The Way We See It

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Goji Consulting Limited

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INSIDE THIS ISSUE

Situational Awareness and the AI Cycle: From Rally to Reckoning

The sector that powered markets in H1 now tests investor resilience in H2.

Review of Developments

- Global Economies
Q2 2026 Realized Data, H1 Avg & H2 2026 Forecasts

Region	GDP Growth (Q2 Realized / H1 Avg)	H2 2026 GDP Forecast (Ann. / YoY)	Headline Inflation (June / Q2 Avg)	H2 2026 Headline Inflation Forecast	Core Inflation (June / Q2 Avg)	Budget Deficit (% of GDP)
United States	1.5% (Ann.) / 1.8%	1.8% – 2.1%	3.5% / 3.8%	2.8% – 3.1%	2.6% / 2.9%	~6.0%
China	4.3% (YoY) / 4.7%	4.2% – 4.5%	0.6% / 0.8%	0.8% – 1.2%	0.7% / 0.8%	~7.3%
Eurozone	0.4% (QoQ) / 0.25%	0.8% – 1.0%	2.5% / 2.7%	2.2% – 2.4%	2.3% / 2.4%	~3.4%
Japan	0.3% (Ann.) / 0.2%	0.6% – 0.8%	2.5% / 2.6%	2.1% – 2.3%	2.2% / 2.4%	~5.5%
Asia / EM Bloc	4.7% (YoY) / 4.9%	4.4% – 4.6%	3.5% / 3.6%	3.2% – 3.5%	~3.1% / ~3.2%	~4.5%

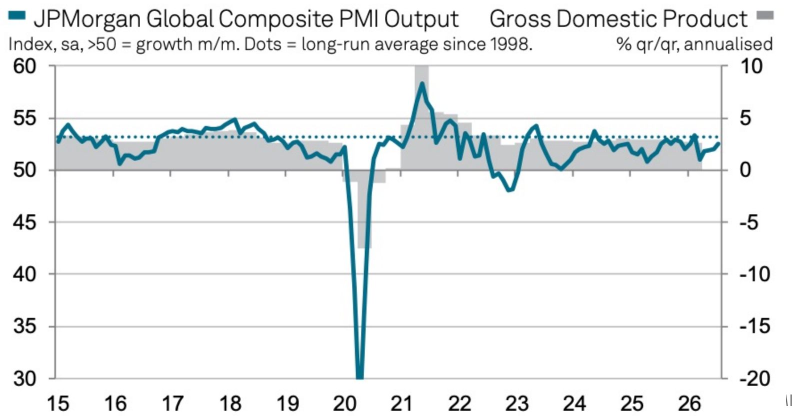
Source: IMF, OECD; US: BEA, BLS, FOMC; China: NBS, PBoC; Eurozone: ECB, HICP; Japan: BoJ; Asia & EM: ADB, AMRO, IMF REO, RBI, CBoT, BoK, BI BPS, BNM.

The US economy grows at rate below expectations, with second-quarter GDP likely to slow to 1.5 per cent annualised. The first half of the year should deliver only 1.8 per cent growth, constrained by rising imports and weaker government spending. Europe and Japan delivered modest outcomes in line with subdued forecasts, expanding between 0.3 and 1 per cent. China slowed to around 4.5 per cent, supported by exports and AI-related investment, though fragile consumer sentiment and property sector stress continue to weigh on domestic demand.

Inflation trends remain volatile, exacerbated by swings in energy prices. Core inflation in Europe and Japan is converging towards 2 per cent, while US core PCE persists at roughly 3 per cent. Federal Reserve Chair Kevin Warsh has reaffirmed the Fed's determination to restore inflation to target, signalling policy uncertainty ahead.

Inflation trends remain volatile, exacerbated by swings in energy prices.

J.P.Morgan Global Composite PMI™



Geopolitical risk remains pervasive. Conflicts in the Middle East, tensions in Ukraine and East Asia, and instability in Cuba and Greenland all threaten supply chains and regional stability. These underscore the need for resilience and diversification in asset allocation.

- Global Markets
Review of the Month of July 2026

Profit-taking and margin-call driven selling in overheated semiconductor memory and AI chip stocks cooled equity markets. Renewed Gulf tensions pushed oil and long-dated bond yields higher.

Technology's heavy index weighting dragged US equities down 0.1 per cent in July. Global equities rose 0.5 per cent, with ex-US markets up 2.1 per cent. Emerging markets fell 3 per cent, led lower by Korea and Taiwan technology names. Asia ex-Japan dropped 3.2 per cent, while China rebounded 9 per cent, buoyed by value and defensive sectors.

