



STRATEGY UPDATE • JULY 2026

Same bull, new leaders

KEY TAKEAWAYS

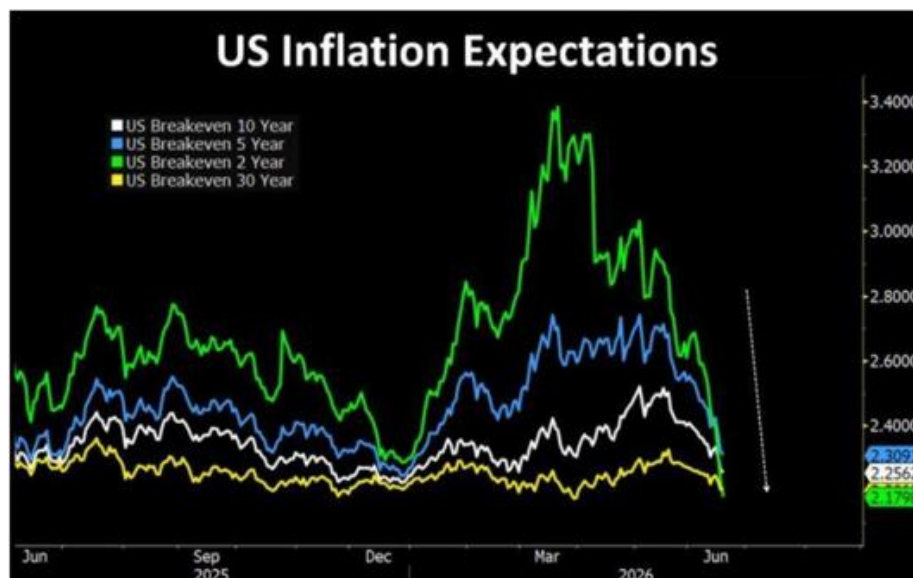
- We remain overweight equities. The bull market is intact and broadening beyond mega-cap technology; we view any near-term pullback as consolidation within a constructive long-term trend, not a reason to reduce structural exposure.
- The AI theme is alive, but the value is migrating along the chain. We favour the long-term survivors of the ecosystem, take profits in the crowded memory trade, and see the derating of quality mega-cap platforms as a selective opportunity ahead of the July earnings test.
- The peak of the 2026 inflation spike is likely behind us as the oil collapse feeds through. Rate hikes are not our base case; we continue to avoid long-dated government bonds and prefer short duration and daily-liquidity equity market neutral strategies as portfolio ballast.
- Gold stays in place. Recent weakness is tactical; the strategic case, a hedge against fiscal deterioration and a fragmenting monetary order, is unchanged, and we keep our allocation to hard assets.
- We expect volatility into the November US mid-term elections, particularly in higher-beta segments, and intend to treat it as an opportunity to add to structural themes: healthcare, quality defensives, southern Europe, Japan and selected emerging markets.

The second quarter closed with the strongest performance of major US indices since 2020, with the S&P 500 up roughly 15% over the three months and nearly 10% year to date, while the Russell 2000 delivered its best first half since 1991. That last statistic is the important one. Beneath a serene surface, June staged a genuine changing of the guard. The Magnificent 7 lost around 12% and some USD 2.3 trillion of market value in a single month as investors began to scrutinize the returns on their enormous AI infrastructure spending, while semiconductor and memory names went, quite literally, parabolic: the SOX index has roughly doubled since the end of March, and Micron is up more than 260% this year. Large-cap value beat growth by almost four percentage

points in a month, the equal-weighted S&P 500 outperformed its cap-weighted sibling, and the Dow printed fresh record highs, fittingly in the same week Alphabet replaced Verizon among its thirty members. Geopolitics supplied the fuel: the memorandum of understanding between Washington and Tehran signed at the G7 summit in Évian, and the reopening of the Strait of Hormuz, sent crude back below its pre-war level near USD 70, an outcome few dared to price in February. Let that sink in: **one of the most feared energy shocks in recent memory has been fully absorbed. Meanwhile the dollar index climbed back above 100, gold slipped below USD 4,000 for the first time since last November, and the 10-year Treasury yield briefly dipped under 4.40%.**

RATES & INFLATION

The other protagonist of the month sat in Washington. **Kevin Warsh's first FOMC meeting left rates unchanged but dismantled much of the Fed's communication apparatus**, abandoning forward guidance in a deliberate return to the "purposeful obfuscation" once cultivated by Alan Greenspan, who passed away in June at the age of 100. The committee's projections pencil in a possible hike, and markets briefly priced one in, yet the bond market is visibly not buying the tougher talk: hike expectations have already faded, inflation **breakevens are falling across the curve**, and household inflation expectations are easing. We side with the market rather than the rhetoric. Energy alone contributed roughly 1.5 percentage points to the 4.2% CPI print, a contribution that mechanically reverses from July onwards as cheaper oil works through the index, while private job growth is slowing and corporate lay-off announcements are mounting. A central bank cannot pursue inflation credibility in a vacuum; it must weigh it against a cooling labor market and the Treasury's elevated interest burden. **Rate hikes are therefore not the most likely outcome in our view.** We would flag one caveat that deserves attention: surging memory and component costs are starting to reach the consumer, with Apple, Microsoft, Nintendo and Sony all raising hardware prices. **Should AI capex become a durable third wave of inflation, after supply chains and tariffs, the new chair's job would get harder.** For now, the hawkish tone and the flow of global capital into US assets support the dollar tactically, but we do not expect a meaningful further appreciation and are not positioning for one. Politics adds a final twist: fiscal generosity will almost certainly flow freely ahead of the mid-terms, but Warsh's debut made clear that monetary support can no longer simply be assumed on demand.



