

STRATEGY & OUTLOOK

Market Update

June 2026



Phil Byrne, Chief Investment Officer

Market Outlook

The broad market patterns of April continued and if anything accelerated into May. The funds continued to lag their benchmarks in May after a near record breaking rally in risk assets, led predominantly by semiconductors in the US. We used this strength in AI related names to reduce our exposure fully to technology and anything in the AI supply chain. Global indices were dragged higher by this euphoria which we feel is unsustainable and now entering alarming levels. The welcome cessation of violence in the middle east has been met with no real progress in negotiations. Meanwhile the Strait continues to be closed for over a 100 days now, the long term inflationary impacts of which continue to be misunderstood by the equity market. Entering into the second half of the year the funds are positioned for a very volatile period in markets as rate hikes meet euphoric, exuberant, artificially Intelligent expectations.

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 hyperscale's are marking to market higher their holdings in private AI companies that they are funding. The creative and competitive nature as well as the actual cost of financing this unprecedented buildout goes ever higher, increasing the need to see evidence of material, sustainable and immediate ROI across the entire value chain. Capital requirements go ever higher. Alphabet just announced an 80bn equity raise ahead of 3 of the largest IPO'S in history which are all AI related.

We are into the fourth 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.

There are two main events that could rock fixed income markets globally. The first is US based and well known. A new Fed Chair starts in June. Warsh will have a difficult first meeting as his dovish leanings will be met by hawkish colleagues. The second is closer to home, a little less well covered but of equally seismic importance, especially to those that know him and have worked with him. Our head of fixed income and longest

serving investment colleague Pearse MacManus has let it be known to us that he would like to retire from the industry by the end of 2026. Although sad for ourselves we are delighted for him and we look forward to working with Pearse to find suitable exceptional calibre of replacements over the coming months.

We continue to have a low level of risk and beta but we did make some changes to the portfolios over the month. We reduced all our exposure to AI infrastructure build out, replacing it with some undervalued higher quality names that have lagged and offer good value in US healthcare, Financials and even software. Our main sector over weights 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 the foundational technology that is AI, now does not appear to be the time to be expressing them. It is imperative to not to confuse a belief in AI as a transformational technology of the future with AI stocks being a transformational investment of the present moment. We also reduced the duration of the bond portfolio. Ever rising inflation and rate hike expectations has resulted in a worrying level of correlation between bonds and equities.

THIS IS A MARKETING COMMUNICATION

WARNING: Past performance is not a reliable guide to future performance.

WARNING: The value of your investment may go down as well as up.

WARNING: Nothing presented in this article constitutes investment advice. You should not act on it in anyway and are advised to obtain professional advice suitable to your individual circumstances.

The Alternative Investment Fund Manager is FundRock Management Company (Ireland) Limited. FundRock Management Company (Ireland) Limited is authorised in Ireland and regulated by Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd (trading as Cantor Fitzgerald Asset Management) is regulated by the Central Bank of Ireland and is a Member Firm of Euronext Dublin and The London Stock Exchange.