

THE FUTURE STRATEGIST

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IN THIS ISSUE



Q2 2026:
Stock market
performance
summary
1



Space: "To
Infinity and
Beyond" –
Buzz Lightyear
4



AI Debt doom
loop and the
impact on the
US debt
market 6



Robotaxis:
The future of
our urban
streets?
7



The oil
exploration
reset
9



When valuation
loses its voice
11



India's
manufacturing
story is getting
more precise
13



Outlook
16



Q2 2026 COMMENT: *Stock market performance summary*

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

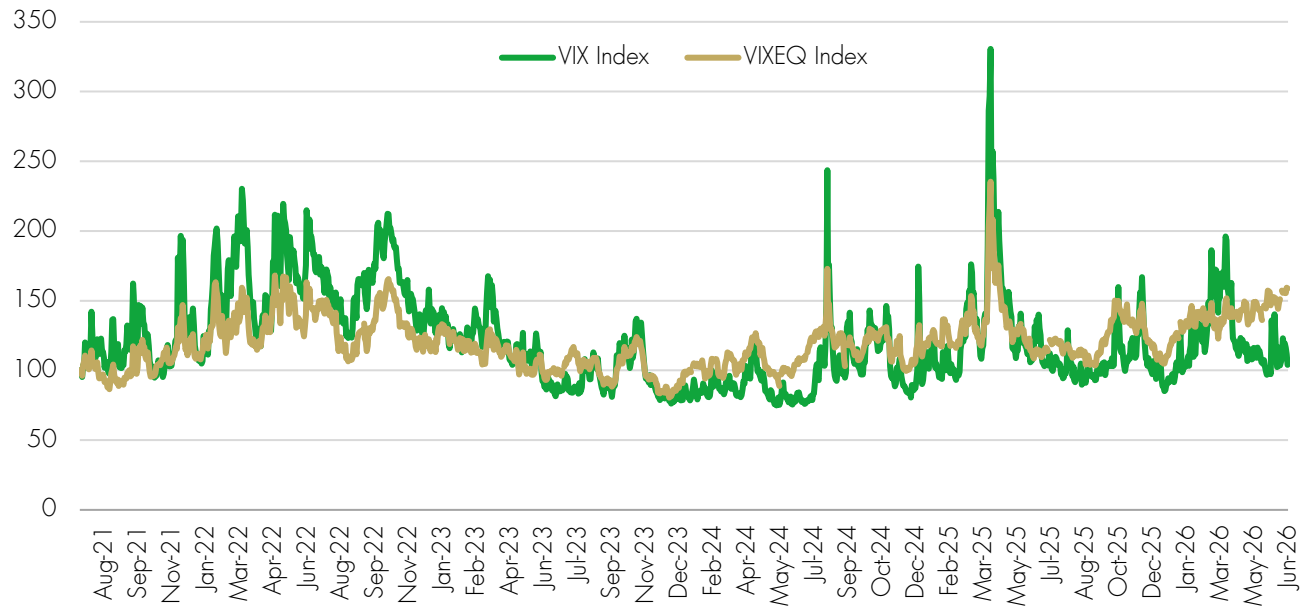
The first half of 2026 compressed years' worth of market drama into just six months as record setting AI-fuelled rallies collided with war, rate shock and violent rotations beneath deceptively calm index headlines.

The MSCI World ACWI Index was up just +10.4% and the S&P 500 by +9.6% in a period in which the US SOX Semiconductor index rose over 10 times that amount, reflecting AI-mania (+101%). To frame this, there has never been such a level of dispersion between a major index and a broad industry sub-sector – it is price action more often associated with narrow, speculative episodes such as bubbles, single country crises or events like energy shocks. At the same time, the market was digesting a war with Iran, an uptick in inflation and a new Fed chair with all the implications this has for interest rates.

This is not straight forward either – the market entered 2026 expecting a series of rate cuts throughout the year and sits at the half-year point with the balance of probability set for flat or raised rates. Outside the huge AI momentum trade in semiconductors and hardware, investing against this market backdrop has not been easy.

One of the ways in which the uncertainty of outcomes manifested itself in the first half of the year has been in the relationship between market volatility, which has remained well balanced, and single stock volatility that has been highly elevated. The chart below shows the dispersion has reached extreme levels.

VIX Index Volatility versus VIX Single Stock Volatility

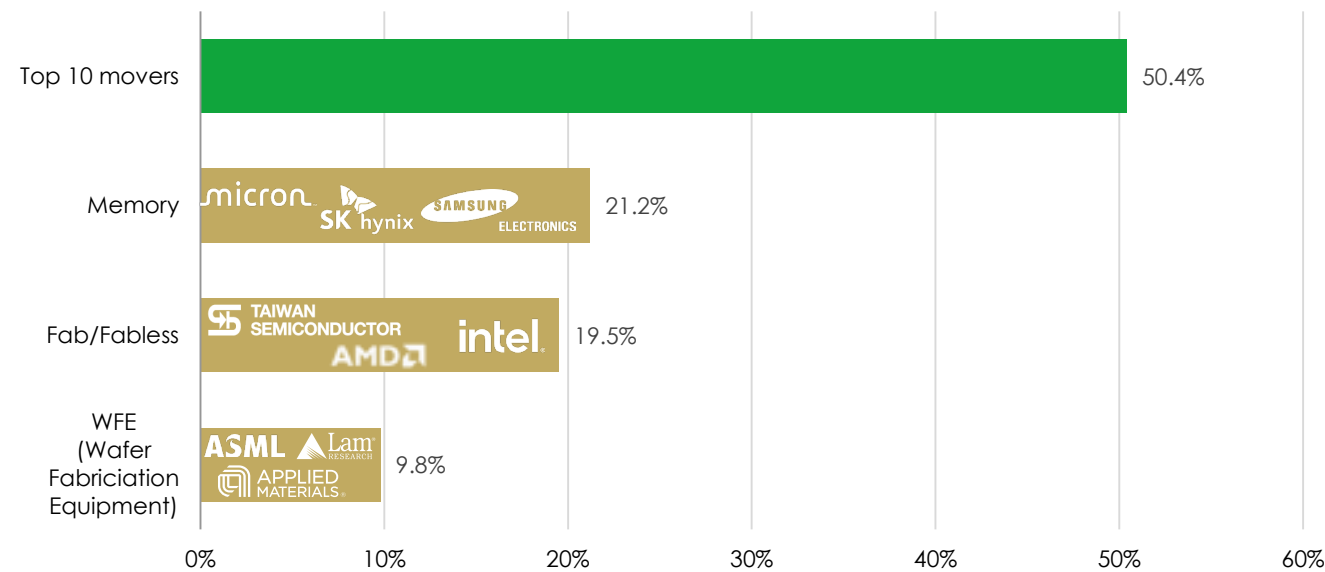


Source: Bloomberg, 30 June 2026.

This has been a difficult factor to navigate and is suggestive of a market that is struggling to find the next major directional move.

It is no surprise that the market finds itself here. There has rarely been so much uncertainty about the ultimate resolution of a series of factors. Perhaps the biggest at present is the AI trade. It is extraordinary how much of the market appreciation is explained by a few names and this year not from the Magnificent 7! Over 50% of the MSCI World ACWI index performance has come from just 10 AI-related builders and suppliers as shown below; these split into three broad categories: memory/storage, fabrication and fab equipment. At the same time, the M7 had diverse performance, also shown below, but with an aggregate negative attribution in the first half of 2026.

