The Linara Lens

linara

Our perspective and insight

Markets in July were defined by two reinforcing shocks rather than any single catalyst – a sharp reassessment of AI capital spending, and a renewed flare-up in the Middle East that undid June's ceasefire. Semiconductor and memory names sold off heavily as investors questioned AI capex returns, even as US Q2 earnings growth tracked around 45% year-on-year, well above the 22% expected at the start of the season. Brent crude surged to USD 100/bbl after the Strait of Hormuz closed again, before easing back to USD 88 by month-end. The Fed's July meeting delivered a hawkish hold with three dissents in favour of an immediate hike, sending longer-dated Treasury yields higher. Australia was a picture of relative calm: the RBA held at 4.35%, inflation surprised to the downside, and the ASX 200 rose for a fourth straight month to a five-month high.

Key Theme

Volatility Is the Story, Not Just the Risk. Chip stocks swung from the best trade of the year to the most volatile: the US semiconductor index fell 21% in July, its worst month since October 2008, even as the broader market stayed comparatively calm – single-stock volatility hit a record premium to index volatility, and correlation fell to multi-decade lows. We read this as crowded positioning unwinding rather than a change in the AI capex story, and see genuine opportunity in it by adding to names with significant and intact earnings growth and selling that elevated volatility to generate high levels of income while funding broader market exposure.

Outlook: Our thinking has shifted on a few connected fronts. Fed Chair Kevin Warsh's press conference signalled resolve on inflation but stopped short of committing to a hike, leaving the market to keep doing some of the Fed's work for it. Bond markets responded by pushing Treasury yields higher, reading the lack of action as a credibility gap rather than a dovish signal. Pricing shifted from cuts to hikes, and the 30-year Treasury yield touched 5.21%.

We had thought of a Fed hike as a risk that would emerge once the political constraint of the November mid-terms had passed. July's price action suggests the bond market is now pricing meaningful hike risk as soon as September – well ahead of that timeline. We believe that yields are more likely to surprise higher than lower from here.

The Australian dollar ended the month near multi-week highs, up more than 8% over the past year. While we think that another hike from the RBA is possible, in our view they are more likely to err on the side of caution and wait for more data, rather than commit to potentially economically damaging hikes. Therefore, we would characterise the AUD as close to the top of its recent range rather than confidently past its peak.

We see some similarities here with 2022, when resurgent inflation forced central banks' hands. This isn't on the same scale – we aren't hiking rates from zero this time, and the starting point for both inflation and policy is different – but the shape of the risk, rising yields alongside a softer AUD, is similar enough that we have acted on it.

How to Position: We have reduced currency hedges on our global equity and US Treasury exposures, moving ahead of an AUD we think is close to the top of its range. We have trimmed our global credit with duration, as we see credit spreads near record tight levels not offering sufficient compensation for risk with the scale of hyperscaler debt issuance now competing for space in credit markets, we exited our gold position as rising yields raise the cost of holding a non-yielding asset, and redirected the proceeds into alternatives, shorter-duration credit and commodities.

We remain firmly of the view that global, and in particular US, equities are the more attractive hunting ground than Australian equities on earnings growth alone, and we remain overweight the picks-and-shovels layer of the AI value chain despite this year's volatility, which we see as a function of crowded positioning rather than a deteriorating outlook. That same volatility is increasingly investable in its own right: with single-stock and sector volatility at a record premium to index volatility, we see genuine scope to generate high income by selling it rather than simply enduring it.

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Portfolios as of 31 July 2026

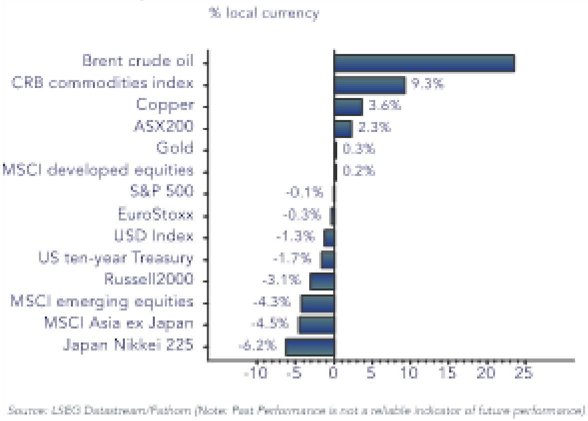
Asset Class	Balanced	Growth	High Growth
Equities			
Australia	6.41%	14.73%	20.90%
Developed	10.17%	21.10%	26.89%
Emerging	3.29%	6.01%	8.91%
Alts – Growth	10.29%	12.25%	13.29%
Infrastructure	9.98%	11.28%	10.35%
Property	3.69%	1.63%	0.00%
Credit	17.64%	10.70%	3.18%
Fixed Income	17.25%	4.98%	4.98%
Alts – Defensive	12.57%	11.65%	8.38%
Cash	8.72%	5.68%	3.11%

The table above shows portfolio weights after the implementation of changes.

