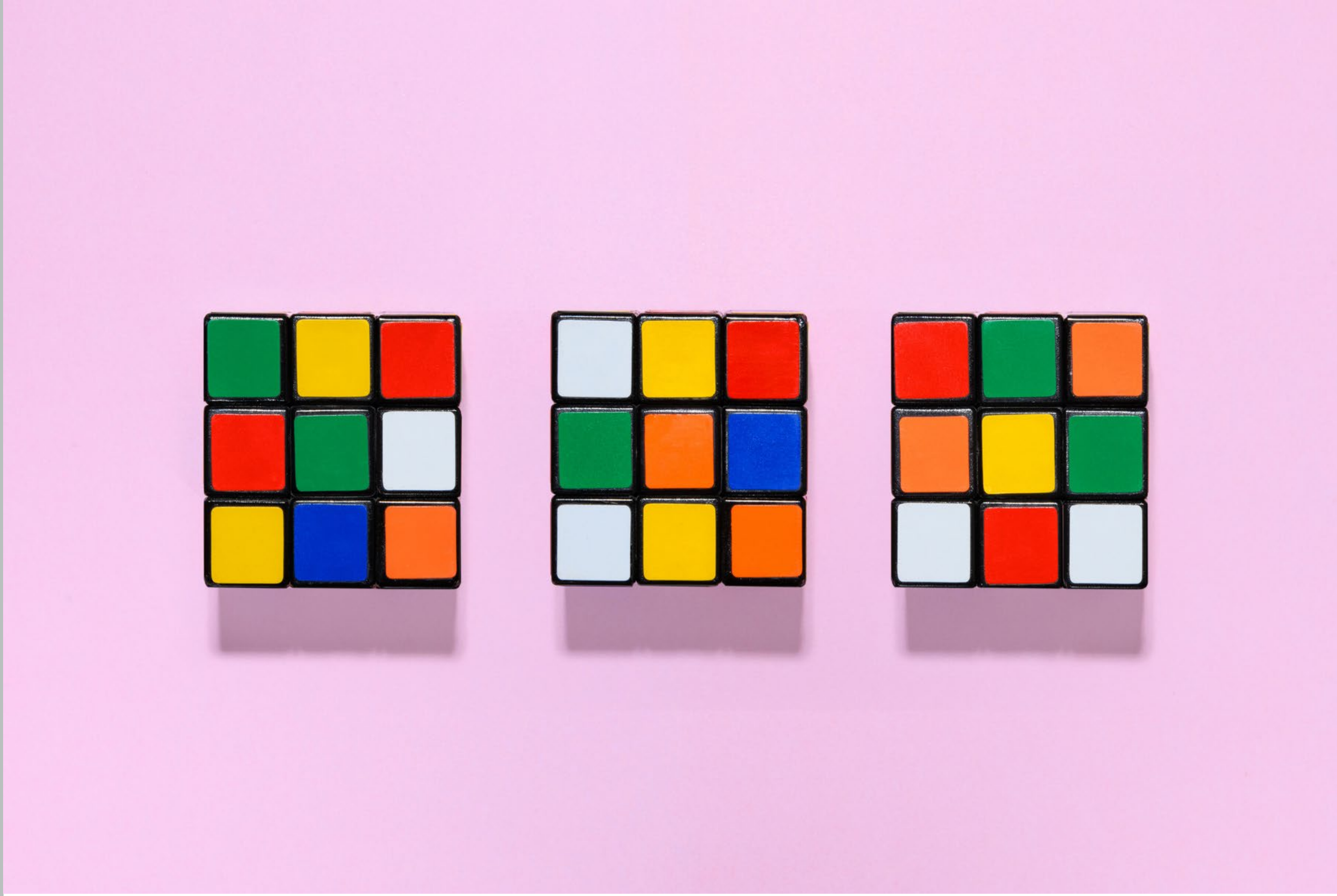


Market Roundup

18 September 2026

RAFFLES
FAMILY OFFICE

INVESTMENT VIEW 18 SEPTEMBER 2026

Fed Hikes—Fears and Opportunities

Key takeaways

- Still elevated inflation, resilient labor market, and geopolitical flare-up created a perfect storm of Fed fears
- However, we believe the Fed has defended its credibility and is not nearly as hawkish as the markets currently price
- Investors should consider how to take advantage of high rates and volatility

