SELVI & CIE

Summer 2026

The Financial Letter

Review, opinions and markets' perspectives

Summary

Global vision

Regime analysis

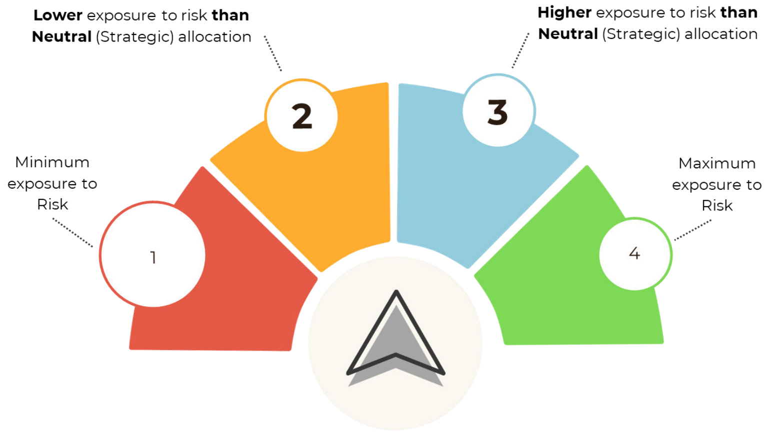
The current geo-economic fragmentation is the antithesis of Adam Smith: where the division of labour and free trade once organised a fluid global market, each bloc is now striving to re-erect borders, duplicate supply chains and 'renationalise' production. This trend not only kills off free trade in the tariff sense of the term, it undermines the very spirit of Smith – the idea that by expanding the market and allowing goods, capital and know-how to circulate, we maximise shared wealth.

We are entering a slower, fragmented regime where everything is more expensive, and the scars of this war may shape decisions for years.

Investment framework

The war in the Middle East will have economic repercussions extending far beyond the battlefield. Geo-economic 'chokepoints' – straits – are becoming weapons in their own right. Rash US military adventurism marks the rise of medium-sized and regional powers. In this era of trade 'weaponisation', resilience is taking over from efficiency.

Global economic prosperity will continue, despite the adverse effects of the conflict. However, current policies are casting a dark shadow over the 2027 outlook. By the end of S2, the great Liquidity Reset, US Mid-terms and huge AI IPOs may put risky assets under growing pressure



Long-term drivers

Review of key Long-term drivers

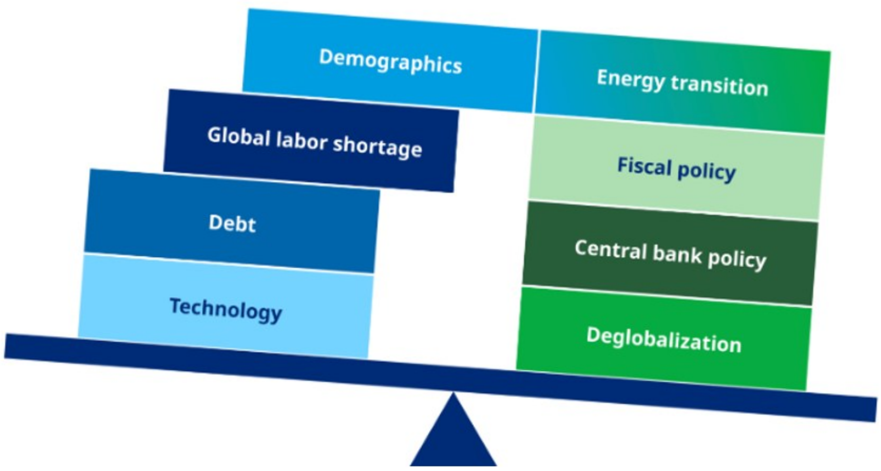
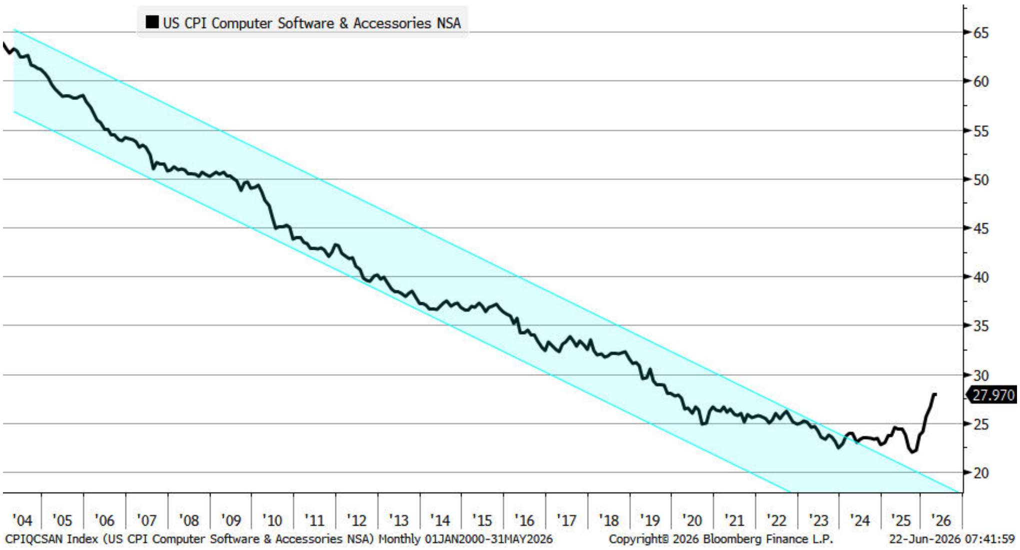


Chart. Macro trends. The spectre of secular inflation is resurfacing.

The end of cyclical disinflation occurred faster than anticipated. The odds of a secular rise in inflation are significant.

- Inflation volatility and regional divergences are rising
- US is less impacted by the energy shock than Asia and EU

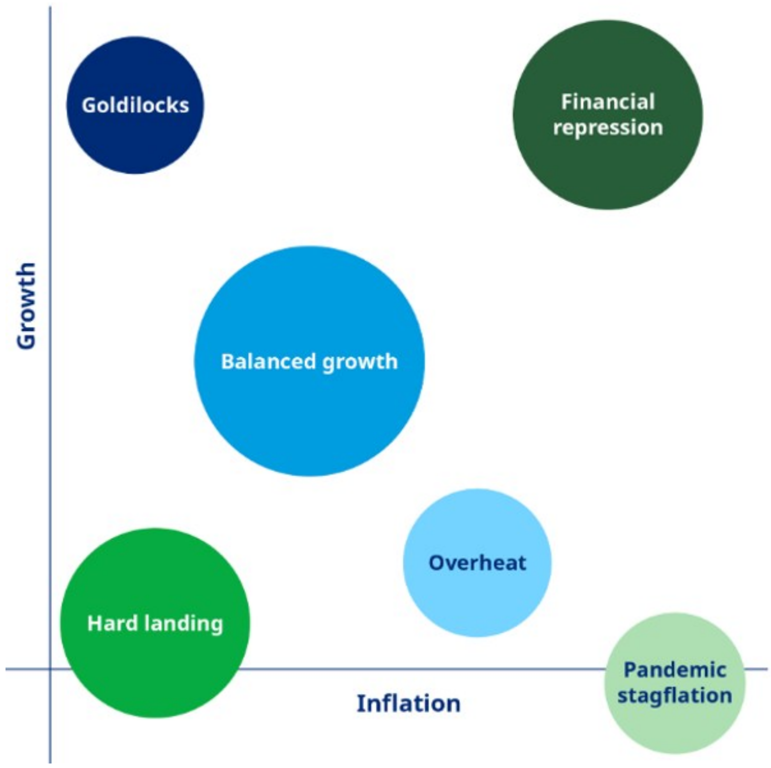
Chart. AI impact on prices is complex.



AI does not always lead to lower prices, but rather to a more ambiguous trend. It drives significant investment in data centres and specialized chips, as well as demand for infrastructure and electricity that affects energy prices.

- Widespread disinflation caused by AI does not reflect reality, the algorithmic revolution tends instead to generate investment and market power, at the expense of consumers.

Chart. Macro Regimes. Unstable, even more so.

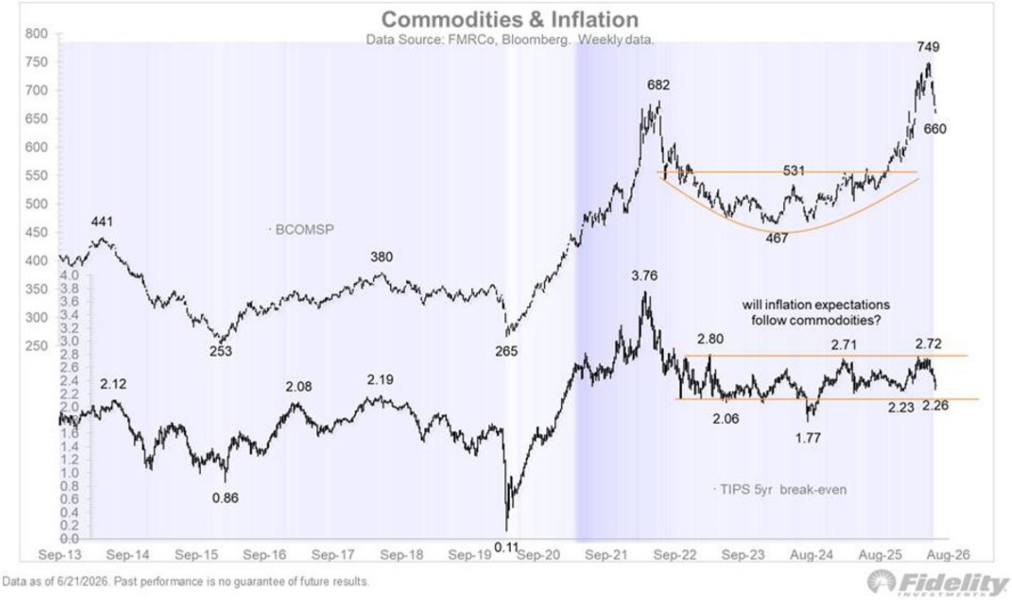


The ongoing rise in cyclical inflation and the persistence of fiscal dominance are significant sources of stress for major central banks (US, Japan, UK, if not EU).