Markets in July

A rise in volatility across markets in July was driven by two reinforcing shocks: a sharp reassessment of AI capital spending, and a renewed flare-up in the Middle East that unwound the previous month's ceasefire. Underneath both sat a Federal Reserve without a uniform view on the path of short-term policy.

Chart 1: July Asset Class Performance

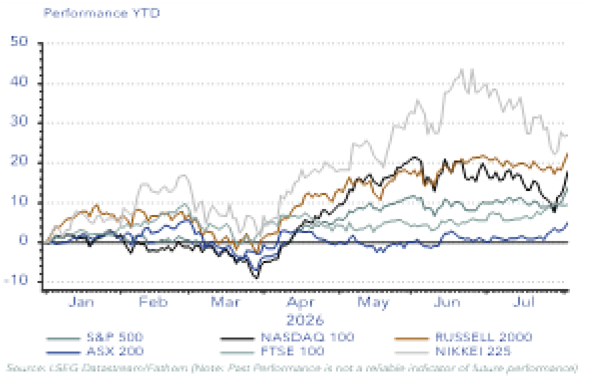


The AI story turned from momentum to scrutiny. With open model competitors appearing to gain ground and costs rising, investors began asking harder questions about the return on hyperscaler capex, and semiconductor and memory names bore the brunt of the reassessment. We believe that this looks more like a reset of crowded positioning than a break in underlying earnings growth.

To date US Q2 earnings growth is tracking around 45% year-on-year, more than double the 22% pace expected at the start of the season. Fundamentals have held up better than sentiment, though the market continues to draw a clear distinction between misses, punishing revenue disappointments considerably more than earnings misses. This has produced a broadening in equity market performance: the equal-weight S&P 500 outperformed its cap-weighted counterpart as breadth improved, even as the S&P 500 and Nasdaq both closed lower for a second straight month and MSCI World finished flat.

The Middle East added a second layer of volatility. The fragile ceasefire that had allowed oil prices to retrace through June broke down in July, effectively closing the Strait of Hormuz once again, with disruption to shipping through the Bab-el-Mandeb Strait compounding the problem. Brent crude surged as high as USD 100 a barrel before settling back to USD 88 by month-end. Bond markets have stayed sensitive to Middle East headlines: a renewed energy shock threatens to unwind months of disinflation just as central banks are weighing whether further tightening is needed.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2026)



That tension came to a head at the Fed's July meeting. The FOMC held rates steady, but the vote was split with three dissenting votes in favour of an immediate hike, and Chair Warsh's insistence on the Fed's inflation resolve, without the forward guidance to back it up, left markets uncertain about the reaction function from here. Bond markets are pricing the risk of rate hikes as early as September: the US Treasury curve bear-steepened, with 2-year yields up 12bps and 30-year yields up 32bps, and markets now have a full hike priced in by year-end with a further 53bps pushed into 2027. Credit spreads nudged modestly wider late in the month as heavy hyperscaler bond issuance added to the hawkish repricing, though the moves were minor and spreads remain near the tight end of their historical range.

Australia offered relative calm. The RBA held the cash rate at 4.35%, and June quarter inflation came in softer than expected – headline CPI eased to 3.8% year-on-year and core to 3.6% – prompting markets to pare back expectations for further tightening to around 14bps by year-end.

