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Courtville Partners – Investment Outlook, July 2026

Summary of the key points in this quarter's Investment Outlook

- When it comes to portfolio investment the trend may be your friend, but spotting trends is hard.
- Even so, the trends and themes expressed in our model portfolio have helped to generate a return of +29% over the last 18 months, which is more than 8% better than the benchmark.
- Wars usually bring changes in trends and often bring economic and geopolitical dislocation too. The Iran war is no different.
- We expect to see investors resume their portfolio shifts away from US markets and the US dollar.
- We see a classic bubble in AI-related stocks, but again caution long-term investors against trying to sidestep a potential market shake-out.
- Just as with the dotcom boom, higher interest rates are the pin most likely to pop the AI balloon.

"The trend is your friend" is a cliché. Indeed, it's one of the oldest clichés in investment. But this doesn't mean it's always wrong. Financial markets over the last half-century or so offer myriad examples of how trend-following made investors wealthy – at least until the trend changed (or "bent" as the saying's original version put it). Momentum-investing, as trend-following is often known in equity markets, has proved mostly a winning recipe for decades, albeit with big bumps along the way. Arguably, though, it was bond investors who had the opportunity to ride the biggest trend of all, namely the uninterrupted decline in 10-year US treasury yields from 15%+ in 1981 to less than 1% almost 40 years later. Coinciding with the "Great Moderation", this extended bond bull market produced annualised returns of over 8.5%.

When trend-following works, it usually does so for good reasons. US treasury bonds began to appreciate because Paul Volcker as Fed Governor proved to be serious about conquering endemic inflation; and US technology stocks have generated startling returns so far this century because American companies have invented and commercialised software (and occasionally hardware) that has changed the lives of everyone on the planet. In other words, observable trends – in markets, in economies, in industries – can offer answers to the most important question that investors should ask themselves: "What age am I living in?" We've made this point before, but are happy to repeat it – precisely because it is so important.

The model portfolio published here each quarter is only a "paper aeroplane". No one owns this exact portfolio (as far as we know). But over more than 11 years it has forced us to try to identify trends and then to express them through asset allocation. Perhaps our most successful judgment in retrospect was to underweight bonds in favour of equities from the very start – a view we still hold. More recently the portfolio has profited from an early-2025 tilt away from US equities towards the rest of the world, especially Asia. Gold and nuclear energy were big thematic winners last year; and both oil and electricity grid infrastructure have shone so far in 2026. The portfolio has returned +29% over the last 18 months, outperforming its benchmark by 8.2%. (These returns would have been even better if we'd identified other trends – or avoided a few of the trends we *thought* we'd spotted. Yes, EU carbon credits, we're looking at you.)

Unfortunately, it's really hard to get trends right, no matter how obvious they may appear in retrospect. Only rarely are investors presented with market anomalies so egregious that they seem guaranteed to unwind. (Government long bond yields below 1% at the time we started our model portfolio counts as one of those many-I-Spy-points rarities. And the exorbitant values ascribed to AI mega-capitalisation stocks may be another.) To make matters worse, even if an investor does spot a real trend and invests accordingly, the consensus may not swing behind that view for a long time. But if trend-spotting is tricky, it is child's play compared with identifying structural shifts in the investment landscape.

War is good for absolutely nothing, according to the song. For investors, though, wars often mean changes in trends – and sometimes even a recalibration of the economic and geopolitical consensus. In response to the outbreak of war in Ukraine, the US Government froze $300bn of Russia's dollar-denominated foreign exchange reserves. Overnight the rest of the world woke up to the political risks that come with holding assets in dollars. If Uncle Sam doesn't like the cut of your jib, you may find your assets suddenly beyond reach. Even if the dollar's decline as the world's reserve currency follows a shallow glidepath from here, the descent is probably irreversible.

What changes will the Iran war bequeath us? Our hunch is that the strongest tremor may stem from the US Navy's inability to keep the Strait of Hormuz open. If the sealanes around the globe are no longer protected by US warships, then we are all living in a different world. The just-in-time supply-chains that we have taken for granted since the end of the Cold War could now be replaced with just-in-case strategies. Why wouldn't governments want to build up reserves of vital materials (oil, fertiliser, industrial metals, rare earths, munitions, even foodstuffs)? Leaving aside other effects, such a development can only be inflationary.

Assuming hostilities really are over, we expect to see investors of all stripes resume moving assets away from US markets and the dollar. To be clear, we see this as a secular shift in asset allocation, but have no idea how quickly or slowly it might unfold. In the near term, the dollar may be propped up by a more hawkish Federal Reserve, though it is too early to gauge the inflation-busting appetite of Kevin Warsh, the new Governor. The US economy may have dodged the worst of the oil price spike thanks to self-sufficiency; but inflationary pressures abound – from pharaonic capital spending on AI and runaway government spending to import tariffs and spillover wealth effects. It's more than five years since the Fed managed to hit its 2% inflation target. Yet market consensus predicts only one (25bp) rate hike before the end of 2027. We see scope for disappointment.

Warsh is on record as subscribing to the view that AI has the potential to be a disinflationary force by boosting productivity (and perhaps also by driving up unemployment if the lay-offs in Silicon Valley are anything to go by). He may be right. For now, however, AI's influences seem to us to be mostly inflationary, whether via unprecedented demand for hardware (GPUs, memory, electricity, etc.) or via wealth effects (what will the employees of SpaceX, Anthropic and OpenAI spend their new fortunes on?). We used the term "bubble" last time; and the SpaceX IPO has only reinforced our view. The classic symptoms include: the sheer pace and scale of gains; highly valued shares being used to buy other companies; companies buying each other's products (with associated vendor financing); insider selling; an IPO boom (on a scale never seen before); and the relaxation of index inclusion rules. Apart from that, it's all hunky-dory in AI land.