- The US is on the verge of a more turbulent year-end due to the confluence of several major economic and political events

US inflation

Chart. Nothing really new !?



In the heat of the Middle East conflict, US bonds didn't discount runaway inflation. TIPS break-evens are now back down to the low 2s.

- Bond markets do not, quite rightly, expect a return to runaway inflation.
- However, their renewed volatility reflects a certain degree of nervousness

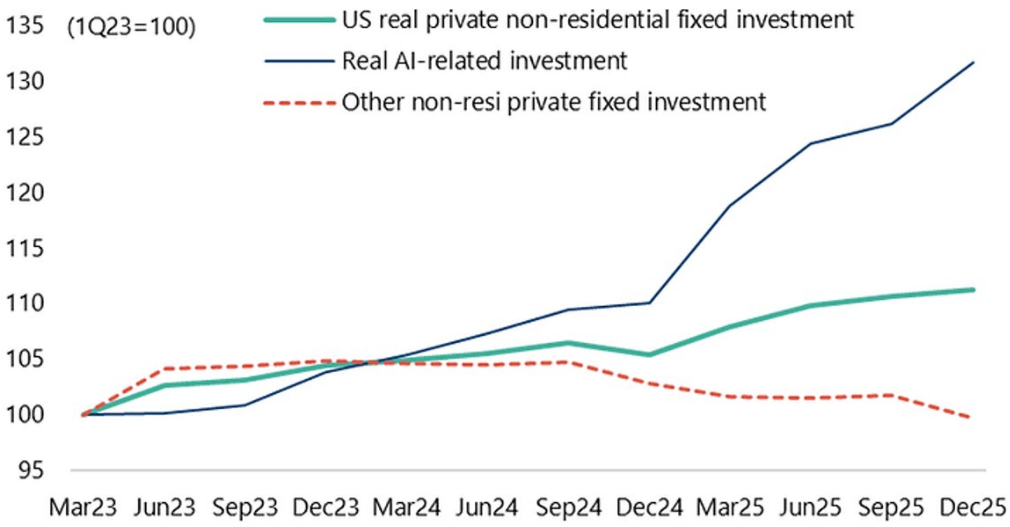
The debasement trade – as featured by gold's outperformance - was primarily

Chart. K. Warsh – a game changer ?

driven by investors' concerns regarding the combination of loose fiscal policies and irresponsible monetary policies.

- K. Warsh's shift towards a less vocal and more pragmatic Fed has started to impact on market's perception
- Jackson Hole at the end of August and task forces' results by year-end will be key factors to monitor

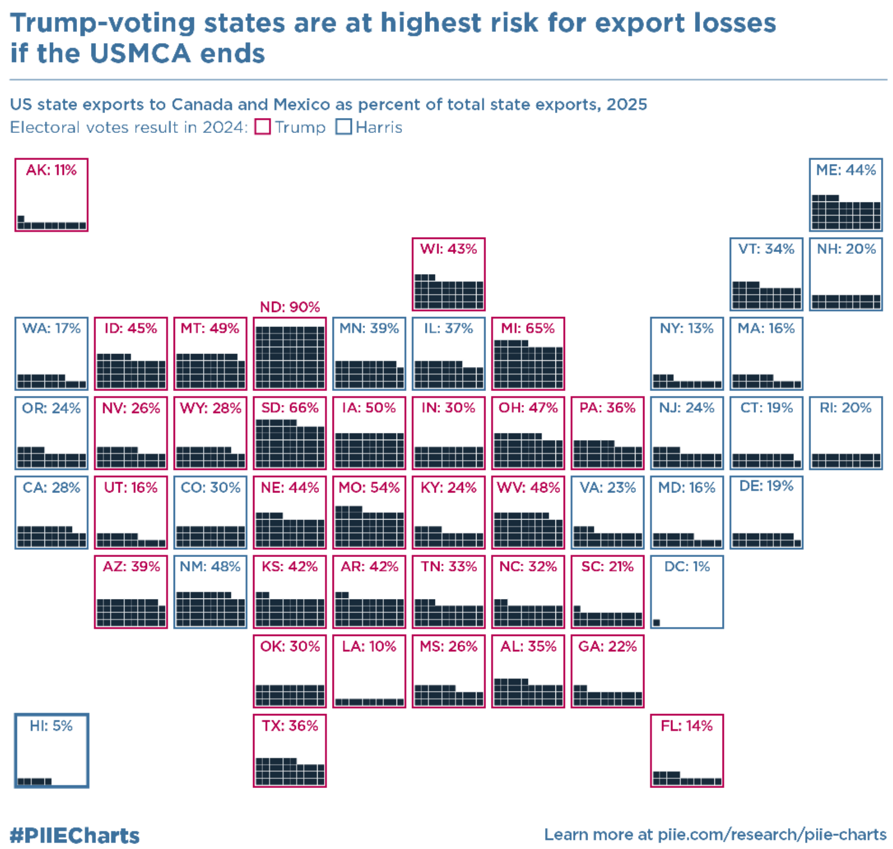
Chart. US Capex – The Great Rebalancing. This time is different.



Spending on artificial intelligence is ballooning, while other segments are declining, particularly in real estate, industrial equipment, and a portion of IT private equity (excluding data centres).

- This trend reflects a rapid reallocation toward AI hardware and infrastructure.

Chart. Trade war Watch for Season 3?



The nullification of “reciprocal” rights (potentially costing up to 3,000 billion dollars over ten years) is putting Trump in a difficult position. He is seeking to withdraw from the USMCA and force bilateral negotiations.

- Possible consequences: disruption of North American supply chains, rising costs, and uncertainty regarding investment and regional growth in Canada and Mexico.

The Great Liquidity Reset

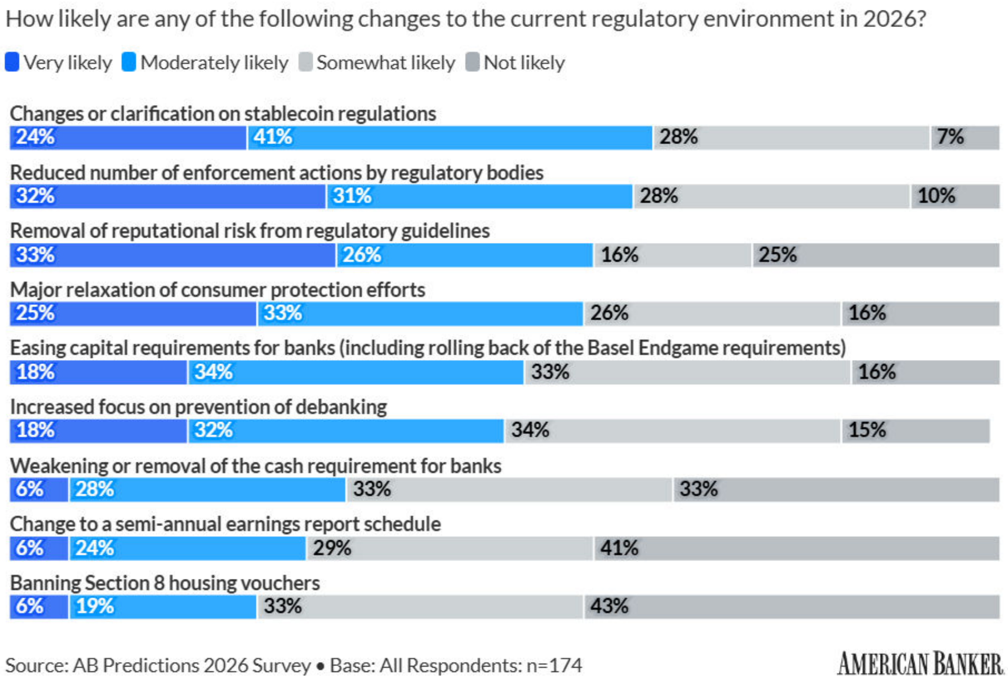


Chart. Private liquidity ¨Liberation¨ .

To offset the Federal Reserve's runoff (approximately −$1,000 billion since 2024), the Trump administration is leveraging the private sector through hasty deregulation. Namely, since April 1, 2026, the easing of Basel regulations has allowed banks to increase their purchases of Treasuries by 15–20%, thereby supporting domestic demand for US Treasuries.

