Document intended mainly for professional investors

The facts: Geopolitics remained at the forefront in June, amid conflicting news about peace talks in the Middle East and setbacks for Russia against Ukraine. Economic indicators generally proved resilient but, except for AI-related industries, companies' comments were not particularly upbeat.

In the war against Iran, there was daily evidence that the peace negotiations remained fragile. The month started badly, as US and Israeli strikes, respectively on Iran and Lebanon, prompted Tehran to withdraw from the talks. **Although "the cease-fire was still in place", many incidents were reported in that period**, which saw the US Navy hit various targets, of which several ships which were trying to break the blockade. Iran launched several strikes on American bases in the region, and a Shahed drone knocked off a US helicopter. Meanwhile, Israel was fighting the Hezbollah as far as Beirut. Donald Trump however showed restraint to prevent the situation from further damaging his image ahead of the mid-term elections. Talks finally resumed in Switzerland in the second half of the month, with the help of Pakistan and Qatar. This did not end the clashes, which kept occurring on a daily basis as each party referred to a previous incident to call its own strike a retaliation. **Traffic in the Strait of Hormuz, the market's main concern, however improved slightly despite a flow of conflicting declarations** about who had control and whether Iran might charge a crossing fee in the future. Meanwhile, as little information was available about the content of the tentative deal, there were rumors that Donald Trump had conceded too much, and even Republican congressmen expressed discontent.

The war in Ukraine, which had become almost invisible behind the developments in the Middle East, also seemed to make the headlines more often than before. Kyiv, which has developed new capabilities with drones and missiles, managed to hit Russia well beyond its borders. Energy, defense and satellite communication facilities were targeted, and Ukrainian strikes even reached Moscow. **All this weakened the Russian army's flexibility, but also contributed to undermine Vladimir Putin's popularity** in his country, to such an extent that he was obliged to publicly recognize that things were not developing as expected. Rumors even suggested that his grip on the country might be in jeopardy.

Economic indicators released in June remained reasonably resilient again. **Sentiment indicators were mixed**. Both ISM indices were up, and their respective levels of 54 (Manufacturing) and 54.5 (Services) suggested an optimistic outlook. However, the Conference Board's Consumer Confidence index released on the last day of the month was disappointing, all the more as it came with a substantial downward revision of the previous release. The NAHB index also fell back to 35. **Actual business metrics however pointed to a reasonably healthy growth**, as illustrated by the last estimate for the first quarter's GDP, which more than reversed the negative revision issued in May. The Census Bureau found that, excluding transportation equipment, durable good orders had been up 1.3% sequentially in May (which was their fourth consecutive reading above 1.1%) while wholesale inventories were not rising excessively. The same source estimated that retail sales had risen 0.9% (0.8% ex-auto) in that same period.

Here again, the historical series showed a more robust pace over the last four releases. Non-farm payrolls also reassured, with 172 000 net job creations in May. Unemployment thus appeared to have stabilized at 4.3%, according to the Bureau of Labor Statistics, whose price indices also were a good surprise. Admittedly, the Core CPI's variation in May (0.2% month-over-month) and the Core PPI's 0.4% rise were still above the Federal Reserve's targets despite the favorable evolution of energy prices. However, **they were more moderate than both expectations and prior months' readings, despite an overheat in semiconductor prices, and particularly memories**. This prompted Apple and Microsoft's Xbox division, among others, to substantially raise the price of their devices.

The Fed held its first FOMC under the leadership of Kevin Warsh and the outcome reminded investors that every newly appointed chairman comes with his own principles and his own way of communicating. While the final decision to leave rates unchanged was not a surprise, the press release was much shorter than most in recent years, and the tone of post-meeting comments was more "hawkish" than expected. **It was not clear whether this was a hint about the future monetary policy or a communication stance to affirm the new appointees' independence from the White House**, but it looked clear that Kevin Warsh had his own views about the way the Fed should be run. He also created a few taskforces on specific topics (such as the central bank's balance sheet, productivity in the AI era, etc) to prepare future decisions, and implied that investors' expectations from the central bank were sometimes leading to a mispricing of the market.

