

# Outlook & Convictions

Private Banking #17



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# Outlook & Convictions

Private Banking #17



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# Editorial



**Nicolas Bickel, CFA**  
Group Head of Investment  
Private Banking & CIO

The conflict between Iran and the United States, with the blockade of the Strait of Hormuz as a focal point, kept investors on high alert for more than three months but failed to derail the financial markets. Despite rising inflation, increasingly restrictive monetary policies and pressure on consumer confidence, the equity markets have performed positively since the start of the conflict.

Buoyed by hopes of a peace deal and an excellent corporate earnings season (particularly for some tech stocks, whose earnings growth has doubled), the US S&P 500 index has hit 20 new highs since 15 April and 25 since the beginning of the year, underlining the strong upward trend. But the concentration on a few sectors and stocks has remained extreme throughout the rebound, with just 26% of companies outperforming the index. The tech sector has accounted for a full 80% of the index's performance since the beginning of April.

Emerging markets have also outperformed, with the MSCI Emerging Markets gaining 20% since the end of March versus 14% for the MSCI World. That said, this performance was driven not by traditional drivers in emerging markets, such as a weak dollar or lower interest rates, but by tech stocks. Three of them alone — TSMC, Samsung and SK Hynix — have generated more than 80% of the performance recorded since the beginning of 2026. The tech sector now accounts for nearly half of the Emerging Markets index, and three countries — China, South Korea and Taiwan — account for 70%.

In Europe, the Euro Stoxx 50 slightly underperformed other geographical regions owing to its lower exposure to tech stocks as well as the impact of higher energy prices on production costs stemming from the conflict in the Middle East.

Despite fears of a tech bubble burst and controversies surrounding AI, robust demand for semiconductors and the fresh hopes raised by SpaceX's IPO gave the sector renewed momentum, driving it to new highs.

From April onwards, our economic scenario has incorporated a slight slowdown in global growth and has been contingent on the signing of a peace agreement and the gradual reopening of maritime traffic before the summer. This scenario was subsequently confirmed by the Memorandum of Understanding announced on 15 June between the US and Iran, lending greater credence to our optimistic outlook for the rest of 2026. We expect lower inflation and global GDP growth of 2.3%, with 1.9% in the US and 0.5% in the eurozone, before a slight rebound in 2027.

But while many economic indicators look extremely resilient, we have entered a period of greater uncertainty as the two countries endeavour to iron out the details of the agreement by mid-August. Furthermore, despite the current investment “supercycle”, particularly in the tech sector, the high interest rates resulting from substantial public deficits, persistently high inflation (which is expected to continue exceeding central bank targets) and heightened political instability are likely to weigh on the cost of capital and, ultimately, on global growth.

With oil prices dipping and consumption likely set to rebound, we remain constructive on equity markets in most regions. We prefer industrials, European banks and certain tech segments. We remain underweight in government bonds and favour short durations given the deterioration of public finances in the medium term. We remain positive on gold, which should continue to benefit from significant central bank purchasing intentions, although a strong dollar and a more restrictive US Federal Reserve could cap the gold price in the short term.

In this new issue of Outlook & Convictions, we discuss our economic forecasts and our market convictions for the equity and bond markets. Our special report focuses on the potential of the semiconductor sector, whose valuation has more than doubled this year, and, more broadly, explores the theme of artificial intelligence.

I hope you enjoy this new issue and wish you a lovely summer.



Our outlook  
in video



Gitana 18, Maxi Edmond de Rothschild, Lorient

Macro-eco



# The global economy is adapting

**Dr. Mathilde Lemoine**  
Group Chief Economist Edmond de Rothschild

The decline in energy commodity prices has intensified following the agreement between the United States and Iran. This easing, although volatile and subject to tensions between the parties involved, confirms our central scenario of a global slowdown presented last April (see Outlook & Convictions #16, “From energy to the global economy: the shock of the war in the Middle East is spreading”). Based on the assumption of a US-Iran agreement before the summer, this scenario included a decline in commodity prices in second-half 2026, limiting the risks of an inflationary knock-on effect and a global recession.

Inflationary risks are also being mitigated by weak demand, with inflation resulting from the rise in energy and food prices having risen faster than inflation from wages. As a result, household purchasing power has already shrunk. Further, companies today are finding it more difficult to increase selling prices than back in 2022, as discussed by our eurozone economist in a recent article entitled “The shock absorbers of 2022 have disappeared”. Energy price subsidies have also been more limited. Household consumption in the United States is showing signs of weakness following the slowdown in real wages, despite a still buoyant labour market. Retail sales in China remain sluggish. The US Federal Reserve appears to be in no hurry to raise its key rates, as inflation expectations remain well anchored.

At the same time, the recessionary impact of the sharp rise in commodity prices and production stoppages from March to June was limited by quick-to-adapt carriers, which have been using alternative sea and land routes, and by increased oil production in the United States, Canada and Brazil, among others. Meanwhile, Asian exports have been bolstered by precautionary stockpiling. In a further key aspect, businesses have proved more adaptive to supply disruptions, largely as a result of the diversification strategies rolled out during COVID. This is particularly true of companies in the United States and China, where supply lead times have increased by 8% and 3%, respectively, compared with a full 20% in the eurozone. Trump’s statement suggesting imminent peace talks also served to curtail the rise in the oil price. Having peaked at \$126 per barrel on 30 April 2026, the Brent fell to \$84 on the morning of 15 June 2026 following the announced agreement between the United States and Iran, before edging slightly higher as attacks resumed.

These developments have led international institutions championing adverse and severe scenarios to consider a moderate slowdown similar to that in our central scenario. For example, at its most recent meeting, on 11 June, the European Central Bank included a “milder” scenario alongside the “severe” and “adverse” scenarios prepared in March.

## Edmond de Rothschild’s central scenario

Impact of the war in the Middle East coming to an end in June

| Our central “slow-down” scenario | 2025 |           | 2026 |           | 2027 |           |
|----------------------------------|------|-----------|------|-----------|------|-----------|
|                                  | GDP  | Inflation | GDP  | Inflation | GDP  | Inflation |
| World                            | 2.8  | 3.1       | 2.3  | 3.7       | 2.6  | 2.8       |
| United States                    | 2.1  | 2.7       | 1.9  | 3.4       | 2.1  | 2.5       |
| Eurozone                         | 1.5  | 2.1       | 0.5  | 3.2       | 0.7  | 2.4       |
| Switzerland                      |      |           | 1.0  | 0.8       | 1.3  | 0.5       |
| China                            | 5.0  | 0.0       | 4.8  | 0.9       | 4.8  | 0.7       |
| Japan                            | 1.2  | 3.2       | 0.8  | 2.2       | 1.0  | 1.6       |
| India                            | 7.5  | 2.0       | 6.0  | 5.3       | 6.4  | 5.1       |
| Brazil                           | 2.3  | 5.1       | 2.1  | 4.3       | 2.3  | 4.0       |

Calculations made using the Edmond de Rothschild Economic Research forecast model.

**The global economy has adapted quickly to the oil crisis and supply disruptions**  
The impressive adaptability of economic actors has limited the impact of the war in the Middle East. Numerous strategies have been successfully rolled out to limit the rise in oil prices and address supply disruptions and production unit shutdowns, including the road transport of containers to the Middle East, the use of other ports in Syria, Pakistan or India for transit, increased shipments via the Cape of Good Hope and the Panama Canal, increased US, Canadian, Brazilian and Russian oil exports, and the release of strategic oil stocks. According to our commodities specialist Manuel Maleki, additional oil exports from America and Russia have accounted for up to 20% of the decrease in oil transported through the Strait of Hormuz. Companies have benefited from the investments made



following the pandemic to reduce their supply dependence and thus limit the highly negative impact of the production stoppages in Asia. They have also successfully diversified their suppliers. The accumulation of replacement capacity since COVID has prevented a sharp drop in industrial production, except in the Middle East, of course, where it has fallen by 44% since February. This deft ability to adjust and adapt transport infrastructure is fully illustrated in trade metrics, with volumes continuing to increase.

Regarding energy, the US-Iran war has shown that the world is less dependent on oil. The 26% reduction in energy intensity worldwide since 2000, together with technological investments and the development of renewable energy, has reshuffled the deck and reduced the recessionary impact of a rise in oil prices on the global economy. But the real issue here is that this decrease has not come at the same pace, has not affected the same energy uses, and has not had same macroeconomic consequences from one country to the next.

By developing the tertiary sector and reducing the weight of heavy industry, Romania has cut its energy intensity by 61%, Lithuania by 58%, Bulgaria by 48% and Albania by 49%. In the United Kingdom, de-industrialisation has led to a resounding 50% drop in energy intensity. And the latter has fallen by 38% in Germany and 29% in South Korea despite their extensive industrial bases. Meanwhile, in the small countries of Aruba, Djibouti and Rwanda, the energy required to produce one unit of GDP has decreased by 81%, 46% and 55%, respectively. In a further key point, the energy transition has been asymmetric. Since 2000, renewable electricity production has increased the most in China, the US, India, Germany, Brazil and the UK. In transport, the US leads the way, ahead of Brazil, China, Indonesia and Germany. In heating/air conditioning, India, Nigeria, Brazil, Ethiopia, and Pakistan have posted the largest increases in the use of renewable energies.

Europe is suffering in this respect because the relative advantage it established in the past by sharply reducing its energy intensity is now eroding fast. Nearly 50% of European power grids are between 40 and 50 years old and no longer adapted to new production and consumption structures. The profits generated by improved energy efficiency have been only marginally reinvested in infrastructure modernisation and innovation.

#### Artificial intelligence driving growth and global trade

The slowdown in industrial production and production stoppages have highlighted just how much AI is contributing to growth and trade.

Investments rose 10.4% in the US in early 2026, particularly those related to AI. In keeping with a long-running tradition, the tax credit provided for in the “One Big Beautiful Bill Act” has served to step up investments. China is also very much on the front foot, announcing, as part of its fifteenth five-year plan, its intention to spend nearly \$15 billion on accelerating the construction of data centres in 2026. Under the “Six Networks” plan, the country plans to invest the equivalent of 5% of

GDP in water and power networks and IT and AI infrastructure, as well as communication and logistics infrastructures and urban networks.

Naturally, this investment is part and parcel of the sovereignty-boosting efforts that we identified as short- and medium-term support for global growth. We estimate this investment at 5.3% of global GDP by 2030. But AI-related investments have also had a significant impact on global trade and Asian exports. According to World Trade Organisation data, AI-related goods (including semiconductors, data centre equipment and advanced electronic components) account for 42% of the growth in world trade but just 15% of the goods traded worldwide. Asia is the key beneficiary of this phenomenon. China, South Korea, Taiwan, Singapore, Malaysia and Vietnam now hold vital positions in global technology value chains. Asian exports of electronic equipment, components and digital infrastructure are soaring, partially offsetting difficulties in other fossil-fuel intensive sectors. And the growth is impressive, South Korean exports of AI-related goods having grown by 120% over the past year, those of Taiwan by 80%, those of Singapore by 70%, those of Malaysia by 60%, and those of Thailand and Vietnam by 40%. Growth has been somewhat less striking in China, at 30%, but the country has substantially increased its share of the energy transition and cleantech markets<sup>1</sup>. China is spending twice as much as the EU on the energy transition, and 20% of the increase in energy transition spending comes from the United States, as part of its efforts to challenge Chinese dominance in cleantech value chains.