Top 10 MSCI contributors



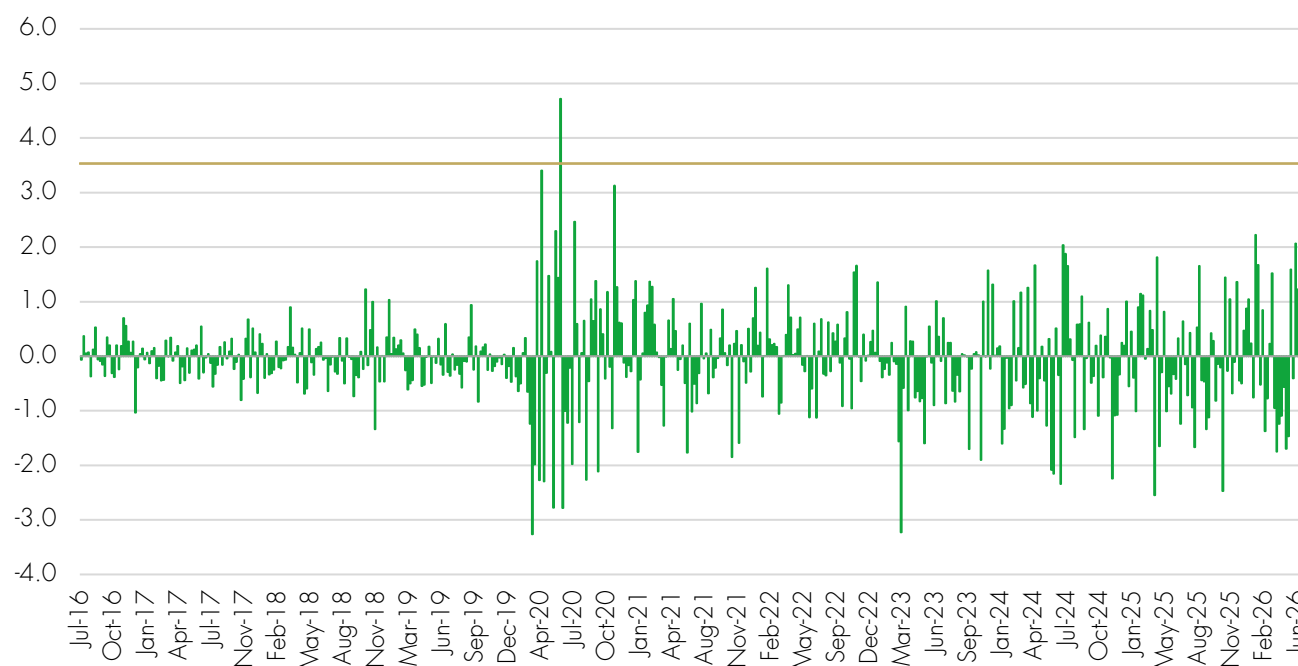
Source: Bloomberg, July 2026.

Company	MSCI ACWI Weight (%)	H1 2026 total return (%)	Attribution (bps)
 NVIDIA	4.83	+6.08%	+29.5
 Apple	4.71	+6.97%	+33.0
Alphabet	3.58	+12.20%	+43.6
 Microsoft	2.70	-20.78%	-56.2
 amazon	2.33	+5.23%	+12.1
 Meta	1.37	-13.25%	-18.0
T E S L A	1.05	-3.99%	-4.2

Source: Bloomberg, 30 June 2026.

Such has been the M7 weakness that the equal weighted S&P has shown some significant outperformance moves on a weekly basis which have not been seen since the Covid crisis in 2020.

Difference in weekly % change S&P market cap weighted index vs the S&P Equal Weighted index

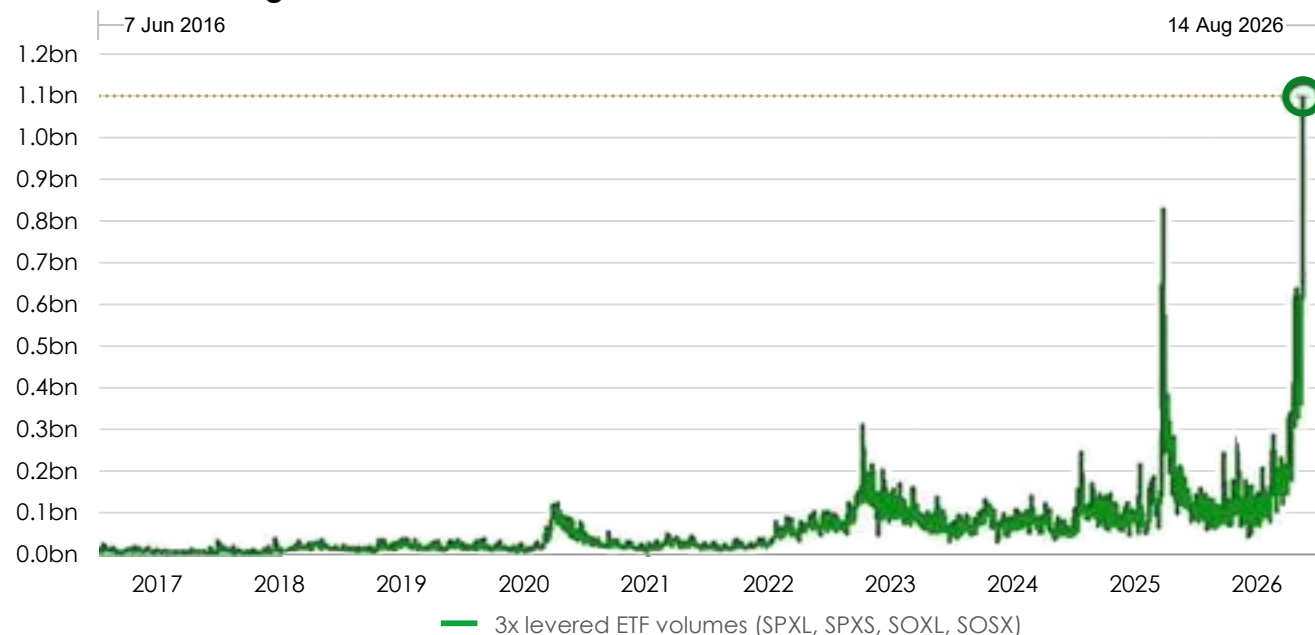


Source: Bloomberg, 30 June 2026

One byproduct of the performance concentration has been the way in which apparent geographic winners and losers are also driven by the exact same factor. The MSCI Emerging Markets index is up +22.6% in the first half of 2026 but that performance was entirely driven by the Korean and Taiwanese AI names. There is no getting away from the fact that to perform in the first half, exposure to memory and AI was important, and that required acceptance of momentum over valuation in many cases.

Outside equities, the demise of crypto and gold in the second quarter in particular is a worrying sign and suggestive of the further 'all-in' nature of the AI trade. This is further mirrored in the positioning of retail investors that are now probably the primary driving force of short-term market moves. The sharp increase in leveraged ETFs is also a concern.

Evolution of trading volumes in 3x levered ETFs



Source: Goldman Sachs, July 2026

Further fuelling the levered ETF trade has been the re-emergence of a vibrant IPO market, culminating in the extraordinary IPO of SpaceX. Rarely has an IPO been so cleverly managed and executed to ensure that the retail enthusiasm was certain to give the issue the best possible 'launch'! A tiny free float of 5% coupled with early index inclusion and a bigger than usual retail offering all helped to get SpaceX away at a valuation exceeding \$2 trillion even though that equated to an eye-watering 100 time revenues.