As regards companies, there was little new information available to alter investors' analysis, as the earnings season was virtually finished in the first few days of June. Micron Technologies, which reported strong results and offered an upbeat outlook on the back of AI demand, was one of very few exceptions reporting in the last two weeks. A number of conferences gave pharmaceuticals an opportunity to showcase trial results on existing or future products, but many other companies just continued to talk about job cuts, other cost reduction measures, or the pressures of inflation on low-income households. **The event of the month, however, was the listing of SpaceX**. The operation was reasonably successful among retail investors, for which it had been designed, but analysts also highlighted the risk involved in the company's weird governance and its reliance on the Starship project. The deal thus triggered some skepticism about the market's ability to absorb the flow of high-risk mega IPOs (OpenAI, Anthropic) expected over the next few quarters. It looked like some of the planned deals might have to be postponed until 2027.

The effects: The S&P 500 index spent most of the month below its May 31 level, and finally lost 0.99%, after net dividends. The fundamental news about our holdings was more quiet than negative, but profit-taking on recent months' best performers weighed, and we underperformed.

Overall, broad US equity indices were not abnormally volatile but, **behind the scenes, sector rotation was not easy to interpret**. The significant inconsistencies among the various style or sector indices' returns in the period were another illustration of the complex market landscape, and all this was not just because of the fast-changing perception

of developments in the Strait of Hormuz. **Energy actually was one of the few sectors moving in a way relatively consistent with its underlying fundamentals**. The group lost more than 5% as hopes of a peace agreement with Iran pushed the barrel of light crude from about $96 in early June to less than $70 a month later. In addition, Baker Hughes' monitoring of new rigs in the USA showed that, after months in a "wait and see" mode, exploration companies were slowly resuming spending.

Reactions were more complex in sectors like Communication Services (which delivered the market's worst return, at - 7.8%), Consumer Discretionary (- 4.7%) and Technology (- 3.3%). This was largely due to heavy weights in the cloud business, which are concentrated in these three categories and had long been helped by their exposure to AI. **They fell out of favor as investors preferred more direct beneficiaries with immediate monetization opportunities and less investment needs**. Among them, Alphabet resisted the best, but lost 6%, while Meta Platforms, Amazon and Microsoft were respectively losing 10.9, 11.9 and 17.1%. Semiconductor manufacturers had diverse reactions, depending on their precise activity. "Compute" was often under pressure, and even Nvidia underperformed despite its recent flow of product announcements in areas as diverse as CPUs, systems for driverless vehicles and humanoid robots. On the contrary, memory chips (Sandisk, Western Digital, Micron Technologies) and semiconductor equipment stocks (Applied Materials, KLA, Lam Research) continued to strongly outperform. Movements were more contrasted among other suppliers of datacenter infrastructure. Connectivity (Corning in fiber, Amphenol in connectors) did well, like cybersecurity, but specialists of networking hardware and power supply were weaker. As regards the rest of Technology, **the AI disruption theme continued to play against most software stocks**, including some of the largest, like Oracle, which lost 35%.

At the other end, most of the best performing sectors were relatively defensive categories, like Healthcare (+6.5%), Finance (+4.2%) or Utilities (+2.5%). In the former, Moderna gained more than 48% after announcing positive developments about its future vaccines against flu and other diseases. Trial results announcements also boosted several biotechs, such as Abbvie, Incyte or Vertex Pharmaceuticals, while Merck KGaA's bid on Bio-Techne revived M&A expectations in the sector. Health insurer Humana also rose strongly after reaffirming its guidance and receiving several analyst recommendations. Many financials benefited from the growing likelihood of an interest rates hike, but investment banks were a little softer at the end of the month, when investors started to question the market's ability to absorb all upcoming large IPOs.

