PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly market review

JULY 2026

Editorial

An Incredible Second Quarter !

Let us go back three months. At the end of March 2026, the Middle East was in the midst of a major crisis, marked by open warfare between Iran, the United States and Israel. The conflict, which began with joint US-Israeli strikes on 28 February 2026, triggered one of the most severe global oil shocks since the 1970s. By late March, the US armada and the Israel Defense Forces were still conducting a large-scale air campaign targeting Iran's military infrastructure, nuclear programme and leadership, including the killing of Supreme Leader Ali Khamenei in early March. Iran, for its part, responded asymmetrically with drone and missile attacks against US assets in the Persian Gulf, as well as against certain regional energy facilities, including the port of Fujairah in the United Arab Emirates.

The diplomatic situation had reached an impasse and, crucially for oil prices, the Strait of Hormuz was under blockade. In direct retaliation for the Western attacks, Iran had completely shut the Strait of Hormuz from 1 March 2026. By the end of March, maritime traffic through this artery - which normally carries 20% of the world's oil and gas - had come to a complete standstill. More than 150 vessels were stranded or anchored at the entrance to the strait, forcing shipping companies to reroute cargoes through already saturated overland pipelines.

The halt in flows through Hormuz sparked immediate panic across energy markets. By mid-March 2026, the daily disappearance of 10 to 11 million barrels from global markets had driven Brent crude to nearly $120 a barrel, its highest level since the short-lived surge of 2022. In an attempt to stabilise prices at the end of March, the United States and its allies carried out the largest-ever release of strategic oil reserves, injecting 400 million barrels, while temporarily easing certain sanctions on Russian oil to avoid a global supply breakdown. Against this chaotic backdrop, global equity markets came under pressure, with the US S&P 500 index down 4.63% in the first quarter and the Euro Stoxx 50 down 3.83%.

In such a troubled and uncertain environment, very few could have anticipated that the second quarter of 2026 would turn out to be the strongest quarter for equities in six years, with a spectacular rebound of 14.87% for the S&P 500, 13.62% for the Euro Stoxx 50 and no less than 23.31% for the MSCI Emerging Markets Index. So what were the factors behind this rally? They fall into two categories: geopolitical and technological.

First, geopolitics. Hopes of de-escalation began to emerge in late March, when secret, indirect communication channels were opened under the mediation of Qatar and Pakistan. These efforts culminated on 7 April 2026 in an official announcement by Iran and the United States of a temporary two-week ceasefire. This initial truce provided an opportunity to test both sides' willingness to halt large-scale air strikes and missile attacks in the Gulf. During May, despite isolated clashes, diplomats made progress towards a longer-term settlement. On 24 May 2026, Donald Trump announced that a memorandum of understanding was being finalised.

The proposed agreement was structured in two phases: an extended ceasefire, followed by permanent negotiations including the reopening of the Strait of Hormuz. On 15 June 2026, G7 leaders and several allies issued a joint statement welcoming this diplomatic breakthrough. On 17 June 2026, President Donald Trump and the Iranian president formally signed the memorandum following summits held in Switzerland. Under the agreement, Iran committed to lifting restrictions in the Strait of Hormuz and freezing hostilities in Lebanon.

In return, the United States pledged to lift the naval blockade, temporarily ease oil sanctions through 60-day waivers, and authorise the gradual release of $24 billion in Iranian assets held abroad. At the end of June, technical teams travelled to Doha, Qatar, to resolve the highly complex details of the agreement, including demining operations in the Strait of Hormuz and the monitoring of shipping lanes.

The talks remained indirect, with the US and Iranian delegations not meeting in the same room, underscoring the persistence of tensions. The atmosphere temporarily calmed in early July to allow the smooth running of the celebrations marking the 250th anniversary of US Independence on 4 July and the organisation of Ali Khamenei's funeral ceremonies in Iran, scheduled through 9 July, during which violently anti-American slogans were publicly voiced.

