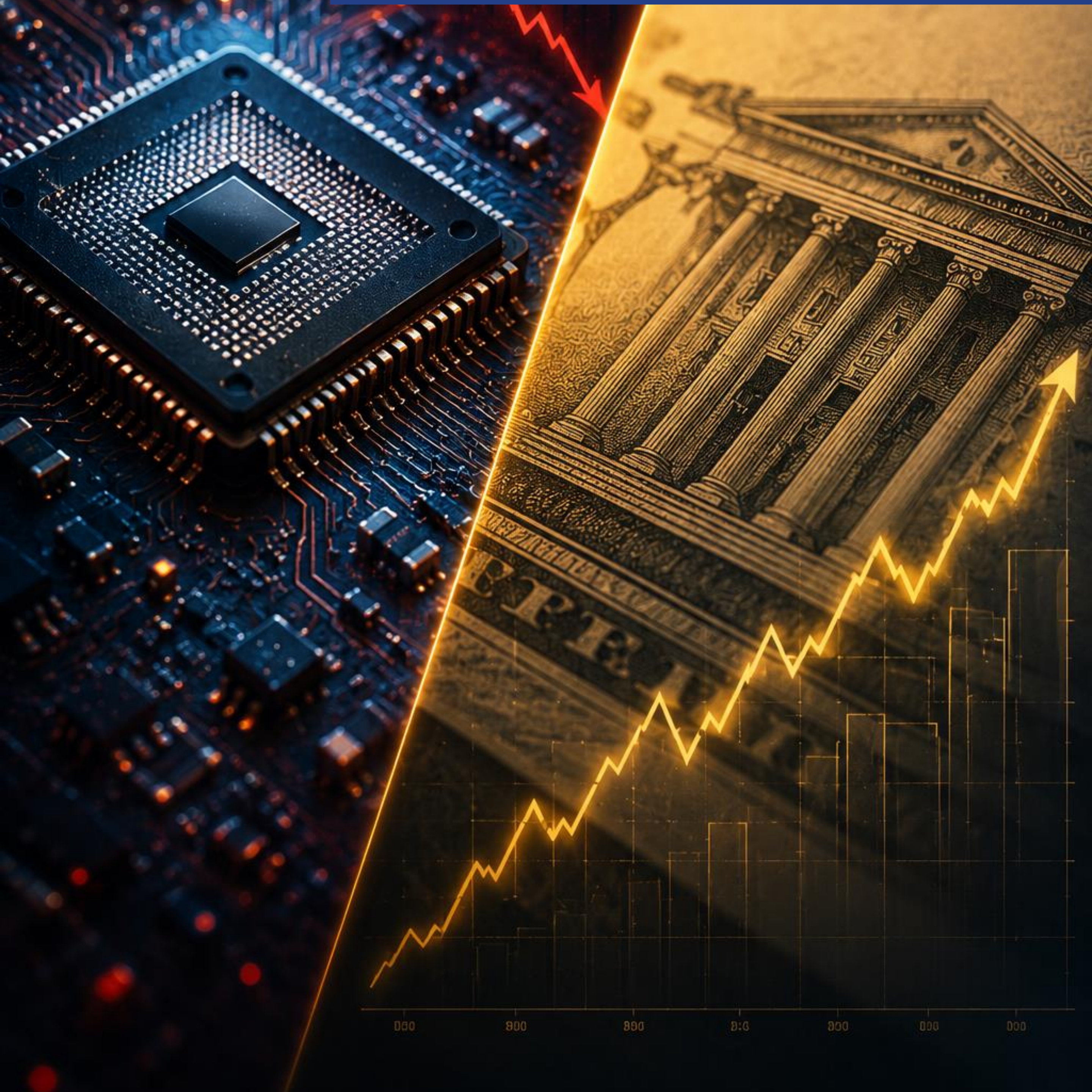
SAF & CO

Independent Wealth Management

Monthly Review:

Market Rotation and Rising Yields

Geneva | July 2026



Overview

Saf & Co monthly global outlook and portfolio allocation

Executive Summary

- **Global semiconductors sold off over $1 trillion** in market value in July, as Nvidia, SK Hynix, Samsung and TSMC each shed more than $100bn, in one of the sharpest momentum unwinds on record.
- **US-Iran tensions reignited**, with U.S. strikes on Iran and Houthi attacks on Saudi tankers sending Brent oil back above $100.
- **South Korea's KOSPI hit its circuit breaker twice** (7 and 13 July), its third-worst crash since Lehman, as 1.2 million leveraged retail accounts faced margin calls after the Bank of Korea's first rate hike in three years.
- **US June CPI cooled to 3.5%** (vs. 3.8% expected), yet the 10-year yield still climbed to 4.74% on oil-driven inflation fears.
- **Q2 earnings season delivered**, with ASML, Microsoft, Apple and Intel all beating estimates, while Alphabet posted its first-ever negative free cash flow quarter after raising 2026 capex guidance to $195–205bn.
- **A rare, coordinated Japan-US intervention** arrested the yen's slide to a 40-year low, as the Bank of Japan held rates at 1%.

