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Quarterly Investment Report – Q2 2026

July 07, 2026

The second quarter of 2026 was another difficult period to interpret. Markets had to digest an unusual combination of geopolitical risk, shifting interest-rate expectations and, at the same time, an almost relentless appetite for anything linked to artificial intelligence.

April began with hopes that the conflict between the U.S. and Iran could come to a faster end than feared. This was reflected almost immediately in lower implied volatility, recovering equity markets and falling yields. These hopes, however, proved short-lived. After renewed comments from President Trump, investors were quickly reminded that the situation remained fragile. Even so, the temporary ceasefire that followed was enough to bring back risk appetite. Credit spreads tightened, equities recovered further, and the market's attention moved quickly back to AI infrastructure and the large hyperscalers.

This pattern continued in May. Negotiations between the U.S. and Iran repeatedly raised hopes of a ceasefire, only for renewed tensions around the Strait of Hormuz to unsettle markets again. Still, investors were willing to look through much of the uncertainty. Solid earnings, declining geopolitical risk premia and continued enthusiasm for AI-related companies all helped support markets. At times, however, price moves in the AI segment became increasingly difficult to justify on fundamentals alone.

In the background, the macro picture remained less comfortable. Higher oil prices, sticky inflation and weakness in U.S. Treasuries created renewed volatility across asset classes. The Iran conflict continued to push markets in both directions, depending on the headlines of the day. Toward the end of May, the situation improved again. Oil prices eased, risk premia declined and U.S. Treasuries staged a modest rally. This provided a strong tailwind for equities.

June was more challenging. The month initially remained dominated by the AI theme, with the high-profile SpaceX IPO, IPO speculation around leading AI companies and a capital increase at Google keeping investor interest high. At the same time, rising oil prices pushed rate expectations higher. As the situation in the Middle East escalated again, equity markets came under clear pressure. Technology-linked names were hit particularly hard because of their higher equity sensitivity.

Mid-June brought relief on the geopolitical side, but not across markets more broadly. The ceasefire agreement, partial reopening of the Strait of Hormuz and a 60-day negotiation period reduced geopolitical risk premium and pushed oil prices lower.

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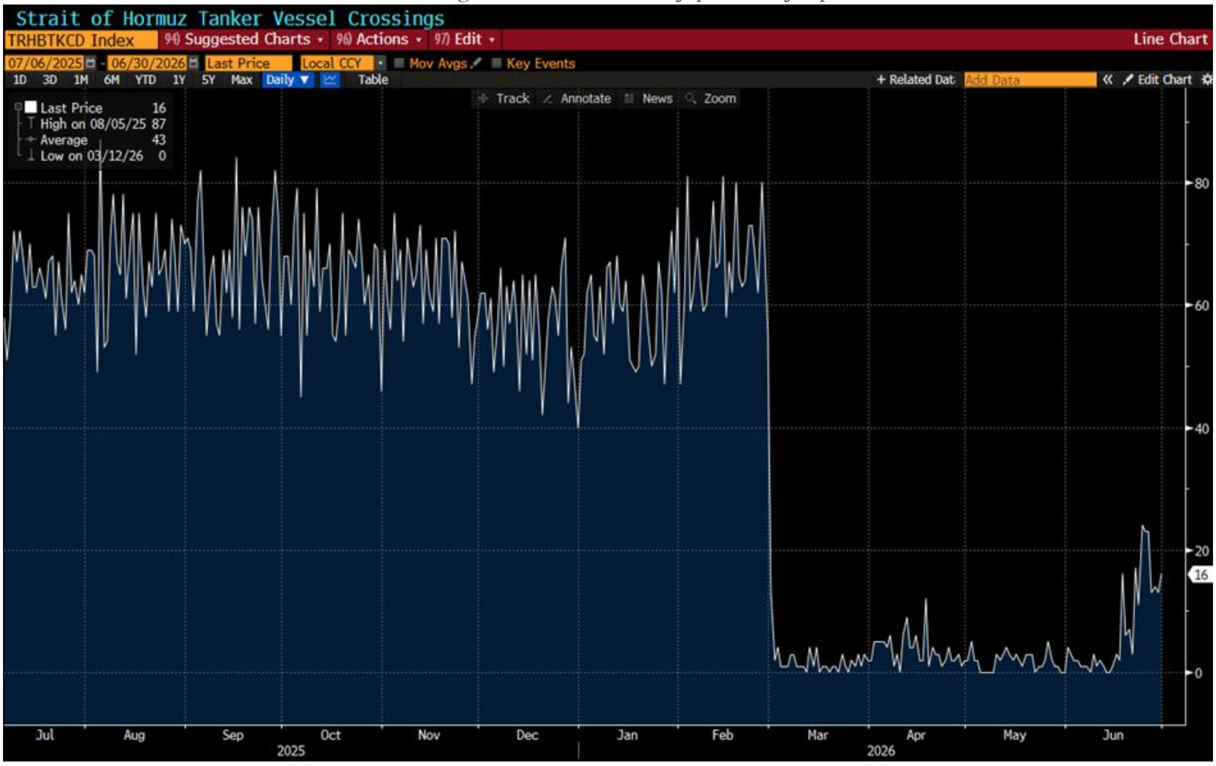
Chart: Strait of Hormuz vessel crossings – it remains only partially open.