#### Weaknesses to persist in 2026 and in 2027

While the agreement between the US and Iran has eased commodity prices, sovereign borrowing rates have remained high owing to the acceleration in inflation, the persistence of geopolitical uncertainty and the increase in key rates by several major central banks.

As stressed earlier, these high long-term real and nominal borrowing rates pose a downside risk to the global growth outlook even in today's investment supercycle.

In the United States, despite the increase in inflation to 4.25% in May, real 10-year sovereign yields remain above 1%, twice their average of the last decade. French real rates continued to stand at 2.3% in May, compared with a 2010-2019 average of 0.5%. The increase is also pronounced on the very long part of the curve. These levels are hardly compatible with the scale of financing required to invest in sovereignty, artificial intelligence, the energy transition, population ageing and the refinancing of public debt. In my view, the tension between growing investment needs and the persistently high cost of capital remains the weakest link in global growth. In short, the bond market is unstable.

Furthermore, production stoppages resulting from the closure of the Strait of Hormuz and the destruction of sites in the Middle East could lead to a persistent rise in input prices. Production stoppages, supply disruptions and replacement issues generally have a more lasting negative impact on economic activity. A “capacity” crisis is much more

<sup>1</sup> Cleantech refers to technologies, products and services designed to reduce the environmental footprint of human activities by improving energy efficiency and resource use, limiting polluting emissions and greenhouse gases, and promoting renewable energies and the circular economy.



recessionary than a price-driven supply crisis. Unlike a rise in prices, rationing or halting production leaves no room for adjustment, the agents involved being unable to replace, defer or make trade-offs. The recessionary effects of production losses far exceed those of an equivalent rise in prices, wiping out the ability of companies to optimally adjust their productive combinations. In other words, a rise in prices serves as a levy, but rationing acts as a constraint. The former is a phenomenon to which the economy can adjust; the latter prevents it from producing.

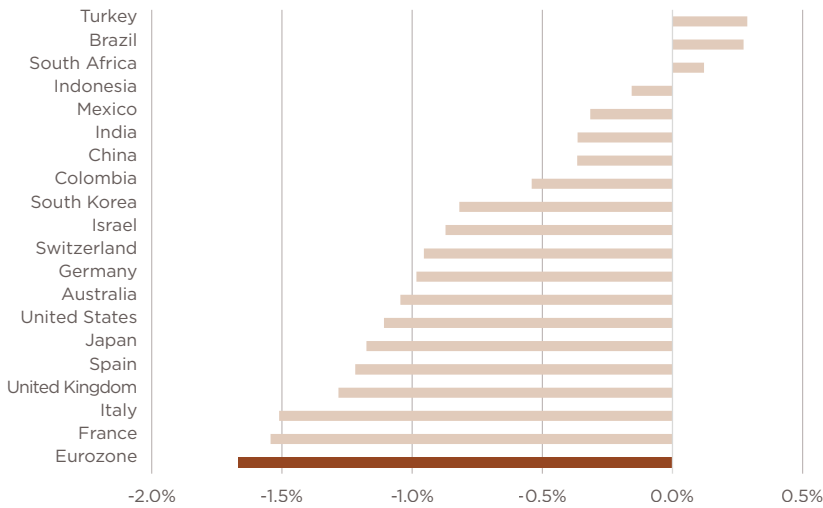
In a further issue, rebuilding the destroyed production sites and resuming production will take time. Additional production and supply costs are expected to persist beyond 2027, including the term premium resulting from geopolitical uncertainty, which will weigh on global growth in 2026 and 2027.

The expected slowdown in demand around the world, and particularly in the eurozone, will keep a lid on economic activity in the coming quarters, as will the rise in key interest rates. The situation in Europe is marked by weak domestic demand, high exposure to global trade, greater sensitivity to energy costs, and lower investment in AI and the attendant infrastructure, as well as in the energy transition. Additionally, real interest rates currently exceed the trend in the eurozone's nominal growth rate, which has a strongly recessionary effect.

If tensions ease in the Middle East, growth will likely pick up again in 2027. But this upward trend could be modest given tighter monetary policy, high borrowing rates in a context of massive financing needs, a deteriorating labour market and a slowdown in consumption, not to mention persistent geopolitical instability.

Chart 1 – Inflation is undermining consumer confidence, especially in the eurozone

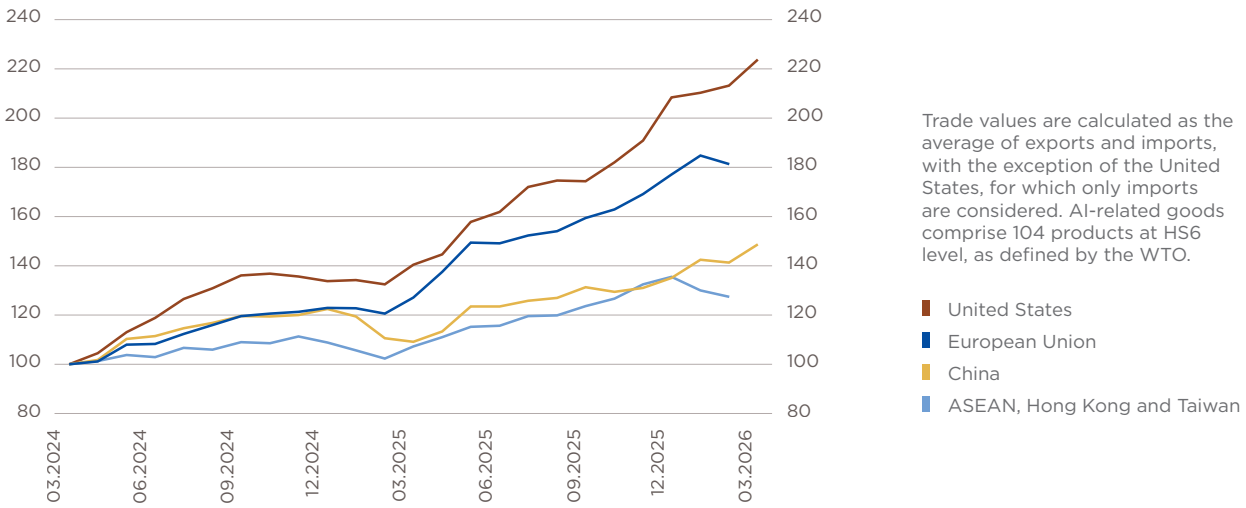
Change in consumer confidence since February 2026, in %



OECD, Edmond de Rothschild Economic Research.

Chart 2 – AI-related trade is driving growth

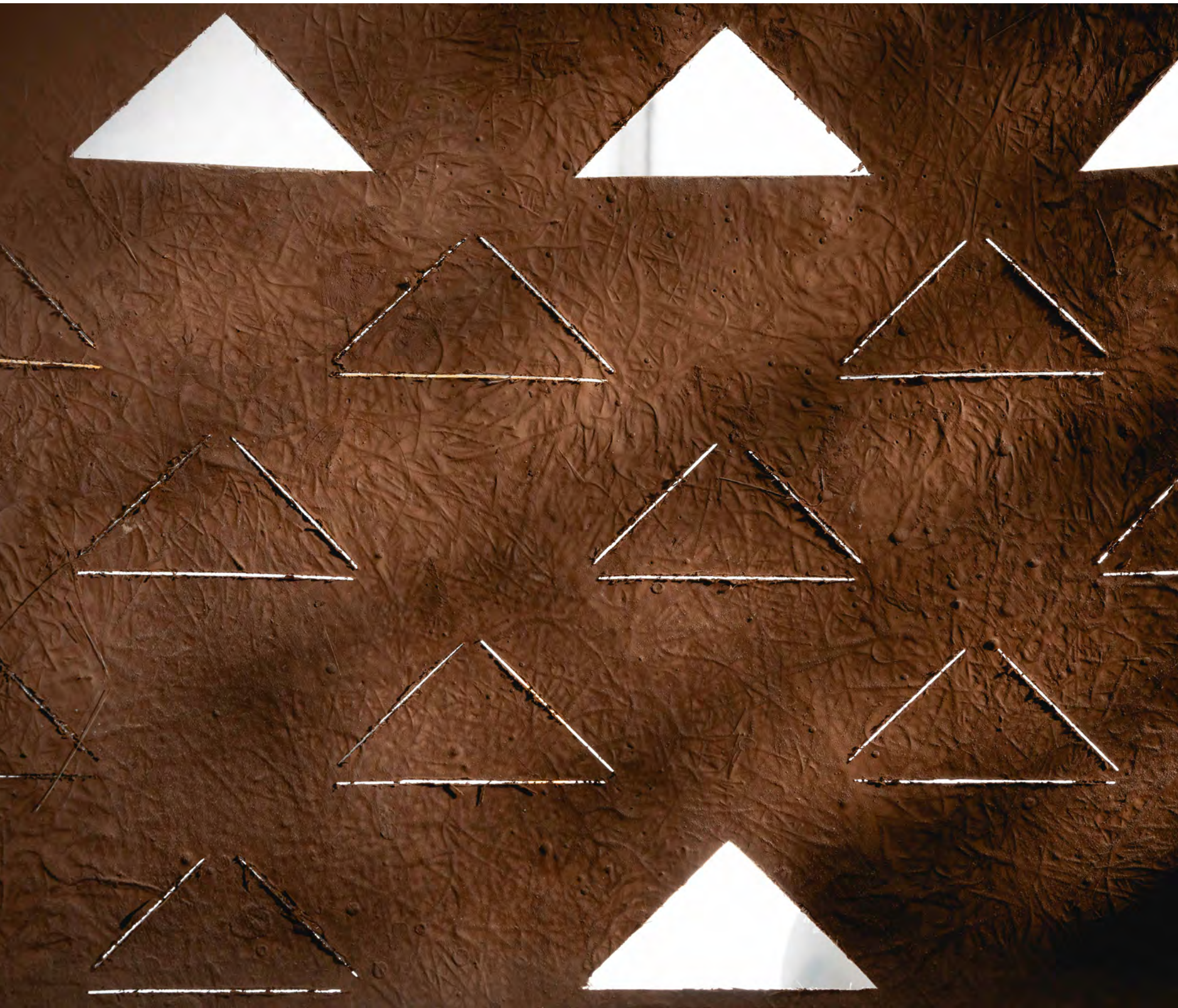
Dollar trade index (base 100 = March 2024), 3-month moving average



Trade values are calculated as the average of exports and imports, with the exception of the United States, for which only imports are considered. AI-related goods comprise 104 products at HS6 level, as defined by the WTO.

- United States
- European Union
- China
- ASEAN, Hong Kong and Taiwan

Eurostat, ITC Trade Map, UN Comtrade, OECD, Edmond de Rothschild Economic Research.



VORTEX amphora, Château de Malengin, Saint-Émilion,  
creation by the Quistrebert Brothers.

