Q3 2026

House Report

Private Clients

The trillion-dollar question

Who pays for the AI revolution, and for how long?

Guns and butter
The old trade-off is back, but this time governments are buying both on credit

The fragile harvest
Fertiliser costs, conflict and climate are pushing the global food system into a more volatile era

Ownership without a voice
How pass-through voting restores accountability in passive investing

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From the editor

Stephen Rothwell
Editor

Welcome to the latest edition of the Sarasin House Report.

If there's one theme running through the investment landscape in recent months, it may well be fragility. There is the fragility of the ceasefire in Iran, which appears to have collapsed at the time of writing; the fragility of the monetary policy consensus, with a new Fed chair inheriting an inflation spike just as markets had settled on a path of easing; and the fragility of fiscal positions, with gilt yields brushing 5%, a projected $1.9trn US deficit before war costs, and governments funding rearmament by scraping between departments.

Perhaps most pertinent of all is the fragility of the rally's own foundations, a sharp disconnect, in places, between soaring valuations and the economic realities beneath them. Yet markets have absorbed a war, an oil shock, and a hawkish policy pivot, and still finished the quarter higher.

In his overview of global markets this quarter, Guy Monson paints the picture of a scramble for capital, with governments and companies alike racing to finance vast investment programmes spanning AI infrastructure, defence, energy security and climate resilience. This, he argues, will reshape market leadership and raise the cost of capital.

Colm Harney brings the UK into focus with his thoughts on new UK Prime Minister Andy Burnham, and his devolution agenda based on the idea that Britain's growth problem is rooted in geography. What impact could his policies have, and how are we reflecting this in our portfolios?

Continuing this macroeconomic thread, Michael Jervis assesses the return of the 'guns-or-butter' dilemma forcing governments globally to make difficult spending choices. Which resource deserves the most capital: defence spending or social investment? Michael looks at the arguments through the lens of our Global fragmentation framework.

> "Markets have absorbed a war, an oil shock, and a hawkish policy pivot, and still finished the quarter higher."

Analyst Kwai San Wong recently visited Los Angeles and San Francisco as part of a research trip to look under the bonnet of the AI infrastructure growth story. What he found was a picture both more confident and more complex than the headlines suggest.

As passive investing grows, voting power is becoming concentrated in the hands of a few fund managers. In our latest stewardship article, Luke Horwood looks at the concept of pass-through voting, which he believes offers a route back to shareholder accountability.

Finally, with geopolitics, climate pressures and rising energy costs reshaping the global food system, Jeneiv Shah reflects on what this could mean for supply chains. As fertiliser prices rise, food inflation is becoming a real burden for us all, investors or not.

We hope you find our insights useful and, as ever, we welcome your feedback and suggestions for future topics. Please get in touch at housereport@sarasin.co.uk.

Gold, gilts, and the greenback - safe havens in 2026? Find out more in the latest episode of *Portfolio Perspectives*, our quarterly discussion about the big issues impacting client portfolios today. Watch at sarasinandpartners.com/ourthinking

In this issue

The scramble for capital

Governments and companies are competing for unprecedented amounts of capital to fund AI, defence, and infrastructure, creating a powerful new force shaping markets and asset allocation.

Guy Monson
Chief Market Strategist and Senior Partner

Key points

AI, defence, and energy security are driving an unprecedented global competition for capital.

Persistent investment and fiscal spending should support equities, while keeping bond yields higher for longer.

The scramble for capital reinforces the case for tangible assets, including energy, industrial metals, and gold.

The second quarter of 2026 was one of the strongest for global equities since the post-Covid recovery almost six years ago. Led by Japan's Nikkei index, all the major equity markets advanced strongly, supported by continued upward revisions to corporate earnings expectations for the year ahead. The standout performers were chipmakers and memory stocks, which generated extraordinary returns in South Korea, Taiwan and across the US semiconductor sector.

The resurgence in global equities certainly defied the sceptics, coming in the face of war, an oil supply shock and economic forecasts warning of slowing growth. Yet, once again, many of these headwinds have had little effect on the global economy. Despite the breakdown of the Iran-US ceasefire for example, and the renewed Iranian attacks on shipping, oil price moves have been limited. At $85, Brent crude prices are still down nearly 30% from their highs in the early stages of the war, while real oil prices today are much lower than at the peak seen in prior energy shocks. This can still help cap inflation and allow central banks more flexibility in raising rates than in prior Gulf conflicts.

Our multi-asset portfolios remained overweight equities throughout the quarter and have benefited strongly from the market rally. We have also generated positive, albeit more modest, returns from UK government bonds and our alternatives portfolio, where absolute return funds and infrastructure have been the strongest contributors. These gains have more than

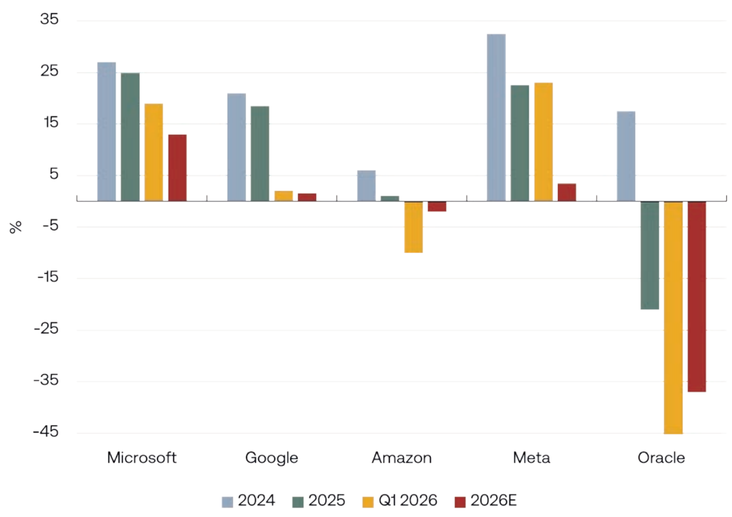

Figure 1: Even the tech giants need outside funding
AI hyperscalers' free cash flow is no longer sufficient to fund planned capital expenditure (2024–2026 estimates).

Source: Empirical Research and Sarasin & Partners, 07.02.26

offset the drag from weaker gold prices, where we have been steadily reducing positions following the precious metal's record-breaking rally in 2025.

Everyone needs capital

The dominant market theme this year has been the extraordinary surge in AI-related capital investment. Current estimates suggest that the four leading hyperscalers (major cloud providers) will spend around US$725bn on data-centre-related expansion in 2026 – a figure that is only 20% smaller than the entire US defence budget in 2025. Following visits by our analyst team to several of the AI leaders last quarter, we believe this investment cycle is not only likely to continue but also to broaden. Demand extends well beyond computing power to memory, storage, networking, optics, power infrastructure and cooling. As AI investment ripples across the wider economy, so too will demand for electricity, batteries and industrial metals, particularly copper.

Against this backdrop, the challenge for investors may come less from earnings or valuations than from the unprecedented demand for capital needed to finance the global AI build-out. Until recently, much of this investment was funded from the exceptional cash flows generated by the hyperscalers' core businesses. That is no longer enough (figure 1). Capital spending is now outstripping even these formidable resources, forcing companies to tap both equity and debt markets. In June, Alphabet alone raised US$85bn through a follow-on share offering, arguably the largest secondary issuance ever undertaken by a listed company. We also saw the new listing of SpaceX, in the largest public offering on record, with Anthropic and OpenAI expected to list in 2026 or early 2027.

Debt markets are also helping to finance the AI build-out, often with remarkably long maturities. SpaceX and Nvidia have both issued 20- and 30-year bonds. Alphabet went further still in February, issuing a tranche of 100-year sterling bonds as part of a broader financing programme.

> "AI-linked companies are issuing long-dated debt in what is one of the fastest-changing industries in history"

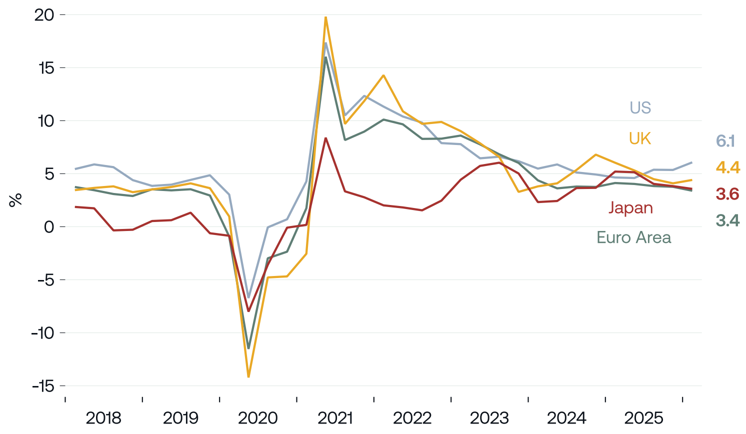

Figure 2: Strong growth fuels corporate earnings
Robust nominal GDP growth provides a supportive backdrop for company revenues and profits.

