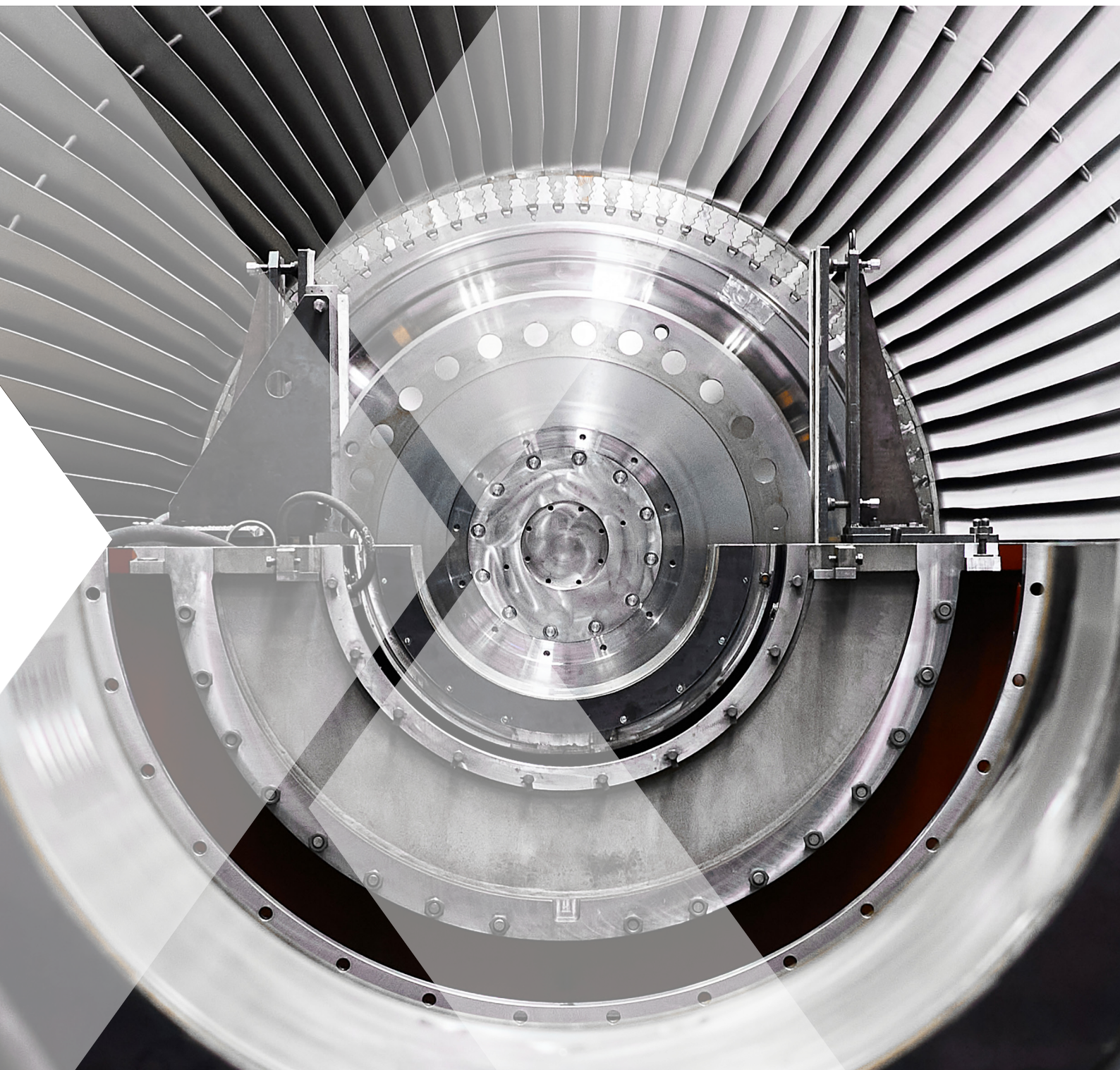


Mid-Year Equities Outlook 2026

June 2026





Introduction

Two powerful forces have reshaped global markets in the first half of 2026.

1

The rapid adoption of AI is driving an extraordinary capital investment cycle in data centres and supporting technology. Capital expenditure (capex) by the largest data centre operators – namely Amazon, Google, Meta, Microsoft and Oracle – is projected to rise this year to almost US\$700bn.¹ Expectations of the creative destruction that could be wrought by AI have meanwhile fuelled a pronounced divergence in stock and sector performance – the market has rewarded perceived AI beneficiaries and de-rated businesses thought to be at risk of disruption.



2

Outlooks for global economic growth and interest rates have been derailed by conflict in the Middle East. Energy prices have surged: Brent crude has risen by as much as 90%, year-to-date, and European natural gas futures more than doubled.² So long as the Strait of Hormuz remains closed with no clear path to resolution of the conflict between US-Israel and Iran, supply-side disruptions and elevated input costs will cloud the macroeconomic picture.



