Quarterly Insight 3Q26

Creativity within Excellence

CBH | Investment Management

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Contents

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The Call of the Summits

Key Takeaways

- The global economy continues to demonstrate remarkable resilience despite geopolitical tensions, energy shocks and higher interest rates.
- Artificial intelligence remains the dominant driver of investment, productivity growth and corporate earnings.
- The AI investment boom is creating its own constraints through rising demand for capital, electricity, infrastructure and skilled labour.
- While equity markets continue their ascent toward new summits, bond markets remain a reminder that altitude comes at a cost, with higher yields reflecting persistent inflationary pressures, expanding fiscal deficits and the growing scarcity of capital.
- The challenge for investors is not whether growth exists, but how much they should be willing to pay for it.

Human progress has often been driven by a simple instinct: the desire to go higher. Whether exploring new continents, reaching the poles, climbing the world's highest mountains or venturing into space, each generation has been drawn toward horizons that once appeared unattainable. The attraction of the summit is not purely practical. It reflects a deeper ambition: the willingness to look beyond current limits and imagine what lies further ahead.

Financial markets are often shaped by the same dynamic. Investors, entrepreneurs and innovators are constantly searching for the next frontier. Today, that frontier is increasingly defined by artificial intelligence, advanced technologies and the infrastructure required to support them.

The recent IPO of SpaceX provides a powerful illustration of this phenomenon. Beyond its financial significance, it reflects the willingness of investors to allocate capital to projects whose ambitions extend far beyond current economic realities. The company's success is a testament to exceptional execution, technological innovation and long-term vision. At the same time, it reminds us that every great achievement begins with a willingness to pursue objectives that initially appear distant, uncertain or even improbable.

Every great ascent begins with the conviction that the summit exists, even when it cannot yet be seen.

In many respects, the current investment landscape is being shaped by a similar conviction. Over the past two years, the AI revolution has evolved from a technological breakthrough into one of the largest investment cycles in modern history. Capital expenditure plans among hyperscalers continue to exceed expectations, while demand for semiconductors, data centres, electricity infrastructure and advanced networking equipment remains exceptionally strong.

What initially appeared to be a software story has become a vast industrial undertaking requiring unprecedented amounts of capital, energy and engineering expertise.

The success of early pioneers has encouraged new participants to join the ascent. As one company reaches a new altitude, others quickly follow. Anthropic, OpenAI, Databricks and a growing number of technology leaders are increasingly viewed as potential candidates for future public listings. Much like successive climbing teams establishing camps higher up the mountain, companies are racing to secure their position in what many perceive to be a once-in-a-generation opportunity.

The remarkable feature of 2026 is that this ascent has continued despite a growing number of obstacles.

Over the past eighteen months, investors have faced escalating geopolitical tensions, renewed trade frictions, rising energy prices, persistent inflation concerns and significantly higher long-term interest rates. Traditionally, such conditions would have acted as a powerful force pulling asset prices back toward lower levels. Yet equity markets continue to trade near record highs, credit spreads remain close to cycle lows and corporate earnings have continued to surprise positively.

The resilience of financial markets is not simply a consequence of optimism. It reflects the resilience of the underlying economy itself.

The United States continues to demonstrate an impressive capacity to absorb shocks. Consumption remains robust, labour markets remain healthy and productivity growth has accelerated. Europe, while facing a more difficult environment, has shown considerably greater resilience to the latest energy shock than many would have anticipated only a few years ago. Across Asia, investment linked to artificial intelligence continues to support activity, reinforcing the region's role as a critical component of the global technology ecosystem.

Even the oil market has proven surprisingly resilient. The disruption of flows through the Strait of Hormuz represents one of the largest supply shocks in modern history. Yet a combination of inventory drawdowns, alternative supply sources and weaker demand has prevented the type of price surge experienced during previous energy crises. Once again, the global economy has demonstrated an ability to adapt more quickly than many observers expected.

However, every mountaineer understands that the challenge of an expedition changes with altitude.

The higher one climbs, the thinner the air becomes. Progress requires greater effort, mistakes become more costly and the margin for error narrows. Reaching high altitude does not guarantee that the summit will be reached safely.

Financial markets increasingly exhibit similar characteristics.

There is a certain irony in today's environment. The very forces driving economic growth and market optimism are also contributing to some of the challenges investors now face.

Artificial intelligence is creating productivity gains, supporting corporate earnings and stimulating investment on a scale rarely seen outside major industrial transformations. Yet the same phenomenon is also generating unprecedented demand for electricity, infrastructure, semiconductors, financing and skilled labour. Governments are simultaneously funding defence, energy security, industrial policy and technological competitiveness. Together, these forces are increasing competition for both physical and financial resources.

In other words, the ascent itself is creating new constraints.

This reality is increasingly visible in bond markets. Long-term government bond yields have risen sharply across developed economies as investors reassess inflation risks, fiscal sustainability and the future path of monetary policy. Government debt burdens continue to rise, while financing needs are expanding across areas as diverse as defence, energy infrastructure and artificial intelligence.

Unlike previous cycles, capital is no longer abundant and costless. The return of higher term premia suggests that investors are becoming increasingly sceptical of the assumption that interest rates will eventually return to the exceptionally low levels that prevailed during much of the past two decades.

This creates an important distinction for investors.

The question is no longer whether economic growth exists. Growth remains surprisingly resilient. Nor is the question whether technological innovation will continue. The scale of investment currently taking place suggests that the AI revolution is still in its early stages.

The more relevant question is how much investors should be willing to pay for that growth in a world characterised by higher interest rates, rising fiscal constraints and persistent geopolitical uncertainty.

For now, markets continue to answer that question positively. Earnings growth remains sufficiently powerful to offset many of the macroeconomic headwinds that would typically weigh on valuations. Yet the balance is becoming more delicate.

As a result, diversification remains as important as ever. Successful mountaineers do not reach the summit by focusing solely on the final objective. They also pay close attention to weather conditions, changing terrain and the risks encountered along the way. Investors face a similar challenge. Participating in long-term structural opportunities remains essential, but so does maintaining sufficient flexibility should conditions become less favourable.

The appeal of the summit has always been a defining characteristic of human ambition. The extraordinary investment taking place across artificial intelligence, digital infrastructure and advanced technologies reflects that same instinct today. The desire to push beyond existing limits remains one of the most powerful forces shaping economic progress.

The challenge, both for mountaineers and investors, is not simply to climb higher. It is to recognize that every ascent eventually encounters new constraints. The next phase of the journey may depend less on the ambition to reach new summits than on the ability to navigate the challenges created by the ascent itself.

"An alpinist is a man who leads his body to where his eyes have already been." - French alpinist Gaston Rébuffat

Macro Outlook – United States

Key Takeaways

- US growth remains remarkably resilient despite repeated adverse shocks.
- AI-driven investment and strong consumption continue to support activity.
- Productivity growth has accelerated, underpinning US economic outperformance.
- Inflation has re-emerged as the key macroeconomic risk following the energy shock.
- The Fed faces a more complex trade-off between inflation control and growth support.
- Fiscal policy remains highly expansionary despite rising debt sustainability concerns.

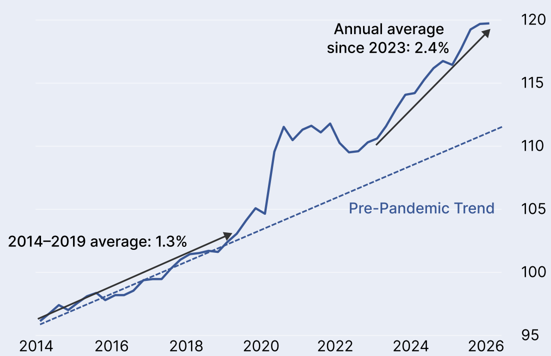
The US economy continues to demonstrate remarkable resilience despite a succession of adverse shocks over the past several quarters. Growth remained solid through the first half of 2026, weathering tariffs, tighter immigration policies and, more recently, a renewed energy price shock linked to tensions in the Middle East. Once again, the US economy has shown an ability to outperform expectations and maintain a pace of expansion above its estimated long-term potential.

Two factors largely explain this resilience. First, investment remains exceptionally strong, particularly in sectors linked to artificial intelligence and digital infrastructure. The current AI investment cycle has become a powerful driver of demand, supporting capital expenditure, and corporate earnings across a broad ecosystem of technology-related industries. Second, private consumption remains robust, supported by healthy household balance sheets, rising asset prices and continued income growth.

However, aggregate consumption figures mask significant divergences across income groups. Higher-income households continue to benefit from substantial wealth effects generated by elevated equity valuations and real estate prices, while energy and food account for only a limited share of their expenditure. In contrast, lower-income households are considerably more exposed to rising energy and food prices and derive little benefit from asset appreciation or from the tax measures implemented by the Trump administration. As a result, the latest energy shock is likely to weigh disproportionately on the purchasing power of more vulnerable households.

A key feature of the current cycle has been the acceleration in productivity growth. US productivity gains are now running modestly above their historical average and significantly above the pace observed during the decade preceding the pandemic, despite comparable GDP growth rates. While enthusiasm surrounding artificial intelligence has fueled expectations of a new productivity revolution, it is probably too early for AI adoption itself to explain the recent macroeconomic data. Rather, current gains appear to reflect the delayed impact of years of strong investment in digital technologies and intellectual property, as well as structural changes in labor markets, including the widespread adoption of remote and hybrid working arrangements. Over the medium term, however, AI is likely to reinforce this positive productivity trend through both supply-side efficiency gains and continued demand for investment.

Labor Productivity per Hour Worked
Index



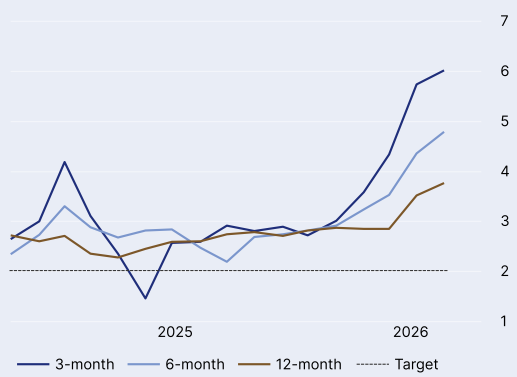
Source: LSEG Datastream/ CBH Investment Management

The labor market, meanwhile, has shown notable resilience. After a period of moderation, employment indicators are beginning to stabilize and, in some cases, improve. While hiring has slowed compared with the post-pandemic boom, fears of a sharp labor market deterioration have not materialized. This resilience continues to underpin household spending and broader economic activity.