Commodities



# Hormuz: one crisis, several trajectories

**Manuel Maleki, Ph. D.**  
Senior Economist US & Commodities

The closure of the Strait of Hormuz in spring 2026 will go down as a mighty test for commodity markets. One thing can be said for sure with a few months of hindsight: the crisis was unique but the responses were not. Oil has remained under the influence of geopolitical tensions, with inventories low, supply security weakened, and a risk premium sustainably priced in. Industrial metal growth drivers have made a swift return, chief among them electrification, artificial intelligence, and the reorganisation of global value chains. Meanwhile, farming is competing with industry for certain inputs, such as sulphuric acid.

This divergence is far from anecdotal. It reveals that the commodity complex now follows two distinct logics: that of energy security, which remains largely dependent on physical flows and regional crises, and that of the economic and technological transformation, which is dependent on long-term investment planning. Geopolitics remains omnipresent in both cases but no longer speaks the same language.

## Oil: the geopolitical premium takes root

When the Strait of Hormuz was closed in the spring, the lion's share of analysis focused on the immediate consequences for the oil market. This reaction was entirely understandable. Under normal circumstances, nearly 20 million barrels pass through this strategic corridor every day, accounting for a quarter of the world's maritime oil trade. Several months later, the market continues to be dominated by supply security issues, with the Brent price hovering between \$90 and \$110 per barrel since the ceasefire was announced at the beginning of May 2026. The US-Iran agreement announced on 15 June marks a turning point. With the planned reopening of the Strait, the geopolitical risk premium embedded in prices should begin to return to normal.

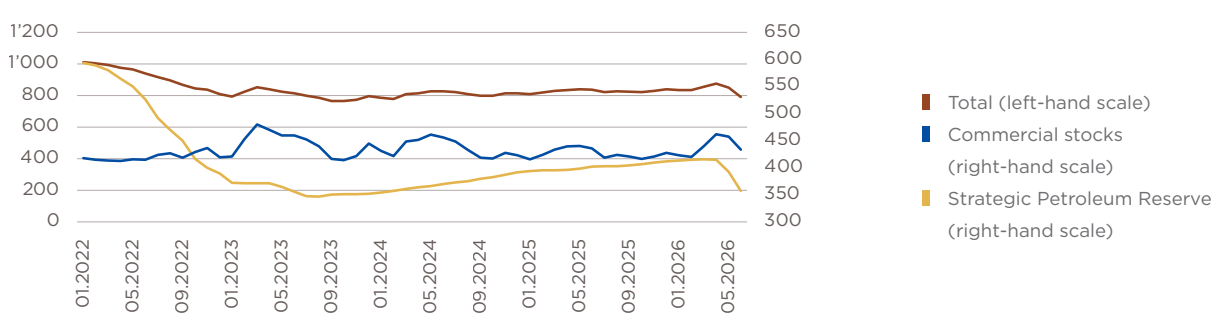
This situation is especially sensitive because global inventories today do not provide the same safety cushion as during previous oil shocks. According to several recent estimates, commercial crude stocks in OECD countries are slightly below their long-term average, while US strategic reserves have been in high demand to cushion supply disruptions.

In the United States, the Strategic Petroleum Reserve (SPR) has fallen to around 350 million barrels, down from more than 600 million before the significant withdrawals made since 2022. The SPR is now at its

lowest level in decades. At the same time, US commercial crude stocks have contracted sharply since the beginning of the conflict. According to the US Energy Information Agency (EIA), crude oil inventories have declined by more than 79 million barrels since the outbreak of the crisis and Cushing<sup>1</sup> hub inventories are approaching historically low levels.

The barrel price today reflects less the traditional balance between supply and demand and more the risk premium associated with the ability of the global system to absorb an additional crisis. In other words, oil has become above all an asset of logistics continuity, the price dynamics of which hinge primarily on the evolution of the situation in the Strait of Hormuz.

Chart 1 – US oil inventories, in millions of barrels



LSEG Datastream, Edmond de Rothschild.

## Industrial metals: when demand trumps all

The situation is different for industrial metals. Admittedly, these commodities are not immune to the rise in geopolitical tensions. China's restrictions on certain strategic exports, US trade measures, such as Donald Trump's expected copper tariff increase, and the growing determination of governments to secure their supplies reflect the increased politicisation of mining value chains.

But unlike oil, industrial metals are not primarily influenced by physical flow risks. Their determinants also remain linked to the transformation of the global economy. The main demand drivers today are electrification, the development of power grids, investments in data centres, the rise of AI, the re-industrialisation of certain advanced economies and the increase in defence spending.

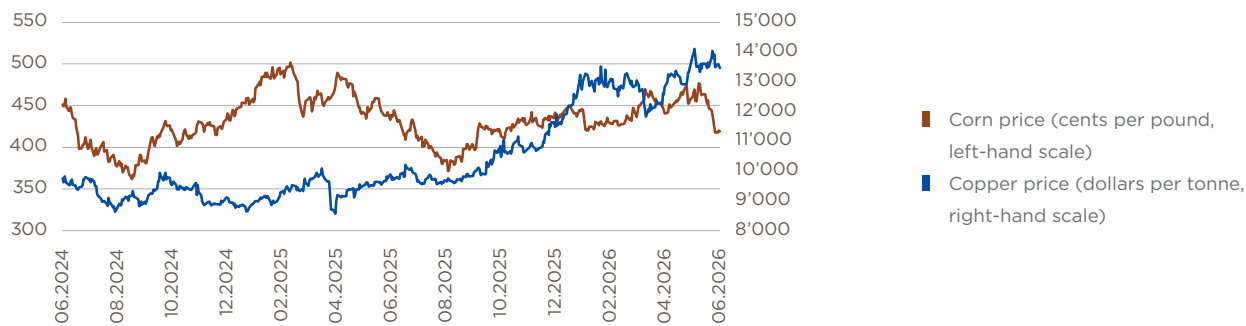
Copper is a good example of this trend. According to EIA projections, global copper demand could increase by around 30% between 2024 and 2040 as part of an advanced energy transition scenario, given the

<sup>1</sup> Located in Oklahoma, the Cushing Hub is the largest crude oil storage and transit hub in the United States, with a storage capacity of 90 million barrels. It remains the main physical oil delivery point for West Texas Intermediate (WTI) futures, which account for the bulk of US oil contracts.



role played by the metal in batteries and power grids. Accordingly, despite fears over the global situation, the price of copper has not fallen since the end of February, holding fast at between \$12,000 and \$14,000 per tonne. While oil largely remains a prisoner to developments in the Middle East, industrial metals are more influenced by the investments required to build tomorrow’s economy.

Chart 2 — Copper and corn prices



LSEG Datastream, Edmond de Rothschild.

Two geopolitics, two market logics

This divergence highlights two different forms of geopolitics. In the case of oil, geopolitics mainly acts through flows: maritime straits, sanctions, production capacities and military risks. In the case of industrial metals, geopolitics acts more through value chains: resource control, industrial policies, export restrictions and technological competition.

The example of China is particularly telling in this respect. The country accounts for more than half of the world’s copper refining capacity and occupies a central position in several strategic mining value chains. This concentration means that metals are gaining a growing geopolitical dimension, different from but just as important as that of energy markets.

Agriculture as a new variable in industrial chains

Agricultural commodities appear to be less directly exposed to geopolitical tensions than oil. Global grain inventories remain relatively comfortable. According to the US Department of Agriculture (USDA), global wheat stocks remain at over 260 million tonnes and those of corn at close to 280 million tonnes. On paper, then, the immediate risk of a global food shortage would appear to be limited. But the consequences of the Hormuz crisis should not be underestimated. A key takeaway from the current crisis is that energy, agriculture and industrial metals now share an increasing number of strategic inputs.

Natural gas is essential to the manufacture of nitrogen fertilisers, while sulphur and sulphuric acid are vital both in the production of phosphate fertilisers and copper and nickel processing. This interdependence creates competition between sectors. A lasting increase in energy or chemical input costs can simultaneously affect the costs of agricultural production and those of extracting several industrial metals. The Hormuz crisis is thus a reminder that commodity markets can no longer be analysed in isolation. Tensions in one segment can gradually contaminate others through increasingly intertwined supply chains.

Conclusion: a structural divergence

The differing sensitivity between industrial metals and oil could persist over the coming quarters. Oil is expected to continue to price in a risk premium linked to uncertainties over global energy security. Industrial metals should remain more dependent on the investment needs involved in electrification, digital, defence, and the reorganisation of global supply chains. While oil continues to reflect the risks weighing on the flow of global energy, industrial metals are gradually becoming a mirror of industrial and technological transformations and at the same time overlapping with the needs of agriculture as they draw on the same inputs.



Light fixture, tasting room, Château Clarke,  
Listrac-Médoc, France.



# Outlook still positive for equity markets

**Hervé Prettre**  
Head of Global Investment Research

Equity markets continued their rebound, driven by technology, with strong first-quarter 2026 earnings, a better-than-expected outlook, SpaceX’s IPO and upwards revisions to data centre investments. But the positive market trend is fuelled by a small number of stocks linked to the investment cycle in AI infrastructure. In non-tech developments, the 15 June agreement between the US and Iran boosted equity indices with the prospect of the reopening of the Strait of Hormuz, leading to lower oil prices, inflation expectations and higher interest rates. Apart from the major investment cycle, which has spearheaded the economy and markets for several quarters now, consumption has held up well in the US, especially for the affluent fringe of the population that is benefiting from the wealth effects of the market and Trump’s tax cuts. The rest of the population also stands to benefit from lower oil prices. The US S&P 500 index and the Emerging Markets index hit new highs in May before correcting slightly in June on technology, while Europe rebounded in the same month on lower oil prices.

### Outlook for equity markets

We remain constructive at this stage but expect tech indices and the tech sector to return to normal relative to other sectors after the exceptional gains made since the end of March. Going forward, we expect the following:

- **An ever-increasing investment cycle**, with a continued rise in spending on data centres and overall AI investment. Fears are emerging, particularly over the level of recent public offerings (following the success of SpaceX) and uncertainties about the monetisation of AI and its real impact on productivity. But investment volumes remain huge, and our “Bubble model” (see Chart 1) remains in orange territory (a sign of overheating) rather than red (irrational exuberance). Past bubbles have shown that the upward trend persists even if some stock valuations hit extremely high levels, as long as the momentum remains (see our special report). In addition, exchange traded funds (ETFs), which account for 35% to 40% of investments in the US market, are boosting the largest corporates, which weigh heavily in the indices, including numerous large cap tech names.

