Lumin
VZ Group

Investment Review

Q4/26

“Bull markets are born on pessimism, grown on scepticism, mature on optimism, and die on euphoria.”- Sir John Templeton

Financial markets over the third quarter pretty much followed the trends established in the second quarter: excitement focused on all things Artificial Intelligence driving equity markets higher, concerns about inflation and the oil price driving government bond markets lower. However, did a sudden, subtle reversal in momentum late in the period signify that the tide may be turning - challenging both AI related euphoria and government bond pessimism? Read on.

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Introduction

"As long as the music is playing, you've got to get up and dance. We're still dancing." - Chuck Prince, Citigroup CEO 2007



High-stakes poker dilemma

The music stopped abruptly for Chuck just four months later when he was forced to resign after Citigroup revealed billions of dollars in subprime mortgage losses. He and other Wall Street CEOs could see the cracks in an over-leveraged credit market but faced a high-stakes poker dilemma: go all-in to stay in the game, or fold and suffer a brutal loss of face.

Capex supercycle of unprecedented scale

History does not repeat itself, but it rhymes. Heads of the giant tech companies engaged in the Artificial Intelligence (AI) arms race of today find themselves trapped on the same dance floor. To stay in the game, to compete in the race to build AI infrastructure, the 'hyperscalers' (Amazon, Alphabet, Microsoft, Meta, and Oracle) are locked in a capital expenditure (capex) supercycle of unprecedented scale.

True AI exposure in the $ trillions

The sums are truly mind-boggling. The cumulative, global AI infrastructure spend by 2030 is estimated at c$8 trillion, equal to the combined GDP of Japan and Germany. It does not end there, the true scale of AI spend - masked by the growing use of off-balance sheet financing, is estimated at up to a further $3 trillion.

Surge in government bond yields

Concerns here are not new, but revelations about the true scale of the spend are. Grabbing the headlines, has been news of a surge in government borrowing costs to levels not seen for decades. The 10-year US Treasury yield, the most important number in global finance, is at its highest level since 2002.

UK highest debt costs amongst the G7

This spike mirrored across major developed markets: Japan bond yields at 30-year highs, France the fastest growing at 24-year highs. It is though the UK, back at 1998 levels, which pays the highest cost of borrowing in the G7, reflecting in part our exile to the naughty step post the 2022 Truss 'mini' budget fiasco. The harsh lesson from that debacle still front of mind as new Chancellor Healey delivers his first budget.

Inflation stubbornly above target

Clearly some common global concerns are at play. Foremost amongst these is inflation, stubbornly above target across developed economies, for five and a half years in the US. The principal culprit for this, a spike in the oil price post the Iranian blockade of the Strait of Hormuz. Flows have reportedly picked up of late, but global oil inventories at record lows need restocking before the Northern hemisphere winter sets in.

Surging total supply of debt

A second major driver, ever expanding fiscal deficits. Total US debt surpassed $40 trillion in August, the costs of servicing this now larger than the defence budget. Adding to this, a vast new source of supply is coming from the 'hyperscalers,' previously funding capex out of cash, now tapping every corner of the debt market. Surging total supply necessitating higher yields to attract the necessary demand.

Equity markets have proved resilient

Despite the issues above, equity markets have proved resilient, some reaching new highs driven by strong earnings growth. We question the quality of these earnings, noting the adoption of new accounting practises that flatter near-term profits. Depreciation and borrowing costs are set to rise materially.

Conclusion

We are concerned at the highly concentrated and heavily interdependent nature of the current AI boom. The sums involved are without precedent and whilst society will benefit, not all the big players in this arms race can be winners. We have modestly derisked our equity exposure, but crucially portfolios remain broadly diversified, not reliant on a single theme to deliver long-term wealth creation. A lot more detail in the pages that follow.