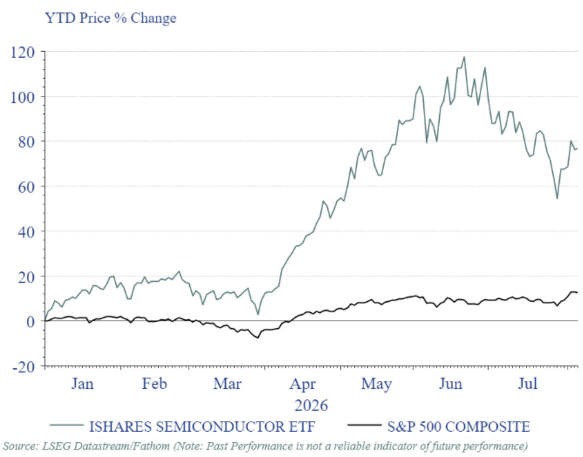
Australian government bond yields crept higher in sympathy with the global move, but the ASX 200 pushed to a five-month high, extending its advance to a fourth consecutive month, led by energy and financials on higher oil prices and bank strength, while technology and industrials lagged.

Key Theme

Volatility Is the Story, Not Just the Risk

Chip stocks have gone from the best trade of the year to the most volatile. The Philadelphia Semiconductor Index fell 21% in July, its worst month since October 2008, with the index closing up or down at least 4% on nearly half the trading days and swinging at least 2% intraday on every session – something that hadn't happened since 2020. The sector had gained nearly 65% over the first half of 2026. Two names we hold in the Linara Global Equity Portfolio illustrate the extremes: SanDisk has been the best-performing stock in the entire S&P 500, up over 850%, while Micron's market capitalisation briefly crossed $1 trillion on the back of a quarterly revenue print above $41 billion. Since that peak, Micron has fallen around 17% and another strongly performing portfolio name, Intel around 21%.

Chart 3: Semis v S&P 500

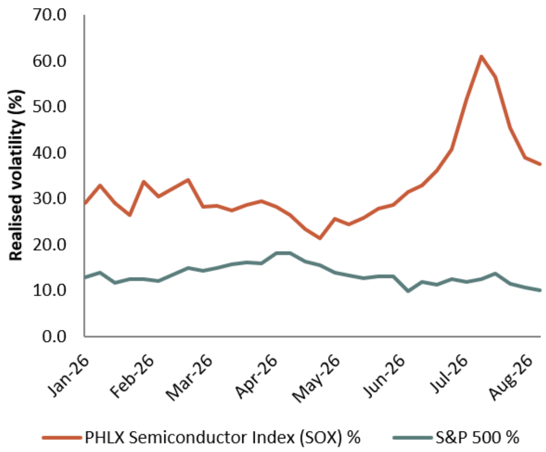


What makes this episode worth our attention is not the size of the move but where it is - and isn't - showing up. One-month realised volatility in the semiconductor index has run as high as 61%, against roughly 12% for the S&P 500 - a nearly 49-percentage-point gap, the widest on record. At the same time, implied correlation (how much stocks move the same way as each other) across the S&P 500 and Nasdaq 100 has fallen to its lowest level in at least 23 years. In plain terms: the index looks calm, individual names do not. This is single-name dispersion, not a systemic risk-off event, and it is consistent with our view that the correction reflects a healthy repricing of a crowded trade rather than a change in the AI capex cycle itself.

For portfolios, this dynamic cuts two ways. First, it reinforces the case for active management and security selection over passive index exposure - the index-level number is telling you almost nothing about what is happening underneath it.

Second, and more actionable, it makes volatility itself investable. With single-stock and sector volatility trading at such an extreme premium to index volatility, and correlation this low, we see genuine scope to generate high levels of income by selling that elevated volatility rather than simply living with it - through structures like equity-linked notes or call-writing overlays on the more richly volatile names, which can also be used to fund broader exposure at a lower net cost.

Chart 4: 30-day Realised Volatility, Semis v S&P 500



Outlook

Our thinking has shifted on a few connected fronts. New US Fed Chair Kevin Warsh's press conference on 29 July was the trigger. Warsh signalled resolve on inflation but stopped short of committing to a hike, suggesting the market could continue doing some of the Fed's work for it. Bond markets responded by pushing Treasury yields higher -

reading the lack of action as a credibility gap rather than a dovish signal. Markets repriced from cuts to hikes, and the 30-year Treasury yield touched 5.21%.

