LUWEA

Quarterly Letter

July 2026

Content

Executive summary

The second quarter of 2026 was defined by a powerful equity rally, driven almost exclusively by artificial intelligence and a handful of mega-cap technology names. Markets looked past a still-unresolved Iran conflict, the gradual return of positive equity-bond correlation, and the arrival of a historic IPO wave, signals that deserve careful attention even as index-level performance appeared serene.

Our portfolios underperformed the benchmark during the quarter. We are transparent about this: our approach is quality focused, conviction based, and deliberately independent of momentum, this carries a cost in environments where a single dominant theme drives narrow market leadership. We do not believe that cost reflects an error in our thesis. The AI investment cycle is real and transformative, and the earnings behind it are, for the most part, genuine. What we continue to question is not the technology, but the pricing, the concentration, and, increasingly, the quality of some of those earnings themselves.

Marco Schaller
Chief Executive Officer
LUWEA AG

The honest framing we offer in this letter is this: the same market picture is being read in two legitimate ways. Those who remain fully risk on emphasise the strength of AI earnings, the potential for a once in a century productivity boom, and a macroeconomic backdrop solid enough to avoid a major break. We understand and respect that view but we weight the picture differently, giving more importance to valuation extremes, to the concentration of returns in a historically unprecedented single bet, and to the clouds gathering on the horizon. That difference in emphasis, not a difference in facts, explains our positioning.

Our long-term structural convictions remain intact. We see compelling opportunities in areas the rally has left behind, and we are beginning to build our analytical framework on energy, a theme we believe will define much of the next decade.

What happened in Q2 – and what we did

The quarter opened with the Iran conflict dominating the macro backdrop. Hormuz traffic remained severely disrupted, Brent crude surged to a peak of nearly 120 USD per barrel at the end of April, and 30-year US Treasury yields breached 5%. European equities bore the brunt of the energy shock, while the S&P 500 shrugged off the geopolitical noise, carried higher by exceptional technology earnings and unrelenting AI capital expenditure. The numbers are extraordinary: the largest US technology companies committed combined capital expenditure budgets for 2026 exceeding $700 billion, a figure that would have been unimaginable just two years ago. That tide of investment has been the primary engine of the market's advance.

By June, a Memorandum of Understanding between the US and Iran was signed, reopening the Strait of Hormuz for a 60-day negotiating window. Oil prices fell and the acute crisis appeared to pass. The structural read, however, is sobering: Iran retained physical control of the Strait, secured sanctions relief without visible concessions on its nuclear programme, and demonstrated that chokepoint leverage is now a validated geopolitical playbook. As one market commentator aptly noted: a ceasefire is not the same as normalisation. The episode confirms, rather than challenges, our base case scenario ("bumpy new world order" described in our Q1 2026 letter) and our long-term thesis: the four Ds of demographics, debt, deglobalisation, and decarbonisation continue to define the regime we are investing in.

Meanwhile, the equity rally intensified. AI-related earnings were strong across the board, and global technology, notably AI-heavy names in Taiwan and South Korea, began outperforming their US counterparts. The IPO market, dormant for years, announced its reawakening with SpaceX leading a pipeline of mega-listings that is drawing comparisons, both celebratory and cautionary, to the late 1990s.

Our response: Discipline, not inaction

We broadly held our positioning through the quarter: underweight US mega-cap equities, reduced gold and Asia ex-Japan positions (for reasons we explain in detail below), and selective exposure to Swiss dividend equities, Healthcare, and European Defence. **We did not chase the rally, and we are transparent about the short-term cost of that decision.**

> *"The right portfolio is not the most aggressive one; it is the one that depends on the fewest fragile assumptions. Doing nothing under pressure is an active decision that requires the same discipline as making a trade."*

The market we are in: A tale of two framings

Everyone is looking at the same market. So why are the conclusions so different?

