

THE FELIX MARKET UPDATE



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THE BRIEF

Time to walk the *walk*.

Companies have been making promises and issuing positive news over the past months, and markets have been pricing these stories. Now that it's quarterly earnings season, we get to take a look at the evidence — while we still can, at least. One story that has gotten little attention (apparently there are other topics people would rather talk about) is the SEC's proposal to move away from quarterly earnings reporting, which more and more companies are backing.

AI capex, consumer resilience, bank deal pipelines and corporate margins are all moving into the same frame: **proof**. It is no longer enough to say demand is strong, AI spending will pay back, or the consumer is holding up. Investors need to see it in revenue, margins, guidance and cash flow, now more than ever, because not all parts of the trade are holding up as well as they did some time ago.

Remember the KOSPI? After reaching all-time highs in late June, it has since fallen 25% (as of the time of writing).

Our view is that this is a useful reset. The market is not necessarily turning risk-off, but it is becoming less tolerant of lazy optimism. The companies that can show real demand, pricing power and operating discipline should keep attracting capital. The companies relying mainly on narrative may find the next few weeks less forgiving.

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Macro

The macro backdrop, theme by theme — and our read.

FACTOR / THEME	OUR READ
Oil / Iran risk	Oil has not disappeared as a macro risk. Any renewed pressure on supply or shipping routes can quickly feed back into inflation expectations, central-bank pricing and consumer margins. The latest U.S. strikes are a reminder that geopolitical risk can move from background noise to market input very quickly.
NATO / Defence spending	The emotional read is instability. The fundamental read is higher European defence spending, more focus on capability, and a broader definition of national and European security.
Inflation	US CPI and PPI are the cleanest macro tests this week. The market can live with slower growth if inflation is cooling. It becomes harder if inflation stays sticky while earnings are being tested. The Fed's latest report already flagged stepped-up inflation pressure from tariffs, the Iran war and AI-related investment.
AI capex	AI investment is still supporting growth, but the market is starting to ask whether the spending is productive, inflationary, or both. The next phase is about showing credible returns on capital.
U.S. equities	The market is not ignoring risk, but it is still willing to look through it when earnings and AI fundamentals remain supportive. The next test is whether results can justify the valuation move.
Global M&A pulse	The deal market is reopening, but it is not indiscriminate. The strongest activity is where buyers can point to scale, strategic necessity, defence exposure, AI infrastructure relevance, healthcare durability or portfolio simplification.

Public markets

NAME / THEME	WHAT HAPPENED
• AI equities / Semiconductors	Hedge funds continued to cut exposure to chip and tech hardware stocks for a fourth consecutive week, reflecting concern around crowded AI trades and the timing of returns on AI capex.
OUR READ	
	This is not the end of the AI trade. It is the market becoming more selective. Exposure alone is no longer enough; investors want evidence of demand, margin and payback.
• SK Hynix / AI memory	SK Hynix launched a major U.S. share sale through Nasdaq ADRs, raising capital to expand chip factories and equipment capacity as demand for AI memory remains strong.
OUR READ	
	AI infrastructure is not just about GPUs. Memory, packaging, power and supply-chain bottlenecks are becoming investable themes in their own right.
• Delta / Travel demand	Delta reported strong revenue growth, with premium-seat revenue up materially, but profits were pressured by higher fuel costs. The company said it had passed on part, but not all, of the fuel cost increase to customers.
OUR READ	
	The consumer is still spending, especially at the premium end, but resilience is not costless. Travel demand looks healthy, but margins remain exposed to fuel and pricing elasticity.
• PepsiCo / Consumer staples	PepsiCo beat revenue expectations but warned of higher commodity costs and weaker North American food sales, with price cuts not yet fully restoring demand.
OUR READ	
	Staples are giving a more cautious consumer read. Pricing power is no longer automatic, and volumes matter again. This is a useful warning against assuming the consumer is simply "fine".

