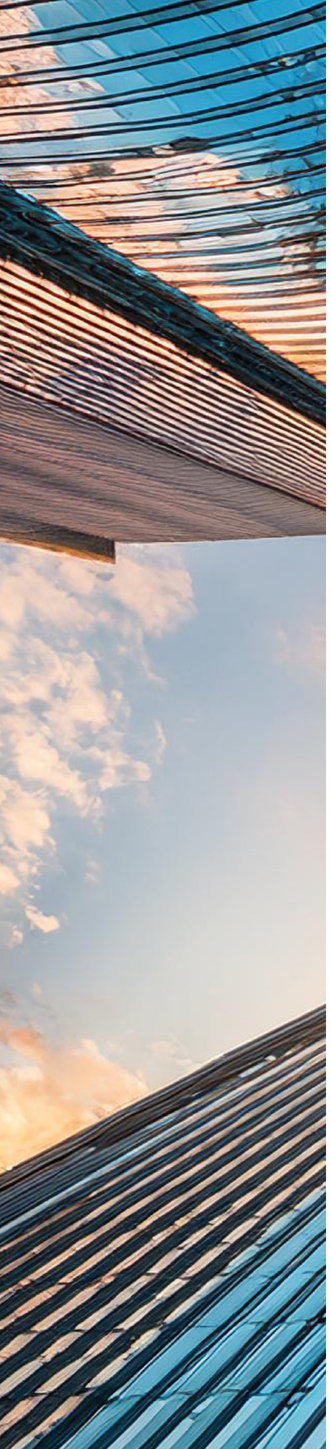
FOR PROFESSIONAL ADVISERS ONLY

Asset *Allocation* Overview

Q3 2026





Economic resilience meets a more demanding bond market

Equities remained resilient despite a tougher macro backdrop. Global equities advanced, supported by resilient growth and strong corporate earnings, despite volatility in AI and semiconductor stocks and a sharp pullback in South Korea.

Renewed conflict in the Middle East and concerns over energy supply pushed Brent crude back above $100 per barrel, adding to inflation concerns and shaping monetary-policy expectations and bond markets.

Bond yields surged as inflation fears returned to the fore. Higher energy prices drove a global bond sell-off, with the US 10-year Treasury yield rising above 5% and yields elsewhere reaching multi-decade highs. The Federal Reserve reinforced the narrative by raising rates by 25bp in September.

Outlook summary

Views correct as of 30 September 2026

The global bond market barged back onto centre stage this quarter. The primary enabler for this muscular return was actually benign – the global economy appears to be running a lot faster now than in the decade between the Great Financial Crisis (GFC) and global pandemic. Real interest rates had some further catching up to do in order to reflect this happy reality. However, the latter part of the quarter added a queasier edge, with energy prices responding to fresh escalation in the Strait of Hormuz. The resulting leg higher in borrowing costs was notably more fevered as French government bonds, among other areas, started to creak a little.

Stocks and other risky assets remained mostly resilient in the face of rising interest rates. Stellar earnings growth, much of which derived from the AI infrastructure buildout, remained the key story here, although corporate pep certainly continues well beyond this theme. As we noted last quarter, the signs of a precise repeat of the 'dotcom' bubble are still overstated in spite of some superficial similarities. Many investors are rightly sceptical of the potential returns from the AI infrastructure buildout – we continue to see merit in active management in navigating these. It is surely a sign of strange times, when in filing for public listing, Anthropic would note a one-in-ten chance its frontier products could result in the extinction of the human race.

However, as of yet, the economic and financial excesses that characterised the late 1990s appear substantially absent, even if the productivity story is increasingly equivalent. The coast is certainly not clear, of course. However, diversification, not disinvestment, remains the most sensible answer given the continuing underlying momentum in the global economy amidst an unfolding industrial revolution. Meanwhile, duration is increasingly looking like offering a useful role in portfolios again after a long period of offering little but return-free risk.

Our top three investment risks

- **Inflation and policy risk.** Inflation has remained more persistent than anticipated, complicating the path for interest rates. If price pressures continue to surprise on the upside, central banks may need to keep policy restrictive for longer, weighing on both growth and valuations.
- **Bond market risk.** Government borrowing remains elevated across many developed economies, increasing the supply of debt that markets must absorb. If investors demand higher compensation to hold long-term government bonds, yields could rise further, tightening financial conditions and weighing on both equity and bond markets.
- **Valuation risk.** Equity market performance has been concentrated in companies linked to the AI theme, supported by significant investment spending. With expectations high, any signs that earnings growth, capital spending returns or productivity gains are falling short of expectations could prompt a broader reassessment of market valuations.

