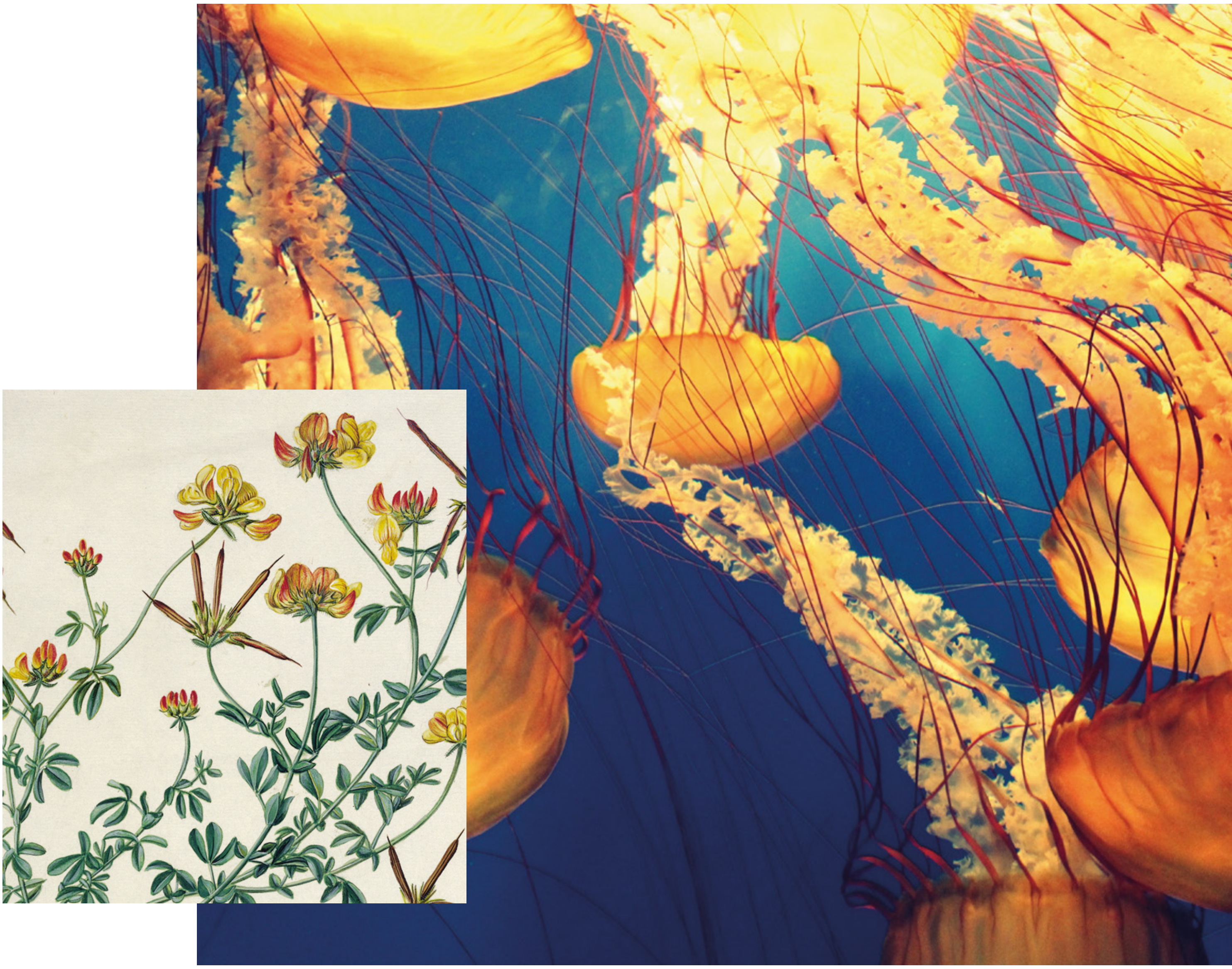
Wealth
Management

Quarterly Report
Sustainable Portfolio Service

Q2 2026



Forward-looking
for generations

Cover image
Bauer brothers, Hortus Botanicus, detail from "Lotus corniculatus L.," around 1788

