

LEARN FROM THE PAST, PLAN FOR THE FUTURE

Introduction and Market Overview

Having spent much of the second quarter looking through geopolitical risks and celebrating the resilience of the global economy, investors entered Q3 with growing confidence that the worst of the Middle East-related energy shock had passed. Instead, the quarter saw a renewed rise in oil prices, a resurgence of inflation concerns and a significant reassessment of the outlook for interest rates.

Despite these headwinds, financial markets once again demonstrated resilience. Economic growth remained stronger than anticipated across most major regions, corporate earnings continued to exceed expectations, and the artificial intelligence investment cycle showed few signs of slowing. While bond markets endured one of their most challenging quarters in recent years, equity markets broadly absorbed higher yields and tighter financial conditions, supported by robust earnings growth.

The key development during the quarter was a reversal of the improving energy backdrop that had emerged at the end of Q2. It is now more than six months since hostilities began in the Middle East, and the conflict continues to create uncertainty for economies and financial markets. Although the military action undertaken by the US and its allies during the opening phase of the conflict materially weakened Iran's military capabilities, a lasting resolution has yet to emerge. The region remains in an uncomfortable holding pattern, characterised by disruption to energy supplies, sporadic attacks on infrastructure and ongoing geopolitical tensions.

There have, however, been some encouraging developments. Iran has recently proposed terms for a potential peace agreement that would allow unrestricted access through the Strait of Hormuz. While these proposals have not yet been accepted, they provide evidence that the current situation may be becoming increasingly difficult for either side to sustain. Iran remains heavily dependent on oil exports for government revenues and access to foreign currency, while major developed economies have a clear interest in stabilising energy supplies and reducing inflationary pressures. In our view, the political and economic incentives for a negotiated settlement are strengthening.

In the meantime, energy markets remain under pressure. Oil prices were volatile throughout the quarter before settling around \$90 per barrel. While this remains below the extreme levels reached during the early stages of the conflict, it is still sufficiently elevated to create challenges for consumers, businesses and policymakers.

WTI Crude Oil Price (First month future):

