CUSTODIAN
INSIDE THE CASTLE

JULY 2026

The Chaos of Volatile Times

FROM TROUGH TO CREST AND BACK

WHAT HAPPENED

A CHANGE IN REGIME

For much of June, investors looked beyond the established AI leaders. Capital rotated into more speculative areas of the technology market, particularly memory manufacturers and AI infrastructure companies, in search of the next wave of AI beneficiaries. Enthusiasm surrounding SK Hynix's planned Nasdaq ADR listing further accelerated the move, with liquidity flowing away from the Magnificent Seven and into higher-beta opportunities. The result was a difficult end to the quarter for portfolios with meaningful exposure to US mega-cap technology (as the fact sheets will attest), despite little change in the underlying fundamentals of these businesses.

Then, around 25 June, sentiment shifted...

Profit-taking in crowded semiconductor and memory trades, together with quarter-end portfolio rebalancing and a renewed focus on earnings quality, prompted investors to rotate back towards established market leaders. Once again, companies with proven cash generation and durable competitive advantages regained favour.

It is a timely reminder that liquidity and hype can drive markets in the short term, but over time fundamentals tend to reassert themselves. The market continues to demonstrate that today's momentum leaders are not always tomorrow's quality leaders, reinforcing the importance of remaining disciplined and focused on businesses with sustainable long-term competitive advantages.

LIQUIDITY MOVES QUICKLY.