NAME / THEME	WHAT HAPPENED
• Sky / ITV	Comcast-owned Sky agreed to acquire ITV's media and entertainment business for up to £1.6bn, including ITV's broadcast channels and ITVX streaming platform.
OUR READ This is not a small broadcaster looking for shelter. It is a global media group strengthening its UK position. Combining distribution, audiences and digital inventory gives Sky more strategic control, although regulators are likely to examine the deal closely.	
• easyJet / Apollo / Castlelake	easyJet initially agreed in principle to Castlelake's £6.90 per share offer, but later moved to support Apollo's higher £7.15 per share proposal, valuing the airline at around £5.7bn.
OUR READ Airlines are operationally difficult, politically sensitive and cyclical, but underperformance, scarce airport slots and brand value can still attract large financial sponsors.	
• Novartis / Myricx Bio	Novartis agreed to acquire UK biotech Myricx Bio for up to \$1.5bn, including \$1.1bn upfront and up to \$0.4bn in milestone payments.
OUR READ Pharma M&A remains focused on platform depth and oncology differentiation. Antibody-drug conjugates are still one of the hottest areas in cancer treatment, but buyers are increasingly paying for scientific optionality rather than mature revenues.	
• Lockheed Martin / Ultra Maritime	Lockheed Martin agreed to acquire Ultra Maritime from Advent International for \$3.5bn, expanding its undersea and anti-submarine warfare capabilities.
OUR READ Defence M&A is moving where geopolitical risk is moving: undersea, autonomous, sensor-heavy and infrastructure-protection capabilities. This fits the broader NATO spending theme and the shift from platform procurement to capability resilience.	
• Thales / Exail Technologies	Thales agreed to acquire a controlling stake in Exail, valuing the underwater drone and maritime robotics group at €3.9bn.
OUR READ Underwater drone warfare is becoming a strategic category. The market is waking up to the fact that subsea infrastructure, ports, cables and energy routes are now security assets, not just industrial assets.	
• Solstice Advanced Materials / Element Solutions	Solstice Advanced Materials agreed to acquire Element Solutions in a cash-and-stock transaction valued at around \$14.5bn including debt.
OUR READ The AI infrastructure trade is spreading into less obvious areas: specialty materials, electronics chemistry, thermal management and data-centre supply chains. The picks-and-shovels story is no longer just chips and servers.	
• Paramount / Warner Bros. Discovery	Paramount's \$110bn Warner Bros. Discovery acquisition faced fresh U.S. state-level scrutiny, with potential legal challenges and an extended closing timeline.
OUR READ Mega-media consolidation is still strategically rational, but politically fragile. The bigger the deal, the more it becomes a regulatory, labour and public-interest story, not just an industrial logic story.	
• Warburg Pincus / PANTHERx Rare	Warburg Pincus was reported to be nearing a deal to acquire specialty pharmacy business PANTHERx Rare for more than \$7.0bn including debt.
OUR READ Private equity is back in size where cash flows are visible and healthcare demand is structurally supported. Specialty pharmacy is not glamorous, but rare disease distribution has the kind of defensible complexity sponsors like.	

Staying Diligent

Things we are watching this week: 13-17 July 2026.

- **U.S. CPI** The week's cleanest macro test. A soft print gives markets room to keep believing in rate relief. A hot print makes the "earnings season is the lie detector" theme even sharper, because valuations would need to survive both higher prices and less policy flexibility.
- **U.S. PPI** Producer prices matter because they show whether inflation pressure is still sitting inside corporate cost bases. If input costs stay sticky, margins become harder to defend.
- **Retail sales** The consumer is still the market's favourite argument for resilience. Retail sales will help show whether spending is genuinely healthy, or whether households are simply paying more for the same basket.
- **Big U.S. banks** JPMorgan, Goldman Sachs, Citi, Bank of America, Wells Fargo and Morgan Stanley will give the first proper read on trading, investment banking, credit quality and deal pipelines. If bank commentary is strong, the M&A recovery becomes easier to believe.
- **TSMC and ASML** The most important AI infrastructure read-throughs of the week. Investors will look for evidence that semiconductor demand remains strong enough to justify the capex cycle, not just the narrative around it.
- **BlackRock** Watch flows. BlackRock is a useful window into where capital is moving: equities, fixed income, private markets, cash or alternatives. In a market debating risk appetite, flows matter.
- **Fed testimony** Markets will listen for any shift in tone on inflation, labour-market cooling and growth. The Beige Book should also give a more grounded view of regional business conditions than the headline index moves.
- **China data** Important for global demand, industrial sentiment and AI hardware supply chains. Any weakness would matter for cyclical, exporters and the wider global growth narrative.
- **Oil and Iran** Geopolitical risk has not disappeared. The renewed tension around Iran could have significant impacts on oil supply or shipping routes, with implications for inflation expectations and central-bank pricing.
- **Mansion House speech** Worth watching for UK financial services, especially if policy support for AI adoption, capital markets reform or growth investment becomes more concrete.
- **AI equity breadth** The market needs to show whether AI strength is broadening or narrowing. If only the highest-quality names hold up while second-tier AI beneficiaries weaken, the market is becoming more selective rather than simply more bullish.