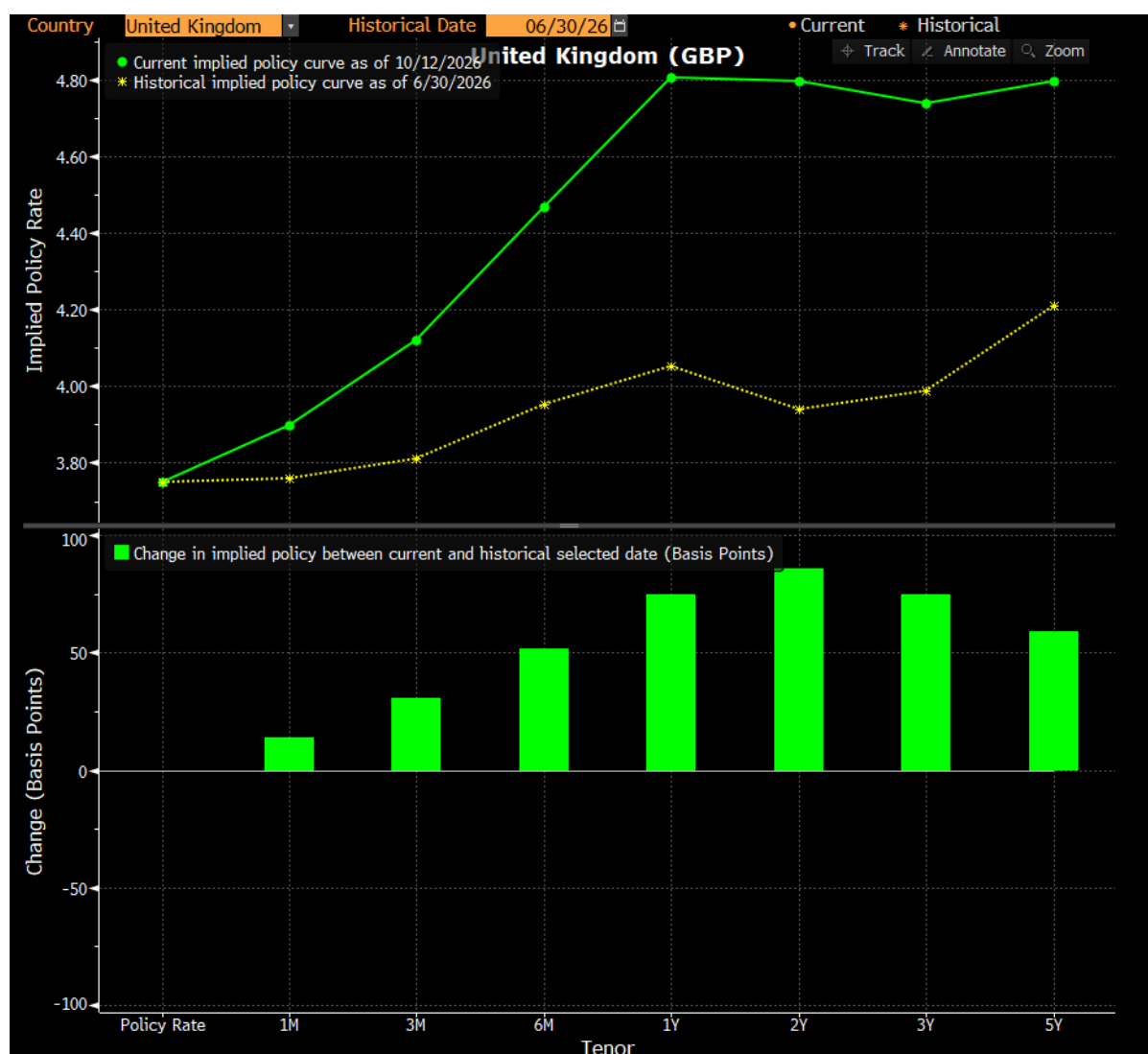


Source: Bloomberg

Oil remains a critical input across transportation, manufacturing, logistics and agriculture. As a result, sustained increases in energy prices have historically been associated with periods of rising inflationary pressure. This became increasingly relevant during the quarter as investors moved away from discussing the timing of future interest-rate cuts and instead began considering whether additional policy tightening may still be required.

At the beginning of the year, markets broadly expected central banks to begin gradually reducing interest rates as inflation continued to moderate. By the end of the third quarter, that view had changed considerably. Both the Federal Reserve and the European Central Bank raised interest rates during the quarter as policymakers sought to contain inflation risks. Meanwhile, the Bank of England maintained Bank Rate at 3.75%, while continuing to highlight the upside risks posed by higher energy prices and resilient economic activity.

Market implied UK base interest rates over the next five years (*latest in green, end of Q2 2026 in yellow*):

