BREAKOUT CAPITAL
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The new global divide: who's inside the AI supply chain, and who's locked out

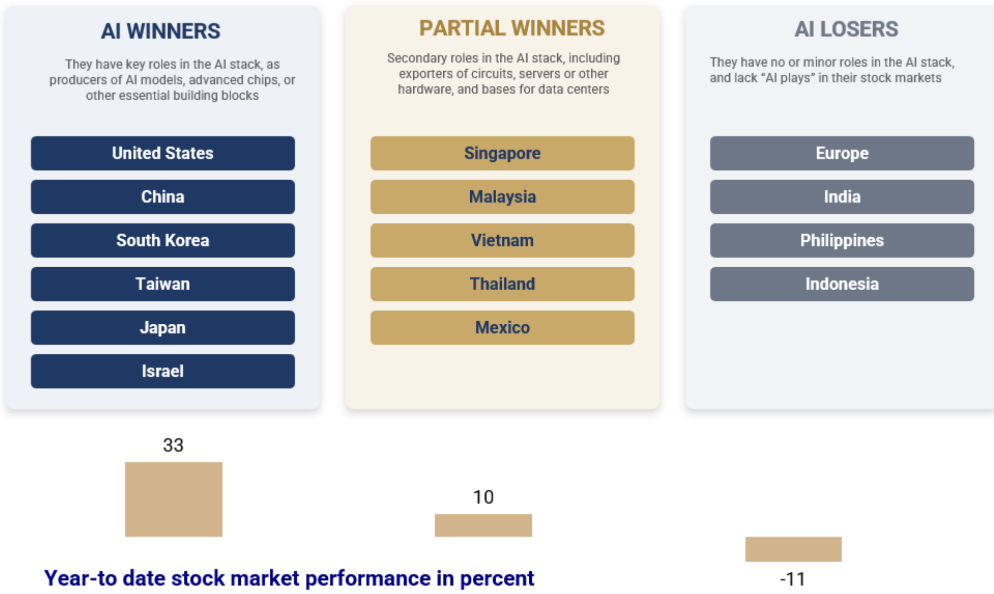
Artificial intelligence has become such a dominant force in markets that it is eclipsing almost every other factor investors traditionally weigh, effectively splitting the globe into three camps: countries riding the wave, those catching the spillover, and those getting left behind (as shown in Chart 1).

- **AI winners**: All of them control a meaningful slice of the AI supply chain, from core model-building down to the hardware underneath it. The United States and China lead here largely because they own the frontier AI models. Taiwan and South Korea dominate chip-fabrication, while Japan and Israel bring deep, diversified technical talent across the AI ecosystem. These economies are pulling away from the rest by historic margins.

- **AI-partial winners:** A second-tier benefits more indirectly, supplying the components, assembly, and physical infrastructure the AI economy runs on without owning the frontier technologies. Mexico, Thailand, and Vietnam fall into this group as manufacturers of chips, servers, and related electronics, while Malaysia and Singapore combine a manufacturing role with a growing footprint as data-center hubs.

- **AI-losers:** The rest include much of Europe, with a few exceptions like the Netherlands, home to a single dominant advanced chip-equipment maker. Hit hardest are economies with no real stake in AI's build-out and heavy exposure to the industries AI is most likely to hollow out, IT outsourcing chief among them. (See below)

Chart 1: Key Global Markets Being Split Into AI-Winners, Partial Winners and Losers



Source: Bloomberg, Breakout Capital framework-illustrative national positioning across the AI value chain. Groupings are a strategic view for discussion, not an exhaustive ranking. As of June 2026.

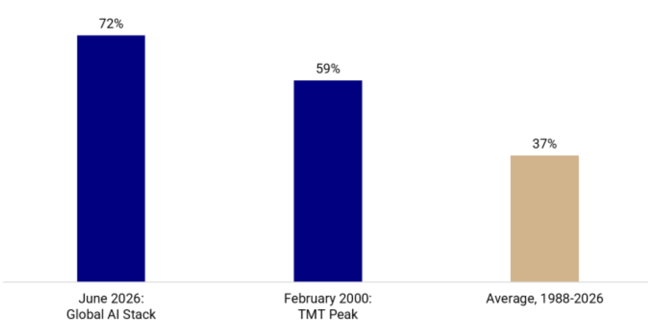
This monomania has led to an extreme concentration of returns

The AI winners are up, on average, by 33% year to date, while partial winners are up 10% and the perceived losers are down 11%.

