



Summary Investment Commentary

Markets began the year strongly but were disrupted by the conflict in the Middle East, which drove a spike in energy prices and renewed concerns over inflation, interest rates and global growth. Equities came under pressure, bonds weakened on fears of higher inflation, gold lost some momentum and the US Dollar strengthened. Expectations of rate cuts in the US and UK switched towards possible rate rises, with similar pressures in Europe, while the ten-year gilt yield briefly rose above 5% for the first time since 2008. The outlook now heavily depends on the duration of the conflict, the stability of energy flows and companies' ability to adapt. Although earnings forecasts remain unchanged and optimistic, markets will be responding to upcoming management commentary. The impact of Artificial Intelligence has remained significant, if hard to predict, while corporate activity was plentiful in the first quarter. Our approach is centred on the view that markets are adapting to a structurally higher cost of capital, with inflation likely to remain above Central Bank targets. We therefore continue to favour portfolios positioned for protection, resilience and diversification.

Summary of portfolio changes

We rebalanced the VIP model portfolios across all platforms on 30th April.

In terms of asset allocation, we increased equities modestly across all portfolios except for VIP Balanced Income, with a corresponding decrease in alternatives. We retained the fixed interest weighting as before whilst adjusting exposures.

We reduced exposure to absolute return strategies within alternatives in favour of commodities and managed futures as well as increasing equities with tilts towards technology, natural resources, and broader US market exposure. Within fixed interest we added emerging market exposure and reduced Sterling corporate credit.

In terms of individual fund changes:

- partial switch from Man Sterling Corporate Bond to Morgan Stanley Emerging Market Debt to take advantage of higher yields and potential currency appreciation.
- sale of M&G Asian following strength in Taiwanese and Korean markets for a new position in BNY Mellon US Equity Income, increasing our US exposure following some relative weakness.
- new positions in Matthews China Innovators and Polar Capital Global Technology for higher-risk portfolios, tilting towards a technology focus
- new position in JPM Latin America in higher risk portfolios to capitalise on the strength in commodity markets.
- switch from Ninety One Global Gold to JPM Natural Resources for more diversified commodity exposure.
- sale of Tellworth UK Select reallocating to Ruffer Diversified and M&G Global Target Return
- reduction in SEI Liquid Alternative favouring AQR Managed Futures and PIMCO Commodity Real Return.

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Current Thinking

Economic growth

Global growth expectations for 2026 from the International Monetary Fund have been lowered to 3.1%, from 3.3%, while US growth is expected to fall back to 2.3%, and Emerging Market and Developing Economies are exceeding global growth at 3.9%.

Earnings

Analysts' expectations for company profits have shown little change, with total world earnings growth estimated at 18%, still largely driven by AI spending in Emerging Markets and the US. These remain optimistic, especially given the uncertainty surrounding the conflict in the Middle East.

Inflation

The rate of inflation is likely to remain above the central bank target of 2% in the US, the UK and Japan. A prolonged Middle East conflict could push inflation further above target levels.

Interest rates

The Federal Reserve is expected to keep interest rates flat for now, with the possibility of a small increase later in the year, while the Bank of England, European Central Bank and Bank of Japan are expected to increase rates.

Liquidity

Financial conditions, such as money supply and lending growth, remain accommodative; however, pressure has risen from a stronger US Dollar, higher bond yields and geopolitical tensions. Corporate credit spreads widened but have since tightened. Corporate activity is also supportive.

Valuations

Valuations are more elevated generally and reflect robust earnings growth. Whilst the US remains the richest region, the earnings growth from the largest companies has justified the rating. Emerging Markets, Europe and the UK, as well as sectors including communications, energy and financials remain reasonably valued.

Geopolitics

Middle East tensions are reinforcing wider structural shifts, including protectionism, supply chain realignment and changing national security priorities. These trends point to above target inflation, structurally higher capital costs, and greater competition for strategic assets. Resolution to the conflict would support growth, while prolonged instability would put pressure on costs, demand and profitability.

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Summary positioning

Current asset class position	-	=	+	Comments
Fixed income		■		Still remain cautious on long dated bonds given government debt levels and spending intentions. Adding exposure to emerging market debt.
Equities			■	Neutral if having increased favouring technology and resources.
Alternatives			■	Slightly overweight if reduced favouring commodities and managed futures strategies.
Cash		■		Interest income remains attractive relative to bonds.

Current equity position	-	=	+	Comments
Asia ex Japan		■		Reduction in favour of wider emerging markets as reliance on Middle East exports and concentration risks such as exposure to TSMC.
Emerging Markets			■	Driven by decent economic growth with backdrop favourable for commodity exporters creating opportunities in regions such as Latin America.
Europe ex UK		■		Driven by strong value and quality equities.
Japan		■		Japan's expected growth, corporate governance reforms and low interest rates look positive, although uncertainty around Middle East conflict and reliance on exports are a concern.
North America		■		Increased exposure to the US, while remaining underweight due to relatively high valuations, as corporate activity remains buoyant in technology sector which is relatively insulated from global shocks.
United Kingdom		■		Driven by strong value and quality equities, although growth drivers remain a concern.
Thematic			■	Favouring technology and commodities.

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