Lumin
VZ Group

Investment Review

Q3/26

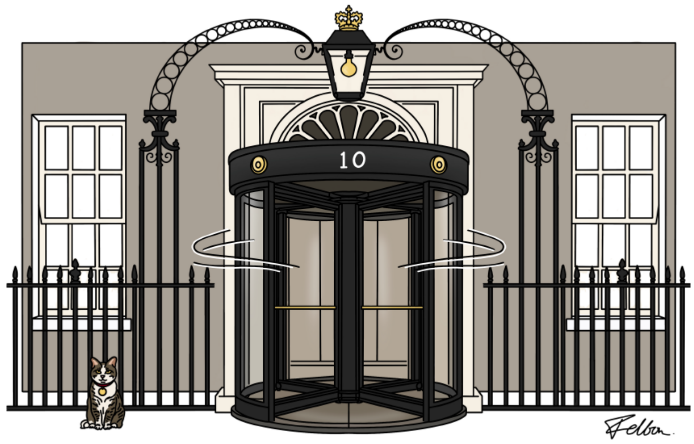
“Life moves pretty fast. If you don’t stop and look around once in a while, you could miss it.”

The iconic closing line delivered direct to camera by Ferris Bueller in the classic teen movie, which is now celebrating its 40th year, ‘Ferris Bueller’s Day Off’. The line has, over the years, acquired a timeless philosophical wisdom as a reminder to occasionally pause and take in the present – rather than passively follow life’s daily routines.

There is relevance here to seemingly ever faster financial markets and the need to regularly stand back, filter out the incessant market noise, and unemotionally reassess where we are. An important investment discipline that is an inherent part of our own process – reviewing markets and proactively adjusting portfolios on a strict quarterly schedule.

Contents

Introduction



“Seven Prime Ministers. One cat.”

The "revolving door" at 10 Downing Street is about to welcome its seventh Prime Minister since Brexit 10 years ago. This rapid churn has stripped Britain of its reputation for political stability, becoming the Western country with the highest turnover in leaders. Amid the chaos, Larry the cat is the only permanent fixture, outlasting the last six PMs. Economically, the attendant policy instability has unsettled financial markets, weakened the pound, and driven up government borrowing costs.

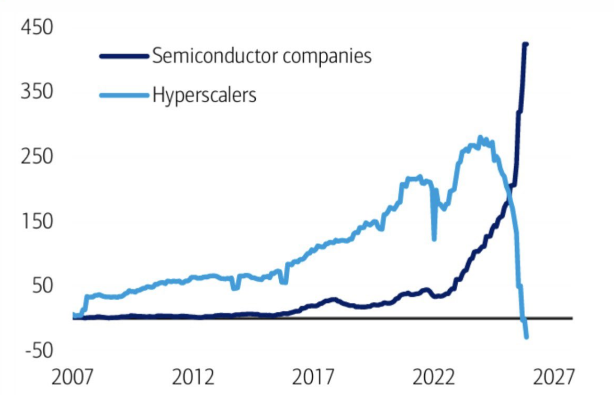
UK Gilts

This instability partly explains why Gilts (UK government debt) yield more than US Treasuries or German Bunds. A bigger factor, however, is the perception that the UK has a structural inflation problem. Recent data challenges this narrative: UK inflation prints have surprised on the downside, while US figures have shifted up. Gilts now present an interesting opportunity; their highest yields in over a decade, fixed payments that shield total returns, and tax advantages for certain investors.

'Magnificent Seven' pivot to semiconductors

Surprisingly, UK Gilts and the 'Magnificent Seven' delivered the same return during the first half of 2026. A default win, owing to the mega-cap US technology stocks suffering a sanity check, investors are now questioning whether their combined $1trn capex in 2027 will ever deliver the return needed to justify the spend. Seamlessly though, equity market leadership has pivoted to the major global semiconductor players (chart below), fuelling a staggering 88% surge in their global index during the second quarter alone.

Exhibit 6: A generational transfer in free cash flow is taking place
12m forward FCF of "hyperscalers" and semiconductor companies, $bn



Source: BofA Research Investment Committee. Hyperscalers = AMZN, GOOGL, META, MSFT, ORCL. Semiconductor companies = NVDA, MU, AVGO, & AMAT

BofA GLOBAL RESEARCH

Record earnings growth

This sudden shift has clear logic: rotating out of the expensive ‘hyperscalers’ facing earnings risks and into chip manufacturers, currently exploiting a huge supply deficit as the tech giants pay premiums to fill their data centres. Explosive quarterly earning spikes add to Wall Street’s already record high projections – a consensus 24% growth for the S&P 500 in 2026, a further 17% in 2027, versus a long-term average of c.8%.

A bubble in earnings?

The bull case for these stocks is that exceptional earnings growth supports the rich valuations. But what if the ‘bubble’ is not in valuation, but in earnings and record high operating margins? The chip sector is notoriously cyclical; when demand spikes, the manufacturers all aggressively invest in capacity at the same time, but by the time this comes on-stream, demand has typically cooled, abruptly reversing the supply-demand dynamic.

‘Unconditional surrender’

All this occurring against the backdrop of a fragile ceasefire in the US-Iran war. Trump demanded 'unconditional surrender', and this, some would say, has been achieved, only by the US, not Iran. The President is desperate to do a deal to assuage unhappy voters prior to November mid-terms. The risk is that passage through the Strait of Hormuz effectively halts again, sending the oil price back up and adding pressure on a recently more cautious US Fed to increase interest rates.

Uncertainty and fragility at extreme levels

During the last quarterly, we modestly de-risked portfolios, and we are happy we did so as uncertainty and fragility are at extreme levels. We have positioned proactively to protect portfolios against the risk of more difficult times ahead, reallocating to areas offering still decent returns but on less stretched valuations, and therefore less vulnerable to correction.

