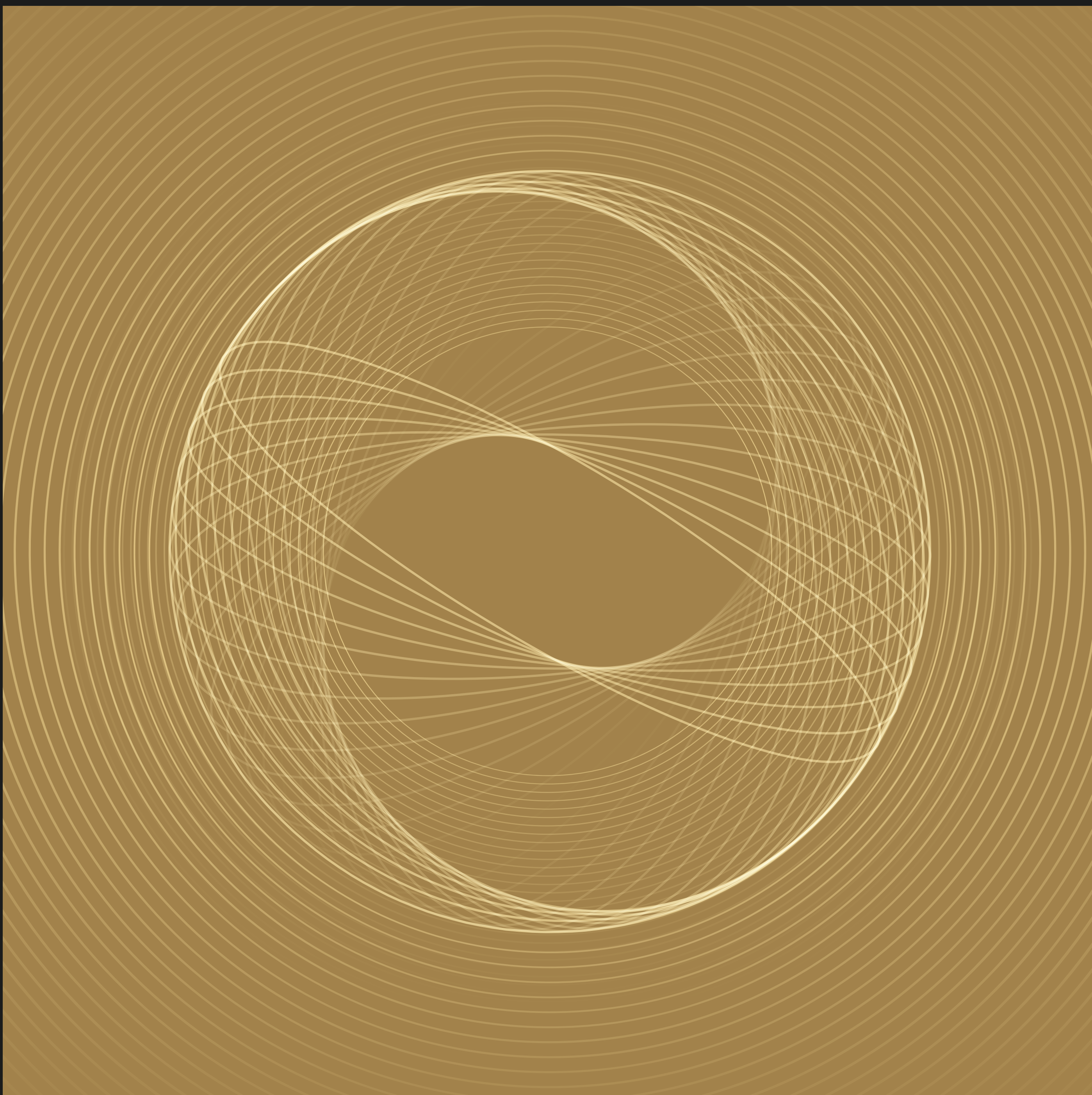
# *On Point*

## Market Outlook Q3 2026

## After the Round Trip – Where Next for Markets



# Taking *Stock*

**We have de-risked into strength recently and added selectively to real assets, including industrial commodities after the sell-off. Reasonably high levels of liquidity in portfolios leave us ready to accumulate equities into any summer weakness.**

**+25%**

NASDAQ rally before peaking in early June

### Drivers behind the round trip

If the first quarter of 2026 was defined by a shock, the second was defined by its release. The de-escalation of the Iran conflict and the incremental reopening of the Strait of Hormuz allowed the world's most important oil artery to resume normal service. Crude prices completed a remarkable round trip, with Brent falling back to pre-war levels by quarter's end.