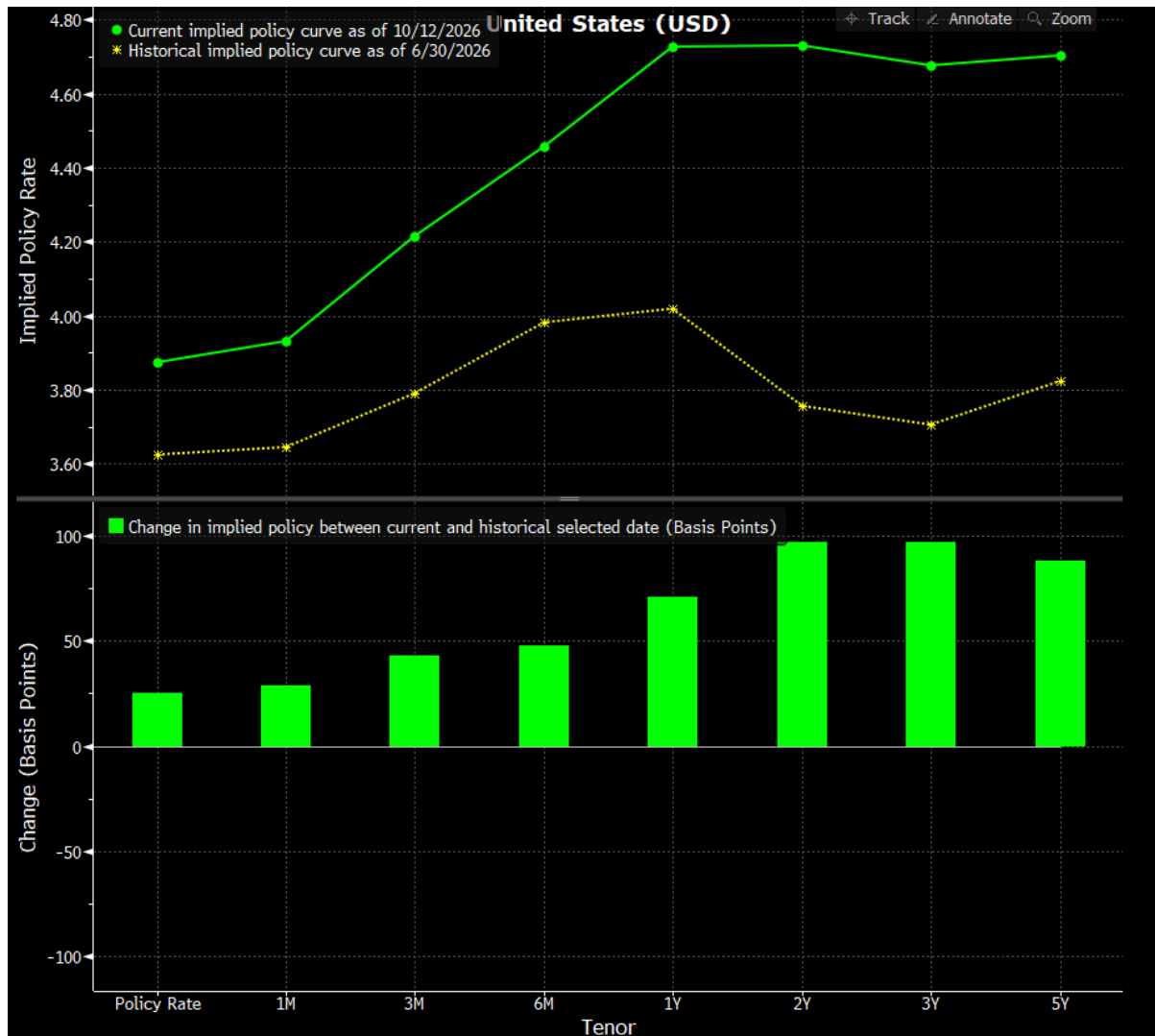


Source: Bloomberg

INVESTMENT UPDATE

October 2026

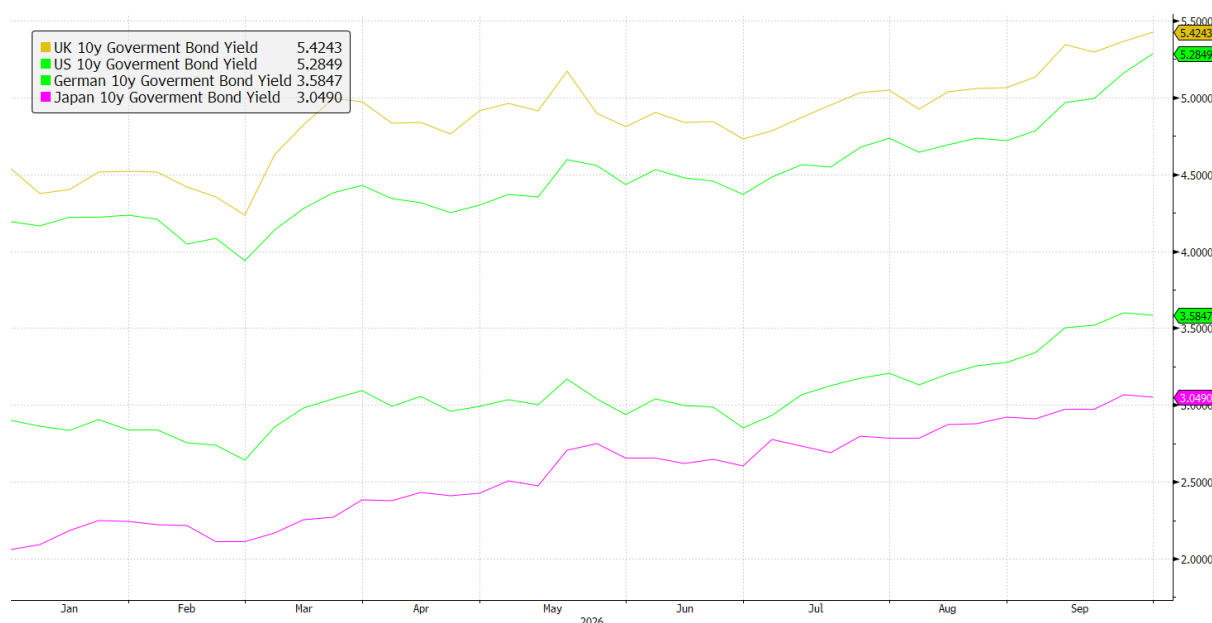
Market implied US base interest rates over the next five years (*latest in green, end of Q2 2026 in yellow*):



Source: Bloomberg

The result was a substantial rise in government bond yields across most developed markets.

