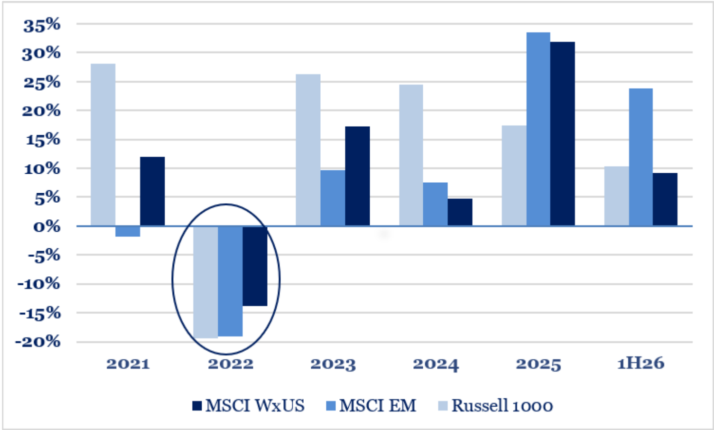
Haven Global Partners, LLC
Investment Insights: July 2026

We see Opportunity in Current Market Divergence

Global equity markets have remained in an upward trend in 2026, marking the fourth consecutive year stocks have rallied since the market decline in 2022 (Exhibit 1). However, this market move has been anything but a straight line up, with the aforementioned gains having been interrupted by sharp reversals caused by geopolitical events and fluctuating oil prices.

Exhibit 1. Total Return (USD)

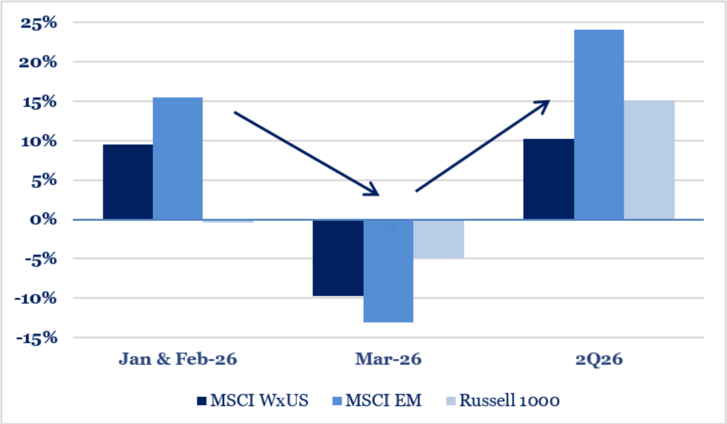


Sources: Bloomberg, HGP, MSCI

Market Backdrop in 2026

The year started with a robust readout from the Institute of Supply Managers Manufacturing PMI—a key indicator that measures the health of the manufacturing sector—in the United States, Japan, and major European countries, signaling relatively healthy global economic conditions. Consequently, global equity markets started out strongly this year with developed international markets (MSCI World ex US) and emerging markets (MSCI Emerging Markets) rising rapidly in the first two months (Exhibit 2).

Exhibit 2. Total Return in 2026 (USD)



Sources: Bloomberg, HGP, MSCI

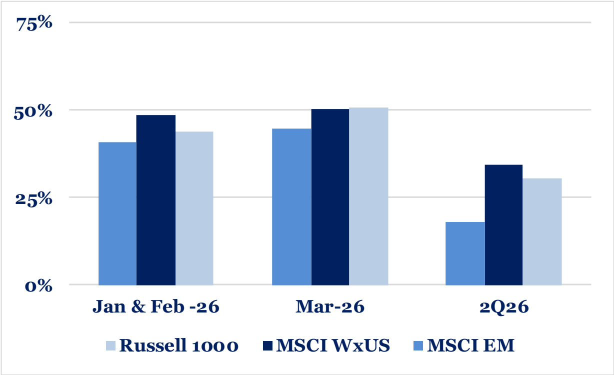
This market rally faced interruption due to the war in Iran as well as further unrest throughout the Middle East, which caused traffic in the Strait of Hormuz to come to a standstill. Consequently, Brent crude rose from $60 per barrel in January to above $100 in May, this in turn drove inflation higher. Higher inflation then put pressure on equity prices, leading global equity markets to reverse in March, wiping out all of the gains from the first two months (Exhibit 2).

The market flip flopped once again in the second quarter, driven by investor relief over a potential de-escalation of the Middle East conflict. The first news flow citing withdrawal of US forces from Iran came on March 31st, which sent Global equity markets up sharply on April 1st. Despite a lack of certainty on when the war might end, or whether the US and Iran would ever actually reach a deal to permanently end hostilities, the market rally sustained for the duration of the second quarter as oil declined to below $75 a barrel by June-end.

Weak Market Breadth

Although global markets have managed to continue in an upward trajectory, keeping up with the trend which began in 2023, this market rally has been driven by a small set of stocks. In Exhibit 3, we present market breadth in each of the three periods in 2026. There are different ways to calculate market breadth, but the objective is the same and that is to understand whether there is broad participation among stocks in an underlying index' movement. When an index rises and most of the constituents are also up, this indicates a broad healthy market condition. By contrast, weak market breadth signifies that the rally is concentrated amongst fewer stocks and thus not likely sustainable. We define market breadth as the percentage of constituents that have outperformed the index in a given period.

