Asset Allocation Minutes – July 2026

James Hambro &Partners

Attendees

Sandy Black (Chair), Tom Allsup, Joe Archer, Nicola Barber, James Beck, Aidan Butler, Vinay Chaggar, Nicola Day, Sarah Goose, James Hardy, James Horniman, Billy Hughes, Mark Leach, Emma Moffat, Alex Montgomery, Colin Orr, Mark Richmond-Watson, Oliver Robinson, Robert Seifert, Ben Staniforth, Patrick Trueman, Charlie Underwood.

Wednesday 8th July 2026

1. Conclusions from previous meeting (June 2026)

- Much has been written in recent weeks about the sharp share price increases in parts of the technology sector. The numbers are large but are matched at the moment by strong growth in reported earnings.

- Economies and markets have proven resilient in the face of a series of global shocks. There are signs that we are inching further towards inflationary boom conditions.

- For now, we are running our existing equity positions, aware of the power of earnings trends, and conscious that loss aversion tends to make investors much earlier sellers of winning positions than losing positions.

- After a supernormal five years of returns, gold has begun to see prior tailwinds move towards being headwinds.

- Having been a reliable diversifier during periods of market stress, gold has become more directional, a phenomenon that could persist. We decided to reduce exposure but will watch for any opportunity to revisit should dynamics change.

2. Dynamics

- June was a flat month for global equities, although there was some change in leadership below the surface.

- After a number of months of strong technology and US market leadership, Europe (+3.8%) had a better month in June while the Nasdaq (-2.7%) and the S&P 500 (-1.0%) declined.

- The best performing sectors were healthcare (+4.9%) and financials (+3.3%), while communication services, materials and energy declined by between 6% and 7%.

- Government bond markets delivered modest gains, with the 5-15 year gilt index 0.7% higher and the 10 year US Treasury index up 0.3%.

- The US dollar was also stronger, responding to inflation-fighting comments from new Federal Reserve chairman Kevin Warsh, and benefiting from a more risk averse investment environment.

- The gold price fell by 11.7% and is now 7% lower year-to-date, while oil continued its decline from the Q1 highs, falling by 21% in the month.

- The change in sector leadership mentioned above is also evident in individual share price trends, with a number of large US pharmaceutical names and European banks trading at 12-month relative highs.

- Despite broader tech weakness, some tech hardware stocks such as ASML, AMD, LAM Research and KLA are still close to long-term relative highs.

- Earnings revisions remain strong; the global earnings revision ratio rose from 0.91 to 1.0 as earnings upgrades broadened. US earnings revisions declined slightly but remain high versus history, while Europe and Japan saw improvements.

- The earnings revision ratio in the tech sector is at a 15-year high.

- As noted in prior meetings, the rally in the tech sector, and in semiconductors in particular, has so far been supported by strong earnings reports and optimistic prognoses for the future but as we enter the Q2 reporting season in the US, there will be significant scrutiny of US companies' ability to maintain high rates of growth.

- The 'Magnificent Seven' is no longer leading the US market. Investors have been deterred by these companies' massive spending plans, hence the move to the beneficiaries of the spending.

- Long-run inflation expectations have moderated somewhat in the US, UK, and Germany, as the oil price has settled. Nevertheless, there are still shorter run inflationary pressures in the system, particularly in the US.

- Equity market valuations have been kept in check by the strength of forecast earnings, so the US forward PE at 20.2x is below its recent peak, although somewhat above its 20-year average of 16.5x.

- For the same reasons, the tech sector forward PE has fallen from a peak of 28x to 19.7x. Industrials is the most expensive sector at 22.5x.

3. Fundamentals

- The US economy and labour market continue to perform reasonably well, due to the strength of the consumer and AI capex. The core inflation rate is the highest since October 2023 but Kevin Warsh says he is committed to restoring price stability.

- In this environment, a recession is unlikely.

- AI is driving up electricity prices due to data centre demand, and Apple is passing on higher component (semiconductor) costs via a 20% retail price increase for iPads and Macs.

- Thinking about the 'four quadrant' model of investment cycles, it still seems that current conditions in the US fit the characteristics of an inflationary boom.

- Populist economic policies in the US and elsewhere are leading to higher-than-average budget deficits. Restrictions on US immigration may also be inflationary.

- Whether the current environment leads ultimately to a deflationary boom or an inflationary bust is less clear. An inflationary bust often occurs due to higher energy prices, so all eyes on the Middle East conflict.

- Equally, if the impact of AI on productivity is as profound as many believe it will be, a deflationary boom could be the next stage.

- There are again signs that Chinese competition is starting to enter the AI world, reminiscent of the DeepSeek scare in Q1 2025. The share prices of Chinese AI labs are performing well.

- We are aware of the stock market axiom that "when Chinese companies enter the room, profits make a quick exit", which is a tribute to Chinese companies' ability in the past to build efficiency and scale. Nevertheless, as the price of AI models goes down, usage may well go up, which should be good for users, and for data centres.

- On the subject of China, the contrast between the performance of the Chinese and US stock markets is significant. The former has suffered from the negative wealth effect which followed the last decade's property bear market, while domestic demand remains weak and consumer confidence has not recovered post Covid. The market is still cheap.

- We reflected on the fortunes of UK financial markets, a decade on from Brexit. Sterling adjusted downwards very quickly then traded sideways versus the euro, and down versus the dollar. UK equites have underperformed Europe and (particularly) the US, although sector mix plays a part in the latter comparison. M&A activity has resulted in a shrinkage in the UK equity market, as IPO activity has not kept pace with foreign takeovers.

- The response of many domestic investors has been to invest more outside the UK. This makes sense, as the opportunities are numerous.

4. Positioning

- Positioning surveys show some rotation across Europe and the US, from tech and energy into banks and healthcare.
- Within tech, data suggests that positioning in semis is crowded but not in hyperscalers.
- Financials are under-owned for the first time in a while.
- On the basis of recent market declines, some are suggesting that equity weakness is “closer to the end than the beginning”.
- The widely followed Bank of America positioning survey shows the most bullish investor sentiment since February, with a record 54% of respondents predicting “no landing” for the US economy.
- Reported cash levels in multi asset portfolios have fallen from 4.1% to 3.6% (below 4.0% is a contrarian sell signal).
- Long semiconductors remains the most crowded trade, although in total the tech overweight has come down.
- Underweights to consumer stocks are the lowest since May 2006.
- The biggest concern quoted by survey respondents is an AI bubble.

5. Conclusions

- We made no changes to asset allocation this month.
- While economies are in good enough shape to suggest that recession, and therefore a major bear phase, is not imminent, equity markets are skittish.
- The scale of advances in the first half of the year, and the dominance of a particular theme in markets, argue for caution in the short term.
- Issuance activity is also picking up as companies raise cash for AI investment.
- With inflation risks still evident in the US and the UK vulnerable to supply shocks, we have retained our underweight positioning in fixed income and have kept duration short.