AozoraStep

For professional clients

Q2 2026: The end of the semiconductor rally[1]

Quarterly Performance	Turnaround Portfolio	FTSE All Share TR	S&P 500 TR	Nikkei 225 TR
Q2 17	-8%	1%	3%	6%
Q3 17	-5%	2%	4%	2%
Q4 17	-1%	5%	8%	12%
Q1 18	9%	-7%	-2%	-5%
Q2 18	19%	9%	5%	4%
Q3 18	-16%	-1%	7%	9%
Q4 18	-30%	-10%	-14%	-17%
Q1 19	45%	9%	14%	7%
Q2 19	39%	3%	4%	1%
Q3 19	0%	1%	2%	3%
Q4 19	8%	4%	9%	9%
Q1 20	-43%	-25%	-18%	-19%
Q2 20	42%	10%	17%	18%
Q3 20	-3%	-3%	10%	5%
Q4 20	76%	13%	12%	19%
Q1 21	32%	5%	7%	7%
Q2 21	-3%	6%	9%	-1%
Q3 21	5%	2%	1%	3%
Q4 21	1%	4%	11%	-2%
Q1 22	37%	1%	-5%	-2%
Q2 22	-3%	-6%	-16%	-5%
Q3 22	17%	-3%	-5%	-1%
Q4 22	20%	9%	8%	1%
Q1 23	0%	3%	7%	9%
Q2 23	-13%	0%	9%	19%
Q3 23	40%	2%	-3%	-3%
Q4 23	3%	3%	12%	5%
Q1 24	1%	4%	11%	22%
Q2 24	5%	4%	4%	-2%
Q3 24	6%	2%	6%	-3%
Q4 24	-14%	0%	2%	5%
Q1 25	-7%	5%	-4%	-10%
Q2 25	6%	4%	11%	14%
Q3 25	1%	7%	8%	12%
Q4 25	-9%	6%	3%	12%
Q1 26	10%	2%	-4%	2%
Q2 26	3%	5%	15%	37%

[1] assumptions & observations are based on modelling & analysis. Past performance is no guide to future performance

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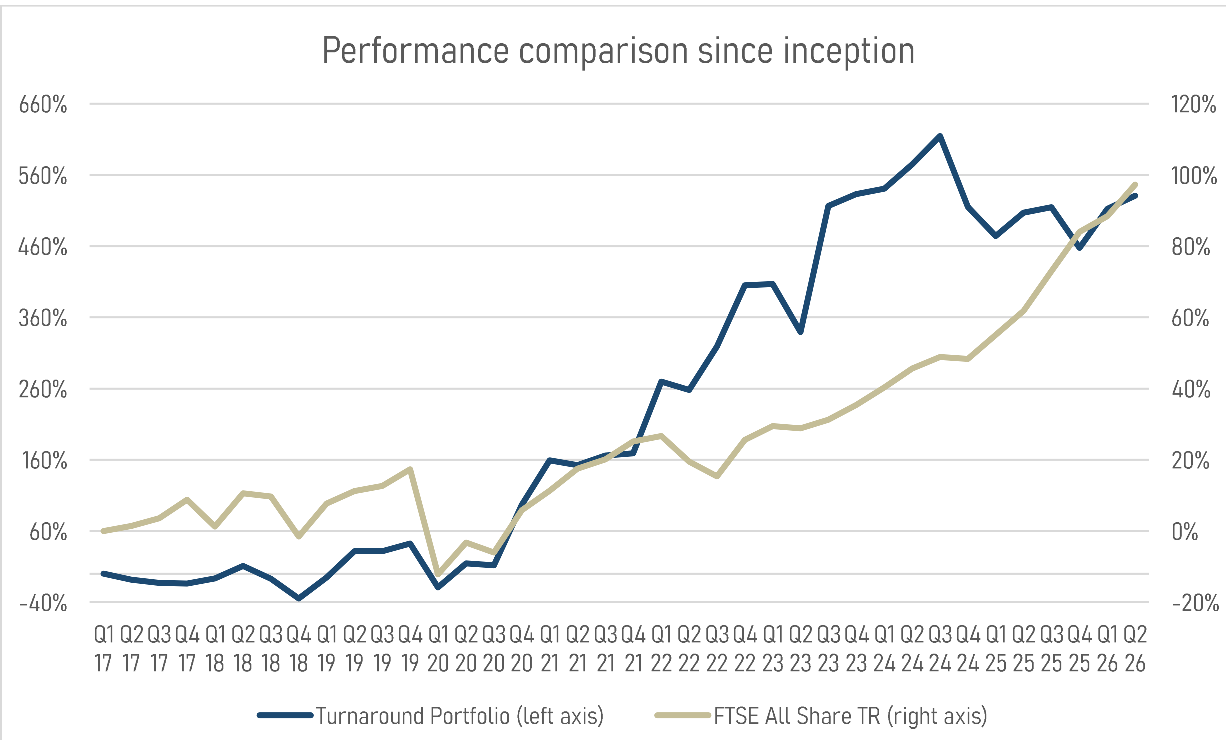
Annual Performance	Turnaround Portfolio	FTSE All Share TR	S&P 500 TR	Nikkei 225 TR
2017	-9%	9%	15%	22%
2018	-31%	-9%	-5%	-6%
2019	113%	19%	31%	13%
2020	52%	-10%	18%	46%
2021	37%	18%	30%	0%
2022	99%	0%	-18%	-5%
2023	26%	8%	26%	21%
2024	-1%	10%	25%	0%
2025	-10%	24%	18%	43%
2026 H1	13%	7%	10%	40%

