BANQUE
ERIC STURDZA

MONTHLY NEWSLETTER
AUGUST 2026

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AUGUST 2026

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1. EDITORIAL

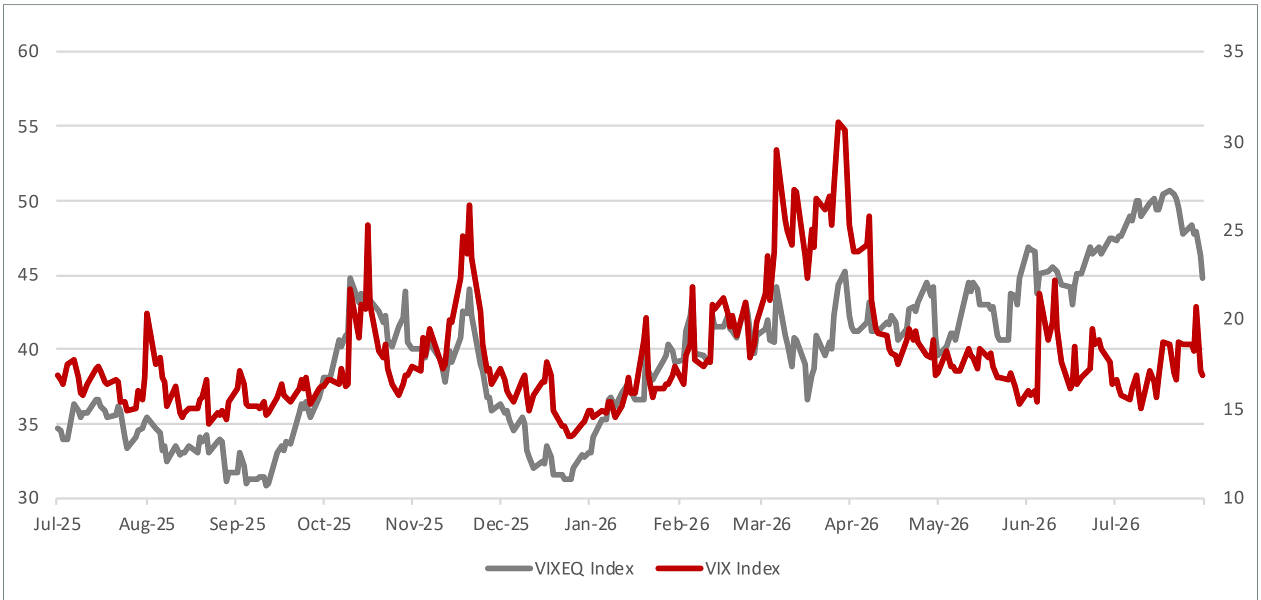
NO PAIN, NO GAIN!

The World Cup, the heatwave in Europe, the resurgence of Iran-US conflict, massive wildfires in France and Spain… News stories have come thick and fast this July and at an unusual pace. News that sadly has often been dramatic and anxiety-inducing.

Meanwhile, the financial world was also focused on corporate earnings reports: the results were excellent. In the US, 68%* of companies that reported beat revenue expectations and 86%* beat profit estimates. 2026 is set to be an exceptional year profit wise for listed companies. At the end of 2025, market participants were anticipating a 15% increase in the EPS of the constituent stocks of the global equities' benchmark; six months later, following a 'historic' upward revision, a 26% rise is now expected.

This partly explains why volatility in the major indices remains contained despite the worrying news stories. The VIX – although it rose slightly following the resumption of strikes on Iran – remains relatively low. However, it will not have escaped investors who have been following corporate results that the performance of individual shares tells a different story. By example, ST Microelectronics (STM),, the French-Italian semiconductor company, reported 2nd quarter figures on 23 July that exceeded expectations – things weren't looking too bad until management announced less encouraging margins and prospects for the rest of the year…and the share price ended the session down 14%. The case of STM is striking, but a glance at the big names in technology shows that it is not an isolated incident: the indices fluctuated little in July, but their constituent stocks saw their volatility soar.

G1 : IMPLIED VOLATILITY OF THE S&P 500 (VIX INDEX RED RHS) VS. IMPLIED VOLATILITY OF ITS CONSTITUENTS (VIXEQ INDEX GRAY LHS)



Source : Bloomberg, Banque Eric Sturdza, July 2025 – July 2026

This divergence – with the volatility of individual shares rising whilst that of the indices remains contained – warrants comment. The first observation that springs to mind is that the rise in the former offsets (and even more than offsets) the fall in the latter. This is perhaps a somewhat simplistic idea, but not without merit. Indeed, this is what a snapshot of earnings revisions by sector suggests (G2).