All these factors have made for an intense half year for equities and sets the stage for further volatility and dispersion of returns through the second half of the year.

Space: "To Infinity and Beyond" – Buzz Lightyear

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

When we first wrote about the space investment opportunity just 12 months ago, we used the Star Trek introduction "Space, the final frontier", and for investors that would seem to hold truer today than back then. However, the hype surrounding the SpaceX IPO leads us to think that the already AI-crazed investment landscape has turned space into far more of a Toy Story-like fairy tale and so the words of Buzz Lightyear now seem more appropriate!

We showed a chart last year, with estimates from Morgan Stanley, of a \$1 trillion space economy opportunity of which about 10% was considered applicable to the satellite launch market. The S1 from SpaceX turned that number on its head by a factor, predicting a space economy TAM (total addressable market) of \$28.5 trillion in a market framed in the wording "We believe we have identified the largest actionable total addressable market in human history". However, the actual space portion of the TAM is only a tiny and less than 2% part of the whole. The colossus is the AI opportunity set at 93% of the total. To be clear, there are no AI-driven revenues in space today, and, to be even clearer, there are no time frames put on the \$28.5 trillion TAM. There is much to discount in these hugely speculative claims.



Together with an extremely well managed IPO process, SpaceX listed at the end of June with a market value at the issue price of \$1.75 trillion, over 4 times the level of just a year earlier. There is a total disconnect between the perceived opportunity and hard current evidence when looking at that valuation. It is rather like an investment black hole where fundamental research is crushed to zero volume and the standard laws of valuation (physics in the case of a black hole) break down.

This is not to say that the space opportunity is not real. There is a rush to gain space supremacy in a region devoid of law. The Artemis accords in 2020, which have a non-binding set of agreements and rules of engagement in space, initially with NASA and the State Department and have been signed by a further 70 countries to date which have non-binding rules of engagement in space. However, China is not a party to this agreement; this means the US sees the battle for space as an urgent one. It is a classic winner takes most market in their eyes – whoever takes the Moon or Mars first, wins.

This has resulted in a significant increase in government awards from annual spending. It is estimated the US will spend \$59.7 billion on space in 2027, up 76% from \$34 billion in 2026 according to Stifel. On top of this, projects like Golden Dome will create huge revenue opportunities for defence and space companies alike. In addition, while government-backed agencies in the US and China still command a significant portion of space spending, commercial companies are coming to the forefront as preferred partners. At the same time, the possible winners are extending beyond the oligarch-backed companies like SpaceX and Blue Origin and this provides an off-ramp for companies such as Northrop Grumman, Lockheed and NASA to outsource launch activity to more commercial sources – in fact, Northrop is a direct shareholder in Firefly as part of its diversification strategy.

We think that Elon Musk is, in the words of Captain James Kirk of the Starship Enterprise, “know(ing) the greatest danger facing us is ourselves, an irrational fear of the unknown. But there’s no such thing as the unknown – only things temporarily hidden, temporarily not understood”. This way of thinking has served Elon well in believing that there is no problem or market too big to conquer or disrupt, and we can only marvel at what one man’s vision can achieve. But we believe hype has distorted reality in the short term with the SpaceX valuation and there are better risk-reward names elsewhere. There is no doubt, however, that the journey to understanding space, while light years long, is well underway!

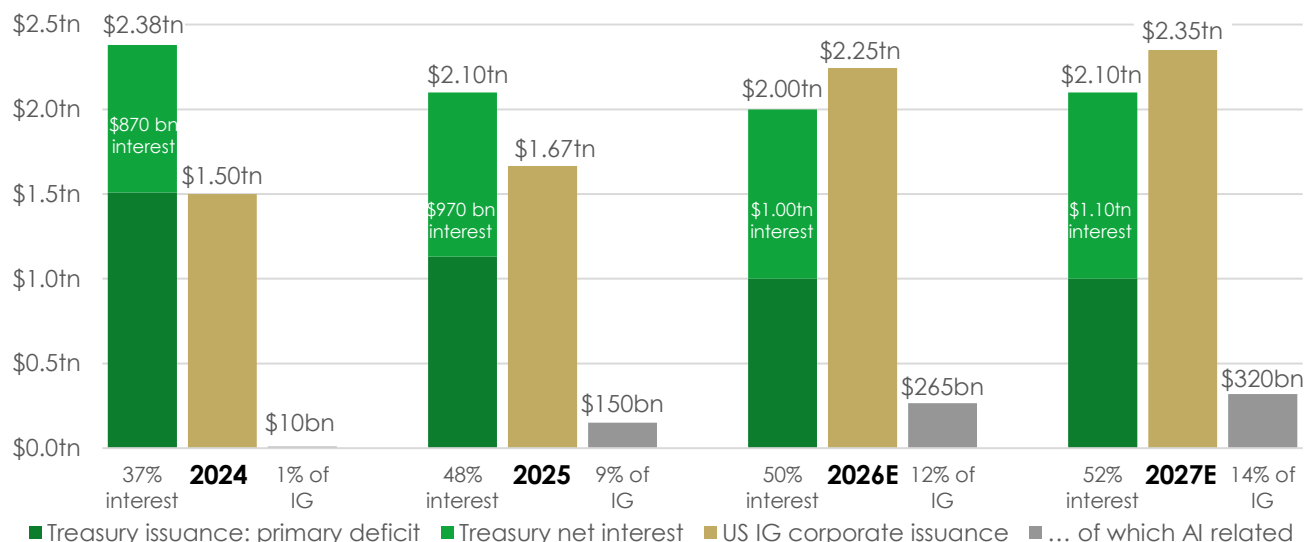
AI Debt doom loop and the impact on the US debt market

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

The US Debt market has a new player..... in size

Why \$300 billion of AI debt will cost the taxpayer

Hyperscaler bonds now around 14% of US IG supply – pressuring the same long-end rates the Treasury needs to roll \$11 trillion of debt



Source: Liontrust, as May 2026. Treasury: private-held net marketable borrowing (Treasury/QRA). Net interest = CBO/PGPF FY outlays mapped to calendar year. Rate assumption: effective average rate on marketable debt ~3.4% (JEC, June 2026); CBO 10y UST 4.1 (2026) → 4.3% (2027). IG corp: SIFMA actuals, Barclays/Pinebridge/Goldman 2026-27 forecasts. AI subset: hyperscaler bonds + datacentre ABS (BofA, UBS, Mellon, MUFG).

Note: 2027 figures are estimates.

For two decades, US Treasury supply was the only show in town for high-grade duration. Not anymore. Corporate debt has been steadily increasing to rival the total issuance undertaken by the Treasury market. The latest player in the investment grade credit market is a slew of AI-related issuers seeking funding to build the data centre network backed by large mega scale companies. In 2024, AI-related corporate bonds totalled around \$10 billion – a rounding error – but by 2027, this figure will be \$320 billion, roughly one-seventh of all investment-grade issuance. Meta, Microsoft, Alphabet, Oracle and Amazon have collectively become the second-largest source of new long-duration paper in the dollar market, behind only the US government itself.