Overall Performance	Turnaround Portfolio	FTSE All Share TR	S&P 500 TR	Nikkei 225 TR
CAGR	**21.4%**	**7.4%**	**14.7%**	**16.9%**
2017-2026 H1 Return	**531%**	**97%**	**269%**	**342%**

For professional clients - Past performance is not a guide to future performance



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5th July 2026

Dear Investor,

What a quarter this has been. From the largest energy crisis in history, one of the steepest profit jumps in semiconductors, to a market of energy abundance and an Iran that appears to come out of this conflict strengthened. Back at the end of May/beginning of June, I believed that energy was a solid investment with very limited downside. But it was the technicals that led me to question this belief and by following Trump closely and with the help of our best friend, Claude[2], I realized I was wrong. The US blockade was indeed more successful than the thousands of bombs dropped and led Iran to making a deal. But equally so, as Trump once said, "Iran never won a war, but always won in negotiation"[3]. **My view for the current quarter is that the semiconductor rally has peaked, European gas prices could surge higher, and the software sell-off might have bottomed out.** Below I'll go into a few more details and then provide a summary of this quarter's performance. I'll keep it a bit shorter than usual though.

I've stayed in cash for most of the month of June, mostly because the technicals do not look supportive. Given the recent volatility, I've launched a new subscription called "Deep Value Opportunities in a 2-stock portfolio" or "DVO2" (link here). This will give you a live view of my portfolio, which at best times is a 2-stock portfolio. A subscription gives you position changes within a few hours after taking or cutting the position (I'm still trialing this for now as a beta version).

Please also find a refreshed presentation (here) and I've also changed my "slogan" from "love the business we invest in, but don't fall in love with the business" to "matching macro with micro". I'm updating this slide deck every time I see a big change in the macro (latest thoughts here, which focuses on why I believe commodity prices will continue to fall).

I'm progressing slowly towards a shift to Japanese and Asian equities, already met with over 15 Japanese listed companies, and have a key trip to China planned for next week, where over 5 nights I'll visit 8 companies in HK, Shenzhen, Shanghai and Beijing and signed up to 4 expos (copper, aluminium, magnesium and metal recycling) – a very packed schedule! The company list is very exciting and ranges from the largest and most important companies of China in the rare earths, robotics, AI, energy, internet, banks, car and device industries. By the end of this trip, I believe I should have a better view on the most

[2] https://claude.ai/share/01448388-0b5a-415f-8c67-e5ca95cd569c
[3] https://www.youtube.com/shorts/Wa4a0grzaA4

