

Q3 House and economic views

The quarter started on a strong footing for risk assets, despite a challenging macro backdrop dominated by geopolitical tensions and rising inflation concerns. April began with a notable divergence: resilient equity markets alongside increasing concerns around inflation, higher yields and geopolitical risk.

Against a backdrop of increasing dispersion across markets, our focus remains anchored in maintaining a disciplined and longer-term perspective. Periods like this tend to reward selectivity – not all risks are equal, and not all opportunities are immediately visible in aggregate market performance.

Here's an overview of how the SJP Investment team is interpreting recent developments and how we are positioning portfolios to navigate the period ahead. These reflect our portfolio positioning, highlighting where we are allocating capital and taking risk.

House views	-	/	+
Equities			◆ ↑
Government bonds			◆ ↑
Corporate bonds	◆ ↓		
Emerging markets			◆
GBP			◆
Inflation		◆ ↑	

Equities	-	/	+
Developed markets	◆		
US	◆		
UK			◆ ↑
Europe ex-UK			◆
Japan			◆
Japan SMID Cap			◆
Japan Large Cap	◆		
Emerging markets			◆
Smaller companies			◆ ↑

Fixed income	-	/	+
Global sovereign			◆ ↑
Global IG	◆ ↓		
Global HY	◆ ↓		
Emerging market (Local)			◆ ↑

Key

↑ Recent additions
 ↓ Recent deductions

Market outlook

The early part of 2026 was characterised by a relatively resilient global economic backdrop. This was underpinned by steady growth and supportive financial conditions, even as investors became increasingly mindful of elevated equity valuations and the risk of a correction. As Q2 progressed, dispersion across regions and sectors remained pronounced, reinforcing the importance of considering a wider range of potential outcomes.

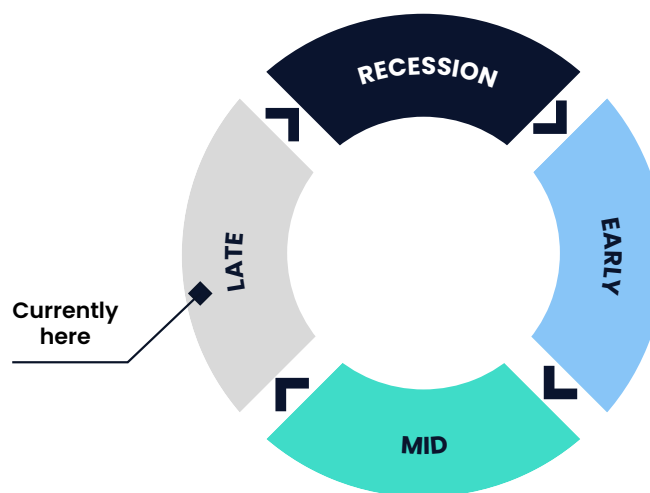
Geopolitical risk was a defining feature of the quarter, particularly through the escalation of tensions in the Middle East and the associated disruption to energy markets. The temporary restriction of flows through the Strait of Hormuz led to a sharp increase in oil prices and a tightening in financial conditions. The Iran conflict continues to be characterised by an official ceasefire. As signs of a longer-lasting peace deal emerge, there is tentative evidence the Strait of Hormuz is starting to open up gradually and energy prices have moved notably lower (as of 2 July 2026). This suggests that the shock is likely to prove temporary rather than structural, with markets responding positively to the improved outlook.

Despite this resolution, the earlier rise in energy prices is expected to feed through into inflation data over the coming months. While the near-term path for inflation and growth is somewhat less favourable, it is still materially better than a prolonged disruption.

Economic views: 12 to 18 month outlook

Deep recession	Stagflation	Mild recession	Soft landing	Re-acceleration
5%	15%	10%	55%	15%

Base case



- ◆ Investing **late cycle** is always difficult.
- ◆ Historically, **risky assets perform well** in this period. However, **volatility** can increase as markets assess the likelihood of a recession. We have a neutral view on equity risk, but have a bias away from richly valued US assets.
- ◆ Remaining diversified, we believe we can create **robust portfolios** over a number of scenarios across our **IMA**.

Alongside energy, overlapping pressures from the ongoing AI-driven investment cycle have been contributing to a backdrop of persistently elevated inflation. While these factors may prove temporary, their interaction is extending the period of above-target inflation, even as the longer-term productivity benefits from AI are likely to be supportive.

Encouragingly, underlying economic conditions continue to demonstrate resilience. Credit conditions have stabilised at broadly neutral levels, helping to support investment and growth. Corporate and household balance sheets also remain healthy, labour markets are broadly in good shape, and policymakers retain the flexibility to respond if conditions weaken. This provides reassurance that the global economy remains on a relatively stable footing despite recent volatility.

