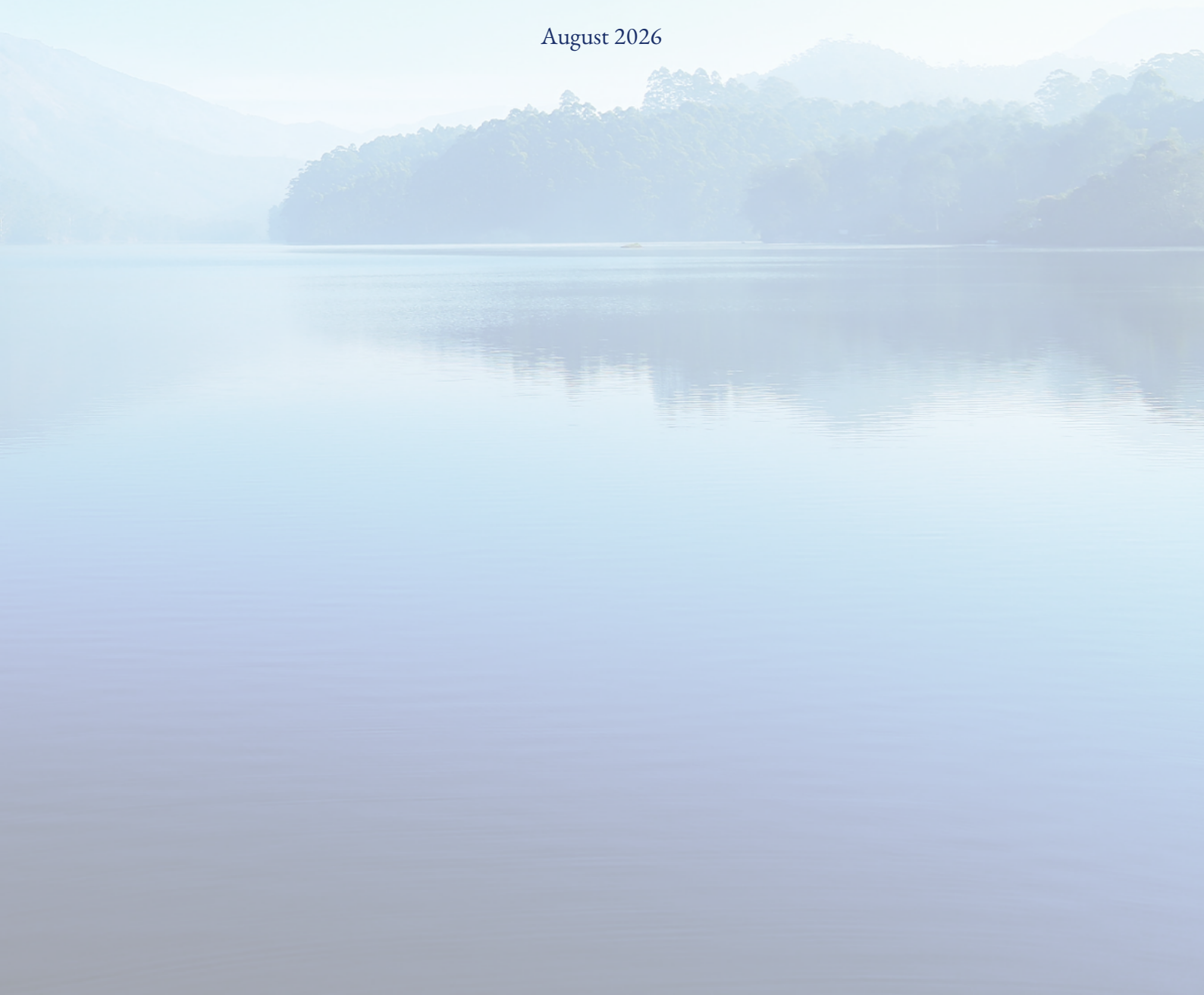


YAD CAPITAL AG
— INVESTMENT ADVISORY —

YAD HOUSE VIEW

August 2026



Welcome

Dear Reader,

In this report, we present our latest market views and strategic portfolio adjustments. This month's review examines elevated equity valuations through the lens of price-to-earnings ratios.

Following YAD Capital's August Investment Committee meeting, we rebalanced our equity sleeve to reflect the Committee's updated outlook and investment convictions.

We are pleased to share our analysis and perspectives with you.

Yours faithfully,

Ygal Abergel

Managing Partner

Dan Stemmer

Partner

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The AI Boom Is Stretching Stock Valuations. Is It a Bubble?

