BROMPTON ASSET MANAGEMENT

Quarterly review

for the three months to 30 June 2026

Gill Lakin
Chief investment officer

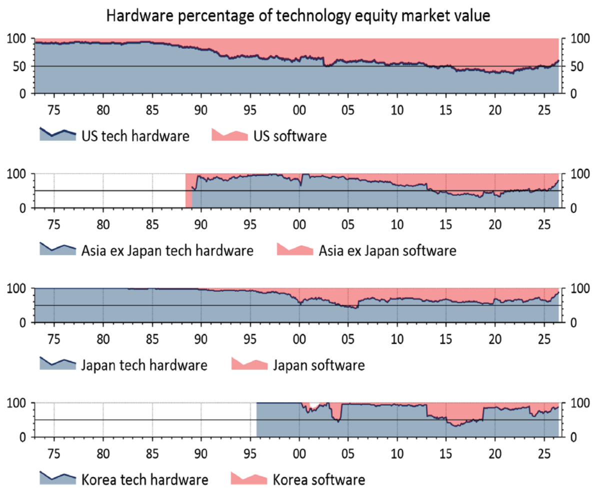
Global equities rose 14.32% in sterling over the quarter while oil prices fell 22.06% as the US and Iran signed a memorandum of understanding to end their war, triggering hopes that the Strait of Hormuz, through which about a fifth of the world's oil passes, would soon reopen. In July, however, talks failed and the US resumed bombing Iran after the Iranians attacked shipping in the strait.

Technology stocks rose 33.32% in sterling over the quarter as investor enthusiasm about artificial intelligence (AI) outweighed geopolitical concerns. In June, Elon Musk's SpaceX, which makes spacecraft and operates the Starlink satellite internet network, floated in New York. The shares initially rose but then fell below the offer price. The fanfare surrounding SpaceX reminded older investors of over-hyped flotations at the height of the dotcom boom in 2000.

Hardware stocks mostly outperformed software stocks as AI's ability to code and manage data, traditionally the province of software providers, undermined investor confidence in the software sector. On July 14, IBM shares fell 25.45% in sterling as the company, a major software supplier, announced disappointing second-quarter results. Arvind Krishna, IBM's chairman, said customers had prioritised investment in servers, storage and memory at the expense of software.

Brompton's client portfolios, as appropriate to the various strategies, include holdings in the iShares MSCI Global Semiconductors exchange-traded fund or Polar Capital Global Technology, where the manager has a high weighting in hardware suppliers rather than focussing on trying to identify the next generation of tech disruptors. The pace of innovation means some of the world's largest companies may be rapidly superseded by innovators should history repeat itself. At the turn of the century, Nokia was the largest mobile phone provider, accounting for about 40% of the market, but it failed to adapt to touch screen technology and lost market share to smartphone makers and ceded industry leadership to Apple. By contrast, makers of semiconductors, the building blocks of electronic devices, are less exposed to the risk of technological obsolescence compared to platform or device companies being akin to the makers of picks and shovels in a gold rush.

Equities in Asia excluding Japan and emerging markets rose 26.96% and 23.35% in sterling respectively over the quarter as technology hardware stocks benefited from strong demand for semiconductors. Asian companies are critical components in the semiconductor supply chain. Nvidia, the world's leading designer of graphics processing units (GPUs) for AI, does not make its products and Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest semiconductor foundry, is the primary maker of its GPUs. TSMC in turn buys machinery from Tokyo Electron, the world's leading lithography and wafer processing equipment supplier. TSMC and Tokyo Electron also supply Nvidia's competitors and may benefit from greater resilience and longevity than some customers. The charts below show the dominance of hardware companies in Asia compared to the US, home to a similar spread of hardware and software companies. The prevalence of hardware manufacturers is one reason why Brompton's client portfolios have high allocations in Asia.



Source: LSEG Datastream

Global bonds returned only 0.22% in sterling over the quarter as the oil price rise triggered by the US-Israel war against Iran led to higher-than-expected inflation, leaving it above leading central bank targets, with the result that policy interest rates are likely to remain higher for longer. The chart overleaf shows conditions worsened after the quarter end as US bombing in response to Iranian attacks on shipping in the Strait of Hormuz reduced tanker traffic.

The US core personal consumption expenditures inflation index, the Federal Reserve's preferred measure, rose from 3.3% in March to 3.4% in May. The Fed kept its policy rate on hold at 3.5-3.75% as its

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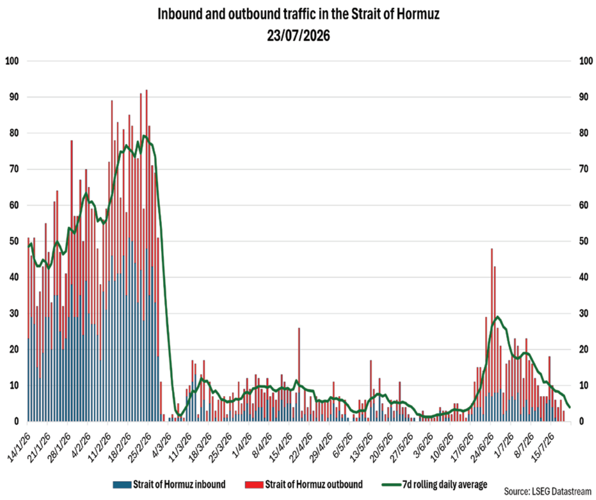

newly-appointed chairman, Kevin Warsh, said inflation was "too high". Warsh's hawkishness coupled with his commitment to Fed independence reassured investors that policy would not be politicised just because he was Donald Trump's nominee. The Bank of England left its rate at 3.75% as inflation eased from 3.3% in March to 2.6% in June.

By contrast, the European Central Bank increased its key policy rate in June by a quarter percentage point to 2.25% to combat eurozone inflation as the harmonised index of consumer prices rose from 2.6% in March to 3.2% in May before falling to 2.8% in June.

The UK's new prime minister, Andy Burnham, promised policies to address the cost of living and rebuild the economy but there are grounds for caution about UK government bonds and Brompton's client portfolios hold no dedicated UK government bond investments. The UK's high public sector debt and its fiscal deficit may constrain a government committed to spending more on welfare. John Healey, the new chancellor, will need to keep investors on side if he is to meet government objectives without paying more to service borrowing. There are, however, grounds to be positive about UK large companies, which typically have big overseas interests, while being cautious about smaller companies, which are lowly-rated yet are more sensitive to domestic trends.

Prospects for equity markets overall appear positive, with emerging markets, Japanese stocks and UK large companies more attractive than US equities. In addition, investments in infrastructure companies and utilities should prove defensive because of the bond-like dependability of their cash flows and strong demand as a result of electrification and the transition to clean energy.

Within the bond markets, sterling-hedged investments in US short-dated inflation-linked bonds should provide some protection in real terms should the prospect of a peaceful resolution to war in the Middle East recede, leading to higher oil prices. Sovereign bonds appear more attractive than corporate bonds on valuation grounds and because of fears that there may be some contagion from private debt markets, where a deterioration in loan quality may lead to more bankruptcies and the halting of redemptions from funds that specialise in this sector.

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