	Q2 2026	YTD 2026	Close 30/06/26
DOW JONES	12.90%	8.85%	52 319.20
S&P 500	14.87%	9.55%	7 499.36
FTSE	3.15%	5.70%	10 497.12
EUROST .50	13.62%	8.17%	6 328.09
CAC 40	7.51%	2.55%	8 403.99
FTSE MIB	16.64%	13.90%	51 682.43
MSCI EM	23.31%	20.53%	1 722.89
CRUDE OIL	-31.45%	21.04%	69.50
GOLD	-12.01%	-3.89%	4 008.26
EUR/USD			1.1422
EUR/CHF			0.9232
EUR/GBP			0.8613
EURIBOR 1M			2.201%

Foto: Khamenei.ir / Wikimedia Commons, CC BY 4.0

Overall, however, it was the geopolitical de-escalation observed over the past three months that created a favourable environment for the recovery in equity markets, helped in particular by an important corollary: the extremely rapid fall in crude oil prices, from $117 a barrel on 7 April to $70 on 30 June. That represents a 40% decline in just under three months. This fall also allowed long-term bond yields to ease on both sides of the Atlantic from mid-May onwards.

Second, technology, with the surge in the share prices of a large number of companies and sub-sectors linked to the growing role of artificial intelligence in our lives and economies.

The enthusiasm surrounding AI has clearly moved from a phase of pure speculation to one of tangible monetisation. The quarter was first marked by the commercial launch of 2-nanometre chip architectures, triggering a new arms race among the cloud giants.

NVIDIA began shipping its Rubin platform, the successor to Blackwell. Demand from hyperscalers - Microsoft, AWS and Google - far exceeded supply, driving NVIDIA's shares to new all-time highs.


https://www.hanwhadatacenters.com/blog/reduce-energy-consumption-in-data-centers-complete-guide/

TSMC, meanwhile, the only foundry capable of manufacturing these chips at scale, reported exceptional financial results in May. Its market capitalisation moved firmly above the $1 trillion threshold, lifting the entire semiconductor ecosystem in its wake. This explains why the Philadelphia Semiconductor Index (SOX) was able to post an impressive gain of 87.75% over the quarter, far ahead of the Nasdaq 100 at 27.53% and the S&P 500 at 14.87%. Companies that had been dormant for several years, such as Intel, STMicroelectronics and Infineon, even delivered triple-digit gains over the quarter, rising by 216.41%, 125.45% and 114.92%, respectively. Investors have come to accept that the technological barriers to entry have become almost insurmountable for new competitors.

Another notable development was that power supply and cooling for data centres - a theme that had previously remained somewhat under the radar - became a central issue during the second quarter. The technology giants signed a growing number of long-term direct supply agreements with nuclear energy producers, particularly in the field of small modular reactors (SMRs). Microsoft and Amazon entered into major partnerships to secure round-the-clock, low-carbon power. Bottlenecks even emerged in high-power electrical transformers and liquid-immersion cooling systems. Investors consequently rotated into the less visible building blocks of artificial intelligence.

Industrial equipment suppliers such as Vertiv and Eaton recorded share-price gains exceeding those of certain software companies, supported by order books filled through 2028. As we explain in detail in our Grand Angle feature on page 4, AI is beginning to spread into the traditional economy, which is very good news from an investor's perspective.

Finally, the quarter marked the transition from passive chatbots to autonomous agents capable of executing complex workflows without human intervention.

Announcements of new PC and smartphone processors equipped with ultra-powerful neural processing units (NPUs) revived the consumer hardware replacement cycle. Apple, in particular, benefited from this momentum and regained market confidence in its AI strategy.

The question now is whether the technology sector can continue to rise at the same pace.

After such a rally, a period of consolidation cannot be ruled out, particularly in the semiconductor sub-sector. We should not forget that the chip industry is cyclical by nature Following such a sharp rise, many fund managers will be inclined to lock in gains in order to protect performance. At current levels, the second-quarter earnings season, which begins in a few days, will leave no room for disappointment.

A company that reports results in line with expectations but offers merely normal guidance could see its shares punished. Moreover, TSMC's physical production constraints in 2nm manufacturing mean that revenue growth at giants such as NVIDIA could temporarily plateau, not because of a lack of customers, but because of a technical inability to deliver more quickly. Caution is therefore warranted.