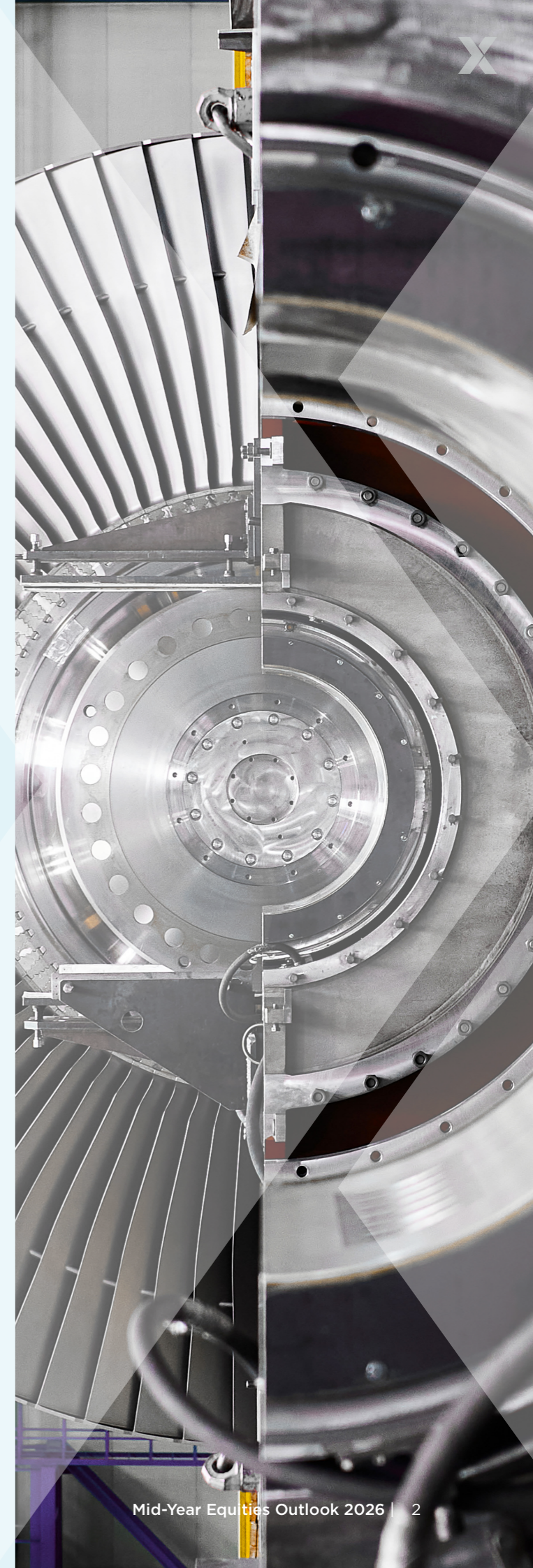
Combined, these forces have reinforced the structural case for investment in energy security, energy and resource efficiency, electrification, and the more efficient digitalisation of economies.

The AI boom is not just a technology story; it is an energy story. Every AI query, new data centre and large language model training run adds to power demand, and with it the financial imperative to reduce the energy cost per unit of compute. Meanwhile, energy security has returned to the agenda in regions most exposed to global supply disruptions – including Asia and Europe – supporting the drivers of investment in local renewable generation, energy storage and smart grids.

However, as long-term, fundamentals-driven equities investors, we are also alert to signs of exuberance in certain parts of the market. Valuation discipline remains especially crucial at a time of technological transformation. We also observe that some areas of the market are being overlooked, or used as sources of capital, even where secular growth opportunities remain firmly intact. Myopic investors risk mispricing businesses that could be best placed to benefit from the forces reshaping the global economy and underappreciating the risks facing others.

In this mid-year outlook, we discuss four themes that we believe are helping to shape the opportunity set for global equities investors as we approach the second half of 2026: the focus on energy efficiency, the technology sector rally, the ‘K-shaped’ consumer economy and water resilience.

1 Futurum, February 2026: AI Capex 2026: The \$690B Infrastructure Sprint
2 Bloomberg, as at 18 May 2026. ICE Endex Dutch TTF Natural Gas Futures

