TARENO
Independent Wealth & Asset Manager

Tareno View

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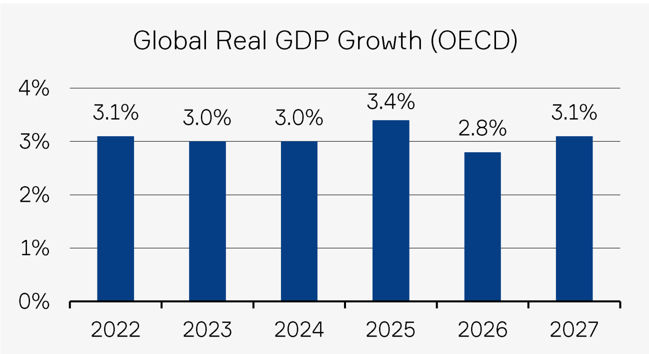
AI in the Portfolio: Seizing Opportunities, Managing Risks

Artificial intelligence has long been more than just a technological topic. It has become one of the most important drivers of growth in the global economy and a dominant factor in the financial markets. But the greater its influence becomes, the more important it is to manage the associated portfolio risks. For investors, this is a balancing act: Those who do not invest are missing out on a rare structural opportunity. Those who blindly follow the index accept growing concentration risks. The AI allocation in the portfolio is increasingly becoming a central issue in strategic asset allocation. That is why, in this Tareno View, we take a close look at the impact of AI on the economy and markets, as well as the right positioning within the portfolio.

Macroeconomic Environment

A Shock-Resilient Economy

In recent years, the global economy has weathered more shocks than many economic models believed it could withstand: supply chain disruptions, the war in Ukraine, a surge in inflation, record-high interest rates, banking stress, China's real estate crisis, U.S. tariffs, and energy price shocks. Nevertheless, the global economy has been growing at a rate of around 3% per year since 2022.



Even the most recent energy price shock surrounding the Strait of Hormuz failed to derail the global economy. Although the situation remains fragile, the price of oil has fallen significantly again. Strategic reserves, alternative supply routes, higher production outside the directly affected region, and lower energy intensity are keeping the impact in check.

Where does this remarkable resilience come from? In our view, two structural tailwinds are at play — ones we have been emphasizing for some time — and which have given us the confidence to remain invested within our respective risk profiles during market pullbacks.

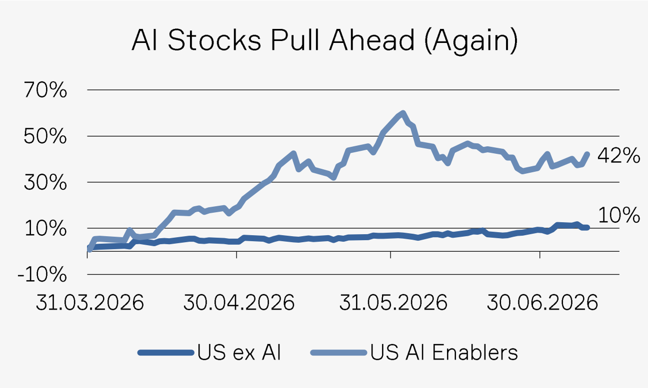
First, the government remains a powerful pillar of the economy. The U.S., China, and Europe are propping up their economies amid competition among the major blocs through investment programs, tax breaks, industrial policy, and defense spending. In the U.S., fiscal policy recently accounted for nearly half of the contribution to growth. This is not a clean foundation, but it is an effective one.

Second, the multi-year expansion of AI is driving an investment cycle of historic proportions. Rising demand for AI applications is leading to extensive investments in data centers, semiconductors, power grids, and software. As a result, AI has long been a driver of the real economy with a tangible contribution to economic growth.

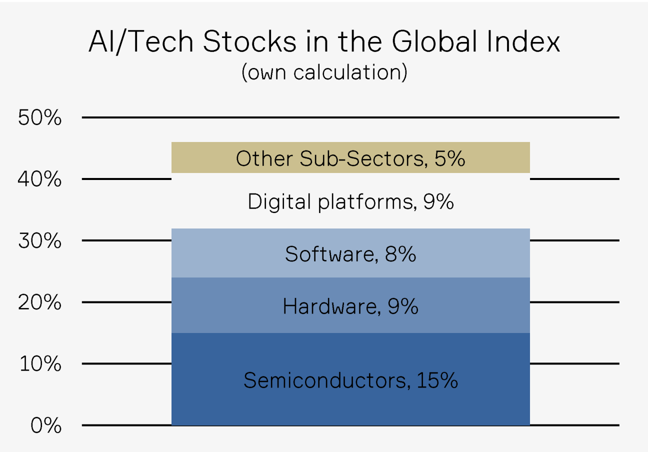
The pillars of growth — fiscal policy and AI — will remain intact for the foreseeable future and thus continue to form a solid foundation for global growth. At the same time, two headwinds from recent months are subsiding: the oil price shock and the burden of U.S. tariffs. This improves the outlook for consumers and businesses in the second half of the year.

AI Dominates

The two growth engines of the real economy — government spending and AI expansion — are increasingly shaping the financial markets as well. In the past quarter, the AI sector was once again responsible for a large portion of global price gains.



Since AI-related companies have significantly outperformed the broader market in recent years, their share of the total market has risen from about a quarter to nearly half. This trend is particularly pronounced in semiconductors and hardware. The semiconductor segment alone now accounts for about 15% of the global index. This has significant implications for investors.



