Wealth Insights Q3 2026

By KFH Capital Investment Company

At KFH, we pride ourselves on providing our clients with access to world-class financial expertise, services, and solutions. In keeping with this, we are pleased to share our latest quarterly Wealth Insights publication. Each quarter, we seek to answer a selection of key questions from our clients, and in the process, set out our House View with respect to the global economy and financial markets.

In this issue, we take a closer look at three topical subjects:

I. The Artificial Intelligence (AI) Supercycle: What it means for every asset class

AI has become a dominant market theme, driven by massive global investment and its growing influence across sectors, asset classes and economic growth.

Our House View: We remain overweight global equities, and the natural technology tilt in Islamic equity indices allows us to access the AI theme from an equity perspective. Beyond equities, we also see selective opportunities in sukuk, structural growth in infrastructure-linked REITs, and compelling valuations in emerging markets that underpin the global AI supply chain. However, we also view AI as a structural, multi-asset Supercycle, and in this publication we emphasize disciplined participation – highlighting value concentration and uncertain returns as key risks that exist alongside the opportunity.

Key takeaway: We treat AI as a diversified, portfolio-wide opportunity, not a narrow tech trade.

II. The Hidden Yield: How share buybacks are reshaping equity returns

As dividend yields decline and growth companies dominate markets, buybacks have become a key, but often overlooked source of shareholder returns, especially in the US.

Our House View: We see buybacks as a structural shift in capital return, offering long term ownership gains (and potential tax efficiency), but we stress that value creation depends on disciplined execution at reasonable valuations.

Key takeaway: We encourage investors to focus on total yield (dividends and buybacks), and not just income.

III. The impact of interest rates cycles on equities and REITS

With rates stabilizing and uncertainty around inflation and growth, investors are revisiting how rate-sensitive assets like REITs should be positioned within portfolios.

Our House View: We stress that REIT returns are not driven by rates alone, but also by broader macro conditions. In this context, based on detailed historical analysis, we use REITs as diversifiers and downside hedges, rather than core return drivers.

Key takeaway: We view REITs as a strategic portfolio stabilizer, not a pure performance play to build resilience in portfolios and help to withstand market cycles.

If you would like to know more about any of the contents in this publication, please contact your KFH Private Relationship Manager.

I. The AI Supercycle: What It Means for Every Asset Class

Artificial intelligence has outgrown the technology sector. It is now the defining structural force reshaping equities, credit, commodities, real assets, and emerging markets simultaneously. Knowing where the opportunity ends and the risk begins has never mattered more.

In our Q1 2026 Wealth Insights publication, we evaluated whether prevailing valuations in the Technology sector, brought about by advancements in AI, represented a typical 'bubble' situation akin to those that have occurred in the past. Our conclusions then – that we are not presently in another bubble - have been proven correct thus far. Progressing on this thought, we now evaluate how different asset classes are poised to be impacted by AI proliferation in their respective underlying sectors.

There is a juncture in every great historical infrastructure build-out when the investment community reaches a fork in the path ahead. One road leads to a patient, disciplined participation in a transformative cycle of wealth creation. The other leads to a reactive positioning — either chasing inflated valuations at the top, or retreating to the sidelines out of conservatism, whilst being an audience to significant capital appreciation.

The global AI Supercycle has reached that fork.

The numbers are extraordinary. The five largest US technology companies (Microsoft, Amazon, Alphabet, Meta and Oracle) have committed USD 700 billion in capital expenditure for 2026, which is nearly a 70% increase versus 2025. **In absolute terms, this is the largest private technology investment cycle in history – and it is still accelerating.** Industry estimates project total AI infrastructure spending will reach between USD 5-8 trillion by 2030, suggesting the current buildout is in its early stages with a long runway ahead.

These are not technology company press releases. They are macroeconomic realities with direct, concrete consequences for every asset class in a well-constructed, diversified portfolio. According to estimates by Fidelity's Asset Allocation Research Team, the AI boom is now touching nearly every US market sector and has accounted for roughly 60% of recent economic growth[1].

Our humble attempt here is to map the asset-class implications of a Supercycle that's already commenced, identify where the opportunities are genuine and the entry points are rational, and evaluate where enthusiasm has run ahead of the fundamentals in ways that demand sharp judgment.

"Riding the AI revolution", Fidelity (2025)

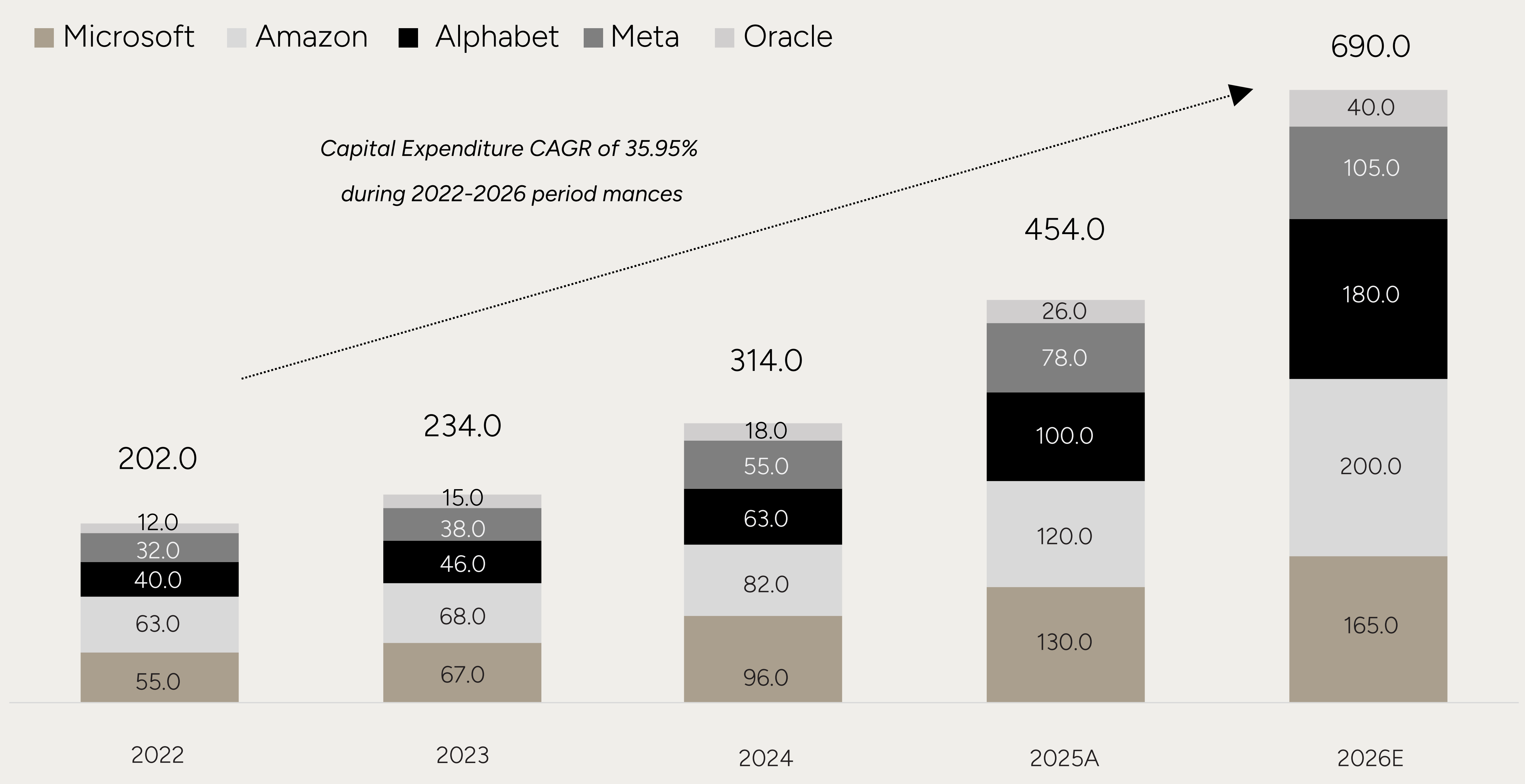
Anatomy of the Supercycle — Scale, Speed, and Structural Shift

A Supercycle is a structural shift in the direction of capital allocation that is so large and sustained that it alters the macroeconomic landscape itself — the way electrification did in the 1920s and internet infrastructure investment achieved in the 1990s. The distinguishing characteristic is that the ramifications of these investments spread outward throughout the economy, creating demand in energy, materials, real estate, labor, and credit that affect almost every asset class.