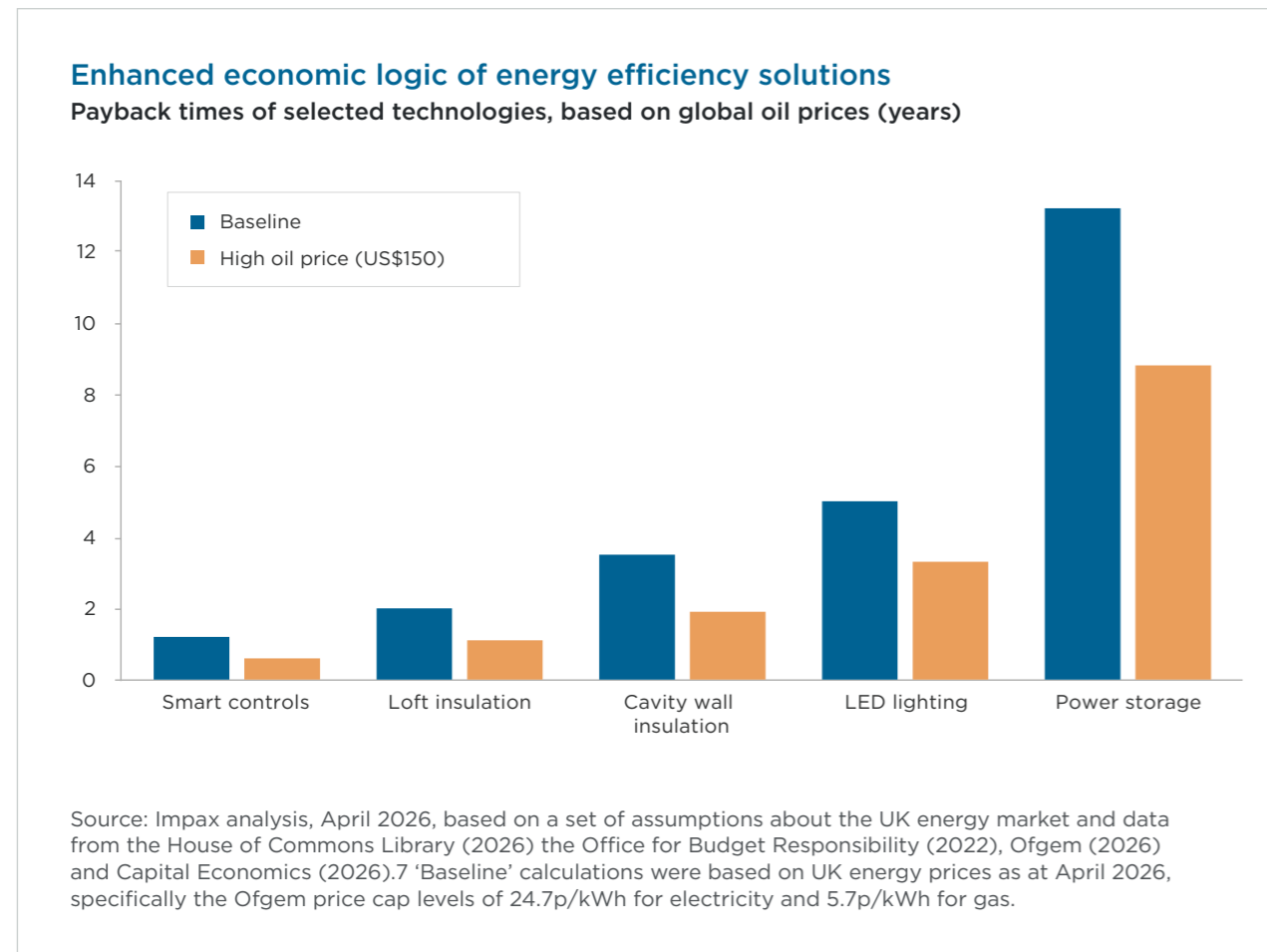




The focus on energy efficiency

At a time of acute geopolitical uncertainty, consumers and businesses alike face added financial incentives to embrace technologies that help increase their resilience to elevated and volatile global energy prices. The heat pump which brings peace of mind to a homeowner can do the same for a chief financial officer.

Amid higher energy prices, the payback periods for solutions that improve energy management and efficiency have shortened, significantly improving their economic competitiveness. Illustrative analysis, based on UK figures and the assumption of a 50% jump in electricity prices, shows that the costs of adopting certain technologies can be recouped significantly faster when bills rise sharply (see chart below).



We believe energy management and efficiency stocks that can ably demonstrate clear cost savings to their clients, and possess pricing power rooted in differentiated technology or regulatory systems, look well positioned in the context of elevated energy prices.

They will also typically be beneficiaries of efficiency-driven capex. Additionally, those that have established distribution capacity have the potential to capture volume growth at a time when returns on investment in energy efficiency are elevated. Three areas stand out in the current context.

First, smart energy management solutions.

German-listed Siemens is an industrial technology conglomerate which provides building automation systems, heating, ventilation and air conditioning (HVAC) controls and energy management software through its Smart Infrastructure division. These enable customers to optimise energy use and quantify operational savings in real time.

Second, products that directly reduce heating and cooling-related energy consumption. US-listed Vertiv is a manufacturer of precision closed loop liquid cooling systems which handle the intense heat generated by high-density computing and AI hardware.

Third, HVAC solutions. US-listed Carrier's portfolio of products includes heat pumps and advanced building controls, which enable customers to reduce energy consumption, lower operational costs and enhance performance even as energy prices rise.

Not all energy efficiency companies benefit from higher energy prices, however. Those that are more exposed to discretionary consumer spending or energy-intensive manufacturing processes face strong headwinds, regardless of broader sector optimism. Companies without the necessary pricing power to offset higher input costs could face an indeterminate period of margin erosion.

