Monthly Market Update

There is a certain irony in turning to a 'dead' language to articulate a modern truth. For me, the global AI and data build-out is best defined by the Latin phrase, Alea iacta est—the die is cast. At this stage, there is little use in debating capital burn or speculative ROI; the decision has been made, the momentum is absolute, and the only way forward is through. With the Federal Reserve positioned as a permanent backstop against systemic collapse and unlikely to intervene otherwise, the trajectory is locked. While our blue orb's orbit around the fiery ball of fire offers a masterclass in clockwork consistency, the markets for FY 2026 would remain a realm of flux; at Aditum we never aim to predict a destination but rather map the probabilities that allow us to navigate the volatility of this next trip around the Sun. Some musings have been spelled out below.

Leaving aside the geopolitics (I am not ignoring, but they tend to cloud some judgements on markets due to fear psychosis), 2026 started off with a paper from DeepSeek, "Manifold-constrained hyper-connections". DeepSeek's mHC paper marks the end of the 'more is better' era of GPU scaling. Even though the paper is gobbledygook for me, what I have gleaned from experts is that DeepSeek, by treating the neural network as a mathematical manifold rather than a black box, seem to have introduced 'guardrails' that prevent signal explosion. The clear message for me is that the technological divide is narrowing between the US and China and the strategic focus should therefore be a pivot toward Chinese tech leaders and upcoming IPOs. We advocate a disciplined 60–65% allocation to global equities, underpinned by a tactical overweight on China and Hong Kong technology stocks, where domestic breakthroughs are driving a new growth cycle. At a P/E ratio of 22x, the Hang Seng TECH Index (HSTECH) offers a compelling valuation play compared to the Nasdaq's 32.5x, providing a margin of safety for investors seeking structural growth without the valuation extremes found in US mega-cap tech.

While we entered the K-market late in 2025, the opportunity still remains ripe. Even with a P/E ratio currently straddling 18x, the 'punchbowl' is far from empty. The KOSPI is undergoing a structural re-rating, driven by governance reforms and an AI-fuelled chip cycle, positioning South Korea as one of Asia's most compelling growth stories for 2026. Having said that, one cannot ignore the US AI build out, so we have a neutral weight on US AI under the equity allocation but lean away from "compute" and move towards "current" (aka utilities/ energy).

Surprisingly, India is one equity market we are finding less compelling to invest in. The lack of closure on tariffs and the Rupee taking a beating, is preventing us from considering exposure. The index does not look like it's on a tear, so we can afford to stand.

I still believe that a slow leak on dollar is on cards. I expect USD index to tread 94 over the year. This would probably be driven by FED cutting rates to support the labour market while other economies hold pat, such as the Eurozone. My view on the yen is for it to skirt the high 140's, driven by BoJ's penchant to raise rates to tackle sticky inflation and elevated wage pressures. There is however "Sanaenomics" to be considered (the PM's preference for expansionary fiscal policy). Keeping 160 as a red line on the sand, one could stay short USD against the yen. I feel that EUR could probably see 1.2500 over the next 12 months. Since the Swiss National Bank (SNB) may not be inclined to push rates into negative territory, and hence CHF may continue to test their patience.

Our FY 2026 projections anticipate a 75-basis point reduction by the Federal Reserve, driven primarily by a cooling labour market. This shift supports our USD Index thesis, as we expect the US yield curve to transition into a bullish steepening environment. In contrast to the FED's trajectory, we see varying degrees of policy flexibility across other major central banks:

We estimate approximately 50 bps of easing room remaining from the Bank of England. We expect ECB to take a more conservative approach with only 25 bps of further cuts anticipated. Bank of Japan would diverge from its peers and is likely to maintain its hawkish normalization, with a projected 50-basis point hike over the year.

While the rapid velocity of the current commodities rally has surpassed previous forecasts, the upward trajectory for gold, silver, and copper remains fundamentally intact. We are likely witnessing a historic structural shift in market valuations rather than a transient spike. Based on current momentum, we project gold advancing toward $5,000, silver toward $90, and copper reaching the $16,000 level. Conversely, our outlook on crude oil remains bearish. This downward pressure is primarily driven by shifting supply dynamics rather than a contraction in global demand; consequently, a move for Brent crude below the $50 mark is a plausible outcome in the near term.

Equity markets are decoupling from linear expectations. We should anticipate a shift toward a 'fat-tail' distribution where extreme volatility and two-sigma shocks move from the periphery to the centre of the narrative. An agile and active management is the only viable path to capital preservation.

To quote W.B. Yeats, probably the best way to describe the markets without sounding apocalyptic: "Turning and turning in the widening gyre. The falcon cannot hear the falconer; Things fall apart; the centre cannot hold; Mere anarchy is loosed upon the world, The blood-dimmed tide is loosed, and everywhere, the ceremony of innocence is drowned;"

A market interpretation of the above quote is: market trends could go out of control, central banks and regulators may not be in a position to control markets and sometimes fundamental logic of markets could collapse.

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