# Stealth Stimulus & The Anti-Involution: Why We Are Buying Baidu

- **Macro:** US markets remain buoyant as aggressive fiscal T-bill issuance offsets QT.
- **Hardware:** Memory Supercycle is driving prices 4x higher, expect to last until 2028.
- **China:** Beijing's "Anti-Involution" policy has forcibly ended destructive price wars.

## FED's QT Isn't Tightening: The Treasury Offset

Despite our bullish conviction in US Tech, we need to flag a key macro paradox: policy is restrictive, but markets are trading like liquidity is easing. In a normal cycle, high interest rates and Fed QT should tighten financial conditions and cap risk assets. Yet market performance has been the opposite, because USD liquidity is not truly tightening—M2 (money supply) is up ~4.3% y-y. The mechanism is a "fiscal offset": heavy issuance of short-dated US T-bills has pulled cash out of money market funds and the Fed's Reverse Repo (RRP), effectively recycling liquidity back into markets and blunting QT's drain. This sets up a fragile setup for 2026—if policymakers fail to manage investor expectations around this implicit support—or if the offset fades—financial conditions can re-tighten abruptly, leaving risk assets exposed.

## Memory Supercycle: 3–4x Pricing, Winners and Losers

One of the core 2026 macro themes is the Memory Supercycle. DRAM/HBM pricing has repriced sharply as suppliers redirect its capacity toward AI data-center demand—pushing average pricing up ~3–4x versus the prior "normal" level—and the market is not expecting a clean stabilization until late 2027 or early 2028. The clear winners are DRAM/HBM producers (Samsung Electronics, SK hynix, Micron) as selling price uplift flows directly into margins. The losers are downstream device makers and consumers: higher memory costs compress hardware margins and can force spec cuts, price hikes, and weaker shipments. We expect AAPL80 to absorb more of the cost and/or pass it through with limited volume damage due to premium pricing power, but budget phones/PCs (e.g., XIAOMI80 and value-tier OEMs) face higher price elasticity—raising the risk of higher retail prices and softer unit volumes through 2026.

## China's Anti-Involution Pivot, From Price Wars to Profit

We continued our interest in the China AI sector, but have remained cautious due to one major weakness: the nature of Chinese pricing. Historically, companies here engage in 'involution'—brutal price wars that destroy profit margins. However, the investment case has improved as of Jan-26. The government has stepped in with strict 'Anti-Involution' enforcement to stop this value destruction. We are seeing this first in the food delivery sector, where regulators are investigating MEITUAN80 and BABA80 to stop cutthroat subsidies. This intervention effectively forces these tech giants to prioritize profit over market share, clearing the way for improved margins this quarter.

## China AI Becomes Investable

This regulatory shift is the trigger for our bullish view on AI stocks. Until this week, BABA80 and TENCENT80 were locked in a destructive price war, selling AI services (tokens) for near $0. This made the sector uninvestable despite the technology being good. Now that the regulator has issued 'closed-door guidance' to stop these below-cost sales, the floor is in. This is a primary catalyst for Baidu (BIDU80).

## DR Pick: BIDU80, TP of THB6.45 (HKG: 9888 at $166, HKD/THB at THB4.00)

We reiterate BIDU80 as our weekly DR pick, with a TP of THB 6.45. As a pure-play AI leader, Baidu suffered the most when competitors subsidized their products to win market share. With the government now forcibly ending this price war, the headwinds have turned into tailwinds. We expect Baidu's momentum and profitability to recover.

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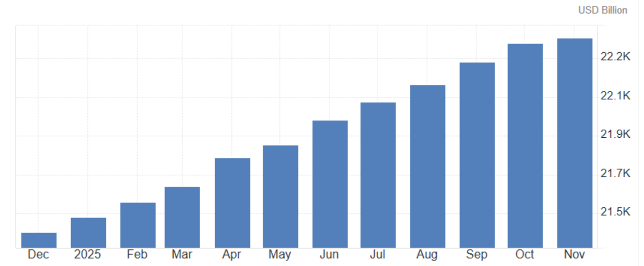
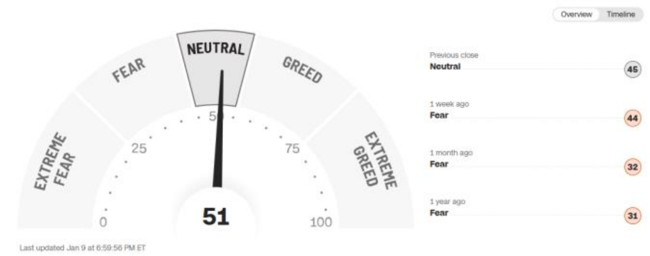
## Exhibit 1: US M2 chart (Dec-24 to Nov-25)