One sub-sector which looks more vulnerable in this context is efficient lighting. Production and testing are energy-intensive processes, yet the industry itself has low barriers to entry. LED technology is mature and component sourcing is commoditised, with dominance among lower-cost Asian manufacturers. The result is a crowded, competitive market with little room for differentiation. In this environment, sustained energy price inflation squeezes margins from both ends, raising input costs just as manufacturers compete on price to retain volume.



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The enhanced case for renewable energy

The conflict in Iran has disrupted around one-fifth of global supplies of crude oil and liquified natural gas (LNG), driving up electricity prices in many Asian and European economies and renewing focus on energy security.³

Renewable energy is one of the clearest beneficiaries of this dynamic.

On cost, solar and onshore wind are now typically the cheapest ways to add new generation capacity.⁴ Once operating, renewables can generate locally produced electricity for 30 years or more that is insulated from geopolitical shocks. Spain has demonstrated that electricity prices can be decoupled from gas prices through deployment of utility-scale renewables.⁵

This is not to say that higher energy prices are universally a boon for the renewables industry. Developers that agree to sell future electricity at fixed prices can find themselves vulnerable to soaring supply chain cost inflation – as Ørsted found in 2023 and 2024. Similarly, as Chinese solar panel manufacturers ramped up supply, many US and European competitors were flooded out of the market.

Investors must therefore understand the renewable energy value chain and at which stages – from generation to supply – shareholders are most likely to capture value. Those companies that boast structural growth, robust margins supported by durable competitive advantages, and pricing power sufficient to offset potential inflation look best positioned, in our view.

Leading indicators of renewable demand growth, such as residential solar installations, have seen a marked uptick in early 2026.⁶ We currently perceive opportunities within utilities and grid infrastructure that have already been benefitting from surging investment related to industrial electrification and rapid data centre growth: global investment in renewables and grids exceeded US\$2 trillion in 2025.⁷

The latest energy supply crisis may serve to galvanise the renewable-powered electrification trend further and alter the investment landscape once again.

The specific securities identified and described are for informational purposes only and do not represent recommendations.

- 3 Disavino, S., 18 May 2026: Oil prices rise 3% to two-week high on Iran war supply concerns. *Reuters*
- 4 International Renewable Energy Agency, 2026: 24/7 Renewables
- 5 Montel, GME, MIBGAS, ENTSO-E. Natural gas-fired plants set electricity prices only 15% of the time in Spain from 1 January 2026 to 10 March 2026, versus 89% in Italy, for example
- 6 In March 2026, UK residential solar installations hit their highest levels since 2012, according to data from the Department for Energy Security and Net Zero, April 2026
- 7 BloombergNEF, 2026: New Energy Outlook 2026

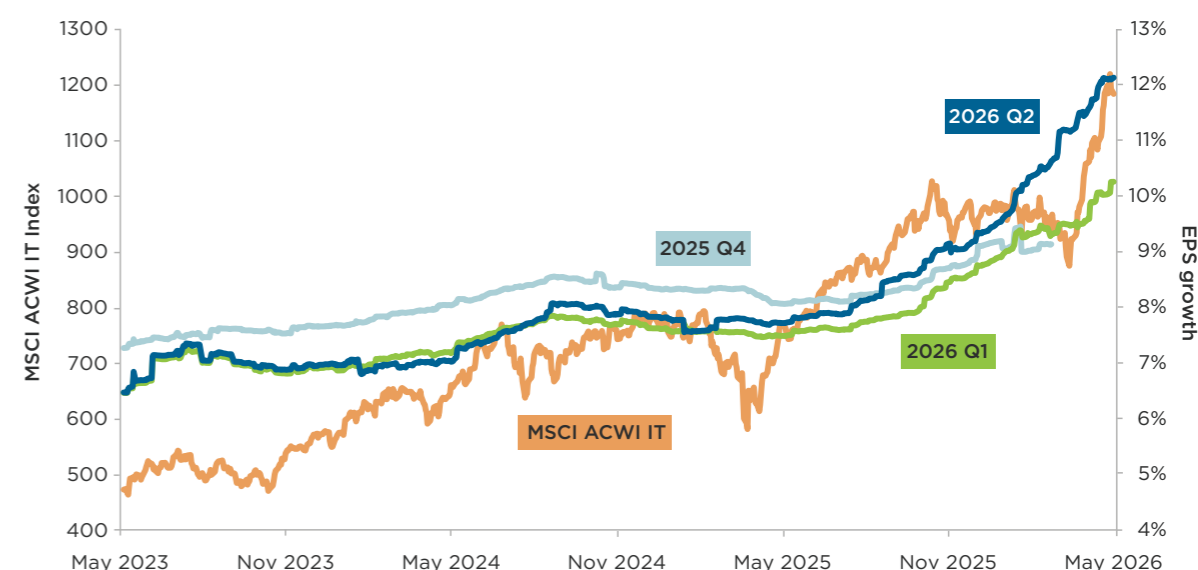
The technology sector comeback

Technology stocks staged an astonishing rally in April 2026. Having fallen 7% in the first quarter, the MSCI ACWI IT sector rallied 34% in the following 6 weeks. As of 21 May 2026, the sector accounts for 65% of all global equity returns year-to-date.⁸

This is a remarkable turnaround in a year which started with a focus on ‘HALO’ (heavy asset, low obsolescence) stocks seen as less likely to be disrupted by AI. Materials, Utilities and Industrials sectors all performed strongly at the start of the year.