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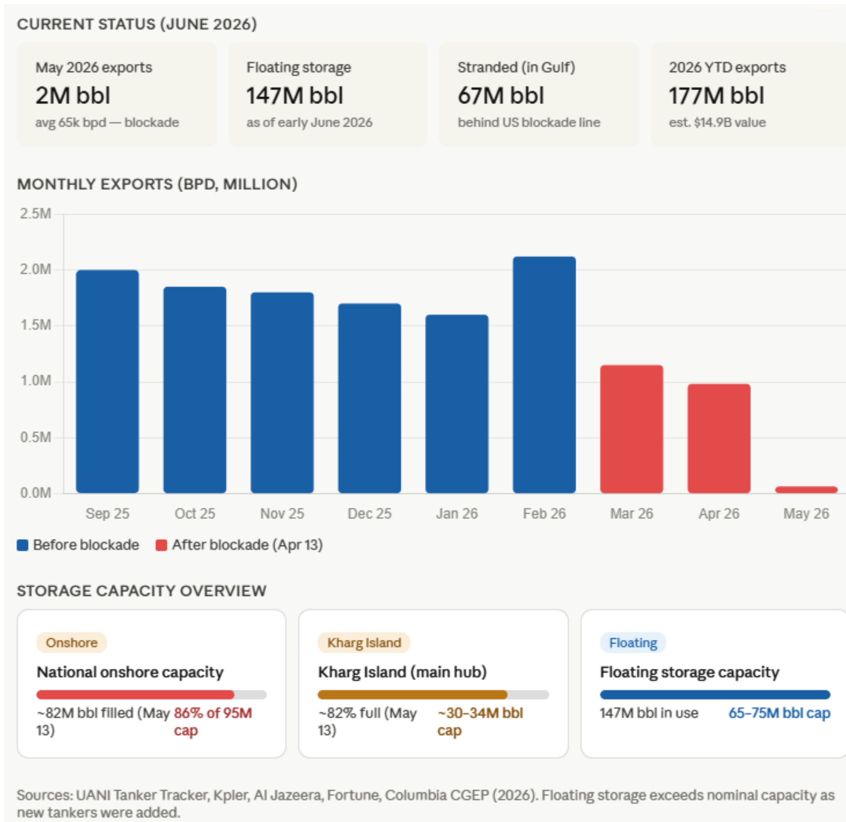
important industries, how China is doing economically and also whether one can invest in China or not, as some of these companies trade at quite attractive valuations.

By early June, Iran began to run out of oil storage space



Source: https://x.com/AozoraStep/status/2063964288793161994?s=20

The end of the semiconductor rally

After Micron Technology posted its blockbuster results, I was keen to take a position, as it became the most attractively valued semiconductor company based on forward earnings. However, the analysts for a large part remained skeptical, e.g. GS raised the target to $1,100 and kept a neutral rating noting prior "boom-bust cycles"[4]. This led me to verify a few things with Claude (full thread here) to understand how

[4] https://www.investing.com/news/analyst-ratings/goldman-sachs-raises-micron-stock-price-target-on-strong-results-93CH-4759746