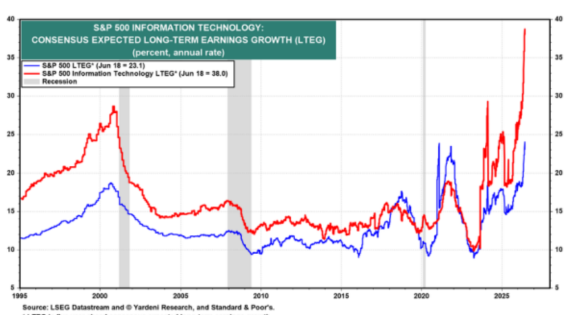
The debate in markets today is not really a debate about facts. The facts are broadly agreed upon. What separates bulls from cautious investors like us is how those facts are framed – which signals are weighted heavily, and which are treated as noise. We think clarity about this distinction is more useful than a false pretence of certainty.

The bull case – stated generously

The optimistic reading of today's market is coherent and rests on solid ground. Highly respected market analysts argue the current rally is driven not by speculative excess but by genuine earnings momentum, what Yardeni Research calls FEMO (fabulous earnings momentum), as opposed to FOMO (fear of missing out), that drove markets of 1999. The distinction matters: an earnings led rally should be far more durable than a multiple expansion rally built on hope.

The data supports this reading, at least on the surface. Technology related sector profits rose approximately 50% year-on-year in Q1 2026. S&P 500 forward earnings continue to reach record highs. The rally in semiconductors has broadened beyond a single company, and the supply chain supporting AI buildouts is expanding rapidly.

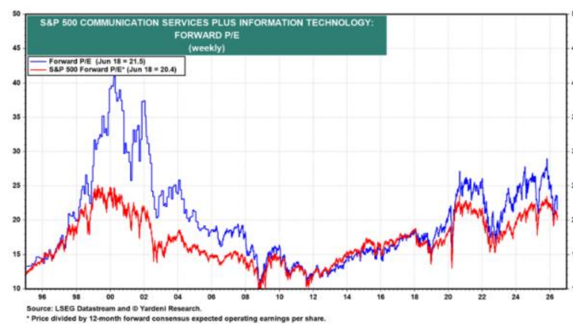
Exhibit 1: FEMO – Spectacular consensus long-term earnings growth



Source: LSEG Datastream, Yardeni Research, and Standard & Poor's

Unlike 2000, when the S&P 500 Information Technology sector traded at a forward P/E of 55x, today's equivalent stands at approximately 23x; elevated, but not at the same stratospheric level. Earnings are broadening too: mid- and small-cap forward earnings are also rising, a sign that the expansion is not entirely confined to the mega-caps.

Exhibit 2: Forward P/E: elevated but below 2000 peak



Source: LSEG Datastream, Yardeni Research

The macro backdrop lends further support. The US economy is holding up better than feared, with consensus Q2 growth tracking around 2.2% on an annualised basis. Payrolls have beaten expectations for three consecutive months. AI-related investments and defence spending are lifting manufacturing. And the Iran interim deal has reduced the most extreme tail risks in energy markets. In this framing, the market may be expensive by historical standards, but expensive markets can remain expensive for a long time when underpinned by a genuine earnings story.

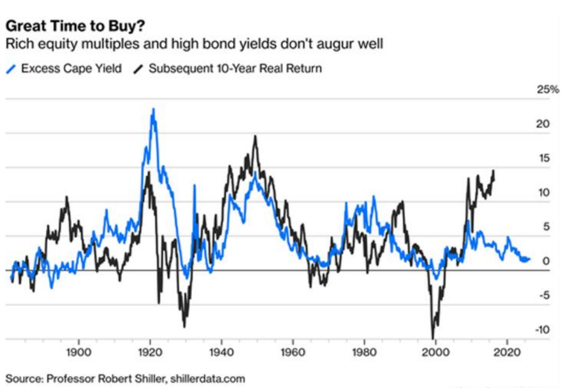
We respect this view. It is not irrational. And it is worth naming clearly: if AI earnings growth proves durable, if the capital expenditure cycle generates the returns it promises, and if the macroeconomic expansion holds, then our cautious positioning will have cost us meaningful performance over this period. We accept that possibility and remain accountable for it.

