Desjardins
Global Asset Management

Market Outlook | Top-Down Approach

July 2026

Summary

GLOBAL OUTLOOK	Macroeconomic environment ⬆	Market valuation ➡	Investor sentiment ➡
December 31, 2025	+	- -	- -
March 31, 2026	-	- -	- -
June 30, 2026	**+**	**- -**	**- -**

REGIONAL OUTLOOK (in relative terms)	Macroeconomic environment	Market valuation	Investor sentiment	Regional valuation
North America	+	- - -	- -	- - -
Europe	+	+ +	+ +	+ +
Asia-Pacific	-	+	+	-
Emerging markets	-	Neutre	-	+ +

Source: DGAM as at June 30, 2026. The first table summarizes DGAM's subjective assessment of the macroeconomic environment, market valuation and investor sentiment with respect to the equity markets in general as at the dates indicated (the assessment can range from triple-negative to triple-positive). The second table presents an assessment of each region in relative terms.

Ignore today’s behavioural regime at your peril

The advent of discount brokerage platforms in the mid-1990s revolutionized investing by democratizing access to the markets and slashing transaction costs. Retail participation in the stock market soared to record levels – a phenomenon that the Federal Reserve attributed to recent high returns and the technological revolution in progress. Today’s context is similar.

Despite the democratization of the markets, a succession of shocks from 2000 to 2012, such as the bursting of the tech bubble, the global financial crisis, and the European debt crisis, put a damper on retail investors’ appetite for equities. But, over the past dozen years, nothing has shaken their confidence. Brexit, a global pandemic, inflation, a trade war, major armed conflicts, an energy supply shock – nothing fazes them.

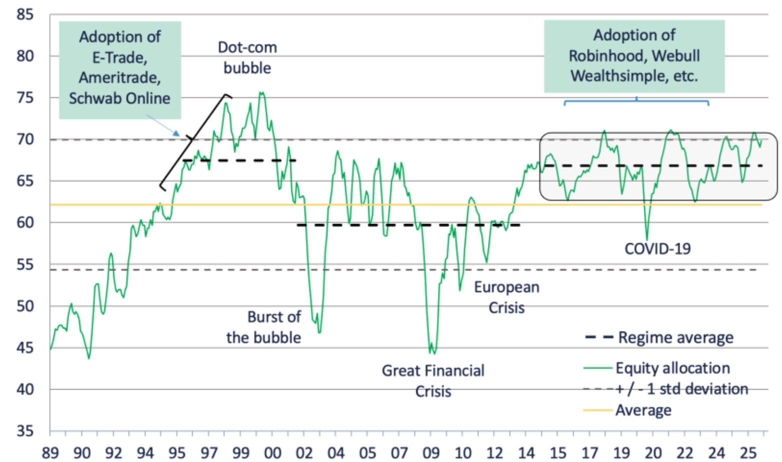
This behavioral regime seems to be fuelled by instant access to the markets through mobile apps, a sense of invincibility boosted by recent returns, social media, influencers, and gamification of the markets. According to JPMorgan Chase, the number of brokerage accounts and the flow of money directed into them has exploded. The number of 25-year-olds with a brokerage account has increased sixfold since 2015, and retail investment flows rose by 50% from 2023 to 2025.

The sharp increase during the pandemic was due partly to a substitution effect; sports betting was impossible and casinos were closed. The phenomenon was no doubt amplified by the ease with which speculators and investors could trade on user-friendly platforms that charged no commissions. The social aspect of gambling (Keynes [1936] and Shiller [2000]) also contributed, in a context where investors were in lockdown and receiving government stimulus cheques.

The exuberance subsided temporarily when things got back to normal after the pandemic, but returned with a vengeance in 2024, driven by the artificial intelligence (AI) craze, meme stocks touted by influencers, gold, cryptocurrencies and the momentum of many financial assets.

Retail Investors Equity Allocation - United States

As a % of financial assets



Sources: DGAM, American Association of Individual Investors, June 2026

Monthly share of people investing and average investment amount

Sources: JPMorganChase Institute, June 2026

Are we witnessing a classic late-market symptom?

Bouts of euphoria fuelled by enthusiastic retail investors put a strain on the investment processes of professional managers. The increased participation of individuals and their mass movements push the prices of some assets far beyond their fundamental value. In contrast, a manager's mandate is based on disciplined principles grounded in fundamental analysis, diversification, and risk management – approaches that stand the test of time but are challenged by the current behavioural regime.

Has the investment world changed definitively with the greater role of individuals? History suggests otherwise. In 1776, Adam Smith described the excesses of overtrading linked to the entry of new players attracted by high profits. A century earlier, Joseph de la Vega made the same observation about speculators on the Amsterdam Stock Exchange. In 1936, Keynes showed how collective psychology can lead to speculative dynamics detached from fundamentals. And, in 2000, Robert J. Shiller wrote that "news of price increases spurs investor enthusiasm which spreads by psychological contagion from person to person … bringing in a larger and larger class of investors."

It's easy to conclude that social media are amplifying this phenomenon today. Influencers act as narrative vectors that accelerate the contagion effect via pack behaviour and social affirmation of risk taking.

The rise of retail investors as a classic late-market symptom has been amply documented for more than three centuries. What sets today's episode apart isn't the nature of the phenomenon, but the speed at which it propagates and the scale of the financial flows it generates.

History also reminds us that although individuals enter the stock market in a gradual, fragmented manner, their exits tend to be reactive and synchronized.

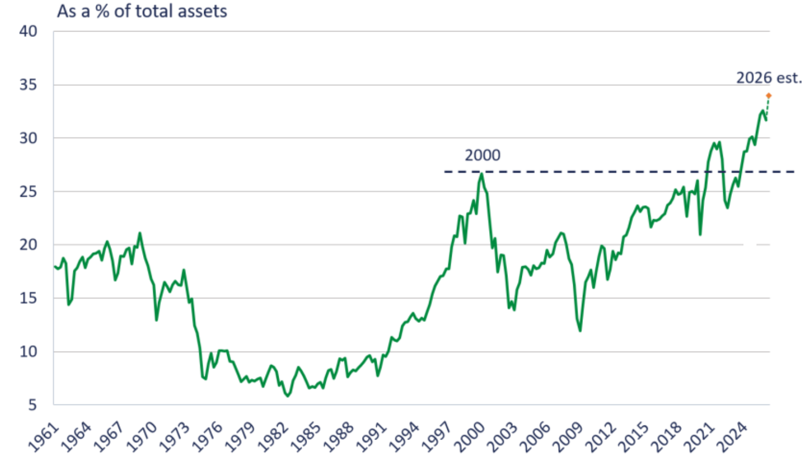
Consumer Confidence vs. Optimism Toward Equities - U.S.

% expecting a market increase over the next 12 months

Sources: DGAM, Conference Board, U. of Michigan, LSEG, June 2026

Households Holdings of Equities - United States

As a % of total assets



Sources: DGAM, Federal Reserve, June 2026

Consensus: The end of the war changes the outlook

Just before the announcement of a Middle East peace deal, forecasters estimated that the United States and the euro zone would be the areas most affected by the repercussions of the Iran war. Since the start of the conflict, the 2026 growth forecasts for these markets have been revised downward by 0.5% and 0.6%, respectively. As for inflation, it has been revised upward by 1.0% for the United States and 1.1% for the euro zone.

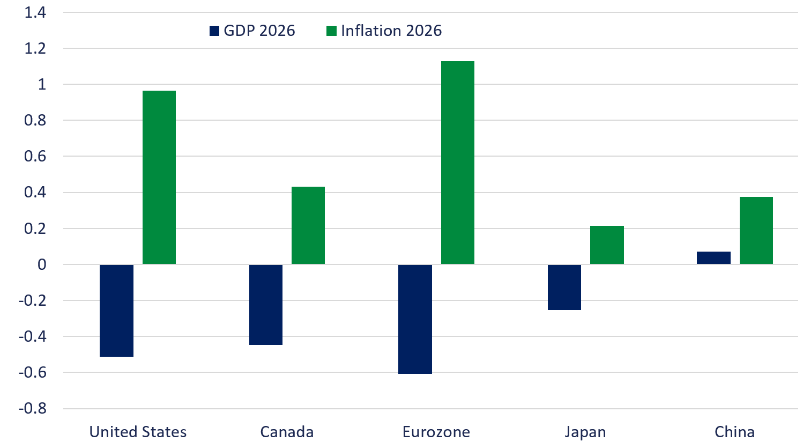
Inflationary pressures caused by the closure of the Strait of Hormuz forced the European Central Bank (ECB) to raise its key interest rate in June for the first time since 2023. As for the United States, the money market was pricing in at least one rate hike from the Federal Reserve by year-end.

In Asia, the revisions have been much more modest, although it is the region most dependent on energy from the Strait of Hormuz.

The June announcement of the end of the conflict, if it holds, improves the outlook by reducing uncertainty, particularly over inflation, with the gradual restoration of the supply chain. The speed at which the economy gets back to normal will be key.

Forecasts Revisions to GDP Growth and Inflation

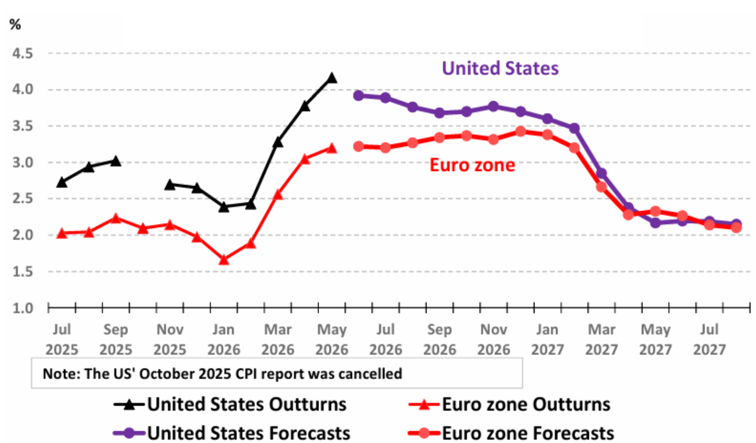
Changes in forecasted growth & inflation since February 2026



Sources: DGAM, Consensus Economics, June 2026

Monthly Inflation Profiles

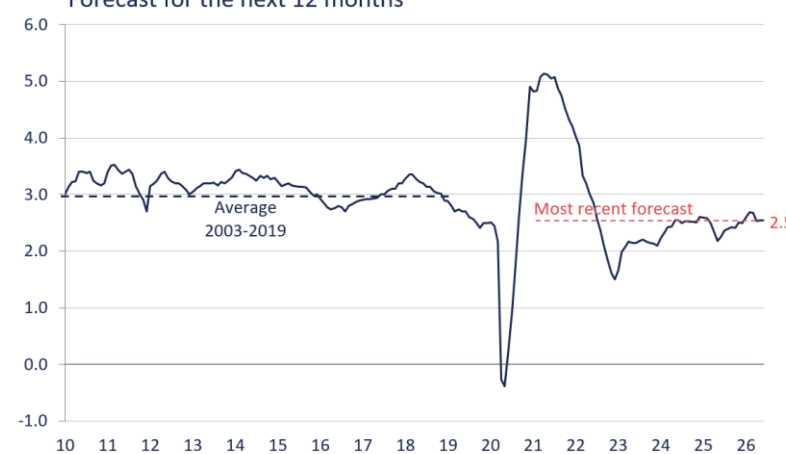
United States vs. Euro zone



Source: Consensus Economics, June 2026

Evolution of Forecasted Economic Growth - World

Forecast for the next 12 months



Sources: DGAM, Consensus Economics, June 2026

United States: Everything hinges on the wealthiest 10% and on data centres

The U.S. economy essentially rests on two pillars today: investment in data centres and the wealthiest 10% of consumers. Elsewhere, growth is anemic.