So, what changed? The answer lies in earnings growth, which ultimately drives equities over the longer term. In the short-term, prices can be erratic, moved by instincts of fear and greed. The recent tech sector rally has inverted this dynamic on its head, with earnings growth in the sector proving too strong to ignore.

Tech sector earnings forecasts continue to be upgraded
Bloomberg consensus estimates for global technology sector earnings per share (EPS) growth vs MSCI ACWI IT Index



Source: Bloomberg data, 15 May 2026

The chart above shows consensus earnings per share (EPS) estimates for the IT sector over the past three quarters. Each period has seen earnings revised steadily higher, with estimates for Q2 2026 being 13% higher than Q1.⁹ As a result, the sector has actually de-rated from 33 times forward earnings, at the start of 2026, to 23 times as of at 21 May 2026 – even as shares have rallied.¹⁰

8 Bloomberg data, as at 21 May 2026

9 Bloomberg data, as at 21 May 2026

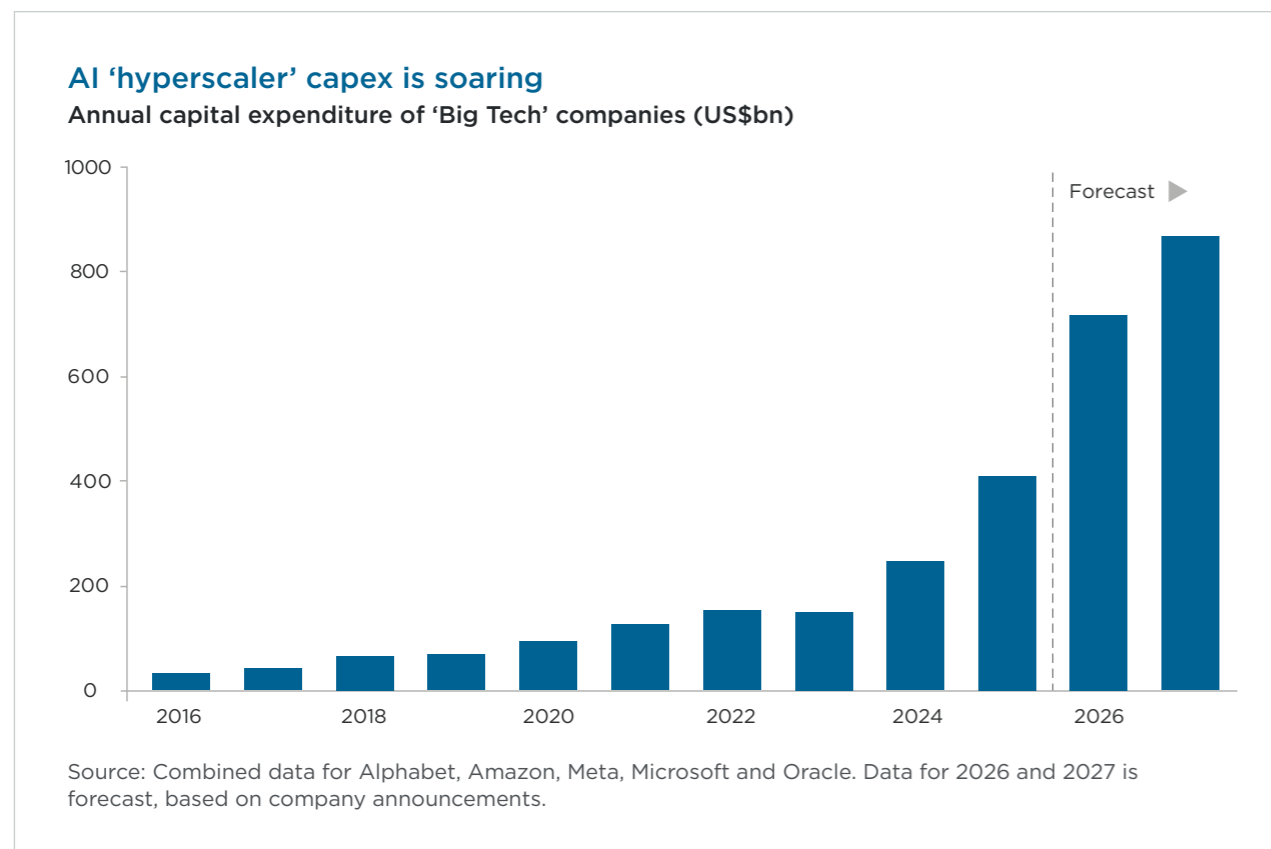
10 Bloomberg data, as at 21 May 2026. Based on MSCI ACWI IT sector.

