Monthly Market Commentary

The second quarter of 2026 saw global equity markets stage a powerful rally off March lows, fuelled by easing Middle East tensions, strong corporate earnings, good macro data, and strength in AI-themes. While point-to-point returns for the quarter were solid across the board, June marked a clear shift in leadership with growth and technology stocks underperforming alongside broadening participation.

Japan stood out among developed-world indices in terms of performance with the Nikkei225 rising 5.6% in June to finish the quarter up 37.2% in local currency terms. In addition to reaching new all-time highs, the Nikkei225 also recorded it best quarter since 1965 with semiconductors and AI supply-chain beneficiaries driving the bulk of returns.

US markets also delivered exceptional performance over the quarter with the NASDAQ, S&P500 and S&P600 Small Cap Index all reaching new records followings gains of 21.4%, 14.9% and 19.2%, respectively. The S&P500 and NASDAQ had their best quarter since Q2 2020 driven by AI and semiconductors with the semiconductor index, the SOX, up double digits in each of the three months. However, a notable pull back in the Magnificent 7 complex through June, down 8.8% as a cohort, saw large caps fall with the NASDAQ and S&P500 down 2.8% and 1.06%, respectively. In contrast, the S&P600 Small Cap Index continued steaming ahead, rising 7.1%, while the S&P500 Equal Weighted Index was also up by 2.18% in the month of June.

Lower energy prices helped continental bourses with the German DAX and French CAC40 up 10.2% and 7.5%, respectively, in local currency terms over the quarter. In the UK, commodity price weakness weighed on index returns with the FTSE lagging in a relative sense, up 3.2% for the quarter. Elsewhere in Asia, China's Shanghai Composite rose 5.2% for the quarter in local currencies.

In terms of sectors, performance over the quarter was dominated by Information Technology, up 33.5%, while Energy was the worst performer, down 13.9% on declining energy prices. All other sectors finished up for the quarter, except Utilities.

However, June saw notably higher dispersion with Magnificent-7 weakness driving Communications, Consumer Discretionary and Information Technology meaningfully lower, while broad-based commodity price weakness also saw Materials decline in June. In contrast, Finance, Health Care and Industrials all posted strong gains, up 3.4%, 4.8% and 2.6%, respectively in the month of June.

Hawkish commentary from the US Federal Reserve helped the USD in June with the DXY up 2.3%. The AUD also fell 3.7% against the USD to finish the quarter largely flat. Commodities were broadly weaker over the quarter with weakness in precious metals and a 31.4% decline in WTI contributing to the Bloomberg Commodity Index falling 8.9% From the end of March, the VIX fell 8.8 points to close at 16.45 while yields on the 10yr US Treasuries rose 15bps to 4.47% by quarter end.

German-based Bayer was the biggest contributor to Fund performance during the quarter after a favourable court ruling gave greater certainty around glyphosate liabilities. UK-based Bunzl was the second biggest contributor with shares well supported after management upgraded FY guidance at the H1 pre-release thanks to accelerating organic growth. Adhesives and consumer goods group, Henkel and US reinsurer, Everest Group were other notable contributors. Key detractors included oil and gas companies EOG Resources and TotalEnergies impacted by lower energy prices.

In terms of notable portfolio changes during the quarter, the Fund exited its position in chemical distributor Brenntag on valuation grounds and gained exposure to consultancy Accenture. The Fund also gained exposure to US-based private hospital operator, Tenet Healthcare. With balance sheet issues now largely resolved, we think Tenet can continue recycling capital into its higher returning day-surgery business (one-third of EBITDA) while also funding more capital management in the form of buybacks. Given shares continue to trade on a high single-digit free cash flow yield, Tenet remains an attractive investment opportunity.

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