



SKYBOUND  
CAPITAL

# Quarterly Report

Q2 2026 Review and Q3 2026 Outlook



## Market & Macro Review for Q2 2026

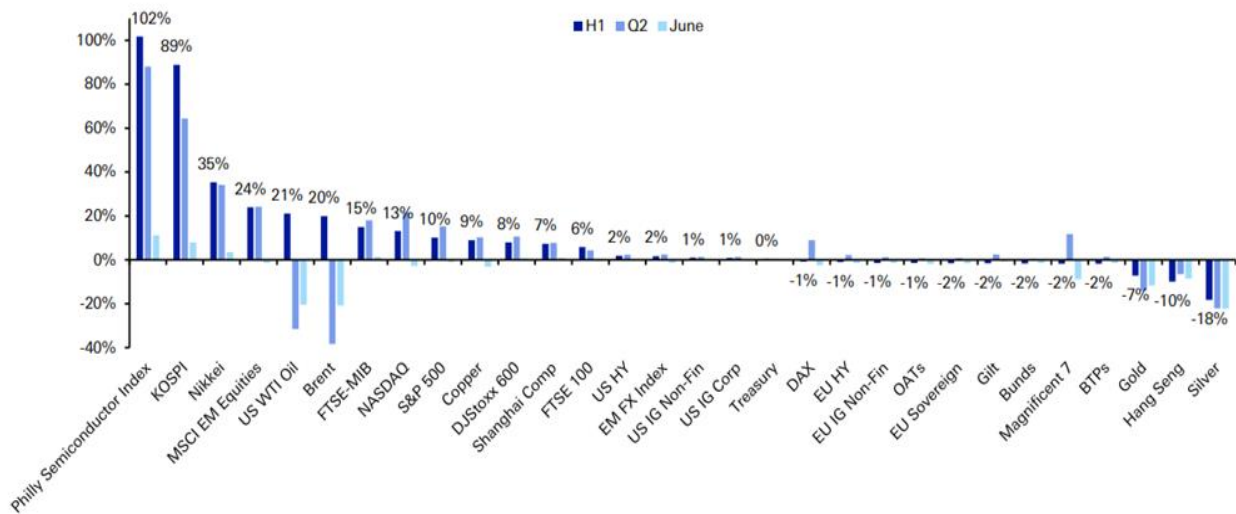
Half-way through the year and, given all that has taken place, how do things stack up? The chart below shows returns by asset class and style for 1H of this year and preceding years:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	YTD	Q2 '26
MSCI EM	37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 26.2%	MSCI EM 34.4%	MSCI EM 24.0%	MSCI EM 24.2%
Growth	28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 19.2%	Value 21.6%	Small cap 16.9%	Growth 19.0%
Small cap	23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Small cap 16.3%	Value 12.3%	DM Equities 21.6%	Cmdty 14.4%	Small cap 15.2%
DM Equities	23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	Value 12.4%	Small cap 8.6%	Growth 21.3%	Global REITs 12.3%	DM Equities 13.9%
Value	18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 8.1%	Small cap 20.4%	Value 10.9%	Global REITs 11.0%
Global REITS	8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 5.4%	Cmdty 15.8%	DM Equities 9.9%	Value 9.4%
Global Agg	7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs 2.8%	Global REITs 8.4%	Growth 8.9%	Global Agg 0.9%
Cmdty	1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -1.7%	Global Agg 8.2%	Global Agg -0.2%	Cmdty -8.1%

Source: Bloomberg, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg

It's worth highlighting Asia ex-Japan was the best-performing equity market region returning +28%. Within this, Korea delivered a staggering +88% while Taiwan returned +49%. In both cases, returns were driven by strong investor demand for electrical equipment companies and semiconductors. The likes of SK Hynix and Samsung Electronics tripled and doubled in value respectively! Despite these astonishing price moves, SK Hynix still trades on only 7X forward 12-month PE while Samsung is on just 6X. This speaks to the earnings growth in the semiconductor and memory industry on the back of the AI investment boom. For context, MSCI EM delivered **-0.1%** in Q1, so Q2 was a remarkable result albeit concentrated among a few bellwether names in the tech space.