Why we weigh the risks differently

Our framing is different, not because we see different facts, but because our investment philosophy leads us to weight certain signals more heavily than others. We aim to deliver superior long-term returns without needing to track benchmarks in the short term or chase momentum at all costs. That means we give structural priority to valuation discipline, to concentration risk, and to the clouds gathering on the horizon, even when those clouds have not yet produced rain.

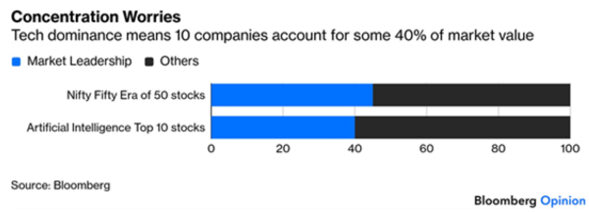
The valuation picture, examined closely, is less comfortable than the FEMO narrative suggests. The S&P 500 forward P/E of approximately 21x sits at a level where the earnings yield has fallen below the yield on US Treasuries. A CAPE ratio near 46x reported earnings has, in every prior historical instance, been associated with sub-par long-term forward returns. And consensus earnings growth expectations of 18% for 2026 are running two to three times above the long-run historical average of 5-8% through full cycles. Even well-informed bulls acknowledge the gap: as one respected US wealth manager put it recently, "the gap between equity market optimism and the more cautious signals from bond and energy markets is worth watching." We agree. We simply weigh that gap more heavily than most.

Exhibit 3: Excess CAPE yields near zero have historically preceded disappointing equity returns



Source: Bloomberg

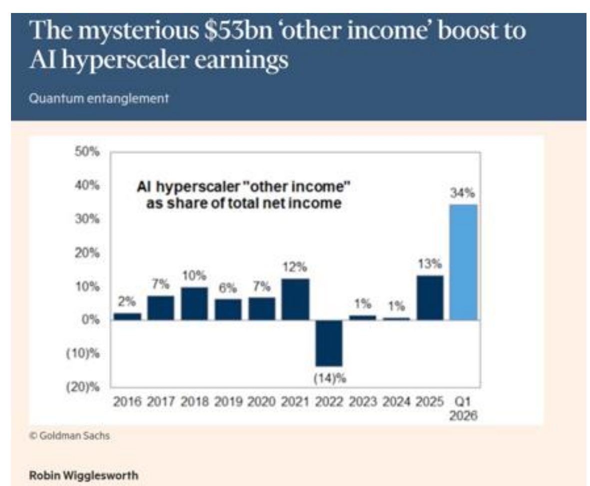
Exhibit 4: Extreme market concentration: one single bet dominates global indices



Source: Bloomberg

But the deeper concern is not valuation alone. It is the quality of some of the earnings driving those valuations. A closer look at Q1 2026 earnings reveals something markets may have not fully priced. Mark-to-market gains on cross-investments in AI companies accounted for 58% of Alphabet's net profit in Q1, 52% of Amazon's, and 27% of Nvidia's. These are not operating earnings - they are circular bets that the AI hyperscalers are making on each other, recognised as income when the market rises. When the music stops, the accounting stops with it.

Exhibit 5: Strong increase in "other income" share of AI hyperscaler earnings



Source: Goldman Sachs

> *"In Q1 2026, mark-to-market gains on AI cross-investments accounted for 58% of Alphabet's net profit, 52% of Amazon's, and 27% of Nvidia's.*
>
> *The AI earnings story is partly a story the AI companies are telling each other."*

