Outlook & Convictions

Asset Management | 2nd semester of 2026

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“Peace Piece” or the archipelago of interdependencies

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“Peace Piece”, inspired by Bill Evans’s eponymous track, suggests in this note a peace that is as delicate as it is fragmented, where diplomatic calm masks a tangle of tensions and interdependencies—both geopolitical and economic—which the economy must overcome at all costs.

A multi-speed global economy: towards selective stagflation

After several years of post-pandemic inflation easing, the major developed economies appear to be entering a more complex phase, characterised by a slowdown coupled with a resurgence of inflationary pressures. The major risk is not a recession, but selective stagflation, with widely divergent trajectories.

China, the eurozone and, to a lesser extent, the UK are increasingly exhibiting the characteristics of a stagflationary environment: declining growth and rising inflation expectations. This resurgence in inflation stems from a succession of supply shocks which demonstrate that globalisation has not eliminated scarcity, but has merely shifted it.

The first shock relates to energy. Despite hopes of normalisation in the Middle East, the markets are now pricing in a gradual normalisation of maritime traffic through the Strait of Hormuz. The main stabilising factor has come from China, whose fall in oil imports has helped prevent a surge in prices, but at the cost of a partial destruction of demand and a significant drawdown of its reserves. This apparent

easing in crude oil prices masks growing fragility: since 2014, global demand has risen sharply, refined product stocks remain low, refining capacity has been reduced and margins are hovering around $50 per barrel. Several estimates suggest a cumulative drawdown of nearly 2 billion barrels of stocks – an unprecedented shock. Added to the pressure on energy markets are agricultural and logistical tensions.

Against this backdrop, the US stands out strikingly. Whilst Europe and China are slowing down, the United States is maintaining growth of close to 3 per cent, supported by private demand and a powerful investment cycle linked to artificial intelligence (AI). The major players in AI – the 'hyperscalers' – are projecting nearly $757 billion in capital expenditure for 2026, with estimates already approaching $920 billion for the following year. Historically, these forecasts are revised upwards quarter after quarter, as demand consistently exceeds expectations.

US consumption remains robust, with spending up year-on-year despite the slowdown in real incomes. This resilience is largely due to the concentration of wealth: the wealthiest 10 per cent of households account for nearly half of consumption, whilst baby boomers hold 51 per cent of wealth, representing 20 per cent of the population. The ongoing wealth transfer could reach $1,000 billion per year by 2040. This wealth helps to absorb some of the global shocks, but increases vulnerability to wealth effects. According to the Dallas Fed, a sharp stock market correction could weigh more heavily on consumption than a rise in unemployment from 4% to 6%.

Europe, by contrast, appears to be entering a fully-fledged stagflationary phase: core inflation is picking up again whilst wage growth is slowing and businesses cite a lack of demand as their primary concern. The problem is no longer excess demand but a proliferation of supply constraints. This combination – low growth, persistent inflation, and a scarcity of strategic resources – is precisely what constitutes stagflation.

The key question is therefore no longer whether inflationary pressures will re-emerge, but how far they will go before US resilience, too, is overtaken by the delayed effects of the energy, logistical and geopolitical constraints already weighing on the rest of the world.

The archipelago of dependencies and 'Chipflation'

For several decades, developed economies were driven by the 'peace dividends': globalised supply chains, abundant energy, free trade, and the reallocation of military spending towards education, healthcare and research. Companies prioritised efficiency over resilience; there was little concern about the potential limits of resources; whilst Silicon Valley heralded a future of abundance driven by AI and productivity gains – a vision championed in particular in the works of journalist Ezra Klein, who argued that a new phase of innovation could overcome traditional economic constraints.

This period is gradually drawing to a close. The world is discovering that it is structured like an archipelago of dependencies. Firstly, there is a much greater relative dependence on funding for AI-related ambitions – IPOs, the debt market and capital raises. Then physical constraints come to the fore, with a few straits through which global energy trade is channelled and certain mines that control the critical metals needed for the energy transition. A core group of companies dominates the advanced semiconductor sector, whilst a handful of data centres concentrate the computing power required for artificial intelligence.

A single player, TSMC, currently produces over 90 per cent of the world's most advanced chips. China accounts for nearly 70 per cent of global rare-earth production and over 85 per cent of refining capacity. In the case of high-bandwidth memory (HBM), which is essential for artificial intelligence models, just three players – SK Hynix, Samsung and Micron – account for the vast majority of global supply.

But constraints and dependencies are no longer limited to the semiconductors themselves. They now extend right up the value chain. Electricity is thus becoming the new scarce resource. In several regions of the US, data centres are now among the main drivers of growth in energy demand. Yet the infrastructure needed to meet this demand – generation capacity, transmission grids and electrical transformers – is developing much more slowly than the needs driven by AI.