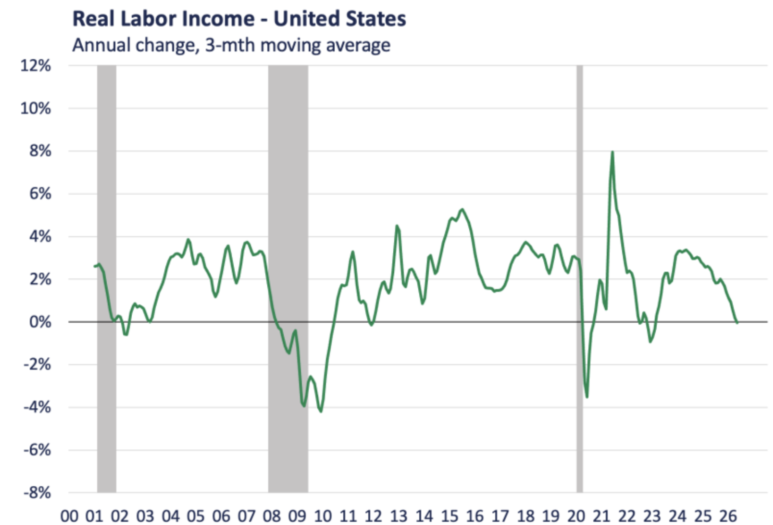
The personal savings rate has fallen to its lowest level since 2008; a sign that consumers have had to tighten their belts this year to maintain their spending. The tough job market and the decrease in government transfers in an inflationary environment have caused real incomes to fall – a phenomenon generally seen in times of recession.

The wealthiest households, whose spending tends not to be cyclical, have played a key role in maintaining consumption. Their growing share of total spending, at almost 50%, testifies to the sustained increase in income disparity in the United States. But an economy without a middle class is more fragile.

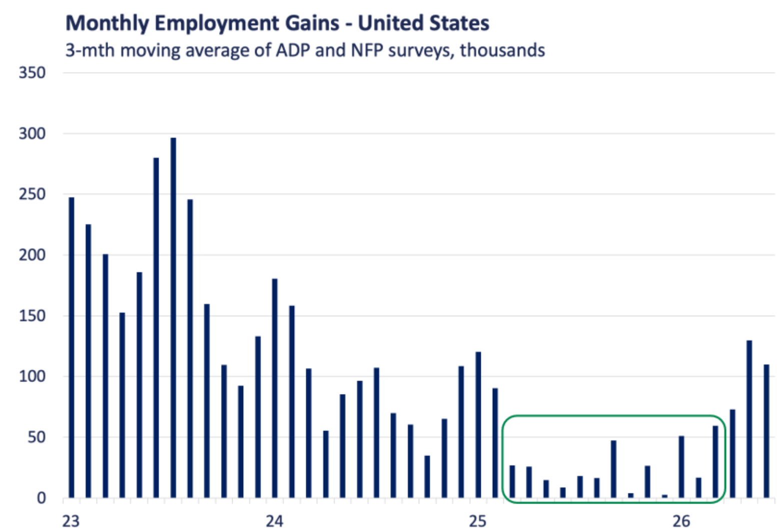
That being said, the labour market has been sending out more constructive signals in recent months. Layoff announcements have moderated, hours worked are rising, and net job creation picked up in the spring. Business surveys also confirm that the employment situation is improving.

After a year-long slump in the wake of Liberation Day and the imposition of import taxes, during which job creation was almost nil, monthly job gains averaged 110,000 in the second quarter according to the ADP and NFP surveys. This rate is close to the norm of 150,000 jobs a month observed since 2010.

This new context puts the final nail in the coffin of monetary easing expectations in the United States but heralds better days for all consumers.



Sources: DGAM, BEA, LSEG, June 2026



Sources: DGAM, LSEG, June 2026

United States: No signs of a manufacturing renaissance

Business investment in technology, primarily in data centres and related infrastructure, is the only segment of capital spending that is growing. Investment in machinery and in commercial, industrial, and residential buildings has contracted or is at a standstill.

We see no signs of a manufacturing renaissance. The low utilization rate of existing production capacity doesn't justify new investment, and the occupancy rate of industrial buildings is also low. The same can be said of retail and office space.

If spending on technology slows, which is inevitable, the stock market, which is pricing in endlessly strong demand for semiconductors and processors, could wobble, undermining the wealth effect of the most affluent households.

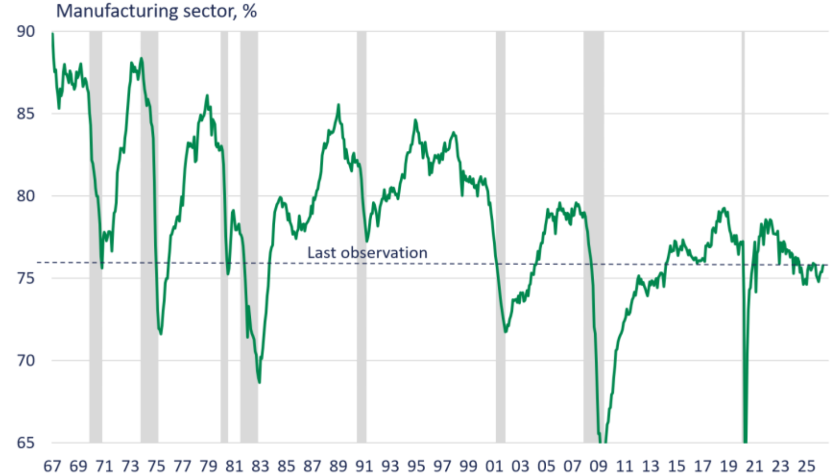
Such concentrated growth is fragile. More diversified drivers will be needed to support the economy over the medium term.

Uncertainty over tariffs, the Middle East conflict, fuel prices, and immigration have weighed heavily on the business climate as well as hiring and investment plans (excluding data centres) for just over a year. A period of calm would certainly help diversify and strengthen sources of growth. As the midterm election approaches, the Trump administration may decide to play it safe by taking a break from its uncertainty-based strategy. Ending the war in Iran is a first step, but renewal of the free trade agreement with Canada and Mexico (ACEUM) would also be welcome.

As with employment, business surveys show some recovery in investment intentions. This fragile recovery will obviously depend on business leaders' visibility across sales, supply chains, and costs. In short, it will depend largely on the government's trade and foreign policies.

Capacity Utilisation Rate - United States

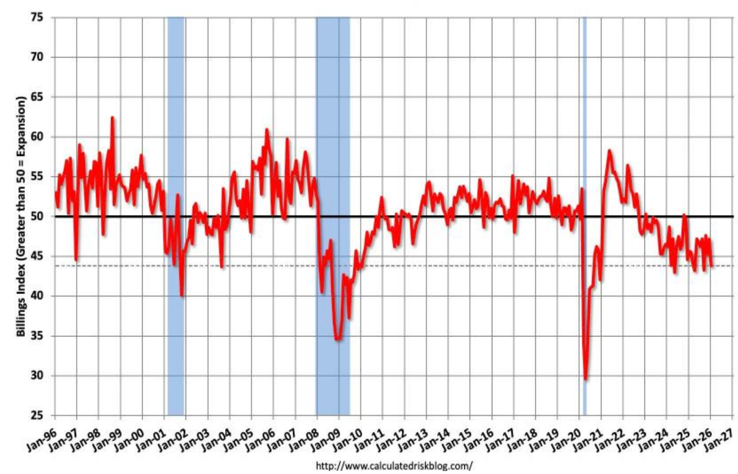
Manufacturing sector, %



Sources: DGAM, LSEG, June 2026

Architecture Billing Index

American Institute of Architects Index



Source: American Institute of Architects, June 2026

Canada: Without visibility, companies hold back on investment

Canada has been going through challenging economic times since the spring of 2025, with GDP growth declining in three of the past four quarters. The weakness is due mainly to trade tensions with the United States and the uncertainty they cause for companies. With little visibility on the future, business leaders are postponing or cancelling their investment projects and hiring plans.

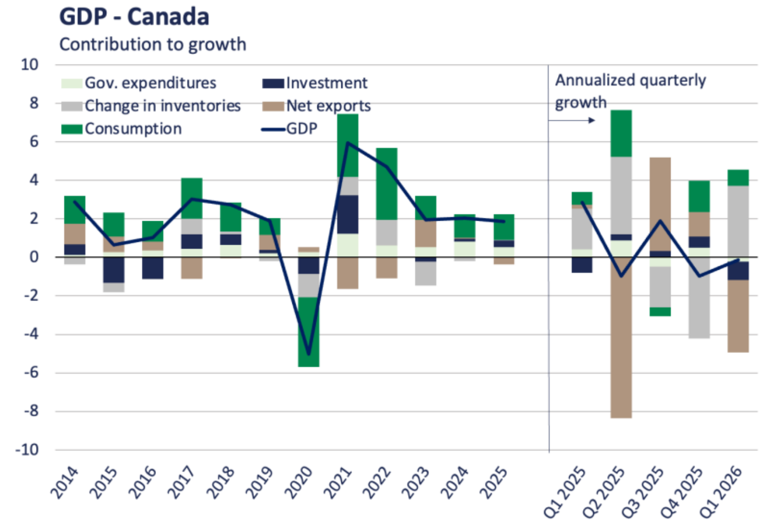
Their hesitancy is clear from the decreased investment in buildings and structures as well as in machinery and production equipment.

As for the job market, employment has been stagnant for almost a year, as companies hold back on hiring. Employment in the manufacturing sector, a target of the U.S. administration, contracted throughout 2025 but seems to have improved recently.

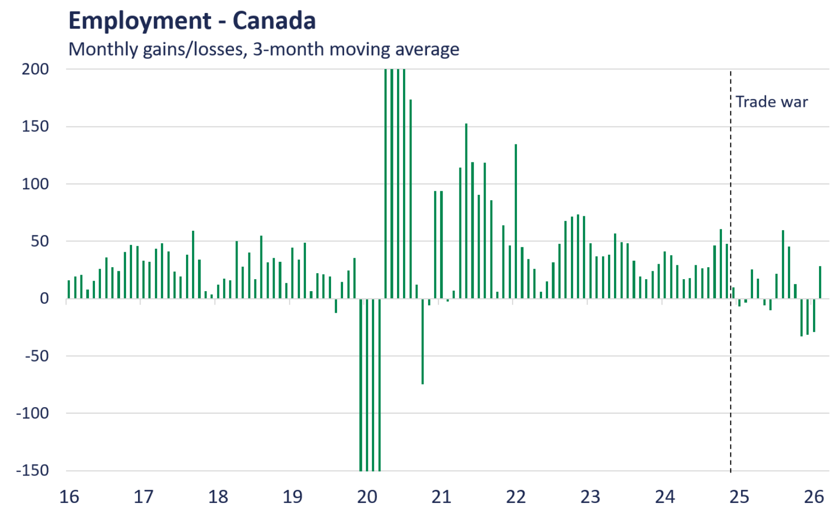
Despite labour market uncertainty and a decline in Canada's population for the first time since 1946, household spending has held up. Consumption of services and nondurable goods is showing robust growth. In contrast, the residential sector and purchases of durable goods are still weak, reflecting households' reluctance to make major purchases.