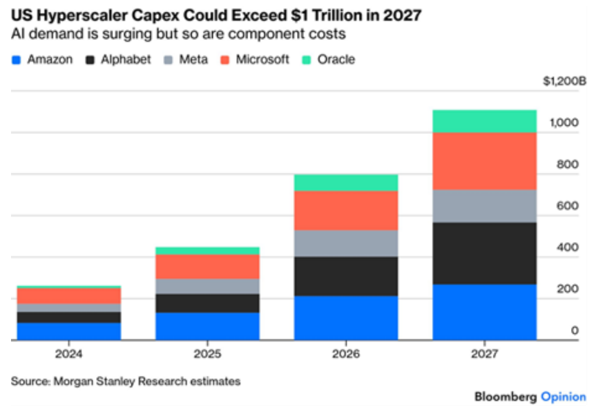
This does not mean the rally collapses tomorrow. But it means the earnings foundation is more fragile than the headline numbers suggest. The market is accepting a historically unprecedented single bet: that a small number of companies will sustain earnings growth at two to three times the historical average, partially funded by circular cross-investment, and pricing that bet at a multiple that leaves no room for error.

The 1998 analogy – and what it implies

To use a historical frame we find genuinely useful: if the AI boom of the mid-2020s rhymes with the technology boom of the late 1990s, we believe we are more likely in 1998 than in 2000. The rally can continue. Momentum-driven expansions can persist well beyond what fundamental analysis would justify, and we are not calling a top. But 1998 and 2000 are different places to be as an investor. In 1998, those who chased the wave enjoyed another year of exceptional returns and then gave most of them back. The right response to 1998 was not to abandon discipline, but to ensure the portfolio was positioned for the regime that would inevitably follow. That is exactly what we are doing.

We see two credible catalysts for a change in regime. The first and more significant is an earnings disappointment, specifically, evidence that the AI capital expenditure cycle is not generating the returns that current valuations assume, or that the earnings quality issues described above surface in a way the market cannot ignore. The second, and less immediate, catalyst is a credit event: the leveraged structures forming around AI infrastructure carry refinancing risk that markets are not yet pricing.

Exhibit 6: An unprecedented capex cycle – will it pay off as expected?



Source: Bloomberg

A structural point: Macro is less information than usual

One observation worth making explicitly: traditional macro analysis is providing less signal than usual. The economic expansion is real, but it is increasingly concentrated in AI-related investment, which is itself a business-to-business cycle rather than a broad-based consumer recovery. This creates a misleading picture: aggregate growth looks solid, but beneath it, the expansion is amplifying inequality and leaving large parts of the economy behind. Consumer confidence remains depressed even as GDP holds up. Payrolls are solid even as full-time employment is weaker than headline numbers suggest.

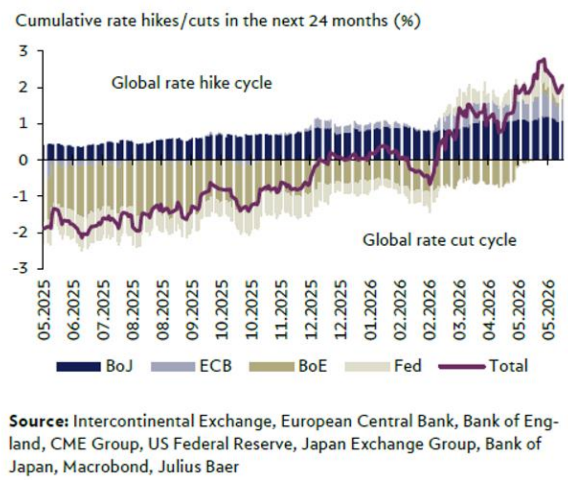
In this environment, macro data tells you less than it normally would about the sustainability of the expansion, which is precisely why we focus more on earnings quality, concentration, and valuation than on the macro dashboard.

Exhibit 7: Disconnect: Wall Street vs. Main Street

Source: Bloomberg

That said, there are macro signals worth watching. The return of positive equity-bond correlation: exactly as in 2022, it tells us that inflation expectations remain structurally elevated. The 30-year US Treasury yield near 5% and the global synchronised sell-off in long-term bonds speak to a monetary backdrop that is meaningfully less supportive than it was twelve months ago. Central banks, which spent much of 2024 and early 2025 easing, have switched back to tightening. Even in the bull case, this is a headwind that earnings growth must work against.

Exhibit 8: A sharp U-turn in rate cut expectations



Source: Julius Baer

Portfolio positioning: Where we stand and why

Against this backdrop, here is how the portfolio is positioned, and the reasoning behind each key decision.