This surge in issuance lands on a Treasury market that is already running hot for a different reason, net interest costs. In 2026, the US government will issue \$1 trillion of new debt just to pay interest on existing debt obligations – half of all Treasury issuance is now refinancing the past, not funding the present or the future. Primary borrowing has actually fallen 35% since 2023 as revenues surged but interest is on autopilot, and it grows with every basis point of rate pressure.

This may not concern the debt markets at present but in time, and especially if these AI projects are slow to generate returns, it will. Hyperscaler issuance crowds the long end, adding further pressure to 10 and 30-year yields. In turn, higher yields mean higher refinancing costs on the \$11 trillion of Treasury debt rolling over the next three years. Higher interest outlays mean more Treasury supply and more Treasury supply, alongside more AI supply, results in still-higher yields.

A number of Fed organisations have raised the flag; the Dallas Fed has quantified the duration risk, the San Francisco Fed has flagged the rate-channel mechanics and Citadel Securities has warned of affordability cliffs.

We believe that markets have not yet priced the risks fully but the facts seem clear: AI capex is now becoming a sovereign-scale macro variable and the Treasury is paying the bill.



Robotaxis: The future of our urban streets?

PIERAN MARU, FUND MANAGER, GLOBAL EQUITIES TEAM

London has long been synonymous with the iconic black cab, a symbol of navigational mastery earned through 'The Knowledge'. However, a new generation of vehicle is emerging that requires no driver at all, threatening to upend this tradition. What was once in the realm of science fiction is rapidly becoming reality. A growing field of competitors, each with different technologies, is racing to reshape urban transport and redefine fleet management and mobility markets, all within the UK's evolving regulatory landscape.

The debate in autonomous driving is no longer simply about who gets there first but how they see the road and perceive the world around them. Some build their systems around LiDAR (Light Detection and Ranging), radar and cameras working together, while others believe that advanced camera-based systems and AI alone is enough to drive safely at scale.

LiDAR uses laser pulses to create a detailed 3D map of the vehicle's surroundings, providing strong depth perception and accurate localisation, even in challenging light conditions. This makes it highly attractive for operating in dense and complex urban settings. Today, Waymo exemplifies this approach. Before launching in a new city, Waymo thoroughly maps roads, lane markings, crossings and signage in detail. These high-definition maps are then used in conjunction with real-time sensor data and AI. The trade-off, however, is cost and complexity. LiDAR-based systems remain data-intensive and require significant investment to deploy at scale.



The alternative is a vision-first approach; in this model, vehicles rely primarily on cameras and neural networks to interpret lanes and hazards, imitating how a human driver would act. Advocates argue that camera-first autonomy is cheaper and more scalable because roads were designed for visual perception rather than laser mapping. The challenge is that much of the complexity shifts into software. These systems require increasingly sophisticated AI to perform robustly in poor lighting, bad weather or unfamiliar edge-case scenarios.

Wayve, a UK based startup, has introduced a third perspective. Rather than committing to a specific sensor configuration, the company is taking a hardware-agnostic approach built around what it calls embodied AI. Rather than building autonomy around hand-coded rules, city-specific HD maps or a heavily engineered sensor stack, Wayve is developing an end-to-end "embodied AI" driver trained on large-scale, globally diverse driving data. The ambition is to create an AI driver capable of understanding its environment, anticipating risk and adapting to entirely new locations without extensive re-engineering or mapping. If successful, the model could be licensed across multiple vehicle manufacturers and fleet operators, significantly lowering the barriers to deployment.

As the technology matures, capital is becoming increasingly concentrated among a small number of leaders. Early 2026 attracted record levels of funding towards those seen as having a credible path to commercial scale. Waymo raised a remarkable \$16 billion earlier this year while Wayve secured \$1.5 billion to accelerate the rollout of autonomous passenger services. The road ahead is still long but the market is signalling the players likely to shape the future of mobility.

For mass-market robotaxi adoption, ride-hailing platforms such as Uber aim to become the distribution and fleet-management layer for autonomous vehicles. Rather than owning the full self-driving stack, Uber can provide the software, customer demand, payments, support and operational infrastructure needed to run autonomous fleets at scale. By partnering with multiple autonomous driving companies, Uber can avoid placing a single technological bet regardless of which vehicle manufacturer, sensor architecture or autonomy platform ultimately emerges as the winner. In a fully autonomous world, Uber could help maximise fleet utilisation, smooth peak demand and manage hybrid networks of both human-driven and autonomous vehicles. However, this position is not without risk. A premium Waymo experience, for example, could encourage users to book directly through the company's own platform rather than via Uber. Signs of this tension are already emerging. In Phoenix, Uber and Waymo ended their previous partnership, with Waymo continuing to operate its autonomous ride-hailing service directly through its own app.

Uber's AV Strategy

We are executing against our AV strategy

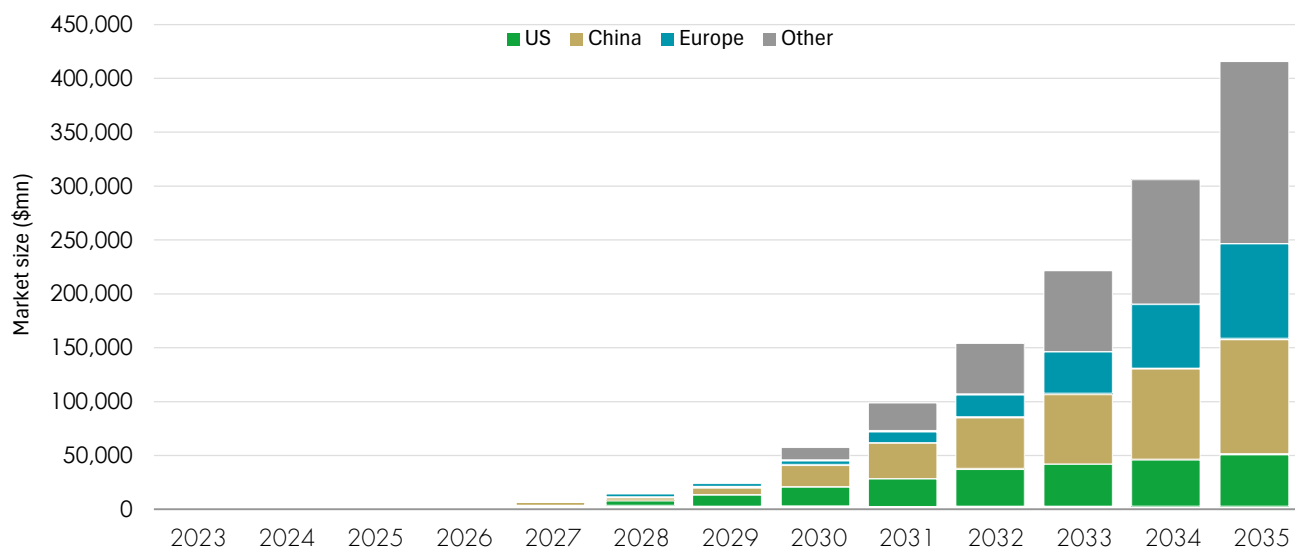


Source: Uber's Q1 2026 Earnings Call

While the commercial opportunity is becoming clearer, regulation remains a crucial piece of the puzzle. In the UK, regulation is finally catching up with technological progress. The Automated Vehicles Act 2024 established a targeted high-level framework, and the government is now accelerating the rollout of the Automated Passenger Services permitting scheme to enable commercial service pilots. Waymo and Wayve powered vehicles have already become a familiar sight on London streets, albeit still with a human driver in support. Under the proposed statutory instrument, deployments are anticipated once the Act is fully implemented in the second half of 2027.