AI's impact on the overall market is worrying enough: according to some estimates, almost half the S&P 500's capitalisation is made up of stocks trading at more than 10x revenues, if you please. Perhaps those revenues will grow fast enough to justify current valuations; or perhaps they won't. But we can't help feeling uneasy about the contradictions between LLMs' stratospheric valuations and their business models (insofar as we understand them). Two things perplex us above all. First, could LLMs be not only "stochastic parrots" (in Prof Bender's memorable phrase), but also thieving magpies? Do their valuations depend on capturing information (and therefore value) that belongs to others? Anthropic has settled a $1.5bn class action lawsuit brought by authors whose books had been used to train Claude in breach of copyright law. What happens if a company discovers that AI is hoovering up its management information and then using it to give better answers to a competitor? Can companies keep AI behind truly impervious firewalls? We're going to find out.

Second, the commercial roll-out of AI has inverted the pattern seen in the early internet boom. Believe it or not, ISPs (internet service providers) originally operated on a metered usage basis, but soon had to switch to all-you-can-eat models. AI's shift from token maximisation to token-based billing stands the ISP experience on its head. Hugely negative gross margins are evidence that LLMs have stimulated usage at below cost, which by definition cannot be sustained. Even OpenAI's Sam Altman admitted in June that "suddenly costs are a huge issue". Will companies respond by using vastly cheaper LLMs? (DeepSeek is about 80% cheaper than Claude.) And where are the competitive advantages (or "moats") for LLMs? For now, the only obvious moat lies in the amount of computing power. The result is an industry characterised by scorching capital-intensity, viciously competitive pricing and modest profit prospects. (We may be quite wrong on all counts, of course.) What might trigger an AI bust? Just as with the dotcom boom, interest rate rises are the most likely candidate. With only one small hike expected from the Fed over the next 18 months, this may be a problem.

If the dollar resumes its downward path, which currencies might start going in the opposite direction? The Japanese yen is almost everyone's first choice. It is, after all, the most undervalued currency in the history of floating exchange rates. The snag is that investors have been trying to catch this particular falling knife for years – and have only lacerated fingers to show for it. Support for the yen is unlikely to come from the Bank of Japan, which makes no secret of its reluctance each time it puts up interest rates. Ahead of the curve is not where it wishes to be. But lower oil prices might help the yen. So too would a repatriation of portfolio assets by Japanese retail investors if they were ever spooked by, say, falling US tech stocks.

Properly adventurous investors may care to cast their eye over Japanese government bonds. If the 3.9% yield on 30-year JGBs (up 100bp in a year) fell back to 2.0%, it would produce roughly a 65% capital gain. But if there is no US technology stock sell-off, no asset repatriation and no yen appreciation, an investor still owns an asset yielding 3.9% p.a. in a currency that is roughly 45% too cheap on a purchasing power parity (PPP) basis. We have added a small JGB exposure to our model portfolio to reflect this.

Our suggestion in April was to sit tight in the face of the Iran conflict. Since then, global equities have risen 14% (with Korea and Japan leading the pack, notwithstanding those economies' reliance on imported energy). Even if there are clouds on the horizon (as is usually the case), we prefer to shore up long-term portfolios with cash, equal-weighted ETFs and non-correlated themes. In order to sell equities and then buy them back cheaper, an investor needs to be lucky not once, but twice. Those odds are seldom good.

Asset Classes	Courtville Partners Asset Allocation (%)	FTSE PI Balanced Index (%)
UK Equities	9.0	11.9
International Equities	58.0	52.8
Fixed Income	10.0	23.5
Alternatives	17.0	8.3
Commercial Property	0.0	0.1
Cash	6.0	3.4
Total	**100.0**	**100.0**

Courtville Partners Model Portfolio	ETF	July Weight (%)	Changes this quarter	Weighted OMC (%)
UK Equities		**9**	**-1**	
UK	VUKE LN	7	-1	0.09
UK	VMID LN	2	0	0.10
International Equities		**58**	**3**	
Global	IWQU LN	4	2	0.30
US	VUSA LN	7	0	0.07
	XDPG LN	9	0	0.09
	EWSP LN	9	0	0.20
	IUVD LN	3	0	0.20
Euro	VERX LN	5	0	0.12
Japan	VJPN LN	4	0	0.19
Asia ex-Japan	VAPX LN	5	0	0.22
Emerging Markets	VFEM LN	10	1	0.25
China	CNUA LN	2	0	0.24
Fixed Income		**10**	**-1**	
UK	IGLT LN	3	0	0.07
US	IDTM LN	0	-2	0.17
EM	SEML LN	4	0	0.50
China	CNYB NA	1	0	0.35
Japan	XJSE SW	2	2	0.15
US	CORP LN	0	-1	0.20
Alternatives		**17**	**0**	
Gold	PHAU LN	4	0	0.39
Oil	WEL5 GY	3	0	0.18
Global Miners	GDIG LN	2	0	0.53
Infrastructure	INFR LN	2	0	0.65
Electicity Infrastructure	WIRE LN	2	0	0.35
Uranium	NUCG LN	2	0	0.55
Water	IH20 LN	2	0	0.65
Commercial Property		**0**	**0**	
Cash	XSTR LN	**6**	**0**	0.15
Total		**100**		**0.22%**

Courtville Partners	Model Portfolio	FTSE PI Balanced Index	Relative performance
2026 YTD	11.6%	8.4%	3.2%
Since inception(1/1/2015)	170.0%	141.5%	28.6%
CAGR	9.0%	8.0%	1.0%

The value of your investments can fall as well as rise. You may not get back all the money you invested.