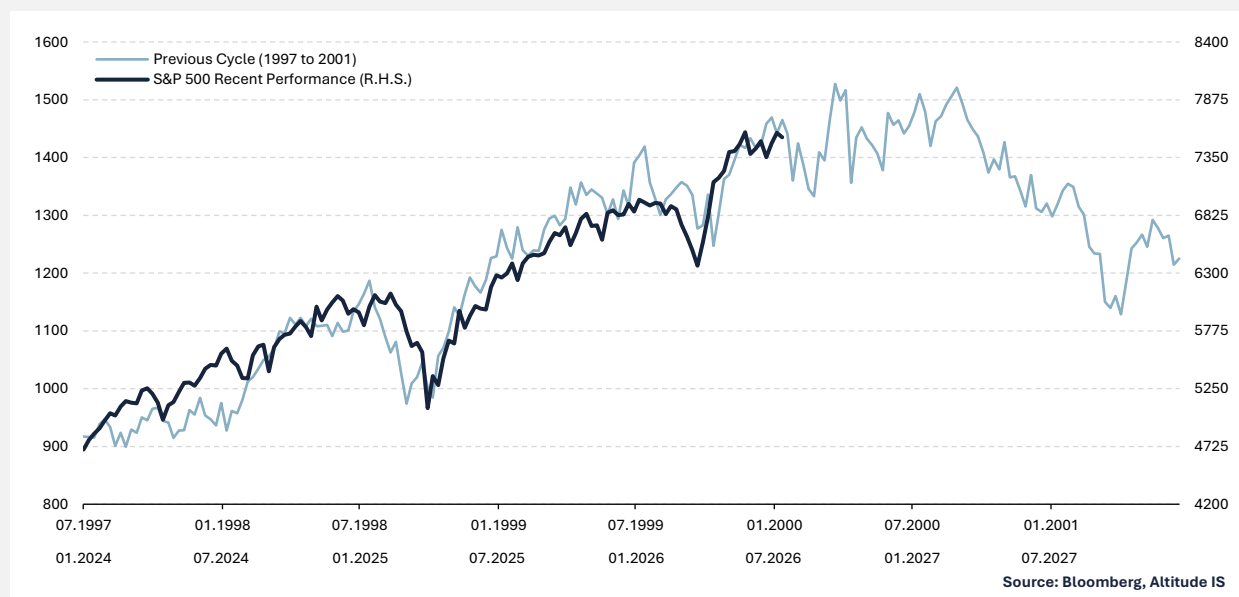


The flexiweekly that reaches new heights - published on 27 July 2026

"BEING RIGHT AGAINST THE CONSENSUS MEANS BEING WRONG!"

- The US market is following a trajectory that bears a striking resemblance to that of 1999
- Investors fear a new financial bubble, but none dare to sell
- Game theory reveals why being right on your own isn't profitable
- Given this risk, index hedges appear very cheap

CHART OF THE WEEK: "Bubble or no bubble, the pattern is very similar"



FINANCIAL MARKETS ANALYSIS

Young investors – those who still have their stock market future ahead of them – are also the ones with the greatest neural plasticity. They **often wonder about the recent rise in the markets and how it resembles the dot-com bubble. They also seek to understand what major event ultimately caused it to burst.** These are pertinent questions, and the debates seeking to answer them are even more interesting. Yes, the resemblance to the late 1990s is unsettling (see Chart of the Week). However, at that time, the financial bubble eventually deflated without bursting. No major event triggered this phenomenon. In 2000, the stock markets had stabilised and then, in the absence of additional investors, had fallen slowly before accelerating their decline amid the panic of 2001 and 2002. They had then produced a few 'bull



traps’ – those temporary rebounds that trap investors seeking to return to the markets too soon. During the capitulation phase, as fear took hold, nobody wanted to invest in shares. It mattered little that valuations had become incredibly attractive. The correction therefore lasted a long time – more than two years – until it became excessive, before the markets hit their low point in March 2003. **To understand how a bubble can form and deflate without bursting, it is sometimes useful to set aside historical comparisons – and even step away from the trading floors – and delve into the fascinating world of behavioural economics.**

Game theory is a misleading name, as investing is anything but a game. It is about preserving and growing savings – often hard-earned – so that they can be used to finance future projects. This branch of economics simply refers to a mathematical framework that studies and quantifies decisions whose outcome depends on the choices of others. It is useful to experimental economics, which analyses the effects of psychological, cognitive, emotional, cultural and social factors on economic decisions. Stock markets are a perfect ‘playing field’, as millions of market participants buy and sell whilst anticipating what others will do.

