CHETWOOD
WEALTH MANAGEMENT

INVESTMENT UPDATE July 2026

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Introduction and Market Overview

The first quarter of 2026 ended with investors facing a highly uncertain outlook. The Strait of Hormuz remained closed, oil prices had surged above $100 per barrel, inflation concerns were intensifying, and markets were attempting to assess the economic consequences of the escalating conflict involving the US, Israel and Iran. In our previous update, we noted that while the situation remained fluid, there were strong incentives for all parties to avoid a prolonged disruption to global energy supplies and that any credible progress towards de-escalation could lead to a sharp recovery in both equity and bond markets.
Three months later, that assessment has broadly proved correct.

The second quarter of 2026 was characterised by a gradual reduction in geopolitical risk, falling energy prices and a renewed focus on the themes that were already driving markets before the conflict escalated: broadening earnings growth, the global AI infrastructure buildout and the resurgence of Asia and Emerging Markets. While headlines remained dominated by developments in the Middle East, investors increasingly looked through the geopolitical noise and refocused on underlying corporate fundamentals.

The dominant market concern entering the quarter was whether the disruption to energy markets would evolve into a prolonged supply shock similar to those experienced in previous decades. With the Strait of Hormuz accounting for a significant proportion of global oil and gas shipments, investors were understandably concerned that higher energy prices would damage growth while reigniting inflation pressures across developed economies.

As the quarter progressed, however, markets became increasingly confident that the worst-case scenario would be avoided. Ceasefire negotiations advanced, oil continued to flow through alternative routes, and concerns over long-term disruption gradually eased. Front-month oil contracts fell sharply from their crisis levels, declining from well above $100 per barrel towards $70 per barrel by quarter-end. While energy markets continue to price a modest long-term geopolitical risk premium, investor attention has clearly shifted away from an immediate supply crisis.

WTI Oil price (First month future):

Source: Bloomberg

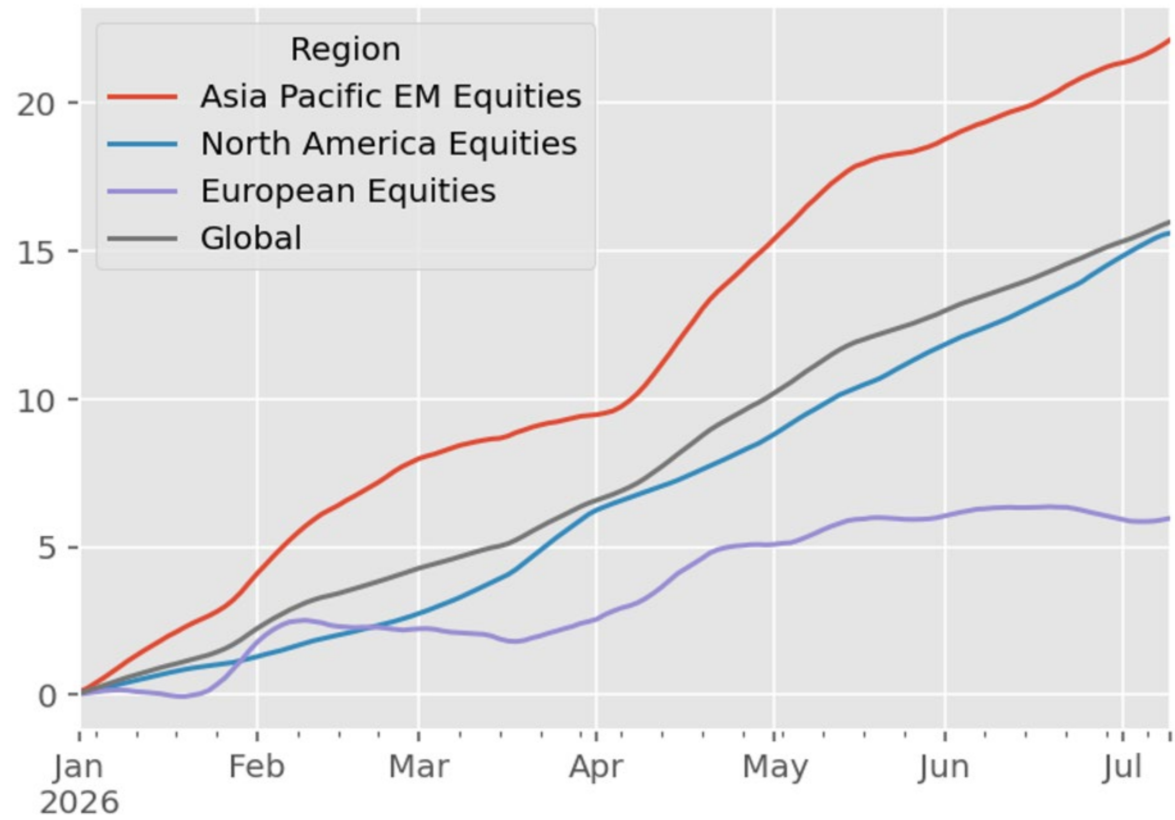
The speed of this adjustment serves as a useful reminder of how financial markets typically respond to geopolitical events. Initial uncertainty often produces sharp price swings as investors attempt to assess risks in real time. Once the most extreme outcomes begin to look less likely, markets frequently recover faster than many participants expect. While every geopolitical event is unique, history often demonstrates a remarkably consistent pattern of initial shock, stabilisation and eventual recovery.
With fears of a prolonged energy shock beginning to recede, investors rapidly returned their attention to the fundamentals that ultimately drive long-term asset prices: earnings, cash flows and economic growth.