Source: Bloomberg, Sermont AM

At the same time, the Federal Reserve left interest rates unchanged, as expected. However, communication from the new Fed Chair Kevin Warsh on June 17 was surprisingly cautious, particularly with the end of forward guidance and the strong focus on inflation. Warsh made clear that the Fed is independent and makes its decisions based on data. His statement spooked markets, which started to pencil in rate hikes in September. This led to a stronger U.S. dollar and a rise in the two-year Treasury yield. Risk assets sold off across the board and only recovered somewhat toward the end of the month on weaker consumer sentiment and labour-market data.

It goes without saying that the fall in crude oil prices below USD 70 a barrel helped to lift sentiment. As laid out in our Q1 report, we had expected oil prices to stay elevated for longer because of the severe damage to critical oil infrastructure in the Gulf region. However, oil repriced sharply. The move was driven less by a full normalisation of physical supply and more by a sharp reduction in the geopolitical risk premium following the U.S.-Iran ceasefire agreement and the start of a 60-day negotiation period. A partial recovery in Gulf exports, OPEC+ signals of additional supply, weaker global demand expectations and the use of strategic reserves further eased market concerns. Nevertheless, the decline should be viewed cautiously, as infrastructure damage, depleted inventories and the still-fragile political backdrop leave the market vulnerable to renewed price spikes.

Looking at the quarter as a whole, markets proved more resilient than the headlines, and our own expectations, would have suggested. We would therefore describe Q2 as a quarter in which investors were repeatedly pulled between caution and renewed risk appetite. The conflict in the Middle East remained the dominant macro risk, but the AI investment cycle continued to provide a powerful counterweight. As a result, markets ended the quarter in better shape than one might have expected, although the underlying risks remain far from resolved.

Despite the ups and downs throughout the quarter, global equity markets demonstrated resilience and ended on a strong footing. The Euro Stoxx 50, S&P 500 and MSCI World returned 14-15%, while the U.K. lagged with a meagre 4%. The Japanese Nikkei Index was the positive outlier in Q2. The Nikkei rallied a staggering 37%, benefiting from the global enthusiasm around AI, semiconductors and technology infrastructure. Yen weakness further supported exporters, while the price-weighted structure of the Nikkei amplified gains in selected high-priced technology names. Continued foreign investor interest and ongoing corporate governance reforms, which allowed for more share buybacks, provided an additional tailwind.