In this respect, the AI Supercycle has arrived. New data from the Federal Reserve and major Wall Street institutions indicate that AI-related capital expenditure has become the primary engine of American economic expansion, projected to contribute nearly 40% of total US real GDP growth throughout 2026 — the most significant technological contribution since the dawn of the internet. Morgan Stanley has revised its 2026 US GDP forecast upward, specifically citing 'firmer business investment' driven by technology companies' relentless pursuit of computing power. Separately, according to iConnections - an alternative investment platform that surveys hundreds of institutional allocators - 83% cite the AI Supercycle as a key theme shaping investor sentiment[2].

The critical evolution elevating this from a sector story to a full-portfolio story is what is characterized as the AI Supercycle's phase two transition: the shift from software and model development to physical infrastructure at industrial scale. The AI builders are leveraging up — investment is occurring upfront while revenues are deferred projections. Capital requirements are immediate and enormous; economic returns are estimated and uncertain in their precise distribution. This uncertainty, coupled with hugely expensive valuations, is the overriding apprehension for every investment decision in this environment.

Figure 1: Hyperscaler Capital Expenditure 2022–2026E (USD Billions)



Source: Bloomberg Intelligence, Morgan Stanley Research, FactSet (May 2026). 2026 figures represent midpoint of guided ranges.

"2Q2025 Global Investor Survey", iConnections (2025)

Equities — The K-Shaped Market and the Concentration Paradox

J.P. Morgan and Morgan Stanley both identified the K-shaped equity market's response to the AI Supercycle in their respective 2026 Outlooks; it illustrates a widening divide between sectors and companies that are native participants in the AI ecosystem, and those that are not. Both entities project that AI will propel earnings growth of 13%–15% for the S&P 500 over the next two years, driven by its integration into core industries including technology, utilities, and industrials. However, that aggregate number conceals a rather haphazard distribution.

The opportunity in AI-native equities is real, but it is still in its early stages. US AI-related stocks had a strong 2025 as companies beat earnings expectations, with utilities and infrastructure firms also standing to benefit from rising energy demand alongside pure technology names. **The investment case for the AI enablers does not rest on speculative future revenues but on visible, current demand.** Amazon has committed approximately $200 billion in 2026 for its capital expenditure. Alphabet has guided toward $175–185 billion. These are real orders, financing real construction, generating real earnings for real companies today.

The risk, however, is equally concrete. US equity indices consistently scale new all-time highs despite geo-political shocks & inflation worries, whilst simultaneously becoming significantly more concentrated: the 10 largest companies in the S&P 500 now account for approximately 40% of the index's total market capitalization. By late 2025, five companies made up 30% of the S&P 500 and 20% of the MSCI World — the highest concentration in 50 years. US equities trade far richer than global peers, with the S&P at 23X forward earnings versus 14X for the FTSE.

When a handful of mega-cap names drive the overwhelming majority of index returns, a pull-back in those names would inflict index-level damage entirely disproportionate to the fundamental health of the broader economy.

Figure 2: The K-Shaped Equity Market: Relative Performance Since Jan 2024 (Indexed = 100)

Period	AI Enablers	AI Adopters	S&P 500 Broad	Non-AI Sectors
Jan 2024	100	100	100	100
Jan 2025	148	130	120	103
Apr 2026	228	164	143	93
Total Change	**+128%**	**+64%**	**+43%**	**-7%**

Source: Bloomberg, MSCI, FactSet, J.P. Morgan Asset Management (May 2026). AI Enablers: Technology, Semiconductors, Data Centre infrastructure. AI Adopters: Financials, Healthcare deploying AI. Non-AI Sectors: Consumer Staples, Legacy Retail.

Fixed Income — Silicon Valley's Debt and the Bond Market's Warning

If the equity story of the AI Supercycle is well understood, the fixed income story is less appreciated — and in some respects, more alarming. The AI infrastructure build-out has become the most significant driver of corporate bond issuance in the current cycle, with consequences that simultaneously encompass investment-grade, high-yield, private credit and asset-backed securities.

About USD 400 billion in bonds could be issued in publicly traded markets in 2026 alone; tentatively 10%–15% of all corporate issuance expected this year is estimated to fund AI-related infrastructure. The investment-grade (IG) market is beginning to mirror the concentration risk of its Equity counterpart. Goldman Sachs research indicates that hyperscaler and AI-related financing is becoming increasingly concentrated, with a small number of issuers accounting for a disproportionate share of credit supply and stretching market capacity. Oracle has become one of the largest risk-weighted names in the IG universe. Meta has rocketed up the rankings in less than a year. Some might describe this as 'concentration without the upside' - equity holders at least theoretically benefit from AI's potential, while bond investors receive only a fixed coupon regardless of AI's success.

There is, however, a meaningful counterpoint. Technology has reshaped equities far more than fixed income. In equity markets, technology stocks made up over a third of market capitalization at the end of 2025; in fixed income, however, technology bonds comprised less than 10% of US corporate supply. In high-yield, technology made up only 8.3% of that market. Junk bond yields currently sit 2.81% above US Treasury yields which is below the historical average spread of 5.23%. The bond market is not the equity market, and investors should not mix risks across asset classes without careful attention to their actual exposure.

Figure 3: AI Exposure Across Fixed Income Markets — Concentration Risk Assessment

Segment	AI/Tech Exposure	Default Risk	Spread vs UST
Investment-Grade Corporates	~17%	<1%	+105 bps
High-Yield Bonds	~8.3%	~3%	+281 bps
Private Credit (Direct Lending)	~30–40%	~5%	+500–700 bps
Leveraged Loans	~20%	8–15%	+420 bps
Data Centre ABS / CMBS	~100%	Moderate	+180–250 bps
EM Hard-Currency Sovereign	Low	Low	+350–420 bps

Sources: Vanguard Fixed Income Research (March 2026), Insight Investment / BNY Mellon (March 2026), Morgan Stanley Credit Research, UBS Wealth Management, Bloomberg (May 2026). Spreads

Implications for Sukuk Investors

For Shari'a-compliant investors, the implications of these developments are both indirect and nuanced. Unlike conventional bond markets, where large US technology firms dominate issuance, the sukuk market has limited direct exposure to hyperscalers and AI-related corporate borrowers. Most leading technology companies do not issue sukuk, meaning that Islamic portfolios are structurally insulated from the concentrated credit risks emerging in segments of the global bond market.

"Private Markets Are Expected to Have a Growing Role in Data Center Financing", Goldman Sachs (2026)

However, this insulation does not imply immunity. The global search for yield and the scale of AI-related financing needs are influencing broader fixed income conditions including pricing, liquidity, and investor behavior. These factors inevitably spill over into sukuk markets. For example, increased bond issuance by large technology firms may absorb global liquidity and shape relative value dynamics, potentially affecting demand for Emerging Market and GCC sukuk.

At the same time, the AI investment cycle may create indirect opportunities within the sukuk universe. Infrastructure, energy, utilities, and real estate are all sectors central to AI deployment (particularly data centers and power capacity), and are well represented in sukuk markets, especially in the GCC and Asia. This suggests that while Islamic investors may not gain direct exposure to Silicon Valley issuers, they can participate in the broader ecosystem supporting the AI build-out through asset-backed and infrastructure-linked sukuk.

From a portfolio construction perspective, the key takeaway is that sukuk investors face a different risk-return profile. They are less exposed to concentrated issuance from a narrow group of global technology firms, but also less able to capture direct upside from the AI-driven credit cycle. As such, careful allocation that maintains diversification whilst also focusing on sectors indirectly benefiting from AI-driven capital expenditure, remains critical. Monitoring global credit markets remains important, not because of direct exposure, but because they set the backdrop for liquidity conditions and relative valuations that ultimately influence sukuk performance.