Allocation

We kept our Asset Allocation unchanged, making adjustments to our Equity book.

Bonds – 41%

No changes to our Fixed Income. Yields are back to the levels when we added duration risk in May, while spreads remain at very tight levels.

Equities – 41%

We exited Nikkei 225 near its all-time high at the beginning of the month, due to oil price dependence and increased valuation following the index surge YTD. We rotated the proceeds into our diversified ACWI position.

Alternatives – 8%

We keep our allocation in Gold and Silver as prices stabilized. Our Macro hedge fund benefitted from rising long term yields and outperformed up +7.1% in July

Monthly Review

July 2026 – Overview

While the S&P 500 ended July broadly resilient (-0.1%), beneath the surface the market experienced a sharp rotation out of the AI and Semiconductor stocks that leaded throughout 2026.

The sell-off was triggered by a powerful combination of geopolitical and financial forces. Renewed U.S.-Iran tensions reignited inflation concerns, while South Korea, home to some of the world's most important semiconductor companies, unexpectedly raised interest rates. That move hit an already crowded and highly leveraged AI trade, triggering widespread margin calls among Korean retail investors forcing a rapid liquidation of semiconductor positions that quickly spread across global technology markets.

The result has been one of the largest "momentum unwinds" in recent history (Figure 1) meaning that the same market leaders that outperformed in 2026 and who became large positions in equity indexes, were the ones most affected by the steepest declines. The reversal was severe for tech heavy indexes with the Nasdaq-100 falling -6.6% and the South Korea Kospi -22.2%, touching -10% and -27.4% on the bottom of July's performance.

Rates & Fixed Income

The Federal Reserve kept interest rates unchanged at 3.75% in July, but the decision was divided with three officials voting in favor of a rate hike.

Despite encouraging inflation data, with June CPI easing to 3.5%, the 10-year Treasury yield rose to 4.73%, its highest level since January 2025. The increase reflected a combination of rising oil prices, which lifted inflation expectations, and concerns of "higher for longer" rates.

At the same time, elevated U.S. government borrowing and Debt continued to place upward pressure on Treasury yields, making the bond market more volatile and increasingly sensitive to changes in monetary policy expectations. Since the beginning of the year, market pricing for 2026 has shifted from expecting two rate cuts to two rate hikes. The 10-year yield, which increased from 4.17% to 4.73%, highlighted the strong relationship between shifting rate expectations and long-term bond yields (Figure 2).

In Europe, the European Central Bank also left its deposit rate unchanged at 2.25%, as inflation continued to moderate across the euro area.

Figure 1: Momentum factor

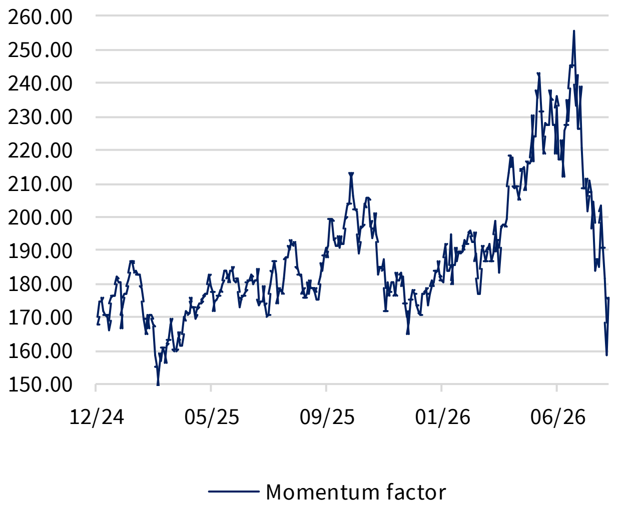
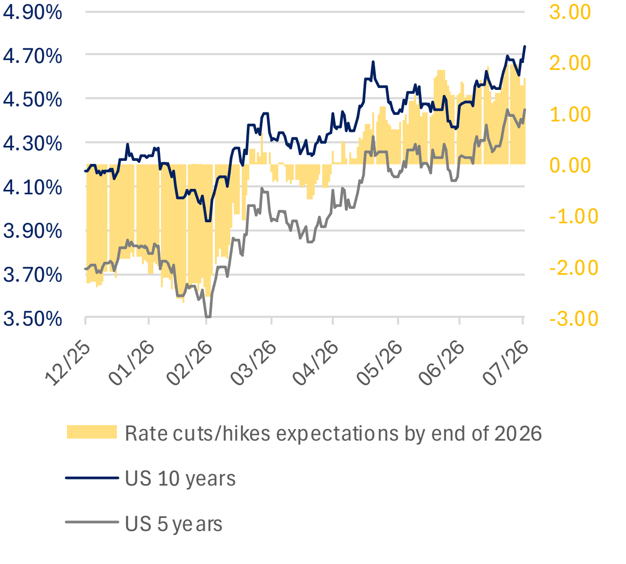


