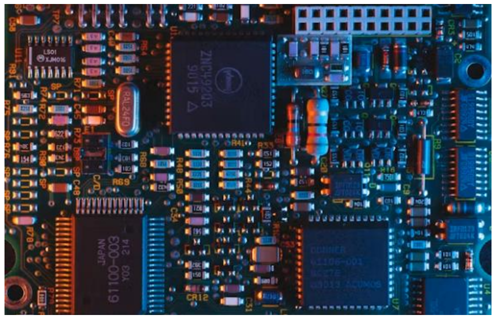
Anderson Strathern ASSET MANAGEMENT

Q2 2026 Market Commentary

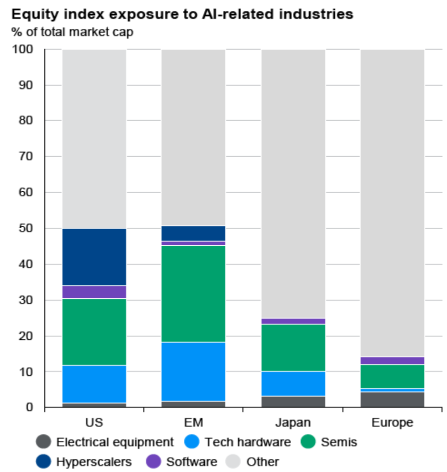
The second quarter of the year was a strong period for equity markets. There was a combination of factors including a cessation of the conflict in the Middle East as Iran and the US signed a 'memorandum of understanding' allowing for a ceasefire. The AI theme remained strong and a broader rise in the sector occurred rather than just a few doing well. At a corporate level, reported earnings generally rose albeit we have not yet seen any real impact of the conflict diluting performance which may yet occur. Markets with a greater dependence on commodities or more domestically focused economies generally lagged. In the UK, Sir Keir Starmer resigned as Prime Minister with Andy Burnham now taking the helm.

The easing of tensions has also reduced concerns around inflation and the potential for interest rate rises. At the start of the year markets were forecasting two cuts in the UK. It had moved to four hikes at the start of the conflict, and today are pricing in one rate hike but not until March 2027. The change in expectation highlights the impact the conflict has had on the market. Domestically we have a budget to come, and the possibility of more short-term volatility as the markets consider any potential changes under Andy Burnham and a new Chancellor. We will continue to engage with our active managers as and when further details come out, rather than speculate. The largest IPO in history was created by SpaceX. It raised a record $75bn, having been run as a private company for 24 years.

In other asset classes, commodities had a more challenging time as the de-escalation in the Middle East brought oil prices back down quite sharply. Gold and other precious metals had a difficult quarter as inflation expectations impacted. Within fixed income, global bonds had a positive quarter as the conflict, inflation and interest expectations moved around allowing traders to take advantage of the liquidity.



The ASAM investment proposition remains diversified across asset classes, geographies, sectors and businesses to help spread risk over investment time frame. Whilst the AI Theme has been broadening out, the concentration in both the US and global indices remains at extreme. The chart below shows the % allocation of US equities within global equities alongside the tech sector weights. The chart on the right shows that within the AI related industries and how they vary across major regions/countries.



Source: JPM Morgan Guide to the Markets June 26

Equities

The UK market, as measured by the Morningstar All Cap Target Market Exposure index, was up by 2.20%, with the financial sector continuing to be strong over the period. Corporate earnings overall remain resilient at this point, with companies overall in a strong position. We continue to actively engage with fund groups on the implications should inflation become elevated again and how they are positioned to deal with this if the conflict goes on longer than anticipated.

The US market had a strong quarter as strong earnings reports and a broadening out of the AI theme continued to boost markets. The US consumer continues to be resilient and the region having hosted the World Cup this July should have provided a boost to retail sales and hospitality spend into the new quarter. Alongside earnings we continue to see a significant increase in the development of AI infrastructure and data centres.