Delivery times for electrical transformers now average 128 weeks in the United States, compared with just 12 to 16 weeks before the pandemic[1]. For some transformers intended for power stations, lead times even exceed 144 weeks. At the same time, the queues to connect new generation capacity to the grid now represent more than twice the country's installed electricity capacity.

This situation is profoundly altering the geography of investment. Data centre developers no longer choose their locations solely on the basis of land availability or tax rates, but primarily on the basis of access to electricity. The associated electricity demand is growing at a rate rarely seen in recent industrial history. This scarcity is also evident in the labour market and in natural resources. The United States could face a shortfall of around 300,000 electricians over the next decade, even as a significant proportion of the current workforce approaches retirement. Water is also a growing constraint: around 43 per cent of the world's data centres are located in areas subject to high water stress.

Scarcity is thus becoming multidimensional. It simultaneously affects energy, the electricity grid, the skilled workforce, water, semiconductors – the much-discussed 'chipflation' – and computing capacity.

This transformation could call into question one of the central assumptions underlying generative artificial intelligence: the idea of virtually unlimited computing power. The first phase of this revolution was dominated by an approach in which companies sought

[1] Source: Morgan Stanley.

above all to maximise computing consumption: ever-larger models, longer training runs, and increasingly energy-intensive infrastructure. However, the explosion in demand for GPUs, advanced memory, electricity, networks and data centres has brought a new constraint to light: the realisation of the marginal cost of computing against a backdrop of higher capital costs. For, unlike in the 2000s and 2010s, when global savings far exceeded the demand for capital, we are now entering a period of competition for access to finance, driven by the need for sovereign debt issuance, AI capital expenditure and private sector lending. It will therefore be essential to avoid any monetary policy errors.

Monetary counterpoint: the Fed opts for price stability

By removing all forward guidance and the accommodative bias, the style of the Fed's new governor, Kevin Warsh, stands in stark contrast to that of his predecessor. At his first FOMC meeting, he highlighted solid economic expansion, characterised by robust productivity and investment, a labour market that remains dynamic and virtually stable unemployment, but with inflation still well above the 2% target for both 2026 and 2027, largely due to supply shocks. The Fed is now emphasising the priority given to 'price stability', without any explicit mention of full employment, which underlines the Fed's determination to bring inflation back down to 2 per cent and anchor its credibility on inflation.

If inflation figures do not ease convincingly over the coming quarters, we therefore cannot rule out one or two rate rises between now and March 2027. The message from Kevin Warsh's first FOMC meeting certainly points towards a clearly more restrictive stance, as the dots show that around half of the members anticipate at least one rate rise. However, this signal must be qualified: amongst the voting members, those in favour of a further rate rise remain in the minority, which means the bar is still set high for convincing the most dovish members of the need for further tightening.

This is all the more so given that the inflation projections were finalised in a still uncertain environment, without members having full visibility on whether the agreement in question would actually materialise. Against this backdrop, it would not be surprising if upcoming statements placed greater emphasis on the recent fall in energy prices – notably with petrol prices dropping below $4 – and on the fact that a rate rise is still far from being a done deal. In other words, some of the expectations of tightening could fade in the coming weeks, even if a slight hawkish bias is likely to remain in pricing.

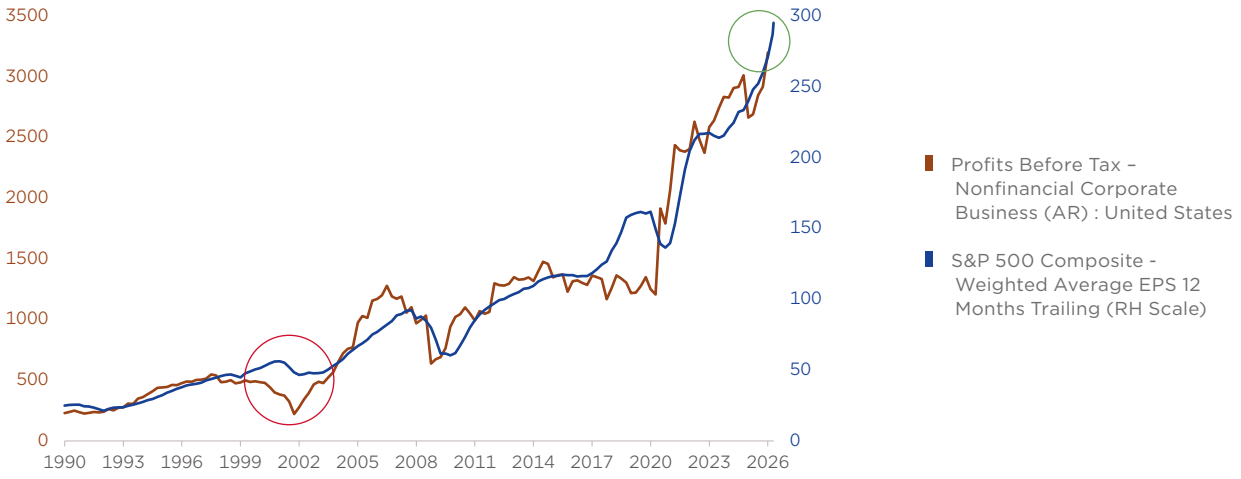
Beyond the short term, a more structural factor must be taken into account: Kevin Warsh's approach, with less forward guidance and no clearly defined reaction function, argues for a sustainably higher term premium. This would, in a sense, mark a return to an approach more akin to Greenspan's, where the Fed accepts a greater degree of ambiguity and allows the market to reassess its monetary policy expectations, meeting by meeting. Under such a regime, markets will likely have to readjust to much more balanced pricing scenarios, potentially close to 50/50 ahead of each meeting.