Corporate earnings continue to surprise positively across most regions. While many investors entered the year concerned about tariffs, rising energy costs and slowing growth, actual earnings outcomes have generally been far stronger than expected. The broadening earnings growth theme that began emerging during 2025 has continued to gather momentum, with a wider range of sectors and geographies now contributing to global profits.

This broadening of earnings has become an increasingly important development. For much of the previous few years, global equity markets were heavily dependent on a narrow group of large-cap US technology companies. While these businesses remain important drivers of growth, the current environment is seeing earnings strength emerge across a much wider opportunity set, including industrials, infrastructure, utilities, semiconductors and a range of companies linked to the global AI buildout.

Perhaps most importantly, much of this earnings growth is now being generated outside the United States.

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



Source: CIM and Bloomberg

Artificial intelligence remains the dominant structural investment theme in global markets.

Much of the investment debate over the past year has centred on whether current levels of AI-related capital expenditure can be justified. Major technology companies continue to commit enormous sums towards AI infrastructure, including data centres, semiconductors, networking equipment and power generation. The key question for investors is no longer whether companies are willing to spend, but whether sufficient long-term demand exists to justify these investments.

Interestingly, the focus of the market has begun to shift. Earlier stages of the AI rally were largely driven by the companies undertaking the spending, particularly the large US hyperscalers. Increasingly, however, investors are rewarding the companies receiving that spending.

Semiconductor manufacturers, memory-chip producers, electrical equipment companies and data centre infrastructure providers have experienced extraordinary earnings upgrades. In several cases, analyst forecasts have risen far faster than share prices, resulting in lower valuation multiples despite strong performance. This is an important distinction. Strong earnings growth accompanied by stable or declining valuations is very different from the speculative characteristics normally associated with market bubbles. The debate around AI is therefore becoming more sophisticated. Rather than asking whether the entire theme represents a bubble, investors are increasingly focused on identifying where the investment cycle is creating the greatest economic value and which businesses are best positioned to capture it.

In our view, the AI revolution remains in its early stages. While periods of volatility are inevitable, the scale of spending, the pace of technological improvement and the growing range of real-world applications suggest this is likely to remain a multi-year investment theme rather than a short-lived cycle.

One of the clearest developments of 2026 has been the improving relative performance of Asia and Emerging Markets.

