Letter n°155

Global stock markets continue to rise despite a slowdown in global economic growth.

"Do not spoil what you have by desiring what you have not" Epicurus.

Vigilance is the wisest course of action today. The performance of financial markets in recent years is all the more remarkable given that economic growth across many countries is slowing, productivity growth is often weak, population growth outside Africa is declining, and ageing populations tend to have a lower propensity to consume.

Faced with both the structural slowdown in China's economy, analysed in Letter 154, and the cyclical slowdown caused by the war in Iran, global growth, according to the IMF, is expected to decline from 3.5% in 2025 to 3% this year. Among the major economies, India is once again expected to post the strongest growth at 6.4%, China 4.4% – though in reality likely lower – the United States 2.3%, of which nearly 30% is attributable to AI-related investment and an additional 0.5 to 0.8 percentage points supported by a budget deficit exceeding 6% of GDP, Brazil 1.9%, France and Germany 0.8%, and Japan 0.6%.

In other words, although global growth remains weak following these various setbacks, stock markets have nevertheless appreciated rapidly in recent years. In the United States, for example, the ratio of total stock market capitalisation to GDP increased from 1.4x in 2022 to 2.1x by the end of 2025.

Some investors are concerned because the market is now in its fourth consecutive year of gains, the longest uninterrupted rally since 2007. However, it is worth recalling that over the past six decades, the U.S. market has posted negative returns for three consecutive years only once, between 2000 and 2002, when it fell by 37%, and it had already recovered to its pre-crisis level by 2006. Likewise, after declining 37% in 1973 and 1974, the market surpassed its previous peak again by 1976.

Today, equity markets continue to benefit from abundant liquidity and strong corporate earnings growth, which remains well above the pace of economic growth.

These are among the key themes explored in this Letter 155.

Economic growth has significantly lagged stock market performance:

- ***United States***:

Since March 2020, the S&P 500 has appreciated by more than 200%. The index stood at 2,200 then and is now at 7,400. This represents an annualised return of 21%, excluding dividends. However, excluding the GAFAM stocks, the performance falls to 7–8%. Over the same period, corporate earnings have grown by only 120%, almost half the pace of the market's appreciation.

The performance of the Nasdaq 100 has been even more striking. In March 2020, the index had fallen to just under 7,000; today, it stands four times higher at 28,000, representing an annualised gain of 25%. However, the GAFAM stocks account for a significant share of this increase, approximately 40%.

Over the same period, while U.S. nominal GDP increased by 45% to reach $32 trillion, real GDP growth, after adjusting for inflation, did not exceed 13%, equivalent to just 2.1% per year.

- ***Europe***:

Since March 2020, the STOXX Europe 600 Index has appreciated by 130%, equivalent to an annualised return of 14%. Nominal GDP increased by 28%, while real GDP growth, adjusted for inflation, was only 7%, or 1.1% per year.

- ***Asia***:

In China, the CSI 300 Index has risen by only 34% since the March 2020 low, representing an annualised return of less than 5%. During the same period, real GDP increased by 32% after inflation, or 4.7% per year. China's reported economic growth therefore remains well above that of Western economies. However, frequent government intervention and margin erosion caused by excess capacity across many industries continue to undermine investor confidence.

In Japan, the Nikkei 225 has been one of the world's best-performing indices, rising from 16,500 to 66,000, a fourfold increase. However, it is worth remembering that the previous peak of 39,000 reached in 1990 was only surpassed in February 2024. Meanwhile, real GDP growth over the past seven years has fluctuated between just 0.5% and 1.5% per year.

In India, the Sensex Index has risen from 26,000 to 77,400, an increase of nearly 200%, equivalent to 16.5% per year. Real GDP growth after inflation has been 33%, or 4.9% per year, comparable to that of China. India's stock market was among the world's best performers in the early 2020s. However, since December 2025, the market has declined as valuations remain elevated and the economy has been affected by higher oil prices following the outbreak of the Iran–United States war.

Economic growth is highly concentrated:

In 2026, the top five hyperscalers – Amazon, Alphabet/Google, Meta, Microsoft and Oracle – are expected to spend nearly $800 billion, equivalent to more than 2% of GDP, primarily on data centres. This figure is seven times higher than in 2020 and continues to be revised upwards. Investment is expected to increase further in 2027. Amazon, with $200 billion of capital expenditure this year, and Alphabet with $190 billion, lead Meta and Microsoft, although no one knows which company will ultimately emerge as the winner of this race.

Such a scale of investment has historical precedents. Without going back to the railway boom of the early twentieth century, one can recall the investment cycle in the internet, fibre optics and telecommunications networks at the turn of the century.

At that time, the investment cycle accelerated over six years, from 1995 to 2000, before declining rapidly as the bubble burst. Today, the current cycle has already lasted seven years and, according to many observers, could continue until 2030.

Another key difference is the amount invested as a percentage of GDP. At the peak of the telecom bubble in 2000, investment reached 0.6% of U.S. GDP. By 2027, AI-related investment is expected to reach 2.7% of GDP. In 2000, the bubble burst because, although internet adoption grew rapidly, it was insufficient to generate adequate returns on the massive investments made. The major industry players suffered contracting profit margins and severe stock market corrections. The question is whether the same outcome awaits today's AI giants.

In the meantime, these companies, once renowned for generating abundant free cash flow, are no longer able to fully self-finance their investments. They increasingly rely on equity issuance, with the associated risk of shareholder dilution, as well as repeated bond issuance, raising the possibility that higher interest expenses will weigh on earnings.