Commodities & Real Assets — The hidden beneficiary of the Supercycle

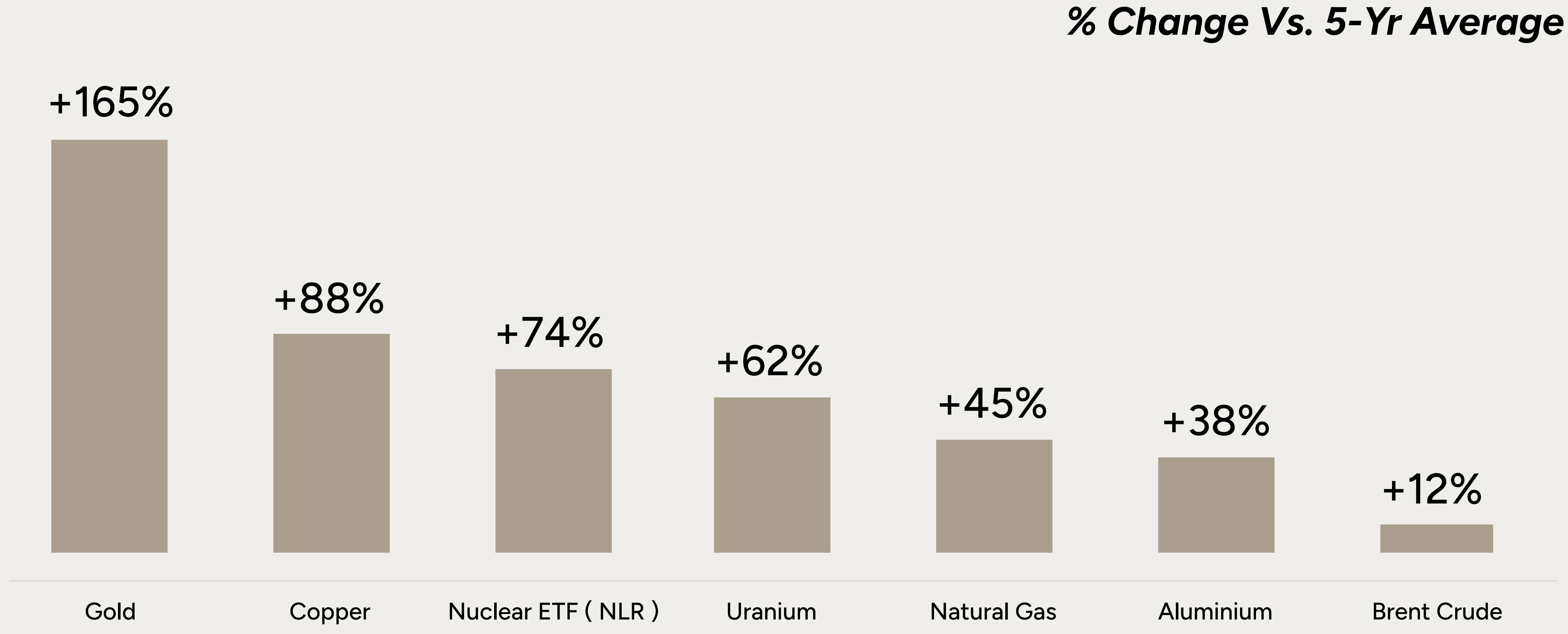
The most counterintuitive investment implication of the AI Supercycle is the one that has been most consistently underpriced by markets: the demand cascade it creates for physical commodities and real assets. AI, at its core, is a physical phenomenon. Every model query and data center inference cycle requires electricity, cooling systems, copper wiring, rare earth minerals, concrete, and steel. The AI Supercycle is, among other things, the most powerful industrial commodities demand driver in recent memory.

In the US alone, data center electricity consumption as a share of total consumption is projected to triple from 176 terawatt-hours in 2023 to between 325 and 580 terawatt-hours by 2028. AI-driven energy demand is likely to outpace available grid capacity globally. This is not a future risk; it is a present constraint reshaping the capital allocation across the entire energy infrastructure complex today.

Big tech companies are aggressively pivoting to nuclear energy to satisfy the continuous power requirements of hyperscale AI data centers. Meta Platforms is set to become one of the world's biggest corporate buyers of nuclear power. Microsoft has signed a 20-year power purchase agreement with Constellation Energy for the restart of Three Mile Island. Google has contracted with NextEra Energy. Nuclear energy is available 24/7 — exactly what hyperscale AI data centers require.

Industrial metals — copper in particular — have entered what Jeffrey Currie, former Global Head of Commodities Research at Goldman Sachs, described in a Bloomberg interview as a multi-year Supercycle, suggesting that market leadership is transitioning from technology to commodities. Copper has nearly doubled in price over 18 months due to electrification trends including AI data centers and EV infrastructure. PIMCO notes that commodities stand to benefit from the artificial intelligence boom, supported by the large-scale infrastructure investment required to sustain it.[4,5] This implies that investors may gain exposure to the AI theme through real assets such as industrial metals, energy, and critical minerals.

Figure 4: AI-Driven Commodity Demand: Price Appreciation vs. 5-Year Historical Averages



Commodity	Primary AI Demand Driver
Gold	Safe-haven hedge; central bank reserve diversification
Copper	Data Centre wiring, grid expansion, electrification
Nuclear ETF (NLR)	24/7 baseload power purchase agreements
Uranium	Reactor restarts and new SMR commitments
Natural Gas	Off-grid and bridge power for data centers
Aluminum	Server racks, structural building materials
Brent Crude	Indirect — general industrial activity

Source: Bloomberg Commodity Index, LME, ICE Futures, World Nuclear Association, LBMA, FactSet (May 2026). Uranium: UxC spot price. Copper: LME 3-month forward

Real Estate — Data Centers, Power, and the New Infrastructure REIT

The real estate sector's relationship with the AI Supercycle is perhaps the most divided story in the entire asset class universe. On the one hand, we have data center REITs, industrial logistics facilities and power infrastructure

"After the Gold Rush: The Strategic Role of Commodities in Portfolios", PIMCO (2025)
"AI Credit Expansion: Assessing the Micro and Macro Risks", PIMCO (2026)

assets — all experiencing demand so far in excess of supply that pricing power is exceptional and revenue visibility is fairly long term. On the other hand, we see traditional office, retail, and residential REITs, still navigating structural overhang from post-pandemic shifts in how space is used.

Public REITs still trade at substantial discounts to private market valuations, whilst data centers, infrastructure, and healthcare continue to benefit from powerful demand trends. For investors seeking income with inflation protection, quality infrastructure REITs with AI-adjacent revenue streams represent one of the more attractively valued opportunities available in Q3.

Emerging Markets — AI beyond USA

A common misconception in the AI investment narrative is that it is largely an American story; however, market data suggests that opportunities in emerging markets are among the most attractively valued entry points available to the global investor.

For instance, Taiwan Semiconductor Manufacturing Company — the world's dominant advanced chip foundry and an essential enabler of every major AI system — is an EM-domiciled company. South Korean memory manufacturers, supplying the high-bandwidth memory chips now commanding extraordinary premiums, are EM names. The semiconductor supply chain underpinning the entire AI infrastructure build-out runs through Asia.

Memory and semiconductor manufacturers are limiting capacity expansion despite high demand. High bandwidth memory (HBM) prices have reached extraordinary levels, yet manufacturers like Samsung, SK Hynix and Micron remain cautious about bringing new capacity online. This disciplined supply response is structurally supportive of pricing power and earnings quality.

The Risk Landscape — What could derail the Supercycle?

This Supercycle carries real risks and needs to be evaluated with the same scrutiny as its opportunities. The core question is whether today's spending marks the early phase of a decades-long infrastructure buildout or whether this is a speculative over-capitalization that ends in write-downs, margin compression, and a supply-chain correction.

The main risk is the revenue gap - the mismatch between capital expenditure and AI revenue generation, which is not only deferred, but is uncertain in its distribution and conviction. J.P. Morgan's 2026 Market Outlook raise four medium-term risks:

- US power generation constraints
- China scaling its own AI capabilities
- The Taiwan Strait – a geopolitical risk disrupting the semiconductor supply chain
- Hyperscaler investments fail to generate sufficient return on investment, triggering a sudden pullback in capital expenditure that cascades through the entire supply chain

Figure 5: AI Supercycle Risk Register — Probability vs. Portfolio Impact (Q3 2026)

Risk Factor	Probability	Impact Severity	Category
Revenue Gap (capex > revenue)	72%	78 / 100	High
US Mega-Cap Concentration	80%	65 / 100	High
Private Credit Defaults	65%	72 / 100	High
Power Grid Constraint	55%	55 / 100	Medium
Taiwan Strait Disruption	28%	92 / 100	High (low prob.)
"Metaverse Moment" — ROI Failure	32%	85 / 100	High (low prob.)
China AI Rivalry	62%	50 / 100	Medium
Regulatory / Antitrust	70%	40 / 100	Structural

Source: BlackRock Investment Institute (Q2 2026), J.P. Morgan Global Research (May 2026), Man Group (May 2026), Morgan Stanley Research (March 2026). Risk assessments are subjective estimates for illustrative purposes only.

