NEDGROUP INVESTMENTS

Marketing Communication

H2 2026 OUTLOOK:
More Than Meets the AI

Multi-Manager Solutions

see money differently

H2 2026 Outlook

Donald Trump's return to the White House in 2025 marked a significant shift in U.S. policy, with important geopolitical and economic implications. While uncertainty remains high, his "America First" agenda continues to shape foreign and domestic policy, particularly through trade, defence and international relations.

Geopolitical developments remain a key driver of market sentiment and economic outcomes, although some immediate risks have eased.

- **Russia-Ukraine Conflict:** The war remains highly uncertain. Trump has continued to push for a resolution and has recently suggested that a deal may be closer than many expect, following discussions with both Putin and Zelenskyy. However, continued Russian strikes on Kyiv underline that any ceasefire or negotiated settlement remains far from assured. Even if progress is made, any agreement is unlikely to resolve the deeper geopolitical tensions, leaving the situation fragile and unpredictable.
- **US/Israel-Iran War:** The brief ceasefire helped ease fears of a sustained energy shock. However, the absence of a durable political resolution, combined with renewed tensions and periodic breaches, highlights the fragility of the situation. While the risk of a prolonged energy crisis has diminished, the conflict remains finely balanced and continues to warrant caution, with further bouts of volatility likely as geopolitical tensions persist.
- **U.S. International Relations:** Tensions between the U.S. and other global powers are expected to persist, with diplomatic relationships remaining strained.

Despite these uncertainties, economic activity has remained relatively resilient, although the outlook continues to be tested by policy and geopolitical developments.

- **Economic growth to remain close to trend:** Economic resilience will continue to be tested by the uncertain policy backdrop, higher trade barriers and geopolitical shocks. The IMF expects global growth to slow to 3.1% in 2026 and 3.2% in 2027, assuming the Middle East conflict remains limited in duration and scope. In the U.S., activity remains relatively resilient, supported by strong capital investment and productivity growth, with AI-related investment continuing to provide an important tailwind. That said, the ultimate winners and losers from AI will depend on a complex mix of factors, many of which may only become clear over time.
- **Earnings growth will remain robust** and continue to broaden out from the largest companies in the U.S. and towards more cyclical sectors and economies.
- **Activity levels in China are likely to improve** following recent policy support. We expect continued government stimulus over the next 12 months, with policymakers focused on achieving their growth targets.
- **Inflation is likely to take time to return to central bank targets.** Developments in the Middle East have reduced the risk of an acute energy shock, but inflation risks have not disappeared. Tariffs, migration policy, fiscal stimulus, supply-chain disruption and geopolitical risks all point to a more volatile inflation environment. We continue to see these factors as increasing the likelihood of inflation volatility, rather than signalling a permanent structural shift to a much higher inflation regime.

While the macroeconomic backdrop remains uncertain, periods of change often create opportunities for active investors. Based on our outlook and what we are seeing in markets, we have identified three key investment themes:

1. **Beyond Tech** - AI remains a powerful theme, but the opportunities are increasingly being found beyond the largest US technology companies
2. **Income with Intent** - Generating attractive income today requires a selective approach across sovereign debt, credit and structured finance.
3. **Diversifying Diversifiers** - As traditional diversification becomes less reliable, alternative sources of return are playing an increasingly important role in portfolio construction.

These themes highlight where we believe the most attractive opportunities exist and will continue to guide portfolio positioning over the next 12 months, while remaining grounded in our belief that **today is always a good day to invest for the long term.**