What the first quarter taxed, the second quarter refunded.

### Equities – a rally, not a rising tide

Equity markets pre-empted much of the recovery. The bounce from the March lows was V-shaped and emphatic: the NASDAQ rallied some 25% before peaking in early June, and major indices set new all-time highs along the way. Earnings did much of the heavy lifting. US results were stellar, powered by the AI capital expenditure cycle, and Europe had a reasonable quarter too.

Beneath the headlines the leadership was more nuanced than the narrative suggested: value beat growth over the first six months of the year, and the gap between technology and the rest of the market widened even as both advanced. It was a good quarter almost everywhere, but not an evenly distributed one. Emerging market equities though were once again a standout, led by an extraordinary run in Korea – of which more below.

## Bonds – calm, until it wasn't

Bond markets told the story of the quarter's second act. Each time US 10-year yields approached 4.5%, soothing noises from Washington proved sufficient to calm nerves; a pattern that repeated with almost mechanical reliability.

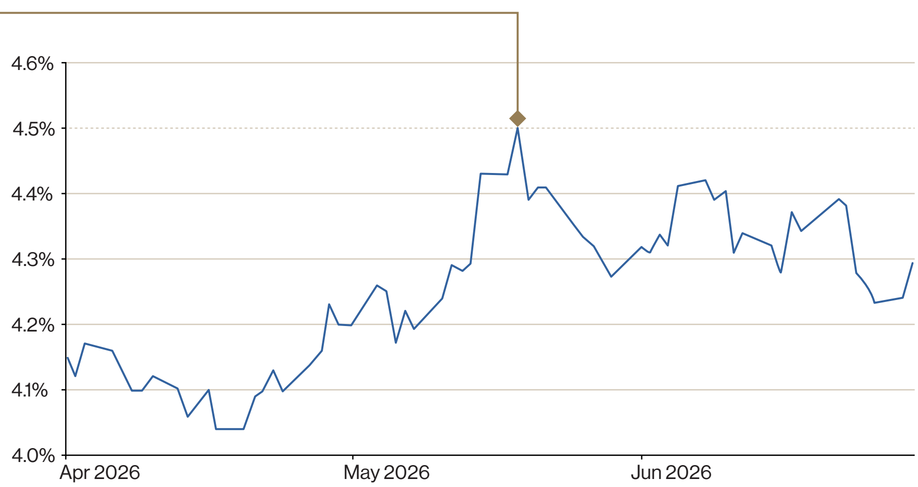
But the quarter closed on a more hawkish note: the June FOMC delivered upgraded inflation forecasts, a median 2026 dot implying a possible rate hike, and a new Chair in Kevin Warsh openly critical of the Fed's balance sheet and communication culture.

Interest rate futures ended the quarter pricing in one hike by year-end. The dollar, which had been drifting lower, firmed recently on the improving interest rate differential vs. other majors and the return of US exceptionalism – at least for now.

**4.5%**

psychological ceiling for US 10-year yields in Q2

**US 10-year treasury yield, Q2 2026**




Source: US Treasury, daily par yield curve rates

## Commodities – oil's remarkable round trip

In Commodities, oil has now remarkably given back all of its war premium, industrial metals held firm on the structural demand story. Gold endured a tactical washout as real yields rose and the dollar strengthened.

We had taken profits on our gold positions in Q1 but maintain a healthy allocation as the structural story for gold (inflation, government debt, central bank buying) remains a longer-term theme.

# Q3 2026 *Outlook*

The recovery optimism of Q2 has met the reality of crowded positioning and a hawkish Fed. We pivot from broad participation to concentrated conviction; emerging markets and real assets, with discipline on crowded trades.

**~5%**

gold exposure entering H2 2026

### Our indicators – positioning and the outlook

Our staged de-risking at the end of April and May served portfolios well through Q2; before we reduced cash positions in June, reflecting improving signals for real estate, industrial commodities and fixed income.

We enter H2 2026 with still a modest underweight to equities relative to our long-term allocations.