Market data

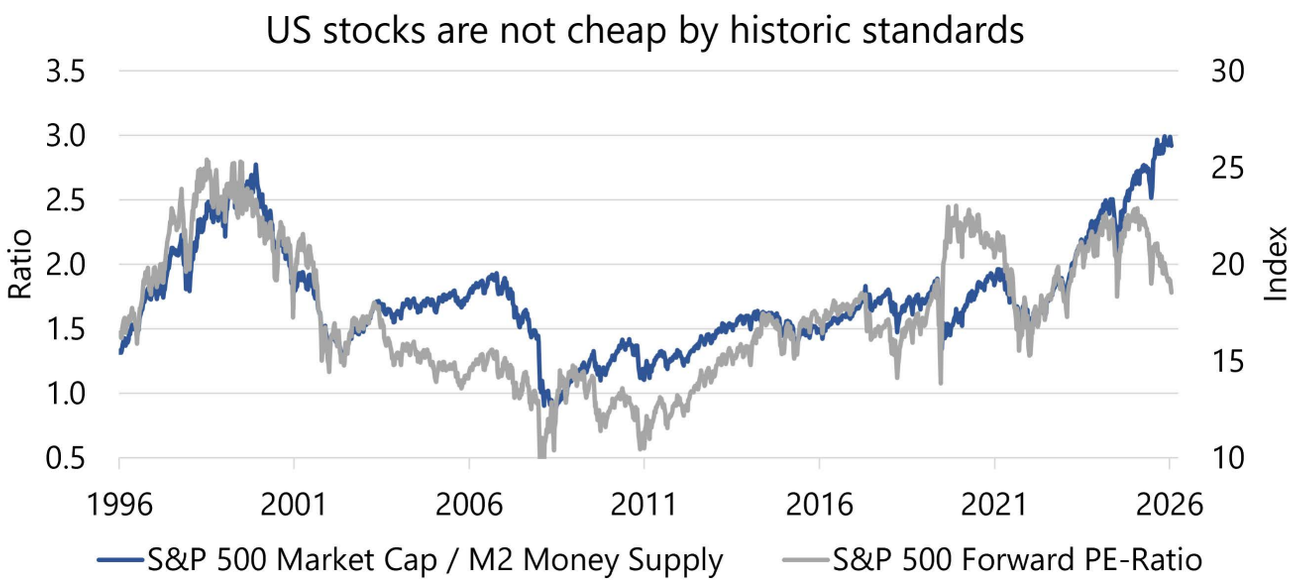
Group/Investment	Cumulative Performance %					Annual Performance %				
	3m	6m	1yr	3y	5y	2025	2024	2023	2022	2021
UK										
UK Large Cap Equity	1.8	5.9	17.0	54.6	78.9	25.8	9.7	7.9	4.7	18.4
UK Mid Cap Equity	7.4	18.0	15.0	48.6	25.0	13.0	8.1	8.0	-17.4	16.9
UK Small Cap Equity	2.4	7.2	17.0	53.9	68.2	24.0	9.5	7.9	0.3	18.3
UK All Cap Equity	4.7	16.3	17.0	50.8	31.8	14.4	10.7	6.7	-13.6	23.0
Global										
Global Equity	1.6	16.0	19.0	67.5	79.3	14.6	19.8	15.7	-7.3	20.0
North America										
US Equity	2.2	17.0	17.0	70.5	93.6	9.8	27.3	19.2	-7.8	29.9
US Tech Equity	0.5	27.5	26.0	94.1	118.4	12.7	28.1	46.4	-23.9	28.7
Europe										
Developed Europe ex UK Equity	-2.5	9.7	14.0	52.4	59.2	27.9	2.8	15.8	-7.5	17.6
Asia Pacific & EM										
Emerging Equity	1.6	13.2	14.0	54.9	44.1	17.8	14.8	2.9	-6.4	1.0
China Equity	2.1	-4.9	-17.0	22.5	-8.0	23.0	21.8	-16.6	-12.2	-20.2
Japan Equity	5.4	18.9	27.0	64.4	63.2	17.1	10.1	13.3	-4.8	2.5
Fixed Interest & Cash										
Global Government Bonds	-2.6	-1.5	-1.0	9.9	-5.2	3.7	2.0	5.5	-13.8	-2.4
UK Gilts	-2.5	-0.6	1.0	7.1	-19.9	5.0	-3.3	3.7	-23.8	-5.2
UK Index Linked Gilts	-1.2	-2.3	2.0	0.0	-35.3	1.3	-8.3	0.9	-33.6	4.2
Bank of England Lending Rate	1.0	1.9	4.0	14.5	20.1	4.4	5.3	4.8	1.4	0.1
Other Assets										
Global Real Estate Equity	13.2	-0.2	39.0	42.9	126.6	9.2	4.2	-1.4	47.7	34.7
Global Energy Equity	-5.6	1.7	4.0	22.9	8.3	3.4	3.4	3.6	-14.0	24.2
Gold	3.6	-11.2	10.0	106.1	141.9	53.1	29.8	7.1	12.4	-2.6

Note: Data as at 30 September 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.

Resilience in the face of headwinds

Q3 showed how solid economic growth and strong corporate earnings can support markets, even as inflation, geopolitical tensions and fiscal pressures keep interest rates elevated.



Source: Bloomberg.

Equity sentiment diverges

Bond yields are rising, energy prices are volatile, and worries are mounting over AI debt, yet US stocks march on. The S&P 500 is up 12% this year and the technology heavy Nasdaq 100 up a fifth. A pullback would have seemed a given after the Fed's quarter-point hike in September, but the market stayed razor-focused on near-term demand for computing power, which many must believe is immune to higher rates. The gap between the top-heavy index and its more even-handed cousin, the S&P 500 Equal Weight, is now its widest in 24 years. The index remains a daunting competitor, remarkably, fewer than 10% of its constituents have outperformed it over the past year.

Cheaper but not cheap

Falling valuations have been driven by a golden period in company profits: S&P 500 earnings rose 50% year-on-year in the second quarter, a pace usually reserved for post-recession recoveries. As profits have grown faster than share prices, US stocks have actually become 'cheaper' over the past year. The orange line in the chart above shows the forward price-to-earnings ratio: how many dollars investors pay for each dollar of profit a company is expected to make in the following year. For the S&P 500 this ratio has fallen from 23 to 19, but still high by historical standards.