Consequently, **the central scenario for the coming months is that of a Fed on hold, cautious in its communication, reluctant to pre-commit to its decisions, and demanding further evidence before going so far as to raise rates again.** This argues for a more neutral stance on government bonds and a continued positive outlook on corporate debt, provided the probability of a recession does not rise too sharply.

Investment Policy: so far, so good

At this stage, economic and financial fundamentals remain robust enough to support the markets in the event of a correction. Unlike the major periods preceding recessions or market crises, corporate earnings remain consistent with the profits recorded in the national accounts (NIPA profits). This lack of divergence is an important signal, as corporate results do not appear to be artificially inflated by temporary or accounting factors (share buybacks, exchange rate effects, etc.), as was sometimes the case on the eve of previous bear markets.

Evolution of NIPA profits and S&P 500 earnings in the US



Source: Edmond de Rothschild Asset Management (France), LSEG Datastream, data as of 01/06/2026.

Furthermore, earnings momentum remains remarkably strong. Profits continue to surprise on the upside, driven by improved margins and the initial economic impact of artificial intelligence. Admittedly, the debate over the monetisation of AI remains open, but the figures suggest it is still too early to worry about a potential slowdown: investment remains massive, productivity gains are beginning to materialise and profits are rising faster than share prices.

In a world where, to quote Philippe Aghion, the technological frontier appears to have been reached and long-term opportunities are emerging, whilst potential bottlenecks and execution risks are multiplying, investing is no longer simply a matter of looking for future growth drivers. **It is also a matter of structuring portfolios around three functions: investing in long-term growth assets, whilst anchoring the present with reserve assets, and pricing in time whilst waiting to capture long-term potential.** Under this 'Ultim' strategy, these growth assets thus comprise equities and transformation themes conducive to the pursuit of long-term efficiency: companies utilising Big Data and AI; stocks linked to economic resilience and industrial sovereignty; European small-caps riding the wave of Europe's resurgence; and the healthcare sector. These investments are forward-looking and lay the foundations for long-term value creation.

Reserve assets – cash, optional insurance premiums – are intended to preserve capital and freedom of action in a volatile environment. They do not aim for maximum return, but rather the ability to seize opportunities and weather shocks, with a view to achieving a form of 'antifragility', as Nassim Nicholas Taleb might put it.

Between these two investment horizons, designed to capitalise on this major shift in the economic landscape, fixed-income assets and carry trades put a price on time. This means continuing to invest, in particular, in hybrid financial debt, high-yield corporate bonds and carry strategies in the broadest sense. Against a backdrop of already compressed credit spreads, we believe that the relative appeal of these assets may still be fully realised, given the low probability of a recession that we assign at this stage.

Key points

- The major economies (China and the eurozone) are shifting towards a regime of low growth and persistent inflation, exacerbated by geopolitical and energy tensions, as well as structural shortages linked to AI (electricity, advanced chips, critical metals).
- The United States is maintaining solid growth, driven by consumption among affluent households and a massive cycle of investment in generative AI by hyperscalers.
- In this volatile environment, asset allocation should focus on companies linked to economic resilience and industrial sovereignty, as well as European small-caps in the wake of Europe's resurgence, whilst positioning itself in the future-oriented themes of Big Data and AI.


18
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Seeking alpha in bond markets for the second half of 2026

Alain Krief
Head of Fixed Income

As we enter the second half of 2026, the global macroeconomic environment remains key to understanding the bond markets. This environment is characterised by resilient but slowing growth, with real GDP expected to be around 2.1% in the United States and between 0.8% and 1.1% in the eurozone. This picture is, however, clouded by inflation that is proving more stubborn than expected, fuelled by tensions in the Middle East, and is forecast to reach 3.5 per cent year-on-year in the US. Nevertheless, the outlook remains broadly favourable in the medium term, supported by resilient consumer spending and fiscal stimulus measures in the major economies.