Source: Macrobond, 07.02.26

Investors have been attracted by strong credit ratings – Microsoft debt has a AAA credit rating – Amazon, Meta and Alphabet are all rated AA- (higher than the French sovereign rating).

Yet there is an irony here. AI-linked companies are issuing long-dated debt in what is one of the fastest-changing industries in history. Predicting which firms will dominate in 10 years' time is difficult enough; doing so over the next 100 years is another matter entirely. For that reason, alongside today's very narrow credit spreads we remain broadly underweight corporate bonds.

Government investment programmes are also competing for capital

The surge in private-sector fundraising comes on top of an equally daunting financing challenge for governments. Across the developed world, states are being forced to spend more on defence, climate resilience and ageing populations. They must also strengthen supply chains, improve national security and, in many cases, rebuild depleted strategic oil reserves.

Two recent developments illustrate how national strategic priorities are driving demand for capital. First, the US administration's decision in June to restrict access temporarily by certain non-US users to some of the most advanced AI models (Anthropic's Fable 5 and Mythos 5) reinforces the case for countries to develop at least part of their AI capability domestically. That, in turn, implies another wave of investment in AI infrastructure. Second, the wars in Ukraine and Iran have intensified the drive to build comprehensive missile-defence systems across much of the developed world. At the end of June, the UK government announced a £790m four-year programme to strengthen protection against missile, drone and air attacks. Similar spending plans are emerging elsewhere – Security is one of our key themes at Sarasin.

How will central banks react to an investment boom?

For the first time in several years, the greater risk may be that the US economy overheats rather than slows. Nominal GDP growth is running above 6% (figures 2 and 3), while both the manufacturing and services ISM surveys remain firmly in expansionary territory. Meanwhile, tariff revenues are well below the levels envisaged in President Trump's original "Liberation Day" proposals, as much of the burden has been absorbed by America's trading partners with only a modest impact on economic activity.

The challenge for the new Federal Reserve Chair, Kevin Warsh, is that financial markets may be underestimating the inflationary consequences of the sustained

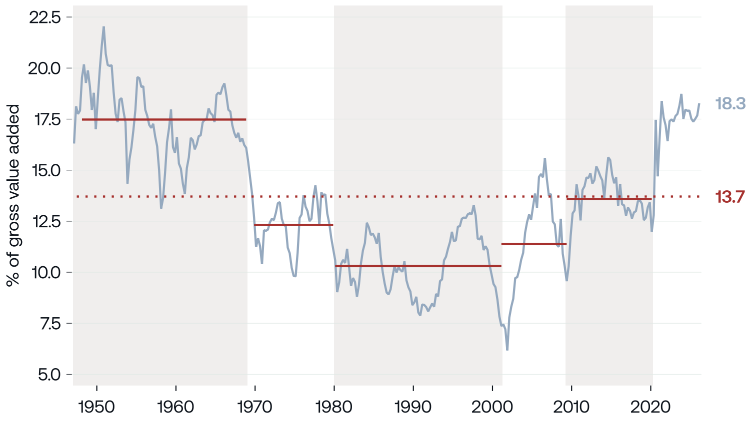

Figure 3: Profits remain exceptionally strong
US corporate profits remain well above long-term norms as a share of non-financial gross value added.

Source: Macrobond, 07.02.26

global investment boom we have described. Monetary and fiscal policy remain broadly accommodative, while asset prices continue to rise and the resulting wealth effect is supporting consumer demand. The sharp fall in oil prices has provided welcome relief but may not be enough to offset these broader inflationary pressures. Our central expectation remains that US interest rates will stay close to current levels through to mid-2027. However, if growth continues to surprise on the upside, further rate increases cannot be ruled out.

Britain's fiscal credibility will be tested

Britain enters this period of global competition for capital in a relatively fragile position. Andy Burnham has just been elected as leader of the Labour party and Britain's seventh prime minister in a decade, inheriting difficult choices over spending, taxation and borrowing. Although energy prices have fallen and gilt yields have declined in recent weeks, the UK continues to face the highest government borrowing costs in the G7 by a considerable margin.

In a world where capital is becoming scarcer and more selective, fiscal credibility will matter as much as monetary policy. Investors will want evidence that the new government is prepared to confront the long-term pressures of welfare spending, pensions and an ageing population rather than just postpone difficult decisions. Clear priorities, credible fiscal discipline and honest communication would go a long way towards reassuring bond markets. Failure to deliver them would leave the UK particularly exposed.

That balance of risks underpins our neutral position in UK government bonds. Current yields are attractive, but they also reflect the fiscal challenges. We continue to expect the Bank of England to look through the inflation spike from higher energy prices as far as possible, before a gradual easing cycle begins from the middle of 2027.

"In a world where capital is becoming scarcer and more selective, fiscal credibility will matter as much as monetary policy."

> "Higher fiscal deficits and greater geopolitical uncertainty should reinforce demand for gold and other scarce real assets as stores of value"

So, what does this scramble for capital mean for portfolios in the year ahead?

1. Elevated spending by both governments and the private sector should keep the US economy running hot into 2027. Europe and Asia, meanwhile, will benefit from sharply lower oil prices as the Strait of Hormuz gradually reopens. Robust US nominal GDP growth should help deliver the near-30% rise in global corporate earnings expected by analysts over the next 12 months, supporting our continued overweight position in global equities.

2. Government deficits are likely to remain large despite strong economic growth, with little political appetite for fiscal restraint. Higher fiscal and inflation risks should keep term premia elevated and bond yields higher for longer. We therefore remain underweight fixed income.

3. Countries facing political uncertainty will remain **vulnerable to bond-market vigilantes, as the UK has already discovered.** In a world where capital has abundant alternatives, investors will demand credible fiscal discipline and clear spending priorities. We expect a weaker dollar over the longer term and a broad appreciation of emerging market currencies.

4. More fragmented and less efficient global supply chains are likely to leave inflation both higher and more volatile. National security concerns will encourage countries to localise critical infrastructure and intellectual property rather than depend on geopolitical rivals. This strengthens the longer-term case for tangible assets including energy, food, industrial metals, rare earths and potentially batteries.

5. The diffusion of AI should accelerate, lifting productivity, sustaining strong nominal growth and generating robust profits across an expanding AI supply chain. As businesses adopt AI more widely, productivity gains should extend beyond the technology sector, creating opportunities across the broader economy.

6. Higher fiscal deficits and greater geopolitical uncertainty should **reinforce demand for gold** and other scarce real assets as stores of value.

The result of all this is an unusually intense competition for capital. Governments and companies alike are racing to finance vast investment programmes spanning AI infrastructure, defence, energy security and climate resilience. The consequence will be a global scramble for savings – one that reshapes market leadership, raises the cost of capital and emerges as one of the defining investment themes of the decade.

Can devolution deliver growth?

A new government's plan to shift power away from Whitehall could reshape the UK economy, but lasting growth will depend on deeper reforms than devolution alone.

Colm Harney
Investment Strategist

Key points

The UK is exceptionally centralised, but replicating Manchester's success more widely is unlikely to be easy.

Real, growth-boosting devolution would require relaxing national standards and devolving revenues, alongside tackling the biggest national barriers to investment – energy costs, labour law, welfare.

Early signals point to a bigger, more interventionist state, with limited impact on the underlying growth trajectory; we have adjusted our expectations for UK gilts accordingly.

New UK Prime Minister, Andy Burnham, appears ready to bet his premiership on a single idea: that Britain's growth problem is rooted in geography.

He believes 15 years of stagnation are the product of an overly centralised state, in which Whitehall faces the classic information problem of the central planner: it cannot know enough about conditions in each town and region to make good decisions for all of them. Good intentions and real effort have produced little to show for either, and frustration has built among local populations, civil servants and politicians alike.