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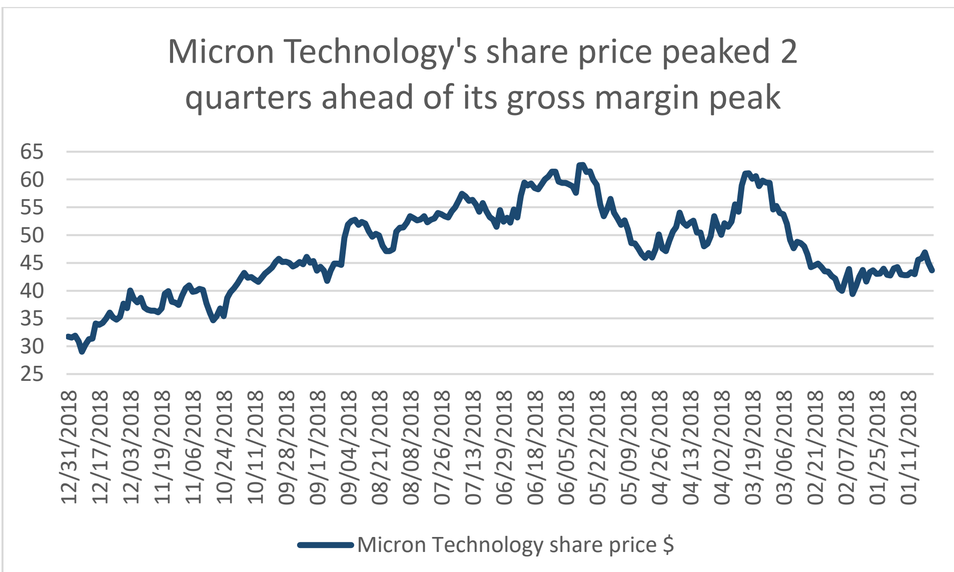
prior cycles played out. And the 2018 cycle is a great comparison, because gross margins peaked at 61% in FQ4 2018[5] (published 20th September 2018), but the stock already peaked out in late May 2018 and a year later the chip market was in oversupply, i.e. the stock market was 2 quarters ahead of fundamentals. Back then, Micron was trading at a 4.5x forward earnings ratio vs. 6.8x currently. For these reasons, and hearing that Apple is seeking Chinese chips[6], **I believe that the top in semiconductors might have already formed (given the 2018 analogy, I do expect another brief rally, but the return profile will likely be +20%/-40%)** – this is a somewhat speculative analysis though. Furthermore, when I met with the company Sharp in Tokyo at the end of May, I was shocked when they guided me towards -30% supply in smartphones this year due to the chip shortage. In preparation for the meeting with Xiaomi in Beijing next Friday, I also realized that they have cut their smartphone supply from 170m units in 2025 to 95m units[7] this year (-45%!). This is somewhat being underreported, but I believe it is the best early indicator for this bubble to burst. **Data centers will get more expensive next… we are facing a supply shock in everything that needs chips – cars, phones, computers, anything electronic.**



Source: https://www.investing.com/equities/micron-tech-historical-data

[5] https://investors.micron.com/news-releases/news-release-details/micron-technology-inc-reports-results-fourth-quarter-and-full-0
[6] https://www.bloomberg.com/news/articles/2026-07-01/apple-seeks-to-buy-chinese-made-memory-chips-with-lobbying-push
[7] https://asia.nikkei.com/business/technology/china-s-xiaomi-oppo-vivo-cut-2026-smartphone-targets-again-sources

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Semiconductor cycle comparison

Dimension	2017-18 cycle	Current (2025-26) cycle
Primary demand driver	Cloud servers + rising smartphone DRAM content; 3D NAND transition	AI accelerators / HBM, hyperscaler capex
Nature of demand	Bounded by human device endpoints	Compute-bound; a source that barely existed before 2023
Why supply is tight	Demand outran supply (classic shortage)	Deliberate reallocation of wafers to HBM, starving commodity DRAM
DRAM price move	~90% over the cycle; retail RAM roughly doubled	~170% in a year; ~275-300% projected 2025→2027
Micron peak quarterly revenue	~$8.4B	~$41.5B (Q3 FY26), guiding ~$50B
Micron peak gross margin	~59%	~85%, guiding ~86%
Tightest inventory	3-4 weeks	~8 weeks
Industry bit-supply growth	40-60% at the peak	~16-20%
Memory as share of global semis	~25-30% (normal)	~55-58% in 2026
How it ended	2019 glut: Micron revenue −23%, margin to ~30%, stock −56%	Not yet — peak widely seen as 2027+

Source: https://claude.ai/share/56df0457-7c1e-46be-ba59-67a02ee1851d

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European gas in storage at similar levels to 2021

European gas in storage is currently at the lowest level at this time of the year since 2021. At the same time, the month-on-month growth is slightly slower than in 2021 (+95 TWh vs. +108 TWh in 2021). Back in 2021, it took up until August before gas prices really took off as per chart below. Since 2021, 345GW of solar and wind energy has been installed in the EU[8], which is equivalent to ~507 TWh of energy in a year given a capacity factor (= % of time energy is generated) of 11% for solar, 23% for onshore wind and 36% for offshore wind[9]. Over the same time period, nuclear power generation was cut by -99 TWh, coal power generation was cut by -166 TWh, gas-fired generation down by -93 TWh. Given that electricity demand is down -136 TWh since 2021, we have -494 TWh of combined decline of fossil fuel power generation supply and a decline in demand vs. ~507 TWh of renewable energy increase. I.e. despite the 2022 energy crisis, Europe has not increased its own energy supply as a result of it. Total gas demand all sectors incl. heating is down -640 TWh, which is likely partly due to the chemical sector closing down plants after the energy shock in 2022 and other measures taken to reduce energy demand – although demand is recovering lately[10]. Furthermore, we have a potentially very strong El Nino year[11], which can lead to both extreme heat in the summer and extreme cold in the winter in Europe[12]. **My view remains that the Strait of Hormuz[13] won't open fully (resemble that of Bab El Mandeb strait[14] largely due to high insurance costs[15]), and when we are approaching end July/August as the ships are having to go back into the Strait (consider 6 weeks of travelling to and from Asia[16]), this could be the time the market rerates for higher LNG prices with LNG tankers staying in high demand.**