Rob Burdett
Head of Multi-Manager Solutions

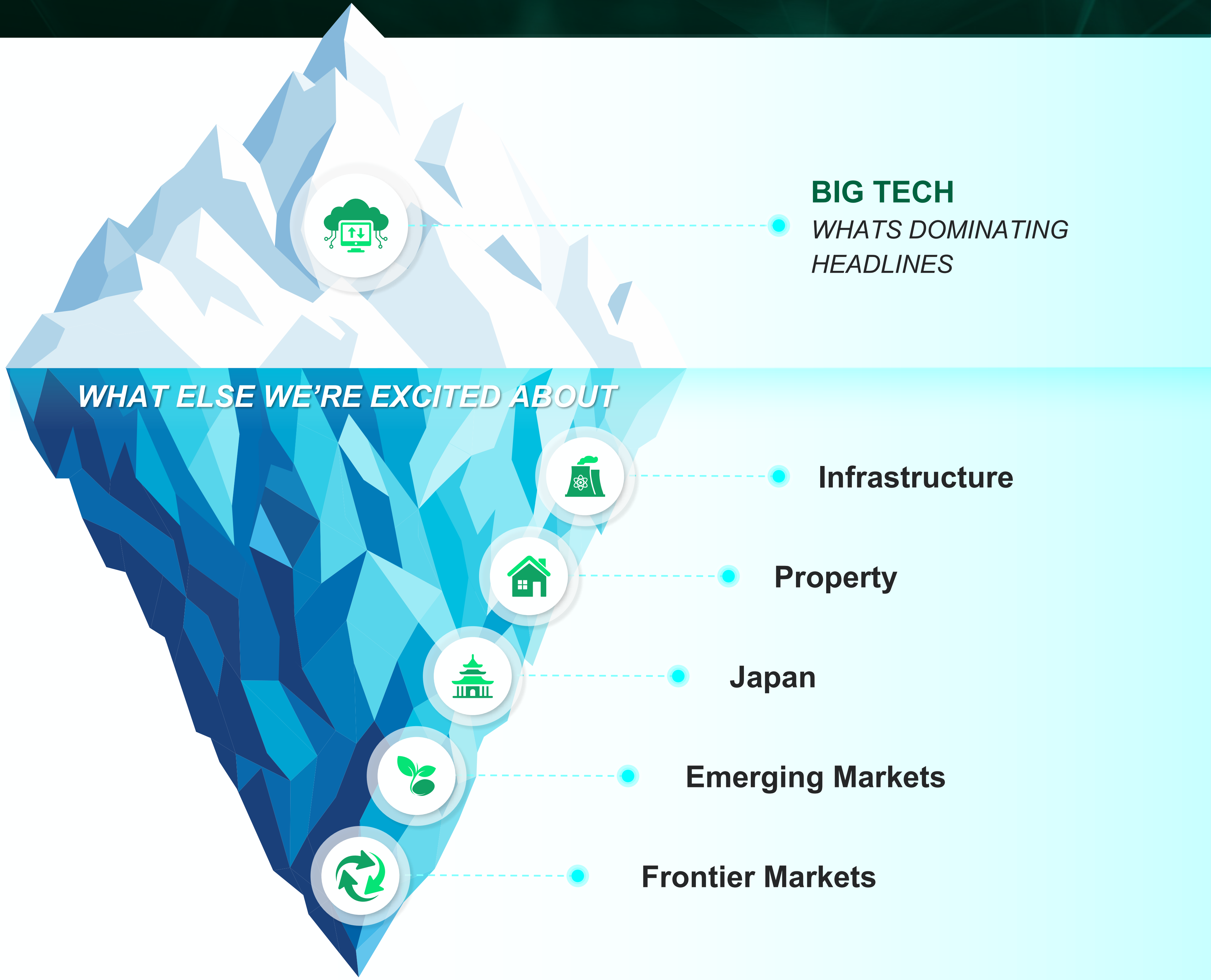
Theme 1: Beyond Big Tech

While AI remains an important long-term investment theme, we believe **the opportunity set is becoming far broader** than simply owning a handful of large US technology companies.

The **continued buildout of AI infrastructure is creating attractive opportunities** across areas such as data centres, power generation, utilities and specialist real estate. US datacentre expenditure from the major players; Amazon, Alphabet, Microsoft and Meta is expected to reach $725billion in 2026, with data centre electricity demand projected to double by 2030. The knock-on effects of increased investment and productivity gains are beginning to be felt across the wider economy.

At the same time, **several regions are benefiting from their own distinct drivers of return**, including corporate governance reforms in Japan. Japanese firms are sitting on a $1.8trillion treasure chest of corporate cash reserves waiting to be mobilised into more productive use. Furthermore, there are compelling structural growth trends across emerging markets and in frontier economies, as emerging markets are set to outgrow advanced economies by over 2%.

With valuations remaining attractive relative to developed markets, several central banks retaining scope to ease policy and a weaker US dollar likely to provide additional support, **we believe the most compelling opportunities are increasingly found across a broader set of markets and sectors.** In a time characteristically defined by concentration risk, this offers important diversification away from a market where the top 10 S&P 500 stocks now represent 38% of the index, double their weight a decade ago.