Regardless of which technology prevails, autonomous vehicles appear to be reaching an inflection point of becoming a reality on the streets of London. The successful commercialisation of autonomous vehicles has the potential to unlock a massive mobility market, with the global robotaxi sector projected to reach a \$415 billion valuation by 2035, helping to redefine urban transportation and how people move throughout cities.

Robotaxi market size



Source: Company data, Goldman Sachs Research

Values for 2026 onwards are estimates.

[1] Uber Q1 2026 Earnings. [2] <https://www.goldmansachs.com/insights/articles/robotaxis-to-become-a-400-billion-dollar-market-in-2035>



The oil exploration reset

KEVIN KRUCZYNSKI, FUND MANAGER, GLOBAL EQUITIES TEAM

Oil companies have been living off discoveries made years ago. Like a household spending savings without topping them back up, this can work for a while, but not forever. Exploration spending has more than halved since the last cyclical peak in 2014 and has only recovered partially from the downturn. The result is now showing up in shorter reserve lives: several oil majors have fewer years of proven reserves than they did a decade ago. To keep production steady and protect future cash flows, they will eventually need to find more oil and gas. That should support a multi-year recovery in exploration spending, with seismic and geophysical data companies among the first to benefit.

Oil companies have been running down their reserves

Reserve life measures how many years a company could keep producing at today's rate using its proven reserves. A falling reserve life means the company has less visibility over future production unless it discovers, develops or acquires more resources. Over the past decade, many majors have redirected capital towards short-cycle projects, existing fields and shareholder returns rather than large new discoveries. This has helped near-term cash flow, but it has also reduced the reserve cushion. In simple terms, the industry has been drawing down its asset base to maintain output.



Oil Majors Estimated 1P Reserve Life (Years)

Company	2015	2025	Change
 bp	14	7	-7
 ExxonMobil	16	11	-5
 Chevron	14	10	-4
 Shell	12	8	-4
 BR	11	8	-3
 PETROBRAS	14	12	-2
 Tatneft	12	12	0
 TotalEnergies	12	12	0
 eni	11	11	0
 equinor	7	7	0

Source: Company reports/Bloomberg/Statista

The key point is simple: several major oil companies now have fewer years of proven reserves than they did a decade ago. Unless they find or buy more resources, future production becomes harder to sustain.

Why this creates a new exploration cycle

Energy security has become more important as geopolitics and supply route risks have increased. Oil companies are no longer focused only on the cheapest barrels; they also want reliable and diversified sources of supply. This supports renewed investment in local, regional, deepwater and frontier opportunities. The need is not just to replace lost reserves but to make future supply more secure.

Why seismic companies benefit first

Seismic companies help oil producers see beneath the seabed before they drill, a bit like using a medical scan before surgery. They use controlled sound waves and advanced data processing to map underground rock formations, identify possible reservoirs and reduce the risk of drilling expensive dry wells. This work happens before drilling, which means seismic companies tend to benefit early when exploration budgets start to recover.

The logic is straightforward; oil companies have run down reserves, they need to explore again and seismic companies get paid near the start of that process. Industry consolidation, including the TGS/PGS merger, has also removed excess capacity and strengthened pricing power. With utilisation already high, even modest extra demand should translate strongly into margins.

The main seismic tools are:

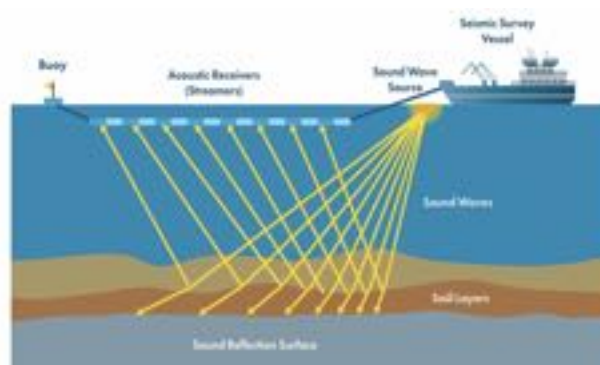
- Seabed sensors that capture clearer offshore images, particularly in complex deepwater areas
- 3D and 4D mapping that helps operators understand reservoirs and track how they change over time
- AI-enabled processing that improves image quality and speeds up interpretation
- Data libraries that can be sold repeatedly to multiple oil companies as they screen new basins and licensing rounds

Seismic vessel



Source: www.tgs.com/seismic/marine-acquisition

Seismic survey diagram



Source: Bureau of Ocean Management (BOEM)

We hold TGS and Viridien across the funds, giving us direct exposure to the part of the value chain most geared to a recovery in exploration activity. Both companies combine scarce seismic capacity, valuable proprietary data libraries and operational gearing. A relatively small recovery in customer spending could have a much larger impact on their pricing, margins and cash generation.

Why short-term oil price moves do not change the bigger picture

Oil prices will always move around with geopolitics, OPEC decisions and supply news. If tensions around Iran ease, for example, additional supply could pressure crude prices in the near term. But this does not solve the longer-term problem of reserve depletion.

Exploration decisions are based on multi-year project economics, not a few months of oil-price volatility. Many deepwater projects can still work at around \$40–50 per barrel, so the need to replace reserves should continue to support seismic demand through the cycle.

The simple thesis is that oil companies cannot keep producing from yesterday's discoveries forever. As they return to exploration, the companies that help them decide where to drill should be among the first to benefit.



When valuation loses its voice

DAVID GOODMAN, FUND MANAGER, GLOBAL EQUITIES TEAM

Markets need valuation guardrails. Why? Because price and value can rapidly part company.

What investors pay for a share and what the underlying business is worth can be very different things. In markets driven by enthusiasm, momentum or fear, the gap can widen quickly. Fundamental investors challenge it. They sell, trim or refuse to buy when prices run too far ahead and step in when pessimism has gone too far.

For much of modern market history, active managers supplied a large share of that valuation-driven capital. They did not prevent bubbles and they were not always right. But they gave markets a counterweight to momentum by asking whether a price already reflected too much optimism or too much fear.

That counterweight has weakened as fundamental investors have become a smaller share of market assets. Passive funds do not set prices on their own, they are still made at the margin. But if less marginal capital is valuation sensitive, valuation may take longer to matter.

Passive investing has accelerated this shift. By the end of 2025, passive funds represented a majority of US long-term mutual fund and ETF assets. That is not a criticism. Passive investing has lowered costs and widened access. But passive funds are designed to reflect prices, not challenge them.

When a company becomes a larger part of an index, each new dollar flowing into a market capitalisation weighted passive fund allocates more capital to it, regardless of valuation. This is valuation ambivalent demand: rational for many investors, but limited as a force in price discovery. It takes the market price and transmits it through new flows.

Its influence grows when it meets other forces indifferent to valuation. Retail investors may be drawn to a compelling story. Momentum strategies buy because prices are rising. Professional managers feel pressure not to be underweight the strongest performers. Leveraged ETFs add a mechanical layer as the exposure must be reset regularly. They may add exposure in rising markets and reduce it in falling ones. This amplifies buying after prices rise and selling after they fall.