Furthermore, the divergence in monetary policy between the Fed and the ECB is the central macroeconomic theme for the second half of 2026. In the United States, the Federal Reserve has made a radical U-turn from its March forecasts of rate cuts: half of the FOMC members now expect at least one rate rise by the end of the year. For its part, the European Central Bank, having cut its rates to 2% in 2025, is facing a resurgence of energy-related inflationary risks. Despite an initial rate rise in June 2026, the institution is signalling a potentially restrictive stance should inflation persist, making duration management particularly complex across European bond segments. Consequently, **short-term rates are anchored at high levels on both sides of the Atlantic, which directly boosts the appeal of short-duration positions and encourages a focus on carry-based strategies, rather than extending duration.**

Credit markets showed remarkable resilience in the first half of 2026. Credit risk premiums (spreads) remained broadly stable despite geopolitical shocks, soaring energy prices and an increase in the supply of securities. In the United States, average credit spreads are at historically low levels: around 266 basis points for High Yield (the lowest in 25 years) and at levels not seen since 1998 for Investment Grade.

It is above all **the favourable technical environment,** driven by strong capital inflows, massive purchases by insurers and limited net supply of subordinated debt, that continues to underpin spreads. Credit fundamentals also remain solid, with rating upgrades predominating in the Investment Grade sector and default rates well below their long-term average in the High Yield sector. However, these tight valuations leave minimal room for manoeuvre in the face of potential negative surprises. In the second half of the year, **performance will no longer stem from the compression of risk premiums, but mainly from carrying the 'all-in-yield'. This situation also masks sectoral disparities as well as targeted opportunities.**

What, then, are the main opportunities in the bond markets for the second half of the year?

The short-duration corporate bond segment (2–5 years) offers an attractive risk/return profile for the second half of 2026. These strategies, commonly referred to as 'Short Duration', offer three key advantages in the current environment:

— Capturing the carry with minimal sensitivity to interest rates in a volatile rate environment,
— A roll-down effect as bonds approach maturity in an environment of a steep short-term yield curve,
— A defensive positioning against a potential widening of spreads — short-term bonds have historically experienced smaller declines in value during periods of credit stress.

Subordinated debt with short call dates is also particularly favoured over senior high-yield bonds.

Hybrid bonds issued by non-financial corporations also offer an attractive risk-return profile. Although these are subordinated instruments, they are issued by 'Investment Grade' rated companies, which gives them a structural credit floor that distinguishes them from pure high-yield bonds. They offer higher yields than 'double B' rated senior securities, despite a lower risk of default for the underlying issuers. The key characteristics underpinning the defensive beta thesis are as follows:

— Corporate hybrid bonds have outperformed senior bonds with the same rating and could continue to do so given the significant yield spreads relative to high-yield bonds during periods of moderate growth,

— The overall extension risk is limited, confirming their appeal as carry instruments,
— The primary market looks set to be buoyant, with hybrid issuance volume expected to reach at least €35 billion by 2026, supported by the bringing forward of first call dates and the need to preserve credit ratings,
— Hybrid securities in the telecommunications and utilities sectors are expected to remain among the most stable in their respective sectors.

The key strategy for the 'corporate hybrid' segment is to seek yield with a safety net, favouring structures with near-term early redemption dates in order to capitalise on falling interest rates whilst managing extension risk.

The European banking sector is entering the second half of 2026 with solid capital buffers and high profitability. The sector's fundamental environment is one of the most favourable in recent years, with CET1 ratios well above regulatory requirements and funding costs expected to stabilise in 2026.

Spreads between AT1 securities (CoCos) and senior securities narrowed to historic lows in the fourth quarter of 2025 and have since widened slightly (by around 50 basis points at the peak of geopolitical tensions in March 2026), but remain well within manageable ranges. Certain AT1 securities offering a higher yield than the bank's shares are considered attractive, and the AT1 segment as a whole is expected to be favoured, particularly high-yielding instruments. Several positive factors provide key arguments in favour of a position in AT1s:

— AT1 issuance by European banks is declining, estimated at €19bn callable in 2026 compared with €36bn in 2025, creating a negative net supply that is technically supportive,
— Banks are expected to continue repaying their AT1 securities early in 2026, supported by favourable coupon terms and a receptive primary market,
— Tier 2 bonds issued by insurers and banks in the major European economies (Germany/France) should be favoured to achieve a stable risk-adjusted return,
— Banks maintain stable credit fundamentals with an average Tier 1 ratio of 17 per cent.

Overweighting subordinated debt securities in the financial sector, with a preference for AT1 securities from issuers offering strong conviction and Tier 2 securities as a defensive alternative, constitutes an attractive strategy in the current macroeconomic environment.

In the high-yield sector, with spreads at historically low levels and significant dispersion across issuers and sectors, 'bottom-up' credit selection will be the main driver of alpha in the second half of 2026. Conversely, a passive, beta-focused approach is unlikely to generate significant excess returns.