Significantly, this rally is broader than the mega-cap technology stocks that have dominated stockmarket performance between 2023 and 2025. In the year to 30 April 2026, 44% of global technology stocks outperformed the sector's average return – up from 35% in 2025 and only 22% in 2024.¹¹

It also comes despite a sell-off in software names. Concerns over the potential implications of AI's rapid development for many software-as-a-service (SaaS) business models has led investors to revise down their long-term estimates for margins and earnings growth. The MSCI ACWI Software & Services Index was down 15% year-to-date, as of 21 May 2026.¹²

The 'SaaSocalypse' aside, the market widening within technology partly reflects a change in supply and demand. While graphics processing units (GPUs) continue to be the cornerstone of AI, bottlenecks are now starting to appear elsewhere in the value chain. In parallel, the 'hyperscaler' cloud computing providers are seeing sufficient returns on their investments to justify continued and even greater investments. Some investors are now suggesting that we are entering a semiconductor 'supercycle', an extended period of growth where structural demand for GPUs, central processing units (CPUs) and memory chips consistently outpaces supply.

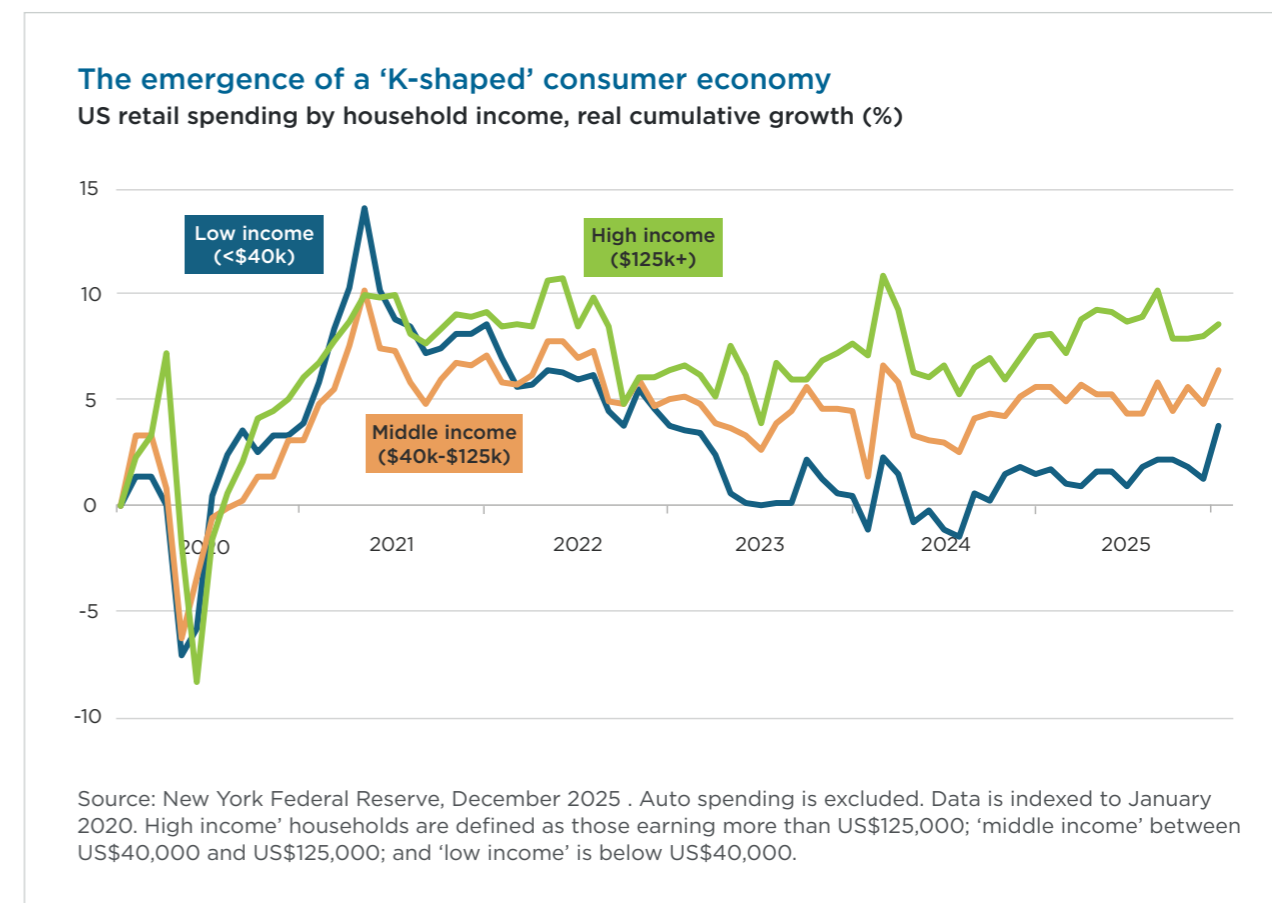
In 2026, AI-related capex by just five companies is expected to exceed US\$700bn – up from roughly US\$410bn last year – and rise further in 2027 (see chart below).¹³ This spending is percolating across the breadth of environmental solutions, far beyond the realms of traditional digital infrastructure. For example, data centres already account for around 6% of electricity consumption in both the UK and the US.¹⁴ The need for power alone is fuelling demand for solutions across alternative energy, energy management and efficiency, as well as water infrastructure.



