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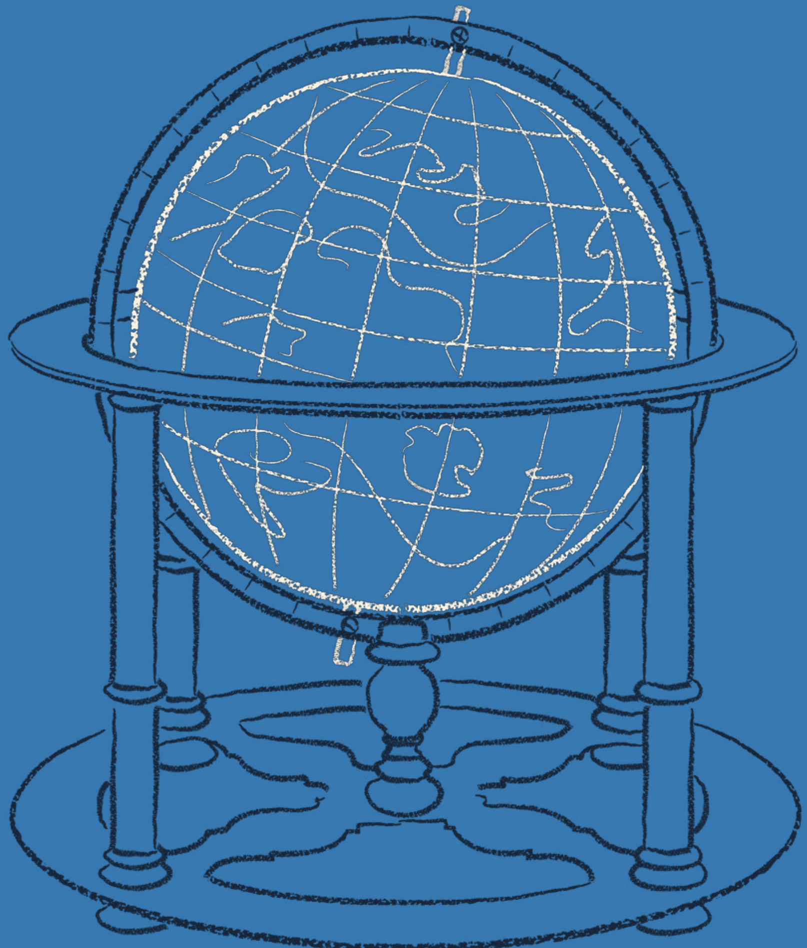
Asset Management

Quarterly Market Update



Q2 2026

Reflections of the CIO

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June 2026

The second quarter of 2026 was, on the surface, a straightforward one. After the shock and panic surrounding the war in Iran had passed through its initial phase in March, market sentiment steadied and then rebounded sharply as investors concluded that the most likely outcome was a resolution of the conflict by summer. As this opinion gained ground steadily over the second quarter, a remarkable recovery in global stock markets gained traction and was further boosted by the exponential performance of a small number of giant technology stocks. We outlined the reasons in our previous quarterly report as to why markets were, ultimately, so relaxed about the war and consequent oil price spike not persisting for too long. Partially it was down to lessons from history, but also due to ‘’constraints on the combatants’’, which could be everything from physical constraints (munitions running out or objectives being achieved) to constraints put in place by the rest of the world, as the pain from higher oil prices spread globally. With hindsight this did indeed turn out to be the correct view, although we think it would be complacent to assume that there are no additional longer-term costs to absorb, above and beyond the impacts seen so far. The global economy also remained remarkably resilient during the quarter, enjoying something of a cyclical upswing and proving strong enough to absorb the effects of the war without tipping into a meaningful slowdown or even morphing into a recession. Much of this economic strength came from the USA, where an enormous capital spending programme to build out artificial intelligence (AI) related infrastructure (or ‘compute’ as it is known) showed no signs of slowing down. In fact, if anything, AI related spending accelerated again from elevated levels. The strong performance from equities during the second quarter was balanced out by a more subdued performance from safer assets, particularly in the government bond markets, which had to price in the inflationary consequences of both the war and an accelerating global economy. By the time this reporting period had ended, it was clear to us that the macro environment of the last three years had shifted into a new phase, one which was still healthy but less supportive than investors had become used to. In effect, we have now moved from a period when interest rates were generally declining, into a period where they are generally rising again. How much they have to rise to control accelerating inflation is yet to be determined, but we think this issue will come to dominate the top-down narrative for the rest of the year.

There are also many additional complicating factors that make a return to this ‘traditional’ growth/inflation debate much more difficult for markets to navigate. One example would be the communication policy now adopted by the Federal Reserve, under its new Chairman. This policy could best be summarised as saying not very much at all (or removing ‘forward guidance’) and leaving the bond market to make its own mind up about the direction of policy from now on, without any help from policy makers. At minimum this change in stance should act to increase bond market volatility, especially as it comes at a point when inflation is relatively high and accelerating. Another complication relates to the amount of leverage and ‘froth’ in the system – evidenced in the first quarter by the sharp rallies then declines in the gold price, driven by retail investors who flooded in and then out again over a period of a few short months. Similar retail flows into leveraged instruments were and remain influential in the performance of technology stocks, especially in Asia. The formation and subsequent bursting of these ‘mini bubbles’ can have an outsized effect on market sentiment or momentum, so although we remain optimistic about the outlook, we are also alive to the possibility of frequent, hard to spot in advance reversals. As we began 2026, we had been positioning portfolios for a year during which returns would most likely be harder to come by. We didn’t anticipate the war related dip, nor the consequent outsized recovery, but do feel that as that particular influence fades into the rear-view mirror, that we will return to our initial scenario where gently rising interest rates act as a moderate brake on returns, certainly when compared to the outsized results of the last three years. In summary, although we recognise that markets are often driven overwhelmingly by a dominant global theme, such as an energy price spike, there are also, currently, many powerful local drivers of returns. By consistently broadening portfolio investments as much as we can across asset classes, geographies and styles, we think we can continue to use each portfolio risk ‘budget’ to capture acceptable returns, whilst also remaining resilient enough to ride out the inevitable bumps without too much drama.