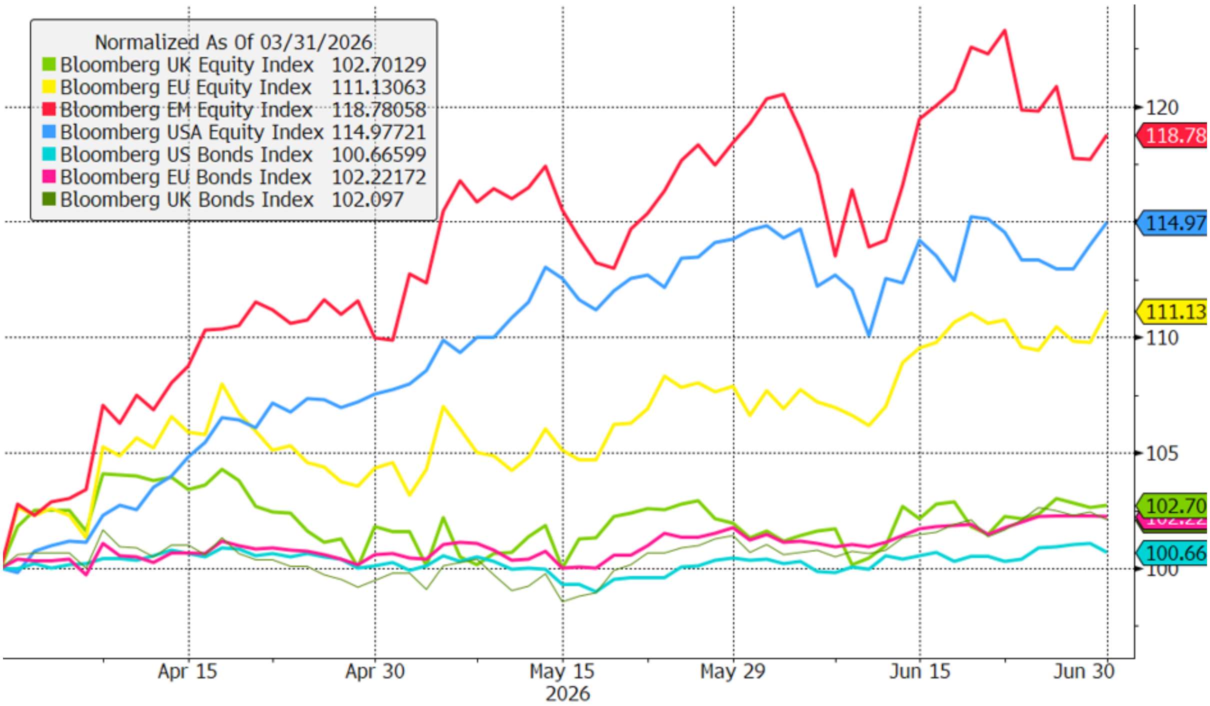
South Korea and Taiwan have emerged as major beneficiaries of the AI infrastructure buildout, owing to their dominant positions within the semiconductor and memory-chip supply chains. Companies such as Taiwan Semiconductor, Samsung and SK Hynix have experienced significant earnings upgrades as demand for advanced chips continues to accelerate.

More broadly, Emerging Markets are benefiting from a combination of attractive valuations, improving fundamentals and reduced sensitivity to US dollar movements compared with previous cycles. Many Emerging Market central banks tightened monetary policy earlier than their developed market counterparts, leaving them with greater flexibility today. Fiscal positions are generally healthier, while exposure to structural themes such as AI infrastructure, digitalisation and commodity production remains attractive.

Japan has also continued to perform well. Corporate governance reforms, shareholder-friendly policies and improving capital efficiency remain supportive of earnings growth. The market is increasingly benefiting from a combination of domestic reforms and global technology-related demand.

Collectively, these developments support our long-held view that global diversification remains essential. The broadening of performance beyond a narrow group of US technology stocks creates a healthier market environment and a wider opportunity set for active investors.

Major market total return in Q2 2026 (%, rebased to 100)



