

# QUARTERLY INVESTMENT REVIEW

## Q2 2026

*Written by James Macpherson*

*"The US is pouring more capital into AI data centers in 6 years (~\$930B) than the inflation-adjusted cost of the Marshall Plan, Apollo, Manhattan Project, and the Interstate Highway System — combined. Meanwhile: AI ≈ 45% of the S&P. Energy ≈ 4%. Everyone is overweight the thing that needs power. Underweight the power."*

Ron Stoeferle, May 12<sup>th</sup> 2026

Despite the troubling backdrop in the Middle East equity markets enjoyed a strong quarter. This was partly because at the end of March markets were near the bottom of their plunge following the closure of the Hormuz Straits, but also due to exceptionally strong earnings driven by capital expenditure in AI related projects, and Governments continuing to provide substantial fiscal support. Nonetheless with the situation in Hormuz still unresolved at the end of June it was astonishing how powerful the move was, as the S&P index burst to new highs. It was led by the semi-conductor index which doubled, but it also masked a furious rotation out of software stocks (such as Microsoft and Adobe) which continued to fall. This move was also reflected in Emerging Markets where a handful of stocks in Korea and Taiwan leapt higher. For the quarter the MSCI World rose 13.3%, the MSCI Emerging Market Index rose 22.6%, the US 10-year bonds were flat, and gold fell 14.2%.

The Hormuz crisis remains unsettled. So far, the world has been shielded from a big inflationary shock by running down reserves; estimates are that 1.4 billion barrels of oil and oil products have been drawn down globally from reserves since the war started. But this cushion isn't limitless. While America and Iran have signed a Memorandum of Understanding to end the conflict, agreeing the details is proving difficult. Despite an overwhelming military victory, the US has failed to establish control of the vital sea lanes through which oil and gas and many of their derivative's flow. The conflict has highlighted how many critical products originate there, for example, sulphuric acid that is essential for mining, helium which is vital in semiconductor manufacturing, fertiliser, jet fuel, etc. The situation underscores a wider point which is that there are many pinch points round the world. After thirty years of globalisation, global production is concentrated in a few areas and the threat that they are disrupted has increased. The Malacca Straits for example are under three kilometres wide at their narrowest point. China has an almost complete monopoly in the production of rare earths, and Asia dominates large parts of the world's manufacturing. The global supply system is a sophisticated ballet that has been built in a way that allows no impediments. The de-industrialisation of the West has therefore made it vulnerable to choke points on the other side of the world. It is very hard to restart these industries at home. The result is that the world is more prone to inflation both because

countries will try and stockpile commodities in case, they face a similar situation again, and their efforts to relocate some of these industries back home will be extremely resource intensive. In some areas they will be starting almost from scratch. In international shipping the largest American shipping company, Matson, accounts for just 0.2% of the global market.

In the US the stock market is being driven almost exclusively by the AI boom. Indeed, this boom is responsible for much of the growth in the economy. The numbers are stunning. The hyperscalers (the largest technology companies) are forecast to spend \$805 billion on their AI plans this year, and \$1116 billion next year. Incredibly, these spending plans keep increasing. McKinsey estimates that \$6.7 trillion need to be spent on datacentres between now and 2030. It has reached the stage where these companies are spending all their cashflow and more on it. It is a strange circumstance where the most profitable companies in history are reinvesting every dollar they make to stay in the race. This largesse is boosting corporate earnings in three ways. It is driving capex. It is boosting the stock market and therefore via wealth effects US consumption. And it is boosting productivity. Since the launch of ChatGPT US labour productivity increased in 13 out of 14 quarters. While select AI-related stocks have been soaring the commodities that are essential to building the datacentres and infrastructure have performed much less. They are starting to look attractive having been ignored.