Market data

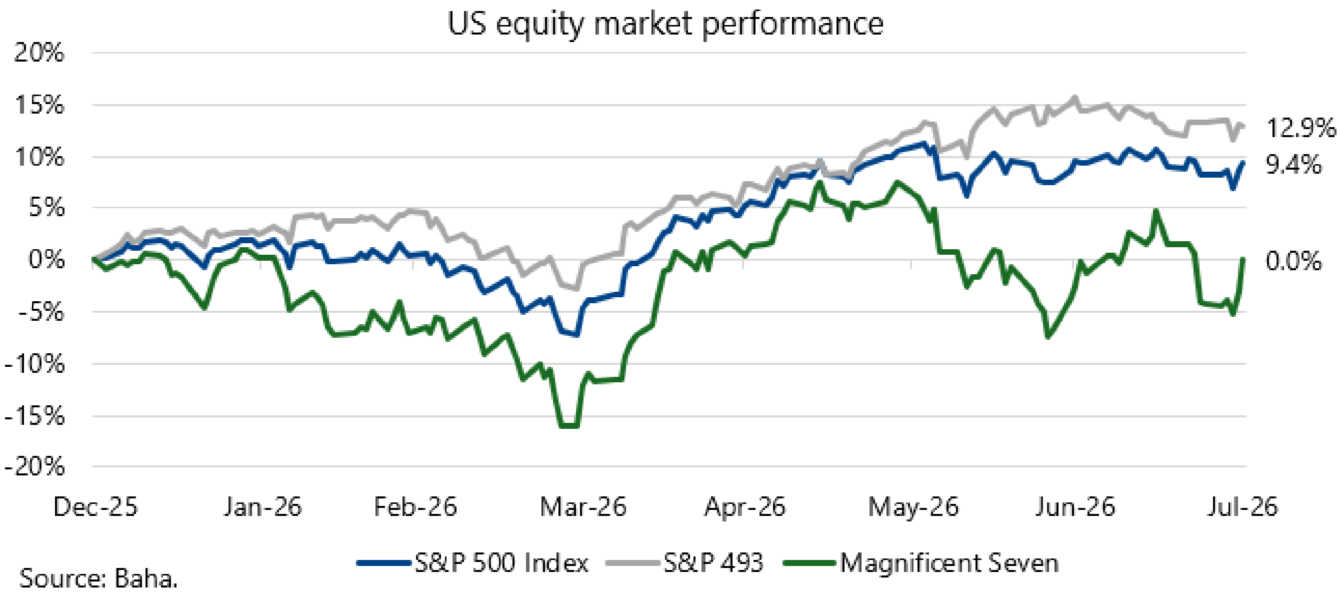
Group/Investment	3m	6m	1yr	3y	5y	2025	2024	2023	2022	2021
	Cumulative Performance %					Annual Performance %				
UK										
UK Large Cap Equity	4.0	7.6	23.6	55.2	79.2	25.8	9.7	7.9	4.7	18.4
UK Mid Cap Equity	9.8	4.3	10.2	38.4	20.5	13.0	8.1	8.0	-17.4	16.9
UK Small Cap Equity	4.7	7.2	21.9	53.1	67.9	24.0	9.5	7.9	0.3	18.3
UK All Cap Equity	11.1	7.0	14.3	45.6	28.8	14.4	10.7	6.7	-13.6	23.0
Global										
Global Equity	14.2	12.9	28.1	66.3	79.1	14.6	19.8	15.7	-7.3	20.0
North America										
US Equity	14.5	11.7	26.3	68.1	95.2	9.8	27.3	19.2	-7.8	29.9
US Tech Equity	26.9	21.9	38.7	95.4	125.1	12.7	28.1	46.4	-23.9	28.7
Europe										
Developed Europe ex UK Equity	12.5	10.1	23.2	53.3	64.4	27.9	2.8	15.8	-7.5	17.6
Asia Pacific & EM										
Emerging Equity	11.4	10.5	26.9	56.5	35.7	17.8	14.8	2.9	-6.4	1.0
China Equity	-6.9	-12.6	0.4	22.3	-23.8	23.0	21.8	-16.6	-12.2	-20.2
Japan Equity	12.8	17.1	33.4	60.7	65.6	17.1	10.1	13.3	-4.8	2.5
Fixed Interest & Cash										
Global Government Bonds	1.1	1.0	2.3	10.0	-2.8	3.7	2.0	5.5	-13.8	-2.4
UK Gilts	2.0	0.1	2.6	9.2	-19.3	5.0	-3.3	3.7	-23.8	-5.2
UK Index Linked Gilts	-1.1	0.2	2.1	-3.5	-33.0	1.3	-8.3	0.9	-33.6	4.2
Bank of England Lending Rate	0.9	1.9	4.0	14.9	19.0	4.4	5.3	4.8	1.4	0.1
Other Assets										
Global Real Estate Equity	7.8	10.8	17.3	28.3	15.9	3.4	3.4	3.6	-14.0	24.2
Global Energy Equity	-11.9	18.1	31.9	43.6	110.4	9.2	4.2	-1.4	47.7	34.7
Gold	-14.2	-5.7	26.1	100.5	137.3	53.1	29.8	7.1	12.4	-2.6

Note: Data as at 30 June 2026. Index returns are shown in GBP.The indices used are the following: UK Large Cap Equity: FTSE 100, UK Mid Cap Equity: FTSE 250, UK Small Cap Equity: FTSE Small Cap, UK All Cap Equity: FTSE All Share, Global Equity: FTSE All World, US Equity: S&P 500, US Tech Equity: NASDAQ 100, Developed Europe ex UK: FTSE AW Dv Europe ex UK, Emerging Equity: FTSE Emerging, China Equity: FTSE China, Japan Equity: FTSE Japan, Global Government Bonds: FTSE WGBI (Hdg GBP), UK Gilts: FTSE Act UK Cnvt Gilts All Stocks, UK Index Linked Gilts: FTSE Act UK Index-Lnk Gilts AS, Bank of England Lending Rate: SONIA, Global Real Estate Equity: FTSE EPRA Nareit Global, Global Energy Equity: FTSE AW Ind/ Energy. Gold: S&P GSCI Gold Spot.

FTSE WGBI: The FTSE World Government Bond Index provides exposure to the global sovereign fixed income market, the index measures the performance of fixed-rate, local currency, investment-grade sovereign bonds.
FTSE Act UK Cnvt Gilts All Stocks: The FTSE Actuaries UK Conventional Gilts All Stocks Index provides exposure to all British Government Bonds quoted on the London Stock Exchange.
FTSE Act UK Index-Lnk Gilts AS: The FTSE Actuaries UK Index-Linked Gilts All Stocks Index provides exposure to all index-linked British Government Bonds quoted on the London Stock Exchange.
FTSE EPRA Nareit Global. The index is designed to represent general trends in eligible real estate equities worldwide. The index covers Global, Developed and Emerging Markets.
FTSE AW Ind/Energy includes all companies in the FTSE World Index that are categorised as Energy in the ICB sector breakdown.