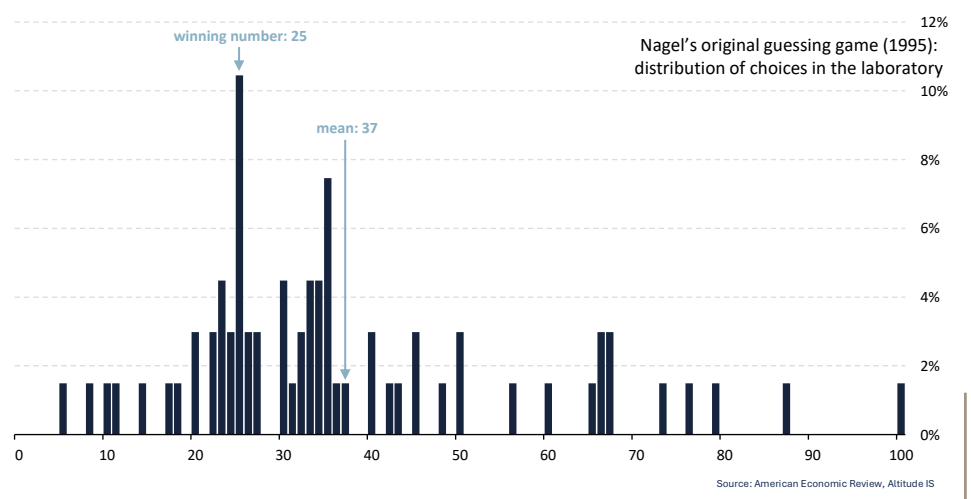
Economists know that a choice is never good in absolute terms. It is only good in relation to the choices of others. John Maynard Keynes understood this as early as 1936. In his General Theory, he compares the stock market to the beauty contests organised by London newspapers at the time. Readers were asked to select the six most attractive faces from around a hundred photographs (see Fig. 2), with the winner being the person whose selection most closely matched the average choice of the other participants. The winning strategy, therefore, was not to vote for the faces one personally found attractive, nor even for those the average person found attractive, but to ‘anticipate what the average opinion thought the average opinion would be’. One had to anticipate expectations. **Applied to the financial markets, a good investor does not necessarily buy the security they consider to be undervalued; they must buy the one that others will buy.**

Fig. 2 – Poster for a beauty contest



Source: Washington Times, Altitude IS

Fig. 3 – Nagel’s laboratory experiment



For sixty years, Keynes’s brilliant insight remained unverifiable, as one cannot measure expectations of expectations using newspaper photographs. A German economist, Rosemarie Nagel, brought it into the laboratory in 1995, replacing the faces with numbers. The rules of her experiment can be summarised in a single line. **Each participant chooses a number between 0 and 100, and the winner is the person whose choice comes closest to two-thirds of the average of all choices.** Aiming for the average amounts by guessing what others will choose; aiming for two-thirds of the average amounts by guessing what