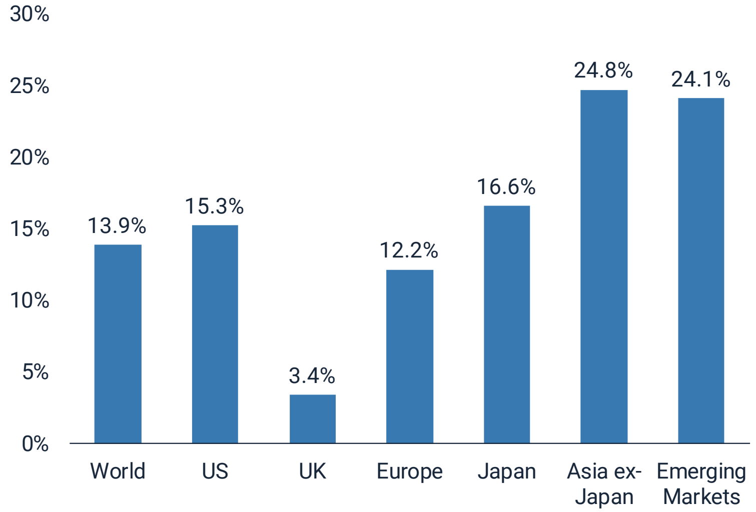
David Cooke, CIO

Market Overview: Equities

Global Equities

- Global equities rebounded strongly in Q2 2026, recovering all of the previous quarter's losses as a US–Iran peace deal and falling oil prices eased inflation fears.
- The rally was powered by enthusiasm for AI infrastructure and memory chips, with a small number of giant technology stocks driving much of the gain.
- Asia and emerging markets were the standout performers, and the US posted its best quarter in several years, while the UK lagged well behind.
- Growth stocks decisively outperformed value this quarter, reversing Q1 – large- and small-cap growth led, though small caps were strong across all styles.
- Markets turned volatile in June as an aggressive unwinding of the AI and semiconductor trade triggered sharp corrections, particularly in Korea and Taiwan.
- Global equity valuations rose again and remain meaningfully above long-term averages.

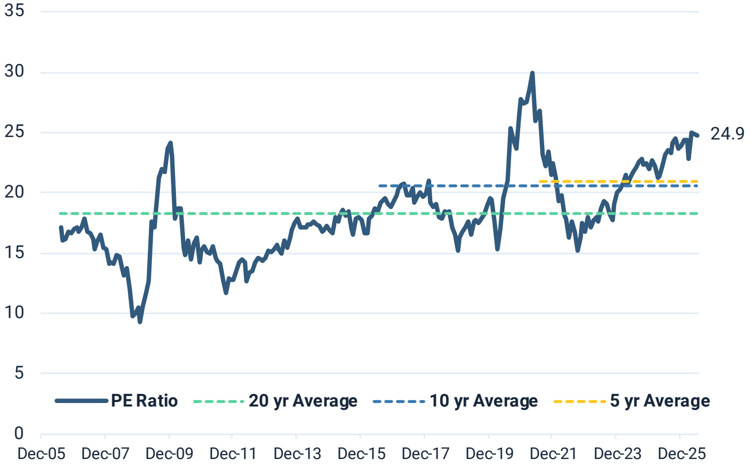
Q2 2026 Performance



Q2 Equity Style Performance

	Value	Blend	Growth
Large	9.41%	13.90%	18.95%
Mid	7.77%	11.05%	15.42%
Small	8.98%	15.22%	20.45%