Boom, breadth and the price of perfection

The key feature of Q2 was the broadening of equity market leadership, even as the underlying drivers of performance remained concentrated around AI, with the Philadelphia Semiconductor Index (SOXX) rising 95%.



Source: Baha.

'Mag Seven' becomes 'Lag Seven'

US markets staged a remarkable comeback in Q2. The S&P 500 rose 15%, marking its best quarter since the early Covid-19 recovery in 2020. Astonishingly, the 'Magnificent Seven' technology giants, now a third of the S&P 500, were left behind. They returned just 8% for the quarter, leaving them flat (0%) for the first half of 2026 (as above). Their underperformance follows February's 'SaaSpocalypse', triggered by the release of Anthropic's Cowork, which crystallised fears about the future of the big sector economy. The question is no longer whether AI matters, but whether the rewards ultimately justify the scale of investment.

A chip on narrow shoulders

Supporting the rally was a blockbuster earnings season, with S&P 500 earnings growing at the strongest rate in five years, and analysts projecting 20%+ growth for the next three quarters. Some caution is warranted though. Paper profits on stakes in private AI leaders, such as Anthropic, flattered first-quarter earnings – lifting reported growth from an underlying 16% to 28%. The earnings boom also remains narrow, with AI spending beneficiaries producing 85% of this year's S&P 500 return and nearly half of expected earnings growth. For context, S&P 500 earnings have averaged just 6.7% a year over the past four decades.

SpaceX shoots for the moon

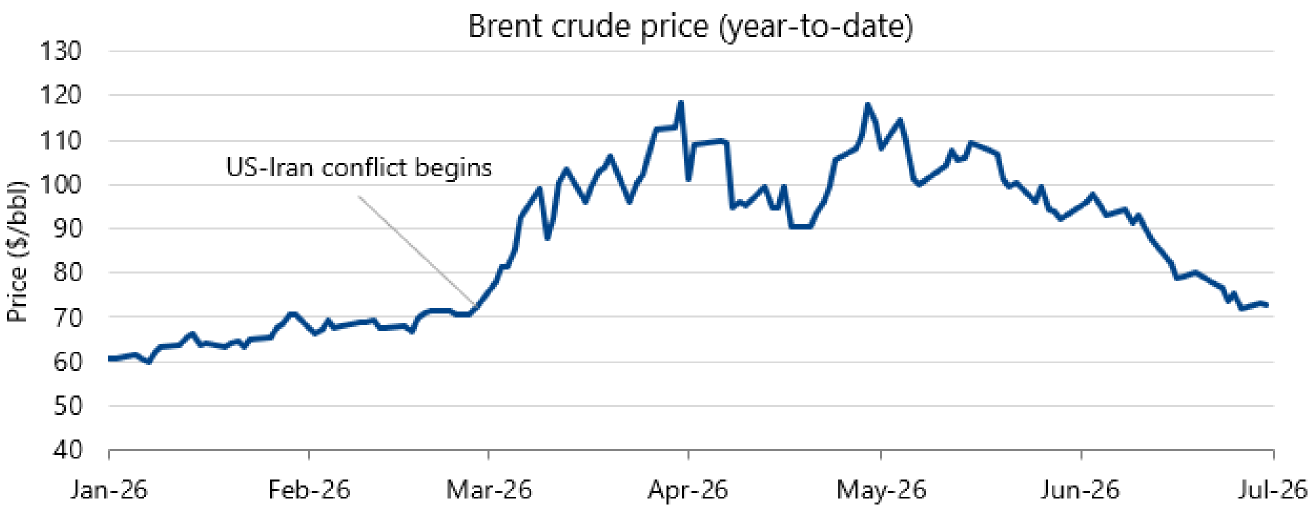
The spending surge is also reshaping financial markets. In June, SpaceX completed the largest Initial Public Offering (IPO) in history, raising $85bn at a $2 trillion valuation, despite generating just $19bn of revenue last year with a negative free cash flow of $14bn. The asymmetric information bias for those selling into a flotation usually leads to disappointed investors. But what may matter more is how those companies change the market's composition once they debut, especially introducing risks for forced buyers using passive indices. SpaceX shares fell below their issue price 33 days after listing.

Diversification matters again

Encouragingly, the rally has broadened beyond the technology giants. Smaller and mid-sized companies outperformed, with financials and industrials joining in. The Russell 2000, which tracks smaller US businesses, rose 22% in the first half – marking its best start since 1991 and its strongest showing against large caps since 2001 – after five years of underperformance. That partly reflects the technology boom, but also the resilience of the domestic US economy where smaller companies are more exposed. Profits are accelerating after previously stagnating during the resurgence of inflation, with S&P SmallCap 600 earnings forecast to grow 15% a year over the next two years.

Strait back at it

Growing optimism around the AI investment super cycle eased signs of stagflation, supporting equities and bonds. Meanwhile, the war in Iran remains a major focus for investors and sentiment is dependent on US-Iran peace negotiations.



Source: Baha.

Crude reality

Brent crude started the year near $60 per barrel, then surged to above $80 within days of the conflict's onset and ultimately breached $126 per barrel in April. But rather than spiralling, Brent crude oil prices ended the quarter at $73. The export offset is undoubtedly the United States, but China's ability to burn off inventories, has also shielded the market from a serious supply shock. The US Strategic Petroleum Reserve remains at about half of capacity and with 331 million barrels of oil in storage. Meanwhile Europe's gas storage is running at the lowest end of its seasonal range. That does not bode well heading into the winter.

Growth continues to deliver

Despite higher energy costs, geopolitical tensions and expectations that higher interest rates would dampen spending, US growth continues to show up and deliver. What's behind it? Steady consumer spending, a tight labour market, and a wave of fiscal stimulus from the One Big Beautiful Bill Act (OBBBA). AI and infrastructure investment have proved a powerful source of demand and productivity. Although if growth is so dependent on legislation and exponential AI infrastructure spending, we must acknowledge that it can ultimately reverse just as quickly as it developed.