US, UK, German, Japan 10-Year Government Bond Yield (2026 YTD):



Source: Bloomberg

This represented a challenging environment for fixed income investors. As bond yields rise, the value of existing bonds falls, resulting in negative capital returns. The move higher in yields during Q3 therefore led to broad weakness across government bond markets, particularly amongst longer-dated bonds, which are generally more sensitive to changes in interest-rate expectations.

However, there are important differences between the current environment and the inflation surge experienced during 2022. That episode followed the rapid reopening of economies after COVID lockdowns, supported by significant fiscal and monetary stimulus. Demand recovered much faster than global supply chains could respond, creating a powerful combination of excess demand, restricted supply and rapidly rising prices.

Today's inflation pressures are more directly linked to a geopolitical event that has increased the cost of energy. Unlike demand-driven inflation, higher oil prices act as a tax on consumers and businesses, reducing household spending power and increasing costs. In our view, this distinction helps explain why markets are anticipating only a relatively modest policy response from central banks. Higher interest rates cannot increase the supply of oil or resolve geopolitical tensions. As a result, while markets are now expecting further rate increases in several developed economies, the scale of tightening anticipated remains relatively modest compared with previous inflationary episodes.

The forthcoming UK Budget will also be an important event for fixed income markets. Investors will be paying close attention to assumptions around spending, borrowing and government debt. Current indications suggest the government remains committed to maintaining fiscal credibility, which should provide reassurance to gilt investors. In our view, gilt yields above 5% continue to offer an attractive income opportunity, particularly for long-term investors.

Economic resilience during the quarter remained closely linked to the continued expansion of artificial intelligence-related investment. While discussion around AI often focuses on a relatively small number of technology companies, the economic impact is becoming increasingly widespread.

One of the most important developments of the quarter was the growing distinction between companies funding AI investment and those benefiting directly from it.

Earlier phases of the AI rally were dominated by the large technology companies committing substantial spending towards data centres, semiconductors, networking equipment, power infrastructure and cloud computing capabilities. Increasingly, however, investors are becoming more focused on the beneficiaries of this spending.

Semiconductor designers, advanced memory manufacturers, electrical equipment companies and data-centre infrastructure providers have continued to experience some of the strongest earnings upgrades globally. In many cases, earnings expectations have risen faster than share prices, resulting in lower valuation multiples despite strong absolute performance.

An increasingly important consideration is how this investment is being financed. Historically, the largest technology companies funded expansion primarily through internally generated cash flows. However, as spending on data centres, computing power and other AI infrastructure has increased, many hyperscalers (large cloud computing and AI infrastructure providers such as Microsoft, Amazon and Alphabet) have become significantly larger participants in corporate credit markets.

This does not alter our positive long-term view of artificial intelligence or the companies helping drive adoption. Capital expenditure plans remain firmly in place, and we continue to expect AI to remain one of the defining investment themes of the decade. However, there is an important distinction between investing in the beneficiaries of capital expenditure and providing the financing required to fund it. At this stage of the cycle, we continue to prefer the former.

The durability of the investment cycle remains one of the most important questions facing investors. For now, there is little evidence of spending plans being reduced and every indication that businesses remain committed to expanding AI infrastructure.