Chart 1 — Five common features of past bubble bursts

|                                                                                                |   |                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| More restrictive monetary policy accompanied by rate hikes                                     | — | A rate hike in mid-2027 is not improbable, but neither is it a major concern                                                                                                                                     |
| A downward revision of the tech sector’s profitability via a sharp slowdown in earnings growth | — | Forecasts were boosted by Nvidia’s results and confirmed by those of Broadcom                                                                                                                                    |
| Extreme, unsustainable valuations                                                              | — | The situation is not unsustainable at this point, but investors are starting to worry sporadically                                                                                                               |
| Widespread euphoria leading to a final spike in prices                                         | — | Some stocks are ahead of fundamentals. Volatility could be higher than before                                                                                                                                    |
| Increased competition in AI supply, on the verge of meeting demand                             | — | The IPOs of SpaceX, OpenAI and Anthropic could increase the share supply. But SpaceX’s \$75 billion IPO will not derail stocks such as Nvidia (\$5 trillion), Broadcom (\$1.8 trillion) or Micron (\$1 trillion) |

Bloomberg, Edmond de Rothschild

- **The prospect of lower oil prices**, which in mid-June fell to their average of \$82 since 2021. Prices are expected to stabilise on the reopening of the Strait of Hormuz, the decline in Chinese purchases, new drilling benefiting from higher prices, and Trump’s determination to boost the purchasing power of Americans. The economy can withstand this mild shock, bolstered by improvements in energy efficiency.
- **Persistently resilient consumption in the United States**, and a potential rebound in Europe with the dip in oil prices. The 2026 Football World Cup could also boost consumption slightly. However, Chinese consumption remains under pressure, though this is offset by manufacturing activity and the end of industrial price deflation.
- **Higher long-term rates**: in addition to the rise in oil prices and public deficits, the world of deflationary globalisation has become a thing of the past owing to supply-chain and energy resilience requirements. The potentially deflationary impact of AI has not been confirmed in the short term given today’s huge investments, which instead are inflationary. But prices linked to productivity gains could trend downward in the medium term.
- **Valuations may be high in the US, but they are concentrated on a small number of heavily AI-related stocks**. Valuations in Europe are closer to their historical average and remain low in emerging markets. However, valuations have, historically, not been a major criterion for market behaviour, especially in periods of massive capital expenditure, in which investors focus more on long-term potential.



As such, we think the risk/return profile remains positive for equities, but we believe it is preferable to diversify positions, as the strongest movement on technology looks to be behind us. Further potential remains, but we expect it to be more limited than before.

We are diversifying in certain segments of **consumption**, which thus far has been the major loser on the stock market relative to capital expenditure. Nevertheless, some segments appear to offer attractive valuations and stabilisation potential. These include the luxury sector, companies benefiting from the potential increase in consumer purchasing power with lower oil prices, and those standing to benefit from short-term performance drivers such as the Football World Cup, including hotels, travel booking platforms, and sports equipment manufacturers.

**European banks** are still attractively valued at a forward P/E ratio of 10x over 12 months, the second cheapest European sector after automotive, while profitability momentum remains strong. The EPS outlook has been raised, with estimates for 2027 revised upward by 10% since the start of the conflict. European banks are also extremely profitable and higher interest rates have benefited this sector in the past.

**The healthcare sector** continues to be impacted by problems at several companies, including disappointing pipelines and expiring patents, but innovation leaders still offer strong momentum.

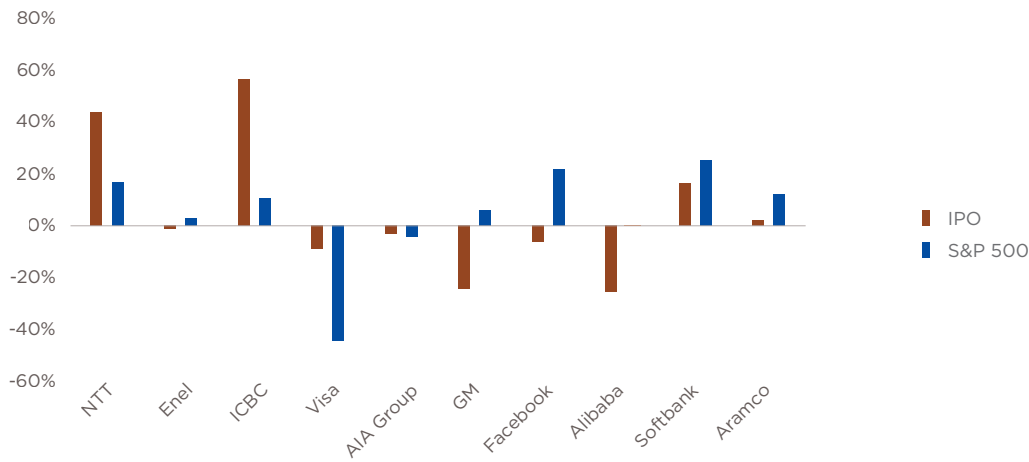
**Manufacturing** is benefiting from a strong investment cycle linked to defence, automation, data centres and energy, with significant pricing power. The sector is also supported by increased orders following the disruption caused by the war in the Middle East.

Geographically, equities of each region are of interest to investors. At this stage, we maintain our slight overweight in the main regions:

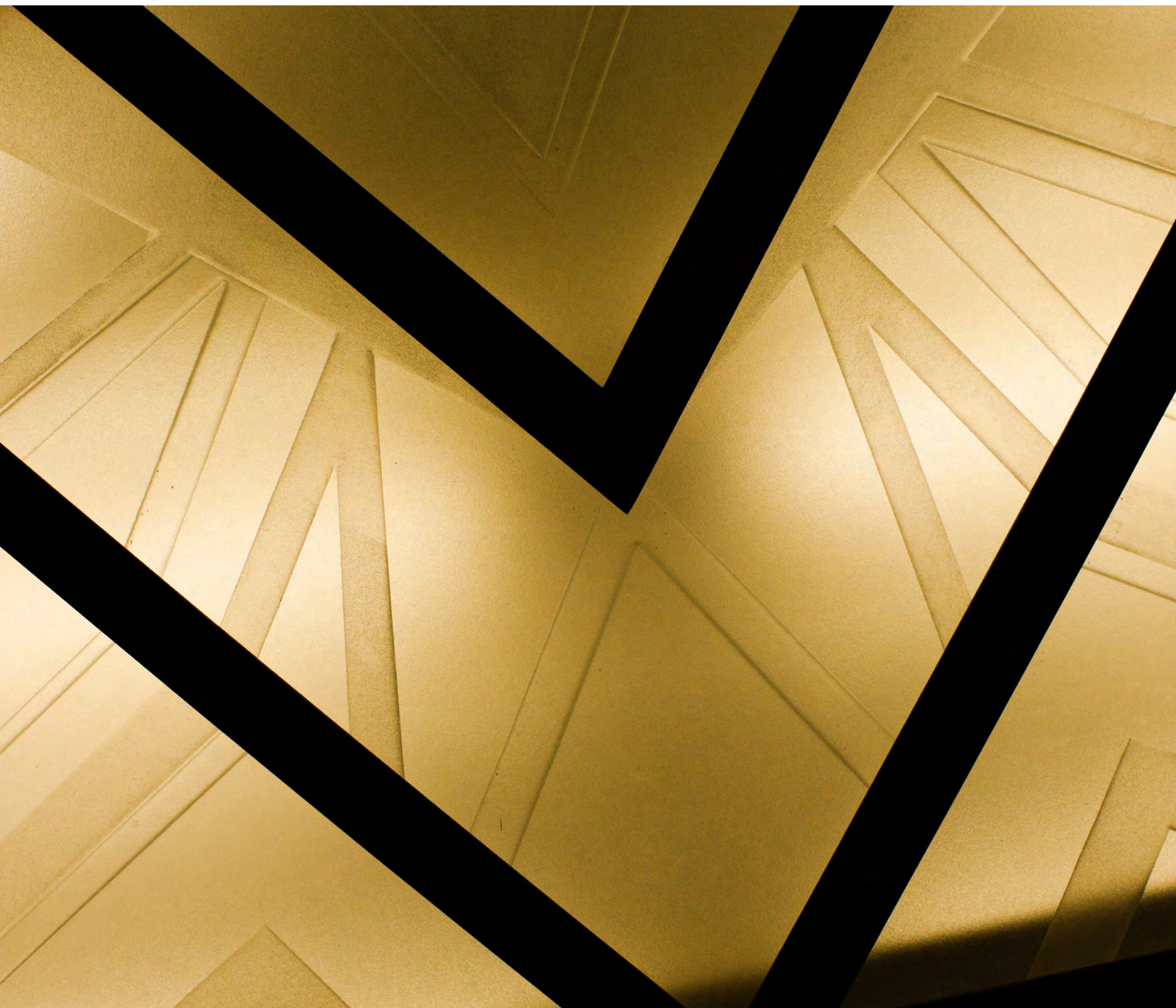
- **The US market** will continue to be bolstered by technology (around 40% of the S&P 500 index) and large cap-boosting ETF flows. Further catalysts include resilient consumption, deregulation, a cautious Fed and large amounts in money market funds ready to enter the market. The “Trump put” cannot be ruled out, as shown on multiple occasions recently, including when the market’s negative reaction to the US president’s threats to invade the island of Kharg in Iran led the White House to ditch its hawkish goals just a few hours later. SpaceX’s colossal IPO is not a major risk in our view, since markets historically have continued to perform well after major IPOs, even though the new shares tend to underperform (see chart 2).

- **The European market** is less exposed to technology but in the short term stands to benefit from the drop in oil prices subsequent to the reopening of the Strait of Hormuz. It benefits from a moderate valuation and a cyclical nature.
- **Emerging markets** have developed a tech bias. The sector now accounts for 49% of the MSCI Emerging Markets index, with 70% of the exposure coming from China, Taiwan and South Korea. This bias is not fully reflected in the still attractive valuation of emerging markets, which trade at a 39% discount to the MSCI World.

Chart 2 — Absolute performance 12 months after the ten largest IPOs of the issuer and the market (%)



Bloomberg, Edmond de Rothschild.



Philippe Druillet (born 1944), wall lamp, special order for the bank's reception rooms, Paris, France.