The 'Great British Take Off'

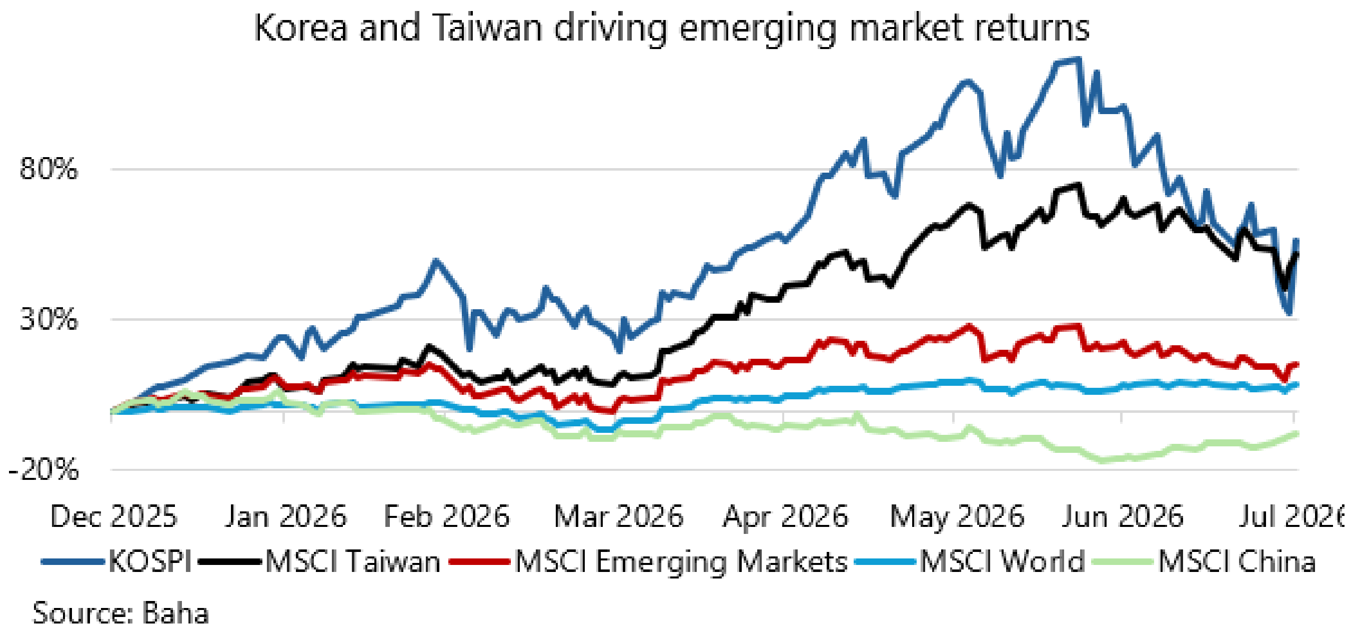
Another day, another takeover of a UK-listed company. Rotork, Gooch & Housego and Ramsdens have all accepted offers in recent weeks at premiums of 73%, 41% and 49% respectively. Meanwhile, interest in easyJet continues to build. There have been 154 bids for UK companies worth more than £100m since the start of 2023, with a combined value of £165bn. A further seven large companies have moved their listing overseas, taking some £120bn of market capitalisation with them. Going the other way, just 11 IPOs are of comparable size and worth £6bn. The pace of bid activity and the premiums being paid, underscore the persistent valuation discount attached to UK equities.

Inflation strikes back

Strong economic activity, tight labour markets and sustained investment spending had already raised questions about how quickly inflation would fall back to target. The energy shock has simply accelerated a trend that was already becoming visible in the economic data. The US Federal Reserve has paused its anticipated easing cycle, while markets are pricing in one or two hikes by year-end – a sizeable difference from the two cuts priced in at the start of the year.

Chips, Korea and concentration

Taiwan and South Korea have powered emerging market returns, but the index is more concentrated than ever.



A stellar first half

Emerging markets (EM) started the quarter as they began the year, outperforming other key regions and delivering astonishing double-digit returns. The move was driven by two key markets: Taiwan and South Korea, and one key theme: AI chip manufacturing.

Concentration higher than ever before

The focus on AI supply-chain names has seen the MSCI EM index – the main benchmark for EM equities – become incredibly concentrated. The 'diversified' index accounts for 1,178 companies across 24 countries. Yet the top three stocks – Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics and SK Hynix – hold a weight of around 31%. If you include the top 10, that figure rises to 40% – a level far above the 26% weighting of the developed market MSCI World Index and the 36% concentration of the S&P 500.

The TSMC behemoth

We have mentioned TSMC in previous quarterlies, particularly when it passed a 10% weight in the benchmark, which meant that active fund managers, limited by diversification rules, are forced to hold a structural underweight to the stock. At 15%, the semiconductor manufacturer now has a higher weight in the benchmark than India which, until recently, was the second largest market within the EM universe.

KOSPI's wild ride

The headline-catching market this year has been South Korea's KOSPI, astonishing moves in both directions have been amplified by retail investor's widespread use of leverage. At the time of writing, the KOSPI is currently in a bear market after falling more than 25% since its June peak. Despite this, the market remains up over 50% year-to-date.