Chart: Performance of major equity indices in local currency

Source: Bloomberg

U.S. Treasuries and precious metals: bear flattening as policy risk repriced

The U.S. Treasury curve bear-flattened in Q2 2026, with yields rising across the curve but the move concentrated in the front end and belly. Short- and intermediate-maturity yields rose by roughly 30-40 bps, while yields at the long end increased only marginally. This pattern suggests that markets repriced the near-term Fed reaction function more aggressively than long-term inflation or term-premium risk.

The move was closely linked to the market's interpretation of Kevin Warsh's early policy communication. His emphasis on Fed independence, the 2% inflation target and limited forward guidance was read as a more hawkish stance, reducing expectations for near-term easing and increasing the perceived risk of "higher for longer" policy rates. At the same time, his comments on AI-driven productivity and the potential expansion of the economy's supply capacity helped contain the long end of the curve.

Chart: U.S. Treasury yield curve at the beginning and end of Q2 2026

Source: Bloomberg, Sermont AM

Precious metals were among the main casualties of the rates repricing. Gold declined by around 13% in Q2, its weakest quarterly performance in over a decade, as higher real yields and a stronger U.S. dollar increased the opportunity cost of holding non-yielding assets. The sell-off was less about a collapse in long-term inflation expectations and more about a sharp repricing of the front-end policy path, alongside reduced demand for defensive hedges as markets reassessed the Fed’s tolerance for inflation risk.

Chart: Performance of Precious Metals in Q2

Source: Bloomberg, Sermont AM

For portfolios, the move made short-dated, high-quality bonds more attractive, as investors could earn solid income without taking much interest-rate risk. At the same time, it created a difficult backdrop for assets without income, such as gold, and for liquidity-sensitive assets such as Bitcoin.

Overall, the curve flattening was not simply a recession warning. It mainly reflected a market reassessment of Fed policy: rates may stay higher for longer, while confidence in the Fed's inflation-fighting stance helped keep longer-term yields relatively stable.

This environment weighed on our Q2 performance. Precious metals were hurt by the rise in real yields, Bitcoin suffered from tighter liquidity conditions and reduced risk appetite, and the stronger U.S. dollar was a headwind for our strategy fund, as we remained hedged on our USD exposure. Together, these factors created a challenging quarter for several of our macro-sensitive positions.