BlackRock's analysis in Figure 5 finds that while power is a feared bottleneck in the AI buildout, the system is adapting across both short and long-term horizons, easing concerns of an energy-deficiency-led AI slowdown. The power constraint is real, but it is not static and the investment community's response to it is itself generating significant alpha opportunities in energy and utilities.

The risk to monitor most closely is not a single dramatic event but a gradual one: the slow realization that AI productivity gains are unevenly distributed, that many corporate AI investments produce limited measurable returns, and that the revenue validation cycle is longer than the capital deployment cycle. The most resilient portfolios will be those positioned to participate in the Supercycle's structural tailwinds while maintaining hedges against the scenarios in which the revenue ramp disappoints.

Conclusion: *Intelligence is the new infrastructure. Invest accordingly.*

The AI Supercycle is the defining investment event of our era. It is not a theme to be allocated to as a speculative satellite position. It is a structural shift in the architecture of the global economy that is simultaneously reshaping equities, bonds, commodities, real estate, and alternatives thus manifesting itself into a full-portfolio phenomenon.

Our Q3 message is characterized by the same disciplined conviction that has guided our investment philosophy through every major structural transition we have navigated: participate with rigor, diversify across the full breadth of the opportunity and remain vigilant about the risks that premium valuations and deferred revenues create. The AI Supercycle will create extraordinary wealth. It will also, almost certainly, produce a correction of some magnitude at some point — as every great infrastructure cycle before it has done.

The runway is long, the opportunity is real and the portfolio implications span every line of your asset allocation. Invest accordingly.

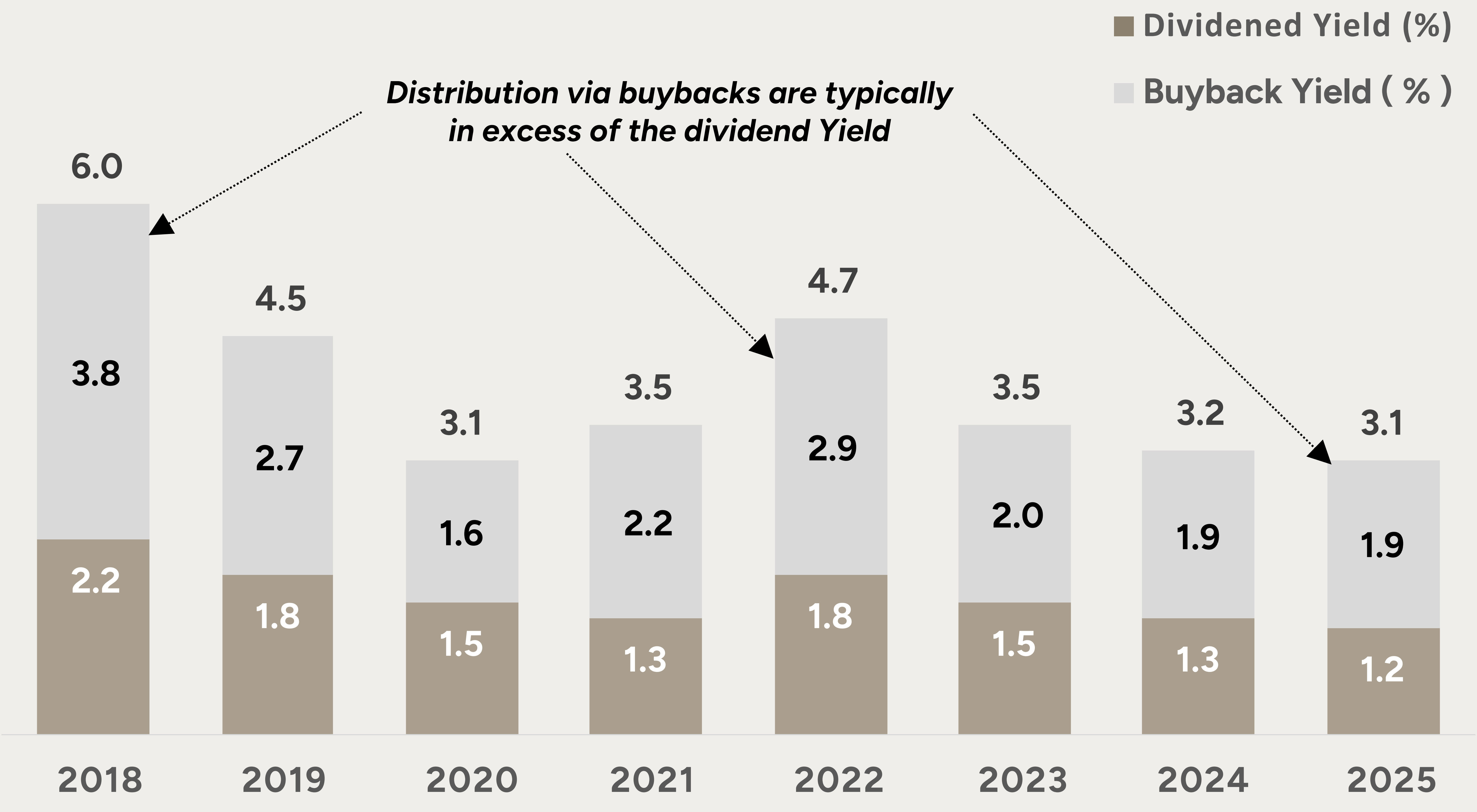
II. The Hidden Yield: How share buybacks are reshaping equity returns

Many of the most attractive companies in the world do not pay any meaningful dividends including Berkshire Hathaway (0%), Tesla (0%), Nvidia (0.02%) and Alphabet (0.3%). These global companies increasingly prefer to distribute capital to shareholders via **"buybacks".** Essentially, over the last several years there has been a change in the nature of the return of capital from companies - shifting from dividends towards share buybacks.

What is a buyback?

Example: A buyback is where a company simply uses part of its capital and cash flow to buy back shares in the stock market. A simple example is a company worth USD 100 million in market capitalization, announces to buy back USD 5 million worth of its own shares, the Buyback Yield is 5%. What follows is a decrease in existing shares in the market due to the Buyback, and as a result, each investor's ownership stake increases. Unlike a dividend, which in many jurisdictions provide taxable cash in hand for an investor, a Buyback is a hidden distribution through increased ownership and potential price appreciation, and in this respect, can potentially also be more tax efficient.

Figure 6: We set out the dividend and buyback data below for the overall US market:



Apple's Buyback Strategy: A case study in long-term value creation

Apple Inc. has been a strong long-term investment, for example over the last 10 years (to end 2025) the capital return has been +827%.

However, the dividend yield 10 years ago was just 1.5%, whilst the amount of the dividend has doubled over the last 10 years, the income contribution has been far outweighed by capital gains. Over the last 10 years, Apple has bought back approximately US$ 850 billion of its own shares. While this capital could have been distributed as dividends, Apple has instead used it to reduce the number of shares outstanding. Consequently, an investor that owned 1.0% of Apple shares 10 years ago, now owns closer to 1.5%, simply due to the decline in the overall share count. This mechanism increases each shareholder's proportional claim on the company's earnings and value, benefiting long-term investors through enhanced ownership rather than cash income.

