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MARKET OVERVIEW JULY-AUGUST 2026

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BETWEEN RELIEF AND EUPHORIA

The memorandum of understanding signed between the United States and Iran, SpaceX's IPO, the first Federal Reserve (Fed) monetary policy meeting under the chairmanship of Kevin Warsh, the European Central Bank's (ECB) interest rate hikes, and new stock market records driven by AI and the semiconductor sector were the main news stories that kept trading floors and private banks busy during June. Risk appetite is rather high, while signs of excessive optimism are multiplying, which argues for greater caution.

A SEMESTER FULL OF NEWS

The signing of the memorandum of understanding between the United States and Iran is obviously the most important news. Despite the thick fog surrounding the negotiations and the indefinite postponement of discussions on several key issues (notably ballistic missiles and Iran's allied militias), the easing of tensions was welcomed by financial markets. Regardless of the fact that the Tehran regime retains significant influence in the Strait of Hormuz and that the nuclear issue is far from resolved, each side has bought time (60 days, renewable). Washington has its sights set on the November *midterm elections*, while the Revolutionary Guards have a pressing need for financial resources. The essential point for investors remains the reopening of the strait under the best possible conditions. Before the signing of the memorandum of understanding, 200 million barrels of oil were being extracted from global stocks each month, a situation unsustainable in the short term. China, thanks to stockpiles built up well in advance of the conflict, had avoided the worst for oil prices by significantly reducing its hydrocarbon imports during the hostilities. This situation could not last much longer. Industry experts believed that a swift resolution to the conflict would allow the oil market to remain balanced until September, thanks to the remaining global stockpiles. **Investors are therefore right to be optimistic. Given that the market was in surplus before the start of hostilities, an equilibrium price in the range of \$70 to \$75 per barrel of crude oil is once again perfectly conceivable in the coming months, despite the many uncertainties that remain. In fact, prices have already adjusted quickly to reach these equilibrium levels.** This is obviously excellent news for bond markets, which have quickly eased tensions, with long-term interest rates falling by 20 to 30 basis points (0.2% to 0.3%). The inflationary pressures observed since February are expected to peak during the summer and then recede rapidly. We note that the growth rates of underlying price indices, which exclude oil prices, have remained relatively stable during the conflict; the spread of higher oil prices to the rest of the economy has remained limited, except in a few sectors such as petrochemicals and fertilizers.

The major central banks were also the focus of investor attention. While the ECB decided to act preemptively (see below), the Fed remains cautious. The tone of Kevin Warsh's speech, its new chairman, following the last monetary policy meeting, was nevertheless more restrictive ("hawkish"), emphasizing the exceeding of the 2% inflation target (PCE price index, *personal consumption Expenditure* in May rose 4.1%, the underlying index gained 3.4%, and the truncated index, favored by Kevin Warsh, climbed 2.7%). US monetary authorities are not abandoning their price stability mission, paving the way for a potential interest rate hike before the end of the year. The recent Supreme Court decision, which prevents the White House from removing Governor Lisa Cook, reinforces the Fed's independence, thereby strengthening the dollar's credibility. The sharp correction in gold (-30% since its peak last January) and cryptocurrencies is also contributing to this improved investor sentiment.

To conclude this brief overview of June's events, we cannot ignore the continued enthusiasm surrounding generative AI, further fueled recently by the rapid deployment of agentic AI in businesses. Investment volumes, which will likely exceed one trillion dollars next year for all *hyperscalers combined*, are putting significant pressure on the prices of electronic components. Memory chip prices are skyrocketing, impacting the entire value chain of electronic products (computers, servers, game consoles, smartphones, etc.). Signs of overvaluation are multiplying, a common feature of all industrial and technological revolutions. The heightened volatility in the semiconductor sector—5% to 10% daily stock price fluctuations—is something to watch; historically, these volatility spikes have often heralded trend reversals. Furthermore, while valuations have become difficult to justify for some AI leaders, the rather disappointing stock market performance of the "Gorgeous Seven" for at least three quarters (index down 2.5% since January 1st) must be highlighted. Regarding Meta Platforms, Alphabet, and Microsoft, investors are rightly concerned about capital expenditures that weaken the generation of free cash flow, and whose future profitability is far from guaranteed in

a world where the risks of technological obsolescence are very real. This issue, in our opinion, is insufficiently addressed by the markets – the enthusiasm surrounding large language models, a sub-segment of AI, is a striking illustration of this. The IPO of SpaceX, whose stratospheric valuation is not based on the principles of financial economics, and the proliferation of IPO (initial *public offering*) projects are all signals that should alert the prudent investor. **This is not about denying the AI revolution, nor its impact on productivity gains – we have**

always championed these – but rather about urging investors to exercise more restraint in what has become a euphoric climate. We have long explained that the physical constraints on deploying investments in data centers are insufficiently factored into financial markets. For example, the technology sector's current demand for connections to the US power grid equates to the entirety of electricity transmission and distribution capacity; bottlenecks and project delays will inevitably increase.

