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Market outlook: a megacycle under pressure

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Market outlook:
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Since the start of the year, **risk assets have continued to trend upward**[1] **despite an environment still marked by geopolitical tensions** and the concerns they raise regarding inflation, growth and the direction of monetary policy.

While sources of risk have accumulated over the months, **markets have nevertheless continued to find support in generally solid earnings releases**[2], as evidenced once again by first-quarter earnings reports. This trend was particularly evident among companies exposed to the artificial intelligence theme, whose results proved robust[3], with some now beginning to translate investments made in recent quarters into the first tangible drivers of growth[4].

Against this backdrop, our reading remains positive: the factors driving the market should continue to underpin performance in the second half of the year, but valuation levels, which remain high[5], leave less room for error. **Increased dispersion across sectors, asset classes, segments and geographic regions is once again becoming a key driver of performance.**

[1] Source: Tikehau Investment Management, Bloomberg, data as of 16 June 2026.
[2] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[3] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[4] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[5] Source: Tikehau Investment Management, Bloomberg, data as of 16 June 2026.

1 Equities: time for selectivity

In 2025, we adopted a constructive view on Europe, believing that the continent was benefitting from a combination of positive factors: favourable fiscal stimulus, monetary policy normalisation, valuations trading at a discount to US markets, and earnings momentum set to improve. Today, considering the potential de-escalation in Iran, this investment thesis is once again relevant.

Within **European equities, the theme of sovereignty and resilience continues to emerge as a long-term structural trend** and, in our view, remains an essential component of any equity allocation.

EUROPEAN DEFENCE

In our view, Europe is home to one of the world's most high-performing defence ecosystems, whether in terms of major contractors or their entire supply chain. The main challenge for these companies now lies in their ability to rapidly scale up production capacity to meet growing demand.

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We believe that the issue of European rearmament extends far beyond the context of the Russia-Ukraine conflict and, more recently, the Iran conflict. It is part of a structural trend, fuelled by both gradual erosion of the US military umbrella and by several decades of chronic underinvestment that have weakened Europe's defence apparatus. In addition to this is a growing desire for industrial sovereignty, illustrated by the rise of the 'Buy European' movement, which aims to reduce dependence on imported equipment – particularly from the US – in favour of domestic production capacity. In our view, these factors point to sustained demand for European players in the sector.

However, and somewhat counterintuitively, the sector has underperformed since the start of the conflict in the Middle East[6]. Nevertheless, **this consolidation does not call into question the long-term outlook**. It can be explained first and foremost by the market positioning that had become extremely consensus-driven at the start of the year[7], which encouraged significant profit-taking against a backdrop of stretched valuations[8]. It also reflects macroeconomic fears, with the market concerned that a weaker growth environment and potential deterioration of public finances could, in the long term, weigh on defence budget trajectories. The sector has also remained highly sensitive to geopolitical announcements, particularly rumours of a ceasefire in Ukraine or the Middle East, in a context where any prospect of a de-escalation has been interpreted as a trigger for profit-taking. Finally, recent developments in conflicts have reignited questions about

[6] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[7] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[8] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.

the ability of long-established European players to adapt to a more technology-driven form of warfare, characterised by the growing role of drones, air defence and precision-guided missiles.

Nevertheless, **we believe that the structural fundamentals remain intact**. The investment thesis continues to be underpinned by a long-term trend: after several decades of underinvestment, Europe is entering a sustained cycle of rearmament, supported by defence budgets that are set to remain high. Furthermore, visibility remains exceptional, as evidenced, for example, by Rheinmetall's order book[9], which stands at over €73 billion – nearly eight times its turnover over the last twelve months[10]. At the same time, the recent correction has allowed valuations to normalise[11], which, in our view, reinforces the sector's appeal from a long-term perspective.

The Old Continent is now demonstrating a desire to regain a certain degree of industrial autonomy.

It is nevertheless important to remain highly selective. The recent correction has served to reintroduce a greater degree of dispersion in the market's assessment of the sector. Whereas the market previously treated European defence as a homogeneous bloc, it is now beginning to differentiate more clearly between companies' profiles, industrial exposures and the quality of their execution. We view this development as healthy. In this context, diversification across civilian and military activities, as well as between equipment suppliers and systems manufacturers, remains, in our view, a key factor in resilience and differentiation.

EUROPEAN INDUSTRY

The need to strengthen European autonomy extends beyond the defence sector. In light of this, an unprecedented mobilisation of capital is underway: several hundred billion euros are earmarked to support key sectors across Europe, with a view to strengthening their autonomy and competitiveness, and ensuring the long-term influence and resilience of the European economy.

Against this backdrop, **the Old Continent is now demonstrating a desire to regain a certain degree of industrial autonomy.** This approach is reflected in a vast movement to reindustrialise the European economic landscape. Here too, the continent boasts major industry leaders well placed to capitalise on the extensive fiscal stimulus programmes currently underway.