Special feature



# Semiconductors and artificial intelligence: where do we stand in the investment cycle?

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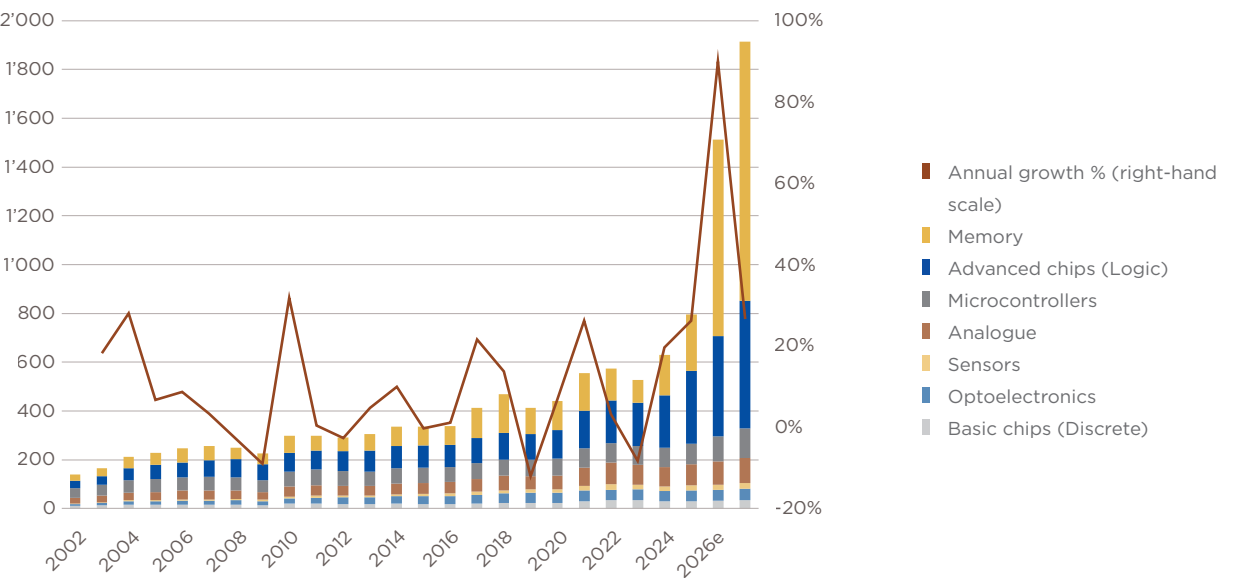
**Unprecedented investment cycle but growing dispersion**

Three years after the launch of ChatGPT, investment in AI infrastructure is showing no signs of running out of steam. Quite the contrary. The four major US hyperscalers<sup>1</sup> (Microsoft, Alphabet, Amazon and Meta) together plan to spend nearly \$725 billion in capital expenditures (capex) in 2026, over 75% higher than the previous record of \$410 billion in 2025. This increase is not the result of a simple wager; the hyperscalers are merely responding to demand, which, quarter after quarter, is outstripping installed capacity. The shift in the use of AI models from the training phase to large-scale operation (inference) is transforming demand for one-off calculations into permanent consumption.

Against this backdrop, estimates are that the global semiconductor market, which was not expected to exceed the symbolic level of \$1 trillion in annual sales before 2028/2029 (Chart 1), with record sales of nearly \$1.5 trillion this year, compared with \$800 billion in 2025. TSMC CEO Che-Chia Wei, who in late 2025 said that demand was “even stronger than we expected three months earlier”, confirmed in early June that demand still showed no signs of slowing, with his group now striving not to become the bottleneck in the supply chain itself. The first signs of monetisation are also taking concrete form. Revenue from the hyperscalers’ cloud businesses is picking up fast once again and their order books have almost doubled in one year. For the management teams of these firms, all these developments justify the pursuit of the equipment drive as part of a race in which no-one can afford to give up ground.

**Chart 1 — The global semiconductor market is expected to exceed \$1 trillion this year**

Trend in the global semiconductor market in billions of dollars, by segment and year since 2002, and annual trend in % (right-hand scale)



Edmond de Rothschild, WSTS.

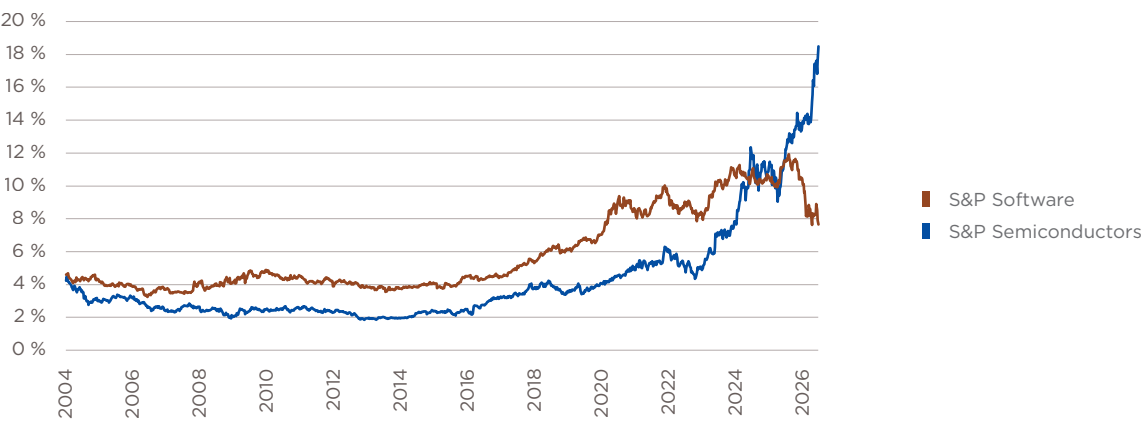
Semiconductors, the main beneficiaries of this windfall, have emerged as the main performance driver for global indices. The sector’s benchmark index (SOX) has gained 102% thus far this year and the weight of semiconductors in the S&P 500 has more than quadrupled since 2020 (Chart 2). But this overall trend conceals a growing dispersion between sub-segments of the value chain. In our view, it is vital this year for investors to understand exactly where value is formed and at what price it is paid.

<sup>1</sup> Hyperscalers: cloud majors operating very large-scale data centres to provide IT services to the rest of the economy.



**Chart 2 — Semiconductor valuations in the S&P 500 are at record highs, while software is declining**

Change in the weight of the market capitalisation of the semiconductor and software sectors within the S&P 500 index, since 2004, in %



Bloomberg, Edmond de Rothschild.

**Accelerators:**  
**GPUs still dominant, ASICs booming**

Graphic processing units (GPUs) remain the beating heart of AI infrastructure. Originally designed for image rendering, these chips, also known as accelerators, excel in the massively parallel computing<sup>2</sup> required in the training and inference of large models. Nvidia dominates the market, with a share of over 80% and a 92% year-on-year increase in data centre revenues in the most recent quarter. Nvidia's strength lies not only in its chips. The company's CUDA software ecosystem, adopted by millions of developers for nearly 20 years now, is a barrier to entry that its competitors, led by AMD, are struggling to overcome despite gradual market share gains in inference. However, with computing costing tens of billions of dollars a year, the cloud majors are simultaneously developing their own bespoke chips, ASICs<sup>3</sup>, which are optimised for a specific task and offer significantly lower cost per calculation and energy consumption where the workload permits. Google is a pioneer in this field with its Tensor Processing Units (TPUs)<sup>4</sup>, which are now available to third-party customers. Amazon is stepping up the deployment of its Trainium chips, while Meta, Microsoft and OpenAI are making headway on their own programmes.

<sup>2</sup> Massively parallel computing: the simultaneous execution of thousands of simple operations, as opposed to the sequential processing of a conventional processor.

<sup>3</sup> Application-specific integrated circuit (ASIC): a chip custom-designed for a single task that is more efficient but less flexible than a general-purpose GPU.

<sup>4</sup> The Tensor Processing Unit (TPU) is an integrated circuit designed by Google to speed up the execution of AI models. Unlike a graphics processing unit (GPU), the TPU does not include modules dedicated to graphic rendering, instead consisting solely of computing units optimised specifically for tensorial operations on very large volumes of data.

The two key objectives here are to decrease the unit cost of computing and reduce dependence on a supplier in a strong position on prices and margins. The big winners of this clash are the specialist designers who support the hyperscalers, the leaders being Broadcom, Marvell and, above all, the Taiwanese semiconductor foundry TSMC, which manufactures almost all these advanced components, regardless of the brand under which they are designed.

**Expansion of the value chain:**  
**CPU, optics and equipment**

In a more unexpected development, the AI trend is now also benefiting general-purpose central processing units (CPUs), long used merely to manage GPUs. The ramp-up of inference is changing the composition of specialised servers. The ratio of CPUs to GPUs at AI data centres traditionally stood at one to eight, but has now decreased to one to four, and both Intel and AMD expect the ratio to even out entirely. This unexpected demand for CPUs has taken the industry by surprise, with the prices of CPUs for servers having risen in recent months, to the extent that Intel has reoriented its production capacity to the detriment of consumer chips. The reason for this shift lies largely in the nature of new AI workloads, including autonomous agents that consume more computing capacity. Further downstream, as data centres concentrate hundreds of thousands of chips, the limiting factor shifts to the network connecting them. Optical interconnections play a central role in the transport of data between chips, servers and data centres. This is particularly true for co-packaged optics<sup>5</sup>, which integrate optical conversion much closer to the processor, a niche occupied by Nvidia and Broadcom as well as photonics specialists Coherent and Lumentum. Advanced assembly (including TSMC's CoWoS<sup>6</sup> technology) remains one of the most constrained capabilities in the value chain. Lastly, manufacturers of chip production machines, led by ASML, with its monopoly on EUV<sup>7</sup> lithography, offer indirect but unavoidable exposure to the AI investment cycle, because whichever chip wins, it will be manufactured on their machines. This "pick and shovel" approach continues to boost growth expectations beyond accelerators alone.

**Memory: from ho-hum component to strategic bottleneck**

Long considered as a cyclical and weakly differentiated segment, memory has become a strategic bottleneck in AI computing. The performance of an accelerator depends as much on the speed at which the data reaches it as on its gross computing power. And this is precisely the role of high bandwidth memory (HBM)<sup>8</sup>, vertically stacked as closely as possible to the processor, with each new generation of GPUs carrying increasing quantities. This market is locked in by an oligopoly of three players: the South Korean leader SK Hynix, whose capacities are already fully booked up for the current year, its compatriot Samsung, and the US company Micron. Demand for AI is absorbing so much of the production capacity

<sup>5</sup> Co-packaged optics: integration of optical components directly into the processor housing to reduce energy consumption and transmission times.

<sup>6</sup> Chip-on-wafer-on-substrate (CoWoS): a TSMC assembly process placing the processor and HBM memory side-by-side on the same medium to maximise the speed of exchanges.

<sup>7</sup> Extreme ultraviolet (EUV) lithography: an engraving technology using very short wavelength light, essential for the most advanced chips and of which ASML is the sole global supplier.

<sup>8</sup> High bandwidth memory (HBM): memory stacked as closely as possible to the processor to speed up data exchanges.



that tensions have spread to the entire conventional DRAM<sup>9</sup> market, where prices have more than doubled in a year. The situation is such that Microsoft has attributed a full \$25 billion of its 2026 capex increase solely to the cost of supplying memory components. Importantly, the rise in prices has yet to undermine demand, highlighting the willingness of hyperscalers to invest “whatever it takes” to win the AI battle. The shortage in this segment has continued to boost the share prices of companies such as Seagate, SK Hynix, Micron, and Western Digital. These share price leaps warrant particular vigilance — an issue to which we will return.

A constructive but selective investment analysis

We see several factors in favour of a continuation of the cycle. Order books are full, the production capacities of critical links are reserved several quarters in advance, and visibility for 2026 and 2027 is unusually high for what has historically been a cyclical sector. So confidence is warranted, but some of the valuations of these stocks cannot be ignored. The surge since the beginning of the year, particularly in the memory segment, has already priced in a substantial part of the filling of the expected order backlog. At these levels, we believe analysis should focus on expected earnings growth relative to the multiples paid (such as enterprise value to operating income or growth-adjusted price-to-earnings valuation ratios) as well as earnings revision dynamics, order book quality and diversification, and the pricing power of each link.

In addition, the traditional risks in the sector have not gone away. Demand for processors is extremely concentrated by a handful of hyperscalers, so the slightest change in investment forecasts would have a violent impact throughout the chain. Memory has historically proved a highly cyclical sector, with shortages always ultimately being absorbed. And geopolitically, export restrictions to China and the dependence on Taiwan remain structural risk factors.