Fixed income posted modest losses: US Treasuries fell 1.1 per cent, the Aggregate index 1.3 per cent. Global government and aggregate indices slipped 0.3 and 0.5 per cent. Commodities rebounded sharply, led by oil, while the dollar was unchanged throughout the month until the notable retreat in the final days in July.

Near-term performance of various asset classes

Asset Class	US Equities	Global Equities	Global ex US Equities
Index	MSCI USA	MSCI World	MSCI World ex USD
1 month	-0.06%	0.53%	2.08%
3 months	4.27%	4.44%	4.90%
YTD	10.01%	10.52%	11.85%
FY 2025	17.75%	21.60%	32.55%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	-1.67%	-1.11%	-1.30%
3 months	-0.75%	-0.72%	-0.76%
YTD	-0.83%	-0.84%	-0.69%
FY 2025	7.77%	6.32%	7.30%

Asset Class	Global Govt Bonds	Global Aggregate	GEM Equities
Index	Bloomberg Global TSY	Bloomberg Global Agg	MSCI EM
1 month	-0.28%	-0.53%	-3.03%
3 months	-1.01%	-0.90%	4.93%
YTD	-1.21%	-0.75%	20.27%
FY 2025	6.82%	8.17%	34.36%

Asset Class	Asia ex Japan Equities	China A	China Offshore
Index	MSCI AC AxJ	MSCI China A Onshore	MSCI China
1 month	-3.18%	-10.44%	9.04%
3 months	6.38%	-4.25%	-1.70%
YTD	22.32%	3.63%	-7.22%
FY 2025	33.02%	30.26%	31.42%

Asset Class	Global Commodities	Gold	USD
Index	CBR	Spot Price	Norm. Broad USD Index
1 month	8.91%	0.92%	-0.18%
3 months	-2.53%	-12.64%	1.63%
YTD	29.31%	-6.31%	0.49%
FY 2025	0.37%	65.51%	-7.24%

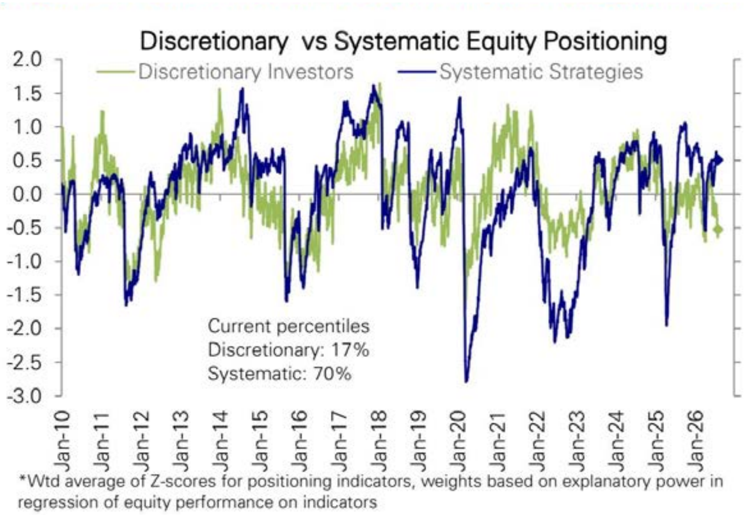
Source: GOJI, MSCI, Bloomberg; data as of 31/7/2026

Market Outlook

2nd half of 2026

The first half was dominated by a semiconductor and AI rally that offset weak US macro conditions. Looking forward, traders remain constructive, but long-term investors are cautious. Surveys show fundamental investors underweight risk assets, citing persistent US inflation, rising yields, Gulf conflict uncertainty, doubts over hyperscaler AI spending returns, and stretched valuations. In contrast, systematic funds have rebuilt overweight positions.

Discretionary vs Systematic Equity Positioning



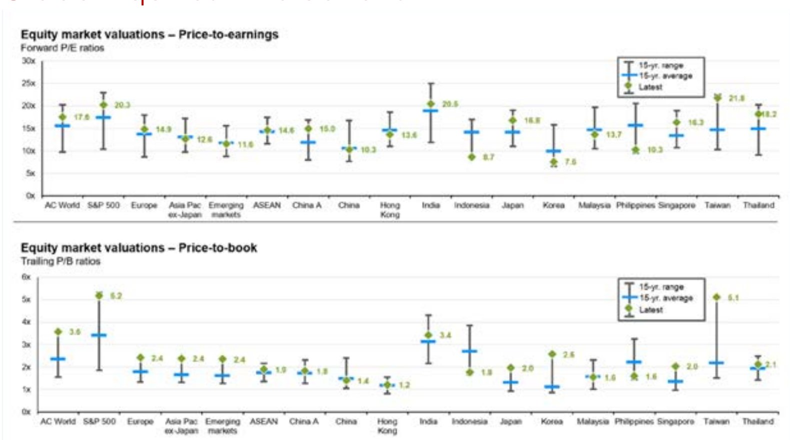
Source: Deutsche Bank Asset Allocation

Fundamental investors underweight risk assets; systematic funds have rebuilt overweight positions.