As regards sectors, a selective approach is required, which translates into:

- An overweight position in high-yield bonds from the financial sector (subordinated bonds with solid fundamentals, benefiting from negative net supply and an attractive carry),
- An overweight position in the energy and transport sectors, supported by robust fundamentals,
- An underweight position in retail and consumer goods,
- Spreads are close to their historic lows and, despite sound balance sheets, upside potential remains limited,
- A slight underweight in the telecoms/technology sector: the widening of spreads in the first quarter of 2026, linked to concerns about disruptions caused by AI, remains a current issue, necessitating a highly selective approach.

In terms of credit ratings, we are underweighting 'CCC'-rated bonds, as the risk of default in this sub-segment is rising and their sensitivity to market volatility is very high. We favour 'BB'-rated bonds for their defensive carry, as well as, on a selective basis, 'B'-rated bonds.

'Single B' is undoubtedly the main driver of alpha for the second half of 2026. This category is currently the most attractive for active positioning, as it has underperformed all higher-rated segments since the third quarter of 2025, creating a significant valuation gap.

Single-B-rated bonds have spreads of around 200 basis points above BB-rated bonds and a yield spread of around 10 per cent relative to all higher-rated categories, making them the cheapest rating on a normalised basis. Since the announcement of the ceasefire at the end of March 2026, they have led the rebound in the euro-denominated high-yield market, with their spreads narrowing against the BBB and BB segments, whilst retaining the potential to catch up to pre-war or end-2025 levels.

They therefore represent the preferred vehicle for adding beta within the euro high-yield bond segment. The risk/return profile associated with increased exposure to 'B'-rated securities improves significantly in a scenario of geopolitical de-escalation, where euro high-yield spreads could narrow considerably.

In summary, sector selection and issuer-specific convictions now replace index beta as the main driver of returns.

Emerging market corporate bonds are among the most attractive opportunities for the second half of 2026, combining high carry, improving fundamentals and relative protection against volatility in developed markets. Several structural factors support emerging market high-yield corporate bonds:

- Default rates at the lowest point in the cycle: we anticipate a default rate of around 3% in 2026, the lowest level since 2019,
- High carry in US dollars: high-yield bonds offer a yield of around 7% in USD, a historically high level,
- Improving credit outlook: aggregate sovereign ratings for emerging markets have been recovering since their low point in 2022, whilst corporate fundamentals remain solid,
- Diversification against developed market volatility: emerging market credit has benefited from attractive relative valuations compared with developed markets, thereby attracting investor inflows,
- Latin American high-yield bonds: value opportunities within certain low-rated high-yield bonds (Argentina, Ecuador, Venezuela).

The main risks to watch remain geopolitical escalation, the strength of the US dollar and idiosyncratic credit risks. Against this backdrop, it is recommended to move away from pure beta by favouring the economies most resilient to the energy shock. The 'BB' category within emerging market credit thus constitutes the core allocation, with country selection being the main driver of performance given the high level of dispersion.

Overall, our key message for the second half of 2026 is simple: credit remains a segment to favour, but the era of easy 'beta' returns is over. Seeking carry through short-duration securities, subordinated debt, corporate hybrids and, selectively, emerging market high-yield bonds, combined with rigorous issuer selection, is now the key to outperformance.

Key points

- Against a backdrop of persistently high short-term interest rates on both sides of the Atlantic, the appeal of short-duration positions is heightened, which favours strategies focused on carry rather than on extending duration.
- The 'carry' and rigorous security selection, particularly in the 'single B' segment, will therefore be the main drivers of performance in the second half of the year.
- European subordinated debt (AT1/T2), corporate hybrid bonds and the 'BB' segment of emerging markets offer an attractive risk/return profile.

Game-changing investment supercycles

Caroline Gauthier
Co-Head of Equities

Whilst investors' attention remains largely focused on US technology, European equities are continuing their quiet revolution. With a return of around 10% in the first half of the year, they have once again demonstrated their considerable resilience in a macroeconomic environment broadly affected by the shock of the conflict in the Middle East.

This resilience is largely due to a wave of investment (Capex) on a scale not seen for multiple decades, affecting multiple sectors of the economy simultaneously. Artificial intelligence, electrification, infrastructure and defence are all catalysts that are already driving the business of many companies.

Even more than their scale, these investments stand out for their duration. Driven by imperatives of sovereignty, energy security and competitiveness, they offer many listed companies exceptional visibility, regardless of the traditional economic cycle. In our view, this combination of four supercycles is one of the main drivers of European equities for the years to come.

Europe at the heart of four capex supercycles

Beneath the surface of a domestic economy that has virtually ground to a halt, a two-speed Europe is taking shape: on the one hand, a Europe that is stalling, with depressed consumption, residential construction at an all-time low and sectors such as the automotive and chemicals industries in dire straits; on the other, a Europe driven by powerful megatrends, which are underpinning corporate earnings (expected to rise by 17%[1] this year despite sluggish GDP growth).

