INVESTMENT OUTLOOK JULY 2026

At a Glance

- **Base case:** Growth holds, but the outlook is constrained by incomplete normalisation, an inflation-sensitive Fed and structurally higher yields.
- **Why:** Oil tail risk has faded from market pricing, while AI capex and resilient employment still support earnings and activity.
- **Key risk:** A renewed Hormuz disruption, inflation re-acceleration or crowded AI unwind could pressure valuations and tighten financial conditions.

Key Themes

1 Growth holds, but normalisation is incomplete

- Oil prices have retraced as investors price a durable truce and passable Hormuz.
- Vessel flows remain below norms, so markets have normalised faster than physical supply chains.
- A stalled shipping recovery could rebuild a geopolitical risk premium in oil and risk assets.

2 AI fundamentals remain intact, but structure is fragile

- Hyperscaler capex, semiconductor earnings and infrastructure demand still support the AI cycle.
- Leveraged ETFs, options and margin financing have amplified momentum in a narrow set of winners.
- Crowding raises VaR-shock risk if disappointments trigger mechanical de-risking.

3 A more hawkish Fed keeps inflation risk in focus

- The June FOMC showed greater willingness to consider tightening if inflation stays persistent.
- Softer labour data has reduced near-term urgency, but inflation remains the policy constraint.
- Base case remains on hold through 2026; a hike is a risk scenario, not the central case.

4 Long-end bond yields have reset higher

- Scarcity in capital, energy, infrastructure and critical materials argues against a return to low yields.
- Fiscal issuance and AI/energy/infrastructure capex keep term premia elevated.
- Long-duration sovereign bonds are less reliable as a ballast when inflation shocks hit both stocks and bonds.

Key Signposts

- **Hormuz traffic:** whether vessel flows normalise or a stalled truce restores a geopolitical risk premium.
- **Inflation data:** whether energy and supply-chain frictions show up in broader input costs and margins.
- **Fed reaction function:** whether inflation and labour data revive rate-hike pricing.
- **Long-end yields:** whether fiscal pressure, issuance and term premia keep yields elevated.
- **AI market structure:** whether ETF, option and margin flows amplify semiconductor volatility.
- **Earnings revisions:** whether AI capex, semis and memory continue supporting EPS delivery.
- **Real-asset scarcity:** whether power, grid and critical-material bottlenecks persist into 2H26

INVESTMENT STRATEGY JULY 2026

At a Glance

- **Most likely outcome:** Equities remain supported by earnings, but higher rates, AI concentration and tight spreads make returns more selective and volatile.
- **Implementation bias:** Stay neutral on equities and fixed income; prefer Asia/EM and Japan over the US, credit carry over duration, and gold/real assets as diversifiers.

Key Themes

5 Credit carry remains supported, but cushion is thin

- IG leverage and interest coverage remain healthy, while starting yields support demand.
- HY quality has improved as higher-rated and secured issuance make up a larger share of the market.
- Tight spreads leave little margin for error, so selection matters more than broad credit beta.

6 Equities remain earnings-led, not valuation-led

- 1H 26 returns were driven by earnings growth, resilient activity, AI investment and positive revisions.
- Higher-for-longer rates limit valuation upside, so EPS delivery must continue to validate the rally.
- Expect a higher-volatility path as concentrated leadership raises sensitivity to disappointment.

7 Prefer Asia, EM and Japan over US equities

- Asia/EM offer stronger earnings growth at lower valuation multiples, with Taiwan and Korea tied to AI.
- Japan is supported by corporate reform, buybacks, pricing power and improving ROE.
- US AI franchises remain strong, but higher expectations leave less room for upside surprise.

8 AI valuation dispersion favours selectivity

- AI Semis and Memory screen best on growth-versus-valuation support.
- Hyperscalers are closer to market multiples, while Software and AI Power face higher hurdles.
- Prefer AI exposure where earnings are visible today and optimism is not already fully priced.

9 Commodities and gold reflect strategic scarcity

- AI, defence, electrification and data centres need copper, aluminium, lithium, uranium and rare earths.
- Supply remains constrained by long lead times, concentrated processing and geopolitical chokepoints.
- Gold provides monetary insurance against fiscal stress, sanctions, policy credibility and de-dollarisation risk

10 Portfolio construction shifts from beta to selectivity

- Prioritise income in fixed income, earnings delivery in equities and real assets as hedges.
- Use volatility to add risk only where earnings and cash flow remain intact.
- Neutral overall stance, but tilt toward quality credit, Asia/EM and Japan, and strategic gold/real assets.

INVESTMENT STRATEGY JULY 2026

Global Tactical Asset Allocation

Sub-Asset Classes	UW	N	OW	Comments
Equities				
US/Canada				• Earnings remain the key support as higher-for-longer rates limit multiple expansion. • Prefer Asia/EM and Japan over the US; Taiwan and Korea benefit from AI supply-chain demand while Japan benefits from reform and buybacks. • Stay constructive but selective on AI, using volatility to add only where earnings remain intact.
Europe				
Japan				
Asia & EM				
Global Thematic Equities				
Fixed Income				
Developed Sovereign				• Fixed income remains a carry story rather than a duration story. • Maintain an Underweight to developed sovereign bonds as long-end yields stay structurally elevated and duration is a less reliable hedge. • Prefer IG and selected EM debt for quality carry; stay selective in HY where spreads are tight.
Developed Corp IG				
Developed Corp High Yield				
Emerging Markets Bonds				
Alternatives				
Precious Metals				• Real assets are becoming strategic diversifiers in a world of scarcity, fragmentation and infrastructure build-out. • Industrial commodities capture physical bottlenecks across AI, power, defence and electrification. • Maintain strategic gold exposure as monetary insurance against fiscal stress, policy credibility risk and de-dollarisation.
Hedge / Alternative Funds				