losers too long.

August scenario: during the August market rebound, some investors sold strong rebound positions too early for fear of “giving back profits”, while retaining weak loss-making positions.

September warning: quarter-end institutional window-dressing behaviour may amplify the disposition effect.

Trap 10 | Status Quo Bias & Myopia

Academic definition: Samuelson and Zeckhauser (1988) found that investors tend to maintain the status quo, even when change would be in their interest.

August scenario: investors who continued the first-half “overweight AI hardware” strategy continued to suffer during the July–August sector rotation.

September warning: at the transition of cross-quarter policy and capital operations, the effectiveness of old strategies is declining.

Summary: The above ten cognitive traps do not exist in isolation — they reinforce each other amid market volatility, forming a positive feedback loop of “sentiment → decision → price”. Recognising the existence of these traps is the first step. More critically, establish a rules-based decision framework: before opening a new position, forcibly list three bearish arguments; set clear stop-loss/rebalancing lines; distinguish “short-term luck returns” from “sustainable strategy returns” — using systematic discipline to counter systematic bias.

How these biases specifically map to the design and selection of structured products has been discussed in Chapter 5, Section 5 of this report.

6.2 Q4 Allocation Framework

6.2.1 Internal Discipline to Counter Cognitive Biases

Cognitive Trap	Counter Discipline	Execution Method
Confirmation bias	Before opening a new position, forcibly list 3 bearish arguments	Record in investment memo, set trigger conditions
Sunk cost	Set clear stop-loss/rebalancing lines, execute on trigger	Use “conditional orders” for automatic execution
Overconfidence	Distinguish “short-term luck returns” from “sustainable strategy returns”	Keep a trading journal, review regularly
Herd behaviour	Before any trade, answer: “If everyone were in the opposite direction, would I still do this?”	Use as a mandatory pre-trade checklist
Availability heuristic	Forcibly list 3 risks/opportunities ignored by the market	Review once at the beginning of each month

UBS Group CEO Sergio Ermotti’s allocation advice: UBS’s wealthy clients have already begun to diversify — across industries and geographies, rather than making large bets on a single direction. His exact words were: “In this environment, it is difficult — and not really wise — to hold too many strong convictions.” This is highly consistent with our advocated allocation discipline of “replace forecasts with frameworks, replace direction with scenarios”.

6.2.2 Q4 Allocation Direction Reference

Asset Class	Allocation Idea	Considerations
Equities (US)	The divergence between AI application layer vs AI hardware will persist	Semiconductors rebounded violently after Jensen Huang’s “sales doubling” guidance, but sustainability needs to be observed
Equities (Hong Kong)	Focus on laggard opportunities	The Hang Seng Index diverges from the emerging-market currency index; if history repeats, the Hang Seng could climb above the year-to-date high of 28,056
Fixed income	Focus on curve strategies under the US\$40 trillion US Treasury supply pressure	Term premium may face structural repricing
Foreign exchange	Yen carry-trade unwind risk	USD/JPY trades around 156.86. The BoJ confirmed a hike to 1.25%, with the hiking interval compressed to three months
Gold	Beneficiary of the US dollar credit discount	Gold rebounded to US\$4,386.39 against rate hikes; pricing logic has switched from “interest rates” to “credit”

6.2.3 High-Risk Behaviour Checklist to Watch

- Chasing quarter-end hotspot sectors that have already risen substantially
- Holding persistently weak positions out of “unwillingness to accept”
- Ignoring the cumulative decline of structured-product underlyings for the sake of short-term coupons
- Increasing leverage when volatility is rising
- Interpreting the US\$40 trillion US Treasury supply as a “necessarily rising rates” one-sided narrative
- Making directional heavy bets before BoJ decisions

6.2.4 Q4 Risks and Opportunities Outlook

(1) Key Q4 Risks

Risk	Description
Persistent supply-side inflation	The BSI signal recorded in Chapter 1 shows that the transmission of transport costs to food prices is sticky. If the BSI uptrend persists, the path for core inflation to fall back to the 2% target may be relatively slow. Policy may be forced to continue tightening in Q4. Uncertainty about economic growth rises.
Debt-ceiling negotiations	The Treasury may hit the debt ceiling in Q4; a negotiating deadlock could trigger market volatility
Yen carry-trade unwind	After the BoJ hike, if the yen strengthens further, carry-trade unwinding could trigger a global risk-asset correction
AI capex slowdown	If Q3 earnings show a slowdown in AI capex growth, technology stocks may face valuation re-rating
Oil price trend	Supply-chain disruptions and external uncertainty could see oil retest the US\$100 mark

(2) Potential Q4 Opportunities

Opportunity	Description
Hong Kong equity valuation repair	The Hang Seng Index diverges from the emerging-market currency index; if history repeats, the Hang Seng could climb above the year-to-date high of 28,056
AI application-layer rotation	Capital spreading from AI hardware to the application layer; cloud computing, AI software and cybersecurity may benefit
Gold safe-haven demand	The US dollar credit-discount logic persists; gold remains attractive against a backdrop of rate hikes
Structured-product allocation window	In a rising-volatility environment, the coupon appeal of structures such as Step-Down Autocall and Memory KO increases
Feeder funds capturing overall market returns	Historical data shows the S&P 500 has averaged gains of about 14% in the six months after midterm elections. Feeder funds can serve as a tool to capture overall market returns

