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SCA REPORT
2Q 2026

Markets

Asian Markets (local currency)	*2Q 2026 % Chg*	*YTD 2026 % Chg*	*Other Markets*	*2Q 2026 % Chg*	*YTD 2026 % Chg*
Korea	67.8%	101.1%	Nasdaq	21.4%	12.8%
Taiwan	45.4%	59.3%	MSCI World Index	14.5%	10.4%
Thailand	9.9%	26.3%	Russell 3000	15.1%	10.2%
MSCI Asia ex Jap	24.0%	22.8%	S&P 500	14.9%	9.6%
MSCI Asia Pacific	21.0%	20.3%	EuroStoxx 50	13.6%	9.3%
Japan Topix	14.2%	17.2%	Dow Jones	12.9%	8.9%
Singapore	5.8%	11.3%	MSCI Europe	10.5%	8.8%
CSI 300 (A-shrs)	11.9%	7.5%	Brazil	-8.2%	6.8%
Vietnam	11.1%	4.2%	FTSE	3.2%	5.7%
Australia	3.5%	0.7%	DAX	10.2%	2.1%
Philippines	1.5%	-0.3%	Gold	-14.1%	-7.2%
Malaysia	-1.6%	-1.0%	Bitcoin	-14.0%	-33.1%
India (Nifty)	6.9%	-8.7%			
Hong Kong	-7.7%	-10.7%			
MSCI China	-7.6%	-15.3%			
Indonesia	-19.9%	-34.7%			

Commentary

Described as the most severe energy and security shock since the 1970s, the US/Iran scuffle shaved roughly 0.5% or $2.2 trillion off of global GDP. While economic collapse was averted, the 110+ days closure of the Hormuz strait fundamentally disrupted commodity markets, supply chains, and fiscal policies. As hypothesized in our 1Q report, Trump once again could not endure economic pain, and sought the easiest of exits -- declaring a false victory leaving Iran more or less unchanged. Though the war is effectively over, whether a final deal can be finalized remains to be seen.

Economic indicators in major countries have broadly held up despite the conflict. Still, the impact of energy stress remains visible. Input costs and supplier delivery times have risen substantially. From price per gallon at the pump to fertilizer prices weighing on food production, inflation rose in 2Q.

AI and what is being termed a “semiconductor super cycle” continue to make headlines. AI spend is driving economic growth and elevating stock markets. Asian countries such as Korea and Taiwan with heavy semi chip exposures have significantly outperformed. Even in weaker markets such as China, investors saw AI/chip sector greatly outperform other sectors.

Taiwan’s overall economy is the clearest AI winner in the region. Demand for chips, servers, testing, packaging, lead not just to strong exports, but also to consumer confidence. The economy is experiencing an extraordinary historic boom, upgrading 2026 GDP projections to 9.6% and export growth to 39.7% -- the strongest outlook since the 1970s. Total semi production is forecast to surpass $260 billion in 2026, growing nearly 30% yoy. With US as the largest chip buyer, exports to America surged over 150%. This boom has fueled a spike in domestic housing costs and land prices. Data released in Jun show annual consumer inflation rate jump to 2.2% in May, up from 1.7% in Apr, and 1.2% in Mar.

South Korea’s picture is more mixed. While the stock market is the best performer globally, it is mostly concentrated in memory-chip exporters, specifically SK Hynix and Samsung Electronics. If you take out these two stocks which roughly represent 60% of the Kospi today, the stock market was actually down -11.7%. Korean CPI climbed from a stable 2% early in the year to over 3% by May, forcing the central bank to hold rates. Unable to lower rates to spark consumption or help tradition industries, Korea may be facing a triple threat of high prices, borrowing costs, and currency. This will squeeze household purchasing power, keep

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private consumption and manufacturing sentiment weak. Traditional industries continue to struggle with exorbitant raw material costs and freight disruptions, underscoring a deep structural imbalance.

China saw strong tech-driven export growth and positive producer price index (PPI). However, domestic demand and consumption remain subdued amid broader government restraint on stimulus and concerns over industrial overcapacity. Consumption and investment momentum slowed further in 2Q amid the persistent slide of housing market (especially in Tier 2 & 3 cities) and further regulatory restrictions on capital seeking to invest abroad. China's exporters are at all-time highs, benefiting everything from rare earths to tech equipment to EVs. Import values have also recently risen, but that's price per unit of materials needed for manufacturing becoming more expensive, not due to more consumption.

Japan has seen its Yen drop to a 40-year low at Y162 to the dollar. BOJ's 2Q26 Tankan sentiment index for large manufacturers climbed to 22 (up from 17 in 1Q). Japan has fundamentally broken free from its decades-long deflationary mindset. Driven by the solid outcomes of the *shuntō* wage negotiations (annual spring negotiations between unions and employers), the average headline wage will increase 5.3% across major firms, marking the third consecutive year of increases exceeding 5.0%. Nominal wages and corporate profits are rising simultaneously, triggering a healthy pivot toward sustainable growth. Despite these robust nominal gains, inflation and new taxes have kept real wages under pressure, while smaller businesses continue to struggle with the rising labor costs. In a decisive 7-1 vote at its Jun 16 meeting, the BOJ raised its benchmark interest rate by 25 basis points to 1.0%, marking a 31-year high. While necessary to curb inflation, the rapid shift away from ultra-low borrowing costs will somewhat cool corporate credit and real estate markets, creating policy friction with the government's growth blueprint.

Portfolio

Six months into the year, our Global equity portfolio is up +14% vs MSCI World of +10%. Asia portfolios are up approximately +40% vs MSCI Asia at +20%, MSCI Asia ex Japan at +23%, and MSCI Far East at +33%. MSCI Far East has risen much more because Korean and Taiwan grew to be 64% of the benchmark, doubling its representation from four years ago. Our best performance is the China portfolio up +12% versus MSCI China at -16%. China's chip related shares have surged, while other sectors have fallen on weak economic and consumption data. Because Chinese benchmark is not dominated by tech like America's Mag7 or Korea's big 2 chip players, we can generate significant alpha in this market easier than others.

Miscellaneous

2026 has a surreal echo of the early 1970s, defined by a turbulent mix of economic anxiety, deep political division, chip innovation, and sports nostalgia. Just as the 1973 embargo grounded the global economy to a halt, recent middle east conflicts triggered similar severe energy supply shocks. There is a highly polarizing and controversial president, whose divisive policies and constant clashes, mirror the raw post-Watergate disillusionment that fractured a nation. 1971 saw the advent of the microprocessor, when Intel 4004 put an entire central processing unit (CPU) onto a single tiny silicon chip, reminiscent of new technology coming out of Nvidia today. My favourite parallel is more personal, the resurgence of New York basketball and the Knicks' spectacular NBA championship victory breaking a 53-year (1973) drought. Most readers know I grew up in the bay area as a Warriors fan, but also lived in New York in the 1990s. I was in attendance at Madison Square Garden in 1994 when Reggie Miller made the "choke sign" to Spike Lee, and again in 1995 when Miller scored 8 points in 8.9 seconds. My absence from the Garden this year and some divine assistance from the Pope – a Villanova alumni along with three out of the five starting Knicks (Brunson, Bridges, Hart) – were signs that the Knicks would win this year!