By sector, the three leading tech subsectors (semiconductors, hardware, and electronic equipment) account for more than 70 percent of global stock market returns (Chart 2). Concentration was less dramatic even during the dotcom bubble, when the three leading tech sectors were communications equipment, semiconductors, and wireless telecom; together they made up about 60 percent of global gains at the market's peak in early 2000.

Another big difference from the dotcom period; back then tech-driven gains spread outward, lifting many other industries and markets. Now, the tech effect is the opposite: AI plays appear to be pulling capital away from non-AI industries and economies.

Chart 2: Share of Returns Accounted for by the Top Three Subsectors

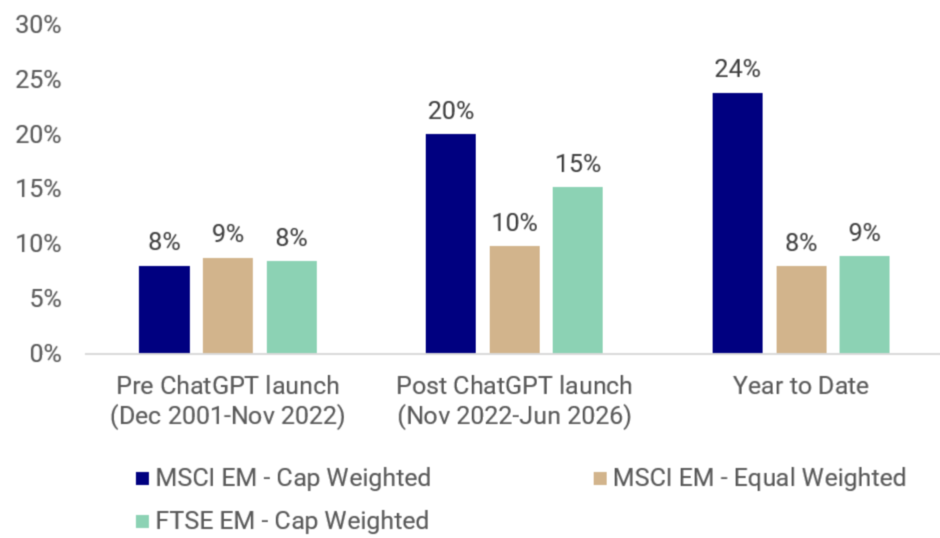


Source: Bloomberg, Breakout Capital calculations.

And a historic decoupling of cap weighted and equal weighted returns

Since 2000, cap and equal weighted had moved broadly in sync (Chart 3). But AI mania has disconnected the two, with big AI stocks pushing up the cap weighted returns significantly. Since the ChatGPT launch in November 2022, the MSCI EM (cap weighted) Index has returned ~20% annually, about twice the return for the median stock. The disconnect is largely a result of the huge gains for semiconductor stocks in South Korea and Taiwan

Chart 3: Annualized USD Return for Emerging Market Indices

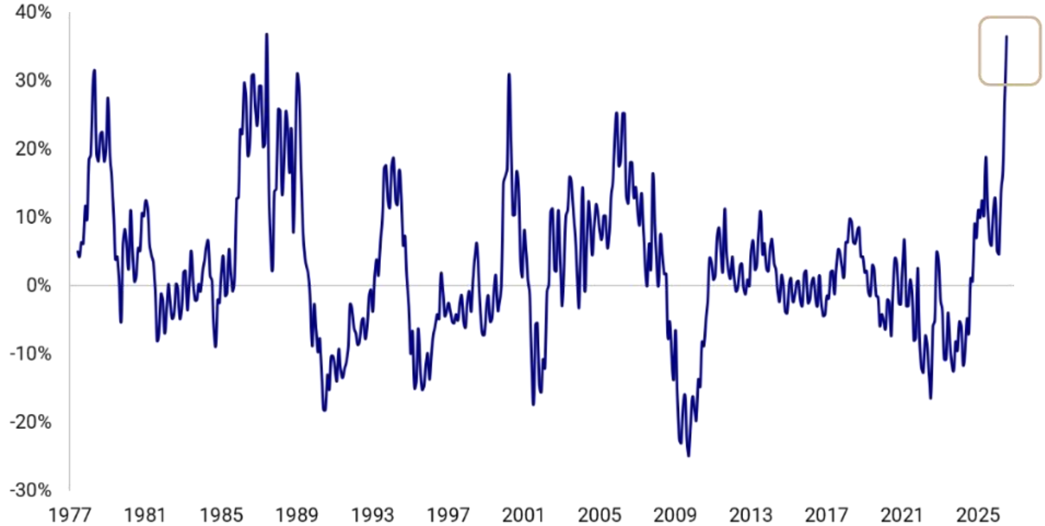


Source: Bloomberg, Breakout Capital calculations. As of June 2026.