Key highlights from the Case Study:

I. Global companies return cash to shareholders both via dividends and buybacks.

II. Some of the most successful global companies emphasize buybacks over dividends.

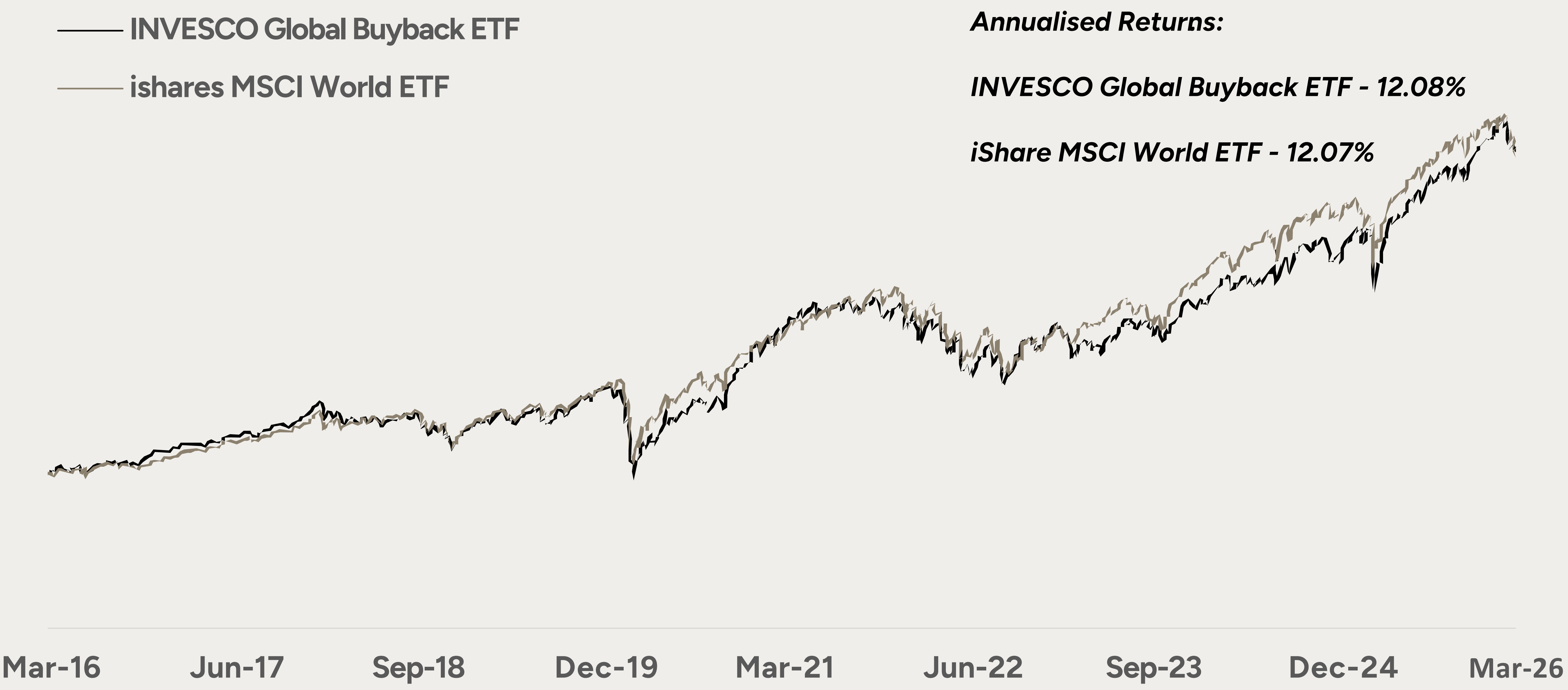
III. Buybacks are more tax efficient than dividends in many jurisdictions.

IV. Buybacks are especially valuable to long-term investors.

Do companies that buy back shares outperform other companies?

This is a nuanced question as one of the main criticisms of buybacks is that some companies do it at very high valuations of their equity which destroys overall value. Figure 7 below sets out the performance of global companies that have a high buyback yield relative to straight forward global equities. As can be observed, the return over this 10-year period has been almost identical. This is despite an underweight in the fast-growing technology sector within the Buyback index.

Figure 7: Performance of Invesco Global Buyback ETF vs iShares MSCI World ETF (2016-2026)



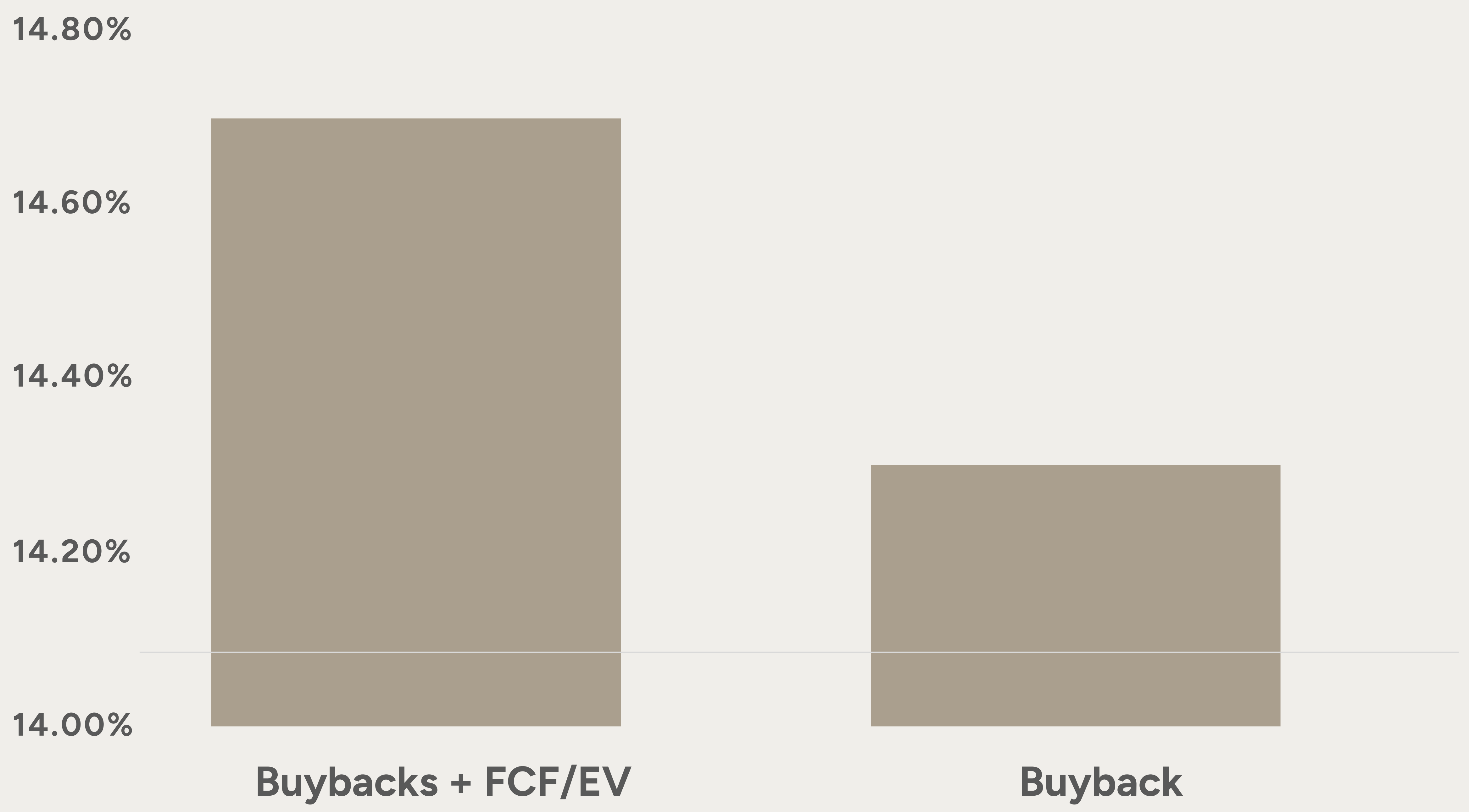
Data Source: Bloomberg

The Buyback Index is heavily skewed toward financials, with banks such as Barclays, Citigroup, UniCredit, and ING comprising a significant share of the top constituents. It is notable that the index has kept pace with standard benchmarks, which are dominated by technology leaders such as Nvidia, Apple, and Microsoft. While these technology companies also engage in share buybacks, the scale of these programs is generally smaller relative to their market capitalization compared to the banking sector, where capital return through buybacks represents a more substantial proportion of equity value.

Furthermore, as shown in Figure 8, Bank of America's analysis of U.S. companies indicates that excess returns can be generated by focusing on firms that execute buybacks opportunistically - specifically when their shares are trading below intrinsic value.

Figure 8: Annualized Factor Performance (Jan 1986- April 2026)

Companies that reduce shares at low valuations tend to outperform



Data Source: Factset, BofA US Equity & Quant Strategy

In conclusion, once sector differences are accounted for, the global evidence suggests that companies engaging in share buybacks tend to outperform, particularly when those buybacks are executed at relatively attractive valuations based on free cash flow metrics.

This is consistent with company-level examples such as Apple, where sustained buybacks have meaningfully increased shareholder ownership over time, and with broader index-level observations showing that Buyback-focused strategies can keep pace even with technology-dominated benchmarks.

