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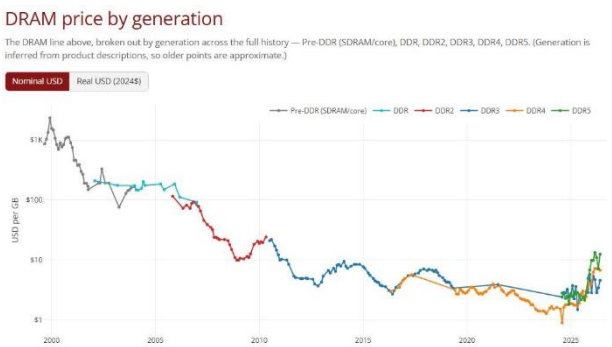
Investor Info
Investment Commentary

Briefing from the ARVEST Investment Committee

Three months ago, we – like many other market participants – assumed that the war in the Middle East, and in particular the risk of a prolonged disruption to shipping through the Strait of Hormuz, would place a significant burden on the global economy. In hindsight, this assessment proved to be overly pessimistic. The global economy turned out to be significantly more resilient than expected. Although the underlying geopolitical risks remain unchanged, their impact on energy supplies and the global economy has so far been limited. On the equity markets, risk perception has consequently moved into the background; the focus remains on the exceptional growth expectations associated with artificial intelligence.

Global demand for computing power continued to increase, whilst the supply of modern high-performance AI chips and memory components remained tight. The price trend for DRAM memory is particularly striking: according to long-term data from Stanford University, the most recent price rises are significantly higher than during previous boom phases in the chip cycle. Higher prices, rising sales volumes and substantial order backlogs – in some cases involving advance payments – contributed significantly to record profits and very strong share price performance among leading companies across the AI value chain in the second quarter.



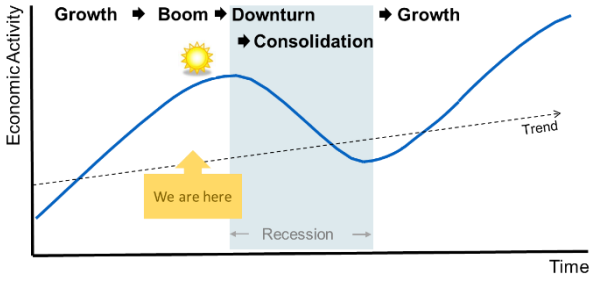
In our last quarterly report, we already pointed out that, under favourable conditions, the AI boom could develop into a genuine speculative bubble. For many years, Jeremy Grantham has described three conditions that typically need to be present for a boom to turn into a major asset price bubble. Firstly, there needs to be a theme with widely recognised, transformative potential, whose economic implications are likely to remain relevant for decades. Since the launch of ChatGPT, artificial intelligence has, in our view, met this condition. Secondly, a stable and growing economy is required to sustain investment optimism. Thirdly, the formation of a bubble requires ample liquidity to facilitate the

investments on which rising expectations and valuations are based.

It is this third condition in particular that seems noteworthy today. The liquidity for further investment does not stem solely from steadily rising government debt. It derives primarily from the enormous free cash flows of the major hyperscalers and is now being channelled entirely into additional data centres, energy supply and semiconductor capacity. In addition, there is growing use of margin trading backed by equity portfolios that have already reached record valuations. This generates further capital for equity and bond issuance, as well as for future IPOs of new AI businesses. As long as these real cash flows continue to grow, they can continue to sustain the momentum of a speculative bubble.

The Bank for International Settlements has also drawn attention to this trend. In its annual report, the BIS places current investment in AI into historical context by comparing it with previous bubbles, illustrating how far the current dynamic has already progressed. At the same time, the BIS warns of potential risks to financial market stability if today's profit expectations fail to materialise or funding for the AI infrastructure boom dries up abruptly.

This development is also being discussed with increasing nuance within the US Federal Reserve. Beth Hammack, President of the Federal Reserve Bank of Cleveland, highlights the risk that the exceptionally high demand for AI infrastructure could be structurally inflationary, necessitating higher interest rates. Kevin Warsh, by contrast, places greater emphasis on the long-term deflationary potential of artificial intelligence through higher productivity. The Fed therefore faces the difficult task of balancing price rises in key capital goods against potential productivity gains.



Outlook

In our view, the current AI boom still has the potential to continue. Historical speculative bubbles rarely end when they first begin to be widely discussed. In fact, they can persist for considerably longer than fundamental valuation models would suggest.

However, our investment process is deliberatly not based on attempting to predict the exact turning point of a bubble. Since the 1970s, we have consistently followed our phase model of the economic cycle instead. This model calls for a gradual reduction in equity allocation during boom phases. Accordingly, we continue to reduce our equity positions in a disciplined manner, while consciously accepting that our portfolios may underperform the major equity indices during the final phase of an exceptionally strong equity market. Experience from past decades shows that it is precisely this discipline that makes a significant contribution to long-term capital preservation and more stable performance of our clients' portfolios after the end of a boom phase.

7 July 2026
On behalf of the Investment Committee
Stefan Kimmel
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