U.S. rates: hawkish tone, limited room to hike

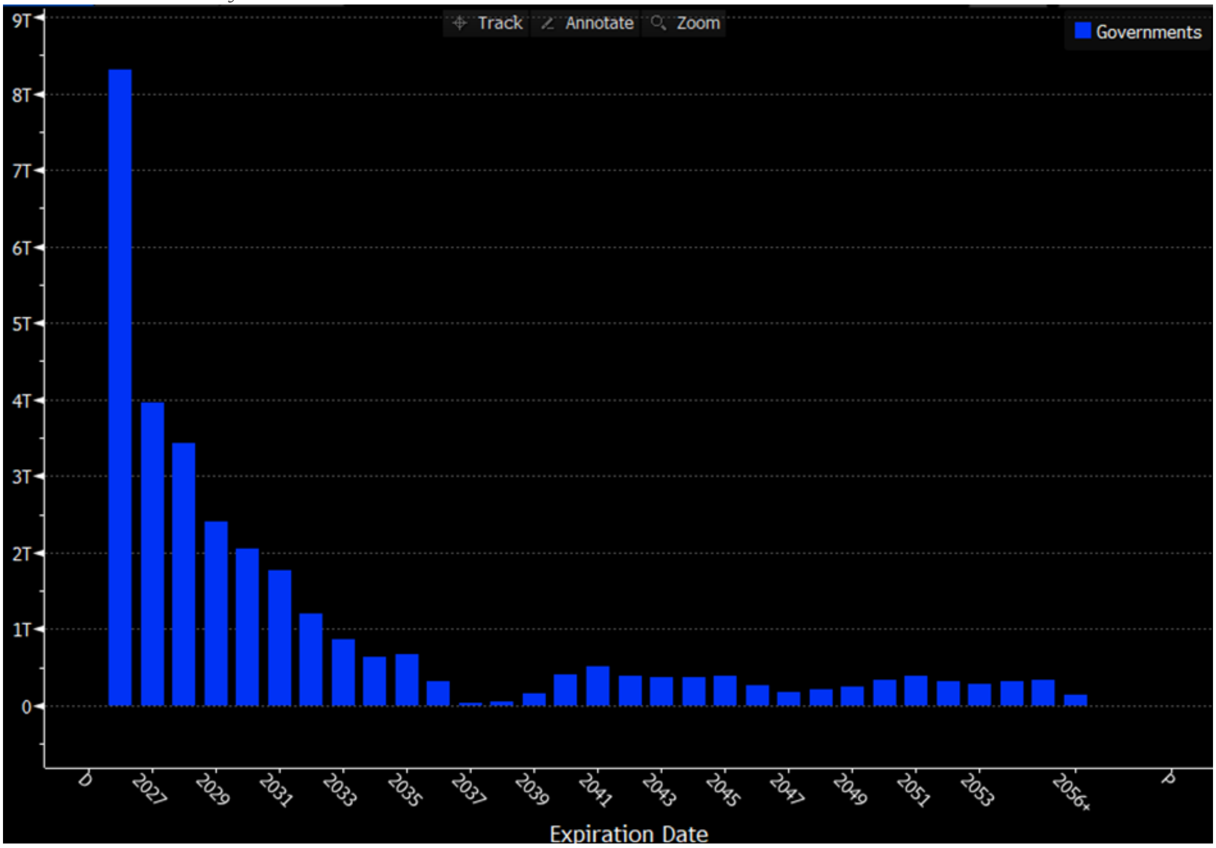
Two developments dominated the macro backdrop in recent weeks. The U.S.-Iran Memorandum of Understanding helped reduce near-term geopolitical pressure and bought some time, although the Strait has still not fully reopened. At the same time, the first communication from the new Fed Chair reshaped expectations for U.S. rates. The market read Warsh's comments as deliberately hawkish: the Fed wants to re-establish inflation-fighting credibility, keep inflation expectations anchored and avoid giving markets the impression that policy easing is imminent.

The resulting bear flattening, described above, suggests the market is giving the Fed some credit: if the central bank sounds credible enough on inflation, it may not need to follow through with another hike.

We therefore doubt that a U.S. rate hike is actually in the cards. The traditional playbook says that higher rates are the answer to inflation. That lesson comes largely from the 1970s, when credit creation was driven mainly by bank lending and higher rates were an effective way to slow the economy. Today's setup is very different, though. The U.S. is operating with debt above 100% of GDP, large structural deficits - in times of a strong economy - and a rapidly rising interest bill. In a fiscal-dominance environment, higher rates are a blunt tool. They may slow private credit at the margin, but they also increase the government's own financing costs and make the fiscal problem even worse.

This refinancing burden is becoming increasingly important. A very large amount of Treasury debt has to be rolled over in 2026 and 2027, and much of it will have to be refinanced at higher rates. U.S. net interest costs are projected to reach around USD 1.0 trillion in fiscal year 2026, equivalent to 3.3% of GDP and above defence spending, highlighting the constraints fiscal dominance places on the Fed's ability to tighten policy further. It is therefore hard to see how another rate hike would solve the underlying problem.