Chapter 7 | Reminders and Internal Discipline

7.1 Key Reminders

1. **Beware of quarter-end hotspot rotation risk.** Short-term hotspots before quarter-end easily breed herd behaviour; “quick profit cases” spread on social media attract follow-on capital.
2. **Beware of the “unwillingness to realise losses” mentality.** If positions remain weak at quarter-end, loss aversion will cause investors to miss the key rebalancing window.
3. **Beware of anchoring on the “coupon rate X%” number.** The higher the coupon rate, the greater the underlying volatility and the higher the knock-in probability. Investors should focus on the actual risk characteristics of the linked underlying, not just the coupon number.
4. **Beware of increasing leverage when volatility is rising.** In a rising-volatility environment, leverage amplifies downside risk.
5. **Beware of interpreting a single narrative as “inevitable”.** Whether it is “US\$40 trillion in US Treasury supply necessarily leads to higher rates” or “AI capex will necessarily continue”, single narratives should be replaced by scenario analysis.
6. **Beware of directional heavy bets before central bank decisions.** Policy paths are uncertain; heavy bets on a single direction carry high risk.
7. **Beware of path dependence on “previously effective” strategies.** At the transition of cross-quarter policy and capital operations, the effectiveness of old strategies may decline.
8. **Beware of overconfidence in “short-term luck returns”.** Distinguish “short-term luck returns” from “sustainable strategy returns”; keep a trading journal and review regularly.

7.2 Sector Reminders

1. The divergence between AI hardware and the application layer may persist. The semiconductor sector rebounded violently after the “sales doubling” guidance, but sustainability needs to be observed; cloud computing, AI software and other application layers may receive capital support.
2. Differences in rate sensitivity are worth watching. The Dow has a high weighting in financials and industrials, most sensitive to rising rates; the Nasdaq has a high weighting in technology, more sensitive to “growth narratives”.
3. The divergence between Hong Kong equities and emerging-market currencies is worth tracking. The Hang Seng Index diverges from the emerging-market currency index; if history repeats, the Hang Seng could climb above the year-to-date high of 28,056.
4. Gold’s pricing logic has switched from “interest rates” to “credit”. Gold rebounded to US\$4,386.39 against rate hikes; the US dollar credit-discount logic persists.
5. The leading significance of the shipping-cost indicator (BSI) for inflation is worth watching. The BSI and US CPI year-on-year growth have a correlation coefficient of 0.661, and the BSI typically leads by about two to four months.
6. The structural risk of yen carry trades is worth tracking. After the BoJ hike to 1.25%, if the yen strengthens further, carry-trade unwinding could trigger a global risk-asset correction.

7.3 Internal Management Reminders

1. Establish a rules-based decision framework. Before opening a new position, forcibly list three bearish arguments, set clear stop-loss/rebalancing lines, and distinguish “short-term luck returns” from “sustainable strategy returns”.
2. Use systematic discipline to counter systematic bias. Cognitive biases cannot be eliminated, but their impact can be reduced through a rules-based framework.

3. Replace forecasts with frameworks, replace direction with scenarios. In the current environment, it is difficult — and not really wise — to hold too many strong convictions. Diversified allocation across industries and geographies is the more prudent choice.

Appendix | Data Sources and Disclaimer

Data Sources

- Bloomberg, Reuters (index, FX, commodity data, CDS quotes)
- US Department of the Treasury (Treasury data, TIC International Capital Flows report)
- Company financial statements (Microsoft, Google, Meta, Amazon, SK hynix, Nvidia)
- US Bureau of Labor Statistics, US Bureau of Economic Analysis
- Federal Reserve, Bank of Japan, Bank of England
- Goldman Sachs, Morgan Stanley, UBS, Barclays, J.P. Morgan Private Bank research
- Charles Schwab, The Motley Fool

Important Notice (under the Monetary Authority of Singapore Regulatory Framework)

1. Licence and Regulatory Information

This report is published by DH Wealth Management Pte Ltd (“DHWM”). DHWM holds a Capital Markets Services (CMS) licence issued by the Monetary Authority of Singapore (MAS) (Licence No.: CMS101242), is regulated by MAS, and complies with the Securities and Futures Act and related subsidiary legislation.

2. Target Audience Restriction (Professional Investors Only)

This report is intended only for “professional investors” as defined in Section 4A of the Securities and Futures Act, including individuals with net assets of not less than S\$2 million (or equivalent); companies or associated entities with net assets of not less than S\$10 million (or equivalent); financial institutions, brokers, trust companies, fund management companies, etc. It must not be disseminated or distributed to retail clients.

3. Not Investment Advice or an Offer

All content in this report is objective statement and market review based on public information and internal research. It does not constitute “investment advice” under the MAS regulatory framework, nor an offer, invitation or recommendation to purchase, sell or hold any security, fund, derivative, structured product or other financial instrument.

4. Risk Warning

All investments involve risk and may result in loss of principal. Investors should carefully evaluate any investment product or strategy. Before making any investment decision, it is recommended to consult independent legal, tax and financial advisers.

5. Forward-Looking Statements

This report may contain forward-looking statements involving inherent risks and uncertainties; actual results may differ materially from forward-looking statements. DHWM has no obligation to update or revise any forward-looking statement. Past performance is not indicative of future returns. Markets carry risk; investment requires caution.

6. Information Sources and Intellectual Property

The copyright of this report belongs to DHWM and may not be copied, reproduced or transmitted without written permission. Third-party data cited in this report are from sources believed to be reliable, but DHWM accepts no responsibility for their accuracy, completeness or timeliness.

7. Territorial Restriction

This report is for use only within Singapore and under applicable cross-border wealth management frameworks.

8. Enquiries and Complaints

Email: compliance@dhwealth.sg

DH Wealth Management Pte Ltd | Singapore CMS Licence: CMS101242

This document is a translation for reference purposes only. In the event of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.