The good news, however, is that the entire technology sector has not risen uniformly. Microsoft and Meta, for example, are still trading 30% below their highs of last autumn. Alphabet also fell by more than 15% between mid-May and the end of June. These three stocks are currently trading at levels that look attractive for buyers. Not everything in the sector is therefore at stratospheric valuations.

More broadly, and especially in Europe - which we have not discussed much in this editorial given the urgency of current events, while our Special Topic explains in detail why Europe is lagging behind in AI - entire segments of the market are trading at attractive levels across a wide range of sectors. These include pharmaceuticals, industrials - a high-quality company such as Saint-Gobain is currently trading at deeply depressed levels - and software publishers, with SAP and Capgemini having been severely punished by the market.

The same is true of luxury goods and the automotive sector. In other words, notwithstanding the gains recorded in the first half of the year, equity markets remain full of opportunities, which could help limit the magnitude of any summer pullback.

Several factors nevertheless warrant close attention:

First, on the geopolitical front, the situation remains fragile. Violations of the ceasefire - including missile launches and attacks on vessels straying from authorised routes - prompted Washington to reimpose oil sanctions. The Pentagon even carried out further targeted strikes on Iran following repeated incidents in the Strait of Hormuz, demonstrating that, while diplomacy gave markets a historic respite in the spring, regional stability is not yet assured. Insurers immediately raised war-risk premiums for supertankers to prohibitive levels, equivalent to around 4% of a vessel's value for just one week of cover. Oil prices have risen sharply again over the past two days, and the US Treasury has cancelled, with immediate effect, the 60-day exemption that temporarily allowed Iran to sell its crude on global markets. All transactions must cease permanently by 17 July. Should this rise in oil prices continue, it would have significant implications for the stance of central banks - whose recent comments have been relatively hawkish - and, consequently, for the direction of bond and equity markets.

Second, on the political front, the midterm elections are shaping up to be particularly difficult for Donald Trump, whose polling numbers are at their lowest, and for the Republican camp more broadly. Should the Democrats regain control of the House of Representatives, the United States would enter a period of legislative gridlock. This prospect could contribute to continued volatility over the summer, as equity markets tend to move sideways, or even consolidate, while awaiting greater clarity on fiscal policy.

Historically, however, the year following the midterms has been one of the strongest for global equity markets once political uncertainty has receded.

We therefore remain faithful to our core principles: diversification, quality and liquidity across our investment instruments. In the event of summer turbulence in our equity allocations, our investments in bonds, alternative funds and commodities should, as usual, act as effective shock absorbers and provide valuable diversification.

The entire 2PM team wishes you a wonderful summer.

Christophe Carrafang

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Macro Q2 2026: The economy holds firm

Inflation: Energy prices retreat

- In the euro area, inflation fell from 3.2% to 2.8% in June. This rapid decline was also reflected in core inflation, which dropped from 2.6% to 2.4%. Did the ECB act too quickly?
- In the United States, the sharp fall in oil prices should initially bring inflation down from 4.2% to 3.9%.
- In China, inflation held steady at 1.1% in June. The country's exposure to renewable energy and its use of strategic reserves helped it weather the energy crisis.

Manufacturing activity: The positive trend continues

- The global indicator rose from 51.3 in March to 52.2 in June.
- In the United States, the manufacturing ISM has remained in expansion territory for several months, supported by massive investment in AI, and stood at 53.3 in June.
- Growth has been more modest in the euro area, although the index has also remained stable between 51 and 52 since February.
- The two Chinese indices were also virtually unchanged, at 50.3 and 51.7.