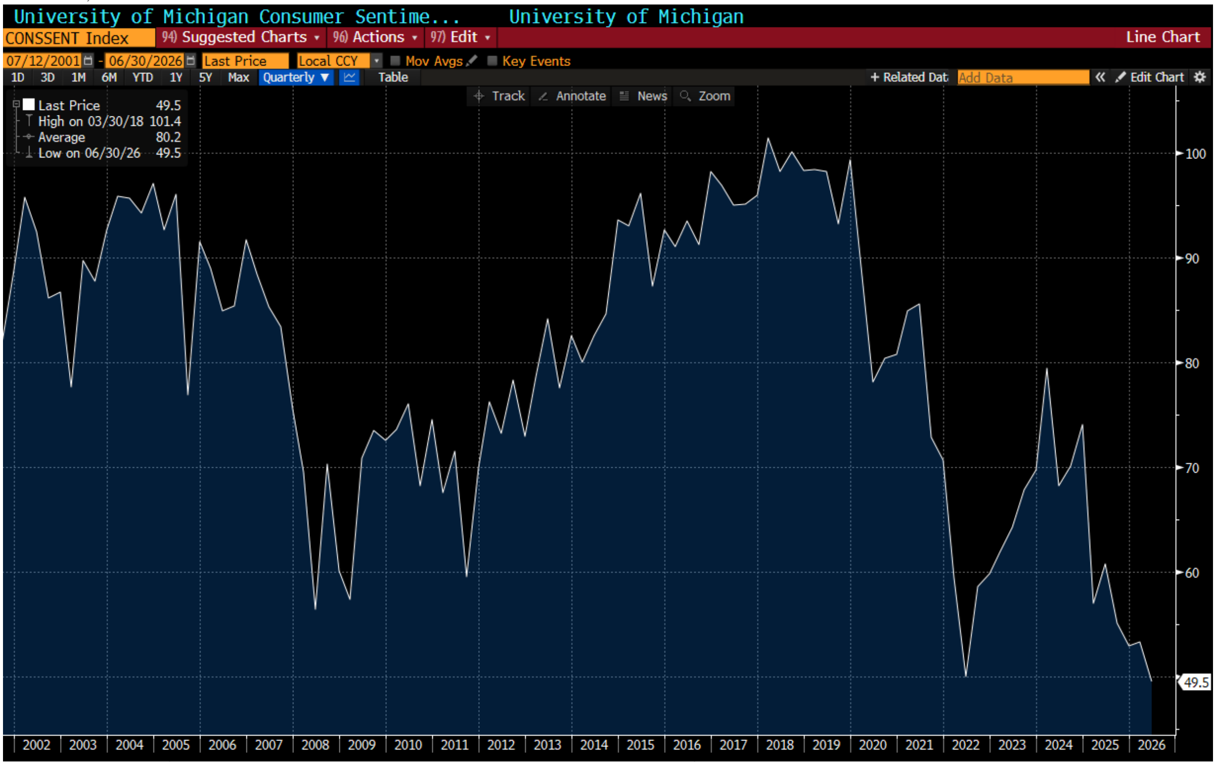
Chart: U.S. Treasury debt distribution



Source: Bloomberg, Sermont AM

The consumer backdrop also argues against further tightening. Despite the rally in the S&P 500, the improvement has not reached the average household. Consumer sentiment has reached historical lows, reflecting the pressure from higher living costs, housing affordability and tighter financial conditions. In that environment, another rate hike would risk adding pressure where the economy is already fragile.

Chart: University of Michigan Consumer Sentiment (lower than during the Global Financial Crisis and COVID)