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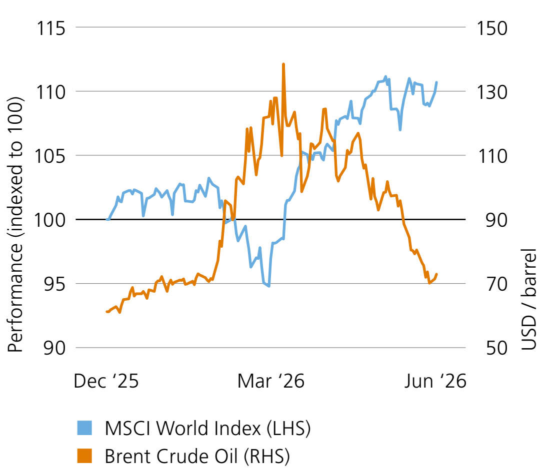
Summary

The war in Iran transitioned to an uneasy ceasefire over the second quarter, culminating in a peace deal. Equity markets largely looked beyond the conflict as the de-escalation was anticipated, allowing investors to rule out a longer economic shock. After falling to a 2026 low at the end of March, US equities staged a sharp rebound, with strong earnings and AI investment continuing to lift technology stocks and propel the Nasdaq to gains of 21.6% in Q2. Of all the sectors, technology companies had the strongest earnings growth, rising by 55% compared with the same quarter last year. This drove analysts to move future earnings forecasts higher. Oil prices fell by 38.4% to finish the quarter at USD 72.92 a barrel.

UK local elections in May put Prime Minister Sir Keir Starmer's position in question. By mid-June, he stepped down as leader of the Labour Party, paving the way for a new leader as early as mid-summer, the UK's seventh prime minister in 10 years. This instability has weighed on UK government debt, keeping borrowing costs higher.

What was supposed to be a short conflict in Iran passed the 100-day mark on 7 June. However, in mid-June, the US and Iran announced the framework of a deal that included an immediate and permanent cessation of hostilities, the reopening of the Strait of Hormuz within 30 days, and a 60-day negotiation period during which both sides sought to resolve outstanding issues surrounding Iran's nuclear programme and sanctions relief. The tentative reopening of the Strait, a global supply chain chokepoint, drove energy prices lower, as increased shipping capacity diminished the risk of supply disruptions.

Oil prices vs MSCI World YTD

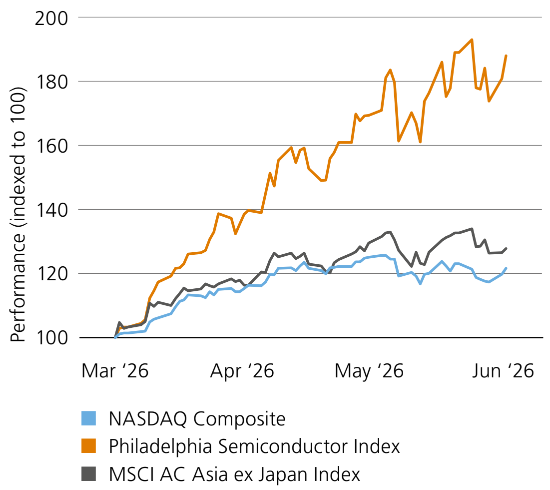


Source: Bloomberg

Equities marched higher throughout the quarter as strong earnings accelerated sales growth, particularly for technology-led companies. Demand for chips drove the Philadelphia Semiconductor Index up 88%, its best quarter since the index began in the early 1990s, taking its year-to-date gains to over 100%.[1] The S&P 500 rose 15.2%, its best quarter since the second quarter of 2020.[2] Gains broadened beyond technology companies, with the S&P 500 Equal Weight Index returning 11.4%. European equities also posted solid gains, with the STOXX 600 Index rising 11.9%, but returns were more muted in the UK, with the MSCI UK Index rising only 3.4% as the sharp decline in oil prices weighed on oil majors.