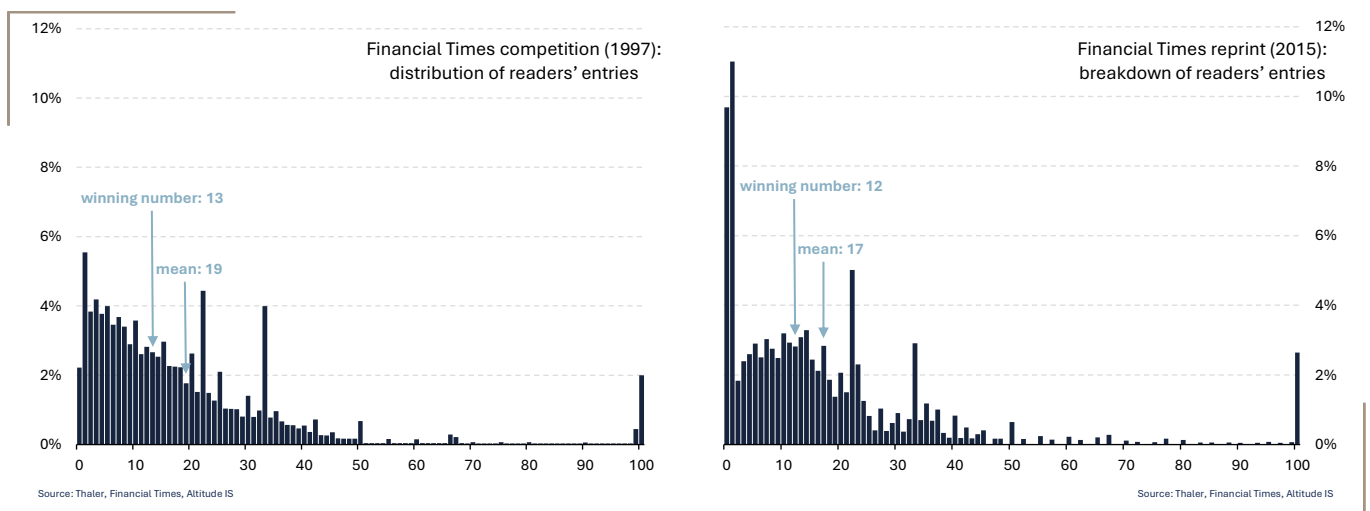
others will guess – exactly the nested structure described by Keynes. Better still, the setup offers a level of transparency that the stock market will never provide. In game theory, the rules are known to all, information is perfect and chance plays no part. If players fail under these ideal conditions, the limitation does not therefore stem from a lack of information; it is caused by our human behaviour.

What does the theory say about this game? Since the average cannot exceed 100, two-thirds of that cannot exceed 67. It is therefore absurd to choose a higher figure. But if no one bids above 67, the target can no longer exceed 44, then 30, then 20, and so on. Step by step, this line of reasoning leads to the game's sole equilibrium (Nash equilibrium), namely zero. **If all participants are perfectly rational and know that the others are too, they should choose zero.** The theory is crystal clear, elegant and unequivocal... but contradicted by experience.

In the laboratory, the average choice is around 37, never zero (see Fig. 3). The responses cluster into distinctive thresholds. Those who guess close to 50 simply haven't thought it through, as applying the rule just once already leads to a lower figure. Those who aim for 33 cross a first threshold; they assume that others will choose at random, around 50, and take two-thirds of that. Those who aim for 22 add an extra layer of reasoning, and almost no one goes beyond that. The winning number, around 25 (two-thirds of the average), rewards those who guessed this balance, not the deepest thinkers. **Human beings therefore only go one or two levels deep in their reasoning about others, never to infinity.**

The 2017 Nobel Laureate in Economics, Richard Thaler, set the game for readers of the Financial Times in 1997, with thousands of participants well-versed in finance. The average fell to 19 and the winning number was 13 – more sophisticated than in the laboratory, but still a long way from zero (see Fig. 4). The British daily **repeated the experiment in 2015** and obtained a remarkably stable result: an average of 17 with a winning number of 12 (see Fig. 5). Eighteen years of learning had deepened the readers' thinking, without ever leading them to the equilibrium. Interestingly, some participants were able to identify the Nash equilibrium and answered 0 or 1, believing that everyone else would be as perceptive as they were. A large number also answered 22, thereby demonstrating second-level thinking. Finally, a few pranksters answered 99 or 100, with the aim of skewing the results.