Source: Bloomberg

AI & CAPEX

Artificial intelligence remains the defining story, but the market is now asking a sharper question: not whether AI transforms the economy, but who captures the margin along the way. We find it useful to split the ecosystem into **check writers and check receivers**. The **hyperscalers** write the checks, spending an estimated USD 741 billion on infrastructure this year, roughly 75% more than last year, and their free cash flow is compressing accordingly; their forward valuations now trade at a discount to the S&P 500 for the first time since ChatGPT was launched. The check receivers, **semiconductor makers, memory producers, equipment and power suppliers**, cash them, enjoying bottlenecks, swelling order books and pricing power not seen in a generation. History rhymes here: like the railway manias of the nineteenth century or the telecom build-out of the late 1990s, **the infrastructure phase of a technological revolution rewards the suppliers of picks and shovels long before the ultimate business models are settled**. This is precisely the distinction we drew in our June Investment Alert between long-term survivors and tactical trend-followers, and the past weeks have validated it emphatically. It also carries a warning. The AI trade has advanced in waves, first logic chips, then power and data centers, lastly and most violently memory, and **the memory wave now shows classic signs of crowding**: when a leveraged ETF on a single Korean chipmaker gathers assets comparable to Hong Kong's flagship index fund, prudence is warranted. We have accordingly taken profits in the most momentum-driven part of our exposure, rebalancing our Korean allocation back to target weight after an exceptional run, while keeping the structural core intact. Encouragingly, monetization is no longer hypothetical: hyperscaler share prices increasingly track actual token consumption, and Meta's decision this week to sell its excess computing power as a cloud service shows capital discipline entering the system. The second-quarter earnings season, which opens in a few days, will be the referendum on the whole complex.

PORTFOLIO POSITIONING

Our asset allocation reflects these views with more continuity than change. We remain overweight equities and did not reduce exposure into strength; discipline means more diversification, rather than de-risking. Within the US we continue to spread exposure across styles, sizes and sectors, since the winners of this cycle are far more numerous and dispersed than the previous one. **Japan remains a conviction**: governance reform and supply-chain relevance are intact, and with the yen near 160 to the dollar, its weakest in four decades and a level last defended at the Plaza Accord in 1985, the currency offers considerable optionality. **In Europe we keep our tilt toward Italy and Spain**, where banks and utilities provide earnings momentum and the strategic autonomy capex cycle, from defense electronics to grids and electrification, is a multi-year story; Spain's abundant clean power increasingly positions it as an AI energy hub. Emerging markets we approach with a deliberate Asian tilt: **just three stocks account for virtually all of the MSCI EM index's 24% gain this year**, and all sit at the heart of Asia's technology supply chain. Our focus on the region keeps us on the right side of that concentration, where the AI investment cycle, resilient manufacturing and improving earnings revisions are doing the heavy lifting. Consumer staples and healthcare, which we introduced several months ago, earned their keep in June and remain attractively valued with unusually light investor positioning.

HEDGES & OUTLOOK

In fixed income we stay away from long-dated government bonds across the G7, where deteriorating public balance sheets are a shared affliction, and we equally see little appeal in stretched credit spreads; our preferred ballast remains liquid alternative strategies with a market neutral profile, which offer limited sensitivity to interest rates and credit spreads and a return stream largely independent of equity markets. **Gold has tested investors' patience**. The metal has fallen around 20% from its late-January peak above USD 5,500, and being down

alongside Bitcoin makes for uncomfortable company. Yet we are keeping our allocation unchanged. We do not own gold as an inflation trade or a rate trade; we own it as insurance against fiscal deterioration and a fragmenting monetary order, and those forces have not gone anywhere. If anything, the recent acknowledgement in Washington that frozen sovereign assets cannot stay frozen forever confirms why reserve managers outside the West keep diversifying. The same logic extends to our broader hard-asset exposure: a single gigawatt-scale AI data center requires some 27,000 tons of copper and a periodic table of critical minerals, a reminder that **this revolution is a commodities story as much as a software one, and one that supports our position in rare earths.**

Markets have rarely depended so heavily on a handful of powerful narratives whose outcomes remain genuinely uncertain, and such moments call for humility rather than extreme positioning. The bull market is intact, breadth is healthy, and the economy has absorbed a war, an oil shock and a new Fed chair without losing its footing. Volatility into the mid-terms is likely, particularly in the higher-beta corners of the market, and we intend to treat it as the raw material of opportunity rather than a signal to retreat. Calling a market top is rarely a repeatable investment process. Staying exposed to structural growth, energy transition, digitalization, Japan and Korea, while maintaining ballast through hard assets and genuinely uncorrelated strategies, remains, in our view, the more robust approach.

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