The process is clearest on the way up. A company captures investors' imagination and its share price rises. Sometimes that is justified by better profits, higher returns on capital or a larger addressable market. The risk comes when the price starts to validate itself and expectations move faster than the business can support.

As market value increases, the company becomes a larger part of major indices. Passive inflows allocate more dollars to it. Momentum follows the price. Managers who doubt the valuation face pressure as the stock drives benchmark returns. Success attracts capital and capital reinforces success. This is the momentum flywheel.

The same process can work in reverse. When fresh buyers thin out, confidence fades and the share price stops validating the story. Momentum investors reduce exposure. Retail investors sell because the narrative no longer feels safe. Leveraged products may cut exposure. Passive funds remain price reflectors rather than value judges. Fundamental investors may begin to see value, but if they are a smaller part of the market, there may not be enough valuation-driven capital to absorb the selling. A stock that rose too far above reasonable value can then fall too far below it. Momentum does not know whether a stock is expensive or cheap, it only knows direction.



The full cycle is not a neat move from excess back to fair value. Prices can move too far in both directions. On the way up, valuation excess may be recognised by fundamental investors but they are not powerful enough to stop the advance. On the way down, selling can be driven less by a fresh assessment of fair value than by fading confidence, risk reduction and the need to find liquidity. Momentum can overshoot both ways.

When valuation regains influence, the market asks a different question; not which companies have risen fastest, but which businesses are worth more than the market believes. This only matters if the business value remains. Some falling stocks deserve to fall and others are punished beyond what the fundamentals justify.

Leadership can then change. Former winners may remain excellent businesses but if expectations become too demanding, future returns can disappoint. A great business can still be a poor investment if too much has already been priced in.

Out-of-favour companies may have strengthened balance sheets, improved returns on capital and compounded earnings with less attention. They needed investors willing to look past recent momentum and ask whether the market had become too pessimistic.

While the rise of passive investing has been good for investors, the market also needs participants whose job is not to own the index but to question it. This is the role fundamental investors play when valuation begins to matter again.

Valuation never disappears. It simply loses its voice for a while.



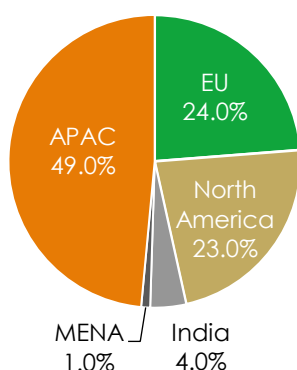
India's manufacturing story is getting more precise

EWAN THOMPSON, FUND MANAGER, GLOBAL EQUITIES TEAM

India has always been easy to understand as a demand story, and aviation is as compelling an example as any. India's airport network has nearly doubled over the past decade, from 74 to 164 airports, with an ambition to reach 350 over the next 20 years. The country is already the world's third-largest domestic aviation market and one of the fastest growing. In early 2023, Air India placed what was then the largest-ever order in global aviation history – around 470 planes worth a reported \$115 billion – only to be followed a few months later by IndiGo, which placed its own 500-plane order.

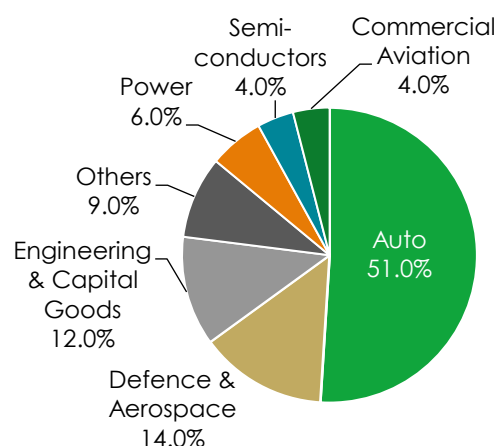
And yet aviation also highlights another side of the India story. For decades, India had the consumers, engineers and low-cost labour advantage but not the infrastructure, logistics or industrial execution to build the kind of manufacturing export base that powered China's rise. India could buy and fill the aircraft but captured only a small slice of the high-end industrial value chain behind them. Given India's economic ambitions, the challenge is to develop a scaled manufacturing base capable not only of serving its vast domestic market, but also of capturing a meaningful share of global supply chains – especially in higher-value segments.

Indian PM industry is 3-4% of Global PM industry currently



Source: Crisil MI&A, Frost & Sullivan, Avendus Spark Research, January 2026

Precision engineering in India sectoral breakdown



Source: Crisil MI&A, Frost & Sullivan, Avendus Spark Research, January 2026

This is where aerospace becomes a compelling test case. Components are often produced to tolerances measured in microns, using difficult materials such as titanium, Inconel and advanced alloys, with heavy reliance on CNC machining, 5-axis capability, specialist tooling, metrology, surface treatment and rigorous process control. Suppliers must clear certifications, audits, customer approvals and repeated quality tests before they are trusted with meaningful work. Complex or customised components can take one to 24 months just to clear First Article Inspection before full production ramps gradually. Once qualified, however, suppliers can become embedded in aircraft programmes that last 30 to 60 years. Rather than being just China+1 assembly work, this is capability-led manufacturing.

The global backdrop is supportive. Commercial aerospace is in a prolonged supply-constrained cycle: aircraft orders have recovered but production has not kept pace. Combined Airbus and Boeing deliveries have recently averaged around 1,200 to 1,250 aircraft annually versus order demand of roughly 2,300 aircraft, creating persistent supply gaps. Current backlogs imply around 12 years of production visibility at today's delivery rates, compared with a historical average closer to seven years. Post-Covid, the issue for OEMs (original equipment manufacturers) is not gaining more theoretical capacity; it is finding qualified suppliers that can meet cost, quality, delivery and certification standards. This is the opening for India.

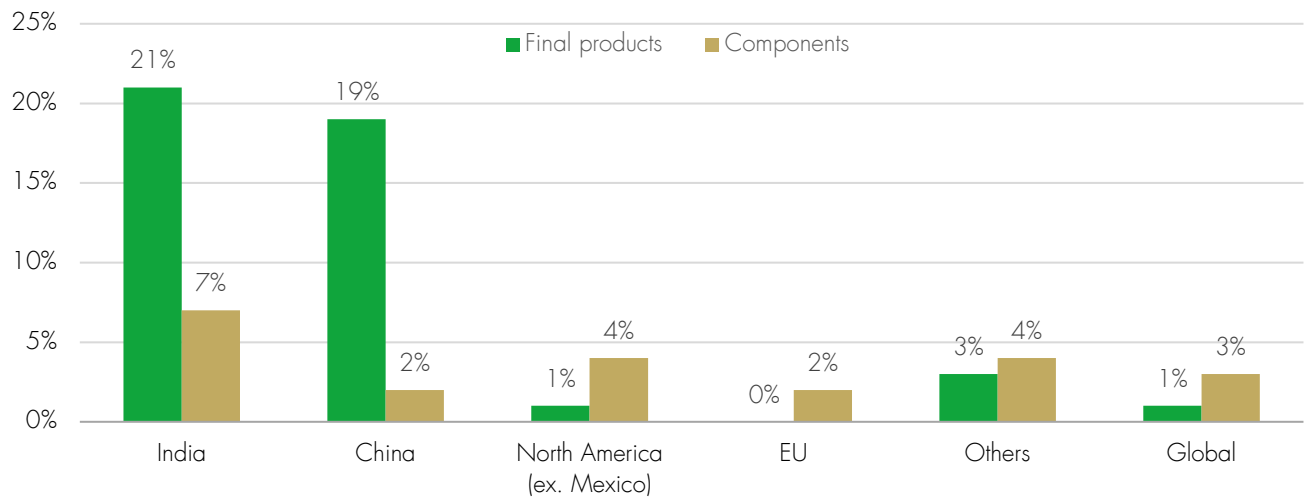
The past decade has also seen a notable domestic shift. Heavy infrastructure investment and top-down policy support have coincided with increasing pressure on global supply chains to seek China+1 alternatives, with Apple’s growing India footprint a headline example. Assembly fulfils the volume aspect of India’s export ambitions, although this should be seen as a stepping stone. The real prize is building value-added industrial capability: certified, high-tolerance and mission-critical components where reliability is as important as cost.