Exhibit 3. Market Breadth

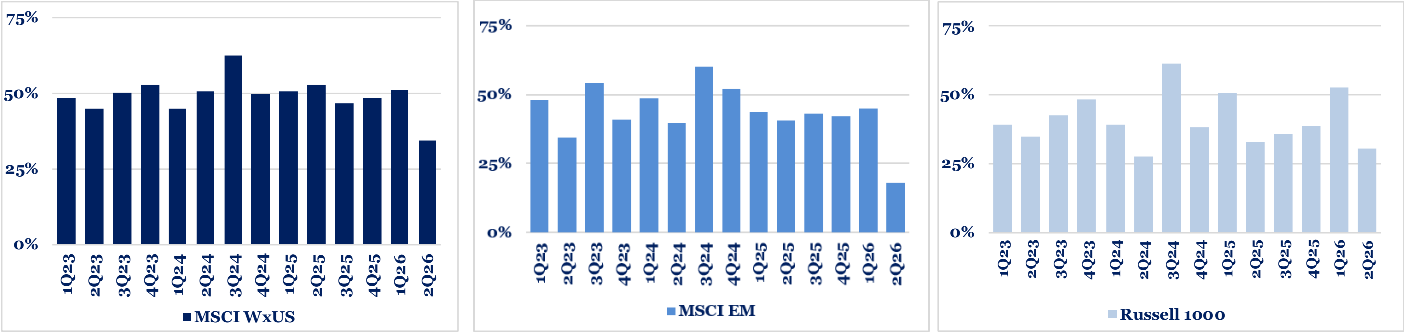


Sources: Bloomberg, HGP, MSCI

As presented in Exhibit 3, when global markets rose in January and February, close to half of the index constituents participated in the market rally. Similarly, as the market declined in March, close to half of the stocks in each of the indices underperformed. By contrast, in the second quarter only one-third or fewer of stocks participated in the market rally.

In Exhibit 4, we present historical quarterly market breadth from 2023 to the current time. As demonstrated in these charts, there was broad participation in the market's movement in the first quarter although there were two distinct periods of market performance, namely the up market in January and February and down market in March.

Exhibit 4. Market Breadth in Global Equity Markets



Sources: Bloomberg, HGP, MSCI

By contrast in the second quarter, as the markets rallied, market breadth narrowed significantly across all broader equity indices. US equities reached close to an all-time low last seen in 2024 when performance was driven by the Magnificent Seven (Microsoft, Nvidia, Alphabet, Apple, Amazon, Meta, and Tesla). Similarly, market breadth was weak in Emerging and International Developed markets with only 18% and 34% of the stocks outperforming the benchmark, respectively. What drove the narrow markets in the second quarter?

Market Performance Driven by Information Technology

In Exhibit 5, we present sector performance relative to that of their underlying index. As presented in this chart, the only sector that outperformed in the second quarter was Information Technology. Market concentration looks even more pronounced when compared on a sector basis. The only exception was the moderate outperformance of Financials, and in particular Banks, in International Developed markets.

Exhibit 5. Performance by Sector: Second Quarter 2026

Sources: Bloomberg, HGP, MSCI

Divergence in Technology Stocks

However, not all technology stocks were the same. If we peel the sector decomposition back one more level, we find significant divergence in performance between different industries within the Information Technology sector. For example, while the MSCI Emerging Market Semiconductors and Technology Hardware industries rose ~75% in the second quarter, the IT Services industry declined -12%.

Exhibit 6. Industry Performance (USD): Second Quarter, 2026

	ACWIxUS	WxUS	EM	USA
Info-Tech	64%	48%	73%	32%
- Semi	75%	73%	77%	52%
- Tech Hardware	73%	56%	79%	27%
- Software & Services	-1%	2%	-12%	6%

Sources: Bloomberg, HGP, MSCI

This divergence in performance was driven by investors chasing AI and AI-related stocks which are in the business of producing memory chips. As US hyperscalers Amazon, Meta, Microsoft, Google and Oracle continue to pour money into data centers, demand for memory chips has risen rapidly. AI capital expenditure (CapEx) for these hyperscalers is expected to be $700bn this year, a 70% increase from 2025. In addition, total CapEx is projected to reach perhaps more than $1trillion next year. This insatiable demand for chips has caused their prices to soar (Exhibit 7), along with stocks of the companies associated with the equipment necessary for their production such as SK Hynix, TSMC, ASML, Samsung, Tokyo Electron, etc. Meanwhile, stocks of companies not connected with AI have lagged be they in Software and IT Services such as SAP, Capgemini, Infosys, Tata Consultancy, or companies in other sectors (Exhibit 5).

Exhibit 7: Memory Chip Spot Prices (USD)

Sources: Bloomberg, HGP, Inspectrum Tech

Higher demand for AI stocks has also meant a wide divergence in performance amongst countries. Taiwan, South Korea and the Netherlands which have significant exposure to semiconductors rose approximately 86%, 49% and 37%, respectively in the second quarter, far outperforming the broader markets. Meanwhile, countries that are with less leveraged to AI such as China, India, Brazil, Norway, etc. have underperformed.

As investors flock towards stocks in the semiconductor production space, we believe that many companies which have quality characteristics are being left behind. Investors appear to be "throwing the baby out with the bath water". At some point, however, market participants are likely to reach chip fatigue. This will happen either because chip investments have not met required return hurdles, or perhaps excess demand will run into a supply glut, with the industry reverting back to its highly cyclical nature or perhaps valuations just get extended beyond a level where average investors are comfortable. Whatever the reason turns out to be, as stock market performance starts to broaden, other stocks are likely to catch up.

Thus, in our view, the current market condition is well-positioned for a diversified portfolio with focus on quality and valuation. At HGP, we have been trimming our exposure to semiconductor stocks after holding a significantly overweight position for several years. We have been using these proceeds to deploy into quality names that have been left behind, thus remaining true to our investment discipline.