The Fed hikes rates to restore credibility

- At last, economic common sense prevailed. The Fed hiked rates by 25bps at its Sep meeting, as widely expected. The anticipation caused a selloff in treasury market, but the Fed's message and forecast were not incrementally hawkish compared to what the market was already pricing.
- The fundamental causes for the rate hike were clear: elevated inflation, resilient growth and war-induced oil price shock. But the most important factor is credibility. Had the Fed decided to hold or cut rates, we're likely to see a much more bearish reaction across all capital markets.
- Now, the median forecast points to one more rate hike this year, with the FOMC about evenly split between zero and one more hike in 2027, then lower towards 3.25% by 2030. Chair Warsh did not provide his own forecast, but stated clearly that more work is needed because growth is strengthening and inflation is not falling enough.

Just how much more work to do?

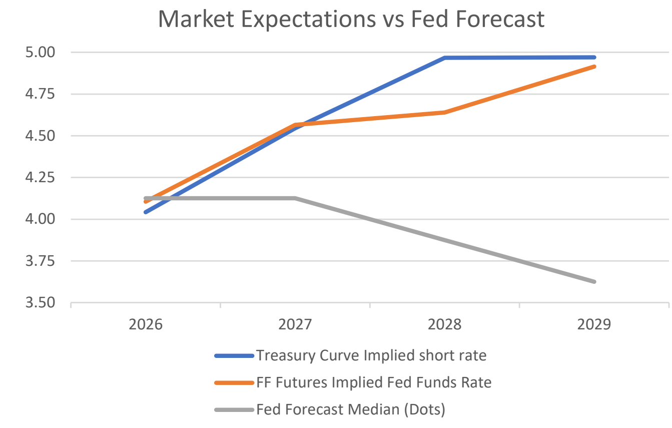
- Even with this relatively hawkish outlook, the Fed is decidedly less hawkish than what the market is pricing. Fed funds futures is fully pricing three more rate hikes in the coming year. The 2-year yield is implying 5.00% short term rates by 2028 (Figure 1).
- The upward surprise in inflation in August came after three months of downward surprises. Core CPI continues to trend mildly lower about 2.5y/y (Figure 2). Payrolls reversed earlier decline in August, but the data is often revised lower in subsequent benchmark revisions. The US labor market likely remained in the 50K-100K lukewarm range. Similarly for geopolitics, the news come in cycles. The upcoming talks between the US and the gulf states and the US mid-term elections may bring some respite in the oil price even if the military actions in Iran do not end.
- In other words, a more credible Fed would not need to hike rates as much as the market prices. We believe Fed rate hike expectations are likely to come down, along with treasury yields.

FED OUTLOOK | IMPLICATIONS & FORECASTS

Implications for investors

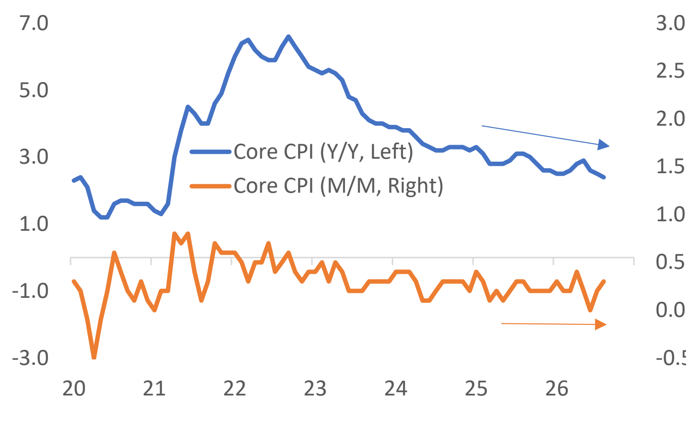
- Investors could consider to lock in high interest rates, with some diversification into fixed income. Since credit spreads remain historically narrow, investment grade is still preferred. While short to medium is preferred, investors may also be tactically more flexible with duration.
- The equity volatility coming from the rates scare could present opportunities to build position or extract extra yield or protect downside risk depending on existing exposure. Growth equities tend to do well in this environment (see equities section). If the "AI pacing" concern is curbing interest in tech hardware, other areas of growth could gain traction, such as cyber security and healthcare. Energy prices may have more downside risks in this environment, while consumers of oil may benefit.
- Assets like gold and crypto may see renewed investor interest, both as portfolio hedges and as tactical opportunities when rate fears subside.