Inflation remains the principal macroeconomic challenge. Already above the Federal Reserve's target before the latest geopolitical developments, price pressures have intensified following the recent energy shock. For policymakers, the concern extends beyond the direct impact of higher energy prices to the risk of second-round effects on wages and inflation expectations. Federal Reserve officials have explicitly signaled their willingness to tighten policy further should inflation expectations show signs of becoming unanchored.

Inflation

Personal Consumption Index, %, annualized



Source: LSEG Datastream/ CBH Investment Management

That said, the risk of a sustained inflationary spiral appears significantly lower than in 2022. Unlike the post-pandemic period, the labor market is no longer operating in a state of overheating, with labor demand and wage growth having moderated materially over the past two years. Moreover, the economy entered this latest shock from a position of relative supply-side normalization, rather than amid the severe supply-chain disruptions that amplified inflationary pressures in 2021–22. While the energy shock will push headline inflation higher in the near term, the conditions for a broad-based and self-reinforcing inflation cycle appear less pronounced than during the previous inflation episode.

Monetary policy uncertainty has also increased following the appointment of Kevin Warsh as Federal Reserve Chair. Jerome Powell's decision to remain on the Board of Governors implies a more diverse and potentially divided Federal Open Market Committee. **The policy debate is likely to become increasingly complex as the Fed balances inflation control against support for employment and growth.** Markets have largely removed expectations of rate cuts in 2026 and now assign a small probability to further tightening in 2027.

Fiscal policy remains highly expansionary. After narrowing to 7.3% of GDP in 2025, the federal deficit is expected to widen again towards 8% of GDP this year, driven by measures associated with the One Big Beautiful Bill Act, higher defense spending, tariff refunds and rapidly rising healthcare and pension expenditures. Consequently, public debt is projected to rise from 126% to 131% of GDP between 2025 and 2027, leaving the United States with one of the highest debt burdens in the OECD. While fiscal support continues to underpin growth in the near term, questions regarding long-term debt sustainability are likely to become increasingly prominent.

Macro Outlook – Euro area

Key Takeaways

- Europe faces a new energy shock, but enters it from a stronger position than in 2022.
- Growth is slowing, while inflation is likely to remain above target for longer.
- The ECB remains focused on preserving inflation expectations, even at the cost of weaker growth.
- Germany is poised to rebound, but its exposure to China remains a key structural challenge.
- Europe's long-term success depends on turning savings into investment through deeper financial integration.

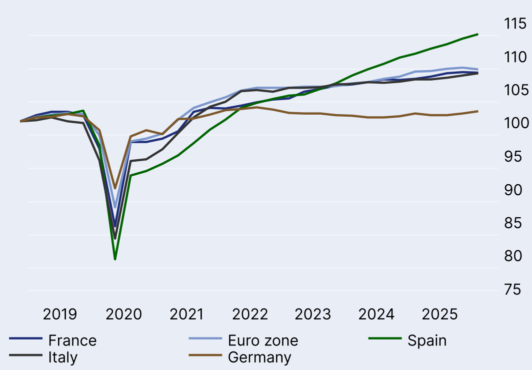
Europe's macroeconomic outlook has deteriorated following the renewed energy shock triggered by the conflict in the Middle East. Higher oil and commodity prices are weighing on activity, pushing inflation higher and amplifying uncertainty. Yet this is not a repeat of 2022. Europe enters this episode from a stronger position: inflation had largely returned towards target, labor markets are less overheated, and the region has significantly reduced its energy vulnerability. Even so, the closure of the Strait of Hormuz and persistent geopolitical tensions should now be viewed less as a temporary shock than as a structural feature of the global landscape.

The nature of the disruption is also fundamentally different. Unlike the post-Ukraine energy crisis, which was primarily a gas shock, the current episode is predominantly an oil shock. Europe remains exposed to higher energy costs, but its reliance on imported gas has fallen sharply, while the growing contribution of renewables and nuclear power has reduced the transmission of energy shocks to electricity prices. Inflation is therefore likely to remain above target for longer, but the risk of a replay of the 2022 inflation spiral appears significantly lower.

The near-term growth outlook, however, has weakened. Higher energy prices are acting as a tax on households and companies, eroding purchasing power, compressing margins and delaying investment decisions. Yet beyond the current turbulence, the euro area is entering a potentially powerful investment cycle driven by defense, energy security, digitalization and industrial modernization.

Germany epitomizes both the opportunities and the challenges facing Europe. After several years of stagnation, growth is expected to accelerate in 2026 and 2027, supported by a substantial fiscal impulse and a recovery in private investment. Germany is also better equipped to absorb an energy shock than it was four years ago. However, its exposure to China remains a major structural vulnerability. Competitive pressures are intensifying across its core industries, automobiles, machinery and chemicals, not only in China but increasingly in Europe itself.

Gross Domestic Product
Index, rebased, 100=31/12/2018



Source: LSEG Datastream/ CBH Investment Management

The key question is whether Germany can successfully reinvent its growth model. Encouragingly, parts of its industrial base are already benefiting from rising demand for defense equipment, aerospace technologies, electrification infrastructure and artificial intelligence. But investment alone will not be sufficient. Sustained gains in productivity will require stronger innovation, greater R&D intensity and a more effective framework for scaling emerging technologies.

More broadly, Europe's fundamental challenge remains productivity. Two decades of underperformance have widened the gap with the United States, while fragmented capital markets, regulatory complexity and insufficient scale continue to limit the emergence of globally competitive companies. Europe excels at generating savings; it remains less effective at transforming those savings into innovation and growth.

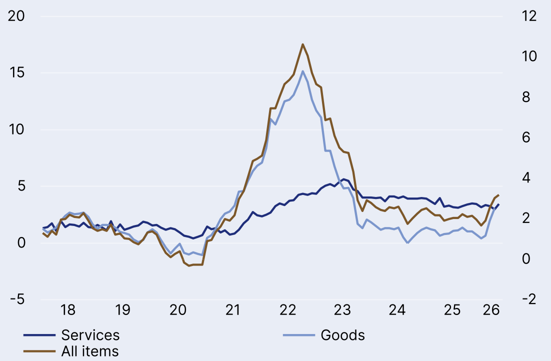
This is where monetary, fiscal and financial policies must converge. **Faced with a renewed energy-driven supply shock, the ECB has adopted a distinctly hawkish stance,** emphasizing the need to preserve the anchoring of inflation expectations and prevent temporary price pressures from feeding into wages and broader inflation dynamics. The ECB is therefore likely to tolerate weaker growth rather than risk a resurgence of inflation.

Fiscal policy, meanwhile, faces a delicate balancing act. Support measures should remain targeted and temporary, as rising debt levels leave little room for broad-based stimulus. The greater challenge lies in mobilizing the capital required to finance Europe's strategic priorities, from defense and energy transition to digital infrastructure and technological innovation.

This ultimately brings Europe back to its unfinished agenda: deeper financial integration. Completing Banking Union and accelerating Capital Markets Union are no longer technical reforms; they are economic necessities. A more integrated financial system would lower financing costs, improve risk-sharing and strengthen Europe's capacity to fund its transformation. In a world defined by recurring shocks and intensifying geopolitical competition, Europe's prosperity will depend less on its ability to save and more on its ability to invest.

Euro area inflation

Annual change, %



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Other advanced economies

Key Takeaways

- UK growth is slowing as higher energy prices fuel inflation and weaken demand.
- Limited fiscal space and structural productivity weaknesses continue to constrain the UK outlook.
- The Bank of England is expected to ease policy cautiously amid persistent inflation risks.
- Switzerland is supported by resilient domestic fundamentals and low inflation.
- The strong Swiss franc and supportive SNB policy help cushion external shocks, despite ongoing global uncertainties.

UK: Fiscal Constraints and Energy-Driven Inflation

The UK economy is expected to slow in 2026 after having expanded close to its potential rate in 2025. Economic activity is being increasingly affected by the consequences of the conflict in the Middle East, which has triggered a renewed surge in energy prices and intensified inflationary pressures. Higher energy costs are eroding household purchasing power, while heightened uncertainty is weighing on confidence. As a result, both private consumption and business investment are expected to weaken over the coming quarters.

The fiscal outlook remains particularly constrained. Elevated financing costs, continued scrutiny from international investors regarding the sustainability of the UK's public debt trajectory, and a fragile political environment limit the government's ability to provide meaningful fiscal support to the economy. Fiscal policy is therefore unlikely to act as a growth catalyst and will provide limited support to potential growth and productivity, both of which remain structurally weak.

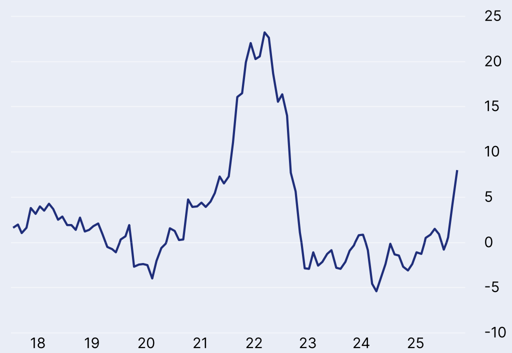
Investment dynamics are expected to remain subdued. Higher financing costs, weak productivity growth and increased geopolitical uncertainty continue to discourage corporate capital expenditure. Consequently, investment is unlikely to provide a significant contribution to economic growth in the near term.

Inflation risks have become more pronounced. The sharp increase in energy prices linked to geopolitical tensions has generated a new wave of imported inflation, amplified by the UK's dependence on external energy supplies and relatively limited hydrocarbon reserves. Although headline inflation is expected to remain above target for longer than previously anticipated, weak domestic demand and a softer labor market should help contain second-round effects on wages and domestic prices, reducing the risk of a sustained inflationary spiral.

Against this backdrop, the Bank of England faces an increasingly complex policy trade-off. While economic activity is slowing and domestic demand remains fragile, the central bank must ensure that imported inflation shocks do not become

United Kingdom: PPI imported materials

YoY change, %



Source: LSEG Datastream/ CBH Investment Management

entrenched in underlying price dynamics. Monetary easing is therefore likely to proceed cautiously, with policymakers balancing the need to support growth against the imperative of preserving inflation credibility.