Figure 2: Central Banks' 12-month rate expectations



Equity markets

United States

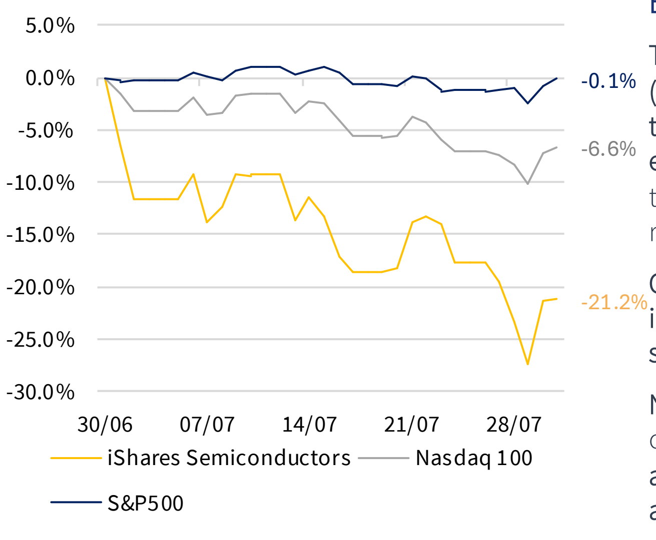
The U.S. equity market underwent a significant internal rotation, with capital moving decisively out of technology and AI-related names and into more defensive sectors, particularly Financials, Energy, and Healthcare (Figure 4).

Escalating U.S.-Iran tensions pushed oil prices higher, triggering a repricing of interest-rate expectations. Sentiment was further undermined by mounting evidence that China is rapidly narrowing the AI gap with the United States. Moonshot's newly released Kimi K3 model demonstrated near-frontier AI capabilities at a fraction of the cost of leading Western models, raising questions about the durability of the competitive and valuation premium embedded in major U.S. AI companies.

At the same time, forced selling driven by margin calls among South Korean retail investors, combined with the unwinding of Situational Awareness, a highly leveraged $40 billion U.S. AI-focused fund, amplified volatility across global technology stocks.

This caused a highly concentrated correction, affecting only the semiconductors and AI supply chain stocks, with iShares semiconductors down -21.2% while the S&P500 remained flat at -0.1% (See figure 3)

Figure 3: Semiconductors perf. YTD



Even so, Q2 2026 is shaping up to be another strong quarter for corporate America, with 86% of companies beating expectations with record profitability and earnings growth. Banks benefitted from high interest rates and strong M&A and trading activity, which pushed the sector up 6.2%. The Magnificent 7 also delivered strong earnings, despite elevated Capex remain investors' main question, especially with Google posting the first ever negative free cash flow quarter.

We see this as a technical short-term correction which is not changing the long term trajectory of these companies

Figure 4: July Sector rotation

Equity Sectors	Value	July
Industrials	179.84	-2.9%
Consumer Discretionary	116.09	-1.0%
Materials	50.43	-0.8%
Financials	56.94	6.2%
Communication Services	108.24	1.0%
Technology	175.35	-8.0%
Consumer Staples	85.05	2.4%
Real Estate	45.07	2.4%
Health Care	162.55	2.5%
Utilities	44.35	-2.2%
Energy	59.55	12.1%

Europe

The Euro Stoxx 600 gained +0.6% in July (+12.4% YTD), being more insulated from the AI narrative and more financial and energy-sector heavy, which benefitted from the increase in oil prices and the general rotation out of tech.