- Higher bank leverage is dedicated to stabilising long-term rates

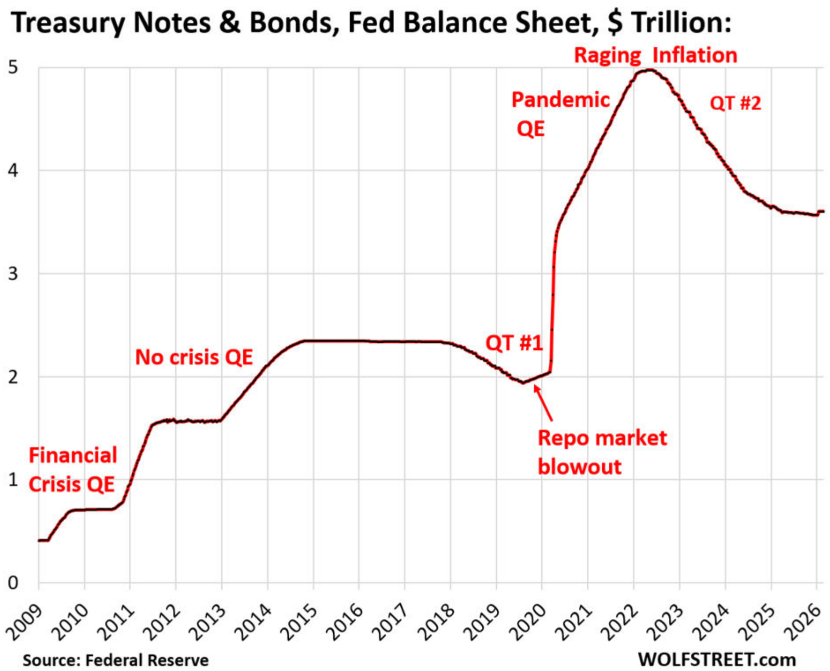


Chart. Fed Balance Sheet. Expect further attrition.

The further reduction in the Fed's balance sheet and the end of QE spells less public liquidity. The upcoming decline is estimated to be between $500 billion and $800 billion over 12 to 18 months. This will be achieved by a lack of reinvestment in Treasuries and MBS.

- The end of the QE program represents a strategic shift that removes crucial support for risky assets (stocks, investment-grade/high-yield credit) and leads to an increase in term and risk premiums.

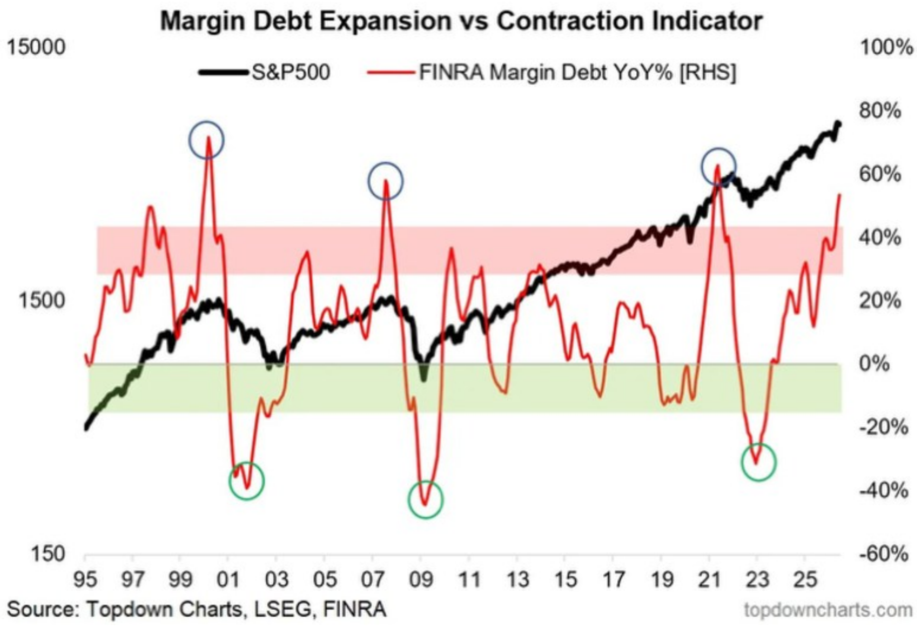
Chart. China Liquidity. Secular turning point?

Liquidity is tightening (Crossborder GLI around 50), but China is emerging from a period of mortgage and quasi-public debt reduction driven by a highly orthodox and deflationary macroeconomic policy. The rise of the yuan in trade settlements—particularly in the energy and commodities sectors—and its growing use as a reserve currency or substitute for the dollar, combined with the shock to energy prices, is now expanding China's room to manoeuvre.

- China is pursuing reflation more proactively by gradually opening the floodgates of domestic liquidity.

Investors : complacency?

Chart. US retail investors' risk appetite is elevated.

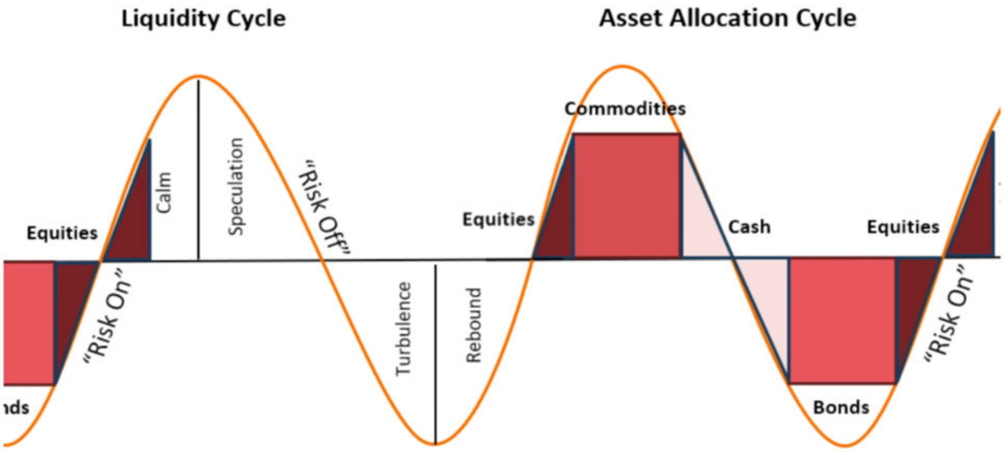


The rise in interest rates did not deter investors from taking on more risk. Rotations intensified, but volatility in major asset classes (VIX and MOVE) remained contained. This created an environment conducive to stock market investing, with a particular focus on leverage and beta.

In Q2, asset managers also invested heavily in U.S. equity and credit ETFs, with net inflows of tens of billions of dollars over the quarter into major S&P/NA trackers and double-digit billions into IG/HY ETFs.

- This environment, in which rising interest rates coexist with an expansion of private-sector exposure, increases future vulnerability to liquidity shocks.

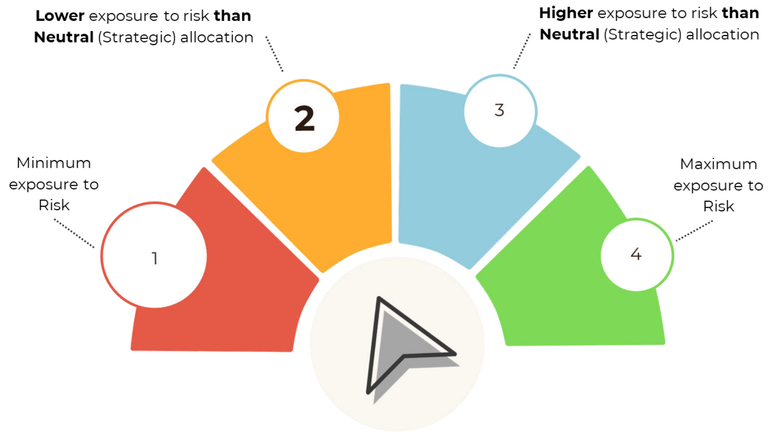
Chart. Allocation cycle: entering very late stage.



The markets have largely ignored—and probably rightly so—the conflict in the Middle East and its immediate impact on commodity prices, just as they have downplayed the deterioration in liquidity, favouring a "macro-fundamental" interpretation over a geopolitical one. More than exogenous shocks, it is now the monetary policy stance that serves as the real catalyst.

- Could Jackson Hole, i.e. a confirmation of a shift toward a less accommodative, more discreet, and less "market-friendly" tone in the Fed's communication, trigger a more nervous reaction in risky assets, with rising risk premiums and increased sensitivity to economic data?

Currencies



The USD has broken out. Now comes the hard part

With the USD having now broken out of its past 15-month range, the easier temptation is to simply join the trend. The macro backdrop has shifted in favour of the USD. First, the war has revived the relative US exceptionalism narrative. The US is less exposed than most major economies to an external energy supply shock. It reinforces the USD role as a suitable refuge currency. Second, US capital markets are again looking like the land of opportunity. The equity AI pipeline points to deep global demand for US-listed exposure. This offers a powerful liquidity magnet. Third, the arrival of Warsh at the Fed has restored credibility. The market has moved from expecting easing to renewed tightening. This was behind the USD breakout.