Even though Canada is trying to diversify its trading partners through agreements with countries in Europe and Asia, the United States is still by far its top partner.

Smooth, constructive negotiations on the renewal of CUSMA could help ease trade tensions and reduce uncertainty. In this context, a pick-up in business investment and hiring would pave the way for a resumption of growth.



Sources: DGAM, Statistics Canada, June 2026



Sources: DGAM, LSEG, June 2026

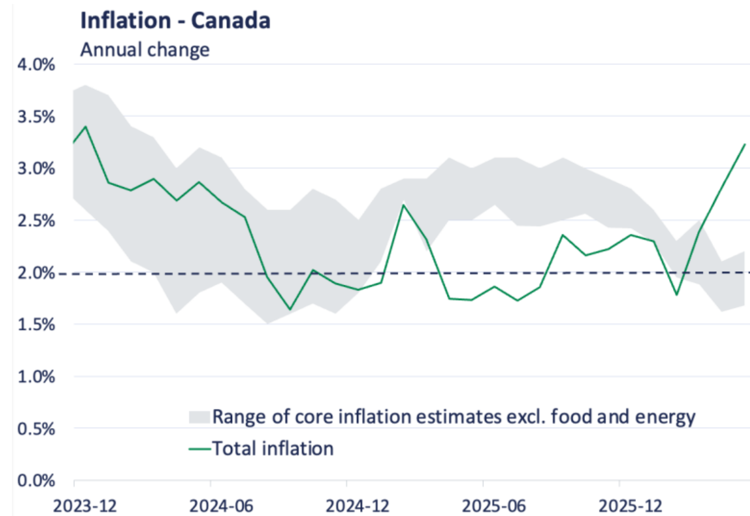
Inflation and interest rates: growing divergence between Canada and the United States

Headline inflation in Canada was up sharply over the past year, from a low of 1.7% to 3.2%. The acceleration was due mainly to the spike in energy prices, which more than offset the slowdown in several other components of the services-related price index. Services inflation continued to moderate, particularly in housing, previously a major source of inflationary pressures in Canada.

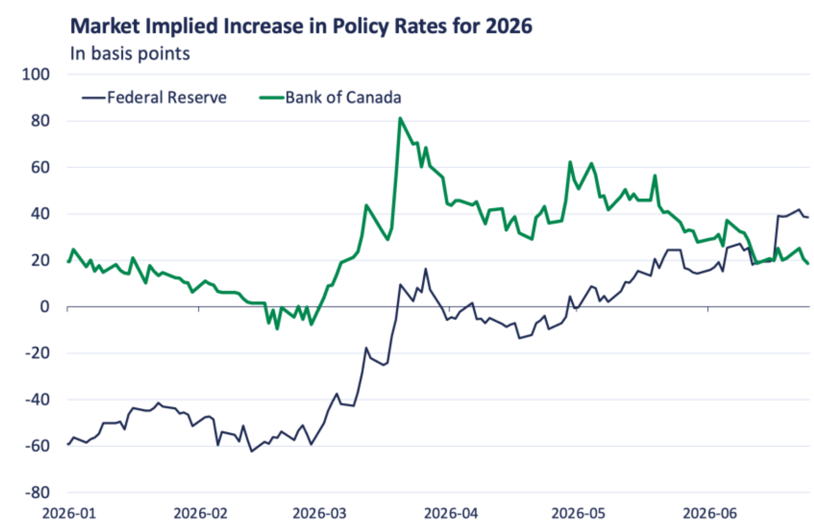
Thus, despite the rise in headline inflation, the core inflation metrics remain much more contained. They are now in a range of 1.7% to 2.2%, versus 2.5% to 3.1% last year. This significant deceleration in the core metrics suggests domestic inflationary pressures continue to ease.

This situation reflects a Canadian economy that is still in a period of oversupply. Soft domestic demand, a weak labour market, and a deceleration in core inflation justify the Bank of Canada's keeping its policy rate at the lower end of the estimated neutral range.

This picture contrasts with that of the United States. After a slump, the U.S. economy appears to be regaining strength, with a stronger acceleration in both headline and core inflation. The divergence affects monetary policy expectations. At the end of June, Canada's money market was pricing in a little less than a 25-basis-point hike by year-end, as was the case in January. In the United States, expectations have been revised upward: The market has gone from expecting more than two cuts in the key rate to just over one hike this year.



Sources: DGAM, Bloomberg, June 2026



Sources: DGAM, Bloomberg, June 2026

Europe: The end of the Iran conflict significantly improves the outlook

Exports have been detracting from Europe's economic growth since the Trump administration launched its trade war in the spring of 2025. Domestic demand temporarily offset this external shock, but rising uncertainty and soaring energy prices eventually weighed on confidence in 2026, leading to a sharp slowdown in consumption and investment.

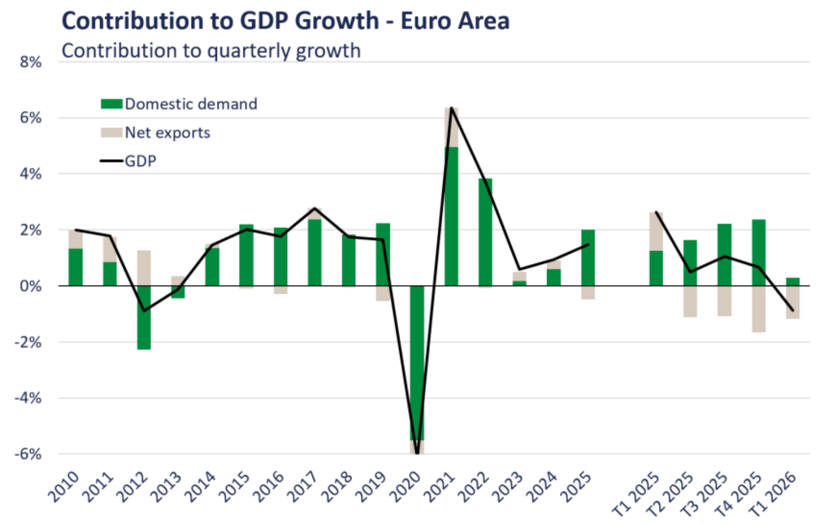
Despite soft demand, the ECB decided it had to raise its key rate to prevent energy costs from driving up the prices of goods and services generally. In May, inflation stood at 3.2%, well above the central bank's 2% target.

The end of the war in Iran and the reopening of the Strait of Hormuz are, therefore, a game changer that significantly improves the European outlook.

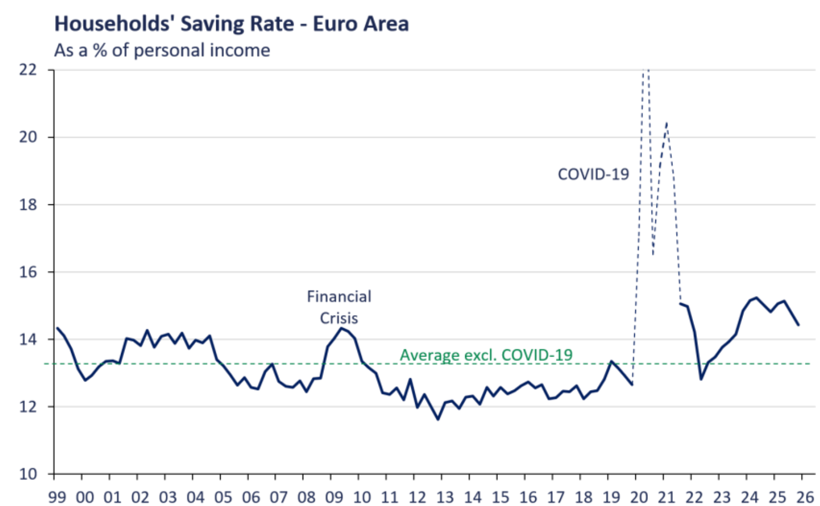
As for consumption, there is latent demand among households. Amid the uncertainty of recent years, they've shown a great deal of restraint: Since 2024, the savings rate has been significantly higher than the historical norm. If confidence returns with the decline in energy prices and inflationary pressures, they will be more inclined to spend.

In terms of investment, a less uncertain global environment and lower energy prices will be supportive. If the German authorities manage to catch up on their infrastructure and rearmament program, the multiplier effect could be significant for business investment. Speed of execution will be key.

Given that the euro zone's growth expectations are modest, at 0.8% for this year and 1.2% for 2027, we see the potential for an asymmetric reaction to a positive surprise. A cyclical rebound, even a moderate one, will exceed forecasters' expectations.



Sources: DGAM, Consensus Economics, June 2026



Sources: DGAM, LSEG, June 2026

Asia: The beating heart of the AI technology cycle

Asia is the beating heart of a major technology cycle fuelled by the race to invest in AI. Are we witnessing a classic cycle of overinvestment and double or triple orders placed with semiconductor and memory manufacturers? Probably, but for the time being there are no signs that demand is slowing. We're most likely in the phase of overheating and rising prices, and Asian manufacturers are taking full advantage of it.

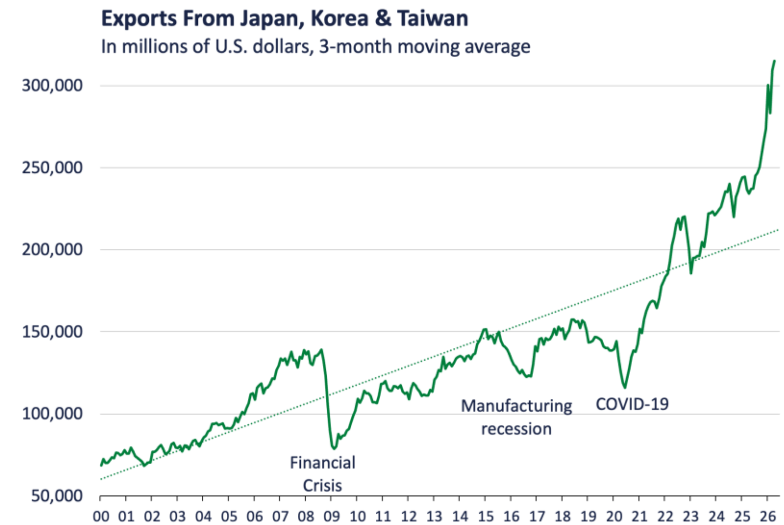
Volumes of computer equipment exports are rising, but it's mainly the surge in memory prices that has caused the value of exports to skyrocket. For example, the value of total exports by South Korea, the world's largest memory producer, has risen by more than 50% over 12 months, an unprecedented amount.

Although Japan's exports are more diversified, it too is benefiting from the windfall. The value of semiconductor exports is up 40% year on year and that of integrated circuits to China is up 120%.