Mind the margins

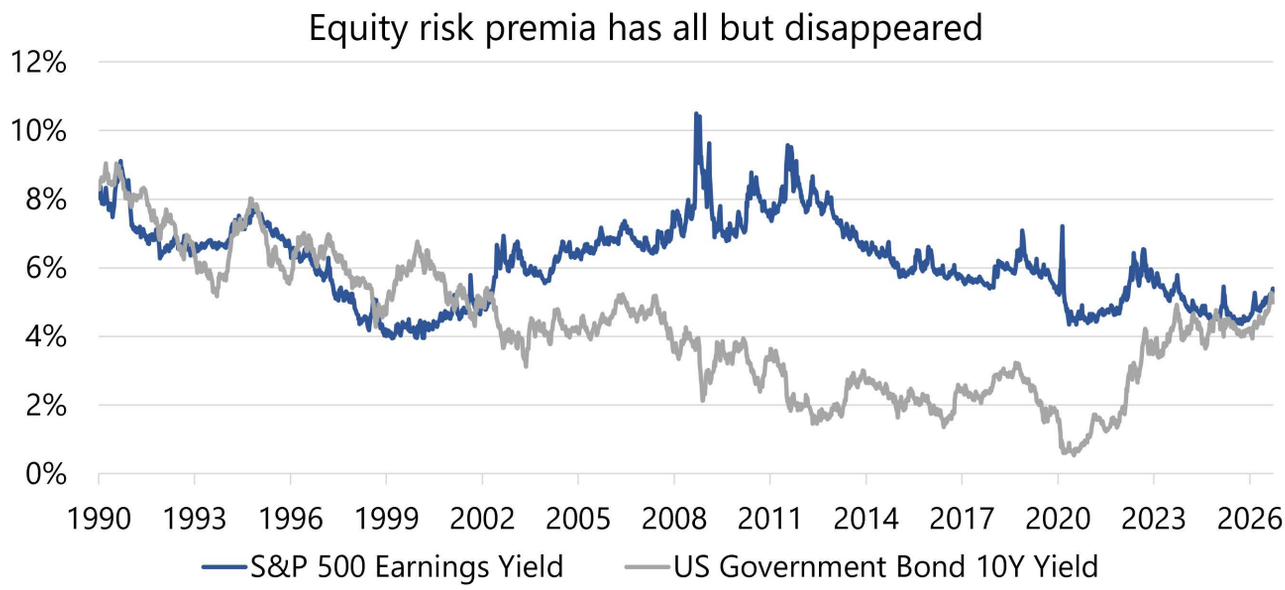
The blue line in the chart compares the value of the US stock market with the money circulating in the economy, a gauge of how expensive stocks are relative to liquidity, and it now sits above its dot-com peak. Concentration is also unprecedented: at the end of Q3, AI infrastructure companies and hyperscalers made up 53% of the S&P 500's value, while AI spending is expected to absorb around 93% of hyperscaler cash flow this year, up from 33% in 2023. As noted last quarter, we believe the greater risk lies in earnings rather than valuations, with operating margins more exposed to supply chain disruption than markets assume.

Diversification matters

Rising bond yields have weighed most heavily on companies exposed to refinancing costs, particularly smaller companies (the Russell 2000 Index fell 7% in sterling terms in Q3), as well as industrials, whose income yield now looks less attractive relative to bonds. There have, however, been pockets of opportunity. Healthcare stands out, with the MSCI World Health Care Index up almost 10% so far in the second half of 2026, helped by the conclusion of negotiations between US public health programmes and major pharmaceutical companies, which brought much-needed clarity on drug pricing. Alongside supportive demographics and policy, the sector's defensive qualities make it a valuable allocation should markets pull back.

A world beyond Wall Street

Shrinking rewards from US equities and surprising strength elsewhere are reshaping the investment landscape.



Source: Bloomberg.

A re-think within asset allocation

One of the most striking developments in recent weeks has been the convergence of equity earnings yields and US Treasury yields. For most of the past 20 years, investors have been rewarded for taking on stock market risk through the equity risk premium: the extra return expected from holding shares rather than government bonds. That premium has now all but disappeared, falling to its lowest level since the start of the century; the last time the two yields crossed was shortly before the 2000 dot-com crash. This does not mean the equity bull market must end immediately, but with the relative appeal of shares over bonds narrowing quickly, the bar for positive surprises is getting higher.

Growth continues to deliver

European shares have had a respectable 2026, with the MSCI Europe ex UK Index up 5.7% in sterling terms, creditable given trade tensions and growth doubts. Investors diversifying away from big tech have favoured Europe, which, unlike tech-heavy Asia and emerging markets, offers less exposure to the AI narrative. A large weighting to financials, with banks enjoying wider lending margins, has fuelled a revival in value investing. However, the market has given back around half its gains since August amid mounting risks: growth is modest, the European Central Bank raised rates to 2.5% in September, and political uncertainty in Germany and France persists. Much may be priced in, but the noise is unlikely to fade.

A welcome UK surprise

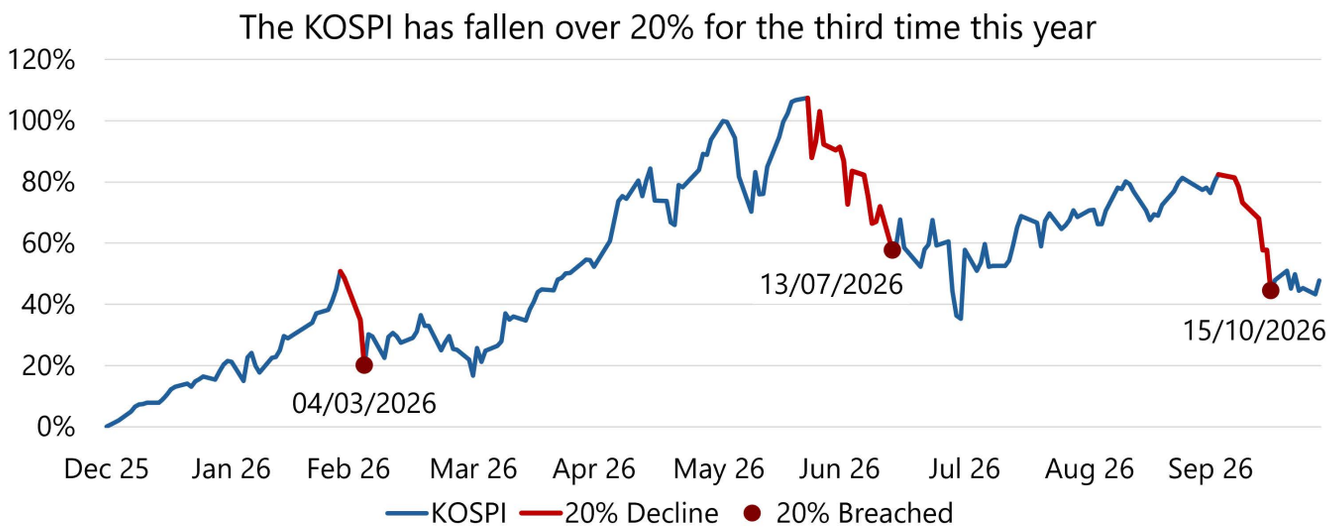
Closer to home, the UK economy grew a surprisingly strong 2.1% in the year to August, and remains the fastest-growing economy in the G7. That performance has won praise from the International Monetary Fund, and with output rising despite 95,000 fewer jobs, there are encouraging signs of productivity gains, possibly helped by AI. Professional services grew 6.6% year on year in the three months to August, exactly the sort of area where you would expect such gains, given the UK's strength in the sector. This backdrop has supported more domestically focused mid-sized companies, which rose 7.5% in Q3 and 12% year to date, keeping pace with US equities.