That said, all good news is discounted. We saw the mirror image in early 2025, when markets became gripped by the dominant narrative of de-dollarisation and the loss of US exceptionalism. Narratives can turn quickly. If Warsh has provided the catalyst for the USD breakout, it is still too early to fully adjudge his ideological slant or policy reaction function.
Any subsequent moderation in his hawkish assessment could just as quickly reverse recent USD gains.

The resilience of the petrodollar system

Chart. EUR/USD vs. 2-year real rate differentials.

Countering narratives of an imminent collapse, the study suggests analysing trade invoicing separately from financial asset allocation, concluding that any structural shift will be gradual rather than transformative.

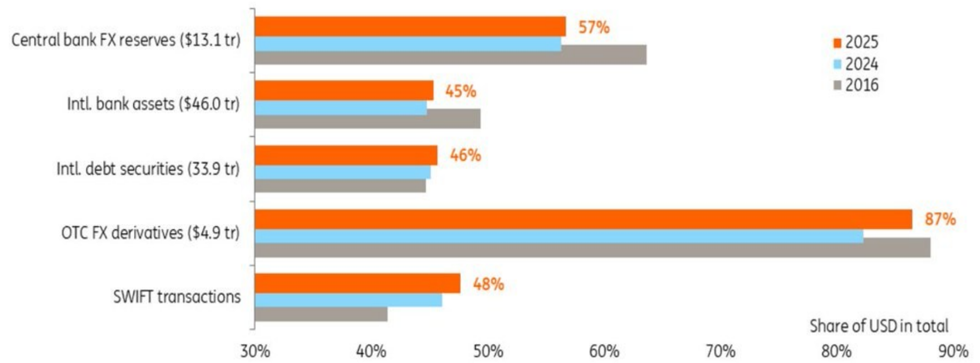
On the transaction side, CNY use via China's CIPS network experienced a brief spike in March 2026 at the onset of the Iran war, before quickly reverting. China's expanding economic footprint, now representing 21% of the Gulf Cooperation Council's external trade, alongside the development of alternative payment infrastructures like mBridge, establishes long-term foundations for diversification.

However, unlike heavily sanctioned nations, GCC economies operate on purely commercial logic, preserving their flexibility in currency selection.

Regarding investments, the role of sovereign wealth funds remains paramount. Excluding Saudi Arabia, the region is projected to accumulate $800bn in cumulative current account surpluses by 2030, managing a total asset pool of $6trn. These holdings remain profoundly anchored in the greenback, with roughly 69% of the Gulf's international assets denominated in USD compared to a global average of 46%. This is structurally reinforced by regional currency pegs.

Consequently, any hypothetical de-dollarization would likely manifest as a deceleration of new USD allocations below the threshold of $100bn per year, rather than a rapid liquidation of the existing $4trn.
Ultimately, although competing currencies such as the euro and the yuan pose some competition, a rapid sell-off of USD assets by Gulf countries is unlikely.

Chart. De-dollarisation stalled.



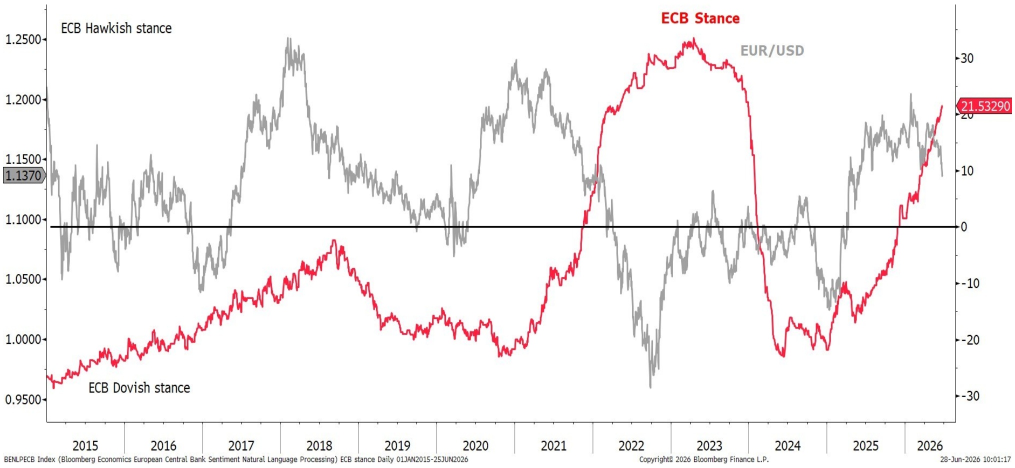
Key indicators of USD's global role

Source: IMF, BIS, SWIFT, Refinitiv, ING; * pre-2025 shares recalculated according to FX rates as of YE25

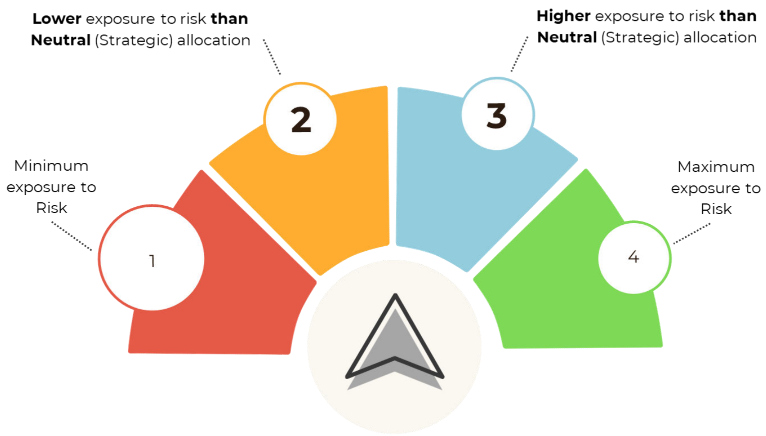
ECB through the noise

ECB speakers caught our attention regarding the extent to which these sharp moves in sentiment, oil prices and exchange rates affected Eurozone policy expectations. Philip Lane sounded less dovish than investors have become accustomed to. He emphasized upside inflation risks, especially from second-round effects, as underlying inflation could still rise as the initial energy shock feeds through the economy. Lagarde was a touch more dovish than at the post-meeting press conference. Her comments that there is no need for a more forceful ECB response could also refer to current market pricing. Lagarde cited ECB analysis showing that an inflation rate that is 1% above target - roughly where it stands today - would imply about 50bps of rate hikes under their Taylor Rule framework. Finally, Schnabel said that June's rate hike decision was appropriate, but that the ECB will need to raise rates further to bring inflation back to the 2% target.

Policymakers' message is that while recent developments have eased some of the pressure, the ECB is not ready to declare victory over inflation just yet, with further action probably needed.



Bonds



Towards more volatility

The new Fed Chair Kevin Warsh has held his first meeting. The meeting was a clear signal that the Fed is increasingly moving away from using forward guidance around upcoming monetary policy decisions.

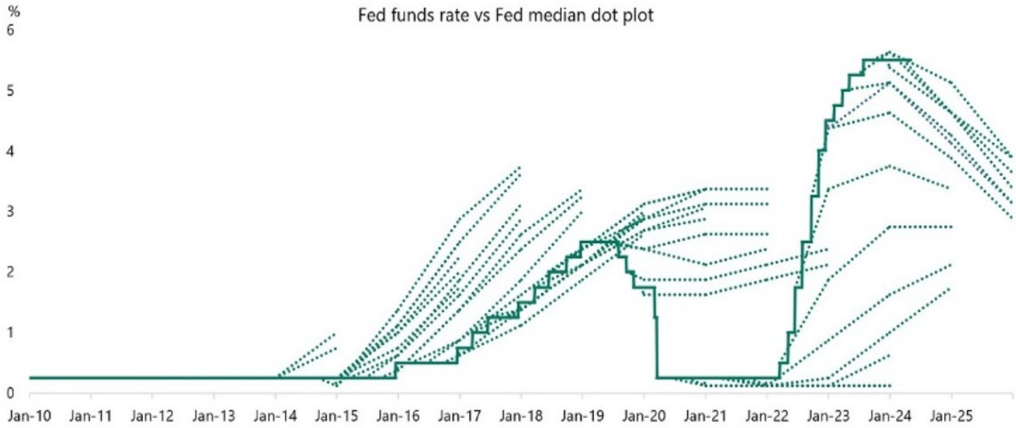
Forward guidance is a tool that central banks use to tell the public about the likely future course of monetary policy. When central banks provide forward guidance, individuals and businesses can use this information in making decisions about spending and investments. The Fed began using it in its post-meeting statements in the early 2000s. Before raising Fed Funds in June 2004, the FOMC used a sequence of changes in its statement language to signal that it was approaching the time at which a tightening of monetary policy was warranted. Another example came when responding to the GFC. The Fed reduced rates to zero and used forward guidance to provide information about likely future monetary policy. It indicated the future path of the Federal Funds.

What should less forward guidance imply for interest rates?

It is difficult to make the case that rates should be higher or lower based on that alone. But it is fair to assume that the pricing of interest rates should become more volatile - if anything. That is exactly what the new Fed Chair wants.

- All indications suggest a preference for greater discretion around future policy decisions.
- A return to letting markets do the work simply means we are going to see more interest rate volatility going forward.