Among European industrial stocks, our approach remains, once again, selective. At this stage, we remain more cautious on 'traditional' industrial stocks, which continue to face several headwinds, in particular rising energy and logistics costs in the wake of the Hormuz crisis, as well as the risk of new tariff barriers, notably in the United States. Conversely, we maintain a favourable view of industrial companies directly exposed to the artificial intelligence (AI) theme, particularly those specialising in electrical infrastructure and the equipment required for the development of data centres. Demand dynamics in this sector remain particularly robust, as illustrated by trends observed among several European players in the sector. We also remain positive on companies benefiting indirectly from current geopolitical tensions through energy supply security issues. In this segment, companies involved in the transport or storage of LNG (liquefied natural gas) continue to benefit from robust demand, underpinned by the long-term restructuring of global energy flows.

TECHNOLOGY: OPPORTUNITIES ON BOTH SIDES OF THE ATLANTIC

Within US equities, our view remains broadly positive across the AI value chain, though our hierarchy of convictions remains highly differentiated.

Firstly, we maintain a favourable view on hyperscalers, for whom the investment thesis continues to strengthen in our view. The investment cycle remains particularly strong, as evidenced by the continued rise in Capex budgets announced by major tech players[12]. Above all, the return on

[9] This is a holding currently held in our funds managed by Tikehau Investment Management.
[10] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[11] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[12] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.

investment is now beginning to materialise more tangibly, and the monetisation of AI is becoming clearer, which, in our view, reinforces the strength of this investment thesis.

We also remain positive on companies in the 'picks and shovels' segment – that is, suppliers of infrastructure, semiconductors and equipment essential to the roll-out of AI. Demand in this sector remains strong, driven by a persistent imbalance between supply and demand. Beyond chip manufacturers alone, the theme is also continuing to broaden to include companies exposed to the ecosystem's most critical bottlenecks, particularly in cooling, optical connectivity and data centre power supply. As computing capacity expands, energy constraints are indeed becoming an increasingly central factor, which in turn supports the entire associated infrastructure chain.

Conversely, we remain more cautious at this stage regarding the software sector. Whilst earnings revisions remain, overall, still positive[13], the segment's recent underperformance reflects, in our view, legitimate concerns about the sustainability of certain business models. At the same time, despite the correction seen since the start of the year, a large part of the sector remains valued based on long-term growth assumptions that are still robust, leaving little room for error. The sector could nevertheless, in the long term, once again become particularly fertile ground for stock-picking, as valuations normalise and the future winners emerge.

The renewed focus on the United States in the field of AI must not obscure the fact that Europe holds leading positions in several critical links of the global technology value chain. This is particularly true in the semiconductor sector, where the Dutch ecosystem remains indispensable, with key players holding virtually irreplaceable positions in the equipment required to manufacture the most advanced chips. Europe is also well-positioned in photonics, a field set to play an increasingly significant role in energy optimisation and transmission speeds within data centres, and which could become one of the next bottlenecks in AI infrastructure.

Finally, certain more mature European technology stocks are now regaining momentum thanks to their indirect exposure to the boom in data centres and connectivity. This trend serves as a reminder that, beyond the most visible US leaders, **the AI sector also benefits European players who are well positioned in key technological niches, which are sometimes underestimated by the market.**

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[13] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.

The golden age of credit: a central pillar of an allocation

In our view, **the environment remains favourable for credit**, with the asset class continuing to offer what we consider to be attractive yields[14]. Furthermore, **in the European High Yield sector** in particular, **issuers' fundamentals remain sound** according to our analysis[15] : default rates remain moderate[16] and net margins are holding steady at comfortable levels in Europe[17], although certain sectors, such as chemicals, automotive and packaging are struggling. Volatility also remains relatively contained[18], with the asset class supported by an investor base largely focused on carry, as well as by a still-limited net supply of bonds[19].

In this environment, we continue to favour a portfolio construction centred on High Yield issuers which, in our view, have reasonable levels of debt and offer yields of between 5% and 8%[20]. Around this core portfolio, we seek to identify certain segments likely to offer greater convexity.

This is particularly the case when selecting securities within lower-rated instruments, especially CCC-rated bonds. We believe this universe offers attractive opportunities for disciplined and selective investors. Our approach mainly involves targeting issuers rated B or B- on their senior debt, but whose certain unsecured subordinated bonds are rated one notch lower, i.e. CCC. Within the same capital structure, this approach allows us to seek an additional yield of around 2 to 3% [21].

We also continue to identify value within financial subordinated debt. The fundamentals of the European banking sector remain sound according to our analysis[22]: banks, and more particularly institutions in southern Europe, have significantly strengthened their balance sheets in recent years. At the same time, **Additional Tier 1 (AT1) instruments continue to offer levels of yield that we consider attractive[23].**

Within this universe, we maintain a preference for certain peripheral European banks, namely Portuguese, Spanish, Italian and Greek institutions. **We are also increasingly investing in securities issued by leading banks in Eastern European countries** (Kommunalkredit Austria, Volsbank, OTP Bank, etc.).

Finally, **we continue to maintain limited exposure to interest rates.** In our view, appetite for long-term maturities remains subdued at present, given the flat yield curve observed in the credit markets[24] and the significant sovereign issuance requirements, which could trigger volatility in long-term rates.

[14] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[15] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[16] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[17] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[18] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[19] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[20] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[21] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[22] Source: Tikehau Investment Management, company filings, data as of 31 March 2026.
[23] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.
[24] Source: Tikehau Investment Management, Bloomberg, data as of 15 June 2026.

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