

Market Report

In AI we trust?

6 July 2026

Predictions of doom as a result of the Iran war were, once again, overdone. Even relatively moderate forecasts about the medium-term effects of the closure of the Hormuz Strait and the damage to energy production facilities were quickly rendered obsolete by the fall in the oil price. With the tail risk of a military escalation basically off the table, we are moving our outlook back from cautious to neutral. This means we expect the markets to be driven by macroeconomic and business fundamentals from here on.

As we have pointed out in all of our recent quarterly reports, it is easy to forget how positive the macroeconomic fundamentals are. The world economy is growing in sync, with no major region in recession, which in itself is relatively unusual. The pace of growth may not be that fast, but moderate growth is positive for corporate profits and helps to keep inflation contained.

In equity markets, the AI theme has become even more dominant, with individual stocks, industries and countries in many cases being divided into winners and losers based on their position in the AI infrastructure “stack”. Even if AI is not the only game in town – US small caps and value stocks have outperformed this year, for example – the importance of AI investment for growth in many economies, including the US, means that the macroeconomic outlook is now tied up with the fortunes of this technology, which creates a double dependency on this theme. Nonetheless, while a downturn or disappointment in the AI narrative would clearly be bad news for equity markets, it might not necessarily lead to a stock-market bust. (see our discussion “Is AI a bubble?” in our [Tech & AI](#) section).

There are, therefore, still reasons for caution in the quarter ahead. A further risk, on top of concentration in AI stocks, is inflation and the risk of interest rate hikes,

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especially in the US. US core inflation has been sticky at an above-target level in recent quarters. It remains to be seen how severe and long-lasting any impact from higher oil prices proves to be. The new Fed chairman, Kevin Warsh, has warned that he is determined to deliver on the Fed's inflation objective. While a rate hike or two might not be a disaster for the equity markets, they could clearly create a less favourable backdrop. A further risk is the ever-present geopolitical tensions erupting in several hotspots at any time.

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Reasons to be optimistic

- **Economic conditions remain benign:** The global economy is growing in sync globally and no major economy is in recession. Corporate profit growth is strong, especially in the US. This positive backdrop has been surprisingly resilient in recent years and looks likely to remain so for the foreseeable future. The one scratch on this generally positive picture is higher inflation, which has led central banks to halt interest rate cuts. However, the most likely scenario is that inflation will fall back again and allow central banks to resume their interest rate cuts at some point, possibly next year.





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- **AI is not the only game in town:** After a storming April and May, AI and tech have had a wobble over the past month, as markets have become nervous about whether future demand and returns will validate the massive investments currently being made. Even semiconductor stocks have begun to weaken after outlandish price gains this year. Yet the stock markets have not fallen overall, as there has been a “value” rally in sectors like healthcare, industrials, financials and small caps in some markets. This suggests the market is being more selective and if the AI narrative falters, other parts of the stock market could pick up at least some of the slack.
- **Possible productivity gains from AI:** While some of the grander claims about the impact of artificial intelligence could be dismissed as hype, the technology may still spark productivity gains and a period of higher economic growth. In a sense the bar is low, since both productivity and economic growth have grown unusually slowly since the financial crisis of 2007-9. If AI boosts productivity growth even in certain subsets of the economy, this could still have a material positive impact overall. One does not necessarily have to be a true believer in the capabilities of the technology to anticipate a positive effect. The fact that a new industry is growing up that will disrupt some businesses, challenge incumbents and generally reshuffle the economic deck in itself has the potential to boost growth and productivity. The indirect boost from AI to growth and productivity could be just as important as any boost deriving from the technology itself – the overall effect is ultimately the same.

Reasons to be cautious

- **Concentration in AI-related stocks creates vulnerabilities:** The concentration of stock markets in the AI theme has intensified over recent months. Market leadership has rotated away from the formerly leading “magnificent 7” stocks. However, their massive spending on AI infrastructure has led to share prices of chip manufacturers and related stocks to rocket, across the US, Taiwan, South Korea, Japan and elsewhere. [The Philadelphia Semiconductor index](#), which tracks US chip stocks, doubled in the first half of the year. With market performance highly concentrated, there is clearly a risk

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of disappointment sparking a significant equity market downturn. This is exacerbated by a further concentration at the macroeconomic level, with AI investment accounting for a significant proportion of economic growth in many economies, particularly the US. Therefore, any bursting of the AI narrative would have both an immediate market and macroeconomic effect, accentuating the impact.