A sector-by-sector look shows where future growth has already been priced in, where expectations are concentrated in a few companies and where room for further revaluation may remain.

Calling a bubble in real time is one of finance's most seductive and least reliable exercises. After a crash, the warning signs appear obvious. During the ascent, however, the same rise in price can be interpreted in two very different ways: as evidence that investors have become detached from reality, or as confirmation that they correctly anticipated a more profitable future.

A bubble is not simply a market that has risen quickly, nor does an elevated valuation necessarily indicate mispricing. A bubble exists when an asset's price can no longer be justified by a plausible range of the income or cash flows that ownership is expected to produce. The difficulty is that those future cash flows—and therefore the “right” price—are never directly observable.

From Dutch tulips to dot-com stocks and U.S. housing before the subprime crisis, rising prices have repeatedly appeared to validate the stories used to justify them. Those stories were not always entirely wrong. The internet did transform commerce, and houses do provide valuable housing services and rental income. The mistake was assuming that a genuine economic development could support almost any price.

This distinction is especially important today. Our starting point is not that the market is in a broad bubble. Artificial intelligence may prove capable of transforming the modern economy on a scale greater than any technological shift that public markets have previously had to value in real time. That potential can justify elevated multiples, even as it creates uncertainty about which companies will capture the resulting profits. A technology's value to society, the profits captured by its suppliers and the returns earned by investors who buy those suppliers at today's prices are three different things.

Why New Technologies Invite Overshooting

New technologies are particularly fertile ground for booms and busts because their ultimate economic capacity is unknown. Investors can observe adoption, investment and early revenue, but they cannot know in advance how long exceptional growth will last, how large the final market will become or how much of the value will remain with producers rather than pass to customers through lower prices.

Joseph Zeira of the Hebrew University of Jerusalem showed how this uncertainty can produce a boom and a crash even when investors behave rationally. In his model, fundamentals improve for a period whose duration is unknown. Each additional period of growth provides new information: the expansion has not yet ended, so its probable endpoint may be farther away than previously believed. Prices rise because current profits are improving and because the expected future path is being revised upward. When the expansion finally reaches its limit, the market learns where that limit is and marks down the entire path at once. Zeira called this process

“informational overshooting.”¹

Artificial intelligence fits this framework particularly well. Each advance in model capability, increase in semiconductor demand or expansion in corporate adoption can be interpreted as evidence that the opportunity will be larger and last longer than previously assumed. That can push valuations higher even when investors are responding rationally to new information. The reverse is also true: a modest disappointment can be interpreted not merely as one weak quarter, but as evidence that the long-run ceiling is lower than expected.

This is why a 5% reduction in next year’s earnings forecast can produce a stock-price decline far greater than 5%. If the revision signals slower growth, lower margins or a shorter competitive advantage across many future years, the value of the entire expected earnings stream falls. The more a company’s valuation rests on distant profits, the more sensitive its price becomes to small changes in the story.

How to Read the Sector Multiples

The price-to-earnings ratio shows how much investors are paying for each dollar of company earnings. Trailing P/E uses earnings from the previous 12 months; forward P/E uses expected earnings for the next 12 months. A high ratio can reflect excessive optimism, but it can also reflect credible expectations of rapid growth. A low ratio can signal an opportunity, or simply slower growth and greater risk. P/E is therefore an indicator of what investors expect, not a bubble detector by itself.

The gap between the measures in the accompanying chart is particularly useful. When forward P/E is far below trailing P/E, investors expect earnings to rise sharply. When cap-weighted P/E is much higher than aggregate P/E, a small number of large, highly valued companies are pulling up the sector’s headline multiple. These two comparisons tell us whether a high valuation is supported by expected growth and whether it is broad or concentrated.

How the AI Revolution May Spread Through Markets

Technological revolutions are rarely reflected across the market all at once. Their economic effects emerge gradually, while stock prices move in anticipation of profits that may remain years away. The AI investment cycle appears to be following this pattern.

The market remains firmly in the first phase. Investors have concentrated on the companies developing AI and supplying its essential components, particularly semiconductor manufacturers, cloud-computing providers and software companies. This phase is far from complete. AI capabilities continue to improve, adoption is still expanding and the eventual size of the market remains uncertain. Valuations therefore depend not only on current earnings, but also on expectations about how large and profitable the industry may ultimately become.