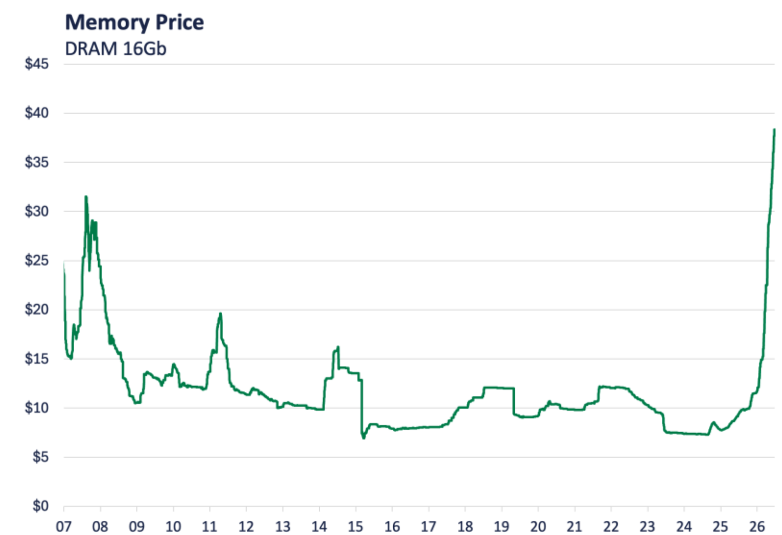
A number of Asian countries, including Japan, are highly dependent on energy sources transiting through the Strait of Hormuz. Fortunately, the Japanese had stockpiled large oil reserves (250 days' worth) before the conflict. And to temper the effects of rising energy prices on households and inflation, the government opted to subsidize gasoline and electricity directly. The shock was, therefore, relatively moderate.

The eventual return to normalcy in the Middle East will remove an important layer of uncertainty, for businesses and consumers as well as for the central bank. The Bank of Japan raised its key interest rate in June to 1%, the highest level in 30 years.

In brief, even though uncertainty about the duration of the technology super-cycle persists, the regional macroeconomic environment will be more predictable with the resumption of a steady supply of petroleum products.



Sources: DGAM, LSEG, June 2026



Sources: DGAM, DRAMeXchange, June 2026

Valuation reflects exceptional conditions

When the market is priced for perfection, our job isn't to justify the consensus but to identify the conditions required for such success and the risks that could jeopardize it. Conversely, when the market prices in a catastrophic scenario, our job isn't to look for more problems, but to identify aspects that could prove to be less adverse than expected and eventually support an investment thesis.

Today, when a number of valuation metrics are reaching historic highs, the indispensable conditions for the success of the expected scenario have to be exceptional and sustainable.

In absolute terms, all major stock markets are expensive relative to their own historical data. At the end of the quarter, their valuations were all in the most expensive decile of their historical distributions. The MSCI World was at the 96th percentile and the S&P 500 at the 97th percentile. Discriminating between countries is clearer in relative terms. Relative to the United States, all regions exhibit very attractive valuations metrics.

Sometimes we have to keep in mind that valuation isn't a market-timing tool but rather a reflection of expectations embedded in prices and the main starting point for medium-term returns.

MSCI World Valuation

Metric	June 2026	Per centile	1 Historical percentile 100
Price / forward earnings	18.8	78	
Price / trailing earnings	24.6	87	
Price-to-Book	4.1	100	
Price-to-cash flow	17.6	100	
EV / EBITDA (Ex-financials)	14.0	98	
Price / trailing sales	2.9	100	
Cyclically adjusted P/E (CAPE)	28.8	92	
Aggregate percentile		96	

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2026

† Average percentiles for the seven valuation indicators

Historical Valuation - Aggregate Percentile

MSCI World

Sources: DGAM, LSEG, MSCI, IBES, NBER, *ECRI, Bloomberg, June 2026

Historical Relative Valuation - aggregate percentile

Region vs MSCI World

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2026

All regions are expensive on a historical basis

S&P 500 Valuation

Metric	June 2026	Percentile
Price / forward earnings	20.1	81
Price / trailing earnings	28.3	93
Price-to-Book	5.5	100
Price-to-cash flow	20.7	99
EV / EBITDA (Ex-financials)	15.2	97
Price / trailing sales	3.6	100
Cyclically adjusted P/E (CAPE)	39.3	98
Aggregate percentile		**97**

MSCI World excl. U.S. Valuation

Metric	June 2026	Percentile
Price / forward earnings	15.5	56
Price / trailing earnings	19.0	64
Price-to-Book	2.4	83
Price-to-cash flow	11.9	96
EV / EBITDA (Ex-financials)	10.9	98
Price / trailing sales	1.9	100
Cyclically adjusted P/E (CAPE)	18.6	71
Aggregate percentile†		**90**

MSCI Asia Pacific Valuation

Metric	June 2026	Percentile
Price / forward earnings	16.8	83
Price / trailing earnings	20.7	84
Price-to-Book	2.1	91
Price-to-cash flow	12.8	100
EV / EBITDA (Ex-financials)	10.8	100
Price / trailing sales	1.9	100
Cyclically adjusted P/E (CAPE)	24.7	78
Aggregate percentile		**100**

MSCI Europe Valuation

Metric	June 2026	Percentile
Price / forward earnings	14.9	67
Price / trailing earnings	18.0	76
Price-to-Book	2.5	89
Price-to-cash flow	11.4	94
EV / EBITDA (Ex-financials)	11.0	97
Price / trailing sales	1.8	100
Cyclically adjusted P/E (CAPE)	20.8	82
Aggregate percentile		**90**

MSCI Canada Valuation

Metric	June 2026	Percentile
Price / forward earnings	15.7	71
Price / trailing earnings	20.8	74
Price-to-Book	2.8	96
Price-to-cash flow	12.4	94
EV / EBITDA (Ex-financials)	9.7	88
Price / trailing sales	2.8	99
Cyclically adjusted P/E (CAPE)	27.7	81
Aggregate percentile		**96**

MSCI Emerging Markets Valuation

Metric	June 2026	Percentile
Price / forward earnings	11.5	37
Price / trailing earnings	18.6	89
Price-to-Book	2.6	97
Price-to-cash flow	14.0	99
EV / EBITDA (Ex-financials)	9.1	82
Price / trailing sales	1.6	99
Cyclically adjusted P/E (CAPE)	21.2	89
Aggregate percentile		**95**

†Average percentiles for the seven valuation indicators

Sources: DGAM, LSEG, MSCI, IBES, Bloomberg, June 30, 2026

Valuation metrics aren't obsolete

Valuation metrics are generally considered obsolete when they reach unprecedented levels because "This time it's different." That was the case in 2000 and it's the case today. The narrative goes like this: "Yes, the valuation is expensive, but it doesn't predict short-term returns and, with the new technology (the Internet in 2000 and AI in 2026), we've entered a new regime."

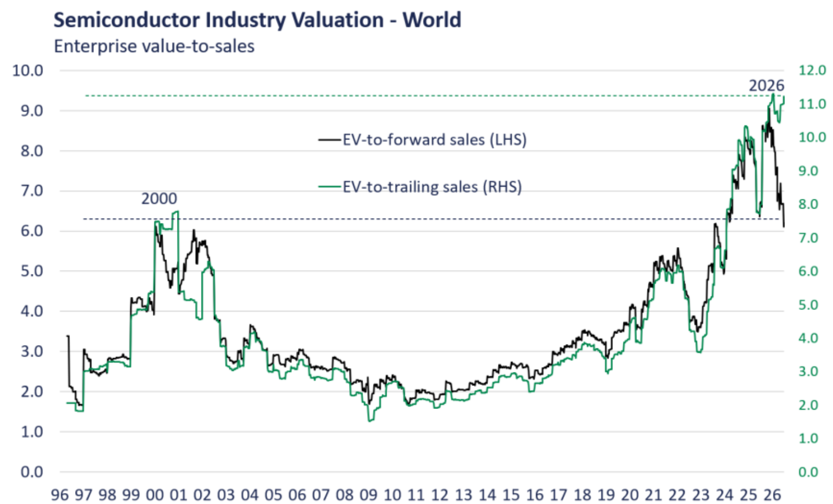
Moreover, analysts have fallen prey to misconception and folklore about the year 2000, including the belief that companies weren't profitable. That was definitely the case for the Nasdaq dot-coms, but not for the large S&P 500 companies, which were highly profitable, with record margins, in fact.

Even so, caution is called for if we rigorously compare the 2000 episode with that of 2026. We have to be sure we get the metrics right.

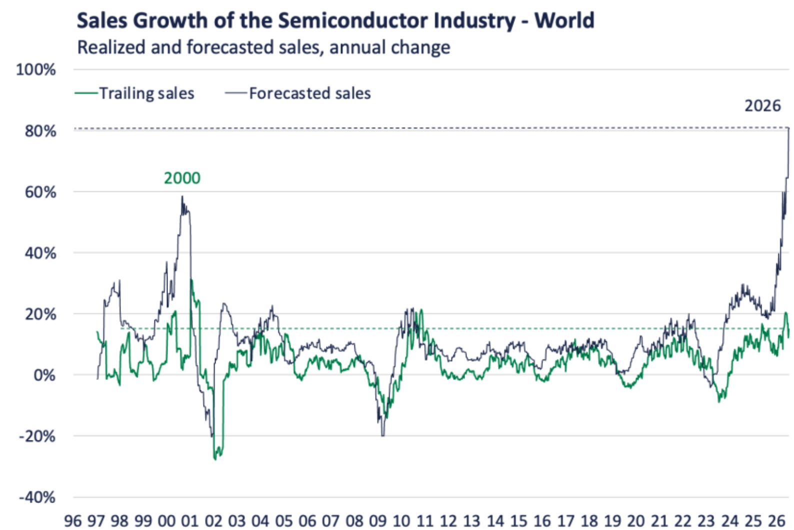
First, the price-to-earnings ratio can be eliminated for highly cyclical sectors, such as semiconductors. On this basis, a number of valuation peaks correspond to cyclical lows in forecast earnings. In contrast, when the markets are euphoric, analysts extrapolate strong earnings growth, and the price-to-earnings ratio appears deceptively attractive. As for the EV/EBITDA ratio, which ignores capex, it is unusable today, when hyperscalers are running an investment race.

Enterprise value to sales (EV/sales) is less biased. On this basis, semiconductors and the entire technology sector are more expensive than in 2000. We could hypothesize that the market is paying more today because it expects sales of greater quality and sustainability. But, in 2000, investors weren't expecting volatile, unsustainable sales – quite the contrary! Growth was forecast to be strong and sustained because "the Internet can grow endlessly".

We can also conclude that the assumption of firm, sustained sales growth is already fully reflected in valuations.



Sources: DGAM, IBES, LSEG, June 2026



Sources: DGAM, LSEG, June 2026

An investment arms race, rapid obsolescence, and questionable profitability

The financial press sometimes calls the AI investment boom an arms race. Which hyperscaler will spend the most, the fastest, to prevent a competitor from taking an unsurmountable lead? In a context of rapidly obsolete investments in AI infrastructure, “expense” may be the operative word.

Data centre operators argue that the useful life of the chips they buy is several years. But useful life isn’t synonymous with relevance and profitability. Moore’s Law applies, and the technology is advancing rapidly, for processor manufacturers and software suppliers alike. For example, the arrival of more energy-efficient GPUs will lower the energy cost per calculation and make older models obsolete. Companies will have to reinvest continually. Previous generations won’t become useless but will be relegated to uses with lower added value, even though they will have been acquired at a high price because of their advanced technology.

This dynamic is crucial for the industry’s valuation because it directly affects earnings, as does the increase in hardware costs we’re seeing this year. The recent sharp increase in capex is partly due to the increase in the price of components in a context where supply (still) isn’t able to meet the demand of the arms race.