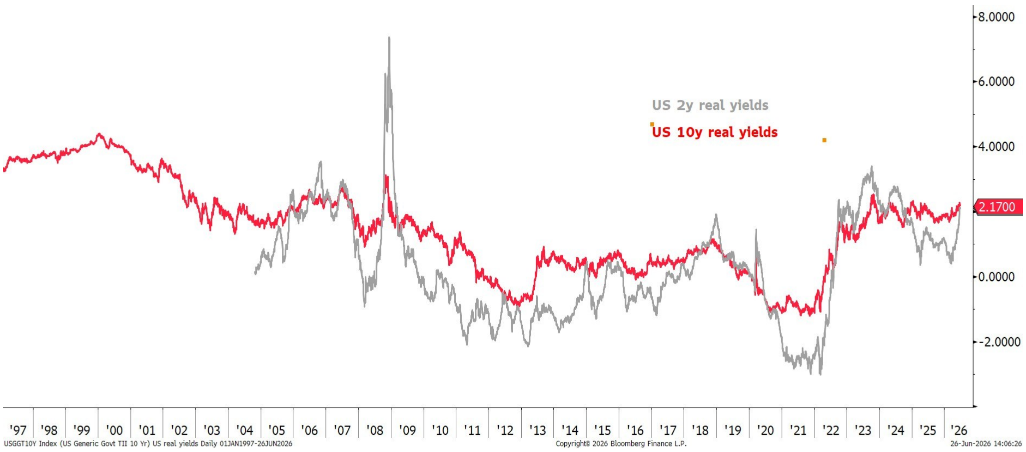
Chart. The Fed's track record points for abandoning forward guidance.



Higher US real yield a source of tension for the administration

Recently, the US real yields rose alongside a decline in inflation expectations. This indicates: 1) higher expected real returns on Treasuries real 2) higher-for-longer federal funds rates. 3) an expectation of higher Treasury supply.

The US 2-year real yield has now climbed to its highest level since the Trump administration took office. We are experiencing the deepest and longest drawdown in the history of the Bloomberg US Aggregate Bond Index. We are moving in the wrong direction, and no one in the US Administration is thrilled about either development. This is the exact opposite of inflating your way out of a debt problem.



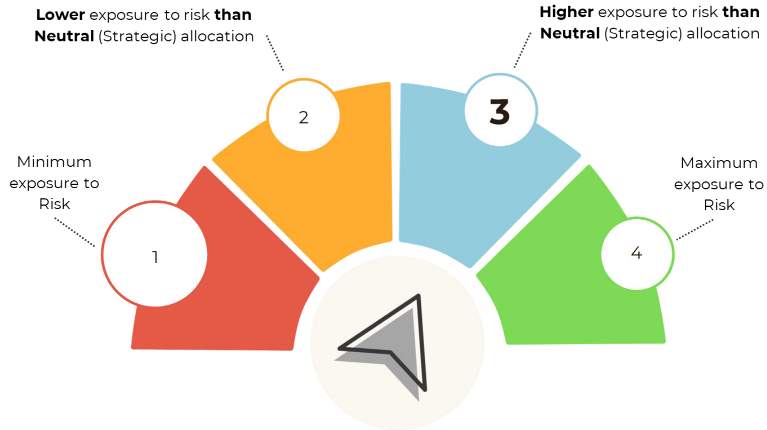
Looking at the collapse in US inflation expectations, you can conclude that the Fed is about to become meaningfully hawkish. That is reminiscent of the DOGE narrative. Investors were convinced that US government spending would finally decline. Unfortunately, it did not. The main reason was not a lack of effort, but that the system could not tolerate it. The same is true about monetary policy. The PCE, the Fed's preferred inflation metric, reached its highest reading since April 2023 (4.1%). Its core component rose to 3.4%, the highest since October 2023. US inflation is officially running at more than double the Fed's target. At current debt levels, the Fed's ability to maintain a restrictive policy is far more limited.

And finally, the Fed's balance sheet rose +$11bn by mid-June, to $6.74trn, the highest since March 2025. Total assets have risen +$162.8bn since the start of the year. This has been driven by Treasury holdings, which have surged +$251.8bn, to $4.49 trillion, the highest since June 2024. The Fed's balance sheet continues to expand. This is exactly the opposite of the new Fed Chair's stance.

Policymakers will be forced to address that reality. This is clearly a source of high uncertainty.

Equities

Following a major AI rally, bullish and bearish arguments are clashing. For now, forecasts from AI companies are being revised upwards. There are no clouds on the horizon.



Bearish arguments:

A combination of valuation factors places the US stock market at a record high. However, valuations have never served as a signal for market timing; they can remain elevated as long as underlying fundamentals do not deteriorate.

The current concentration of the top 10 stocks is approaching levels seen during previous bubble periods.

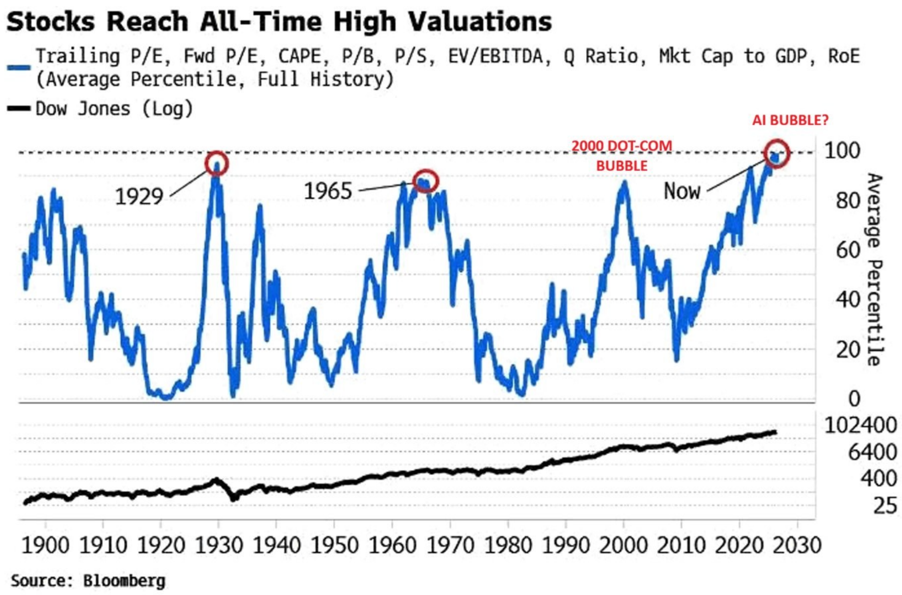
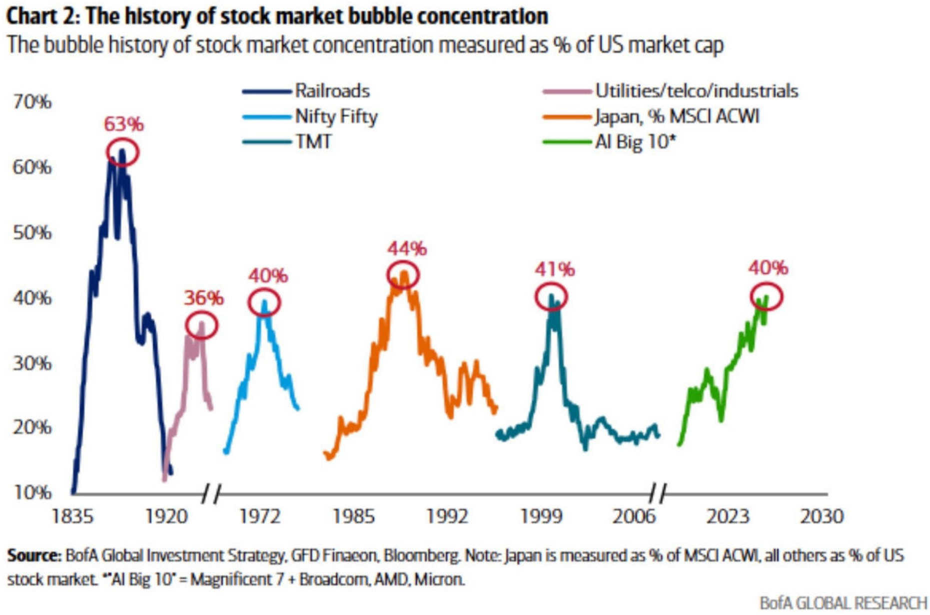


Chart. The disruption to the oil market has never been so severe.