And a historical decoupling between momentum and quality factors

This sharp decoupling is also visible in other segments of the market. The momentum factor is driving the US market as retail investors continue to pour money into big tech stocks. Over the last 12 months, momentum has delivered historically high returns relative to quality, which investors are ignoring as they chase returns (Chart 4). This, in our view, opens up a historic opportunity to invest in global undervalued quality stocks, which have solid fundamentals and are historically cheap. This is also a cheap way to hedge against the end of AI mania.

Chart 4: Annual Percent Change in MSCI ACWI Momentum Factor, Relative to the Quality Factor



Source: BCA Research, MSCI, Bloomberg, Breakout Capital Research. As of July 1, 2026. MSCI World prior to November 2001 and ACWI afterwards, shown as USD total returns.

When will this mania turn?

We do not know when exactly this monomania will end, but history says it will. And given how extended the AI boom is, the odds are it will end sooner rather than later. The technology itself will keep advancing, just as railroads and the internet did after their manias faded, but the speculative excess attached to it will fade. Right now, investors treat AI dominance as the sole yardstick for ranking nations and stocks. Eventually, a more balanced market will reassert itself.

We continue to rely on our proprietary country selection framework and are invested in 17 of the nearly 50 developing economies that we track. Our portfolio is exposed to a range of country-driven themes including the improving credit cycle in Emerging Europe, the shift towards orthodox policies in Latin America, and selective exposure to high quality, growth at a reasonable price play in Asia. We believe all this gives our fund a highly differentiated profile from the EM index and other mainstream EM portfolios.

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The iShares MSCI Emerging Markets ETF (the “MSCI EM ETF”) (ticker symbol: EEM) seeks to track the investment results of the MSCI Emerging Markets Index, which is composed of large- and mid-capitalization emerging market equities. The underlying index is reviewed quarterly and rebalanced semi-annually. The MSCI EM ETF performance calculation is net of the expense ratio of 0.72% and includes reinvested dividends. The MSCI EM ETF returns are calculated based on the market value of the MSCI EM ETF, which may include a premium or discount to NAV, and do not reflect brokerage commissions for buying and selling ETF shares. Unlike the MSCI EM ETF which trades on a daily basis on the NYSE Arca Exchange, the EM Revival Fund offers quarterly liquidity/25% Investor Level Gate (please refer to withdrawal rights as described in the EM Revival Fund PPM). The performance of the MSCI EM ETF is not indicative of the performance of the EM Revival Fund, and investors cannot invest directly in the index tracked by the MSCI EM ETF.

FTSE Emerging Markets Index (FTSE EM Index) is a market-capitalization-weighted index that measures the performance of large and mid-cap companies across emerging market countries. The index is provided for benchmarking purposes only and does not represent a direct investment or guarantee future investment performance.

The MSCI Emerging Markets Index (the “MSCI EM Index”) is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity market performance of large- and mid-capitalization companies across emerging market countries.

The MSCI All Country World Index (the “MSCI ACWI Index”) is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity performance of large- and mid-capitalization companies across both developed and emerging markets. The index includes 23 developed markets and 24 emerging markets.

MSCI Emerging Markets Equal Weighted Index is an index that measures the performance of emerging market equities by assigning each constituent an equal weight, reducing concentration in the largest companies and countries. The index is used as a benchmark for diversified emerging market exposure and does not represent a direct investment or guarantee future results.

These indices are reviewed quarterly and rebalanced semi-annually. Index performance reflects the reinvestment of dividends but does not include the impact of management fees, trading costs, or other expenses associated with an investable product. Unlike the MSCI EM Index, the MSCI ACWI Index and the MSCI US index, which are theoretical benchmarks and cannot be invested in directly, the EM Revival Fund offers quarterly liquidity/25% Investor Level Gate (please refer to the withdrawal rights described in the EM Revival Fund PPM). The performance of these indices is not indicative of the performance of the EM Revival Fund.

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For accredited investors only

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