Q2 2026

The sustainability of "semis or nothing ..."

The narrow market leadership in both developed and emerging markets has continued in 2026, with stock market returns being anything but broad-based but rather driven by "semiconductors or nothing". The AI infrastructure narrative continues to dominate, but with semiconductors far outpacing software returns.

As can be seen from figure 1 below, the global equity market return (MSCI ACWI) has more or less been flat (USD), excluding the semiconductor sector. Semiconductor stocks have risen 60% in the 1H of 2026, while the broad market, including semiconductors, is up 11%. According to the research company Gavekal Research, the market cap of MSCI ACWI has risen approximately USD 7 trn this year, with the semiconductor stocks contributing almost all, with an addition of USD 6.5 trn. The semiconductor sector now constitutes almost 14% of the MSCI ACWI, which explains the huge dispersion of returns in 2026. To outperform has required a very significant exposure to semiconductor stocks.

The enthusiasm for the semiconductor stocks is understandable. Demand is extremely strong driven by the AI-infrastructure investment boom, and prices for memory chips are rising noticeably in a normally cyclical industry where ever-declining prices were the norm. In this environment, customers are now seeking long-term contracts (up to 5Y-deals) to secure supply to support the AI-investment programmes.

Historically, "scarcity" has only created temporary super-normal profits, and as capacity and demand normalise, stocks typically retreat. The key to understand is whether the supply bot-

Figure 1
Semiconductor stocks have taken centre stage in 2026

Source: FactSet, MSCI, 30 June 2026

> Our global strategies value predictability of earnings growth over more cyclical earnings spikes. We see this as a durable approach to generating returns over long periods.

tleneck is a shorter-term cyclical or more structural phenomenon. The chance of being right is much better when demand is long-term, and a quick supply response is difficult. The short-term bottleneck trade is seductive but can be risky, especially if valuations become elevated.

Going back to the theme of semiconductors and memory producers, we see that demand trends offer support for solid pricing over the coming years. However, investing in the memory names is high risk with daily volatility up to 10% or higher. Embedded expectations are high, and there is an increasing risk of AI investments, particularly in the US, running ahead of sustainable demand and the monetisation potential in the shorter to medium term. There were signs of AI stress in the form of inflation and energy concerns in connection with pricing and investment announcements for AI infrastructure. Hyperscalers have previously funded AI investments from cash flows, but debt is increasingly a source of funding. This changes the quality of growth and exposes the theme to the risk of higher funding rates, either through higher interest rates and/or higher credit spreads.

In Asia, technology now constitute half of the market capitalisation, and our Asian and Emerging Market strategies have direct exposure to the leading memory producers and sub-suppliers within the semiconductor space.

Our global strategies value predictability of earnings growth over more cyclical earnings spikes. The sustainability of earnings growth and corresponding valuation metrics are core to our risk/reward analysis. We prefer to select companies offering more structural opportunities, for instance, in select niches like Industrial gases, battery production and technology areas where supply is hard to expand, and valuations are reasonable. We see this as a durable approach to generating returns over long periods.

Quality is an opportunity when "risk-on" fades

The equity market is benefiting from unusually strong earnings growth driven by a combination of AI investment, firmer commodity prices, resilient financials and cyclical recovery. We are constructive on the outlook, given the removal of the inflation scare and markets moving from pricing a potential energy shock toward a more benign "contained disruption" outcome, not least from the Middle East situation.

The investment theme in AI and industrial infrastructure and energy remains supportive to growth. Fiscal policies in most countries are stimulative, while the key question is around monetary policies. Falling oil prices will dampen inflationary expectations, but the new Fed chair Kevin Warsh started out more hawkish than expected. Eventually, interest rates hikes in the US should be modest given the huge amount of public debt that needs to be financed. However, a potential rise in credit spreads could spark a change in sentiment from the current "risk-on" environment to a more subdued "risk-off". This change could be a macro catalyst for the revival of quality growth companies.

We see a strong case for the quality growth companies that have de-rated over the past several years despite their earnings continuing to compound. At some point, earnings growth and multiple compression must cross, and we may be close to that point. As illustrated in figure 2 on the next page, the companies in our Global Equity portfolio, which have a strong bias towards quality growth, are trading at P/E premium to the market that is close to a 10-year low. And companies' capital returns (ROE) are historically high, also relative to the market. We saw a strong recovery in selected quality names in late 2025, and though that wasn't enough to declare a regime change, it signalled that dispersion may soon be widening again.

Thematic tailwinds

AI infrastructure remains the dominant market theme. The rapid adoption of AI has created a sharp divide in equity markets. Companies supplying the infrastructure that powers AI have generally outperformed, while many software companies have faced greater scrutiny over disruption to their business models. Technology hardware has taken a clear lead so far in the AI theme, with semiconductors and a small number of platform companies outperforming.