Burnham's cure is devolution, with the design and delivery of growth initiatives passing back to local leaders, repeating what he achieved over nine years as Mayor of Greater Manchester. He has promised "the biggest rebalancing of power our country has seen", built around a tailored growth plan in each area. Local leaders would design and run these plans, using their control of planning, transport and, increasingly, infrastructure and skills, backed by central financing. Private investors would then be crowded in, and agglomeration – the extra productivity firms and workers gain by clustering – would create a self-sustaining growth cycle in each region. Replicated across the country, national growth would inflect upwards and create the fiscal space for the rest of Labour's agenda.

Could this work?

We think the answer is "partly". Devolution can improve outcomes at the margin, but on its own it is unlikely to overcome the national policy constraints that have held back UK growth.

There is a great deal in the diagnosis that we think is right. The insistence that growth and productivity must come first is itself an important step, and it is true both that the British state is exceptionally centralised and that the productivity gap between regions is unusually wide.

Greater Manchester is the proof that devolved powers can make a difference, having delivered the fastest economic growth of any UK region since 2015, largely on the back of local initiatives in planning, transport and skills. Even so, the revival has features that would be hard to repeat elsewhere. High-value services have clustered around the city centre and the benefits have not spread far. The success owes much to Manchester's rise as the regional centre of the North, drawing in activity from surrounding towns and cities rather than creating new sources of growth.

The city has also enjoyed unusually good government, with three decades of continuity in its leadership, commitment to the doctrine that growth must come before redistribution, and an economic strategy shaped and tested by outside experts. Most English authorities have none of these advantages, yet a national rollout would hand them the same powers. Devolution is far from a new idea in Westminster, and the fact that repeated initiatives to push power outwards over the past 15 years have all withered, points to a problem that runs deeper than a simple lack of political will.

Why devolution is not a simple answer

In a democracy, citizens delegate three main responsibilities to their government. The government sets the standards and regulations that everyone must live by, it decides how public money is spent, and it raises the revenue to pay for it. Any serious devolution agenda has to consider the trade-offs in each area.

Deliberately high minimum standards have been set nationally across health, education, transport, safety, labour rights and the environment, leaving little to local discretion. Manchester shows that agglomeration and investment are possible within these limits, but a promise of good growth in every postcode, rather than in a handful of city centres, requires more discretion. For example, a uniformly high minimum wage floor, based on the national median wage, may limit the potential for employment-boosting measures in lower-pay areas.

"Deliberately high minimum standards have been set nationally across health, education, transport, safety, labour rights, and the environment, leaving little to local discretion."

For devolution to change what gets decided, rather than just who decides it, the standards themselves would have to be relaxed so that policy could be meaningfully tailored to each area. This cuts against the long-standing trend towards uniformly high standards – highlighted by Burnham's own promise of "equivalent living conditions in all parts of Britain".

On spending, the task is to strike a balance between control and freedom. If the fiscal constraints on local government are set too tightly there is not enough capital to invest. If they are set too loosely the incentive is to focus on lobbying for funds over making the tough decisions around trade-offs needed to actually boost growth, safe in the knowledge that the cost of over-spending or poor returns is borne centrally. What we've seen from Burnham so far suggests the latter is the bigger risk. Solving the incentive problem requires devolving revenues – councils that keep some of the taxes generated by local growth have a real stake in producing it. But meaningfully devolving revenue collection also makes transfers from richer to poorer regions more visible and politically contentious, limiting how far fiscal decentralisation can realistically go.

> "Even done well, Manchesterism would leave the biggest obstacles to investment untouched."

The blind spots

Even done well, Manchesterism would leave the biggest obstacles to investment untouched. Regulation, labour law, planning and energy policy are all set nationally, and they leave little room for local discretion however much money is devolved. Industrial electricity prices across the UK are the highest of any major economy, and are a serious deterrent to investment. Labour market incentives are also largely set nationally, whether through employment regulation or welfare policy.

The biggest blind spots are welfare and pensions, the fastest-growing strains on the public finances. Fixing these would mean welfare reform that strengthens the incentives to work, and reform of the pensions triple lock – the guarantee that the state pension rises each year by the highest of earnings growth, CPI inflation or 2.5% – which is ever harder to afford or to defend as equitable. With Labour itself acknowledging that the tax burden cannot rise much further on the current growth trajectory, nothing else releases fiscal space on the scale that a serious programme of public investment would need.

Redistribution or reform?

None of this is likely to be lost on Burnham, who has shown a pragmatic streak. He quickly rowed back from his remarks about Britain being "in hock" to the bond market, he has committed to the fiscal rules, and he has assembled a serious team of advisers. A case can be made that he is working towards an "only Nixon could go to China" strategy, using his credibility with the left to sell the party and the country on a growth-boosting break from Labour orthodoxy, packaged as decentralisation. But will Burnham really cut welfare to make room for investment in housing, transport and infrastructure under regional growth plans? And will he adapt labour laws to make the market more flexible, selling the change alongside tougher immigration curbs?

For now, this looks a pipe dream. The policy signals to date lean towards traditional redistribution, in which spending on favoured regions and industries rises moderately at the expense of the centre, but without any meaningful relaxation of national standards or willingness to tolerate diverging outcomes. Procurement rules would sacrifice value for money to local preference and industrial policy would pick winners. The triple lock would remain in place, and welfare savings pursued solely through carrots such as better training, rather than through reformed incentives, are likely to underwhelm.

A spate of decentralisation initiatives would boost morale in parts of the country that have long felt neglected by Westminster, but without real discretion or sizeable investment the effect on growth would be small, and the public finances would end up on a worse trajectory. Meeting the commitment to the fiscal rules in letter but not in spirit, using optimistic growth assumptions and adjustments to the debt measure rather than enable borrowing, would do little to improve confidence in bond markets.

What Burnham means for markets

Manchesterism carries the promise of reform, though on present evidence it is more likely to produce a state that is bigger and more interventionist without being any more dynamic. Burnham speaks eloquently of a more effective, more productive and more decentralised government, but so far there are few tangible plans either for devolving genuine power while balancing accountability and legitimacy, or for the national reforms that the vision needs in order to work.

Over the coming months we will get a clearer picture of whether the plans amount to a credible programme for growth, or whether Manchesterism is a staging post on the way to an even larger government footprint in an economy already struggling to deliver long-term progress. To reflect this added uncertainty, we've raised our estimate of where UK government bond yields should fairly sit by a quarter of a percentage point – in effect, a penalty that points to somewhat lower bond prices. What this means for the pound is harder to say. Looser fiscal policy met with higher-for-longer interest rates from the Bank of England would tend to support sterling, while a loss of fiscal credibility that raises the risk premium on UK assets would weaken it.

In the interim we expect volatility in UK gilts and sterling to continue – potentially offering tactical opportunities to adjust exposure, as we have done in recent months. We will judge the government on its first Budget, the scope of its devolution legislation and its decisions on welfare and the triple lock; unless these show a genuine appetite for reform, our view on the UK government's growth agenda is likely to remain cautious.

> "A spate of decentralisation initiatives would boost morale in parts of the country that have long felt neglected by Westminster."

Steel and sustenance

The return of the guns-or-butter dilemma is forcing governments to make difficult spending choices, with lasting consequences for inflation, markets, and long-term investment returns.

Michael Jervis
Portfolio Manager
Multi Asset

Key points

Governments are funding defence, public services, and AI investment simultaneously, placing unprecedented demands on capital.

In a regime of Global fragmentation, inflation, bond yields and market volatility are likely to stay higher than investors have become used to.

This regime strengthens the case for equities, tangible assets, and active management, while reducing the appeal of fixed income and the US dollar.

For decades, the classic economic trade-off between defence spending (guns) and social investment (butter) felt like a tidy thought experiment for economics undergraduates, not a live political crisis. The trade-off itself is nothing new. It dates back at least to economist Paul Samuelson's influential work (first published in 1948), which used guns and butter to illustrate opportunity cost: any resources a state devotes to defence are resources unavailable for everything else.

Fast forward to today. Across the Western world, governments are being confronted with competing demands: pour money into missiles, warships, and military readiness in a fragmenting world, or protect the hospitals, housing programmes, and welfare nets that citizens were promised and have come to depend upon. With defence budgets under intense pressure from a resurgent Russia, an assertive China, a US increasingly reluctant to underwrite European security, and a NATO target of 3.5% GDP by 2035 (of which at least 3.5% is for core military expenditure), defence is surely a must? Cuts to welfare when ageing populations are driving up the structural costs of healthcare and pensions year on year? Unpopular to say the least.

