A good start to the second half, we stay slightly cautious

- **Last week was overall positive for stocks and gold, though not that much for bonds and the dollar**
- **Manufacturing PMIs confirm a solid growth while US monthly new jobs disappointed**
- **We decided to maintain a slightly defensive positioning for the summer**

Global markets were overall positive last week, especially for stocks with a rebound in the AI ecosystem across regions. The fixed income asset class was held back by a bear steepening of the US yield curve: longer tenors gained 10bps but the shortest ones dropped following a pedestrian monthly jobs report. The dollar weakened as a result, supporting gold while oil prices were stable around $72 for the Brent.

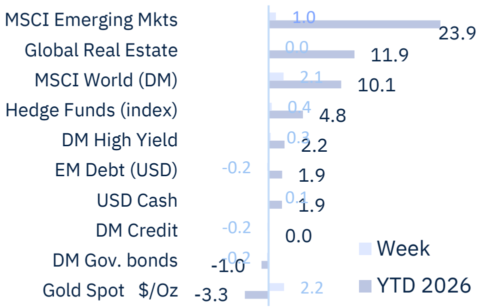
We held our monthly investment committee last week and decided to maintain a slightly defensive positioning. The backdrop is clearly constructive: activity is robust, with great help from the AI buildup, as confirmed by last week's manufacturing PMIs. Not one week passes without an announcement of another large investment in compute and AI. Oil is now flowing, tankers are crossing Hormuz, which helps on headline inflation and policy wise, we continue to believe that the Fed won't hike rates this year. Futures markets are getting closer to our baseline, now pricing in only 30 basis points of tightening this year after the disappointing job creations.

The reason for us to lean on the cautious side is that valuations are already reflecting this blue-sky scenario, and that investors sentiment and positioning are both rich. We are thus overweight cash and stocks from the emerging regions, but underweight developed equities and hedge funds. We are neutral on everything else. Our profiles delivered returns between +3.4% and +8.4% in the first half of the year, so we are on track in terms of returns.

The week ahead will provide leading indicators for services and inflation in China. The focus will soon turn to the Q2 earnings season, which will help gauge whether current valuations are justified. Then the July Fed meeting should be more than a statement of intention from the new chair. Finally, we will hold our Mid-Year Update webinar this Tuesday 7.

Have a great week.

Asset Classes USD % total. Return, week and YTD 2026



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Cross-asset Update

Gold is not dead as a safe-haven asset and will soon stage a comeback. Some investors wonder why they should invest in gold, as it is a non-yielding asset. The answer is simple: it is a competitive store of value to the US dollar, so the less one trusts the dollar, the more gold one should own. And one does not trust the dollar when debt loads remain unchecked, as it is currently the case. When debt loads are excessive, sovereigns find ways to share their burdens with their citizens and bondholders, via inflation, via higher taxes, or defaults. Western governments have chosen inflation, by increasing debt in an unconstrained way. The United States can basically print money at will as it prints the global reserve currency, and it is taking advantage. So, the country with the most degrees of freedoms is the most accountable in driving the value of gold up.

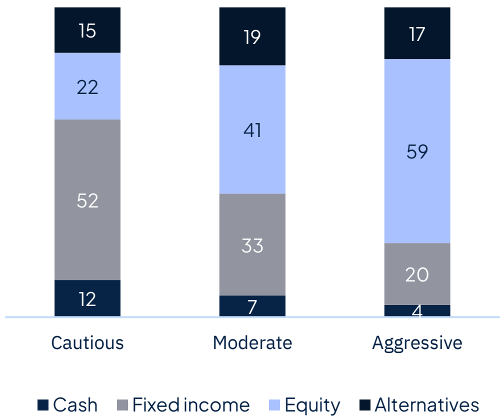
New Fed chair Kevin Warsh has declared commitment to fighting inflation. He is building credibility, and investors are trusting him. But who is in power is rather inclined to act as per incentives. What are the incentives? They are in the high public debt levels: they require lower rates; in the massive AI investments: they require lower rates; in the non-cheap stock market that is a source of revenue for the Treasury and of wealth for the super-rich: it requires lower rates. Warsh will find his way to these incentives. Kevin Warsh can leverage lower oil prices, that mean lower inflation and were engineered with an Iran deal. He can leverage the spreading of AI, that means lower inflation via efficiency gains, and whose benefits have been touted by Warsh himself. He can leverage new inflation gauges, like trimmed-mean inflation, that he's planning to introduce, that will produce lower inflation readings.

All of this will put him on a firm ground to justify the easing, rather than the tightening, of policy. He first gains credibility, to then follow the incentives. The point is, when the system is highly leveraged, negative real rates, that is nominal rates below inflation, bail the system out. They also make the system inherently unstable, so managing it while avoiding asset bubbles is hard.