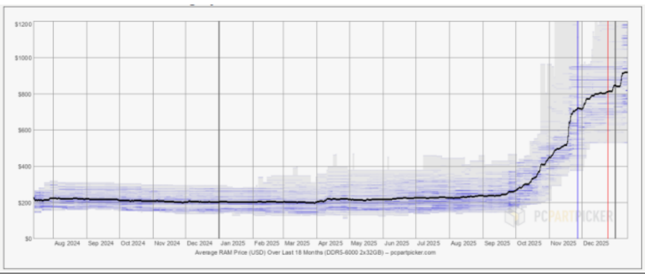

Sources: Trading Economics

## Exhibit 2: Fear & Greed Index (9-Jan-25)



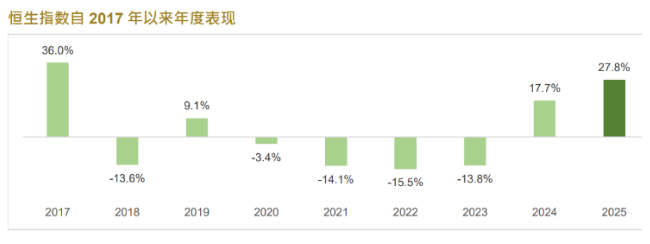

Sources: CNN

## Exhibit 3: DDR5 2x32GB (18 months average price)



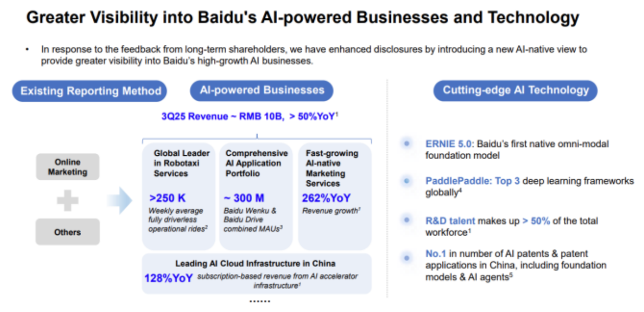
Sources: pcpartpicker

## Exhibit 4: Hang Seng Index return since 2017



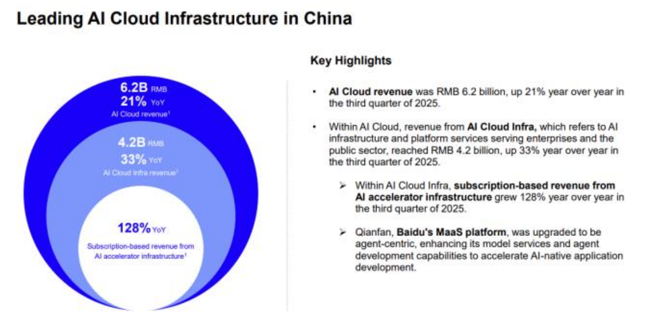

Sources: futunn

## Exhibit 5: Baidu 3Q25 overview




Sources: Baidu

## Exhibit 6: Baidu's 3Q25 AI cloud infrastructure




Sources: Baidu

## Exhibit 7: Baidu's AI Applications


Sources: Baidu

## Exhibit 8: Baidu's AI-native Marketing Services


Sources: Baidu

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## Analyst Certification

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# RECOMMENDATION STRUCTURE
## Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

**BUY:** Expected return of 10% or more over the next 12 months.
**HOLD:** Expected return between -10% and 10% over the next 12 months.
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

## Sector Recommendations

**Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.
**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.
**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

## Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.