Tricky choices, then. Or are they? Many governments are refusing to choose at all – putting public finance under pressure. Let's take a look at how we interpret this

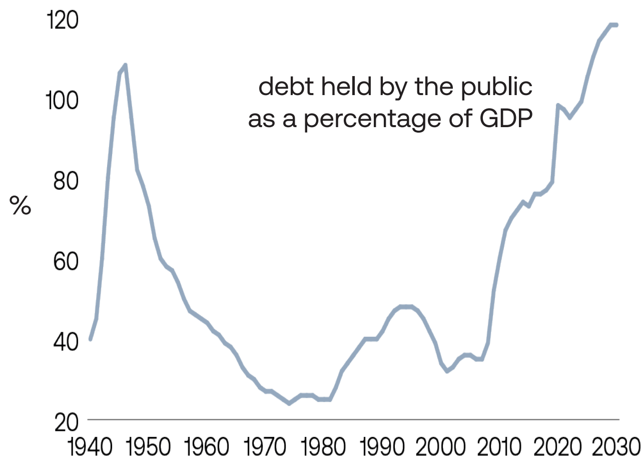

Figure 1: Borrowing to bridge the gap
US government debt has risen sharply over the past two decades.

Source: Macrobond, 03.07.26

at Sarasin through the two lenses that matter most to us – market regimes and investment themes – and what it all means for our asset allocation.

Public finances under pressure

Public finances in most major democracies never fully recovered from the double shock of the 2008 financial crisis and the Covid-19 pandemic. Debt loads are historically high (figure 1 shows an example from the US), and borrowing costs have risen sharply after a decade of near-zero interest rates, adding to the interest cost. This trend is set to rise, not only in the US, which is the relative leader in defence spending (figure 2), but in other areas too, where significant shortfalls have accrued after years of underspending. In short, the so-called peace dividend has gone.

Implications for economics

What happens to economies when governments choose both guns and butter, and borrow to pay for them? First and foremost, more inflation. Persistent fiscal stimulus adds demand to economies that – in a fragmenting world of tariffs, re-shoring and less reliable supply chains – are less able to meet it cheaply. We therefore expect inflation to be both higher and more volatile than we have become used to. Put simply, we believe 2% is likely to prove the floor, not the average in most developed economies.

Second, stronger nominal growth. Government spending has to land somewhere, and it shows up in nominal GDP – which has been strikingly strong in recent years. This provides a particularly favourable backdrop for companies to grow their sales – and therefore profits.

But there’s more. Guns and butter are not the only claims on capital today; a significant third lever exists in the form of semiconductors. The vast capital expenditure flowing into AI infrastructure is leading to huge amounts of spending, with semiconductors at the epicentre (see Investment focus on pages 18–21). Time will tell whether these investments will be profitable over the long run. But for now we can say that, unlike some investment booms of the past, spending is accompanied by rapidly growing revenues, albeit from a very low base.

> “What happens to economies when governments choose both guns and butter, and borrow to pay for them? First and foremost, more inflation.”

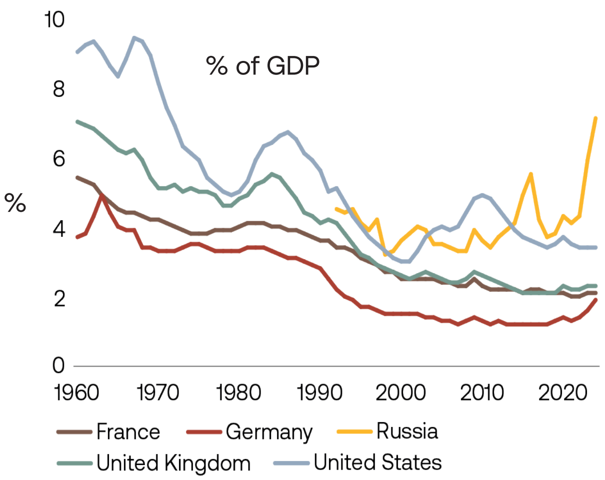

Figure 2: Rearming the West
Military spending is rising in major economies, with Russia increasing expenditure the fastest.

Source: Macrobond, 03.07.26

How do we summarise all this?

At Sarasin, we analyse these trends as part of our market regime work, which considers the underlying foundations on which an investment environment is built. Typically an investment regime lasts between 10 and 20 years. We believe this one, Global fragmentation, has been in place since 2021. The post-pandemic global economy is shifting decisively away from an open, co-operative framework towards a more fragmented system dominated by power politics and heightened geopolitical insecurity.

> "At Sarasin, we analyse these trends as part of our market regime work, which considers the underlying foundations on which an investment environment is built."

Governments spending freely on guns and butter alike (with chips laying claim to capital too) sits squarely within this regime. Its key assumptions are that inflation, bond yields and nominal growth will all be higher than we are used to, that economic and market volatility will pick up, that bonds will be a less reliable diversifier of equities, and that fiat currencies will continue to lose value as inflation runs hot.

What does this mean for asset allocation?

This regime has clear implications for asset allocation, as reflected in Sarasin portfolios. In particular, high inflation and nominal growth support corporate revenues and profits, and so argue for an overweight to equities, most of the time. There will be exceptions, and fundamentals will always play their part, but that is our natural starting point in this regime.

High inflation, elevated term premia, and reduced diversification benefits also argue for an underweight to fixed income, most of the time. Short-dated inflation-linked bonds are held in some portfolios given the heightened inflationary outlook.

In place of bonds, alternatives are playing a growing role. Ongoing debasement of fiat currencies and rising geopolitical risk point to a strategic allocation to gold, something Sarasin has held for some time. Central

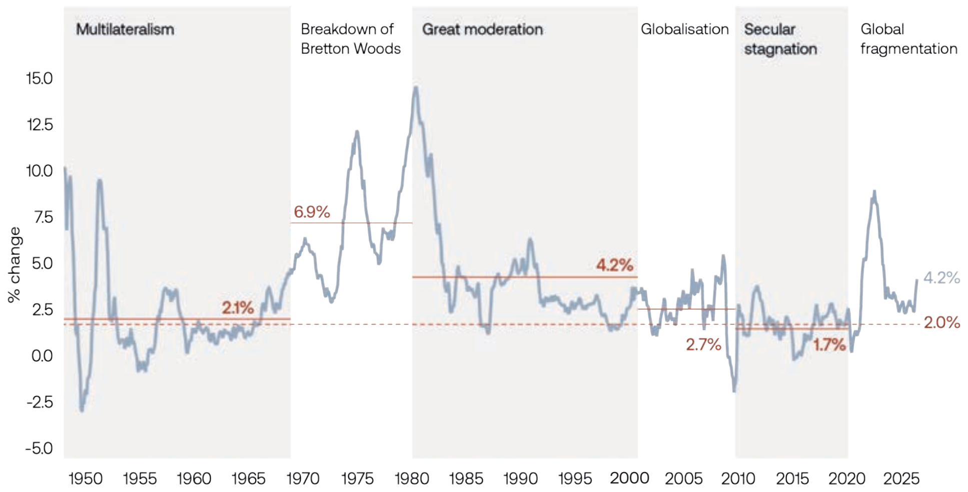

Figure 3: Inflation changes with the regime
Average inflation varies sharply across the six post-war market regimes, including in the current regime of Global fragmentation. This suggests 2% is more likely to be the floor than the long-term norm.

Source: Sarasin, Macrobond, 09.07.26

banks appear to agree: many have been steadily adding to their gold reserves even as their appetite for US Treasuries wanes. Finally, as the world gradually becomes more multipolar, the dollar's exorbitant privilege should gradually erode, arguing for a medium-term underweight to the greenback. One way we express this view is through emerging market local-currency debt – more a currency position than a bond one – which we expect to benefit as the dollar weakens.

What does this mean for security selection?

As an active equity investor, we see how pressures on public spending can impact different sectors and this informs how we invest given our thematic approach. For example, in 2025, we introduced the new core theme, Security, reflecting not just the 'guns' element of defence, but also the impacts of the current regime on global trade, supply chains and food or energy security. Within Security, we invest across cybersecurity and defence contractors, resource security – from miners to agricultural equipment makers – and 'protected markets' such as domestic banks. That all sits alongside our other five longstanding themes.

There are profound shifts in the investment landscape to navigate. We believe our portfolios are well aligned to deal with the challenges this regime presents. However, more than ever, an active approach to strategy setting, asset allocation and security selection is key.