Overall, the UK macroeconomic environment in 2026 is characterized by weaker growth, constrained fiscal space, persistent inflationary pressures stemming from external shocks, and limited scope for policy support. Structural weaknesses in productivity and investment continue to weigh on the medium-term outlook, leaving the economy particularly vulnerable to external developments.

Switzerland: Navigating External Headwinds

The Swiss economy entered 2026 with modest but gradually strengthening momentum following a challenging period marked by heightened trade uncertainty, persistent geopolitical tensions and a historically strong Swiss franc. While growth remained below its long-term trend in 2025, recent data suggest that activity is stabilising, supported by resilient domestic fundamentals and an accommodative monetary policy stance. Economic growth gained traction at the start of 2026, with GDP expanding by 0.4% in the first quarter. Industrial activity was the primary driver, benefiting from stronger turnover and export performance across several manufacturing sectors, although the chemical and pharmaceutical industry experienced a temporary slowdown. The services sector continued to expand at a more moderate pace, while domestic demand remained relatively subdued as households maintained a cautious spending stance and investment activity softened.

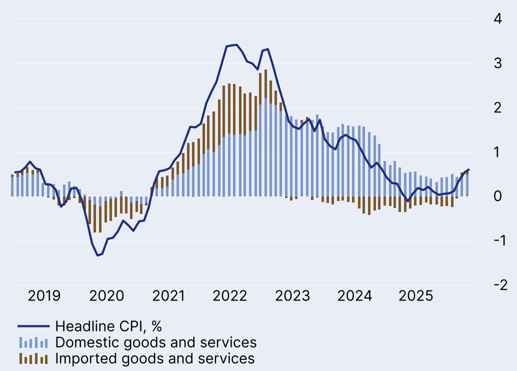
The external environment nevertheless remains challenging for Switzerland's highly open economy. Although the recent trade agreement with the United States has reduced tariff-related uncertainty and restored a more level competitive footing relative to European peers, export-oriented industries continue to face weak global demand and persistent pressure from the strong franc. As a result, business investment intentions remain cautious, particularly within the manufacturing sector.

Inflation has moved modestly higher, reflecting rising global energy prices, reaching 0.6% in May. However, price pressures remain well contained and comfortably within the Swiss National Bank's definition of price stability. The strength of the franc, combined with Switzerland's relatively low energy intensity, continues to mitigate imported inflation. Against this backdrop, the SNB is expected to maintain its policy rate at 0%, thereby preserving supportive financial conditions.

Looking ahead, domestic demand is likely to remain the principal engine of growth, while external headwinds should gradually ease as global demand recovers. Nevertheless, the outlook remains subject to downside risks, notably renewed trade tensions, escalating geopolitical uncertainty and further safe-haven appreciation of the Swiss franc. Overall, we expect the Swiss economy to continue its gradual recovery path, albeit at a pace that remains below historical averages.

Switzerland: CPI contribution

YoY change, %



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Asia

Key Takeaways

- Growth in Asia Pacific remains positive but is slowing, as the region digests earlier energy and geopolitical shocks and adjusts to a higher for longer inflation backdrop.
- An AI capex super cycle is emerging as a key counterweight to macro headwinds, with Bloomberg reported that the projecting hyper-scaler AI capex will reach roughly USD 725bn in 2026. Goldman Sachs has recently commented that market guidance of USD920 billion in 2027 is likely too conservative, expecting higher capex of USD 1.1–1.4tn by 2027. This large AI-related capex should underpin growth in the region, supported by sustained demand for Asia's semiconductor and hardware supply chain.
- China is leaning more on targeted fiscal support and AI/tech self reliance, while Japan faces mounting pressure to normalize rates faster amid persistent inflation, a weak yen and higher oil prices. At the same time, India and ASEAN still lead on growth, but imported inflation, energy vulnerability and tighter global financial conditions are steadily defining the winners and losers in the region.

Asia Pacific entered 2Q26 digesting the acute external shocks from the US–Iran conflict and renewed US tariff risks. Looking into 3Q26, those shocks have shifted from "new news" to ongoing constraints with energy prices remained elevated relative to pre-conflict levels, global goods demand is softer, and trade policy uncertainty remains the lingering tail risk.

Asia Pacific's growth is still expected to outpace the global average, but the second half of 2026 is unlikely to be smooth sailing. China's domestic consumption remains challenging, while external demand is softening under the weight of higher interest rates, elevated energy costs, and geopolitical uncertainty. These pressures are weighing on the region's broader economic activity. However, not all of Asia Pacific is exposed equally. Investors are increasingly distinguishing between countries and sectors that have credible policy frameworks and genuine structural growth drivers, versus those that remain vulnerable to energy shocks or that lack meaningful participation in the AI revolution.

The key takeaway is that the sustainable AI revolution is providing a bedrock of support for the region. Several Asian economies, particularly Japan, South Korea, Taiwan are critical nodes in the global AI hardware supply chain, spanning semiconductor materials, advanced fabrication equipment, co-packaged optics, and high-density connectivity. Malaysia and Indonesia are also set to benefit from the growing demands for AI infrastructure.

In short, Asia Pacific growth will remain resilient overall, but the second half will be more selective. The AI-driven structural theme is the anchor that will continue to support the region's equity markets, while policy credibility and exposure to AI infrastructure will be the key differentiators for investors.

China: Slower Growth, Targeted Support and a Hard Pivot to Tech Self-Reliance

During the second quarter of this year, China, similar to many nations, was about managing oil and tariff shocks with a mix of fiscal easing and modest monetary support, while advocating on domestic chip and AI substitution. In 3Q26, the broad direction is unchanged, but the emphasis has shifted.

The PBOC has signalled that it will keep policy "moderately loose" in 2026 and stands ready to use RRR and interest-rate cuts if needed, but it has so far refrained from large, broad-based easing moves, opting instead for more flexible, targeted tools to keep liquidity ample and credit flowing to priority sectors. On the fiscal side, Beijing has pledged to boost spending on infrastructure and public services to help meet its growth target in the face of property weakness and subdued private confidence.

At the same time, AI and technology self-reliance have been elevated to core strategic priorities. The newly launched 15th Five-Year Plan (2026–2030) calls for aggressive deployment of AI across the economy and leadership in emerging technologies such as quantum computing and humanoid robotics. Additional policy also unveiled the goal of AI and semiconductor self-reliance, with targets to sharply increase domestic AI adoption and reduce dependence on foreign chips, in response to tighter US export controls.

In other words, China's 3Q26 equity story is less about any imminent or sizable monetary-easing but more about targeted fiscal and credit support to offset structural drags from property and weak confidence; and sustained capex into AI related development including data centres, domestic GPUs, advanced manufacturing and industrial upgrading. The continued policy focus on domestic technology development should support selected hardware, equipment and software names.

Broad-beta exposure remains challenged by slower growth and lingering property and governance concerns. Focus should remain on sectors that are policy-aligned and names with strong balance sheets rather than positioning in the index as a whole.

Japan: monetary policy takes centre stage

During 2Q26, focus in Japan was largely on political transition risk, energy vulnerability and the supportive impact of corporate governance reforms amid the "Value Up" program. These themes remain relevant, but 3Q26 brings a clearer turn into the monetary-policy narrative.

Oil-driven inflation, a weak yen and higher imported energy/material costs are presenting imminent pressure on Bank of Japan (BoJ) to maintain more sustained normalization path. In May 2026, Mizuho CEO advocated for aggressive normalization and even floated the idea of an outsized 50-basis-point hike as early as in the next central bank meeting. Comment from CEO Kihara in line with US Treasury Secretary Scott Bessent's statement earlier, urging the BoJ to hike rates to control its inflation problem and stabilize the weakening YEN. These comments reflecting growing concerns that the BoJ is behind the curve on inflation. Some BoJ committees were also indicate the urgency of rate hike. We expect the BoJ to quicken the normalization with at least two rate hikes this year, while taking the fiscal route to stimulate growth. Japan government is looking ways to combat rising living costs and stimulate domestic demands through tax cut on food items, and raising income tax exemption threshold.

Japan equity will remain supportive by "Value Up" execution and global AI infrastructure development. Beyond corporate reforms, Japan holds critical, leading positions across the AI hardware supply chains, namely in Semiconductor Materials (silicon wafer, EUV photoresist), Advanced Fabrication Equipment (lithography & thermal processing, dicing & grinding advanced AI substrates), Co-Packaged Optics & Connectivity (fiber-optic, high-density cables, multi-layer ceramic substrates).

Overall, Japan is entering a more policy-sensitive phase where monetary normalization, FX stability and domestic demand support may matter more than pure valuation rerating. While we are remaining constructive on Japan equities, selective exposure into beneficiaries of Value Up, AI infrastructure, and domestic demand resilience rather than broad index beta.

Beyond the Chipmakers: ASEAN's Emerging Role in the AI Value Chain

While the AI capex super-cycle directly underpins East Asia's semiconductor and hardware ecosystems, the spillover effects are increasingly creating a structural dividend for select ASEAN markets. As hyperscalers scramble to secure power, land, and raw materials for AI infrastructure, Malaysia and Indonesia are transitioning from passive beneficiaries of supply-chain diversification to active, critical nodes in the broader AI value chain.

Malaysia benefits from the "Singapore spillover", particularly the region of Johor and Cyberjaya, has emerged as a premier destination for hyperscale data center investments given its relatively competitive utility costs. The Malaysian government has committed around RM5.9 billion in its 2026 Budget to AI infrastructure and adoption, including a flagship 600MW Nvidia-powered data centre project in Johor. AI training clusters are extraordinarily power-hungry, and Malaysia's robust grid capacity, combined with its status as a net energy exporter, positions the country perfectly to supply the massive electricity baseload required for next-generation computing. This energy advantage, backed by government funding, makes Malaysia a strategic hub for AI infrastructure in the region.

Indonesia is on a similar trajectory, leveraging its large digital economy, land availability, and improving power infrastructure to attract hyperscale and AI-focused data centre investment. Projects announced by global operators such as DAMAC, Digital Edge, and BDx signal several hundred megawatts to over a gigawatt of AI-ready capacity coming online around 2026–27, backed by long-term power commitments with PLN. Indonesia's dominance in critical minerals, particularly nickel and copper, also plays a strategic role for server components, energy storage, and advanced cooling infrastructure. This infrastructure boom provides a clear tailwind for industrial real estate developers, local connectivity providers, and regional renewable energy plays. It also positions Indonesia as a potential regional hub for AI and cloud workloads.