Dollar defies the doubters

Analysts are eating humble pie after the US dollar confounded forecasts that it would weaken this year. The US Dollar Index, which tracks the greenback against a basket of major currencies, has perked up, with the dollar strengthening 1% against sterling and 5% against the euro in 2026. Part of the explanation lies in energy: as a net exporter, the US has seen its terms of trade improve during the energy crisis. Its strong economy also means it remains an attractive destination for investors. And because currencies are relative, investors appear to have concluded that whatever challenges the US faces, they look less severe than those confronting Europe or Japan.

Market swings and changing fortunes

A quarter where emerging markets develop and frontier markets emerge.



Source: Bloomberg.

Korean craze continues

The Korean market has been a regular feature in quarterlies this year, and with good reason. The swings in both directions have been nothing short of astonishing. October was no different. Having rallied from the end of July, the KOSPI then fell over 20%, marking its third decline of over 20% this year.

Three times in one year

These are extraordinary moves for a major equity market. For context, the S&P 500 last fell more than 20% in the panic following Trump's Liberation Day tariff announcement, one of the biggest shocks to global trade in decades. For the FTSE 100, one would have to go back to the COVID-19 pandemic. Both drawdowns followed major global shocks, yet Korea has experienced three falls of that magnitude in less than 11 months. Even after all that, the market is still up nearly 50% year to date.

Basket case to best in class

September brought a promotion for Greece, as index provider FTSE Russell moved its equity market from emerging to developed status, ahead of rival MSCI's planned upgrade in May next year. Once at the centre of the euro sovereign debt crisis, Greece now borrows more cheaply than France in the bond market. The former Eurozone problem child has shown a more mature side, with a significant turnaround in its capital markets and fiscal positioning. Changed days from a sovereign debt default and a stock market that suspended trading for five weeks.

Vietnam emerges

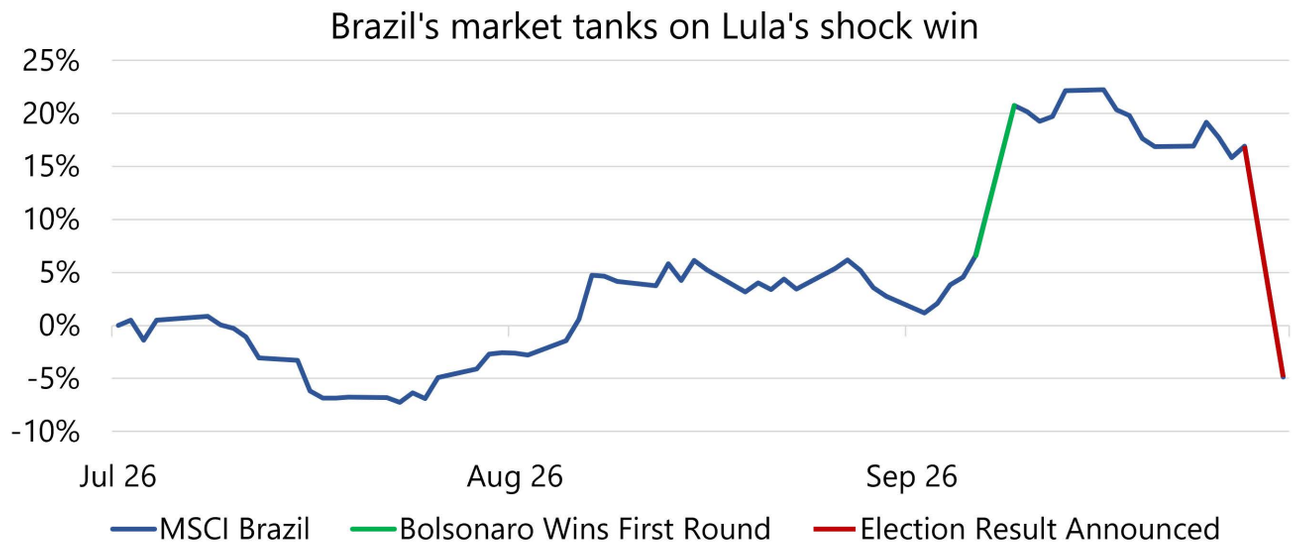
Vietnam also climbed the ladder with FTSE Russell upgrading its market from frontier to emerging following improvements to its market infrastructure. This is a significant move for a country that previously accounted for around 30% of the FTSE Frontier Index, its largest country allocation. MSCI has yet to announce the same promotion for Vietnam, with foreign ownership limits in sectors such as banking, media and telecoms remaining a major stumbling block. The upgrade opens the door to a much broader pool of international capital that should help deepen the market and improve investor confidence over time.