First, concentration risk is increasing. Many index-tracking portfolios are now more dependent on AI, technology, and the U.S. than it appears at first glance. What is marketed as broad global diversification often contains a concentrated bet on just a few business models.

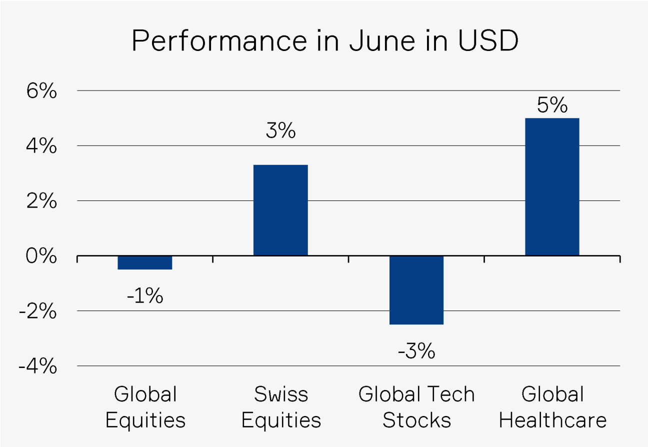
Second, volatility is increasing. When capital flows in semiconductors and AI infrastructure shift, it's not just a basket of themes that moves — it's the entire market. This makes the market more vulnerable to valuation debates, earnings disappointments, and delays in realizing AI's productivity promise.

Market Leadership in Motion

A countertrend began in early June. Capital has flowed out of the most obvious winners of AI infrastructure expansion into other market sectors, and the technology sector — particularly the overheated semiconductor industry — has entered a consolidation phase. At the same time, healthcare, industrials, financials, and consumer staples have gained relative strength. We see a good chance that this broader market trend will continue.

The future course will depend heavily on adjustments to earnings expectations. Growth in the technology sector is likely to remain high, but the base effect will pose a greater challenge. In the rest of the market, however, earnings are likely to regain momentum.

This also brings the Swiss stock market back into the spotlight. The SMI, with Nestlé, Novartis, and Roche, has recently benefited from the return of defensive quality and was among the stronger indices in June.

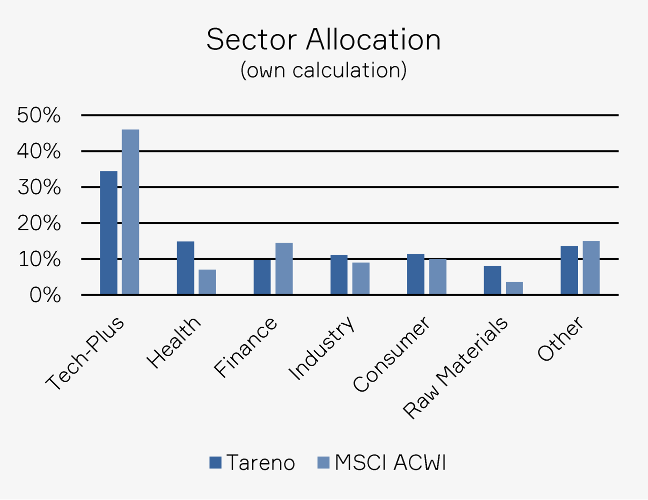


Pacing AI

Artificial intelligence will profoundly transform the economy and society. The multi-year expansion of AI infrastructure represents an investment opportunity of the kind that arises only once every few decades. We want to remain invested in this trend. At the same time, with every further rise in prices, the influence of this theme on the overall market increases. The decisive question, therefore, is not whether AI belongs in the portfolio. The decisive question is how much AI a portfolio should contain.

Step 1: Measure Risks

How much AI is in the portfolio? This question is more difficult than it sounds. AI is not a clearly defined sector. Semiconductors, hardware, software, the cloud, digital platforms, and power infrastructure are all part of the value chain. According to a broad definition and our own calculations, AI and technology-related stocks in the MSCI ACWI now account for about 46% of the stock market. In our Classic portfolios, this weighting is around one-third of the equity holdings — and is thus deliberately lower.



We consider this weighting to be reasonable. It allows us to participate in the long-term AI trend without making the portfolio entirely dependent on the future course of a single investment wave.

Step 2: Manage Risks

Over the past two months, we have taken profits on several occasions in stocks that have benefited significantly from AI and have actively reduced our allocation. In such market phases, we view rebalancing not as an administrative task, but as a key factor for success. It forces us to maintain discipline when euphoria is at its peak.

Step 3: Diversify Risks

In addition to regular rebalancing, we deliberately focus on investments that do not move exclusively in step with the AI investment cycle. At the asset allocation level, these include core infrastructure, short-term bonds, gold, and cryptocurrencies. Within the equity allocation, we also favor defensive sectors, water, small-cap stocks, and markets with lower AI concentration, such as Europe, the United Kingdom, and Japan.

The composition within the technology sector is also important. The major indices are heavily dominated by semiconductors and hardware. Our allocation is deliberately broader. This allows the portfolio to participate in technological change without taking on overly large individual bets.

Conclusion

Artificial intelligence remains a structural growth driver in which we want to participate over the long term. However, as its importance to the economy and financial markets grows, so does the responsibility to manage and moderate this exposure in a targeted manner.

Our approach: participate in long-term potential, discipline-ly reduce overexposure, and structure portfolios so that they remain robust even as market leadership shifts.

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