Macro Outlook – Brazil

Key Takeaways

- Fiscal policy remains Brazil's main macro vulnerability, sustaining demand at the expense of debt stabilization and keeping fiscal risk premia elevated.
- Growing expectations of policy continuity after the 2026 election increase fiscal risks, reinforcing our preference for inflation-linked bonds over domestic beta exposure.
- Higher oil prices and rising inflation expectations have reduced the scope for monetary easing, leading to a more cautious Central Bank stance.
- Strong domestic demand continues to limit monetary policy effectiveness, slowing disinflation and supporting structurally high interest rates.

Fiscal Policy Remains the Core Source of Macro Fragility

From a domestic standpoint, Brazil's fundamentals continue to deteriorate, with fiscal policy remaining the main source of macroeconomic fragility. The recent policy orientation has favored instruments that sustain disposable income and consumption through direct transfers, tax benefits, fiscal exemptions, implicit subsidies and earmarked credit expansion. Although these measures may pursue distributive or social objectives, their macroeconomic effect is expansionary: they pressure public spending, erode fiscal space and make debt stabilization more difficult. In an environment already characterized by persistent inflation, elevated real rates and a rising public debt trajectory, this fiscal impulse works against contractionary monetary policy, increasing the cost of disinflation and commanding a higher risk premium across local assets. This is consistent with the concerns highlighted in previous reports, where fiscal fragility, expansionary policy and the debt trajectory were already identified as the main constraints for a sustained re-rating of Brazilian assets.

Resilient Demand Limits the Transmission of Monetary Policy

This policy mix materially complicates the conduct of monetary policy. Public debt remains on an upward trajectory, household leverage is still elevated, the labor market remains historically tight, and real wages continue to support consumption in income-sensitive segments. As a result, monetary policy transmission has been uneven: high real rates have slowed credit-sensitive sectors, but employment, income dynamics and fiscal measures continue to support demand. This keeps the output gap narrower than desired, limits the disinflation process in services and reduces the room for a more aggressive easing cycle.

Higher Oil Prices Weaken the Case for a Deeper Easing Cycle

Before the Middle East conflict, the Central Bank had indicated that the combination of slowing activity, restrictive real rates and some improvement in inflation components could allow the beginning of an easing cycle. The energy shock changed the balance of risks. Higher oil prices started to affect domestic prices, input costs and inflation expectations, while the Monetary Policy Committee highlighted that expectations, which had previously been declining, rose again after the onset of the conflict and remained above target across horizons. The easing cycle therefore continued, but at a slower pace, with a higher expected terminal rate and more cautious communication.

The Election Has Become a Key Driver of Fiscal Expectations

The 2026 election has become an important macroeconomic driver because it directly affects fiscal expectations, term premia and the perceived credibility of the policy framework. A competitive opposition candidacy had initially introduced a clearer political optionality: a potential shift toward tighter fiscal management, administrative reform, lower reliance on income-transfer policies and less pressure from consumption-oriented initiatives. Such an agenda would likely reduce risk premia and inflation breakevens.

Policy Continuity Risks Weigh on Brazil's Macro Outlook

That optionality became less clear during the quarter. Recent controversies involving the leading opposition candidacy, particularly around themes that are highly sensitive for the Brazilian electorate, such as corruption and fraud allegations, reduced its electoral momentum. Polls that previously showed a technical tie, or even a narrow numerical lead for the opposition in second-round simulations, subsequently showed an improvement in President Lula's relative position.

Domestic Beta Does Not Offer Sufficient Compensation at This Stage

The macro implication is that markets now need to assign a higher probability to policy continuity, with a more expansionary fiscal bias and a lower probability of near-term structural adjustment. This reinforces the perception that Brazil's fundamentals have not improved and may continue to worsen through higher debt, stickier inflation, a more constrained Central Bank and higher fiscal risk premia. In practice, this has already been reflected in the repricing of the local curve, higher implied inflation and upward revisions to inflation and interest expectations.

Against this backdrop, we decided not to reallocate into Brazilian public equities or local hedge funds, as we expect a less favorable domestic macro mix, characterized by weaker activity at the margin, more persistent inflation, structurally high interest rates and a rising fiscal risk premium. Public equities and local hedge funds may still benefit tactically from flows, carry or political repricing, but the risk-adjusted asymmetry does not justify adding domestic beta at this stage. We therefore prefer to maintain a more conservative allocation stance.

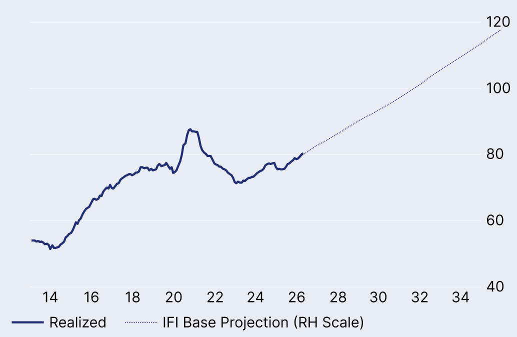
Inflation-Linked Bonds Offer Defensive Carry and Macro Protection

Our main liquid exposure to Brazil remains concentrated in NTN-Bs (Brazil's inflation-linked sovereign bonds). Real yields have repriced higher amid global rate stress and a steeper local curve, making the carry more attractive. In our view, inflation-linked sovereign bonds remain the most efficient way to gain exposure to Brazil risk with a more defensive profile: they provide elevated real carry, inflation protection and potential capital gains if real rates compress under a more credible fiscal scenario. Conversely, in an adverse environment, the inflation linkage and carry offer better downside protection than higher-beta local assets.

Uncorrelated Alternatives Remain Central to Portfolio Construction

In parallel, we continue to diligence uncorrelated alternative assets. Over recent months, we have accelerated work in venture capital, private equity lower-middle-market opportunities and search funds, as tighter liquidity, more selective capital availability and higher discount rates have led to valuation resets in private companies.

Brazil: General Government Gross Debt
% of GDP



Source: LSEG Datastream/ CBH Investment Management

Macro Outlook – Oil Market

Key Takeaways

- The oil market has absorbed a record supply shock thanks to inventories, weaker Chinese demand and resilient non-Gulf production.
- Despite a 14% disruption in global supply, oil prices have risen only modestly compared with previous energy crises.
- China has emerged as the key balancing force, sharply reducing crude imports and refinery activity.
- Refined product markets are tightening faster than crude markets, creating growing pressure on diesel and jet fuel supplies.
- Current resilience relies on temporary buffers; a prolonged Hormuz disruption would likely push prices significantly higher.

Oil Market: A Large Shock, A Surprisingly Resilient Market

The oil market is currently navigating one of the largest supply disruptions in modern history. The effective closure of the Strait of Hormuz and the associated disruption to Gulf exports have removed an estimated 14 million barrels per day (mb/d) of crude oil and refined products from global markets. On paper, this represents roughly 14% of global supply, a shock twice as large as the 1973 Arab oil embargo.

Yet oil prices have risen by only around 30%, a remarkably modest reaction compared with the 134% price surge experienced in 1973. Understanding this apparent paradox is essential for assessing the outlook for energy markets, inflation and the broader economy.

Oil Price
Brent, USD/bbl

Source: LSEG Datastream/ CBH Investment Management

The first reason is that the market entered this crisis from a position of relative abundance. Prior to the disruption, global oil supply exceeded demand by approximately 3.5 mb/d. As a result, the effective shortfall is closer to 10-11 mb/d rather than the full 14 mb/d headline figure.

Inventories have also played a crucial stabilizing role. Governments, refiners and commercial operators accumulated substantial stocks during recent years. According to the U.S. Energy Information Administration, global inventories are currently being drawn down by more than 6 mb/d, effectively acting as a buffer between disrupted supply and end-user demand.

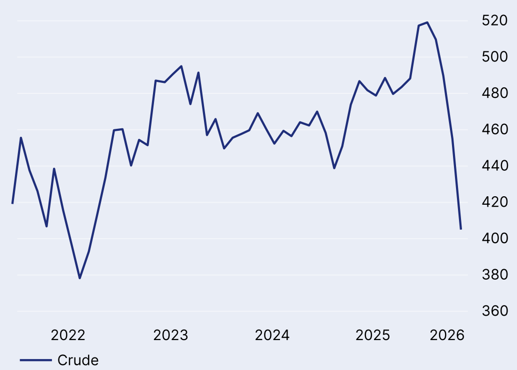
Meanwhile, production outside the Gulf region has proven more responsive than in previous crises. Brazil and Venezuela have increased output, while U.S. exports of crude and refined products remain at record levels. Although U.S. shale producers have not yet launched an aggressive drilling response, the sector retains a flexibility that did not exist during earlier oil shocks.

On the demand side, consumption has proven more elastic than many observers expected. Global oil demand in April was approximately 3 mb/d lower than a year earlier. A significant portion of this adjustment has come from China, which has quietly emerged as the market's primary balancing force.

Chinese crude imports have fallen from roughly 11.7 mb/d earlier this year to below 9 mb/d, while refinery utilization rates have declined materially. This reduction in Chinese purchases alone offsets a meaningful share of the supply shock. Weak petrochemical margins, slower industrial activity and inventory drawdowns have all contributed to lower Chinese demand.

China Oil Imports

Millions Ton, 3-month moving average



Source: LSEG Datastream/ CBH Investment Management

This highlights a broader structural change in the global oil market. Emerging economies now account for a much larger share of consumption than during previous energy crises. These economies tend to be more price-sensitive, meaning demand adjusts more quickly when prices rise.

At the same time, the economic impact of higher oil prices is less severe than in previous decades. Energy intensity, the amount of oil required to generate economic output, has declined significantly across most developed economies. Combined with higher incomes and inflation-adjusted purchasing power, today's oil prices simply do not feel as painful to consumers as they once did.

Despite this resilience, the market is far from comfortable.

Physical conditions are tightening steadily. Inventories are falling, prompt crude supplies are becoming scarcer, and refined product markets are showing greater stress than crude itself. In fact, one of the defining features of the current environment is that the Hormuz disruption is affecting refined products, diesel, jet fuel and gasoline, more severely than crude oil. Refining bottlenecks and logistical constraints are creating local shortages even where crude remains available.