SK Hynix takes on the NASDAQ

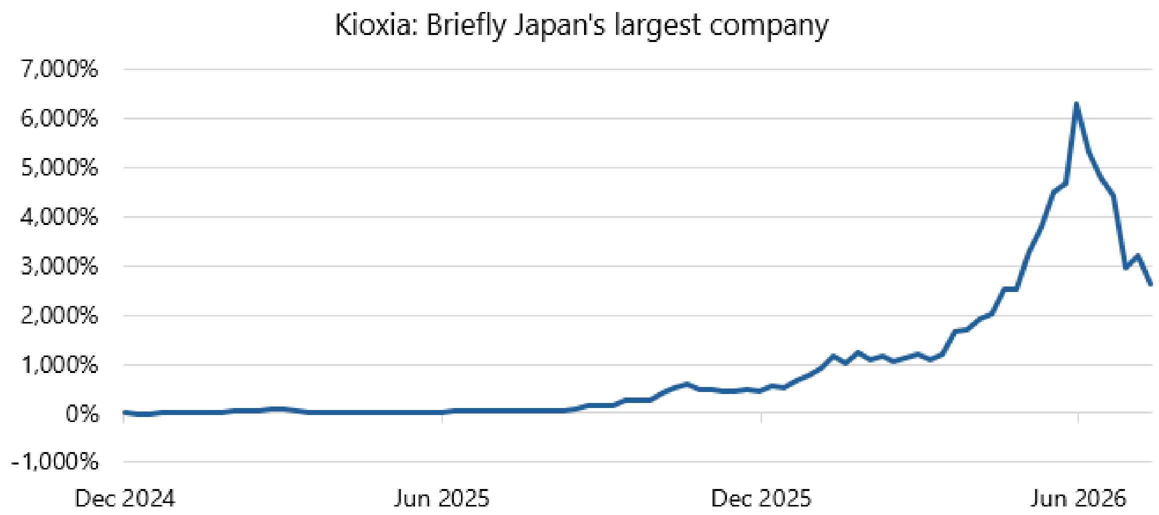
SK Hynix, the world's largest maker of high bandwidth memory has been at the centre of Korea's market performance. Debuting on the NASDAQ in July, it began trading American Depositary Receipts (ADRs), with a share sale of roughly \$26.5bn – one of the largest in US history. The ADRs jumped 14% on their debut before shortly falling below their offer price.

The surprising laggard

Around 18 months since DeepSeek spooked markets and showed that China wasn't far behind in the AI race, China has fallen from the largest country weight in the index to the third. Despite US chip export restrictions, its companies remain leaders in many tech sectors, whilst hosting a large energy supply system upholding AI power.

Semiconductors soar while the yen sinks

Investors have been euphoric over semiconductor listings, taking them from obscurity to market leaders.



Source: Baha

From listing to leader

Despite the wider market lagging, China wasn't entirely left out of the AI chip mania. In July, it hosted the IPO of the world's fourth-largest DRAM (memory) maker, CXMT. The stock immediately surged 466% on its first day of trading, briefly becoming China's most valuable company and raising question marks over a possible mispricing of the IPO. Although the company remains behind the global leaders in the most advanced memory technology, the insatiable demand tells us two things: that investors are racing to grab anything chip related and that China remains firmly in the race.

Japan catches the tailwind

Another region to catch the same tailwind as Korea and Taiwan was Japan, which was seen as one of the primary beneficiaries of the AI revolution outside the US. The Japanese market is home to several key semiconductor manufacturers and equipment suppliers. The subsequent rally was concentrated in these AI-related names and was heavily correlated with moves in Korea and Taiwan.

A familiar tale

Despite Japan's IPO activity in the first half of the year falling to a 15-year low, the country has delivered an IPO story as remarkable as China's. Kioxia, formerly known as Toshiba Memory Company, was listed on the Tokyo Stock Exchange at the end of 2024. Useful timing, right as the AI surge took hold. The stock rose over 60-fold, going from obscurity to a megacap in just 18 months and briefly becoming Japan's largest company (ahead of Toyota) back in June. However, the stock has lost just over half of its value, in what seems a classic case of what goes up that fast, can fall just as quickly.

The yen again

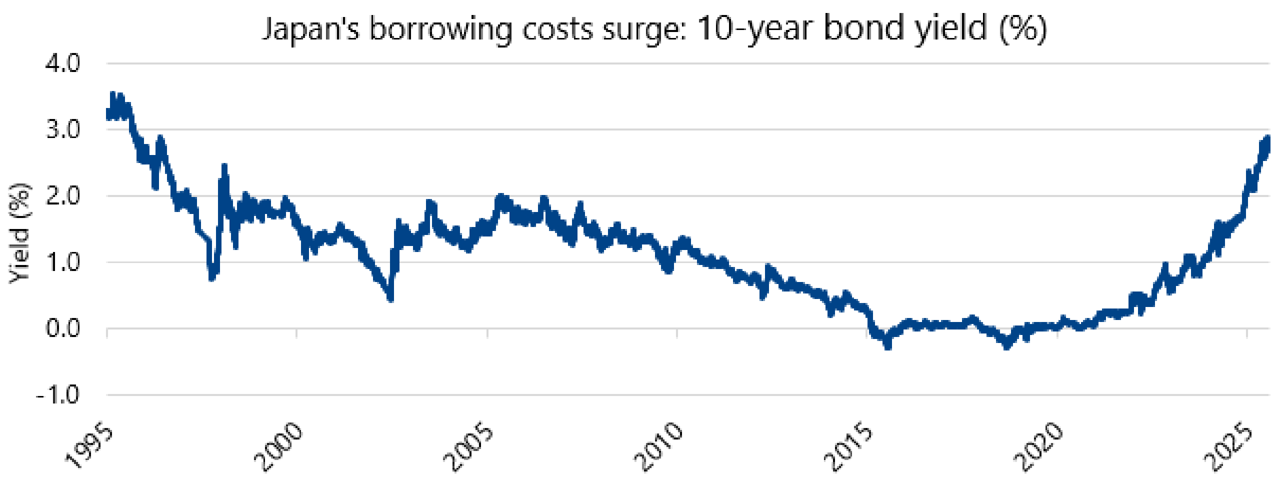
It wouldn't be a quarterly without mentioning the weakness in Japan's currency. What has seemed like a perpetual weakening trend continued, with the yen slipping to a 40-year low, trading above 163 to the dollar. Interestingly, this weakness has come at a time when the Bank of Japan has been raising rates. The combination of a rising policy rate, a steepening yield curve, and a still-depreciating currency is unusual and appears to point to deeper structural pressures.

Greenback bounces back

It's worth noting that a weaker currency is not purely a Japanese story, but also reflects the strength of the dollar. The dollar finished the first half of the year as one of the world's top performing currencies, jumping up to 3%. However, that move should be considered in the context of its significant fall in 2025 when Trump's tariff policies shocked markets. But investors have continued to back the US currency this year, amid a volatile geopolitical backdrop and expected tighter US monetary policy.

From widow-maker to rainmaker

Japanese government bonds and the yen have both come under pressure this year as government spending plans have heightened concerns over increased borrowing and rising inflation.