[1] MSCI EMU index

The drivers lie primarily in the combination of four investment supercycles that are either already in place or gaining momentum.

The first supercycle is that of artificial intelligence. The capex boom driven by US hyperscalers is benefiting the entire global value chain. Several European players, including ASML, Besi, Prysmian and Schneider[2], occupy a strategic position within this sector thanks to their global leadership in semiconductor equipment, cables and electrical infrastructure. Whilst the first wave of construction has mainly taken place in the United States, investment is expected to gradually extend to Europe. The European Union has therefore set itself the target of tripling its data centre capacity in the coming years.

The second supercycle is that of electrification. At the crossroads of climate, industrial and geopolitical challenges, it is now a strategic priority for Europe.

By 2030, European electricity demand is expected to rise by more than 10%, representing an additional 300 TWh – the equivalent of Italy's annual consumption. Admittedly, data centres are expected to account for around 10% of the growth in electricity demand according to the IEA (International Energy Agency), but they are clearly not the main driver of electrification. The need for investment in the grids was already considerable before the rise of AI, driven by transport, industry and heating, and has only been exacerbated by recent geopolitical tensions.

The main challenge no longer lies in electricity generation itself but in adapting the grids. These will need to be modernised, digitised and reinforced in order to integrate more decentralised and variable power flows. According to the European Commission, more than €1,200 billion in investment will be required by 2040, representing a doubling or even a tripling of the current rate.

The third supercycle concerns infrastructure. Whether it be the new energy corridors that need to be redesigned in the wake of the war in Ukraine, water networks, transport infrastructure or ageing bridges and tunnels, the investment needs are considerable.

Germany's €500 billion plan over twelve years is emblematic of this trend, but it forms part of a much broader movement. The NextGenerationEU and RePowerEU programmes, along with numerous national initiatives, are already supporting the roll-out of projects across the continent (notably in Italy, the Netherlands and Eastern Europe).

After several decades of underinvestment, physical infrastructure is now seen as a matter of both competitiveness and sovereignty. This need for modernisation provides sustained support for businesses active in construction, materials and services.

The fourth supercycle is that of defence. With expenditure potentially reaching 3% of GDP – or even 5% when dual-use civil and military infrastructure is included – Europe is embarking on an investment drive that should provide long-term support for the growth of

[2] Information on securities should not be construed as an opinion by the Edmond de Rothschild Group on the foreseeable performance of such securities or, where applicable, on the foreseeable performance of the price of the financial instruments they issue. This information does not constitute a recommendation to buy or sell these securities. The composition of the portfolio is subject to change over time.

industrial, technology and defence companies for decades to come, even if the Russia-Ukraine war were to end.

The question of how to finance these investments is, of course, central. Governments will not be able to shoulder such an effort alone. The use of joint European funding could therefore continue to develop, possibly within the framework of the much-desired Capital Markets Union, to access and better channel European savings.

The private sector is also a vital part of the equation. With a record €1,500 billion of annual deployed cash, European companies (STOXX 600 ex-financials) have a significant investment capacity. Investment expenditure by Industrials European companies could grow by 4.5% per year by 2029, a rate well above the historical trend of +0.5%[3].

New cycles are already taking shape

Without necessarily speaking of new 'supercycles', new investment cycles could emerge around certain links in the value chains. **As bottlenecks arise and issues of strategic dependence intensify, certain sectors could in turn benefit from an acceleration in investment, sometimes supported by more favourable regulation.**

To meet the needs of electrification, infrastructure and defence, Europe will need to secure its supply of strategic raw materials. The production of copper, steel, lithium and rare earths is therefore expected to play an increasingly important role. The entire value chain is affected: extraction, refining, processing and recycling. Certain recent regulatory developments, particularly those favouring the European steel industry, already illustrate this growing awareness.

Energy production could also see the emergence of a new investment cycle that could benefit players in the oilfield services sector. Geopolitical tensions in the Middle East have served as a reminder of the importance of geographically diversifying supplies and have highlighted the consequences of several years of underinvestment.

Finally, after years of successive delays, the ageing of European production equipment has reached levels in certain sectors that are difficult to sustain. Whether it be aircraft fleets, industrial vehicles, construction equipment or certain types of medical equipment, many assets will need to be replaced over the coming years.

In other words, the four current supercycles may be merely the first stage of a broader trend towards reinvestment in the real economy.

How should one invest in this transformation?

The market consensus has already largely settled on the main beneficiaries of these themes. Defence was the first sector to surge, before pausing whilst awaiting the fulfilment of order books. Companies in the semiconductor, electrification and utilities sectors then followed suit.