DIGGING DEEPER

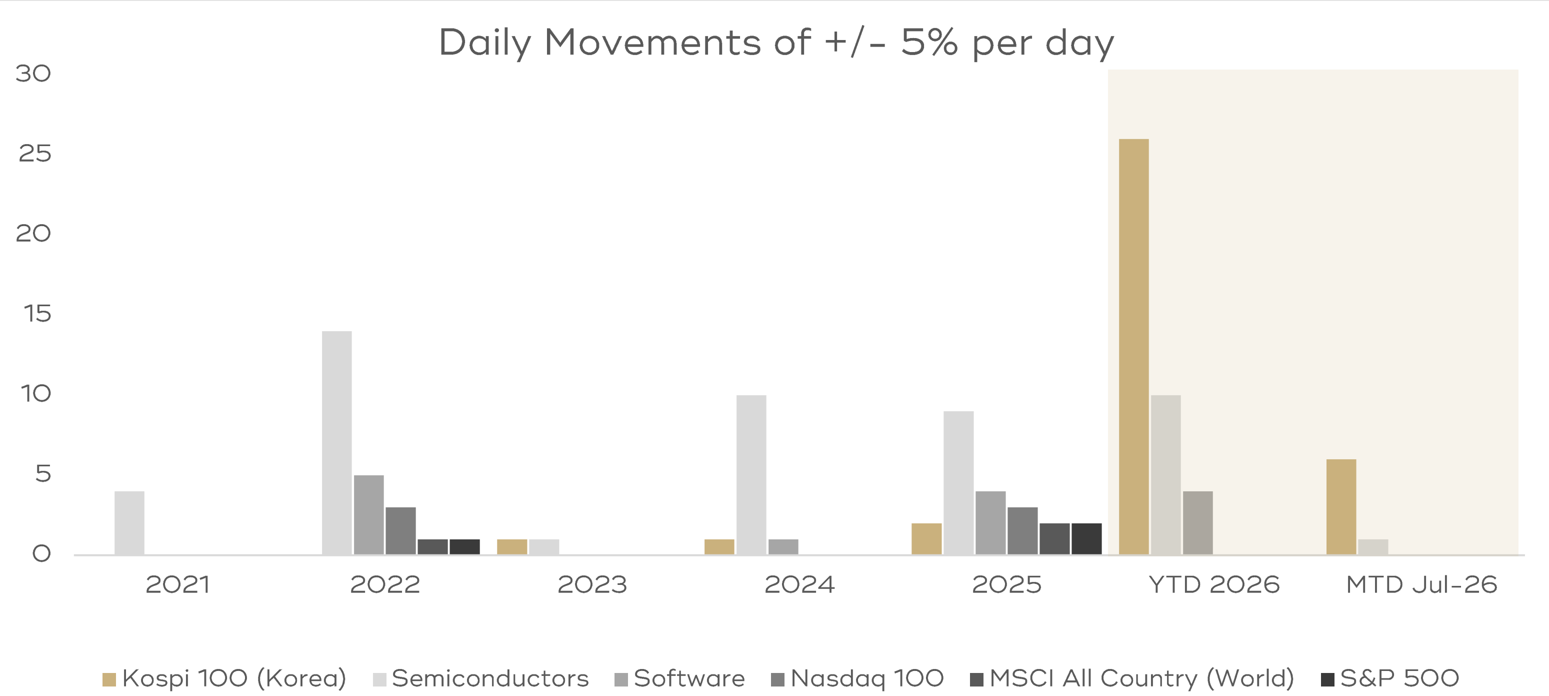
VOLATILITY...THE NEW NORM

Volatility has always been a feature of investing, but the magnitude and frequency of large daily market moves have accelerated markedly this year.

South Korea's KOSPI, with its significant exposure to global memory chip manufacturers such as Samsung and SK Hynix, provides a good illustration of this shift. Daily moves of more than 5%, once considered exceptionally rare, have become increasingly common, creating a market environment that feels considerably less stable than investors have experienced in recent years.

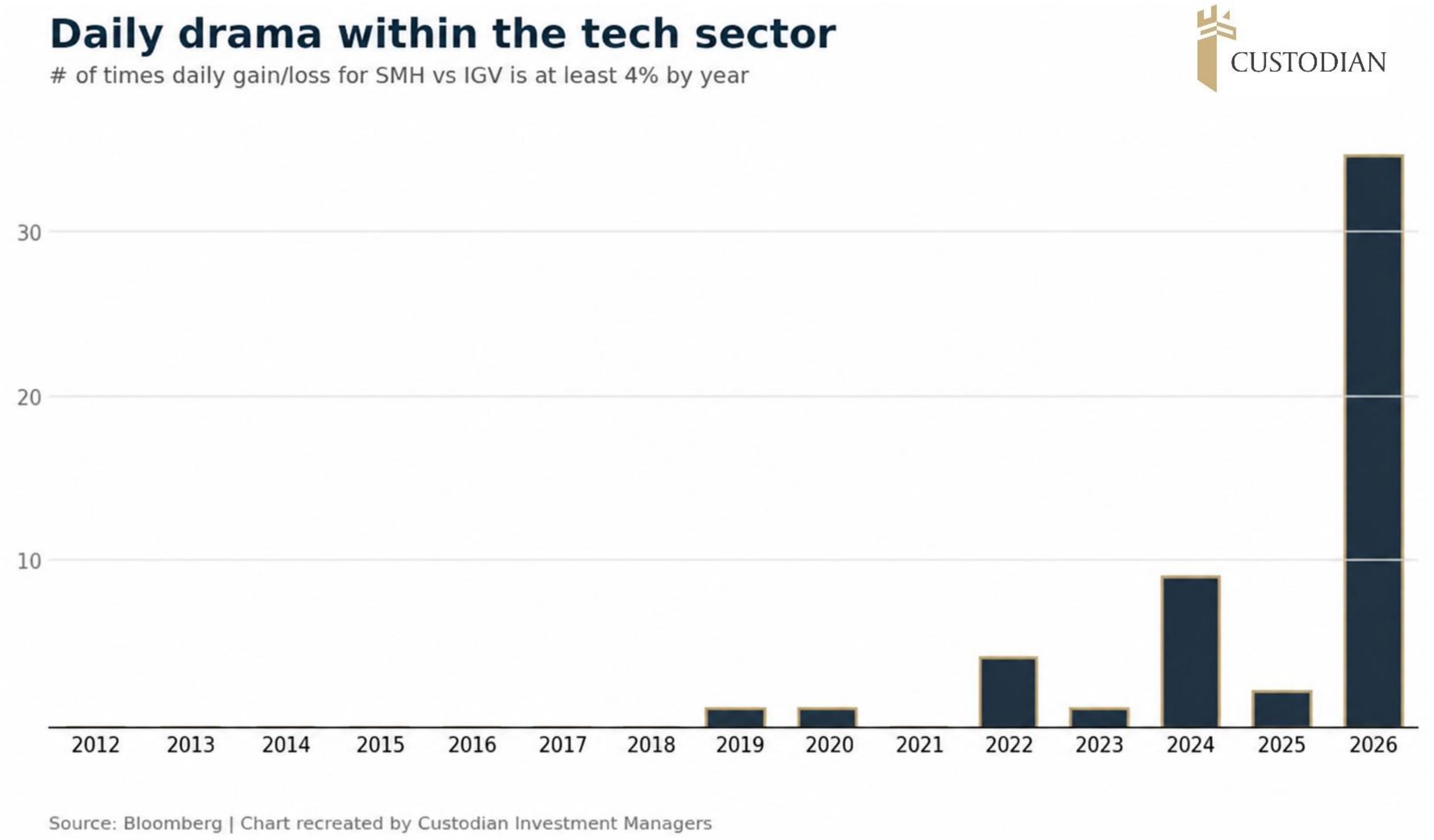
To put this into perspective, the KOSPI recorded just four trading days with moves exceeding ±5% over the entire five-year period from 2021 to 2025. By contrast, 2026 has already seen 26 such days, with six occurring in the first 17 days of July alone (month to date).