Importantly, inventories are not a permanent solution. Current stock drawdowns are absorbing much of the shock, but these buffers are finite. The longer the disruption persists, the more difficult it becomes to prevent tighter physical balances from translating into higher prices.

The Strait of Hormuz remains the key risk. Market estimates suggest that some oil continues to transit the waterway through alternative arrangements and informal channels. There is considerable uncertainty around these flows because vessel tracking has become increasingly difficult. Nevertheless, even optimistic estimates indicate that only a fraction of normal volumes are moving through the strait.

A prolonged disruption would therefore gradually exhaust inventories and force prices higher to ration demand and incentivize additional production.

The combination of inventory releases, Chinese demand weakness, incremental non-Gulf supply growth and policy efforts to reassure markets has so far prevented a more dramatic price response.

However, the current equilibrium appears fragile. Inventories are declining, strategic reserves will eventually need rebuilding, and long-dated oil prices remain too low to encourage the level of investment required to sustain future non-OPEC production growth.

In other words, the market has successfully absorbed an extraordinary shock, but largely by drawing on temporary buffers. As those buffers diminish, higher prices are likely to be required to restore balance. The longer disruptions around Hormuz persist, the greater the probability that today's surprisingly resilient oil market gives way to a much tighter and more volatile environment.

Key Macro Data & Forecasts

	Annual			
	2024	2025	2026e	2027e
United States				
Real GDP	**2.8**	**2.1**	**1.9**	**2.2**
Private consumption	2.9	2.6	1.8	1.3
Investment	3.0	2.7	3.1	2.7
Domestic demand (contribution, %pt)	3.2	2.5	2.0	1.7
Inventories (contribution, %pt)	0.1	-0.1	-0.2	0.0
Net exports (contribution, %pt)	-0.5	-0.2	0.1	0.0
Inflation (CPI, %yoy)	3.0	2.7	3.2	2.1
Unemployment rate (%)	4.0	4.3	4.4	4.2
Euro area				
Real GDP	**0.9**	**1.5**	**0.3**	**1.7**
Private consumption	1.3	1.5	1.1	1.5
Investment	-2.5	3.2	1.1	2.0
Domestic demand (contribution, %pt)	0.6	1.8	1.4	1.9
Inventories (contribution, %pt)	-0.0	0.2	-0.3	-0.1
Net exports (contribution, %pt)	0.3	-0.5	-0.8	-0.1
Inflation (HICP, %yoy)	2.4	2.1	2.6	2.2
Unemployment rate (%)	6.4	6.3	6.2	6.1
China				
Real GDP	**5.0**	**5.0**	**4.4**	**4.0**
Unemployment rate (%)	5.1	5.1	5.1	5.1
Inflation (CPI, %yoy)	0.2	0.1	1.2	1.5
Trade	3.7	5.1	2.8	3.8

Forecasts – Rates

	Actual	Target		Last 5 years	
Policy rate	06/26	3M	12M	High	Low
Fed funds (upper)	3.75	3.75	3.75	5.50	0.25
ECB deposite rate	2.25	2.50	2.50	4.00	-0.50
10-year rate					
Us Treasury	4.48	4.50	4.50	4.98	1.17
German Bund	3.00	3.00	3.00	3.19	-0.50
FX					
EUR/USD	1.16	1.18	1.21	1.21	0.96
EUR/CHF	0.92	0.91	0.93	1.10	0.90
USD/JPY	160.23	155.00	162.00	161.70	109.06
GBP/USD	1.34	1.36	1.32	1.41	1.07

Asset Class Views

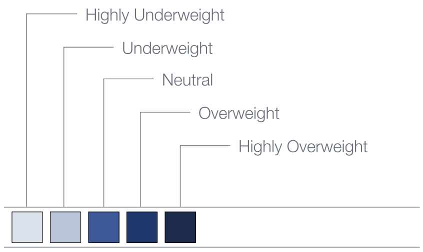
These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot (•) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

	Highly Underweight	Underweight	Neutral	Overweight	Highly Overweight
Cash			■		
Fixed Income			■		
Government Bonds			■		
Corporate Investment Grade			■		
Corporate High Yield				■	
Emerging Market Debt Local Currency			■		
Emerging Market Debt Hard Currency			■		
Duration			■		
Equities		•		■	
United States		•	■		
Europe			•	■	
UK			■		
Switzerland			■		
Japan			•	■	
Emerging Markets ex-China			•	■	
China			■		
Alternatives			■		
Hedge Funds			■		
Gold				■	
Commodities		■			
Currencies (against USD)					
EUR			■	•	
CHF				■	
GBP		■			
JPY			■	•	

• – previous positioning

How to read the table?



This content provides a snapshot of the current market environment and is not intended to predict or guarantee future results. It should not be regarded as investment research or advice on specific funds, strategies or securities. Past performance is not a guide to future results. Any forecasts, projections or targets mentioned are for illustrative purposes only and are not guaranteed to be accurate or achieved.

Asset Allocation

Strong Fundamentals, Narrower Margins for Error

Key Takeaways

- Risk assets remain supported by strong fundamentals.
- Earnings growth continues to offset macro headwinds.
- Long-term bond yields are signalling growing macroeconomic scepticism.
- The energy shock may prove more persistent than market pricing suggests.

Financial markets have remained remarkably resilient in 2026 despite a significantly more challenging macroeconomic backdrop. Escalating geopolitical tensions, rising energy prices, renewed inflationary pressures and higher long-term interest rates would normally weigh heavily on risk assets. Yet equities continue to trade near record highs, credit spreads remain close to cycle tights and investor sentiment has held up surprisingly well.

Fundamentals Continue to Support Risk Assets

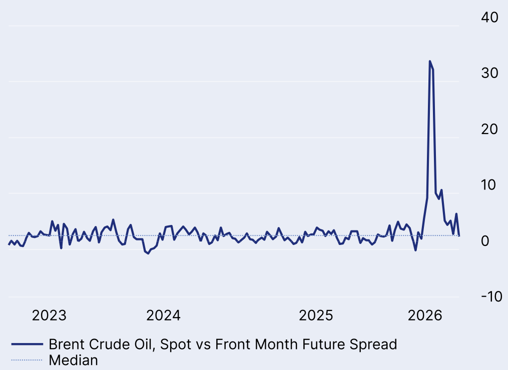
While this combination may appear complacent at first glance, valuations across many risk assets remain supported by robust fundamentals rather than excessive optimism. Nowhere is this more evident than in equities. Corporate earnings continue to surprise on the upside, driven by the ongoing artificial intelligence investment cycle. What initially appeared to be a narrow technology theme has evolved into a broad capital expenditure cycle spanning semiconductors, cloud infrastructure, data centres, networking equipment and power infrastructure. As investment spreads across the entire value chain, earnings growth is becoming increasingly diversified across sectors, reducing the market's dependence on a small number of mega-cap technology companies and reinforcing the fundamental case for equities.

Credit markets tell a similar story. Despite higher government bond yields and increased macroeconomic uncertainty, spreads have remained remarkably resilient. While valuations appear demanding relative to historical averages, the underlying quality of the market has improved significantly over the past fifteen years. Corporate balance sheets remain healthy, leverage is generally contained and default rates remain well below long-term averages. In this context, current spread levels appear justified by fundamentals rather than indicative of excessive investor optimism.

Higher yields reflect long-term concerns

Bond markets, however, are sending a different message. Long-term government bond yields have risen sharply across developed economies as investors reassess the outlook for inflation, monetary policy and fiscal sustainability. The return of higher term premia suggests growing scepticism that the low-inflation, low-rate environment that characterised much of the past two decades will return anytime soon. The growing divergence between risk assets and government bond markets has become one of the defining features of the current environment.

Brent Spot Price vs Front-Month Futures
Physical supply concerns normalized rapidly



Source: LSEG Datastream/ CBH Investment Management

While equities and credit continue to be supported by strong fundamentals, bond markets are increasingly questioning the sustainability of the macroeconomic backdrop underpinning them.

Part of the explanation lies in the fact that, although the war in the Middle East has pushed energy prices higher, its economic impact has so far remained manageable. Markets are currently pricing a risk of supply disruption rather than a severe physical shortage. The loss of supply has largely been absorbed through inventories, strategic reserves and alternative supply channels, limiting the impact on economic activity. As a result, higher energy prices have yet to materially undermine consumer spending, corporate profitability or global growth. Moreover, major developed economies are significantly less energy-intensive than in previous decades, making them more resilient to moderate increases in oil prices.

The Real Test Begins After the Ceasefire

While the recent truce and the planned reopening of the Strait of Hormuz have significantly reduced the risk of a prolonged supply disruption, the normalization process may prove more gradual than current market pricing suggests. Maritime flows are likely to recover only progressively as insurers, shipowners and brokers remain cautious about removing wartime risk premia, while inventories drawn down during the disruption will need to be rebuilt. Even if oil prices eventually stabilise, refined petroleum products could remain under pressure due to damage to refining, storage and transportation infrastructure across the region. Similar dynamics could emerge in chemicals and fertilisers, where supply disruptions may prove more persistent than in crude markets. The result would be a broader and potentially more durable inflation shock than currently anticipated.

In such a scenario, markets would likely be forced to further reprice the outlook for monetary policy. Expectations of additional policy tightening could increase across several developed markets, while long-term bond yields would likely move higher as investors demand greater compensation for inflation risk. The fundamental assumptions currently supporting equity and credit valuations would consequently come under increasing pressure. While this is not our base-case scenario, the margin for error is clearly narrower than it was at the start of the year. Investors should therefore avoid interpreting resilient markets as evidence that risks have disappeared. Rather, markets are signalling that, for now, fundamentals remain strong enough to offset them. The challenge is to remain exposed to those fundamentals while ensuring that portfolios remain sufficiently diversified should the macroeconomic backdrop deteriorate more materially than currently expected.

Equities

Earnings Growth Continues to Trump Macro Headwinds

Key Takeaways

- Earnings momentum continues to outweigh macroeconomic headwinds.
- AI remains the dominant driver of global earnings growth.
- Higher-for-longer rates limit the scope for further market rerating.
- US and emerging markets offer the most attractive risk-reward profile.