Outside the US, Asia shone, with the Topix gaining 14.3% and Korea's Kospi rising 68% in Q2, as the country's technology bellwethers Samsung, LG Electronics and SK Hynix benefited from the ongoing AI boom. It was a more mixed picture for Chinese equities. Hong Kong's Hang Seng fell 6.4% while the Shanghai Composite rose 6% in Q2.

Nasdaq vs Philadelphia Semiconductor Index vs MSCI Asia ex Japan



Source: Bloomberg

The pipeline of mega-IPOs is shaping up to be one of the defining features of the current equity market cycle. After years of remaining private while raising unprecedented amounts of capital, a handful of AI and space technology companies have reached a scale that rivals many of the world's largest listed businesses.

SpaceX, Claude's creator Anthropic and ChatGPT founder OpenAI have raised over USD 330 billion in private funding and are now turning to the public equity and bond markets. SpaceX raised approximately USD 75 billion from its offering. SpaceX shares closed the end of June around 25% higher than their floatation price, representing a market capitalisation over USD 2 trillion.

Meanwhile, Anthropic[3] and OpenAI[4] have each filed with the Securities and Exchange Commission[5] to take their companies public in the future.[6] In addition to closely monitoring these companies' IPOs, investors will keenly watch their debt financing – SpaceX has already raised USD 25 billion in bonds after its IPO.[7]

[1] Deutsche Bank
[2] Bloomberg, Deutsche Bank

[3] Anthropic raises $65B in Series H funding at $965B post-money valuation \ Anthropic
[4] Racing to a Trillion: OpenAI and Anthropic's Funding History
[5] Confidential submission of draft S-1 to the SEC | OpenAI
[6] OpenAI plans stock market debut, setting up new race with Anthropic - BBC News
[7] SpaceX - SpaceX Announces Pricing of $25 Billion Inaugural Bond Issuance

At the Federal Reserve's (Fed) June meeting – Kevin Warsh's first as chairman – the central bank opted to leave interest rates unchanged but adopted a more hawkish tone than expected. Policymakers indicated they had growing concerns that inflationary pressures could re-emerge, driven by the underlying strength of the US economy rather than by external shocks in the Middle East. A stabilising labour market, resilient consumer spending, fiscal support and strong AI-related investment have lifted domestic demand, prompting the Fed to be more cautious about easing policy. Reflecting this shift, the latest dot plot – which shows where individual Fed policymakers expect interest rates to be in coming years – showed that roughly half of policymakers expect at least one further rate increase before year-end.

Meanwhile, in a widely anticipated move, the European Central Bank (ECB) increased interest rates at its June meeting to 2.25% from 2%, signalling that bringing inflation back to its target remains a priority. The peace deal was signed after this meeting, which will reduce the need for immediate rate hikes, leading to lower expectations for further policy tightening. The Bank of England (BoE) kept rates steady in June in a 7-2 split, helped by softer-than-expected inflation data and lower energy prices. Inflation came in at 2.8%, while core inflation – which excludes energy and food – was 2.6%, both below expectations.[8] This suggests that the need for tightening has diminished, allowing the BoE time to keep policy on hold while assessing the economy further.

In Japan, the Bank of Japan (BoJ) raised rates by 0.25% as expected, given that inflation remained sticky. While policymakers signalled further hikes ahead, the pace remains slow, prompting further weakening of the yen.