Unhedged Commentary

Fear is not a framework



An illustration for "fear is not a framework".

The NATO summit in Ankara gave markets mixed signals: on one hand, noise and uncertainty; on the other, stronger fundamentals for security spending.

There was plenty to worry about on the surface. Trump arrived with familiar pressure on European defence spending. Allies were anxious about U.S. reliability. Ukraine remained central. Russia was watching. Turkey, as host, sat at the intersection of NATO politics, Black Sea security, the Middle East and its own complicated relationship with the West.

It would be easy to read the whole thing emotionally: NATO is divided, America is unpredictable, Europe is exposed, Russia is waiting, markets should be nervous.

The more useful read is underneath the noise. NATO did not collapse. Article 5 was reaffirmed. Ukraine received further political and military support. Europe is still moving towards higher defence spending. The defence-industrial base is becoming a larger policy priority. Turkey's role inside the alliance remains complicated, but strategically important. The direction of travel is towards higher security spending.

That matters for investors because fear and fundamentals often move at different speeds. Fear prices the headline. Fundamentals price the follow-through.

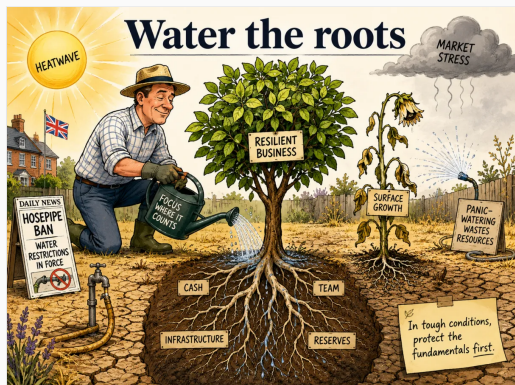
The headline could be instability. The fundamental is that Europe is structurally underinvested in defence, logistics, cyber, air defence, munitions, energy security and critical infrastructure. The headline is Trump saying something unpredictable. The fundamental is that European governments are being pushed, politically and strategically, towards higher defence capability regardless of who sits in the White House.

That does not mean every defence stock is cheap. It does not mean every budget promise becomes real spending. It does not mean Europe can rebuild industrial capacity overnight. There will be procurement delays, political pushback, fiscal pressure and plenty of waste.

But the investment question is not whether the NATO meeting felt calm. The investment question is whether the underlying direction changed.

Our view: the meeting confirmed a messy but durable shift. Europe is being forced to take security more seriously. Defence spending is becoming less discretionary. Supply chains, energy systems, cyber resilience and infrastructure are becoming

In Other News



A hosepipe ban, and a lesson in resource allocation.

Water the roots

Britain is hot and dry this summer and, in some places, people are already being told to put the hosepipe away. Water restrictions are now part of the summer conversation again. The garden has become a small domestic version of a much bigger resource-allocation problem: when conditions get harder, you cannot keep treating water as unlimited.

The instinct in a heatwave is often to panic-water everything. That is usually the wrong move. The better approach is more selective: water early, water deeply, aim at the roots, move vulnerable pots into shade, stop feeding plants that are already stressed, and accept that the lawn may need to look ugly for a while. The point is not to keep every leaf looking perfect. The point is to keep the system alive.

There is a business lesson hiding in this. When the environment gets tougher, weak systems expose themselves quickly. Plants with shallow roots suffer first. Businesses with shallow foundations do the same. If cash is wasted on surface-level growth, if teams are stretched too thin, if infrastructure is fragile, or if management only reacts once things start wilting, the damage compounds fast.

Good operators, like good gardeners, do not wait for the heatwave to start before thinking about resilience. They build deeper roots, protect what matters, cut back what drains resources, and keep enough water in reserve for when conditions turn hostile.

The lawn can come back. Dead roots usually do not.

The Thinking Corner

When the market starts asking for proof, which companies are actually ready to show it, and which ones have only been borrowing confidence from the theme?

FROM THE FELIX VIEW

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