The second phase—the construction of the infrastructure required to support AI—has begun but is still at an early stage. Investment is spreading to data centers, electrical equipment, power generation, cooling systems, construction and raw materials. Some of these sectors have already been revalued, but the scale and duration of the build-out remain uncertain. Expectations consequently continue to play a central role in determining

¹Joseph Zeira, “Informational Overshooting, Booms, and Crashes,” *Journal of Monetary Economics*, Vol. 43, No. 1 (1999), pp. 237–257. DOI: 10.1016/S0304-3932(98)00042-7.

prices.

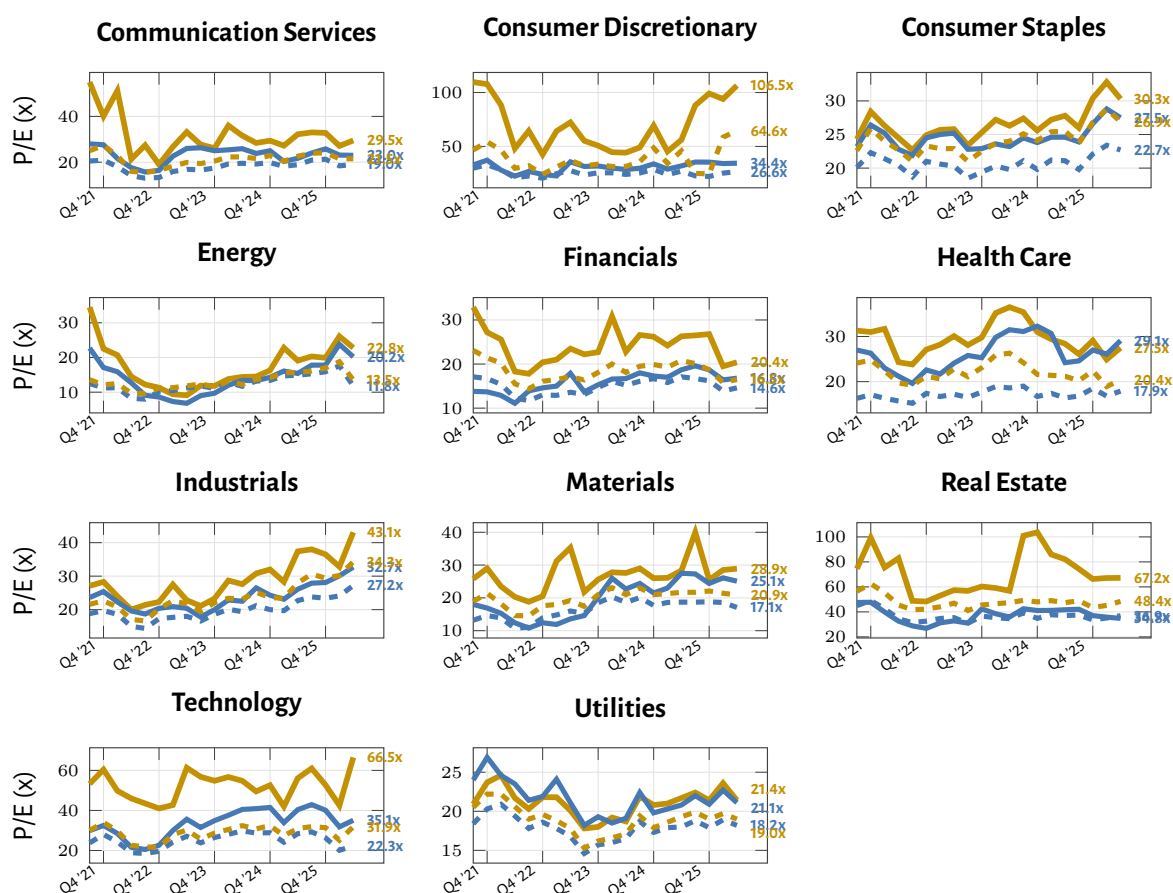
A third phase would involve the broader adoption of AI across the economy. Banks, health-care companies, manufacturers and consumer businesses could use the technology to reduce costs, improve productivity and develop new services. This phase remains largely prospective. If the anticipated benefits materialize, earnings in these sectors could rise alongside share prices, limiting the extent to which their P/E ratios need to expand.

The sector data are therefore consistent with an investment cycle that remains predominantly in its first phase, with the beginnings of a second. Neither phase has run its course, and the broader productivity effects of AI have yet to become fully visible. That leaves considerable room for growth, but it also means that valuations remain unusually sensitive to changing expectations about adoption, profitability and the ultimate scale of the technology.