PANIC IN BRUSSELS AND DOGMATISM IN FRANKFURT

There is nothing more irritating than watching institutions pull in all directions, like rowers on a galley unable to coordinate. This is precisely the spectacle offered by the European Union (EU), trapped by its own inconsistencies. On the one hand, we have the European Central Bank (ECB), which has pulled off the remarkable feat of **tightening its monetary policy (raising its main interest rates by 25 basis points) just days before the signing of the memorandum of understanding between Iran and the United States, and the start of a sharp correction in oil prices, which have now returned to pre-war levels.** Investors have been subjected to the usual rhetoric about the risks of second-round effects, the nature of which, on a continent suffering from excess savings and structural weakness in private demand, remains a mystery as to how such effects could materialize and undermine long-term inflation expectations. A recent ECB study, based on corporate restructuring announcements, even suggests that job market growth in the first ^{half} of the year will be rather weak and below its historical average, which also does not bode well for uncontrolled wage pressures. We should also point out that, during the conflict, medium- and long-term oil price contracts remained relatively stable (around \$75 per barrel of Brent crude), a factor that did not argue in favor of preemptive monetary action. **A cautious stance from the monetary authorities in Frankfurt would therefore have been more than sufficient.**

On the other side of the coin, we have the Brussels institutions—the Commission, the European Parliament, and the Council—which continue to implement policies whose consequences will inevitably be inflationary. Indeed, despite attempts to dismantle policies decided under the previous Commission—attempts that primarily reveal the panic of governments in the face of the accelerating collapse of energy-intensive sectors and the flood of Chinese imports—the carbon dioxide emissions trading (ETS) and carbon border adjustment (CBAM) mechanisms, designed to green European industry and protect the EU against supposedly unfair foreign competition, can only push European prices for steel, cement, fertilizers, and finished products upward! **Thus, the EU, which for decades developed a model**

entirely focused on consumer purchasing power—to the great benefit of countries unable to raise real wages due to a lack of productivity gains—is now attempting to transform itself, in haste, into a sovereignist fortress—so much for price stability! The ECB estimates that the ETS2 mechanism alone, which covers new sectors, will have a 0.2% impact on inflation in 2028 (the year the mechanism is fully implemented). The latest proposals on public procurement (an initiative called " *Buy European*") *The " act ,"* which will force local authorities to buy European—when it's still possible—meaning products that are often more expensive and, increasingly, of lower quality (see the example of batteries facing Chinese competition), all point in the same direction, to the detriment of sound public spending. Will the EU, through its untimely and unrestrained interventionism, manage to save Gaia and guarantee its industrial sovereignty? It's doubtful. Will its actions continue to destabilize entire sectors of the economy, without any benefit for the citizen-consumer? We can fear so. This is the point of the recent intervention by the CEO of ASML regarding the risks of disruption to value chains in the semiconductor sector. European institutions are ineffective in defining and then implementing coherent, large-scale industrial policies. While a trade war with China—with a trade deficit of one billion euros per day—cannot be ruled out, should the consumer foot the bill? Don't the ambitious greenhouse gas emission reduction targets justify the EU pragmatically adopting the most efficient and least expensive technological solutions? Why then fight—in vain—against the competition from Chinese electric cars, which are far cheaper and whose batteries are five to ten years technologically ahead, through protectionism? What do the proponents of the theory of comparative advantage and the promoters of the recently signed free trade agreements with Mercosur, India, and Australia say? **The EU is primarily paying for its lack of technological innovation, its inability to create an ecosystem conducive to entrepreneurship, and its distrust of industry, which is blamed for all environmental ills. A complete reversal of public policy would not only be far too late, but above all, counterproductive.** It should be noted in passing that regulatory inflation has not really stopped, since the directive on wage transparency, a new bureaucratic nightmare, has just come into force.

CONCLUSION

While the memorandum of understanding between Washington and Tehran is good news, it does not resolve any of the issues that justified the US entry into the war. Normalizing traffic through the Strait of Hormuz will take several months, at best, which justifies a risk premium on petroleum products, even if a return to a surplus of oil is faster than expected. China also needs to replenish the

stocks it depleted during the hostilities. **While long-term interest rates appear to have peaked, equity markets have entered a more perilous phase.** Certainly, corporate profits have, so far, been satisfactory, but warning signs are multiplying in the technology sector, and questions surrounding the profitability of massive investments in AI remain legitimate. The reopening of the Strait of Hormuz should encourage

portfolio rotation toward more cyclical sectors. **However, we should bear in mind that the summer months are traditionally conducive to peaks in volatility, which argues for greater caution.**

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