[8] https://www.solarpowereurope.org/press-releases/new-report-eu-hits-2025-solar-target-but-market-contraction-puts-2030-goal-at-risk, https://windeurope.org/data/products/wind-energy-in-europe-2025-statistics-and-the-outlook-for-2026-2030/
[9] https://www.bruegel.org/dataset/eu-renewables-value-tracker
[10] European natural gas demand tracker
[11] https://www.noaa.gov/news-release/el-nino-forms-expected-to-strengthen-say-noaa-forecasters
[12] https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/potentially-historic-el-nino-come-analysis-shows-humanitarian-toll-2026-06-15_en
[13] https://portwatch.imf.org/pages/chokepoint6
[14] https://portwatch.imf.org/pages/6b1814d64903461b98144a6cc25eb79c
[15] https://claude.ai/share/2a333bcd-b3e7-4fb2-b407-036e15763291
[16] https://claude.ai/share/36fec5ac-7ddf-4110-9e61-7b0a6adc0b07

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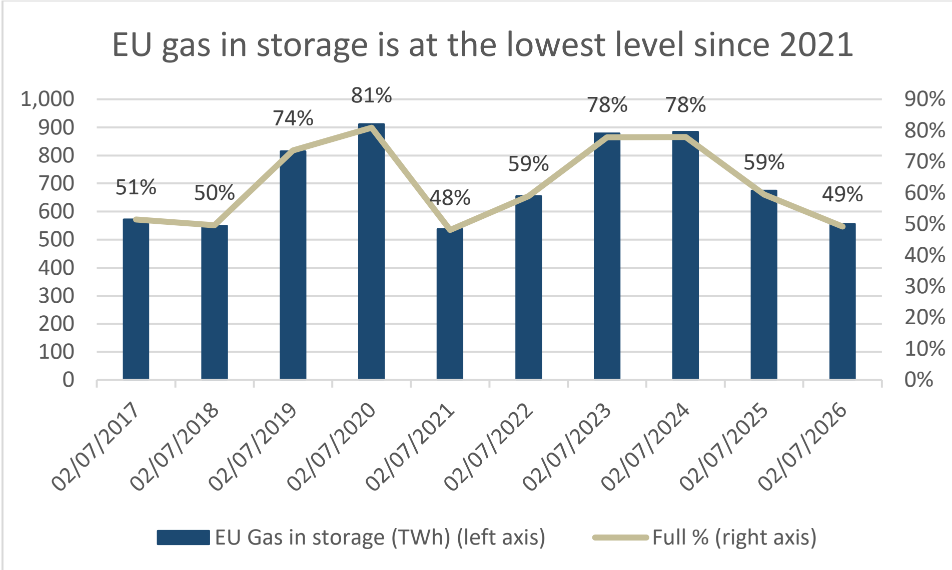

Source: AGSI

Monthly gas in storage growth between June and July was 108 TWh in 2021 vs. only 95 TWh in 2026

Germany's gas in storage levels are identical to 2021

Month	Sum of Full (%)	Sum of Gas in storage (TWh)
2020-07-03	89.2	218
2021-07-03	42.2	104
2022-07-03	62.2	151
2023-07-03	81.0	203
2024-07-03	82.2	203
2025-07-03	51.3	127
2026-07-03	42.2	104