Exhibit 9: LUWEA Growth Portfolio EUR positioning in Q2

Asset Class	Positioning	Weight	Direction in Q2
Money Market	O/W	6.10%	↓
Fixed Income	U/W	19.63%	↑
Euro / CHF Bonds	U/W	13.59%	=
Emerging Market Bonds	O/W	6.04%	↑
Equity	U/W	53.30%	↑
North America	U/W	25.14%	↑
Europe ex Switzerland	U/W	10.27%	=
Switzerland	O/W	4.09%	=
Asia ex Japan	O/W	8.12%	=
Japan	O/W	2.17%	=
Theme: Healthcare	O/W	1.07%	=
Theme: European Defence	O/W	1.29%	↑
Theme: European Finance	O/W	1.15%	=
Alternatives	NEUTR	20.97%	=
Private Equity	NEUTR	7.80%	=
Hedge Funds	NEUTR	7.02%	=
Gold	NEUTR	6.15%	=

Note: Direction in Q2: ↑ – increased positioning, = – no changes, ↓ – decreased positioning,
Note: Positioning (vs SAA for 2026): U/W – underweight, NEUTR – neutral, O/W – overweight.

US equities: Increased, but still underweight

We maintain our underweight in US large-cap equities. At a forward P/E of approximately 21x, US equities offer earnings yield below the yield on US Treasuries, a configuration that leaves no margin for error. Ten stocks account for roughly 40% of the S&P 500. Consensus earnings growth expectations of 18% for 2026 are running two to three times above long-run historical averages. And as we discuss in the section above, the quality of a meaningful portion of those earnings is open to question. We are not willing to pay this price for this level of concentration and earnings fragility. Our trigger to add would be meaningful broadening of earnings beyond the current narrow leadership, or a valuation reset.

Gold: Structural conviction, tactical patience

Our view on gold is nuanced and worth explaining carefully. The structural case remains fully intact: in a world of fiscal dominance, currency debasement, and declining confidence in the US dollar as a reserve asset, gold provides genuine and difficult-to-replicate diversification. We remain long-term believers, and this conviction is widely shared.

Exhibit 10: Higher real yields keep gold prices under pressure

Source: Bloomberg, Standard Chartered

However, we reduced our position earlier in the year and remain underweight. The reason is specific: real rate expectations have shifted materially. Markets are now pricing higher real rates for longer, a historically negative environment for gold, which benefits from negative or falling real rates. Independent analysis confirms that gold's sensitivity to traditional macro factors, particularly real yields and the USD, has re-emerged after weakening earlier in the cycle. With real rates expected to remain elevated, higher carrying costs are likely to limit the pace of gains near term. The technical picture is also not supportive, with momentum having faded following gold's exceptional run. We are being patient rather than abandoning the thesis.

Asia ex Japan: Reduced, but the detail matters

We reduced our Asia ex-Japan allocation as the Iran conflict escalated, anticipating that the energy shock and broader risk-off sentiment would weigh on the complex. That call was only partially right and we think the detail is instructive.

China and India, which together represent a large share of the regional complex, did underperform materially, consistent with our thesis. However, the AI-heavy markets of Taiwan and South Korea delivered exceptional returns. Taiwan for example was up over 135% year-to-date at peak, driven by the same semiconductor and hyperscaler demand that powered US tech. The practical consequence is striking: the single bet concentration we have been describing as a US phenomenon is in fact becoming a global phenomenon.

Within a supposedly diversified regional allocation, returns collapsed to a single factor: proximity to the AI capex cycle. This is precisely the kind of concentration risk we have been warning about, now visible in a regional portfolio that looked diversified on paper but was not in practice. It actually strengthens our central argument, even as it complicated our regional positioning in the quarter.