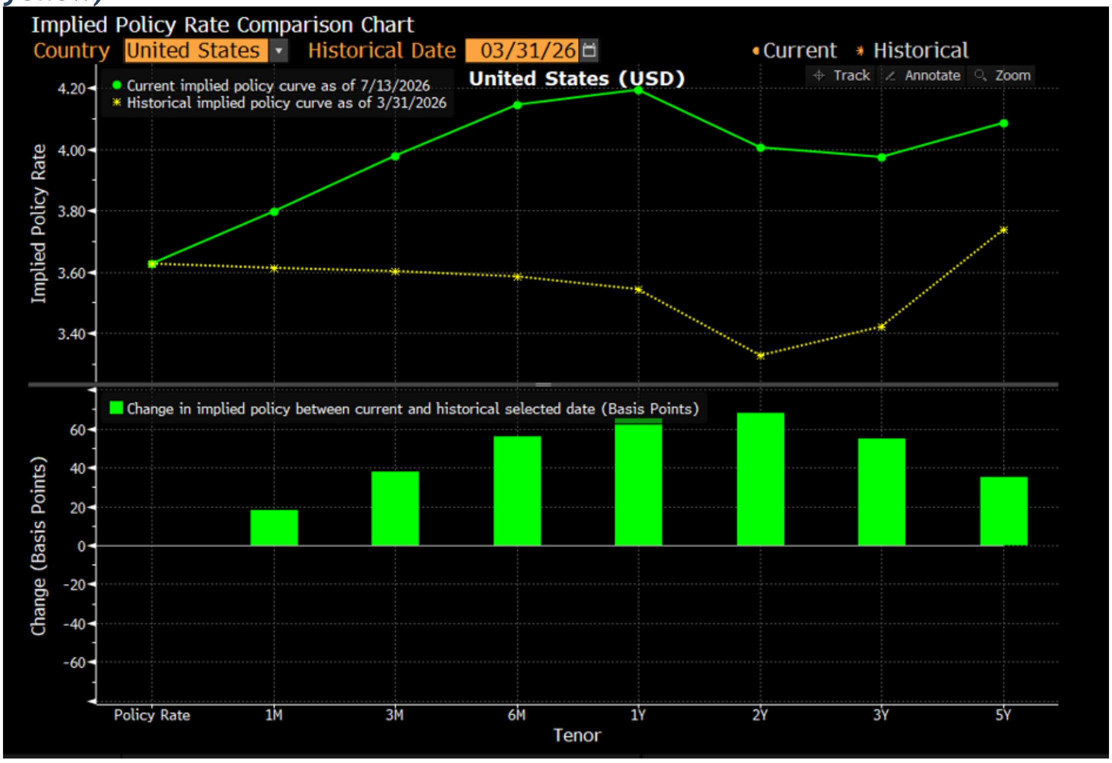
Source: Bloomberg

Inflation remains above central bank targets across most developed economies, although the risk of a renewed inflation surge has diminished significantly since the end of the first quarter.

The decline in oil prices has helped ease immediate inflation concerns, while labour market conditions continue to soften gradually in several major economies. As a result, central banks have generally adopted a cautious approach, balancing resilient economic growth against still-elevated inflation.

Financial markets have revised expectations for interest-rate cuts compared with those seen at the beginning of the year. This can be seen in the following charts on market implied expectations for how the UK and US base rate will move over the following five years. While policymakers retain flexibility, strong economic activity and sticky inflation mean there is less urgency to ease policy aggressively. Investors are increasingly focused on income opportunities within bond markets rather than relying solely on capital appreciation from falling yields.

Market implied US base interest rates over the next five years *(latest in green, end of Q1 2026 in yellow)*



Source: Bloomberg

Market implied UK base interest rates over the next five years *(latest in green, end of Q1 2026 in yellow)*

Source: Bloomberg

Government bond yields remain attractive by historical standards, particularly in the UK. At the same time, fiscal policy remains an important area of focus globally. Governments continue to face the challenge of balancing increased spending commitments with growing debt burdens, which may limit the scope for a sustained decline in long-term bond yields.

There is little doubt that 2026 has been a more volatile year than investors have become accustomed to over recent years, aside from the short but sharp equity selloff around President Trump's so-called Liberation Day. The pace of geopolitical, economic and technological developments has been relentless, and market sentiment has fluctuated accordingly.

However, one of the key lessons from the first half of the year is that periods of elevated volatility often create significant opportunities. The market's ability to look through the Middle East conflict and rapidly refocus on underlying fundamentals highlights the importance of maintaining a long-term perspective during periods of uncertainty.

Looking ahead, we continue to believe that the broadening earnings growth story remains intact. The AI infrastructure super-cycle continues to support investment, productivity and corporate profits. Asia and Emerging Markets are becoming increasingly important drivers of global growth, while earnings momentum remains positive across many regions and sectors.

Geopolitical risks have not disappeared entirely, and some energy market risk premium is likely to remain for the foreseeable future. Nevertheless, investors appear increasingly willing to focus on improving fundamentals rather than worst-case scenarios.

Overall, we remain constructive on the outlook for risk assets. While volatility is likely to remain higher than in recent years, corporate earnings continue to grow, investment remains robust and opportunities are emerging across a broader range of markets than at any time in the recent past. As always, diversification, discipline and a long-term investment horizon remain central to navigating the investment environment.