Here too, the same pattern emerges, with a divergence between profits that are 'skyrocketing' for energy suppliers, soaring for technology while plummeting for the healthcare sector.

Nevertheless – in the case of technology – there is a particular sense of unease: the markets are extremely nervous about capital expenditure (Capex). Add to this previously mentioned concern a new one: China disrupting this sector. This is an understandable concern: as a keen observer of the markets and Asia** often points out: when China enters a sector… profits disappear.

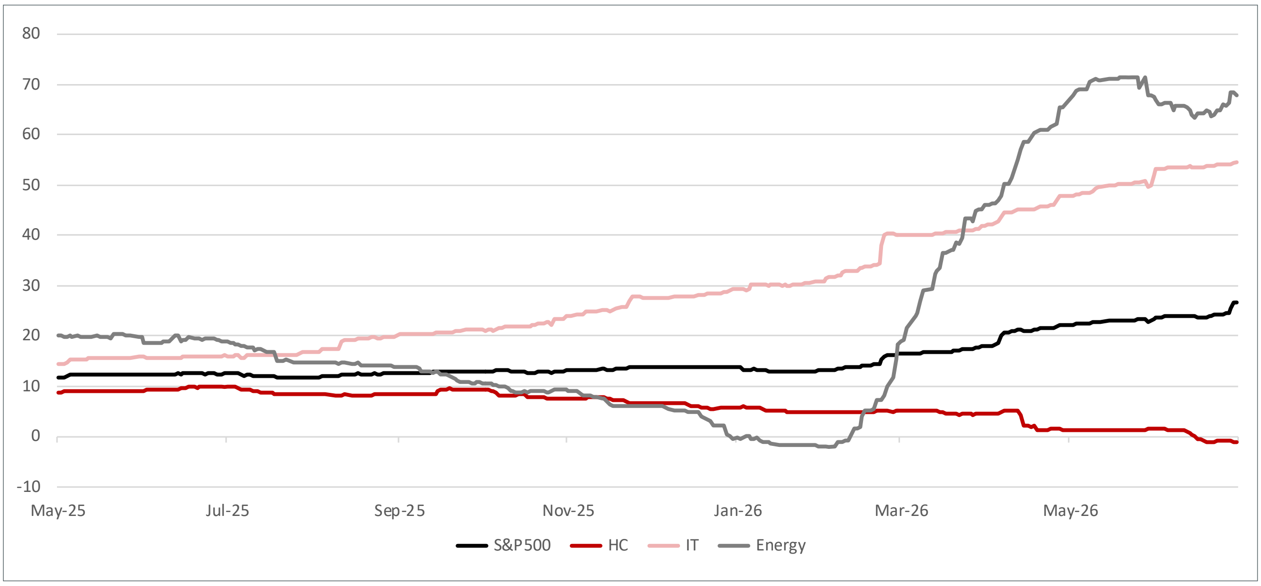
The stability of the indices, which are holding up remarkably well whilst flagship stocks are experiencing difficult trading sessions, can be taken as a positive sign – a 'healthy rotation' allowing new stocks and sectors to take the lead. And indeed, the 'equally weighted' indices reached a new high in the third week of July, all whilst the Nasdaq was taking quite a beating.

Without seeking to determine whether this individual volatility is a good or bad omen, one thing is certain: markets that are less dependent on macroeconomy and more sensitive to individual performance should help stock-pickers to deliver better results in the long run. While such periods may prove challenging to navigate in the short run given the highly concentrated nature of some markets, they also tend to be beneficial over the long run to more diversified portfolios.