Theme 2: Income With Intent

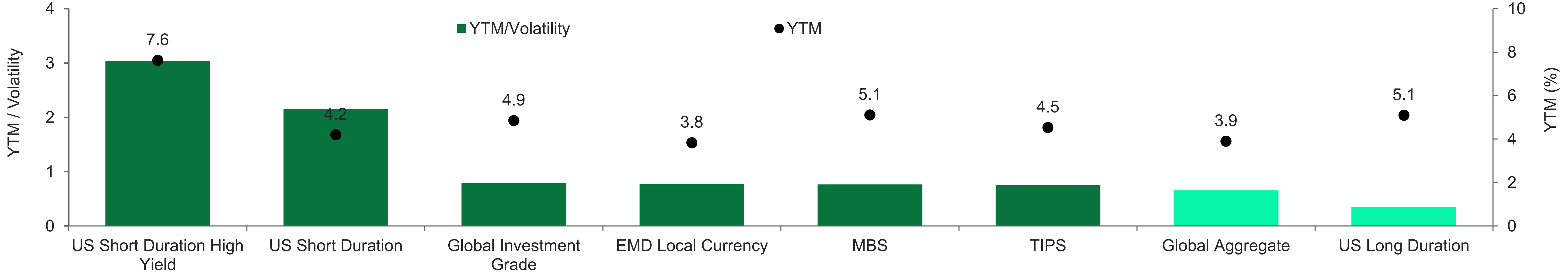
After a decade of ultra-low yields, **bonds once again offer attractive income potential and compelling risk-adjusted returns**. Yet the backdrop is more challenging than in previous cycles. Inflation remains a persistent consideration, while rising debt burdens and widening fiscal deficits raise questions about the outlook for some government bond markets. As a result, **generating income today requires greater selectivity.**

In our view, the best opportunities are not found by blindly extending duration or allocating indiscriminately across fixed income. Instead, **we favour areas where investors are being well compensated for the risks assumed**. Emerging market debt stands out, with many countries offering attractive real yields, with Brazil and Mexico currently offering real yields of around 9.7% and 5.6% respectively, compared with approximately 1.0% in the US and 2.0% in the UK. Combined with stronger fiscal positions than developed markets and currencies that could benefit from a weaker US dollar over time, this creates the potential for both attractive income and capital appreciation.

Within credit, we continue to favour shorter-duration opportunities, including selected high yield and mortgage-backed securities. These areas allow investors to capture elevated yields without taking excessive interest rate risk, offering a more attractive yield-per-unit-of-risk profile than many traditional fixed income sectors. In our view, this **provides a more resilient source of income** should inflation, bond yields or fiscal concerns remain a source of market volatility.

Ultimately, income investing is no longer simply about maximising yield. It is about **building diversified and durable sources of cash flow** while carefully managing duration, inflation and credit risks. By remaining selective across sovereign debt, emerging markets, credit and structured finance, investors can generate attractive levels of income without sacrificing portfolio resilience in an increasingly uncertain macroeconomic environment.

