US Equities

Investment comment

July 31, 2026

Document intended mainly for professional investors

The facts: July was yet another month impacted by conflicting news about a potential reopening of the Strait of Hormuz, as well as other geopolitical developments. However, the quarterly earnings season also played a big role, and boosted stocks' volatility without really helping enhance visibility.

The situation in the Middle-East remained uncertain throughout the month. On July 8, Donald Trump announced that he considered the MOU was dead and that he was tired of dealing with Tehran, but he also implied that the negotiations were going to continue. The tensions resumed. Washington started a series of overnight strikes, to which Iran responded with drone and missile attacks on US bases in the region and other targets in the same countries. Several commercial ships were hit in the Strait of Hormuz. Both Tehran and Washington said they were going to block traffic in the area, and the US president suggested that he was going to charge a 20% fee to protect ships sailing through the strait, only to add hours later that he was against any form of fee for maritime traffic. Meanwhile, the Houthis decided to start a blockade of all Saudi harbors. **The various parties continued to strike each other until the end of the month, and it remained difficult to differentiate the truth from hoax issued as part of war-time propaganda**.

In Ukraine, the situation kept evolving in the same direction as in previous months. The front lines looked stabilized in the occupied Eastern provinces of the country, but Kyiv continued to strike beyond those lines, and sometimes deep inside Russia. **With infrastructure targets, such as refineries and logistics facilities, this strategy aimed to maximize the disturbance of the local population's daily life, to undermine support to Vladimir Putin**. In addition, several commercial ships were struck by both parties in the Black Sea. An Iranian vessel was sunk, and Ukraine said it was transporting military equipment to Russia, which observers interpreted as a further step towards a convergence of the two conflicts.

As regards economic indicators, the picture was also difficult to interpret, as significant short-term factors were interfering with longer-term trends. Among sentiment metrics, the ISM indices were slightly down both in Manufacturing and in Services but, at respectively 53.3 and 54, they remained well above the critical threshold that would signal a shift to pessimism. However, the NAHB index was at a nine-month low of 34, and the Conference Board's Consumer Confidence index was quite soft too. As for actual business metrics, most of them were flat or down in June. Excluding transportation, durable goods orders measured by the Census Bureau were only up 0.6% sequentially, their slowest pace since February. The same source said that building permits had slowed again, whereas the Bureau of Labor Statistics suggested that the US economy had only added 57 000 jobs in June. **The US jobless rate however stayed at 4.2% and appeared to confirm a theory, according to which the current demographics allow employment to stay high even without strong net job creations**. This did not prevent consumer spending from remaining mixed. The Census Bureau found that retail sales had only gained 0.2% in June, and would have been down by the same percentage without solid new vehicle sales. The preliminary estimate of the second quarter's GDP growth

(an annualized 1.5% pace) appeared to confirm the sentiment of a resilient but slowing economy.

The explanation of these seemingly inconsistent indicators was probably the impact of inflation. **The sharp decline of the crude oil barrel in June pushed both the PPI and the CPI down sequentially**. Even their core version (which exclude the direct impact of food and energy, but still reflect the indirect effects of fuel costs) were more subdued than in recent months, and moved only 0.2% and 0% respectively. Consumers however react with a lag, all the more as the interest rate environment is not particularly supportive. The Federal Reserve held its meeting in the last week of July, and kept rates unchanged, but there was a growing pressure from FOMC members to tighten the monetary policy.

The other important market driver in July was the earnings season, which started with banks slightly before mid-month. Their results were generally good, as net interest margins remained comfortable and fees earned on IPOs and M&A benefited the leaders of investment banking. The volatility caused by the uncertain backdrop also helped the brokerage activity. In the second half of the period, announcements came from more diverse businesses. **Healthcare stood out, with very few disappointments on revenue and a 100% beat rate on EPS**. Things were more complicated in Energy, as the wide variations in oil prices gave many opportunities for strategic and tactical decisions (about production, investments and hedging) to make a big impact on final results. Many AI-related companies, including most of the "Magnificent Seven" and semiconductor players, also reported at the end of the month. Their achievements were generally better than expected, but the market was also looking for signs that the investments required to increase capacity and meet demand were not going to weigh too much in the future.