Source: Baha

Widow-maker

The Japanese Government Bond (JGB) market was nicknamed the "widow-maker" because shorting it ruined the careers of traders for decades. Selling JGBs because they appeared overvalued on any rational basis proved a painful rite of passage for aspiring young government bond traders. The chart above shows why: yields were in continual decline, falling from a peak of 8% in 1990 to a trough below zero 30 years later in 2020 (prices rise when yields fall).

Rainmaker

Since then, however, the opposite has happened: yields have risen, prices have fallen, and the curve has steepened this year, reaching its highest yield since 1996. Short-selling has shifted from a painful bet into a lucrative trade, creating a new generation of high earning "rainmaker" traders.

Less incentive to chase higher yields abroad

There are major global consequences of higher JGB yields. Not least the fact that with better yields in the home market, there is less incentive for Japanese institutional investors to chase higher yields abroad. As capital is repatriated, Japan's role as a reliable anchor investor in foreign sovereign debt is abating, placing upward pressure on yields in places like the US where Japan is by far the biggest foreign holder.

The "carry trade"

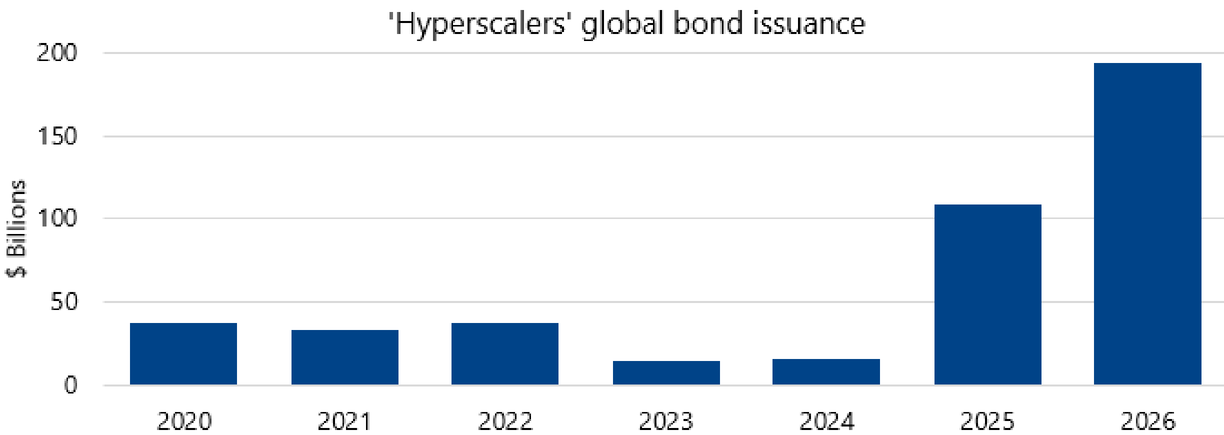
Historically, the Japanese yen is the world's premier funding currency for the "carry trade". Investors borrowed yen cheaply, converted it, and bought higher-yielding assets abroad. However, as JGB yields rise alongside Bank of Japan (BOJ) policy rate expectations, the maths behind these carry trades breaks down. A dramatic illustration of this is in August 2024, when a surprise 0.25% rate hike by the BOJ coincided with a weak US jobs report – sparking the worst one-day fall in the Japanese Nikkei index since the 1987 Black Monday crash.

Energy-driven inflation

Looking at global government debt markets more widely, we witnessed a spike in yields early in the quarter as the escalation in the US/Israel–Iran conflict stoked fears of oil supply disruptions and energy-driven inflation. However, yields across major markets then retraced significantly in June following a 14-point US/Iran ceasefire framework. This calmed energy market anxiety and compressed risk premiums – until the bombs started falling again.

From biggest buyers of equity to biggest issuers of debt

A gauge of risk in holding the debt of companies at the centre of the AI boom is rising rapidly, underscoring growing jitters over Big Tech's vast spending on data centres, chips and computer memory.



Source: Baha.

Big tech becomes biggest debt issuer

This has important implications for credit markets, with big tech shifting from being the largest buyers of the US equity market through their c.$300bn-plus of buybacks in 2025, to becoming the largest issuers of corporate debt. According to Dealogic, and consistent with the chart above, the hyperscalers have already issued $200bn in bonds globally this year, up from $108bn for the whole of 2025 and more than their combined issuance over the five years from 2020 to 2024.

A huge new source of debt

As issuance turns from trickle to torrent, and despite all still being branded investment grade, the sheer deluge of new supply is leading to a steady widening in this group's credit spreads (the extra return investors demand for riskier corporate debt over risk-free government debt). The global credit market is vast, but the hyperscalers have, in this last year, added a whole new huge source of supply – tilting the total supply-demand balance and adding fresh competition for investors' cash.

Credit spreads still tight

It is perhaps surprising, then, that overall credit spreads have not risen meaningfully and remain tight relative to long-term average levels. Partly, this can be explained by a higher benchmark baseline: investors demand less incremental premium when the risk-free baseline yield is already elevated. And partly, it reflects corporate balance sheets generally still being in good health, supported in the US by an economy where growth has proved surprisingly resilient. Our caution here, however, is that an estimated 40% of this growth is coming from AI related capital investment, crowding out virtually all investment from elsewhere in the economy.