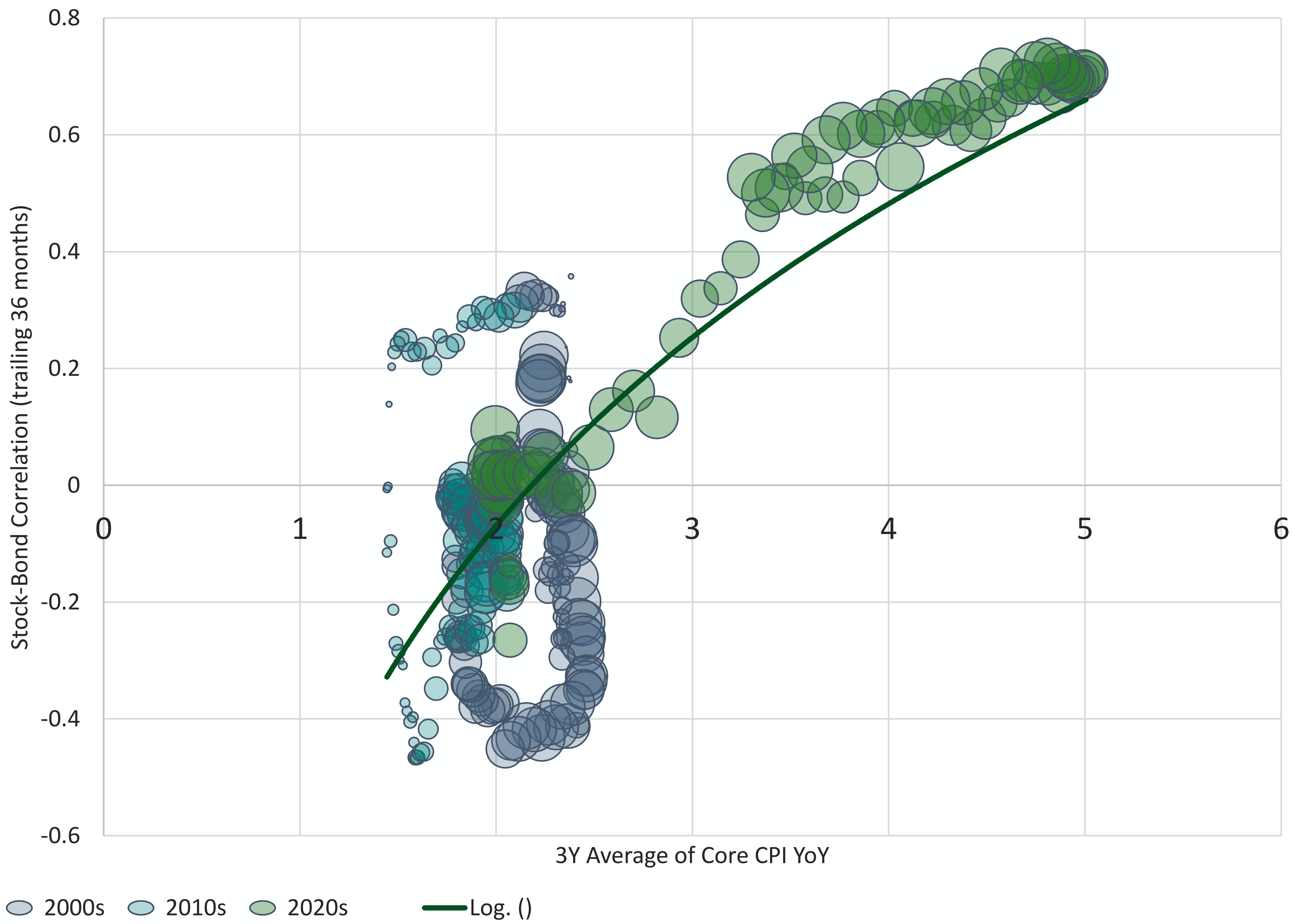
Where are bond investors being compensated for risks?



Data as of 15 July 2026. Source: Nedgroup Investments, Bloomberg

Theme 3: Diversifying Diversifiers

As inflation becomes a dominant risk, equity diversifiers need to broaden



Traditional equity and bond allocations remain a key building block of portfolio construction, but as the visual highlights, their diversification benefit is regime-dependent rather than permanent, with correlation turning positive when inflation reaches approximately 2.5%. Therefore, when inflation becomes a dominant risk, both assets can fall and rise together, reducing the effectiveness of conventional diversification. As a result**, we continue to favour a broader mix of investments**, including infrastructure, real assets, commodities and alternative strategies, which can help improve portfolio resilience across different market regimes.

Within this opportunity set, **commodities serve a valuable dual purpose**. They provide exposure to global economic activity during periods of expansion, while also offering protection against unexpected inflationary pressures. Gold is a particularly important holding for us given its long-standing role as a defensive asset. A role reflected by central banks who have purchased 1000 tonnes over the last four years, twice the average of the previous decade. Although government bonds remain an important component of portfolio construction, their protective characteristics can be less reliable when inflation is driving market volatility. Subsequently, gold has historically been better positioned to preserve capital during inflationary shocks and can provide a useful counterbalance when traditional asset class relationships come under strain.

At the same time**, higher cash rates and more frequent market swings have created a more favourable backdrop for absolute return strategies**. Rather than relying on rising markets to generate returns, these approaches seek to capitalise on volatility, mispricings and changing market conditions, providing an additional source of diversification. In our view**, successful portfolio construction increasingly requires an expanded arsenal,** combining traditional assets with alternative sources of return that can help navigate a more uncertain and inflation-sensitive investment landscape.

Data as of 15 July 2026. Source: Nedgroup Investments, Bloomberg.

