VINTAGE
asset management

Investor Insights

Quarterly Report

Summer 2026

Overview

/ Notable strength in technology sector in quarter

/ Volatility over war in Iran and variable oil price

/ Global growth still resilient if with risks

/ Rate of inflation sticky and interest rates higher

/ Corporate earnings and activity still robust

Markets: the second quarter of 2026 saw a substantial advance in markets overall, with the technology sector and in particular semiconductor shares driving returns in the US and Asia; there were hopes for an end to the conflict in Iran although tension continued; the prospects for economic growth remained reassuring if at risk from renewed hostilities; the rate of inflation seemed stickier and there was a shift in interest rates; fixed interest assets were resilient but UK gilts reflected some uncertainty; commodities were mostly softer and the price of gold was well down on its peak.

Politics and geopolitics: the Iran war ebbed while the conflict in Ukraine persisted; Donald Trump and Vladimir Putin each held summits with mixed results with Xi Jinping in China, which still menaced Taiwan; the US threatened further tariffs of 10% to 12.5% on sixty countries; Péter Magyar's centrist party Tisza won a resounding victory in elections in Hungary, ending the rule of Viktor Orbán and enabling the European Union's €90bn loan to Ukraine; Andy Burnham won easily in the Makerfield by-election in June and Sir Keir Starmer stood down as prime minister.

Economy: the annualised growth in the US economy in the first quarter of 2026 was reported at 2% and the labour market saw robust if variable job creation; the UK economy was reported to have grown by 0.6% in the first three months of the year if losing momentum in the second quarter, when the eurozone economy also weakened; Japan set out plans to invest ¥370trn (£1.7trn) up to 2040 across seventeen strategic sectors; retail sales in China declined in the month of May, the first such fall since 2022.

Inflation and interest rates: in the UK the consumer price index (CPI) rose to 3.3% in March but was at 2.8% in April and in May, while in the US it rose from 3.3% to 3.8% and then on to 4.2%; in the eurozone the rate rose to 3.2% and in Japan to 1.5% in May; the European Central Bank lifted its deposit rate from 2% to 2.25% and the Bank of Japan raised its rate from 0.75% to 1%; the US Federal Reserve stuck with a level of 3.5-3.75% although it ended the bias towards easing rates, similar to the UK.

Profits and earnings: earnings growth in the US was strong in the second quarter of 2026 and forecasts were raised around the world; the enthusiasm for Artificial Intelligence continued if with concerns on the investment planned; corporate activity was plentiful.

Outlook

/ Decent economic growth if dependent on conflict

/ Central banks careful on interest rates

/ Strong corporate profits for now

/ Considerable political and geopolitical factors

/ Prospects still broadly positive if potential volatility

Economy: growth is moderating from above trend levels but should remain resilient, if dependent in part on the conflict over Iran where a lasting peace deal is elusive, leading to restrictions again in the Strait of Hormuz; the oil price has risen and is likely to fluctuate - the International Energy Agency estimated that the war had already removed some 15% of the expected global liquified natural gas (LNG) supply for the 2026–2030 period, inventories are low and Ukraine has attacked Russian supplies; in the US the labour market has improved and capital expenditure is strong, dominated by the large technology companies known as the hyper-scalers who are set to spend $2.1trn, with the potential return on that investment unknown; the International Monetary Fund base case is that global growth will be 3% for 2026 from 3.5% in 2025 with the main risk an escalation of the war in Iran; the IMF trimmed its forecasts for the major economies in the G8 aside from the UK, which it nudged up to expansion of 1%; China reported growth in the second quarter at 4.3%, below the target for the year while Gao Shanwen, the Chinese economist who challenged official growth numbers as materially overstated, died of an illness at a statistically young 55; another El Niño event is due, global sea temperatures are high and farming is tough if now more technological.

Inflation and interest rates: the IMF has predicted the global inflation rate will rise from 4.1% in 2025 to 4.7% in 2026 before receding to 3.9% in 2027, while in the US the CPI was back down to 3.8% in June in the most recent release; markets have priced in rate rises to counter these inflationary pressures, although there is a good argument that inflation will moderate; central banks are proceeding carefully, while there remain likely divisions on the trajectory at the Bank of England (which might see rates down to 2.75% in 2027) and the US Federal Reserve, which is adjusting its forward guidance; the European Central Bank and the Bank of Japan may raise their rates further.