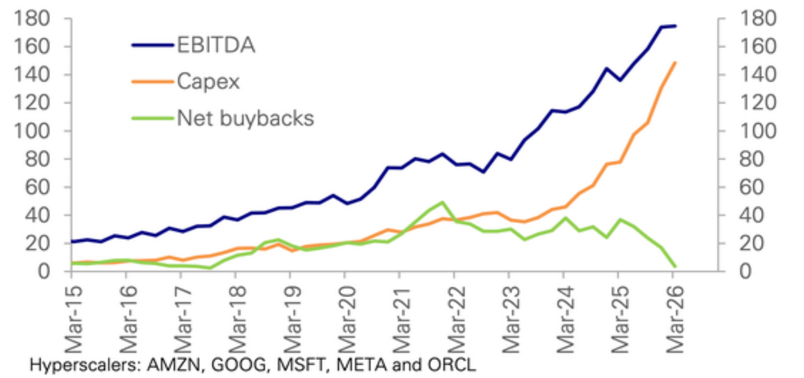
In addition, the fall in the price of tokens, the unit used by generative AI to process and charge for requests, owing to increased competition, looks like a price war that is anything but reassuring for the sector.

Rising costs, soaring expenses, competition, and price wars don’t bode well for the industry’s profitability and, by extension, for its entire supply chain.

But the current valuation doesn’t reflect these significant pressures on profitability in any way.

CAPEX, Earnings & Buybacks

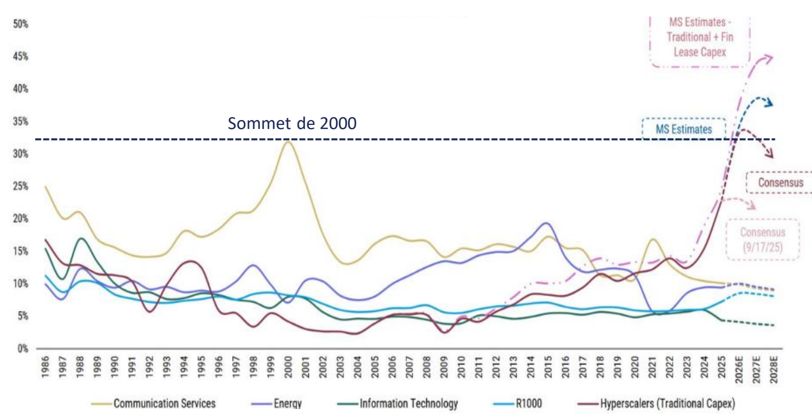
Hyperscalers



Sources: Bloomberg Finance, Deutsche Bank Asset Allocation, June 2026

Capital Intensity

CAPEX-to-Sales, hyperscalers



Source: Morgan Stanley, June 2026

VALUATION

Which countries offer opportunities?

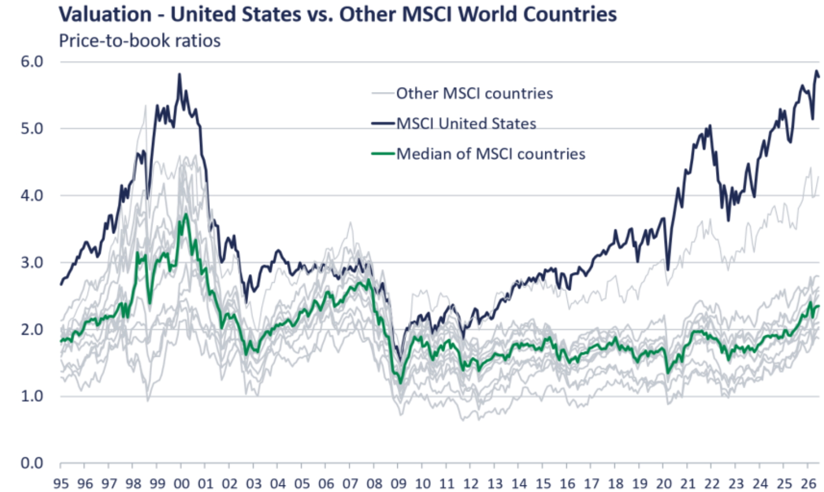
On a relative basis, opportunities can definitely be found outside the United States, especially in Europe and emerging markets.

In Europe, the United Kingdom and France have attractive valuations. Their discounts relative to the rest of the world already reflect a gloomy economic environment, in contrast to the unbridled optimism driving the U.S. valuation.

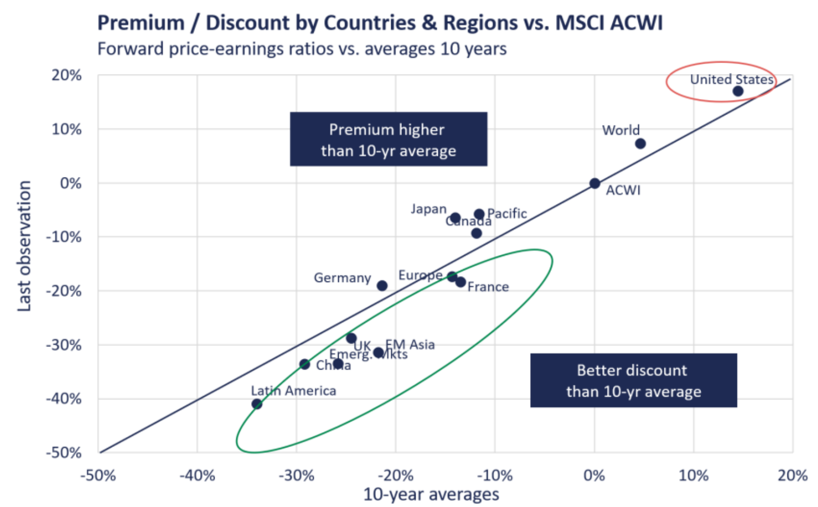
In Asia, Japan is trading at a premium relative to the past 10 years. Of course, the country is riding the AI wave, but its structural reforms in corporate governance and exceptionally competitive yen justify a richer valuation, at least partially.

In the emerging market universe, the valuations of Latin America and China stand out. The Chinese market's underperformance, which has lasted more than five years, has accentuated significantly this year. The sluggish local economy contrasts sharply with the semiconductor and memory fever in South Korea and Taiwan. As for Latin America, technology is virtually absent from the regional index, so the valuation reflects investors' lack of interest.

The theme of growth based on the AI infrastructure supply chain shows up clearly in country valuations. Once investors expect the sources of global economic growth to broaden, we'll see a relative repricing of the inexpensive countries.



Sources : DGAM, LSEG, June 2026



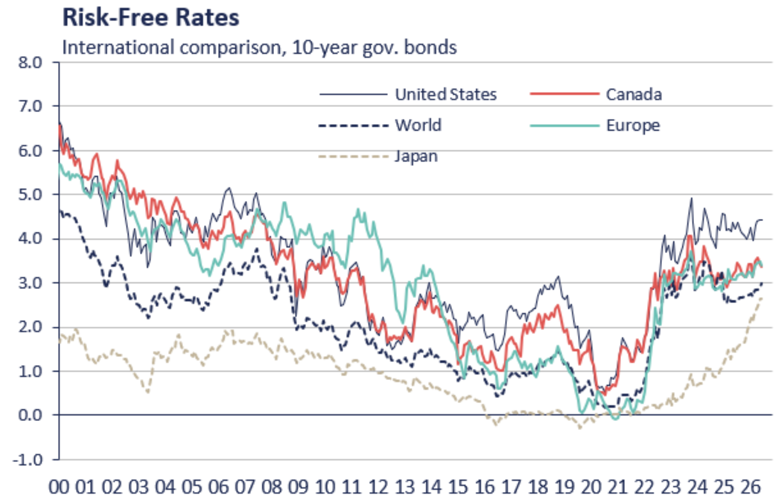
Sources: DGAM, IBES, MSCI, June 2026

Risk premiums are close to historical norms, except in the United States

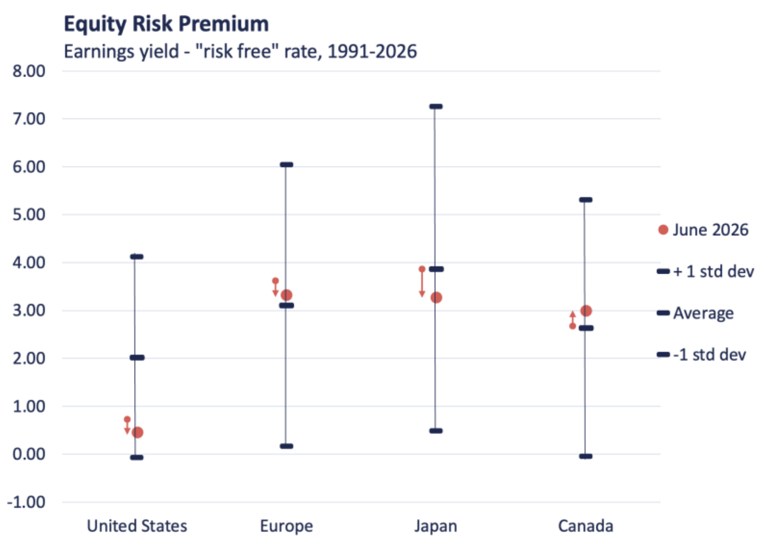
Compensation for risk was highest in Europe and Japan at the end of June but almost nonexistent in the U.S. market. It should be noted, however, that the risk premium was negative for the Nasdaq but still positive for U.S. mid caps.

The European and Canadian risk premiums were close to their 35-year averages, but Japan's was below average owing to the significant increase in the 10-year bond yield.

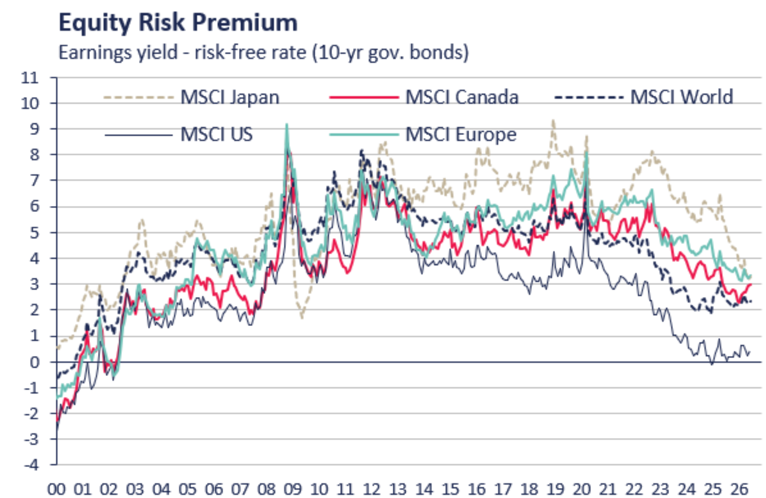
No valuation metric is perfect, and the risk premium is no exception, especially this year, when euphoria is also spreading to financial analysts, who are constantly revising their earnings forecasts upward. All else being equal, an increase in forecast earnings can lower the price-to-earnings ratio and raise the risk premium. And when a market becomes highly concentrated in technology or highly cyclical sectors, this metric can be biased.