We remain constructive on global equities entering the third quarter of 2026. While the macro backdrop has become more challenging following the resurgence of energy-driven inflation, corporate fundamentals remain robust and earnings growth continues to accelerate across most regions. The key question is whether this resilience can continue to offset the valuation headwinds created by higher oil prices and renewed inflationary pressures. Higher energy prices and tighter financial conditions may weigh on valuations, but they have yet to materially alter the earnings outlook. We therefore remain constructive on equities, but increasingly selective, favouring quality companies, strong earnings momentum and structural growth themes linked to artificial intelligence and digital infrastructure. In this environment, relative value opportunities, earnings delivery and security selection are likely to matter more than broad market re-rating in the quarters ahead.

Higher-for-Longer Is Back

The macroeconomic backdrop has become less supportive since the beginning of the year. The outbreak of the US-Iran war and the resulting increase in oil and refined product prices have reintroduced inflation concerns just as investors were becoming increasingly confident that central banks would continue easing monetary policy. Consequently, market expectations have shifted away from a continuation of the rate-cutting cycle towards a higher-for-longer interest rate environment. Mindful of the policy mistakes made during the 2021–2022 inflation episode, central banks are unlikely to ease prematurely in the face of renewed inflationary pressures. Moreover, some policymakers may prefer to err on the side of caution and consider pre-emptive “insurance hikes”. That said, we do not expect a return to the inflation dynamics experienced in 2022. Labour markets are less overheated, wage growth has moderated, and inflation expectations remain relatively well anchored, reducing the risk of a self-reinforcing inflation cycle.

The extent to which the current energy shock translates into a more persistent inflation problem will depend largely on developments in energy markets. So far, they have remained more resilient than many investors initially feared. The normalization of the spread between spot oil prices and near-term Brent futures suggests that the market is not anticipating an imminent physical shortage of crude. However, this resilience has been supported by inventory drawdowns rather than a resolution of the underlying supply disruption. The key unknown remains the duration of the disruption to Hormuz flows. While inventories can temporarily absorb the loss of supply, they cannot do so indefinitely. The longer the disruption persists, the greater the risk that shrinking inventory buffers lead to renewed upward pressure on oil and refined product prices, increasing the likelihood of broader inflationary spillovers.

For equity markets, the implications are threefold. First, a higher-for-longer interest rate environment limits the scope for further multiple expansion and reduces the relative attractiveness of risk assets. Consequently, future market returns are likely to rely more heavily on earnings growth and corporate fundamentals than on support from monetary policy. Second, heightened geopolitical uncertainty is weighing on investor sentiment and risk appetite, creating a less supportive backdrop for equities overall. Third, the conflict is having a noticeable impact on market leadership. Energy stocks have benefited from higher oil prices and improving earnings expectations, while investors continue to favour structural growth themes such as artificial intelligence and semiconductors, which are perceived as relatively insulated from current geopolitical and macroeconomic shocks.

AI Is Expanding the Earnings Engine

The strongest argument in favour of equities continues to be earnings growth. Despite recent macro headwinds, analysts have continued to revise earnings expectations higher throughout 2026, highlighting the resilience of corporate profitability and reinforcing the fundamental case for equities. The strength of the earnings outlook is reflected not only in the level of expectations but also in the momentum of revisions. The Q2 bottom-up EPS estimate for the S&P 500 (FactSet) has increased by 2.7% since the end of March, whereas earnings estimates have typically declined by 2.7% on average during a quarter over the past decade. A similar pattern is evident at the full-year level. Consensus expectations for S&P 500 earnings growth in 2026 have been revised sharply higher, rising from 15.2% to 23.2% since the beginning of the year. The improvement has been particularly pronounced in sectors benefiting from structural growth drivers and a stronger commodity backdrop. Earnings growth expectations for Technology have increased from 28.6% to 44.9%, Materials from 20.6% to 39.6%, and Energy from 6.4% to 66.4%. Such broad-based positive revisions are typically associated with a favourable environment for equities, as markets tend to perform best when earnings expectations are moving higher.

The U.S. remains the primary engine of global earnings growth. The defining feature of the current U.S. earnings cycle is the dominant contribution of the AI investment cycle, with approximately 71% of 1Q2026 earnings growth attributable directly or indirectly to AI-related activities (Bloomberg BI). This highlights both the scale and breadth of the AI buildout. Rising demand for computing power is driving spending across the entire value chain, from semiconductors and cloud infrastructure to data centres, networking equipment and power infrastructure. As a result, the benefits of AI are no longer confined to a small group of technology companies but are increasingly shaping capital expenditure, revenue growth and corporate profitability across multiple sectors. This broadening of the drivers of earnings growth should help address one of the market's key concerns: the concentration of earnings growth within a small number of mega-cap technology companies. As AI-related investment permeates a larger share of the economy, the sustainability of corporate earnings growth should become less dependent on the performance of a handful of market leaders.

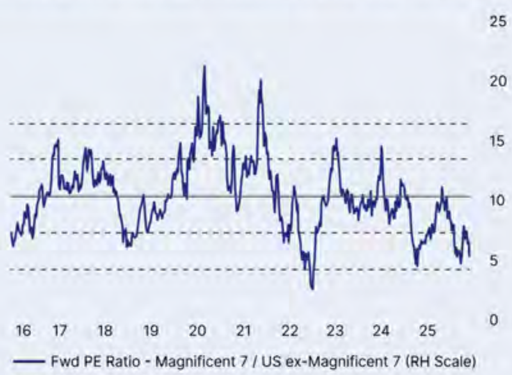
Growth Continues to Support Equity Valuations

Valuations are unlikely to be a major driver of equity returns in the second half of the year. Higher inflation and a more cautious central bank stance reduce the likelihood of a meaningful decline in discount rates, limiting the scope for further equity market re-rating. As a result, future equity returns are likely to depend increasingly on earnings growth rather than multiple expansion. Nevertheless, valuations do not present a compelling argument against equities. U.S. equities continue to compare favourably with most developed markets when adjusted for expected earnings growth, while emerging markets offer the most compelling valuation opportunity globally. By contrast, Europe and Japan appear less attractive on a growth-adjusted basis despite trading at lower headline valuation multiples.

Within the U.S., the debate continues to centre on the Mag7. While the group still trades at a higher

Magnificent 7 vs US ex-Magnificent 7 Relative Valuation

The AI capex cycle has already triggered a significant Mag7 derating

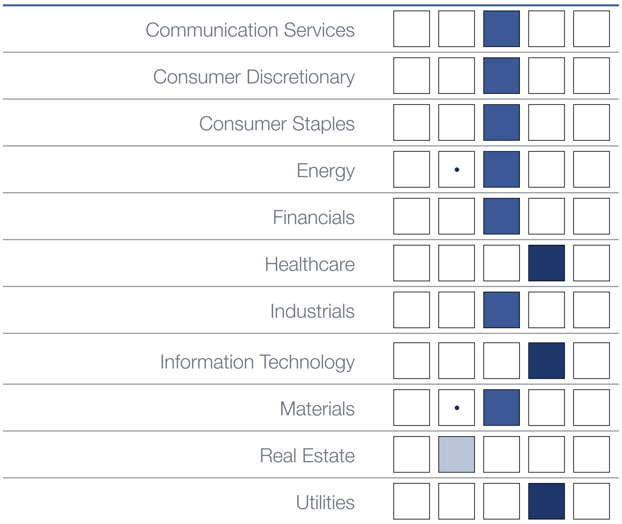


Source: LSEG Datastream/ CBH Investment Management

multiple relative to the broader market, that premium has compressed dramatically over the past 18 months and now stands more than one standard deviation below its ten-year average. This suggests that much of the de-rating associated with the anticipated compression in return on equity (ROE) resulting from the unprecedented surge in AI-related capital expenditure has already taken place. While this spending is expected to support long-term earnings growth, it has also materially increased capital intensity in the near term as companies invest aggressively in data centres, computing infrastructure and power capacity. Investors have therefore assigned lower valuation multiples to reflect temporarily weaker returns on capital. At the same time, the Mag7 continue to benefit from some of the strongest earnings growth prospects globally. Robust earnings growth should therefore offset much of the headwind associated with lower ROE, making broadly stable valuations a more likely outcome than a significant further de-rating. This remains supportive for the broader U.S. market given the substantial contribution of the Mag7 to both aggregate earnings growth and index performance.

While the valuation outlook remains broadly supportive in the U.S., the picture is less favourable in Europe. The valuation discount relative to U.S. equities has narrowed sharply over the past year, even after adjusting for differences in sector composition, weakening one of the region's traditional investment arguments. While earnings expectations continue to improve, particularly in energy-related sectors, current valuations already reflect much of this improvement. In addition, European equities appear increasingly expensive relative to prevailing financial conditions, suggesting limited scope for further re-rating.

Equity Sectors



Fixed Income

The Comeback of Higher-for-Longer

Key Takeaways

- Rates are likely to remain elevated amid renewed inflationary pressures and fiscal expansion.
- Tight credit spreads limit further upside, leaving carry as the primary driver of returns.
- Emerging market debt continues to offer attractive yields and diversification benefits.

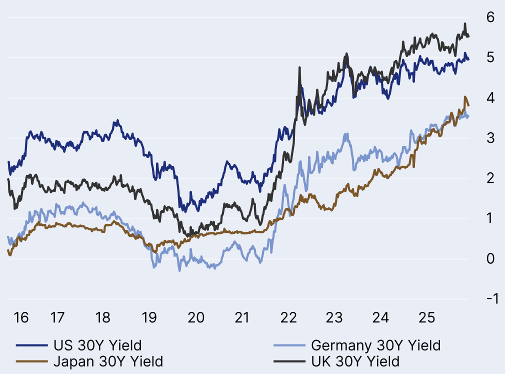
From Rate Cuts to Rate Hikes

Higher oil and energy prices linked to the conflict in the Middle East are feeding into headline inflation across developed economies, while rising freight and transportation costs suggest additional pipeline pressures may emerge in the coming months. At the same time, economic activity has remained surprisingly resilient, particularly in the United States, where consumer spending and AI-related capital expenditure continue to support growth despite tighter financial conditions.

This combination of persistent inflation and robust growth has forced investors to reassess the scope for monetary easing. As a result, market expectations for central bank policy have shifted significantly. Investors entered the year anticipating a continuation of the global easing cycle. Today, markets have largely abandoned that view and are again pricing the possibility of policy tightening in several core developed markets. The resulting repricing has been particularly evident at the long end of government bond curves, where yields have risen sharply across developed markets. U.S. 30-year Treasury yields have reached their highest levels since 2007, Japanese 30-year government bond yields their highest levels since 1999, UK gilts their highest levels since 1997, and German Bund yields their highest levels since 2011.

