



Summary Investment Commentary

Global equities rallied in the second quarter driven by technology and semiconductor strength in the US and Asia, as a ceasefire in the Middle East eased geopolitical risk and commodity prices retreated. However, persistent inflation above central bank targets prompted the European Central Bank and the Bank of Japan to raise rates, while the Fed and BoE held steady while signalling future tightening. Bond yields rose on expectations of higher interest rates as well as pressure from substantial bond issuance to fund investments in data centres. In July, the ceasefire's breakdown reversed momentum with oil briefly spiking to \$100 per barrel, semiconductors fell sharply, and risk appetite wavered. Notwithstanding the volatility, corporate earnings have proved to be strong across a range of key sectors including technology and financials, stimulating further investment and supporting valuations. Investment enthusiasm for artificial intelligence continued despite concerns over spending levels, and merger and acquisition activity remained robust.

Summary of portfolio changes

We rebalanced the VIP model portfolios across all platforms on 31st July.

In terms of asset allocation we made some small adjustments increasing equities in the Cautious portfolio by 1.5% and in Cautious Balanced by 0.5%, reducing alternatives by 2% and adjusting cash levels as well as increasing fixed interest in Cautious Balanced by 0.5%. We adjusted the equity holdings in the Cautious portfolio favouring less of a home bias and similar to that of our other portfolios. In the Equity Growth portfolio, we have reduced the allocation to UK equities by 4.5% and increased exposure to Emerging Markets, the US and Europe. This change enhances the portfolio's global diversification which we see as moving the portfolio's risk profile from 7 to 8.

In terms of the key individual fund changes, we:

- increased holdings in BNY Mellon US Equity Income across all portfolios except Balanced Income to gain exposure to the broader US market through a partial switch from T. Rowe Price US Structured Research.
- sold the holdings in Ruffer Diversified and topped up Jupiter Global Equities Absolute Return and SEI Liquid Alternatives.

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Current Thinking

Economic growth

Global growth expectations for 2026 from the International Monetary Fund have been lowered to 3.0%, while US growth is expected to trail behind at 2.4%. Emerging Market and Developing Economies are expected to grow at a faster 3.8%.

Earnings

Analysts' expectations for global corporate earnings growth are varied although sit at around 18%, largely driven by AI-related spending in Emerging Markets and the US. This in spite of the ongoing uncertainty surrounding the conflict in the Middle East.

Inflation

The rate of inflation is likely to continue to remain above the central bank target of 2% in the US, the UK and Europe. A prolonged Middle East conflict could add further inflationary pressure, pushing price growth further away from target levels.

Interest rates

Most of the key central banks are expected to raise their policy rates later in the year and longer dated bond yields to continue to rise.

Liquidity

Financial conditions remain accommodative in spite of the higher cost of capital and geopolitical tensions. Corporate activity is robust and credit spreads remain relatively tight if seeing some widening in high yield.

Valuations

Valuations continue to remain high globally, although somewhat justified by higher current earnings. Opportunities appear more attractive in areas such as Emerging Markets, Europe and the UK, as well as sectors including communications, energy and select industrials.

Geopolitics

The conflict in the Middle East has reinforced wider structural shifts, including protectionism, supply chain realignment and changing national security priorities. These trends outline a view that inflation will remain above target and the cost of capital structurally higher. Resolution could support growth and liquidity, while prolonged instability would put pressure on costs, demand and profitability.

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Asset Class Outlook

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						Reliance on Middle East exports and concentration risks such as exposure to TSMC.
Emerging Markets						A favourable backdrop for commodity exporters creates opportunities in regions such as Latin America. The outlook for technology stocks in China is improving.
Europe ex UK						Driven by strong value and quality equities.
Japan						Japan's expected growth and negative real interest rates are positive, although uncertainty around Middle East conflict and reliance on exports are a concern.
North America						Strong corporate earnings supporting full valuations, resilience in face of global shocks whilst market concentration a concern.
United Kingdom						Driven by strong value and quality equities, takeover bids supportive although growth drivers remain a concern.
Thematic						Favouring technology and commodities.

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