Sources: DGAM, LSEG, June 2026



Sources: DGAM, LSEG, June 2026



Sources: DGAM, MSCI, LSEG, June 2026

VALUATION

Numerous opportunities at the industry level

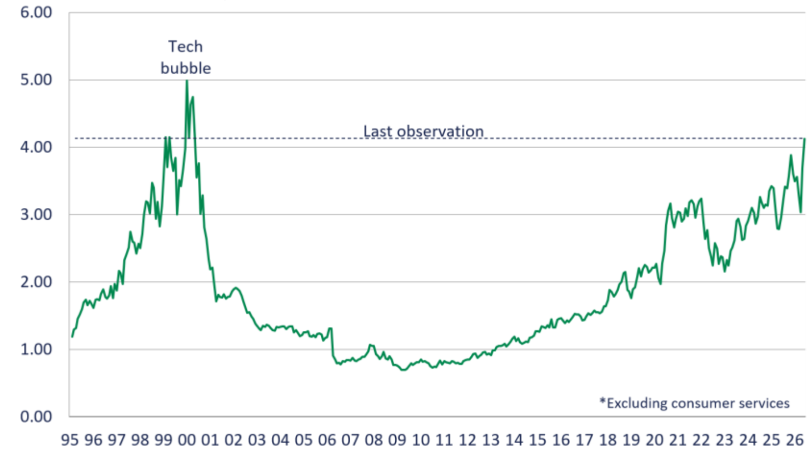
The valuation gap between the 25 industries in the global stock market is flirting with the all-time high seen in the first quarter of 2000 at the height of the speculative bubble. Such dispersion suggests that many opportunities exist on the basis of the valuation vector.

Not surprisingly, the most expensive industries are computer hardware, semiconductors, and to a lesser extent capital goods. Even so, bargains can be found in technology, software being especially cheap. The most attractive industries on the basis of valuation are found mainly in the consumer staples and health care sectors. Telecom services is another discounted sector.

Wide valuation gaps within sectors underscore the importance of seeking opportunities at the industry level, especially today, when recent returns have been exceptionally concentrated – a situation that is difficult to sustain over the long term.

Valuation Dispersion Between Industries, MSCI World

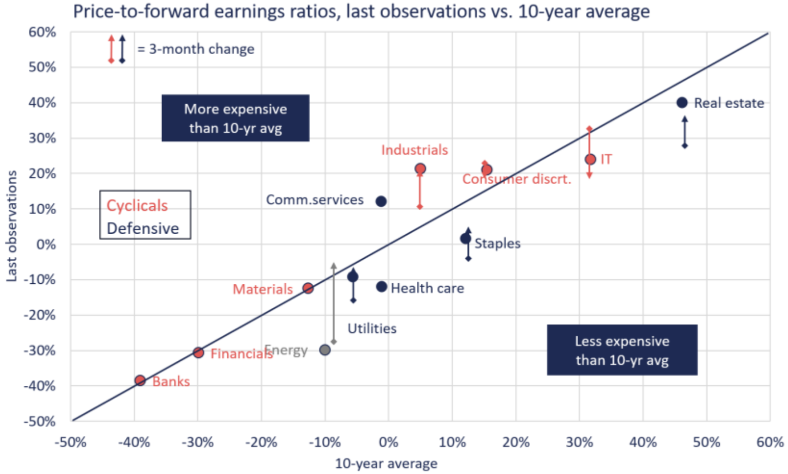
Price-to-book ratio, standard deviation*



Sources: DGAM, LSEG, June 2026

Sectors Premium/Discount vs. MSCI World

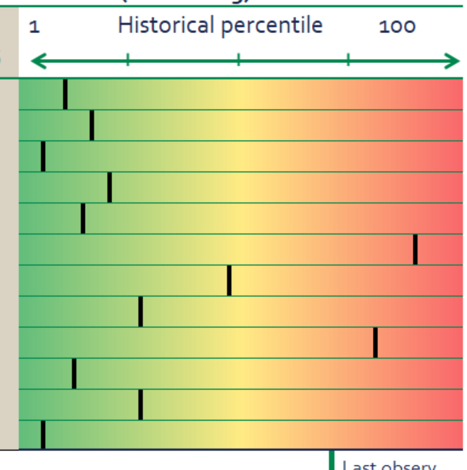
Price-to-forward earnings ratios, last observations vs. 10-year average



Sources: DGAM, LSEG, June 2026

MSCI World Sector Relative Valuation (Since 2005)

Aggregate percentile	June 2026
Cons. Stap.	11
Health care	17
Telecom.	6
Utilities	21
Materials	15
Industrials	90
Cons. Discr.	48
Media & Ent.	28
I.T.	81
Energy	13
Financials	28
Real Estate	6



Sources: DGAM, MSCI, LSEG, June 2026

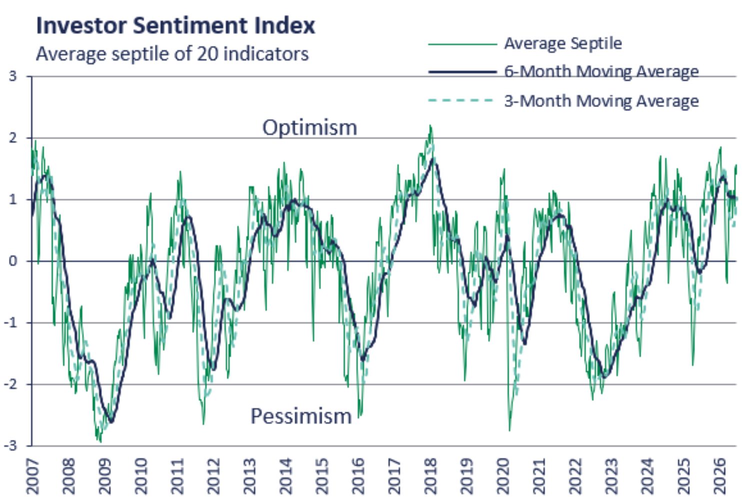
The investor sentiment index is back in the euphoria zone

After briefly visiting the neutral zone in March, our investor sentiment index was back in the euphoria zone at the end of the second quarter. Fifteen of the 20 indicators that make up the index were in the optimistic zone.

The weekly sentiment metric rebounded with the easing of tensions in the Middle East and the speculative fever gripping semiconductor and memory stocks.

The MSCI World Index surged 16% between its March 30 low and June 30. Over the past 25 years, all rebounds of this magnitude have been preceded by stock market corrections of 10% or more, except this one. This time, the advance was driven mainly by the nearly 50% jump in the semiconductor industry.

The rotation of speculative money out of cryptocurrencies and into semiconductor stocks during the quarter certainly contributed to the euphoria. That said, historically the arrival of speculative capital has often been synonymous with an increase in volatility.



Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, June 2026

Sentiment Heat Map

Septile since 1995*

July 1, 2026		Pessimism -3	Pessimism -2	Pessimism -1	N	Optimism +1	Optimism +2	Optimism +3
Surveys & Positioning	1- Consumer Confidence in Stock Prices							
	2- Advisors' Newsletter Bull Bear Ratio							
	3- AAII Bull Bear Ratio (Individual Inv.)							
	4- AAII Net Equity Allocation (Individual Inv.)							
	5- NAAIM Exposure Index (Active managers)							
	6- CFTC Futures Position							
	7- Call/Put Ratio (CBOE)							
	8- State Street Net Stock Allocation							
	9- State Street Behavioral Risk F&H							
Volatility	10- VIX (I)							
	11- MOVE (Treasury Options Volatility) (I,N)							
	12- EM FX Volatility (I)							
Financial Data	13- US IG Bond Spread (I,N)							
	14- Small Caps Relative Performance 3M							
	15- G10 Economic Surprise Index							
	16- Analyst Forward EPS Dispersion (I,N)							
	17- Earnings Revision Ratio							
Technicals	18- Relative Strength Index 14D (MSCI World)							
	19- % Stocks > 200D MA (MSCI World)							
	20- % 1Y New Highs vs Lows (MSCI World)							
* When available. If not, data since available I: Indicator ↑ = Sentiment ↓ N: Normalized indicator		-3 Pessimism	-2 Pessimism	-1 Pessimism	N	+1 Optimism	+2 Optimism	+3 Optimism

Sources: DGAM, LSEG, Bloomberg, State Street Global Markets, July 1, 2026

Equity allocation is close to the 2000 all-time high

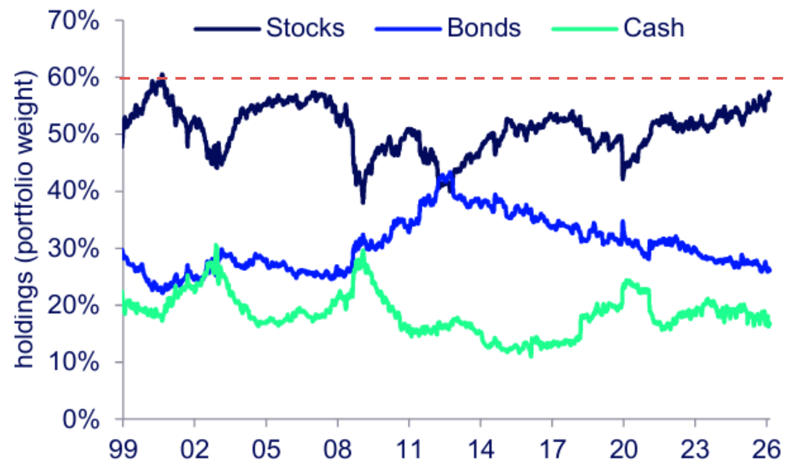
According to State Street's positioning indicators, the only time institutional investors' equity allocation has been higher than it is today was during the tech bubble in 2000. Capital flows into equities have recently moderated, suggesting that, at such levels of exposure, the appetite to add to positions has abated.

Bank of America's survey of portfolio managers showed that risk appetite is still high and that cash holdings are still low, but higher than the all-time low seen in February. Finally, according to the National Association of Active Investment Managers survey, equity exposure in June was flirting with all-time highs.

Low cash holdings and a near-record equity allocation suggest there are fewer and fewer marginal buyers left, at least among professional managers.

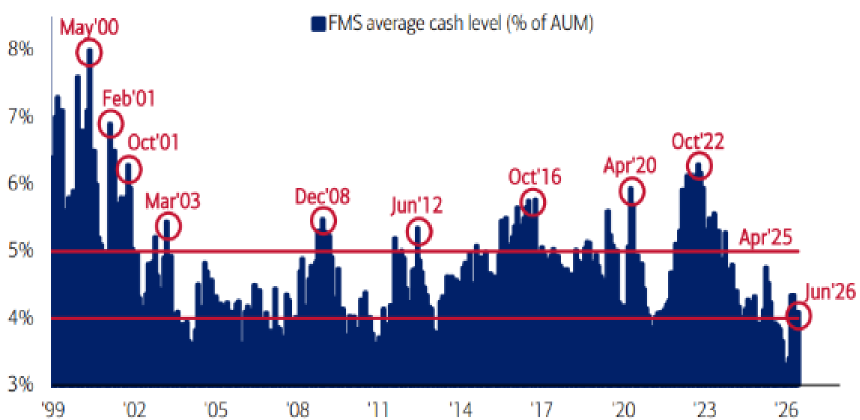
Institutional Investors' Asset Allocation

Normalized measure over the 1998 – 2026 period



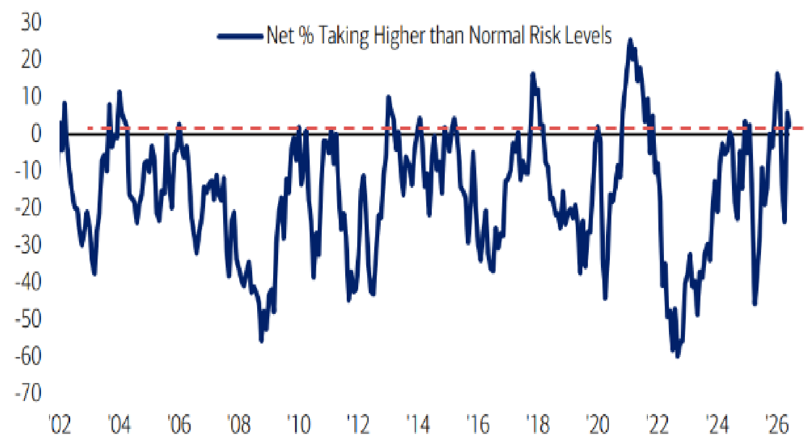
Source: State Street Global Markets, June 2026

Fund Managers' Cash Level



Source: Bank of America, June 2026

Portfolio Managers' Risk Appetite



Source: Bank of America, June 2026

SENTIMENT

Retail investors are increasingly leveraged

In the introduction, we discussed the exceptional behavioural regime driving today's retail investors and the fact that similar regimes have already occurred and generally corresponded to the late phases of cycles.