30-Year Government Bond Yields

Long-term yields have risen to multi-year highs across developed markets



Source: LSEG Datastream/ CBH Investment Management

Importantly, this synchronized move reflects more than a temporary reaction to higher energy prices. Investors are increasingly questioning the likelihood of a rapid return to the low-inflation, low-rate environment that prevailed for much of the past two decades. Fiscal concerns are adding to the pressure on bond markets. Across developed markets, governments are contemplating further support measures despite already stretched public finances and significant borrowing needs. Combined with persistent inflation uncertainty, this has pushed term premia higher and contributed to the rise in long-term government bond yields.

Taken together, these developments point to a higher-for-longer interest rate environment than investors had anticipated at the start of the year. While government bonds continue to provide important diversification benefits and now offer significantly more attractive income than in the previous decade, the environment for duration remains challenging. We therefore maintain a preference for intermediate maturities over long-duration exposure and continue to favour a selective approach to fixed income positioning.

Tight Credit Spreads, Healthy Fundamentals

Credit markets have demonstrated remarkable resilience since the start of the year. Despite higher government bond yields, renewed inflation concerns and rising geopolitical uncertainty, credit spreads have remained near cycle tights across most segments of the market, supported by strong demand for income, healthy corporate fundamentals and abundant liquidity. While spreads appear tight by historical standards, the underlying quality of the market has improved significantly over the past decade. The US high yield universe is now dominated by BB-rated issuers, while lower-quality CCC-rated bonds represent only a small share of the market. Combined with stronger balance sheets, lower leverage and healthy interest coverage ratios, this has helped keep default rates well below historical averages. In our view, current valuations largely reflect the strength of corporate fundamentals rather than excessive investor complacency.

That said, the scope for further spread compression appears limited. Future returns are therefore likely to be driven primarily by carry rather than multiple expansion. In addition, several risks warrant monitoring. Geopolitical tensions and higher energy prices could weigh on growth and corporate margins, while elevated issuance linked to AI infrastructure, data centre construction and power investments may gradually test the market's capacity to absorb new supply. Demand has comfortably matched issuance so far, but the margin for error has narrowed.

Against this backdrop, we continue to view credit as an attractive source of income within diversified portfolios. While much of the favourable outlook is already reflected in valuations, leaving limited scope for further spread compression, elevated all-in yields continue to provide compelling carry. Carry is therefore likely to remain the primary driver of returns in the quarters ahead. This remains supportive for the asset class, as starting yield has historically been one of the strongest predictors of subsequent fixed income returns and remains attractive by historical standards.

Emerging Market Debt Pass the Stress Test

Emerging market debt (EMD) entered the year on a strong footing, supported by a weaker U.S. dollar, declining real yields and improving investor sentiment. This favourable backdrop was abruptly interrupted by the escalation of the conflict in the Middle East, which triggered a sharp repricing across global fixed income markets. Local currency EMD led the decline as investors rapidly shifted from a disinflation and easing narrative to renewed concerns over energy-driven inflation. The adjustment culminated in a difficult March, during which hard-currency EMD recorded its weakest monthly performance since 2022, while local EMD markets experienced their largest drawdown since the Covid shock. Performance nevertheless varied significantly across regions. Commodity-exporting countries generally outperformed energy importers, while markets offering higher real yields and stronger policy credibility proved more resilient.

Importantly, the sell-off remained orderly. Unlike previous energy shocks, there was no widespread loss of market access, balance-of-payments stress or indiscriminate selling across emerging market assets. As geopolitical tensions partially eased in April, EMD recovered strongly, with credit spreads retracing much of their widening and local markets rebounding as the most extreme tightening scenarios were gradually priced out. This resilience has allowed emerging market fixed income to remain among the strongest-performing segments of global bond markets year-to-date.

We continue to view emerging market debt, both hard currency and local currency, as attractive sources of income within multi-asset portfolios. EMD hard currency currently offers yields of around 6%, while EMD local currency provides yields closer to 8%, both with average investment-grade credit quality. While hard-currency EMD remains closely linked to the U.S. rates and credit cycle, local-currency EMD offers valuable diversification benefits. Returns are driven primarily by domestic economic and policy developments, while active managers can generate additional alpha through both interest rate and currency positioning.

Forex

The Dollar Retains the Upper Hand for Now

Key Takeaways

- Energy shock favours the USD and limits further euro upside.
- Structural yen tailwinds are building, but cyclical forces still favour the dollar.
- Safe-haven CHF demand is offset by growing SNB resistance to further appreciation.

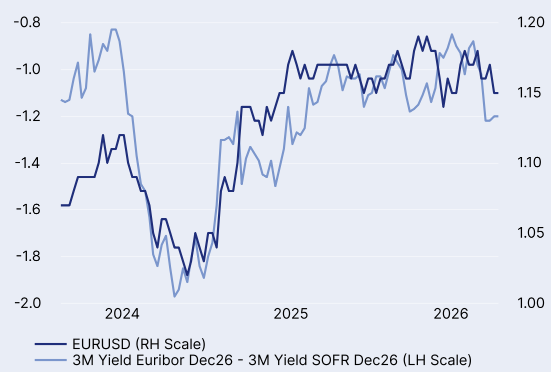
EUR/USD: Energy shock limits further euro upside for now

The most important implication of the current energy shock is its asymmetric impact on the Eurozone and U.S. economies. The Eurozone remains significantly more dependent on imported energy from the Middle East than the U.S. and is therefore more vulnerable to sustained increases in oil and gas prices. Higher energy costs are likely to weigh on household purchasing power, corporate margins and economic activity across Europe, while the impact on the U.S. economy should be comparatively more limited. Since the outbreak of the conflict, 2027 consensus GDP growth for the Eurozone has been revised down by 0.25 percentage points to 1.2%, while U.S. growth expectations have remained broadly unchanged at 2.0%. As a result, the growth differential is likely to remain firmly in favour of the U.S. dollar.

At the same time, higher energy prices are creating renewed inflationary pressures on both sides of the Atlantic. However, the inflationary impact is expected to be more pronounced in the Eurozone, forcing the ECB to adopt a more hawkish stance than previously anticipated. Markets have consequently revised higher their expectations for both ECB and Fed policy rates. Since the end of February, expectations for the ECB have shifted from approximately half a rate cut to two rate hikes, while Fed expectations have been repriced from 2.4 rate cuts to one rate hike this year. Despite this significant repricing, the expected rate differential has remained broadly stable, with the December 2026 3M SOFR yield rising by around 90bps compared with an 80bps increase in the December 2026 3M Euribor. Nevertheless, we believe market pricing for the Fed has become excessively hawkish and expect some narrowing of policy-rate expectations in the coming months, providing modest support for EUR/USD.

Yield on 3-month December 2026 Futures

EUR/USD remains sensitive to relative policy expectations



Source: LSEG Datastream/ CBH Investment Management

The U.S. dollar should also continue to benefit from the current geopolitical environment. Periods of heightened uncertainty typically support the dollar, as its status as the world's primary reserve currency and the depth of U.S. capital markets make it the preferred destination for global safe-haven flows. The risk of further escalation in the Middle East, potential disruptions to global energy supplies and increased financial market volatility are therefore likely to provide an additional tailwind for the greenback.

From a technical perspective, the sharp rally from the 2025 low at 1.01 appears to have stalled near the important resistance area around 1.20, where a potential topping pattern has emerged. After appreciating nearly 20% from its lows, momentum indicators have started to weaken, suggesting a loss of upside momentum in the short term. While the broader trend remains constructive, the risk-reward profile has become less attractive at current levels. We therefore expect EUR/USD to consolidate within a 1.14–1.19 range over the coming months.

USD/JPY: Structural regime change supports the yen, but not yet

The medium-term outlook for the yen continues to improve as Japan gradually exits decades of deflation and ultra-loose monetary policy. Inflation has become more persistent, wage growth has accelerated and the BoJ has continued its cautious normalization process. Markets increasingly expect further policy tightening, supporting the yen through a gradual narrowing of the interest-rate differential with the United States. In addition, Japanese authorities remain uncomfortable with excessive currency weakness and have recently demonstrated their willingness to intervene in FX markets. Together, improving inflation dynamics, policy normalization and the risk of official intervention provide a supportive backdrop for the yen.

However, several factors continue to favour the U.S. dollar in the near term. Despite the BoJ's normalization efforts, U.S. interest rates remain significantly higher than Japanese rates, preserving a substantial yield advantage for the dollar. Moreover, the recent surge in energy prices following the escalation of tensions in the Middle East represents a particular challenge for Japan, which remains heavily dependent on imported energy. Higher oil and gas prices are likely to weigh on growth, deteriorate the trade balance and increase the economy's vulnerability to external shocks. Reflecting these concerns, consensus growth forecasts for both 2026 and 2027 have been revised down by around 0.1 percentage points since the outbreak of the conflict. While markets continue to expect further BoJ tightening this year, the deterioration in the growth outlook could make policymakers more cautious about continuing their normalization process, as they may be reluctant to tighten monetary policy in the face of growing cyclical headwinds.

Technically, the primary trend in USD/JPY remains bullish. The breakout from the 2.5-year symmetrical triangle in late 2025 suggests scope for a new cyclical high above 162. However, momentum indicators are showing negative divergences, indicating that the rally may temporarily stall before another attempt to break higher. Overall, while the structural case for the yen has improved significantly, the cyclical environment continues to favour the dollar and we remain moderately constructive on USD/JPY over the coming quarter.

CHF: Strong fundamentals offset by growing SNB resistance to further appreciation

The Swiss franc continues to benefit from a highly supportive fundamental backdrop. Safe-haven demand, Switzerland's strong external balances and low inflation continue to underpin the currency. The ongoing conflict in the Middle East and elevated energy prices have further reinforced demand for defensive assets, making the CHF one of the primary beneficiaries of the current environment.