A more economically-sensitive group, Industrials, however topped the performance ranking. This came partly from datacenter suppliers (Vertiv Holdings). Machinery manufacturers like Caterpillar (which raised its dividend) and Deere (which benefited from tariff cuts on farm tractors) also gained more than 17% each. Several airlines performed well on hopes of lower kerosene prices and evidence of a decent pricing power in recent months.

As a reminder, SpaceX did not have any direct impact on the index, since it is was not going to become a member of any key benchmark until it enters the Nasdaq 100 index in July. However, retail investors needing cash to participate in the IPO probably realized gains on other stocks, and particularly the best performers of the previous few months. **We believe this behavior probably explains a large part of our 115 basis points gross underperformance during the month**, and we are therefore very confident that it should only be a short-lived weakness.

Although our best holding of the recent past, Intel, continued to beat the market strongly on signs of upcoming contracts for its foundry business, **many other stocks, which had played a role in our solid outperformance year-to-date, were weaker lately**. This was the case for Alphabet, which remains our only overweight pick among the Magnificent 7s. As explained above, its underperformance was not huge, but the impact was magnified by our 8% exposure. Broadcom, which was our last holding to report quarterly earnings on June 3, also lost more than 15% and

erased its whole outperformance since January. The company reported decent results, and gave a lot of comforting details about its outlook (to such an extent that many analysts then hiked their target price by 10-20%), but it failed to raise its guidance, and the other positive news it announced later in the month did not restore the market's appetite. Nextpower, Onsemi, and, to a lesser extent, Nucor also underwent profit-taking but all remained well ahead of the benchmark (respectively 27, 65 and 27%) year-to-date. The former lost almost 24% without any company-specific reason, but the whole sector was under pressure as investors probably assumed that lower oil prices would mean lower demand for solar power. The semiconductor stock declined almost as much, but that loss was entirely triggered by the news of its acquisition of Synaptics. Synergies are significant with this manufacturer of sensing and connection solutions for the "smart Internet of Things", and the deal will generate significant annual cost savings to become accretive shortly. However, the $7bn acquisition price will be paid in stocks, which the market did not like.

Sectorwise, our worst contributors were Industrials and Financials. In the former category, Vertiv Holdings did well, Waste Management benefited from its resilient business, and our specialty steel holding was even stronger. However, Nextpower weighed, as explained above, and **our single defense stock was down about 9% as investors remained optimistic about peace in the Middle East**. In Finance, we mainly suffered from the weakness of Nasdaq (-14.8%), which went down with almost all listed exchanges.

These detrimental effects were not fully offset by the strength of our selection in Consumer Discretionary and Communication Services. Our latest pick, Sharkninja, gained almost 25%, and our childcare stock, which had been weak for a while, rebounded as investors appeared to rediscover its expected resilience. The same happened to Pinterest but, with Communication Services one of the weakest sectors in June, the game was mainly to fall less than average. Our exposure to Alphabet and our absence from Meta Platforms contributed, but our telecom operators was under pressure. Comcast announced its intention to separate its media business from its broadband service, thus creating a more aggressive competitor for established mobile communication players, which all declined.

Our decisions: With almost all quarterly earnings already announced, there was little company-specific news in June to alter our view of the portfolio. Top-down developments, which drove the market, remained largely unpredictable, and we thus kept our stock selection unchanged.

Our short list of Buy candidates was quite diverse in June, with a jewelry retailers, a dollar store, a data management software developer and a manufacturer of data capture solutions used in supply chain automation. However, **given the lack of visibility and the rather balanced stance of our portfolio, there was no strongly compelling reason to switch from one of our existing holdings**. We thus elected to keep our selection unchanged, but nevertheless traded more often than usual. Our movements were those required by client subscriptions or weight adjustments on securities that had moved out of their tolerance range.