Asset class	Outlook	Change since previous quarter	Rationale
		Equities	
UK	●	**No change**	UK equities remain supported by their attractive valuation backdrop and strong income characteristics. The market continues to trade at a meaningful discount to US equities while offering an attractive dividend yield, alongside ongoing support from share buybacks. Performance has remained positive, although the UK lagged stronger global markets during parts of the quarter, with its relatively low technology exposure limiting participation. Combined with historically undemanding valuations, UK equities continue to offer a compelling blend of income, value and diversification within multi-asset portfolios.
US	●	**No change**	US equities have continued to perform strongly, underpinned by strong and broadening earnings growth, resilient economic activity and sustained AI-related investment. The latest earnings season provided further evidence that profit growth is extending beyond the largest technology companies. However, valuations remain elevated relative to both history and other regions, leaving future returns increasingly dependent on earnings delivery rather than further multiple expansion. Persistent inflation and the Federal Reserve's September rate increase have also raised the hurdle for valuations, making the market more sensitive to any disappointment in earnings or growth. While the fundamental backdrop remains supportive, elevated expectations reinforce the case for a selective approach.
Developed Europe (excluding UK)	●	**No change**	European equities continue to offer a more attractive valuation starting point than the US, supported by reasonable earnings expectations and healthy dividend yields. Fiscal support and structural investment themes remain supportive over the medium term, although economic momentum remains relatively subdued and persistent inflation and higher bond yields complicate ECB's policy outlook. Against this backdrop, European equities remain attractive from a valuation perspective, although exposure to global trade, energy prices and geopolitical developments may lead to a less straightforward return path.
Japan	●	**No change**	Japanese equities remain supported by ongoing corporate governance reforms and improving capital discipline, while share buybacks and greater focus on shareholder returns continue to underpin the structural investment case. However, rising Japanese government bond yields, monetary policy normalisation and continued currency volatility are creating a more complex backdrop for investors. While the structural case remains compelling, the combination of strong recent performance and a less accommodative policy environment argues for a balanced approach.
Asia Pacific (excluding Japan)	●	**No change**	Asia Pacific ex Japan continues to provide exposure to some of the world's most attractive long-term growth opportunities. Korea and Taiwan have benefited particularly from their central role in the global AI and semiconductor supply chain, while a weaker US dollar has provided an additional tailwind for parts of the region. However, regional performance remains uneven. China continues to face structural headwinds from weakness in domestic demand, property and deflationary pressures, leaving a marked divergence between markets across the region. While valuations remain broadly reasonable, selectivity is increasingly important.
Emerging markets	●	**No change**	Emerging market equities continue to offer attractive relative valuations and a broadening set of return drivers. A softer US dollar has provided a more supportive backdrop, while opportunities are increasingly extending beyond technology. However, significant differences in economic fundamentals and market performance across countries reinforce the importance of selectivity. Overall, emerging markets continue to offer meaningful diversification potential, although conviction remains stronger in selected countries and sectors than across the asset class as a whole.

● POSITIVE ● NEUTRAL ● NEGATIVE



Asset class	Outlook	Change since previous quarter	Rationale
Equity Themes			
Technology	●	**No change**	The technology sector continues to benefit from strong demand for AI-enabling infrastructure and growing expectations for productivity gains across the broader economy. While earnings growth has remained robust, valuations remain elevated. We therefore maintain a focus on profitable, cash-generative businesses with durable competitive advantages while remaining mindful of concentration and valuation risks.
Healthcare	●	**No change**	Healthcare continues to benefit from favourable demographic trends, ongoing innovation and relatively defensive earnings characteristics. Advances in areas such as obesity treatments, diagnostics and life sciences tools are creating new growth opportunities, while the adoption of AI has the potential to improve drug discovery, clinical trial design and patient outcomes. The sector also offers diversification benefits should economic growth or market sentiment weaken.
Fixed Income			
UK sovereign	●	**No change**	Gilt yields remained elevated and volatile during the quarter, reflecting persistent inflation pressures, fiscal concerns and shifting expectations for interest rates. While higher yields have improved prospective returns, uncertainty around the inflation and policy outlook supports maintaining a preference for a balanced approach in managing duration.
UK Credit	●	**No change**	Attractive yields continue to support the case for UK corporate bonds. Corporate fundamentals remain broadly healthy, although tighter financial conditions and a more uncertain economic outlook may create greater differentiation between issuers. We therefore continue to favour investment grade credit, where yields remain appealing relative to risk.
International sovereign	●	**No change**	We remain neutral on international government bonds as market conditions vary considerably across regions. In the US, long-term Treasury yields have been influenced not only by inflation and monetary policy expectations but also by concerns over fiscal deficits and government borrowing requirements. We continue to view inflation-linked bonds as a useful portfolio diversifier given ongoing uncertainty around the inflation outlook.
International credit	●	**No change**	Credit spreads remain relatively tight despite a backdrop of elevated geopolitical uncertainty and slowing global growth. While corporate balance sheets are generally resilient, current valuations leave limited room for disappointment. We therefore retain a preference for investment grade credit over high yield, which is more vulnerable to a deterioration in economic conditions or market sentiment.

● POSITIVE ● NEUTRAL ● NEGATIVE



Asset class	Outlook	Change since previous quarter	Rationale
Alternatives			
Alternatives	●	**No change**	Allocations continue to vary by risk profile and include Directional Multi-Asset strategies, Alternative Income and Uncorrelated Assets. In an environment where market returns have become increasingly concentrated and correlations can shift rapidly, alternative strategies remain an important source of diversification and potential resilience across different market conditions.
Property	●	**No change**	The property sector continues to adjust to a higher interest rate environment, although valuations in many areas now appear more reasonable following the repricing seen over recent years. We continue to see selective opportunities across both traditional and specialist property segments, where long-term structural demand drivers and discounts to net asset value may support returns.
Structured investments	●	**No change**	Structured investments can provide attractive risk-adjusted return opportunities, particularly in periods of elevated market volatility. However, returns remain dependent on market outcomes and product pricing, which can fluctuate based on issuer appetite, interest rates and prevailing volatility levels. We therefore remain selective when assessing opportunities within the asset class.

● POSITIVE ● NEUTRAL ● NEGATIVE



Important information

All data provided as of 30 September 2026 unless otherwise stated.

Past performance is not a reliable indicator of future results. Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse effect on the value, price, or income of an investment. Investors should be aware of the additional risks associated with funds investing in emerging or developing markets. The information in this document does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it.

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