Figure 1. Market pricing is far more hawkish than the Fed



Source: Bloomberg, as of 17 Sep 2026

Figure 2. Core CPI may be elevated, but still subsiding



Source: Bloomberg, as of Aug 2026

ASSET CLASS VIEW

Equities

Key takeaways

- Growth equities tend to outperform during periods of elevated rates and resilient economic growth.
- The breadth of market gains has narrowed, which may signal more demanding investors on earning progress.
- Concerns over safety may have limited impact on AI development, due to a lack of strong will to regulate the industry. Investor attention may shift from hardware towards application and other growth areas.

How equities behave amid elevated rates?

- Historically, Technology has been the strongest-performing sector following sharp increases in bond yields, delivering an average six-month return of 9.0% and outperforming the S&P 500 in 67% of such episodes. Healthcare is the second top performing sector, exhibiting both growth and defensive qualities of the sector (Figure 3).
- This suggests that higher yields alone need not derail growth equities, particularly when supported by resilient earnings, strong balance sheets and structural investment trends. With AI capex continuing to underpin earnings momentum, we remain constructive on Technology.
- However, earnings growth delivery is becoming more important in this backdrop. Nasdaq-100 breadth has narrowed even as the index remains relatively resilient, with the share of constituents above their 20-day moving average falling to its lowest level since July (Figure 4).
- As breadth often weakens ahead of the headline index, further narrowing could signal increasing vulnerability to a pullback, particularly if mega-cap leadership begins to fade. We remain constructive longer term but cautious on near-term Nasdaq performance.

Will AI development slow down for safety?

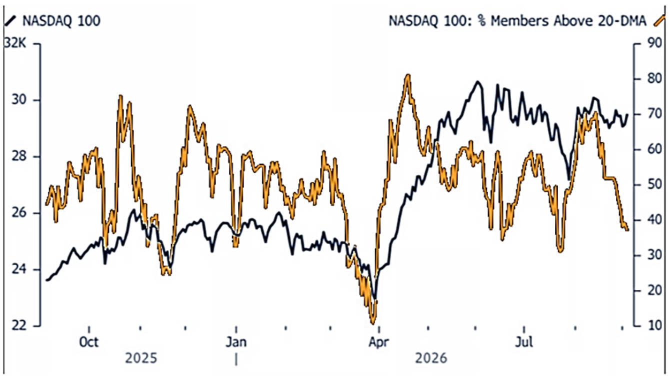
- The fear of “rogue AI” garnered even more fear than higher rates. The leaders of multiple major AI companies agreed that further development should be “paced” to allow more guardrails to be build up. This caused some selloff in the semiconductor supply chain stocks globally.
- However, the likelihood of major regulatory intervention is very low in our view. Leaders from both US and China have voiced their doubts about AI safety risks, seeing them as something more distant than the need for immediate competition. As a result, we see this shake out as an opportunity.
- Still, more commoditized businesses in the semiconductor industry are likely more vulnerable in this environment. The safety risks are only the latest in a string of concerns including debt and intensifying price competition. This is likely to enforce more valuation-discipline on the most AI-capex-exposed names.
- Instead, investors are likely to diversify exposure towards more downstream applications like cyber security and content generation, as well as other growth areas. Healthcare may be a good example, as it benefits from AI application, is high growth, and also tend to be resilient in high-rate environments.