We remain convinced that the relevance of the theme does not determine the price at which it is reasonable to gain exposure. Selectivity may have taken a back seat during the indiscriminate expansion phase of the cycle, but it is once again becoming a key risk management tool for investors.

The nature of demand drivers is changing

The key question that remains is determining which trends will support the next phase of growth once the current wave of equipment has been absorbed. In our opinion, the answer lies less in the training of ever-larger models than in their massive and permanent use, inference, which continues to account for an ever-growing share of computing demand. The shift to autonomous artificial intelligence agents (AI agents, see comparative table), which are continuous rather than one-off users of computing power, needs to be addressed.

LLMs<sup>10</sup> continue to play a central role but their use is changing, from chatbots (or conversational agents) that respond, to autonomous agents that execute. An agent plans, breaks down a task, calls on tools, checks its results and iterates. It is this action loop, and not the size of the models, that is driving the next wave of computing demand.

Comparative table — Generative AI 1.0 (chatbots) vs Generative AI 2.0 (agents)

AI agents are a major evolution relative to standard chatbots

|                            | Generative AI 1.0                      | Generative AI 2.0                                     |
|----------------------------|----------------------------------------|-------------------------------------------------------|
| Paradigm                   | Chatbots                               | Agentic AI                                            |
| AI capabilities            | Responds to prompts, provides advice   | Independently plans, acts and iterates                |
| Interaction model          | Single exchange, response to a prompt  | Several steps, oriented towards an objective          |
| Action                     | Output in text format only             | Calls APIs, writes and executes code, browses the web |
| Dependence on human beings | High – human intervention is necessary | Low – AI agents execute autonomously                  |
| Human/AI relationship      | 1:0, 1                                 | From 1:1 to multiple                                  |
| Consumption of tokens      | 1x                                     | 1,000x                                                |

Edmond de Rothschild.

The most important change is that demand is shifting from training to inference. Training continues to come in “waves” (launch of a new model, fine tuning), whereas inference corresponds to continuous and massive consumption, augmented by: (i) the increasing number of agents and tool calls, (ii) longer contexts, (iii) the need to iterate/self-correct. In short, even if growth in training budgets slows, the explosion in inference volume will continue to drive computing demand. A comparison could be made here with the smartphone, purchased just once every two or three years but used every day and for all manner of purposes, from messaging and video to geolocation and payments. In the long

<sup>9</sup> Dynamic random access memory (DRAM): standard random access memory installed on servers, computers and smartphones, the prices of which have historically been highly cyclical.

<sup>10</sup> A large language model (LLM) is an AI model trained on large amounts of text to understand, generate and use natural language.



run, it is not one-off phone sales that count the most, but the daily consumption of data and mobile services. Similarly, in AI, the continuous use of models (inference) ultimately counts much more than the initial training costs.

In addition, inference is spreading beyond Nvidia (hyperscaler ASICs, alternative accelerators, etc.). For this type of workflow, the CPU is gaining fresh ground and also pulling CPU servers and non-HBM memory (DRAM/capacity) along in its wake. For investors, the theme is becoming a hunt for bottlenecks: as the chip mix diversifies, value migrates to constrained links, such as memory capacity, interconnections, packaging, and equipment, rather than a sole “champion”.

**The token economy:  
consumption multiplied by a thousand, and counting**

The key point here is quantitative, as an agentic task consumes about 1,000 times more tokens<sup>11</sup> than a chatbot exchange. Step-by-step reasoning, repeated tool calls and self-correction increase computing per query. The most important development is the shift from one-off training to permanent inference, in which an agent runs continuously, transforming isolated computing spending into recurring consumption.

Looking beyond infrastructure, adoption is becoming a key issue. Who will embrace AI first, and how fast? As agents begin to execute processes, they process, generate and potentially produce more data than humans. Software publishers, long focused on “human-first” interfaces and workflows, are switching to “agent-first” products, including APIs<sup>12</sup>, permissions, logs, governance and observability designed for non-human players. In concrete terms, people are entrusted with high-value tasks (judgement, relationships, creativity, decision-making) and technology is used to assist, simplify or automate them. AI agents steer the day-to-day workflow and initiate and sequence tasks, calling on human intervention only when necessary (for control, arbitration, and the management of complex cases).

The increasing stamp of agents on social and economic interactions opens up a major development: the construction of agentic security frameworks to enable AI-controlled interactions and business reliably and at large scale.

In terms of identity and compliance, this points to a natural extension of existing building blocks, with traditional KYC (Know Your Customer) now required to include KYA (Know Your Agent). In an agentic world, it is no longer only the identity of the customer that

needs to be controlled, but also that of the agent — what they have access to and what they are authorised to decide and pay on their behalf. Identity administration will also need to manage agent identities, and behavioural analysis such as multi-factor authentication will need to incorporate the agent’s intent. All of these developments are fresh opportunities for entities that manage identities, access rights, audit and compliance, beyond just counting tokens and infrastructure investments.

**Vibe coding is not software**

Code is increasingly being designed natively for artificial intelligence, which already generates the lion’s share of code in new projects. Differentiation is shifting towards agents and orchestration, which industrialise workflows and make business applications easier to deploy and operate. Whence a useful distinction: generating code is now almost entirely free of charge, but the decisive step lies in making it a reliable, integrated, secure and monetisable product.

This applies in particular to vertical publishers, which already have proprietary data, deep business workflows and powerful distribution capacity in a given sector, for example, Veeva in healthcare, CCC Intelligent Solutions in insurance, Workiva in regulatory documentation, and IQVIA in drug sales data and R&D. In these models, AI is not just a support layer: it becomes a productivity and compliance engine directly integrated into the customer’s production system.

This is what separates model providers (OpenAI, Anthropic) from horizontal platforms that industrialise agents in business processes (Microsoft with Copilot, Salesforce with Agentforce, ServiceNow, Palantir) and from vertical platforms that capture value where workflows and data are the most specific. Sustainable value is built at this level of integration.

**Monetisation: from per-seat billing to delivered result and human users to AI agents**

The per-seat billing model is giving way to pricing based on results, i.e. task accomplished, file processed or ticket resolved. If this trend is confirmed, the addressable market changes in nature. It is no longer limited to the software budget but targets a fraction of the costs of labour automated by the agent, making for a much larger reservoir. Salesforce is already invoicing Agentforce per resolved conversation, and it is this type of model, and the evidence that it generates a

<sup>11</sup> A token is a small unit of text (e.g. a character, a piece of a word, or an entire word) used by models to read, process and generate language.

<sup>12</sup> An application programming interface (API) allows two applications to communicate with each other by determining a set of rules for requesting and exchanging data or services without exposing the internal operation of the systems.



measurable return for the customer, that will validate the sustainability of revenues.

A further monetisation opportunity opened up by AI agents is the per-call (or per-execution) billing of agents and tool chains, whereby the API becomes an economic unit. If agents orchestrate tasks (search, extraction, drafting, execution of workflows), the value is measured in call volumes, execution time, latency, reliability and level of guarantees (SLA or service level agreement, compliance, audit). The API becomes the “product”. For example, TradingView is an online platform for stock market charts used to analyse markets (equities, currencies, etc.) with the help of numerous technical indicators. But TradingView also provides access points and standardised formats so that external software can automatically read its data, signals and alerts and use them in their own systems. It is this “API layer” that becomes monetisable.

This model is “native” to cloud platforms but can also bridge software and services, with the company no longer buying a tool (license) or a team (man-days) but a result produced by an API chain. This value is being captured by infrastructure intermediaries such as Cloudflare or Akamai. These firms perfectly illustrate this shift, in which a layer of the infrastructure as close as possible to users and security can be monetised per request and function executed, be it routing, protection, observability or gateways. In an agentic world, this layer becomes strategic because it is located: (i) close to the user and data (latency), (ii) at the point of control of identities, permissions and policies, and (iii) at the interface between “human” traffic and “agent” traffic.

Historically, software has been sold per user and IT services on a time-spent basis. The agent-first paradigm creates a third way in which pricing is based on use and result but “granularised” at the machine level. This shift in pricing is reshaping value chains, to the benefit not just of models but the layers that control, secure and measure agentic execution, i.e. the companies able to solve end-to-end business problems with powerful AI and billing real-world usage rather than simply selling licenses or consultancy services on a time-spent basis.

#### Return on invested capital not the central issue for now

In the long-term, the market will demand proof through real ROI or ROIC rather than the promise or the long-term prospect. However, part of the AI infrastructure investment decision-making process is, for now, based not on clearly identified returns but on hypothetical future demand, i.e. an estimate of token consumption and inference load over a two- to five-year horizon. In other words, capacity is currently being financed by betting on future volumes of use, and visibility continues to lack in terms of (i) the pricing of the token, (ii) the share captured by each link (cloud, silicon, memory, network), (iii) the speed at which

truly monetisable use cases can be distributed, and (iv) the intensity of competition, which could squeeze margins.

The risk here is that the stock market is pricing in a narrative of scarcity — the shortage of GPUs, HBMs and CoWoS, data centre capacity, and electricity — more than the fundamentals of shareholder value creation, namely sustainable cash flow, allocation discipline and ROI. A narrative points to a few winners, their weight in indices rises, passive purchases follow, and then active managers, sometimes with leverage and options.

The expression “Attention is all you need” neatly sums up the mechanics of LLMs, serving almost as a metaphor for today’s markets, with the attention paid to the narrative (and to visible supply constraints) tending to overshadow that paid to economic returns. The fragility does not necessarily lie in the relative solidity of a company but in the gap between expectations and ROIC and in the concentration of owners.

The relevance of the theme does not determine the reasonable price for investing in it. Patience, selectivity and rigorous capital allocation — in other words, favouring companies that can convert tokens into cash flow and quickly monetise their services — lead to the most attractive investment opportunities.



Michèle Henon (1937–2010), Cordovan leather wall, motifs inspired by Art Deco created using the medieval repujado technique, special commission for the bank's reception rooms, Geneva, Switzerland.



# Credit or sovereigns: remain selective

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## Sovereign bond risk premiums still high

In second-quarter 2026, most global bond yields hit their highest levels since 2007/2008. The increase is global, afoot in all developed countries and affecting all maturities of the curve. And, as outlined in our previous publications and justifying our cautious view on this asset class, the situation is likely to persist in the medium term. The inflation premium looks set to remain high as geopolitical uncertainties continue to impact numerous commodities. The growth premium remains substantial, especially in the US and Japan, where the technology investment cycle is intensifying. The political risk premium in Europe will also stay high, with several elections on the horizon and the fragility of incumbent governments on the rise. Perhaps most importantly, the failure to reduce public deficits raises the question of the cost of financing and the sustainability of government debt, especially for countries with weak growth below their long-term potential.