> "As an active equity investor, we see how pressures on public spending can impact different sectors and this informs how we invest given our thematic approach."

The US tech boom up close

A research trip to Silicon Valley suggests the AI investment boom remains firmly grounded in growing revenues, expanding infrastructure, and multi-year demand.

Kwai San Wong
Analyst — Global Equities

Recently, I had the opportunity to travel to Los Angeles and San Francisco to meet with the management teams of some of the world's most important technology companies. What I heard paints a picture that is at once more confident and more complex than the headlines suggest.

AI is not in a bubble

The most striking thing about spending time with these companies is how concrete and tangible the artificial intelligence (AI) investment cycle appears to have become. This is no longer a story about possibilities; it is a story about construction. Data centres are being built at a pace that was unimaginable five years ago. Power grids are being mapped and claimed. Entire regions – from the American mid-Atlantic to Malaysia to the Middle East – are being surveyed for where the next generation of computing infrastructure will sit.

At the heart of this build-out sits Nvidia, the maker of the specialised chips that power AI. Meetings with Nvidia left little doubt about the scale of demand they are navigating. Its customers – the world's largest technology companies – are placing purchase orders that extend well beyond 2028. The total planned investment in AI infrastructure across the industry has been estimated at several trillion dollars by the end of this decade, a figure that would have seemed fanciful not long ago but which now appears entirely plausible.

Key points

AI infrastructure is a multi-year build-out. Real and growing revenue backs spending, with order books extending well beyond 2028.

The opportunity is wide, as networking, semiconductor equipment, and power/analogue chip companies should all be material beneficiaries alongside the obvious names.

Physical AI is the next wave. However, regulatory hurdles and trust-building mean a more gradual cycle than the current data centre sprint.

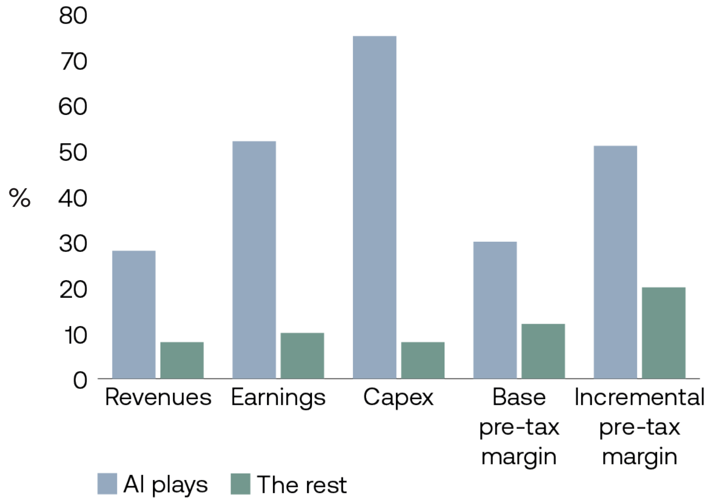

Figure 1: AI takes the lion's share
AI-linked companies are driving a disproportionate share of S&P 500 revenue, earnings, and capital expenditure growth.

Source: Empirical Research Partners, Q1 2026 estimates. Excludes financials and REITs; measured as aggregates.

Why are companies willing to spend so much? Because AI is no longer just a research project; rather, it is generating real revenue. The companies building and deploying AI models are now making money from every piece of analysis, every customer interaction, every automated task their systems handle. That shift from experiment to profit engine is the single most important development of the past year, and it is what gives credibility to the enormous spending plans we are seeing.

One of the most useful ways to think about this is through the lens of the cost of electricity used to power AI. When AI processes a request, it produces what engineers call "tokens", the basic units of information. Every token costs money to produce, and companies are in a fierce competition to drive that cost as low as possible while keeping quality high. The value of faster, more efficient chips is measured directly in the economics of every AI product their customers sell. This is why spending on computing infrastructure behaves less like discretionary technology spending and more like investment in essential industrial machinery.

"Imagine tens of thousands of chips in a data centre that need to share information with each other thousands of times per second."

Beyond chips: the networks that connect everything

When most people think about AI infrastructure, they think about the chips doing the processing. What is often overlooked is the networking equipment that allows those chips to work together. Imagine tens of thousands of chips in a data centre that need to share information with each other thousands of times per second – the speed and reliability of the connections between them has a direct bearing on how efficiently the whole system operates.

We met with Arista Networks, Lumentum and Astera Labs to learn about the latest development in AI networking. What struck us was the strong demand and the need for technological improvement at every part of the networking driven by AI inference and agentic AI. We see higher demand on scale-up (connecting the AI chips together within a server rack), and even the demand at scale-across (connecting datacentres together) has surprised a number of companies. Companies tell us they are seeing their customer base broadening out and higher networking requirements at each generation of AI chip.

Quiet beneficiaries

Away from the spotlight of the AI chip wars, another group of companies is benefiting enormously and with considerably less fanfare: the makers of the extraordinarily complex machines used to manufacture semiconductors.

To understand why this matters, consider that building a modern chip requires hundreds of precisely sequenced steps, each performed by specialised equipment that can cost tens of millions of dollars per machine. As the world demands more and more chips, the manufacturers of these tools – companies like Applied Materials, ASML, Lam Research, and KLA – find themselves with order books extending further out than ever before.

What I heard from these companies' management teams was a level of confidence in forward demand that I have rarely encountered. Visibility into demand stretching to 2028 and beyond, driven both by AI computing and by the resurgence of memory chip manufacturing, is giving these companies the confidence to invest in capacity, expand their margins, and plan for a sustained period of growth.

> "One theme that surfaced repeatedly in my conversations was the question of what follows the current wave of AI development."

From digital to physical AI

One theme that surfaced repeatedly in my conversations was the question of what follows the current wave of AI development. The systems most people are familiar with today – the chatbots, the image generators, the coding assistants – are digital AI. They exist in software and produce digital outputs.

The next frontier, which several executives described as already arriving, is physical AI: systems that perceive and act in the real world. Autonomous vehicles are the most visible example, with self-driving taxi services now operating commercially in multiple cities. Industrial robots capable of adapting to new tasks with far less programming than before are beginning to appear in factories.

The investment implications of this shift are significant. Physical AI requires not only the training infrastructure that currently drives most spending, but also edge computing – processing power installed close to where decisions are being made, whether that is in a vehicle, a factory, or a building. This represents an additional layer of demand on top of an already stretched supply chain.

The primary constraint on how quickly physical AI can expand is not, as might be expected, the technology itself – executives were largely confident that the engineering challenges are being solved – but rather regulation and the time required to build consumer and business trust. These are slower-moving forces, which suggests that while physical AI's eventual impact may be profound, the investment cycle will be more gradual than the rapid build-out currently underway in data centres.

Investment takeaways

Spending two weeks in intensive conversation with the people that are running these businesses left me with several broad convictions.

First, the AI investment cycle has more duration than many sceptics assume. The companies spending enormous sums on computing infrastructure are doing so because the returns – measured in AI-driven revenue and cost savings – are visible and growing. Customer commitments extend years into the future, and the companies supplying the infrastructure have multi-year order books to match.

Second, the opportunity is broader than the headlines suggest. The names dominating AI coverage, notably a handful of chip companies and technology giants, represent only part of the picture. The networking companies connecting AI infrastructure, the equipment makers enabling chip manufacturing, and the analogue chip companies managing power delivery across every piece of the system are all benefiting substantially.

Finally, it is worth acknowledging what we do not know. The pace at which AI-generated revenue will grow, the ultimate size of the physical AI opportunity, and the timing of any eventual slowdown in capital spending are all genuinely uncertain. What is less uncertain is that we are in the middle of a technological transition of considerable importance – one that is creating real and durable value for the companies best positioned within it.

We believe our portfolios are well positioned to benefit from these trends, and we will continue to update you as our thinking evolves.

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This article reflects meetings held at the Jefferies LA Technology Conference (May 2026) and the BofA Securities San Francisco TMT Conference (June 2026).

“The pace at which AI-generated revenue will grow, the ultimate size of the physical AI opportunity, and the timing of any eventual slowdown in capital spending are all genuinely uncertain.”

Who controls the vote?

Luke Horwood
Stewardship Associate

Key points

Passive investing is concentrating shareholder voting power in the hands of a small number of fund managers.

Pass-through voting reconnects ownership with accountability by allowing investors to decide how their shares are voted.

Sarasin is implementing custom pass-through voting, strengthening stewardship within passive portfolios.