Aequs provides a useful case study. The company has built an integrated aerospace manufacturing ecosystem in Belagavi, Karnataka, bringing together forging, precision machining, surface treatment and assembly. In traditional aerospace supply chains, a part may move across multiple vendors and locations before completion, sometimes leapfrogging continents for different specialist processes. Aequs’ model compresses that chain into a single SEZ, reducing the travel distance for an aerospace component from up to 5,000km to less than 500m. Working with specialist partners on one site, Aequs has built an ecosystem designed to reduce logistics complexity, working capital and customer friction, supplying customers with long-standing relationships including Airbus, Boeing, Safran, Honeywell and Bombardier. Importantly, this is not simply overflow work. In parts of aerostructures, Aequs operates as a single-source supplier, producing qualified components where replacement would require a lengthy requalification process. This is a striking image of Indian manufacturing progress: not a back-up machine shop, but a trusted supplier inside mission-critical global aerospace supply chains.



The point extends beyond one company. India’s auto-component and engineering base has spent decades serving demanding OEMs, building engineering relationships, managing quality systems and increasing content per vehicle. Azad Engineering shows how far this can go: producing high-precision components such as turbine airfoils, aero-engine parts, APU components and other critical rotating or hot-section parts for global energy and aerospace customers. Dynamatic has built positions in aerostructures such as flap-track beams and assemblies, while companies such as MTAR, PTC Industries and Belrise touch different parts of the same higher-spec story – defence, energy, industrial systems, titanium casting, high-tensile materials, precision machining and system integration. The common thread is not simply low-cost labour, it is also the ability to win trust where customers care about repeatability, documentation and process control.

2010-2023 CAGR for Aerospace Exports

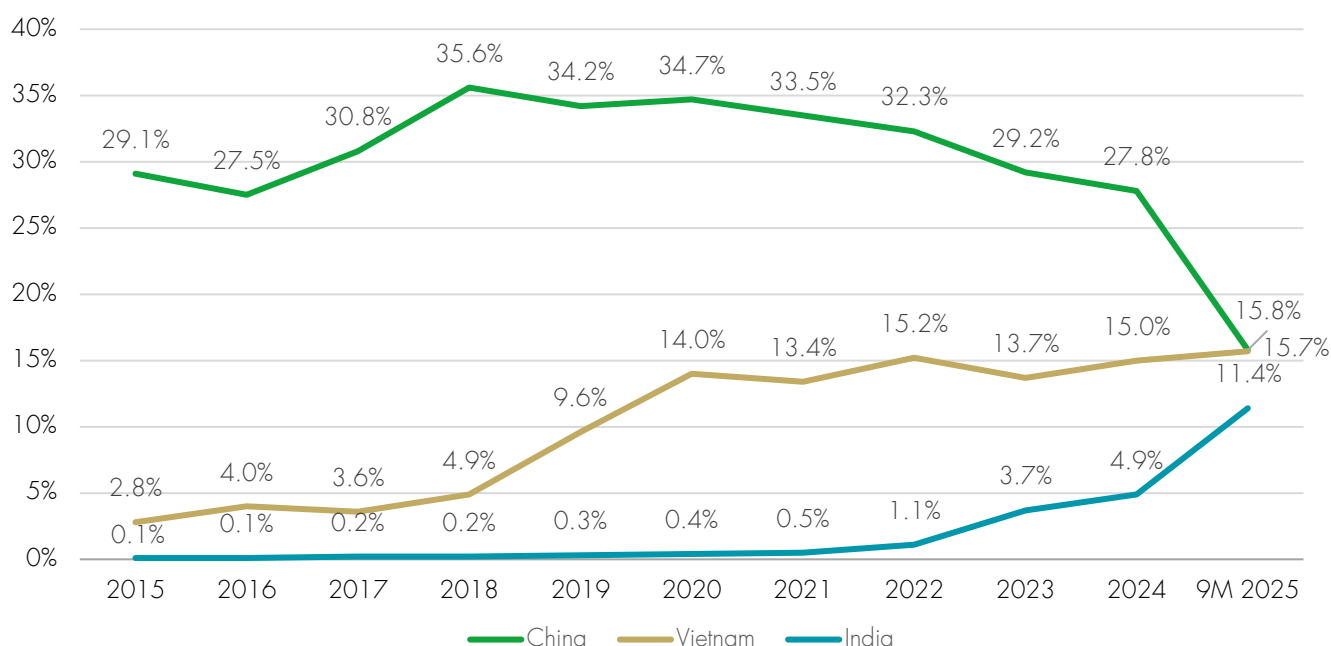


Source: IADB, UN Comtrade, Avendus Spark Research, January 2026

There is also an important adjacency in consumer electronics. The macro goal is final assembly: phones, laptops and wearables being produced in India as global supply chains diversify away from China. But China's electronics advantage was not simply a function of assembly, it grew out of repeated product cycles: tooling iteration, yield improvement, surface-finishing know-how, supplier density and process engineering learned over millions of units. The real capability lies beneath assembly, in precision engineering itself: enclosures, connectors, jigs, fixtures, tooling, surface finishing, camera modules and precision mechanical parts. Aequus' move from aerospace into laptop and smartwatch enclosures captures that crossover. Aerospace is high-mix, low-volume; consumer electronics is high-volume and unforgiving. If India can transfer aerospace-grade process discipline into consumer electronics scale, the industrial opportunity will prove much larger than aerospace alone.

Share of US imports from China has gone down, while it has increased for Vietnam and India

Share of US Electronics Import



Source: Trade Map, Avendus Spark Research, January 2026

The journey is not without risks. Precision manufacturing is capital-intensive, slow to qualify and operationally demanding. Working capital can be challenging and customer concentration is often high. In consumer electronics, the experience of Asian peers shows that scale is usually accompanied by margin pressure. But the reality of India's vast domestic market returns here as a critical support. Global OEMs are keenly focused on establishing manufacturing hubs in one of the world's fastest-growing large consumer markets, gaining proximity to end demand while also benefiting from attractive production economics.

For investors, the opportunity lies not only in "India manufacturing" in aggregate volume terms but also in those companies leveraging these existing deep customer relationships to increase wallet-share and provide an increasing array of critical components where reliability matters as much as cost. India's next manufacturing chapter will be measured not only in factories, volumes and exports but also in microns.