Importantly, as Bank of America's analysis highlights, the value created by buybacks is not simply a function of scale, but of timing. The strongest outcomes are achieved when companies repurchase shares opportunistically at lower valuations.

Taken together, these findings reinforce a core principle of capital allocation: disciplined, valuation-aware buybacks can serve as a powerful driver of long-term shareholder returns.

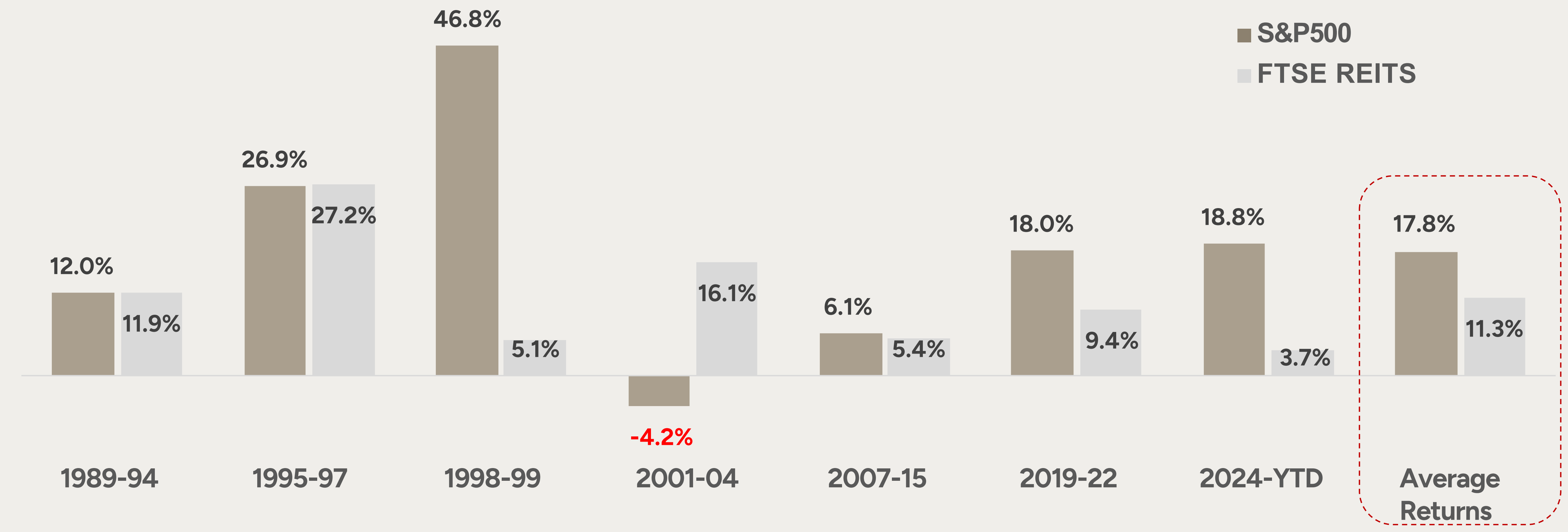
III. Impact of Interest Rate cycles on Equities & REITS – A historical study and findings

What Does the data say?

Historical analysis suggests that equities have delivered positive long-term returns across both U.S. Federal Reserve easing (rate-cutting) and tightening (rate-hiking) cycles, as illustrated in the charts below. While market conditions and volatility differ between regimes, the long-term average performance has generally favored equities in both environments.

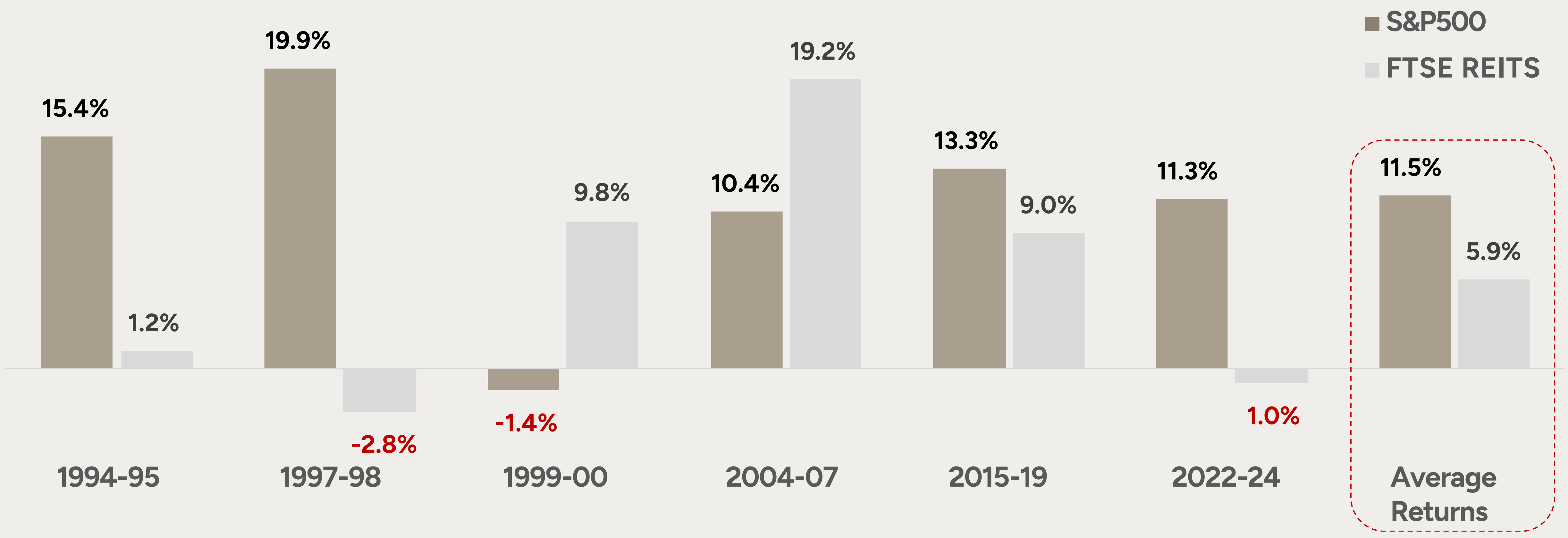
Figure 9: Annualized returns of the S&P 500 Total Return Index vs the FTSE REITS Total Return Index during interest rate easing cycles

The average of annualized returns across easing cycles for the S&P500 Total Return Index was 17.8%; while the FTSE REITS Total Return Index generated 11.3% gains during the same period.



Data Source: Bloomberg; Returns are Annualized

Figure 10: Annualized returns of the S&P 500 Total Return Index vs the FTSE REITS Total Return Index during interest rate hiking cycles



Data Source: Bloomberg; Returns are Annualized

During rate-hiking cycles, the S&P 500 has delivered average returns of approximately 11.5%, compared to around 5.9% for REITs. Over the long term, however, monetary policy cycles alone are not the primary driver of portfolio returns. While it may be tempting to tactically rotate portfolios between easing and tightening regimes to enhance returns, it is essential to interpret these cycles within the broader macroeconomic context.

Portfolio performance is ultimately influenced by a combination of factors, including economic growth, earnings momentum, and market liquidity, rather than interest rates in isolation.

To illustrate this, we have analysed historical data to demonstrate that asset class returns are more closely linked to underlying macroeconomic conditions than to monetary policy alone. Before exploring this analysis further, it is important to address why this study focuses specifically on equities and REITs, rather than a broader set of asset classes.

Why study only two asset classes, i.e. Equities and REITS?

Our readers may reasonably ask why other asset classes, such as bonds or sukuk, have not been included in this analysis.

While sukuk play a central role in portfolio construction, their behavior is more directly and mechanically linked to interest rate movements. In simple terms, bond and sukuk prices largely reflect expectations around the direction of monetary policy itself, limiting their ability to provide insight into broader macroeconomic dynamics. As a result, analyzing bonds or sukuk in isolation offers less incremental perspective on how interest rate cycles interact with growth, earnings, and market behavior.

Similarly, other asset classes such as commodities are primarily driven by factors including supply-demand dynamics, geopolitical developments, and currency movements. For example, oil prices have experienced significant volatility (ranging from approximately USD 70 to USD 120 per barrel during recent geopolitical tensions) which is often independent of prevailing monetary policy conditions. This makes it difficult to isolate the impact of interest rate cycles on commodity performance.