Figs. 4 & 5 – Experiment with Financial Times readers, in 1997 and 2015



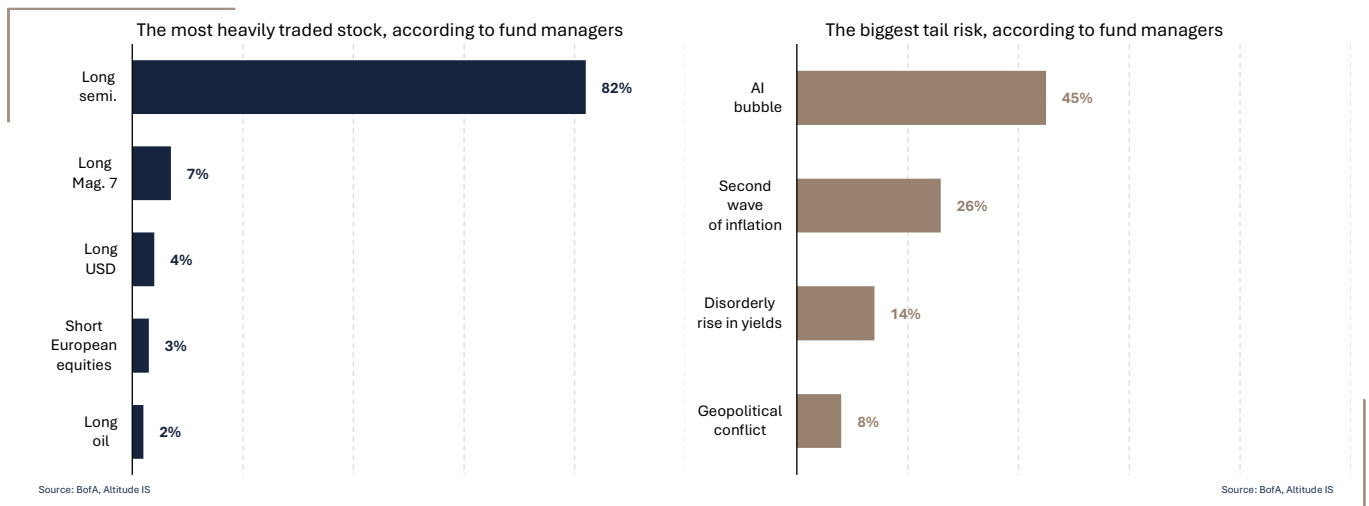
The lesson to be learnt from these experiments is worth emphasising, as it is counter-intuitive: being right in theory is of no use if the other players are not yet there. The perfectly rational participant – the



one who plays ‘zero’ – loses every time. To win, you need to be exactly one notch smarter than average – neither zero notches nor two. Applied to the financial markets, this rule explains why fundamental stock purists, who ignore crowd psychology, regularly go through long periods of confusion. **In the markets, there is no point in being right on your own;** otherwise, the penalty is the same as in the game: disappointment.

Reality provides a real-life demonstration of this game theory. A recent survey of 210 international fund managers, representing \$555 billion in assets, reveals a striking paradox. On the one hand, 82 per cent of the fund managers surveyed identified buying semiconductors as the most widespread market position – the most overwhelming consensus ever recorded by this survey (see Fig. 6). On the other hand, 45 per cent of the same managers cite the bursting of an artificial intelligence bubble as the primary extreme risk weighing on the markets (see Fig. 7). **They fear the bubble, yet they remain invested. Far from being irrational, this human behaviour perfectly reflects Keynes’s empirical analysis.** Fund managers do not assess their own views; they assess the anticipated behaviour of others. Selling today would be tantamount to betting on zero in the first round.

Figs. 6 & 7 – Fund managers’ positioning and the main extreme risk cited



The upcoming earnings season will provide further evidence to support this comparison. Every quarter, companies beat analysts’ consensus forecasts and yet see their share prices fall. This apparent mystery can be explained by the ‘whisper number’ – an unofficial figure whispered amongst professionals – which represents what the market actually expects beyond the published forecasts. **What matters is neither the result nor the official consensus, but the expectations of expectations.** A company may report record profits, exceeding forecasts, and still disappoint if investors collectively anticipated even better results.