In Japan, equity markets appreciated as a combination of Yen weakness and increased inflation moved government bond markets. The appetite for Japanese exposure has improved as governance reforms and companies are buying back shares at a greater pace. At the company level there are increased dividends supported by robust earnings. These catalysts look supportive moving forward.

In Europe it was a mixed quarter of opportunities and challenges. The information technology and financial sectors were the top performers. The commodity sector was more challenged, as the energy prices remained volatile before falling into the quarter end. Earnings growth remains weaker than other regions but still strong overall.

Emerging Markets and Asian markets appreciated in value and again we saw a broadening out of the AI theme with semi-conductors and some IT hardware names performing well. In addition, the easing of tensions in the Middle East was positively received as the region is reliant on imports from the conflict region.

Fixed Income

The Federal Reserve in the US hosted its first meeting with the new Chair Kevin Warsh, where rates were kept on hold as expected. There is some change ahead as the committee may look to move away from forward forecasting to a more data dependent approach. Inflation continues to remain above target, but at this point it’s expected this will come back down to target. This will take a little longer than anticipated given the recent events in the Middle East.

The Bank of England held rates over the quarter. Gilt markets performed well as the market started to move away from the potential for rate hikes to more of a staying put approach, due to the easing in Middle east tensions. The annual Consumer Price Index (CPI) inflation rate reduced to 2.8% but the recent conflict could take this higher in the short-term. For context, the rate is still above the 2% bank of England long- term target. Income levels on both government and corporate debt continues to offer attractive levels of income. Default rates remain low and balance sheets remain robust at this stage, supporting the asset class. Markets reacted after comments from Andy Burnham to maintain the current governments debt levels. Change cannot be ruled out but extending the overdraft and increasing the debt issuance would be viewed negatively in the markets. As the seats are reshuffled in Downing Street, we’ll continue to monitor markets and await details rather than speculating at this point.

The European Central Bank (ECB) increased rates by 25bps with concerns around potential inflationary impacts from the Middle East conflict. The impact of any rate change has a delayed impact but the ECB remains on the front foot to counter inflation. The growth expectations at the last meeting have been revised down to 0.8% for 2026, and then up to 1.2% for 2027. The ECB has raised its inflation forecast to 3% for 2026, prior to this it was 2.66% before the events in the Middle East. Unemployment remains low at 5.8% although demand for labour has weakened.

Credit markets continued to perform well, outperforming equivalent government bonds. This has afforded investors a reward for selecting corporate debt over more secure government debt.

Volatility within government bonds continued to be focused on inflation and interest rate expectations.

Outlook

Looking at the investment outlook for the long term, we continue to focus on fundamentals, and what drives investment returns over the investment time frame. Over the last twelve months we have seen indiscriminate moves across markets, sectors, and individual companies which are short- term and lacking fundamental support. Many short-term market movements are sentimental and reactionary without long-term consideration to how individual companies are performing and adapting to the economic environment. The dislocation in markets presents opportunities for active management.

We continue to actively engage with all our fund managers on both a routine and ad-hoc basis to monitor how they are positioned and how the underlying investments are performing as the wider media headlines and geopolitical changes unfold. We remain focused on equities, favouring active managers, who have been trimming and adding to positions when opportunities arise.

We remain overweight in a pool of diversified real asset funds. Some of the underlying investments in the funds are assets with inflation linked contractual payments often backed by governments. The more rate sensitive areas in this space such as infrastructure and real estate should start to benefit as bank rates start to come down or simply show greater stability. At present many are attractively valued, offering a good level of income and potential appreciation. Increased corporate activity and internal buying back shares may also unlock the underlying value across the asset class.

Our investment proposition remains blended and diversified throughout regions/sectors and asset types and will perform different roles in the portfolios over investment time frames. We continue to focus on longer term drivers of asset class return and not trying to second guess short term sentiment or be too reactive to macro/geopolitical events.

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