The chart overleaf shows the US\$-based performance for select financial assets ranked by their YTD returns. It highlights some sub-segments not reflected in the above chart, which is more general. When viewed like this, it shows how market performance has been concentrated and dominated by a few areas of the market:



Source : Deutsche Bank, Bloomberg Finance LP  
 Note: Equities, credit and bonds shown on total return basis, FX and commodities shown on spot return basis

#### Other highlights worth noting:

- Geopolitical events continue to dominate as markets display see-saw behaviour on deal one minute and then no deal the next (more on this later).
- Oil has slumped and, at the time of writing this, WTI is around \$68 pb while Brent is around \$71 pb. Both are back at pre-war levels. Over Q2, the biggest decline (since the 2020 pandemic) was **-38.4%**.
- Despite the current turmoil in Tech, chip stocks have seen a bonanza. The Philly Semiconductor index has risen +88%. YTD stands at +101.7%. The Mag-7 stocks are down just under **-2%**, underperforming UK gilts. Even they can't compete with AI. Crazy stuff!
- While the tech turmoil has spilled over into EM – notably the tech-heavy Korean index (KOSPI) – the latter has nevertheless risen +64.3% over Q2.
- Japan's Nikkei rose +34.1% over Q2 – its best quarter since Q1 1986! The Yen seems to be cratering – in spite of the country's Central Bank (BoJ) raising rates +0.25%. It is hovering around 161.50 to 162. However, this is as much a US\$ strengthening story as a Yen weakening one (see below). Nevertheless, a fundamentally cheap currency and further steepening of the yield curve has provided a tailwind for Japanese exporters and the financial sector.
- Continental European equities rallied on de-escalation in the Middle East and resilient economic sentiment. EZ manufacturing – as measured by the manufacturing PMI, remained above 50 (i.e. denoting expansion). Europe (ex-UK) returned +14% over the quarter. One interesting observation is that Europe's biggest problem remains confidence – rather than income. Unlike their US counterparts (who continue to spend despite a squeeze on their disposable incomes), European households continue to save more than pre-pandemic levels. Europe has to find a way of boosting confidence which, in turn, unleashes these savings.
- New Fed Governor – Kevin Warsh – kept rates unchanged. This was expected – but consensus points to him tightening. However, that's not clear-cut (see below).
- Eurozone (EZ) June CPI (inflation) slowed to 2.8% y/y (previously 3.2% y/y). The print was 0.20% better-than-expected; Core CPI slowed to 2.4% y/y (previously 2.6% y/y) and this was 0.10% better-than-expected.



The chart also shows how precious metals (Gold and Silver) continued to get battered. Over Q2, Gold fell **-14.1%** and Silver fell **-22.0%**. This brings to an end five consecutive quarterly gains. YTD, Gold is now down **-7.2%** while Silver is down **-18.2%**.