Figure 3. Historical forward six-month performance over sharp rise in yields over prior three months

Rank	Sector	Avg. forward 6M return	% of the time outperformed the S&P 500
1	Technology	9.0%	67%
2	Health Care	5.2%	52%
3	Industrials	4.9%	54%
4	Real Estate	4.8%	52%
5	Financials	4.5%	49%
6	Energy	4.1%	46%
7	Consumer Staples	3.8%	41%
8	Materials	3.0%	41%
9	Discretionary	2.9%	41%
10	Utilities	1.5%	35%
11	Com Services	0.6%	40%

Source: Bloomberg, as of 11 Sep 2026

Figure 4. Nasdaq 100: Level vs. % members above 20-DMA



Source: Bloomberg, as of 11 Sep 2026

ASSET CLASS VIEW

Fixed Income

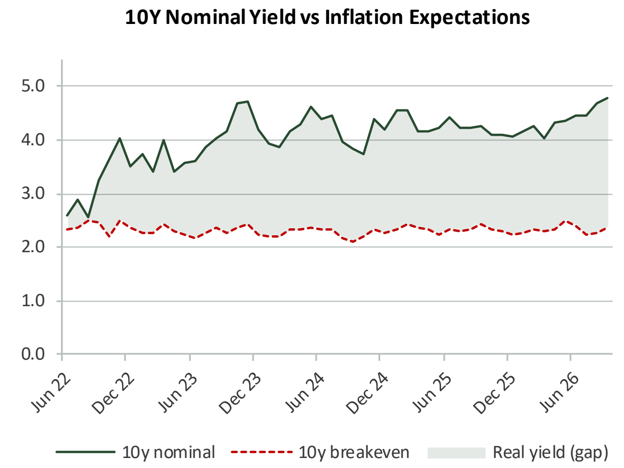
Higher real yields help to contain inflation

- Treasury yields rose sharply in the three weeks prior to the Fed hike, but began to taper off afterwards. This corroborates with our view that Fed restoring credibility would actually stabilize yields and eventually bring them lower.
- Moreover, the Treasury had earlier confirmed that it had more than doubled the maximum size of its long-end buyback operations (to at least $4bn per operation), effective Sept 9 and extending through early November.
- The 10Y breakeven rate (inflation expectations) remained little changed versus March this year, while nominal yields rose sharply (Figure 5). This suggests that markets are expecting that higher real borrowing costs are likely to contain inflation, which will be supported by the Fed resuming rate hikes.
- Restoring this credibility likely would not require an extended rate hike campaign. the government's 10-year real borrowing costs are already 2.66%, well above the potential growth rate of the economy. In other words, the market yields are already doing financial tightening for the Fed.

High income and curve flattening

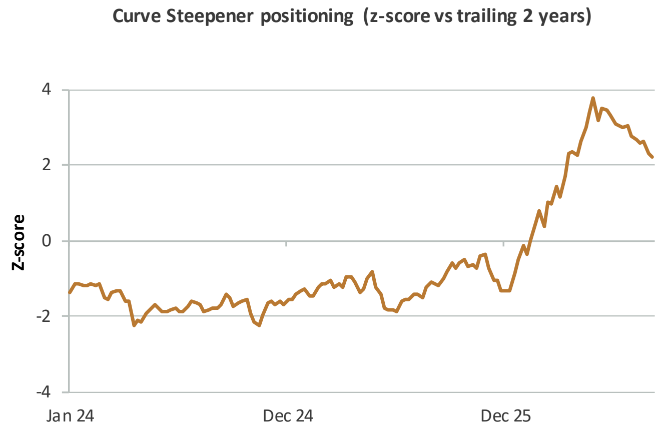
- Higher yields mean higher income. If accompanied by a gradual moderation of yields, it would bring tactical opportunities to fixed income. Investors could consider to lock in high interest rates, with some diversification into fixed income.
- Since credit spreads remain historically narrow, investment grade is still preferred.
- Up until recently, investors had largely crowded into curve steepener trades, which made sense when longer end yields had significant upside risk, while the Fed did not turn hawkish on short end rates (Figure 6). But these trades have begun to reverse, and is likely to have more room to go, as the curve flattens.
- In this environment, while continue to prefer short to medium term fixed income, investors may also be tactically more flexible with duration.

Figure 5. Real yields have accounted for most of the rise in yields, while inflation expectations remain anchored



Source: Bloomberg, as of 11 Sep 2026

Figure 6. Curve steepener trades are reversing as the curve may flatten further



Source: Bloomberg, as of 11 Sep 2026

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