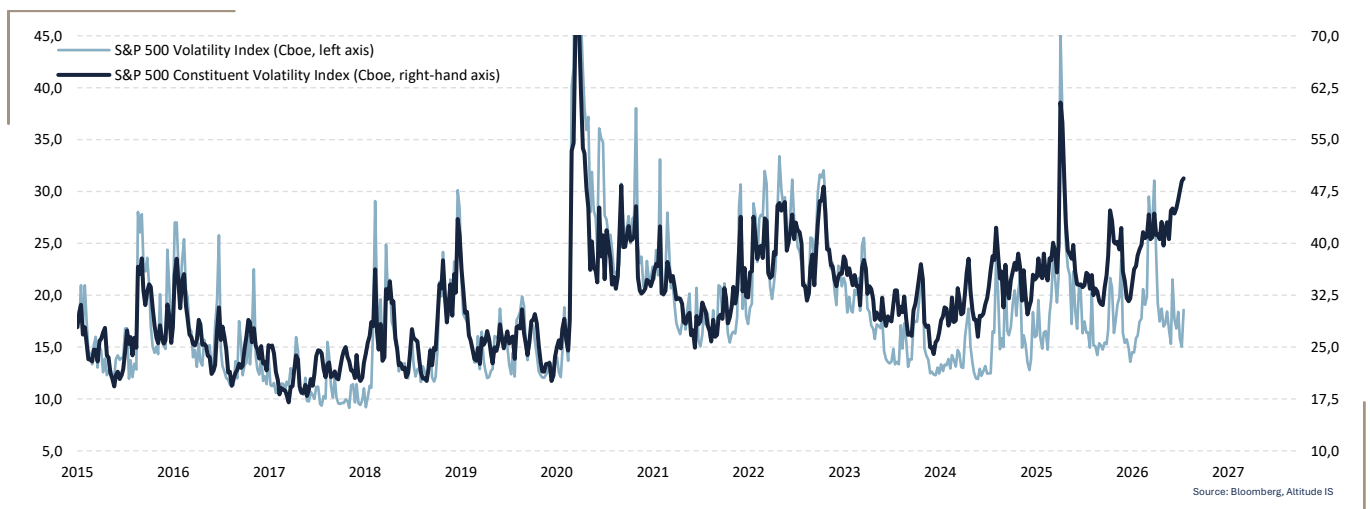
Some adjustments can take decades, and going against the consensus is even more costly. Public debt, climate change and geopolitical fragmentation share three characteristics: their scale is considerable, their occurrence is virtually certain, and only their timing is unknown. Every creditor is aware of the arithmetic behind US federal debt, which now exceeds the size of the economy; everyone can gauge the future damage caused by global warming; everyone sees the world order cracking and the major powers rearming. Despite this, stock market valuations remain close to their all-time highs, as if none of this existed. This inconsistency is only apparent. Factoring in a risk before others do results in immediate underperformance, whilst the reward remains distant and uncertain. Investors therefore do not assess the risk itself; they anticipate the moment when others will begin to factor it



into prices. **Inaction is not blindness; it is the rational strategy of a player waiting for others to make a move.** UK government bonds served as a reminder of this in October 2022 under Liz Truss's government. It took just a few days to go from indifference to panic, with each pension fund selling before the others.

In Rosemarie Nagel's game, the winner is the one who guesses where the others' choices will lead. In the markets, guessing where others will go starts with a simple question: **how many players have not yet placed their bets?** The answer determines everything, because a share price only rises thanks to buyers who are not yet on the market. Investors who have already taken a position have exhausted their capacity to support the price; all they can do now is wait or sell. Thus, when 82 per cent of fund managers declare themselves to be buyers, the continuation of the rise depends solely on the remaining 18 per cent – the most sceptical, and therefore the hardest to convince. This is how the dot-com bubble burst in 2000, without any clear trigger or culprit. Eventually, there were no more new buyers, and then the momentum shifted. Passive management, which was marginal at the time, changed the pace, not the rule. By channelling household savings each month into securities that had already risen, it sustains the trend and can prolong it for a long time. However, this support relies on flows, not on convictions. Whether a recession drains employee savings, or pensioners' withdrawals exceed contributions from the working population, the automatic buyer disappears at the worst possible moment. **A bubble does not die from bad news; it dies of exhaustion, due to a lack of marginal buyers.**

Fig. 8 – Implied volatility of the S&P 500 (VIX) vs that of its constituents (VIXEQ)



Is this risk of exhaustion priced in? At first glance, no. The VIX, the index that measures the implied volatility of the S&P 500 over a one-month horizon, is languishing below 18 points. However, a second indicator tells a very different story. The VIXEQ performs exactly the same calculation, not on the index itself, but on each of the constituent companies, before calculating a weighted average. It stands at 49 points, a stormy level (see Fig. 8). How can the same 500 shares be calm collectively yet turbulent individually? It's thanks to dispersion. It is much like a ship on which passengers are rushing from one side to the other. As long as their movements offset each other, the hull remains upright, even whilst the deck is in a state of turmoil. For months now, US shares have been behaving in this way, each on its own. The constant rotation between winners and losers cancels itself out at the index level. At the same time, investors tend to sell index volatility in order to buy that of individual shares, widening the gap at both ends. **The risk associated with shares has not disappeared; it is hidden within the indices.**



This is where game theory offers its final lesson. Buying index hedges today amounts to anticipating that market participants will one day cease to cancel each other out, as this is inevitable. On that day, when fear spreads, correlations will surge towards unity, everything will fall together and the VIX will abruptly converge with the VIXEQ. To put it in perspective, the market is currently selling insurance against the ship capsizing at the price of a calm sea, whilst 82 per cent of sailors are already crowding onto the same side. **Index hedges have rarely been so cheap relative to the risk involved.** Savvy investors will capitalise on this anomaly, as it allows them to remain invested at a lower cost. This will enable them to position themselves one step ahead of the rest – the only way to be right without being alone.