Global Equity Valuations

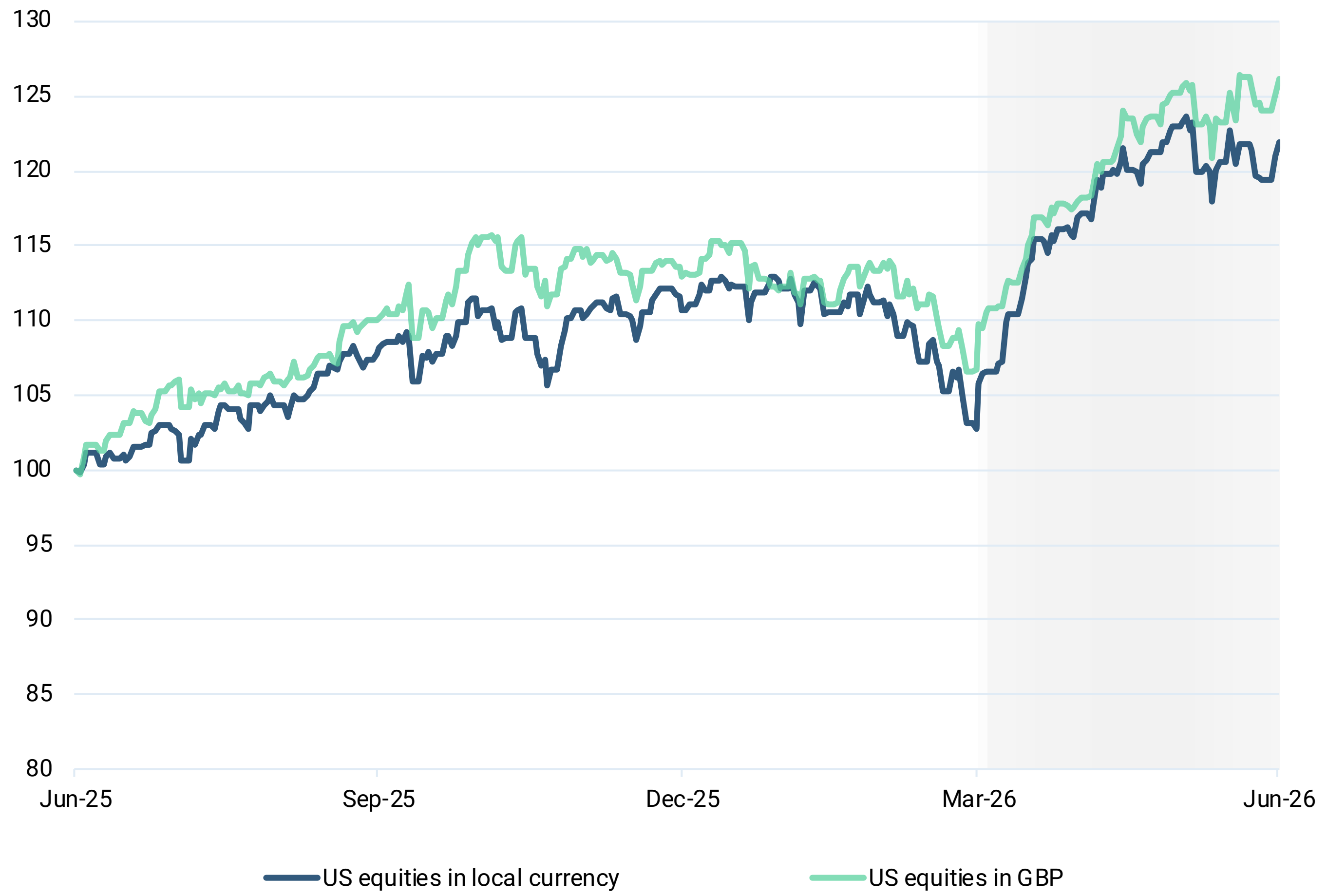


Longer term (5 Yr) performance

Source: Bloomberg, All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise. Indices used: MSCI World (World), MSCI US (US), MSCI UK (UK), MSCI Europe ex-UK (Europe), MSCI Japan (Japan), MSCI Asia ex-Japan (Asia ex-Japan), MSCI Emerging Markets (Emerging Markets). Style indices are the MSCI World and the relevant size/styles. E.g. MSCI World Small Cap Growth. PE Ratio is a 12m trailing price earnings ratio.

US Equities

- US equities rebounded sharply in Q2 2026 (+15.3%), their best quarterly return in several years, as optimism over AI infrastructure outweighed Middle East and inflation concerns.
- Falling oil prices eased fears of an inflation spike, while data pointed to a resilient US economy.
- Technology was the standout sector, with the Nasdaq up over 20% as demand for AI infrastructure sent semiconductor prices soaring.
- Energy stocks were notably weak as oil prices dropped, with consumer staples and utilities also lagging.
- The Federal Reserve kept rates on hold; new Chair Kevin Warsh reaffirmed the 2% inflation target and ended forward guidance, with markets increasingly expecting hikes this year.
- The rotation away from US equities seen in Q1 reversed as investors returned to the AI trade.



Q2 Performance (LCL)	+15.3%

Last 12 Months (LCL)	+21.9%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI US (US Equities)

UK Equities

- UK equities rose in Q2 2026 (around +3.4%) but trailed most other major markets, held back by their large energy weighting and limited technology exposure.
- Investor sentiment was supported by the US–Iran peace deal and ongoing enthusiasm for the AI trade.
- Oil and gas stocks were a significant drag as oil prices fell more than 30% over the quarter.
- Small- and mid-cap stocks were the best performers, significantly outperforming the larger blue-chips in the FTSE 100 – a reversal of Q1.
- Consumer services, including travel, and financials were the strongest sectors, while oil & gas, telecoms and healthcare lagged.
- The Bank of England kept interest rates on hold at 3.75% as headline inflation held steady at 2.8%.

Q2 Performance (LCL)	+3.4%

Last 12 Months (LCL)	+24.3%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI UK (UK Equities)

European Equities

- European equities registered strong gains in Q2 2026 (+12.2%), recovering from the previous quarter's decline and delivering their biggest quarterly rise in five years.
- Sentiment was lifted by optimism over AI infrastructure spending and progress towards peace in the Middle East, though the region slightly lagged the US and Asia.
- Italy and Spain were among the best performers (up around 20% and 16% in euros), while France and Germany underperformed the wider market.
- Technology and financials led at the sector level, with banks benefiting from the European Central Bank's interest rate hike.
- Oil & gas stocks fell as oil prices plunged, and telecoms and healthcare were also notable laggards.
- The ECB raised rates by 25bps in June – its first hike since 2023 – citing energy-driven inflation risks.

Q2 Performance (LCL)	+12.2%	Last 12 Months (LCL)	+22.6%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Europe (Europe Equities)

Japanese Equities

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- Japanese equities rose strongly in Q2 2026 (+16.6%), finishing ahead of most other major markets.
- April saw a sharp rebound led by AI-related themes across the semiconductor supply chain and robotics, where Japan has strong capabilities.
- The rally continued into May as enthusiasm for the AI–semiconductor theme built, supported by robust first-quarter corporate earnings.
- Despite some late-quarter volatility, the market finished on a positive note, helped by easing crude oil prices and an optimistic earnings outlook.
- The Bank of Japan raised interest rates during the quarter to help contain inflation.
- Over 12 months, Japanese equities are up more than 45% in local-currency terms, among the strongest of the major markets.

Q2 Performance (LCL)	+16.6%

Last 12 Months (LCL)	+45.8%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Japan (Japan Equities)

Asia Ex-Japan Equities

- Asia Pacific ex-Japan equities were the standout region in Q2 2026 (+24.8%), comfortably outperforming the broad global market.
- South Korea and Taiwan led again, reflecting their high weighting to technology, with Korea's chip-heavy market rising especially sharply.
- April and May were particularly strong as risk appetite returned and demand for AI and semiconductors surged.
- June proved volatile for Korea and Taiwan, with sharp corrections driven by an aggressive unwinding of the global AI and semiconductor trade.
- China and India lagged significantly, with China held back by weak consumer demand.