## Outlook for Q3 2026

- 1. The current geopolitical stance gives the key players (US, Israel and Iran) a respite.** I see the current 'ceasefire' as more of a strategic pause, allowing (1) the US to gear up..., (2) the US and China to rebuild depleted oil reserves, (3) Israel to take a breather ahead of their October elections while also rebuilding missile defences and (4) to put a brake on (or at least slow) rising inflation. In return, the price 'paid' is to give Iran free access to sell its oil – which it is doing at a premium vs pre-war. I sense renewed trouble post the mid-terms in what will be Trump's remaining two years in office. This keeps upward pressure on inflation.
- 2. Gas prices at US pumps have dropped sharply and quickly.** For context, they started the year at a low of \$2.81 pg (per gallon), shot up to \$4.55 pg (peak) and have now dropped back to \$3.85 pg. What this means in terms of filling up both standard-size and large-size vehicle tanks is that the cost is still +37% higher for both. By contrast, grocery shopping continues to rise by some +3% p.a. However, this is far from uniform. Wheat prices are nearly +15% higher (due to declining crop output) which will undoubtedly affect items like bread and cereal. Generic polling shows that, while the Democrats had only a slight lead back in January, it now stands at around +7% over the Republicans.
- 3. Stagflation fears have receded significantly.** The latest Bloomberg consensus shows the probability of a recession at 25%; the market-implied probability is 12% while the Goldman Sachs estimate stands at 15%. It's worth highlighting the Bloomberg consensus has always been far higher than the other two by some margin! This has boosted equities and bonds helping them to recover. Latest data shows global market implied ERP (Equity Risk Premia) ranging from 2.8% (Japan) to 5.4% (Asia Pacific ex-Japan). Globally, it stands at 3.3% (vs the US' 3.0%). The US' was lower pre-war.
- 4. Can the tech bonanza continue?** In short, yes! AI will have a meaningful impact on productivity growth over the coming years (something newly-appointed Fed Chair Warsh is keeping a close eye on – see point 5 below). The key question for markets, macro and equities is when and in what areas will it become apparent? A Goldman Sachs study looked at the Information and Communications Technology (ICT) revolution from 1980 to 2000. They found the path from tech innovation to broad-based productivity was not fast or uniform. It arrived 15 years after the commercialisation of the PC. So, can the same be said of AI? Hardly! In fact, we're seeing its use already becoming widespread as users start to understand how and where to use it more efficiently. The only impediment to its adoption will be human intervention – and even here we're speaking of delays, not abandonment. Currently, investment in hardware is moving at a rapid pace, while the reorganisation of workflows is slower. The latter will pick up pace once users start to gain more experience... and this will become apparent when more and more job adverts start to seek those with expertise in its use across various segments of industry. Improving economies of scale are also a big factor in enhancing productivity. Important to note that the AI story is beginning to broaden geographically. While the US continues to dominate AI development, many of the



intermediate beneficiaries are outside the US. Semiconductor manufacturers in Korea and Taiwan – together with memory producers and electronic component suppliers across Asia – are capturing a disproportionate share of the current earnings uplift. Europe is also catching up in terms of AI adoption – suggesting productivity gains may become increasingly global rather than US-centric.

5. **Where does Kevin Warsh stand on rates – is he secretly a bull or simply a pragmatist?** Currently, market pricing (based on the 30-day Fed Fund futures) is implying rate rises ahead – but nothing significant (around +0.25% by year-end). However, it's not so clear cut. In a panel discussion on Wednesday, he said, “inflation expectations have come down and that inflation risks have come down” and that if AI causes the supply side to expand, “that has huge implications for monetary policy”. He also suggested large changes could come out of the task forces he set up (announced at the June FOMC). He expects to be able to make greater use of real-time data over the next 9 to 12 months and hinted the “Fed dot-plot” could be phased out. So – despite market-implied expectations of a further hike by year-end – given the close eye Warsh is keeping on AI and its impact on the labour force and productivity, rates are more likely to remain unchanged. This is a further boost to equities.
6. **Where to for the US\$ - is the US dollar debasement trade over?** The US\$ Trade-Weighted Index is holding over 100 (see table below) and the US\$ has risen nearly +3% YTD. Wasn't the Trump narrative supposed to signal game over for the US\$? Why is the US\$ rising again? There are several reasons: (1) the first is that it is partly cyclical – you only need to look at a US\$ TWI chart to see that. It is not an uncommon pattern comprising Risk-on, Risk-off! (2) US productivity has resumed its outperformance in recent years vs the rest of the G7, especially since covid. (3) The US now accounts for almost half of global equity market capitalisation even though US GDP is around 25% of global GDP and a mere 4.5% of the world's population. (4) US private AI investment has reached almost \$300bn – nearly 20X more than its closest rival, China. (5) It remains dominant as a share of disclosed central bank reserves (almost 60%) and as a share of global transactions and trade (some 60% to 90%). Despite global efforts to debase it, the US\$'s lead comes down to massive, highly liquid credit markets (Treasuries), stable legal institutions and trusted capital markets. It's not all rosy though – the sheer size of the US deficit is costing more to service than its defence budget as a percentage of GDP. It comes down to a trade-off between GDP vs deficit. All said and done, corporate / enterprise culture remains rich and creative.
7. **Japan's Yen is now at a four-decade low to the US\$ while JGB yields are at three-decade highs.** The Ministry of Finance (MOF) has intervened to the tune of nearly Yen12tn (over \$72bn) to try and prop up the Yen just in the period from 28<sup>th</sup> April to 27<sup>th</sup> May (a mere 1 month) only for the Yen to then start sliding further. The Yen has fallen -37% since the start of 2021 and -53% since the start of 2012. The dilemma for the government is imported inflation especially fuel, food and consumer products. The government spends money in the form of subsidies to limit price hikes. Meanwhile, with JGB yields rising so far and fast (10-year JGB yield = 2.77%; 30-year JGB yield = 4.03%), the cost of government borrowing is rising too. The BoJ is trying to limit the fall in the Yen through Quantitative Tightening (QT) – the effect of which is to drive up yields and raise rates. It presents the Government and the BoJ with a conundrum – the BoJ has to watch monetary policy while the Government has to watch fiscal policy. The likelihood is that the BoJ will have to raise rates even quicker – at the moment it is being too slow. However, too quick is dangerous for households and companies