Much of the market's exposure to these themes is now reflected in valuations that leave little room for disappointment regarding the pace of growth or the execution of projects.

[3] Goldman Sachs, june 2026.

Occasional rotations towards high-quality stocks that have remained on the sidelines of these megatrends – such as those in consumer goods, software or real estate – would therefore come as no surprise.

However, we do not believe that these movements will undermine the underlying momentum. The megatrends are in full swing and continue to provide sustained support for the results of the companies involved, as well as their long-term stock market performance.

In this context, selectivity will be crucial. The major investment themes are now largely recognised by the markets, but the future beneficiaries are much less so. The most attractive opportunities could emerge within value chains, in companies whose exposure to these supercycles remains underestimated.

Stock-picking therefore appears to be the best way to capitalise on this transformation. **The Mission Europa strategy, centred on European economic sovereignty, enables investment in several of the themes mentioned through four pillars: energy competitiveness, security and defence, innovation and financing.**

Small and mid caps also represent particularly fertile ground. Often less closely monitored and more attractively valued than large caps, they frequently occupy essential niche positions within European and global industrial value chains. Their exposure to these various investment cycles offers potential that is still insufficiently recognised by the market.

In conclusion, a new era of investment is emerging, and future major investment cycles could thus be more firmly rooted in the physical world (industry, advanced materials, defence, infrastructure or energy), where Europe possesses real strengths. More fundamentally, these dynamics could mark a paradigm shift by restoring strategic value to certain assets, infrastructure and industrial know-how that investors had gradually ceased to value. Might the big surprise of this decade be that Europe's 'old economy' could once again become, at least in part, an asset for the future?

Key points

- Europe is taking steps to restore strategic and sovereign value to its industrial base.
- The convergence of investment supercycles is creating the conditions for visible and sustainable growth in the earnings of European companies.
- The 'old economy' could once again become an asset for the future.

AI: Will semiconductors remain the centre of gravity?

Xiadong Bao
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International Equities

There are times when the market shifts not just its leader, but the very question at stake. For the past two years, the answer has been simple: to gain exposure to AI, you had to invest in the underlying infrastructure. GPUs, HBM, foundries, advanced packaging, optical interconnects, data centres, energy. The market was not yet seeking to identify where AI would create the most end-user value; it was primarily looking to see who controlled the infrastructure.

SpaceX's listing illustrated this dynamic. This multi-trillion-dollar IPO above all confirmed the power of retail investment flows: now valued at 2.4 trillion dollars, the company gained around +19 per cent on the first day, then a further +19 per cent the following session, turning its IPO into an immediate victory for early buyers. Trading remained very buoyant in the sessions that followed. What matters is not so much the volatility as the symbolism: investors are willing to value strategic infrastructure – launch capabilities, satellites, connectivity, orbital transport – as a technology mega-cap. In the space of a week, 11 leveraged ETFs/ETPs linked to SpaceX are reported to have already accumulated nearly $3.5 billion in trading volumes, with assets under management approaching $1 billion.

SpaceX is often regarded as a strategic asset comparable, in the modern economy, to the East India Company (EIC) during the era of great maritime exploration. The analogy is imperfect, but it remains illuminating. The EIC's power did not stem solely from the trade in goods; it was rooted in its control of trade routes, ports and logistics, as well as state support.

SpaceX now occupies a position in space that echoes this logic: launch cadence, reusable rockets, Starlink, Starshield, defence programmes, and now the orbital data centre project – an attempt to extend the logic of space infrastructure to AI compute, even if the economics of this model remain to be demonstrated. This is not merely a growth enterprise but an infrastructure of sovereignty.

The parallel with AI is clear. In the early stages of a technological revolution, the profits go first to those who build the roads. In AI, these roads are semiconductors, memory, foundry capacity, server racks, megawatts and networks. The market has therefore rewarded capacity providers before rewarding end-users. This makes sense: without compute, there is no model; without HBM, there are no high-performance GPUs; without energy, there are no data centres; without a network, there is no large-scale inference.

The breakdown of the profit pool for AI-related semiconductors makes this logic almost mechanical. Out of an estimated global net profit of over $600 billion in 2026, the United States is expected to capture around $314 billion, South Korea $223 billion, Taiwan $47 billion, mainland China $26 billion, Japan $14 billion and Europe $14 billion[1].

This industrial map closely resembles a stock market performance chart: where the profit pool is concentrated, capital flows follow; where scarcity is evident, valuations rise.

The breakdown by company is even more telling. Nvidia alone is estimated to account for around $207 billion, representing nearly two-thirds of the US profit pool for AI semiconductors. South Korea has become a two-horse race in HBM, with SK Hynix at around $113 billion and Samsung Memory at around $109 billion. Taiwan remains dominated by TSMC, reflecting the foundry's role as a key bottleneck. In the US, Micron provides exposure to memory, whilst Broadcom offers exposure to ASICs and networking. In Europe, ASML remains the critical node for lithography[2].