As passive investing grows, voting power is becoming concentrated in the hands of a few fund managers. Pass-through voting offers a way to restore shareholder accountability.

The shift towards passive investing is reshaping asset management. When ownership is delegated to an index fund, voting powers generally follow. For stewardship, this raises hard questions: is the external manager robustly holding companies to account? Are they voting to reinforce stewardship goals?

These questions matter because voting power has become highly concentrated. The largest index providers are now among the biggest shareholders in almost every listed company, yet their stewardship teams are spread thinly across thousands of holdings. In practice, this can leave engagement at risk of becoming a box-ticking exercise rather than a genuine driver of accountability.

This concentration of influence, combined with rising client demand for passive exposure, sits uneasily alongside Sarasin's commitment to responsible ownership. As a result, we have been searching for a mechanism to deliver the level of stewardship oversight our clients expect, even where assets sit in passive strategies.

The rise of passive

The case for passive exposure in a diversified portfolio has grown steadily over the last decade. For clients seeking broad market coverage at a low cost, index funds serve a clear purpose

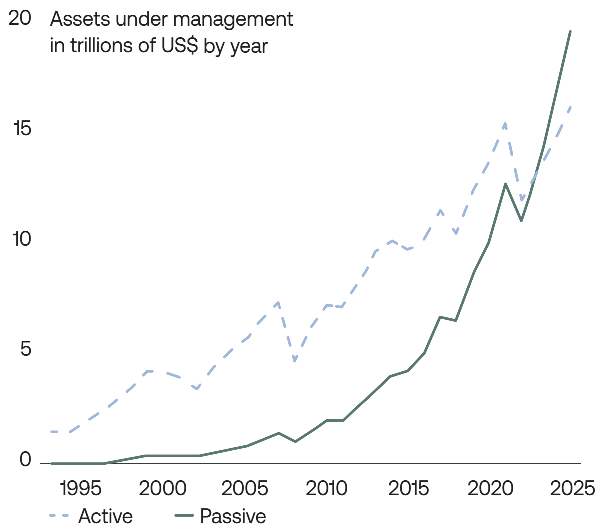


Figure 1: Passive takes the lead
Passive investment funds have overtaken active funds, reshaping capital flows across global markets.

Source: Morningstar Direct. US open-end mutual funds and exchange-traded funds, excluding money market funds, funds of funds, and feeder funds, 2026.

alongside active strategies. Sarasin and other active managers, by contrast, hold fewer companies by choice – allowing stewardship to be exercised with the depth, context and conviction that meaningful engagement demands.

In 2024, US passive mutual funds and ETFs held more assets than active strategies for the first time. By end-2025, passively managed US assets stood at over $19.1trn against $16.2trn in active. In the UK, over a third of funds are now managed passively, with pension funds allocating around 30% of assets to passive vehicles. BlackRock, Vanguard and State Street collectively manage over $30trn and are together the largest shareholder in around 88% of S&P 500 companies, casting roughly a quarter of all votes at their AGMs.

When shares are held through a passive vehicle, voting rights normally sit with the fund manager rather than the underlying investor. For Sarasin, this leads to a potential misalignment between our stewardship commitments and that of the passive manager. Critically, it breaks the link between engagement and voting and, worse still, can result in instances where the third-party manager votes contrary to our internal policies.

The problem with default voting at scale

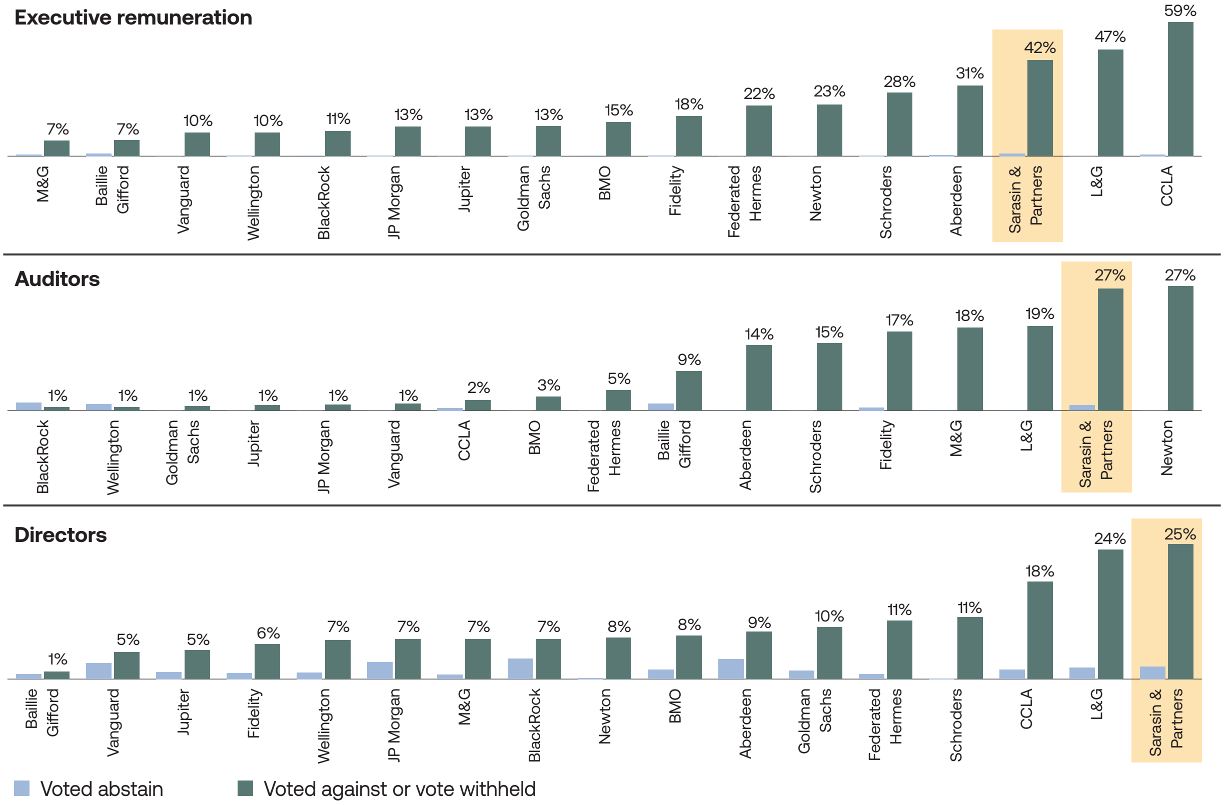
Large passive managers vote at thousands of AGMs each year. That volume demands systemisation, which in turn produces uniformity. While this does not have to mean weaker voting, in practice it frequently does. In 2024, BlackRock supported 92% of director elections; Vanguard, 94%. Across the Big Three (BlackRock, State Street and Vanguard), average support for management resolutions reached 98.0% in 2024, rising to 98.7% in 2025.

Such blanket support for management points to weak challenge and oversight. By comparison, in 2025 Sarasin voted against management in 32% of total resolutions on our buylist.

> “When shares are held through a passive vehicle, voting rights normally sit with the fund manager rather than the underlying investor.”

Figure 2: A tougher stance on pay

Sarasin & Partners are among the asset managers most willing to vote against executive remuneration, auditor-related proposals and director elections.



Source: Sarasin & Partners, Diligent. Reporting period: July 2024 to June 2025

In particular, we voted against 25% of director elections, 27% of auditor-related resolutions, and 42% of remuneration votes – all above our peer average (figure 2).

Today, shareholder rights face pressure due to a rolling back of legal and regulatory protections in the US. Natasha Landell-Mills highlighted some of these in her article in the Q2 2026 House Report, such as the changes at a state level which mean Texas now requires shareholders to hold 3% of a company or $1m of stock merely to file a proposal, while Delaware has curtailed investors' inspection rights and shielded conflicted transactions from judicial scrutiny.