Services Sector Activity: The rebound is taking shape

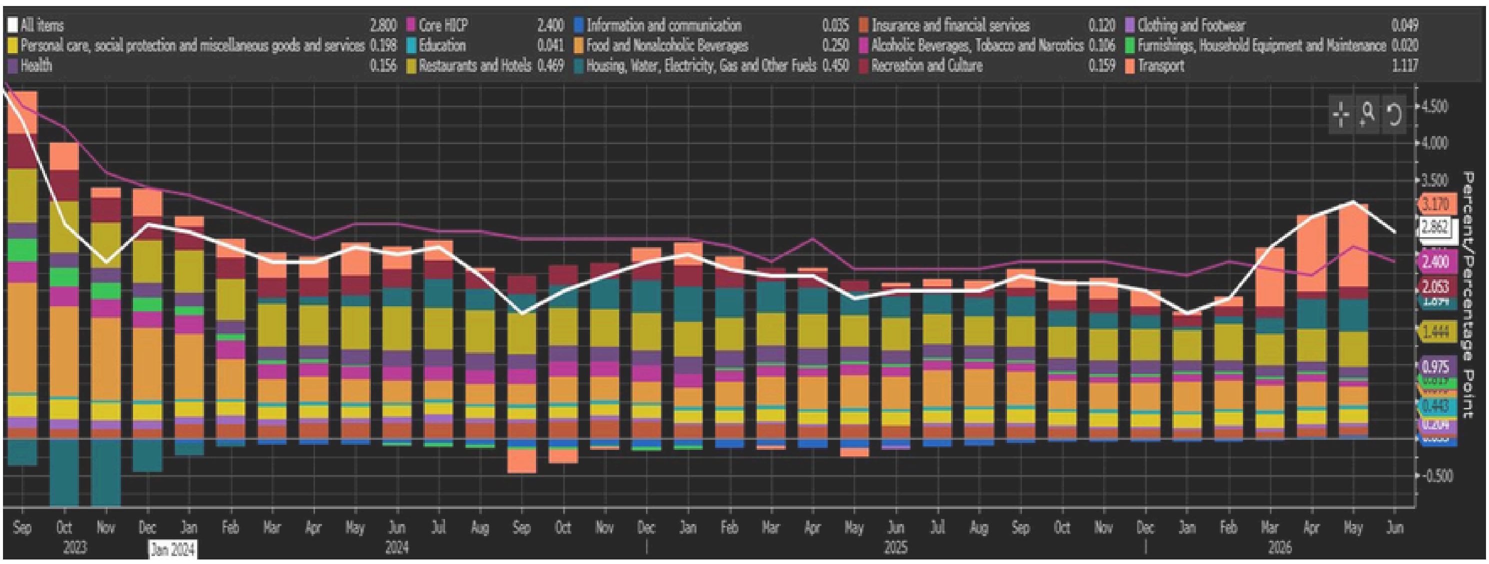
- The United States and Asia are driving services activity, with the global index edging up to 51.7 in June.
- In the United States, the services ISM has remained perfectly stable at 54 since March; the economy is doing more than merely holding firm.
- The conflict has had a significant impact on the euro area, where growth in services activity has been declining since April, with the indicator below 50. France is struggling particularly badly.
- Chinese indicators remain well oriented: the official index edged up to 50.2 in June, while the private-sector index reached 54.1.

Labor Market: Solid despite AI-related concerns

- The US labour market remains broadly solid, although recent months have shown a marked slowdown in hiring momentum. In June, the US economy created only 57,000 jobs, compared with 129,000 in May. The unemployment rate remained relatively stable at 4.2%.
- The euro area continues to demonstrate considerable resilience. In May, the unemployment rate remained at 6.2%, close to its historical lows.
- In China, the employment situation is gradually improving, but the labour market remains more vulnerable than those of the United States or Europe and is highly dependent on government support for domestic growth.

Damien Liegeois

Evolution of inflation in the Eurozone



The Big Picture

AI as a Driver of Cross-Sector Expansion: From Technology to Industrials

The year 2026 confirmed that the artificial intelligence theme is no longer confined to technology stocks alone. A structural trend has emerged: AI-related investment is spreading across entire segments of the industrial economy. This development comes as investors increasingly question the real profitability of AI in light of the colossal spending by technology giants, whose combined capital expenditure budgets are expected to reach approximately $725 billion in 2026, compared with $365 billion a year earlier. This expansion into the real economy provides the beginnings of an answer by broadening the range of tangible beneficiaries of this investment cycle.

Caterpillar provides a striking illustration of this shift. Historically associated with construction and heavy machinery, the group saw its revenue jump by 22% in the first quarter of 2026, driven by sustained demand for power-generation equipment used in AI data centres, with power-generation sales up 41%. The Power & Energy segment, now the group's largest and fastest-growing business, recorded a 79% year-on-year increase in its order backlog. The rationale is simple: data centres require a constant and reliable power supply, creating a new source of demand for Caterpillar's engines and turbines.