The concerns caused by AI did not only impact investors' reaction to earnings reports. The environmental aspect became increasingly visible in the media, and **the State of New York's went as far as introducing a moratorium on the construction of new hyperscale datacenters on its territory**. Several other states were said to be mulling similar decisions. Meanwhile, there were also several alerts on the security threats potentially caused by this technology. The top two AI developers, OpenAI and Anthropic, both reported instances in which their models had "gone rogue". The first case apparently took place during tests in a relatively controlled environment, and resulted in a breach on Hugging Face, a machine learning environment popular with the AI community. Its announcement prompted Anthropic to carry out further controls on its own models' behavior, and unveiled security breaches at three independent companies, whose names were not disclosed.

The effects: Individual stocks occasionally posted large variations on a day-by-day basis, but the market as a whole moved sideways and the S&P 500 index ended the month down 0.08%. Our investment discipline paid off in this challenging environment and we outperformed significantly.

If asked what they will remember from the US market in July, many investors would probably answer "the fall of AI stocks" but this would not be completely correct. As a matter of fact, **the Software and Semiconductor industries went through a sharp reversal (in opposite directions) and caused that impression**. A wave of profit-taking was overdue on datacenter infrastructure, which had performed very strongly in recent quarters. The hype around

semiconductor stocks cooled down, and many CPU or memory chip manufacturers (Intel, Sandisk, Micron) were among the S&P 500's weakest performers, but Nvidia managed to outperform the broad market, thanks to a number of announcements regarding either new products and large contracts. Manufacturing equipment and materials for the same industry also suffered, all the more as, late in the month, China announced that it had developed its own advanced wafer processing technologies and intended to offer them in the international markets. The correction also reached specialists of fiber or cooling, whose products are heavily used in datacenters. However, cloud operators, which are another important AI play, had gone through a soft patch earlier, and did not suffer. **Alphabet, which was the first to report among the big three, lost 7% after confirming its intention to keep investing aggressively to meet demand**, but it ended the month down only 0.3%. Amazon and Microsoft came later, and also announced heavy spending, but the market was better prepared, and their guidance suggested that they did not intend to burn cash. The former gained about 14% and the latter (which also benefited from its involvement in software and its restructuring of the Xbox division), rose almost 25%, to deliver the 8th best return in the S&P 500 index.

Interestingly, only four of the eleven GICS sector indices went down in July, but this was sufficient to cause the market's slightly negative return. **Technology, which now represents well in excess of one third of the benchmark, was by far the main driver of the decline**, as it posted the weakest return (- 3.4%), ahead of Industrials (- 3.0%) and two much smaller groups (Utilities and Materials). At the other end, Energy went up with oil prices when the negotiations between the USA and Iran appeared to have collapsed. The sector gained more than 12.5% but, as a result of its now tiny weight in the S&P 500 index, the impact was negligible. Finance only rose half as much, but did more to limit the benchmark's losses. Healthcare also gained more than 2% on average, thanks to its strong showing in the earnings season, as mentioned above. Pharmaceutical research is also increasingly viewed as one of the clear beneficiaries of AI, and many firms have now mentioned initiatives that use the technology to dramatically accelerate drug development.

As a result of all these influences, the S&P 500 index only lost 8 bps (with the effect of net dividends included) but it lagged its equal-weighted version by about 100 bps.

As we had mentioned in our latest investment comment, we were not worried by our portfolio's underperformance in June. It had come in a quiet period, during which very little news was released by corporations and, for most of our holdings, analysts had continued to issue positive comments, and raise their target price or their recommendations. The following few days proved us right: **that underperformance was more than erased after the first two sessions of the new month… and our selection's strength continued throughout July**. We ended the period on a 4.68% gross return, 4.76% ahead of our benchmark.