Obviously, the stability of our portfolio and the lack of fundamental news about companies resulted in a relative stability of our selection's compared characteristics vs the

index. However, we note that analysts continued to raise their 2026 EPS estimates at a stronger pace for our portfolio than for the whole index, and that they also raised their average price targets. The average gap between our holdings' price and analysts' target, which was 16% on May 31, had risen to 20% a month later, and the variation represented more than our stocks' decline. **We find this to be a confirmation that the soft patch in performance did not result from fundamental concerns**. Hopefully, the new earnings season, which will start soon, will confirm that.

The outlook: Given the accumulation of uncertainties, we expect the market to become increasingly nervous in the second half of the year. This is why, aside from AI beneficiaries and a few turn-around stories, our current selection favors stocks offering a sustainable growth and a good visibility.

As we expected, peace talks with Iran did not lead to very concrete results so far. While officials keep saying that good progress has been made, both parties stick to requirements which the other already said were not acceptable. While acknowledging that time increases the likelihood of an agreement, which Donald Trump needs ahead of difficult mid-term elections, **we do not think that the conditions are met for that agreement to be balanced and durable**. Moreover, even in the event of a positive surprise on this side, we would not consider that everything is resolved, because it would still take months for supply chains to return to normal. Countries and companies did well to adapt to adverse conditions, they reorganized their sourcing, but there are limits to what they can do. **Many countries are currently tapping their low oil or gas reserves instead of refilling them as they should normally be doing ahead of the next winter**. Similarly, we believe that many companies are going to reach a point where even the most optimistic scenario is not compatible with the immune trajectory that investors are continuing to expect for the economy and the business. We also note that a growing number of companies (which, admittedly have pricing power) recently decided to raise prices and blamed the effects of the war on input costs. **A reacceleration of inflation therefore remains possible**, with an effect on central banks' policy.

The S&P 500's small decline in June may be interpreted as a sign that investors are cautious enough, but a small list of companies produced this result, and the equal-weighted version of the same index was actually up 2.32% with net dividends reinvested. **We view this as a sign that the market has not fully discounted the risk**. As a matter of fact, the outperformance of rather defensive sectors in June probably owes more to the fact that profit-taking hit mainly AI-related companies, which happened to be in more economically-sensitive sectors. This adjustment was welcome, but we believe that a selective stance remains necessary about AI. As we often said in previous comments, we are convinced that this technology will bring great productivity gains over time, but will probably not deliver until users get to better understand its shortcomings. Like for any other innovation in the past, initial enthusiasm will be followed by a more pragmatic period, in which a realistic analysis of its pros and cons in light of the first lessons learned could possibly even cause a rejection**. Investors are as quick as anybody else when it comes to turning against what they used to hold dear**.

For all these reasons, visibility is low and may remain so for a while. Nobody knows what will emerge from the mid-term elections (in particular because Donald Trump's reaction in the event of a defeat may cause a crisis), nor when economic indicators will start reflecting the slowdown we expect. Nobody knows how the Federal Reserve will react under its new Chairman. **The markets may therefore continue to shift from one scenario to the opposite** within hours, and abusively assume that the latest news (such as those brought by the first wave of second quarter results) is representative of the whole picture. Volatility may therefore prevail over the next few months. Whether it comes around a clear trend or a more neutral "trading range" remains difficult to predict, and this is why we have a fairly neutral weight in many sectors, to focus on stock picking. One should note, though, that the strategy remains more active than this general view may suggest. **In most groups, we have clearer-cut bets at sub-industry levels**. For example, we kept a significant, although selective, exposure to software despite the AI disruption fears. Similarly, our industrial or consumer-related holdings are not among the most economically sensitive, as we favor resilience and visibility.

Graphene Investments

AMF license #GP-16000022
75 Bd. Haussmann 75008 Paris (France)
T: +33.1.70.82.44.50
F: +33.1.70.82.44.49
E: contact@graphene-investments.com
W: www.graphene-investments.com