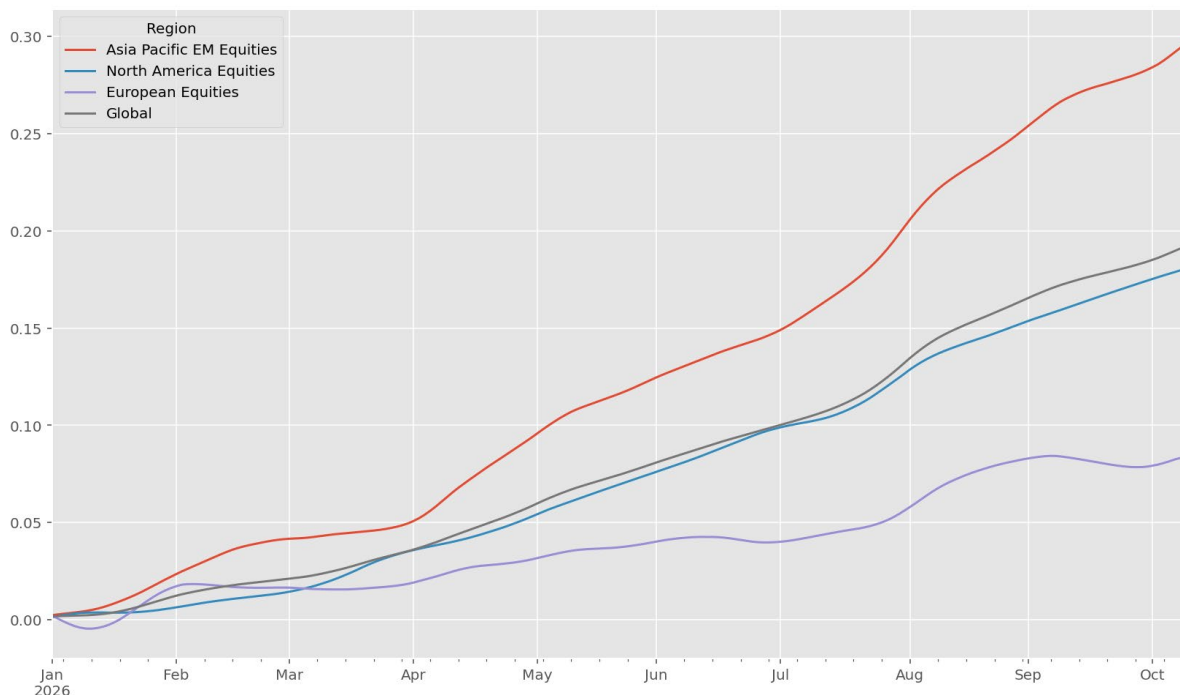
Perhaps the most encouraging market development of the quarter was the continued broadening of earnings growth.

For much of the past several years, equity market performance has been heavily influenced by a relatively small number of large-cap US technology companies. While these businesses remain important drivers of global profits, positive earnings momentum is increasingly evident across a much wider range of sectors and regions.

Industrial companies, infrastructure providers and a range of commodity-related sectors all benefited from improving earnings expectations. Importantly, some of the strongest earnings upgrades were seen in Asia and Emerging Markets, where many companies occupy critical positions within global technology and semiconductor supply chains.

While headline equity returns remain concentrated in parts of the market, particularly within the United States, the underlying earnings backdrop has become considerably more diverse. A wider range of companies are now contributing to global profit growth, creating a broader opportunity set for investors.

US, EU and Asia Pac EM Corporate Consensus Earnings Upgrade (% increase in estimates)



Source: CIM and Bloomberg

Although the broad themes of rising inflation concerns, higher bond yields and improving earnings expectations influenced markets globally, their impact varied considerably across regions. Economic fundamentals, policy settings and industry exposures all played an important role in shaping relative performance.

United States

US equities experienced a modest de-rating during the quarter, primarily driven by volatility within some of the largest technology businesses. Importantly, this has not been accompanied by a comparable deterioration in company fundamentals.

For several years, investors have been concerned that elevated technology valuations left little room for disappointment. Strong growth prospects were already reflected in share prices, increasing the risk that even a modest reduction in earnings expectations could produce significant underperformance.

Following the recent adjustment in valuations, this concern has reduced. Share prices have generally lagged earnings growth, improving the balance between valuation, growth prospects and investment risk. Earnings momentum remains robust and has continued to broaden, providing a supportive backdrop for the US market.

Europe

Europe has faced a more challenging environment owing to its dependence on imported energy. Higher oil prices have weighed on consumers and businesses alike, limiting earnings growth relative to other developed markets.

However, this also creates potential upside should the Middle East conflict move towards a more constructive resolution. A meaningful decline in energy prices would help reduce inflationary pressures, support household spending and improve earnings prospects for European companies.

INVESTMENT UPDATE

October 2026

Japan

Japan continued to benefit from improving corporate profitability, shareholder-friendly reforms and disciplined capital allocation. While Japanese equities are no longer especially cheap in absolute terms, valuations remain reasonable compared with many developed markets when viewed alongside earnings prospects. Corporate governance reforms continue to support profitability and shareholder returns, reinforcing the long-term investment case.