Diplomacy over deals

President Trump met Chinese leader Xi Jinping in Washington for a visit that proved stronger on diplomacy than dealmaking. The build-up brought plenty of speculation about what might be on the table: Taiwan, semiconductor sales, AI safety and even a potential rare earth minerals deal. The headline outcome was rather more modest: a two-month extension to the existing trade truce.

Bots, ballots and bonds

AI bets continue to get bigger, as politics increasingly plays a larger role in markets.



Source: Bloomberg.

The AI race continues

The US and China did agree to maintain an open dialogue on AI's risks and opportunities, while also adopting "superintelligence", the president's preferred term for AI. But Trump quickly made it clear that talking would not mean slowing down. In Washington's eyes, the US is ahead in the race and easing off would simply help China catch up. Anthropic, which has called for a more cautious pace of development, might suggest that humanity also deserves a place in that calculation.

China backs robotics

China does appear to be lagging the US at the cutting edge of AI model development, but as the factory to the world, there is one area they do have a pretty solid lead - robotics. The country is taking the technology seriously, making it a priority in its five-year plan and accounting for nearly 60% of global industrial robot installations in 2025.

Another incredible IPO

Investors clearly bought into the story when robotics manufacturer Unitree made its Shanghai market debut in August. Its shares surged 630% on the day, before closing a meagre 460% above their IPO price. They have since dropped 20%, a fall of a similar size to the decline in China's domestically focused CSI 300 from its summer peak. Strong export figures have done little to settle concerns about weak levels of domestic consumption.

A Brazilian twist

Brazil's election caught markets off guard. Markets had rallied after Flávio Bolsonaro, son of former president Jair Bolsonaro (currently under house arrest for plotting a coup) finished first in the opening round and fuelling expectations of a runoff victory. Instead, current president Lula's surprise win sent Brazilian equities and currency down by double digits on the day. Fiscal worries and Flávio's refusal to concede leave plenty of scope for further volatility.

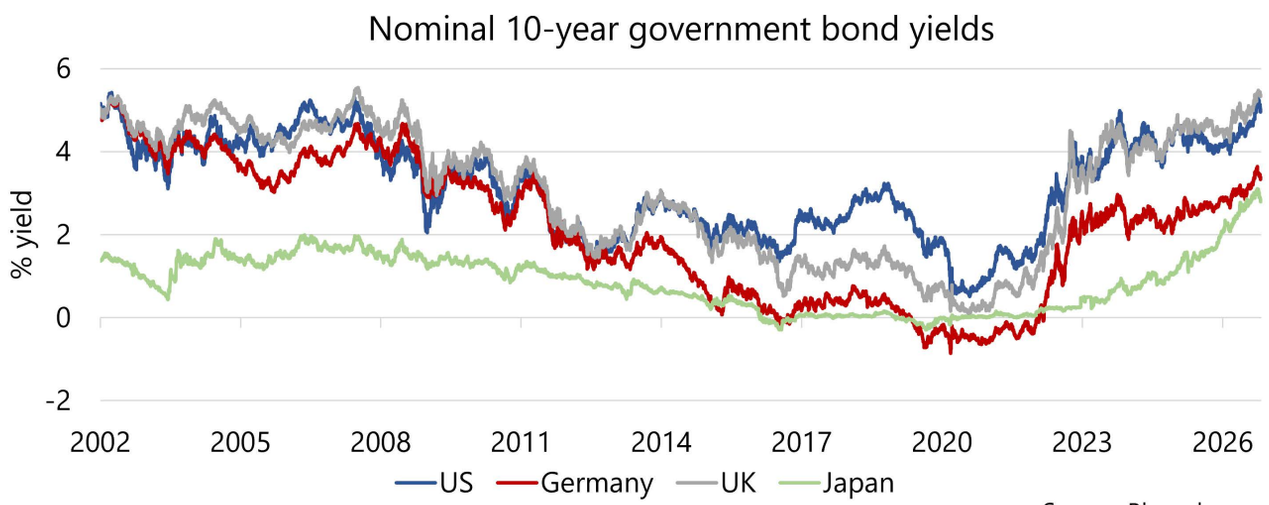
Japan sees rates higher

Japan had a busy quarter, beginning with the largest coordinated currency intervention alongside the US since 2011. The intervention helped lift the yen, which gained further as markets anticipated another Bank of Japan rate rise. Government bond yields also climbed over the quarter, as the 10-year yield reached 3% for the first time since 1996.

All in on AI

Higher borrowing costs did little to deter Japanese investment group SoftBank from doubling down on AI. The company raised more than $11 billion in debt to help fund its investment in OpenAI, the company behind ChatGPT. It was the largest high-yield corporate bond offering on record, with interest rates reaching 9.75%. An expensive way to back the AI boom.

"I have asymmetric information. I am the house now. You can bet against me if you want."
US Treasury Secretary Scott Bessent.



Source: Bloomberg.

Bessent intervention fails

Under pressure from President Trump to calm bond market nerves, Bessent used uncharacteristically baity language to dare the $32 trillion government bond market. His bluff was called, the Treasury's $6 billion intervention dismissed as a 'rounding error' and the 10-year Treasury yield rose fifty basis points.

You cannot buck the market

Tail between his legs, he conceded, "I can't control the bond market." Echoes of what an Iron Lady once said, "You cannot buck the market." In a more sober moment, Bessent will reflect that it was a stupid thing to say. It could have been worse, when his boss President Trump was asked about alternative methods of intervention, he replied, "The ultimate intervention is our military, and if we have to use that, we will."