Source: AGSI

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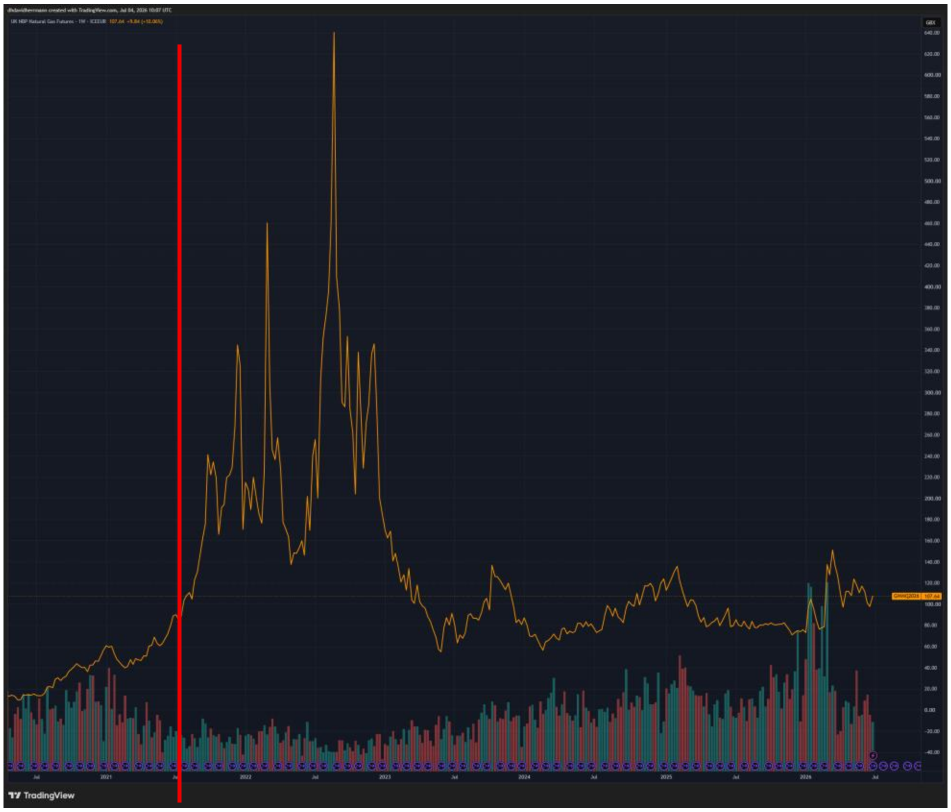
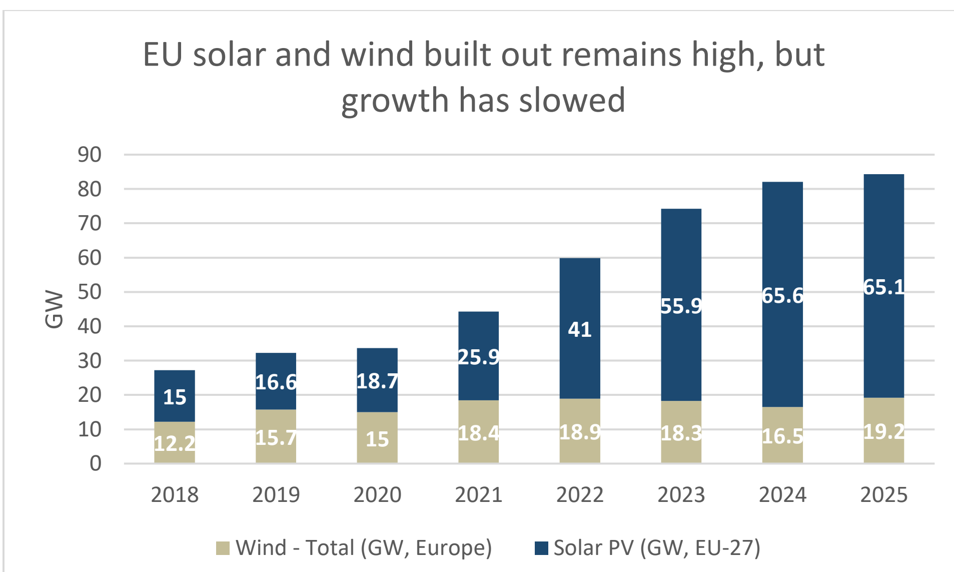
European natural gas prices spiked already in 2021 – ahead of the 2022 energy crisis



Source: Tradingview, red bar = early July 2021 (equivalent of today given similar gas inventory levels)