Sir Keir Starmer resigned as leader of the governing party on 22 June, with most expecting former Manchester Mayor Andy Burnham to become the UK's next prime minister as he is currently uncontested in the leadership election. Questions remain on his potential policies, although gilt markets were supported after Burnham committed to maintaining Rachel Reeves's fiscal rules in a speech on 30 June.[9]

> "A stabilising labour market, resilient consumer spending, fiscal support and strong AI-related investment have lifted domestic demand, prompting the Fed to be more cautious about easing policy.
>
> Sanjay Rijhsinghani, Chief Investment Officer

[8] Office for National Statistics
[9] Burnham to give mayors more power in 10-year plan to transform economy - BBC News

Portfolios in review

Fixed income

Fixed income markets endured a volatile second quarter as geopolitical tensions in the Middle East, elevated energy prices and persistent inflation concerns combined to unsettle investors. With oil prices rising sharply and the Strait of Hormuz effectively closed for part of the period, bond markets were forced to navigate a more difficult backdrop in which safe-haven demand was repeatedly offset by fears that higher energy costs would keep inflation elevated and interest rates higher for longer.

In the US, Treasury yields moved sharply through the quarter, initially falling in April on hopes of de-escalation before reversing higher as negotiations stalled and stagflation concerns resurfaced. Treasuries lagged other developed government bond markets in May, as resilient labour market data and firmer core inflation prompted investors to scale back expectations for policy easing. Against that backdrop, June's Fed meeting took on added significance as Kevin Warsh chaired for the first time, with investors keen to see whether he would signal any meaningful departure from the Fed's current path. While the Fed left rates unchanged at 3.50%–3.75%, Warsh's comments, together with updated projections pointing to modest tightening and higher inflation forecasts, were interpreted as hawkish. Treasury yields rose across the curve in the aftermath, mostly at the shorter term , resulting in a flatter yield curve and reinforcing the view that rates may remain elevated for longer.

Eurozone bond markets were particularly sensitive to developments in energy markets given the region's dependence on imported fuel and consequently were particularly volatile over the quarter. The European Central Bank raised interest rates by 25 basis points at the June meeting, as widely expected, arguing that the inflationary effects of the war in Iran and the broader spread of price pressures warranted a recalibration in policy. Updated projections pointed to weaker growth but materially higher inflation, with both headline and core inflation now seen above target next year, suggesting this is unlikely to be a one-off move despite President Lagarde offering little forward guidance.

In the UK, gilts came under pressure in April, with the 10-year yield reaching its highest level since 2008. As elsewhere, higher energy prices and inflation concerns weighed on the market, but domestic political uncertainty also played an important role. Gilts were volatile amid concerns that a new Labour leader might pursue a looser fiscal stance but they stabilised after reassurances on fiscal discipline. Even so, any meaningful near-term easing appears unlikely given limited fiscal headroom, higher gilt yields and market sensitivity to policy credibility. The Bank of England kept Bank Rates unchanged at 3.75% in a 7–2 vote, as most policymakers preferred to remain in wait-and-see mode while assessing whether the recent energy shock would generate meaningful second-round inflation effects, particularly as falling oil and gas prices have eased some immediate pressure.

Fixed income delivered modest positive returns in the quarter. Corporate bonds, led by Rathbone Ethical Corporate Bond (+2.9%) and Threadneedle UK Social Bond (+2.3%), performed broadly in line with the portfolio's UK government bond holdings: the 2033 gilt returned +2.2% and the 2035 gilt +2.4%.

Equity

Global equities extended their upward trend in the second quarter, gaining 14% despite two brief pullbacks. Markets corrected in mid-May as inflation expectations and the implied path for interest rates moved sharply higher, and again in early June as higher yields coincided with profit-taking in AI-related stocks. The June setback was partly driven by disappointment that Broadcom did not raise its AI revenue guidance. The weakness proved short-lived and, in our view, was a healthy pause after a strong run. Sentiment improved on hopes of progress in the Middle East conflict and a swift reopening of the Strait of Hormuz, with IT and cyclical sectors, including industrials, financials and materials, leading the rebound.

The portfolio's equity allocation delivered +13.8% over the quarter. The strongest returns came from emerging markets, environmental solutions and the broader investment cycle around AI infrastructure and electrification. Polar Capital Emerging Market Stars (+24.8%) was the strongest performer, benefiting from the recovery in emerging market equities and the leadership of Asian technology hardware. Impax Environmental Markets (+19.7%) and Ninety One Global Environment (+13.7%) also performed well as attention returned to structural themes including clean energy, grid infrastructure, electrification and energy efficiency.