Conclusion:

Just like in Keynes' beauty contest, the markets reward neither solitary lucidity nor collective blindness, but the art of anticipating expectations. Fund managers fear a bubble without daring to short it, and the indices slumber whilst their constituents are in turmoil. No one can predict the exact day and hour of the crash, but insurance against this risk has rarely been so cheap.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 105.5	44.33	-0.3%	0.2%	10.1%	22.9%	18.0%
USA (S&P 500)	7 412	44.86	-0.6%	0.8%	9.0%	17.9%	25.0%
USA (Dow Jones)	51 947	49.31	-0.4%	0.3%	9.0%	14.9%	15.0%
USA (Nasdaq)	24 976	38.67	-2.1%	-1.9%	7.8%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	665.9	51.56	0.8%	0.6%	11.5%	21.2%	10.2%
UK (FTSE 100)	10 736	62.17	1.3%	2.7%	10.1%	25.7%	9.6%
Switzerland (SMI)	14 327	59.82	-0.1%	1.5%	11.2%	18.0%	7.5%
Japan (Nikkei)	64 823	41.72	0.7%	-6.5%	29.4%	28.7%	21.3%
Emerging (MSCI)	1 628	41.36	0.5%	-5.6%	17.5%	34.3%	8.0%
Brasil (IBOVESPA)	174 042	49.85	0.2%	2.1%	8.0%	34.0%	-10.4%
Mexico (IPC)	66 383	46.17	-0.4%	0.4%	5.0%	35.1%	-11.0%
India (SENSEX)	76 615	43.14	-2.6%	-1.0%	-9.8%	10.5%	9.6%
China (CSI)	4 661	43.21	2.7%	-5.3%	1.8%	21.0%	18.2%
Com. Services (MSCI World)	153.4	32.91	-5.4%	-2.7%	-5.9%	33.0%	31.9%
Cons. Discretionary (MSCI World)	414.8	30.76	-4.8%	-2.4%	-8.8%	9.8%	20.7%
Cons. Staples (MSCI World)	301.9	47.65	-1.8%	-0.4%	5.9%	9.3%	4.7%
Energy (MSCI World)	339.9	72.17	3.6%	11.4%	30.8%	14.8%	2.9%
Financials (MSCI World)	242.6	63.91	0.5%	5.1%	9.2%	29.5%	25.1%
Health Care (MSCI World)	403.5	57.61	0.6%	4.7%	3.5%	15.3%	1.5%
Industrials (MSCI World)	525.2	51.52	1.4%	-0.1%	13.5%	26.2%	12.8%
Info. Tech. (MSCI World)	1 177.7	43.03	0.4%	-3.4%	22.3%	26.6%	31.9%
Materials (MSCI World)	416.7	47.11	1.7%	-0.3%	6.9%	32.5%	-7.6%
Real Estate (MSCI World)	1 066	61.67	0.6%	2.8%	8.2%	3.6%	-0.4%
Utilities (MSCI World)	210.5	59.62	1.5%	2.3%	10.9%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	4.01%	35.41	-0.7%	-1.0%	-1.4%	8.2%	-1.7%
USA (Sovereign)	4.58%	38.00	-0.6%	-1.2%	-0.7%	6.3%	0.6%
Euro Area (Sovereign)	3.41%	38.26	-0.2%	-1.7%	-0.5%	0.6%	1.9%
Germany (Sovereign)	3.05%	38.99	-0.3%	-1.5%	-0.5%	-1.6%	0.6%
UK (Sovereign)	5.04%	42.23	-0.5%	-2.1%	-1.0%	6.1%	-3.0%
Switzerland (Sovereign)	0.70%	35.23	-0.5%	-1.6%	-0.8%	0.3%	5.4%
Japan (Sovereign)	2.45%	40.29	-0.7%	-0.6%	-2.7%	-4.6%	-2.1%