Source: Bloomberg, Sermont AM

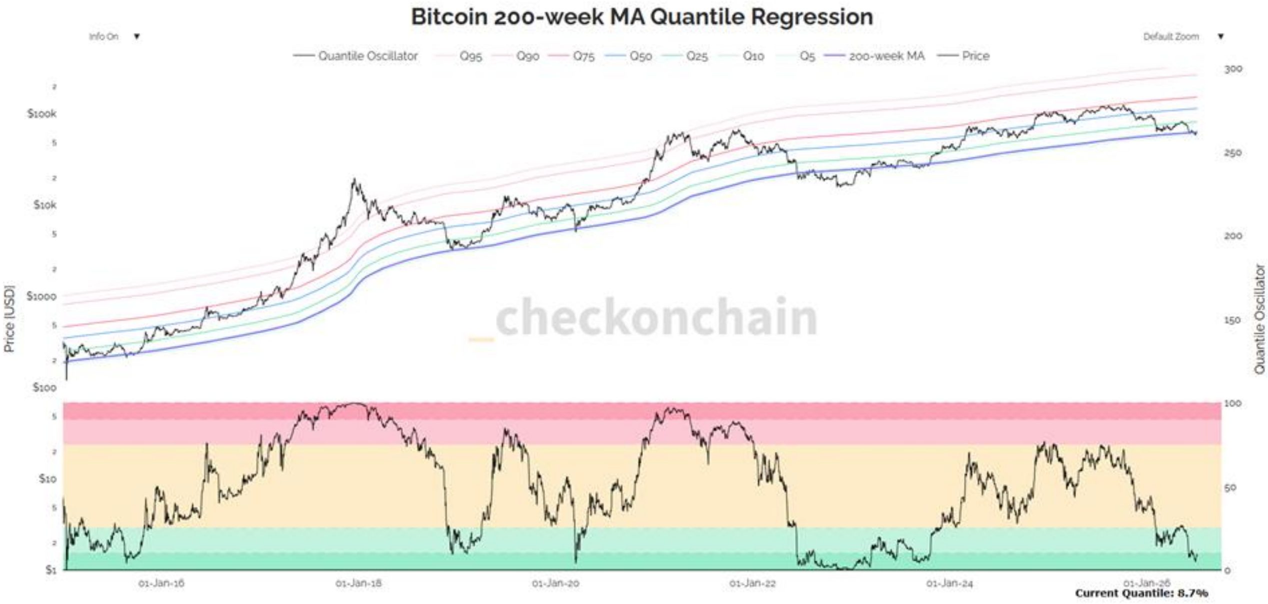
Our base case is therefore that the Fed will rely more on credibility than on additional tightening. Warsh's hawkish tone may be enough to keep markets disciplined and inflation expectations contained, while fiscal dominance, heavy Treasury refinancing needs and weak consumer confidence make an actual rate hike unlikely.

Bitcoin and the bear market

Bitcoin had a tough quarter as well. In direction, its performance mirrored that of gold, although the drawdown was much more severe. A price capitulation from USD 120,000 via USD 95,000 to USD 60,000, followed by a period of time capitulation and choppy trading, is painful. U.S. spot Bitcoin ETFs ended the quarter under heavy pressure, recording seven consecutive weeks of net outflows. The streak culminated in late June with around USD 1.8bn of weekly redemptions, underlining the sharp deterioration in institutional demand for crypto exposure.

Bitcoin did not escape the wider risk-off environment. That said, when an asset trades at or below its 200-week moving average, we consider it fairly cheap compared with its own price history. For illustration, we have included a chart from checkonchain.

Chart: Bitcoin 200-week moving average – quantile regression



Source: checkonchain

Bitcoin is currently trading very close to its 200-week moving average. This is the 9th percentile: Bitcoin has traded cheaper only 9% of the time, while in 91% of cases it traded at higher levels. At the current level, we deem Bitcoin to offer good value.

Can the Bitcoin price go lower from here? Yes, it can, although we believe the downside is becoming increasingly limited at these levels. Have we reached the bottom? We do not know. Has the recent correction changed our view on Bitcoin? No.

At the current price level, we see good value and are dollar-cost averaging to increase the position in line with our strategic asset allocation.

Adjustment to our allocation in our funds:

Our models point to a volatile month of July, particularly in the second half. In our strategy fund, we have trimmed some of the more cyclical positions, taken profits in areas such as semiconductors, and increased the cash position to roughly 10%. We intend to redeploy this capital when attractive opportunities arise at more compelling valuations.

In our equity fund, we have reduced net exposure to roughly 90%. Here too, we trimmed positions in semiconductors and technology-related stocks in order to increase the cash position.

On the currency side, we view the recent strength in the U.S. dollar as short-lived. Numbers do not lie: the underlying fiscal problems have not been solved, and we expect the debasement trade to continue. Shortterm dollar rallies are always possible, especially when liquidity dries up and market sentiment turns risk-off. Over the medium to long term, however, we continue to expect a weaker U.S. dollar. We therefore remain nearly fully hedged on our USD FX exposure in both funds.

Kind regards,

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