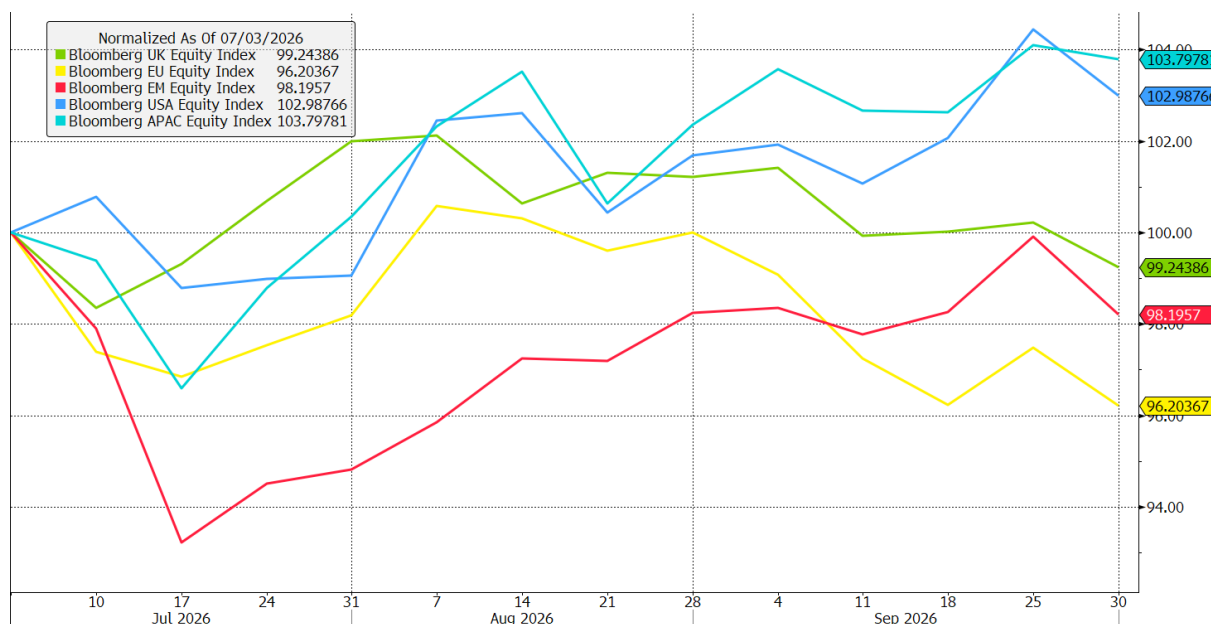
Asia and Emerging Markets

We have maintained a positive view on Asia Pacific and Emerging Market equities throughout much of 2026, and the evidence continues to support this position.

The region is delivering some of the strongest earnings growth globally, supported by improving corporate profitability, attractive valuations and its central role within the global technology and capital expenditure cycle.

South Korea and Taiwan remain key beneficiaries of the AI infrastructure buildout through their leadership positions in semiconductors and advanced memory production. More broadly, the region continues to benefit from favourable long-term growth dynamics and attractive valuations relative to developed markets.

Major equity market total return in Q3 2026 (% , rebased to 100):



Looking Ahead

As we enter the final quarter of 2026, the investment backdrop remains broadly constructive, although some risks have undoubtedly increased compared with the beginning of the year.

The most important question facing investors is whether recent inflation pressures prove temporary or become more persistent. The answer will significantly influence the future path of monetary policy, bond yields and asset returns. Central banks remain focused on inflation risks and appear reluctant to ease policy prematurely. Consequently, interest rates may remain higher for longer than investors anticipated coming into 2026.

At the same time, the global economy continues to demonstrate impressive resilience. Labour markets remain healthy; business investment remains robust and corporate earnings continue to surprise positively across most major regions. The AI infrastructure buildout remains one of the most powerful structural themes in global markets. Importantly, opportunities are no longer confined to a handful of large US technology businesses. The benefits of this investment cycle are increasingly spreading across industrials, infrastructure providers, semiconductor manufacturers and selected Asian markets.

We are also increasingly mindful of the opportunities emerging within fixed income markets. Rising yields have undoubtedly created challenges for existing bondholders, but they have also increased the level of income available to investors and improved prospective future returns, especially for investors that are in a position to increase their exposure. After many years of exceptionally low yields, parts of the bond market now offer income opportunities not seen since before the Global Financial Crisis.

While geopolitical risks remain elevated and inflation warrants close monitoring, stock markets have remained robust because these developments are taking place against a healthy economic backdrop. Corporate earnings growth remains strong and increasingly broad-based. This continued earnings expansion, combined with strengthening incentives for a settlement in the Middle East and a relatively modest expected interest-rate response, supports a constructive medium-term outlook.

Overall, we remain optimistic. The market environment has become more complex, but resilient economic growth, broadening earnings growth and the continuing buildout of AI infrastructure continue to provide support for risk assets. As always, maintaining diversification, remaining disciplined during periods of volatility and focusing on long-term fundamentals remain the most effective tools available to investors.