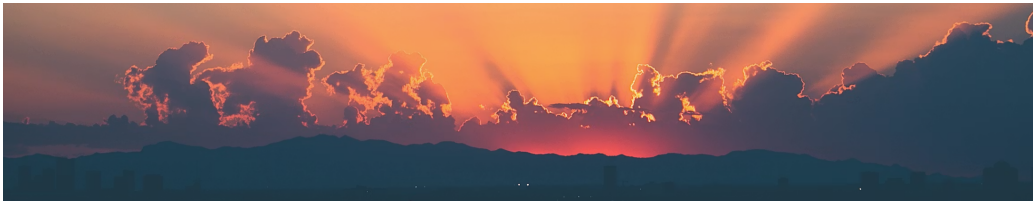


July 17, 2026

BILBoard July 2026 – A false dawn



Based on decisions taken at the July 6 Asset Allocation Committee

Just a few weeks ago, it appeared that the worst of the Middle East crisis was behind us. After a peace agreement was signed between the US and Iran on 17 June, it was tempting to look past the prospect of a prolonged energy supply shock. Indeed, traffic in the Strait of Hormuz was beginning to pick up, Brent crude prices had fallen to around USD 71 per barrel, and headline inflation was starting to cool.

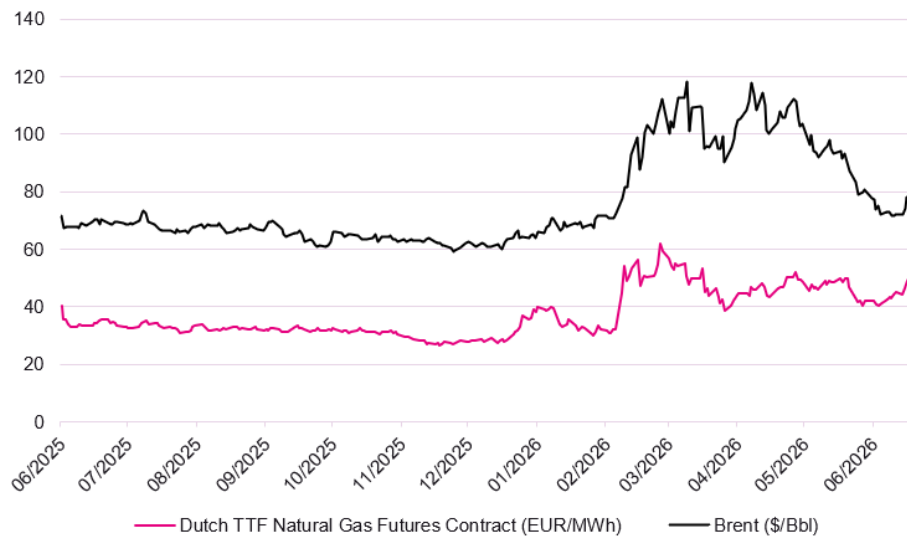
Investors, corporates and consumers responded positively. Sentiment indicators improved and markets increasingly priced a return to a more benign macroeconomic environment.

It now appears that this optimism was premature.

Diplomatic efforts have been complicated by diverging objectives. The Trump administration is keen to restore normal shipping flows through the Strait of Hormuz in order to ease energy market pressures ahead of the US midterm elections. Iran, meanwhile, remains reluctant to relinquish leverage over one of the world's most strategically important waterways. Tensions escalated once again on 7 July, when the US launched strikes against Iranian targets following attacks on vessels transiting the Strait.

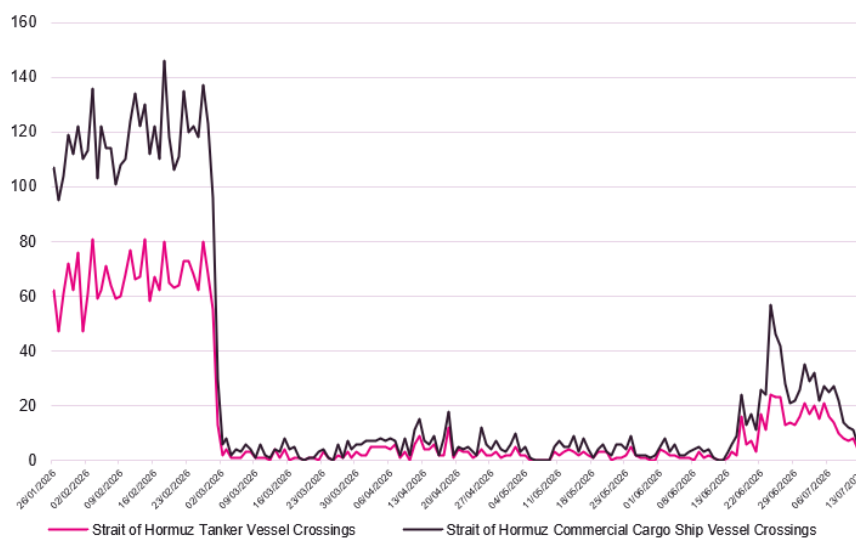
Since then, hostilities have continued and activity through the Strait has slowed sharply once more. Brent crude has climbed above USD 85 per barrel, while European benchmark gas prices have risen by more than 20%. Insofar as now, these moves are considered orderly and suggest that markets are pricing a bottleneck rather than a severe supply shortage. Nevertheless, they serve as a reminder that geopolitical risks remain elevated and that energy-related disruptions are still a feature of the macro backdrop.