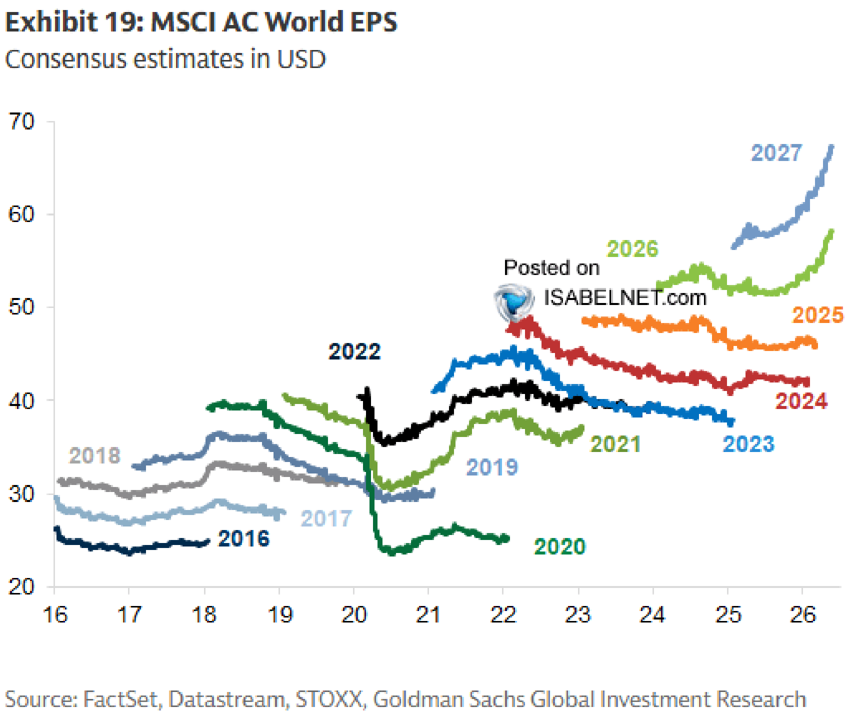
Bullish arguments:

Profit growth is exceptional. Some analysts point out that stock markets tend to correct at the peak of earnings per share, but we do not believe we have reached that peak. In the US, analysts project S&P 500 net profit growth of 17% in 2027 and 12% in 2028, following a 25% increase in 2026.



AI technology companies are posting strong revenue and profit growth rates, as well as extraordinary outlooks, with no signs of a trend reversal.

Chart. MSCI AC World Net Earnings Per Share.



This growth is driven not only by massive investments in AI but also by the remarkable resilience of the global economy and corporate sector in the face of geopolitical and economic shocks (Covid, the war in Ukraine, the US trade war, and the Iranian conflict).

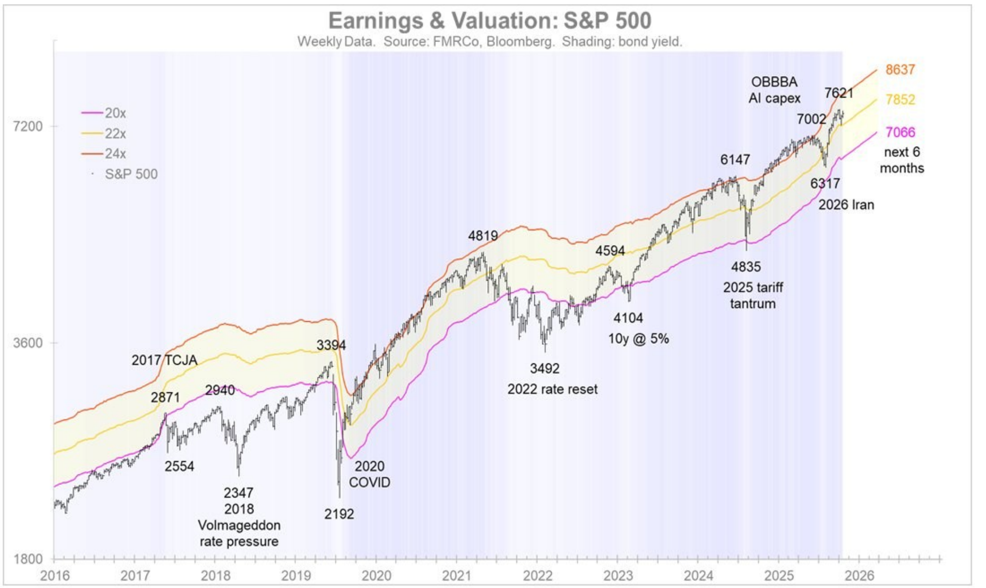
AI is impacting not just US technology companies and the US economy, but also countries that produce semiconductors and electrical components for data centers.

Thanks to AI, the stock markets of Taiwan ($4.5 trillion market capitalization) and South Korea ($4.4 trillion) have become the fifth and sixth largest globally—trailing the US ($65 trillion), China ($11 trillion), Japan ($6.5 trillion), and Canada ($5 trillion), but ahead of the UK ($3.6 trillion) and France ($2.2 trillion). This represents a powerful wealth effect for the global economy.

While the P/E ratios of technology companies appear extremely high for 2026, valuations looking three years ahead align with profit growth rates.
A closer look reveals a more balanced picture: 185 S&P 500 stocks are trading at a 12-month forward P/E ratio of less than 15x.

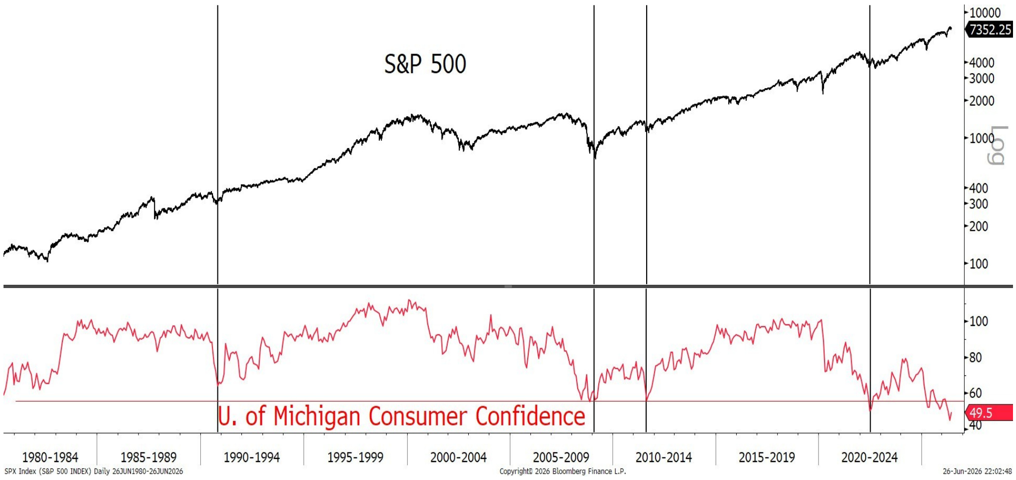
		2025	2026	2027	2028	CAGR %
	BNPA	294	355	412	456	16%
S&P 500	PER	25	21	18	16	
	BNPA	1024	1175	1444	1680	18%
Big Tech 7	PER	32	27	22	19	
	BNPA	192	442	613	724	62%
SOXX	PER	70	30	22	19	

As long as upward earnings revisions continue and interest rates remain contained, this bull market has the potential to advance further. The S&P 500 index has continued to trade within a valuation range of approximately 20 to 24 times forward earnings. A likely deceleration in inflation, driven by falling energy prices, supports multiple expansion.



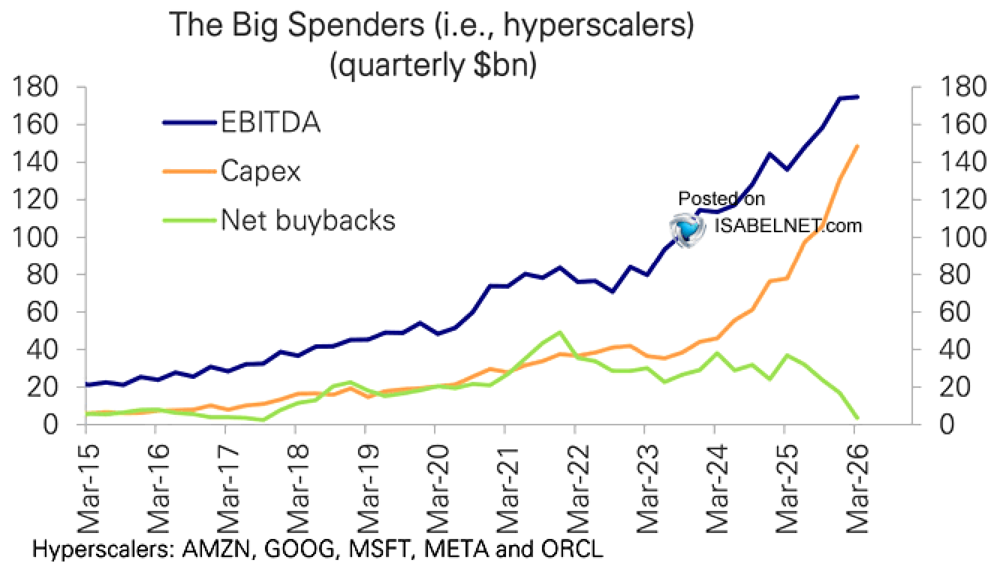
Data as of 6/21/2026. Past performance is no guarantee of future results.

Sentiment regarding the economy differs significantly from sentiment regarding equities. Historically, a University of Michigan Consumer Sentiment Index reading of 56 or lower has boded well for stocks. The current figure is at an all-time low, whereas the index hit an all-time high in 2000.



Capital expenditure (Capex) by hyperscalers is growing faster than earnings and will curtail share buybacks as cash is redirected toward AI infrastructure. This explains the capital raises and debt issuance—nothing alarming here, simply sound management. Conversely, Big Tech companies could adopt more generous dividend policies.