A flight to safety

The surge in government bond yields a global market phenomenon this year – the chart top. However, there has been a subtle shift in sentiment towards the asset class in October. An equity market wobble around AI, questioning whether returns will ever justify the extraordinary capex spend, prompted a flight to safety amongst investors, switching to the relative 'safe haven' of government debt, lifting yields off their lows.

Bond investors become oil traders

The correlation between the oil price and bond yields is at the highest levels since the first Gulf War in 1990. Bond investors have had to become oil traders.

Restocking and repair

While consensus sees the oil price spike annualising out of inflation data on the first anniversary next April of the US/Iran war, two critical factors challenge this view: record-low global inventories need restocking, and damage to Gulf and Russia/Ukraine refineries will take decades and hundreds of billions of dollars to repair, keeping distillate prices like diesel and jet fuel higher for longer.

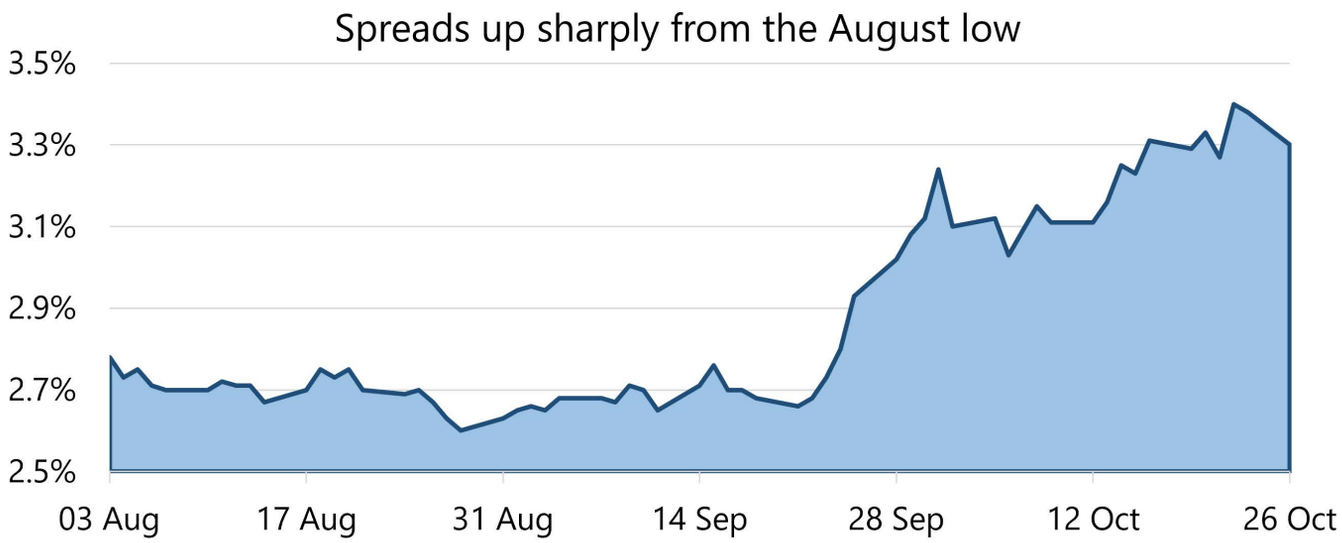
Food price inflation

We are concerned also about food price inflation. Whilst not an issue today, a perfect storm of elevated fertiliser prices, a poor Northern hemisphere harvest, and warnings of the strongest 'El Nino' on record, all conspire to lift food price inflation with the usual lag from early next year, adding to inflationary pressures just as (maybe) the oil price impact subsides.

The Budget

Before that, and delivered by the time you read this, Gilts have a Budget to digest. 'Do no harm' is the simple request from investors says the Financial Times. With the hard lesson from the Truss/Kwarteng mini-budget still painfully fresh in the memory, a non-event budget might help Gilts rehabilitation from the near-death experience of four years ago, removing the premium yield they have carried ever since.

"Only when the tide goes out do you discover who's been swimming naked." Warren Buffett



Source: Bloomberg.

Credit is a negative art

Warren Buffett's famous aphorism has long served as the ultimate warning for credit investors. Today, the tide appears still in. For his part, prominent debt specialist Howard Mark's reminds us that credit is a "negative art" – a discipline where winning is not about finding the winners but meticulously avoiding the losers.

Are you being paid to take extra risk

As yields at the quality, lower risk, end of the debt spectrum – government backed bonds like Treasuries and Gilts – touch new highs, credit investors face a simple question, 'are you being paid to take the extra risk?' In any credit cycle, new ways are found of bundling up lower quality credit in an attempt to maintain its appeal to risk agnostic investors. Buffett notes the move from "the innovator, to the imitator, to the idiot".

Spreads close to record lows

The 'spread' is the yield premium investors receive as compensation for holding riskier corporate credit over safer government debt. Spreads currently are close to record lows across the broad range of credit instruments. This reflects a global economy that, despite all the challenges faced, like wars and trade restrictions, remains remarkably resilient. This is reflected in a default rate (loans not repaid) close to cyclical lows.

High yield spreads suddenly widen

As with government bonds however, there has been an interesting development in the credit space in the latter part of the period under review. The spread on high yield, riskier credit, originating from more financially leveraged companies, has suddenly widened out significantly. Credit investors abruptly becoming more selective and demanding greater compensation (higher yield) to encourage them to buy riskier debt.