* *Source Bloomberg, US market, quarterly results as at 31 July 2026*

** *Louis-Vincent Gave, Gavekal Research*

G2 : 2026 EPS GROWTH – US MARKET (BLACK), ENERGY (GRAY), IT (PINK), HEALTHCARE (RED)



Source : Bloomberg, Banque Eric Sturdza, May 2025 – July 2026

2. FIXED INCOME

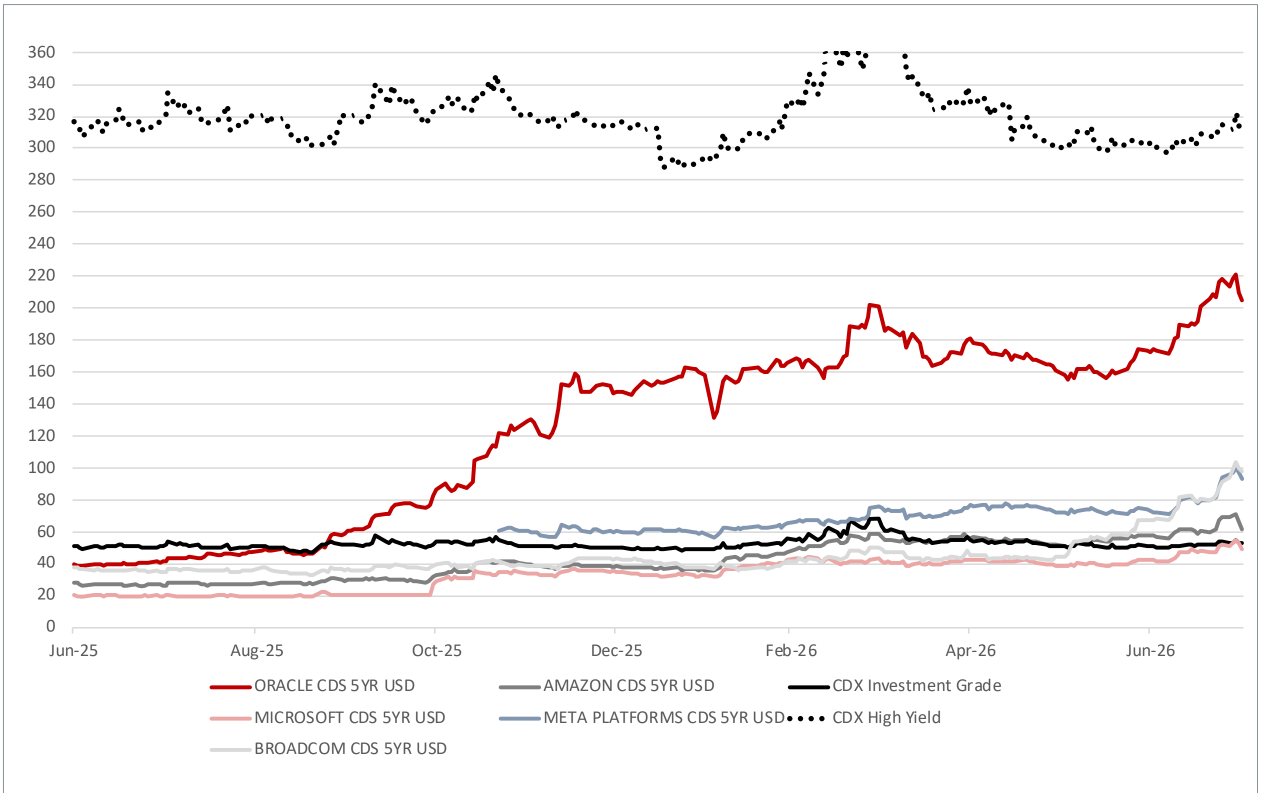
A FEW TOPICS TO WATCH THIS SUMMER

ECB and Fed

The ECB left its rates unchanged on July 23rd but appears less hawkish than a few weeks ago. It has wisely taken a more conciliatory stance, but a rate rise is still on the cards for September 10th. A recession is looming dangerously close in Europe, and waging a relentless battle against 'transitory' inflation might not be a particularly wise move.

The Fed followed suit on July 29th, though three out of twelve FOMC members voted in favour of a rate rise. A rate cut remains possible, but only later, once falling inflation can allow for it. In the meantime, a rate rise appears to be the most likely outcome in the shorter term. There are an increasing number of hawks at the Fed, and there will no doubt come a time when concerns will be raised about behaviour similar to that of the ECB. In the worst-case scenario, the Fed can afford to do this, as recession is not (yet?) knocking on Wall Street's door.