Source: https://www.solarpowereurope.org/press-releases/new-report-eu-hits-2025-solar-target-but-market-contraction-puts-2030-goal-at-risk, https://windeurope.org/data/products/wind-energy-in-europe-2025-statistics-and-the-outlook-for-2026-2030/

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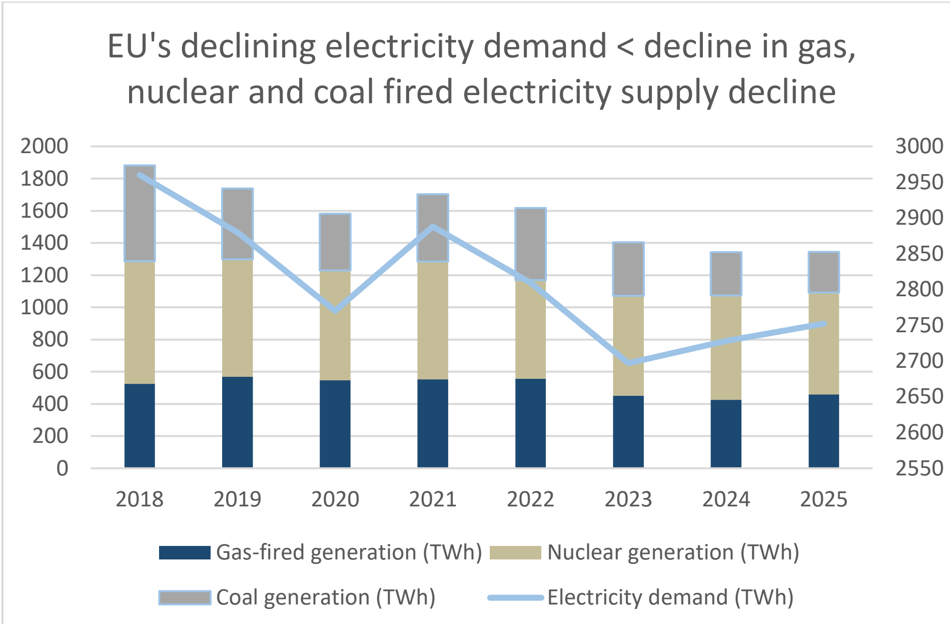

Source: https://ember-energy.org/latest-insights/european-electricity-review-2026/, https://reglobal.org/renewables-replace-costly-gas-instead-of-dirtier-coal-in-europe-ember/

Performance[17]

The biggest contributor to performance was Synthomer with a return of 28%. Despite initial gains, Diversified Energy ended up costing the portfolio around -2% over the half year. Other names like Harbour Energy, Jadestone Energy, Serica Energy and Profrac were all up/down in low or mid-single digits. Ultimately, around half of the gains generated through early May were given up later amidst Trump's continuous claims of a deal being finalized.

[17] all assumptions and observations are based on internal modelling and data analysis. Past performance is not a guide to future performance