As mentioned, the picture is now turning slightly more pro risk though – with the energy shock unwinding, rates steadying, and our momentum indicators improving, our systematic framework is shifting away from low volatility defensives, and we have sufficient dry powder to increase exposures into any summer weakness. Within equities our overweights remain emerging markets and value-oriented sectors; we retain our industrial commodities exposure through natural resources equities, having held through the post-de-escalation selloff.

In fixed income we've become less cautious than we were. We have added some duration, complementing our short-dated high yield for income and TIPS for inflation protection — positions that did their job during the shock and remain appropriate while the inflation path stays contested. Gold exposure is at ~5%.

**3.3%**

FOMC forecast for core PCE inflation in 2026

## The Fed – hawkish now, dovish later

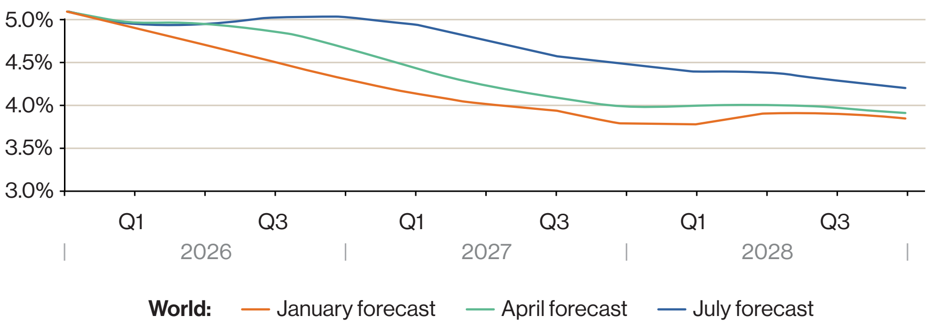
The most consequential development of the quarter was institutional: Kevin Warsh's arrival as Fed Chair and a distinctly hawkish June meeting. The median FOMC member now forecasts core PCE inflation of 3.3% for 2026 and a policy rate implying a possible hike this year. Futures price roughly one hike by year-end. After a year debating how many cuts were coming, the conversation has inverted.

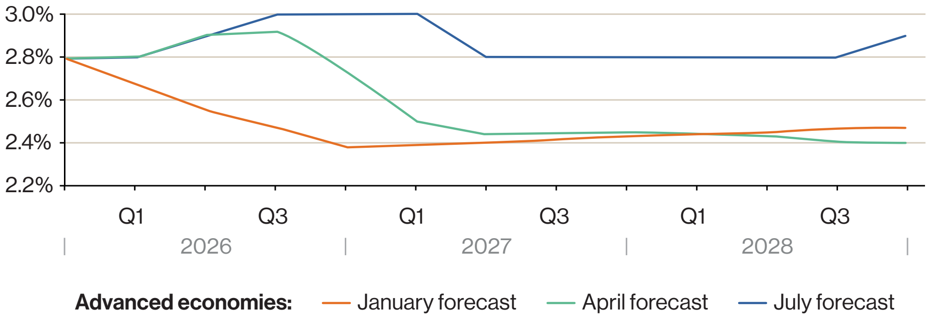
We think the hawkishness is real but time-limited – a confidence-building exercise rather than a new tightening cycle. Warsh's internal reviews of the Fed's data, inflation measurement and productivity assumptions all lean dovish in their eventual implications.

The balance sheet reinforces the point. Warsh calls the Fed's $6.7 trillion balance sheet "trillions larger than it needs to be". Yet meaningful shrinkage requires banking and regulatory changes that are unlikely before 2027. In the meantime, reserve-management purchases continue to support liquidity.

An environment of restrictive central bank rhetoric but where liquidity remains supportive – is, on balance, likely to be a forgiving combination for risk assets in the second half - especially if earnings continue to deliver.