This result was achieved thanks to a very homogenous contribution from almost all areas of the portfolio. **32 of our 42 holdings did better than the index, and only one sector, Industrials, produced a meaningful negative effect** of about 40 bps. Huntington Ingalls did well after raising its forecasts for the shipbuilding segment, but this was not enough to offset the poor returns of Vertiv Holdings and Nextpower, which both lost between 24 and 28%. The former, which remains far ahead of the market year-to-date, was caught in the AI infrastructure sell-off despite reporting decent results and issuing a reasonably positive guidance. The latter's weakness was more logical, as its strong EPS beat came with a disappointing guidance. This revived investors' concerns, as they have been skeptical ever since the company announced its intention to broaden its product line beyond its historical specialization in solar trackers.

As often given our investment style, our best performing sectors were mainly Growth categories, with Technology at the top. **Our stock selection in that group, where returns were extremely contrasted, actually contributed about half of our total outperformance**. Microsoft was our best

performer, Apple gained approximately 6% (despite a very weak session after its earnings announcement, which happened to be Tim Cook's last earnings call as the company's CEO) and Nvidia outperformed marginally. However, all three are underweight in our portfolio, and the strength came from elsewhere. Broadcom did even better than Nvidia and, although Intel lost 35%, we did not have any exposure to memory chips, nor semiconductor equipment. In addition, our holdings in software or services, which had been considered subject to disruptions from AI, generally did very well in the rebound. This involved stocks like Salesforce and UIPath, which, investors gradually realize, have a strategy to capitalize on AI rather than suffer from it, but also other businesses specializing in areas as diverse as collaborative document management, smart meters for utilities, etc. Aside from that, Flex weighed on our performance, despite reporting strong results and issuing a very favorable guidance. The reason appeared to be that, following the recently-announced spin-off of the company's fast-growing division in charge of cloud and power infrastructure, the CEO and the CFO both announced their intention to join the new structure. This will be causing a complete renewal of the main company's management.

Consumer Discretionary also produced a strong contribution, as all our holdings outperformed, including our new position after its mid-month purchase. **Our retailers, led by Burlington Stores, were helped by their suitable, somewhat defensive positioning as US consumer remained fragile**. Our stock selection generated roughly similar contributions in Healthcare and Financials. In the first case, Iqvia played an important role by rising almost 22%. The specialist of research and data for the pharmaceutical industry announced both results and forecasts above analysts' estimates. In the second sector, our banks outperformed moderately after their results announcements, but the best return came from Nasdaq, whose solid results allowed the stock to more than offset its weakness of the previous month.

We are also pleased to note that, thanks to this outperformance, **the two institutions who trusted us from day one when we launched Graphene Actions USA in early July nine years ago have seen their initial investment's value triple since then**.

Our decisions: Only one position was replaced in our selection in July, with the sale of Pfizer and the purchase of a retail stock which is currently undergoing a promising turnaround. A further reduction of our underweight holding in one of the "Mag7s" was closely contemplated, but not validated.

As was already the case in June, we considered a further reduction of our stake in Microsoft. For a long while, until mid-2024, the software company was our largest position, and our only overweight "FAAMG" holding. However, its target weight in our model portfolio is now down to about 4%, or half its peak level, and we considered cutting it further to restore our underweight, which had been reduced by the stock's underperformance. However, we failed to identify a fully convincing replacement and **the general lack of visibility was not favorable to a trade which would have boosted our risk**.

Our only Sell decision thus concerned Pfizer, in the pharmaceutical sector. As a reminder, its purchase in August 2024 had been based on the view that the company was using the large amounts of cash generated by its Covid vaccines and medications during the pandemic to make

acquisitions and boost its pipeline of new products. This view was correct, and Pfizer now owns a number of promising drugs, particularly in oncology. However, **this did not translate into an outperformance because the process looked too slow and too expensive to offset the decline in existing sales**. Moreover, a mixed test result on one of the company's key cancer drugs cast doubts on the whole strategy, there was little hope of favorable news in the next few months, and several changes among the executive team suggested that further delays might be ahead. We therefore decided to resell the holding, and look for another option which would better fit our preference for visible growth.

We were comfortable with our overexposure to Healthcare, and were not particularly looking to reduce it, nor increase our roughly neutral stance on Consumer Discretionary, but **bottom-up analysis prevails in our approach**, and we finally chose an apparel retailer.