Where our conviction lies

Conviction

Reflects Relative Opportunity

Positive

- EM Equities
- Short-duration high yield
- Infrastructure
- Global REITS
- Japan equities
- Absolute return strategies

Neutral

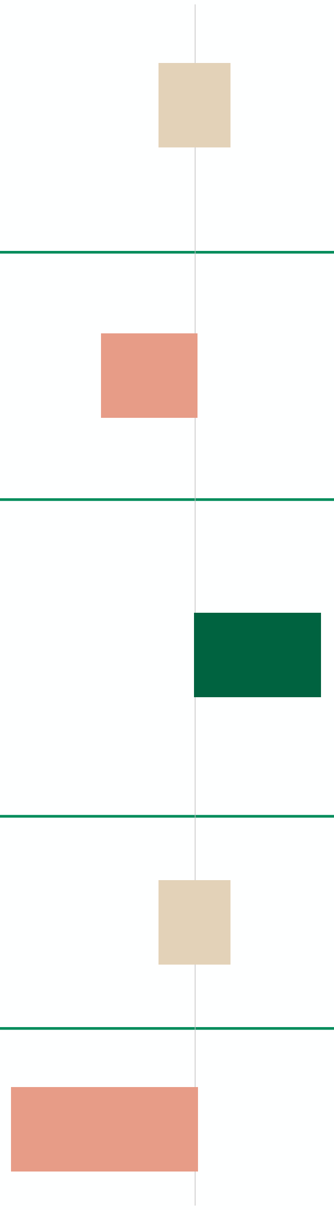
- US Equities
- European Equities
- US TIPS
- Investment Grade Credit

Cautious

- UK Equities
- Growth Stocks
- Long-duration bonds

Positioning perspectives

Tactical allocation relative to Strategic allocation	Asset class perspectives	Manager selection
Equity	• Fundamentals still supportive **Favour:** 1. Japan – corporate reforms 2. EM – structural tailwinds	• Actively passive through different market caps in the US. • Style-focused boutique global equity managers. • Regional tilts managed by local boutique managers.
Fixed Income	• Key for downside protection but positive on risk **Favour:** 1. Short duration high yield – attractive total income 2. EMD local currency – real yields	• Actively passive on yield curve inefficiencies. • Boutique access to market specialists.
Real Assets	• Attractive alternative to bonds, providing a good level of inflation protection **Favour:** 1. Property – cyclical exposure 2. Infrastructure – AI buildout 3. Gold – central bank buying	Dedicated boutique managers who live and breathe their niches.
Alternatives	• Offering diversified return profiles **Favour:** 1. Long/short / Market Neutral – downside protection for tail risk events	Risk aware boutique managers seeking alpha generation and downside protection.
Cash	See attractive opportunities elsewhere.	Cost effect money market solutions.



Underweight Neutral Overweight

Biographies

Rob Burdett
Head of Multi-Manager

Rob Burdett is Head of Multi-Manager at Nedgroup Investments, having joined in October 2024. Prior to joining Nedgroup Investments, Rob founded a multi-manager business for Thames River Capital in 2007 and spent 17 years managing the funds and team through several changes of ownership, culminating in the Columbia Threadneedle Multi-Manager LLP entity. Assets peaked at GBP3.3bn. Before this, Rob established and ran similar multi-manager businesses for Credit Suisse and Rothschild Asset Management. Rob holds the CISI Diploma.

Madhushree Argarwal
Portfolio Manager

Madhushree Agarwal is a Portfolio Manager within the London-based multi-manager team at Nedgroup Investments, having joined in December 2015. As Co-Chair of the International Investment Committee meetings, she plays an important role in fund selection, manager due diligence and ongoing monitoring across a broad universe of investment strategies. Madhushree is also a member of the International Strategy Committee, where she helps shape investment strategy and assess alignment with portfolio objectives, contributing to portfolio construction across the firm's multi-asset and fund-of-funds strategies. Madhushree holds the Chartered Financial Analyst (CFA) designation, an MSc in Investment and Wealth Management from Imperial College Business School, and a First Class BSc (Hons) degree in Banking and International Finance from Bayes Business School (formerly Cass Business School).

Louis Hutchings
Portfolio Manager

Louis Hutchings is a Portfolio manager within the London-based multi-manager team at Nedgroup Investments, having joined in July 2019. As Co-Chair of the International Strategy Committee, he plays an important role in macroeconomic research and contributes to both Tactical and Strategic Asset Allocation across the Multi-Asset portfolio ranges. Louis is also actively involved in fund selection and monitoring, contributing to manager research and due diligence across a broad universe of investment strategies. He is a voting member of the Global Investment Committee, where he helps assess fund suitability and alignment with portfolio objectives. Louis holds the Chartered Financial Analyst (CFA) designation, an MSc in Finance from the London School of Economics and Political Science, and a First Class BSc (Hons) in Economics from the University of Birmingham. His previous experience includes internships at Investec, Capgemini and Wesleyan.

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Risks and fees are outlined in the relevant Sub-Fund supplement.

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