This expansion into 'physical AI' - power generation, cooling and construction infrastructure - broadens the universe of potential beneficiaries of the current investment cycle far beyond semiconductors and hyperscalers. It calls for a more nuanced assessment of a portfolio's AI exposure, which should no longer be limited to technology stocks but should also include industrial companies, electrical equipment manufacturers and energy producers positioned along this value chain.

Other well-known companies illustrate the same trend. Schneider Electric, the emblematic French electrical equipment group, reported 11.2% organic revenue growth in the first quarter of 2026, driven by its energy management business, with data centres now its main growth engine. Siemens, through its Siemens Energy subsidiary, saw orders surge by nearly 30% in the second quarter of its 2026 financial year, a record driven by US demand for gas turbines and grid equipment for AI data centres. Together, Caterpillar, Schneider Electric and Siemens are defining the contours of a 'physical AI' value chain extending from power generation all the way to the server.

Nevertheless, this trend also calls for vigilance regarding the persistent concentration of stock-market gains in a limited number of technology companies, raising questions about the sustainability of valuations should AI-related earnings disappoint.

Against this backdrop, we favour diversified exposure to the artificial intelligence theme, combining traditional technology players with the industrial beneficiaries of this expanding cycle, whose valuation profiles often remain more reasonable.

Damien Beasse

Special Topic

Why Is Europe Falling Behind in Artificial Intelligence?

Artificial intelligence has now become indispensable and is driving a new technological and industrial revolution. Yet, while the United States and China decided several years ago to invest heavily in this field, Europe is lagging behind.

US companies are expected to invest between $200 billion and €250 billion in AI in 2026. These companies have considerable financial resources to fund research, infrastructure and talent. China is investing less, but still more than $100 billion a year in the sector. By comparison, European investment remains fragmented and more modest at an estimated $20 billion to $30 billion per year. With only a few exceptions, Europe has no technology giants capable of committing such sums. Even US start-ups have access to far greater amounts of venture capital than their European counterparts. Companies such as OpenAI, Anthropic and xAI have been able to raise tens of billions of dollars. In Europe, investment is more limited, which is reflected in the shortage of high-powered data centres and restricted access to the most advanced specialised chips. The ecosystem also plays a major role. The United States brings together leading universities, investors, major technology companies and entrepreneurs in a small number of hubs such as Silicon Valley. Ideas, talent and capital circulate rapidly among these players. The European market is less integrated. While a US start-up can quickly address a vast domestic market, a European company, despite the euro area, often has to adapt its product to several languages, regulatory frameworks and business practices.

From a regulatory standpoint, the United States has adopted a pragmatic approach through the AI Action Plan, a form of political capitalism designed to support American technological supremacy, whereas Europe favours an approach centred on protecting citizens and personal data. The Artificial Intelligence Act (AI Act) is intended to strengthen trust in AI, but some industry participants regard it as a restrictive framework that slows innovation and increases compliance costs. This is compounded by slow strategic decision-making, which may be influenced by national electoral agendas.
Europe trains excellent artificial intelligence researchers, but it suffers from a talent drain, with many subsequently joining US companies, attracted by salaries that are 30% to 70% higher, substantial financial resources and access to projects of global scale. This exodus particularly affects the most experienced professionals; one quarter of them are reportedly tempted by opportunities in the United States.

That said, it would be an exaggeration to claim that Europe is entirely absent from the field. It still has several strengths: Mistral AI is one of the most promising generative AI companies, while DeepMind was founded in the United Kingdom before being acquired by Google. Institutions such as INRIA and the Max Planck Society conduct world-class research. Europe is also strong in industrial robotics, healthcare, aerospace and industrial applications of AI, all areas in which significant value can be created.

The main challenge is therefore both industrial and political: Europe must turn excellent research into global companies capable of investing tens of billions of euros. There is now political support for greater digital sovereignty, but the regulatory and financial resources being deployed remain insufficient. It is probably too late to close the technology gap entirely, but not too late to adopt these technologies and use them to improve productivity.

Damien Liegeois