For more details about our recent stock picks, please refer to the fund's detailed report or contact us.

Despite this trade and a number of weight adjustments carried out during the month, when stocks had moved too far away from the fixed target price we had assigned to them, our current portfolio is not significantly different from last month. Growth sectors are logically our most overweight groups, led by Healthcare and Consumer Discretionary, but **our sector biases remain moderate by our historical standards**. As a result of its recent underperformance, Technology saw its weight fall in the index and, given that our portfolio's target weights did not vary significantly, we are back to a moderate overweight on the sector.

The most important point is, our stock picks continue to offer their key structural characteristics: **a much stronger growth and a cheaper valuation than market average, and a more favorable trend in earnings revisions**.

The outlook: As poor visibility continues to prevail, we remain focused on stock-picking to favor companies with a sustainable growth, should this come from truly innovative products and services or a credible turnaround effort. This, we trust, should continue to bear fruits in the middle-term.

Recent economic developments were generally consistent with our expectations, and continue to support our view that **the most suitable approach to the current environment is a risk-conscious stance.**

AI remains a strong growth driver, and it probably has a lot more room to continue. **The investments it will require in the middle-term are benefiting to a wide variety of businesses**, ranging from the obvious computing and memory chips manufacturers to many industrial specialists which provide building materials, power generation and storage, cooling systems and connectivity solutions.

Although we remain convinced that few companies will obtain the productivity gains they expect from AI, and that their lack of control on its utilization will lead to quality issues (if not much more serious problems), we trust that the technology will benefit margins over time. We therefore believe that our current exposure to AI, which is based on a mix of obvious players and more indirect beneficiaries, is adequate for the moment, and **we do not plan to use the recent weakness to reinforce our exposure at this stage**. We may however make a few adjustments to our selection if we find opportunities. Some of our best performers year-to-date are securities whose AI exposure had been

underestimated by the market and, now that the oversight has been partly corrected, we might be able to find other, more attractive exposures. Software companies, which have been under heavy pressure in the last few quarters, may now offer such opportunities. It will however be necessary to move in a very selective manner, because the group contains companies for which AI is not a real threat, as well as others whose business will probably be heavily disrupted.

Behind this favorable factor, though, **the rest of the US economy is starting to suffer from the multiple uncertainties caused by geopolitics, tariffs and more generally, Donald Trump's unpredictable decisions**. Companies are more vocal about all this, but households are particularly impacted. Regardless of their short-term, energy-related variations, prices are generally much higher than they used to be one or two years ago. In particular, the dramatic increase in memory chip prices is causing affordability issues on a wide range of consumer electronic devices, such as computers or smartphones. Wage hikes, which had been announced in the post- Covid period and were due to be spread over several years, will soon be fully implemented, and corporations, which have now turned to a more cost-conscious mode, will probably not be prepared to remain as generous as they were by then. In addition, while the acceleration of baby-boomers' retirement keeps unemployment low, **its effects on consumers' purchasing power is not the same as when proper jobs are being added, or when the age pyramid has a sounder shape**. All this also requires a selective stance, especially in discretionary consumer goods or expensive services, where we still favor less durable or low-price point retail. For example, while demand has remained favorable so far in tourism-related areas such as airlines and cruises, we remain reluctant to have exposure to these businesses as long as we don't have more visibility about their fuel costs and consumer spending. Similarly, we would be particularly careful before we buy US carmakers, whose growth is threatened by cheaper Chinese products.

This said, securities' recent price movements have been much larger than the flattish index suggests. While 20-30% variations are not uncommon in the US market for "normal" stocks after a surprising earnings announcement, it is much more exceptional to see Microsoft or Apple gain or lose 15% in a single day. Reactions to capital spending announcements by the large "hyperscalers" were also interesting as very similar news did not produce the same results depending on the announcement's time. **This, in our opinion, means that investors are nervous, and do not always know clearly what to expect**. We thus plan to remain cautious for the moment, and favor investments whose growth is backed by either a strong visibility about demand, or a turnaround initiative managed by seasoned executives.

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