- **Higher inflation could lead to Fed rate hikes:** Above-target inflation in the US, due initially to President Trump's tariffs, and more recently the Iran war, has led the US Federal reserve to put rate cuts on hold. The market is now pricing in 50bp of rate hikes over the next year, which would have global implications. An added concern is that the new Fed chairman, Kevin Warsh, wants to reduce the forward guidance being given by the Fed, which increases the chances of a surprise interest rate move catching the market unawares and leading to market volatility.
- **Ongoing geopolitical risks:** While the US and Iran have only signed a limited memorandum of understanding (MoU), and major differences remain on the substantive issues, the chances of a return to a "hot" war are fairly low for now. The risk of a renewed outbreak of hostilities has not disappeared entirely, however. The other obvious geopolitical fault line runs through Taiwan, given the critical importance of TSMC and its near-monopoly in the manufacture of the fastest chips for Nvidia and others. Any attempt by China to blockade the island or seize it by force would clearly have severe macroeconomic and market consequences. With geopolitics at its most unstable for decades, other flashpoints could emerge and upend the market and economic outlook.

Tech & AI

Market review

After a dip in the first quarter, technology stocks stormed back between April and June. The Nasdaq rose by over 20%. However, the index peaked in early June and was volatile in the final month of the quarter, as jitters about AI grew. Leadership has



moved away from the Magnificent 7 (“Mag 7”), all of which, except Alphabet, underperformed over the quarter again, leading them to be rechristened the “Lag 7” by some analysts. The market has become concerned about the huge capital spending by the hyperscalers Meta, Microsoft, Alphabet and Amazon, which is eating up most of their free cash flow, and the lack of visibility on the returns on this investment. Heavy corporate users of AI are reported to be restricting use of the technology by staff in response to rising bills, casting doubt on some of the more optimistic revenue forecasts. Moreover, opposition to the construction of new data centres has become increasingly vocal and could upset the hyperscalers’ investment plans. The rising cost of memory chips is also squeezing margins. Microsoft and Meta have been the hardest hit and are down around 25% over the past year.

The immediate beneficiaries of the AI build-out have been chip manufacturers and their share prices have gone stratospheric this year. The Philadelphia Semiconductor Index in the US doubled in the first half of the year, with some individual stocks rising up to 3 to 8 times. It has been a similar picture for chip and chip-related stocks in other markets, for example ASML (Netherlands), SK Hynix and Samsung (South Korea), TSMC (Taiwan) and various niche semiconductor stocks in Japan. However, there was a pullback in the sector from late June, with many chip stocks giving up 20-25% from their highs. The semiconductor sector has historically been prone to boom and bust cycles, so are we just witnessing another one of these, or are we in a “supercycle”? A supercycle is best defined as a permanent upward shift in demand. The case for a structural shift is that chip demand has now become divorced from PC and smartphone sales. Computing capacity has become a basic infrastructure that will be needed long into the future. Supply is constrained and will remain so, given the length of time needed to build new semiconductor fabrication plants. In the short term at least, the data centre builders (i.e. the hyperscalers and others) are far more worried about falling behind in building enough computing capacity than about overspending. Their huge investments will therefore likely continue for the foreseeable future. As a result, some analysts believe the cycle has not peaked yet.



Q2 results for the Tech Titans

Name	Q1 2026 Turnover	Q1 2026 Profit	Market cap in \$tn (30/06/2026)	% change over 1 year (trailing 4 Quarters)	Revenue % change over 3 years (trailing 4 Quarters)	Revenue % change over 5 years (trailing 4 Quarters)
Alphabet Inc	\$109.9bn	\$33.5bn	\$4.33tn	17.5%	32.8%	114.8%
Amazon Inc	\$181.5bn	\$17.7bn	\$2.56tn	14.2%	25.7%	77.2%
Apple Inc	\$111.2bn	\$42.1bn	\$4.25tn	12.8%	18.3%	38.7%
Meta Platforms	\$56.3bn	\$27.6bn	\$1.43tn	26.2%	50.6%	127.7%
Nvidia Corp	\$81.6bn	\$19bn	\$4.84tn	70.7%	217.8%	1216.4%
Microsoft Inc	\$82.9bn	\$28.2bn	\$2.77tn	17.9%	34.5%	99.0%
Tesla Inc	\$22.4bn	\$0.7bn	\$1.58tn	2.3%	3.3%	172.3%



How have the markets performed?