Regional divergences continue to shape the outlook. The US economy remains comparatively robust, supported by solid consumer spending and strong investment. While growth is expected to moderate and inflation remain higher, the easing in energy prices reduces the risk of a more sustained inflationary shock and may allow the Federal Reserve to shift away from its more recent hawkish pivot.

The UK and Europe appear comparatively more vulnerable. As net energy importers, both regions were more exposed to the earlier spike in oil prices, contributing to weaker growth expectations and elevated recession risks. In the UK, a softer labour market may weigh on confidence, although household savings offer some support.

Further, in the UK, after weeks of speculation and growing pressure, Sir Keir Starmer announced his resignation as prime minister after just under two years in office. The announcement means the UK will soon have its fifth prime minister in as many years. However, the next steps remain unclear.

Even in the event of a smooth 'coronation' the handover process could take several weeks, creating ongoing uncertainty despite UK markets having taken Starmer's resignation in their stride. A key source of uncertainty that remains is around the fiscal stance that a new prime minister and potentially new chancellor may take.

Emerging markets and Japan have faced some pressure from higher energy costs, but both regions have benefited from shifts in equity market leadership and increasing participation in AI-related supply chains, supporting stronger relative performance.

Alongside these macro developments, capital markets activity has provided an additional signal of risk appetite. The quarter saw a resurgence in IPO activity, most notably the debut of SpaceX in the largest IPO on record, reflecting strong investor demand. However, the immediate impact on indices is more modest than its overall valuation would suggest.

Overall, the global economy enters the second half of the year with resilience although risks remain. While growth remains broadly in line with trend-like levels and financial conditions are stable, elevated valuations, geopolitical risk and lingering macro uncertainty require careful monitoring. Equity market performance has broadened but

remains disproportionately driven by a relatively narrow set of companies and themes. Taking advantage of the opportunities while minimising the upcoming risks remains a key challenge. This is one of the reasons why it is important to remain diversified as opportunities broaden and headwinds of the energy crisis fade.

Positioning

The investment team has been reviewing the asset allocation and house views and have made no changes this quarter. Current allocations continue to reflect our medium-term views, building on the adjustments implemented at the start of 2026.

Our portfolios are designed to remain balanced across a range of macroeconomic outcomes. As a reminder, earlier repositioning at the start of the year focused on strengthening portfolio resilience through selective additions to sovereign bonds and a reduction in lower conviction credit exposures, alongside increased diversification across equity regions. These changes continue to underpin our positioning today.

We have a positive view on equities and government bonds where we have been adding to recently and believe together these provide more efficient exposures than corporate bonds alone where we are underweight. We also have recently added to inflation-linked bonds where we maintain a neutral stance.

Across asset classes, recent market dynamics highlight a complex diversification environment. Within equities, our preference for markets outside the US remains unchanged. US equities continue to represent the most significant valuation risk, with high index concentration and stretched multiples implying more muted medium-term return potential and greater vulnerability to disappointment. In contrast, UK, Europe ex UK and Japan offer a more attractive combination of valuations and improving fundamentals.

We have made some recent additions to UK equity, which remains supported by its defensive composition and discounted valuations, while Europe ex UK benefits from a balanced sector mix and global revenue exposure. Japan continues to stand out as a key opportunity, supported by corporate reform, fiscal support and strong profitability, with smaller and mid-sized companies offering additional diversification benefits.

Emerging markets also remain an important component of our allocation, supported by attractive relative valuations and diversification benefits. We are, however, mindful of rising concentration risk here, particularly as the technology sector becomes a larger index component – exceeding that of the US in some cases. This highlights the importance of looking beyond headline allocations to underlying index composition.

We have also made recent additions to global smaller companies where valuation discounts remain in place, particularly in the US, highlighting continued opportunities for diversification and relative return.

Within fixed income, we retain an overall neutral stance, while becoming more selective across credit segments.

Our fixed income positioning reflects a more cautious stance on credit relative to sovereigns. While yields across credit markets still look attractive on the surface, tighter spreads suggest that compensation for taking on additional credit risk has become less compelling, particularly against the backdrop of rising geopolitical uncertainty. As a result, we have been trimming credit exposure and leaning more towards sovereign bonds. Higher government bond yields are starting to rebuild their role as a diversifier in portfolios, offering more resilience when volatility picks up, even if valuations are not outright cheap. This reflects a deliberate recalibration of risk, reducing exposure where compensation has compressed and increasing allocations to areas that can better support portfolio stability.

As conditions evolve, we continue to monitor the interaction between valuations, fundamentals and market sentiment. While risks are building across several areas, they are not yet sufficiently reflected in pricing to warrant a material shift in positioning.

Overall, we maintain a diversified, valuation-aware approach across asset classes, with a continued emphasis on regional diversification, careful risk budgeting and resilience in the face of an uncertain macroeconomic environment.

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