Debt wall

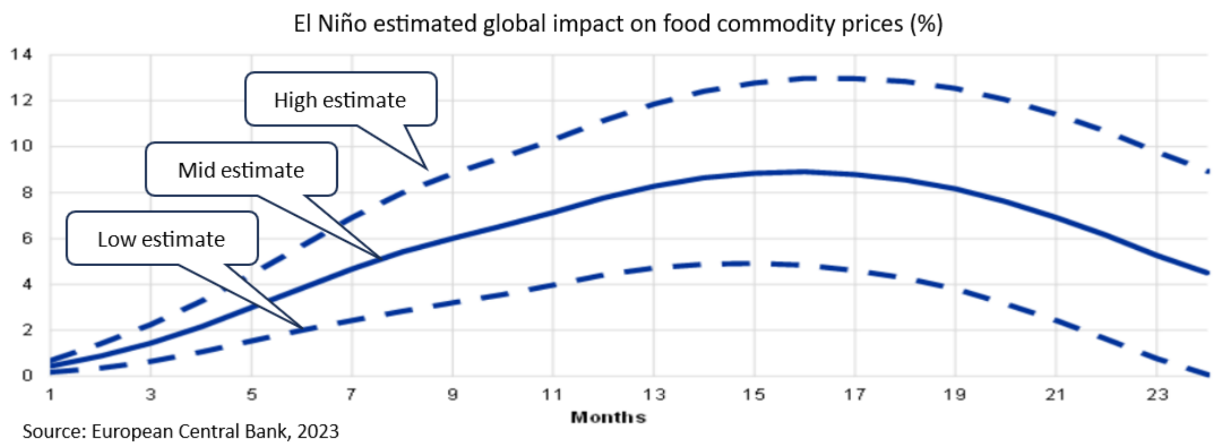
We are entering a period when the cheap credit that companies rushed to secure during the zero-rate post pandemic era, is now due for refinancing, and the long threat-ened future 'debt wall' has arrived. An estimated $12.4tn of global corporate debt is due to mature between 2025 and 2029, including c.$3.4tn of speculative-grade debt. The issue is not whether borrowers can refinance, but rather the price at which refinancing is possible. A company that borrowed at 5% and refinances at 8 or 9% will suffer a painful increase in its debt service costs.

Private credit

We have warned here before about growing risks in private credit, a relatively illiquid and unregulated market that has grown from nowhere fifteen years ago to now multi-trillion dollar. Retail-facing funds are still suffering heavy redemptions, forcing managers like Apollo to gate their flagship funds. But the situation has not got materially worse, justifying the Fed's comparatively relaxed stance, not contributing to a drama becoming a crisis.

El Niño coughs, commodities sneeze

Weather has long been a key supply volume determinant for commodity exporters.



Source: European Central Bank, 2023

El Niño nightmares

Weather patterns are a constant worry for commodity producers, particularly in the agriculture space which have short windows to produce. El Niño typically happens every few years and causes extreme rain in some areas and droughts in others, throwing producers into panic. Despite this being a recurring issue, the predicted late 2026 intensification is set to be more significant than usual. The combination of already elevated commodity prices attributable to the Strait of Hormuz closure, with a further weather related supply squeeze, could inflate commodities prices – particularly for Southern hemisphere grown softs. Although, the Northern hemisphere is not exempt from the weather woes, as June's heatwave wiped over €2bn of grain crops in France and Hungary.

Cotton catches on fire

Cotton has risen 17.5% in the past year, with weather being the main driver. Warmer than usual temperatures have caused almost 25% of Texan cotton being abandoned due to poor quality. Importantly, Texas in the largest producer in the US and global key players China and Brazil are seeing similar conditions, which may suppress global output and could force prices further upwards.

Metal of the moment

An AI data centre build out requires space, electricity, water and…copper? The metal is a key component of AI which is used as an electricity conductor for chips, cooling plates and cabling for grid connections. Having moved sideways for the last four years, it has rallied 43% in the past 12 months. The demand tailwinds are now considered structural, and combined with the supply-constrained, inefficient and geographically challenged mines, the price outlook is positive for the metal.

All that glitters...isn't

Last quarter reviewed gold's poor returns since the beginning of the War, and this has not changed. The non-yielding metal was once *the* diversifier to global conflict and volatility, but has played second fiddle to attractive 'risk-free' government bond yields this year. In Q2 alone the less than shiny asset shed 14% to end the quarter at $4,007, which contributed to the intra-year peak to trough of -26%.

Diamond hands never sell...?

Having fallen 22% in Q1, Bitcoin has dropped a further 14% in Q2. The once claimed 'levered play on the Nasdaq' shed any correlation this quarter, with the tech-focused US index up 11.5%. Now down c.50% from all-time highs, what went wrong? The post-War sell off in AI stocks prompted dip buying, diverting capital from the cryptocurrency. Combined with this, higher for longer rates dampen risk attitude as capital becomes more costly. Finally, Michael Saylor – arguably Bitcoin's biggest supporter – suggested he could sell down $1.25bn of Bitcoin, despite his own claims that you should "never sell your Bitcoin." Sentiment has always played a key role in this asset and is currently hurting the price.

Asset class views

	ASSET CLASS	POSITIONING -- - = + ++	CHANGE	KEY VIEW
EQUITIES	**Equities**	○●○○○	↓	Remain underweight equities amid a volatile global backdrop and generally expensive markets.
	UK	○○○●○	↑	Moving overweight UK as its defensive market make-up provides attractive downside protection within equities.
	U.S.	○●○○○	—	Underweight remains due to high valuations and index concentration concerns; namely in Tech and Software.
	Europe ex UK	○○●○○	—	Neutral but monitoring the region due to the impact of higher inflation and an underwhelming growth outlook.
	Japan	○○●○○	—	Remain neutral, the market has performed well but has been driven by just a small number of semiconductor related names.
	Emerging Markets	○○●○○	↓	Strong market performance and significant concentration has led us to continue to trim our positioning, moving to neutral.
FIXED INCOME	**Fixed Income**	○○●○○	—	Remain neutral with a focus on high quality and short-duration debt.
	Global Aggregate[1]	○○●○○	—	Concerns around DM debt dynamics. EM yields attractive and with resilient balance sheets, as long-term convergence continues.
	UK Gilts	○○○●○	—	Offering the highest yields of any developed market economy, with relatively lower debt levels to other key peer economies.
	Global Index Linked	○○●○○	—	Short-term inflation expectations are elevated but yet to feed into medium or long. Less attractive given US budget deficit concerns.
	Global High Yield[2]	○●○○○	—	High yield spreads remain extraordinarily tight while default rates have ticked up at the margin.
DIVERSIFIERS & CASH	**Diversifiers**	○○○●○	—	A higher inflation environment should be supportive for infrastructure and supply disruption continues to support commodity prices.
	Cash	●○○○○	—	Risk of heightened inflation eroding the purchasing power of cash.

1. Global Aggregate refers to global investment grade bonds. 2. Global High Yield refers to high yield corporate bonds. Up/down arrows indicate a positive (↑) or negative (↓) change in view since the prior Investment Quarterly Review.

