Asset Risk | Consulting

Monthly macro focus

July 2026

Knowing your onions

Macro focus

Knowing your onions

> *When several chefs are cooking, someone still needs to balance the menu.*

Equity markets look increasingly expensive. That does not mean a correction is imminent, but it does mean investors should understand how much equity risk they really own across all their portfolios. ARC's role is to ensure that aggregate exposure reflects deliberate decisions rather than several managers independently making the same bet.

The old French onion seller had all the stereotypes. Breton striped jumper, beret, bicycle and strings of onions hanging around his neck.

While in a queue as a child, I watched a customer ask whether the onions were any good. I remember thinking it was an odd question.

What answer was he expecting? No onion seller has ever replied, "*Actually, these are dreadful, it's not the best time to buy and quite honestly they're overpriced too.*"

Investment markets can feel much the same. Fund managers are routinely asked *"Is it the right time to buy?"* by private clients and private client portfolio managers alike. Ask the onion salesperson and what do you expect them to say?

This is where discretionary managers can add value. They don't just sell onions. They design a dish. Multi-asset managers are the chefs. They decide how much onion, how much spice, how much protein and how much garnish belongs on the plate. They choose between shares, bonds, cash, alternatives and other assets. They decide on the proportions and make adjustments as conditions change.

Reasonable chefs can legitimately produce very different dishes from the same pantry. The challenge is that if you hire several chefs, someone still needs to think about the overall meal. Left alone, it is surprisingly easy to end up with several different chefs all independently deciding that onions are the answer. What appears to be variety can turn out to be the same ingredient expressed in slightly different ways.

A family may believe they have diversification. In reality, they may simply have several versions of the same bet.

We help clients choose their dishes and chefs. We generally prefer several. Different managers bring different philosophies, research capabilities and perspectives. Some offer highly active approaches built on deep research. Others provide low-cost systematic exposure. The aim is not variety for its own sake, but a collection of approaches that complement each other. Diversifying decision-making can be as valuable as diversifying assets.

We also have our own long-term views on strategic asset allocation. Today, those views recognise that parts of the equity market look a little frothy. Valuations appear full, concentration has increased and optimism remains abundant.

Investors who warn that shares are expensive can look foolish for years while markets continue climbing. Some lose clients and some lose their jobs. Yet they may ultimately be proved right, just on a timetable that rewards neither patience nor career preservation.

Equally, markets can overshoot on the downside too. Assets that later prove to be bargains often look least attractive at the moment of maximum opportunity.

Which is why our job is not to predict the precise day enthusiasm peaks. Our job is to assess the combined menu.

How much equity exposure does a family really have? How much risk is concentrated in a handful of assumptions? Are managers genuinely bringing different ingredients and techniques, or are they all serving variations of the same dish?

Simple, disciplined rebalancing remains one of the most effective ways of avoiding mandate drift. It naturally trims assets that have become a larger part of the portfolio and reallocates towards those that have become smaller. Our top-down views can also influence target allocations and style exposures when we believe long-term expected returns justify this.

Sometimes our conclusion is that the meal is well balanced.

Sometimes we conclude there is simply too much onion.

At moments when equity markets look particularly rich, that question becomes even more important. We may have an overarching view on the appropriate composition of the meal while recognising that nobody knows precisely when markets will turn. We are not trying to forecast the exact day that the music stops. We aim to ensure a family is not inadvertently eating an onion dopiaza topped with spring onions and served with a side of chives.

Nobody knows when today's market leaders will stumble, or whether current valuations will become more extreme before they reverse.

What we can do is understand exactly how much onion is on the plate, who put it there and whether the overall meal still suits the diner. When several chefs independently decide that onions are the answer, the resulting meal can leave eyes watering for all the wrong reasons.

Dr James R Cooke, CFA
Director of Research
james.cooke@assetrisk.com

Market commentary

July saw investor focus shift away from geopolitical tensions and towards second-quarter earnings.

Early in the month, escalating tensions between the US and Iran briefly pushed Brent crude oil above $100 per barrel, lifting energy prices and reigniting inflation concerns.

As tensions eased, attention returned to corporate earnings, where major technology companies reaffirmed their commitment to AI investment. Investors became increasingly selective, however, leading to weakness in some hyperscaler stocks and a rotation towards value-oriented sectors. Government bond yields also moved higher due to persisting fiscal deficits resulting in heavy sovereign debt supply and rising energy prices reinforced expectations that interest rates could remain elevated for longer.

Volatile energy prices, rising bond yields and persistent inflation concerns are keeping markets alert, while investors have started to question the current level of AI investments by some of the hyperscalers.

In the US, second-quarter GDP growth slowed to an annualised 1.5%, down from 2.1% in the first quarter, while inflation remained above target, with CPI rising 3.5% year-on-year in June. The Federal Reserve left rates unchanged at 3.5% to 3.75% for a fifth consecutive meeting, while highlighting ongoing inflation risks. Labour market conditions continued to soften, with non-farm payrolls falling by 23,000 in July. The unemployment rate fell to 4.1% from 4.2%; however, this was partly driven by a decline in the labour force participation.

In the UK, economic activity remained resilient, with GDP growing by 0.7% in the three months to May. Inflation continued to moderate, with CPI falling to 2.6% in June from 2.8% in May, while wage growth remained positive in real terms. The Bank of England left interest rates unchanged at 3.75%, maintaining a cautious approach despite easing inflationary pressures. Labour market conditions remained broadly stable. UK equities outperformed many developed market peers during the month, supported by strong performance from energy and financial companies.

In the Eurozone, inflation edged higher to 2.9% in July, driven largely by rising energy costs. Economic activity improved during the second quarter, with GDP expanding by 0.4% quarter-on-quarter and 1.0% year-on-year. The European Central Bank left interest rates unchanged and highlighted uncertainty surrounding the inflationary impact of higher energy prices. European equities were broadly flat over the month, with strength in industrial and financial sectors helping to offset weakness in technology companies.

Emerging markets delivered mixed performance during July. Whilst China recorded strong gains, several other markets within the region came under pressure, with Taiwan's and South Korea's headline indices falling by 6.5% and 22.2%, respectively.

Independent investment advice that avoids costly mistakes.

ARC

assetrisk.com