



STRATEGY UPDATE • JUNE 2026

Markets climb the wall of worry

KEY TAKEAWAYS

- Earnings growth and accelerating AI monetisation continue to outweigh geopolitical uncertainty, supporting a constructive medium-term outlook for equities.
- The main risk is not the existence of external shocks, but their duration. A prolonged energy disruption could eventually feed into inflation, policy decisions and corporate margins.
- We continue to favour equities over long-duration government bonds as stronger nominal growth and rising fiscal deficits reshape the investment landscape.
- Diversification remains essential. While the United States remains the global innovation leader, Japan, Switzerland and selected international markets offer attractive complementary opportunities.
- The AI investment cycle is broadening beyond software into semiconductors, communications infrastructure, industrial automation and other critical enablers of digital transformation.

The past few weeks have once again reminded investors that financial markets rarely move in a straight line. What initially appeared to be a potentially disruptive escalation in the Middle East gradually evolved into a familiar tug of war between geopolitical concerns and economic resilience. Tensions surrounding Iran, the Strait of Hormuz and global energy supply dominated headlines throughout much of May and early June, yet markets responded with remarkable composure. Oil prices experienced sharp swings as investors alternated between fears of prolonged disruption and renewed hopes for diplomatic progress. At the same time, government bond yields continued their upward march across most developed markets, reflecting both persistent inflation concerns and growing scrutiny of sovereign debt dynamics.

Despite these challenges, **global equity markets delivered another strong month**. The S&P 500 and Nasdaq reached fresh highs, supported by one of the strongest earnings seasons in recent years. More than four-fifths of US companies exceeded analyst expectations and, importantly,

earnings growth broadened beyond the handful of mega-cap technology companies that had dominated previous phases of the rally. While artificial intelligence remains the central investment theme, market participation has gradually widened, with financials, communications services, industrial technology suppliers and selected cyclical sectors increasingly contributing to performance. European equities delivered a more mixed outcome as higher energy costs and weaker consumer confidence weighed on sentiment, while Japan continued to benefit from corporate reforms, improving profitability and strong investor inflows. Emerging markets also participated in the advance, supported by improving technology exports, resilient Asian manufacturing activity and expectations of a softer US dollar over the medium term.

AI & INFRASTRUCTURE

One of the most striking developments remains the **extraordinary speed at which artificial intelligence is moving from concept to commercial reality**. Over the past year, investors have often questioned whether the enormous investments made by technology companies would eventually generate adequate returns. Recent evidence increasingly suggests that this monetization phase is now underway. When digging beneath the surface of broad index performance, it becomes evident that much of the recent momentum has been driven by a relatively small group of frontier technology innovators. The speed at which leading AI companies are converting infrastructure spending into revenue growth is unlike anything previously observed in modern corporate history. Anthropic, for example, reportedly increased its annualized revenue run rate from approximately USD 1 billion at the end of 2024 to roughly USD 30 billion by April 2026, illustrating how rapidly AI adoption is translating into commercial activity.

At the same time, the market is evolving from broad enthusiasm around AI platforms toward **a greater focus on execution and infrastructure**. Investors are increasingly directing capital toward the physical bottlenecks of the AI ecosystem, including semiconductors, memory, networking equipment and data center capacity. This has created the unusual situation of a simultaneous bull market in both information technology and strategic industrial infrastructure, reflecting the growing conviction that AI is becoming an economic reality rather than simply an investment theme. More importantly, **AI adoption is no longer confined to technology companies**. Healthcare, financial services, communications platforms, logistics operators and industrial firms are increasingly integrating AI into their business models, creating a broader and more sustainable ecosystem of beneficiaries.

MACRO & GEOPOLITICS

Against this backdrop, **the global economic environment remains surprisingly resilient**. Growth forecasts have moderated somewhat as higher energy prices, trade frictions and tariff-related uncertainty weigh on activity. Global trade growth is expected to slow compared to last year, and several leading indicators suggest a more moderate pace of expansion ahead. However, there is little evidence of the type of systemic imbalances that characterized previous crises. Unlike the period preceding the Global Financial Crisis, today's vulnerabilities are largely concentrated within public sector balance sheets rather than heavily leveraged households or corporations. Private sector balance sheets remain generally healthy, banking systems are better capitalized and credit conditions remain broadly supportive. This does not eliminate risks, but it does suggest that **markets are currently navigating external shocks rather than internal financial fragilities**.

