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Monthly Insight

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Software as Lunch Table

- **Can firms develop software all by themselves? Some gulfs are bridgeable, some are not.**
- **If an A.I. agent completes the work without visualized input, you don't need a headcount who used to do it. Gone are the human clicks, ditto for the service licenses for the visualized interface.**
- **But some of them earns their seats at the table by making sense of mountains of data, authenticating requests, sending a notification, streaming events, as well as constructing infrastructure layer. Their products are consumed per event, per query, per application.**
- **Our take is that the victims are more easily identifiable than the winners. Part of growing up is choosing.**

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Life has become quieter for a quarter or so. But February kicked off with a lurch down for Software firms. As demonstrated by Claude Opus 4.6, Generative A.I. is now advanced enough to understand legal and compliance requirements in a heartbeat and enable the creation of images and videos from just a text prompt. The Do-It-Yourself empowerment might eat into the pie that is expected to accrue to the software vendors. Short-sellers smell blood in the water.

Exhibit 1: iShares Expanded Tech Sector ETF



Source: Bloomberg, Shanghai Commercial Bank

Can firms develop software all by themselves? Some gulfs are bridgeable, some are not.

To be more precious, there's type of software humans click on, like dashboards and project management tools. If an A.I. agent completes the work without visualized input, you don't need a headcount who used to do it. Gone are the human clicks, ditto for the service licenses for the visualized interface.

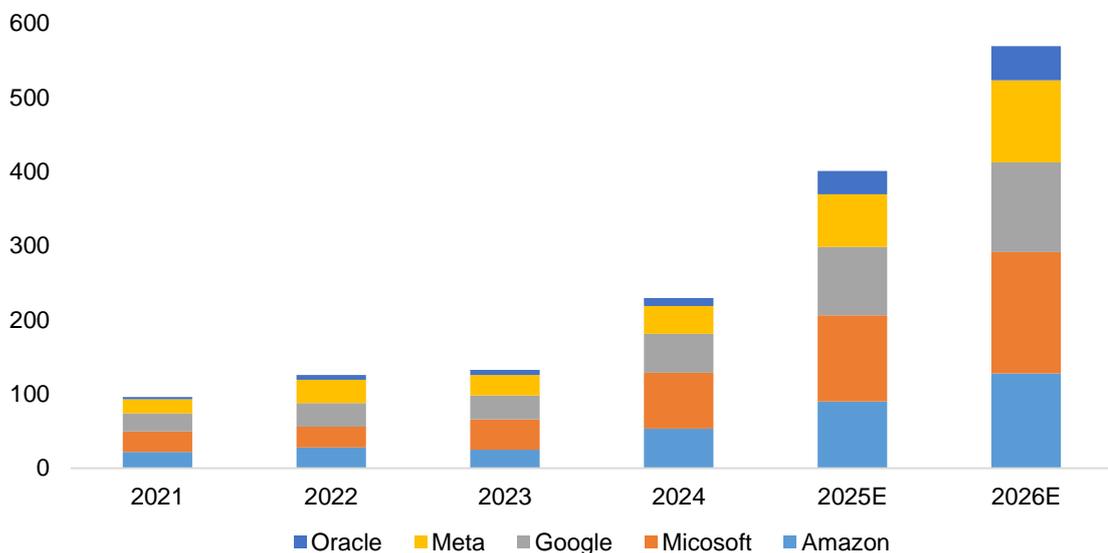
But the seek-and-destroy strategy is committing a category error. Software vendors are generally billed as the same wolf pack. Nothing can be further from the truth. Tucked away in all the fear for change, some of them earns their seats at the table by making sense

of mountains of data, authenticating requests, sending a notification, streaming events, as well as constructing infrastructure layer. Their products are consumed per event, per query, per application. The stars are aligned for a demand boom when A.I. proliferates.

Dante wandered in confusion until Virgil led him. Tech enthusiasts are roaming in this bifurcation market in the same kind of darkness. The bifurcation market is not competing narrative. It is the same software ecosystem, just embodied in two layers. Soon or later, the margin for confusing human-interface providers with bot-infrastructure providers will become thinner.

Like it or not, the inexorably high capex gets rid of natural buyer from the market. Recall that commodity markets have “natural” buyers from industrialists who manufacture goods and consumers who eat it. For stocks, the only natural buyers are companies, whether out of the need to acquire each other or rack up financial ratios by reversing the stock issuance.

Exhibit 2: Capital Expenditure by Hyperscaler (US\$ billion)



Source: Bloomberg, Shanghai Commercial Bank



That's why we are seeing in the selloff when titans announced an off-the-chart spending plan without a commercial compass. Over the next few weeks, hard-nosed investors will scrutinize how much money the hyperscalers can really squander, and how much that will cost in terms of fewer buybacks. Our take is that the victims are more easily identifiable than the winners. Part of growing up is choosing.