Core global equity holdings also participated in the recovery. Janus Henderson Global Sustainable Equity returned +16.2%. Among the value-focused strategies, Sparinvest Ethical Global Value (+14.3%) outperformed Schroder Global Sustainable Value (+8.3%), demonstrating the benefit of manager diversification. Lazard Global Equity Select (+10.9%) also contributed, while Morgan Stanley Global Quality Select returned +6.2% up to its sale. HC Global Equity gained +11.6% from its introduction during the quarter.

Regional allocations were mixed but generally positive. Edentree European Equity (+13.6%) benefited from strength in European equities, while Cadira Sustainable Japan Equity (+11.6%) was supported by foreign inflows, corporate reform and exposure to AI-related industrial supply chains. In the US, Mirova US Sustainable Equity returned +9.8%. AllianceBernstein Sustainable US Equity gained +5.6% up to its share-class switch, while the hedged AllianceBernstein Sustainable US Thematic share class returned +8.0% after purchase.

Foresight Global Real Infrastructure delivered a smaller positive return of +1.5%. Although the fund lagged the wider equity allocation during a technology-led rally, its exposure to listed infrastructure and renewable energy assets continues to offer differentiated participation in long-term investment linked to electrification, energy security and the transition to lower-carbon systems.

Overall, the equity allocation benefited from broad participation across investment styles and regions. Strong performance from emerging markets, environmental solutions and sustainable global equity managers was balanced by more measured returns from quality-oriented and infrastructure holdings.

Alternatives

Alternatives delivered another modest positive return. Brevan Howard Absolute Return Government Bond gained +3.9%, benefiting from divergence across government bond markets as central banks pursued different policy paths. Trojan Ethical returned +1.6%; performance was held back by weakness in gold, although the manager had reduced its gold allocation during the first quarter.Together, the holdings made a positive contribution and provided additional diversification alongside equities and fixed income.

All fund returns quoted are total returns in GBP equivalent. Source: portfolio performance – FactSet; asset and market performance – Bloomberg.

Portfolio changes

In April, we introduced the HC Resolution Global Equity Fund as a new core global equity holding, funded largely by selling Morgan Stanley Global Quality Select. The new holding is a concentrated, climate-integrated strategy run by Resolution Investors, offering diversified long-only exposure with explicit valuation discipline and a structured framework for aligning portfolios with the transition to a lower-carbon economy. We also switched AllianceBernstein Sustainable US Equity into a hedged share class, restoring the intended US-dollar hedge, and sold Liontrust Sustainable Future UK Growth, which had become a lower-conviction satellite holding.

We increased the allocation to Foresight Global Real Infrastructure, funded by trims to Impax Environmental Markets, Ninety One Global Environment and Robeco Smart Materials after strong recent performance. In May, we reduced Polar Capital Emerging Market Stars following a strong period for emerging market equities and moved Robeco Smart Materials to a tactical underweight. The proceeds were reinvested across Foresight Global Real Infrastructure, Impax Environmental Markets, Ninety One Global Environment and Schroder Global Sustainable Value.

In June, we introduced the Rathbone SICAV Asia Equity Fund. The purchase was funded by reducing Lazard Global Equity Select and making a small trim to liquidity. The fund adds a high-conviction Asia ex-Japan strategy focused on quality compounders and downside protection, broadening the portfolio's regional exposure while maintaining an emphasis on disciplined stock selection.

Sustainability update

Why resilience matters for long-term investing

Resilience is the capacity to withstand disruption and recover quickly when conditions become more difficult. It has always been a desirable quality, but the turbulence of recent years has pushed the idea of building resilient systems to the centre of political, economic and social debate.