Q2 Performance (LCL)	+24.8%

Last 12 Months (LCL)	+41.5%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Asia ex-Japan (Asia ex-Japan Equities)

Emerging Market Equities

- Emerging market equities posted strong gains in Q2 2026 (+24.1%), outperforming the broad global market and most other regions.
- Markets reached a new high for the year and built momentum through April and May, supported by strong AI-driven semiconductor demand in North Asia.
- In Asia, South Korea and Taiwan drove gains before heightened volatility in June as the AI/semiconductor trade unwound; China and India lagged.
- In EMEA, falling oil prices were a headwind for Saudi Arabia and other oil-exporting countries.
- In Latin America, the two largest markets, Brazil and Mexico, underperformed the broader emerging markets index.

Q2 Performance (LCL)	+24.1%

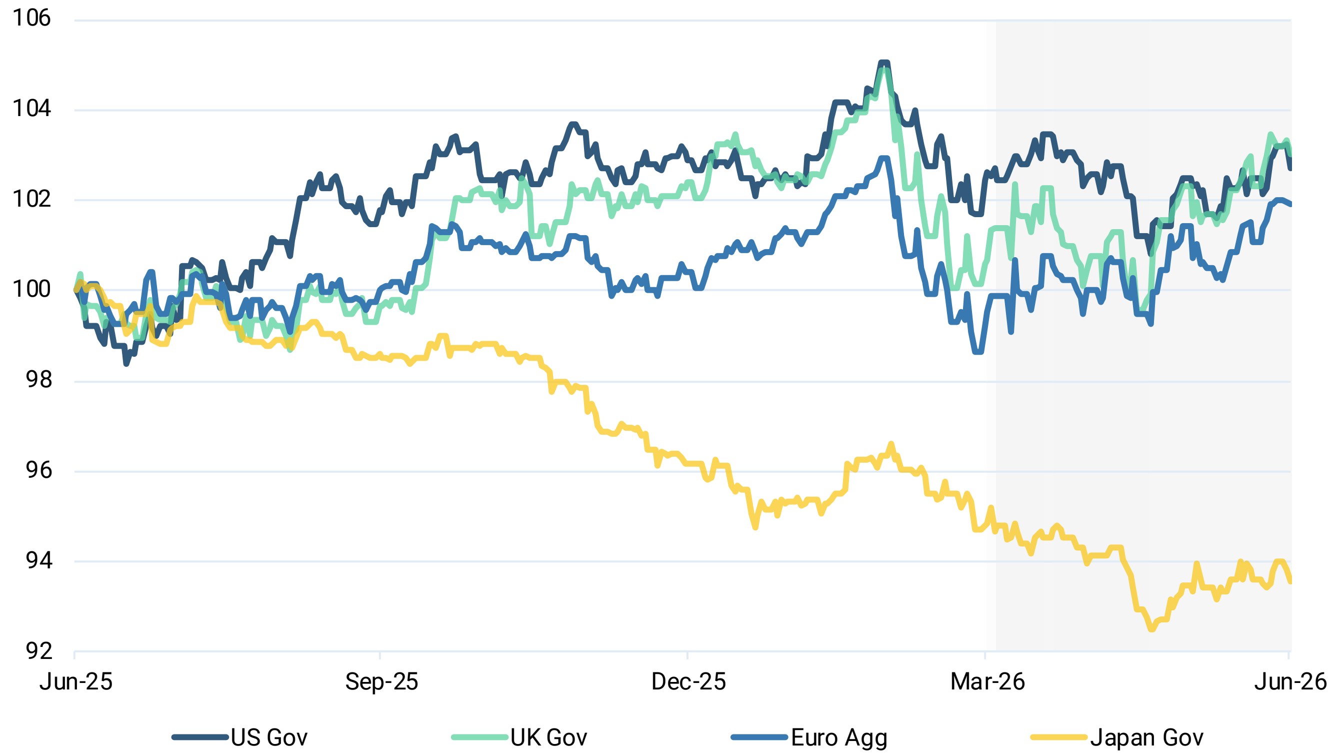
Last 12 Months (LCL)	+44.2%

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: MSCI Emerging Markets (Emerging Market Equities)

Market Overview: Fixed Income

Global Government Bonds

- Global government bonds posted modest gains in Q2 2026 as falling oil prices eased the inflation outlook, though heavy government borrowing and firmer inflation capped returns.
- UK gilts were resilient, rising 2.3%, and outperformed both US Treasuries and German bunds despite domestic political uncertainty.
- US Treasuries were broadly flat (+0.1%) as the 10-year yield edged up to 4.4%; new Fed Chair Kevin Warsh stressed independence, the 2% inflation goal and the end of forward guidance.
- Eurozone government bonds gained around 2.4%, while Japanese government bonds fell (-1.4%) as the Bank of Japan raised rates.
- The European Central Bank and Bank of Japan both raised interest rates during the quarter, while the Federal Reserve and Bank of England held.
- Emerging market bonds delivered healthy returns, with hard-currency government debt especially strong.