Cooling CPI in the Eurozone, and Germany's infrastructure package could help in the short term.

Nevertheless, we believe the geography continue to be under pressure by the absence of decisive business-friendly policy and deeper capital markets.

Rest of the World

South Korea and Taiwan bore the brunt of the chip unwind. The KOSPI hit its circuit breaker twice (7 and 13 July), recording its third-worst crash since Lehman, with SK Hynix down -15.4% (a record) and Samsung -10.7% as the (Bank of Korea's first hike in three years unwound leveraged retail positions (See figure 5).

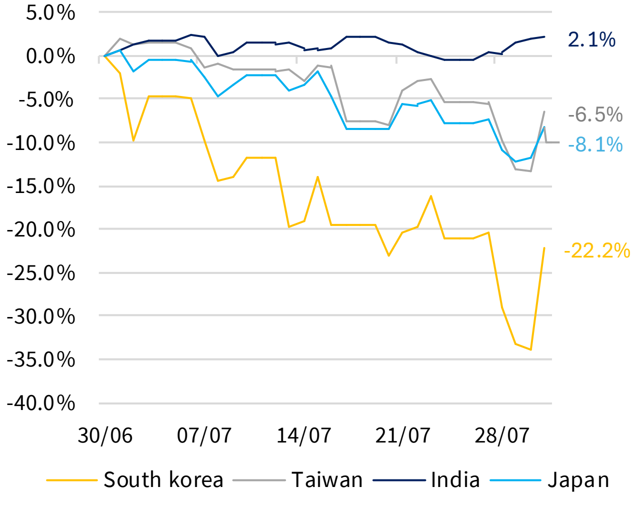
Roughly 1.2 million Korean investors (4% of working adults) faced margin calls, coupled with foreign funds pulling over $100bn from Korean equities this year, taking profits as the index soared 100%+ before the 40% correction. Taiwan felt the same tremor even as TSMC surpassed earnings expectations.

Japan's Nikkei fell -8.1%, hit by its Hormuz oil dependence and then by a rare, coordinated Japan-US intervention that arrested the yen's slide to a 40-year low. The BoJ held rates at 1%, flagging inflation above target from September (See figure 7).

India stood out as one of the few large markets to end July higher, thanks to its low exposure to AI and chip supply chains which penalized the geography in 2026.

Finally, China's performance was splitted, with the Semiconductor's heavy CSI300 down -7.4% in July, while the big tech's heavy Hang Seng up +13.4%.

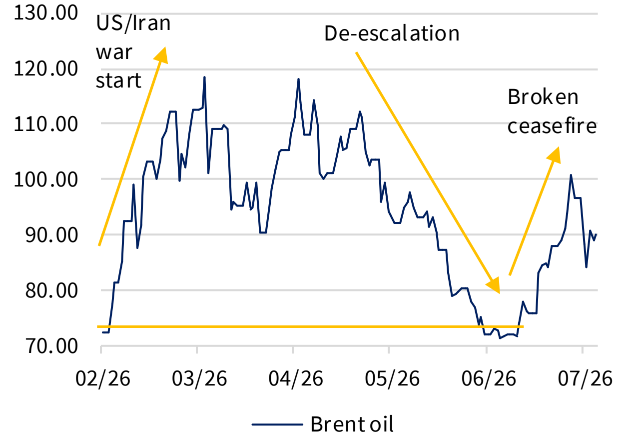
Figure 5: EM performance July



Commodities and FX

Oil was one of the month's wildest assets. Following US/Iran ceasefire in June, Brent Oil price fell to pre-war levels. In July though, the break of the ceasefire with deal pause and Houthi's attack in the Red Sea pushed Brent back above $100, closing the month at 90$ (See figure 6).