### Global rate paths




Source: Bloomberg Economics

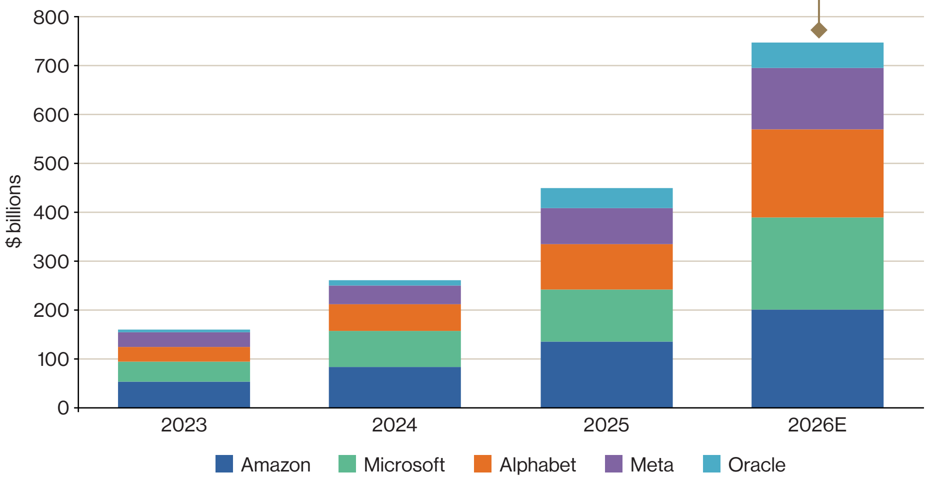
+700

billion dollars hyperscaler spending forecast this year

## AI's $700 billion year – from enablers to adopters

The AI capital expenditure cycle is no longer a sector story but a macroeconomic force to take note of. Hyperscaler spending is on track to approach US$700 billion this year, with 2027 estimates stretching toward the US$1 trillion mark. This spending is doing real work: it is the primary driver of US business investment, a meaningful contributor to GDP growth, and the engine behind the stellar second-quarter earnings of its beneficiaries.

**Big-5 hyperscaler capex, 2023–2026E ($bn)**




Source: Bloomberg

But the investment map is shifting. The clearest way to see it is to split the AI complex into three layers: the enablers supplying infrastructure – semiconductors, power, data centre equipment; the model providers training and selling the intelligence itself; and the adopters – the broad universe of businesses deploying AI to lower costs and lift productivity.

The enablers have been the great winners to date, and their earnings growth continues to justify the enthusiasm. The model providers face a harder reality: training is enormously capital-intensive, models are commoditising rapidly, and pricing power is eroding. Businesses spending tens of billions on products their rivals replicate within months face a structurally difficult return-on-capital question. One the market began asking with last quarter's software repricing, and which has not gone away. Software's underperformance versus semiconductors remains a defining divergence of this technology cycle so far.

In our opinion the most interesting opportunity now sits with the adopters. If AI delivers even a fraction of its promised productivity gains, the benefit accrues not to technology alone but to the operating margins of the broad market – the industrials, financials, healthcare and consumer businesses deploying these tools against existing cost bases. This is where the S&P 500 outside the mega-caps becomes relevant again, consistent with the broadening of leadership through the first half.

Two caveats temper the enthusiasm;

First, a heavy IPO calendar is absorbing liquidity just as index providers bend their rules to accommodate it – a late-cycle signature worth noting. And second, the capex boom is likely to be inflationary in the short run (Apple raising prices is the most high profile example), adding to the demand pressures the Fed is leaning against , even if its productivity payoff is ultimately disinflationary.

The AI story remains bullish for markets and productivity. But the easy phase – buy the enablers, ignore the rest – is becoming less relevant.

~20%

projected twelve-month earnings growth for EM

## The EM moment – and Korea's outsized hand

Emerging market equities are our highest-conviction overweight, and the second quarter only strengthened the case.

The asset class trades on roughly 12 times next year's earnings – a near-40% discount to developed markets – while consensus expects earnings growth of around 20% over the coming twelve months. This comes at a moment when the macro conditions that historically suppress EM returns are turning friendly: an energy shock unwinding, global rates near their peak, and a US dollar whose medium-term direction is probably lower.

**S&P 500 vs EuroStoxx 600 vs MSCI Emerging Valuations**
(P/E and Earnings growth +1 yr)

| | P/E 2026 | Earnings Growth 2026 |
|---|---|---|
| **S&P 500** | 21.5 | +16.2% |
| **Eurostoxx 600** | 15.6 | + 9.9% |
| **MSCI Emerging Markets** | 12.6 | + 19.3% |

Source: Bloomberg

Within the EM story, one market deserves particular attention – because it has been doing a disproportionate share of the work – South Korea.

Korea is now 25% of the MSCI Emerging Market Index, has been among the world's best-performing equity markets this year (+87.1% in H1 2026) and the KOSPI's character has changed in the process: volatility has been extraordinary by the standards of a major index, with bouts of what can only be described as stress-buying as investors chase exposure. The engine is concentrated and identifiable. Samsung Electronics and SK Hynix – the twin pillars of the global memory-chip complex – have been direct beneficiaries of the AI infrastructure build, as high-bandwidth memory demand from the hyperscalers has transformed the earnings outlook for both.