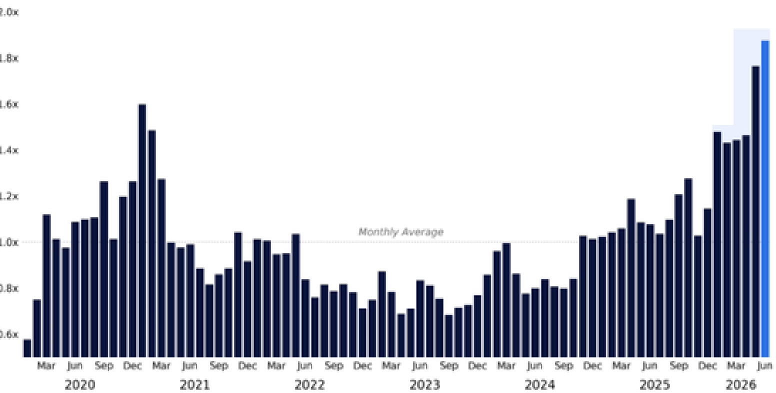
In addition to the large financial flows they generate and their high level of coordination, the instruments available to individual investors today also increase their impact on the stock market significantly.

For example, in a bull market, leveraged ETFs are a flow multiplier that mechanically helps fuel momentum and amplify market advances, while the effect is symmetrical in a bear market.

The recent explosion in leveraged ETF assets under management is, therefore, not only a sign of overheating sentiment but also a signal of the risk that future movements will be amplified.

Retail Investors - Volume of Activity

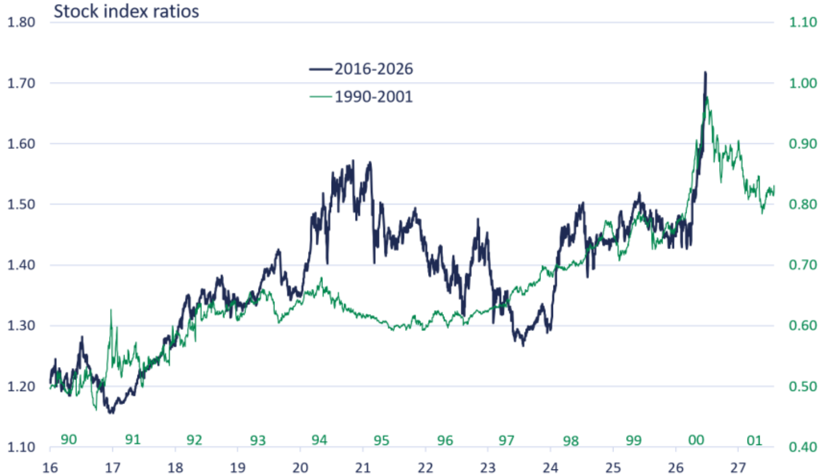
Average daily gross vs. average 2020-2026



Source: Citadel, June 2026

Momentum vs. Broad Market - MSCI World

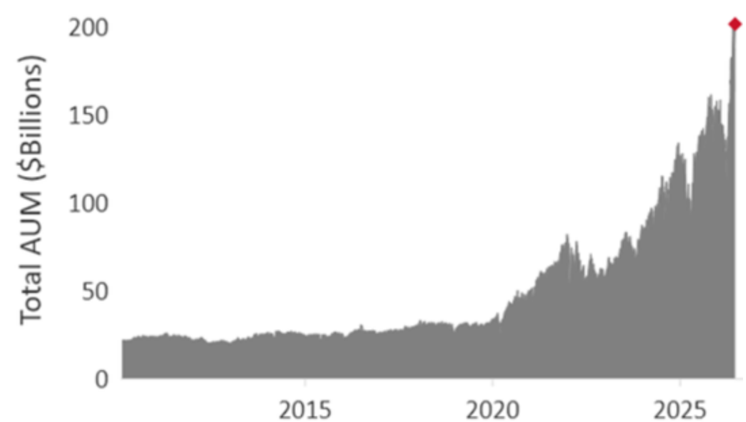
Stock index ratios



Sources: DGAM, LSEG, June 2026

Leveraged ETF AUM

Billion of USD



Source: Nomura Vol, June 2026

A high concentration of returns is difficult to sustain

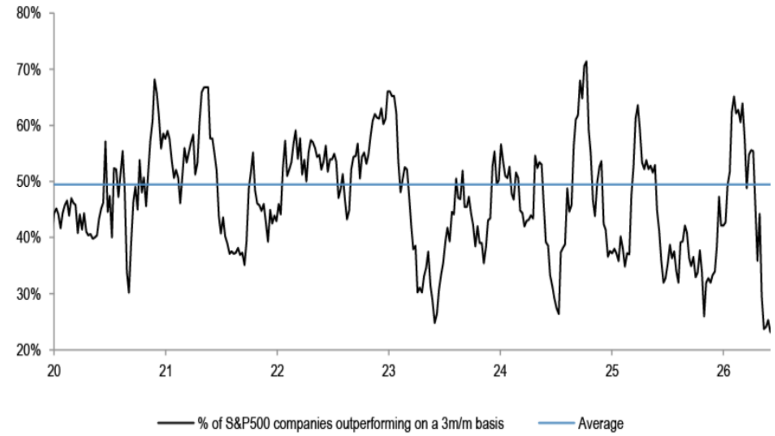
The performance of the global stock market over the past three months has been driven by a handful of technology stocks – a trend that is difficult to extrapolate. For example, the proportion of stocks that outperformed the S&P 500 bottomed in June at less than 25%. At the start of the month, only 21 out of 500 stocks (namely 4%) were hitting new highs, the same proportion as at the peak in March 2000. The concentration is even more pronounced in the emerging market index, with only 2% of stocks peaking.

This phenomenon is quite likely to reverse. In fact, the change may have already begun in June, as tensions eased in the Middle East. If the economic outlook improves, investors will perceive that growth is no longer the preserve of AI and growth stocks but is distributed more broadly throughout the economy.

A highly concentrated market is a risky market, especially for index investors. Passive investing has rarely been as risky as it is today.

S&P 500 Proportion of Stocks Outperforming

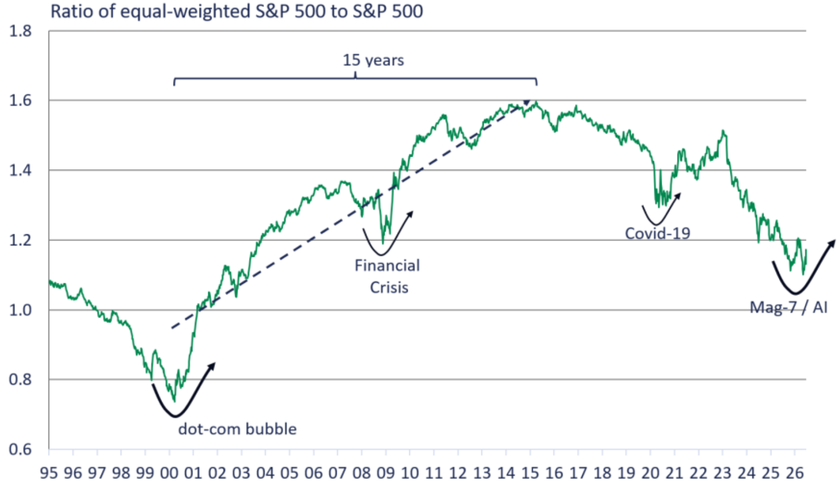
3 months performance



Sources: The Daily Shot, Datastream, June 2026

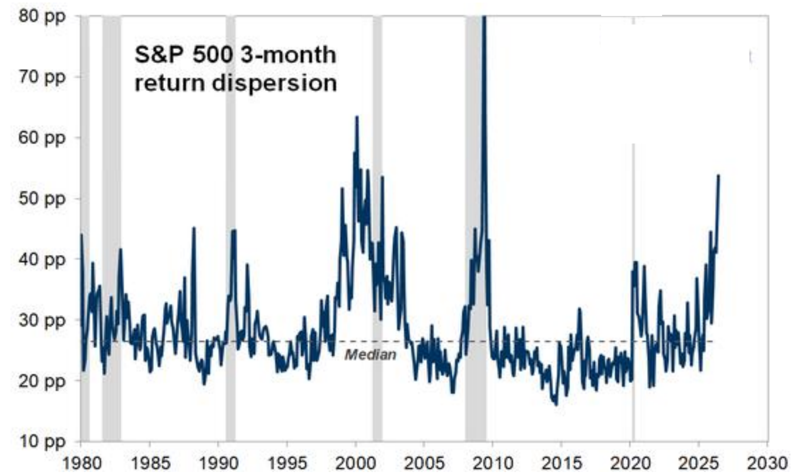
Relative Performance of the Equal-Weighted S&P 500

Ratio of equal-weighted S&P 500 to S&P 500



Sources: DGAM, LSEG, June 2026

S&P 500 3-month Return Dispersion



Sources: The Daily Shot, Datastream, June 2026

The United States, Japan, Taiwan, and South Korea are in vogue

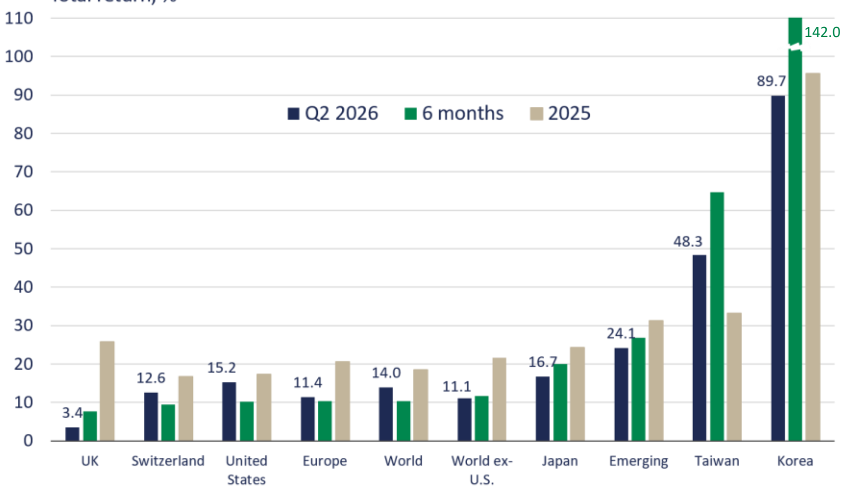
One of the salient features of institutional positioning is the very high allocation to tech-heavy countries, such as the United States, Taiwan, and South Korea. In the case of Taiwan and Korea, as well as Japan, is it simply the exceptional performance of these markets that has increased their proportion of portfolios? Possibly, but, with the exception of Korea, capital flows indicate that managers have not seen fit to reduce their exposure in order to reallocate capital elsewhere.