The last quarter was notable for the launch and announcement of several gigantic listings on the market. Elon Musk's SpaceX listed at a valuation of \$1.77 trillion, raising \$86 billion of fresh funds, and then a couple of weeks later \$20 billion in the debt market. Together with his holding in Tesla, Musk became the world's first trillionaire, with a worth that exceeded bitcoin. Anthropic and Open AI are also aiming to be launched on the stock market with valuations above \$1 trillion. On top of this Alphabet raised \$80 billion in equity, and Meta is likely to raise substantial funds too. The total amount these companies raise may be in the region of \$300 billion which is enormous but in the context of a stock market which last year returned \$1.6 trillion to shareholders is manageable. However, from mid-August to the end of the year approximately half SpaceX's market capitalisation (roughly \$1 trillion of stock) becomes unlocked and can be sold. The scale of this supply is harder to digest and given the pipeline of upcoming IPOs and secondary offerings the second half of 2026 could see much more liquidity stress than the last few years when liquidity has been so abundant. Moreover, AI's investment returns remain unproven. Revenues are small and profits smaller. But AI has so dominated the market narrative that it has sucked the life out of other sectors; the rest of the market is languishing. This is causing a particular problem for private equity which is struggling as it has been unable to sell its holdings even in a strong stock market, mainly because they are being held at too high a valuation. Private equity and credit flourished in the aftermath of the 2008 crisis because it was barely regulated in comparison to the listed market and banking sector, but problems are starting to show up. Many investment institutions have substantial allocations to

private equity and to the extent they need liquidity and cannot access it from these investments they will need to sell their listed debt and equity holdings which could put further pressure on public markets.

OECD bond markets have been disappointing investments for several years now. One reason is that the OECD countries have created far too many bonds for twenty years as governments have attempted to spend their way to growth. The size of this debt has become so large that the interest payments are swallowing up ever greater amounts of their budgets. In the US in fiscal 2021 the federal interest expense as a percentage of federal receipts was 8.7%, in the first five months of fiscal 2026 it rose above 20%. In May the US Treasury sold 30-year bonds at a yield above 5%, the highest since 2007, a sign that enthusiasm for the world's most important debt market is waning. Nor does the US have the worst outlook. The UK situation is bone chilling. Government spending in the UK consistently exceeds estimates, and this is exacerbated by the debt that was issued in the low-interest rate period now having to be rolled over and pay today's much higher rate. An illustration of how poorly the UK's bonds have performed can be seen in the performance of a bond issued to mature in 2062 by the UK Government in May 2020, whose price has fallen from 100 to 22 at one point in May. The yield on UK bonds is now higher than Greece and Morocco. The outlook for bonds remains challenging with inflationary pressures from the Iran war coming through, and even via technology as Apple increased its prices by up to 20%. This at a time where many governments are wrestling with their budget deficits and are under pressure to increase military spending. But perhaps the most significant bond market move has been that of Japan. The near zero yields that prevailed in Japan for almost three decades have started to move up and much closer to those of the Western governments. Japan's enormous savings have irrigated world markets due to the dearth of opportunity at home. Now that rates are more attractive in Japan there is an incentive to move back. If that happens it will have significant implications for speculative markets everywhere.

At the moment stock markets are dominated by the AI theme, and the phenomenal earnings that that are being generated by the companies driving this revolution. AI is genuinely transformative but transformative industries can be terrible investments at the peak of enthusiasm because everyone is building simultaneously and when demand slips pricing power disappears. Therefore, the bubble may be more in the E than the P in the PE equation. It is notable that Warren Buffett said recently that he saw more speculation than he had ever seen, quite something from a ninety-five-year-old of his experience. The safer opportunities may lie in the trends that were interrupted by the Iran conflict. Last year saw a rotation out of highly valued US assets into more attractively priced assets in Europe, Japan and the Emerging Markets, though care should be taken not to chase the most heated parts of the market. A US collapse isn't inevitable. The US Indices are at a high level, but they may deflate over a long period as happened between 1966 and 1982 when they went nowhere. However, underneath that there were plenty of opportunities

and agile stock pickers made good returns. Investors should start to look at diversifying their portfolios geographically and by sector. Bonds remain uninteresting, and in currencies it is likely that the US dollar will weaken moderately, though special attention should be given to the yen.

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