Figure 4: For the hyperscalers, capex is indeed surging much faster than their earnings are and they are slashing their buybacks



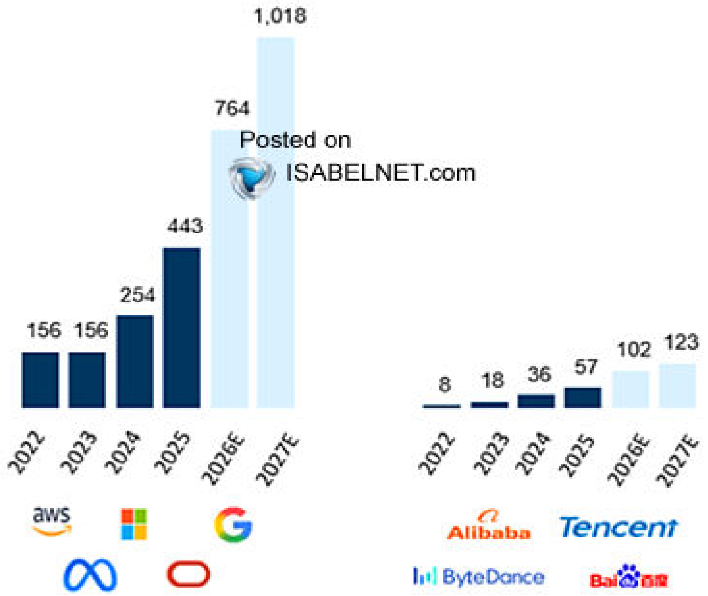
Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation

AI-related Capex is clearly a US-driven phenomenon.

Within equity allocations, emerging market stocks have outperformed developed markets since the start of 2025. Value stocks have outperformed the Growth segment since November 2025, a counter-intuitive trend, given the multiple compression experienced by the "Magnificent Seven." The picture is more ambiguous when comparing cyclical and defensive sectors. Regarding large-cap and small/mid-cap stocks, the Russell 2000 has significantly outperformed the S&P 500 in the United States since August 2025, driven by

Exhibit 9: Both US and Chinese hyperscalers keep scaling up AI Capex

estimates by GS Internet team (US$bn)



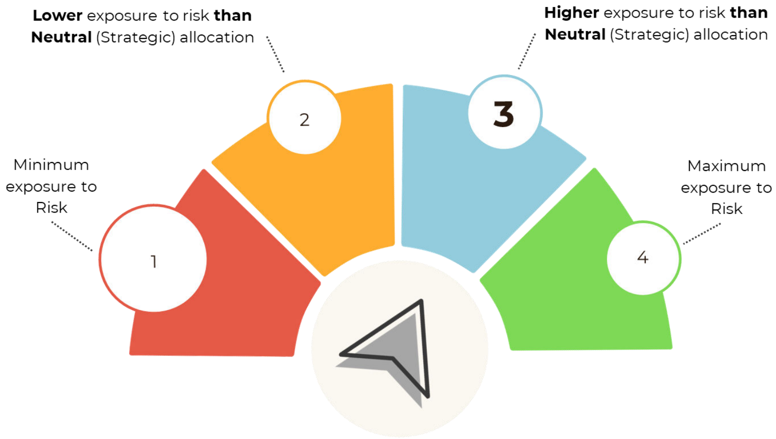
Our Internet analysts calculate Bytedance's (Not Covered) relevant operating metrics by analyzing the industry and companies that they cover, and then extrapolating them to Bytedance.

Source: Company data, Goldman Sachs Global Investment Research

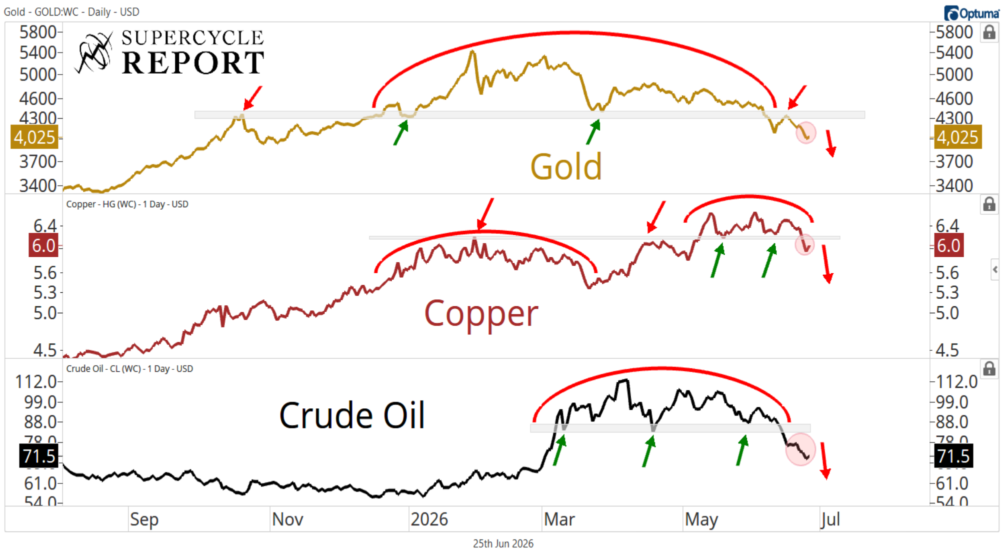
strong profit growth—a trend mirrored in Japan—whereas in Europe, large-cap stocks have dominated.

Alternative Investments

The commodities supercycle under intense pressure.



The rise of the dollar and the "end" of the Iran conflict are driving down prices for industrial metals, energy, and gold.



Under different circumstances, the price of oil might have headed toward $200 a barrel, given the Middle East's importance to global oil production. However, four factors limited the rise and allowed for a significant drop in crude prices:

- Donald Trump and TACO. The market anticipated a short conflict, as Trump tends to lose interest quickly, especially when things don't go his way. He possesses an extraordinary ability to declare victory even when he has lost, or rather, when Iran has won.
- Very quickly, the 32 IEA member countries decided to release 400 million barrels of oil from their strategic reserves. This decision marked the largest stock release ever organized by the IEA since its inception in 1974, following the first oil shock. The reserves held by IEA members are substantial. The organization estimates that governments directly hold "over 1.2 billion barrels in public emergency stocks," in addition to

"approximately 600 million barrels" held by industry players under government mandates.

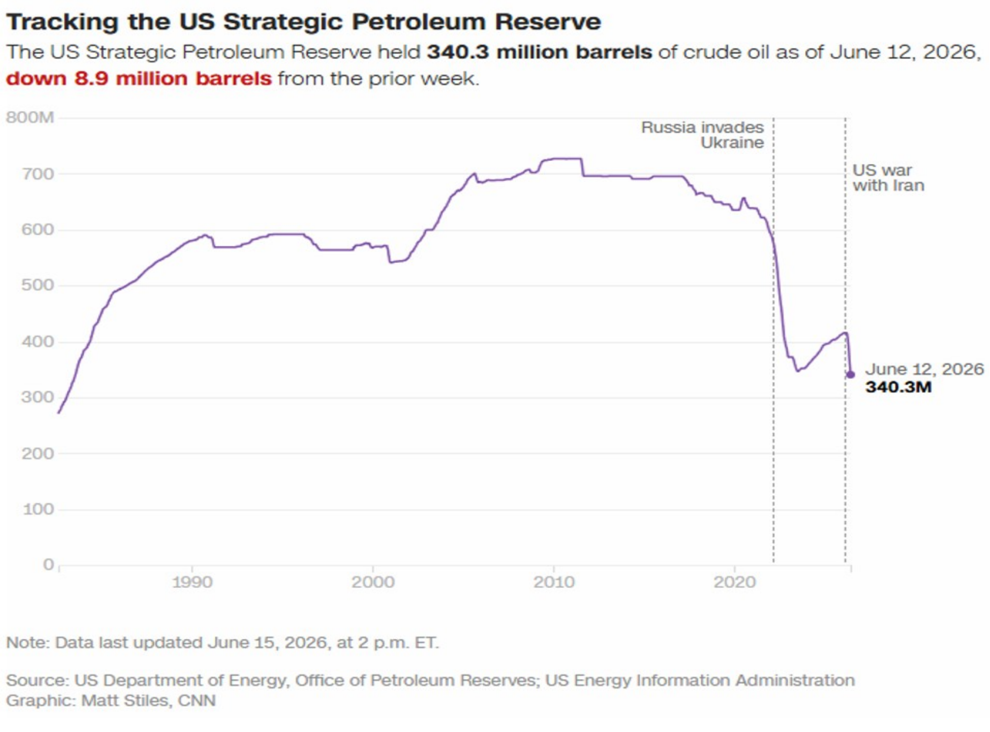
- Thanks to its significant oil reserves, China—described by some analysts as "the invisible hand that rebalanced the market"—reportedly cut its oil imports by 3 million barrels per day. Normally, China imports 11 million barrels per day.
- One piece of collateral damage (and there will certainly be more later) resulting from this conflict was the United Arab Emirates' withdrawal from OPEC—a factor that tends to put downward pressure on oil prices.

With American attempts to broker a ceasefire—driven primarily by domestic considerations—as they seek to extricate themselves from this quagmire, maritime traffic could gradually return to normal.

In light of the prospect of a US-Iran agreement, the International Energy Agency (IEA) has rapidly shifted its outlook from an acute supply crisis to a projected supply glut by 2027.