The most important risk remains geopolitical. History teaches us that energy shocks often matter less because of their initial impact and more because of their persistence. The oil crises of the 1970s fundamentally changed inflation expectations because supply disruptions endured

long enough to influence wages, investment decisions and consumer behavior. Today, markets continue to assume that current tensions will eventually normalize. If this assumption proves correct, recent volatility may ultimately be remembered as another temporary disturbance. However, if disruptions to energy supply chains, shipping routes and transportation networks persist for longer than expected, second-round inflationary effects could emerge and complicate the path for central banks.

PORTFOLIO POSITIONING

From an asset allocation perspective, **we continue to believe that investors should remain invested** rather than attempting to position portfolios around every geopolitical headline. Infrequent but significant market drawdowns are part of investing, and historically the most effective hedge against such periods has been participation in long-term market appreciation. While volatility is likely to remain elevated, **the combination of positive earnings growth, technological innovation and supportive liquidity conditions continues to favor risk assets** over defensive positioning.

We therefore maintain a **preference for equities relative to fixed income**. Long-term government bonds remain challenged by structurally higher nominal growth, elevated fiscal deficits and rising debt servicing costs across many developed economies. The recent rise in yields has generated attractive opportunities within selected shorter-duration and high-quality bond segments, but we continue to see limited appeal in extending duration aggressively at current levels. The investment landscape increasingly resembles an environment where productive assets and earnings-generating businesses are likely to outperform financial assets that depend primarily on declining interest rates.

REGIONS, SECTORS & OUTLOOK

Within equities, selectivity remains crucial. The United States continues to offer the deepest concentration of world-class companies, technological leadership and innovation. While concerns about valuation are understandable, the superior earnings profile of many US companies continues to justify a significant allocation. Nevertheless, concentration risk remains elevated, and diversification across regions is becoming increasingly important.

Japan remains one of the most compelling opportunities within developed markets. Corporate governance reforms, shareholder-friendly policies, rising wage growth and improving domestic demand continue to create a powerful structural backdrop. At the same time, Japanese companies occupy critical positions within global semiconductor and automation supply chains, providing indirect exposure to the AI investment cycle.

Switzerland continues to deserve a prominent role within diversified portfolios. The market offers high-quality businesses, strong balance sheets, attractive dividend profiles and lower sensitivity to economic fluctuations. In an environment where uncertainty remains elevated, these characteristics provide valuable diversification benefits.

Within Europe, opportunities remain selective rather than broad-based. Countries such as Italy and Spain continue to benefit from favorable earnings momentum, infrastructure spending and stronger domestic demand trends than many investors appreciate. Meanwhile, selected mid-cap companies remain attractively valued relative to their US peers.

Emerging markets also merit attention. A gradual weakening of the US dollar, improving earnings revisions and continued technology-driven growth across Asia create a supportive backdrop. While China continues to face structural challenges related to domestic demand and real estate, ongoing policy support and growing emphasis on strategic industries should help stabilize activity over time.

At the sector level, **healthcare** remains attractive due to improving innovation pipelines, demographic tailwinds and increasingly encouraging developments in genomics and personalized medicine. **Financials** continue to benefit from higher interest rates and healthy balance sheets. **Communications services** are emerging as one of the more interesting ways to participate in the AI theme, combining improving earnings momentum with relatively attractive valuations. Finally, **selected semiconductor and infrastructure providers** remain well positioned to benefit from the ongoing expansion of AI-related investment, although investors should increasingly focus on companies capable of converting technological leadership into durable cash flow generation.

In conclusion, markets continue to navigate a complex landscape shaped by geopolitical tensions, rising sovereign debt concerns and rapid technological transformation. While headline risks remain elevated, the underlying economic and corporate backdrop remains considerably stronger than many anticipated at the beginning of the year. The world economy is slowing, but it is not stalling. Earnings continue to expand, innovation remains vibrant and corporate balance sheets remain healthy. The path forward will likely remain uneven, but periods of uncertainty often create the foundation for future opportunities. As investors, the challenge is not to predict every twist in the road, but to remain disciplined, diversified and positioned to participate in the powerful structural trends that continue to reshape the global economy.

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