S&P 500 P/E Valuation by BICS Sector

Q3 2021 – Q2 2026

— Cap-Weighted Trailing P/E - - - Cap-Weighted Forward P/E — Aggregate Trailing P/E - - - Aggregate Forward P/E



Technology: Elevated Multiples, but an Even Larger Opportunity

The technology sector carries the clearest evidence of elevated expectations. Its cap-weighted trailing P/E reached 66.5 times in the second quarter of 2026, while its forward multiple stood at 31.9 times. On an aggregate basis, the corresponding figures were considerably lower, at 35.1 and 22.3 times.

The wide gap between trailing and forward P/E shows that investors expect a substantial increase in earnings. The gap between cap-weighted and aggregate P/E also shows that the valuation pressure is concentrated among the largest or most highly valued companies rather than distributed evenly across the sector.

Technology trades at substantially higher multiples than most other sectors. Yet a high multiple is not, on its own, proof of a bubble. If AI changes production, services and decision-making as profoundly as we expect, the eventual profit pool may be much larger than today's earnings suggest. Investors could therefore continue to revise upward the expected size, profitability and duration of the opportunity, allowing technology multiples to move higher still. This would be consistent with Zeira's process of informational overshooting: every additional period of strong growth encourages the market to extend its estimate of how long that growth can last.

The opportunity may justify accepting greater valuation risk, but it does not justify ignoring that risk. Current prices depend heavily on a forward-looking earnings trajectory. Exposure should therefore be maintained with disciplined position sizing, diversification and continued testing of the investment thesis against actual adoption, revenue and profitability.

Why "Traditional" Sectors Can Carry Elevated Multiples

Consumer discretionary has the most extreme headline valuation in the chart: 106.5 times trailing earnings and 64.6 times forward earnings on a cap-weighted basis. Its aggregate ratios are far lower, at 34.4 and 26.6 times. This does not mean that conventional retailers, restaurants and automakers all trade at technology-style valuations. The sector includes large growth companies such as Tesla and Amazon, whose market values and individual multiples can pull up the cap-weighted result.

The same issue appears in communication services. Its cap-weighted trailing and forward multiples were 29.5 and 23.0 times, compared with aggregate figures of 21.5 and 19.0 times. The sector may sound traditional, but it includes Alphabet, Meta Platforms, Netflix and Uber alongside telecom and media businesses. Its headline P/E therefore reflects a mixture of mature companies and technology-driven platforms with very different growth expectations.

Industrials provide a different signal. Cap-weighted trailing and forward P/E reached 43.1 and 34.3 times, while the aggregate measures stood at 32.7 and 27.2 times. Because both cap-weighted and aggregate valuations are elevated, the revaluation appears broader than in consumer discretionary. Investors have already assigned substantial value to companies associated with data-center construction, electrification, automation and other parts of the AI build-out. Industrials may have further earnings potential, but the sector can no longer be described as an overlooked or low-multiple way to gain exposure to the theme.

These examples show why sector names should not be taken at face value. A supposedly traditional sector can report a very high P/E because a few large companies within it are valued as technology or platform businesses.

The aggregate multiple often provides a clearer picture of how highly the typical earnings dollar is valued across the sector as a whole.

Where Room for Revaluation May Remain

The chart is most useful as a way to narrow the field, not to rank every sector mechanically. Utilities and financials stand out because their valuations remain comparatively restrained, leaving more room for positive developments to be reflected in prices.

Utilities traded at roughly 21 times trailing earnings and 18 to 19 times forward earnings. Rising demand from data centers could support investment in generation and grids, giving parts of this traditionally defensive sector a stronger growth profile. The International Energy Agency expects global data-center electricity use to more than double to about 945 terawatt-hours by 2030, with AI as the most important driver.² But regulation, financing costs and the need for heavy capital expenditure will determine how much of that demand ultimately reaches shareholders.

Financials—particularly traditional banks—trade at lower multiples still, at 16.5 times forward earnings on a cap-weighted basis and 14.6 times on an aggregate basis. AI may reduce costs and improve underwriting, fraud detection and customer service, but it is not the principal reason to favor the sector. A banking view must also rest on credit quality, capital strength, interest-rate exposure, fee income, regulation, competitive conditions and the capacity to return capital to shareholders. Those sector-specific considerations, combined with valuation, may matter more than any forecast of AI efficiency gains.

Low P/E is not proof of undervaluation. It often compensates investors for slower growth or greater risk. The more modest multiples in utilities and banking simply mean that less optimism is already embedded in their prices, making them more interesting places for further research.