Q2 Performance

US Government Bonds	+0.1%
UK Government Bonds	+2.3%
Eurozone Government Bonds	+2.4%
Japanese Government Bonds	-1.4%

Last 12 Months

US Government Bonds	+2.7%
UK Government Bonds	+3.0%
Eurozone Government Bonds	+1.9%
Japanese Government Bonds	-6.5%

Source: Bloomberg, All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise. Indices used: Bloomberg U.S. Treasury: 7-10 Year TR Index (US Gov), Bloomberg EuroAgg Treasury 7-10 Year TR Index (Euro Agg), Bloomberg UK Gilt 7-10 TR Index (UK Gov), Bloomberg Japan Govt 7-10 Bond Index

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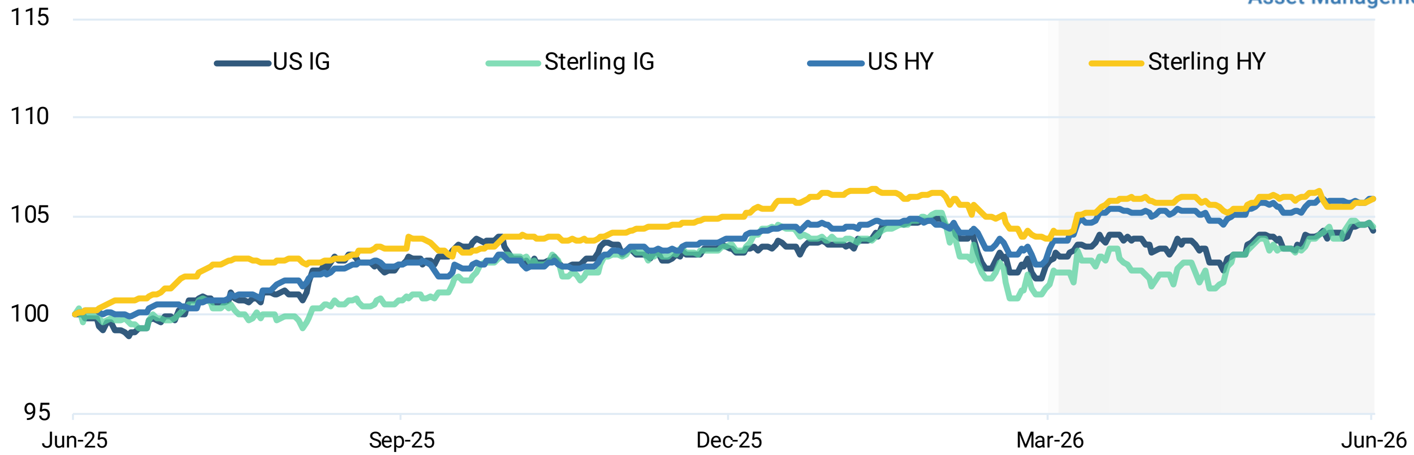
Corporate Bonds

- Corporate bonds delivered positive returns in Q2 2026 and outperformed government bonds as risk appetite returned, and credit spreads tightened.
- Sterling investment-grade was the strongest of the major segments, returning 2.9%, with US investment-grade up 1.4%.
- High yield performed well, with US high yield up 2.5% and sterling high yield up 1.9%, as investors moved back into riskier assets.
- The recovery reversed Q1's losses, which had been driven by rising yields and inflation fears tied to the oil spike.
- Falling oil prices and the US–Iran peace deal supported the improvement in sentiment across credit markets.
- Emerging market bonds also performed well, adding to the broadly positive tone across credit.

Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise.
Indices used: Bloomberg Barclays U.S. Corporate Bond (US IG), Bloomberg Sterling Corporate Bond Index (UK IG), Bloomberg US Corp High Yield TR Index (US HY), Bloomberg Pan-Euro Sterling High Yield TR Index (Sterling HY)

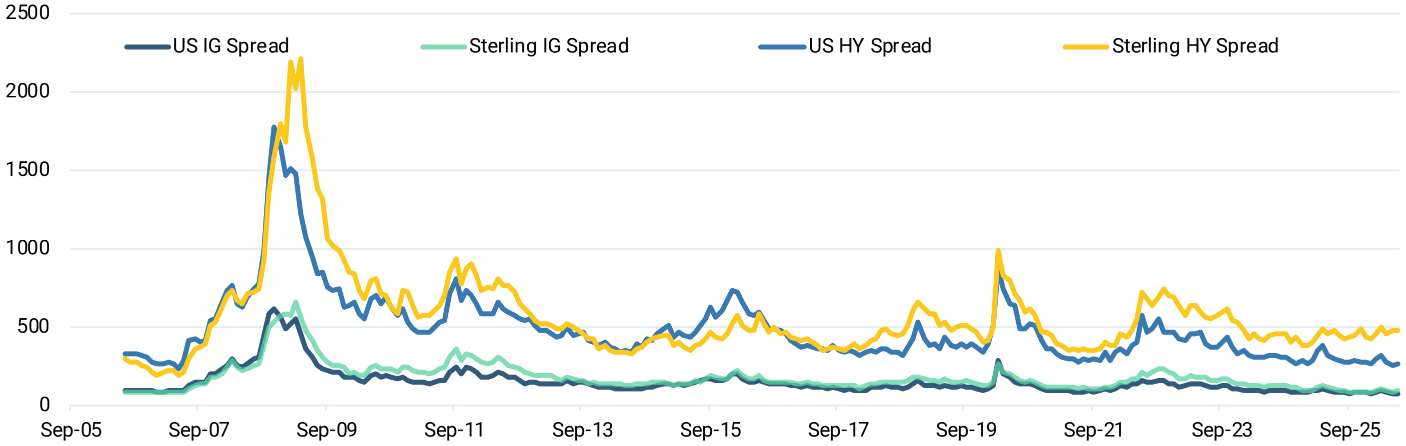


Q2 Performance

US Investment Grade	+1.4%
Sterling Investment Grade	+2.9%
US High Yield	+2.5%
Sterling High Yield	+1.9%

Last 12 Months

US Investment Grade	+4.2%
Sterling Investment Grade	+4.4%
US High Yield	+5.9%
Sterling High Yield	+5.9%



Market Overview: Alternatives

Alternatives

- Alternative assets were mixed in Q2 2026, with the previous quarter's inflation-hedging winners sharply reversing.
- **Gold:** Gold fell 13.7%, giving back much of its earlier gains as the dollar strengthened and expectations that the Federal Reserve might hike interest rates increased.
- **Property:** Property was the standout, returning 7.9% as sentiment improved and rate expectations stabilised.
- **Commodities:** Commodities dropped 8.1% as oil prices plunged more than 30% following the peace deal, reversing Q1's surge.
- **Hedge Funds:** Hedge funds gained 4.3%, benefiting from the broad recovery in risk assets.