G3: 5YR CREDIT DEFAULT SWAP USD - ORACLE (RED), META PLATFORMS (GRAY BLUE), BROADCOM (LIGHT GRAY), AMAZON (DARK GRAY), MICROSOFT (PINK), CDX INVESTEMENT GRADE (BLACK), CDX HIGH YIELD (BLACK DOTTED)



Source: Bloomberg, Markit, Banque Eric Sturdza, July 2025 to July 2026

Real yields on short-term TIPS

Who can believe that US inflation will stand at 1.87% over the next 18 months? The TIPS market, apparently.

- US Treasuries maturing in July 2027 (1 year) offer a yield of 4.16%, whilst the yield on TIPS stands at 2.21%, giving an inflation breakeven rate of 1.95%.
- For the 18-month maturities (January 2028), the figures are 4.24% versus 2.37%, giving a break-even rate of 1.87%.
- As for the 2-year maturities (July 2028), Treasury and TIPS yields stand at 4.28% and 2.04% respectively (with a break-even rate of 2.24% – finally above 2%!).

Whatever the reason for break-even rates on maturities of less than two years falling below 2 per cent, investing in short-term TIPS seems like a no-brainer. A barbell strategy combining long-term nominal-rate Treasuries (the 30-year yield, is above 5.2%, a 19-year high) with 18-month TIPS appears appropriate in this environment.

US Tech CDS

The bond market appears less accommodating towards US tech and less inclined to absorb all new issues. Some issuers, whose Credit Default Swap or CDS – cost to insure against a potential default - levels were previously comparable to those of AAA-AA rated sovereigns, since June have moved closer towards levels of BBB-rated companies and are now trading at par or slightly above the CDX Investment Grade sector.

Let's also consider the specific case of Oracle, whose CDS is moving dangerously close to the CDX High Yield sector and to the "junk bond" risk. US tech CDSs need to be watched very closely, as they are becoming a leading indicator of the future behaviour of iTraxx and CDX credit spreads.

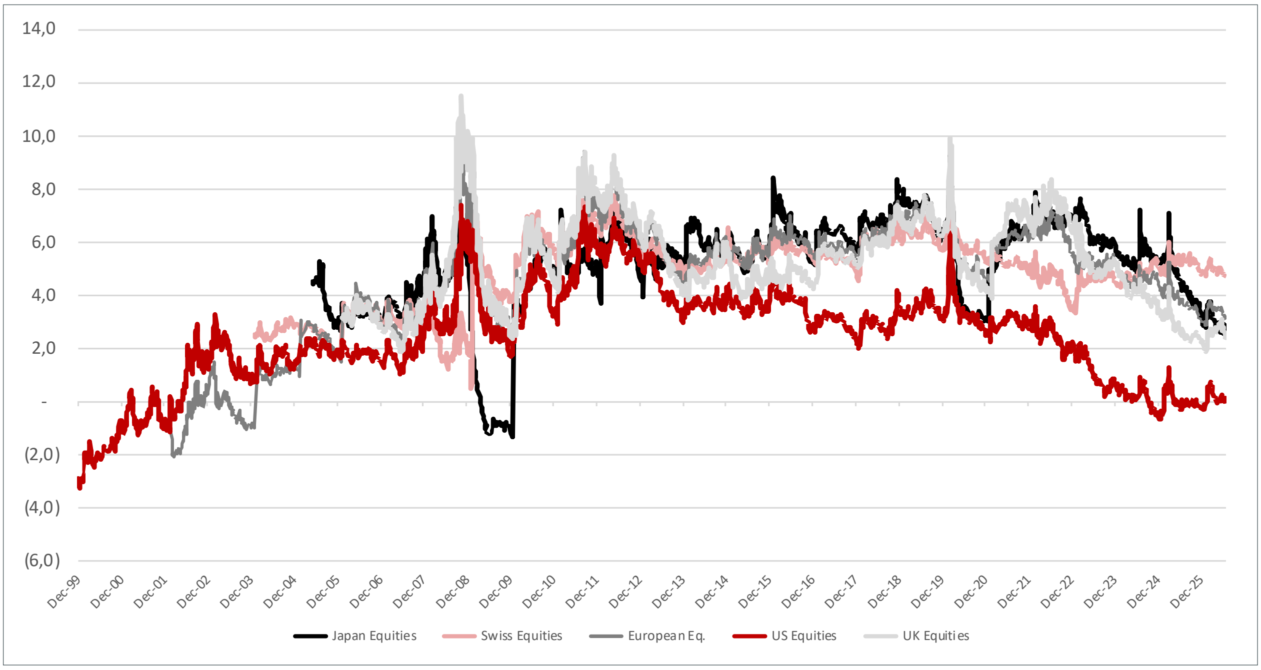
3. EQUITIES

CLIMBING A WALL OF WORRY

Global equity markets ended the month almost unchanged (+0.5% for the global equity benchmark); this slight gain does little to reflect the increased volatility and dispersion seen in recent weeks across markets and intra-indices. More surprisingly, it comes against a backdrop of renewed instability and uncertainty, which is sure to remind investors of the adage 'climbing a wall of worry'...

