Marketing communication

SARASIN & PARTNERS

Sarasin Multi Asset - Strategic

Quarterly commentary Q2 2026

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Economic review

Despite an uncertain geopolitical backdrop, investors favoured riskier assets such as shares over the quarter. This shift came as the conflict in the Middle East began to de-escalate, raising expectations that the Strait of Hormuz would reopen and energy supply restrictions would ease. Oil prices fell sharply, and the easing of energy concerns allowed markets to refocus on AI, pushing technology stocks higher. Further boosts came from companies raising their spending plans for the year and upgraded global earnings forecasts. Shares delivered strong gains. Emerging markets fared best, driven by the heavy weighting of semiconductor and IT hardware companies in the index. Japan also performed strongly, supported by a weak currency and falling bond prices.

Global bonds saw small gains, helped by corporate bonds on the back of robust company earnings. UK gilts recovered some of the previous quarter's losses, benefiting from softer-than-expected inflation, which reduced the likelihood of interest-rate rises. Overall, central banks remained cautious. The US Federal Reserve under its new chair, Kevin Warsh, left rates unchanged, but signalled possible rises ahead. Meanwhile, the Bank of Japan pressed ahead with a further hike.

Commodities were weaker. Oil led the asset class lower as the US-Iran conflict de-escalated. Gold and precious metals also declined as the US dollar stabilised. However, industrial metals rose on demand tied to technology and infrastructure investment.

Fund review

Positive contributors included ASML, the dominant supplier of photolithography systems used to manufacture advanced semiconductors. The firm benefited from the AI-driven semiconductor rally. First-quarter results showed profit margins at the high end of expectations. More significant was increased full-year revenue guidance.

Another strong performer was TSMC, the largest contract chipmaker. Its quarterly results beat expectations, with high-performance computing accounting for most of the sales. Management raised the full-year revenue outlook and stated that disruptions from the Middle East conflict would not affect near-term operations.

CME Group, a leading derivatives marketplace which enables clients to trade futures and options, was weaker. Its revenues are tied to trading volumes. Having seen higher levels in Q1, when the US-Iran conflict was most acute, volumes cooled through the second quarter. In addition, investors grew more concerned about the competitive threat posed by undated futures which offer greater flexibility.

Our holding in Netflix, the subscription streaming service, detracted despite quarterly results beating expectations. Investors focused instead on a disappointing outlook for revenue and operating income, plus unchanged full-year revenue guidance. This frustrated investors hoping that a US price increase would lift the outlook. The company also announced that co-founder Reed Hastings would not stand for re-election to the board.

Fund transactions

We started a position in Citigroup, a global bank which is reaching the end of a multi-year restructuring plan. The firm now has a greater focus on growth. We see signs of progress towards this goal, and valuations are supportive, making it one of the cheaper financial stocks in the US.

We sold the holding in Fortinet, a US-based cybersecurity company. We reassessed our conviction in the software sector's resilience amid accelerating disruption from AI. We believe the broader software sector faces structural headwinds as AI increasingly automates and displaces traditional software-based solutions.

We started a position in Infineon, the market leader in automotive power semiconductors. In our view, power semiconductors are likely to be the next bottleneck in data centre construction as the industry transitions to new technology.

We trimmed the position in JPMorgan, which had become less attractively valued, and reinvested the proceeds into Citigroup, our preferred US bank exposure.

Outlook

Global equity markets are being shaped by easing oil supply concerns and major stock market listings by large technology companies. Investor confidence has shown signs of returning, though we will keep a close eye on events in the Middle East.

The US is experiencing an extraordinary period of capital raising, led by SpaceX's record-breaking IPO (initial public offering), with Anthropic and OpenAI expected to follow, possibly later this year. However, questions remain about the future valuations of these companies and whether markets can absorb the new supply of shares. More broadly, equity markets are being supported by potential long-term AI-linked productivity gains and AI-driven demand for new data centres.

We continue to hold a neutral position in UK government bonds, with higher yields meaning that they are starting to price in the fiscal deficit. We remain underweight corporate bonds as we believe that the asset class does not currently offer strong returns or adequate diversification compared to its history. Our stance on alternative assets is neutral. This includes gold, where we have locked in profits on our long-held overweight position.

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Key risks

It is important that investors are aware of the various risks prior to making an investment decision. The primary risks of the fund have been outlined below:

Bond risk: In stressed conditions bonds may become harder to sell in a timely manner, resulting in unpredictable changes in the value of your holdings.

Emerging markets risk: Emerging markets may face more political, economic or structural challenges than developed markets. Shares may also be less liquid, meaning investments may not be sold quickly enough to prevent or minimize a loss. As a result, investing in emerging markets may involve a higher risk than investing in developed markets.

Alternatives risk: The fund may invest in alternative assets that are difficult to sell quickly, challenging to value, and subject to higher fees. These assets may also contribute to greater price volatility compared to traditional assets such as equities, fixed income and cash. Such conditions could lead to unpredictable changes in the value of your holdings.

Derivatives risk: Derivatives are financial instruments whose value is linked to the expected future price movements of an underlying asset. Derivatives such as futures, forward contracts, options, and swaps may be used to seek to manage risk within the fund, reduce investment costs and generate additional income. However, these strategies may not be successful and could lead to losses greater than the cost of the derivative.

Exchange Traded Funds (ETFs) risk: ETFs are subject to market fluctuations and the risks of their underlying investments. They are also subject to management fees and other expenses.

Operational risk: Operational risks arising from failures or delays in processes and systems, or the failure of a third-party provider may affect the value of your investments. If compensation is required to due failures, payments may be delayed.

Counterparty and settlement risk: The fund could lose money if a counterparty with which it transacts with becomes unwilling or unable to repay money owed to the fund.

Charges deducted from capital: The fund has charges deducted from capital, which may reduce the potential for growth.

More than 35% of scheme property in securities issued by governments and public bodies: The fund may invest more than 35% in government or public securities issued by any single issuer listed in the Prospectus. Such exposure will be in line with the investment policy of the fund and in pursuit of the fund's objective. It is currently envisaged that the fund's exposure to such securities may be to those issued by the UK government, although this may vary and include securities issued by other governments and public issuers listed in the Prospectus.

Further details of the risks that apply to the fund can be found in the fund's Prospectus.

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Capital at risk. The value of investments and any income derived from them can fall as well as rise and investors may not get back the amount originally invested. If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results and may not be repeated. Forecasts are not a reliable indicator of future performance.

The fund is managed by Sarasin Investment Funds Limited (the "Authorised Corporate Director/ACD"), which is authorised and regulated by the Financial Conduct Authority (FRN: 122244). The ACD has delegated its administration and registrar functions to Northern Trust Global Services SE, UK Branch. The ACD has appointed Sarasin & Partners LLP as the Investment Manager of the fund.

The fund may not be appropriate for investors who plan to withdraw their money within five years. Prospective investors should review the Prospectus carefully, including the section on 'Risk Factors', prior to making any final investment decisions. The Prospectus, the Key Investor Information Document for the relevant class, as well as the annual and half-yearly reports, are available in English free of charge via the relevant product pages on our website or upon request.

The fund may not be distributed to investors in jurisdictions where such distribution would be unlawful. The ACD reserves the right to reject any applications from investors outside of the jurisdictions where the fund is registered for sale. US Persons are not permitted to subscribe for shares in the fund.

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