Exhibit 11: Performance of selected indices

Source: Bloomberg, JPMAM

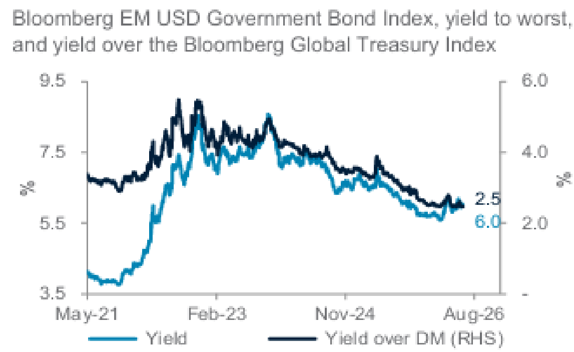
We are rebuilding our Asia ex-Japan view with this lens, distinguishing more deliberately between AI related exposure (Taiwan, South Korea semiconductors) and fundamentals driven opportunities (selective China, India domestic growth). The former we approach with the same caution as US mega-cap tech; the latter we find increasingly interesting on valuation grounds.

The single bet concentration we have been describing as a US phenomenon is in fact becoming a global phenomenon.

Fixed income and currencies

Emerging market bonds continue to offer an attractive yield of approximately 6%, with EM currencies recovering as the dollar weakens. This position has contributed positively and we maintain our overweight. Developed Market bonds remain neutral: limited tactical upside in a still-inflationary environment where central banks have switched from easing back to tightening.

Exhibit 12: Hard currency emerging market bonds: yield premium remains attractive



Source: Bloomberg, Standard Chartered

On currencies, our structural underweight in the US dollar reflects our conviction that fiscal dominance and the erosion of institutional credibility will continue to weigh on the greenback over the medium term. The Iran deal, framed by some as a US strategic win, actually reveals how much negotiating leverage has shifted away from Washington – a point that reinforces our dollar caution.

European Financials, European Defence and Global Healthcare: Convictions unchanged

All our thematic positions remain valid. European Defence is supported by the structural reality that geopolitical fragmentation (confirmed, not challenged, by the Iran episode) will sustain elevated defense spending for years. European Financials remain attractively valued even after their strong performance: healthy balance sheets, a favourable interest rate differential trend, and reasonable valuations relative to history make this one of the more compelling quality opportunities in a market where quality has a price. Healthcare benefits from demographics, AI enhanced drug discovery, and valuations that remain disciplined relative to their growth profile. None of these positions is momentum-driven; all rest on durable structural foundations that exist entirely independently of the AI trade.

Looking ahead: Energy as the Next Structural Theme

The AI boom is ultimately a physical phenomenon. It runs on electricity.

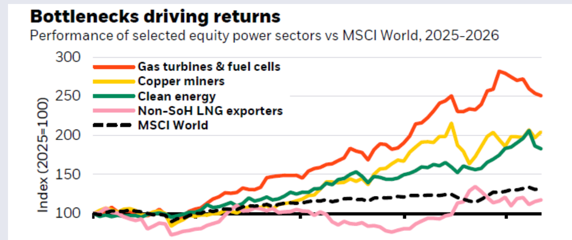
Each quarter, we dedicate space to exploring a structural investment theme in depth. This quarter, we introduce the theme we believe will define a significant portion of the next decade: energy. The research community is beginning to converge on this view. BlackRock's Investment Institute, in its weekly commentary of June 22, 2026 titled Powering Through Energy Bottlenecks, argued that "the world's energy system remains heavily dependent on a few critical bottlenecks" and that twin forces (vulnerable supply and rising demand) "create opportunities in energy infrastructure and the associated bottlenecks that underpin energy flows." We agree, and would add a third force: the accelerating geopolitical imperative to control energy as a strategic asset.

We find it useful to think about the investment opportunity across two time horizons.

The first horizon: Securing supply today

Iran's actions this year demonstrated that chokepoint dependence is not a temporary geopolitical inconvenience but rather a structural vulnerability embedded in the architecture of global energy flows. Roughly 20% of global oil supply transits the Strait of Hormuz. The interim deal has reduced the acute risk, but as we argued earlier in this letter, a ceasefire is not the same as normalisation. Energy suppliers, transport infrastructure, and storage capacity that operate outside major bottlenecks are already repricing, and for good reason. The market has spoken clearly: according to BlackRock's Investment Institute data, gas turbine and fuel cell manufacturers have more than doubled since January 2025, copper miners are up approximately 110%, and clean energy companies around 100%, all vastly outperforming the MSCI World index over the same period. These are not speculative moves. They reflect real economy demand for energy infrastructure that can deliver reliable power outside existing vulnerabilities.