Gold | Q2 Performance | -13.7%

Property | Q2 Performance | +7.9%

Commodities | Q2 Performance | -8.1%

Hedge Funds | Q2 Performance | +4.3%

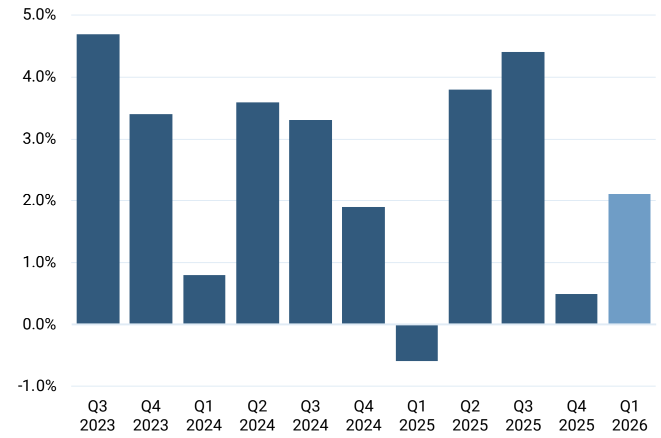
Source: Bloomberg
All data is to the end of the previous quarter. Performance is calculated on a total return basis, in local FX unless stated otherwise. Indices used: S&P GSCI Gold Index Spot (Gold), S&P Global Property (Property), Bloomberg Commodity Index Total Return (Commodities), Bloomberg All Hedge Fund Index (Hedge Funds)

Macro Overview

US

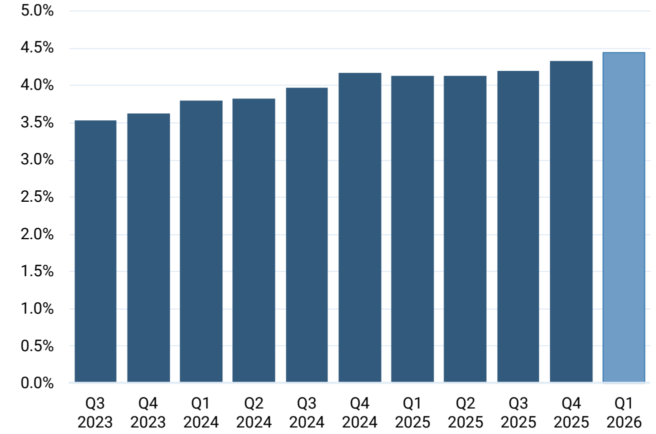
Real GDP Growth*

Q1 2026	+2.1%



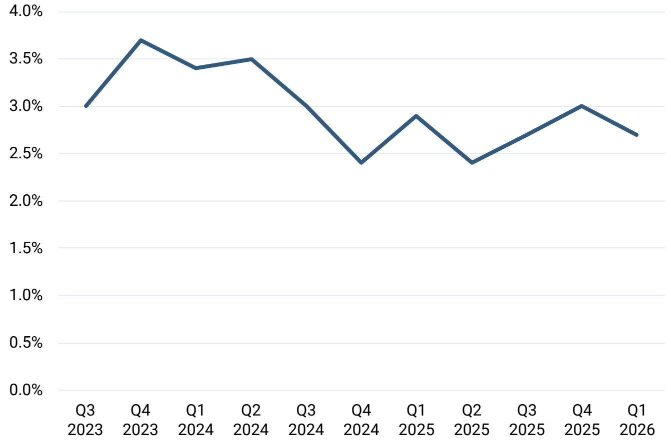
Unemployment

Q1 2026	+4.5%



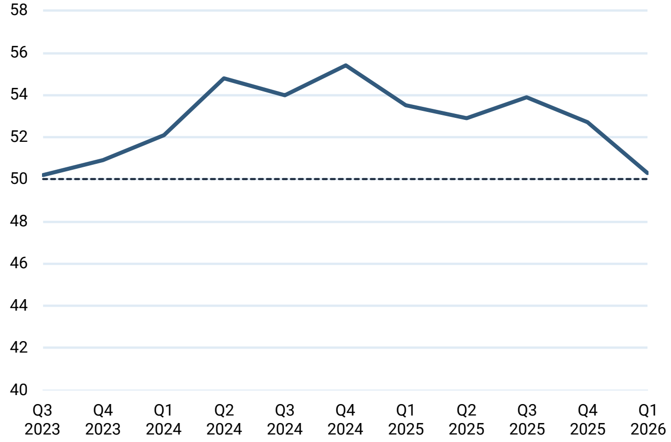
Inflation

Q1 2026	+2.7%



Composite PMI

Q1 2026	+0.3%

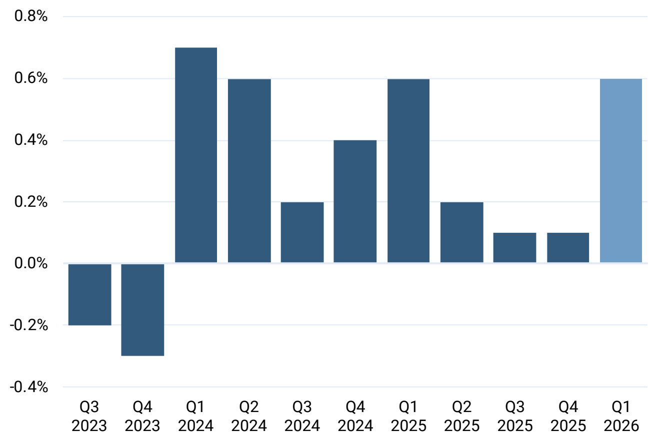


Source: Bloomberg
All data is to the end of the stated quarter, unless stated otherwise. Indices used: GDP CQOQ Index (Real GDP Growth), EHUPUS Index (Unemployment), CPI YOY Index (Inflation), MPMIUSCA Index (Composite PMI)
**US Real GDP is a quarterly figure annualized, unlike other regions.*