Alternative asset classes, while increasingly relevant, present a different challenge in this context, namely the limited availability of consistent and long-term historical data required for robust cycle-based analysis.

In contrast, equities and REITs offer a more comprehensive framework for studying interest rate cycles. In addition to deep historical data and strong market liquidity, these asset classes capture the different ways in which interest rates affect the economy and markets.

Equities, in particular, serve as effective indicators of the broader macroeconomic impact of interest rate cycles, including:

I. **The discount rate effect:** Interest rates directly influence equity valuations through the discount rate. Within standard valuation frameworks such as discounted cash flow (DCF) models, a rise in interest rates increases the weighted average cost of capital (WACC), thereby putting downward pressure on equity valuations.

II. **Macroeconomic sensitivity:** Interest rate cycles affect consumption and investment behavior, which in turn drive corporate earnings and the broader business cycle. For example, higher borrowing costs tend to dampen demand for consumer discretionary goods (which are often financed through credit) leading to slower revenue growth and weaker earnings momentum.

REITs further enhance this analysis due to their hybrid characteristics. They combine features of both equity and fixed income instruments. Like equities, they are listed, liquid, and provide dividend income. And like bonds, they generate relatively stable cash flows. At the same time, they offer exposure to underlying real estate assets.

Importantly, REITs tend to react more immediately to changes in interest rate cycles. This sensitivity stems from their relatively high leverage, as underlying real estate assets are typically financed through debt. As a result, changes in borrowing costs have a direct impact on cash flows and valuations.

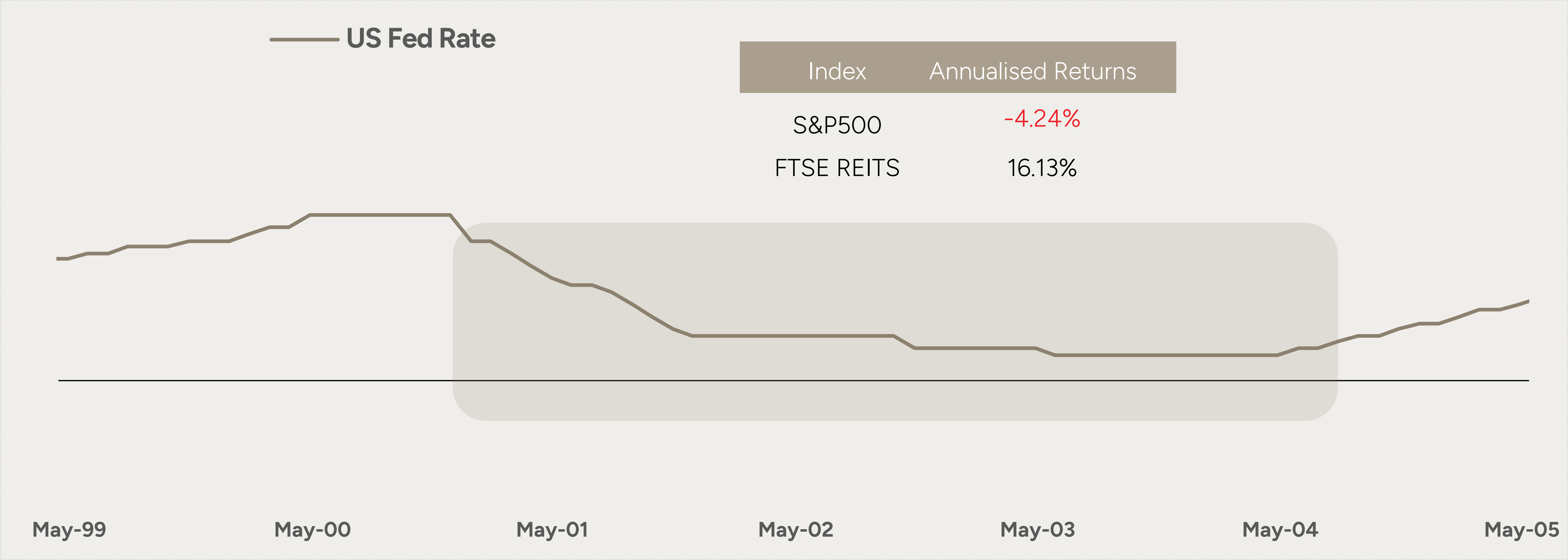
We should note at this point that Shari'a-compliant REITs also exhibit similar sensitivities to interest rate cycles, though the impact is generally more moderate, reflecting their lower leverage. However, they remain influenced by broader market dynamics, including the relative attractiveness of income-generating assets such as sukuk, resulting in a comparable (albeit less pronounced) response to changes in interest rates.

In addition, REITs compete directly with bond and sukuk yields from an income perspective, creating a substitution effect that further amplifies their responsiveness to interest rate movements.

For the purposes of this analysis, equities are represented by the S&P 500 Total Return Index, while REIT performance is captured using the FTSE Nareit All REITs Total Return Index - a widely recognised benchmark that tracks the performance of publicly listed U.S. REITs.

Case Study I: The US Fed Rate Easing Cycle – January 2001 – May 2004

Figure 11: US Fed Rate (May 1999 – May 2005)



Data Source: Bloomberg; Returns are Annualized

Rate Cutting Context

As a result of the Dot-Com crash (The Technology, Media and Telecommunications (TMT) Bubble), corporate investment collapsed, with Technology and Telecom firms cutting back significantly on Capital Expenditure (Capex).

The impact was a sharp deceleration in economic activity, with GDP growth falling significantly from above 4% in the late 1990s to 1-2% during 2001–2002, reflecting the broader economic slowdown.

Inflation remained relatively moderate, broadly within the 2%–3% range over the same period, enabling the Federal Reserve to respond with rate cuts.

Capital Market Impact

The S&P 500 Total Return Index declined to a low of 1,163 during the 2001–2004 easing cycle, representing a drawdown of approximately 36.7% from 1,837 at the end of December 2000. In contrast, the FTSE REITs Total Return Index delivered positive returns of 13.9% during 2001. Furthermore, for investors allocating to REITs at the end of 2000, cumulative returns reached approximately 66.3% by May 2004.

Interestingly, during the most recent easing cycle associated with the COVID-19 pandemic, we observed a contrasting dynamic. Over the 2019–2022 period, equities delivered annualized returns of approximately 17.9%, significantly outperforming REITs, which generated returns of around 9.4%.

This relative outperformance of equities can be attributed to the nature of the easing cycle. Ultra-low interest rates, coupled with strong liquidity support and robust growth in technology and digital sectors, fueled a sharp equity market rally. As a result, capital allocation shifted toward growth-oriented assets, leading to comparatively weaker performance in income-focused sectors such as REITs.

How Does above analysis help us now?

Through this historical analysis and comparison, we observe that asset allocation outcomes are closely linked to the nature of the monetary policy cycle. It is important to distinguish whether a rate move represents a mid-cycle adjustment or a fundamentally driven policy shift aimed at either stimulating growth or controlling inflation.

This distinction is critical, as different types of policy cycles tend to produce very different market outcomes.

Mid-cycle adjustments typically occur in relatively stable economic environments and are often accompanied by continued growth momentum, which tends to support risk assets such as equities

In contrast, fundamentally driven easing cycles (such as those following economic shocks) are usually associated with deteriorating growth and heightened uncertainty, leading to a rotation towards more defensive, income-generating assets.

Current Monetary Policy Outlook

As we write, the European Central Bank (ECB) has raised its deposit rates by 25bps to 2.25%, while the US Fed and Bank of England have maintained current at 3.75%. Recent inflation prints indicate a pause in the disinflation process, driven in part by higher energy prices linked to geopolitical tensions in the GCC region.

Against this backdrop, we believe that the global easing cycle has reached its latter stages, with central banks increasingly adopting a more cautious stance.

Economic growth remains relatively resilient, with GDP holding at around 2.4%. However, downside risks have risen, and will remain as long as geopolitical tensions persist.

GDP continues to remain robust at 2.4%, however downside risks have increased as the conflict prolongs.

Our View

We believe the current monetary policy stance is likely to shift towards a "wait-and-watch" approach, with a modestly hawkish bias. Any further rate increases, in our view, would be best characterized as mid-cycle "insurance" hikes, i.e. a response to external shocks rather than a reflection of underlying economic imbalance.