In summary, among the five largest AI investors, only Amazon and Alphabet have delivered positive stock market performance this year, with gains of 9–10% each, although both have still underperformed the S&P 500 Index. Meta is broadly unchanged, Microsoft has fallen 15%, and Oracle, burdened by high debt, has declined 36%.

The combined market capitalisation of the top 7, at \$20–22 trillion – a figure exceeding the total market capitalisation of every developed country outside the United States – is likely to be significantly reshaped over the coming years.

GAFAM stocks are trading at lower valuations than in the past, while the current beneficiaries are primarily upstream participants in the value chain, particularly semiconductor and memory chip suppliers.

Conclusion*: "True courage is prudence" Euripides.*

- ***Confidence in earnings prospects and profit margin***:

Earnings forecasts have been revised downwards across the majority of sectors, with the exception of technology, which continues to drive the market, albeit not without vulnerability.

Market capitalisation has become more concentrated than ever. Ten stocks now account for 40% of the S&P 500's total market capitalisation. Expectations for second-quarter earnings growth remain high at +23%, supported by the technology sector, following +26% growth in the first quarter. During the first quarter, profits of the top 7 increased by 63%, while the other 493 companies in the S&P 500 recorded profit growth of 17%.

Corporate profit margins are expected to remain at record levels. The profit margin has risen from 13.6% in 2019 to 16.2% in 2024. Consequently, the key question is not whether valuation multiples are excessive – with the market trading at 21x earnings, compared with a 10-year average of 19x – but whether the current pace of earnings growth can be sustained.

- ***Caution on IPOs***:

We chose not to invest in SpaceX because the company remains loss-making, reporting a \$4.9 billion loss in 2025, while being valued at nearly 100 times expected 2026 revenue. For the same reasons, we will not invest in Anthropic or OpenAI.

Anthropic, which has raised \$115 billion since 2021, continues to report losses. The company is expected to raise \$30–60 billion through its IPO but is considering postponing the listing because SpaceX is currently trading below its IPO price.

The same applies to OpenAI, the creator of ChatGPT, which generated \$5.7 billion in revenue during the first quarter while recording a \$7 billion loss. By 2030, the company plans to invest \$600 billion, yet still expects to remain loss-making.

One important statistic is worth remembering: since 1990, 52% of IPOs in the United States have underperformed the S&P 500 during their first month of trading, and 70% have underperformed after one to two years.

- ***Caution on private equity and private credit***:

Private credit funds now manage \$2 trillion, a figure that has risen sharply in recent years. This asset class carries increasing risk in the current higher interest rate environment, which has led major industry players, such as Blue Owl, to impose "gates" – restrictions on capital withdrawals.

Similarly, private equity funds have seen returns contract because they overpaid for assets and are now confronted with higher interest rates, a particular challenge for businesses that have traditionally relied on leverage. Among the major players, Blackstone has fallen 22% this year, KKR 25%, and Apollo by a similar amount.

- ***Vigilance on capital raising***:

Cash held by S&P 500 companies totals \$2.2 trillion, while corporate profit margins remain close to historical highs.

With regard to equity issuance, stock market fundraising reached $729 billion during the first half of the year, an unprecedented level apart from the first half of 2021, immediately following the pandemic. Of this total, $302 billion came from technology companies, also a record for the sector, which had previously been characterised by share buybacks (with Nvidia being the only notable exception) and highly positive free cash flows of around $45 billion per quarter. Alphabet, for example, has launched an $80 billion equity offering, its first capital raising in 22 years as a listed company. For comparison, Saudi Aramco raised a record $29 billion in 2019, equivalent to approximately $38 billion in today's dollars.

As for bond issuance, according to Dealogic, the six U.S. technology giants (including Oracle and SpaceX) have issued $245 billion of debt since the beginning of the year, compared with $108 billion for the whole of 2025 and just $17 billion in 2024. This excludes additional debt raised in foreign currencies.

SpaceX launched a $20 billion bond offering, which, coming immediately after its equity raising, unsettled the market. Today, these bonds are underperforming. According to Morgan Stanley, SpaceX will require more than $80 billion of external capital annually between 2027 and 2034. The stock has fallen 45% from its peak of $225, as shareholders are concerned about the expiry of the lock-up period in early August for some of the company's early investors.

At the same time, Amazon's $25 billion bond offering (following $37 billion in March and $25 billion issued by Nvidia in June) generated relatively limited investor enthusiasm.

The key question therefore concerns the market's capacity to absorb this volume of issuance.

- ***We remain favourable on the equal-weighted S&P 500 Index***:

The equal-weighted index has recently reached a new high because it has not been affected by the recent decline in the major technology stocks. This weakness is partly attributable to the growing competition from open-source and increasingly capable Chinese AI models, such as Kimi K3, compared with Anthropic Opus 4.8 or OpenAI's GPT-5.5. More broadly, questions can be raised about the efficiency of the enormous investments being made in data centres and artificial intelligence. The AI theme now represents 40% of U.S. market capitalisation and accounts for 80% of this year's market performance.

The equal-weighted index could benefit from renewed investor interest in defensive sectors such as healthcare, consumer staples and utilities, which now account for only 16% of the S&P 500, compared with 26% as recently as 2022.

In 2023, 2024 and 2025, fewer than 30% of S&P 500 companies outperformed the index. During the first half of 2026, that proportion recovered to 46%.

Geneva, 22 July 2026

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