Our response is to hold the overweight, clear-eyed about its composition. The EM case does not rest on Korea alone: India and Brazil offer demographic and consumption growth, China trades at valuations discounting considerable pessimism while policy stabilises growth around 4%, and EM currencies stand to benefit as the dollar resumes its decline. Institutional positioning remains light – the setup that extends rallies rather than ends them.

## Real assets – after the round trip

The unwinding of the war premium has restored some calm to commodity markets for now, but the retracement is not the end of the story. Across the complex, the cyclical correction is running into structural support.

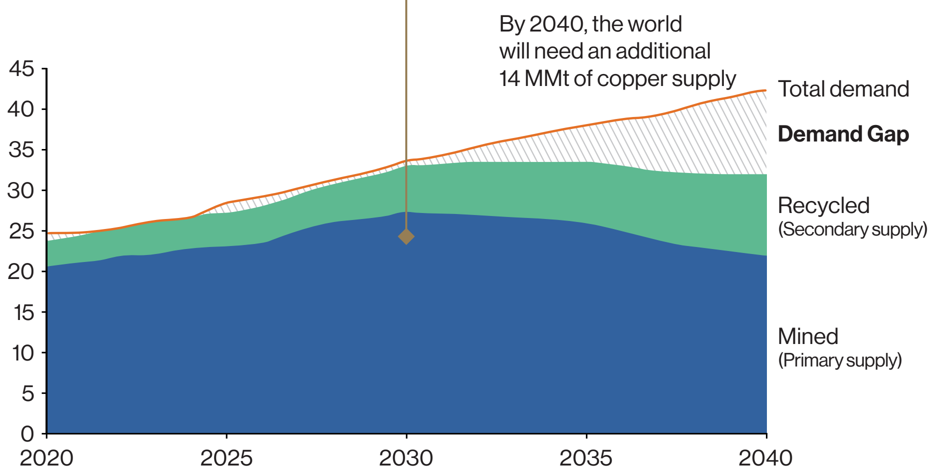
Oil is the clearest case. Prices have returned to pre-war levels, and the crisis backwardation (lower futures prices vs spot) has gone, yet we see a floor forming rather than a slide. The reasons are mechanical: strategic reserves drawn down during the crisis must be rebuilt, and China is returning as a buyer. Beyond restocking sits a quieter demand story – the AI data centre build is an energy story as much as a technology one. Our industrial commodity indicators further strengthened at the end of June.

Copper is a meaningful ingredient of this structural theme. Transport electrification, defence spend, grid investment and data centre power demand all pull on a metal with slow supply response and limited substitutes. Its demand curve needs no geopolitical premium; it compounds through every infrastructure programme from Washington to Beijing.

**2030**

mined copper supply set to peak without expansion

**Global copper demand**




Source: S&P Global

Gold is the more nuanced position after delivering spectacularly in our multi asset portfolios for the last two years. Having taken profits and reduced exposure into strength in January, gold has slumped in Q2. Tactically, we hold modest exposure, gold holding US$4,000 per oz. is an important psychological support.

The common thread across real assets is patience. The war premium has gone; the structural premia – restocking for oil; electrification for copper; and ballooning deficits supporting gold – are still present.

# Summary

"We expect that tension to resolve through a volatile summer – corrections in a bull market, not the end of one – followed by a friendlier autumn as cooling inflation allows the hawkish posture to soften."

### Positioned for the turn

The second quarter delivered the recovery that the first quarter's resilience promised, but it ends with a new tension: markets at highs, institutional positioning crowded in equities, and a Fed determined to prove its credibility on inflation. We expect that tension to resolve through a volatile summer – corrections in a bull market, not the end of one – followed by a friendlier autumn as cooling inflation allows the hawkish posture to soften.

Our positioning reflects that sequencing: cash to deploy into weakness, an emerging market overweight for the relative value, real assets for the structural tailwinds that survived the round trip, and inflation protection for the scenario where we are wrong. As ever, we will let the evidence lead.

Our proprietary models and systematic approach which took risk down in April and May are now gradually increasing exposure – and that consistency, rather than any forecast, is what we believe will continue to deliver for our clients, as it has for the last 10+ years.

**Glenn Coxon | Chief Investment Officer**
July 2026

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