Source: Lumin VZ Group

Equities

What we think

In days gone by, the phrase "fast market" was a formal term used by the London Stock Exchange and stockbrokers during periods of extreme volatility and exceptional trading volumes. When a fast market was declared, the prices displayed on broker screens became indicative only, rather than a guaranteed execution price. The last few months in equity markets feel like one long 'fast market.'

We have seen some extraordinary moves in market and sector indices, exceptional both in scale and speed. The early April US-Iran ceasefire sparked a sharp market rally, driving a 16% gain in the S&P 500 and a 27% surge in the MSCI Emerging Markets index over the subsequent two months. The gains primarily driven by an unprecedented explosion in semiconductor stocks, the global industry index up a staggering 88%.

Earnings and operating margins in AI related areas have enjoyed upgrades, pushing total US earnings growth forecasts for this year and next to levels three to four times ahead of long-term averages. While this earnings growth provides some support to share prices, the US equity market still trades at record levels on all sensible valuation measures. Rich valuations on 'bubble earnings,' a dangerous combination!

Other 'top of the market' indicators include; record margin on Wall St (retail punters borrowing to buy hot stocks), the outperformance of 'non-profitable' versus profitable companies, and the launch of blockbuster IPOs, like SpaceX, briefly rocketing (!) 50% above its issue price to become the fifth-largest company, now six weeks later 16% below.

Flighty and fragile, worrying and disturbing. But as JM Keynes observed 'markets can behave irrationally for longer than you can remain solvent.' Valuations, indicators, extremes, and broken records are all useful markers for eventual direction but tell you little about timing. Our move to de-risk portfolios at the last quarterly was in preparation for more difficult times ahead. We remain fully invested, but with a more cautious tilt to portfolios.

What we have done

We have further trimmed the Artemis SmartGARP Global Emerging Markets fund. We took a little out of this fund at the last quarterly and do the same again this. The fund has performed exceptionally well over recent years, outperforming a regional index that itself has been very strong.

The fund manager is though facing the same dilemma as managers in the US have been for a while, having to manage benchmark risk (i.e. the risk of underperforming the benchmark) versus absolute risk (the risk of losing money) in an area with extreme concentration in highly volatile stocks. The manager has managed the situation well so far, but both concentration and volatility continue to rise.

We are switching the proceeds from this into the Vanguard FTSE All-Share index. The UK is a good hedge against tech-related euphoria elsewhere, indeed described a few days ago in the FT as the 'anti-tech' index. By contrast, it has a big exposure to real assets in the resources sector – oil, gas and mining - and is generally more defensive in composition, bigger in consumer defensive areas like food and pharmaceuticals.

Despite recently hitting all-time highs, it remains the cheapest major equity market and offers the highest yield, around three times what you get on Wall Street – helpful in total shareholder return terms. Its compelling relative value is not lost on overseas and Private Equity buyers, and UK-targeted M&A activity is at record levels so far in 2026.

Fixed interest and diversifiers

What we think

At the beginning of the year, our view was that the largest threat to markets was inflation; this viewpoint remains. Since the last quarterly investment review, there have been few signs of positivity regarding the taming of inflation. Not least thanks to the inevitably inflation-inducing US-Iran War, that sadly continues to persist.

Despite no rate hikes in Q2 from the Bank of England or the US Fed, there have been dissenters in each central bank. Most notably, US policymaker Neel Kashkari, who had only previously dissented (three times) in a dovish manner, voted against consensus and opted for a hike in July. Potentially he is also tired of the Fed having missed its self-imposed target of 2% inflation for 65 consecutive months?

As such, it is our opinion that US treasuries do not offer an attractive risk reward trade off at present. With the debt to GDP ratio now over 100% and only forecast to only expand, on top of a Trump presidency which seems to be offering continued spending yet lower taxes (One Big Beautiful Bill Act), something must give.

A similar view is shared of our European neighbours, where the European Central Bank has been the first to blink in this 'Cold War' of threatened rate hikes, having been the only of the three central banks to raise rates in Q2. Commentary from the Chair, Christine Lagarde, indicates that the ECB is comfortable with raising rates further if need be.

On the upside, UK Gilts currently offer a high level of appeal. The 'highest yielding developed market' seems an unfair title given the spending addictions other nations (notably Italy, Greece and the US), yet one that offers an attractive risk reward opportunity. It is worth noting, however, that the UK is still not perfect, having missed its inflation target for 15 consecutive months.

Going further afield, the wider market is warming to our positive view on emerging market debt. The asset class continues to mature, given advancements in governance and an increase in credibility.

What we have done

During this quarterly cycle we have opted to not add any new fixed interest funds to the portfolios. However, we have opted to add to our existing Morgan Stanley Emerging Market Debt Opportunities fund position. This line still offers an attractive yield for the associated risk, as well as providing good diversification from a portfolio construction perspective. The EMD position was first included in Q1 2026 and is a position we have been looking to build further on. This position has been funded from a slight trim to our Vanguard Global Bond Index position. This is passive and has a large allocation to US treasuries, which we have already stated our view on.

Within diversifiers, a lot of research has been conducted throughout the quarter. The conclusion is a trim of the Premier Miton Tellworth UK Select fund, which sadly has not been performing in the manner we had hoped. This funding has allowed us to add to our Cohen and Steers Diversified Real Asset fund, which has continued to please us with a consistently strong track record and attractive fee. As expected, the fund invests in a wide range of real assets, many of which have inflation-linked revenues. The main holdings are commodities, real estate and infrastructure.

St Albans

2nd Floor
2 Beaconsfield Road
St Albans
Hertfordshire
AL1 3RD

01727 893 333

London

3rd Floor,
65 Carter Lane
London,
EC4V 5DY

0203 988 7788

Reading

Merlin House
Brunel Road
Theale
RG7 4AB

01189 797 596

Poole

9 Nimrod Way
Ferndown
Dorset
BH21 7UH

03300 564 446

Bishop's Stortford

Office 13
Riverside House
Bishop's Stortford
CM23 3AJ

01279 701 317

Beaconsfield (Penn)

4 Pauls Hill
Penn
High Wycombe
HP10 8NZ

01494 816 858

info@luminwealth.co.uk
www.luminwealth.co.uk

Know anyone who would like to receive the Investment Review? They can download it easily using the QR code.