Refinancing cliff

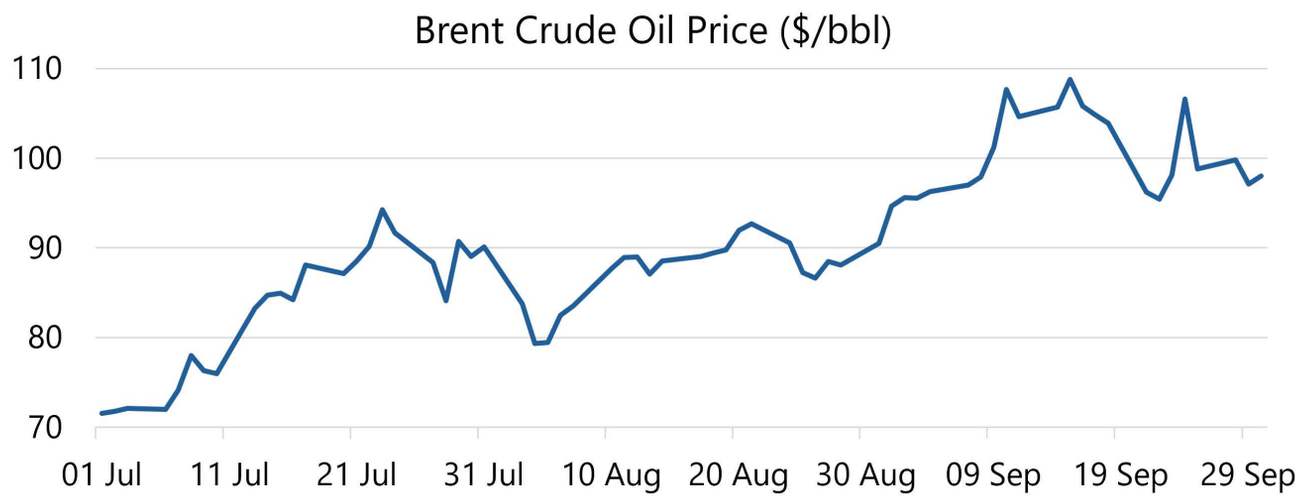
Most at risk are those facing a refinancing cliff, swapping debt issued at 2-3% in 2001 to rates now at 6-7% and rising. Whilst high-grade/quality corporate credit has remained stable, low-grade spreads have blown out, the gap between the two suddenly at its widest point since the pandemic. To be fair, with the move in borrowing costs, the cost of servicing debt for all companies is et to increase.

The tide slowly turning

From a low current base, we expect the credit default cycle to appear more obviously on the turn. It is then at risk of becoming a self-fulfilling prophecy, a vicious circle of defaults rising, resulting in greater risk aversion amongst investors, leading to credit tightening and spreads further widening. As so often in financial markets, this can start slowly, and then all at once. A phenomenon mirrored in nature of course, the tide slowly turning and then picking up speed as it goes out.

Hormuz holds the key

Oil continues to rally as supply chains are constrained.



Source: Investing.com

Crude awakening

Whilst the price of oil has been see-sawing since the beginning of the US-Iran War, one thing is certain: the price has risen. This trend was not bucked in Q3 as Brent Crude rose a remarkable 44% to close at $106 a barrel. Continued targeting of key energy infrastructure from Houthis has led to Saudi Arabia closing the East-West pipeline, which was being used as an alternative route to the Strait of Hormuz for oil. It is estimated 4-5% of global oil supply flows through this pipeline. Thankfully Santa's sleigh is powered by carrots, not crude.

The art of no deal

Famed and feared for being one of the best negotiators and even writing a book about it, Trump seems to have his work cut out with Iran. A deal is seen by many as the one reliable path to oil prices lowering again, yet eight months on we are still no closer to a deal.

Data centre delusion?

Oil is not the only energy darling, with electricity being in high demand from hyperscalers. Infrastructure has always played the role of a diversified, non-correlated line in portfolios. But what if the infrastructure is AI-related? Reuters note data centre spending is to hit $1tn this year and double by 2028. The recent force majeure enforced by Oracle, due to a lack of power supply, highlights just how many plates need to continue spinning for these cashflows to be realised.

Weather worries

Having first mentioned it last quarter, El Nino has been gathering more and more headlines. Food inflation is a larger portion of the inflation basket for all major economies (bar the UK), highlighting the potential impact of this. US forecasters predict there is an 83% chance of this being a record El Nino pre Christmas. Worth remembering that a typical El Nino is said to raise food prices by c.5% within a year. However, it is not all negative, as grains grown in Brazil and Argentina may see improved growing conditions.

Measured shine

Gold has changed direction and recorded a positive quarter, having pared last year's gains in the first half of the year. The non-yielding asset typically moves inversely with government bond yields as they are both seen as safe-haven assets, but this has not been the case this quarter. Gold's +3.7% gain was outshone by yields rising by over 80bps in the US. Perhaps more of a statement on the markets view of US debt rather than gold?

Crypto's comeback quarter

Having dropped 25% in the first half of 2026 and being c.50% down from all-time highs, many crypto bears were feeling ready to smugly hibernate over winter. The alternative asset had different ideas though as it soared over 44% in Q3 finishing on $83,553.

Asset class views

	ASSET CLASS	POSITIONING (-- - = + ++)	CHANGE	KEY VIEW
EQUITIES	**Equities**	--	—	We remain underweight equities amid a volatile global backdrop and generally expensive markets.
	UK	+	—	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 have seen us trim our positioning to neutral in previous quarters.
FIXED INCOME	**Fixed Income**	+	↑	Moving overweight fixed income as all-in yields look attractive and we seek to further add to our defensive portfolio positioning.
	Global Aggregate[1]	+	↑	Yields have risen globally across the quarter with opportunities in both EM and DM.
	UK Gilts	+	—	Inflation expectations are elevated; we prefer shorter-dated index-linked bonds.
	Global Index Linked	=	—	Inflation expectations are elevated, preference for shorter-dated index linked bonds.
	Global High Yield[2]	--	—	Spreads have widened in recent weeks, but preference for EM debt over high yield remains.
DIVERSIFIERS & CASH	**Diversifiers**	=	↓	Slight trim to diversifiers, with proceeds rotated into fixed income, which has weakened over the quarter.
	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

Global equity markets have enjoyed an historic multi-year bull run since bottoming out post pandemic in late 2022, after a brutal peak to trough drawdown of c.25% in the first 9 months of that year. A world equity market index delivering returns a couple of percent either side of 20% in each of the last three calendar years. So far this year, a still strong c.15%.