In this context, the current environment can be framed as a mid-cycle phase with the following key characteristics:

- **Resilient macroeconomic backdrop:** Growth remains relatively firm at 2.4% for 2026, while inflation, though elevated, is largely influenced by external factors such as energy price shocks, which may moderate over time as geopolitical risks stabilize.
- **Strong corporate earnings momentum:** Corporate earnings continue to demonstrate resilience, with S&P 500 companies reporting strong year-on-year growth (27% in Q1 2026), reinforcing the strength of the underlying business cycle.

Based on this, our analysis suggests that the primary trend for equities remains positive. However, elevated geopolitical uncertainty may result in some near- to medium-term volatility and market fluctuations, which we view as a natural part of the investment cycle rather than a structural concern.

The case for REITs as strong diversifiers

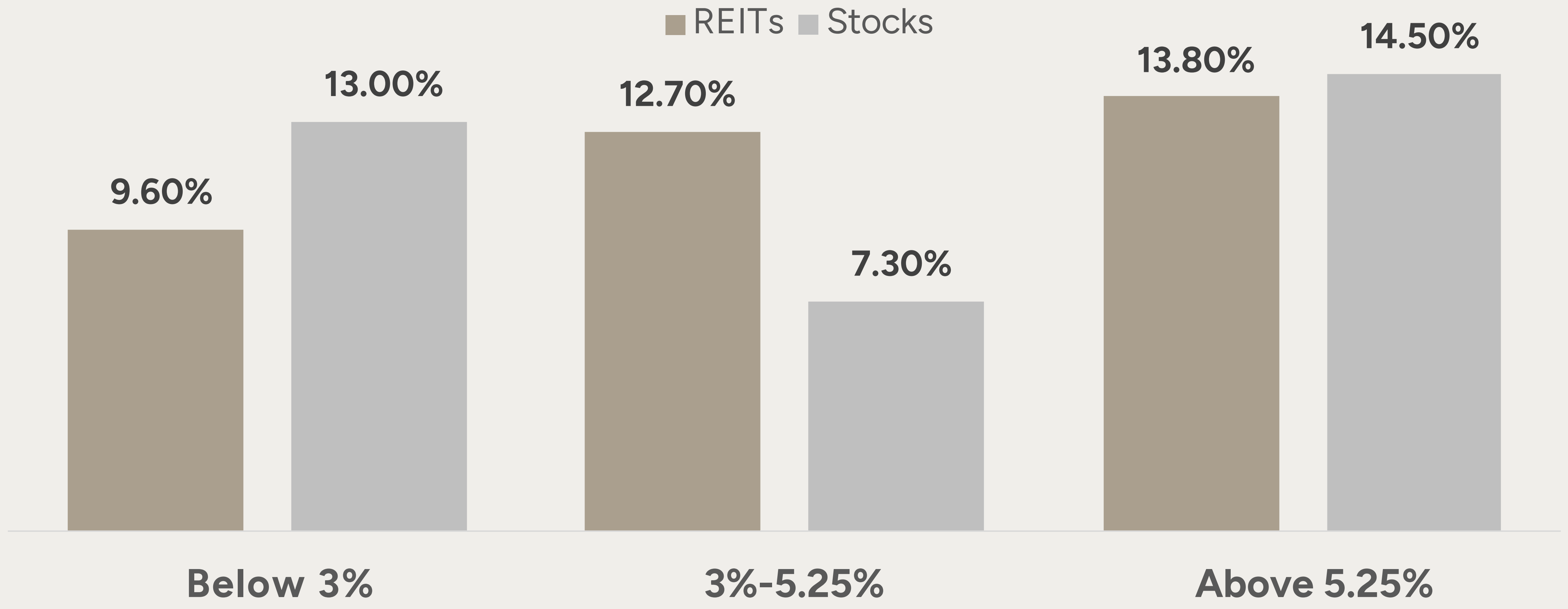
As illustrated in Figure 11, REITs can serve as an effective hedge and portfolio diversifier during periods of heightened downside risk to economic fundamentals.

During the 2001–2004 period following the dot-com (TMT) crash, the FTSE REIT Index generated annualised returns of approximately 16.13%, despite a backdrop of deteriorating macroeconomic conditions, a prolonged Federal Reserve easing cycle, and weak equity market performance.

This period underscores the role of REITs in providing portfolio resilience. When equity markets are under pressure due to slowing growth and declining corporate profitability, income-generating and asset-backed investments such as REITs can help mitigate downside risk. More broadly, it highlights the importance of maintaining diversification across asset classes to stabilize returns across different phases of the economic cycle.

Figure 12: REITs a Case for Tactical Asset Allocation Strategy

REITs have performed well in normal rate environments as shown in the graph below.



Source: FRED, Morningstar Direct. Average Returns using data from Jan 1972 to Dec 2024. REITs represented by FTSE NAREIT All Equity REIT Index and stocks represented by S&P500 Index

REITs have continued to perform strongly in 2026, with the FTSE REIT Index delivering year-to-date gains of approximately 13.14%. As highlighted earlier, REITs have historically demonstrated relative outperformance in moderate interest rate environments similar to the current backdrop.

In light of this, exposure to REITs can be an effective strategy to help mitigate downside risks within portfolios. Their income-generating nature and sensitivity to real asset values provide a stabilizing element, particularly during periods of market uncertainty.

Summary

Taken together, the themes explored in this publication reinforce a consistent and forward-looking House View, one that recognizes today's market environment as being shaped by structural, cross-asset forces and best navigated through a long-term, disciplined investment approach. Central to this is our emphasis on growth and the power of compounding returns over time, a principle that is closely aligned with the increasing role of share buybacks in enhancing long-term ownership and total return.

In our global investment portfolios, our conviction in the resilience and growth potential of global markets (and from structural drivers such as artificial intelligence) continues to be reflected in our overweight position with respect to Global Equities. Within this, Islamic equity indices naturally exhibit a structural tilt towards technology, further reinforcing exposure to this theme.

We continue to advocate strongly for diversification as a core pillar of portfolio construction. This is reflected not only across asset classes and geographies, but also in our implementation approach, where we blend active and passive strategies—with a deliberate tilt towards passive index exposures to ensure efficient, broad-based market participation.

At the same time, we recognize the importance of balance and resilience. In our balanced portfolios, we maintain a positive strategic allocation to global REITs, and tactically increased exposure from 4% to 7% in December 2025. At the time, this decision was made partly on the basis of improving rate expectations, but also more importantly, in line with our strategic view of REITs as effective diversifiers, particularly during periods of stress in equity markets, including historic and potential tech-led downturns.

Ultimately, our House View and portfolio positioning remain anchored in a single guiding principle: to participate in long-term global growth opportunities with discipline and diversification, while harnessing the compounding benefits of well-constructed portfolios and maintaining resilience across market cycles.

KFH House View
Asset Allocation Guide
Q3 2026

▲ = Overweight | ■ = Neutral | ▼ = Underweight

Strategic View		Tactical View	Commentary
Overall Risk Appetite	■	▲	Positive approach to risk assets - research highlights attractive returns post geopolitical events.
Equities - Overall	■	▲	We express our overweight risk stance via equities relative to credit.
US	■	■	Neutral
Europe	■	■	Neutral
Emerging Markets	■	■	Neutral
Japan	■	▲	Overweight based on the positive trend (andimportance) of corporate governance and return on equity from a historically low base.
GCC	■	■	Neutral allocation - useful diversifier from technology - dominated global markets.
REITs	■	▲	Overweight based on attractive valuations, stabilized office and retail sector. An attractive global equities.diversifier vs
Sukuk	■	▼	Underweight both duration (maturity) risk and outright exposures. Favoring equities.
Trade Finance	■	▼	Underweight in our Global Discretionary Mandates reflecting current liquidity profile. Attractive offering as an income stream in a standalone closed - ended fund.
Gold	▲	■	Maintain robust strategic positions, seeking to ride out current short - term volatility.
Money Markets	■	▼	Underweight - focused on risk assets.

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Contact Us

Baitek Tower, Safat Square Street,
23rd, 32nd, 33rd Floor

Sunday – Thursday from 8:00AM to 3:00PM

P.O Box 3946, Safat, 13040, Kuwait

info@kfhcapital.com.kw

+965-22987000

KFHCapital

KFHCapital

KFH_Capital

KFH Capital

KFH Capital

kfhcapital.com.kw