Hence in times of explosive public debt levels, when money's purchasing power shrink, our incentive, the incentive of investors, is to own physical gold. Yes, a non-yielding asset that has been an anchor of value across centuries.

Our gold fair value for the year was lowered to $4,500/oz from $5,200/oz. It is not a lower vote of confidence in the yellow metal, rather a risk adjustment of the fair value that takes into account the overall hawkish turn of central banks globally, hence the higher volatility weighing shorter term on the investment case.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.		=	
DM Credit		=	
DM H. Yield		=	
EM Debt		=	
DM Equity	<		
EM Equity			>
Gold		=	
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

A softer-than-expected June nonfarm payrolls report shifted the rates outlook meaningfully, with the below-consensus jobs print prompting traders to reduce expectations for a near-term Fed hike. Interest-rate swaps priced the probability of a hike at the next meeting at around 20%, down from roughly 36% earlier in the week, after Fed Chair Kevin Warsh said inflation risks were easing as oil prices fell. At the ECB's annual Sintra symposium, policymakers remained divided: Chief Economist Philip Lane avoided committing to another hike, while Governing Council member Ulo Kaasik said at least one further increase would be "reasonable." Meanwhile, the Bank of England's Catherine Mann said she was prepared to support an "activist" hike if inflation expectations do not improve in the second half, though she backed holding rates at 3.75% for now.

US Treasuries ended the holiday-shortened week with a bull-steepening bias at the front end. The 2-year yield fell 6 basis points to 4.11% on the back of the soft payrolls data, while the 10-year yield declined more modestly to around 4.46% and the 30-year edged up to 4.99%, leaving the 5s30s spread near 76.5 basis points. We believe the curve is likely to steepen further, with shorter-dated yields anchored by fading hike expectations while longer-dated real yields remain supported by residual inflation concerns.

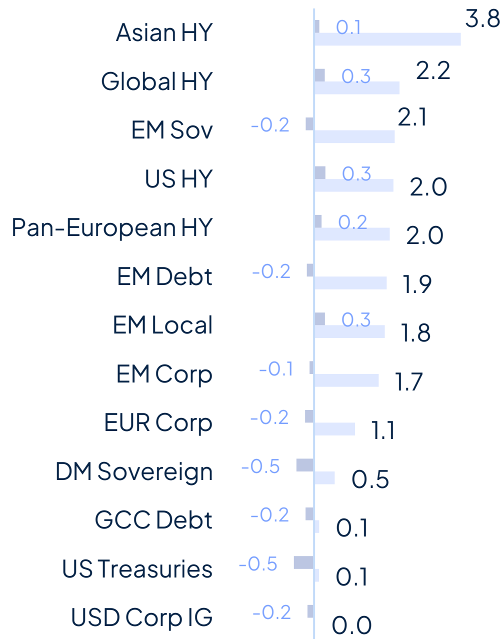
US investment-grade spreads tightened 1 basis point over the week to 75 basis points, though the Bloomberg US Corporate IG index posted a negative total return of -0.49%, weighed down by the rate move. US high yield fared better on a spread basis, with spreads narrowing 15 basis points to 267 basis points by week's end, and the Bloomberg US Corporate High Yield index returning 0.29% for the week. In EM, the Bloomberg EM USD Aggregate index saw spreads narrow 4 basis points to 163 basis points. Fixed income attracted strong inflows in the week to July 1, with bond funds drawing $29.1 billion and money market funds pulling in $55 billion.

Last week, there were two GCC issuances. National Bank of Ras Al Khaimah raised $600mn through a senior unsecured bond priced at 5.375%, while Mashreq Bank issued a $500mn perp5.5 year bond at 6.625%. YTD GCC issuance has reached $90 bn, with KSA accounting for 45% of the total and the UAE 30%. This week, Ajman Bank announced a mandate for a perpetual 5.5year sukuk. The bank is sharia compliant and benefits from strong support from the Government of Ajman, which directly and indirectly owns 57.7% of its share capital.

Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns
(US$ TR, week, YTD 2026)



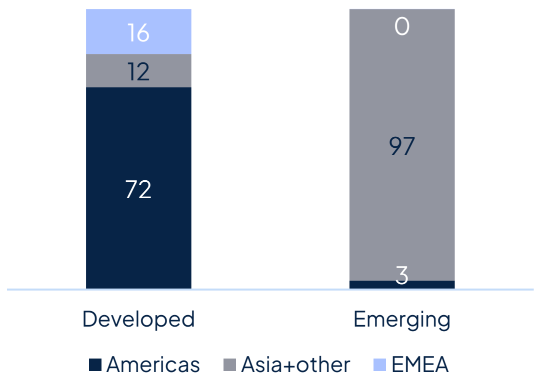
Equity update

Global equities rose broadly last week, with MSCI ACWI up 2.0%, developed markets up 2.1% and emerging markets up 1.0%, even as the semiconductor complex sold off sharply midweek. The difference from the prior week was breadth. Instead of the whole index following memory and chips down, money rotated into cyclicals, financials, defense and a long list of names outside the AI hardware trade, and a soft US jobs print eased pressure on the Fed and helped the broad tape hold. The caution is that the leadership that cracked is still the most concentrated part of the market, and it cut both ways within the same week. In the US the S&P 500 rose 1.8% and the Dow hit a record, up 2.0%, while the Nasdaq 100 lagged at 0.7%, and that split was the whole story. The Philadelphia Semiconductor Index had just closed the best quarter on its record in June, then fell back to back to start July, off roughly 11% over two sessions, after The Information reported Anthropic is in talks with Samsung to build a custom AI chip and Meta detailed plans to sell excess cloud compute, both feeding fears the data center buildout has run ahead of demand. But the tell was underneath: the Magnificent Seven finished higher with Apple up 12% and only Nvidia lower, and the broadening into financials and cyclicals is exactly what we want to see when the index leaders wobble. Single names carried the rest: Tesla fell 7.5% on a classic sell the news after strong deliveries as BYD retook the global EV lead, Comcast jumped on a plan to split, and Michael Burry disclosed a short in Caterpillar.

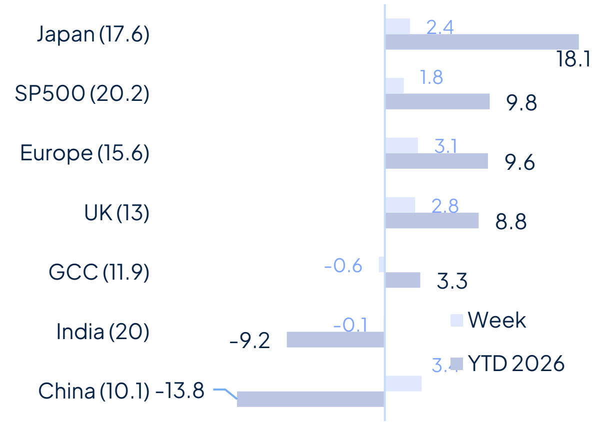
Elsewhere, Europe is up 2.7% as the rotation is working in its favor, into industrials, banks and defense rather than the market's recent winners, and roughly three quarters of the index finished higher, the kind of participation the US still cannot claim at the index level. Japan kept pace, TOPIX up 2.7%, on the same move out of technology and into the laggards, with Kioxia capturing the whipsaw, down as much as 12% intraday before closing up 9.2% on Friday, and Japanese equities drawing their biggest inflows in seven weeks as money left the US. Emerging markets rose 1.0%, but Korea was the drag: its memory giants were hammered midweek, and even a hard Friday snapback, the Kospi up 5.8%, was not enough to repair the damage, leaving Korea down 3.9% and its benchmark in one of its most volatile stretches in three decades. China was the standout, MSCI China up 3.5%, with the strength in the offshore internet and EV names rather than the onshore tape, where the STAR 50 fell 8% before recovering. Dubai ended up 0.7%, a quiet passenger in the global risk on.

The bottom line is that the AI trade is not broken, but the days of everything rising together are behind us. The market took a scare almost identical to the prior week's and held, breadth is quietly improving, the rotation into cyclicals and banks is broadening, and the economy is holding. The next real test is the second quarter earnings season, which begins in earnest later this month, with consensus looking for roughly 26% earnings growth still led by tech, a high bar for a market sitting at records to clear. The speed of the moves, two sessions erasing the best quarter chips have ever posted, is the reminder of how concentrated this still is, and that concentration works in both directions.

Equity Recommended Regional Positioning

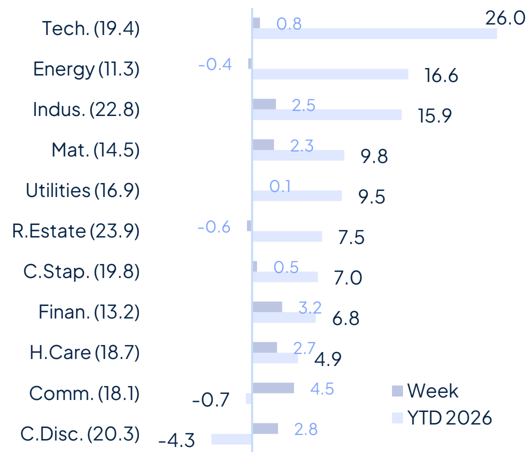


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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