STRATEGY & OUTLOOK
Market Update

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Market Outlook

The funds underperformed materially in April after a near record breaking rally in risk assets, led predominantly by semi conductors in the US. Although we saw some merit at the start of April in beginning to add back to this sector after some positive newsflow led in particular by Anthropic the speed, size and narrow nature of the rally surprised us. Global indices were dragged higher by this euphoria and by the welcome cessation of violence in the middle east. A solid earnings season in the US added to the overall sense of bullishness, especially in US markets.

Despite the strong performance in global markets to start the second quarter of 2026 we believe our low risk, low beta portfolio is the prudent approach given the disimproving macro backdrop resulting from the unprecedented energy and broader petro-chemical supply chain crisis developing in the middle east. Inflation and inflation expectations are beginning to rise noticeably, marking a clear break higher in what had been a downward trend in inflation since the summer of 2022. The number of rate hikes priced in is slowly rising, with 2-3 now expected in the UK and Europe. All cuts have been priced out of the US and the language out of fed governors has recently turned noticeably hawkish. Regardless of what central banks do the long end of the bond market has made up its mind with global long dated bonds breaking out to multi year highs, a development that can hit risk appetite quite materially in the short term as various issues such as relative value of equities to debt sustainability come back to the fore.

The sustainability of the euphoric equity rally against this backdrop is questionable. The earnings upgrades seen year to date in the US are undoubtedly impressive but also increasingly concentrated in one part of one subsector of the market (memory semi conductors). The quality of the earnings overall is worrying. The circular nature of the financing of AI capex is now leading to circular earnings upgrades as the hyperscalers are marking to market higher their holdings in private AI companies that they are funding. We are into the third month of the Straits being closed. Whatever or whenever the solution is the long term impact on supply chains and the global cost of living will be profound.It is generally accepted now that the world is “missing” over

1 billion barrels of oil that will have to be bought back at some stage. The initial buffers such as excess seaborne crude, higher level of Chinese inventory and aggressive SPR releases have all been utilised. Food input costs are beginning to rise on the impending fertiliser shortage.

Positioning is largely unchanged. We continue to have a low level of risk and beta. Our main sector overweights are Energy, Utilities and Banks. These sectors should benefit from this elevated and rising commodity and rate environment. Technology remains our largest underweight. The record breaking rally in semi conductors is matched only once in history (March 2000) and has been met by the most amount of leveraged retail exposure on record. Whatever ones positive long term views on this space is, now does not appear to be the time to be expressing them.

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