In the case of the U.S. market, interest faded in 2025 in favour of Asian markets and some European markets. This trend continued early in 2026 before reversing in the second quarter. Institutional investors have reallocated funds to the United States, particularly at the expense of Europe.

Investors are shunning France, Germany, and the United Kingdom. Latin America and China are also of little interest.

Equity Markets Performance

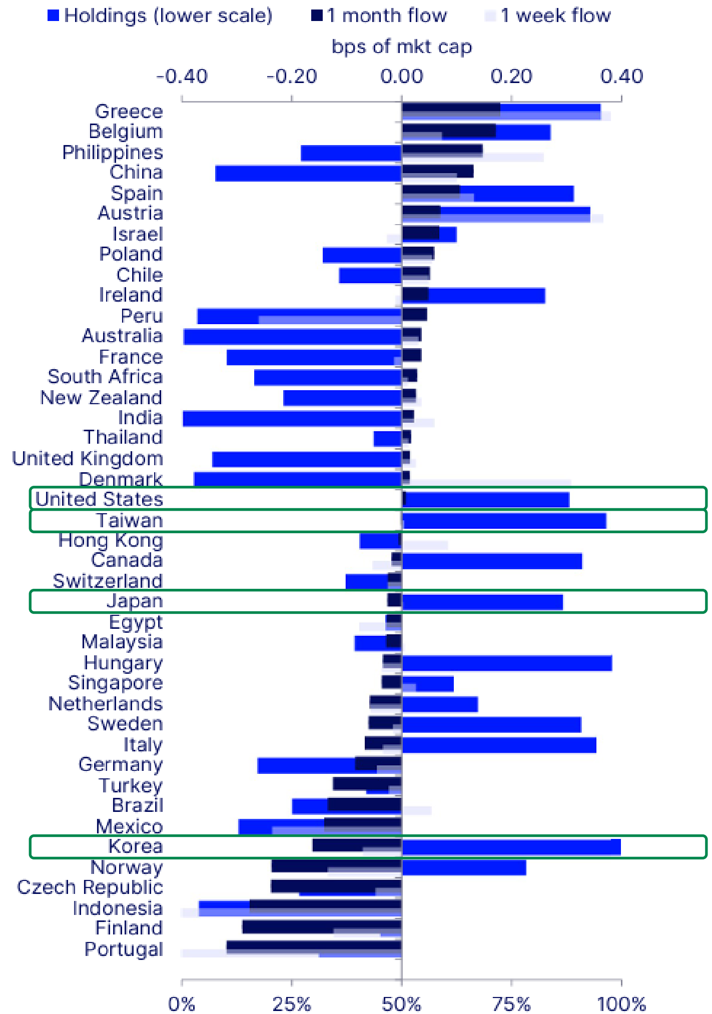
Total return, %



Sources: DGAM, MSCI, LSEG, June 2026

Sector Allocation – Institutional Investors

Holdings & Flows, normalized over 1998-2026 period



Source: State Street Global Markets, June 2026

Sectors: Technology remains a strong conviction among managers

Technology leads the sector returns after the first six months of the year, and at the end of the second quarter portfolio managers generally had overweight positions. The change in sector leadership observed in June will, therefore, have surprised some observers.

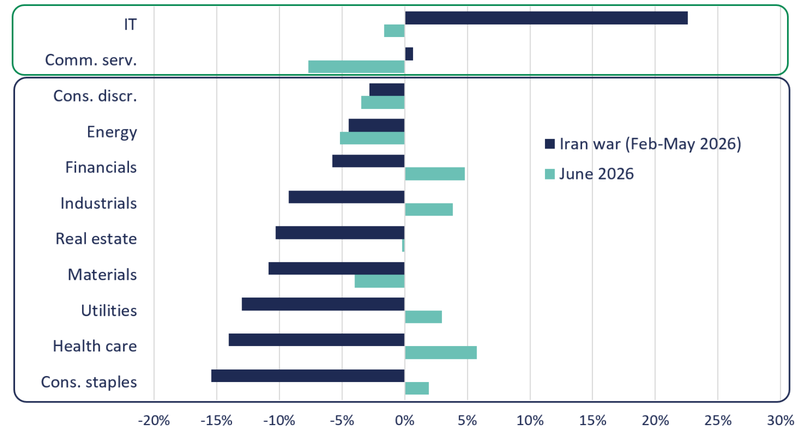
Even so, institutional investors (State Street) and professional portfolio managers (Bank of America) alike seemed to consider semiconductors risky.

In fact, 80% of the Bank of America survey respondents called semiconductors the most crowded trade ever. At the institutional level, positioning was very high relative to the historical norm, probably because of the rally in industrial stocks, but outflows were also much higher than normal.

In general, professionals aren't positioned for an economic upturn, with the exception of an overweight in banks. If this unforeseen scenario comes to pass, sector leadership may be very different from that during the Iran war.

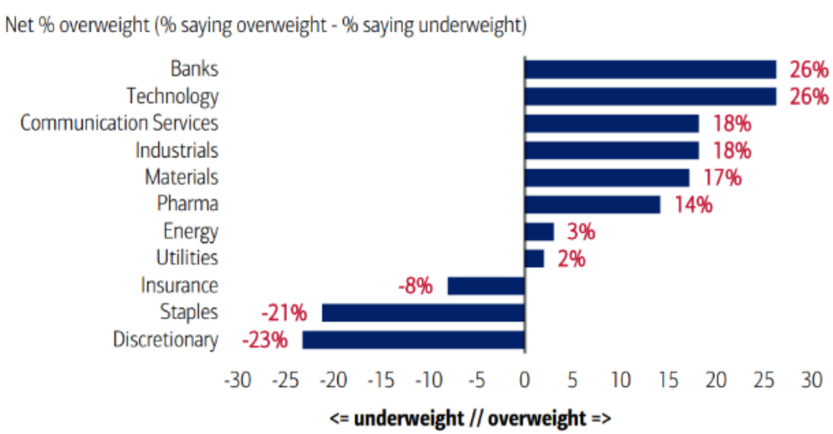
Relative Returns - Sectors

MSCI World, total returns



Sources: DGAM, MSCI, June 30, 2026

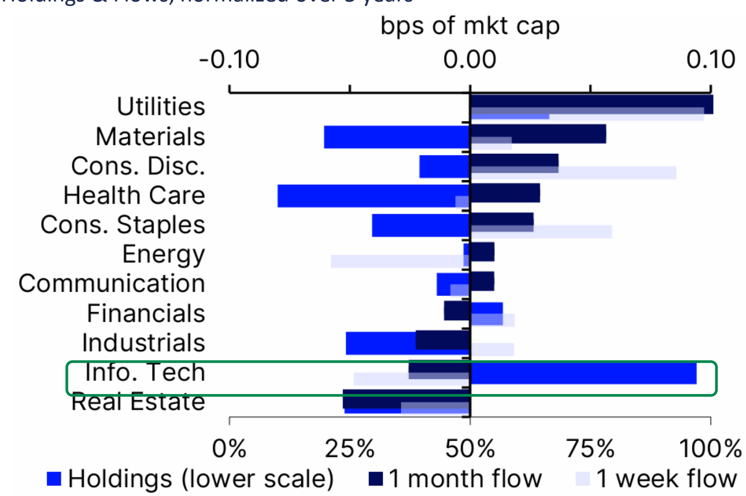
Portfolio Managers' Sector Positioning



Source: Bank of America, June 2026

Sector Allocation – Institutional Investors

Holdings & Flows, normalized over 5 years



Source: State Street Global Markets, June 2026

CONCLUSION

GLOBAL OUTLOOK	Macroeconomic environment	Valuation	Sentiment
December 31, 2025	+	- -	- -
March 31, 2026	-	- -	- -
June 30, 2026	**+**	**- -**	**- -**

MACROECONOMIC ENVIRONMENT: THE OUTLOOK IMPROVES AS THE MIDDLE EAST CONFLICT ENDS

The easing of tensions in the Middle East and the gradual restoration of energy and petroleum supplies are removing a layer of uncertainty from the inflation and growth outlook. Since the spring of 2025, U.S. trade policy has greatly affected the global business climate and the investment and hiring decisions of company executives. A lasting spike in energy prices could have been a disruptor capable of causing the economy to buckle. Forecasters who revised their growth expectations downward and their inflation expectations upward in response to the start of the Iran war, especially for Europe and North America, are expected to rethink their outlook in the coming months. In this less restrictive and more predictable environment, we are raising our macro vector rating by two notches, from single-negative to single-positive.

MARKET VALUATION: STOCK INDEXES ARE EXTREMELY EXPENSIVE, BUT THERE ARE OPPORTUNITIES

The valuations of the main stock market indices offer no margin of protection from the unexpected. The MSCI World Index was at the 96th percentile of its historical distribution as at June 30, and all regions were in the most expensive decile in absolute terms. Even so, on a relative basis Europe, Asia-Pacific and emerging markets were all still very attractive relative to the U.S. market. Similar conclusions apply to a number of sectors and industries when we compare them with the tech indexes, whose valuations are based on expectations of strong, sustained growth for many years to come. In addition, we think an economic upturn scenario isn't priced into the relative valuations of sectors and industries. If growth becomes better distributed across the economy, rather than being concentrated primarily in data centres and their supply chains, a repricing of traditional cyclical sectors and industries and defensive sectors, which have been discounted owing to the loss of household purchasing power, is highly likely. Thus, despite the extreme valuation of market indexes, we are keeping a double-negative rating on the valuation vector.

INVESTOR SENTIMENT: CONCENTRATED EUPHORIA REMINISCENT OF 2000

After briefly visiting the neutral zone at the start of the Iran war, our investor sentiment index shot back into the euphoria zone with the easing of tensions in the Middle East and the speculative fever that took hold in semiconductor and memory stocks. The decline in sentiment in March was only a short pause in an exceptional behavioural regime where risk appetite is almost unshakable. The second quarter of 2026 was characterized by extremely concentrated returns and an influx of speculative capital into niche segments of the stock market. Leveraged financial instruments available to retail investors have amplified the concentration. Professional managers, especially institutional investors, are highly exposed to equities. In June, their equity allocation was at the highest level since the speculative bubble of 2000. Even so, we are maintaining a double-negative rating for our investor sentiment vector, owing to opportunities in countries, sectors, and industries that investors have overlooked.

A scenario of exceptional, sustained earnings growth is already fully priced into the aggregate valuation of the main stock market indexes and into investor positioning, leaving no margin of protection from the unexpected. We are, therefore, maintaining a defensive bias. An improved economic outlook isn't reflected in the relative valuation of a number of sectors and industries, or in investor positioning in these market segments, which offer many opportunities.

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