These are exceptional numbers and investors should not expect equity market returns at this sort of level to continue indefinitely.

Our stated approach is and has always been to participate in the upside when markets are strong and protect the downside when markets are weak.

In practice this means moving proactively to position portfolios for times ahead rather than reactively position for times past. All things considered but primarily the starting valuation of those areas driving the current bull run, we believe a modestly derisked equity portfolio is the right place to be at present.

We are concerned about the highly concentrated, heavily interdependent nature of the current AI boom. The sums involved are without precedent and the major players cannot all win - there will be big casualties.

The 'hyperscalers' have moved from prodigious cash generators to massive debt issuers, hiding a lot of future commitments off-balance sheet and adopting new accounting practices that flatter near-term profits but store up longer-term depreciation and debt costs.

We must emphasise, we are not universally negative on equities. Rather we expect a shift from expensive growth to cheaper value, from asset lite concept to real asset reality.

What we have done

We propose keeping the equity weighting unchanged from the position adopted at our second quarter rebalance back in May, at a level below the long-term strategic asset allocation, Lumin 50 currently with a 47.5% equity weighting.

We are no less cautious about equity markets, especially the globally dominant US, but acutely conscious of the 'markets can remain irrational for longer than you can remain solvent' cautionary tale. We note the sudden shift in sentiment around all things AI from peak euphoria in September to questioning whether the returns will ever justify the extraordinary level of capex spend in October. This we believe a sign of things to come, but the AI bull run may still have further road yet to travel.

Our portfolios are broadly diversified with exposure to more defensive areas, where cycles correlate little to the broader market, like Healthcare and Insurance. These areas can perform, even if the broader market comes back.

Our overweight to the UK also acts as a useful hedge against the AI boom, having zero tech exposure but big in real assets like natural resources, big also in more defensive sectors like consumer staples, and with the benefit of the biggest yield amongst developed markets, important in total shareholder return (capital plus income) terms.

Fixed interest and diversifiers

What we think

Now in the final quarter of 2026, it is natural to reflect. At the beginning of the year, our belief was that inflation was the largest threat to global markets; this viewpoint remains. Since the last quarterly investment review, there has soberingly been next to no positive news regarding inflation. The US-Iran War is undoubtedly adding to inflation and sadly continues to persist for far longer than the initial 'four to five weeks' that Trump defiantly claimed it would.

The Bank of England was the only major central bank to hold rates throughout Q3, at 3.75%. Whilst, like in Q2, there were no raises, more of the committee is beginning to lean towards hikes. Pill, Greene and Mann all voted for hikes at both Q3 meetings.

The European Central Bank, the Fed and Bank of Japan all raised rates by 25bps in Q3. Interestingly, the US vote was unanimous, which perhaps highlights that there is growing consensus amongst members that something needs to be done regarding the 66 consecutive months of missing the inflation target.

As such, our viewpoint is the same as last quarter: we do not believe US treasuries offer an attractive risk reward trade off at present. With Debt to GDP over 120%, on top of a President who is offering voters 'dividends' rather than cutting spending, risks are skewed to the upside. Perhaps the 'BBB' in OBBB (One Big Beautiful Bill) will soon be the next credit rating of the United States?

The outlook for Europe is similarly bleak. Germany, Europe's largest economy, is offering little growth whilst France's fragile political landscape and mounting protests do not provide much respite.

On the contrary, UK gilts currently offer a better balance of risk reward. Gilts are the highest yielding developed market government bond, yielding higher than the US, Italy and France. This feels unfair considering that the UK has a lower Debt : GDP than the mentioned countries and a stable government. Whilst growth numbers lag, patience pays as the coupon is attractive for the relative risk.

Whilst we moved early on Emerging Market Debt following thorough research, many peers are now beginning to follow suit as the asset class continues to mature, notably due to advancements in governance.

What we have done

Following review, we have opted to increase our allocation to fixed interest, via the addition of a new fund. On the whole, yields are high, yet some countries offer a far better risk reward balance than others. As such, the team has decided to reduce exposure to the passive Vanguard Global Core Bond Fund. This is heavily weighted to the indebted US government as it is an issuance weighted index and passively allocates irrespective of yield. In order to reduce risk, an active replacement was the search focus in Q3.

This capital has been recycled into an actively managed Vanguard fund. The Vanguard Global Core Bond Fund offers the same Vanguard scale as the predecessor (it's benchmark) yet adds a layer of active management that has helped it outperform the benchmark every month since inception (15). More importantly, the fund achieves this whilst being underweight US debt. This allows the fund to allocate to higher yielding debt, resulting in an attractive yield pick up of 4% vs the benchmarks 3.2%.

Diversifiers have also been given a lot of thought the quarter. The conclusion is a full exit from the Premier Miton Tellworth UK Select fund. The fund's Long / Short process regretfully struggled following the number of takeovers in the UK market, resulting in disappointing stock selection.

In addition, the Cohen and Steers Diversified Real Asset Fund has grown into a large position following strong performance and warranted a trim to a more appropriate size. This brings our diversifiers exposure back to neutral.

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