UK

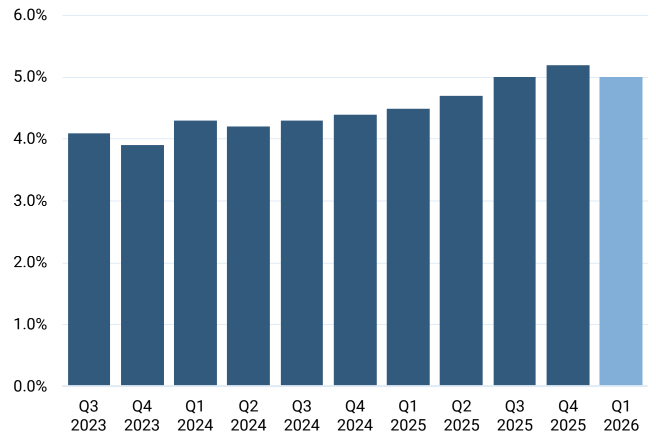
Real GDP Growth

Q1 2026	+0.6%



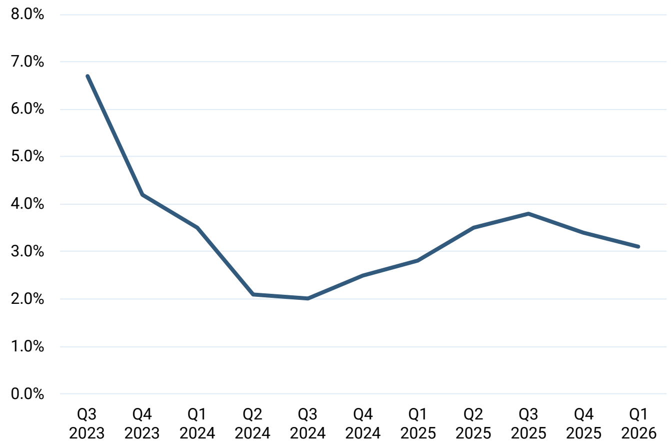
Unemployment

Q1 2026	+5.0%



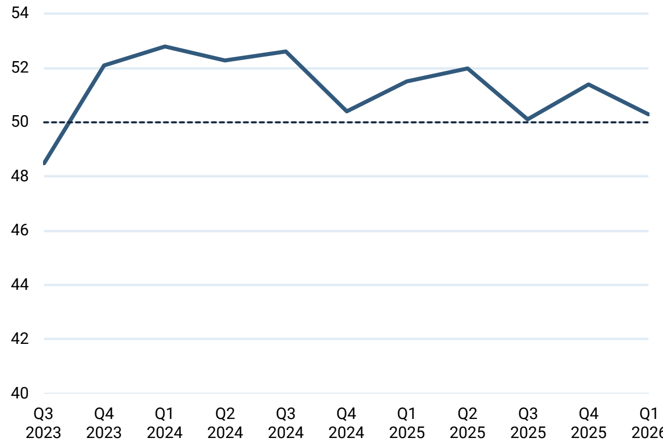
Inflation

Q1 2026	+3.1%



Composite PMI

Q1 2026	+0.7%

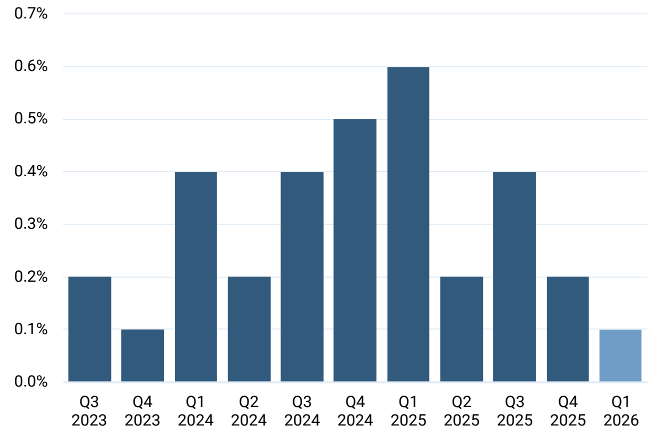


Source: Bloomberg
All data is to the end of the stated quarter. Indices used: UKGRABIQ Index (Real GDP Growth), UKUEILOR Index (Unemployment), UKRPCJYR Index (Inflation), MPMIGBCA Index (Composite PMI)