Exhibit 13: Energy infrastructure is already repricing – bottlenecks driving returns



Source: Bloomberg

Note: *Performance of selected energy sub-sectors vs. MSCI World, January 2025 — June 2026. Source: BlackRock Investment Institute, Bloomberg, June 2026. Gas turbines and fuel cells: Mitsubishi Heavy Industries, GE Vernova and Siemens Energy; Copper miners: STOXX Global Copper Miners Index; Clean energy: iShares Global Clean Energy ETF. Past performance is not indicative of future results.*

The second horizon: Building power capacity for tomorrow

The longer-term challenge is not simply to produce more energy, but to meet structurally rising demand while balancing energy security, affordability, resilience, and decarbonisation objectives. AI and data centres are a powerful driver as electricity consumption from data centres is projected to more than double by 2030. But they are one driver alongside electrification, rising cooling needs, and global economic growth. Grid expansion timelines of three to seven years are structurally misaligned with the pace of AI deployment. The $700 billion in hyperscaler capex committed for 2026 alone will require an energy infrastructure that does not yet exist at the required scale.

The critical investment insight is, that the more durable opportunity is not in owning energy commodity producers broadly, but in the infrastructure bottlenecks themselves: electricity grids, copper, gas turbines, storage, and transmission capacity. These assets benefit regardless of which energy source ultimately dominates, which technology wins the AI race, or how the geopolitical map shifts. That selective, infrastructure-focused approach is consistent with how we invest across all themes: quality and durability over momentum and breadth.

China's rapid expansion in renewable generation and grid capacity deserves particular attention. Its ability to deploy power infrastructure at scale and at lower cost than Western competitor may prove as strategically important as its chip design capabilities. Cheap, abundant, domestically controlled electricity is becoming a defining competitive input of the technology era. Countries and blocs that control it will hold structural negotiating power in the world order that is forming.

We are doing the deep analytical work across conventional energy, renewables, grid infrastructure, and the critical minerals supply chain.

"Energy is becoming what semiconductors were in 2015: a structural input so critical that its supply, cost, and control will determine the winners and losers of the next technological era. We intend to be thoughtful and early."

Conclusion

The second quarter of 2026 rewarded momentum and punished patience. That is not a new pattern in markets, and it will not be the last time it occurs. What we owe you is not a promise to time markets perfectly but a consistent, principled investment process, transparently communicated.

Our long-term structural picture has not changed. The four Ds of demographics, debt, deglobalisation, decarbonization continue to define a regime of structurally higher inflation, elevated long-term yields, and greater geopolitical volatility. An increasingly unstable Middle East and a world of competing great powers do not provide the backdrop against which markets can indefinitely price perfection. Historically high valuations in the most crowded parts of the market are not a reason to panic but they are a reason to be selective, disciplined, and honest about asymmetry.

We are quality investors. That means we accept the cost of not chasing rallies built on single-factor momentum, in exchange for the confidence that our portfolios are built on foundations that do not depend on fragile assumptions or on circular accounting. The 1998 analogy we offered is not a counsel of despair. It is an acknowledgement that exceptional markets can persist, and that the right response is not to abandon discipline but to ensure the portfolio is prepared for what follows.

The opportunity set we see is genuine: selective quality outside the US, real assets in a world of fiscal excess, and the structural themes of Healthcare, Defence, and energy. We are patient, we are positioned, and we look forward to sharing our full energy analysis with you next quarter.

Thank you, as always, for the trust you place in us.

"In investing, the rearview mirror is always clearer than the windshield. We choose to drive by what we can see ahead, even when the view is complex, rather than by what was bright in the mirror."

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