Profits and earnings: company profits have underpinned the rally in equity markets with forecasts for the next year being increased for the US and more widely – the indicative level for growth in net income is 21% for the year to June 2027 and the figure is still 20% globally excluding the technology-oriented top ten US stocks; the reporting season for the second quarter in the US has started robustly, if variably with banks making bumper profits and AI prompting divergent outlooks, with IBM suffering; there may yet be other downgrades to come; dividends as usual should increase steadily.

Politics and geopolitics: the world seems invariably in a complex state with plenty of political noise and geopolitical nuisance; the conflict in the Middle East, the continued war in Ukraine and the threats to Taiwan look to pose the greater problem until something else comes along - the IMF warned that the latest AI models posed a systemic cyber-security risk to the world's financial system; populism and political division might predominate, which the pending mid-term elections in the US seem likely to confirm; governments will still look to establish a greater level of security in energy and technology; their fiscal largesse has been substantial and AI can produce an enhancement to productivity, while longer-term issues on debt, defence and demographics remain.

Prospects: markets are very much momentum-driven which can bring considerable volatility, as recently in South Korea after a strong run led by semiconductor shares; if company profits prove as promising as predicted then there is scope for equity markets to move higher; liquidity and financial conditions have been supportive if less so more recently.

Asset Allocation

The quarterly investment committee in July opted to maintain the overall asset allocation for each mandate; the broad diversification and a blend of styles has allowed good absolute and relative returns in recent years even if the last quarter's market movement was an unusually tight one with value-oriented funds struggling; we retain a modest and selective exposure to the technology sector in the US and Asia, where the growth potential is substantial but the risks remain, including on valuations; we see positive dynamics in Japan as the economy expands and in Asia as a whole; emerging markets look promising and retain reasonable value, and we will sustain the Latin American positions which struggled with the weakness in resources; the weighting to fixed interest reflects the attractive level of income with a continued focus on credit quality as well as short duration; we use alternative assets to help to offset volatility in bonds and equities, although we are reviewing the defensive and absolute return funds as they can suffer in extreme markets; the return on any cash that we hold in portfolios in money market funds remains reasonable with further rate cuts probably deferred and we will monitor the evolution of the proposed charge on interest income on cash in ISAs.

Here is a summary of the current asset allocation by mandate, which we have revised slightly, as well as the wider available ranges, which are unchanged.

Mandate		Bonds	Equities	Alternatives	Cash
Cautious	Range	35 - 60%	15 - 35%	10 - 35%	0 - 25%
	Current	43%	22%	22.5%	12.5%
Cautious Balanced	Range	25 - 50%	30 - 50%	10 - 30%	0 - 25%
	Current	38.5%	34%	20%	7.5%
Balanced	Range	15 - 40%	45 - 65%	10 - 30%	0 - 20%
	Current	25%	53.5%	16.5%	5%
Balanced Growth	Range	5 - 30%	60 - 80%	5 - 30%	0 - 20%
	Current	15%	67%	16%	2%
Growth	Range	0 - 20%	70 - 90%	0 - 25%	0 - 20%
	Current	5%	80%	14%	1%
Equity Growth	Range	0 - 2.5%	80 - 100%	0 - 20%	0 - 20%
	Current	0%	93%	6%	1%

Asset Considerations

Developed markets: the resilient level of global economic growth has helped many companies to grow, in particular where governments are spending freely on defence and infrastructure; there are concerns over valuations notably in the US, although the increase in earnings has been more significant than a rise in ratings, even as investors see lower risk; there are also issues for certain sectors where AI might damage or destroy business models; much will depend on the returns for AI-related expenditure where markets might be mistaking a capital cycle for a permanent structural shift; there are high hopes for the three AI companies coming to market on ambitious valuations in SpaceX, OpenAI and Anthropic whose combined value as adjusted for inflation will probably prove to have been greater than the total for the approx. 2,600 flotations that took place between 1995 and 2000 in the dot com era; there are in addition concentration challenges, with the 'Magnificent 7' large technology shares together with the semiconductor stocks Micron, AMD and Broadcom representing about 40% of the US index, the same as the peak of the Nifty Fifty in the 1970s, close to the 41% in the technology sector in 2000 and near enough the 44% Japan represented of the world index in the late 1980s – the Nikkei index took over thirty-four years to regain its level when the bubble burst in December 1989, although it has doubled since doing so in 2024.