Two major developments in 2026 have brought this into sharper focus. First, the rapid build-out of AI has shown just how dependent economic growth is on strong physical infrastructure. Expanding data centre capacity is driving a sharp rise in electricity demand and exposing pressure points across power systems. Second, the Middle East energy crisis has been a reminder that global energy markets remain vulnerable to geopolitical shocks, price volatility and supply disruption.

This is why the energy transition should not be viewed only through an environmental lens. Investment in renewable power, grid modernisation and storage does more than support decarbonisation. It can also improve energy security, strengthen reliability and make economies better able to cope with future shocks. In a world shaped by rising power demand and geopolitical uncertainty, resilient clean energy systems are becoming essential infrastructure.

The need for resilience extends well beyond energy. Water stress, pollution and years of underinvestment can disrupt communities and industrial activity alike. Businesses that improve water treatment, reduce leakage or help modernise networks are therefore not just addressing an environmental problem. They are helping to strengthen the foundations of economic stability.

Healthier and more financially secure populations are generally better placed to cope with disruption. Companies that improve access to healthcare, insurance and basic financial services can therefore support stronger societies, while better labour standards help reinforce the reliability of global supply chains. For investors, resilience fundamentally connects sustainability with long-term economic value. The opportunity lies in identifying businesses that strengthen the foundations of modern life for example in: resource management, energy, and health. In that sense, resilience is not a new theme, it is the frame that increasingly brings many sustainability themes together.

Conclusion

The decline in oil price over the past quarter, particularly since the end of June, has created a healthy rotation in global stock markets. Since we moved out of the acute phase of the Strait of Hormuz closure, areas that had absorbed all the inflows, namely chipmakers and large technology companies, have either partially or significantly declined. Almost everything else, including equal weight indices, smaller companies, stock markets outside the US, have outperformed.

The recent decline in oil price has done three important things to economic and financial conditions – it has reduced inflation expectations, lowered expectations of interest rate hikes and increased economic surprise indices. Overall, this is more positive for the wider global market, rather than just the areas being driven by demand for AI-related infrastructure.

There are ongoing concerns that AI-linked companies are experiencing a bubble. Inevitably, certain areas may, in hindsight, prove to have been overvalued. SpaceX currently trades at 110 times revenue and is not expected to be profitable until 2028. However, other companies in this space appear reasonably valued on a price-to-earnings basis, with share price gains supported by genuine earnings growth. A true bubble typically involves a permanent and significant loss of capital – declines of 80–90% – and this seems unlikely for many of the world's largest, most established companies. The underlying fundamentals have changed, and the substantial share price moves we have seen are, in large part, a reflection of that.

What we are observing, however, is that this area of market is no longer calling the shots and that investors in this space are also experiencing heightened volatility, particularly in large Korean and Taiwanese technology names While we maintain exposure to these high-growth companies and would expect them to be long term winners, this is balanced within a well-diversified portfolio and supported by active investment decisions.

The wide variation in performance among the so-called 'Magnificent Seven' companies makes that particular grouping obsolete. Microsoft for example, with its large software business is being priced as an AI loser, whereas Google's owner Alphabet, which was at one time considered an AI loser is now thought to be a winner due toits development of a 'full-stack' of AI. Overall, the significant repricing of these companies appears to be over, and we remain underweight relative to the global indices.

Looking beyond this segment, broader market conditions appear supportive, with many of the trends seen prior to the Iran-related tensions re-emerging. While central banks have maintained a cautious tone, they appear reluctant to materially raise interest rates at this juncture. Global growth is positive, albeit fragile relative to 2022, and interest rate hikes have always been a blunt response to supply-driven shocks. With oil prices back in the USD 70-USD 80 range, central banks can wait and see, with the potential for a single rate increase later in the year rather than anything particularly disruptive for global markets.

Overall, we remain confident in the portfolio's diversified combination of fixed income, alternatives and global equities. On the equity side, sustainable global core managers are complemented by targeted regional and thematic holdings, including environmental solutions and infrastructure. This balanced approach provides multiple sources of long-term return and helps protect the portfolio when equity-market volatility rises.

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