when it comes to their interest servicing costs. On the other hand, a weak/falling Yen hurts importers through higher prices.

8. **What happens to Gold from here?** A JPM report forecasts a price target of \$6,000/oz by Q4 2026 and then \$6,300/oz by 2027! This might come as a surprise to many but they are not alone. Wells Fargo has a year-end target of \$6,100 to \$6,300/oz; Bank of America (BoA) says \$6,000/oz with an extreme-demand target of \$8,000/oz by 2027 if structural deficits worsen! UBS and DB are saying \$4,500/oz and \$4,950/oz respectively. Goldman Sachs trimmed its forecast to \$4,900/oz (from \$5,400/oz). However, if we start by asking why gold has fallen so much, the answers are threefold: inflation, interest rates and a stable US\$. All three are anathema to gold. A big driver has been central bank buying and there have been suggestions this has been cooling. Actually, evidence shows this is not the case – a certain amount of gold purchases go unreported (World Gold Council). In Q1 this year, some 244 tonnes of gold was purchased, supposedly by China. So, understanding the case for gold requires an understanding why central banks are buying – and the answer to the latter seems to be strategic having seen the consequences of freezing US\$ assets belonging to Russia and Iran. Chinese buying also seems to be tied in with its strategy of establishing the Renminbi as a credible reserve currency alternative. It has previously touted the idea of using gold as collateral. Furthermore, in early 2025, China's top 10 insurance companies received regulatory approval to allocate up to 1% of their AuM (Assets under Management) to physical gold. Imagine if this cap starts to steadily increase! Then there's the other trigger as cited by BoA: structural deficits. The GDP growth rates needed in the Western world to stay commensurate with the growth in debt are simply unsustainable.

To sum up – it's going to be an interesting second half. In the following order we have: (1) the World Cup knockouts, (2) the summer holidays and then (3) elections in Israel (27<sup>th</sup> October) followed immediately by the US mid-term elections (3<sup>rd</sup> November).

The current state of play is summarised in the table below:

<b>Growth Engine</b>	<b>Current Status</b>	<b>Commentary</b>
<b>Consumer</b>	Slowing	Higher oil squeezing disposable incomes
<b>AI Capex</b>	Strong	Still the world's most powerful growth engine
<b>Government Spending</b>	Accelerating	Defence, infrastructure and industrial policy <b>[Geopolitics → Government Spending → Growth]</b>
<b>Housing</b>	Improving	Gradual recovery as rates stabilise
<b>Manufacturing</b>	Mixed	AI strong, consumer goods weaker

After the elections, I suspect the Middle East should flare up again upon which yields and (perhaps to a lesser extent) inflation should resume their upward trajectory. Markets will likely resume their roller-coaster ride similar to the past few months.



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Jabir joined Skybound Capital in 2011 and serves as Group Chief Investment Strategist. He leads the firm's macroeconomic research. He sits on the Investment Committee, where he evaluates prospective lending opportunities, assesses credit quality and downside risk, and determines whether proposed transactions meet the firm's return and risk criteria. He plays a central role in shaping Skybound's credit framework and communicating market insights to institutional and professional clients.

Previously, Jabir worked at Hasma Capital Advisors as Investment Director and at Punter Southall Financial Management as Chief Investment Officer. He is a Fellow of the Chartered Institute of Marketing, holds an MBA from Warwick Business School and a BA, Hons, in Accounting and Finance from North London University.



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