Emerging markets: in China the domestic economy has been subdued with persistent strains in the property market, so despite the strength in exports the economic expansion in the second quarter was shy of the government's annual target of 4.5-5%; the technology sector remains intriguing as various Chinese businesses have established strong global positions; the Indian economy has had its challenges but should see strong growth while the lag in its index now means that comparative valuations are less demanding; the technology sectors in South Korea and Taiwan have seen fast growth while the wider emerging and frontier market universe has also improved; there is a concentration risk similar to that of the US with Samsung, SK Hynix and TSMC accounting for over 30% of the Emerging Market index at end June.

Sectors: we retain our exposure through funds to a number of global sectors, which reduces our underweight approach to the US market; this provides promising potential in areas such as technology, resources and insurance, where the exposure has tended to counter momentum in markets; global smaller companies, in practice mostly mid-sized businesses, have looked attractive if as often awaiting a catalyst to perform.

Alternative assets: absolute return funds have not recently managed to deal with momentum-driven markets to meet expectations and to manage volatility, while defensive funds have found their protection strategies to have been costly; trend-following strategies including managed futures have also shown some volatility if with good returns over time that are uncorrelated to most indices; there is still scope for a sustained run in the wider commodity sector, even if that was elusive in the second quarter; the price of gold may remain volatile reflecting shifts in interest rates; the demand for energy is one interesting component in a wider infrastructure spend.

Fixed interest: fixed interest assets offer attractive yields if less so in real terms as inflation stays a little higher, and overall, we are underweight our benchmark; we still favour quality and short duration and are wary of the potential fall-out from the private credit market; we also see potential in emerging market debt, tied into our approach on equities in Latin America.

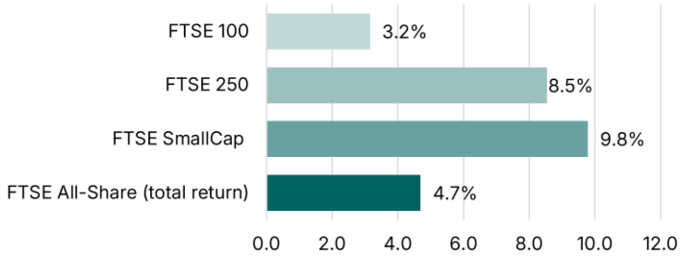
Currencies and cash: we expect a variable US policy to contribute to a shift from US assets that will weigh on the US$, although each potential rival reserve currency has its issues; our policy is to hedge out the risk from currency in fixed interest if not usually in our equity exposure; the expected returns from cash on deposit and from money market funds remain reasonable for now with interest rate cuts deferred.

Asset Returns

United Kingdom

In the UK the FTSE 100 index was up by 3.2% in the quarter to 10,497 to make a return for the first half of the year of 5.7%. The FTSE 250 index of mid-sized companies was up by 8.5% and the FTSE SmallCap index by 9.8%.

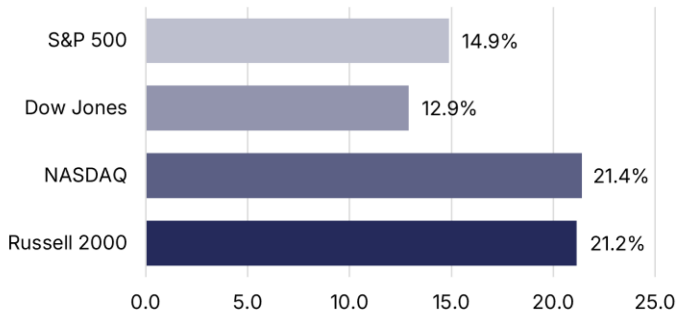
The total return for the FTSE All-Share index including income was 4.7% in the period.



United States

In the US the S&P 500 index was up by 14.9% in the quarter, while an equal-weighted index was up by 10.9%. The Dow Jones Industrials index increased by 12.9% and the technology-oriented NASDAQ index rose by 21.4%.