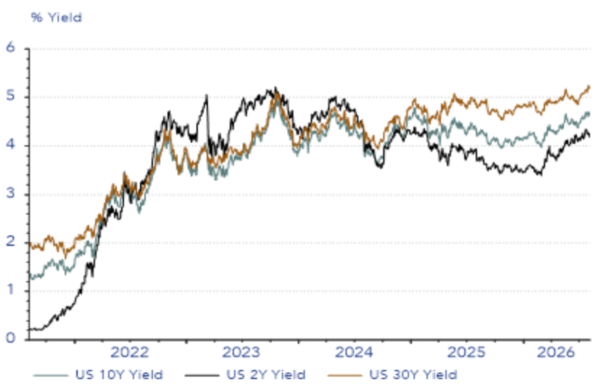
We had thought of a Fed hike as a risk that would emerge only once the political constraint of the November mid-terms had passed; July's price action suggests the bond market is now pricing meaningful hike risk as soon as September, well ahead of that timeline. The underlying logic is unchanged: yields are more likely to surprise higher than lower from here.

The AUD ended the month near multi-week highs, up more than 8% over the past year, supported by stronger-than-expected household spending data. The Reserve Bank meets on 10-11 August, and the current consensus among the major banks is for a hold at 4.35%, with June CPI having come in softer than expected. That said, this isn't a clean "RBA is done" story: a majority of economists surveyed still expect at least one further hike sometime in 2026. Regardless, we would characterise the AUD as close to the top of its recent range rather than confidently past its peak.

Put together, this leaves us with the view that; bond yields that have more room to surprise higher, a Fed that may hike sooner rather than later, and an Australian dollar that looks fully priced.

In the current environment we see some similarities with 2022, when resurgent inflation forced the hand of central banks. This isn't on the same scale – we are not hiking rates from zero this time, and the starting point for both inflation and policy is different – but the shape of the risk, rising yields alongside a softer AUD, is familiar enough that we have acted on it.

Chart 5: US Bond Yields



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

How to Position

Given our view, we have reduced currency hedges on global equity and bond exposures, trimmed long-dated global credit, exited our gold position, and redirected the proceeds into alternatives, shorter-duration credit and commodities. We set out the detail of this below.

The changes reflect the shift in view set out above: rather than wait for confirmation that yields have peaked or the Australian dollar has turned, we have moved ahead of both, while holding firm on our core convictions in global over Australian equities and the AI infrastructure trade.

Defensive

We have trimmed our exposure to global investment grade **credit** with duration by around half. Hyperscaler and technology borrowing now makes up close to 30% of total US IG issuance on a rolling six-month basis, and with spreads already historically tight, we don't think investors are being compensated for the combined risk of wider spreads and higher underlying yields. Proceeds have been redirected into cash, shorter-duration credit strategies, and a new allocation to a diversified **alternatives** strategy designed to generate returns with low correlation to both equities and bonds – a genuine diversifier rather than a bet on any particular market direction.

Infrastructure

Our thesis – that AI-linked power, digital networks and grid infrastructure sit at a compelling intersection of defensive income and structural growth – is unchanged, and we would use any pullback as an opportunity to add.

Growth

We remain firmly of the view that **global equities**, and in particular **US equities**, are the more attractive hunting ground than **Australian equities**. The earnings picture from August reporting season previews reinforces this: ASX 200 earnings growth excluding Resources and Financials is running at a fraction of the pace expected for the S&P 500 this year. That earnings gap, not valuation, is doing the work.

Within global equities, we remain overweight the picks-and-shovels layer of the AI value chain – **semiconductors**, memory and data centre infrastructure – despite the extreme volatility in the sector this year. We see this volatility as a function of crowded positioning rather than a deteriorating earnings outlook and would use sharp pullbacks to add rather than reduce exposure.

We have exited our **gold** position. Gold tends to struggle once rising yields raise the cost of holding a non-income-producing asset, and we would rather redeploy that capital into strategies with more explicit exposure to a rising US dollar, and into a dedicated **commodities** allocation, which remains one of the more reliable hedges against a resurgence in inflation. We averaged into our gold position through 2024 and 2025 and exiting now has still locked in significant gains.

Single-stock and sector volatility is trading at a record premium to index volatility, while correlation sits near record lows. We see scope to generate high levels of income from this by selling volatility – through equity-linked notes or call-writing overlays over the most richly volatile names – rather than simply enduring it and would look to fund broader market exposure at a lower net cost using this approach.

Currency

We have removed the currency hedge on our **global equities** and **US Treasury** holdings. We now think the AUD is close to the top of its range and the risk has shifted toward a weaker currency from here. Being unhedged gives us exposure to both the underlying investment and to currency movements: a weaker AUD would benefit both, while a stronger AUD would work against the currency component of returns even where the underlying investments perform well.

Luke Hansen

Linara Investment Team
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