At the same time, the SNB has become increasingly vocal about the risks associated with excessive franc appreciation. Since the escalation of the conflict in late February, the central bank has repeatedly stated that its willingness to intervene in FX markets has increased. At its March monetary policy meeting, the SNB noted that "given the conflict in the Middle East, the SNB's willingness to intervene in the foreign exchange market has increased" and emphasized its intention to counter a rapid and excessive appreciation of the franc that could threaten price stability. While there is limited evidence of significant intervention so far, the SNB's communication clearly signals growing discomfort with further currency strength. As a result, the combination of an already strong franc and increasingly interventionist SNB rhetoric is likely to constrain further appreciation.

USD/CHF: The greenback retains a marginal advantage

While the franc continues to benefit from safe-haven inflows, the U.S. dollar is also supported by its status as the world's primary reserve currency, the depth of U.S. capital markets and the relative resilience of the U.S. economy. Since the outbreak of the conflict, consensus GDP growth for Switzerland in 2027 has been revised down by 0.1 percentage points to 1.4%, while expected U.S. growth has remained broadly stable at 2.0%. This widening growth differential has likely supported the U.S. dollar, helping USD/CHF recover from around 0.79 at the end of February to approximately 0.80 and suggesting that the dollar has, for now, gained the upper hand in the current wartime environment. From a technical perspective, USD/CHF was deeply oversold near 0.76 earlier this year before recovering toward 0.80, with technical indicators improving materially. Overall, we remain neutral on USD/CHF and expect the pair to trade within a 0.78–0.82 range over the coming months, provided tensions in the Middle East remain elevated.

EUR/CHF: The euro's downside against the franc is narrowing

Higher energy prices are weighing disproportionately on the Eurozone economy, but Switzerland is unlikely to emerge unscathed. Approximately 55% of Swiss exports are destined for the Eurozone, and the Swiss economy remains deeply integrated into European manufacturing supply chains. A weaker Eurozone economy therefore tends to feed through to Swiss growth via exports, tourism, industrial production and corporate earnings. Combined with the SNB's reluctance to tolerate significantly further CHF appreciation, this should limit the franc's upside against the euro. We therefore expect EUR/CHF to remain broadly range-bound between 0.90 and 0.92 over the coming months, with key resistance around 0.93 and downside risks becoming increasingly limited from current levels.

Hedge Funds

Our H1 thesis: wider dispersion, fragile concentration, and the return of uncorrelated alternatives has largely played out, but reshaped by a shock we did not anticipate. The Middle East conflict and the disruption of energy flows through the Strait of Hormuz have injected a stagflationary impulse into a late-cycle economy, reversing the disinflation trend that underpinned the expected rate-cutting cycle. Inflation has re-accelerated, the Federal Reserve has shifted from anticipated easing to a defensive "higher-for-longer" stance under a new Chair, and the AI-led correction we flagged as a tail risk is now underway, with the first signs of rotation out of crowded mega-caps. A firmer-than-expected labour market leaves policymakers caught between sticky inflation and asymmetric downside risks to growth.

For hedge funds, this makes the regime more favourable but the tails sharper. Higher and more volatile rates, a renewed positive equity-bond correlation, and a genuine geopolitical risk premium widen the cross-asset dispersion opportunity while raising the cost of static beta and crowded positioning. Our H2 stance therefore deepens the tilt toward macro, relative value and idiosyncratic alpha, downgrades duration-dependent income strategies, and reaffirms the gap between vulnerable directional equity and resilient market-neutral approaches: a market that rewards agility and uncorrelated alpha over conviction beta.

Hedge Funds	☐☐☐■☐	
Relative Value Arbitrage /Multi-Strategy	☐☐☐■☐	- The volatility spike around the energy shock and the rates repricing has sharply widened cross-asset and intra-sector dispersion, an unusually rich backdrop for equity and credit relative value. - Re-pricing along the curve, now driven by inflation risk rather than an orderly cutting cycle, multiplies tactical relative-value opportunities in rates and sovereign markets that fixed-income RV desks can exploit. -Diversified multi-strategy platforms remain best placed to harvest this dispersion while dynamically rebalancing risk across sleeves as the macro regime shifts.
Commodities	☐☐☐■☐	- The H1 view of structurally softer prices has been overtaken by a supply-driven energy shock; an elevated and event-sensitive geopolitical risk premium now favours active, long-volatility commodity managers over a simple directional call. - Precious metals retain strong momentum, supported by safe-haven demand, persistent policy uncertainty and inflation hedging. - The structural power demand from AI and data-centre build-out continues to underpin base metals and natural gas, partially offsetting cyclical softness, a theme that survives the regime change.
Global Macro	☐☐☐☐■	- The standout beneficiary of the new regime: divergent monetary policies, a genuine geopolitical risk premium, an energy supply shock and the reversal of the disinflation trend create exceptionally high-conviction directional opportunities in rates, FX, energy and sovereign bonds. - A higher-for-longer Fed under new leadership, against a still-firm labour market and re-accelerating inflation, sustains policy divergence and cross-market volatility, the core fuel for flexible macro. - Managers are positioned for the dominant structural themes: deglobalisation, persistent inflation and fiscal activism tied to economic nationalism, now reinforced by the conflict.

Fixed Income/Credit Arbitrage	- The income and duration thesis of H1 has broken: with the cutting cycle on hold and inflation risk re-emerging, locking in duration is no longer the asymmetric trade it appeared to be at the start of the year. - The opportunity migrates from directional duration toward relative-value and dispersion: credit selection, capital-structure arbitrage and curve trades over carry harvesting. - Caution on spreads and contagion: tight credit, the build-up of leverage around AI and data-centre financing, and vulnerabilities in private credit argue for a defensive, security selection led stance rather than broad beta.
CTA/Managed Futures	- The environment has improved relative to H1: the energy spike and the rates repricing have generated genuine, exploitable trends, and trend models repositioned well through the volatility, vindicating the strategy's adaptability after the early-year shocks. - The diversification value of trend-following as a convex hedge against further geopolitical or inflation surprises has risen, justifying a move off the underweight. - Tempering the upgrade: a sharp de-escalation in the Middle East could whipsaw recently established energy and rates trends, the classic failure mode for systematic models around regime inflection points.
Event Driven	- M&A momentum remains robust into H2, with strong growth in large-cap volumes, a clear re-emergence of mega-deals and a permissive regulatory backdrop sustaining a constructive merger-arbitrage environment. - Renewed corporate activism, increasingly global, including governance-driven situations in Japan and Korea, broadens the special-situations and corporate-action opportunity set. - The scale of AI-infrastructure and data-centre financing continues to drive deal-making and restructurings, supporting the broader event-driven complex. - Risk to monitor: a fresh geopolitical shock could temporarily blow out deal spreads, a drawdown risk for crowded arb books, but also a re-entry opportunity for disciplined managers.
Equity Long/Short	- Elevated U.S. equity valuations and a highly concentrated market leadership – particularly around AI - raise the risk of a meaningful correction or rotation, leaving directional long-biased strategies especially vulnerable. - A higher cost of capital and a more challenging economic environment are likely to widen performance dispersion across companies, improving the opportunity set for market-neutral or low-net managers relative to more directional approaches. - Directional strategies remain particularly exposed to a potential deceleration in economic activity and earnings slowdown, a risk that could become more pronounced in the half of the year. - A notable exception within Equity Long/Short is Healthcare Biotech, where renewed M&A momentum - driven by a massive patent cliff, robust innovation pipelines, and an increasingly supportive policy backdrop - creates a highly constructive environment for specialists capable of capturing idiosyncratic alpha.

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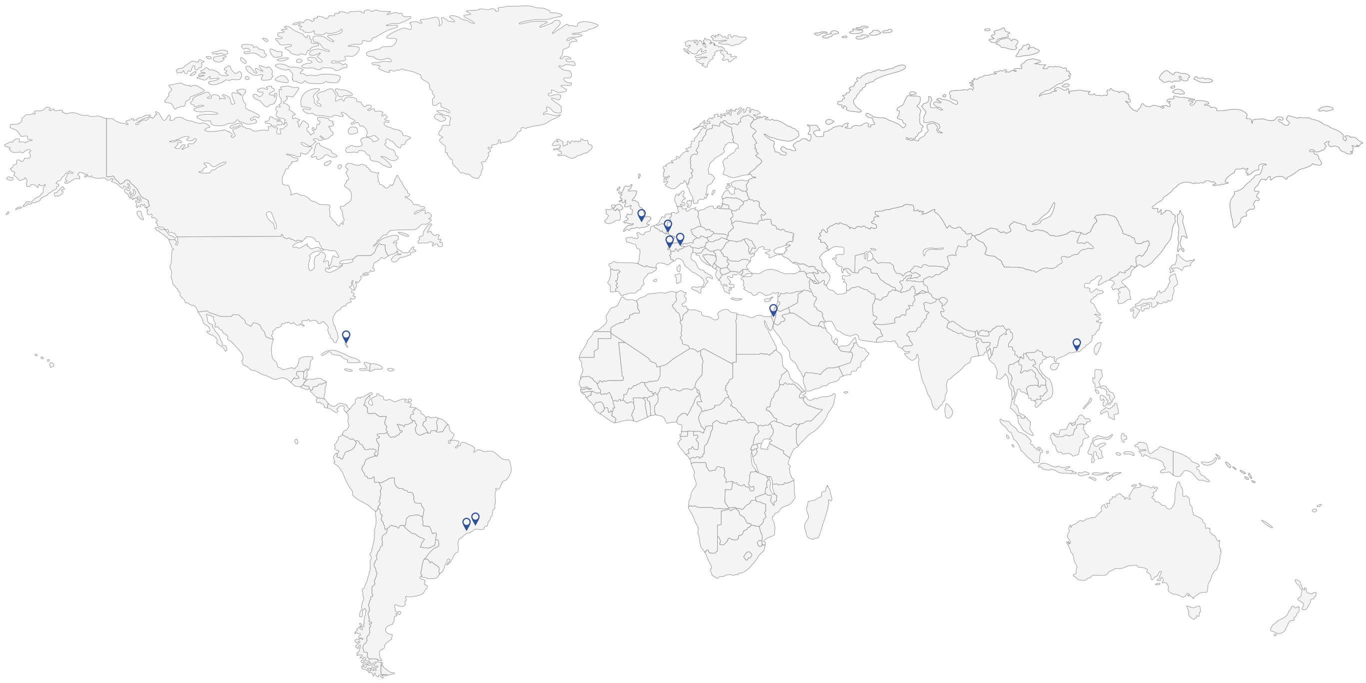

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