## Tightening in sight?

The surge in energy prices triggered by the conflict in the Middle East has exacerbated inflationary pressures and forced central banks to consider short-term monetary tightening via interest rate hikes. The oil futures market is now pricing West Texas Intermediate (WTI) and Brent at \$74 and \$78, respectively, in December, more than 30% higher than six months ago. Given these developments, the inflation expectations curve moved upwards in the United States and Europe, with expected inflation levels admittedly lower after the 15 June agreement with Iran but still exceeding the long-term targets of the US Federal Reserve (Fed) and the European Central Bank (ECB). In response to these expectations of higher production and consumption prices, money markets upped their rate expectations for the main central banks in 2026 and are now pricing in widespread rate hikes by the end of the year. Markets currently expect rate hikes across the board over the next 12 months, albeit modest. The ECB made a move in June, with an initial rate hike (the first since 2023) of 25 basis points, and will continue on this path if inflation data remains high. The Bank of England (BoE) and the Fed are expected to follow suit, with rate hikes expected by December 2026.

## Public finances fail to improve

The rise in the inflation premium comes on top of concerns over budget deficits. The US economy remains resilient, serving to reduce debt sustainability risks. But this is not the case in Europe, where GDP growth is expected to dip below 1% in 2026, leading investors to question the long-term balance between debt and economic growth. Illustrating this trend, governments borrowed on bond markets at a record pace in the first half of 2026. G10 and China sovereign issuers have issued \$504 billion in debt so far this year. This is a record amount, exceeding that of first-half 2020, when governments were required to finance widening public deficits to support their economies during the COVID-19 lockdowns. In addition, financing needs for technological, energy and military sovereignty are long-term structural requirements that will continue to weigh on what are already severely deteriorated public finances. Against this backdrop, investors are demanding a higher premium to finance governments over the long term, which is driving up the term premium on longer-dated debt securities. US debt financing now stands at \$1.3 trillion, roughly 4% of GDP, and is the second largest budget item alongside defence.

## A politically weakened Europe and an isolated United States

The increase in long-term yield increases came as political tensions emerged in the UK government, ultimately leading to Keir Starmer's resignation. The same tensions have also been felt elsewhere in Europe. The fragility of the governments of France, Germany, Spain, the Netherlands and Italy is making it difficult to control public finances and increasing volatility on their long-term bond yields. The risk premium of peripheral countries vis-à-vis Germany has thus far remained contained and is nowhere near the highs observed in 2024/2025 for France and in 2011/2012 for Italy, but this stems more from a deterioration in German public finances than from an improvement in those of other countries. Across the pond, the share of US Treasury bonds held by foreign investors continues to decline, having dipped from 55% in 2009 to 31% at the end of 2025, underlining how the trade war and the unpredictability of Trump's policy has led foreign investors to diversify their holdings of US bonds.

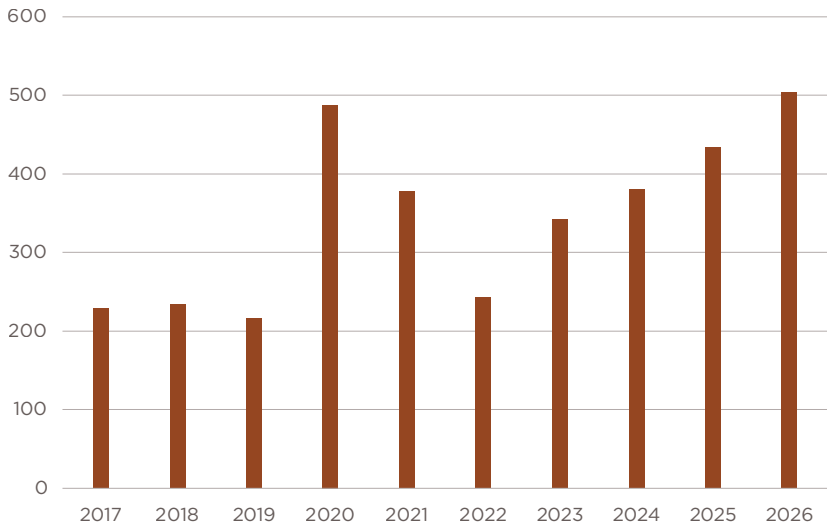
## Governments remain indebted, but companies are posting strong balance sheets

Looking at the main determinants of long-term interest rates (growth, inflation, public finances, political risk), we fail to see any short-term positives that could make current yields attractive, at least as part of a tactical allocation. We believe that investors are only just becoming fully aware of the debt dynamics of developed countries, which remain on an unsustainable path in the long term, and therefore expect 10-year yields to climb higher in the next 6 to 12 months.



In corporate bonds, balance sheets remain strong, as highlighted in the latest earnings season. The self-financing ability of corporates remains intact, as shown in subscriptions to new issues, regardless of sector and currency, underscoring an unwavering appetite for this bond class from long-term investors. However, investors need to remain selective by sector and by issuer, because the more nominal rates rise, the more the most indebted segments become fragile.

Chart 1 — Amount of bond issuances from G10 countries plus China in each first half-year period, in billions of dollars



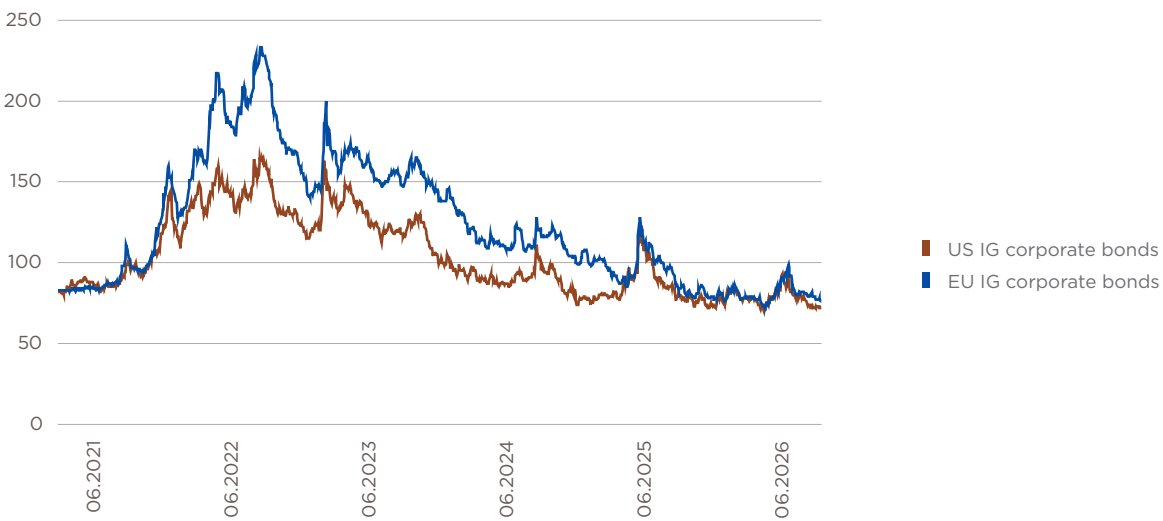
Bloomberg, Edmond de Rothschild.

Credit market still attractive

The strength of corporate balance sheets continues to be reflected in historically low credit risk premiums. Yet the success of new issues since the beginning of the year — the amounts subscribed being on average three to four times higher than the amounts actually raised by issuers (in euros and dollars<sup>1</sup>) — confirms strong investor interest in corporate bonds. This asset class retains a clear appeal in terms of absolute return, with sovereign yields still providing a solid base of yield.

Chart 2 — Option-adjusted spread, June 2021 - June 2026

US dollar corporate bonds and European euro corporate bonds, investment grade (IG)



Bloomberg, Edmond de Rothschild.

However, behind this aggregate observation, the average credit spread masks substantial disparities from one sector to the next. For example, in the dollar market, the premiums on investment grade bonds rated between BBB- and BBB+, with modified durations from 3 to 5 years, range from around 60 basis points in the tightest sectors, such as catering, to around 150 basis points in the widest sectors, including software and services. The euro market appears more homogeneous, but nevertheless shows significant dispersion, with a spread of more than 55 basis points between the tightest sectors (e.g. oil majors) at around 30 basis points, and the widest ones, such as the automotive and consumer segments, at 85 to 90 basis points. This dispersion calls for a more detailed approach to bond selection to optimise portfolio returns.

Sector selection at the heart of opportunities

The bonds of major international banks continue to offer some of the highest yields in the investment grade universe, even though capitalisation levels and asset quality are historically strong in a sector that remains one of the most stringently regulated. The high premiums reflect more the complexity of the instruments available, including on senior issues, than a fundamental risk of default.

<sup>1</sup> Investment grade bonds, with a minimum size of \$500 million at issuance, in developed markets.



The automotive sector is going through a period of profound adjustment, marked by sluggish demand for new vehicles, uncertainties over electrification, and the need to reorganise supply and production chains against a backdrop of trade tensions, stemming in particular from US tariffs. This translates into well above-average returns for the asset class. The operational difficulties may be real, but net debt generally remains contained. Issuers with strong balance sheets, able to monetise certain assets and preserve their cash generation, appear to offer attractive carry opportunities. Some manufacturers have also held up better than others thanks to a more limited exposure to the Chinese or US markets, two markets in which demand is trending in a highly divergent fashion, calling for strong industrial adaptability.

Other segments also have carry-friendly characteristics, particularly those with good earnings and revenue visibility thanks to favourable regulatory frameworks or long-term contracts. These models make it possible to finance investments while maintaining healthy balance sheets. These companies often have pricing adjustment mechanisms linked to volumes, commodity prices or inflation, and sometimes operate in near-monopoly environments. This category includes power generation, including renewables; utilities in electricity and gas distribution and transmission; pipeline operators; and motorway and airport concessions. Selectivity remains key in these sectors, given the diversity of regulatory regimes across geographies. An analysis of regulatory precedents, particularly in exceptional periods, is a decisive factor in this respect. A further characteristic shared by these sectors is that they are committed to ambitious decarbonisation trajectories, which implies an in-depth analysis of assets and investment programmes as part of the energy transition.

The telecommunications sector, though mature in developed markets, also remains a useful source of diversification. Some operators have dominant market positions, resilient margins and a proven ability to generate sufficient cash to finance capex, which remains high but is expected to dip as the major 5G and fibre optic roll-out cycles mature.

The rise of AI has also led to the emergence, since 2025, of new leading issuers on the US bond markets. Some of these groups have levels of earnings and cash generation unparalleled in many other sectors, and so far their bonds have primarily been highly defensive allocations. Debt — still relatively new for several of these companies — is gradually increasing but remains well below the average for the bond universe. At the same time, yield spreads are gaining in appeal, bringing investors access to extremely high-quality issuers with more attractive yield levels.

### Complementary sources of return and diversification

For portfolios able to cope with increased complexity and potentially higher volatility than conventional bonds, it may be worth taking a look at the subordinated segment. Most of the sectors mentioned above are represented here, in a market that has been growing strongly for the past two years. These instruments are often characterised by very long (and sometimes perpetual) maturities, by coupons that may be deferred, and by lower ratings owing to their position in the capital structure. Detailed analysis of documentation and issuance structures is decisive in this universe.

Some pockets of the high yield segment can also boost the diversification and performance of a fixed income allocation. This is particularly true of sectors operating in fragmented markets, where leaders can post higher revenue growth than their market by consolidating and unlocking synergies. These include waste management, water treatment, technical services related to energy, infrastructure or digital technology, and the rental and management of workwear textiles.