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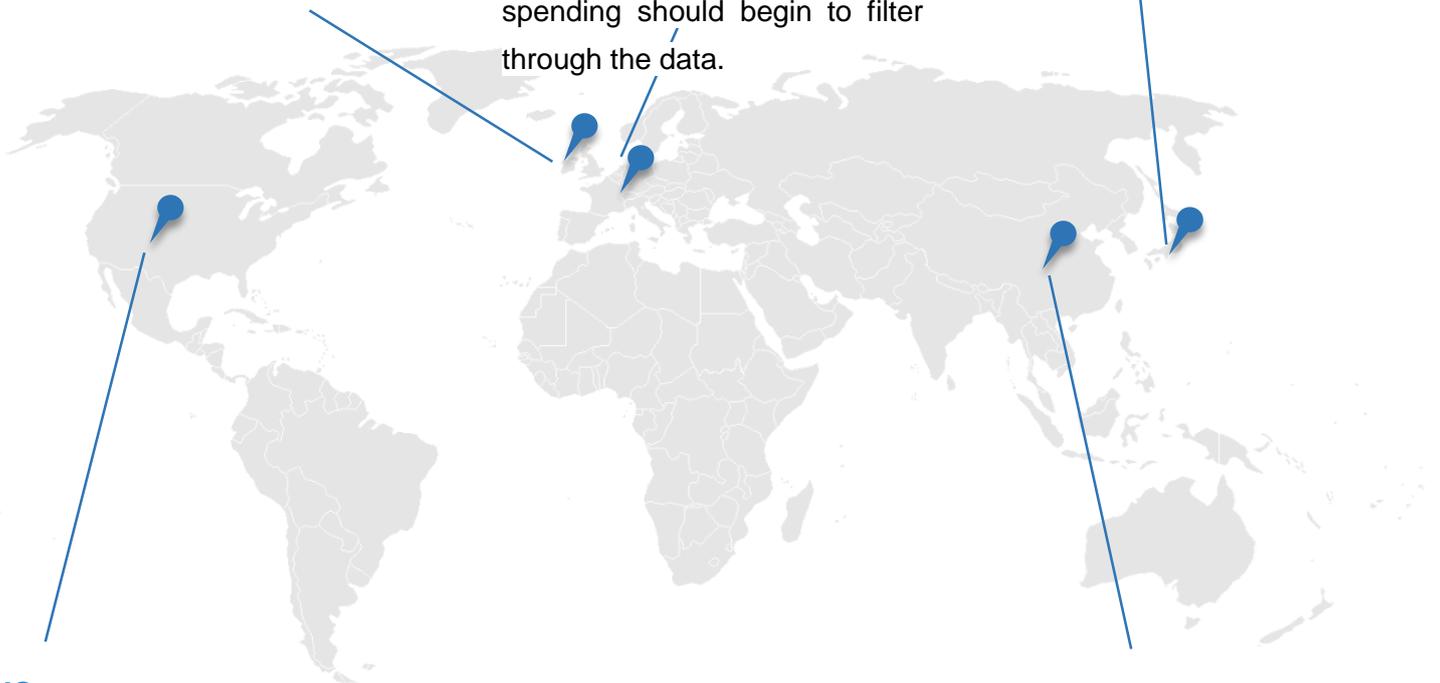
Payrolls fell again, with the additional softness appearing in services. The next 25bp rate cut is expected to come in March.

EU

Recent slew of indicators shows continued signs of strength, but less strong than in 4Q25. The positive impulse from higher infrastructure and defense spending should begin to filter through the data.

Japan

The political capital earned by LDP supermajority enables swift policy. The back-end rate will keep asking for an elevated risk premium.



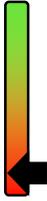
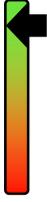
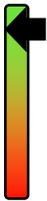
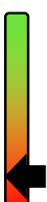
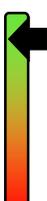
US

U.S. economy starts the year off on stronger footing, adding 130,000 jobs in January. Part and parcel of that is procyclical government policy and ongoing boom in innovation.

Chinese Mainland

While 4Q25 GDP held up well, the official investment cliff should be interpreted with caution. The ongoing enthusiasm in financial markets might dissuade Beijing from acting.

Foreign Exchange Outlook

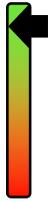
<p>USD</p> 	<p>Overweight Neutral Underweight</p> 	<p>The greenback is experiencing a relief rally after Trump scrapped new tariffs on the EU and hawkish-leaning Kevin Warsh was nominated as the new Fed Chair. We still see risks surrounding the USD outlook as skewed to the downside: Fears over a captured Fed, scrutiny of the A.I. capex plan, and renewed job softness.</p>
<p>EUR</p> 	<p>Overweight Neutral Underweight</p> 	<p>Investors are willing to embrace a higher EUR in response to a geopolitical flare-up. Bearish dollar movement should favour another gentle leg high in EUR.</p>
<p>GBP</p> 	<p>Overweight Neutral Underweight</p> 	<p>Better-than-expected data outturns has defied the pessimistic consensus. GBP terminal rate pricing has thus risen around 10bp since the start of the year, sending the pound to its four-year high. Still, political risks are top of mind for GBP holders. The scope for further Sterling outperformance is limited given a non-remote likelihood of a change in Prime Minister this year.</p>
<p>RMB</p> 	<p>Overweight Neutral Underweight</p> 	<p>The breach of the 7.0 hurdle eased concerns that the PBoC was holding a line in the sand. Equity inflows into the Mainland and overseas repatriation from corporates look to have picked up. A potential state visit by Trump could provide further assurance to RMB bulls.</p>
<p>JPY</p> 	<p>Overweight Neutral Underweight</p> 	<p>A landslide victory by the ruling LDP-JIP coalition is expected to result in more JGB issuance. Coupled with strong foreign security purchases via toshins - boosted by NISA tax benefits and JPY depreciation - are likely to provide headwinds to the yen.</p>
<p>AUD</p> 	<p>Overweight Neutral Underweight</p> 	<p>Australia appears set to receive a positive demand shock associated with the AI-linked infrastructure build-up. Hedging flows could act as another positive driver, considering the AUD should soon become the highest yielder in the space.</p>



Overweight

Neutral

Underweigh



Easier financial conditions appear to be feeding through well. The economic recovery is evidently gaining ground. One might approach the kiwi with cautious optimism.

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