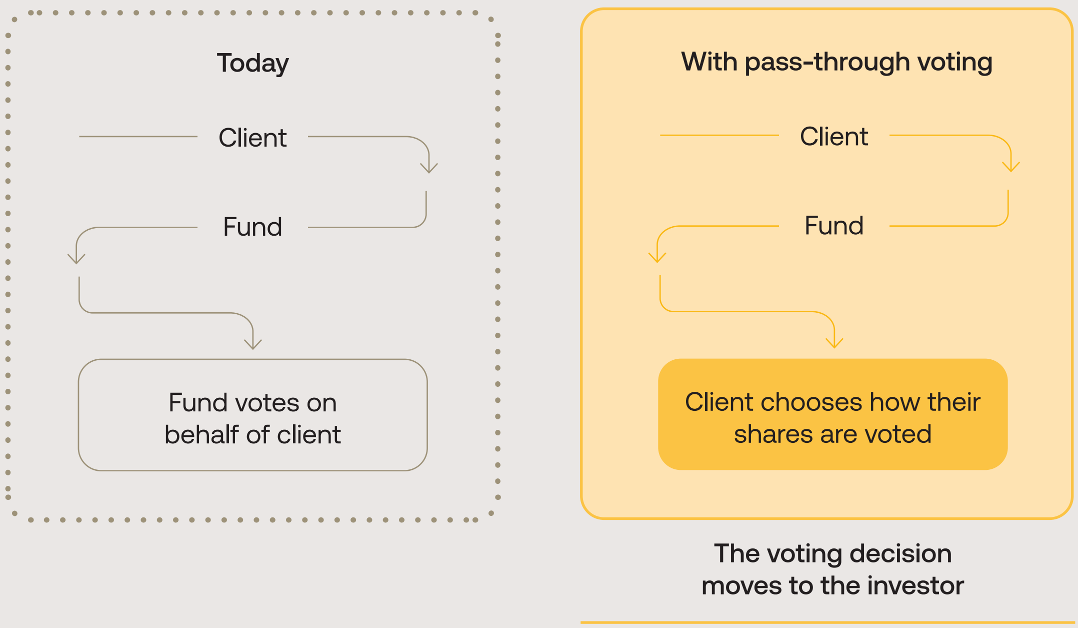
There has also been a clear erosion of governance standards in the UK, including the 2024 listing reforms that swept away one-share one-vote and shareholder approval of significant transactions. In this environment, passive funds voting in near-unison with management compounds the problem of lowering accountability of corporate management.

While the principle is straightforward, the infrastructure to make it work has, until recently, been the obstacle. However, to combat that problem, Sarasin has recently begun working with an innovative fintech company, Tumelo, to implement our voting policies for a subset of our passive holdings.

Tumelo is a UK voting fintech that has been building that infrastructure since 2018. Its ProxySphere platform enables institutional and retail investors in pooled funds to exercise voting rights that would otherwise rest with the passive manager.

While a technological solution is now available, the challenge is encouraging passive managers to offer clients Tumelo's service. As part of our systemic stewardship efforts, we met with leading passive index managers to advocate for

Figure 3: Giving investors the final say
Pass-through voting allows investors to decide how their shares are voted, rather than delegating decisions to their fund manager.



Source: Tumelo, 2026

the adoption of Tumelo's pass-through voting infrastructure, with the objective of enhancing market dynamics and ensuring that shareholders are better able to express their voting preferences.

As a result of our and other clients' demand, Vanguard now offers a menu of pre-packaged voting policies on a selection of its funds. State Street Investment Management has gone further, allowing direct votes on a resolution-by-resolution basis enabling clients to apply their own custom voting policy. Sarasin is one of the first State Street clients to gain approval for Tumelo-enabled custom voting.

What this means for clients

Sarasin's outreach to Tumelo and key index fund providers means we are now able to offer our clients exposure to a State Street MSCI ACWI fund, while continuing to vote and engage on our clients' key holdings. While this is just a start, we are working to expand both the number of companies we are voting and passive managers where we can exercise pass-through voting.

In a world where trillions of dollars sit behind a handful of default voting policies, the dangers of ownerless corporations grow, raising risks of broader market dysfunctionality. The tools to address this now exist. For asset managers that take stewardship seriously, the question is whether they choose to use them.

> "In a world where trillions of dollars sit behind a handful of default voting policies, the dangers of ownerless corporations grow, raising risks of broader market dysfunctionality."

When energy shocks reach the dinner table

Geopolitics, climate pressures, and rising energy costs are reshaping the global food system. As fertiliser prices rise and supply chains become more fragile, food inflation is increasingly reflecting a broader shift towards a more fragmented and volatile world.

Jeneiv Shah
Portfolio Manager,
Global Equities

Key points

Rising energy and fertiliser costs are increasing pressure on the global food system and could keep food inflation elevated into 2027.

Food security is becoming a more important investment theme as geopolitics, climate pressures, and supply chain fragmentation reshape global agriculture.

Sarasin accesses this theme through areas including fertiliser production, agricultural productivity, and long-term food security and resilience.

For many years, food prices were relatively stable across most developed economies. Global supply chains became more efficient, energy was abundant, and agricultural productivity continued to improve. Consumers began to spend a smaller share of their household wallet on food than other goods.

That backdrop is beginning to change. The wars in Ukraine and the Middle East have highlighted how closely connected energy, geopolitics, and food security have become. Rising oil and gas prices do not just affect fuel bills or transport costs. They also feed into the global food system through fertilisers, farming inputs, and agricultural supply chains.

The result is that food inflation increasingly reflects more than temporary shortages or poor harvests. It is becoming part of a broader structural shift towards a world shaped by geopolitical fragmentation, supply chain resilience, and volatile inflation. For thematic investors, this shift is important because food security is no longer simply an agricultural issue. It is increasingly becoming a strategic one.

Why fertiliser matters

One of the clearest examples of this transmission mechanism is nitrogen fertiliser, which is heavily dependent on natural gas, and accounts for a large proportion of farm production costs. When energy prices rise sharply, fertiliser prices

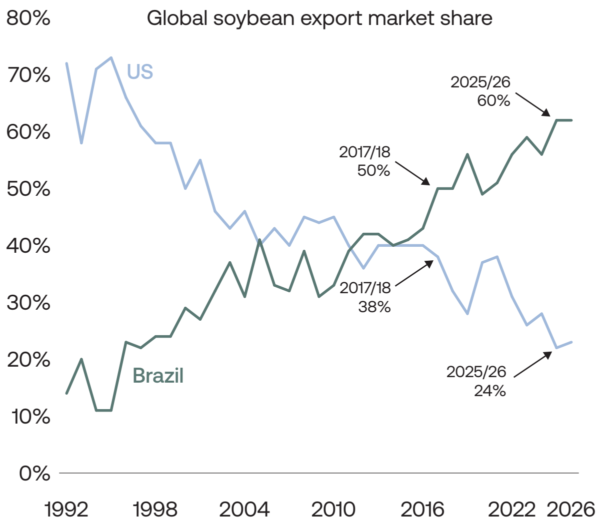


Figure 1: Shifting agricultural power
Brazil has overtaken the US as the world's largest soybean exporter, reflecting changing trade flows and growing geopolitical fragmentation.

Source: US Department of Agriculture, Sarasin & Partners (1992–2026)

usually follow. Farmers then face higher input costs for planting crops such as corn, soybeans, and wheat.

However, these effects are not immediate. Farmers often hedge purchases and buy fertiliser months in advance, meaning the impact can take time to work its way through the system. That lag effect is one reason food inflation can remain elevated even after energy prices begin to stabilise. When fertiliser prices rise sharply, farmers may delay purchases or reduce application rates, potentially lowering crop yields further down the line.

This dynamic is already attracting increasing attention from policymakers. The Bank of England recently warned that higher energy and fertiliser costs could push UK food price inflation higher through the remainder of 2026 and into 2027. Meanwhile, disruption to shipping routes through the Strait of Hormuz has already begun affecting supplies of fertiliser and agricultural inputs, adding further uncertainty across global food markets.

The wider point is that food inflation is rarely driven by one factor alone. Weather patterns, geopolitics, labour shortages, and trade tensions all interact within a long and highly complex supply chain.

Climate pressures are building. Droughts, flooding and extreme heat are becoming more frequent in key agricultural regions. There is also a near-term risk of a Super El Niño, which threatens to add further volatility to crop yields and commodity prices. Taken together, these pressures suggest the global food system is entering a more fragile and unpredictable phase.

A changing investment backdrop

This environment fits within Sarasin's use of broad market regimes to aid equity investing. We classify the current regime as Global fragmentation and believe it has been in place since 2021. Rather than assume the world returns to low-inflation and balanced equilibrium conditions that defined previous regimes in the 2000s and 2010s, today we recognise an environment of geopolitical tension, and less flexible supply chains. As such we believe there are higher chances of inflationary spikes occurring more often.

Food security sits naturally within this thinking. Countries are increasingly prioritising resilience, strategic supply and food security alongside efficiency. Governments are becoming more sensitive to strategic dependencies in energy, agriculture, and critical supply chains. Trade flows are evolving as geopolitical relationships change.