So far, the message has been simple: the centre of gravity of AI lay not in the applications, but in the physical stack. The market was not rewarding 'AI' in general, but rather the bottlenecks. This is what drew index weightings, passive flows and active risk budgets towards the same names. The market was following the profit pool.

But the next stage could be less linear. Agent-based AI is changing the nature of demand. It is not limited to a one-off query in a chat interface. It introduces agents that work, iterate, write code, call tools, verify, correct and execute workflows. The consumption of tokens is becoming more continuous, more voluminous and harder to predict. For semiconductors, this is a clear boon: more agents mean more compute.

[1] Source: Edmond de Rothschild Asset Management (France).
[2] Information on securities should not be construed as an opinion by the Edmond de Rothschild Group on the foreseeable performance of such securities or, where applicable, on the foreseeable performance of the price of the financial instruments they issue. This information does not constitute a recommendation to buy or sell these securities. The composition of the portfolio is subject to change over time.

But it also marks the start of another debate. If agent-based AI finally enables genuine monetisation – software productivity, process automation, improved diagnostics, accelerated medical research, better utilisation of proprietary data – then the market could begin to re-evaluate other links in the chain. Orchestration software platforms, verticalized software companies with domain specific data could regain some of the attention currently captured by semiconductors.

This is particularly true in healthcare. Models become more useful when they encounter rich data, complex workflows and use cases with high economic value. Diagnostics, drug design, clinical trials, medical documentation, compliance, patient relations, laboratory productivity: in these areas, AI is not merely a support layer. It can become a driver of efficiency integrated into the production system. Companies that possess the data, customer relationships and business expertise could then capture more sustainable value compared to mere distributors of generic tools.

The same logic applies to vertical software. Generating code is becoming less and less of a differentiator; building a reliable, integrated, secure and monetisable product remains crucial. Veeva in healthcare, Workiva in regulatory documentation, IQVIA in medical data, CCC in insurance[2]: these companies do not merely sell software. They sell a deep understanding of a sector, proprietary data, critical workflows and an established distribution network. Agent-based AI can enhance this value rather than destroy it.

The central question therefore becomes: will semiconductors remain the centre of gravity, or will they merely become the first stage of a broader cycle? The answer will depend on monetisation. If tokens remain primarily a cost, the scarcity of compute will remain the dominant narrative. If, on the other hand, tokens become revenue, then margins, then free cash flow for end-users, the market will gradually shift some of its focus towards software, platforms and data owners.

This shift does not mean that the semiconductor theme is over. On the contrary, agentic AI can extend the capex cycle. The figures cited by Hon Hai highlight the industrial scale of the issue: a 1 GW Nvidia Vera Rubin data centre would cost nearly $47 billion, with an annual electricity bill of around $1.3 billion. We are not talking about a lightweight software cycle, but a capital-intensive, energy-hungry cycle, often financed by debt.

This is where ROIC becomes central once again. In the short term, the market is favouring scarcity: GPUs, HBM, CoWoS, data centres, electricity. In the longer term, it will judge the ability to convert capital expenditure into cash flow. Some hyperscalers may temporarily accept negative free cash flow to pre-fund future demand. But if credit windows close, rational players will have to return to a sustainable balance sheet before their competitors do.

The right strategy is therefore neither to sell semiconductor stocks too early, nor to believe that they will remain the sole focus. A distinction must be made between the primary beneficiary of the revolution – capacity – and the secondary beneficiaries – monetisation. Today, scarcity remains on the side of silicon, memory, foundry capacity and energy. In the future, if agent-based AI delivers on its promises, scarcity could also shift towards data, workflows and distribution.

For the time being, the market functions primarily as a voting machine: it votes for the visible constraints. But the weighing machine will return. It will weigh tokens converted into revenue, revenue converted into margins, and margins converted into free cash flow. In this transition, semiconductors will likely remain the bedrock of the cycle, but no longer necessarily its sole centre of gravity. The next phase of AI will not involve abandoning the infrastructure, but identifying which players, above that infrastructure, actually manage to transform usage into value.

Key points

- Just as with SpaceX compared to the East India Company, the market initially rewards those who control "the routes" and the physical stack (GPUs, HBM, foundries, etc.), thereby concentrating the bulk of the global profit pool on those who hold this capacity.
- The emergence of agent-based AI is reshaping demand by creating massive, autonomous workflows. The market's centre of gravity could shift from chips towards vertical software (healthcare, insurance) and holders of proprietary data.
- The right strategy is neither to exit the semiconductor sector too early, nor to bet that it will remain the sole centre of gravity for AI. However, we must shift towards the second phase of the revolution by identifying the players capable of monetising usage and converting agentic AI into real free cash flow.

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