Conclusion

The data do not support the claim that the whole market is in a bubble. They do show pockets of elevated expectations. Technology trades at high multiples that depend increasingly on substantial future earnings, while industrials have already undergone a broader revaluation around the physical AI build-out. In consumer discretionary and communication services, very high headline multiples partly reflect the influence of large platform and growth companies, including Tesla, Amazon, Alphabet, Meta Platforms, Netflix and Uber, rather than uniformly elevated valuations across every constituent.

The comparison therefore points to a selective conclusion. We believe AI's potential to reshape the modern economy is larger than the market has previously encountered and may ultimately support valuations above historical norms. That argues for retaining meaningful exposure to the direct technology winners and accepting some additional valuation risk. It does not eliminate their sensitivity to disappointment. Utilities and financials offer more valuation headroom, although the case for either sector must be established through company and industry fundamentals, not by attaching an AI label.

²International Energy Agency, *Energy and AI* (2025), Executive Summary.

P/E ratios can reveal where optimism is concentrated; they cannot, by themselves, establish an investment thesis. Our conviction in particular sectors relies on a wider body of data and research, as well as a judgment about market structure, regulation, competitive dynamics and the economic cycle. In banking, for example, these considerations are largely independent of potential AI efficiency gains.

The market may still be early in the economic transformation, even if it is no longer early in every part of the investment story. On balance, the sector evidence does not persuade us that the market is in a bubble. It supports measured risk-taking: maintaining exposure to an unusually large technological opportunity while remaining cautious about concentration, entry valuations and the gap between expectations and realized earnings.

Index Returns

YTD 2026

Equity	YTD Performance	Fixed Income	YTD Performance
Euro STOXX 50	14.36%	Global High Yield	2.18%
Tel Aviv 125	10.33%	US Treasury 7–10Y	-0.99%
Nasdaq 100	17.07%	EM Bonds	1.19%
S&P 500	13.15%	IG Bond	-1.41%
SPI (214 Swiss Cos.)	10.58%	Global Agg. Hedged	0.22%

Alternatives	YTD Performance	Currencies	YTD	Rate
Global HF (HFRIFWI)	6.15%	USD/ILS	-6.28%	2.9417
Gold	1.00%	USD/CHF	2.22%	0.8043
Brent Crude Oil	50.68%	USD/JPY	1.53%	160.93
Bitcoin	-26.58%	GBP/USD	0.61%	1.3229
Global Real Estate	13.64%	EUR/USD	-1.18%	1.1464

As of 19 August 2026, CET 12:00 pm

What changed in our active allocations?

On August 21, 2026, our Investment Committee convened with Eduard Schlesinger from PKB Private Bank (Geneva) participating as an external committee member. Following the committee's deliberations, we resolved to implement the following actions:

Equity – Geography

The Committee decided to increase its exposure to Emerging Markets. Following this decision, the portfolio remains overweight India, Taiwan, South Korea and China, while its overall allocation to Asia-Pacific (excluding Japan) moves from underweight to neutral.

Equity – Sector

The Committee decided to move to an overweight position in Healthcare and Financials and reduce the Cyber-security position by half following its strong year-to-date outperformance.

Our conviction in Financials is supported by the Federal Reserve's seemingly higher-for-longer interest-rate policy and what we believe are favourable conditions for increased M&A activity, driven by the current US administration's regulatory approach and the AI revolution. Similarly, we believe Healthcare is well positioned to benefit from both AI-driven innovation and a supportive M&A environment.

Fixed Income

We continue to closely monitor developments in fixed-income markets, monetary policy decisions, and their implications for bondholders. This month, given the uncertainty reflected in the yield curve, the Committee decided to maintain the existing fixed-income allocation.

Alternatives

Alternative investments continued to generate solid performance year-to-date. Our private credit allocation returned 3%, while our hedge fund strategies generated returns an average return of 6.20%. Our volatility allocation contributed 7.37%, and our infrastructure strategy delivered a return of 8.34%.³

³Alternative return metrics are subject to reporting delays.

Our current active allocations

Asset Class	Overweight	Underweight
Equity – Geography	Switzerland	Eurozone
	Japan	UK
	India	
	Taiwan	
Equity – Sector	Industrials	Energy
	Financial	Real Estate
	Healthcare	Consumer Discretionary
		Materials

Closing Thoughts

Thank you for reading the YAD House View – August 2026.

As always, we are here to discuss these insights and their implications for your portfolio. We appreciate your trust in YAD Capital and look forward to navigating the next chapter of market opportunities together.

Warm regards,

The YAD Capital Team

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An aerial photograph of a dense forest. Sunlight filters through the canopy, creating bright, shimmering paths of light that contrast with the dark green foliage. The light appears to be reflecting off water or wet surfaces, giving it a bokeh-like quality.

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