### Conclusion: diversification, carry and selection discipline

All in all, investors still have plenty of opportunities to build diversified and optimised bond portfolios. They are based on persistently high absolute returns and contained credit risk overall despite a more uncertain macroeconomic and geopolitical environment. Selectivity remains essential to safeguard the resilience of allocations in case of renewed volatility.



Jeremy Maxwell Wintrebert (born in 1980), Les Soleils, mouth-blown and freehand glass, special commission for the Four Seasons Hotel Megève, France.



# Less sound and fury?

**Jean-Marc Guillot**  
Group Treasurer and Global Head of Trading

The announcement of an agreement between the United States and Iran on 15 June — seemingly a happy birthday gift for Trump’s 80th — in no way guarantees an end to geopolitical uncertainty and upheaval. The litany of differences between the belligerents stand as real obstacles to a definitive peace agreement. Meanwhile, war continues to rage in Ukraine, calling for the unanimous support of the G7, expressed in actions rather than words. The sources of tension between the United States and Europe have not gone away, chief among them the GAFA tax<sup>1</sup> and Trump’s threats on exports, including French wine. Lastly, no-one is talking about the United States’ ambitions on Greenland any more. Given all these factors, the second half of 2026 looks set to be marked by volatility, with central banks playing it by ear.

**Euro vs dollar: some stability expected**

It is no secret that Donald Trump is calling for a rate cut from the US Federal Reserve (Fed). He replaced Jerome Powell at the head of the institution with Kevin Warsh, whose ideas on the path of monetary policy are more in line with his own. But the rate-cut scenario has been disrupted by the war with Iran, reviving the spectre of inflation in the US. From 2.39% in January, inflation rose to 4.25% in May, gaining nearly 2% in just four months. The risk now is that the Fed could hike to counter inflation, though this would be bearable given the healthy state of the US economy, as seen in the latest job creation numbers. This scenario has been tempered by the announcement of an agreement with Iran, opening the prospect of a lasting end to the conflict. With the reopening of the Strait of Hormuz, a return to normal in global trade should lead to lower inflation. This makes a rate hike less likely and a rate cut could even be considered again. The outcome hinges on how fast the situation returns to normal, both for maritime traffic in the Strait of Hormuz and for oil production. The production tools destroyed by Iranian missiles will have to be repaired. There is also the question of a possible toll for passage through the Strait, which would keep inflation high. Given the considerable uncertainty, the Fed is likely to wait before making a move, looking closely at economic data trends and the concrete consequences of the announced agreement.

For its part, the European Central Bank (ECB) confirmed a 0.25% increase in its key rate in June. The market expects further rises, but there is no sure bet. The announcement of the Iran-US agreement changed the situation for Europe, including in terms of inflation, with the same uncertainties about a return to normal. And unlike the US, Europe does not have a favourable economic environment. Many countries have revised down their growth rates for 2026. In a sharp slowdown, eurozone GDP grew by just 0.3% in the first quarter, and leading indicators are showing a contraction in the economy. An overly restrictive monetary policy could kill growth, in a repeat of what markets still call the “Trichet mistake” of 2011. All of which points to a wait-and-see stance on the part of the ECB, which will probably base its decisions on the trend in economic data.

That no change is expected regarding euro carry versus dollar carry suggests the absence of a trend and even a certain stability in this respect. An initial move in response to the ECB rate hike and a decrease in demand for dollars as safe haven assets could drive the euro up towards 1.18. In the longer term, with uncertainty lingering, we expect the dollar to regain some ground, nudging the exchange rate down to the 1.14 target.

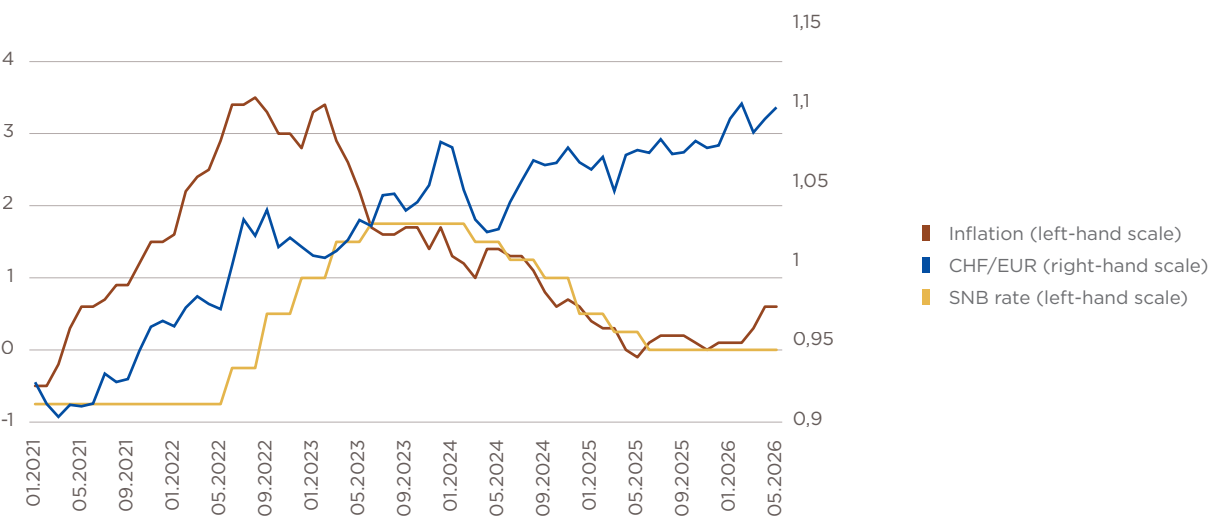
**The best possible world for the Swiss National Bank?**

In early 2026, the Swiss National Bank’s (SNB) main concern was a precipitous drop into deflation. After dipping to 0% in November 2025, inflation remained at 0.10%, close to the tipping point. At the time, the SNB was weighing the pros and cons of reducing its key interest rate to below zero, seeing such a move as a last resort because of its undesirable knock-on effects on entire swathes of the Swiss economy. However, the SNB was ready to sell the Swiss franc on the forex market, since an overly strong currency further reduces inflation, which is hardly a welcome prospect when price growth stands at a paltry +0.10%.

<sup>1</sup> GAFA refers to the four US tech majors, Google, Apple, Meta (Facebook) and Amazon. By extension, the term is often used to refer to large global digital platforms.



Chart 1 – The Swiss National Bank and inflation



Bloomberg, Edmond de Rothschild.

The US military campaign in Iran has drastically changed the situation in favour of the Swiss central bank. The blockage of the Strait of Hormuz and the destruction of production facilities for energy raw materials have increased inflation around the world, including in Switzerland. From +0.10%, the Swiss index rose to +0.6%, putting an end to the spectre of deflation while remaining in a favourable zone well below the 2% ceiling. At the same time, the Swiss franc has depreciated slightly against the euro and the US dollar but remained high enough to limit any import of inflation from abroad. The Swiss economy also got off to a good start in 2026, with a quarter-on-quarter growth rate of 0.5% in Q1 2026. The UBS economic indicator moved into expansion territory, rising to 53 in March for the first time since 2022. The growth outlook for 2026 has been revised down by just 0.1%, far less than its neighbours, and growth continues to be driven by the pharmaceutical sector. There is no reason for the SNB to revise its rates or intervene on the franc in the current environment, which is proving to be highly favourable.

After a short-term correction towards 0.7800/50, we expect the dollar to appreciate towards 0.83. As for the euro against the Swiss franc, our forward target is 0.94, i.e. a slight appreciation of the European currency.

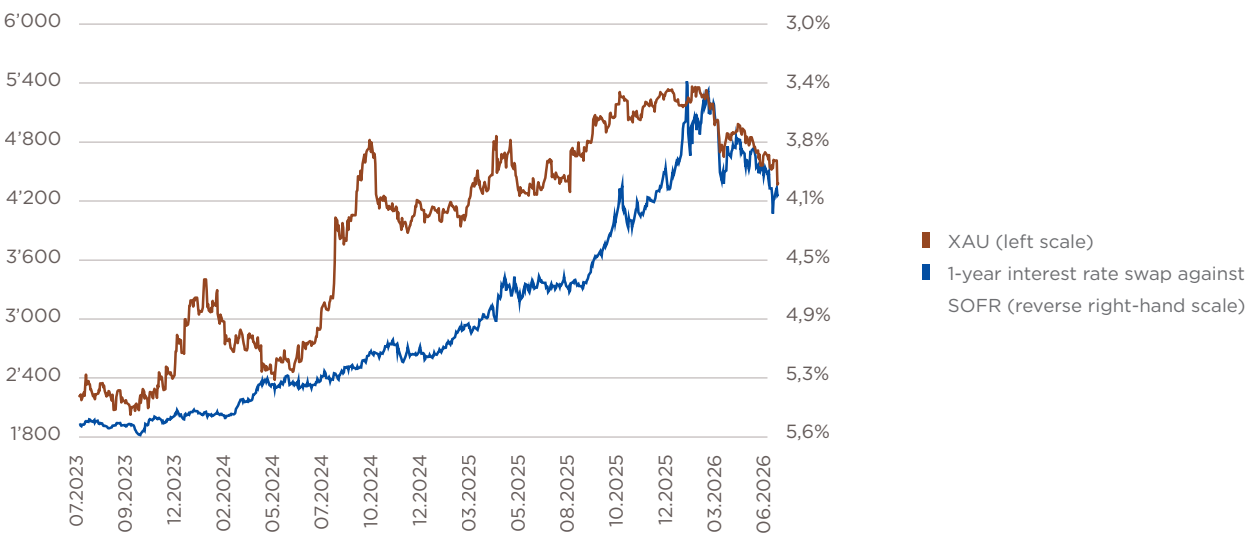
**The future of gold remains bright**

Between its late-January peak of nearly \$5,600 per ounce and its recent low of around \$4,000, gold has lost 21%, careening up and down like a roller coaster and making investors feel decidedly queasy. The abrupt return of inflation caused by the conflict in the Middle East has undermined hopes of a Fed rate cut and even raised expectations of a rate hike. Because gold does not pay interest, its price suffers

when the rate paid by the dollar rises. Another factor explaining the fall in gold prices is the significant market share of ETFs. The classic portfolio allocations of 60% equities and 40% bonds have evolved in the last few years. From 40%, bonds have been reduced to 20%, the remaining 20% going to private markets and gold. This new reality makes for greater price volatility when adjusting strategic allocations during market wobbles.

But in the longer term, gold remains on an upward trend. Interestingly, holders of physical gold have not sold it off, which shows their long-term conviction. While the risk of a rate hike has not been ruled out, the approach to future Fed decisions based on the evolution of economic data reduces the pressure. Central banks continue to dedollarise, as demonstrated by the increase in the Bank of China's reserves since the beginning of the year, and particularly in May 2026. Lastly, the "official" entry of gold into the strategic allocations of portfolios and investment funds creates additional demand and ensures long-term support. We continue to expect the gold price to recover to around \$5,200 per ounce in the coming months.

Chart 2 – Gold price in US dollars and changes in US rates



Bloomberg, Edmond de Rothschild.



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