Going forward, we expect the AI theme will broaden to include applications, productivity, margin improvement and competitive reinforcement across a wider set of businesses. Many of those companies are quality compounders.

AI has created uncertainties for enterprise software in terms of disruption and long-term profitability, but business models with a high degree of propri-

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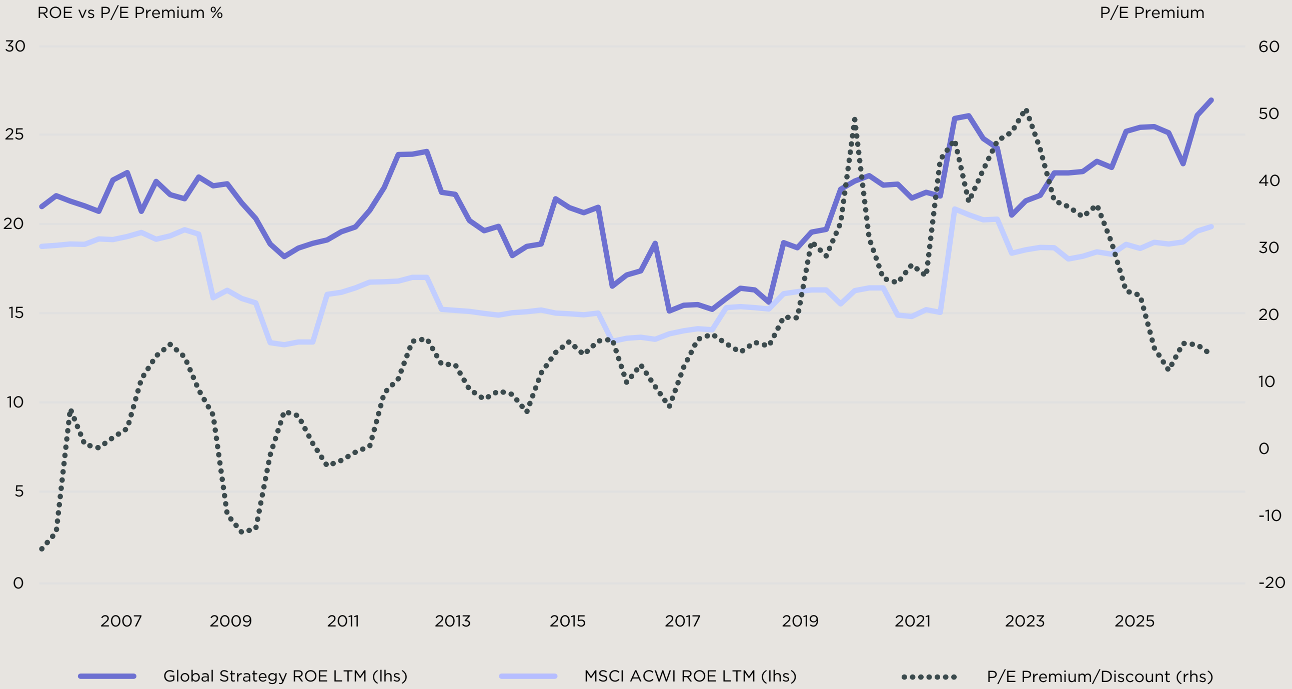
> **The short-term bottleneck trade is seductive but can be risky, especially if valuations become elevated.**

Figure 2

Quality at an attractive price



Source: C WorldWide Asset Management, FactSet, 30 June 2026 etary data and deeply embedded solutions have competitive advantages that can sustain pricing power. So far in 2026, all software companies have been treated equally harshly, but we expect that quality software companies will get fairer treatment over time.

Within industrials, automation, energy efficiency and reindustrialisation are critical longer-term themes. In the current environment, the market has rewarded the most operationally levered and lower-quality beneficiaries over the high-return leaders. Over the cycle, we believe the strongest companies in these value chains are likely to outperform.

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Western banks have, for an extended period, benefited from positive credit spreads and very low credit losses, while emerging market banks have underperformed significantly. The financial institutions in countries like Indonesia and India, and the wider region, are underpinned by hundreds of millions of people entering the financial system and

the digital economy for the first time. We believe this underperformance and the resulting low valuations will reverse.

China and India remain important long-term opportunities as the global indices still underrepresent these economies relative to their share of global growth and future consumption. Selectivity is needed, and we prefer local companies that can compound through structural growth, financial deepening, digitalisation and rising domestic demand.

Finally, the dominance of the US market-cap may be closer to a high-water mark than a permanent plateau. While we don't know the timing, history suggests that extreme concentration doesn't persist indefinitely. In 2026, Asia and Japan have started to outperform, perhaps signalling an early geographical market broadening. When leadership broadens, portfolios that are materially different from the index should again have a favourable tailwind.

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