The 'K-shaped' consumer economy

In early 2026, we have observed profound structural shifts in consumer behaviour, with spending generally shifting towards more services and experiences. There has also been the emergence of a 'K-shaped' economy, with the spending patterns of high and low-income cohorts diverging (see chart below).

The global consumer has proven more resilient than some headlines would indicate. We believe this trend is likely to continue, unless oil prices rise significantly further. Patterns of consumption continue to evolve, however: the post-pandemic recovery has matured into a period of selective consumption, where households prioritise value, experiences and differentiation over volume. We believe elevated energy prices and persistent inflation have reinforced these behaviours, rather than driving a broad-based retrenchment.



11 Bloomberg data, as at 21 May 2026. Based on MSCI ACWI IT sector.

12 Bloomberg data, as at 21 May 2026

13 Bloomberg data, as at 21 May 2026

14 International Data Center Authority, May 2026

The latest energy shock is reshaping the consumption landscape in three ways.

1 Energy as a behavioural driver, not just a cost.

Higher, more volatile energy prices accelerate consumer interest in energy efficiency, electrification and cost-saving technologies. A clear example is electric vehicles (EVs), whose sales have surged as consumers reassess their economic competitiveness. Monthly EV sales in Europe topped 0.5mn for the first time this March as fuel prices soared.¹⁵ The rising competitiveness of EVs supports opportunities for suppliers of advanced driving systems (like Aptiv), leading battery-makers (like CATL) and EV producers themselves (like Rivian).

2 Inflation fatigue, not capitulation.

Consumer spending continues, despite real incomes continuing to come under pressure in many regions, but with increased brand selectivity and a focus on value. Following years of raising prices, and with widening adoption of appetite-suppressing GLP-1 drugs leading to falling volumes, companies such as PepsiCo are reducing prices.¹⁶ This trend could be a positive turning point for nutritional ingredients companies (like Symrise) that help reformulate packaged foods. Meanwhile, we believe new dietary guidelines from the US government create a positive environment for high-quality protein providers (such as Norwegian salmon producers Lerøy and Bakkafrøst, market-leading fresh produce suppliers (like Dole).

The specific securities identified and described are for informational purposes only and do not represent recommendations.

¹⁵ Benchmark Mineral Intelligence, April 2026

¹⁶ Tabassum, J., 3 February 2026: PepsiCo to cut prices of Lay's, Doritos as consumers push back. *Reuters*

¹⁷ Bureau of Economic Analysis, April 2026

3 Greater dispersion across income cohorts and regions.

Higher-income consumers, and those in more energy-insulated regions, continue to spend and invest – albeit at the expense of savings in the US.¹⁷ At the lower end of the 'K'-shaped economy, where the cost-of-living squeeze is felt more acutely, consumers are prioritising spending and downsizing. Nonetheless, there are still companies benefitting from the transition to a more sustainable economy. We note sustained demand for activities and consumer goods that support healthier lifestyles (such as premium running shoes, made by the likes of ON Holdings) as well as the prioritisation of 'essential' services, like insurance. Despite uneven consumption patterns in China, for example, robust demand for health and retirement protection products (from the likes of Ping An) demonstrates consumer will still invest in their financial security.

The current dynamic of rising energy, inflation and potentially higher-for-longer interest rates means these trends are unlikely, in our view, to revert in the near term. Persistently higher energy costs, uneven fiscal capacity across regions and accelerating technological disruption suggest that dispersion in consumption outcomes is likely to remain a defining feature of markets.

The need to enhance water resilience

Water scarcity is a present and escalating crisis amid more volatile rainfall patterns and rising consumption. According to a UN report published in January, we have entered a state of “global water bankruptcy”.¹⁸

Regions home to half the world's population now face severe water stress for at least part of the year.¹⁹ Meanwhile, three-fifths of the world's irrigated crops are grown in areas where water supplies are highly stressed.²⁰ Regional water shortages could be exacerbated later this year and into next by what is forecast to be an especially strong El Niño weather pattern, which has historically intensified droughts and floods in large parts of Australia and Latin America.

In this context, water consumers and suppliers alike face rising incentives to reduce losses.

Among water consumers, the agriculture sector – which uses around 70% of global freshwater withdrawals – is presented with particularly large financial incentives to adopt technologies that lower consumption and enhance its resilience to supply disruption.²¹

Precision irrigation can optimise water application by tailoring the timing and volume of water to a crop's specific needs. When combined with sensors, automation and data insights, these systems can cut water use significantly, often by double-digit percentages, while lowering operational costs.