GOJI expects volatility to persist, with year-end levels likely within ±10 per cent of current indices. AI and infrastructure investment, alongside moderate global growth supported by policy stimulus, provide a constructive backdrop. Yet risks remain: Middle East conflict, Ukraine escalation, US–China trade frictions, and populist policy shifts ahead of US mid-terms.

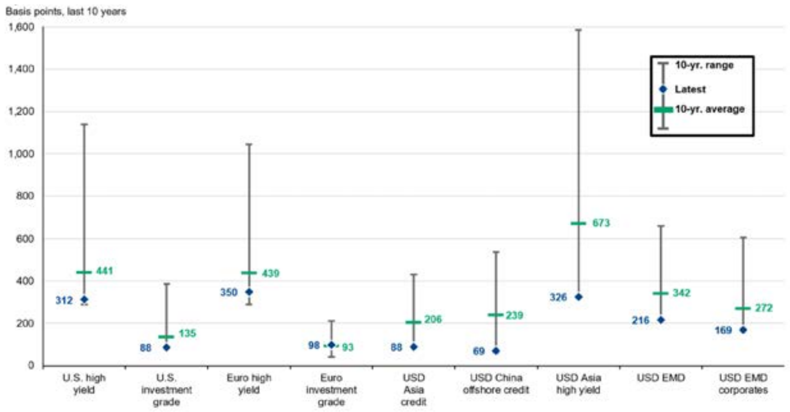
Equity valuations look stretched versus bonds. GOJI advises neutrality between equities and fixed income. Within equities, favour Value over Growth, with selective opportunities in Hong Kong and China relative to Korea, Taiwan, and the Nasdaq. In fixed income, extend duration and overweight high-quality bonds. FX positioning should remain neutral given geopolitical and policy uncertainty.

Global Equities – Valuations



Source: "Guide to the Markets – Asia; 3Q 2026" by JPMorgan

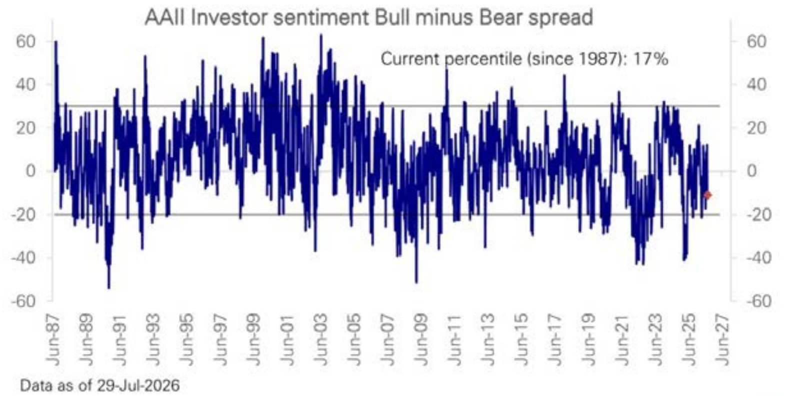
Global Fixed Income – Valuations



Source: "Guide to the Markets – Asia; 3Q 2026" by JPMorgan

Sentiment weakened in July, with the Fear & Greed Index sliding from Neutral to Fear. Technically, US indices retained their bull trend, holding above 200-day moving averages.

Investor Sentiment



Source: Barron's, Haver Analytics, Deutsche Bank Asset Allocation

Technical
- S&P 500 Stock Price Index

Source: MarketWatch.com

Feed & Greed Index

Source: CNN Business
Last update July 31 at 8:00:00 PM ET

The Way We See It
- Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

Long-Term Neutral Risk Stance

Since March, GOJI has maintained a neutral long-term risk posture. Elevated valuations, subdued growth, and geopolitical uncertainty dominate the landscape. Optimism around pro-growth policies and AI investment persists, but risks are not fully priced. Prudence is warranted.

We remain modestly underweight high-beta growth assets. Allocations to cash and high-quality bonds preserve capital, enhance resilience, and maintain flexibility. This balanced stance enables selective opportunity capture while mitigating downside risk.

Short-Term Positioning

Near term, GOJI advises neutrality in equities and readiness to add long-dated government bonds.

With US 10-year yields nearing 5 per cent and 30-year yields approaching 5.5 per cent, government bonds are increasingly attractive. We caution against low-quality corporates and illiquid private credit.

Equity preferences:
- Value over Growth
- Asia and emerging markets over Europe, where structural headwinds persist.