Europe

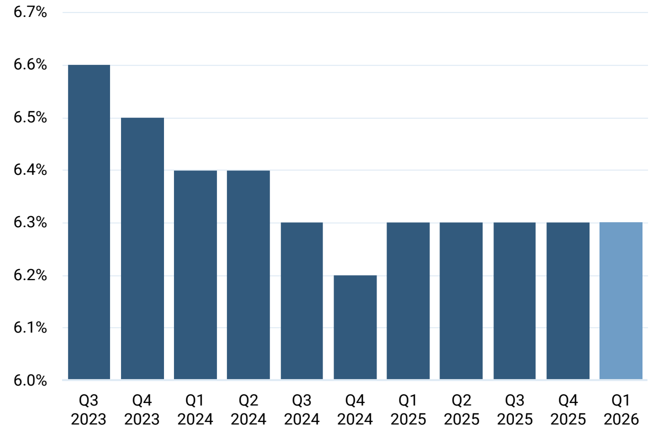
Real GDP Growth

Q1 2026	+0.1%



Unemployment

Q1 2026	+6.3%

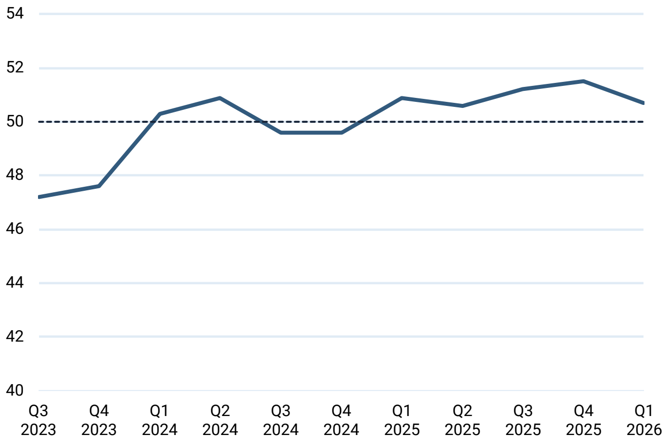


Inflation

Q1 2026	+2.6%

Composite PMI

Q1 2026	+1.3%



Source: Bloomberg
All data is to the end of the stated quarter. Indices used: EUGN27QQ Index (Real GDP Growth), UMRTEMU Index (Unemployment), ECCPEMUY Index (Inflation), MPMIEZCA Index (Composite PMI)

Japan

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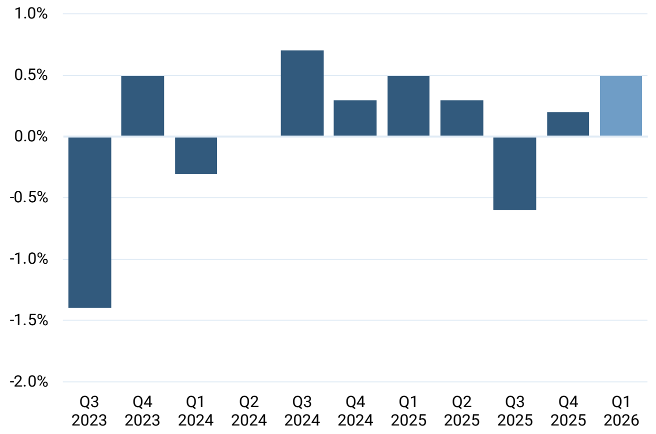
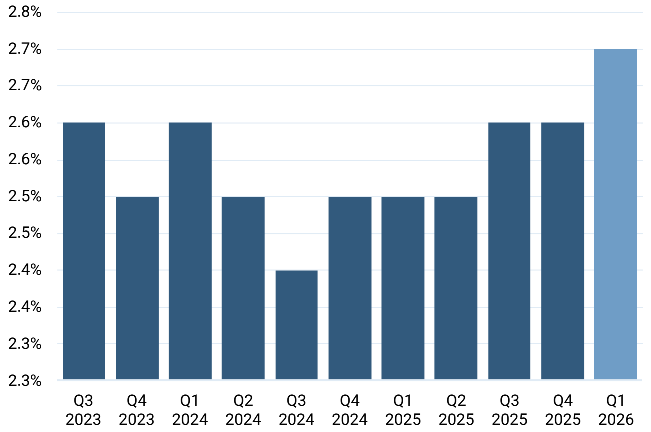
Real GDP Growth

Q1 2026	+0.5%



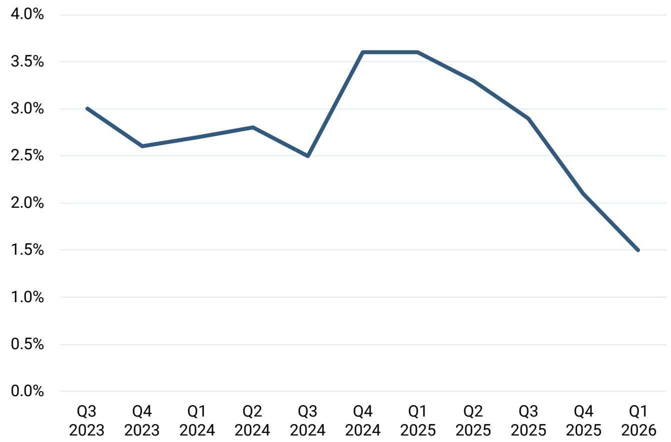
Unemployment

Q1 2026	+2.7%



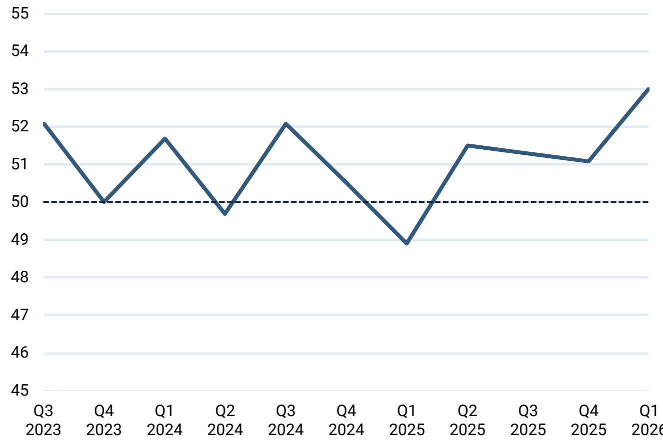
Inflation

Q1 2026	+1.5%



Composite PMI

Q1 2026	+0.4%



Source: Bloomberg
All data is to the end of the stated quarter. Indices used: JGDPQGDP Index (Real GDP Growth), JNUE Index (Unemployment), JNCPIYOY Index (Inflation), MPMIJPCA Index (Composite PMI)