The memorandum of understanding between Iran and the United States did not last even a month, pushing oil and gasoline prices up once again. Inflationary fears are returning to haunt investors, though without triggering a knee-jerk reaction – at least in the equity markets – as investors still seem to be banking on a resolution to the conflict before the US mid-terms. Fixed Income markets do not show the same complacency. Indeed the US 10-year bond yield, at 4.70%, has reached a level not seen since 2007. Similarly, the Japanese 10-year bond yield, at 2.80%, has reached a level not seen since 1995. It does not seem to bother that much equity investors, even though the additional return offered by equity markets compared with fixed-income markets has narrowed considerably. Consequently, the earnings yield (the inverse of the price-to-earnings ratio) on the US equity market is now comparable to that of a 10-year US Treasury bond – such a lack of gap between the two was last seen in 2000 at the peak of the IT bubble. Applying the same model to European and Japanese equities shows that, despite the increased pressure resulting from rising long-term rates, equity investors are still well rewarded when compared to long-term rates.

G4 : FED MODEL EQUIVALENT - US (RED), EUROPE (DARK GRAY), SWITZERLAND (PINK), JAPAN (BLACK), UK (LIGHT GRAY)



Source Bloomberg, Banque Eric Sturdza, Dec 1999 to July 2025

FED Model = Earnings yield (P/E inverse) - 10YR Treasury yield

This measure is, of course, incomplete and limited, as for instance it does not take into account future growth in corporate earnings. This factor could justify this year the divergence between fixed income and equity markets, as well as the strong performance of equities. The recent spate of quarterly results has, moreover, once again confirmed the resilience of US companies. Of the 305 major US companies that had reported by the end of July, nearly 86% posted results that exceeded expectations, with EPS up 57% year-on-year (table 1). This figure is attributable to easy comps (remember last year Liberation Day), to rebounding EPS growth helped by IT, Communication Services and Energy and it has a lot to do with a few US Mega cap stocks, which are benefiting from the AI boom: Micron, whose earnings per share soared (+1,214%) due to skyrocketing prices and demand for DRAM; Amazon and Alphabet are not far behind either (up 242% and 294% respectively), whose EPS are driven by their cloud businesses, as OpenAI and Anthropic remain very greedy in terms of computing power, and as the revaluation of the equity stakes in these AI labs is enabling to record 'accounting' profits. Whilst the figures are impressive, the market reaction has been far less so. Indeed, the announcement of an upward revision to Alphabet's capital expenditure to $195–205 billion was enough to send the share price into negative territory, closing 7% lower on the day. It must be said that, with nearly USD 1 trillion* in CAPEX expected by 2029 for the five biggest hyperscalers, questions about the profitability and return on investments are becoming more pressing. The momentum that had driven the AI theme higher in recent weeks is running out of steam, even as growth prospects continue to improve. Aggressive positioning and the proliferation of leveraged instruments are amplifying the trend both on the way up and on the way down. This momentum reversal is sparing neither the US hyperscalers and semiconductor firms nor their Asian counterparts. Conversely, stocks that had been struggling – Software companies, Microsoft, Alibaba – are seeing a resurgence of interest.

Against this backdrop of heightened volatility and wide-ranging performance, we remain positive on equities and true to our core philosophy, maintaining significant international diversification whilst seeking selective and targeted exposure to the technology sector in the US and Asia (excluding Japan). We also maintain our convictions regarding Japanese domestic stocks.

