STRATEGY & OUTLOOK

Market Update

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The funds had a strong July, outperforming their respective benchmarks as a confluence of factors - from renewed hostilities in the Middle East, to a violent pull back in the AI/semiconductor complex - dragged sections of the market lower, oil back towards $100 per barrel and US 30-year yields to highs not seen since 2007.

As highlighted in our H1 commentary (please find here: https://cantorfitzgerald.ie/wp-content/uploads/2026/07/CFAM-Market-Update-July-2026.pdf), the funds continued to maintain their low risk, low beta positioning throughout July. This approach, in addition to the Multi Asset's exposure to the Alternative Investment fund - which had a particularly strong month - and an overweight in commodities, allowed the funds to outperform. On the more defensive side of the portfolio, reducing duration in the bond portfolio during the second quarter paid dividends as global long end yields continued to push higher.

Markets were shaped by two shifting narratives during July. Early in the month, US-Iran tensions erupted again as the MoU between the two sides effectively collapsed, restarting a period of intense, tit-for-tat strikes. Eventually, the cadence of attacks declined, and discourse around newfound hopes of a peace agreement between the two sides emerged once again, pressuring Brent back to around $90 per barrel by the end of the month. As geopolitics held center stage in the middle east, the market continued to digest Q2 earnings and questions regarding the durability of AI-driven returns. A key theme throughout earnings was the scale of continued AI investment by the major US hyperscalers. Management teams reaffirmed substantial increases in capital expenditure to expand data centre capacity, computing infrastructure and networking capabilities. While these commitments reinforced the long-term structural demand outlook for AI infrastructure, the market is increasingly focusing on AI-attributable returns rather than spending alone. Capital allocation, free cash flow generation and evidence that AI investment can translate into sustainable and meaningful earnings has become a significantly more important driver of share price performance than the size of capex announcements themselves.

The Federal Reserve meeting in July reinforced the higher-for-longer narrative, as Fed Chairman Kevin Warsh continued to maintain the position of providing the market no forward guidance at a time when inflation remains above trend and rising. Warsh reaffirmed a deliberately data-dependent stance and reinforced that inflation remains the primary policy objective. Concerns that he had failed to provide markets with sufficient guidance arguably undermined confidence in his ability to contain inflation, particularly as elevated energy prices threatened to push up costs more broadly. These worries were reflected quite starkly in US 30-year Treasury yields rising to 19-year highs. The Fed did leave rates unchanged largely as expected, but the fact that three committee members reportedly favored a 25bp hike is notable. The number of rate hikes now being priced into markets is quite the reversal from just several months ago.

Going forward, we maintain the funds position towards the low end of the Asset Allocation range with overweights in sectors that stand to benefit in an elevated commodity and rising rate environment, namely Energy, Utilities and Banks. As hints of the “Sell America” trade re-emerge - concerns on Fed independence and the credibility of the US Treasury in addition to a fiscal deficit close to 6%, we decided to close our overweight in the US Dollar. Given the outlook for inflation and yields, we further reduced the duration within the bond portfolio.

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