FX positioning should remain neutral. Short-term strategy emphasises balance, diversification, and discipline to withstand volatility while capturing regional opportunities.

GOJI: ST neutral in equities with (i) value over growth; (ii) Asia & EM over Europe.

Special Section: How Situational Awareness appeared to have fired up the Semis rally and then caused an avalanche.

The declaration of war by the US and Israel against Iran in March caused stocks to correct significantly.

When the ceasefire was announced in early April, US semiconductor stocks took off, led by memory names. The latter include makers of the traditional DRAM and NAND chips which have been powering mobile phones, laptops and PCs for many years. Memory chips also included the more sophisticated advanced chip called HBM (high bandwidth memory). The latter is a crucial technological AI component which helps to drive the efficient use of stacked NVIDIA chips.

Situational Awareness unravelled

All the above memory chips benefited from a massive shortage, hence a doubling / tripling of their product prices. This was the result of a lack of manufacturing capacity over the past few years, combined with much of the existing capacity reserved for the production of higher-profit-margin AI chips.

This alluring high growth / big supply shortage backdrop of memory chips pulled in the fund manager of the $45bn hedge / private equity Situational Awareness ("SA") fund, the 24-year-old Leopold Aschenbrenner.

The SA manager also adopted the popular strategy to short software stocks, including Microsoft, Google, Amazon, ServiceNow, etc. This is based on the newly-formed consensus in H1 2026 that Anthropic's AI software will render existing software business models obsolete.

So, the young hedge fund manager took on 4 times leverage to express his strong thesis of favouring Semiconductor and Memory names and shorting software and other leading AI chips designers (i.e. NVIDIA).

This helped the SA fund to rack in sensational returns in the June quarter and the first half of 2026.

However, when profit taking in the hot Memory names and the short-covering phase of software names began in July, SA, being 4 times leveraged, was hit with massive margin calls from their prime broker banks, JPM and GS. Consequently, SA was left with little alternative but to degross their highly leveraged portfolio. Large losses mounted as their longs were falling and shorts were rising in price.

This finally culminated in the fire sale of the levered stock positions of SA to Citadel, a giant in the market-making and hedge fund world. SA retained the private equity portion of the portfolio.

This saga created havoc to semiconductor and AI-related stocks not only in the US, but also in Korea and the rest of the world.

Currently, investors are debating whether the apparent AI bubble has burst ?

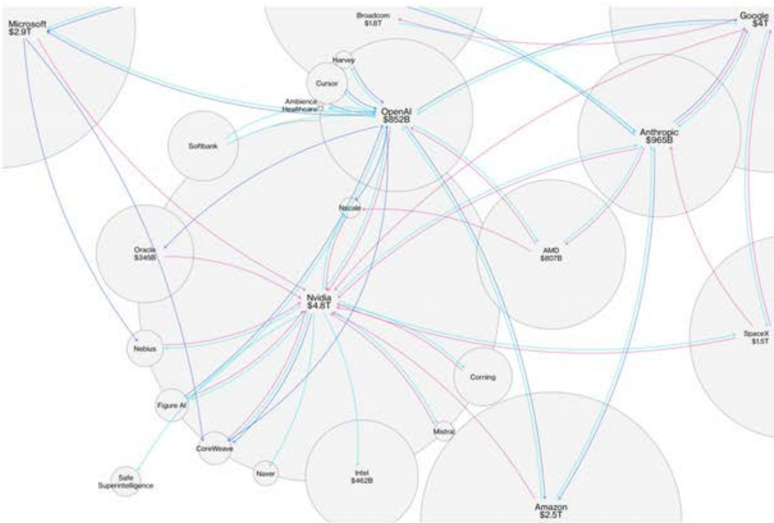
We believe that the AI revolution remains strong, despite speed bumps and funding concerns.

We do not believe that the AI revolution has been terminated. On the contrary, we adopt the view that the revolution will evolve and is expected to impact on many industries in coming years.

Having said that, there are a number of aspects in the AI revolution which could present undiscounted risks in the future.

One of this risk is the circularity of financing between chip manufacturers and AI model platforms and various AI-related infrastructure sub-sectors. The latter include data centres, and their associated businesses (energy and water providers, turbine cooling systems, etc). The risk is that if a major player in the circle were to file for bankruptcy, this could cause unquantifiable adverse impacts on the confidence of lenders or equity participants.

Circular Financing



Source: *"A Guide to the Circular Deals Underpinning the AI Boom"*, 29/7/2026, Bloomberg

In brief, while we hold the view that the AI revolution will continue, picking winners will be of paramount importance. Companies with a strong balance sheet together with a good business moat are likey to thrive. Heavily indebted companies without a strong business moat are subject to a sudden adverse change of sentiment of funds providers.

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