While periods of heightened volatility can be uncomfortable, they are also a reminder that short-term market behaviour is often driven by sentiment, positioning and news flow rather than long-term fundamentals. Remaining disciplined and focused on the underlying investment thesis is typically the most effective response during periods such as these.



Source: Bloomberg, Custodian, data as of July 2026

This story is not unique to the KOSPI. Similar dynamics are evident across the US technology sector. The performance gap between SMH, which tracks semiconductor companies, and IGV, which tracks software companies, has widened dramatically as investors aggressively chase the market's latest narrative. The result has been sharp price swings and heightened volatility, with short-term speculation often overwhelming underlying fundamentals.



We believe one of the factors contributing to this changing market dynamic is the rapid growth of leveraged ETFs and single-stock leveraged products. These instruments are designed primarily for short-term trading rather than long-term investing and have attracted significant speculative interest. As prices move, product providers and market makers are required to continually adjust their hedge positions to maintain the products' targeted exposure. During periods of elevated volatility, this hedging activity can reinforce existing market moves, amplifying both rallies and sell-offs and contributing to larger intraday price swings.

Ultimately, this creates a dangerous feedback loop where volatility attracts speculative capital, which in turn generates even more volatility. While this can produce extraordinary short-term price movements, it does little to change the intrinsic value of the underlying businesses. Company earnings, cash flows and competitive advantages remain the primary drivers of long-term investment returns, even if they are temporarily overshadowed by speculative trading activity.

VOLATILITY HAS BECOME COMMONPLACE

BACK HOME

MAKING SHARE PORTFOLIOS SIMPLER

Delivering an exceptional investment experience extends well beyond selecting the right portfolio. Efficient administration, clear communication and a well-defined implementation process are equally important in ensuring a seamless experience for both advisors and clients.

To support this, we have created a Share Portfolio Process Guide. The document provides advisors and assistants with a clear step-by-step walkthrough of the entire process, from initial client engagement through to implementation.

This is aimed at making a complicated process as simple as possible. It doesn't stop there...this is only the next step in our efforts to support our investment partners.

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