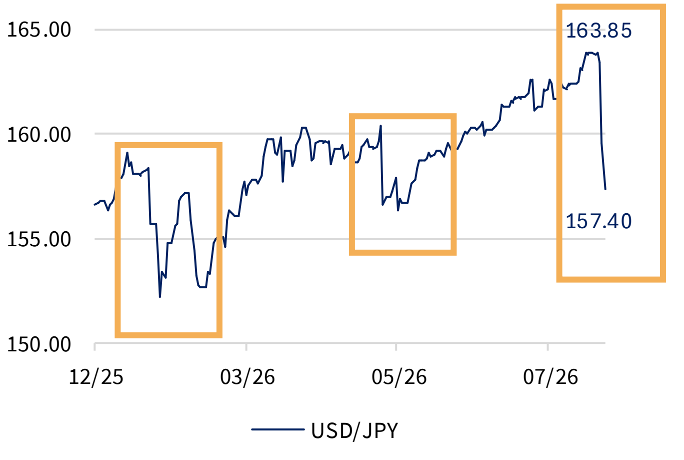
Figure 6: Brent Oil since start of the war



Bitcoin instead was up +7.3% on the month to $64,700, reverting part of June's losses as the Clarity act, which is expected to benefit the blockchain sector, is making progress in the congress.

Finally, focusing on Forex, The Japan-US intervention on the yen triggered a sharp reversal back to below 160. Japan is the largest foreign holder of US Treasuries, for this reason it is important to monitor Yen's level as weakening of the pair could push Japan to sell treasuries (stressing yields) to stabilize their currency.

Figure 7: YEN vs USD YTD



Fund Update

Asset Allocation

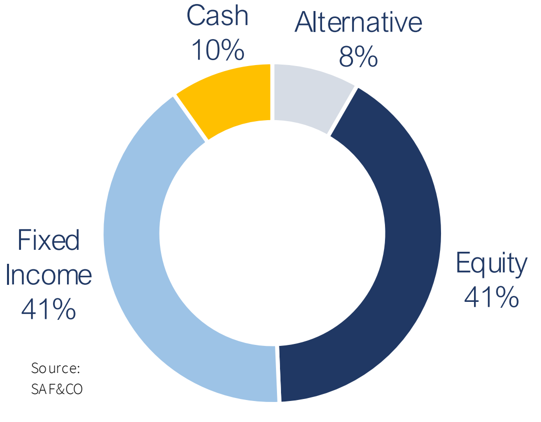
We kept the asset allocation unchanged, while making internal adjustments to our Equity exposure.

Equity and Fixed Income are currently at 41%, while Cash and Alternatives are at 10% and 8% respectively.

Geographically, the US remains our largest allocation at 59% of the portfolio, ^with Emerging Markets and Europe equally split at 20% each. (See figure 8).

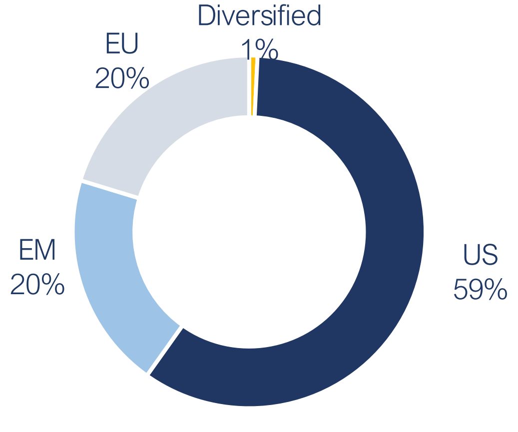
Figure 8: SAF&CO's Fund Allocation (as % of total portfolio)

Asset classes



Source: SAF&CO

Geographical allocation



Source: SAF&CO

Fixed Income

In July, the portfolio was impacted by the rise in U.S. interest rates (Figure 2), particularly our Investment Grade allocation, which has the longest duration at over six years. Conversely, credit spreads remained tight, and the strong carry continued to support solid performance from our High Yield and Emerging Market allocations. As we did not change our allocation, these dynamics largely explain the month's performance.

Our Fixed Income now has 6.58% weighted average yield to maturity, with a 4.23 years of duration and 231bp premium over treasuries.

We maintained Investment Grade as the largest bucket at 46.4% followed by high yield at 27.5% and Emerging Market debt at 26.0%, with longer maturity bonds concentrated in the Investment Grade basket, and shorter maturities in the High Yield and Emerging Markets.

Equity

We exited Nikkei 225 at the start of July, near its all-time high, on stretched valuations and Japan's Hormuz oil dependence, redeploying into our diversified ACWI position.

US Q2 earnings are reinforcing our constructive view in tech, for this reason we maintained our tech overweight through the volatility of July as we see it as a short-term technical correction, rather than trimming into it.

Alternatives

Gold and Silver stabilised; we maintained our core allocation to both as a hedge against further Middle East escalation.

Our Macro hedge fund performed strongly in July, up 7.1%, benefitting from raising long term yields.

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