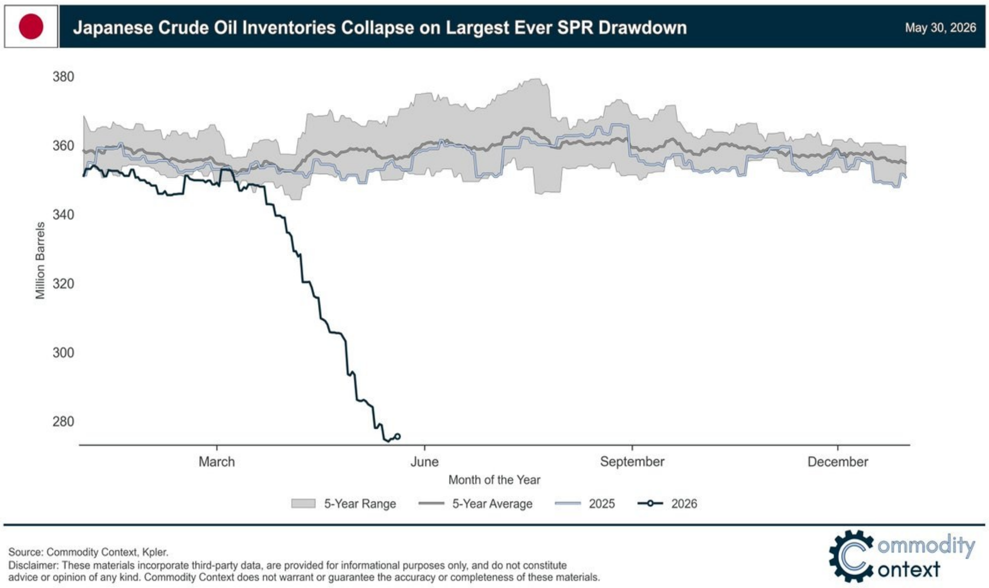
The risk of rising oil prices remains; peace and the normalization of production and maritime traffic in the Strait of Hormuz are by no means guaranteed.

Strategic oil reserves in the United States and Asia have reached critical levels, leaving little room for maneuver should the conflict reignite. US reserves are at



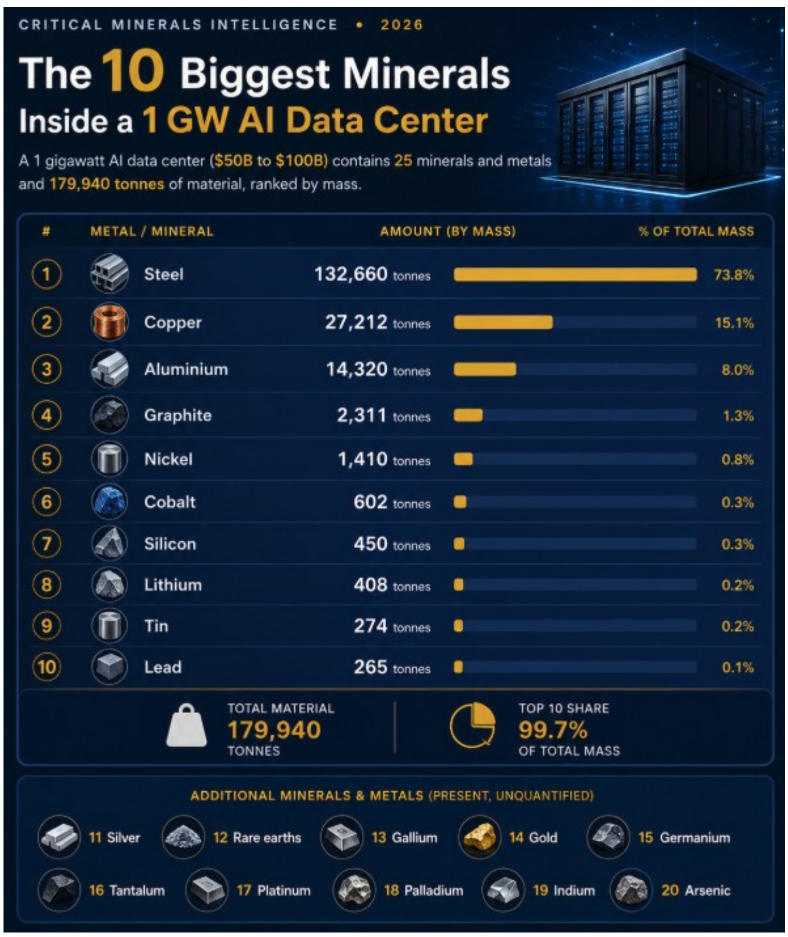
a 43-year low of 340 million barrels, against a total capacity of 714 million.

Japan holds the world's third-largest strategic reserves, trailing only the US and China.



For operational and infrastructure viability reasons, it is impossible to reduce strategic reserves to zero.

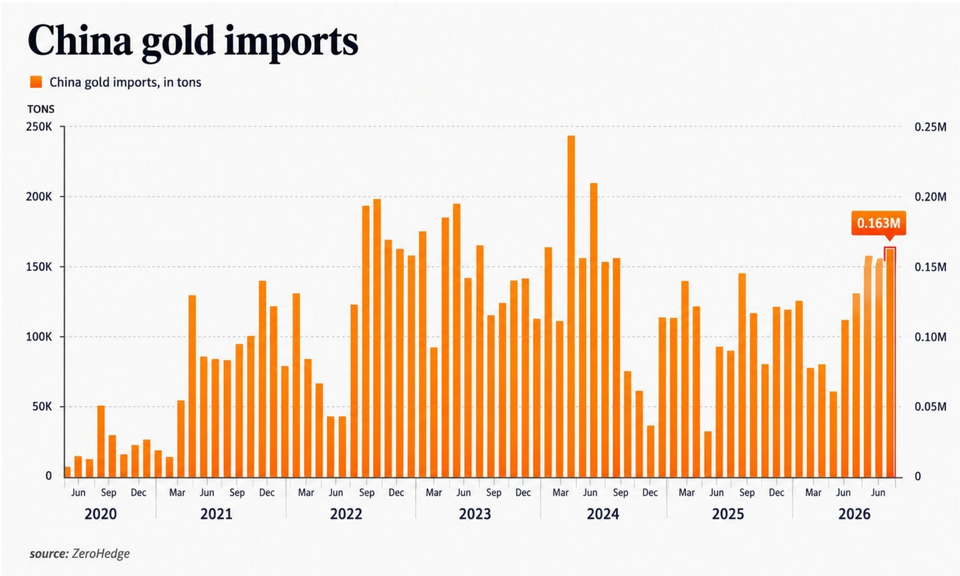
Industrial metal prices are also under pressure due to the rising dollar. Aluminum prices have retreated amid expectations that exports will resume from Gulf countries, which account for 10% of global production.
However, prices are structurally trending upward due to aging mines, AI, the energy transition, and electrification.



Gold is in a bear market, with prices having fallen 27% from the highs seen in late January 2026 ($5,600). Key factors include the strong dollar, fears of a Fed Funds rate hike in 2026, increased import taxes on gold in India, and sales by certain emerging-market central banks to support their currencies amidst the Iran conflict.

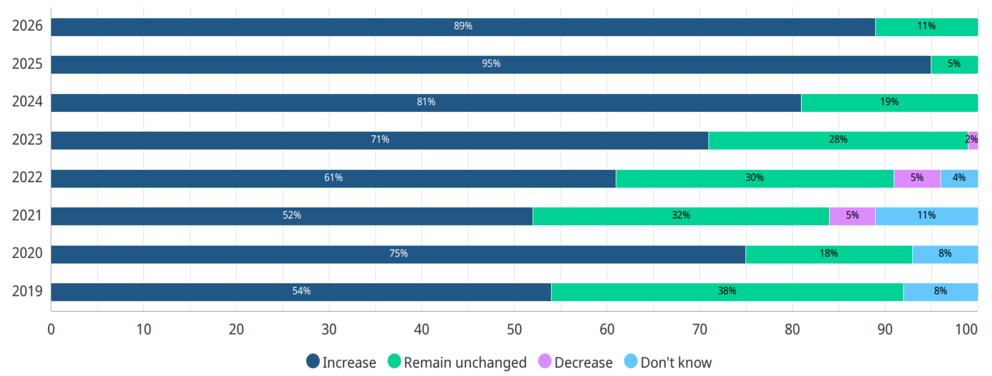
We do not anticipate a more restrictive Fed policy in 2026, and inflation is expected to slow as energy and gasoline prices decline.

The price correction is attracting institutional buyers. China imported 164 tons of gold in May—the highest monthly volume since March 2024. In the first five months of 2026, Chinese imports rose by 76% to 692 tons. The Chinese central bank has purchased gold for the 19th consecutive month.



The latest World Gold Council survey indicates that 89% of central banks intend to buy gold within the next 12 months.

Chart 3: How do you expect global central bank gold reserves to change over the next 12 months?



Sources: YouGov, World Gold Council; Disclaimer
2026 base: all central banks (74); advanced economy (17); EMDE (57). 2025 base: all central banks (73); advanced economy (15); EMDE (58). 2024 base: all central banks (69); advanced economy (24); EMDE (45). "Don't know" was removed as an option from the 2023 survey onwards.

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