Valmont is one of the market leaders in this space. The US company's advanced systems, including centre-pivot irrigation, are being deployed across water-stressed areas to support more efficient food production. In Egypt, for example, the US company's technologies have been integrated into national programmes aimed at boosting water-efficient wheat production in response to disruption of global grain markets after the invasion of Ukraine in 2022.²²

For utilities responsible for water supplies, fixing networks – which lose 30% of treated water through leakage – should prove less expensive than the alternative: to expand water storage and treatment infrastructure.²³ They plan a wave of investment to upgrade their ageing infrastructure (see chart on the following page), partly in response to regulatory pressures.



The specific securities identified and described are for informational purposes only and do not represent recommendations.

¹⁸ UN, January 2026: Global Water Bankruptcy

¹⁹ Unesco, 2024: World Water Development Report 2024

²⁰ World Resources Institute, 2024: One-Quarter of World's Crops Threatened by Water Risks

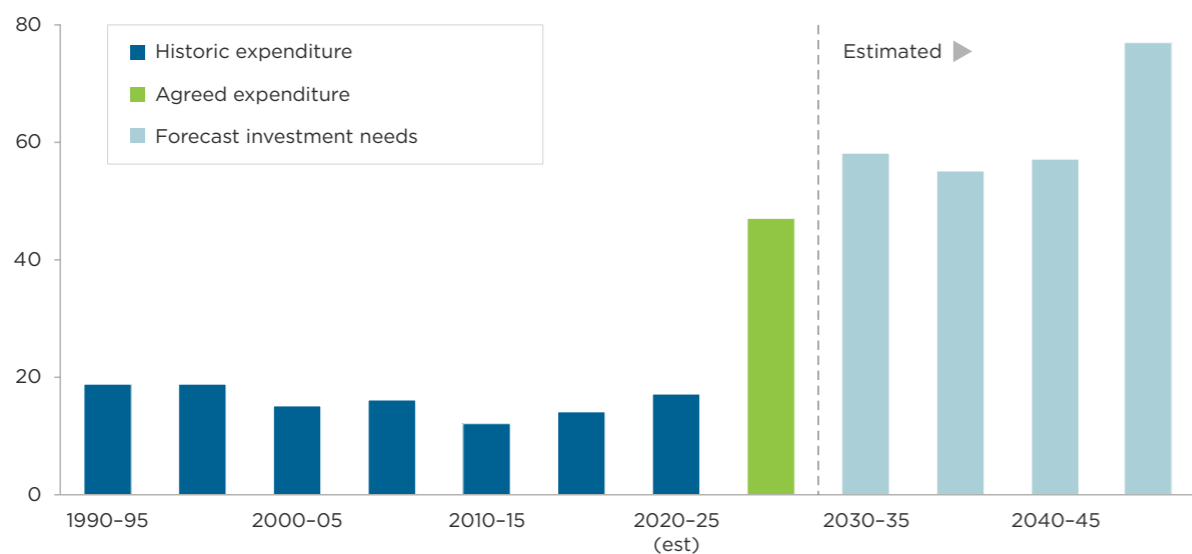
²¹ Unesco, 2024

²² Elkot, A.F. et al., 2024: Yield Responses to Total Water Input from Irrigation and Rainfall in Six Wheat Cultivars Under Different Climatic Zones in Egypt. *Agronomy*

²³ Global Water Intelligence, March 2025: Plugging the leak: Innovative solutions for reducing water loss and its economic impact

A surge of water infrastructure investment

Enhancement capex by water utilities in England and Wales (£bn, 2023-24 prices)



Source: Water UK analysis of Ofwat data, 2025. Enhancement capital expenditure (capex) covers investment in projects that improve service, environmental quality or capacity, rather than just maintaining assets. 'Agreed expenditure' in 2025-30 reflects Ofwat's final determinations for PR24.

We believe this should provide structural demand tailwinds for technological solutions that help them identify and predict – and so quickly repair – leaks. Among the advanced technologies being adopted by water utilities, four stand out.

First, smart meters. These devices, made by the likes of US-listed Xylem, provide real-time data that helps utilities identify anomalies including continuous flow – often an indicator of a hidden leak – to pinpoint leaks in homes and elsewhere.

Second, acoustic listening devices. These sensors (also made by Xylem) pick up the sound of escaping water and so, like smart meters, can help pinpoint leaks in real time.

Third, synthetic aperture radar (SAR) satellite technology. L-band satellite radar signals penetrate

up to 3 metres below the ground to recognise abnormal levels of soil moisture. When overlaid onto a network map, leaks can be precisely identified.

Fourth, advanced 'digital twins' of real-life systems. By combining continuous data from smart meters with analysis of pipe age and historical break data, AI-powered forecasting software can predict which sections of the network are most likely to fail, allowing more effective maintenance.

For the utilities themselves, those that effectively leverage innovation to improve their networks' efficiency should avoid regulatory censure and alleviate pressures to make more costly infrastructure investments.

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