	30 June 2025	30 September 2025	31 December 2025	31 March 2026	30 June 2026	Change since June 2025 (%)
S&P 500	6,205	6,688	6,845	6,529	7,499	21%
Dow Jones	44,095	46,398	48,063	46,342	52,319	19%
Nasdaq	20,370	22,660	23,242	21,591	26,214	29%
FTSE 100	8,761	9,350	9,931	10,176	10,497	20%
DAX	23,910	23,880	24,490	22,680	24,996	5%
Nikkei 225	40,487	44,933	50,339	51,064	70,062	73%
Global bonds	497	500	501	496	500	1%
UK bonds	245	244	252	247	252	3%
Energy Index	29	27	25	40	35	21%

NB: Figures rounded up to the nearest whole number. We have also selected key indices as a representation of the markets rather than a substitute for the whole market as they are the most recognisable for our clients.



Interest rates

	30 Jun 2024	30 Sep 2024	31 Dec 2024	31 Mar 2025	30 Jun 2025	30 Sep 2025	31 Dec 2025	31 Mar 2026	30 Jun 2026
US (Fed)	5.50%	5.00%	4.50%	4.50%	4.50%	4.25%	3.75%	3.75%	3.75%
UK (BoE)	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	3.75%	3.75%	3.75%
Europe (ECB)	3.75%	3.50%	3.00%	2.50%	2.00%	2.00%	2.00%	2.00%	2.25%
Japan (BoJ)	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	1.0%

Currency themes

The following themes are intended as food for thought and do not represent a formal currency forecast.

EUR/USD

Recent trend: down (stronger dollar)

Outlook: down

GBP/USD

Recent trend: neutral

Outlook: neutral



EUR/GBP

Recent trend: down (stronger sterling)

Outlook: down

Currency	Spot 30 June	3 month change %	6 month change %	12 month change %	2026 High*	2026 Low*
EUR/USD	1.143	-1.1	-2.7	-2.5	1.202	1.135
GBP/USD	1.327	+0.3	-1.5	-3.3	1.383	1.316
EUR/GBP	0.861	-1.4	-1.2	+0.8	0.879	0.861

* 1 Jan to 30 Jun

Which asset classes should we consider?

With the Iran war 'over' and oil prices retreating back to pre-war levels, we are moving back from a cautious stance to a neutral one. This means we expect the markets to be driven primarily by macroeconomic fundamentals and industry/business performance going forward. We believe investors should continue to embrace the opportunities that equity markets offer, while maintaining substantial positions in less risky assets such as bonds and cash in recognition of the heightened background risks.

Within equities, the AI theme is clearly important and there will be some big winners in this space who will see large share price gains. But diversifying beyond this theme in terms of geographies, industries and small and medium caps, or maintaining broad global exposure (which automatically provides some diversification), is advisable. Care needs to be taken in ensuring that a portfolio really is diversified, as interdependencies have increased. AI dominates not just some equity markets but is also a key driver of the macroeconomy (e.g. in the US), creating a double dependency. Some emerging markets, previously thought of as diversifiers, are even more concentrated AI bets than the US – Taiwan and South Korea, for example.



After several years of rapid gains, gold's bull run came to a halt in the second quarter, as geopolitical risks faded and expectations grew of possible US rate hikes. Gold has become more volatile over the past year or two but still has a role to play as a hedge in portfolios.

Turning to the less risky assets, bonds have recovered after a sell-off at the start of the Iran war. Clearly, bonds would be hit by an increase in US interest rates. But if inflation eases in the US and elsewhere faster than expected, bonds could see a rally for the first time in many years. There is therefore potential upside, but the timing is uncertain at present. Given the uncertainties, an allocation to cash also makes sense in the current environment.

Conclusion

The outlook has improved, but the case for becoming significantly more bullish remains unconvincing. The immediate geopolitical threat has receded, economic growth is holding up and the AI investment cycle continues to support markets. At the same time, inflation remains a concern, valuations are high in parts of the market, and geopolitical risks have not disappeared.

The more interesting development is the broadening of investment opportunities. Investors are shifting away from the handful of stocks that dominated markets in recent years, while improving prospects in other sectors and regions are offering more places to find returns. In this environment, success may depend less on taking more risk and more on being selective about where that risk is taken.

We therefore remain neutral on the outlook, favouring a well-diversified portfolio with a moderate and geographically diversified exposure to all mainstream asset classes and selective exposure to markets and sectors where valuations and fundamentals still offer room for further gains.





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As always, the appropriate balance between risk and reward will depend on each investor's personal circumstances. We therefore encourage clients to maintain regular dialogue with us and their investment manager to ensure their portfolios remain aligned with their long-term objectives.

Mark Estcourt

CEO