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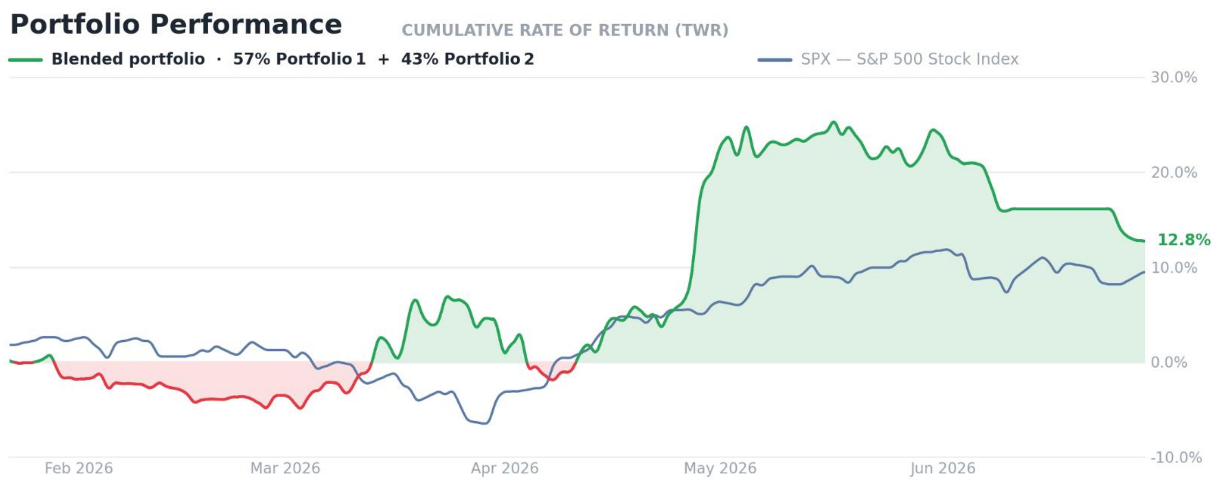
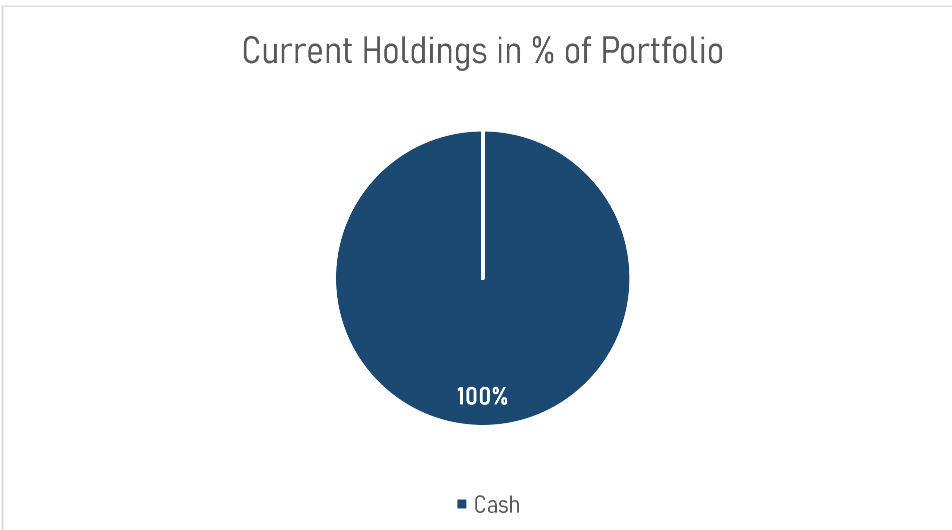
Year-to-date performance





As of 30th June 2026

Outlook

Given the upcoming China trip (which was not quite easy to plan!) and the portfolio being entirely in cash, this quarterly note is shorter than usual. I also do not have very high convictions at the moment. The European gas idea is a bit hard to execute, as oil prices could drop further into the Midterms. The technicals don't look supportive enough yet either. I briefly held a position in Telecom Plus (TEP) after their 25% drop following their record 5yr investment plan announcement, but on a group call with management the CEO gave a somewhat shocking performance. Management clearly did not expect such a negative market reaction. However, they have bought a lot of shares themselves after the drop and if gas prices in Europe indeed spike, Telecom Plus generally benefits. I generally try to stay out of UK domestic firms amidst the political instability though.

On the Japanese equities side, from the ~15 firms I've met, I thought Mitsui is a fantastic company with great people, but I view the fundamentals on iron ore as shaky, which is a significant part of their business. The one firm that I consider taking a position in is System Support Holdings (4396) (a 2nd derivative of ServiceNow (NOW)) – a quality company that continues to grow and has a first-mover advantage in selling ServiceNow services into the Japanese market. Unlike ServiceNow, System Support Holdings has no shareholder dilution, trades at low multiples, and according to management ServiceNow continues to see strong demand in Japan. The Anthropic shock early in the year should hence subside. The only caveat is that the technicals still don't look attractive enough.

Why do I talk so much about technicals suddenly? I have always been a big believer in technicals (i.e. charts), as they show you a trend (let the trend be your friend!) and especially for turnarounds and pivot points the charts need to be supportive on top of attractive valuations and aligning macro. **But recently, almost every chart I look at is bearish, from metals, big tech to energy, bitcoin, etc. (here). This can change quickly, but a selloff in bitcoin generally comes with a market decline.**

The technical support for bitcoin is as low as $30k

Source: TradingView, Claude

Sincerely,

David Herrmann

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