Energy prices are creeping up again



Source: Bloomberg, BIL 15 July 2026

Traffic in the Strait of Hormuz has slowed to a trickle again



Source: Bloomberg, BIL 15 July 2026

MACROECONOMIC OVERVIEW

The global economy remains caught between two powerful forces: war and technology.

On one hand, geopolitical tensions, higher energy prices and inflation risks are weighing on growth prospects. On the other, unprecedented investment in artificial intelligence continues to

support economic activity, corporate earnings and productivity expectations.

On a country-by-country basis, exposure to these themes varies, creating bifurcated economic expectations. Energy-exporting countries are benefiting from higher commodity prices and improved terms of trade, while economies closely linked to the AI investment cycle continue to attract capital and demonstrate greater resilience. Conversely, energy-importing countries with limited exposure to AI profit pools face a more challenging environment.

The **US remains uniquely positioned**. It is both a net energy exporter and the global centre of AI investment. Estimates suggest that the largest hyperscalers could spend as much as USD 820 billion in 2026 alone. Consumer spending also remains resilient, supported by a stabilising labour market.

While we remain constructive on **AI as a long-term theme**, we see **potential near-term risks** to the investment cycle. Additional semiconductor manufacturing capacity is expected to come online over the coming quarters, potentially coinciding with a moderation in hyperscaler capex growth. At the same time, competition is intensifying as China accelerates efforts to achieve greater self-sufficiency in advanced technologies.

Moreover, many of the companies expected to benefit most from AI are becoming increasingly cost-conscious, or realizing that adapting their systems, processes and data infrastructure to fully capture AI-related productivity gains may take longer than initially anticipated.

The Q2 earnings season will therefore be critical in assessing whether elevated investment levels are translating into stronger revenues, expanding margins and sustainable cash-flow growth.

The principal macroeconomic risk facing markets, however, may be **Federal Reserve tightening**. The hawkish tone adopted by the new Chair Kevin Warsh surprised investors and reinforced concerns that the Fed may be willing to tighten policy in the near-term. However, the benign June inflation report, with CPI falling 0.4% month-on-month in its first decline since 2020, may allow policymakers to talk hawkish talk without walking a hawkish walk. Much will depend on developments in energy markets and the extent to which second-round inflation effects emerge.

The **Eurozone economy remains more subdued**. Renewed geopolitical tensions are likely to weigh disproportionately on Europe given its dependence on imported energy. While headline inflation in the currency union has receded, wage pressures, and ongoing energy-related uncertainties suggest the ECB may not be ready to declare victory just yet. As a result, the possibility of further policy tightening later this year cannot be ruled out.

INVESTMENT DECISIONS

Against a backdrop of geopolitical uncertainty, persistent inflation risks and increasingly concentrated equity markets, we have made several adjustments intended to improve diversification, and position portfolios for a broader range of outcomes.

Firstly, we **increased exposure to European equities**. This is a tactical play, as we believe that any signs of progress in Middle East discussions, could bring tailwinds.

We also **reallocated part of our US investment-grade bond exposure into European inflation-linked government bonds**. Real yields were close to their highest levels in 15 years, offering an attractive entry point, while optimism around a lasting peace in the Middle East had driven European inflation expectations sharply lower. With breakeven rates effectively pricing inflation below the ECB's 2% target, we viewed the market's assumptions as overly optimistic. Subsequent developments have validated the prudence of that positioning.

Within **Emerging Market debt**, we **reallocated part of our exposure from hard-currency bonds into local-currency**. Hard-currency EMD has delivered a strong performance in recent quarters, reducing valuation appeal and limiting the potential for further spread tightening. While the overarching case for Emerging Market bonds – built upon resilient macro fundamentals and attractive carry - remains intact, we now believe that unhedged local-currency debt currently offers the most effective way to express a positive view - even in an environment where the Fed remains relatively hawkish.

We also **upgraded Financials from neutral to positive**. Entering the second-quarter earnings season, we expected trading and investment-banking revenues to exceed guidance, and early results have broadly confirmed that view. Heightened market volatility and robust client activity across both equity and fixed-income markets have supported trading income and contributed to earnings surprises across a number of major banks. Beyond this short-term earnings momentum, the sector continues to benefit from improving capital-markets activity, growing investment-banking pipelines and the prospect of a gradual recovery in M&A. Net interest income is improving, while balance sheets remain healthy and credit quality remains strong.

Finally, given the strength of the US economy, ongoing labour market resilience and a Fed that is clearly cautious on inflation, we felt **comfortable reducing the level of currency hedging on our US dollar exposure**.

CONCLUSION

The period immediately following the US-Iran peace agreement encouraged markets to price a return to normality. Recent events have demonstrated how fragile that assumption was. Geopolitical tensions remain elevated and inflation pressures have not disappeared. At the same time, investors are increasingly questioning whether today's elevated AI-related spending

will ultimately translate into the earnings growth that markets currently expect.

While we remain constructive on risk assets and continue to view artificial intelligence as one of the most powerful long-term investment themes of the coming decade, we believe the next phase of the cycle is likely to reward diversification, valuation discipline and a helping of inflation protection.



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