T1 : US EQUITIES – Q2 2026 QUARTERLY RESULTS WRAP-UP

Sector (BICS)			Earnings Surprise				Sales Growth				Earnings Growth			
	Reported		+	Inline	-	%	+	Inline	-	%	+	Inline	-	%
US market	**305**	**498**	**264**	**10**	**31**	**31,07%**	**259**	**9**	**37**	**14,81%**	**246**	**5**	**54**	**57,00%**
Materials	19	27	16	0	3	6,32%	16	0	3	9,04%	16	0	3	41,25%
Industrials	58	77	51	2	5	6,22%	52	2	4	10,71%	48	0	10	13,55%
Consumer Staples	13	33	11	1	1	4,07%	12	0	1	14,35%	10	1	2	7,41%
Energy	10	22	8	0	2	6,11%	6	0	4	39,09%	7	1	2	135,67%
Technology	30	67	27	2	1	11,87%	27	0	3	25,31%	27	0	3	61,09%
Consumer Discretionary	29	46	21	2	6	120,71%	19	1	9	10,53%	16	2	11	135,37%
Communications	11	26	8	0	3	99,14%	8	0	3	14,76%	9	0	2	119,35%
Financials	64	80	58	1	5	10,65%	60	1	3	15,55%	58	0	6	21,72%
Health Care	30	58	29	0	1	12,13%	29	1	0	6,95%	27	0	3	19,82%
Utilities	18	31	14	2	2	6,66%	11	3	4	4,27%	11	0	7	13,55%