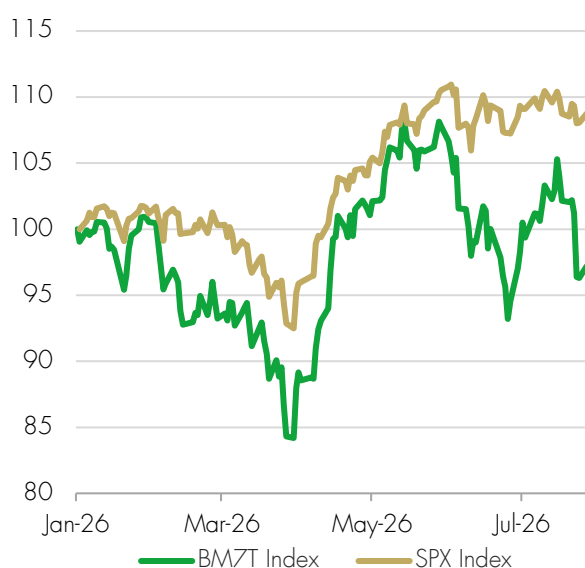
Outlook

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

The outlook for the second half of 2026 is going to be decided by the longevity or not of the AI trade. While macro events, interest rates and overall economic growth matter at the margin, they are a side show to the absolute juggernaut that is driving the US, South Korea and Taiwan markets.

As a consequence, we are beginning to see clear trades emerge in sympathy with or as a consequence of the AI spending theme. The biggest of these is starting to catch the name the Lag 7! After years of being the only game in town driving billions of dollars of retail and passive flows, the very biggest companies are seen as potential losers from a spending spree that threatens their cash flow stability and, therefore, their valuation on an intrinsic basis. This is something we have pointed out for some time and highlighted in the last issue of *The Future Strategist*. Just look at the chart below of the semiconductor sector free cash flows against the hyperscalers; the passing of extremely strong and solid cash flows to investments with uncertain returns has been key in breaking the Magnificent Seven dominance trend.

Magnificent 7 relative performance to the S&P500

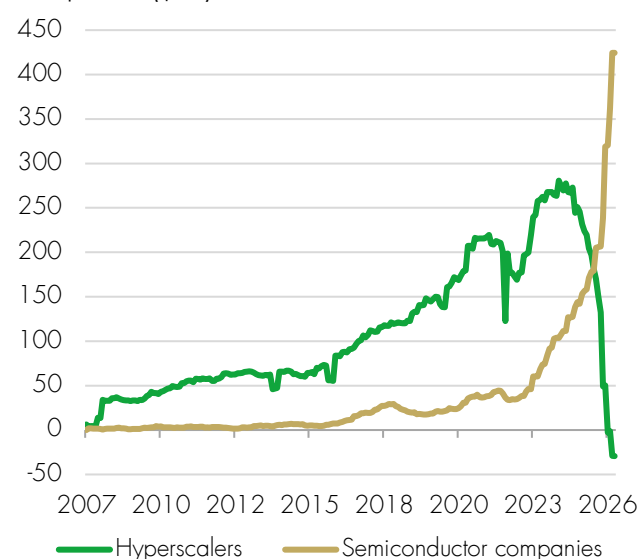


Source: Bloomberg, 27 July 2026.

BM7T: Bloomberg Magnificent 7 Total Return Index.

A generational transfer in free cash flow is taking place

12m forward FCF of 'hyperscalers' and semiconductor companies (\$bn)



Source: BofA Research Investment Committee. Hyperscalers: Amazon, Google, Meta, Microsoft, Oracle, June 2026.

Semiconductor companies: Nvidia, Micron Technology, Broadcom and Applied Materials

At the same time as this theme plays out among the very largest companies in the world, there are signs that the broadening out into other sectors and markets is also a building nascent trend.

In the earlier article, *When Valuation loses its Voice*, David explains the interplay between fundamental investing and the voting nature of the market. We believe the dominance of retail investing (there are now over 100 million online trading accounts in the US), linked with passive flows, has exacerbated the voting trends. Fundamentals take longer to reassert. In this environment, we choose to try to find opportunities in the market for alpha while avoiding the rip tides of the mainstream themes. Anyone who swims in the ocean will be well aware of the dangers of rip tides. The accepted way to manage them is to stay calm, avoid swimming directly against the current, swim parallel to the shore until you are out of the rip, and then return at an angle. This is like markets today!

We believe that trying to predict when the AI spending names start to retreat is impossible. It is a rip tide; fight it and you dance with danger, fundamentals versus the voting crowd. Instead, stay calm, avoid the rip tide and find the calmer waters where investment opportunities abound and it looks like new rotating trends are emerging.

We believe the best investment opportunities for the second half of the year on a risk-adjusted basis will be in sectors where the benefits of using AI can be clearly seen, like Healthcare and Industrials. We are also keeping an eye on the trends in AI spending; if there is any sign of a slow down or realignment of focus to generating cash flows over the spend at all costs, the Magnificent Seven are likely to see a sharp re-rating higher.

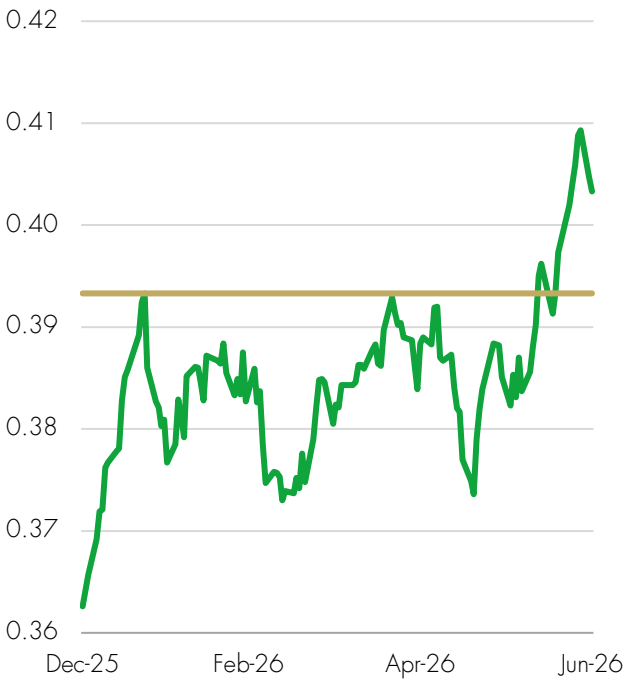
On a geographical basis, we continue to see benefits from diversifying, with Europe, Japan and emerging markets full of interesting opportunities.

S&P 500 Value index vs S&P500



Source: Bloomberg, 30 June 2026

Russell 2000 vs S&P500



Source: Bloomberg, 30 June 2026

For a comprehensive list of common financial words and terms, see our glossary at:
www.liontrust.com/learning/our-guide-to-financial-words-and-terms

Key risks

Past performance does not predict future returns. You may get back less than you originally invested.

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- May encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
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- May invest in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of a fund over the short term.
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- May invest in companies predominantly in a single country which maybe subject to greater political, social and economic risks which could result in greater volatility than investments in more broadly diversified funds.
- The investment approach may follow a specific style. This means funds may perform differently from the broader market or other funds that adopt a different style. For example, growth stocks often trade at higher valuations and can be more sensitive to changes in interest rates or market sentiment, which may lead to greater volatility. Conversely, value stocks may underperform during periods when growth investing is favoured. Although quality companies with strong balance sheets, stable earnings, and robust governance practice may reduce certain risks, they can underperform in markets that favour higher-risk or cyclical investments. If the chosen style is out of favour, a funds performance may be adversely affected regardless of overall market conditions.
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