Emerging (Sovereign)	6.41%	28.29	-0.9%	-1.6%	0.6%	13.1%	7.0%
USA (IG Corp.)	5.47%	31.59	-0.7%	-1.9%	-0.8%	7.8%	2.1%
Euro Area (IG Corp.)	3.75%	36.63	-0.2%	-1.1%	0.3%	3.0%	4.7%
Emerging (IG Corp.)	6.66%	29.85	-0.4%	-0.7%	1.0%	8.1%	7.0%
USA (HY Corp.)	7.46%	36.52	-0.6%	-0.2%	1.5%	8.6%	8.2%
Euro Area (HY Corp.)	6.03%	39.02	-0.2%	-0.2%	1.5%	5.2%	8.2%
Emerging (HY Corp.)	7.70%	33.65	-0.7%	-0.9%	3.3%	13.9%	14.9%
World (Convertibles)	607.0	38.95	0.3%	-4.3%	12.7%	22.4%	9.4%
USA (Convertibles)	804.5	39.15	0.0%	-5.1%	14.9%	16.9%	10.1%
Euro Area (Convertibles)	307.4	45.72	0.5%	-0.7%	5.8%	24.8%	14.7%
Switzerland (Convertibles)	294.3	43.14	-1.4%	1.0%	4.0%	17.5%	-10.5%
Japan (Convertibles)	313.3	42.53	1.8%	-6.4%	21.5%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 893	76.92	n.a.	-0.6%	12.9%	4.7%	11.1%
Macro	1 532	68.54	n.a.	-1.9%	13.7%	4.4%	7.4%
Equity Long Only	2 566	66.85	n.a.	0.1%	9.9%	3.8%	12.0%
Equity Long/Short	2 107	77.64	n.a.	-0.2%	18.0%	6.9%	14.0%
Event Driven	2 055	83.87	n.a.	0.1%	16.0%	7.0%	8.7%
Fundamental Equity Mkt Neutral	2 003	88.82	n.a.	0.5%	15.6%	7.0%	12.4%
Quantitative Equity Mkt Neutral	1 910	81.14	n.a.	1.6%	10.9%	5.6%	9.8%
Credit	1 771	91.94	n.a.	0.3%	7.1%	3.0%	8.5%
Credit Long/Short	1 813	94.58	n.a.	0.2%	7.7%	4.6%	10.0%
Commodity	2 066	75.61	n.a.	-4.0%	9.5%	3.2%	14.7%
Commodity Trading Advisors	1 518	62.68	n.a.	-2.4%	18.8%	6.9%	7.9%
Volatility							
VIX	18.58	55.01	-1.0%	-0.3%	24.3%	-13.8%	39.4%
VSTOXX	18.06	51.08	4.4%	3.8%	22.8%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 091	n.a.	2.1%	1.9%	-5.3%	64.6%	27.2%
Silver (Troy Ounce)	59.32	n.a.	5.1%	1.8%	-17.2%	148.0%	21.5%
Oil (WTI, Barrel)	91.04	n.a.	10.4%	28.1%	58.6%	-19.9%	0.1%
Oil (Brent, Barrel)	98.79	n.a.	16.8%	37.0%	58.2%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	101.22	57.22	0.3%	-0.1%	2.9%	-9.4%	7.1%
EUR	1.1403	44.79	-0.1%	-0.2%	-2.9%	13.4%	-6.2%
JPY	163.58	33.32	-0.7%	-1.0%	-4.2%	0.3%	-10.3%
GBP	1.3351	48.06	-0.6%	0.7%	-0.9%	7.7%	-1.7%
AUD	0.6998	52.89	0.0%	1.6%	4.9%	7.8%	-9.2%
CAD	1.4085	50.47	-0.1%	0.9%	-2.6%	4.8%	-7.9%
CHF	0.8152	39.88	-0.6%	-0.9%	-2.8%	14.5%	-7.3%
CNY	6.7689	56.54	0.0%	0.4%	3.2%	4.5%	-2.7%
MXN	17.435	50.90	0.0%	0.2%	3.3%	15.7%	-18.5%
EM (Emerging Index)	1 870.7	58.31	0.2%	0.9%	1.0%	7.2%	-0.7%
XBT	65 255	n.a.	-1.0%	8.4%	-25.5%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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