Source: Bloomberg, Banque Eric Sturdza, data as of 31.07.2026

** AI, where the money goes, Ludovic Labal, ESAM, July 2026*

5. PERFORMANCE

EQUITIES	31.07.2026	CURRENT	MTD	3M	6M	YTD	2025	2024	2023	2022	2021
US	DOW JONES	52 485	0,3%	5,7%	7,3%	9,2%	13,0%	12,9%	16,2%	-6,9%	20,9%
	S&P 500	7 490	-0,1%	3,9%	7,9%	9,4%	16,4%	23,3%	26,3%	-18,1%	28,7%
	S&P500 EW	8 706	0,9%	5,7%	8,6%	12,1%	9,3%	10,9%	13,8%	-11,5%	29,6%
	NASDAQ 100	28 274	-6,6%	3,0%	10,7%	12,0%	20,2%	24,9%	55,1%	-32,4%	27,5%
	RUSSELL 2000	2 931	-3,1%	4,7%	12,2%	18,1%	11,3%	10,0%	16,9%	-20,5%	14,8%
EUROPE	STOXX 600	649	1,2%	6,2%	6,3%	9,6%	16,7%	6,0%	16,6%	-9,9%	25,8%
	FTSE 100	10 868	3,5%	4,7%	6,3%	9,4%	21,5%	5,7%	7,7%	4,6%	18,4%
	CAC 40	8 510	1,3%	4,9%	4,7%	4,4%	10,4%	-2,2%	20,1%	-6,7%	31,9%
	DAX	25 629	2,5%	5,5%	4,4%	4,7%	23,0%	18,8%	20,3%	-12,3%	15,8%
	SWISS MARKET	14 346	1,1%	9,2%	8,8%	8,1%	14,4%	4,2%	7,1%	-14,3%	23,7%
EM & ASIA	MSCI Asia ex Japan	1 104	-3,5%	5,5%	11,7%	20,8%	29,3%	9,8%	3,6%	-21,5%	-6,4%
	TOPIX	4 003	0,2%	7,4%	12,3%	17,4%	22,4%	17,7%	28,3%	-2,5%	12,8%
	HANG SENG	25 884	13,1%	0,4%	-5,5%	1,0%	27,8%	17,7%	-10,5%	-12,6%	-11,8%
	CSI 300	4 588	-7,9%	-4,6%	-2,5%	-0,9%	17,7%	14,7%	-9,1%	-19,8%	-3,5%
SECTORS	Communication Services	165,9	0,1%	-8,0%	-4,9%	-0,5%	30,9%	32,6%	44,0%	-37,6%	13,4%
	Consumer Discretionary	494,4	1,8%	0,7%	-1,8%	-1,7%	7,4%	20,4%	33,6%	-34,0%	17,1%
	Consumer Staples	318,1	2,2%	0,7%	1,7%	7,0%	6,4%	3,5%	0,1%	-8,0%	10,8%
	Energy	352,4	12,6%	-0,9%	17,1%	31,9%	9,8%	-0,4%	-0,7%	41,1%	35,1%
	Finance	252,4	6,4%	10,2%	8,9%	9,3%	26,1%	23,8%	13,1%	-12,4%	25,1%
	Healthcare	408,8	1,4%	8,2%	1,3%	2,3%	13,2%	-0,1%	2,4%	-6,6%	18,3%
	Industrials	564,0	-1,2%	1,3%	5,4%	12,9%	23,0%	32,2%	52,3%	-31,3%	15,1%
	Information Technology	1132,1	-4,2%	8,9%	17,6%	16,3%	23,4%	11,7%	21,2%	-14,6%	29,1%
	Materials	427,7	-0,5%	-3,3%	-0,9%	7,9%	23,4%	-7,5%	11,7%	-13,7%	12,9%
	Real Estate	210,7	-1,7%	-5,3%	1,9%	5,7%	21,7%	10,0%	-2,5%	-7,0%	7,1%
	Utilities	211,4	-1,4%	-3,0%	4,6%	6,1%	21,7%	10,0%	-2,5%	-7,0%	7,1%
CURRENCIES & COMMODITIES	**31.07.2026**	**CURRENT**	**MTD**	**3M**	**6M**	**YTD**	**2025**	**2024**	**2023**	**2022**	**2021**
CURRENCIES	EUR-USD	1,153	0,9%	-1,7%	-2,7%	-1,9%	13,1%	-6,2%	3,1%	-5,9%	-6,9%
	EUR-CHF	0,930	0,8%	1,5%	1,5%	0,0%	-0,9%	1,2%	-6,1%	-4,6%	-4,0%
	USD-CHF	0,808	-0,1%	3,3%	4,5%	1,9%	-12,3%	7,8%	-9,0%	1,3%	3,1%
	USD-JPY	157,4	-3,2%	0,5%	1,7%	0,4%	0,3%	11,5%	10,5%	13,9%	11,5%
COMMODITIES	Gold	4046,15	1,0%	-12,4%	-17,3%	-6,3%	65,3%	27,2%	13,1%	-0,3%	-4,2%
	Silver	57,60	-1,7%	-21,9%	-32,4%	-19,6%	132,4%	21,5%	-0,7%	2,8%	-13,6%
	WTI Crude Oil	84,67	21,8%	-19,4%	29,8%	47,5%	-21,0%	0,1%	-10,7%	6,7%	59,1%
	Copper	13 836	3,6%	7,2%	5,9%	11,1%	37,4%	2,2%	0,9%	-14,1%	25,7%
FIXED INCOME	**31.07.2026**	**CURRENT**	**MTD**	**3M**	**6M**	**YTD**	**2025**	**2024**	**2023**	**2022**	**2021**
RATES	US 10 year gvt	4,73	0,06	0,08	0,12	0,14	-42 bps	69 bps	0 bps	237 bps	60 bps
	German 10 year gvt	3,21	0,12	0,06	0,13	0,12	53 bps	34 bps	-54bps	275 bps	39 bps
BONDS	Global Aggregate USD hdg.	609,2	-1,0%	0,0%	-0,1%	0,1%	4,6%	3,4%	7,1%	-11,2%	-1,4%
	Global Aggregate EUR hdg.	217,8	-1,1%	-0,4%	-1,0%	-0,9%	2,5%	1,7%	4,7%	-13,3%	-2,2%
	Global Aggregate CHF hdg.	156,9	-1,4%	-1,0%	-2,2%	-2,2%	0,3%	-1,0%	2,5%	-13,7%	-2,5%
	US Treasuries	2414,5	-1,1%	-0,7%	-0,7%	-0,8%	6,1%	0,6%	4,1%	-12,5%	-2,3%
	US IG Corporates	3515,7	-1,7%	-0,7%	-1,0%	-0,8%	7,5%	2,1%	8,5%	-15,8%	-1,0%
	US High Yield	2964,2	-0,2%	0,5%	1,2%	1,7%	8,2%	8,2%	13,4%	-11,2%	5,3%
	Euro Government	243,8	-1,6%	-0,2%	-1,1%	-0,4%	0,3%	2,0%	7,1%	-18,2%	-3,4%
	Euro IG Corporates	266,7	-1,0%	0,4%	-0,4%	0,4%	2,8%	4,7%	8,2%	-13,6%	-1,0%
	Euro High Yield	510,5	-0,2%	1,2%	0,8%	1,6%	4,6%	9,1%	12,8%	-11,1%	4,2%
	EM USD Aggregate	1396,5	-1,3%	0,0%	0,3%	0,7%	10,9%	6,6%	9,1%	-15,3%	-1,7%

Source : Bloomberg, 31.07.26

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