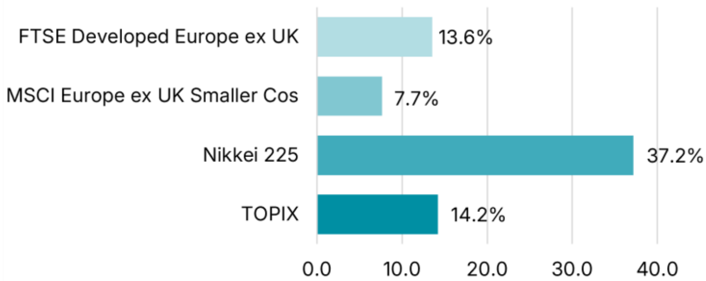
The Russell 2000 index of smaller companies was up by 21.2% in the period.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 13.6% over the quarter, when the Italian market was the best of the major markets with a return of 16.6% while the French market lagged at 7.5% in the period. The MSCI Europe ex UK Smaller Companies Index was up by 7.7%.

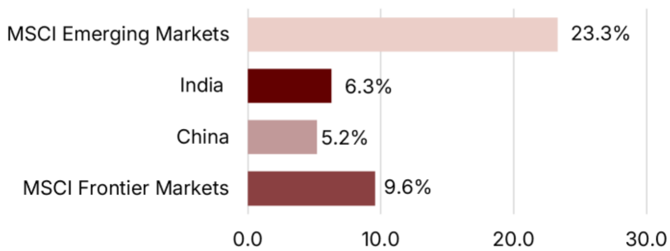
In Japan the Nikkei 225 index rose by a striking 37.2% and the more representative TOPIX index by 14.2% over the quarter.



Emerging Markets

The MSCI Emerging Markets index in US$ was up by 23.3% in the quarter. The Korean market saw a significant return of 67.8% in the quarter to make 101.1% for the first half of the year, if dipping since, and the Brazilian market was down by 8.2%.

In China the Shanghai index rose by 5.2% while the Hang Seng index in Hong Kong fell by -7.7%. The MSCI Frontier Markets index was 9.6% higher with the Vietnamese market up by 11.1%.



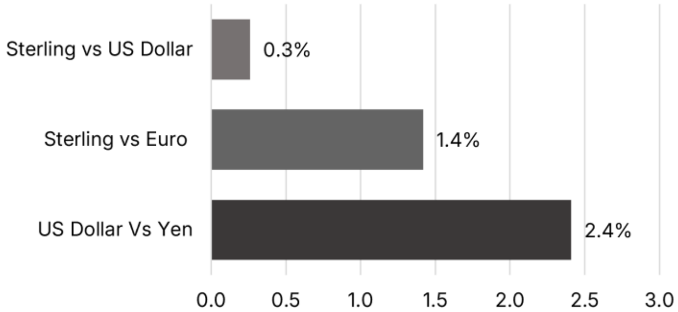
Bond Markets

In bond markets the UK 10-year gilt yield declined from 4.92% to 4.76% in the quarter and the total return for the FTSE Gilts All Stocks index was 2%.

The US ten-year yield rose from 4.32% to 4.47%, and the German bund yield was down from 3.0% to 2.86%. There were positive returns in the period aside from index-linked gilts, with local currency emerging market debt doing best.

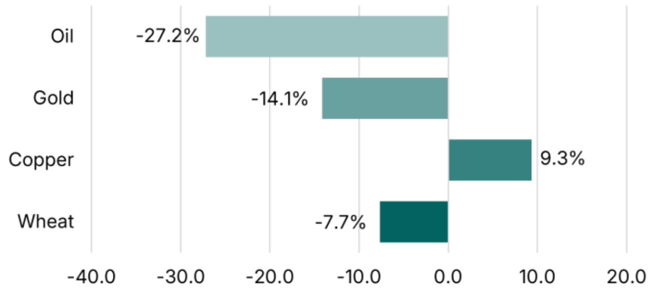
Currencies

Sterling strengthened against the US$ by 0.3% over the quarter to close at a rate of $1.33:£ and against the euro Sterling was up by 1.4% to end at a rate of €1.16:£. The US$ was 2.4% higher in the period at ¥163:$ against the Japanese yen.



Commodities

The price of Brent crude oil was substantially lower by 27.2% in the quarter to $74 per barrel. The gold price fell by 14.1% to end at $4,008 per troy ounce. The prices of major metals were mostly down in the period, with only copper up by 9.3%, and the main agricultural commodities all fell, with wheat off 7.7%.



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