The rise of Brazil as a major agricultural exporter, for example, has altered global grain and soybean markets over the past two decades and given countries such as China greater flexibility in sourcing agricultural imports (figure 1).

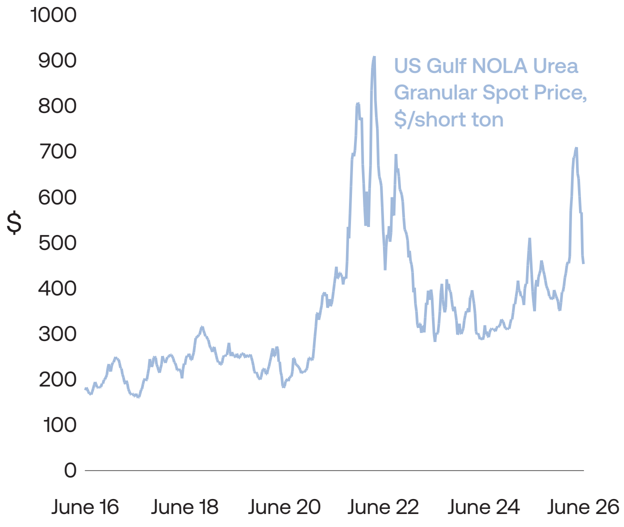


Figure 2: A warning sign for food inflation
Rising fertiliser prices often feed through to higher food costs, although the impact can take months to appear.

Source: Bloomberg, Green Markets, Sarasin & Partners (2016–26)

At the same time, agricultural inflation shocks are occurring more frequently and often taking longer to unwind. This creates a more supportive backdrop for businesses linked to food security, agricultural productivity, and supply chain resilience.

Focus on fertilisers

One area of focus is fertiliser production. For example, within the Sarasin Food & Agriculture Opportunities strategy, CF Industries provides exposure to nitrogen fertilisers. The company is one of North America's largest producers and benefits from access to relatively low-cost US natural gas.

That matters because fertiliser markets are highly sensitive to geopolitical disruptions and regional energy prices. Around half of global urea exports pass through the Middle East, including key shipping routes linked to the Strait of Hormuz.

When conflict or energy shortages disrupt supply, fertiliser prices can move sharply higher. Producers with lower-cost operations may therefore benefit from widening margins and stronger cash generation.

While fertiliser markets can be volatile, they also illustrate how food security and energy security are becoming increasingly interconnected (figure 2).

Improving productivity

A second area of focus is agricultural productivity. Rising input costs and climate pressures are increasing the need for farmers to produce more food using fewer resources. This is accelerating investment in precision agriculture, automation and data-driven farming technologies.

John Deere is one example of a business exposed to this trend. The company has expanded beyond traditional agricultural equipment into areas such as automation, digitalisation, and precision spraying technology. These tools can help farmers reduce fertiliser use, improve yields and manage costs more efficiently.

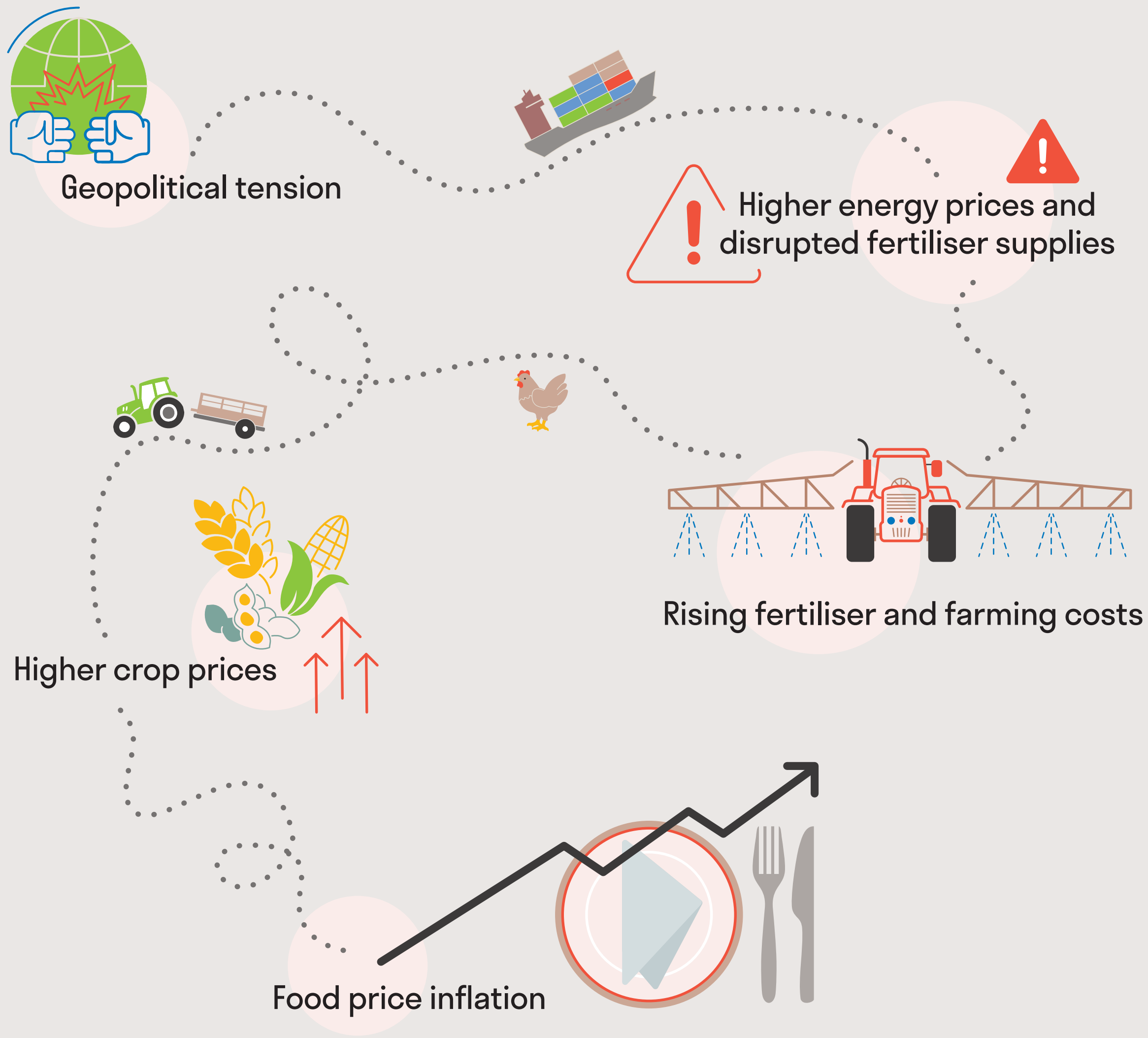
Over time, technologies that improve productivity and resilience are likely to become more important as the agricultural sector adapts to tighter resource constraints and greater climate variability.

Food security as a long-term theme

The broader investment opportunity extends beyond any individual company. Sarasin's Food & Agriculture Opportunities strategy focuses on several long-term themes shaping the global food system, including food security and resilience, rising productivity, and changing consumer diets and preferences.

These themes are supported by structural trends that are likely to persist for many years, including population growth, ageing, weight loss drugs, and climate pressures.

From energy shock to food inflation
Disruption in energy markets and fertiliser supply chains can take months to feed through to global food prices, creating longer-lasting inflation pressures across the food system.



Source: Sarasin & Partners

While short-term commodity prices will always fluctuate, the long-term challenge of producing sufficient, affordable, and sustainable food is becoming more significant. For investors, that means food security is increasingly moving from the margins of portfolio discussions towards the centre of them.

As previously mentioned, we have reintroduced fertiliser producer CF Industries, as well as peer Nutrien, within our Food & Agriculture Opportunities fund. We believe the market underappreciates the excess cash flow these businesses could generate as Middle East geopolitics tighten the global nitrogen market.

The fund already had significant holdings in grocery retailers such as Shoprite, Ahold, Costco, and Walmart, and contract caterers such as Compass and Aramark. Both business models can generally pass on inflation. Agricultural equipment manufacturers Deere, CNH, and AGCO are longer-term beneficiaries of rising adoption of precision farming technologies, particularly in Brazil, and are currently held as smaller positions.

In our broader global thematic, income, and multi-asset client strategies we own Compass, Costco, Ahold, and Deere as a subset of companies that benefit directly or indirectly from food inflation.

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