Quarterly Investment Letter

Q2 2026

Review – Middle East Conflict Easing

The past quarter told a story of resilience and excess in equal measures. Markets staged a strong comeback after the sharp sell-off in March triggered by the outbreak of war in Iran. Following ten weeks of fighting, a tentative peace agreement brought the conflict to a close, and crude oil prices fell from a peak of $120 per barrel to below $70, removing one of the year's most acute sources of risk. Most major equity indices recovered their conflict-driven losses and are now trading at or near all-time highs.

The Middle East conflict had driven inflation expectations sharply higher in March and early April, pushing the yield on 10-year Treasury bonds from below 4% to above 4.7% in May, before easing back to around 4.4% by quarter-end as the geopolitical premium unwound. The US dollar strengthened against most global currencies over the period, supported by elevated yields, safe-haven demand during the height of hostilities and the strong economy.

US equities finished the quarter near all-time highs, propelled by enthusiasm for artificial intelligence and the memory chip sector. Notably, however the MAG7 stocks and other hyperscalers committing the most capital to new data centers posted negative returns year to date, a sign that markets are beginning to question whether AI spending translates into shareholder value.

SpaceX's listing on June 12th, the largest IPO in US history, encapsulates the mood: shares priced at $135 valued the company at $1.8 trillion and quickly surpassed the market capitalization of Microsoft and Alphabet, despite SpaceX projecting losses of around $5 billion per year versus a combined annual profit of $180 billion by Microsoft and Alphabet.

Beneath the rally, leverage has reached concerning levels. US margin debt hit a record $1.4–1.42 trillion in May, driven by the AI-related rally, the proliferation of leveraged and single-stock ETFs and sustained retail participation. While broader sentiment indicators have not yet signaled irrational exuberance, a highly leveraged market is inherently fragile - a shift in sentiment can translate quickly into outsized moves, as recently seen in South Korean technology names.

Not surprisingly, European markets suffered more from the short-term oil price shock as Europe imports most of its oil and natural gas from outside the continent and is inherently more at risk when supply sources are drying up. The German DAX (+2%) and French CAC40 (+5.7%) are both up since January, however, the Swiss Market Index (+10.1) outperformed nicely, in local currency terms. The defensive nature of the Swiss markets has helped, as well as the Swiss Franc that is always at the center of investor's desire in periods of financial or global uncertainty.

The major Asian markets rallied strongly, driven by the global chip rally. The broad Japanese market is up 20% in Yen-terms but the currency keeps losing ground, down almost 4% this year and reaching levels not seen since the late 1980s! Our allocation is currency-hedged, though, and we are not negatively impacted by the weakness of the Yen. Outside of Japan, the focus was on South Korea's Kospi index, up a staggering 88% this year, albeit with extreme levels of volatility. The market zigzagged by over 10% on certain days, due to the heavy reliability of just 2 companies: Samsung and SK Hynix, two of the world's largest chip manufacturers. The shortage of memory chips has driven up this sector worldwide, to levels not seen before and we are concerned a potential bubble could burst at any time.

Market Data

in USD as per June 30, 2026

Equities	**YTD%**
World	+11.3
USA 500	+10.2
USA 500 Equal Weighted	+12.1
USA Mag 7 Index	-1.7
Europe 600	+7.7
Swiss 30	+7.7
Germany 40	-0.9
Asia 50	+45.8
Japan	+16.1

Bonds	**YTD%**
Global Aggregate (unhedged)	-0.2
U.S. Aggregate	+0.6
Pan Euro Aggregate (EUR)	+1.4
Global High Yield	+2.1

Interest Rates	**in %**
U.S. 3 months	3.8
U.S. 10 years	4.5
Euroland 3 months	2.4
Euroland 10 years	2.9

Commodities	**YTD%**
BB Commodity Index	+12.3
Gold oz	-7.0
Silver oz	-17.0
WTI Crude Oil	+40.9
Copper	8.6

Currencies		**YTD%**
EUR in USD	1.1422	-2.8
CHF in USD	1.2370	-1.9
GBP in USD	1.3262	-1.6
JPY in USD	162.55	-3.7

Economies

GDP Growth Estimate	**2026%**
USA	+2.1
Eurozone	0.6
Global	2.9

Inflation	**12M%**
USA	4.2
Euroland	2.8
Switzerland	0.6

Outlook – Constructive on equities

We remain broadly constructive on equities for now. AI-related capital expenditure is trickling through the wider economy supporting earnings revisions and lending some justification to elevated valuations across the broader market. That said, we started reducing our exposure to the technology sector towards the end of June. With AI-related debt potentially approaching $3 trillion industry-wide, the annual servicing burden alone could reach $309 billion, a figure we currently regard as incompatible with the profit trajectory of an industry still proving its commercial model. We believe capital protection should take precedence over chasing the final stages of a speculative rally, while acknowledging the balloon can grow further before it deflates.

On the macro backdrop, we continue to believe the Iran conflict will have a negative but manageable impact on the global economy. Higher inflation has increased production costs, weighed on real incomes, and delayed central bank easing. However, the global economy entered this period in sufficiently good shape to absorb these headwinds. The US labor market has recently shown signs of reacceleration and the tailwinds from Trump's One Big Beautiful Bill Act, progress on tariff reduction and AI-driven capital spending should provide additional support. The upcoming midterm elections also give the administration a strong incentive toward economic stability.

Under Warsh, the Fed's direction has shifted. The median committee projection has moved away from rate cuts toward the possibility of at least one hike by year-end. We expect the dollar to remain well-supported in this environment, with rate differentials favoring dollar-denominated assets relative to most peers.

Fears of aggressive rate hikes pushed gold toward $4,000 per ounce before the easing of Middle East tensions allowed a partial recovery. The sell-off cleared significant speculative froth, with long positions declining sharply. However, structural central bank demand remains robust. According to the World Gold Council's June 2026 survey, 84% of respondents expect gold to account for a higher share of total reserves over the next five years, up from 76% previously, and 89% anticipate an increase in global official gold reserves over the next twelve months. We remain long-term bulls on precious metals and continue to see merit in gold mining equities and selected defense sector names, both of which offer strong cash flows but remain out of favor with momentum-driven investors.

We will continue to monitor these developments closely and will keep you informed as the picture evolves.

Our investment team wishes all a joyful summer time.

Ameliora Wealth Management Ltd.

Investment Office